JANUARY
2022

STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

FREIGHTWAVES | Ryder Ever better.

Not the peakiest peak season but strong nonetheless

December 22, 2021 | 3:00 PM ET

Overview

The truckload peak wasn't necessarily as "peaky" as expected, but given consumer trends of buying earlier, the peak has been prolonged. Tender volumes are lower on a monthly basis but haven't fallen as fast as in previous years. Meanwhile, rates are near record highs and facing upward pressure as capacity ratchets tighter again.

The ocean market continues to show signs of disruption that likely isn't going to be worked through until 2023. Vessel queues have moved further offshore, and over 130 ships are still waiting to berth at the Southern California ports. Ocean bookings from China to the U.S. are near record levels, showing demand for ocean shipping is unabating.

The intermodal market continues to buck seasonality trends. Domestic intermodal volumes have had a strong December relative to previous years. The Class I railroads and intermodal providers have worked to improve network fluidity, which explains some of the strong November and December for domestic intermodal volumes.

Given the strong bookings data, it seems unlikely that freight demand will waver anytime in the first half of 2022. There is cause for concern, however, as consumer sentiment is still deeply depressed. Add in rapidly rising input costs for shippers that haven't fully been passed to the consumer yet, and the back half of 2022 could face some risks.

Macro indicators	(y/y changes)
Industrial prod. m/m change	+0.5% (+5.5%)
Total retail sales m/m change	+0.3% (+18.2%)
November U.S. Class 8 orders	9,800 (-82%)
November U.S. trailer orders	32,000 (-23%)

Truckload indicators	(y/y change)
Tender rejection rate	21.1% (-684 bps)
Average dry van spot rate	$3.44/mi (+18.6%)
LAX to DAL spot rate	$3.53/mi (+33.7%)
CHI to ATL spot rate	$3.53/mi (+20.9%)

Tender volumes	(y/y change)
Atlanta	551.63 (-0.9%)
Los Angeles	377.24 (-11.2%)
Dallas	438.23 (+12.4%)
Chicago	241.91 (-10.1%)

Tender rejections	(y/y change)
Atlanta	16.87% (-931 bps)
Los Angeles	15.98% (-727 bps)
Dallas	19.23% (-358 bps)
Chicago	20.77% (-173 bps)

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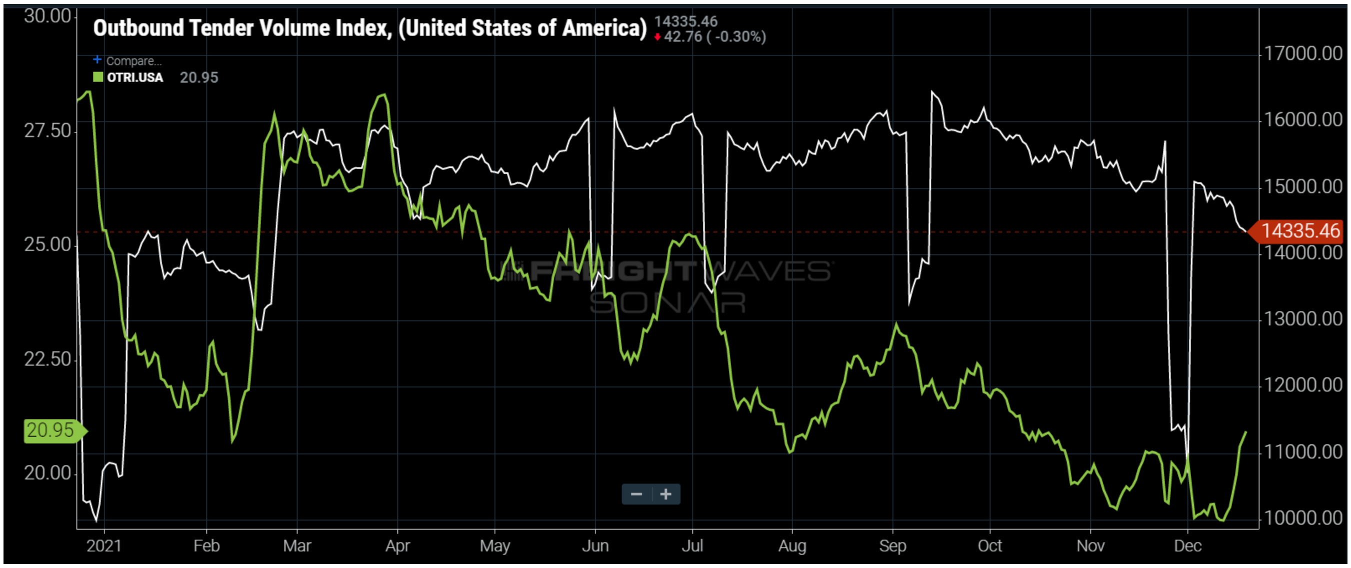
Truckload markets

The truckload market is following a seasonal trend as tender volumes have declined from pre-Thanksgiving levels while capacity is ratcheting tighter around the holidays. Increased spot market activity around the holidays is putting upward pressure on rates, both on the contract side and the spot side.

Tender volumes continue seasonal decline into the Christmas holiday, while rejections rise rapidly due to capacity ratcheting tighter



(Chart: FreightWaves SONAR, the Outbound Tender Volume Index {white} and Outbound Tender Reject Index {green})

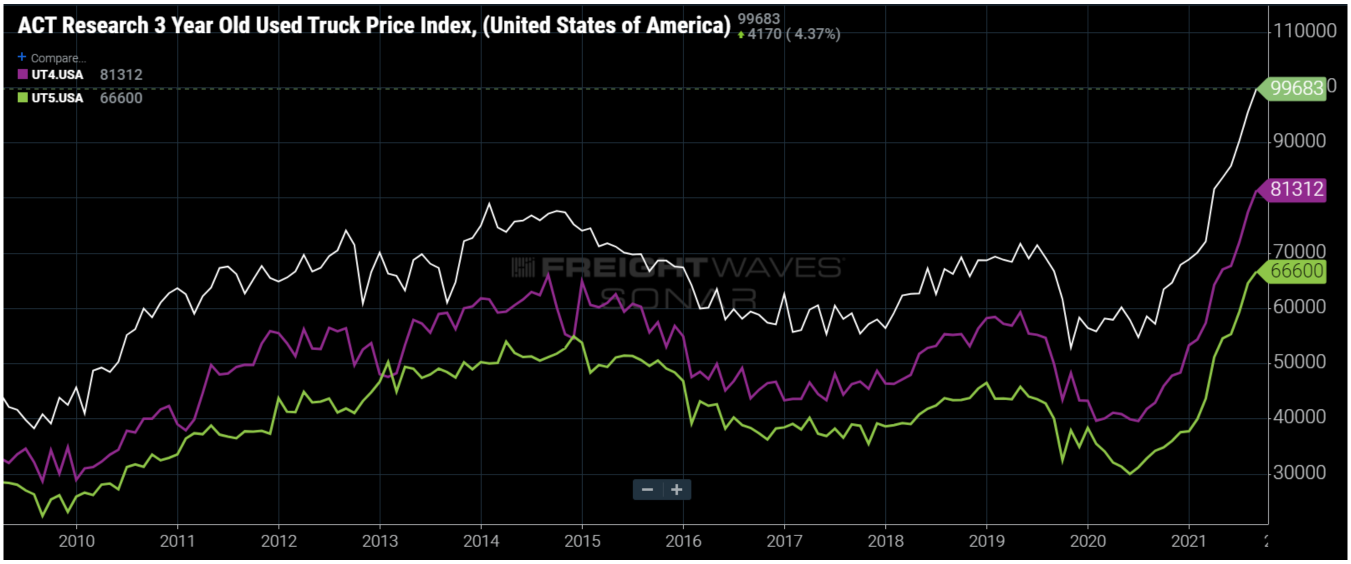
The Outbound Tender Volume Index (OTVI), a measure of shippers' requests for capacity, is in a seasonal decline as tender volume levels have fallen by over 5% in the past month. In comparison to 2020, the decline is much more gradual as volume levels were down 11% m/m at this point in 2020.

2021 peak season was a little less peaky than in 2020, but that doesn't mean there was a slowdown in freight demand during peak season. Tender volumes are still nearly 50% higher than they were in 2019. And while tender volumes have been deeply depressed year-over-year for the better part of the past two months, that gap has narrowed significantly over the past two weeks, from ~10% lower y/y to just 0.2% y/y.

OTVI, which includes both accepted and rejected tenders, doesn't necessarily show true volume levels because of the inclusion of the rejected tenders. When adjusting OTVI by the Outbound Tender Reject Index (OTRI), accepted tender volumes continue to outperform 2020 levels. Accepted tenders are now nearly 9% higher y/y, the widest the gap has been since early October.

The rise in accepted tender levels comes at the same time that rejection rates have soared, rising by nearly 200 basis points (bps) over the past week. OTRI has surged past the 20% level, a mark experienced for the vast majority of the year. Dec. 15 has brought an increase in rejection rates over the previous two years, and 2021 is no different. Compared to 2020, rejection rates are still 634 bps lower and unlikely to reach the highs due to the rise in contract rates over the past year. Compared to 2019, OTRI is 857 bps higher, signaling that capacity constraints still plague the truckload market.

The price for used equipment continues to surge, creating additional capacity constraints

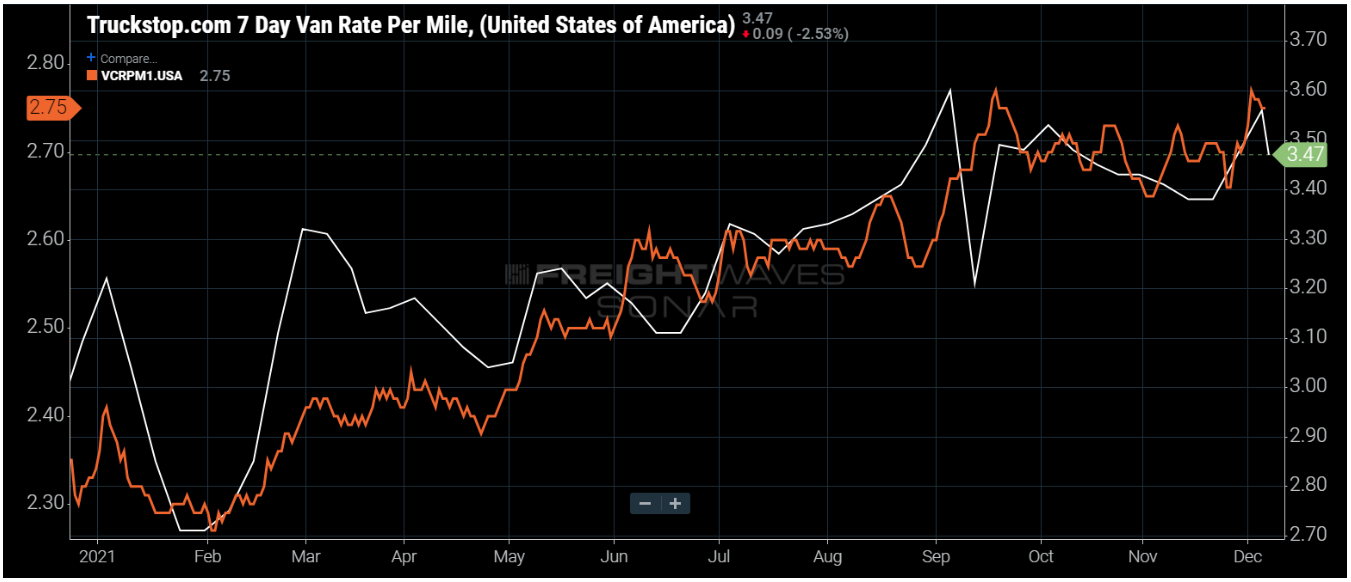


(Chart: FreightWaves SONAR, used truck prices, according to ACT Research: 3-year-old {white}, 4-year-old {purple} and 5-year-old {green})

There is capacity being added to the market in terms of owner-operators, which is typical when the market is as hot as it is. Traditionally, in a hot market drivers leave the umbrella of large and enterprise carriers to venture out on their own chasing higher rates. A similar phenomenon occurred in 2018, which led to a glut of truckload capacity in 2019, driving rates lower.

The surge in used truck prices signals that demand for used trucks is extremely high. Add in that enterprise carriers aren't turning over used equipment as often due to improved fuel efficiency in newer equipment and supply chain constraints at OEMs that have limited production of capacity. Couple the constraints with the backlog of orders, and OEM build slots are essentially sold out for 2022, which will likely keep capacity constraints in place while demand is so strong.

Contract rates continue to climb higher, likely to continue the trend into 2022, while spot rates are still near all-time highs



(Chart: FreightWaves SONAR, Truckstop.com's national dry van spot rates {white, right axis} and initially reported dry van contract rates {orange})

Spot rates have been relatively volatile in recent weeks, but that is largely due to the holiday season ratcheting capacity tighter. Meanwhile, contract rates have kept climbing, in line with rate increases during the final month of the quarter.

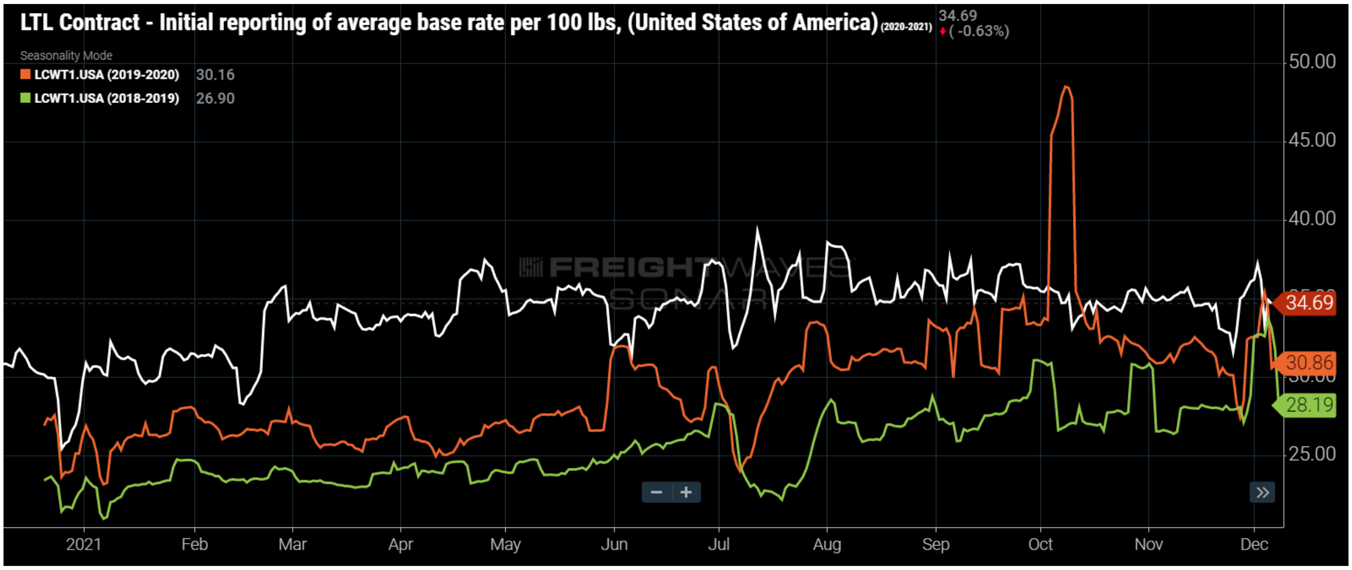
Truckstop.com's national spot rate, which is based on load board data, reached $3.56 a mile, which includes fuel surcharge and other accessorials, in the week following Thanksgiving. The national spot rate has since fallen back to $3.47, which is higher than the November average.

The national spot rate will likely not set another new all-time high once the calendar turns to January considering the first quarter is traditionally the slowest period for freight in the year. However, given the tightness in the market, expect that rates will remain at elevated levels for a prolonged period.

Contract rates have increased by 10 cents per mile over the past month to $2.75 a mile, a 3.8% increase. The rise in contract rates is consistent with other rate increases this year, rising during the final month of a quarter as contracts are repriced higher. The expectation for the first quarter is for another round of rate increases.

Both contract and spot rates are more than 15% higher than they were a year ago. That gap is narrower than the 20% y/y increases experienced in recent months, but more difficult comps have narrowed the range.

LTL pricing advantages have led to increased activity in the marketplace



(Chart: FreightWaves SONAR, initially reported LTL contract rate per hundredweight: 2021 {white}, 2020 {orange} and 2019 {green})

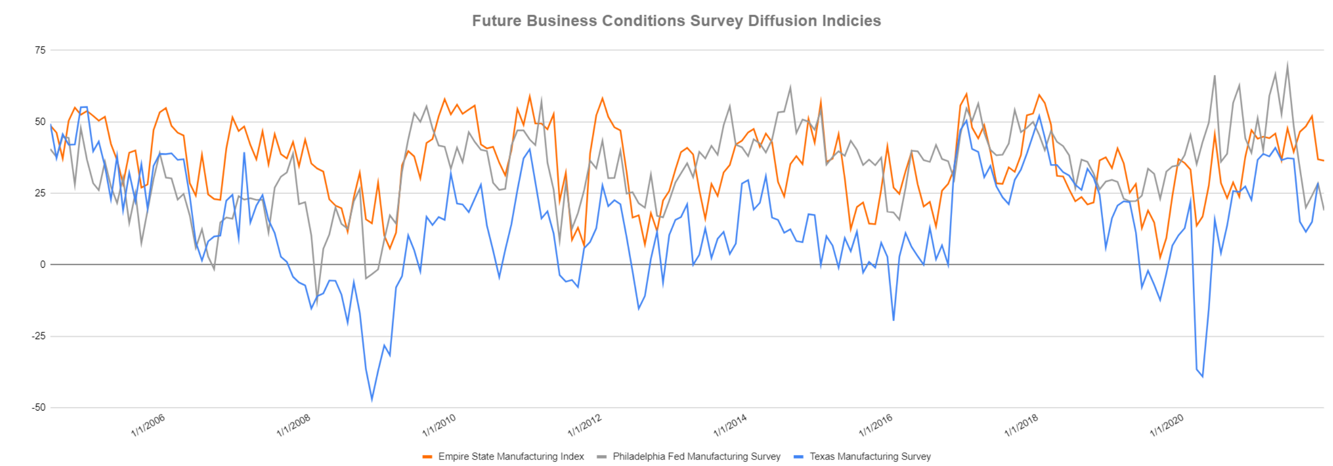
The LTL market has been a hot topic over the past month with a major acquisition as well as a bankruptcy in the space. The LTL market continues to shine as a whole, though, and the more disciplined, defensive pricing structure is paying dividends compared to the volatility in the truckload market.

The upward trend in LTL pricing will likely continue into 2022. Large public LTL companies have started pushing new general rate increases (GRIs) that will take effect in early 2022. Additionally, the companies have been diligent in securing freight that fits within the networks. Expect that the average LTL contract rate will take a step higher in January, in line with the GRIs laid out by the LTL carriers.

Ultimately, the capacity constraints impacting the truckload and LTL market are likely to be here for the foreseeable future. Any threats to domestic transportation networks will stem from the demand side of the equation. The consumer continues to drive the economy, but there is a reason for hesitation due to the rapid increase in inflation over the past year. Combined with lower consumer sentiment, a slowdown in the consumer could lead to declining freight demand.

Macroeconomic conditions

The optimistic outlook for business conditions over the next six months returned in October. Two of the large manufacturing surveys conducted by the regional Federal Reserve Banks reported positive m/m growth in the business activity outlook.



(Chart: Regional Federal Reserve Banks, FreightWaves analysis)

Optimism in the New York region continues to decline. The General Business Conditions Index within the Empire State Manufacturing Survey fell by 0.5 points, marking the index's second consecutive decline. The General Business Conditions Index currently sits at 36.4, the lowest level it has been at since October 2020, when it sat at 23.8. Almost 47% of respondents expect conditions to improve over the next six months, down 3.9 percentage points from November's survey.

Within the survey, the freight-intensive index, the Shipments Index, took a small step lower as well. The Shipments Index fell by 0.7 points in December to 31.5. Just over 41% of the respondents expect that the number of shipments will increase over the next six months, down 8.2 percentage points from November. Conversely, the Inventories Index increased in December, jumping 3.8 points to 15.7. Nearly 35% of respondents expect that inventory levels will grow over the next six months.

The optimism in Philadelphia was short-lived. The General Business Activity Index within the Manufacturing Business Outlook Survey, conducted by the Philadelphia Fed, fell by 9.5 m/m to 19. This is the lowest the index has been since February 2016. The pullback, while not the largest of the year, was the first in the fourth quarter. Just 38% of respondents expect conditions to improve over the next six months.

As in New York, business leaders expect the number of shipments to diminish over the next six months. The Shipments Index fell by 7.8 points m/m, down to 32. Even with the pullback in the index, 47.3% of respondents expect the shipment levels to increase. In the special questions aspect of the survey, respondents were asked which factors (supply chain issues, COVID-19 mitigation and labor issues) acted as constraints on capacity utilization in the fourth quarter. Almost 90% stated supply chain issues were a constraint on capacity utilization in the quarter, by far the greatest percentage.

The Dallas Fed releases the Texas Manufacturing Outlook survey during the final week of the month, but business leaders' optimistic outlook continued in November. The Future General Business Activity Index reported in the survey jumped 13.6 points m/m to 28.6. The increase in November was the largest monthly rise since January 2021. About 39% of respondents expect that business conditions will improve over the next six months, an increase of 10.6 percentage points m/m.

The Shipments Index did take a step lower in November, falling 6.2 points m/m to 42.3. Roughly 47% of respondents expect that shipment levels will increase over the next six months. Business leaders in Texas do believe there is going to be a pickup in new orders over the next six months. The New Orders Index increased by 2.1 points m/m. Nearly 46% of respondents expect an uptick in new orders during the first part of 2022.

The November jobs report was underwhelming, especially following the upside surprise in October. Nonfarm payrolls increased by 210,000 jobs in November, more than 50% below expectations of 573,000. The unemployment rate fell to 4.2%, which is a pandemic low, better than the 4.5% expectation. The transportation segment added more than 23% of the total jobs in November, adding 49,700 positions. The truck transportation subsector was a bright spot, adding more than 5,000 positions.

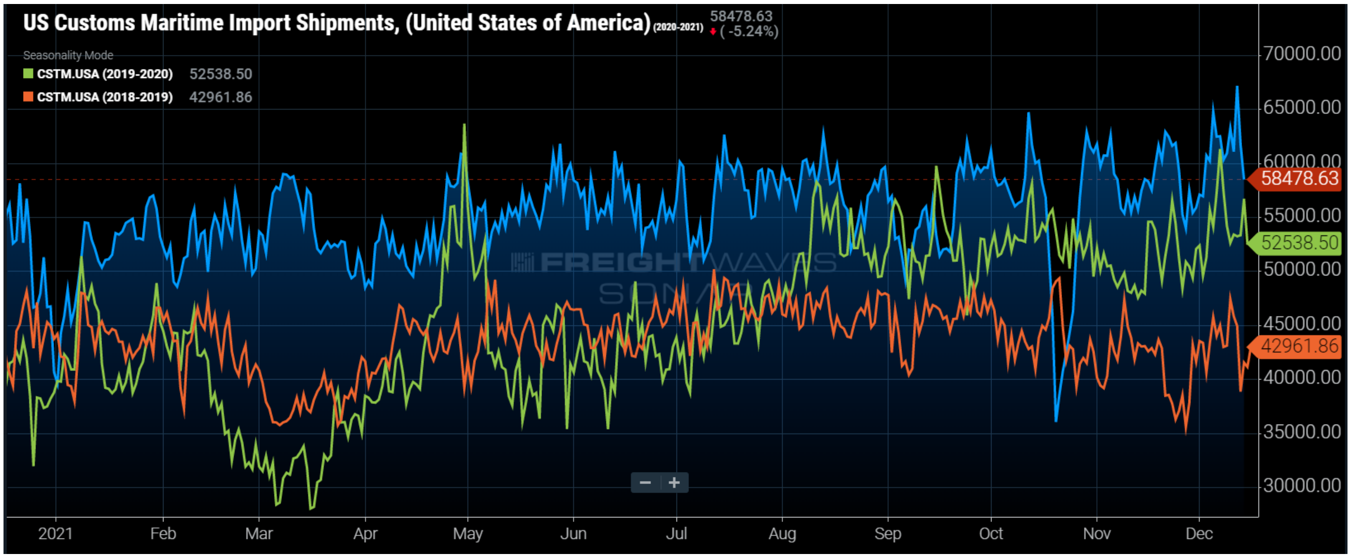
Maritime — Import shipments aren't wavering despite congestion still at the ports

The ocean market has become a talking point for everyone, from those who live and breathe the logistics and transportation space to the casual consumer who has seen the number of supply chain stories on the news skyrocket over the past year.

The congestion and disruption at the two main West Coast ports, Los Angeles and Long Beach, have been the hot topic of the supply chain as delays and the number of containerships anchored offshore mounted.

The important aspect to remember, even with the congestion, is that the ports have faced unprecedented demand for over a year. The ocean market tends to experience peak season earlier than the domestic transportation markets, traditionally peaking in August and bleeding into early September before falling off. In 2021, U.S. Customs Maritime Import Shipments have been at peak-like levels since August 2020, with only a brief fall-off around New Year's Day.

US Customs Maritime Import Shipments hit an all-time high at the beginning of December



(Chart: FreightWaves SONAR. Containerized and noncontainerized import levels experiencing a seasonal uptick. CSTM.USA: 2021 (blue), 2020 (green) and 2019 (orange)

The recent surge in imports is actually pretty seasonal as importers move to get shipments into the country ahead of the Lunar New Year shutdown that occurs in China and other East Asian countries. The difference in 2021 is that imports didn't experience the traditional slowdown that occurs in October and November. This is due to both the backlogs of containerships and depressed inventory levels from unprecedented consumer demand.

Recent import levels were nearly 4% higher than the previous high set in October. Compared to 2020, Customs import shipment levels are up over 11% year-over-year (y/y) and have been holding on to the double-digit increases for the better part of the past year.

Why is the increase y/y so significant?

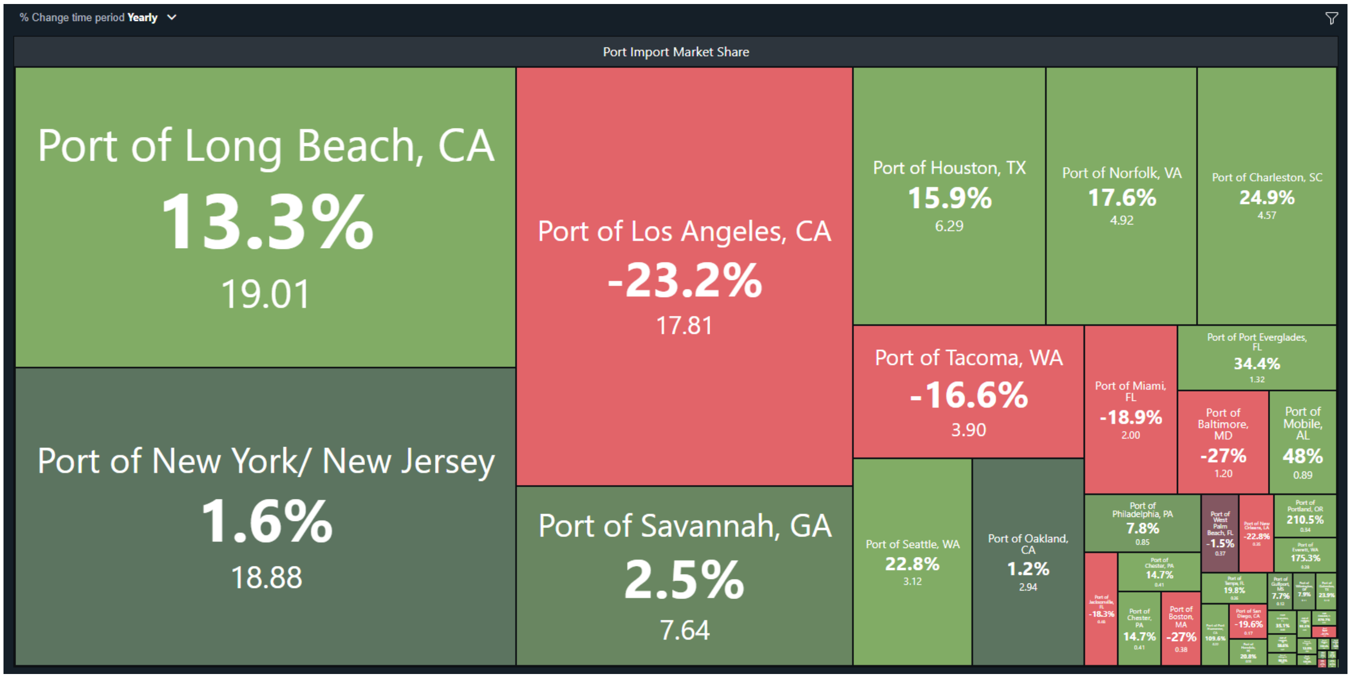
Inventory levels are starting to be replenished, but consumer demand hasn't wavered. Walmart, America's largest retailer, has reported that inventory levels are running up 10% y/y, but it's important to remember that inventory levels in 2020 were essentially wiped out, thus y/y increases haven't returned inventory levels anywhere close to pre-pandemic levels.

On the consumer front, retail sales continue to shine, especially on a y/y basis. Total retail sales in November were up 18.2% y/y, which, granted, includes sales at gasoline stations, which are up 52.3% y/y. Elevated demand for gasoline coupled with elevated gasoline prices led to this strong increase on a y/y basis. Removing both gasoline and motor vehicles (and parts), retail sales are up 16.5% y/y, showing that the consumer hasn't slowed down despite inflation being at the highest level since June 1982.

Which ports have benefited most from congestion at the ports?

It's no secret that the ports of Los Angeles and Long Beach are vital to importing goods into the U.S. More than 36% of total maritime imports flow through these two ports, but with the delays at the ports, other ports have been able to take share in the past year.

More than 63% of imports flow through 4 ports across the country



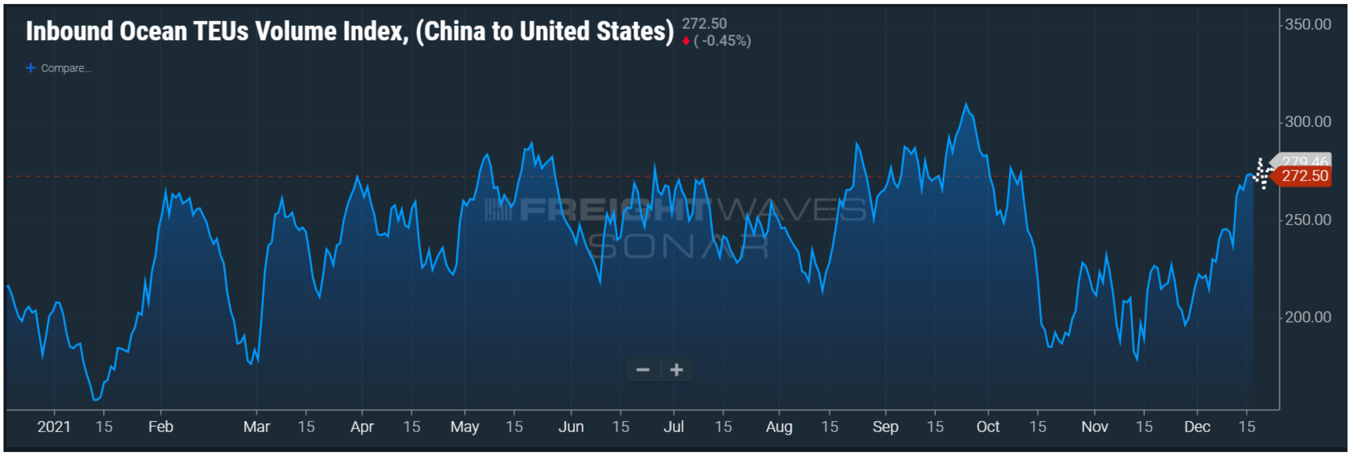
(Chart: FreightWaves SONAR, Port Import Market Share, yearly change)

The treemap above shows the percentage change over the past year of port import market share. The percentage change doesn't represent the true change in market share, because market share is reported as a percentage. For example, the Port of Long Beach didn't grab an additional 13.3% of overall market share in the past year; the port's market share increased by 223 basis points (bps) from 16.78% to 19.01%.

The more important view above is how secondary ports have been able to grow market share over the past year, taking away from the congested ports. Ports like Houston, Seattle, Charleston and Norfolk have all been the beneficiaries of the backlogs at ports like LA/Long Beach, New York/New Jersey and Savannah.

The ocean market is experiencing another uptick in bookings

Ocean demand, which is thought to be a leading indicator of domestic transportation demand, is actually picking up heading into the holidays. The Lunar New Year, which is Feb. 1, 2022, is earlier than it has been in recent years, leading to shippers moving goods out of China and the rest of East Asia earlier than normal.



(Chart: FreightWaves Ocean Markets Dashboard. Imports from China to the U.S.)

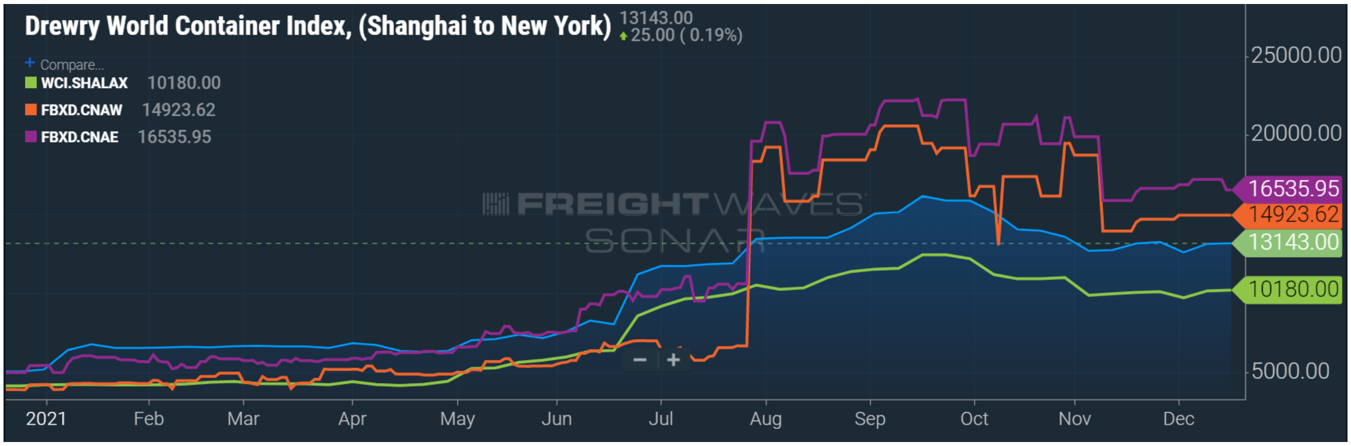
There has been an acceleration in bookings from China to the U.S. over the past month. The Ocean TEU volume index has increased by 30% over the past month. Even the past week has been quite strong for bookings from China to the U.S., increasing 13.7% w/w.

Bookings in China that are destined for the U.S. are expected to decline over the next seven days but remain elevated compared to 2020 levels, which signals that demand hasn't wavered yet.

What to pay attention to moving forward is when bookings in China start to slide because of the Lunar New Year. In the chart above, the Lunar New Year didn't really impact the Ocean TEU Volume Index from China to the U.S. in 2020, but COVID-19 lockdown measures in China essentially dropped the number of ocean bookings to zero in early February. The 2021 Lunar New Year impacts were felt more significantly in booking levels.

Overall, expect that demand will continue to be strong, especially compared to year-ago levels, at least through the Lunar New Year as shippers are moving freight out of the ports in China. The recovery post-Lunar New Year shutdown in China will be more impactful to U.S. freight markets than anything before the shutdown due to the congestion at the ports.

Ocean spot rates are off the highs, but still elevated



(Chart: FreightWaves SONAR, daily container spot rates. Freightos Baltic Daily Index: China to North America East Coast (purple), China to North America West Coast (orange), Drewry World Container Index: Shanghai to New York (blue) and Shanghai to Los Angeles (green))

Unprecedented demand over the past year as well as tight capacity on the ocean has led to an unfathomable surge in ocean spot rates. The dramatic increase in the Freightos Baltic Daily Index lines in the chart above stem from a change in methodology, but overall the story remains the same: Shipping on the ocean via spot rates is prohibitively expensive.

Shipping an FEU from Shanghai to Los Angeles, according to the Drewry World Container Index, costs $10,138, nearly a 150% increase in the rate since the beginning of the year. The increase to ship an FEU from Shanghai to New York isn't quite as high, but the rate has still increased by over 105% in 2021 and reached $16,000 in September.

Both of those rates are off the high, with Shanghai to New York roughly 18% off. The rate from Shanghai to Los Angeles is off its high by roughly the same amount.

The Freightos Baltic Daily Index from China to the North American West Coast is the daily FEU spot rate from a basket of ports in China to a basket of ports on the North American West Coast. Current spot rates from China to the North American West Coast sit at $14,923.62/FEU, a more than 250% increase from the beginning of the year when container rates were below $5,000/FEU.

Shipping to the East Coast is more expensive, as expected, as the Freightos Baltic Daily Index currently sits at $17,194.58/FEU, an increase of 218% YTD.

After the change in methodology to the rates, the Freightos Baltic Daily Index has fallen by 23% from China to the North American East Coast and 27.5% off the high from China to the North American West Coast.

With the market as tight as it is and demand remaining at elevated levels, expect that rates will remain elevated moving forward into 2022.

Rail intermodal: Intermodal peak in December?

Traditional seasonality would suggest that intermodal volumes peak sometime in November. In 2019, domestic loaded intermodal volumes peaked during the back half of October and largely stayed at these levels through the first week of November. In 2020, domestic intermodal volumes peaked right after the Thanksgiving holiday before quickly declining throughout the rest of December. Domestic intermodal volumes have followed a similar trend to that established in 2020; however, volumes haven't fallen nearly as fast. The result? Loaded domestic intermodal volumes are currently running nearly 6% higher y/y.

Domestic intermodal volumes continue to shine in December, remaining above both the October and November averages

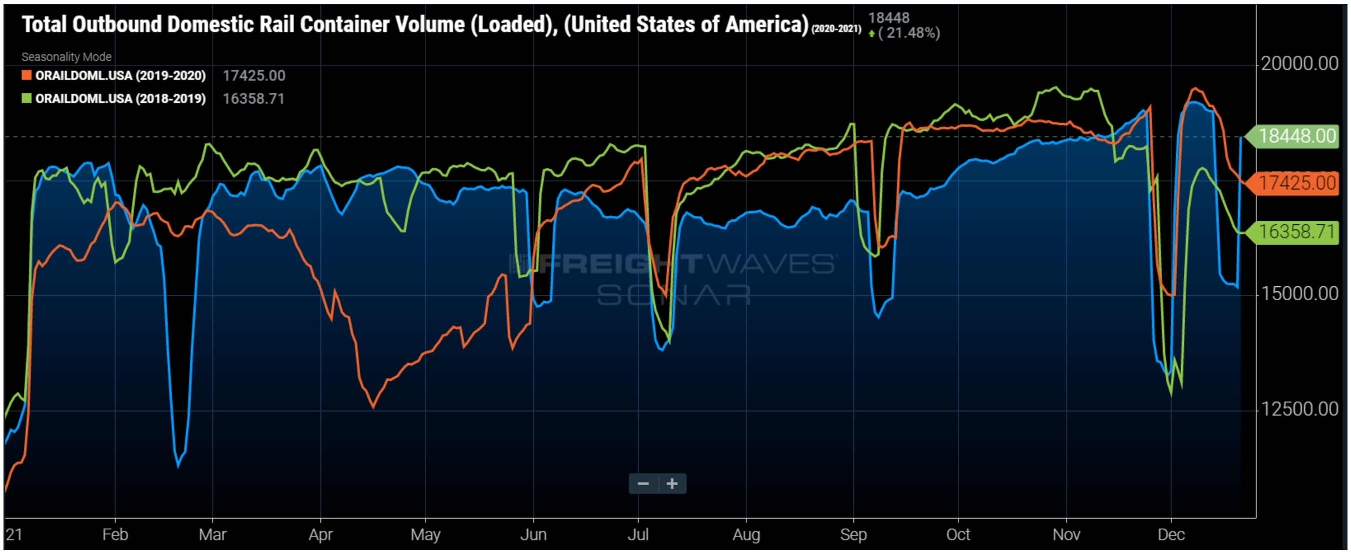


Chart: FreightWaves SONAR. Loaded domestic intermodal volume is shown for 2021 {blue}, 2020 {orange} and 2019 {green}.

Why has domestic intermodal volume risen steadily over the past four months?

To their credit, the Class I railroads and intermodal providers have made efforts to improve network fluidity, and they seem to be working. In third-quarter earnings calls, executives noted that fluidity had improved. In late January and throughout February when fourth-quarter earnings are reported, most indicators signal that network fluidity has continued to improve, despite record demand levels.

As a counterpoint to improved fluidity, the results seem to stem from increased transloading from 40-foot international intermodal containers into 53-foot domestic intermodal containers. The chart below highlights how domestic intermodal volumes, both empty and loaded, have outperformed intermodal volumes over the past three months. Additionally, while domestic intermodal volumes are still elevated y/y, the densest lanes have seen pullbacks in loaded volumes over the past month.

The rise in domestic loaded volume (orange line below) has dramatically outpaced the recent decline in international intermodal volume (blue line below). The decline in international empty volumes (purple line below) has taken the biggest hit, as containership lines have been more reluctant to send 40-foot containers inland. Even with the monthly pullback in domestic intermodal volumes across the densest lanes, domestic intermodal volumes are still well above year-ago levels across many of the lanes (right chart below).

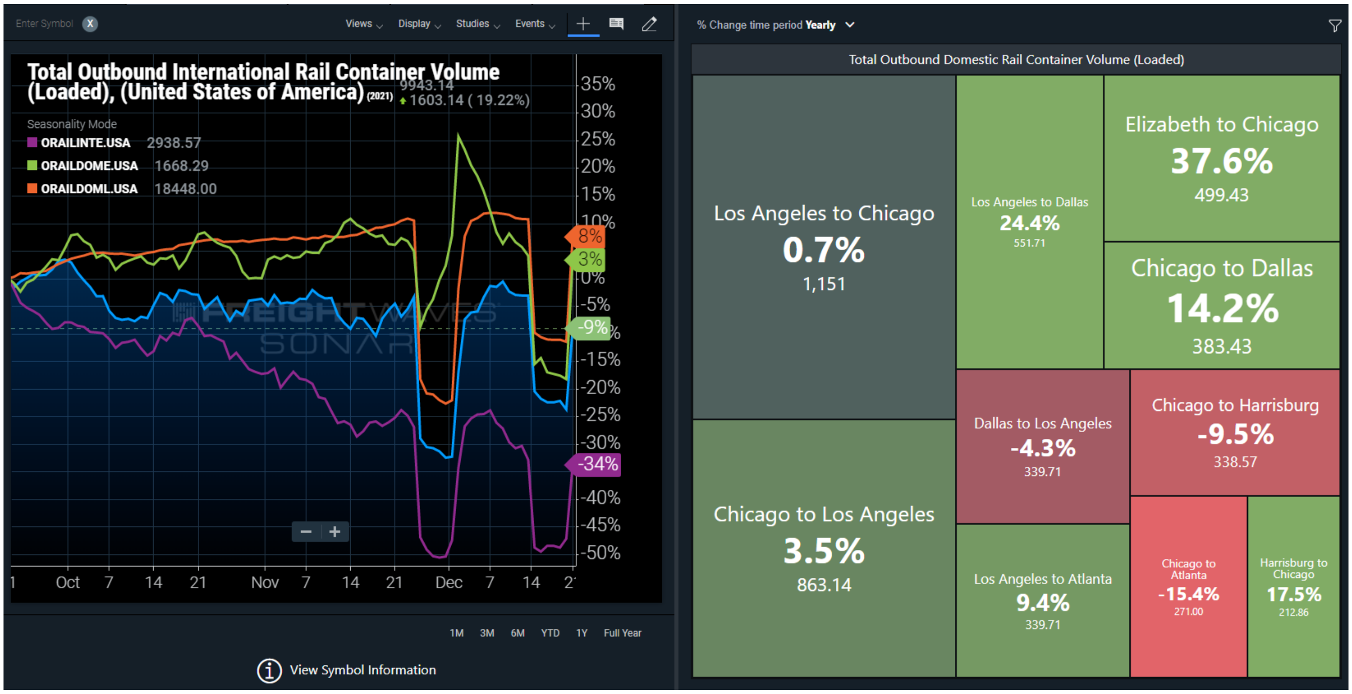


Chart: FreightWaves SONAR. Three-month change in loaded domestic volume (orange), empty domestic volume (green), international loaded volume (blue) and empty international volume (purple) are shown in the left chart above. The chart on the right shows the yearly change in loaded domestic intermodal volume in the densest lanes.

During the fourth quarter, loaded domestic intermodal volume (blue) has risen while loaded international intermodal volume (green) has been relatively flat.

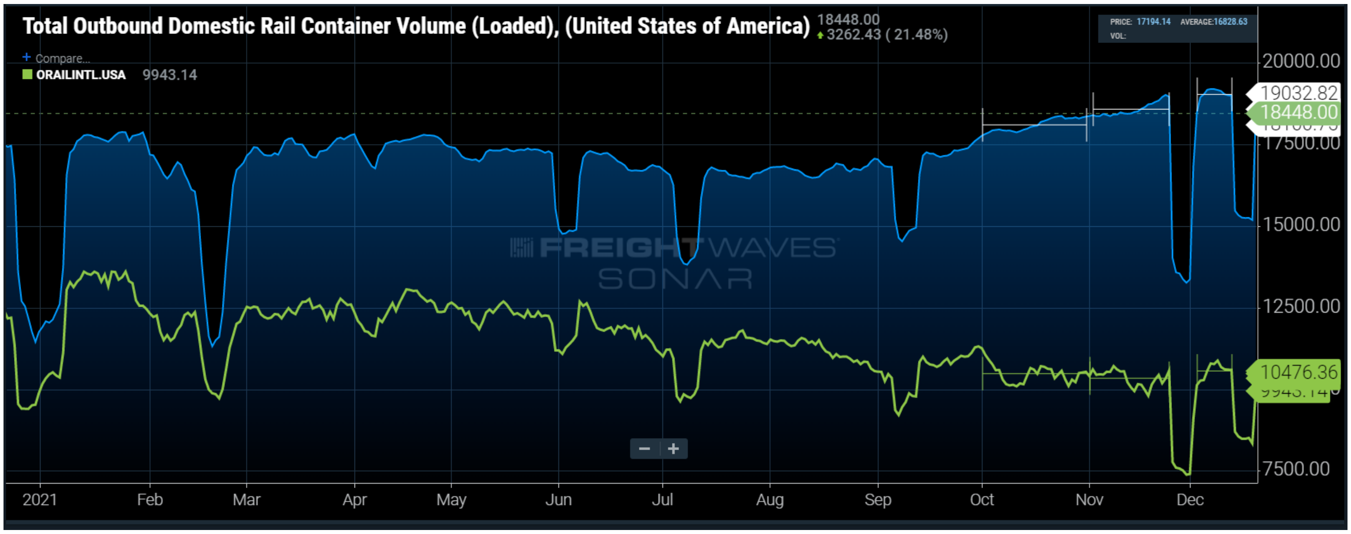


Chart: FreightWaves SONAR. Domestic loaded containerized intermodal volume is shown in blue, and loaded international containerized intermodal volume is shown in green.

Intermodal spot rates are mixed to lower m/m in all of the densest domestic intermodal lanes
That is one indicator that intermodal congestion may be easing some. It's worth pointing out that when looking at the y/y changes in that same data, nearly all lanes are higher. This suggests further contract rate increases are likely forthcoming.

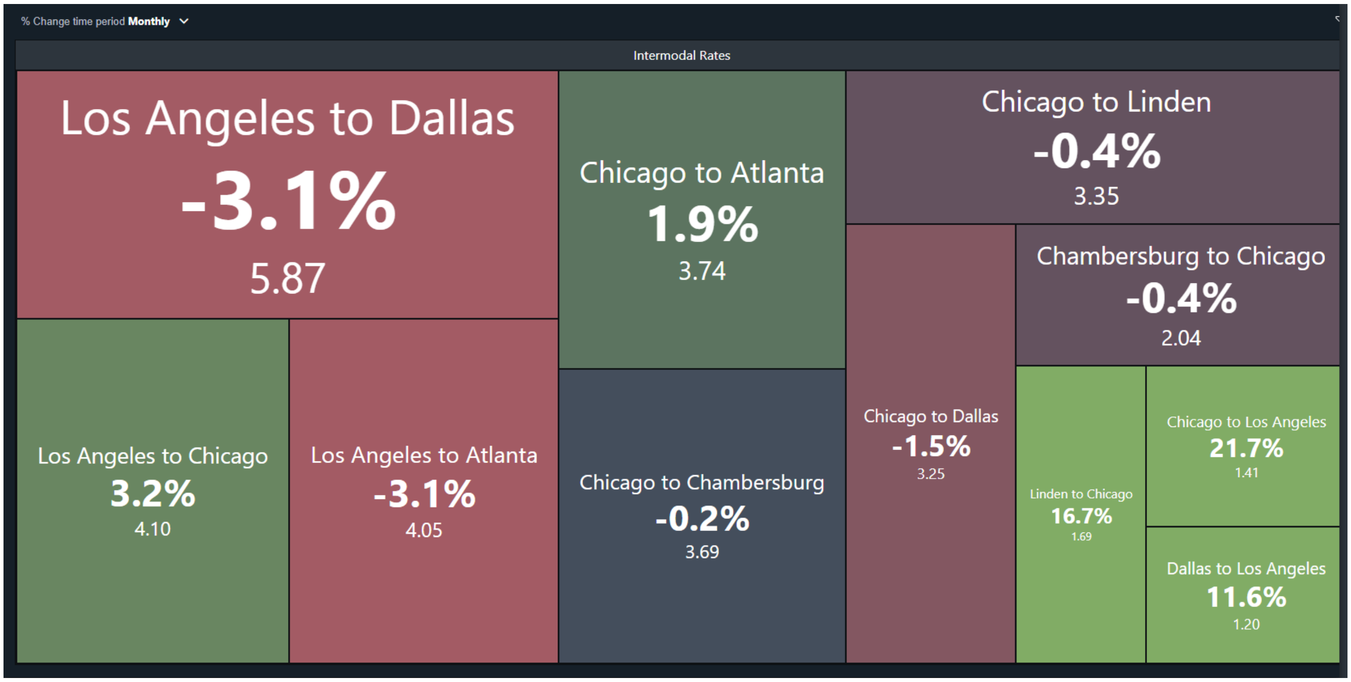


Chart: FreightWaves SONAR. Tree map showing intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective month-over-month changes.

Intermodal contract rates are up over 5% in Q4, with increases likely to continue in Q1 of 2022. In November, intermodal contract rates were 10% higher y/y and essentially flat m/m.

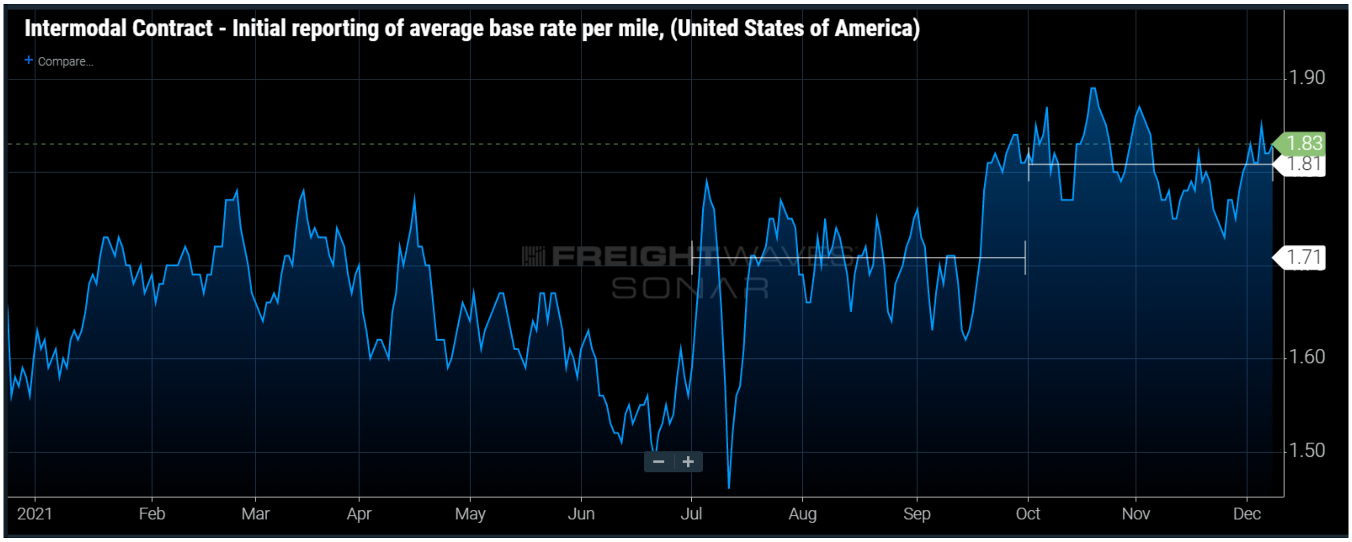


Chart: FreightWaves SONAR. The final reporting of intermodal contract rates, not including fuel surcharges.

What else we're watching

The consumer did show some signs of slowing down in November as advanced retail sales increased by only 0.3% m/m. The result was below expectations of a 0.8% m/m increase and down from the 1.8% m/m increase in October. Even with the slowdown, retail sales continue to outperform year-ago levels, currently running 18.2%.

Now that doesn't tell the entire story, because sales at gasoline stations have surged, up 52.3% y/y, largely due to the increase in prices as reported by the Consumer Price Index (CPI), a measure of inflation. Over the past year, gasoline prices had increased by over 58% as of Dec. 10, 2021, with the release of the November CPI. Removing both motor vehicle sales and gasoline sales, retail sales increased by 0.2% m/m and are up 16.5% y/y.

Clearly, inflation is going to have an impact on the consumer, but the impacts have likely not been truly felt by the consumer. The CPI in November came in at 6.8% for the trailing 12 months, which is the largest 12-month increase since June 1982.

Black Friday and Cyber Monday, which are the two largest retail days of the year, did underwhelm this year. Consumers instead opted to prolong the spending period, starting earlier, as opposed to spending solely around Black Friday and Cyber Monday as in previous years. Ultimately, consumers are still spending at a breakneck pace as Bank of America's total card spending is still up more than 16% on both a y/y basis and two-year time frame. Risks to consumer demand are likely not to be felt until later in 2022.

But it isn't limited to the consumer, as shippers' input costs have risen faster over the past 12 months than consumer prices. The Producer Price Index (PPI) as reported by the BLS, is a measure of shippers' input costs, increased by 0.6% m/m for the third consecutive month. The unadjusted PPI for the trailing 12 months increased by 9.6%, the largest increase since 12-month data was first calculated in 2010.

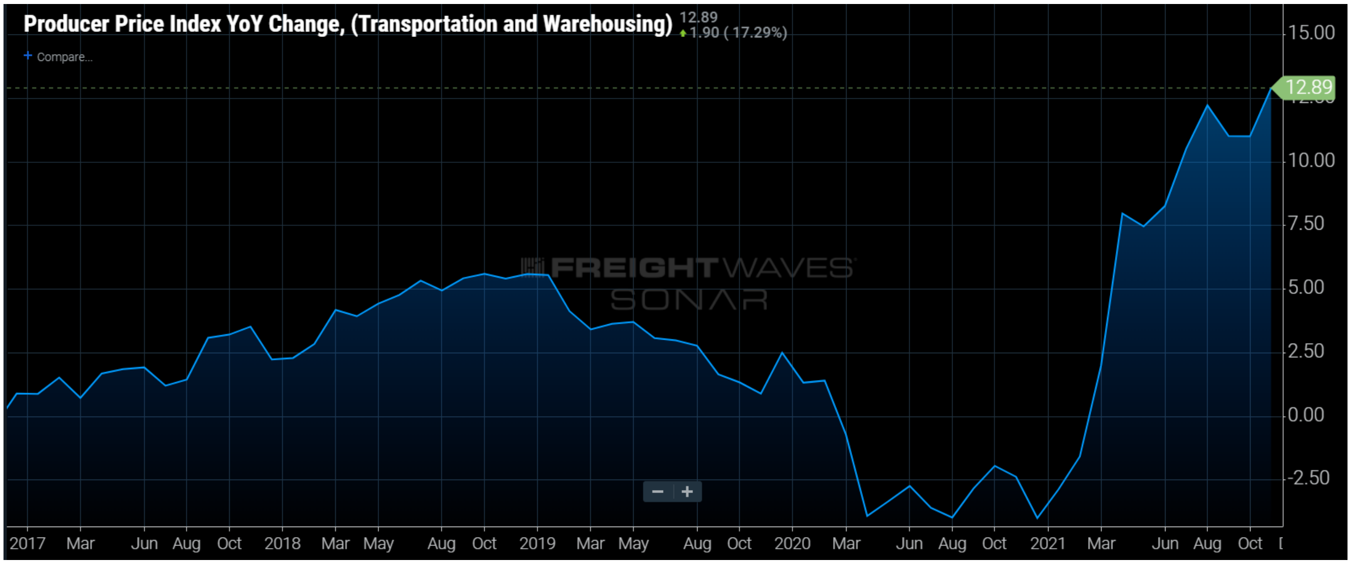


Chart: FreightWaves SONAR, Producer Price Index yearly change for transportation and warehousing

The PPI breaks out input costs based on input, with one of the breakouts being transportation and warehousing costs. Over the past year, the PPI for transportation and warehousing costs has risen by nearly 13%.

The fact that the PPI is rising faster than the CPI suggests that shippers have yet to pass through the entire rising input costs to the consumer. If shippers decide to pass more of the input costs on, the CPI is likely to continue to rise, which could lead to a slowdown in consumer spending, slowing freight demand.

That slowdown is still likely a good ways away, however. Recent reports suggest that based on the new queuing system off the West Coast, there are more than 133 vessels still waiting to berth in either the Port of Los Angeles or Long Beach. Essentially, the queue has been moved from within San Pedro Bay out into the Pacific Ocean.

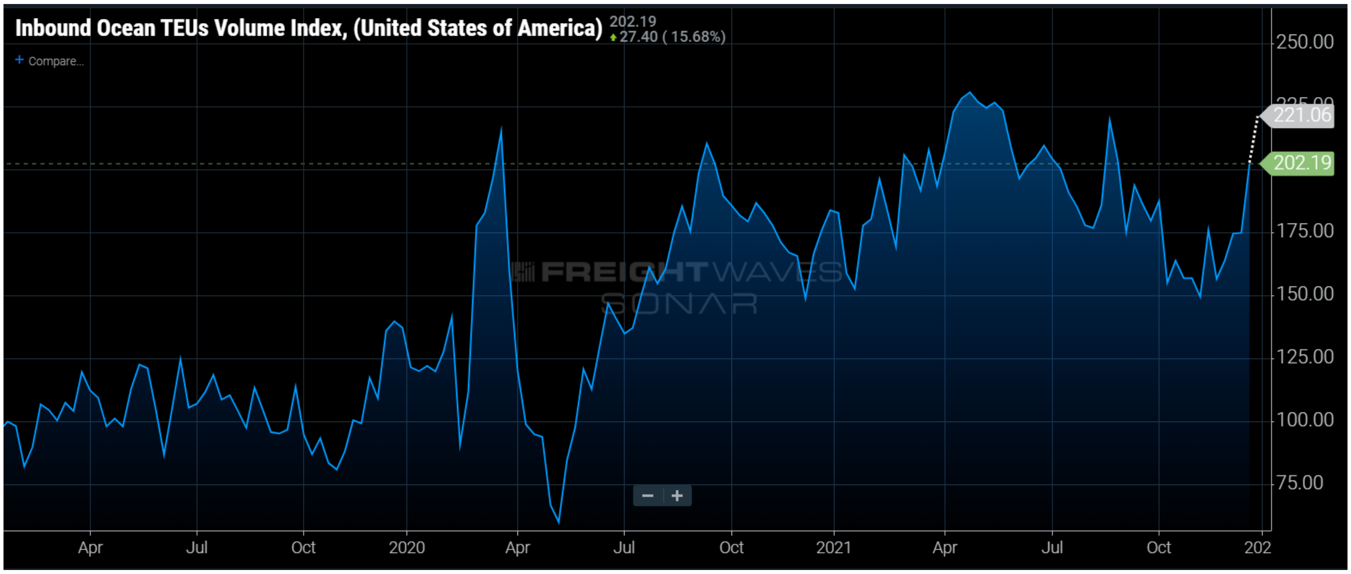


Chart: FreightWaves SONAR, Inbound Ocean TEU Volume Index based on bookings data with the destination of the U.S.

Additionally, bookings destined for U.S. ports are set to reach near-record high levels again, which signals that demand on the ocean is still quite strong. Some of the uptick is likely due to shippers moving goods earlier out of Asia due to an earlier Lunar New Year. Since ocean freight eventually enters the domestic transportation market, the impacts on supply chains are going to be felt well into 2022.

Ultimately, given the congestion that is still rampant across supply chains, the risk of demand falling off, at least in the near term, seems low. As inflationary pressures continue to flow through to the consumer, consumer demand is likely to dissipate. Those effects aren't likely to show up until the intermediate to long term.

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