OOIDA Foundation

RESEARCH
SAFETY
EDUCATION

January 2023

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. Merchant Wholesalers
4. Advanced Retail Sales Categories

Demand: Van Load-to-Truck Ratios

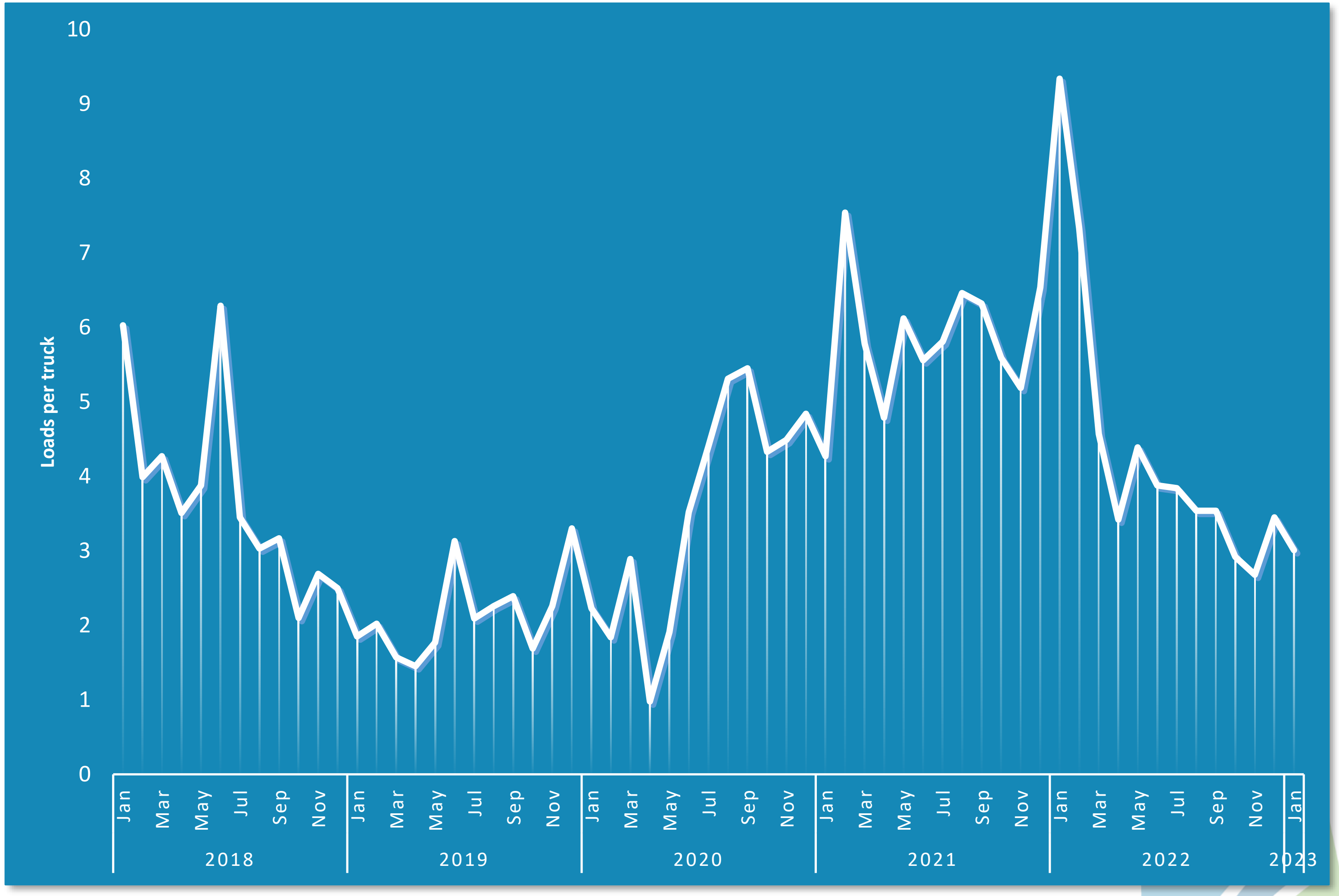
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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 decreased in January as it continues to move back to typical seasonal patterns following the volatility of the past couple years.

- The Van Load-to-Truck Ratio decreased 12.8% month-over-month to 3.01.
- The ratio is 68% lower than January 2022 and 23% lower than the 5-year trend.
- Load posts are comparable to 2018 levels, but there are 11% more truck posts with dry van trailers, which is pushing the ratio downward.



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

Rates: Van Spot and Contract Rates

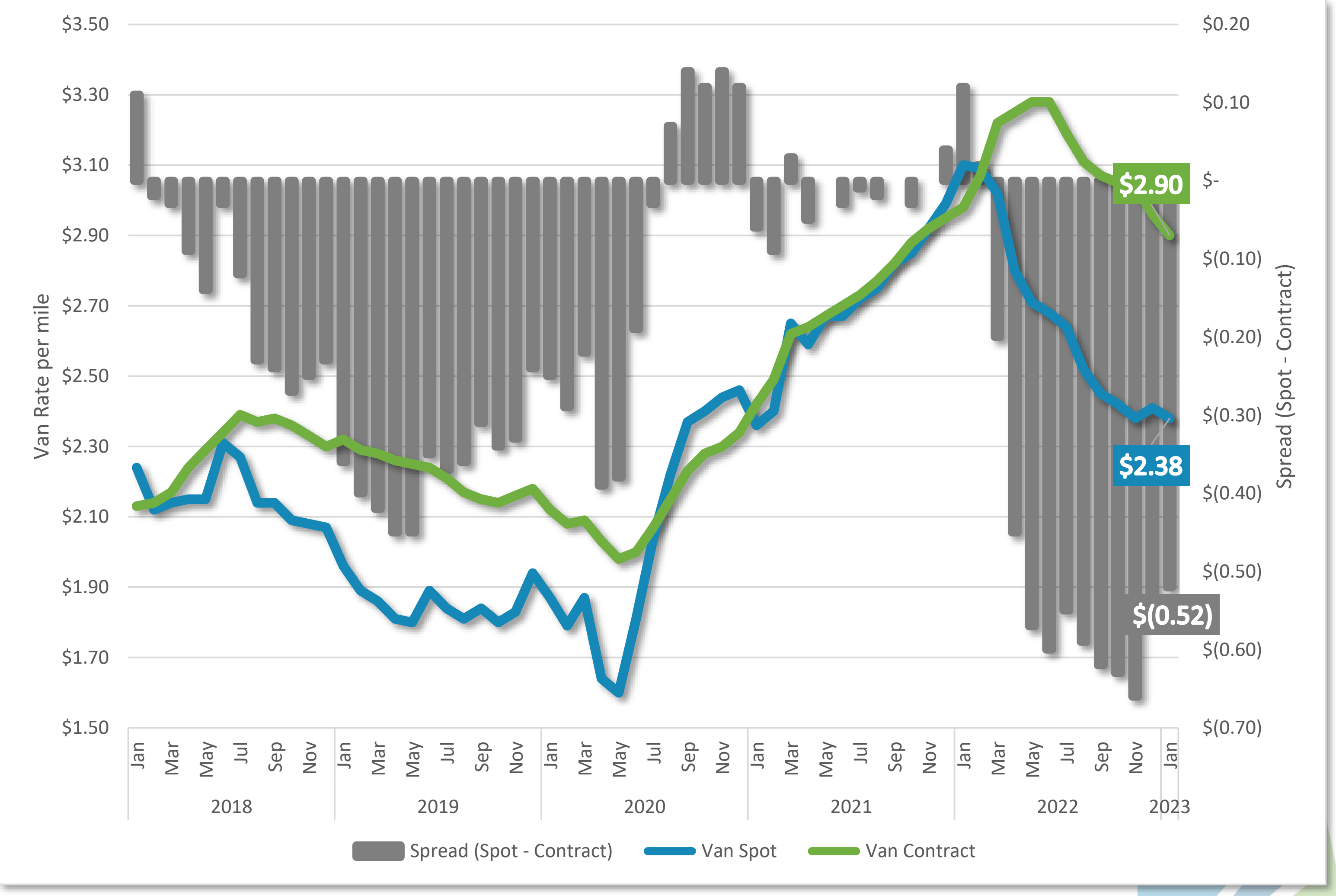
The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

- 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: Rates are following their typical seasonal trends as they decrease heading into the first quarter of the year.

- Spot rates for vans decreased by $0.03 per mile month-over-month in January after a small bump last month, and have dropped $0.72 per mile since January 2022.
- Contract rates decreased $0.06 per mile, a welcomed sign. However, the spread between contract rates and spot rates is still $0.52 per mile.
- Spot rates are 4% above the 5-year trend, while contract rates are 16% higher.
- DAT expects spot rates excluding fuel to move upward toward the end of February and early part of March before they dip down again. However, they expect rates to pick up again heading into spring.



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.

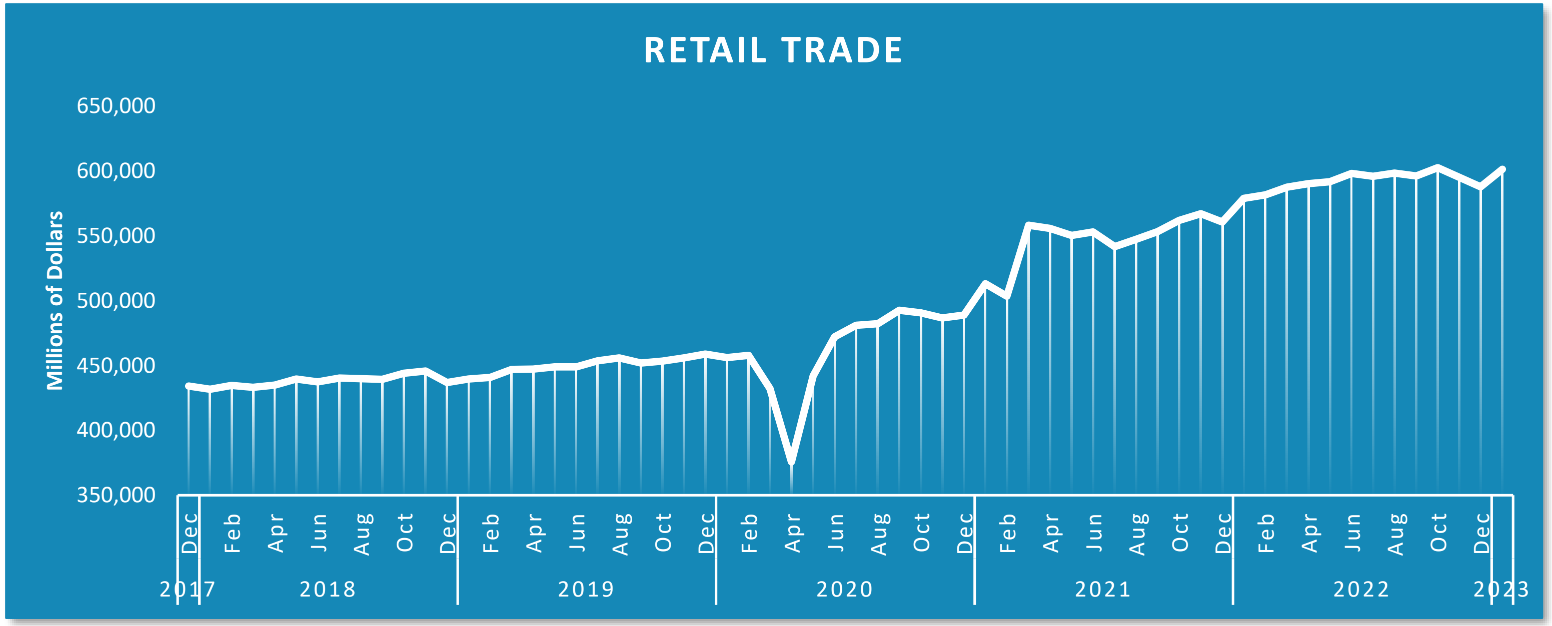
- While CPI measures the average price change for a basket of goods and services over time.

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.

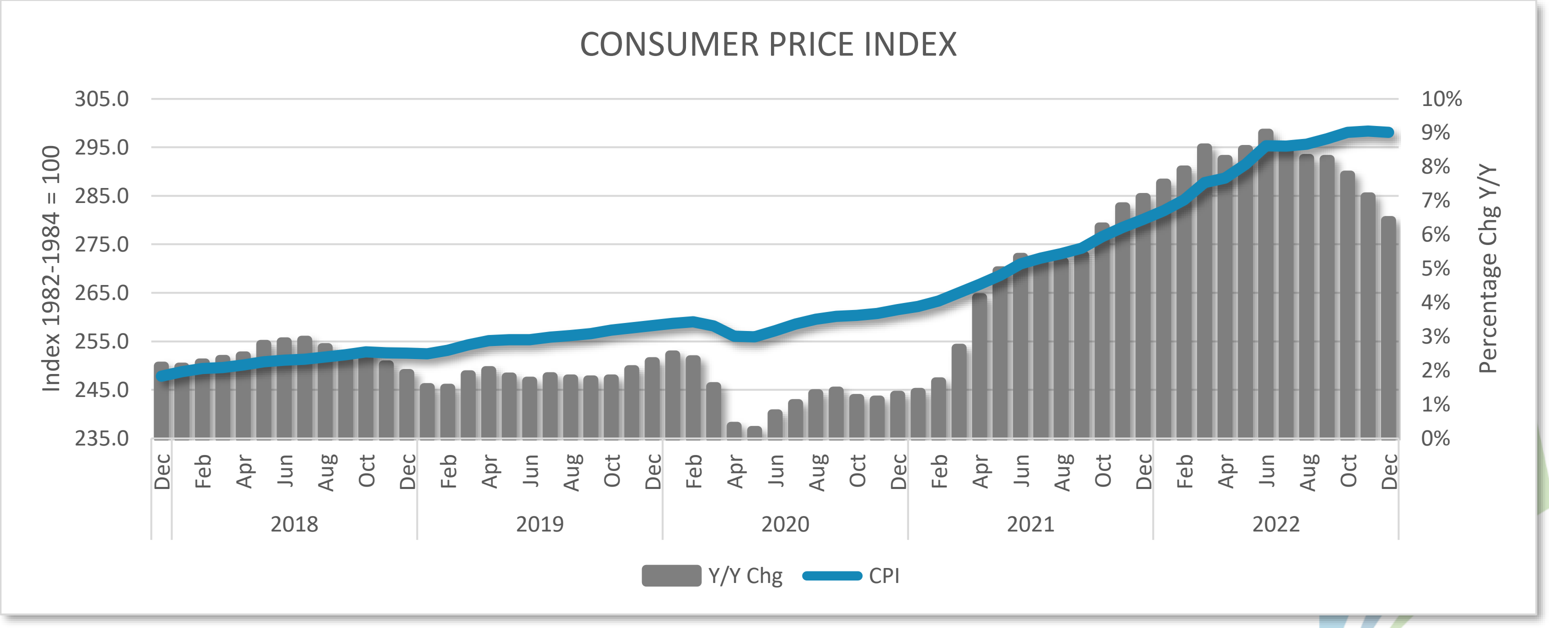
- Consumer spending accounts for two-thirds of GDP.
- If prices are stable and retail sales are high, it means that there's a greater demand for freight.

Our thoughts: People are still purchasing goods, albeit at a slower pace, even despite high inflation. This may be due to the fact that wages and salaries overall are 6.2% higher year-over-year.

- Retail trade jumped 2.3% month-over-month in December to $601.5 billion, and is 6.1% higher year-over-year.
- CPI dropped slightly by 0.1% to 298.1, which is 6.4% higher than it was a year ago and 13.6% higher than the 5-year trend.
- **Yes, but** CPI growth year-over-year is slowing.



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

Wholesale Trade: Sales and Inventories

The big picture: Wholesalers act as intermediaries between manufacturers and retailers, purchasing products in bulk and then reselling them to other businesses.

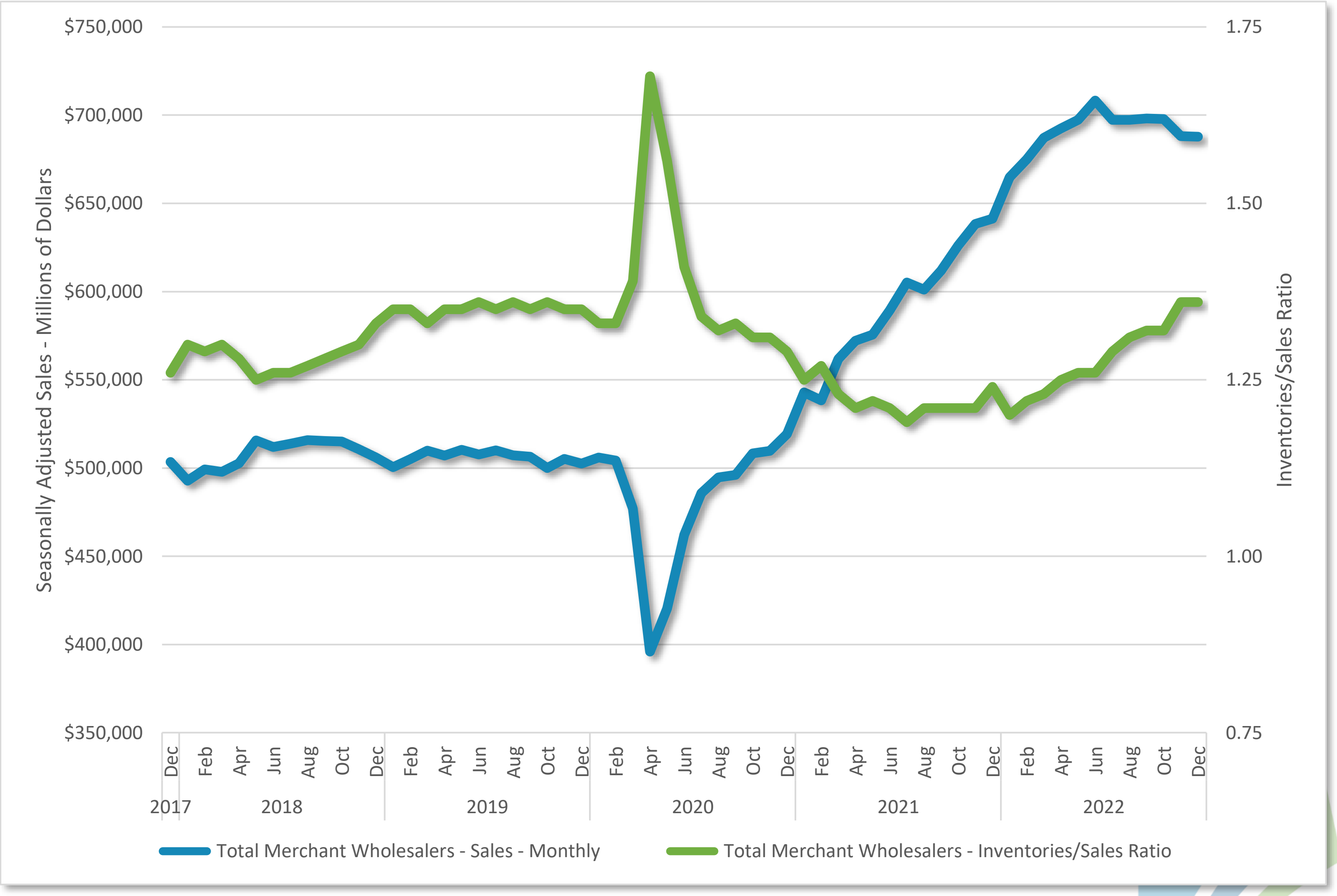
- The U.S Census Bureau reports monthly sales data and inventory-to-sale ratios for different types of industries.

Why it matters: Wholesalers account for 30% of for-hire trucking ton-miles and 43% of parcel ton-miles according to the 2017 Commodity Flow Survey.

- Wholesalers' sales and inventory data help us to see which direction freight markets are headed.
- And the less amount of inventory that businesses have on hand, the greater they need freight transportation to restock their goods.

Our thoughts: Inventory-to-sales ratios have grown, while monthly sales have stalled, thereby dampening truck demand and pushing rates downward. Inventories will need to decline before demand picks back up.

- Sales were relatively flat month-over-month, but have declined 3%, or $23.1 billion, since January 2023.
- Ratios stayed flat compared to November, but have grown 13%, or 0.16, since January 2022. Moreover, they are 9.7% higher year-over-year.



Source: U.S. Census Bureau | https://www.census.gov/econ/currentdata/ | Monthly

Advanced Retail Sales: Electronics, Furniture, and General Merchandise

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:

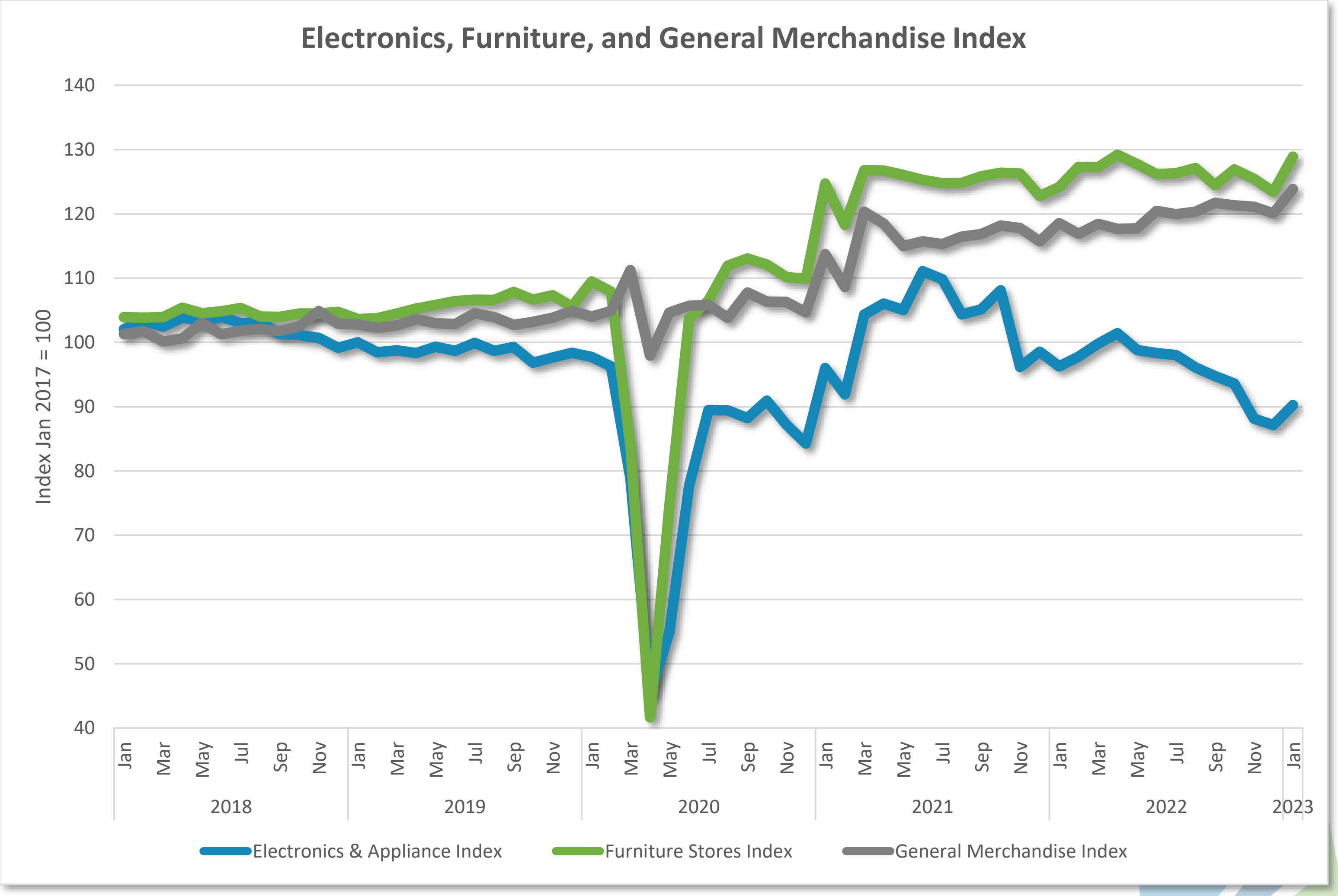
- Electronics and appliance stores (EAS)
- Furniture stores (FS)
- General merchandise stores (GMS), such as Walmart, Target, Costco

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 jumped up in January due to seasonality, bucking the sideways trend for at least one month, though there's evidence that February will come in much weaker.

- EAS, FS, and GMS all experienced a spike in sales in January, 3.5%, 4.4%, and 3.2% respectively to $6.93 billion, $12.22 billion, and $71.60 billion.
- Two of the three are higher year-over-year, namely FS and GMS, by 1.2% and 4.5% respectively.
- EAS is 6.3% lower year-over-year.



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

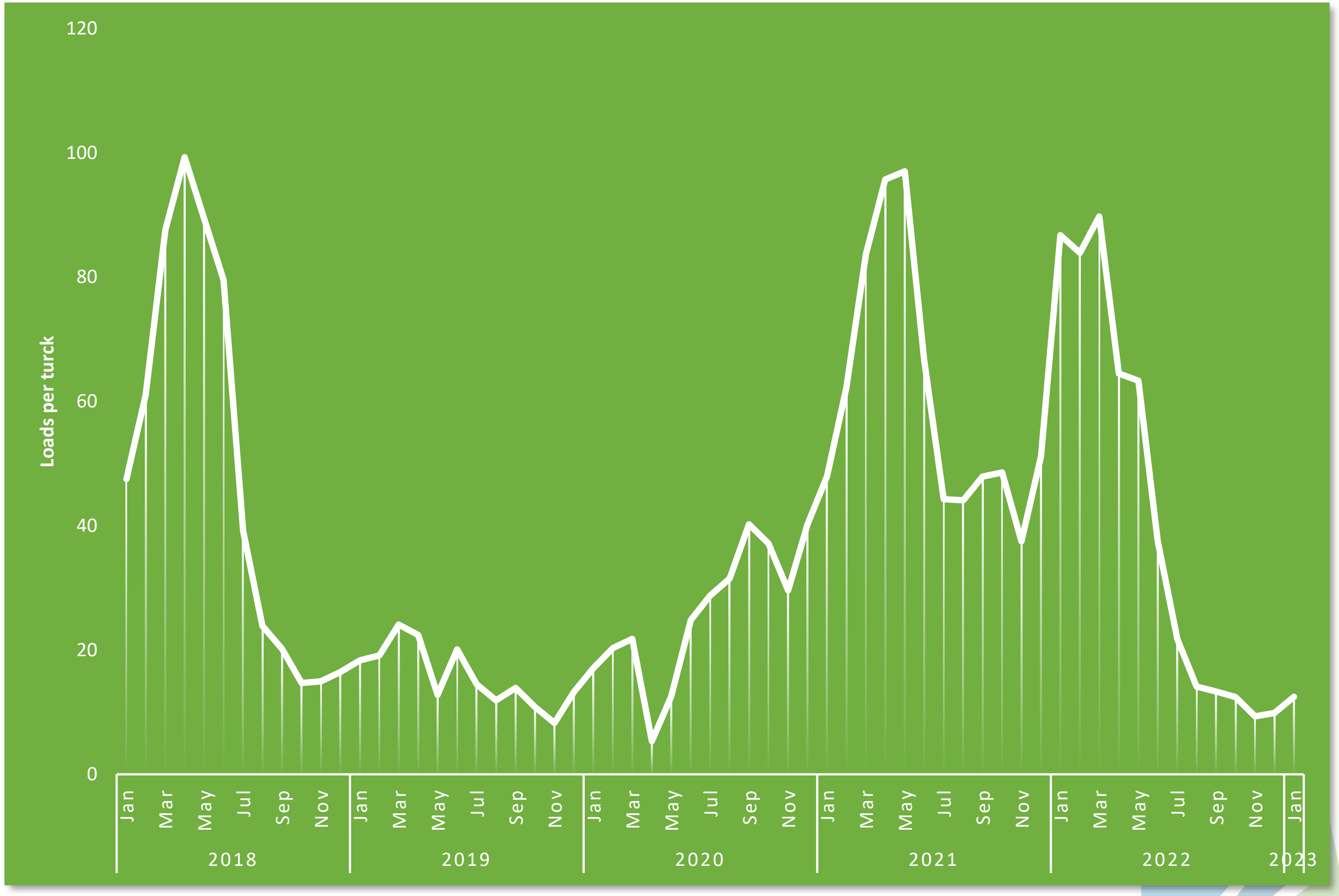
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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: Load posts have been rising but are still significantly lower than this time last year and half of what they were in 2018. At the same time, equipment posts are at their highest level than they have been in seven years.

- The Flatbed Load-to-Truck Ratio increased 26.6% month-over-month to 12.47, marking two consecutive months of increases.
- The ratio has declined 86% since January 2022.
- The ratio is 64% below the 5-year trend.



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

Rates: Flatbed Spot and Contract Rates

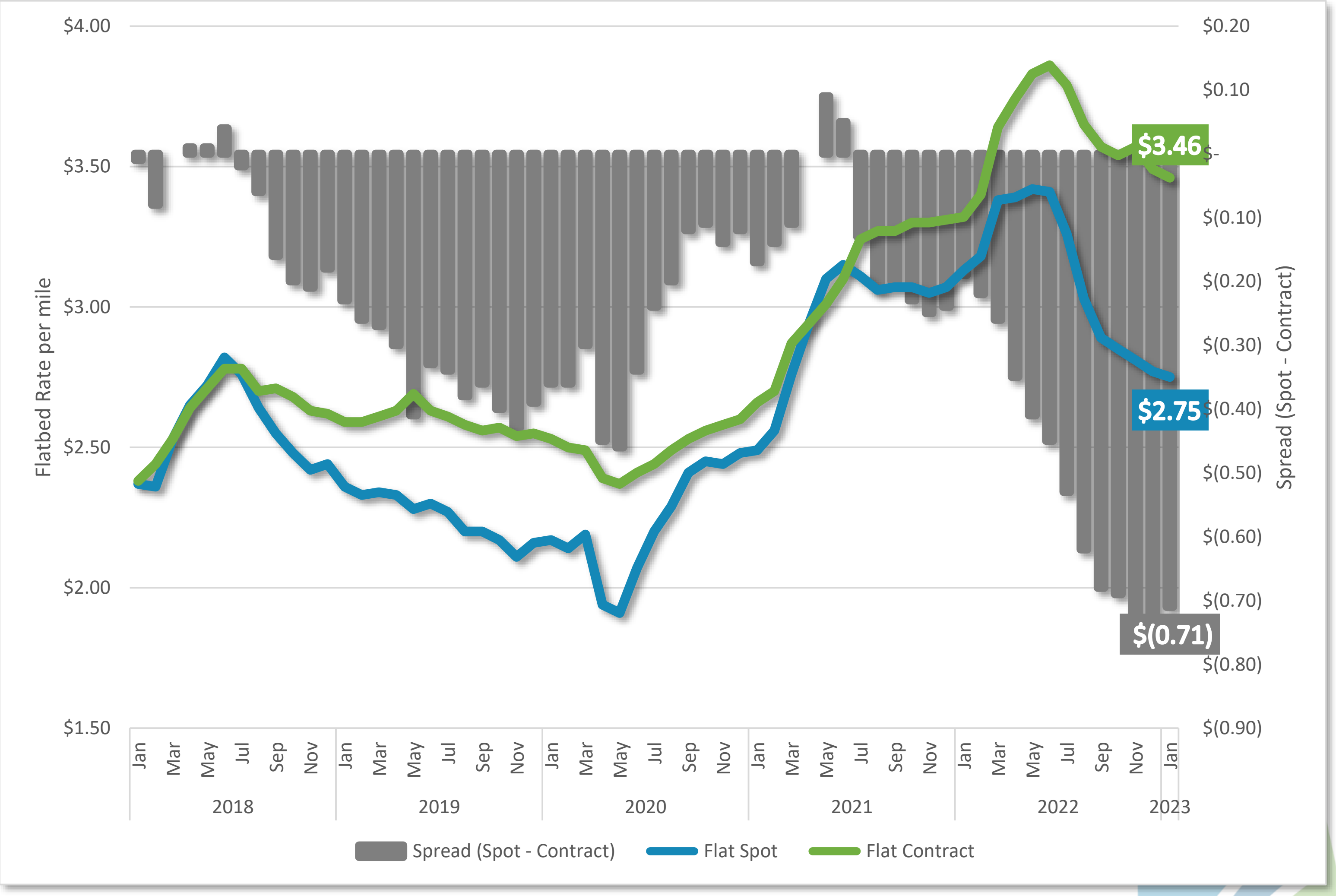
The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

- 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 sixth consecutive month, while contract rates decreased for second straight month.

- The spot market declined $0.02, or 0.7%, to $2.75 per mile month-over-month, and has dropped $0.38 since January 2022.
- The contract market decreased $0.03, or 0.9%, to $3.46 per mile, which is still $0.14 higher than January 2022 and $0.57 above the 5-year trend.
- The spread between contract and spot is $0.71.
- DAT predicts that spot rates excluding fuel will continue to strengthen heading into the spring season as they typically do.



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.

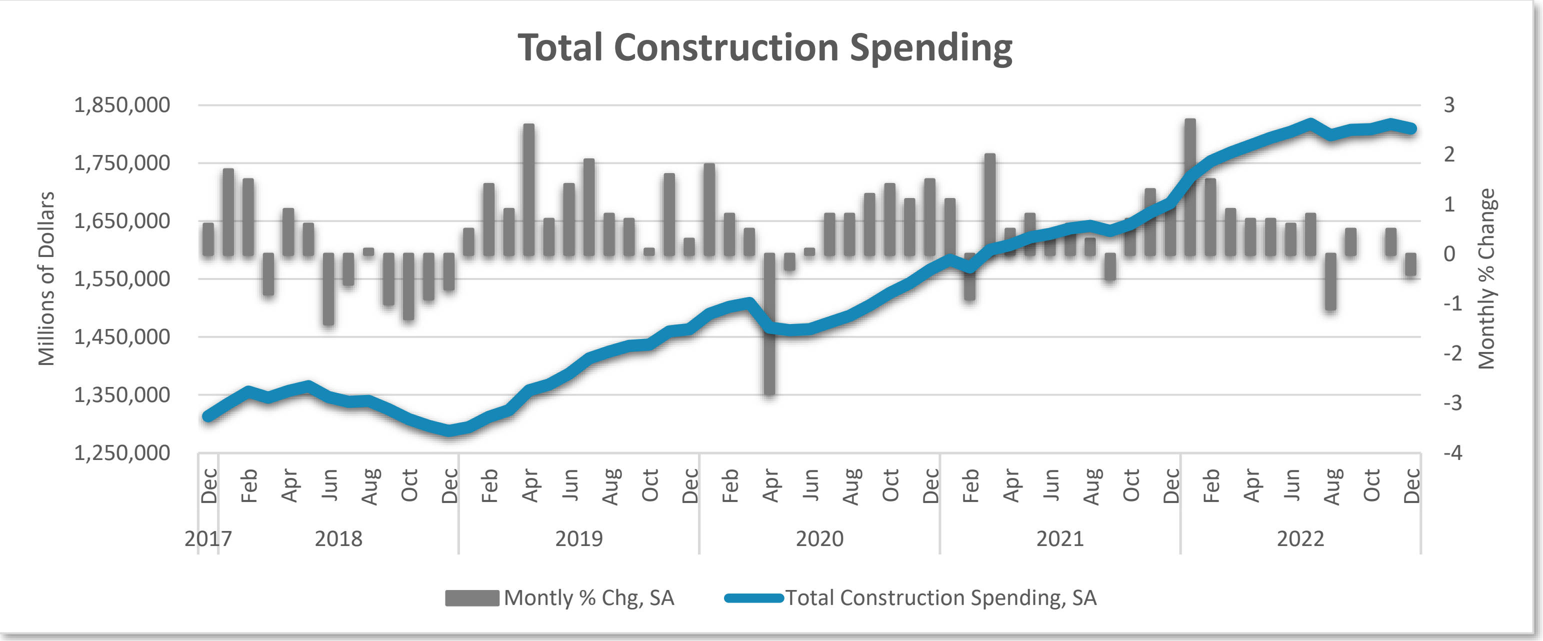
- Construction spending encompasses various expenses, such as labor and materials,
- and sectors, such as highway and street spending.

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

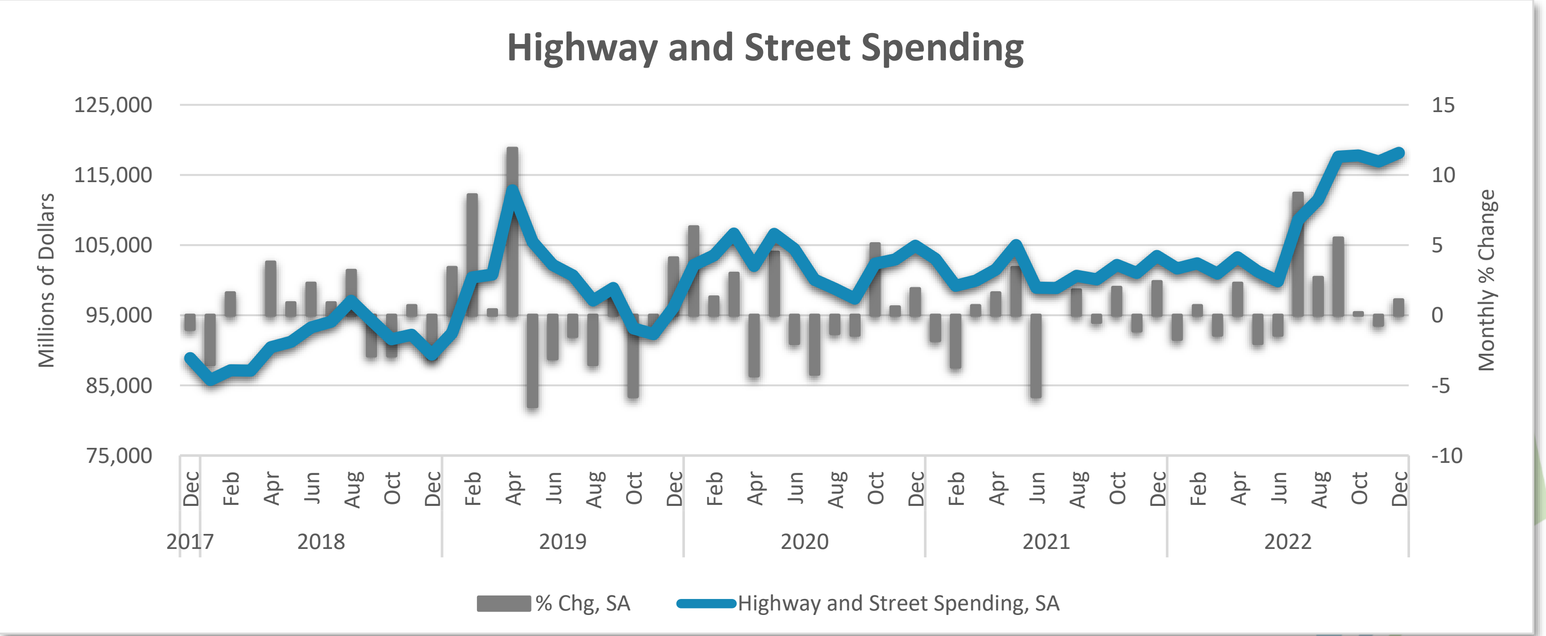
- It also is a good indicator of future demand for those owner-operators pulling flatbed trailers, as a variety of materials and goods are transported this way to construction sites.

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

- TCS decreased slightly by 0.4% in December to $1.81 trillion, which is 7.7% higher year-over year and 19% above the 5-year trend.
- HSS grew 1.1% to $118.17 billion, erasing two consecutive months of decreases, and is up 14.2% year-over-year.
- These figures should 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:

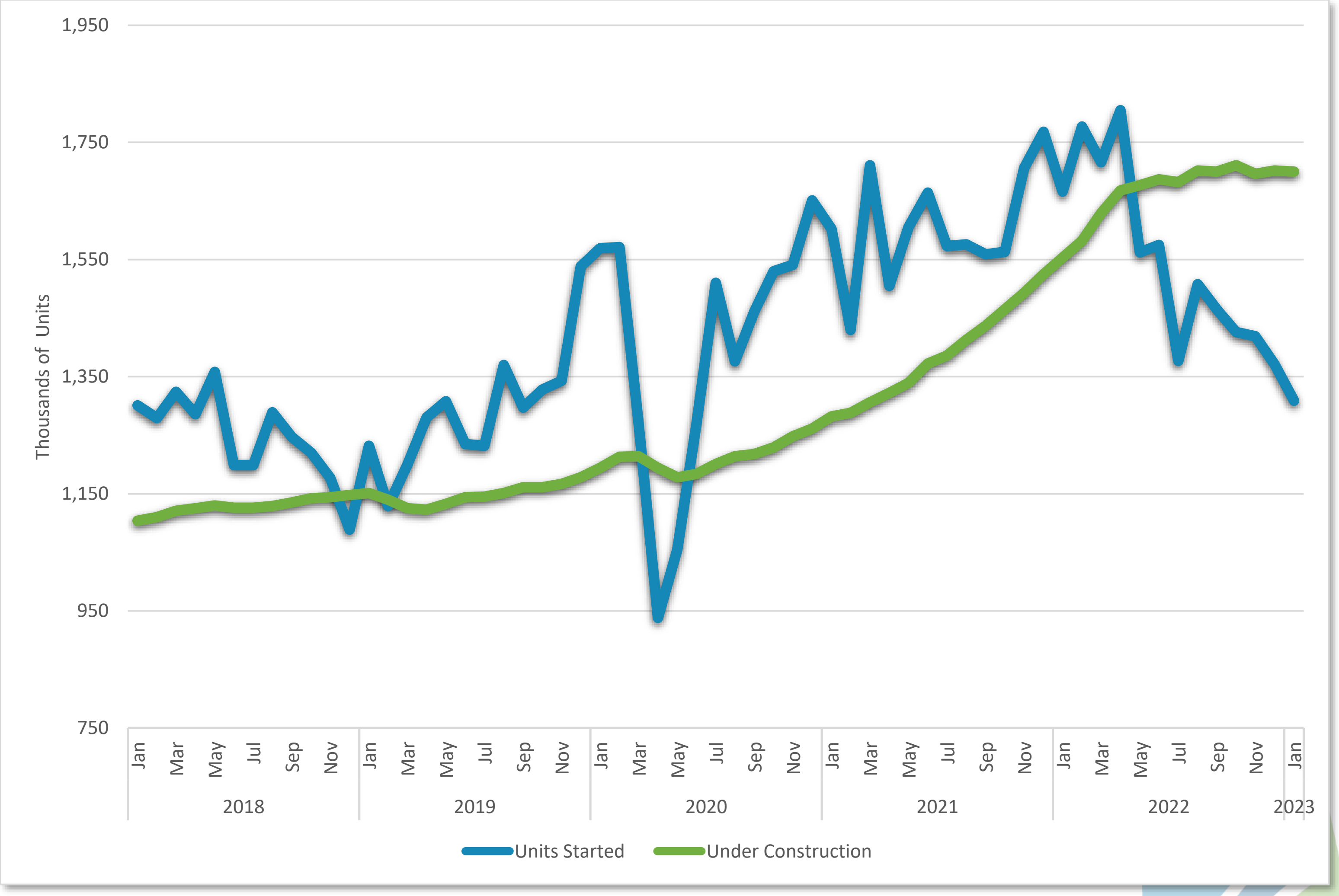
- Housing starts,
- Housing under construction, and
- Housing completed

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 moved downward again in January, marking five consecutive months of decline.

- New starts decreased 4.5% to 1.309 million. They have dropped 27% since the high in April 2022.
- Starts are 8%, or 108,000 houses, below the 5-year average, and are down 21% year-over-year (Y/Y).
- Houses under construction ticked down 0.1% to 1.70 million, but are up 9% Y/Y, while completed houses increased 1% month-over-month and 13% Y/Y.



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

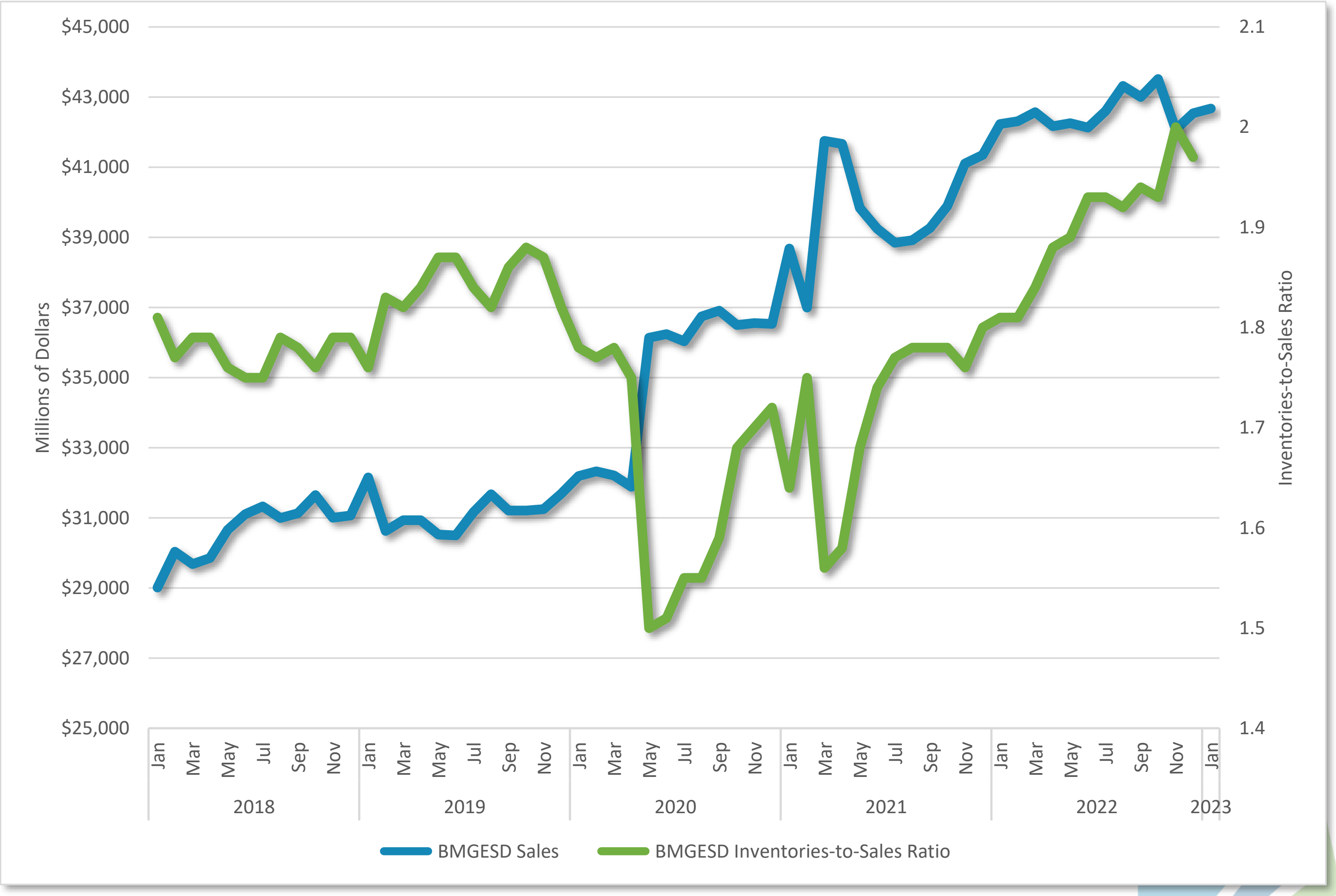
- These are broken down into several categories, including building materials, garden equipment, and supplies dealers (BMGESD).

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 increased slightly even as retailers seek to deplete their inventories. Inventories-to-sales ratios are 1.97, which is the highest since 2012.

- The BMGESD retail sales increased 0.3% month-over-month in January to $42.67 billion, and are 1.1% year-over year.
- Sales are $6.7 billion higher than the 5-year average.
- Flatbed volumes look to continue steady before we head into spring construction season.



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

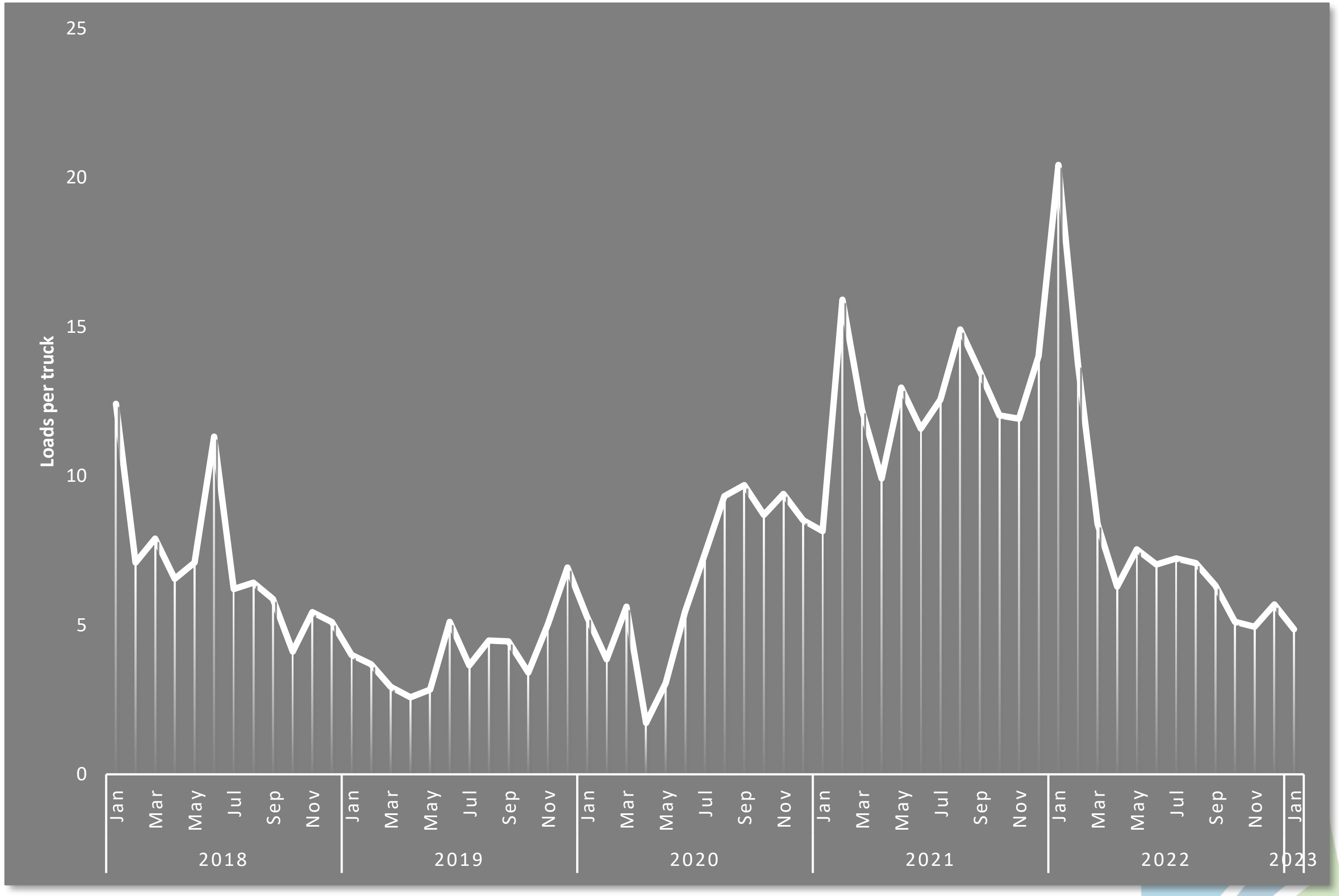
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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 continued its downward trend in demand following an almost 15% increase in December as produce volumes continue to underperform.

- The ratio decreased 14.6% month-over-month to 4.86 loads to every one truck posted.
- This is 37% below the 5-year trend, and 76% lower than it was in January 2023.
- Load posts are more than three times lower than this time last year, and while truck posts with refrigerated trailers have declined slightly, equipment posts are still the highest they've been in seven years.



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

Rates: Reefer Spot and Contract Rates

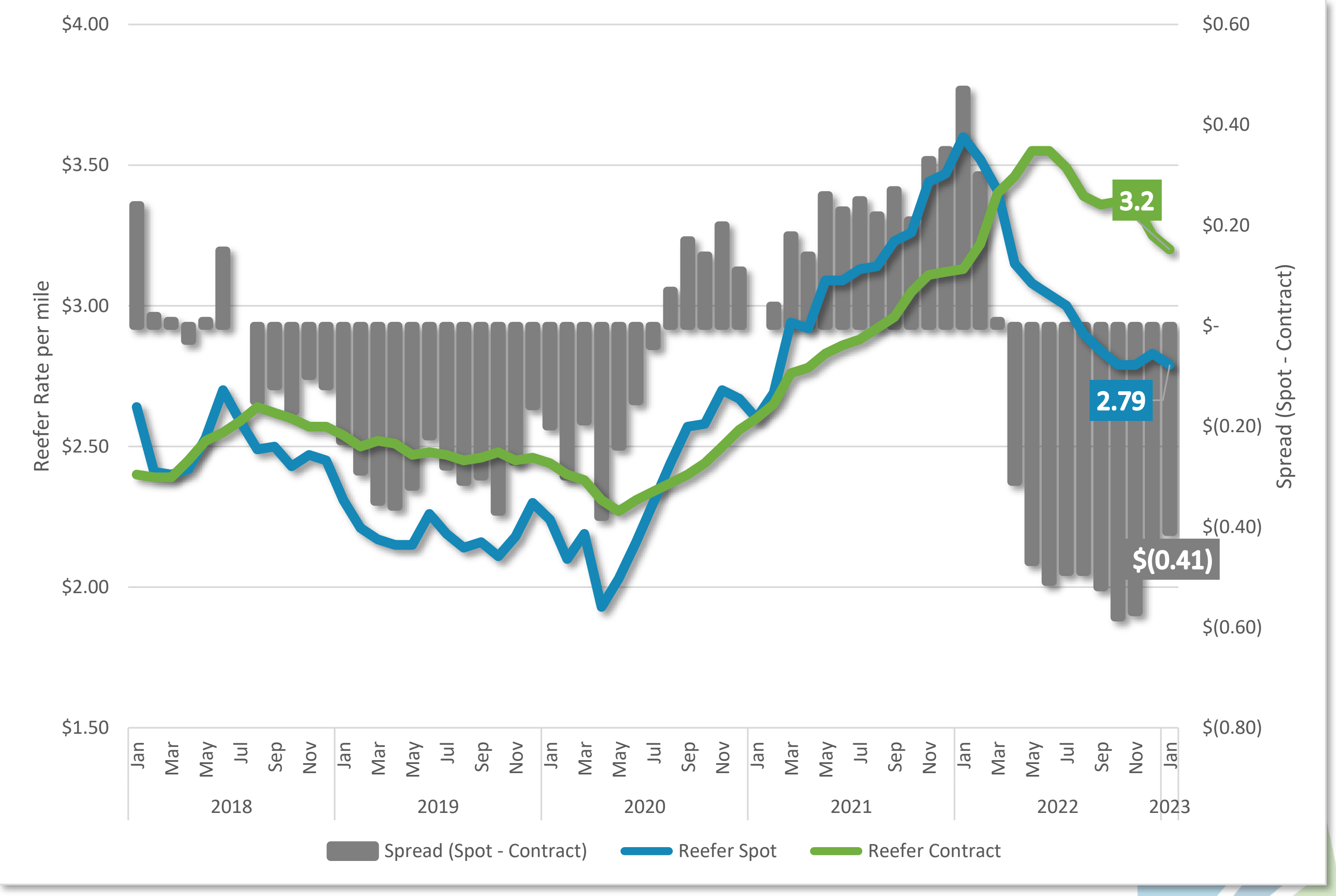
The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

- 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 moved downward month-over-month in January, reversing last months increase, while contract rates dropped 5 cents per mile.

- Spot rates decreased $0.04, or 1.4% to $2.79 per mile, but decreased $0.81 since January 2022.
- Contract rates declined $0.05, or 1.5%, to $3.20 per mile, which is $0.07 above where we were in January.
- The spread between spot and contract is $0.41, marking the third consecutive month that the spread has contracted.
- DAT is forecasting that spot rates excluding fuel will remain mostly flat as we head into March.
- 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.

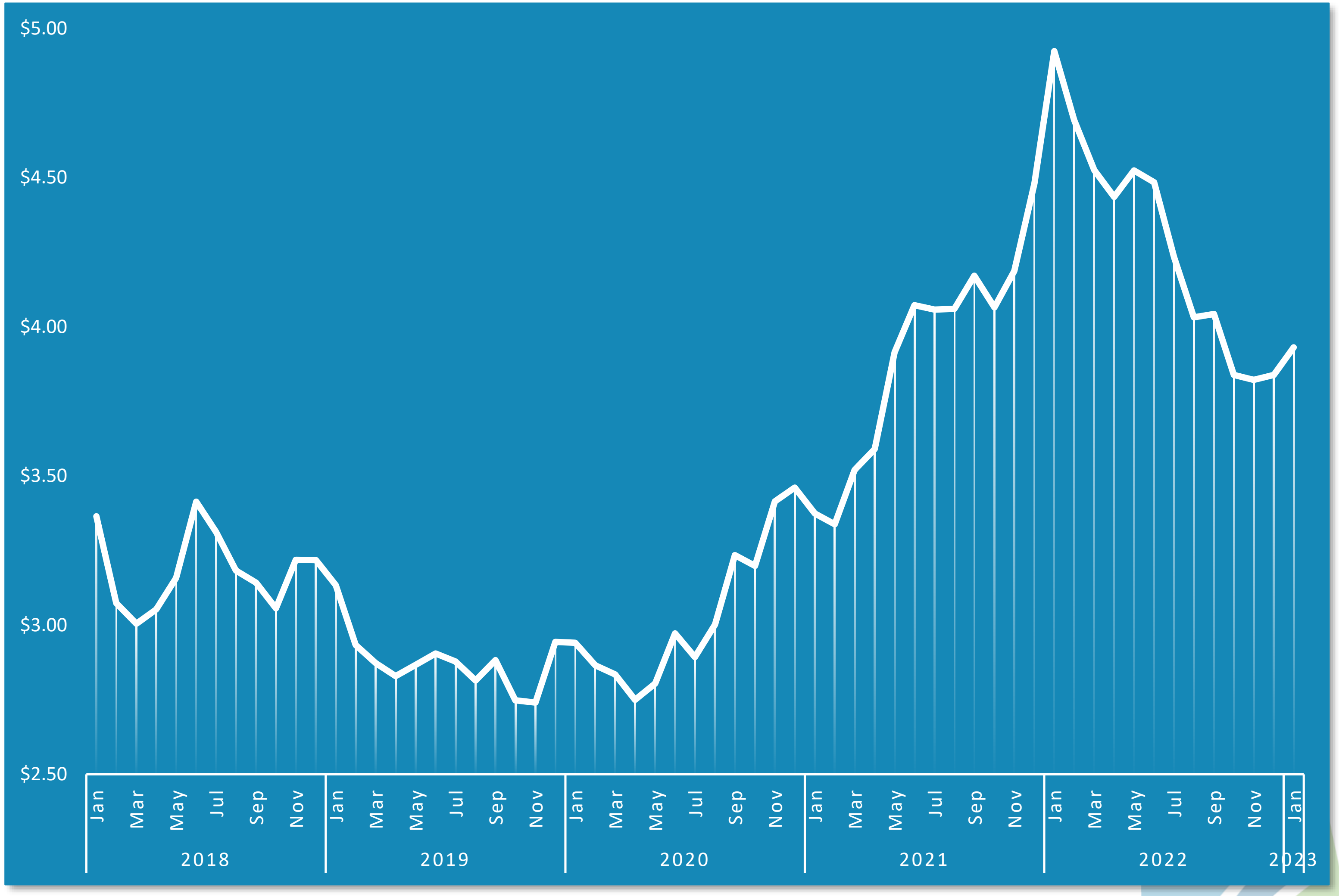
- USDA averages the rates over region and commodity.

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 20% below their high in January 2022, though there was a small gain in January. The beginning of the year marks one of the slowest season for reefers until early spring.

- Rates per mile increased 2.4%, or $0.09 per mile, month-over-month to $3.93 in January.
- Rates are $0.47 per mile, or 13.5%, 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

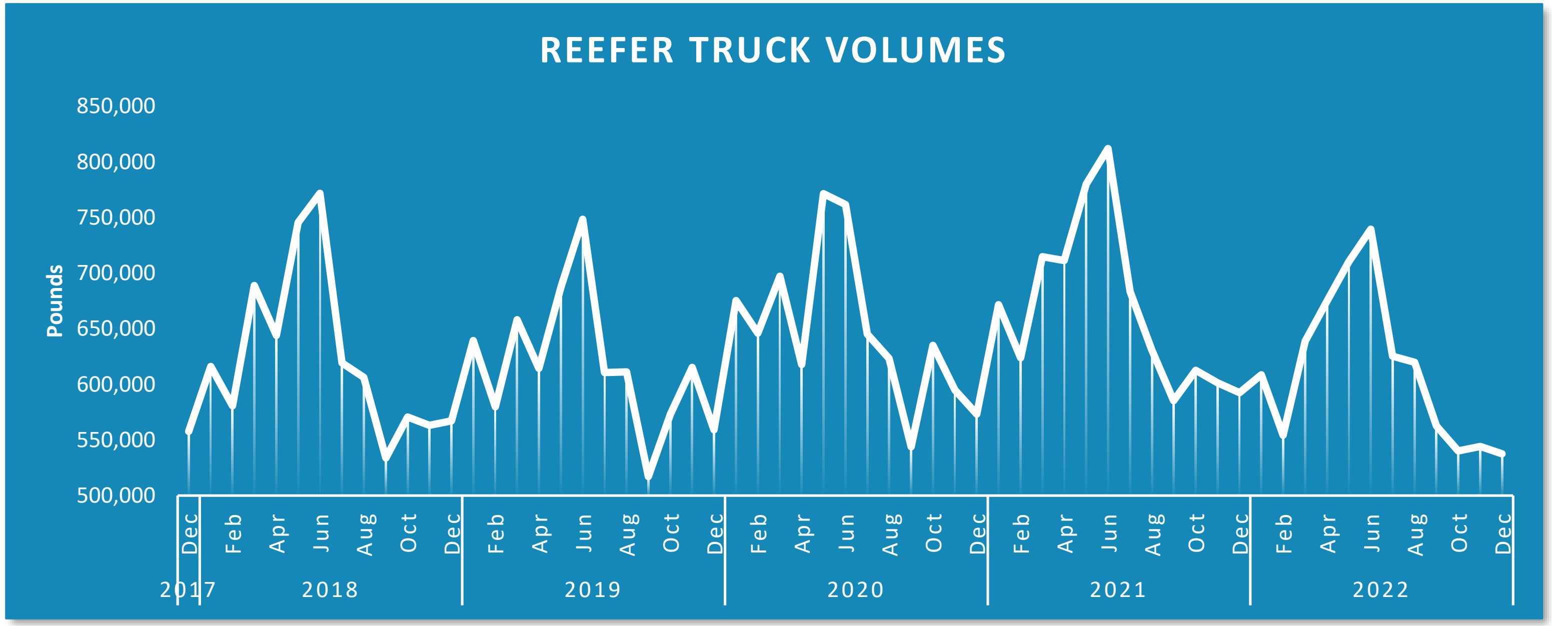
The big picture: The USDA's Crops report includes daily fruit and vegetable volume data by weight and weekly refrigerated truck availability data.

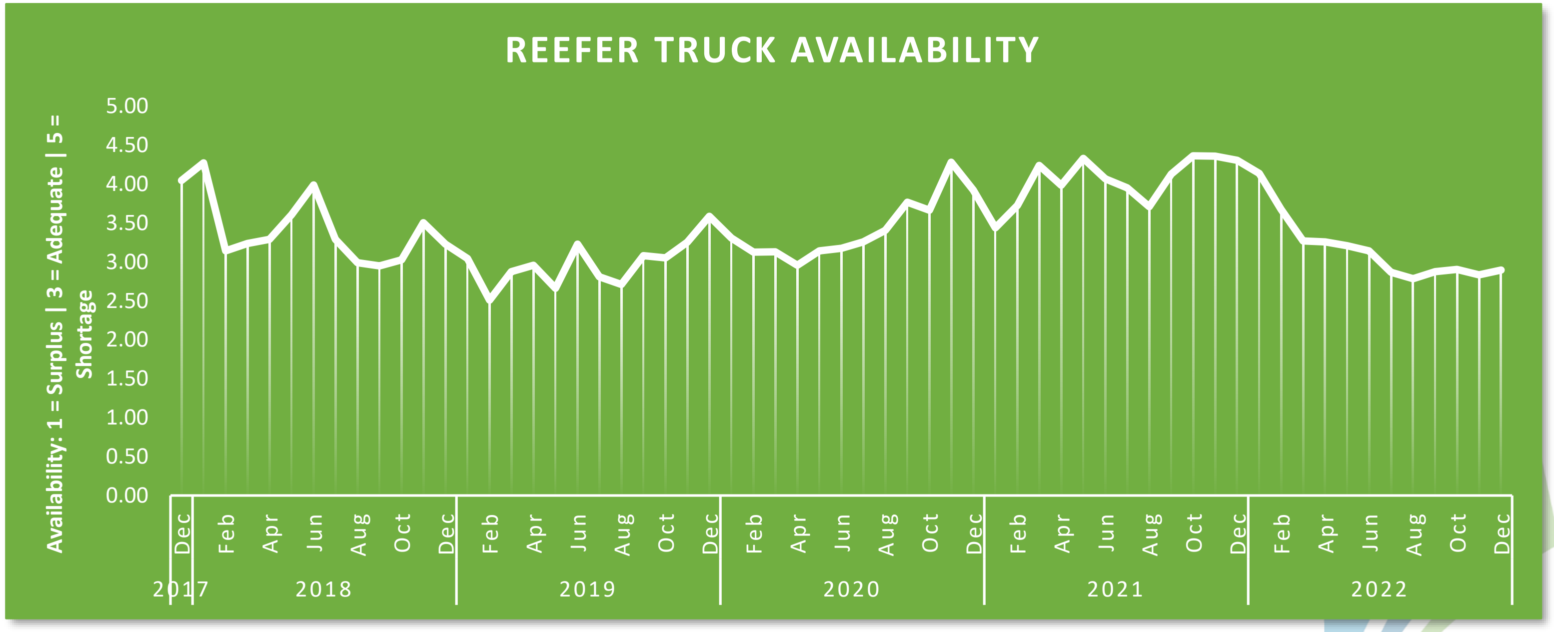
Why it matters: This information is a barometer for the health of the overall reefer market.

- 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 in January, while truck capacity tightened ever so slightly for certain markets.

- Reefer volumes declined 2.4% month-over-month to 530,165 pounds, and 12.9% year-over-year, which is equates to 78,500 fewer pounds.
- Reefer truck availability rose 0.2% to 2.94, meaning that capacity tightened for the second consecutive month, but is still 28.9% below the previous year.





Source: USDA | 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.

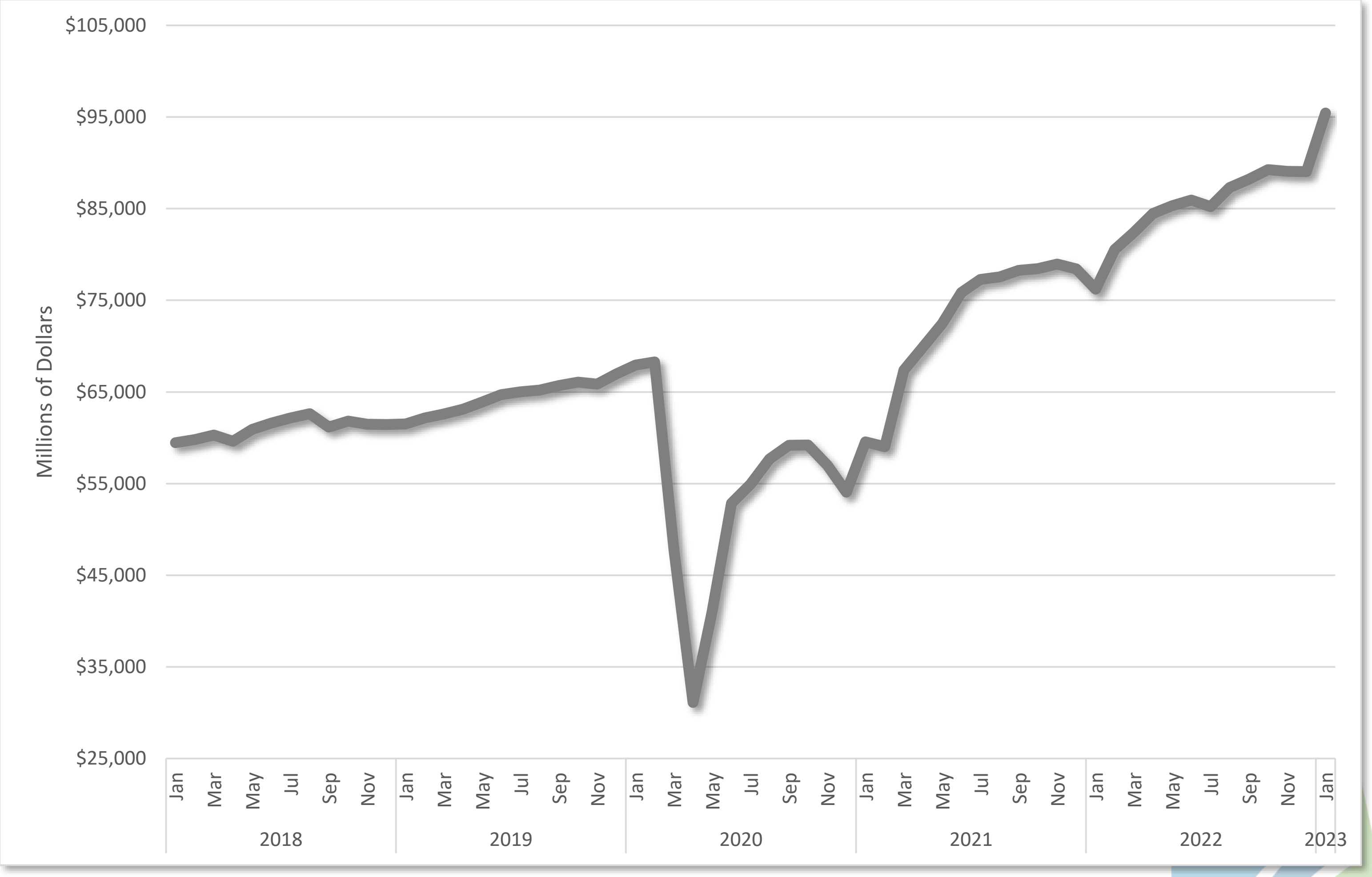
- These are broken down into several categories, including food services and drinking places (FSDPs).

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 jumped significantly in January 2023 even while spot rates continue to slide. However, this spike was due to seasonality, meaning that not seasonally adjusted figures actually declined $3.9 billion month-over-month.

- Seasonally adjusted FSDPs retail sales increased 7.2% month-over-month to $95.4 billion, and are 13% higher, or $10.9 billion more, year-over-year.
- FSDP sales are 39.5% higher than the 5-year trend of $68.4 billion.
- **Yes, but** spot rates continue to fall due to an excess in reefer truck capacity and fewer volumes overall, indicating that the increase in FSDP retail sales may be more due to seasonality and 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)

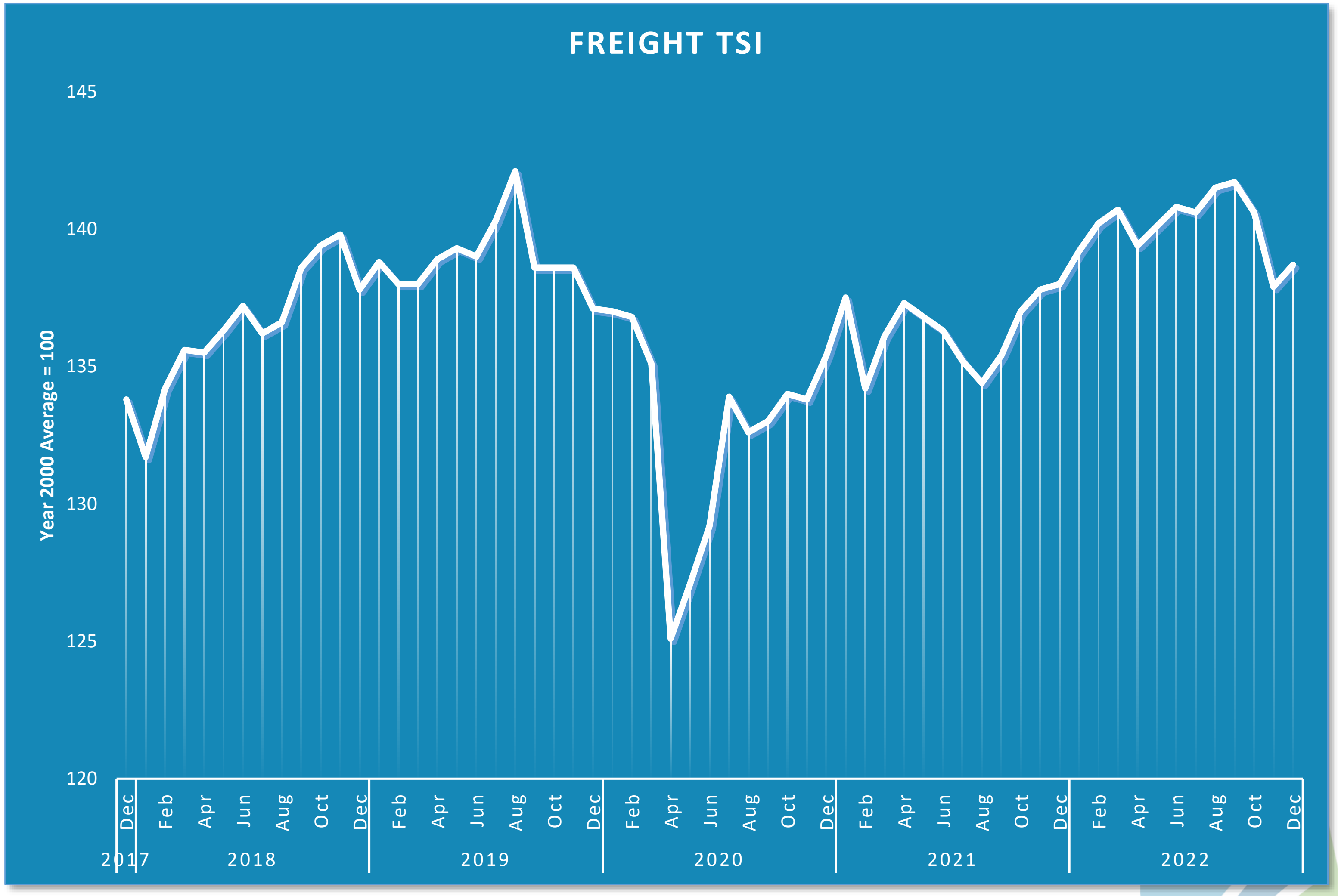
The big picture: TSI measures the volume of freight moved monthly by the *for-hire transportation sector* in the United States.

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 rose in December due to seasonally adjusted increases in trucking, air freight and pipeline, while rail carload, rail intermodal and water declined.

- 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.
- December's increase 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

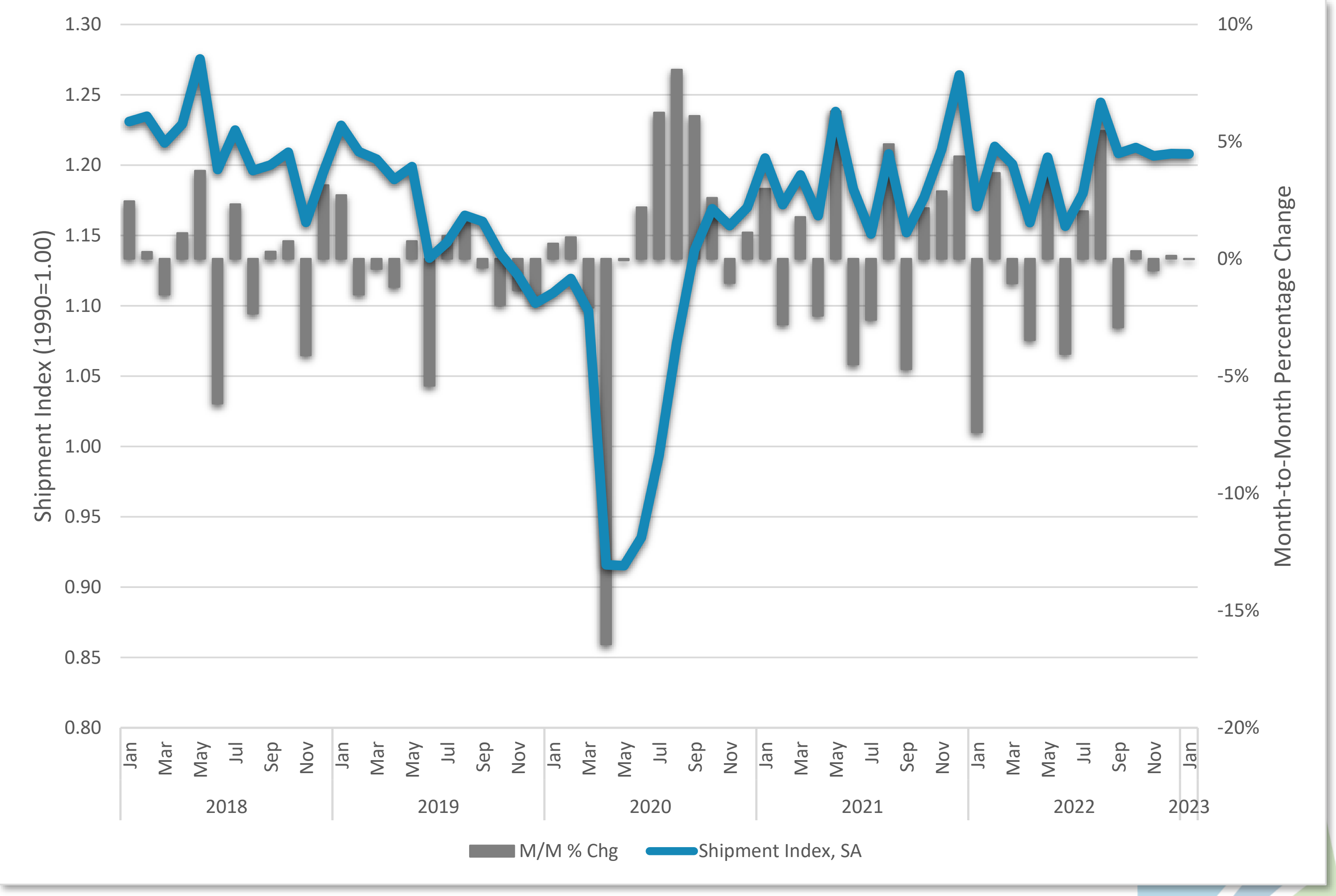
The big picture: The Cass Shipment Index includes data from all domestic freight modes with trucking accounting for more than 75% of all activity.

- 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 was flat month-over-month at 1.220 in January due to seasonality, and was down 3.2% year-over-year. Mild weather and improving auto production helped buoy the index.

- The year-over-year decline is mainly due to a tough comparison.
- Expenditures, which measures the total amount spent of freight, dropped 0.1% to 4.29.
- Inferred rates, which are calculated by dividing expenditures by shipments to explain the movement in cost per shipment, also declined 0.1% to 3.55.
- Truckload linehaul rates, which includes both spot and contract rates, decreased 0.9% to 149.23.
- **Bottom line:** Cass believes the bottoming process for the freight rate cycle has accelerated, with spot rates further below operating costs than ever before.



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

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.

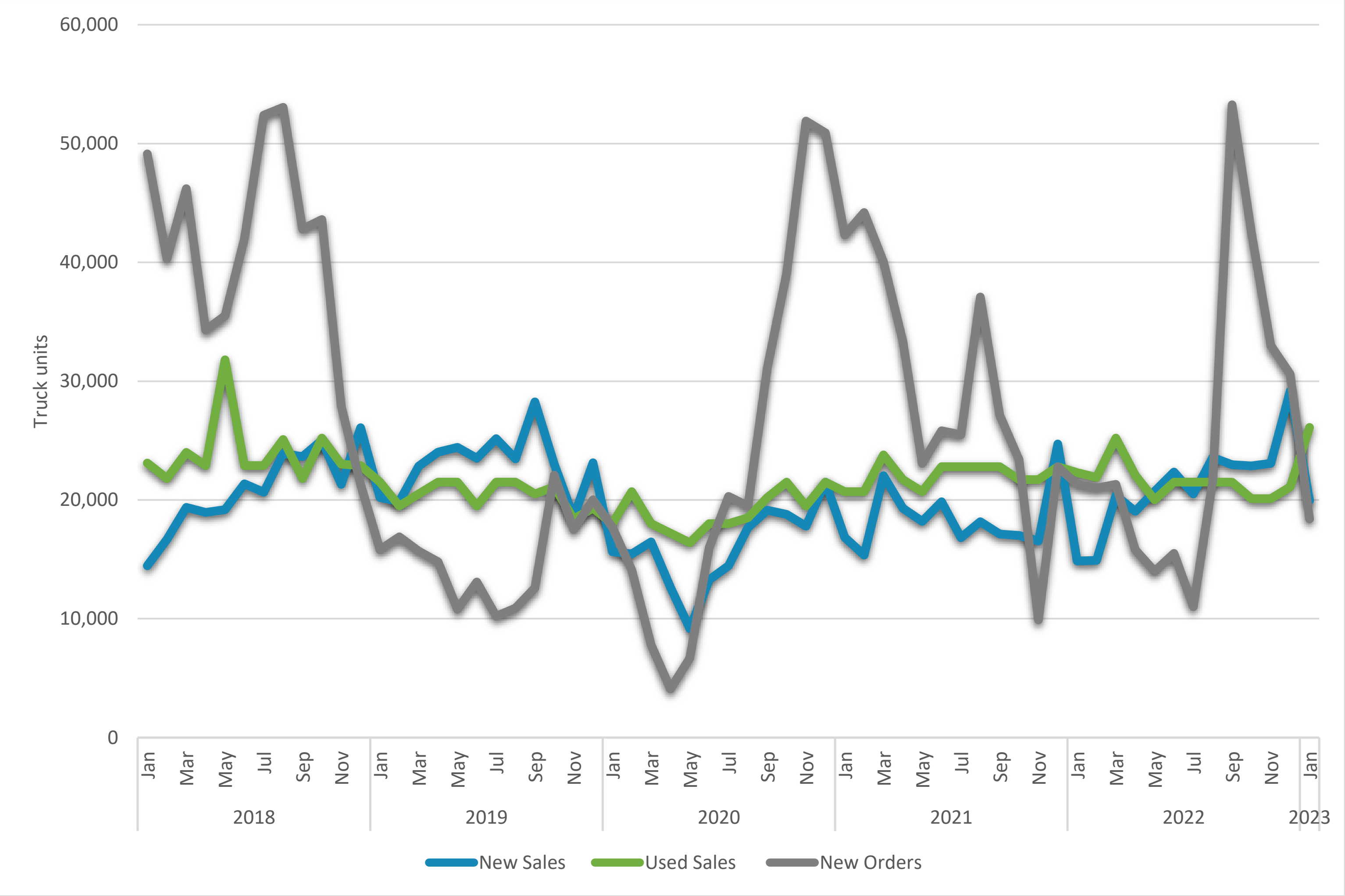
- This data includes Class 8 truck orders and sales.

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 fourth straight month in January, while used sales surpassed new sales for the first time since April 2022.

- New orders decreased 39.9% to 18,400 after spiking 149% in September. This is the fourth straight month of decline.
- New sales dropped under used sales by over 6,000.
- This is a good sign as the industry attempts to correct for the excess capacity that has flooded the market for the past several months.



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: Logistics Managers' Index (LMI)

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

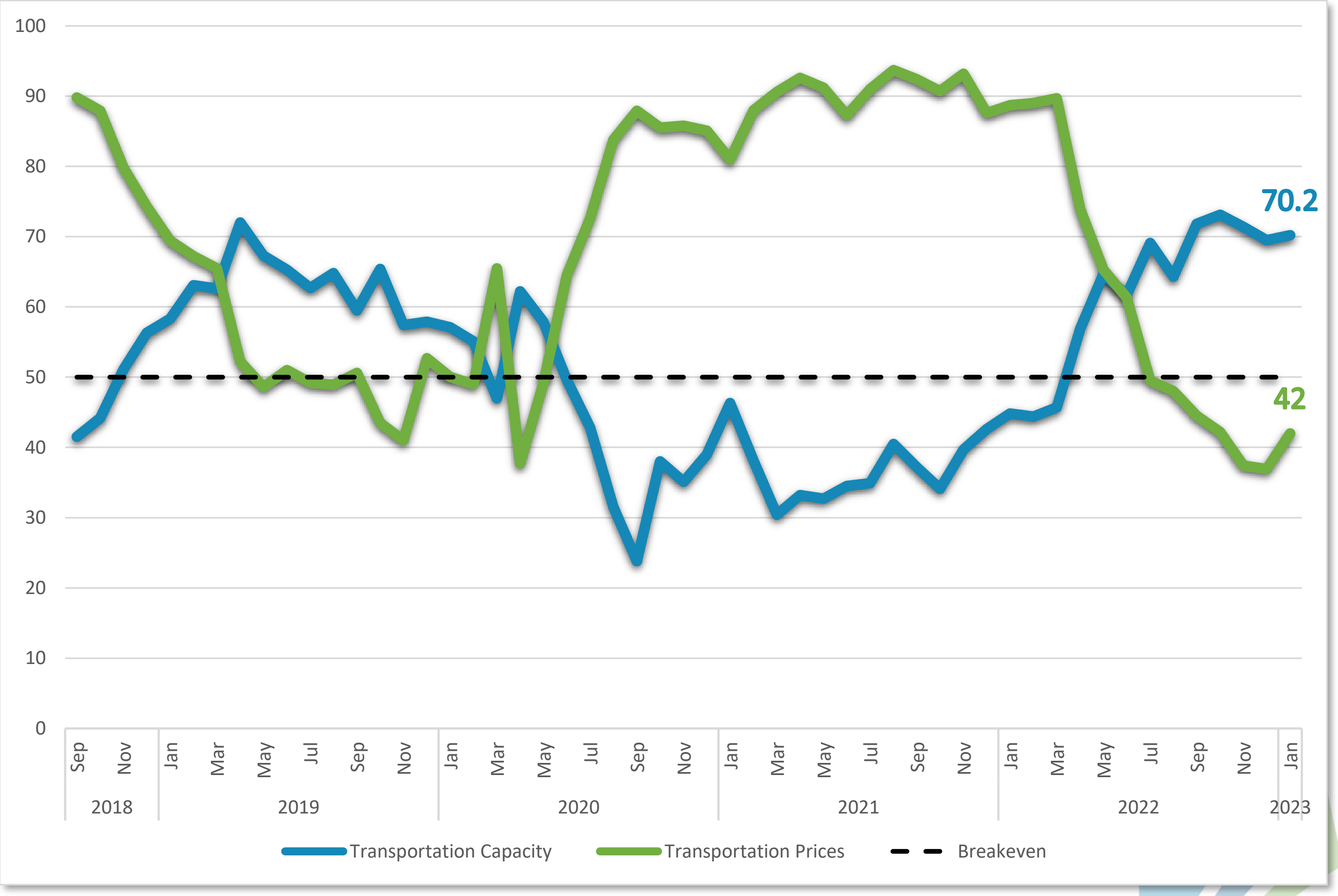
- The LMI consists of eight key logistics metrics ranging from inventory levels to transportation utilization.
- Any number below 50 is indicative of contraction, while any number above 50 is indicative of expansion.

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 57.6 mainly due to some firms beginning to restock their products after spending nine months trying to reduce inventory.

- Transportation prices increased for the first time in seven months to 42, primarily due to activity toward then end of the month.
- **Yes, but** this is still in contraction territory.
- Transportation capacity increased 0.07 to 70.2. This index continues to remain elevated and near all-time highs.



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

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

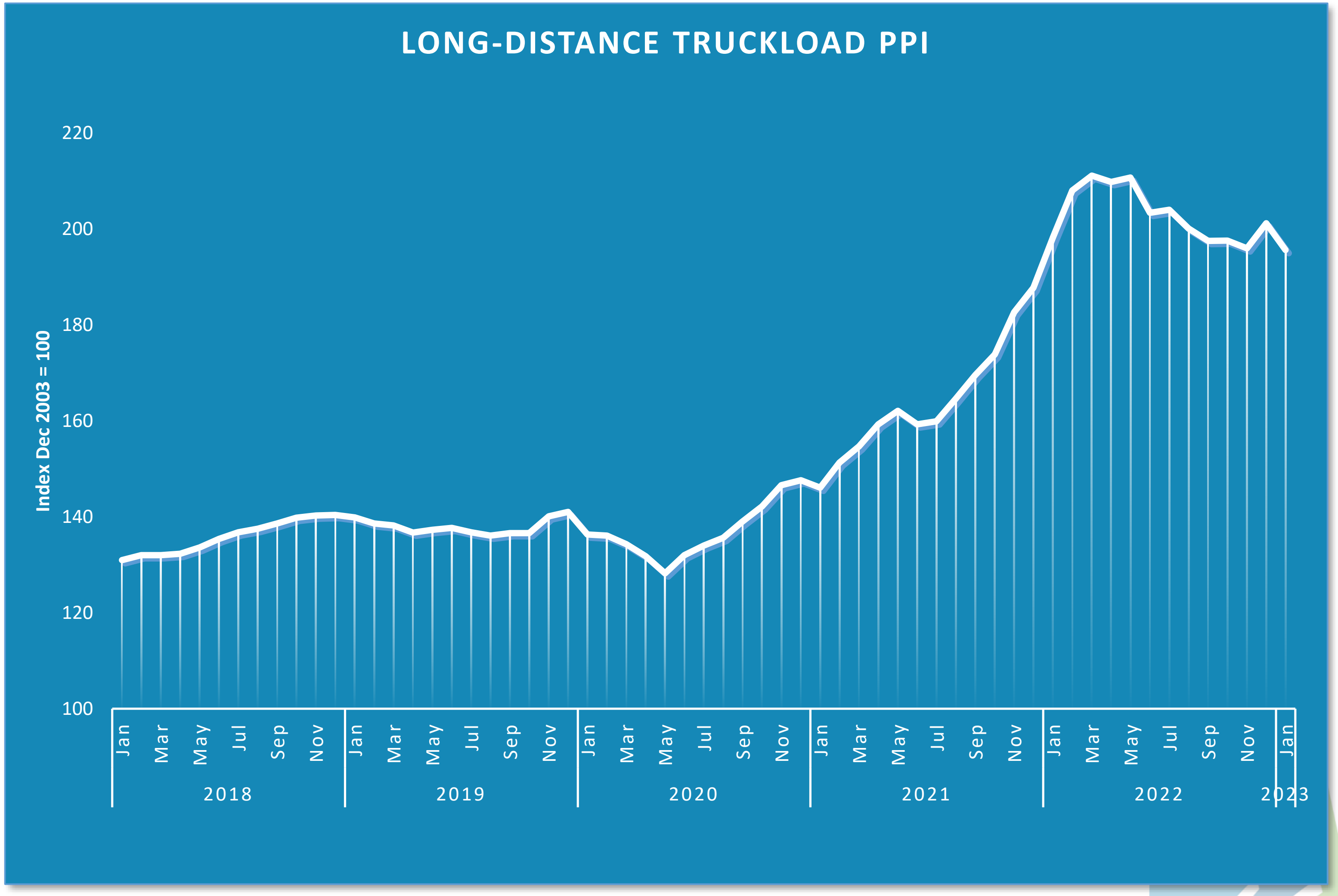
The big picture: The PPI is a group of indexes that measures selling prices domestic producers receive for their output.

- 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 in January after a short rally last month. This wasn't unexpected however as we're entering the slowest time of the year for freight.

- The long-haul PPI decreased 2.8% to 195.6, and has dropped 6.4% since the high in March 2022.
- The PPI is 1.3% lower year-over-year, but 25.2% above the 5-year trend of 156.3.
- Look for rates to continue to slide downward overall until spring, though there might be a bump in rates for some sectors in parts of February.



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

Costs: Diesel Fuel

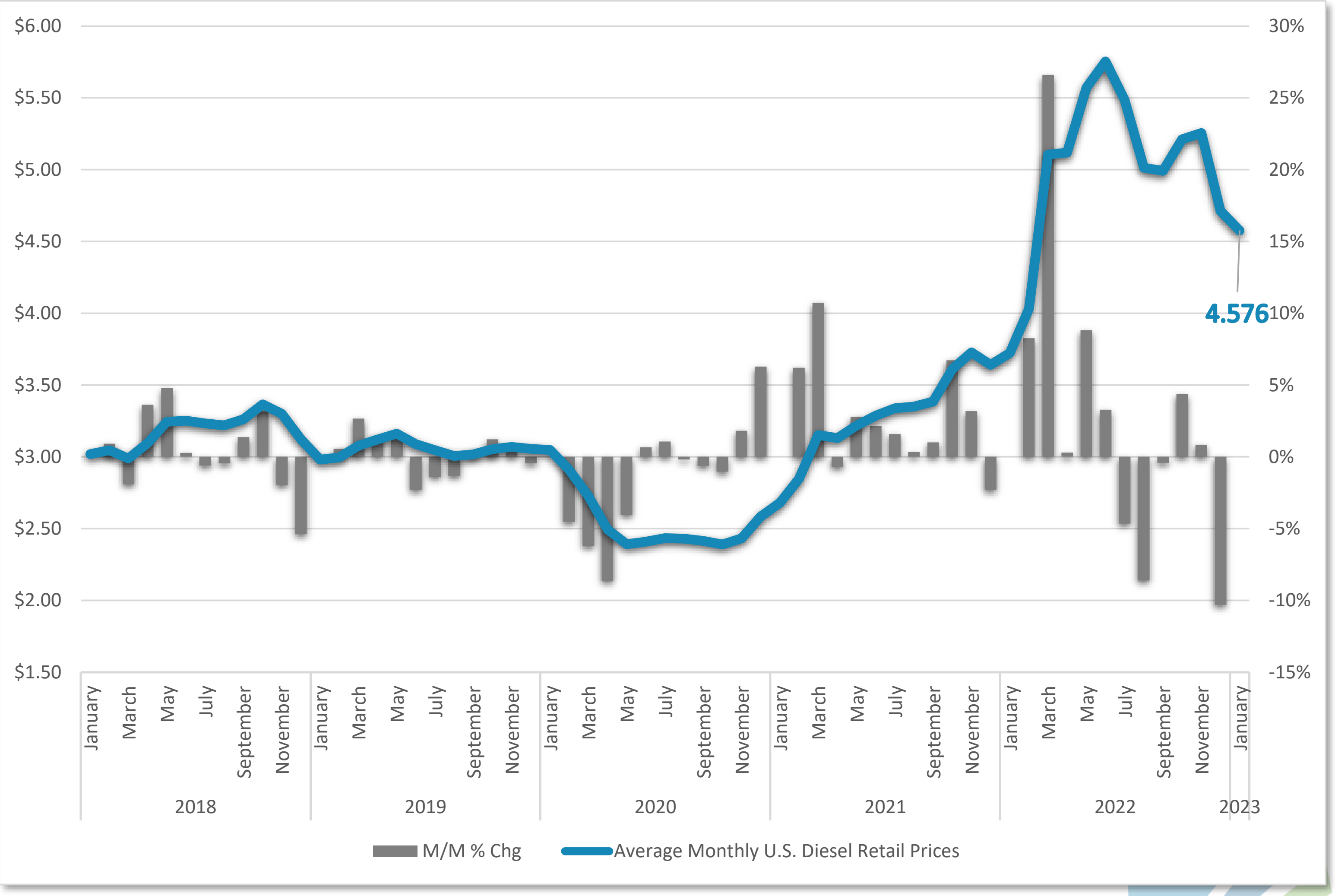
The big picture: The U.S. Energy Information Administration (EIA) tracks the weekly changes in on-highway diesel fuel prices throughout the country.

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 14 cents in January marking the second straight month of decline.

- The average price for diesel fuel decreased 2.9% month-over-month to $4.58 per gallon.
- The average diesel price is 23%, or $0.85, higher year-over-year, and 33% higher than the 5-year trend, or $1.14 more per gallon.
- 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

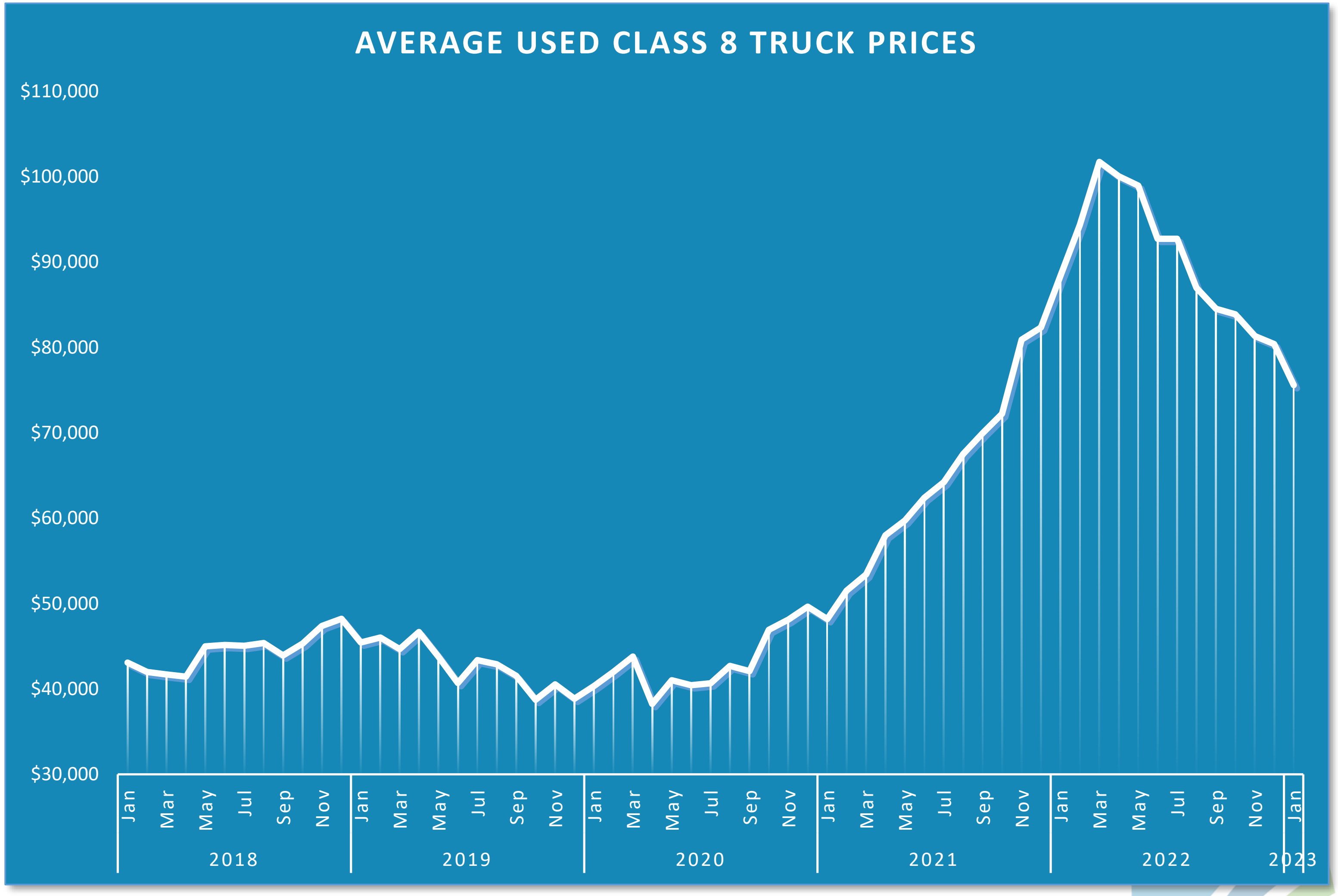
The big picture: Most individuals seeking to become an owner-operator first look to the used truck market due to the high cost of new trucks.

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: Used truck prices continue to drop after jumping to over $100,000 in March 2022, but they are still significantly higher than their pre-pandemic average of $42,000.

- Used Class 8 truck prices dropped for the tenth straight month in January to $75,600.
- **Yes, but** this is still 32% 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 and demand wanes.



Source: 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 and Inventory** 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

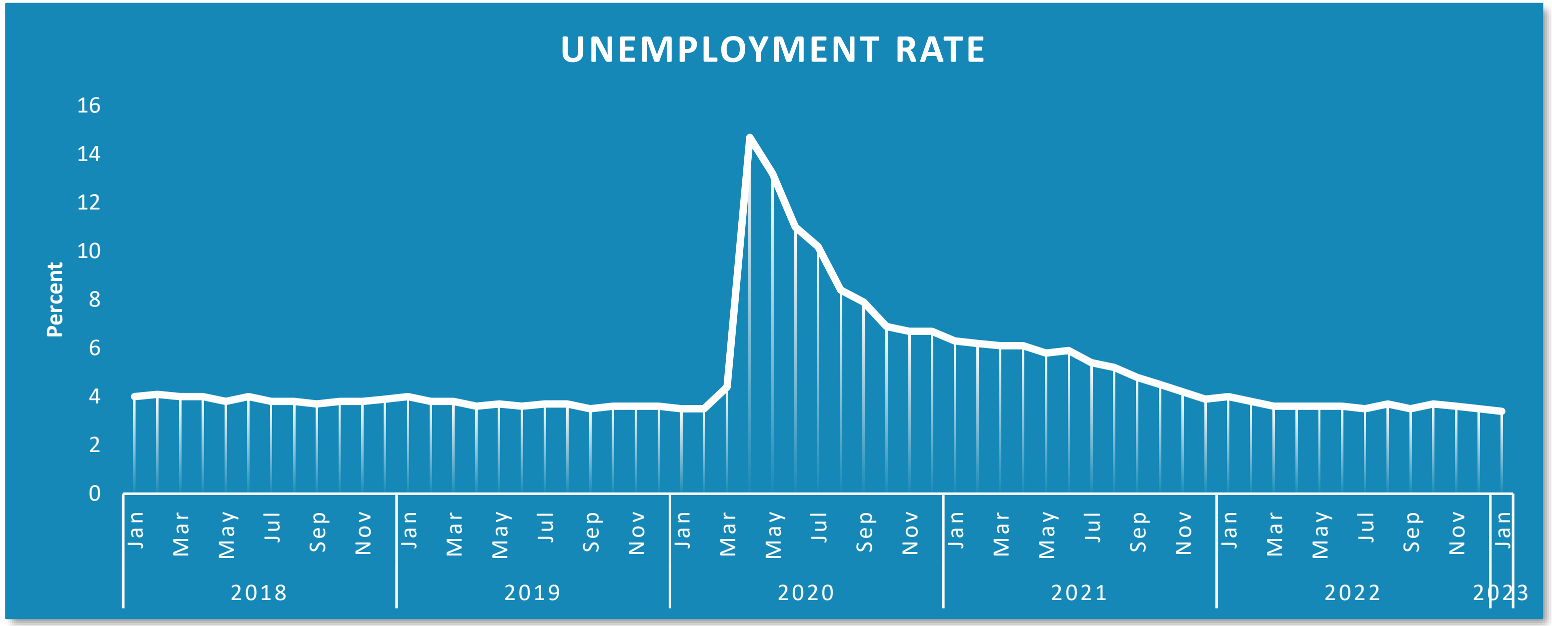
The big picture: Employment levels ultimately have a large impact on consumer confidence, consumer spending, and demand.

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

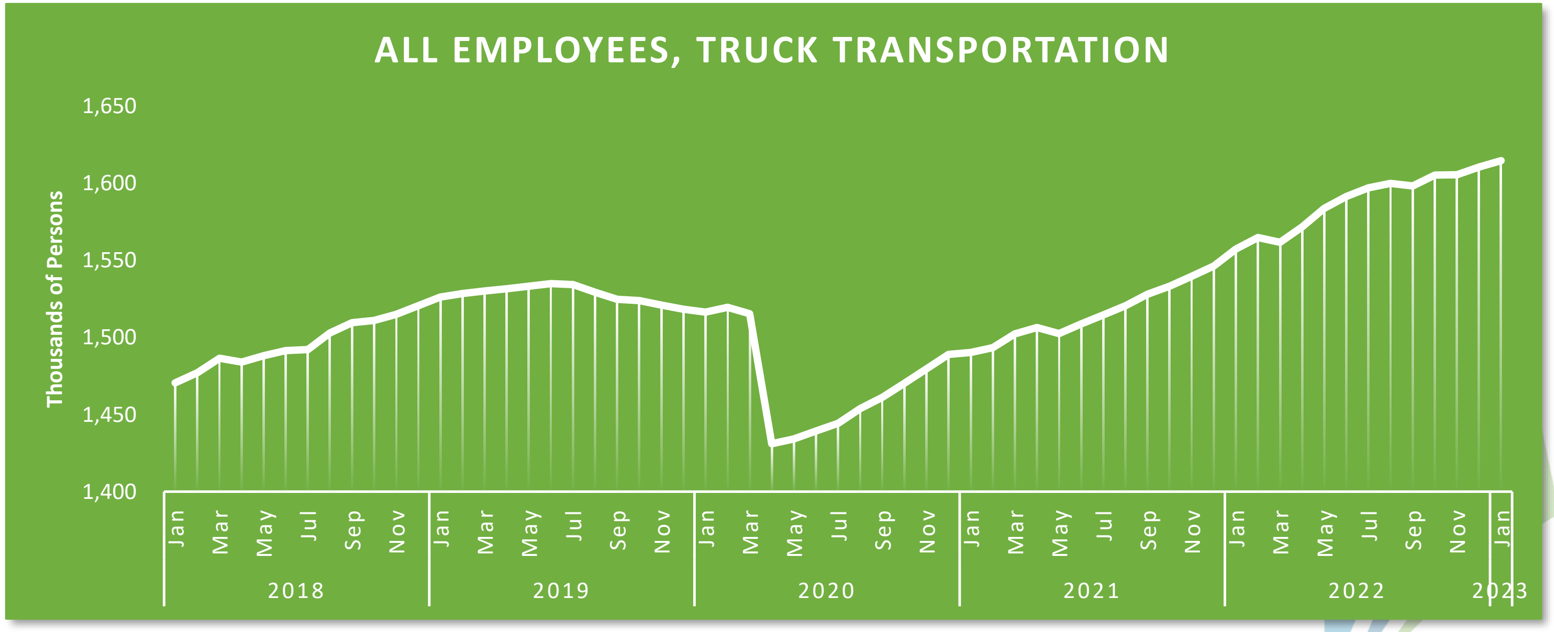
- Overall truck transportation employment is also important, as it helps to show how much capacity is out there in the industry.

Our thoughts: Employment numbers remain strong despite inflationary concerns. Total nonfarm job openings remain elevated, and low weekly initial jobless claims dropped even further in January (29.5%).

- Unemployment overall is 30.8% below the 5-year trend at 3.4%, while unemployment rate for transportation and material moving occupation is 15.5% below the 5-year trend at 5.8%.
- Truck employment increased 0.3% month-over-month in January, to 1.614 million people as job openings in the Transportation, Warehousing, and Utilities sector dropped in December.
- Truck employment is 3.7% higher year-over-year and 6.2% 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.

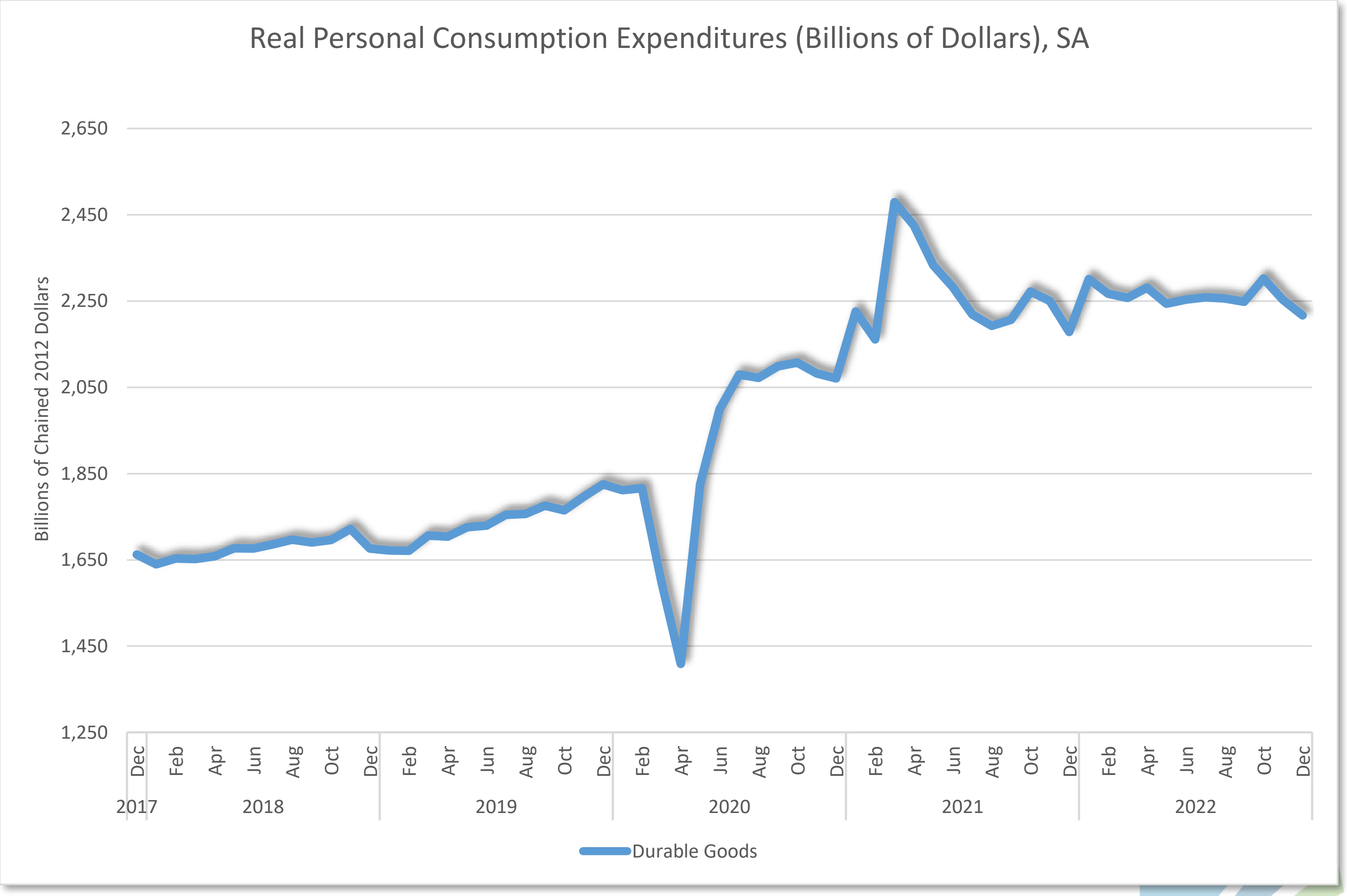
- The PCE measures a broad spectrum of consumer spending for a period of time.

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 December, marking two consecutive months of decline. Volumes have largely flattened since January 2022.

- Consumer spending for durable goods declined 1.6% to $2.217 trillion, 1.8% higher year-over-year and 12.7% above the 5-year trend.
- Spending for non-durable goods ticked down 0.4% to $3.313 trillion, which is 0.8% lower Y/Y and 6.2% 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, Wages, DSR, and Delinquency

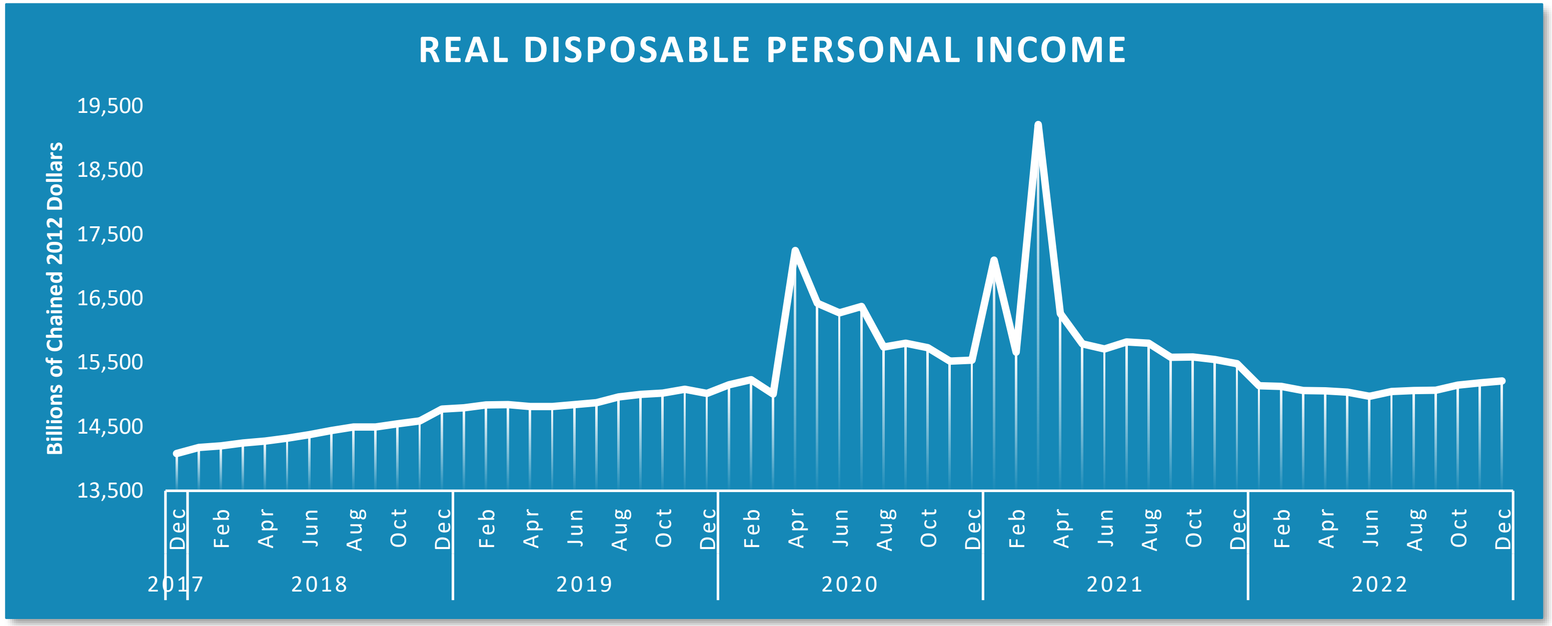
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so to does business and shipping activity.

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

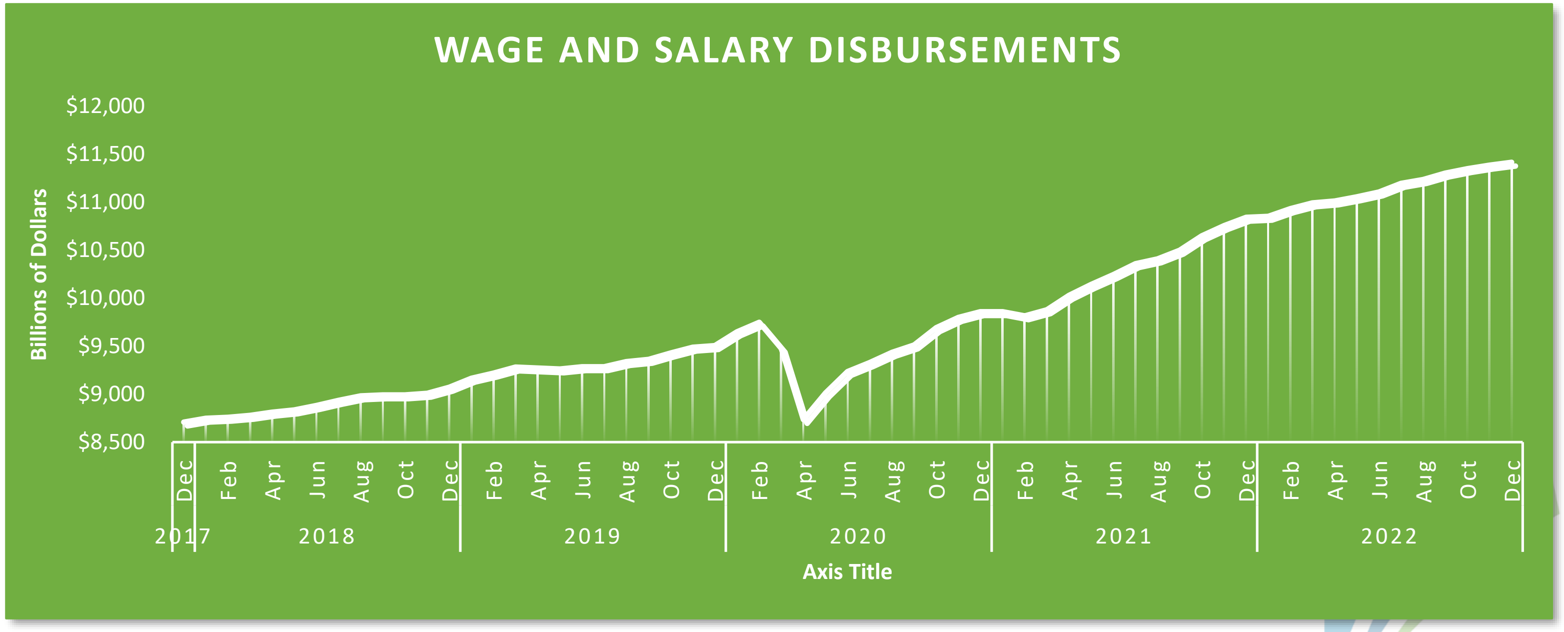
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

Our thoughts: Wages and salaries are 6.2% higher year-over-year and 16.7% higher than the 5-year trend, which has helped to keep disposable income and sales elevated.

- Real disposable income, which is adjusted for inflation, increased 0.2% month-over-month to $15.213 trillion, but is $330.5 billion lower year-over-year.
- Household debt service payments as a percentage of disposable income increased 0.1 to 9.7%, which is 6.7% higher than last year.
- Delinquency rates are also well below their 5-year trends as 97.5% are current. Of those remaining 1.0% are severely derogatory, the lowest since the start of the series in 2003.



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



Source: FRED| https://fred.stlouisfed.org/series/A576RC1 | Monthly

Manufacturing: New Orders: Total Manufacturing

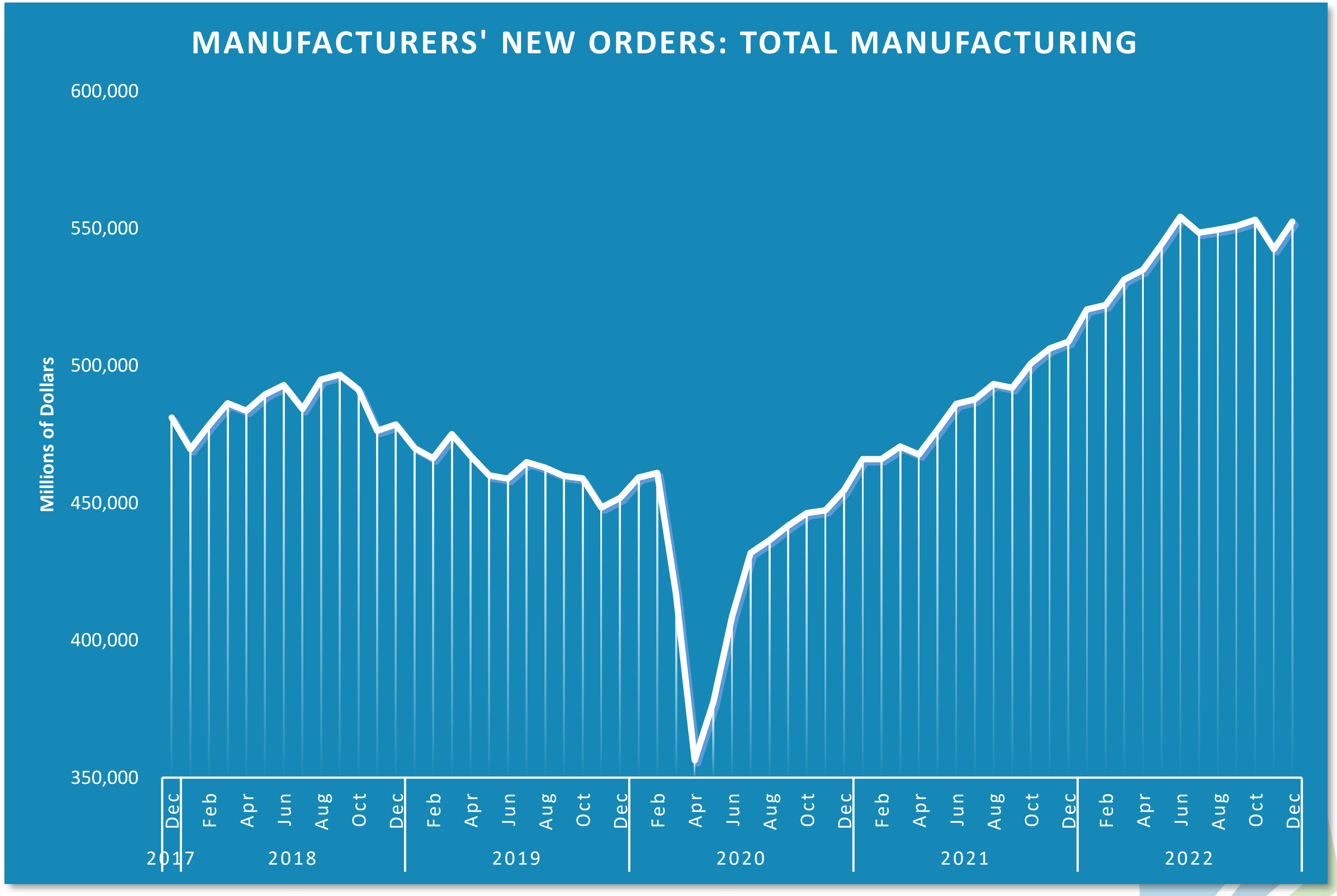
The big picture: Manufacturing new orders are an important economic indicator. They signify an overall direction of the market and economy.

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: New orders manufacturing increased in December after declining 1.8% in November, which could be a sign that some firms in certain sectors are moving to restock their inventories.

- Total manufacturing rose 1.8% month-over-month to $552.5 billion.
- Total manufacturing is $43.7 million, or 8.6%, higher year-over year and $71.9 million, or 13.4%, above the 5-year trend.
- Elevated figures will provide some cushion for demand.



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

Manufacturing: Manufacturers with Unfilled Orders

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."

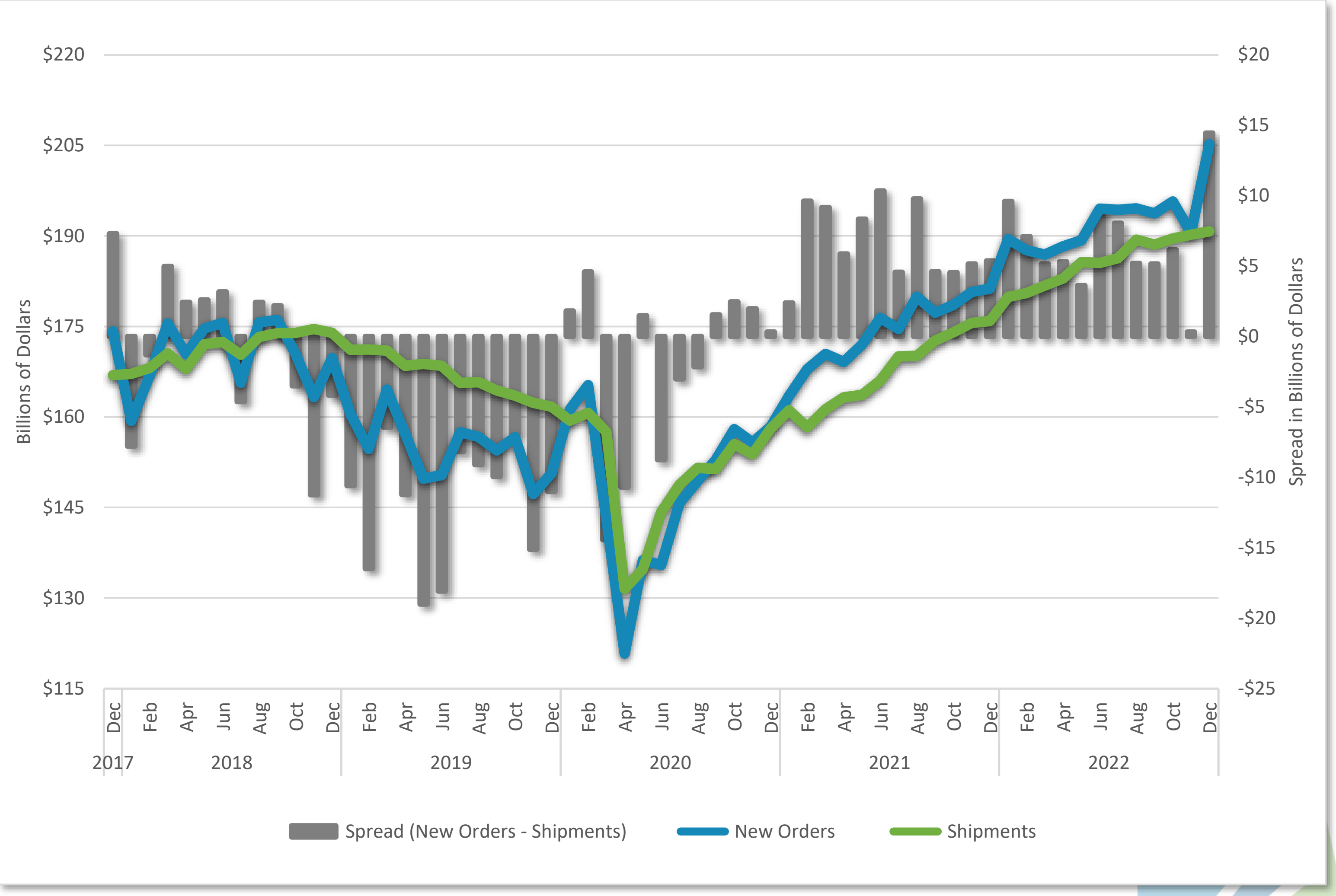
- This represents 70% of durable goods manufacturing by value.

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.

- This expansion or contraction in activity, as captured by the spread between the two, coincides with trucking cycle.

Our thoughts: The data from the Census Bureau suggests that manufacturing activity is still strong. New orders once again eclipsed shipments, after shipments almost took the upper hand in the previous month following adjustments.

- New orders jumped 7.7% to $205.17 billion in December, and are 13% higher year-over-year.
- Shipments increased slightly by 0.3% to $190.72 billion.
- The spread between new orders and shipments spiked from $316 million to $14.4 billion.
- This is a positive sign, but we know from the ISM Manufacturing PMI that back orders are contracting for many firms.



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

Manufacturing: ISM Manufacturing PMI

The big picture: The Institute for Supply Management's (ISM) Manufacturing PMI is a diffusion index based on data compiled from purchasing and supply executives.

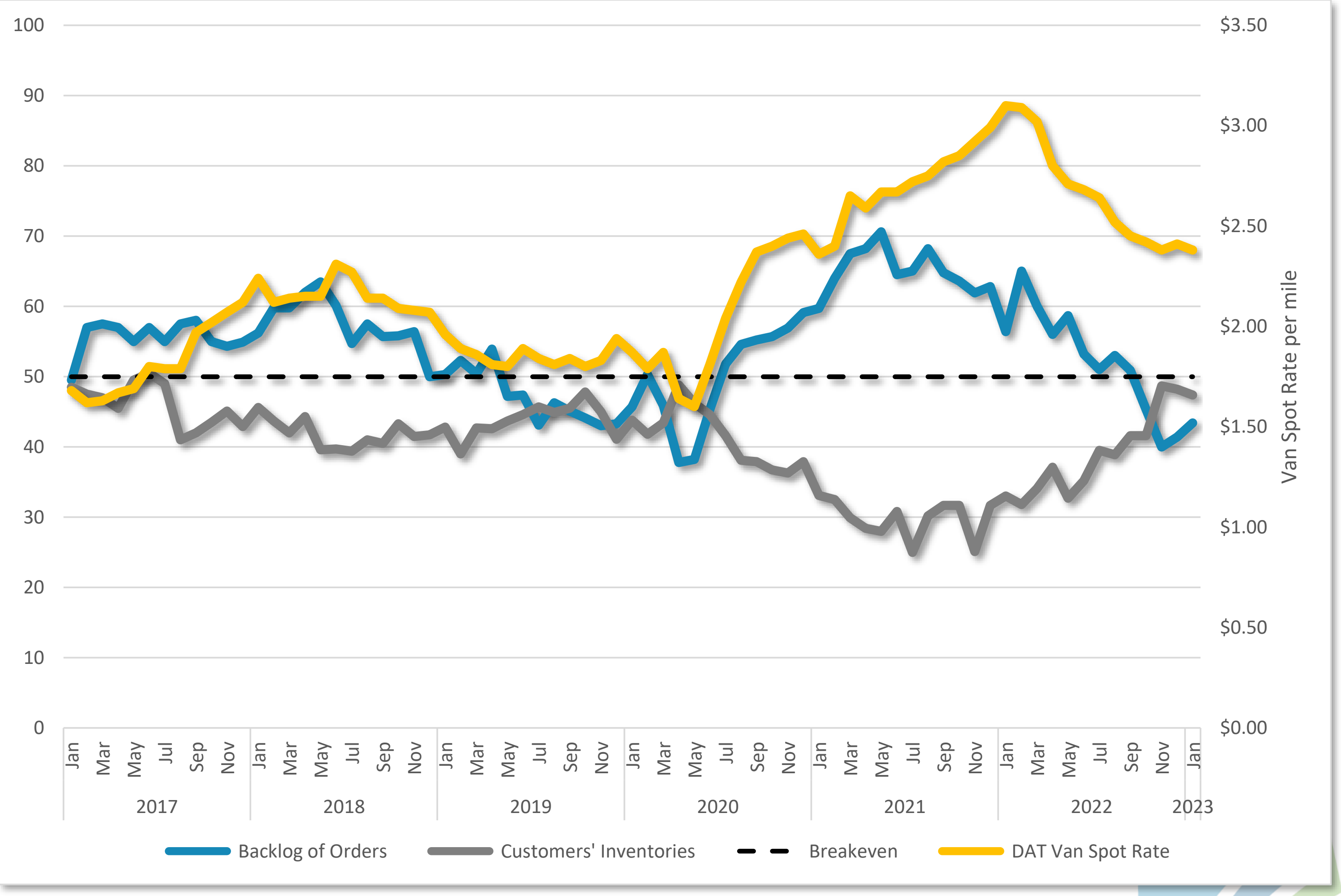
- The PMI measures ten different leading indicators, including new orders, production, backlogs, inventories, etc.
- Any number below 50 is indicates contraction, while any number above 50 indicates expansion.

Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart.

- When backlogs drop and customers' inventories move upward, rates rise. The opposite is also true.

Our thoughts: Backlogs rose in January as customers' inventories dropped slightly, which helped to prop up rates. Backlogs jumped 4.8% month-over-month to 43.4, but are still in contraction territory. Backlogs are 27% lower than last year.

- Customers' inventories declined 1.7% to 47.4 and are 43% higher year-over-year.
- **The bottom line:** Backlogs are contracting under customers' inventories, which could be a bad indicator for demand as large backlogs help generate freight.



Source: ISM | https://www.ismworld.org/supply-management-news-and-reports/reports/ism-report-on-business/ | Monthly

Inventory: Machinery Wholesalers Inventories to Sales Ratio

The big picture: The inventories to sales ratios show the relationship of the end-of-month values of inventory compared to monthly sales.

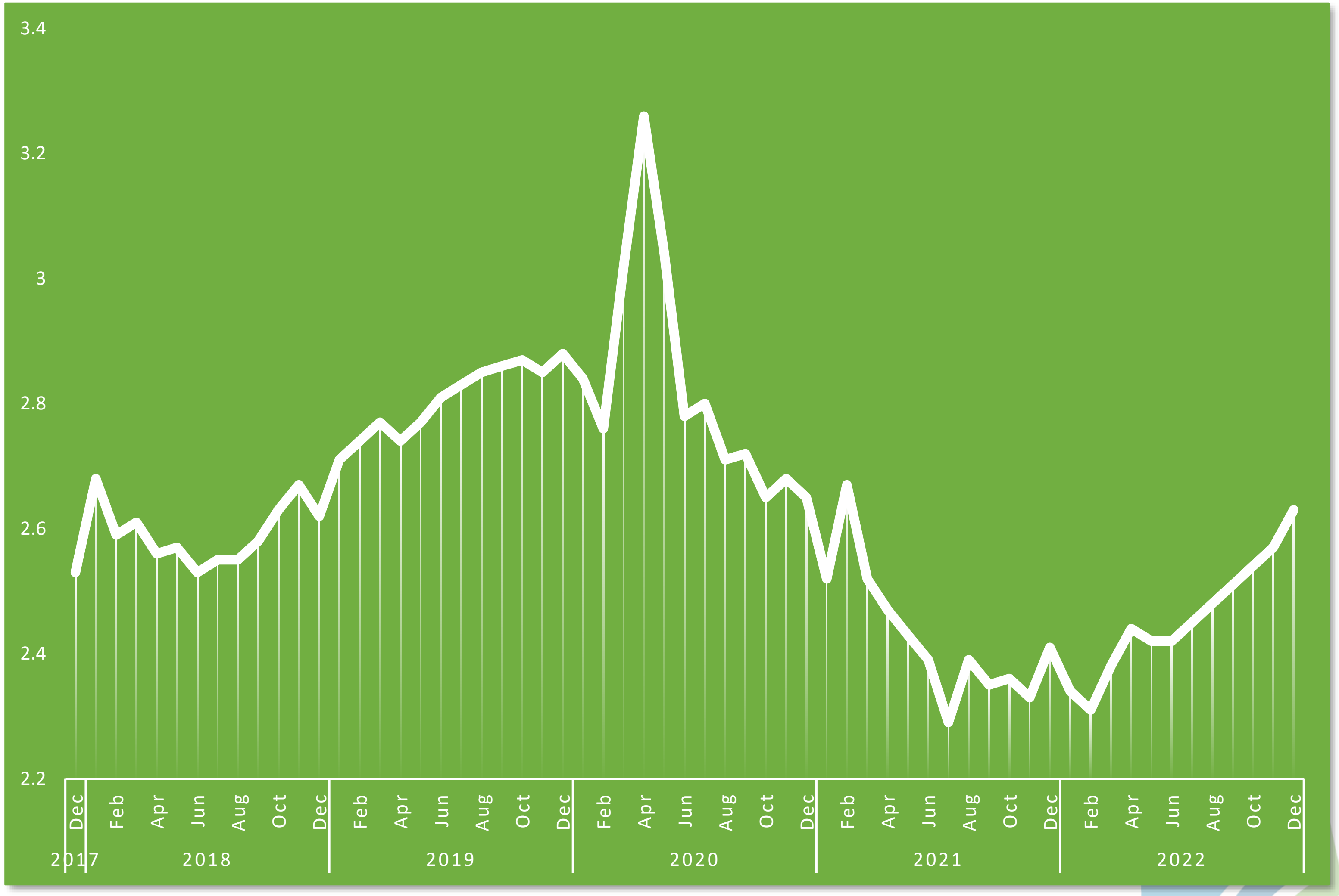
- For example, a ratio of 2.5 would indicate that a firm has enough product on hand to cover two and a half months of sales.
- The machinery, equipment, and supplies wholesalers ratio consists of firms that sell bulldozers, farm equipment, industrial machines, supplies for those machines, and transportation equipment excluding motor vehicles.

Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

- When inventory levels are high, spot rates contract, while the opposite is also true.

Our thoughts: Inventory levels are climbing rapidly after falling at the onset of the pandemic in this sector, which is helping to depress demand and lower rates.

- The inventories-to-sales ratio increased 2.3% month-over-month in December to 2.6, marking six consecutive months of growth.
- The ratio is 12.9% higher year-over-year and 0.3% above the 5-year trend.



Source: FRED| https://fred.stlouisfed.org/series/R4238IM163SCEN#0 | Monthly

Ocean: Exports and Imports

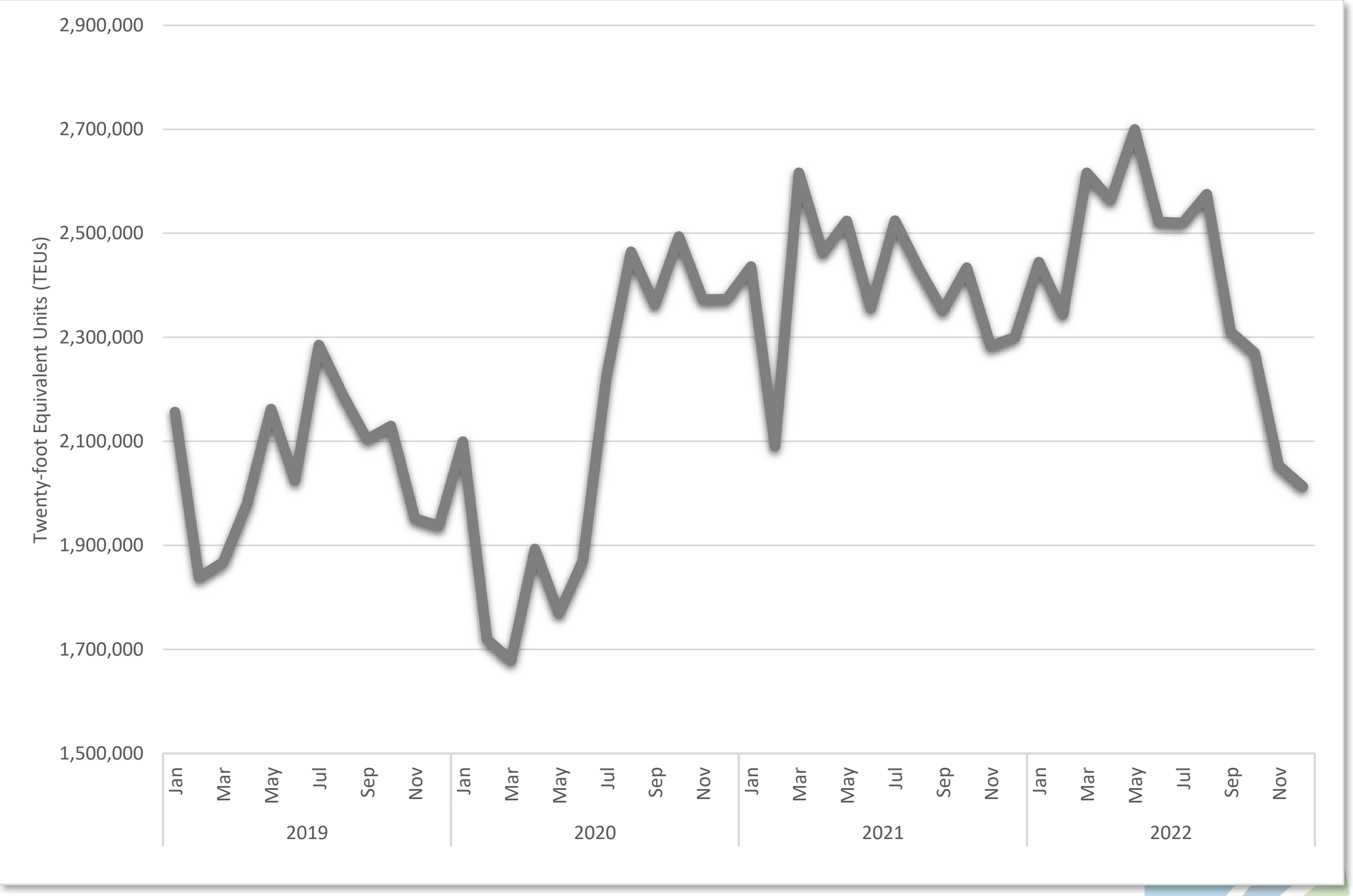
The big picture: It's common today to see products from all over the world in local stores as we truly live in a global economy.

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** exports and imports are not a large driver of freight movement overall compared to manufacturing.

Our thoughts: Both imports and exports decreased month-over-month, marking the second consecutive month where they have decline together.

- Exports, which are a month behind imports, dropped in November to 935,858 twenty-foot equivalent units (TEUs).
- Imports dropped 4.1% in December to 2.01 million TEUs, marking the fourth straight decline.
- Imports are 287,750 TEUs, or 13%, lower year-over-year, and 10% below the 5-year trend.
- **The bottom line:** the deficient between the two is on the decline, which could indicate more rough waters ahead.



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:

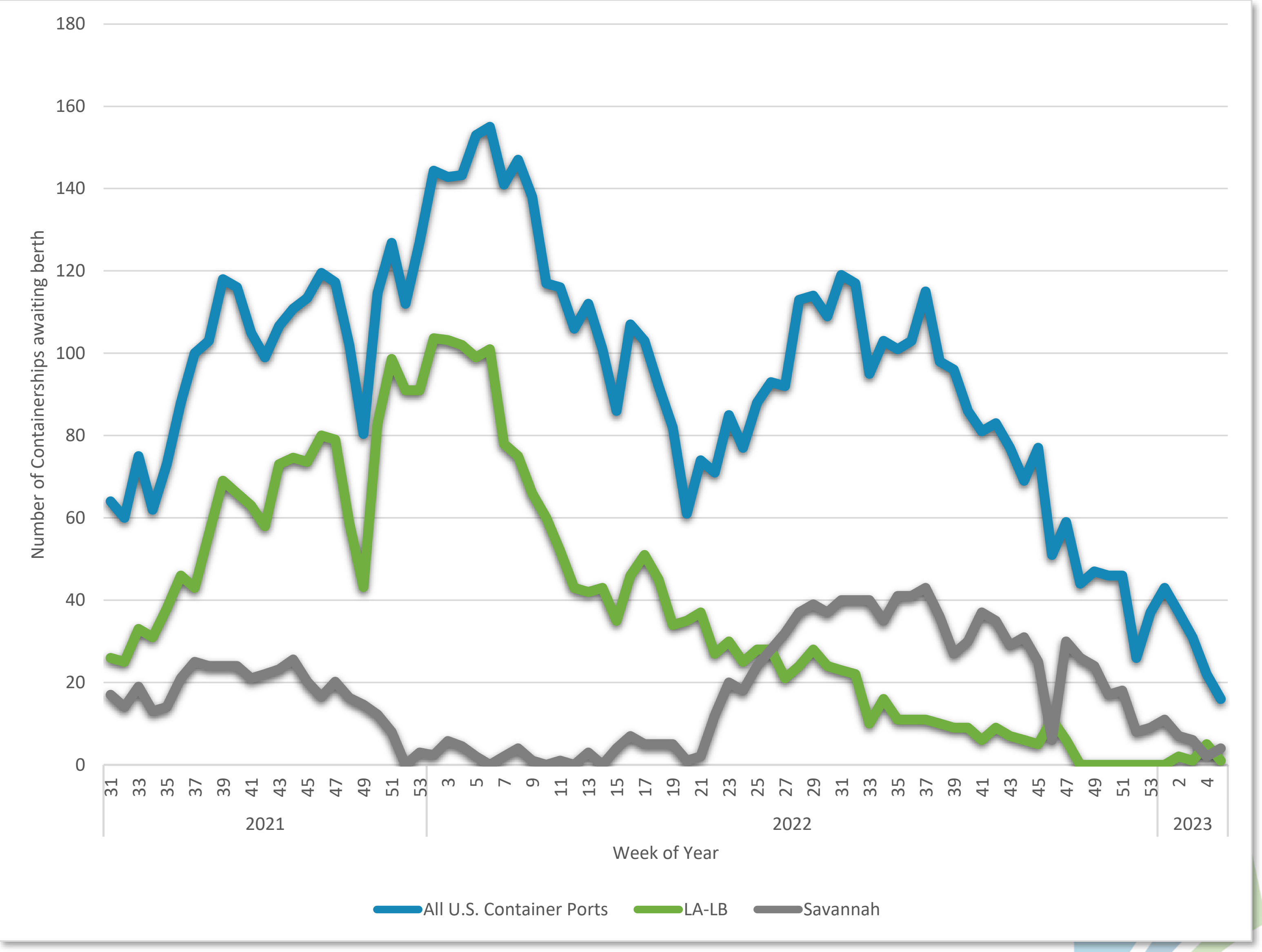
1. Record-levels of demand, and thereby freight volume.
2. Supply chain inefficiencies which helped to push spot rates even higher in 2021.

Our thoughts: Ports continue to be less congested around the country.

- Containerships awaiting berth overall, have dropped 89% 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 declined to 67 days, while far east westward (FEWB) bound cargo increased to 76 days.
- **Yes, but** 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.

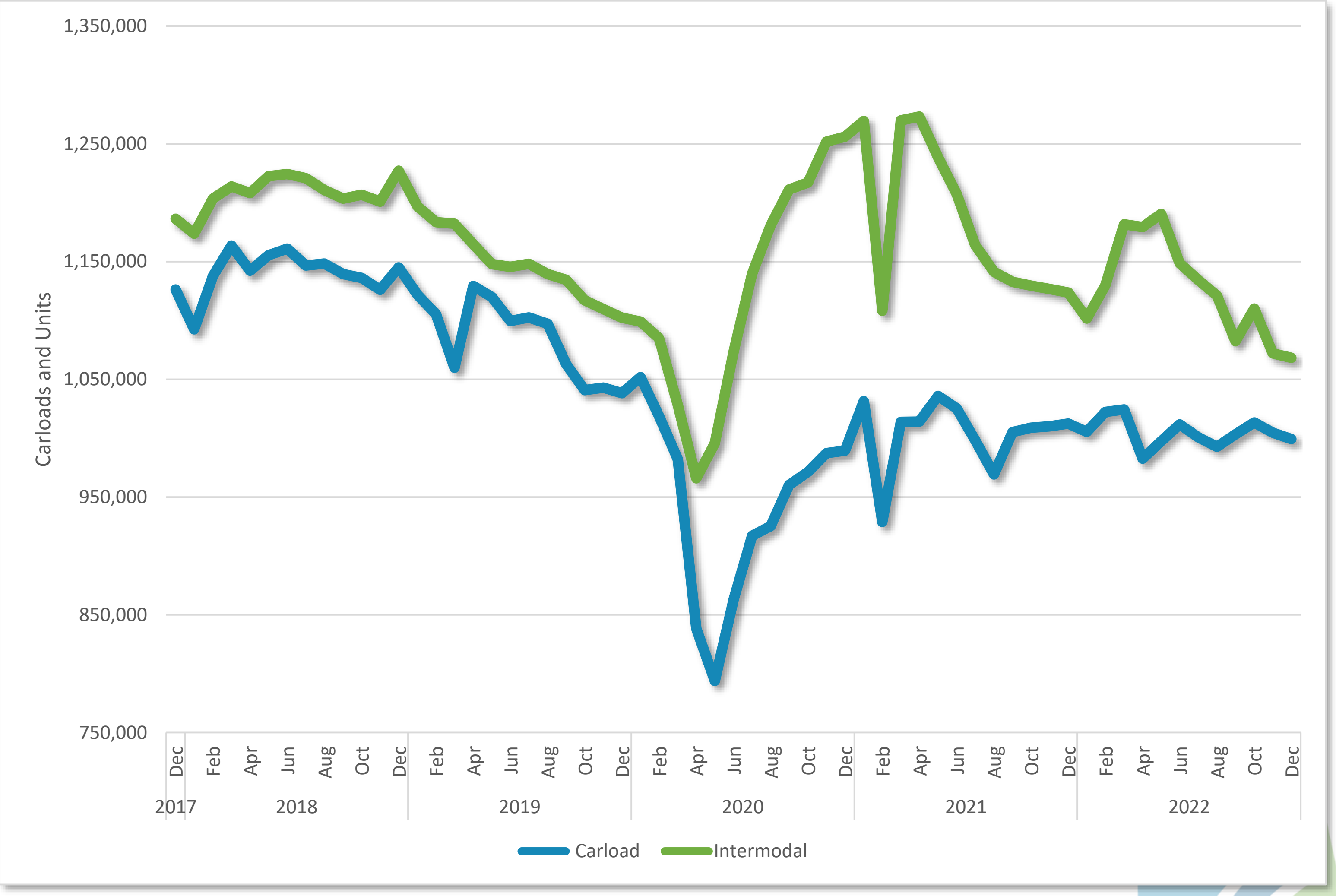
- While the rail and truck industries often compete with each other, they also work hand in hand.

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: Rail carloads continue to slide downward as intermodal containers and trailers remains relatively flat. This could potentially mean few loads downstream.

- Carloads decreased 0.5% month-over-month to almost 1 million, and are down 1.3%, or 13,222 carloads, year-over-year.
- Intermodal decreased 0.4% to 1.06 million, and are down 4.9%, or 55,375 loads, year-over-year.
- Both carloads and intermodal are below their 5-year trend line by 3.6% and 7.8% respectively.



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

Market Summary

Volume

Flat

Demand

Flat

Capacity

Very Loose

Rates

Bottoming

Operating Costs

High

Future Outlook

Concerned

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1 NW OOIDA Drive | PO Box 1000 | Grain Valley, MO 64029 | Tel: (816) 229-5791

E-mail: FoundationDept@ooida.com | Website: www.ooida.com/foundation