

Transportation - Trucking

Survey Says: Demand falls, but still above 50; Inventories down, Rate outlook climbs

Industry Overview

Truck Shipper Survey #290, week of August 24th, 2023

This week, our proprietary bi-weekly **BofA Truckload Demand Indicator** for shippers' 0- to 3-month freight demand outlook **pulled back a touch, to 51.0** from 55.2 last survey, down 8% sequentially. The Demand Indicator is down 6% year-year, after posting its first year-year uptick in 72 issues. It remains above 50 for the 2nd consecutive issue after 13 issues at or below 50. It moves back below the 54.2 average level of the '12, '15, '19 Freight Recession periods after exceeding it for the first time in 25 surveys last issue. The indicator remains below its all-time average 60 level for the 36th consecutive survey. Rail carloads fell 4% year-year this week, the 30th consecutive downtick. Dry van spot rates ex-fuel are \$1.24/mile, down 24% YTD, moving below May's \$1.25/mile trough. Shippers' short-term Positive outlooks were 27% of respondents, from 35% last survey; Neutral outlooks were 50%, up from 44% last issue, and Negative outlooks were 23%, up from 21% last survey. In the week of August 24th, we surveyed 48 shippers for views on truckload demand, supply, pricing, and inventory.

Inventory view lowest in 25 issues; Rates view climbing

The Rate Indicator, or shipper view on truck rates, **increased to 47.9** from 46.9, up 2% sequentially and extending its year-to-date high as expectations of future rate increases continues to climb. **The Inventory Indicator fell to 54.2** from 56.3 last issue, as inventory views fell to the lowest level in 25 surveys (50 weeks). **The Truck Capacity Indicator**, which measures shippers' views of available truckload capacity, **fell to 56.3** from 63.5 last survey, as shippers see tighter truck capacity. With respect to rates, 15% of shippers expect rates to fall, down from 17% last issue, 75% expect flat pricing, up from 73% last issue, and 10% expect rates to rise, flat with last issue. On capacity, 25% expect capacity to rise from 33% last issue, 63% expect capacity to remain flat from 60% last issue, and 13% expect capacity to be lower, from 6% last issue. **SHIPPER COMMENTS:** A Manufacturing Shipper noted that from all indications it can see, the market bottomed out June-July and capacity is starting to tighten (marginally). It believes this will usually drive supply-demand constraints. It expects the same tightening effects this time to be on a smaller and likely slower scale. An Industrial Shipper noted it is still trying to figure out the new normal freight market. It noted that rates have been depressed for a while. (*Shipper comments cont'd on P.5*)

Walmart, Target highlight normalized inventory levels

Last week, retail shippers Walmart and Target reported 2Q results highlighting progress in their moves to destock inventory. Walmart's US inventories declined 8% year-year as it normalized its in-stock levels and improved its warehouse mix. Target aims to hold lower levels of backroom inventories, suggesting a shift back to "just-in-time" inventory from "just-in-case". Given such feedback from major retail operators, we believe this would suggest retailer destocking is near completion. Walmart and Target noted spending is pressured by a shift to services from goods, yet both see a return of seasonal demand. This is consistent with our Shipper Survey results as our Inventory Indicator has fallen 17% vs its April 2023 record peak. We remain focused on leading Truckload-related carriers (Knight-Swift, JB Hunt, Schneider National) ahead of a late 2H truck inflection.

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Equity
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BofA
Data
Analytics



Ken Hoexter
Research Analyst
BofAS
+1 646 855 1498
ken.hoexter@bofa.com

Adam Roszkowski, CFA
Research Analyst
BofAS
+1 646 855 5498
adam.roszkowski@bofa.com

Nathan Ho, CFA
Research Analyst
BofAS
+1 646 855 3599
nathan.m.ho@bofa.com

Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 51.0

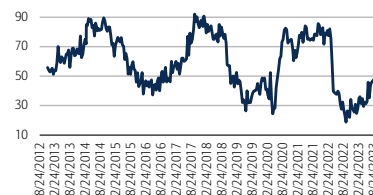


Source: BofA Global Research.

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Chart 2: RATE INDICATOR

Shipper's view of rates; Rate Indicator at 47.9



Source: BofA Global Research.

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SHIPPERS VIEW OF DEMAND

Table 1: BofA Truckload Demand Diffusion Indicator

Demand Indicator: at 51.0, down 8% 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
	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 47.9, +1 pt 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 51.0

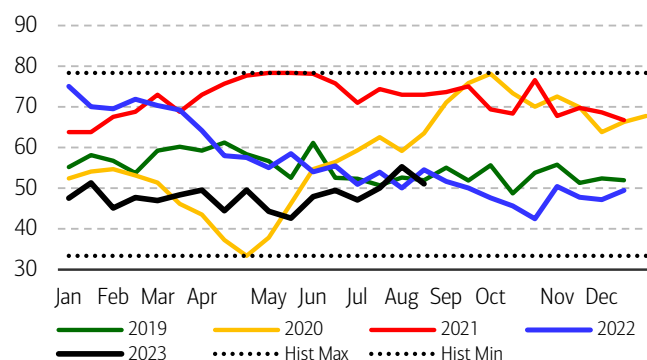


Source: BofA Global Research

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Chart 4: BofA Truckload Demand Diffusion Indicator

0-3 months demand outlook – stack basis y-y; Demand Indicator at 51.0



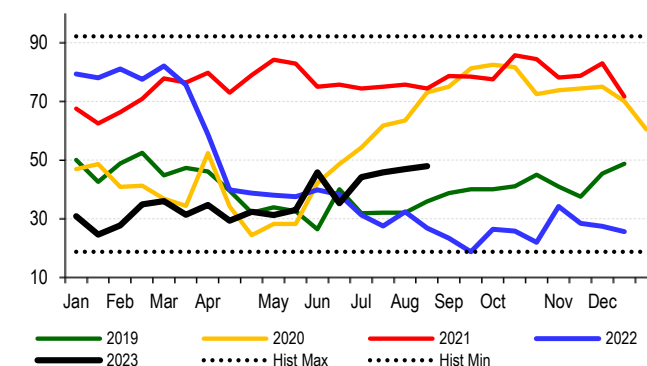
Source: BofA Global Research

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 47.9



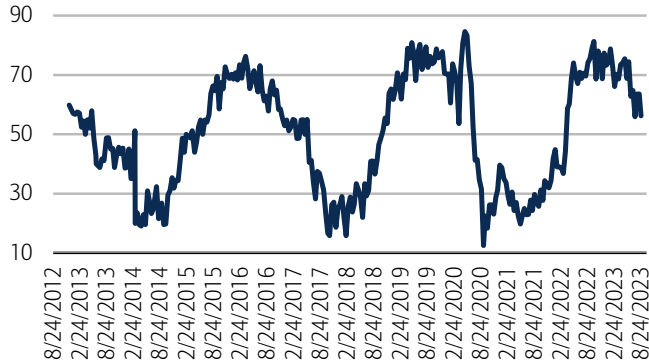
Source: BofA Global Research

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CAPACITY AVAILABILITY

Chart 7: Shippers' view of available capacity

Capacity Indicator flat at 56.3, above its historic 50 avg

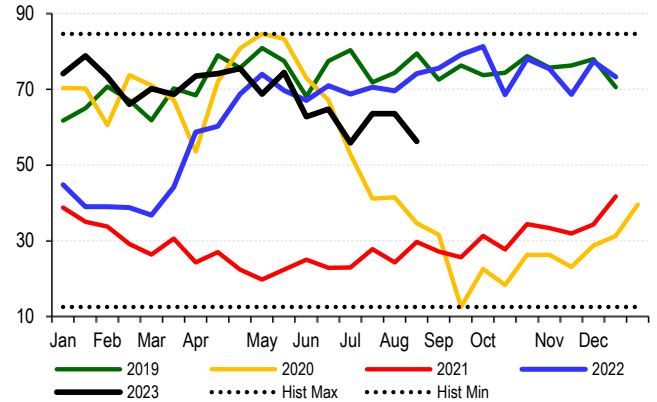


Source: BofA Global Research.

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Chart 8: Shippers' view of available capacity

Stack basis year-year; Capacity Indicator at 56.3



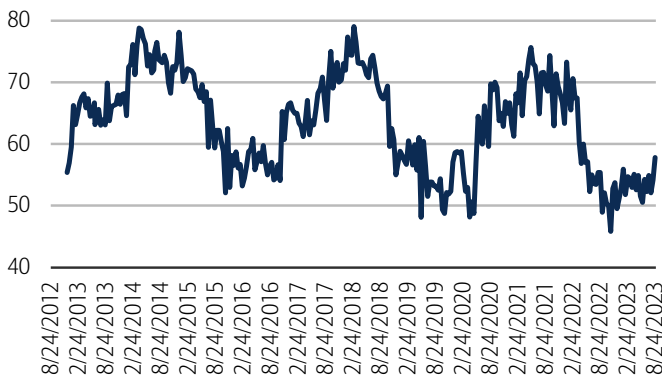
Source: BofA Global Research.

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6-12-MONTH FREIGHT DEMAND

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

L-T Demand Indicator at 57.8, up 3.6 pts sequentially

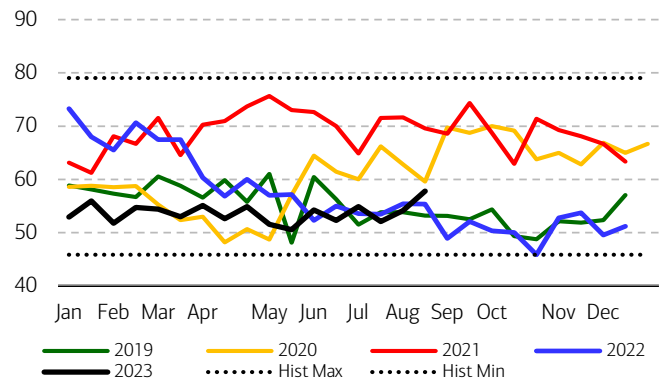


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 57.8



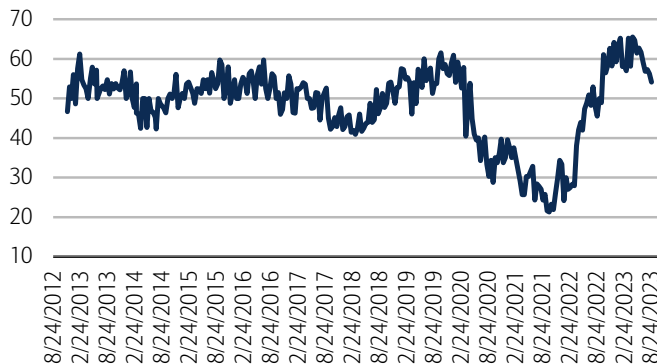
Source: BofA Global Research.

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INVENTORY

Chart 11: Shippers' view of inventory levels

Inventory Indicator at 54.2, down 4% sequentially from last issue.

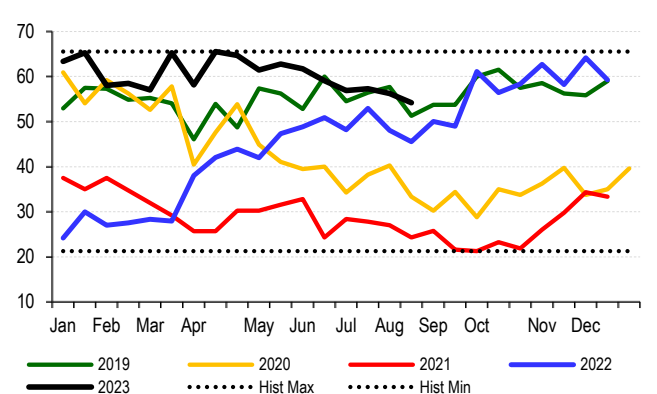


Source: BofA Global Research.

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Chart 12: Shippers' view of inventory levels

Stack basis year-year; Inventory Indicator at 54.2, down 17% from peak



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



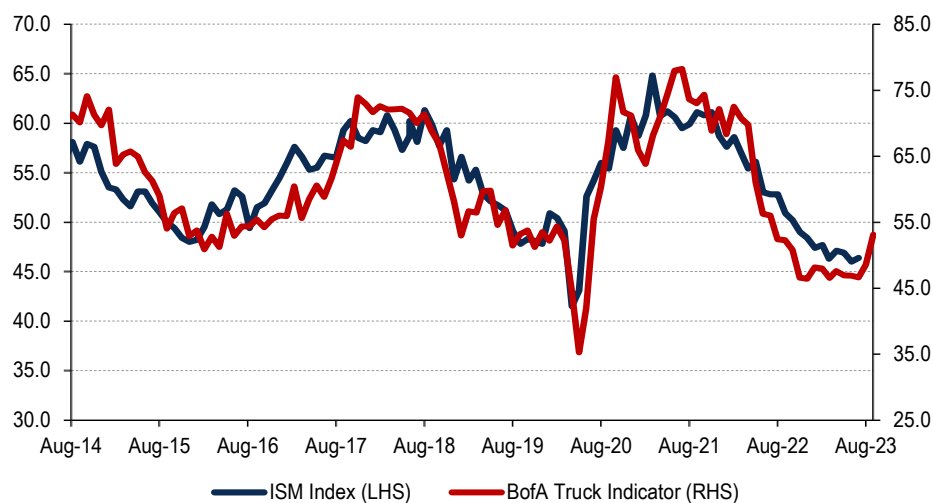
Source: BofA Global Research estimates.

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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 believes the key to carrier costs will be fuel.
- An Industrial Shipper noted that the market remains flat.
- A Logistics Shipper noted until the government stops paying people not to work, inflation will rage and there will be a shortage of goods.

- A Consumer Shipper noted continued high performance across all modes except for several Less-than-Truckload (LTL) carriers. It noted it had successfully transitioned from Yellow Freight to another LTL carrier completed with little impact, supporting its belief that excess capacity exists in LTL industry.

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