OOIDA Foundation

RESEARCH
SAFETY
EDUCATION

May 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.

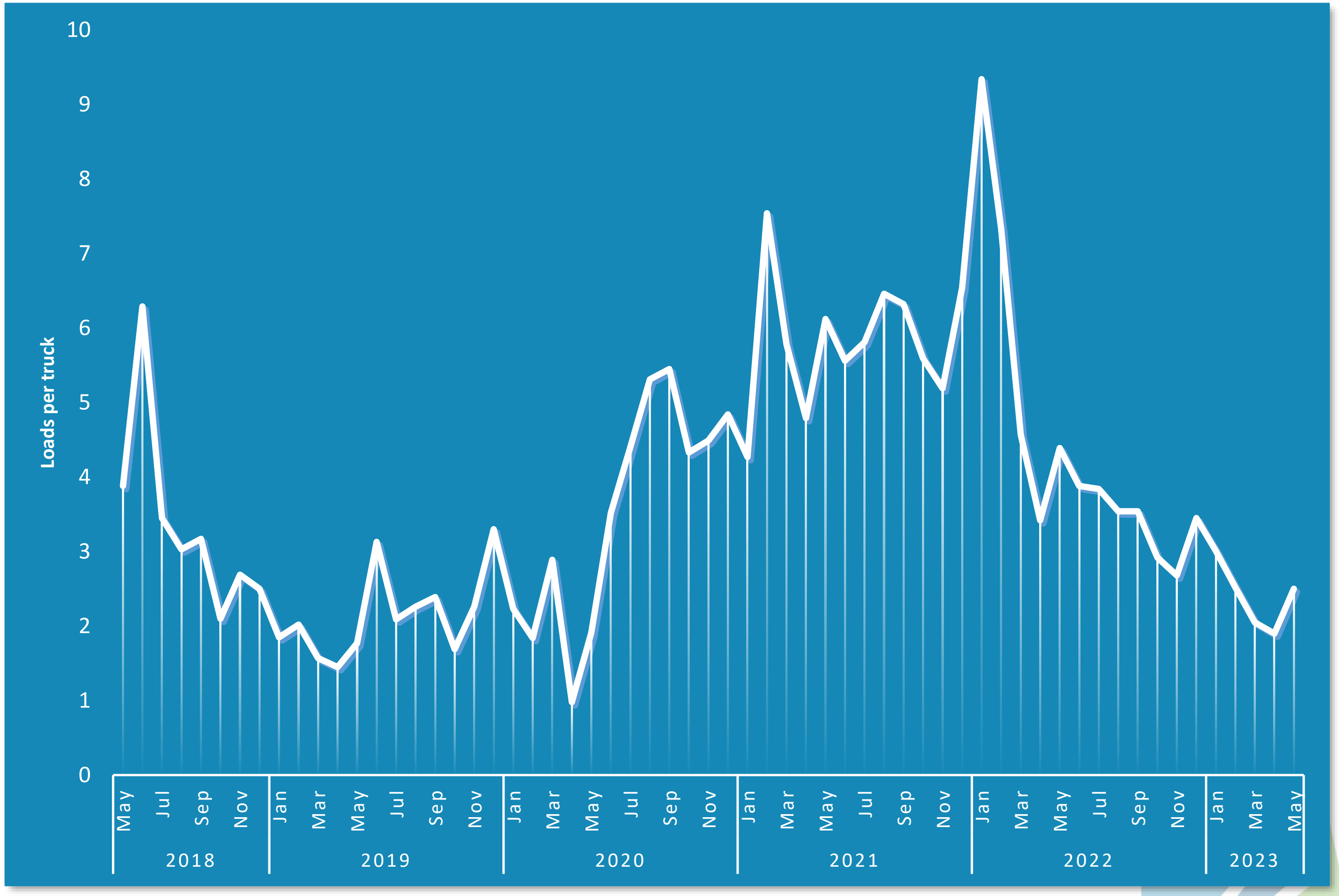
- The Load-to-Truck Ratio is a sensitive, real-time indicator of the balance between spot market demand and capacity

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

Our thoughts: The Van Load-to-Truck ratio increased in May. Demand typically picks up around this time until July 4. The increase in the Reefer Load-to-Truck Ratio in May might have positively impacted dry van as well.

- The Van Load-to-Truck Ratio increased 31.6% month-over-month to 2.5, ending four consecutive months of decline.
- The ratio is 43% lower than last year and 34% lower than the 5-year trend.

As of the end of June, Load posts are almost identical to 2016 levels and over 10% lower than in 2019. Equipment posts are still high.



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

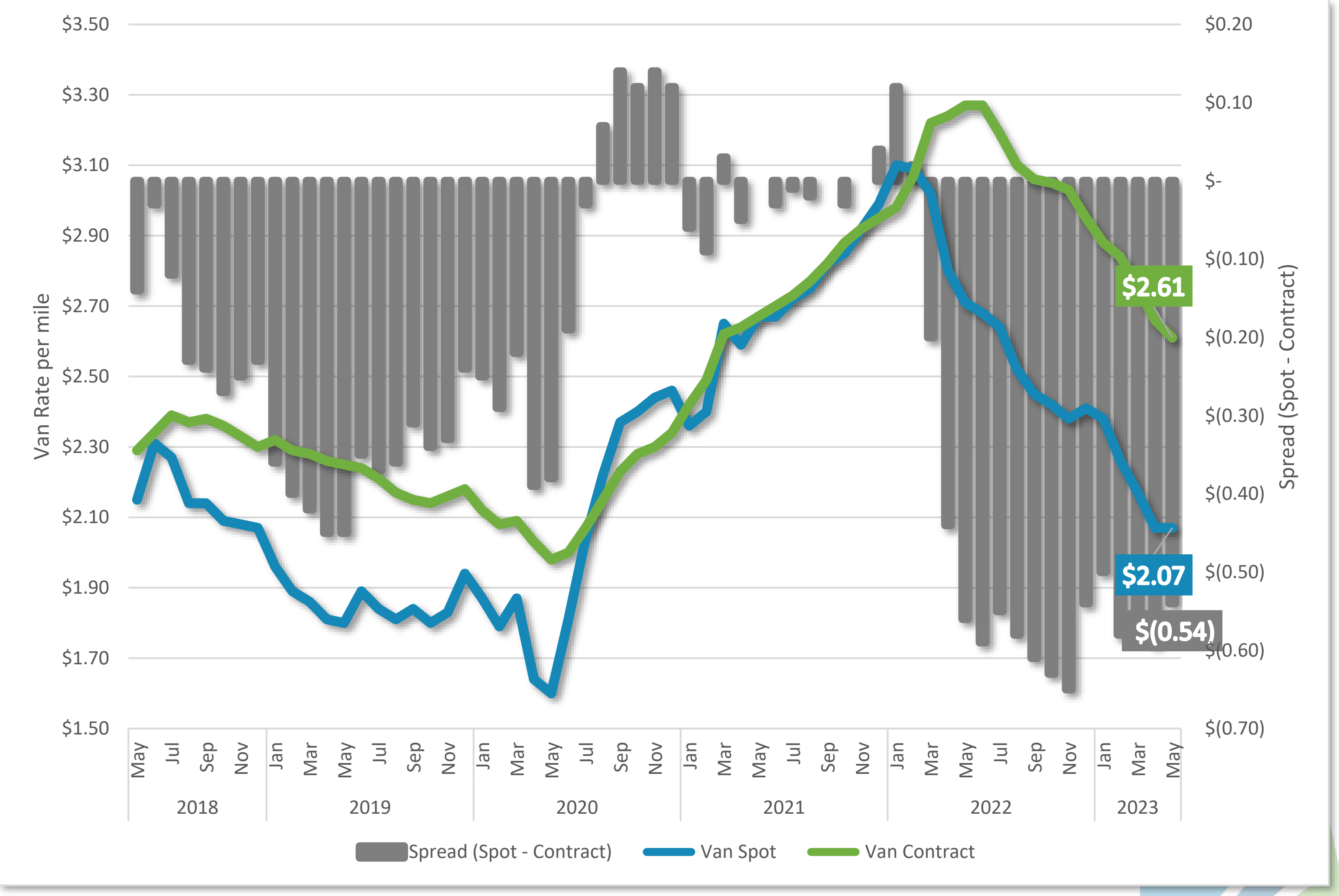
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Rates are underperforming compared to their typical seasonal trend in May where they usually move upward as we head into the fourth of July.

- Spot rates for vans stayed flat month-over-month, ending four straight months of decline, but have dropped $0.64 per mile since last year.
- Contract rates decreased $0.05 per mile, which means the spread between contract rates and spot rates dropped $0.05 to $0.54 per mile.
- Spot rates are 10% below the 5-year trend, while contract rates are 3% higher.

DAT's model predicts spot rates excluding fuel will tick upward heading into the fourth of July holiday and then move downward about 5 cents per mile toward the end of July.

- Volumes and rates typically fall off after the fourth. It appears that rates have found their bottom.



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.

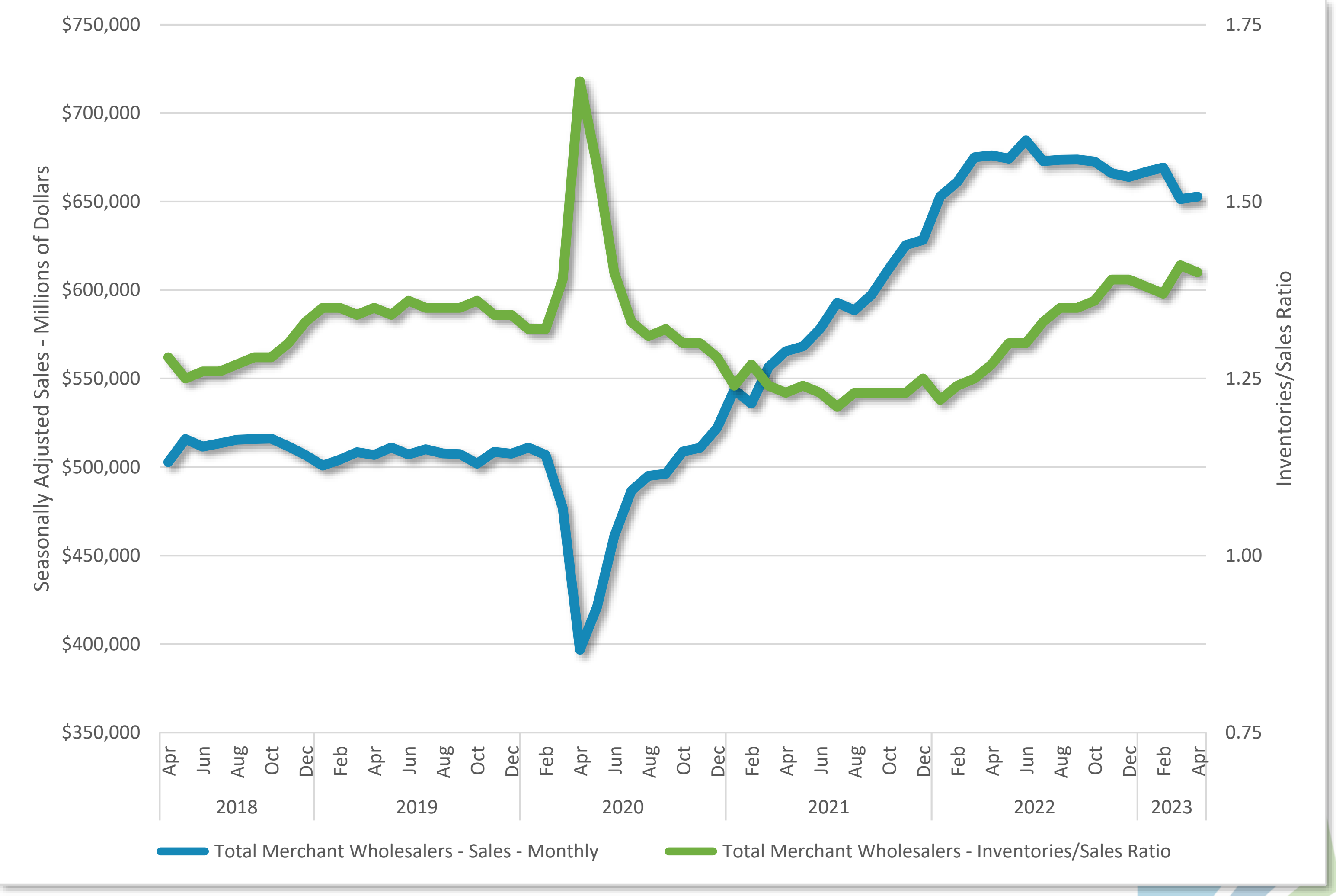
- The U.S Census Bureau reports monthly sales data and inventory-to-sale ratios for different types of industries.

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 decreased, while monthly sales moved upward, which is a welcoming sign. Inventories however will need to decline further before demand really picks back up.

- Sales increased 0.2% month-over-month in April, but have decreased 3.4%, or $23.3 billion, since last year.
- Ratios decreased 0.7% month-over-month, helping to chip away at the increase in inventories we saw in March, but have grown 10.2%, or 0.13, since last year. Ratios are 6% 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.

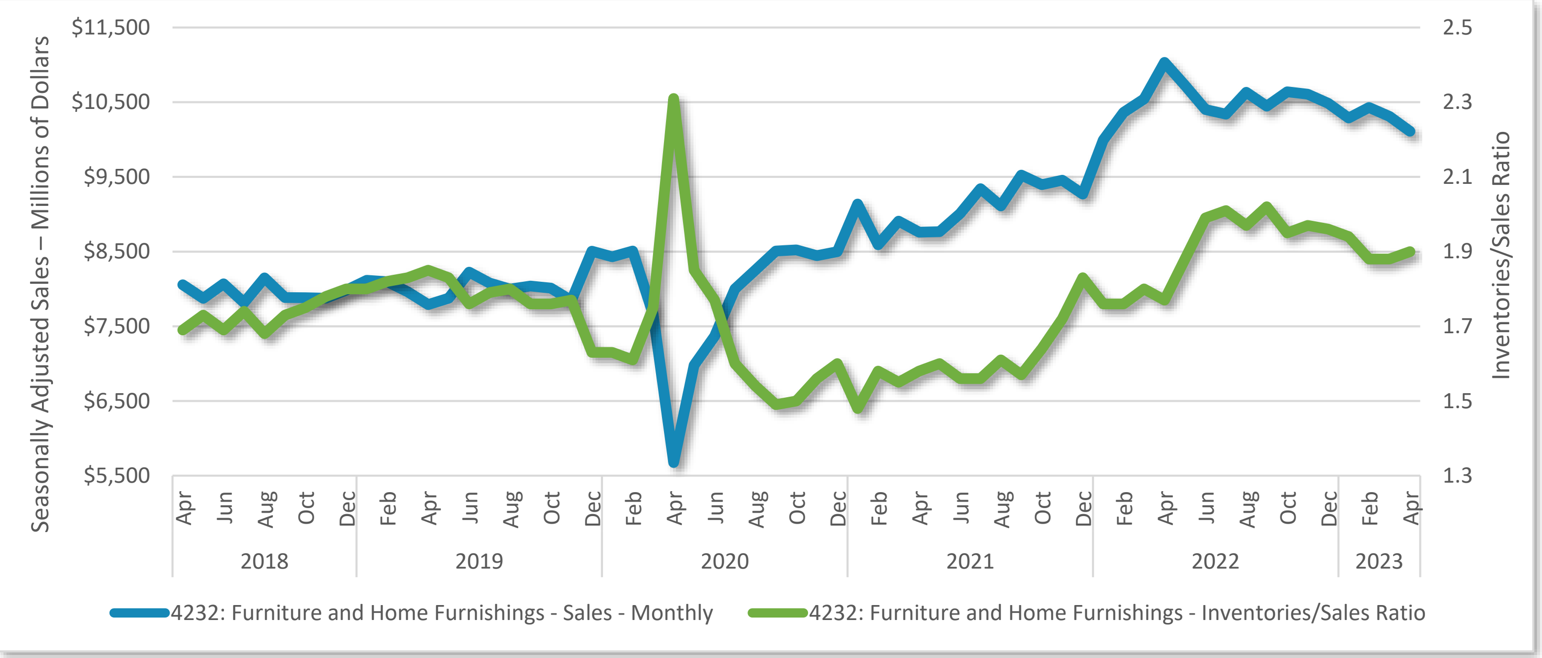
- Sales and inventories can help an owner-operator to see what direction freight demand is headed.

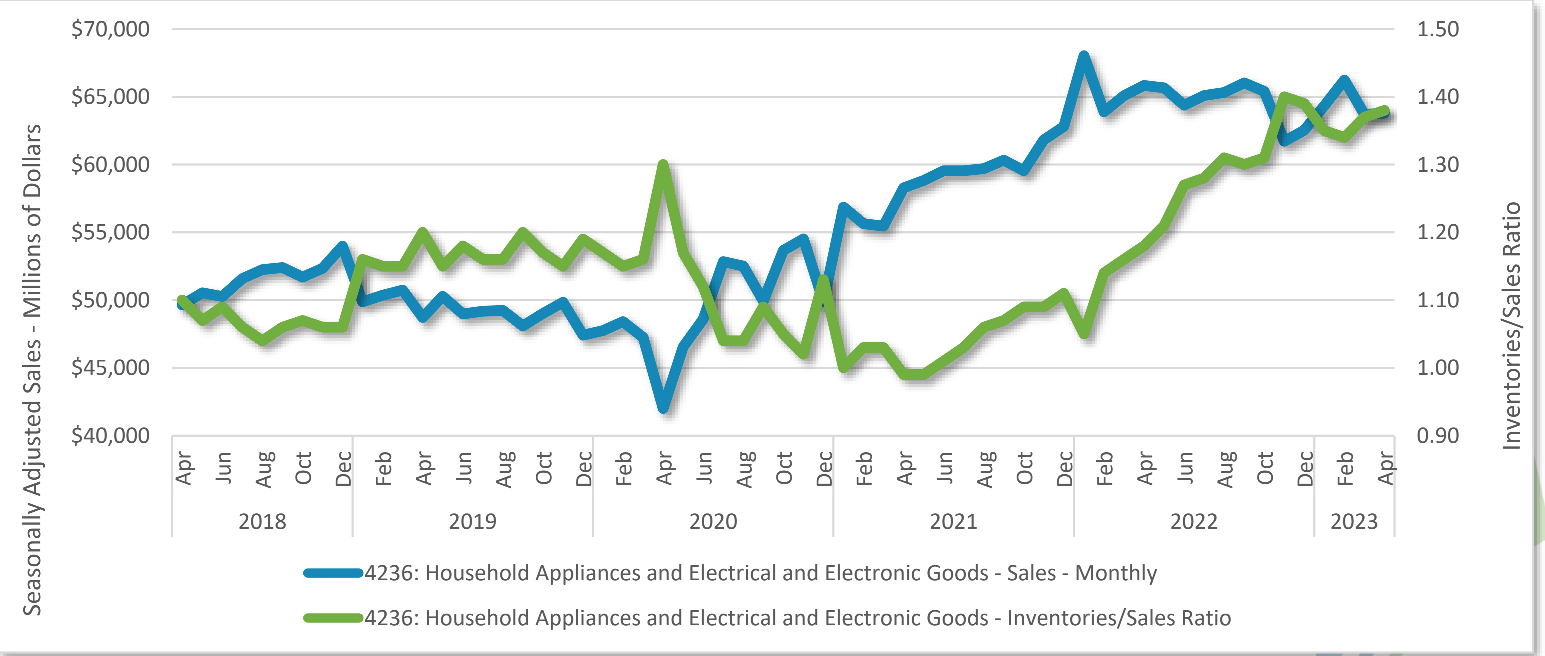
Our thoughts: Inventory-to-sales ratios grew for both industries, while monthly sales decreased for furniture and stayed relatively flat for household appliances.

- Furniture Sales decreased 1.9% month-over-month, marking consecutive months of decline, while ratios increased 1.1% to 1.85.
- Compared to last year, sales decreased $199 million as ratios have increased 7.6%.
- Household appliances sales increased 0.1%, and ratios grew 0.7% to 1.38.
- Sales decreased $2.04 billion since last year, as ratios have grown 21%.

The more inventory that businesses have on hand, the less they need trucks to restock their goods, which is partly why the dry van segment has been struggling since early 2022.

- It appears that inventory levels are remaining flat, and even trending downward for furniture. Hopefully this will accelerate.





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:

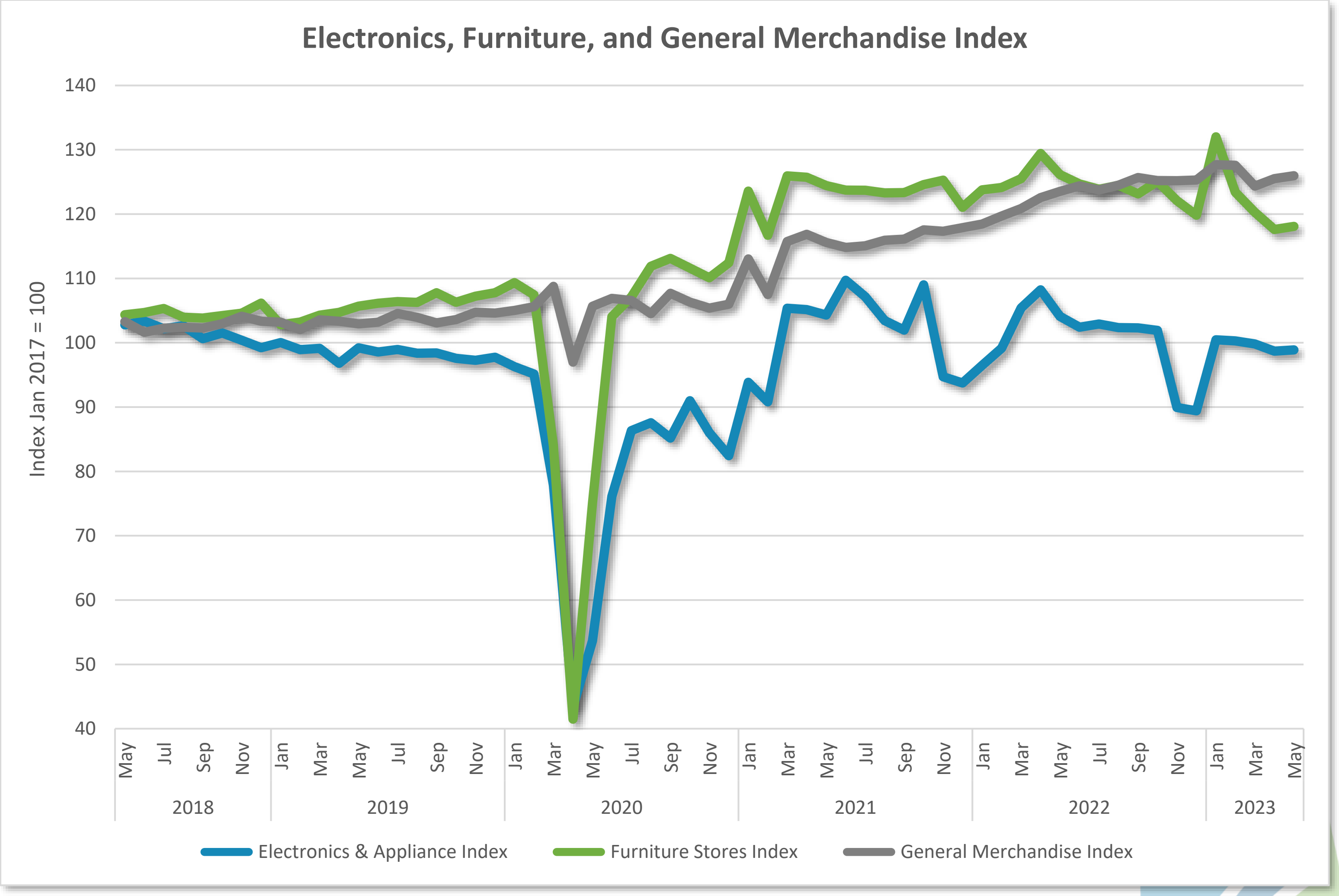
- Electronics and appliance stores (EAS)
- Furniture stores (FS)
- General merchandise stores (GMS), such as Walmart, Target, Costco

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 increased for all three sectors, as the sidewise trend continues for FS and EAS continues to track with 2019 levels.

- EAS increased 0.2%, or $15 million, month-over-month to $7.6 billion, ending four straight months of decline. EAS is 5%, or $400 million, lower year-over-year.
- FS grew 0.4%, or $44 million, M/M to $11.21 billion, and is 6.4%, or $765 million, lower Y/Y.
- GMS increased 0.4% M/M, or $265 million, to $72.6 billion, and is up 2%, or $1.4 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 flatbed 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

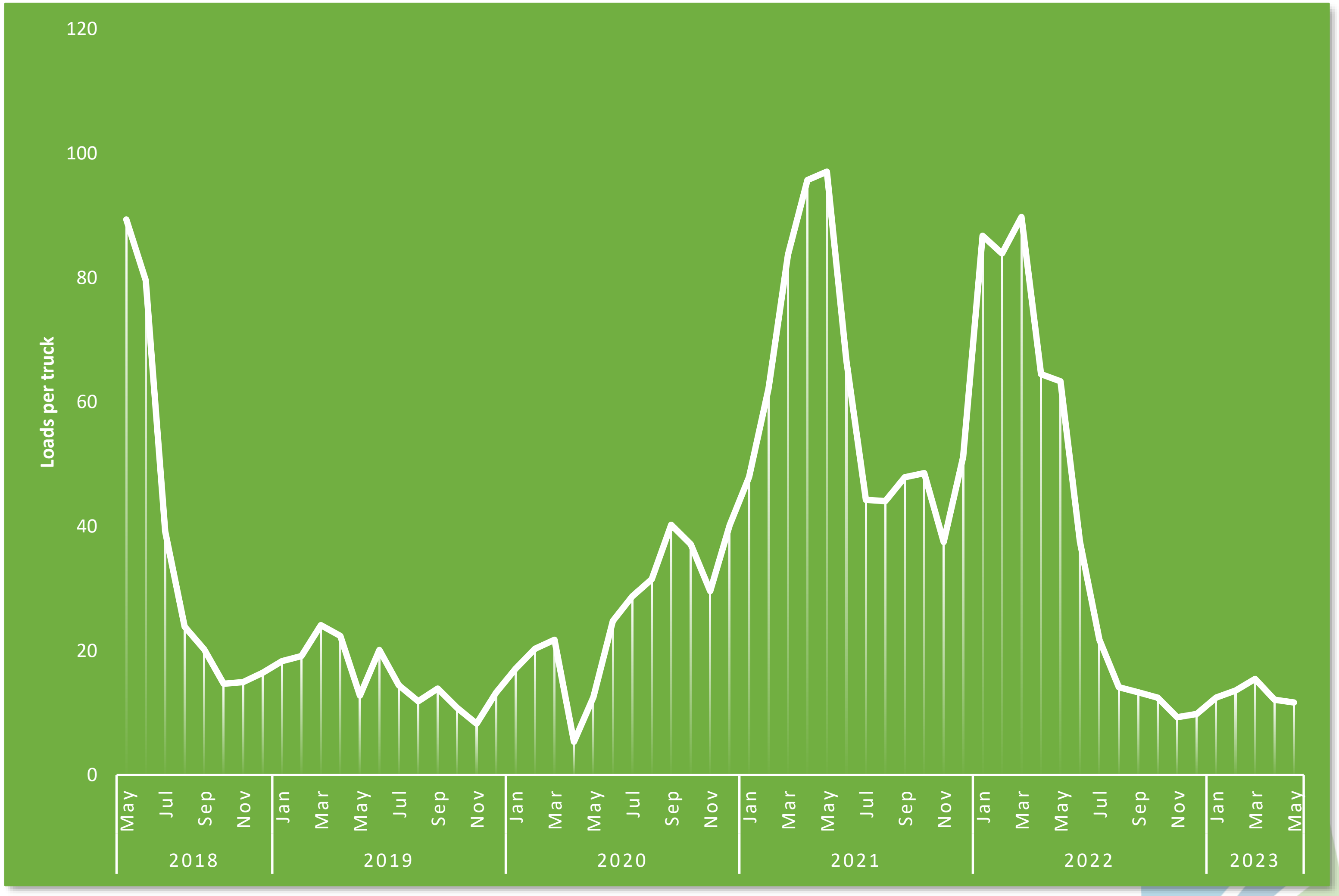
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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 dropped 35% since the start of April. They were about 42% lower than what they were in 2019, while equipment posts were at their highest level in seven years.

- The Flatbed Load-to-Truck Ratio decreased 3.6% month-over-month, marking two consecutive months of decline.
- Flatbed has been the only equipment type to experience positive movement this year, but it too is starting to decline.
- The ratio has declined 82% since last year, from 63.3 loads for every truck to 11.69.
- The ratio is 66% 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.

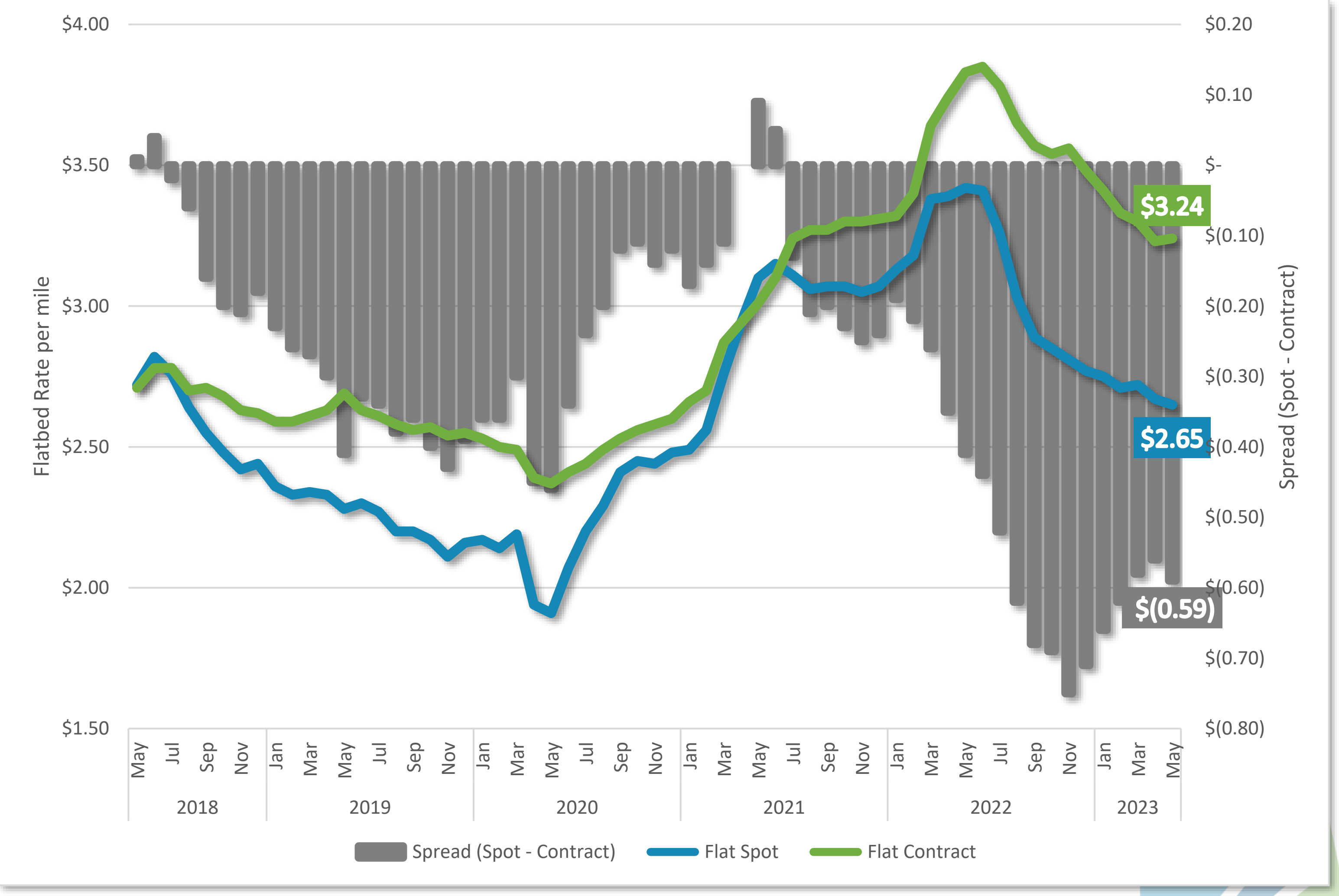
- RateView's database is comprised of more than $110 billion in freight bills in over 68,000 lanes

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 decreased again in May, while contract rates increased, ending five straight months of decline.

- The spot market decreased $0.02, or 0.7%, to $2.65 per mile month-over-month, and has dropped $0.77 since last year when it was $3.42.
- The contract market increased $0.01, or 0.3%, to $3.24 per mile, which is $0.59 lower than last year and $0.30 above the 5-year trend.
- The spread between contract and spot increased 5.4% to $0.59, which is 44% higher than a year ago when it was $0.41.

DAT predicts that spot rates excluding fuel will remain flat heading into the fourth and then drop about $0.05 or more by the end of July, which is pretty standard for flatbed following the holiday.



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

Construction: Overall and Streets

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

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

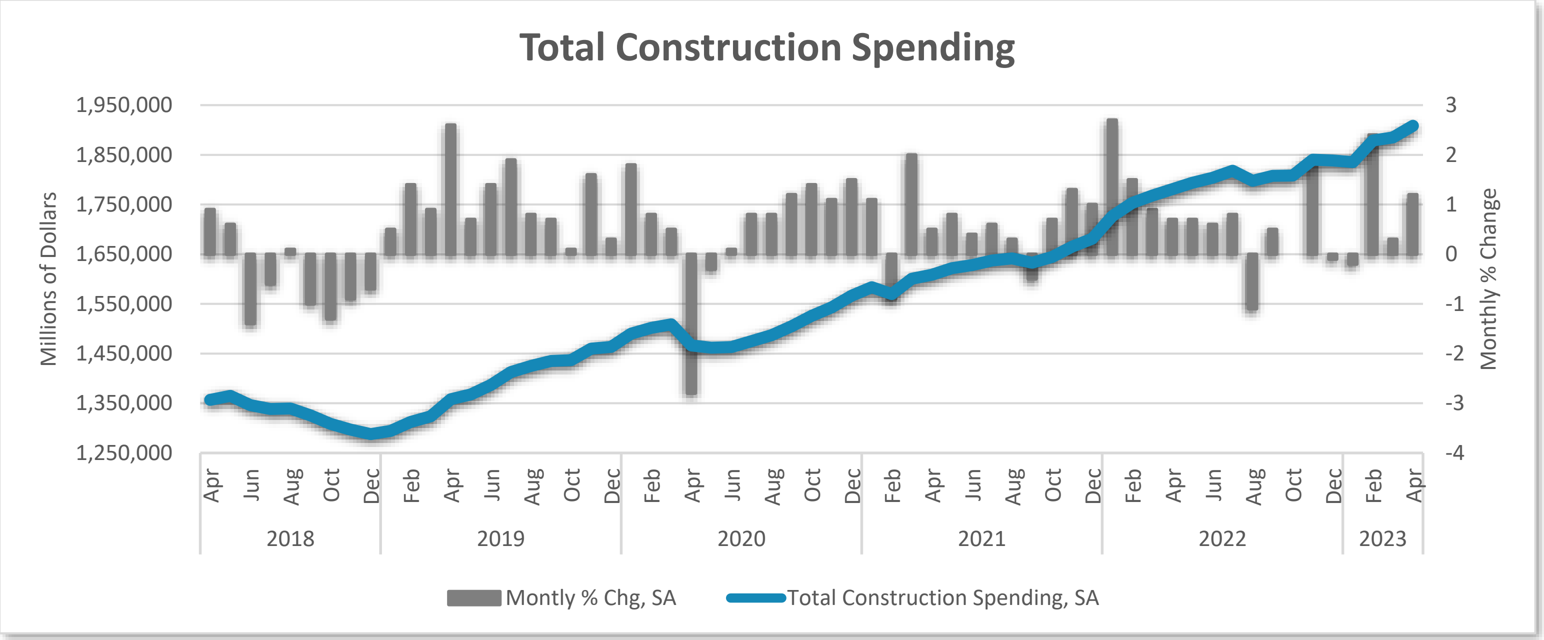
Why it matters: Construction spending helps boost the economy, especially spending that is dedicated to building roads and bridges.

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

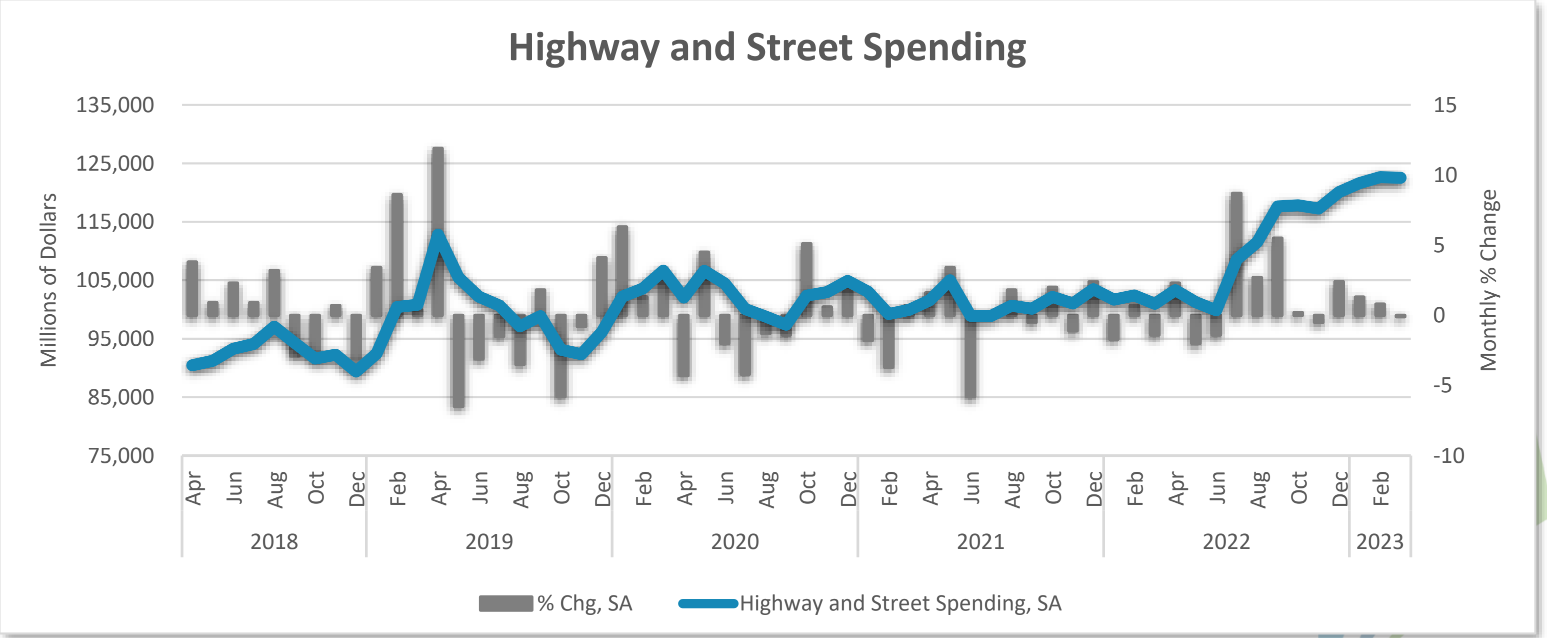
Our thoughts: Total construction spending (TCS) increased while spending on highways and streets (HSS) decreased month-over-month. The same pattern as the previous month.

- TCS increased by 1.2%, or $23.4 billion, in April to $1.908 trillion, which is $127.5 billion, or 7.2%, higher year-over year, and 22% above the 5-year trend.
- HSS decreased 0.4% to $123.9 billion, and is up 20%, or $20.6 billion, year-over-year.

Construction spending overall has helped keep flatbed afloat, especially non-residential spending which has increased 23%, or $196.2 billion, since June 2022.



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:

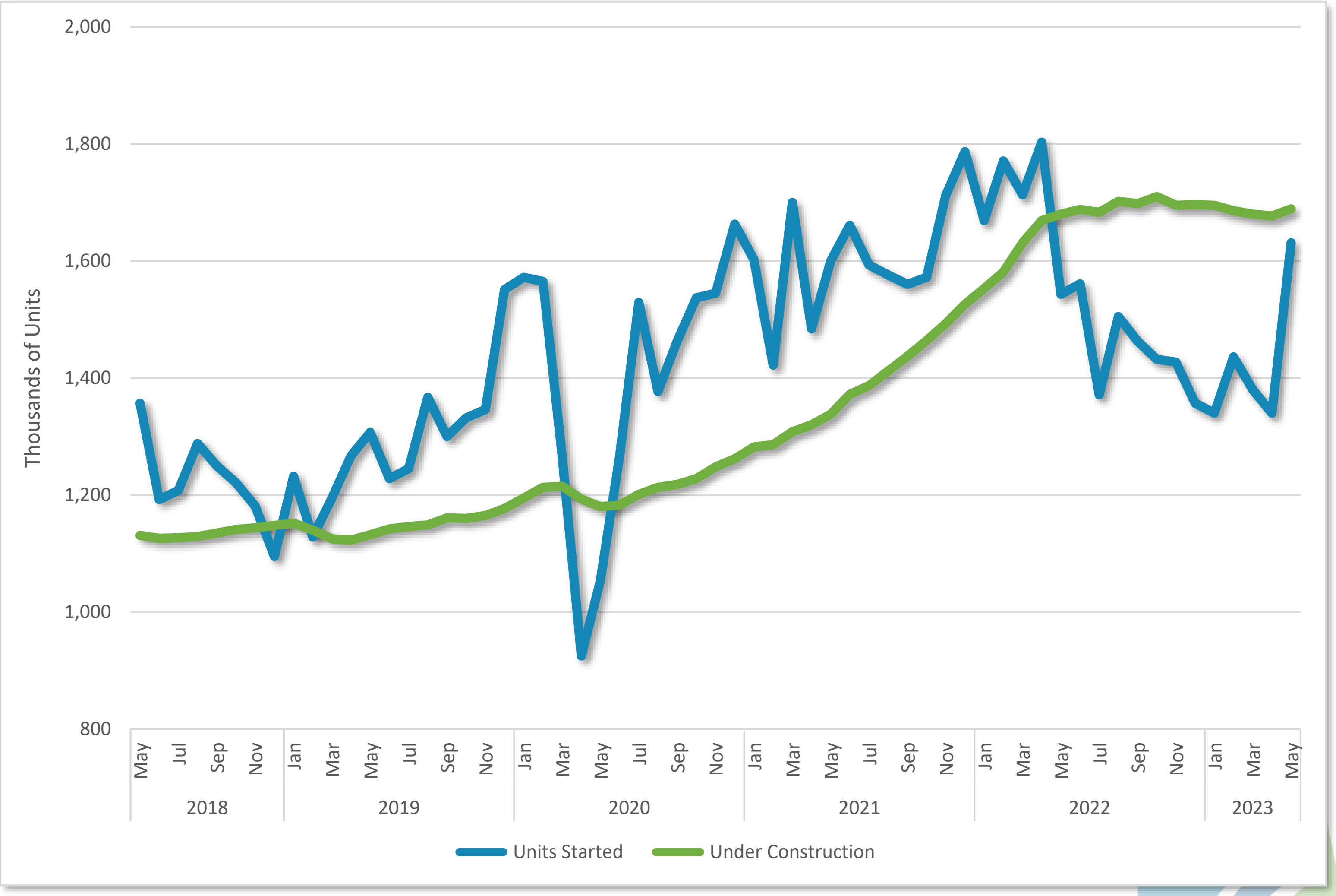
- Housing starts, and
- Housing under construction.

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 jumped significantly upward in May following a 3% decrease in April due to a revision, which could be a great sign for trucking. However, we will have to wait and see if this trend holds firm going forward.

- New starts increased 21.7%, or 291,000 houses, to 1.631 million, and are up 6%, or 88,000 homes year-over-year (Y/Y).
- Houses under construction ticked upward 0.7% to 1.689 million, and are 1% higher Y/Y.
- Completed houses increased 9.5% month-over-month and are up 5%, or 72,000 homes, 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).

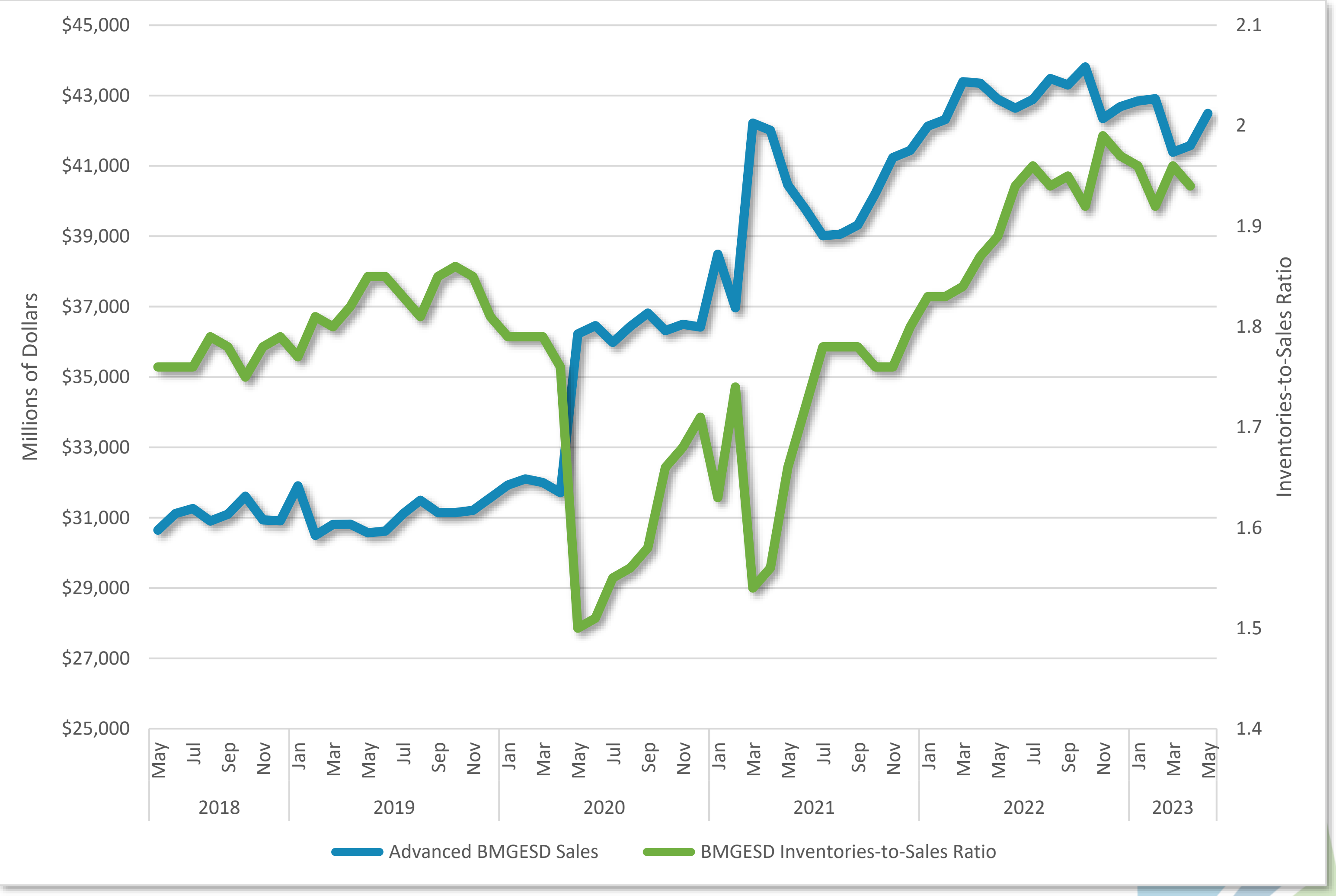
Why it matters: Retail sales give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

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

Our thoughts: BMGESD sales and inventories moved back into the right direction in May as retailers continue to work on depleting their inventories.

- The BMGESD retail sales increased 2.2% month-over-month to $42.5 billion, and are 0.9%, or $403 million, lower year-over year.
- Sales are $4.9 billion higher than the 5-year average.
- Inventories-to-sales ratios increased 1% to 1.97 in March, and are their second highest level since 2012.

In May, sales and inventories reversed, meaning sales grew while inventory ratios declined. This is a positive sign, and could signal that more and more retailers are righting their inventory levels. This is also a positive sign for demand, as retailers didn't have to sacrifice sales to push inventory. We will continue to watch this trend.



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 three key economic indicators that directly impact the reefer market:

1. USDA Average Refrigerated Truck Rates
2. USDA Refrigerated Truck Volumes
3. USDA Truck Availability Data

Demand: Reefer Load-to-Truck Ratios

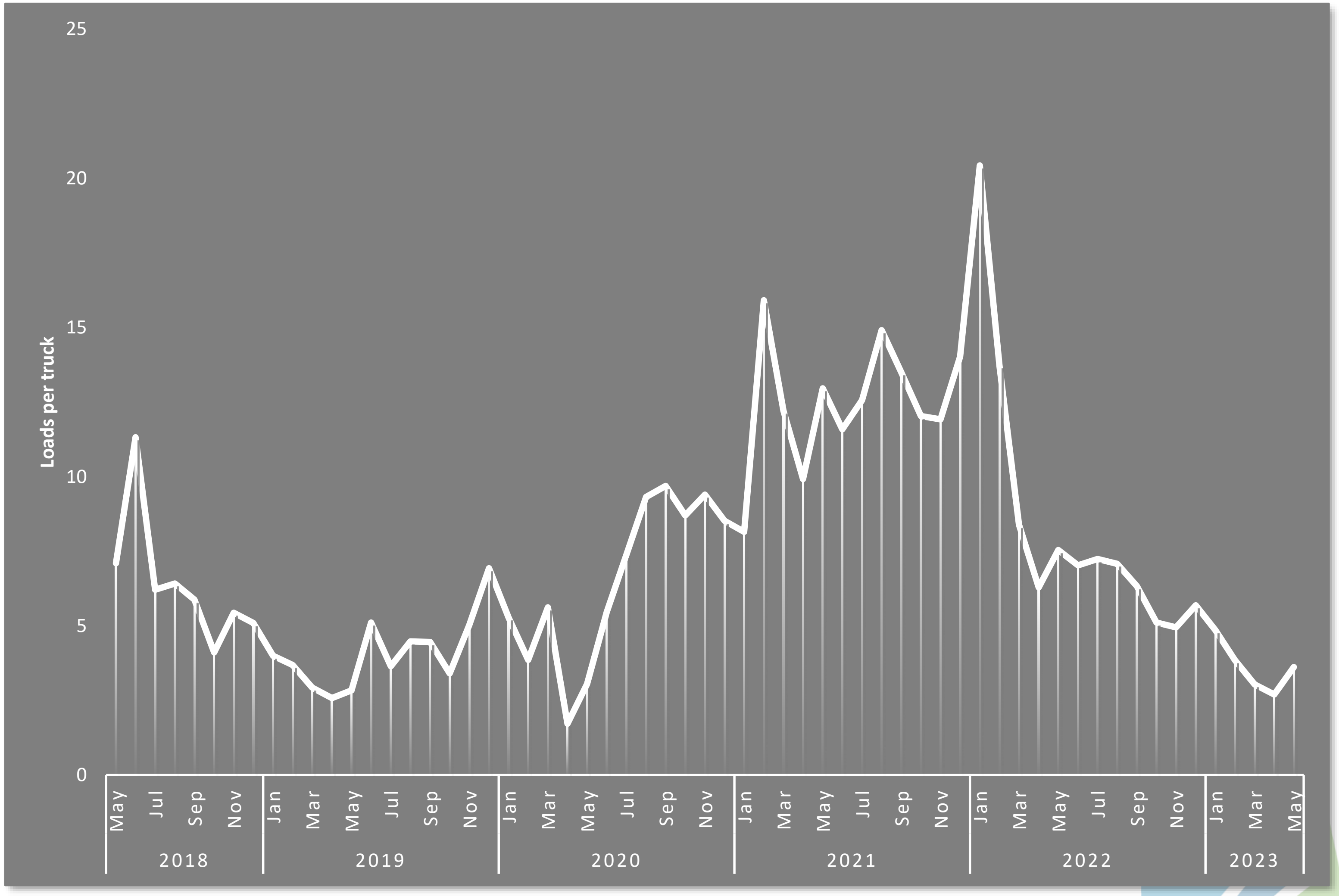
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

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

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

Our thoughts: The reefer market reversed its downward trend in demand as produce volumes start to pick up heading into the fourth of July.

- The ratio increased 34.1% month-over-month to 3.62 loads to every one truck posted.
- This is 52% lower than last year when the ratio was 7.54, and 51% below the 5-year trend.
- Demand continues to be deflated as load posts were lower compared to this time last year, and truck posts with refrigerated trailer equipment were still elevated, which continues to be a common theme.



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

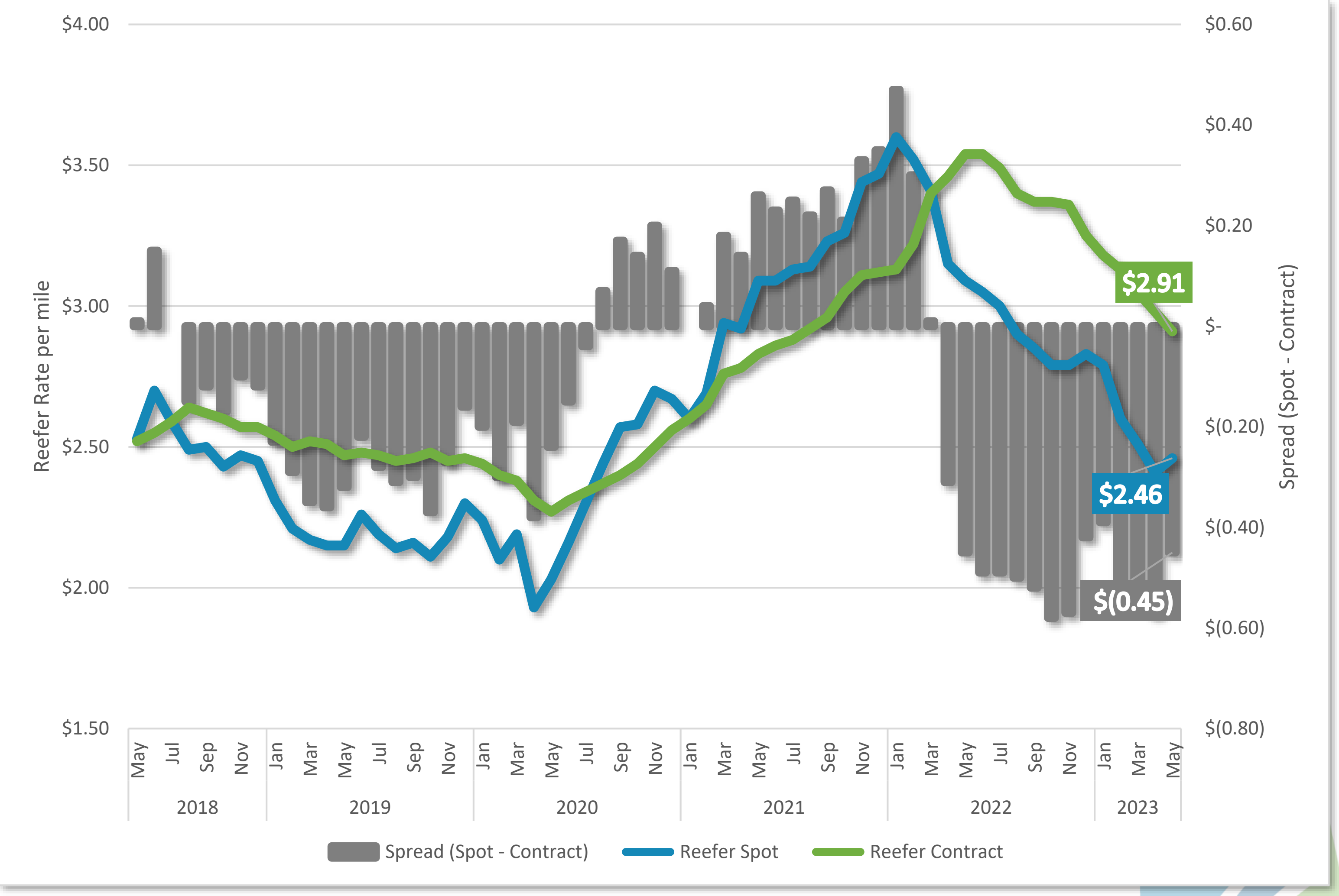
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates moved upward month-over-month in May, ending four straight months of decline, while contract rates dropped more than a nickel per mile.

- Spot rates increased $0.05, or 2.1% to $2.46 per mile, but are down $0.63 since May 2022.
- Contract rates declined $0.07, or 2.3%, to $2.91 per mile, which is $0.63 below where we were last year.
- The spread between spot and contract decreased 21.1% to $0.45 and is flat compared to a year ago.

DAT is forecasting that spot rates excluding fuel will increase 5 cents per mile going into the fourth, but then drop about $0.10 per mile heading into the end of July.

- DAT typically sees an $0.18 per mile increase leading up to the fourth of July holiday, but this year's spot rates have $0.10 per mile.



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.

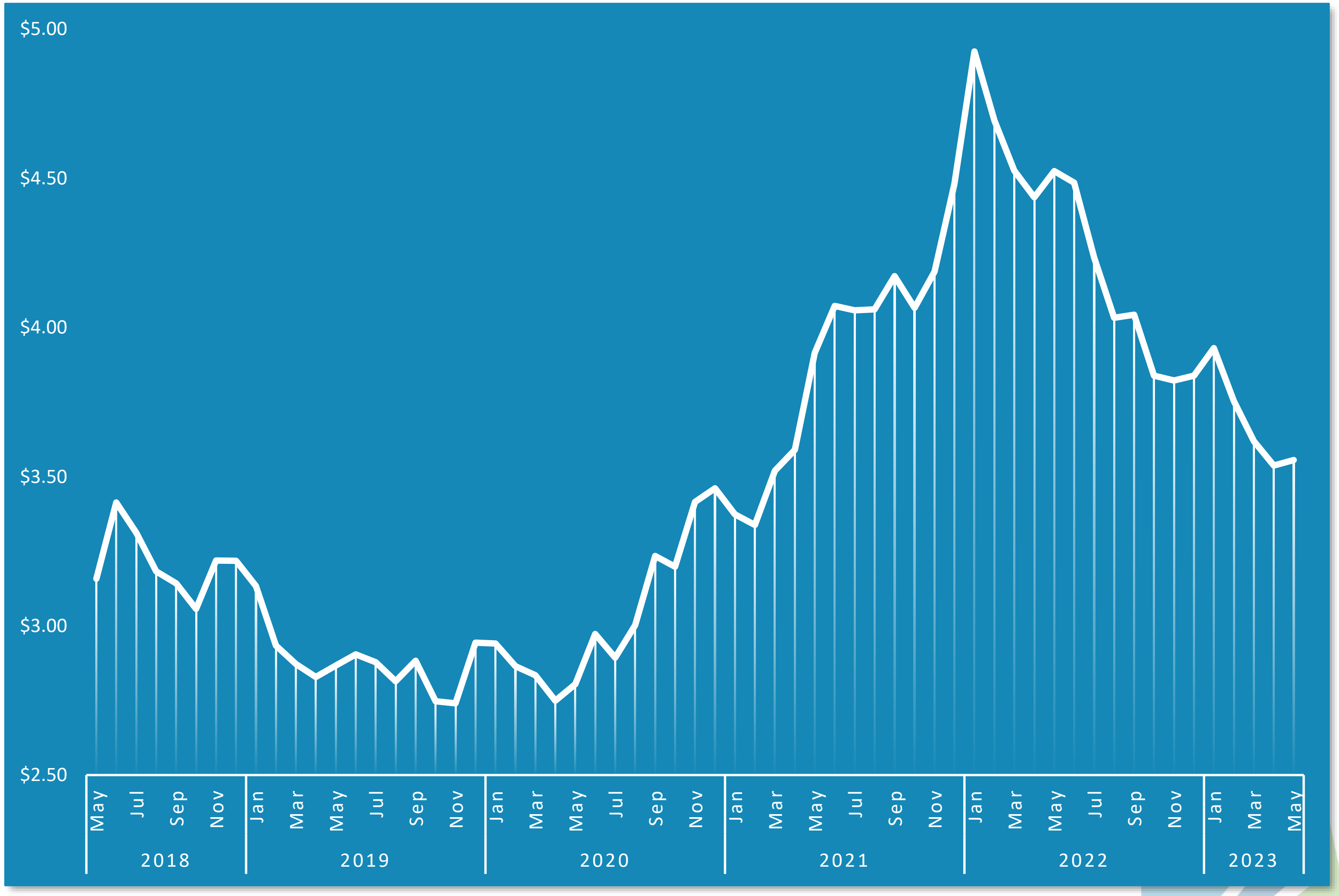
Why it matters: Produce requires fast and efficient movements of perishable commodities.

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

Our thoughts: Fruit and vegetable reefer rates are 28%, or $1.37 per mile, below their high in January 2022.

- Rates per mile increased 0.5%, or $0.02 per mile, month-over-month to $3.56 in May, ending three straight months of decline.
- Rates are $0.97 per mile, or 21.4%, lower year-over-year, and are $0.06 per mile, or 1.7%, higher than the five year trend.

According to USDA, carriers in the New York region of the country are earning more per mile than any other, with the Pacific Northwest earning the least at $2.45 per mile.



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

Fruit and Vegetable Industry: Truck Volume

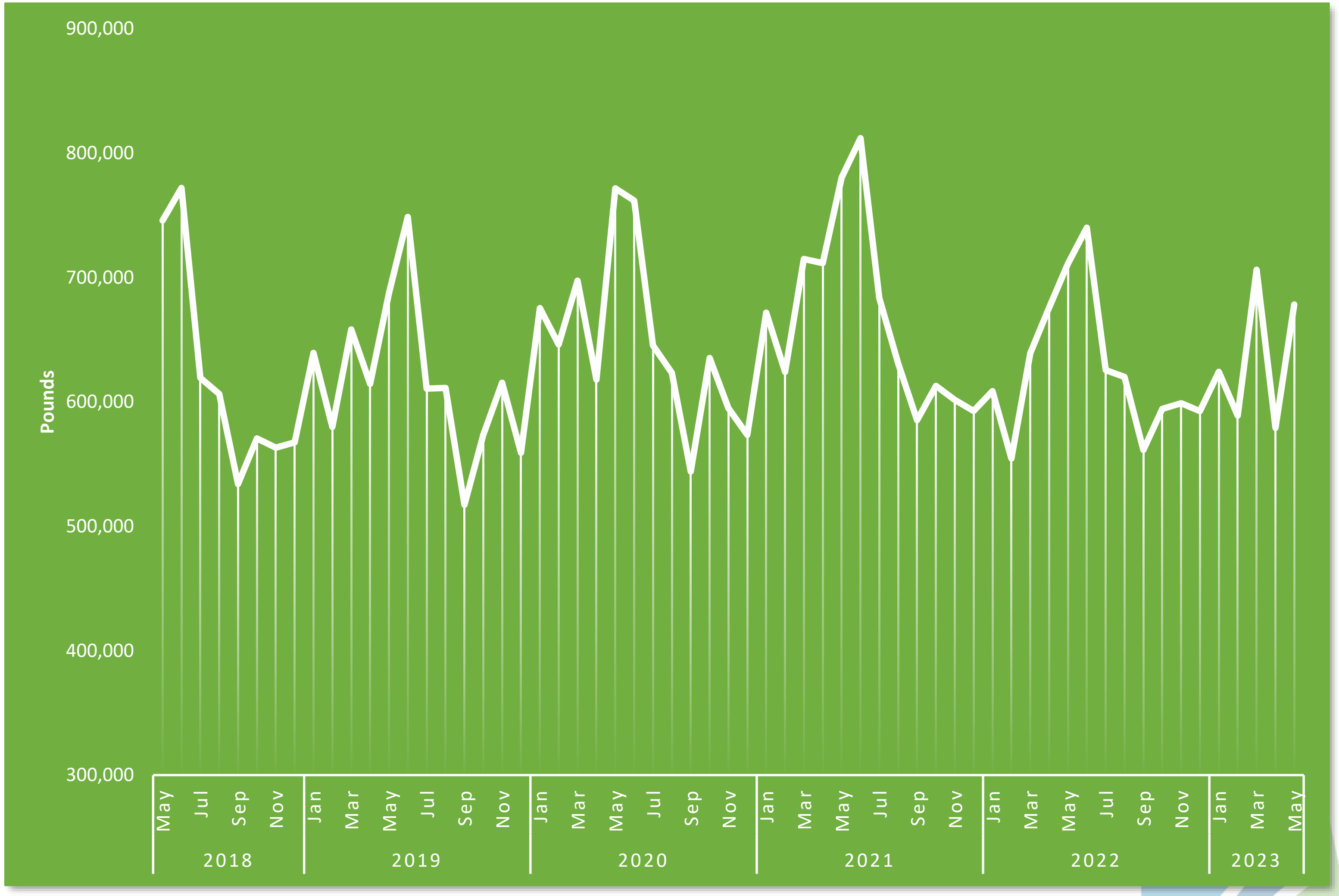
The big picture: The USDA's Crops report includes daily fruit and vegetable volume data by weight for different regions and commodities.

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.

Our thoughts: Reefer volumes shot up in May after experiencing a significant drop in April. Volumes overall are down because of a slow start to the produce season due to the weather issues in California.

- Reefer volumes increased 17.1% month-over-month to 678,235 pounds, and are 4.6%, or 32,800 pounds, lower year-over-year.
- The California region saw a 124% increase alone which helped prop up volumes overall, but are still 37% lower than they were last year.
- Florida, the southeast, and Mexico-Arizona also experienced large increases in May as mother's day flowers helped increase demand.



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

Fruit and Vegetable Industry: Truck Availability

The big picture: The USDA's Crops report includes daily fruit and vegetable data for refrigerated truck availability across different regions and commodities.

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

- **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 truck capacity tightened again in May, marking two consecutive months of tightening. However, capacity is still loose overall, especially compared to the last couple of years.

- Reefer truck availability tightened 9.8% to 2.97. Availability is still up 7.4% however over the previous year.
- Capacity tightened in both the California and Florida regions of the country, representing the two tightest regions.
- The southeast region actually loosened in May despite the increase in volumes.

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

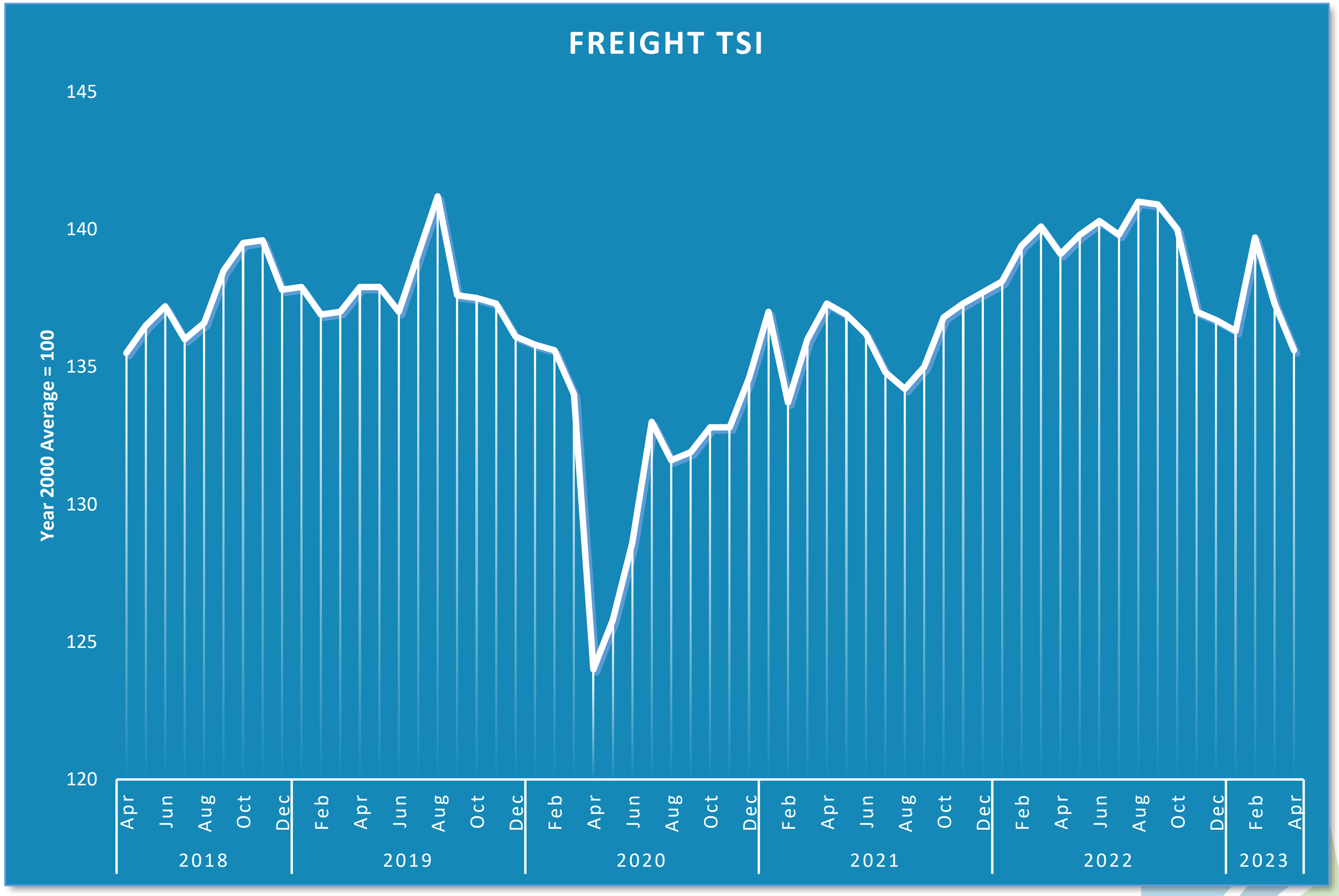
Why it matters: Changes in the TSI reflect changes in the demand for goods and services.

- 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 decreased in April due to seasonally adjusted decreases in rail carload, water, air, pipeline, and trucking, while rail intermodal grew.

- The TSI decreased 1.2% month-over-month to 135.6, and is 2.5% lower than a year ago.

April's decrease came in the context of growth for other indicators. The Industrial Production Index was up 0.5%, reflecting increases in mining and manufacturing, while utilities declined. Housing starts were up and personal income increased.



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.

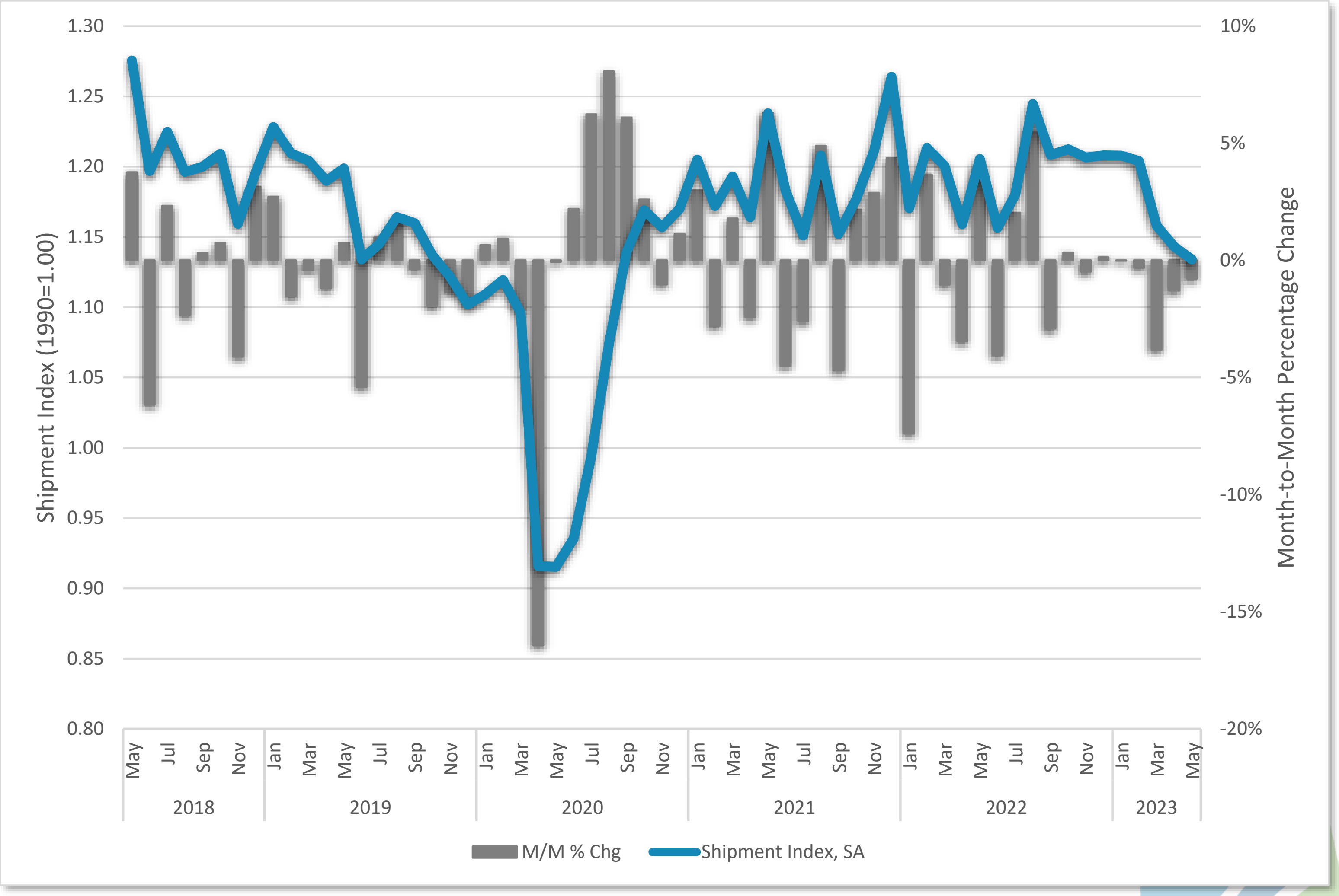
- The index is an indicator of U.S. shipping activity, containing 37 million invoices across 400 companies and manufacturers.

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

Our thoughts: the Cass Shipment Index was down 0.8% month-over-month to 1.13 in May when seasonally adjusted, and was down 5.9% year-over-year. The past three downcycles experienced 21 to 28 straight months of decline year-over-year. We're currently at 17 months so far.

- Expenditures, which measures the total amount spent of freight, dropped 7.8% to 3.55, 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 decreased 7.1% to 3.13.
- Truckload linehaul rates, which includes both spot and contract rates, decreased 2.6% to 142.8.

Bottom line: Cass believes the freight industry is on the verge of a new cycle. While net operating authorities are negative at a rate of 2,000 per month since October 2022, there is still too much capacity is continuing to chase too little freight.



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

Supply: Truck Employment

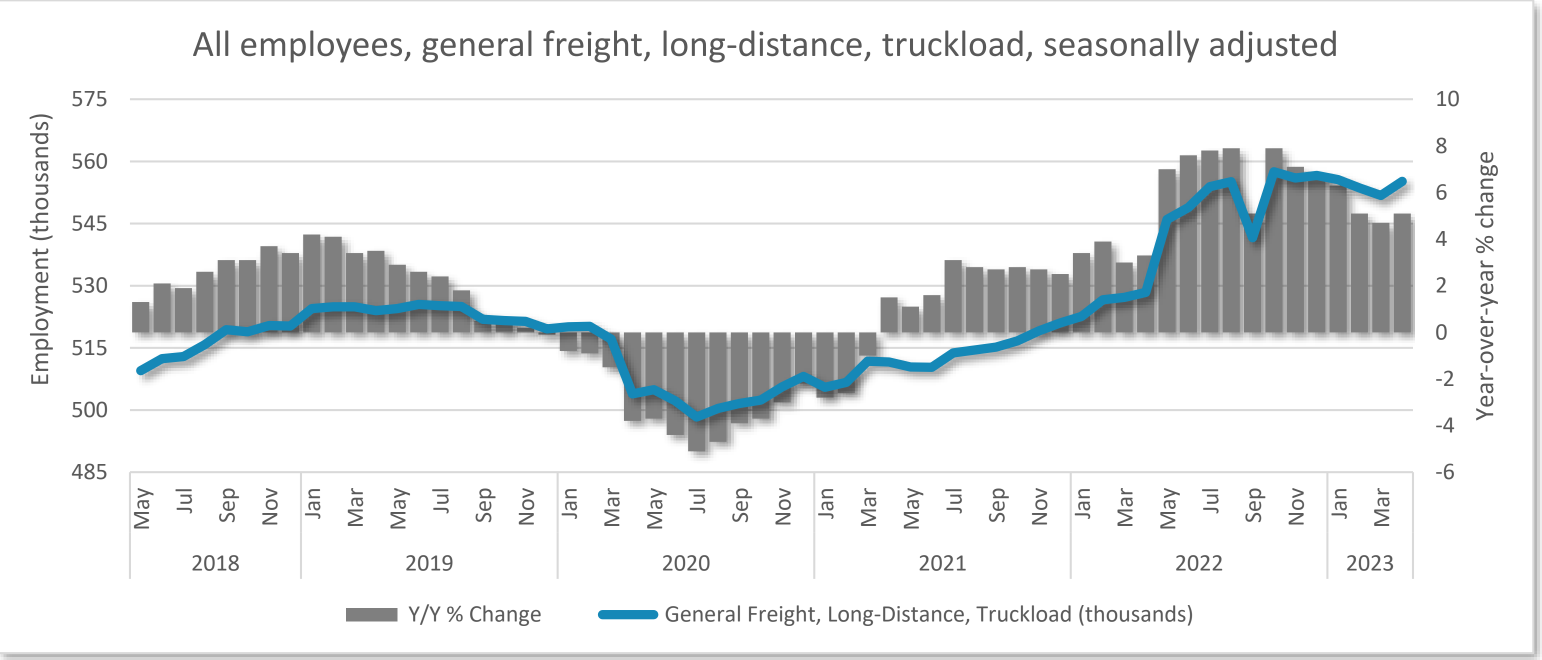
The big picture: The Bureau of Labor Statistics releases monthly payroll data concerning various industries and sectors, including trucking.

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

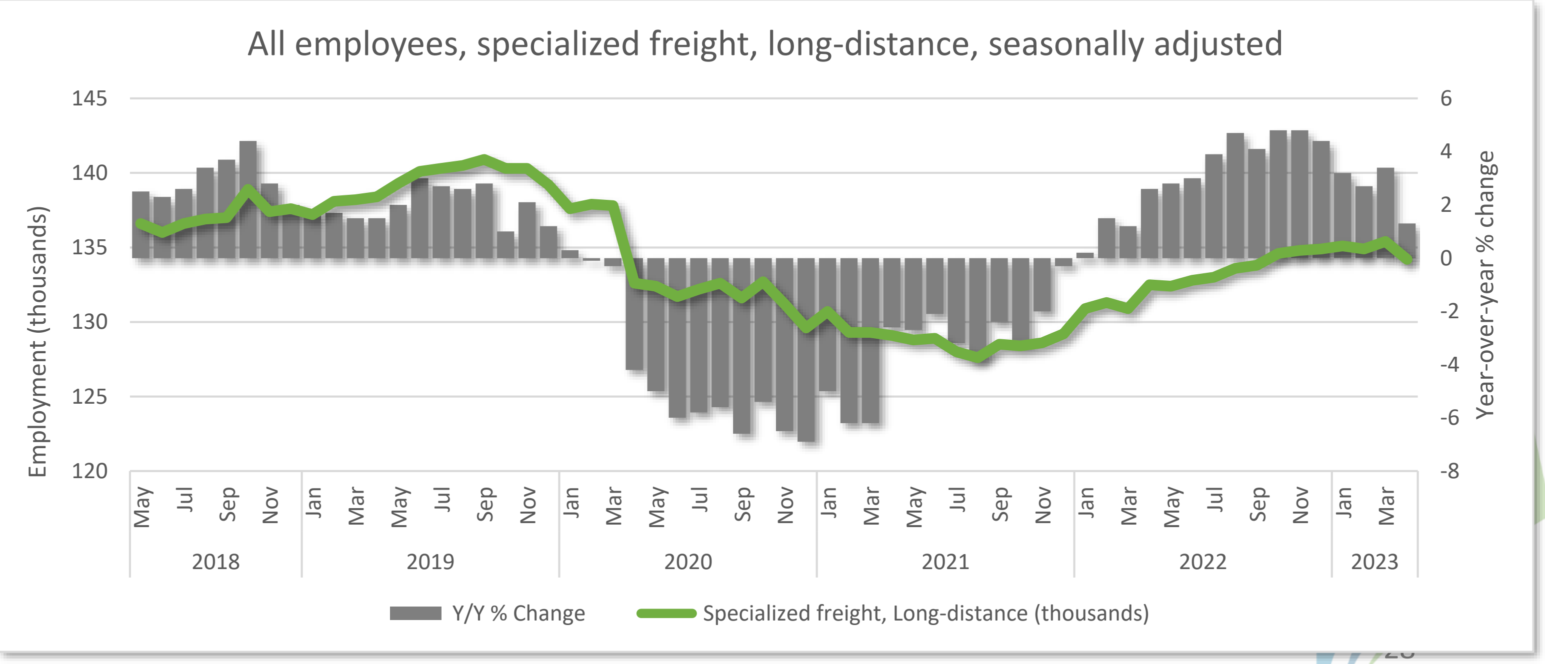
- Employment levels ultimately have a large impact on rates. If there are too many drivers for too little freight, rates will go down.

Our thoughts: Truck employment numbers overall increased in May to 1.609 million people, marking three straight months of gains.

- Employment for general freight trucking, long-distance, truckload, which best represents our members, increased 0.6%, or 3,400 jobs, month-over-month.
- It is 5.1%, or 9,200 jobs, higher year-over year, and 6.1% above the 5-year trend.
- Specialized freight trucking, long-distance, which represents flatbed, reefers, and other equipment types, decreased 0.9%, or 1,200 jobs, month-over-month.
- This figure is 1.4%, or 1,800 jobs, higher year-over-year, and is flat with the 5-year trend.



Source: BLS| https://beta.bls.gov/dataViewer/view/timeseries/CES4348412101 | Monthly



Source: BLS| https://beta.bls.gov/dataViewer/view/timeseries/CES4348423001 | Monthly

Demand: Class 8 Orders and Sales

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

- This data includes Class 8 truck orders and sales.

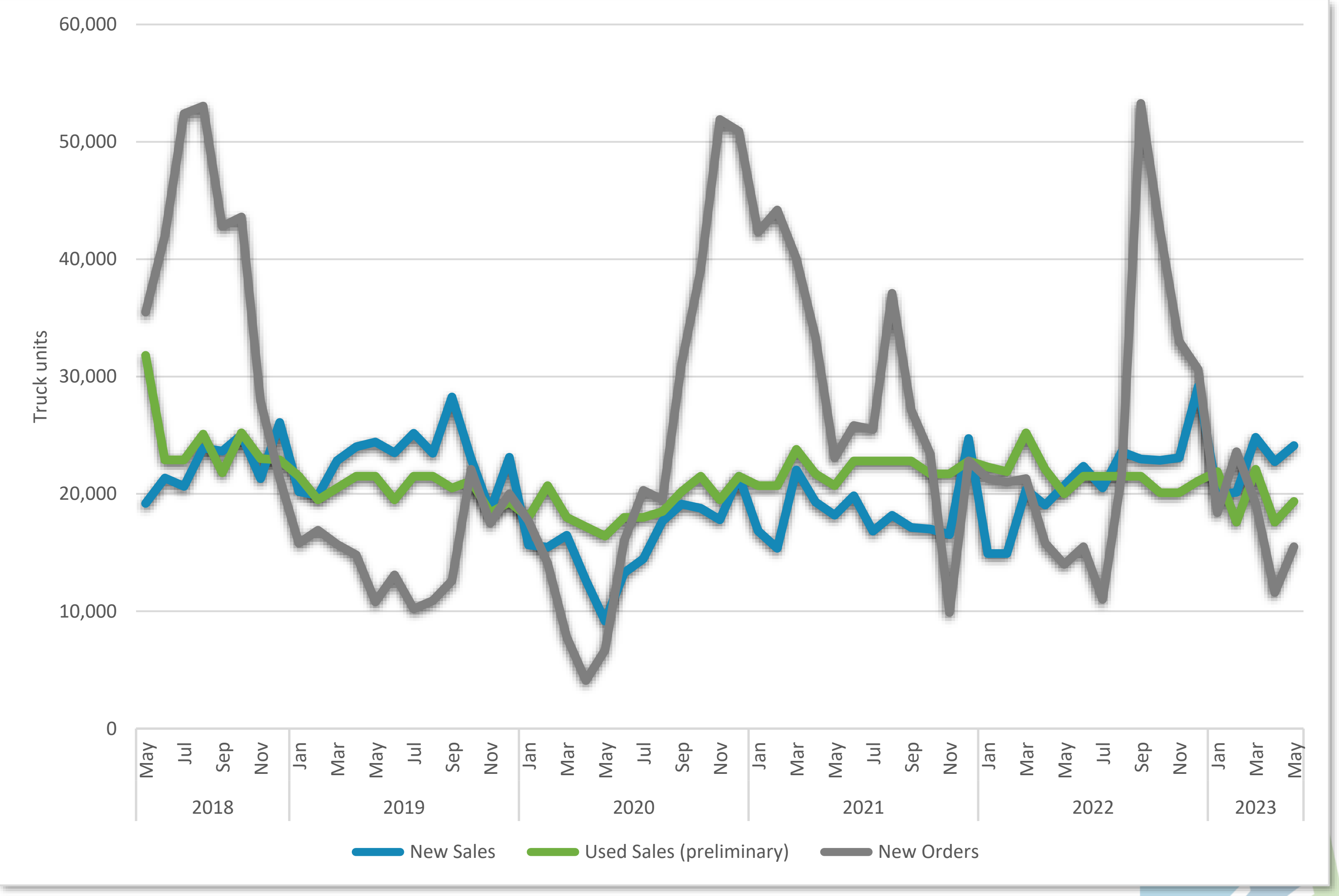
Why it matters: Class 8 orders and sales data will help an owner-operator to see both the demand for trucks and current truck capacity.

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

Our thoughts: New sales increased 6% in May to 24,111, and are 16.4% higher year-over-year, while new orders increased 33.6% to 15,500.

- Preliminary used sales figures also rose 10%, or 1,760 units, in May to 19,360, and are down 3.2% compared to last year. Used sales are 9% lower than the 5-year average.
- New sales eclipsed used sales by 4,751 in May.

The industry has experienced overcapacity, or too many trucks, for the past several months, which has pushed freight rates downward. New sales continue to eclipse used sales, which is a positive sign that the industry is working to right size the capacity issue. However, we still have a ways to go.



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.

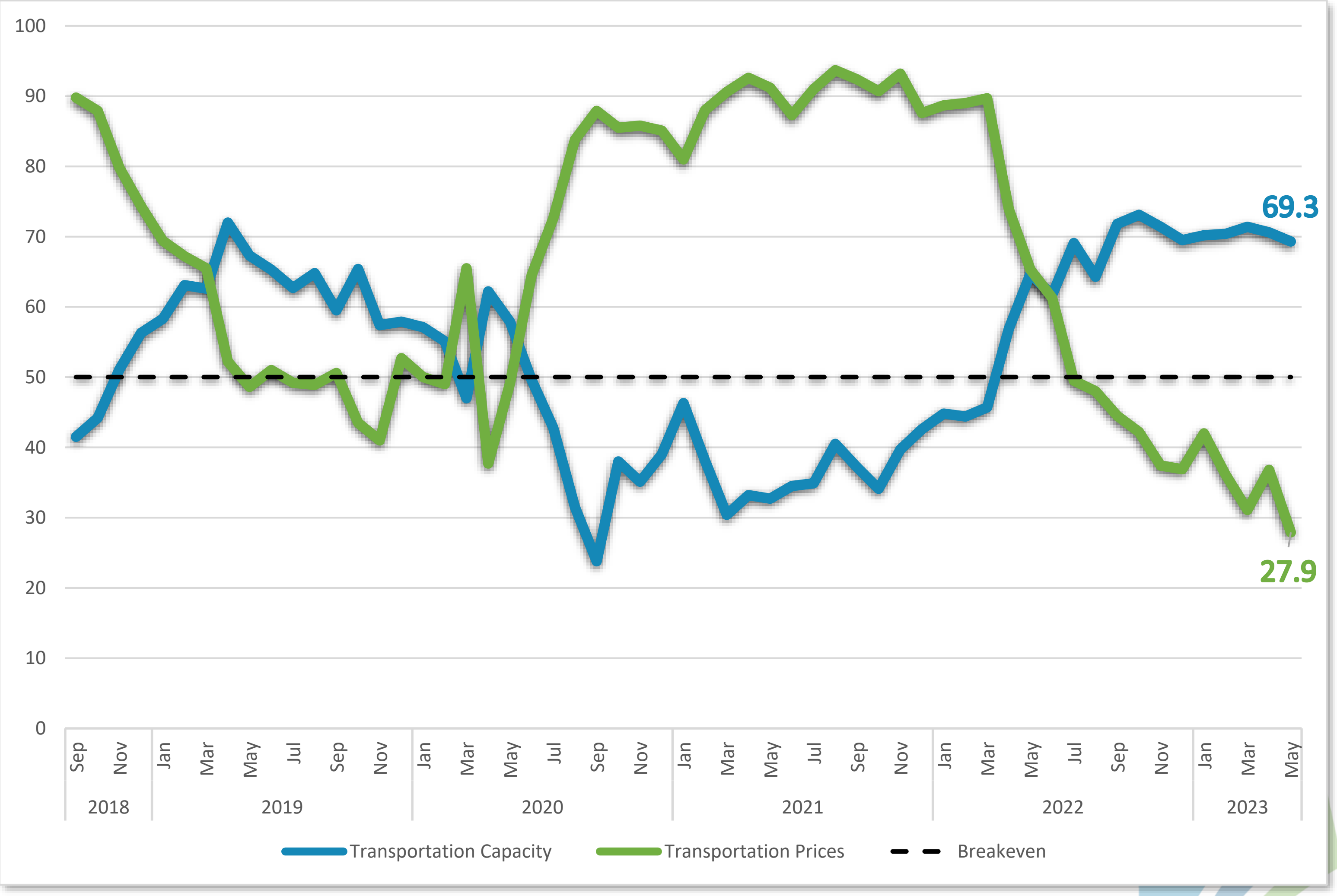
Why it matters: The LMI reflects the strength of the overall economy as it measures both upstream and downstream conditions.

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

Our thoughts: The LMI overall decreased 3.6 points to 47.3, marking the lowest reading for the index in its history for the third straight month. This is the first time the LMI has ever moved into contraction territory.

- Transportation prices contracted at the sharpest rate ever observed in the history of the index.
- Prices decreased 24.2% month-over month to 27.9, and 57% year-over-year, when the index read 65.3.
- Transportation capacity decreased 1.8% to 69.3, which is 52% higher year-over-year.

Aggregate logistics prices, which includes inventory costs, warehousing prices, and transportation prices, dropped 6.8% in March and are tracking very closely with 2019 levels. The LMI authors believe there is little hope of a reprieve for carriers in the form of restocking inventories as inventory levels moved into contraction territory for the first time since February 2020.



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.

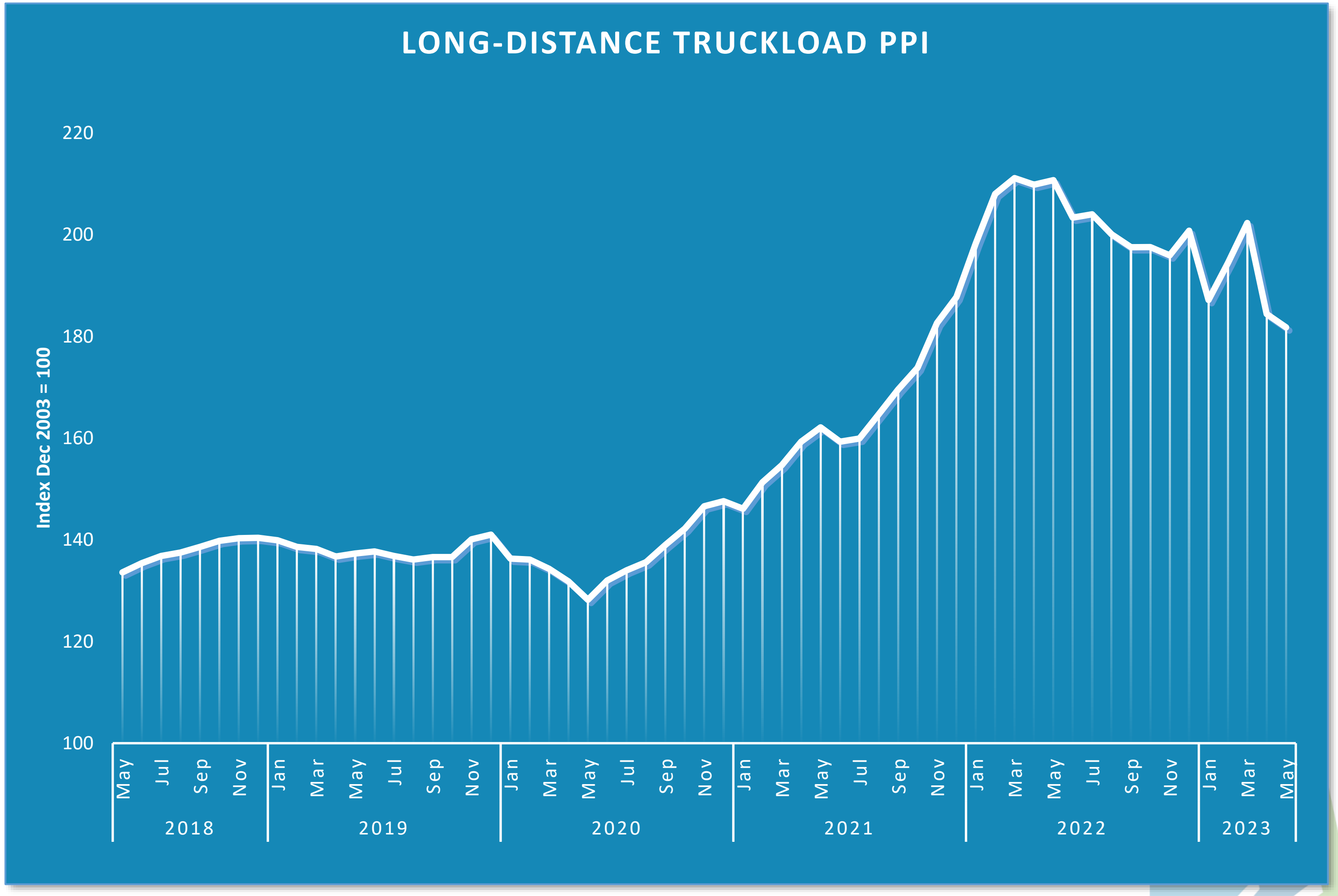
- One index focuses on long-haul, truckload carriers.
- This index shows how much carriers are charging their customers.

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 dropped again in May and has decreased 13.7% since its high in May 2022. Owner-operators will not welcome this news as we are still waiting to find the bottom in regards to rates.

- The long-haul PPI decreased 2.6% to 181.8, month-over-month, after the BLS re-adjusted the figure for April.
- The PPI is 13.7% lower year-over-year, but 13.6% above the 5-year trend.

Look for rates to remain near their present level. While many were hoping for rates to rebound in early spring, it appears we are in a waiting game for the next freight cycle to begin. Some analysts predict that the new cycle will start in late summer, early fall.



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

Costs: Diesel Fuel

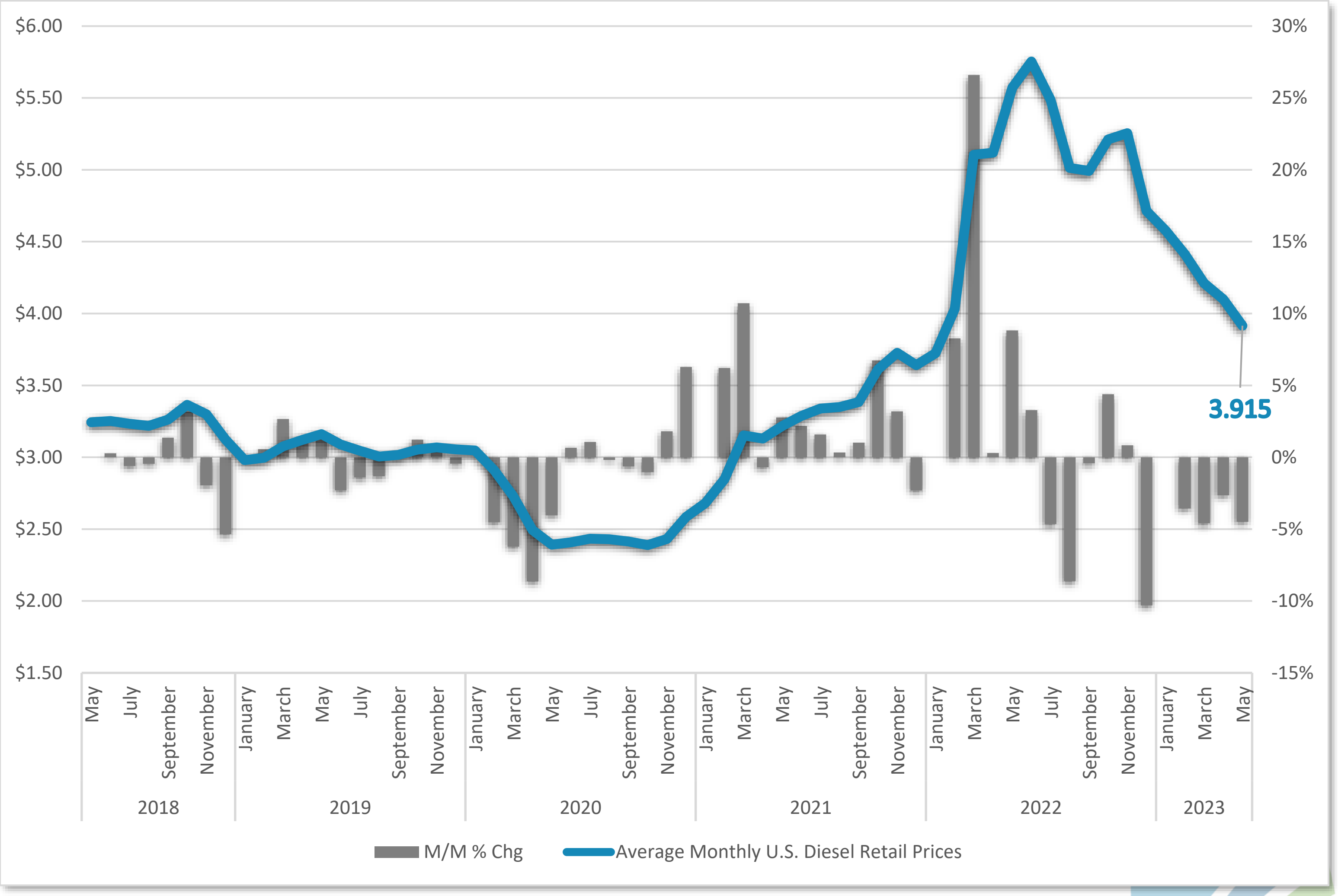
The big picture: The U.S. Energy Information Administration (EIA) tracks the weekly changes in on-highway diesel fuel prices throughout the country.

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 18 cents in May marking the sixth straight month of decline. Prices through May have declined $1.84 per gallon since the high in June 2022.

- The average price for diesel fuel decreased 4.5% month-over-month to $3.92 per gallon, which is the first time we have seen prices under $4.00 since January 2022.
- The average diesel price is 30%, or $1.66, lower year-over-year, but 12%, or $0.41, higher than the 5-year trend.
- 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.

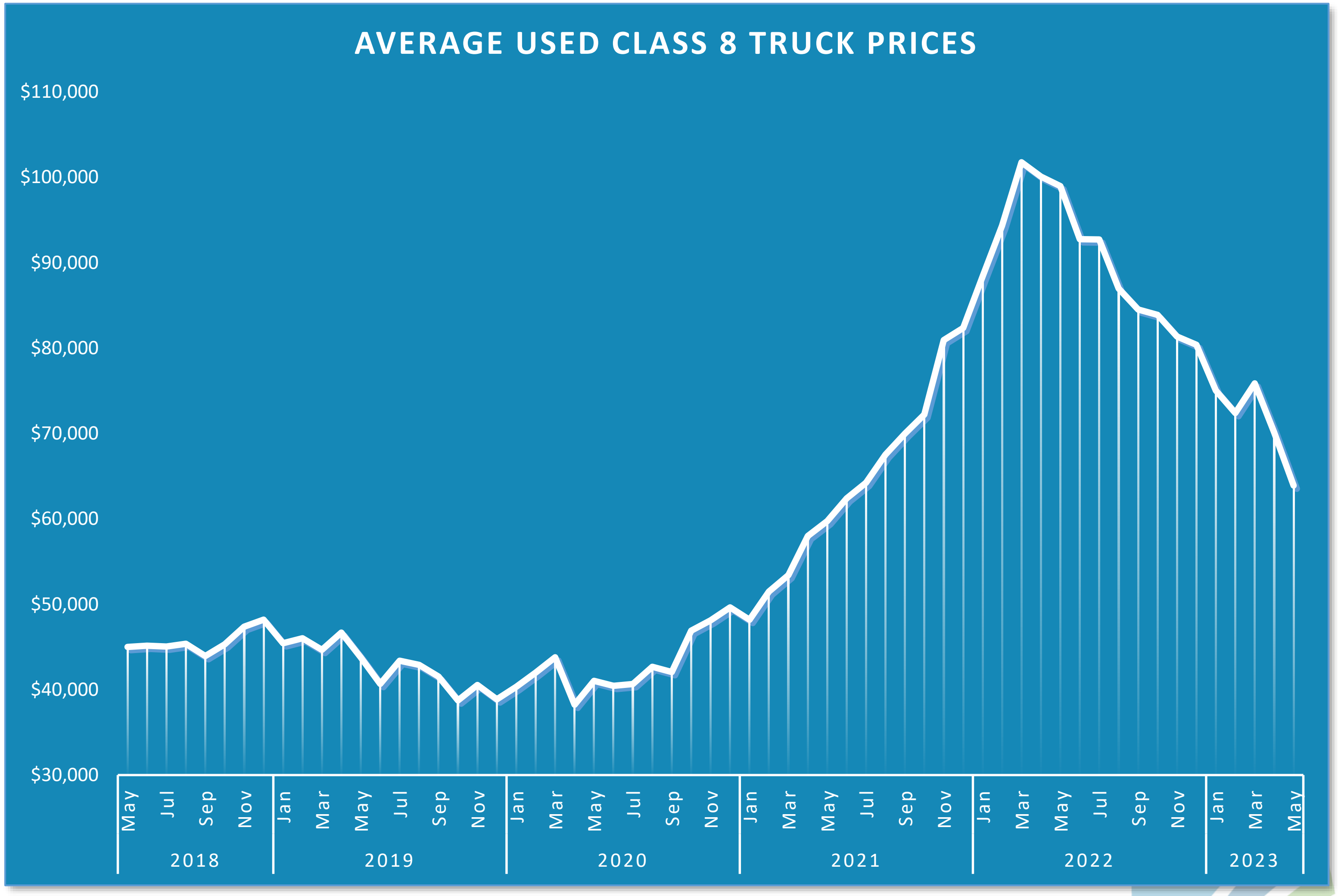
- As spot rates turn upward, the number of individuals seeking to become an owner-operator also increase, pushing used prices higher.

Our thoughts: Preliminary used truck prices dropped in May. While they are 37% below the high in March 2022, they are still significantly higher than their pre-pandemic average of $42,000.

- Used Class 8 truck prices decreased 8.9% in May to approximately $63,900, marking 13-months of decline out of 14-months.

- This is 35.4% lower year-over year, but 8% higher than the 5-year trend.

According to Steve Tam, vice president at ACT, "On a percentage change basis, the decline [in May] is in line with expectations." ACT predicts prices will continual to fall.



Source: ACT Research | https://www.actresearch.net/ | Monthly | May's numbers are preliminary

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:
Wages and Disposable Income

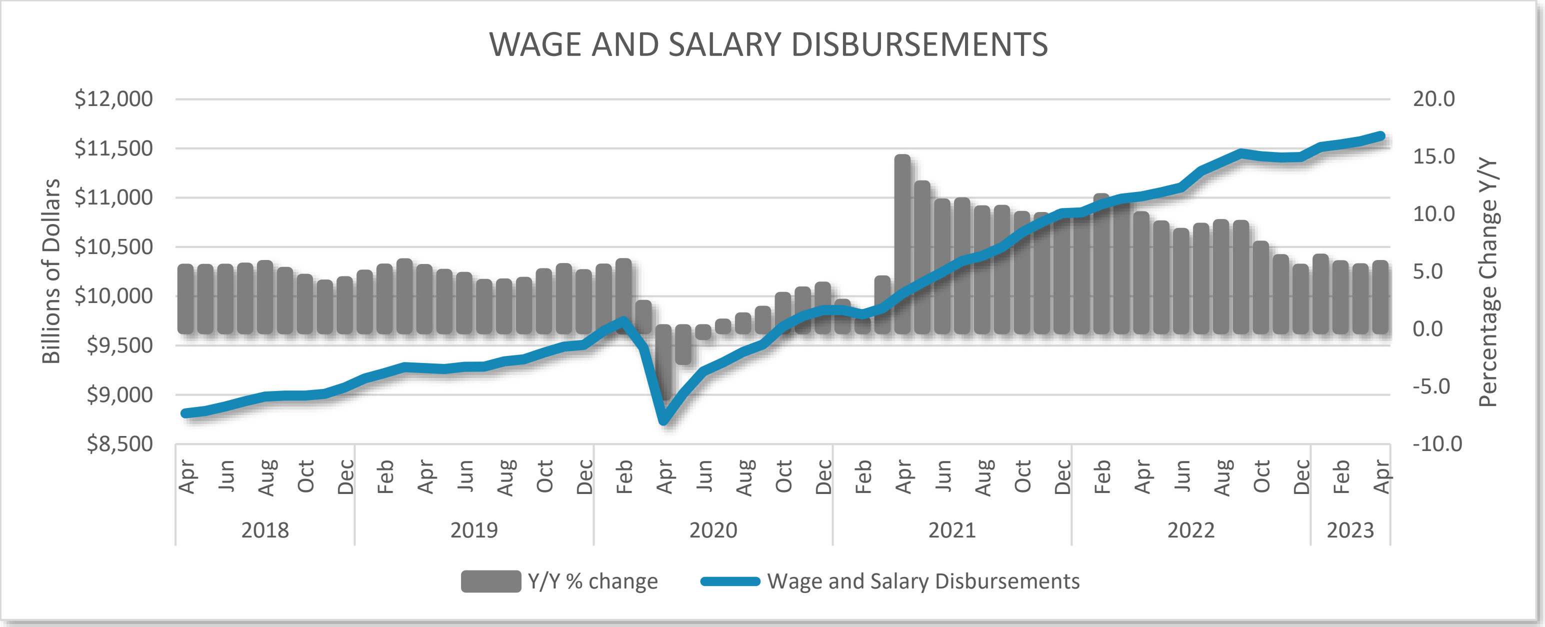
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so to does business and shipping activity.

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

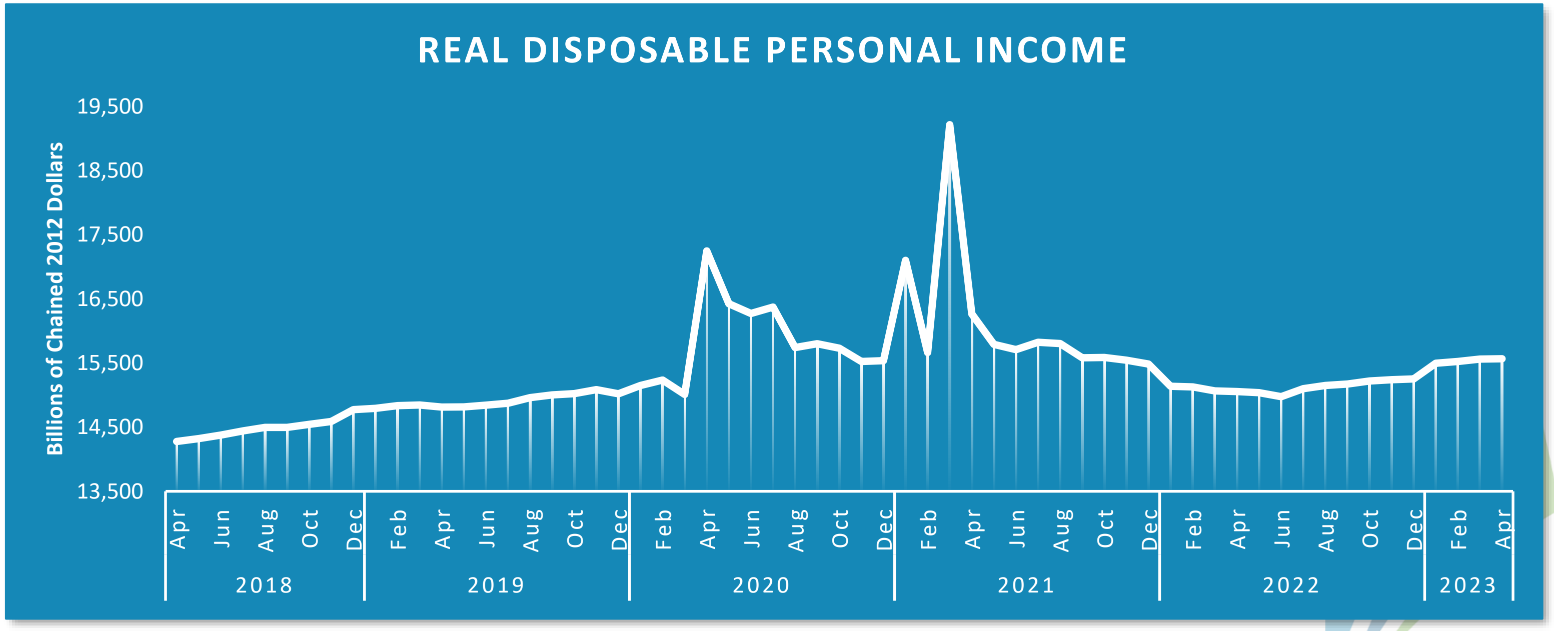
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

Our thoughts: Wages and salaries continue to grow, which has helped to keep disposable income and sales elevated. However, year-over-year increases are beginning to slow.

- Wages and Salary disbursements grew 0.5%, or $54.6 billion, month-over-month in April.
- In terms of year-over-year growth, wages and salary disbursements are 5.6% higher. However, Y/Y growth was 9.8% this time last year.
- Real disposable income, which is adjusted for inflation, was flat month-over-month at $15.566 trillion, and is $511.2 billion higher year-over-year.



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.

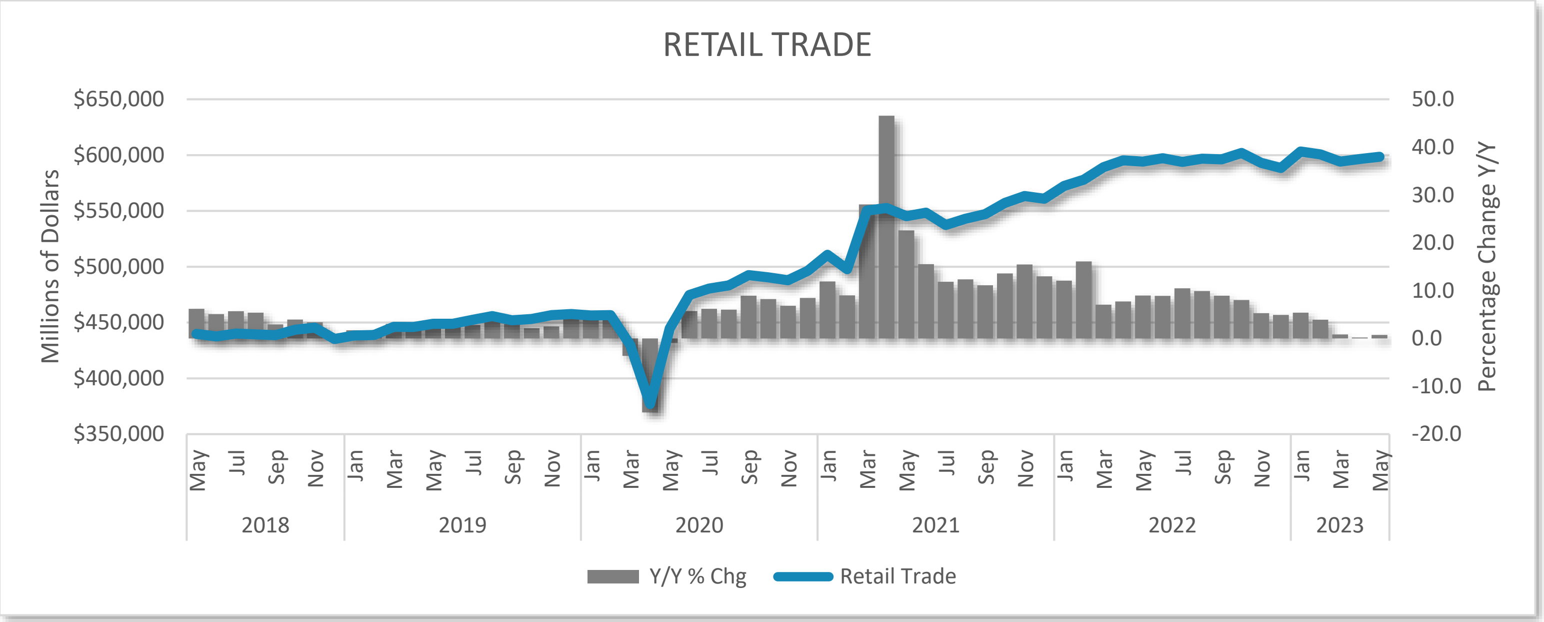
Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- 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.

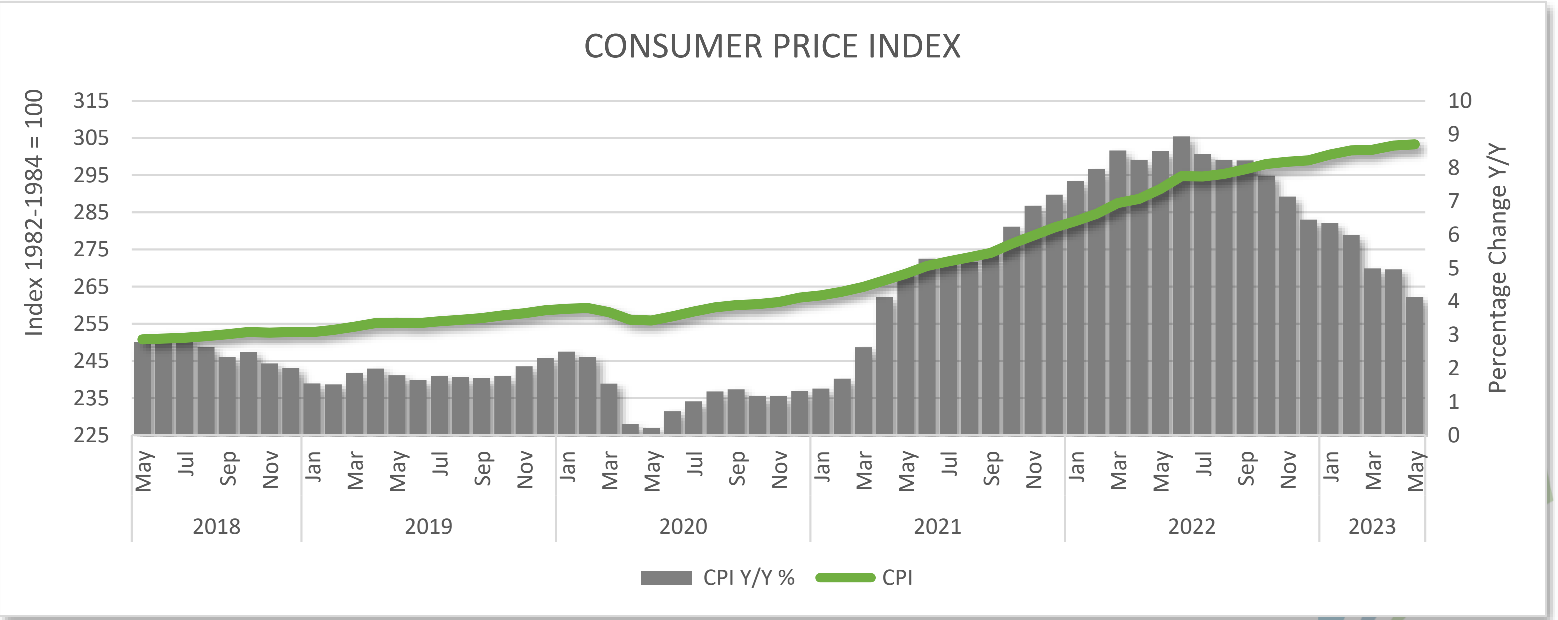
Our thoughts: People are still purchasing goods, albeit at a slower pace and in different ways, even despite high inflation.

- Retail trade increased 0.3%, or $2.1 billion, month-over-month in May to $598.6 billion, and is 0.7%, or $4.3 billion, higher year-over-year.
- CPI increased slightly by 0.1% to 303.3, which is 4.1% higher than it was a year ago. Y/Y growth continues to decline, which is a good sign.

Core CPI, which excludes food and energy, declined 0.2% month-over-month to 5.3%. Although food CPI has dropped since its high in August 2022, the services CPI remains stubbornly high at around 6.6%



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.

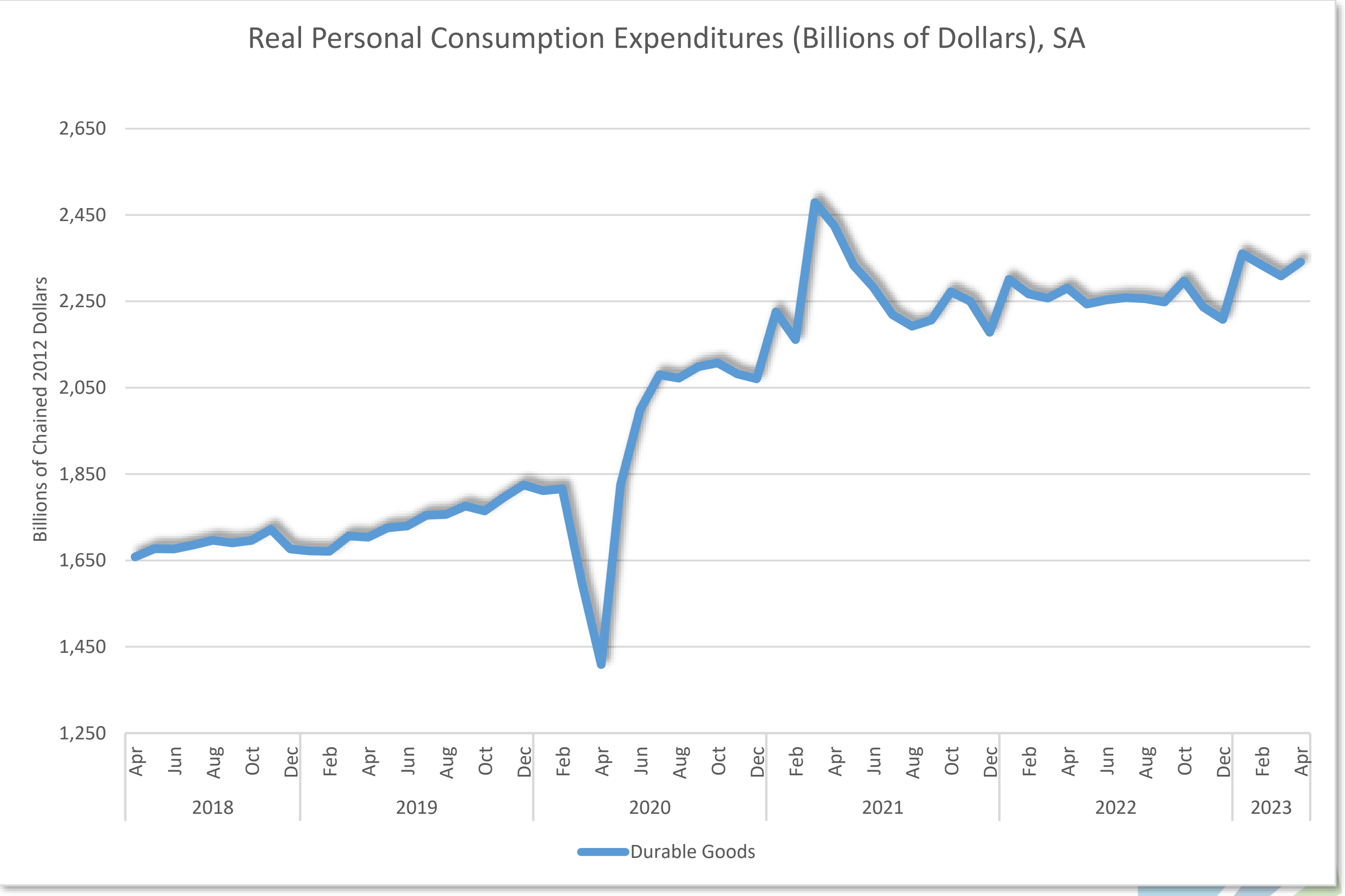
- The PCE measures a broad spectrum of consumer spending for a period of time.

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 goods and non-durable goods increased in April. PCE levels have remained flat since January 2022, though they are starting to elevate slightly.

- Consumer spending for durable goods increased 01.4% to $2.341 trillion, and is 2.6%, or $60.3 billion, higher year-over-year and 16.4%, or $329.6 billion, above the 5-year trend.
- Spending for non-durable goods ticked upward 0.4% to $3.336 trillion, which is 0.8% higher Y/Y and 6%, or $188.5 billion, above the 5-year trend.
- Spending is still elevated overall.



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

Manufacturing: New Orders: Total Manufacturing

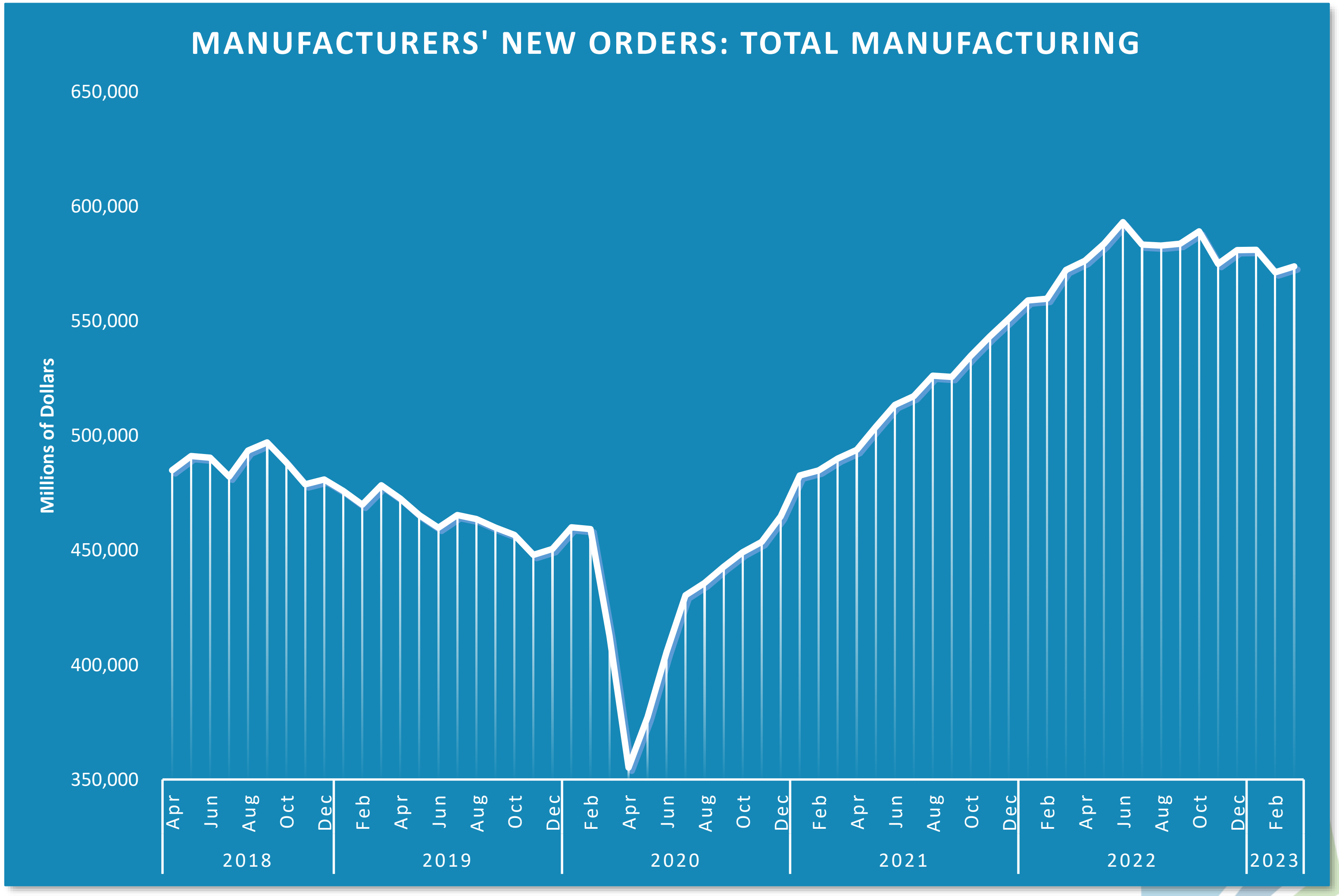
The big picture: Manufacturing new orders are an important economic indicator. They signify an overall direction of the market and economy.

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.

- Manufacturing makes up 60% of all ton-miles. An increase in new orders also indicates future demand for transportation.

Our thoughts: New orders total manufacturing ticked upward in April, ending two straight months of decline. However, manufacturing is slowing down.

- Total manufacturing increased 0.4%, or $2.54 billion, month-over-month to $573.8 billion.
- Total manufacturing is $2.5 billion, or 0.4%, lower year-over year and $74.95 billion, or 15%, above the 5-year trend.
- New orders for nondefense capital goods excluding aircraft, which often involve large investments and are sensitive to the US economic situation, increased 1.3%.



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.

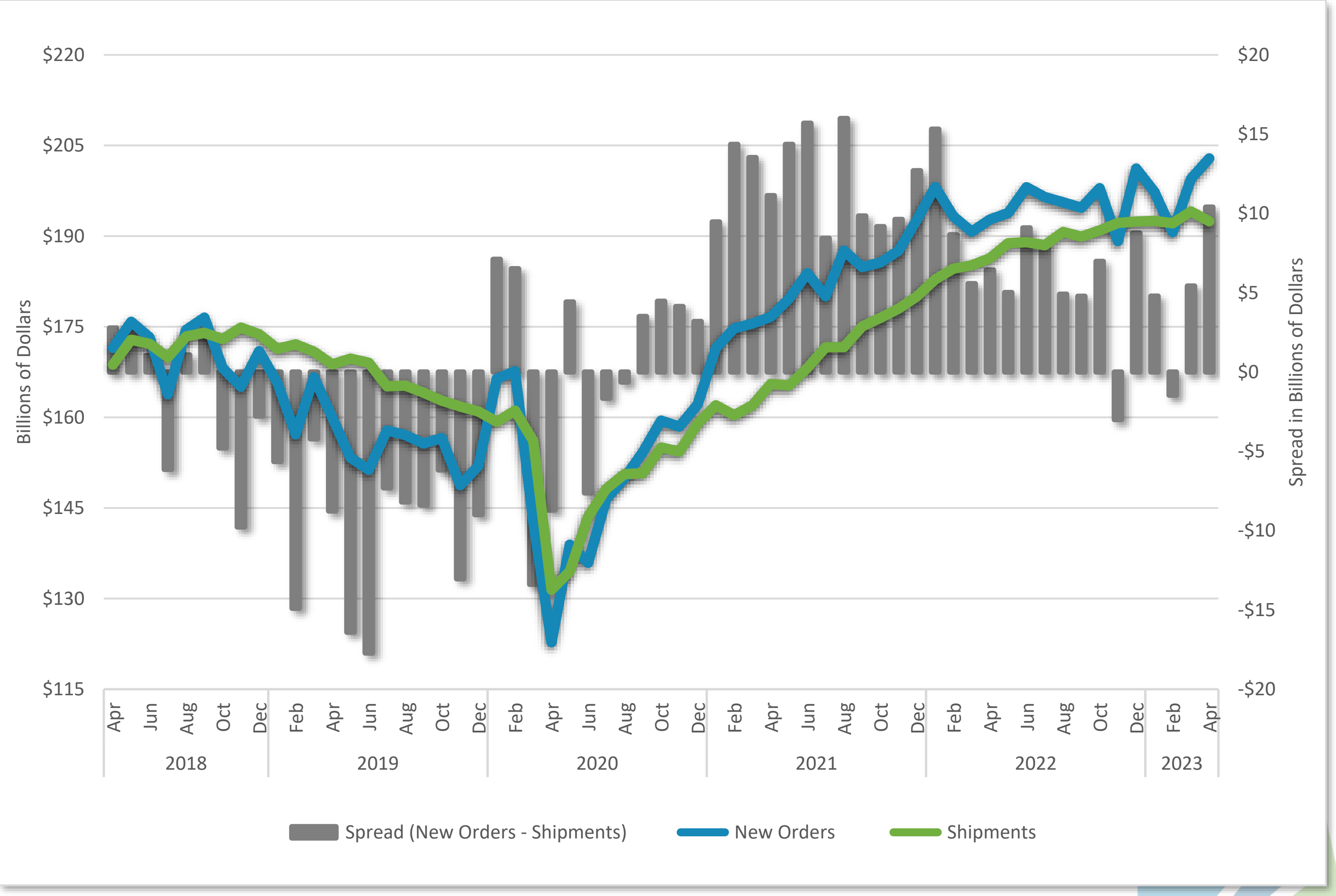
Why it matters: When unfilled new orders outperform shipments for unfilled orders, backlogs increase and we see growth in manufacturing activity. The reverse is also true.

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

Our thoughts: New orders eclipsed shipments again in April for the second straight month. New orders have dipped below shipments twice in the past six months, which could be further evidence of a slowdown in Manufacturing activity.

- New orders increased 1.7% to $202.8 billion in April, and are 5.2%, or $10.1 billion, higher year-over-year.
- Shipments decreased slightly by 0.8% to $192.5 billion.
- The spread between new orders and shipments jumped from $5.4 billion to $10.4 billion, and this after going negative $1.46 billion in February.

ISM's data however, which is more current, paints a more grim outlook.



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.

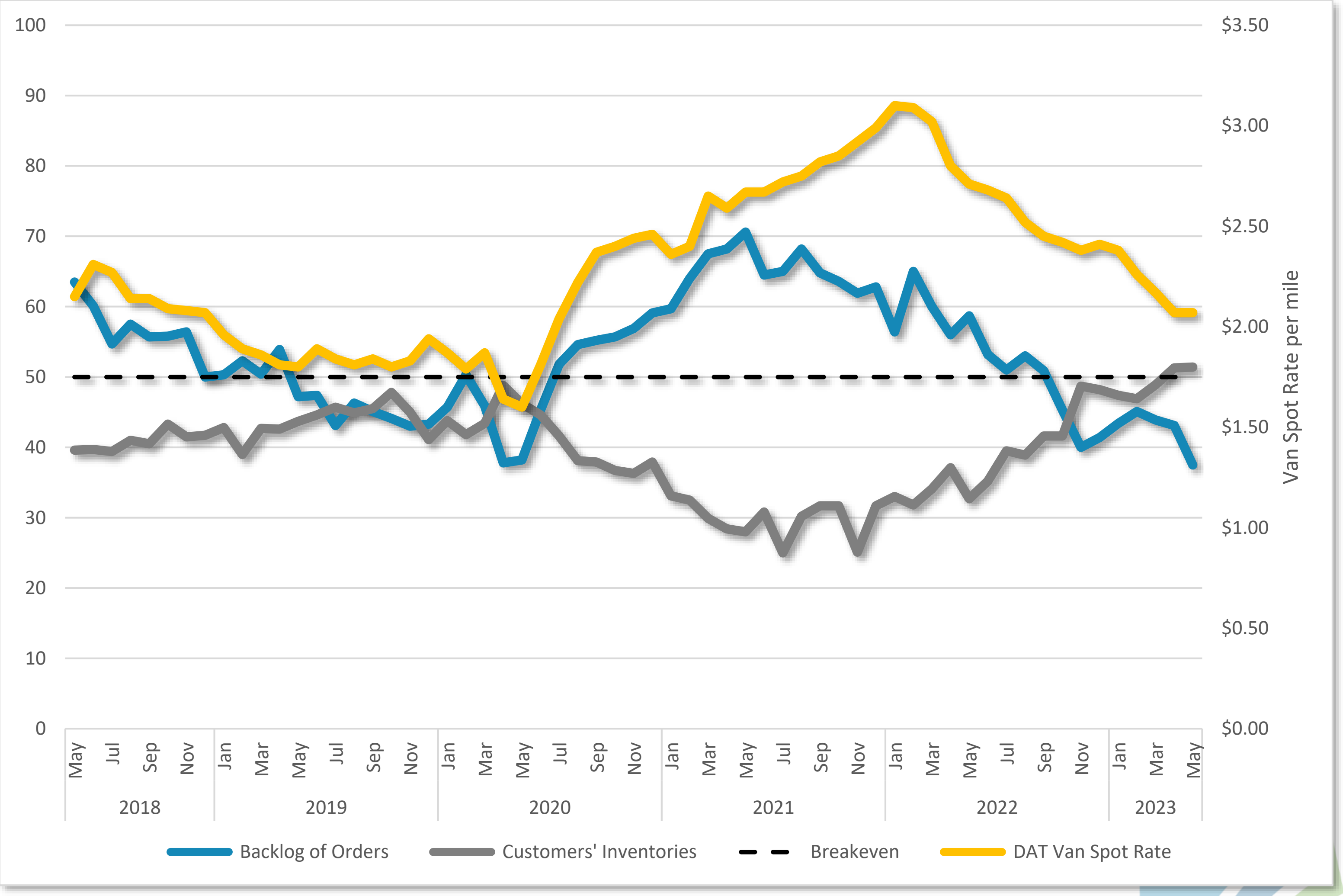
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart.

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

Our thoughts: Backlogs declined at an accelerated pace in May as customers' inventories continued to increase.

- Backlogs decreased 13% month-over-month to 37.5, which has been in contraction territory for eight straight months. Backlogs are 36% lower year-over-year.
- Customers' inventories increased 0.2% to 51.4 and are 57% higher year-over-year.

The bottom line: According to ISM, the new orders index is contracting at a faster rate, the customers' inventories index is persisting at the low end of the 'too high' territory, a negative for future production, and the backlog of orders index is dropping to a level not seen since the Great Recession.



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.

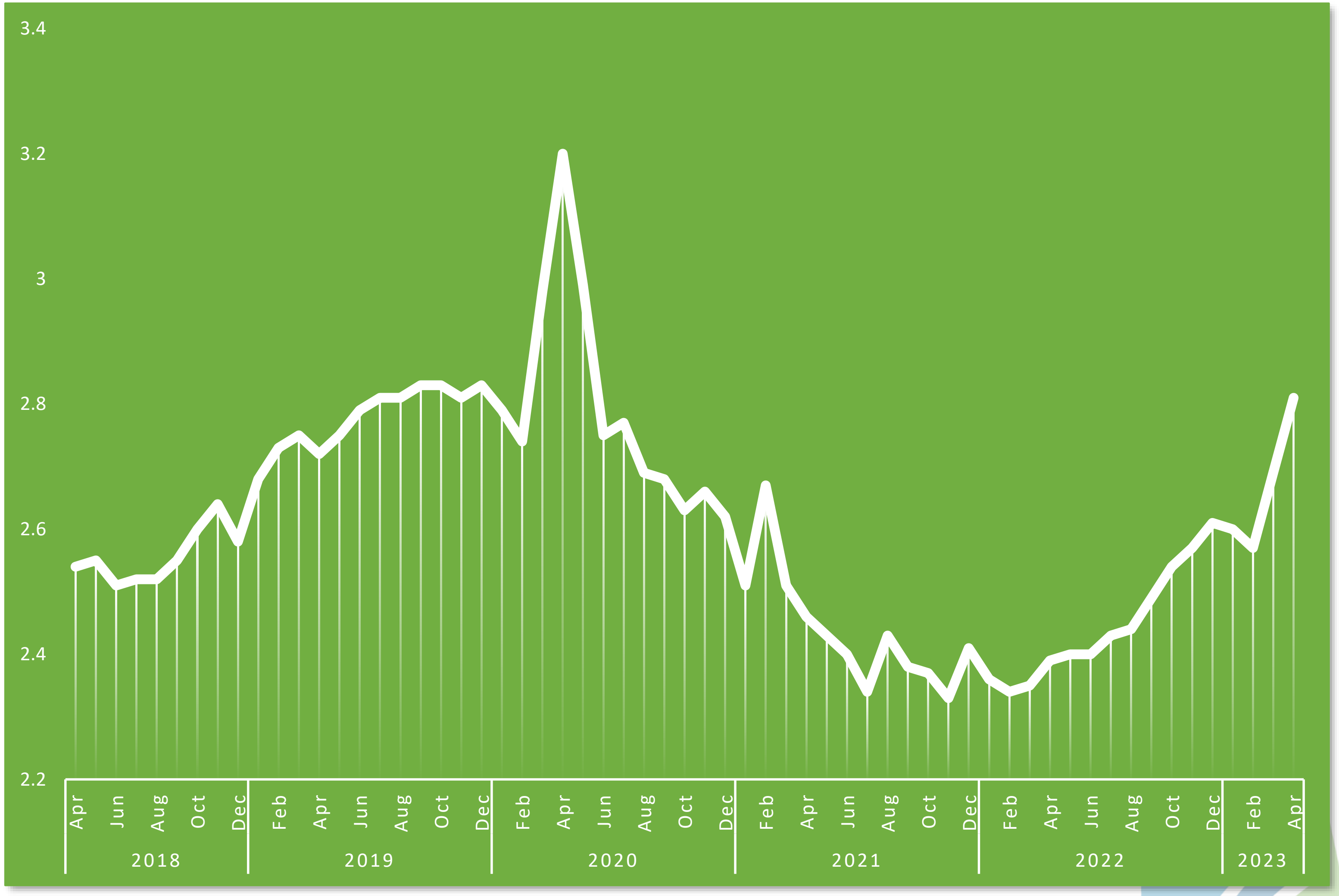
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

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

Our thoughts: Inventory levels are increasingly rising in this sector, which will be a headwind for demand and put downward pressure on rates.

- The inventories-to-sales ratio increased 4.5% month-over-month in April to 2.81, after contracting 1.2% in February.
- The ratio is 17.6% higher year-over-year.

One respondent to ISM's survey in this sector wrote, "Business is returning to pre-pandemic levels. There is increased demand in commercial/government markets and reduced demand in residential/consumer markets."



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.

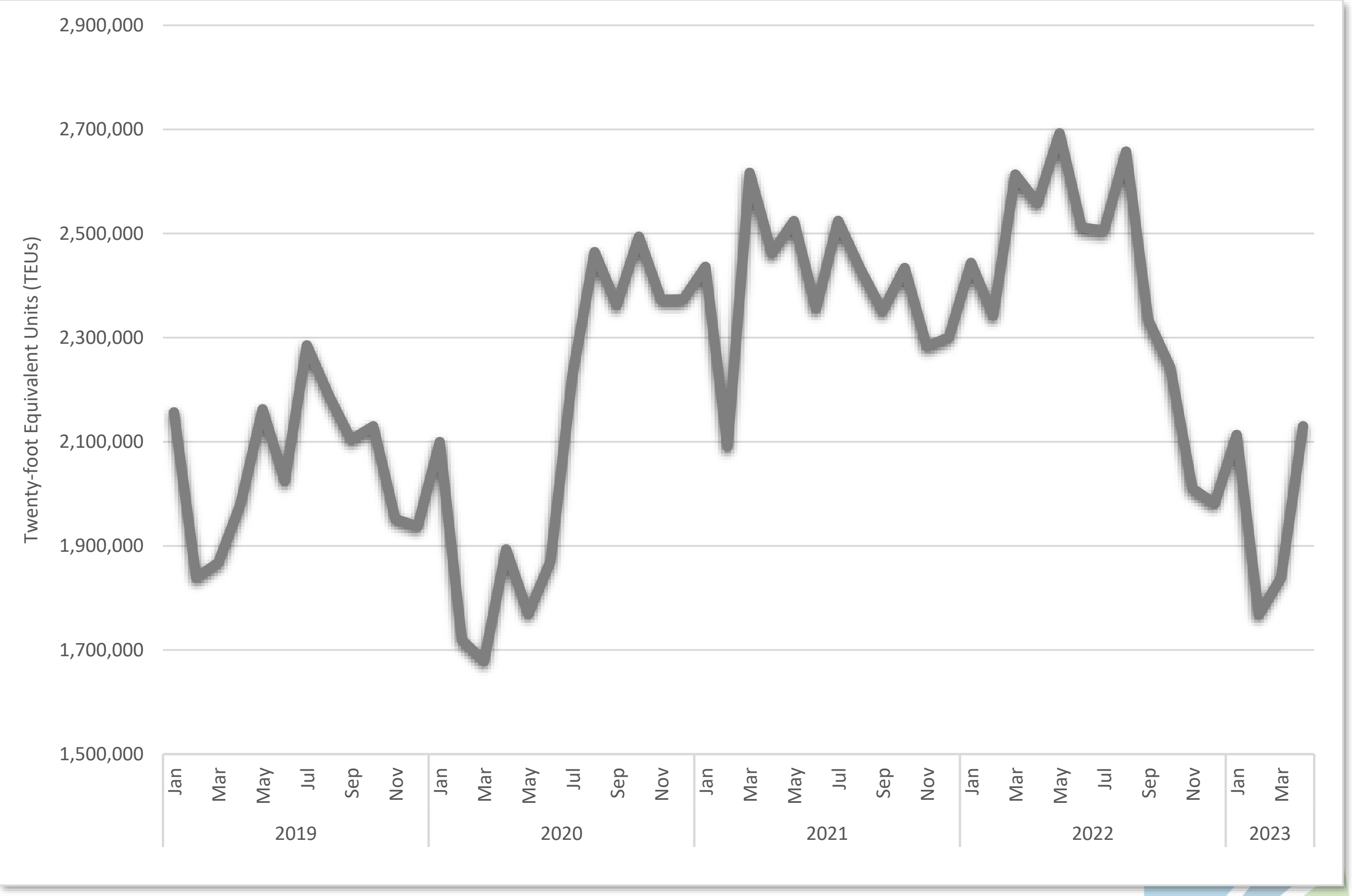
Why it matters: High levels of imports signal a strong domestic demand and a growing economy.

- 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 increased again month-over-month.

- Exports, which are a month behind imports, increased 0.8% in March to 936,681 twenty-foot equivalent units (TEUs).
- Imports jumped 15.9% in April to 2.12 million TEUs, all but reversing the big drop in February.
- Imports are 170,650 TEUs, or 7%, lower year-over-year, and 4% 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.

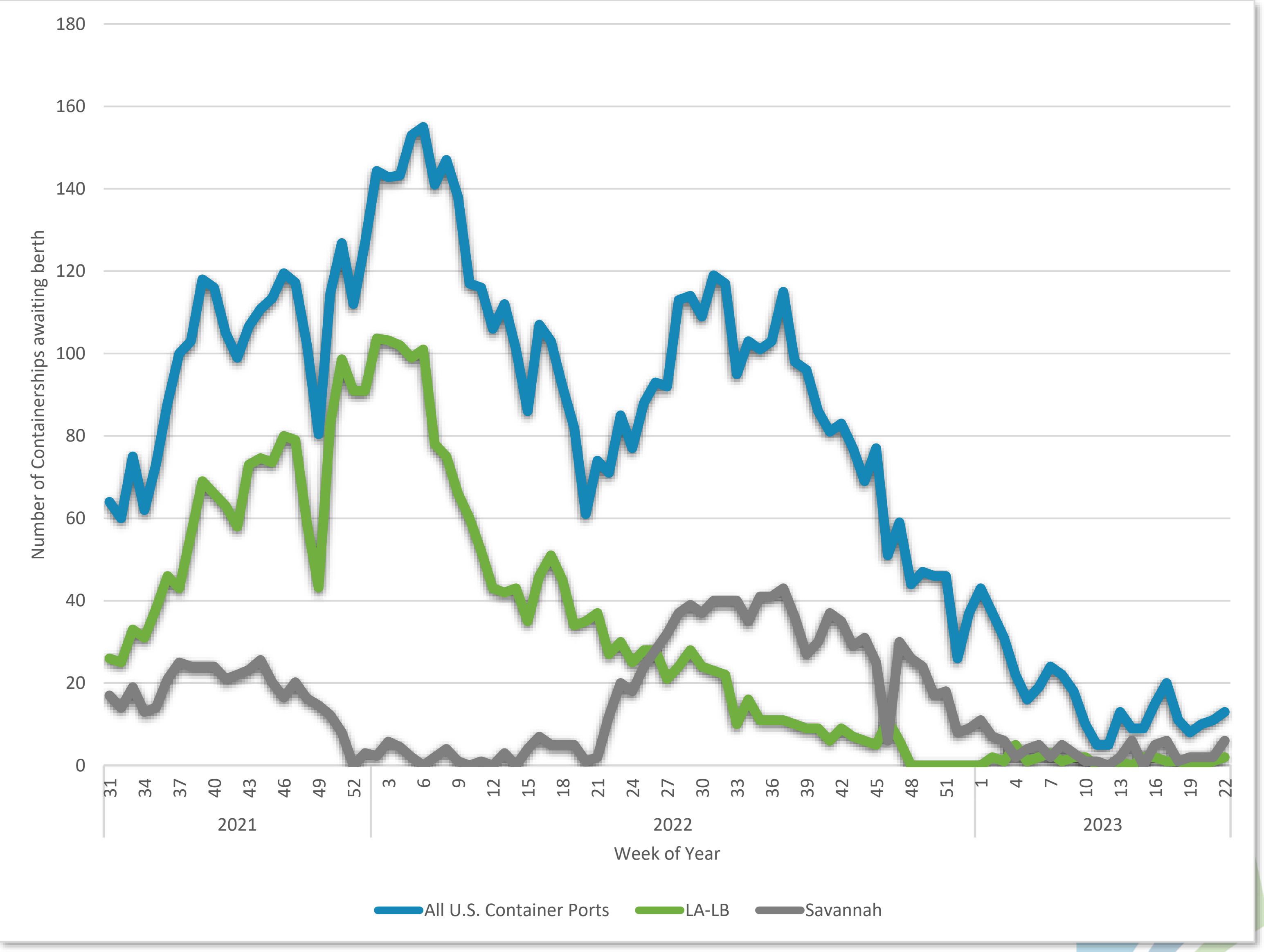
Why it matters: The number of containerships awaiting berth highlighted two issues:

1. Levels of demand, and thereby freight volume.
2. Supply chain inefficiencies such as what occurred 2021 which helped to push freight rates higher.

Our thoughts: Ports have overcome their congestion issues as containerships awaiting berth overall, have dropped 91% since January 2022, though there has been a recent uptick over the past four weeks.

[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 (TPEB) remained flat at 61 days, matching the fastest time since November 2020.
- The far east westbound (FEWB) cargo increased to 70 days from 69 days, which is inline with the average level in November 2020.



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.

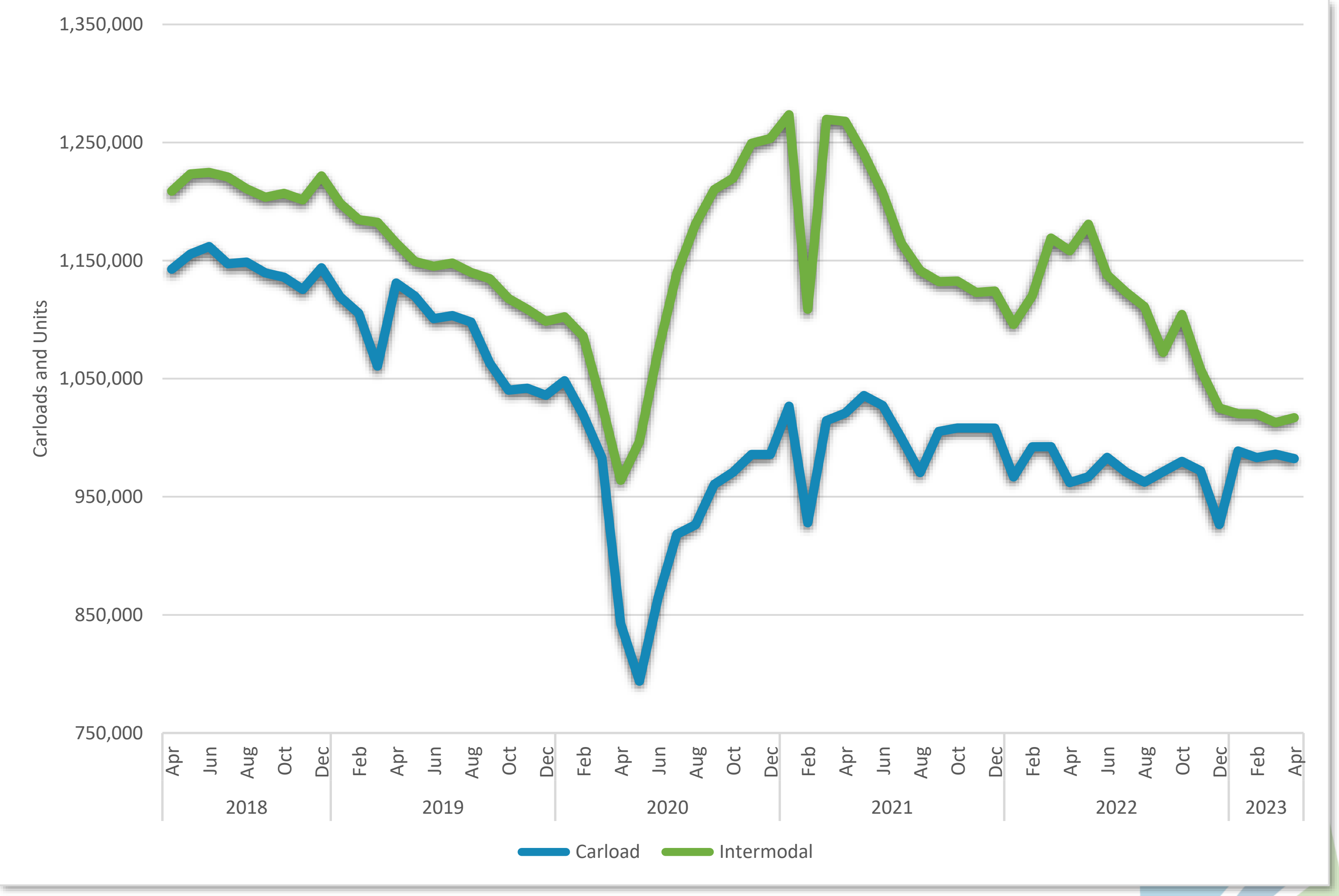
Why it matters: Most freight that is transported by rail, will require a truck for the final mile.

- 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: Intermodal containers are finally starting level out. The same is true for rail carloads. When the next trucking cycle finally begins, there may be a shift from truck to rail. However, truck prices are still low, giving shippers an attractive way to move freight at a cheaper cost.

- Carloads ticked downward 0.4% month-over-month to 982,286, and are down 1.0%, or 10,154 carloads, year-over-year.
- Intermodal increased 0.4% to 1.017 million, and is down 13%, or 152,019 loads, year-over-year.
- Both carloads and intermodal are below their 5-year trend line by 3.8% and 11.3% respectively.

We expect that more freight will continue to shift to truck for the time being causing further slides in both carloads and intermodal.



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

Market Summary

Volume

Flat

Demand

Flat

Capacity

Loose

Rates

Bottoming/
flat

Operating Costs

High

Future Outlook

Negative

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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