

Transportation - Trucking

Survey Says: Demand view 2nd highest in 80 wks after CNY lull; Capacity tightening

Industry Overview

Truck Shipper Survey #303, week of February 22nd, 2024

This week, our proprietary bi-weekly BoFA Truckload Demand Indicator for shippers' 0- to 3-month freight demand outlook increased to 54.1 from 50.5 last survey, its 2nd highest level in 80 weeks (40 surveys). The Demand Indicator has been at- or above-50 for 5 consec. issues and 8x over the past 13. This positive stretch follows a period at or below 50 for 21 of the prior 25 issues (since Feb 2023). The Indicator matches the 54.2 avg during the '12, '15, '19 Freight Recession periods, after 13 issues below, highlighting a somewhat improving backdrop. The Demand Indicator was up 13% year-year, its 12th yr-yr uptick in the past 13 issues. Rail carloads rose 2% year-year this week, its 3rd week of upticks. Dry van spot rates ex-fuel were \$1.41/mile, down from \$1.46/mile last week. Of the respondents, 26% had a positive short-term demand outlook, in line with 27% last survey; neutral outlooks were 60%, up from 47% last survey, and negative outlooks were 14%, down from 27% last survey. In the week of February 22nd, we surveyed 43 shippers for views on truckload demand, supply, pricing, and inventory.

Capacity ticks lower; Rates view up; Inventory view down

The Rate Indicator, or shippers' view on truck rates, increased to 50.0 from 49.0 last issue, up 2% sequentially. The Inventory Indicator decreased to 54.7 from 56.1 last issue, down 3% sequentially, as inventories move closer to the 49 historical average. Truck Capacity Indicator, which gauges shippers' views of available truck capacity, decreased to 58.1 from 59.2 last survey, its lowest level in 12 surveys as capacity continues to tighten. With respect to rates, 12% of shippers expect rates to fall, down from 22% last issue, 77% expect pricing to be flat, up from 57% last issue, and 12% expect rates to rise, from 20% last issue. On capacity, 28% expect capacity to rise, vs 31% last issue, 60% expect capacity to stay flat, from 57% last issue, 12% expect capacity to be lower, flat with last issue. SHIPPER COMMENTS: An Industrial Shipper noted that truck capacity is tightening regionally due to a lack of back haul opportunities. A Logistics Shipper highlights everything it is hearing and seeing suggest we have hit a bottom rates-wise, yet have not seen the exodus of trucking companies it normally sees this time in the cycle. *(Shippers' commentary continue page 5)*

Spot rates fall seasonally; WMT sees better peak season

Truckload spot rates ex-fuel declined to \$1.41/mile from the 2024 YTD peak of \$1.49 due to a seasonal lull in demand after Chinese New Year, as well as a persistent soft demand backdrop. At an Industry conference, J.B. Hunt (JBHT) noted Intermodal rates remain challenged in this environment. Nevertheless, the truckload capacity backdrop continues to improve with carrier deactivations outpacing activations for the 72nd consecutive week. Freight demand appears to have recovered back to pre-COVID levels based on largest US shipper Walmart. It noted stronger-than expected sell-throughs as consumer demand picked up into peak season, driving a 4.5% year-year decline in its inventory levels. Home Depot highlighted that inventories are down 16% year-year at its 4Q results, supporting our view that destocking continues to progress among Truck shippers. With improving supply and recovering demand levels, we see rising potential of a turnaround in truck rates later in 2024. We remain focused on Truckload/related carriers Knight-Swift and JBHT, and Less-than-Truckload (LTL) carriers XPO, SAIA, and Old Dominion.

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Timestamp: 23 February 2024 05:01AM EST

23 February 2024

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 54.1



Source: BoFA Global Research.

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Chart 2: RATE INDICATOR

Shipper's rates view; Rate Indicator at 50.0



Source: BoFA Global Research.

BoFA GLOBAL RESEARCH

SHIPPERS VIEW OF DEMAND

Table 1: BofA Truckload Demand Diffusion Indicator

Demand Indicator: at 54.1, +3 pts sequentially.

	2020		2021		2022		2023		2024	
Jan	1/3	55.1	1/14	63.8	1/13	75.0	1/12	47.5	1/11	51.6
	1/17	58.1	1/28	63.8	1/27	70.0	1/26	51.3	1/25	52.8
Feb	1/31	56.7	2/11	67.5	2/10	69.5	2/9	45.1	2/8	50.5
	2/13	53.1	2/25	68.8	2/24	71.9	2/23	47.6	2/22	54.1
Mar	2/27	51.3	3/11	72.9	3/10	70.3	3/9	46.9	3/8	
	3/12	46.1	3/25	68.8	3/24	69.2	3/23	48.3	3/22	
Apr	3/26	43.5	4/8	73.0	4/7	64.1	4/6	49.5	4/5	
	4/9	37.2	4/22	75.7	4/21	58.0	4/20	44.4	4/19	
	4/23	33.3	5/6	77.6	5/5	57.5	5/4	49.5	5/3	
May	5/7	37.8	5/20	78.3	5/19	55.0	5/18	44.3	5/17	
	5/21	46.2	6/3	78.3	6/2	58.5	6/1	42.6	5/31	
Jun	6/4	54.6	6/17	78.1	6/16	54.0	6/15	47.9	6/14	
	6/18	56.4	7/1	75.7	6/30	55.5	6/29	49.4	6/28	
Jul	7/2	59.3	7/15	70.9	7/14	50.9	7/13	47.1	7/12	
	7/16	62.5	7/29	74.3	7/28	53.9	7/27	50.0	7/26	
Aug	7/30	59.1	8/12	73.0	8/11	50.0	8/10	55.2	8/9	
	8/13	63.5	8/26	73.0	8/25	54.5	8/24	51.0	8/23	
Sep	8/27	71.1	9/9	73.6	9/8	51.6	9/7	52.4	9/6	
	9/10	75.8	9/23	75.0	9/22	50.0	9/21	50.0	9/20	
Oct	9/24	78.1	10/8	69.4	10/6	47.6	10/5	48.9	10/4	
	10/8	73.3	10/21	68.3	10/20	45.6	10/19	52.5	10/18	
	10/22	70.0	11/4	76.6	11/3	42.4	11/2	47.7	11/1	
Nov	11/5	72.5	11/18	67.7	11/17	50.4	11/16	44.4	11/15	
	11/19	69.9	12/2	69.7	12/1	47.8	11/30	49.0	11/29	
Dec	12/3	63.8	12/16	68.6	12/15	47.2	12/14	49.0	12/13	
	12/17	66.3	12/30	66.7	12/29	49.4	12/28	52.4	12/27	
	12/31	67.7								

Source: BofA Global Research

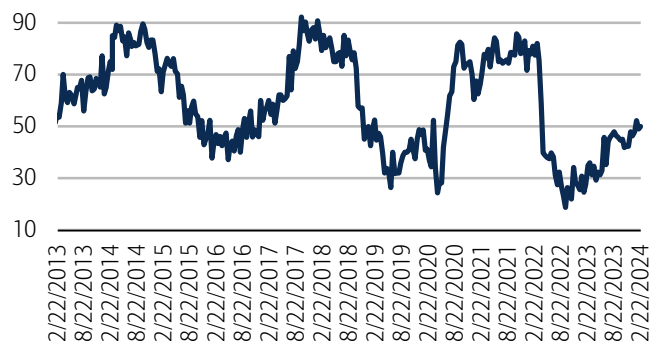
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Disclaimer: The indicator identified as BofA Truckload Diffusion Indicator in this report is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, 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 50.0, +2% 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 54.1

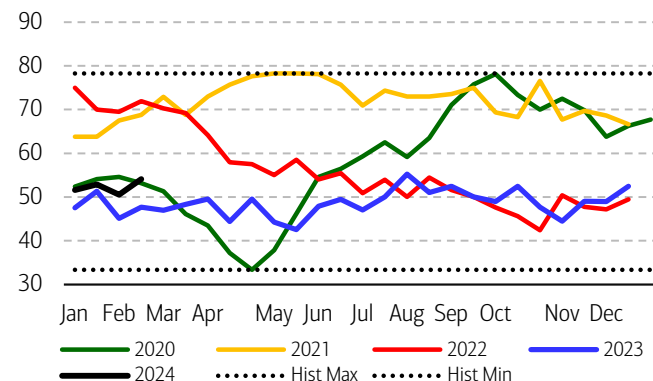


Source: BofA Global Research

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Chart 4: BofA Truckload Demand Diffusion Indicator

0-3 months demand outlook – stack basis y-y; Demand Indicator at 54.1



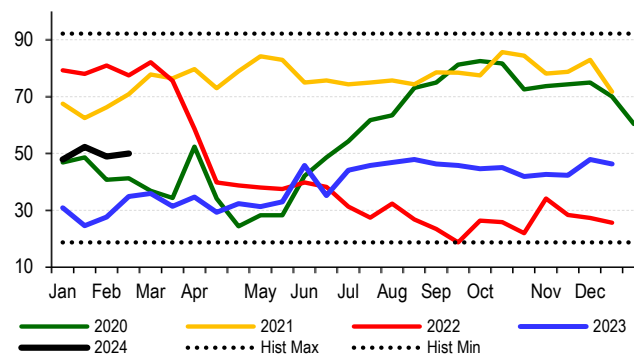
Source: BofA Global Research

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 50.0



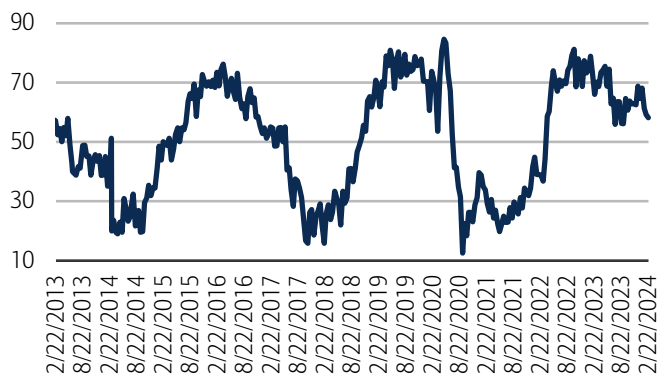
Source: BofA Global Research.

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CAPACITY AVAILABILITY

Chart 7: Shippers' view of available capacity

Capacity Indicator at 58.1, down 2% sequentially

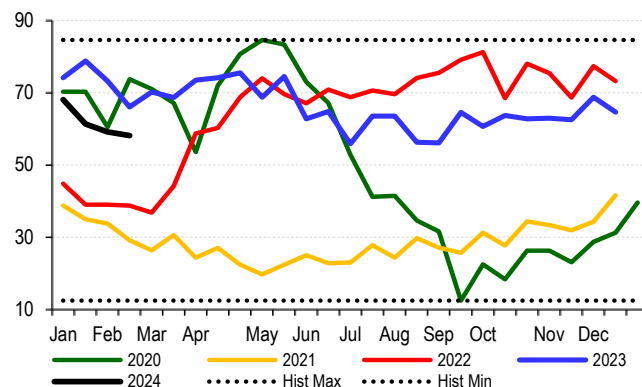


Source: BofA Global Research.

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Chart 8: Shippers' view of available capacity

Stack basis year-year; Capacity Indicator at 58.1



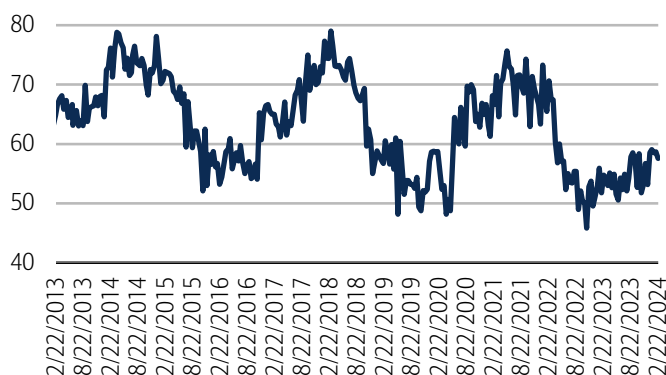
Source: BofA Global Research.

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6-12-MONTH FREIGHT DEMAND

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

L-T Demand Indicator at 57.6, down 2% sequentially

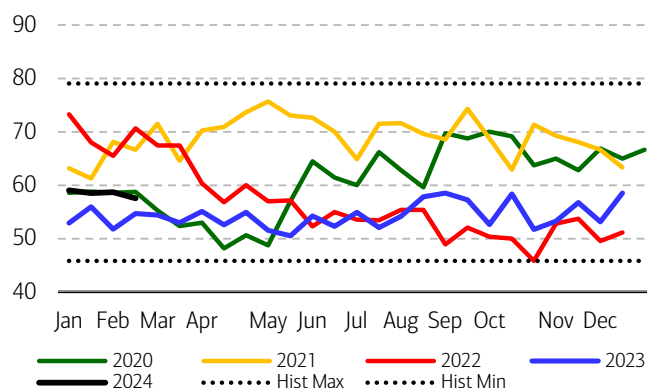


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 57.6



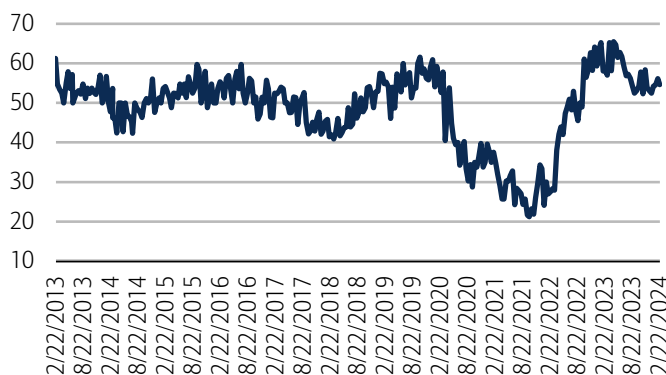
Source: BofA Global Research.

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INVENTORY

Chart 11: Shippers' view of inventory levels

Inventory Indicator at 54.7, down 3% from last issue.

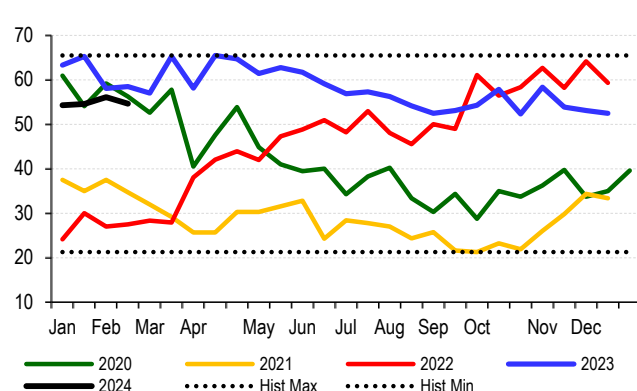


Source: BofA Global Research.

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Chart 12: Shippers' view of inventory levels

Stack basis year-year; Inventory Indicator at 54.7



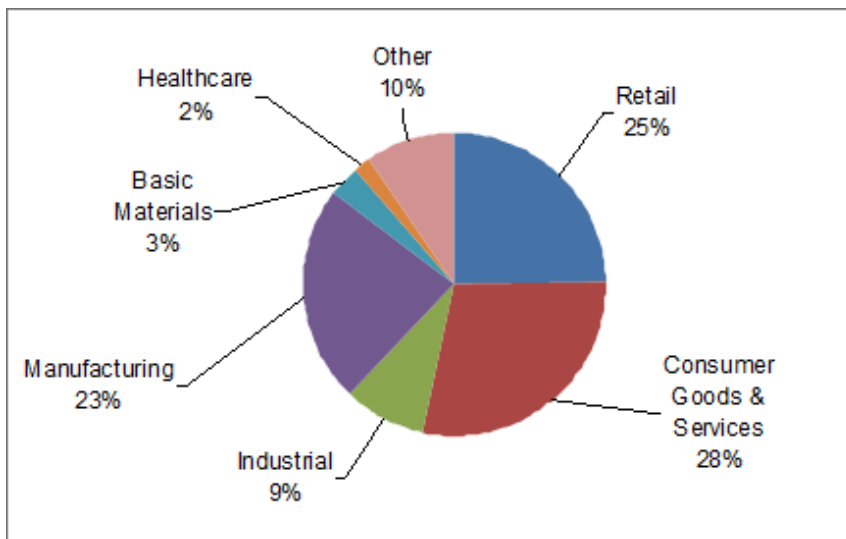
Source: BofA Global Research.

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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



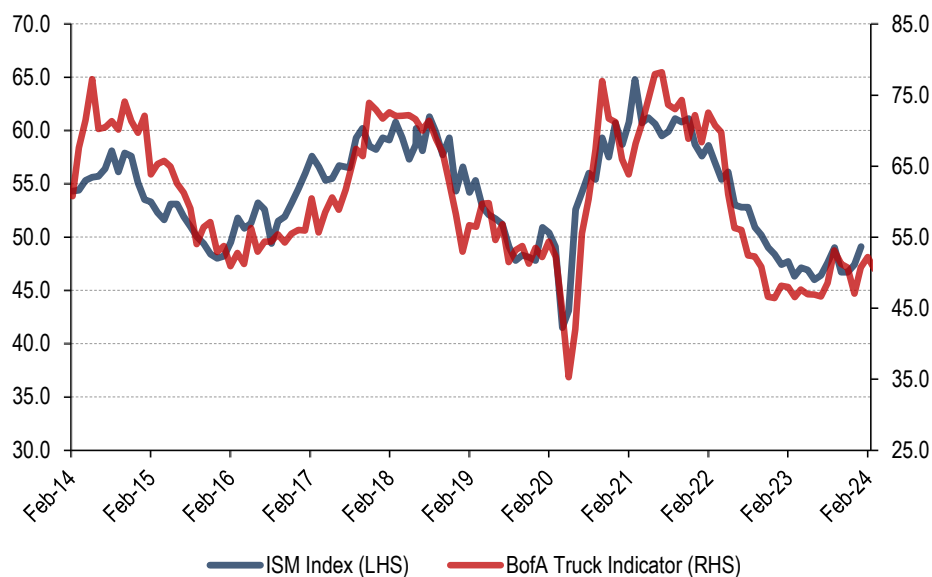
Source: BofA Global Research estimates.

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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 Logistics shipper believes rising equipment, labor, and insurance costs are driving capacity out of the market slowly, reducing supply. It sees spot rates rising and coming closer to contract rates. It believes a reduction in Fed interest rates would be welcome to spark the housing market, expand

manufacturing and increase consumer spending to drive up trucking demand. Until then, it sees rates bouncing along the bottom until excess capacity is out of the market.

- A Consumer Shipper noted its biannual bid goes into effect in April.
- A Packaging Shipper continues to look for a Transportation market inflection.
- A Consumer Shipper continues to see trucking companies requesting more freight and seeking to secure more contracted lanes.
- An Industrial Shipper noted the market remains flat.

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	\$ 211.03	\$ 216
KNX	Knight-Swift Transportation	B-1-7	Buy	\$ 57.96	\$ 64
XPO	XPO, Inc	C-1-9	Buy	\$ 122.08	\$ 132
ODFL	Old Dominion Freight Line	B-1-7	Buy	\$ 436.93	\$ 443
SAIA	Saia, Inc	B-1-9	Buy	\$ 559.14	\$ 600

Source: BofA Global Research estimates and Bloomberg.

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Price objective basis & risk

J.B. Hunt Transport Services (JBHT)

Our \$216 price objective is based on a 26.5x target multiple of our 2024E EPS estimate. Our target multiple is above its 16x-23x one standard deviation trading band as earnings trough in '23 and begin to recover in '24. We expect pricing pressure, a lagging indicator to volumes, to be somewhat countered with improved rail 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. It also plans to grow its container fleet to 150k over 2-4 years as it scales growth on BNSF's network.

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 \$64 price objective is based on a 25.5x target multiple on our 2024 EPS estimate. Our target multiple is above the upper end of its one-standard-deviation 22-year historical trading range of 14x-25x on year ahead estimates, as it moves past trough earnings. 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 \$443 price objective is based on a 35x target multiple on our 2024 EPS estimate. Our target multiple 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 Yellow 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 \$600 price objective is based on a 37x 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 \$132 price objective is based on a 36x 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 and its purchase of Yellow real estate.

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.

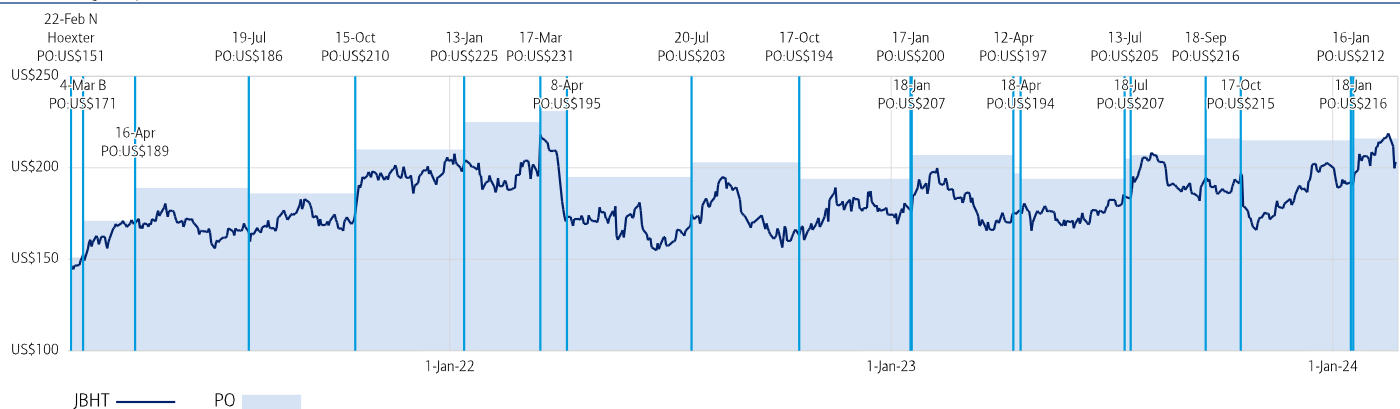
US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
	Saia Inc.	SAIA	SAIA US	Ken Hoexter
	Teekay Tankers Limited	TNK	TNK US	Ken Hoexter
	Union Pacific	UNP	UNP US	Ken Hoexter
	Wabtec Corp.	WAB	WAB US	Ken Hoexter
	XPO, Inc.	XPO	XPO US	Ken Hoexter
NEUTRAL				
	Canadian National	CNI	CNI 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
	TFI International	TFII	TFII US	Ken Hoexter
	TFI International	YTFII	TFII CN	Ken Hoexter
	UPS	UPS	UPS 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
	Werner Enterprises	WERN	WERN US	Ken Hoexter
	World Kinect	WKC	WKC US	Ken Hoexter
RSTR				
	Norfolk Southern	NSC	NSC US	Ken Hoexter

Disclosures

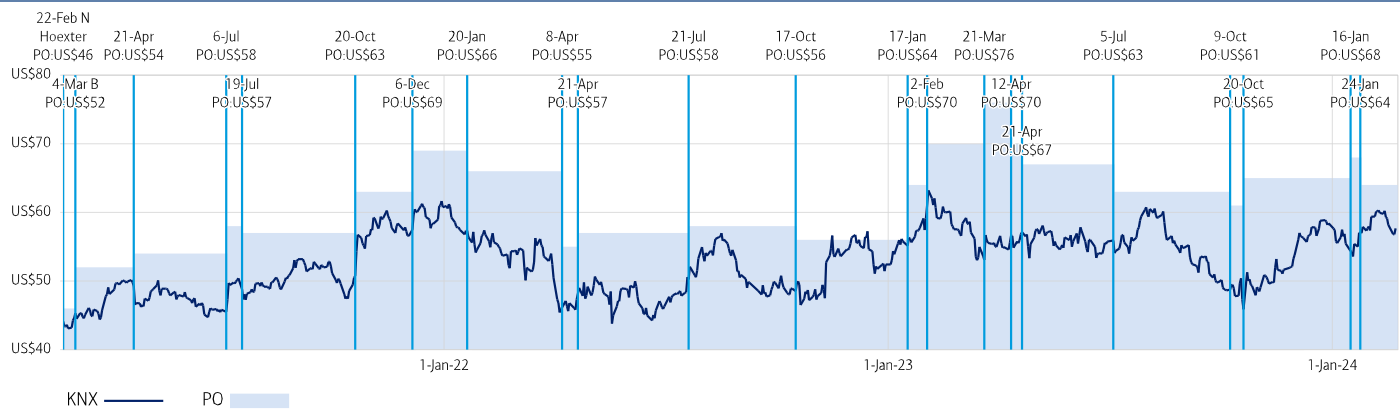
Important Disclosures

J.B. Hunt Trans (JBHT) Price Chart



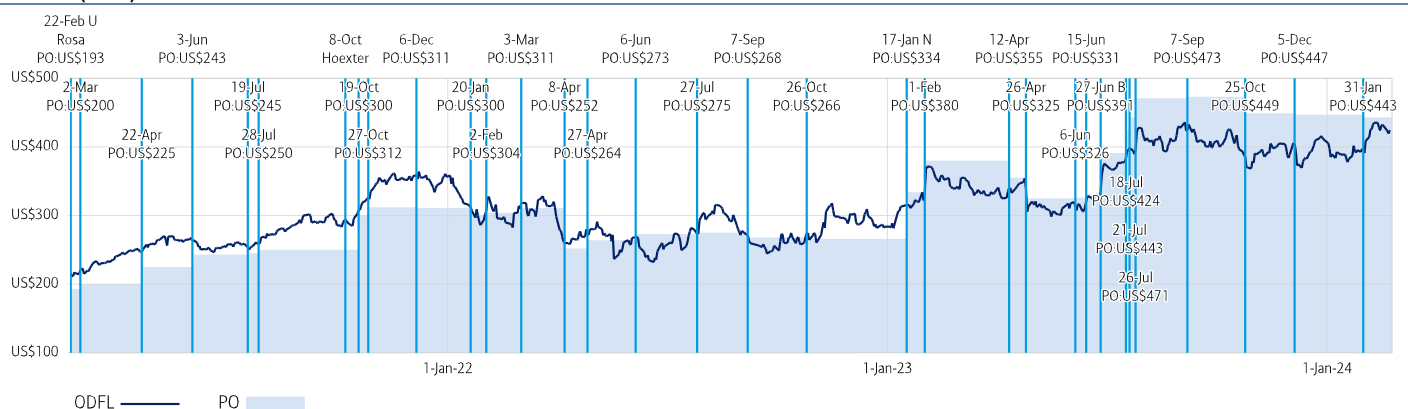
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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

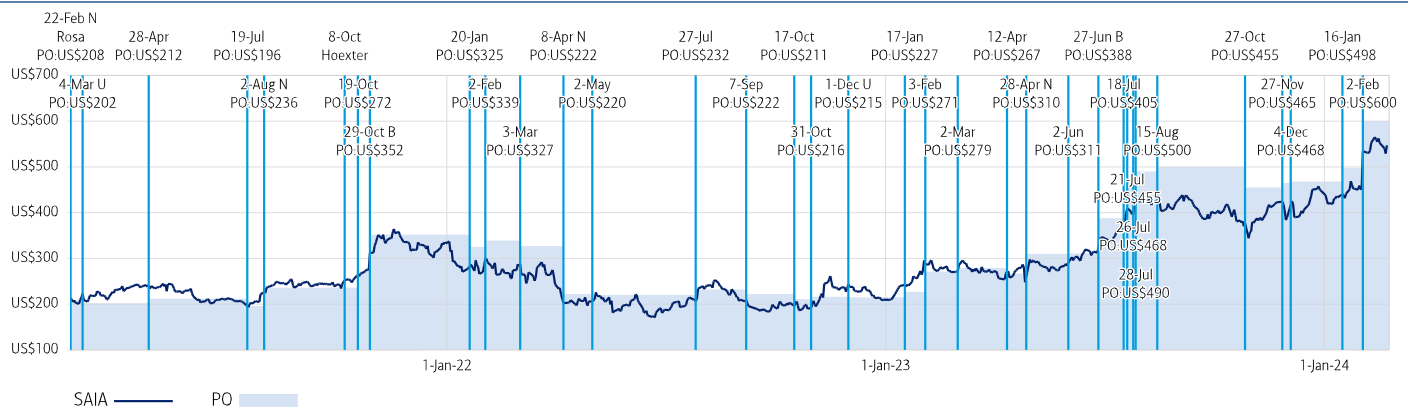
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Old Dominion (ODFL) Price Chart

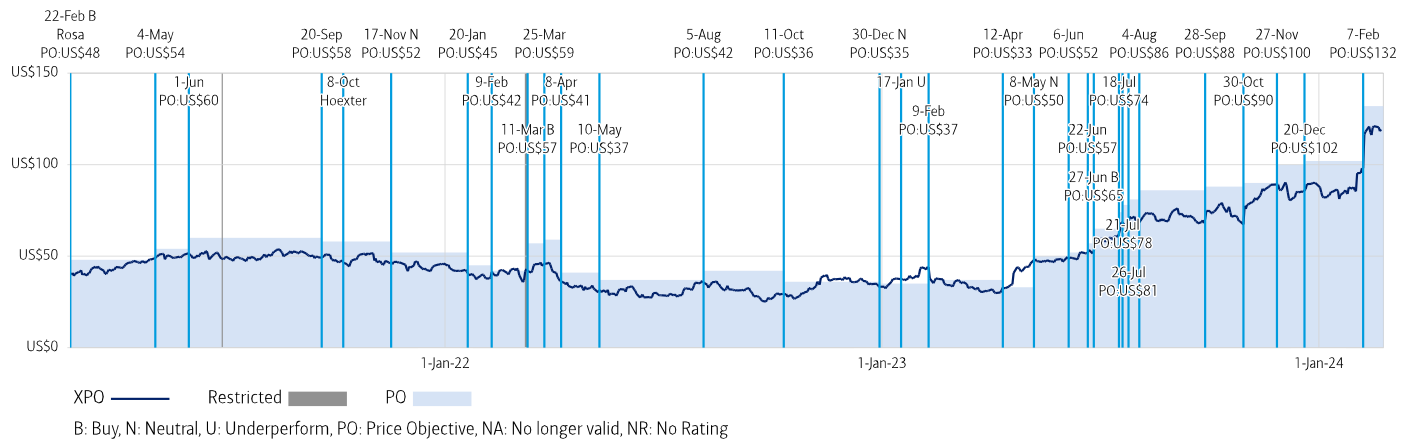
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Saia Inc. (SAIA) Price Chart

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

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.

Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	67	50.38%	Buy	44	65.67%
Hold	31	23.31%	Hold	13	41.94%
Sell	35	26.32%	Sell	17	48.57%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{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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