October 18, 2021 | 1:15 PM ET

Peak Season Forecast: Another truckload capacity crunch

In this report, we discuss our outlook for the fall peak season for rail intermodal (p. 2-5), maritime (p. 5-8) and truckload (p. 8-11).

Intermodal volume typically peaks in October and subsequently declines in November and December. That seems unlikely this year in light of the robust demand and the potential for some actions taken by the railroads (such as reopening terminals) and intermodal companies (such as adding containers) to partially alleviate congestion and equipment shortages. Therefore, the intermodal volume trajectory in the fourth quarter may more closely resemble 2020 (rising in November and December) rather than 2018-2019 (declining in November and December from October levels). Another peak season in which intermodal demand exceeds supply would likely presage further contract rate increases in 2022. The biggest risk to that intermodal volume outlook is that shippers could get even more fed up with intermodal service levels and move more freight on the highway to get imported consumer goods to stores in time for holiday shopping. Also, a blizzard in Chicago would not enhance intermodal network efficiency.

The maritime industry has been in peak season mode since the middle of last year and import volumes have been consistently higher year-over-year. Goods for the holiday shopping season are largely already stateside, which has led to a decline in our forward-looking ocean bookings data. But, low retail inventory levels are likely to keep import volumes elevated as shippers seek to accelerate early 2022 imports to avoid any disruption associated with Chinese New Year. A risk to that outlook is the potential for the Asian energy crisis to disrupt manufacturing capacity.

The truckload peak season starts later than the other modes and the recent decline in demand (from a very high level) at the beginning of the fourth quarter is seasonally typical. While declining tender rejection rates might seem encouraging to shippers, that is largely due to contract rates that were renegotiated sharply higher and the explosion in the spot market (both volume and rates). Both factors highlight the very tight capacity environment heading into peak season, which will likely get even tighter during the next two months. As retailers stock shelves, shippers that experience carrier compliance issues will likely have to pay exorbitant spot rates, which are already ~20% higher than year-ago levels. The still-constrained intermodal networks could force some time-sensitive loads to the highway. A risk to that outlook is that the supply chain-related goods shortages lead to a surge in the giving of gift cards in place of tangible goods.

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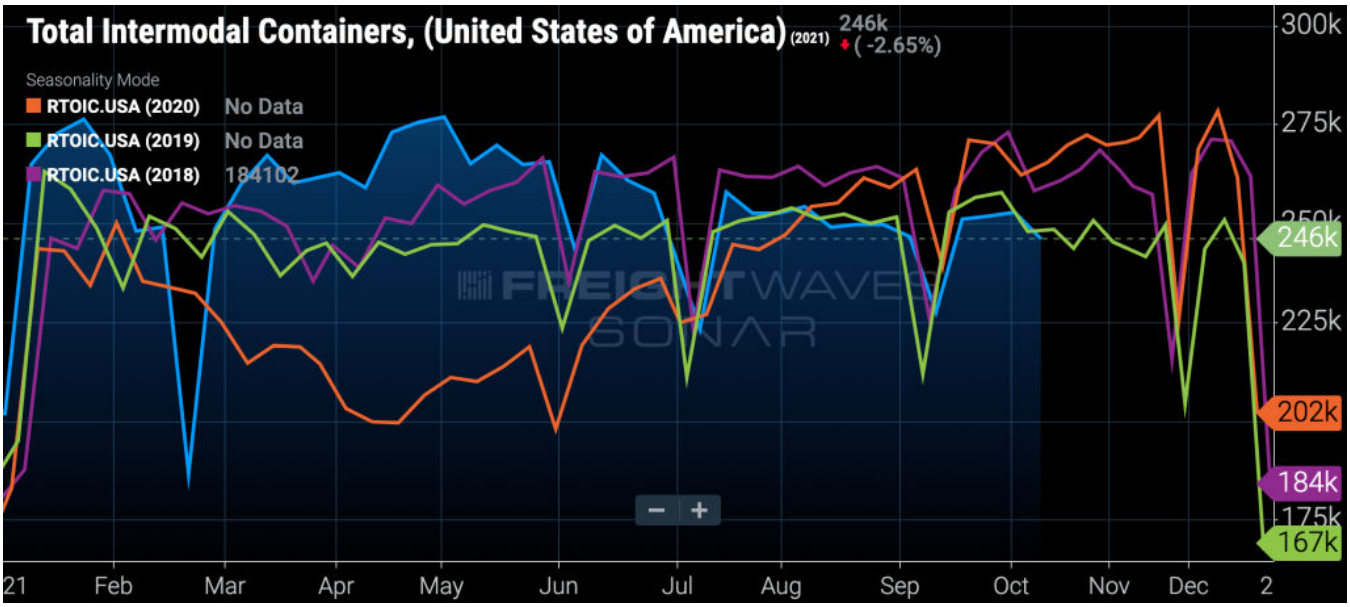
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Intermodal volume may not peak in October, as it typically does.

As of the date of this publication in mid-October, it is normally too late to make a peak season forecast for intermodal since October is normally the month with the greatest intermodal volume. Normally, intermodal volume builds throughout the summer and early fall, comes to a peak in October (before the truckload volume peak) and tails off sometime later in the fourth quarter. That was the case for both 2018 (a strong freight year – shown in purple line below) and 2019 (a much weaker freight year – shown in green line below). Like it was in many other ways, 2020 was different (shown in orange line below) – intermodal volume reached levels in November and December (and even January 2021) that exceeded October levels.

Intermodal volume typically peaks in October; 2020 was an exception.



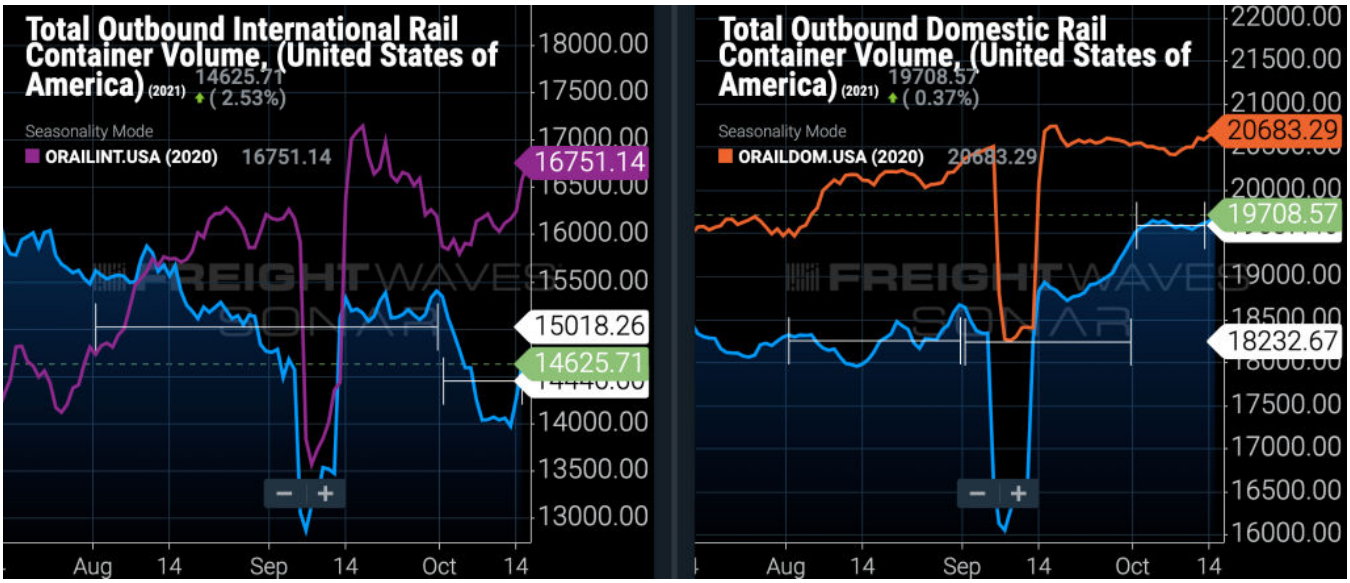
(Chart:FreightWaves SONAR. Total U.S. containerized intermodal volume YTD {Blue} compared to the previous three full years)

The chart above also shows that since late June, total containerized U.S. intermodal volume has been tracking roughly in line with 2019 levels and was down 7.2% from 2020 levels in the most recent week. 2019 is generally thought of as a weak year for freight demand which, of course, is not the case in 2021 – there is plenty of freight demand currently. The reasons 2021 intermodal volume looks more like 2019 rather than 2018 or 2020 are the numerous issues related to congestion and equipment shortages. Specific factors constraining intermodal demand have included shortages of chassis, shortages of international and domestic containers, shortages of drayage capacity, congestion at intermodal terminals and an associated lack of nearby warehousing space, and congestion at/near ports, which has caused containers to sit longer at/near ports.

After first looking at overall intermodal volume, it is also important to understand the differing volume dynamics between international intermodal (primarily consisting of 40' containers) and domestic intermodal (primarily consisting of 53' containers). In recent weeks, international intermodal volume and domestic intermodal volume have moved in opposite directions. Domestic intermodal volume to-date in October has risen 7.5% from August-September levels, while international intermodal volume has fallen 3.5% from the August-September average. Combining

that to the comment earlier about October being the typical peak, only the domestic segment is rising seasonally, as intermodal volume typically does.

In recent weeks, domestic intermodal volume has risen while international intermodal volume has declined. The divergence is being driven by more transloading of 40' international containers into 53' containers and (perhaps) a partial alleviation in some of the constraints impairing domestic intermodal capacity.



(Chart:FreightWaves SONAR. Total U.S. international intermodal volume YTD {Blue} compared to the previous year on the left. Total U.S. domestic containerized intermodal volume YTD {Blue} compared to the previous year on the right.)

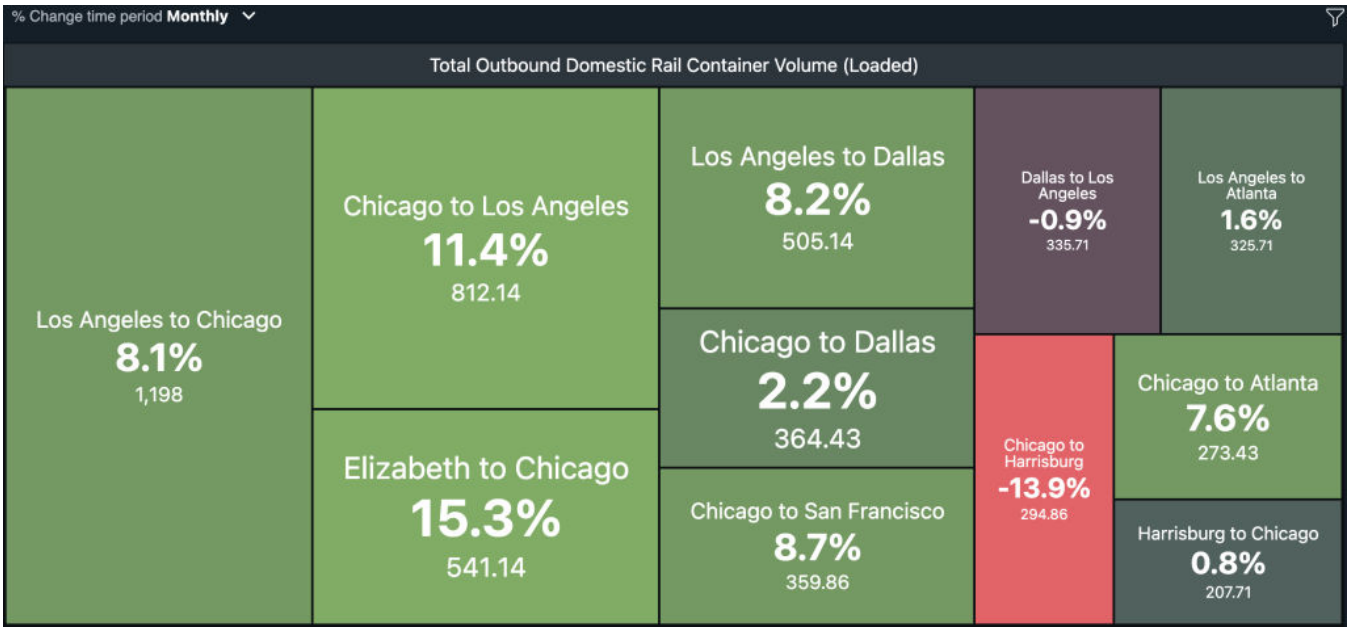
Amid ample domestic intermodal demand, the rising domestic intermodal volume could be explained by more transloading of 40' containers into 53' containers or evidence of a partial alleviation of some of the capacity constraints that have plagued intermodal volume. We believe it is a combination of both of those factors.

Clearly, container ship lines have become increasingly reluctant to send international containers inland amid a global container shortage and it follows that that is even more true since the intensifying congestion at/near the ports is exacerbating that shortage (we have seen estimates that shipping delays at ports have effectively removed 5%-10% of ocean shipping capacity).

In addition, we believe there are reasons to believe that domestic intermodal congestion, while still severe, may be lessening to some degree. Among the factors leading to this conclusion are: multiple railroads have reopened intermodal facilities; Norfolk Southern is essentially finished with its program to repair chassis that had a manufacturing defect; multiple railroads have found additional warehousing space near intermodal terminals; domestic intermodal companies have taken delivery of additional containers; Union Pacific is leveraging its Loup Logistics subsidiary to gain access to additional drayage capacity; and some Class I railroads have indicated that they are going to be less aggressive in charging shippers for detention and demurrage, a factor that has discouraged some domestic shippers from using rail intermodal.

October 18, 2021 | 1:15 PM ET

The month-over-month growth in domestic intermodal volume has been widespread and not entirely a result of more transloading. The densest 11 domestic intermodal lanes are shown below.



(Chart:FreightWaves SONAR. Average daily domestic intermodal volume in the past week in the major lanes and their respectively month-over-month changes.)

What does that mean for the remainder of the intermodal peak season?

Since intermodal volume has been constrained in recent months by congestion rather than by demand, **we believe that it is unlikely that intermodal volume will decline in November-December from October levels, as it typically does as long as congestion does not worsen**. In fact, **intermodal volume may rise in the coming months if some of the recent actions taken by the railroads and domestic intermodal companies (such as reopening intermodal terminals and other actions listed above) have a meaningful impact on partially alleviating congestion**. Therefore, while we believe that intermodal volume will remain negative year-over-year for the remainder of the year against difficult year-ago comparisons and amid lingering congestion issues, the trajectory of intermodal volume is more likely to resemble 2020 (rising in November, December and January from October levels) rather than 2018 or 2019 (peaking in October and falling in the following months). We expect intermodal capacity to remain tight throughout the peak season, which will likely set up another round of increases in domestic intermodal contract rates in 2022 (though they may not rise double-digits, as they did this year).

What are the biggest risks to that intermodal outlook?

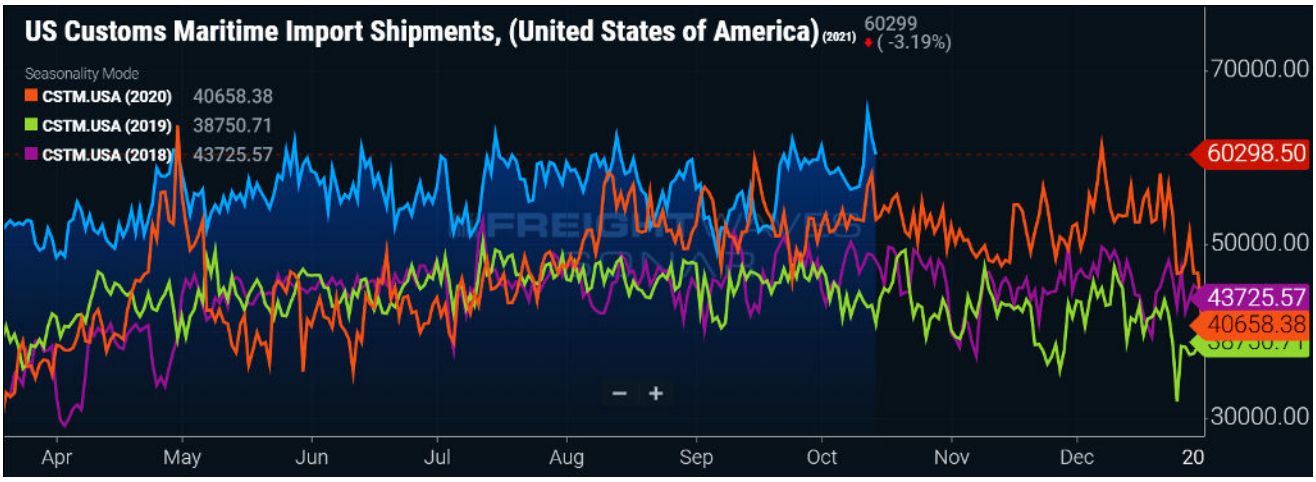
The biggests risk to the downside from our outlook (i.e., that intermodal volume could decline meaningfully in November and December from early October levels) is that shippers could get even more fed up with intermodal service levels and ship more goods via truckload that would have otherwise moved via rail intermodal. That's likely to be necessary to get many consumer goods onto shelves in time for holiday shopping season (given the difficulty that shippers have had securing ocean capacity and the large number of days that containers are sitting at ports and in terminals). Both SONAR data and anecdotes from our clients in the shipper community suggest that truckload has taken share from intermodal this year and it's possible that trend could accelerate as the holiday season approaches. Another downside risk is that Chicago could get hit with an early major snowstorm or polar vortex – that would harm intermodal service levels and/or volume.

Conversely, the biggest risk to the upside (i.e., that intermodal volume in late 2021 could actually exceed robust 2020 levels) could be the potential for the recent actions taken by the railroads and domestic intermodal companies to have a greater positive impact on congestion than we are anticipating. In addition, a potential slowdown in imports as a result of the Asian energy crisis, while a negative for freight demand overall, could give the intermodal networks the breather they need to improve fluidity levels. The lack of any lull in import volume has been a major reason why intermodal networks became so congested.

Robust U.S. import demand will continue to translate into tight domestic freight markets

It has been said that peak season in the maritime industry kicks off when demand greatly exceeds supply and there is a bottleneck somewhere in the supply chain. If we adhere to that definition, peak season has been underway since the middle of last year, when demand for goods shot up in the face of changing consumer spending habits (orange line below). Under what we would consider normal conditions, peak shipping season on the ocean will typically take place between August and October.

It is during this time that many shippers begin moving cargo stateside to support their back-to-school, fall fashion and seasonal inventory levels. It was during 2018 (purple line below) and 2019 (green line below) that most import shipments built up to their peak in late September to early October, differing strongly from 2020 (orange line), when the resurgence of demand brought volumes to their peaks in early September and again in early December.



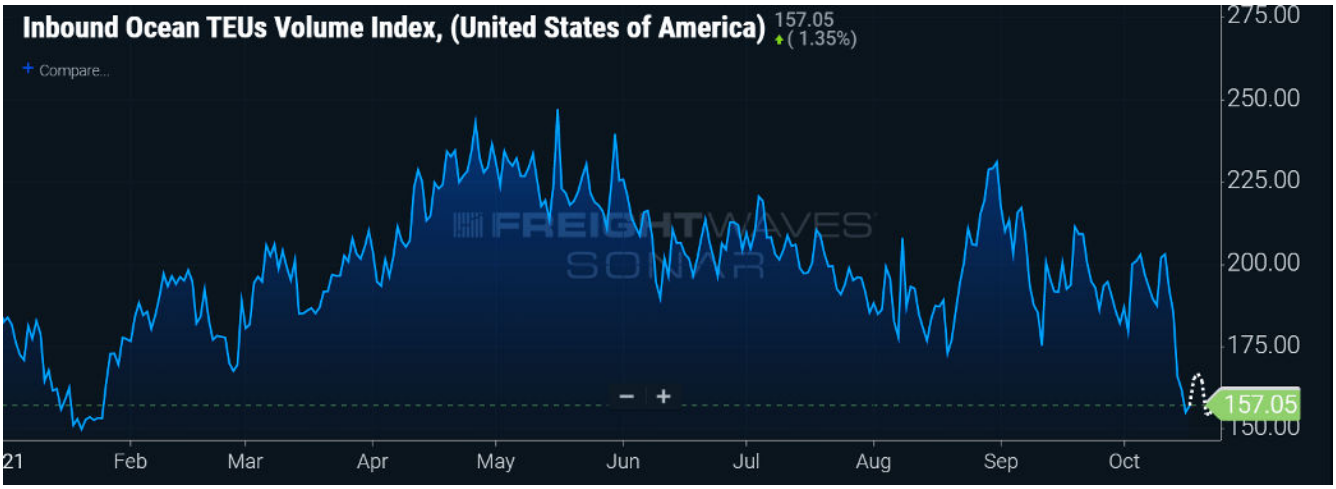
(Chart:FreightWaves SONAR. U.S. Customs and Border Patrol import shipments YTD {Blue} compared to the previous three full years)

The chart above shows that YTD containerized and non-containerized shipments clearing U.S. Customs (blue line) have been far in excess of levels that we are typically accustomed to seeing, reaching their all-time high within the most recent week. In past years, we can see that shipment volumes began sliding from the middle of October to late November-early December. It is during this brief lull that goods imported for the retail shopping season have already reached U.S. soil and have translated into surface-side transportation demand, kicking off their respective peak seasons.

Import shipment volumes clearing U.S. Customs have maintained a relatively flat trajectory this year, compared to more significant deviations in years past. This is indicative of congestion that has

continued to hamper the sector as infrastructure, labor and capacity limitations keep container throughput at relatively consistent and maxed-out levels.

Severe capacity deficiencies and disruptions influenced shippers to move peak season bookings forward this year



(Chart:FreightWaves SONAR. Inbound Ocean TEU volumes originating anywhere globally and destined for the U.S., accounted by departure date from the origin and projecting the next 7 days {Dashed White})

While maritime shipments clearing U.S. Customs is a good way to judge levels of currently staged import demand, TEU booking volumes set to depart for the U.S. is the best way to measure impending ocean shipment volumes. As we can see in the indexed chart above of TEU volumes destined for the U.S., peak season demand came much earlier this year, as many shippers rushed to rejuvenate historically low inventory-to-sales ratios, amid extremely tight ocean capacity. A late bookings surge at the end of August contributed heavily to the congestion that we are currently experiencing along both seaboards, as many industry participants deemed September as the deadline to get goods to shelves prior to the holiday season. Confirmed booking volumes have trailed off and are not showing signs of rebounding through the next 7 days, indicating that the largest peak season bookings ahead of the holiday season have already been shipped.

While a chunk (5-10%) of available ocean liner capacity has been stripped from the market due to ongoing congestion, many ocean carriers have pulled extra loading vessels from other regularly scheduled surfaces to support trans-Pacific trade to North America; much of which are substantially smaller (5,000 to 8,000 TEU) vessels. As a result, we have now entered a phase where more vessels are inbound to clogged U.S. ports than ever before, carrying the same amount of TEU volumes that they would have otherwise carried on fewer and larger vessels, contributing to enhanced. congestion.

What does it all mean for the remainder of the maritime peak season?

While new ocean bookings have begun to cool off, we don't expect U.S. import demand to taper significantly in the near-term. While many shippers have already brought in the majority of their shipments for the retail season, inventory-to-sales ratios remain historically depleted. **It is likely that import bookings will follow a trajectory that resembles 2020, sliding through the next month before accelerating once again in November and December.** Just like we saw with peak retail shopping season, **shippers will likely move their pre-Chinese New Year shipments forward in an**

effort to secure elusive ocean liner capacity, and mitigate further delays within their supply chain.

Despite increased intervention and the San Pedro Bay ports operating 24/7, congestion along both coasts will continue to plague the processing of shipments through Customs, which will likely continue its flat trajectory, remaining positive year-over-year, even against tough comps.



(Chart:FreightWaves SONAR. Inbound ocean TEU volumes from China to the U.S. {White} trended against national dry van outbound tender volumes {Red})

Continued positive year-over-year (y/y) import volumes will support a tight peak season for the truckload sector, as national dry van tender volumes are typically led by inbound ocean TEU volumes from China, the largest foreign trading partner of the U.S. While not an exact science, one 53' container/trailer will fit around 2.5 TEUs. To put ocean volumes into perspective and using this calculation, the 67 vessels at anchor in San Pedro Bay alone account for ~214,400 truckloads (assuming an average vessel capacity of 8,000 TEU). Around 215,000 TEU are already staged within the terminals, translating to an additional ~86,000 truckloads. Without a substantial falloff in TEU volumes, and clearing of congested ports/terminals, surface-side transportation will continue to experience tight market conditions through the peak season.

What are the biggest risks to that outlook?

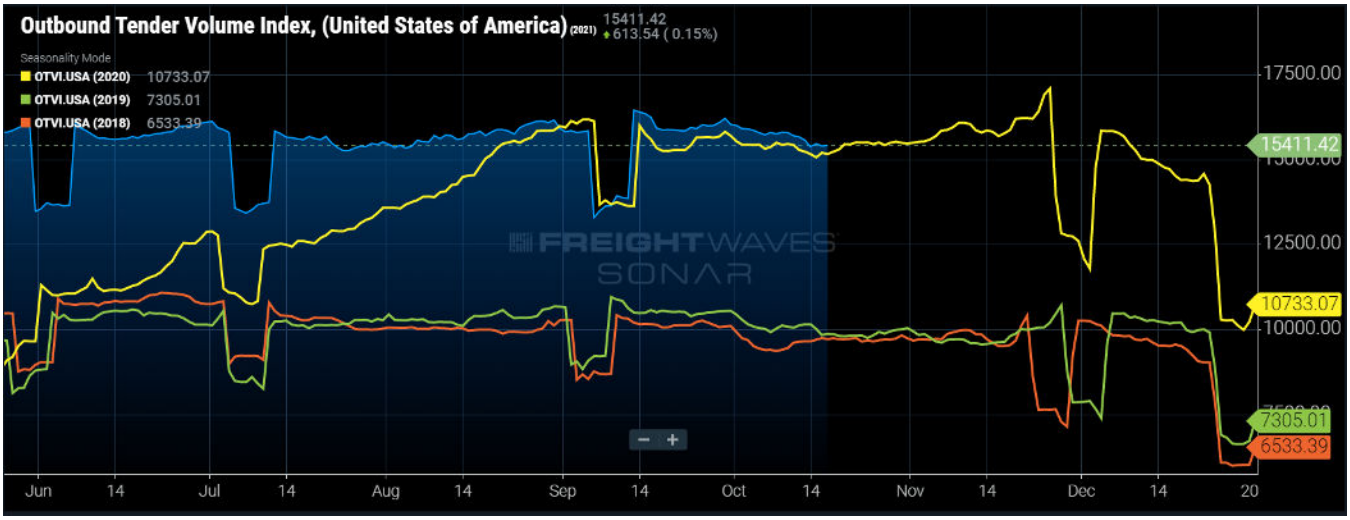
There are two fairly substantial risks to our outlook of positive y/y maritime import volumes – the global energy crisis and more black swan events. As China continues to meter the production of highly energy-intensive manufacturing and processing plants, maritime shipments will undoubtedly be affected. The region's industrial output, which is a major factor of export demand, is projected to decline as more facilities are forced to operate at reduced capacity and operating days. A reduction in shippers' foreign supply base could place a crippling grip on already-stricken sectors, such as the automotive industry, as well as many other industries.

2021 has been full of black swan events in maritime shipping, from the Suez blockage to the COVID-induced closures of the ports of Yantian and Ningbo. Strict pandemic-related mitigation measures within China will keep further closures at a heightened risk through the peak season. An already active typhoon season could produce a major event that forces widespread closures and

delays across southeast Asia, resulting in sweeping negative consequences for ocean import demand and fluidity.

Truckload demand slowed to kick off Q4

It's hard to call the current freight demand situation a lull given the elevated tender levels (over 50% higher than 2018 and 2019 levels). The SONAR Outbound Tender Volume Index (OTVI), a measure of freight demand through shippers' requests for capacity, has declined for the past two weeks, falling nearly 3%. The pullback to start the fourth quarter is pretty standard as shippers ramp up volume levels to close out the third quarter before slowing ahead of the peak in November and December.

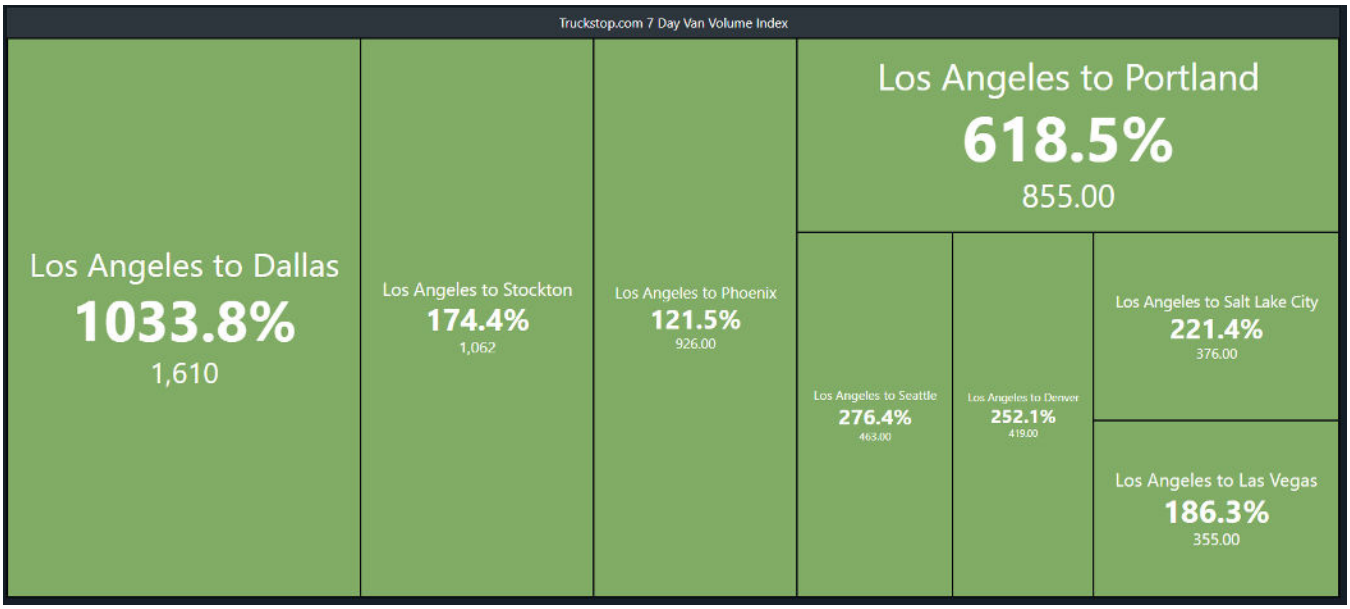


Truckload demand measures following a seasonal trend to kick off the fourth quarter. FreightWaves SONAR: OTVI.USA, 2021 (blue), 2020 (yellow), 2019 (green) and 2018 (orange)

Even though volume levels traditionally start October higher than they end the month, this year could be quite different given the fact that warehousing space is effectively sold out, intermodal capacity constraints continue to hamper rail networks and import levels have operated at peak season levels for months. All of these combined factors mean that there will be increased truckload demand through the end of the year.

OTVI, which is heavily skewed towards the contract market due to data being sourced from EDI and API tenders sent out, doesn't always show the impact that the constraints are having. The increased import volumes are putting pressure on transloading facilities and shippers are effectively having to move freight off their docks as quickly as possible, potentially bypassing the contract market altogether. This is driving spot volumes to surge on a y/y basis out of the large port cities, specifically Los Angeles.

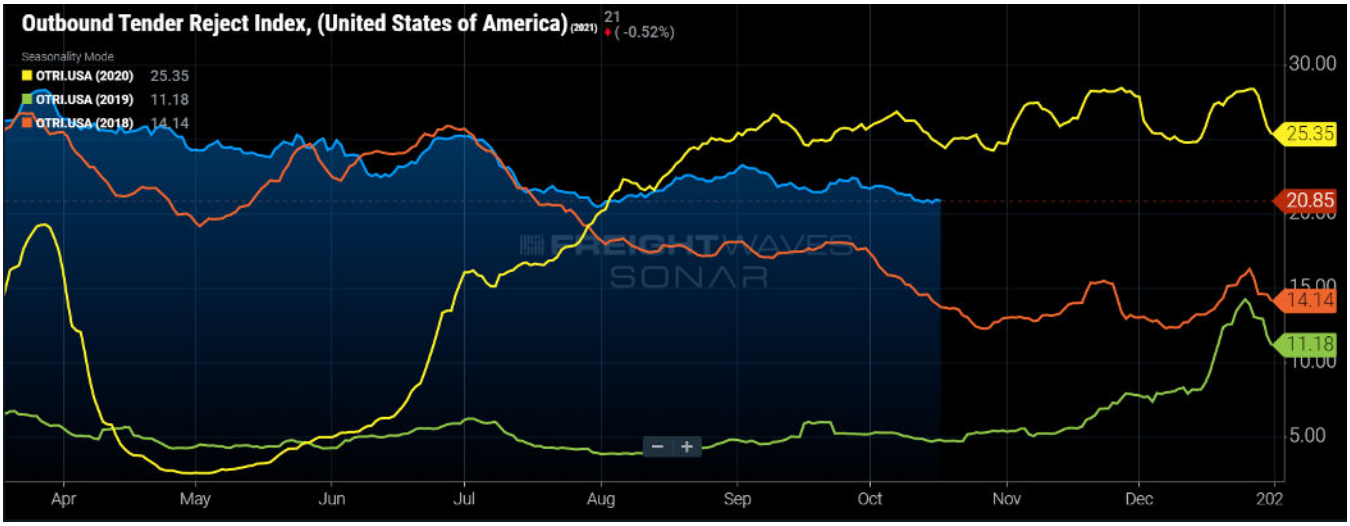
Every spot lane on Truckstop.com's load board out of Los Angeles surged in the past year



FreightWaves SONAR: Truckstop.com's spot volume out of Los Angeles on a yearly basis

All of the major lanes out of Los Angeles have experienced spot volume growth in excess of 100% y/y. The increase that may be the most shocking and signaling what is happening in the market as a whole is the 1,033.8% increase in spot volumes on the Los Angeles to Dallas lane, which is one of the densest intermodal lanes in the country. The increase in volumes along this lane, while intermodal volumes as a whole have underperformed in recent months, signals that moves that were once intermodal are moving via truckload now due to the constraints in intermodal networks.

The capacity situation has improved, but is still quite difficult



Outbound tender rejection rates have been declining since the start of the second quarter as contract rates have increased. FreightWaves SONAR: OTRI.USA, 2021 (blue), 2020 (yellow), 2019 (green) and 2018 (orange)

The Outbound Tender Reject Index (OTRI), which is a measure of relative capacity in the market, has been on a gradual decline since April. Traditionally, rejection rates are higher to start October than where they end the month and then ramp up in November, especially around the Thanksgiving holiday, as well as in December around the Christmas holiday.

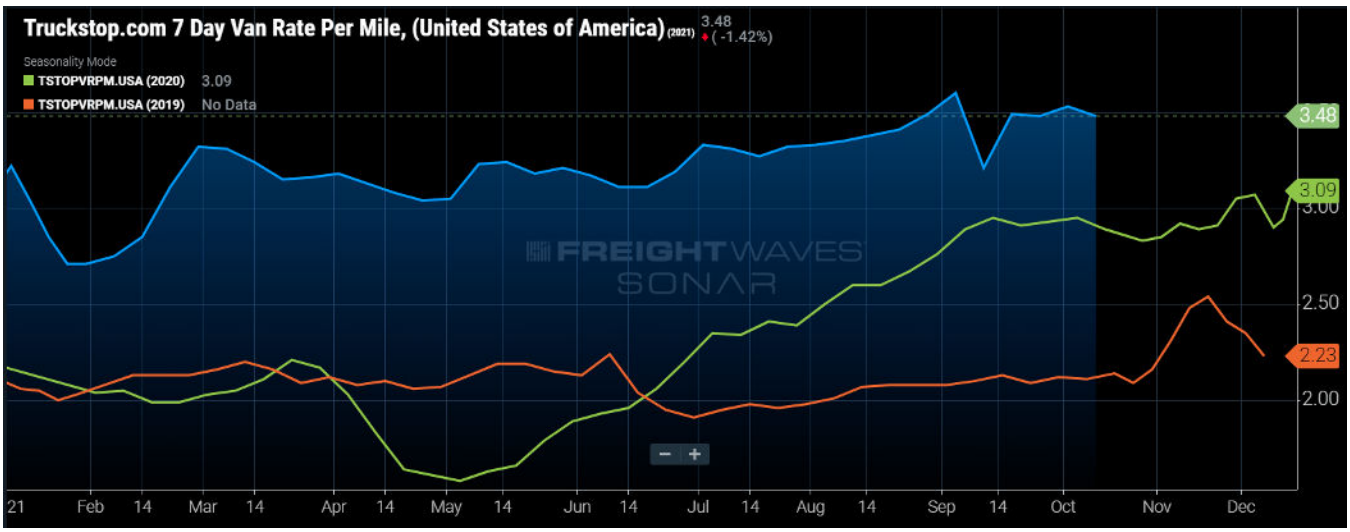
This year is likely no different, thanks largely to the rise in contract rates. Over the past year, contract rates have risen by over 25%, narrowing the gap with spot rates. The increases in contract rates haved help to drive better carrier compliance in an extremely tight market. The contract rate increases have driven lower rejection rates, especially compared to 2020, now more than 350 basis points lower y/y.

What does it all mean for truckload peak season?

This year's peak season is likely to be one of the strongest on record, thanks to the elevated import levels and congestion on the rails, though it does seem to be getting "less bad." Freight demand is going to ramp up in the fourth quarter. This would follow the traditional peak season, even at the elevated levels experienced, likely rivaling last year's peak around the Thanksgiving holiday.

Granted, the surge in freight volumes around the Thanksgiving holiday is impacted by the increases in rejection rates as well, due to OTVI including loads that are retendered. Rejection rates are likely to rise as well, but that could be muted compared to previous years given the rise in spot volumes that won't show up in OTRI or OTVI.

Rates, specifically spot rates, are going to be the biggest mover during peak season. As transloading ramps up to ensure goods are on shelves for the peak retail season, rates are going to face increased inflationary pressures (although they are already 20% higher than 2020 levels). Retail sales levels continue to exceed expectations, with September retail sales (excluding motor vehicles and parts and gasoline), were up 13.5% y/y.



Truckstop.com's national spot rate remains near all-time highs. FreightWaves SONAR. TSTOPVRPM.USA, 2021 (blue), 2020 (green) and 2019 (orange)

We expect that rates will ramp up in the final quarter of the year, maybe not as significantly as they did in 2019, but they definitely will pressure the all-time high of $3.60/mi which was set around Labor Day. The slowdown in rates, volumes and rejections will likely not happen during this year's peak season given what is happening across the other modes.

What are the biggest risks to that outlook?

The University of Michigan's Consumer Sentiment Index did increase slightly in the preliminary September report, but even with the increase consumers still expect the "least favorable economic prospects in more than a decade."[1] A slowdown in consumer spending would be a thorn in the side of the truckload market, which has been riding the upward trend throughout the COVID-19 pandemic.

The likelihood of freight volumes collapsing in the quarter is unlikely, but shippers may just push things into the first quarter, when capacity is traditionally easier to source, especially with freight that isn't as time-sensitive as the goods needed for the holiday. Capacity flooding the market is likely not a risk for peak season, but it is a risk any time the market is as hot as it has been for the past 15 months.

The rise of gift cards as holiday gifts over the past 15 years is a risk to the truckload market. A recent survey conducted by Blackhawk Network, a global branded payments provider, found that 83% of consumers want a gift card instead of a physical gift this year. Nearly 25% of the respondents cited that shipping delays and stockouts are concerns, leading to increased spending on gift cards. Additionally, dining gift cards topped the list of popular gift card categories, which is another risk to the truckload market, meaning increased spend on services as opposed to goods that are freight-dependent. [2]

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[1] *University of Michigan's September Consumer Sentiment Index, Sept. 17, 2021*
[2] *Consumers plan to spend more and gift more this holiday season according to Blackhawk Network 2021 holiday forecast, Oct. 14, 2021*