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

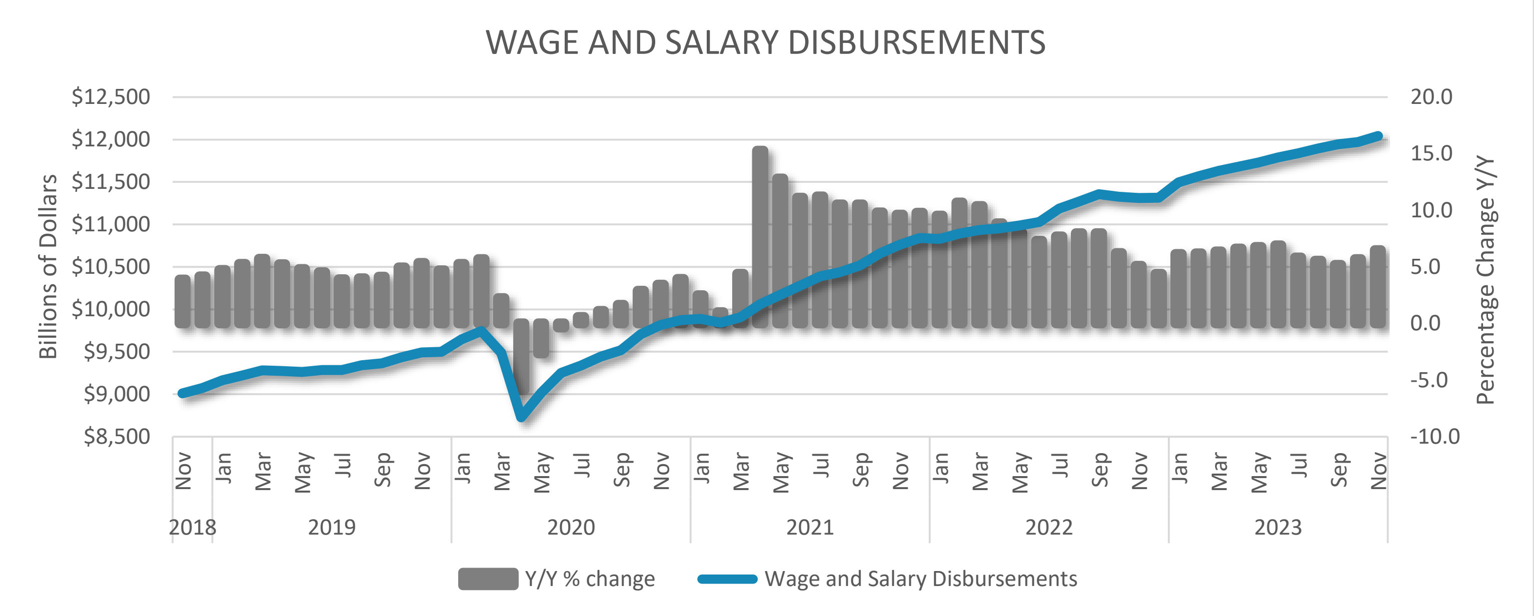
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so to does business and shipping activity.

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

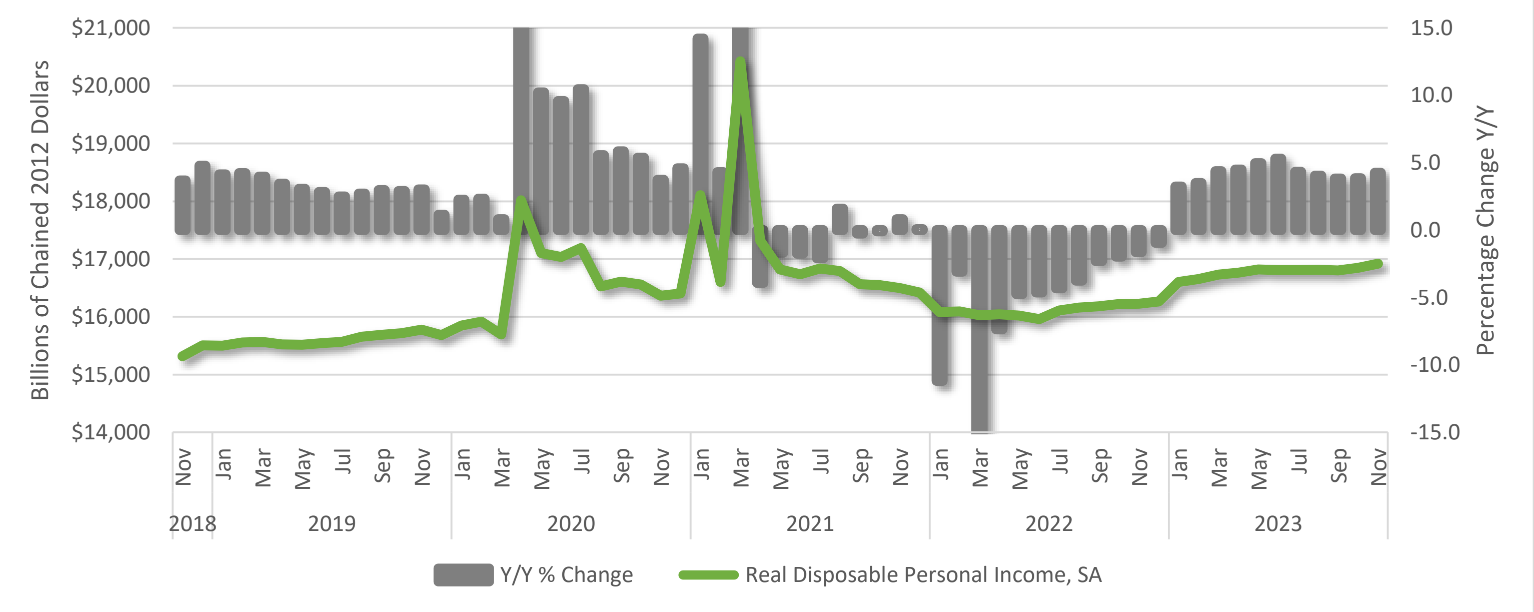
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

Our thoughts: Wages and salaries, as well as real disposable income, continue to grow year-over-year as wages outpace inflation.

- Wages and Salary disbursements grew 0.6%, or $12.04 billion, month-over-month in November.
- In terms of year-over-year growth, wages and salary disbursements are 6.49% higher. However, Y/Y growth was 5.11% this time last year.
- Real disposable income, which is adjusted for inflation, increased 0.4% month-over-month to $16.92 trillion, marking two consecutive months of growth, and is $690.3 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.

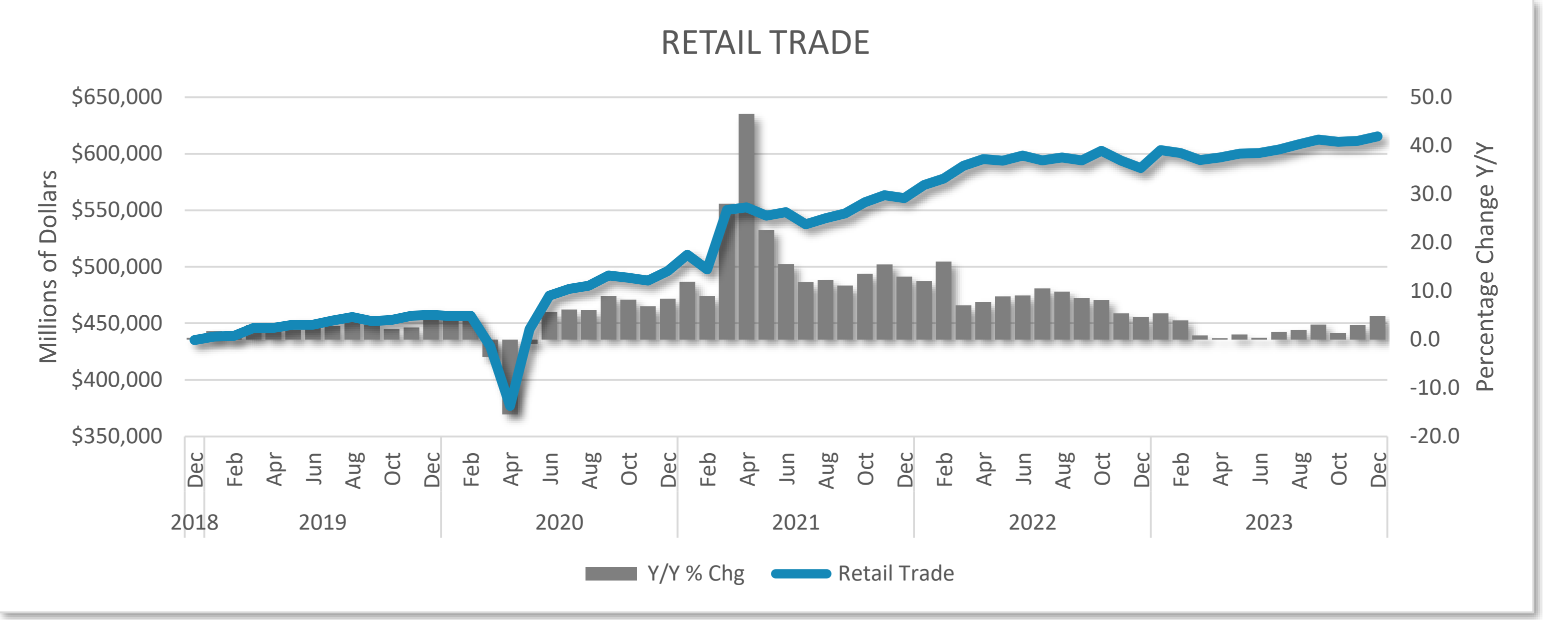
Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- 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: Retail trade rose month-over-month in December after increasing 0.8% following adjustments to November's data.

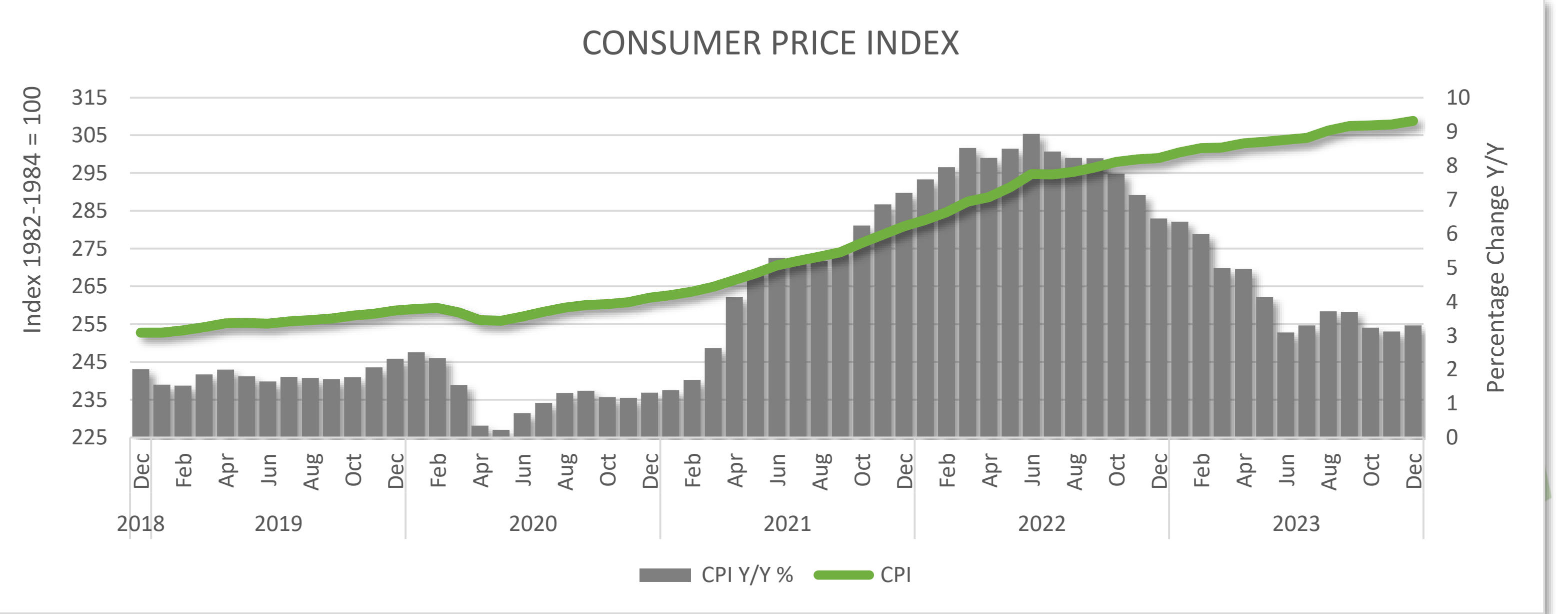
- Retail trade increased 0.6%, or $3.87 billion, month-over-month in December to $615.3 billion, and is 4.8%, or $28 billion, higher Y/Y.
- CPI increased slightly by 0.3 to 308.9, which is 3.3% higher than it was a year ago. Y/Y growth is starting to rise again even as the FED recently announced rate cuts in 2024.

Core CPI, which excludes food and energy, declined 2.3% month-over-month to 3.9%. The services CPI remains higher than other parts of the index at around 5.3%, while the energy CPI increased.



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.

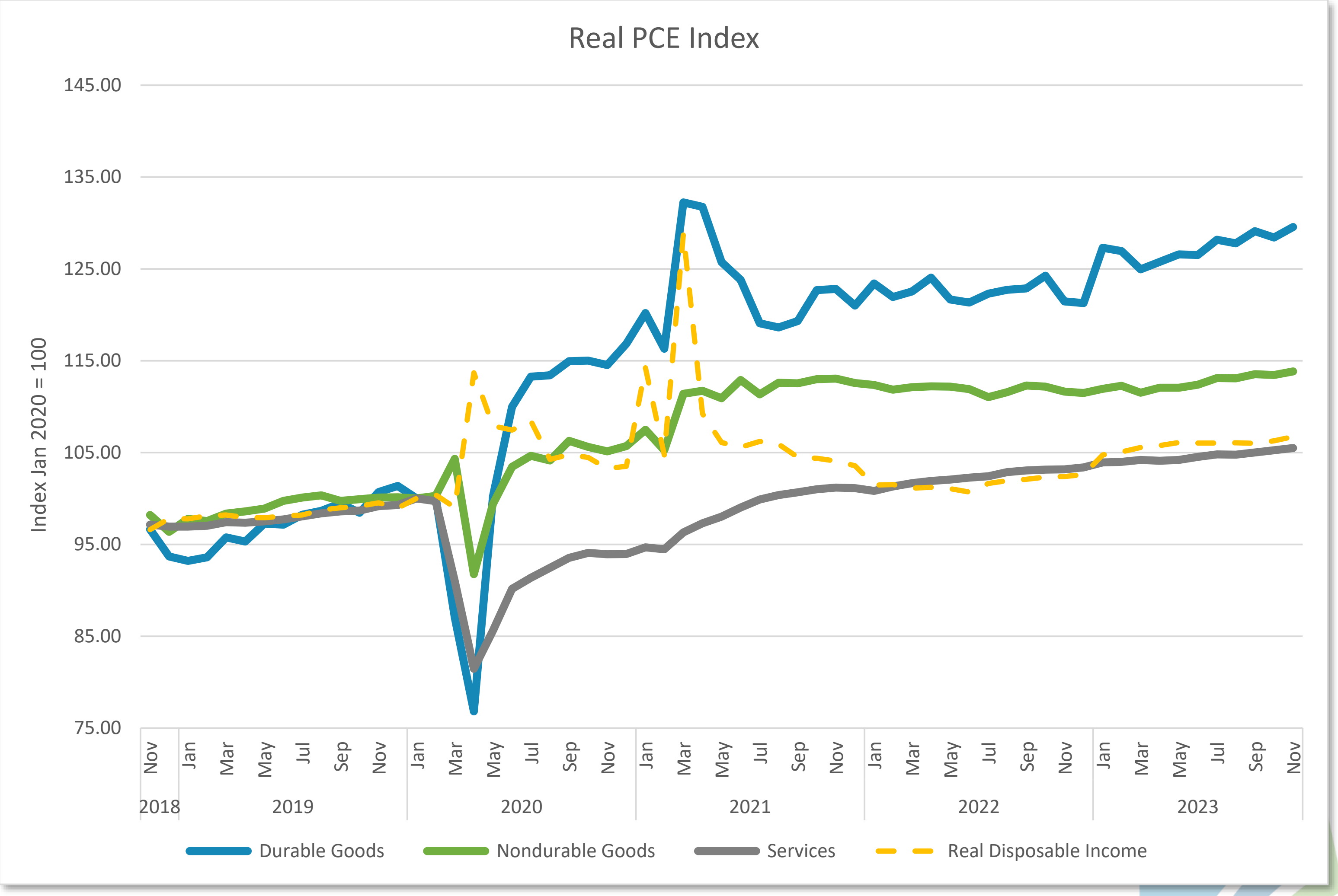
- The PCE measures a broad spectrum of consumer spending for a period of time.

Why it matters: The Real PCE, meaning it adjusts for inflation, allows owner-operators to see how well the economy is faring, 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: All of the elements of the PCE rose in November, after durable and non-durable goods decreased in October following adjustments.

- Consumer spending for durable goods increased 0.9% to $2.073 trillion, and is 6.7%, or $129.6 billion, higher year-over-year and 13.5%, or $245.9 billion, above the 5-year trend.
- Spending for non-durable goods grew 0.3% to $3.384 trillion, which is 2% higher Y/Y and 6.3%, or $199.8 billion, above the 5-year trend.
- Spending on services rose 0.2% to $10.139 trillion and is 2.2% higher Y/Y.



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

Manufacturing: Industrial Production

The big picture: The Federal Reserve Board's Industrial Production (IP) index measures the real output of various manufacturing industries.

Why it matters: Manufacturing makes up approximately 60% of all for-hire trucking ton-miles, making the IP Index a great indicator of future demand.

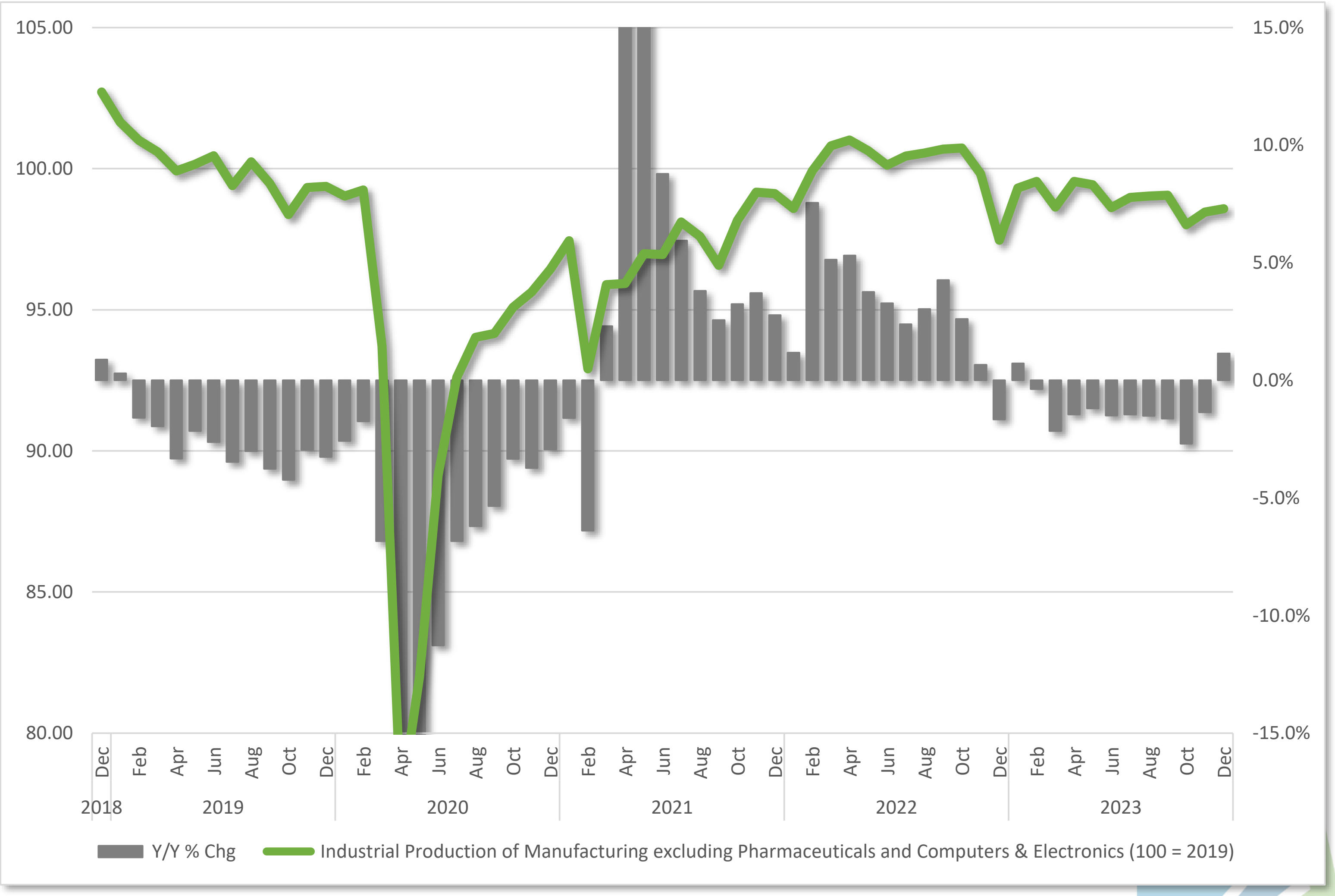
This is especially true when removing pharmaceuticals (NAICS 3254) and computer and electronic products (NAICS 334), as these sectors have an outsized influence on the overall manufacturing index.

- Historically, decreases in manufacturing activity have corresponded with either the start, or worsening, of a freight recession in the trucking sector.
- These cycles often take years to correct themselves.

Our thoughts: Manufacturing activity excluding pharmaceuticals and computer and electronics increased month-over-month in December and increased year-over-year due to the polar vortex in December 2022.

- Manufacturing activity increased 0.11% to 98.58 after increasing 0.5% last month following adjustments, and is up 1.1% year-over-year (Y/Y).
- Activity has was up for the first time Y/Y in 11 months due to the extreme comps, but is 1.4% below 2019 levels.

According to Professor Jason Miller, two consecutive quarters of declining seasonally adjusted manufacturing activity represents a manufacturing recession. The current recession appears to have started in October 2022.



Source: Federal Reserve Board | https://www.federalreserve.gov/releases/g17/Current/ | 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.

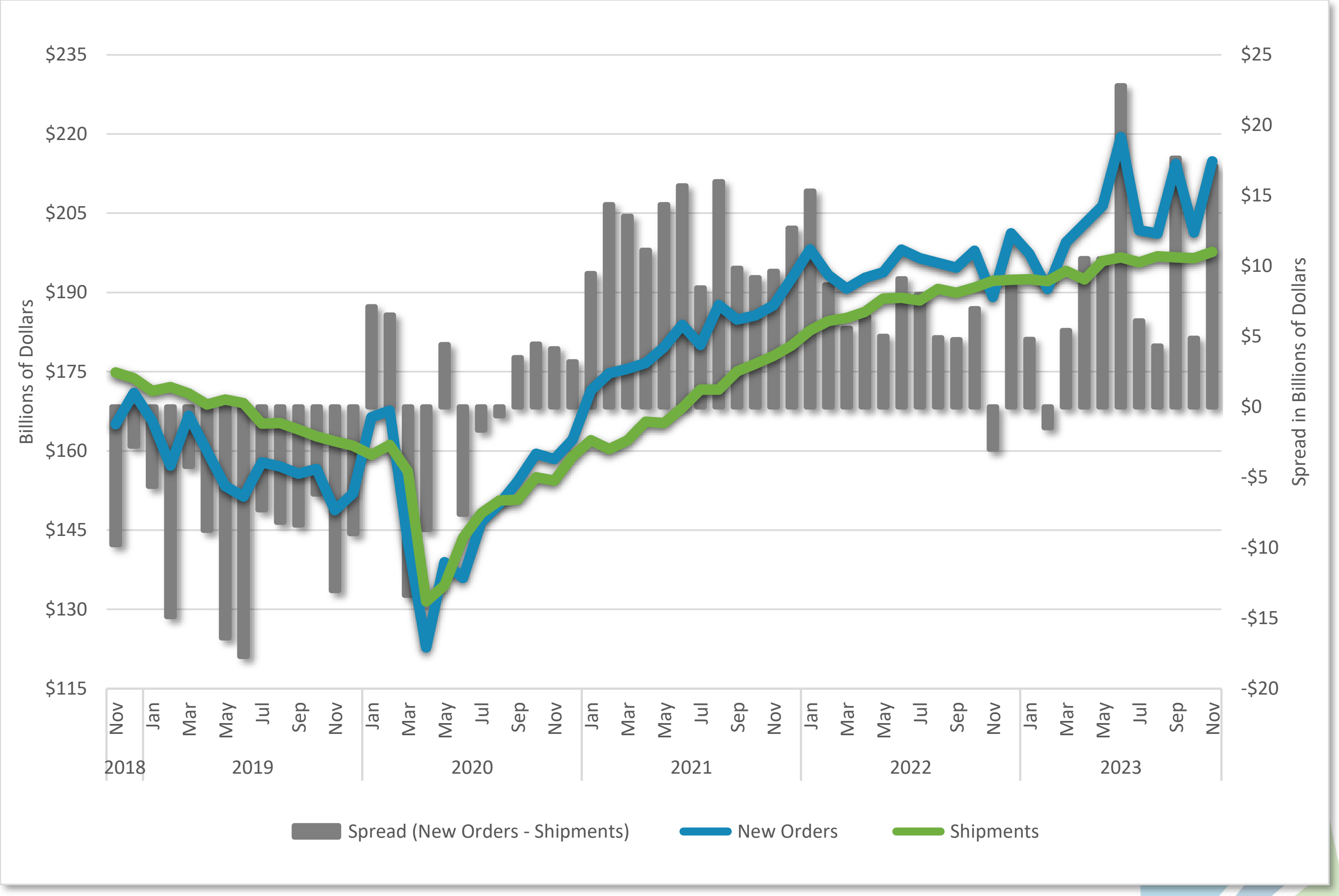
Why it matters: When unfilled new orders outperform shipments for unfilled orders, backlogs increase and we see growth in manufacturing activity. The reverse is also true.

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

Our thoughts: New orders eclipsed shipments for the ninth straight month in November. New orders for make-to-order products typically decline during manufacturing recessions. However, this has yet to happen.

- New orders jumped 6.7% to $214.8 billion in November, and are 13.6%, or $25.6 billion, higher year-over-year.
- Shipments increased 0.62% to $197.7 billion.

The spread between new orders and shipments expanded significantly from $4.9 billion to $17.1 billion, representing a 251.5% increase, which is a good sign 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.

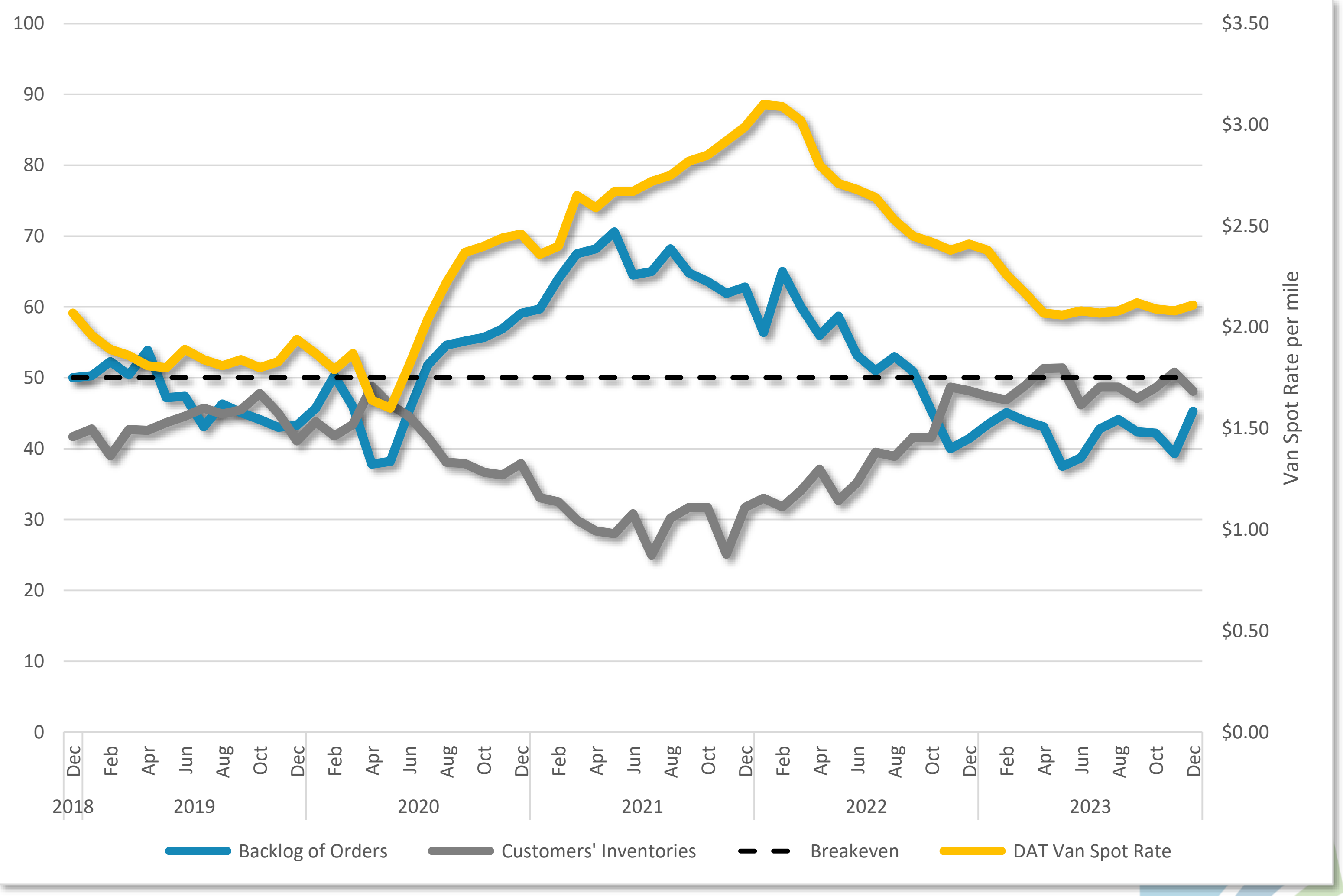
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart.

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

Our thoughts: According to ISM, the U.S. manufacturing continued to contract but at a slightly slower rate in December as compared to November, posting a reading of 47.4 percent. Companies are still managing outputs appropriately as order softness continues.

- Backlogs jumped 15.3% month-over-month to 45.3, which is still in contraction territory and has been for fifteen straight months. Backlogs are up 3.9 percentage points year-over-year.
- Customers' inventories decreased 5.3% to 48.1. They are 0.2% lower year-over-year.

The bottom line: Demand eased, output/consumption contracted but improved, and inputs continued to accommodate future demand growth.



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.

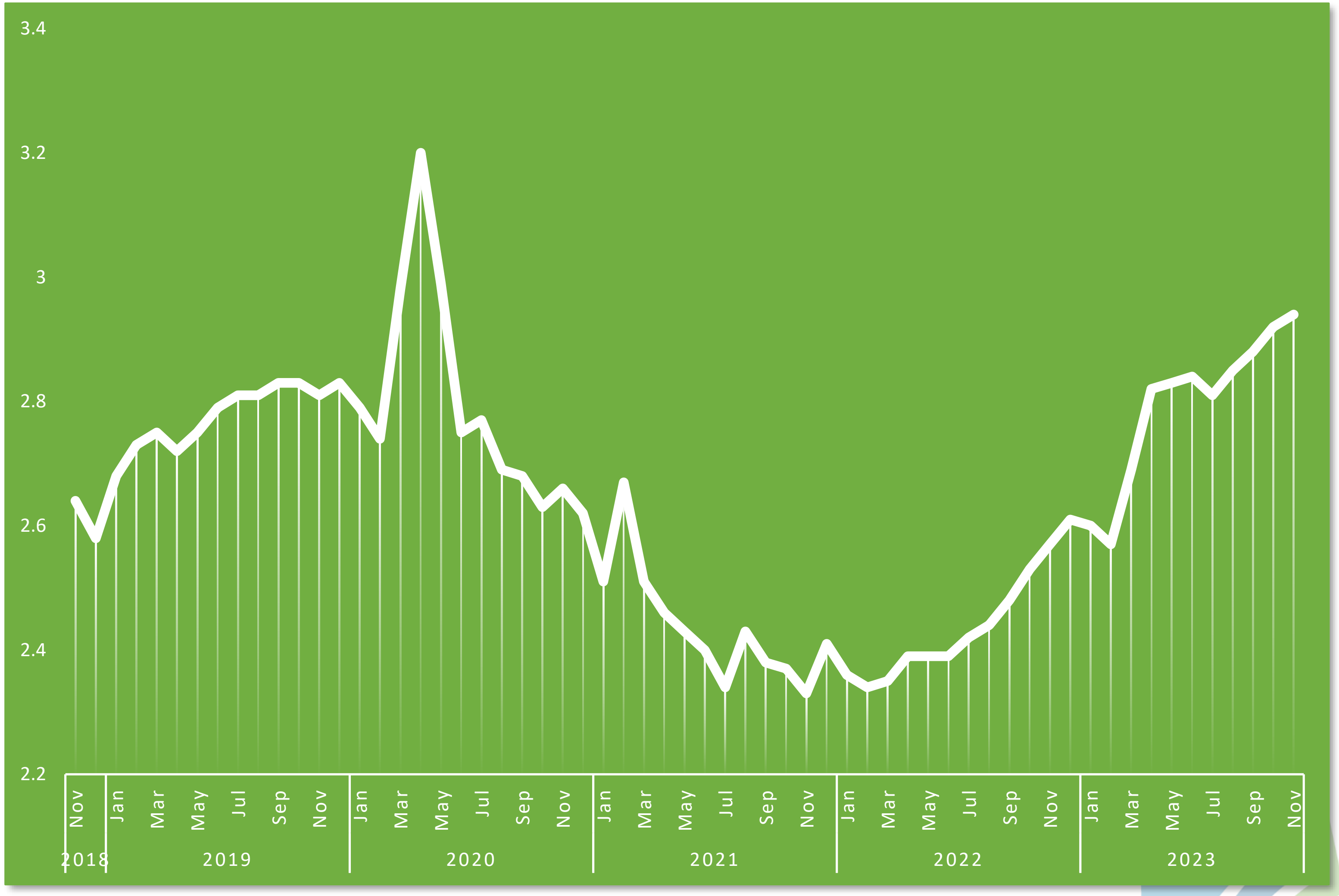
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

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

Our thoughts: Inventory levels increased again in this sector, creating a sharp U-shaped curve, which is a headwind for freight demand. Inventories are 5.8% above 2019 levels.

- The inventories-to-sales ratio increased 0.7% month-over-month in October to 2.94.
- The ratio is 14.4% higher year-over-year. The ratio has been higher Y/Y for 17 straight months.

One respondent to ISM's survey in this sector wrote, "Business is slowing. Finished goods inventories are growing."



Source: FRED| https://fred.stlouisfed.org/series/R4238IM163SCEN#0 | Monthly

Rail: Rail Carloads and Intermodal

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

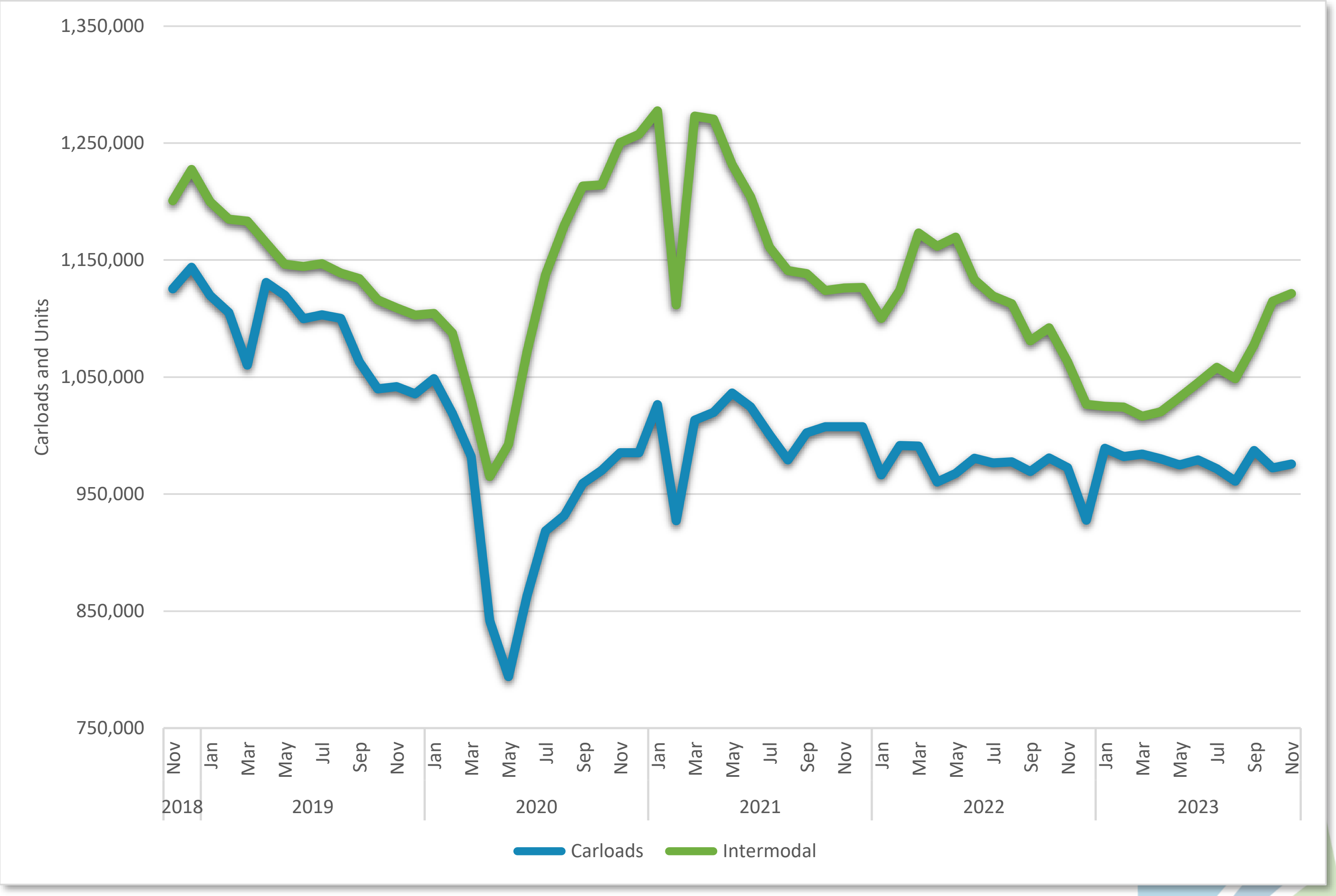
- While the rail and truck industries often compete with each other, they also work hand in hand.

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: Carloads continue to remain flat while intermodal continues to move up an to the right as more freight moves back to the west coast and import volumes continue to perform well.

- Carloads increased 0.3% month-over-month in November to 975,722, but are down 0.5%, or 5,105 carloads, year-over-year.
- Intermodal increased 06% to 1.121 million, and is up 2.7%, or 29,417 loads, year-over-year.
- Both carloads and intermodal are below their 5-year trendline by 2.6% and 0.6% respectively. However, intermodal is close to moving above the trendline .



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