OOIDA Foundation

RESEARCH
SAFETY
EDUCATION

February 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. Merchant Wholesalers
2. Furniture and Household Furnishing Wholesalers
3. Household Appliances, Electrical, and Electrical Goods Wholesalers
4. Advanced Retail Sales Categories

Demand: Van Load-to-Truck Ratios

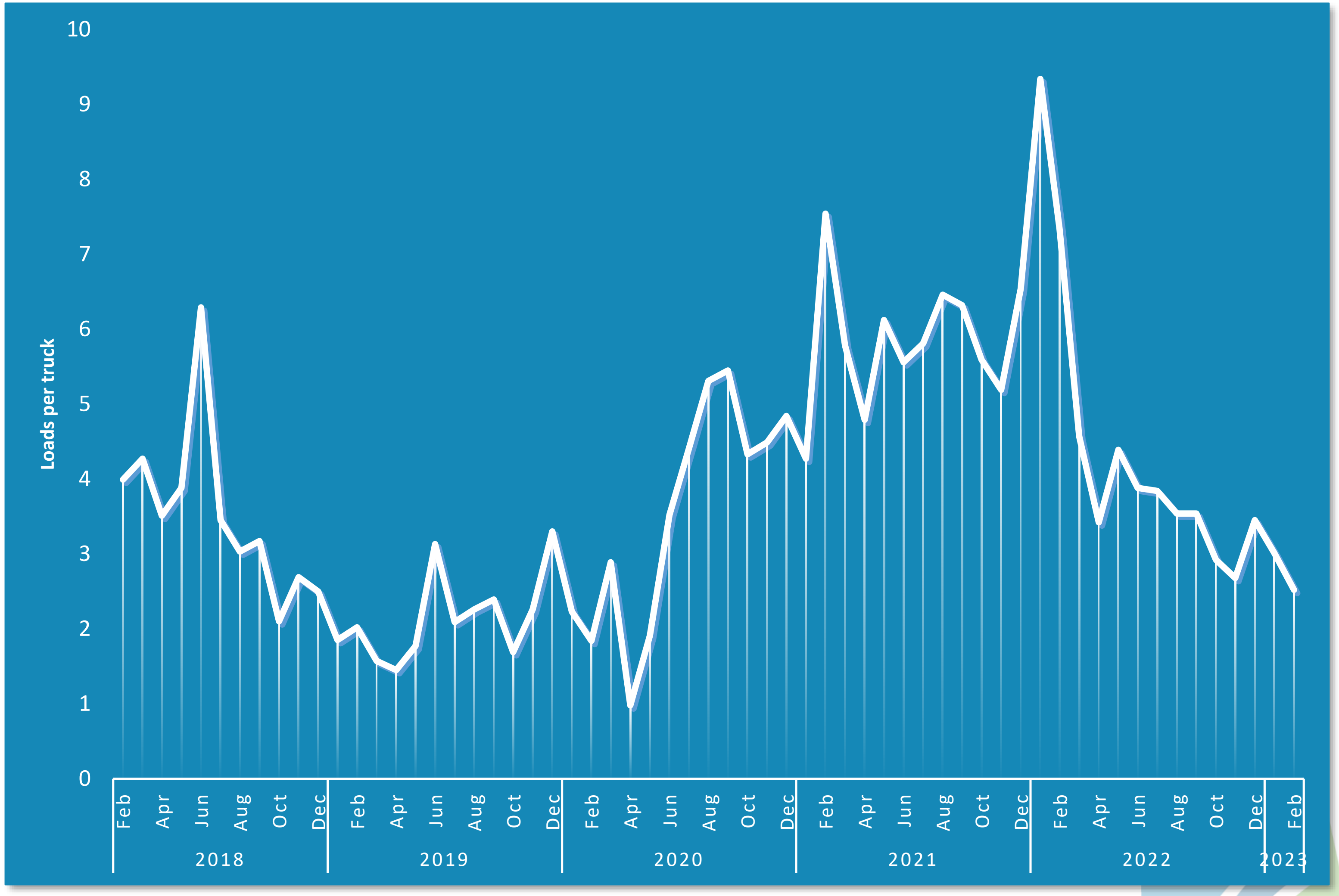
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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 again in February 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 16.3% month-over-month to 2.52, marking the second consecutive month of decline.
- The ratio is 66% lower than last year and 35% lower than the 5-year trend.
- Load posts are comparable to 2018 levels, but equipment posts are similar to 2022.



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

Rates: Van Spot and Contract Rates

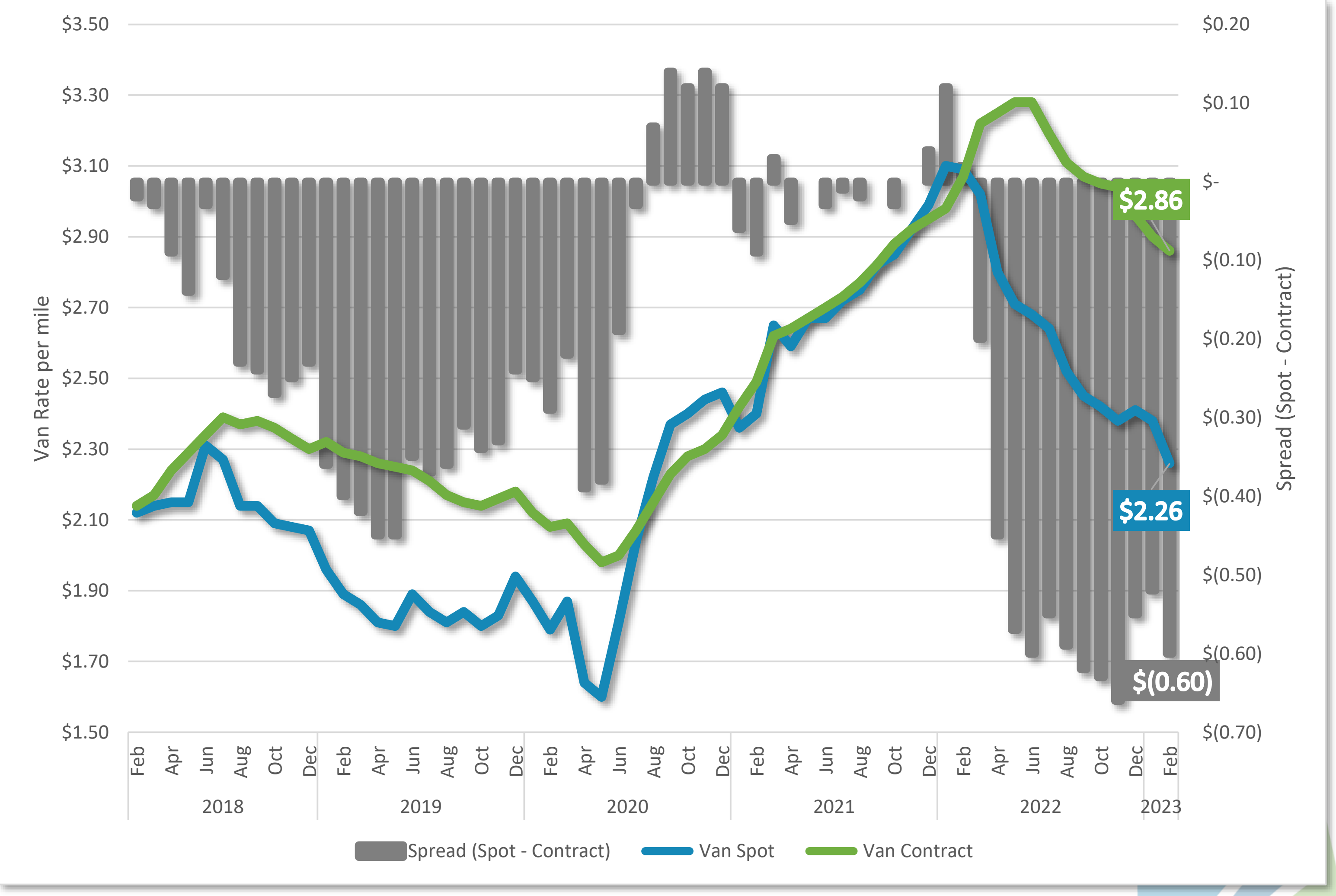
The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

- 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 second quarter of the year.

- Spot rates for vans decreased by $0.12 per mile month-over-month in February, marking two straight months of decline, and have dropped $0.83 per mile since last year.
- Contract rates decreased $0.04 per mile. However, the spread between contract rates and spot rates grew 15.4% to $0.62 per mile.
- Spot rates are 1% below the 5-year trend, while contract rates are 14% higher.
- DAT expects spot rates excluding fuel to move downward about 10 to 15 cents per mile toward the middle of April. Unfortunately, DAT's models don't expect seasonality to take hold, which usually has rates increasing at the start of April.



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

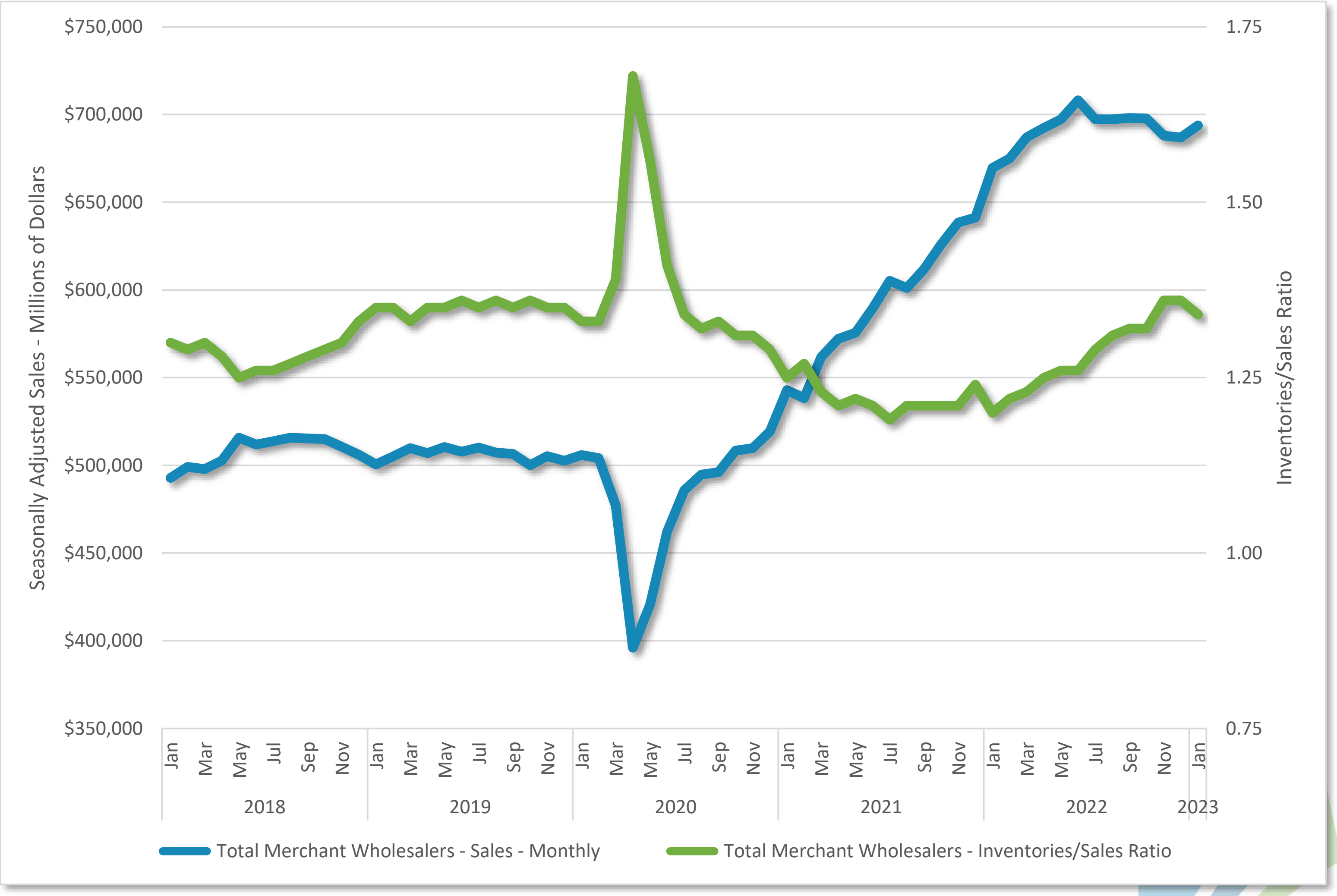
- The U.S Census Bureau reports monthly sales data and inventory-to-sale ratios for different types of industries.

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 overall, while monthly sales have mostly stalled, which has dampened truck demand and pushed rates downward. Inventories will need to decline before demand picks back up.

- Sales increased 1% month-over-month in January, and have increased 3.6%, or $24.2 billion, since last year.
- Ratios dropped 1.5% month-over-month, but have grown 11.7%, or 0.11, since last year. Ratios are 3% higher than the 5-year trend.



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

Wholesale Trade: Furniture and Appliances

The big picture: The U.S. Census Bureau reports monthly sales and inventory data for different types of industries, including:

- Furniture and Home Furnishings
- Household Appliances, Electrical, and Electrical Goods

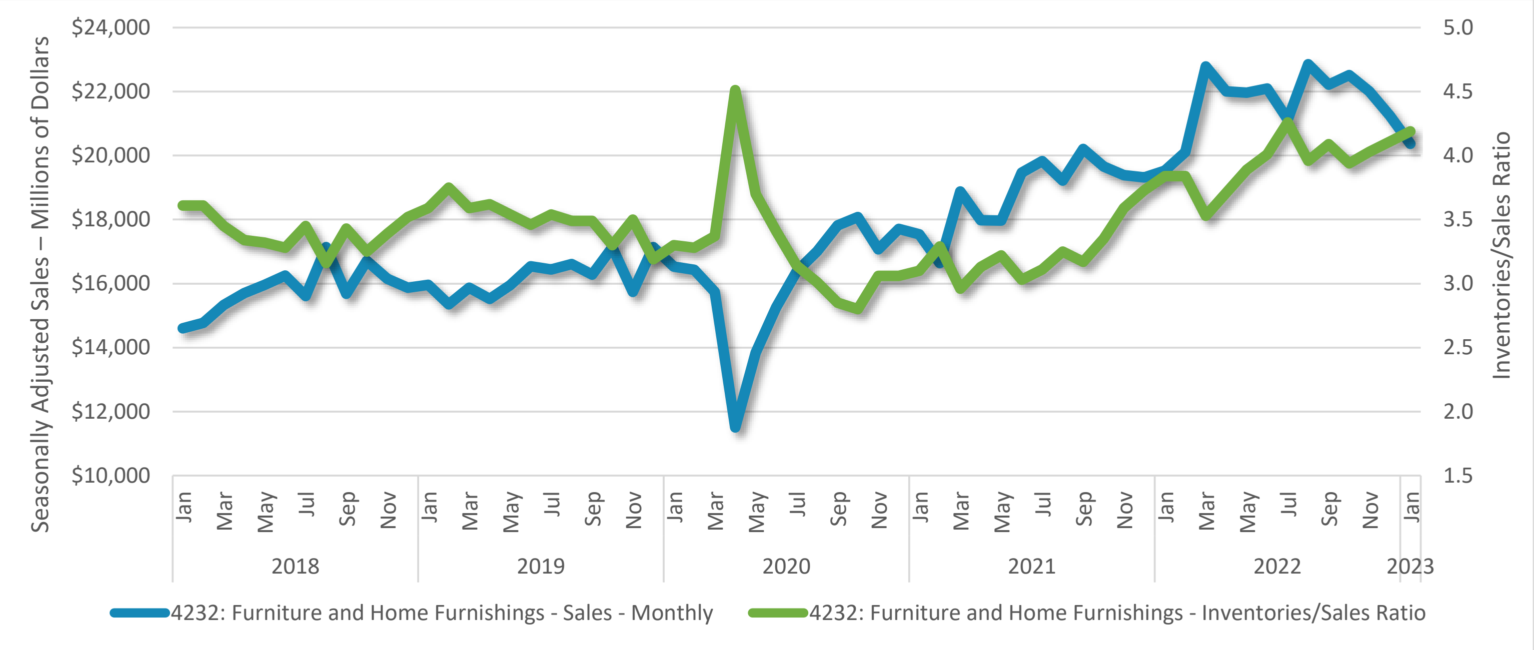
Why it matters: Large appliances and furniture generate freight for the dry van segment of the industry.

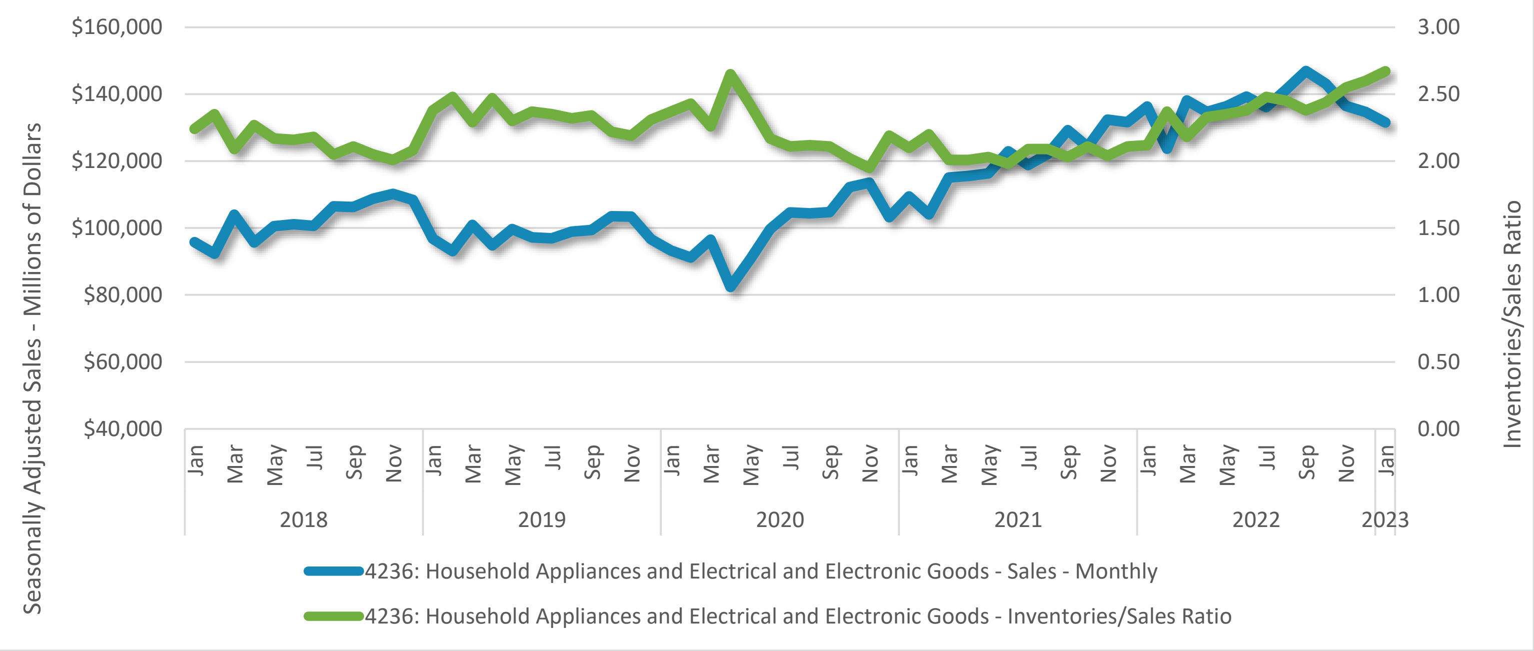
- Sales and inventories can help an owner-operator to see what direction freight demand is headed.

Our thoughts: Inventory-to-sales ratios continue to pile up, while monthly sales have dipped since September 2022.

- Furniture Sales decreased 4.1% month-over-month, marking three straight months of decline, while ratios increased 1.9%.
- Compared to last year, sales increased $839 million as ratios have increased 9.1%.
- Household appliances sales decreased 2.4%, marking four consecutive months of decline, and ratios increased 2.7%.
- Sales decreased $4.8 billion since last year, as ratios have increased 25.9%.

The more inventory that businesses have on hand, the less they need freight transportation to restock their goods. This helps explain why the dry van segment has been struggling since early 2022.





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:

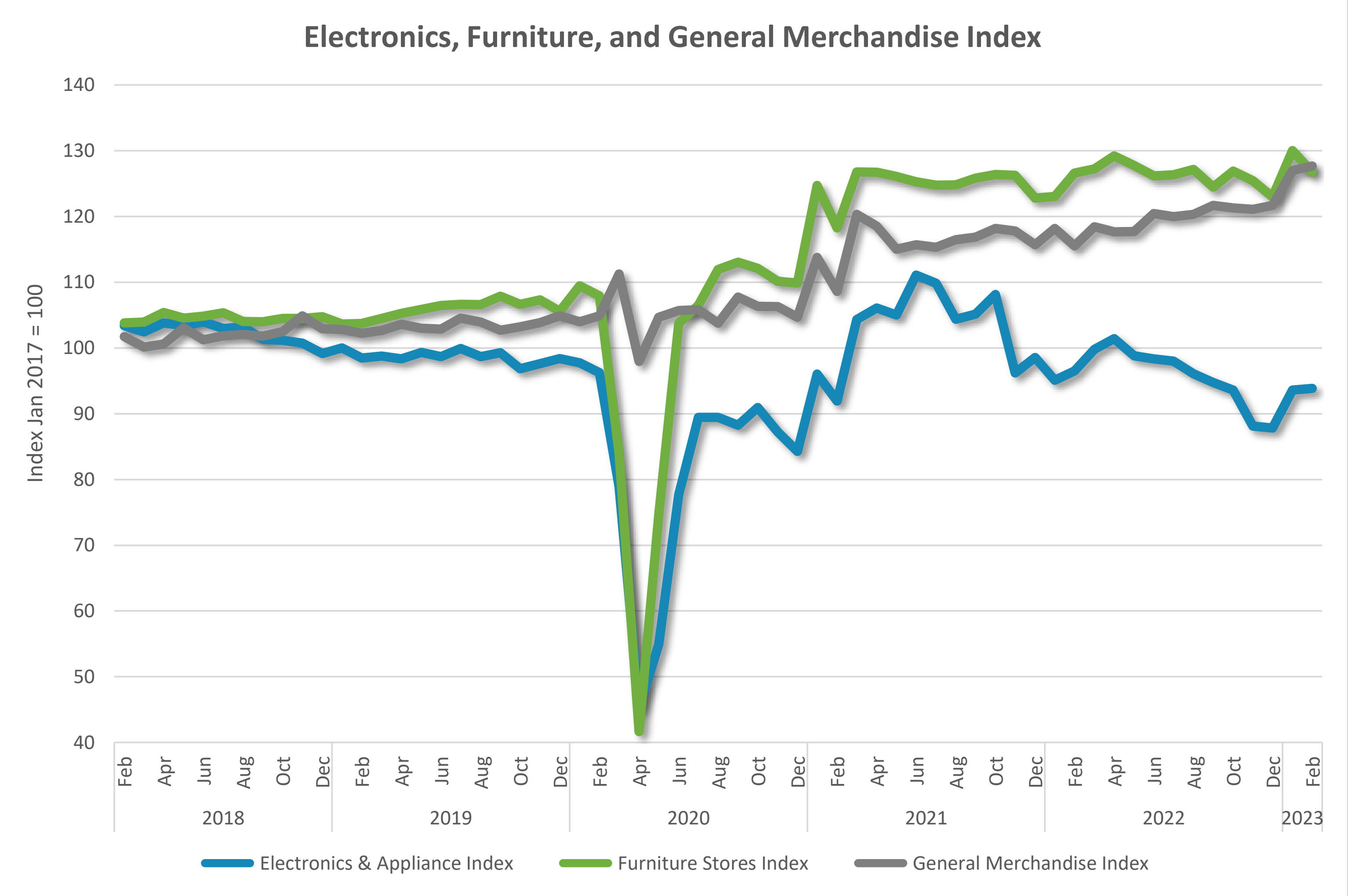
- Electronics and appliance stores (EAS)
- Furniture stores (FS)
- General merchandise stores (GMS), such as Walmart, Target, Costco

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: Seasonally adjusted retail sales bumped up again in February for EAS and GMS, while FS sales declined as the sidewise trend continues for all three.

- EAS rose 0.3%, or $20 million, month-over-month to $7.2 billion, marking two consecutive months of increases. EAS is 2.8%, or $206 million, lower year-over-year.
- FS declined 2.5%, or $311 million, M/M to $12.04 billion, and is 0.1% higher Y/Y.
- GMS ticked up 0.5% M/M to $73.8 billion, and is up 10.5%, or $7 billion Y/Y.



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

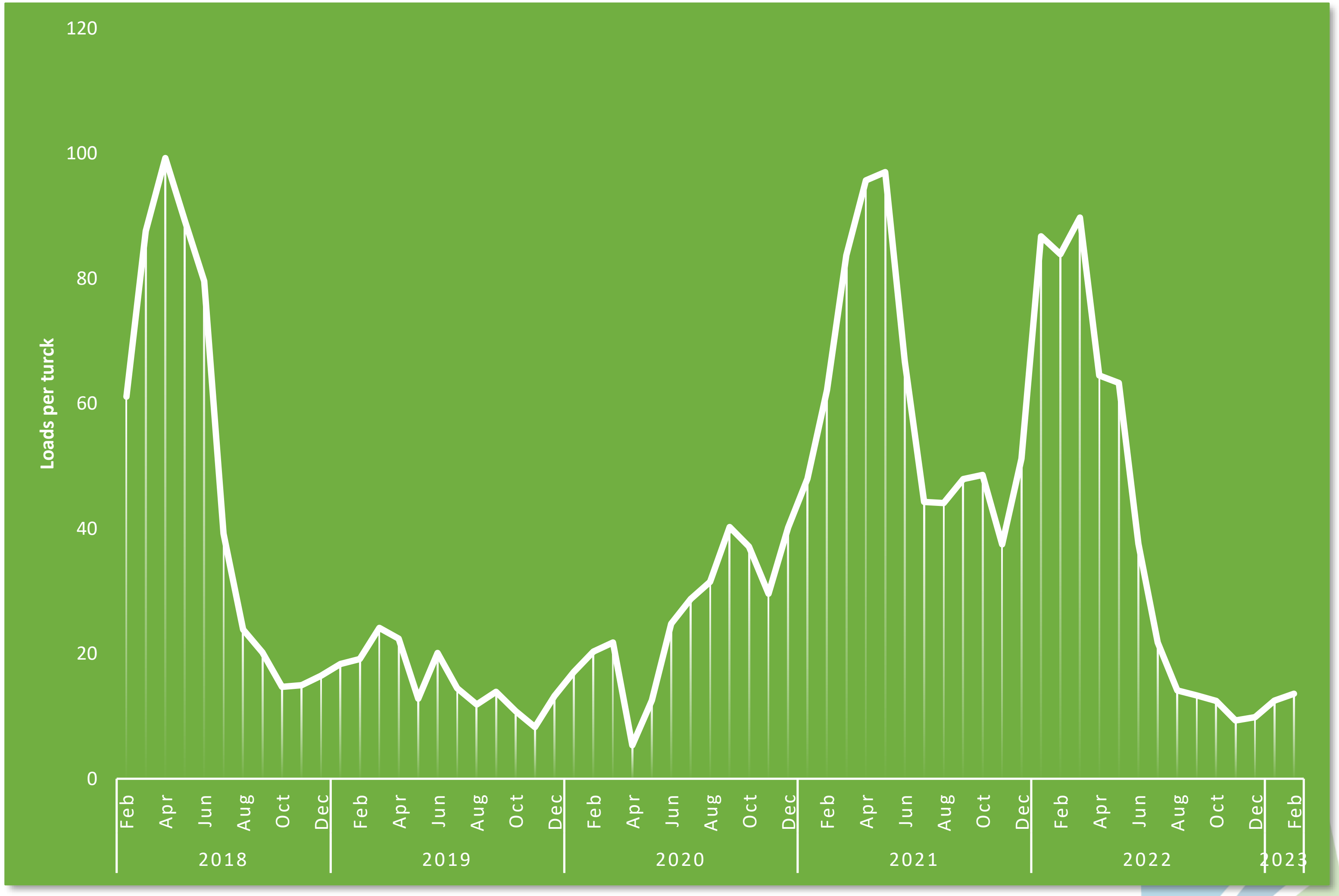
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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 continue to increase and are up over 30% in March even as equipment posts remain the same, which is driving the ratio upward.

- The Flatbed Load-to-Truck Ratio increased 9.1% month-over-month, marking three consecutive months of increases.
- The ratio has declined 84% since last year, from 83.9 loads for every truck to 13.6.
- 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.

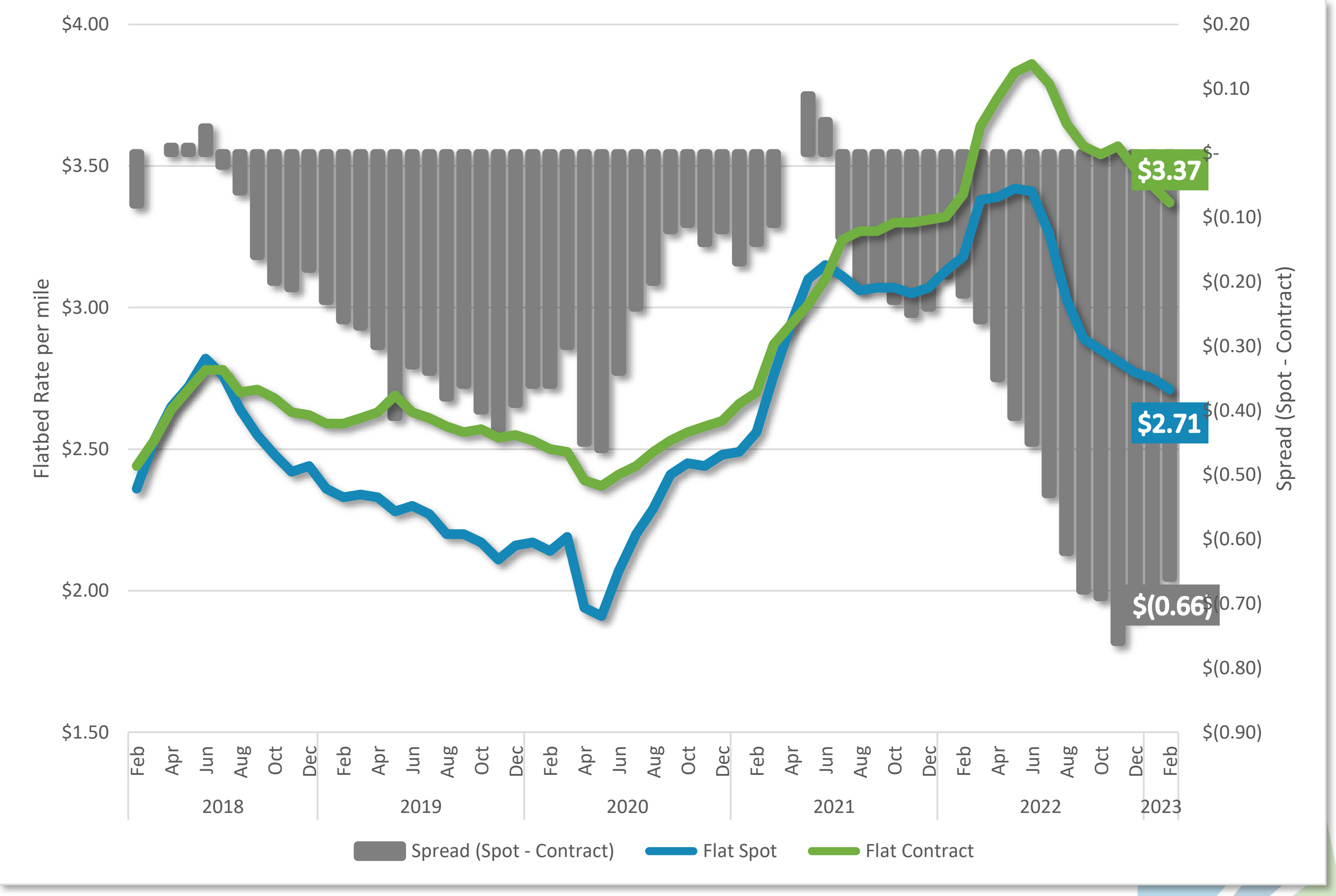
- RateView's database is comprised of more than $110 billion in freight bills in over 68,000 lanes

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 seventh consecutive month, while contract rates decreased for third straight month.

- The spot market declined $0.04, or 1.5%, to $2.71 per mile month-over-month, and has dropped $0.47 since last year.
- The contract market decreased $0.06, or 1.7%, to $3.37 per mile, which is still $0.03 lower than last year and $0.46 above the 5-year trend.
- The spread between contract and spot declined 2.9% to $0.66, which is 200% higher than a year ago when it was $0.22.

DAT predicts that spot rates excluding fuel will continue to strengthen heading into the spring season as they typically do. DAT expects rates to increase about $0.05 per mile heading into the first part of April and then drop off a few cents as we moved toward the middle of the month.



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.

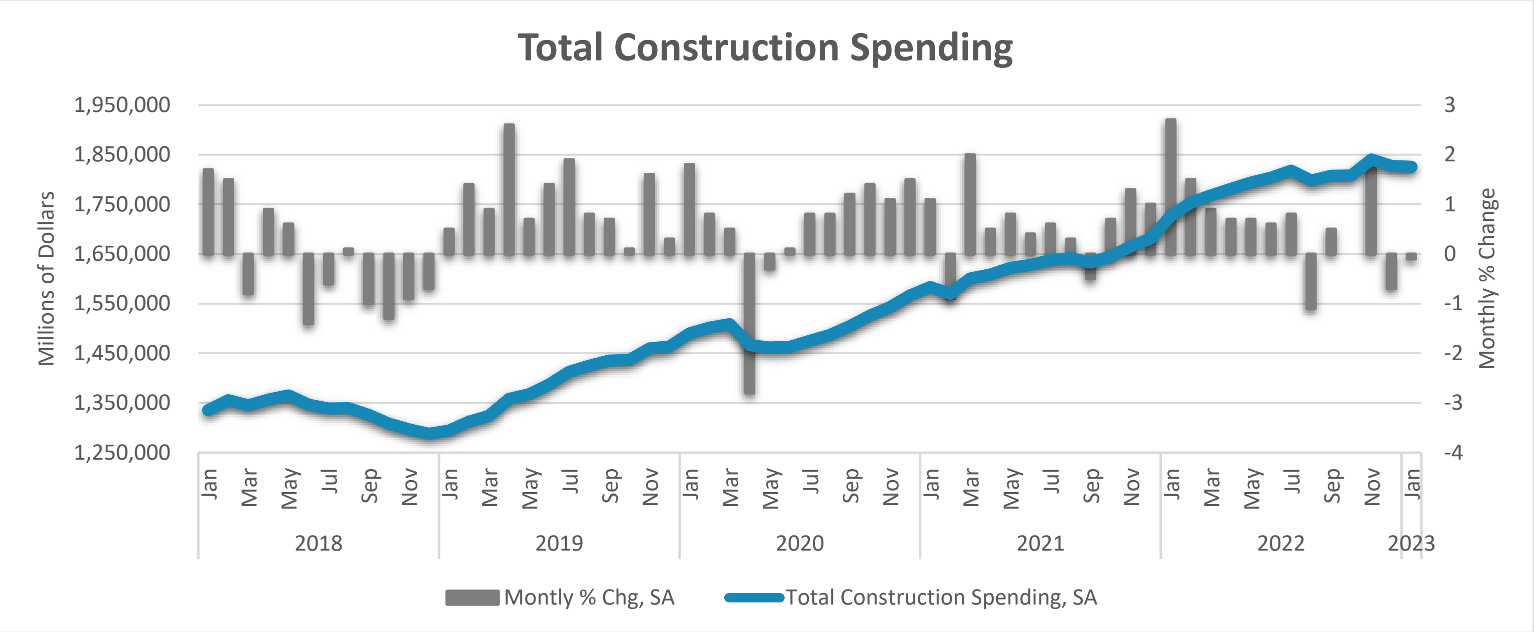
Why it matters: Construction spending helps boost the economy, especially spending that is dedicated to building roads and bridges.

- 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.

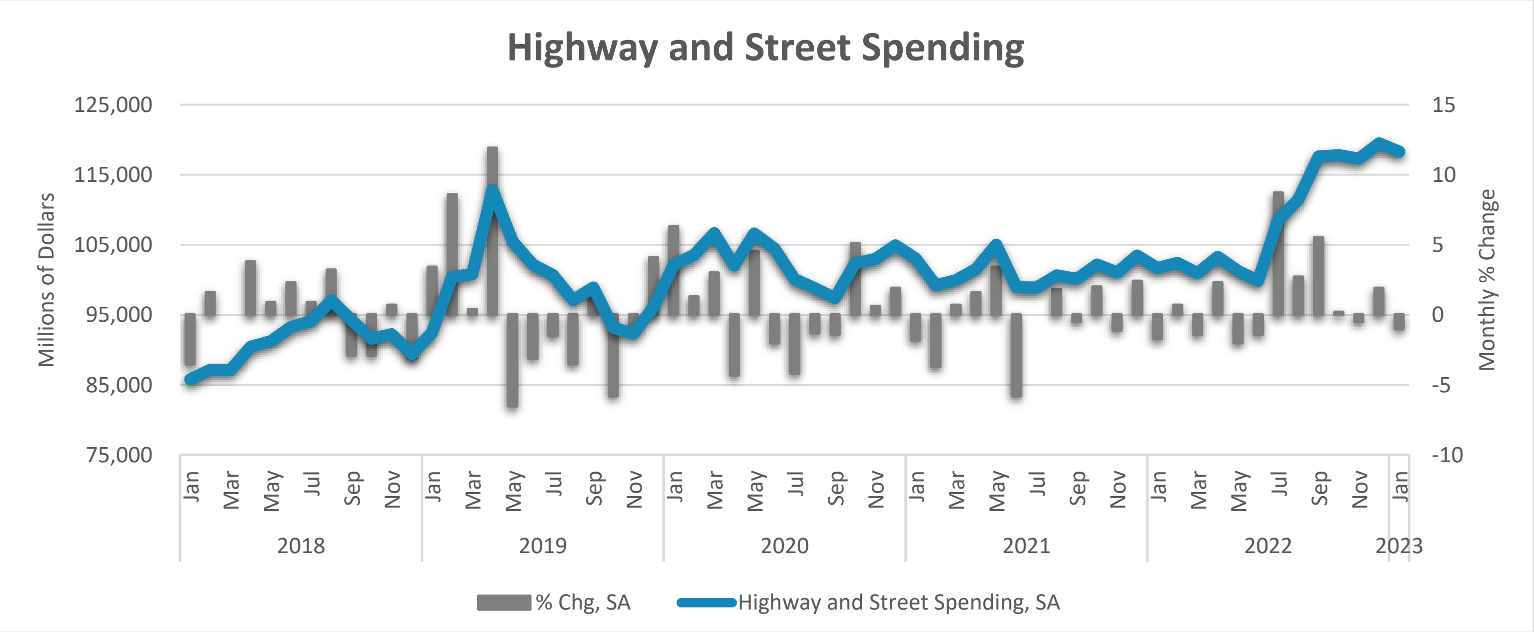
Our thoughts: Both total construction spending (TCS) decreased and spending on highways and streets (HSS) decreased month-over-month.

- TCS decreased slightly by 0.1% in January to $1.82 trillion, which is 5.7% higher year-over year, or $99 billion, and 19% above the 5-year trend.
- HSS dropped 1% to $118.29 billion, but is up 16.3% year-over-year, or $16.6 billion.

Though the housing market has slowed significantly, flatbed continues to perform well in comparison to dry vans and reefers. This might be due to elevated construction spending.



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:

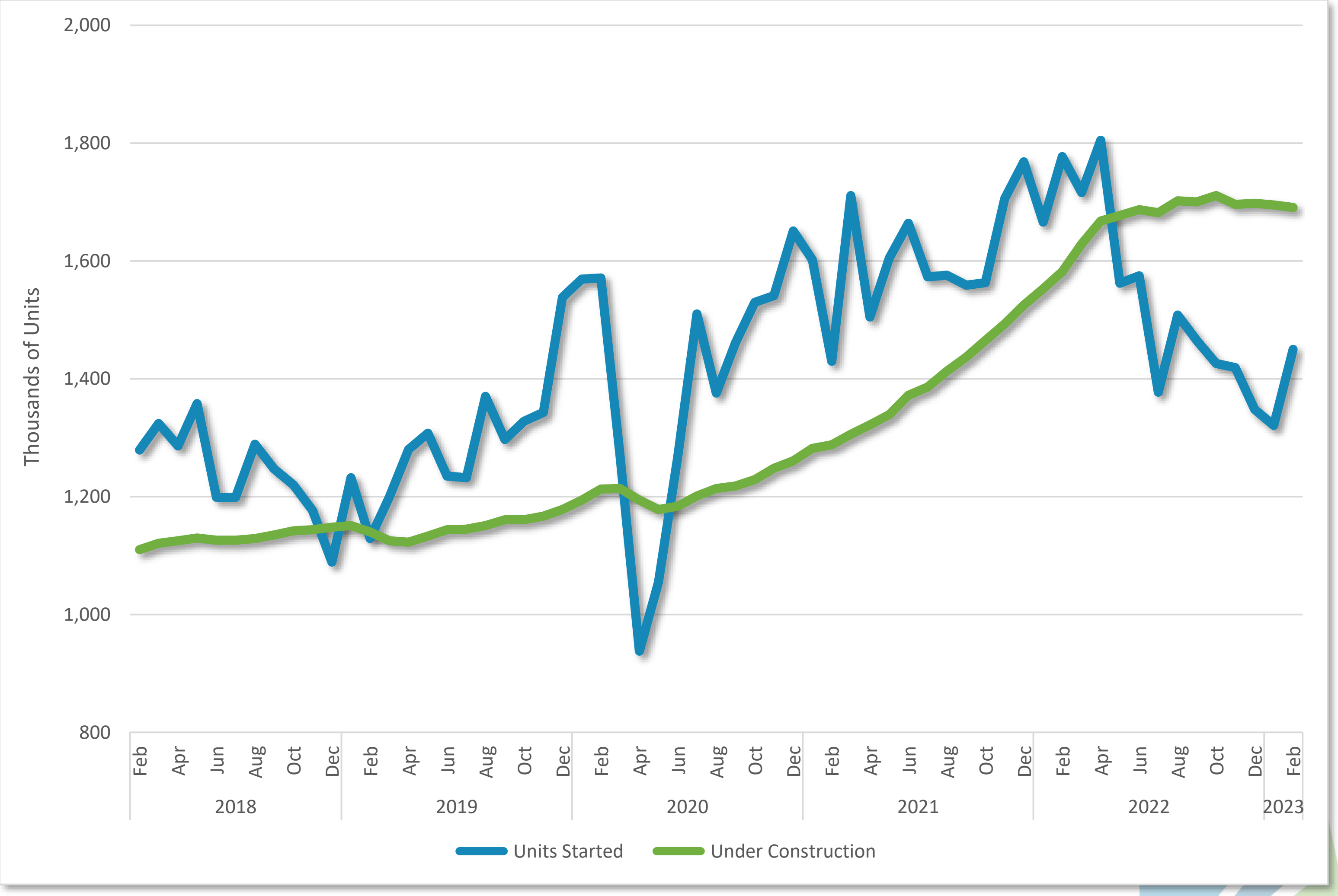
- Housing starts, and
- Housing under construction.

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 shot upward in February, ending five consecutive months of decline.

- New starts increased 9.8% to 1.450 million, but they have dropped 20% since the high in April 2022.
- Starts are down 18%, or 327,000 houses, year-over year, and are 2%, or 31,000, higher than the 5-year average.
- Houses under construction ticked down 0.2% to 1.70 million, but are up 7%, or 109,000 houses, Y/Y, while completed houses increased 12.2% 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).

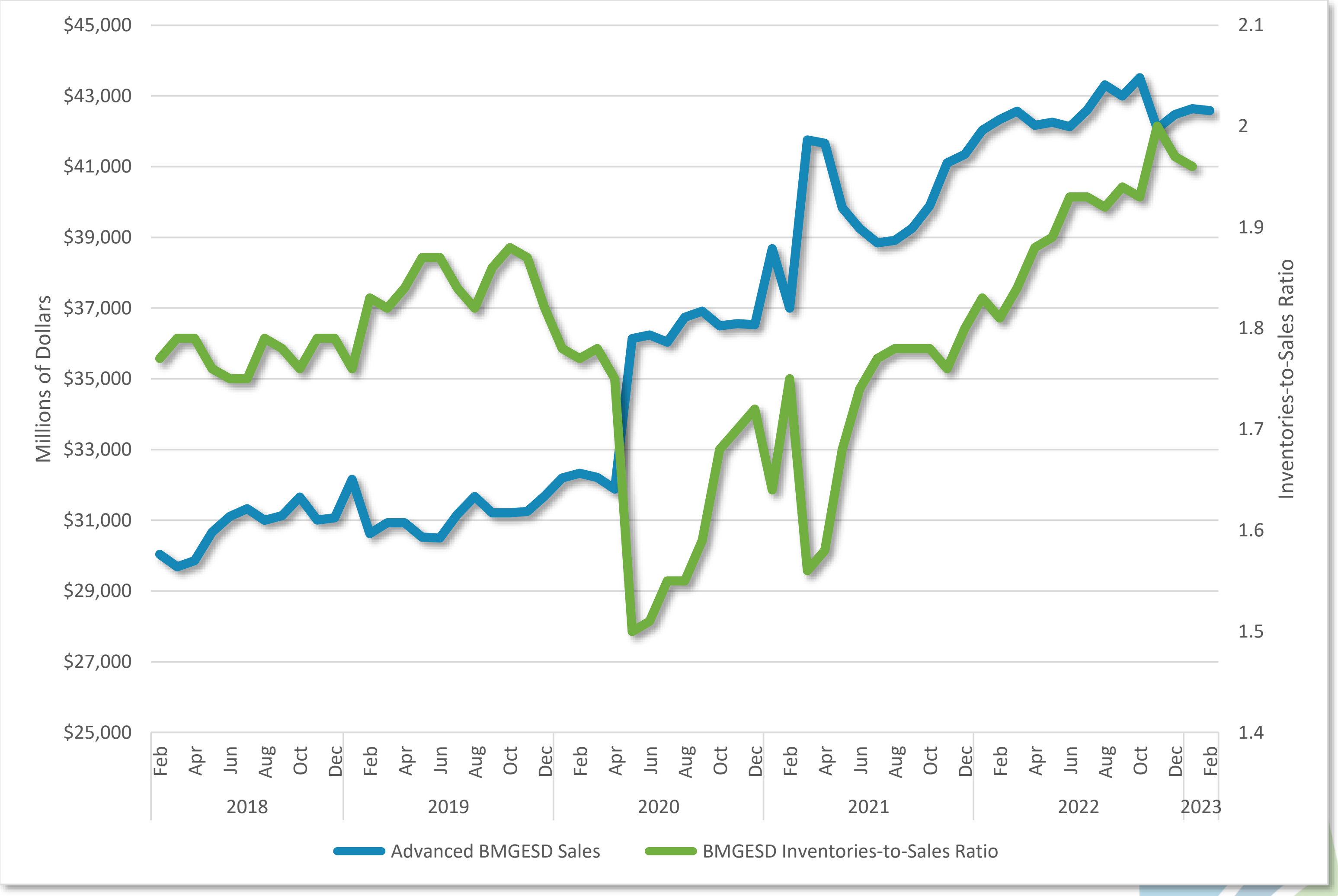
Why it matters: Retail sales give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

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

Our thoughts: The BMGESD sales declined slightly as retailers seek to deplete their inventories. Inventories-to-sales ratios are 1.96, which is the second highest since 2012.

- The BMGESD retail sales decreased 0.1% month-over-month in February to $42.58 billion, and are 0.6%, or $253 million, higher year-over year.
- Sales are $6.4 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

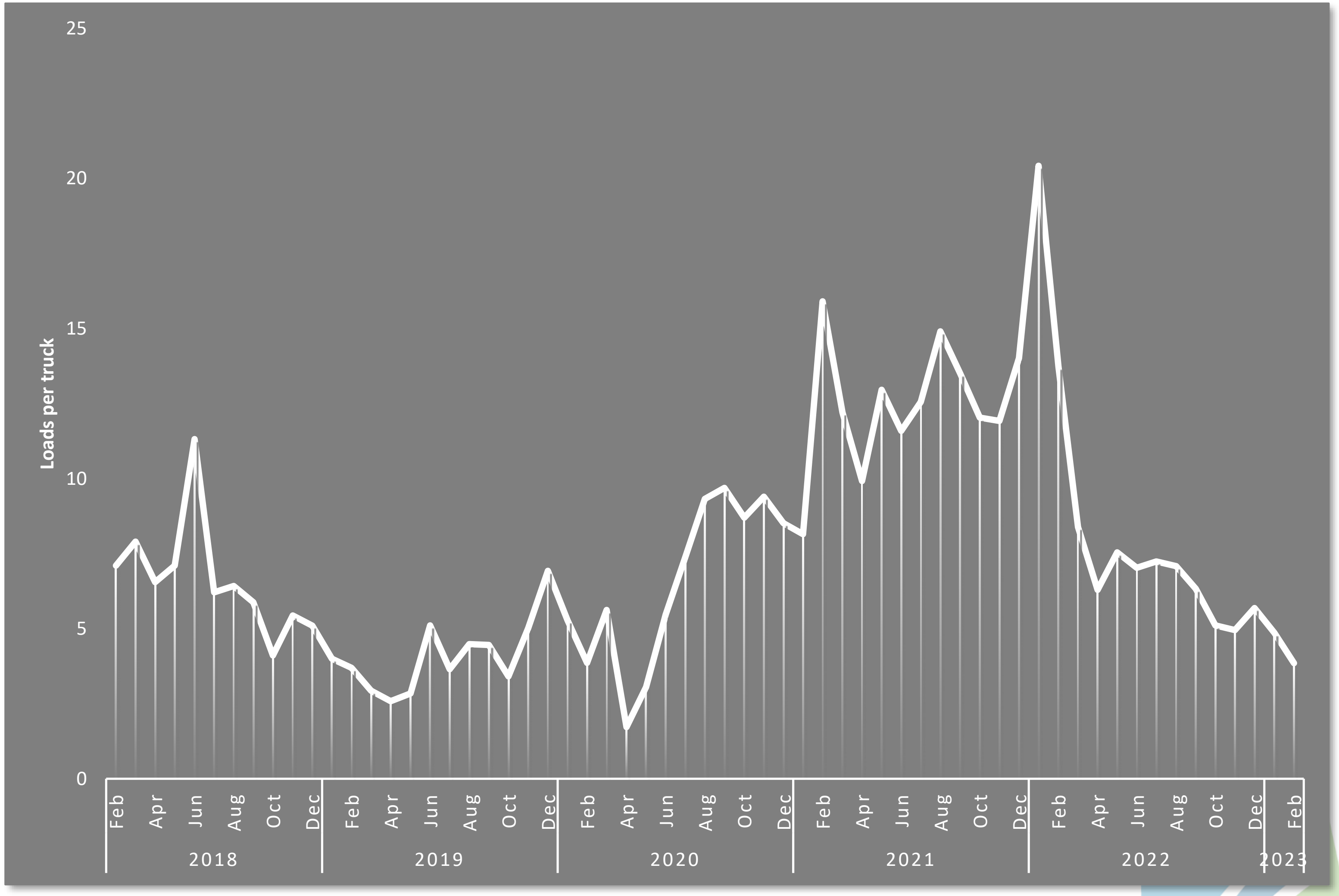
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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 as produce volumes continue to underperform due to weather.

- The ratio decreased 20.8% month-over-month to 3.85 loads to every one truck posted.
- This is 49% below the 5-year trend, and 72% lower than last year when the ratio was 13.74.
- Demand continues to be deflated as load posts were approximately half what they were compared to this time last year, while truck posts with refrigerated trailer equipment were still elevated.



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

Rates: Reefer Spot and Contract Rates

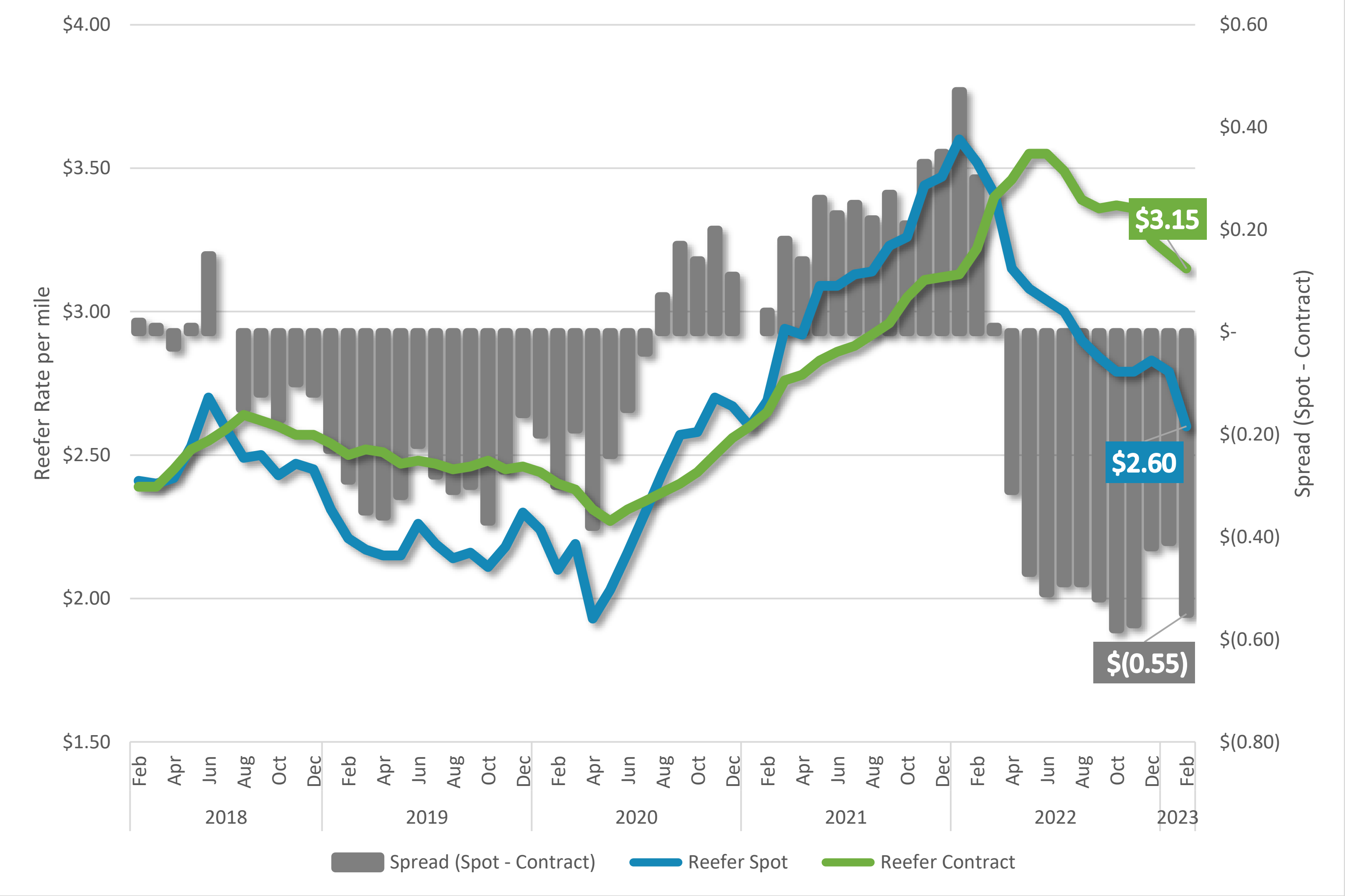
The big picture: Rates are market averages from DAT's RateView, which provides real-time reports on prevailing spot market and contract rates.

- 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 February, marking two straight months of decline, while contract rates dropped another 5 cents per mile.

- Spot rates decreased $0.19, or 6.8% to $2.60 per mile, and decreased $0.92 since February 2022.
- Contract rates declined $0.05, or 1.6%, to $3.15 per mile, which is $0.07 below where we were in las year.
- The spread between spot and contract increased 34.1% to $0.55.
- DAT is forecasting that spot rates excluding fuel will drop another 10 to 15 cents per mile going into the middle of April.
- Produce season doesn't officially start until April but the torrential rains in California are delaying planting seasons for certain types of produce.



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.

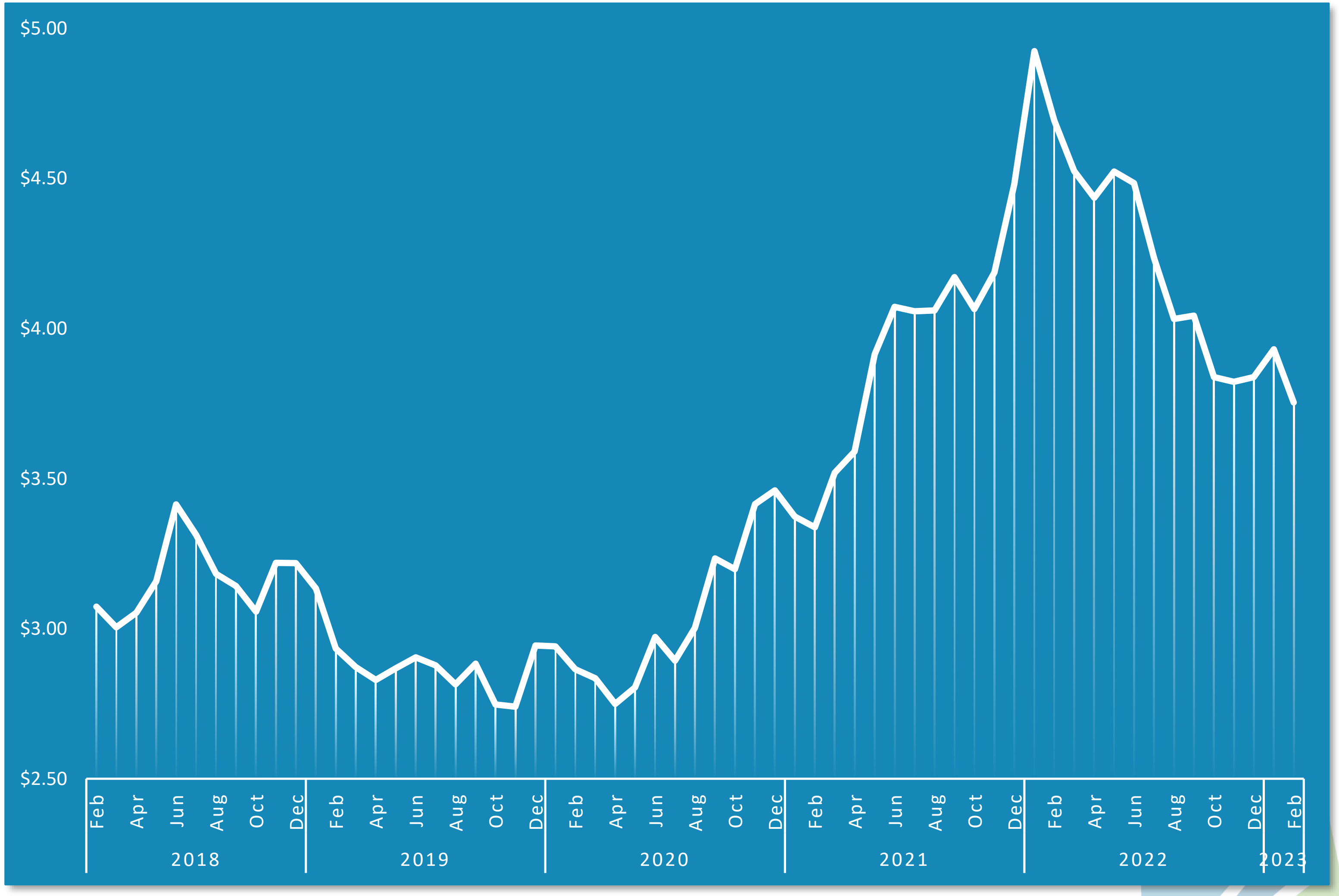
- USDA averages the rates over region and commodity.

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 24%, or $1.17 per mile, below their high in January 2022. The beginning of the year marks one of the slowest seasons for reefers. This usually continues until April.

- Rates per mile dropped 4.5%, or $0.18 per mile, month-over-month to $3.75 in February.
- Rates are $0.94 per mile, or 20%, lower year-over-year, and are $0.28 per mile, or 8.2%, 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

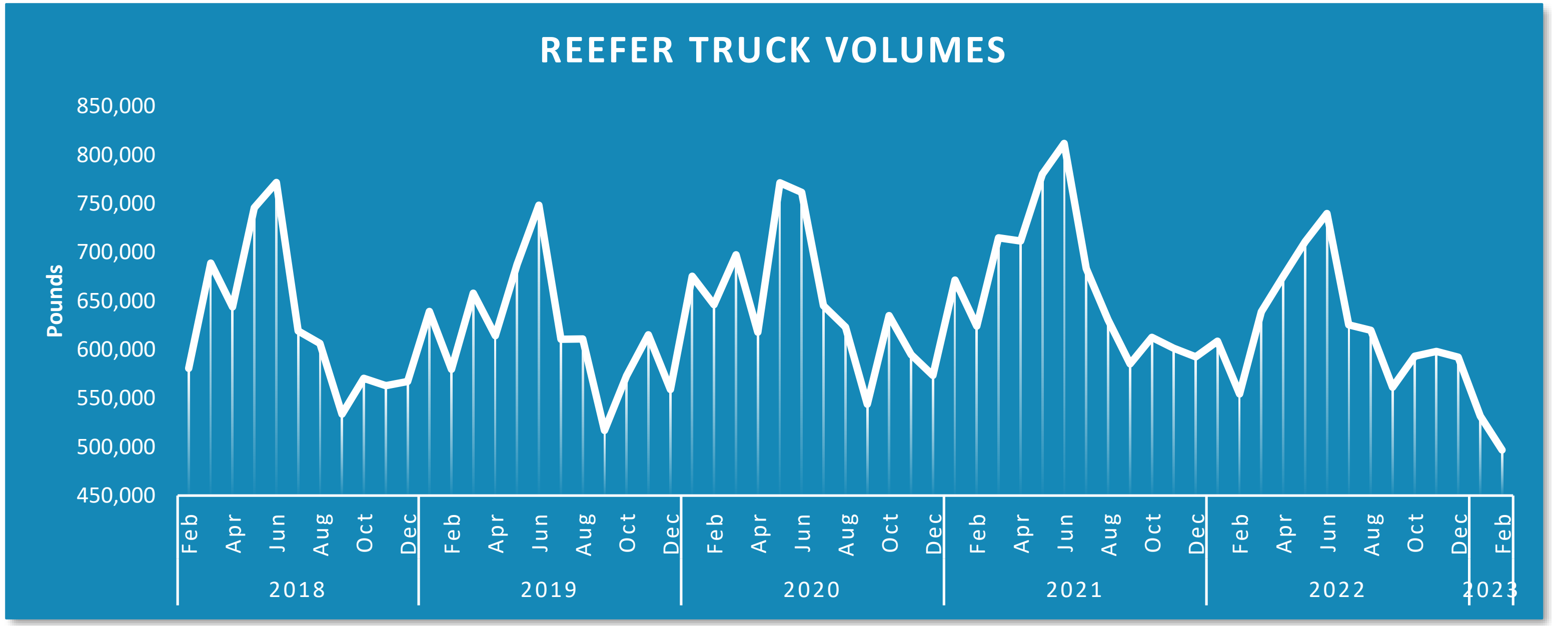
The big picture: The USDA's Crops report includes daily fruit and vegetable volume data by weight and weekly refrigerated truck availability data.

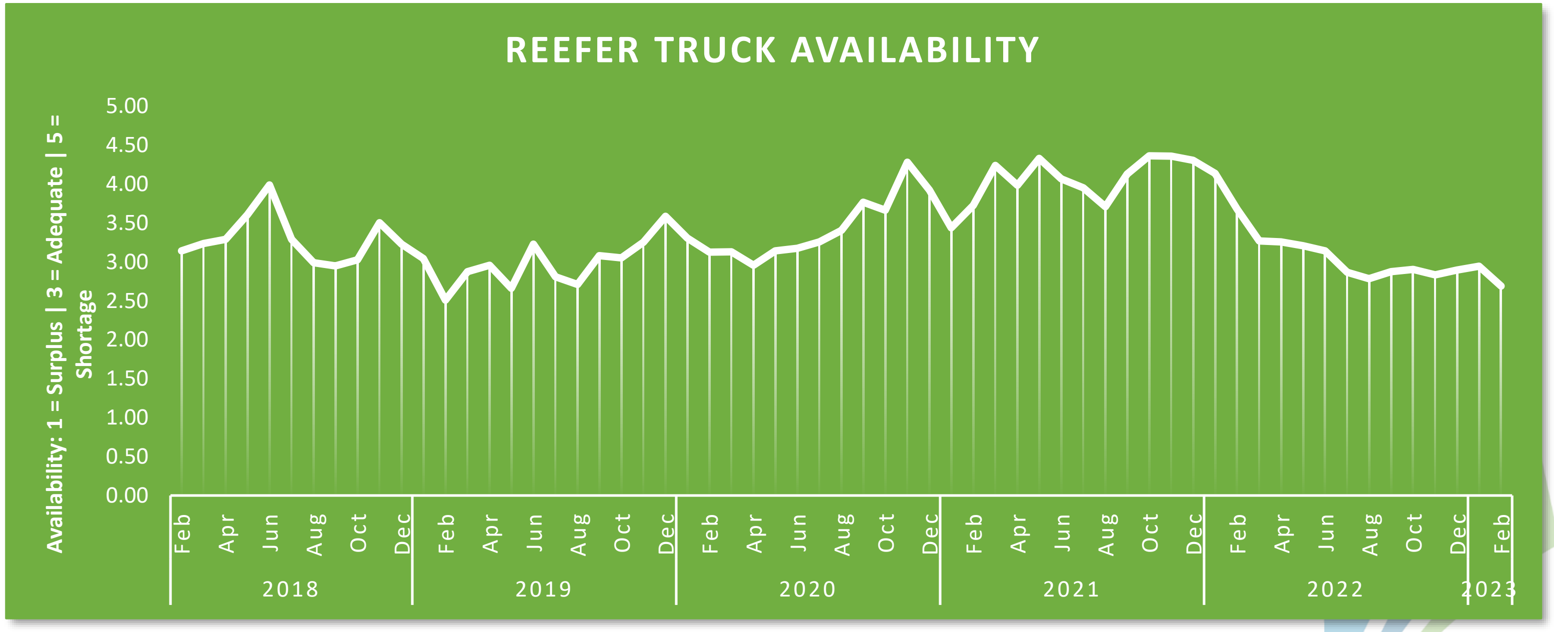
Why it matters: This information is a barometer for the health of the overall reefer market.

- 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 significantly in February, while truck capacity loosened as weather continues to wreak havoc on produce volumes.

- Reefer volumes declined 6.6% month-over-month to 496,800 pounds, and 10.4%, or 57,500 pounds, fewer year-over-year.
- Reefer truck availability decreased 8.6% to 2.69, ending two consecutive months of tightening. Availability is down 26.9% over 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).

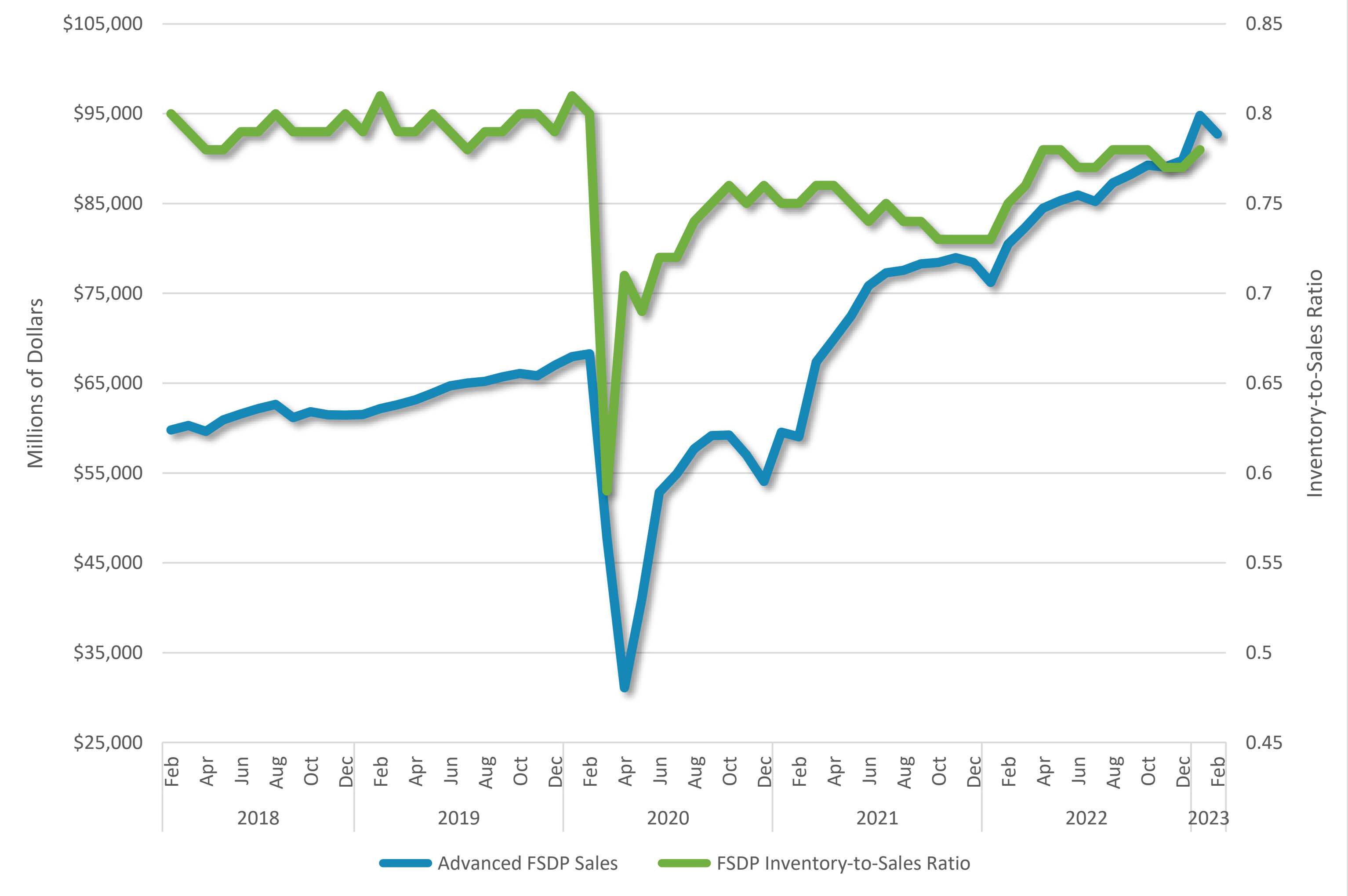
Why it matters: Retail sales give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

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

Our thoughts: Retail sales for FSDPs dropped following two months of increases, while inventory ratios continue to normalize.

- Seasonally adjusted FSDPs retail sales decreased 2.2% month-over-month to $92.74 billion, and are 15.3%, or $12.2 billion, higher year-over-year.
- FSDP sales are 35.3% higher than the 5-year trend.

Spot rates continue to fall due to an excess in reefer truck capacity and fewer volumes overall.



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. **Supply/Demand** shows us how many trucks there are in the market and how many are needed.
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.

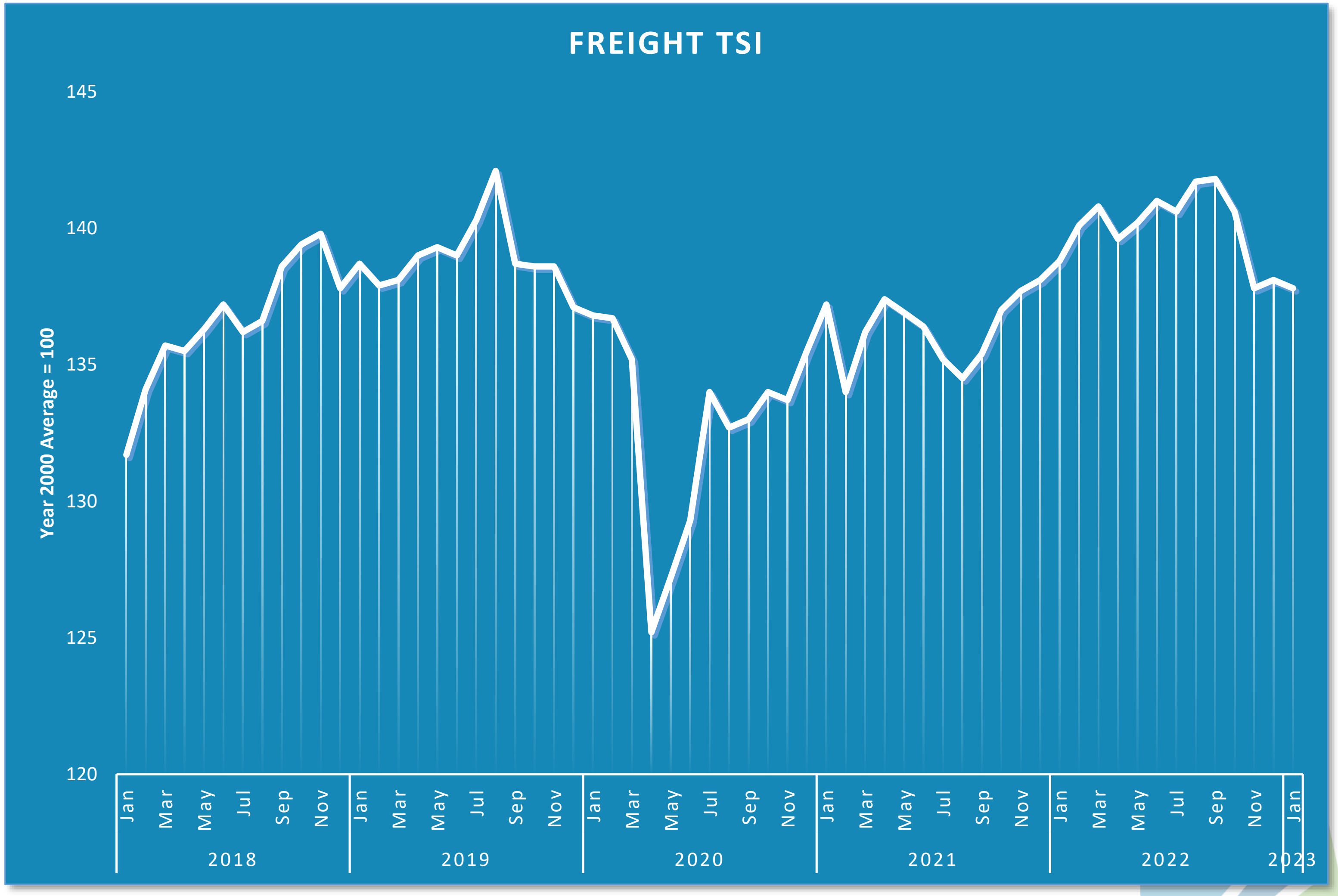
Why it matters: Changes in the TSI reflect changes in the demand for goods and services.

- 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 December due to seasonally adjusted increases in rail intermodal, water, air, and pipeline, while rail carload and trucking grew.

- The TSI dropped 0.2% month-over-month to 137.8, and is 0.7% lower than a year ago.

January's decrease came in the context of mixed results for other indicators. The Industrial Production Index was unchanged, reflecting small increases in mining and manufacturing, while housing starts were down.



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.

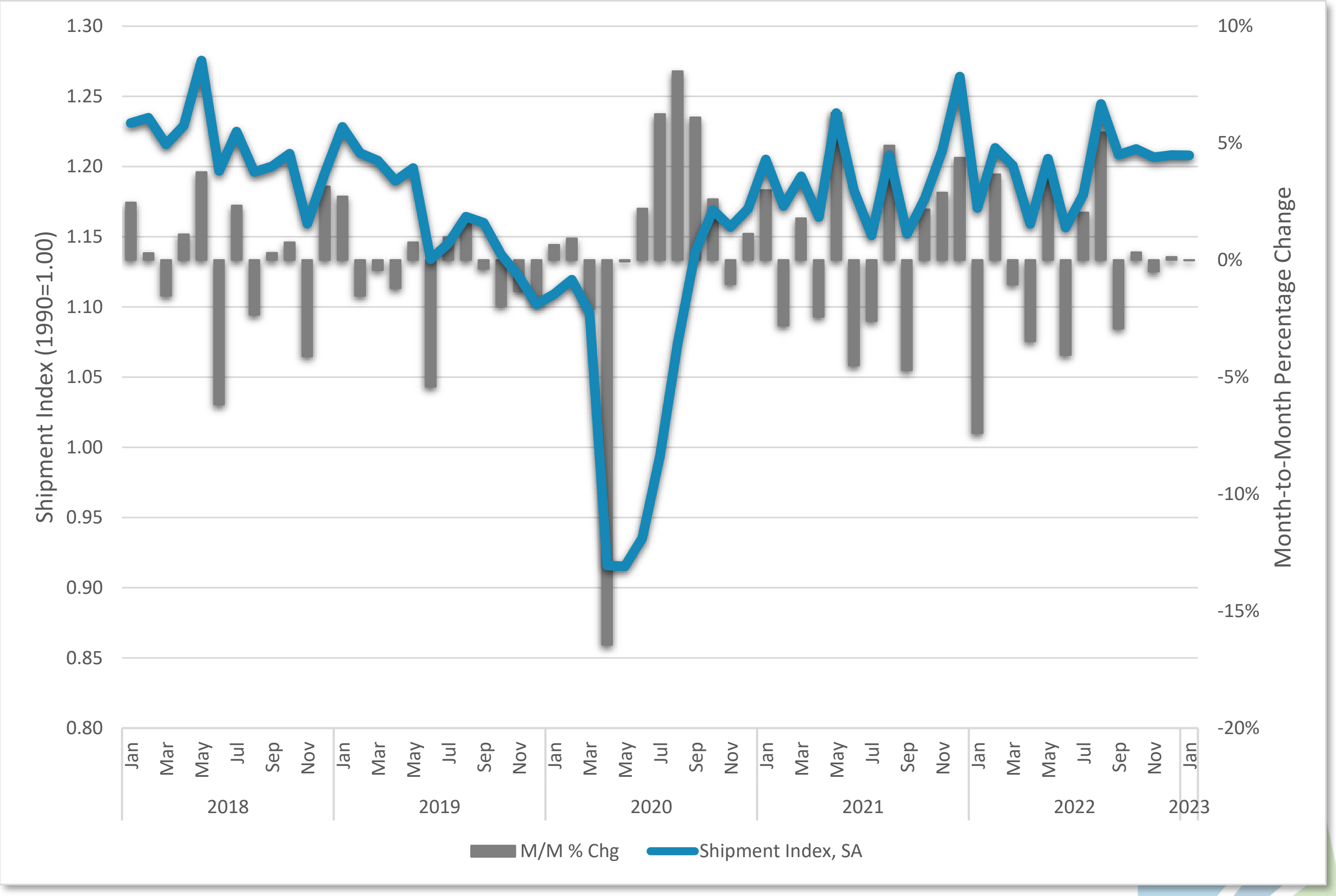
- The index is an indicator of U.S. shipping activity, containing 37 million invoices across 400 companies and manufacturers.

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

Our thoughts: the Cass Shipment Index was down slightly month-over-month to 1.204 in February when seasonally adjusted, and was down 0.8% year-over-year. Freight volumes remain remarkably stable.

- The slight year-over-year decline is mainly due to an easy comparison.
- Expenditures, which measures the total amount spent of freight, dropped 3.9% to 4.12, due to lower fuel costs and freight moving from LTL to TL to save costs.
- 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: There's still too many truckers chasing too little freight. Cass believes the current loose conditions will rebalance and then tighten over the course of the next year.



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

Supply: Truck Employment

The big picture: The Bureau of Labor Statistics releases monthly payroll data concerning various industries and sectors, including trucking.

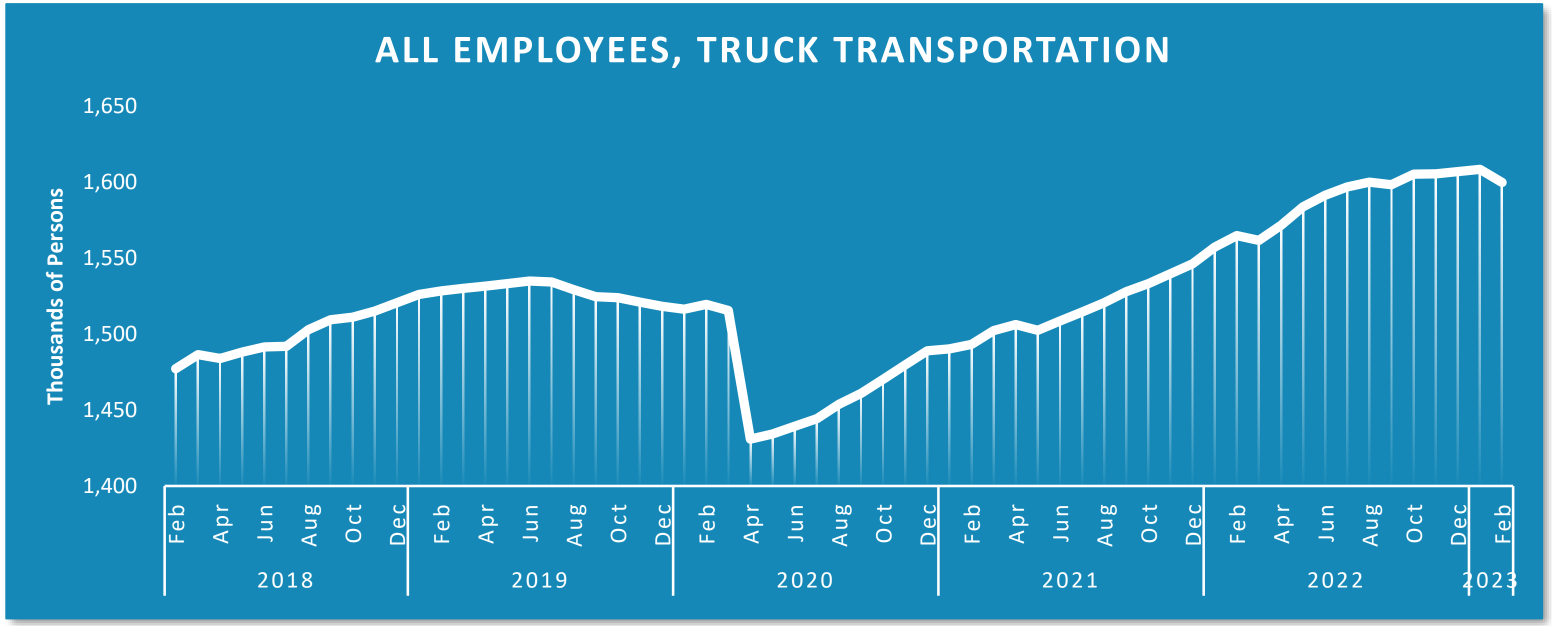
Why it matters: Overall truck transportation employment helps us to see how much driver capacity, or supply, is out there in the industry.

- Employment levels ultimately have a large impact on rates. If there are too many drivers for too little freight, rates will go down.

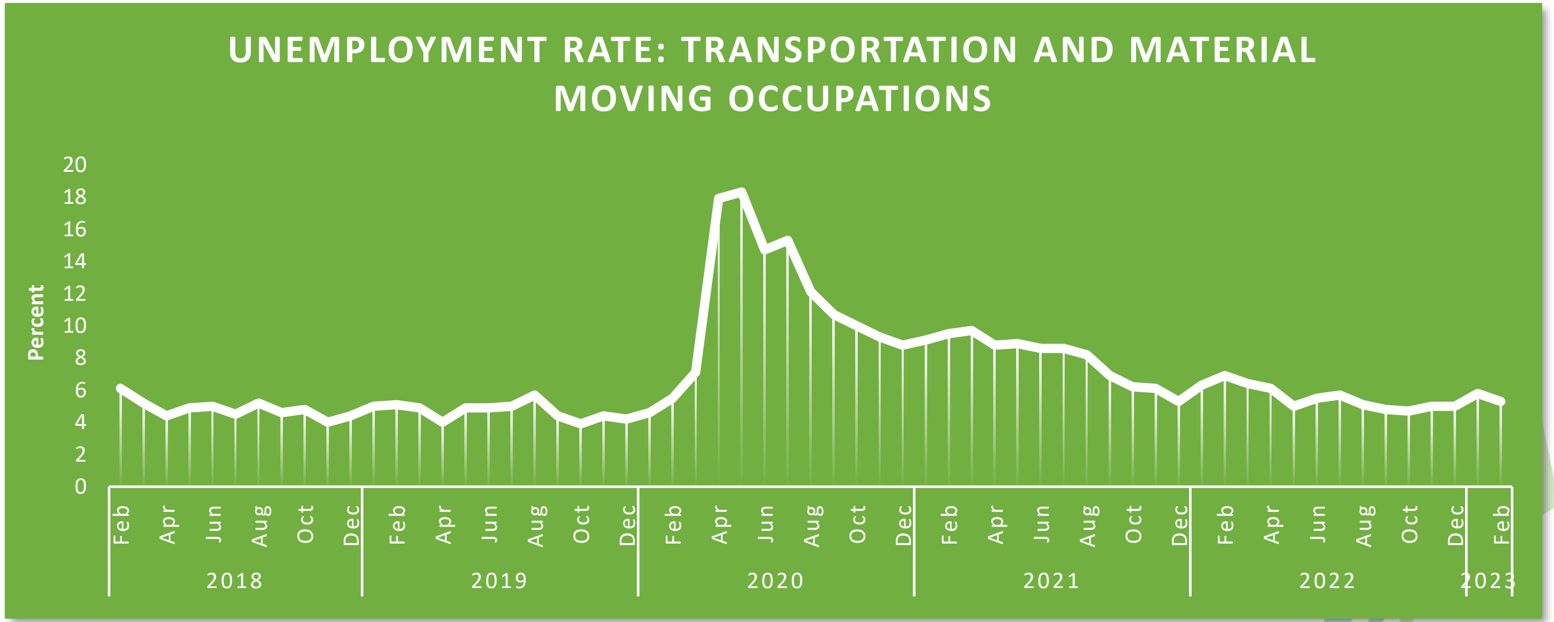
Our thoughts: Truck employment numbers remain strong despite February's decrease, while unemployment continues to remain low.

- Truck employment decreased 0.5% month-over-month in January, to 1.599 million people, a loss of 8,500 jobs, even as job openings in the Transportation, Warehousing, and Utilities sector increased 17.6% in January.
- Truck employment is 2.2%, or 35,000 jobs, higher year-over-year and 12% higher than April 2020.
- The occupational unemployment rate for transportation dropped 8.6% month-over-month to 5.3%, which is 23.2% lower than last year.

A loss in jobs, yet an increase in openings coupled with a low unemployment rate, could highlight that drivers aren't receiving enough miles per week, and thereby are leaving to find other work. We'll keep watching this possible trend.



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



Source: FRED| https://fred.stlouisfed.org/series/LNU04032228 | 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.

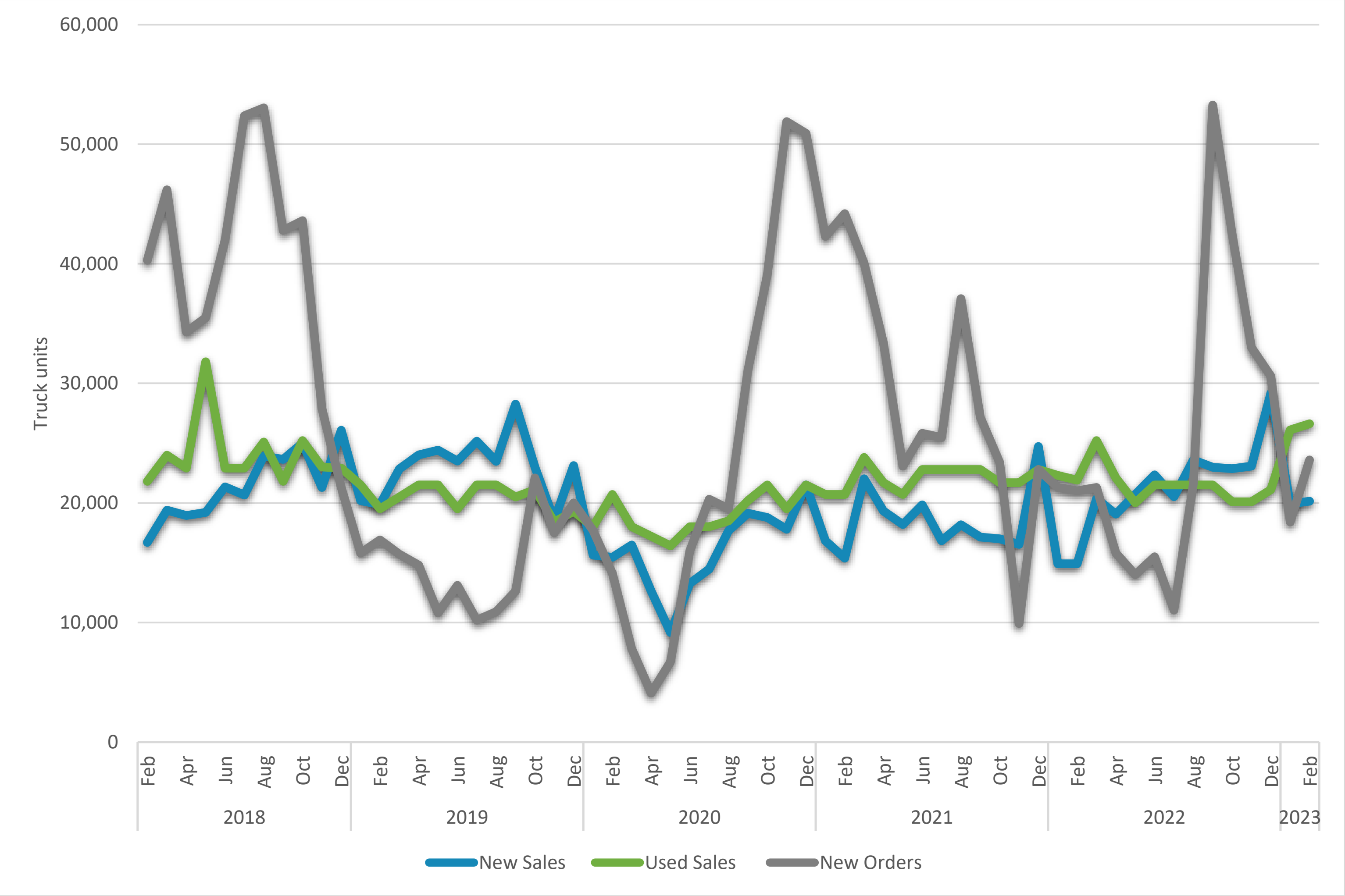
- This data includes Class 8 truck orders and sales.

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: Used sales increased 2% in February while new sales increased 1%. Used sales continued to surpass new sales.

- New orders increased 28.3% to 23,600, and are 12.4% higher year-over-year, but are 10% below the 5-year average.
- The spread between new and used sales is 6,500.
- 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.

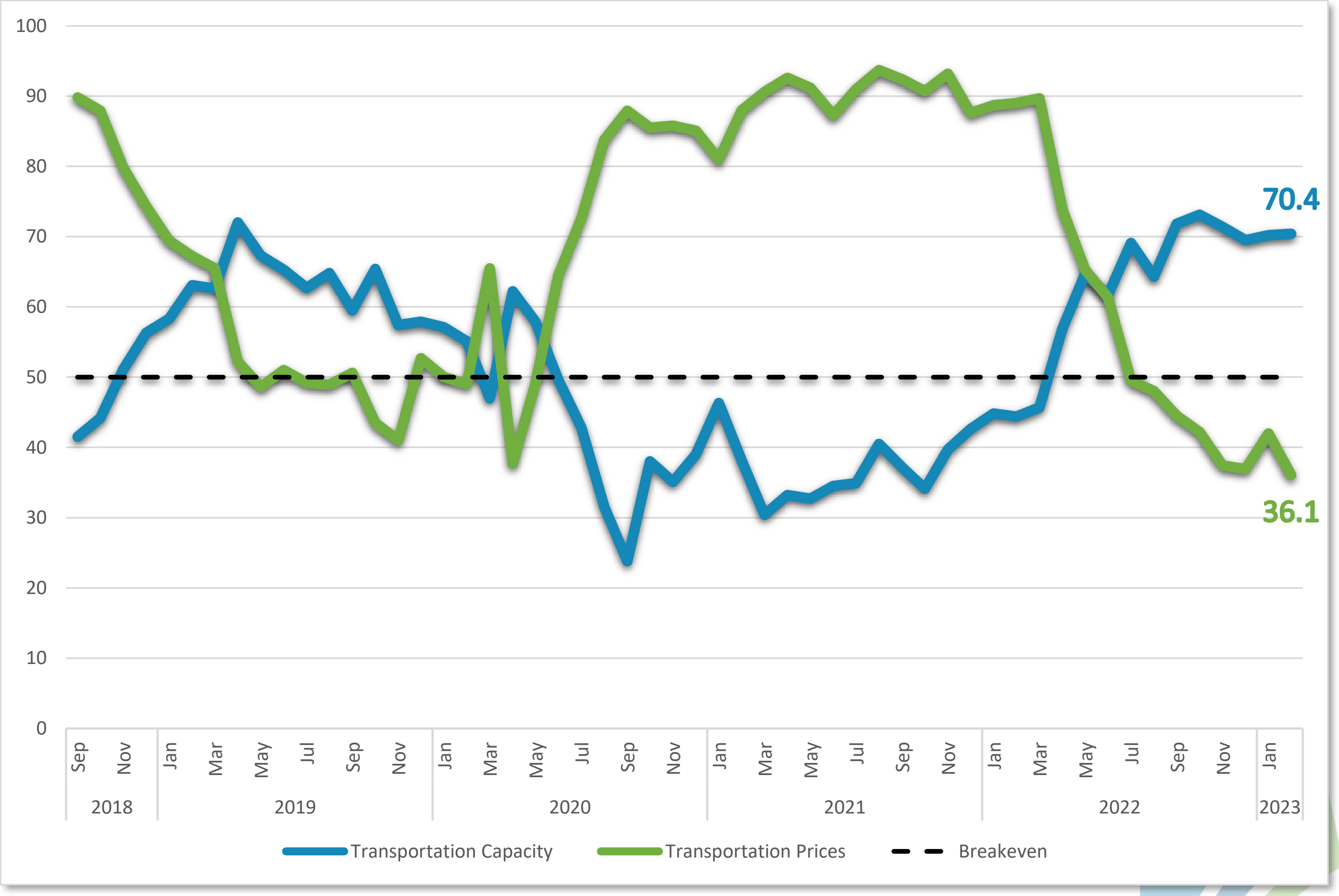
Why it matters: The LMI reflects the strength of the overall economy as it measures both upstream and downstream conditions.

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

Our thoughts: The LMI overall decreased 2.9 to 54.7 not because of a drop in demand, but because of an increase in freight movement in January due to severe weather in December pushing some freight back a month.

- Transportation prices are contracting at the fastest rate the index has ever witnessed.
- Prices decreased 14% month-over month to 36.1, and 59% year-over-year, when the index read 89.
- Transportation capacity increased 0.3% to 70.4, marking five of six months with a reading over 70.

Aggregate logistics prices overall are tracking very closely with 2019 levels.



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.

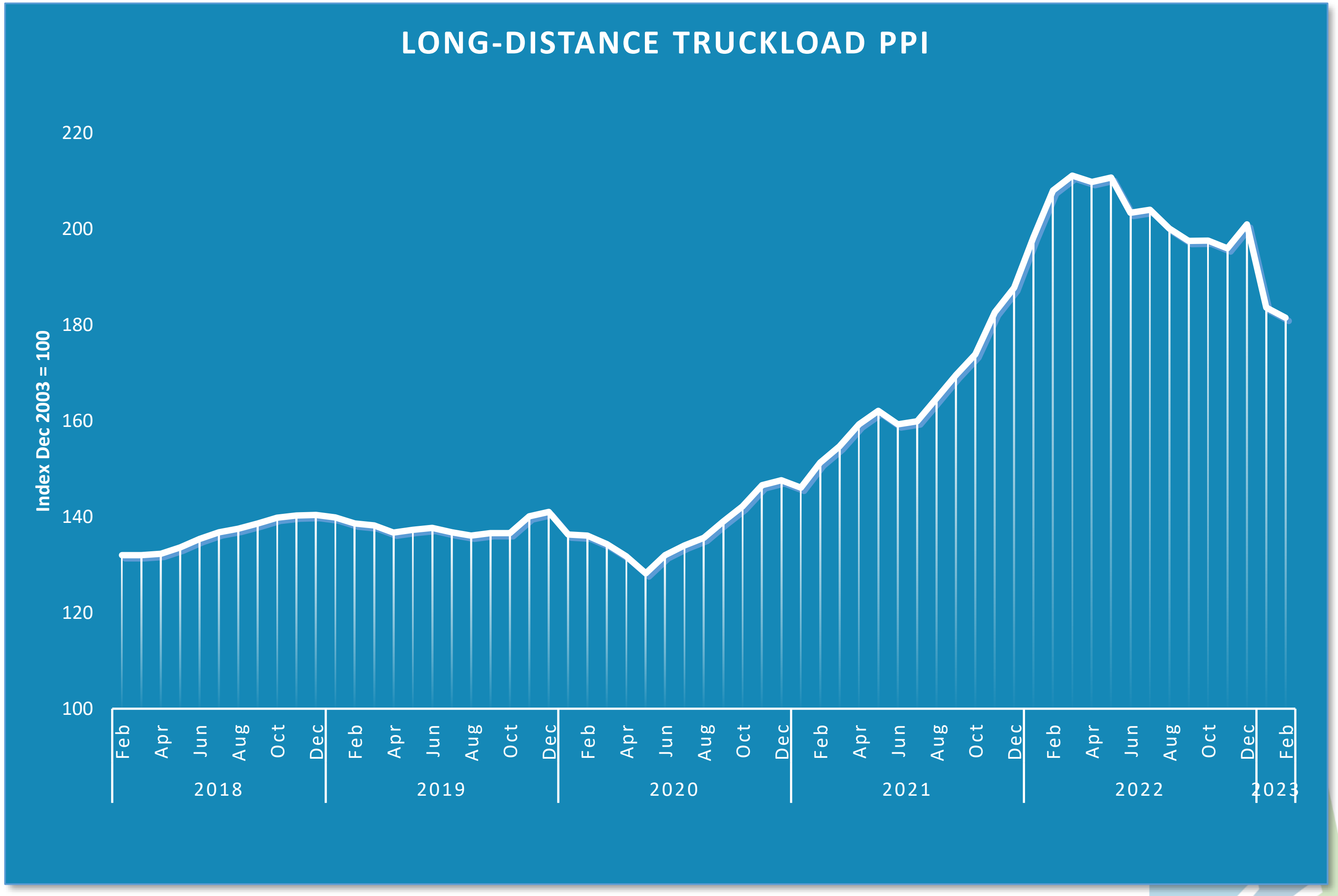
- One index focuses on long-haul, truckload carriers.
- This index shows how much carriers are charging their customers.

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 has decreased 9.7% since December 2022. This wasn't unexpected however as we're entering the slowest time of the year for freight.

- The long-haul PPI decreased 1.2% to 181.5, month-over-month, marking second straight month of decline.
- The PPI is 12.8% lower year-over-year, but 15.7% above the 5-year trend.

Look for rates to continue to slide downward overall. While many are hoping for rates to bottom out in early spring, it appears that they might still have further to fall. This is especially true for dry van and reefers.



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

Costs: Diesel Fuel

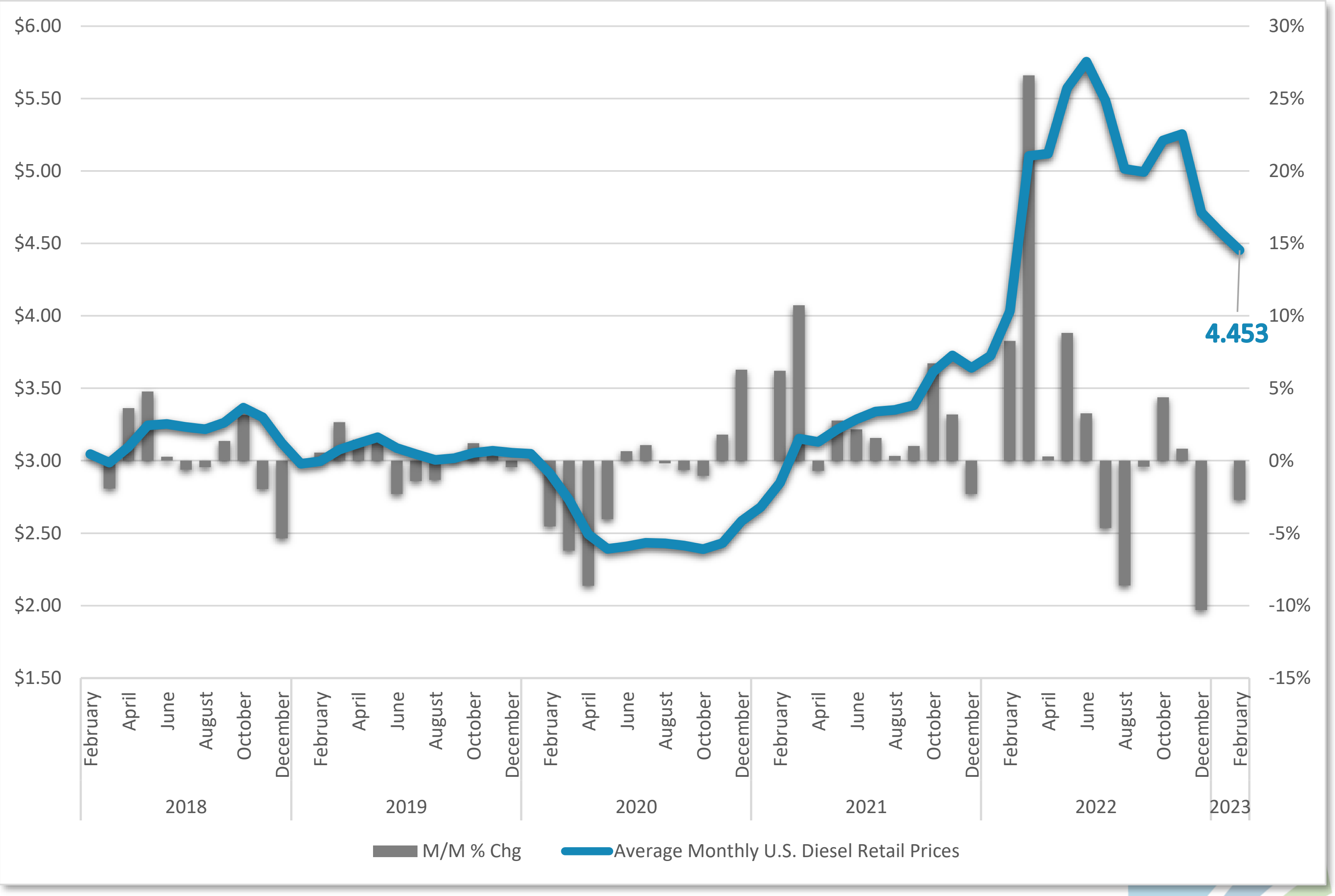
The big picture: The U.S. Energy Information Administration (EIA) tracks the weekly changes in on-highway diesel fuel prices throughout the country.

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 12 cents in February marking the third straight month of decline. Prices through February have declined $1.30 per gallon since the high in June 2022.

- The average price for diesel fuel decreased 2.7% month-over-month to $4.453 per gallon.
- The average diesel price is 10%, or $0.42, higher year-over-year, and 29% higher than the 5-year trend, or $1.00 more per gallon.
- Learn more about how to incorporate a fuel surcharge by visiting our website here.



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

Costs: Used Truck Prices

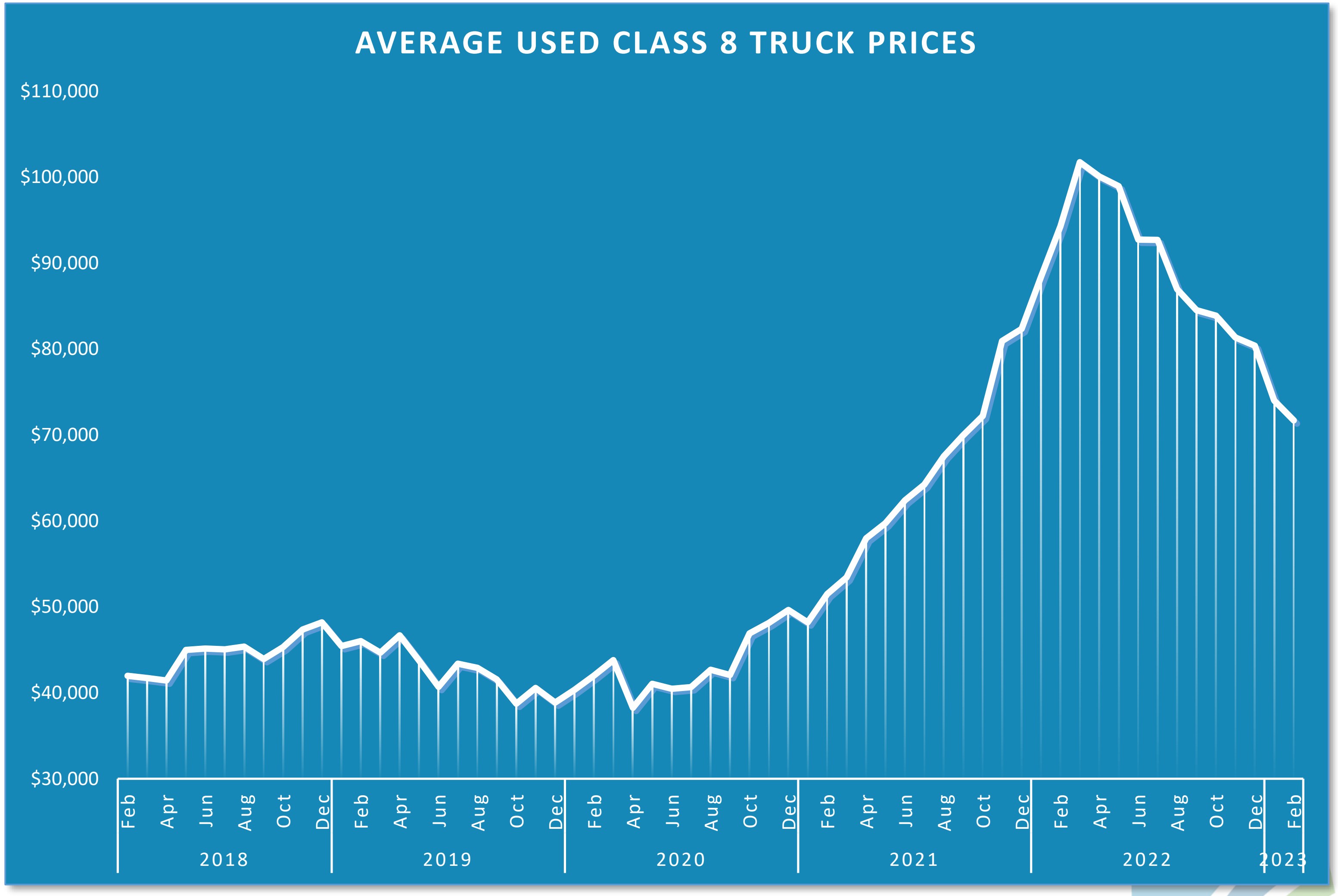
The big picture: Most individuals seeking to become an owner-operator first look to the used truck market due to the high cost of new trucks.

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 eleventh straight month in February to approximately $72,000.
- **Yes, but** this is still 24% higher than the 5-year trend.
- With costs still elevated and spot rates continuing their downward trend, this is not 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 much people are earning and 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: Disposable Income, Wages, DSR, and Delinquency

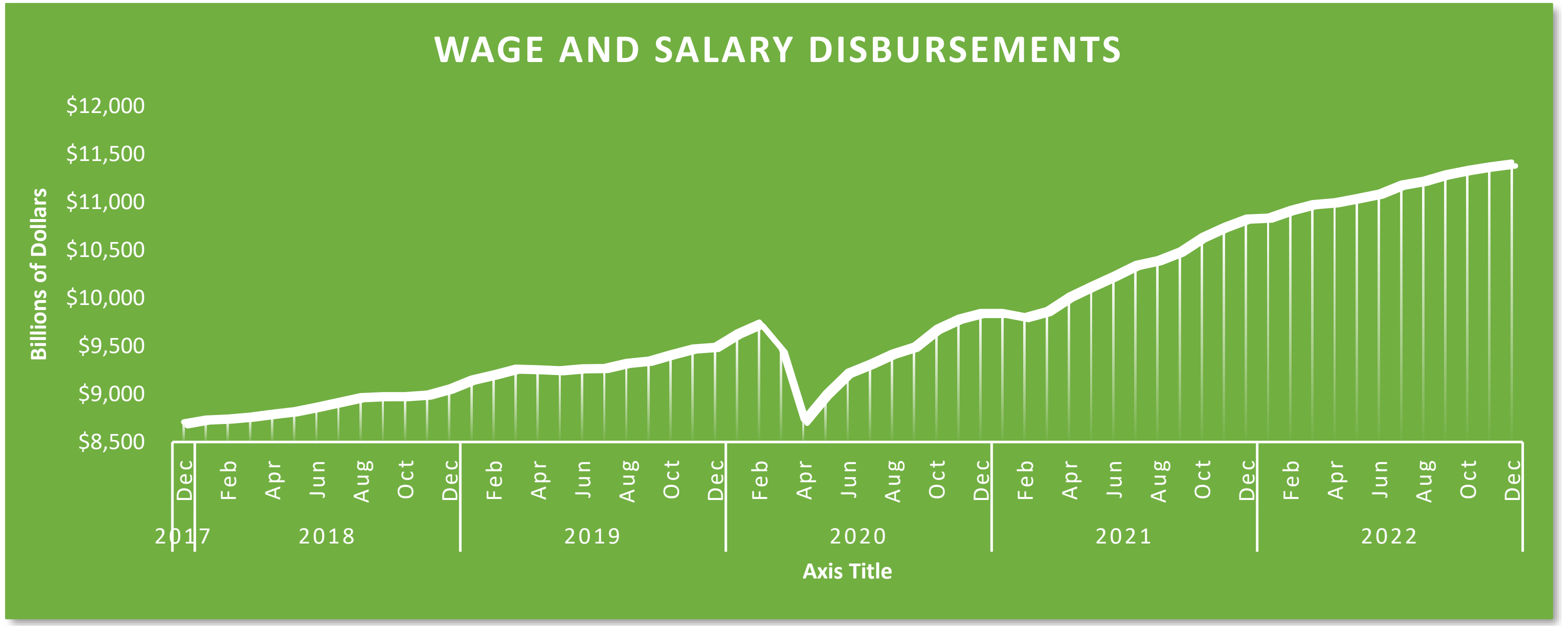
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so to does business and shipping activity.

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

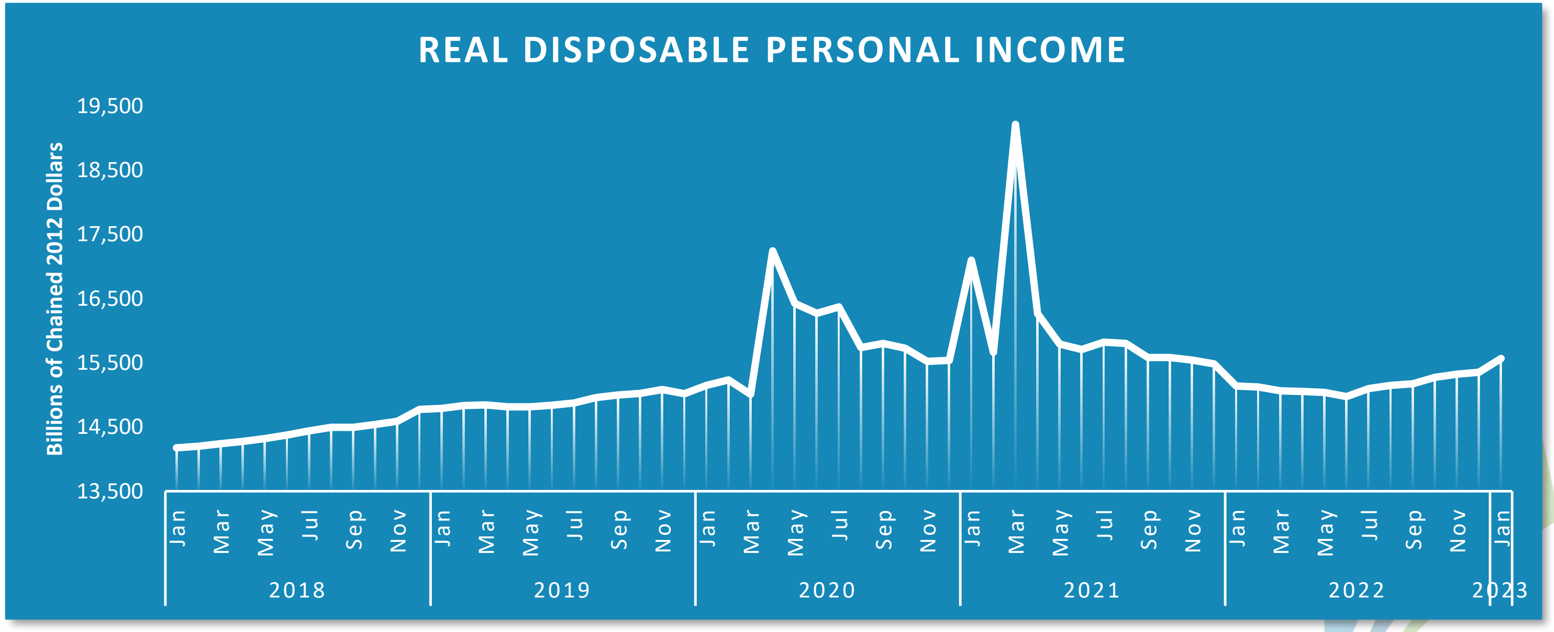
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

Our thoughts: Wages and salaries are 7.9% higher year-over-year and 18.6% 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 1.4% month-over-month to $15.568 trillion, and is $430.2 billion higher year-over-year.
- Household debt rose by $394 billion, or 2.4%, to $16.90 trillion in the fourth quarter of 2022, while credit card balances rose by $61 billion to reach $986 billion.
- Delinquency rates are 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/A576RC1 | Monthly



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

Consumer and Labor:

Retail and Consumer Price Index (CPI):

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

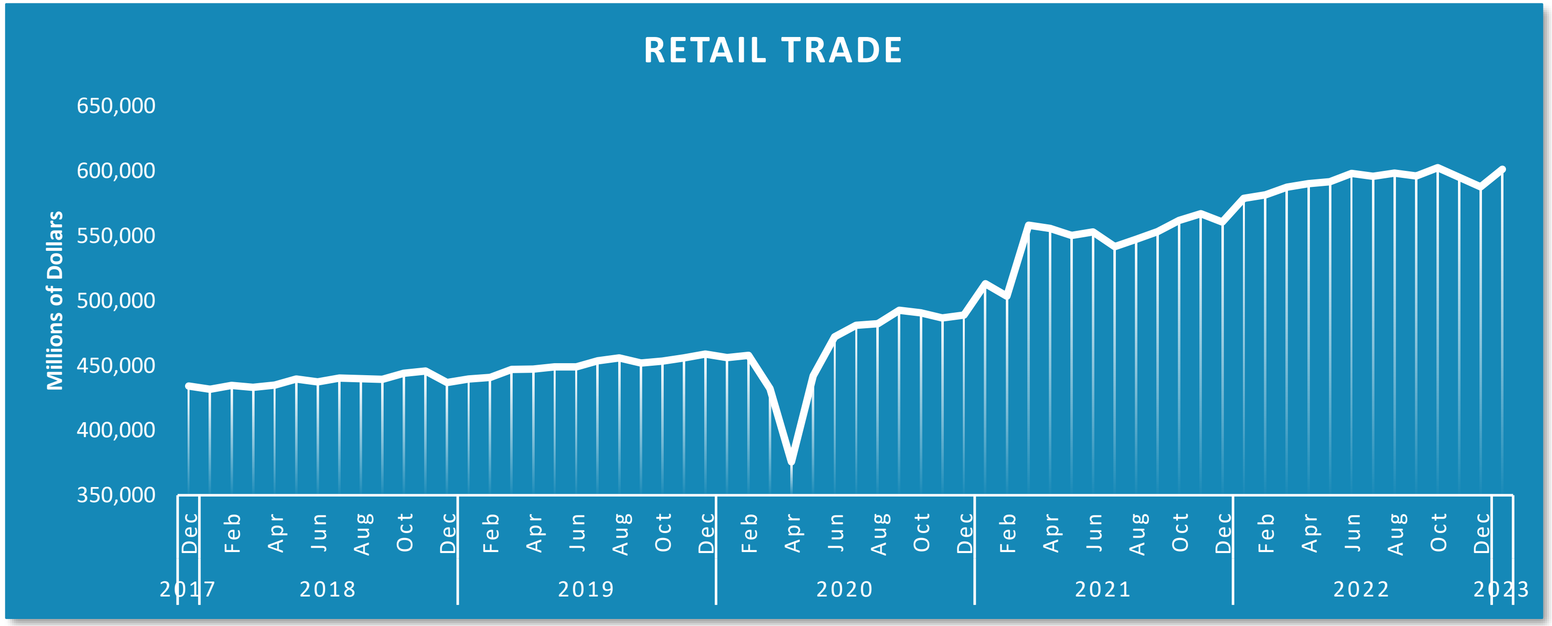
- While CPI measures the average price change for a basket of goods and services over time.

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.

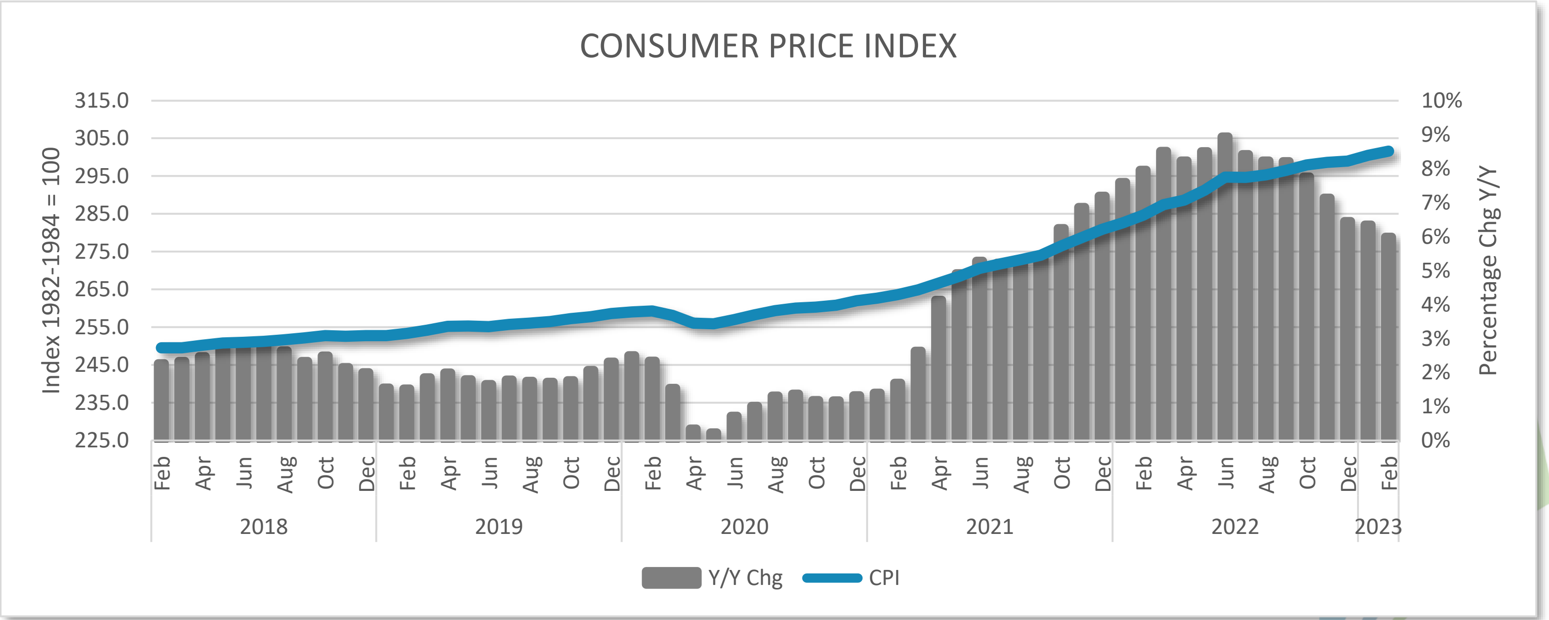
Our thoughts: People are still purchasing goods, albeit at a slower pace and in different ways, even despite high inflation.

- Retail trade stayed relatively flat month-over-month in February at $605.1 billion, and is 4%, or $23.4 million, higher year-over-year.
- CPI increased slightly by 0.4% to 301.6, which is 6.0% higher than it was a year ago and 12.9% 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

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.

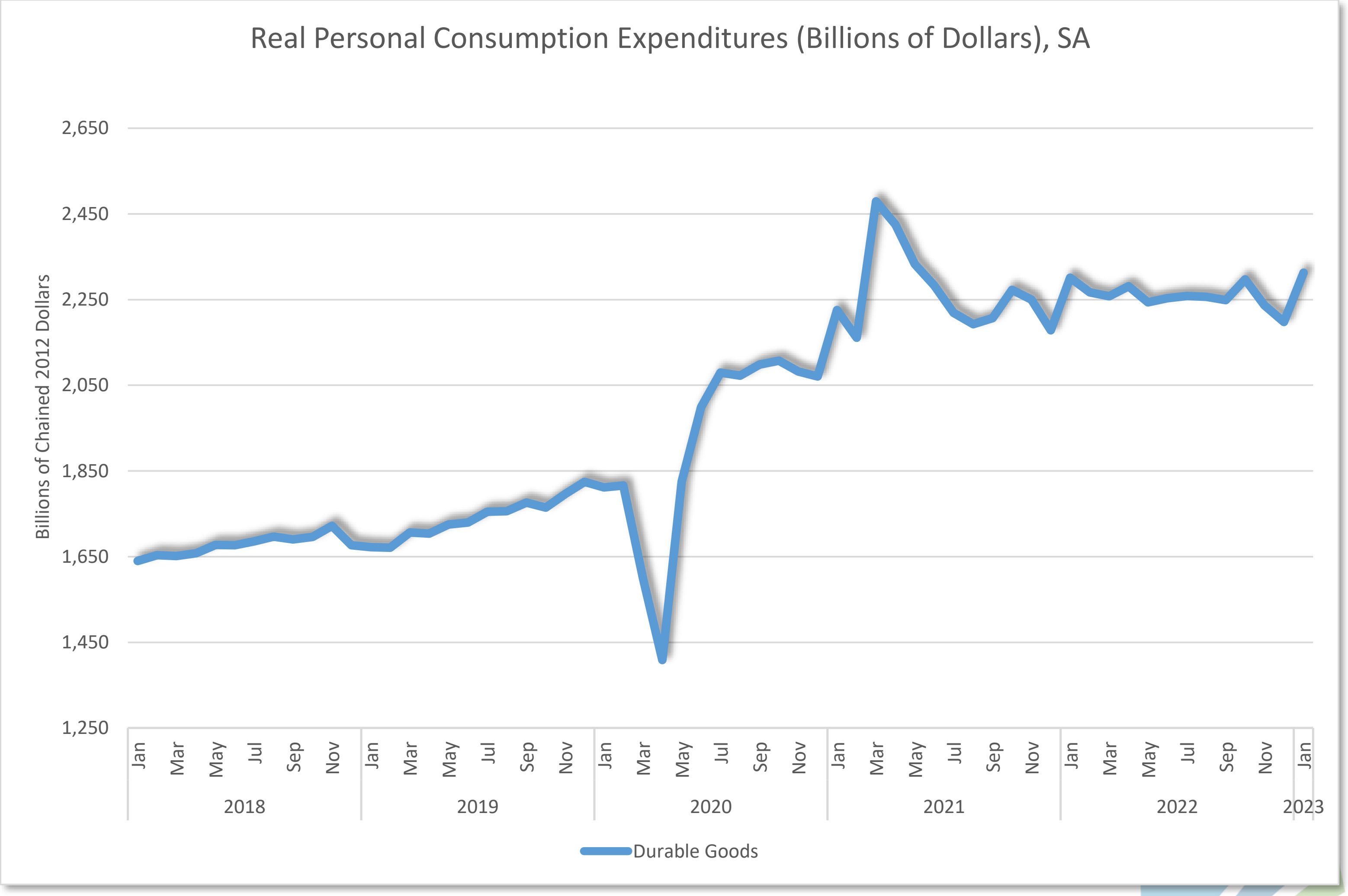
- The PCE measures a broad spectrum of consumer spending for a period of time.

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 increased in January, ending two consecutive months of decline. Volumes however have largely flattened since January 2022.

- Consumer spending for durable goods increased 5.2% to $2.313 trillion, 0.5%, or $12 billion, higher year-over-year and 17% above the 5-year trend.
- Spending for non-durable goods ticked upward 0.5% to $3.309 trillion, which is 1.4% lower Y/Y and 5.9% above the 5-year trend.



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

Manufacturing: New Orders: Total Manufacturing

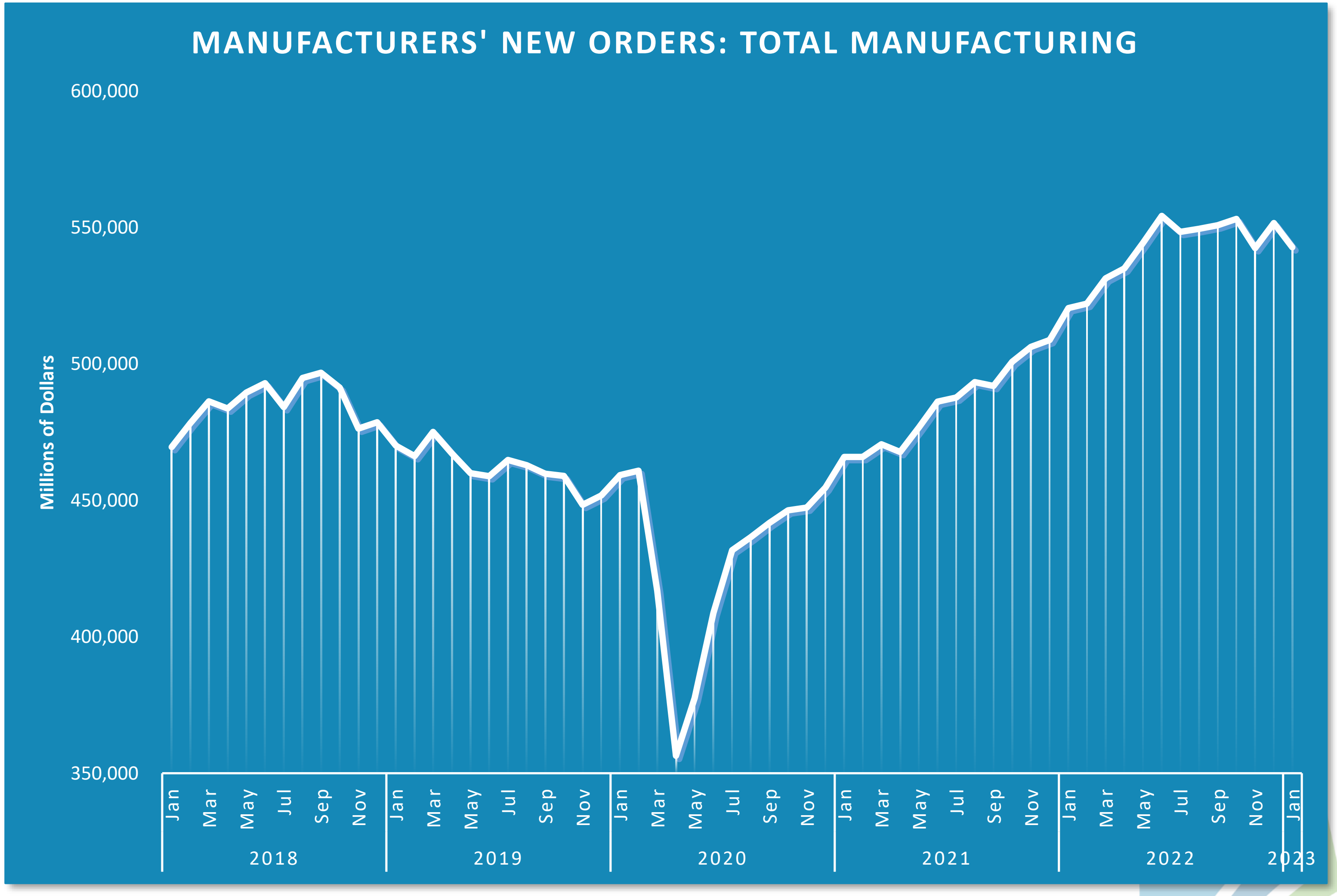
The big picture: Manufacturing new orders are an important economic indicator. They signify an overall direction of the market and economy.

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 total manufacturing decreased in January after increasing 1.8% in December, which could be a worrying sign that manufacturing is starting to slow down.

- Total manufacturing declined 1.6%, or $8.9 billion, month-over-month to $552.5 billion.
- Total manufacturing is $22.3 billion, or 4.3%, higher year-over year and $61.3 billion, or 13%, above the 5-year trend.
- Nondefense capital goods orders increased 0.8%.



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."

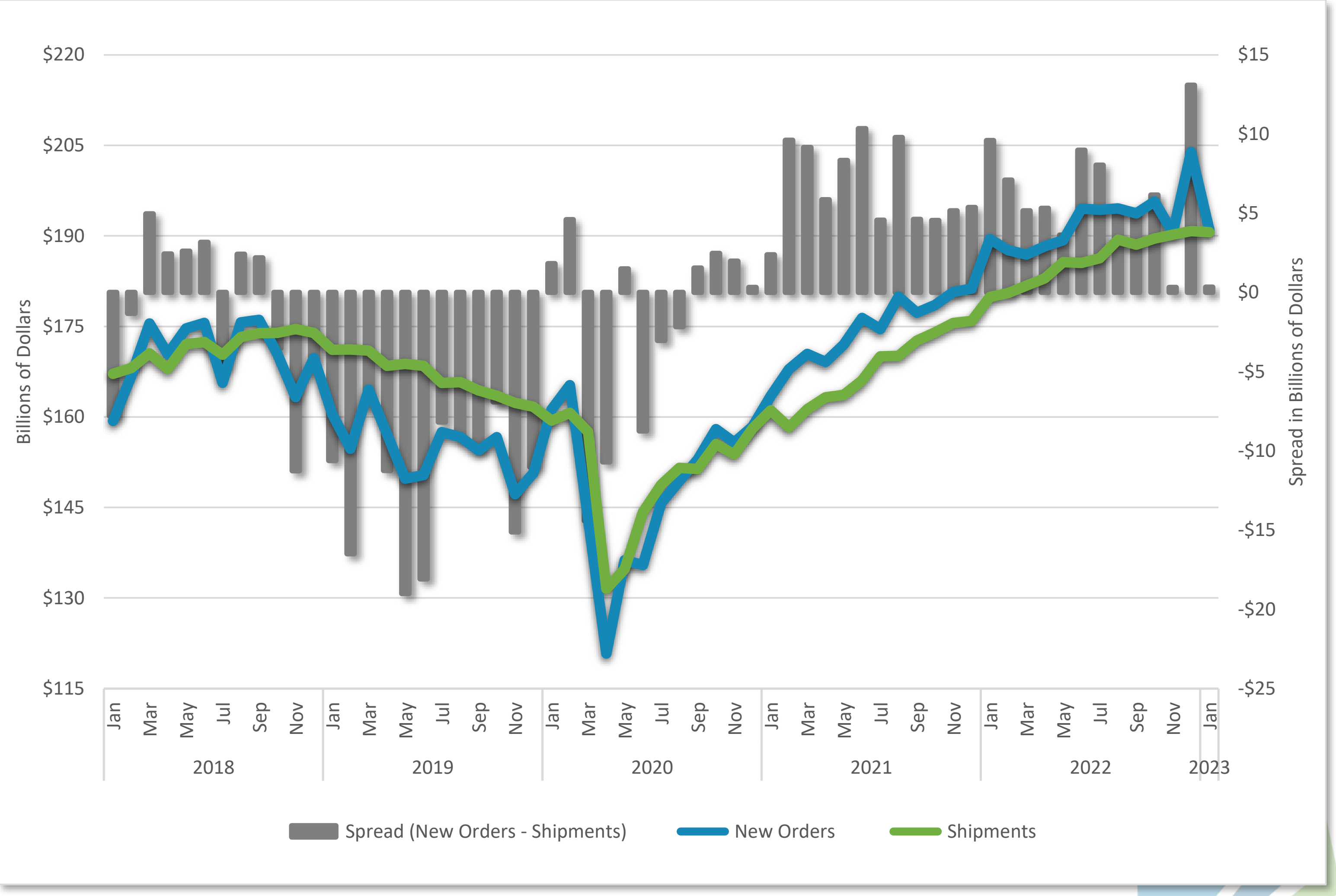
- This represents 70% of durable goods manufacturing by value.

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 starting to slow. New orders barely eclipsed shipments, which translates to fewer backlogs.

- New orders dropped 6.3% to $190.96 billion in January, and are 0.8% higher year-over-year.
- Shipments declined slightly by 0.1% to $190.62 billion.
- The spread between new orders and shipments plummeted from $13.07 billion to $341 million.
- This is a negative sign, and 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.

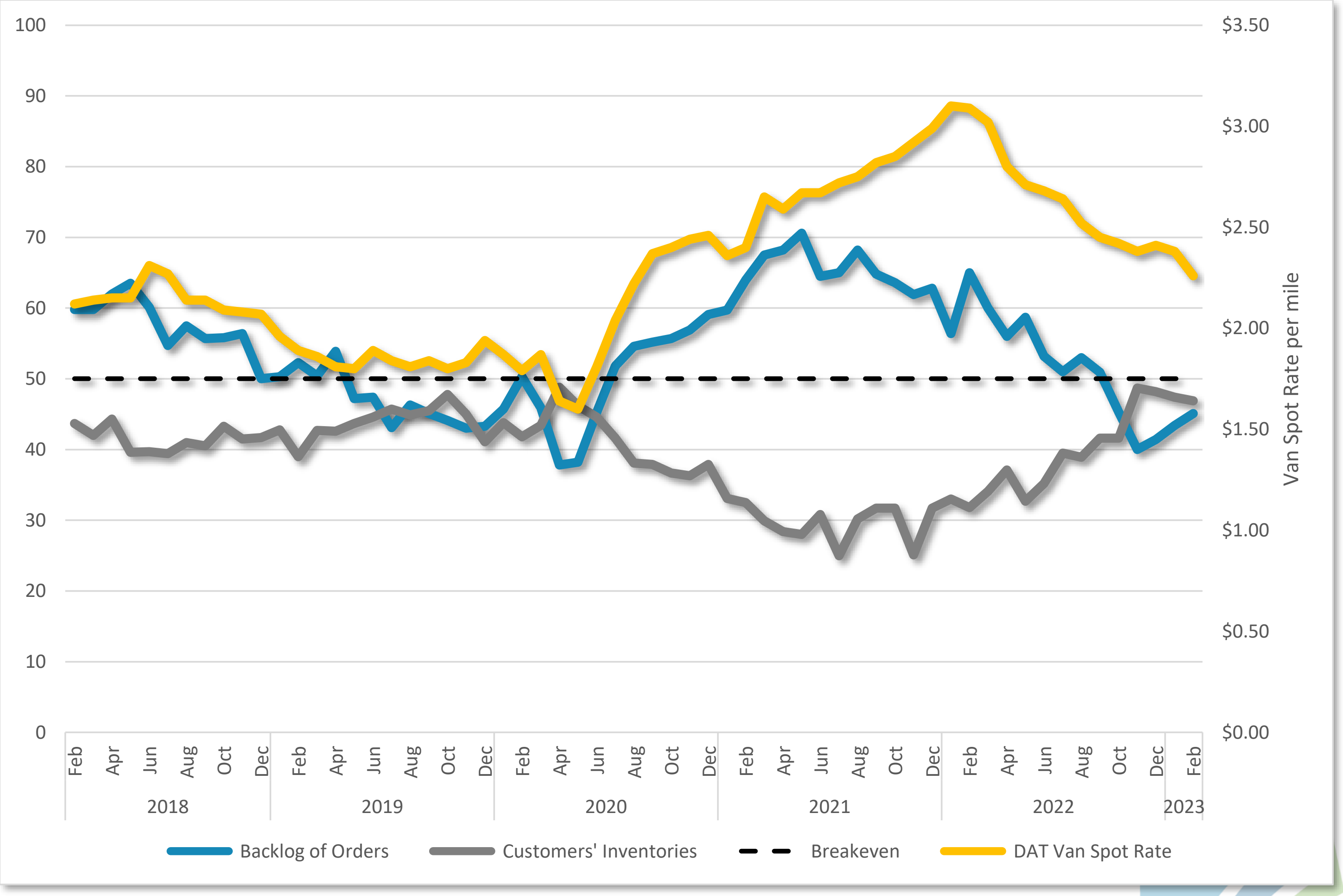
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart.

- 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.

- Backlogs increased 3.9% month-over-month to 45.1, but are still in contraction territory. Backlogs are 31% lower year-over-year.
- Customers' inventories declined 1.1% to 46.9 but are 47% 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.

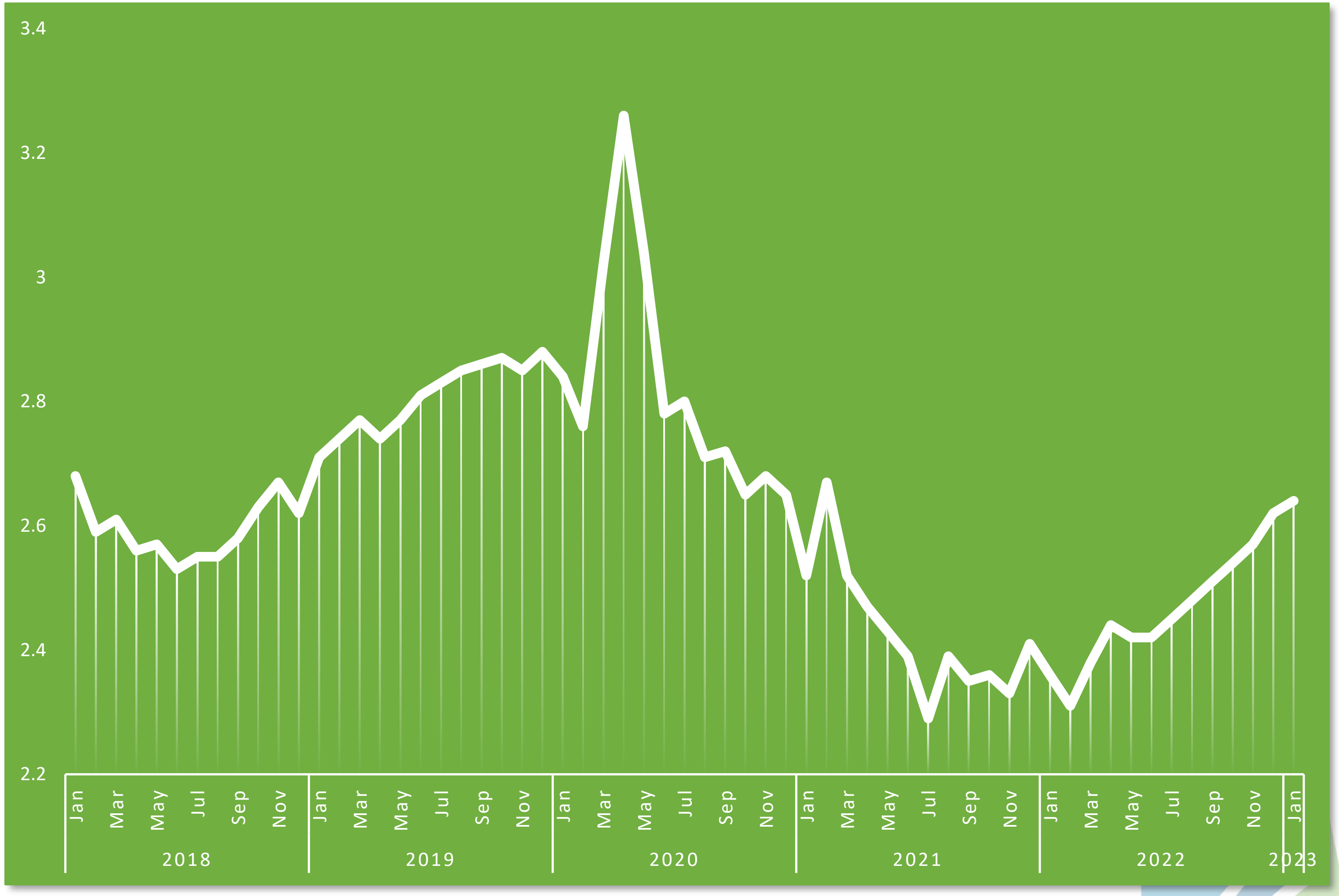
- For example, a ratio of 2.5 would indicate that a firm has enough product on hand to cover two and a half months of sales.
- The machinery, equipment, and supplies wholesalers ratio consists of firms that sell bulldozers, farm equipment, industrial machines, supplies for those machines, and transportation 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. This same trend can be seen in wholesalers overall.

- The inventories-to-sales ratio increased 0.8% month-over-month in January to 2.64, marking seven consecutive months of growth.
- The ratio is 11.9% higher year-over-year and 0.7% 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.

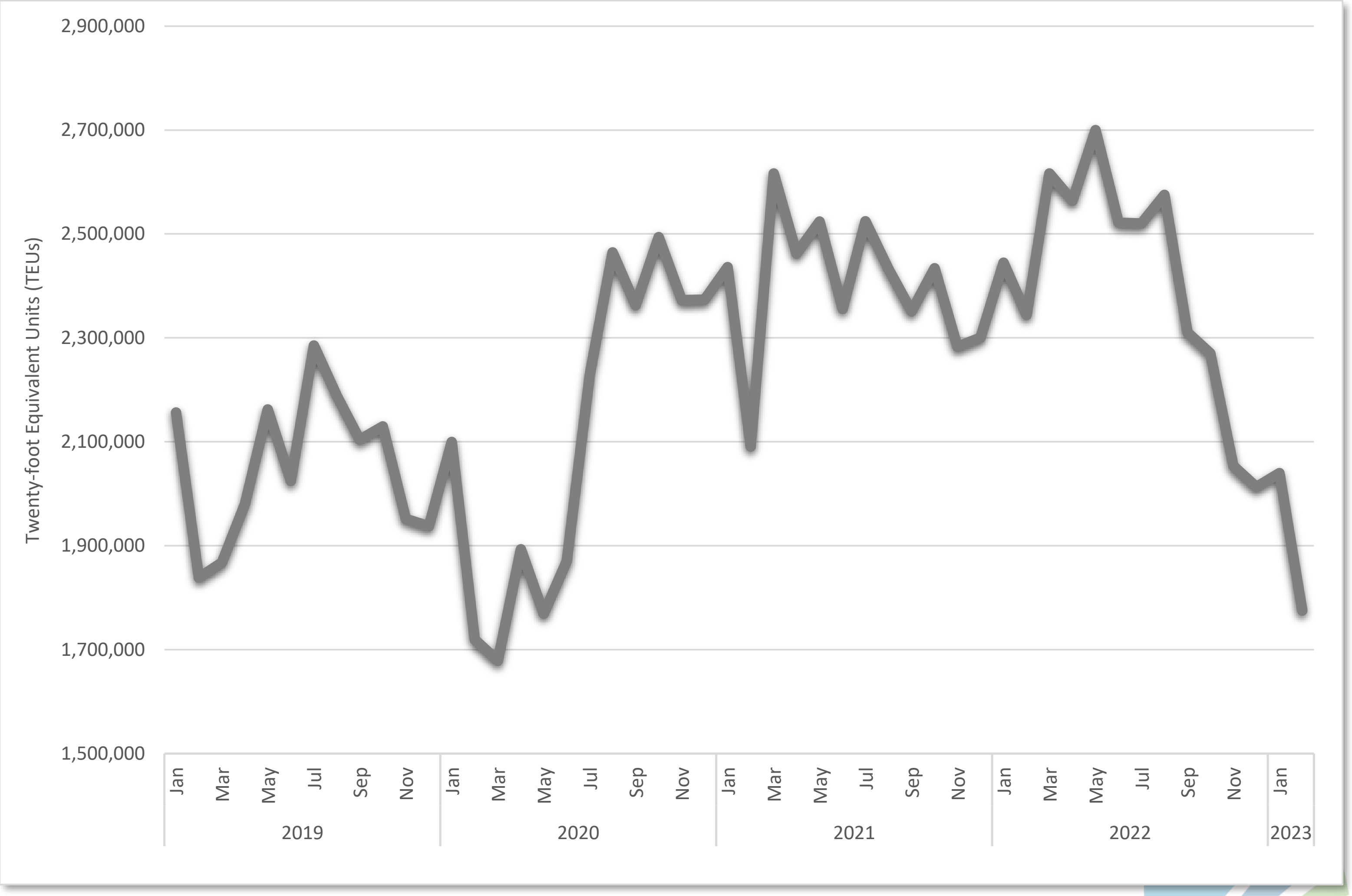
Why it matters: High levels of imports signal a strong domestic demand and a growing economy.

- 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.

- Exports, which are a month behind imports, dropped in January to 888,800 twenty-foot equivalent units (TEUs).
- Imports plummeted 12.9% in February to 1.77 million TEUs, reversing the slight bump in January.
- Imports are 524,700 TEUs, or 23%, lower year-over-year, and 20% below the 5-year trend.

The bottom line: According to Jason Miller, who is a supply chain professor at Michigan State University, the pullback on imports is being heavily driving by the slowdown of single-family housing starts, as this has curtailed the demand for furniture, furnishings, and other large appliances.



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:

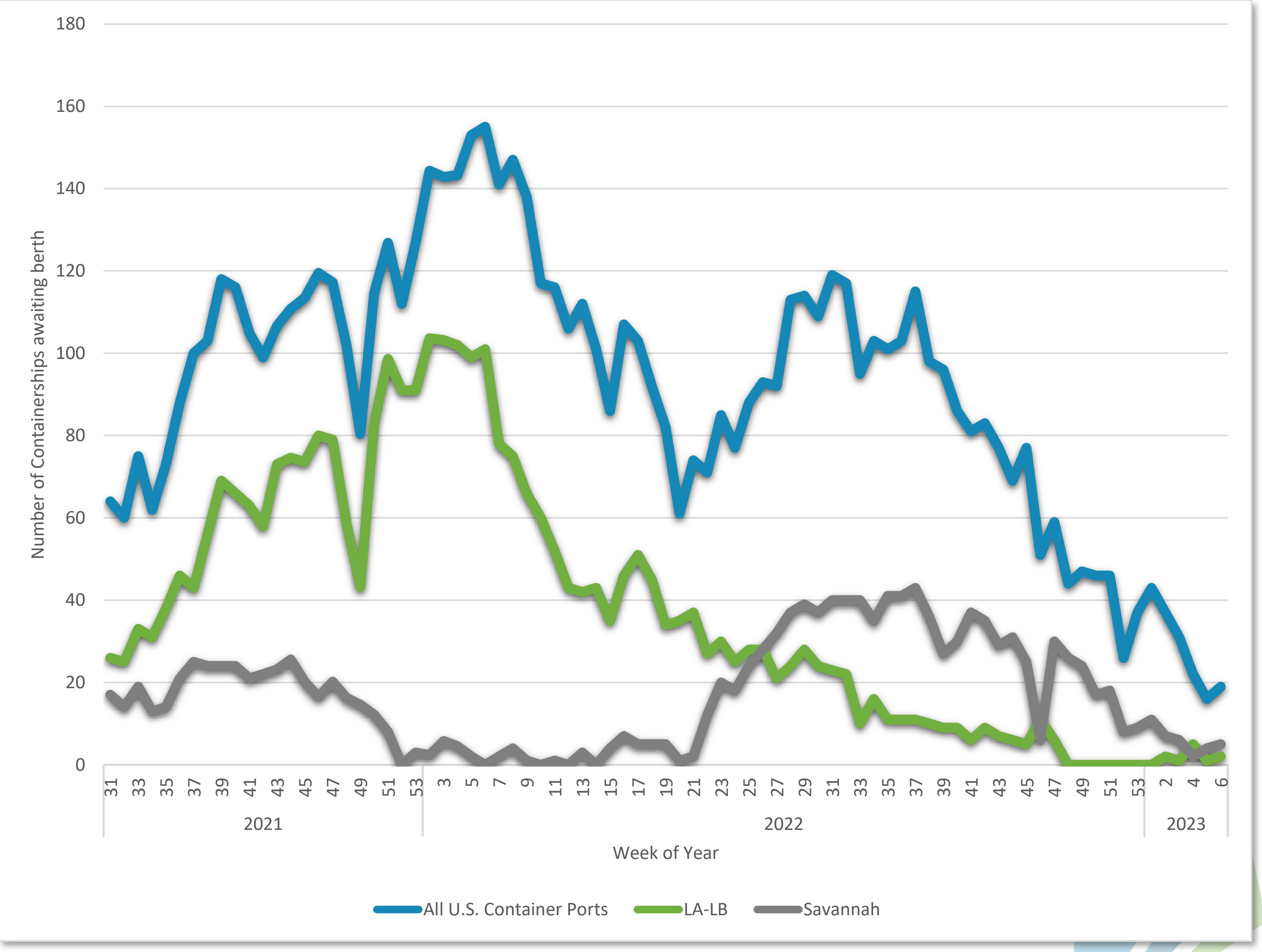
1. Record-levels of demand, and thereby freight volume.
2. Supply chain inefficiencies which helped to push spot rates even higher in 2021.

Our thoughts: Ports are less and less congested around the country

- Containerships awaiting berth overall, have dropped 87% 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 72 days, while far east westward (FEWB) bound cargo increased to 81 days.
- OTI has been increasing steadily since late 2022, but the index 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.

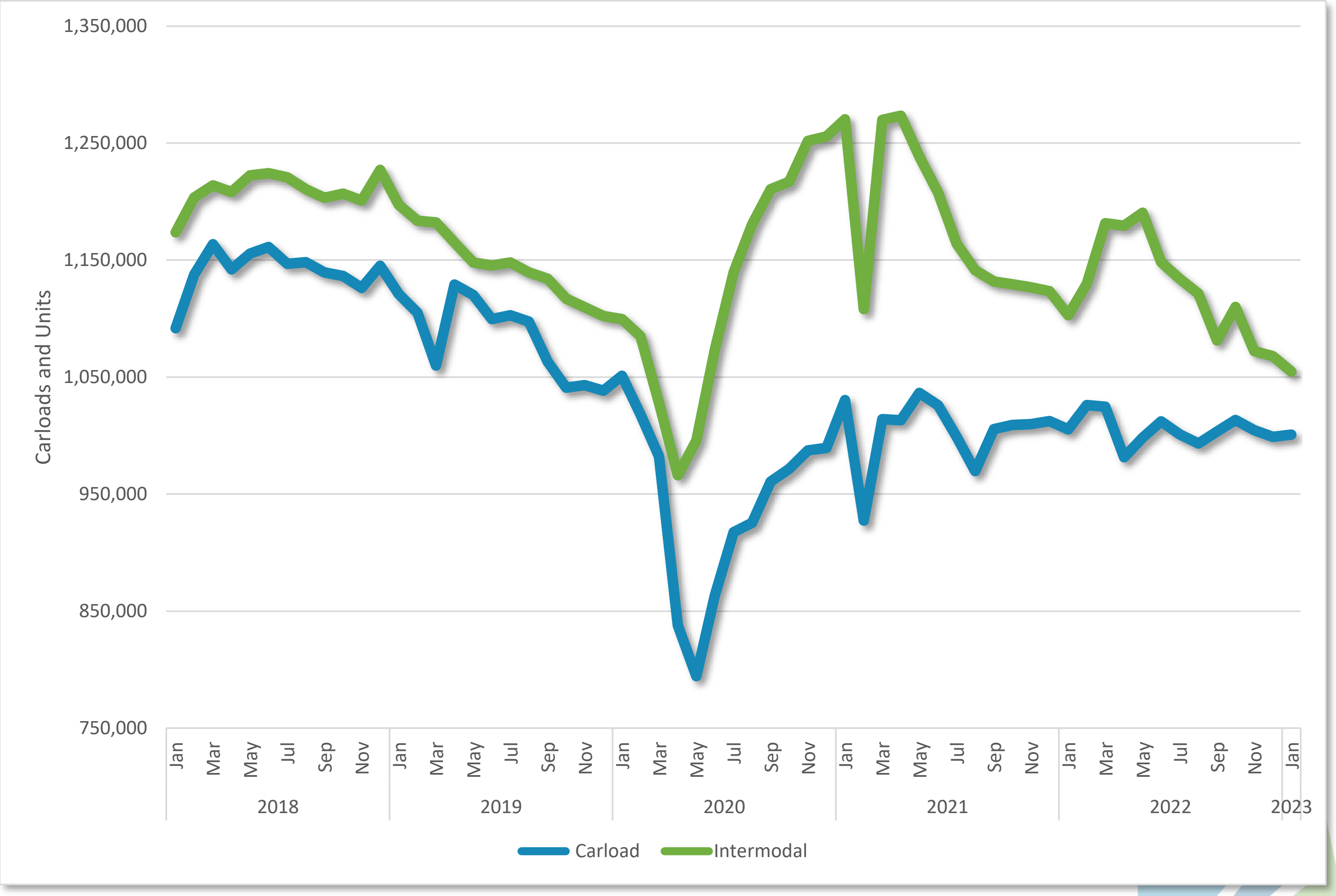
- While the rail and truck industries often compete with each other, they also work hand in hand.

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 fewer loads downstream. It might also highlight a movement from rail to truck as truck prices continue to decline.

- Carloads increased 0.2% month-over-month to 1 million, and are down 0.5%, or 4,600 carloads, year-over-year.
- Intermodal decreased 1.2% to 1.05 million, and are down 4.4%, or 48,000 loads, year-over-year.
- Both carloads and intermodal are below their 5-year trend line by 3.3% and 8.8% respectively.



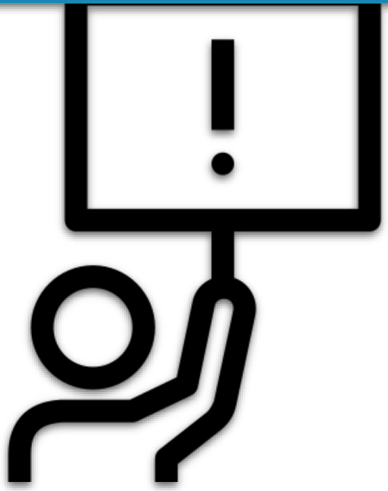
Source: Carloads| https://fred.stlouisfed.org/series/RAILFRTCARLOADSD11#0 | Intermodal: https://fred.stlouisfed.org/series/RAILFRTINTERMODALD11 | Monthly

Market Summary

Volume

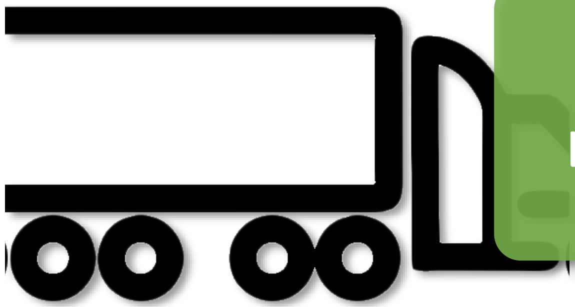
Flat

Demand



Flat

Capacity



Very Loose

Rates

Bottoming/ dropping

Operating Costs

High

Future Outlook

Negative

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