

## Transportation - Trucking

Survey Says: Demand (47.9) ticks higher;  
Rates view jumps

Industry Overview

Truck Shipper Survey #285, week of June 15<sup>th</sup>, 2023

This week, our proprietary bi-weekly **BofA Truckload Demand Indicator** for shippers' 0- to 3-month freight demand outlook increased to 47.9 from 42.6 last survey, up 13% sequentially, ticking higher from its 5<sup>th</sup> lowest on record. The uptick suggests an improvement in truck freight demand outlook from shipper's view. The Demand Indicator remains sub-50 for the 17x in the past 19 issues and sub-60 for the 31<sup>st</sup> consecutive survey. It remains below the 54.2 average level of the '12, '15, '19 Freight Recession periods and is down 11% y-y. Rail carloads fell 5% y-y this week, the 18<sup>th</sup> consecutive downtick. However, dry van spot rates ex-fuel climbed to \$1.41 /mile this week (per Truckstop.com), down 14% YTD, but up from May's \$1.25/mile (toward \$1.50-\$1.60 cost/mi of operation). Shippers' short-term Negative outlooks were 30%, from 38% last survey; Positive outlooks were 23%, up from 17% last survey; and Neutral outlooks were 47%, up from 45% last issue. For the week of June 15<sup>th</sup>, we surveyed 47 shippers across the U.S. to get views on freight demand, supply, pricing, and inventories.

## Rate Indicator soars +39%; Capacity view falling

**The Truck Capacity Indicator**, which measures shippers' views of available truckload capacity, decreased to 62.8 from 74.5 last survey, down 16% sequentially as shippers see less available truck capacity. **The Rate Indicator**, or shippers' views on truck rates, increased to 45.7 from 33.0, up 39% sequentially, trending with spot rate moves as rate expectations rose after the end of March-May bid season (when annual contracts renew). **The Inventory Indicator** ticked down slightly to 61.7 from 62.8 last survey, down 2% sequentially, as shippers see slightly lower inventory levels. With respect to rates, 17% expect rates to fall, down from 36% last issue, 74% expect flat pricing, up from 62% last issue, and 9% expect rates to rise, up from 2% last issue. On capacity, 32% expect capacity to rise, down from 51% last issue, 62% expect capacity to remain flat, up from 47% last issue, and 6% expect capacity to be lower, up from 2% last issue. **Shipper Comments:** An Industrial Shipper noted market continue to appear flat. A Consumer Shipper sees refrigerated contract rates bottoming. Another Consumer Shipper sees stable delivery across all modes (except LTL). It believes lower volumes are matching with capacity for most modes and providers. (Comments cont'd p. 5).

## Truckstop.com expects spot capacity exits to increase

Dry-van trucking spot rates ex-fuel have risen to \$1.41/mi, up 13% from mid-May's low \$1.25/mile and nearing smaller carriers' cost of operations of \$1.50-\$1.60 per mile. After an estimated 16 weeks of rates below operating costs (since mid-February), digital load board operator Truckstop.com sees rates normalizing given year-to-date net carrier exits increasing to 8,800 (from 5,500 at our [May Conference](#)) on our 20-min Transport update series (see [Call Note](#)). It expects exits to accelerate as the for-hire carrier pool remains 18% above pre-pandemic levels. On the demand side, Port of Savannah noted Apr/May inbound volumes up 6.5% sequentially from Feb/Mar lows at our Hoexter's 20-minute Call Series ([Port Takeaways](#)). It also expects Jun/Jul volumes to be up 5%-6% from Apr/May as import levels improve. We see the confluence of accelerating capacity exits and recovering demand levels to lead a late 2H truck recovery. We stay focused on

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## Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 47.9



Source: BofA Global Research.

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## Chart 2: RATE INDICATOR

Shipper's view of rates; Rate Indicator at 45.7



Source: BofA Global Research.

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leading early-cycle Truckload related carriers (KNX, JBHT, SNDR, WERN).

# SHIPPERS VIEW OF DEMAND

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

Demand Indicator: at 47.9, up 5.3 pts 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
Jul	7/4 52.3	7/2 59.3	7/15 70.9	7/14 50.9	7/13
	7/18 50.6	7/16 62.5	7/29 74.3	7/28 53.9	7/27
Aug	8/1 52.6	7/30 59.1	8/12 73.0	8/11 50.0	8/10
	8/15 51.9	8/13 63.5	8/26 73.0	8/25 54.5	8/24
Sep	8/29 55.0	8/27 71.1	9/9 73.6	9/8 51.6	9/7
	9/12 51.9	9/10 75.8	9/23 75.0	9/22 50.0	9/21
Oct	9/26 55.6	9/24 78.1	10/8 69.4	10/6 47.6	10/5
	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 45.7, +12.7 pts 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 47.9

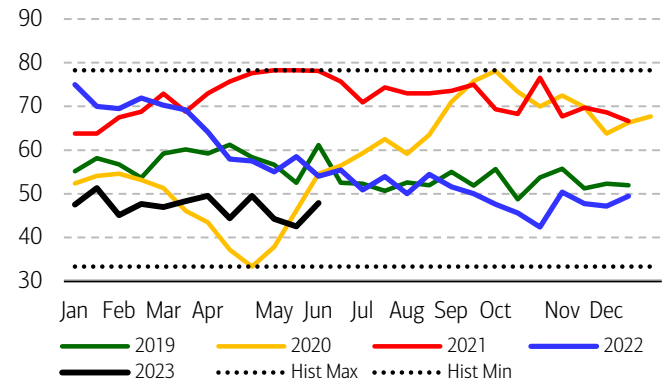


Source: BofA Global Research

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

0-3 months demand outlook – stack basis y-y; Demand Indicator at 47.9

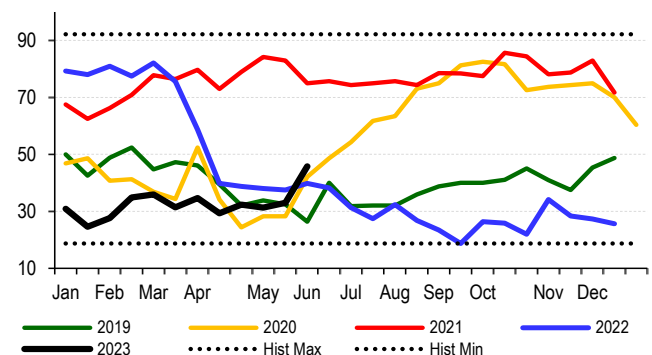


Source: BofA Global Research

 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 45.7



Source: BofA Global Research.

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## CAPACITY AVAILABILITY

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

Capacity Indicator decreased to 62.8, yet above its historic 50 avg

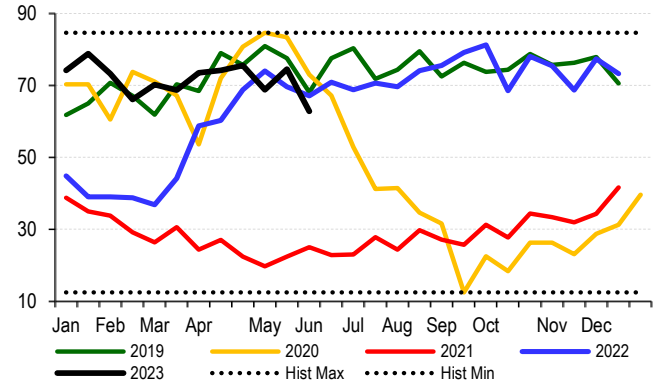


Source: BofA Global Research.

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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 54.3, up 3.8 pts sequentially

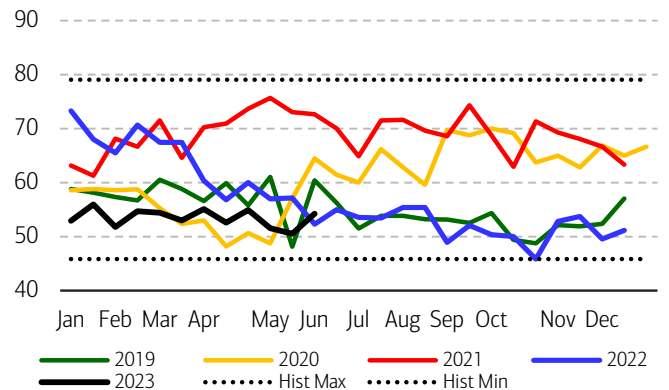


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 54.3



Source: BofA Global Research.

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## INVENTORY

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

Inventory Indicator at 61.7, down from 62.8 last issue

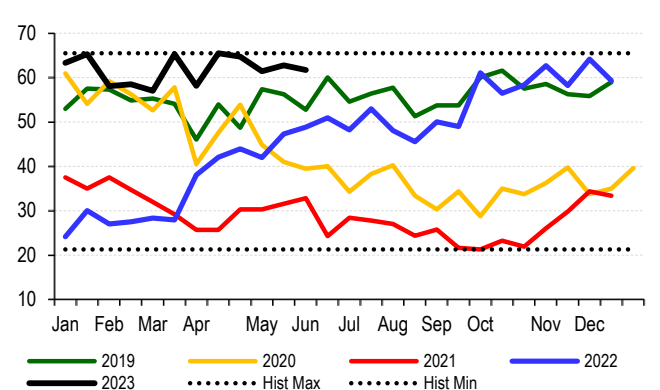


Source: BofA Global Research.

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

Stack basis year-year; Inventory Indicator at 61.7



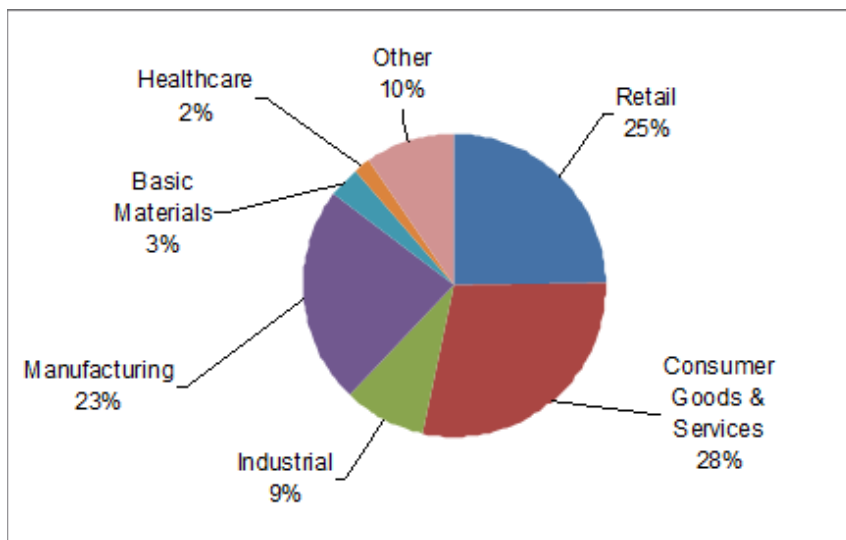
Source: BofA Global Research.

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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



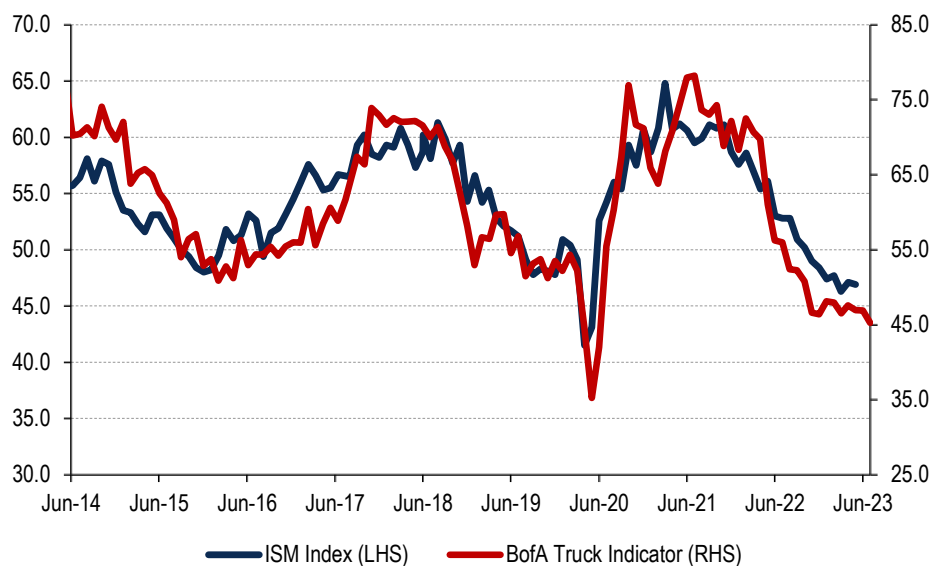
Source: BofA Global Research estimates.

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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 is hearing more from asset-based carriers now with available capacity.

### Exhibit 1: Stocks Mentioned

Shares mentioned include JBHT, KNX, SNDR, and WERN

Ticker	QRQ	Rating	Price	PO
JBHT	B-1-7	B	\$ 176.93	\$ 194.00
KNX	B-1-7	B	\$ 56.00	\$ 67.00
SNDR	B-1-7	B	\$ 27.36	\$ 30.00
WERN	B-1-7	B	\$ 44.45	\$ 51.00

Source: BofA Global Research and Bloomberg

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## Price objective basis & risk

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

Our \$194 price objective is based on a 23.5x target multiple of our 2023e EPS. Our target multiple is the top of its 16x-23x one standard deviation trading band as earnings are expected to trough in late '23. 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 3-5 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 \$67 price objective is based on a 19.5x target multiple on our 2023 EPS estimate. Our target multiple is above the bottom of its one-standard-deviation 22-year historical trading range of 15.5x-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 \$30 PO is based on a 14.5x target multiple on our 2023 EPS estimate. Our target multiple is 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 \$51 price objective is based on an 20x target multiple on our 2023 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. Werner continues to focus on operational improvements, led by CEO Derek Leathers, which it targets to drive margin improvement.

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.



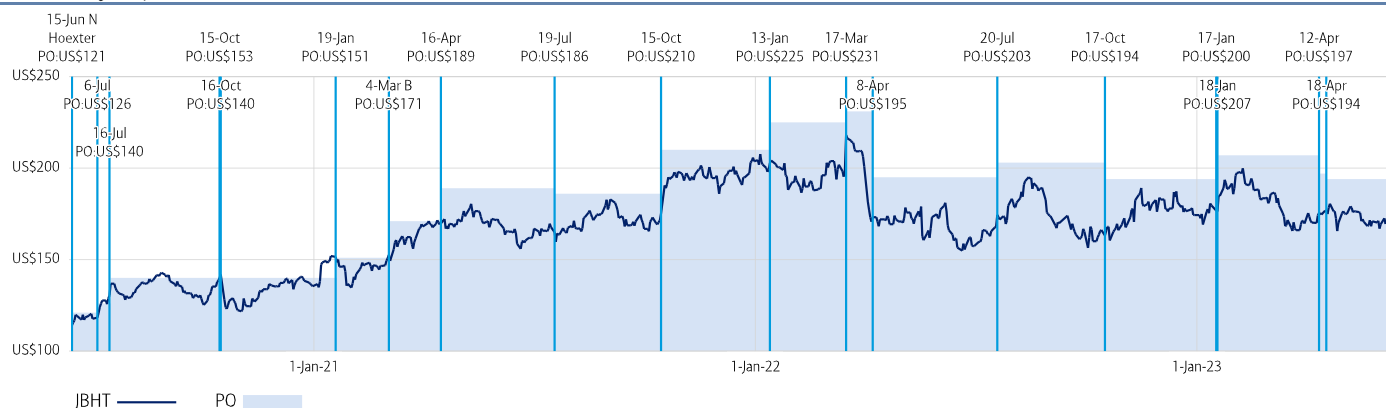
## US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Canadian National	CNI	CNI US	Ken Hoexter
	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
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Scorpio Tankers Inc.	STNG	STNG US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Fuel Services	INT	INT US	Ken Hoexter
<b>NEUTRAL</b>				
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	Saia Inc.	SAIA	SAIA 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
	XPO, Inc.	XPO	XPO 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
	TuSimple	TSP	TSP US	Ken Hoexter
<b>RSTR</b>				
	Triton International, Ltd	TRTN	TRTN US	Ken Hoexter

## Disclosures

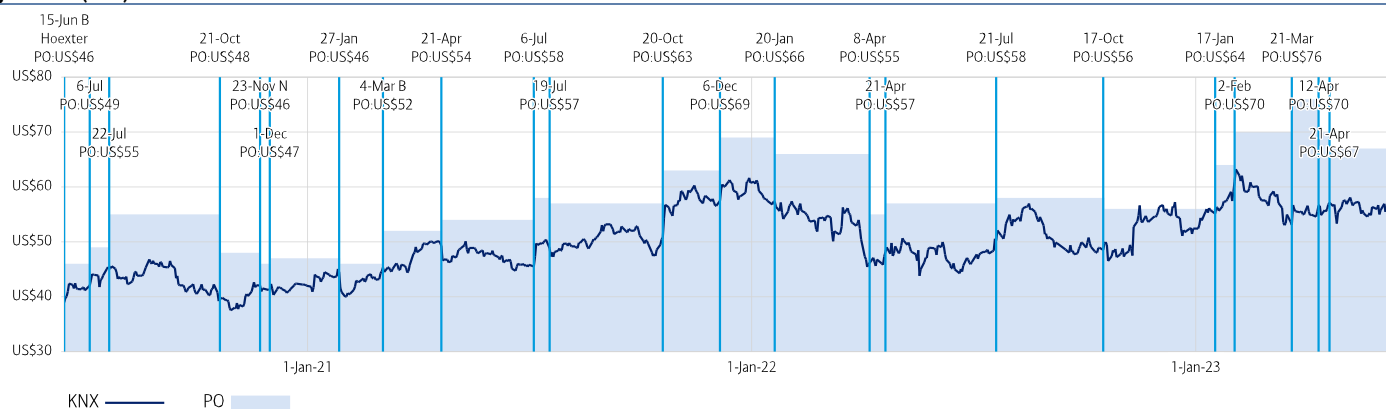
## Important Disclosures

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



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

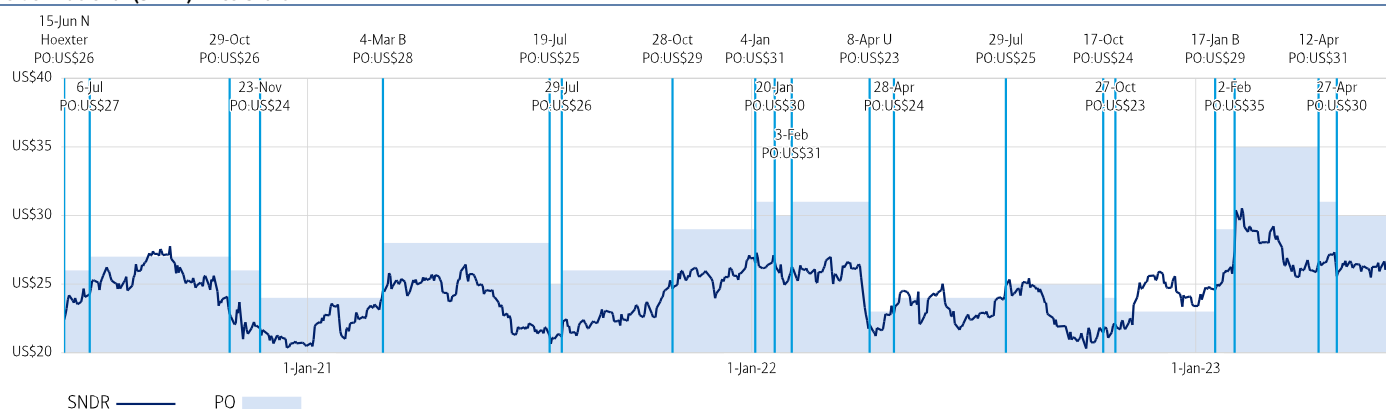
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey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

KNX — PO

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

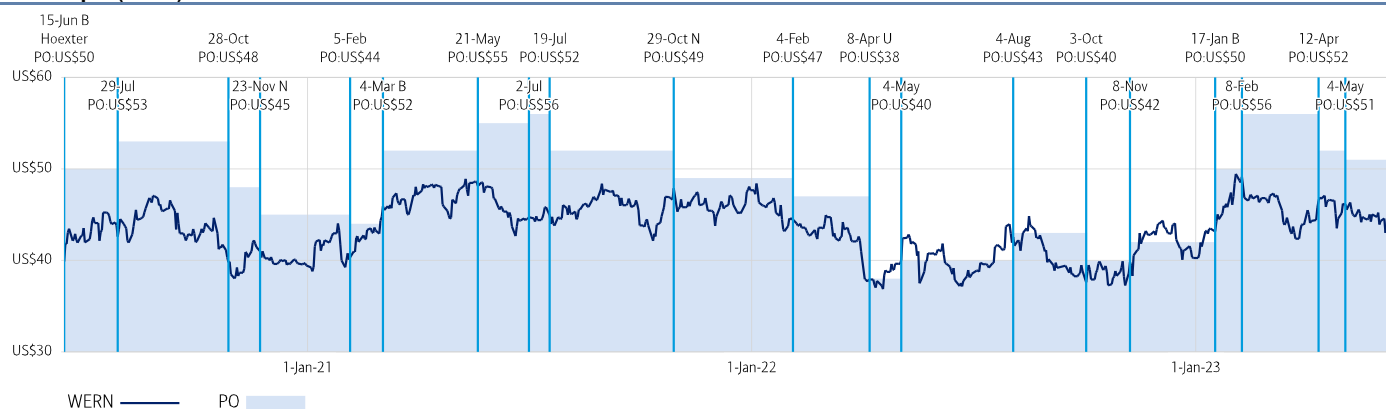
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**Schneider National (SNDR) Price Chart**

SNDR — PO

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**Werner Enterprises (WERN) Price Chart**

WERN — PO

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 31 Mar 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	68	51.52%	Buy	38	55.88%
Hold	28	21.21%	Hold	15	53.57%
Sell	36	27.27%	Sell	18	50.00%

**Equity Investment Rating Distribution: Global Group (as of 31 Mar 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1869	53.01%	Buy	1030	55.11%
Hold	827	23.45%	Hold	476	57.56%
Sell	830	23.54%	Sell	389	46.87%

<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.

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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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