Market Update in Response to COVID19 – 3/31/2020

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It is our mission at DAT to help customers mitigate uncertainty in their businesses. We have been closely observing trends in the markets in near real-time and aim to provide valuable and actionable information to the market, not sensational and reactionary headlines. To advance that objective, we are releasing this market update with hopes that it provides value and helps those trying to understand this tumultuous market.

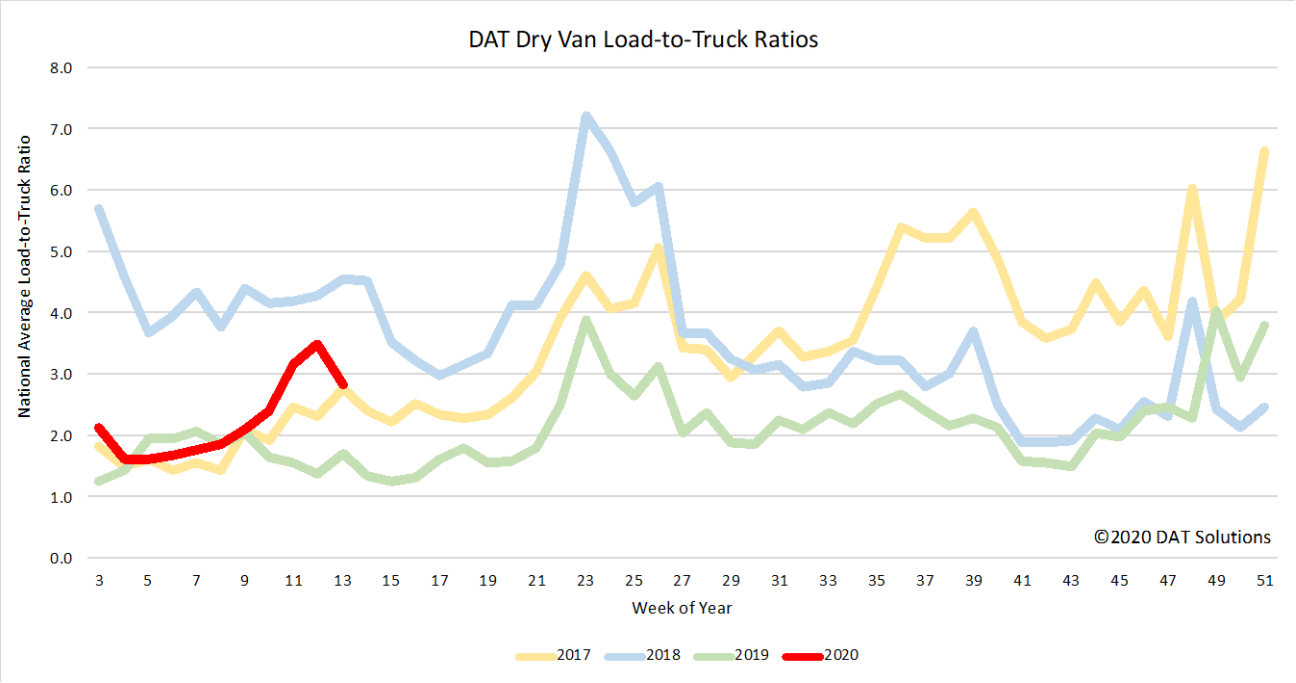
Summary Market Thesis

Our summary market assessment has changed from our update last week. We are observing a cresting pattern in supply/demand data which is manifesting into stalling or declining spot rates for both dry van and reefer. This is a shift that DAT and other industry analysts have predicted, but it remains to be seen whether the pattern will turn to a sharp downward correction, a holding pattern, or a return to the upward trend.

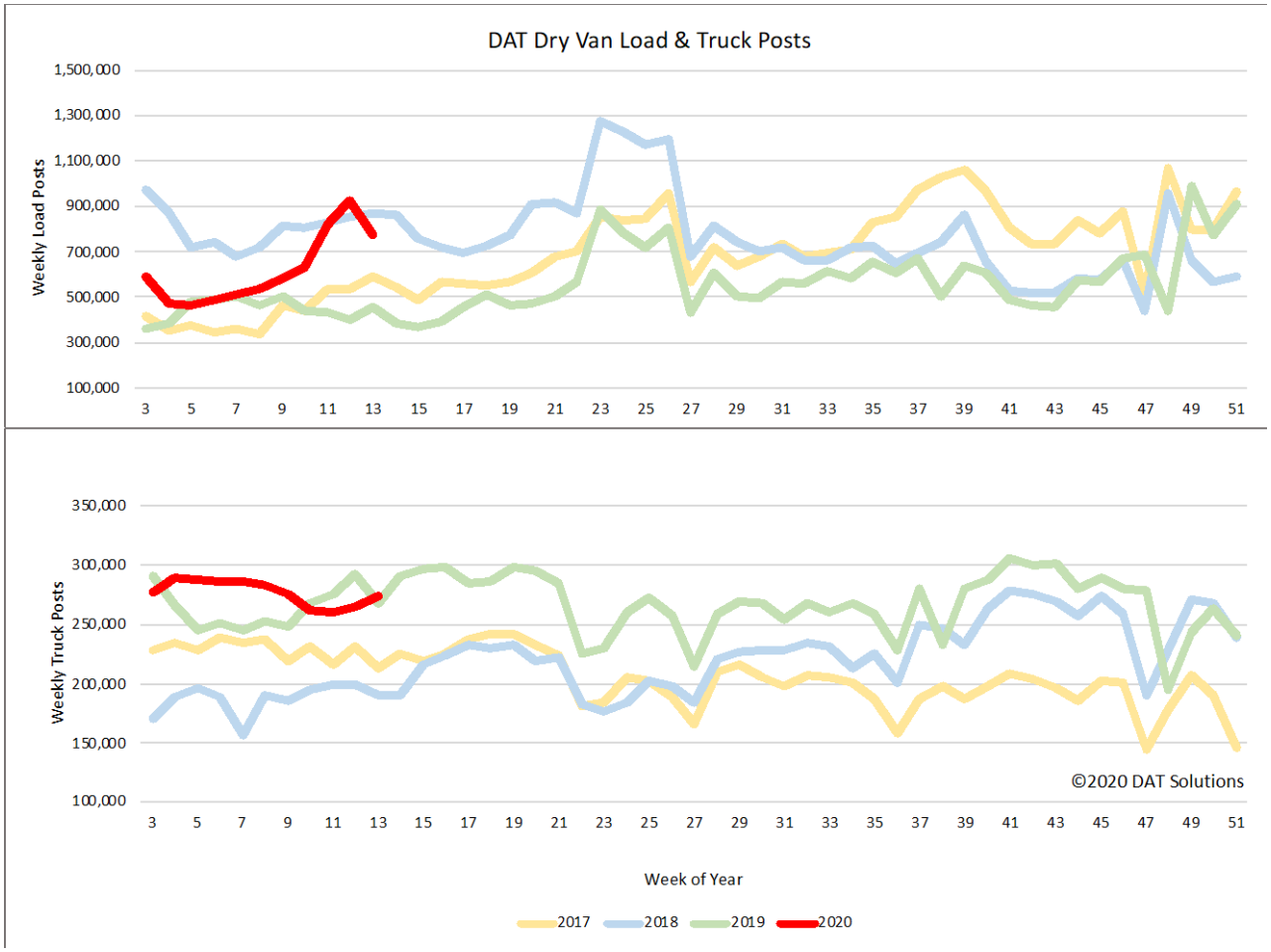
There are many factors that play into the market climate over the ensuing month. The next 7-10 days should be a good indicator of what that trend may look like, but we still expect a high degree of uncertainty to remain in longer-term forecasts. Debate has abounded regarding the shape of rate and volume trends during the period that follows the restocking push: will it be a V, a U, a straight line up/down, or a plateau? We assert that there is simply not enough data to definitely tell how the market will behave beyond the next couple of weeks.

Supply and Demand Trends

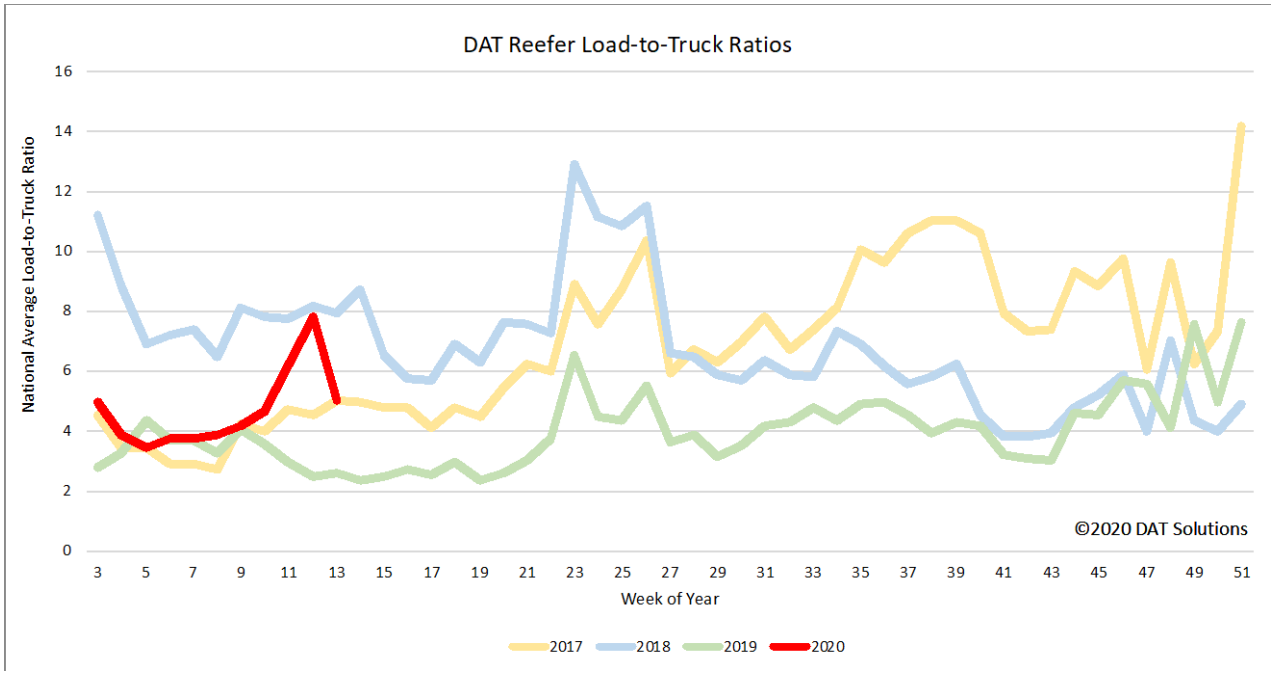
Dry van LTRs corrected sharply last week and are now back in line with 2017 levels which is where they had been closely tracking before the COVID-driven uptick. Year-over-year comparisons are still strongly positive and, if prior years are any indication, we should expect to see declines over the next two weeks.



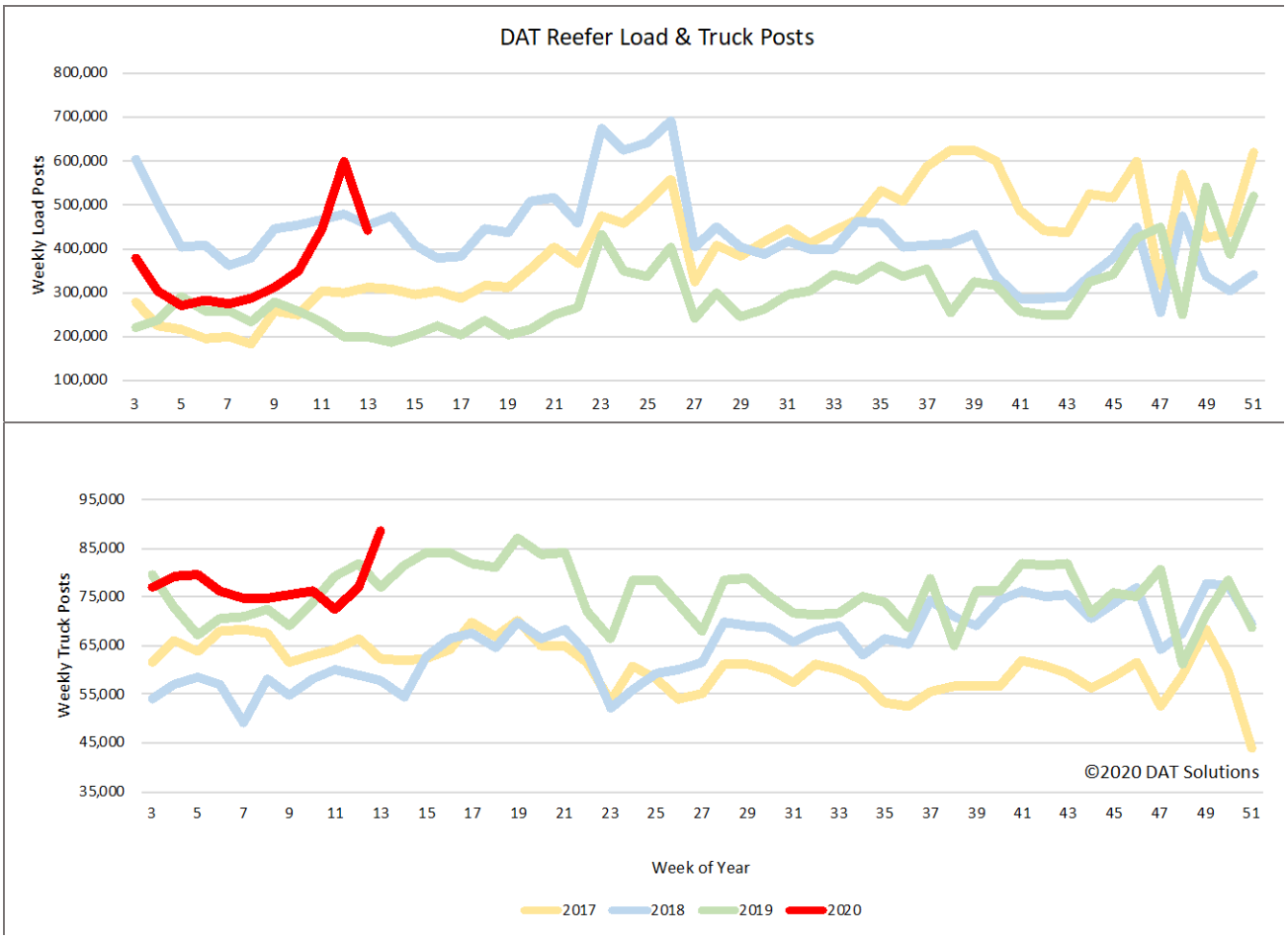
Splitting out the drivers of LTR, we can see that it was a double whammy of sorts driving down dry van LTRs. Load posts decreased to settle below 2018 levels coupled with an increase in truck posts, likely driven by diminished demand for replenishment of consumer goods. Our primary supposition is that capacity is entering the market lured by higher rates and volume has fallen off as the restocking efforts have slowed.



Reefer LTRs tell a similar story, albeit with sharper swings up and down. We will be watching this closely over the next 1-2 weeks because, unlike dry vans, we would not expect this downward trend to continue based on prior year trends. Produce season should be ramping up by the end of the month which makes understanding these short-term trends critical in the reefer space.



Looking at reefer load and truck posts independently tells an even more interesting story. Mimicking the LTR trends, we see a sharp rise and fall on load posts, but the truck posts are remaining much higher than seasonally expected. It's difficult to tell if this is due to elevated rates pulling capacity into the spot market earlier than seasonally expected or other factors, but it remains something that we will closely watch.

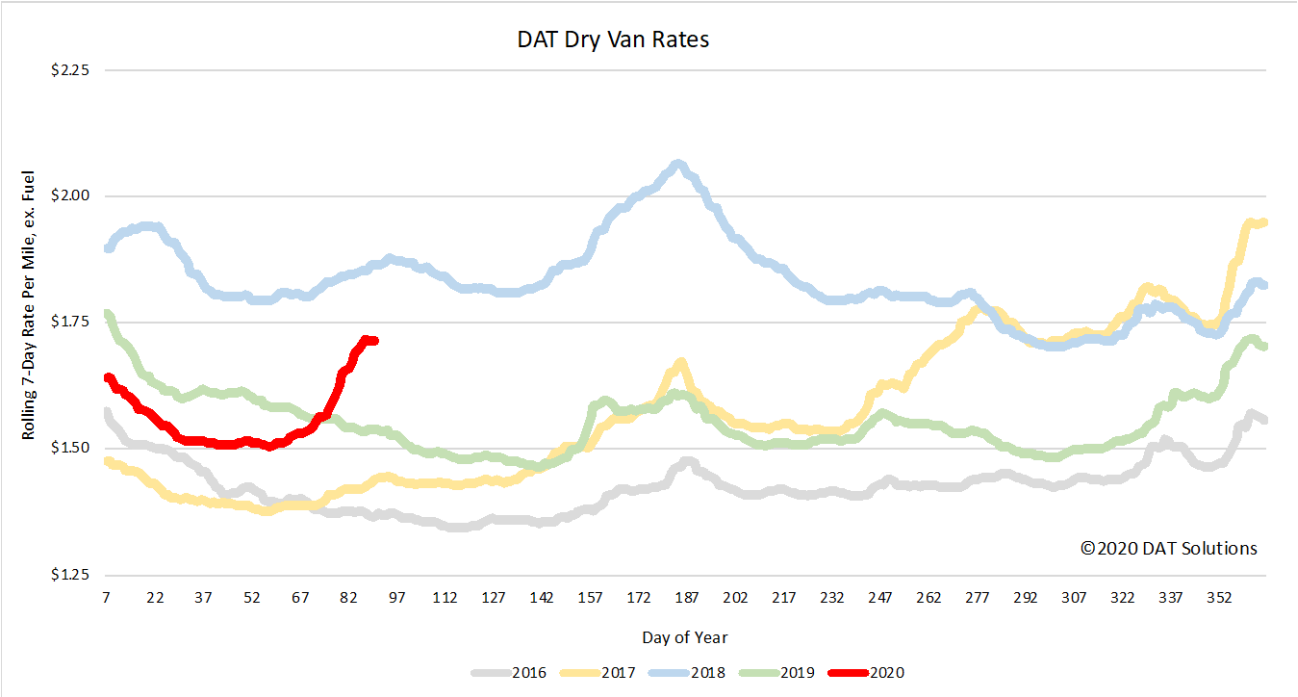


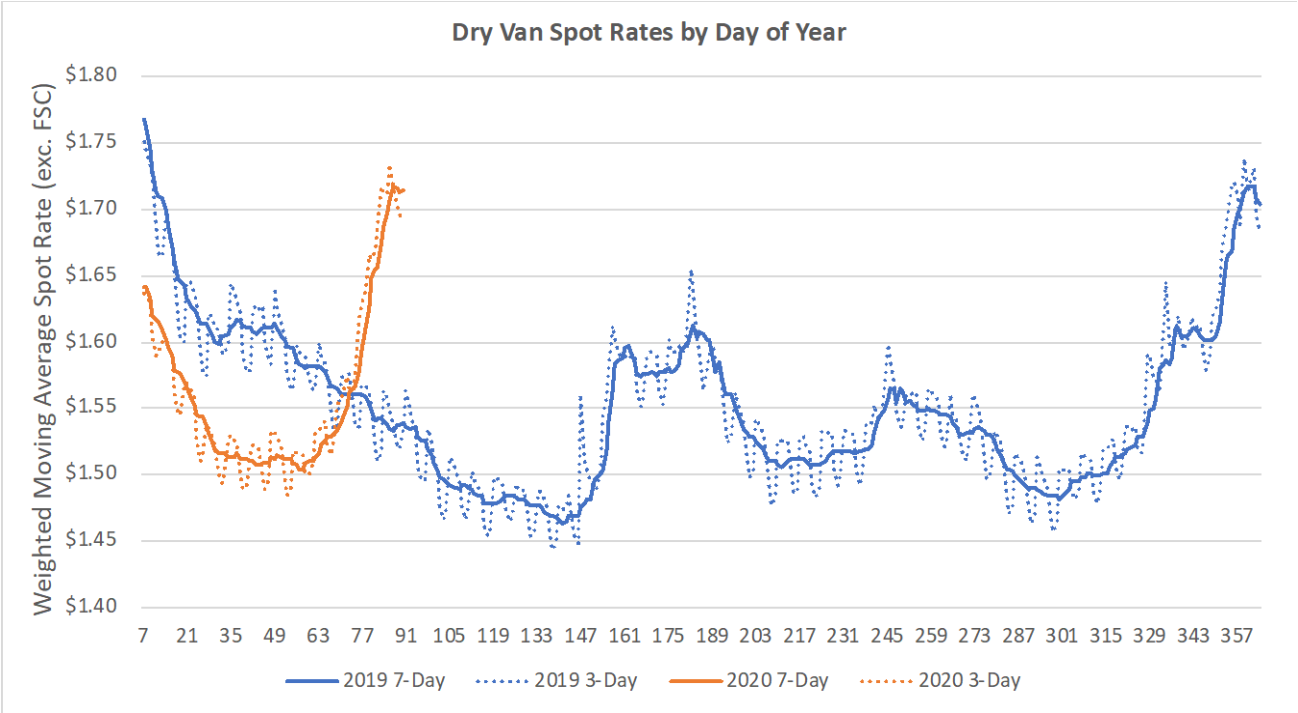
Rate Trends

The charts below show a 7-day rolling weighted average of spot truckload rates, updated daily, illustrated by year. The average helps to smooth out day-of-week effects, but it's plotted daily to show how things are changing in the extreme near-term. DAT does not typically publish rates in this format, and as such they will not match other figures that customers may be familiar with in our blog or other content. We are making these available to the general public to help demonstrate the rapidity of changes occurring in the spot market.

Spot dry van rates appear to have stalled at their current levels. The total increase since the start of March is hovering around +13% excluding fuel or accessorials. We are seeing evidence in our real-time rating data that the rolling average rate is cresting and will likely contract over the next few days to a week. There is not enough data to definitively say what will happen beyond the next 7-10 days.

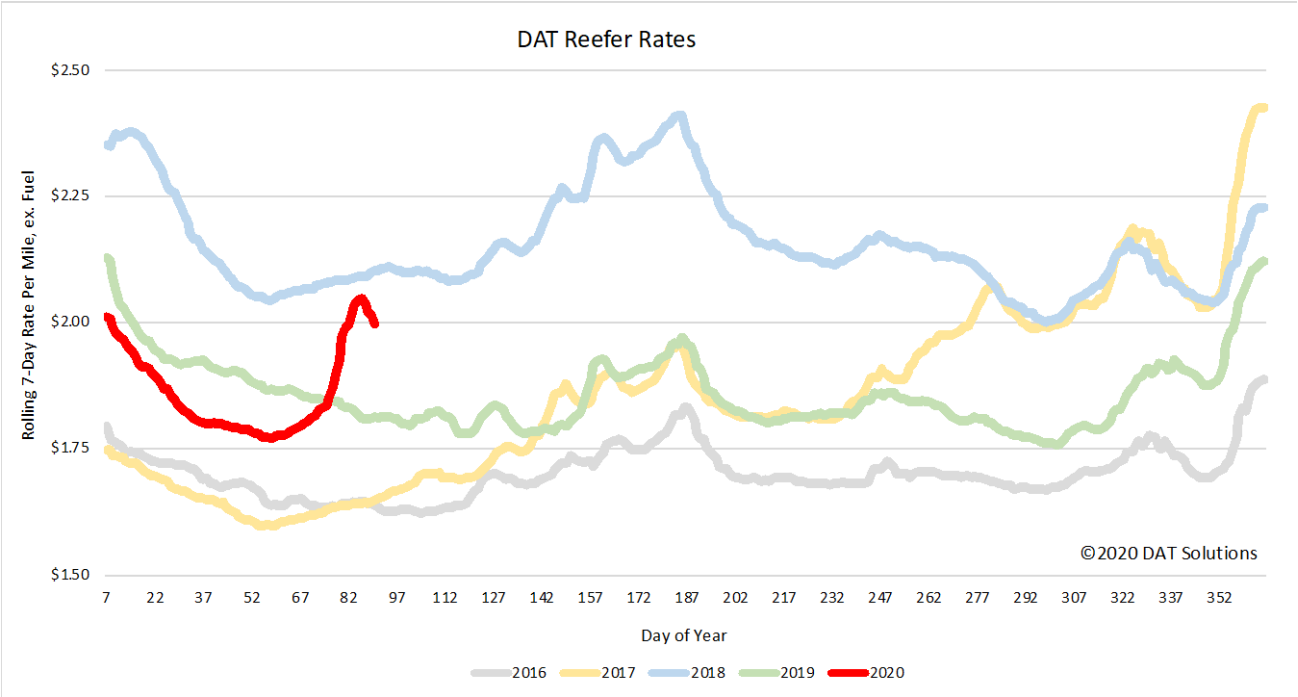
We have included a chart that shows the difference in the 7-day weighted moving average and the 3-day weighted moving average. This is a play on technical stock analysis where shorter and longer time windows are compared to highlight shifts in momentum and direction. You can clearly see the shorter-term window showing contraction while the longer rolling average is stalled.

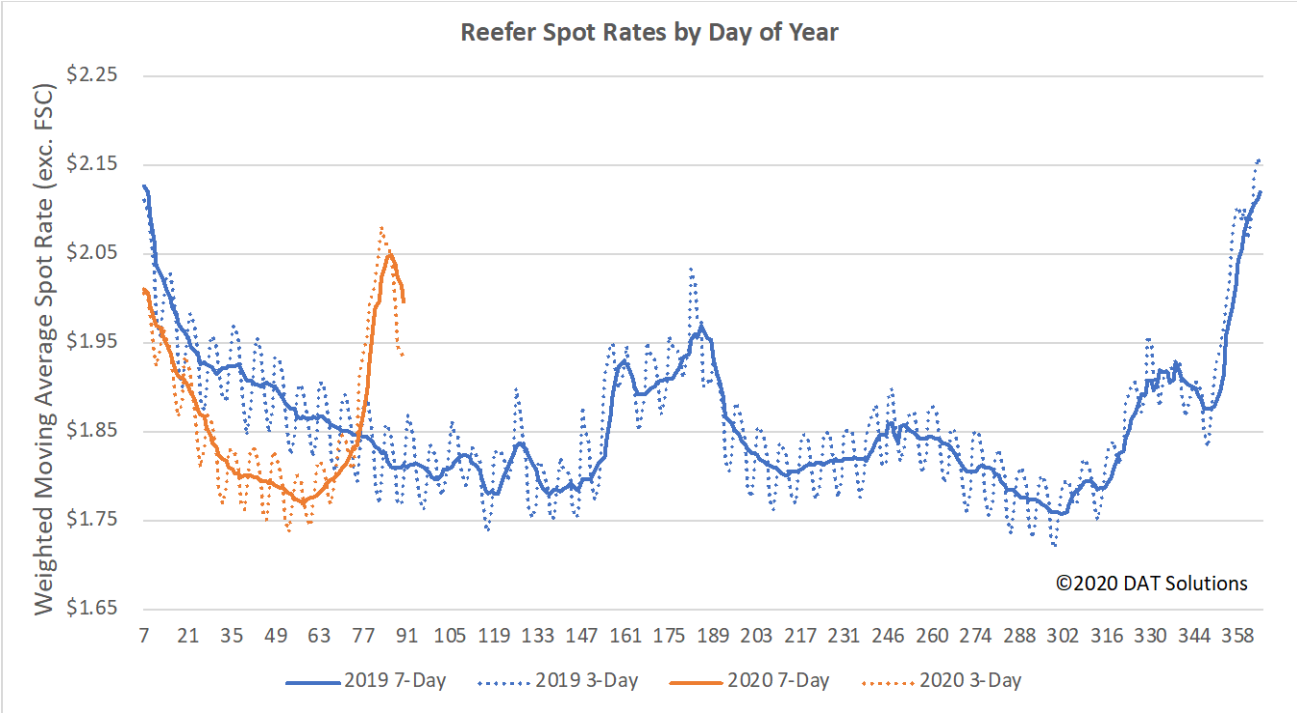




Reefer rates seem to be leading dry vans. After a swell of over 15% to start the month, the 7-day weighted rolling average has pulled back roughly 2-3% in the past 5 days. Given that the movements in supply/demand have been sharper, this is behavior that we would have expected. It also gives us a view into what could potentially be coming in the dry van market.

The same moving average comparison has been included below for reefers. Just like in the overall figures, we see the 3-day decouple from the 7-day and pull down the overall average as it drops.

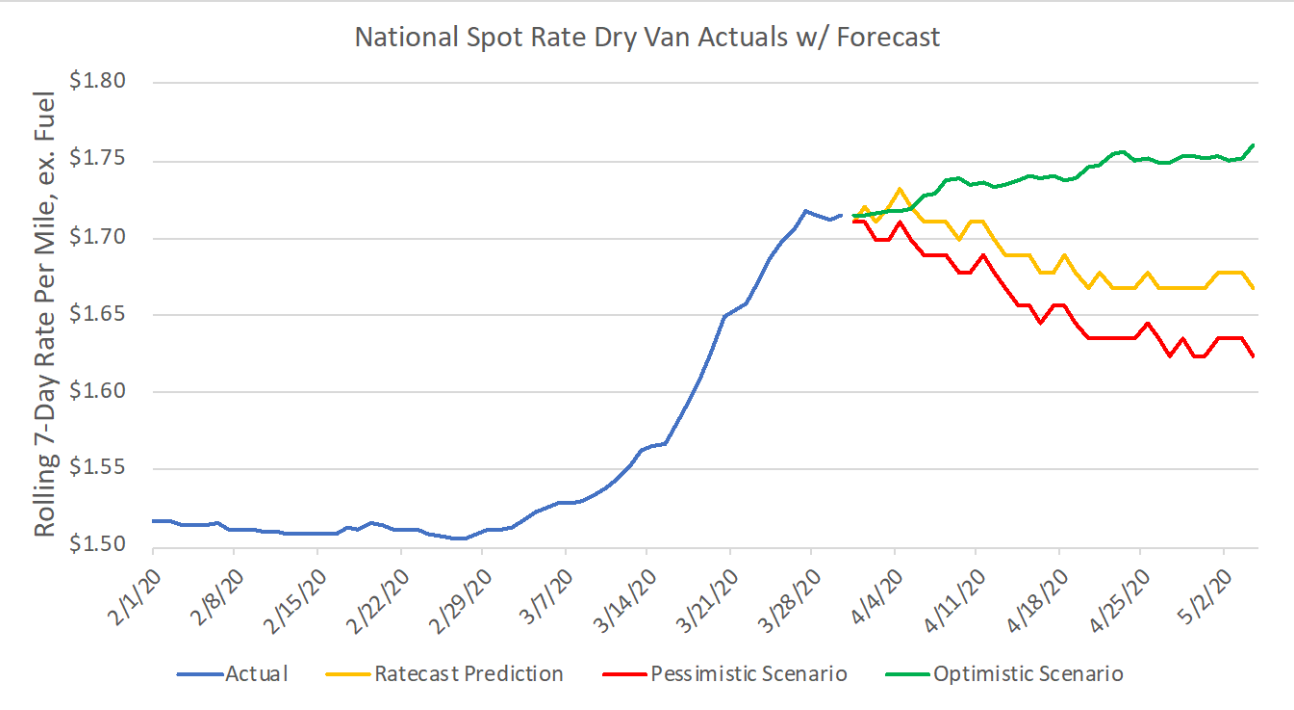




Looking Ahead

It warrants mentioning that forecasting during this volatile and uncertain time period is difficult. Our team is working diligently to update and adjust the models, but the pace at which new information is being made available further complicates the issue. DAT would typically not publish these types of internal studies, but we feel that the benefit of sharing our thinking with the industry outweighs the potential negatives. Please treat these statements and exhibits as directional and consider them a variable in your own analysis.

Dry van spot rates continuing sharply upward toward 2018 levels is beginning to look less likely, at least in the immediate short-term. Our core model is showing the seasonal trends taking over and applying downward pressure to rates over the next month. We have also included an optimistic and pessimistic model run that highlight what we believe to be a reasonable range of expectations based on current market conditions.



Ratecast Prediction: *DAT's core forecasting model estimate. Assumes seasonality drives rates downward.*
Pessimistic Scenario: *Rates fall more sharply than seasonally expected, primarily due to drop-off in demand.*
Optimistic Scenario: *Stall and then increases driven upward by continued high demand and tight capacity.*

The looming economic recession and timing of the economic restart will weigh heavily on the longer-term outlook for rates. The market was at the bottom of this down cycle when the pandemic hit North America. Rates had been falling for the better part of 18 months with capacity exiting the market as a result. The silver lining here in that we are heading into this crisis rather lean on capacity which dampens the possibility of a major negative rate correction. Our current operating assumption is that recessionary economic conditions will put deflationary pressure on rates over the summer and into the fall, likely stunting the extent to which we recover from the last freight cycle.