

Transportation - Trucking

Survey Says: Demand (48.9) dips below 50, Inventory ticks up

Industry Overview

Truck Shipper Survey #293, week of October 5th, 2023

This week, our proprietary bi-weekly BofA Truckload Demand Indicator for shippers' 0- to 3-month freight demand outlook **decreased to 48.9** from 50.0 last survey, down 2% sequentially. The Demand Indicator moved below 50 after five consecutive surveys (10 weeks) at or above 50. This is also 20th time out of the last 26 issues below that 50 level. It is up 3% year-year, its third consecutive issue of positive year-year growth. The Indicator remains below the 54.2 average level of the '12, '15, '19 Freight Recession periods and below its 60 all-time average level for the 39th consecutive survey. Rail carloads rose 0.1% yr-yr this week, its 2nd consecutive uptick after 32 weeks of declines. Dry van spot rates ex-fuel are \$1.25/mile, down 25% YTD, but up from its Sep. trough of \$1.21. Of the respondents, 23% had a positive short-term demand outlook, down from 27% last survey; Neutral outlooks were 47%, from 48% last issue, and Negative outlooks were 30%, up from 25% last survey. In the week of Oct 5th, we surveyed 47 shippers for views on truckload demand, supply, pricing, and inventory.

Inventory view ticks up; Truck capacity view tightens

The Rate Indicator, or shippers' view on truck rates, **fell to 44.7** from 45.8, down 3% sequentially, as expectations of future rate increases moderated. **The Inventory Indicator increased to 54.3** from 53.1 last issue, as inventories remains stubbornly high. **The Truck Capacity Indicator**, which measures shippers' views of available truckload capacity, **decreased to 60.6** from 64.6 last survey, as shippers see tighter capacity. With respect to rates, 23% of shippers expect rates to fall, flat with last issue, 64% expect flat pricing, from 63% last issue, and 13% expect rates to rise, down from 15% last issue. On capacity, 26% expect capacity to rise, down from 31% last issue, 70% expect capacity to remain flat, up from 67% last issue, and 4% expect capacity to be lower, from 2% last issue. **SHIPPER COMMENTS:** A Consumer Shipper does not believe rates will go lower as carriers exit the market. Its concern volleys between if we are going to have a soft or hard landing for the market. Another Consumer shipper noted that it is still receiving sporadic truckload (asset-based) rate reductions throughout its network. An Industrial Shipper noted that the market appears flat. (Shipper comments cont'd on P.5)

Accelerating fuel may accelerate carrier exits

Diesel costs have averaged \$4.24/gallon in 3Q23, down 18% year-year, yet rising 21% to \$4.59/gallon this week from 2Q's trough of \$3.80/gallon. The sudden surge in fuel cost has led to spot dry-van fuel surcharge per mile rising to \$0.60/mile from \$0.40/mile mid-June. While increased fuel has led to a corresponding uptick in contract rates given surcharge pricing, we see the ability of smaller carriers in passing through fuel costs as more challenged. Given the fragmented nature of the trucking industry, we expect rising fuel to lead to increased carrier exits as carrier margins compress. While Class 8 truck net orders were 38k in Sep (vs 20k in industry replacement level), we view the uptick as mainly due to seasonality as makers open order books for 2024 and carriers move to order early. We remain focused on leading Truckload-related operators (JBHT, KNX, SNDR) ahead of an inflection in trucking rates as capacity balances against demand.

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Equity
Americas
Road Transport/Trucking

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Data
Analytics



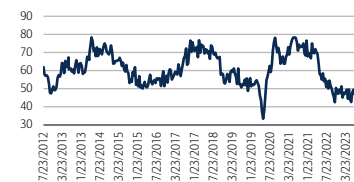
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Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 48.9

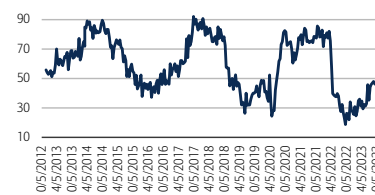


Source: BofA Global Research.

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Chart 2: RATE INDICATOR

Shipper's view of rates; Rate Indicator at 44.7



Source: BofA Global Research.

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SHIPPERS VIEW OF DEMAND

Table 1: BofA Truckload Demand Diffusion Indicator

Demand Indicator: at 48.9, down 2% sequentially

	2019	2020	2021	2022	2023
Jan	1/4 67.3	1/3 55.1	1/14 63.8	1/13 75.0	1/12 47.5
	1/18 76.7	1/17 58.1	1/28 63.8	1/27 70.0	1/26 51.3
Feb	2/1 69.8	1/31 56.7	2/11 67.5	2/10 69.5	2/9 45.1
	2/14 53.7	2/13 53.1	2/25 68.8	2/24 71.9	2/23 47.6
Mar	2/28 59.2	2/27 51.3	3/11 72.9	3/10 70.3	3/9 46.9
	3/14 60.1	3/12 46.1	3/25 68.8	3/24 69.2	3/23 48.3
Apr	3/28 59.2	3/26 43.5	4/8 73.0	4/7 64.1	4/6 49.5
	4/11 61.2	4/9 37.2	4/22 75.7	4/21 58.0	4/20 44.4
	4/25 58.3	4/23 33.3	5/6 77.6	5/5 57.5	5/4 49.5
May	5/9 56.6	5/7 37.8	5/20 78.3	5/19 55.0	5/18 44.3
	5/23 52.5	5/21 46.2	6/3 78.3	6/2 58.5	6/1 42.6
Jun	6/6 61.1	6/4 54.6	6/17 78.1	6/16 54.0	6/15 47.9
	6/20 52.5	6/18 56.4	7/1 75.7	6/30 55.5	6/29 49.4
Jul	7/4 52.3	7/2 59.3	7/15 70.9	7/14 50.9	7/13 47.1
	7/18 50.6	7/16 62.5	7/29 74.3	7/28 53.9	7/27 50.0
Aug	8/1 52.6	7/30 59.1	8/12 73.0	8/11 50.0	8/10 55.2
	8/15 51.9	8/13 63.5	8/26 73.0	8/25 54.5	8/24 51.0
Sep	8/29 55.0	8/27 71.1	9/9 73.6	9/8 51.6	9/7 52.4
	9/12 51.9	9/10 75.8	9/23 75.0	9/22 50.0	9/21 50.0
Oct	9/26 55.6	9/24 78.1	10/8 69.4	10/6 47.6	10/5 48.9
	10/10 48.7	10/8 73.3	10/21 68.3	10/20 45.6	10/19
	10/24 53.8	10/22 70.0	11/4 76.6	11/3 42.4	11/2
Nov	11/7 55.7	11/5 72.5	11/18 67.7	11/17 50.4	11/16
	11/21 51.3	11/19 69.9	12/2 69.7	12/1 47.8	11/30
Dec	12/5 52.3	12/3 63.8	12/16 68.6	12/15 47.2	12/14
	12/19 51.9	12/17 66.3	12/30 66.7	12/29 49.4	12/28
		12/31 67.7			

Source: BofA Global Research

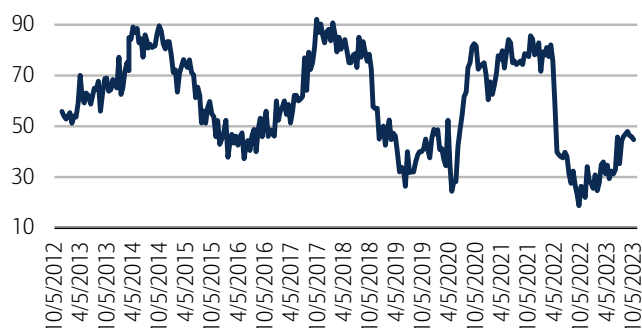
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Disclaimer: The indicator identified as BofA Truckload Diffusion Indicator in this report is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This indicator was not created to act as a benchmark

SHIPPERS' VIEW OF RATES

Chart 5: Shippers' view of rates over next three months

Rate Indicator at 44.7, -1pt sequentially



Source: BofA Global Research.

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Chart 3: BofA Truckload Demand Diffusion Indicator

0-3 months demand time series; Demand Indicator at 48.9

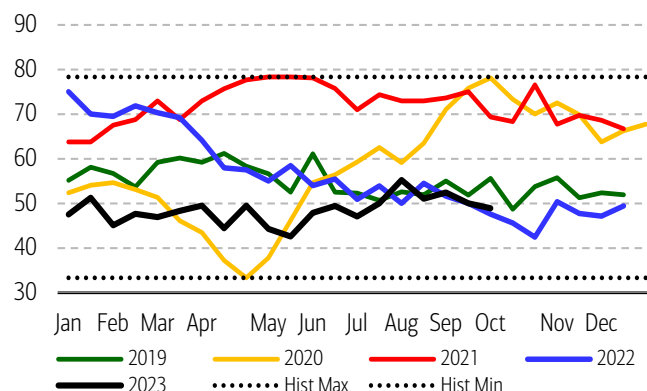


Source: BofA Global Research

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Chart 4: BofA Truckload Demand Diffusion Indicator

0-3 months demand outlook – stack basis y-y; Demand Indicator at 48.9



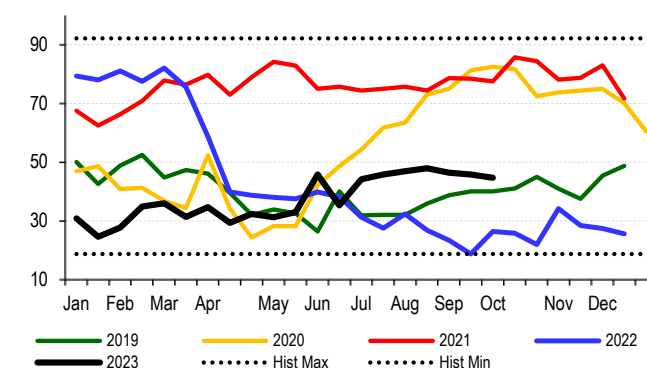
Source: BofA Global Research

Historical Max 04/03/14 (and 5/20-6/3/21). Historical Min 4/23/20. Survey began in mid-2012

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Chart 6: Shippers' view of rates

Stack basis year-over-year; Rate Indicator at 44.7



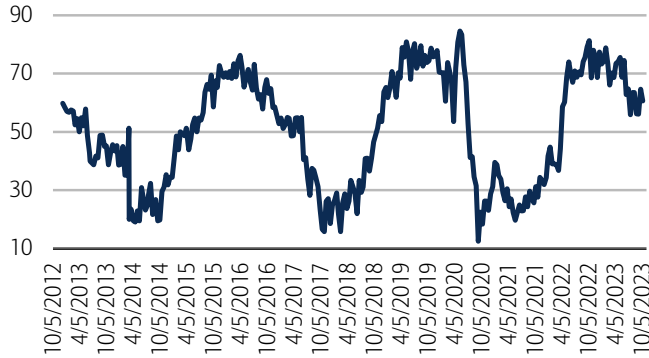
Source: BofA Global Research.

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CAPACITY AVAILABILITY

Chart 7: Shippers' view of available capacity

Capacity Indicator flat at 60.6, above its historic 50 avg

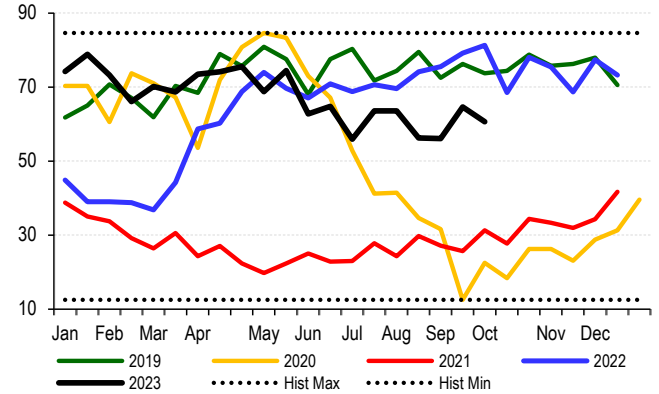


Source: BofA Global Research.

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Chart 8: Shippers' view of available capacity

Stack basis year-year; Capacity Indicator at 60.6



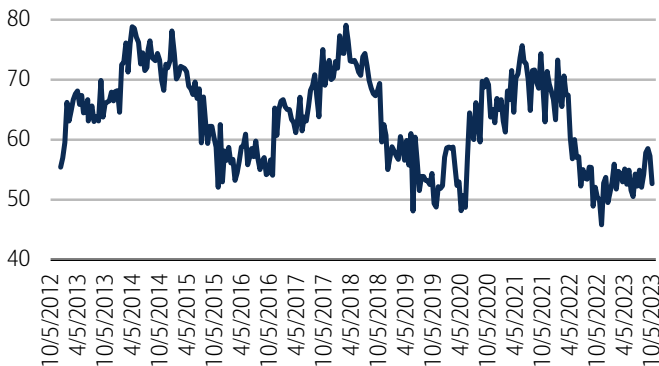
Source: BofA Global Research.

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6-12-MONTH FREIGHT DEMAND

Chart 9: Shippers' 6-12 month outlook for freight demand

L-T Demand Indicator at 52.7, down 5 pts sequentially

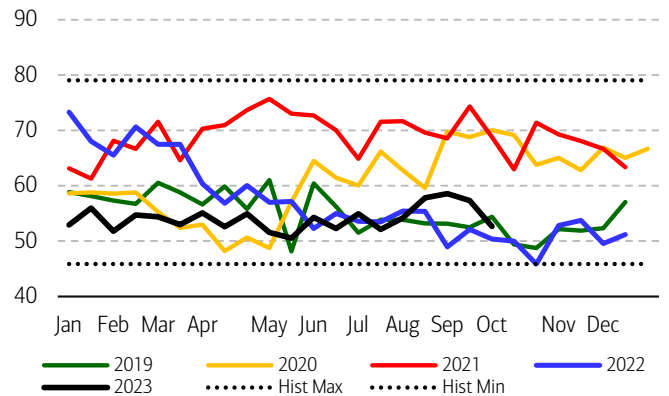


Source: BofA Global Research.

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Chart 10: Shippers' 6-12 mo. outlook for freight demand

Stack basis year-year; Long-Term Demand Indicator at 52.7



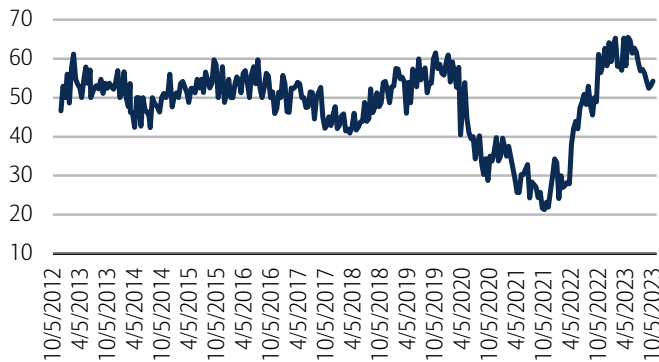
Source: BofA Global Research.

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INVENTORY

Chart 11: Shippers' view of inventory levels

Inventory Indicator at 54.3, up 2% sequentially from last issue.

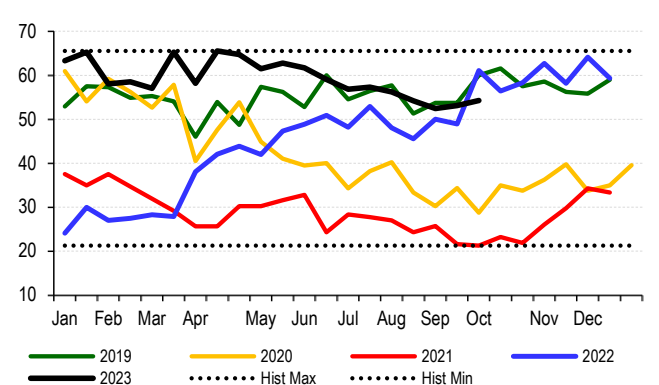


Source: BofA Global Research.

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Chart 12: Shippers' view of inventory levels

Stack basis year-year; Inventory Indicator at 54.3



Source: BofA Global Research.

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The survey, which is distributed to approximately 1,300 shipping managers, received responses from a varied mix of all major end markets (retail, consumer goods, industrial, manufacturing, basic materials, healthcare, tech).

Figure 1: Shippers' core end-market

Retail and Manufacturing oriented end-markets



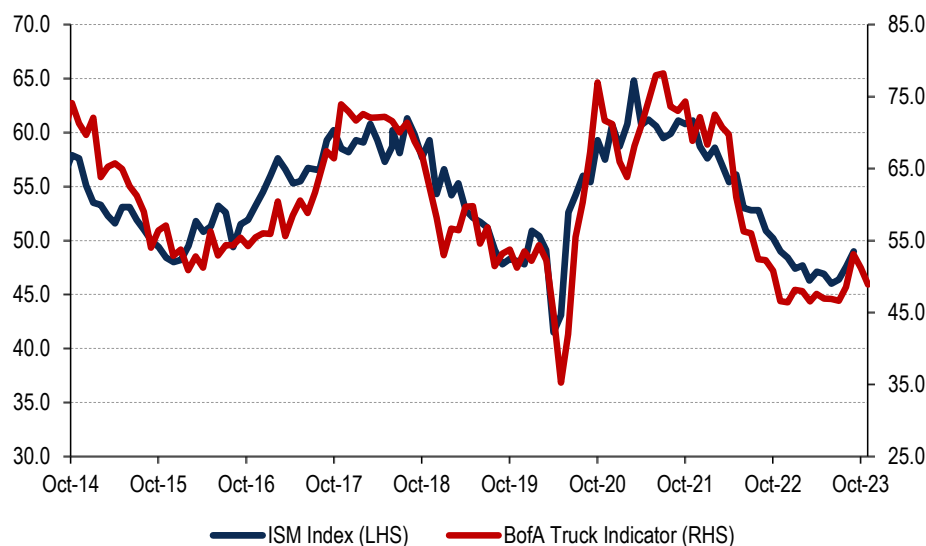
Source: BofA Global Research estimates.

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Correlation between BofA Truck indicator and ISM Index

Chart 13: BofA Truck Indicator and ISM Index

Two data sets have shown correlation since survey inception (0.81 on a one-month leading basis)



Source: BofA Global Research estimates, ISM Index

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Shipper Comments Cont'd

- A Consumer Shipper noted that fuel in the West is a wild card.
- A Retail Shipper noted that fuel is the variable on trucking rates, but overall it sees a ton of available capacity out there.

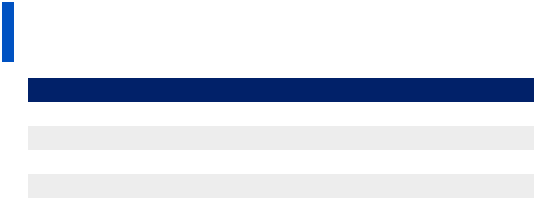
- A Consumer Shipper noted that empty containers are sitting on the West Coast en masse. It noted that intermodal companies are chasing volumes and brokers are chasing volumes. It also noted that asset-based truckload carriers continue to play on spot boards with frequency. It sees Less-than-Truckload bids favorable even with Yellow’s exit.
- A Consumer Shipper noted that it is seeing an increase in Less-than-Truckload rates, which it believes is a consequence of the exit of Yellow. It noted overall service levels across all modes continues to be strong.

Exhibit 1: Stocks mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
JBHT	JBHT US	J.B. Hunt Trans	US\$ 186.1	B-1-7
KNX	KNX US	Knight-Swift	US\$ 48.62	B-1-7
SNDR	SNDR US	Schneider National	US\$ 26.59	B-1-7
WERN	WERN US	Werner Enterpris	US\$ 38.55	B-1-7

Source: BofA Global Research

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Price objective basis & risk

J.B. Hunt Transport Services (JBHT)

Our \$216 price objective is based on a 23x target multiple of our 2024e EPS. Our target multiple is at the top of its 16x-23x one standard deviation trading band as earnings are expected to trough in late '23 and begin to recover in '24. We expect pricing pressure to be somewhat countered with improved operational performance as supply chains improve fluidity. We forecast solid double-digit EPS gains over time, robust Intermodal performance, and potential for improved box turns as rail service improves. It also plans to grow its container fleet to 150k over 2-4 years as it scales growth on BNSF's network, post competitors shift to UNP.

Risks to our PO are a slowing economic environment, an inability for the company to raise rates to offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting costs or the company's image, or significant impacts (strikes, network outages) to BNSF or Norfolk Southern's rail network or J.B. Hunt's relationship with either of those carriers impacting intermodal operations. Additional risks are regulatory changes impacting the flow of freight from the highway to rail, or rapidly

falling fuel prices that could encourage freight to stay on the highway, its occasional arbitration with BNSF over rail rates, a sustained loose capacity truckload market that may overhang Intermodal pricing, and inability to obtain labor.

Knight-Swift Transportation Holdings Inc (KNX)

Our \$63 price objective is based on a 18.5x target multiple on our 2024 EPS estimate. Our target multiple is above the bottom of its one-standard-deviation 22-year historical trading range of 14x-25x on year ahead estimates, as it nears trough earnings (led by pressure on economic growth and truck spot rate declines). We view downside as somewhat limited given its diversified model and strong operational performance, and a truckload market that is beginning to work out excess capacity (though recognize the pendulum can overswing on rate declines and cost pressures). Nevertheless, given its diversification moves (LTL, Intermodal, Brokerage/Logistics, and Trucking/Dedicated) it looks to prove earnings will be more sustainable than in prior cycles.

Risks to our price objective are volatility at its truckload segment (particularly its historical SWFT segment, which is more exposed to large retail and project pricing), slower earnings growth from its LTL acquisitions of AAA Cooper and MME, weaker-than-expected economic conditions, an inability for the company to have trucking rates offset rising costs (driver pay, insurance, depreciation, and fuel), a severe accident impacting the company's image and finances, over-expanding (or acquiring assets) without maintaining its focus on cost controls, and a lack of growth opportunities, and the failure to complete its acquisition of US Xpress, which may affect its growth outlook.

Schneider National (SNDR)

Our \$36 PO is based on a 16.5x target multiple on our 2024 EPS estimate. Our target multiple is above the mid-point of its 10x-19x historical range. It is at a discount to average of best-in-class peer targets, which include a blend of peer historical averages (50% of SNDR's revs are Truck, which peers trade low double digits, currently, 20% is Intermodal and its peer trade at 20x, 20% is Logistics which peers trade at upper-teens multiples, and 10% is other, or low double-digits), yielding a mid-teen fair value multiple target. SNDR's diverse base is countered by increasing concerns of decelerating economic and freight flows.

Risks to our price objective are a cyclical downturn impacting freight flows, higher-than-expected costs from weather, driver pay, accident claims, fuel costs, and equipment prices. Given Schneider operates in a fragmented market, it may not have pricing power to adjust as costs rise in an improving market to offset an increased cost base. Additionally, the company is a 'controlled company' given A shares have 10:1 votes and are completely controlled by the Schneider family and trusts.

Werner Enterprises (WERN)

Our \$52 price objective is based on an 18.5x target multiple on our 2024 EPS estimate. Our target multiple is at the upper end of its 13x-20x historical trading range, as 2023 appears to be WERN's earnings trough as demand bottoms and pricing finds a floor.

Downside risks to our price objective are an economic (or freight) downturn, trade of fleet growth for reduced incremental margins, a sustained rise in fuel prices which could increase costs, inability of the company to raise rates, a severe accident, rapidly rising costs (driver pay, insurance, claims, etc.), and larger-than-expected impact from regulatory changes (hours of service, CSA safety rules, electronic on board recorder enforcement, drug and alcohol clearinghouse limitations on drivers, which continue to cull the driver population).

Analyst Certification

I, Ken Hoexter, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

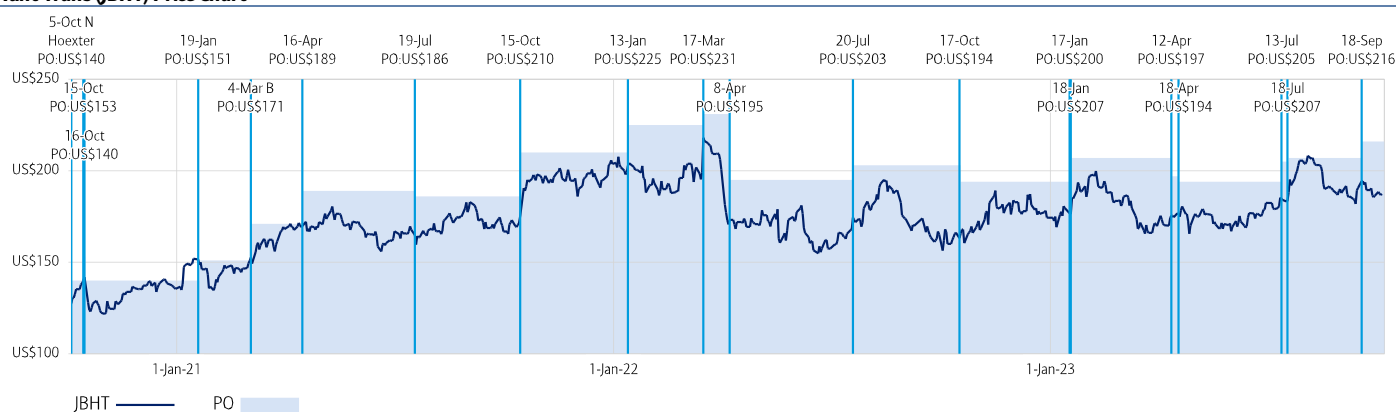
US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian Pacific Kansas City Ltd	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
UNDERPERFORM				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter

Disclosures

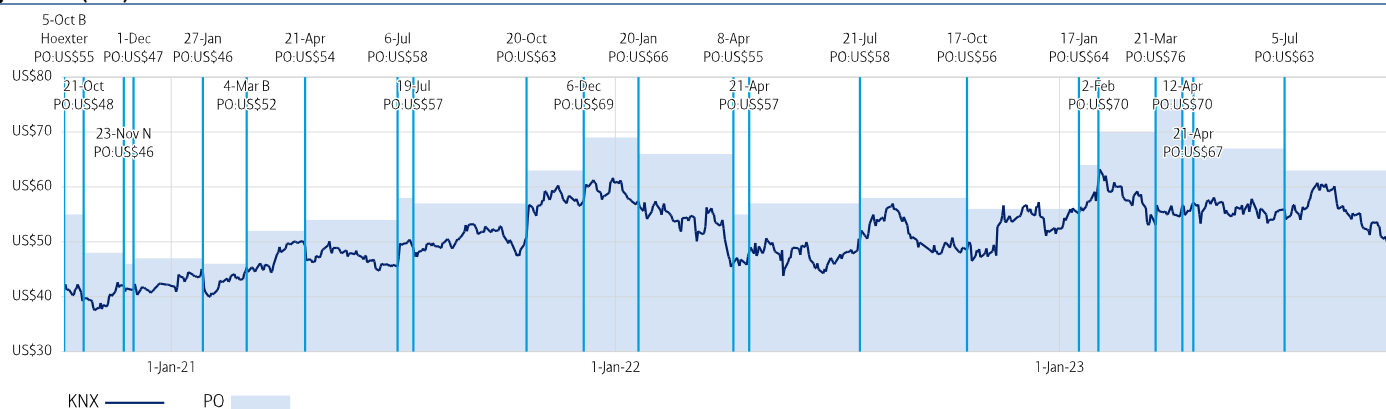
Important Disclosures

J.B. Hunt Trans (JBHT) Price Chart

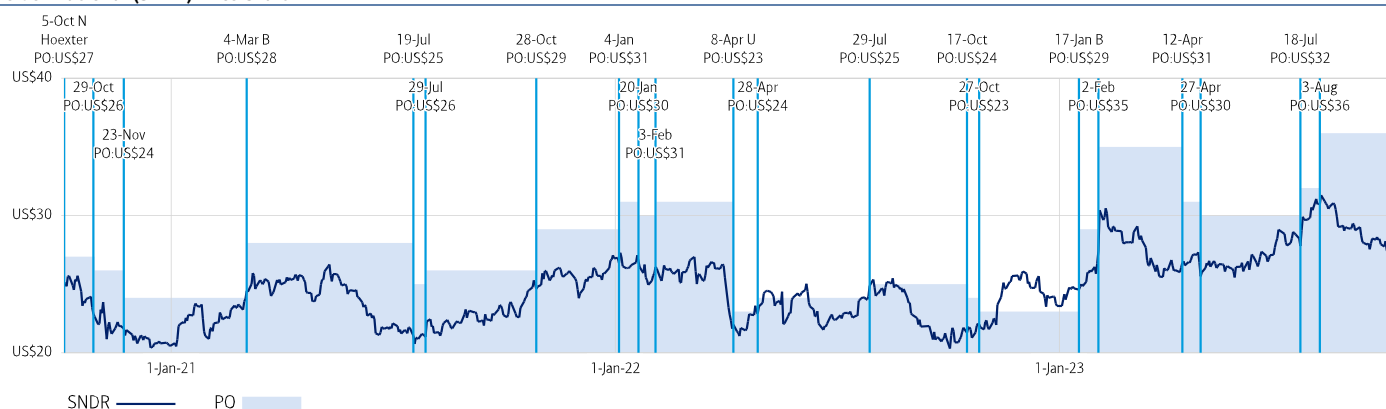


B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

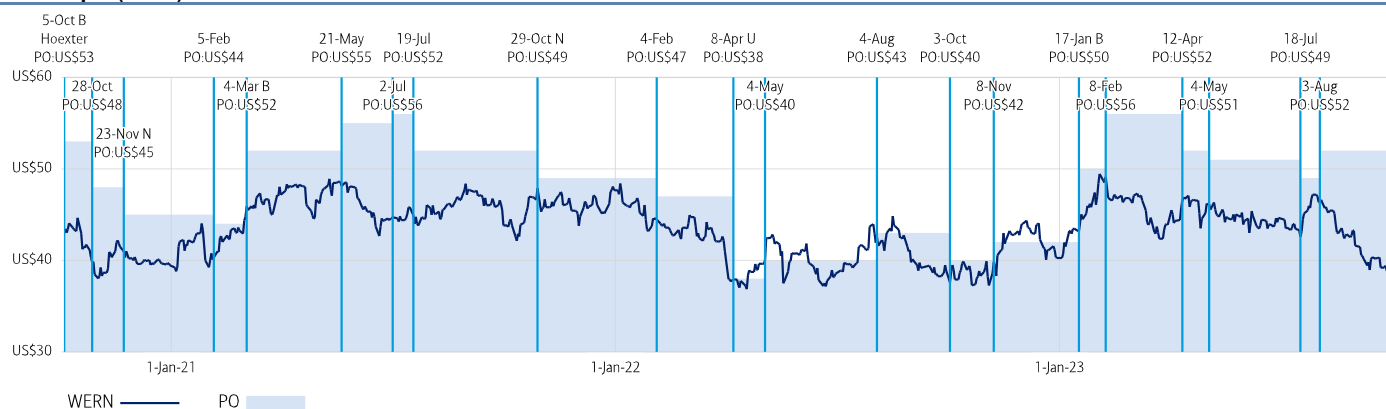
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Knight-Swift (KNX) Price Chart

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Schneider National (SNDR) Price Chart

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Werner Enterprises (WERN) Price Chart

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	71	53.38%	Buy	43	60.56%
Hold	29	21.80%	Hold	13	44.83%
Sell	33	24.81%	Sell	17	51.52%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. *Coverage Cluster* is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

BofAS or one of its affiliates acts as a market maker for the equity securities recommended in the report: J.B. Hunt Trans, Knight-Swift, Schneider National, Werner Enterprises.

The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: J.B. Hunt Trans, Knight-Swift, Schneider National.

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