PERIOD: DEC 2018 – A YEAR IN REVIEW

SHIPPING & TRANSPORTATION

Brian Fox, Choptank Staff

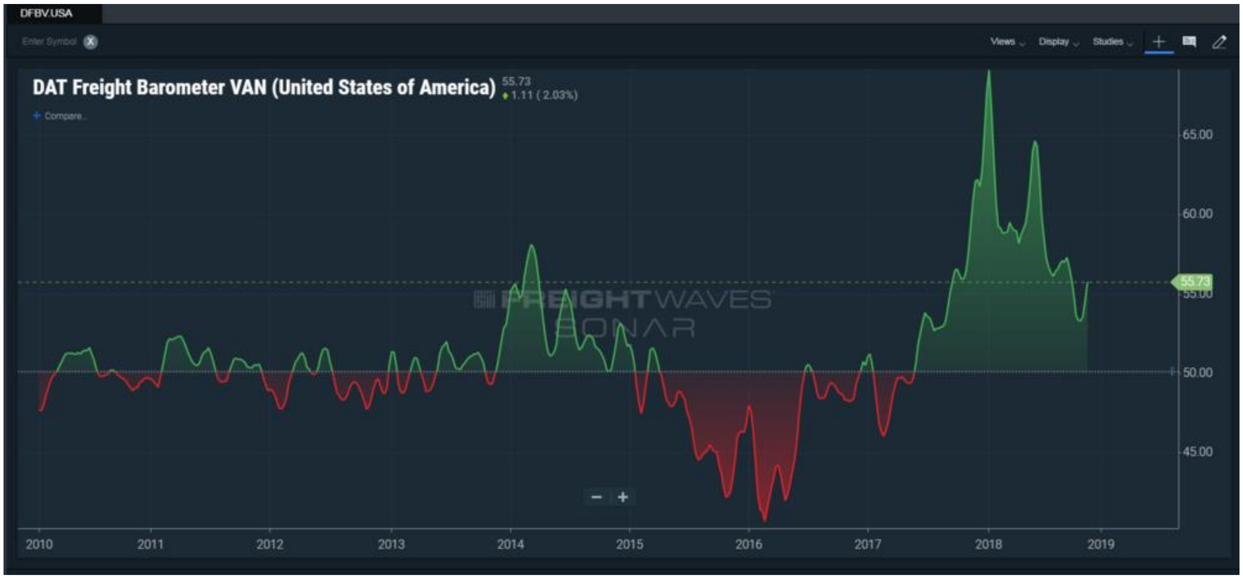
From Trump to the Griswolds…2018 in Review

A lot has happened in the world of transportation and logistics in 2018. This could be a novel about all the things that happened in 2018 and the many predictions for 2019. Above all of the headlines, though, we have lived through the strongest year for spot and contract pricing increases in the history of trucking in the U.S. 25% increases in the spot market rate, 30 percent in dry van and reefer, and spot market rate increases of over 25 percent in flatbed; which were followed by contract rate increases of over 15 percent in all three modes! All that data could point to another turbulent and soaring market in 2019. However, and lucky us, there is a mountain of data to dig into and the picture becomes clearer after some good analysis.

Of course, all predictions depend on some large macro factors, with some drivers being bigger than others (to be discussed in-depth below), but economic demand, the durable goods index and the global oil market could lay all predictions to waste and start a new narrative at any time. *(How's that for a disclaimer?!)*

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!

During 2018, capacity was added to the trucking industry (chronicled in earlier Market Reports) after a hectic 2017 when things got desperate. Demand has continued to grow but is growing at a pace slower than it did in 2017 and the first half of 2018. The DAT Trucking Freight Barometers are indicating a marketplace in which demand continues to exceed capacity in all three modes, perhaps not to the extreme extent it reached early in 2018, but overall there are still more loads than trucks.



As any active participant in the trucking industry knows, DAT Solutions operates the largest spot marketplace for trucking freight in the U.S. with the greatest number of participants, including trucking companies, freight brokers, and shippers. The DAT marketplace is also the deepest, with the most loads and trucks offered across all trailer types.

What are these DAT Trucking Freight Barometers? DAT's large pool of data was first compiled and historically studied, and then used by data scientists to accurately determine the ongoing swings in the balance between capacity and demand. Each of these indices captures a number of marketplace factors, including number of loads posted and number of trucks posted in that time frame, as well as the number of loads searched for and number of trucks searched for. The point of equilibrium (demand and capacity are in balance) was then set to a value of 50. Values above 50 indicate that demand exceeds capacity, while values below 50 indicate that capacity exceeds demand. Magnitude matters, i.e., 56 is better than 54, and 42 is worse than 48.

Historically this method of weighing the balance between demand and capacity has predicted both the direction and magnitude of changes in spot pricing. In turn the direction, magnitude, and duration of changes in spot pricing, have predicted the direction and magnitude of changes in contract pricing.

While not as high as it was earlier in the year, the current DAT Dry Van Trucking Freight Barometer (56.2 in the week ending Dec. 15) has been highly correlated with spot market price increasing by more than 10 percent in the coming year. The ultra-high spikes in spot market pricing in early 2018 may put this prediction to the test, but the point remains, "if there are more loads than trucks, then rates can still rise." If spot rates rise by over 10 percent in 2019, over the ultra-high spikes achieved in 2018, then the possibility of contract rates going up on top of the rate increases achieved in 2018 seems more imaginable. Only time will tell, but 2019 promises to be a very interesting year in the trucking marketplace.

MACROECONOMICS & 2019

Analyst from UBS and other firms are pointing to a softer market and small indications of a coming recession. A decelerating **MDI** (see *Table 1 below*) and overall prices can be seen in the spot market. With contract rates being strong and a higher % than in recent years, lower volume is creating an even playing field.

UBS runs several statistical models looking at over 120 recessions over 40 years, in 40 countries. Without getting into the weeds and all the statistical "speak" it can be summed up by saying 2019 will see a slight "slowdown," in growth, without going into recession. 2018 will likely end the year with a slight increase in year/year overall van and reefer loads (see *Table 2 below*) at the national level. Interestingly, looking into that number closely and you see most of that volume was front loaded in the first half of 2018 with it decreasing y/y in the final months. This can be contributed to many things but a "slower" economy would be the top factor. The likelihood of a recession could ramp up as we near 2020 and some macro-factors (mentioned earlier) being the pivotal points. Two main factors that seem to predict slowdowns and recessions are 1.) consumer durables, and 2.) the global oil market. Consumer durables have maintained steady growth and do not point to any near-future drops. We have seen the oil market start to experience some broader troubles in the second half of 2018. With oil hovering around $50/barrel, one must confront the risk that oil prices could fall to $40 per barrel or below. This is a risk that could create large ripple effects on the greater economy, threatening to move us into a recession more suddenly than predicted.

After such a turbulent market from 3Q17 to 2Q18 the balance between capacity and rates is a welcome oasis and we can only hope that continues with a stable market and economy through the whole of 2019.

As the supply chain remains complex, 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.

At Choptank Transport, we 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, advanced 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.

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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.

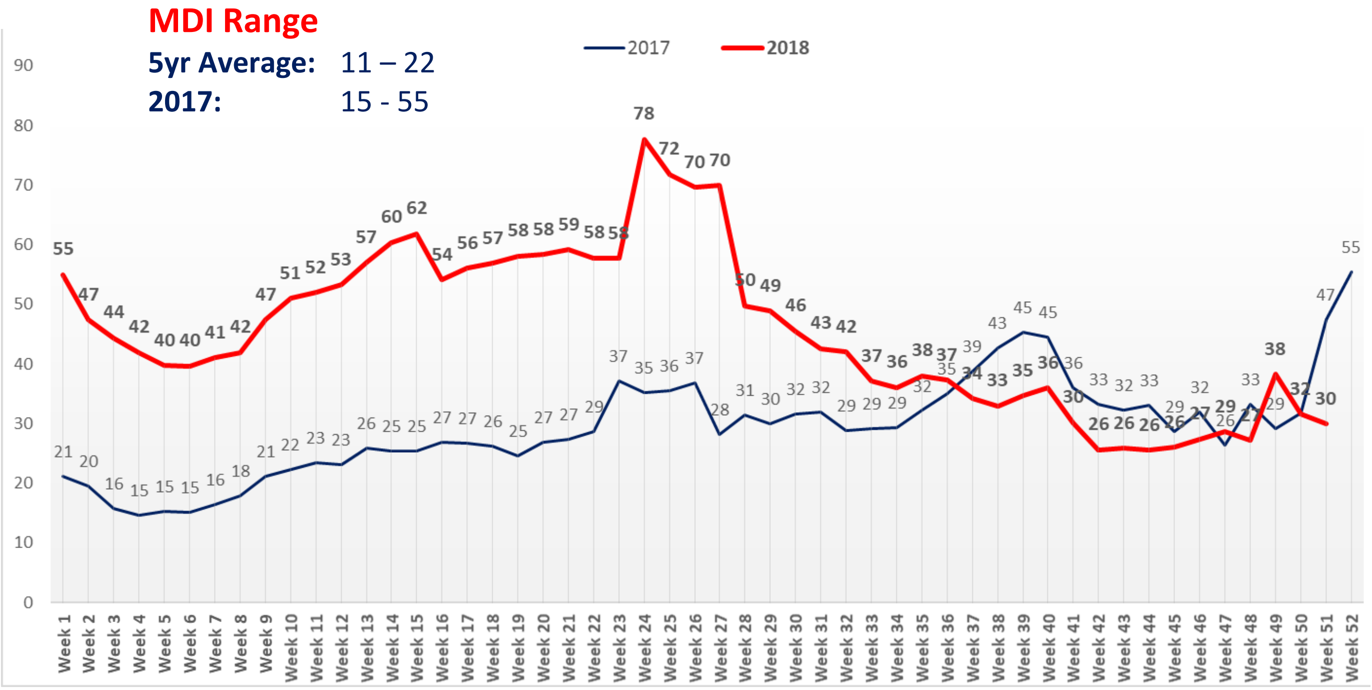

TABLE 2. **National Load Counts** by [DAT.com](DAT.com)