Desjardins

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Transportation Survey

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CITT member survey—no sharp uptick expected in the short term

The Desjardins Takeaway

A few weeks ago, we reached out to the Canadian Institute of Traffic and Transportation (CITT) to conduct a survey with the goal of identifying key market trends affecting the freight industry and to provide feedback to its members. The CITT is a not-for-profit association dedicated to the advancement of professionals and businesses in logistics. Every year, it hosts Canada's Logistics Conference (we attended last year; see our recap), with ~250 participants from a variety of subsegments within the logistics industry (including CN rail, CPKC, truckers, retailers, e-commerce players, logistics, port authorities, 3PL, various associations, etc). 70 members of CITT's community responded to our survey (data was gathered during July and August); we highlight the results below.

Highlights

We are in a freight recession, but that's old news. The survey results indicate that the majority of respondents (50%) believe we are currently in a freight recession, and that it has been going on for a while. Our recent channel checks with industry participants state that they are not seeing a deterioration, but there is a clear lack of seasonal uplift; the survey results back up this claim, with 50% of respondents expecting volumes to remain relatively stable over the next six months.

Cost inflation the number one concern. The bulk of participants (83%) see cost inflation as the most pertinent freight industry risk factor. For CN and CPKC investors, this should not be overly concerning as the Canadian railroads have consistently been able to offset inflationary pressures by raising prices above rail inflation; survey respondents do not see this changing any time soon, with roughly one-quarter expecting rail rates (excluding fuel surcharges) to increase by 3–6% over the next six months. On the labour front, 50% of survey participants see their current workforce as understaffed, but this should improve over the coming months as labour tightness subsides (eg bankruptcies in the trucking industry freeing up candidates).

Supply chain issues have subsided, and the great inventory destocking is nearing the end. 53% of respondents describe the current supply chain situation as stable vs three months ago, with only a minority seeing it as deteriorating. Despite this, many respondents (41%) believe "just-in-case" supply chains are here to stay in a post-pandemic world. In terms of inventory, the majority of those surveyed (67%) rate their end customer's overall inventory levels as adequate, signalling to us that the vast destocking everyone is waiting for is nearing the end.

Readthrough for our coverage universe. Most of our transportation coverage has been negatively impacted of late (except for TFII, which has benefited from the bankruptcy of Yellow); CN's carloads are down 6% ytd, CPKC's are down 0.7% and TTNM has suffered from weaker transactional volumes and pricing. Looking toward 2H23, the survey results provide no clear evidence of green shoots. For the rails, we suggest taking a conservative approach given the smaller Canadian grain crop, operational question marks (eg wildfires) and continued weaker volume backdrop, but reiterate our bullish stance over the long term. For TTNM, 26% of respondents expect a bottoming of TL spot rates in 2H23.

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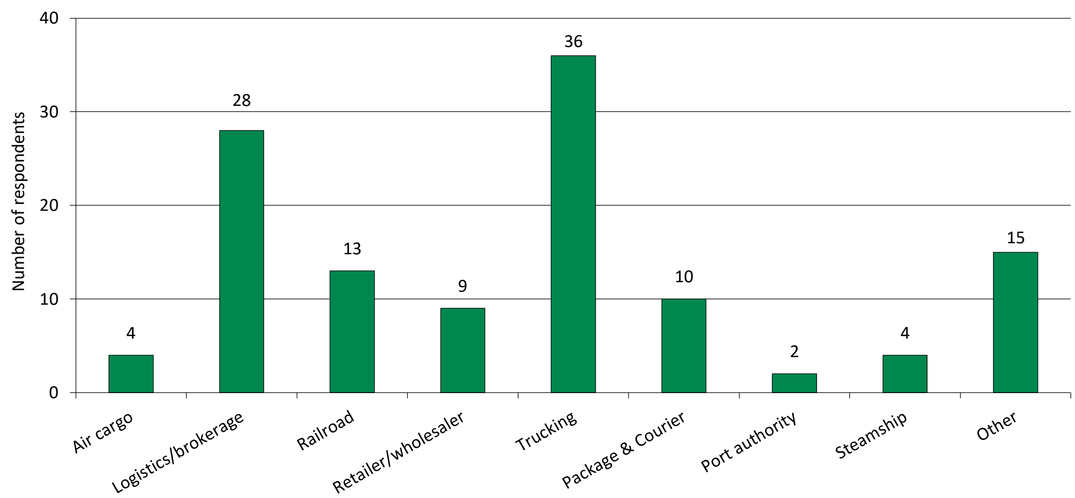
Overview of survey respondents

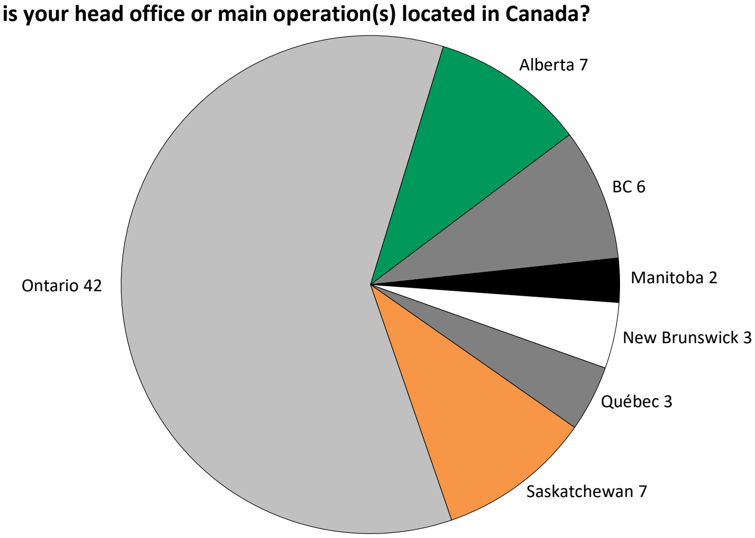
Roughly half of the survey respondents have operations related to the trucking industry while 40% have operations in the logistics/brokerage sector. 42 out of 70 respondents (60%) have their main operations in Ontario while the balance is mostly diversified across the rest of Canada.

Exhibit 1: In what subsegment(s) within the transportation/logistics industry are your main operations?



Note: Respondents had the choice of selecting more than one answer
Source: Desjardins Capital Markets, CITT

Exhibit 2: Where is your head office or main operation(s) located in Canada?



Source: Desjardins Capital Markets, CITT

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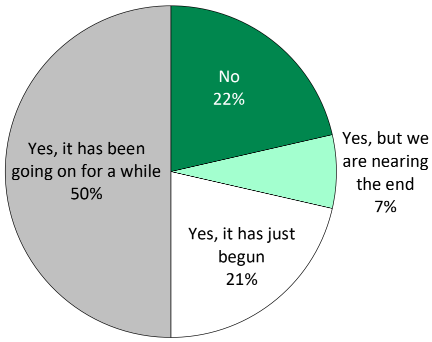
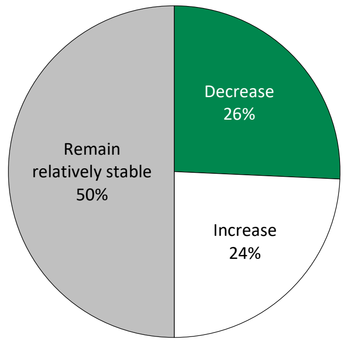
Views on the transportation landscape—we are in a freight recession, but that's old news

Exhibit 3: Do you believe we are currently in a freight recession?



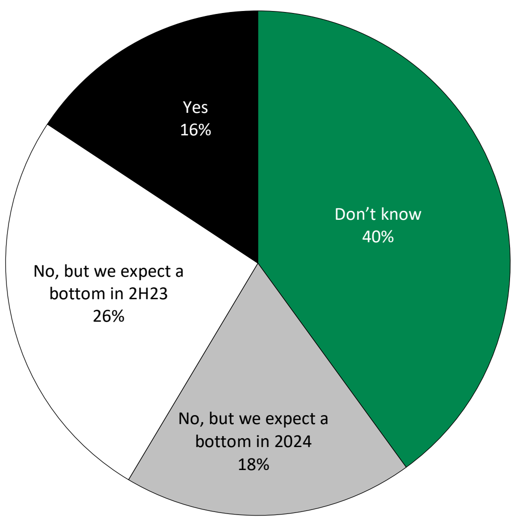
Source: Desjardins Capital Markets, CITT

Exhibit 4: How do you expect freight volumes to evolve over the next six months?



Source: Desjardins Capital Markets, CITT

Exhibit 5: Have TL spot rates found a bottom?



Source: Desjardins Capital Markets, CITT

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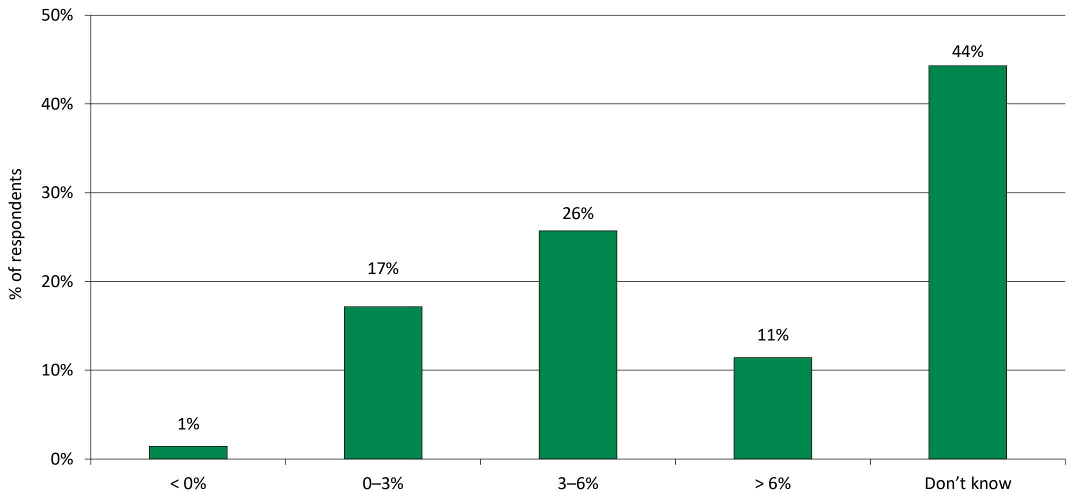
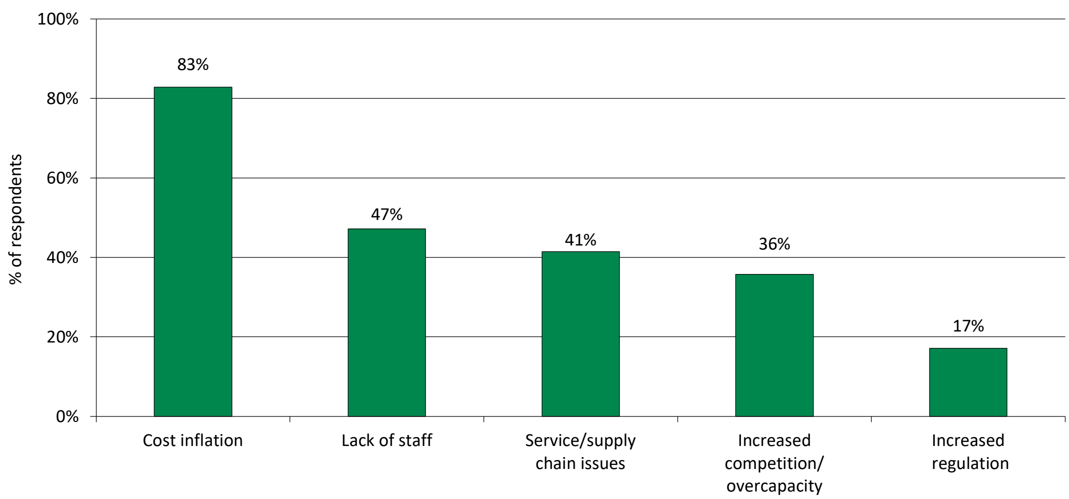
Exhibit 6: How do you expect rail rates (excluding fuel surcharge) to evolve over the next six months?



Source: Desjardins Capital Markets, CITT

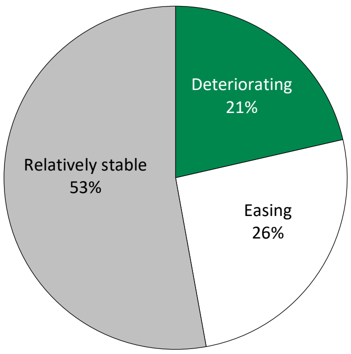
Exhibit 7: Which of the following freight industry risk factors are most concerning?



Note: Respondents had the choice of selecting more than one answer
Source: Desjardins Capital Markets, CITT

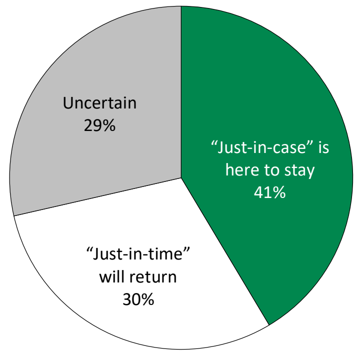
Supply chain issues have subsided, and the great inventory destocking is coming closer to an end

Exhibit 8: How would you describe the current supply chain issue situation vs three months ago?



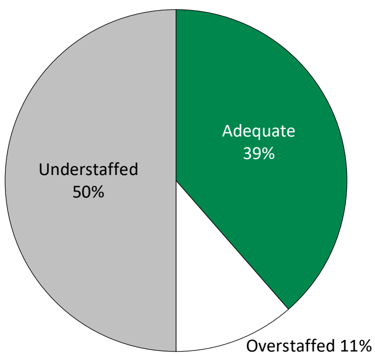
Source: Desjardins Capital Markets, CITT

Exhibit 9: Do you believe a return to a “just-in-time” supply chain will occur in North America, or is “just-in-case” here to stay?



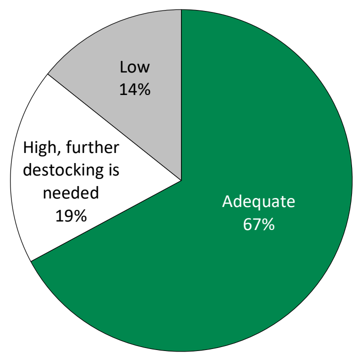
Source: Desjardins Capital Markets, CITT

Exhibit 10: What is the current state of your labour situation?



Source: Desjardins Capital Markets, CITT

Exhibit 11: How would you rate your end customer’s overall inventory level right now?



Source: Desjardins Capital Markets, CITT

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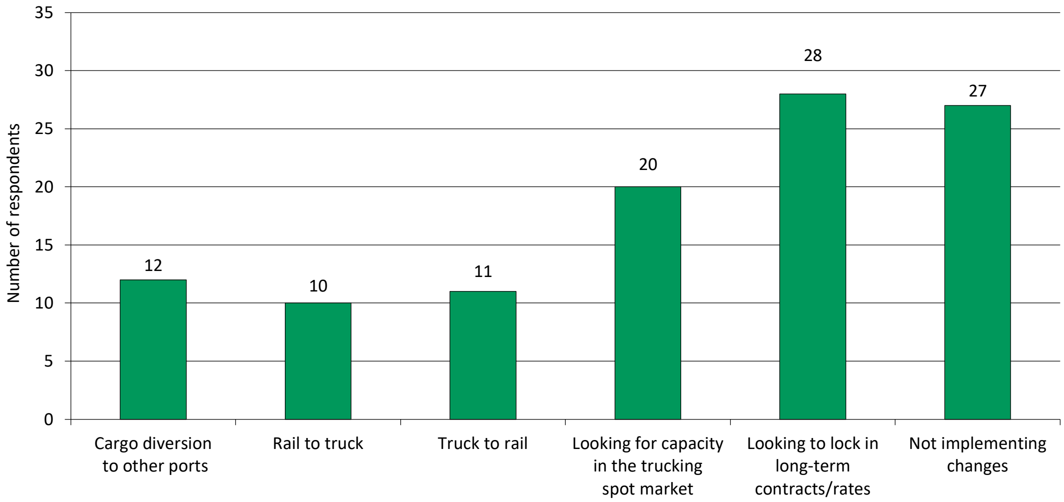
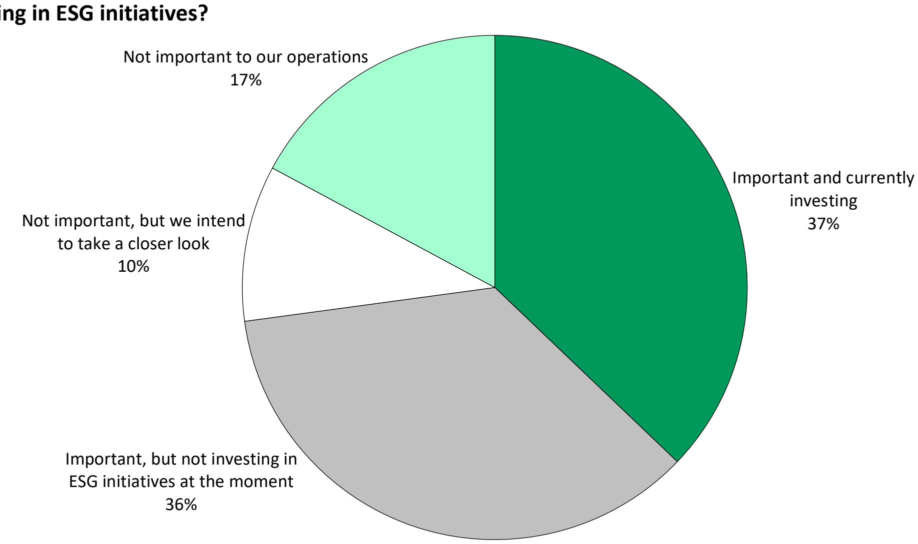
Exhibit 12: Are you considering making any of the following changes to your shipping strategy?



Note: Respondents had the choice of selecting more than one answer
Source: Desjardins Capital Markets, CITT

ESG views—a mixed bag; still early days

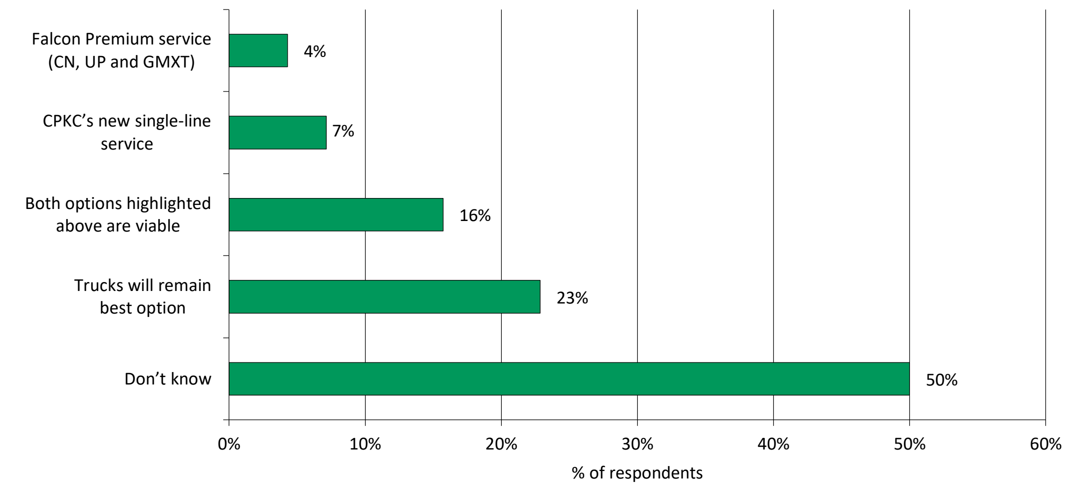
Exhibit 13: How important are CO_2 emissions to your transportation decision process? Is your organization investing in ESG initiatives?



Source: Desjardins Capital Markets, CITT

Route of choice to Mexico still undecided

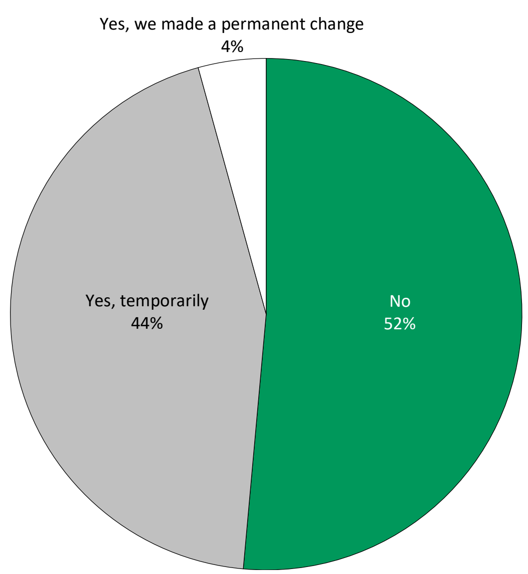
Exhibit 14: Who is best positioned to handle freight volume between Mexico and Canada?



Source: Desjardins Capital Markets, CITT

No permanent damage from elongated port of Vancouver strike

Exhibit 15: Have the strikes at the ports in western Canada forced you to consider alternative transportation modes?



Source: Desjardins Capital Markets, CITT

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CITT community comments

- *"Driver Inc, unsafe equipment and unsafe operators must be corrected."*
- *"Huge issues in truck transportation are Driver Inc companies, lack of enforcement of regulations allowing less than safe and reputable companies to operate and artificially drive down rates and shippers not caring about it, more worried about getting the cheapest rate rather than looking at the actual companies they are dealing with, all while proclaiming that they are very concerned about ESG."*
- *"Rail has lost volume to trucks due to not lowering rates, intermodal is down 20%. BC ports have done long-term damage, NVOCC in China cancelled all vessels until mid-August."*
- *"There needs to be considerable innovation across the freight industry to really optimize capacity available and allow for flexing up and down with short-term needs. Lean is dead, optionality is the key to service/performance improvement."*
- *"This is the best time to survey."*

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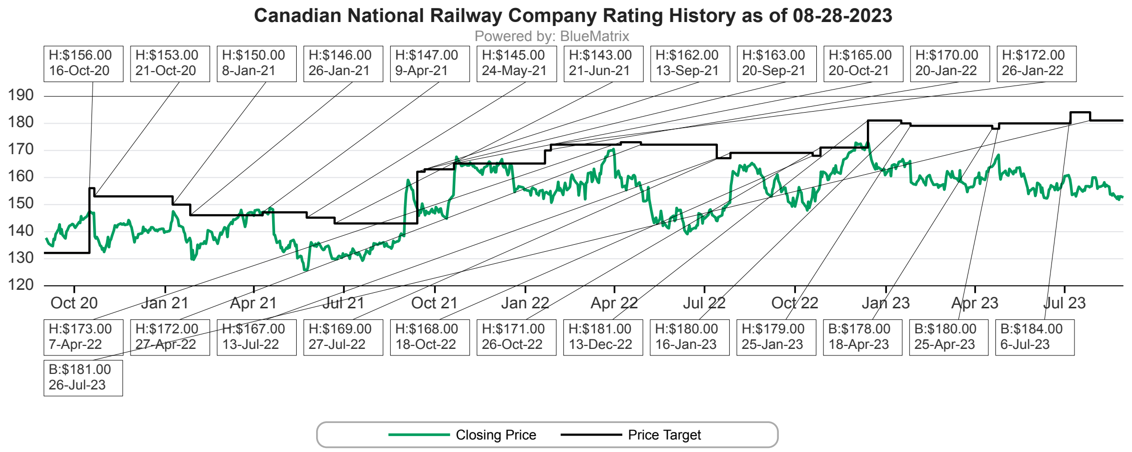
Hold	Hold	43	27	33	26
Sell	Sell/Tender	3	2	3	2
Total		**160**	**100**	**127**	**100**


Canadian National Railway Company Rating History as of 08-28-2023
Powered by: BlueMatrix
H:$156.00 16-Oct-20
H:$153.00 21-Oct-20
H:$150.00 8-Jan-21
H:$146.00 26-Jan-21
H:$147.00 9-Apr-21
H:$145.00 24-May-21
H:$143.00 21-Jun-21
H:$162.00 13-Sep-21
H:$163.00 20-Sep-21
H:$165.00 20-Oct-21
H:$170.00 20-Jan-22
H:$172.00 26-Jan-22
H:$173.00 7-Apr-22
H:$172.00 27-Apr-22
H:$167.00 13-Jul-22
H:$169.00 27-Jul-22
H:$168.00 18-Oct-22
H:$171.00 26-Oct-22
H:$181.00 13-Dec-22
H:$180.00 16-Jan-23
H:$179.00 25-Jan-23
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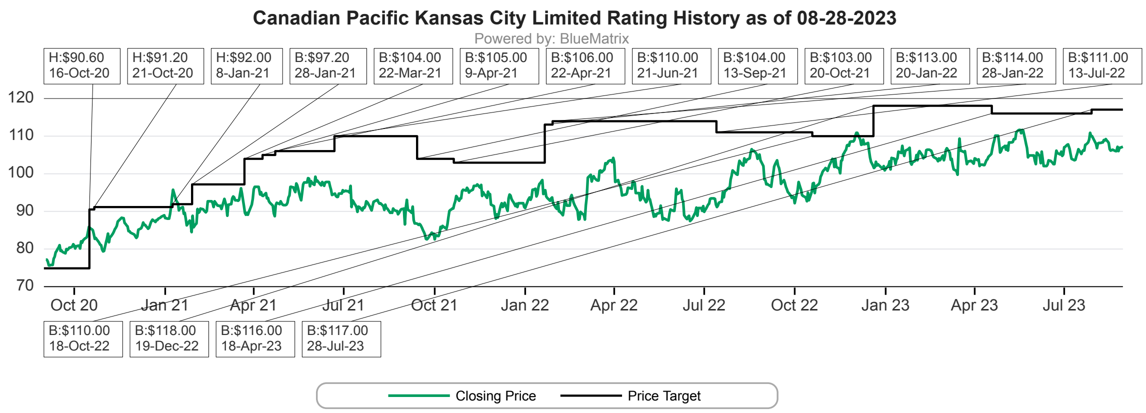
Closing Price
Price Target


Canadian Pacific Kansas City Limited Rating History as of 08-28-2023
Powered by: BlueMatrix
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B:$105.00 9-Apr-21
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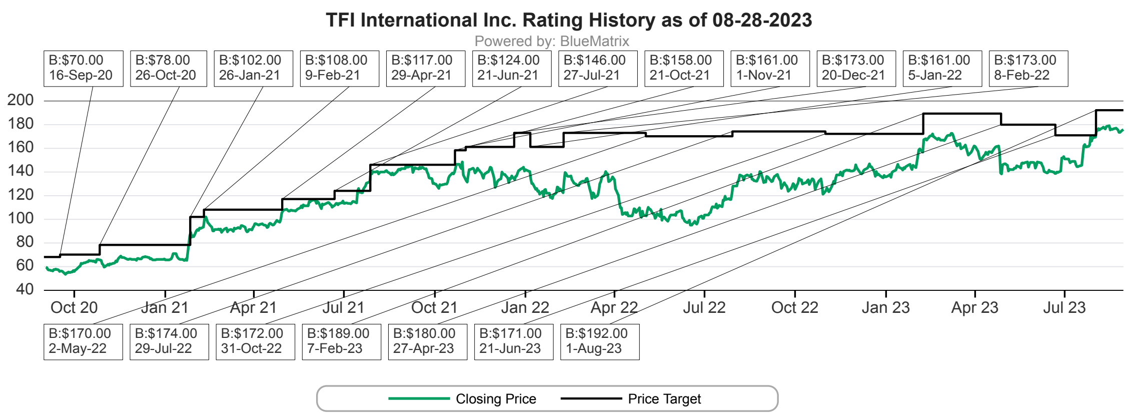
Closing Price
Price Target


TFI International Inc. Rating History as of 08-28-2023
Powered by: BlueMatrix
B:$70.00 16-Sep-20
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B:$108.00 9-Feb-21
B:$117.00 29-Apr-21
B:$124.00 21-Jun-21
B:$146.00 27-Jul-21
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B:$161.00 1-Nov-21
B:$173.00 20-Dec-21
B:$161.00 5-Jan-22
B:$173.00 8-Feb-22
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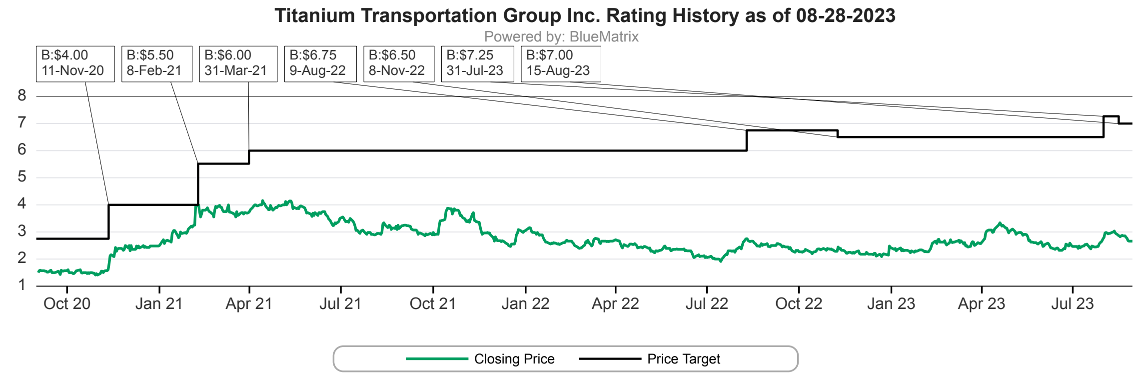
Closing Price
Price Target



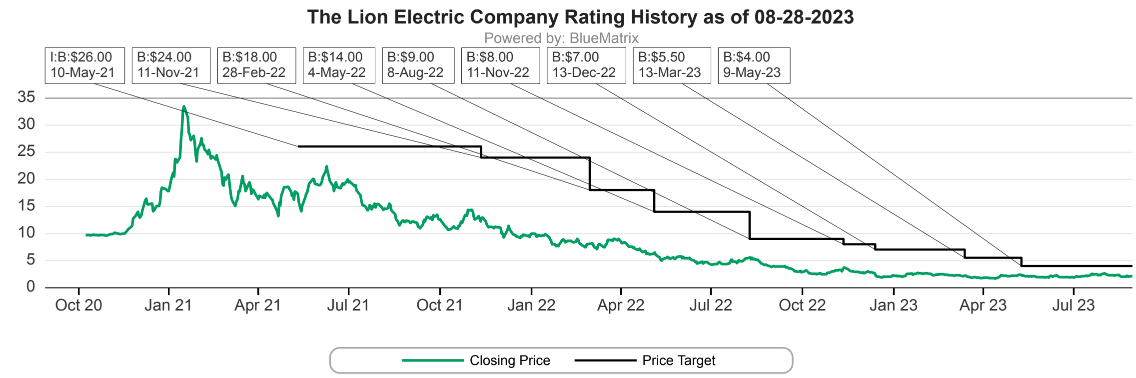


Chart legend: TP: Top Pick, B: Buy, H: Hold, S: Sell, NR: Not Rated, I: Company initiation, T: Transfer of coverage, S: Coverage suspended, DC: Coverage dropped

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