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SONAR highlight reel: Carriers bring their pricing power into the new year



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WHITE PAPER

SONAR highlight reel: Carriers bring their pricing power into the new year

This "SONAR highlight reel," which we publish every other week, is intended to concisely hit SONAR data highlights and trends in truckload, intermodal and maritime.

The truckload market remains tight to start the year, both due to demand that is running ahead of year-ago levels and due to capacity that has been slow to return to the market following the holidays. In fact, our data shows that accepted tender volume is up 12% y/y. Meanwhile, the nationwide tender rejection rate of 21.16% is down only modestly from this time last year despite contract rates that have increased steadily over the past year. Record dry van spot rates highlight a freight market that has not loosened.

Domestic intermodal contract rates are poised to take another meaningful step up in 2022 on top of double-digit rate increases in 2021. Since intermodal contract rates rose steadily throughout last year, shippers whose annual contracts were last re-priced early in 2021 will see the steepest increases in contract rates. SONAR intermodal contract rate data shows rates up 19% from this time last year. In addition, domestic intermodal spot rates are showing even steeper y/y increases in most of the dense lanes.

Maritime import volume remains robust and it appears that the ports of LA and Long Beach will announce a record December when the data is released. While carriers and container terminals are still working through import backlogs, ocean bookings have surged earlier than usual for the timing of the Lunar New Year which takes place 11 days earlier (February 1) than it did last year. Accordingly, ocean rates are ~15% off their highs, but have stabilized at very elevated levels.

Dry van spot all-in rates per mile[1] (w/w chg.)

LAX-DAL	$3.96 (-$0.05)
CHI-ATL	$4.10 (+$0.06)
PHL-CHI	$2.65 (+$0.10)
ATL-PHL	$3.94 (+$0.09)
DAL-ATL	$2.77 (+$0.04)
DAL-LAX	$1.47 (-$0.03)
National[2]	**$3.81 (+$0.25)**

Freight volume index (weekly change)

Ontario, CA	561.11 (+13.78%)
Atlanta	553.11 (+14.08%)
Dallas	438.8 (+14.8%)
Harrisburg, PA	424.53 (+3.47%)
Los Angeles	348.39 (+17.91%)
Joliet, IL	347.99 (+32.58%)
National	**13,687.06 (+20.66%)**

Tender rejection rates (weekly change)

Ontario	14.92% (-318 bps)
Atlanta	16.34% (-308 bps)
Dallas	16.46% (-290 bps)
Harrisburg	22.2% (-59 bps)
Los Angeles	14.91% (-318 bps)
Joliet	18.2% (+-202 bps)
National	**21.16% (-144 bps)**

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[1] FreightWaves TRAC spot rates
[2] Truckstop.com's national average spot rate

The truckload market starts to erase holiday noise, but carriers still hold pricing power in most of the country

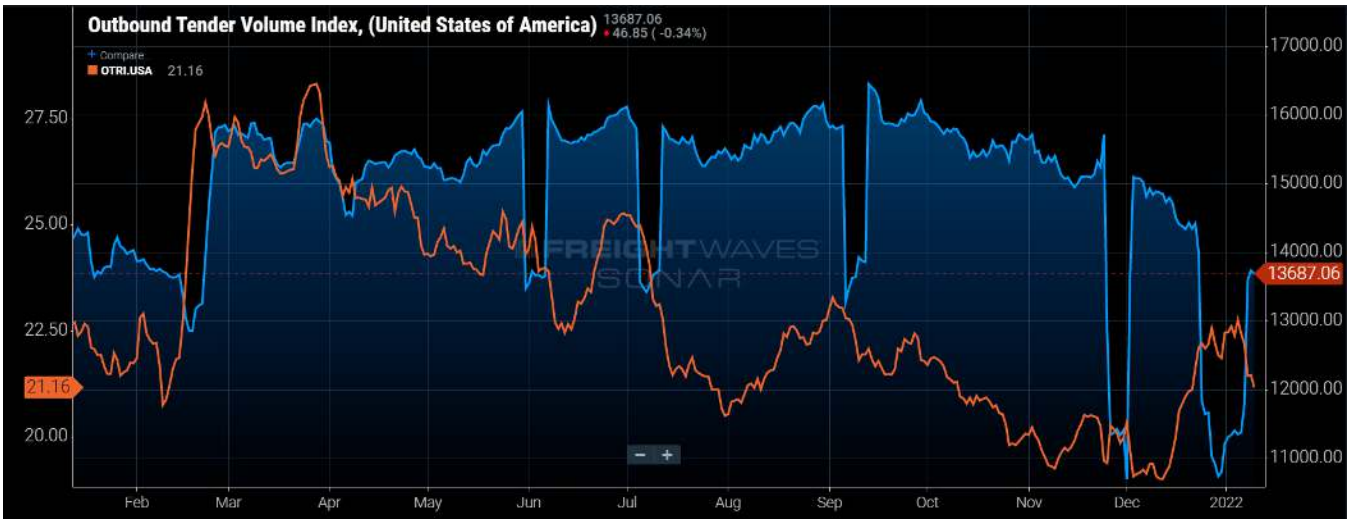


Chart: FreightWaves SONAR. Outbound Tender Volume Index {blue, right axis} and Outbound Tender Reject Index {orange, left axis}

Traditional patterns are taking hold of the Outbound Tender Volume Index (OTVI). The holiday noise created by both Christmas and New Year's is starting to erase itself in a similar fashion to the previous two years, just at elevated levels.

Tender volumes are outperforming 2021 levels by 2.35% year-over-year (y/y), which is a vast improvement from the previous two months when tender volumes underperformed on a y/y basis. Compared to 2020 levels, tender volumes continue to run up by over 40%.

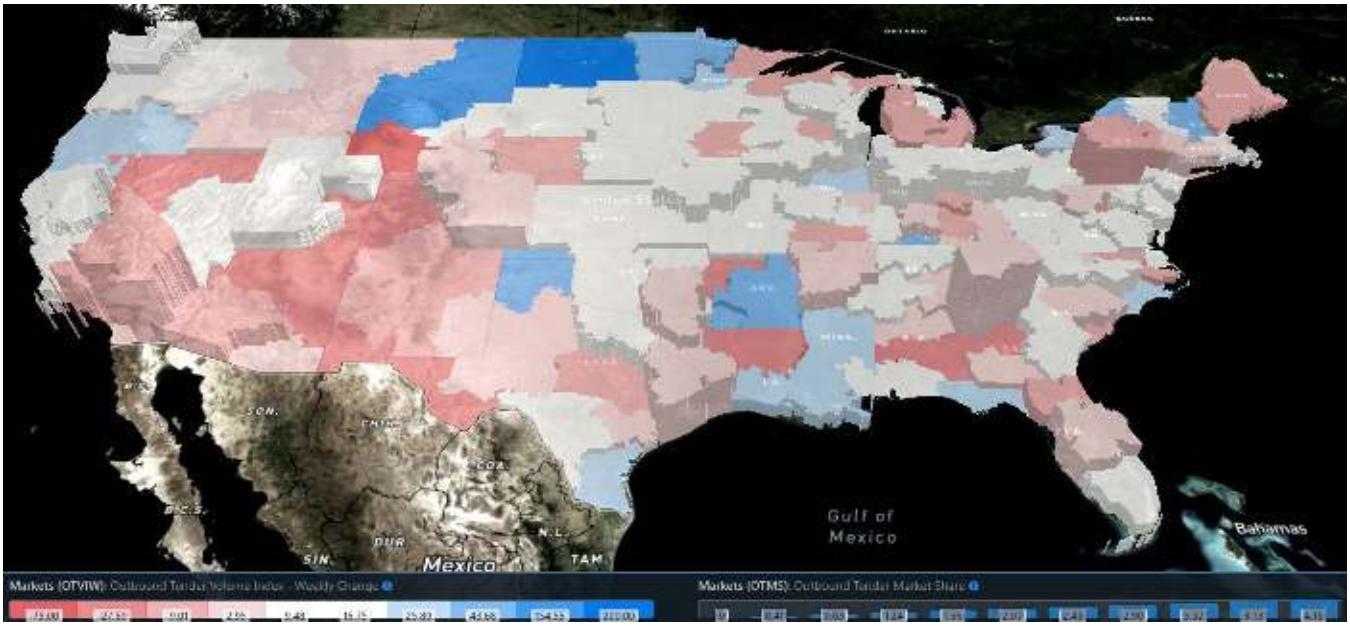
Over the next couple of days, the holiday noise will be completely erased from OTVI, as the seven-day moving average clears the holidays. However, this process is already shining through as OTVI is up over 9% week-over-week (w/w). The comps for the next week will be elevated but should normalize at the beginning of the week of January 17.

Accepted tender volumes, which is OTVI adjusted by the Outbound Tender Reject Index (OTRI), continue to hold their own. Accepted tender volumes are currently running up 12.2% over 2021 levels, the widest non-holiday gap since August. Accepted volumes are running up 8.6% w/w, as rejection rates have stayed elevated into 2022.

Unlike the previous two years, drivers didn't return to the road immediately following Christmas. In both 2020 and 2019, rejection rates rapidly declined immediately following the holiday. Rejection rates are down 144 basis points (bps) over the past week, but much of that decline occurred over the weekend.

Why are rejection rates staying elevated for longer than the two previous years?

In addition to still-elevated freight demand, the answer may be the same as many other industries: drivers are staying home if they have been exposed to COVID. Also, anecdotally we have heard that drivers have used recent per-mile pay increases as an opportunity to work less rather than make more, and therefore, may just be slow to return to work following the holidays.



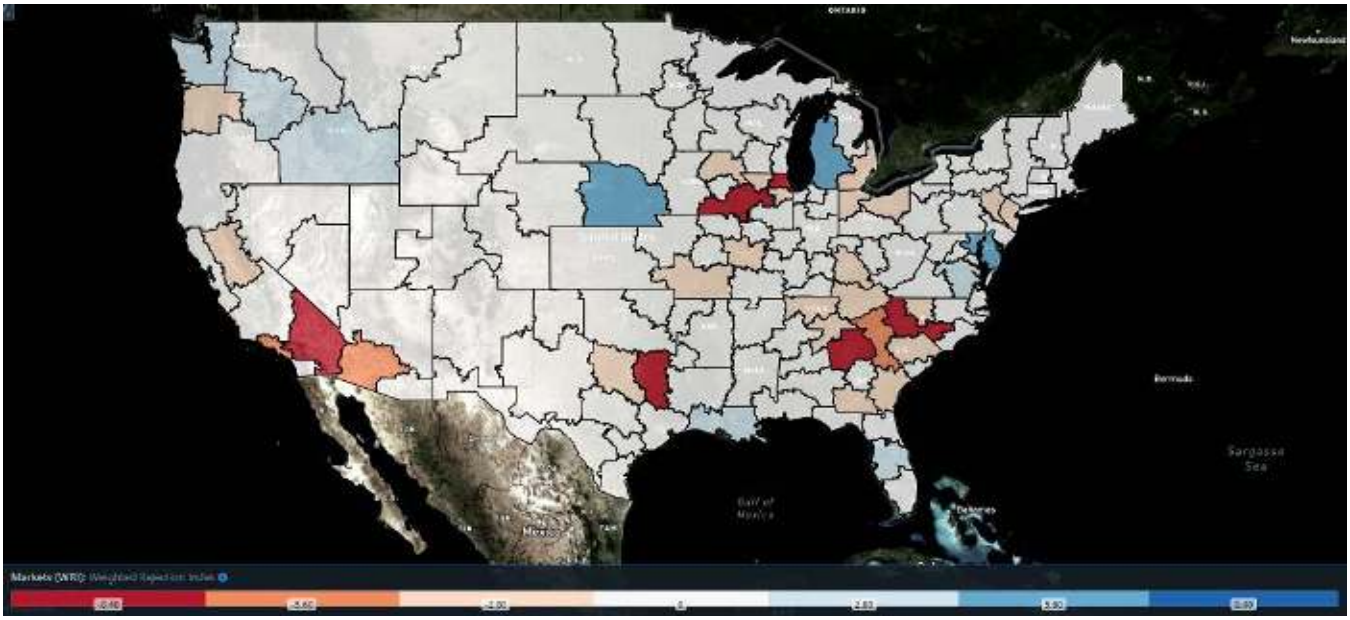
Map: FreightWaves SONAR. Holiday noise skews volumes in most of the country: SONAR: OTVIW (color) and Outbound Tender Market Share (height).

Since OTVI is being affected by holiday noise, over the course of two weeks, looking at OTVIW this week is applicable, whereas next week the comps will be nearly irrelevant. Of the 135 freight markets, 102 experienced upticks in tender volumes over the past week, including the largest two markets in the country.

Ontario, California, the largest market in the country by outbound volume, experienced a tender volume increase of 1.29% w/w. Ontario's neighboring market, Los Angeles, experienced a slight dip in tender volumes, falling 3.22% w/w.

Atlanta, the second-largest market in the country, experienced a tender volume increase of 3.22% w/w.

Expect that tender volumes across the vast majority of the country to be well higher w/w, as the New Year's holiday is fully removed from the index.



Difficult capacity conditions continue to sweep the nation. SONAR: WRI (color)

Of the 135 freight markets in SONAR, 69 saw tender rejection rates move higher this week.

The map above shows the Weighted Rejection Index (WRI), the product of the Outbound Tender Reject Index — Weekly Change and Outbound Tender Market Share, as a way to prioritize rejection rate changes. With capacity tightening around the country, there are a lot of blue markets, which are the markets to focus attention on.

It's no surprise that following a holiday that pulls capacity off the road, the Ontario market is loosening faster than others as carriers are returning to the market. Rejection rates in the Ontario market have fallen by 238 bps over the past week. OTRI in the market currently sits at 15.53%, 176 bps below the year-ago level.

Truckstop.com's national spot rate sets a new all-time high in holiday-impacted weeks. Truckstop.com's spot rates, which are reported every Tuesday, increased by 25 cents per mile to $3.81/mile, which includes fuel and other accessorials. The recent increase means that the national spot rate is 21 cents per mile higher than the previous high set in early September.

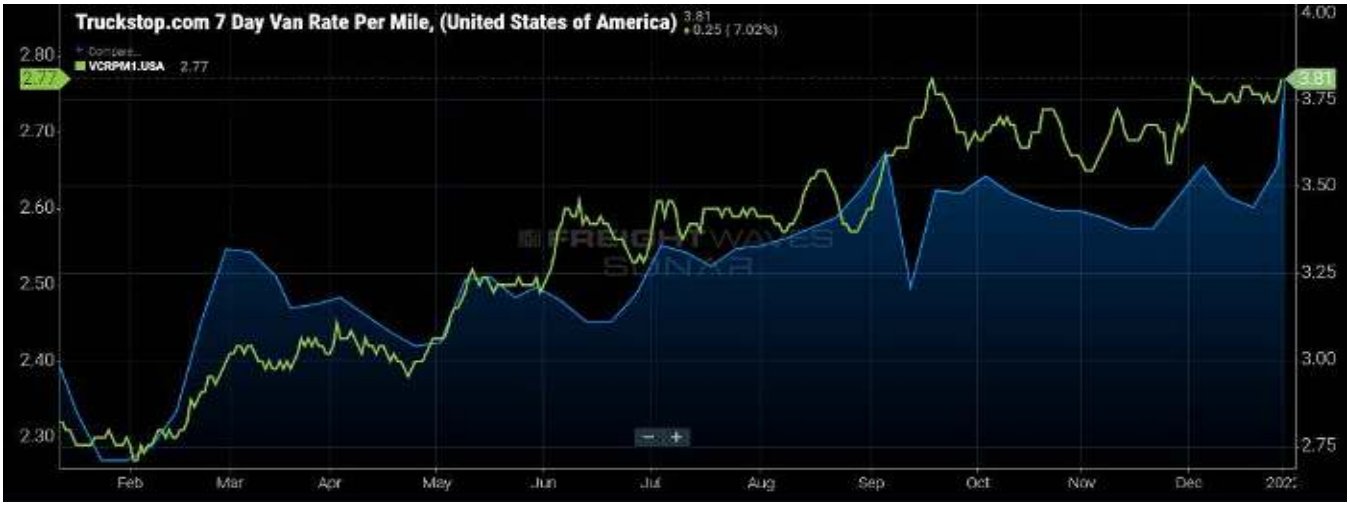


Chart: FreightWaves SONAR: Truckstop.com's national spot rate (blue, right axis, includes fuel surcharges) and dry van contract rate (purple, left axis, excludes fuel surcharges).

Contract rates increased slightly throughout December. The average dry van contract rate increased by 3 cents per mile over the past week, to $2.77. Contract rates are reported on a two-week lag, so the impacts of Christmas are starting to show up, but the overall impacts of the holiday week will continue to show up in the coming weeks.

The significant uptick in spot rates has widened the gap with contract rates. Capacity has returned to the market over the last week, which will remove the upward pressure on spot rates that the holidays placed on them. However, even if spot rates do fall in the coming weeks, the elevated nature of the rates will keep upward pressure on contract rates to be renegotiated higher during the first quarter.

FreightWaves' Trusted Rate Assessment Consortium (TRAC) spot rate from Los Angeles to Dallas fell as expected as relative capacity loosened in both Southern California and Dallas. The FreightWaves TRAC rate in this dense lane fell by 7 cents per mile to $3.96.



Chart: FreightWaves SONAR. FreightWaves TRAC spot rate from Los Angeles to Dallas.

FreightWaves TRAC spot rate from Atlanta to Philadelphia took a significant step higher over the past week. The FreightWaves TRAC rate increased by 9 cents per mile to $3.94 over the past week. Spot rates along this lane set a new three-month high over the past week.



Chart: FreightWaves SONAR. FreightWaves TRAC spot rate from Atlanta to Philadelphia.

Domestic intermodal rates are set to rise further in 2022.

Last year, domestic intermodal contract rates rose double-digits, on average, and the rate increases exceeded most shippers' and analysts' expectations during the year. On the topic of rate increases, 2022 seems poised to pick up where 2021 left off, with further rate increases on top of the steep 2021 rate increases. On that topic, on a recent industry webinar, Hub Group CEO David Yeager said that he expects domestic intermodal contract rates to again increase double digits with the steepest increases coming on annual contracts that were last re-priced in early 2021 (which was still early in the rate increase cycle). On domestic intermodal contracts that were last re-priced in early 2021, Hub Group expects rate increases this year of upwards of 20%. That is roughly consistent with the intermodal contract rate data in SONAR that shows average intermodal contracts before fuel surcharges 19% higher than they were last year at this time. Of course, the increase that shippers will end up paying is more than that once higher fuel surcharges are layered on.

Intermodal contract rates marched higher throughout 2021, setting up further contract rate increases in 2022.

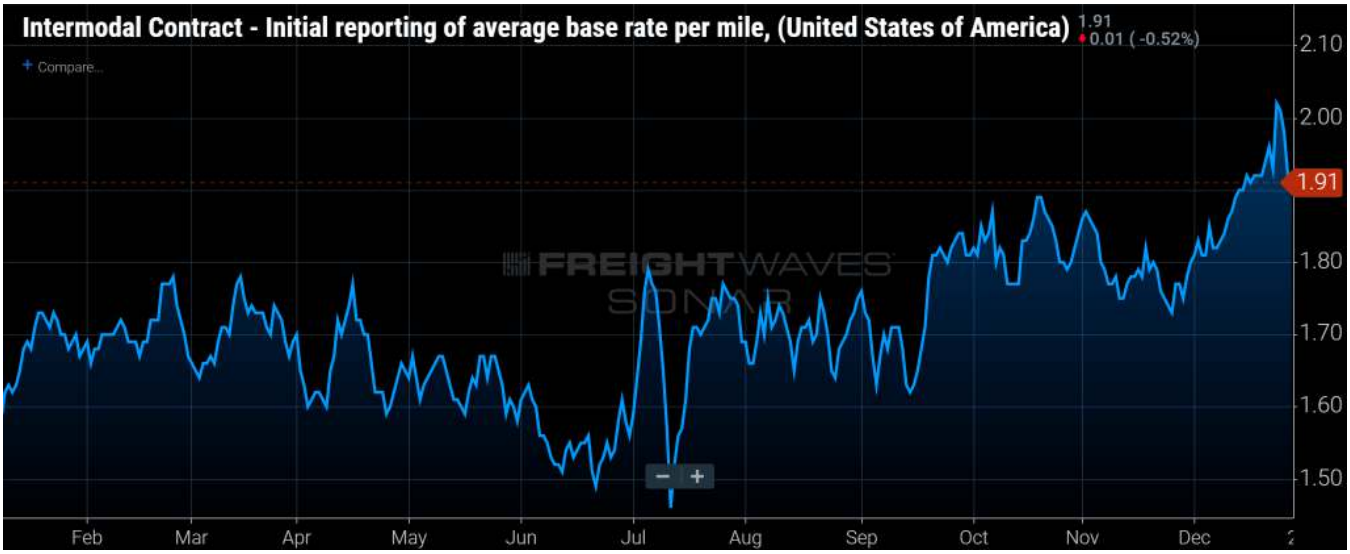


Chart: FreightWaves, SONAR. Intermodal contract rates on a sample of domestic intermodal lanes.

Another way to gauge the relative tightness in intermodal capacity, as it relates to potential changes in contract rates, is comparing the current intermodal spot rates in the major lanes to year-ago levels. While a small minority of intermodal volume moves on spot rates, we believe they are still useful for assessing whether carriers are protecting capacity for contractual shippers and for finding changes in marketplace conditions in the major lanes. In the past year, spot rates are up double-digits in the dense domestic intermodal lanes. The only exceptions are the lanes where rates were already at an elevated level last year at this time.

Intermodal spot rates are sharply higher year-over-year in the major domestic intermodal lanes. The exceptions are the major outbound LA lanes (i.e., LA to Chicago, LA to Dallas and LA to Atlanta), which were already at a highly elevated level at this time last year.



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

Using intermodal spot rates to monitor changes in intermodal market conditions reveals that in the past week, the Class I railroads cut intermodal spot rates in the LA to Chicago, LA to Dallas and LA to Atlanta lanes by 27%, 24% and 21%, respectively. Meanwhile, the intermodal spot rates in the other dense domestic intermodal lanes remained essentially unchanged. We interpret that to mean that carriers are somewhat less concerned with protecting capacity in the LA market for the majority of domestic intermodal shippers that move 53' containers under contracts.

Those rate cuts may prove to be only temporary (as were similar cuts in early December in the LA to Chicago and LA to Atlanta lanes), reflecting the current seasonally weak volume. The intermodal spot rate in the LA to Dallas lane is at its lowest level since early August 2021; even if it remains at the elevated level of $4.47/mile, including fuel surcharges – it is still above the dry van spot rate of $3.98/mile (using the SONAR Market Dashboard tool). Therefore, the intermodal spot rate cut in the LA to Dallas lane will have little practical impact on spot shippers; it is likely they will instead opt for the highway even with the rate cut. However, intermodal spot rates in the LA to Chicago and LA to Atlanta lanes are now 20% and 10% below the dry van rates in the same lanes, respectively.

Carriers cut domestic intermodal spot rates in the outbound LA lanes in the past week.



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

U.S. import demand remains strong, while congestion keeps upward pressure on spot rates.

The ocean market has been the talk of the town as congestion at the ports has garnered national attention. The ports of Los Angeles and Long Beach are set to break cargo records when December TEU volume numbers are released later this week.

Even as the calendar turns to a new year, the pressure at the ports is still prevalent, with no true signs of slowing down. The Inbound Ocean TEU Volume Index (IOTI), which measures ocean bookings from various destinations to the U.S., experienced steady increases throughout December. This signals that ocean demand is still quite strong.

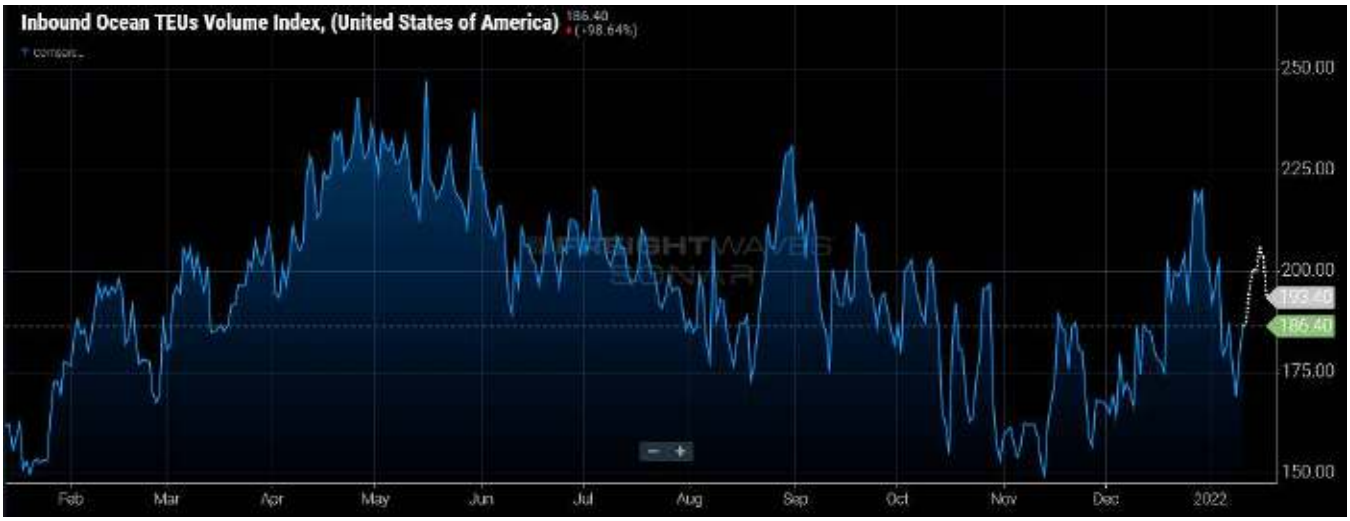


Chart: FreightWaves SONAR. Inbound Ocean TEU Volume Index reached levels not experienced since September. We are likely to see another uptick over the next week.

IOTI also forecasts bookings for the next 7 days, which are expected to experience another slight uptick. The Lunar New Year falls earlier this year than in 2021; therefore, shippers are moving goods out of Asia earlier than in previous years, which is likely the root cause of the uptick experienced over the past month.

Even though new ocean bookings were depressed in November, import shipments that cleared through U.S. Customs and Border Patrol at U.S. ports set record highs in December. Throughout the month, import shipments maintained a nearly 10% gap with 2020 levels. With the recent upticks in bookings, coupled with already elevated import shipments, the difficulties on the ocean haven't dissipated; if anything they have intensified.

Inventory levels are being rebuilt and consumer sentiment remains lower, which signals that demand for ocean shipment could slow at some point in 2022. But with the backlogs that are still being worked through and the added pressure from new bookings, the ocean market isn't likely to cool off too much, especially in the first half of the year.

Increased ocean demand has allowed a majority of the ports in the country to experience upticks in volumes flowing through.

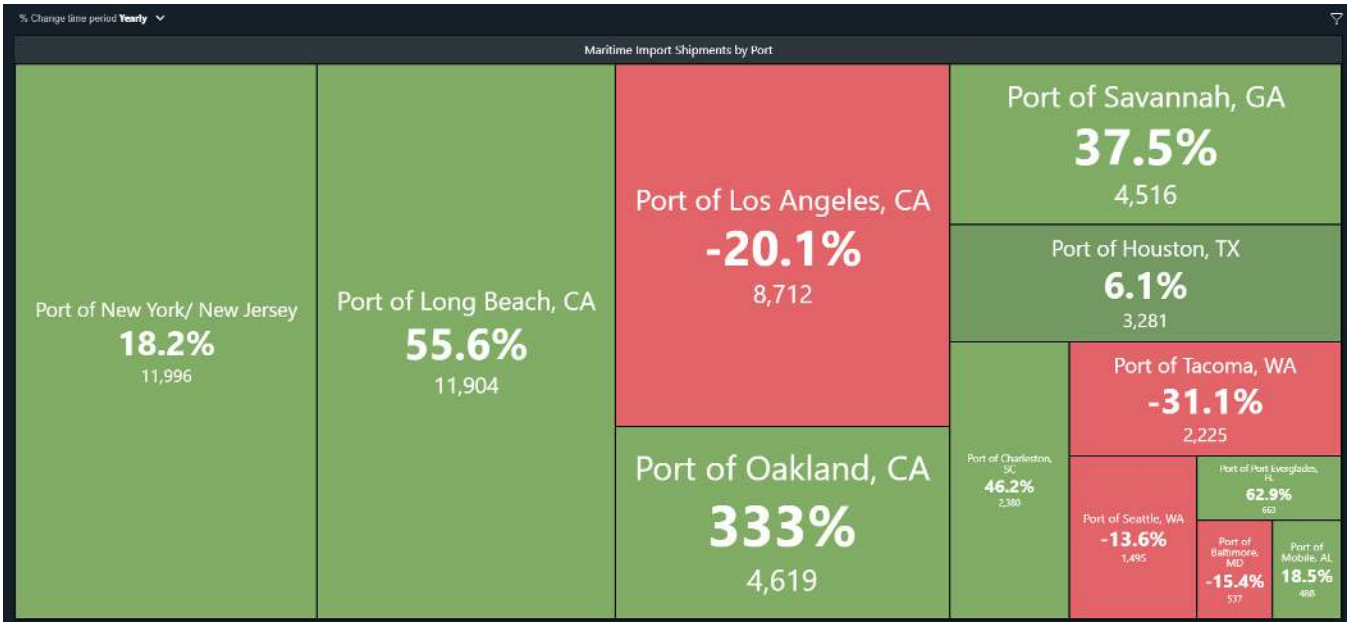


Chart: FreightWaves SONAR. Maritime import shipments by port, with percentages calculated from the previous year comparisons

Obviously, the congestion at the ports of Los Angeles and Long Beach is causing wait times to increase dramatically (more than double the normal transit time). The congestion has allowed other ports to benefit with more volume flowing through, especially ports like Oakland, which has experienced a 333% increase in import volume y/y as well as East Coast ports like Savannah, Charleston and New York/New Jersey, which are all up double-digits over the past year.

What will be interesting over the next few months, as the time sensitivity around the holiday season becomes less important, do shippers continue to move goods through other ports?

The shift to other ports has associated costs, whether those are tangible costs like elevated container rates or intangible costs including longer transit times. These factors will be telling over the next six to 12 months, but with the backlogs still at the Southern California ports, it's likely that the secondary/auxiliary ports will continue to see elevated volume throughput.

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Ocean container rates are off the highs set in September but have been trending higher throughout the past month.

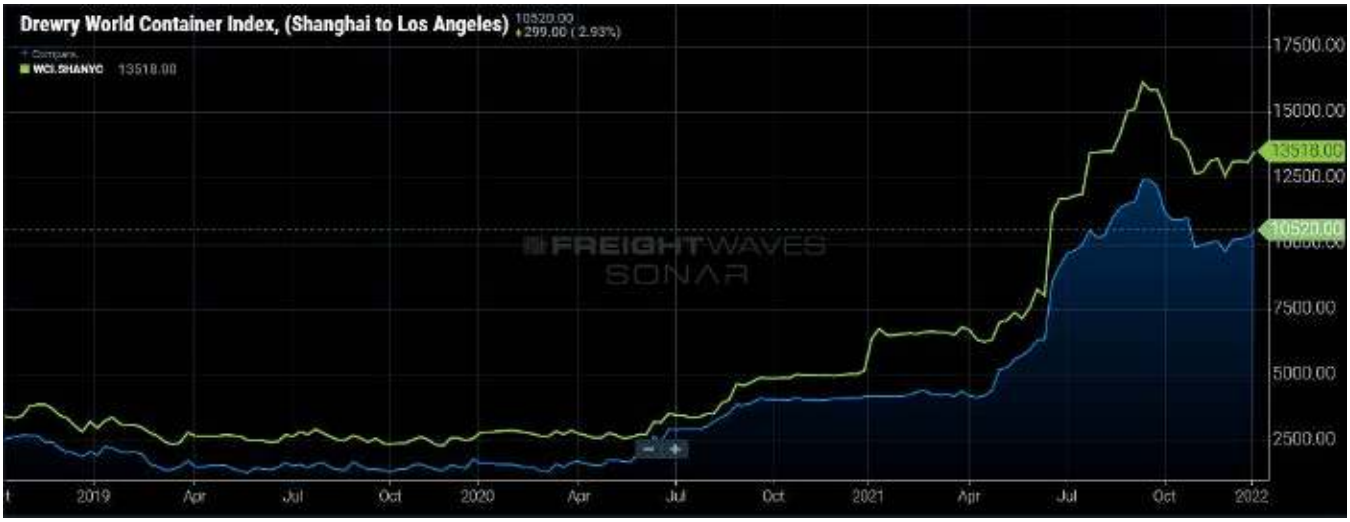

Chart: FreightWaves SONAR. Drewry World Container Index – Shanghai to New York assessment {blue} compared to the Shanghai to Los Angeles index {green}

Despite a slowdown in new bookings throughout December, shippers haven't seen any relief in ocean rates. Spot rates per 40' container, according to the Drewry World Container Index, have steadily increased since the beginning of November, signaling that securing necessary ocean capacity is still quite difficult. The index's Shanghai to New York assessment has ticked back up to $13,518/FEU, a 3.4% increase from the previous week and now up 162% y/y. The Shanghai to Los Angeles assessment is back above $10,000 ($10,520/FEU), a 2.9% w/w increase, putting the index up 151% y/y. Even with stabilizing levels of U.S. imports, clogged ports continue to plague available vessel capacity, mitigating any form of rate relief for heavily impacted spot shippers.

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