

Transportation - Trucking

Survey Says: Demand (50) ends 6-month streak sub-50, Rates view ticks up

Industry Overview

Truck Shipper Survey #288, week of July 27th, 2023

This week, our proprietary bi-weekly **BofA Truckload Demand Indicator** for shippers' 0- to 3-month freight demand outlook **increased to 50.0** from 47.1 last survey, up 6% sequentially. This ends a 6-month streak of sub-50s posts, with the Demand Indicator now having been at or above 50 in only 3 of the past 22 surveys (44 weeks, back to Sep. 22, 2022). Nevertheless, it remains sub 60 for the 34th consecutive survey. While up 13% from year-to-date lows in mid-May, it remains below the 54.2 average level of the '12, '15, '19 Freight Recession periods and is down 7% year-year. Rail carloads fell 2% year-year this week, its 24th consecutive downtick. Dry van spot rates ex-fuel are \$1.31/mile, from \$1.42 in early June (per Truckstop.com) and down 20% YTD, yet up from May's trough of \$1.25/mile (below the \$1.50-\$1.60 avg cost/mi). Shippers' short-term Negative outlooks were 23%, down from 31% last survey; Positive outlooks were 27%, flat with last survey; and Neutral outlooks were 50%, from 41% last issue. For the week of July 27th, we surveyed 48 shippers for views on demand, supply, pricing, and inventory.

Inventory view flat; Rates expectations continue to climb

The Truck Capacity Indicator, which measures shippers' views of available truckload capacity, **increased to 63.5** from 55.9 last survey, as shippers see more available truck capacity. **The Rate Indicator**, or shipper view on truck rates, **increased to 45.8** from 44.1, up 4% sequentially, as expectations of future rate increases continues to climb.

The Inventory Indicator was flattish at 57.3 from 56.9 last issue, as inventory views, ticked down over the prior few weeks, holding at/near the 3rd lowest level since last Oct. With respect to rates, 19% of shippers expect rates to fall, down from 22% last issue, 71% expect flat pricing, up from 69% last issue, and 10% expect rates to rise, flat to last issue. On capacity, 33% expect capacity to rise, up from 27% last issue, 60% expect capacity to remain flat, up from 57% last issue, and 6% expect capacity to be lower, down from 16% last issue. **SHIPPER COMMENTS:** An Industrial Shipper believes it has hit the bottom of the freight market. A Consumer Shipper noted that trucking rates remain steady. An Industrial Shipper noted things remain flat. Another Shipper noted July is typically a soft month, especially for Transportation. It expects higher interest rates to remain a barrier to entry for new trucks and strain highly leveraged carriers, bringing supply back in line with demand. (Shipper comments cont'd on P.5)

Survey signals are important...but recognize it's early

The BofA Truck Shipper Demand Indicator moving toward 50 for the first time in 6 months (and only 3rd time since October 2022) is important to not glance over, in our view. Shipper indications of inventories moving down, stabilizing demand, and a general expectation that pricing will climb higher, are great data points for a mosaic of understanding a cycle trough. However, not all data suggests an inflection, as truckload spot rates remain near cycle lows (\$1.31/mile vs. low of \$1.25/mi). While no carrier seems to be yelling 'we're past bottom,' port volumes have signaled some seasonal boost into peak season (although some forwarders countered that there will be no peak this year). As capacity exits accelerate, we see a turnaround in the truck cycle late 2H and focus on leading carriers JBHT, KNX, and SNDR. Nevertheless, the liquidity concerns around YELL is keeping investors focused on LTL's, particularly ODFL, XPO, and SAIA.

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Chart 1: DEMAND INDICATOR

Shipper's view of demand next 0-3 months; Demand Indicator at 50.0

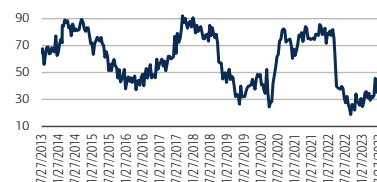


Source: BofA Global Research.

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Chart 2: RATE INDICATOR

Shipper's view of rates; Rate Indicator at 45.8



Source: BofA Global Research.

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SHIPPERS VIEW OF DEMAND

Table 1: BofA Truckload Demand Diffusion Indicator

Demand Indicator: at 50.0, up 2.9 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 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
	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 45.8, +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 50.0

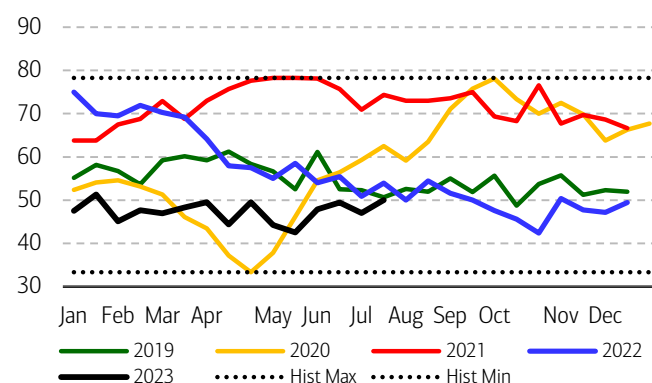


Source: BofA Global Research

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Chart 4: BofA Truckload Demand Diffusion Indicator

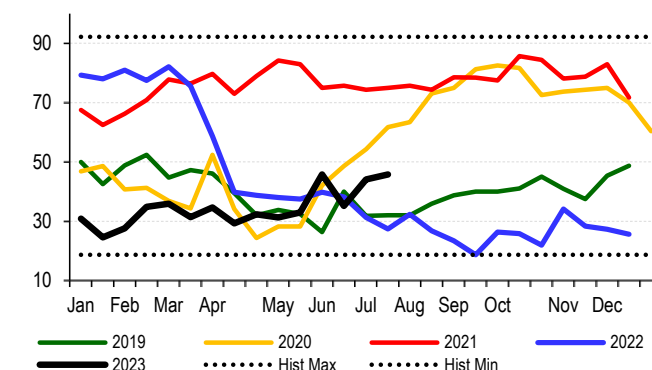
0-3 months demand outlook – stack basis y-y; Demand Indicator at 50.0



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 45.8



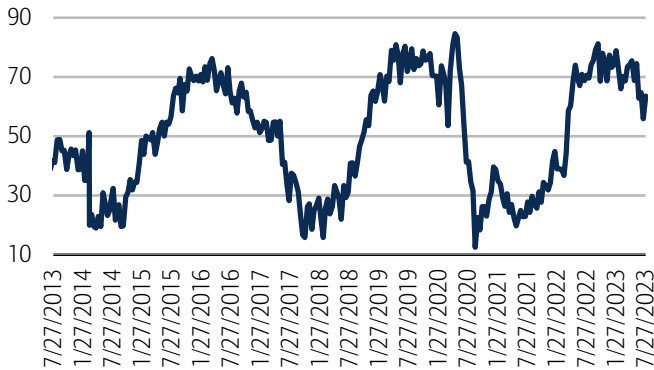
Source: BofA Global Research.

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CAPACITY AVAILABILITY

Chart 7: Shippers' view of available capacity

Capacity Indicator increased to 63.5, above its historic 50 avg

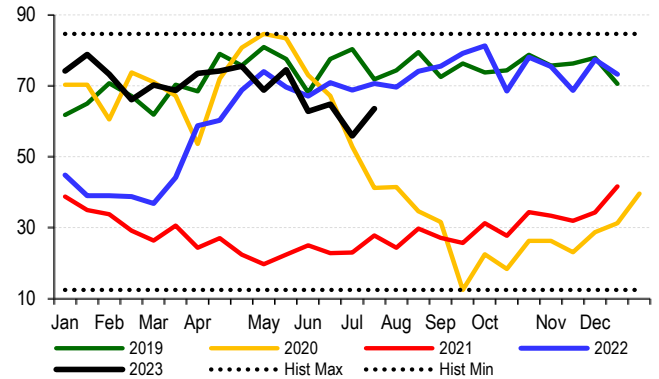


Source: BofA Global Research.

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Chart 8: Shippers' view of available capacity

Stack basis year-year; Capacity Indicator at 63.5



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 52.1, down 2.8 pts sequentially

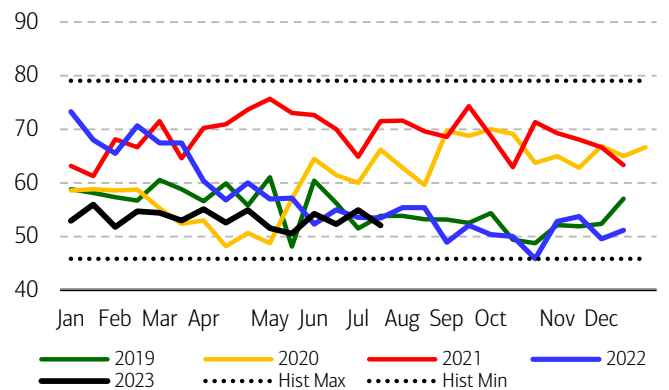


Source: BofA Global Research.

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

Stack basis year-year; Long-Term Demand Indicator at 52.1



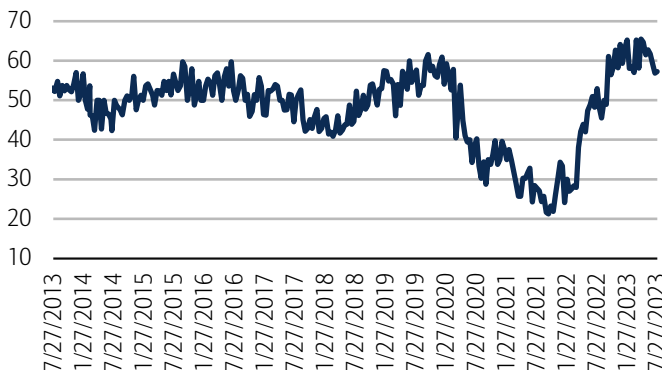
Source: BofA Global Research.

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INVENTORY

Chart 11: Shippers' view of inventory levels

Inventory Indicator at 57.3, up from 56.9 last issue

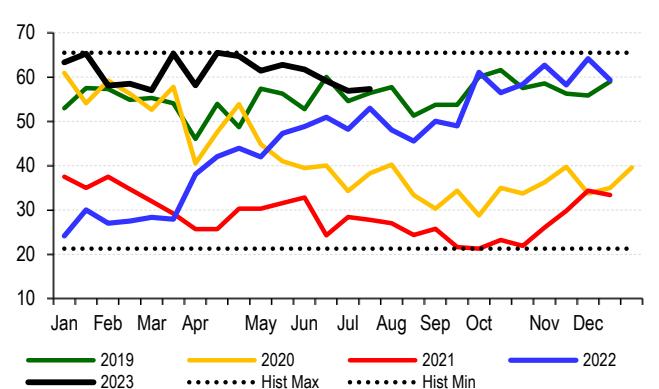


Source: BofA Global Research.

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Chart 12: Shippers' view of inventory levels

Stack basis year-year; Inventory Indicator at 57.3



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



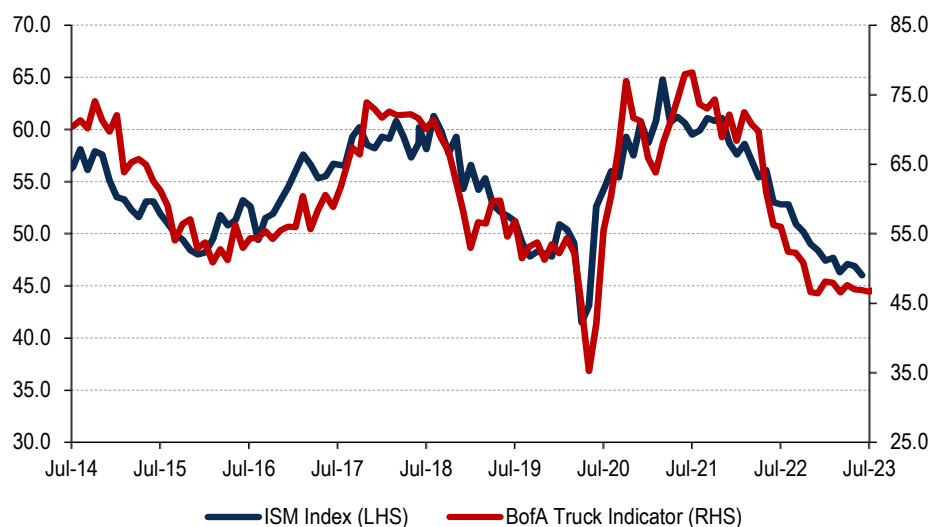
Source: BofA Global Research estimates.

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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 it is seeing a moderate slowing of demand. It believes economists saying the economy isn't in recession is in disconnect from the reality of consumer discretionary spend.
- A Consumer Shipper noted things have been steady in its peak season this year. It has enough trucks available to get the job done. While it noted the

Southwest region has had some rough times, it was able to make things work. It noted overall things are going well and cost of diesel is low.

- A Forest Product Shipper noted a general drop in rates. However, it noted some lanes have had increases due to carrier capacity, mix, strategic partnerships, dedicated contracts, data corrections, and service level/commitments.
- A Consumer Shipper is running at ~100% for actualization on capacity/rates from its recent full network truckload request-for-proposals (renewals).
- A Logistics Shipper noted market is improving but activity is still slow.
- An Industrial Shipper that also noted it has hit the bottom of the freight market, believed that if UPS strike had occurred, it would have led to a spike in rates (over the short-term) as carriers move to pick up zone skipping freight at a higher rate.
- An Industrial Shipper had been closely monitoring the UPS negotiation process.

Exhibit 1: Stocks Mentioned

Shares mentioned include JBHT, KNX, SNDR, and WERN

Ticker	QRQ	Rating	Price	PO
JBHT	B-1-7	Buy	\$ 200.01	\$ 207.00
KNX	B-1-7	Buy	\$ 59.43	\$ 63.00
SNDR	B-1-7	Buy	\$ 30.38	\$ 32.00

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 \$32 PO is based on a 14x target multiple on our 2024 EPS estimate. Our target multiple is the mid-point of its 10x-19x historical range. It is at a discount to average of best-in-class peer targets, which include a blend of peer historical averages (50% of SNDR's revs are Truck, which peers trade low double digits, currently, 20% is Intermodal and its peer trade at 20x, 20% is Logistics which peers trade at upper-teens multiples, and 10% is other, or low double-digits), yielding a mid-teen fair value multiple target. SNDR's diverse base is countered by increasing concerns of decelerating economic and freight flows.

Risks to our price objective are a cyclical downturn impacting freight flows, higher-than-expected costs from weather, driver pay, accident claims, fuel costs, and equipment prices. Given Schneider operates in a fragmented market, it may not have pricing power to adjust as costs rise in an improving market to offset an increased cost base.

Additionally, the company is a 'controlled company' given A shares have 10:1 votes and are completely controlled by the Schneider family and trusts.

Analyst Certification

I, Ken Hoexter, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

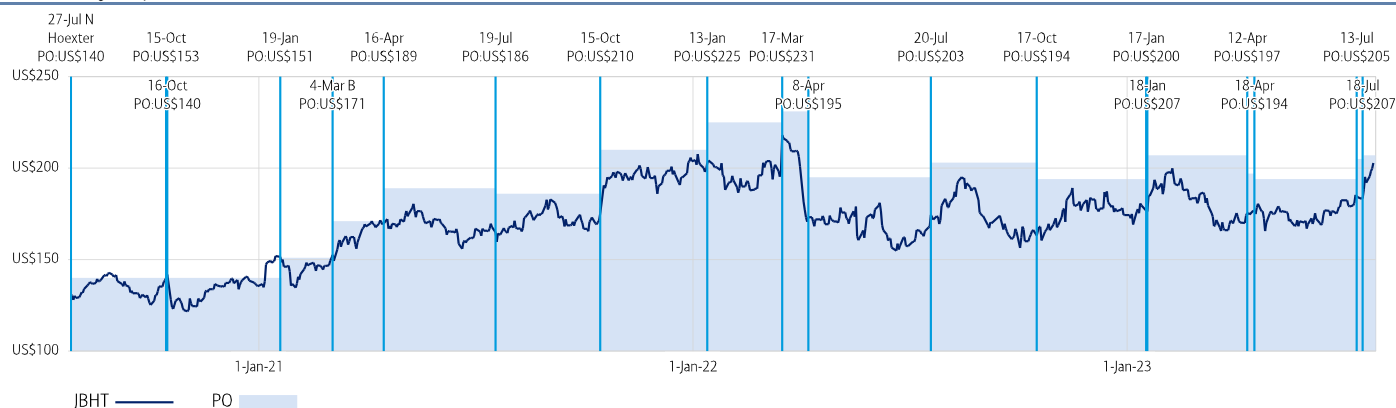
US - Transportation Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Canadian National	CNI	CNI US	Ken Hoexter
	Canadian Pacific Kansas City Ltd	CP	CP US	Ken Hoexter
	CSX Corporation	CSX	CSX US	Ken Hoexter
	FedEx Corp.	FDX	FDX US	Ken Hoexter
	J.B. Hunt Transport Services	JBHT	JBHT US	Ken Hoexter
	Kirby Corp	KEX	KEX US	Ken Hoexter
	Knight-Swift Transportation Holdings Inc	KNX	KNX US	Ken Hoexter
	Norfolk Southern	NSC	NSC US	Ken Hoexter
	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				
	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

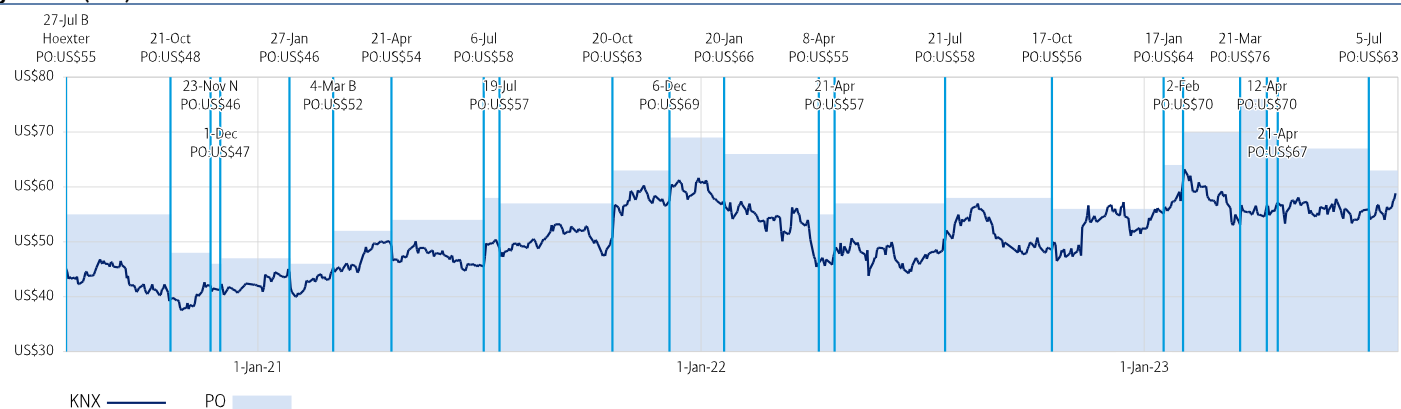
Disclosures

Important Disclosures

J.B. Hunt Trans (JBHT) Price Chart

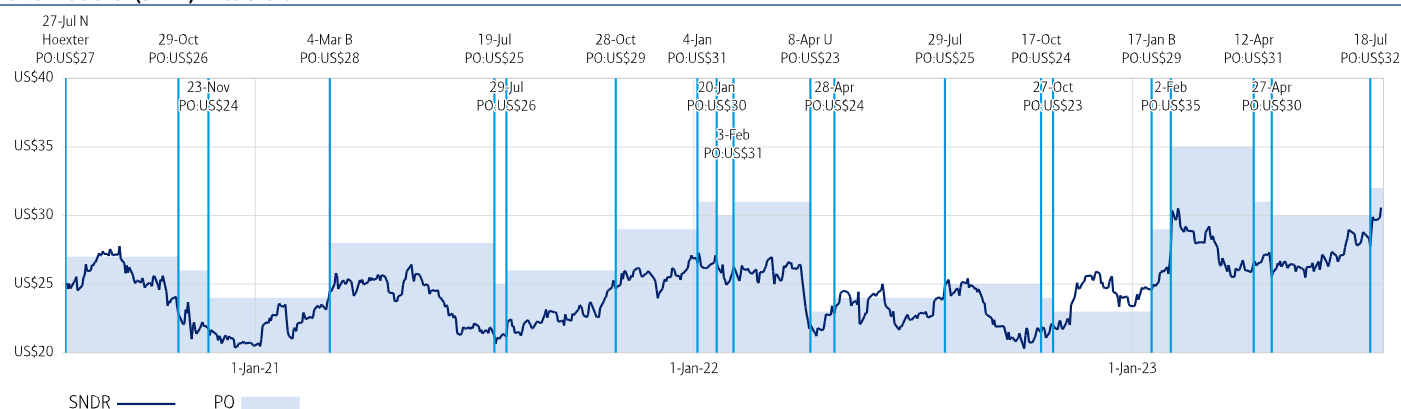


The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Knight-Swift (KNX) Price Chart

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

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Schneider National (SNDR) Price Chart

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

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Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 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.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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