Trucking Market Update

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OOFI designed this update to help the owner-operator gain insight into the current conditions of today's freight market. To do so, we will look at four key categories:

1. **Volume** levels help us to see how much freight needs to be moved overall.
2. **Demand** shows us how many trucks the market needs to move said volume.
3. **Rates** illustrate how much the average owner-operator can expect to currently earn.
4. **Operating Costs** depict the every-day expenses for the average owner-operator.

The bottom line: OOFI will breakdown each category and explain how they pertain to you as a small business owner.

Volume:
Transportation Service Index (TSI)

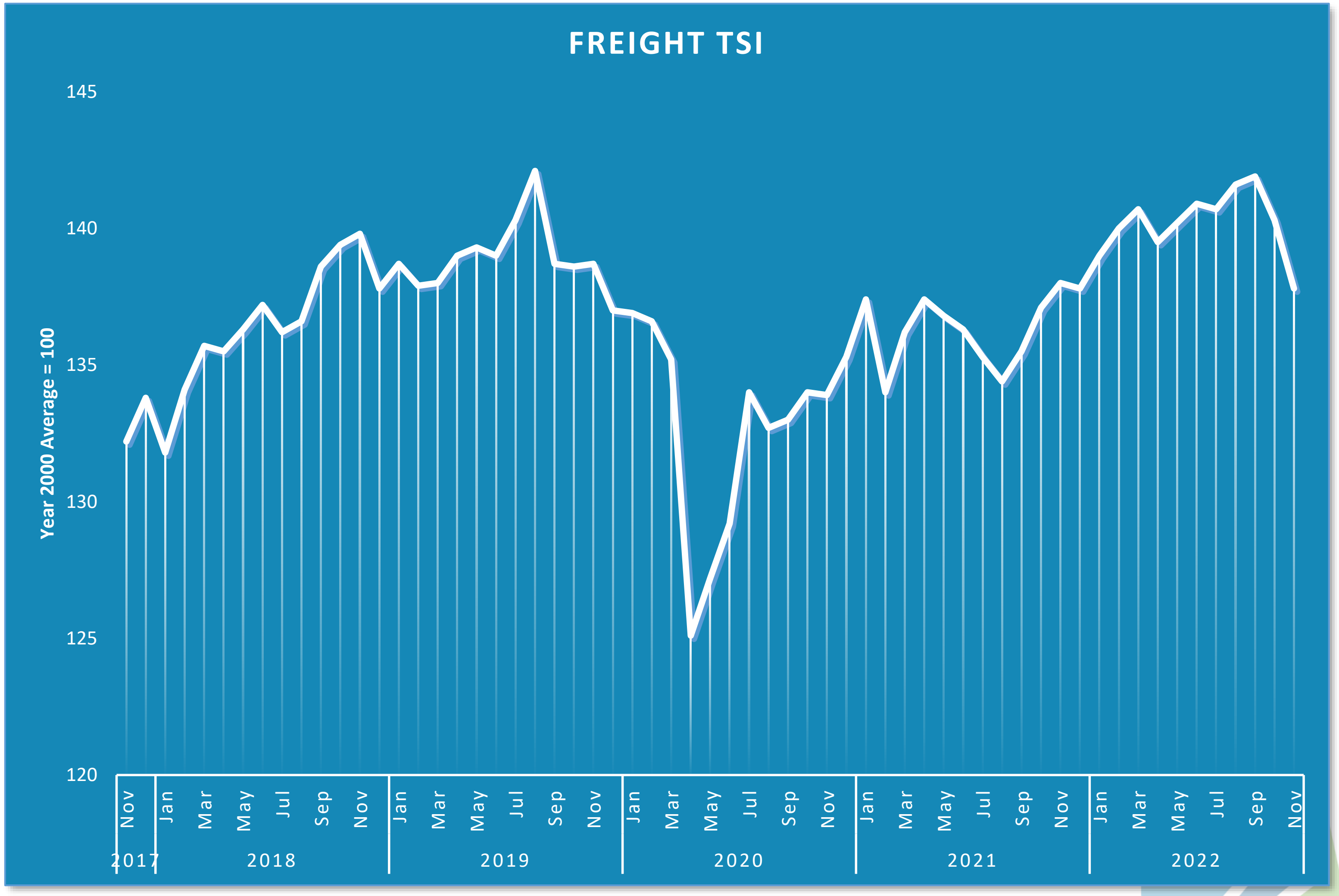
The big picture: TSI measures the volume of freight moved monthly by the *for-hire transportation sector* in the United States.

Why it matters: Changes in the TSI reflect changes in the demand for goods and services.

- For example, demand for freight typically increases in periods of economic expansion.
- The TSI captures this demand for transportation by increasing as well.

Our thoughts: Freight volumes declined in November due to seasonally adjusted decreases in trucking, rail carload, rail intermodal, and pipeline, while air freight and water grew.

- The TSI dropped 1.8% month-over-month to 137.8, representing the second consecutive month of decline and the fourth decrease in eight months.
- November's decrease came in the context of weak results for other indicators, such as the Federal Reserve Boards Industrial Production Index and housing starts.



Source: BTS | https://data.bts.gov/stories/s/TET-indicator-1/9czv-tjte | Monthly

Note: TSI Freight Index is a weighted average of monthly data for trucking, freight rail, waterborne, pipeline, and air freight.

Volume: Cass Shipment Index

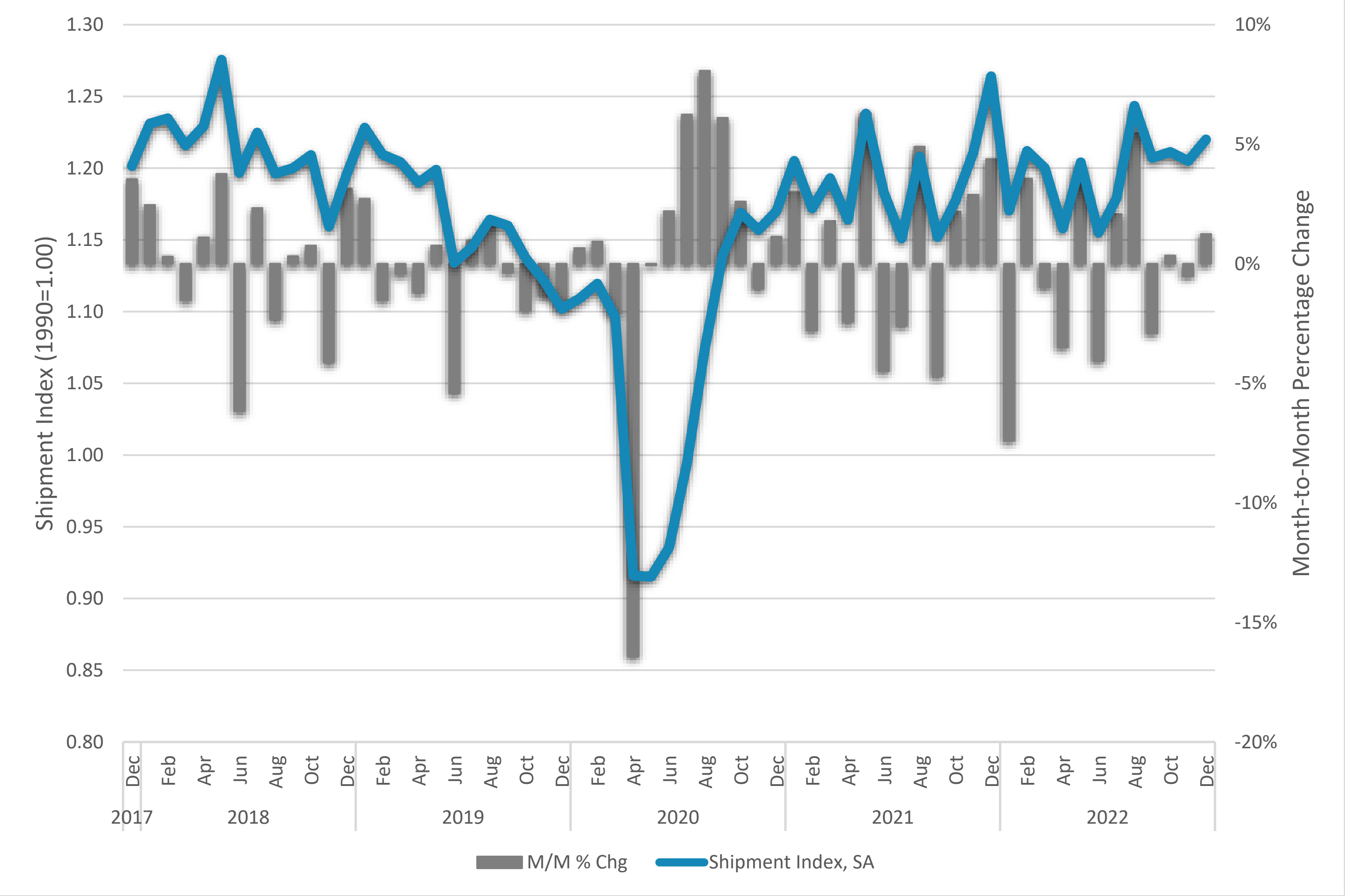
The big picture: The Cass Shipment Index includes data from all domestic freight modes with trucking accounting for more than 75% of all activity.

- The index is an indicator of U.S. shipping activity, containing 37 million invoices across 400 companies and manufacturers.

Why it matters: This index shows monthly shipment volumes from the entire Cass client base.

Our thoughts: the Cass Shipment Index increased 1.2% month-over-month to 1.220 in December due to seasonality, and was down 0.3% year-over-year.

- The year-over-year decline is mainly due to a tough comparison, but the seasonally adjusted increase shows how resilient freight demand continues to be.
- Expenditures, which measures the total amount spent of freight, dropped 4.2%
- Inferred rates, which are calculated by dividing expenditures by shipments to explain the movement in cost per shipment, declined 5.3%.
- Truckload linehaul rates, which includes both spot and contract rates, decreased 1.2%.
- **Bottom line:** After a long downtrend in 2022, the recent bounce in spot rates and tightening in the spot/contract spread suggest a bottoming truckload rate cycle.



Source: Cass Freight Index | https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/cass-freight-index

Demand: Load-to-Truck Ratios

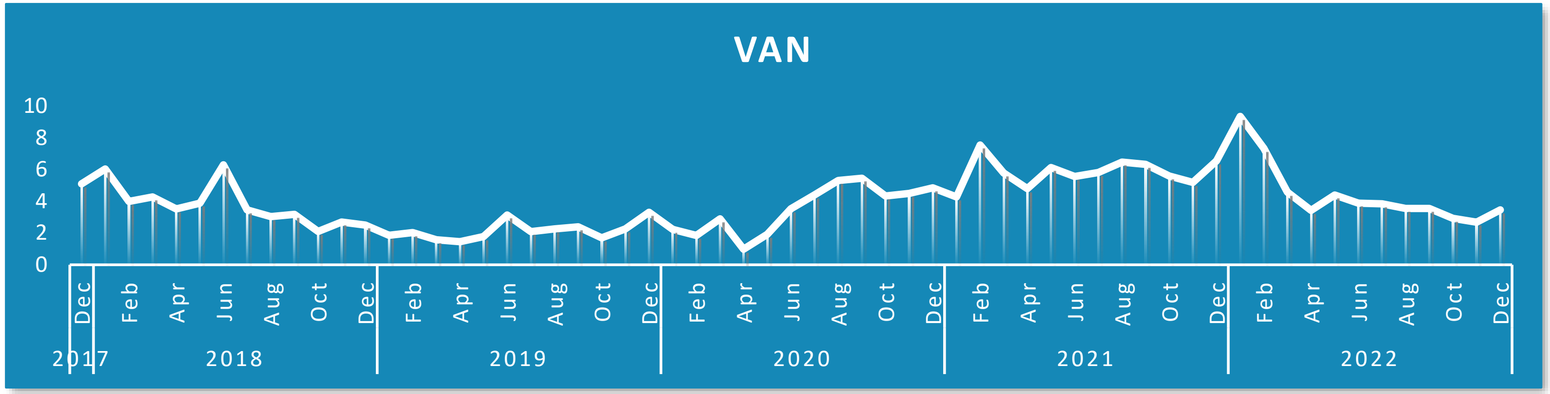
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

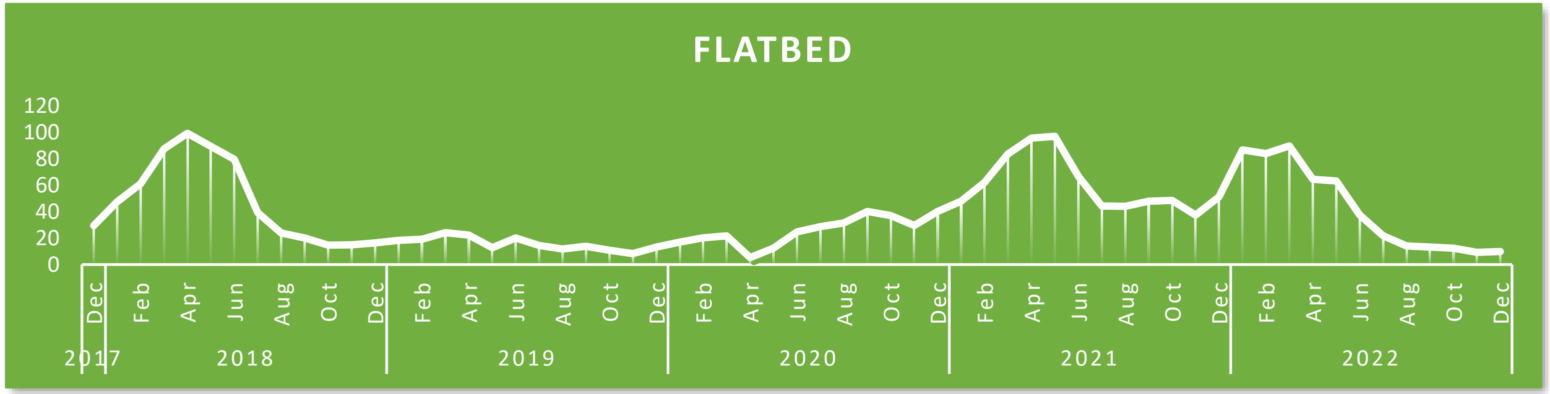
- The Load-to-Truck Ratio is a sensitive, real-time indicator of the balance between spot market demand and capacity

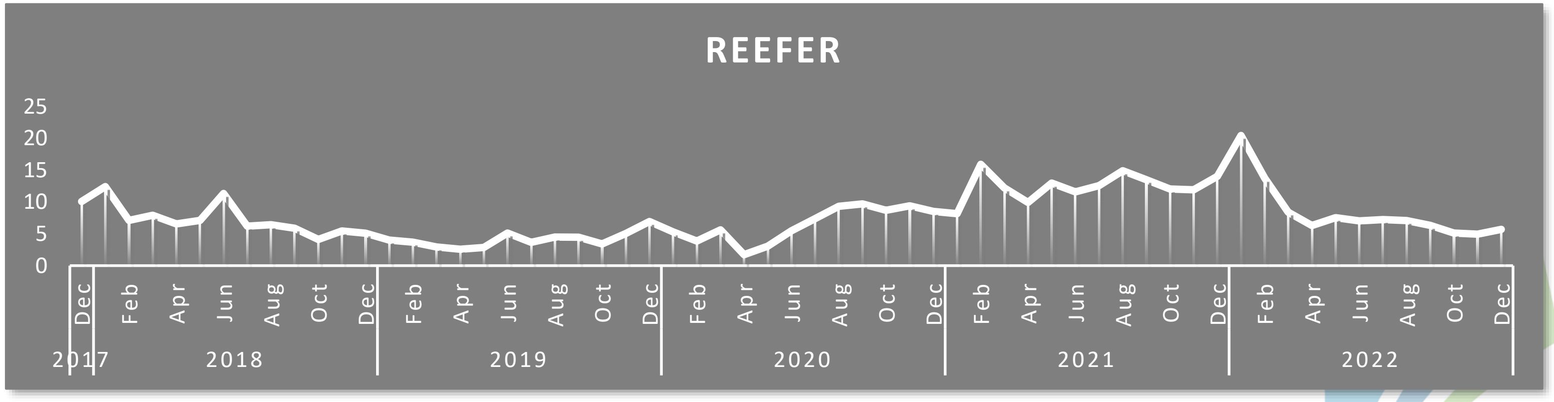
Why it matters: Changes in the ratio often signal impending changes in rates.

Our thoughts: Load-to-truck ratios bounced back slightly in December as it usually does until after the new year, when it typically slides back down for the first couple of months.

- The load-to-truck ratios increased for van, flatbed, and reefers by 28.7%, 5.8% and 14.9%, respectively.
- All three trailer types were still well below their 5-year trend by 13%, 74%, and 27%, though this may be skewed by the last two years.
- Spot load posts were 5.2% higher year-over-year in December, while spot truck posts were 12.4% lower, which marks a reversal after months of lower load counts than truck posts. Hence, the load-to-truck ratios increased this month.







Source: DAT Trendlines | https://www.dat.com/industry-trends/trendlines | Monthly

Demand: Class 8 Orders and Sales

The big picture: ACT Research obtains data from truck and trailer original equipment manufacturers (OEMs) and dealerships, and provides monthly reports and forecasts.

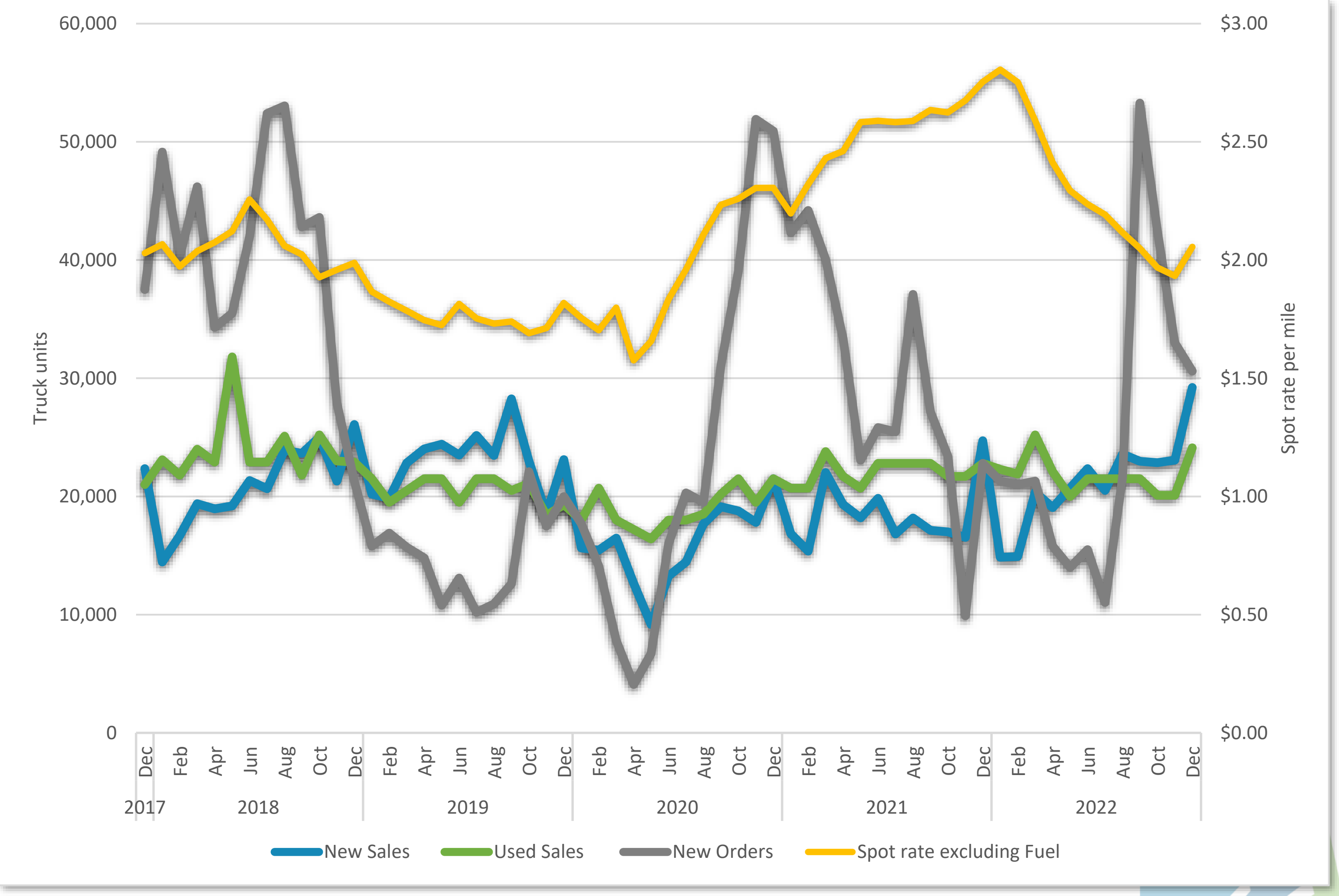
- This data includes Class 8 truck orders and sales.

Why it matters: Class 8 orders and sales data will help an owner-operator to see both the demand for trucks and current truck capacity.

- Demand for trucks tends to spike when new orders increase following a steady increase in rates (2017-2018 and 2020).
- Truck capacity tends to loosen when new sales eclipse used sales (2018-2019 and second half of 2022).

Our thoughts: New orders decreased for the third straight month, while both new and used sales increased month-over-month by 26.6% and 20%, respectively.

- New orders decreased 7.3% to 30,600 in December after spiking 149% in September. This is the third straight month of decline.
- **Yes, but** new sales continue to eclipse used sales by 5,000.
- This indicates that capacity will continue to remain loose. It also hints to fewer new carriers entering the industry



Source: ACT Research | https://www.actresearch.net/ | Monthly

Note: 16,000 Class 8 retail sales per month, or 190,000 per year, is the accepted U.S. replacement level

Rates: Spot and Contract Rates

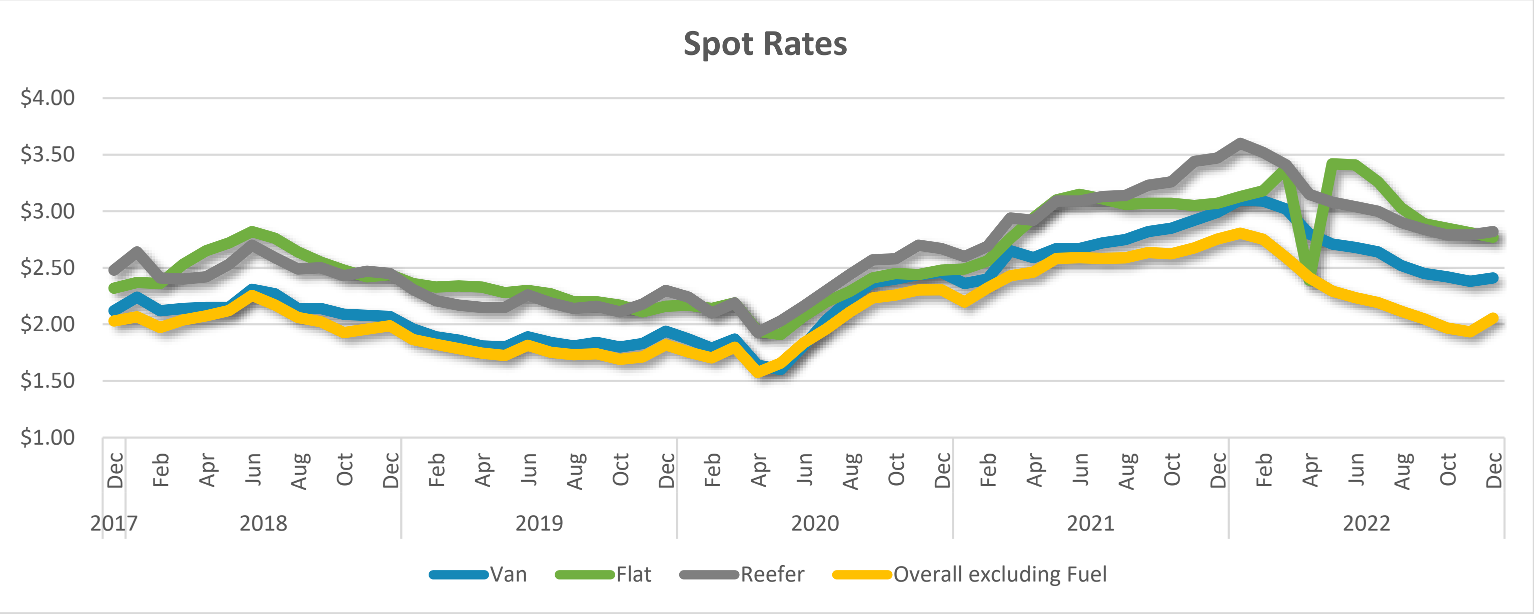
The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

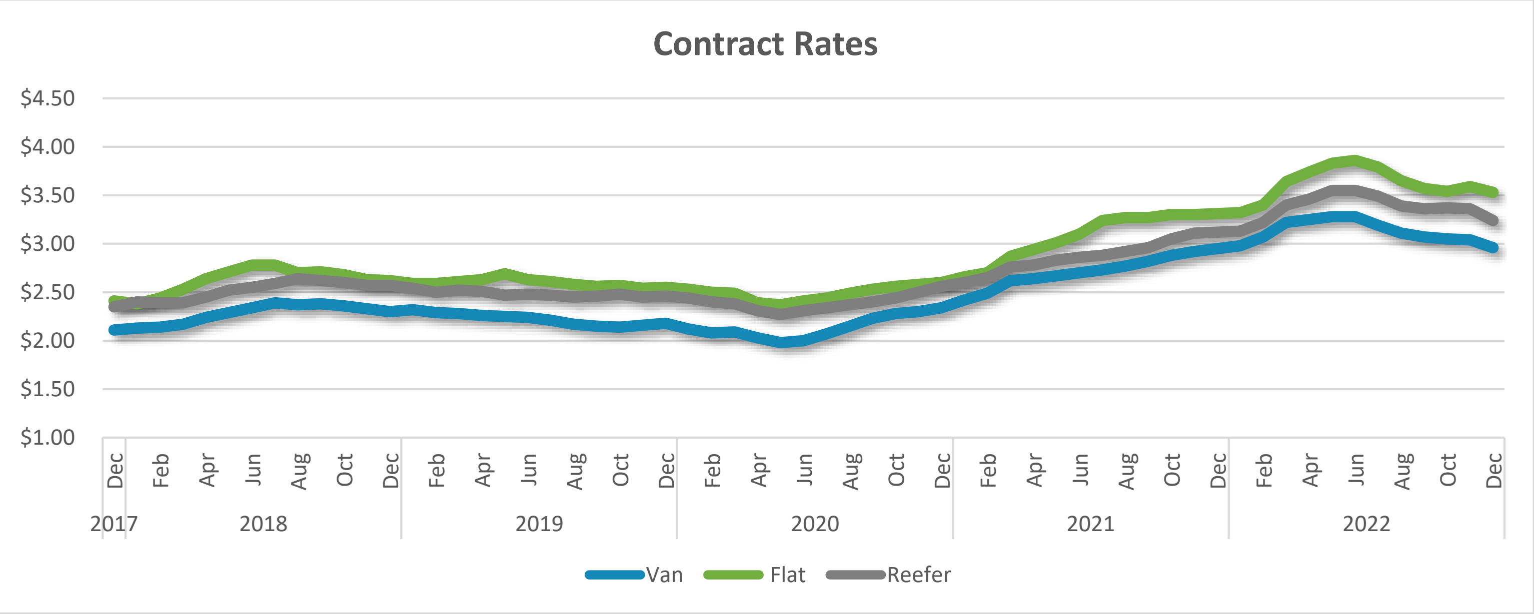
- RateView's database is comprised of more than $110 billion in freight bills in over 68,000 lanes.

Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Higher demand and tighter capacity due to the holiday season helped raise spot rates, while contract rates took a downward slide, which is a good thing for owner-operators. Contract rates need to drop below spot rates before we start to see the market turn.

- Spot rates for van and reefer increased by 1.3%, and 1.1% to $2.41 and $2.82, respectively while flatbed declined 1.4% to $2.77 per mile.
- Contract rates decreased for van, flatbed, and reefer in December by 2.6%, 1.7%, and 3.6%, respectively, to $2.96, $3.53, and $3.24 per mile.
- **When fuel surcharge is excluded**, we see that the base rate has fallen $0.75 per mile since January 2022 to $2.06 per mile. Yes, but this was a 6.3% increase from last month.





Source: DAT Trendlines | https://www.dat.com/industry-trends/trendlines | Monthly

Rates: Logistics Managers' Index (LMI)

The big picture: The LMI is a diffusion index that measures supply chain conditions.

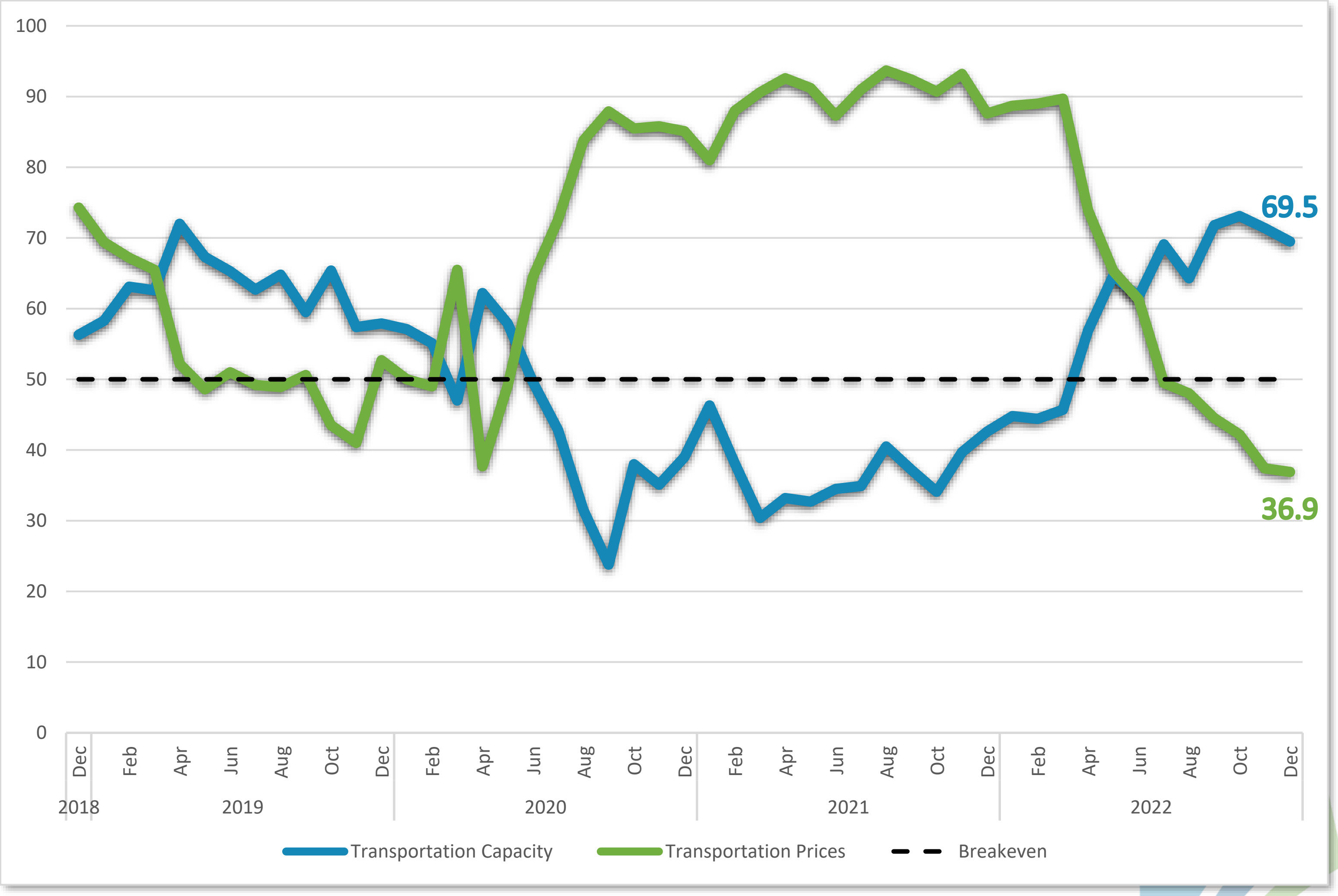
- The LMI consists of eight key logistics metrics ranging from inventory levels to transportation utilization.
- Any number below 50 is indicative of contraction, while any number above 50 is indicative of expansion.

Why it matters: The LMI reflects the strength of the overall economy as it measures both upstream and downstream conditions.

- When the two curves depicted in this chart invert, it signals bad news for freight rates.

Our thoughts: The LMI overall increased slightly to 54.6 mainly due to a strong holiday shopping season and falling inventory levels.

- Transportation prices experienced their sixth straight month of contraction territory at 36.9, marking the second consecutive month that this metric has hit an all-time low.
- Transportation capacity dropped for the second consecutive month to 69.5, which is just short of significant expansion.



Source: LMI | https://www.the-lmi.com/ | Monthly

Rates: Producer Price Index (PPI) Long-Distance, Truckload

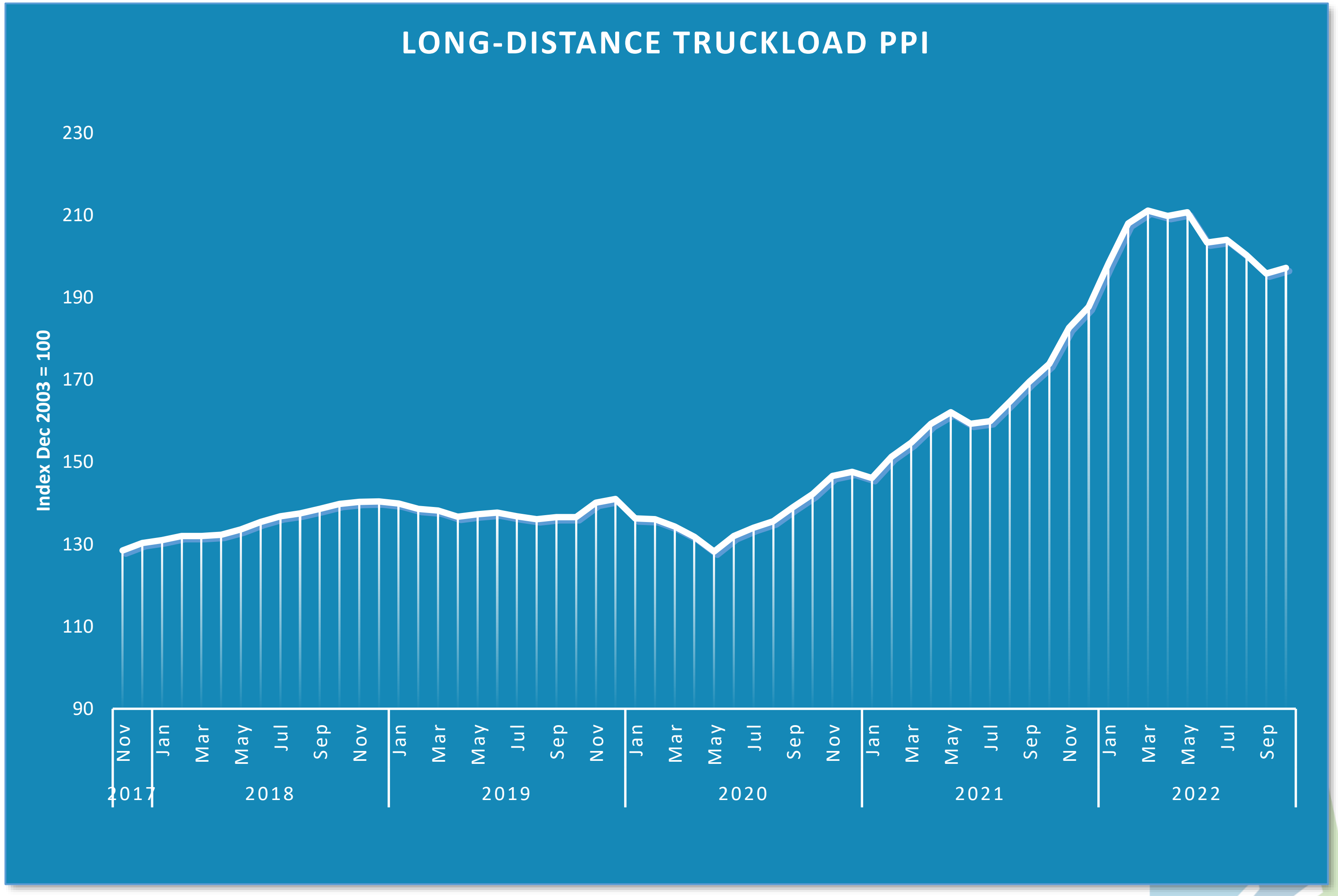
The big picture: The PPI is a group of indexes that measures selling prices domestic producers receive for their output.

- One index focuses on long-haul, truckload carriers.
- This index shows how much carriers are charging their customers.

Why it matters: Changes in this particular index reflect the general direction that freight rates are heading (i.e., up or down) for the long-haul owner-operator.

Our thoughts: The index decreased 0.9% to 195.4 in November, and has dropped 6.6% since the high in March.

- The index's slight uptick coincides with the recent increases in the contract rates, which continue to be resilient even despite inflationary pressures.
- **The big picture:** the long-haul PPI is still 27% above the 5-year trend of 154, and 7% higher year-over-year.



Source: FRED | https://fred.stlouisfed.org/series/PCU484121484121 | Monthly

Costs: Diesel Fuel

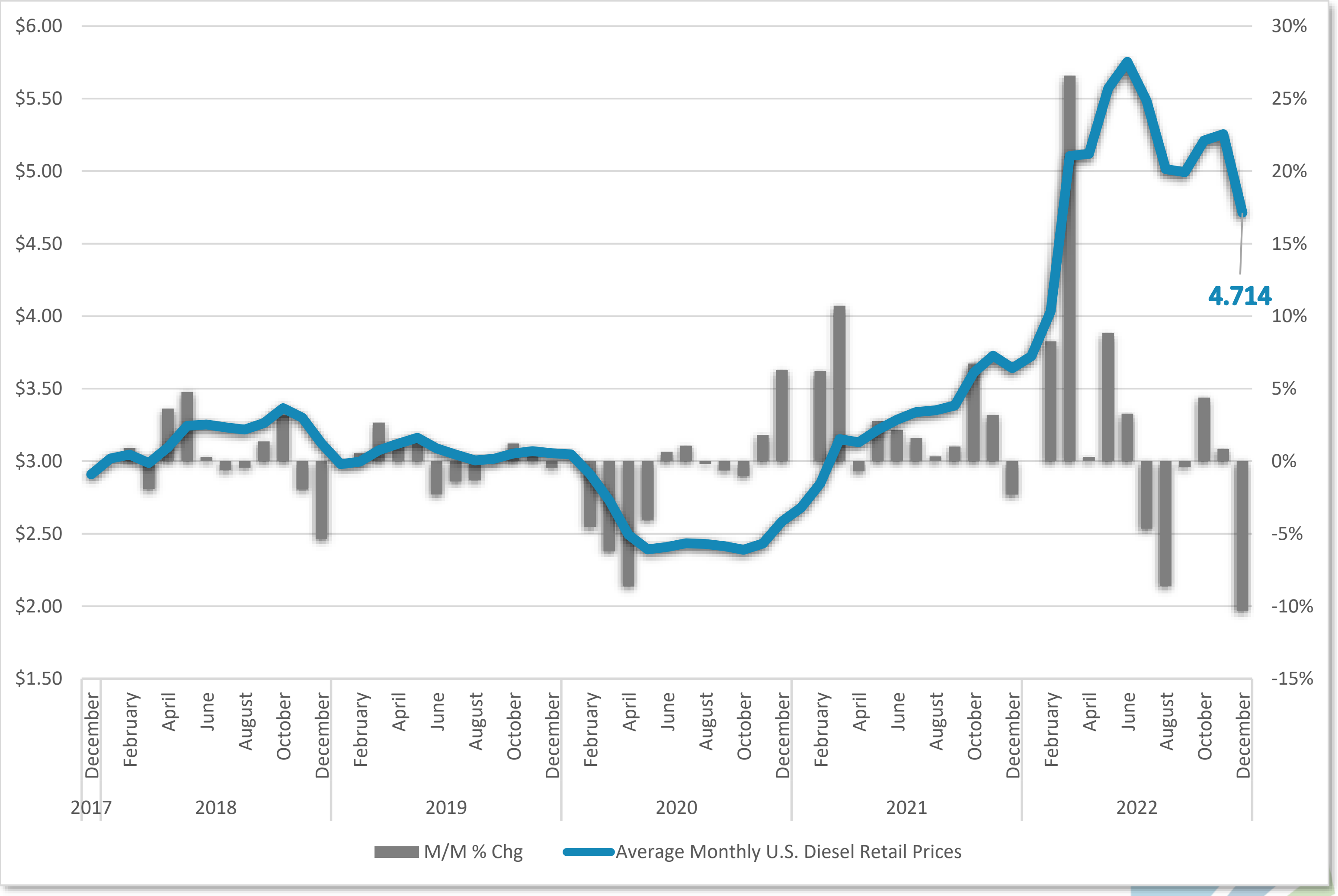
The big picture: The U.S. Energy Information Administration (EIA) tracks the weekly changes in on-highway diesel fuel prices throughout the country.

Why it matters: Fuel is the number one expense for owner-operators.

- Fuel comprises over 45% of the average owner-operator's cost of operation.
- **Yes, but** it normally represents 25-30%.

Our thoughts: Fuel prices dropped over 50 cents in December after three straight months of increases.

- The average price for diesel fuel decreased 10.3% month-over-month to $4.71 per gallon.
- The average diesel price is 38% higher than the 5-year trend, or $1.31 more per gallon.
- **Yes, but** while prices declined in December due to lower global energy demand, there is still potential for prices to increase with oil prices for both West Texas Intermediate and Brent inching upward combined with lower U.S. refining capacity.
- This is still a good time to incorporate a fuel surcharge if you aren't doing so already. Learn more by visiting our website [here](#).



Source: U.S. EIA | https://www.eia.gov/petroleum/gasdiesel/ | Weekly

Costs: Used Truck Prices

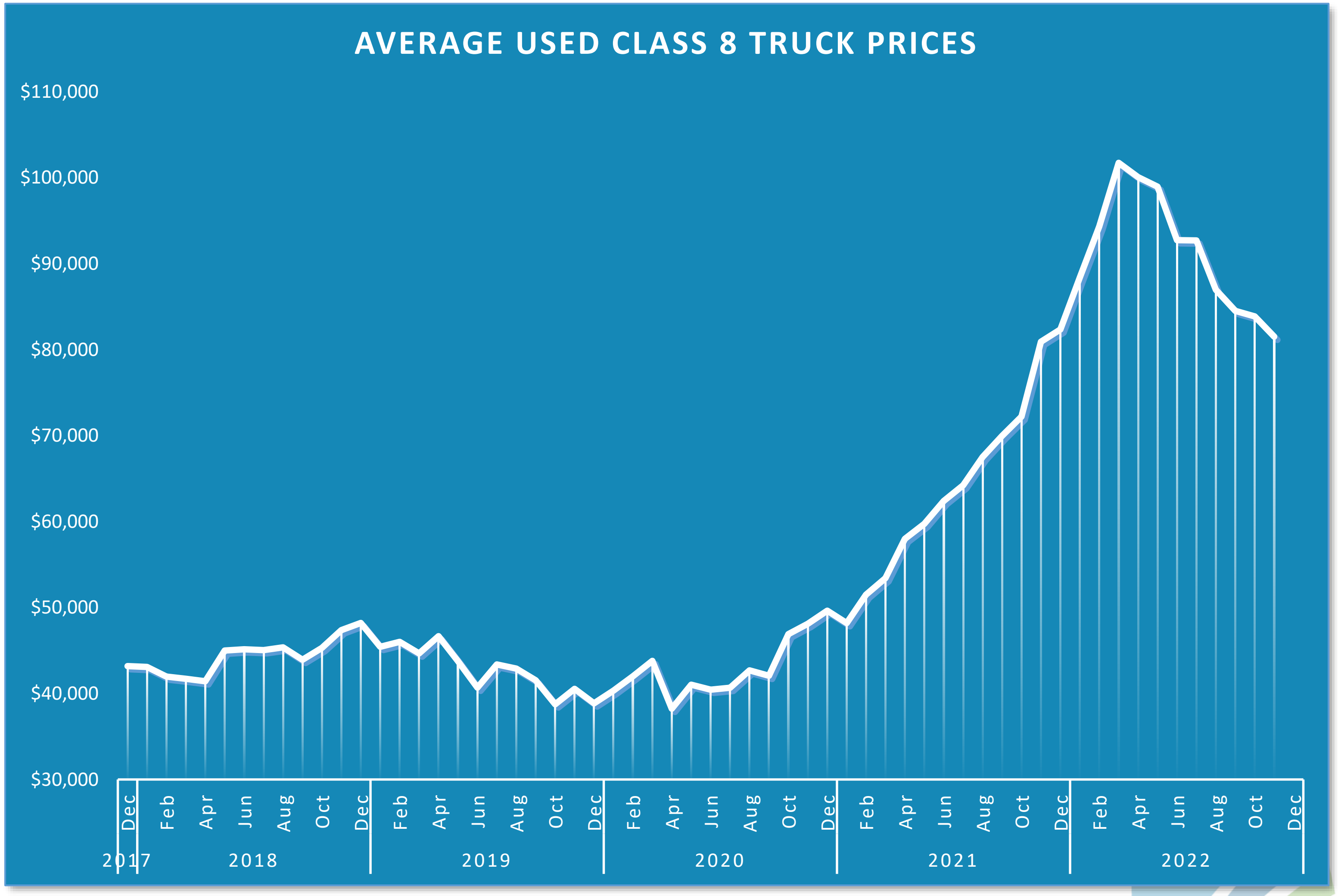
The big picture: Most individuals seeking to become an owner-operator first look to the used truck market due to the high cost of new trucks.

Why it matters: Used truck prices are a good indicator strong freight market.

- As spot rates turn upward, the number of individuals seeking to become an owner-operator also increase, pushing used prices higher.

Our thoughts: The average price of a used truck hovered at $42,000 before the pandemic. That price jumped to $69,000 in 2021 and over $90,000 so far in 2022, though prices have decreased from the high in March (i.e., $101,736).

- Used Class 8 truck prices dropped for the eighth straight month in November to $81,517.
- **Yes, but** this is still 45% higher than the 5-year trend.
- With costs still elevated and spot rates continuing their downward trend, this might not be the best time to become an owner-operator or seek to expand your business.
- We expect used truck prices to continue to decline as larger carriers push to replace their fleets.



Source: FTR| https://www.ftrintel.com/ | ACT Research | https://www.actresearch.net/ | Monthly