OOIDA Foundation

RESEARCH
SAFETY
EDUCATION

July 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.

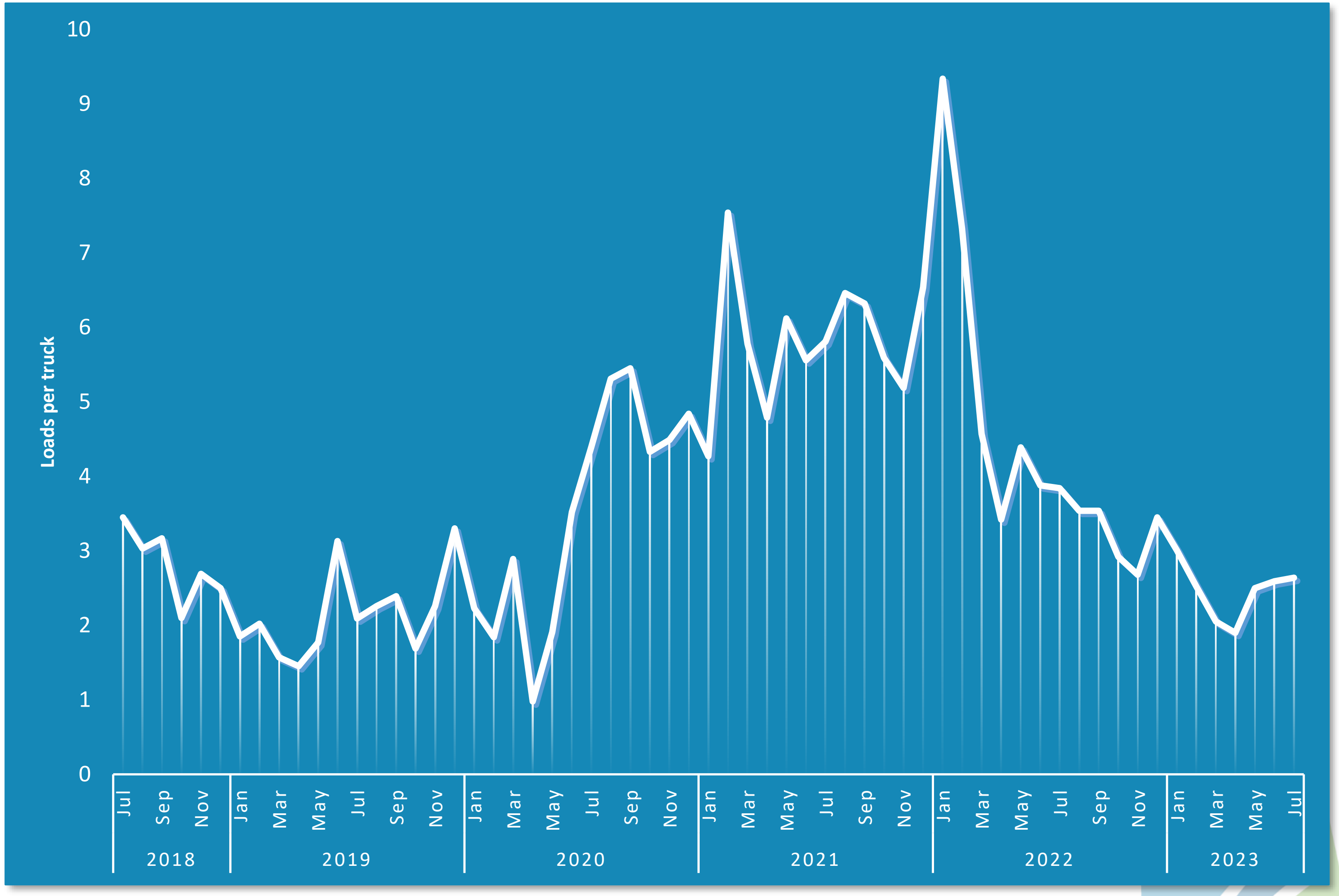
- The Load-to-Truck Ratio is a sensitive, real-time indicator of the balance between spot market demand and capacity

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

Our thoughts: The Van Load-to-Truck ratio increased in July. Demand typically levels off during this time of year until the start of back-to-school shopping in August.

- The Van Load-to-Truck Ratio increased 1.9% month-over-month to 2.64, marking three consecutive months of increases.
- The ratio is 31% lower than last year and 28% lower than the 5-year trend.

As July comes to a close, load posts are approximately 2% below the pre-pandemic average for this time of year. Equipment posts continue to remain 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

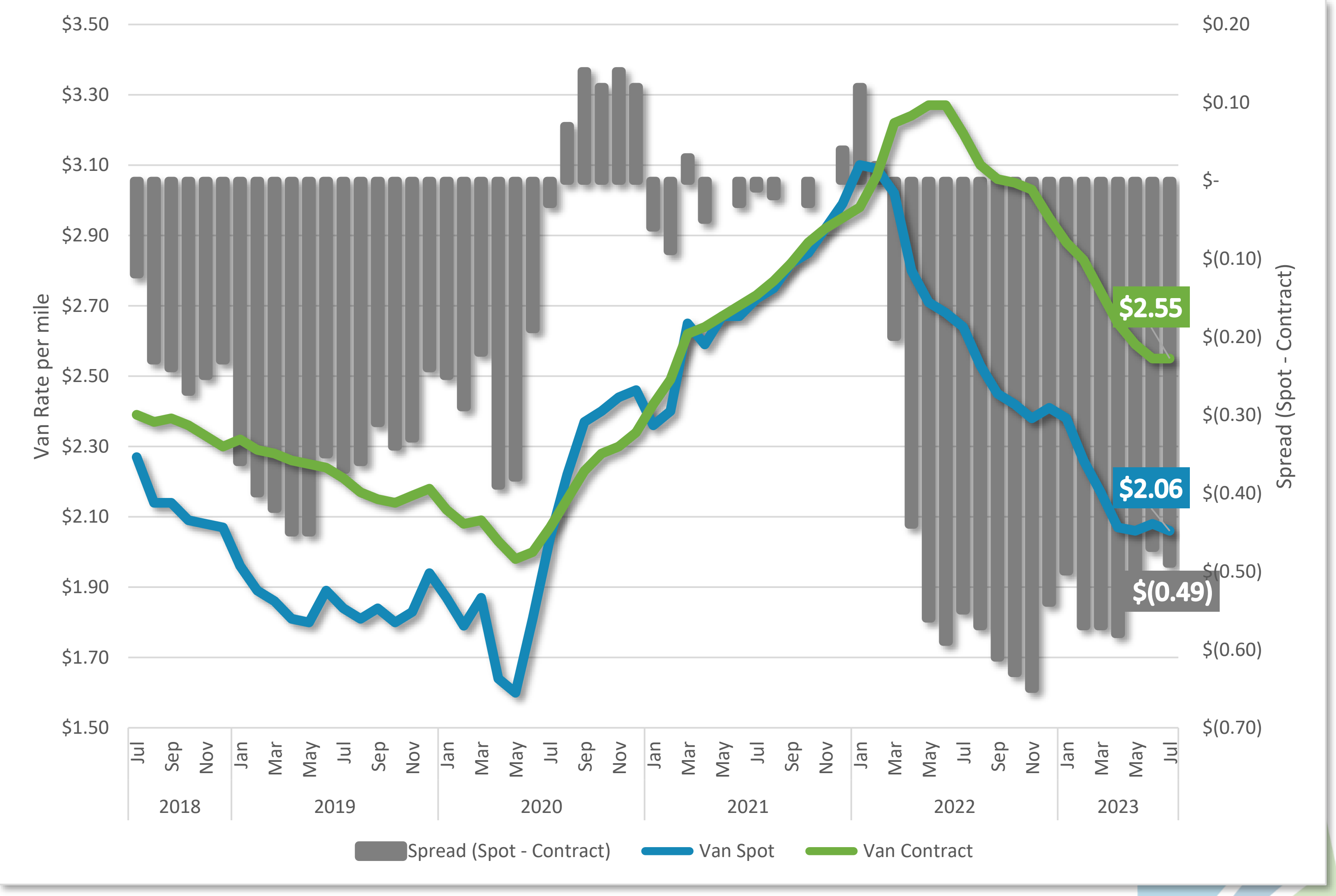
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates ticked downward in July causing the spread between contract and spot to deepen. Rates typically slowdown or drop during this time in the freight season.

- Spot rates for vans deceased $0.02 per mile month-over-month to $2.06, essentially wiping out last months gains, and have dropped $0.58 per mile since last year.
- Contract rates remained flat at $2.55 per mile, which means the spread between contract rates and spot rates grew $0.02 to $0.49 per mile.
- Spot rates are 10% below the 5-year trend, while contract rates are now flat.

DAT's ratecast model predicts spot rates excluding fuel will stay relatively flat until the the end of August, and then rise between $0.00 and $0.05 per mile heading into the middle of September.

- Remember that volumes and rates typically pick up a bit as kids head back to school, but it's more likely that we remain flat or even slightly down due to the surge in diesel costs.



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.

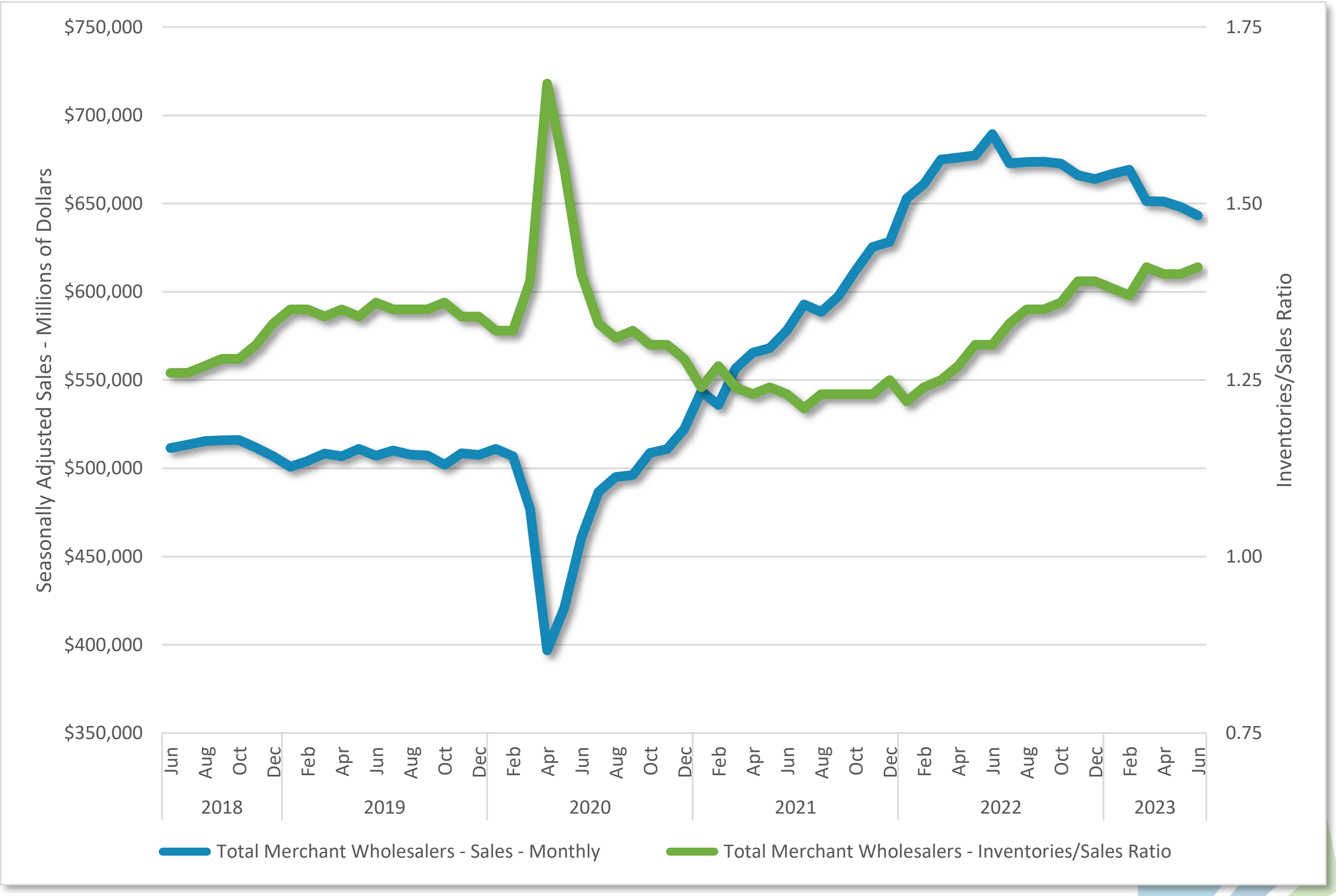
- The U.S Census Bureau reports monthly sales data and inventory-to-sale ratios for different types of industries.

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 increased slightly, while monthly sales moved downward again in June, which is not a positive indicator for truck demand.

- Sales decreased 0.7% month-over-month to $643.3 billion, and have decreased 6.7%, or $46.1 billion, since last year.
- Ratios increased 0.7% month-over-month to 1.41, and have grown 8.5%, or 0.11, since last year. Ratios are 7% 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

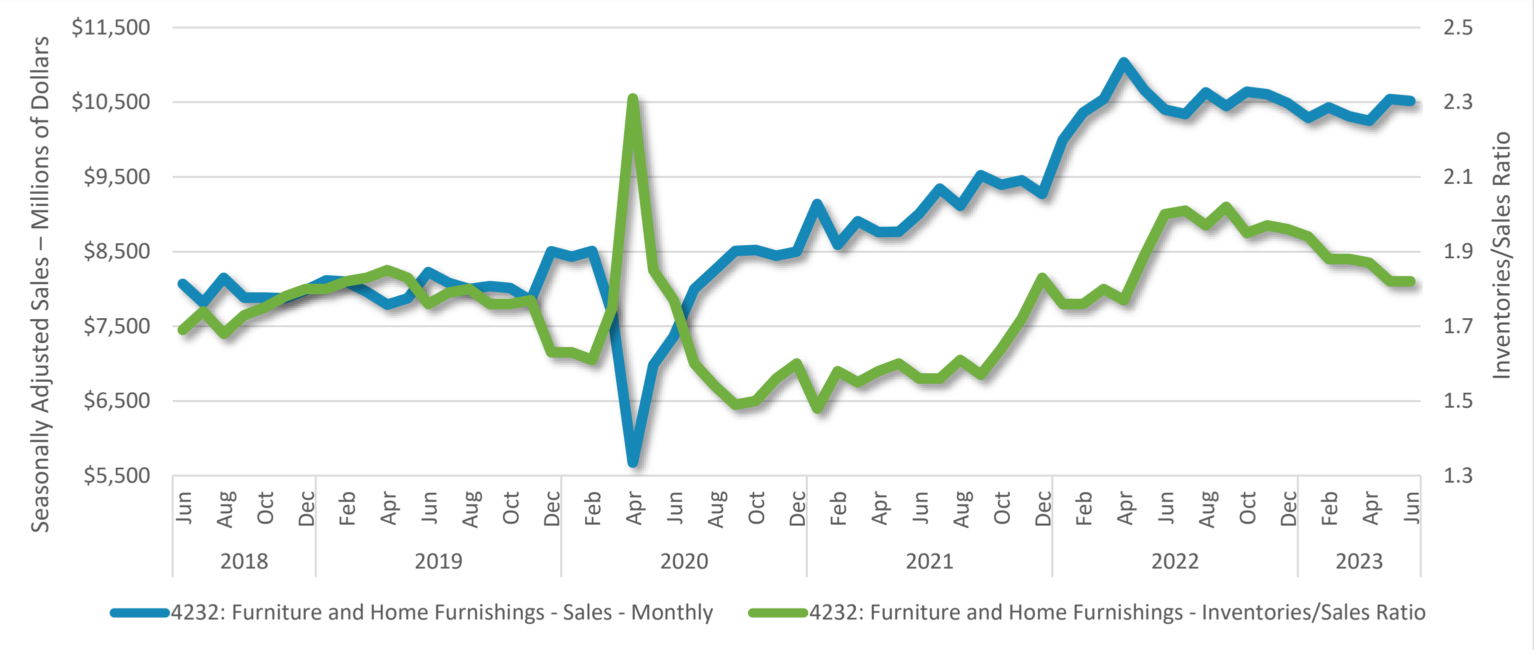
Why it matters: Large appliances and furniture generate freight for the dry van segment of the industry.

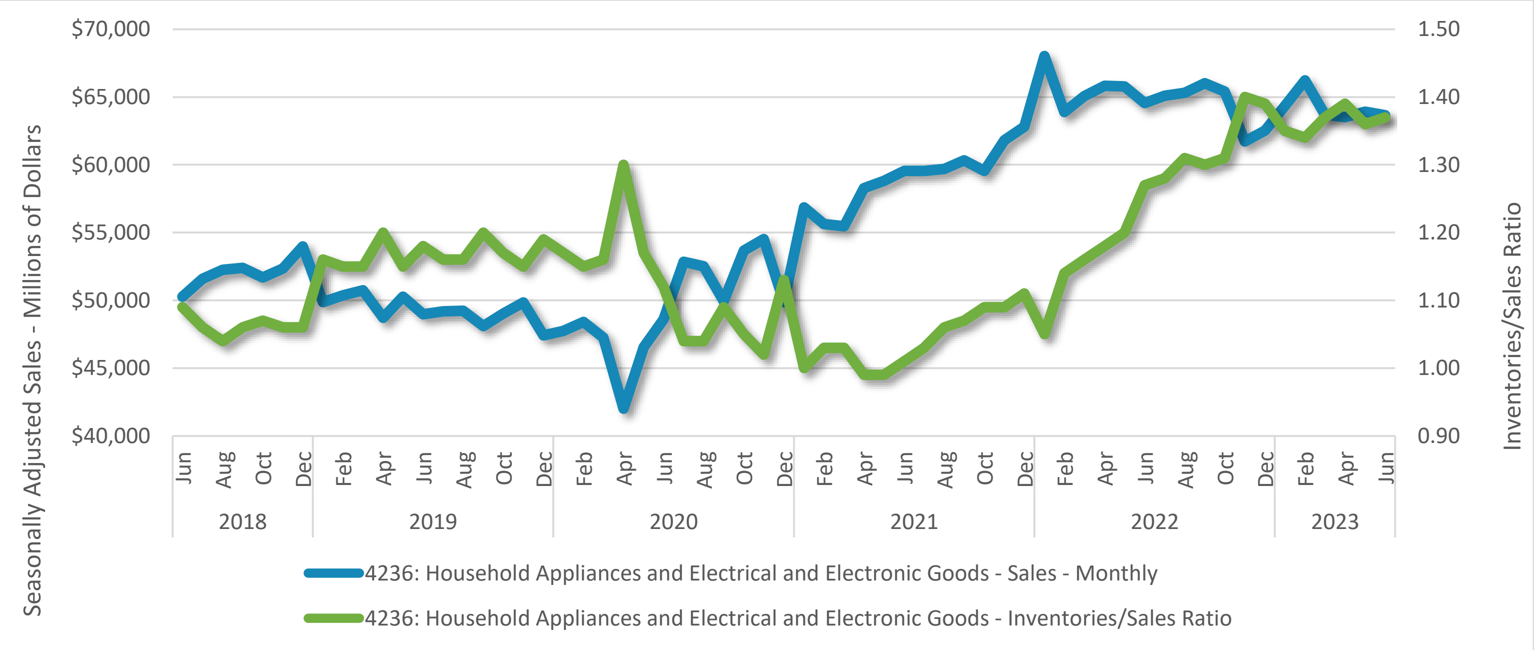
- Sales and inventories can help an owner-operator to see what direction freight demand is headed.

Our thoughts: Inventory-to-sales ratios increased for household appliances, while monthly sales decreased for both industries, which is not a welcome sign for demand as inventories remain high in these important freight producing industries.

- Furniture Sales decreased 0.3% to $10.51 billion, while ratios remained flat at 1.77.
- Compared to last year, sales decreased $114 million. But ratios have also decreased 9.2%.
- Household appliances sales decreased 0.4%, and ratios increased 0.7% to 1.37.
- Sales decreased $913 million since last year, as ratios have grown 7.9%.

Inventory levels are declining overall for furniture but remaining mostly flat for household appliances. Hopefully the destocking of these two industries will accelerate as the housing market outperforms expectations.





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:

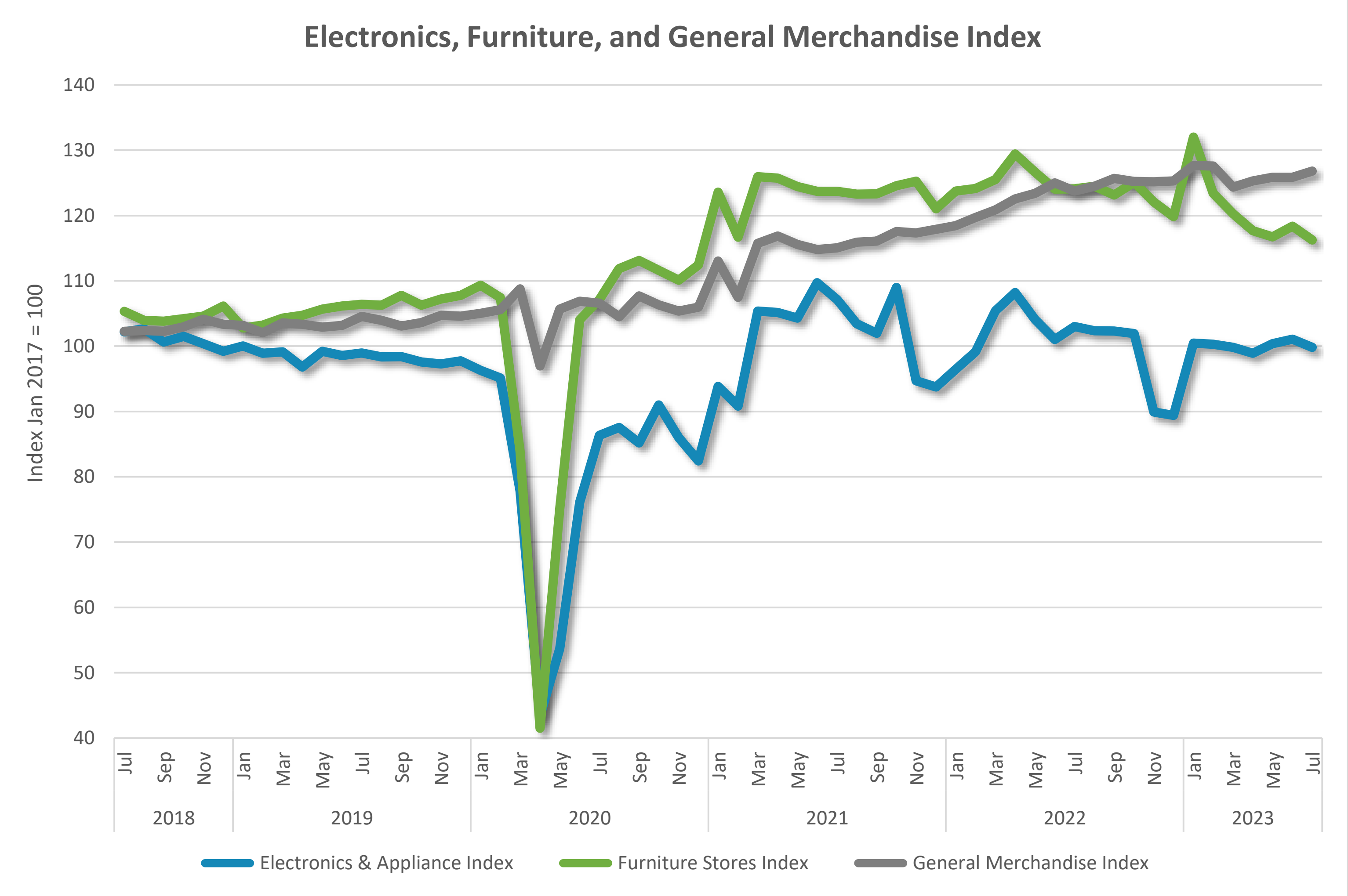
- Electronics and appliance stores (EAS)
- Furniture stores (FS)
- General merchandise stores (GMS), such as Walmart, Target, Costco

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 declined for all sectors except GMS. EAS and FS sales continue to trend mostly sideways as GMS climbs upward and to the right.

- EAS decreased 1.3%, or $98 million, month-over-month to $7.7 billion, ending two straight months of growth. EAS is 3.1%, or $246 million, lower year-over-year.
- FS dropped 1.8%, or $199 million, M/M to $11.04 billion, and is 6.3%, or $742 million, lower Y/Y.
- GMS increased 0.8% M/M, or $567 million, to $73.08 billion, and is up 2.5%, or $1.8 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

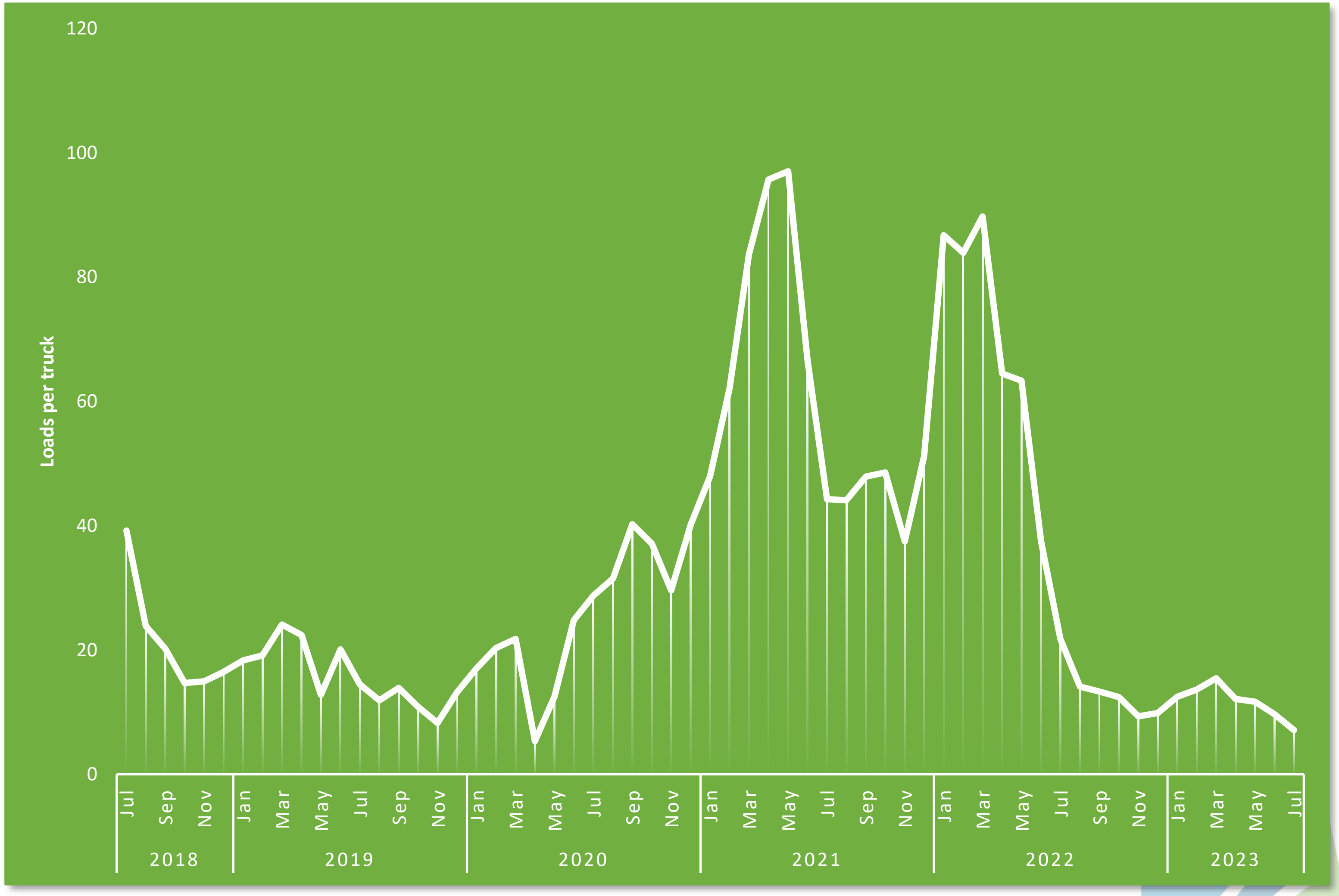
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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 are 32% lower month-over-month, 61% lower year-over-year, and are the lowest DAT has seen since 2015 for this time of year. Equipment posts remain high.

- The Flatbed Load-to-Truck Ratio decreased 26.3 month-over-month in July to 7.13, marking four consecutive months of decline.
- The ratio has declined 67% since last year when there were 21.8 loads for every truck.
- The ratio is 78% 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

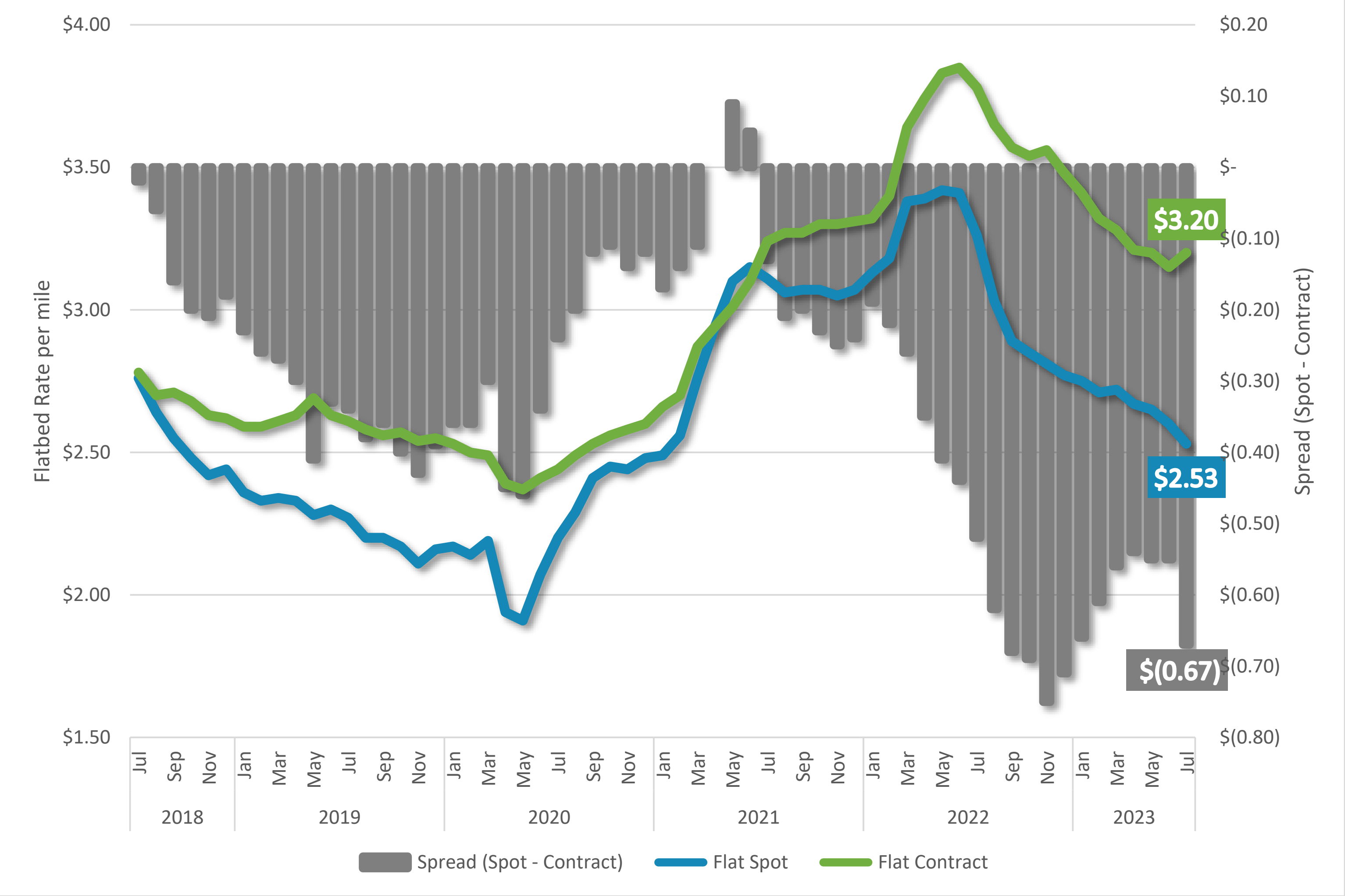
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates decreased again in July, marking four consecutive months of decline, while contract rates increased after declining for seven straight months.

- The spot market decreased $0.07, or 2.7%, to $2.53 per mile month-over-month, and has dropped $0.73 since last year when it was $3.26.
- The contract market increased $0.05, or 1.6%, to $3.20 per mile, which is $0.58 lower than last year and $0.24 above the 5-year trend.
- The spread between contract and spot increased $0.12 to $0.67, which is 29% higher than a year ago when it was $0.15.

DAT's ratecast predicts that spot rates excluding fuel will continue to tick downward by 5 cents per mile as we head into the middle of September.

- Rates usually cool off during this time of year, but this can change due to hurricane season.



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.

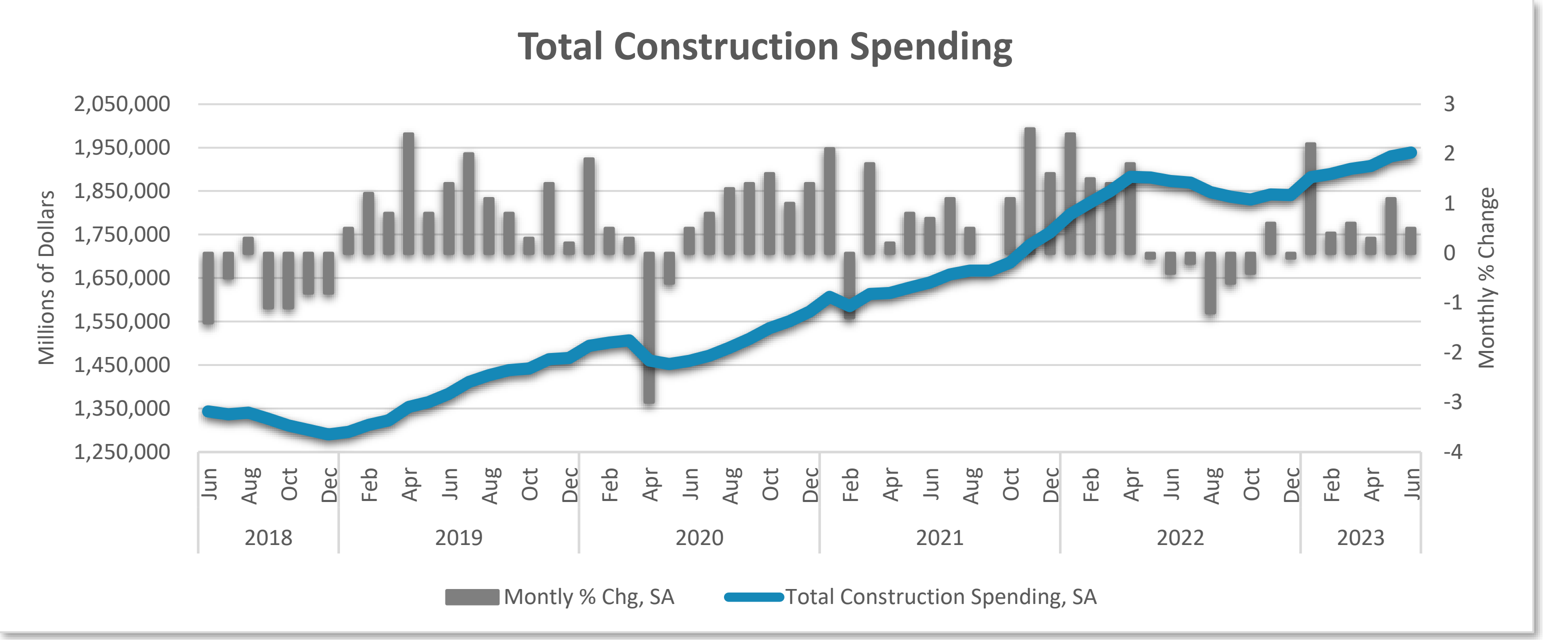
Why it matters: Construction spending helps boost the economy, especially spending that is dedicated to building roads and bridges.

- 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.

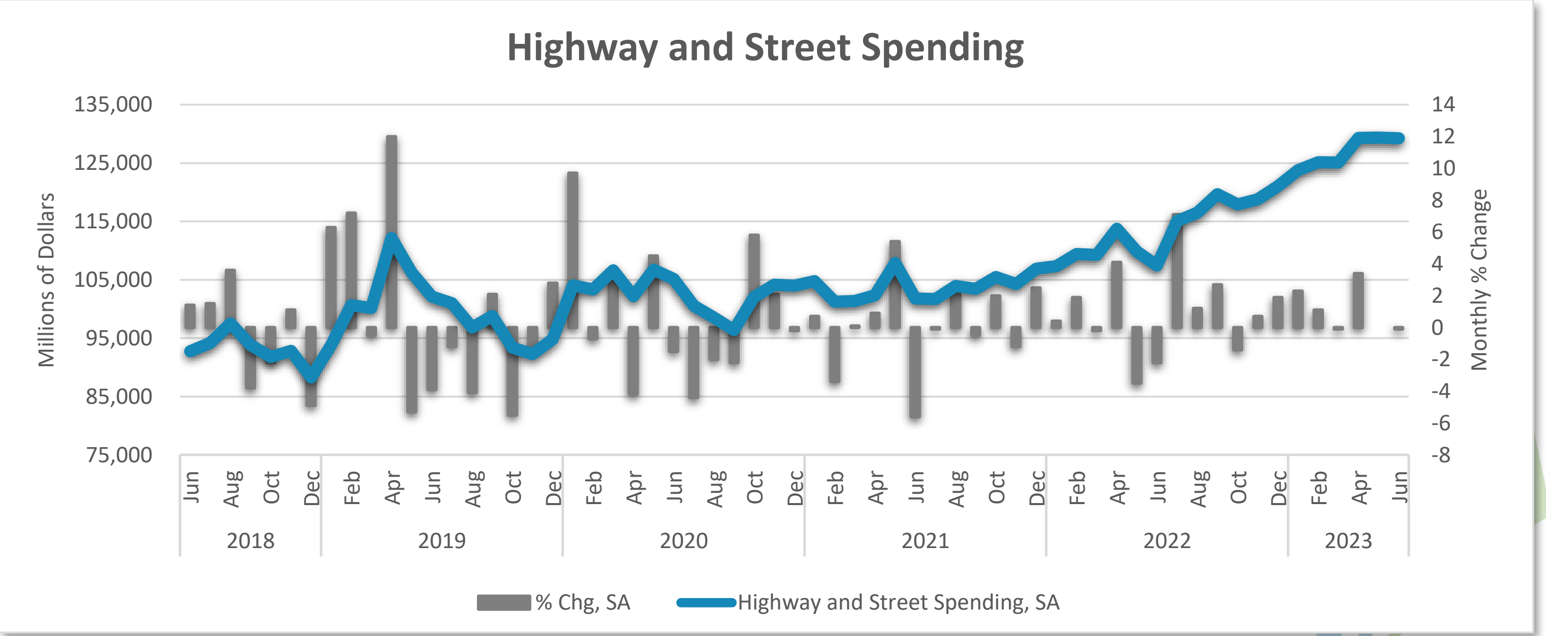
Our thoughts: Total construction spending (TCS) increased while spending on highways and streets (HSS) decreased month-over-month. Non-residential (NRS) also increased.

- TCS increased by 0.5%, or $8.7 billion, in June to $1.938 trillion, which is $65.2 billion, or 3.5%, higher year-over year, and 21% above the 5-year trend.
- HSS decreased 0.1% to $129.3 billion after being adjusted upward in May, and is up 20.3%, or $21.8 billion, year-over-year.

While construction spending for HSS and NRS remains elevated over 2019 levels, flatbed demand has remained low. Inflation might be one possible explanation for this puzzle.



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:

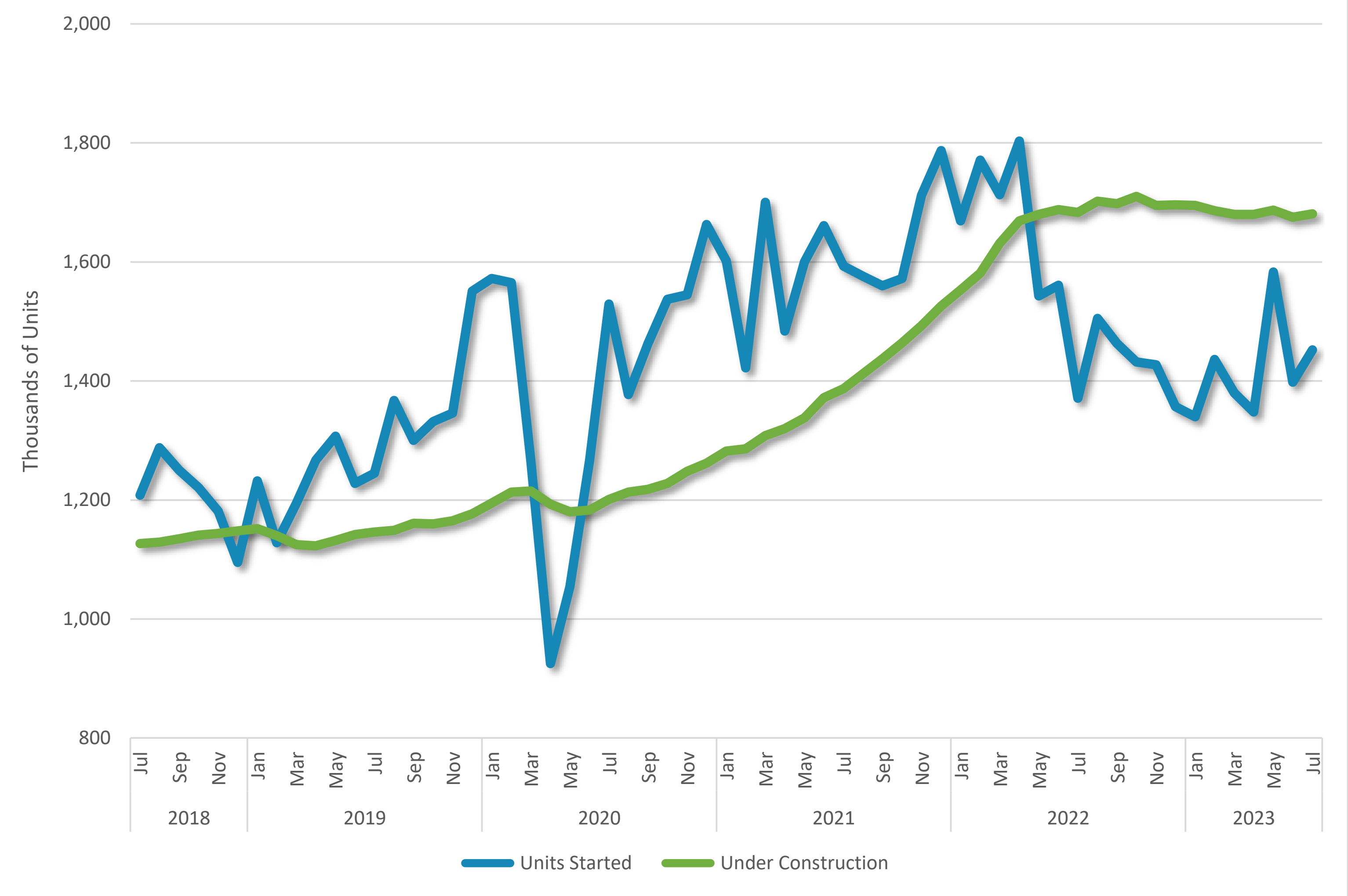
- Housing starts, and
- Housing under construction.

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 increased in July following a steep drop in June, in which starts fell 8%. Housing seems to be performing well even despite higher interest rates.

- New starts increased 3.9%, or 54,000 houses, to 1.452 million, and are down 6%, or 81,000 homes year-over-year (Y/Y).
- Houses under construction ticked upward slightly at 0.4% to 1.681 million, and are flat Y/Y.
- Completed houses decreased 11.8% month-over-month and are down 5%, or 75,000 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).

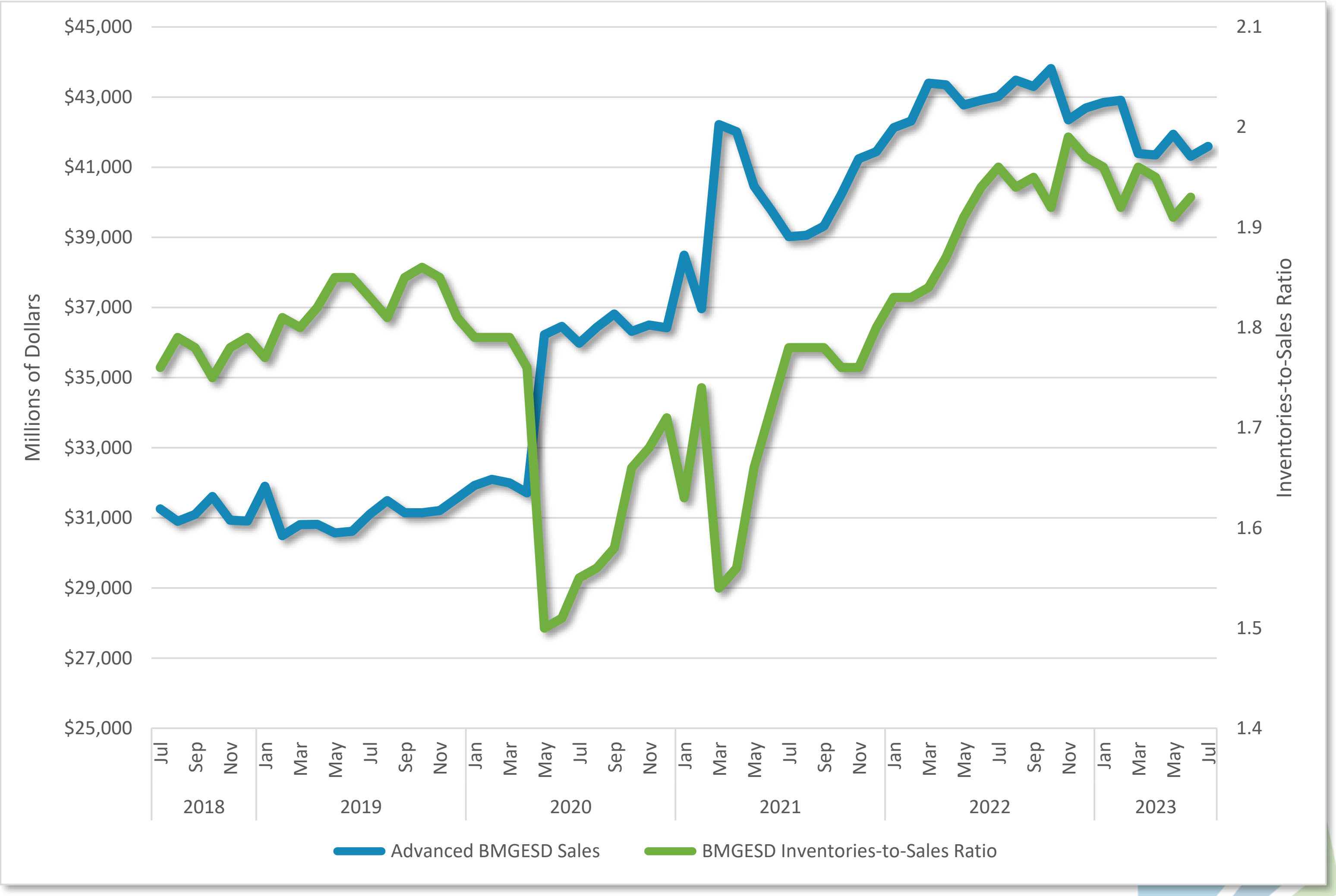
Why it matters: Retail sales give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

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

Our thoughts: BMGESD sales increased in July and inventories increased in June as retailers continue to work on depleting their inventories by offering discounts.

- The BMGESD retail sales increased 0.7% month-over-month to $41.6 billion, and are 3.3%, or $1.42 billion, lower year-over year.
- Sales are $4.42 billion higher than the 5-year average.
- Inventories-to-sales ratios increased 1% to 1.93 in June, and are 1.5% lower year-over-year.

In June, sales decreased while inventories grew, meaning retailers saw an increase in inventories due to fewer sales, which is not a positive sign for future freight demand.



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

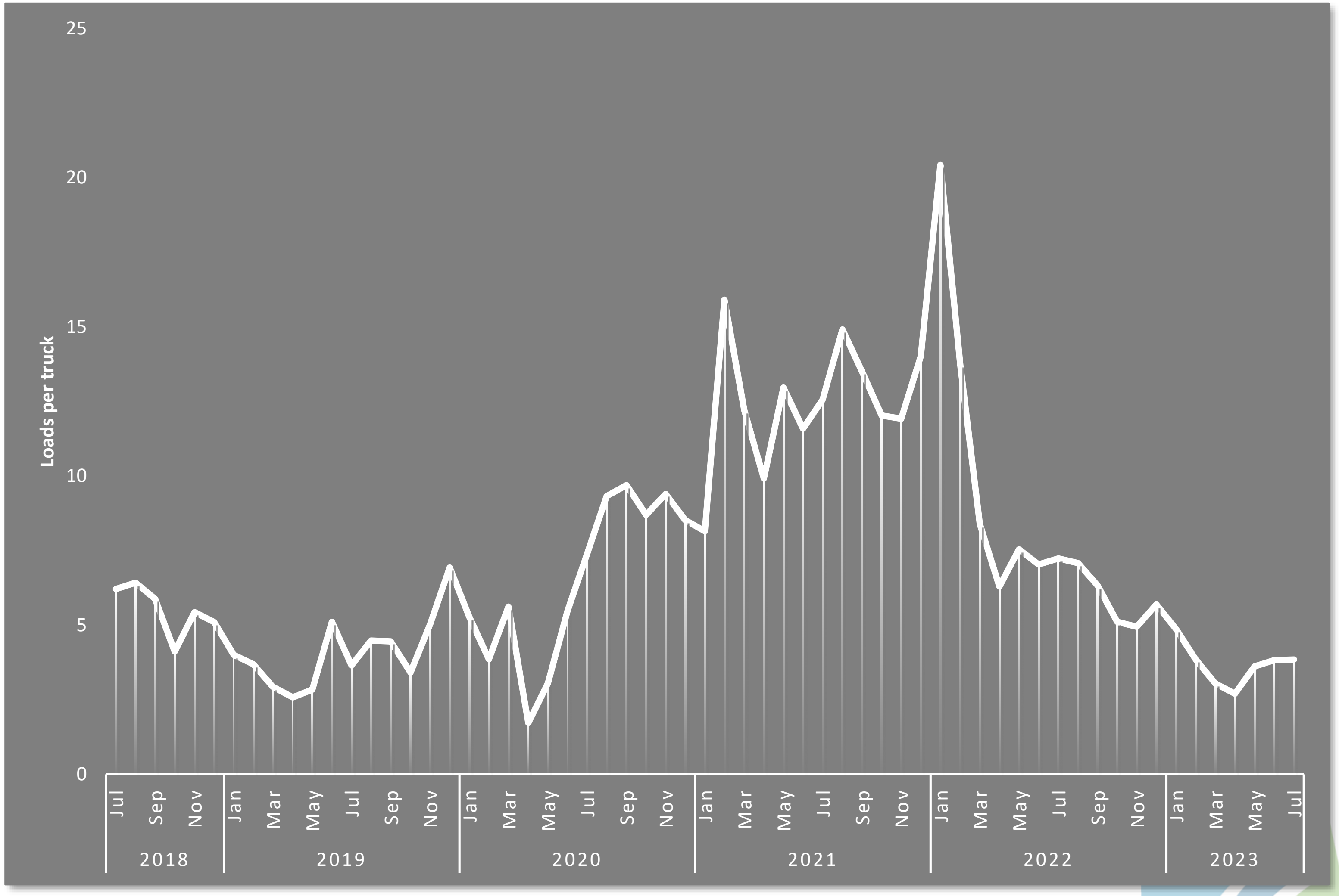
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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 continued its upward trend in demand in July as produce volumes pick up after experiencing a late start at the beginning of the year.

- The ratio increased 0.5% month-over-month to 3.85 loads to every one truck posted.
- This is 47% lower than last year when the ratio was 7.24, and 46% below the 5-year trend.
- Load posts are 2% above 2019, while equipment posts remain mostly flight.



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

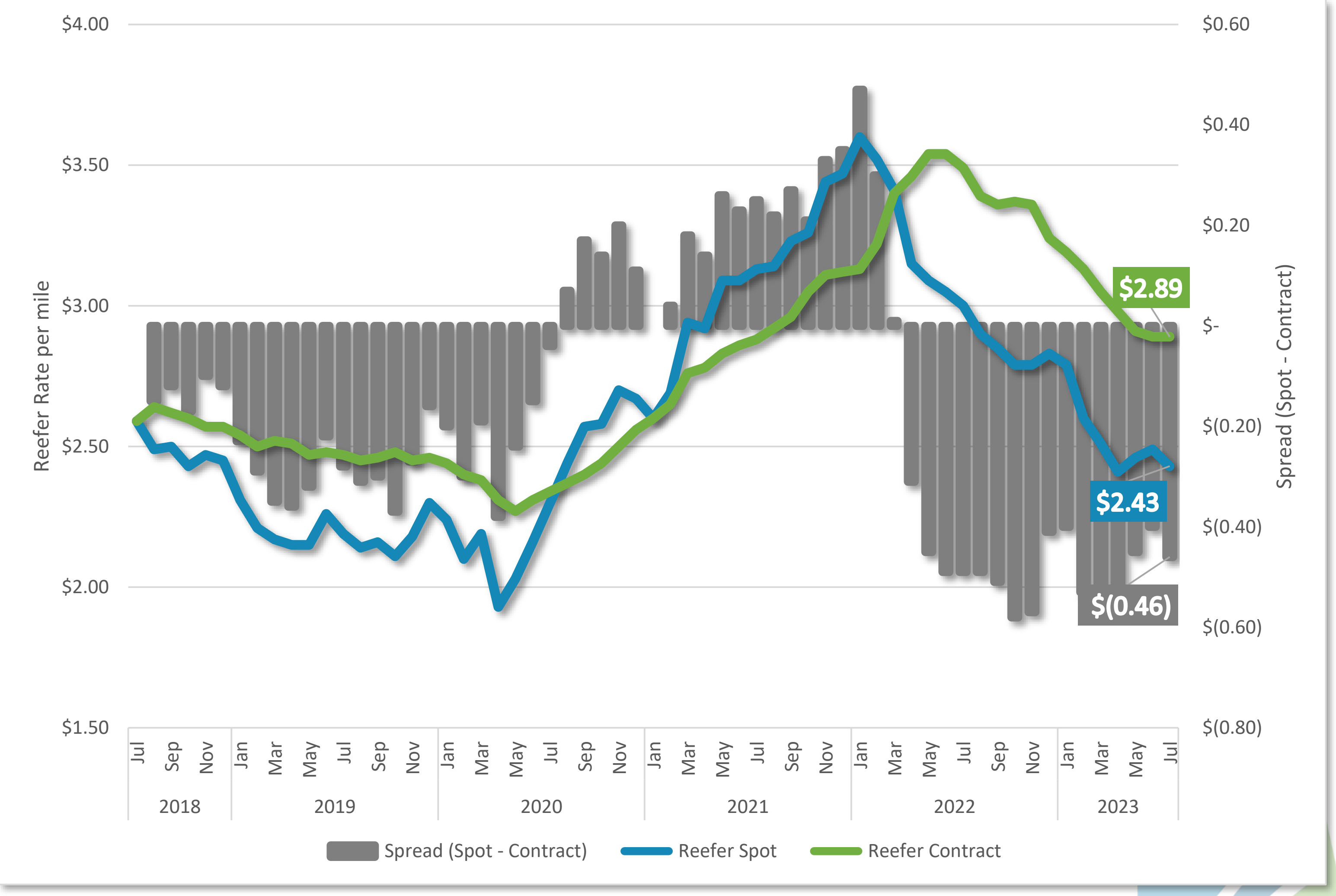
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates moved downward month-over-month in July, despite the recent uptick in demand, while contract rates continue to level out.

- Spot rates decreased $0.06, or 2.4% to $2.43 per mile, but are down $0.57 since last year.
- Contract rates stayed flat at $2.89 per mile, which is $0.60 below where we were last year.
- The spread between spot and contract increased 15% to $0.46 and is 6% lower compared to a year ago.

DAT's ratecast is forecasting that spot rates excluding fuel will stay mostly flat until the end of August and then increase between $0.05 and $0.10 per mile as we head into the middle of September.

- Refrigerated volumes typically pick up during this time.



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.

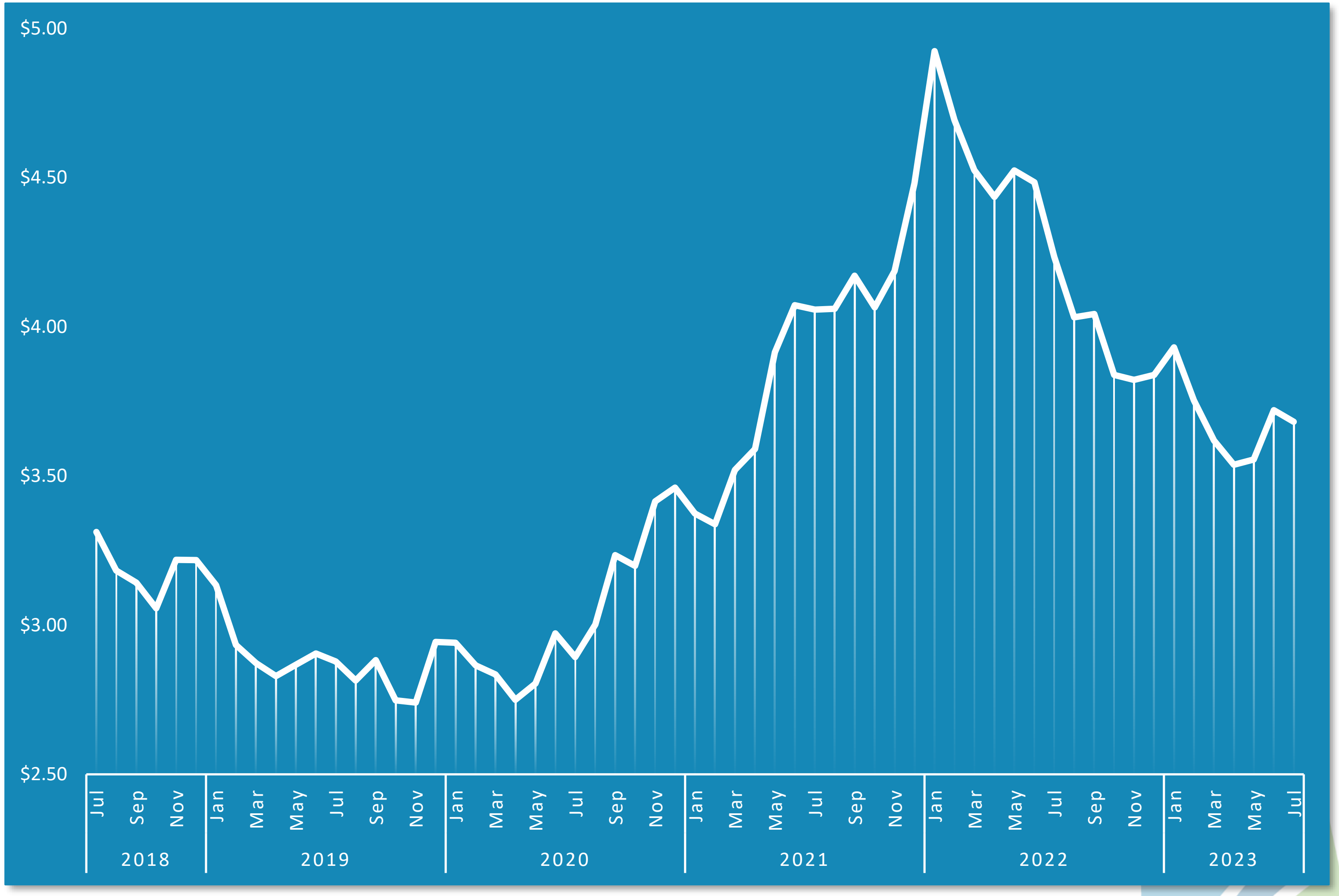
Why it matters: Produce requires fast and efficient movements of perishable commodities.

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

Our thoughts: Fruit and vegetable reefer rates are 25%, or $1.24 per mile, below their high in January 2022.

- Rates per mile decreased 1%, or $0.04 per mile, month-over-month to $3.68 in July, ending two months of consecutive increases.
- Rates are $0.55 per mile, or 13%, lower year-over-year, and are $0.17 per mile, or 4.9%, higher than the five year trend.

According to USDA, carriers in the Florida region of the country experienced the greatest increase in pay per mile month-over-month, with only three regions experiencing any gains overall.



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

Fruit and Vegetable Industry: Truck Volume

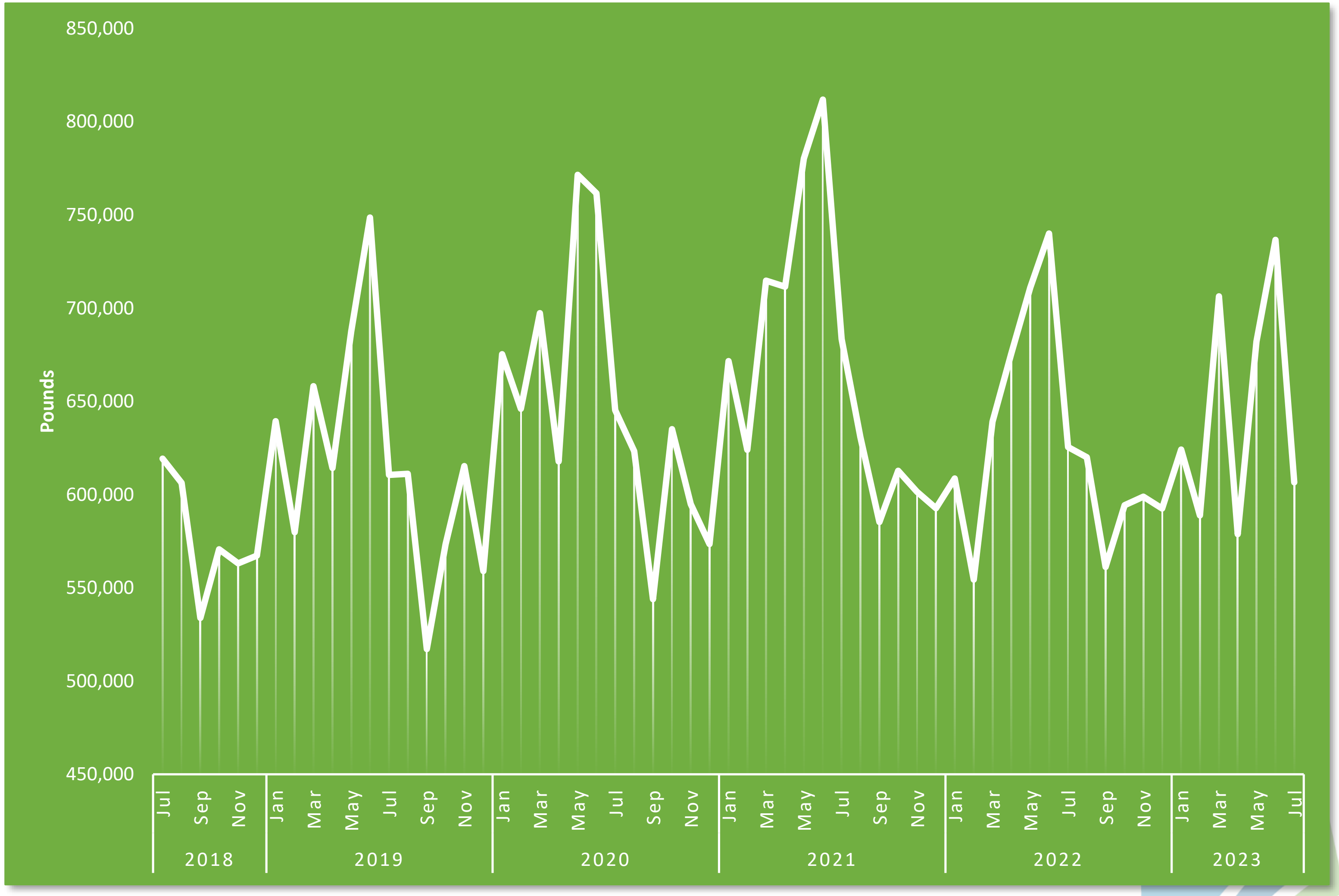
The big picture: The USDA's Crops report includes daily fruit and vegetable volume data by weight for different regions and commodities.

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 dropped in July after experiencing two straight months of gains. However, this is a typical seasonal trend for produce as can been seen in the chart.

- Reefer volumes decreased 17.7% month-over-month to 606,576 pounds, and are 3%, or 18,874 pounds, lower year-over-year.
- The California region was relatively flat, but are still 20% lower than they were last year.
- Several regions experienced large drops in volume, including Arizona, Mexico-Arizona, Mexico-Texas, and the Pacific Northwest.



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

Fruit and Vegetable Industry: Truck Availability

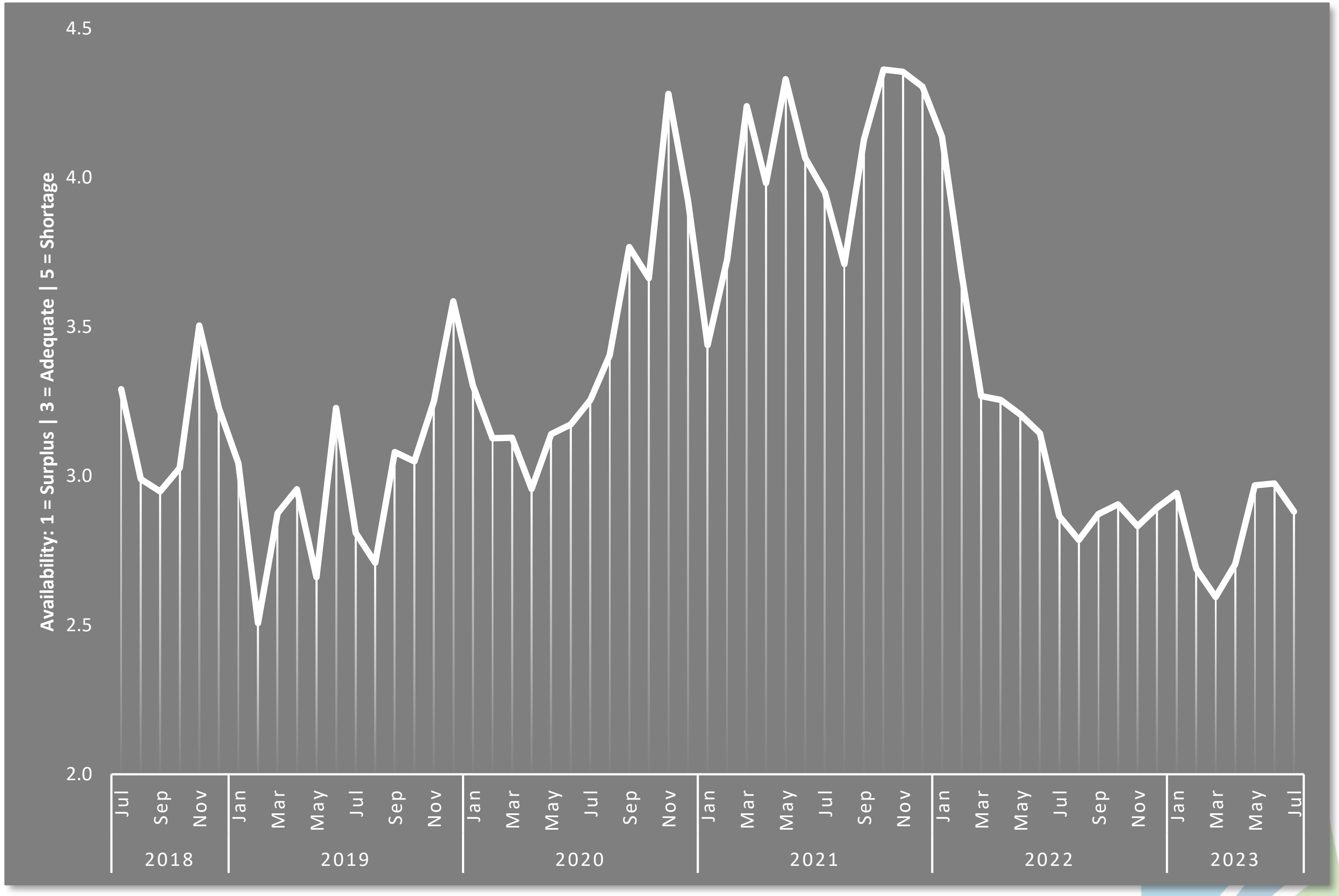
The big picture: The USDA's Crops report includes daily fruit and vegetable data for refrigerated truck availability across different regions and commodities.

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 loosened, following a couple months of tightening earlier in the spring. Capacity continues to remain loose, especially compared to 2021.

- Reefer truck availability loosened 3.2% to 2.88. Availability is down 0.5% over the previous year.
- Capacity tightened in the Florida region, but either remained flat or grew more loose in all the other regions.
- Conditions in California loosened in July as volumes dropped. Availability dropped from 3.05 to 3.00.



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.

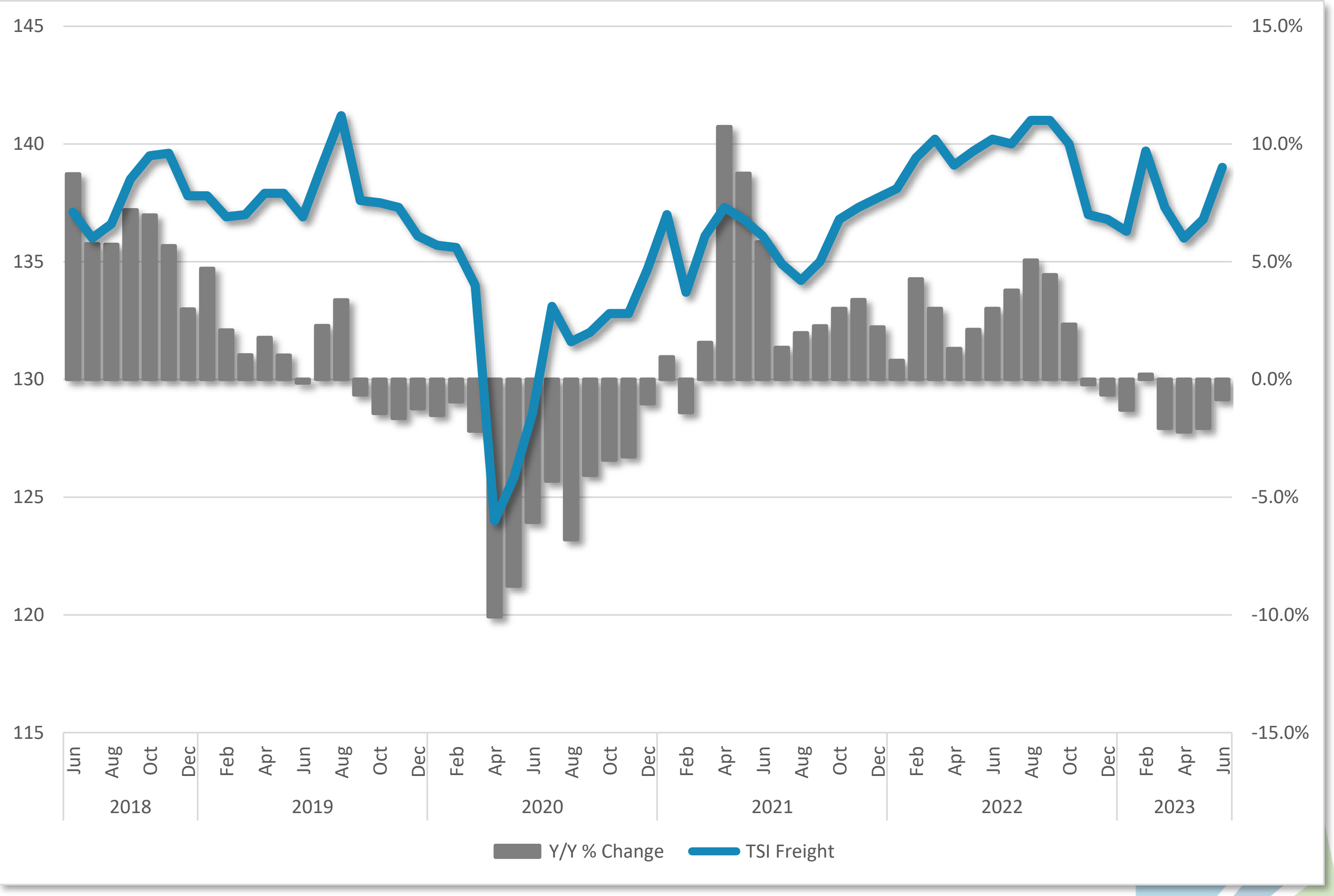
Why it matters: Changes in the TSI reflect changes in the demand for goods and services.

- 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 increased in June due to seasonally adjusted increases in rail intermodal, rail carload, air, and trucking, while water and pipeline were down.

- The TSI increased 1.6% month-over-month to 139, and is 0.9% lower than a year ago. May was only 1.6% below the all-time high of 141.2 in August 2019.

May's increase came in the context of mixed growth for other indicators. The Industrial Production Index was down 0.5%, reflecting decreases in manufacturing, mining, and utilities. Housing starts were down while 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.

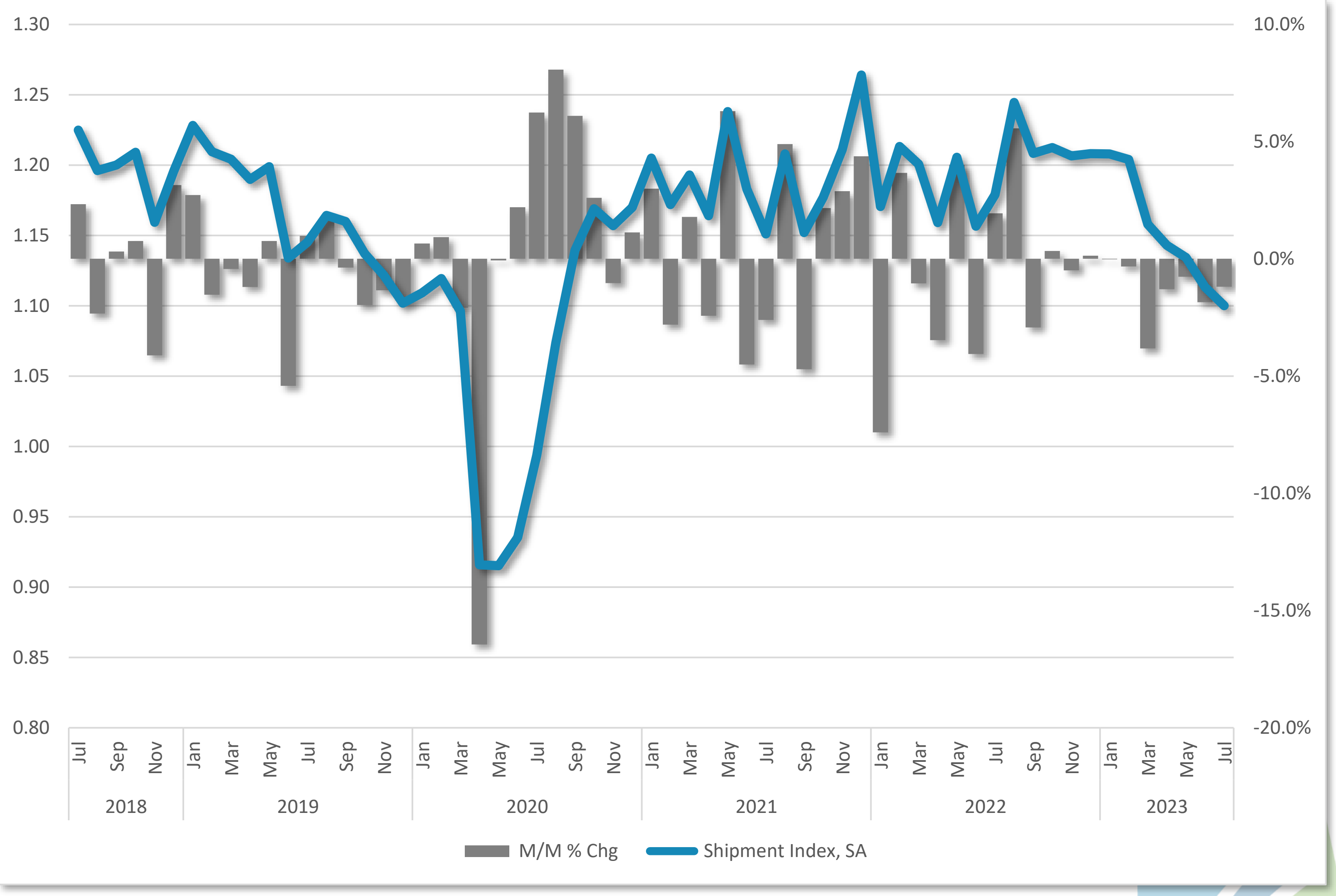
- The index is an indicator of U.S. shipping activity, containing 37 million invoices across 400 companies and manufacturers.

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

Our thoughts: the Cass Shipment Index was down 1.2% month-over-month to 1.10 in July when seasonally adjusted, and was down 6.7% year-over-year. The past three downcycles experienced 21 to 28 straight months of decline year-over-year. We're currently at 19 months so far.

- Expenditures, which measures the total amount spent of freight, dropped 2.0% to 3.38, due to changes in fuel, modal mix, intramodal mix, and accessorial charges.
- Inferred rates, which are calculated by dividing expenditures by shipments to explain the movement in cost per shipment, also decreased 0.8% to 3.07.
- Truckload linehaul rates, which includes both spot and contract rates, decreased 0.2% to 142 and is down 12.7% year-over-year.

Bottom line: Cass believes that private fleets are pulling freight away from for-hire fleets, prolonging the industry downturn. Cass believes it's unlikely that industry capacity will tighten until private fleet growth eases.



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

Supply: Truck Employment

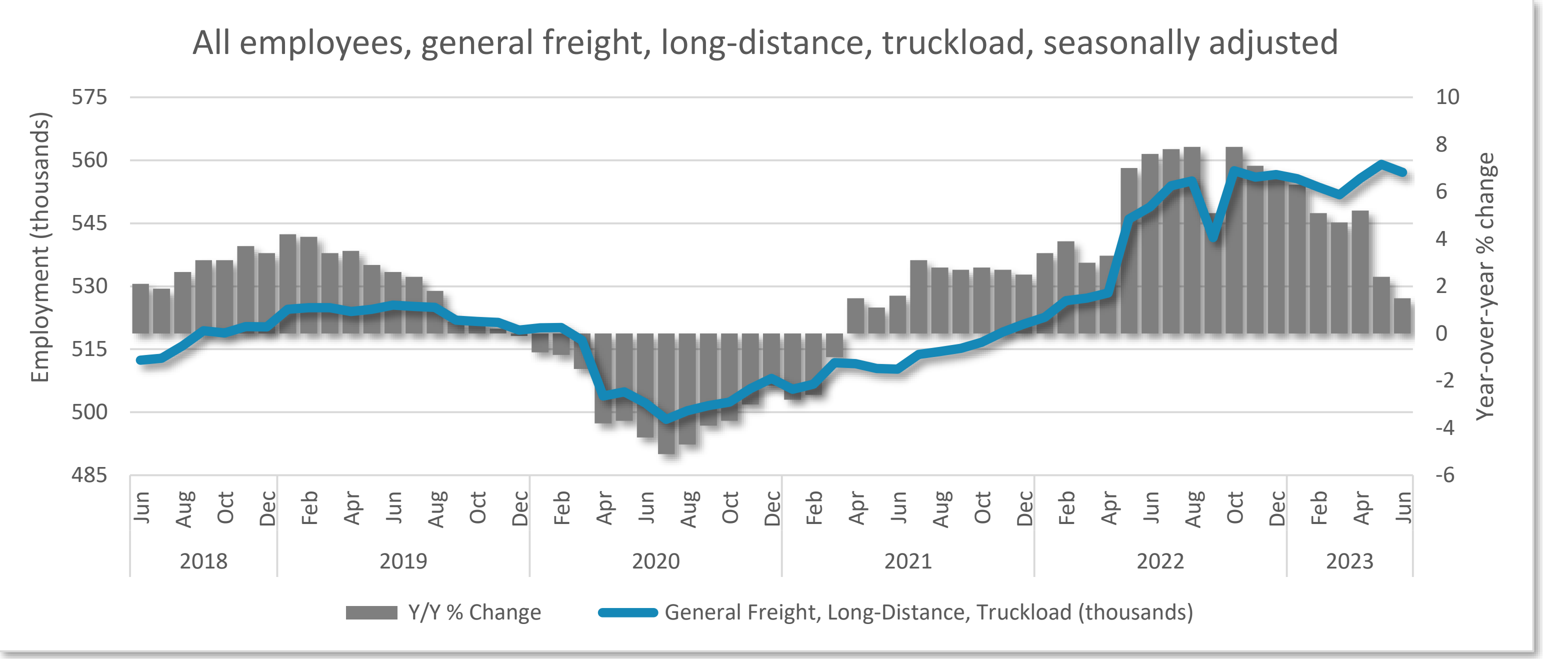
The big picture: The Bureau of Labor Statistics releases monthly payroll data concerning various industries and sectors, including trucking.

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

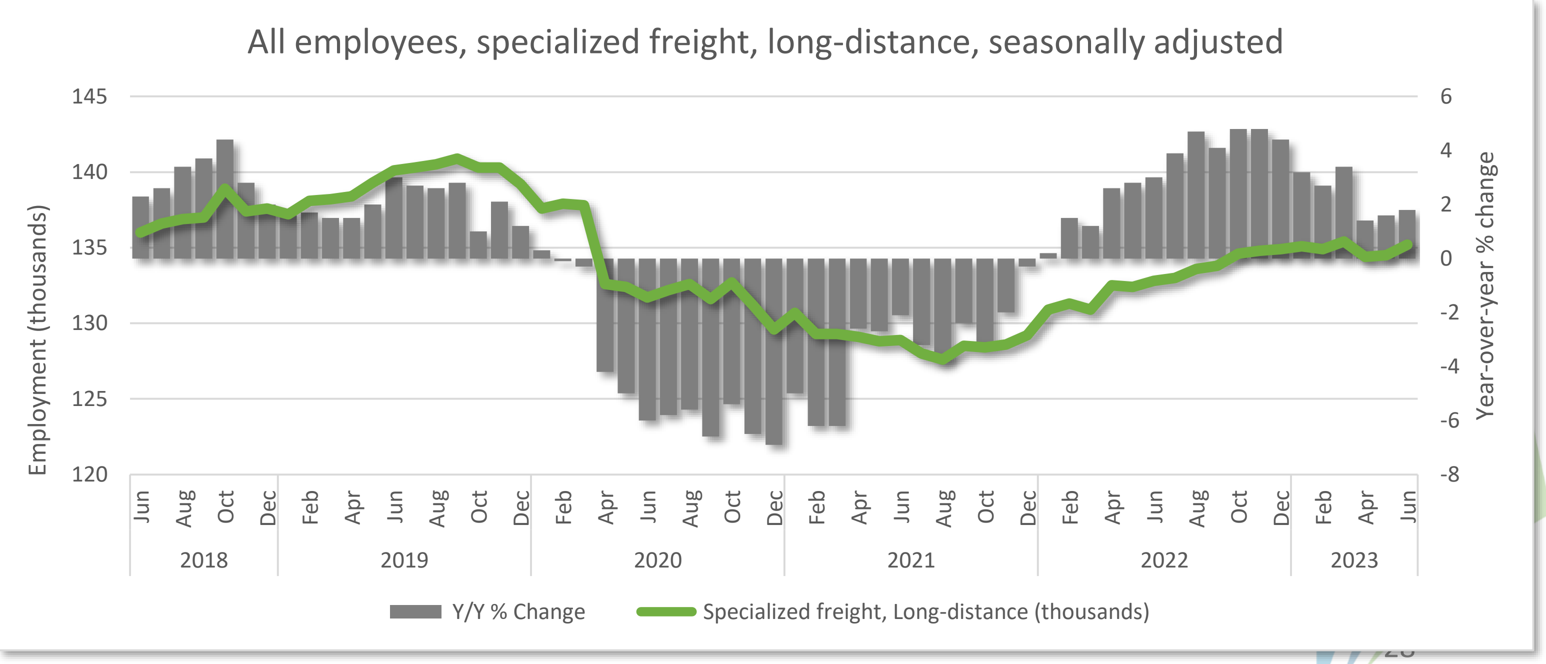
- Employment levels ultimately have a large impact on rates. If there are too many drivers for too little freight, rates will go down.

Our thoughts: Truck employment numbers overall decreased in July to 1.604 million people, marking two consecutive months of losses.

- Employment for general freight trucking, long-distance, truckload, which best represents our members, decreased 0.3%, or 1,900 jobs, month-over-month.
- It is 1.5%, or 8,200 jobs, higher year-over year, and 6.2% above the 5-year trend.
- Specialized freight trucking, long-distance, which represents flatbed, reefers, and other equipment types, increased 0.5%, or 700 jobs, month-over-month.
- This figure is 2.4%, or 2,400 jobs, higher year-over-year, and is 0.8% above 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.

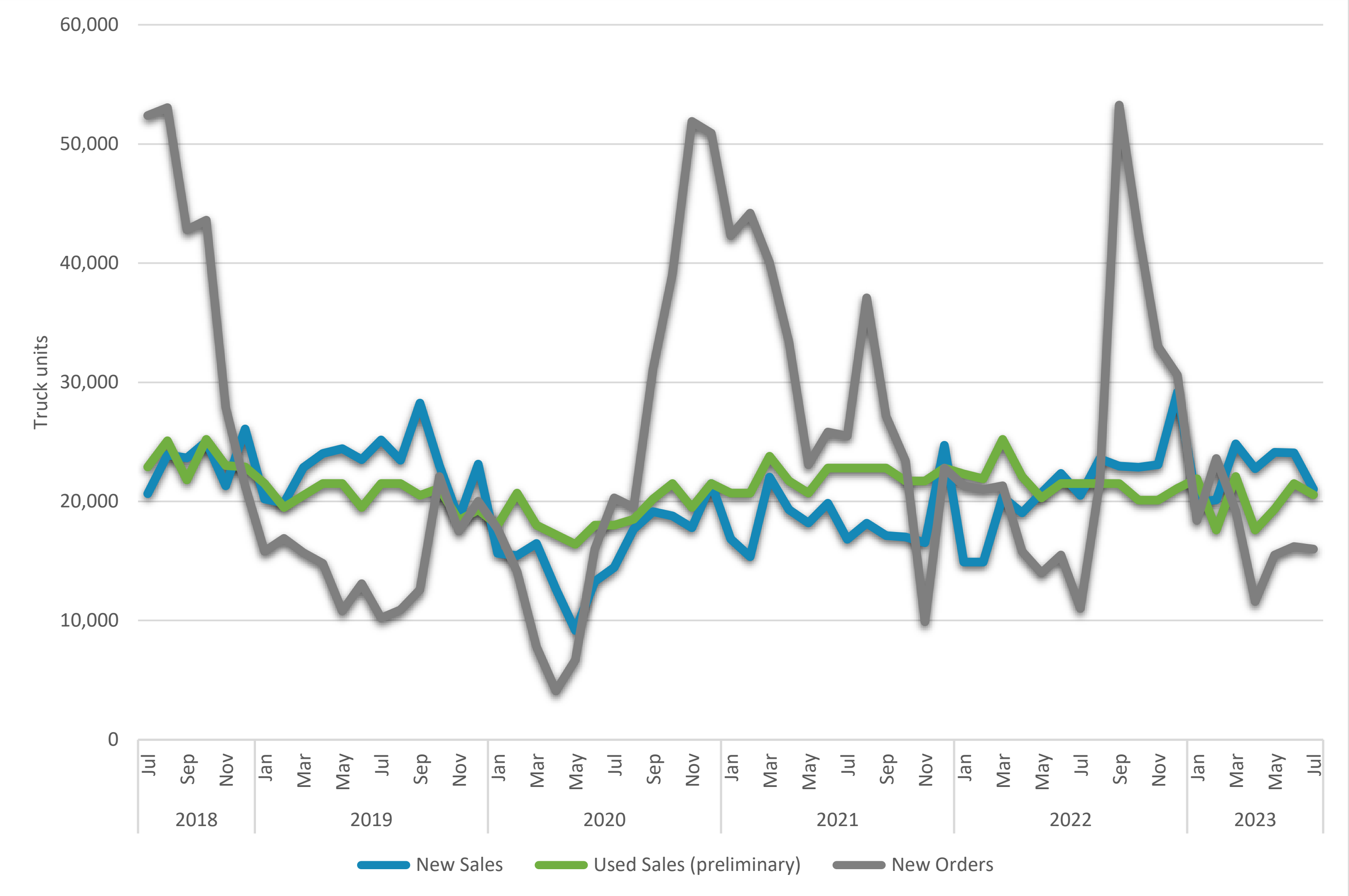
Why it matters: Class 8 orders and sales data will help an owner-operator to see both the demand for trucks and current truck capacity.

- 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 decreased 12.7% in July to 21,021, and are 2.5% higher year-over-year, while new orders decreased 1.2% to 16,000, which is stronger than expected.

- Preliminary used sales figures also declined 4.4%, or 946 units, in July to 20,554, and are down 4.4% compared to last year. Used sales are 2% lower than the 5-year average.
- New sales eclipsed used sales by 467 in July.

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 negative sign, but the amount by which new sales are surpassing used sales is decreasing.



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.

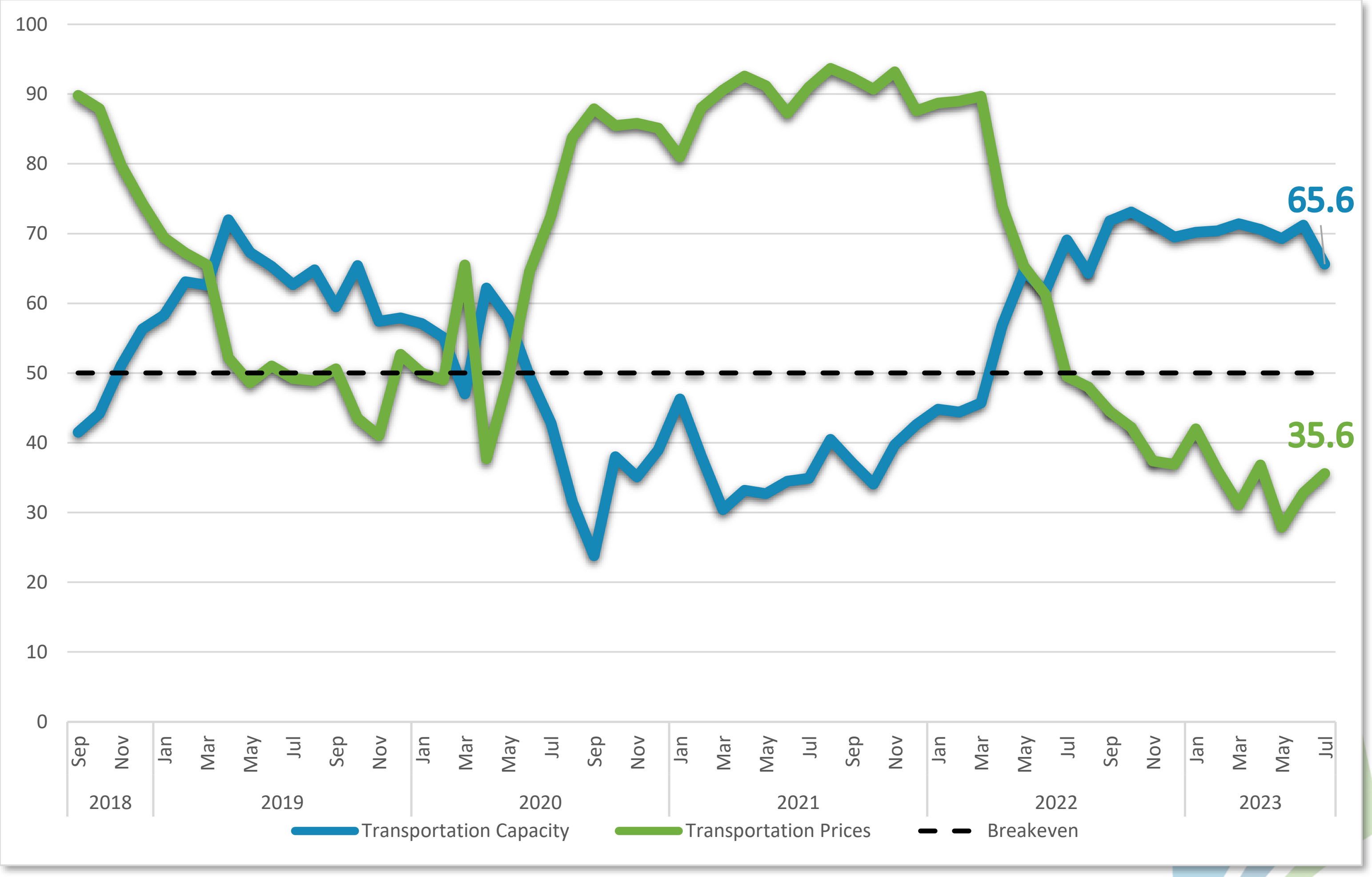
- When the two curves depicted in this chart invert, it signals bad news for freight rates.

Our thoughts: The LMI overall decreased 0.2 points to 45.4, marking the lowest reading for the index in its history for the fifth straight month. This is now the third time the LMI has ever moved into contraction territory.

- Transportation prices declined to their slowest rate since April.
- Prices increased 8.5% month-over month to 35.6, and is 45% lower year-over-year, when the index read 65.3.
- Transportation capacity declined 7.9% to 65.6, which is 44% higher year-over-year.

Aggregate logistics prices, which includes inventory costs, warehousing prices, and transportation prices, increased 2.3% and are tracking below 2019 levels.

- Inventory levels actually reached their lowest reading in the history of this metric, which could be a positive signal to come. However, it seems to be in contradiction with other data.



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.

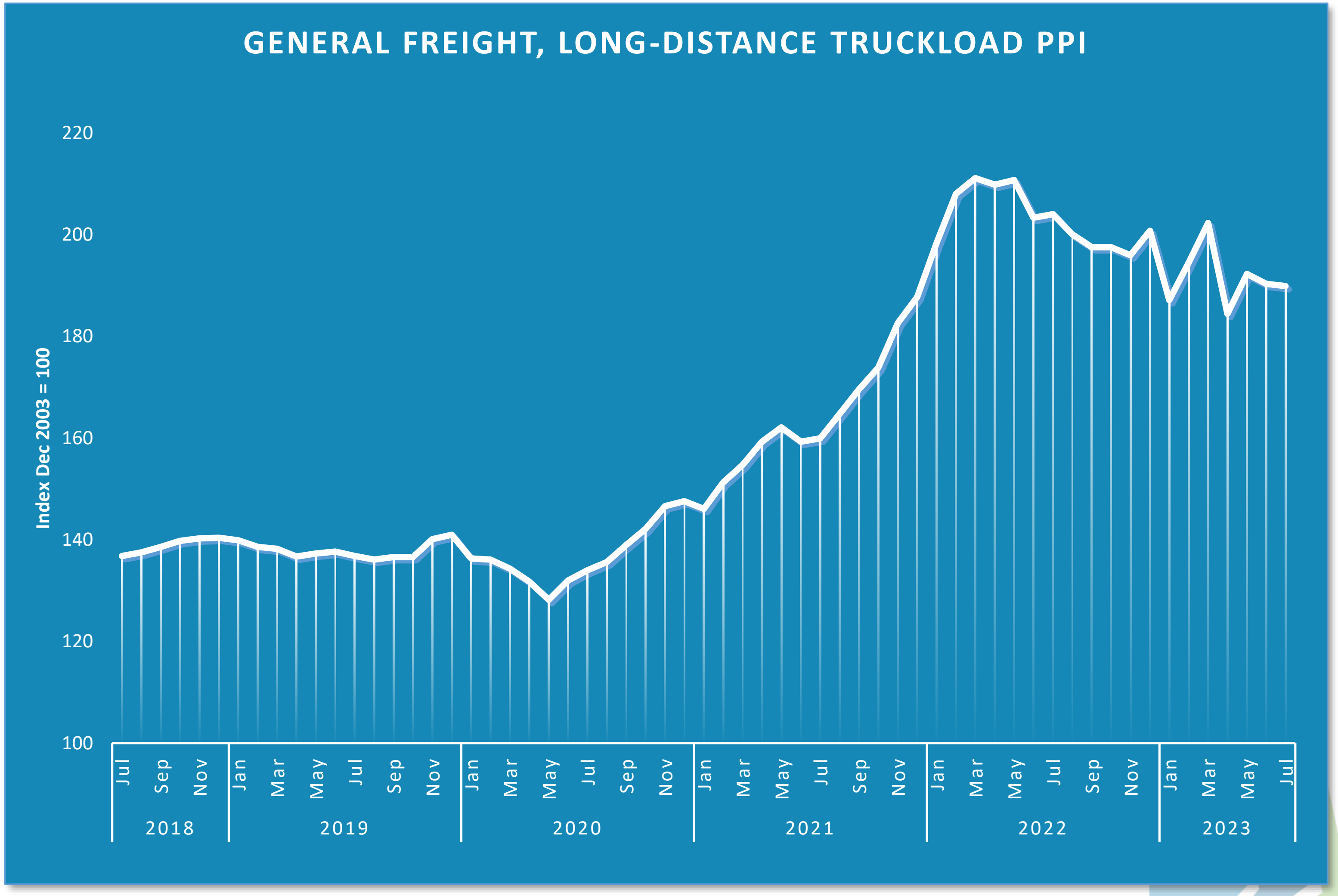
- One index focuses on long-haul, truckload carriers.
- This index shows how much carriers are charging their customers.

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 in July and has decreased 9.9% since its high in May 2022. This could be a welcome signal actually as we wait for contract rates to drop under or close spot rates.

- The long-haul PPI decreased 0.4% to 189.9, month-over-month, after the BLS re-adjusted the figure for June.
- The PPI is 6.9% lower year-over-year, but 17.2% above the 5-year trend.

Though the PPI continues to decrease, it appears spot rates at least have found a floor. We're 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 as back-to-school shopping begins, while others are looking to 2024 before seeing meaningful increases in rates.



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

Costs: Diesel Fuel

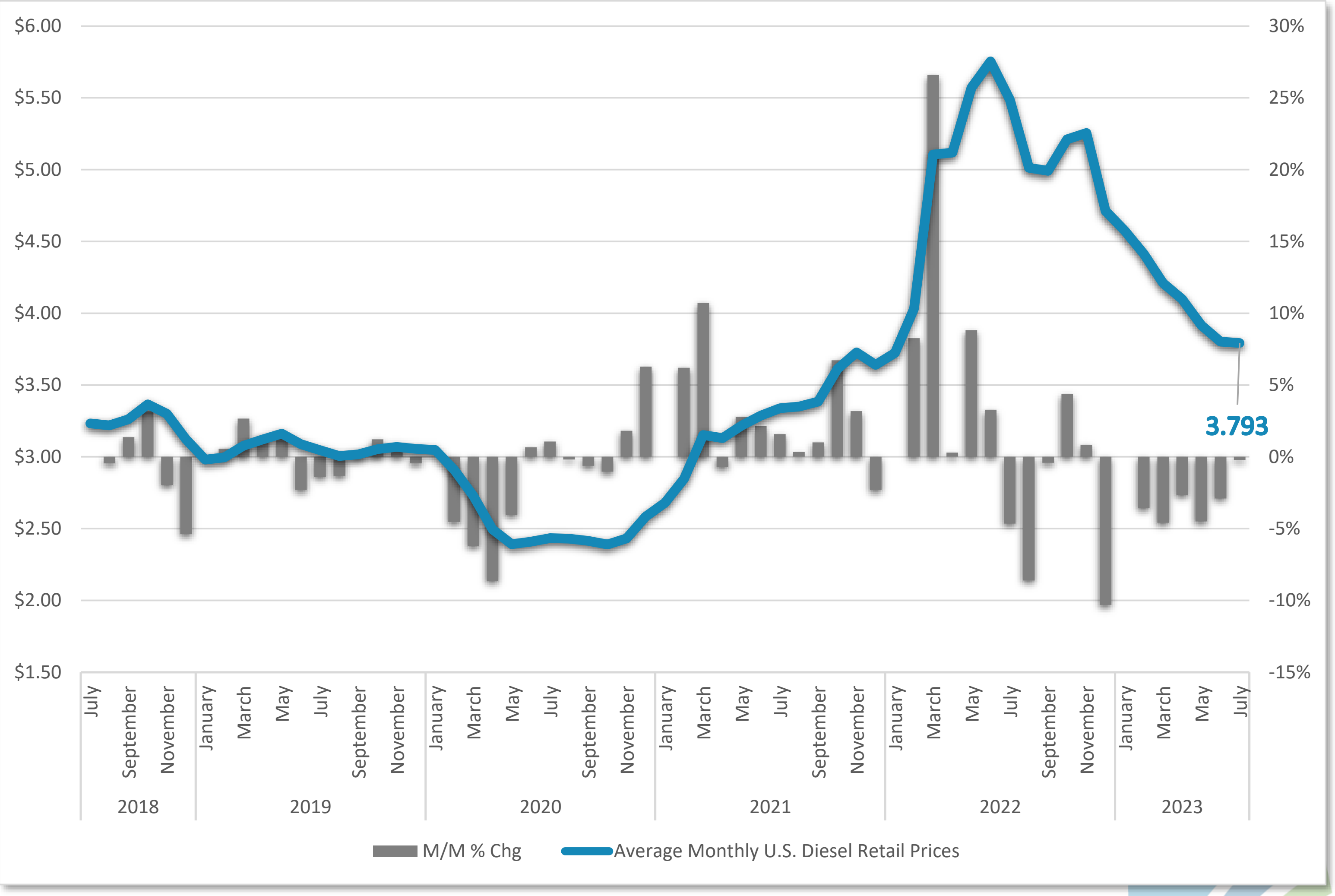
The big picture: The U.S. Energy Information Administration (EIA) tracks the weekly changes in on-highway diesel fuel prices throughout the country.

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 a penny in July marking the eighth straight month of decline. Prices through July have declined $1.96 per gallon since the high in June 2022.

- The average price for diesel fuel decreased 0.2% month-over-month to $3.79 per gallon, which is the just the third time we have seen prices under $4.00 since January 2022.
- The average diesel price is 31% lower year-over-year, but 8%, or $0.27, 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.

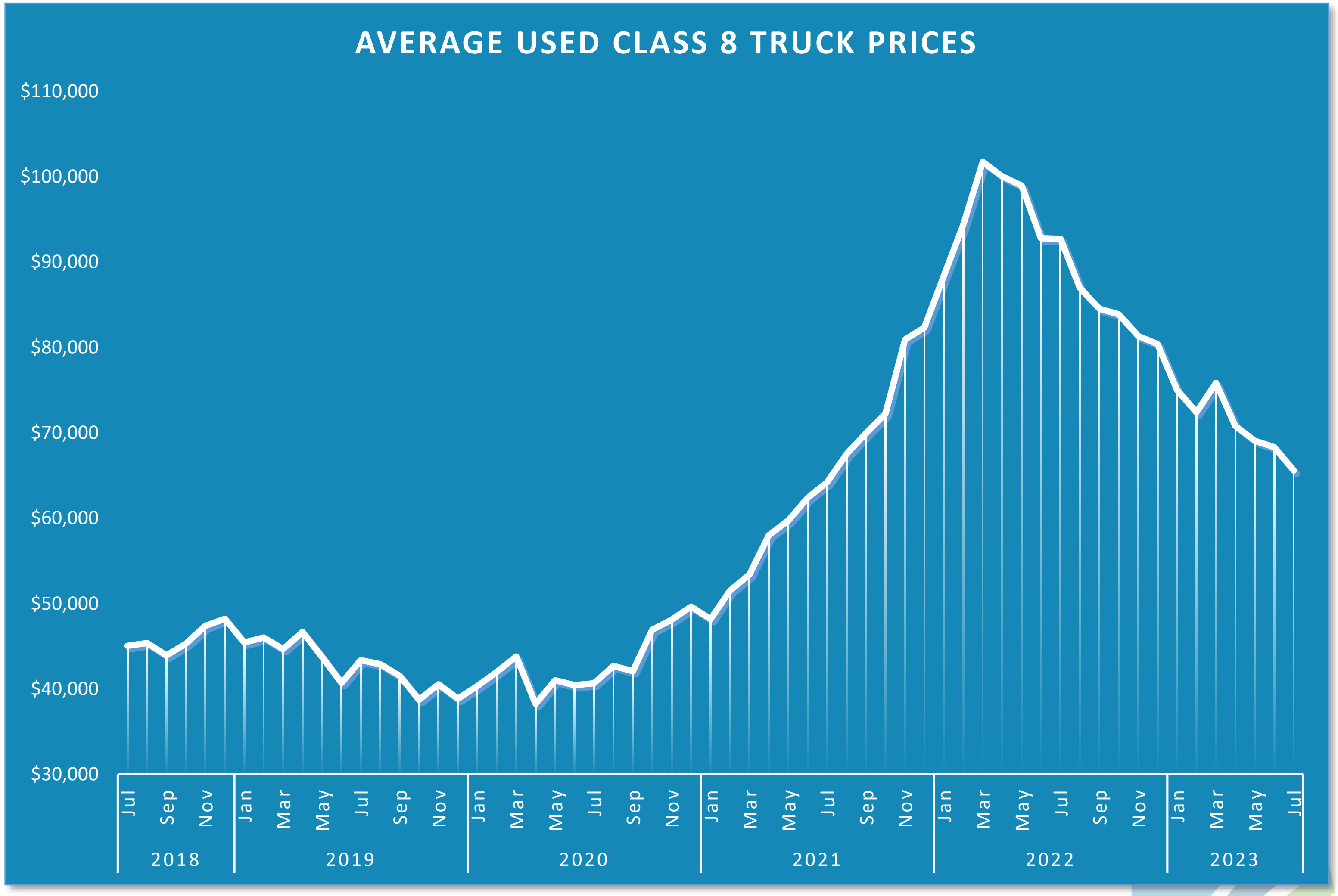
- As spot rates turn upward, the number of individuals seeking to become an owner-operator also increase, pushing used prices higher.

Our thoughts: Preliminary used truck prices dropped in July. While they are 36% below the high in March 2022, they are still significantly higher than their pre-pandemic average of $42,000.

- Used Class 8 truck prices declined 4%, or $2,733, to approximately $65,583, pausing marking 15-months out of 16-months of decline.

- This is 29.3% lower year-over year, but 9% higher than the 5-year trend.

According to Steve Tam, vice president at ACT, historically, “July is the fourth slowest sales month of the year, about 5% below average, pretty much explaining all the losses the industry experienced in June.” 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

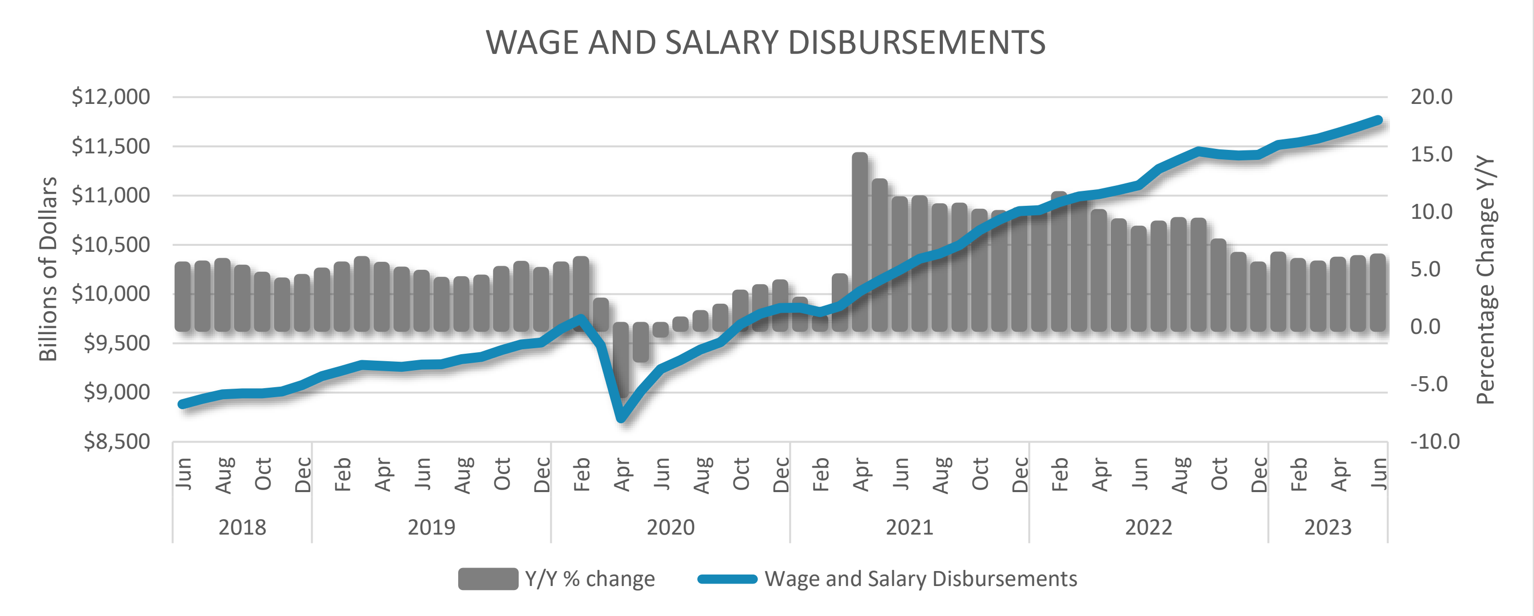
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so to does business and shipping activity.

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

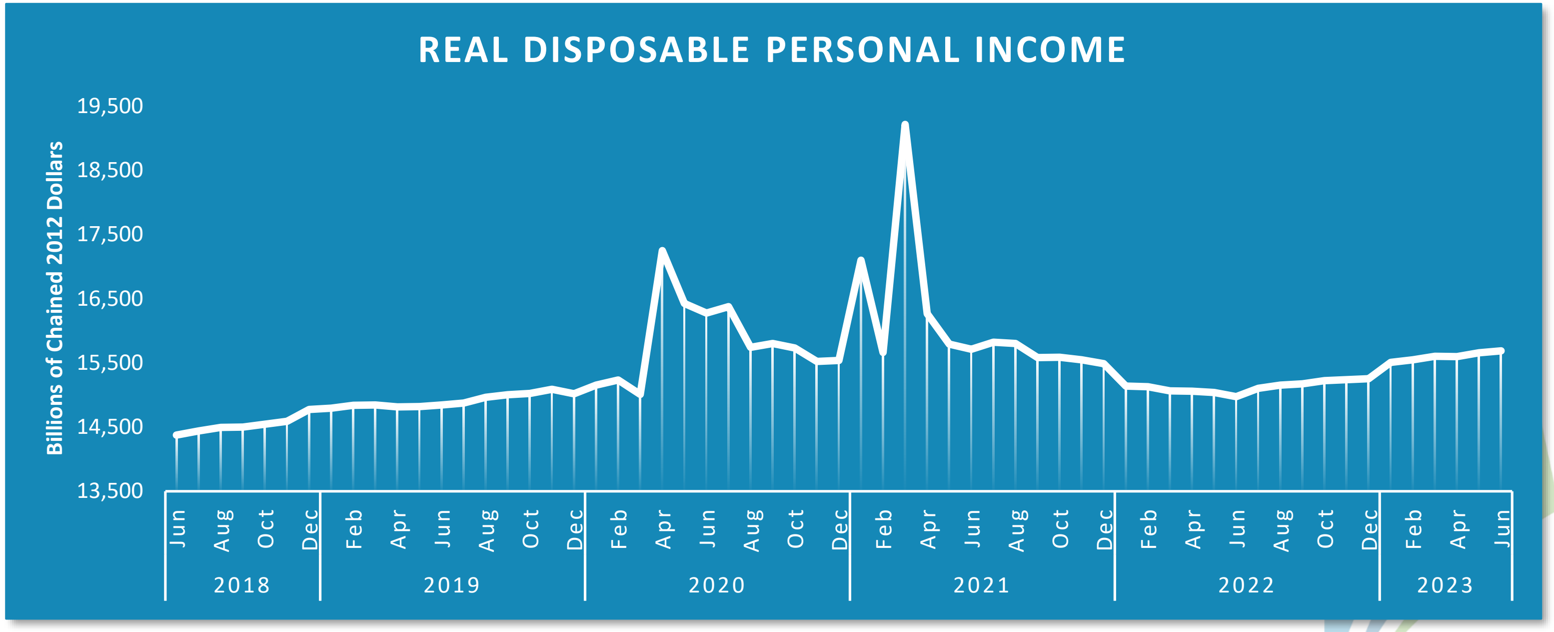
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

Our thoughts: Wages and salaries continue to grow, which has helped to keep disposable income elevated. In fact, wages are starting to outpace inflation. However, year-over-year increases are beginning to slow.

- Wages and Salary disbursements grew 0.6%, or $66.7 billion, month-over-month in June.
- In terms of year-over-year growth, wages and salary disbursements are 5.9% higher. However, Y/Y growth was 8.4% this time last year.
- Real disposable income, which is adjusted for inflation, increased 0.2% month-over-month to $15.684 trillion, and is $710.8 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.

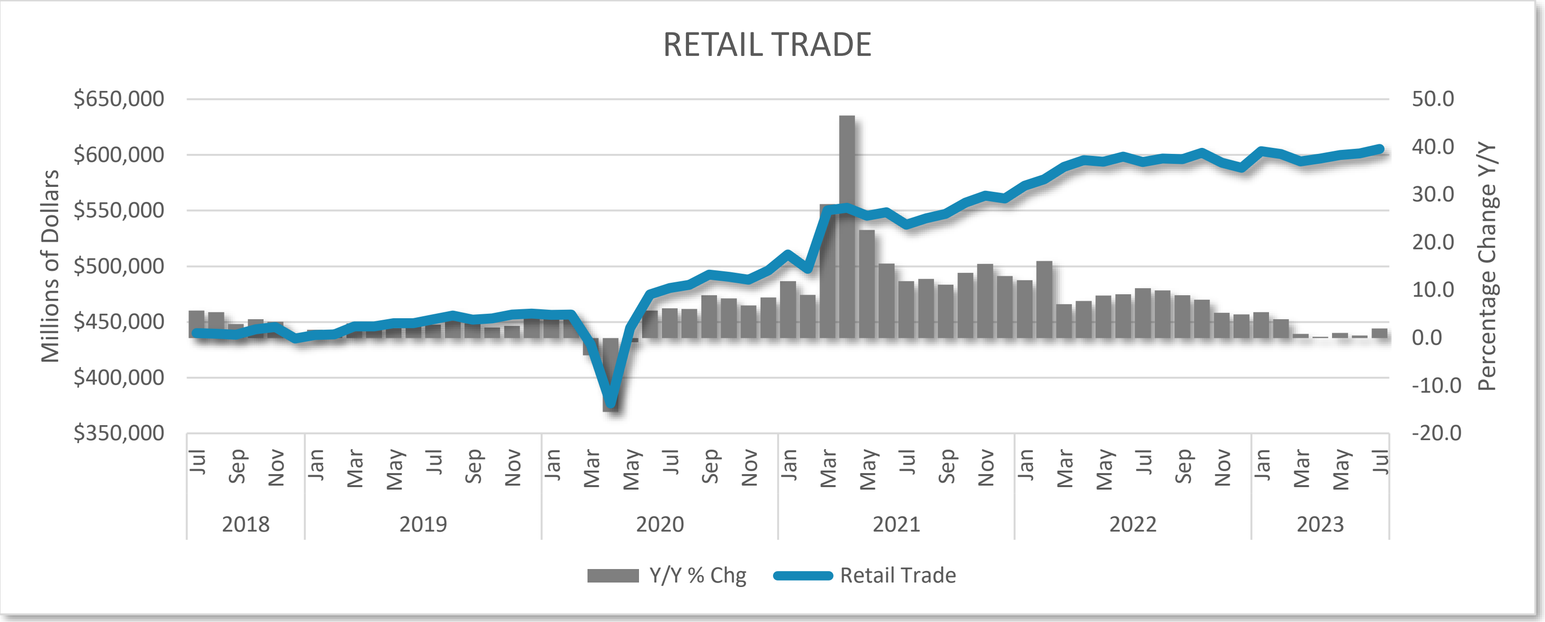
Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- 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 continue to purchase goods, albeit at a much slower pace, even despite high inflation.

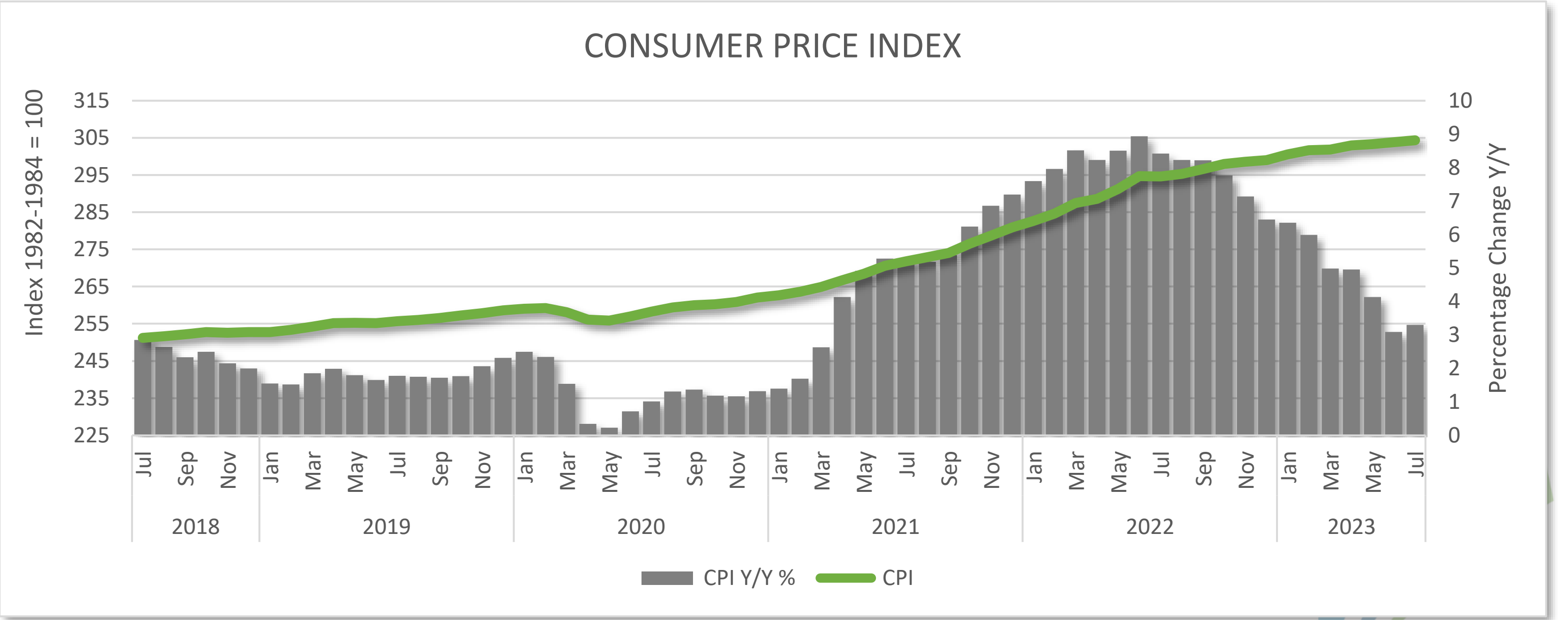
- Retail trade increased 0.6%, or $3.8 billion, month-over-month in July to $605.2 billion, and is 2.0%, or $11.8 billion, higher year-over-year.
- CPI increased slightly by 0.2% to 304.3, which is 3.3% higher than it was a year ago. Y/Y growth continues to decline, which is a good sign, and according to some CPI measures, inflation is actually under the FED’s 2% target.

Core CPI, which excludes food and energy, declined 3.2% month-over-month to 4.7%. Although food CPI has dropped since its high in August 2022, the services CPI remains stubbornly high at around 6.1%



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.

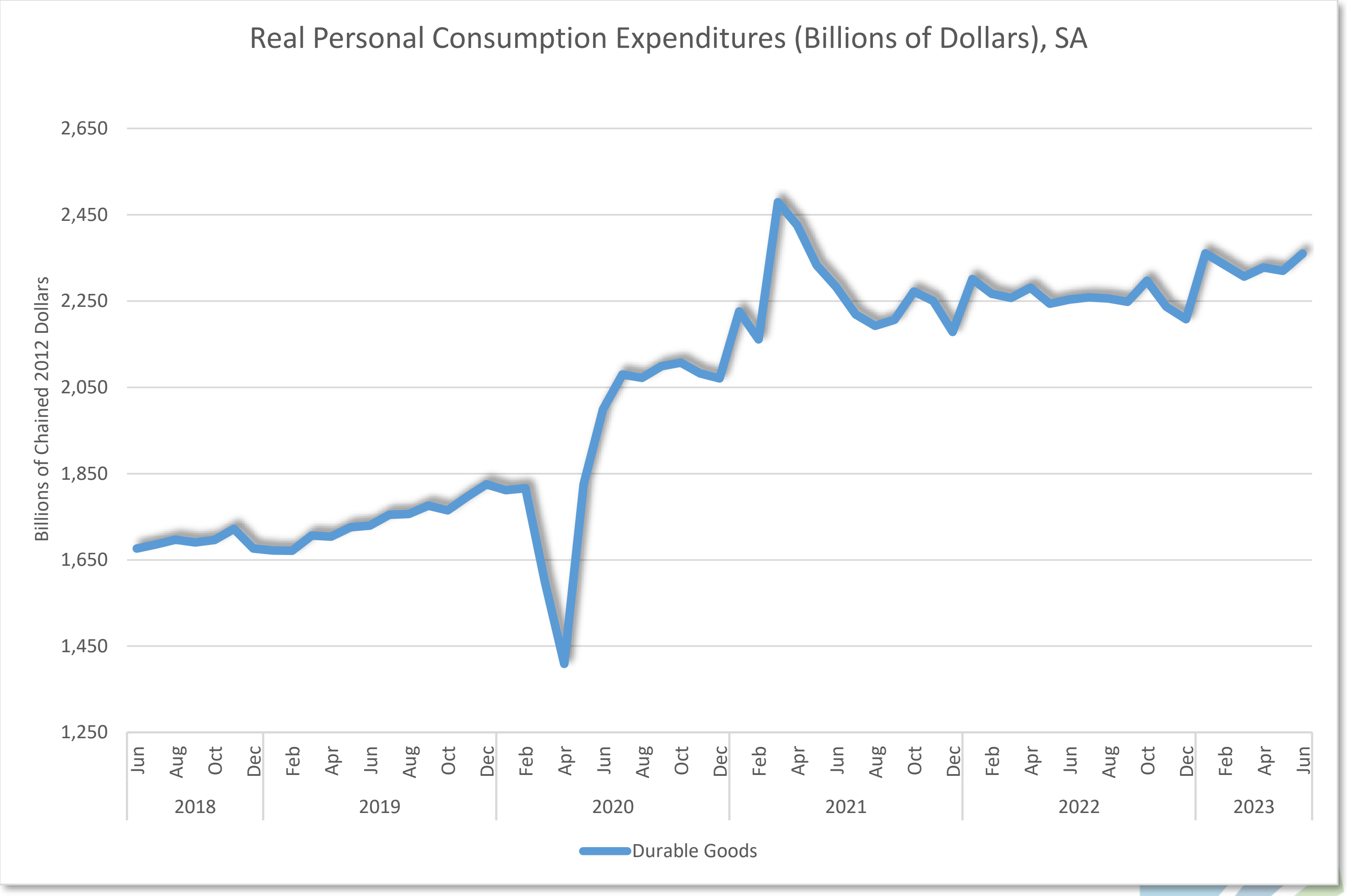
- The PCE measures a broad spectrum of consumer spending for a period of time.

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 June. PCE levels have remained virtually flat since January 2022.

- Consumer spending for durable goods increased 1.7% to $2.36 trillion, and is 4.7%, or $106.9 billion, higher year-over-year and 16.1%, or $326.6 billion, above the 5-year trend.
- Spending for non-durable goods increased 0.4% to $3.337 trillion, which is 0.6% higher Y/Y and 5.5%, or $175 billion, above the 5-year trend.
- Spending on services rose 0.1% to $8.926 trillion.



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

Manufacturing: New Orders: Total Manufacturing

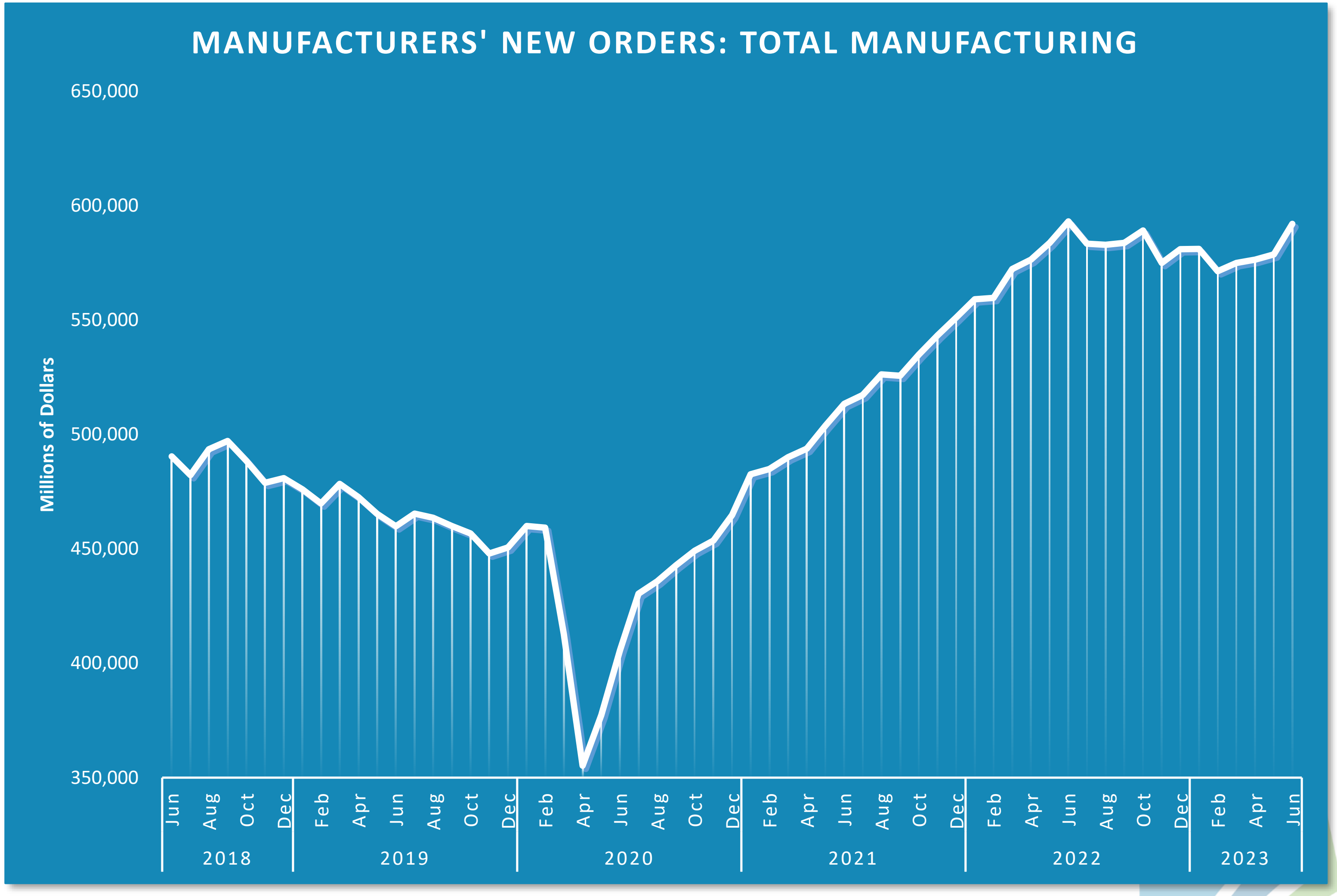
The big picture: Manufacturing new orders are an important economic indicator. They signify an overall direction of the market and economy.

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 June, marking three straight months of growth. This data provides mixed signals as some analysts believe we're in a manufacturing recession.

- Total manufacturing increased 2.3%, or $13.4 billion, month-over-month to $592 billion.
- Total manufacturing is $1.1 billion, or 0.2%, lower year-over year and $88.7 billion, or 18%, above the 5-year trend.
- New orders for nondefense capital goods excluding aircraft, given the volatility of new orders in the aircraft sector, increased 0.1% to $73.9 billion, which is a positive signal.



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.

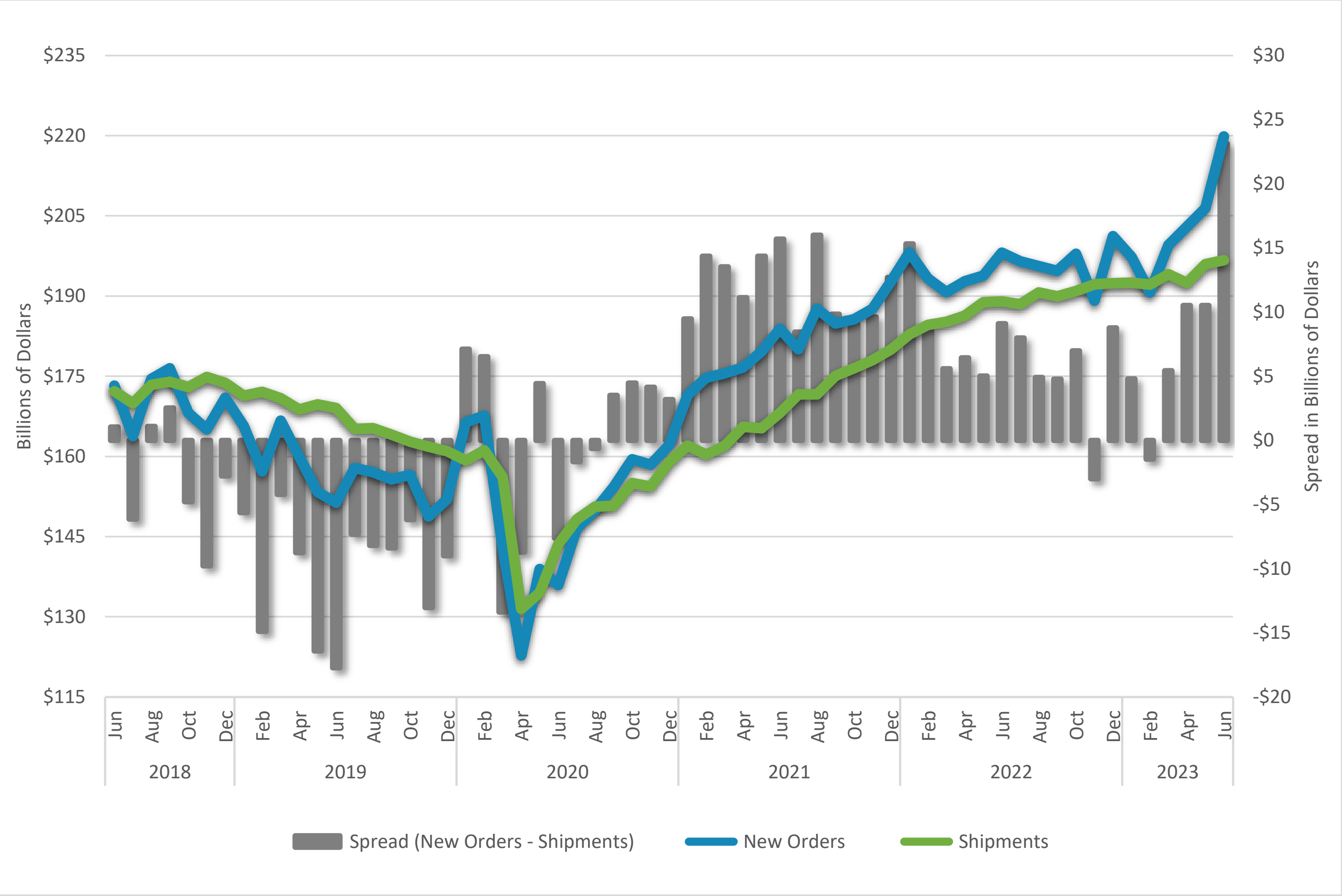
Why it matters: When unfilled new orders outperform shipments for unfilled orders, backlogs increase and we see growth in manufacturing activity. The reverse is also true.

- 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 June for the four straight month. While we typically see a fall in new orders for make-to-order products during manufacturing downturns, this hasn't happened yet. This might help to generate some freight in the meantime.

- New orders increased 6.5% to $219.8 billion in June, and are 11%, or $21.7 billion, higher year-over-year.
- Shipments increased by 0.4% to $196.7 billion.

The spread between new orders and shipments jumped significantly from $10.5 billion to $23.1 billion, which is a good signal for future freight demand in at least some sectors.



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.

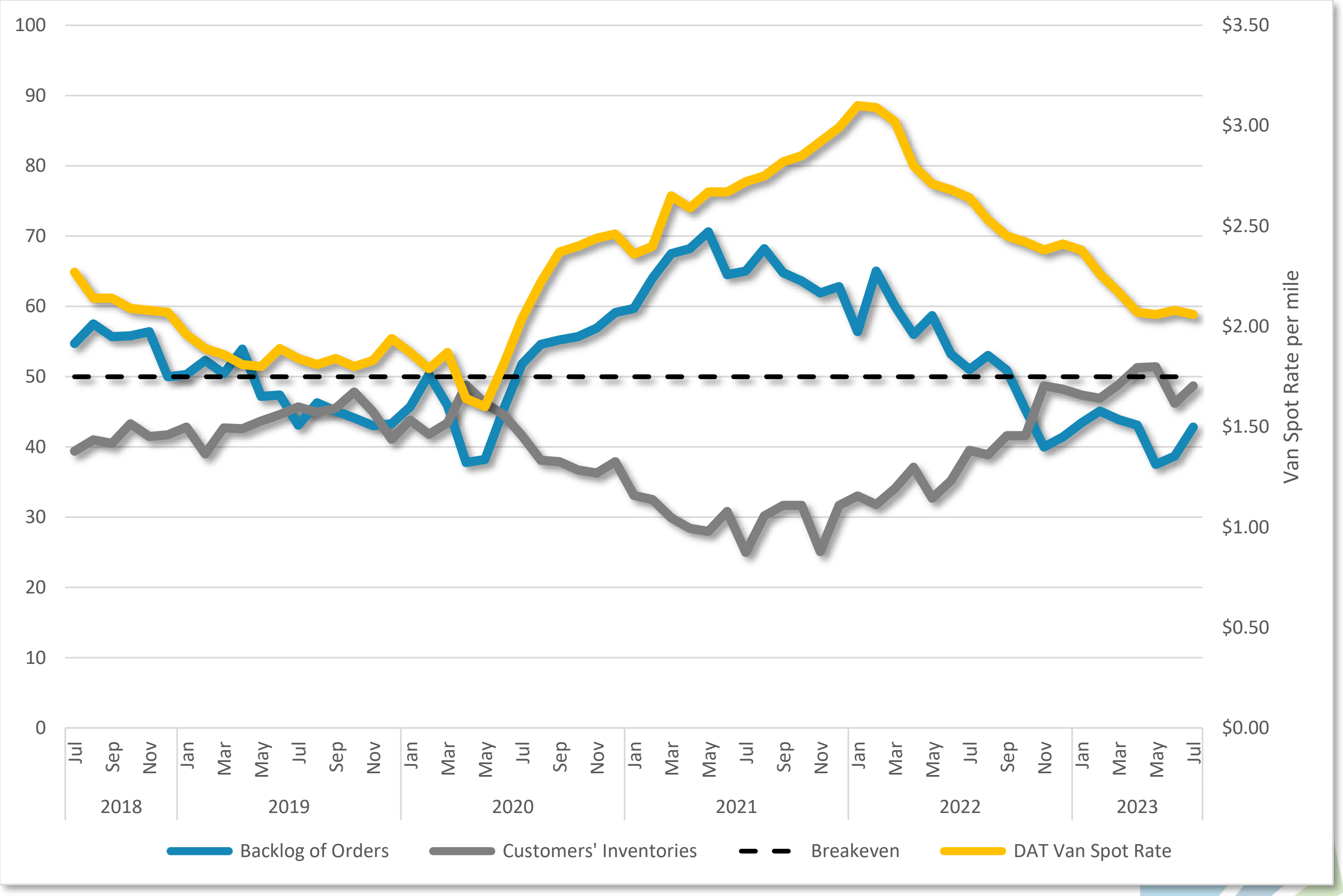
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart.

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

Our thoughts: Backlogs jumped up in July after dropping steeply over the last several months.

- Backlogs increased 10.6% month-over-month to 42.8, which has been in contraction territory for ten straight months. Backlogs are 16% lower year-over-year.
- Customers' inventories increased 5.4% to 48.7, but are still in contraction territory, and are 23% higher year-over-year.

The bottom line: According to ISM, the U.S. manufacturing sector shrank again. The July composite index reading reflects companies continuing to manage outputs down as order softness continues.



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.

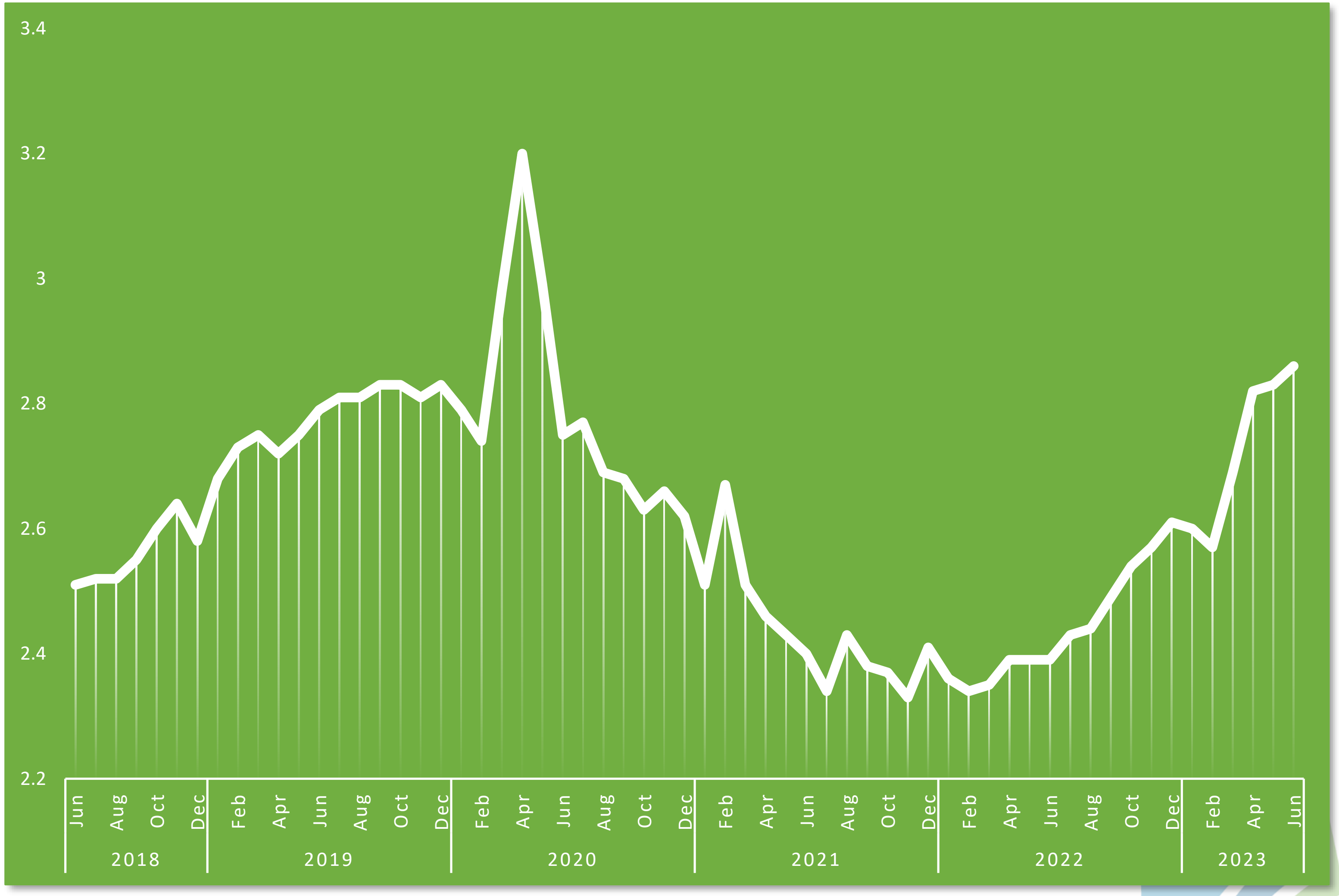
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

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

Our thoughts: Inventory levels continue to rise in this sector, which will be a headwind for demand, albeit at a much slower pace than in April.

- The inventories-to-sales ratio increased 1.1% month-over-month in June to 2.86.
- The ratio is 19.7% higher year-over-year.

One respondent to ISM's survey in this sector wrote, "Suppliers are starting to reach out looking for new business. Softening is occurring in the China 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.

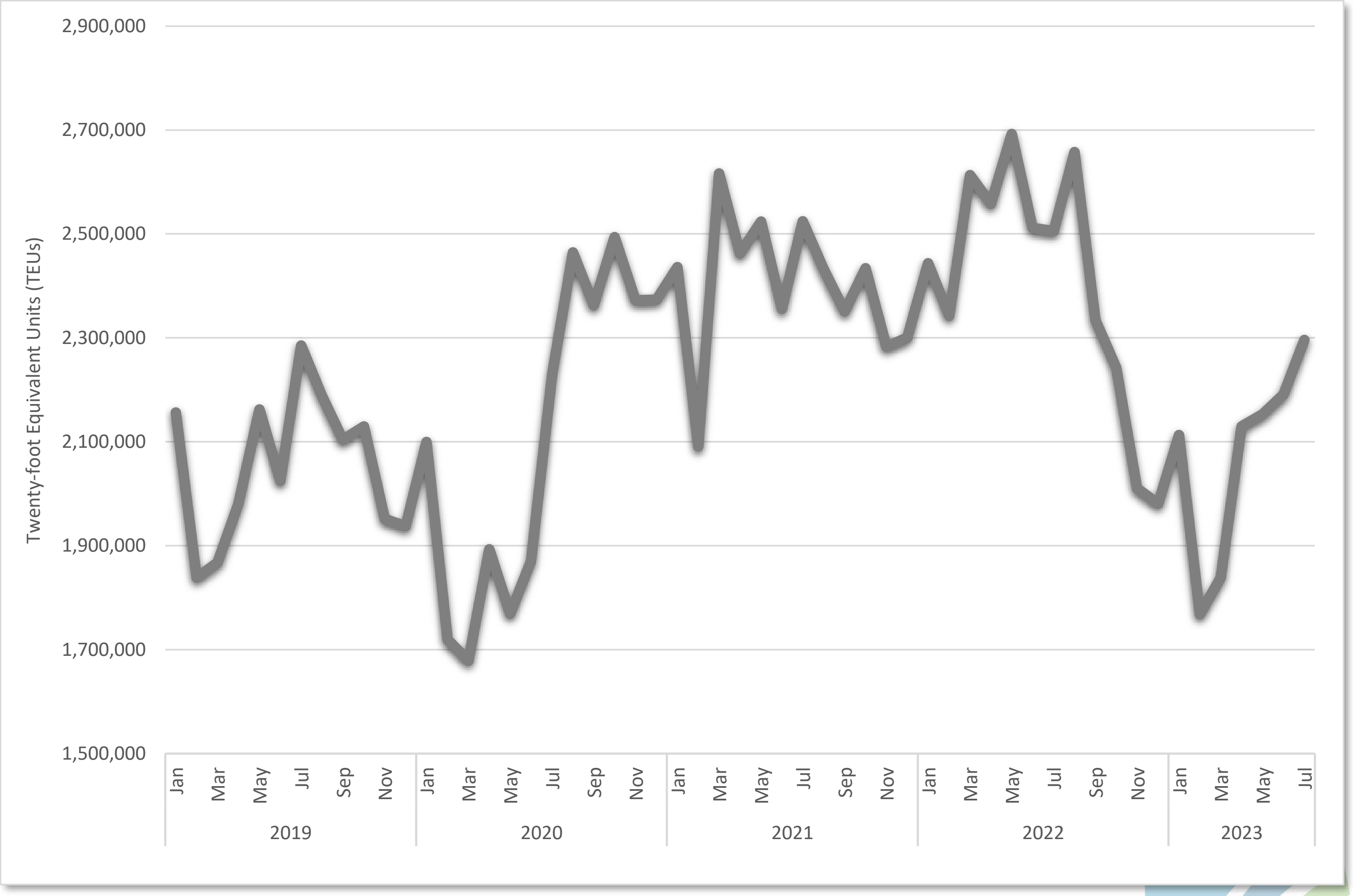
- The U.S. trade deficit tends to worsen when the economy is growing strongly.
- **Yes, but** exports and imports are not a large driver of freight movement overall compared to manufacturing.

Our thoughts: Though imports are down year-over-year, they are actually quite healthy as they are in harmony with the pre-COVID "normal".

- Imports increased 4.8%, or 105,000 TEUs, month-over-month in July to 2.29 million TEUs.
- Imports are 4,311 TEUs, or 0.2%, lower year-over-year, and 3% above the 5-year trend.

The bottom line: According to FreightWave's Greg Miller, "The volume of containerized imports to the U.S. is normal and healthy. There is no sign yet in the import data of consumer weakness or an impending recession."

- **Yes, but** don't expect current import volumes to generate enough demand to pull the trucking industry out of its' freight recession.



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.

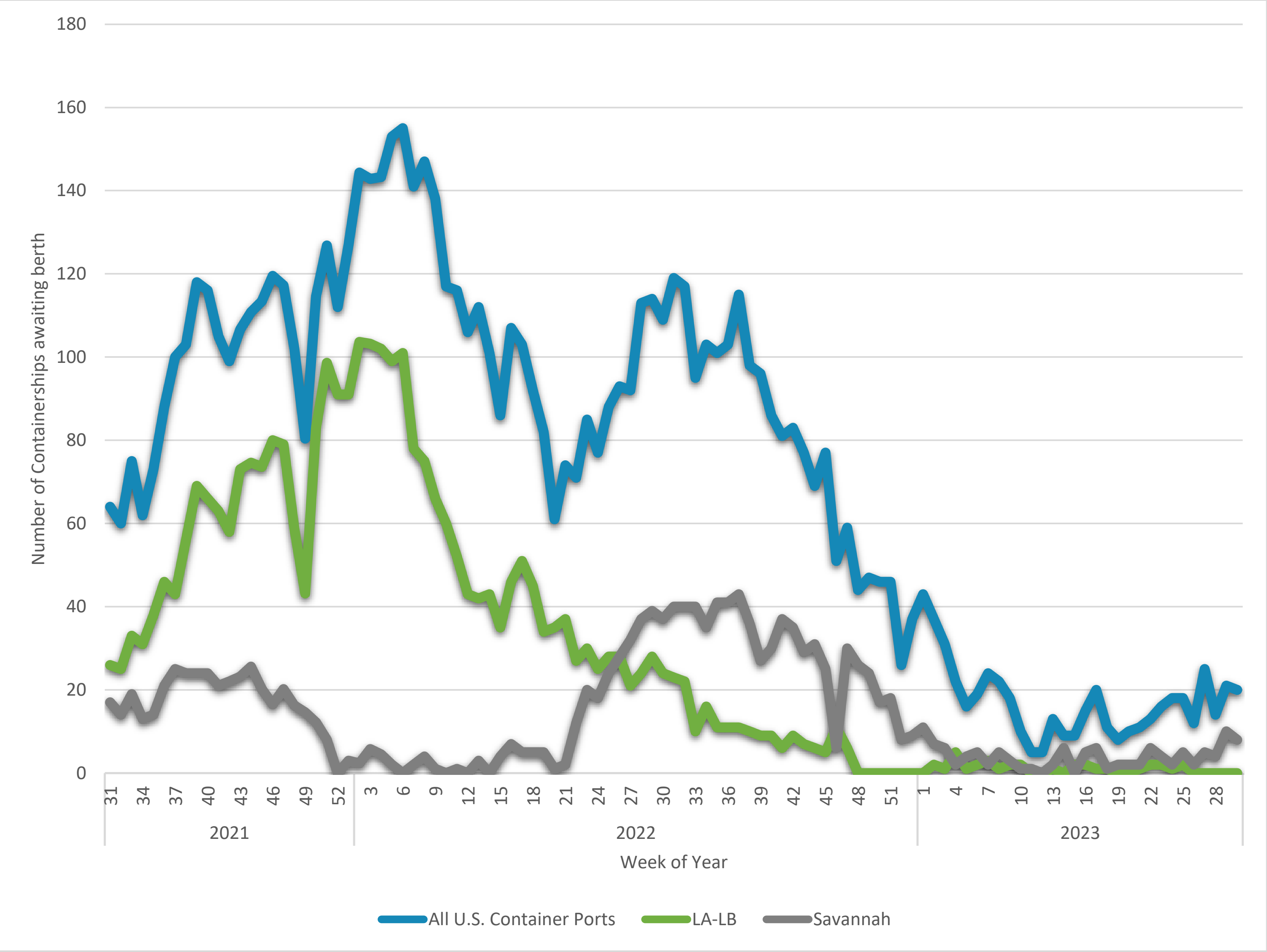
Why it matters: The number of containerships awaiting berth highlighted two issues:

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 86% since January 2022, but they have increased to over 20 containerships of late.

[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 increased from 60 days to 62 days, matching the fastest time since late November 2020.
- The far east westbound (FEWB) cargo decreased to 69 days from 70 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.

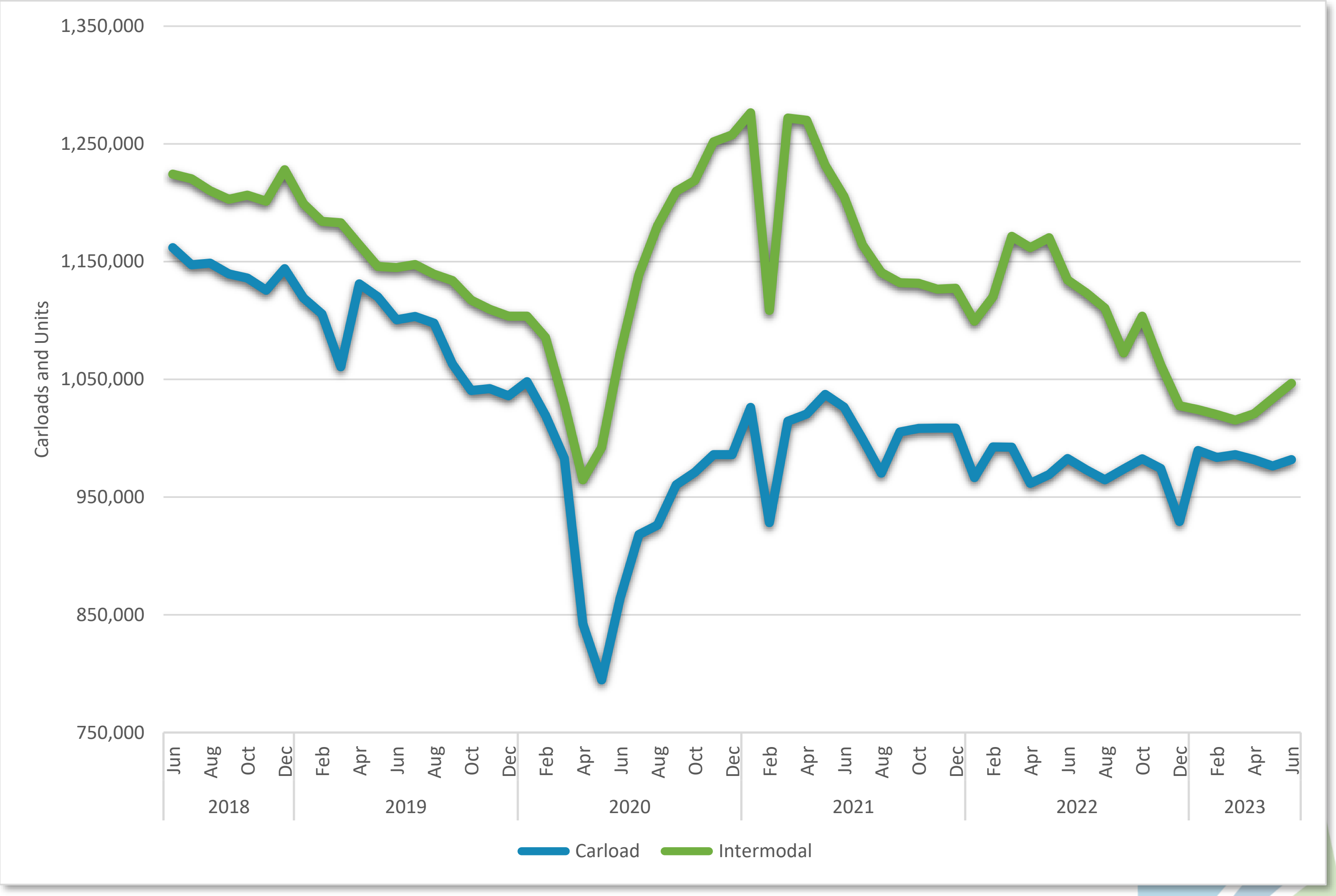
- While the rail and truck industries often compete with each other, they also work hand in hand.

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: According to the Journal of Commerce, intermodal rail prices are 30% below trucking. But lower import volumes and a shift from more west coast freight, which relies more heavily on intermodal to move freight, to the east coast, which uses a lot more trucks, has hurt the railroads.

- Carloads ticked upward 0.5% month-over-month to 981,800, and are up 1.3%, or 12,774 carloads, year-over-year.
- Intermodal increased 1.3% to 1.046 million, and is down 10.6%, or 123,818 loads, year-over-year.
- Both carloads and intermodal are below their 5-year trend line by 3.4% and 8.2% respectively.



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

Market Summary

Volume

Soft

Demand

Soft

Capacity

Loose

Rates

Flat

Operating Costs

High

Future Outlook

Negative

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