JOC Intermodal Savings Index

An Analysis of the Domestic Intermodal and Truckload Markets

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Journal of Commerce | **Insight**

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US Intermodal Savings Index

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The Journal of Commerce (JOC) provides an in-depth quarterly report into the US intermodal market to facilitate conversations between shippers and transportation providers about modal decisions.

How to Read Our Index

The *JOC Domestic Spot Intermodal Savings Index* ("Spot Index"/"Spot ISI") and the *Domestic Contract Intermodal Savings Index* ("Contract Index"/"Contract ISI") is measured with **100** as a base.

Index values greater than 100 signify intermodal rates are cheaper. Values less than 100 indicate truckload rates are cheaper. Values are linked to percentages:

- 110 = Intermodal 10% cheaper
- 120 = Intermodal 20% cheaper
- 95 = Truckload 5% cheaper
- 90 = Truckload 10% cheaper

Rule of thumb: High numbers are good for intermodal. Low numbers are good for trucking. For an in-depth review of the Spot and Contract Index, please read our "Methodology" in the back.

Executive Summary

Domestic intermodal volume grew for the first time since 2018, rebounding from a pandemic-related swoon with a 9.8 percent increase year over year in the third quarter, according to the Intermodal Association of North America (IANA). Early signs of the recovery were apparent in June when rail-owned containers were in short supply in Los Angeles.

Cargo in 53-foot containers originating in the Southwest — Arizona, California, and Nevada — surged 15.4 percent year over year in the quarter. Volume terminating in the Midwest rose 21 percent. Volume terminating in the Southcentral — such as Dallas and Houston — grew more than 17 percent year over year in the third quarter, according to IANA.

Union Pacific levied surcharges to curb demand and get equipment to contract customers. Small shippers are subject to a $5,000 surcharge in Southern California, $1,500 in Northern California, and $1,000 in Seattle on excess contract cargo. Spot rates were increased to match the surcharges.

The JOC Spot Intermodal Savings Index didn't decline, though, because truckload rates rose too. In California, for example, outbound shipper rates began the quarter at $2.54 per mile and ended at $3.40 per mile. Outbound California rates were as low as $1.71 in April, according to JOC's Shipper Retail Spot Rate Index, based on data from digital broker Loadsmart.

JOC's Contract ISI was steady because contract rates are not as volatile as spot rates.

Table of ISI values

Contract and Spot ISI: 3 Month, 6 Month, 12 Month Rolling Averages.

	3 Month	6 Month	12 Month
Spot ISI	116.7	113.9	114.5
Contract ISI	124.9	122.0	120.2

Source: IHS Markit ©2020 IHS Markit

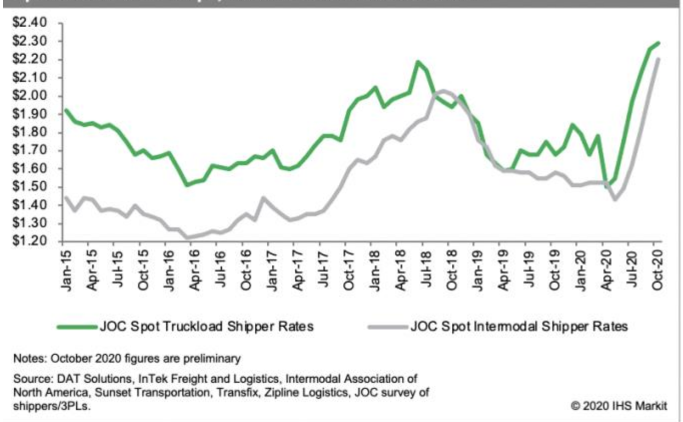
Since 2015, JOC's Contract ISI has averaged 124.0 (24 percent savings), and JOC's Spot ISI has averaged 115.0 (15 percent savings) on a rolling 12-month basis.

In the fourth quarter, JOC's Contract ISI will likely increase with nervous shippers agreeing to higher contract rates to lock in capacity. JOC's Spot ISI may decline because spot truckload rates are plateauing while spot intermodal rates are not slowing. Truck rates don't show signs of slowing in California, however, so the spot index may not drop much.

The Outlook

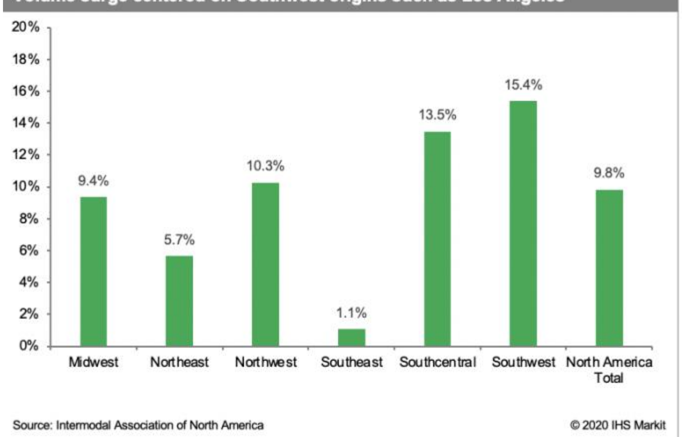
The outlook for JOC's Intermodal Savings Index in the fourth quarter depends on whether spot truckload rates flatline or fall in November and December. Truckload spot rates only rose 3 cents sequentially in October.

Spot rates have V-shape, but truck rates slow in October



There are three markets to closely watch in the quarter: Los Angeles, Chicago, and Dallas-Fort Worth.

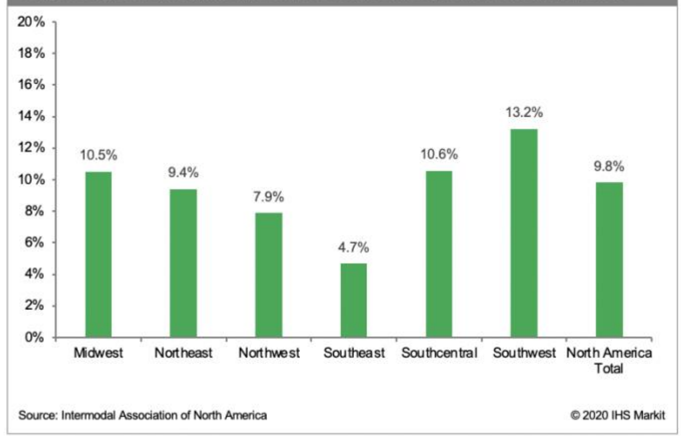
Volume surge centered on Southwest origins such as Los Angeles



The Midwest, Northwest, Southcentral, and Southwest set new third-quarter records for domestic intermodal volume, both by origin and by destination. Will traffic between the Los Angeles (origin), Dallas-Ft. Worth, and Chicago metropolitan areas increase in the fourth quarter or remain static? What about truck rates?

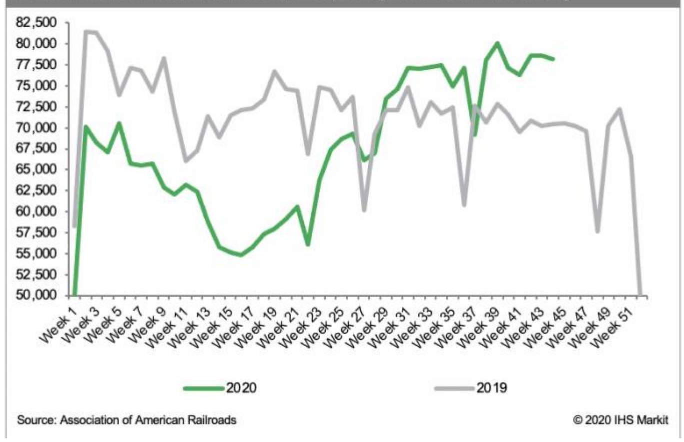
Truckload rates on freight originating in California rose 14 cents in October compared with 5 cents between in September, according to Loadsmart and DAT Solutions. Rates in all other US regions slowed in October versus September.

Cargo surge strains inland markets such as Chicago and Dallas/Ft. Worth



UP handled the majority of the volume increase, which is why it levied surcharges on excess cargo exiting California and Washington states.

Union Pacific's intermodal volume outpacing 2019 levels since July



BNSF Railway didn't surpass 2019 volume until late September (Week 38). J.B. Hunt's head of intermodal explained why.

"When the trains get out of the terminals, they're moving, but terminal congestion is not a part of that velocity measure that you see. And that has been a significant impact on our ability to drive a volume growth," said Darren Field, executive vice president of intermodal, on an Oct. 16 earnings call.

Quotes from Earnings Calls

"We will be comfortable growing both the container and the dray fleet to support growth in intermodal [in 2021]" — Mark Rourke, CEO of Schneider National.

"We are anticipating continuing to grow the fleet…The conversion of truckload freight back to intermodal should be very high and sets us up with an opportunity." — David Yeager, CEO of Hub Group.

"Service has been good. I think that the major thing that our clients always want is consistency of service, whether it's a 3-day transit or a 4-day transit, that's the most critical issue for them. And so there is always going to be issues when you have that type of sequential increase, but how quickly you can fact solve them and fix them is the key, and the railroads, our partners, the Union Pacific and Norfolk Southern have been very nimble and able to accomplish those goals very quickly." — David Yeager, CEO of Hub Group.

"All of the railroads want to have ongoing dialog about improving productivity at their terminals. And I think we're engaged in those conversations…As we go into next year, we will be talking about what are the ways that we can expand capacity in the rail system without necessarily investing or just buying new terminals. The long-term value for railroads can't just be that they're going to expand and buy more parking in order to accommodate intermodal growth. We all have to work with our customers, railroads and us together, in order to drive more productivity through those terminals. I am 100% convinced that railroads want to do that, and that's not going to be something that we have to push — they want to do that, but it has been painful in 2020." — Darren Field, EVP of intermodal for J.B. Hunt.

"The railroad is as fluid as it ever has been. We do not have a capacity issue. And in fact, we are spending money to actually make it more efficient," — Jim Vena, COO of Union Pacific.

Methodology

The Journal of Commerce evaluates 193 lanes in our study of intermodal savings. Each month we send estimates on 45 lanes to a group of 3PLs and shippers under non-disclosure agreements.

Our estimates include margins and fuel but exclude accessorial fees such as detention, demurrage, per diem, lumper fees, blocking and bracing. Our contributors review transactions and provide retail invoice rates for the previous month.

Those responses are used to calculate the two indexes.

The base value is 100, which means rates are identical in both modes. If intermodal rates are 20 percent cheaper, then the value is 20 percent higher than 100, or 120. If truck rates are 20 percent cheaper, then the value is 20 percent lower than 100, or 80. The <u>*rule of thumb*</u>: higher numbers are good for intermodal, lower numbers are good for trucking.

JOC calculates regional index values for the Midwest, Mountain, Northeast, Northwest, Southeast, South Central, and Southwest US.

A national number is then calculated on a weighted basis using 53-foot equipment flow data from IANA. The sum of the weighted regional values becomes the national ISI.

Acknowledgements

Although we cannot disclose the identities of most contributors to the Index, we thank them for participating. Your input is critical to provide accurate insights for shippers to make informed modal decisions with logistics partners.

We can identify InTek Freight and Logistics, Sunset Transportation, and Zipline Logistics.

We thank Rick LaGore of InTek Freight and Logistics for providing weekly intermodal spot data on more than 115 lanes. We make slight variations to his data based on asset-owning intermodal marketing companies offering slightly lower rates.

We also thank IANA for tracking the equipment flows of containers and trailers on the rails. Without this key data, our weighted national ISI and market-by-market analysis would be impossible.

We thank Ken Adamo, Dean Croke, and the entire DAT Solutions team, who help us ensure our estimates sent to 3PLs and shippers are as accurate as possible.

We appreciate InTek, IANA, and DAT for the valuable data and analytics they bring to the transportation space.

We thank digital freight brokers Transfix and Loadsmart. Transfix is a partner in the JOC Intermodal Savings Index, and Loadsmart is a partner in the JOC Shipper Retail Spot Rate Index.

We cross reference the two data sets to check the trends in truck rates for our JOC Intermodal Savings Index lanes match trends in the larger truckload market. DAT Solutions also assists in these efforts.

Finally, we thank our parent company, IHS Markit, for their continued support of JOC.

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