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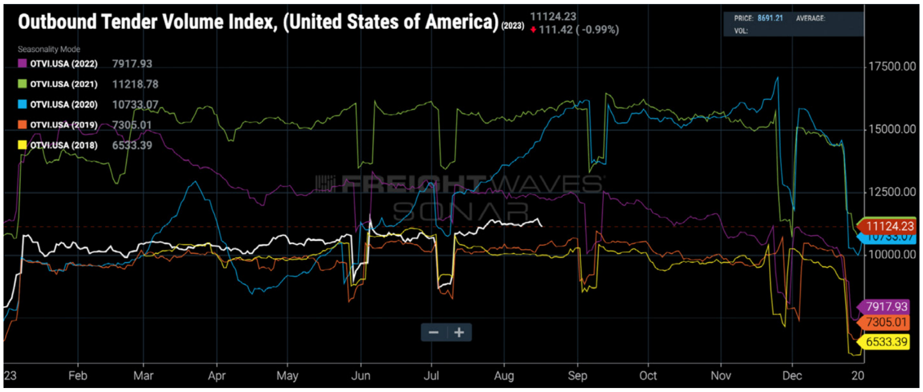
July's super-seasonal volume bounce still not enough to raise rates

By FreightWaves

FreightWaves CEO and founder Craig Fuller and Zach Strickland, head of freight market intelligence, discussed unusual freight volume trends and retail supply chains in front of a live studio audience during **the latest State of Freight webinar** on Thursday, August 17, 2023.

In most years, July is a relatively soft month for freight: Coming off a major holiday and the end of the second quarter, many people go on vacation and there's typically a "summer doldrum" that sets in. In FreightWaves SONAR, the Outbound Tender Volume Index, which measures electronic truckload tenders from shippers to carriers, normally declines over the course of the month of July — but not this July.

Instead, volumes have been on the rise, bucking the normal seasonal pattern. The only other time OTVI increased in July was in 2020, when consumers were changing their buying habits in response to COVID lockdowns.



The Outbounder Tender Volume Index measures the number of tendered truckload transactions. Chart: FreightWaves SONAR. To learn more about FreightWaves SONAR, ***click here****.*

"We've got this anomalous environment with the tender volumes," Strickland said.

"It's Christmas in July for truckers, but it doesn't feel that way," Fuller responded. "The demand feels invisible because the carriers aren't benefiting from it, and we know they're not benefiting from it from the tender rejection data. When we see rejection rates at 3 and a half percent, or acceptance rates at 96 and a half percent, you're in a situation where trucking companies are taking everything they can get their hands on — that's what they're doing, in a market that actually looks like it's breaking out."

Fuller and Strickland discussed several causes for the super-seasonal volume increase, including the possibility that big-box retailers were taking advantage of less congested distribution chains and lower transportation rates to replenish their inventory stores inland. The ocean container market has largely normalized, with carriers managing capacity more efficiently and bringing rates up, despite persistent volume weakness out of China.

"Is the market catching up to the fact that all of this inventory has been liquidated?" Fuller asked.

Bureau of Labor statistics on trucking employment have finally started to level off after more than a year of growth, raising hopes that capacity is finally trending in the right direction.

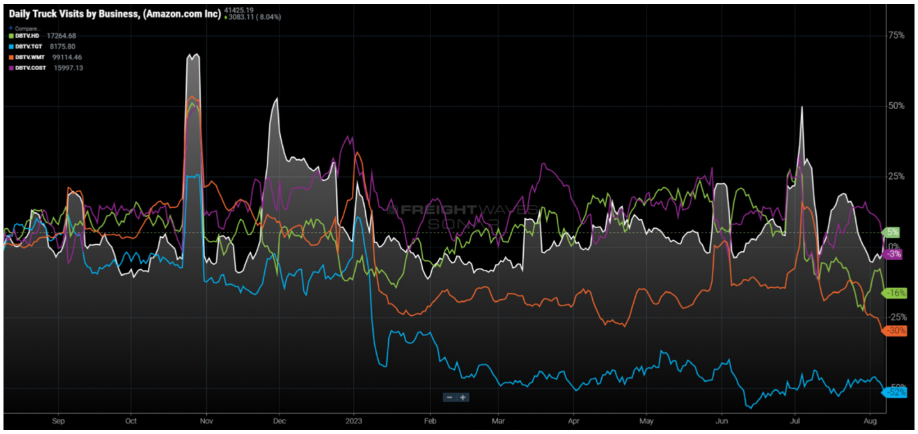
Another factor may be the delayed impact of the Inflation Reduction Act, part of which involves a massive investment in certain key sectors of domestic manufacturing, including electric vehicle battery technologies, solar energy and semiconductors. Tax subsidies for those kinds of projects, which require extensive bidding and permitting processes, take a while to make their effects felt in the economy, but that could be starting now, Fuller said.

Finally, he mentioned a third factor that could be driving super-seasonal volume performance in truckload markets: An unusually hot summer is stimulating demand for beverages, which already comprise 5%-8% of volumes. Fuller specifically mentioned Gatorade out of Arizona as an important source of summer freight, and the conversation turned to Phoenix and Laredo, Texas, as emerging markets.

The Phoenix market became something of a waypoint for truckload freight during the pandemic out of necessity. There was a moment early last year, Fuller reminded the audience, when there was effectively zero unutilized warehouse capacity in Southern California. Receiving facilities and trucking carriers were plagued with labor issues, and congestion had seized up intermodal networks. Freight unloaded in Los Angeles and Long Beach had to be shipped to Phoenix to be deconsolidated, and new distribution networks were built around a "second Inland Empire," even further to the east.

Meanwhile, in Mexico, foreign direct investment has continued to pour into the manufacturing sector, particularly in automotive. Mexico passed China as the United States' largest trading partner this year as nearshoring trends have taken hold.

Then Fuller and Strickland talked about some new data in the FreightWaves SONAR platform that measures daily truck visits at some of the United States' most important shippers, like big-box retailers.



Daily Truck Visits measure the number of truck visits to shipper locations based on geofenced telematics data. This data is still in quality assurance. Chart: ***FreightWaves SONAR****.*

Compared to a year ago, the majority of the largest retailers see many fewer truck visits. Amazon, which has a large core retail business hedged against the volume of its third-party seller network, grew by 5%. But Target, heavily exposed to upmarket consumer discretionary items, has experienced a collapse in truck visits compared to its competitor Walmart, which now gets a majority of its revenue from the most stable goods category, grocery.

"Fifty-five percent of Walmart's revenue is tied to grocery," Fuller said, "and you don't see the grand collapse in truck visits from excess inventory that we saw at Target."

The conversation turned to trucking rates.

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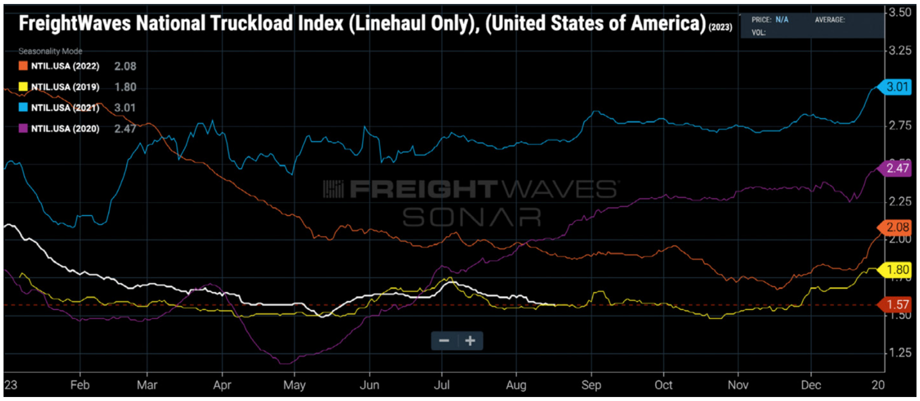

The National Truckload Index - Linehaul measures trucking spot rates exclusive of fuel in USD per mile. Chart: ***FreightWaves SONAR****.*

The FreightWaves SONAR National Truckload Index - Linehaul measures trucking spot rates, excluding the cost of diesel fuel, in dollars per mile. Rates have fallen back in line with 2019, which was an exceptionally soft year in trucking bookended by two major trucking carrier bankruptcies: New England Motor Freight and Celadon.

"Rates have reverted back to 2019 levels, which is not so bad, but your cost per mile has gone up by as much as 30%," Fuller explained. "Everyone gets caught up in the rate, but it's also the volume, the number of transactions. The carriers are not getting fed."

Bureau of Labor statistics on trucking employment have finally started to level off after more than a year of growth, raising hopes that capacity is finally trending in the right direction. Because the market is presently oversupplied, more carriers will have to exit the industry before the supply-demand balance shifts and rates can rise again.

"Yellow is potentially bookending the start of the great purge," Fuller said.

To learn more about FreightWaves SONAR and the state of freight markets, **click here**.

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