DHL Supply Chain Pricing Power Index Insights News

Panic buying and restocking creates major pricing power swing to carriers

Andrew Cox • Thursday, March 12, 2020 1 837 4 minutes read

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This week's DHL Supply Chain Pricing Power Index: 40 (Shippers)

Last week's DHL Supply Chain Pricing Power Index: 25 (Shippers)

Three-month DHL Supply Chain Pricing Power Index Outlook: 35 (Shippers)

The **DHL Supply Chain Pricing Power Index** uses the analytics and data contained in **FreightWaves SONAR** to analyze the market and estimate the negotiating power for rates between shippers and carriers.

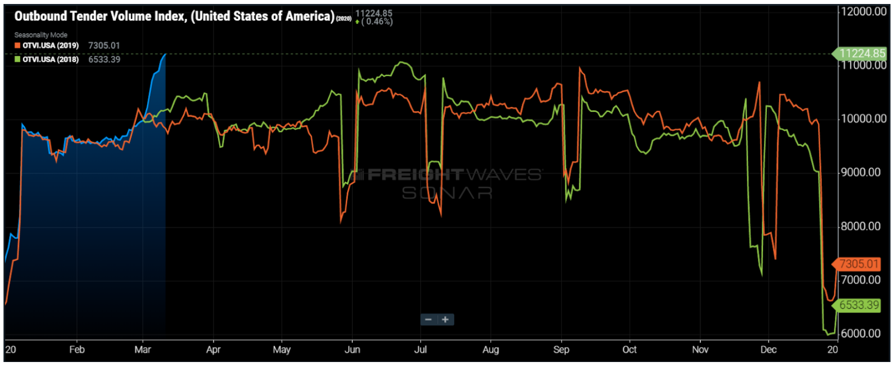
Fear of the coronavirus is getting worse with every passing day. American consumers have begun panic buying and stocking up on goods. This is causing a ripple up the supply chain, and carriers are now in a much better position of power than much of the last year. Drivers are not only rejecting loads at contracted rates, but also leaving the market in attempts to self-quarantine.

The Pricing Power Index is based on the following indicators:

Load volumes: Absolute levels and momentum positive for carriers

Panic buying is causing an unprecedented surge in domestic freight volumes. The outbound tender volume index is now at 11,224.85, which is the highest point in its three-year history. After surging 6% last week, OTVI is up another 7% since then. Two weeks ago, we predicted a jump in volumes from a typical "March bump," but we did not properly forecast this type of rise. This surge is not typical, nor will it last. But for now, carriers are in a position to reject contract loads to test the spot rate because shippers are reeling to restock goods as fast as possible.

Reefer volumes have ticked up over the past week, but the majority of this upswing is from increasing dry van volumes. It is dry van volumes that are driving the index higher – VOTVI is at its highest point ever. We do not think this volume surge can or will last, but for now shippers are at the hands of carriers to meet this spike in demand.

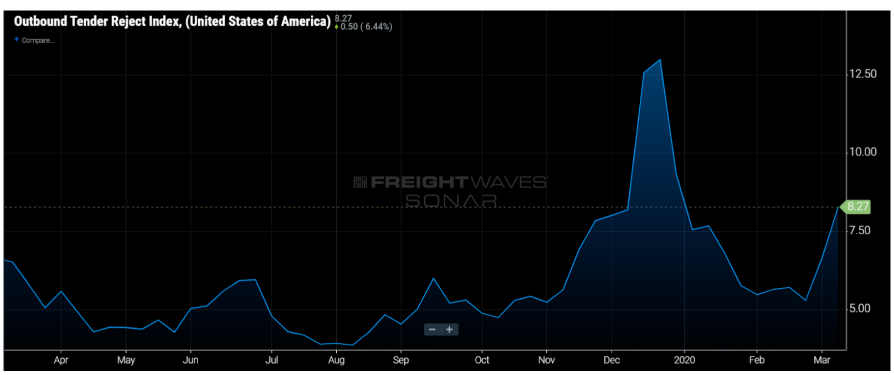


SONAR: OTVI.USA (Blue — 2020; Orange — 2019; Green — 2018)

Tender rejections: Absolute levels and momentum positive for carriers

Outbound tender rejections have climbed to over 8% this week. Fears of the coronavirus has some concerned drivers staying off the road. This is not the only factor forcing OTRI to the upside. OTRI is an index of rejected contract loads, and carriers are rejecting contracted rates in favor of spot market loads. Currently, spot market rates are higher than contracted rates in a majority of markets across the country.

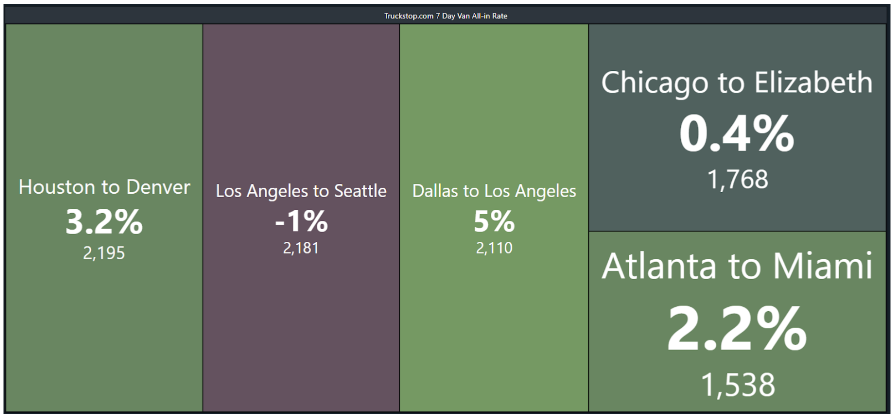
Time will tell whether the coronavirus impacts capacity disproportionately. Poor health, diet and lifestyles of drivers are well-known in the U.S. It is possible that drivers will be disproportionately affected by the virus. COVID-19 has the potential to wipe out a sizable portion of trucking capacity in the coming weeks.



SONAR: OTRI.USA

Spot rates: Absolute levels neutral, momentum positive for carriers

The changing supply and demand dynamics are beginning to show in the Truckstop.com data in SONAR. The majority of the top 100 lanes have seen increasing spot rates over the past seven days. Spot rates in seven of the markets have jumped double digits in the past week, while not one lane has declined in the double-digit range.



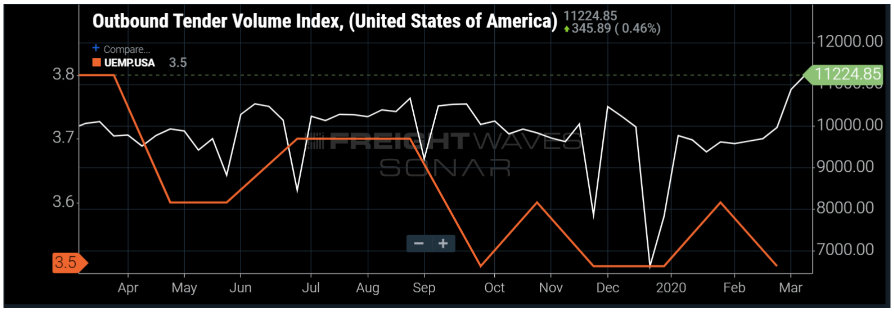
SONAR: TSTOPVR

Economic stats: Momentum and absolute level positive for shippers

Backward-looking economic data is relatively useless at this point. Nonetheless, there were several economic data releases this past week worth examining.

The most real-time indicator is weekly claims for jobless benefits, which came out today and does not yet show any negative effects of the coronavirus. The number of Americans filing new claims for unemployment insurance actually fell by 4,000 last week to a seasonally adjusted annual run rate of 211,000. If and when layoffs begin in earnest, weekly unemployment insurance claims should follow closely behind. Jobs that are particularly vulnerable in our view are employees in the travel, leisure and hospitality sectors but hopefully government assistance may be on the way.

Also, just last week the February employment report showed that unemployment returned to a 50-year low of 3.5% as 273,000 jobs were added. Given the record low unemployment rate and previous difficulty in finding skilled workers, the number of layoffs that could transpire may depend on how long employers expect the coronavirus impact to last and how much buffer they have to sustain a downturn.



SONAR: Outbound Tender Volume Index vs. U.S. Unemployment Rate

U.S. producer prices in February showed some worrisome signs of potential future deflation (or at least waning inflation); this is to be expected in our opinion as the economy slows. The U.S. PPI fell by the most in five years in February, dropping by 0.6% and bringing the trailing 12-month increase to just 1.3%.

On the other hand, the U.S. consumer price index (CPI) rose 0.1% m/m to an annual increase of 2.3%. This is slightly ahead of the Federal Reserve's 2.0% target but we expect the increase to be short-lived as the economic damage from the coronavirus spreads. Services continue to drive the brunt of the increases in inflation, with healthcare costs rising 5.3% and rents up 3.3%.

Overall, we expect sharp deterioration in most economic metrics in coming weeks and months if most Americans end up working from home and as more and more events, travel and restaurants are cancelled or closed. However, if we are able to eventually contain the spread of the coronavirus, new cases begin to flatten out and Americans return to work, we would expect a sharp rebound in the financial markets and in the real economy (with a slight lag), especially considering the recent and upcoming Fed rate cuts and fiscal stimulus that may aid in restoring economic health.

Transportation stock indices: Absolute levels positive for shippers, momentum positive for carriers

This past week was the worst ever in the short history of our FreightWaves transportation indexes, and we suspect it would mark one of the worst weeks in history had we been tracking these indexes for many years. If there is any good news, all four of our transportation indexes outperformed the S&P 500, which dropped 14.6% over the past week.

Our trucking index was the best performer falling 11.2%, perhaps a reflection of the sharp rise in outbound tender volumes and tender rejections in light of the panic buying taking place.

Parcels were the second-best performer, falling 12.1%, followed by logistics at -12.4% and LTL at -13.8%.

FreightWaves Truckload Index

Ticker	Mkt Cap ($mm)	Weight	1 Week Perf.	Weighted Perf.
JBHT	$12,210.00	37.5%	-11.13%	-4.2%
KNX	$6,040.00	18.5%	-11.00%	-2.0%
SNDR	$3,890.00	11.9%	-9.25%	-1.1%
R	$2,820.00	8.7%	-17.40%	-1.5%
WERN	$2,400.00	7.4%	-6.50%	-0.5%
HTLD	$1,760.00	5.4%	-8.37%	-0.5%
MRTN	$1,180.00	3.6%	-11.83%	-0.4%
ULH	$668.70	2.1%	-17.32%	-0.4%
RRTS	$396.00	1.2%	-4.25%	-0.1%
PTSI	$351.20	1.1%	-9.91%	-0.1%
CVTI	$331.00	1.0%	-12.79%	-0.1%
USX	$225.00	0.7%	-24.57%	-0.2%
DSKE	$202.00	0.6%	-38.11%	-0.2%
USAK	$65.00	0.2%	-8.75%	0.0%
PATI	$58.60	0.2%	-3.53%	0.0%
Total	**$32,597.50**	**100.0%**		**-11.2%**

FreightWaves LTL Index

Ticker	Mkt Cap ($mm)	Weight	1 Week Perf.	Weighted Perf.
ODFL	$13,900.00	80.5%	-14.33%	-11.5%
SAIA	$2,430.00	14.1%	-11.77%	-1.7%
ARCB	$778.00	4.5%	-10.14%	-0.5%
YRCW	$156.00	0.9%	-18.85%	-0.2%
Total	**$17,264.00**	**100.0%**		**-13.8%**

FreightWaves Logistics Index				
Ticker	Mkt Cap ($mm)	Weight	1 Week Perf.	Weighted Perf.
CHRW	$11,600.00	46.0%	-9.44%	-4.3%
XPO	$7,000.00	27.7%	-16.53%	-4.6%
LSTR	$4,420.00	17.5%	-12.58%	-2.2%
HUBG	$1,600.00	6.3%	-15.21%	-1.0%
ECHO	$616.00	2.4%	-14.50%	-0.4%
Total	**$25,236.00**	**100.0%**		**-12.4%**

FreightWaves Parcel Index				
Ticker	Mkt Cap ($mm)	Weight	1 Week Perf.	Weighted Perf.
UPS	$106,160.00	55.2%	-7.74%	-4.3%
DPSGY	$46,560.00	24.2%	-15.15%	-3.7%
FDX	$39,462.00	20.5%	-20.47%	-4.2%
Total	**$192,182.00**	**100.0%**		**-12.1%**

For more information on the FreightWaves Freight Intel Group, please contact Kevin Hill at khill@freightwaves.com, Seth Holm at sholm@freightwaves.com or Andrew Cox at acox@freightwaves.com.

Check out the newest episodes of our podcast “Great Quarter, Guys” here.

Tags carrier capacity carriers rejection rates Shippers Volume

One Comment

Dave

Thursday, March 12, 2020 at 4:53 pm

Unfortunately it will swing the other way big time as soon as the panic buying stops and everyone is sitting at home watching TV.

Reply