FREIGHTWAVES SONAR

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SONAR highlight reel: Contrary to typical seasonality, intermodal volume rises in Nov.

NOVEMBER 2021

WHITE PAPER

SONAR highlight reel: Contrary to typical seasonality, intermodal volume rises in Nov.

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

See description of the just-released FreightWaves Trusted Rate Assessment Consortium (TRAC) spot rate data on pages 5-6.

Truckload demand has started to pick up ahead of the Thanksgiving holiday. Tender volumes grew by almost 1% over the past week, while accepted volumes were basically flat. The capacity situation remains difficult as one in five tenders is being rejected by carriers. Truckload rates are off the recent peak and unlikely to peak again. With that said, shippers should be hesitant to push rates down too fast while trying to take advantage of easing conditions.

Daily domestic intermodal volume rose 2.2% in November from October levels after increasing 8% from levels the prior two months. That indicates that railway fluidity is improving. What's less encouraging for shippers is that intermodal contract rates increased in October, up about 14% year-over-year (y/y), which suggests that shippers that have not rebid their intermodal loads for a while will likely see a steep increase in rates.

Maritime import volumes show signs of stabilization with TEU import volume at the L.A./Long Beach port complex down 13% from peak levels in May. Despite that drop in volume, the number of vessels at anchor in San Pedro Bay is still hovering around 80 with 5 vessels arriving daily. The current time from anchor to berth at the Port of L.A. is nearly 19 days.

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

LAX-DAL	$3.65 (-$0.04)
CHI-ATL	$3.52 (-$0.04)
PHL-CHI	$2.15 (-$0.08)
ATL-PHL	$2.70 (-$0.08)
DAL-ATL	$2.48 (+$0.02)
DAL-LAX	$1.29 (-$0.08)
National	**$3.38 (-$0.03)**

Freight volume index (weekly change)

Ontario, CA	723.24 (+12.2%)
Atlanta	587.29 (+1.1%)
Harrisburg, PA	477.23 (-4.9%)
Dallas	459.13 (+4.8%)
Los Angeles	447.31 (+7.9%)
Elizabeth, NJ	411.13 (+7.6%)
National	**15,128.79 (+0.8%)**

Tender rejection rates (weekly change)

Ontario	19.71% (+295 bps)
Atlanta	16.15% (-67 bps)
Harrisburg	21.13% (-25 bps)
Dallas	18.91% (+45 bps)
Los Angeles	19.7% (+295 bps)
Elizabeth	15.87% (+5 bps)
National	**20.48% (+72 bps)**

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[1] Truckstop.com all-in per-mile rate

Rejection rates rise ahead of Thanksgiving

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

The Outbound Tender Volume Index (OTVI), measured by shippers' requests for capacity, continues the quarter sluggishly. While tender volumes briefly fell below the 15,000 mark, an uptick in tender volumes over the past couple of days has brought the index back above the aforementioned 15,000 mark. Tender volumes are 0.82% higher than they were a week ago.

Even looking back before 2020, which has brought difficult comps to the market, on a seasonality basis tender volumes decline in the first half of November before growing during the week leading up to Thanksgiving and Black Friday. After the holiday, tender volumes traditionally decline throughout December from their peak through the first quarter of the year.

Consumer concerns are definitely having a significant impact on the truckload market. The Consumer Price Index (CPI), a measure of inflation, rose by 0.9% month-over-month (m/m) in October, bringing the 12-month rolling total to 6.2%, the highest since November 1990. In the food-at-home category, prices rose by 1% in October after a 1.2% increase in September, bringing the 12-month total to 5.4%.

Adjusting OTVI, which includes both accepted and rejected tenders, by the tender rejection rates shows the true level of freight moving through networks. Accepted tender volumes are running down 1% week-over-week (w/w), a larger move than the tender volume index. The underperformance this week is due to an increase in tender rejections over the past week. Accepted volumes continue to outperform compared to a year ago, though the gap has now narrowed to just 3.4% y/y.

Across the country, volume levels in 70 of the 135 markets tracked by FreightWaves SONAR were higher over the past week. The largest freight markets in the country took a breather over the past week, with the exception of the large Southern California markets.

The two large Southern California markets, Ontario and Los Angeles, took a significant step higher over the past week. Tender volumes in Los Angeles increased by 7.9% w/w. Tender volumes are still

deeply depressed compared to last year, down 8.4% y/y. In Ontario, freight volumes are still relatively volatile, rising 12.2% w/w, but tender volumes in the market are still down 5% y/y.

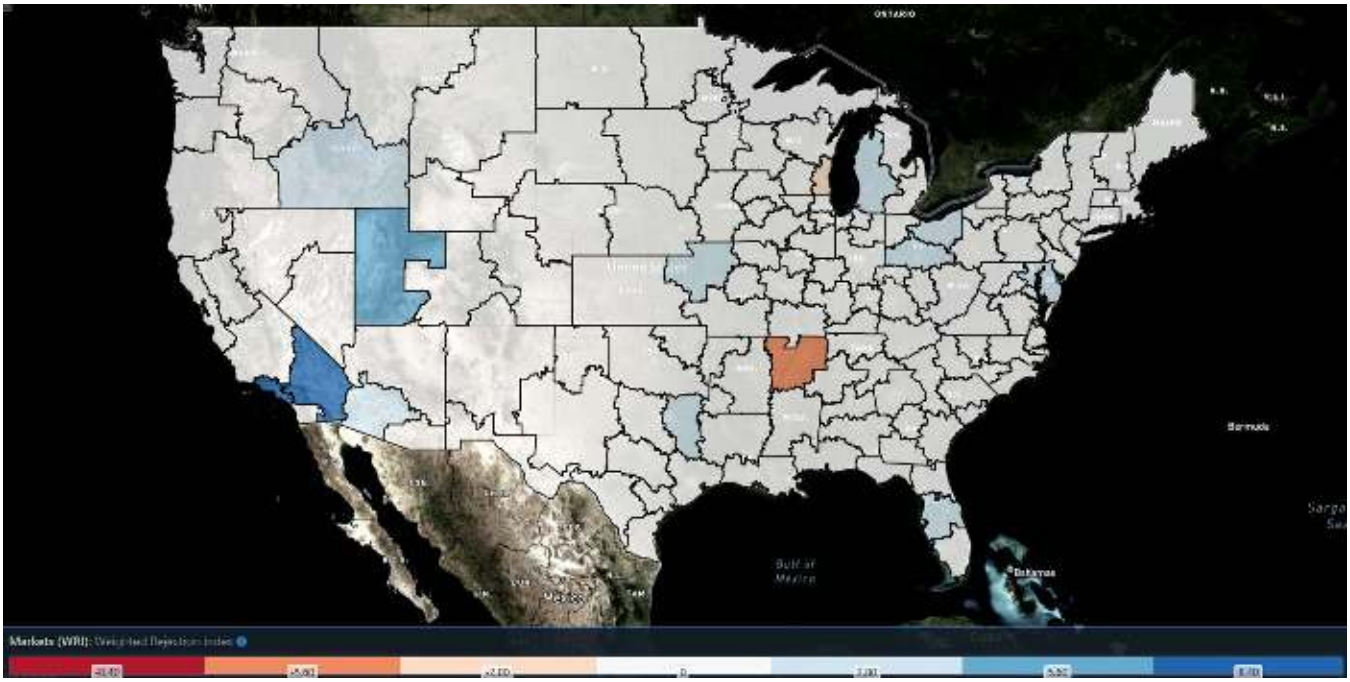
The Northeast, which has been an interesting region over the past couple of weeks, was a mixed bag this week. Harrisburg, Pennsylvania, where volumes increased to begin the week, turned negative on a w/w basis, down 4.1%. In Elizabeth, New Jersey, volumes rebounded, growing by 5.7% w/w.

The Outbound Tender Reject Index (OTRI), a measure of relative capacity in the market, has increased over the past week after hitting 19.25% on Nov. 9. OTRI is currently 72 basis points (bps) higher than a week ago.

The uptick in rejection rates may signal the beginning of the capacity crunch surrounding the peak truckload season. Traditionally, drivers tend to stay closer to home around the holiday season, which places upward momentum on rejection rates. With Thanksgiving and the retail peak season just a week away, expect rejection rates to continue this positive momentum through the next two weeks.

The increase in rejection rates continues to show that the capacity conditions in the market are still quite difficult. Though the rejection rates are down 772 bps y/y, compared to 2019 levels, rejection rates are 1,400 bps higher. In a normal period, rejection rates between 7% and 10% put inflationary pressures on spot rates. The past 18 months have been anything but normal, so spot rates haven't really been as tightly correlated with rejection rates, especially in the last quarter.

Ultimately, conditions are still difficult but have eased significantly over the past month or so as capacity has returned to the market. This trend will likely continue into 2022, but much like in 2021 an unforeseen catalyst could throw a wrench into capacity.



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

A wave of tightening relative capacity swept the country over the past week, which is normal ahead of the Thanksgiving holiday. Of the 135 markets within SONAR, 88 experienced rejection rate increases 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. A blue market is any market that is tightening faster, highlighting increased prices as well as markets that should take priority. Conversely, red markets are loosening faster relative to the size of the market, where shippers are gaining some pricing power.

In Southern California, capacity traditionally tightens earlier than in other markets as drivers tend to avoid the market ahead of holidays when trying to stay closer to home. In Ontario and Los Angeles, rejection rates increased 351 bps w/w, but anticipate the increase to continue throughout the next week. Rejection rates are still more than 580 bps below year-ago levels.

Memphis, Tennessee, a market that has tightened significantly over the past month, has finally seen its capacity situation ease this week. Over the past week, tender rejection rates in the market fell by 435 bps w/w, bringing the rejection rate to 28.49%, which is still significantly tighter than the overall market. Much like in Southern California, rejection rates continue to run nearly 600 bps below year-ago levels.

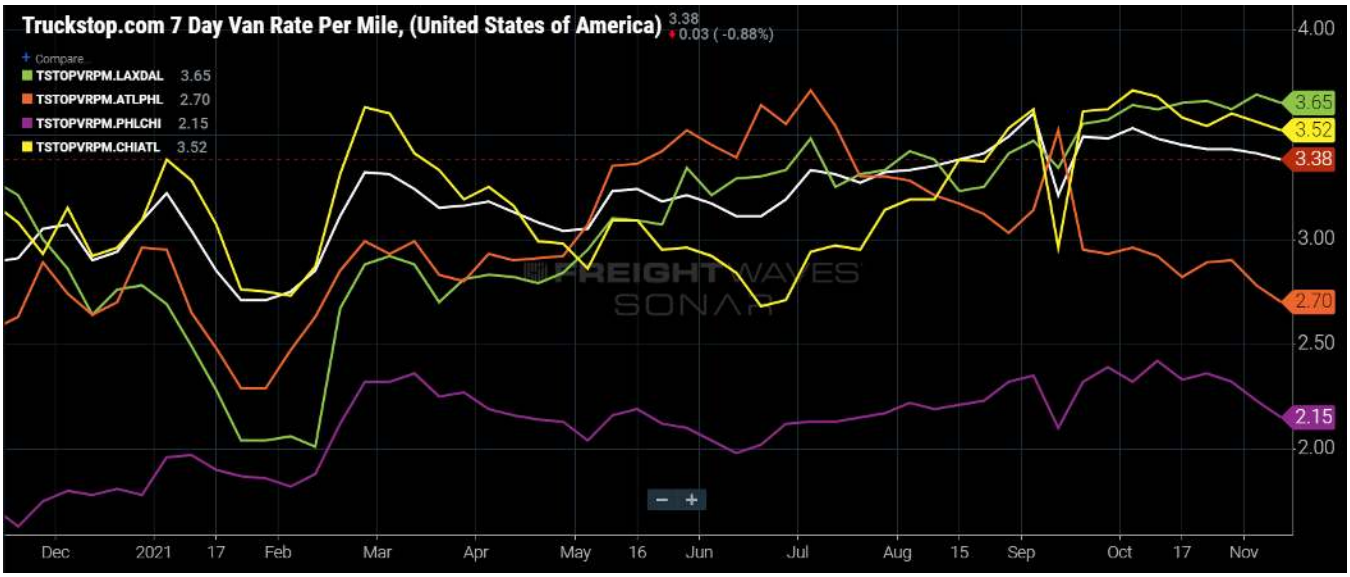


Chart: FreightWaves SONAR. Truckstop.com's dry van spot rates: National {white}, Los Angeles to Dallas {green}, Atlanta to Philadelphia {orange}, Philadelphia to Chicago {purple} and Chicago to Atlanta {yellow})

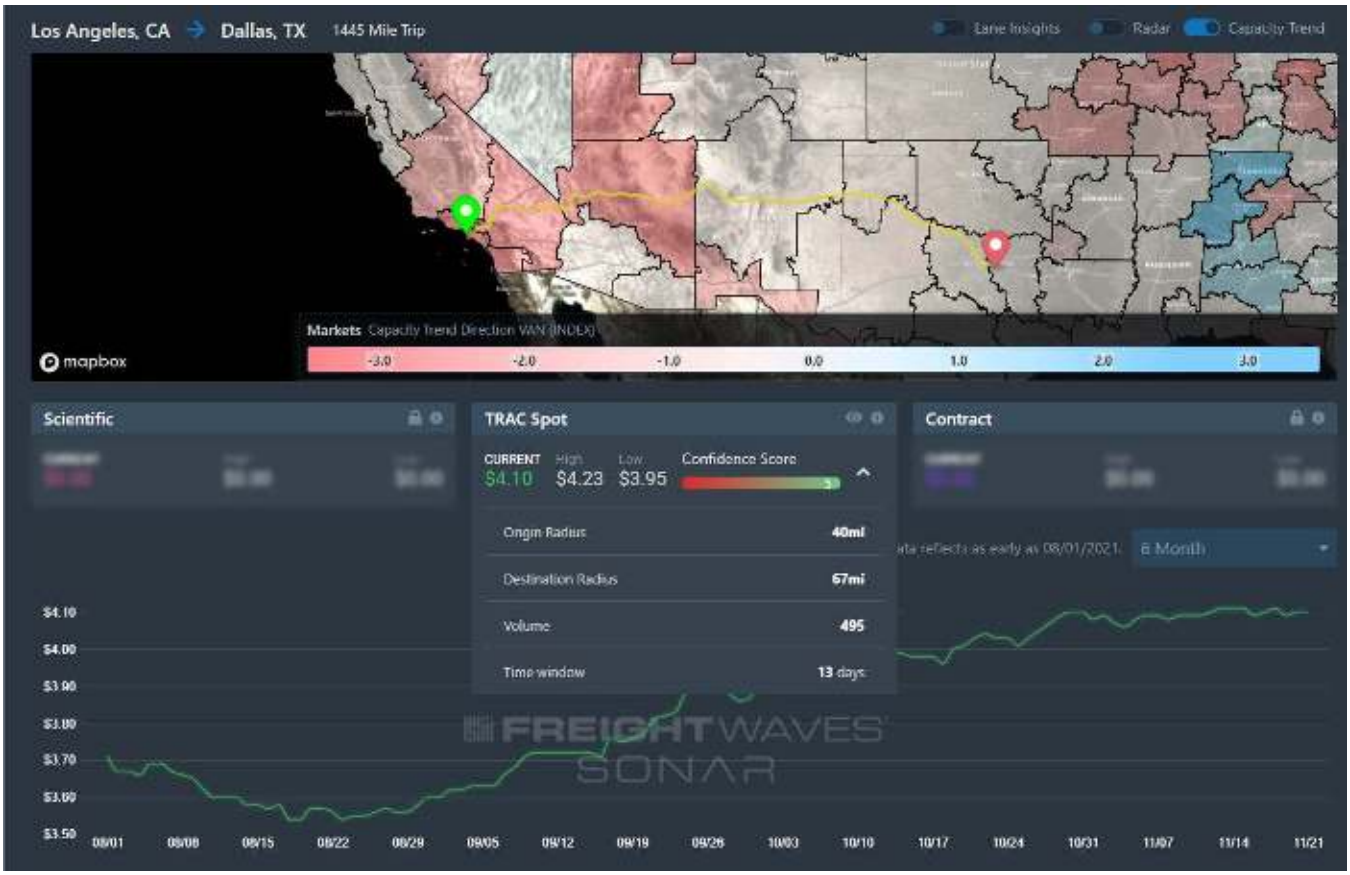
Moving in an opposite direction from tender rejection rates, Truckstop.com's national spot rate took another step lower last week. The national average spot rate fell by 3 cents per mile, to $3.38, including fuel and other accessorials. Spot rates are still up double digits compared to 2020 levels, now up ~16% y/y.

Of the 102 lanes from Truckstop.com's load board, 43 reported increases last week. Outbound from Los Angeles took a step higher on six of the eight lanes, with the northbound lane of Los Angeles to Stockton, California, increasing the most, rising 19 cents per mile, to $4.15. The increases out of Southern California are no surprise given capacity has really started to tighten ahead of peak season.

Contract rates also pulled back over the past week, decreasing by 3 cents per mile to $2.65. Dry van contract rates, which are reported on a two-week lag, are just 12 cents per mile off the all-time high set in mid-September.

Contract rates, which are just the base linehaul rate excluding fuel surcharges and other accessorials that are included in spot rates, have significantly closed the gap with spot rates over the past year. Contract rates are outperforming spot rates, continuing to run 17% higher than in 2020.

FreightWaves' new Trusted Rate Assessment Consortium (TRAC) spot rates bring real-time buy (to the carrier) rates to the market.



FreightWaves TRAC spot rates are derived from 3PLs and freight brokerages reported by book and covered date. As opposed to simple averages, FreightWaves weights the values based on: 1) the proximity to the specific origin/destination with a maximum of a 300-mile radius; and 2) length of time to the current date. The further away in both geography and temporal distance, the lower the weight.

Rather than a weekly update, the FreightWaves TRAC spot rates update daily at 11 am ET in the new Market Dashboard application within SONAR.

The Market Dashboard pairs the FreightWaves TRAC spot rates to show how pricing conditions have been changing over time as well as where the market may present opportunities. The Market Dashboard allows for easy viewing of:

1) The current van or reefer FreightWaves TRAC spot rate and statistical price range
2) Confidence score of the rate based on geographical and temporal difference in a lane. 1 indicates the lowest confidence level and 5 indicates the highest confidence level.
3) Capacity changes based on tender data and the current radar in a map
4) Historical rates
5) Margin calculations, either flat or percentage markup
6) Lane insights, including Lane Score, daily capacity changes in both origin and destination, OTRI for the lane and prescriptive action on how to use information in terms of pricing

In the screenshot above, the Market Dashboard highlights the Los Angeles to Dallas lane, arguably one of the densest lanes in the country. The current FreightWaves TRAC spot rate is $4.10/mi, which is the all-in rate. The range is $3.95/mi on the low end (representing the 33rd percentile value) and $4.23/mi on the high end (representing the 67th percentile value). The confidence score on the lane is a 5, due to the geographical radius being quite small at both the origin and destination: 40 miles in Los Angeles and 67 miles in Dallas.

Since the end of July, the FreightWaves TRAC spot rate has increased by nearly 10%, but the lane insights along this lane show that the load balance is extremely tight.

Contrary to typical seasonality, domestic intermodal volume rose in November.

We continue to look at the intermodal data in SONAR with an eye toward finding evidence that intermodal congestion and service levels are either improving or deteriorating further. On their third quarter analyst calls, truckload-based domestic intermodal companies Schneider National and Hub Group both indicated that rail network fluidity has improved. SONAR intermodal volume data also suggests that intermodal network fluidity is improving, at least in the domestic intermodal segment. Daily volume of loaded domestic intermodal containers increased 8% in October from the daily average in August and September. What's more, daily domestic intermodal volume has increased a further 2.2% so far in November from October levels. That suggests to us that the many actions that the Class I railroads and the domestic intermodal companies have taken to alleviate congestion are paying dividends.

Last year, domestic intermodal volume declined in November from October as it typically does. This year, daily domestic intermodal volume has increased 2.2% in November from October levels.

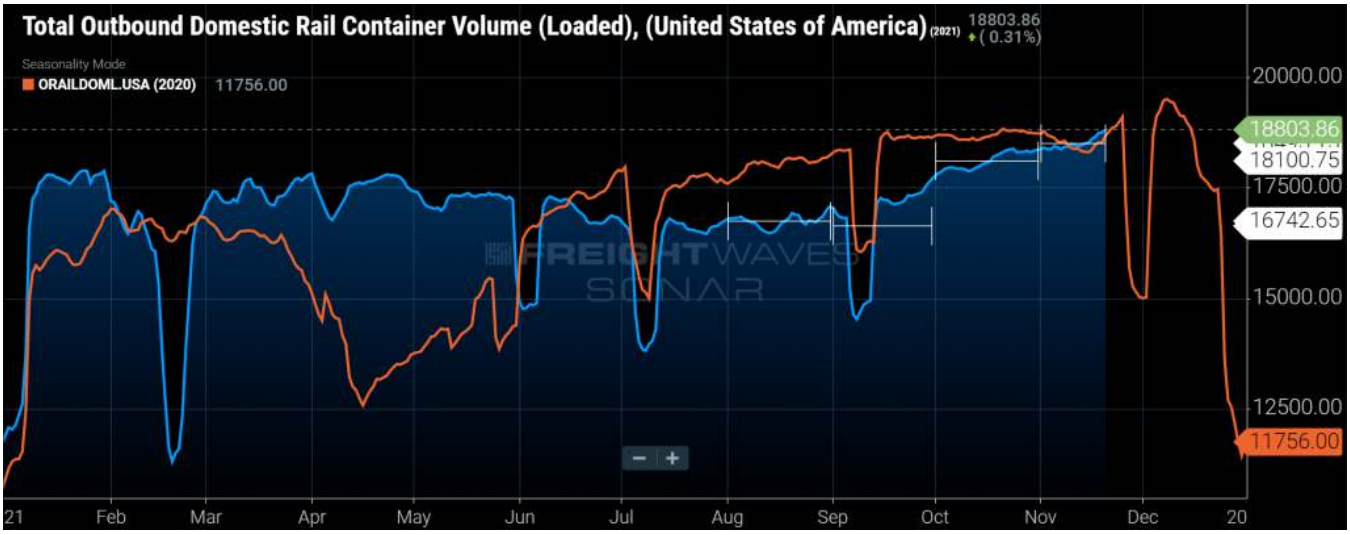


Chart: FreightWaves, SONAR. Loaded domestic intermodal volume is shown for 2021 and 2020 in blue and orange, respectively.

The counterpoint to our contention that rising domestic intermodal volume is mainly a function of improving railway fluidity, is the thought that the rising domestic volume is being driven by more transloading of imported goods from 40' international containers into 53' domestic containers on the West Coast. Clearly, that has been a major trend this year because the international container shortage has caused a reluctance on the part of the container-ship companies to send international containers inland. We believe the two charts below add context to that debate.

The rise in domestic loaded volume (orange line below) has outpaced the recent decline in international intermodal volume (blue line below). In addition, domestic intermodal volume has risen in the past month (right chart below) for most of the major domestic intermodal lanes, including those that are relatively unrelated to imports.

Chart: FreightWaves, SONAR. 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 above right shows the one-month change in loaded domestic intermodal volume in the densest lanes.

This fall, loaded domestic intermodal volume (blue) has risen while loaded domestic intermodal volume (green) has been relatively flat.

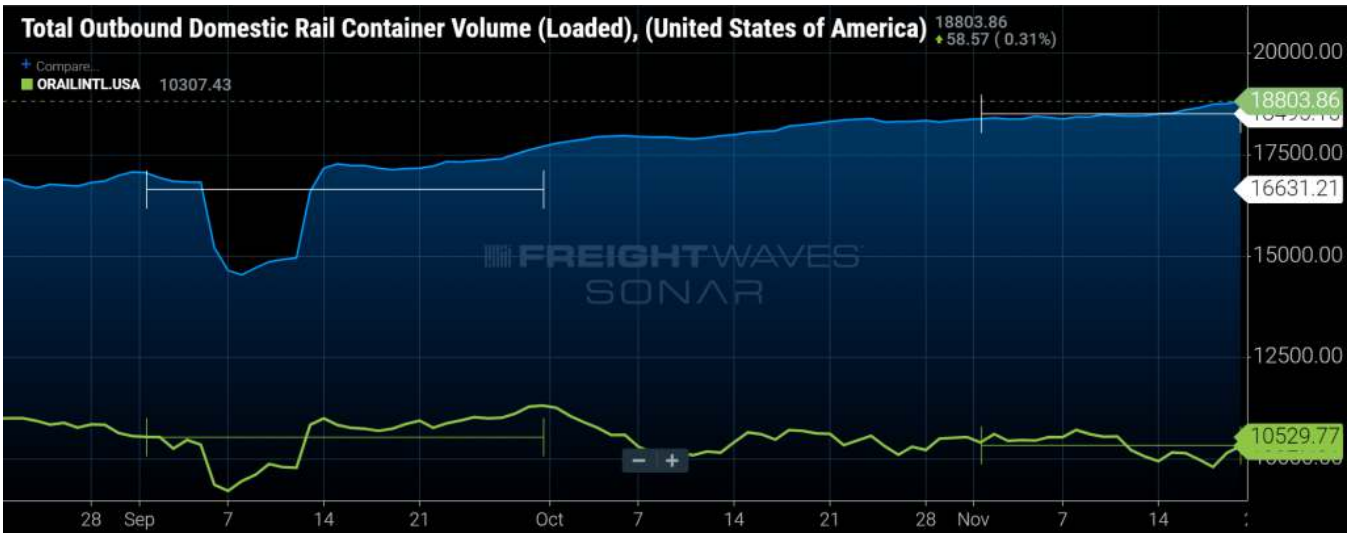


Chart: FreightWaves, SONAR. Domestic loaded containerized intermodal volume is shown in blue and loaded international containerized intermodal volume is shown in purple.

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' containers door-to-door, including fuel surcharges and their respective month-over-month changes.

Intermodal contract rates took another step up in Q4. In October, intermodal contract rates were 14% higher y/y and 6% higher m/m.

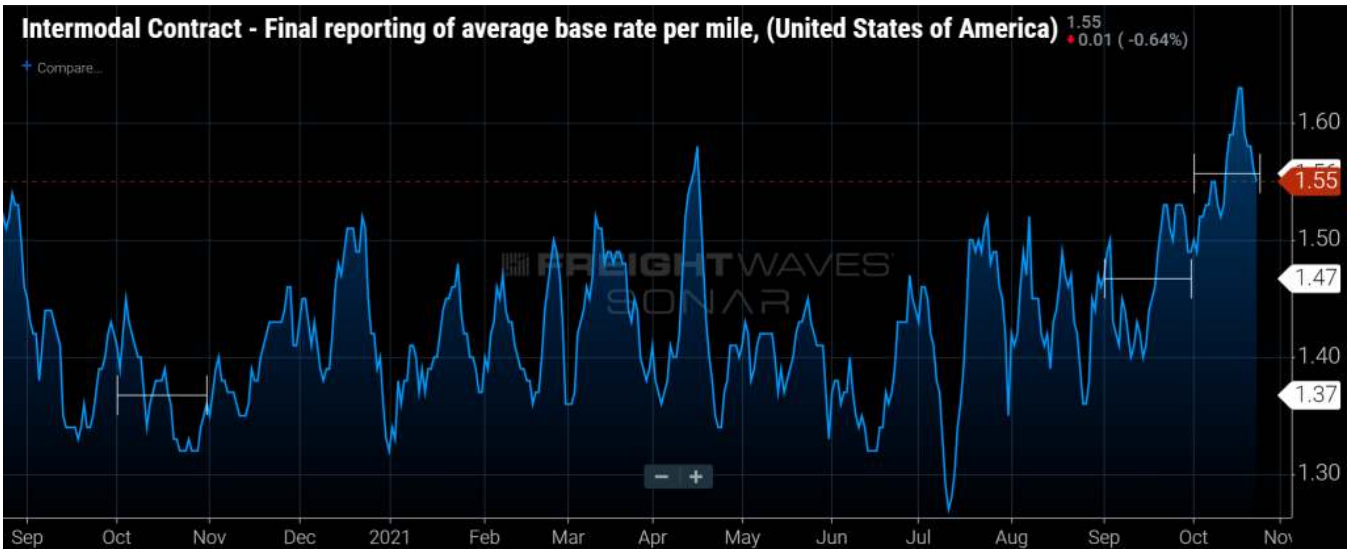
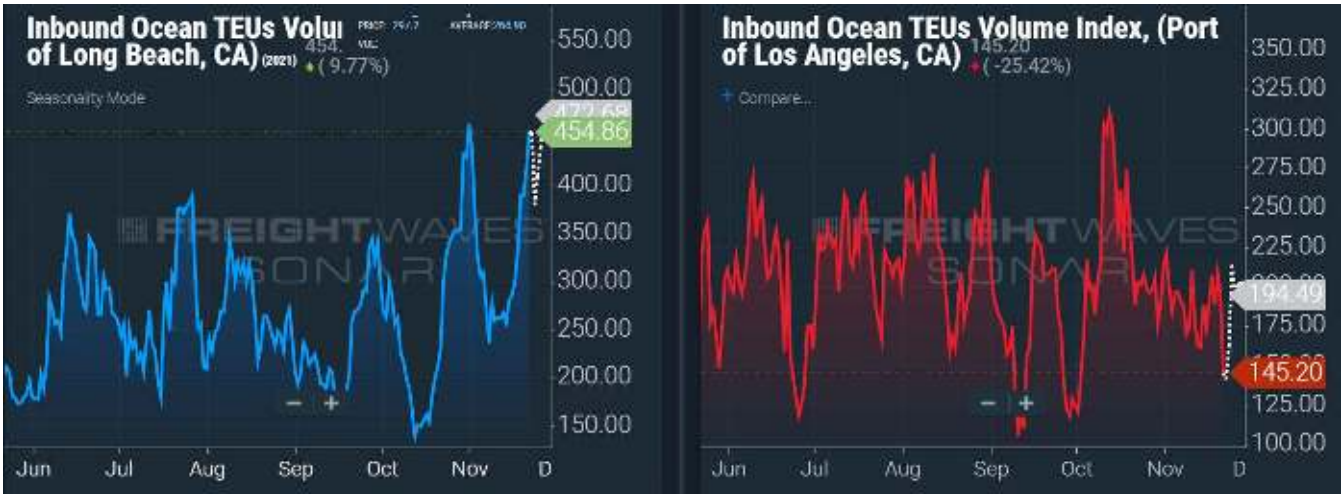


Chart: FreightWaves, SONAR. The final reporting of intermodal contract rates, not including fuel surcharges.

U.S. import demand continues to stabilize, while congestion keeps upward pressure on spot rates

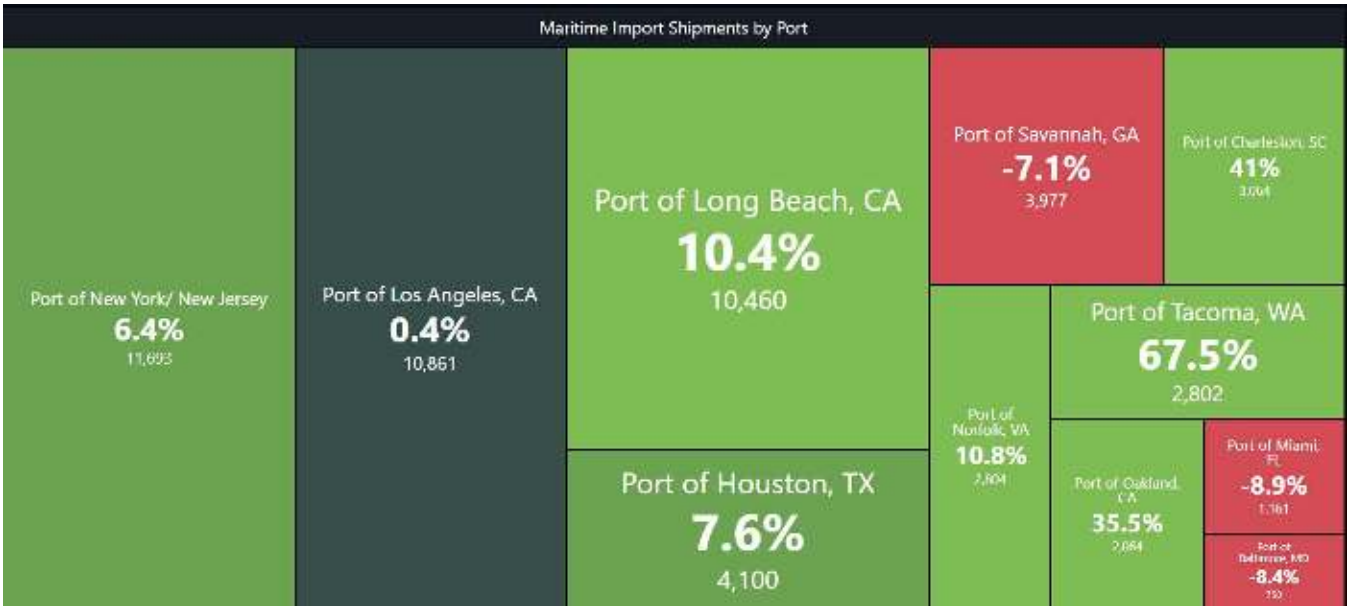
In the most recent week, the Port of Los Angeles reported normalizing levels of TEUs being processed within the nation's busiest port. The port reported just north of 467,000 TEUs for the month of October, an 8% decline from October 2020. The ports of LA and Long Beach combined for 852,000 TEU during the month, down 13% from peak levels experienced back in May.



(Chart:FreightWaves SONAR. {Left} Inbound ocean TEU volume index destined for the port of Long Beach (blue} with next seven days {dashed white}-{Right} Inbound Ocean TEU Volume index destined for the port of LA {red} with next seven days {dashed white})

In the next seven days, volumes departing from any country of origin to the ports of LA and Long Beach seem to be trending in different directions. Coming off of the mid-October booking spike, the Port of LA has experienced stabilizing and seasonally normalized levels of confirmed TEU bookings set to depart their port of origin. On the other hand, the Port of Long Beach has continued to trend upward from October's spike, stabilizing in the next seven days at near- record levels.

Despite October's subdued volumes to the ports, vessels at anchor within San Pedro Bay continue to trend at above 80 container vessels per day, with around five vessels arriving daily. Equipment shortages and domestic capacity limitations continue to plague port throughput within the San Pedro Bay complex, further extending waiting times for container vessels. The average time from anchorage to berth for vessels calling upon the Port of Los Angeles has continued to trend upward, now at nearly 19 days.



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

Extended wait times at the ports of Los Angeles, Long Beach and Savannah continue to call for shippers to divert their ports of entry to mitigate any disruptions. In the last week, ports within close geographic proximity to the San Pedro Bay port complex have seen a significant uptick in maritime shipments clearing U.S. Customs. The ports of Tacoma, Washington and Oakland, California have now seen consecutive weeks of double-digit growth, as they remain key relief valves for shippers looking to divert from congestion and still service domestic supply channels along the West Coast.

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

Despite showing some relief to shippers in recent weeks, eastbound maritime trans-Pacific spot rates have begun to move away from their downward trend. Spot rates per 40' container, according to the Drewry World Container Index, have now experienced two sequential weeks of increases, signalling that a fall from sky-high ocean spot rates is still in the not-so-distant future. The index's Shanghai to New York assessment has ticked back up to $13,139/FEU, a 3% increase from the previous week and now up 164% y/y. The Shanghai to Los Angeles assessment, which had fallen

below $10,000 for the first time since July, jumped back to $10,038/FEU, a 1% w/w increase, putting the index up 149% 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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