OOIDA Foundation

RESEARCH
SAFETY
EDUCATION

August 2023

MARKET UPDATE

Table of Contents

Click here to jump to section

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

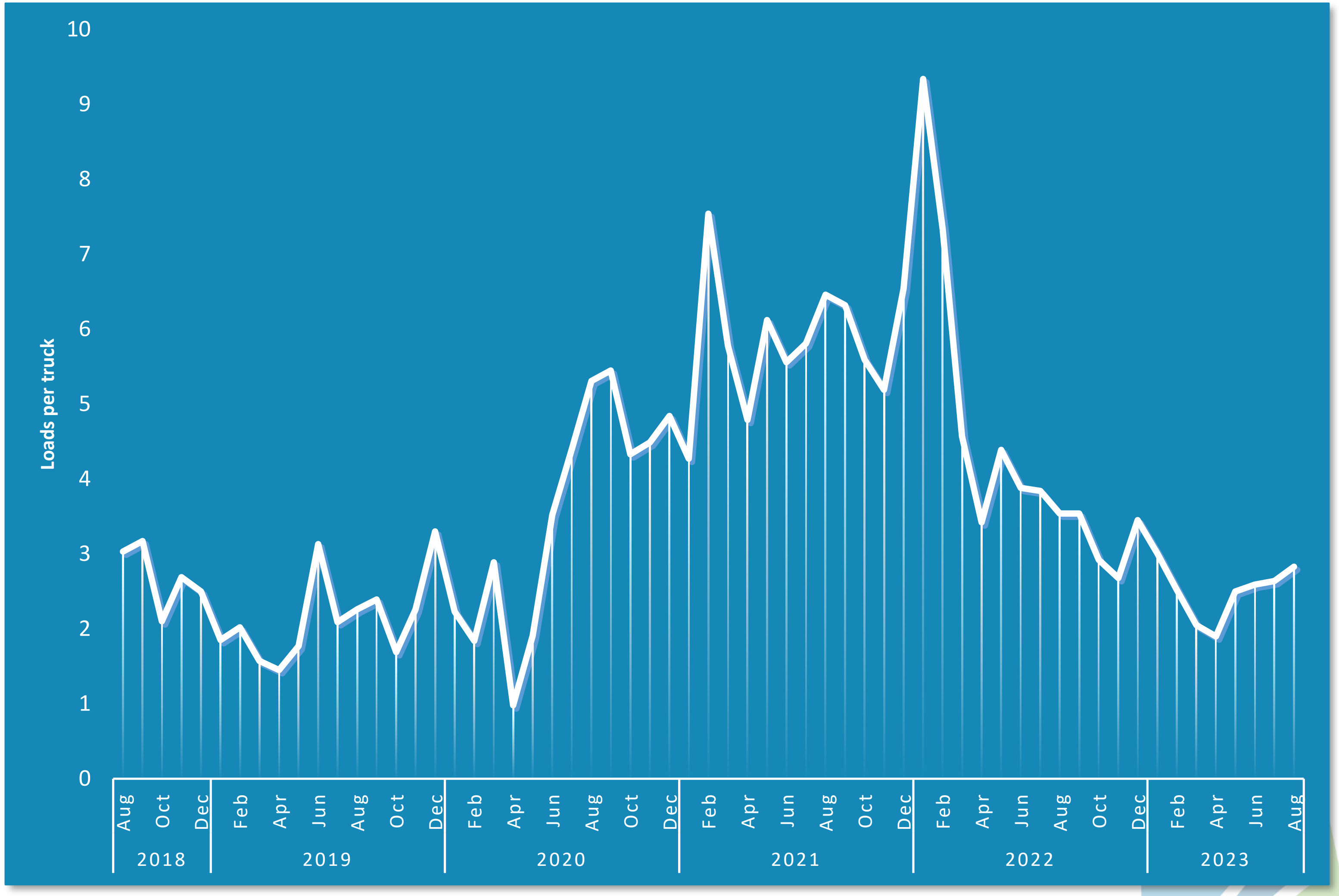
Why it matters: Changes in the ratio often signal impending changes in rates.

Our thoughts: The Van Load-to-Truck ratio increased in August. Demand typically starts its first of two peaks during this time of year. However, it looks like these peaks might be muted this year.

- The Van Load-to-Truck Ratio increased 7.2% month-over-month to 2.83, marking four consecutive months of increases.

- The ratio is 20.1% lower than last year and 23.1% lower than the 5-year trend.

Load posts are approximately 24% lower than last year, but about 4% higher than 2019 levels. 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

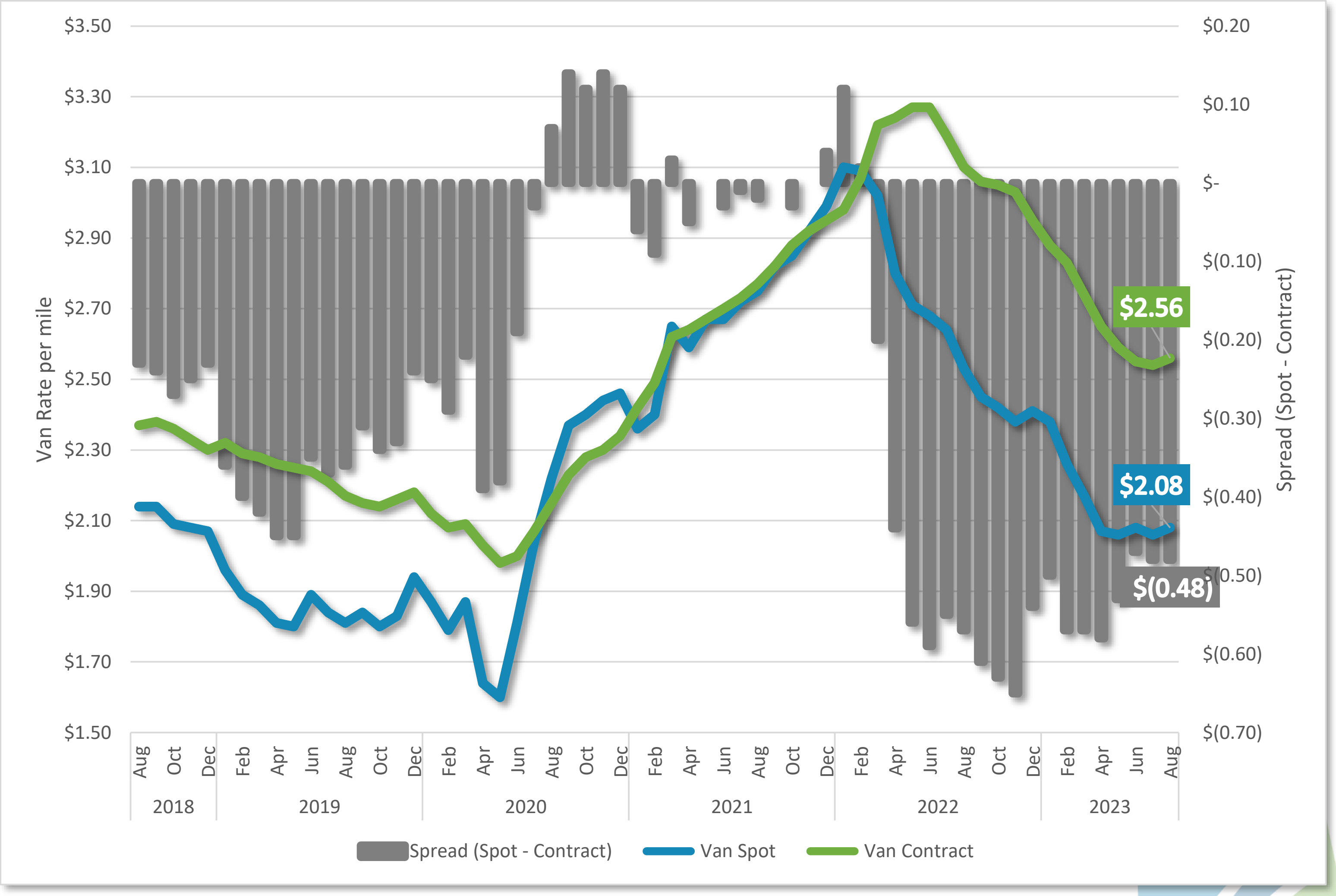
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates ticked up in August. Rates typically increase during this time in the freight season.

- Spot rates for vans increased $0.02 per mile month-over-month to $2.08, wiping out last months decline, and have dropped $0.45 per mile since last year.
- Contract rates also increased by $0.02 to $2.55 per mile, which means the spread between contract rates and spot rates remains flat at $0.48.
- Spot rates are 9% below the 5-year trend, while contract rates are remained flat.

DAT's ratecast model predicts spot rates excluding fuel will tick upward about $0.05 per mile heading into the end of September before falling about $0.06 per mile as move into the middle of October.

- 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.

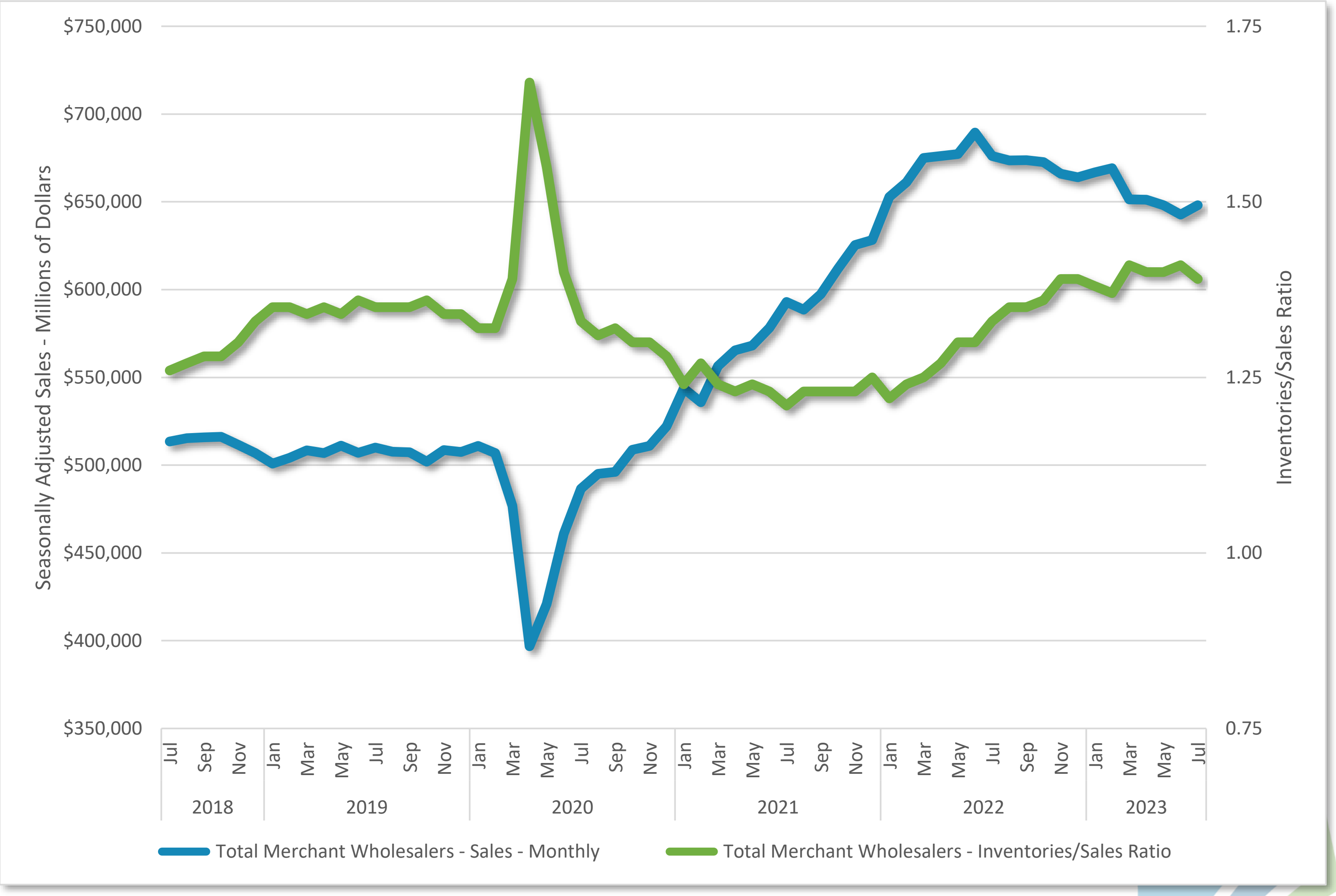
- The U.S Census Bureau reports monthly sales data and inventory-to-sale ratios for different types of industries.

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 lower the inventory that businesses have on hand, the greater they need freight transportation to restock their goods.

Our thoughts: Inventory-to-sales ratios decreased slightly, while monthly sales moved upward in July, which is a positive indicator for truck demand. However, we need to see more months like this before things turn around.

- Sales increased 0.8% month-over-month to $648.1 billion, and have decreased 4.2%, or $28.1 billion, since last year.
- Ratios decreased 1.4% month-over-month to 1.39, and have grown 4.5%, or 0.06, since last year. Ratios are 5% 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

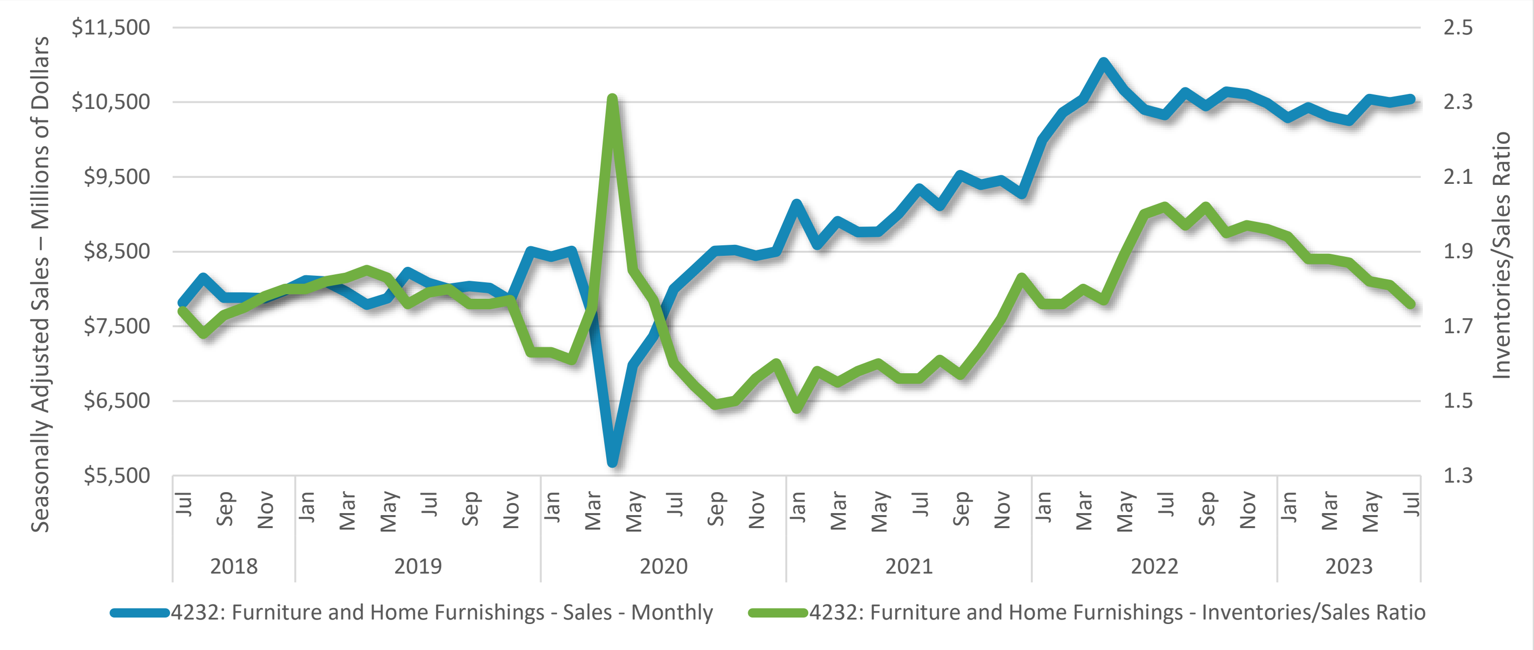
Why it matters: Large appliances and furniture generate freight for the dry van segment of the industry.

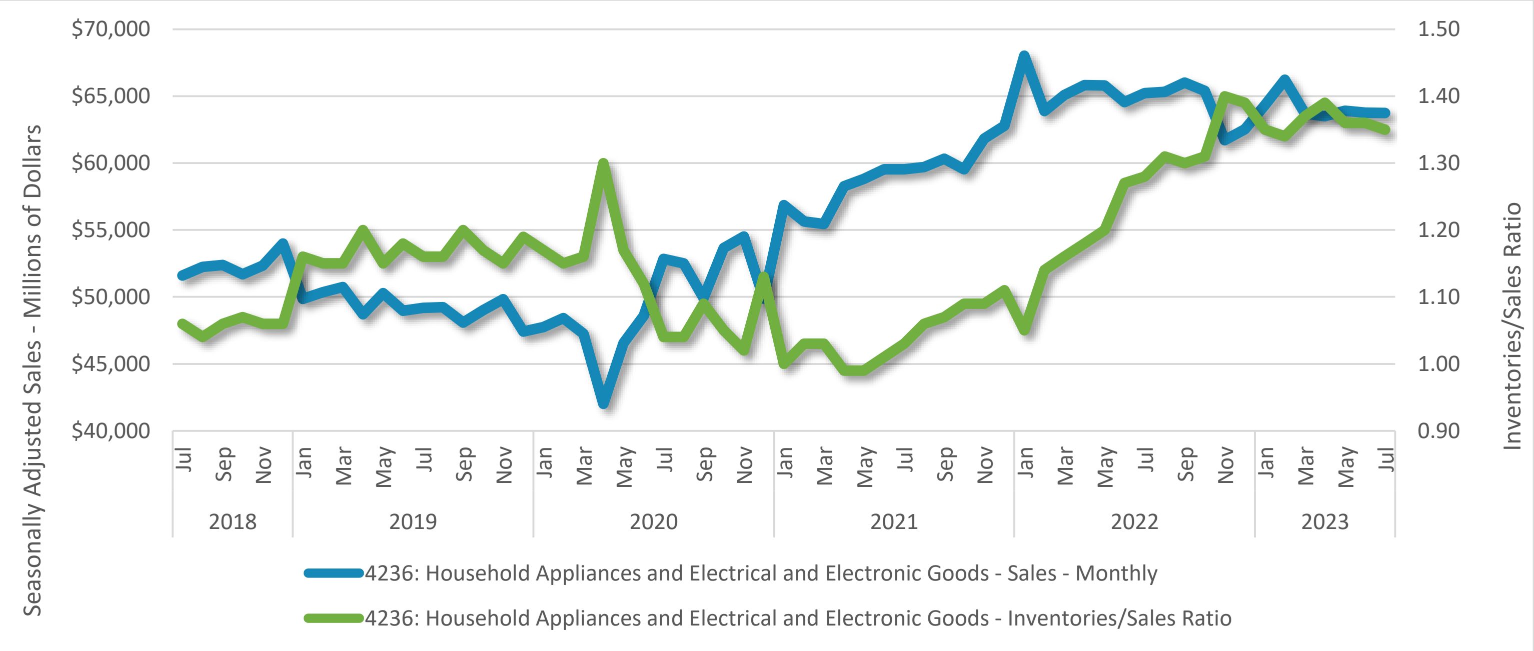
- Sales and inventories can help an owner-operator to see what direction freight demand is headed.

Our thoughts: Inventory-to-sales ratios decreased for both industries, while monthly sales increased for furniture and decreased for household appliances. This is a welcome sign overall, but we need to see inventories right-size much more.

- Furniture Sales increased 0.4% to $10.54 billion, while ratios declined 2.8% to 1.71.
- Compared to last year, sales increased $212 million. But ratios have decreased 13.2%.
- Household appliances sales decreased 0.1%, and ratios declined 0.7% to 1.35.
- Sales are $1.5 billion lower than last year, and ratios have grown 5.5%.

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 continues to outperform 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:

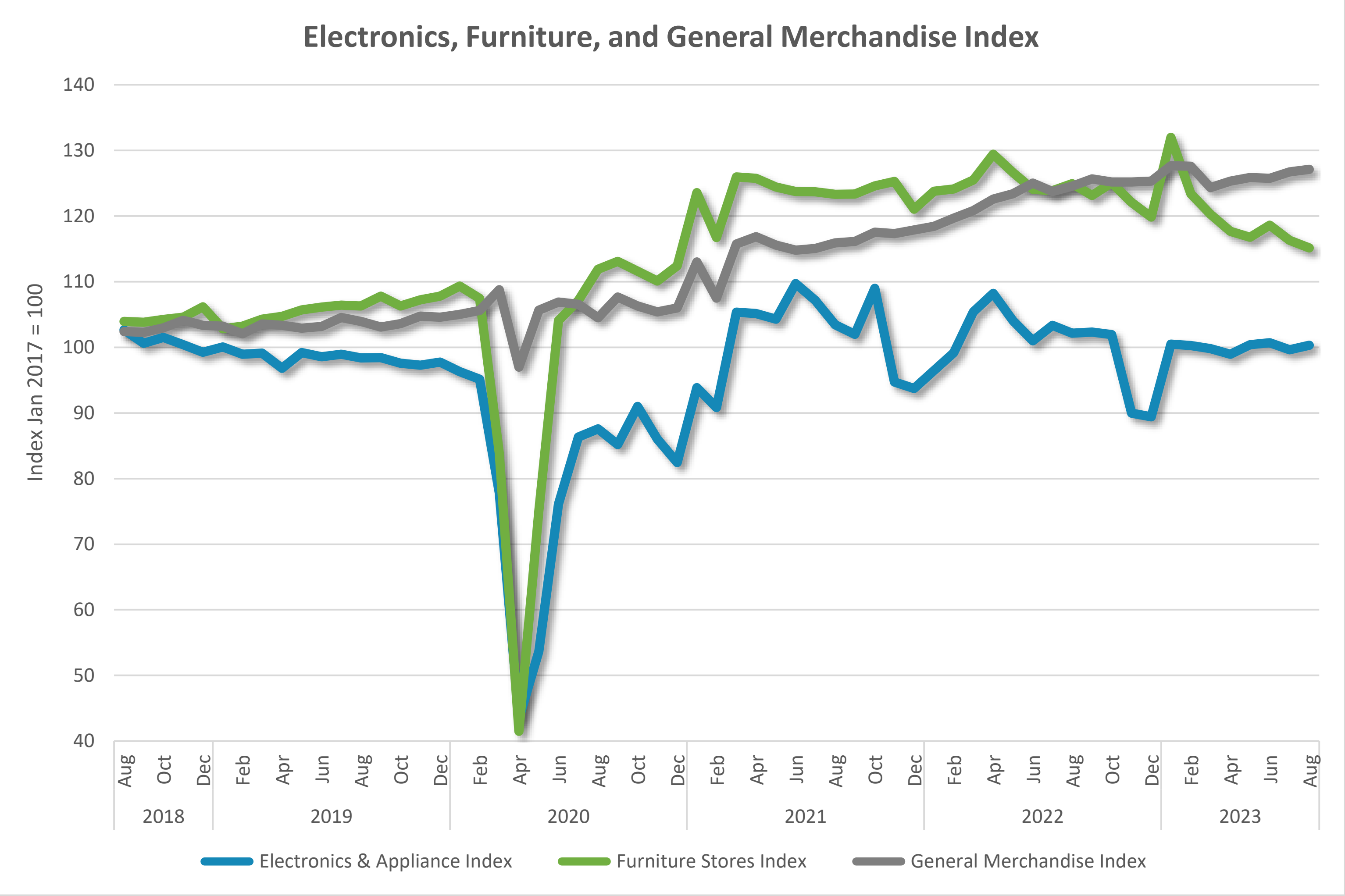
- Electronics and appliance stores (EAS)
- Furniture stores (FS)
- General merchandise stores (GMS), such as Walmart, Target, Costco

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 increased for all sectors except FS. GMS continues to climbs upward and to the right, though some of this may be due to inflation, while FS continue to fall.

- EAS increased 0.7%, or $54 million, month-over-month to $7.73 billion, marking three months of growth out of four. EAS is 1.8%, or $142 million, lower year-over-year.
- FS dropped 1%, or $110 million, M/M to $10.93 billion, and is 7.8%, or $929 million, lower Y/Y.
- GMS increased 0.3% M/M, or $221 million, to $73.23 billion, and is up 2%, or $1.5 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

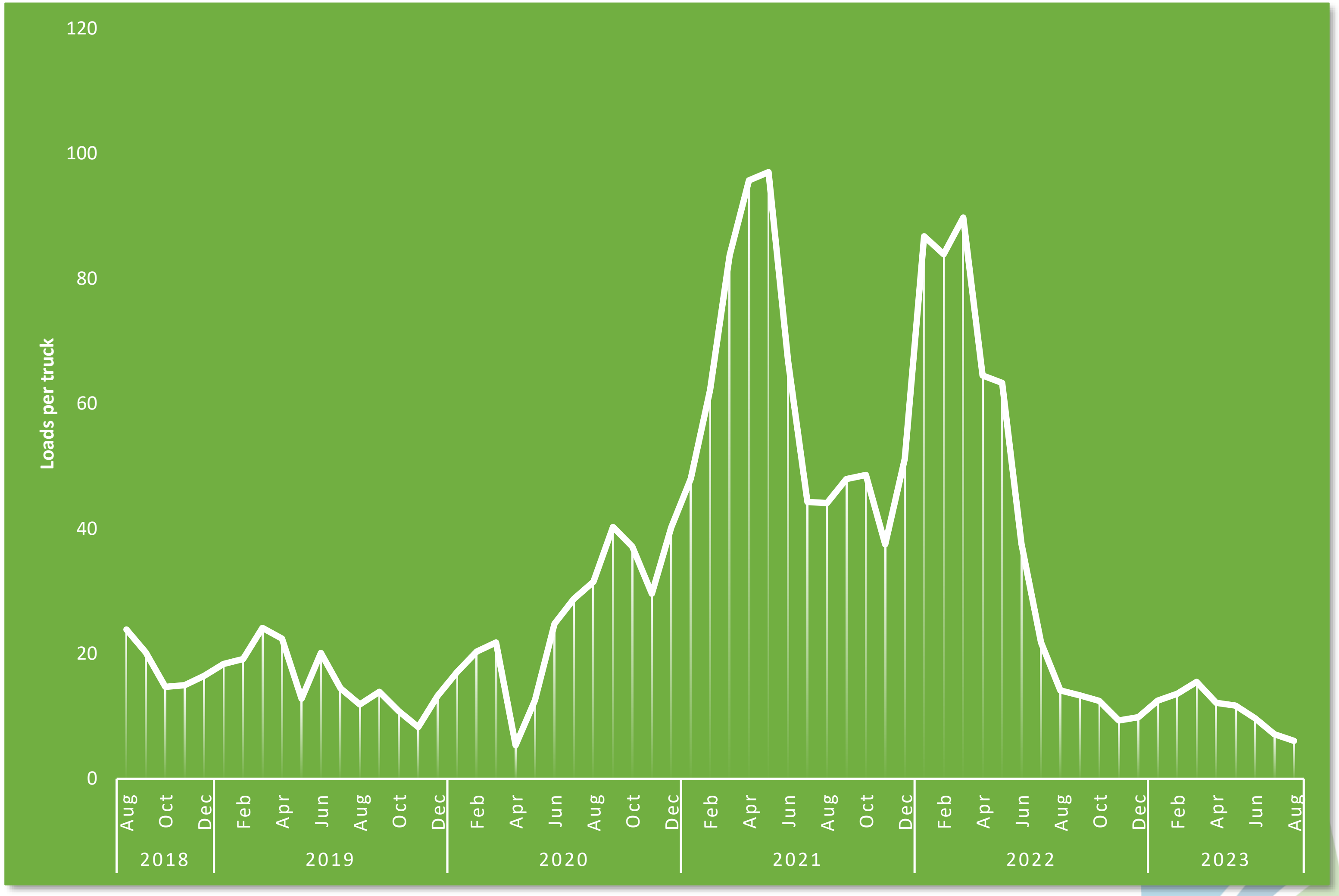
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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 continue to track at about half of what they were in 2019. Equipment posts remain high.

- The Flatbed Load-to-Truck Ratio decreased 15.1% month-over-month in August to 6.05, marking five consecutive months of decline.
- The ratio has declined 57.2% since last year when there were 14.13 loads for every truck.
- The ratio is 80.7% 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

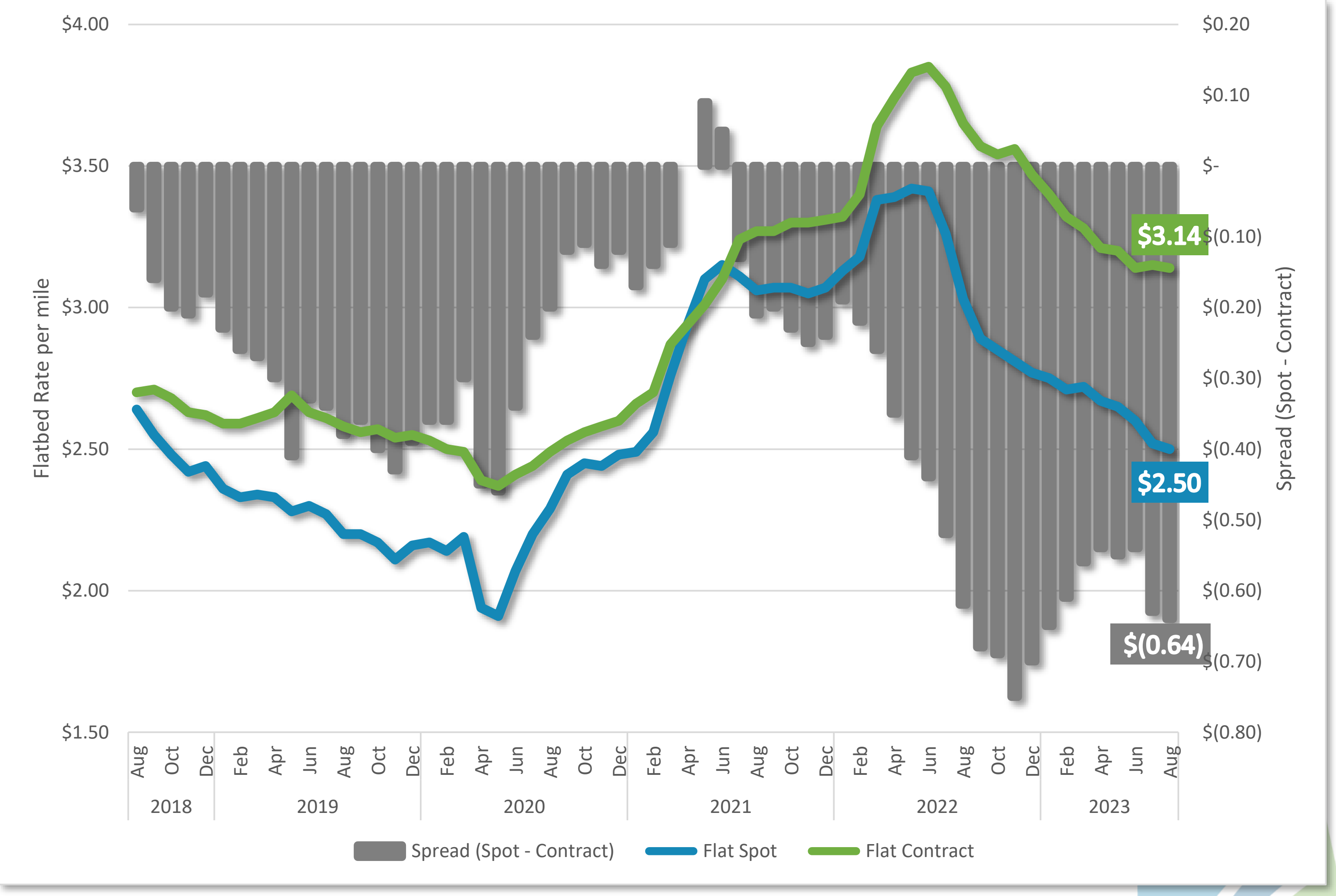
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates decreased in August, marking five consecutive months of decline, while contract rates declined for the eighth time in nine months.

- The spot market decreased $0.02, or 0.8%, to $2.50 per mile month-over-month, and has dropped $0.53 over the past year when it was $3.03.
- The contract market declined $0.01 to $3.14 per mile, which is $0.51 lower than last year and $0.18 above the 5-year trend.
- The spread between contract and spot increased $0.01 to $0.64, which is 3% higher than a year ago.

DAT's ratecast predicts that spot rates excluding fuel will tick upward slightly by a few cents per mile before dropping about 10 cents as we head into the middle of October.

- 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.

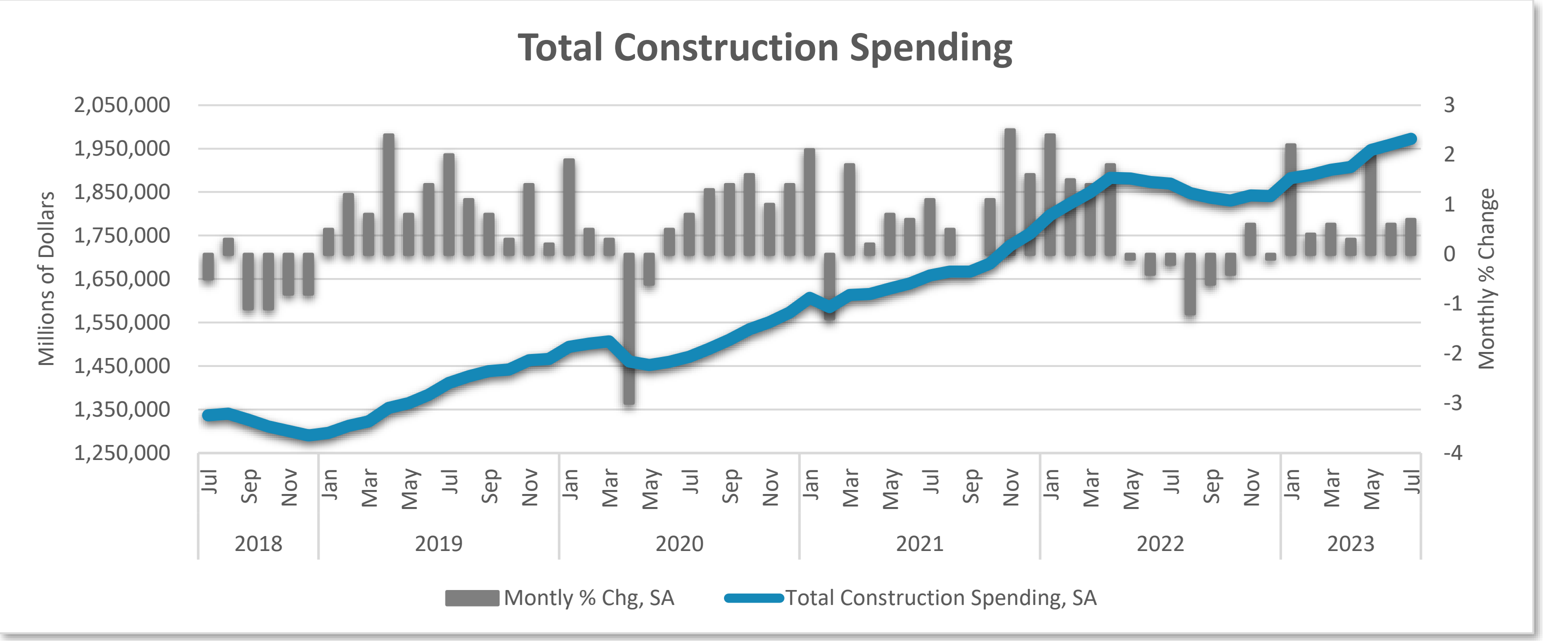
Why it matters: Construction spending helps boost the economy, especially spending that is dedicated to building roads and bridges.

- 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.

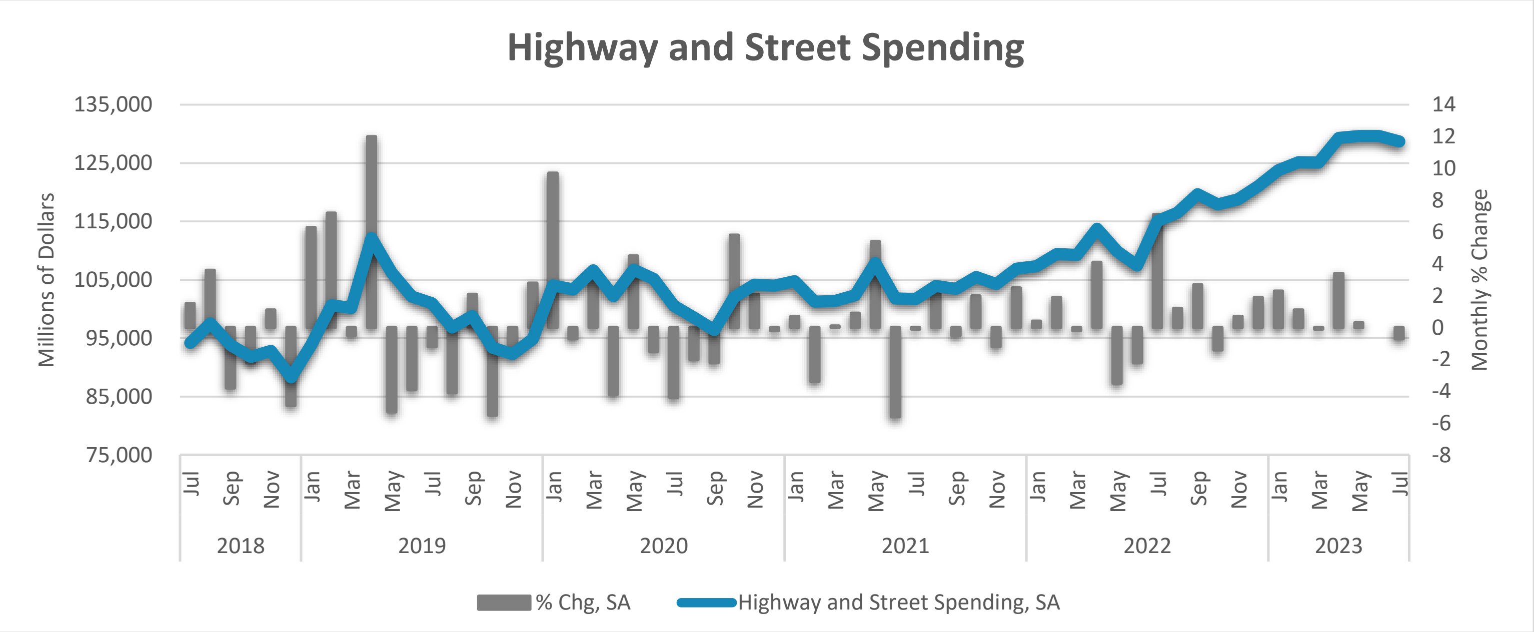
Our thoughts: Total construction spending (TCS) increased while spending on highways and streets (HSS) decreased month-over-month. Non-residential (NRS) also increased.

- TCS increased by 0.7%, or $13.6 billion, in July to $1.972 trillion, which is $103.3 billion, or 5.5%, higher year-over year, and 23% above the 5-year trend.
- HSS decreased 0.7% to $128.7 billion after being adjusted upward in June, and is up 11.9%, or $13.7 billion, year-over-year.

While construction spending for HSS and NRS remains elevated over 2019 levels, flatbed demand continues to drop. The elevated spending in construction is likely due to inflation.



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:

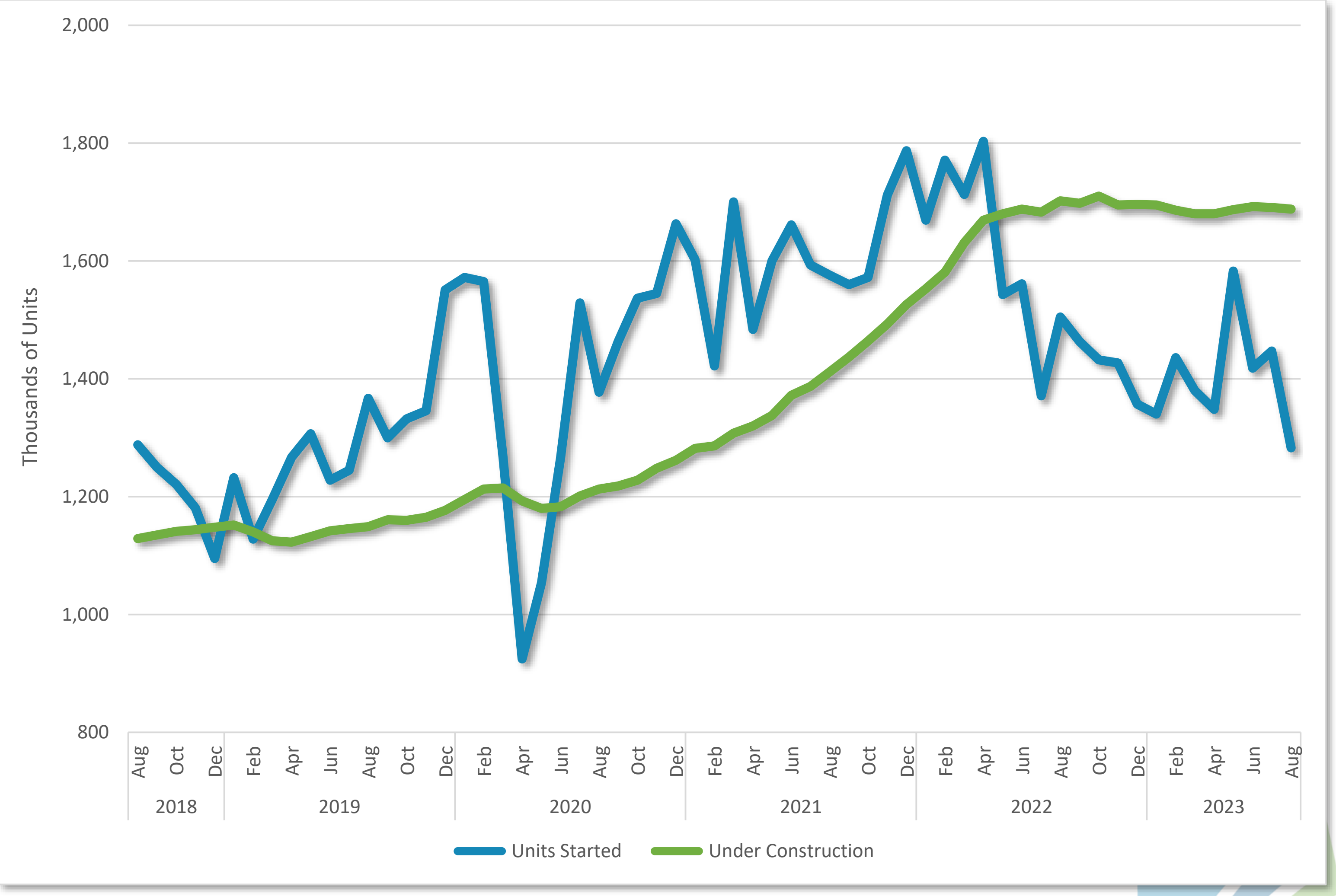
- Housing starts, and
- Housing under construction.

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 decreased sharply in August following a slight increase in July, in which starts grew by 2%. Housing seems to be performing well considering interest rates and inflation when looking at a 3-month rolling average.

- New starts decreased 11.3%, or 164,000 houses, to 1.283 million, and are down 15%, or 222,000 homes year-over-year (Y/Y).
- Houses under construction ticked downward as well 0.2% to 1.688 million, and are 1% lower Y/Y.
- Completed houses increased 5.3% month-over-month and are up 4%, or 51,000 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).

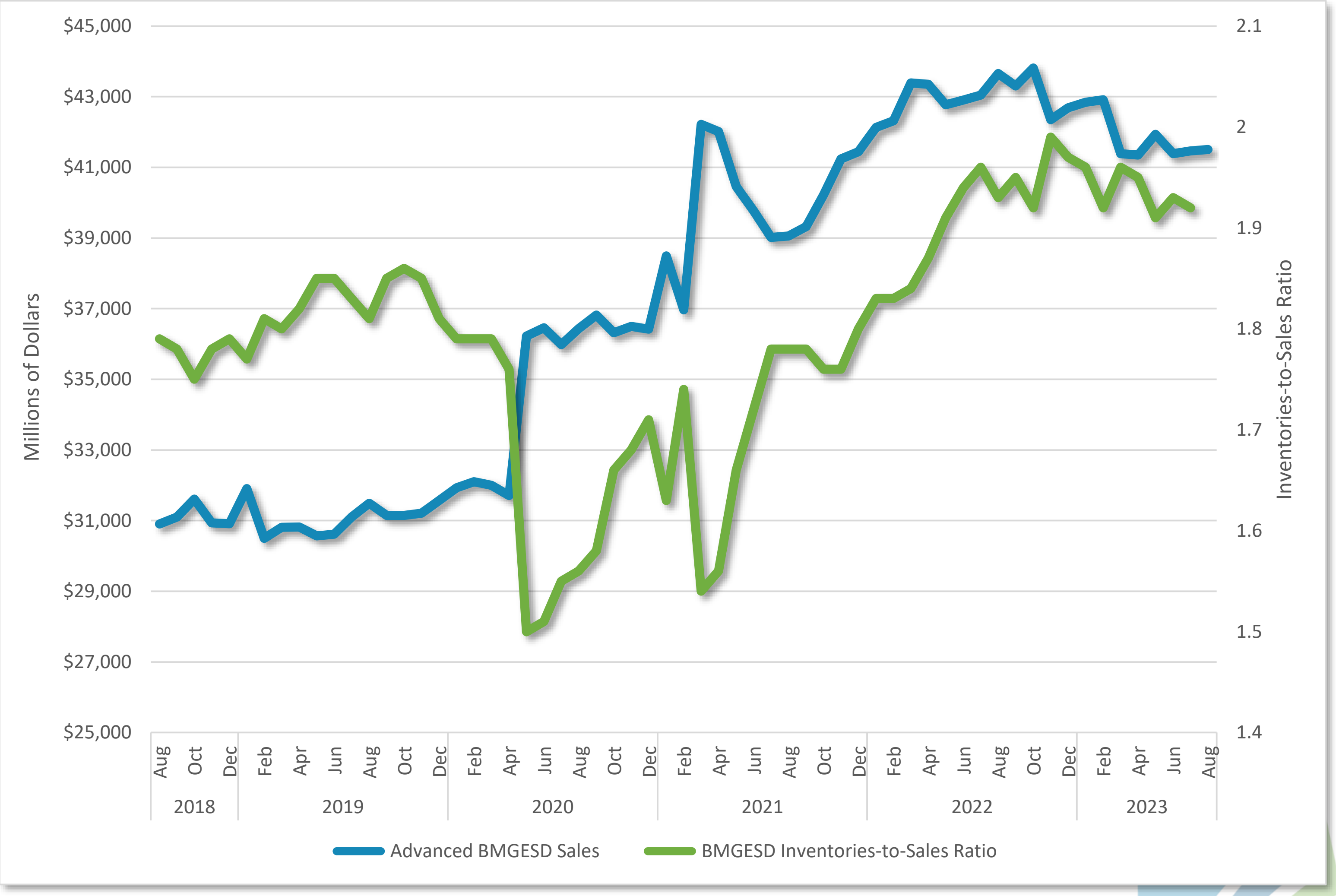
Why it matters: Retail sales give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

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

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

- The BMGESD retail sales increased 0.1% month-over-month to $41.5 billion, and are 4.9%, or $2.15 billion, lower year-over year.
- Sales are $4.16 billion higher than the 5-year average.
- Inventories-to-sales ratios decreased 0.5% to 1.92 in July, and are 0.5% lower year-over-year.

In July, sales increased while ratios declined which could signal that some retailers were able to work on rightsizing their inventory levels. However, we would need to see this trend continue for several months to really make an impact.



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

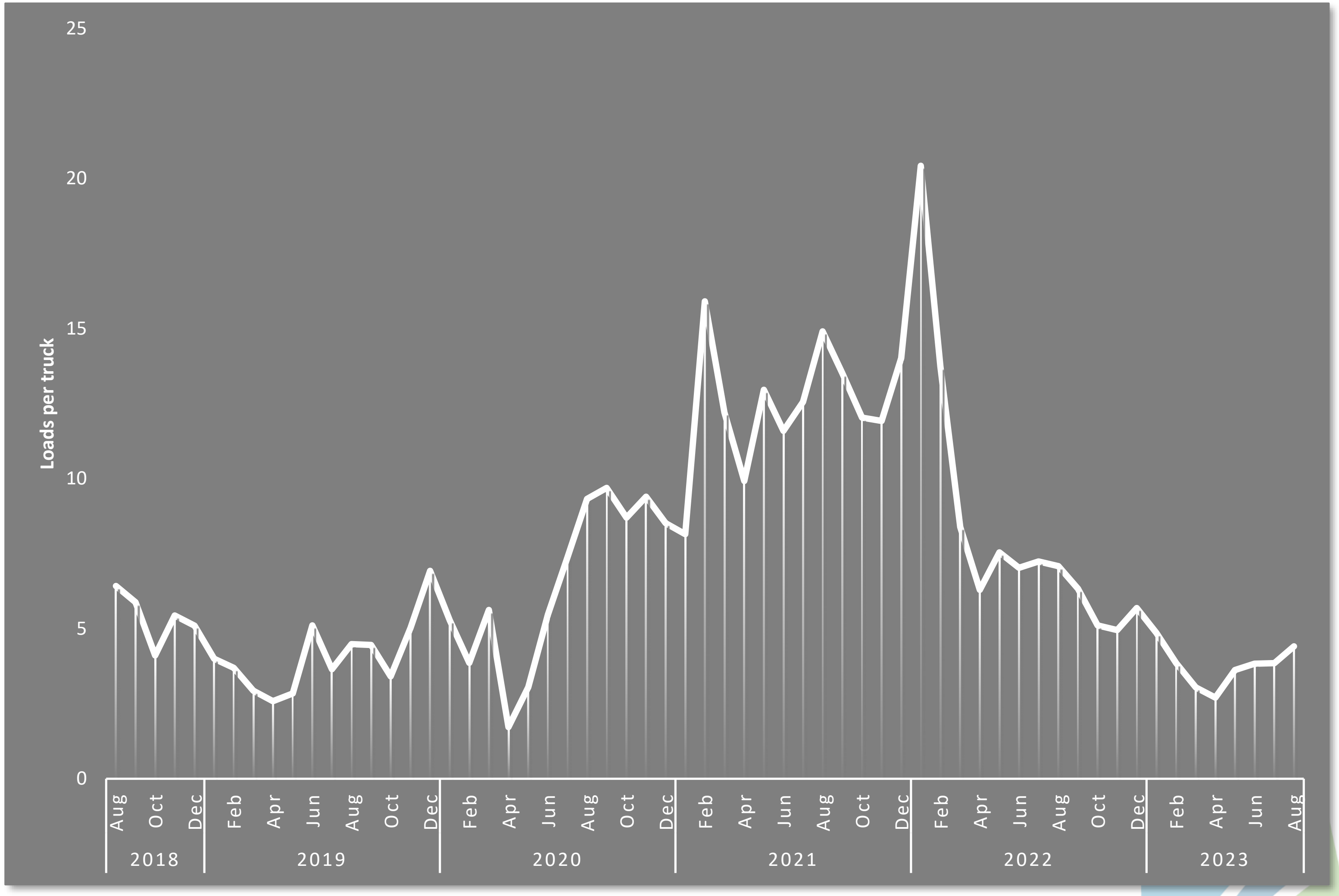
The big picture: Load-to-Truck Ratios represent the number of loads posted for every truck posted on DAT Load Boards.

- 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 August as produce volumes pick up after experiencing a late start at the beginning of the year.

- The ratio increased 14.5% month-over-month to 4.41 loads to every one truck posted.
- This is still 37.7% lower than last year when the ratio was 7.08, and 38% below the 5-year trend.
- Load posts are 45% lower than last year. We are still a few weeks away from the start of fall produce season. This typically starts to impact freight at the end of October each year.



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

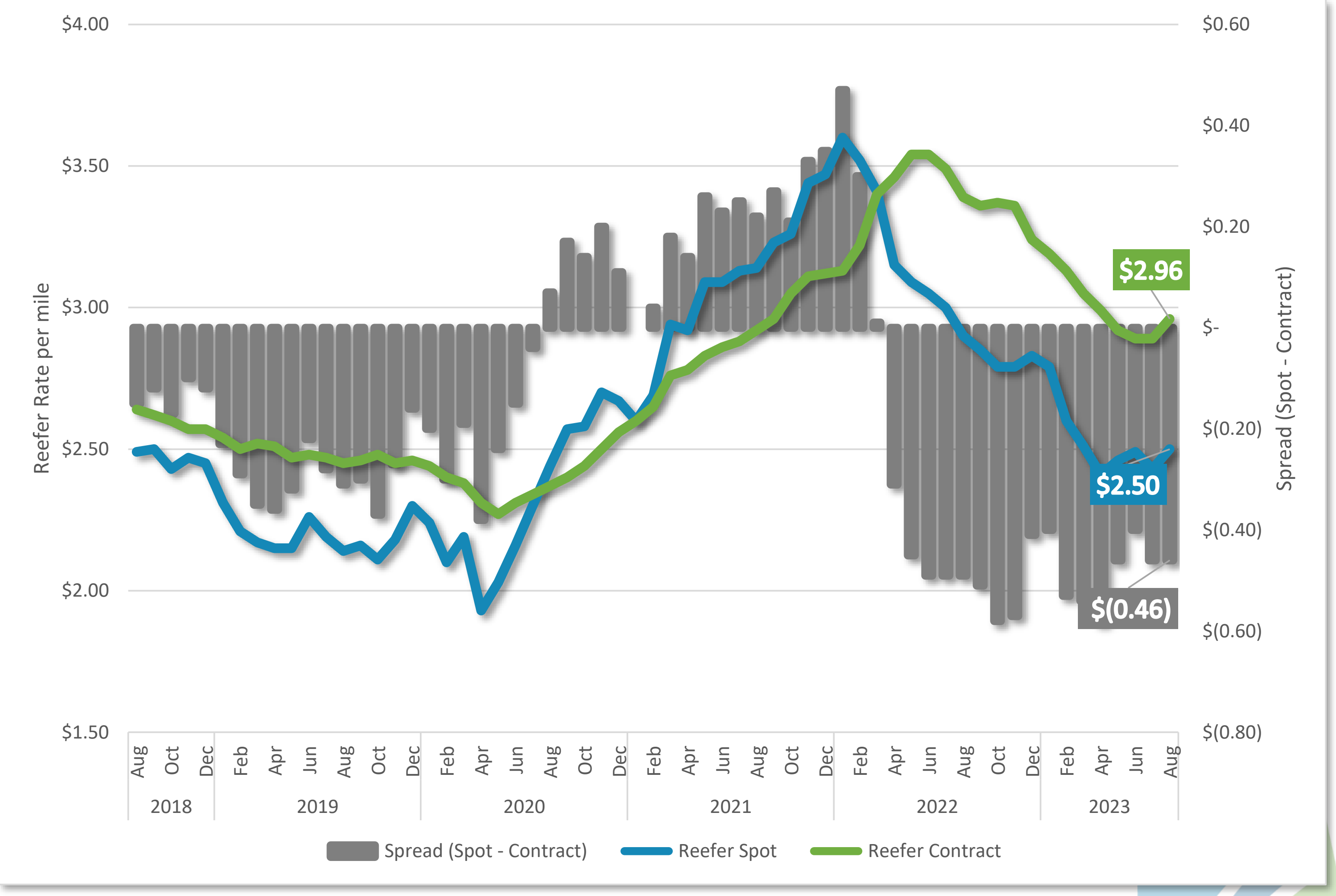
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates moved upward month-over-month in August, but we're doubtful this trend will continue, while contract rates also increased.

- Spot rates increased $0.07, or 2.9% to $2.50 per mile, but are down $0.40 since last year.
- Contract rates also increased $0.07 to $2.89 per mile, which is $0.43 below where we were last year.
- The spread between spot and stayed flat at $0.46 and is 6.1% lower compared to a year ago.

DAT's ratecast is forecasting that spot rates excluding fuel will drop approximately $0.10 per mile as we head into the middle of October.

- Refrigerated volumes typically pick up toward the end of October as the fall produce season begins.



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.

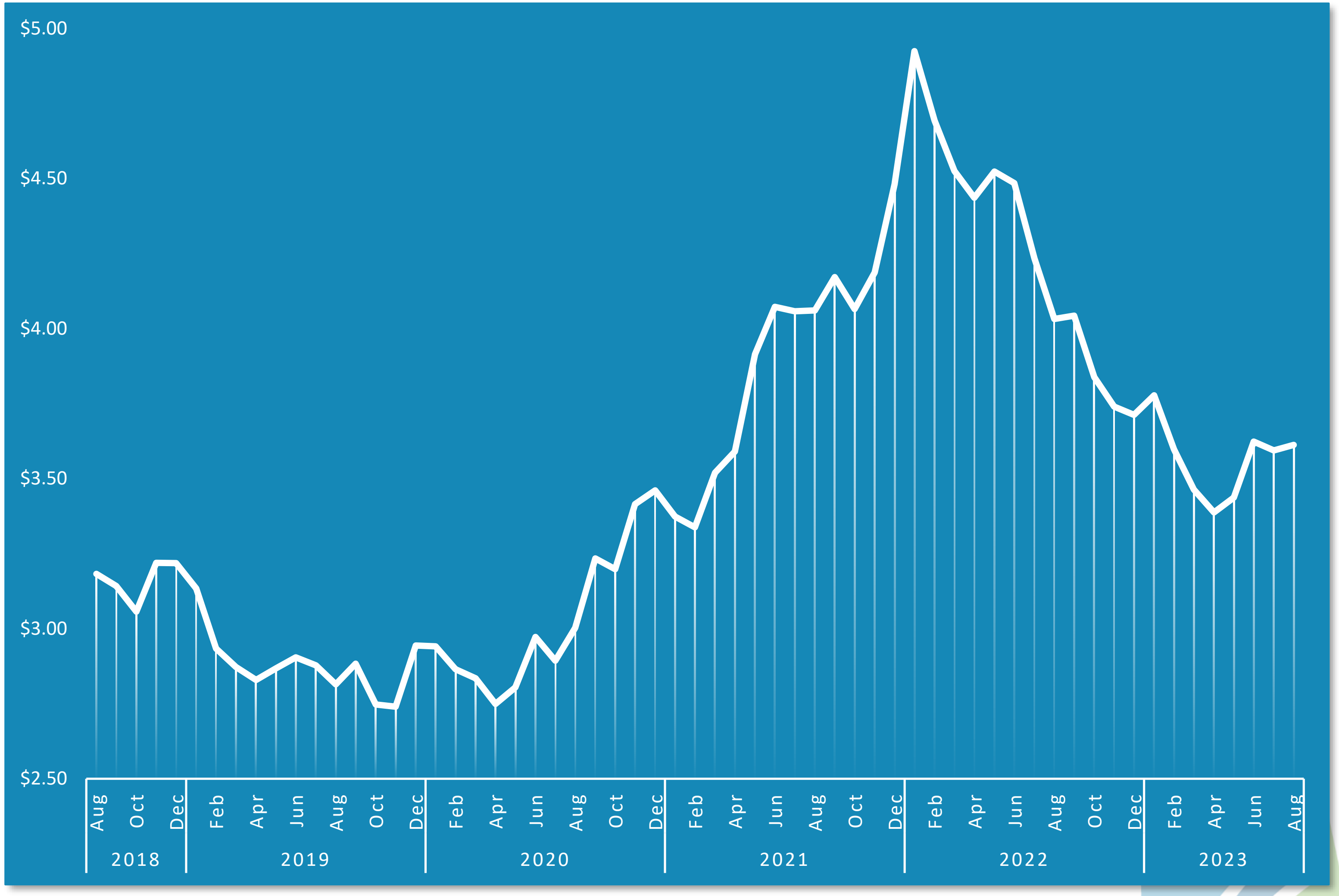
- The USDA published rates gives the owner-operator a pulse of the reefer market.

Our thoughts: Fruit and vegetable reefer rates are 27%, or $1.31 per mile, below their high in January 2022.

- Rates per mile increased 0.5%, or $0.02 per mile, month-over-month to $3.61 in August, marking three months out of four of increases.

- Rates are $0.42 per mile, or 10.4%, lower year-over-year, and are $0.12 per mile, or 3.3%, higher than the five year trend.

According to USDA, carriers in the New York region of the country experienced the greatest increase in pay per mile month-over-month, with the Mexico-Arizona region experiencing the greatest decrease.



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

Fruit and Vegetable Industry: Truck Volume

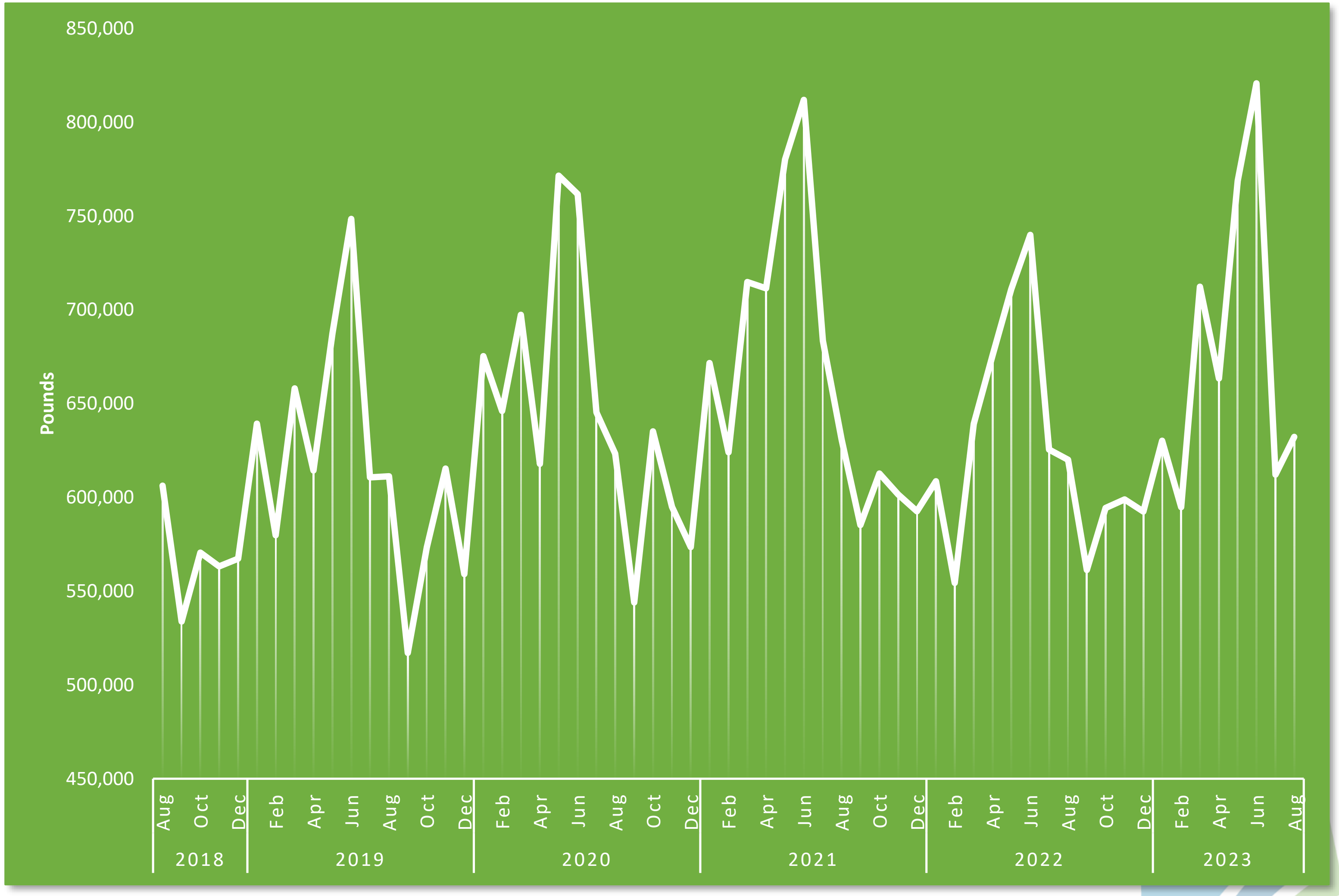
The big picture: The USDA's Crops report includes daily fruit and vegetable volume data by weight for different regions and commodities.

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 increased in August after experiencing a 17.7% decrease in July. However, this is a typical seasonal trend for produce as can been seen in the chart.

- Reefer volumes increased 3.3% month-over-month to 632,319 pounds, and are 2%, or 12,288 pounds, higher year-over-year.
- The California region increased 29% month-over-month, and is flat compared to last year.
- Several regions experienced increases in volumes, including Canada, Great Lakes, Indiana, Mexico-Texas, Mid-Atlantic, and New York.



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 again, marking two consecutive months of loses.

- Reefer truck availability loosened 7.4% to 2.67. Availability is down 4.2% over the previous year when it was 2.79.
- Capacity tightened in the Indiana region, but either remained flat or grew more loose in all the other regions.
- Conditions in California loosened in August even as volumes increased. Availability dropped from 3.00 to 2.70.

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.

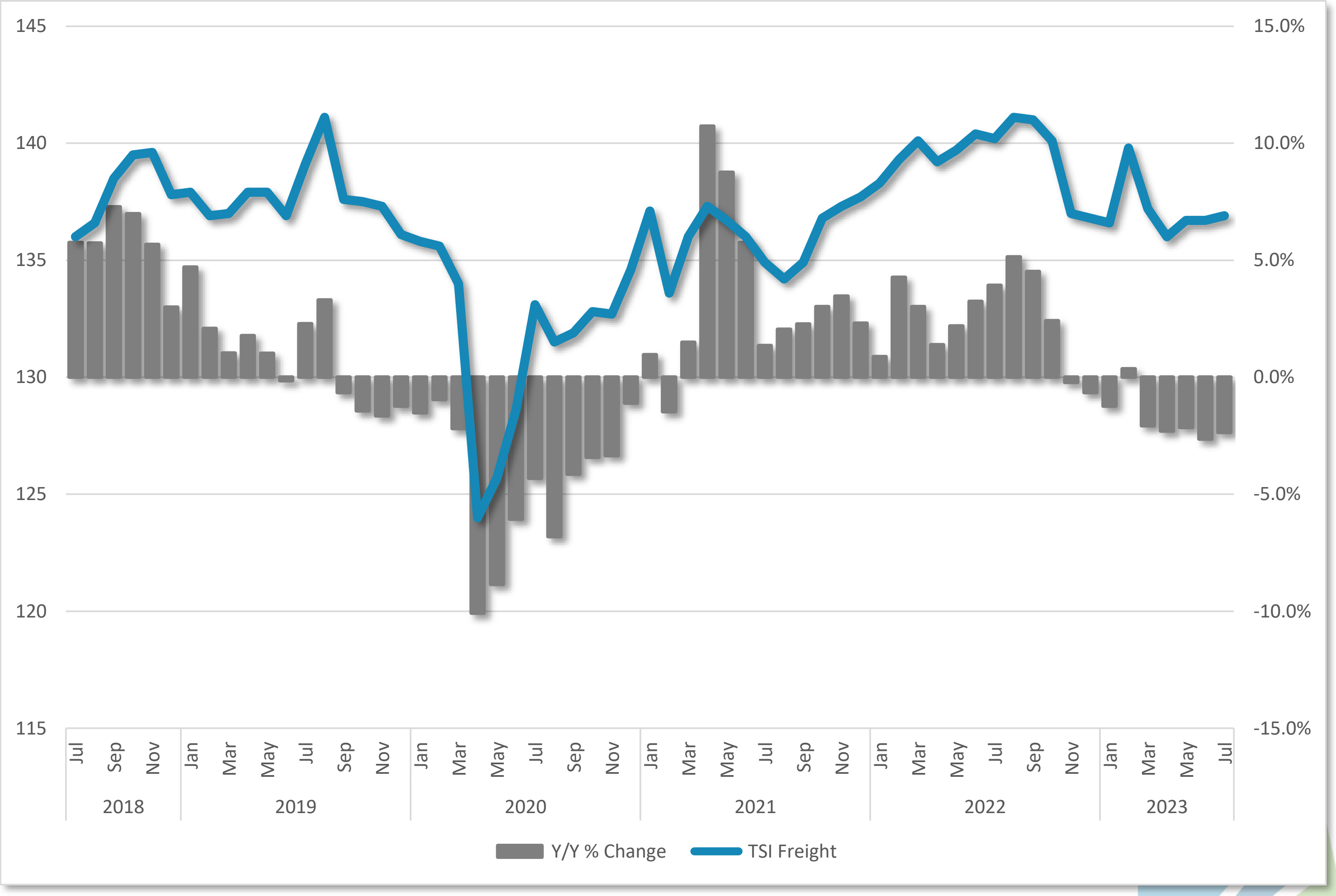
Why it matters: Changes in the TSI reflect changes in the demand for goods and services.

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

- The TSI increased 0.1% month-over-month to 136.9, and is 2.4% lower than a year ago. July was 4% below the all-time high of 141.1 in August 2019.

July's increase came in the context of positive growth for other indicators. The Industrial Production Index was up 1%, reflecting increases in manufacturing, mining, and utilities. Housing starts were up as well, while personal income increased 0.2%.



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.

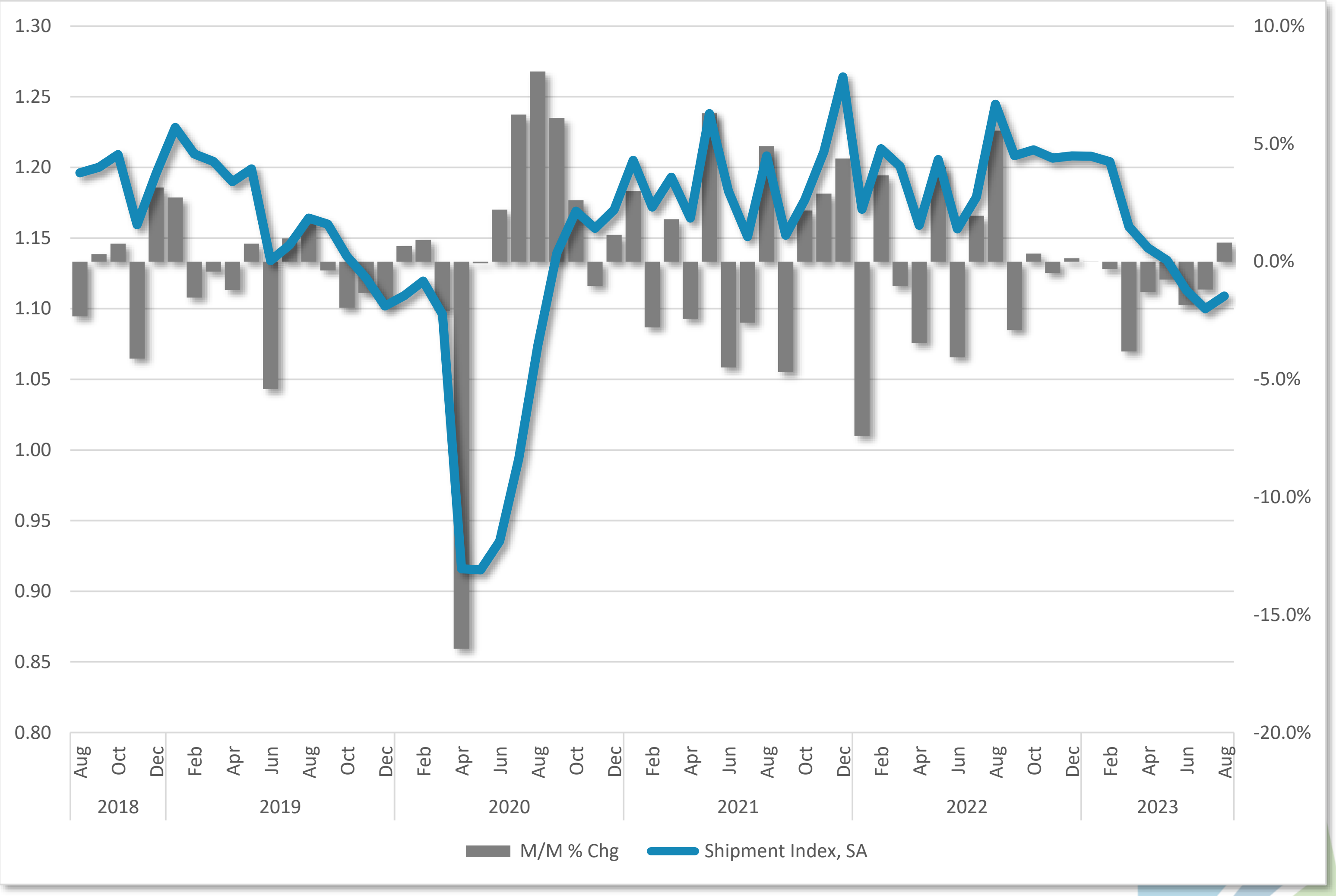
- The index is an indicator of U.S. shipping activity, containing 37 million invoices across 400 companies and manufacturers.

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

Our thoughts: the Cass Shipment Index was up 0.8% month-over-month to 1.11 in August when seasonally adjusted, and was down 10.9% year-over-year. The past three downcycles experienced 21 to 28 straight months of decline year-over-year. We're currently at 20 months so far.

- Expenditures, which measures the total amount spent of freight, rose 1.8% to 3.44.
- Inferred rates, which are calculated by dividing expenditures by shipments to explain the movement in cost per shipment, also increased 1% to 3.10, probably due to fuel surcharges.
- Truckload linehaul rates, which includes both spot and contract rates, decreased 0.5% to 141.3 and is down 11.5% year-over-year.

Bottom line: Cass believes that the first step in getting out of the hole is to stop digging. In their view, new truck orders need to slow down so capacity can contract in the for-hire sector.



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

Supply: Truck Employment

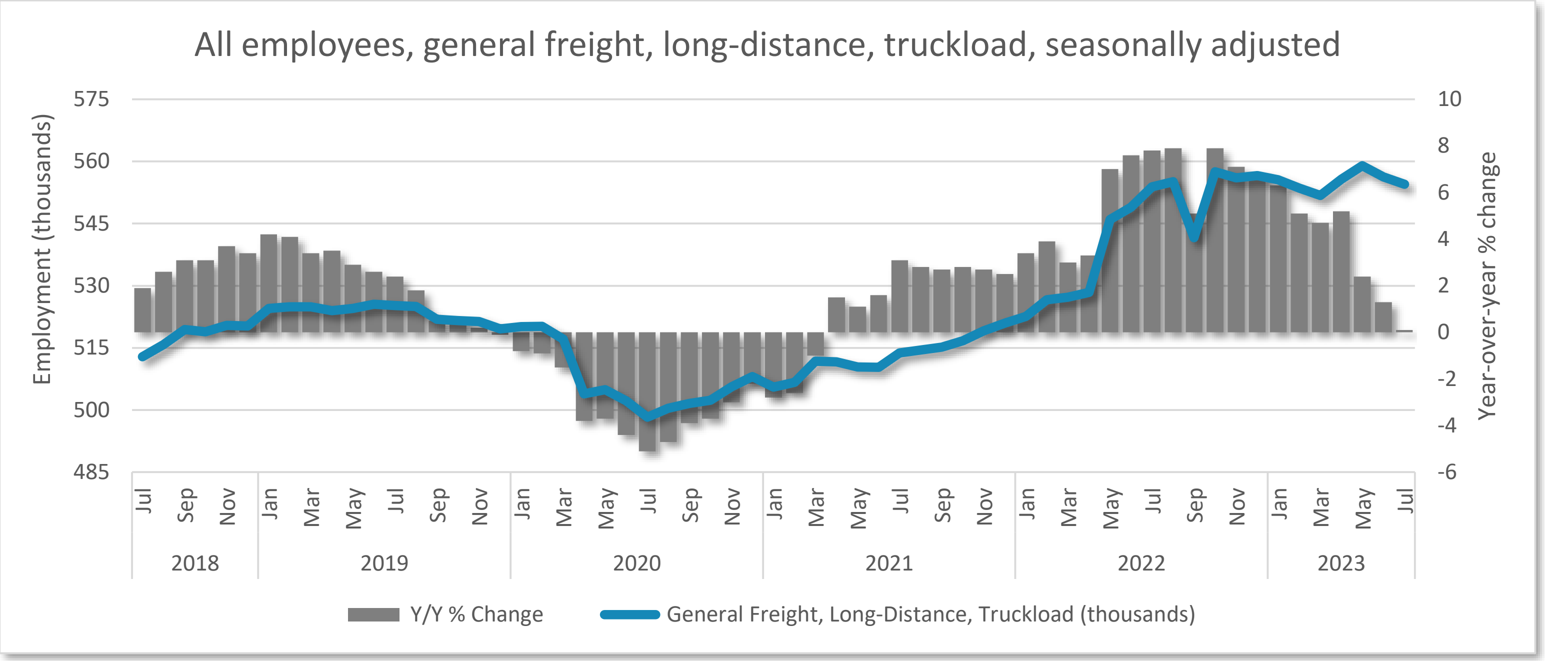
The big picture: The Bureau of Labor Statistics releases monthly payroll data concerning various industries and sectors, including trucking.

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

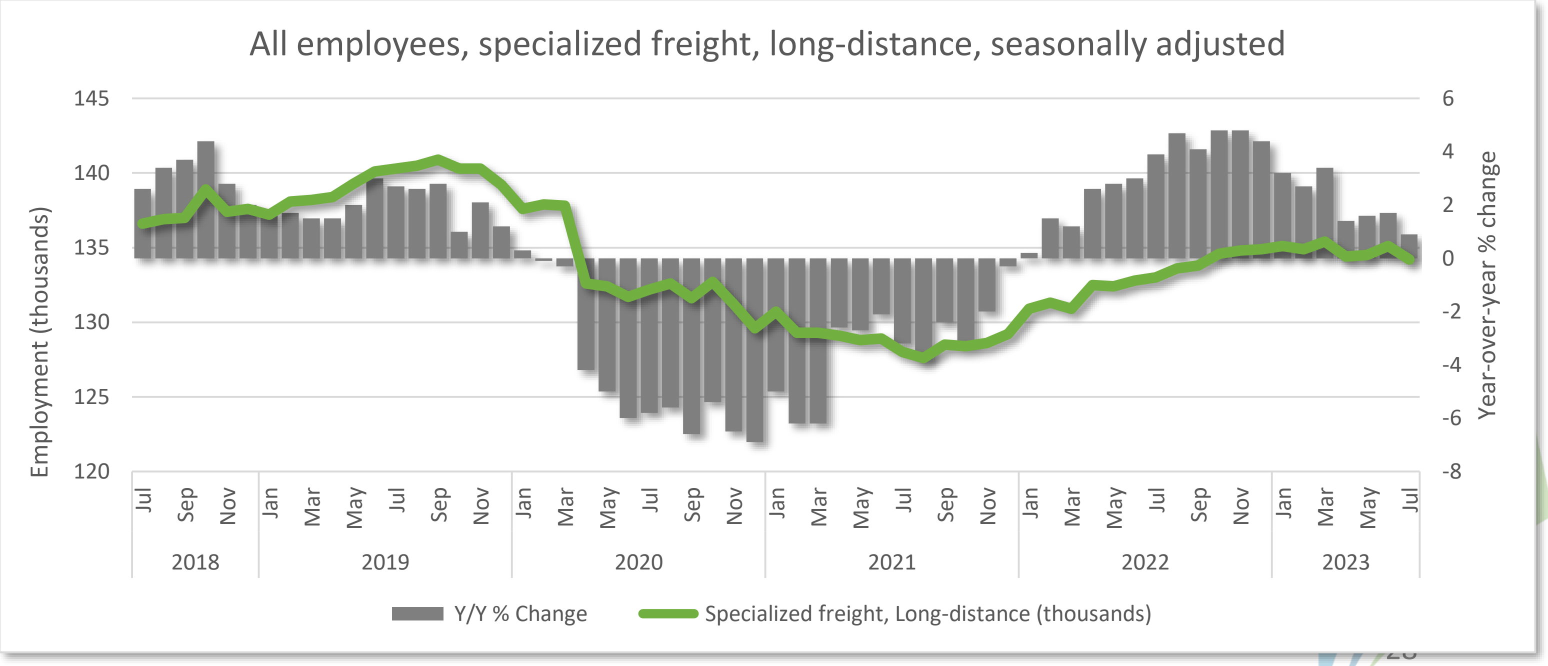
- Employment levels ultimately have a large impact on rates. If there are too many drivers for too little freight, rates will go down.

Our thoughts: Truck employment numbers overall decreased 36.7% in August to 1.568 million people. The steep drop in employment overall is mostly due to Yellow closing its doors.

- Employment for general freight trucking, long-distance, truckload, which best represents our members, decreased 0.3%, or 1,800 jobs, month-over-month in July.
- It is 0.1%, or 600 jobs, higher year-over year, and 5.6% above the 5-year trend.
- Specialized freight trucking, long-distance, which represents flatbed, reefers, and other equipment types, decreased 0.7%, or 900 jobs, month-over-month in July.
- This figure is 0.9%, or 1,200 jobs, higher year-over-year, and is flat compared to 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.

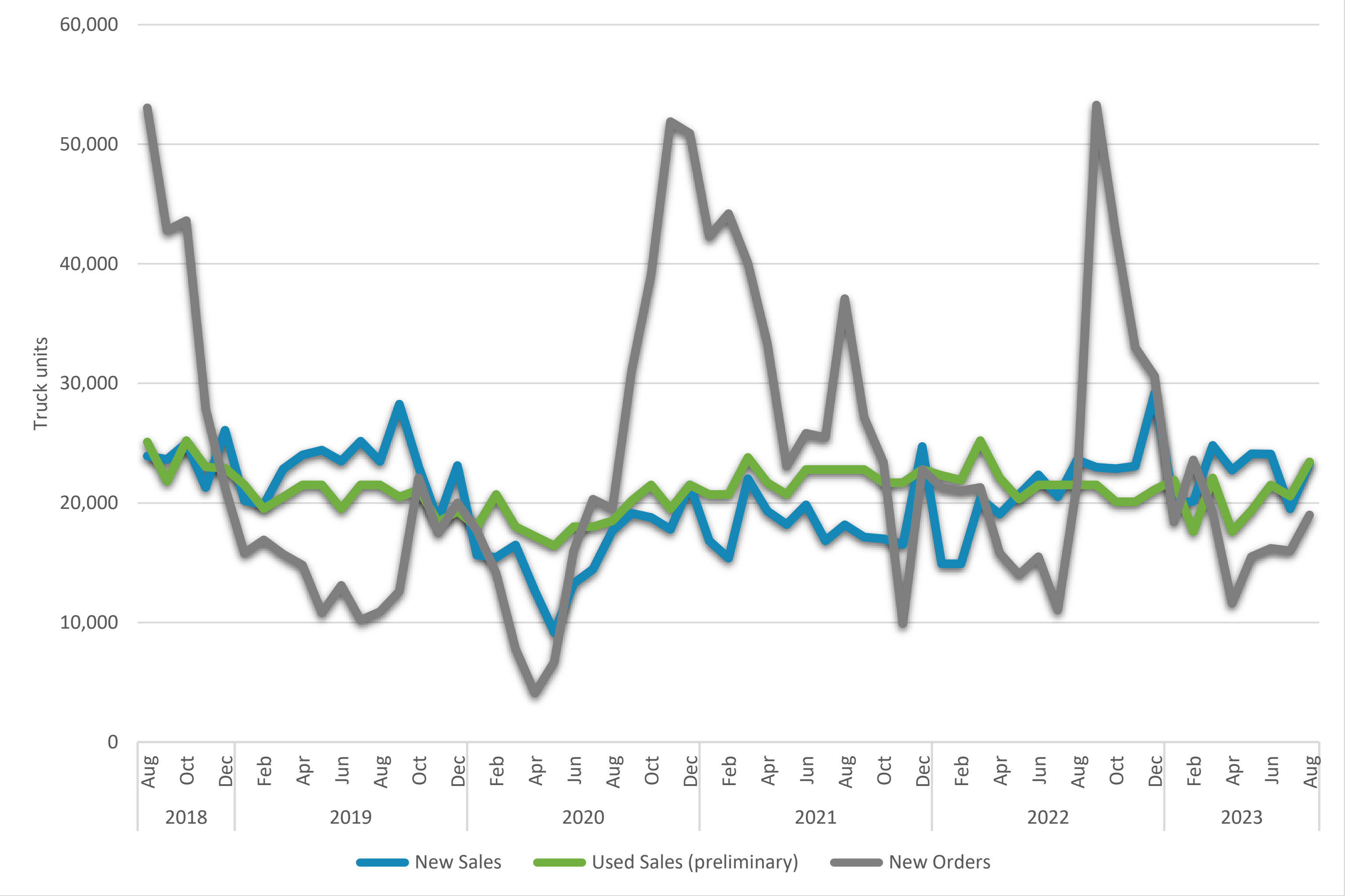
Why it matters: Class 8 orders and sales data will help an owner-operator to see both the demand for trucks and current truck capacity.

- 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 19.7% in August to 23,342, and are 1% lower year-over-year, while new orders increased 18.8% to 19,000, which is stronger than expected.

- Preliminary used sales figures also increased 14%, or 2,878 units, in August to 23,432, and are up 9% compared to last year. Used sales are 12% higher than the 5-year average.
- Used sales eclipsed new sales by 90 in August.

The industry has experienced overcapacity, or too many trucks, for the past several months, which has pushed freight rates downward. Used sales have finally eclipsed new sales, which is a positive sign, but we are still far from correcting the capacity issue.



Source: ACT Research | https://www.actresearch.net/ | Monthly

Note: 16,000 Class 8 retail sales per month, or 190,000 per year, is the accepted U.S. replacement level

Rates: Logistics Managers' Index (LMI)

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

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

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

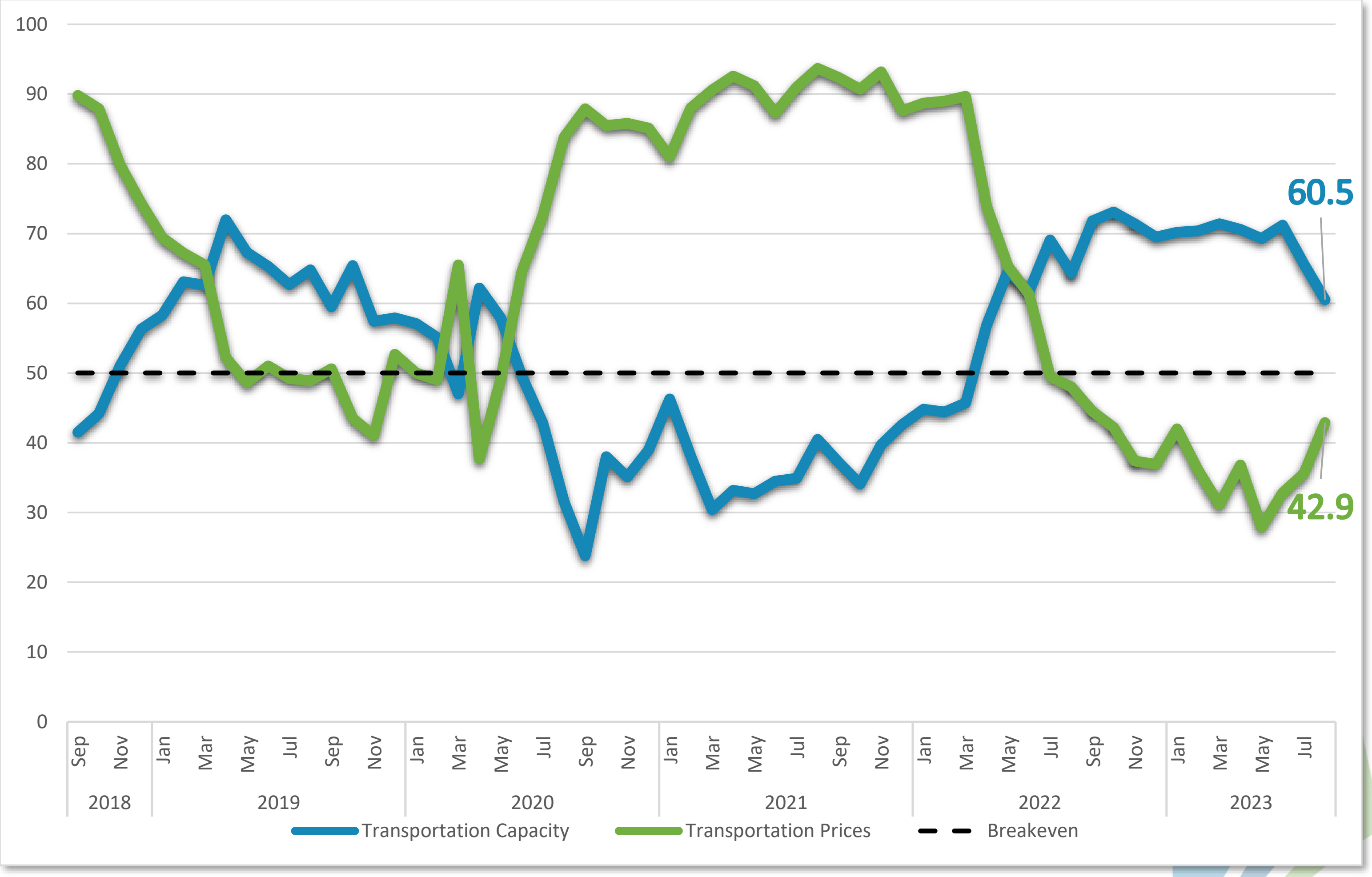
- When the two curves depicted in this chart invert, it signals bad news for freight rates.

Our thoughts: The LMI overall increased 5.8 points to 51.8, ending three consecutive months where the index was below 50. This is also a marked changed as the last five months have set new all-time lows. August saw the fastest rate of expansion since February.

- Transportation prices declined to their slowest rate since September 2022.
- Prices increased 20.5% month-over month to 42.9, and is 11% lower year-over-year, when the index read 48.
- Transportation capacity declined 7.8% to 60.5, which is 32% higher year-over-year.

Aggregate logistics prices (ALP), which includes inventory costs, warehousing prices, and transportation prices, increased 11.9%, which is a marked change from the previous 18-months.

- If ALP stay in a reasonable range, then the chance of an improvement in freight is better. The opposite is also true.



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.

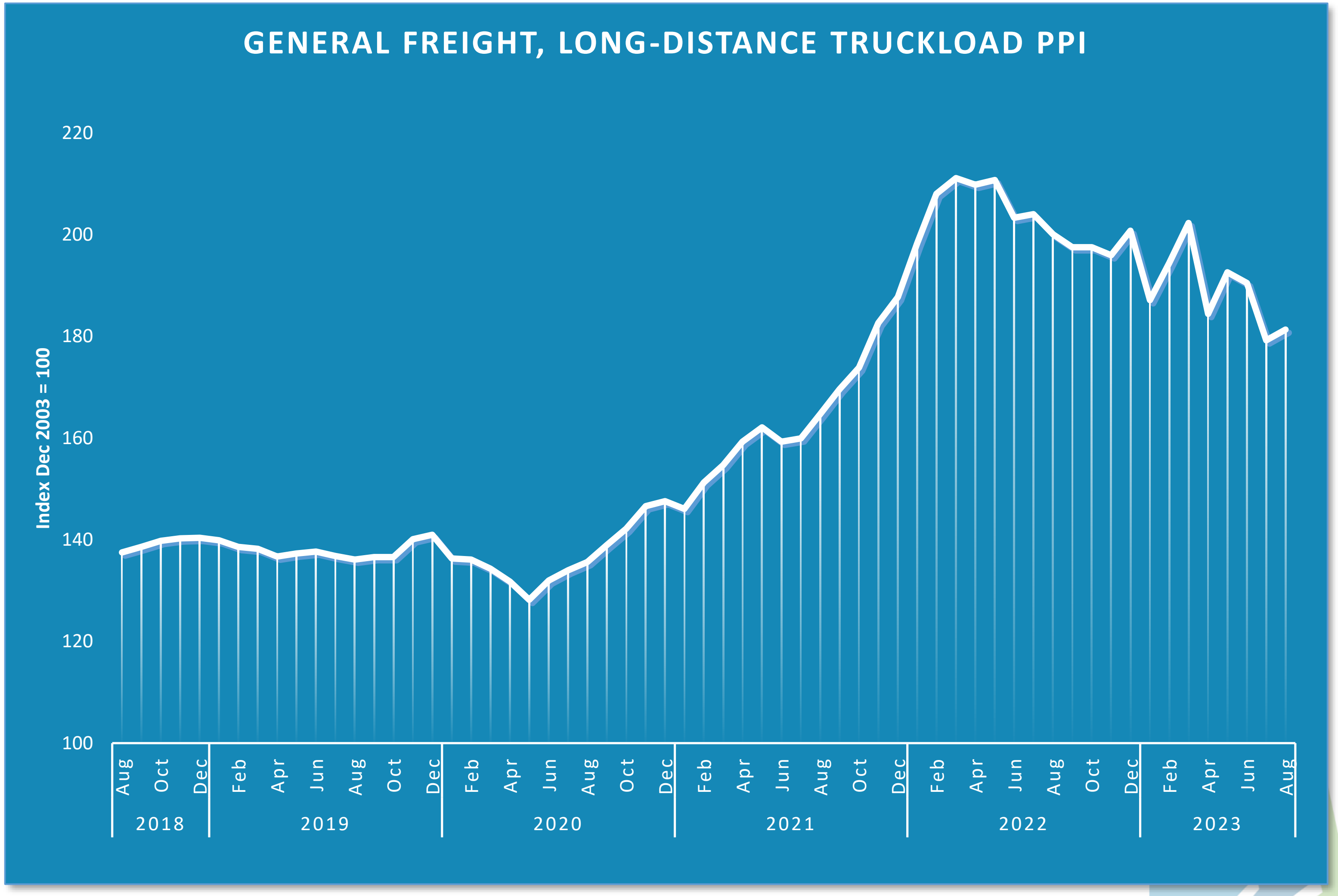
- One index focuses on long-haul, truckload carriers.
- This index shows how much carriers are charging their customers.

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 ticked up in August but has decreased 13.9% since its high in May 2022. This uptick is probably due to increases in fuel surcharges however, not base rates.

- The long-haul PPI increased 1.4% to 181.3, month-over-month, after the BLS re-adjusted the figure for July.
- The PPI is 9.4% lower year-over-year, but 11.5% above the 5-year trend.

Though the overall trend for the PPI continues to decrease, it appears that spot rates are stuck at the bottom. It's seeming more and more likely that the new freight cycle won't start materializing until into 2024.



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

Costs: Diesel Fuel

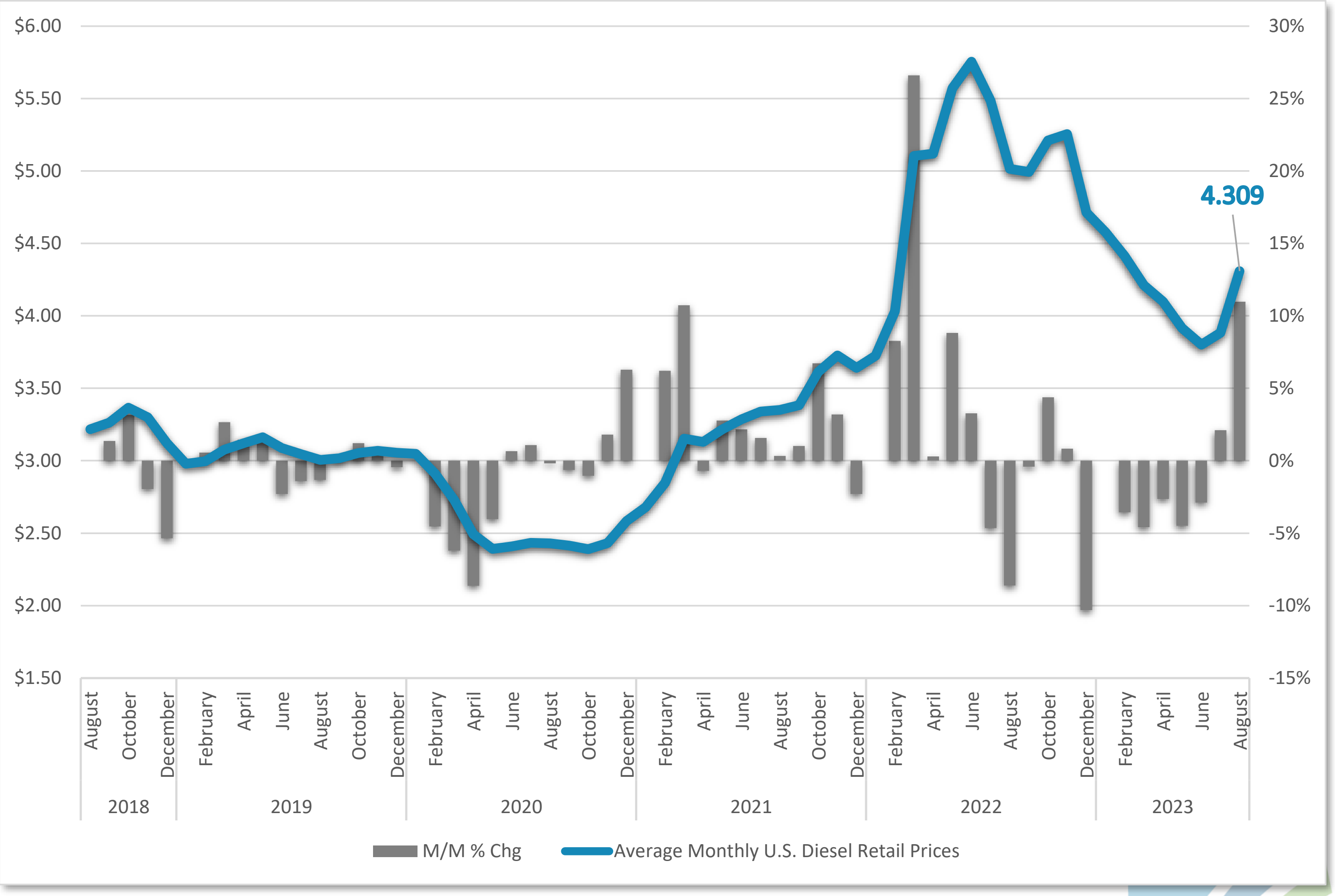
The big picture: The U.S. Energy Information Administration (EIA) tracks the weekly changes in on-highway diesel fuel prices throughout the country.

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 jumped $0.43 in August ending the eighth straight month of decline. Prices through August have declined $1.45 per gallon since the high in June 2022.

- The average price for diesel fuel increased 11% month-over-month to $4.31 per gallon, which ended three consecutive months where prices were under $4.00 per gallon.
- The average diesel price is 14% lower year-over-year, but 22%, or $0.77 per gallon, 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.

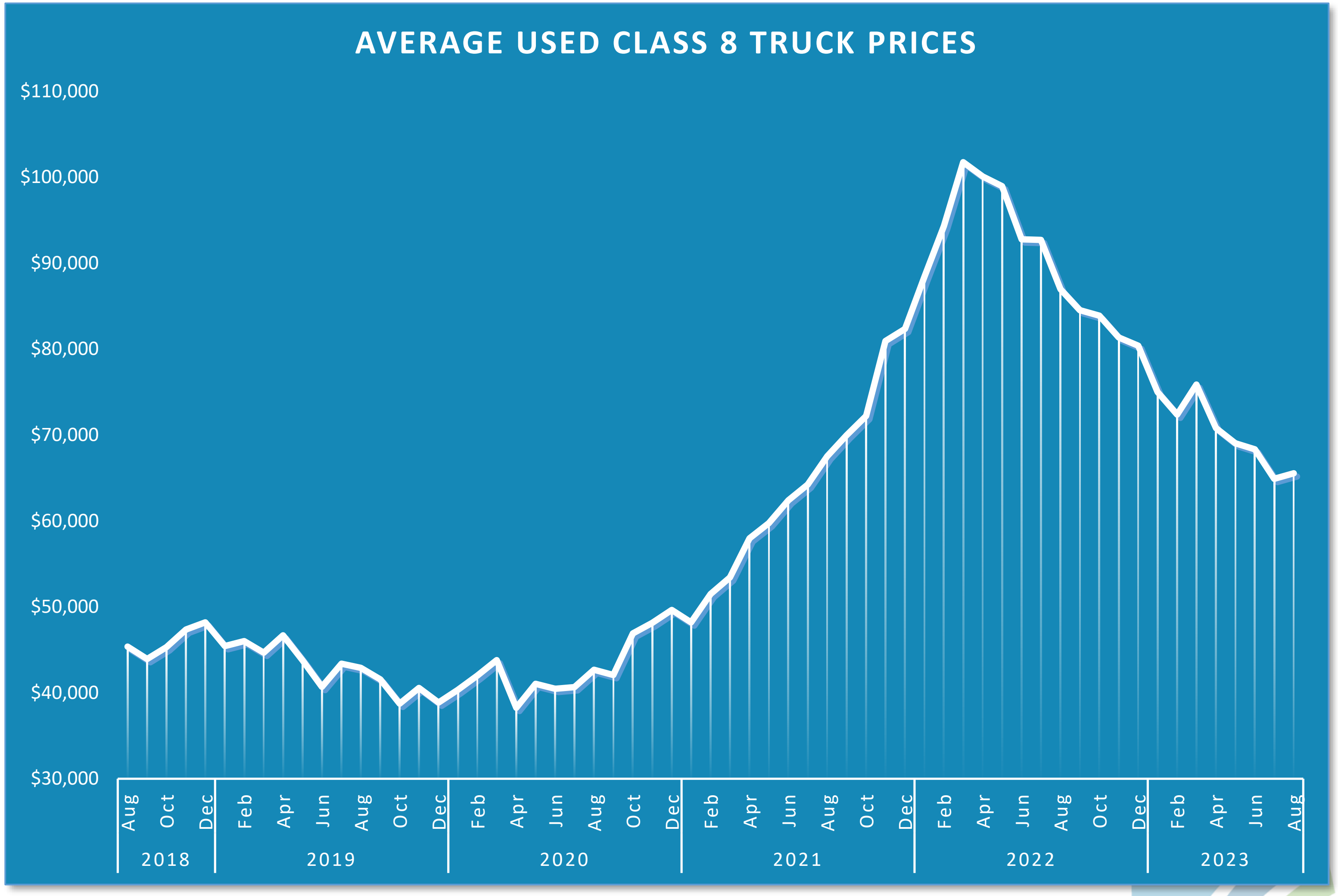
- As spot rates turn upward, the number of individuals seeking to become an owner-operator also increase, pushing used prices higher.

Our thoughts: Preliminary used truck prices increased in August. 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 increased 1%, or $649, to approximately $65,546, marking 2-months of increases so far this year.

- This is 24.6% lower year-over year, but 9% higher than the 5-year trend.

According to Steve Tam, vice president at ACT, “Looking ahead to next month, the price against which longer-term comparisons will be made will be considerably lower than they have for the first half of 2023.” ACT believes the used truck market will return to normal.



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

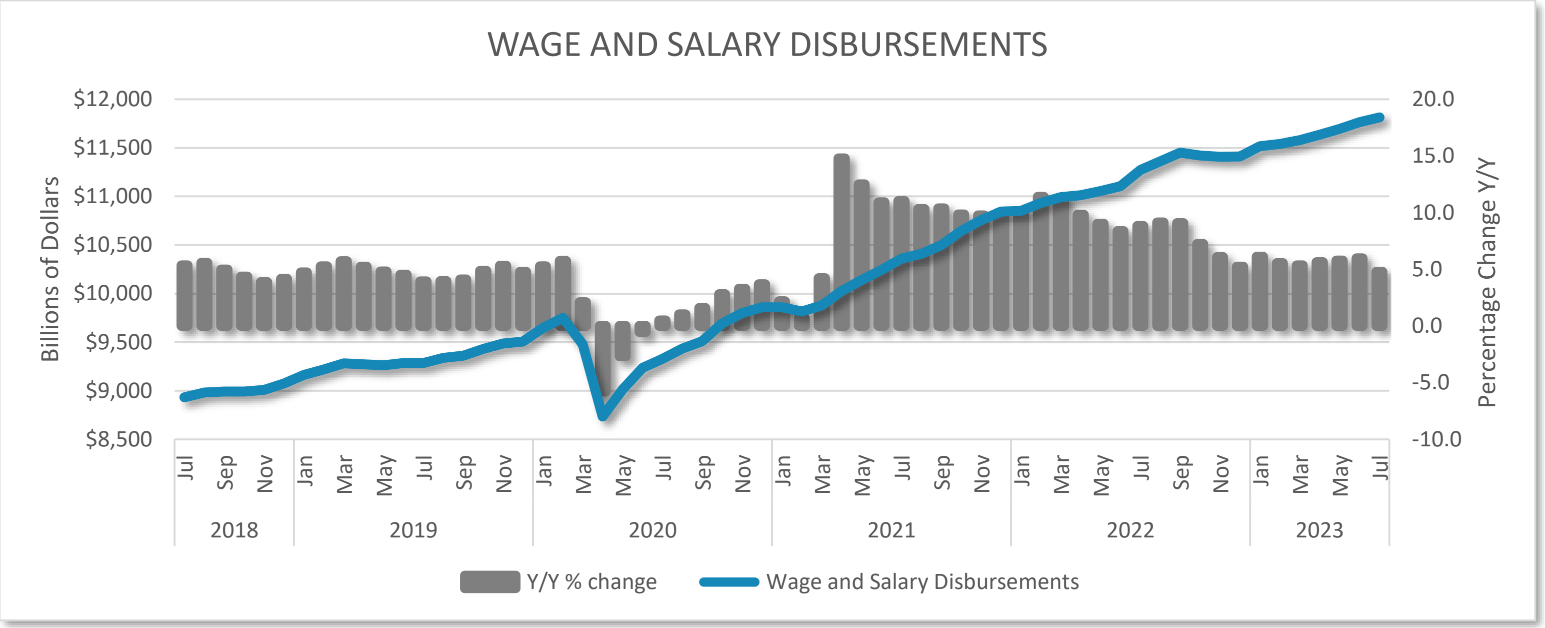
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so to does business and shipping activity.

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

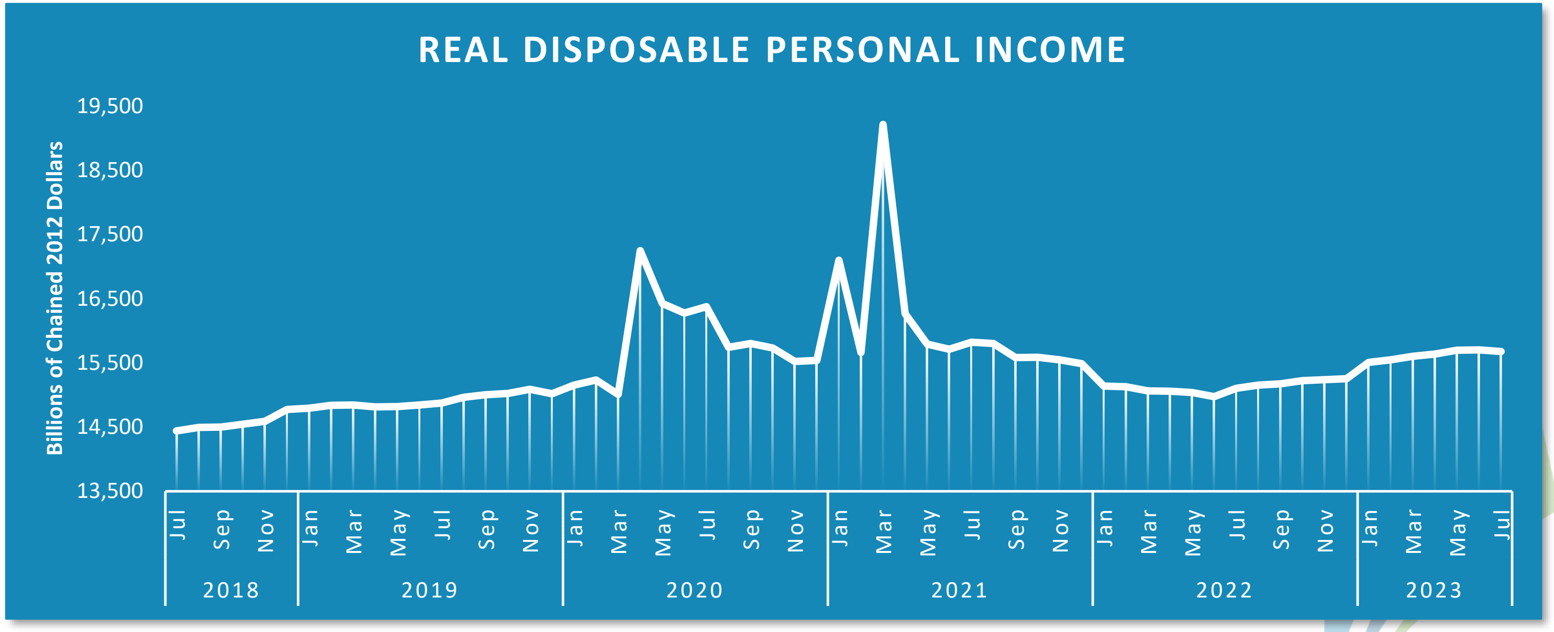
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

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

- Wages and Salary disbursements grew 0.4%, or $46.8 billion, month-over-month in July.
- In terms of year-over-year growth, wages and salary disbursements are 4.8% higher. However, Y/Y growth was 8.8% this time last year.
- Real disposable income, which is adjusted for inflation, decreased 0.2% month-over-month to $15.674 trillion, and is $573.3 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.

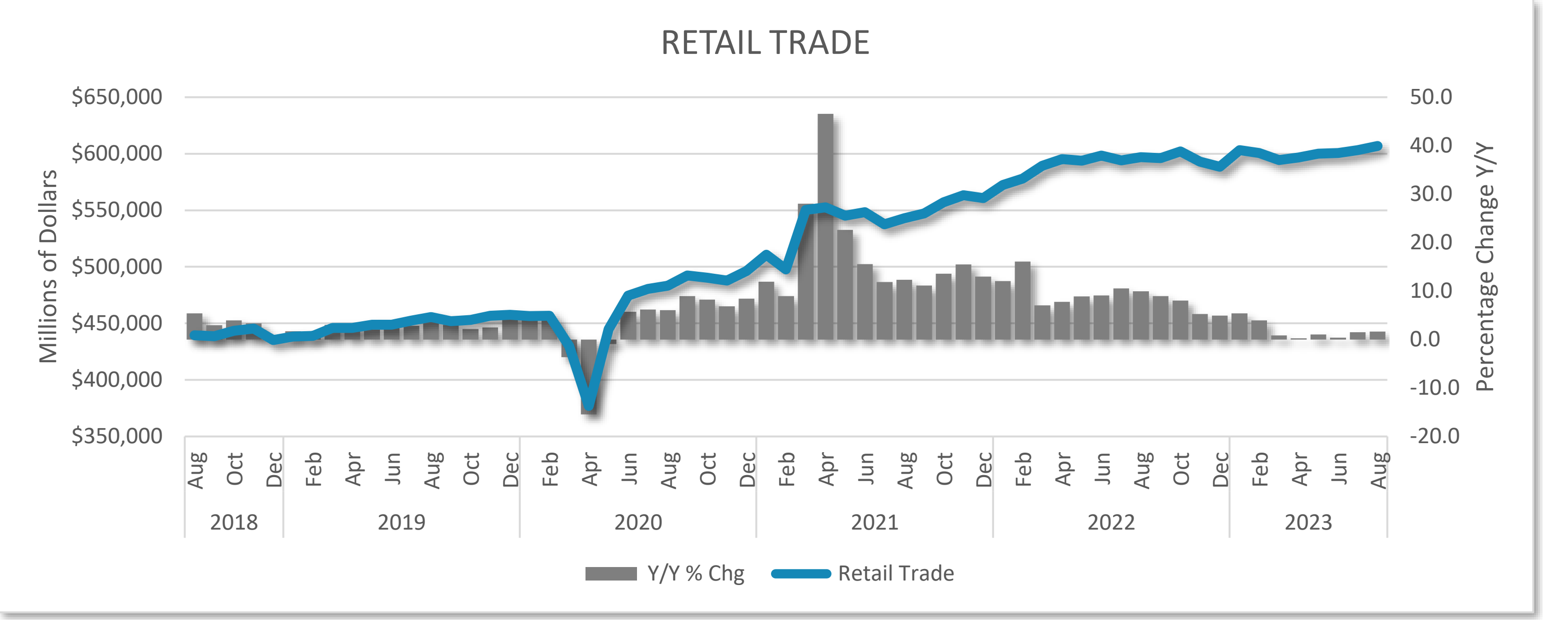
Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- 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.

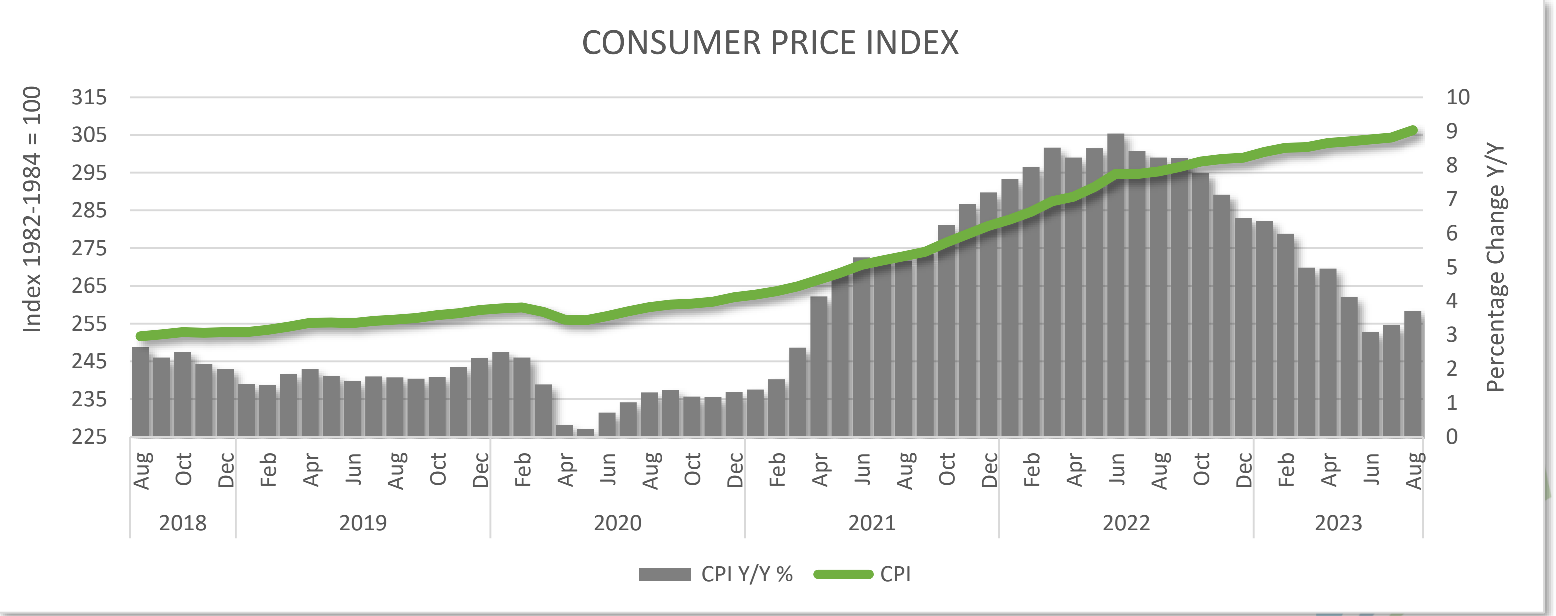
- Retail trade increased 0.6%, or $3.65 billion, month-over-month in August to $606.8 billion, and is 1.6%, or $9.7 billion, higher year-over-year.
- CPI increased slightly by 0.6% to 306.3, which is 3.7% higher than it was a year ago. Y/Y growth has started to increase again over the past couple of months.

Core CPI, which excludes food and energy, declined 6.7% month-over-month to 4.4%. Although food CPI has dropped since its high in August 2022, the services CPI remains stubbornly high at around 5.9%, while the energy CPI increased 70.1%.



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: Real 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.

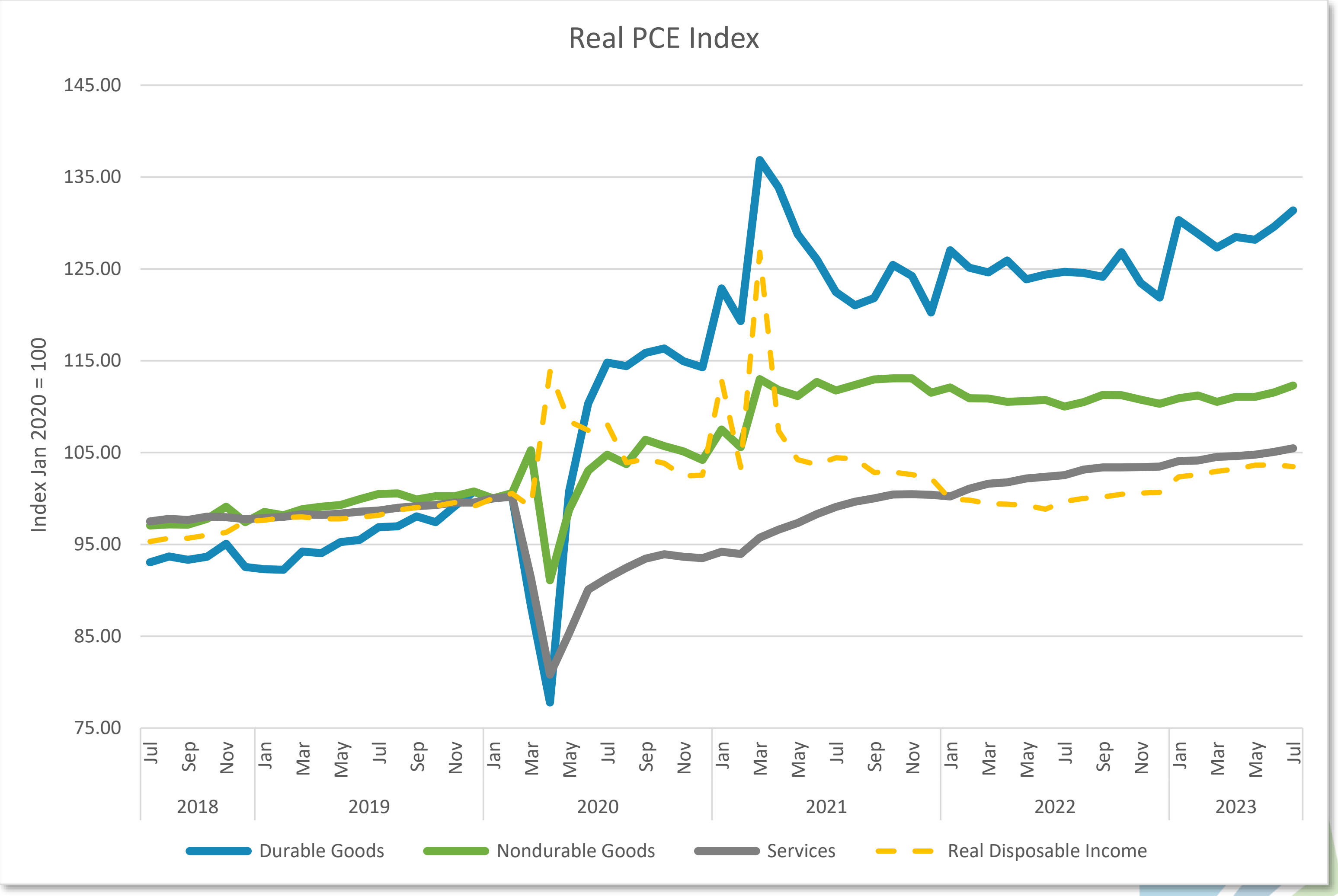
- The PCE measures a broad spectrum of consumer spending for a period of time.

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 July. In fact, all three elements of the PCE continue to rise even as real disposable income dips down.

- Consumer spending for durable goods increased 1.4% to $2.38 trillion, and is 5.4%, or $121.4 billion, higher year-over-year and 16.4%, or $335.2 billion, above the 5-year trend.
- Spending for non-durable goods increased 0.7% to $3.36 trillion, which is 2.1% higher Y/Y and 6.1%, or $194.3 billion, above the 5-year trend.
- Spending on services rose 0.4% to $8.99 trillion.



Source: FRED| https://fred.stlouisfed.org/graph/?graph_id=1210974&rn=488 | Monthly

Manufacturing: New Orders: Total Manufacturing

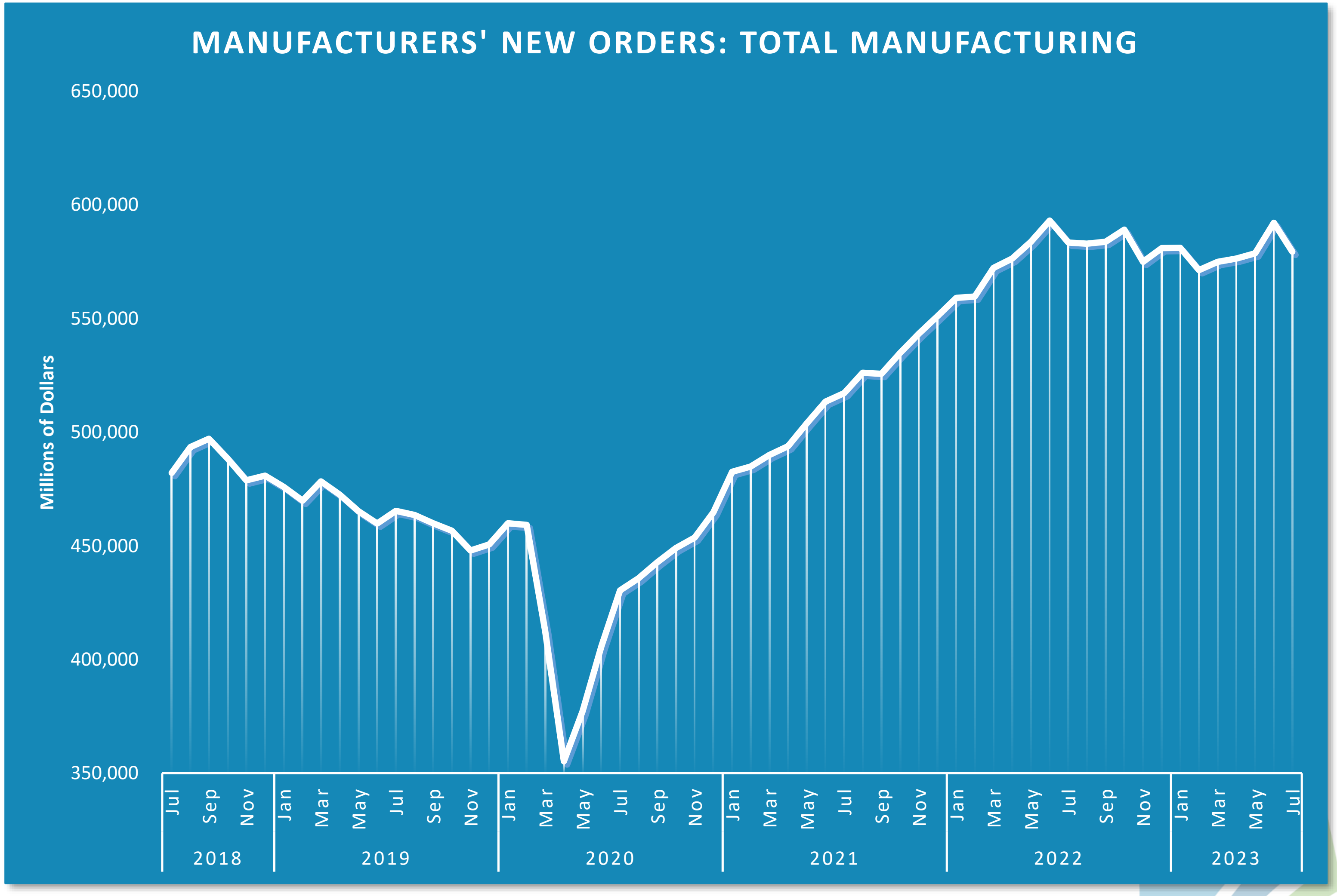
The big picture: Manufacturing new orders are an important economic indicator. They signify an overall direction of the market and economy.

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 declined in July, marking four straight months of growth. While new orders remain elevated, manufacturing overall is in a recession.

- Total manufacturing decreased 2.1%, or $12.7 billion, month-over-month to $79.4 billion.
- Total manufacturing is $3.9 billion, or 0.7%, lower year-over year and $74.6 billion, or 15%, above the 5-year trend.
- New orders for nondefense capital goods excluding aircraft, given the volatility of new orders in the aircraft sector, increased 0.05% to $73.6 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.

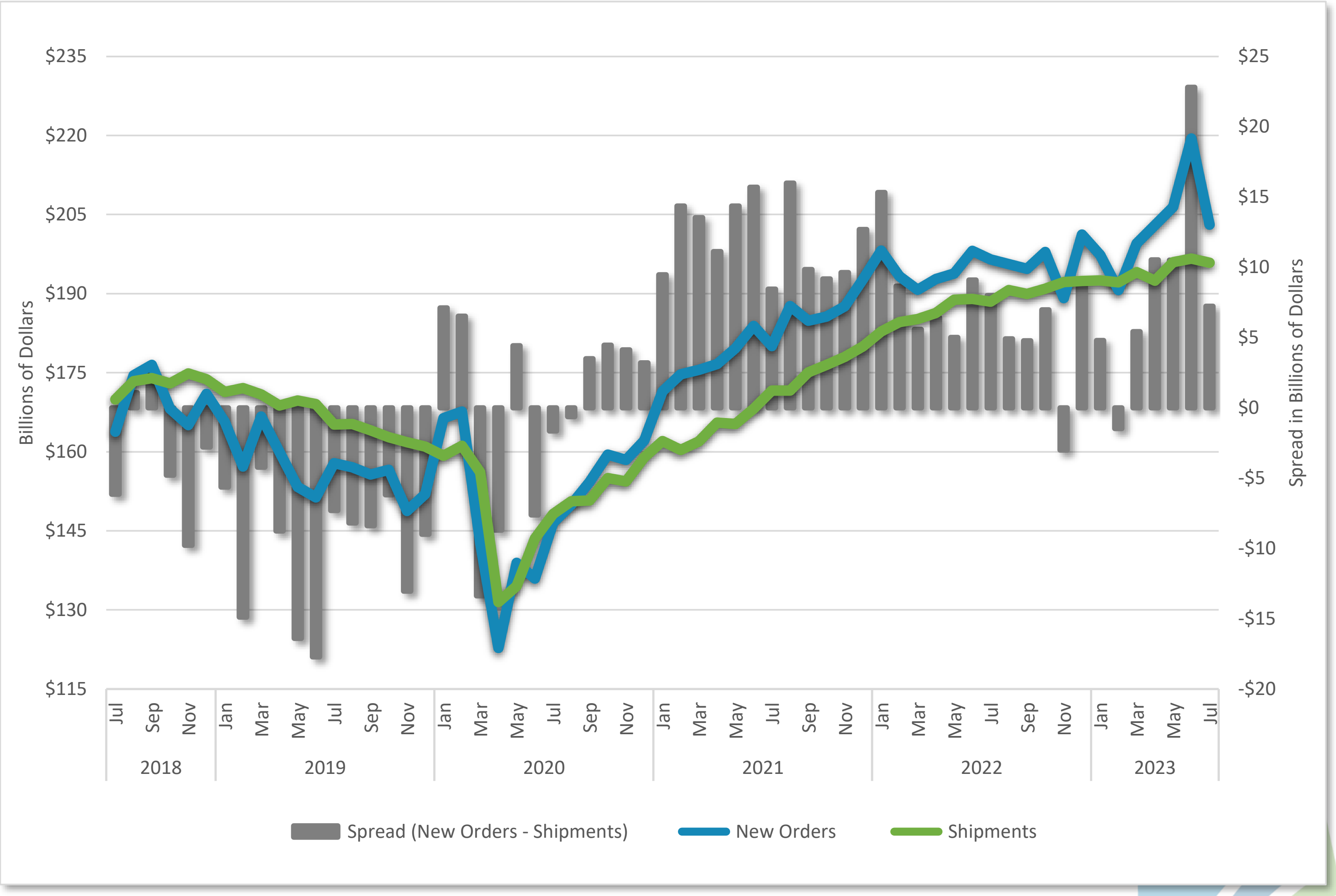
Why it matters: When unfilled new orders outperform shipments for unfilled orders, backlogs increase and we see growth in manufacturing activity. The reverse is also true.

- 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 July for the five straight months. While we typically see a fall in new orders for make-to-order products during manufacturing downturns, this hasn't happened yet. But the spread is shrinking rapidly.

- New orders decreased 7.4% to $203.1 billion in July, and are 3.4%, or $6.6 billion, higher year-over-year.
- Shipments decreased by 0.4% to $195.8 billion.

The spread between new orders and shipments contracted significantly from $22.8 billion to $7.2 billion, which is a bad signal for future freight demand.



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.

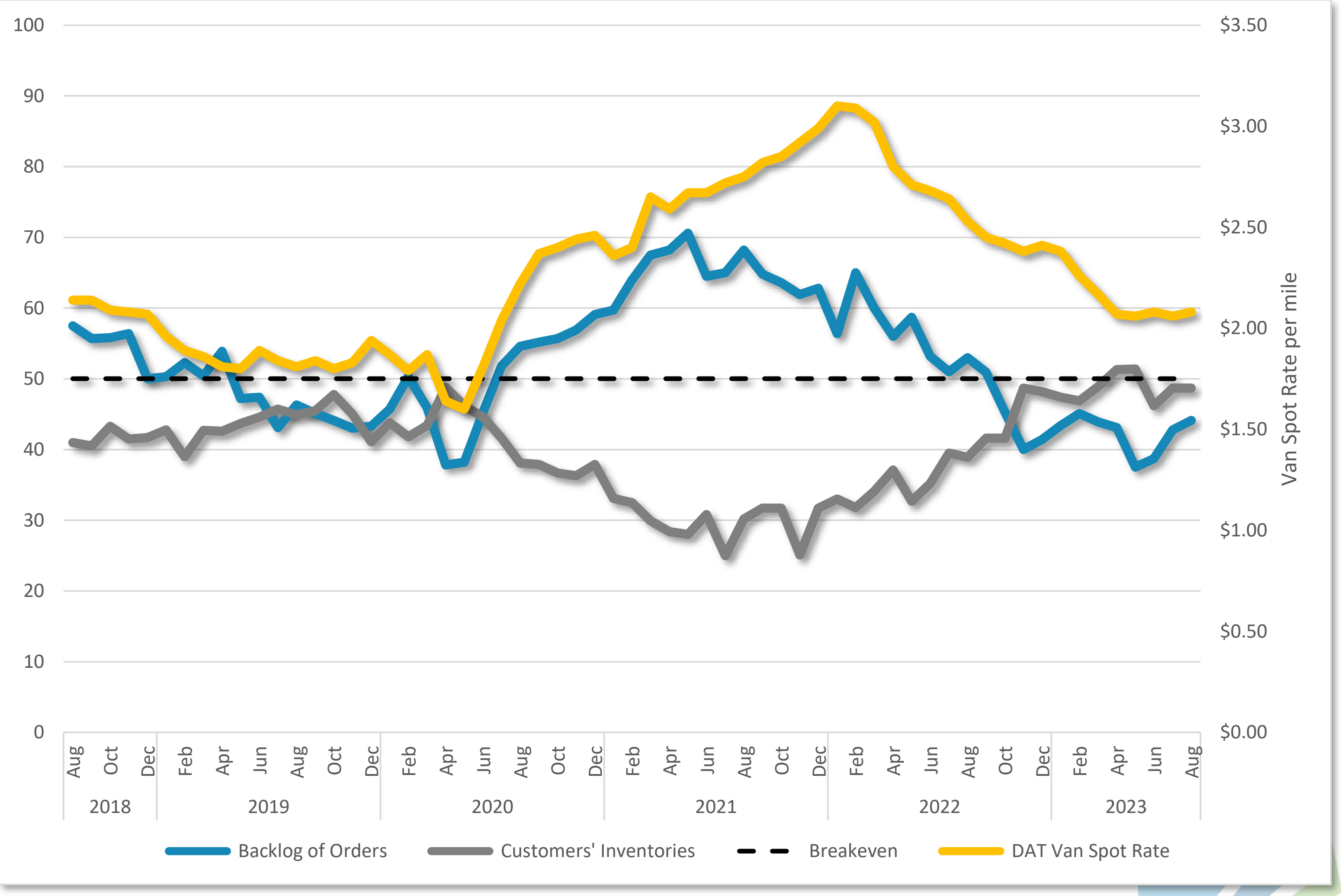
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart.

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

Our thoughts: Backlogs ticked upward in August, marking two consecutive months of increases.

- Backlogs increased 3% month-over-month to 44.1, which has been in contraction territory for eleven straight months. Backlogs are 17% lower year-over-year.
- Customers' inventories stayed flat at 48.7, and are still in contraction territory. They are 25% higher year-over-year.

The bottom line: According to ISM, the U.S. manufacturing sector shrank again, but the uptick in the PMI indicates a slower rate of contraction. The August reading reflects companies managing outputs appropriately 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.

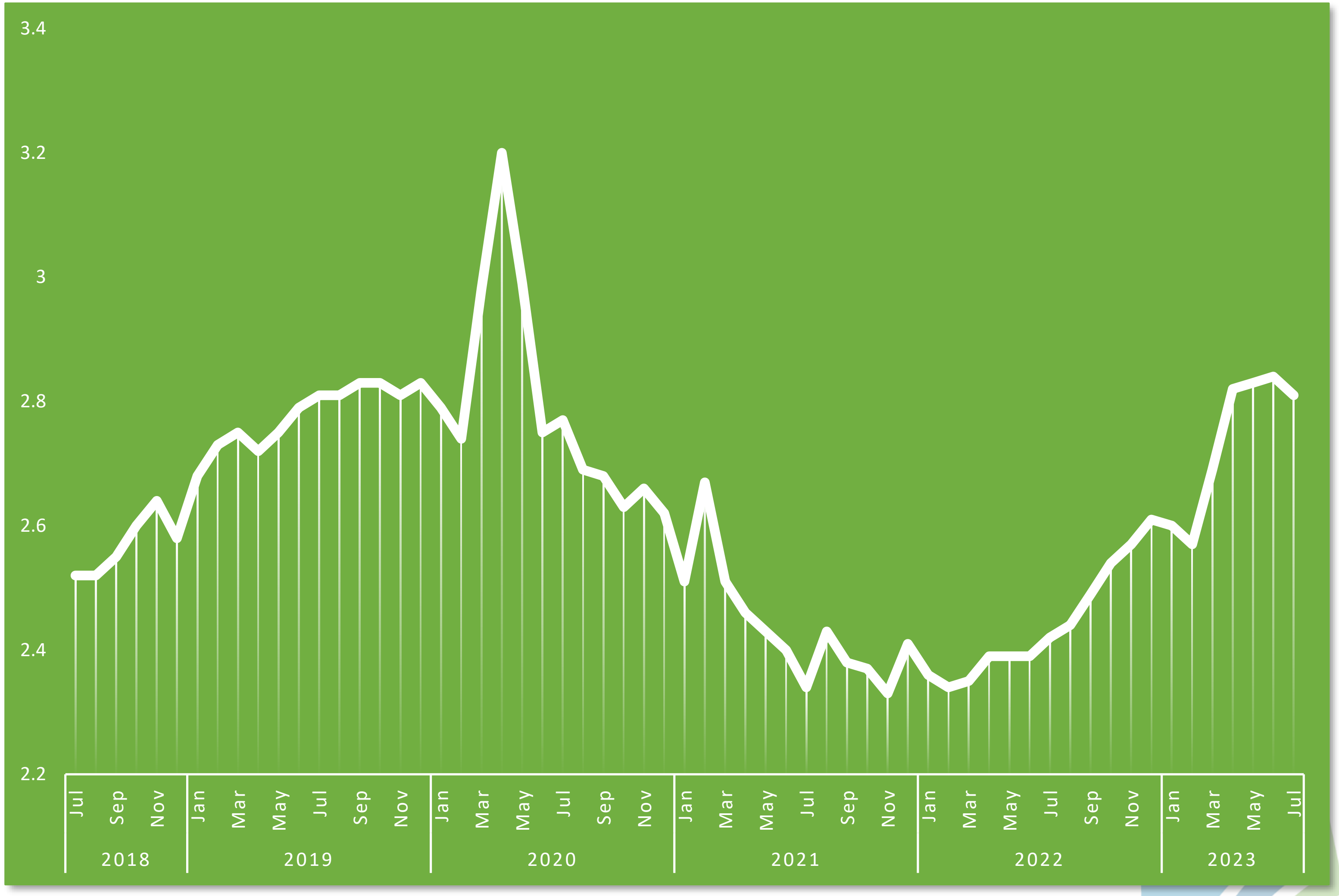
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

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

Our thoughts: Inventory levels dropped slightly in this sector, after several months of steep growth, which is a headwind for demand,.

- The inventories-to-sales ratio decreased 1.1% month-over-month in July to 2.81.
- The ratio is 16.1% higher year-over-year.

One respondent to ISM's survey in this sector wrote, "General slowdown in business at the end of the third quarter. For capital equipment additions, our customers are buying only what they need for specific jobs and not adding any capital fleet material for potential future work"



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.

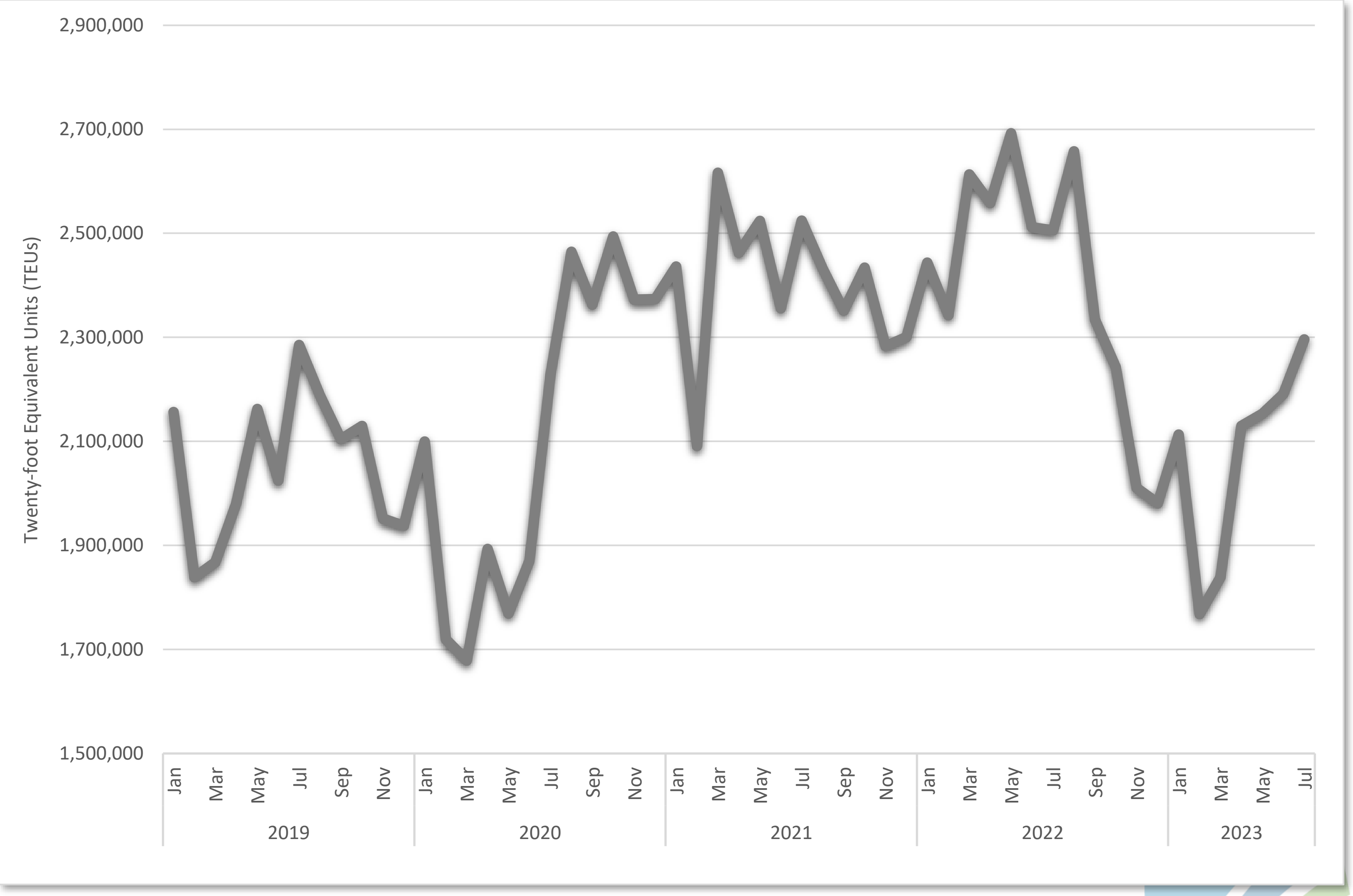
- The U.S. trade deficit tends to worsen when the economy is growing strongly.
- **Yes, but** exports and imports are not a large driver of freight movement overall compared to manufacturing.

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

Rail: Rail Carloads and Intermodal

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

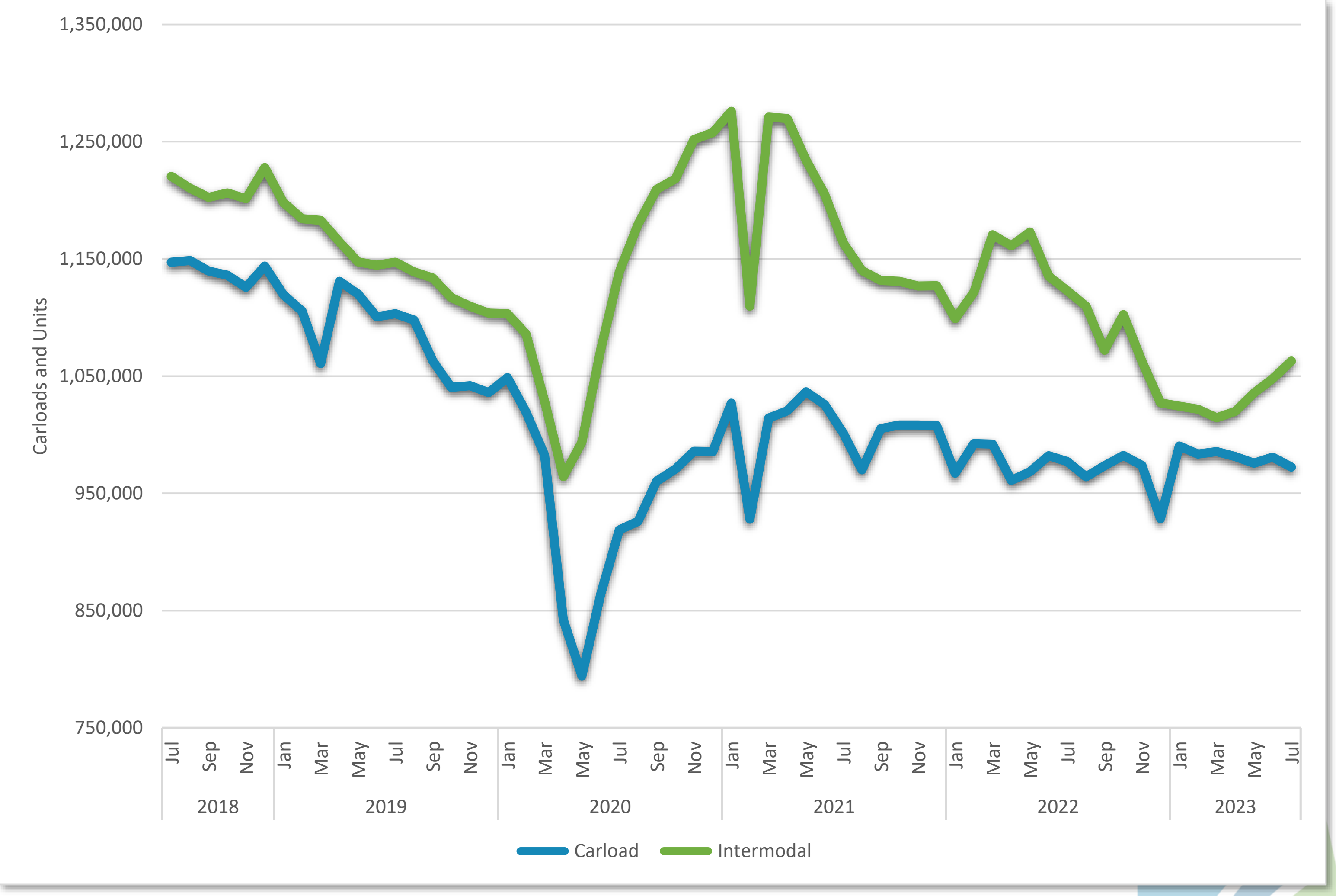
- While the rail and truck industries often compete with each other, they also work hand in hand.

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 downward 0.9% month-over-month to 972,460, and are down 1%, or 9,538 carloads, year-over-year.
- Intermodal increased 1.4% to 1.062 million, and is down 6.4%, or 72,426 loads, year-over-year.
- Both carloads and intermodal are below their 5-year trend line by 4% and 6.6% respectively.



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

Market Summary

Spot Market Cycle Indicator (SMCI)

The big picture: Data available through DAT has effectively identified the previous three market cycles, as demonstrated by Eric W. and Jason Miller. They call it the Spot Market Cycle Indicator, or SMCI.

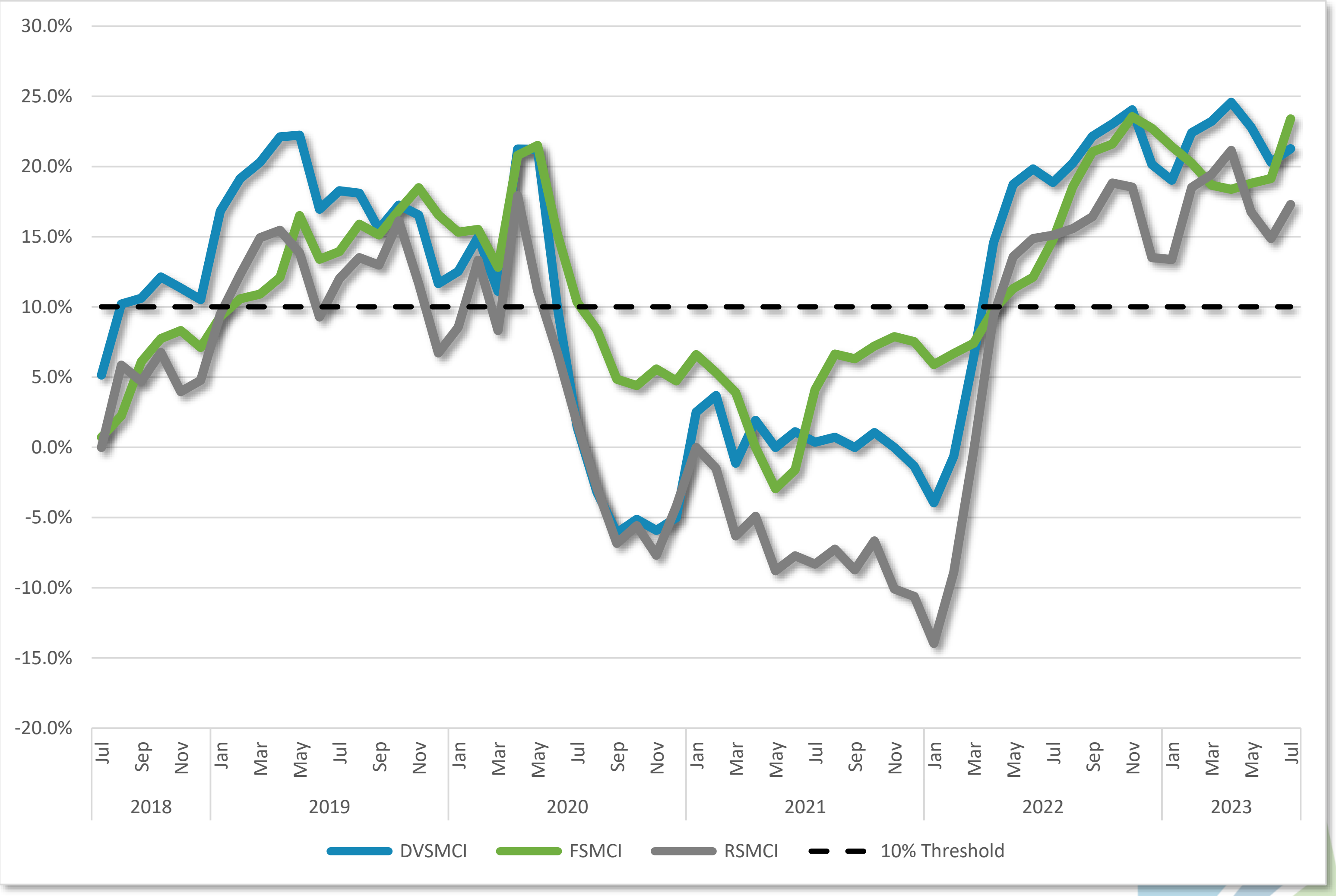
Why it matters: Whenever the SMCI for dry van (DVSMCI), flatbed (FSMCI), or reefer (RSMCI) crosses above the 10% threshold, the spot market enters into bear territory.

- The market crossed that threshold in July 2015, August 2018, and April 2022, which corresponds to commonly accepted periods of downcycles.
- The opposite is also true, the market entered bull territory in May 2013, October 2017, and July 2020.

Our thoughts: Unfortunately, there are no signs yet that the freight market is about to turn upward again. In fact, it appears to point to just the opposite.

- The DVSMCI increased 4.7% month-over-month (M/M) and is 7.2% higher year-over-year (Y/Y).
- The FSMCI jumped 22.2% M/M and is 92.9% higher Y/Y.
- The RSMCI increased 16.3% M/M and is 16.3% higher Y/Y.

Owner-operators should plan for the market to remain soft until we start to approach the 10% threshold.



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

SMCI = (Contract – Spot) / ((Contract + Spot)/2)

Volume

Soft

Demand

Soft

Capacity

Loose

Rates

Flat

Operating Costs

High

Future Outlook

Negative

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