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SHIPPING & TRANSPORTATION

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Logistics Moves Pretty Fast

"Life moves pretty fast. If you don't stop and look around once in a while, you could miss it." — Ferris. The iconic picture of these two looking at the Ferrari careening down the hill might describe the shock you are feeling as the market pivoted sharply this past month. Of course, it depends on which side you are on as to whether you have a smile or a frown! Just as "Ferris Bueller's Day Off" enjoys a resurgence after 30 years we are reminded, once again, of how things are cyclical and we should be anything but shocked by the market's volatility. Studying truckstop.com's MDI report, history shows that rates are following a trend by softening this time of year, but the drop has been bigger than expected. It is also the same time that mother nature visited last year and gave us a big push into this current, chaotic market, so, it's no time to take your eye off the ball and a great time to secure a good partner to make sure capacity is available for the upcoming months.

Here is a brief market overview and report on all the factors driving the current market, our expectations for where it's headed, and most importantly, how to manage this market and come out on top!

Making a market forecast can be as unpredictable (see *Table 4 below*) as Ferris' next scheme, but certain factors can help give us guidance. After last year we all experienced the power of Mother Nature. The hurricanes wreaked havoc on the ground and threw the markets into a chaotic spiral that is starting to stabilize a year later. Riskpulse recently suggested that this hurricane season will be much tamer than last year, which is good news for us all. Most key predictive variables, from sea surface temperatures to wind shear, suggest the Atlantic Basin will be free from huge, disruptive storm activity.

The market seems to have absorbed the ELD factor which helps stability too. The national load count (see *Table 2 below*) went over 7 million in June, but dropped back down, following historical trends, to under 5 million in July.

This does seem counterintuitive with Walmart and Target reporting historical highs for the quarter and pundits declaring a "retail renaissance" underway. The Port of Los Angeles also recorded a record high for the month of July, although the impending tariffs are driving that trend. Couple those factors with the fact that unemployment filings are at a record low, housing rebounded in July and U.S. worker productivity is accelerating at the best pace in more than three years, and the rates (see *Table 3 below*) and **MDI** will start to creep back up this month and could start to match last year's numbers.

The U.S. economy and the driver shortage *(see blog:* The Meg of Logistics) are two major forces shaping the market now, and in the coming months. North American fleets are betting on a strong continued economy and that they can find those drivers as more than 300,000 big rigs were ordered year-to-date, which is on track to set an annual record this year.

The July Cass Freight Index Report discussed inflationary pressure and the fears about what it might do to the market in the near future:

> "As we explained in previous months, we do not fear long-term inflationary pressure as technology continues to provide multiple ways to increase asset utilization and price discovery in all parts of the economy, especially in transportation. In fact, we are seeing more signs that ELDs (Electronic Logging Devices) initially hurt the capacity/utilization of truckers (particularly small truckers), but many of the truckers most adversely affected are now beginning to get some of the loss in utilization back, especially in the dry van and reefer (temperature control) marketplaces. The flatbed segment of trucking, however, is continuing to struggle with productivity after the adoption of ELDs."

As previously mentioned, some wild cards are at play as the Trump administration pushes tariffs that could cause some wholesale changes in the industrial sector. This could impact goods from Harley-Davidson motorcycles to Kentucky Bourbon as our big brands and agricultural exports could see retaliatory tariffs. The rail networks are finally recovering as CSX made overhauls and the Canadian Rail Network mitigated possible strikes. Intermodal, with double-digit growth from shippers escaping high truck rates, is seeing capacity shrinking in this sector. (Page, 2018)

So, we can agree that life, and the market, move pretty fast; however, we could all use a friend like Cameron who is a bit more rational than Ferris and doesn't stop to smell every rose on the path! As capacity tightens this year, a broker with a large network of vetted carriers will keep your freight moving on time and on temp. A trusted partner with a strong intermodal, LTL, port and truckload team will give you peace of mind and keep you delivering results for your company.

We, at Choptank Transport, are not expecting any quick or easy fixes. Relying on your partners and the experts can relieve a lot of stress and provide solutions in navigating this volatile market. An experienced third-party logistics provider can utilize their established pool of carriers, up-to-date technologies to track the market and well-trained staff to provide real-time information and the best rates available. Request a quote today to see how we can help you improve your supply chain. No matter which mode of service you need, Choptank can deliver via truckload (dry and refrigerated), DRY LTL, Cold LTL, Intermodal, Flatbed/Oversized, Specialty Loads and more.

TABLE 1. ***Market Demand Index** *(MDI)* by Truckstop.com

*The MDI is a measure of relative truck demand in the spot market. It compares load availability to truck availability.

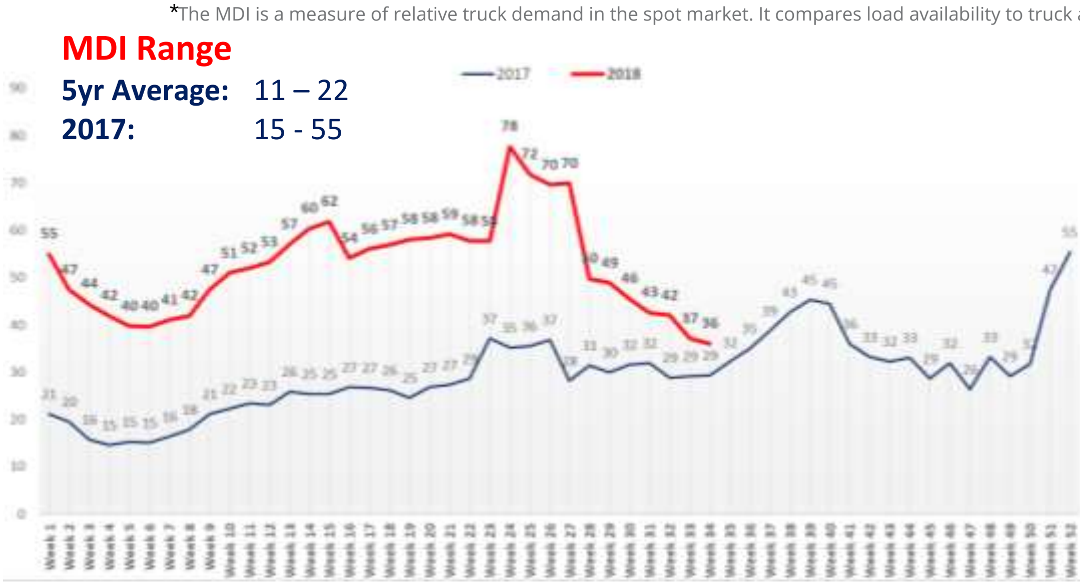


TABLE 2. **National Load Counts** by [DAT.com](DAT.com)

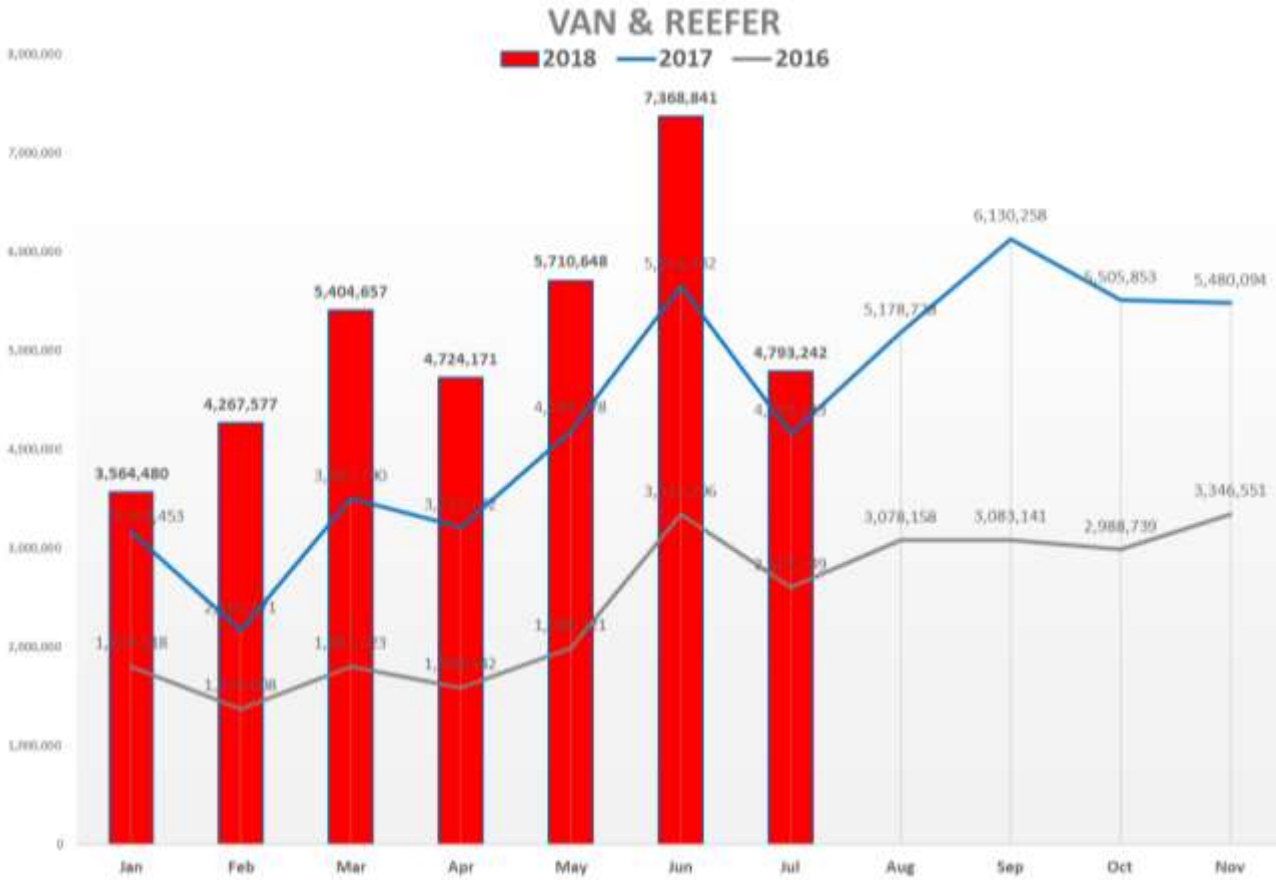


TABLE 3. **National Broker Rates** *(including fuel)* by Truckstop.com

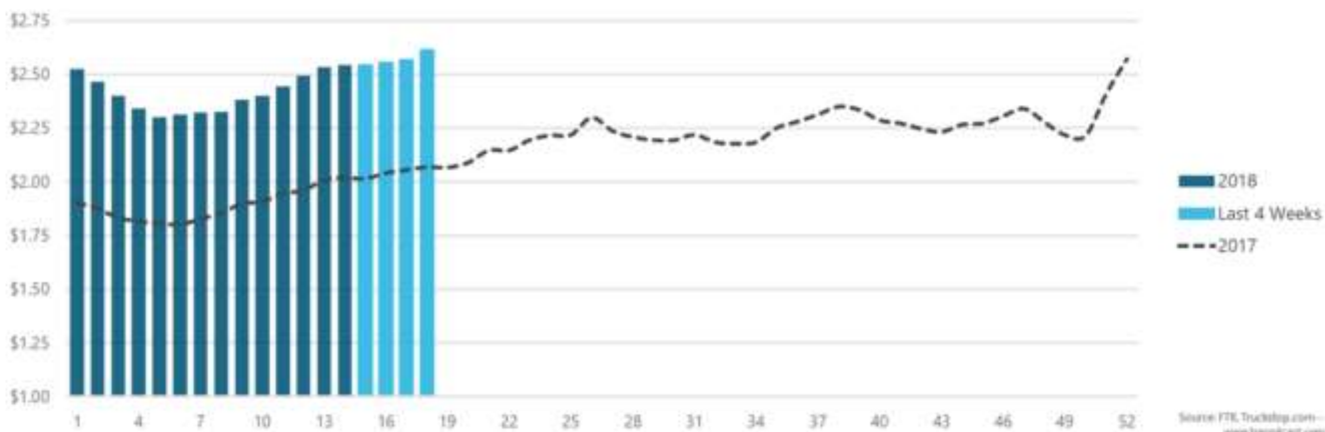
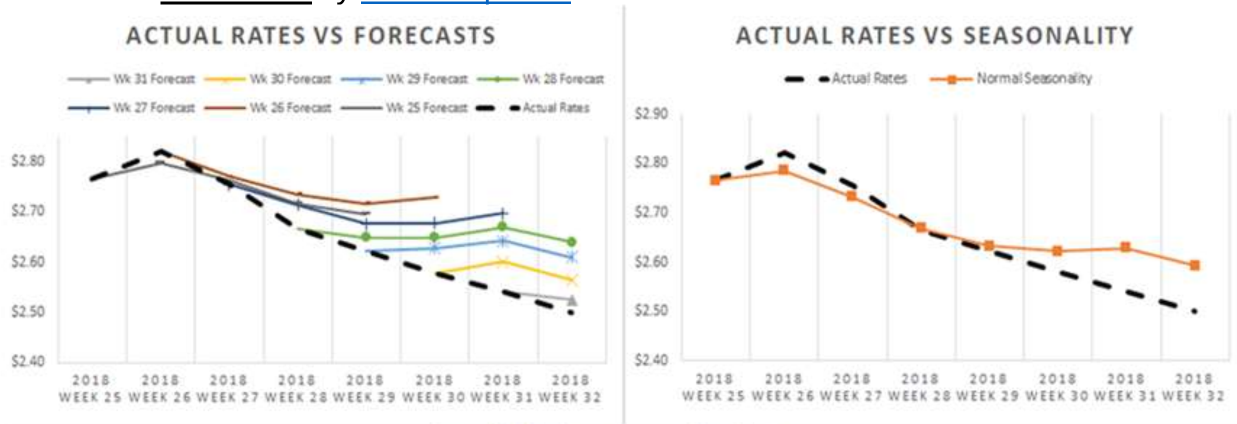


TABLE 4. **Forecasts** by Truckstop.com



Source: FTR, Truckstop.com -- www.Trans4Cast.com --

As expected, the spot market has come down from its mid-year highs. Both the Market Demand Index (MDI) and Spot Rates have been moving down after peaking prior to week 27. We know that the market typically cools off some following the summer spot freight peak. This year we had a record MDI decline during week 27 as the market came down from the record high levels seen from Memorial Day until July 4th. Are we seeing a normal slowing of the market, or something more significant?

Comparison to Weekly T4C Forecasts

Each week we give you a 4-week running forecast for MDI and Spot Rates to help you assess which way the markets are trending. You can see from the chart on the left that our forecast model has been over-forecasting rates compared to the market's actual response. While the differences were minimal as we hit the peak of this cycle, more recent weeks have seen a substantial weakening of the market compared to our expectations. A similar result is seen when we compare the results for the MDI, however the biggest deviation from expectations occurred a few weeks earlier following the big drop in MDI in week 27.

Comparison to Normal Seasonality

When we compare the rates results versus what we would normally expect to occur based on past historical data the market was relatively in line through week 29 before showing any notable weakness. You can see the results in the right chart.

What Caused the Forecast Error?

The market has been running at elevated levels for more than a year. It is not a surprise that our forecast models did not adequately response to these near-term changes in conditions. We are reviewing the models to see where any potential changes can be made to help account for these normal fluctuations in market activity.

Is this a Bad Trend?

While the downward trend is certainly worth recognizing and paying attention to the overall market is still running at elevated levels and we only have 2 or 3 weeks of data that is running well below normal seasonal behavior. That is not enough for us to conclude that the market is 'weak', merely that it is 'weakening'.

One item to keep an eye on is that the year-over-year comparisons are going to get much tougher in just a couple of weeks as we overlap the beginning of Hurricane Harvey. You may need to discount the year-over-year comparisons for the balance of 2018 and focus on how well the market is trending compared to a 'normal' year.

References

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