

Transportation - Trucking

Survey Says: Demand (52.4) ticks up;
Inventory view lowest in a year

Industry Overview

Truck Shipper Survey #291, week of September 7th, 2023

This week, our proprietary bi-weekly BofA Truckload Demand Indicator for shippers' 0- to 3-month freight demand outlook **increased to 52.4** from 51.0 last survey, up 3% sequentially. The Demand Indicator remains above 50 for the third consecutive issue after 13 issues at or below that level. It is also up 2% year-year, its second uptick in 38 issues (or 76 weeks). However, the Indicator remains below its all-time average 60 level for the 37th consecutive survey and it remains below the 54.2 average level of the '12, '15, '19 Freight Recession periods. Rail carloads fell 6% year-year this week, the 32nd consecutive downtick. Dry van spot rates ex-fuel are \$1.22/mile, down 27% YTD, moving below May's \$1.25/mile trough. Shippers' short-term Positive outlooks were 24% of respondents, down from 27% last survey; Neutral outlooks were 59%, up from 50% last issue, and Negative outlooks were 17%, from 23% last survey. In the week of Sep 7th, we surveyed 41 shippers for views on demand, supply, pricing, and inventory.

Inventory reach lowest in a year; Rates view moderates

The Rate Indicator, or shipper view on truck rates, **fell to 46.3** from 47.9, down 3% sequentially, a slight moderation from its year-to-date high as expectations of future rate increases stabilized. **The Inventory Indicator fell to 52.4** from 54.2 last issue, as inventory views fell to the lowest level in 26 surveys (52 weeks). **The Truck Capacity Indicator**, which measures shippers' views of available truckload capacity, **was down slightly at 56.1**, from 56.3 last survey, as shippers see tighter capacity. With respect to rates, 17% of shippers expect rates to fall, from 15% last issue, 73% expect flat pricing, from 75% last issue, and 10% expect rates to rise, flat with last issue. On capacity, 32% expect capacity to rise, up from 25% last issue, 49% expect capacity to remain flat, down from 63% last issue, and 20% expect capacity to be lower, up from 13% last issue.

SHIPPER COMMENTS: An Industrial Shipper just finished a round of meetings with incumbents, which all stated they didn't care what the rate was, they asked to just keep pushing volume. It expects carriers to go into negative margins to keep volumes and believes it is not a sustainable model. It also noted carriers are getting hammered on their comps, which were higher in a tighter mkt. It believes carriers are just looking to have decent freight flow. A Forest Product Shipper noted trucks normally not free are calling for work with economy slowing. (*Shipper comments cont'd on P.5*)

August Class 8 net orders hit highest in five months

August Prelim. Class 8 truck net orders were 19,000 per ACT Research, a surprisingly strong level, and the highest since Feb 2023 (despite below the 20,000 replacement rate). While historically truck orders correlate with truck rate moves, we believe the uptick may be due to carrier moves to renew fleets ahead of Sep ordering season given chip-related bottlenecks in 2022. Given the increased tractor supply yet soft demand, avg values for Class 8 trucks have declined 30-35% y-y. Used truck prices have fallen to \$68k in June from \$93k in the prior year. However, we expect more downward pressure on carrier capacity as rates remain below floor costs (\$1.50-\$1.60/mile), higher financing costs, and rising diesel (up 20% vs July's year-to-date trough). The less-than-truckload sector remains a non-economic beneficiary post YELL'S shutdown, and within truckload we stay focused on rates turning, and thus benefits to related carriers JBHT, KNX, SNDR.

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Timestamp: 08 September 2023 05:01AM EDT

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Road Transport/TruckingBofA
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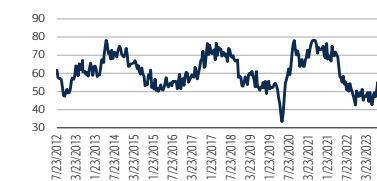
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Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 52.4



Source: BofA Global Research.

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Chart 2: RATE INDICATOR

Shipper's view of rates; Rate Indicator at 46.3



Source: BofA Global Research.

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SHIPPERS VIEW OF DEMAND

Table 1: BofA Truckload Demand Diffusion Indicator

Demand Indicator: at 52.4, up 3% 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 52.4
	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

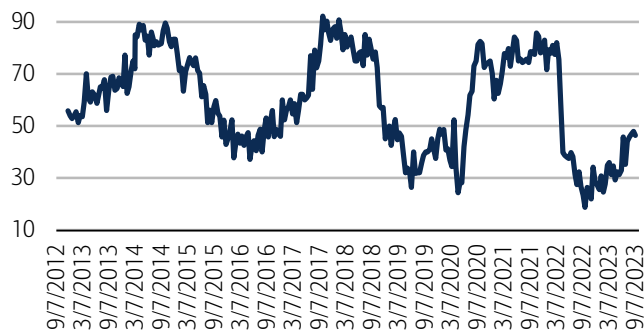
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Disclaimer: The indicator identified as BofA Truckload Diffusion Indicator in this report is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, 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 46.3, -2 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 52.4

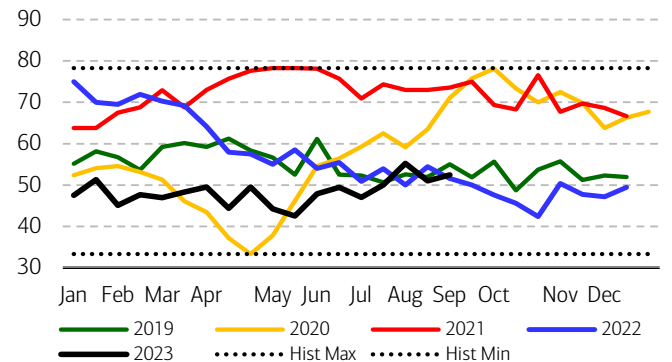


Source: BofA Global Research

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Chart 4: BofA Truckload Demand Diffusion Indicator

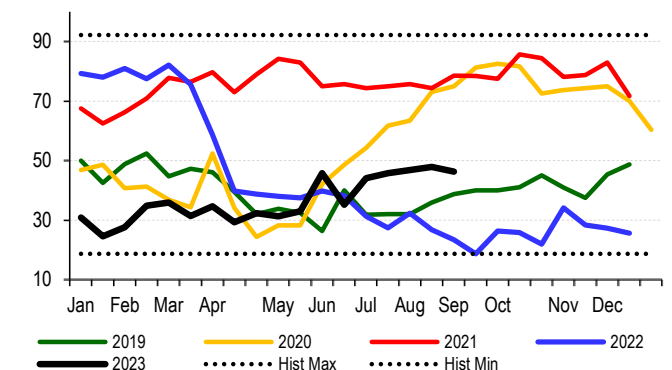
0-3 months demand outlook – stack basis y-y; Demand Indicator at 52.4



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 46.3



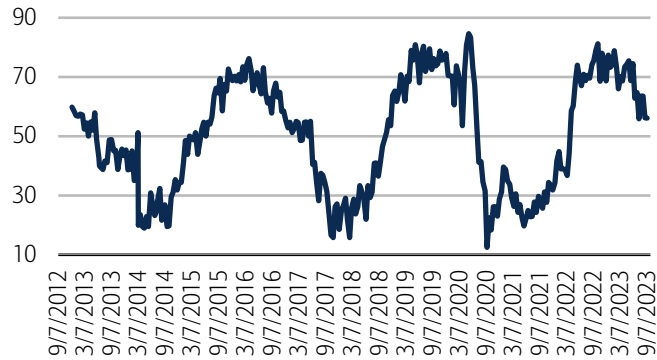
Source: BofA Global Research.

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CAPACITY AVAILABILITY

Chart 7: Shippers' view of available capacity

Capacity Indicator flat at 56.1, above its historic 50 avg

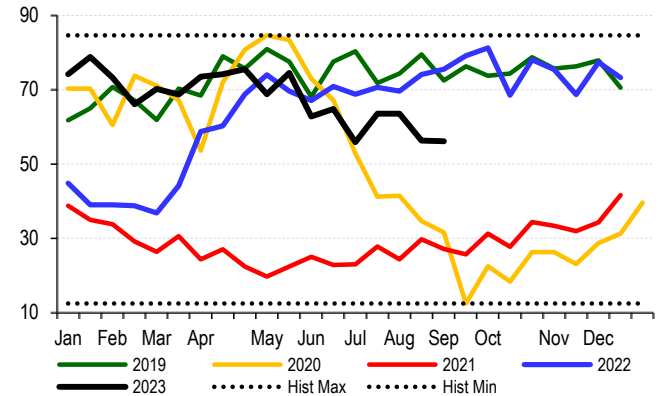


Source: BofA Global Research.

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Chart 8: Shippers' view of available capacity

Stack basis year-year; Capacity Indicator at 56.3



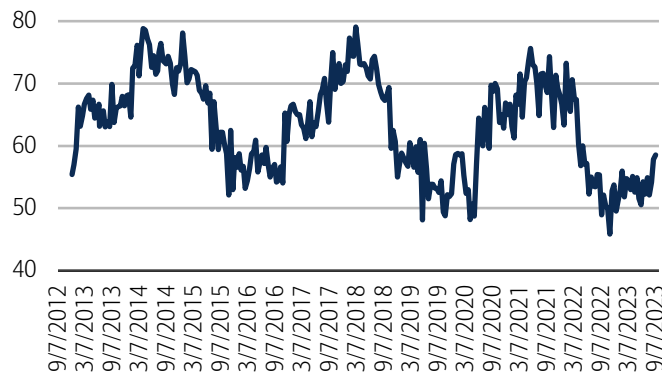
Source: BofA Global Research.

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6-12-MONTH FREIGHT DEMAND

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

L-T Demand Indicator at 58.5, up 1 pt sequentially

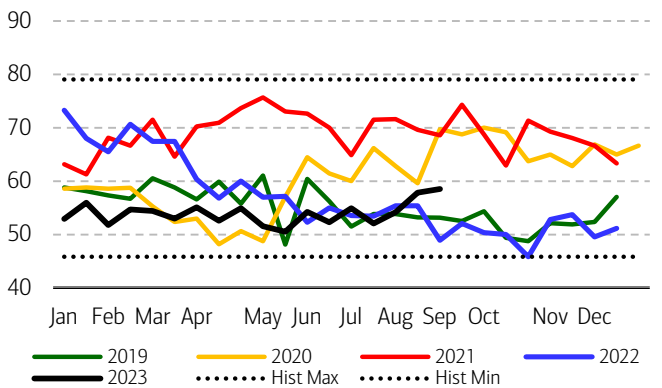


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 58.5



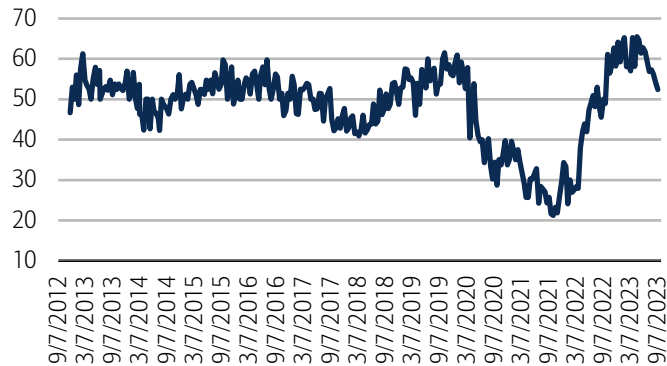
Source: BofA Global Research.

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INVENTORY

Chart 11: Shippers' view of inventory levels

Inventory Indicator at 52.4, down 3% sequentially from last issue.

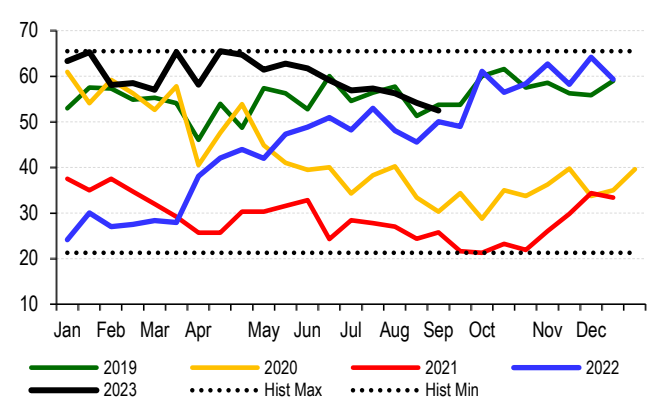


Source: BofA Global Research.

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Chart 12: Shippers' view of inventory levels

Stack basis year-year; Inventory Indicator at 52.4



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



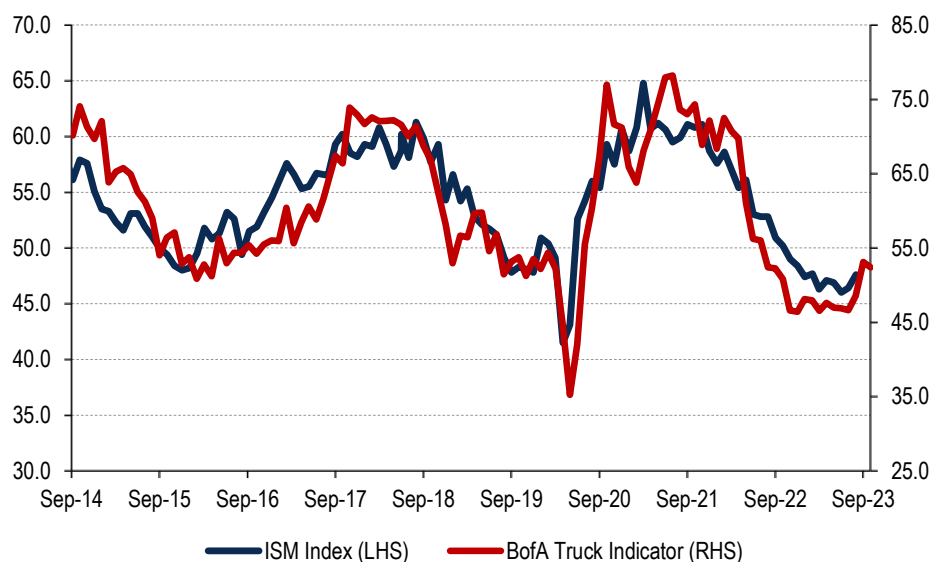
Source: BofA Global Research estimates.

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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 noted that theft is becoming a major problem.

Exhibit 1: Stocks Mentioned

Shares mentioned include JBHT, KNX, SNDR, and WERN

Ticker	QRQ	Rating	Price	PO
JBHT	B-1-7	B	\$ 186.06	\$ 207.00
KNX	B-1-7	B	\$ 52.44	\$ 63.00
SNDR	B-1-7	B	\$ 27.99	\$ 36.00
WERN	B-1-7	B	\$ 40.16	\$ 52.00

Source: BofA Global Research and Bloomberg

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Price objective basis & risk

J.B. Hunt Transport Services (JBHT)

Our \$207 price objective is based on a 22x target multiple of our 2024e EPS. Our target multiple is near the top of its 16x-23x one standard deviation trading band as earnings are expected to trough in late '23 yet gradually 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 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 \$63 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 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 \$36 PO is based on a 16.5x target multiple on our 2024 EPS estimate. Our target multiple is above 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 \$52 price objective is based on an 18.5x target multiple on our 2024 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.

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.

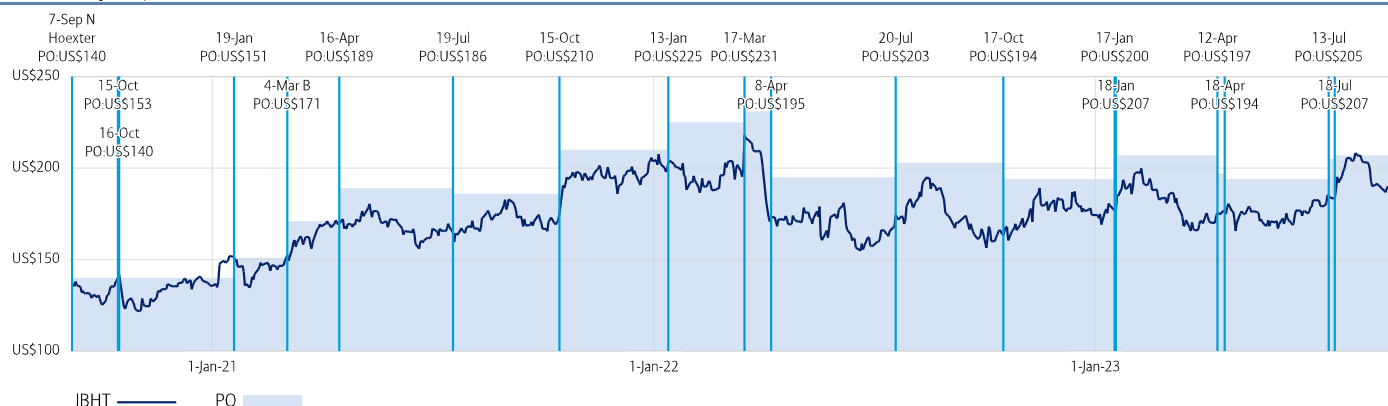
US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian National	CNI	CNI US	Ken Hoexter
	Canadian Pacific Kansas City Ltd	CP	CP 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
	Old Dominion Freight Line	ODFL	ODFL US	Ken Hoexter
	RXO, Inc.	RXO	RXO US	Ken Hoexter
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Schneider National	SNDR	SNDR US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	CSX Corporation	CSX	CSX 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
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
	World Kinect	WKC	WKC US	Ken Hoexter
RSTR				
	Triton International, Ltd	TRTN	TRTN US	Ken Hoexter

Disclosures

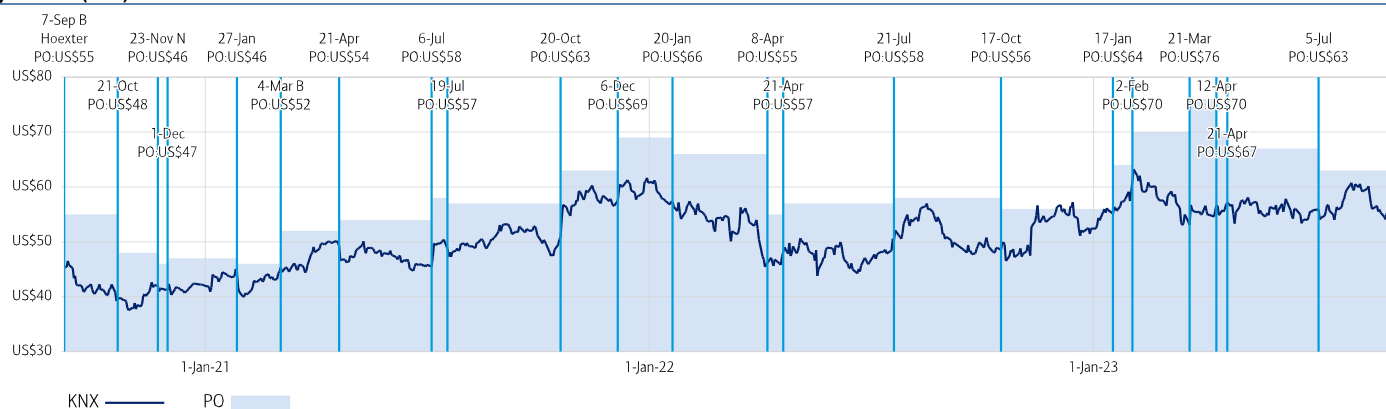
Important Disclosures

J.B. Hunt Trans (JBHT) Price Chart



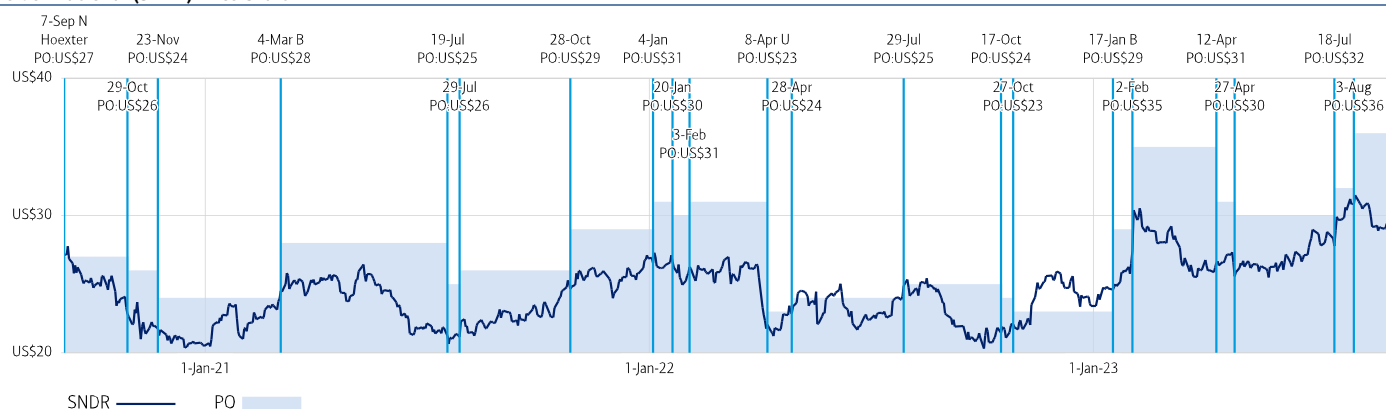
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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

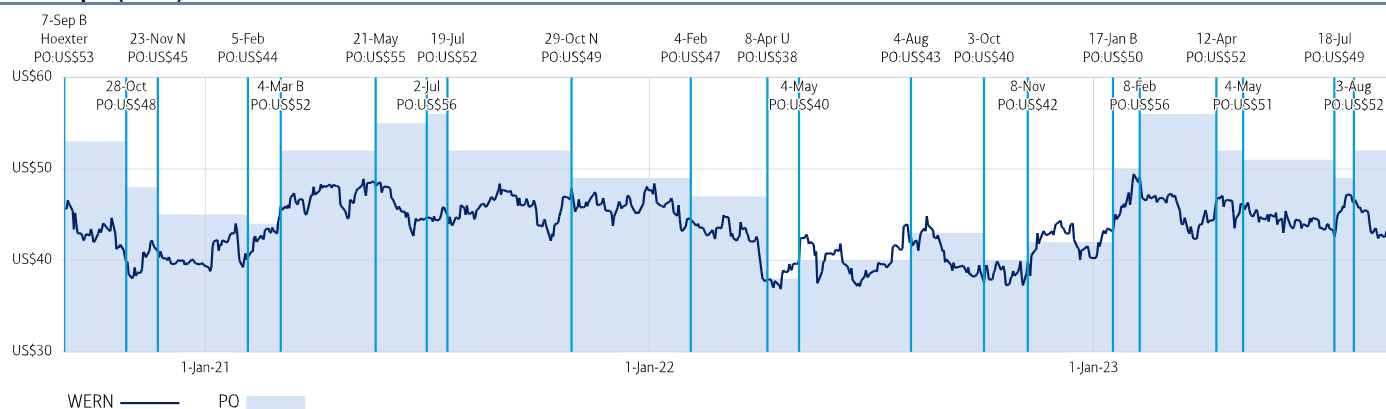
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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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Werner Enterprises (WERN) 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 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	72	52.94%	Buy	42	58.33%
Hold	29	21.32%	Hold	13	44.83%
Sell	35	25.74%	Sell	17	48.57%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

^{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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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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