OOIDA Foundation

RESEARCH
SAFETY
EDUCATION

December 2022

MARKET UPDATE

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Van Market Outlook

Van Market Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, market analysts typically breakdown the industry into three main sectors based on trailer type: Van, Flatbed, and Reefer.

It's good to know the current conditions of the freight market, but it's also important to understand what the future holds, especially for your segment of the industry.

To examine the van market outlook, we will look at:

1. **Demand** shows us how many trucks the market needs to move freight.
2. **Rates** illustrate how much the average owner-operator can expect to earn.

We will also examine four key economic indicators that directly impact the van market:

1. Retail Sales
2. CPI
3. E-commerce
4. Advanced Retail Sales Categories

Demand: Van Load-to-Truck Ratios

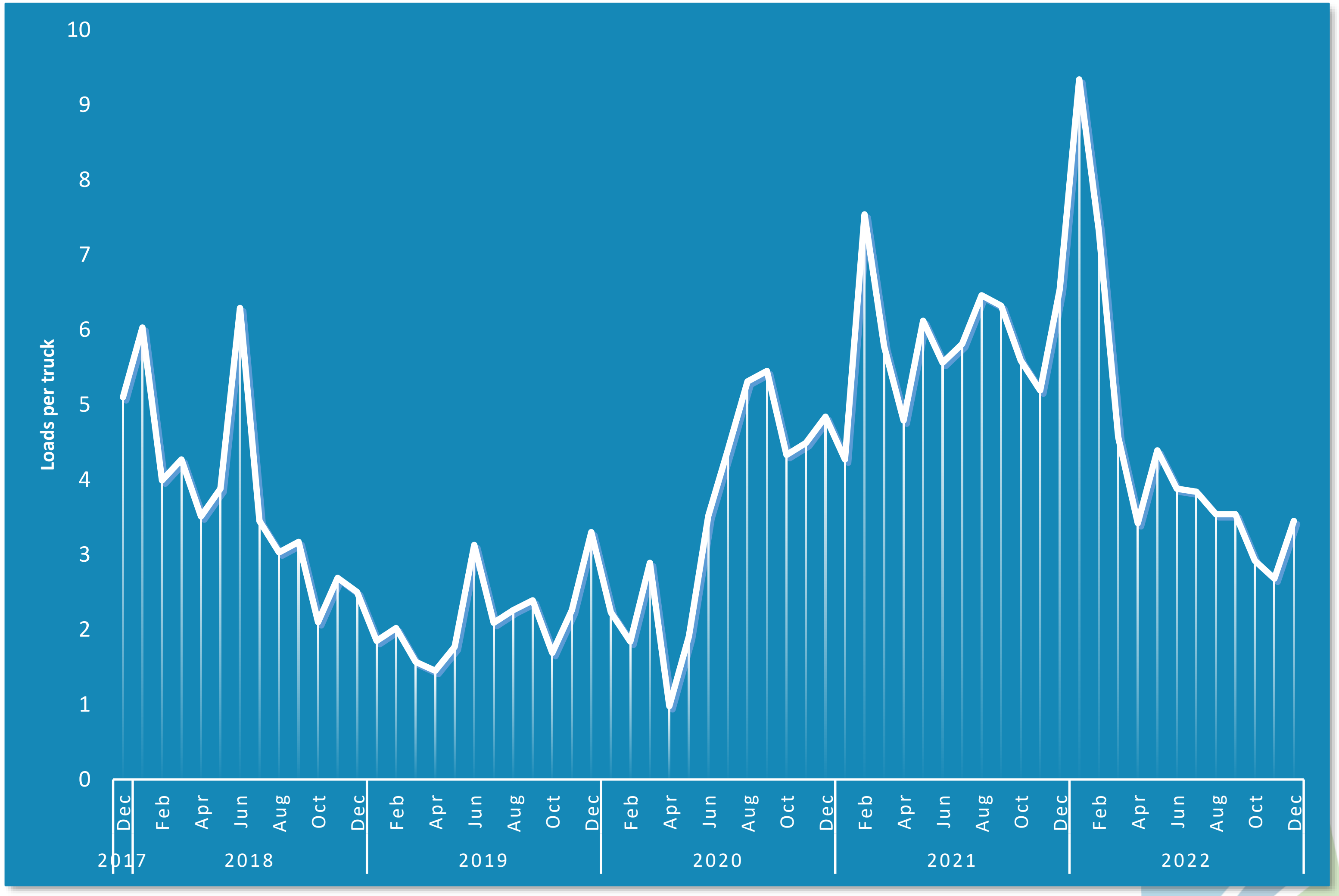
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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: The Van Load-to-Truck ratio reversed course in December, as the number of load posts outstripped the number of equipment posts. This is typical, as a number of truckers take time off during the holidays.

- The Van Load-to-Truck Ratio increased 28.7% month-over-month to 3.45.
- The ratio is still 53% lower than January and 13% lower than the 5-year trend.
- While the large increase in demand is certainly welcomed, we need to wait and see if this growth is due to seasonal trends, or if the market is truly starting to stabilize.



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

Rates: Van Spot and Contract Rates

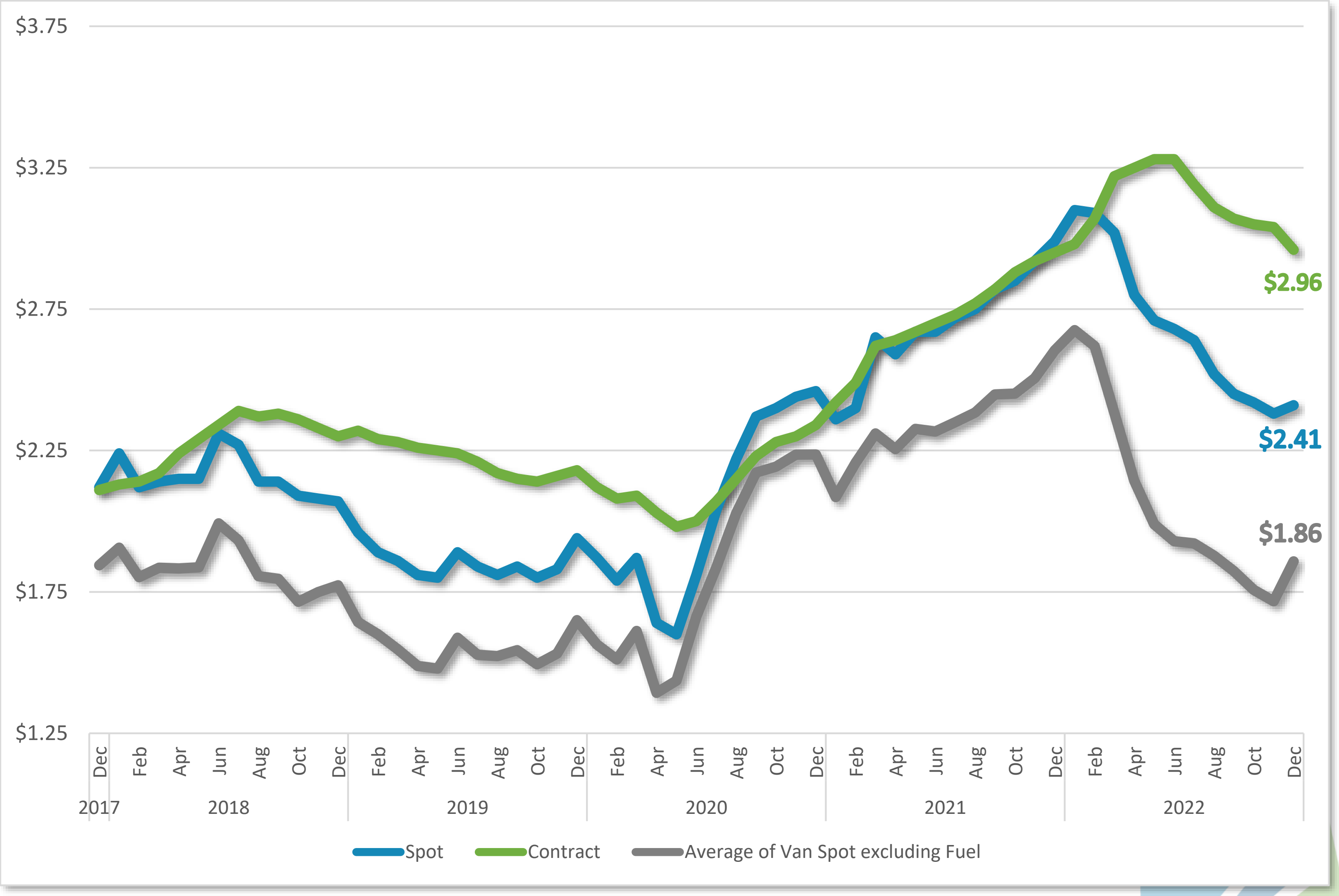
The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

- 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: As typical with the holiday season, trucking capacity often tightens. However, this season also saw an increase in load posts, pushing spot rates upward, even while contract rates decreased.

- Spot rates for vans increased by $0.03 per mile month-over-month in December, but have dropped $0.69 per mile since January 2022.
- Contract rates on the other hand decreased $0.08 per mile, a welcomed sign. However, the spread between contract rates and spot rates is $0.55 per mile.
- Spot rates are 4% above the 5-year trend, while contract rates are 24% higher.
- DAT expects rates to bottom out and start bouncing back some around the middle of February.



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

Retail and Consumer Price Index (CPI):

The big picture: The term "retail sales" is an economic metric that tracks consumer demand for finished goods.

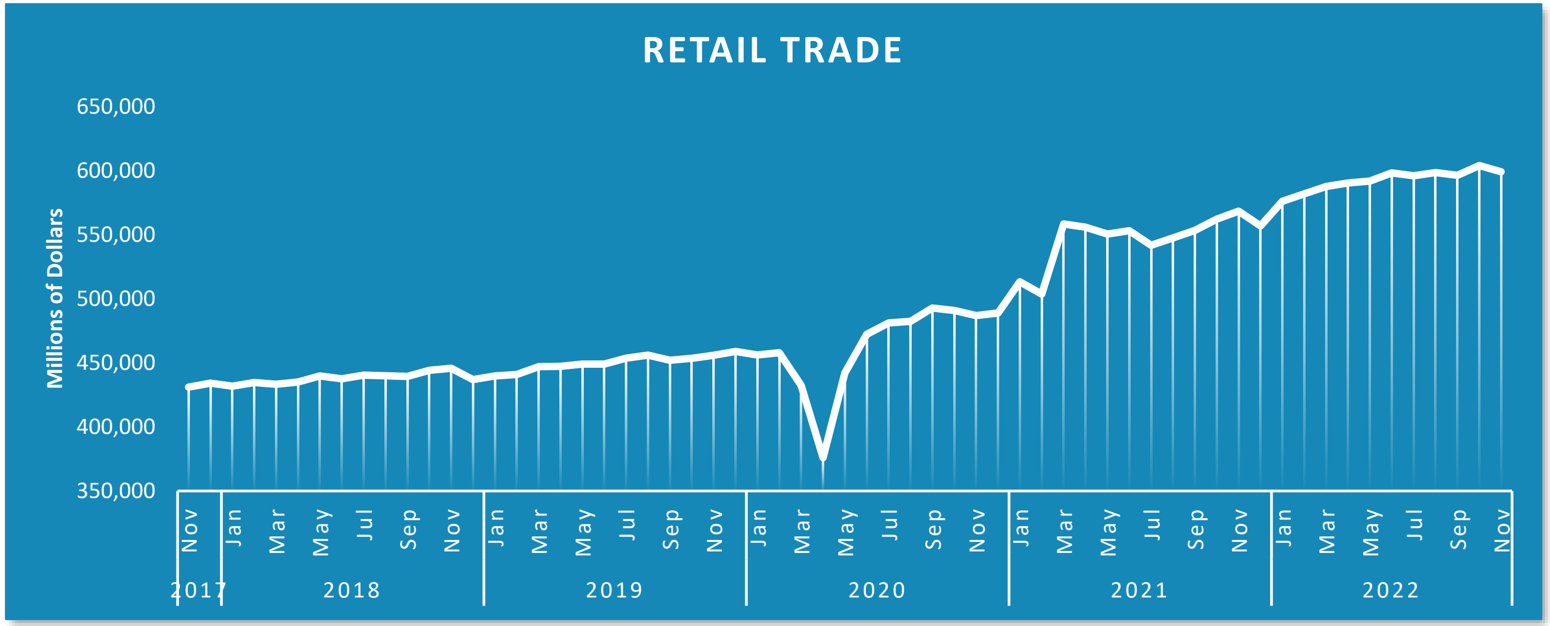
- While CPI measures the average price change for a basket of goods and services over time.

Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- Consumer spending accounts for two-thirds of GDP.
- If prices are stable and retail sales are high, it means that there's a greater demand for freight.

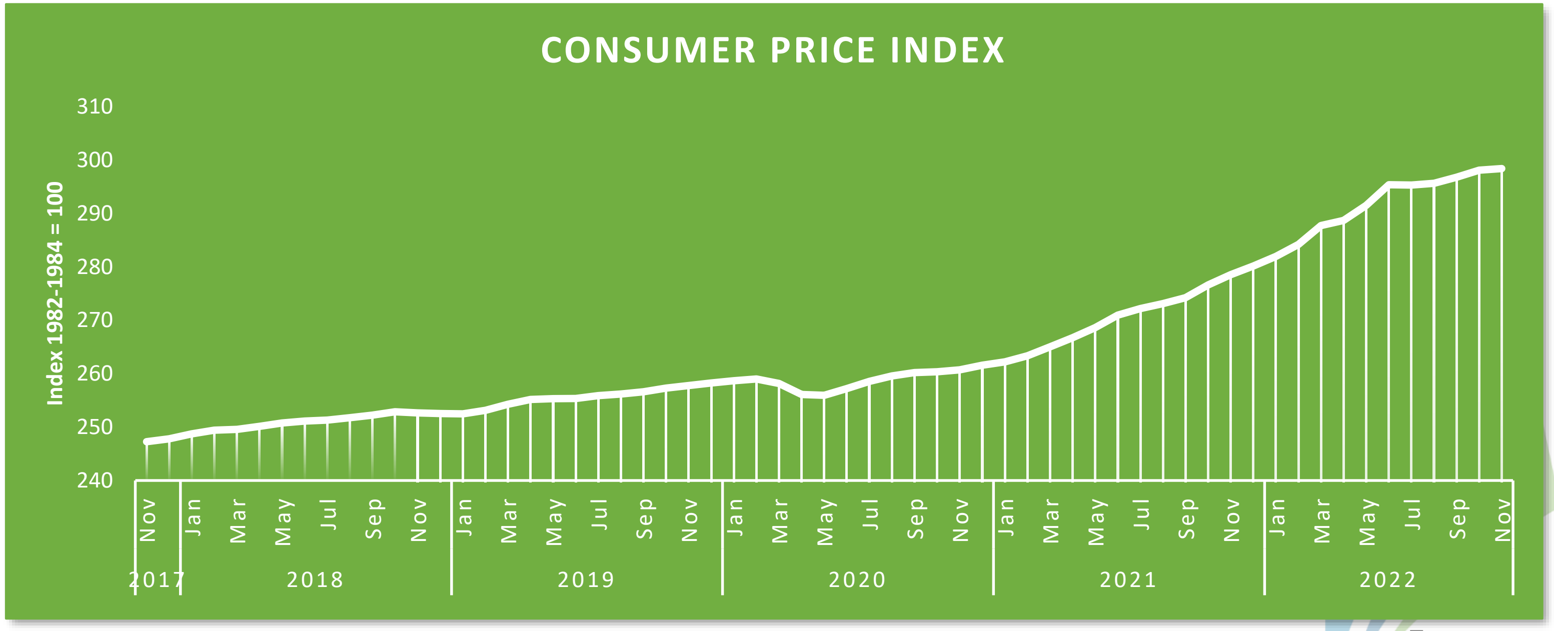
Our thoughts: People are still purchasing goods even despite what the media is stating about high inflation. This may be due to the fact that wages and salaries overall are 17% higher than the 5-year trend.

- Unlike typical trends, retail trade actually decreased 0.8% month-over-month in November to $599.1 billion, which lead some to believe that holiday spending would be depressed.
- CPI increased again by 0.1% to 298.3, which is 7.1% higher than it was a year ago and 12.7% higher than the 5-year trend.



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

Note: E-commerce sales are included in the total monthly estimates



Source: FRED| https://fred.stlouisfed.org/series/CPIAUCSL#0 | Monthly

E-Commerce Retail

The big picture: E-commerce has changed the way people purchase goods, as more and more people move to online orders.

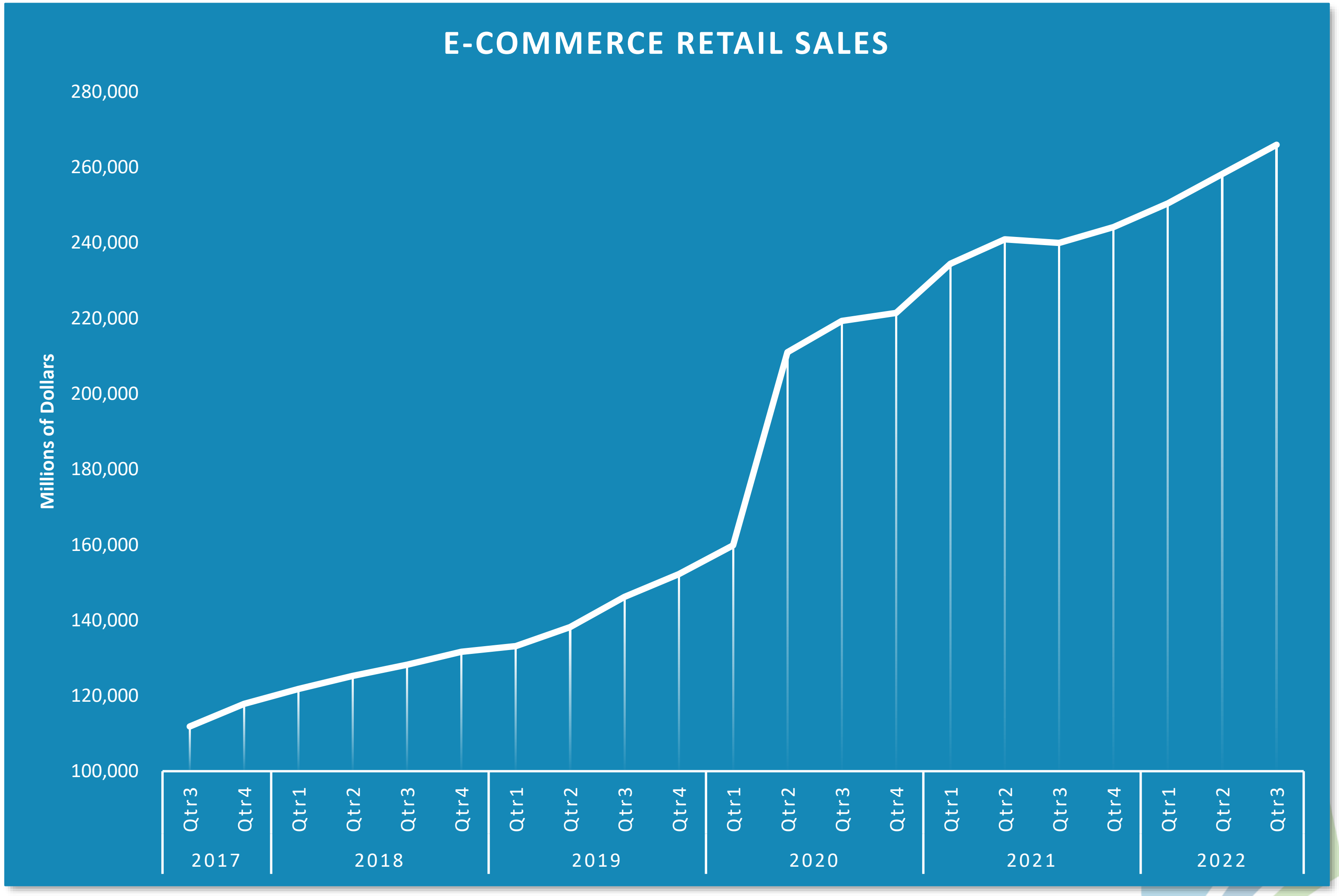
- Technology has made it easier than ever for people to shop online.

Why it matters: With so many online retailers now offering one or two day deliveries, trucking logistics has been turned on its head.

- This means freight needs to be moved to a central warehouse where it can be distributed from there.
- As e-commerce grows or shrinks, so too do freight volumes.

Our thoughts: E-commerce activity represents about 14.8% of total retail sales.

- While this percentage has flattened since its high in the second quarter of 2020, e-commerce continues to elevate freight volumes.
- E-commerce increased 3% quarter-over-quarter to $265.9 billion. This is 48% higher than the five-year trend.



Source: FRED| https://fred.stlouisfed.org/series/ECOMSA | Quarterly

Advanced Retail Sales: Clothing, Electronics, and Furniture

The big picture: Retail sales capture in-store, catalog, and out-of-store sales of both durable and non-durable goods. These are broken down into several categories, including:

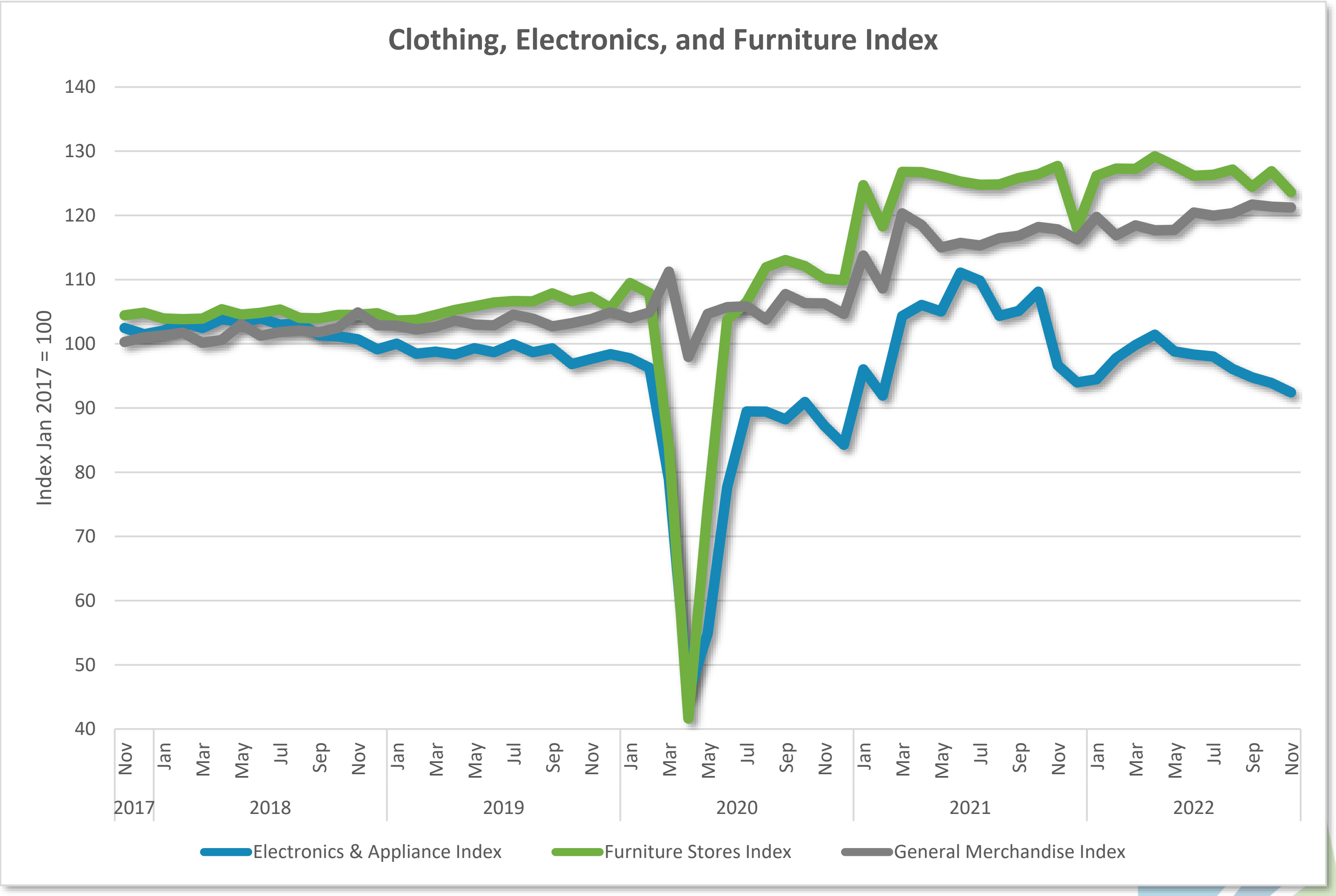
- Electronics and appliance stores (EAS)
- Furniture stores (FS)
- General merchandise stores (GMS), such as Walmart, Target, Costco

Why it matters: Retail sales give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

- **Advanced Sales** categories provide us an early snapshot from large retailers.

Our thoughts: Retail sales continue to move sideways, except for EAS, which has dropped 15.5% since its high in June 2021.

- EAS, FS, and GMS all experienced a drop in sales in November, 1.5%, 2.6%, and 0.1% respectively to $7.21 billion, $12.06 billion, and $70.14 billion.
- Two of the three are above their 5-year trend, namely FS and GMS, both by 11%.



Source: FRED | https://fred.stlouisfed.org/series/RSEAS | https://fred.stlouisfed.org/series/RSFHFS | https://fred.stlouisfed.org/series/RSGMS | Monthly

Flatbed Market Outlook

Flatbed Market Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, market analysts typically breakdown the industry into three main sectors based on trailer type: Van, Flatbed, and Reefer.

It's good to know the current conditions of the freight market, but it's also important to understand what the future holds, especially for your segment of the industry.

To examine the Flatbed market outlook, we will look at:

1. **Demand** shows us how many trucks the market needs to move freight.
2. **Rates** illustrate how much the average owner-operator can expect to earn.

We will also examine four key economic indicators that directly impact the van market:

1. Total Construction Spending
2. Highway and Street Construction Spending
3. Housing
4. Advanced Retail Sales: Building Materials

Demand: Flatbed Load-to-Truck Ratios

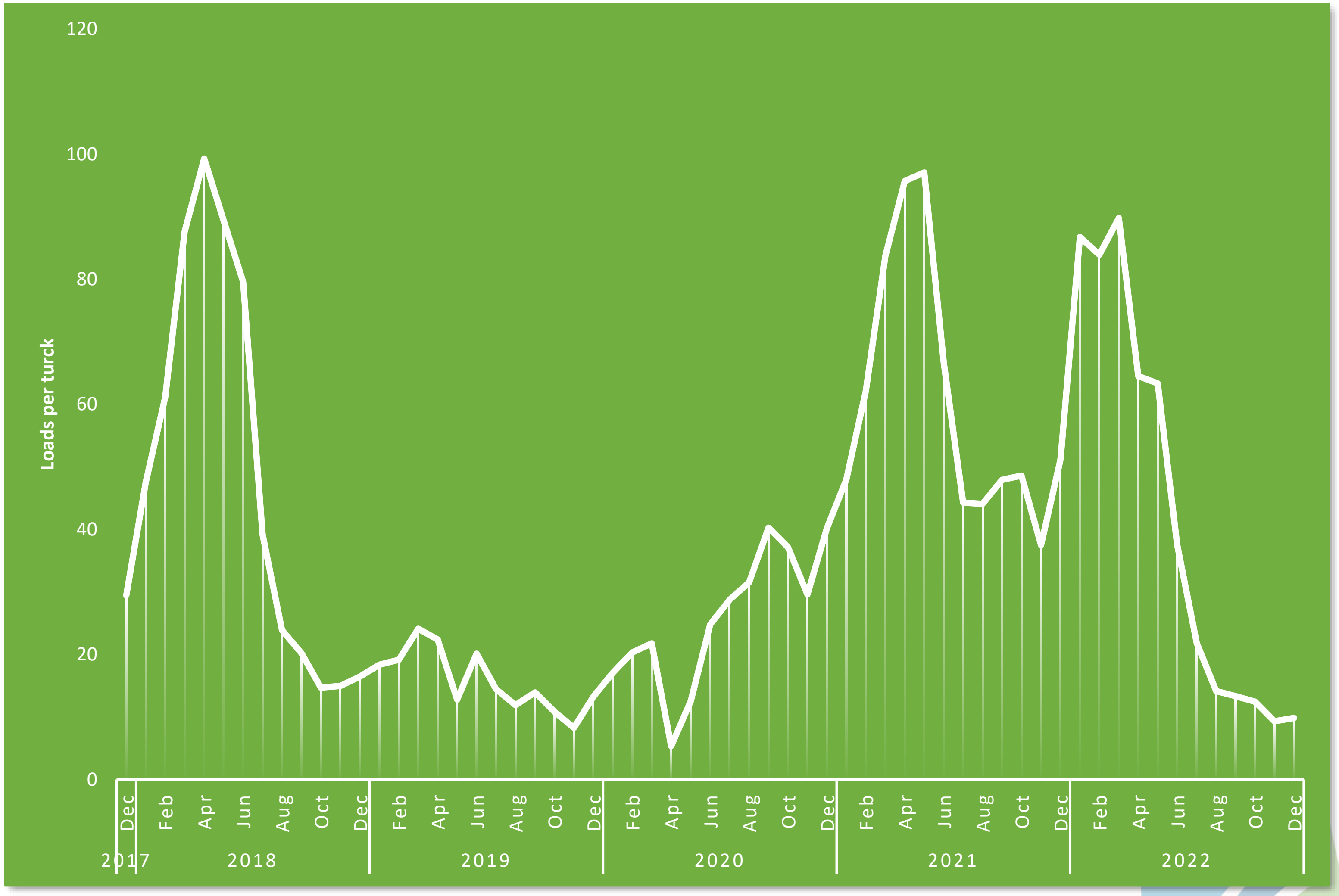
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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: The decrease we've been seeing in the load-to-truck ratios over the past few months is due to both an increase in capacity and a decline in spot volumes.

- The Flatbed Load-to-Truck Ratio increased 5.8% month-over-month to 9.85 in December, following eight consecutive months of decline.
- The ratio has declined 88% since January.
- The ratio is 74% below the 5-year trend, and 81% below this time last year.



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

Rates: Flatbed Spot and Contract Rates

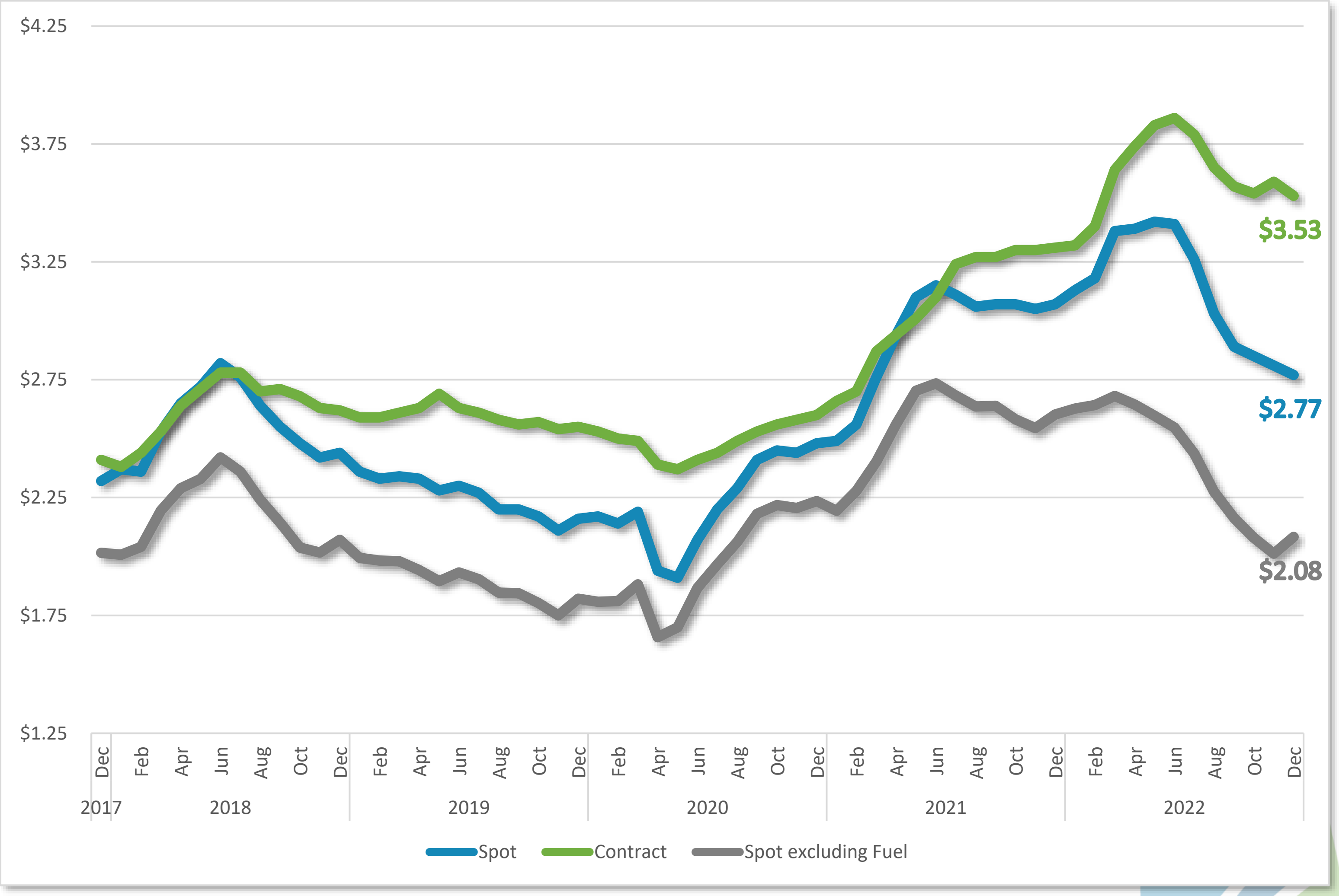
The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

- 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: Spot rates declined for the fifth consecutive month, while contract rates also decreased following last month's unusual increase.

- The spot market declined $0.04, or 1.4%, to $2.77 per mile month-over-month, and has dropped $0.36 since January. Yes, but it's $0.15 above the 5-year trend.
- The contract market decreased $0.06, or 1.7%, to $3.53 per mile, which is still $0.21 higher than January and $0.65 above the 5-year trend.
- The spread between contract and spot is $0.76.
- DAT predicts that rates won't begin to pick back up until around the middle of February with the low number of housing starts and a slowdown in manufacturing activity in December.



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

Construction: Overall and Streets

The big picture: The U.S. Census Bureau measures the amount of spending that goes toward new construction every month.

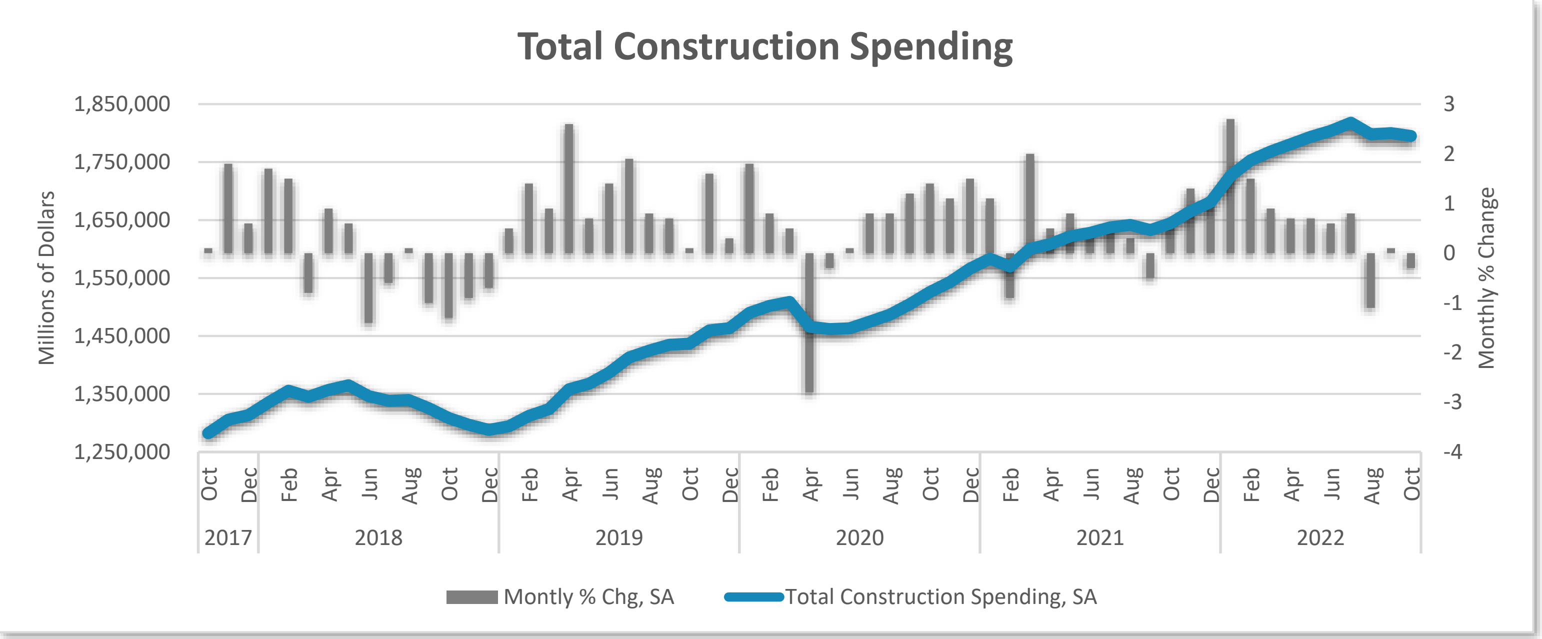
- Construction spending encompasses various expenses, such as labor and materials,
- and sectors, such as highway and street spending.

Why it matters: Construction spending helps boost the economy, especially spending that is dedicated to building roads and bridges.

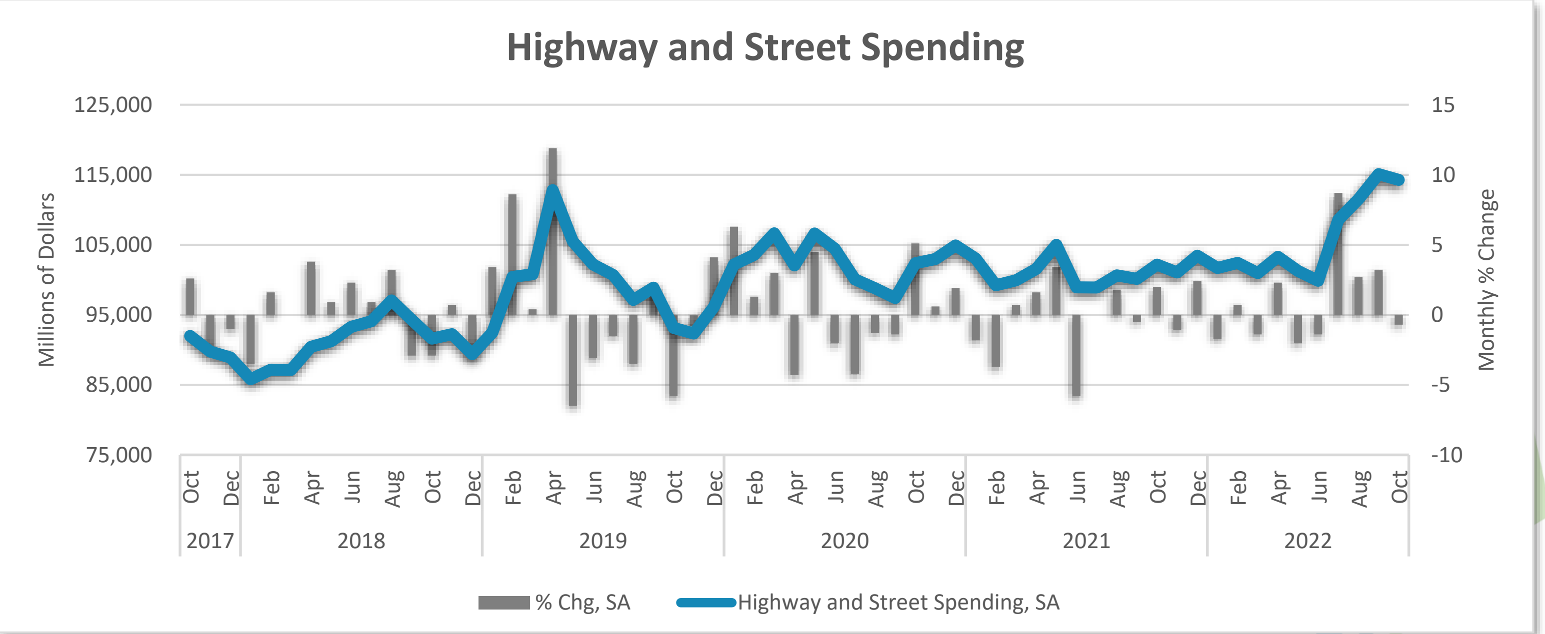
- It also is a good indicator of future demand for those owner-operators pulling flatbed trailers, as a variety of materials and goods are transported this way to construction sites.

Our thoughts: Total construction spending (TCS) increased, while spending on highways and streets (HSS) decreased month-over-month.

- TCS increased slightly by 0.2% in November to $1.81 trillion, which is 9% higher year-over year and 19% above the 5-year trend.
- HSS declined 1.0% to $115.97 billion, marking two consecutive months of decreases, but is up 14% year-over-year.
- These figures should continue to decline as we enter into colder months, which is the normal seasonal pattern.



Source: FRED| https://fred.stlouisfed.org/graph/?id=TTLCONS,MPCTXXXXS, | Monthly



Source: FRED| https://fred.stlouisfed.org/graph/?id=TLHWYCONS,MPCT12XXS, | Monthly

Housing: Starts, Under Construction, Completed

The big picture: The U.S. Census Bureau publishes monthly estimates on the number:

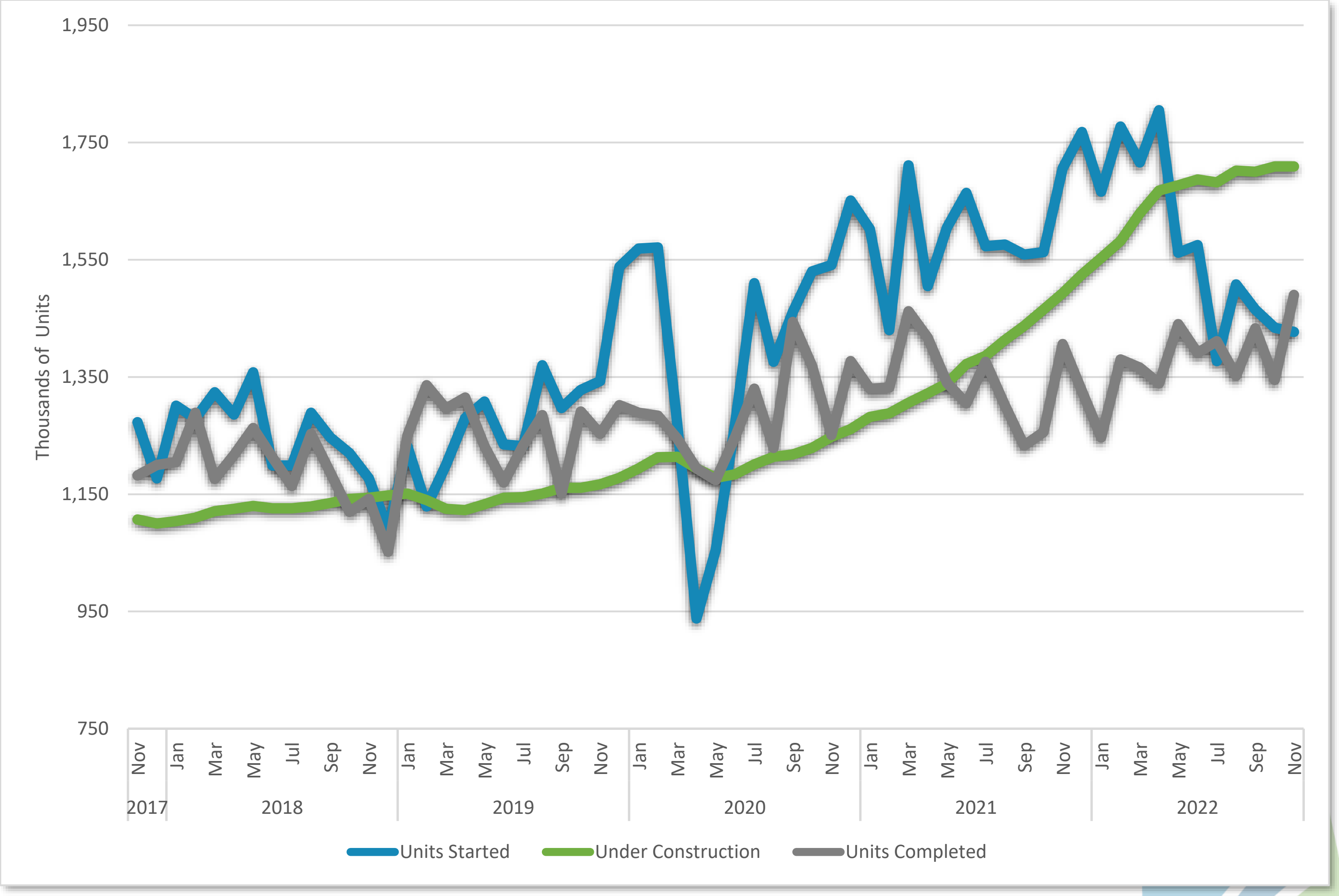
- Housing starts,
- Housing under construction, and
- Housing completed

Why it matters: New housing is an important capital good that spurs additional consumer spending on appliances and furniture.

- It's a key economic indicator, especially for the flatbed trucking sector, which hauls a variety of building materials.

Our thoughts: Housing starts ticked downward again in November, marking three consecutive months of decline.

- New starts decreased 0.5% to 1.427 million. They have dropped 21% since this years' high in April.
- Starts are only 1% above the 5-year average, and are down 16% year-over-year (Y/Y).
- Houses under construction stayed flat at 1.71 million, but are up 14% Y/Y, while completed houses jumped 10.8% month-over-month.



Source: FRED | https://fred.stlouisfed.org/series/HOUST, https://fred.stlouisfed.org/series/UNDCONTSA, and https://fred.stlouisfed.org/series/COMPUTSA | Monthly

Advanced Retail Sales: Building Materials, Garden Equipment, Supplies Dealers

The big picture: Retail sales capture in-store, catalog, and out-of-store sales of both durable and non-durable goods.

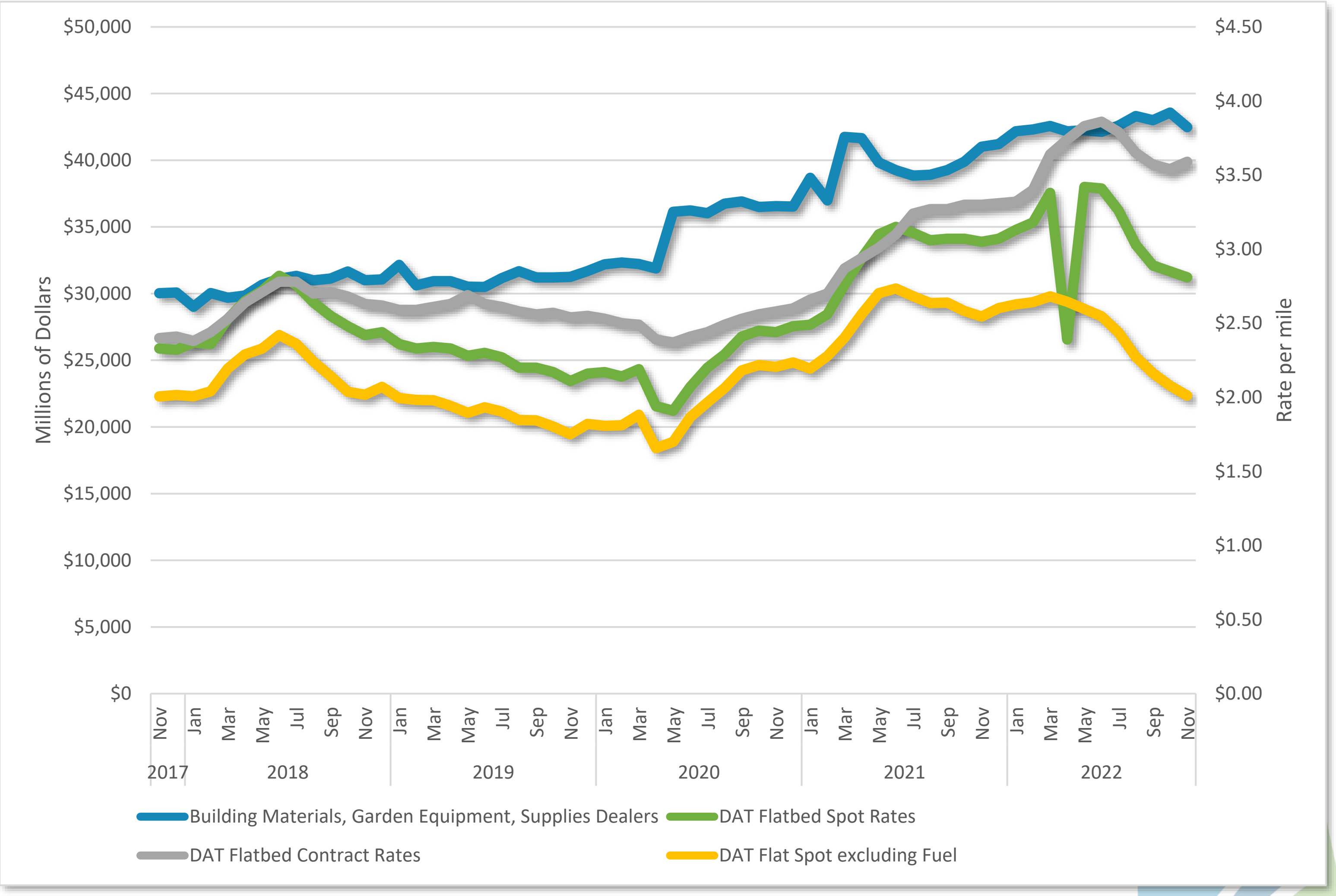
- These are broken down into several categories, including building materials, garden equipment, and supplies dealers (BMGESD).

Why it matters: Retail sales give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

- **Advanced Sales** categories provide us an early snapshot from large retailers.

Our thoughts: The BMGESD sales decreased as retailers seek to deplete their inventories by providing special discounts during the holiday shopping season.

- The BMGESD retail sales decreased 2.5% month-over-month in November to $42.5 billion, but increased 4% year-over year..
- Flatbed volumes will decline as we head into the winter months. This is a typical seasonal trend.
- However, it is made worse by excess capacity in the flatbed market overall.



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

Reefer Market Outlook

Reefer Market Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, market analysts typically breakdown the industry into three main sectors based on trailer type: Van, Flatbed, and Reefer.

It's good to know the current conditions of the freight market, but it's also important to understand what the future holds, especially for your segment of the industry.

To examine the reefer market outlook, we will look at:

1. **Demand** shows us how many trucks the market needs to move freight.
2. **Rates** illustrate how much the average owner-operator can expect to earn.

We will also examine four key economic indicators that directly impact the van market:

1. USDA Average Refrigerated Truck Rates
2. USDA Refrigerated Truck Volumes
3. USDA Truck Availability Data
4. Advanced Retail Sales: Food Services and Drinking Places

Demand: Reefer Load-to-Truck Ratios

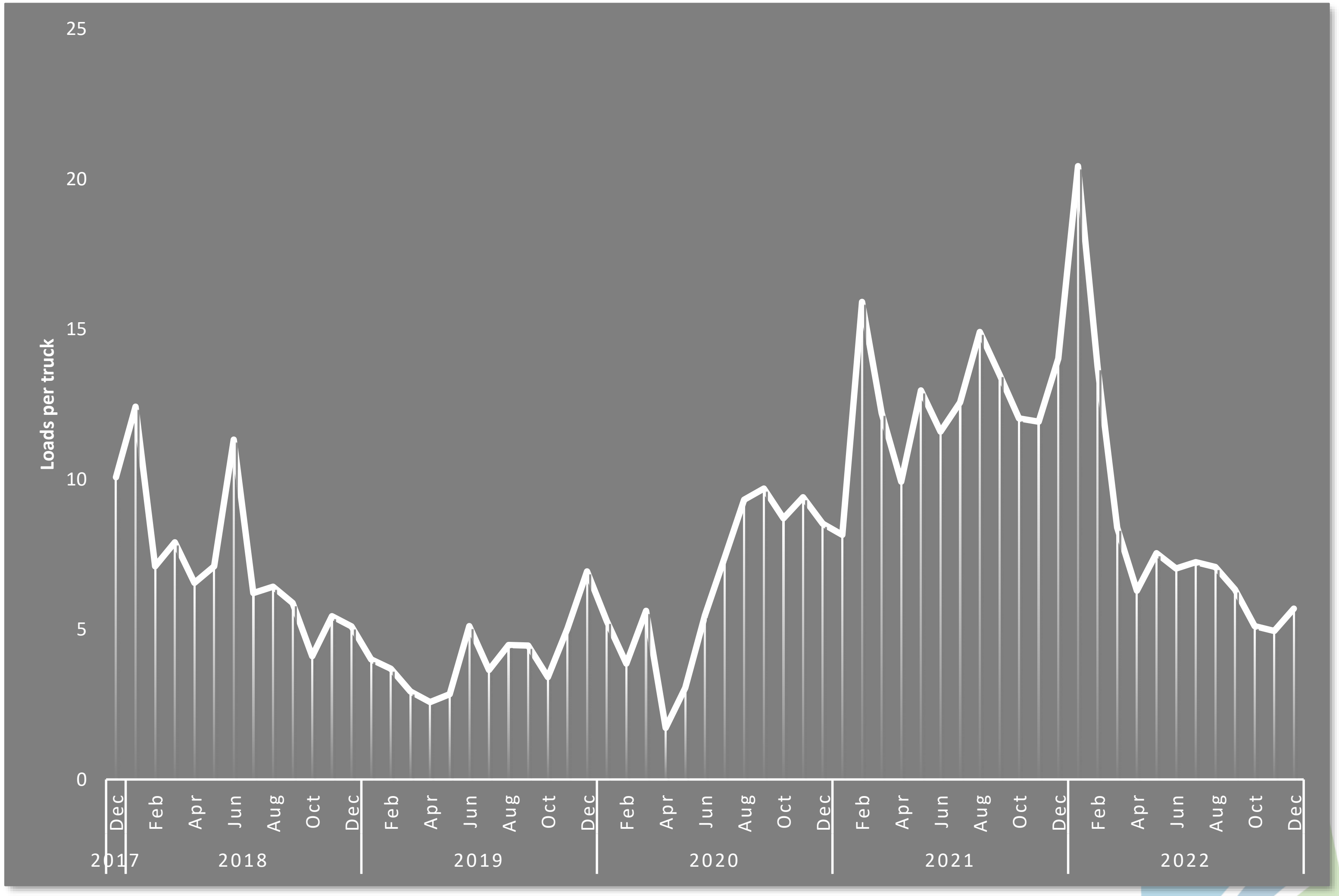
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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: The reefer market reversed course after four straight months of decreases in the Load-to-Truck ratio.

- The ratio increased 14.9% to 5.69 loads to every one truck posted in December.
- This is 27% below the 5-year trend, and 59% lower than it was in January.
- **Yes, but** DAT continues to report a record number of equipment posts even as produce volumes have fallen dramatically over the course of 2022 due to historic droughts in California, and now floods.



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

Rates: Reefer Spot and Contract Rates

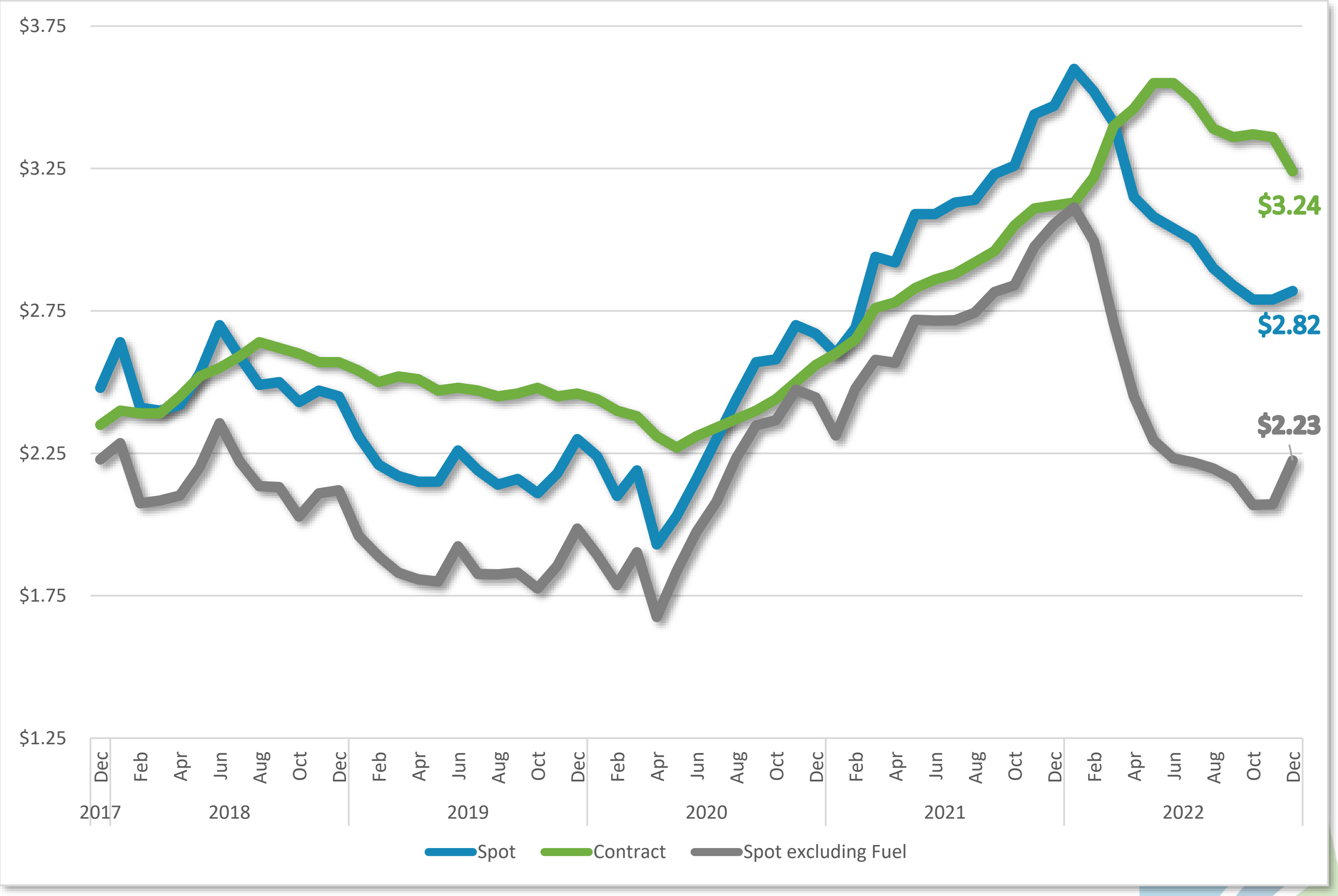
The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

- 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: Spot rates ticked upward month-over-month, while contract rates dropped more than 10 cents per mile.

- Spot rates increased $0.03 in December, or 1.1% to $2.82 per mile, but decreased $0.70 since January 2022.
- Contract rates declined $0.12, or 3.6%, to $3.24 per mile, which is $0.02 above where we were in January.
- The spread between contract and spot is $0.42.
- DAT is forecasting that spot rates will continue to decline through February due to lower than expected volumes coming out of California and Florida.
- Produce season doesn't officially start until April.



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

Fruit and Vegetable Industry: USDA Average Truck Rates

The big picture: The U.S. Department of Agriculture (USDA) collects data concerning the average truck rates for hauling fruit and vegetable goods.

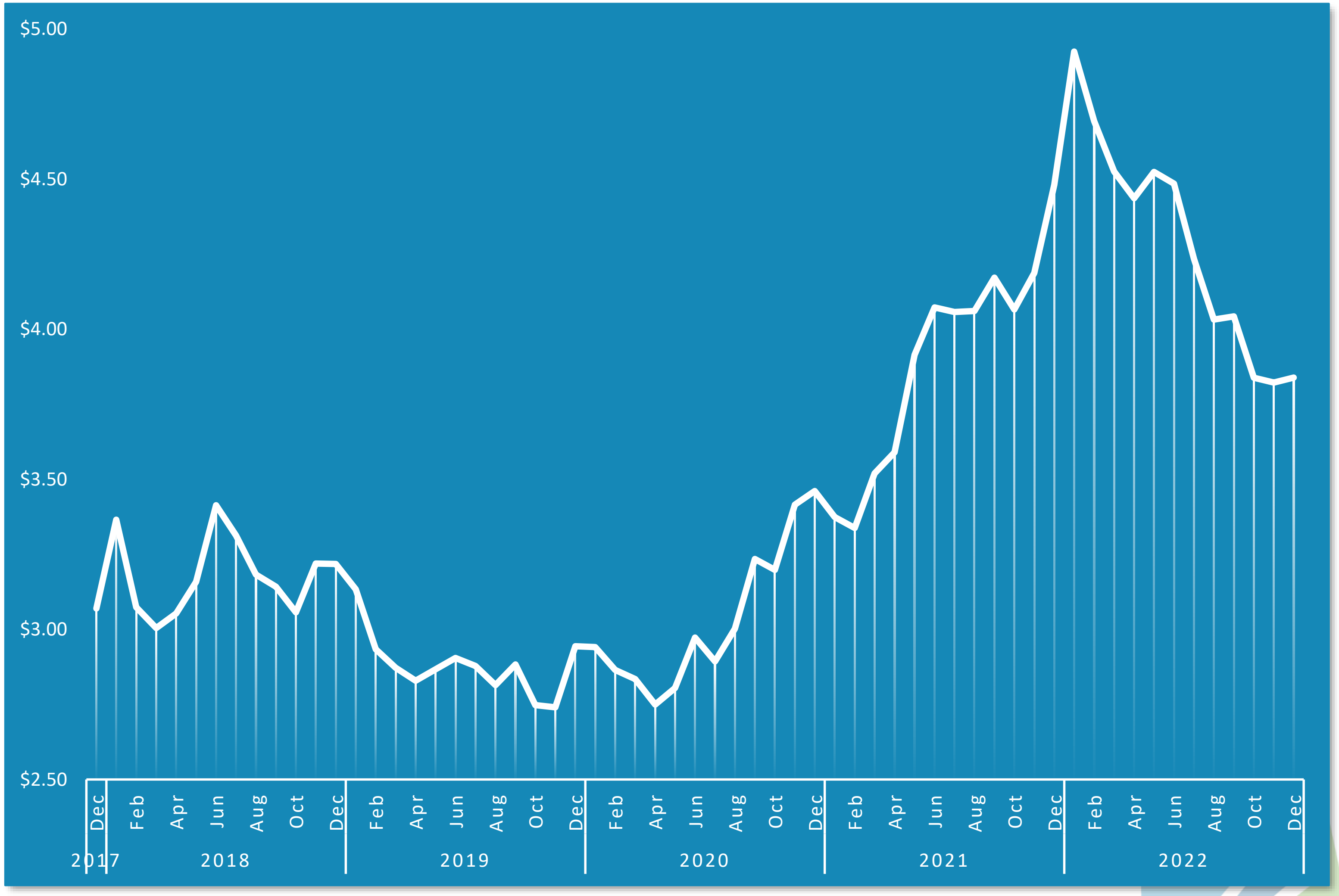
- USDA averages the rates over region and commodity.

Why it matters: Produce requires fast and efficient movements of perishable commodities.

- The USDA published rates gives the owner-operator a pulse of the reefer market.

Our thoughts: Fruit and vegetable reefer rates are 18% below their high in January, though there was a small gain in December. The beginning of the year marks one of the slowest season for reefers until early spring.

- Rates per mile increased 0.4%, or $0.02 per mile, month-over-month to $3.84 in December.
- **Yes, but** rates are still 11.3% higher than the five year trend.



Source: USDA| https://agtransport.usda.gov/stories/s/56s5-rpde | Weekly

Fruit and Vegetable Industry: Truck Volume and Availability

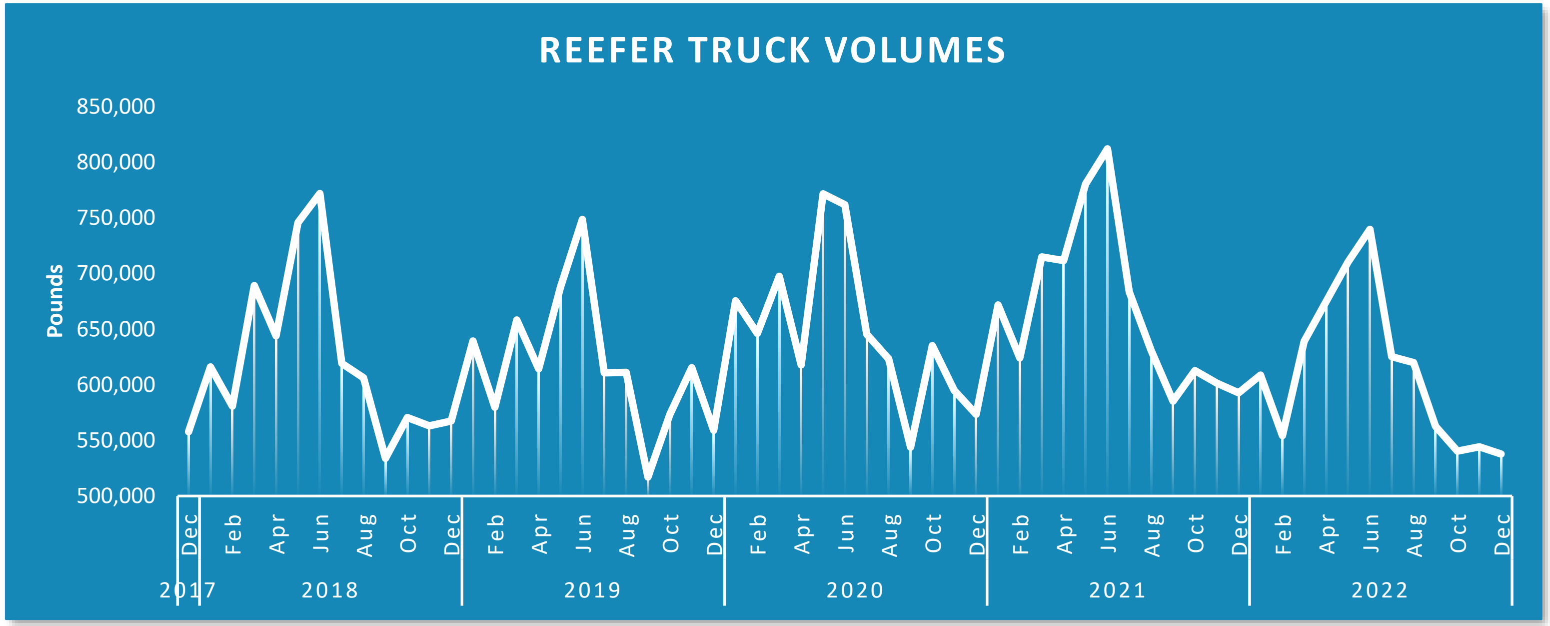
The big picture: The USDA's Crops report includes daily fruit and vegetable volume data by weight and weekly refrigerated truck availability data.

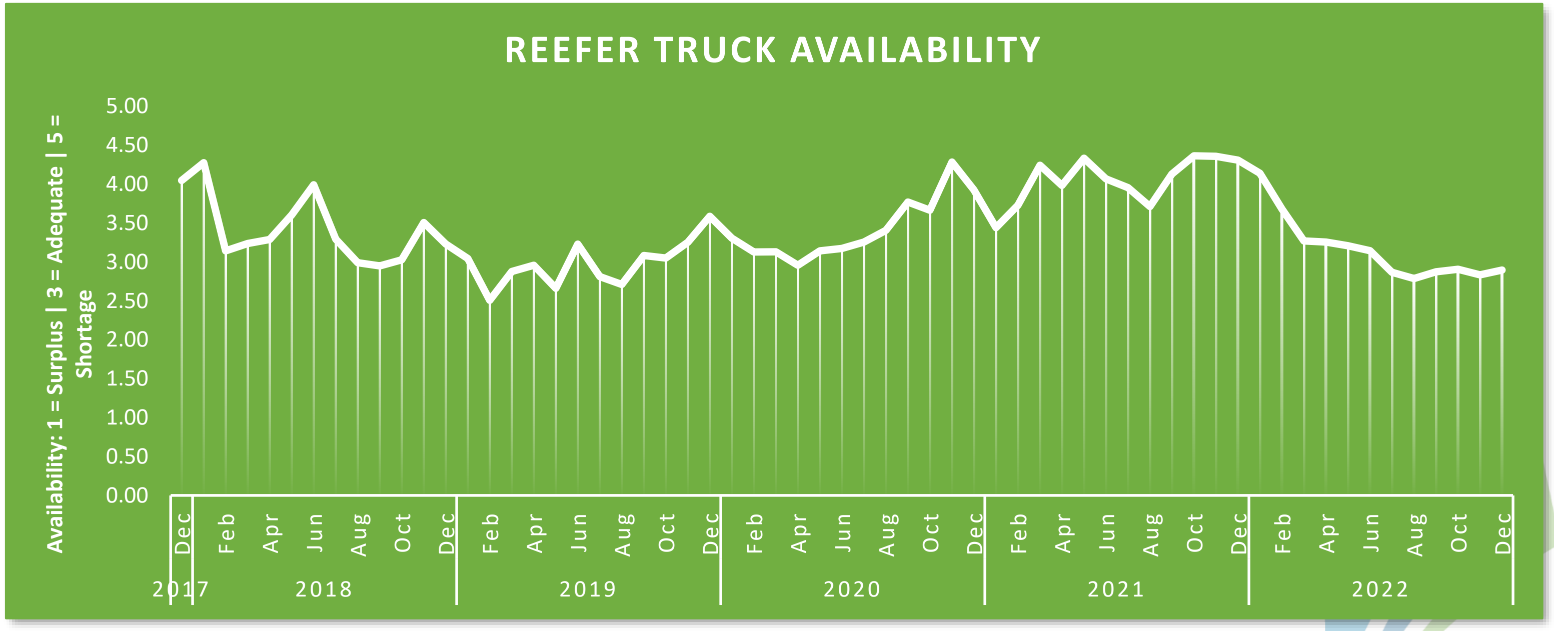
Why it matters: This information is a barometer for the health of the overall reefer market.

- It also provides visibility into what exactly is driving reefer rates, either volume, capacity, or a combination of both.
- **Reefer Truck Availability** is coded on a scale of 1 to 5, 1 representing a surplus and 5 representing a shortage of trucks.

Our thoughts: Reefer volumes dropped after a slight increase in the previous month, while truck capacity tightened ever so slightly.

- Reefer volumes declined 1.2% month-over-month to 537,742 pounds in December, and 9.3% year-over-year.
- Reefer truck availability rose 2.2% in December to 2.9, meaning that capacity tightened during the last month of the year.





Source: DAT Trendlines | https://agtransport.usda.gov/stories/s/56s5-rpde | Monthly

Advanced Retail Sales: Food Services and Drinking Places

The big picture: Retail sales capture in-store, catalog, and out-of-store sales of both durable and non-durable goods.

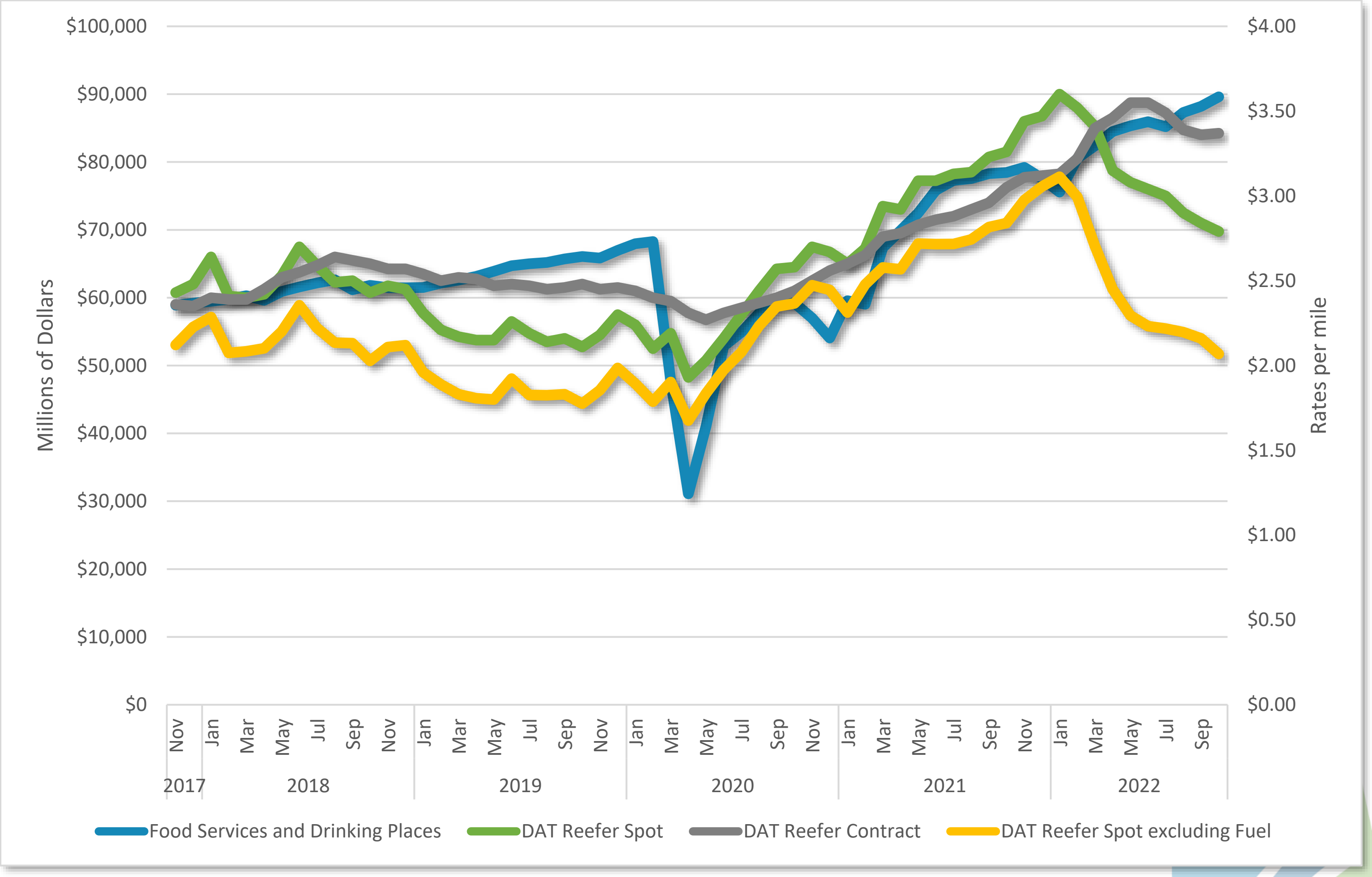
- These are broken down into several categories, including food services and drinking places (FSDPs).

Why it matters: Retail sales give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

- **Advanced Sales** categories provide us an early snapshot from large retailers.

Our thoughts: Retail sales for FSDPs remain close to DAT's contract reefer rates as shown in the graph, while spot rates continue to slide.

- FSDPs retail sales increased 1.6% month-over-month in October to $89.5 billion, and 15.4% year-over-year.
- FSDP sales are 35% higher than the 5-year trend of $66 billion.
- **Yes, but** spot rates continue to fall due to an excess in reefer truck capacity, indicating that the increase in FSDP retail sales may be more due to inflation than volume.



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

Trucking Market Update

Trucking Market Update

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)

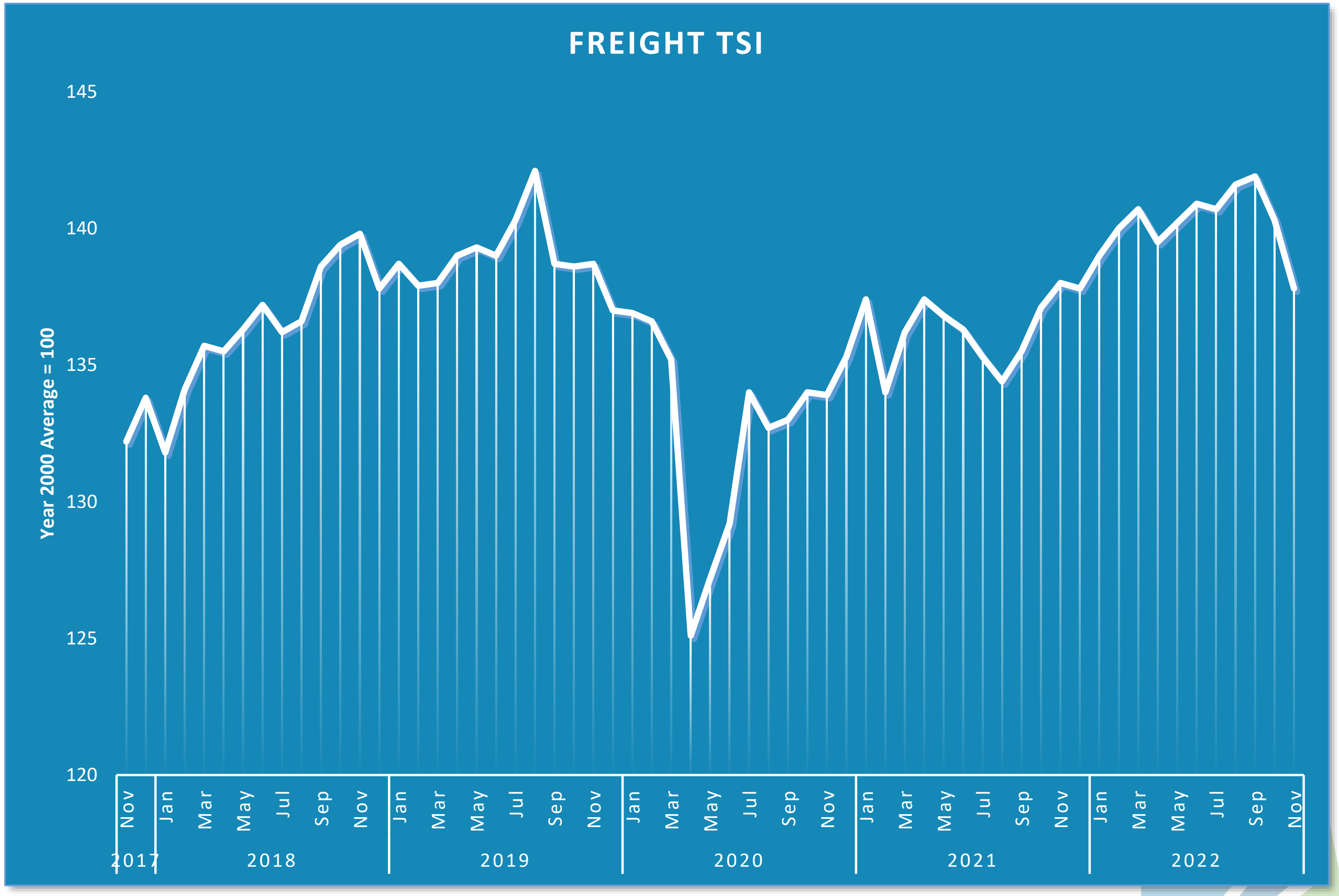
The big picture: TSI measures the volume of freight moved monthly by the *for-hire transportation sector* in the United States.

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

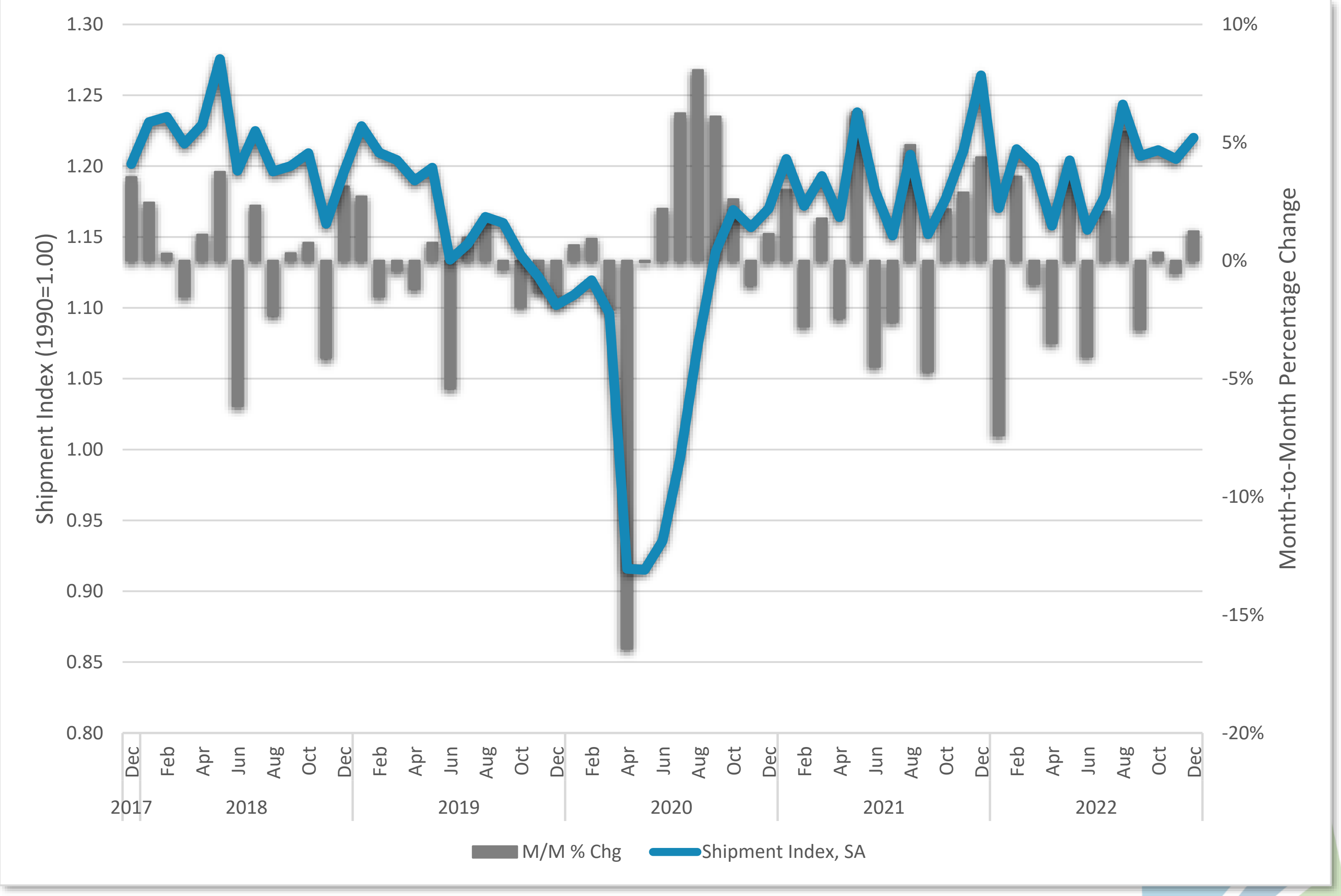
The big picture: The Cass Shipment Index includes data from all domestic freight modes with trucking accounting for more than 75% of all activity.

- 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

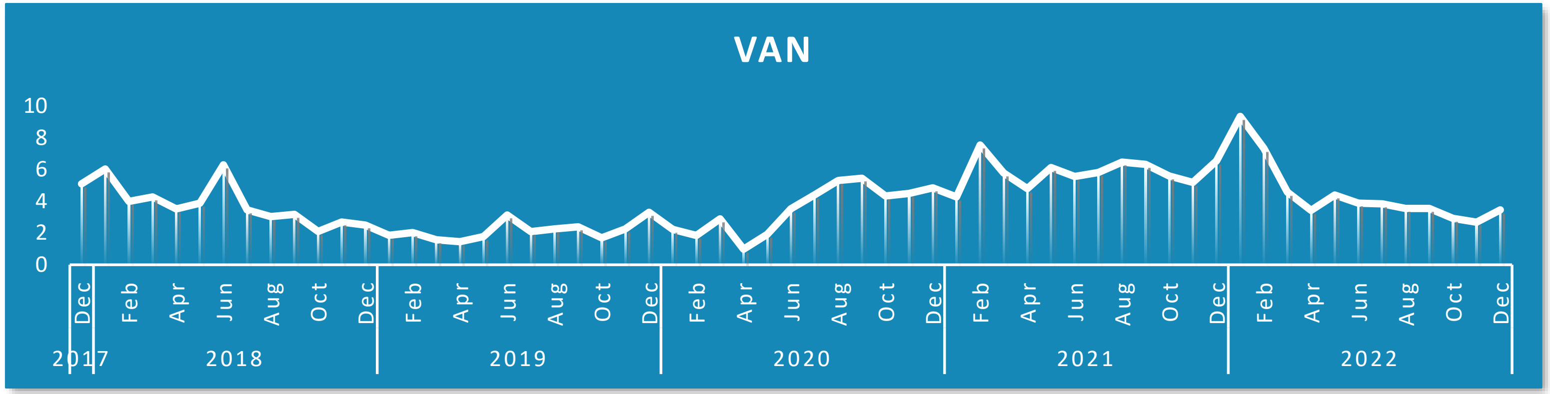
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

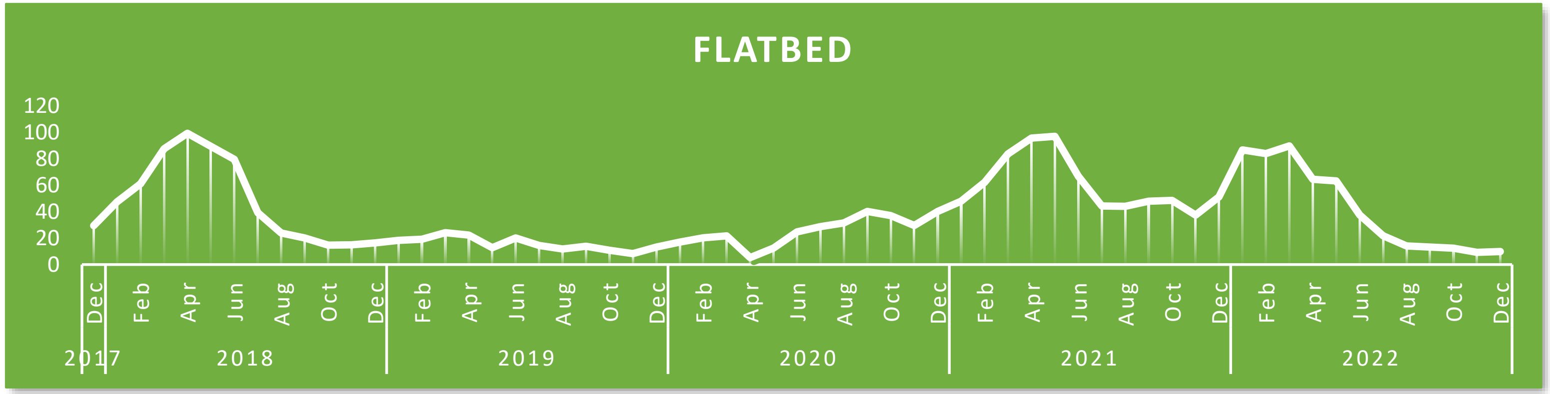
- The Load-to-Truck Ratio is a sensitive, real-time indicator of the balance between spot market demand and capacity

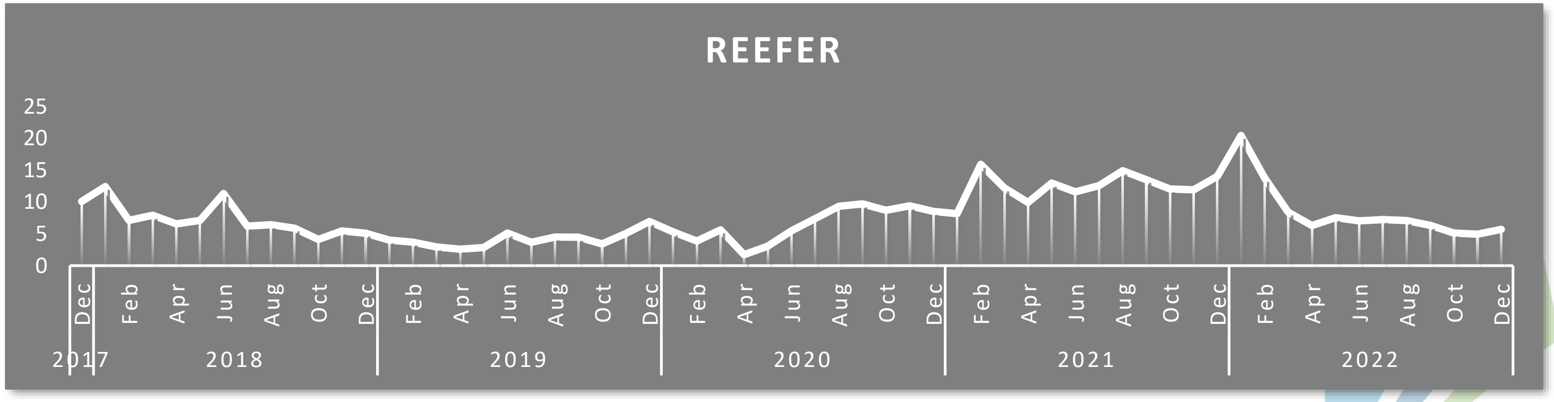
Why it matters: Changes in the ratio often signal impending changes in rates.

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.

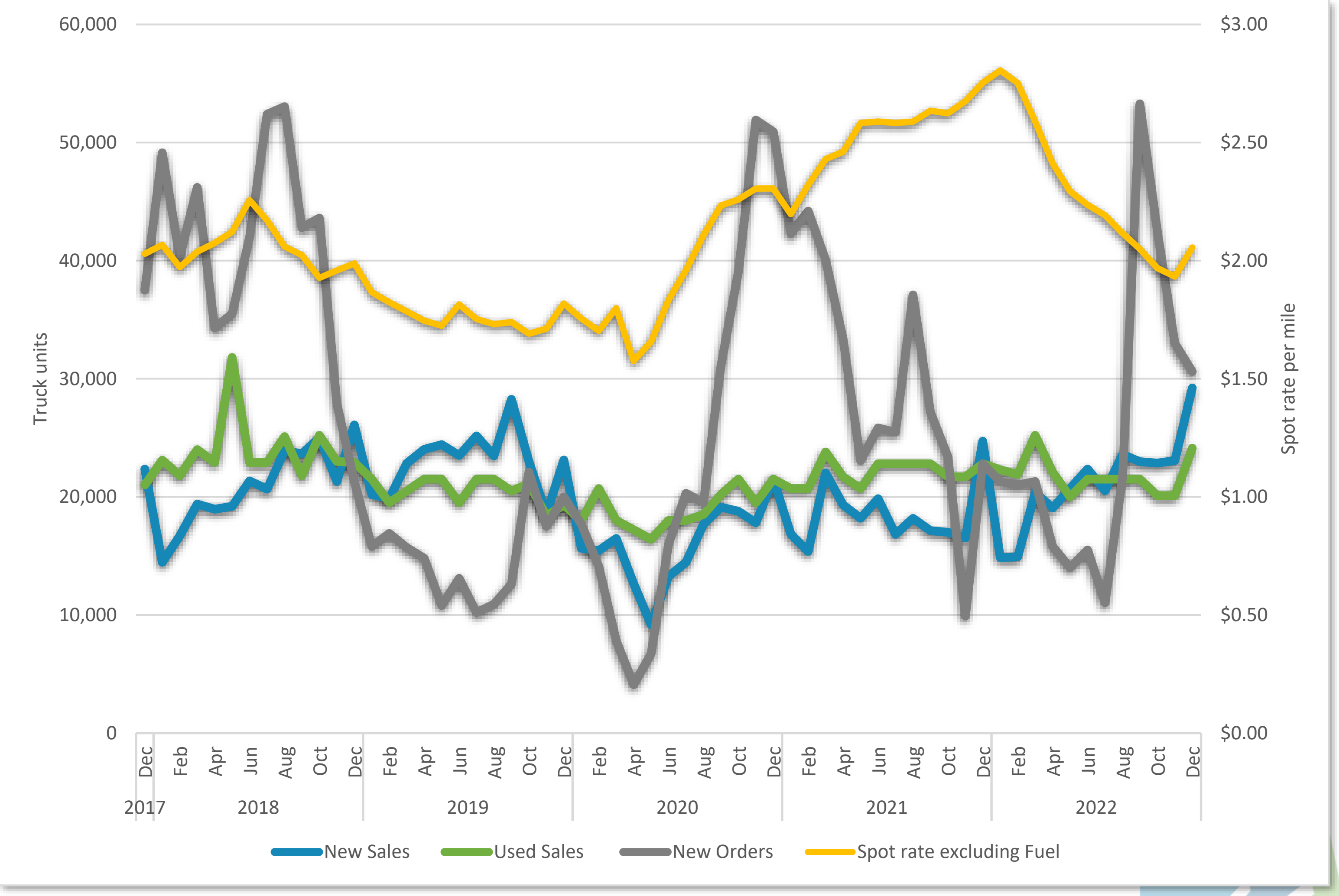
- This data includes Class 8 truck orders and sales.

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

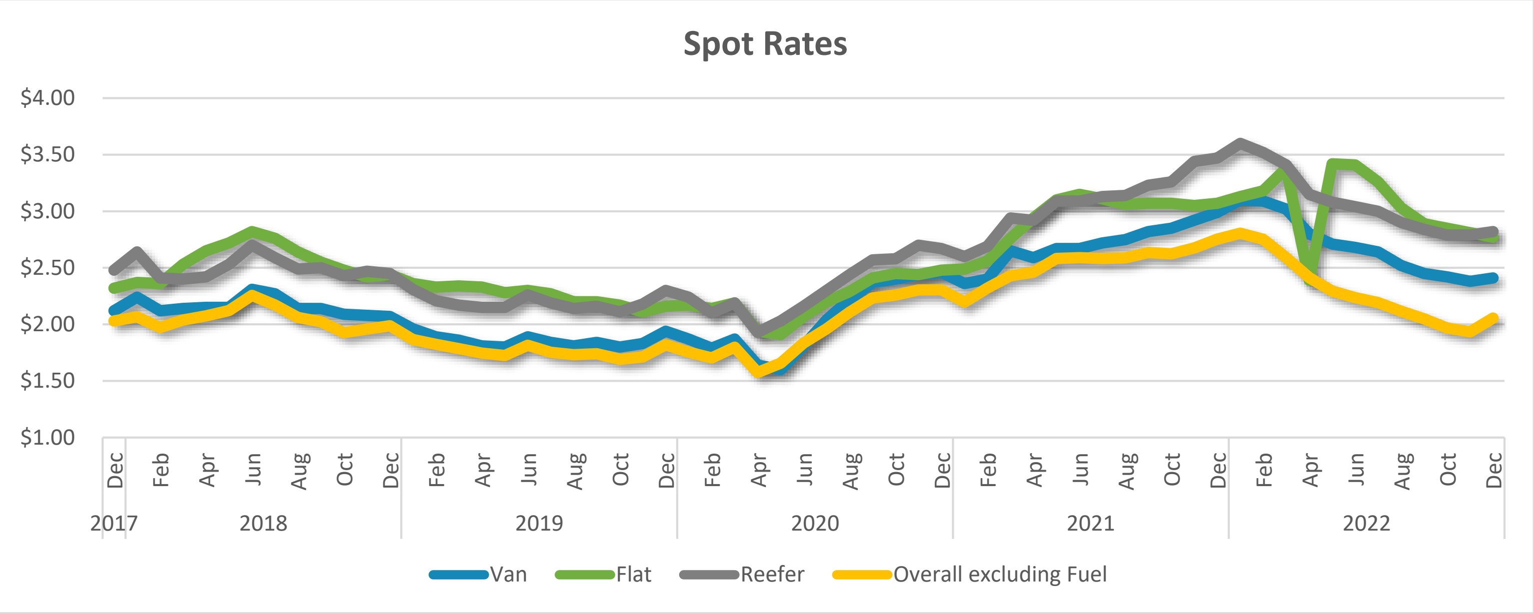
The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

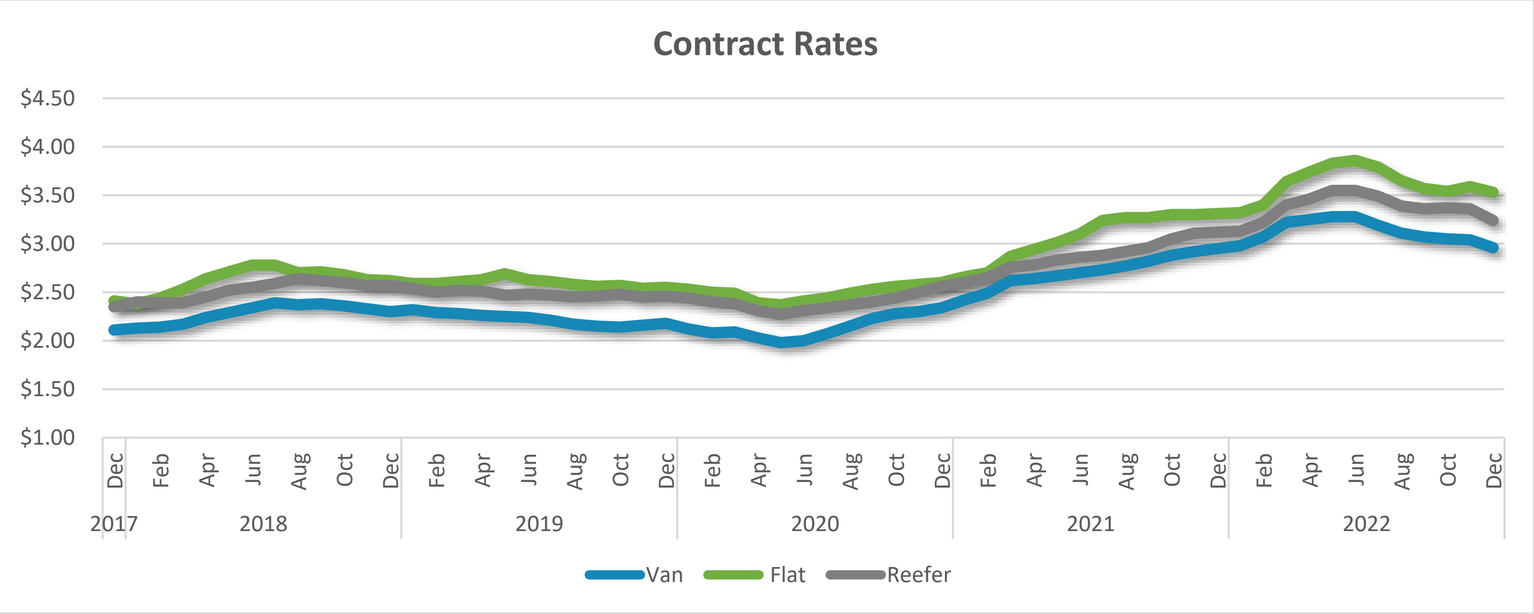
- RateView's database is comprised of more than $110 billion in freight bills in over 68,000 lanes.

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.

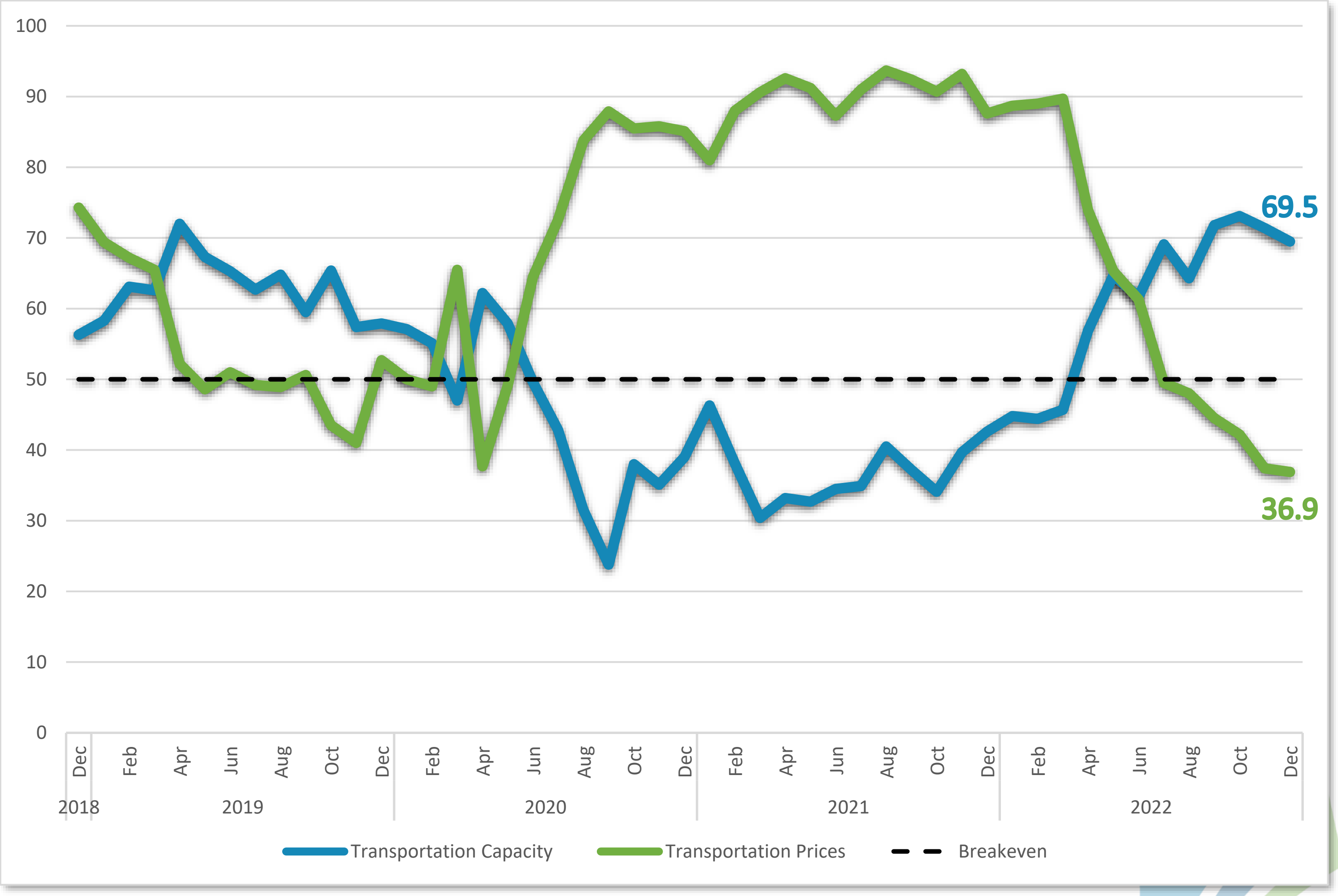
- The LMI consists of eight key logistics metrics ranging from inventory levels to transportation utilization.
- Any number below 50 is indicative of contraction, while any number above 50 is indicative of expansion.

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

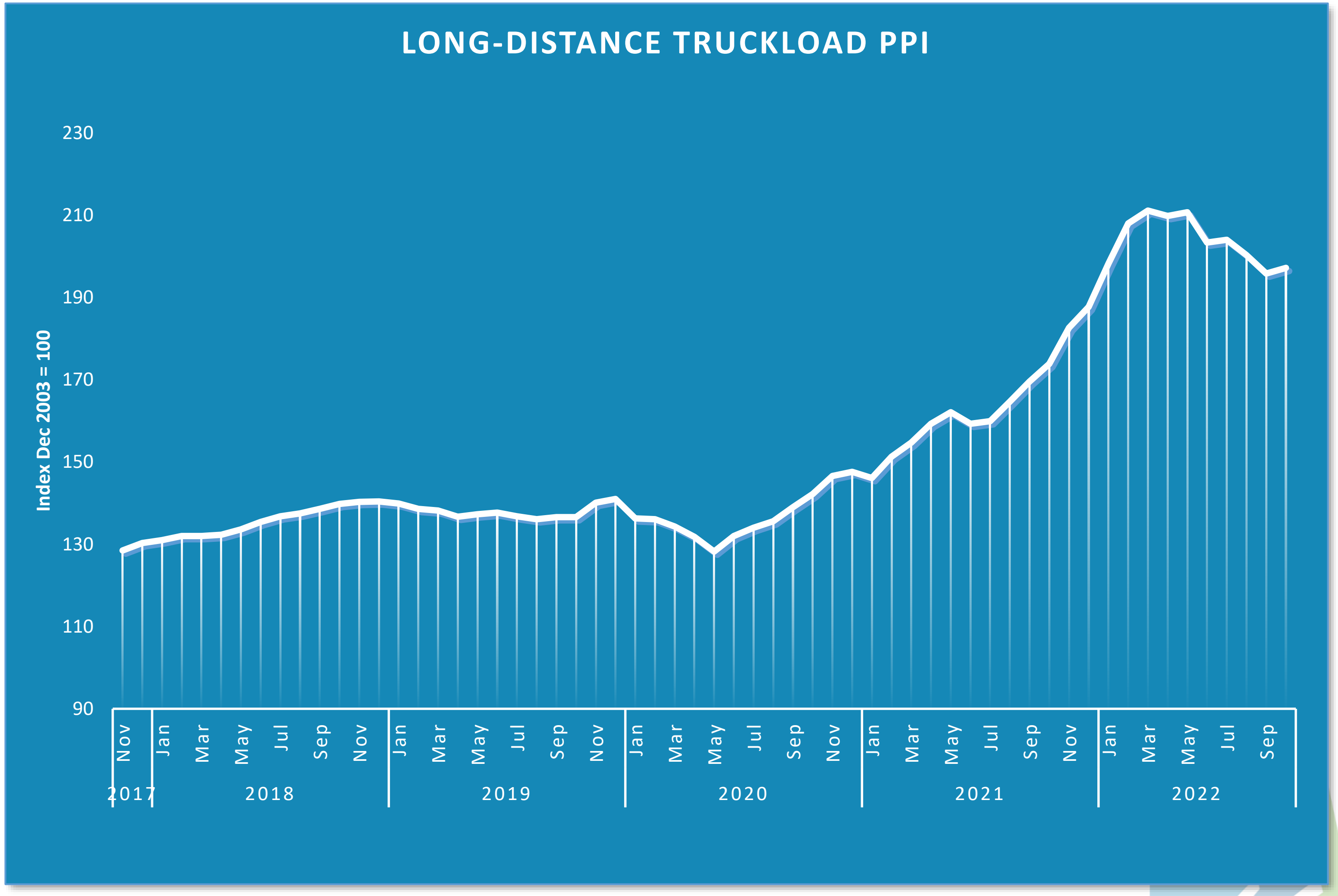
The big picture: The PPI is a group of indexes that measures selling prices domestic producers receive for their output.

- 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

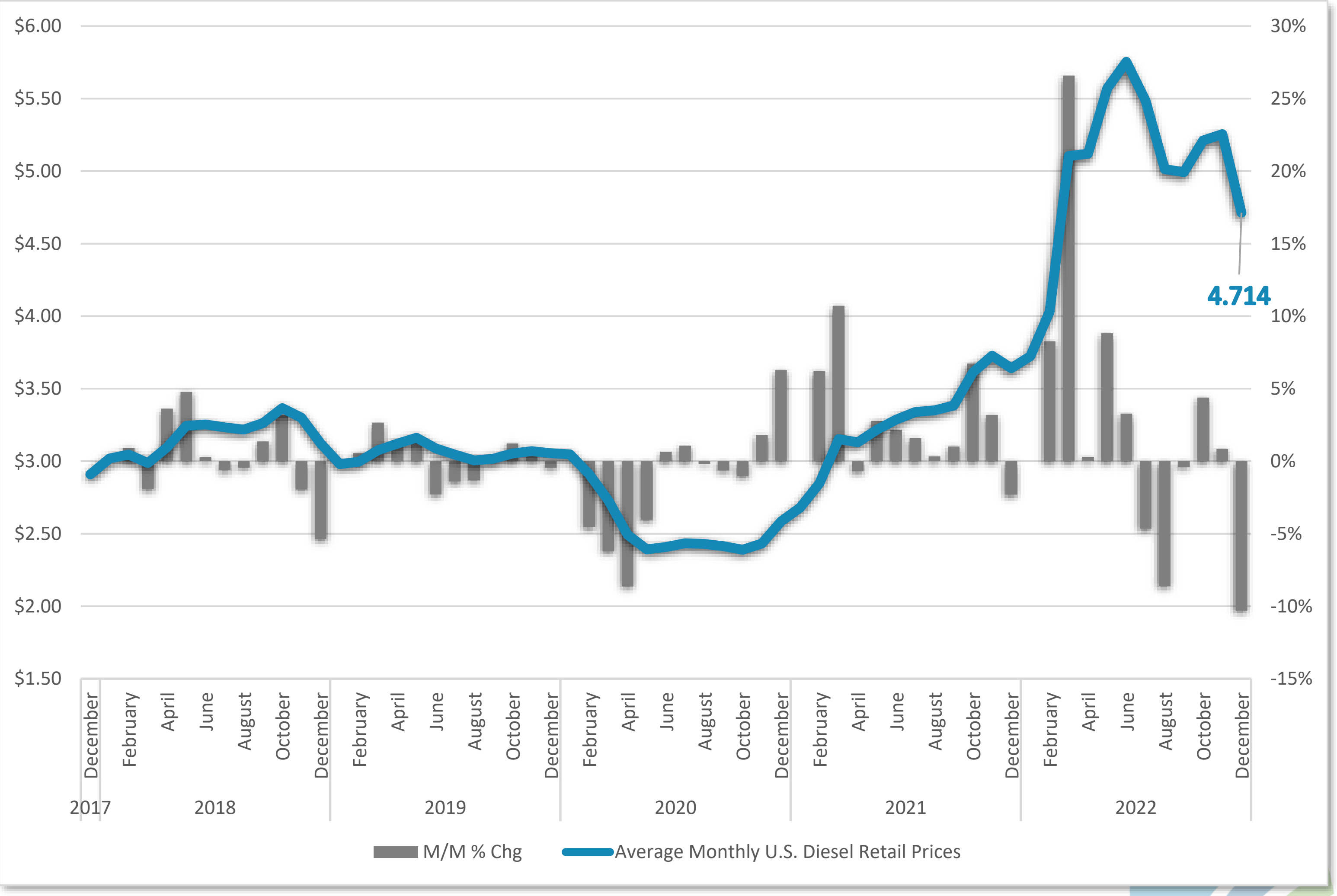
The big picture: The U.S. Energy Information Administration (EIA) tracks the weekly changes in on-highway diesel fuel prices throughout the country.

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

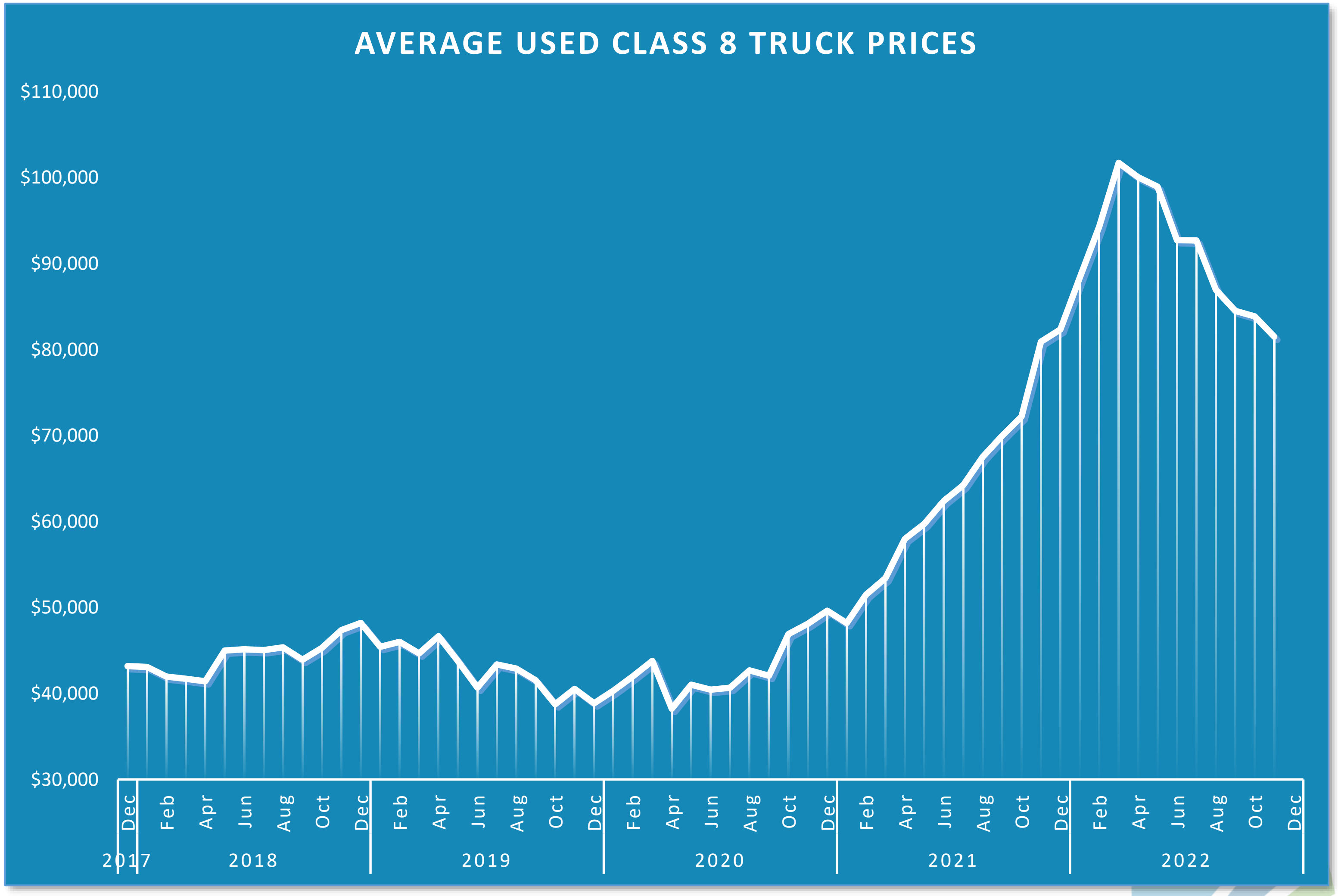
The big picture: Most individuals seeking to become an owner-operator first look to the used truck market due to the high cost of new trucks.

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

Freight Market Outlook

Overall Freight Market Outlook

While it's good to know the current conditions of the freight market, it's also important to understand what the future holds. OOFI designed this segment to examine some key economic factors that can impact the forthcoming market and thereby your bottom line.

To do so, we will look at four key categories:

1. **Consumer and Labor Conditions** help us to see how many people are working and how much they are spending.
2. **Manufacturing** is one of the primary movers and shakers when it comes to freight volumes.
3. **Ocean** volumes are a good indicator of the amount of volume the market might expect downstream.
4. **Rail** volumes are leading indicators for freight demand, and a primary driver of pressure on capacity.

The bottom line: OOFI will breakdown each category and explain how each one can potentially effect the overall freight market and thus how they pertain to you as a small business owner.

Consumer and Labor: Employment

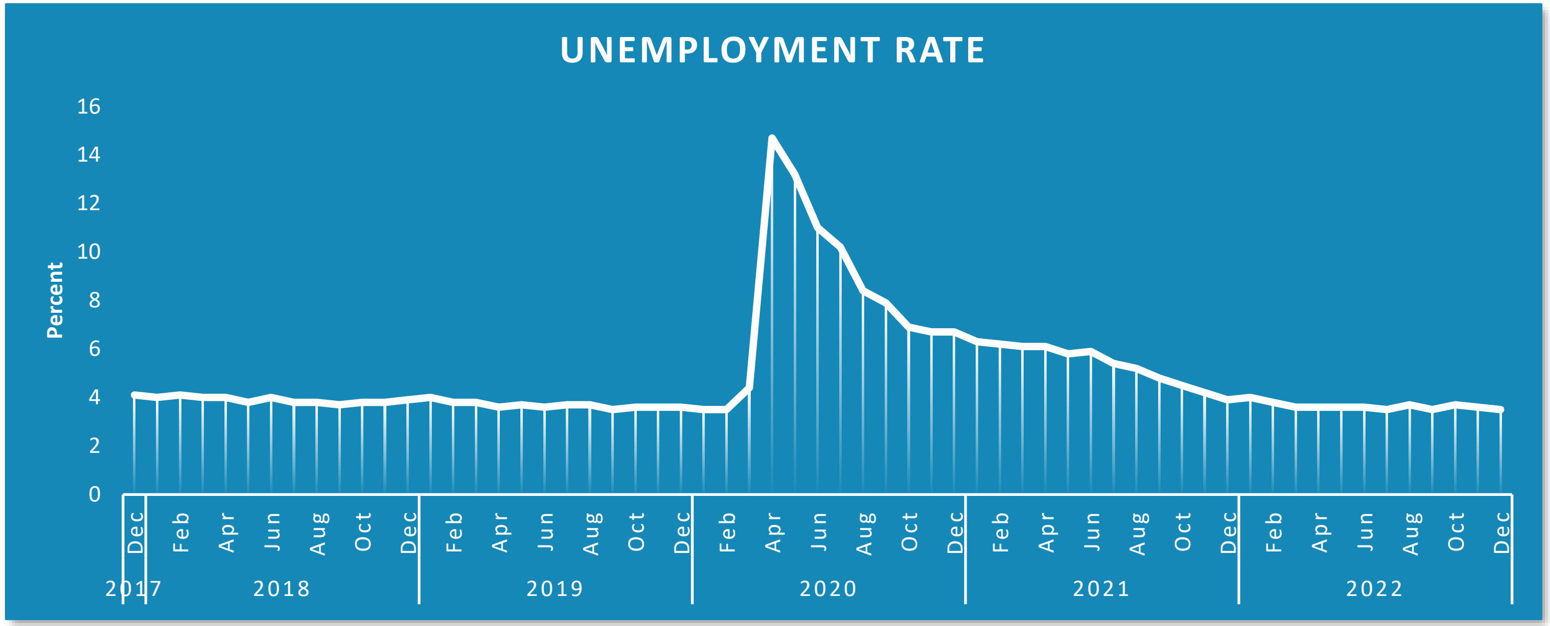
The big picture: Employment levels ultimately have a large impact on consumer confidence, consumer spending, and demand.

Why it matters: If people aren't working, then they are less likely to purchase goods.

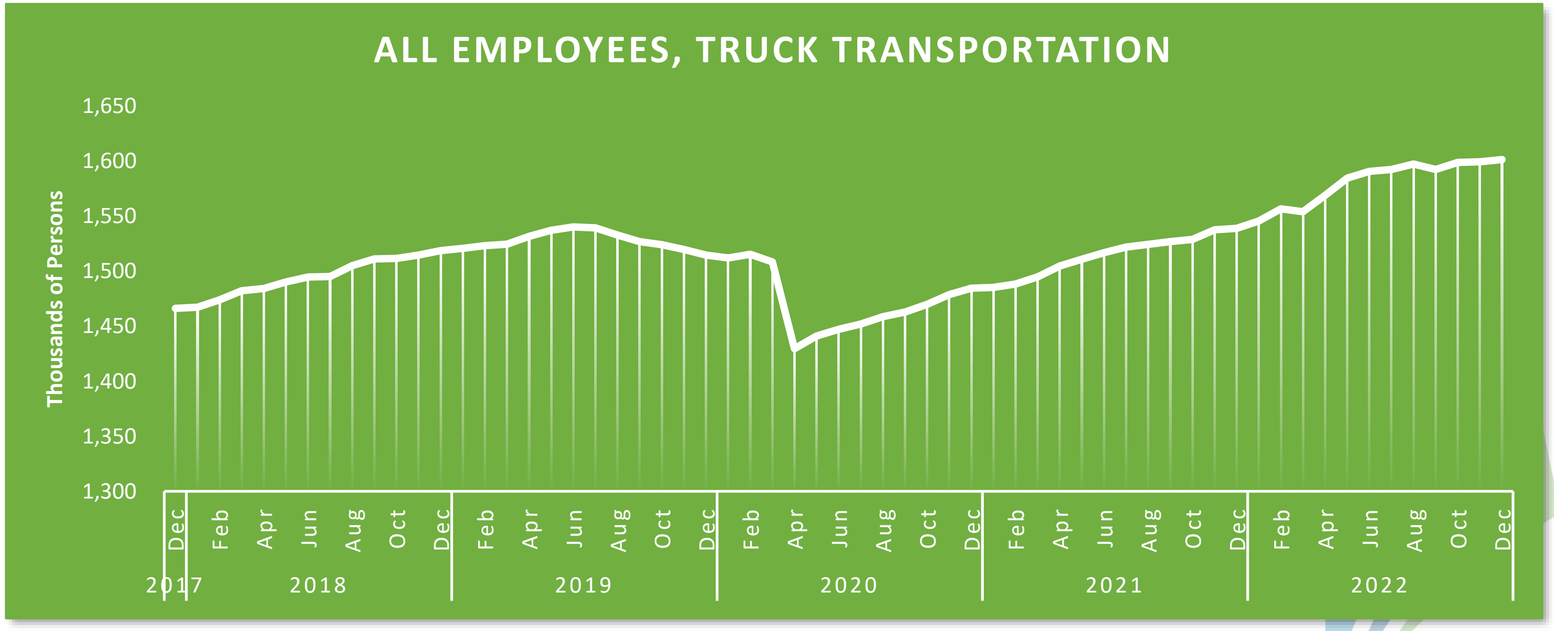
- Overall truck transportation employment is also important, as it helps to show how much capacity is out there in the industry.

Our thoughts: Employment numbers remain strong despite inflationary concerns. Job openings remain elevated, and low weekly initial jobless claims dropped even further in December.

- Unemployment overall is 29% below the 5-year trend at 3.5%, while unemployment rate for transportation and material moving occupation is 27.1% below the 5-year trend at 5.0%.
- Truck employment increased again by 0.1% month-over-month in December, to 1.602 million people,
- Truck employment is 4.2% higher year-over-year and 5.5% above the 5-year trend.



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



Source: FRED| https://fred.stlouisfed.org/series/CES4348400001 | Monthly

Consumer and Labor: Personal Consumption Expenditures (PCE)

The big picture: The U.S. Federal Reserve uses the PCE Price Index as its primary inflation index when making monetary decisions.

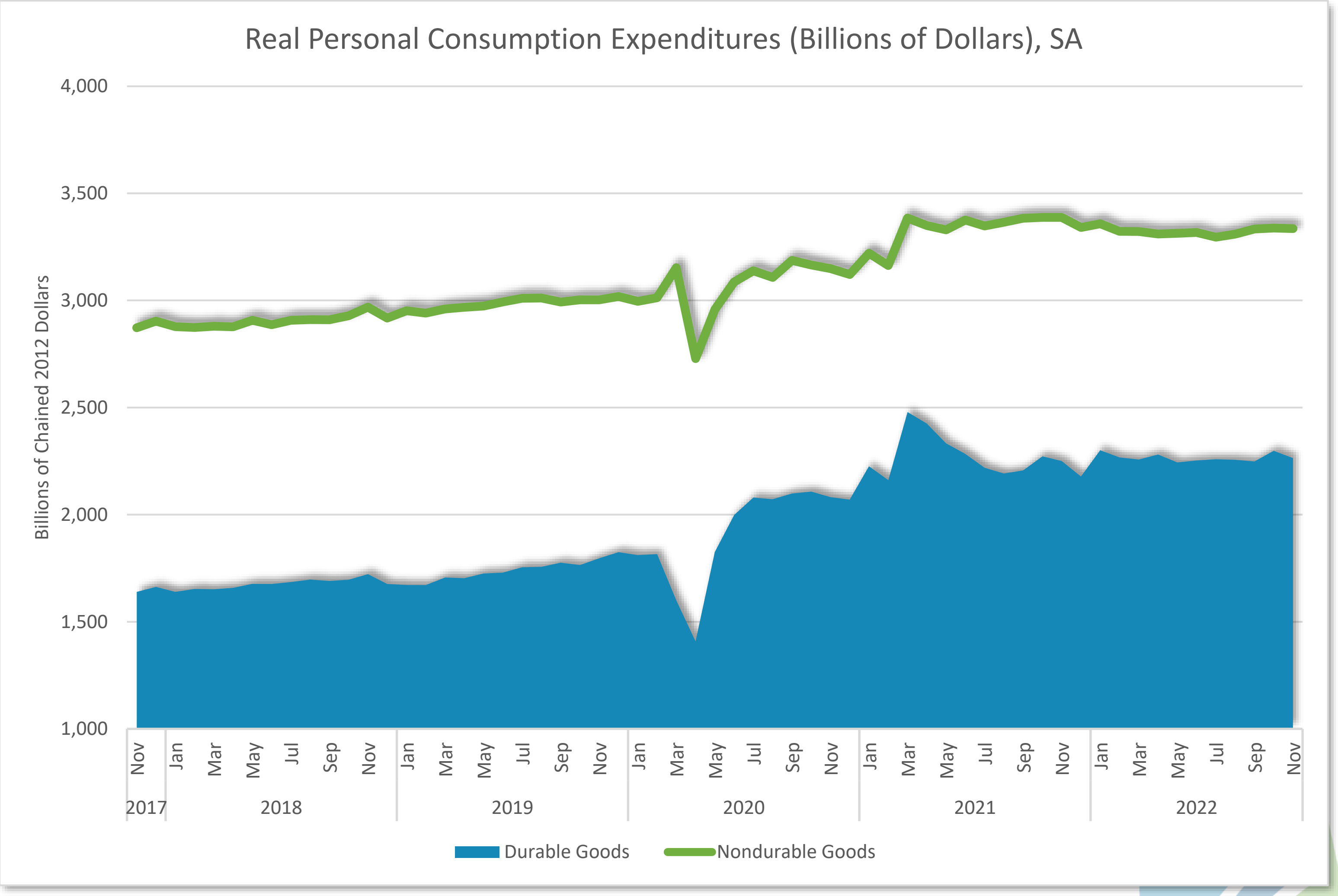
- The PCE measures a broad spectrum of consumer spending for a period of time.

Why it matters: The Real PCE, meaning it adjusts for inflation, allows owner-operators to see how well the economy is fairing, how people are spending their money, and how much demand for goods there will be in the future.

- Durable Goods are costlier items that last longer than 3-years, such as vehicles, electronics, etc.
- Non-Durable Goods are less cost and last less than 3-years, including gasoline, clothing, etc.

Our thoughts: Both durable and non-durable goods decreased in November, after two straight months of increases.

- Consumer spending for durable goods declined 1.5% to $2.263 trillion, 16% above the 5-year trend.
- Spending for non-durable goods ticked down 0.1% to $3.335 trillion, which is 7% above the 5-year trend.



Source: FRED| https://fred.stlouisfed.org/series/PCEDGC96 and https://fred.stlouisfed.org/series/PCENDC96 | Monthly

Consumer and Labor: Disposable Income, Sentiment, DSR, and Delinquency

The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so to does business and shipping activity.

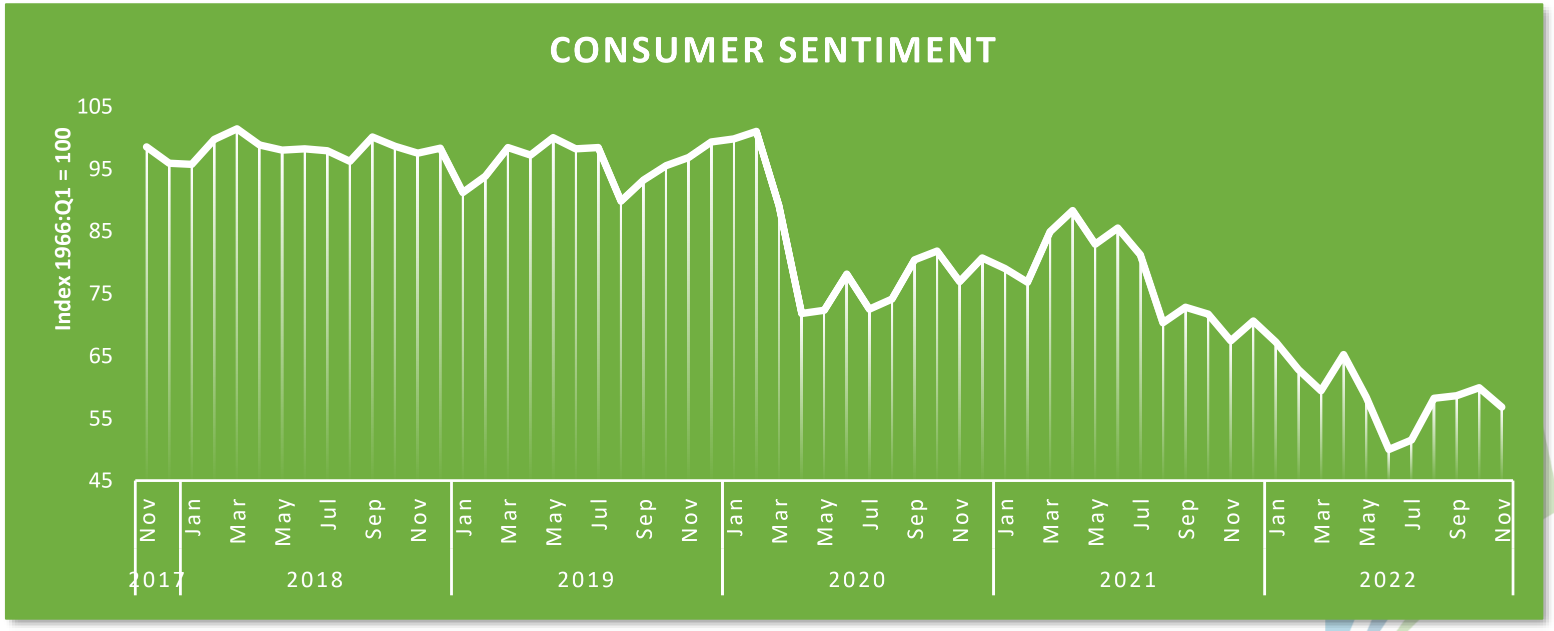
Why it matters: Disposable income, the price of goods and services, and expectations of the overall economy have great influence on consumers.

- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

Our thoughts: Inflation is high, but wages and salaries are 7.2% higher year-over-year and 17% higher than the 5-year trend, which has helped to keep retail sales elevated.

- Real disposable income, which is adjusted for inflation, increased 0.3% month-over-month to $15.158 trillion.
- The consumer sentiment index dropped 5.2% in November to 56.8, after four straight increases.
- While household debt service payments as a percentage of disposable income are flat compared to the 5-year trend, they've increased over the past 5 quarters.
- Delinquency rates are also well below their 5-year trends as 97.3% are current. Of those remaining 1.2% are severely derogatory, the lowest since 2006.

Source: FRED| https://fred.stlouisfed.org/series/DSPIC96 | Monthly



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

Consumer and Labor: E-Commerce and Local Trucking Producer Price Index (PPI)

The big picture: E-commerce has changed the way people purchase goods, as more and more people move to online orders.

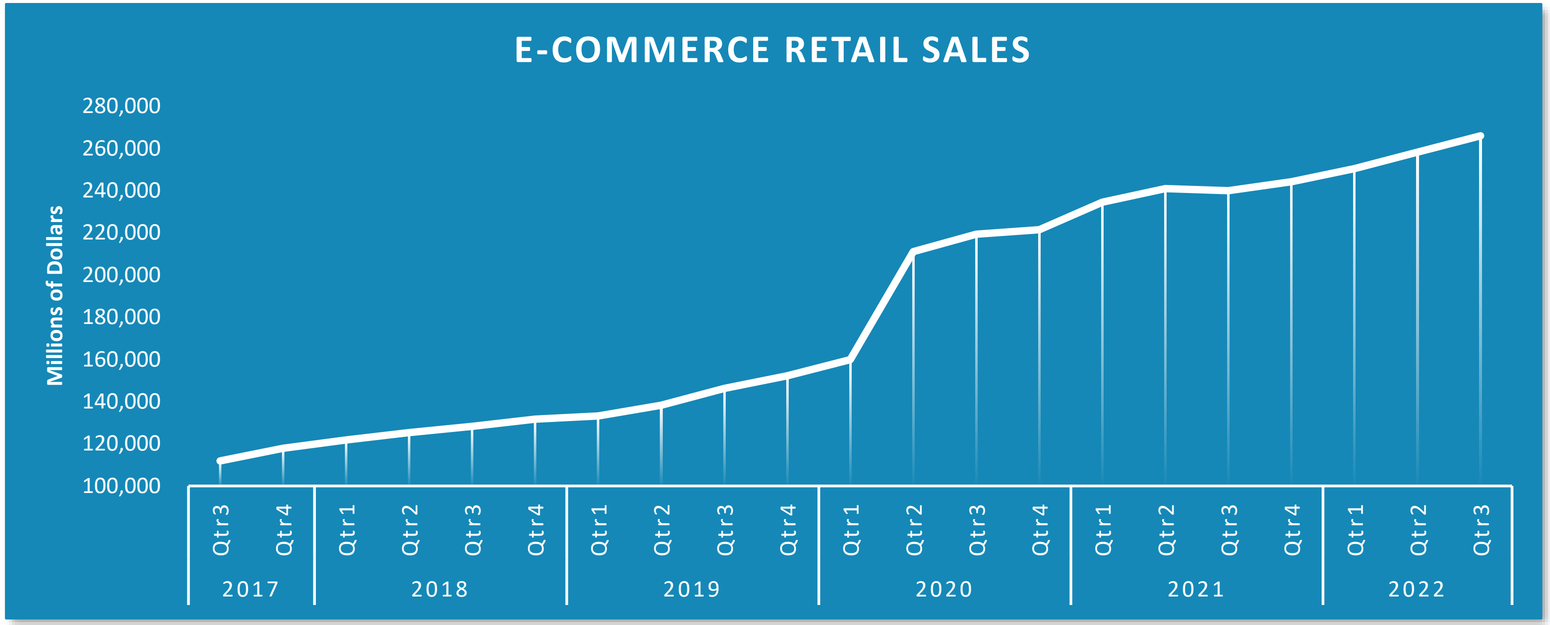
- Technology has made it easier than ever for people to shop online.

Why it matters: With so many online retailers now offering one or two day deliveries, trucking logistics has been turned on its head.

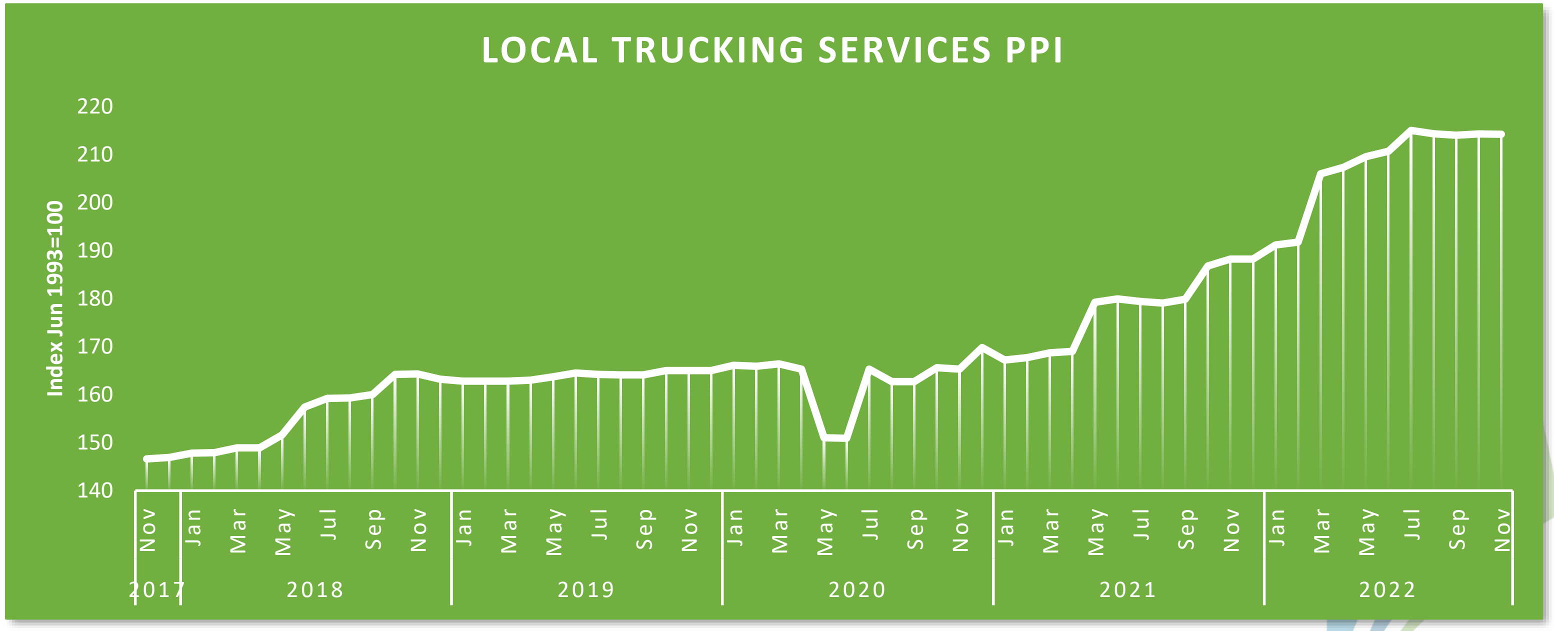
- More shippers are looking to final mile delivery services, which coincides with an increase in rates for local trucking companies.
- The higher the PPI, the more an industry will charge consumers to make up for extra costs.

Our thoughts: Rates for expeditor services, hot-shots, and general LTL remain strong, but rates have peaked as the Local PPI continues to move sideways.

- The Local PPI has basically stayed flat for the past three months around 214.2.
- The Local PPI is 19.1% higher year-over-year and 35.8% above the 5-year trend.
- Look for rates in the LTL market to continue strong.



Source: FRED| https://fred.stlouisfed.org/series/ECOMSA | Quarterly



Source: FRED| https://fred.stlouisfed.org/series/PCU4841104841101?mod=article_inline | Monthly

Manufacturing: New Orders: Total Manufacturing

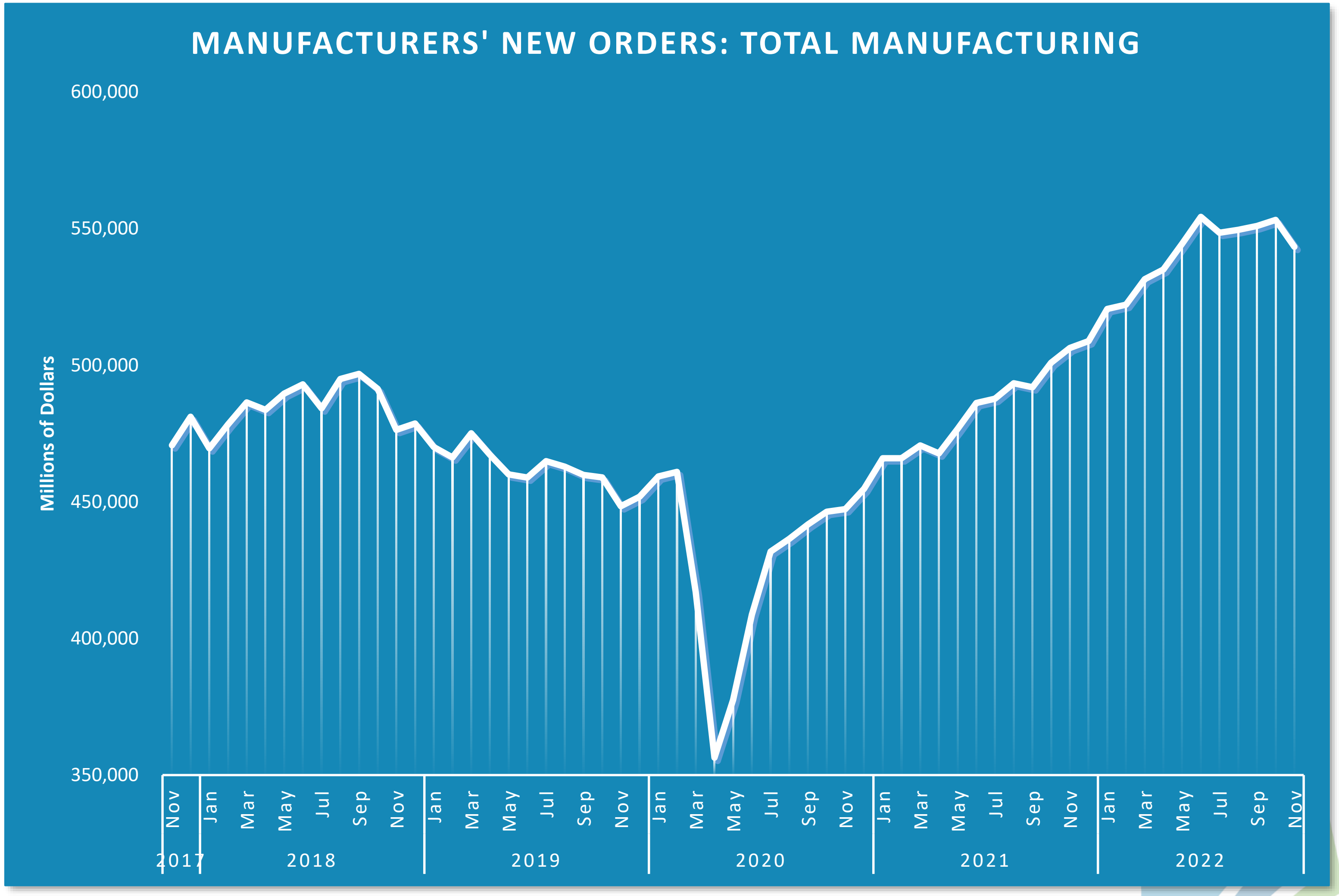
The big picture: Manufacturing new orders are an important economic indicator. They signify an overall direction of the market and economy.

Why it matters: An increase in new orders signifies a higher demand for goods and services, which in turn requires retailers and suppliers to place more orders.

- An increase in new orders also indicates future demand for transportation.
- Orders placed in one month may provide work in factories for several months down the road.

Our thoughts: Manufacturing overall decreased, which coincides with a decrease in the Freight TSI.

- Total manufacturing declined 1.8% month-over-month in November to $543.3 billion, ending two consecutive months of growth.
- Total manufacturing is 7% higher year-over year and 13.4% above the 5-year trend.



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

Manufacturing: Manufacturers with Unfilled Orders and Inventory-to-sales

The big picture: Manufacturers with Unfilled Orders is a special subset of manufacturing that the U.S. Census Bureau views as a "make-to-order basis."

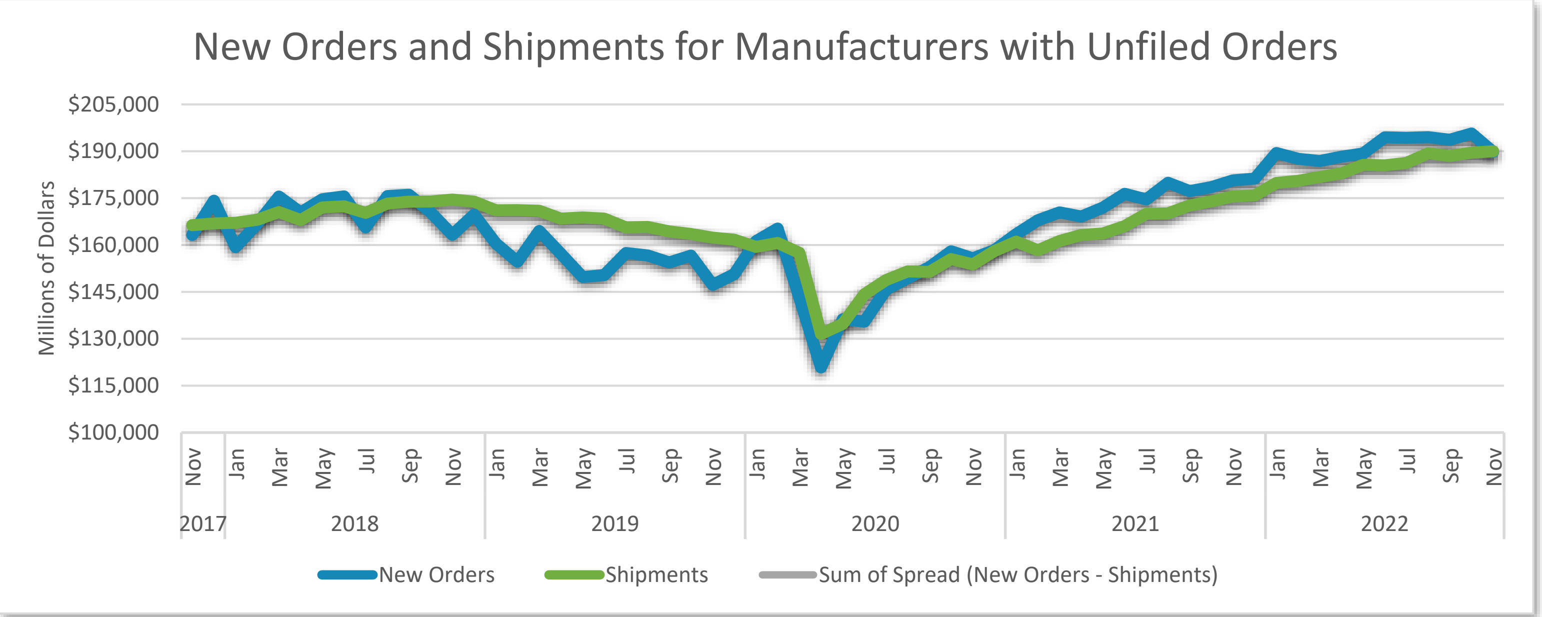
- This represents 70% of durable goods manufacturing by value.
- Moreover, the inventories-to-sales ratio measures how much inventory businesses have on hand.

Why it matters: When unfilled new orders outperform shipments for unfilled orders, backlogs increase and we see growth in manufacturing activity. The reverse is also true.

- And the less amount of inventory that businesses have on hand, the greater they need freight transportation to restock their goods.

Our thoughts: The manufacturing data suggests that activity is still strong, but shipments eclipsed new orders for the first time since August 2020. This could be a troubling sign if this persists.

- The spread between new orders and shipments plummeted 103% from positive $6.15 billion to negative $189 million.
- The inventory-to-sales ratio rose 1.6% month-over-month to 1.24, which virtually wiped out the progress made in the previous month.
- Yes, but it still appears that general merchandise stores have started to clear their glut of inventory.



Source: New Orders: https://fred.stlouisfed.org/series/AMTUNO | Shipments: https://fred.stlouisfed.org/series/AMTUVS | Monthly

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

Ocean: Exports and Imports

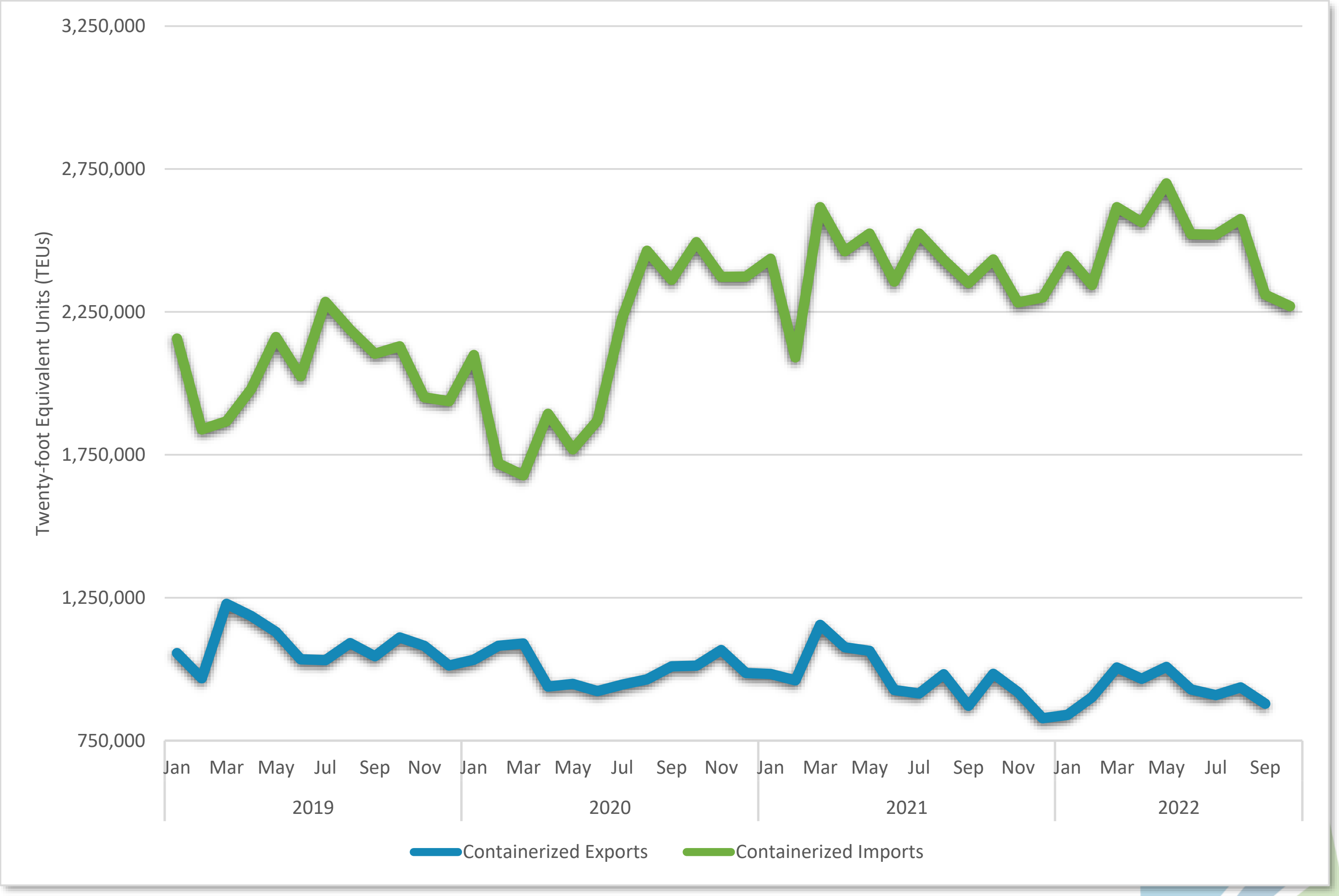
The big picture: It's common today to see products from all over the world in local stores as we truly live in a global economy.

Why it matters: High levels of imports signal a strong domestic demand and a growing economy.

- The U.S. trade deficit tends to worsen when the economy is growing strongly.
- **Yes, but** a healthy economy is one where both exports and imports are growing.

Our thoughts: Both imports and exports decreased month-over-month heading into the holiday shopping season.

- Exports, which are a month behind imports, dropped in September to 879,035 twenty-foot equivalent units (TEUs).
- Imports dropped 1.7% in September to 2.27 million TEUs, marking the second straight decline.
- While volumes are slowing, they are still hovering above 2019 figures.
- It's important to note that exports and imports are not very large drivers of freight movement overall. Instead, manufacturing is the most important component.



Source: MARAD Office of Policy | https://www.bts.gov/freight-indicators#freight | Monthly

Ocean: Number of Containerships Awaiting Berth

The big picture: The number of containerships awaiting berth at U.S. ports increased dramatically starting in 2020 and into 2021.

- Especially for the ports of Los Angeles and Long Beach (LA-LB) which focus mostly on imports.

Why it matters: The number of containerships awaiting berth highlighted two issues:

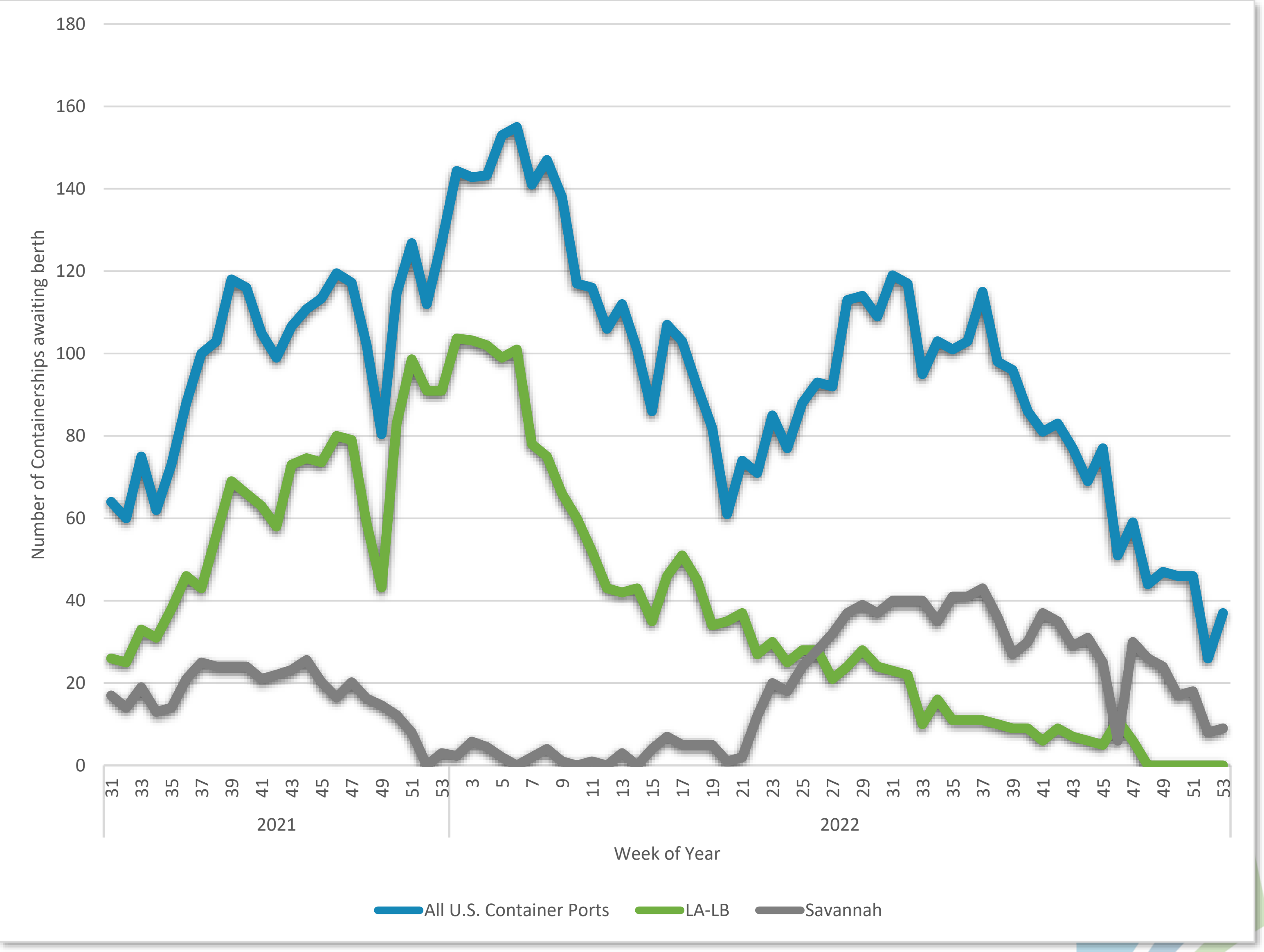
1. Record-levels of demand, and thereby freight volume.
2. Supply chain inefficiencies which helped to push spot rates even higher in 2021.

Our thoughts: Ports continue to be less congested around the country. This is especially true for LA-LB, as freight has shifted from the west coast to the east coast as shippers seek to avoid issues with potential longshoremen labor issues.

- Notice how LA-LB has zero containerships awaiting berth for the last six weeks.
- Containerships awaiting berth overall dropped 74% since January 2022.

Flexport's Ocean Timeliness Index (OTI) measures the amount of time it takes to ship freight from the moment the cargo is ready to leave the exporter to the moment the cargo is collected from its destination port.

- OTI is reporting transpacific eastbound cargo is taking 69 days, while far east westward (FEWB) bound cargo is taking 74 days.
- This is significantly shorter than in early 2022 when FEWB was over 120 days.



Source: MARAD Office of Policy | https://www.bts.gov/freight-indicators#freight | Weekly

Rail: Rail Carloads and Intermodal

The big picture: Railroads are a very cost-effective and fuel-efficient way to move freight.

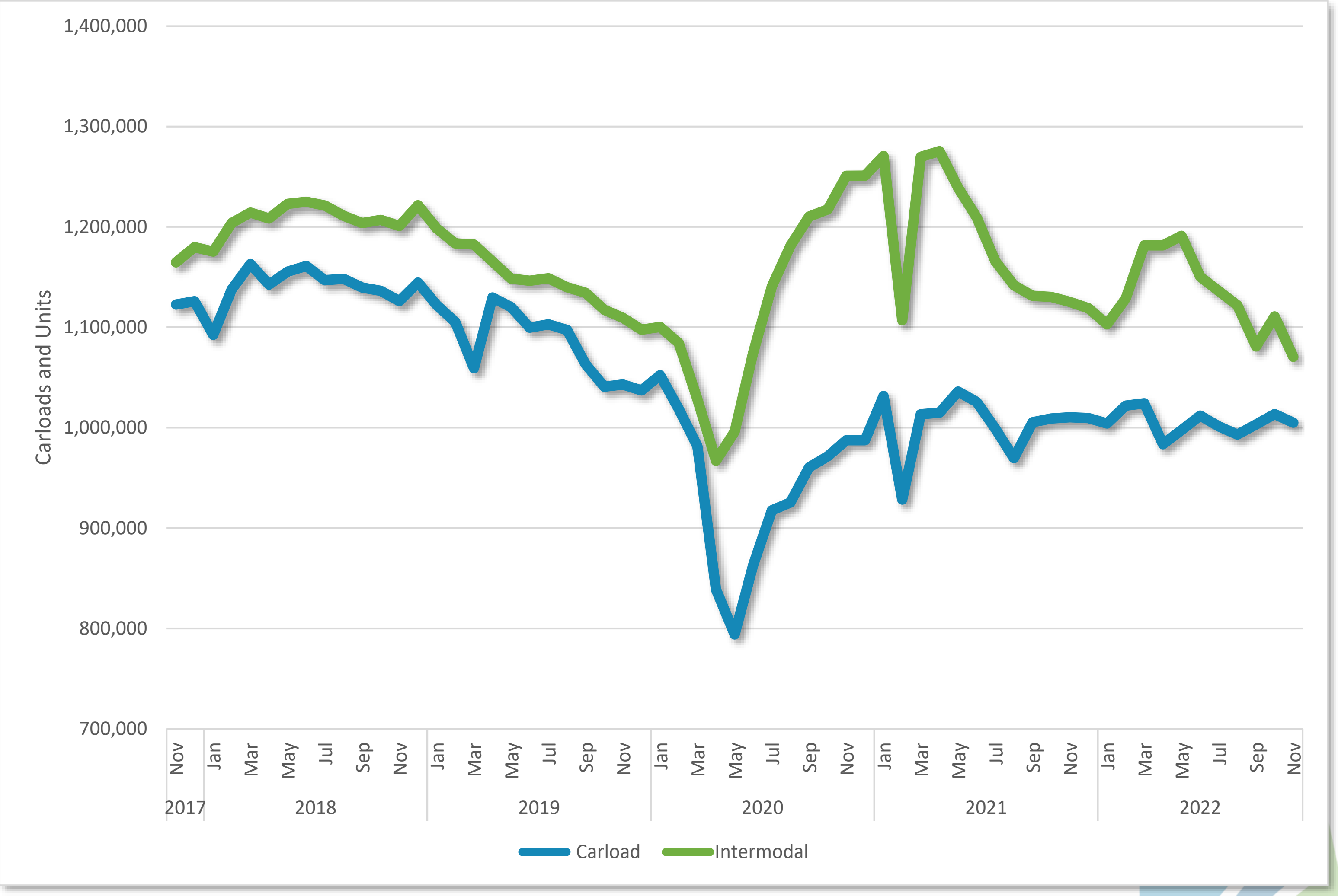
- While the rail and truck industries often compete with each other, they also work hand in hand.

Why it matters: Most freight that is transported by rail, will require a truck for the final mile.

- An increase in rail and intermodal freight will translate into greater demand for trucks downstream.
- Intermodal is a subset of rail that involves the movement of highway-capable units, such as containers or trailers.

Our thoughts: The intermodal industry continues to struggle with service issues, but there are signs of improvement with the labor issues concerning the class 1 railroads largely resolved.

- Carloads decreased 0.8% month-over-month in November to 1.00 million, and are down 0.5%, or 8,457 carloads, year-over-year.
- Intermodal decreased 3.6% to 1.07 million, and are down 4.9%, or 54,732 loads, year-over-year.
- Both carloads and intermodal are below their 5-year trend line by 3.3% and 7.7% respectively.



Source: Carloads| https://fred.stlouisfed.org/series/RAILFRTCARLOADSD11#0 | Intermodal: https://fred.stlouisfed.org/series/RAILFRTINTERMODALD11 | Monthly

Market Summary

Volume

Flat

Demand

Slowing

Capacity

Very Loose

Rates

Bottoming

Operating Costs

Elevated

Future Outlook

Restrained

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