

Transportation - Trucking

Survey Says: Demand (44.3) stays sub-50; Inventory moves further below peak

Industry Overview

Truck Shipper Survey #283, week of May 18th, 2023

This week, our proprietary bi-weekly **BofA Truckload Demand Indicator** for shippers' 0- to 3-month freight demand outlook **decreased to 44.3** from 49.5 last survey, down 11% sequentially. The Demand Indicator remains sub-50 for the 15x in the past 17 surveys and sub-60 for the 29th consecutive survey. The Demand Indicator remains well below the 54.2 average level of the '12, '15, '19 Freight Recession periods and is down 20% y-y. The downtick in demand views suggests the backdrop of a weak demand environment returns to the latter April level. In line, spot rates ex-fuel remains at lows, at \$1.27/mile avg this week (per Truckstop.com), down 23% YTD, and down 4% vs April average level of \$1.32/mile. Rail carloads fell 4% y-y this week, the 14th consecutive week of declines. Shippers' short-term Negative outlooks were 40%, up from 35% last survey; Positive outlooks were 25%, down from 33% last survey; and Neutral outlooks were 35% up from 31% last issue. For the week of May 18th, we surveyed 48 shippers across the U.S. to get current views on freight demand, supply, pricing, and inventories.

Inventory Indicator ticks further below peak

The Truck Capacity Indicator, which measures shippers' views of available truckload capacity, **fell to 68.8** from 75.5 last survey, as shippers see slightly less available capacity. **The Rate Indicator**, or shippers' views on truck rates, **ticked down to 31.3** from 32.4, down 3% sequentially, as rate expectations eased toward the end of March-May bid season (when annual contracts renew). **The Inventory Indicator dropped to 61.5** from 64.7 last survey, down 5% sequentially, as shippers see lower inventory levels. With respect to rates, 48% expect rates to fall, from 41% last issue, 42% expect flat pricing, from 53% last issue, and 10% expect rates to rise, from 6% last issue. On capacity, 42% expect capacity to rise from 57% last issue, 54% expect capacity to remain flat, up from 37% last issue, and 4% expect capacity to be lower, down from 6% last issue. **SHIPPER COMMENTS:** A Manufacturing Shipper noted economic concerns are creating instability within the industry and worse yet, customers are pulling back on future orders. A Consumer Shipper sees drivers leaving the industry and is uncertain if there is truly a transportation cliff we are quickly approaching. (Comments cont'd p. 5).

Cass sees cusp of new cycle driven by shifting supply

Cass Freight highlighted that the US transport industry is on the 'verge of a new cycle' as supply trends show a shift in its April update, echoing our view for a positive inflection in truck rates in 2H23, led by accelerating capacity exits. Long-haul trucking employment, which historically mirrors freight rates, declined by 8,700 in 1Q23 from 4Q22 according to Bureau of Labor Statistics. Net carrier revocations also reached 8,500 over the past 2 quarters, according to the Federal Motor Carrier Safety Admin. (largest ever recorded, yet below 123,000 net adds since June 2020). While lower diesel fuel (averaging \$4.00/gallon 2QTD, or down 20%+ year-year) may provide short-term cost relief to smaller carriers, we believe a 23% decline in spot rates year-to-date more than offsets the savings. We remain focused on leading carriers in the early cyclical group (JBHT, KNX, SNDR) ahead of a late '23 rebound driven by capacity rationalization.

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Refer to important disclosures on page 8 to 12. Analyst Certification on page 7. Price Objective Basis/Risk on page 6.

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Americas
Road Transport/Trucking

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Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 44.3



Source: BofA Global Research.

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Chart 2: RATE INDICATOR

Shipper's view of rates; Rate Indicator at 31.3



Source: BofA Global Research.

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SHIPPERS VIEW OF DEMAND

Table 1: BofA Truckload Demand Diffusion Indicator

Demand Indicator: at 44.3, -5.2 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
Jun	6/6 61.1	6/4 54.6	6/17 78.1	6/16 54.0	6/15
	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 31.3, -1.1 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 44.3

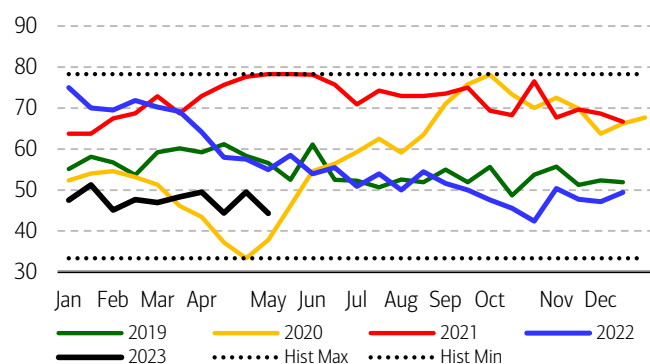


Source: BofA Global Research

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Chart 4: BofA Truckload Demand Diffusion Indicator

0-3 months demand outlook – stack basis y-y; Demand Indicator at 44.3



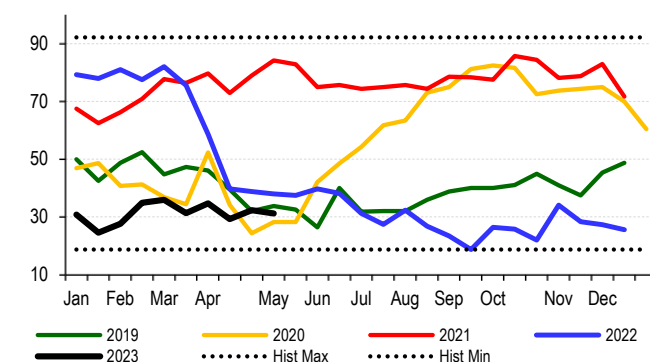
Source: BofA Global Research

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 31.3



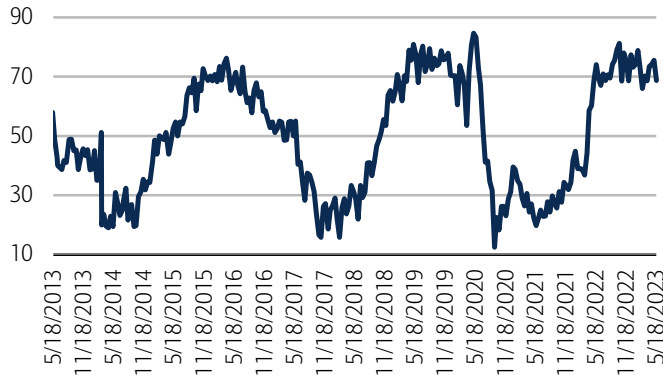
Source: BofA Global Research.

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CAPACITY AVAILABILITY

Chart 7: Shippers' view of available capacity

Capacity Indicator decreased to 68.8, above its historic 50 avg

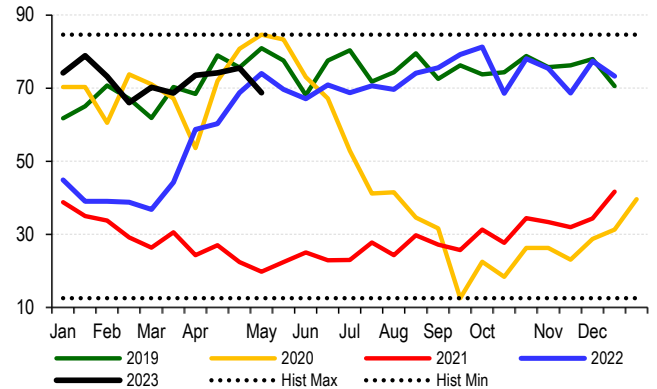


Source: BofA Global Research.

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Chart 8: Shippers' view of available capacity

Stack basis year-year; Capacity Indicator at 68.8



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 51.6, down 3.3 pts sequentially

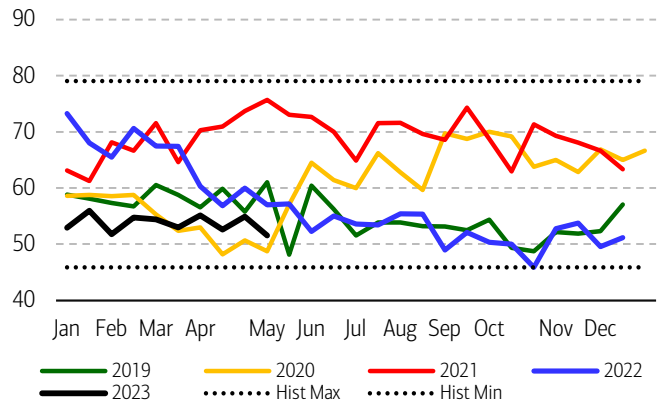


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 51.6



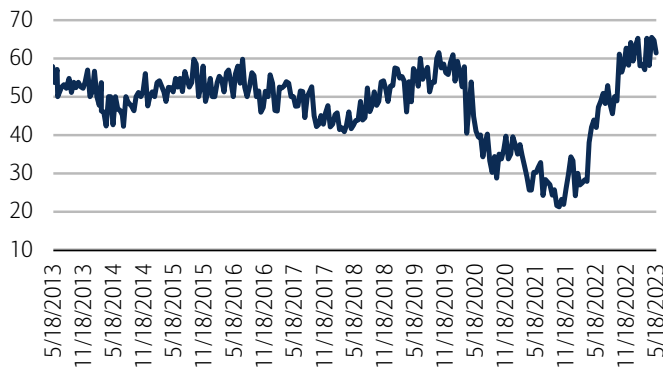
Source: BofA Global Research.

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INVENTORY

Chart 11: Shippers' view of inventory levels

Inventory Indicator at 61.5, down from 64.7 last issue

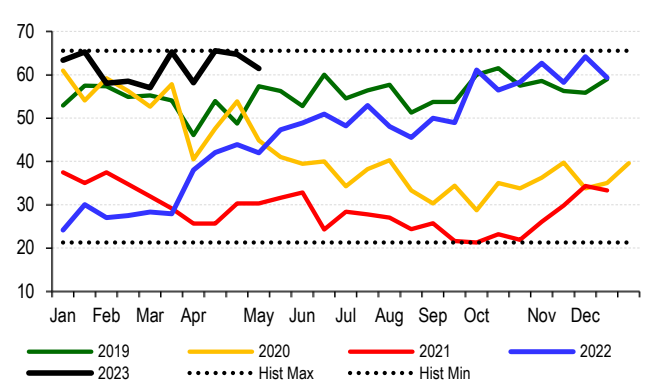


Source: BofA Global Research.

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Chart 12: Shippers' view of inventory levels

Stack basis year-year; Inventory Indicator at 61.5



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

- An Industrial Shipper sees continued erosion in spot pricing, offset by contract rates, particularly on contracts that have been in place for 3+ years (Dedicated).
- An Industrial Shipper noted the market continues to remain flat.

- An Industrial Shipper noted produce demand out of South Texas is impacting capacity. It sees a short-term increase in rates, but nothing like the past seasonality that swung rates.

Exhibit 1: Stocks Mentioned

Shares mentioned include JBHT, KNX, SNDR

Ticker	QRQ	Rating	Price	PO
JBHT	B-1-7	Buy	\$ 170.69	\$ 194.00
KNX	B-1-7	Buy	\$ 55.19	\$ 67.00
SNDR	B-1-7	Buy	\$ 26.30	\$ 30.00

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.

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.

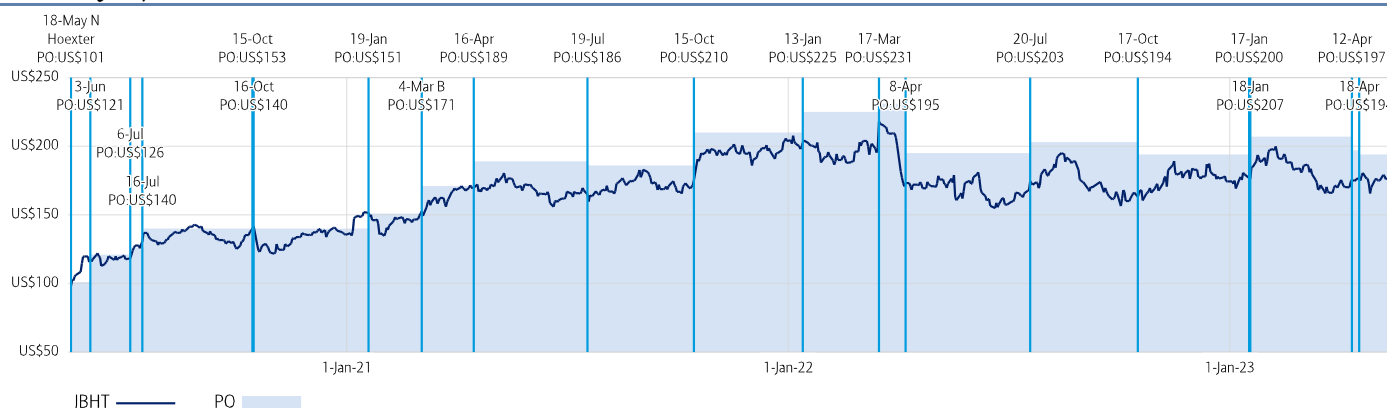
US - Transportation Coverage Cluster

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

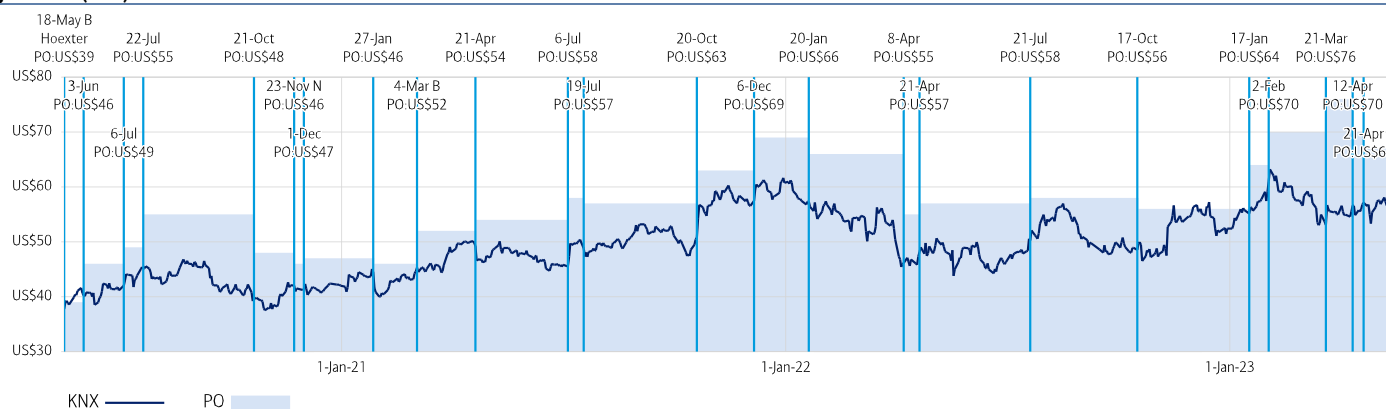
Disclosures

Important Disclosures

J.B. Hunt Trans (JBHT) Price Chart

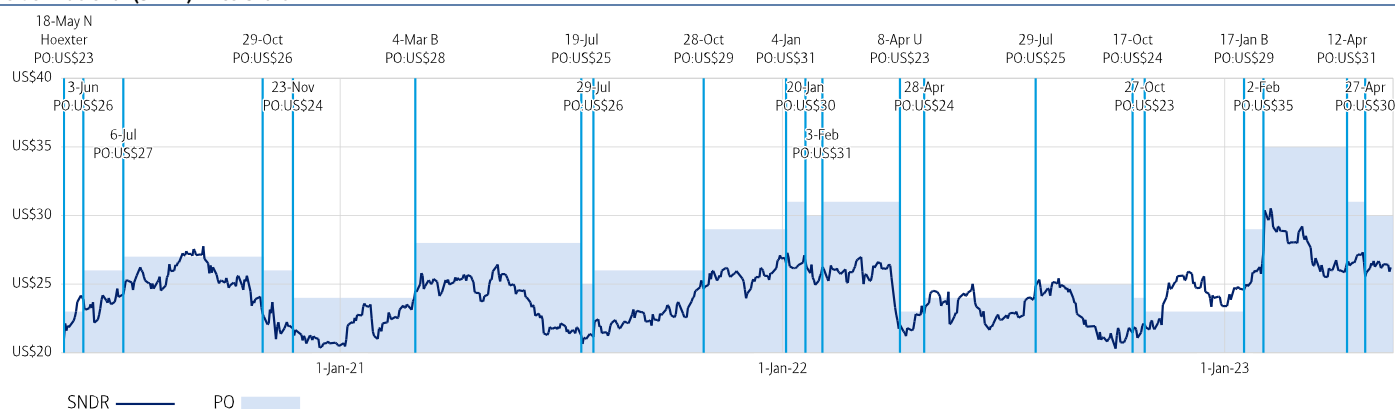


The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey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

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

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 ^{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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