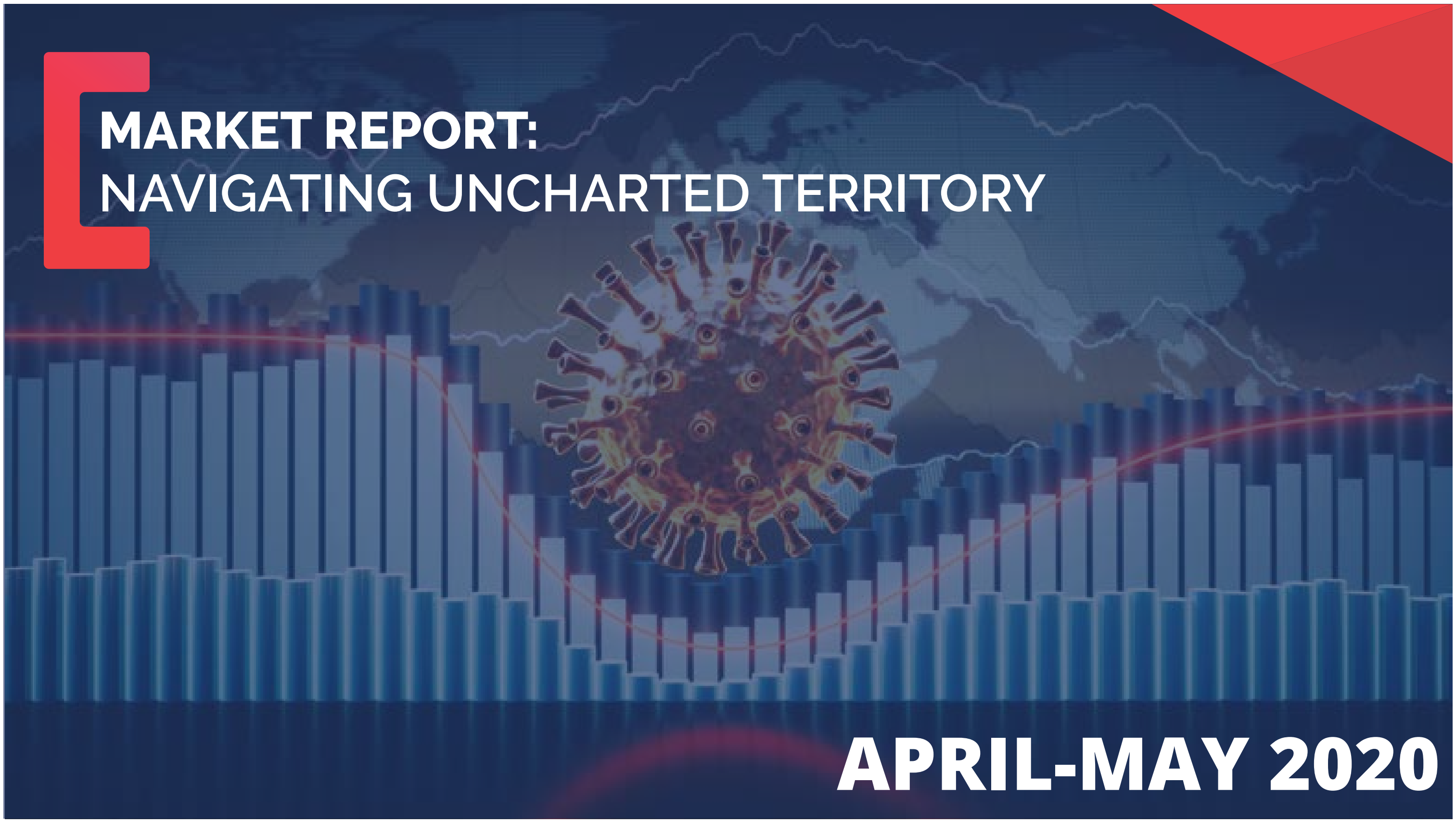


# MARKET REPORT: NAVIGATING UNCHARTED TERRITORY

## APRIL-MAY 2020

Like the famous words of Captain James T. Kirk, we are boldly going "where no man has gone before," and I am not talking about the outermost regions of space. I am talking about right here on terra firma. Sure, we've had plagues and pandemics before, but never with the population, economy, and intricate network of transportation and travel that we have in the 21st century. It is a brave new world, alright, and we are scrambling to adapt and adopt.

Luckily, adversity is the mother of invention, and it is evident in the way we as humans are adapting to the global pandemic. Shippers who are lucky enough to be manufacturing are facing serious challenges, such as working with reduced staff, dealing with volatility in order patterns, finding a need for alternate sourcing, and navigating around unclear government regulations that differ from state to state. Despite the chaos, freight keeps moving, and shippers are finding new and sometimes better ways to get the job done.

## ECONOMY

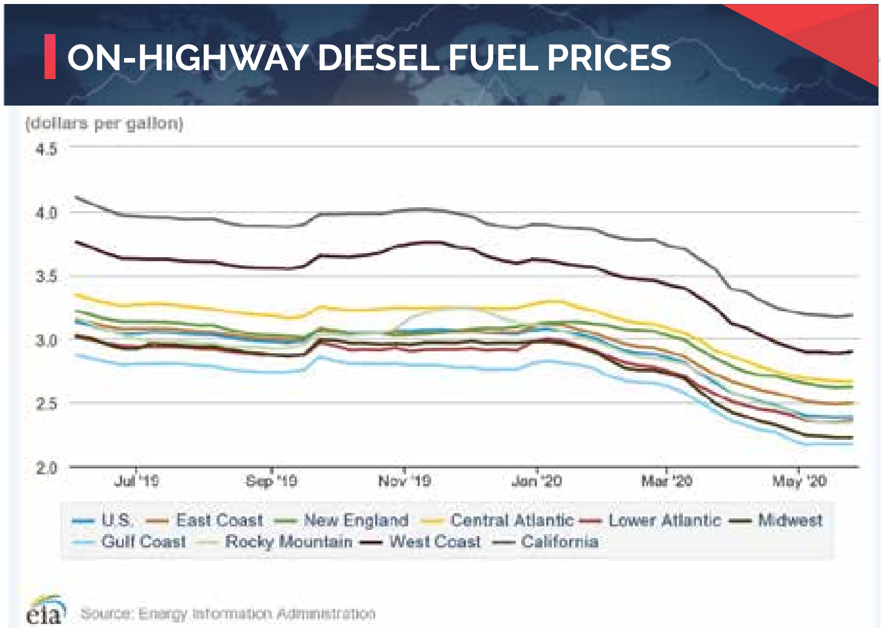
People are re-evaluating their needs versus their wants, which profoundly affects consumer spending and sentiment in our economy. A recent report from the ADP Research Institute shows that American's purse strings have tightened during the pandemic for purchases relating to travel, dining, entertainment, and clothing, while grocery, health products, home improvements, and online electronics are enjoying an uptick in activity.

As supply and demand changed this quarter, we can see some of the key indicators that have affected the

### HOW AMERICANS ARE SPENDING MONEY

| | 5/7 | 5/6 | 5/5 | 5/4 | 5/3 | 5/2 | 5/1 (Pay day effects) | 4/30 |
|---|---|---|---|---|---|---|---|---|
| Airlines | -95% | -93% | -96% | -100% | -87% | -101% | -100% | -100% |
| Lodging | -83% | -82% | -85% | -88% | -81% | -83% | -80% | -88% |
| Entertainment | 92% | 93% | 89% | 96% | 93% | 71% | 84% | 93% |
| Restaurants | -36% | -35% | -31% | -39% | -52% | -48% | -41% | -41% |
| Transit | 56% | 56% | 55% | 60% | 63% | 51% | 61% | 64% |
| Gas | -41% | -43% | -42% | -44% | -45% | -41% | -44% | -48% |
| Clothing | -39% | -34% | -33% | -32% | -61% | -65% | -45% | -43% |
| Furniture | 7% | 4% | 7% | 9% | -28% | -27% | -1% | -5% |
| Department store | -42% | -35% | -28% | -26% | -56% | -72% | -57% | -49% |
| Online electronics | 111% | 122% | 126% | 130% | 130% | 126% | 155% | 131% |
| Grocery | 29% | 28% | 40% | 20% | 1% | 17% | 23% | 30% |
| General Merchandise | 18% | 16% | 19% | 17% | -11% | -7% | 3% | 11% |
| Health, personal & beauty store | -2% | -5% | -3% | -8% | -26% | -20% | -5% | -8% |
| Home improvement | 31% | 27% | 24% | 28% | 41% | 34% | 39% | 25% |
| Retail ex auto | 4% | 4% | 10% | 2% | -16% | -12% | -1% | 0% |
| Total online retail | 84% | 78% | 76% | 68% | 86% | 106% | 96% | 77% |
| Total card spending | 9% | 6% | 4% | 6% | -10% | -14% | 0% | -14% |

Source: BAC internal data. Note: > 100% decline reflects refunds. We advise taking a moving average to decipher the underlying trend. Note: 5/1 pa paychecks on April 30th. Total card spending includes total BAC card activity which captures retail sales + services which are paid with cards. Does not



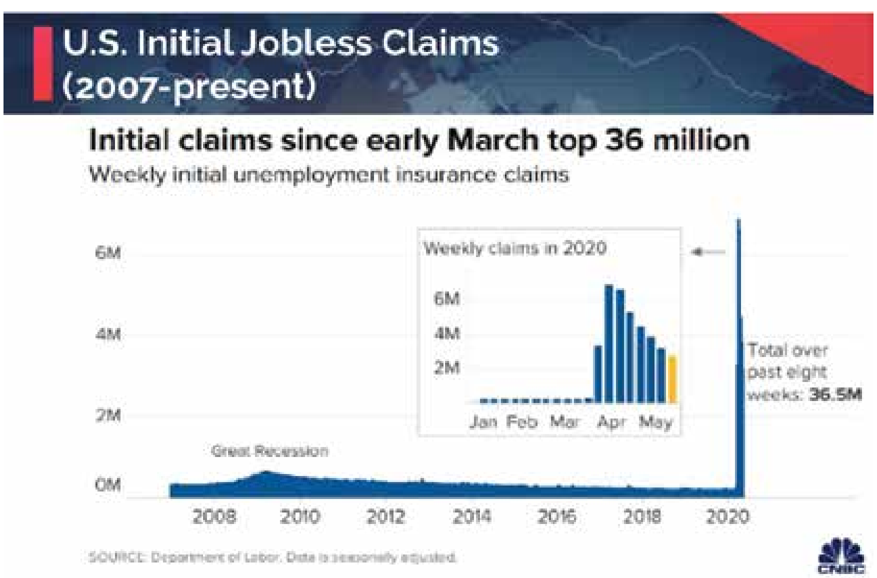

market. On the supply side, diesel fuel prices (see chart left) and class 8 truck orders (see chart below) both saw significant declines this quarter. On the demand side, things like truck demand, consumer spending, industrial production, and imports also lagged notably behind last year at this time.

There are different schools of thought regarding the rebound of our nation's economy. With the stay-at-home mandate lifted and the world coming back to life, there is hope that manufacturing is going to ramp up quickly to pre-COVID levels, creating a surge in consumer confidence and goods to the market. The government stimulus package could help with this optimistic viewpoint as well. Others hold a more conservative opinion, citing that high unemployment in a consumer-driven economy will be problematic for a quick recovery. Either could be true. We will have to wait and see what happens in Q3 and Q4 to understand the full effects of COVID-19 on our industry.


(Courtesy of Bulk Transporter)

## UNEMPLOYMENT

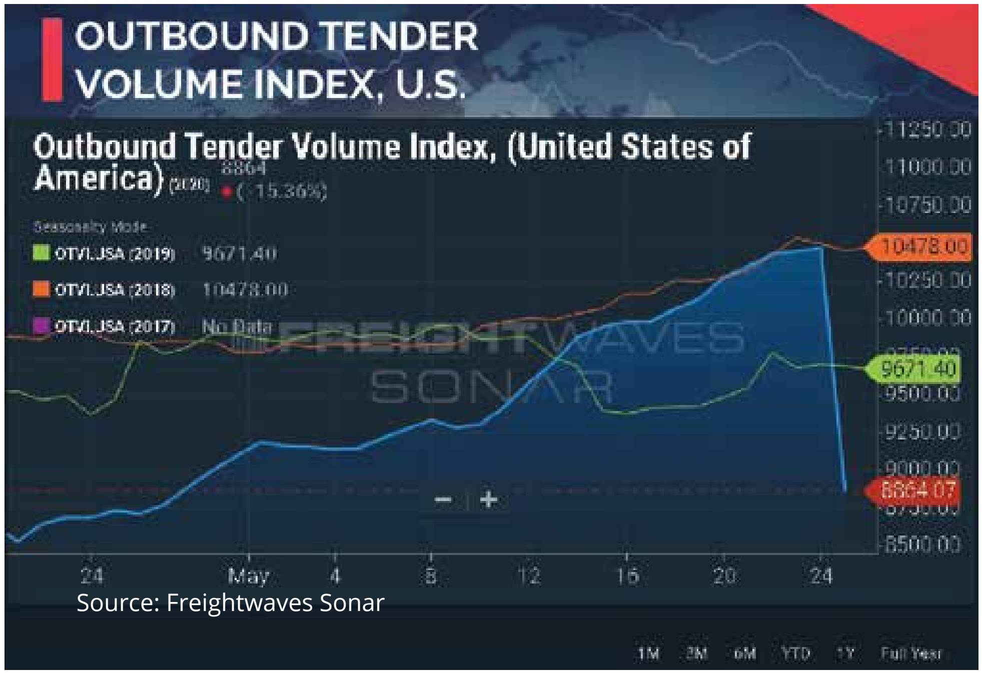
According to a report in the Philadelphia Inquirer posted on May 8, 2020, in the transportation and warehousing sector, employment fell by 584,000, including losses in transit and ground passenger transportation and in air transportation.




## VOLUMES, RATES, AND TENDER REJECTIONS

Volume: According to Transport Topics, April's truck tonnage was down 11.3% year over year. "April's monthly decline was the largest in 26 years when there was a labor strike in April 1994," said ATA Chief Economist Bob Costello. This decline is no big surprise due to COVID-19.

May, however, has proven to show some strengthening in the market (except for the typical holiday dip). Volumes for reefers unexpectedly showed some softening just before the Memorial Day weekend, while volumes for dry vans took a surprisingly upward track.

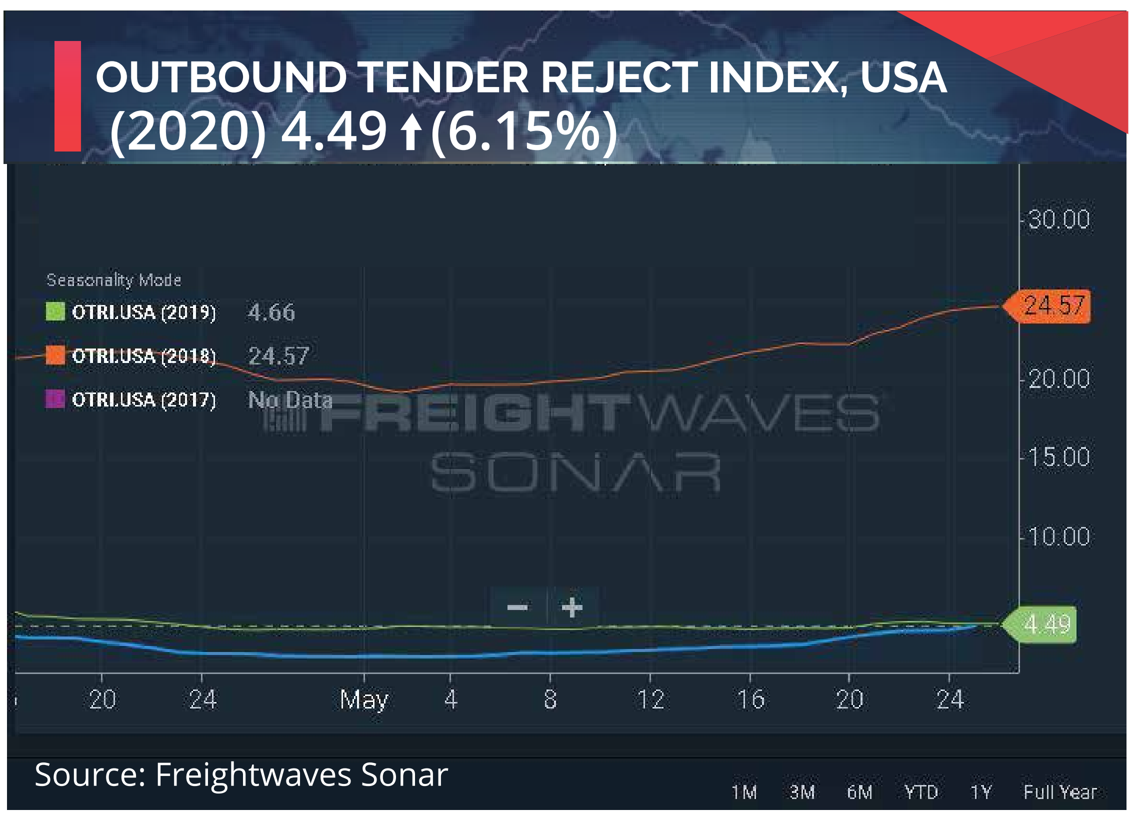


Source: Freightwaves Sonar

Although states are reopening, some of the most densely populated areas are keeping stay-at-home orders in place, and businesses remain closed. As restrictions slowly ease in these urban areas, volumes and rates are expected to increase. On May 21, volumes surpassed those of 2018.

## RATES

DAT Trendlines reports in May that the national averages for van and flatbed rates are still below April's numbers. On April 24, 2020, the outbound tender volume index (OTVI) was reported the lowest of any non-holiday value in its three-year history. Capacity remained loose. In May, national carrier rates began to emerge from this year's all-time low, and analysts think we have hit the bottom of the market and now could be seeing the winds of change. With the country opening back up, truckload volume is increasing, and inventories will need to be replenished. Reefer rates and volumes produced the most reliable indication of strengthening in the early part of the month.



Source: Freightwaves Sonar

Tender Rejection: Tender rejection rates hit bottom in late April at 2.0% and have been creeping up slightly ever since. Tender rejections hit a little over 4% right before the Memorial Day holiday as the market became tighter, and volumes increased. Now at the end of May, rejection rates are at 4.61 compared to 4.57 last year at this time.

## SUPPLY CHAIN PRICING POWER INDEX

Another indicator or the current freight market is DHL's Power Pricing Index. The gauge hit its lowest mark at 10 points in March but is beginning to creep back up toward the carrier's favor. Just as fuel will rise and capacity will tighten as the pandemic (hopefully) subsides, the pricing power index could swing even more favorably toward the carrier.


## LOGISTICS MANAGERS INDEX

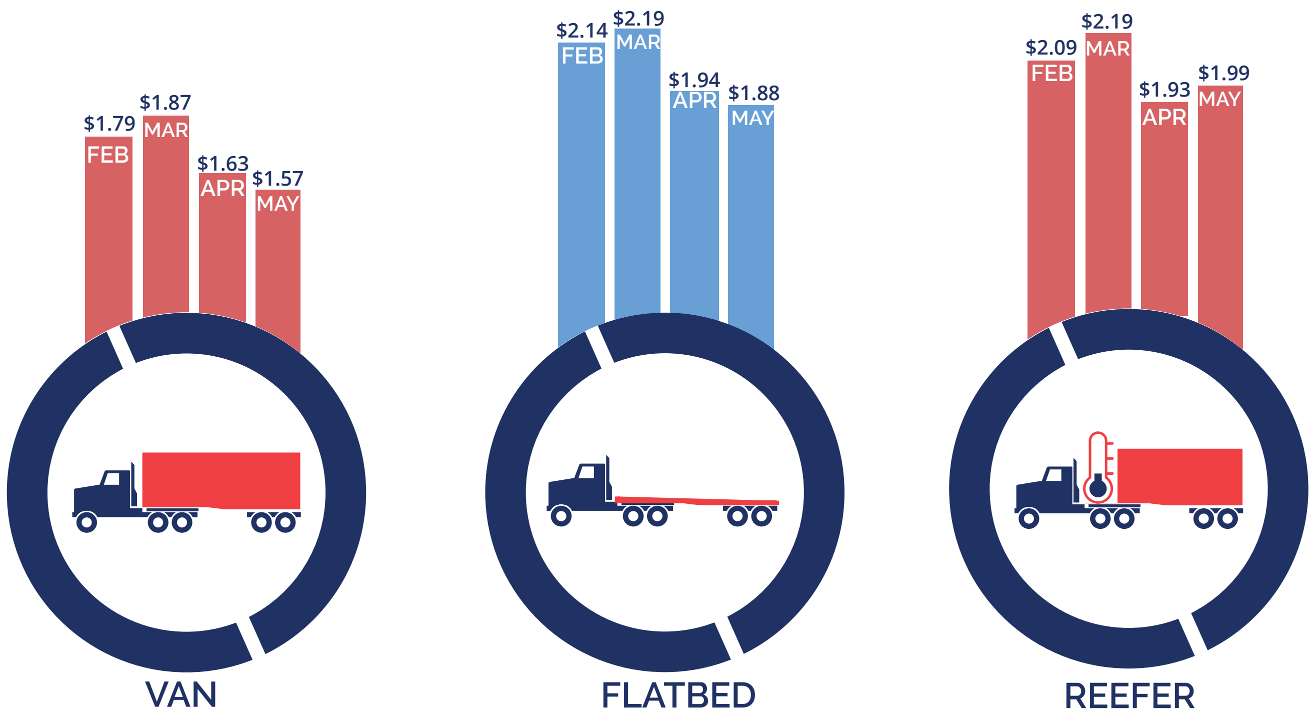
The Logistics Manager's Index is another important set of data that helps analysts decipher the current state of the freight market. It measures eight different factors that play an essential role in the industry. They include inventory levels and cost, warehousing capacity, utilization and prices, transportation capacity, utilization, and prices. Any reading above 50 is an indication that the market is expanding. Conversely, any readings below 50 are a sign that the market is contracting.

The LMI is currently at its lowest point ever, registering at 51.3. Last month, the index was at 58.9, which is the fourth time the LMI has hit a record low in seven months. A new report, being release on Tuesday, June 2, 2020, is said to show the LMI at 54, mirroring that of Q4 of 2019.


The Logistics Manager's Index (LMI) is a joint project between researchers from Arizona State University, Colorado State University, University of Nevada, Reno, Rochester Institute of Technology, and Rutgers University, supported by CSCMP.

# NATIONAL SPOT RATES

## Spot rates rise ahead of Memorial Day weekend




**NATIONAL SPOT RATES – DAT TRENDLINES**
**Week of May 11-17, 2020**

## BLANK SAILINGS/INTERMODAL/PORTS

Cargo ships have slashed services in April, although according to the Port Strategy website, "The number of sailing cancellations has decreased between April and May by 12%, apart from the Transpacific trade, where there is a 32% increase in canceled sailings." February saw the biggest hit with 105 cancellations. Towards the end of April into early May, containers coming into the ports saw a spike in imports, but it didn't last long, and volumes quickly declined again. Domestic rail movements fell in Q1 by 1.8%, and it is projected to decline even further in Q2. According to the Association of American Railroads (AAR), April's intermodal is struggling because, as a DAT headline indicates, "Truck Rates are Dangerously Low Right Now." Trucks rates are so low that intermodal can't compete in many cases, especially when fuel prices are also low. This situation may change, however, as many fleets and owner-operators decide to park their trucks because of these low rates resulting in less capacity. Seasonal produce surges may further tie up the existing capacity, which could make intermodal an attractive alternative again.

As eluded to at the beginning of this market report, we are in the midst of uncharted territory, and only time will tell what the future holds. We have re-learned an age-old lesson about the nature of disruption. It is inescapable as well as inevitable. How we react to it and how quickly we adapt will be the measure of our success. It will be one for the history books!

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