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JOC Intermodal Savings Index

An Analysis of the Domestic Intermodal and Truckload Markets

Q1 2021

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Senior Editor, Journal of Commerce

Journal of Commerce | **Insight**

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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 business increased for the third consecutive quarter in Q1, although the pace of growth slowed from 9.8 percent to 6.3 percent, according to the Intermodal Association of North America (IANA). Domestic volume is stronger than any point in three years, but container and trailer volume was lower than Q1 2018. Domestic container volume was up 2.4 percent compared with Q1 2018, but trailer-on-flatcar (TOFC) volume has dropped 13 percent as Class I railroads using price and other levers to push freight toward COFC.

One can argue record-setting domestic container volume in Q1 proves that intermodal demand is strong, especially as volume surges in the Port of Los Angeles and Port Long Beach lead to more transloading opportunities. Others may argue a 2.4 percent increase over three years is weak.

The bearish view is not surprising since ATA's Truck Tonnage Index shows truckload tonnage was down in Q1 compared with a year ago, a comparison of today with pre-pandemic 2020. The U.S. Bank Freight Payment Index also shows shipments in Q1 are less than pre-pandemic totals. Volume has rapidly recovered from pandemic lows, but are the numbers as impressive when compared with pre-COVID times?

The bullish view is not surprising either, however. DAT data shows load-to-truck ratios were 20 percent higher in March 2021 than March 2018, and spot rates are 30 percent higher than 2018. Dry van contract rates have risen double-digits year over year, according to DAT. And while the U.S. Bank Shipments Index was down YoY in Q1, the Spending Index was up.

Table of ISI values

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

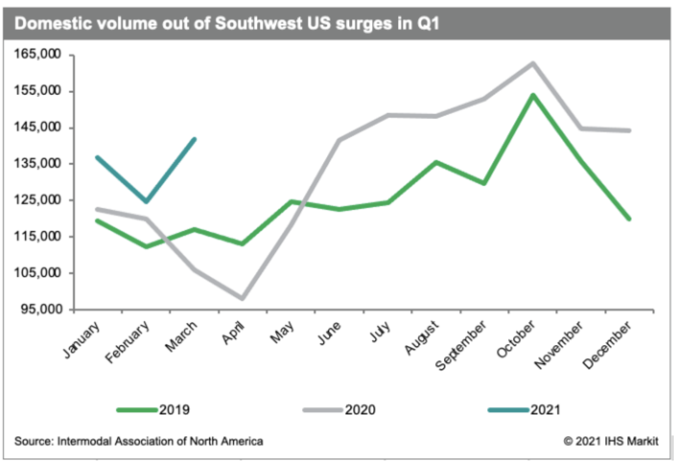
	3 Month	6 Month	12 Month
Spot ISI	122.5	115.5	114.9
Contract ISI	132.5	131.7	126.6

Source: IHS Markit ©2021 IHS Markit

Since January 2015, the JOC Contract ISI average is 124.8 (24.8 percent savings) and the JOC Spot ISI average is 114.1 (14.1 percent savings). Both are ahead of historical levels today, but Union Pacific Railroad's decision to raise outbound California spot rates by $1,500 in late April could cause JOC's Spot ISI to drop in Q2. The Spot ISI will depend on whether truckload spot rates flatten or keep rising in Q2.

The Volume Picture

Domestic intermodal demand continues to be strongest off the West Coast, perhaps why BNSF service has deteriorated, and Union Pacific instituted a $1,500 surcharge on low-volume customers for each container beyond their weekly contractual allotment in late April. While domestic container volume grew 4 percent nationally, outbound Southwest volume jumped 15.7 percent year over year in Q1.



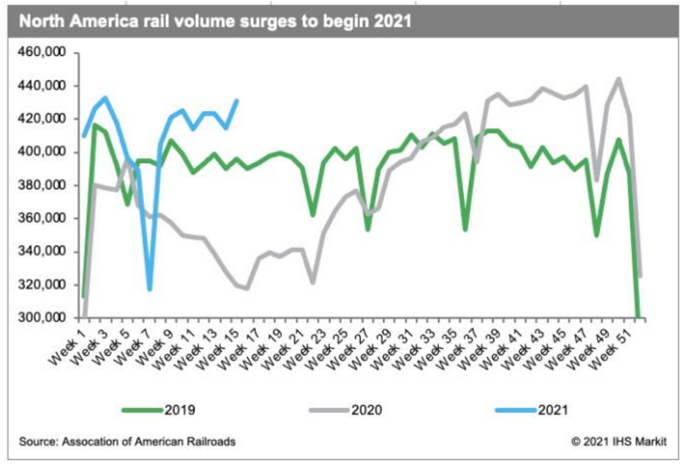
J.B. Hunt Transport Services said the 12,000 containers it has on order will go into immediate use in the Southwest as they are delivered in Q2, Q3, and Q4.

“We're securing capacity to bring that equipment predominantly to the West Coast, and predominantly to Southern California, so that it enters our market at the right time. Certainly, for the longer-term life of that equipment, we would expect it to be diversified into the Eastern network, but in 2021, it's really going to help us a lot out west,” said Darren Field, president of intermodal for J.B. Hunt Transport Services.

The decision makes sense since volume rose only 2.8 percent out of the Northeast and 0.2 percent out of the Southeast, far less than 15.7 percent.

Union Pacific reported domestic intermodal volume rose 16 percent year over year in Q1, even stronger than the 12 percent growth rate in international intermodal. While BNSF doesn’t hold a formal earnings calls, the Association of American Railroads data shows intermodal traffic of all kinds rose roughly 18 percent year over year in Q1.

Throwing out snowstorms and a polar vortex in February (Weeks 6 to 8), the AAR chart shows the typical volume patterns in the other 10 weeks of the quarter held up in 2021 at a stronger pace than 2019.



As the volumes rose, service has deteriorated. Union Pacific CEO Lance Fritz said restoring trip plan compliance to the upper 80 percent to low 90 percent range in intermodal was a priority.

“Our recent service has not met your expectations and the expectations we place on ourselves, which is why we're focused on taking action that will provide you a more consistent and reliable offering, while improving near-term capacity for growth,” said Tom Williams, BNSF’s vice president of consumer products, in an April 15 video to customers.

Nevertheless, BNSF stiffened ingate restrictions in early May in Los Angeles and Chicago, which J.B. Hunt called “a step back” in a May 5 advisory.

Schneider National said it would leverage alternative routes, divert equipment to other ramps, and limit loads from Chicago to Los Angeles, Stockton, Dallas, Phoenix, Denver, and Mexico. J.B. Hunt offered “highway solutions to mitigate these intermodal disruptions,” urging conversion back to trucking.

On the East Coast, Norfolk Southern customers have had service issues in Chicago, Jacksonville, and Croxton (NJ). NS lifted Jacksonville restrictions in early May, but service issues continue to pop up across the NS intermodal network.

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