

Transportation - Trucking

Survey Says: Demand (52.5) back above 50; Inventory jumps ahead of peak season

Industry Overview

Truck Shipper Survey #294, week of October 19th, 2023

This week, our proprietary bi-weekly BofA Truckload Demand Indicator for shippers' 0- to 3-month freight demand outlook **increased to 52.5** from 48.9 last survey, up 7% sequentially. The Demand Indicator moved above 50 after falling below 50 last issue. This is the 6th time out of the past 7 issues the indicator was at or above the 50 level. It is up 15% year-year, its fourth 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 40th consecutive survey. Rail carloads fell 1% yr-yr this week, its first decline after 3 consecutive upticks (which followed 32 weeks of declines). Dry van spot rates ex-fuel are \$1.26/mile, down 24% YTD, but up from its Sep. trough of \$1.21. Of the respondents, 31% had a positive short-term demand outlook, up from 23% last survey; Neutral outlooks were 47%, flat with last issue, and Negative outlooks were 22%, from 30% last survey. In the week of Oct 19th, we surveyed 51 shippers for views on demand, supply, pricing, inventory.

Inventory view rises into peak, Rates view increase

The Rate Indicator, or shippers' view on truck rates, **increased to 45.1** from 44.7, up 1% sequentially, as expectations of future rate increases rose. **The Inventory Indicator increased to 57.8** from 54.3 last issue, as shippers see increased inventories into peak season. **The Truck Capacity Indicator**, which measures shippers' views of available truckload capacity, **increased to 63.7** from 60.6 last survey, as shippers see looser capacity. With respect to rates, 20% of shippers expect rates to fall, from 23% last issue, 71% expect flat pricing, from 64% last issue, and 10% expect rates to rise, down from 13% last issue. On capacity, 33% expect capacity to rise, up from 26% last issue, 61% expect capacity to remain flat, down from 70% last issue, and 6% expect capacity to be lower, from 4% last issue. **SHIPPER COMMENTS:** An Industrial Shipper believes it is at the bottom or very close to the bottom of the truck cycle. It noted given its 30 years' experience in the industry, they fully expect the typical seasonal up and downs to return. Another Industrial Shipper sees more shipments but yet less drivers. A Logistics Shipper sees excess capacity due to auto worker strikes, which is keeping downward pressure on rates, especially in the Midwest (*Shipper comments cont'd on P.5*)

JBHT recasts to Freight Recession; KNX sees tough mkt

J.B. Hunt's President Shelley Simpson returned its commentary to 'still being in a freight recession,' contrasting her Fall comments that 'we were then coming out of a Freight Recession.' This shift to a more conservative tone on the freight cycle was in light of it posting its lowest Intermodal margins since 3Q02 (21 years) and Dedicated renewal rates falling to 94% from 98%, its lowest level in a few years. Alternatively, JBHT noted that Intermodal volumes had inflected positive in August and September, similar to Knight-Swift noting its Intermodal segment returned to profitability in September. This week's shutdown of digital broker Convoy, as noted by Freightwaves on Oct 19, highlights market capitulation, as low rates lasted longer than expected, chewing up cash flow, a move we have seen with rising bankruptcy frequencies and capacity exits (JBHT noted brokerage carriers fell 17% year-year). We remain focused on leading Truckload-related carriers such as J.B. Hunt, Knight-Swift Transportation, and Schneider National.

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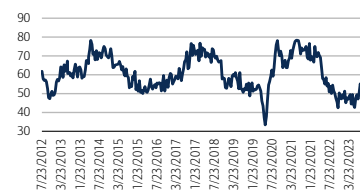
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Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 52.5

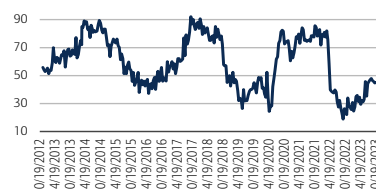


Source: BofA Global Research.

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Chart 2: RATE INDICATOR

Shipper's view of rates; Rate Indicator at 45.1



Source: BofA Global Research.

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SHIPPERS VIEW OF DEMAND

Table 1: BofA Truckload Demand Diffusion Indicator

Demand Indicator: at 52.5, up 7% sequentially

	2019	2020	2021	2022	2023
Jan	1/4 67.3 1/18 76.7	1/3 55.1 1/17 58.1	1/14 63.8 1/28 63.8	1/13 75.0 1/27 70.0	1/12 47.5 1/26 51.3
Feb	2/1 69.8 2/14 53.7	1/31 56.7 2/13 53.1	2/11 67.5 2/25 68.8	2/10 69.5 2/24 71.9	2/9 45.1 2/23 47.6
Mar	2/28 59.2 3/14 60.1	2/27 51.3 3/12 46.1	3/11 72.9 3/25 68.8	3/10 70.3 3/24 69.2	3/9 46.9 3/23 48.3
Apr	3/28 59.2 4/11 61.2	3/26 43.5 4/9 37.2	4/8 73.0 4/22 75.7	4/7 64.1 4/21 58.0	4/6 49.5 4/20 44.4
May	4/25 58.3 5/9 56.6	4/23 33.3 5/7 37.8	5/6 77.6 5/20 78.3	5/5 57.5 5/19 55.0	5/4 49.5 5/18 44.3
Jun	5/23 52.5 6/6 61.1	5/21 46.2 6/4 54.6	6/3 78.3 6/17 78.1	6/2 58.5 6/16 54.0	6/1 42.6 6/15 47.9
Jul	6/20 52.5 7/4 52.3	6/18 56.4 7/2 59.3	7/1 75.7 7/15 70.9	6/30 55.5 7/14 50.9	6/29 49.4 7/13 47.1
Aug	7/18 50.6 8/1 52.6	7/16 62.5 7/30 59.1	7/29 74.3 8/12 73.0	7/28 53.9 8/11 50.0	7/27 50.0 8/10 55.2
Sep	8/15 51.9 8/29 55.0	8/13 63.5 8/27 71.1	8/26 73.0 9/9 73.6	8/25 54.5 9/8 51.6	8/24 51.0 9/7 52.4
Oct	9/12 51.9 9/26 55.6	9/10 75.8 9/24 78.1	9/23 75.0 10/8 69.4	9/22 50.0 10/6 47.6	9/21 50.0 10/5 48.9
Nov	10/10 48.7 10/24 53.8	10/8 73.3 10/22 70.0	10/21 68.3 11/4 76.6	10/20 45.6 11/3 42.4	10/19 52.5 11/2 47.8
Dec	11/7 55.7 11/21 51.3	11/5 72.5 11/19 69.9	11/18 67.7 12/2 69.7	11/17 50.4 12/1 47.8	11/16 47.8 12/14 47.8
	12/5 52.3 12/19 51.9	12/3 63.8 12/17 66.3	12/16 68.6 12/30 66.7	12/15 47.2 12/29 49.4	12/14 47.8 12/28 47.8
		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 45.1, +0.4pt 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 52.5

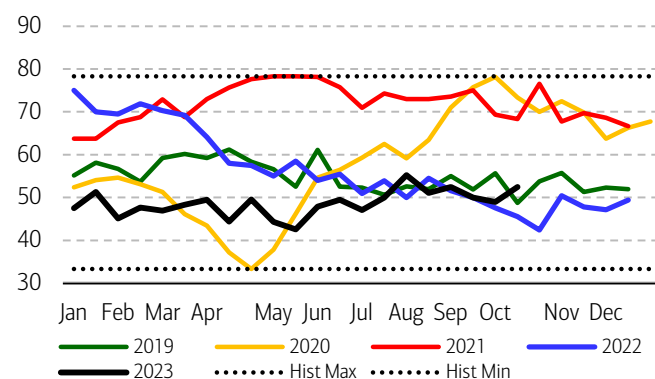


Source: BofA Global Research

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Chart 4: BofA Truckload Demand Diffusion Indicator

0-3 months demand outlook – stack basis y-y; Demand Indicator at 52.5



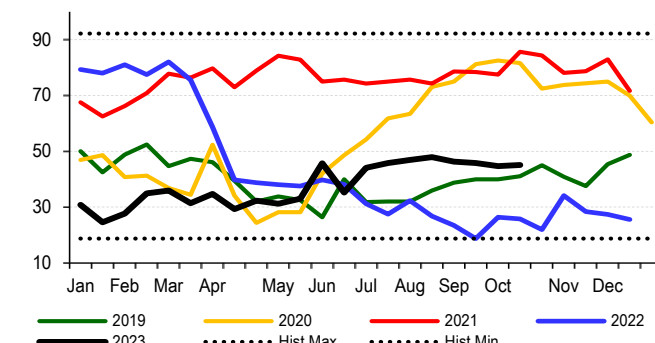
Source: BofA Global Research

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 45.1



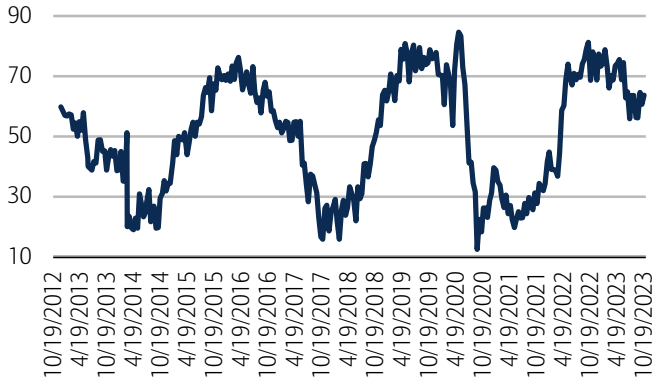
Source: BofA Global Research.

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CAPACITY AVAILABILITY

Chart 7: Shippers' view of available capacity

Capacity Indicator flat at 63.7, above its historic 50 avg

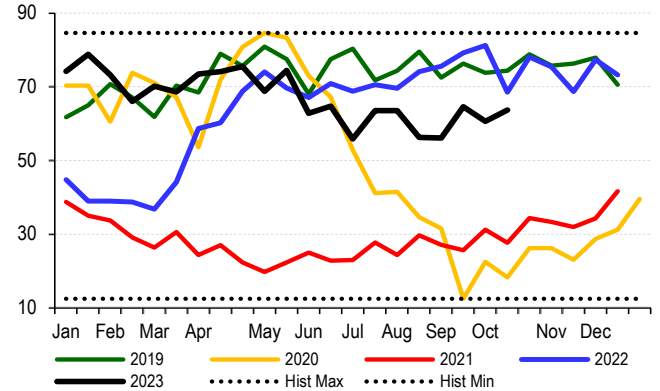


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Chart 8: Shippers' view of available capacity

Stack basis year-year; Capacity Indicator at 63.7



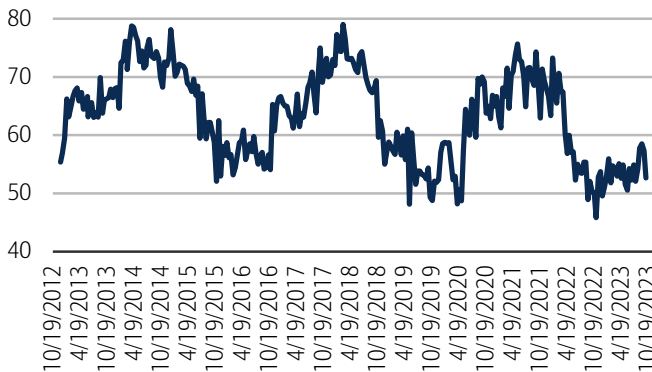
Source: BofA Global Research.

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6-12-MONTH FREIGHT DEMAND

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

L-T Demand Indicator at 58.3, up 6pts sequentially

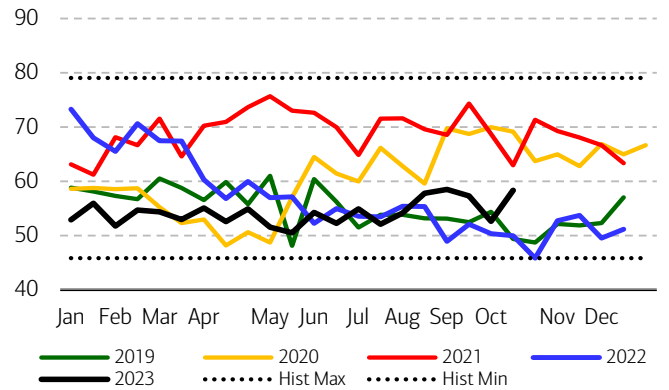


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 58.3



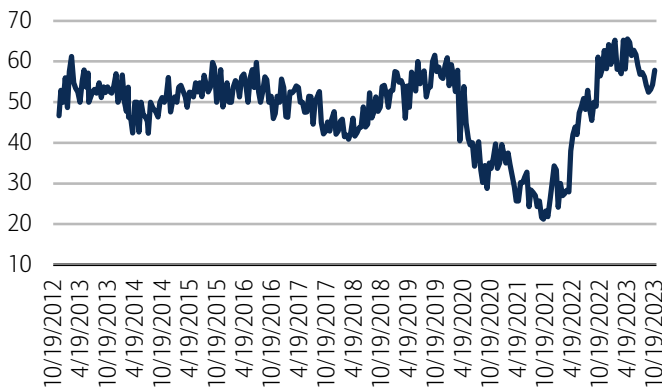
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INVENTORY

Chart 11: Shippers' view of inventory levels

Inventory Indicator at 57.8, up 7% sequentially from last issue.

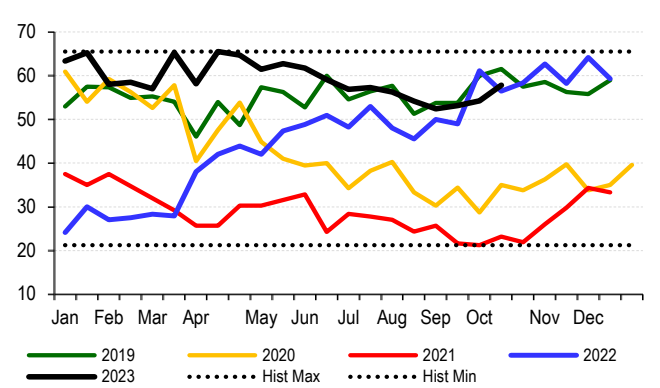


Source: BofA Global Research.

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Chart 12: Shippers' view of inventory levels

Stack basis year-year; Inventory Indicator at 57.8



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 struggles to make a freight market outlook prediction as there are a lot of factors that come into play at the end of the year, such as holidays, weather changes and fuel prices.
- Another Consumer Shipper noted sees carriers coming out of the woodwork asking for business. It believes this indicates there is capacity out there, but carriers are still struggling to perform.

- An Industrial Shipper noted the market remains flat.
- Another Industrial Shipper noted less-than-truckload rate adjustments were higher than anticipated.
- A Retail Shipper believes it needs to watch fuel prices with the situation in the Middle East.
- A Forest Product Shipper said fuel volatility continues to be a concern.
- A separate Consumer Shipper believes that fuel surcharge costs are still a concern.

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\$ 178.81	B-1-7
KNX	KNX US	Knight-Swift	US\$ 45.88	B-1-7
SNDR	SNDR US	Schneider National	US\$ 26.26	B-1-7

Source: BofA Global Research

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R1}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R1} 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.

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