

Transportation - Trucking

Survey Says: Demand (49.5) and Rates view tick up into end of bid season

Industry Overview

Truck Shipper Survey #282, week of May 4th, 2023

This week, our proprietary bi-weekly BofA Truckload Demand Indicator for shippers' 0- to 3-month freight demand outlook increased to 49.5 from 44.4 last survey, up 12% sequentially. The Demand Indicator remains sub-50 for the 14x in the past 16 surveys and sub-60 for the 28th consecutive survey. The Demand Indicator remains below the 54.2 average level of the '12, '15, '19 Freight Recession periods and is down 14% y-y. The uptick in demand views could indicate a seasonal pick up in May after atypical weakness in March. Nevertheless, spot rates (ex-fuel) remain exceptionally weak, at \$1.27/mile average this week (per Truckstop.com), down 23% YTD, and down 4% from April's \$1.32/mile average. Rail carloads fell 5% y-y this week, the 14th downtick in 15 weeks. Shippers' short-term Negative outlooks were 35%, down from 38% last survey; Positive outlooks were 33%, from 21% last survey; and neutral outlooks were 31%, down from 41%. For the week of May 4th, we surveyed 51 shippers across the U.S. to get current views on freight demand, supply, pricing, and inventories.

Rates view ticks up, Inventory view off all-time high

The Truck Capacity Indicator, which measures shippers' views of available truckload capacity, rose to 75.5 from 74.1 last survey, as shippers see a looser truck market. The Rate Indicator, or shippers' views on truck rates, increased to 32.4 from 29.3, up 10% sequentially, as shipper rate expectations rose into the end of the March-May bid season (when annual contracts renew). The Inventory Indicator ticked lower to 64.7 from 65.5 last survey, down 1% sequentially, off from its all-time high, as shippers still see inventory levels elevated. With respect to rates, 41% expect rates to fall from 45% last survey, 53% expect flat pricing, from 52% last issue, and 6% expect rates to rise, from 3% last issue. On capacity, 57% expect capacity to rise from 53% last issue, 37% expect capacity to remain, down from 41% last issue, and 6% expect capacity to be lower, from 5% last issue. SHIPPER COMMENTS: An Industrial Shipper noted rates continue to come down. It also noted that carriers are proactively lowering rates hoping to generate additional volume, yet its own volume is off from the pandemic panic buying by about 28%. A Consumer Shipper sees double-digit decreases in its ongoing 2nd round of negotiations for its intermodal request-for-proposals. Its truckload bid remains in market, and it anticipates positive results (reduced rates). (Comments cont'd p. 5).

Carriers note challenged macro, some see signs of a floor

Following J.B. Hunt's remark that 'we are [already] in a Freight Recession,' ([JBHT report](#)), Rail Carrier Canadian National (CNI), Airfreighter UPS, and Less-than-Truckloads (LTLs: ODFL, SAIA, ARCB) all echoed views of a challenged freight environment during 1Q earnings. CNI lowered its volume outlook ([CNI note](#)), as it sees the economy in a 'mild recession'. UPS moved its targets to the low-end of its range ([UPS note](#)) as volumes decelerated throughout 1Q. A few LTL carriers noted that the seasonal Spring volume uptick was absent. Other operators saw signs of a floor emerging. Truckload Carrier Werner ([WERN note](#)) noted accelerating capacity exits and improving inventory levels. Truck Broker RXO ([RXO note](#)) noted green shoots of demand from retail and e-commerce shippers. We remain focused on leading carriers in early cyclical truckload group (JBHT, KNX, SNDR) ahead of a late 2023 rebound. Maintain ratings under coverage

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Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 49.5

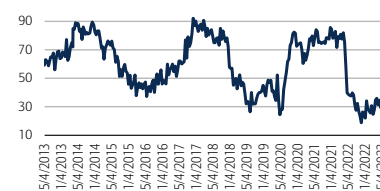


Source: BofA Global Research.

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Chart 2: RATE INDICATOR

Shipper's view of rates; Rate Indicator at 32.4



Source: BofA Global Research.

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See page 5 for abbreviations

SHIPPERS VIEW OF DEMAND

Table 1: BofA Truckload Demand Diffusion Indicator

Demand Indicator: at 49.5, +5.1 pts 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
	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 5/23 52.5	5/7 37.8 5/21 46.2	5/20 78.3 6/3 78.3	5/19 55.0 6/2 58.5	5/18 6/1
Jun	6/6 61.1 6/20 52.5	6/4 54.6 6/18 56.4	6/17 78.1 7/1 75.7	6/16 54.0 6/30 55.5	6/15 6/29
Jul	7/4 52.3 7/18 50.6	7/2 59.3 7/16 62.5	7/15 70.9 7/29 74.3	7/14 50.9 7/28 53.9	7/13 7/27
Aug	8/1 52.6 8/15 51.9	7/30 59.1 8/13 63.5	8/12 73.0 8/26 73.0	8/11 50.0 8/25 54.5	8/10 8/24
Sep	8/29 55.0 9/12 51.9	8/27 71.1 9/10 75.8	9/9 73.6 9/23 75.0	9/8 51.6 9/22 50.0	9/7 9/21
Oct	9/26 55.6 10/10 48.7	9/24 78.1 10/8 73.3	10/8 69.4 10/21 68.3	10/6 47.6 10/20 45.6	10/5 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 11/21 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 11/30
Dec	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 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 32.4, +3.1 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 49.5

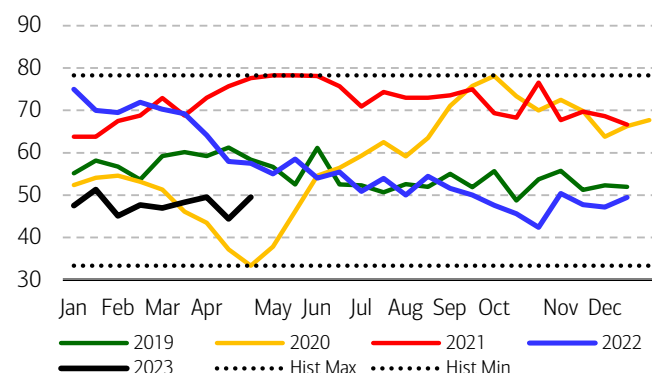


Source: BofA Global Research

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Chart 4: BofA Truckload Demand Diffusion Indicator

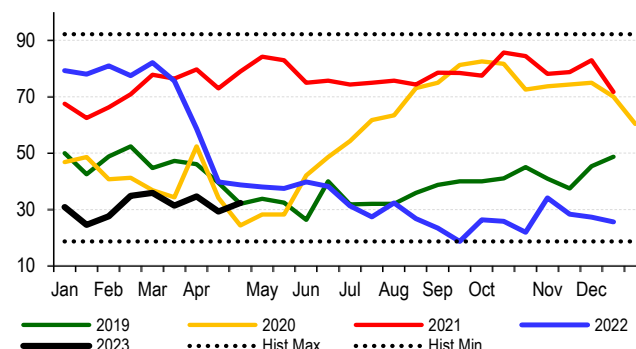
0-3 months demand outlook – stack basis y-y; Demand Indicator at 49.5



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 32.4



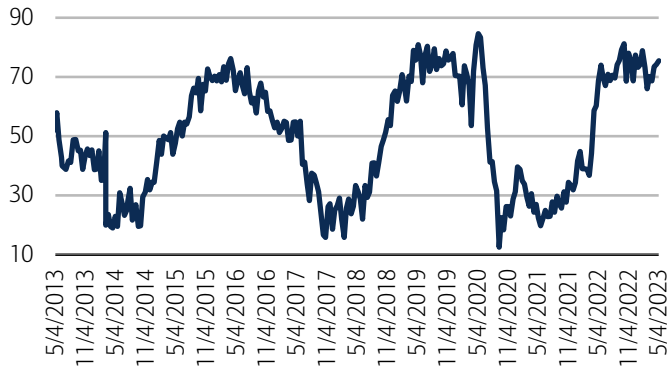
Source: BofA Global Research.

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CAPACITY AVAILABILITY

Chart 7: Shippers' view of available capacity

Capacity Indicator decreased to 75.5, above its historic 50 avg

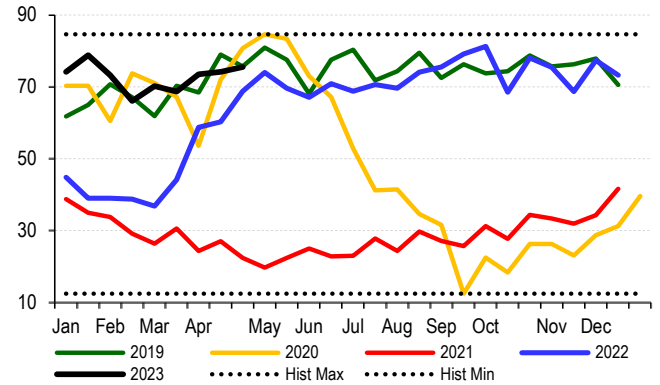


Source: BofA Global Research.

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Chart 8: Shippers' view of available capacity

Stack basis year-year; Capacity Indicator at 75.5



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 54.9, up 2.3 pts sequentially

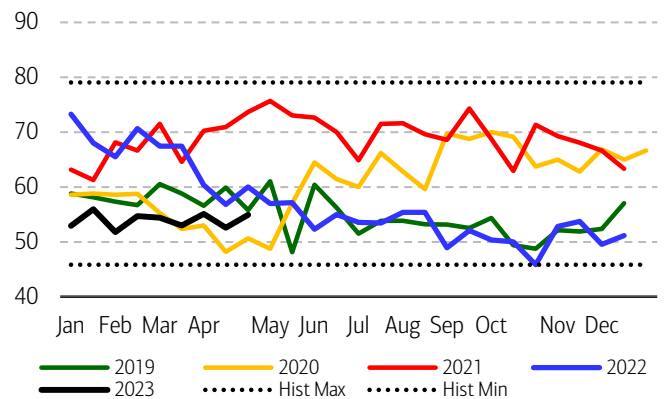


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 54.9



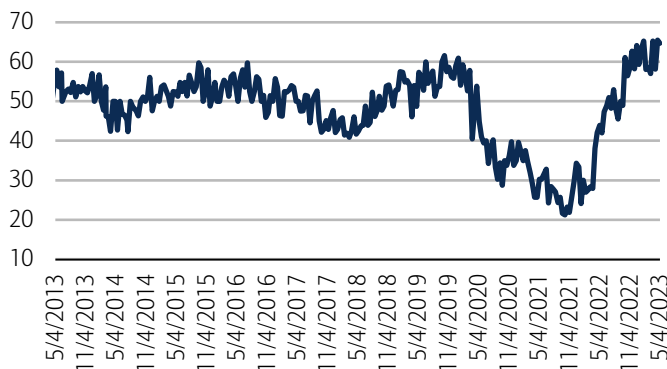
Source: BofA Global Research.

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INVENTORY

Chart 11: Shippers' view of inventory levels

Inventory Indicator at 64.7, down from its historic high of 65.5 last issue

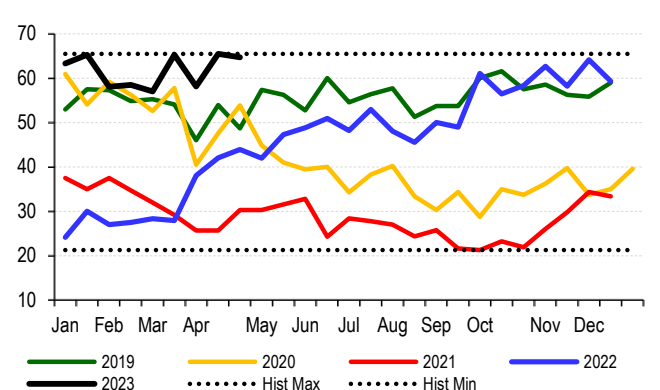


Source: BofA Global Research.

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Chart 12: Shippers' view of inventory levels

Stack basis year-year; Inventory Indicator at 64.7



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



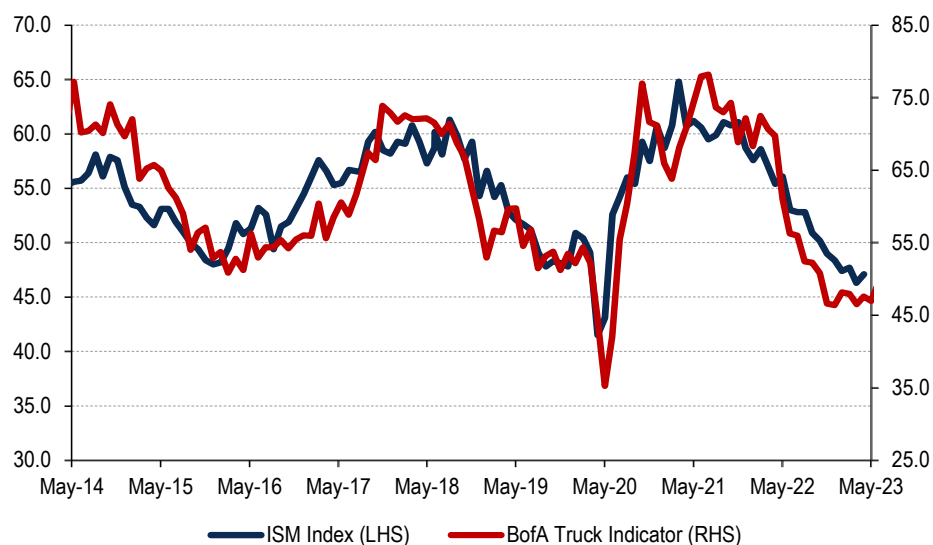
Source: BofA Global Research estimates.

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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 Forest Products Shipper heard flatbed rates are starting to trend up slightly but it has not seen any evidence to that end. It also noted that the number of calls and emails it gets on becoming a provider continues to increase.

- A Manufacturing Shipper noted that the market is softening now. It believes it is time to pull in trusted carriers close to keep them solvent until this trend turns back around. It also noted the bank failures are not helping.
- An Industrial Shipper noted that the contract rate market is starting to get impacted.
- A Manufacturing Shipper noted fewer drivers are available but it remains steady on shipments.
- A Consumer Shipper noted that things remain steady and calm before the start of peak season.
- An Industrial Shipper noted the market was flat this week as well.

Exhibit 1: Stock Mentioned
Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
JBHT	JBHT US	J.B. Hunt Trans	US\$ 174.97	B-1-7
KNX	KNX US	Knight-Swift	US\$ 56.86	B-1-7
SNDR	SNDR US	Schneider National	US\$ 26.26	B-1-7

Source: BofA Global Research

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Abbreviations:

JBHT	J.B. Hunt Trans
KNX	Knight-Swift
SNDR	Schneider National
ARCB	ArcBest
CNI	Canadian Natl
ODFL	Old Dominion
SAIA	Saia Inc.
UPS	United Parcel
WERN	Werner Enterpris



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.

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 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
NEUTRAL				
	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
UNDERPERFORM				
	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
	XPO, Inc.	XPO	XPO US	Ken Hoexter
RSTR				
	Triton International, Ltd	TRTN	TRTN US	Ken Hoexter

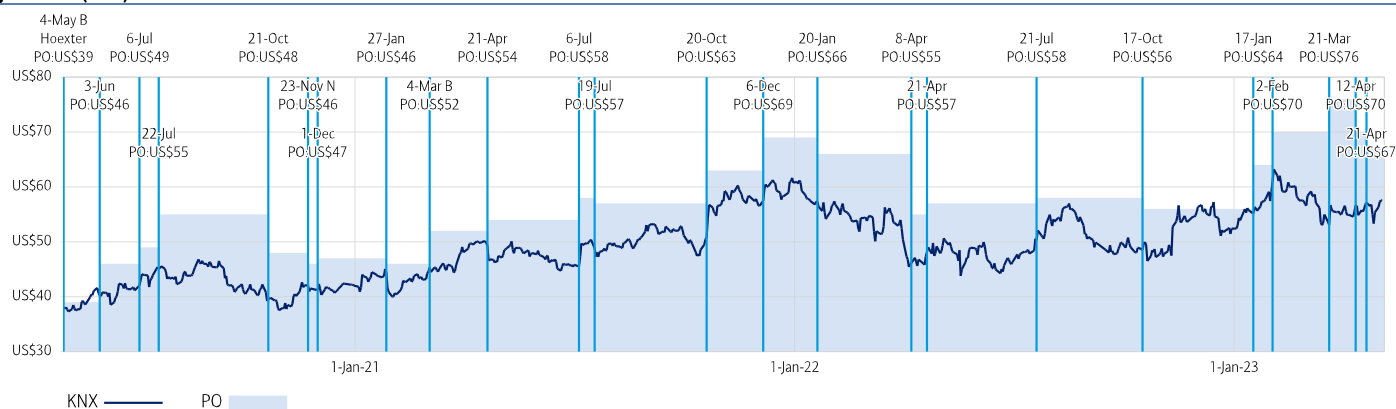
Disclosures

Important Disclosures

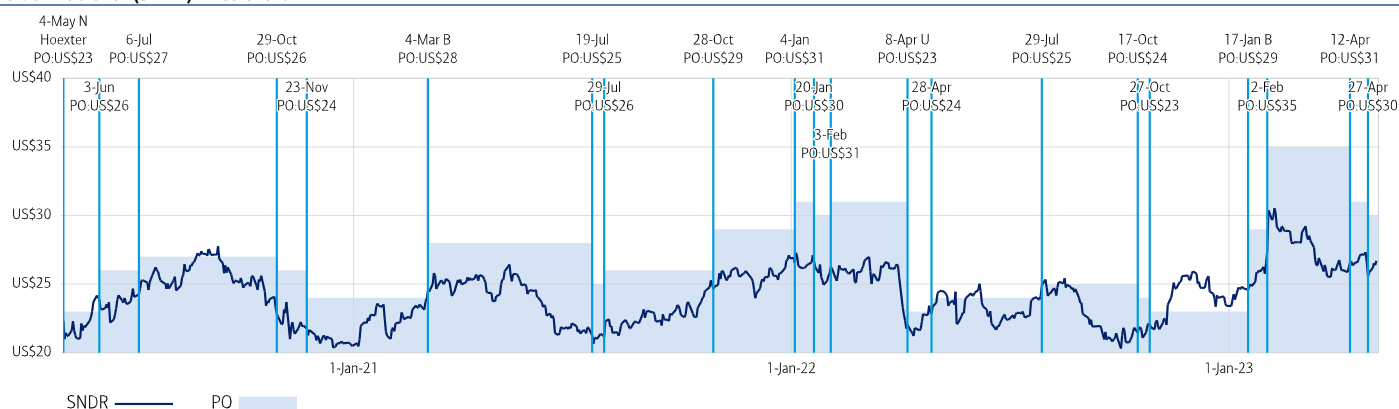
J.B. Hunt Trans (JBHT) Price Chart



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.

Knight-Swift (KNX) Price Chart

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Schneider National (SNDR) Price Chart

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Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Mar 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{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.

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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.

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