All sectors of transportation will feel dramatic effects from the coronavirus shutdowns

- The positive effects of restocking grocery stores and distribution centers on dry van and reefer markets is likely to slow substantially in the next two to three weeks.
- Industrial-focus trucking segments are already starting to see the effects of constrained commerce.
- Intermodal will face additional challenges from the newly loosened truck market over the balance of 2020.
- Nearly every carload sector will feel dramatic repercussions from the coronavirus.

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Overview

The freight market across all modes and segments is expected to be substantially weaker than previously forecast because of the restrictions on economic activity put in place in the U.S. and across the globe. As a result of these restrictions and the resulting decline in consumer confidence, FTR expects 2020 volume and rate weakness across most segments. There could be some relief in 2021 as the weaker results this year combine with the effects of an economic stimulus package to aid next year’s results. But the timing and magnitude of any stimulus package remains in doubt.

Every truckload sector will experience pain as restocking demand abates over the next few weeks. Refrigerated demand is the only segment that will be relatively insulated, while flatbed and specialized take the largest falls.

The relatively looser truck market will make the truckload sector more competitive with intermodal over the balance of 2020. Intermodal is already facing coronavirus-related challenges from the decline in imports as Chinese factories took extended downtime around the Lunar New Year. As those factories begin ramping back up, intermodal will face declining consumer demand in the U.S. and a more competitive truck market. The truck market will be aided by low diesel prices for at least the next two quarters, which will allow them to price more aggressively compared with intermodal.

Rail carload sectors will face a dramatically weaker outlook than previously expected as the economic weakness limits demand for industrial and consumer goods. Agricultural products will be the only carload sector largely unscathed in 2020 as it bounces back in the second half from a weak 2019 where growing conditions and trade tensions limited volumes. All other carloads, including previous sources of strength such as petroleum products and plastic pellets, are at risk of significant slowdowns as the global economy slowdown pressures demand and prices for those commodities.

Trucking sector outlook

Whiplash effect is coming soon

The impact of COVID-19 will be complicated by greatly different dynamics occurring now and in the coming weeks compared with what we will see beyond that. Americans’ panic buying recently has created enormous demand for restocking. Over the past couple of weeks, dry van and refrigerated loadings in the spot market have soared. Last week, refrigerated load availability in the Truckstop.com system jumped 40% from the prior week.

Rates also are higher. Dry van spot rates are up about 21 cents a mile over the past couple of weeks. Refrigerated rates were up about 22 cents last week and more than 30 cents over the past couple of weeks.

On the other hand, the more industrial segments are performing just as would be expected: A decline in spot demand. Flatbed loads fell sharply in week 11 after six weeks of strong increases, and specialized load availability also dropped sharply after three strong weeks.

Within a few weeks we would expect the supply chain to complete the restocking of grocery stores and distribution centers for the most part. At that point, carriers
could suffer a demand whiplash as the restocking pressure ends only to be replaced by the reality of sharply fewer loads. This effect should be less pronounced in refrigerated as overall food consumption probably will not change much, but dry van could soon experience some of what flatbed and specialized are starting to feel now due to a drop in non-essential industrial activity.

As the economic shock of COVID-19 sets in, we expect truck loadings to fall 4% to 6% y/y in each quarter from Q2 through 2021Q1. We expect every segment except refrigerated to see fewer loadings in 2020 than in 2019. As we look past the current crisis, a big wild card is how much capacity we will lose during the weeks and months ahead and how quickly it will return once it is needed. A sharper decline in driver capacity than we anticipate could lead to a stronger rate environment in 2021 than we currently forecast. As of now, the following is a summary of expectations for trucking.

**Trucking Segments**

**Overall Trucking**

FTR forecasts total loadings falling 4.0% in 2020 and growing 2.0% in 2021. Our forecast before the COVID-19 crisis was for 1.3% loadings growth in 2020 and 2.5% growth in 2021. With utilization now expected to remain soft for longer than anticipated – at least once we get past the restocking phase – we are forecasting total truckload rates to be down 2.3% in 2020 and close to flat in 2021. Our pre-crisis forecast was +0.4% in 2020 and +4.5% in 2021.

**Dry van**

A decline in non-food retail and in manufacturing activity are among the reasons we expect dry van loadings to plunge nearly 14% in Q2 from Q1. On a y/y basis, we expect declines of 3% to 3.5% for the rest of the year. We forecast a 2.6% drop in dry van loadings in 2020 and a 2.6% increase in 2021. Our forecast before the crisis was for growth of 0.7% this year and 2.7% growth in 2021. Rates are forecast to be -2.0% in 2020 and +0.4% in 2021. Our pre-crisis forecast was +1.3% and +4.6%, respectively.

**Refrigerated**

Although the nature and location of food consumption has changed dramatically, a solid base level will continue. Aside from the current restocking, we do not expect dramatic swings in refrigerated loadings as we do for the other segments. We are forecasting 1.3% loadings growth for refrigerated in 2020 and 0.4% growth in 2021. Our pre-crisis forecast was +2.2% and +3.5%, respectively. We are forecasting total rates at +0.7% in 2020 and +0.5% in 2021. The pre-crisis forecast was +2.3% and +5.6%, respectively.

**Flatbed**

The fortunes of the flatbed segment have turned dramatically because of the COVID-19 crisis. We had begun to see consistent strength in flatbed load availability, no doubt because of the recent increase in housing starts. We now forecast flatbed loadings plunging 24% in Q2 from Q1 levels and y/y declines in the range of 6% to 9% through 2021Q1. Our new forecast is for a 6.0% decline in flatbed loadings this year followed by a 1.9% increase in 2021. We previously had forecast 0.6% growth this year and 1.9% growth in 2021. While the percentage growth in 2021 is unchanged, the base obviously will be lower now. We now forecast total flatbed rates of -4.0% this year and -0.5% next year. Previously, we had forecast -1.1% and +4.0%, respectively. We see flatbed as
having some upside potential in 2021 if the current crisis were to lead Washington to enact an infrastructure package.

**Specialized**

We previously had forecast the specialized segment as seeing the strongest growth of all segments in 2020. We now forecast a loadings decline of -0.4% this year and 2.2% growth in 2021. The prior forecast was +2.4% and +3.1%, respectively. We are forecasting total specialized rates at -3.6% in 2020 and -0.5% in 2021. The prior forecast was -0.8% and +4.0%.

**Tank**

We are forecasting a decline in tank loadings of 9% in Q2 from Q1. Our 2020 loadings forecast for tank is -2.3%, followed by +1.0% in 2021. The pre-crisis forecast was +1.2 in 2020 and +2.4% in 2021. We expect y/y declines of 3% or more in Q3 through 2021Q1. Our contract rate forecast for tank is -3.0% in 2020 and -0.7% in 2021. The prior forecast was -1.2% in 2020 and +2.5% in 2021.

**Bulk/dump**

As is the case with flatbed, we expect a big drop in bulk/dump loadings due to the hit the industrial sector is taking. We expect bulk/dump loadings to take the biggest hit on a percentage basis, falling 9.4% in 2020. The 2021 outlook is +2.1%. Our pre-crisis forecast had been for +1.6% and +1.7%, respectively. This segment also could get a boost from an infrastructure initiative if Congress were to take that approach as an economic recovery tool. However, even if enacted soon, we would not expect much effect until Q3 or Q4 due to the ongoing restrictions.

**Rail sector outlook**

**Intermodal in decline**

The effects of the corona virus have manifested themselves most directly in the intermodal space where volumes have declined 10% from 2019 levels in recent weeks, according to the latest Association of American Railroads carload data. The level of absolute volumes has also declined significantly from the extended Lunar New Year closures enacted in China to combat the spread of the coronavirus. We expect that effect to linger for the next 4-6 weeks in intermodal loadings as almost all of the drop can be accounted for through lower container loadings. What remains to be seen is what North American demand will be as the Chinese factories ramp up given that the virus is now making its effects felt in the U.S. and across the world. Health experts expect the U.S. to not hit the peak until some time in April or early May, suggesting a possible extended period of reduced demand. Ports are already feeling the consequences of the reduced demand and the coronavirus. Two of the main container terminals at the Port of Houston were closed for a day last week after a worker there tested positive for the coronavirus. Also last week, the Southern Florida Container Terminal and PortMiami announced they were curtailing hours and operations at a pair of their intermodal terminals in response to weak volumes stemming from the extended factory closures in China around the Lunar New Year. These moves will dent March and possibly April loadings and import volumes for a sector that was already on the bleeding edge of the coronavirus effects. Preliminary port data suggests a weak February with west coast ports feeling volume declines of mid double-digits. Those gains could get dramatically worse in the coming two months as the U.S economy grinds to a halt.

Intermodal is unlikely to experience a material improvement until the full coronavirus impacts are past. It is now expected to push intermodal into a negative result for the second consecutive year. Intermodal has previously been expected to post weak growth of less than 1% in 2020. FTR now expects declines of 6% to 8% for 2020 as consumers retrench and eliminate most discretionary purchases from their budgets. The one so-called bright spot has been the trailer market where year-over-year declines of 15% to 20% were expected as trailer freight continues a secular shift to containers or the highway.
The trailer segment has generally operated in the expected range in 2020 and this is expected to continue.

**Carload declines are coming**

Carload volumes are likely to move much weaker in the coming months than initially expected as the carload sector deals with headwinds in almost every major commodity sector. The previous expectation was for flat to slightly weaker volumes in 2020 and that is now likely to be down 8-10% from 2019’s low levels.

The carload market has historically been closely tied to economic growth and our underlying economic assumptions have deteriorated as a result of recent events. FTR now expects a recession and this will likely curtail demand in merchandise carload sectors. Many of these sectors were already simply tracking their five-year averages so any deterioration will result in negative results compared to expectations.

In addition, the reduction in electricity demand from the closure of commerce taking place across the U.S. is likely to exacerbate an already large expected reduction in coal demand. The U.S. Energy Information Administration said earlier this year that it expected 17% less coal to be used in electricity generation, and now coronavirus woes will add downward momentum to that figure. The declining price of energy commodities will be a headwind in the coming months as lower-priced natural gas makes it harder for coal to compete in the electricity generation dispatch order. Weaker energy prices will also likely pressure petroleum products loadings as demand destruction around the world reduces the need for refined products and the lower prices make it uneconomical for Canadian crude to be shipped to the U.S.

Gulf coast. This will pressure the chemicals sector and further pressure could be applied by the global economic slowdown as plastic pellet demand could slow, limiting the need for U.S.-based production.

Forest products will be dented by an expected decline in residential construction. While mortgage rates are likely to be at historic lows, a decline in consumer confidence stemming from stock market losses is likely to keep potential buyers out of the market. Likewise, in the automotive sector, downsides abound as consumers pull back from large purchases and shelter-in-place orders reduce wear and tear on the installed fleet. Additional downtime at major production plants as they work to adhere to social distancing protocols are likely to work in conjunction with lower demand to help push down the sales rate to close to 16mn vehicles in 2020 compared with a previous expectation of 17mn units.

The only relatively insulated sector could be agricultural products which was already expected to be challenged for the next several months because of a weak 2019 harvest. Planting conditions have been positive so far in 2020 which could lead to a positive second-half of 2020. Yet, the expected decline in global growth could limit exports.

**More to come**

We will follow this update of our freight outlook with updates to our forecasts on the commercial vehicle and rail equipment markets. We will publish further updates this week, as needed, in addition to our Weekly Transportation Update on Thursday. Our resources related to COVID-19, including the updates we have published and recordings of our webinars, are available at freight.ftrintel.com/coronavirus-ftr-clients.

[Graphs and charts are not transcribed into text.]