Weekly Market Update for June 16, 2020

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Summary Market Thesis
There are new COVID-19 hotspots emerging this week, with new data showing that the first wave of virus outbreaks may not have ever ended – it’s just been one long wave. Data from the COVID Tracking Project shows the country has been averaging around 20,000 new cases and 1,000 deaths a day since March 1, but there’s some nuance in those numbers.

The hardest-hit states of New York and New Jersey account for 27% of cases and 37% of total deaths, but they’ve noticeably flattened their curves and are well into reopening. If their data is removed from the national total, the number of U.S. coronavirus cases has been holding steady or slightly increasing since March. The more alarming numbers are hospitalizations and deaths, which are both projected to increase in coming months according to CDC modeling forecasts.

This week we’re seeing reports of some states slowing their pace of reopening as new coronavirus cases climb in 22 states, with the Sun Belt or the southern tier of the country the most affected. It’s no coincidence that this region is where produce season is in full swing, with many new cases linked to farm workers. Since agriculture is classified as an essential service, health officials are not likely to shut down crop harvesting operations, so it’s not yet clear how this affects immediate truckload volumes.

If we follow recent Midwest meat-packing plants trends though, then labor shortages, reduced production and truck wait times are almost certain to follow. It is interesting to note that, of the top five coronavirus hot spots as measured by new coronavirus cases in the last two weeks, four of the five counties (Imperial, CA, Yuma, AZ, Yakima, WA and Durham, NC) are at the heart of major farming states, which account for 68% of total U.S. produce tonnage according to USDA data.

It’s clear we’ve got a long way to go towards economic recovery, with the truckload freight market already showing signs of being restructured. Using telematics data from their install base of two million commercial vehicles, Geotab reports that even though the daily volume of truck trips in the U.S. are down 11% this week compared to pre-shutdown baseline levels in February 2020, the number of daily fuel fill-up events are up (due to trucks running shorter trips with multiple stops at a lower mpg rate). Breaking the data down by truck type, the impact of the COVID-19 pandemic on consumer buying patterns is evident by the 60% increase in light duty vehicle trips involved primarily in final mile e-commerce deliveries.
Supply and Demand Trends

The dry van Load-To-Truck Ratio (LTR) increased by 7.46% to 2.88 last week on the back of a 6.48% week-over-week increase in spot market load posts, although this is still slightly behind load posts this time last year (down 3.87% y/y). After the massive spike in load posts in March when the pandemic shutdown took hold in the U.S., load posts have gradually been returning to normal and tracking closely with 2019 levels. Trucks searching for loads dropped 0.43% last week, as capacity tightened slightly and put upward pressure on spot rates, now up 14 cents since May 20 to $1.55/mile, excluding fuel surcharges FSC.
An increase of 5.30% in reefer loads posted in the spot market last week drove up the LTR by 7.67% to 4.21, which is seasonally close to this time last year. Last week there were close to 2% fewer trucks searching for loads, which is a sign reefer capacity continues to tighten as it normally does this time of year, but at a much slower pace this time around.
Dry Vans
As states continue to re-open and employees gradually return to work, we’re continuing to see freight markets involved in domestic manufacturing start to heat up. Major port markets are a different story, though, as they continue to report lower volumes impacting both the coastal dray and truckload dry van markets.

The Port of Los Angeles, the nation's leading port according to the Journal of Commerce, reported close to 30% fewer containers moved in May compared to the same time last year. Imports dropped 28.4%, while exports were down 37.6% as global trade continues to slow and trade relations with China continue to deteriorate.

In contrast, container volumes at the Port of Long Beach (ranked No. 3) increased by 7.6% in May, contributing to increased long-distance intermodal and truckload volumes in the Ontario, CA, freight market. On the opposite coast at the nation's number two port, Elizabeth, NJ, container volumes dropped 7.5%. Further down the East Coast at the Ports of Virginia (ranked #8) and Savannah (ranked #4), May container volumes dropped by 23% and 10% respectively.
At the national level, domestic and imported truckload shipments recorded their biggest decreases in the last three weeks, dropping 22% (domestic truckloads) and 14% (imported truckloads) respectively. At the local market level, two-thirds of freight markets are now showing increased volumes as they move into peak produce season. Watermelon and berry seasons are driving up volumes in Florida and Southern Georgia markets, as the cherry season in Stockton on the West Coast draws to a close and shifts to Washington state.

According to the Northwest Cherry Growers, the Pacific Northwest cherry season expects to produce close to 20 million 20-pound boxes, which equates to around 625 truckloads per week over the 16-week season ending late August. We expect Pacific Northwest markets to provide plenty of backhaul opportunities for carriers looking for loads out of the PNW over the next 6-8 weeks.
Flatbeds

Spot rates for flatbeds continued to rise last week and are now up 14 cents over the last month to $1.55/mile, excluding fuel. Regional moves on lanes between Texas and Louisiana recorded the largest spike in spot rates, with loads between Dallas and New Orleans jumping 13.33% as the rebuilding efforts from damage caused by Tropical Storm Cristobal continues.

Better news on the home sales and building front, with May data showing total housing starts and building permits increased by 4.3% and 12% respectively. The freight-intensive single-family housing market is still down 18% y/y but did record a slight 0.1% uptick in May due to builders opting to remand ‘land-light’ in April, as they stopped buying land to keep balance sheets healthy. Flatbed carriers and retailers in the building, construction and landscaping sectors have every reason to be optimistic in the short-term, as the faster-than-expected turnaround in homebuyer demand resulted in the National Association of Home Builders/Wells Fargo Housing Market Index jumping 21 points to 58 – the largest ever monthly increase after plunging 42 points in April.
Truckload rate trends

Dry van spot rates are tracking very close to 2017 and 2019, which is an encouraging sign for the market following the roller coaster ride of recent months. Demand for freight to aid in the rebuilding effort following Tropical Storm Cristobal is also evident in the dry van sector, where rates increased by 13.33% ($1.86/mile, excluding fuel) on the Dallas to New Orleans lane. We expect dry van rates to continue their upward trend right through July 4. But unlike in other years when capacity decreases as drivers take time off, we expect capacity to remain in the market this year to make up for lost revenue from Q1.
Note: The graph above shows 7-day rolling, weighted averages of spot truckload rates, updated daily, and illustrated by year. The average helps to smooth out day-of-week effects, but it is plotted daily to show how things are changing in the extreme near term. DAT does not typically publish rates in this format, and as such, they will not match other figures that customers may be familiar with in our blog or other content. We are making these available to the public to help demonstrate the rapidity of changes occurring in the spot market.
National reefer rates are hovering around $1.89/mile, excl FSC this week and are only 3 cents lower than the average for the prior five years ($1.62/mile excl FSC). After plateauing over the last few weeks, it looks like the seasonal rate spike in mid-July will be much lower this season, as restaurants and food services industries struggle to reopen, while summer vacations and travel take on a very different look.

According to the USDA, domestic truckloads of fruit and vegetables dropped by 226 loads last week and by 4,130 truckloads for imported produce – a total of 4,356 fewer truckloads in the last week. Reduced volumes on imports of produce from Mexico and Canada is the major contributor to the recent reefer rate rally losing steam.
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Rate Forecasts

Note: It warrants mentioning that forecasting during this volatile and uncertain time period is difficult. Our team is working diligently to update and adjust the models, but new information becomes available at a rapid pace, which further complicates the issue. DAT would typically not publish these types of preliminary studies, but we feel that the benefit of sharing our observations far outweighs the risk. We ask that you please treat these statements and exhibits as directional and consider them as a variable in your own analyses.

How to interpret the rate forecast

1. Ratecast Prediction: DAT’s core forecasting model estimate showing continued optimism and rate growth.
2. Short Term Scenario: Formerly the pessimistic model that focuses on a more near-term historical dataset.
4. Blended Scenario v2: More heavily weighted towards the shorter-term model.
Need more information...

Our update will be refreshed next week, or sooner if conditions change materially. We recommend that readers visit [dat.com/covid19](http://dat.com/covid19) for the latest information. Any questions on this report or market conditions can be emailed to askIQ@dat.com.

*We are also making available, free of charge, the DAT Daily 50, which is a daily report of the top 50 lanes by volume with a week’s worth of history and predictions using the Ratecast model.*