ArcBest 2021 Truckload Market Recap

Look back at the 2021 truckload market with month-by-month updates written by ArcBest experts Brian Beasley, Christian Jones and Chris Carter.

Because the market changes over time, metrics discussed in these monthly updates may look different today. All information in this document was accurate at the original time of publishing.

ArcBest

January

Original publish date: 1/27/2021
Author: Brian Beasley

With retail inventories at historically low levels, even if consumer spending continues to decline, there will be a period of restocking that will keep demand elevated well into the second quarter of this year. This restocking period will also be a boon for U.S. Manufacturers. In December, factory output rose 0.9% from the prior month after a 0.8% gain in November. Class 8 truck orders in November 2020 hit the third-highest total on record. The trend continued in December 2020 with 52,100 units ordered — the fourth-highest total on record. This glut of additional capacity could have the effect of normalizing the balance between supply and demand. The biggest question is whether there will be enough available truck drivers to fill the seats. The American Trucking Association (ATA) reported in 2018 that the trucking industry was short 60,800 over-the-road (OTR) drivers. The ATA projects that if the current trend continues, the shortage could surge to over 160,000 within the next 8 years. The ATA's Chief Economist, Bob Costello, estimates that we have approximately **500,000 OTR drivers** in the United States. A shortage of 160,000 on a base of 500,000 represents a significant challenge for the trucking industry.

The pandemic has only exacerbated the driver shortage. Many truck driving schools have either closed or are operating at reduced capacity. Stricter drug and alcohol testing mandates along with an aging driver population are also **contributing to the shortage**. To combat these headwinds, many carriers are increasing pay to attract and retain drivers.

Truck drivers have always been the unsung heroes of the American economy. The hours are long, and the work is tough. This fact has become increasingly apparent over the last year. While the country was hunkering down to slow the spread of Covid-19, truck drivers were working hard to ensure that critical supplies reached their destination on-time and intact. Regardless of the economic forces that play out in the coming months, the role of the truck driver will continue to be of critical importance.

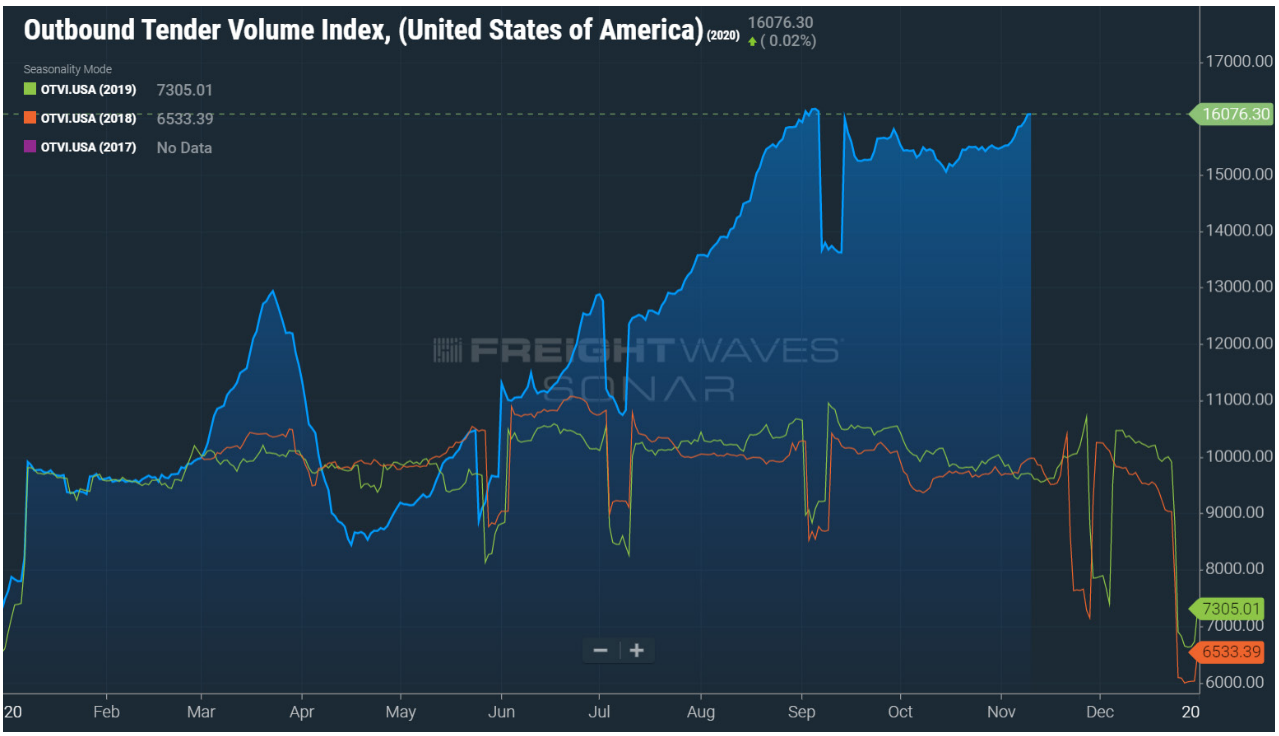
(February 2021>>)

February

Original publish date: 2/23/2021
Author: Brian Beasley

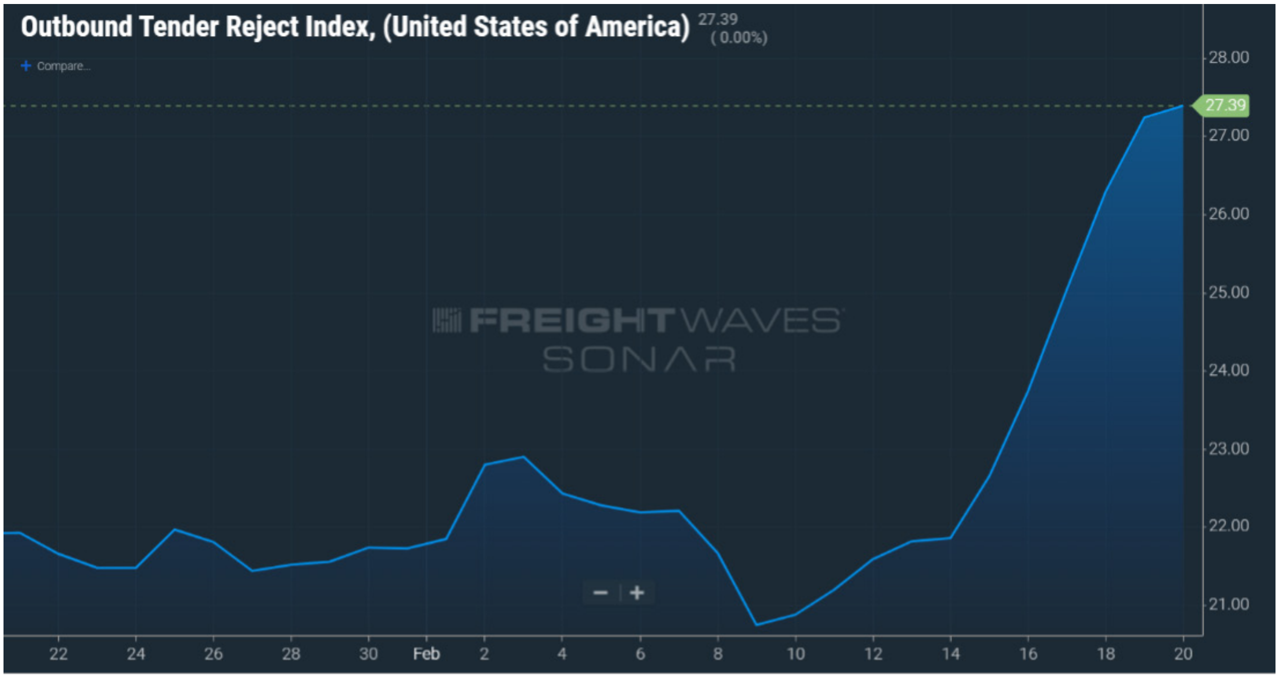
The first part of the year is usually defined by muted demand and softening rates within the truckload market. By early February, we are several months removed from the peak season freight frenzy. But just as it appeared that the markets would settle back into a typical seasonal pattern, a historic winter storm hammered the country.

On February 16th, over **73% of the lower 48 states** were blanketed in snow. Between February 14 and February 18 truckload volumes fell 6%. This is one of the largest non-holiday declines that we've seen since the end of the "panic buying" phase of the pandemic.



(February 2021, continued>>)

Over the same period, outbound tender rejections increased more than 22%. This is a situation that is typical of the holiday season when capacity is taken offline at a faster rate than volumes. To see this in mid-February is uncommon.



If this was a typical year, the market might be able to absorb the disruption. But this is not a typical year. Though things could shift, shippers should expect to see increased rates in the coming weeks. Prior to the winter storm, carrier capacity was already constrained. Outbound tender rejections have remained above 20% since August 1, 2020. This metric indicates that over 20% of the loads tendered to carriers are rejected. A lack of available capacity is the primary reason that loads are rejected. As the country thaws, the backlog of freight will put even more pressure on an already constrained market.

(March 2021>>)

March

Original publish date: 3/29/2021
Author: Christian Jones

Stimulus payments, vaccine rollout improvements, record low inventory levels, record high retail sales, and continued manufacturing growth are all working together to sustain the strength we have seen in the truckload market over the past several months. Internet Truckstop's Market Demand Index (a ratio of available loads to available trucks) has soared over the past month to a YoY increase of 270% and an increase of 434% over the 5-year average. Spot rates have been near record highs since September of last year and March is currently tracking to be another near-record high according to DAT Solutions. And momentum isn't expected to slow down anytime soon.

As reported by the U.S. Census Bureau, the overall inventories to sales ratio fell to a near record low of 1.26 in January after stabilizing around 1.32 for the past six months. The $600 stimulus payments that were passed in December and disbursed in January played a significant role in this decline as sales greatly outpaced inventory restocking. Inventories are not likely to have much time to recover as additional $1,400 stimulus payments are now being disbursed only two months later.

As these stimulus payments are sent out, daily Covid-19 infections are on the decline and the administration of vaccines continues to improve. Because of this, consumer confidence is likely to continue to improve — which could lead to more spending (with spending on goods still greatly outpacing spending on services). We may see some volatility in inventory levels as a result.

Manufacturing is also doing its part to provide continued strength to the market. The Institute for Supply Chain Management's Manufacturing PMI® fell to a low point not seen since 2009 at the onset of the pandemic, but it rebounded to expansion territory in June and has stayed there since. February's ISM PMI measure came in at 60.8 (>50 indicates growth) and it's expected to remain in expansion territory throughout the year. As new orders continue to increase, inventories remain low, and factories struggle to keep up with demand. As a result, expansion in the manufacturing sector is not expected to subside for several months.

While demand remains strong, capacity remains an issue, and Class 8 orders have spiked to historical levels. According to FTR, new orders have exceeded 40,000 for five consecutive months, including orders exceeding 50,000 for November and December 2020. However, we probably won't see the downward pressure on rates from these orders for a while. Supply chain issues, such as the global shortage of semiconductor chips, are making it difficult to produce enough trucks to fill orders.

(March 2021, continued>>)

Even if those orders are filled, there is still the problem of finding enough drivers to fill the trucks. According to the American Transportation Research Institute (**ATRI**), the driver shortage is ranked the number one issue in the trucking industry by carriers and with the average age of drivers around 50, new drivers will be needed to fill the vacancies left by retirements in addition to the current shortage.

April

Original publish date: 4/28/2021
Author: Brian Beasley

According to data provided by Internet Truckstop, market rates are up 54.8% year-over-year. Due to increased spending, strong consumer sentiment and low inventory levels, most experts agree shippers should expect this trend to continue throughout the remainder of the year.

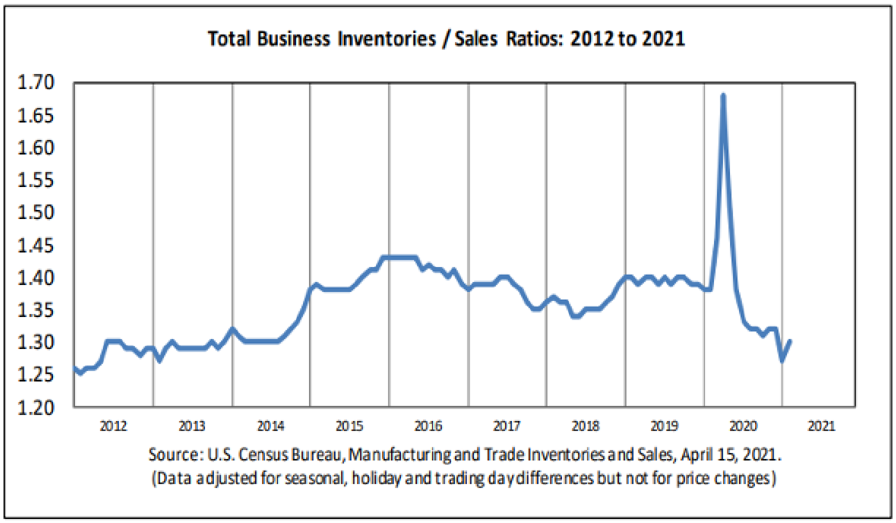
Bolstered by a third round of stimulus checks, retail sales surged in March, posting a 9.8% increase over February. For context, this is the second highest month-over-month increase on record. The data also suggests that consumers are becoming more comfortable venturing out. Spending at restaurants and bars increased 13.4% month-over-month. Spending within this segment showed the highest year-over-year increase on record at 36.0%. As COVID cases continue to decline and the vaccine reaches more people, continued strength within the services industry is expected. Good news for the American economy.

With consumer spending accounting for approximately 70% of the nation's gross domestic product, consumer sentiment is one of the best indicators for whether this spending trend will continue. The latest assessments from both the Conference Board and the University of Michigan showed the highest levels of consumer confidence in a year. Lynn Franco, senior director of economic indicators at The Conference Board, provided the following perspective:

"Consumer Confidence increased to its highest level since the onset of the pandemic in March 2020. Consumers' assessment of current conditions and their short-term outlook improved significantly, an indication that economic growth is likely to strengthen further in the coming months. Consumers' renewed optimism boosted their purchasing intentions for homes, autos, and several big-ticket items. However, concerns of inflation in the short-term rose, most likely due to rising prices at the pump, and may temper spending intentions in the months ahead."

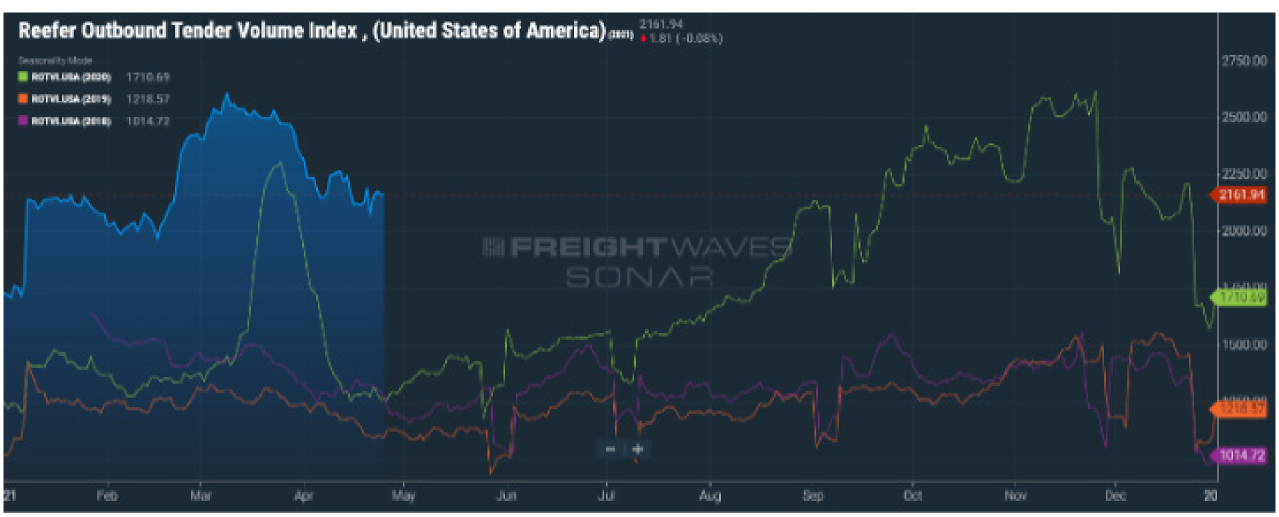
(April 2021 continued>>)

As consumer demand surges, inventory levels have fallen to record lows. The latest seasonally adjusted data puts the total business inventory/sales ratio at 1.30. The lowest level since August 2014. The rush to replenish diminished inventories has led to congestion within both our ports and highways.



As of Sunday, April 25, 39 container carriers were waiting to enter the ports of Los Angeles and Long Beach, only one less than the peak of the backlog which occurred on February 1, 2021. On our roadways, total spot load postings set records during the week ending April 16. Volume in the latest week was up 583% year-over-year, and 193% higher than the five-year average (2015-2019).

Against the backdrop of the previously mentioned macro-economic indicators, produce season is also underway across the United States. Increased reefer demand is an expected component of produce season, and 2021 should be no different. This year we are entering produce season with reefer demand already at high levels. This demand surge can be traced back to February when the artic plunge left Texas in subfreezing temperatures and with a failing power grid. Many goods were spoiled and required replacing, exploding demand for reefers in Texas and creating reefer shortages across the country.



(April 2021 continued>>)

The Freight Waves Reefer Outbound Tender Volume Index (ROTVI) has been gradually decreasing since the storm but is still slightly above pre-storm levels. However, this decrease in demand will almost certainly reverse as produce season picks up steam. An increase in the already elevated reefer spot rates is expected as time goes on, especially once the summertime increase in produce and drink consumption begins to take effect.

May

Original publish date: 5/26/2021
Author: Christian Jones

According to Fred data for March 2021, goods are still outpacing services with a YoY increase of 46.9% compared to a YoY increase of only 6.6% for services. Goods expenditures have also surpassed their pre-pandemic level by 29.5% (Feb. 2020 compared to March 2021) while services are still -3.0% below their pre-pandemic level. However, service expenditures are expected to increase quickly as many states lift health and safety restrictions, more people get vaccinated, and pent-up demand begins to make an impact.

While an increase in service expenditures is broadly anticipated, goods aren't expected to see a significant decline anytime soon. According to The Conference Board, the Consumer Confidence Survey has "rebounded sharply over the last two months and is now at its highest level since February 2020." High consumer confidence is considered a good indicator of future spending, and while some of that spending will go to services, plenty of it is expected go to goods as well. Real Disposable Personal Income is also a good indicator of future spending and is currently at an all-time high and up 29.3% YoY, according to Fred data for March 2021.

In addition to elevated spending, several key indicators for freight demand are doing exceptionally well. Inventory levels are at historic lows, especially retail, and are expected to remain low throughout 2021 as supply chain constraints make it difficult to restock at a fast-enough pace to keep up with spending. Manufacturing PMI has been above 50 (indicating growth) for 11 consecutive months, above 60 for 3 consecutive months, and is expected to remain elevated throughout the remainder of the year. Class 8 sales are being held down by shortages in semiconductor chips and steel which is making it difficult to relieve capacity constraints as well.

Overall, freight demand is expected to back off the exceptional highs we have seen over the past few months, but it is projected to remain strong throughout 2021. Spending is up, real disposable income is up, inventories are low, and manufacturing is strong and shows indications of continued strength. For those looking for an "inflection point" in demand growth, current expectations are Q1/Q2 of 2022 as Class 8 sales make a material impact on capacity, restocking catches up to spending, and manufacturing works its way through

(May 2021 continued>>)

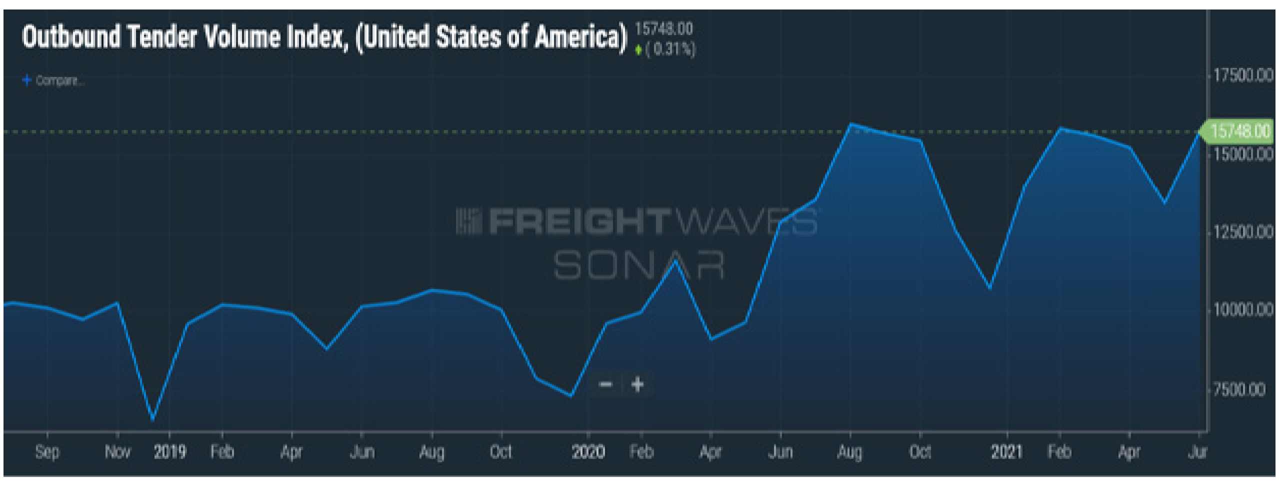
the backlog of orders. But because the market can change for multiple reasons, we'll continue to provide updates and commentary to help you stay informed.

June

Original publish date: 6/29/2021
Author: Chris Carter

Name a business or industry and they are probably struggling to keep their inventories high enough to meet customer demand. Why is this happening? The short and easy answer is COVID-19, but that would be an oversimplification. There are several other causes worth discussing.

During lockdown, consumers changed their spending habits. They stopped spending on services and shifted their spending to goods. And they did so at unprecedented levels. This increase in purchased goods began a ripple effect that we are still experiencing today. According to the Outbound Tender Volume Index, truckload volumes began increasing in May 2020 and have remained elevated ever since.



As consumer spending increased, suppliers rushed to meet demand and as products flooded the United States, increased port congestion and wait times were inevitable. This was especially true at the ports of Los Angeles and Long Beach. Approximately 50% of all imports pass through these ports. During February 2021, ship traffic increased by 31% and container traffic increased by 49%. As containers arrived, COVID protocols resulted in reduced manpower available to unload. Pre-pandemic, it wasn't unusual for some ships to experience 1-2 day wait times. Today at the ports of Los Angeles and Long Beach, container ships dot the sea's horizon, with wait times extending beyond two weeks.

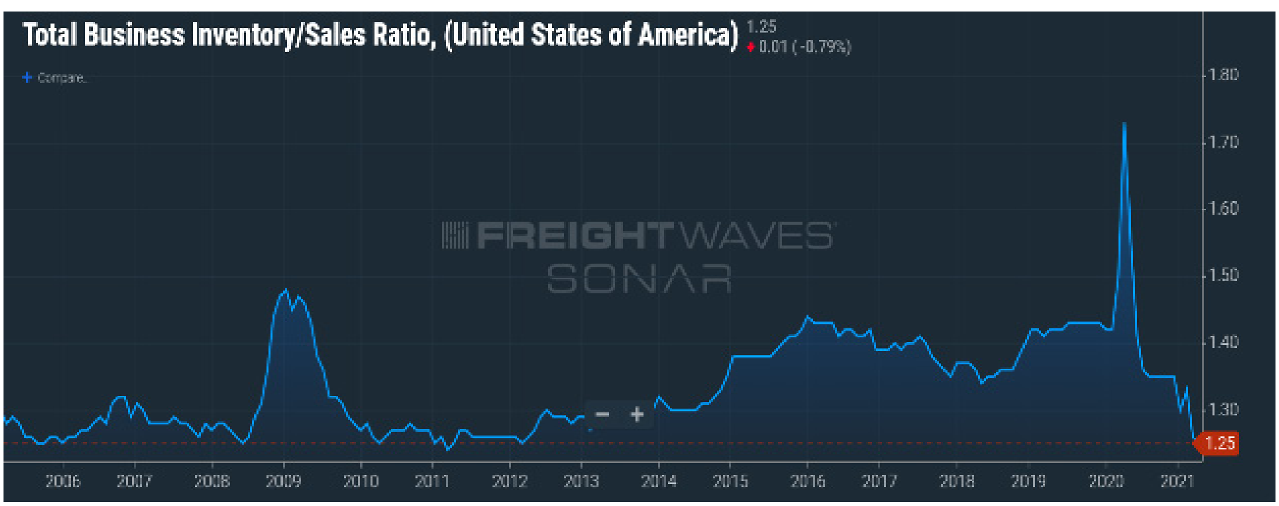
(June 2021 continued>>)

We have also experienced a significant imbalance between imports and exports. The Port of Los Angeles recently reported that the import to export ratio has reached 4:1. Meaning that for every four containers imported only one is exported. This imbalance has resulted in a short supply of available containers. This container shortage has made importing products to the U.S. difficult and expensive.

You might think the simple solution would be to load empty containers onto outbound ships to correct the imbalance. But remember, these ports are congested with ships that have been waiting weeks to unload. Neither the time nor the manpower is available to load the empty containers. And so, the number of containers in the U.S. is expected to continue to accumulate until the situation changes.

Many companies in America embraced the strategy of Just-in-Time (JIT) supply chains and inventory minimization. When companies implement JIT inventory management, they construct their supply chain so materials and supplies only arrive at their destination at the moment they are needed. This strategy has allowed companies to be more flexible and reduce costs. After all, not possessing large volumes of inventory means not possessing large amounts of sunk costs and product commitment.

When supply chains began experiencing disruption, many companies did not have enough inventory on hand to prevent material shortages and stock-outs. During April, we saw the total business inventory to sales ratio fall to an all-time low. These shortages have manifested in a variety of industries, most notably the automotive industry. A shortage of semi-conductor chips has significantly impaired automotive production.



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The cause of the semi-conductor shortage can be attributed to the change in U.S. spending habits. Many of the products that consumers purchased during the pandemic required semi-conductor chips. And as manufacturers rushed to replenish inventories, port congestion and strained supply chains presented a significant challenge.

FRED Source

The effects of these supply chain disruptions are being felt all over the truckload market. The spot market DAT average for vans (ex. fuel surcharge) is 7% higher than its 2020 peak and 20% higher than its 2019 peak. Year over year, the load to truck ratio for van equipment has increased 219%. Both metrics highlight the challenges faced by shippers.

Between low inventory levels, an unprecedented volume of freight, and increased spot market volatility, choosing a reliable transportation provider is more important than ever. It is still uncertain when port congestion will decrease, when shipping container distribution will even out, and when consumer spending habits will revert to pre-pandemic patterns.

July

Original publish date: 8/3/2021
Author: Christian Jones

As we begin the second half of 2021, the logistics industry is still experiencing the effects of an unpredictable economic environment. In 2020, the unemployment rate reached the highest rate since the Great Depression, followed by the fastest recovery in history. Fiscal and Monetary spending reached unprecedented levels to help avoid the worst of the economic downturn and hasten the recovery. Consumer spending hit all-time highs while inventories reached all-time lows. Supply shortages have affected everything from consumer electronics to automobiles to housing and everything in between. With all this uncertainty, what are the expectations for the remainder of 2021?

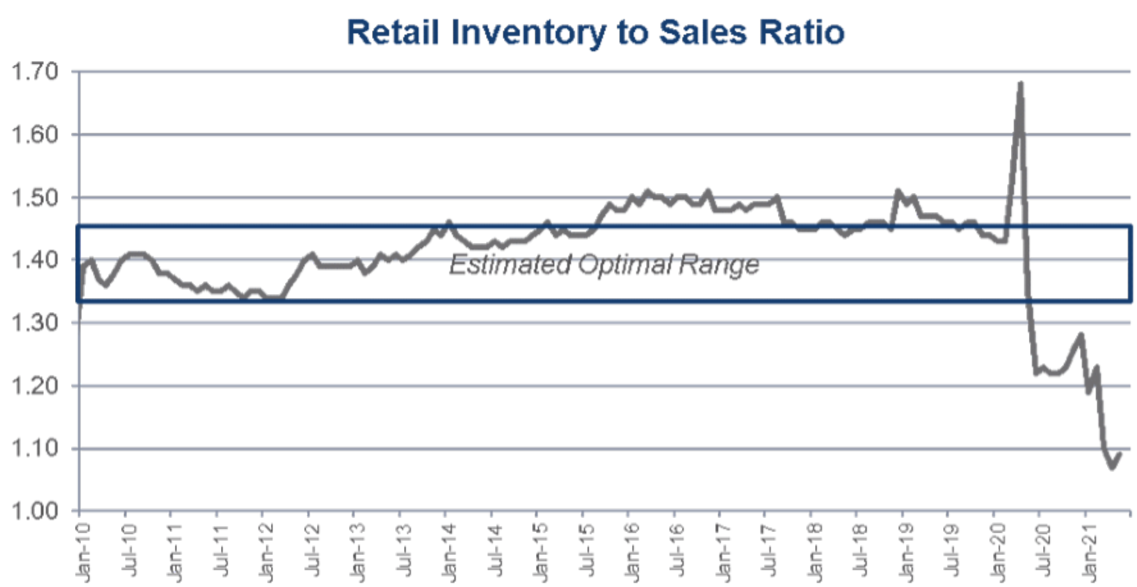
It’s no secret that the logistics industry has experienced a capacity crunch throughout 2021. According to BMO Transportation Finance, five of the first six months of the year saw 100% utilization of all seated class 8 trucks. The second half of the year is forecasted to

(July 2021 continued>>)

see a similar trend, with an average utilization rate of 99% compared to a 10-year average of 91%.

In response to the capacity constraints, new orders for class 8 trucks have exceeded a 100% YoY increase for 9 consecutive months, but supply shortages of input materials, such as steel and semiconductor chips, have made it difficult for manufacturers to produce trucks fast enough to keep up with demand. Deliveries of new trucks are expected to make a material impact on capacity in Q1 2022, as the class 8 utilization rate drops below 98% for the first time since Q4 2020.

Driven by boosted unemployment benefits and stimulus payments, consumer spending and net worth reached historical highs in the first half of 2021. Retail sales experienced 10%+ YoY growth for the first 5 months of 2021, including 20%+ in March and May and nearly 50% in April. This boost in spending saw inventories (especially retail inventories) drop to historical lows, while supply shortages and capacity constraints have made it difficult for restocking to keep pace. Inventory levels saw a slight increase in May from their low point in April but are still exceptionally low and are expected to remain low throughout the remainder of 2021.

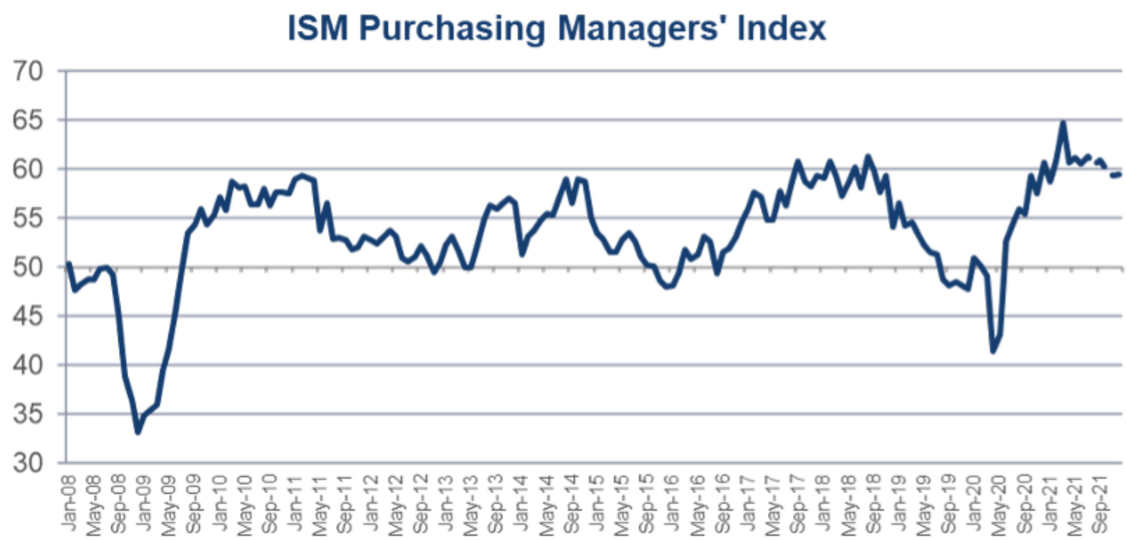


Although the last stimulus payment was disbursed in March and unemployment benefits have ended in many states, consumer spending has not seen a significant decrease. In fact, Personal Consumption Expenditures (PCE) have increased for 4 consecutive months. PCE and retail sales are expected to remain elevated for the rest of the year, although there could be slight MoM decreases. The new Child Tax Credit payments (which began July 15) and the highest level of the Consumer Confidence Index since the pandemic began are

(July 2021 continued>>)

expected to continue to prop up spending.

Manufacturing PMI (Purchasing Manager's Index) is a measure of growth in the manufacturing industry (a measure > 50 indicates growth) and is a key indicator of freight demand. At the onset of the pandemic in April 2020, it fell to a low of 41.5, its worst measure since 2008. It has since rebounded to a high of 61.2 in May 2021, including 13 consecutive months above 50 and 5 consecutive months above 60. Our forecast for PMI is near (or above) 60 for the remainder of 2021 due to new orders, significant backlogs, and low inventory levels.



Though market factors can always change, as we move into the second half of 2021, freight demand is expected to remain elevated, and capacity is expected to remain tight. Spot rates will likely moderate slightly from their 2021 highs but aren't expected to experience a significant decrease until we get into 2022. New truck deliveries will likely begin to have an impact on capacity in Q1 2022.

At that point, inventories should start to normalize as capacity constraints and supply shortages ease and allow for restocking to catch up to spending. Manufacturing strength should also continue to push freight demand throughout 2021 but should begin to see some moderation in 2022. Although freight demand will likely see a slight moderation as we head towards the end of 2021, many of the difficulties the logistics industry has faced throughout the first half of 2021 are expected to continue during the second half before experiencing some relief in 2022.

(August 2021>>)

August

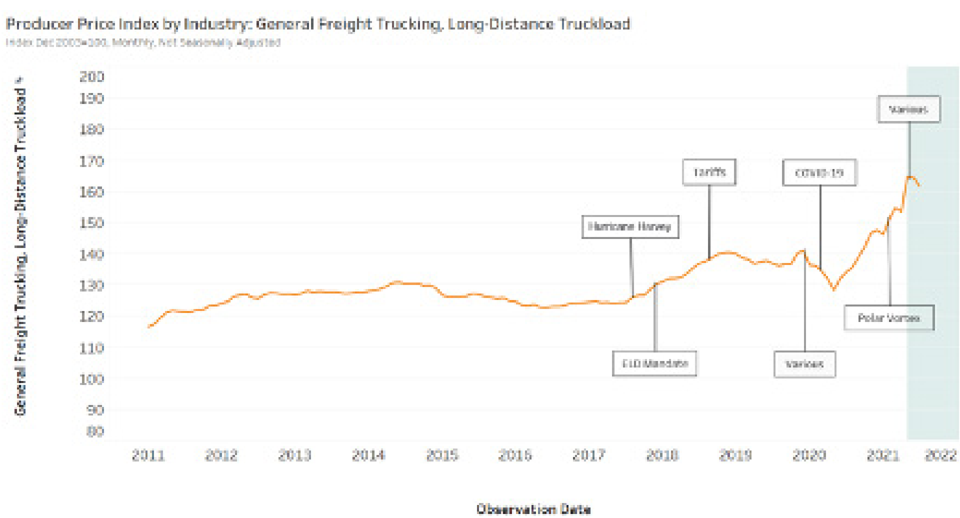
Original publish date: 9/2/2021

Author: Brian Beasley

If you have been close to the truckload market over the last several years, you know that it has been marked by extreme volatility. Natural disasters, government regulations, wavering consumer confidence, geopolitical forces and a global pandemic have all impacted the cost of transportation. Analyzing the fluctuation in truckload rates is one of the best ways to gain a historical perspective on market volatility. And one of the best ways to evaluate these rates is through the Producer Price Index (PPI) for general freight trucking.

The PPI, published by the Bureau of Labor Statistics (BLS), is one of the most widely used measures of price changes for the transportation sector. These are the prices charged by producers of transportation services. The PPI for a mode of transportation measures the average change in the selling prices received by producers. For example, the rail producer price index is based on a survey of railroad prices charged to shippers. The PPI for trucking services measures the average change over time in the selling price for trucking services.

The line in the following chart illustrates the month-to-month fluctuation in the PPI for long-haul freight. For many, this line represents a roller-coaster of challenges and opportunities. The labeled callouts represent only a handful of critical events. No doubt, there are hundreds of other factors that impacted rates over the last several years.



- **Hurricane Harvey:** On August 25, 2017, Hurricane Harvey made landfall in Texas and disrupted one of the largest freight markets in the United States: Houston, Texas. This event had a significant impact on spot market rates.

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- **ELD Mandate:** On December 17, 2017, all commercial vehicles were required to utilize Electronic Logging Devices (ELD). These devices are designed to prevent hours-of-service violations by commercial drivers. This mandate reduced the amount of available capacity and drove up prices.

- **Tariffs:** As the Trump administration escalated its trade war with China, many importers rushed to get their goods stateside before the tariffs went into full effect. The result was an influx of freight that strained capacity and sent rates soaring.

- **Various:** The peak in the fourth quarter of 2019 appears to be the result of multiple market events converging. Strong consumer confidence fueled a robust peak season. This fact, coupled with capacity constraining events like further enforcement actions tied to the ELD mandate, drove rates skyward.

- **COVID-19:** The panic buying phase of the pandemic was quickly followed by widespread shutdowns and shelter-in-place orders that drove down freight volumes and prices. Stimulus measures by the Federal Government helped to bolster the economy. Significant increases in consumer spending increased both volumes and rates.

- **Polar Vortex:** In February of this year, severe winter storms impacted a large percentage of the United States. These storms resulted in depleted inventory levels nationwide. As the nation thawed, demand for truckload services increased.

- **Various:** Over the past few months, the market has been defined by constrained capacity, low inventories, increased spending and a booming manufacturing industry. Last month's update describes these factors in detail.

At each twist and turn, shippers needed to understand the market dynamics and respond accordingly. For many, the last several years have been challenging to navigate. But it appears that there might be some relief in sight for shippers. The PPI showed two months of sequential decline in June and July. The Cass Truckload Linehaul Index®, another key measure of truckload pricing, also showed two months of sequential decline in June and July after eleven straight increases. As we enter peak season, it is too soon to say that the market has plateaued. We will explore more recent trends and factors in next month's update.

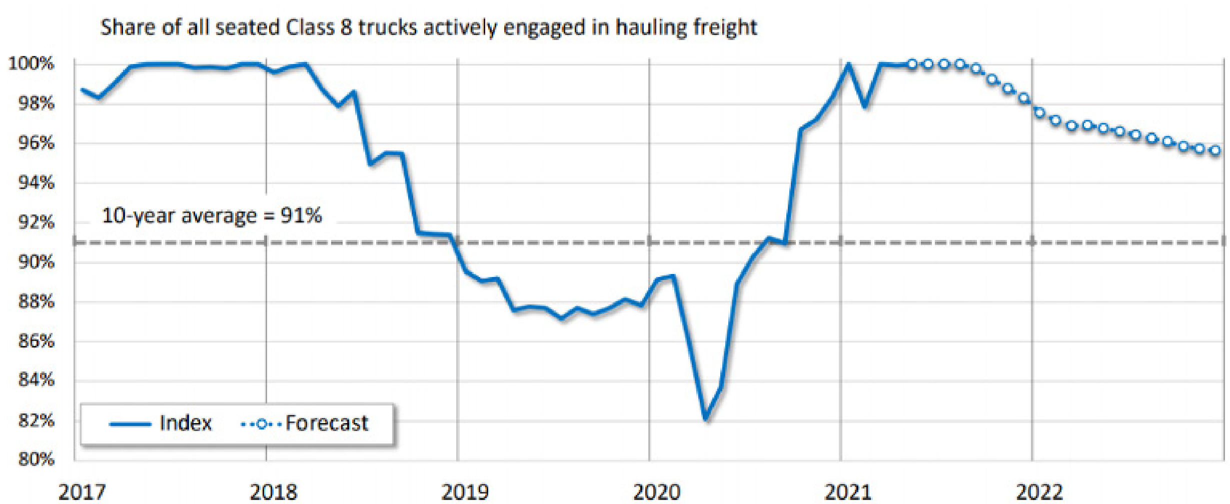
(September 2021>>)

September

Original publish date: 10/1/2021
Author: Christian Jones

For the past 12+ months, shippers and consumers have dealt with what feels like a never-ending stream of product shortages, capacity constraints, high shipping costs and increased delivery times. At a basic level, these issues are the result of significantly increased demand — caused by consumer spending during the pandemic largely shifting from services to goods — and significantly decreased supply due to shortages of input materials, trucks, trailers, and shipping containers. For this month's market update, we'll take a deeper dive into the factors that continue to constrain the supply side of the market and look at when the market might start to experience some relief.

Right now, there is simply not enough capacity to handle all the demand in the market. Look, for example, at the graph below from BMO Transportation Finance that shows the utilization rate of class 8 trucks. Notice that the current utilization rate is 100% of all seated class 8 trucks and is expected to remain there for most of the rest of the year. There is a similar situation occurring with trailers.



Shipping containers are also in short supply due to multiple factors. As is the case with trucks and trailers, shortages of input materials are significantly impeding the production of new containers. While new containers are slow to appear, complications from the Covid-19 pandemic are exacerbating the shortage of containers by slowing the process of loading and unloading container ships at the ports so that they can be ready for the next shipment. Port slowdowns and shutdowns due to Covid-19 have caused massive traffic jams of container ships — each holding thousands of containers that can't be moved. There

(September 2021, continued>>)

are currently more than 60 ships waiting off the coast of California to be able to dock and unload, which is the highest amount ever.

So, when can the supply chain expect some relief? As mentioned, the market is experiencing shortages in a multitude of input materials. One example of this would be the ongoing shortage of semi-conductor chips that has crippled the automotive market. Not only has this made it incredibly difficult for automotive manufacturers to keep up with demand for passenger cars, it has also made it incredibly difficult to produce new class 8 trucks to help with capacity constraints.

If you take another look at the class 8 utilization graph above, you'll notice the forecast moves away from 100% and down to about 98% by the end of 2021 on the expectation that some new trucks will start to be delivered during Q4 2021. The utilization rate continues to decline to approximately 96% by the end of 2022 as additional truck deliveries during 2022 help increase capacity. However, the utilization rate will still be well above the 10-year average of 91% and capacity is likely to remain tight, although not as tight as we're currently experiencing now.

On the trailer side, shortages of inputs such as steel continue to hinder production. The FRED graph below of steel prices gives a quick view of the shock the market has experienced since the onset of the pandemic. Currently the expectations for new trailers are similar to that of trucks. The market might see some deliveries in late 2021, but more deliveries are expected in 2022 (although still not enough to meet demand).

Shipping containers have the most difficult road ahead. While the number of ships waiting to dock is at an all-time high, many believe it is still likely to get much worse before it gets better. As we move into the holiday season, the backlog of ships is likely to increase even further with few options for relief. Just like trucks and trailers, new shipping containers are being ordered but manufacturing them has proven to be difficult. Some containers will be

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delivered in 2022, but most forecasts don't expect any significant relief for the shortage of shipping containers until 2023.

To sum it up, some relief is on the way but it's going to be a long and gradual process. There are a lot of unknowns and difficulties in the market right now, but no matter what the future holds, the team at ArcBest is committed to delivering exceptional service.

October

Original publish date: 11/8/2021
Author: Brian Beasley

Last month, we took a close look at the factors constraining the supply side of the truckload market. And while supply chains continue to experience stress from a shortage of trucks, trailers and shipping containers, orders for each of these equipment types are at all-time highs. Additional capacity is expected to be added throughout next year as orders are fulfilled, helping ease supply-side issues. For perspective, over 450,000 new trucks had been ordered on a rolling twelve-month basis as of September 2021. The replacement level is approximately 225,000 trucks per year.

As capacity starts to become available, we're paying close attention to factors that will impact demand.

One question that remains is whether the American consumer will continue bolstering the economy through unprecedented levels of personal consumption. Between January 2019 and August 2021, spending on durable and non-durable goods increased 26% and 21% respectively. During the same period, spending on services increased 7%.

At the outset of the pandemic, as Americans adhered to social distancing guidelines, the shift away from spending on experiences to spending on goods was expected. As the COVID-19 vaccine became available, many expected that spending on goods would stabilize and we would see a resurgence of the services sector. While spending on services has rebounded to pre-COVID levels, its growth pales in comparison to goods consumption.

It is worth noting that spending on durable goods has slowed. Examples of durable goods include appliances, tools, computers, televisions, cars and home furnishings. As the name implies, durable goods do not require replacement as frequently as non-durable goods. This deceleration seems to indicate that spending within this segment has plateaued. Spending on durable goods peaked following the issuance of the third economic impact payment in early 2021.

Another stimulus item that has impacted consumer spending is the federal student loan interest and payment moratorium. Most student loan payments have been paused since

(October 2021, continued>>)

March 2020. With approximately $1.73 trillion in student debt outstanding, it takes $17.5 billion per month to service this debt. This equates to $400 per borrower. In February 2022, student loan repayments will resume. This action will have a direct impact on the discretionary spending of millions of Americans. It also has the potential to be a noteworthy storyline in the economic landscape of 2022.

As shown in Chart 2, Consumer spending has pushed the inventory-to-sales ratio to historic lows. These ratios can be interpreted as the number of months of inventory that are on hand in relation to the sales for a month. For example, a ratio of 2.5 would indicate that retail stores have enough merchandise on hand to cover two and a half months of sales. As we enter the holiday months, total business inventories are up 7% YOY. But with sales up 15% YOY, it has been challenging for merchants to keep the shelves stocked.

The rush to replenish inventory has put tremendous pressure on the nation's supply chain. On October 13th, **President Biden** announced that the Port of Los Angeles agreed to operate around the clock to keep freight flowing. The Port of Long Beach reported a similar action a few weeks prior. Together, these ports account for approximately 40% of the container traffic that enters the United States.

Chart 3 was provided by the Marine Exchange of Southern California. It highlights the magnitude of this issue. The yellow line shows that on October 21st there was a record number of container ships at the port of Los Angeles and Long Beach. It has been estimated that the total value of goods stuck in port on this date exceeded **$25 billion.**

When will inventories recover and supply chain issues ease? This is the question currently being studied and debated across the United States. Last month, Evercore ISI Research conducted a survey to address this question. Over 45% of respondents indicated that it would be the second half of 2022 before inventories normalize.

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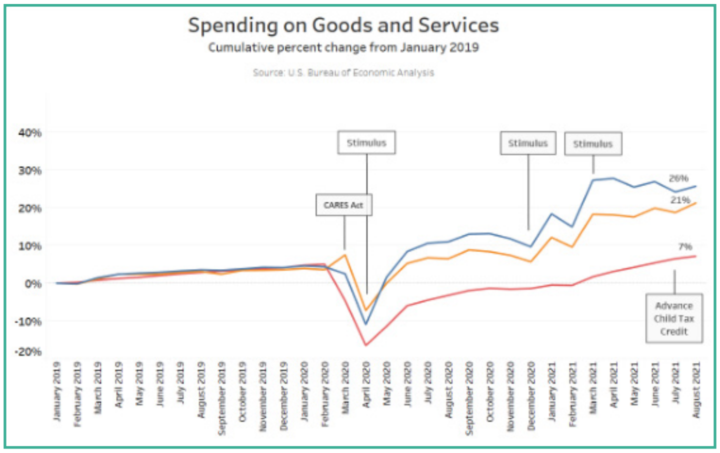
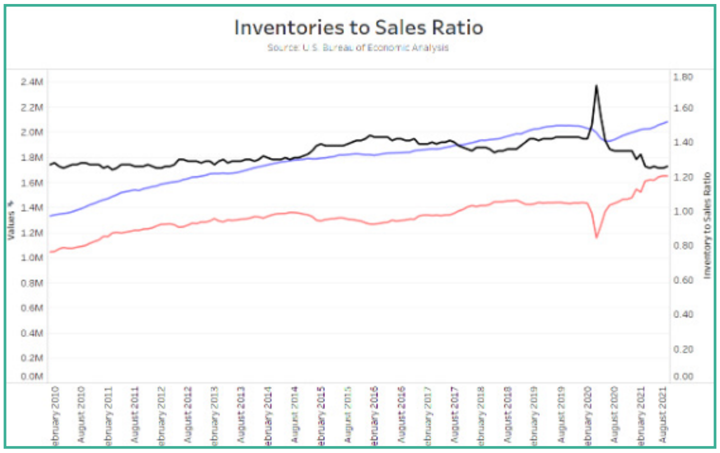
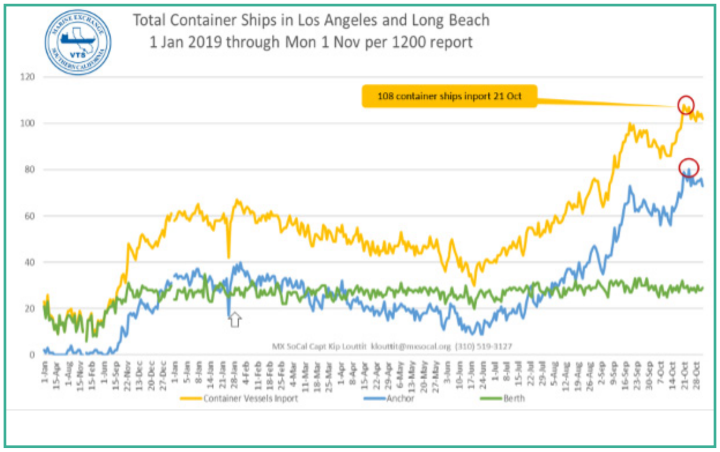
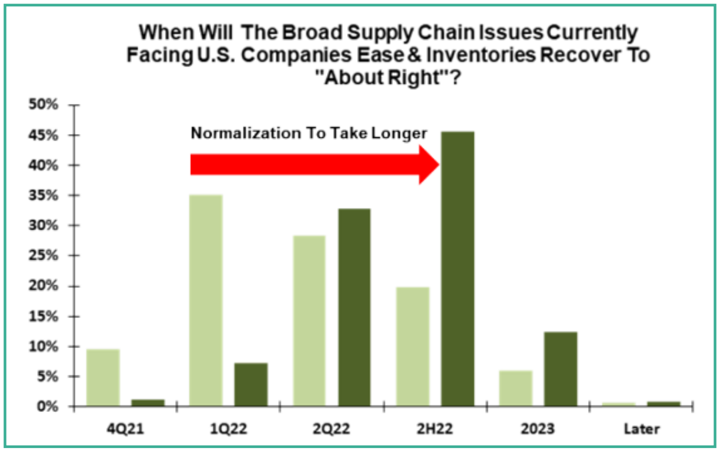
The recovery will not happen overnight, it will be a gradual transition back to pre-pandemic levels. As moratoriums begin to lift, stimulus infusions begin to wane, and the American consumer satisfies their appetite for new furniture and appliances; we can expect the market to slowly return to normal. The water has not noticeably receded just yet. Take a breath, be patient, and trust that ArcBest will help you navigate through these volatile times.









(November 2021>>)

November

Original publish date: 11/30/2021
Author: Christian Jones

Our September Market Update took a deep look into the supply side issues that are pushing supply chains to their limits while our October Market Update explored the unprecedented demand that the market has been experiencing for the past several months. This month we'll put supply and demand together to better understand what must happen for the supply chain to improve and how long it will take to get there.

You've likely read at least one news article that attempts to place the burden of the supply chain woes on a particular group or section of the supply chain. In reality, no single factor has brought us to where we are today. The diagram below provides a simplified illustration of some of the pieces, or "gears," of the supply chain. With this illustration, we can visualize how each piece of the supply chain is vitally important in keeping the gears running at the speed needed to satisfy demand. It should be noted that due to Just-In-Time shipping, the supply chain has little, if any, ability to absorb a disruption.

By thinking about the supply chain as a set of gears, we can understand how the slowing of one gear disrupts the entire machine (consider the Suez Canal blockage under normal circumstances). Now imagine multiple gears slow significantly (shortage of input materials, shortage of shipping containers, no space for additional containers at the ports, shortage of trucks and drivers, no warehouse space) while demand simultaneously surges to historic levels (the pandemic shifting spending from services to goods while government stimulus checks raise consumer spending).

(November 2021, continued>>)

In this example, when a single gear catches up with demand it quickly becomes locked up again by the next gear in line. As new demand continues to feed into the supply chain, this gear once again falls behind. We have seen this recently when ports were asked to operate 24/7 to ease the backlog. While this would have helped rectify the situation if the gears further down the line were turning as they should, the effort has had little benefit because there are not enough trucks to pick up the extra containers and not enough warehouse space to store them.

This is what makes the current situation so difficult to resolve. We don't need one gear to start turning faster, we need all of them to start turning faster at the same time. We need additional shipping containers, but we first need the input materials to manufacture them. We need those input materials to be able to move through the supply chain, so we also need space at the ports. To free up space at the ports, we need more drivers to deliver the containers and additional space at warehouses. The supply chain is off-cycle and each of the gears will have to speed up together to get it back on-cycle.

This will be a lengthy and gradual process. Shortages of input materials such as semiconductor chips and steel are slowing the manufacturing of new trucks and containers. The backlog at the southern California ports hit a new all-time high of 84 container ships waiting to anchor as of November 17, 2021 compared to a pre-pandemic average of 0 to 2 ships at any given time. The driver shortage is currently estimated to be around 80,000 drivers — up from a pre-pandemic shortage of 61,500.

As we mentioned in our previous updates, current expectations are that supply chain constraints will begin to ease in the second half of 2022 as some additional capacity becomes available from the manufacturing of new trucks. The market is likely to see more of a shift in spending towards services as Covid-19 fears continue to ease which will also help alleviate some of the stress on the supply chain. Clearly, there is no quick fix to the many issues the supply chain is facing. Nor can those issues be resolved by a single group.

(December 2021>>)

December

Original publish date: 1/11/2022
Author: Brian Beasley

Fueled by government stimulus and a shift towards goods consumption, increased demand has created a supply chain backlog that we are still trying to overcome. For the situation to improve, multiple facets of the supply chain must recover. Recently, the **Secretary of Transportation** announced more than $241 million in grants to help improve port facilities in 19 states. While this is good news for the long-term health of the nation's supply chain, it does little to relieve the near-term pressure that we are all experiencing.

While nobody knows what the future holds, the goal of this month's update is to highlight a couple of important trends that could impact the supply chain in 2022.

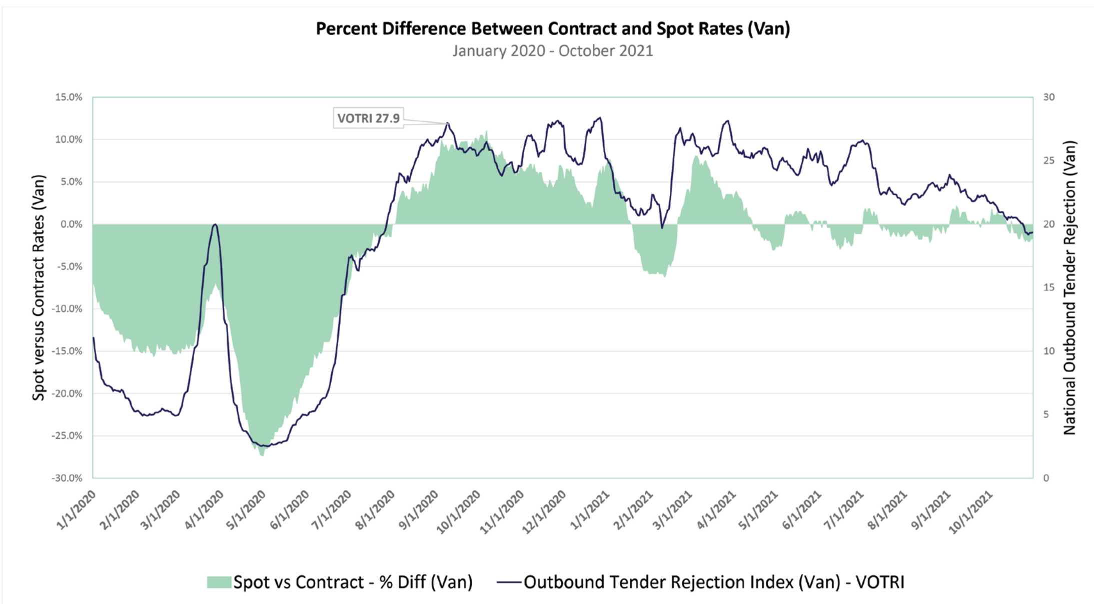
Following the largest pull-back on record in April 2020, retail sales surged in June 2020 and have not slowed. Altered consumer behavior coupled with unprecedented federal stimulus set the stage for increased consumer spending. As we start 2022, we will evaluate the impact of this pandemic and consider what a return to normal might look like.

The effort to restock depleted inventories will help bolster truckload demand next year. If current trends continue, total business inventories (BUSINV) will return to pre-COVID levels during the second half of 2022. This assumes that consumer spending will continue to be a strong headwind to the effort to normalize inventories.

Year-to-date inventories were up 6% with sales up 10% during the same timeframe. **Consumer spending is expected to slow** during the first half of 2022 as the Omicron variant poses new challenges and Federal stimulus begins to fade. Inflation has also begun to erode consumers purchasing power. The Federal Reserve is expected to address inflation in 2022 through a series of interest rate hikes. Each of these factors should slow consumer spending and allow inventories to normalize sooner than recently projected. Once inventories rebound, expect it to have a deflationary effect on truckload spot rates. With truckload contract rates at all-time highs, reduced demand should significantly improve routing guide compliance and help cool the spot market.

(December 2021, continued>>)

The chart below highlights the relationship between contract rates and **tender rejections** (van equipment). During periods where spot market rates exceeded contracts, tender rejections spiked. This effect can be seen during the second half of 2020 as escalating spot market rates pushed tender rejections above 25%. Most of this year has been marked by a tug-of-war between spot and contract. As contract rates rose, tender rejections would decline. But truckload demand was so strong that the spot market never cooled enough for these contract rate increases to have a meaningful effect on tender rejections. According to data provided by Internet Truckstop, spot market rates have increased over 120% since March 1, 2020.



Spot Rate Data provided by DAT Solutions, LLC.
Tender Rejection Data provided by FreightWaves

On the supply side, driver availability continues to improve. According to ACT Research, this is driven primarily by the exclusion of most fleets from federal vaccination rules. There are also indications that the chip-constrained environment is beginning to improve, which will allow more vehicles to roll off production lines and onto our highways. This should help to gradually ease capacity constraints but do not expect it to occur overnight. As of October, there was a backlog of approximately 280,000 Class 8 trucks.

The last year has shown that our nation's supply chain is resilient. The fact that inventories have increased in the face of unprecedented goods consumption illustrates this fact. While considerable strides have been made, there were many lessons learned in 2021.