

## Transportation - Trucking

## Survey Says: Demand (49.0) ticks higher yet not going anywhere; Inventory declines

Industry Overview

Truck Shipper Survey #297, week of November 30<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 49.0** from 44.4 last survey, rebounding from last issue, which was the 3<sup>rd</sup> lowest level since 2020. The Demand Indicator remains at/below 50 for the 22<sup>nd</sup> time over the past 27 issues and is well below the 54.2 average level of the '12, '15, '19 Freight Recession periods. The Demand Indicator was up 10% sequentially and 3% year-year, its 6<sup>th</sup> year-year uptick in 8 issues. Rail carloads fell 0.1% year-year this week, its 37<sup>th</sup> downtick in 42 weeks. Dry van spot rates ex-fuel was \$1.29/mile, up from \$1.28/mi last week, and still above the \$1.21-\$1.26 band it had been in for 12 weeks prior. Of the respondents, 15% had a positive short-term demand outlook, up from 13% last survey; Neutral outlooks were 63%, up from 54%, and Negative outlooks were 21%, down from 33% last survey. In the week of Nov 30<sup>th</sup>, we surveyed 52 shippers for views on demand, supply, pricing, inventory.

## Inventory decreases 8% after Black Friday; Rates view flat

**The Rate Indicator**, or shippers' view on truck rates, **was flattish at 42.3** from 42.6, down 1% sequentially, as expectations of rate increases was relatively unchanged. **The Inventory Indicator decreased to 53.8** from 58.3 last issue, down 8% sequentially, as shippers see lower inventories after Black Friday sales. **The Truck Capacity Indicator**, which measures shippers' views of available truckload capacity, **was down slightly at 62.5** from 63.0 last survey, as shippers see slightly lower carrier capacity. With respect to rates, 25% of shippers expect rates to fall, from 26% last issue, 65% expect flat pricing, from 63% last issue, and 10% expect rates to rise, from 11% last issue. On capacity, 35% expect capacity to rise, from 37% last issue, 56% expect capacity to remain flat, from 52% last issue, 10% expect capacity to be lower, from 11% last issue.

**SHIPPER COMMENTS:** An Industrial Shipper noted holiday tightness in the Southeast. It believes it may see slight increases in spot market rates in 1Q. A Consumer Shipper sees contract rates staying flat, however sees increases in spot rates. A Retail Shipper noted that its general merchandise sales are very soft, yet food is staying consistent. An Industrial Shipper noted the market remains flat. (*Shipper comments cont'd p. 5*).

## Muted truckload environment yet see encouraging signs

While still a muted environment, as represented by the Demand Indicator rising to 49, yet remaining sub-50 for the 22<sup>nd</sup> time in the past 27 surveys (or 44 weeks out of past 54), the uptick from a trough is encouraging given we usually see a balanced view after Black Friday. Additionally, truckload spot rates ex-fuel continue to grind higher, after being stuck in a band for 12 weeks. Spot rates climbed to \$1.29/mile this week, still historically depressed, but rising further above its recent band. Another positive development is the shipper commentary, with multiple shippers detailing slight spot rate increases, and another anticipating a pick-up in spot rates in 1Q24 given the continued exit of capacity. With contract rates holding fairly flat over the past 4 months (according to Truckloadrate.com), and spot rates finally ticking up, we could see 2024 rate outlooks begin to improve/firm for truckload carriers. Contract rates may remain muted until an inflection in spot market, which historically leads by 7-9 months. We prefer Less-than-Truckload carriers (SAIA, XPO, ODFL) and leading Truck-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 49.0

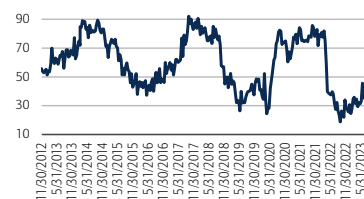


Source: BofA Global Research.

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## Chart 2: RATE INDICATOR

Shipper's rates view; Rate Indicator at 42.3



Source: BofA Global Research.

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# SHIPPERS VIEW OF DEMAND

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

Demand Indicator: at 49.0, up 10% 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
May	4/25 58.3 5/9 56.6	4/23 33.3 5/7 37.8	5/6 77.6 5/20 78.3	5/5 57.5 5/19 55.0	5/4 49.5 5/18 44.3
Jun	5/23 52.5 6/6 61.1	5/21 46.2 6/4 54.6	6/3 78.3 6/17 78.1	6/2 58.5 6/16 54.0	6/1 42.6 6/15 47.9
Jul	6/20 52.5 7/4 52.3	6/18 56.4 7/2 59.3	7/1 75.7 7/15 70.9	6/30 55.5 7/14 50.9	6/29 49.4 7/13 47.1
Aug	7/18 50.6 8/1 52.6	7/16 62.5 7/30 59.1	7/29 74.3 8/12 73.0	7/28 53.9 8/11 50.0	7/27 50.0 8/10 55.2
Sep	8/15 51.9 8/29 55.0	8/13 63.5 8/27 71.1	8/26 73.0 9/9 73.6	8/25 54.5 9/8 51.6	8/24 51.0 9/7 52.4
Oct	9/12 51.9 9/26 55.6	9/10 75.8 9/24 78.1	9/23 75.0 10/8 69.4	9/22 50.0 10/6 47.6	9/21 50.0 10/5 48.9
Nov	10/10 48.7 10/24 53.8	10/8 73.3 10/22 70.0	10/21 68.3 11/4 76.6	10/20 45.6 11/3 42.4	10/19 52.5 11/2 47.7
Dec	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 44.4 11/30 49.0
	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 42.3, -1% 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 49.0

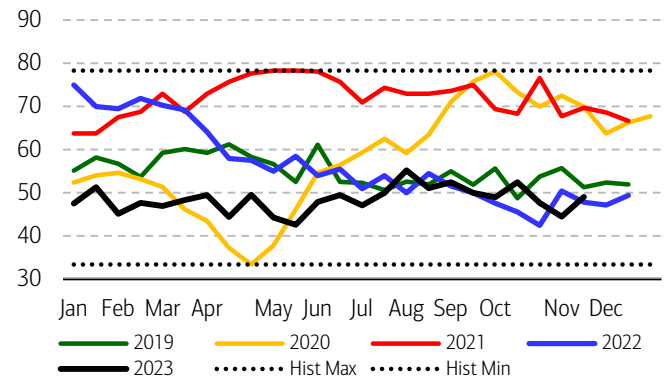


Source: BofA Global Research

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

0-3 months demand outlook – stack basis y-y; Demand Indicator at 49.0



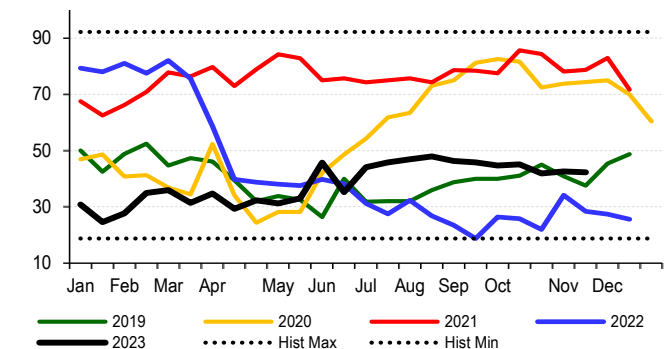
Source: BofA Global Research

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 42.3



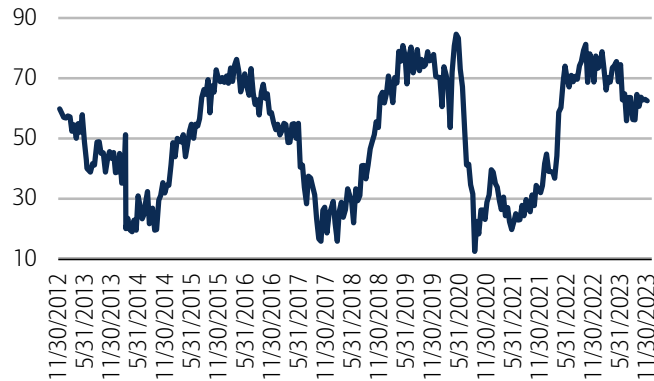
Source: BofA Global Research.

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## CAPACITY AVAILABILITY

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

Capacity Indicator slightly higher at 62.5, above its historic 50 avg

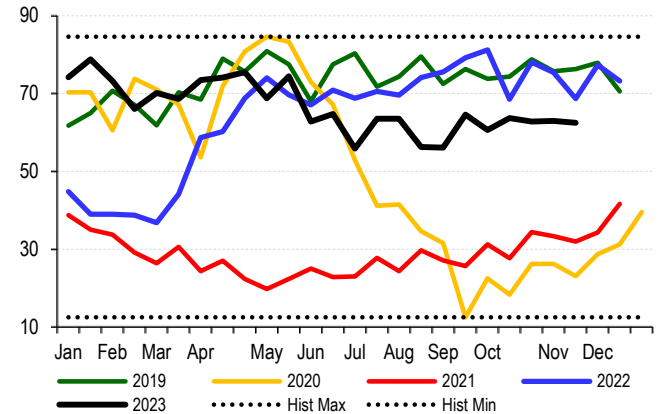


Source: BofA Global Research.

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

Stack basis year-year; Capacity Indicator at 62.5



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 56.7, up 7% sequentially

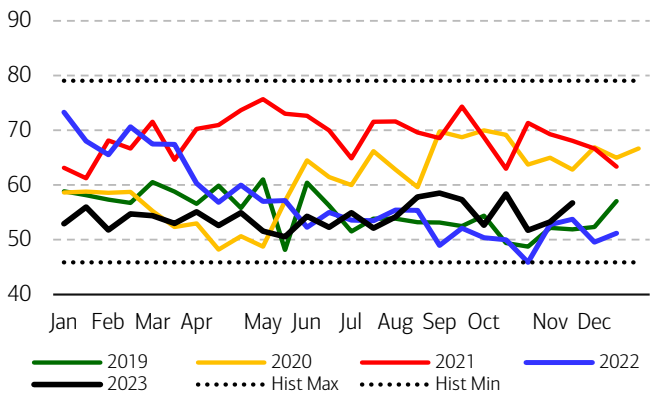


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 56.7



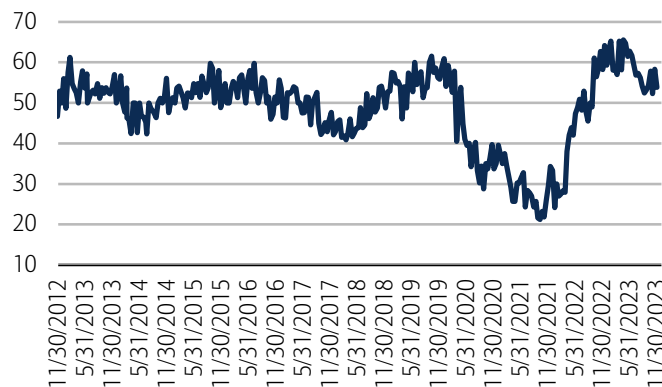
Source: BofA Global Research.

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## INVENTORY

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

Inventory Indicator at 53.8, down 8% sequentially from last issue.

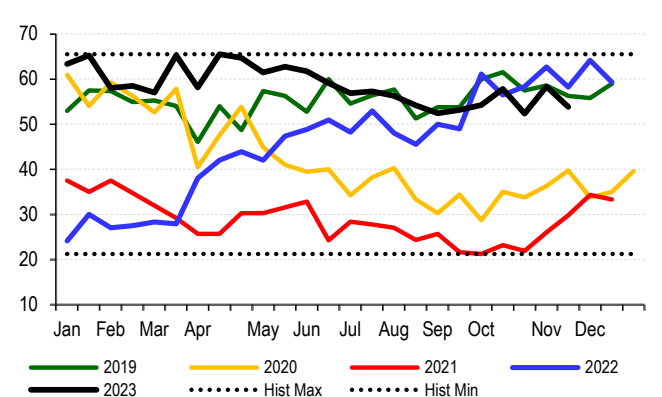


Source: BofA Global Research.

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

Stack basis year-year; Inventory Indicator at 53.8



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



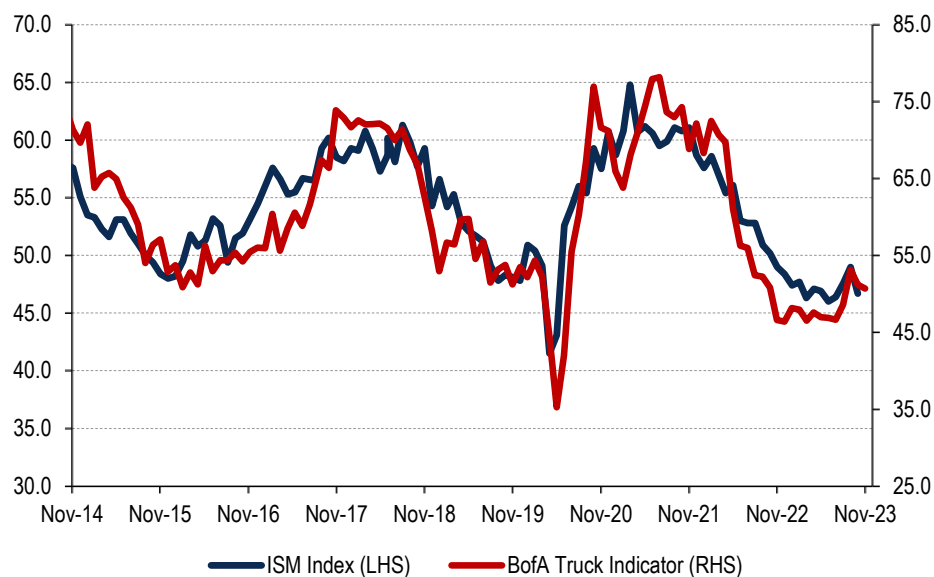
Source: BofA Global Research estimates.

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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 (continued)

- A Consumer Shipper still sees spot rates lower than contract rates.
- A Logistics Shipper noted rising Less-than-Truckload prices will ultimately force more volumes to truckload carriers. It expects excess truckload capacity to be consumed, driving rates higher.
- A Food Shipper believes rates will be higher in three months, as capacity is leaving the marketplace and rates have to turn at that time, given it is predominantly a consumer of refrigerated carriers. It qualified that dry-van rates may continue to remain flat through 1Q24.

### 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	\$ 185.27	\$ 215
KNX	Knight-Swift Transportation	B-1-7	Buy	\$ 53.77	\$ 65
XPO	XPO, Inc	C-1-9	Buy	\$ 86.28	\$ 100
ODFL	Old Dominion Freight Line	B-1-7	Buy	\$ 389.06	\$ 449
SAIA	Saia, Inc	B-1-9	Buy	\$ 390.39	\$ 465

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 \$465 price objective is based on a 29x 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 \$100 price objective is based on a 28.5x 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.

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.

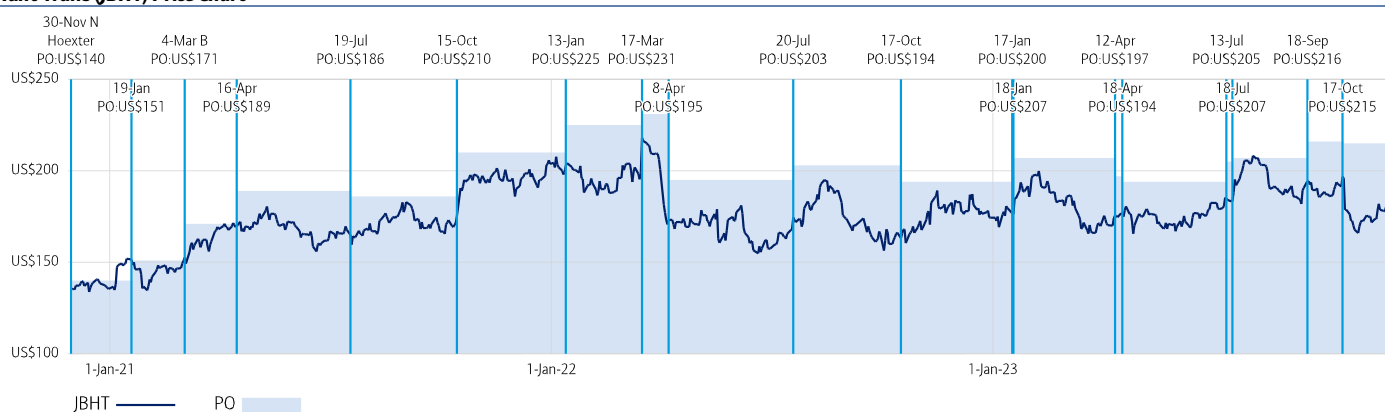
## US - Transportation Coverage Cluster

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
	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
	Schneider National	SNDR	SNDR 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

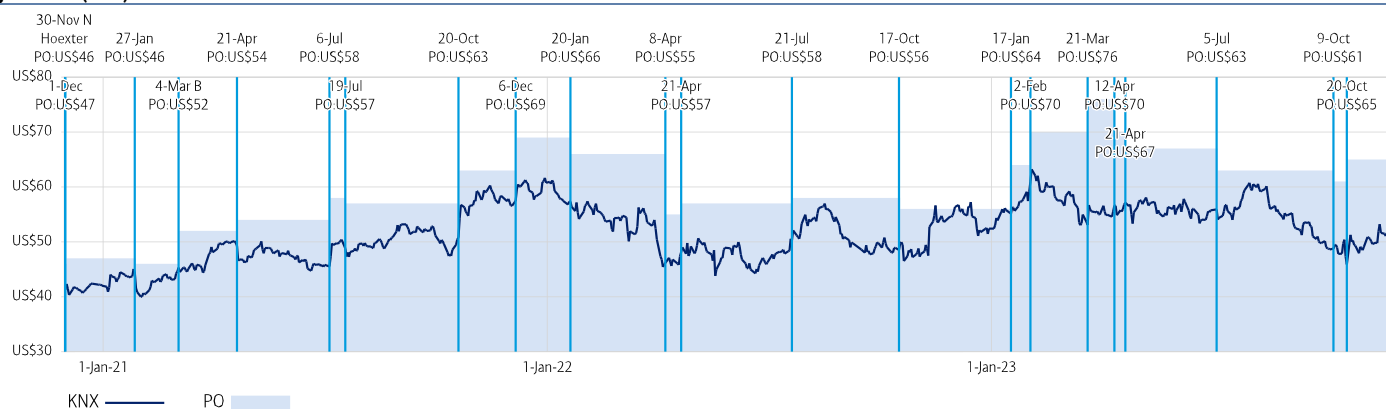
## J.B. Hunt Trans (JBHT) Price Chart



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

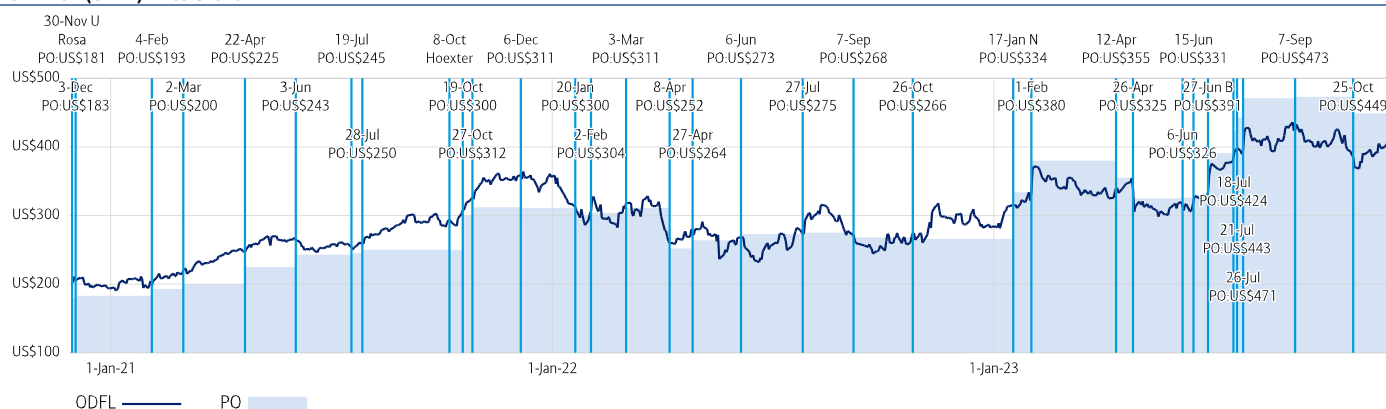
The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey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

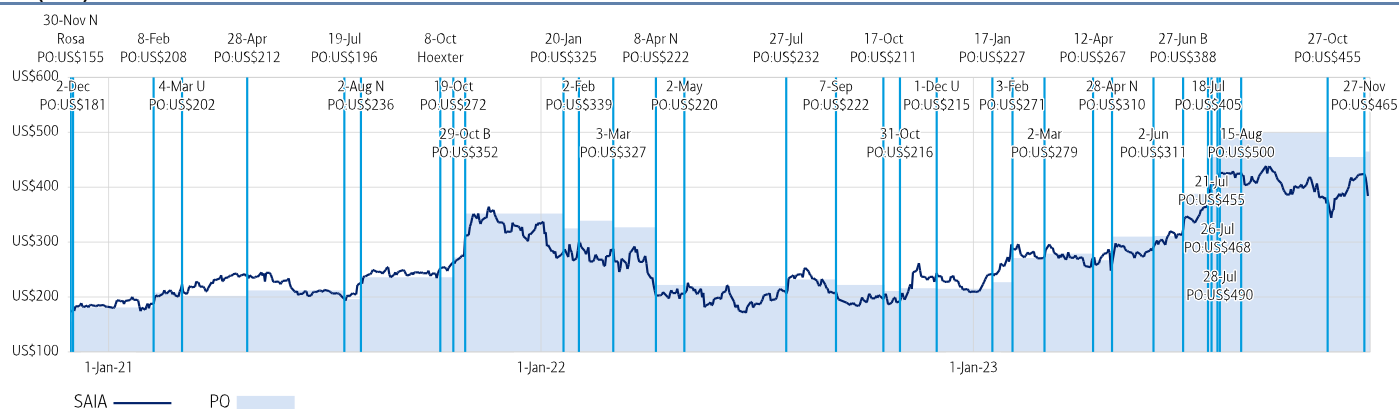
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Old Dominion (ODFL) Price Chart**

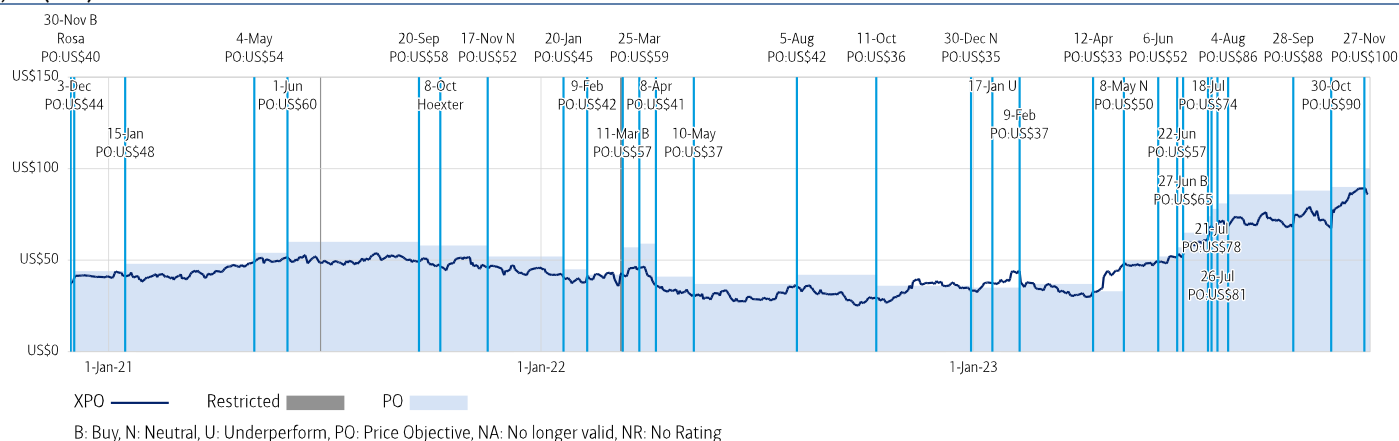
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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**

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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.

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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.

**INCOME RATINGS**, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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