

## Transportation - Trucking

## Survey Says: Demand (47.7) ticks lower; Inventory view declines; Rates view falls

Industry Overview

Truck Shipper Survey #295, week of November 2<sup>nd</sup>, 2023

This week, our proprietary bi-weekly BofA Truckload Demand Indicator for shippers' 0- to 3-month freight demand outlook **decreased to 47.7** from 52.5 last survey, down 9% sequentially. The Demand Indicator shifted below 50 after moving above 50 last issue. This is the 14<sup>th</sup> time out of the past 20 issues the indicator was below 50. It is up 12% year-year, its 5<sup>th</sup> consecutive issue of positive yr-yr growth. The Indicator remains well below the 54.2 average level of the '12, '15, '19 Freight Recession periods and below its 60 all-time average level for the 40<sup>th</sup> consecutive survey. Rail carloads fell 0.3% yr-yr this week, its third decline, and 35<sup>th</sup> downtick in the past 38 weeks. Dry van spot rates ex-fuel were \$1.25/mile, down 23% YTD, down from \$1.26/mi last week, but within the \$1.21-\$1.26 range for the 11th week. Of the respondents, 19% had a positive short-term demand outlook, down from 31% last survey; Neutral outlooks were 56%, up from 47% last issue, and Negative outlooks were 26%, from 22% last survey. In the week of Nov 2<sup>nd</sup>, we surveyed 43 shippers for views on demand, supply, pricing, inventory.

## Inventory view ticks down, Rates view declines

**The Rate Indicator**, or shippers' view on truck rates, **decreased to 41.9** from 45.1, down 7% sequentially, as expectations of future rate increases fell. **The Inventory Indicator decreased to 52.3** from 57.8 last issue, as shippers see decreased inventories as destocking continues (the lowest level in 8 months). **The Truck Capacity Indicator**, which measures shippers' views of available truckload capacity, **decreased to 62.8** from 63.7 last survey, as shippers see slightly tighter capacity. With respect to rates, 28% of shippers expect rates to fall, from 20% last issue, 60% expect flat pricing, from 71% last issue, and 12% expect rates to rise, from 10% last issue. On capacity, 33% expect capacity to rise, flat with last issue, 60% expect capacity to remain flat, from 61% last issue, and 7% expect capacity to be lower, from 6% last issue. **SHIPPER COMMENTS:** A Consumer Shipper believe rates will continue to be steady or go higher into the winter season, yet fuel prices (surcharges) are moving lower. An Industrial Shipper noted truck intermodal rates are dropping. A Consumer Shipper sees sustained high service levels across most modes and carriers. It also called out increased cost (pricing) at Less-than-Truckload carriers.

## Pricing competition heating up between carriers

Intermodal carrier Hub Group noted in its 3Q23 earnings that it has moved to lower contract rates during bid season to stent its volume share loss to over-the-road carriers given a more aggressive than anticipated pricing environment. Despite an improving rail service product, Hub Group's intermodal segment saw accelerating load declines as it attempted to hold the line on price. Multimodal carrier J.B. Hunt highlighted a similar dynamic in its Dedicated segment, which operate on 3-5 year contracts, as customer retention slipped to 94% (from 98%) given increased competition (as its peer Schneider National appeared to win a 200-truck fleet customer from JB). Peer multimodal carrier Schneider National noted the significantly worse than expected pricing backdrop as its Truckload margins worsened to historical lows. Truckload carrier Werner observed spot market challenges and ongoing pricing pressures. We continue to prefer LTL carriers, such as SAIA, XPO, and ODFL, but focus on TL related carriers KNX and JBHT.

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## Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 47.7

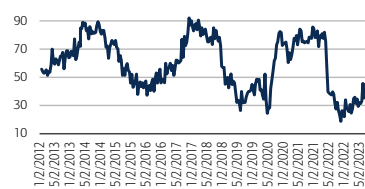


Source: BofA Global Research.

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## Chart 2: RATE INDICATOR

Shipper's rates view; Rate Indicator at 41.9



Source: BofA Global Research.

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LTL: Less-than-Truckload; TL:  
Truckload

# SHIPPERS VIEW OF DEMAND

**Table 1: BofA Truckload Demand Diffusion Indicator**

Demand Indicator: at 47.7, down 9% 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 52.5
	10/24 53.8	10/22 70.0	11/4 76.6	11/3 42.4	11/2 47.7
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 41.9, -3.2pts 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 47.7

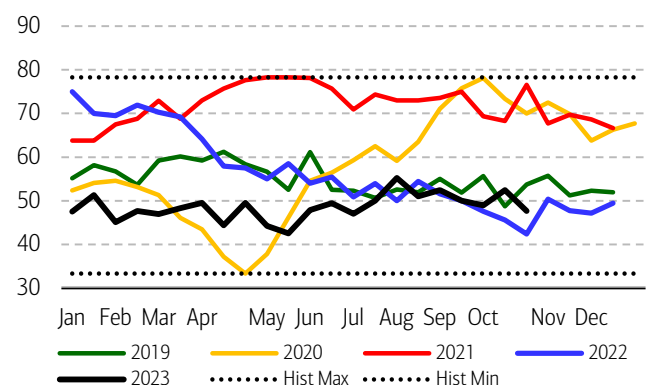


Source: BofA Global Research

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**Chart 4: BofA Truckload Demand Diffusion Indicator**

0-3 months demand outlook – stack basis y-y; Demand Indicator at 47.7



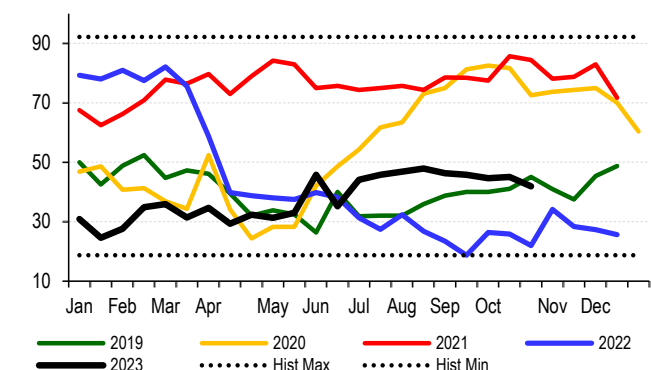
Source: BofA Global Research

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 41.9



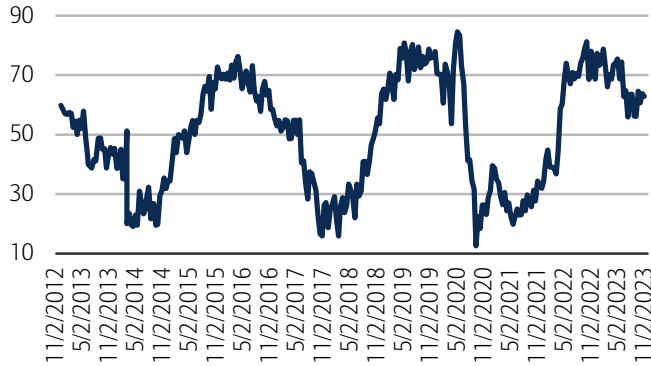
Source: BofA Global Research.

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## CAPACITY AVAILABILITY

**Chart 7: Shippers' view of available capacity**

Capacity Indicator flat at 62.8, above its historic 50 avg

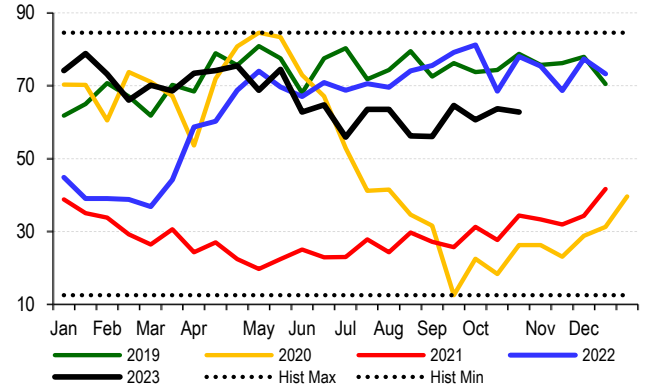


Source: BofA Global Research.

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**Chart 8: Shippers' view of available capacity**

Stack basis year-year; Capacity Indicator at 62.8



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 51.7, down 6.6pts sequentially

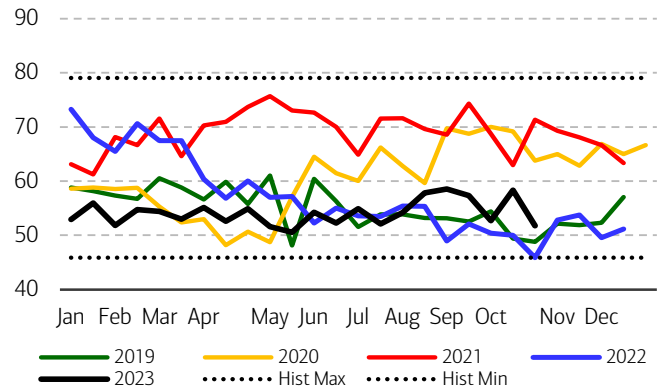


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 51.7



Source: BofA Global Research.

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## INVENTORY

**Chart 11: Shippers' view of inventory levels**

Inventory Indicator at 52.3, down 10% sequentially from last issue.

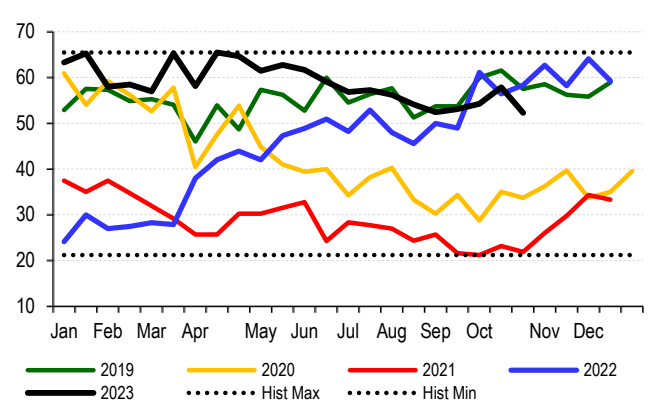


Source: BofA Global Research.

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**Chart 12: Shippers' view of inventory levels**

Stack basis year-year; Inventory Indicator at 52.3



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



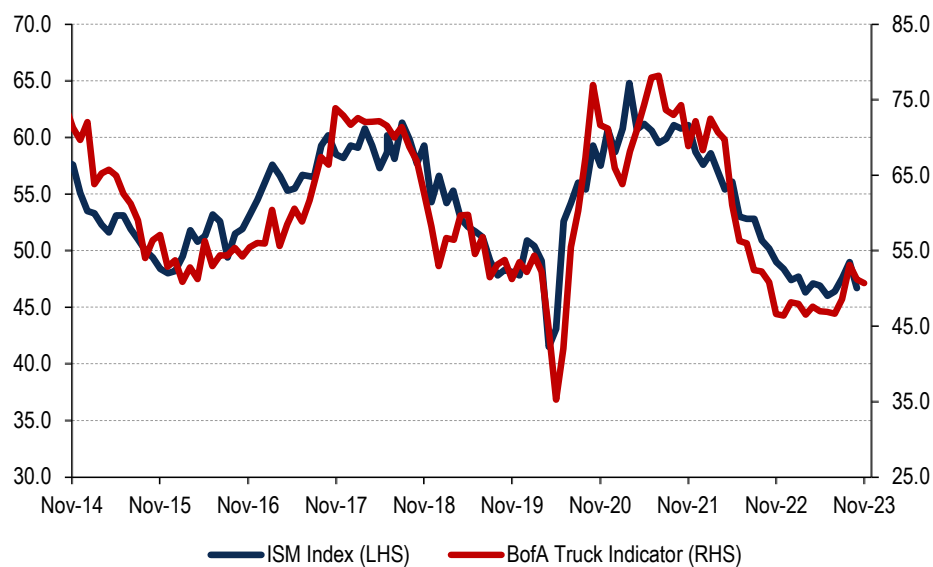
Source: BofA Global Research estimates.

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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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**Exhibit 1: Stocks Mentioned**

Stocks mentioned includes JBHT, KNX, XPO, ODFL, SAIA

Ticker	Company	QRQ	RTNG	Price	PO
JBHT	J.B. Hunt Transport Services	B-1-7	Buy	\$ 172.46	\$ 215
KNX	Knight-Swift Transportation	B-1-7	Buy	\$ 49.08	\$ 65
XPO	XPO, Inc	C-1-9	Buy	\$ 78.25	\$ 90
ODFL	Old Dominion Freight Line	B-1-7	Buy	\$ 388.83	\$ 449
SAIA	Saia, Inc	B-1-9	Buy	\$ 377.62	\$ 455

**Source:** BofA Global Research estimates and Bloomberg.

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## Price objective basis & risk

### J.B. Hunt Transport Services (JBHT)

Our \$215 price objective is based on a 24.5x target multiple of our 2024e EPS. Our target multiple is above 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 \$65 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, 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.



**Old Dominion Freight Line (ODFL)**

Our \$449 price objective is based on a 34x target multiple on our 2024 EPS estimate. Our target is above the company's 20-year historical one-standard deviation range of 13x-27x forward earnings, adjusted for outlier periods, and the top of its 3-year range of 28x-34x. We are at the top of its historical range given the seminal event in the LTL industry as YELL declared bankruptcy, ODFL's sustained share gains, above-inflation cost pricing, and a robust free cash flow yield. It continues to post superior operating performance relative to peers and the favorable dynamics of the LTL industry.

Downside risks to our PO are weak freight demand and slow or negative industrial production growth. Additionally, increasing LTL competition could limit Old Dominion's ability to grow volume and increase market share, while also negatively impacting freight rates and pressuring profit margins. A return to industry pricing competition, last experienced en masse in the 2008 Great Recession, could weigh on investor views on the health of the industry, and thus OD's leading multiple. The less-than-truckload industry is competitive, with a large number of national and regional companies vying for business. A potential turnaround at Yellow could lead to increased freight capacity and negative pricing pressures.

**Saia Inc. (SAIA)**

Our \$455 price objective is based on a 28.5x target multiple on our 2024 EPS estimate. Our target remains above its 14x-23x one-standard deviation 10-year trading range as it continues to benefit from ramping EPS. Our target multiple is above the top end given its leading service, ability to win share, and disruption in the LTL market which can aid premiere carriers, which should more than offset a soft freight environment.

Downside risks to our PO are weak freight demand and slow or negative industrial production growth. Our price objective is also threatened by increasing competition, which could limit Saia's ability to grow volume and increase market share, while also negatively impacting freight rates and pressuring profit margins. The less-than-truckload industry is competitive, with a large number of national and regional companies vying for business.

**XPO, Inc. (XPO)**

Our \$90 price objective is based on a 25.5x P/E multiple on its 2024e EPS, above the upper end of peer range at 8x-24x, as we look for it to close the premium gap to best-in-class peers as it executes on its Network 2.0 growth plan. The company is focused on core improvement at its LTL segment, which is working to raise service levels, grow share, improve its cost structure, and long-term aims to lower its operating ratio by 600 bps between 2021-2027. It aims to increase insourcing of linehaul ops, and improve pricing. We expect XPO to decrease its discount to leading LTL operators (at 26x and above) as it improves its service with CEO Mario Harik, and aided by new COO David Bates and ex-ODFL CFO Wes Frye, who joined XPO's Board.

Downside risks to our price objective are a downturn in the global economy, which could reduce volume and pressure margins, while also potentially having a disproportionate impact on XPO's earnings given its leveraged capital structure. Long term inability to secure a sale of its Europe operation may also be a downside risk to our price objective. Its inability to improve cargo claims, insource linehaul, obtain tractors/trailers at pace it desires, and failure to improve pricing on its improved service levels would be a downside risk to targets/valuation. A potential turnaround at Yellow could lead to increased freight capacity and negative pricing pressures.

## 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.

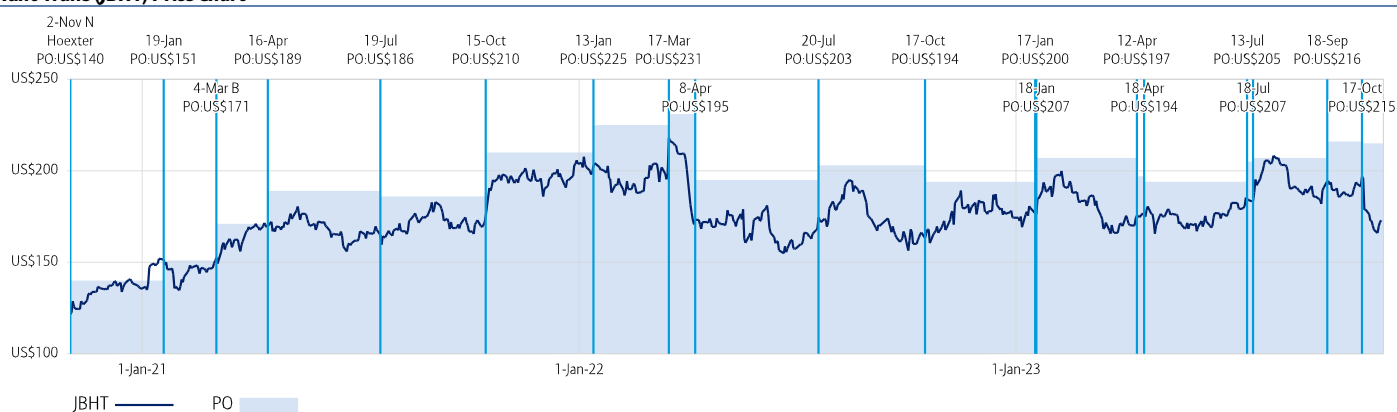
## US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	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
	XPO, Inc.	XPO	XPO US	Ken Hoexter
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	ArcBest Corporation	ARCB	ARCB US	Ken Hoexter
	C.H. Robinson	CHRW	CHRW US	Ken Hoexter
	The Greenbrier Companies	GBX	GBX US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter

## Disclosures

## Important Disclosures

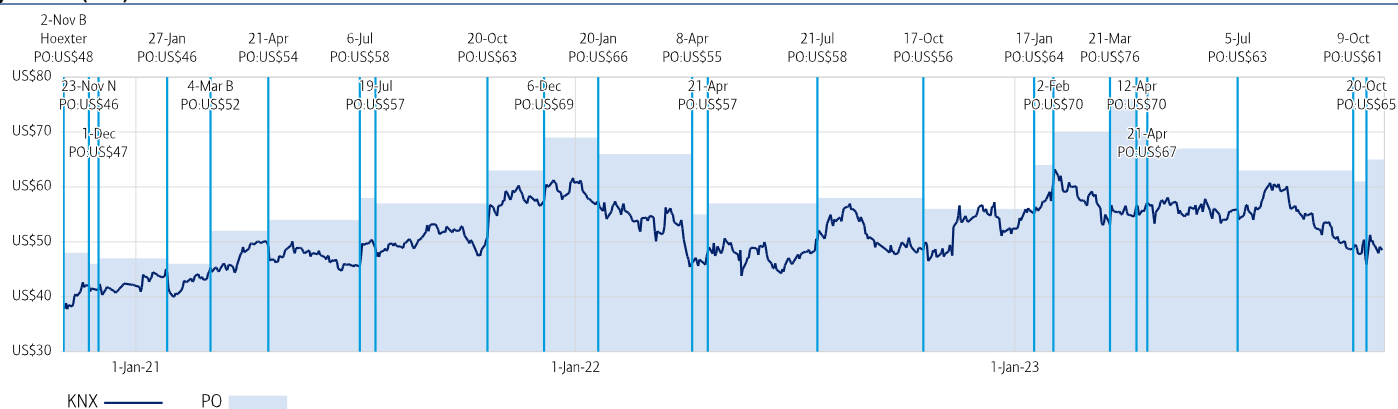
## J.B. Hunt Trans (JBHT) Price Chart



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

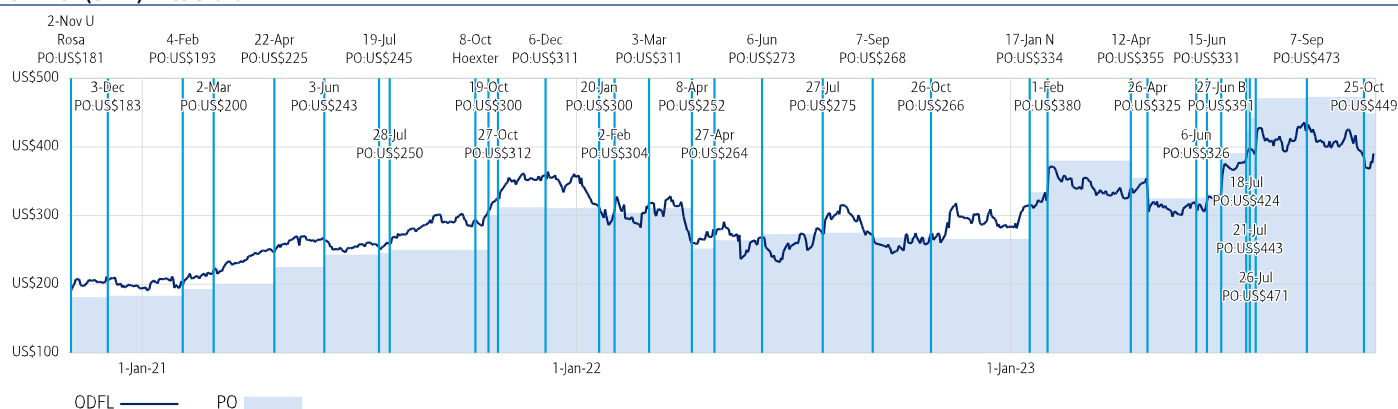
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey 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**

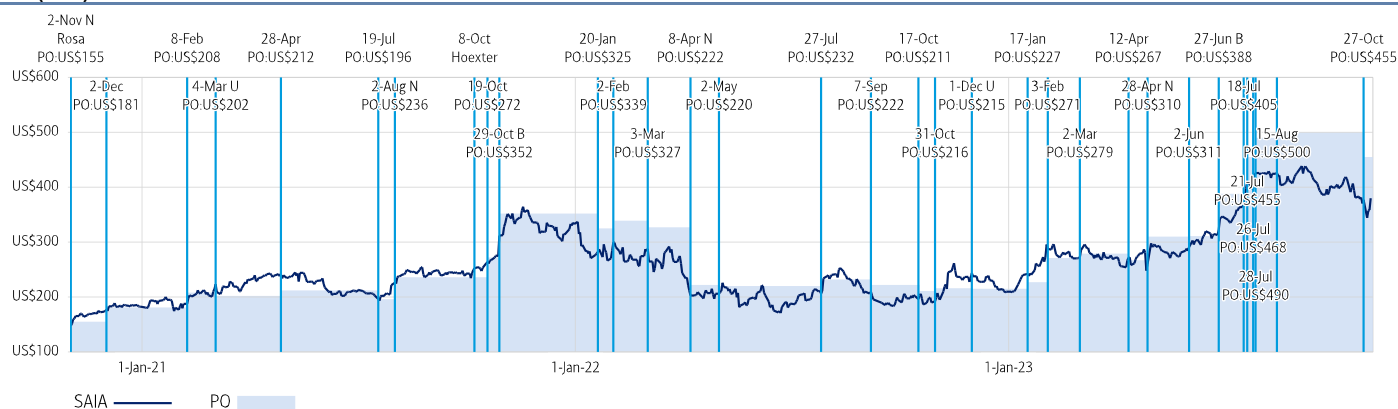
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Old Dominion (ODFL) Price Chart**

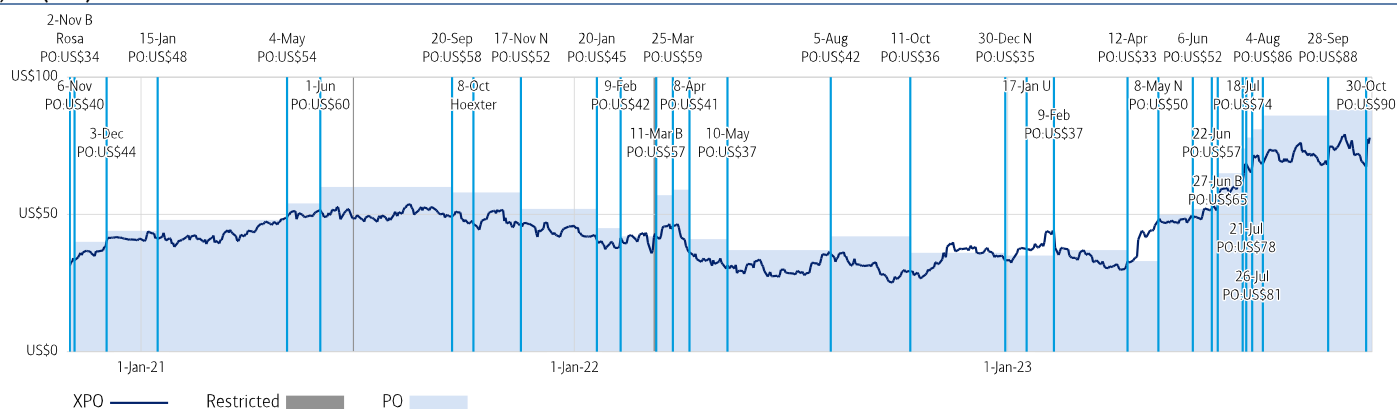
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**Saia Inc. (SAIA) Price Chart**

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

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**XPO, Inc. (XPO) Price Chart**

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

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

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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