

# MARKET REPORT:

## The Logistics of a Pandemic



### Market Report Q1 2020: The Logistics of a Pandemic

*Looking at the freight market in Q1 of 2020 is much like watching the new season of Ozark on Netflix; it first requires a brief look at what came before. My personal binge-watching policy dictates that before diving into a new season, I do a quick recap of the last two episodes to get the full impact of what is going on now.*

So, let's review what was happening in Q4 of 2019 in the freight industry. Everyone summed up the year by comparing it to the bull market of 2018, with slight resignation but hopefulness. The overriding sentiment was that even though the market in 2019 paled in comparison to the previous year, the industry was still experiencing growth, and we had 2020 to catch up.

America's urgency to over-order inventories to get ahead of the escalating tariff wars in late Q4 produced higher than usual freight volumes. Then came the Chinese New Year, which slows production in late January until factories resume business-as-usual, about 15 days later. This is an anticipated interruption in the supply chain, and China factors this in going into the celebration. During this time, high U.S. inventories from overstocking combined with the usual seasonal slow-down of imports from the Chinese New Year created excess capacity at levels that the nation had not seen in years.

Then COVID-19 hits. Factories in China are shutting down in late February as fears of the virus spread. Inventories of amply stocked supplies are being depleted. Food Logistics magazine reports that factories in China are at 40-70% of capacity. But despite the panic- buying and chaos, America's supply chains are keeping stores surprisingly well-inventoried.

Many Americans are unaware of the staggering job our industry is currently undertaking. Keeping things moving when employees across the country are required to social distance themselves and work remotely has challenged the entire logistics world. Those who were prepared with crisis management plans and advanced technology teams have been able to keep on track. That means maintaining truck schedules, tracking shipments, and keeping the lines of communication open. Choptank Transport, for example, was able to quickly transition to remote servicing because of its progressive business intelligence and IT teams working diligently through the first alarming days of the pandemic.

**ECONOMY AND UNEMPLOYMENT**

Unemployment and the economy both looked very different in January than they did in February. Now well into March, we see a drastic change in the numbers daily. We started the year enjoying a 50-year low in unemployment.

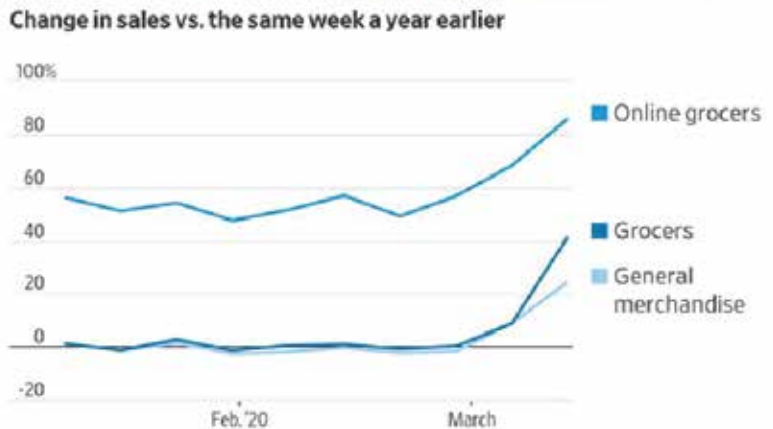


Today, some economists are projecting anywhere from 10.6% to as high as a 30% national jobless rate.

The economic forecasts are not much better. A recent headline in Forbes offers predictions of a \$1.5 trillion drop in GDP, while Fortune Magazine reports that some U.S. economists estimate the GDP could fall 30.1% in April – June. The Fortune article also speculates that unemployment could jump to an average of 12.8%.

Retail has suffered during the pandemic with plummeting sales of non-essential items like clothing and footwear, whereas online stores that sell general merchandise like WalMart and Amazon are having trouble keeping up with demand. According to the Wall Street Journal, a third of all households decided to use online grocery pickup or delivery March 9-13, and 40% of those tried it for the first time.

With so many different predictions on GDP drops and unemployment numbers, it is safe to say that it will be influenced by the extent and duration of the shutdowns and quarantines from COVID-19.



Source: Earnest Research

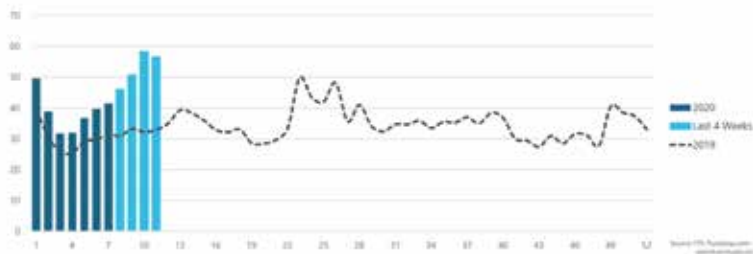
**TRUCKLOAD CAPACITY AND RATES**

Let's look at rates first. Location and capacity are the names of the game when it comes to rates in the spot market. Van, flatbed and reefer rates are all rising. One of the most significant factors determining price is, of course, demand, but also playing an important role is where the freight is picking up and where it is going. Currently, anything going from West Coast eastward is going to see higher rates and tightened capacity as the ports start slowly moving

## Weekly MDI

Weekly Market Demand Index (MDI)

Down 1.8 points from the previous week.

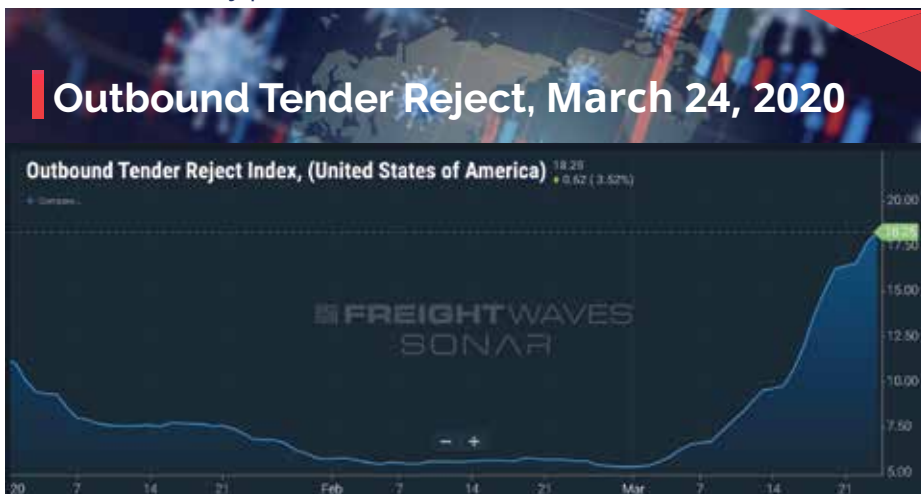


typically mean increases in tender rejection rates, which were at historical lows at the beginning of this quarter. Rejection rates have more than doubled since the beginning of March and are expected to continue to climb.

Reefer rates are averaging \$2.15 per mile, a six-cent increase from one month ago. Midwest reefer rates are highest and are lowest in the Northeast.

Note: As of the publish date of this report, the market has slightly changed (and continues to change daily). Although tender rejection rates are still rising, truck rates are now on a downward trend and capacity is increasing, with volumes leveling off. For the first time in weeks, volume has not increased.

This opening up of capacity is most likely from customers slowing down or ceasing operations due to the pandemic. This will most likely push truck rates down.

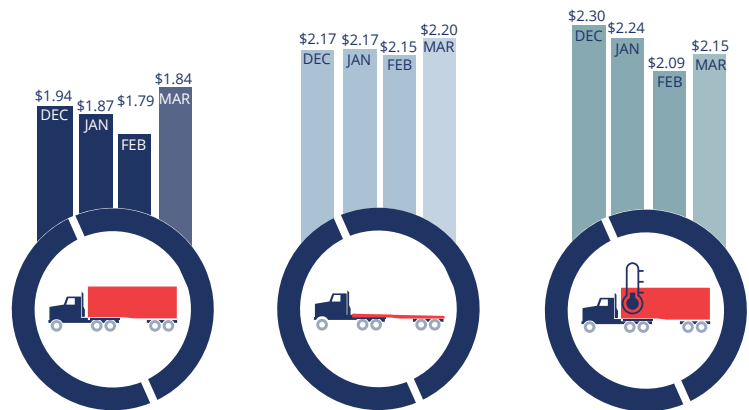


again. The same scenario holds for freight moving from south to north fueled by early strawberries and other Florida spring harvests.

And speaking of capacity, the need to restock shelves stemming from the COVID-19 scare is tying up trucks as well, causing surge capacity (anywhere from 15% - 90% in the consumer-packaged goods arena). Add to that the aforementioned produce season will be heating up. This confluence of events caused the national average load-to-truck ratio to rise from 4.6 to 6.2 loads in a week, according to last week's DAT Trendlines report.

Outbound tender volumes have been increasing week over week and have exceeded those at this time of year in 2018. Spot market postings, too, are seeing an uptick and are almost reaching those numbers of 2018. Increases in volume

## National Spot Rates: Van, Flatbed, Reefer



Canada and Cross-Border According to Transplace, "Spot market rates are increasing for freight going from Mexico to the California, Washington, and Oregon areas. Local truckers are not finding returns from these markets charging premiums on the northbound side to compensate their empty miles."

Even though the border between the U.S. and Canada is closed temporarily for non-essential travel, it will not affect those in the supply chain because they are considered essential travelers. Canadian drivers also are being exempted from Canada's 14-day self-isolation act.

## INTERMODAL & PORTS

Rail capacity has been good in the first quarter of this year although pricing has been a little high in some areas. Most recently, intermodal volumes in the western part of the U.S. have increased because truckload capacity is tightening with some produce markets kicking in. Although overall rates have changed little, this uptick in OTR volume and capacity means some savings are possible by requesting intermodal rates instead of shipping by truck.

The biggest problem in the intermodal sector right now is the shortage of 40' and 53' containers, which are expected to remain scarce for the next 30 days, according to Transplace. This "empty problem" is due to a lack of imports from China and congestion at ports on the West Coast. Many ports still are experiencing severe congestion. The ports of Los Angeles / Long Beach and Oakland are experiencing delays due to a lack of space for empty containers that are awaiting return to seaports in Asia. Also, work shifts have been canceled because of low container volumes, and a reduction in gate hours is exacerbating delays. Reported wait times are anywhere from 3-6 hours, creating further congestion. East Coast ports, like Port Baltimore, are seeing decreases in volume as well, so much so that employees have reduced their work hours by 75 minutes a day.

## CONCLUSION

We are facing uncertain times ahead. As the great Greek philosopher, Socrates said, "The only thing I know is that I know nothing." An unprecedented shortage of capacity could become an issue as soon as May or April. Asian factories will be getting back online, creating a rush of imports hitting our market. The need for empty trucks will be intensified by the arrival of produce's peak season, further straining capacity. I predict BC19 and AC19 will be the new slang used to refer to before and after COVID-19.

Please keep in mind that choosing a 3PL that has remained a reliable resource for you during even the worst of times, is a true benefit. 3PLs that can collect, communicate, and manage the many challenges in today's world of complex logistics, will determine your success! If 2020 has challenged you, you are not alone. But, be hopeful there are plenty of quality 3PLs that will weather these storms by your side. Welcome to a new world!

## WHAT IS CHOPTANK DOING TO SECURE YOUR SUPPLY CHAIN?

- We have successfully created virtual workstations to allow the majority of Choptank employees to work remotely.
- We are spending as much time as possible sourcing added capacity to help both retailers and manufacturers surge volume.
- Our focus remains to be a valuable resource for your supply chain.
- As different areas go through closures and curfews, we all should understand and appreciate that it may cause delays with added diligence required to determine pickup and delivery options.
- With a large percentage of the company's staff now working remotely, Choptank is giving each employee \$100 to spend at their favorite eateries within 50 miles of their workspaces. Choptank has more than 400 employees, which means it will infuse more than \$40,000 into its local economies through restaurants, coffee shops, and other food establishments.

"We know this is a stressful time for everyone," said Choptank's President & CEO, Geoff Turner. "Our employees are doing a Herculean job of keeping America's freight moving under less than ideal circumstances. This is a way of saying thank you to them while also helping mitigate some of the crushing economic effects to our local business community."

Everyone at Choptank wishes our shippers, carriers, and other supply chain partners the best during these uncertain times. As always, we are standing by ready to help you with your transportation needs. Please feel free to contact us.

