OOIDA Foundation

RESEARCH
SAFETY
EDUCATION

December 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

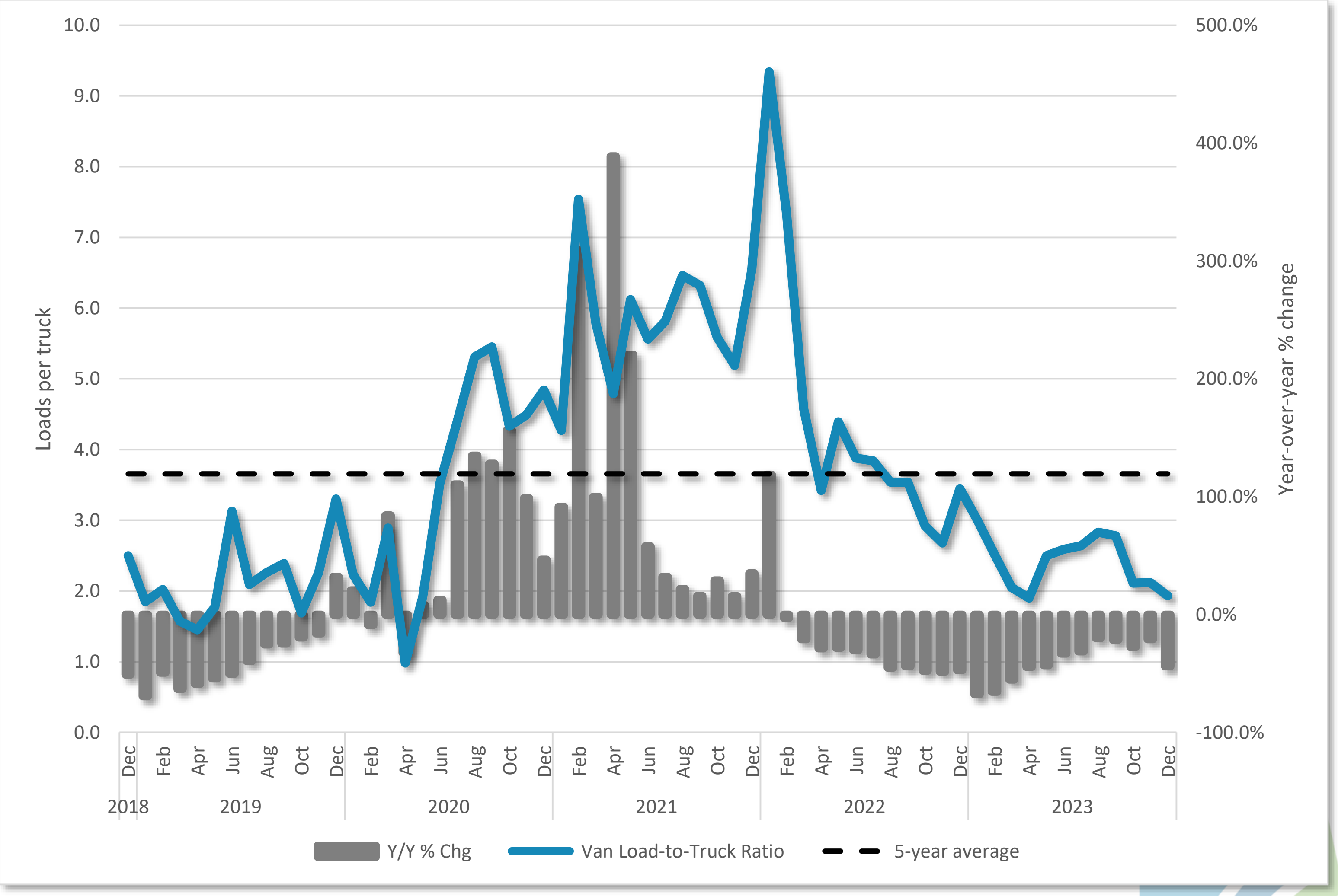
Why it matters: Changes in the ratio often signal impending changes in rates.

Our thoughts: The Van Load-to-Truck ratio dropped in December. Demand typically picks up at this time of year, but this trend has yet to come to fruition. The ratio is sitting 10.2% below 2019 levels.

- The Van Load-to-Truck Ratio decreased 9.0% month-over-month to 1.93, after falling 8.5% last month.
- The ratio is 44.1% lower than last year and 47% lower than the 5-year trend.

Regionally speaking, ratios were more favorable for carriers operating in the Lower Mountain, Lower Midwest, and Upper Mountain regions, respectively, compared to other areas in the country.

- Unlike last month, 7 regions experienced decreases in demand. The greatest decline was in the Pacific Northwest where ratios rose 51.1%, from 6.51 to 3.18.



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

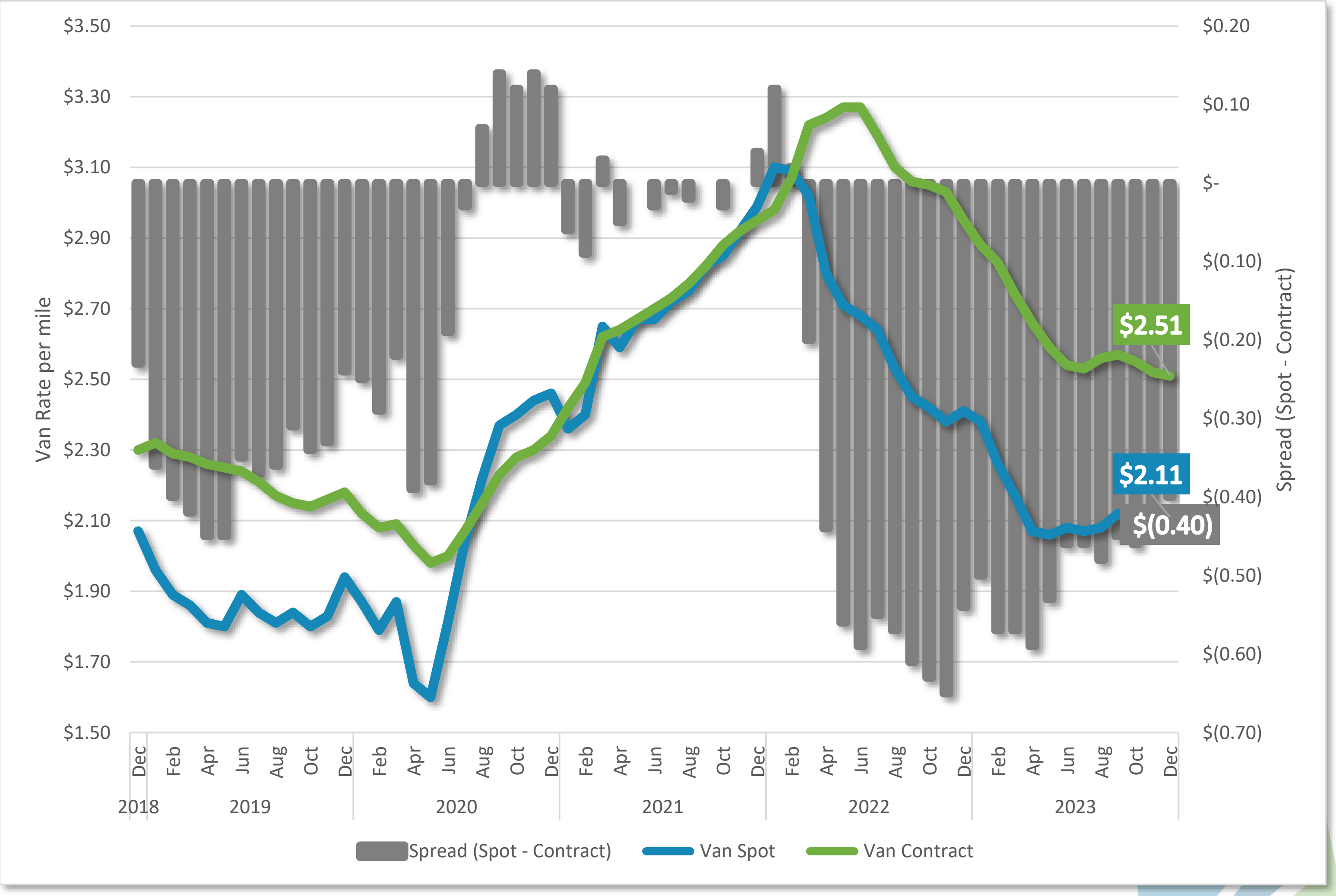
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates ticked up in December, though not as much as it usually does for this time of year.

- Spot rates for vans increased $0.03 per mile month-over-month to $2.11, ending two months of decreases, and are $0.30 per mile lower than last year.
- Contract rates decreased by $0.01 to $2.51 per mile, which means the spread between contract rates and spot rates dropped by $0.04 to $0.40, which is 25.9% better Y/Y when the spread was $0.54.
- Spot rates are 7.4% below the 5-year trend, while contract rates are 1.6% below.

DAT's ratecast model predicts spot rates excluding fuel will tick upward about $0.05 per mile heading into end February, mostly due to seasonality and winter storm Indigo.

- DAT's extended forecast has van spot rates excluding fuel ticking up about a penny per mile in January, before experiencing a steady decline before changing trajectory in June 2024, though still well below current rates.



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.

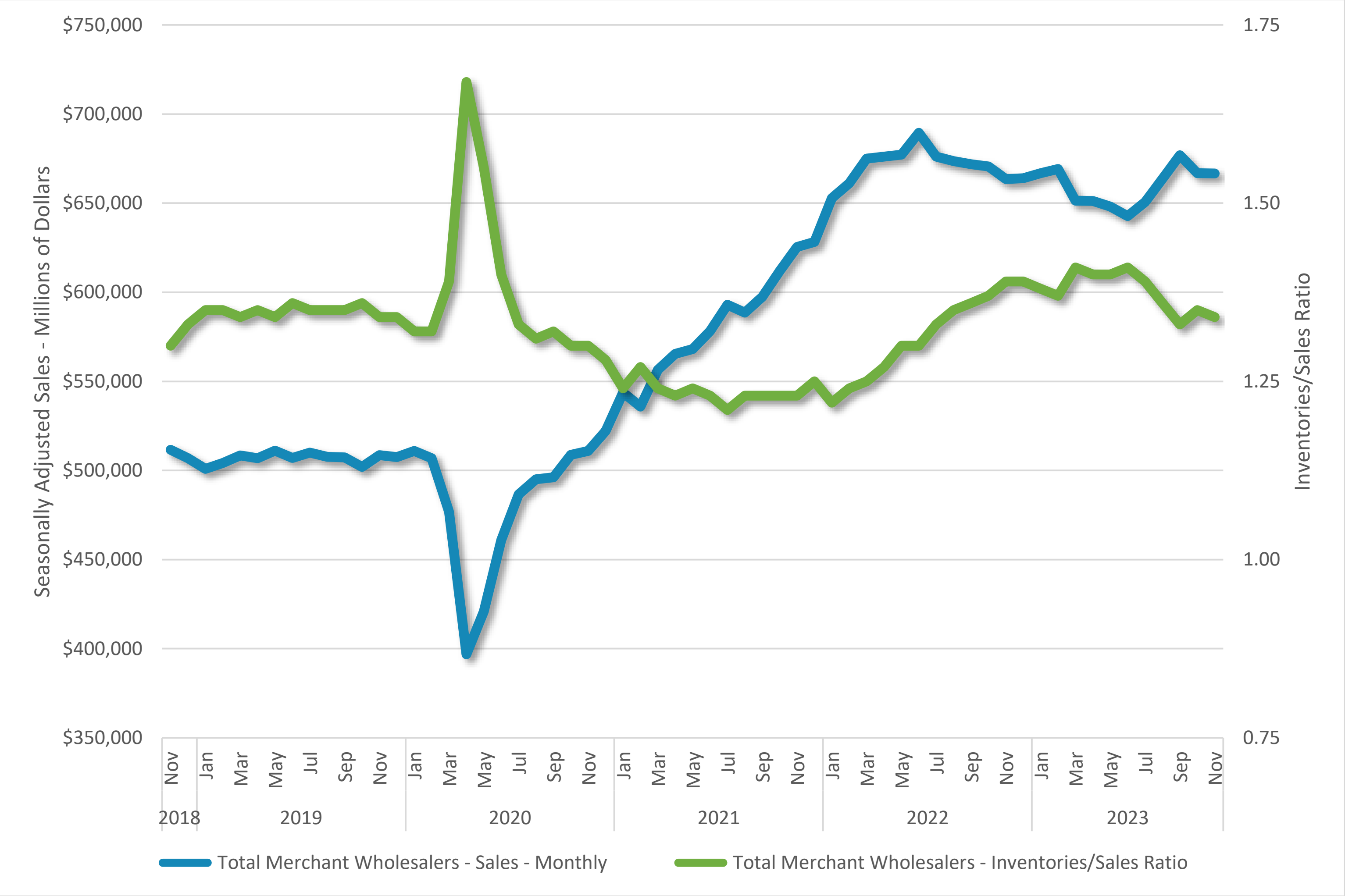
- The U.S Census Bureau reports monthly sales data and inventory-to-sale ratios for different types of industries.

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 remained mostly flat in November. While the inventory-to-sales ratios continue to fall, demand has not increased, which is why the current freight downcycle is continuing even despite inventory rightsizing.

- Sales decreased $152 million to $667.6 billion, and are 0.5%, or $3.07 billion, lower year-over-year. This is the second Y/Y increase in 9 months.
- Ratios decreased 0.7% month-over-month to 1.34, and are 3.6% lower than last year, which is the third Y/Y decline in 19 months. Ratios are 0.9% 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

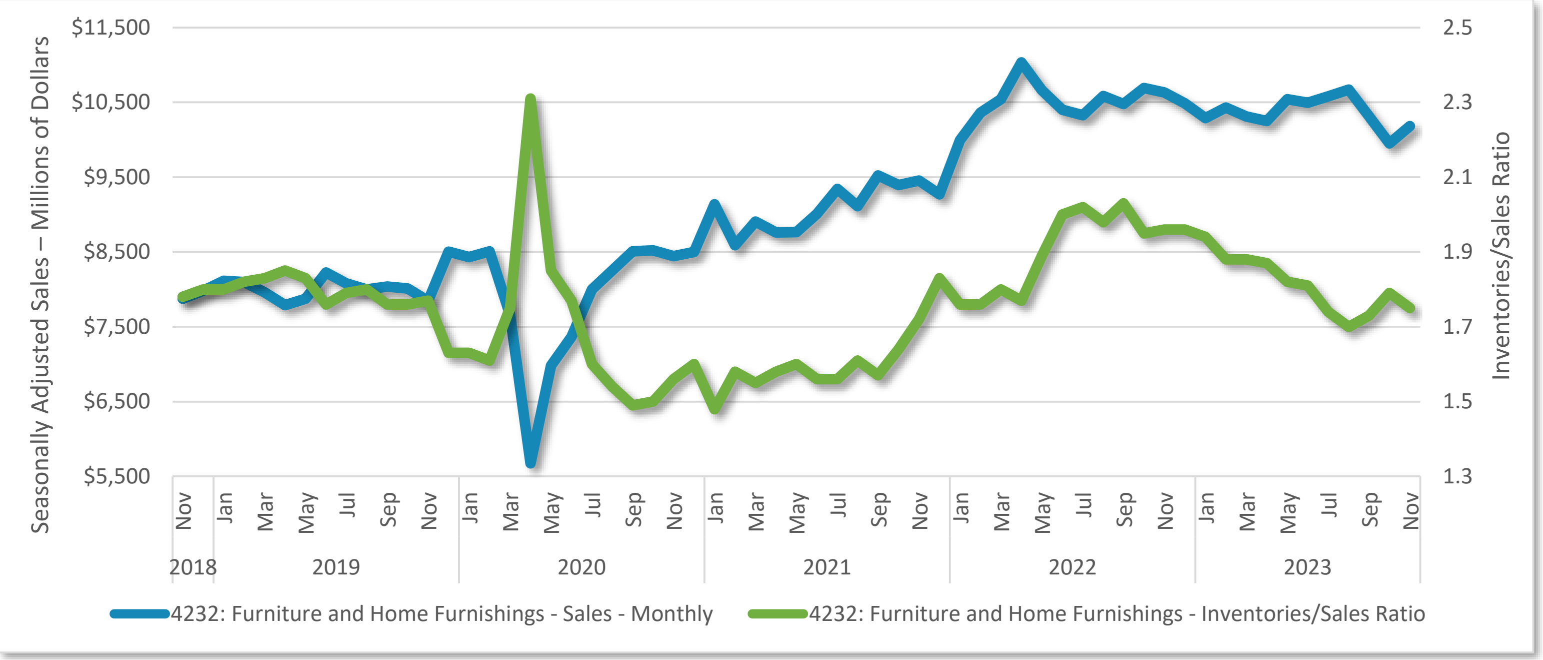
Why it matters: Large appliances and furniture generate freight for the dry van segment of the industry.

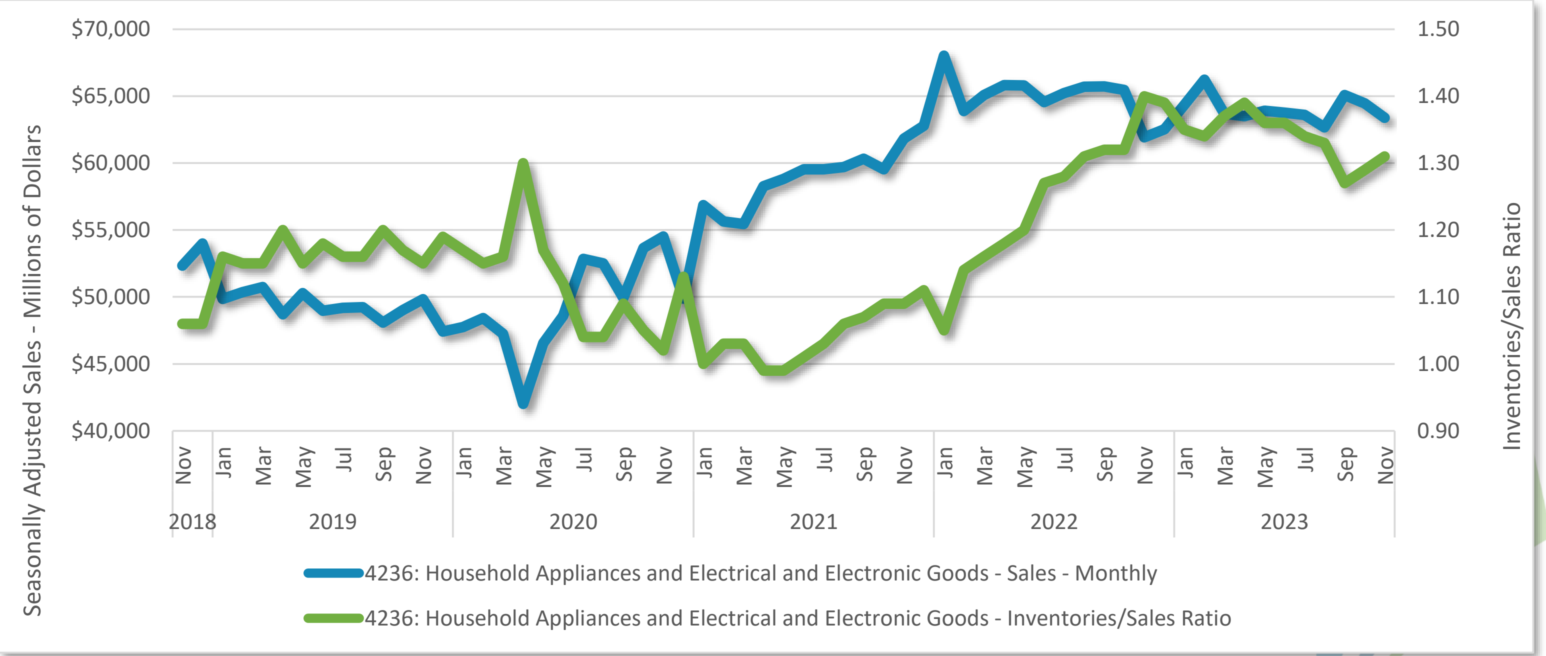
- Sales and inventories can help an owner-operator to see what direction freight demand is headed.

Our thoughts: Furniture and home furnishing wholesalers moved in the right direction as sales increased while ratios decreased, but the opposite occurred for household appliances.

- Furniture Sales increased 2.3% to $10.2 billion after decreasing 3.5% in the previous month, while ratios dropped 2.3% to 1.70.
- Compared to last year, sales decreased $447 million, or 4.2%, and ratios have decreased 11%.
- Household appliances sales decreased 1.7% to $63.4 billion, and ratios increased 1.6% to 1.31.
- Sales are $1.4 billion higher than last year, and ratios are 6.4% lower, the third Y/Y decline in 22-months.

Although inventory levels are lower now than at the start of 2023 (10.1% for furniture and 3% for household appliances), increased demand has yet to materialize for both of these industries. Without an uptick in demand, the freight cycle will remain in it's current trough.





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:

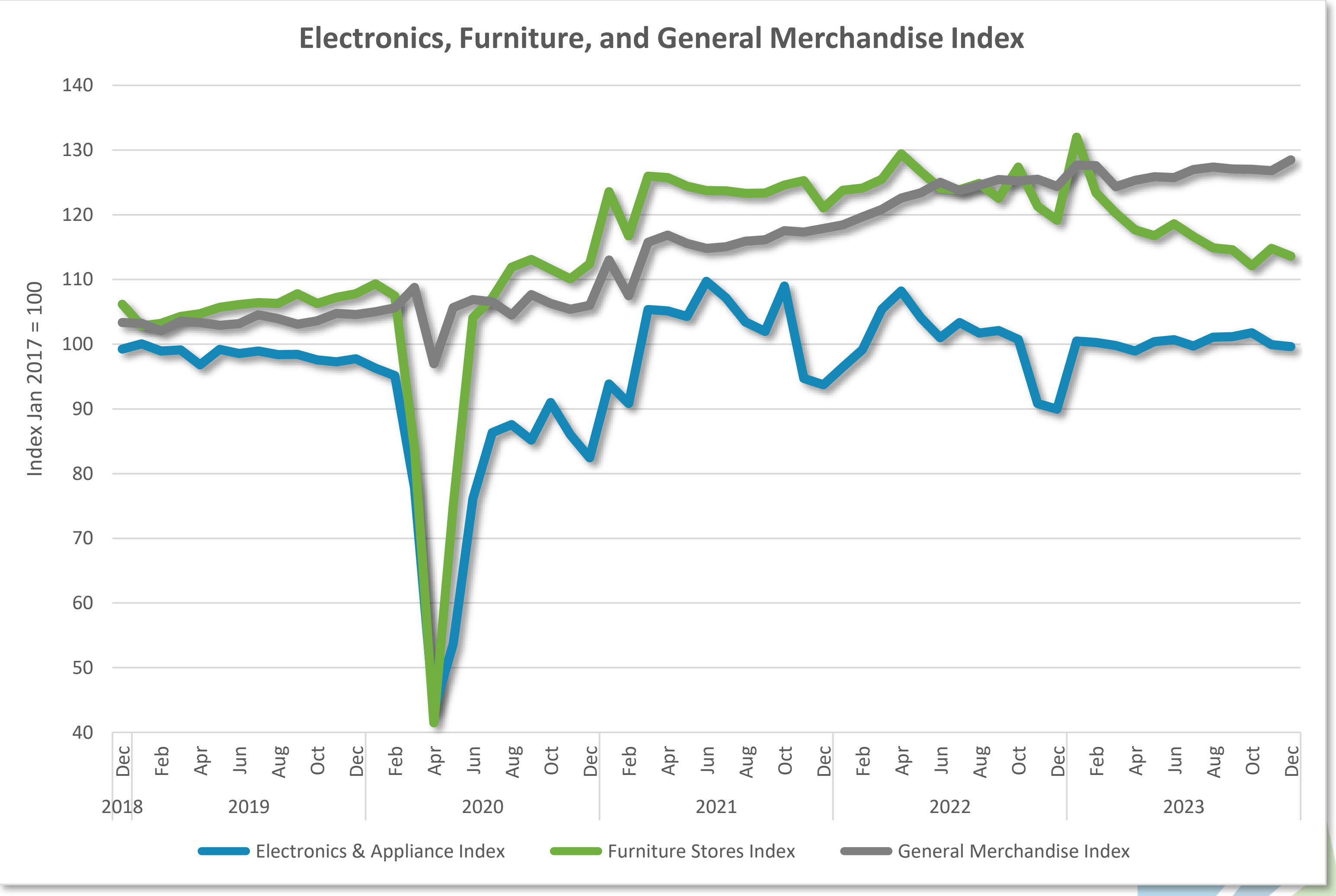
- Electronics and appliance stores (EAS)
- Furniture stores (FS)
- General merchandise stores (GMS), such as Walmart, Target, Costco, Kohl's, etc.

Why it matters: Retail sales can 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. After flattening over the past couple months, GMS is again moving up and to the right.

- EAS decreased 0.3%, or $23 million, month-over-month to $7.68 billion, marking five months out of nine for decreases. EAS is 10.7%, or $744 million, higher year-over-year due to a steep drop off in December 2022.
- FS decreased 1.0% M/M to $10.78 billion, and is 4.7%, or $530 million, lower Y/Y.
- GMS increased 1.3% M/M, or $969 million, to $74.03 billion, and is up 3.3%, or $2.4 billion, Y/Y.



Source: FRED | https://fred.stlouisfed.org/series/RSEAS | https://fred.stlouisfed.org/series/RSFHFS | https://fred.stlouisfed.org/series/RSGMS | Monthly

Flatbed Market Outlook

Flatbed Market Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, market analysts typically breakdown the industry into three main sectors based on trailer type: Van, Flatbed, and Reefer.

It's good to know the current conditions of the freight market, but it's also important to understand what the future holds, especially for your segment of the industry.

To examine the Flatbed market outlook, we will look at:

1. **Demand** shows us how many trucks the market needs to move freight.
2. **Rates** illustrate how much the average owner-operator can expect to earn.

We will also examine four key economic indicators that directly impact the flatbed market:

1. Total Construction Spending
2. Highway and Street Construction Spending
3. Housing
4. Advanced Retail Sales: Building Materials

Demand: Flatbed Load-to-Truck Ratios

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

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

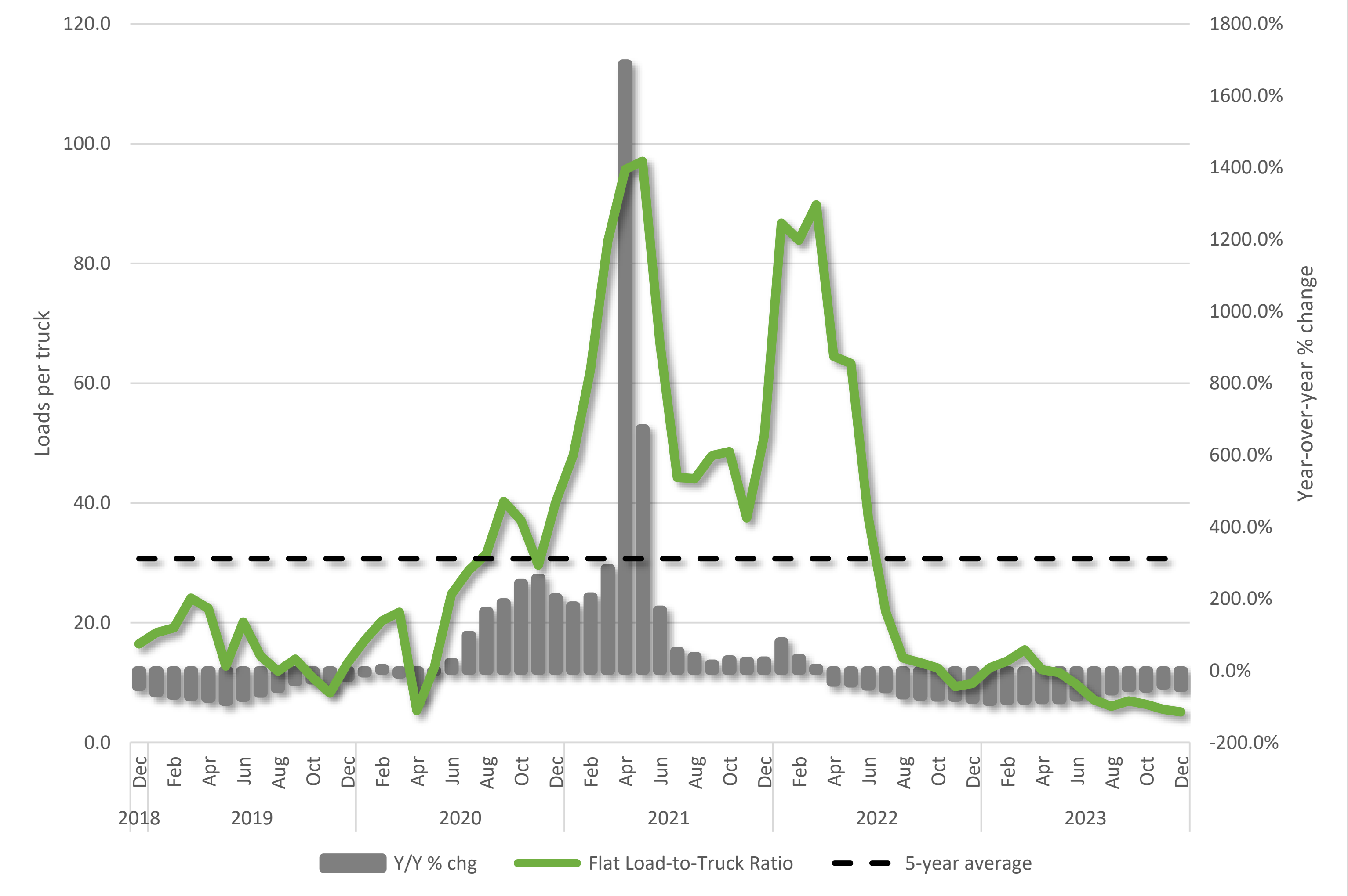
Why it matters: Changes in the ratio often signal impending changes in rates.

Our thoughts: Load posts are still significantly lower than what they were in 2019. The ratio is 67.5% below 2019 levels.

- The Flatbed Load-to-Truck Ratio decreased 7.1% month-over-month in December to 5.13, after decreasing 19.3% last month.
- The ratio has declined 47.9% since last year when there were 9.85 loads for every truck. The ratio has declined year-over-year for 21 consecutive months.
- The ratio is 83.2% below the 5-year trend.

When looking at the different regions across the country, ratios were more favorable for carriers operating in the Upper Mountain, the Southeast, and the Pacific Northwest regions, respectively.

- Six out of 16 regions experienced an decrease in load-to-truck ratios for flatbed.



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

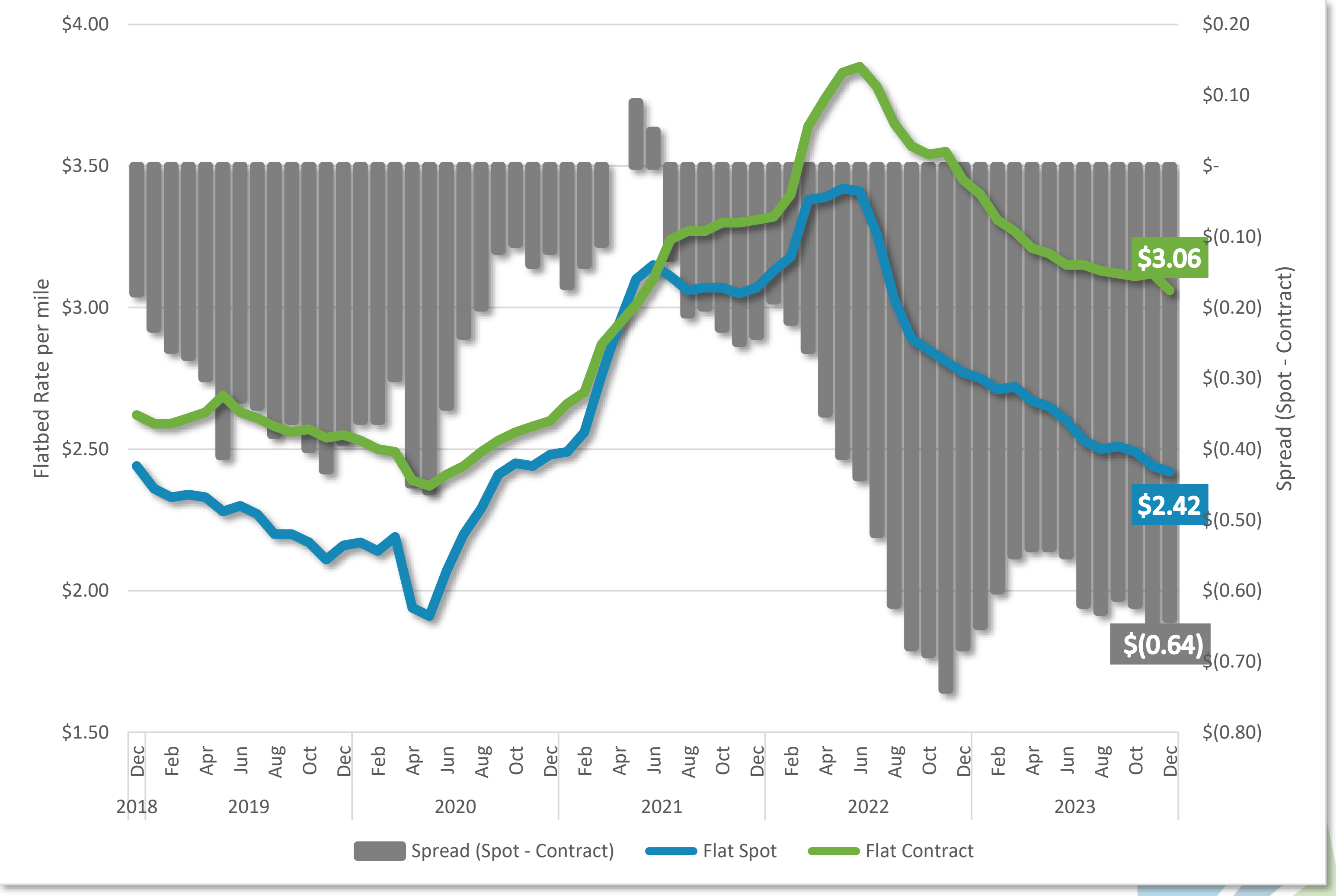
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates ticked down in December, after declining 2.0% last month.

- The spot market decreased $0.02, or 0.8%, to $2.42 per mile month-over-month, and is $0.35 lower year-over-year when it was $2.77.
- The contract market decreased $0.06 to $3.06 per mile, which is $0.39 lower than last year.
- The spread between contract and spot declined $0.04 to $0.64, which is 5.9% better than a year ago.

DAT's ratecast predicts that spot rates excluding fuel will remain flat as we head into February, and then tick upward a penny or two as we get closer to the end of February.

- DAT's extended forecast predicts that flatbed spot rates excluding fuel will stay flat in January and then steadily increase to $2.11 until July 2024.



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.

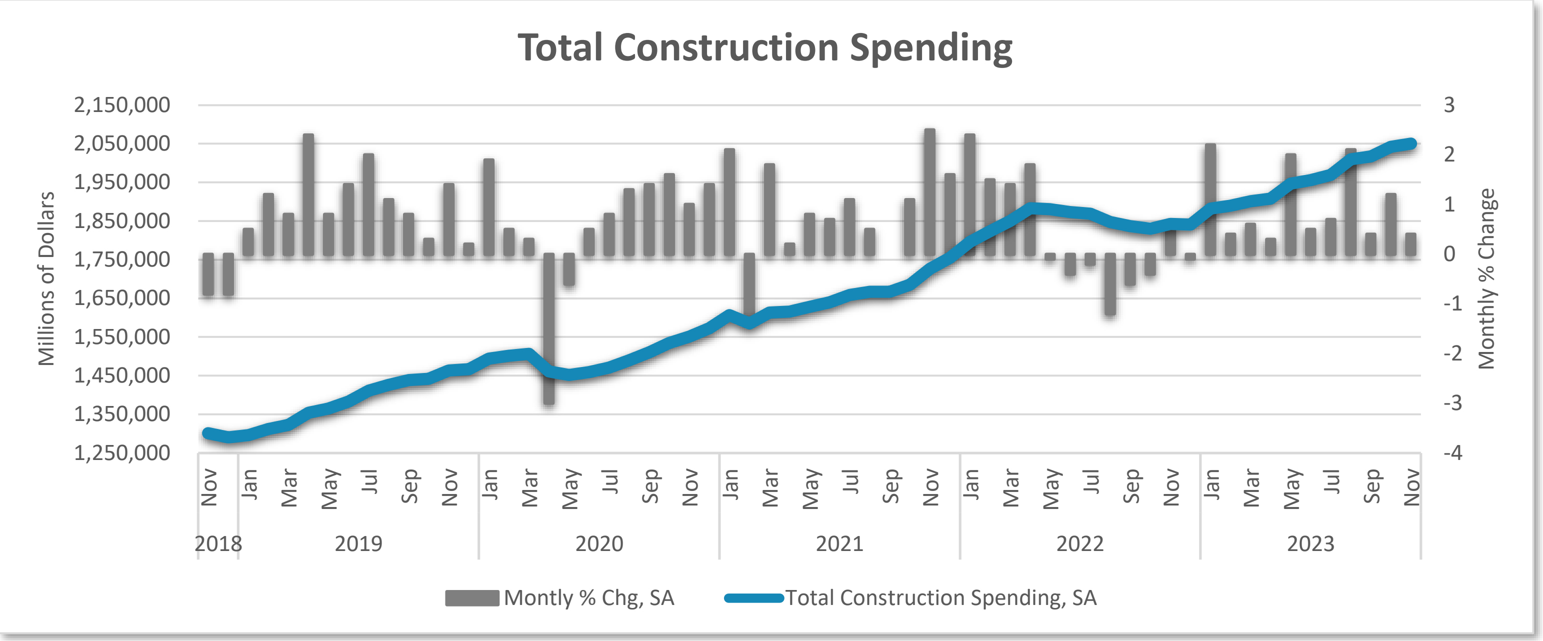
Why it matters: Construction spending helps boost the economy, especially spending that is dedicated to building roads and bridges.

- 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.

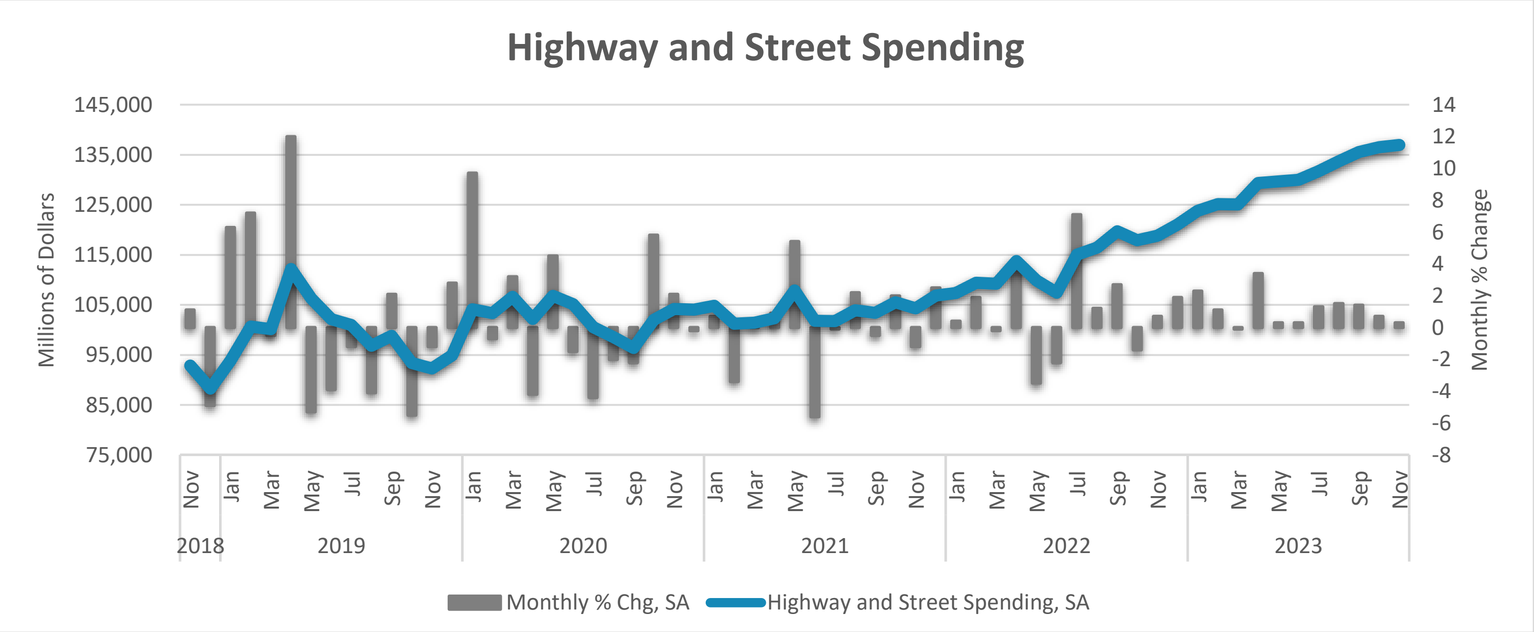
Our thoughts: Total construction spending (TCS) and highways and streets (HSS) spending increased month-over-month in November, while non-residential spending (NRS) decreased.

- TCS increased by 0.4%, or $7.54 billion, to $2.05 trillion, which is $207.9 billion, or 11.3%, higher year-over year, and 24% above the 5-year trend.
- HSS increased 0.3% to $136.97 billion after being adjusted upward in October, and is up 15.3%, or $18.2 billion, year-over-year.

While construction spending in general remains incredibly elevated over 2019 levels, flatbed demand is still falling. The elevated spending in construction is likely due to inflation, as well as the higher costs associated with building high tech manufacturing, such as for electric vehicle batteries and semiconductors.



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:

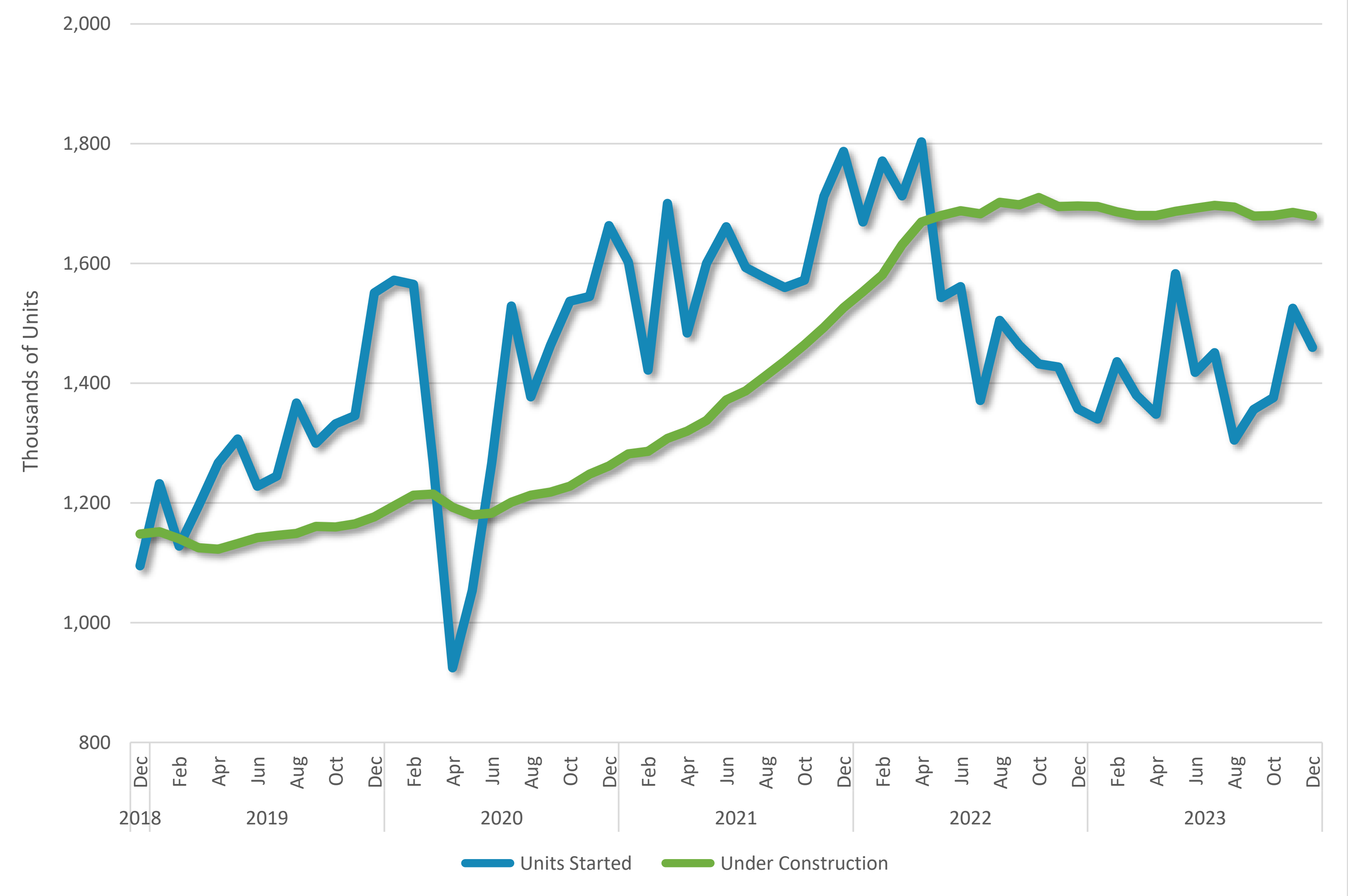
- Housing starts, and
- Housing under construction.

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 declined in December following a 10.8% rise in November after adjustments. Housing continues to perform well even despite the higher interest rates. The Fed has indicated rate cuts in 2024, which could spur more housing activity and thereby freight. However, this will likely take a couple quarters to unfold, if it does at all.

- New starts decreased 4.3%, or 65,000 houses, month-over-month to 1.46 million, but are up 7.6%, or 103,000 homes year-over-year (Y/Y).
- Houses under construction ticked downward 0.4% to 1.679 million, and are 1% lower Y/Y.
- Completed houses increased 8.7% month-over-month and are up 13.2%, or 184,000 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).

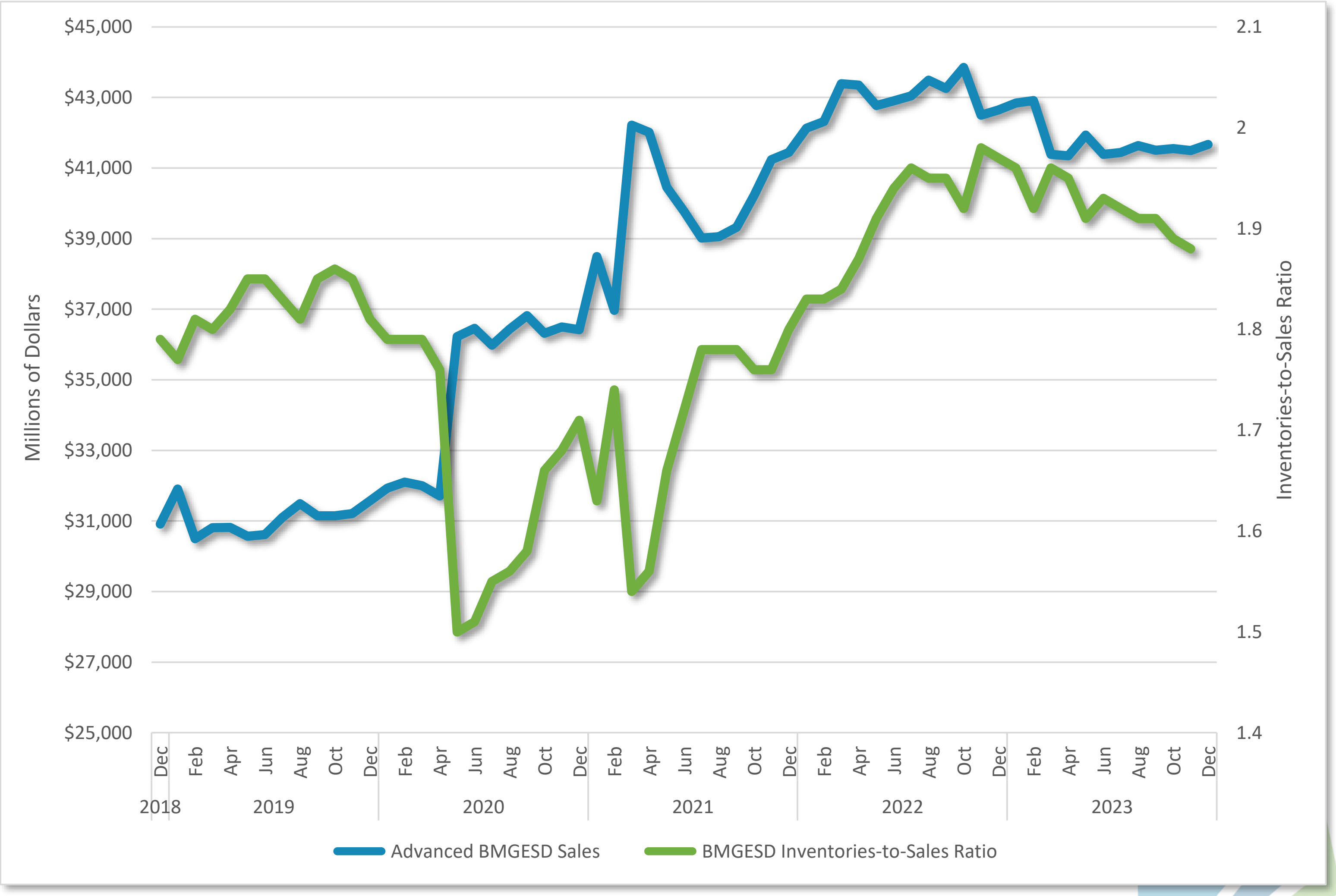
Why it matters: Retail sales give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

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

Our thoughts: BMGESD sales increased slightly in December after declining in November following adjustments, and inventories declined again in November as retailers continue to right-size their inventories.

- The BMGESD retail sales increased 0.4% month-over-month to $41.66 billion, and are 2.3%, or $979 million, lower year-over year.
- Sales are $3.64 billion higher than the 5-year average.
- Inventories-to-sales ratios declined 0.5% to 1.88 in November, and are 4.6% lower year-over-year.

Although retailers are continuing to succeed in rightsizing their inventory levels, we still need to see an increase in demand before we experience any meaningful change in freight rates.



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.

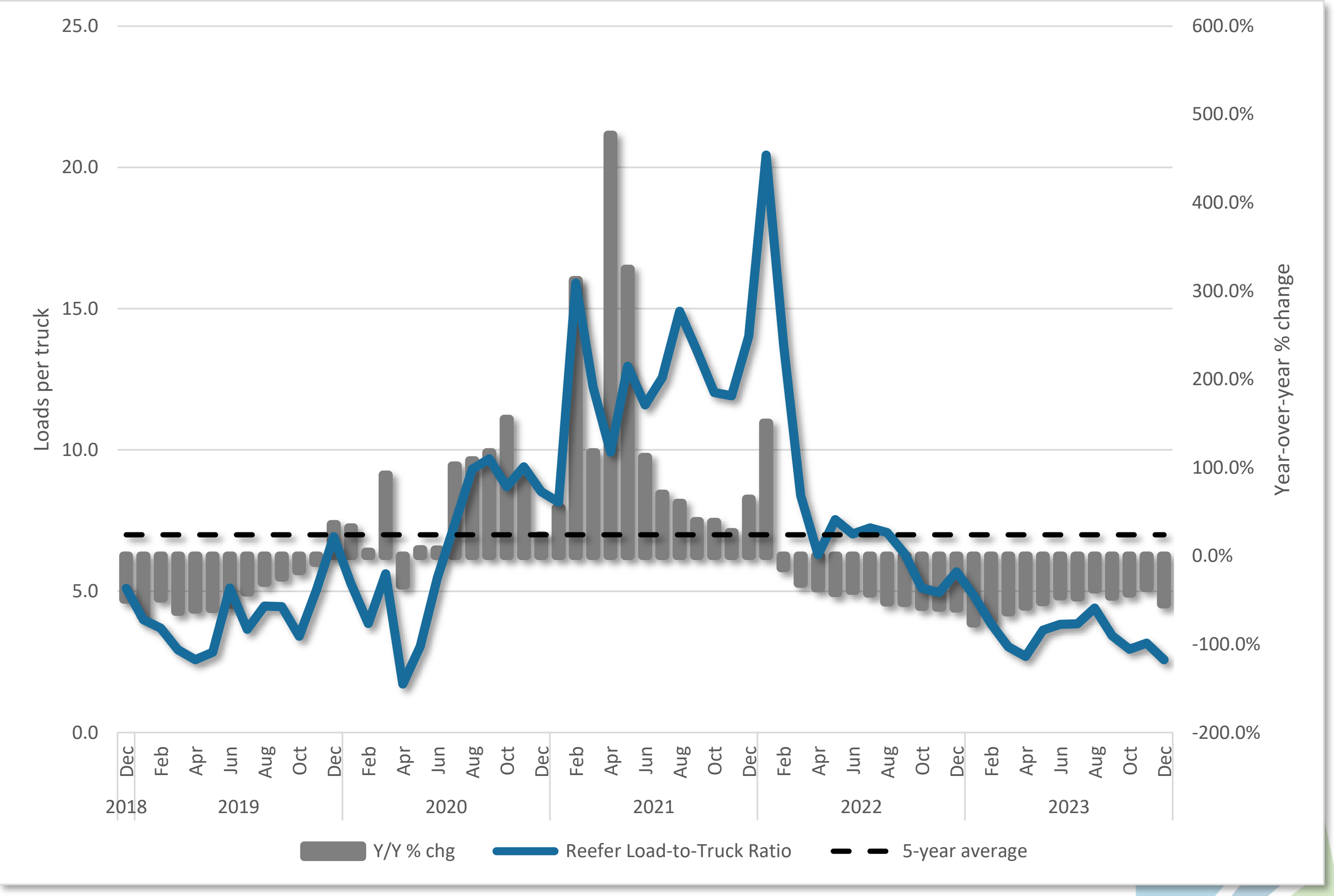
Why it matters: Changes in the ratio often signal impending changes in rates.

Our thoughts: Reefer demand moved upward in November following a 14% decrease in the previous month, following the usual seasonal trend.

- The ratio increased 7.1% month-over-month to 3.16 loads to every one truck posted, ending two consecutive months of decreases.
- The ratio is 36.2% lower than last year when the ratio was 4.95, and 54.8% below the 5-year trend. The ratio has declined year-over-year for 22 straight months.

When examining the different regions of the country, conditions were more favorable for carriers operating in the Lower Mountain, Florida to Georgia, and the Upper Midwest, regions, respectively.

- Eight out of 16 regions experienced an decrease in load-to-truck ratios for reefer, the biggest decrease was found in the Pacific NW region, where the ratio dropped 71.6%.



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

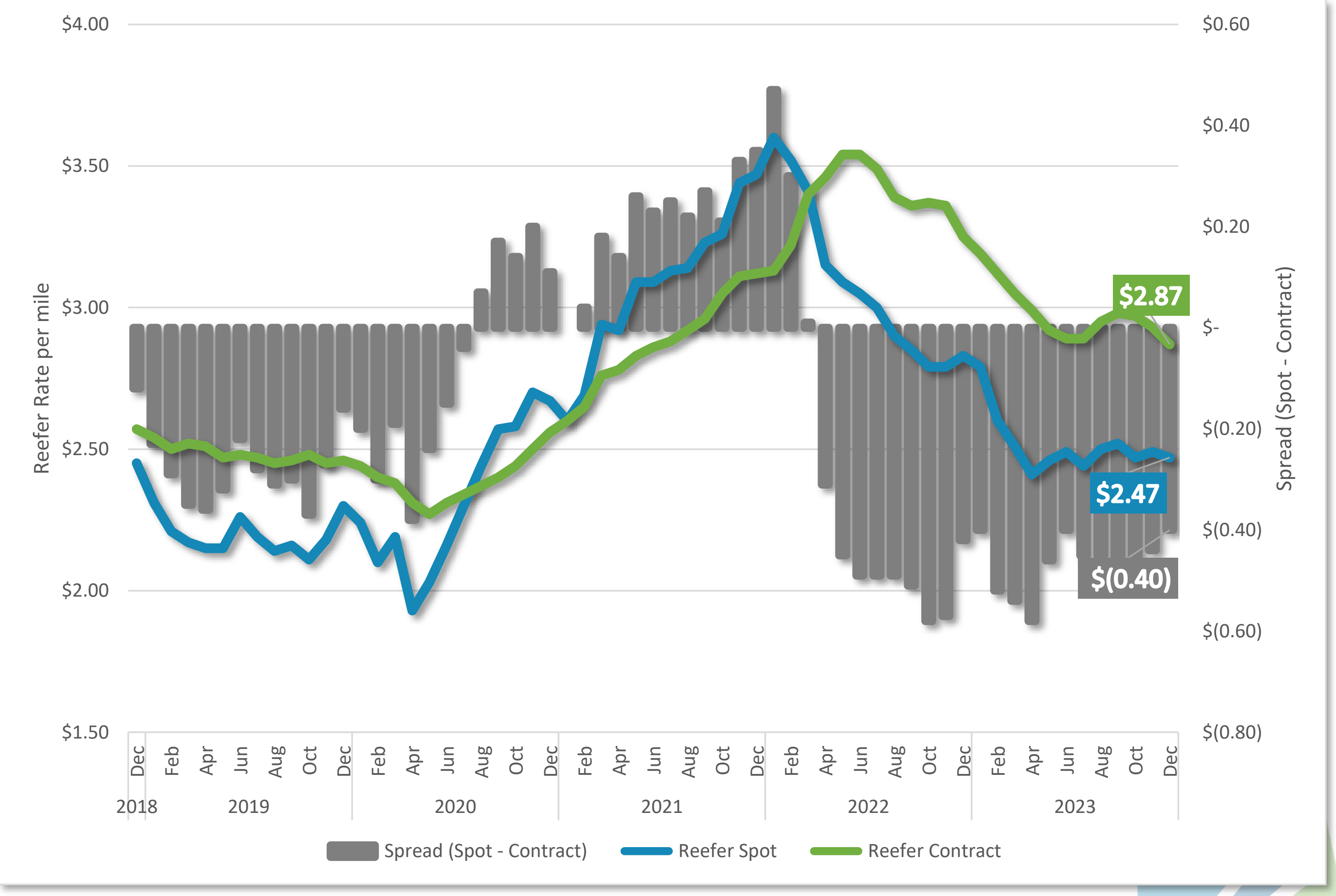
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates ticked downward month-over-month in December following a 0.8% increase in the previous month following adjustments.

- Spot rates decreased $0.02, or 0.8% to $2.47 per mile, and are down $0.36 since last year.
- Contract rates decreased $0.06 to $2.87 per mile, which is $0.38 below where we were last year.
- The spread between spot and contract decreased $0.04 to $0.40 and is 4.8% better compared to a year ago.

DAT's ratecast is forecasting that spot rates excluding fuel will remain flat as we head into February, and then drop about $0.05 as we get closer to the end of February.

- DAT's extended forecast for reefer spot rates excluding fuel predicts that rates will increase $0.10 in January to $2.16, and then decrease steadily until the spring produce season kicks off in April 2024.



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.

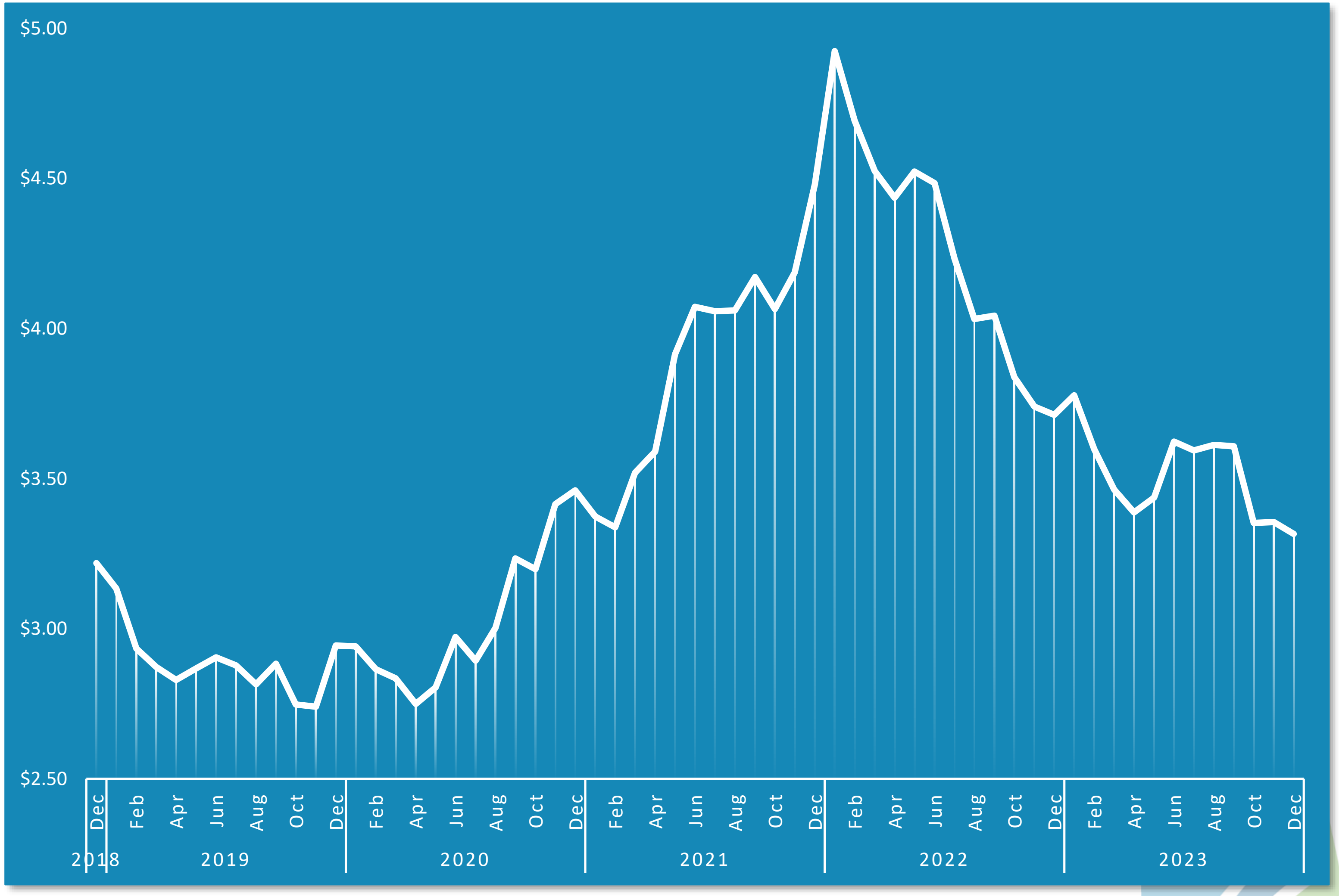
Why it matters: Produce requires fast and efficient movements of perishable commodities.

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

Our thoughts: Fruit and vegetable reefer rates are 32.7%, or $1.61 per mile, below their high in January 2022.

- Rates per mile decreased 1.2%, month-over-month to $3.32 in December, marking four months out of six of decreases as we close out the year.
- Rates are $0.40 per mile, or 10.7%, lower year-over-year, and are $0.20 per mile, or 5.6%, lower than the five year trend.

According to USDA, carriers in the Florida region experienced the greatest increase in pay per mile month-over-month, rising $0.19 per mile to $2.27, while the California region saw the steepest decrease, falling $0.40 per mile to $2.92.



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

Fruit and Vegetable Industry: Truck Volume

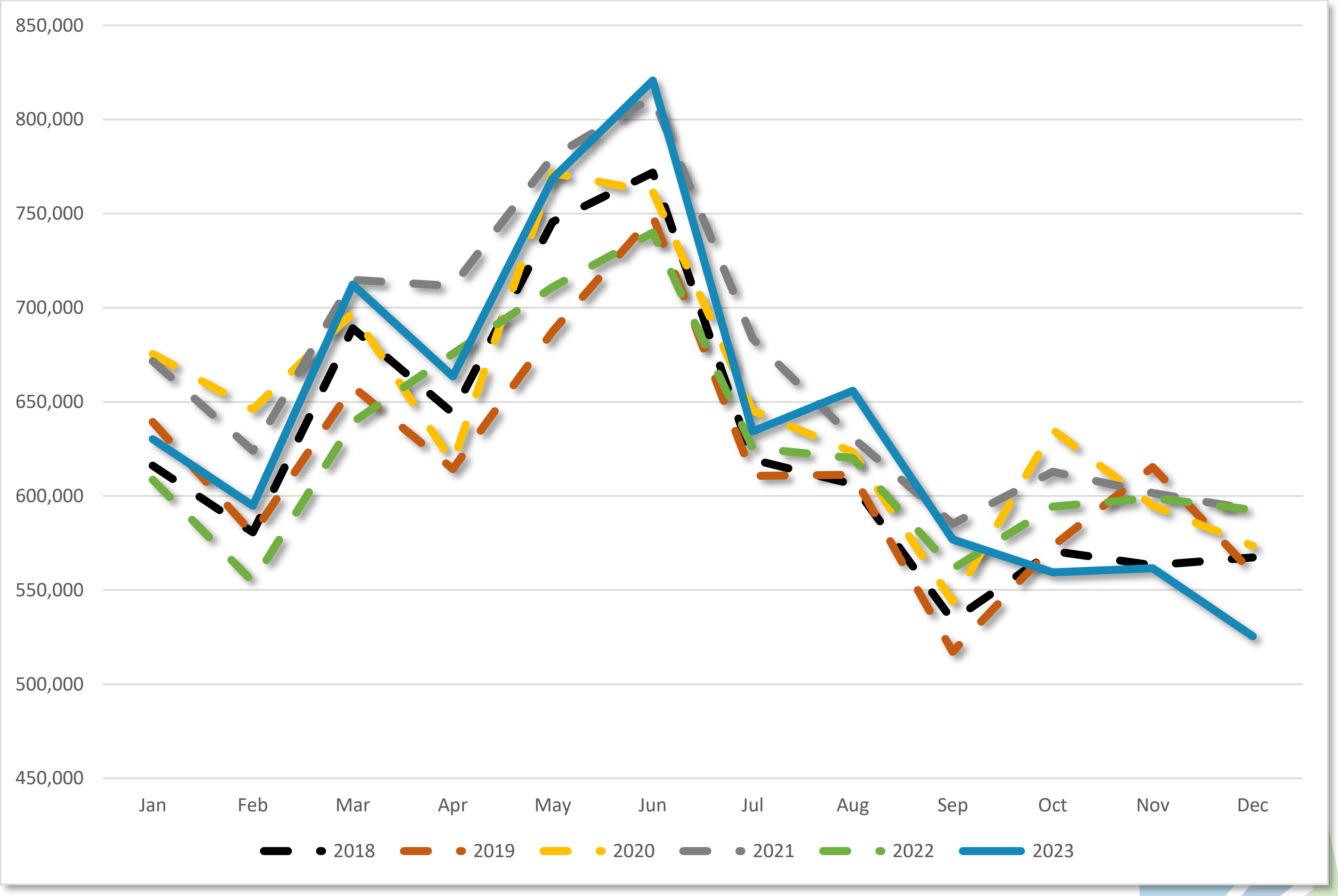
The big picture: The USDA's Crops report includes daily fruit and vegetable volume data by weight for different regions and commodities.

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 fell significantly in December after experiencing a small increase in November following adjustments. The chart depicts that volumes are currently under the usual seasonal trend for this time of year.

- Reefer volumes decreased 6.4% month-over-month to 525,379 pounds, and are 6.4%, or 35,890 pounds, lower year-over-year. Volumes are 18.2% below the 5-year trend.
- The California region decreased 50.6% month-over-month, and is 57.4% lower compared to last year.
- Several regions experienced decreases in volumes, including California, Canada, and Mexico-Texas. In fact, 62% of the regions saw volumes fall month-over-month.
- The Arizona and Texas regions experienced the largest increase in volumes by far.



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

Fruit and Vegetable Industry: Truck Availability

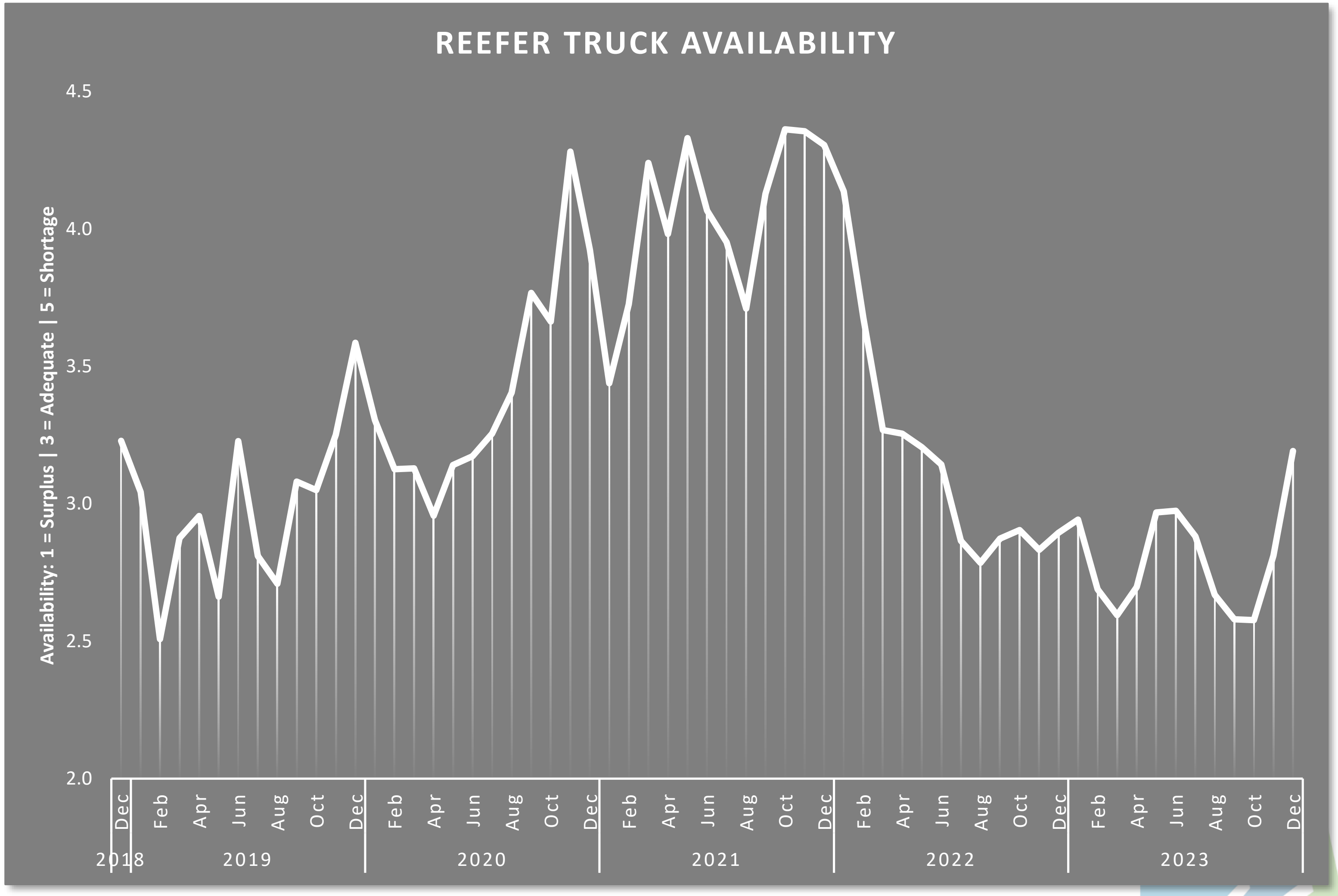
The big picture: The USDA's Crops report includes daily fruit and vegetable data for refrigerated truck availability across different regions and commodities.

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

- **Reefer Truck Availability** is coded on a scale of 1 to 5, 1 representing a surplus and 5 representing a shortage of trucks.

Our thoughts: Reefer truck capacity tightened again even despite a drop in volumes due to the end of year holidays, which is the typical seasonal trend.

- Reefer truck availability tightened to 3.19. Availability is down 10.3% over the previous year when it was 2.89.
- Capacity either remained flat or tightened for ever region in the country. The Florida and Mexico-Arizona regions experienced the greatest level of tightening.
- Conditions in California tightened in December from 2.82 to 3.33. However, because of the decline in volumes, rates dropped in the region.



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

Trucking Market Update

Trucking Market Update

OOFI designed this update to help the owner-operator gain insight into the current conditions of today's freight market. To do so, we will look at four key categories:

1. **Volume** levels help us to see how much freight needs to be moved overall.
2. **Supply/Demand** shows us how many trucks there are in the market and how many are needed.
3. **Rates** illustrate how much the average owner-operator can expect to currently earn.
4. **Operating Costs** depict the every-day expenses for the average owner-operator.

The bottom line: OOFI will breakdown each category and explain how they pertain to you as a small business owner.

Volume: Transportation Service Index (TSI)

The big picture: TSI measures the volume of freight moved monthly by the *for-hire transportation sector* in the United States.

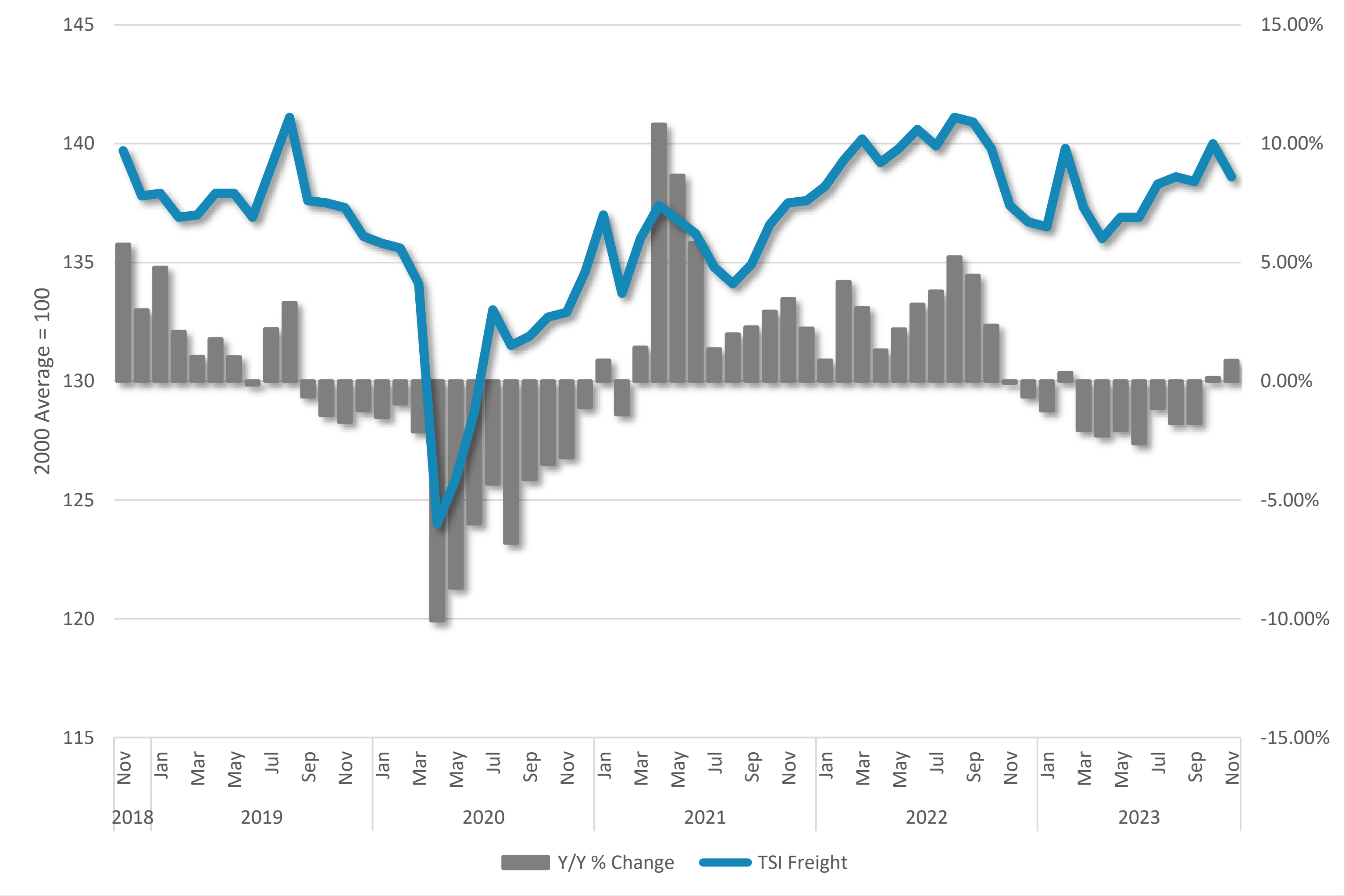
Why it matters: Changes in the TSI reflect changes in the demand for goods and services.

- For example, demand for freight typically increases in periods of economic expansion.
- The TSI captures this demand for transportation by increasing as well.

Our thoughts: Freight volumes decreased in November due to seasonally adjusted decreases in air, pipeline, and trucking, while intermodal, rail, and water were up.

- The TSI decreased 1.0% month-over-month to 138.6, and is 0.9% higher than a year ago, ending 8 straight months of year-over-year declines.
- November was 1.8% below the all-time high of 141.1 in August 2022.

November's decrease came in the context of increases for other indicators. The Industrial Production Index was up 0.2%, reflecting increases in manufacturing and mining, while utilities decreased. Housing starts were up 14.8%, and personal income increased 0.4%.



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.

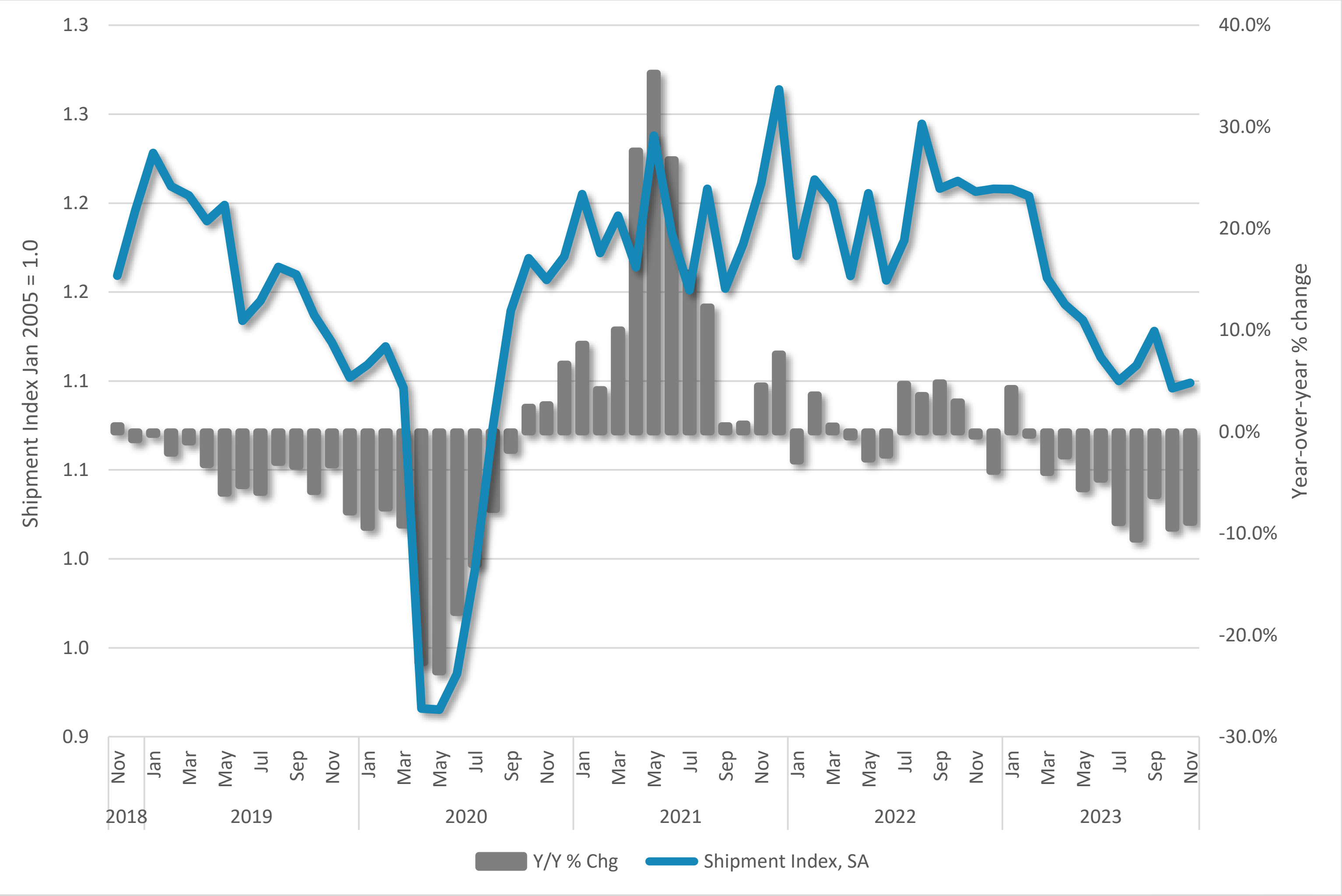
- The index is an indicator of U.S. shipping activity, containing 37 million invoices across 400 companies and manufacturers.

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

Our thoughts: the Cass Shipment Index was up 2.2% month-over-month to 1.12 in December when seasonally adjusted, and was down 7% year-over-year. The Shipment Index has declined year-over-year for 11 consecutive months.

- Expenditures, which measures the total amount spent of freight, increased 0.1% to 3.33.
- Inferred rates, which are calculated by dividing expenditures by shipments to explain the movement in cost per shipment, decreased 2% to 2.97.
- Truckload linehaul rates, which includes both spot and contract rates, increased 0.4% to 141.3 and is down 6.1% year-over-year, which was up from the cycle low in November.

Bottom line: Cass believes that the current downcycle drivers, destocking and declining goods consumption, are reversing course. "The acceleration in real disposable incomes, supported by a surprisingly sharp disinflation, and the ongoing strong labor market suggest freight demand fundamentals will improve in 2024."



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

Supply: Truck Employment

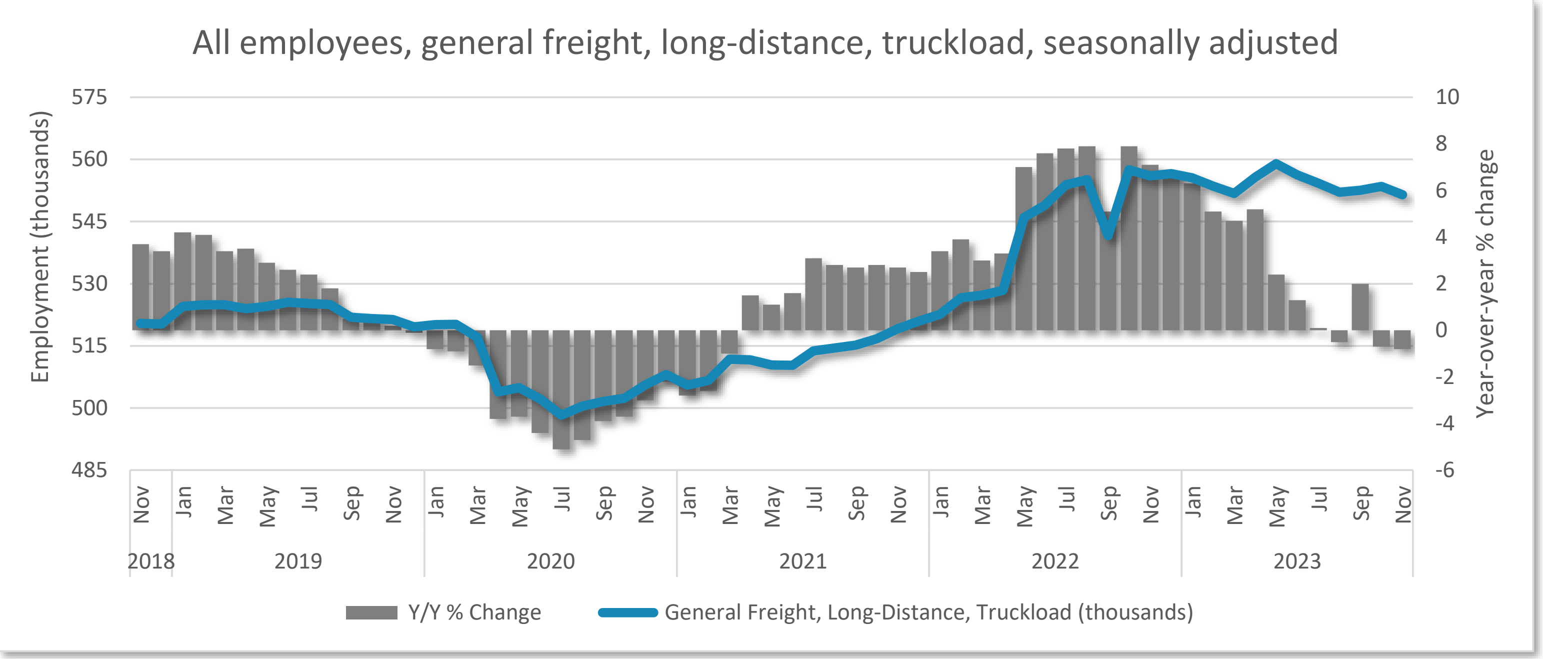
The big picture: The Bureau of Labor Statistics releases monthly payroll data concerning various industries and sectors, including trucking.

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

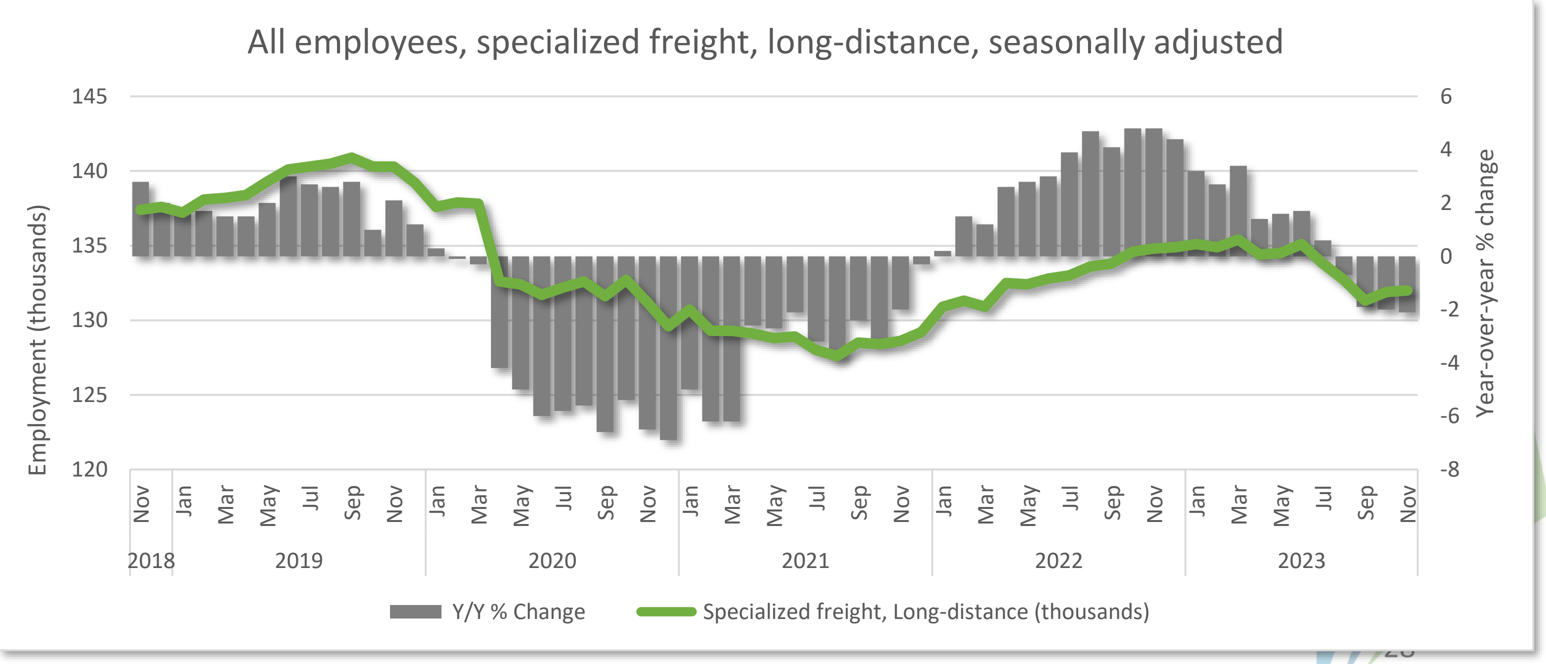
- Employment levels are also a good indicator for demand and rates, as demand drives supply. Thus, when demand increases, wages and rates also increase to attract more supply. The opposite is also true.

Our thoughts: Truck employment numbers overall (not pictured) increased for the second straight month at 0.21% in December to 1,586.3 million people. This is the fifth consecutive month of year-over-year decreases however.

- Employment for general freight trucking, long-distance, truckload, which best represents our members, decreased 0.4%, or 2,000 jobs, month-over-month in November.
- It is 0.8%, or 4,500 jobs, lower year-over year, 4.5% above the 5-year trend, and 9.4% higher than April 2020.
- Specialized freight trucking, long-distance, which represents flatbed, reefers, and other equipment types, increased 0.1%, or 100 jobs, month-over-month.
- This figure is 2.1%, or 2,800 jobs, lower year-over-year, and is 1.3% below the 5-year trend. This is the fourth consecutive month of year-over-year decreases.



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.

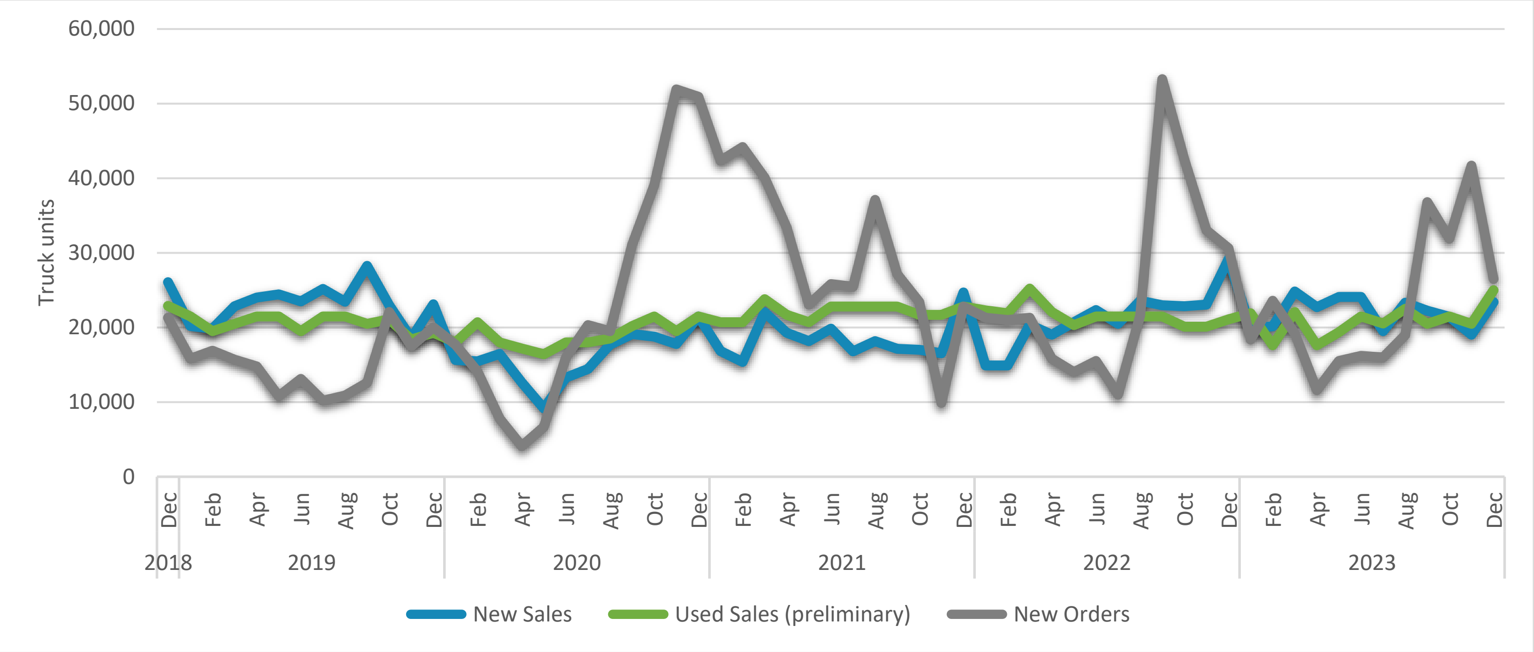
Why it matters: Class 8 orders and sales data will help an owner-operator to see both the demand for trucks and current truck capacity.

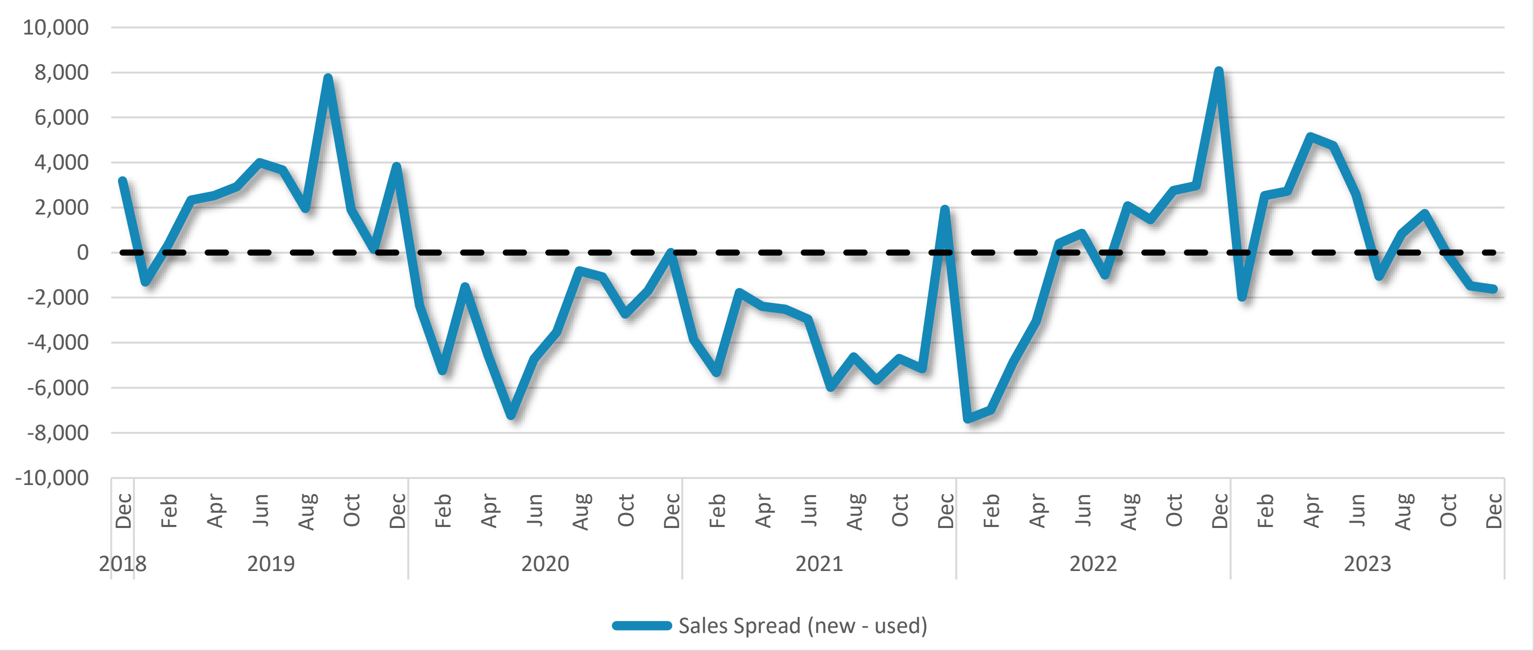
- Demand for trucks tends to spike when new orders increase following a steady increase in rates as depicted in the top figure (2017-2018 and 2020).
- Truck capacity tends to loosen when new sales eclipse used sales as shown in the bottom chart (2018-2019 and 2022-2023).

Our thoughts: New sales increased 22.9% in December to 23,390 after dropping 11.2% in November following adjustments, and are 19.8% lower year-over-year, while new orders dropped 36.5% to 26,500.

- Preliminary used sales figures increased 22%, or 4,510 units, in December to 25,010, and are up 18.5% compared to last year.
- Used sales eclipsed new sales by 1,620 units, marking a two month trend. This is only the fourth time this year that used sales surpassed new.

The industry has experienced overcapacity, or too many trucks, since the fourth quarter of 2022, which has not been helpful for freight rates.





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.

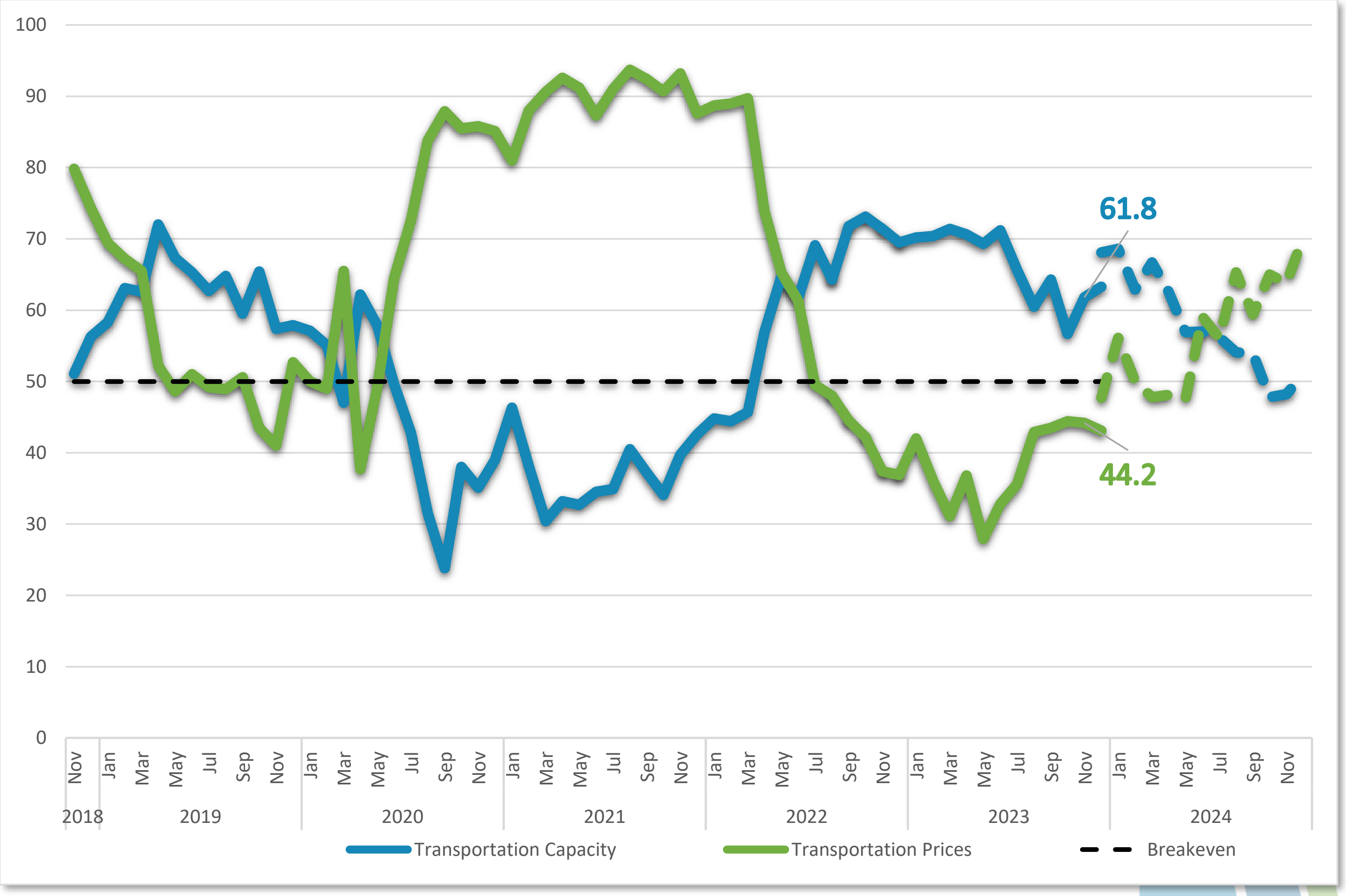
Why it matters: The LMI reflects the strength of the overall economy as it measures both upstream and downstream conditions.

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

Our thoughts: The LMI overall increased 1.2 points to 50.6, which is back into expansion territory. The increase was due primarily to growth in the three warehousing metrics, which in turn helped spur growth in transportation utilization.

- Transportation prices contracted slightly faster in November than in October, and have been in contraction territory for 18 straight months.
- Prices decreased 2.5% month-over month to 43.1, but are 16.8% higher year-over-year (Y/Y), when the index read 36.9. Prices are predicted to jump into expansion territory in January, but it's doubtful if this will materialize.
- Transportation capacity increased 2.4% to 63.3, which is 8.9% lower Y/Y. After falling under 60 in October for the first time since April 2022, capacity has jumped back over 60.

Aggregate logistics prices (ALP), which includes inventory costs, warehousing prices, and transportation prices, decreased 6.2 points to 164.4 and is well below the readings we saw during the heaviest inflationary period in 2022, which were often over 250.



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.

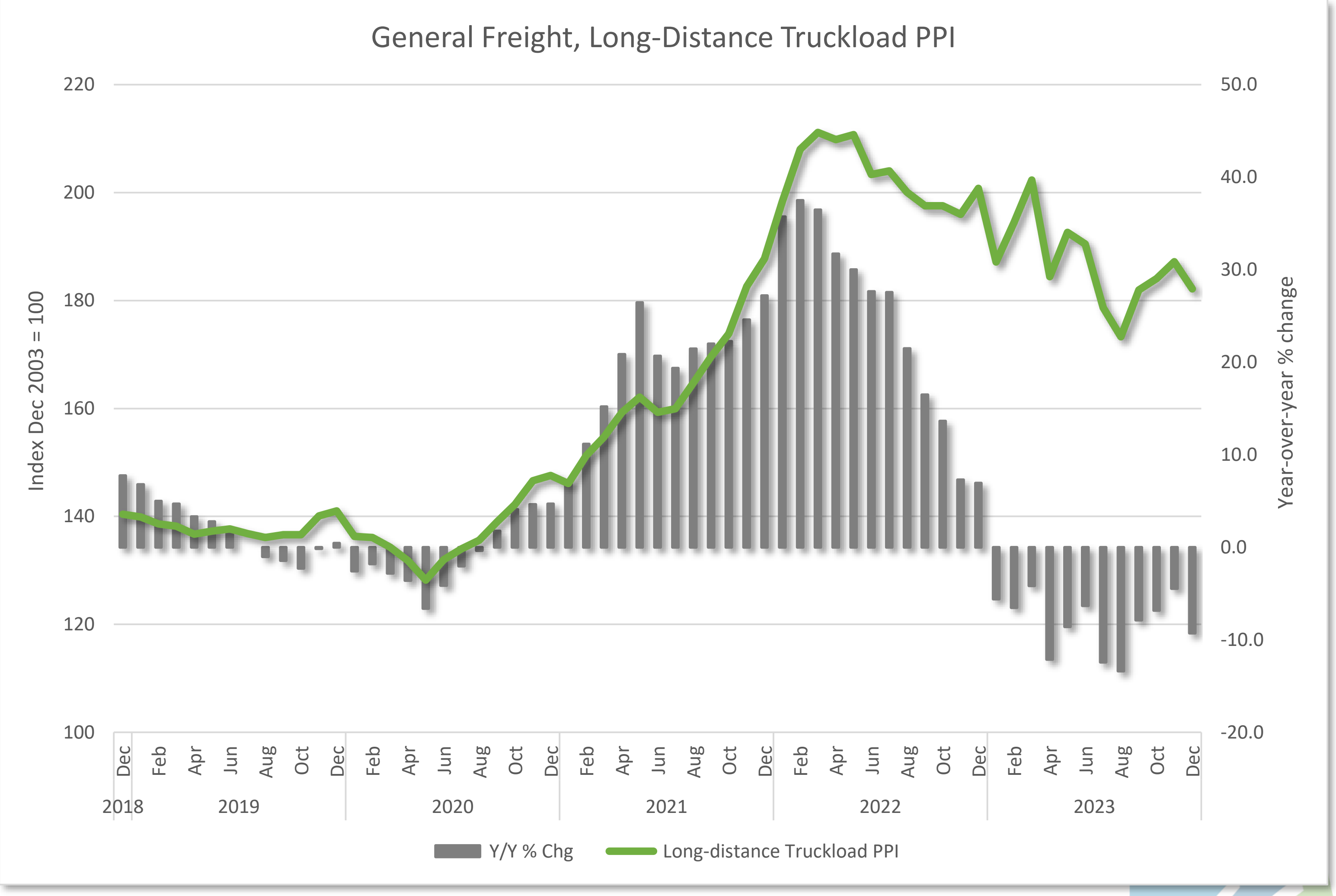
- One index focuses on long-haul, truckload carriers.
- This index shows how much carriers are charging their customers.

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 decreased in December after increasing 1.7% in November following readjustments. The index has decreased 13.6% since its high in May 2022.

- The long-haul PPI decreased 2.7% to 182.1, month-over-month, after the BLS re-adjusted the figure for November.
- The PPI is 9.3% lower year-over-year, but 10.1% above the 5-year trend.

It appears that the overall trend for the PPI has hit bottom, and is starting to rise/level-off again. However, as we have stated previously, the new freight cycle probably won't start materializing until at least the 2nd quarter of 2024, and even then, it will be a slow gradual climb.



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

Costs: Diesel Fuel

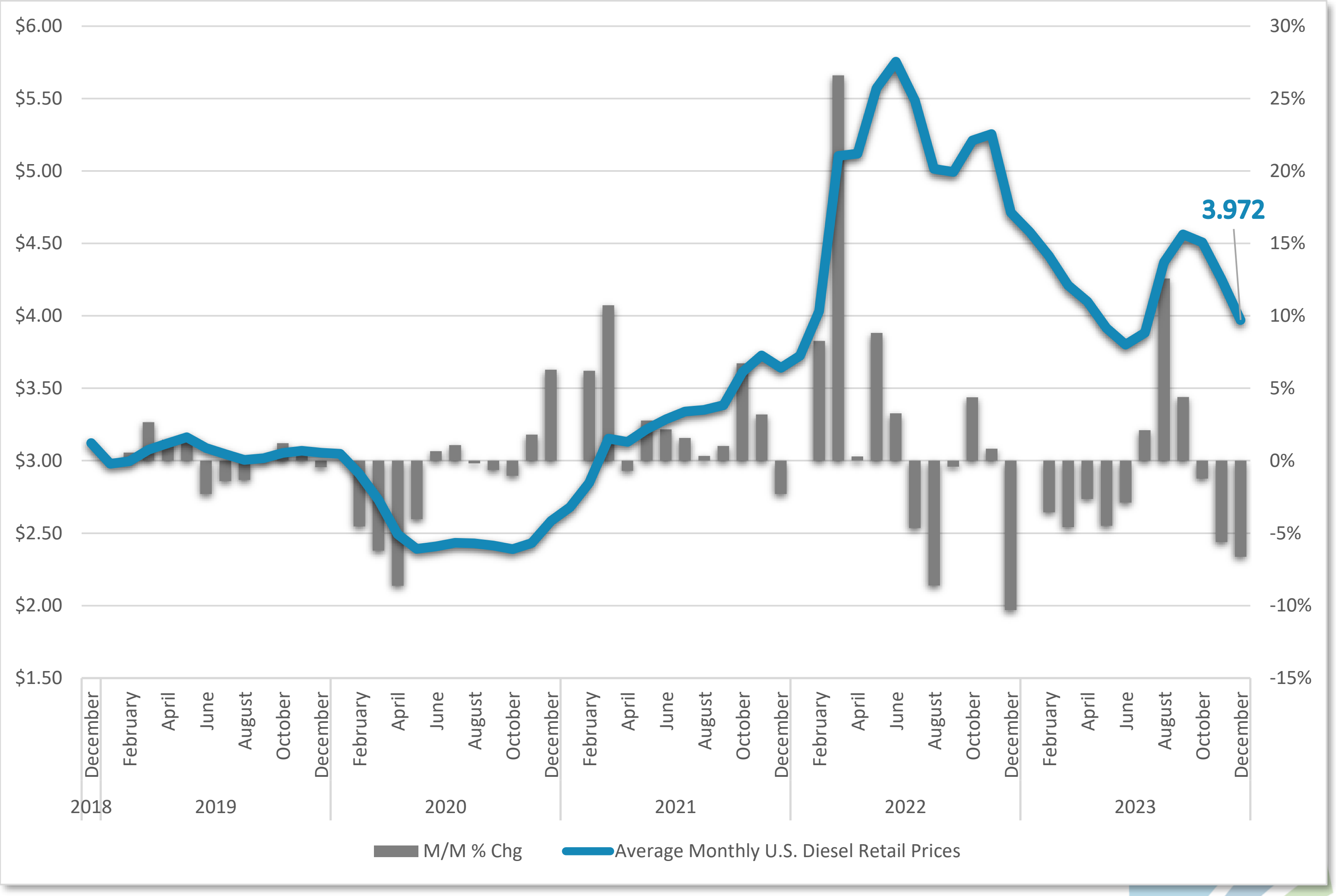
The big picture: The U.S. Energy Information Administration (EIA) tracks the weekly changes in on-highway diesel fuel prices throughout the country.

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 $0.28 per gallon after falling $0.25 in November and $0.06 in October. Prices through December have declined $1.78 per gallon since the high of $5.75 in June 2022.

- The average price for diesel fuel decreased 6.6% month-over-month to $3.97 per gallon, marking three consecutive months of decreases and the first time diesel has been un $4 since July 2023.
- The average diesel price is 15.7% lower year-over-year, but 9.9%, or $0.36 per gallon, higher than the 5-year trend.
- The average price has been down year-over-year for 10 straight months.
- 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.

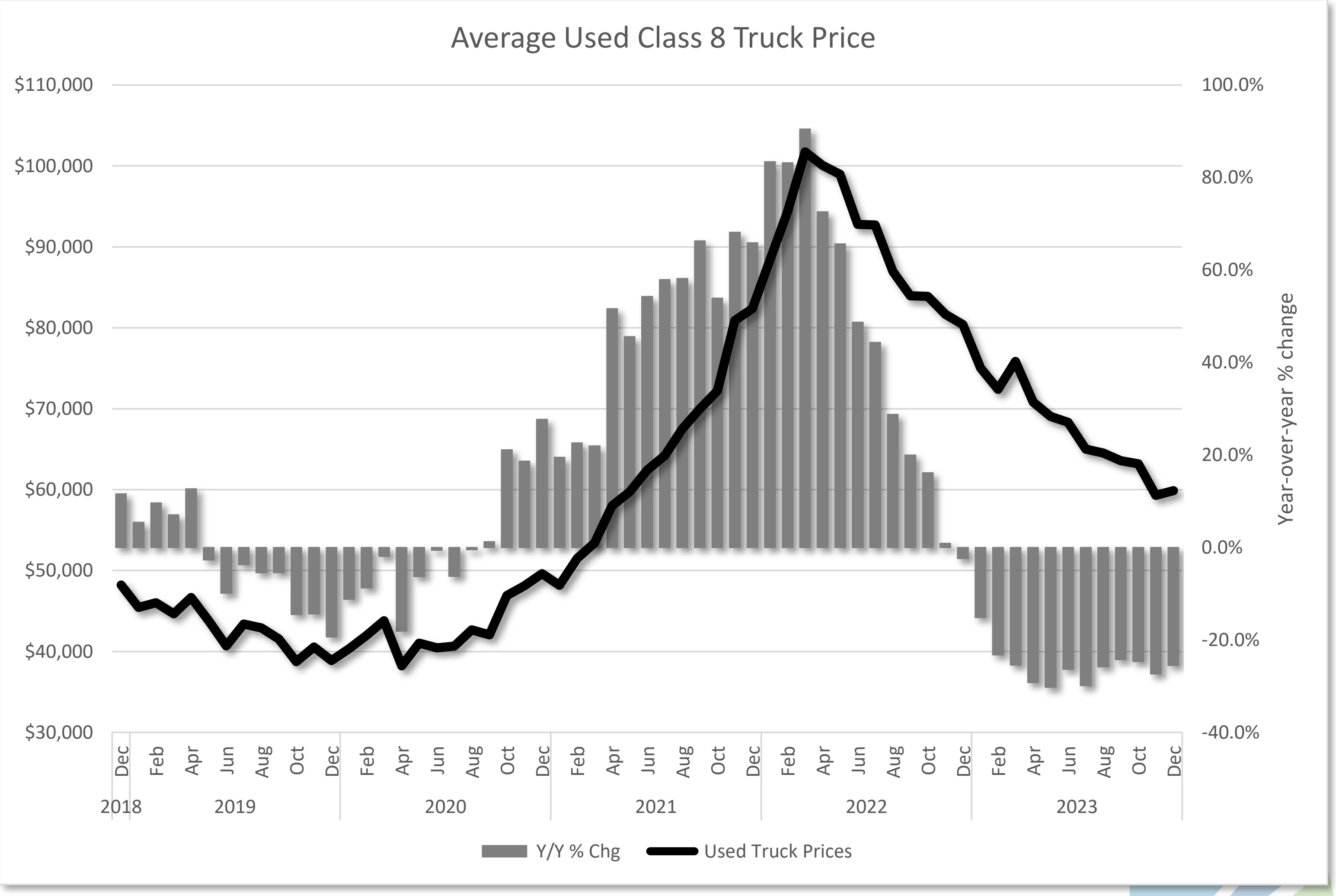
Why it matters: Used truck prices are a good sign of a strong freight market. Whereas monthly year-over-year decreases are a good indicator that the market is in a downcycle.

- 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 broke the downward trend in December, and increased slightly after falling 6.2% in November following readjustments. Prices are 41.1% below the high in March 2022, but remain significantly higher than the pre-pandemic average of $42,000.

- Used Class 8 truck prices increased $593 to approximately $59,885.
- This is 25.5% lower year-over year, and 2.3% below than the 5-year trend.

Year-over-year comparisons have been negative for 13 consecutive months, which is a bad indicator for the overall freight market.



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

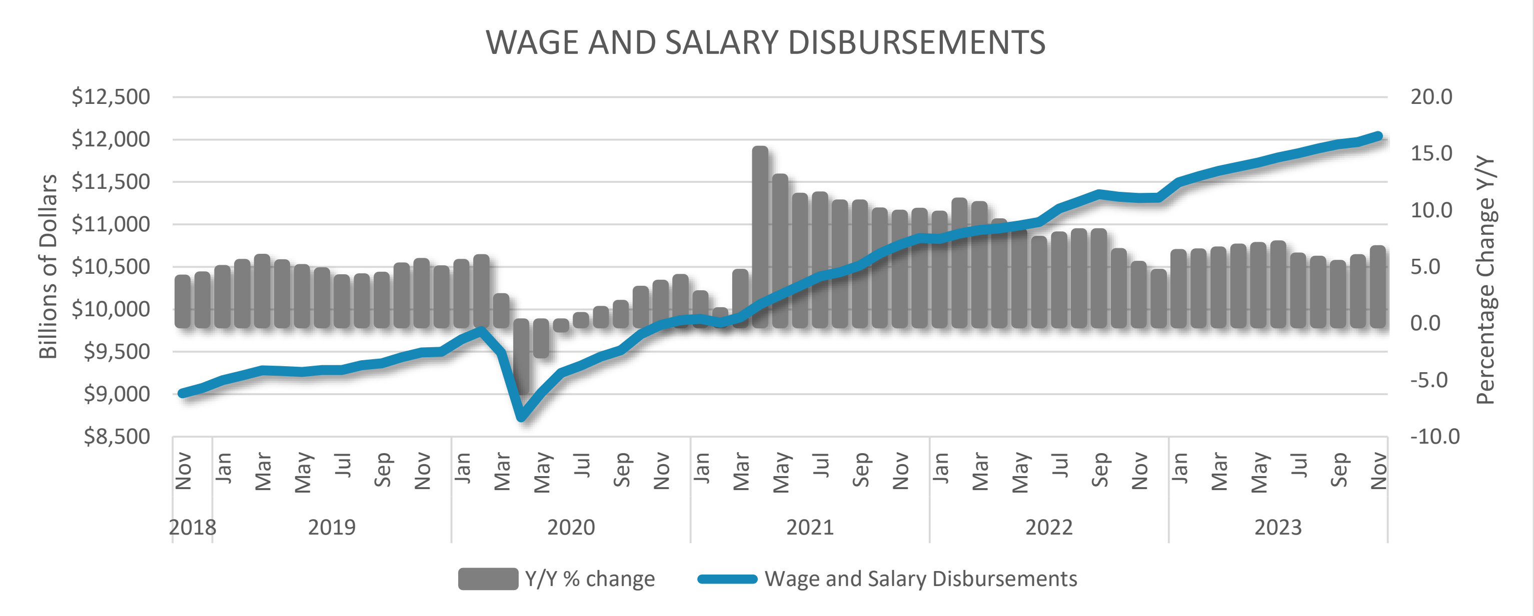
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so to does business and shipping activity.

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

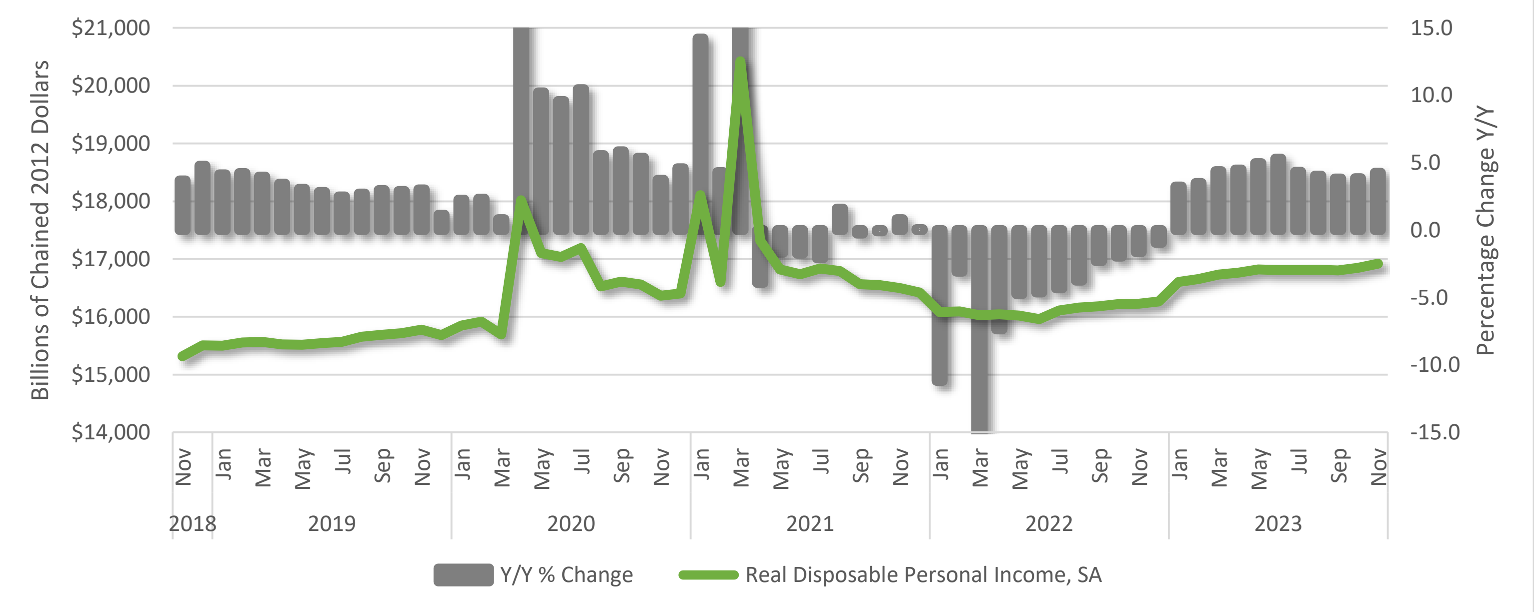
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

Our thoughts: Wages and salaries, 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.

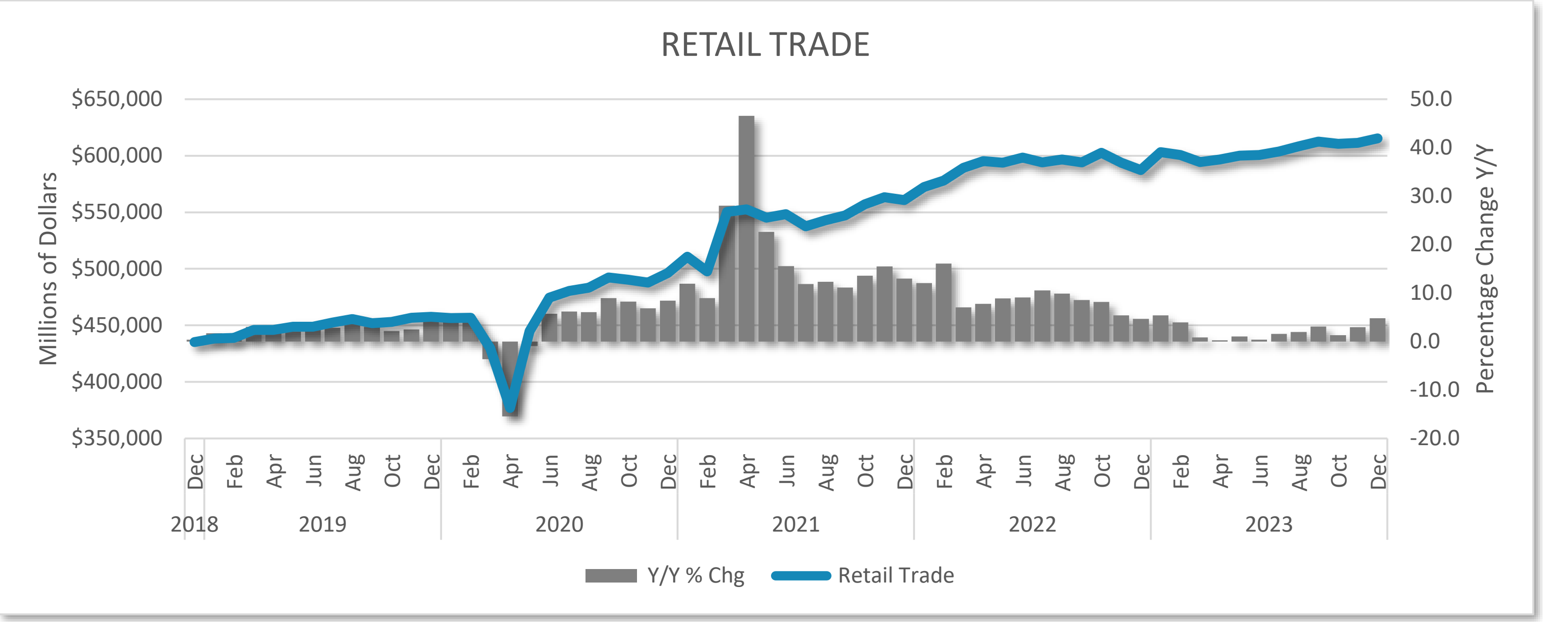
Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- 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.

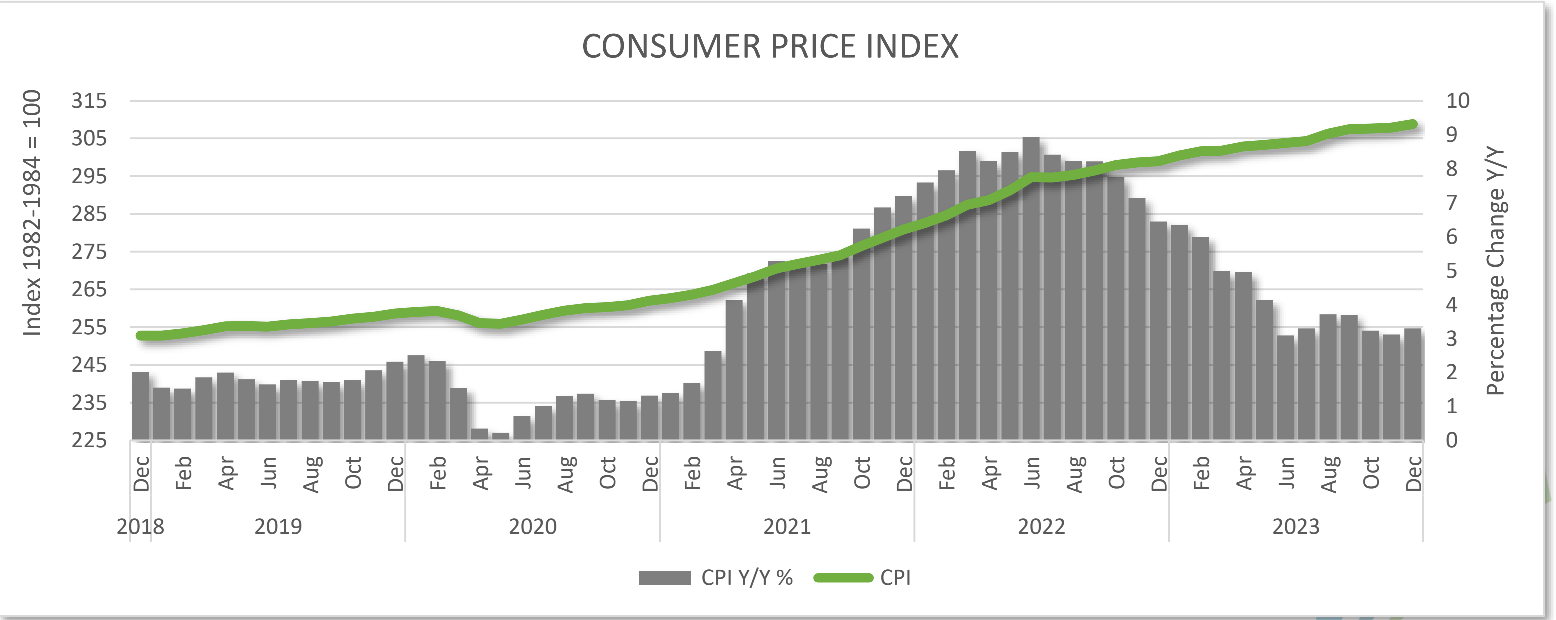
Our thoughts: Retail trade rose month-over-month in December after increasing 0.8% following adjustments to November’s data.

- 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.

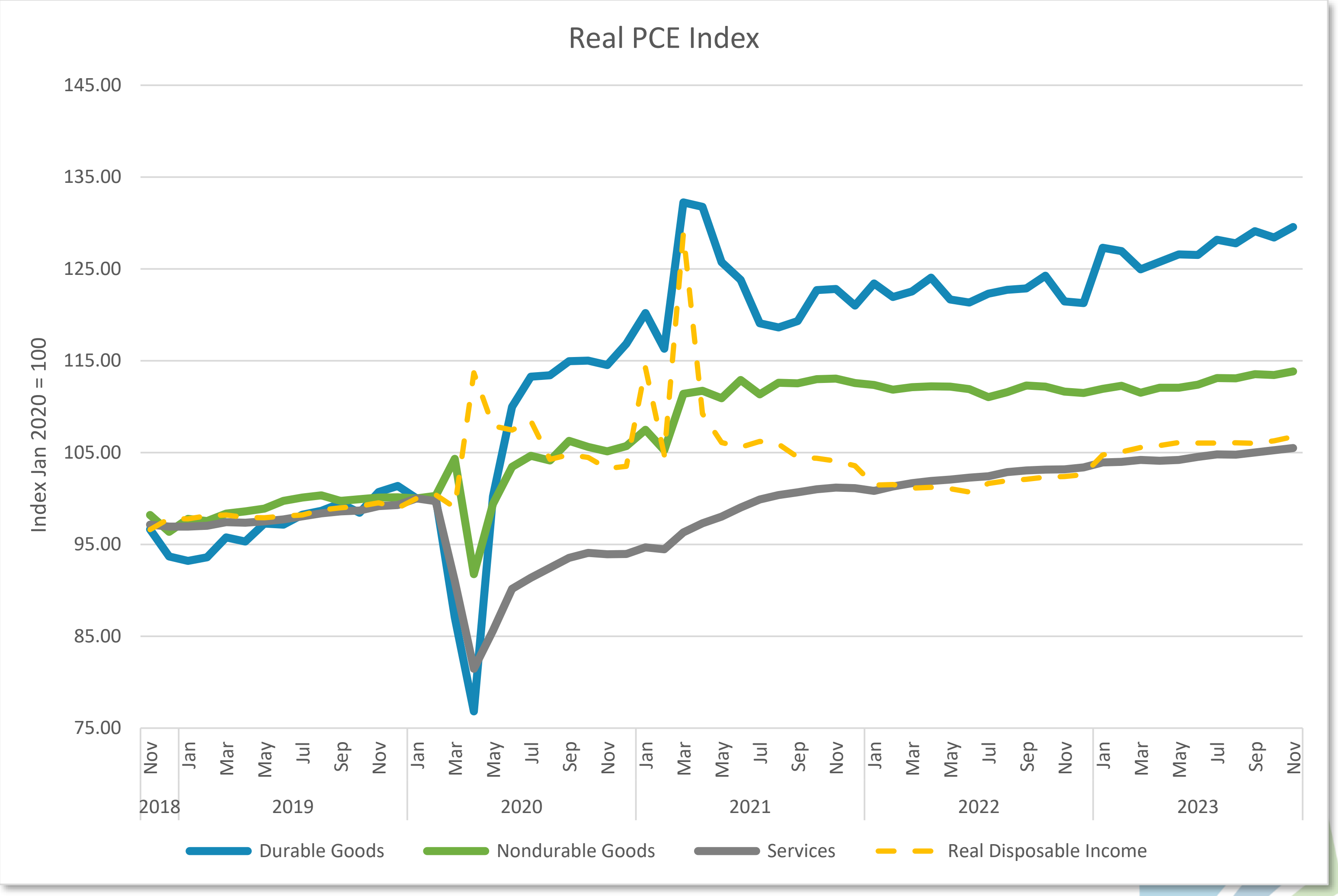
- The PCE measures a broad spectrum of consumer spending for a period of time.

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.

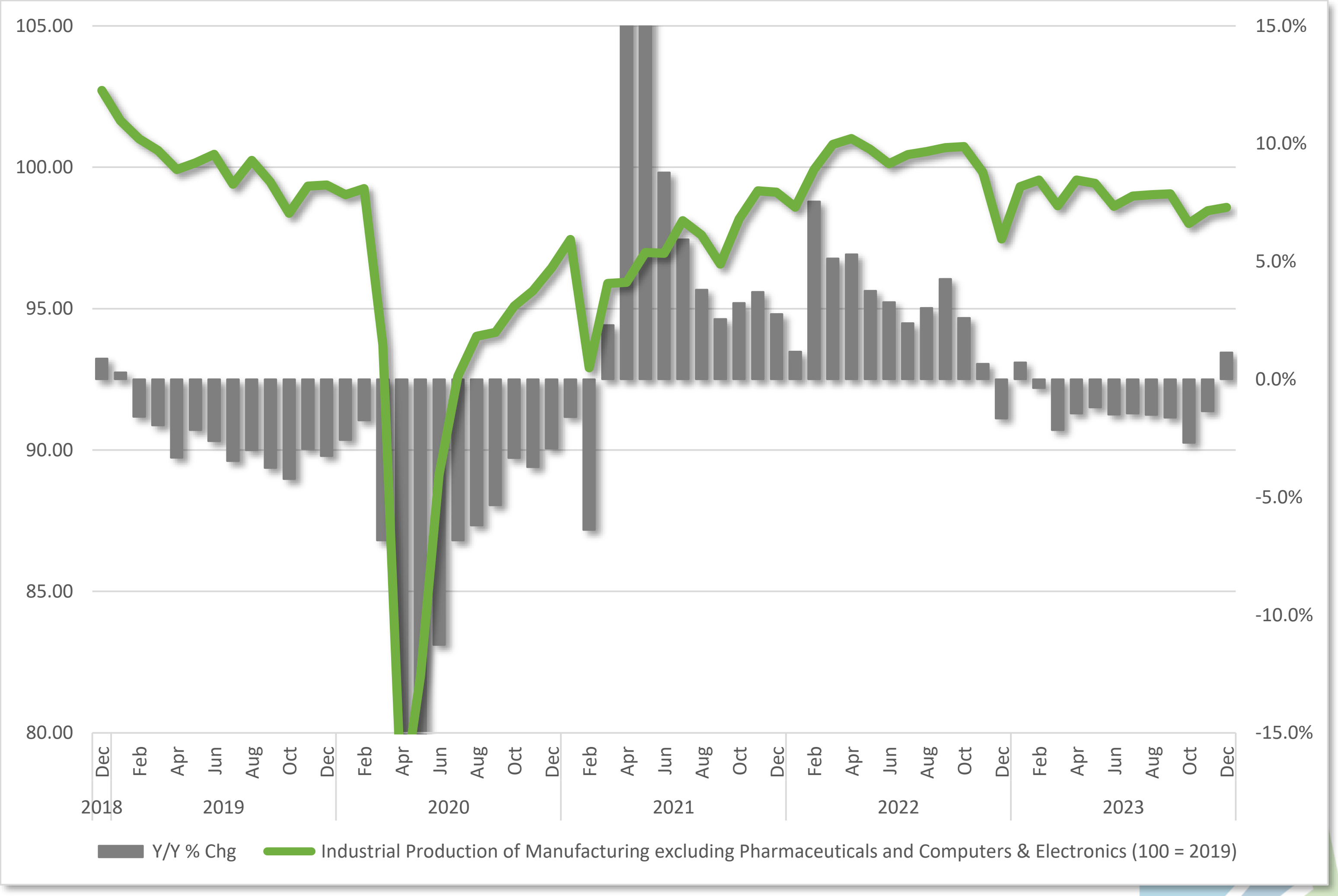
This is especially true when removing pharmaceuticals (NAICS 3254) and computer and electronic products (NAICS 334), as these sectors have an outsized influence on the overall manufacturing index.

- 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.

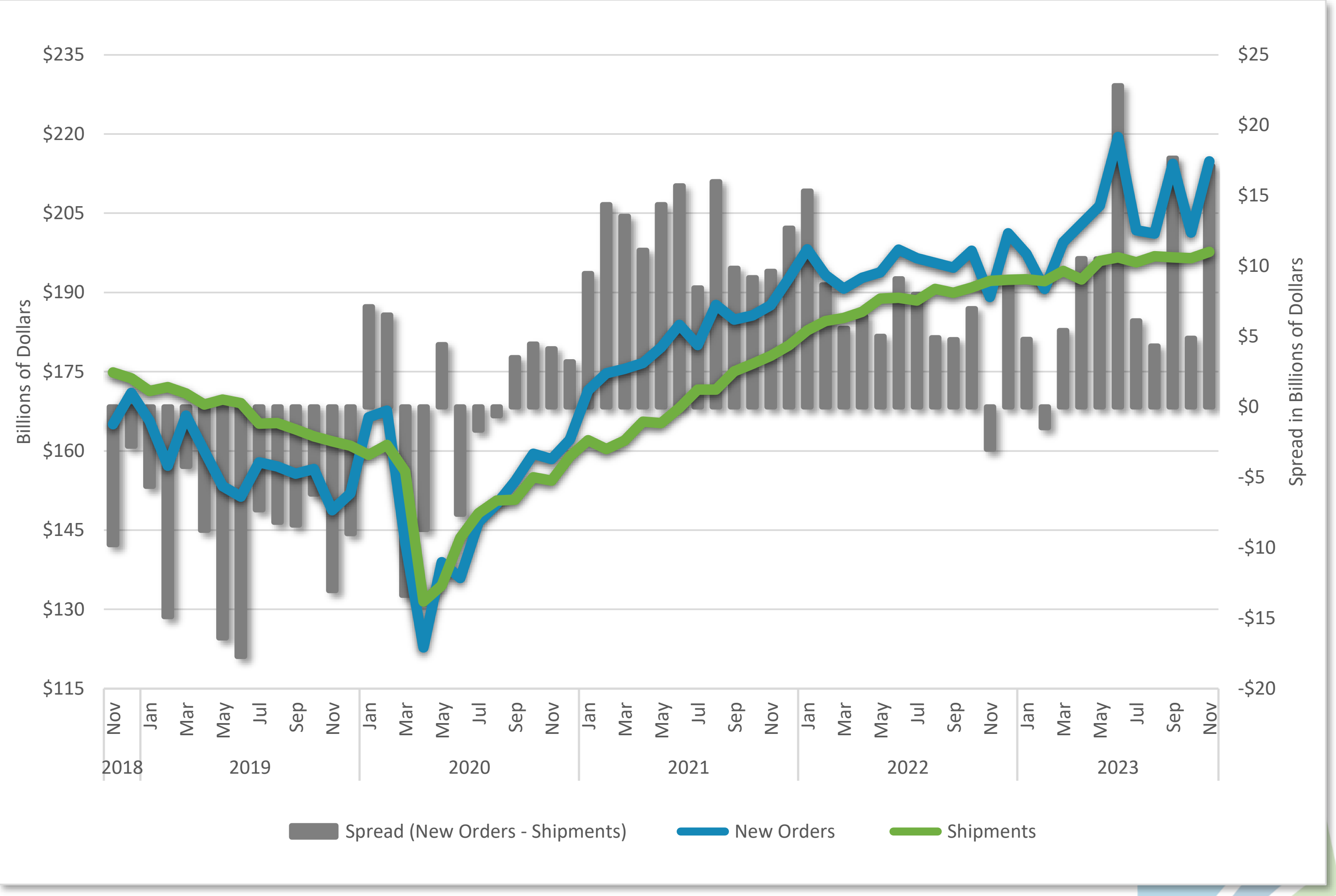
Why it matters: When unfilled new orders outperform shipments for unfilled orders, backlogs increase and we see growth in manufacturing activity. The reverse is also true.

- 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.

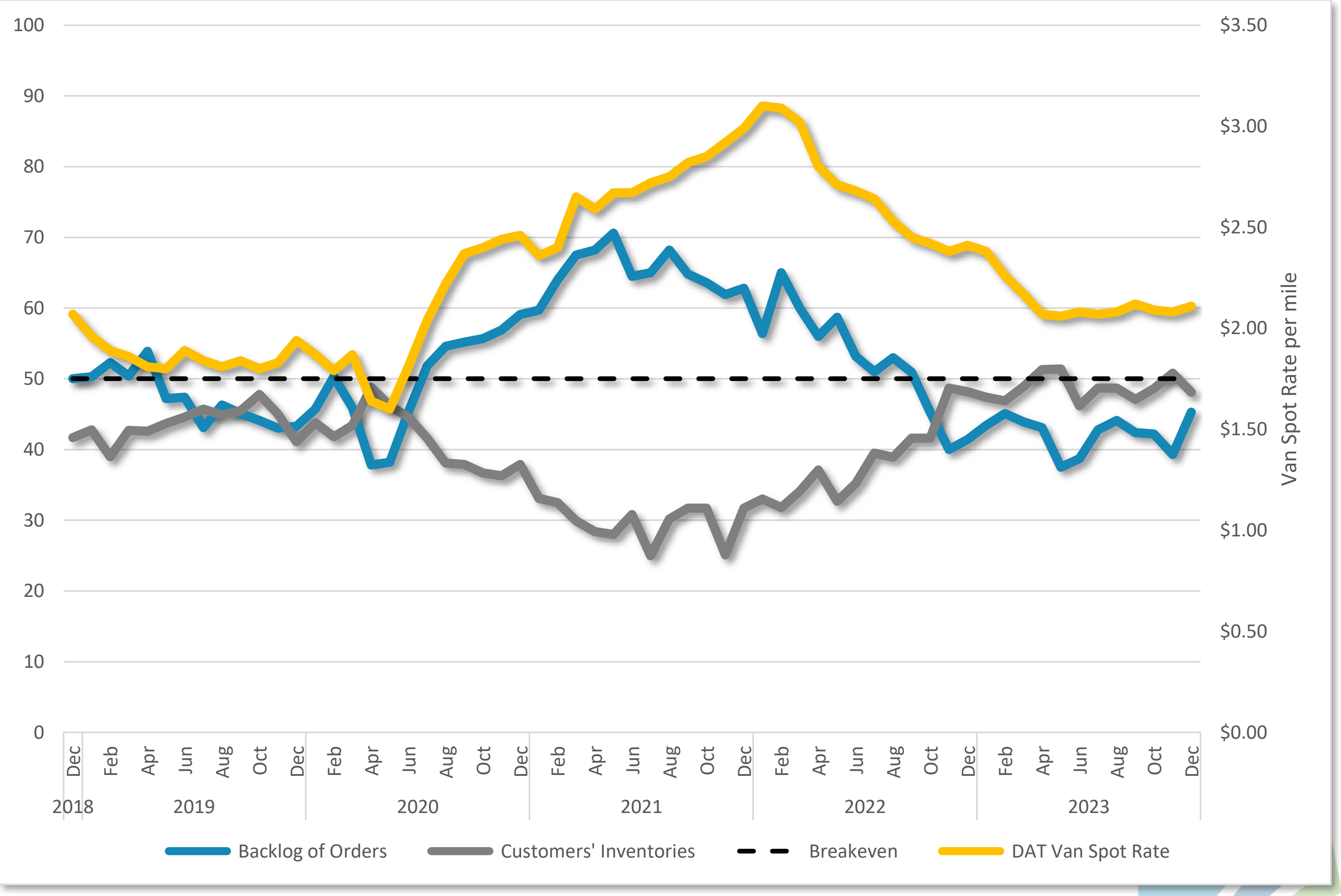
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart.

- 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.

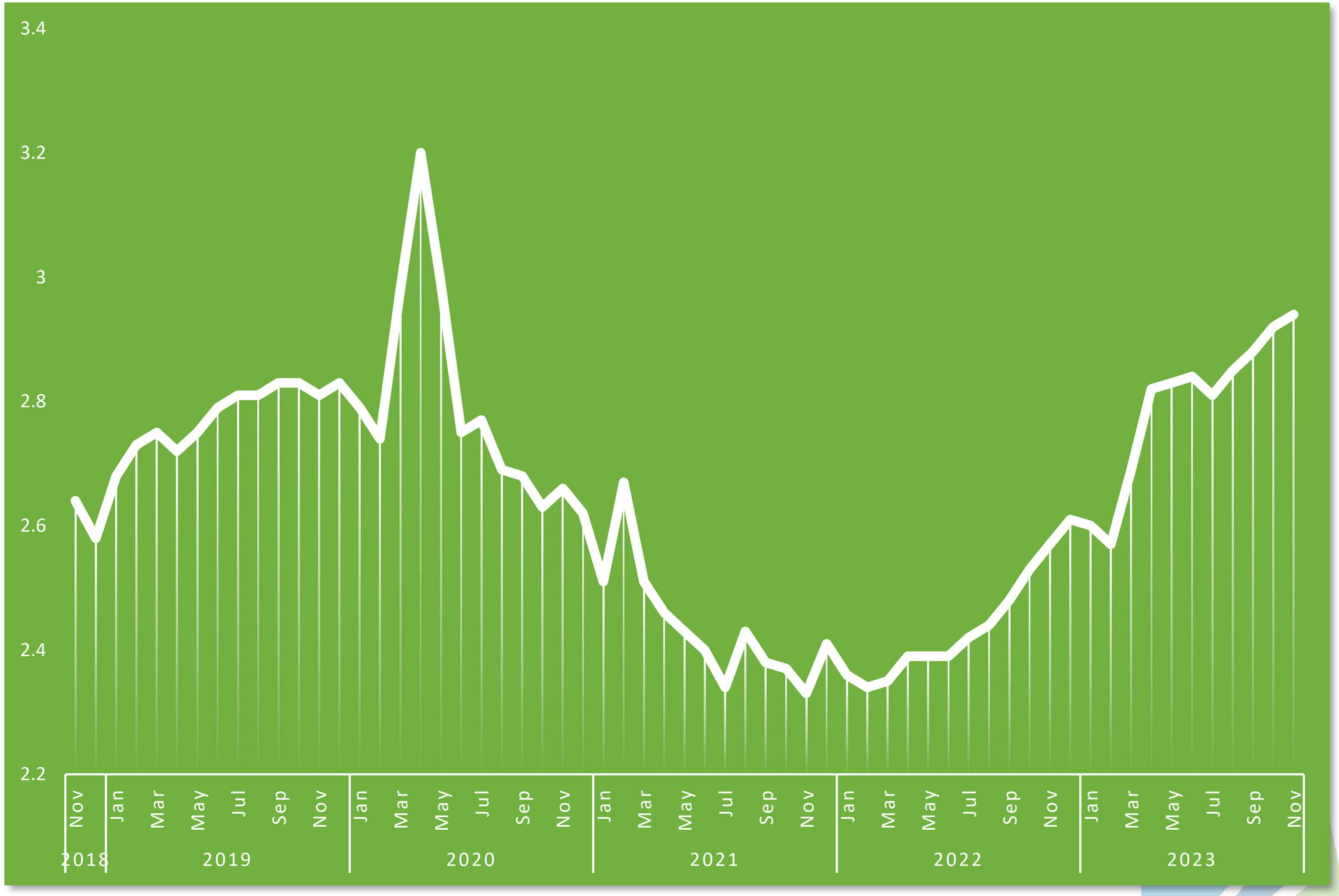
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

- 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.

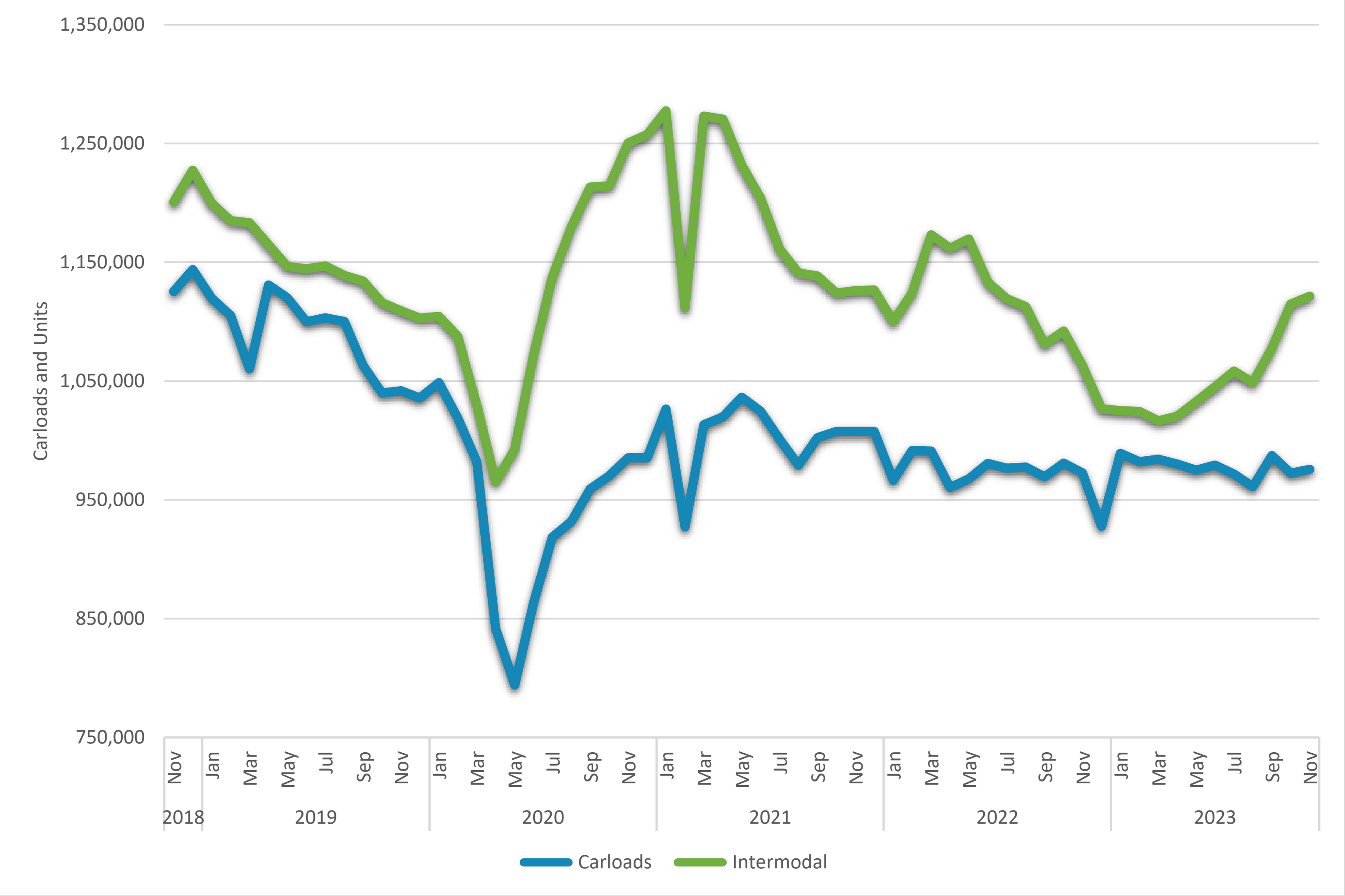
- While the rail and truck industries often compete with each other, they also work hand in hand.

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

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.

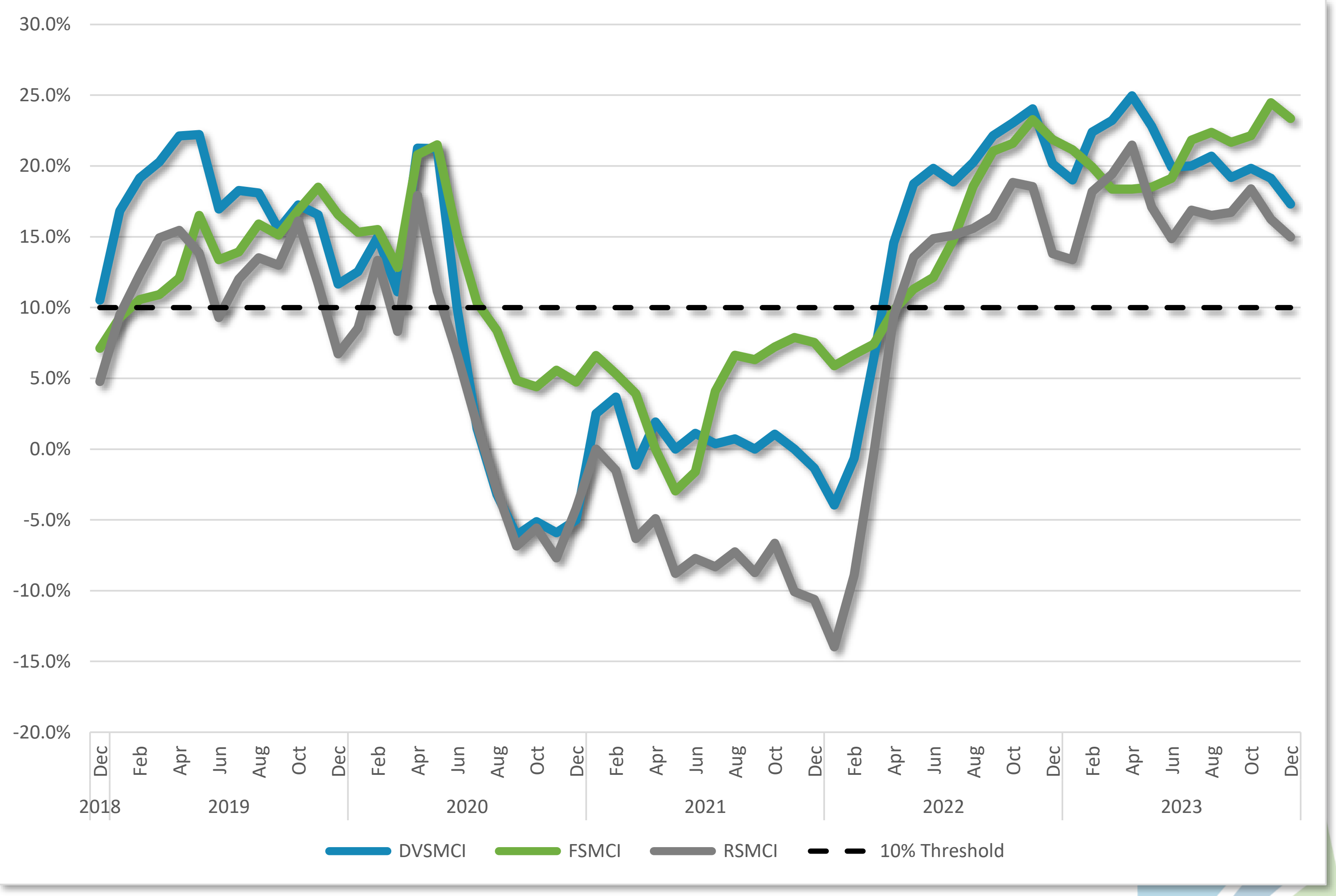
Why it matters: Whenever the SMCI for dry van (DVSMCI), flatbed (FSMCI), or reefer (RSMCI) crosses above the 10% threshold, the spot market enters into bear territory.

- 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: There are still no signs that the freight market is about to turn upward again. While the van and reefer markets are trending in the right direction, we still are a long ways away from the 10% threshold.

- The DVSMCI dropped 9.5% month-over-month (M/M) and is 27.9% lower year-over-year (Y/Y).
- The FSMCI decreased 4.5% M/M and is 0.4% higher Y/Y.
- The RSMCI declined 7.7% M/M and is 19.2% lower Y/Y.

All three SMCI declined in December, which is a positive sign, but owner-operators should continue to plan for the market to remain soft until we start getting closer to the 10% threshold.



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

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

Volume/Demand

Soft

Capacity

Loose

Rates

Flat

Operating Costs

High

Future Outlook

Negative

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