COYOTE CURVE™

# Q4 2019 Market Update & Forecast

**After six consecutive quarters of steep decline, spot rates are heading back towards inflation.**

For most shippers, 2019 has been smooth sailing. Primary tender acceptance and service levels have been high, capacity has been plentiful and as a result, many have successfully reduced their transportation spend.

Carriers, on the other hand, have had a tougher road, experiencing financial pressure as they trudged through deflationary market conditions.

Now, the market has turned, and 2020 will likely feel much different than this year. Read on to find out what shippers and carriers should expect.

## New to the Coyote Curve?

Learn background knowledge about the U.S. truckload industry and the framework driving our proprietary forecasting model by reading:


Part I:
**Understanding the U.S. Truckload Market**


Part II:
**Explaining the Coyote Curve Forecasting Model**

# CURRENT MARKET STATE

### Spot Rates

At the close of Q3, our Coyote Curve spot market rate index closed at **-18.5%** YOY, inflecting positive after hitting -24.9% in Q2.

### Contract Rates

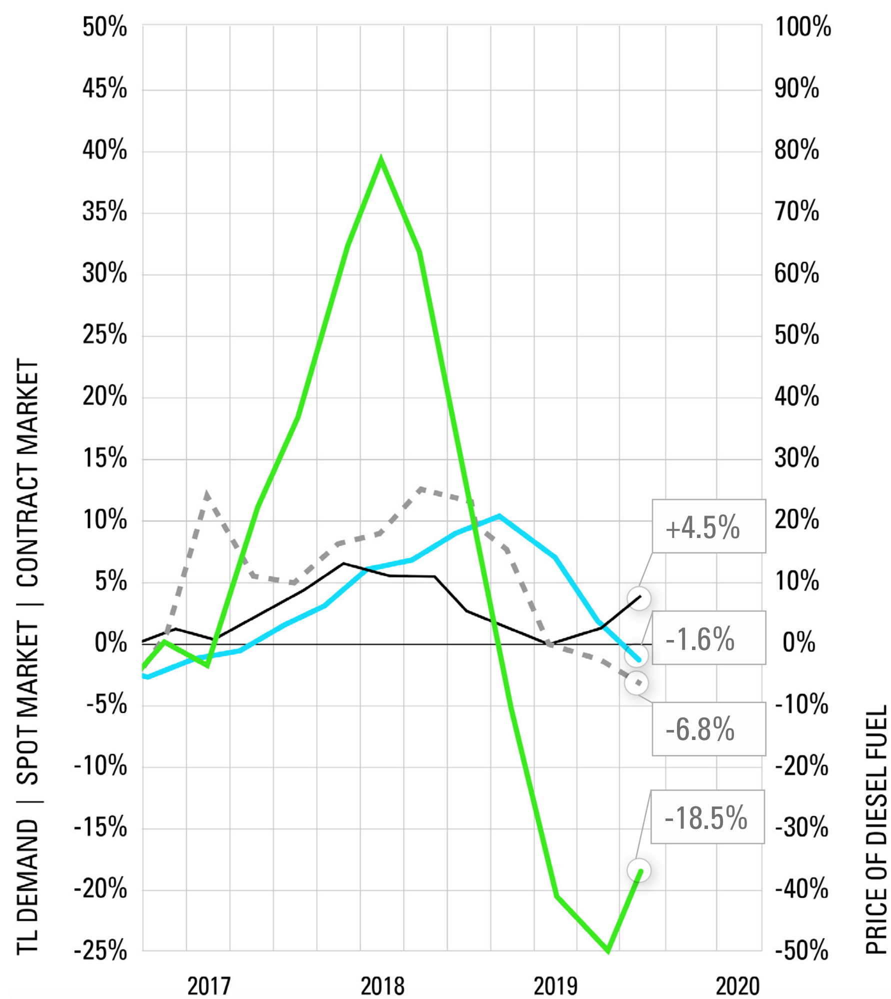
Represented by the Cass Truckload Linehaul Index[1] — contract rates, which historically lag spot rate activity by 6-12 months, continued to descend, closing at **-1.6%** YOY.

### Supply

Average diesel fuel prices[3], our proxy for the financial health of carriers, dipped lower than last quarter to **-6.8%** YOY (secondary Y axis).

### Demand

The ATA Truck Tonnage Index[2], our proxy for shipper demand, closed at **+4.5%** YOY — up from +1.3% in Q3.



# HOW OUR Q3 FORECAST HELD UP

In our Q3 update, we predicted that the market had already reached a downward inflection point in Q2. With Q3 in the books, **we can now confirm that was correct**, and our forecast proved to be just about spot on.

### Coyote Curve Spot Index

Q3 forecast: -19%

Q3 actual: -18.5%

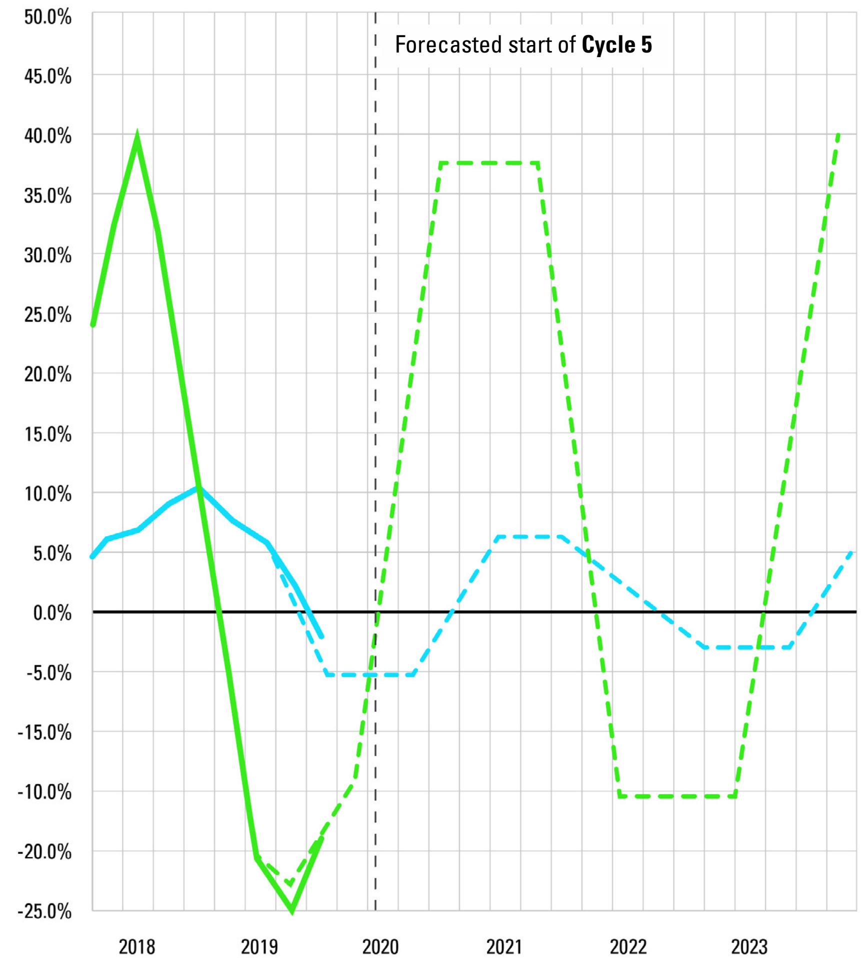
Variance: **0.5%**

### Cass Linehaul Contract Index

Q3 forecast: -2.0%

Q3 actual: -1.6%

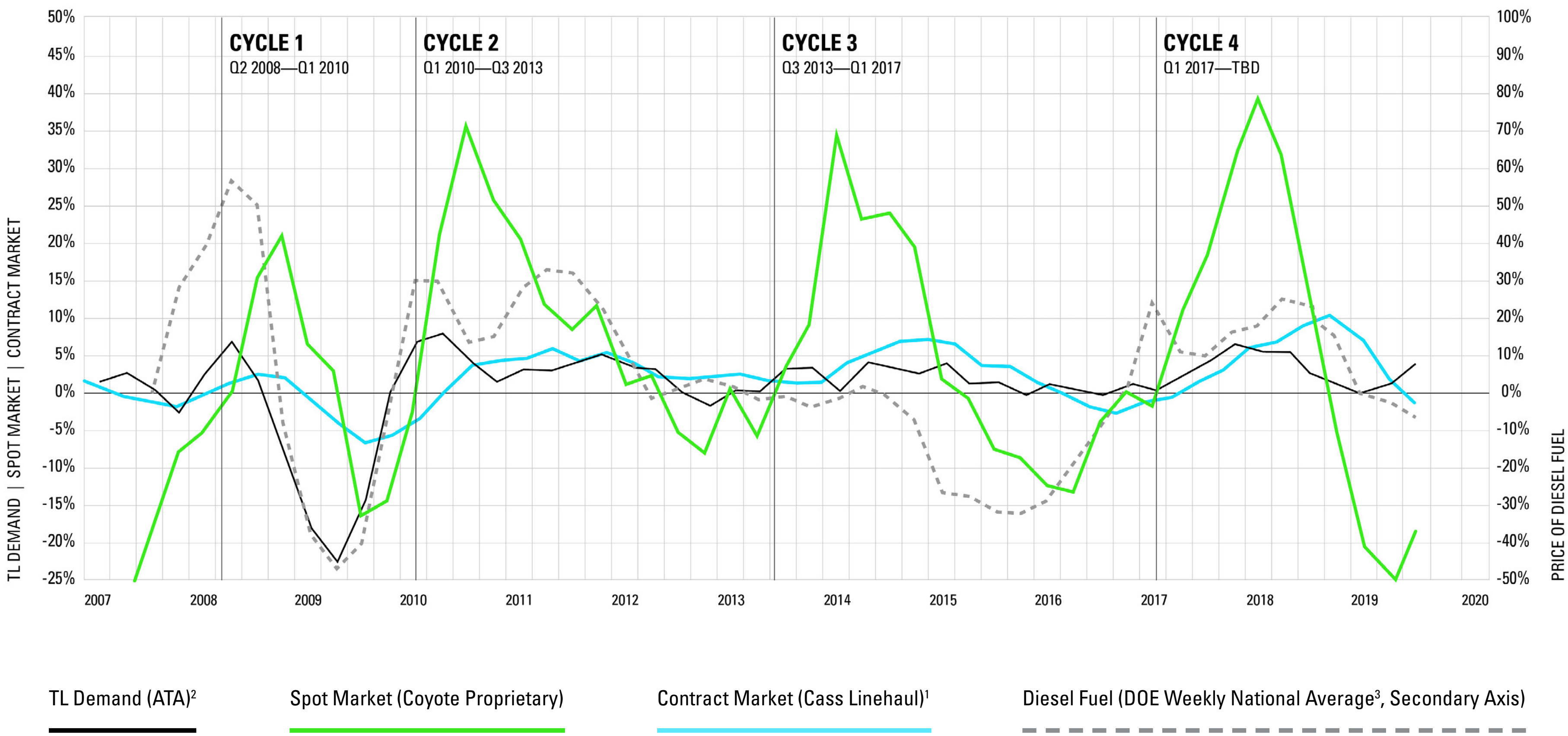
Variance: **0.4%**



## THE CYCLE REPEATS

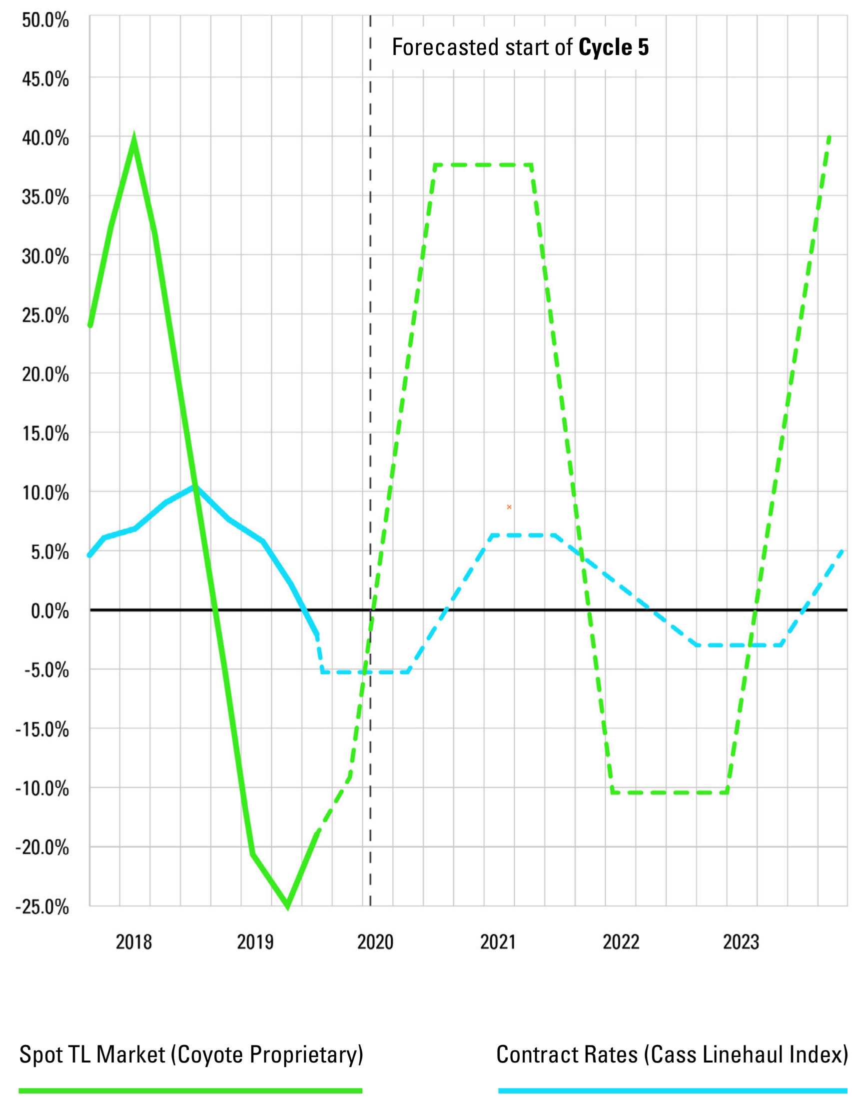
Looking at the previous market cycles, we can clearly see the continuation of a pattern. As year-over-year rates inflated to historical highs in 2018, carriers bought a record amount of trucks. The oversupply (relative to demand) drove rates down until enough of the excess capacity was pushed back out of the market.

Now year-over-year spot rates are trending back towards equilibrium, which will **close out the fourth observed market cycle and begin the fifth**.



# WHERE WE ARE LIKELY HEADED

- The **spot market** will likely reach an inflationary environment by Q1 2020, then continue heading up from there.
- **Contract rates** will likely fade further into negative year-over-year territory through bid season and into Q1.
- **Carrier financial stability** will be a growing concern as operating margins come under further duress, particularly for providers that have a higher mix of contract freight.
- Shippers can anticipate **primary tender acceptance** erosion by Q2 2020, which would mean more unplanned exposure to the spot market.
- **Seasonal demand dislocations and unplanned weather events** may have a greater impact on spot rates and service levels in 2020.



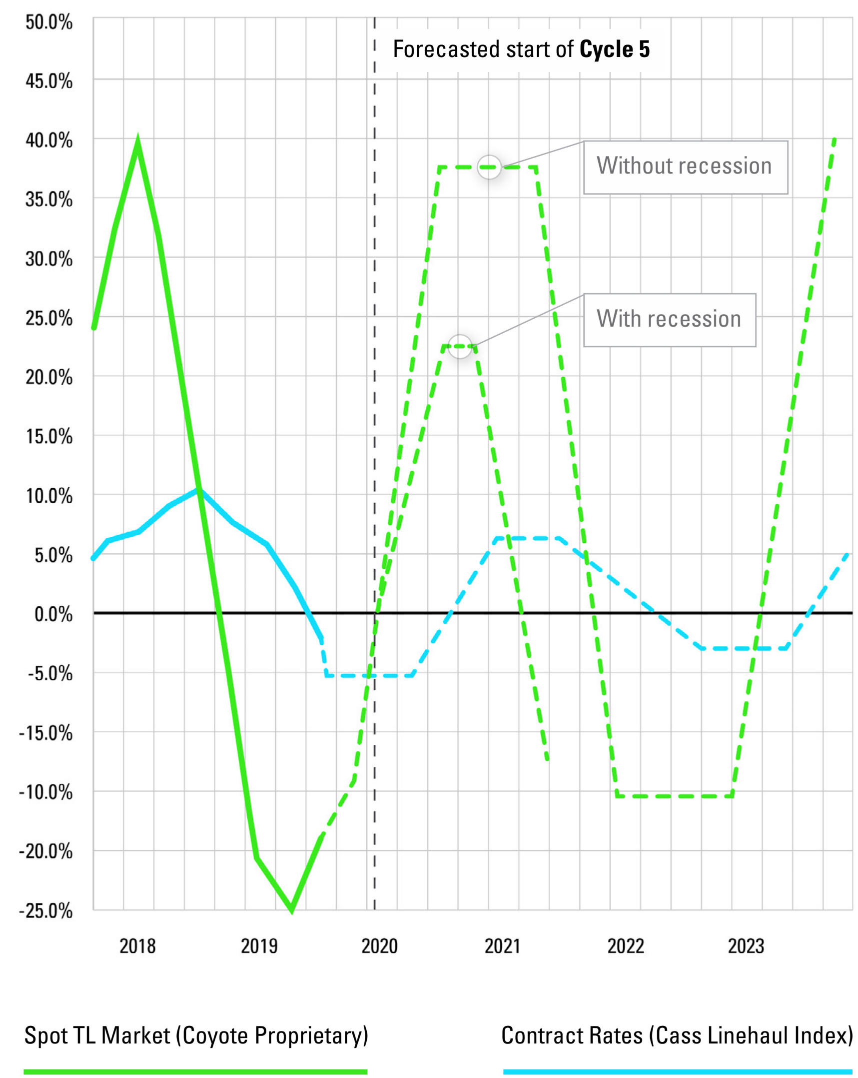
# WHAT IF THERE IS A RECESSION?

**The spot market will likely return to a year-over-year inflationary environment by Q1 2020, regardless of a potential economic recession.**

A recession would have a dampening effect on the overall height of inflation, sending the market back towards deflation sooner.

For a comparison, look to our first observed cycle* (Q2 2008 - Q1 2010), which coincided with the Great Recession (Q4 2007 - Q2 2009).

*See page 4



# PREPARING FOR 2020

## FOR SHIPPERS

**Double down on trusted providers in your RFP.**
As the market continues to inflate, carriers will have a greater incentive to pursue spot opportunities. Lean on relationships with high-service carriers.

**Pad your 2020 freight budget (if you can).**
You may be able to net another year of primary rate decreases, but do not expect your tender acceptance levels to perform at the same level — anticipate more unplanned exposure to the spot market.

## FOR CARRIERS

**Honor your commitments.**
To maintain your carrier-of-choice strategy, you may need to forego some profitable spot opportunities. With the anticipated rise in demand, be strategic with who and what you commit to for 2020.

**Prioritize strategic business relationships.**
Work closely with your premium shipping partners that have kept your trucks loaded over the past year. Develop a plan to help them mitigate the effects of market fluctuation. Standing by them now will help you in the next cycle turn.

## FOR BOTH

**Use 2017 as a proxy.**
We expect 2020 to feel a lot more like 2017 than this past year. As you build out your strategy, leverage your historical supply chain data from 2017 to get a more realistic comparison.

**Stick with Shipper and Carrier of Choice strategies.**
Don't try to time the market. Play the long game. Be transparent and share risk with reliable supply chain partners.

# SEE YOU IN Q1

Join us in February for another Coyote Curve market update. We will once again examine where we are in the market capacity cycle, review how the Coyote Curve held up and discuss any forecast adjustments for the coming months and beyond.

# WHAT DID YOU THINK?

Take this three-question survey and tell us how we can make Coyote Curve updates more impactful for you.

**Take the survey**


**References:**

1. The Cass Truckload Linehaul Index is published by Cass Information Systems in conjunction with Broughton Capital, LLC. The index shows relative change in TL base rates across the $25bn in annual freight spend that Cass manages on behalf of its customers. Our assumption is that the same high-volume shippers that outsource their freight payables to Cass are the same types of shippers with enough volume to contract a majority of their TL spend. While the Cass data includes all freight payables — both spot and contract — it's likely contract shipments represent the majority.

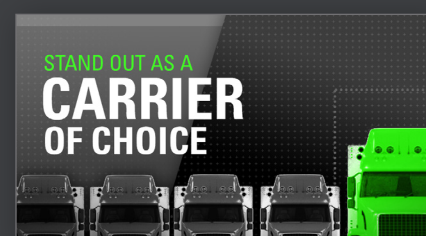
2. American Trucking Association, Reports, Trends, & Statistics, available at https://www.trucking.org/News_and_Information_Reports_Industry_Data. aspx (accessed March 28, 2019).

3. Department of Engery Diesel Index: https://www.eia.gov/petroleum/gasdiesel/dieselpump_hist.php.



View Webinar On Demand:
**Q4 Market Update & Forecast**


Coyote Curve in Action:
**How SunOpta Built a Data-Driven Supply Chain**




Forecast-Informed Carrier Strategy:
**How the Best Freight Carriers Keep Evolving To Meet Current Market Needs**