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RESEARCH
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2nd Quarter

MARKET UPDATE

Table of Contents

Click here to jump to section

Owner-Operator Outlook

Owner-Operator Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, we tend to breakdown the industry into three main operational types: Owner-Operators, Leased-on Owner-Operators, and Company Drivers.

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 Owner-Operator outlook, we will look at:

1. **Volumes,** which will give us a picture of demand, or in other words, the number of trucks the market needs to move freight.
2. **Revenues and Broker Costs,** which illustrate how much the average Owner-Operator can expect to earn.

We will examine three key economic indicators that directly impact the Owner-Operator segment of the market:

1. C.H. Robinson's Volume per quarter
2. C.H. Robinson's Truckload Revenue per quarter
3. C.H. Robinson's Truckload Price and Cost per quarter

Volumes: C.H. Robinson's Volumes per Quarter

The big picture: C.H. Robinson is one of the world's largest logistics platforms, with $30 billion in freight under management and 2022 total revenues of $24.7 billion.

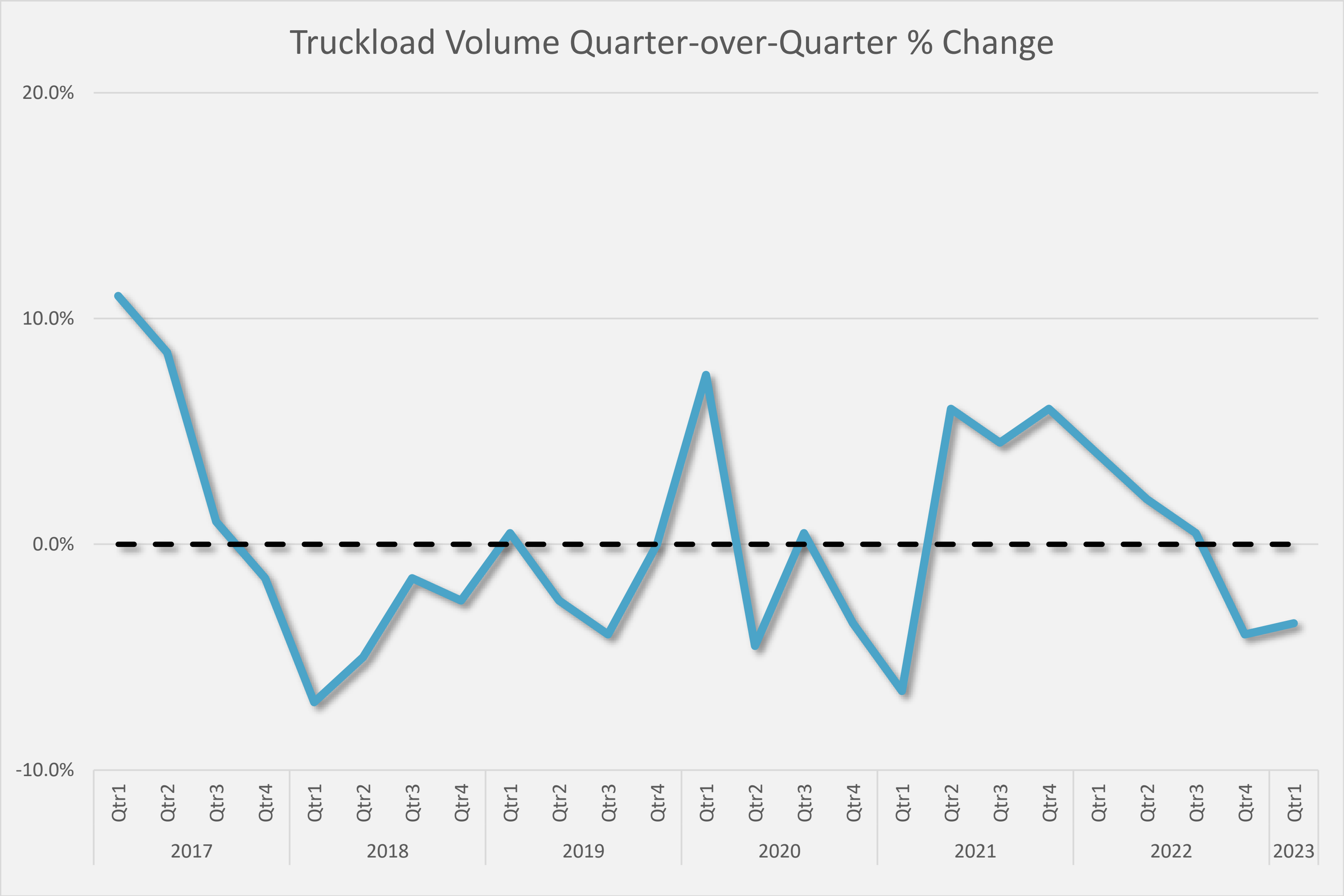
Why it matters: C.H. Robinson is the largest freight brokerage in the U.S., meaning they have a lot of visibility into the industry.

- This especially includes truckload volumes, which helps to provide insight into levels of demand.
- Notice how the owner-operator market tends to perform well when quarterly percentage changes are above zero.

Our thoughts: Truckload volumes have declined in 4 of the last 5 quarters, thereby putting downward pressure on rates. Volumes have been in negative territory for the past two quarters.

- Truckload volumes increased 0.5%, or 50 basis points, quarter-over-quarter to -3.5%.
- Volumes are down 750 basis points from last year.

Volumes will need to move above 0% before we see meaningful recovery.



Source: C.H. Robinson | https://investor.chrobinson.com/Financials/Quarterly-Results/default.aspx | Quarterly

Revenues: C.H. Robinson's Truckload Revenue

The big picture: C.H. Robinson is one of the world's largest logistics platforms, with $30 billion in freight under management and 2022 total revenues of $24.7 billion.

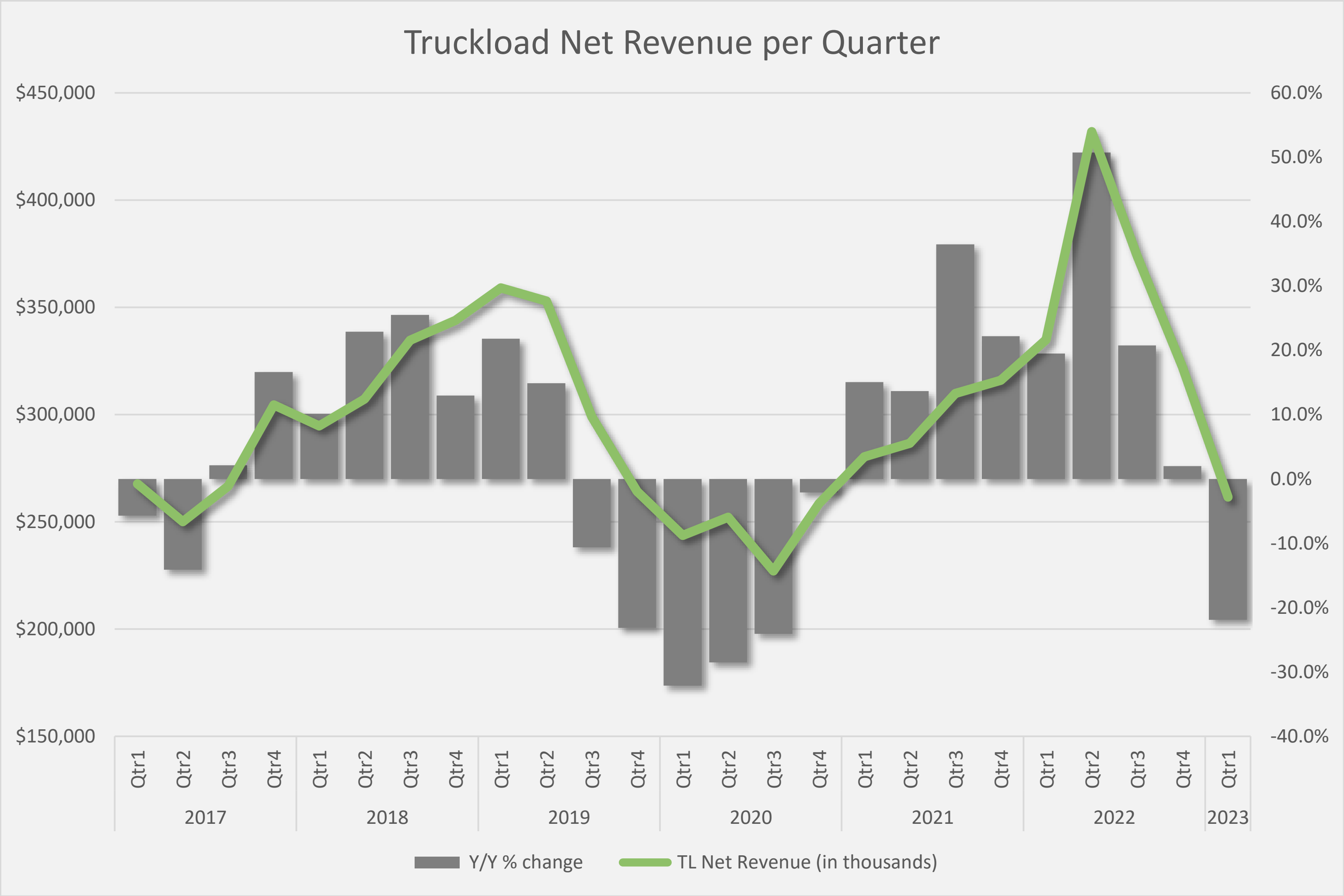
Why it matters: C.H. Robinson is the largest freight brokerage in the U.S., meaning they have a lot of visibility into the industry.

- C.H. Robinson's truckload revenue closely tracks the conditions in the trucking sector historically.
- Owner-operators tend to see higher rates on average as C.H. Robinson's truckload revenue increases, such as in 2018 and 2021.

Our thoughts: Net truckload revenue has declined over the past three quarters. The chart demonstrates how the trucking industry entered a freight recession starting in Q3 of 2022.

- Truckload revenue decreased 18.9%, or $60.8 million, quarter-over-quarter.
- Revenues are down 21.9%, or $73.4 million, compared to last year, and 13.3% over the 5-year trend.

Unfortunately, there is too much capacity for the amount of freight in the market, which is driving revenue and rates down.



Source: C.H. Robinson | https://investor.chrobinson.com/Financials/Quarterly-Results/default.aspx | Quarterly

Broker Costs: Truckload Price and Cost Change

The big picture: C.H. Robinson is one of the world's largest logistics platforms, with $30 billion in freight under management and 2022 total revenues of $24.7 billion.

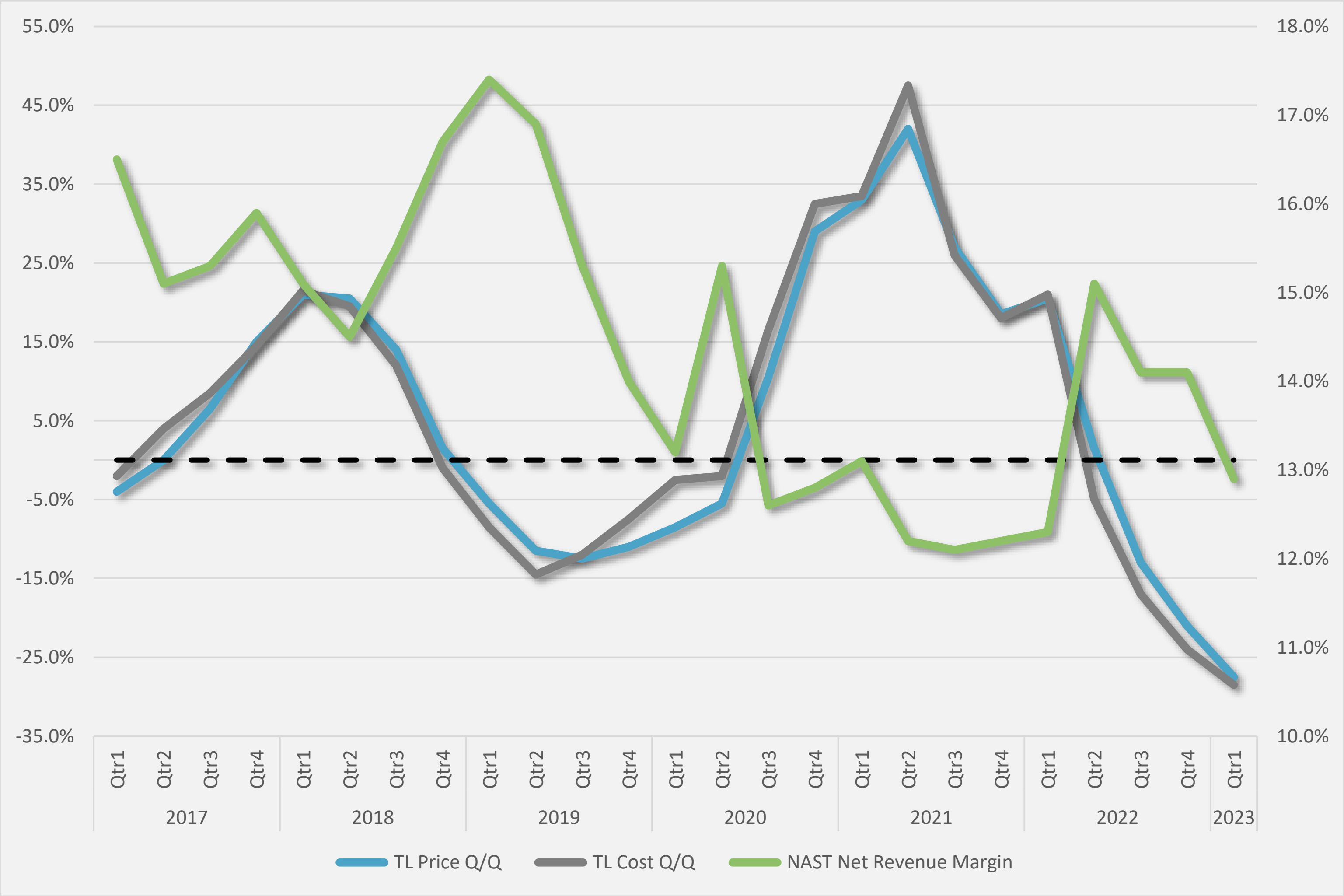
Why it matters: C.H. Robinson typical generates greater margins during down-cycles as they tend to be more selective with their pricing, whereas the opposite is also true.

- The TL Price is what C.H. Robinson charges shippers, while TL Cost is what they pay to the carrier.
- There is a strong correlation between the two, with carrier cost most often leading shipper price.

Our thoughts: The Owner-Operator outlook tends to mirror the shift in C.H. Robinson's North American Surface Transportation (NAST) net revenue margin. In other words, spot rates tend to improve when C.H. Robinson's margins decline and vice versa.

- TL Price declined 650 basis points (BPS) quarter-over-quarter, and is down 4,800 BPS since last year.
- TL Cost declined 450 BPS quarter-over-quarter, and is down 4,950 BPS year-over-year.

Both TL Price and TL Cost have been in negative territory since Q2 of 2022. However, C.H. Robinson's net revenue margin is also starting to decline, perhaps hinting at the start of the next upcycle.



Source: C.H. Robinson | https://investor.chrobinson.com/Financials/Quarterly-Results/default.aspx | Quarterly

Leased-on Owner-Operator Outlook

Leased-on Owner-Operator Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, we tend to breakdown the industry into three main operational types: Owner-Operators, Leased-on Owner-Operators, and Company Drivers.

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 Leased-On Owner-Operator outlook, we will look at:

1. **Volume and Capacity,** which will give us a picture of demand, or the number of trucks the market needs to move freight.
2. **Revenues,** which illustrate how much the average Leased-on Owner-Operator can expect to earn.

We will examine three key economic indicators that directly impact the Leased-on Owner-Operator segment of the market:

1. Landstar's BCO Loads per quarter
2. Landstar's BCO Provider and Truck Counts per quarter
3. Landstar's BCO Revenue per Load per quarter

Volumes: Landstar's Loads per Quarter

The big picture: Landstar is a transportation services company specializing in logistics and more specifically third-party logistics.

Why it matters: Landstar utilizes an extensive network of more than 10,000 leased-on owner-operators, referred to internally as BCO's.

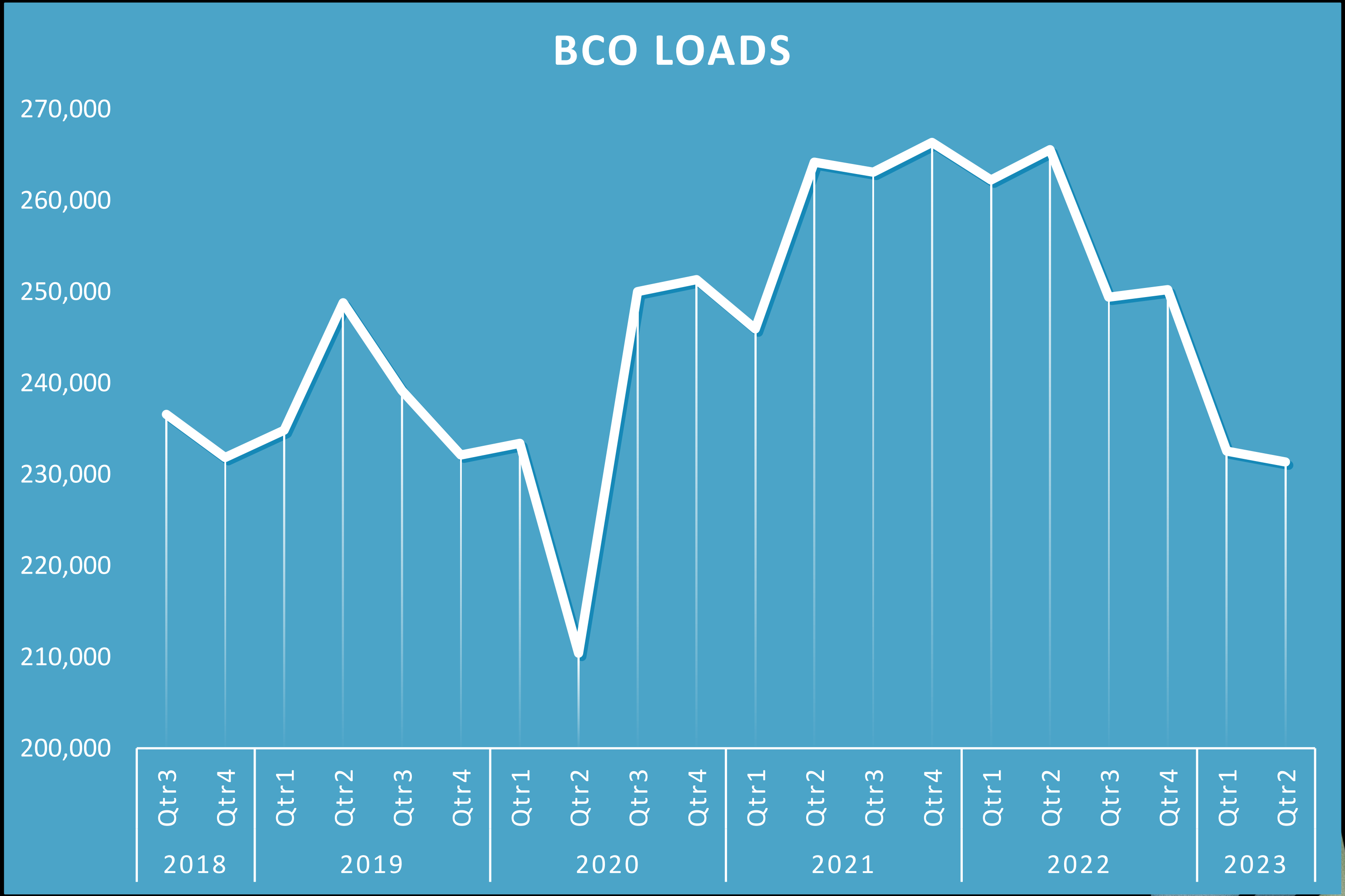
- Loads per quarter for Landstar's BCO's serves as a good proxy for volumes, and thereby demand, for the leased-on owner-operator.

Our thoughts: The number of loads has declined 12.9% since the second quarter of 2022, when the current freight recession was just beginning.

- Loads decreased 0.5%, or 1,190, quarter-over-quarter to 231,360.
- Loads are down 7.2%, or 18,060, year-over-year, and are 5.6% below the 5-year trend.

The number of loads that Landstar's BCOs are moving is below pre-pandemic levels. This has negatively impacted demand overall, and placed downward pressure on rates.

- The rate of decline has slowed somewhat, but we will need to wait and see what the third quarter brings.



Source: Landstar System, Inc.| https://investor.landstar.com/financial-news | Quarterly

Capacity: Landstar's BCO Providers and Truck counts

The big picture: Landstar is a transportation services company specializing in logistics and more specifically third-party logistics.

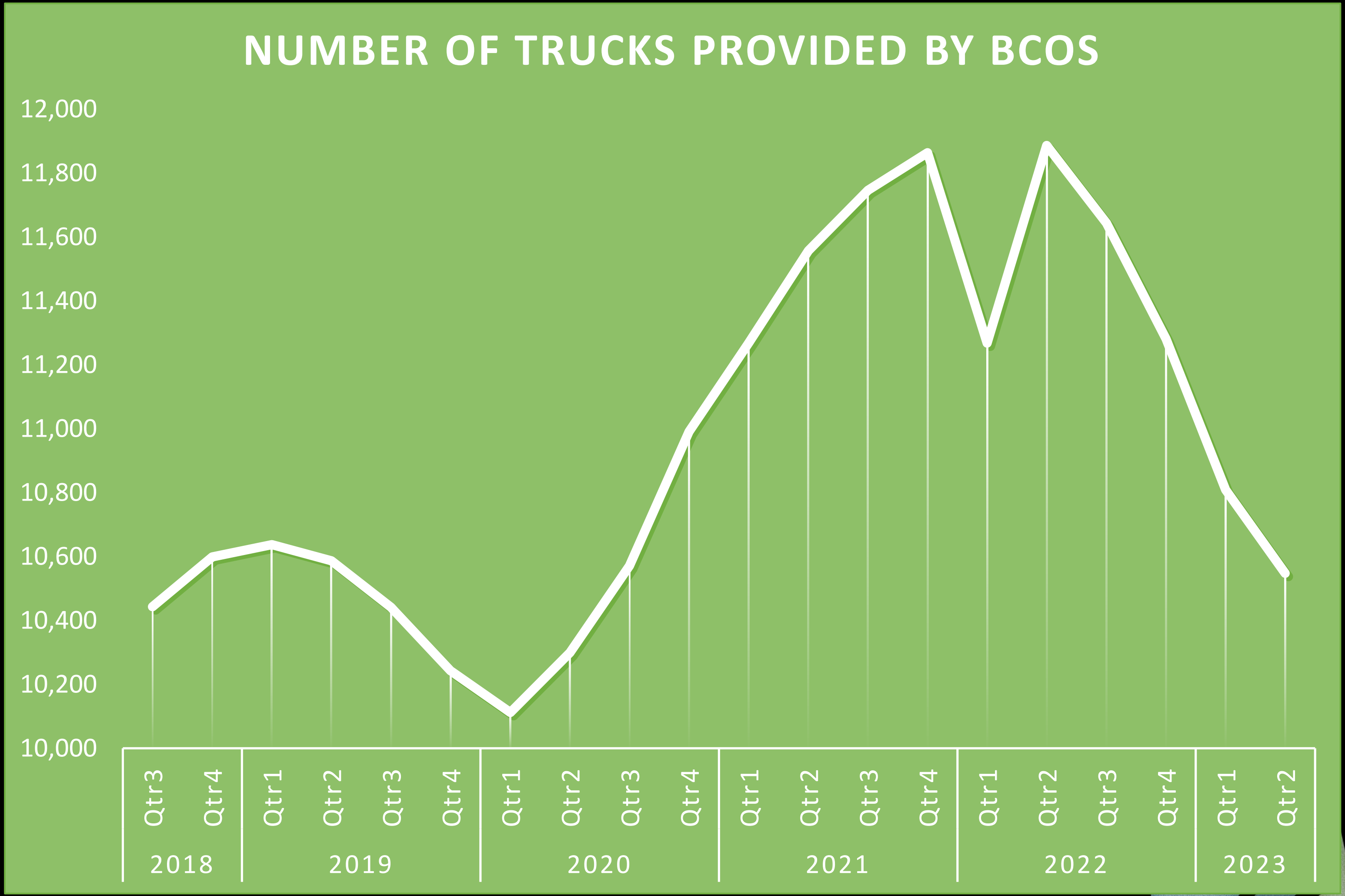
Why it matters: Landstar utilizes an extensive network of more than 10,000 leased-on owner-operators, referred to internally as BCO's.

- The number of trucks that BCOs provide to Landstar tracks well with levels of demand.
- As demand increases, so to do the number of trucks and vice versa.

Our thoughts: The number of trucks that BCOs provide has declined 11.3% since the start of the freight recession. In fact, trucks provided has declined for 4 straight quarters.

- Trucks provided declined 2.4%, or 261, quarter-over-quarter to 10,548, and are 6.5%, or 733, lower year-over-year.
- The number of trucks is 3.6%, or 392, below the 5-year trend.

The number of trucks provided is a good barometer for where the freight market is for the leased-on owner-operator.



Source: Landstar System, Inc.| https://investor.landstar.com/financial-news | Quarterly

Revenues: Landstar's Revenue Per Load

The big picture: Landstar is a transportation services company specializing in logistics and more specifically third-party logistics.

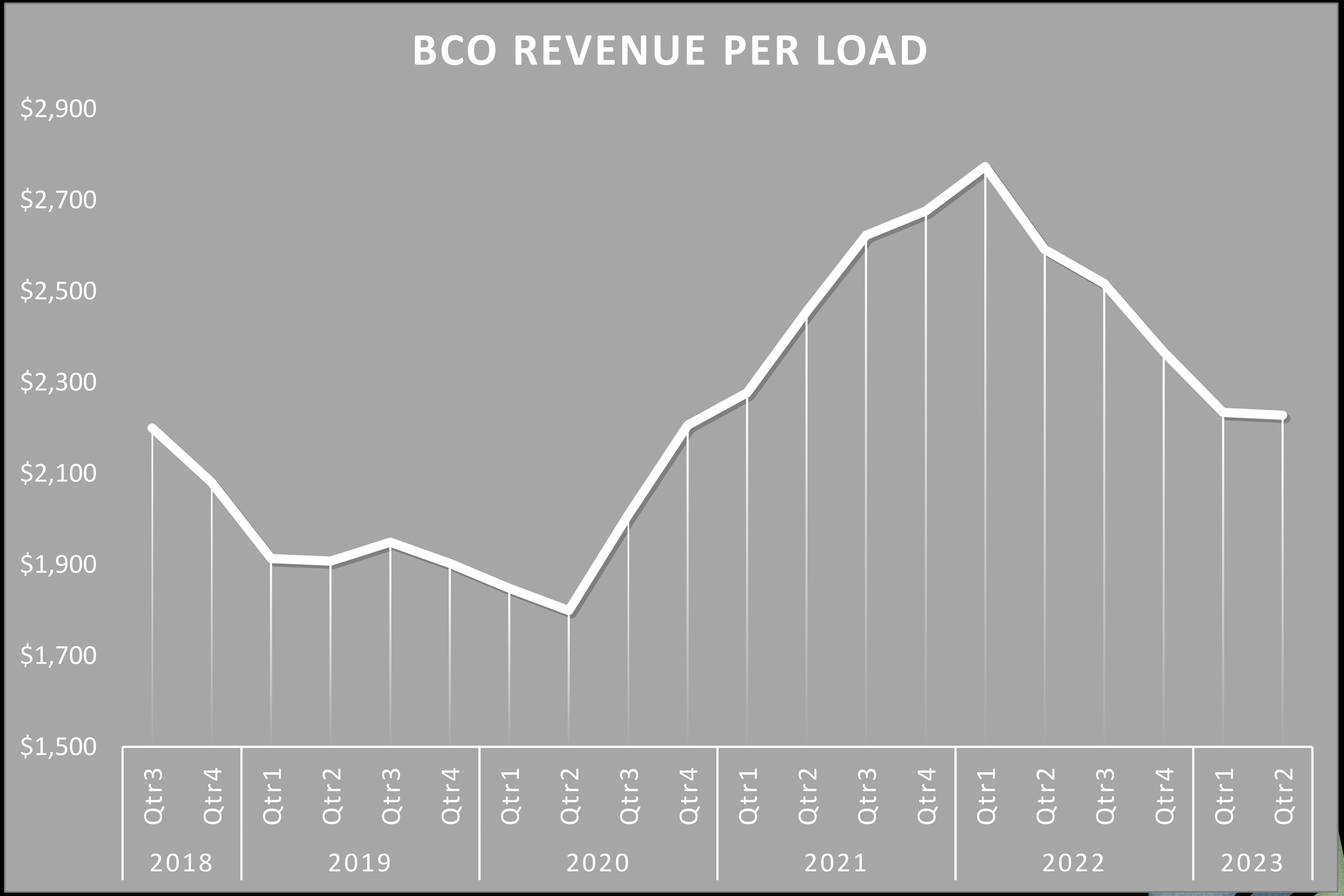
Why it matters: Landstar utilizes an extensive network of more than 10,000 leased-on owner-operators, referred to internally as BCO's.

- Similar to loads and trucks, BCO revenue per quarter gives us good visibility into rates for the leased-on owner-operator.
- More important than the exact number, is the direction the trendline is taking.

Our thoughts: The BCO revenue per load has declined 19.7% from its peak in Q1 of 2022, but since has leveled out somewhat in the second quarter of 2023, indicating that rates have indeed hit bottom.

- BCO revenue per load declined 0.3%, or $6, quarter-over-quarter to $2,228.
- Revenue is down 11.5%, or $289, year-over-year, and is flat compared to the 5-year trend.

As volumes and demand has declined, so too have rates. However, as evidenced in our monthly trucking market update, it appears that rates have found their floor.



Source: Landstar System, Inc.| https://investor.landstar.com/financial-news | Quarterly

Company Driver Outlook

Company Driver Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, we tend to breakdown the industry into three main operational types: Owner-Operators, Leased-on Owner-Operators, and Company Drivers.

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 Company Driver outlook, we will look at:

1. **Volume and Capacity,** which will give us a picture of demand, or the number of trucks the market needs to move freight.
2. **Revenues,** which illustrate how much the average Company Driver can expect to earn.

We will examine three key economic indicators that directly impact the Company Driver segment of the market:

1. U.S. Census Bureau's Real Wholesale Trade year-over-year percentage change
2. BLS Employment figures for General, Long-Distance, TL and LTL
3. BLS Average weekly earnings in 1982-1984 dollars

Volumes: Real Wholesale Trade Sales

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

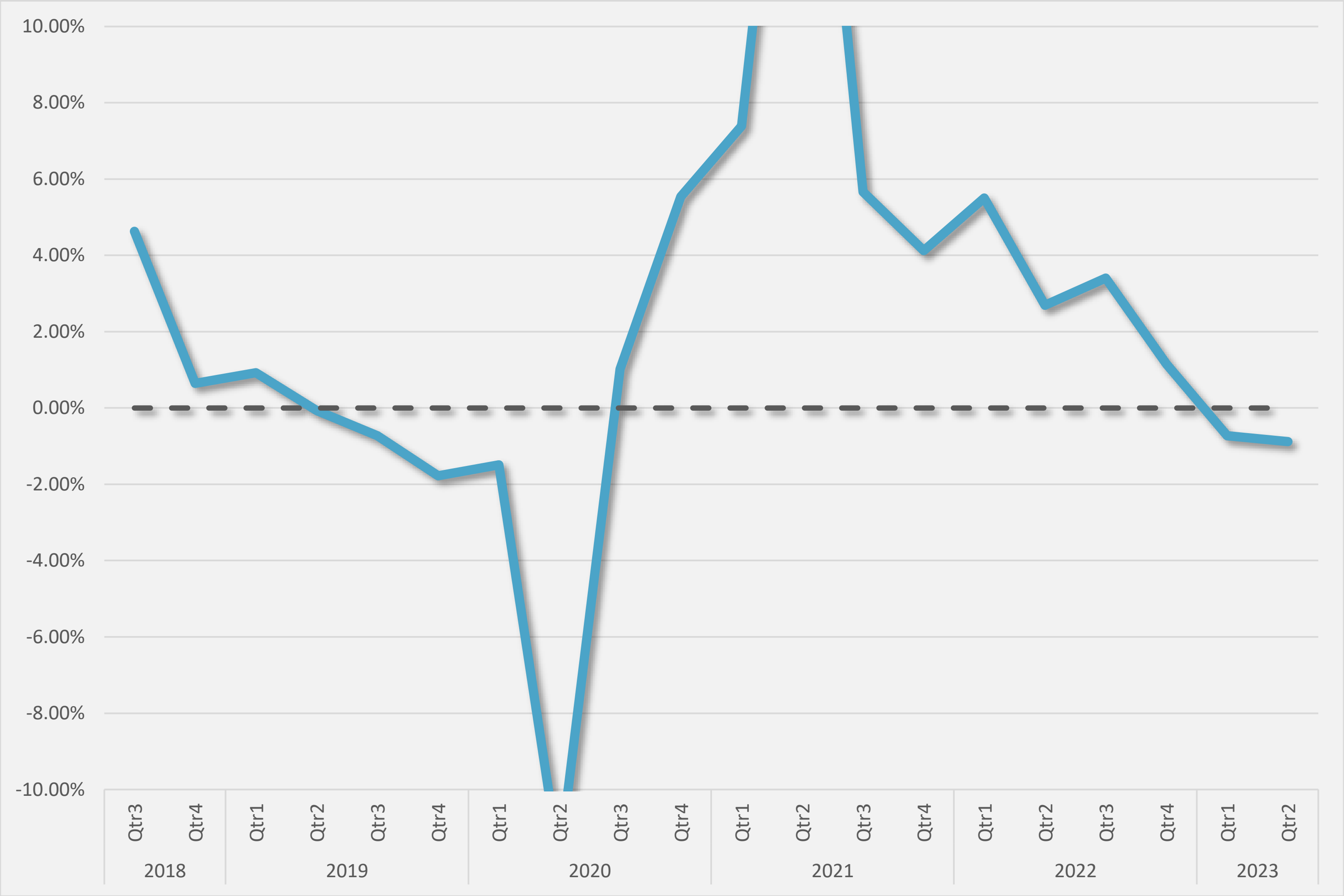
- The U.S Census Bureau reports data for different types of industries.

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.

- Year-over-year percentage changes in inflation adjusted wholesale trade sales data correlate well with periods we typically define as freight recessions in trucking.

Our thoughts: Year-over-year percentage changes for wholesale trade data decreased again in Q2 2023, marking two straight quarters of decline.

- The percentage change dropped 21.9%, or 15.8 basis points, to 0.88% quarter-over-quarter, and
- is 133%, or 357.2 basis points, lower than last year when it was 2.69%



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

Capacity: General freight, Long-distance, TL Employment

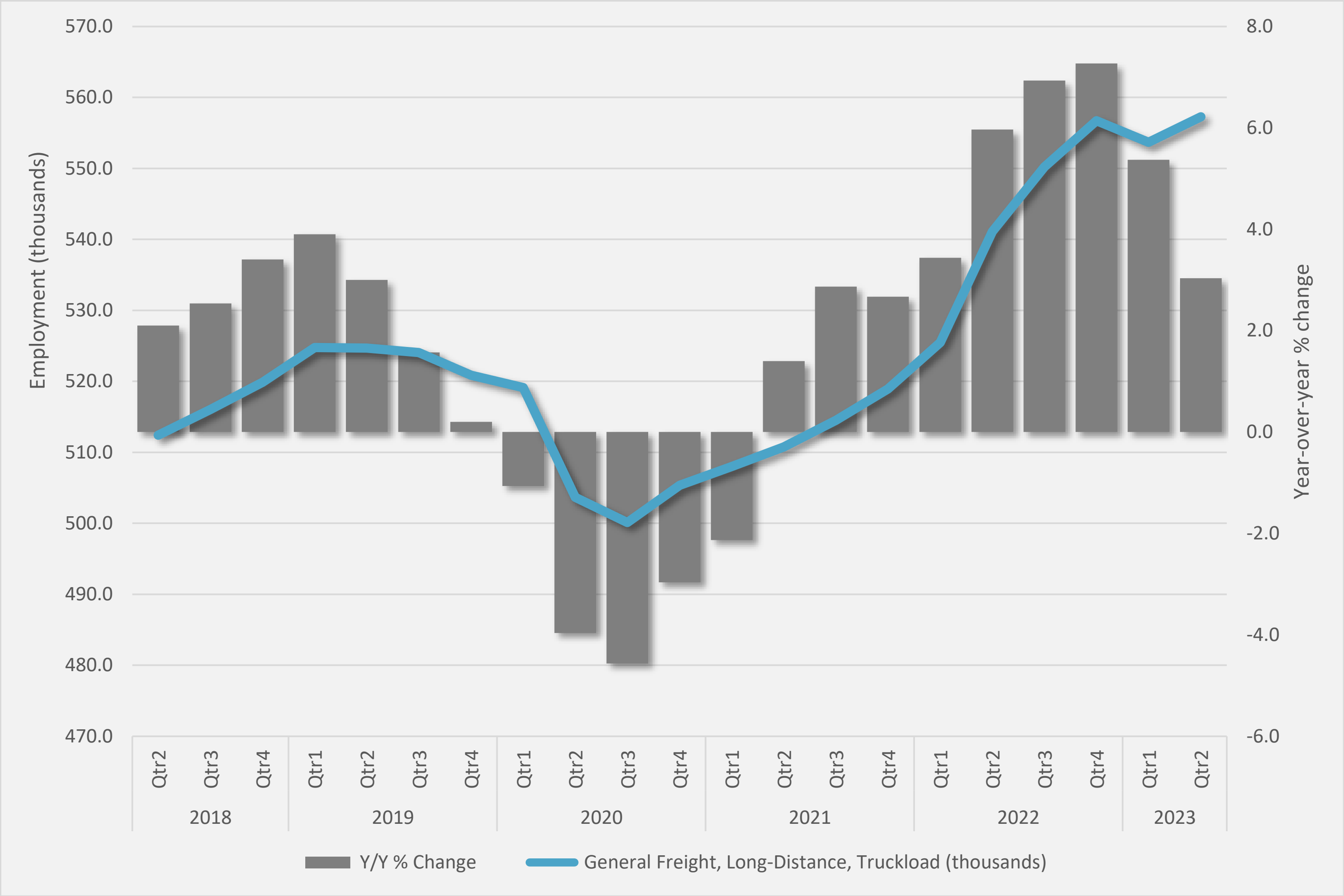
The big picture: The Bureau of Labor Statistics releases monthly payroll data concerning various industries and sectors, including trucking.

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: Employment for the general freight, long-distance, truckload sector, which best represents our membership, actually increased quarter-over-quarter despite what some news outlets have reported concerning capacity leaving the industry.

- Employment increased 0.7%, or by 3,600 jobs, in Q2 2023, and is 3%, or 16,200 jobs, higher year-over-year.
- This represents a substantial increase, and also highlights the over capacity issue currently facing the industry.
- Employment is 6.3%, or 33,100 jobs, higher than the 5-year trend.



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

Revenues: BLS Average Weekly Earnings, General freight, Long-distance, TL

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

Why it matters: Payroll data includes inflation-adjusted average weekly earnings for a variety of sectors in trucking.

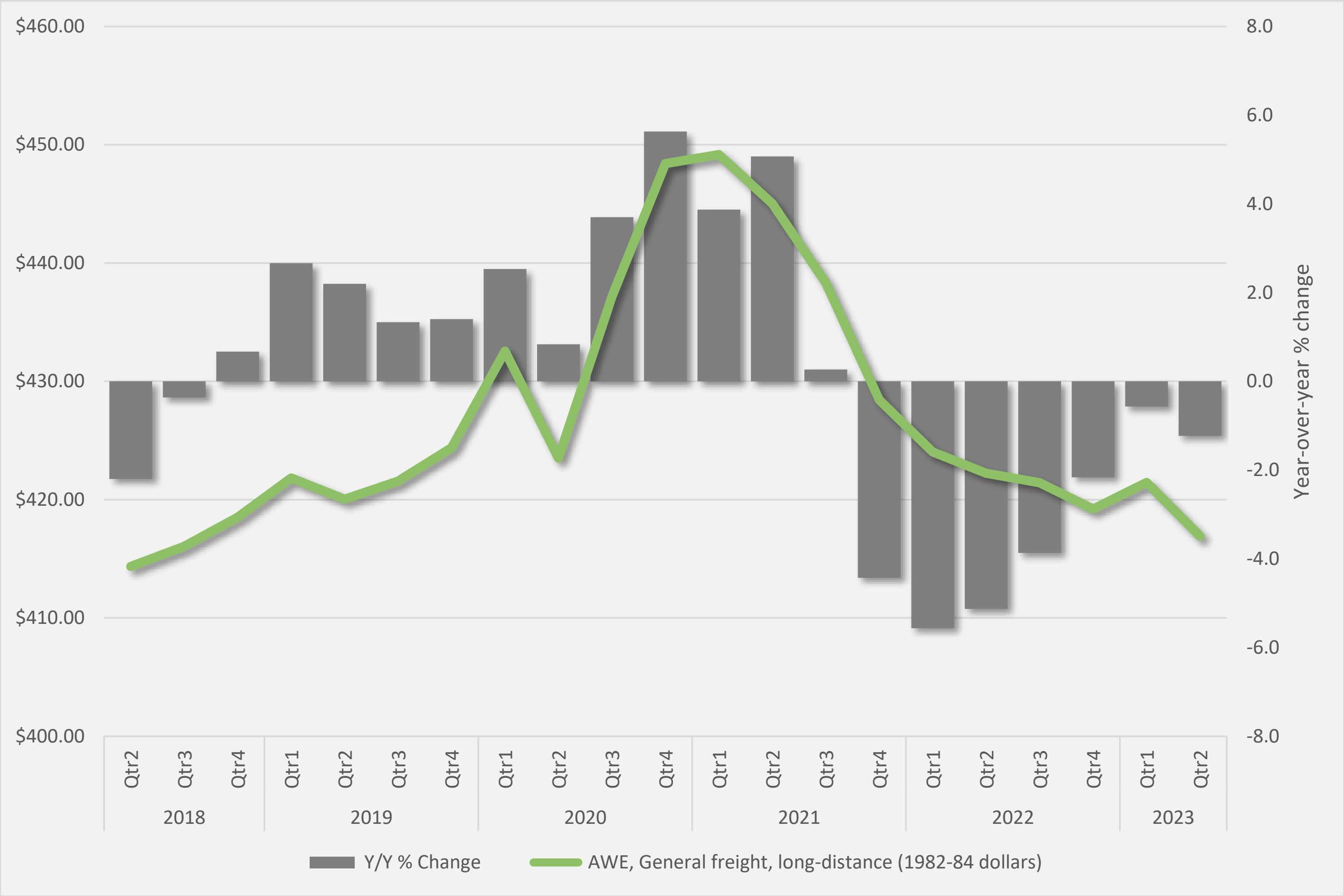
- This provides us with a good indicator of what company drivers are earning per week.

Our thoughts: Average weekly earnings (AWE) for general freight, long-distance, truckload (GFLD) decreased in Q2 2023.

- AWE for GFLD decreased 1.1%, or $4.53, quarter-over-quarter to $416.91, and is 1.3%, or $5.30, lower year-over-year..
- Earnings are 2.3%, or $10.00, lower than the 5-year average.
- AWE for SFLD (not pictured) increased 1.6% to $425.06.

AWE is not only a good indicator for compensation, but it also helps to highlight the current state of the freight market. Pay has decreased 6.3% since its high in Q2 2021.

- Inflation-adjusted pay is now below 2019 levels.



Source: BLS| https://beta.bls.gov/dataViewer/view/timeseries/CES4348412012 | Monthly

Overall Trucking Industry

Overall Trucking Industry

OOFI designed this quarterly update to help truckers gain insight into the current conditions of today's trucking industry. To do so, we will look at:

1. **Volume,** which will give us a picture of demand, or the number of trucks the market needs to move freight.
2. **Prices,** which illustrate how much the industry is spending to move freight.

We will examine three key economic indicators that directly impact the trucking industry:

1. US Bank Shipment Index
2. US Bank Spend Index
3. US Bank Shipment and Spend Regional Index

Volumes: US Bank Shipment Index

The big picture: U.S. Bank Freight Payment processes more than $46 billion in freight payments annually.

- The source data contains both truckload and less-than-truckload volumes.

Why it matters: The U.S. Bank Freight Payment Index (FPI) is a barometer for freight shipping trends and spending volumes on national and regional levels.

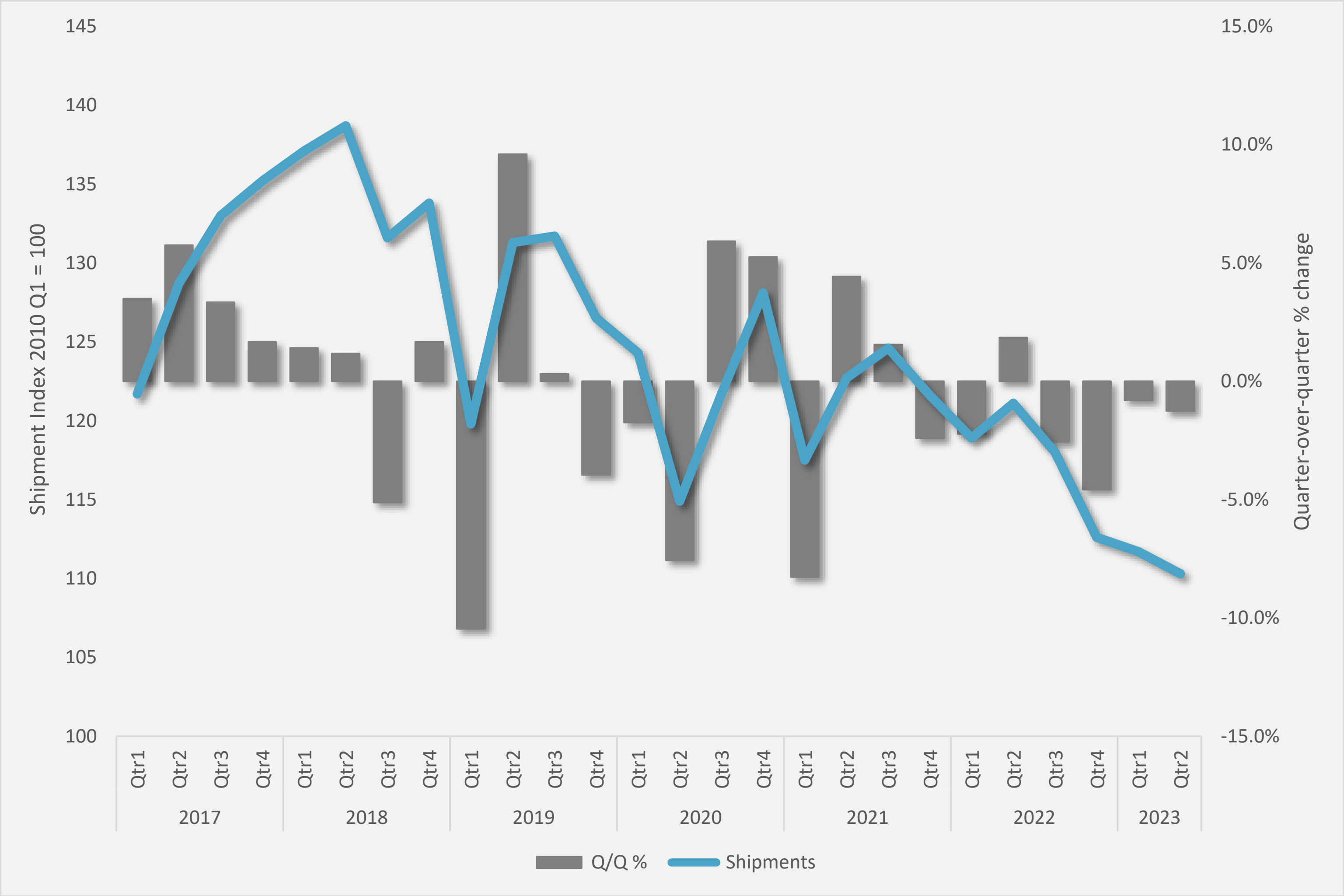
- U.S. Bank's Shipment Index measures the number of actual shipments it's client send, thus making it a good proxy for freight volumes overall.

Our thoughts: According to U.S. Bank, shippers are starting to consolidate their freight onto full TL trailers rather than sending multiple shipments on LTL. Thus, reducing their overall shipment numbers.

- The Shipment Index decreased 1.3% to 110.3 in Q2 2023, and is 6.1% lower year-over-year.

- The index is 11.4% below the 5-year trend.

In light of all of these factors, truck freight continues to underperform relative to the broader economy.



Source: U.S. Bank | https://www.usbank.com/corporate-and-commercial-banking/industry-expertise/transportation/freight-payment-insights.html | Quarterly

Prices: US Bank Spend Index

The big picture: U.S. Bank Freight Payment processes more than $46 billion in freight payments annually.

- The source data contains both truckload and less-than-truckload volumes.

Why it matters: The U.S. Bank Freight Payment Index (FPI) is a barometer for freight shipping trends and spending volumes on national and regional levels.

- U.S. Bank's Spend Index measures how much it's client spend on freight, thus making it a good indicator for rates overall.

Our thoughts: This quarter's decline represents the largest sequential decrease in three years, and is indicative of a challenging marketplace for carriers.

- The Spend Index decreased 8.3% quarter-over-quarter, and is 16.6% higher year-over-year.
- The Index is 16.3% higher than the 5-year trend.

Spending has dropped over the past year in part due to lower shipment volumes, but also because there is more truck capacity available in the marketplace than there are loads to haul. This trend had been true in the spot market for a few quarters, but recently moved into the contract freight market as well.

Source: U.S. Bank | https://www.usbank.com/corporate-and-commercial-banking/industry-expertise/transportation/freight-payment-insights.html | Quarterly

Prices: US Bank Shipment and Spend Regional Index

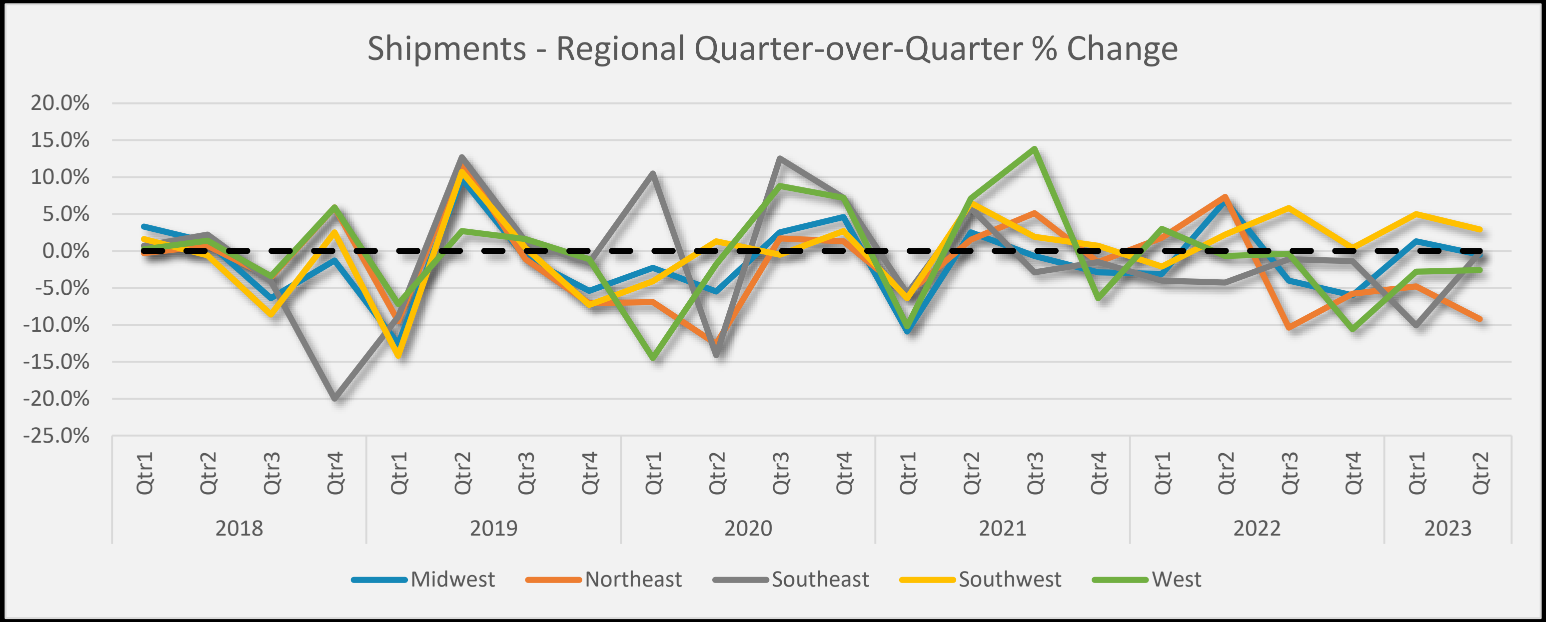
The big picture: U.S. Bank Freight Payment processes more than $46 billion in freight payments annually.

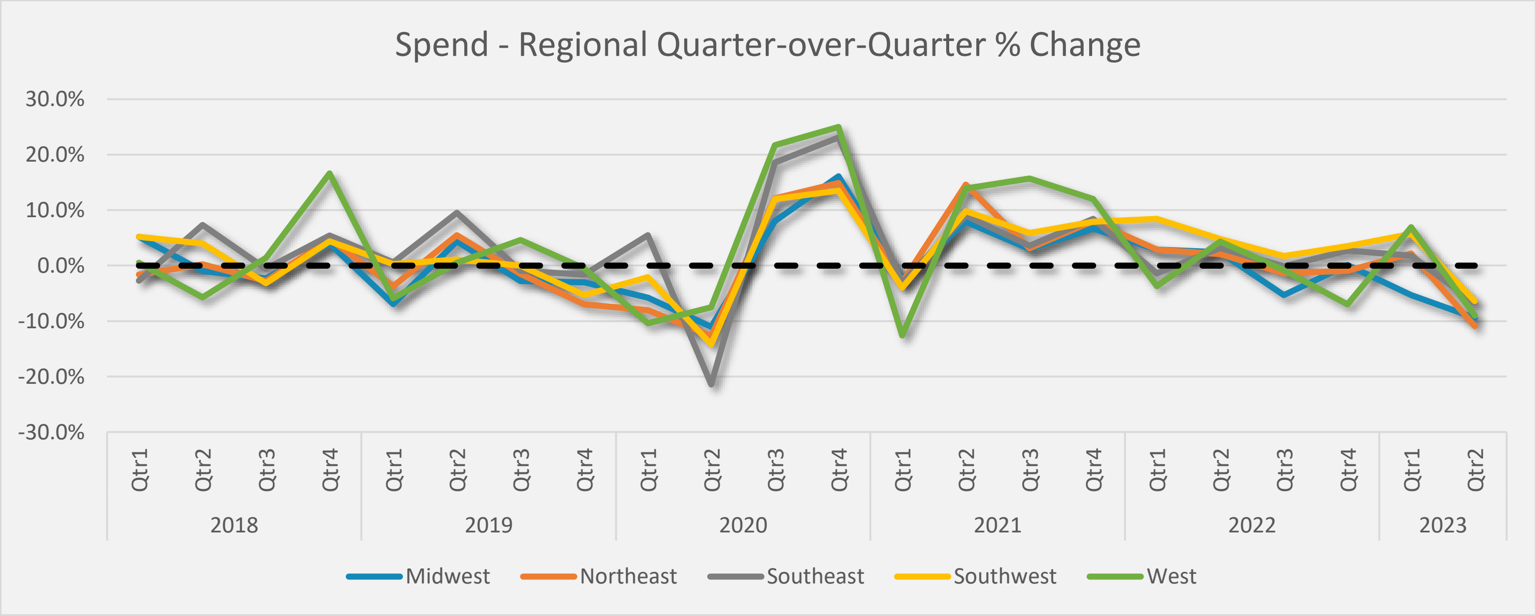
- The source data contains both truckload and less-than-truckload volumes.

Why it matters: The U.S. Bank Freight Payment Index (FPI) is a barometer for freight shipping trends and spending volumes on national and regional levels.

Our thoughts: Shipment volumes were somewhat mixed during the second quarter from a regional perspective compared to Q1. Spending however, was universally down as truck capacity loosened everywhere during the last three months.

- The Northeast region experienced the greatest percentage change from the previous quarter in terms of both shipments and spend, declining 9.2% and 10.9%, respectively.
- In terms of shipments, the Southwest and Midwest regions were the only areas of the country to still experience some growth, even if it was a stepdown from the previous quarter.
- Unfortunately, every region is in negative territory in terms of spending as indicated in the second chart.





Source: U.S. Bank | https://www.usbank.com/corporate-and-commercial-banking/industry-expertise/transportation/freight-payment-insights.html | Quarterly

Overall Freight Market

Overall Freight Market

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:

1. **Demand,** which will give us an idea of how many trucks the market needs to move freight.
2. **Rates,** which illustrate how much the industry can expect to earn.

We will examine three key economic indicators that directly impact the trucking industry:

1. U.S. Census QPC Capacity Utilization and Average Hours of Operation
2. U.S. Census QPC Insufficient supply and orders, and Sufficient inventories of finished goods
3. BLS PPI General Freight, Long-distance, TL and LTL

Demand: Capacity Utilization and Average Hours of Operation

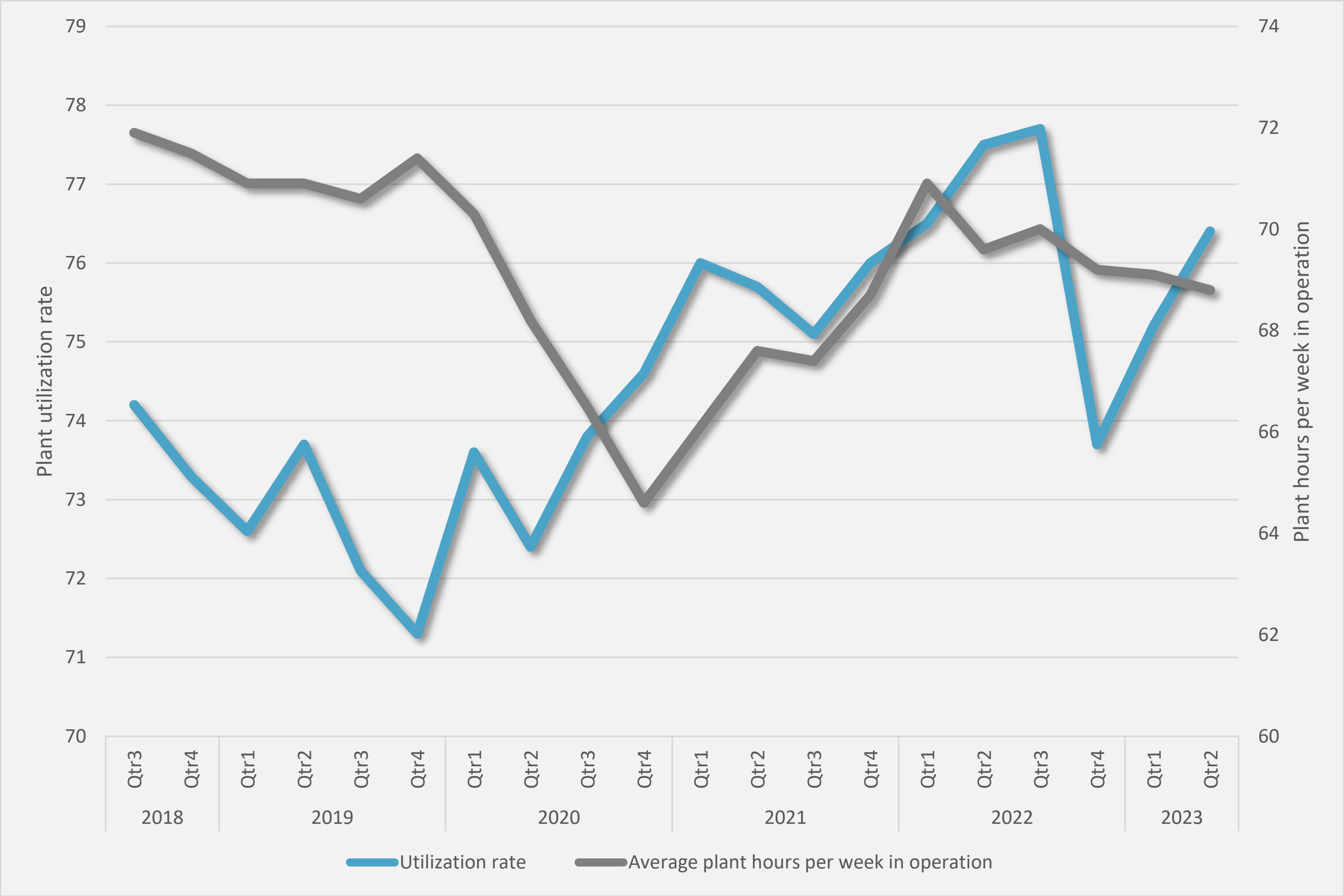
The big picture: The U.S. Census Bureau publishes the Quarterly Survey of Plant Capacity Utilization (QPC), which provides quarterly statistics on plant capacity utilization rates for the manufacturing and publishing sectors of the U.S. economy.

Why it matters: Manufacturing accounts for 59% of for-hire trucking ton-miles. The QPC collects data on actual production and the full production capability at manufacturing plants.

- Plant utilization and hours of operation are a good proxy for industrial and manufacturing production.
- As plant utilization rates and hours increase, so too does freight demand. The opposite is also true.

Our thoughts: The utilization rate for all manufacturing sectors increased 1.6% following a steep drop in Q3 2022, while hours of operation decreased again at 0.4% quarter-over-quarter in Q2 2023, marking three straight quarters of decline.

- Utilization is 1.4% lower year-over-year, but 2.5% higher than the 5-year trend.
- Hours of operation are 1.1% lower than this time last year, and 0.6% lower than the 5-year trend.



Source: U.S. Census Bureau| https://www.census.gov/programs-surveys/qpc/data/tables.html | Quarterly

Demand: Insufficient Supply and Orders, Sufficient Inventories

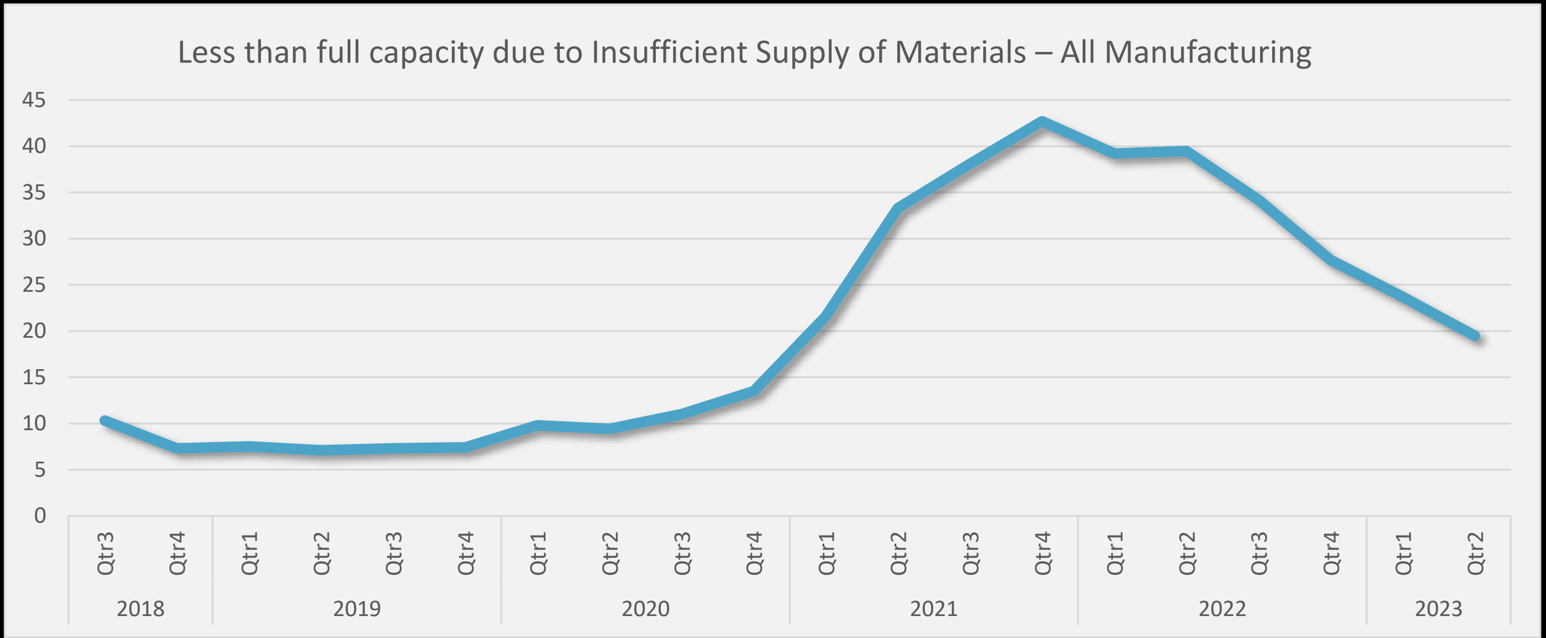
The big picture: The U.S. Census Bureau publishes the Quarterly Survey of Plant Capacity Utilization (QPC), which provides quarterly statistics on plant capacity utilization rates for the manufacturing and publishing sectors of the U.S. economy.

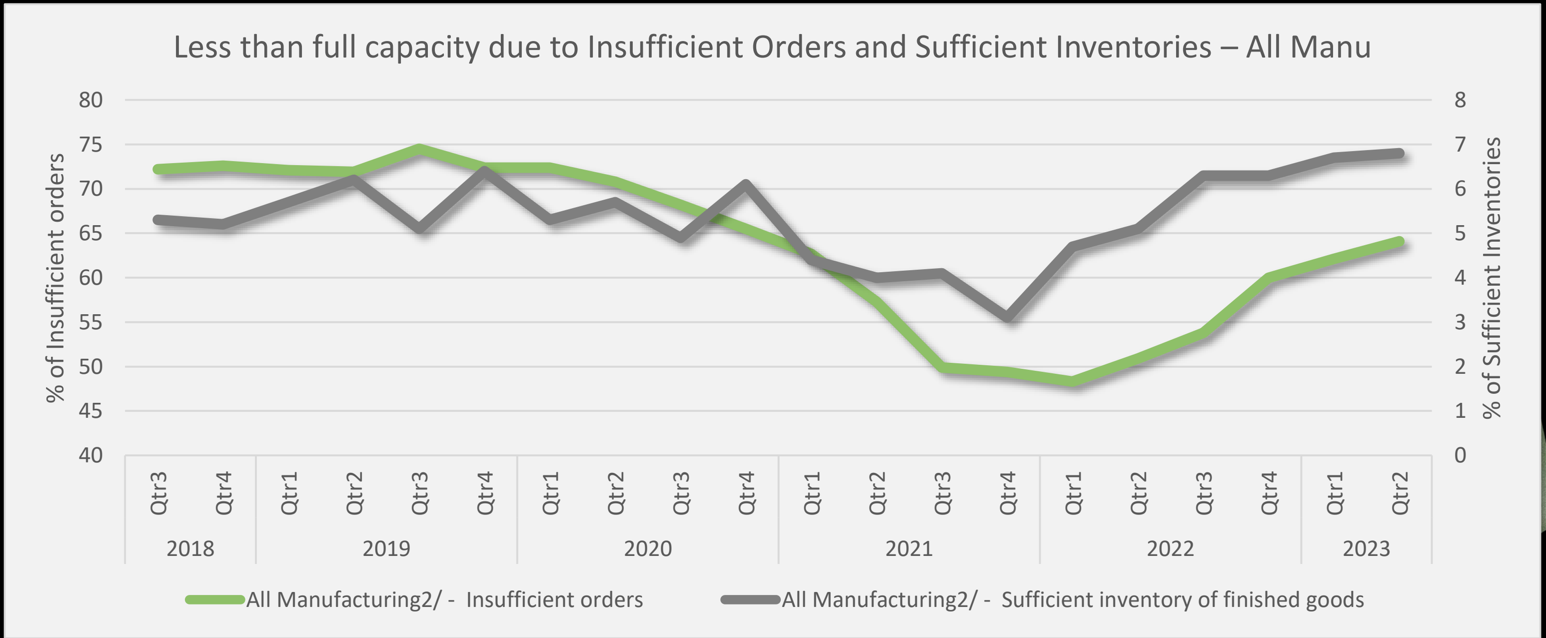
Why it matters: The QPC also collects data concerning the primary reasons for why a plant's production for the quarter is less than their full capability.

- The percentage of plants that indicate that they are running at less than full capacity because of insufficient supply of materials increases when demand peaks.
- While reasons such as insufficient orders and sufficient inventories of finished goods decrease during those peak seasons, and vice versa.

Our thoughts: The percentage of plants experiencing an insufficient supply of materials decreased 17.7% quarter-over-quarter to 19.5, while the percentage of plants citing insufficient orders and sufficient inventory increased 3.2% and 1.5%, respectively in Q2 2023.

- Insufficient supply is 50.6% lower year-over-year.
- Insufficient orders are 25.9% higher Y/Y.
- Sufficient inventories are 33.3% higher Y/Y.





Source: U.S. Census Bureau| https://www.census.gov/programs-surveys/qpc/data/tables.html | Quarterly

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.

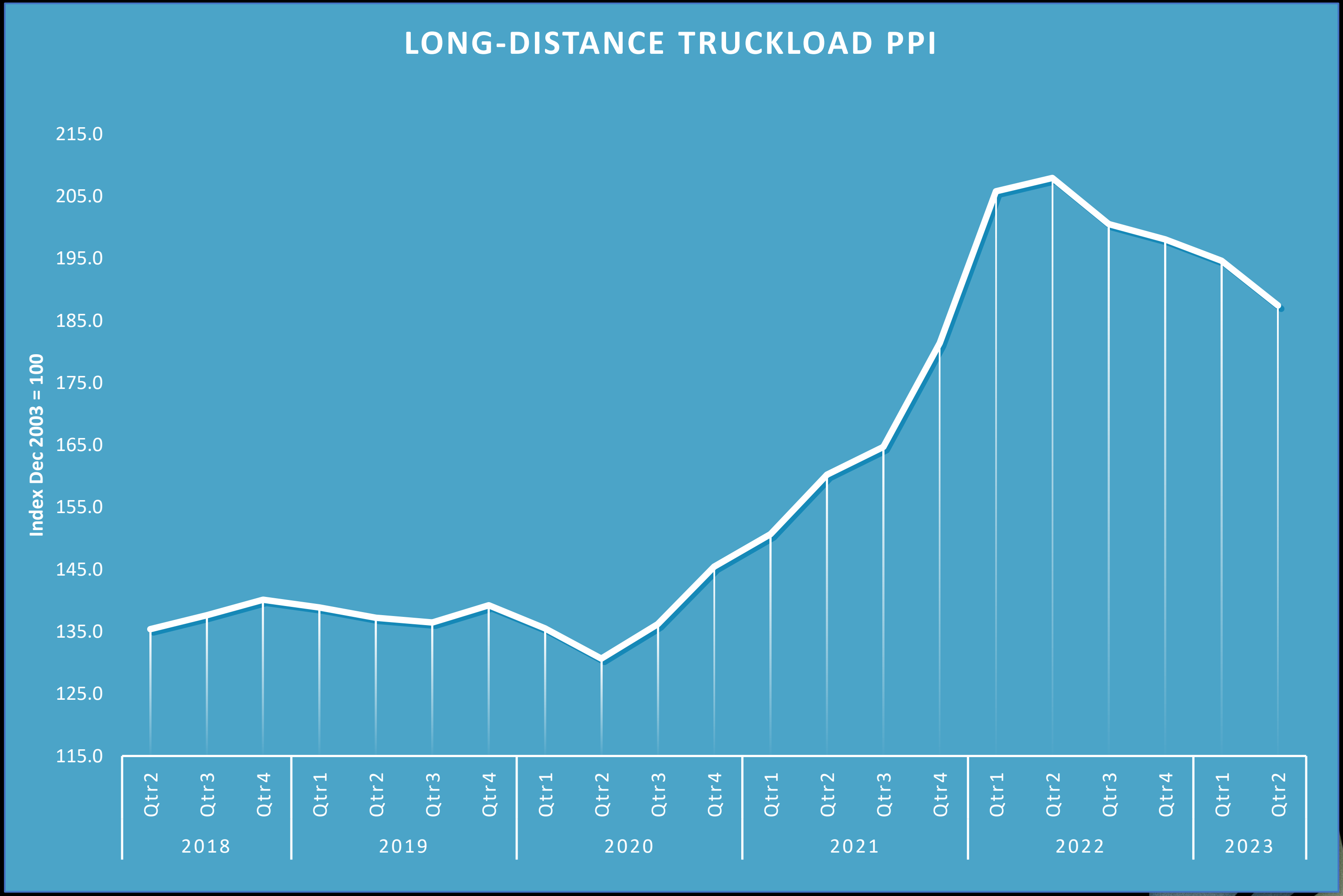
- One index focuses on long-haul, truckload carriers.
- This index shows how much carriers are charging their customers.

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 June and has decreased 11.9% 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 3.4% to 185.7, month-over-month, after the BLS re-adjusted the figure for May.
- The PPI is 8.7% lower year-over-year, but 15.3% 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.



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

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