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Carrier, broker failures solidifying US truckload spot pricing floor

Knight-Swift CEO David Jackson is looking to 2024 and greater consolidation for a change in direction in truckload contract and spot rates. Photo credit: Tada Images / Shutterstock.com.

William B. Cassidy, Senior Editor | Oct 20, 2023, 3:20 PM EDT

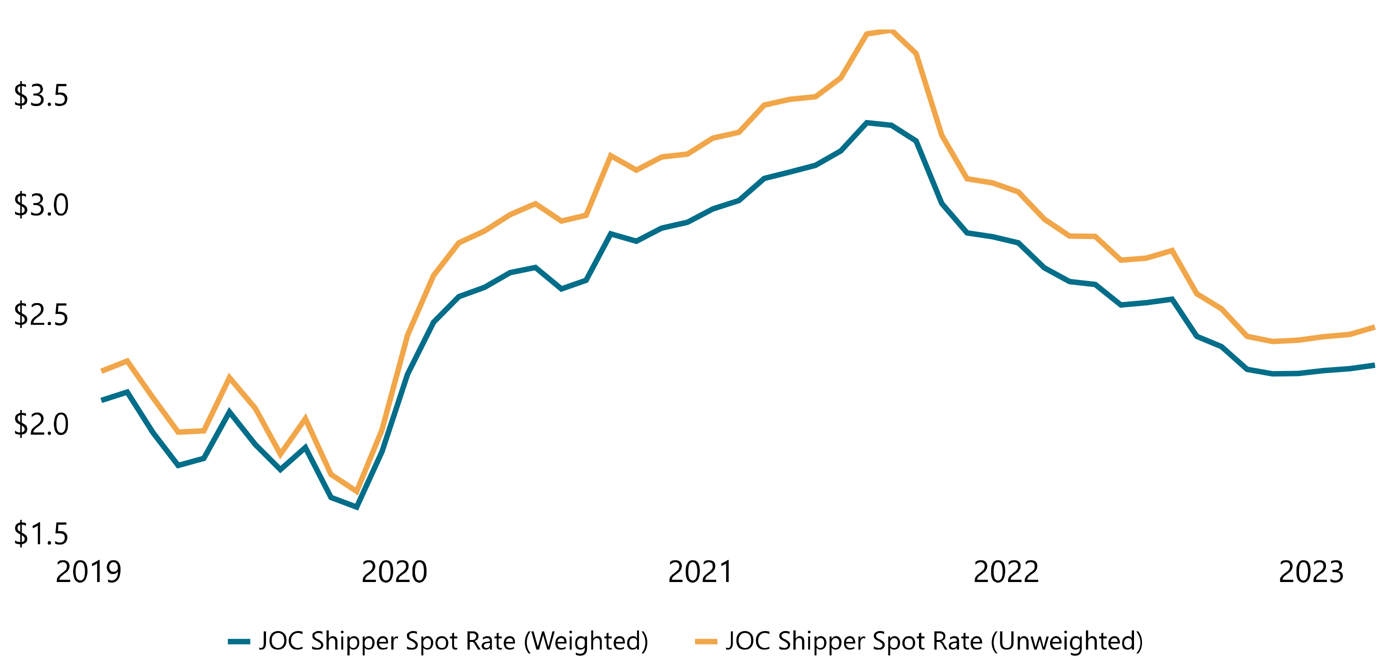
The depressed US truckload market is a long way from a turnaround, but trucking executives and analysts believe shipper concerns about subpar service and carrier failures will prevent spot prices from falling farther in 2023 and early 2024.

David Jackson, president and CEO of Knight-Swift Transportation Holdings, said the largest US truckload provider sees signs of pricing "sensitivity" emerging among shippers as more carriers exit the business and carriers and third-party freight brokers offering low rates underperform.

"The market is beginning to show signs of sensitivity when supply leaves suddenly or a provider cannot perform with freight lanes that were awarded by offering the cheapest price," Jackson said during an earnings call Thursday.

Truckload spot rates level off, rise incrementally

Journal of Commerce national shipper-paid truckload spot rates



Source: Cargo Chief, DAT, Loadsmart, survey of 3PLs

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Shippers that lose carriers or brokers — or fire them for underperformance — are accepting higher rates to move their freight, although not rates that are high enough to spark a significant rebound in average spot market pricing.

"We are absolutely seeing this in our business," Andy Dyer, president of managed transportation at third-party logistics provider AFS Logistics, told the *Journal of Commerce* Friday. "We've seen several cases where a customer did a bid early this year and nine months later it can't be serviced because the rates were not sustainable."

A similar disruption hit the less-than-truckload (LTL) market in August and September, when shippers tried to transfer freight that had previously been hauled by now-defunct trucking company Yellow to other LTL carriers. LTL shippers often had to accept higher rates than they anticipated to ensure their freight moved.

But there is still enough excess capacity in the truckload sector to broadly dampen the impact of the sensitivity described by Jackson, Dyer and others. “We are not seeing … enough supply leave and/or enough strength in volumes to move rates to a meaningful inflection position right now,” Jackson said.

The TD Cowen / AFS Logistics truckload rate per mile index released Monday was up 4.4% from its January 2018 baseline in the third quarter, compared with 4.3% in the second quarter. In their index report, TD Cowen and AFS expect that measure to rise to 4.6% in the fourth quarter.

The *Journal of Commerce* weighted average dry-van spot rate paid by shippers reached $2.27 per mile in September, up 4 cents per mile from May but down 38 cents from September 2022. The *Journal of Commerce* average shipper-paid rate, which includes fuel surcharges and any accessorial fees, is based on data for 4,000 lanes of 250 miles or more supplied by Cargo Chief, DAT Freight & Analytics, Loadsmart and shipper and broker surveys.

Snail-paced change

Jackson said he is looking toward 2024 for more significant pricing gains. “It does appear the stage has been set for positive rate pressure in the next bid season,” which would begin in early 2024, he said. “If bid season began today, we’d have a tough time seeing it be positive.”

Executives at other large truckload carriers have likewise expressed optimism that the worst of the decline in volumes and rates is over. “We are not at a point yet to say we’re out of the freight recession, but we do feel like we’re coming out of it,” Shelley Simpson, president of J.B. Hunt Transport Services, said Wednesday.

Higher intermodal and truckload volumes and increased dedicated business fueled Simpson’s positive outlook, despite double-digit drops in revenue and profit at J.B. Hunt. She also believes shippers are closer to rebalancing their inventories after an extended period of inventory destocking.

But the truckload market is responding slowly, if at all, to any sort of stimulus. Most measures of truckload pricing show spot rates on a long trek along a hard bottom, with prices creeping up incrementally.

“I don’t think anyone expects a further fall, beyond seasonality,” AFS’s Dyer said, adding that any rebound in truckload pricing will likely be driven not by volume growth, but by ongoing contraction in supply as companies shut down. “There’s nothing out there that suggests there’s a demand-driven inflection coming at us.”

Added Jackson, “Failures and rumors of more failures are increasing week by week,” referring to the collapse of mostly small trucking companies and owner-operators. Brokers are also exiting the market, including Convoy, which announced Thursday it would shut down and sell its technology.

While not referring to Convoy, Jackson said “extreme aggressiveness” by some brokers “has reached a level where it’s not only unsustainable but it blows up.” Federal Motor Carrier Safety Administration (FMCSA) data shows the number of active brokers in September was down 5% from December 2022.

“There’s less freight and they’re moving it for less,” Dyer said. “Compound that with high debt-to-equity ratios and you'll see a death spiral begin.”

Jackson said the same typically holds true for trucking companies, and he expects capacity to tighten as more companies concede defeat in an increasingly difficult market.

“What we’re seeing is pretty extreme resourcefulness on the part of small carriers just to survive,” Jackson said. “You have individuals in one- or two-truck operations that might be temporarily living out of a truck just to get through the bottom.” But despite adversity, they are still on the road.

“We’re a little puzzled as to why we haven’t seen more capacity come out,” Jackson said. “We’re trying to understand that better ourselves.”

Contact William B. Cassidy at bill.cassidy@spglobal.com.