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JOC Intermodal Savings Index

An Analysis of the Domestic Intermodal and Truckload Markets

2Q 2021

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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 domestic 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 more than 100 signify intermodal rates are cheaper; values less than 100 indicate truckload rates are cheaper. Values are linked to percentages:

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

Rule of thumb: Higher numbers indicate strong intermodal savings. Lower numbers indicate strong modal competition. For an in-depth review, please read our "Methodology" on page 10.

Executive Summary

Domestic intermodal business increased for the fourth consecutive quarter in 2Q, growing 16 percent compared with a year ago, according to the Intermodal Association of North America (IANA). The year-over-year comparisons are skewed since the dramatic falloff in freight volume in the early days of the COVID-19 pandemic occurred in 2Q20.

There are two ways to slice the IANA data: a bullish way and a bearish way. The bull notes how domestic 53-foot container volume, excluding trailers, rose 15 percent year over year in the second quarter but also increased 7.3 percent compared with 2Q19. The bear would counter that 2Q21 domestic container volume is only up 0.6 percent compared with 2Q18, yet shippers have suffered through allocation caps, peak season surcharges, ingate closures, and a reduction in reservation slots from the US Class I railroads.

The 2Q21 service disruptions on BNSF Railway, Union Pacific Railroad, Norfolk Southern Railway, and CSX Transportation are a significant factor that readers should remember throughout this report. Service is just as important as cost. Slow, unreliable service can offset even the highest intermodal savings.

Table of ISI values

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

	3 Month	6 Month	12 Month
Spot ISI	120.7	121.7	117.4
Contract ISI	136.7	134.6	131.1

Source: IHS Markit ©2021 IHS Markit

Since 2015, the average monthly Contract ISI is 124.9 (24.9 percent savings); the average monthly Spot ISI value is 114.5 (14.5 percent savings).

Both indexes are higher today than the long-term averages. However, UP's spot rate increases in California caused JOC's Spot ISI to drop 12 points since March. BNSF-linked intermodal marketing companies (IMCs) raised spot rates to match UP.

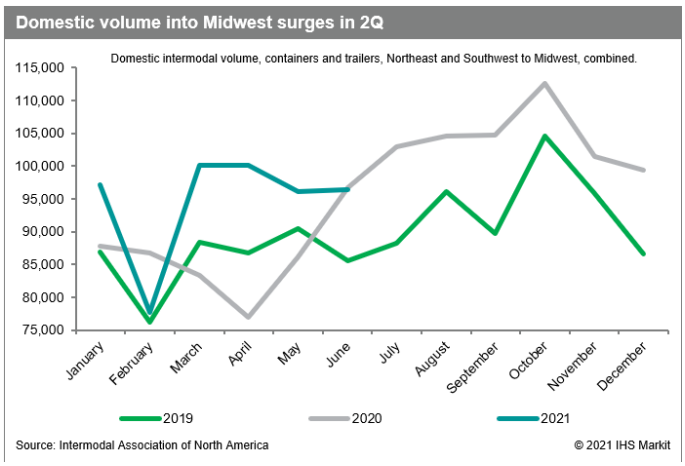
JOC's Spot ISI fell under 100 in the second quarter in the Southwest, indicating truck rates were cheaper than rail rates out of California, even though prices are significantly higher than a year ago in both modes.

JOC's Spot ISI remains near record levels, though, in the Midwest and Southeastern US, keeping the national index value higher than historical norms.

The Volume Picture

Domestic intermodal volume is surging into the Midwest from both the Southwest and Northeast, according to IANA. From the Southwest to the Midwest, domestic intermodal volume grew 12 percent compared with a year ago and 19 percent compared with two years ago.

Why would the volume increase be stronger compared with 2019? As you can see below, June 2020 saw the V-shaped recovery in intermodal volume.

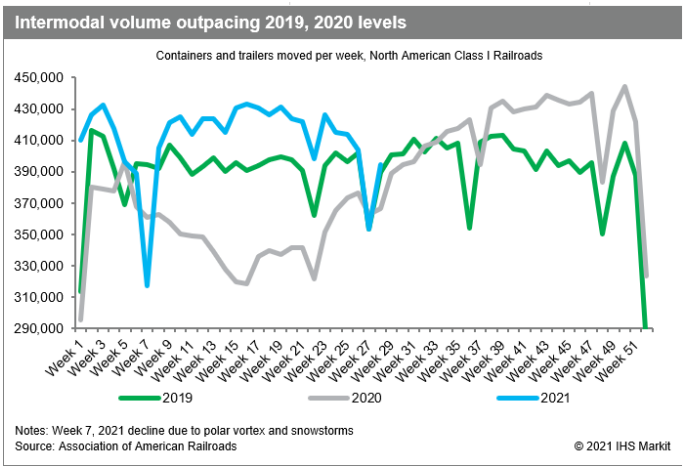


The V-shape is a warning that comparisons are more difficult going forward. In fact, domestic container volume between the Southwest and Midwest declined 4.3 percent year over year in June.

When combining Southwest and Northeast to Midwest hauls (chart above), volume jumped 30 percent year over year in April but was down 0.4 percent by June.

Another way to view volume is through the weekly data of the Association of American Railroads (AAR). In week 28, intermodal volume among all North American Class I railroads rose 7.7 percent compared with a year ago but only 1.3 percent compared with two years ago. Volume began to quickly climb last year in Week 30 — early August — so expect the percentages to fall toward zero or turn negative soon.

Note that AAR data combines international and domestic intermodal, so ocean containers are included in this analysis.



Despite the tough comparisons going forward, the forecast remains optimistic for the back half of this year. UP and NS said earnings call that low inventory, strong consumer spending, e-commerce sales, international trade, and rising truck rates will keep intermodal volumes up for the rest of this year and create more opportunity for truck-to-rail conversions.

Parcel volume will be an important factor as UPS, FedEx, Amazon, and Walmart take up a lot of intermodal train capacity. The business conditions of these four companies will be a major factor in rail volume the rest of this year.

J.B. Hunt Transport Services has an equally bullish outlook with its forecast tempered only by service disruptions and slow box turns.

"Demand for our intermodal capacity remains robust. In fact, demand continues to significantly outpace our available capacity which remains constrained by rail performance and restrictions in addition to customer detention of our trailing equipment," said Darren Field, J.B. Hunt's president of intermodal.

For those following JOC's news coverage, the allocation caps in BNSF Hobart, congestion in BNSF Logistics Park Chicago, and domestic intermodal volume metering on NS's network in cities such as Atlanta, Bethlehem, Charlotte, Chicago, Croxton (NJ), Harrisburg, Jacksonville, Kansas City, and St. Louis are well documented. Shippers and IMCs are also aware of how difficult it is to secure UMAX and EMP containers on UP's domestic intermodal network.

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