

## Transportation - Trucking

## Survey Says: Demand (42.6) at 5th lowest level; Inventory view &amp; Rates (oddly) climb

Industry Overview

Truck Shipper Survey #284, week of June 1<sup>st</sup>, 2023

This week, our proprietary bi-weekly **BofA Truckload Demand Indicator** for shippers' 0- to 3-month freight demand outlook **decreased to 42.6** from 44.3 last survey, down 4% sequentially, hitting its 5<sup>th</sup> lowest level on record. The Demand Indicator remains sub-50 for the 16<sup>th</sup> time in the past 18 issues and sub-60 for the 30<sup>th</sup> consecutive survey. It remains well below the 54.2 average level of the '12, '15, '19 Freight Recession periods and is down 27% y-y. The downtick suggests weak truck freight demand outlook on pressured macro environment. Rail carloads fell 4% y-y this week, the 16<sup>th</sup> consecutive downtick. However, dry van spot rates ex-fuel climbed to \$1.39/mile on avg this week (per Truckstop.com), down 15% YTD, but up from May's \$1.25/mile (toward \$1.50-\$1.60 cost/mi of operation). Shippers' short-term Negative outlooks were 38%, from 40% last survey; Positive outlooks were 17%, down from 25% last survey; and Neutral outlooks were 45%, up from 35% last issue. For the week of June 1<sup>st</sup>, we surveyed 47 shippers across the U.S. to get current views on freight demand, supply, pricing, and inventories.

## Inventory ticks up; Rates view (&amp; rates) climb from trough

**The Truck Capacity Indicator**, which measures shippers' views of available truckload capacity, **increased to 74.5** from 68.8 last survey, as shippers see more available truck capacity. **The Rate Indicator**, or shippers' views on truck rates, **increased to 33.0** from 31.3, up 6% sequentially, in-line with spot rate moves as rate expectations rose after the end of March-May bid season (when annual contracts renew). **The Inventory Indicator ticked up to 62.8** from 61.5 last survey, up 2% sequentially, as shippers see slightly higher inventory levels. With respect to rates, 36% expect rates to fall, from 48% last issue, 62% expect flat pricing, from 42% last issue, and 2% expect rates to rise, down from 10% last issue. On capacity, 51% expect capacity to rise from 42% last issue, 47% expect capacity to remain flat, down from 54% last issue, and 2% expect capacity to be lower, down from 4% last issue. **SHIPPER COMMENTS:** An Industrial Shipper believes all indications point to a tepid freight market for the rest of the year unless an unknown world or geopolitical event were to occur. A Manufacturing Shipper still sees downward pricing pressures in the truckload spot market and noted some Less-than-Truckload carriers working to build profitability. (Comments cont'd p. 5).

Some see cycle 'past trough' at 30<sup>th</sup> Transport Conference

At our 30<sup>th</sup> Annual BofA Transport Conference in Boston (May 18-19, see our [Takeaways](#)) we heard bifurcated views from carriers as some noted unchanged demand levels with no signs of inflection while others see the cycle at or past trough. Leading Intermodal carrier J.B. Hunt highlighted the ongoing Freight Recession, noting no green shoots in demand nor changes in its record low bid compliance levels. Truckload carrier Schneider National noted that activity levels remain muted and Truck broker Arrive Logistics sees a soft 2023 freight environment with recovery in 2024. Alternatively, truck carrier Knight-Swift observed a noticeable shift near the end of April while truck broker RXO noted a strong May start with strength in retail and technology verticals. The Port of LA also noted a sequential step up in import volumes after troughing in March. We view operators' growing narrative of a cycle bottom positively and stay focused on early-cycle Truckload related carriers (KNX, JBHT, SNDR, WERN) given accelerating capacity exits.

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Equity  
Americas  
Road Transport/Trucking

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## Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 42.6



Source: BofA Global Research.

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## Chart 2: RATE INDICATOR

Shipper's view of rates; Rate Indicator at 33.0



Source: BofA Global Research.

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# SHIPPERS VIEW OF DEMAND

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

Demand Indicator: at 42.6, down 1.7 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      |
|     | 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 33.0, +1.7 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 42.6

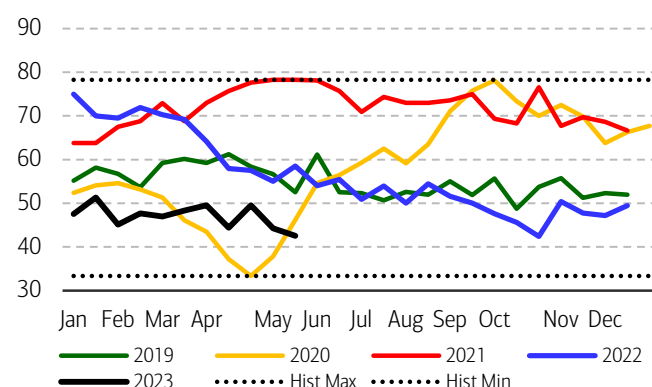


Source: BofA Global Research

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

0-3 months demand outlook – stack basis y-y; Demand Indicator at 42.6



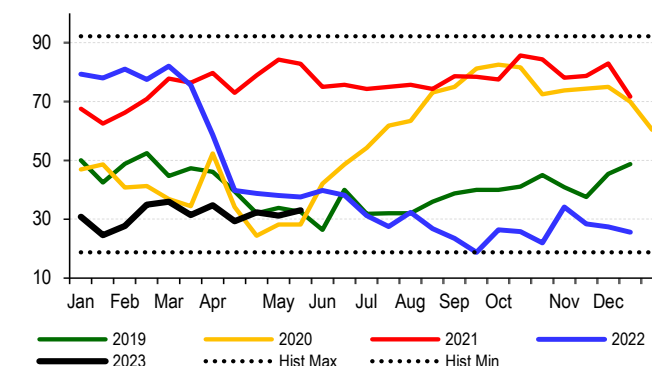
Source: BofA Global Research

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 33.0



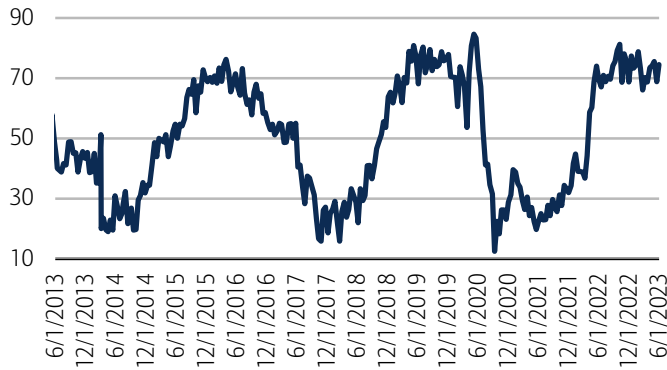
Source: BofA Global Research.

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# CAPACITY AVAILABILITY

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

Capacity Indicator increased to 74.5, above its historic 50 avg

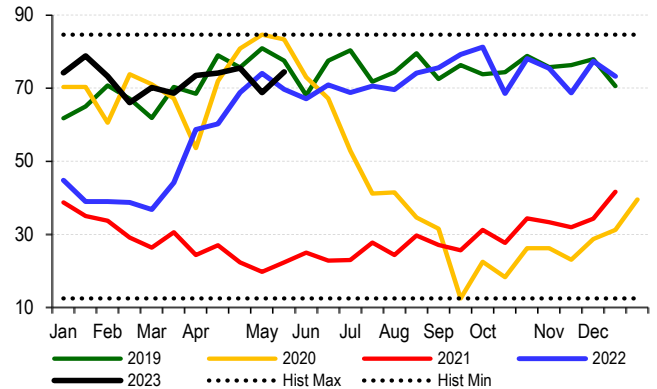


Source: BofA Global Research.

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

Stack basis year-year; Capacity Indicator at 74.5



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 50.5, down 1.1 pts sequentially

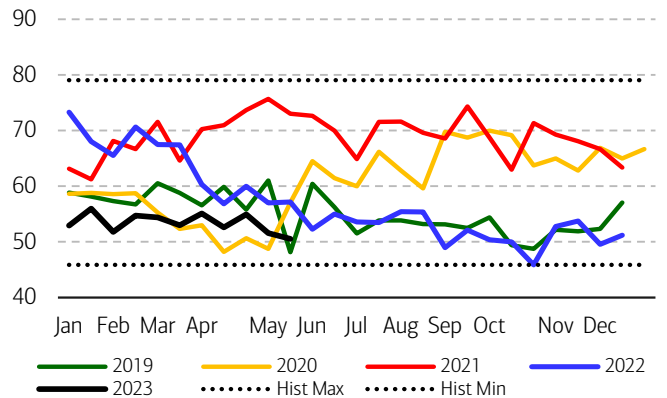


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 50.5



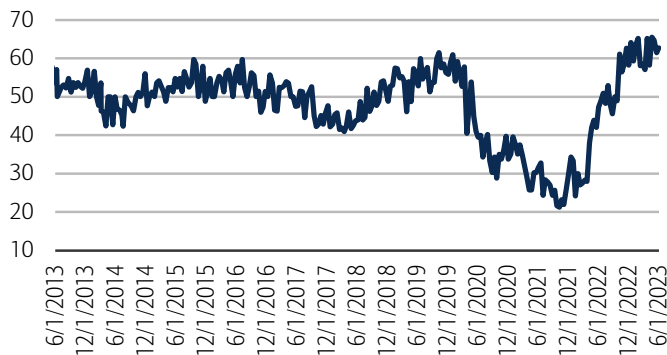
Source: BofA Global Research.

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# INVENTORY

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

Inventory Indicator at 62.8, up from 61.5 last issue

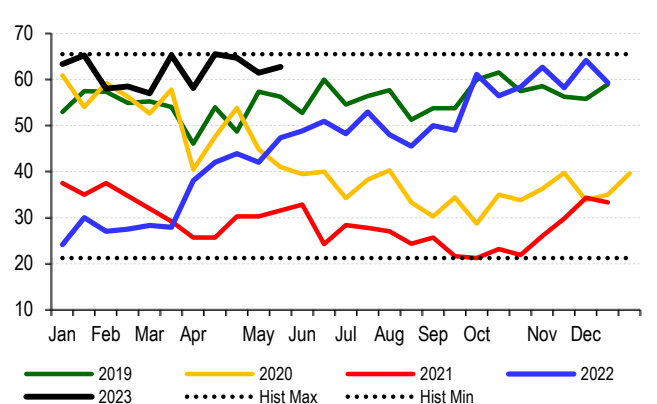


Source: BofA Global Research.

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

Stack basis year-year; Inventory Indicator at 62.8



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



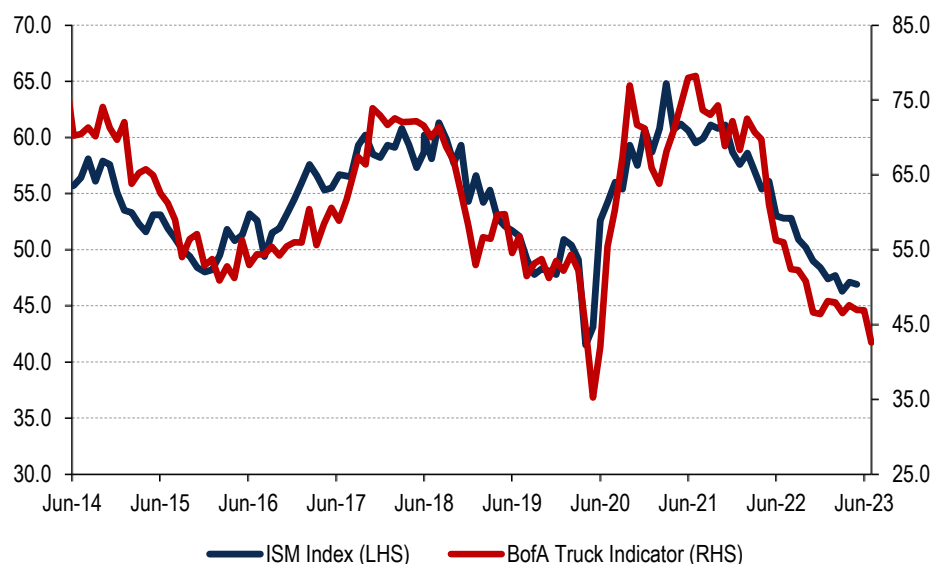
Source: BofA Global Research estimates.

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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 Cont'd

- An Industrial Shipper continues to note that the market remains flat.
- A Consumer Shipper noted that fuel remains an unknown.

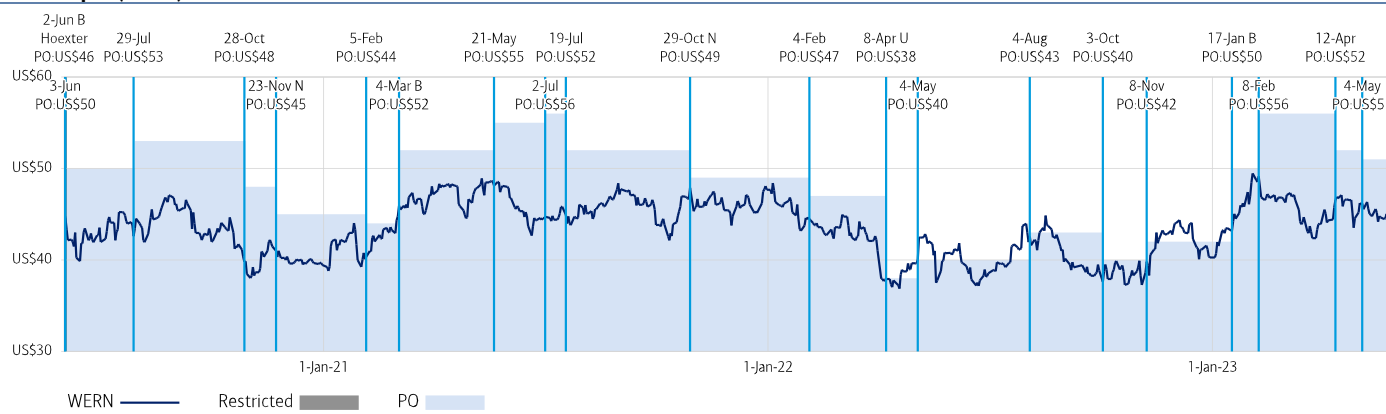
**Exhibit 1: Stocks Mentioned**

Prices and ratings for stocks mentioned in this report

| Ticker | QRQ   | Rating | Price     | PO        |
|--------|-------|--------|-----------|-----------|
| JBHT   | B-1-7 | B      | \$ 169.33 | \$ 194.00 |
| KNX    | B-1-7 | B      | \$ 55.77  | \$ 67.00  |
| SNDR   | B-1-7 | B      | \$ 26.16  | \$ 30.00  |
| WERN   | B-1-7 | B      | \$ 44.31  | \$ 51.00  |

Source: BofA Global Research and Bloomberg

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**Werner Enterpris (WERN) Price Chart**

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

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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.

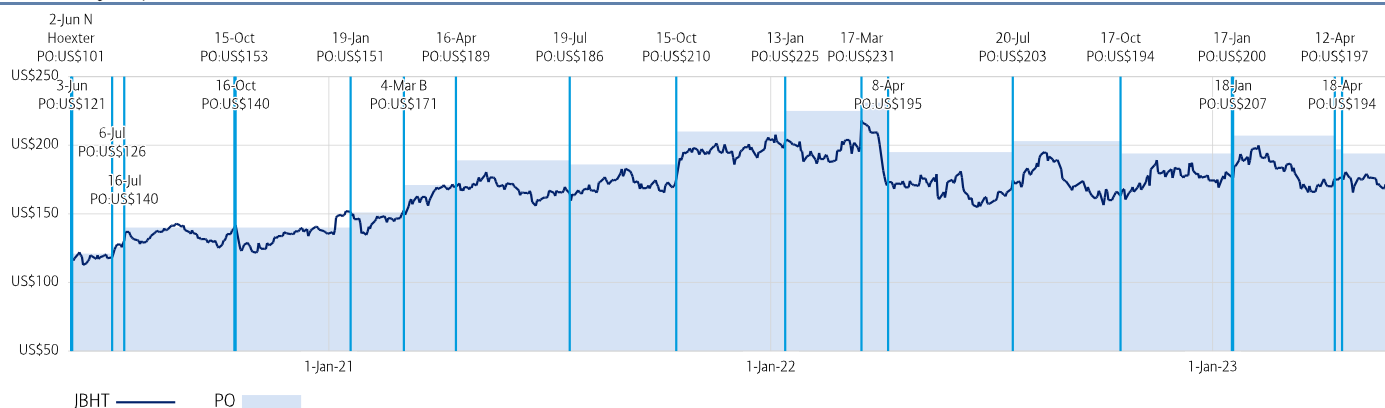
## US - Transportation Coverage Cluster

| 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

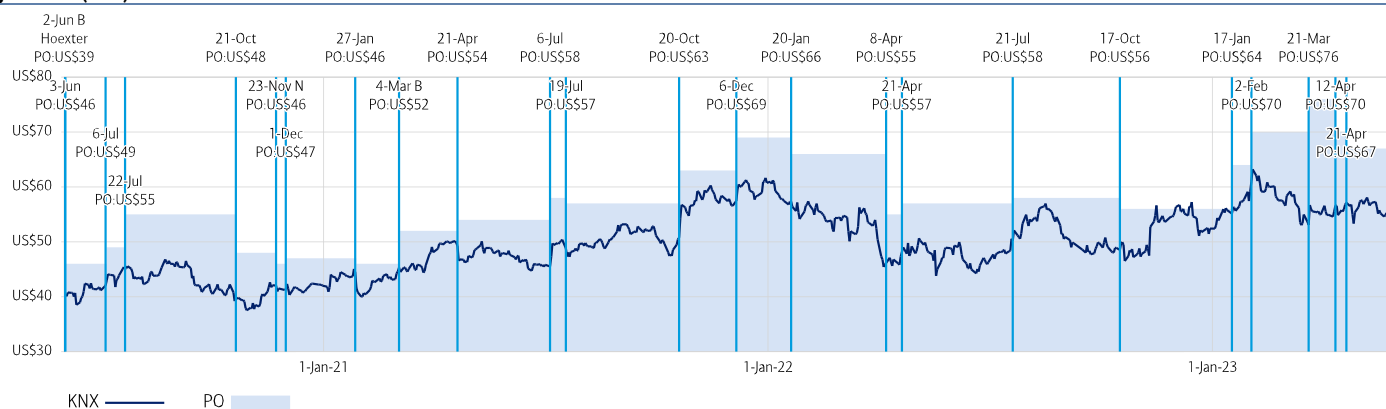
## J.B. Hunt Trans (JBHT) Price Chart



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.

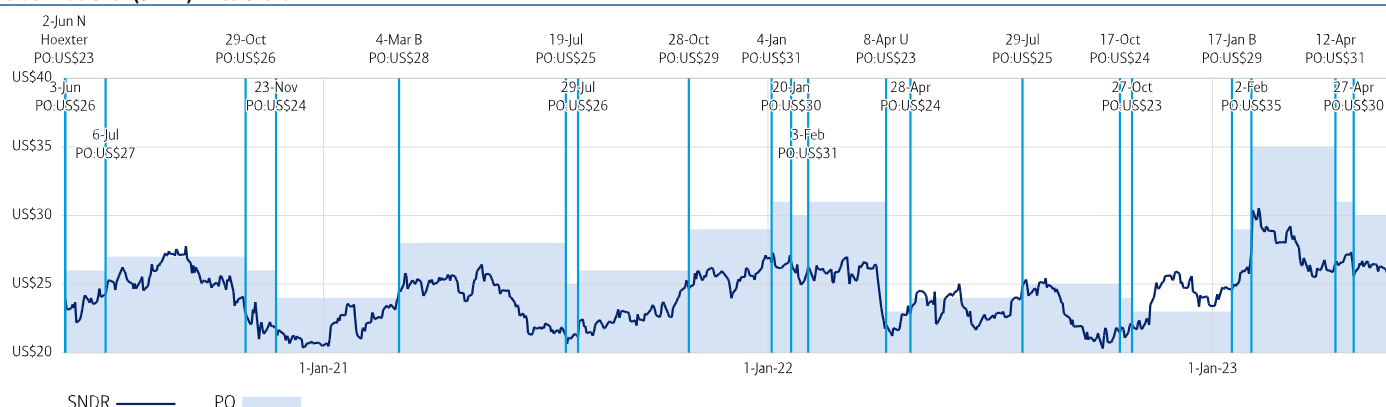


**Knight-Swift (KNX) Price Chart**

KNX — PO

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

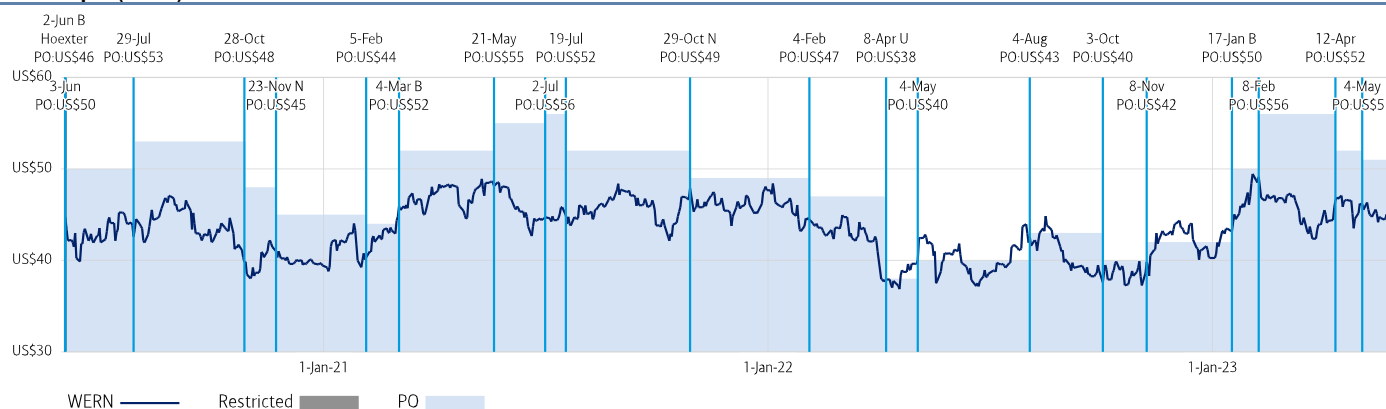
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**Schneider National (SNDR) Price Chart**

SNDR — PO

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

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**Werner Enterprises (WERN) Price Chart**

WERN — Restricted 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%  |

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