JOC Intermodal Savings Index

An Analysis of the Domestic Intermodal and Truckload Markets

4Q 2020

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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 logistics companies about modal decisions.

How to Read Our Index

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

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

- 110 = Intermodal 10% cheaper
- 120 = Intermodal 20% cheaper
- 90 = Truckload 10% cheaper
- 80 = Truckload 20% cheaper

Rule of thumb: Higher numbers are good for intermodal. Lower numbers are good for trucking. For an in-depth review of the Spot and Contract Index, please read our "Methodology" on page 9.

Executive Summary

Domestic intermodal recorded a second consecutive quarter of volume growth, rebounding off the COVID-related swoon with a 9.8 percent increase year over year in the fourth quarter, according to the Intermodal Association of North America (IANA). It was the second consecutive quarter with a 9.8 percent year-over-year growth rate in domestic containers and trailers, the best performance since Dec. 2013. When excluding 53-foot trailers, the container market rose 8.7 percent year over year, the second strongest growth rate since Dec. 2013, only trailing the prior quarter (3Q 2020).

The number of 53-foot containers leaving the Southwest — Arizona, California, and Nevada — increased 10.3 percent year over year in the quarter.

Union Pacific Railroad instituted 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 cargo.

As this report will show, record-breaking spot rates on the West Coast caused JOC's Spot Intermodal Savings Index to drop to below five-year averages in 4Q.

JOC's Contract ISI was above historical norms to close the year because intermodal contract rates don't typically reset until after the New Year.

Table of ISI values

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

	3 Month	6 Month	12 Month
Spot ISI	108.5	113.0	113.3
Contract ISI	130.2	127.3	122.7

Source: IHS Markit ©2021 IHS Markit

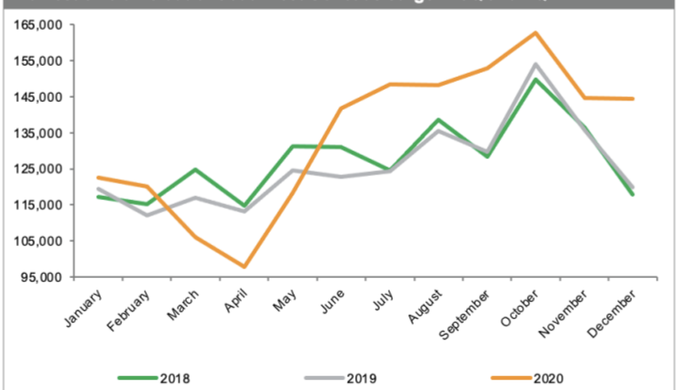
Since Jan. 2015, JOC's Contract ISI has averaged 123.9 (23.9 percent savings) and JOC's Spot ISI has averaged 115.1 (15.1 percent savings) on a rolling 12-month basis.

In the first quarter, shippers should expect JOC'w Contract ISI to decline from 130. How far the JOC Contract ISI will fall this quarter depends on whether the percentage intermodal contract rates rise will outpace truckload contracts, particularly on Los Angeles lanes.

Railroads will have to be careful on spot pricing because January's truckload spot rates fell sequentially. If dry-van spot rates has peaked, rail rates may need to decline too.

The Volume Picture

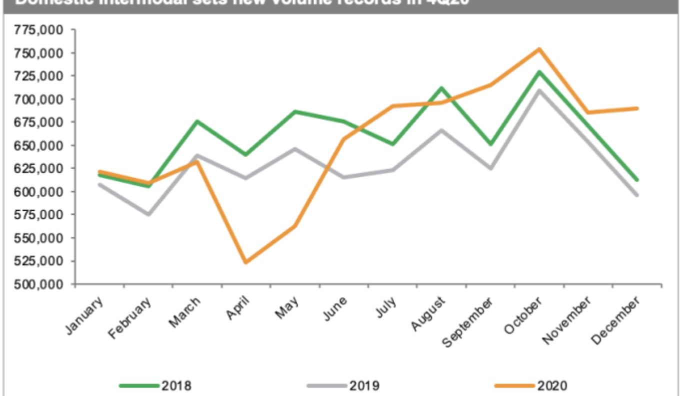
The beneficiaries of the California surge were the Midwest and Southcentral US. The 382,199 domestic 53-foot containers leaving the Southwest was a new 4Q record, according to IANA data. The 580,752 domestic containers arriving in the Midwest and 187,991 arriving in the Southcentral were also quarterly records. Intermodal volume terminating in the Midwest was up 7.5 percent on 53-foot containers and 19 percent on 40-foot containers year over year, according to IANA, which may explain network and terminal congestion in Chicago.



Domestic volume out of Southwest US leads surge in 3Q and 4Q

Source: Intermodal Association of North America © 2021 IHS Markit

It was the Southwest, namely Los Angeles, that was the major catalyst to domestic intermodal growth in the second half of 2020, which is why the national and regional graphs correlate so closely.



Domestic intermodal sets new volume records in 4Q20

Source: Intermodal Association of North America © 2021 IHS Markit

Even viewing all intermodal moves on a weekly basis shows how busy the networks were in the fourth quarter. BNSF Railway, Canadian National Railway, Union Pacific Railroad, and CSX Transportation saw volume jump more than 10 percent year over year.

North America rail volume surges to end 2020

Source: Assocation of American Railroads © 2021 IHS Markit

As the volumes rose on the West Coast, service deteriorated.

"California was particularly difficult during the quarter. We certainly believe the rail network faced some labor challenges at terminals and at locations where we believe our rail providers expect and will deliver better productivity in the future, certainly better than what we experienced in the quarter," said Darren Field, J.B. Hunt's executive vice president of intermodal, said on a Jan. 19 earnings call. "I make these comments primarily to highlight that we faced conditions in the fourth quarter that we can address and improve as we move out of the pandemic."

Field said J.B. Hunt re-routed loads to Phoenix and northern California that would have normally left from the Los Angeles. BNSF's intermodal volumes rose roughly 13 percent year over year in the fourth quarter.

On the East Coast, there was a surge in 40-foot rail traffic but not 53-foot business. The discrepancy is likely that there is much more transloading on the West Coast. Transloading on the East Coast is a typically onto a truck to travel on Interstate 95.

Volume of 53-foot containers originating on the East Coast only grew 3 percent while 40-foot container surged 16.3 percent year over year, according to IANA.

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