



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

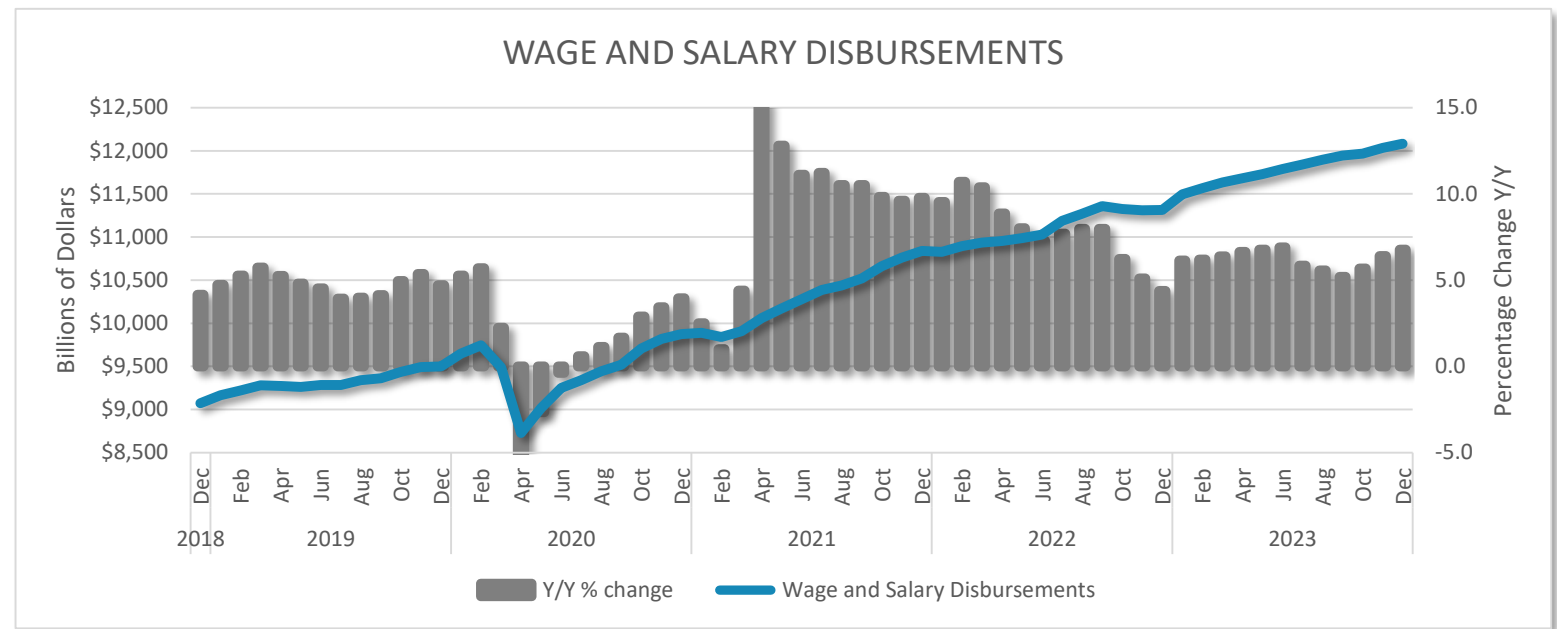
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so to does business and shipping activity.

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

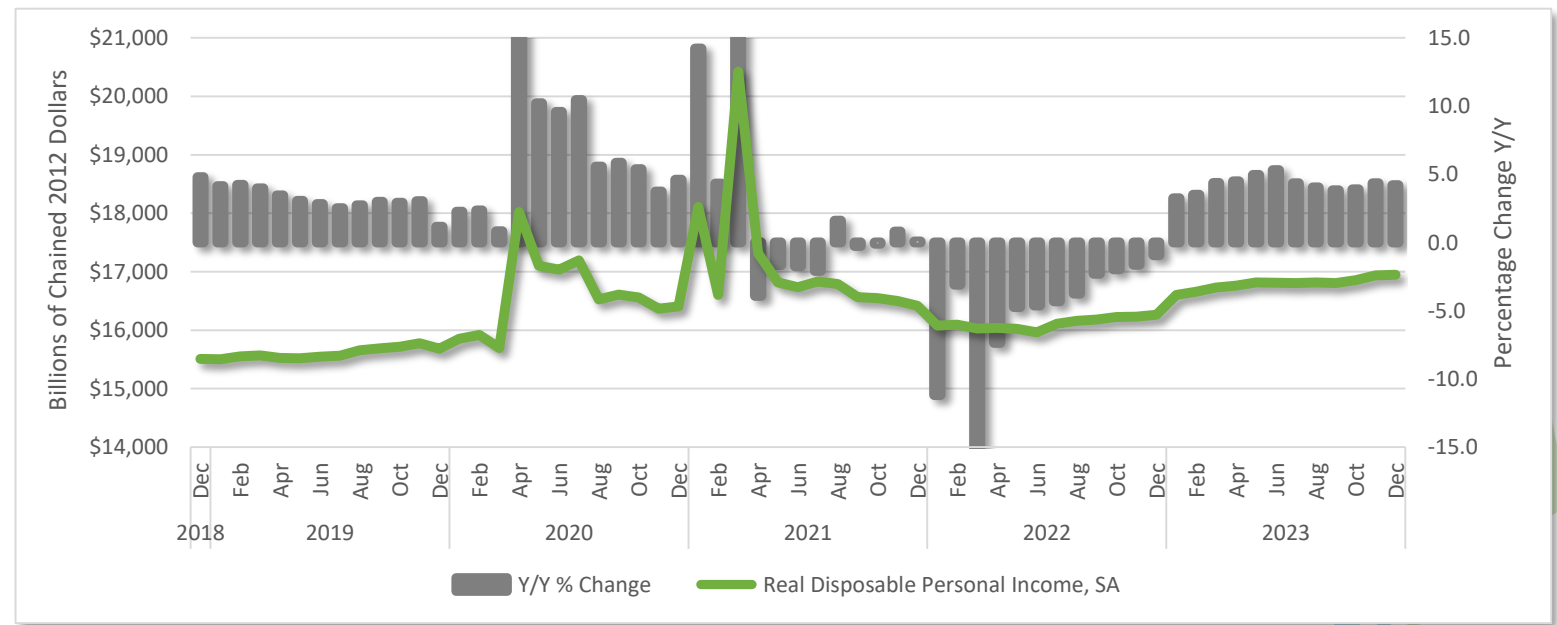
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

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

- Wages and Salary disbursements grew 0.4%, or \$46.5 billion, month-over-month in December.
- In terms of year-over-year growth, wages and salary disbursements are 54.5% higher due to difficult comparisons with December 2023.
- Real disposable income, which is adjusted for inflation, increased 0.1% month-over-month to \$16.95 trillion, marking three consecutive months of growth, and is \$685.7 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.

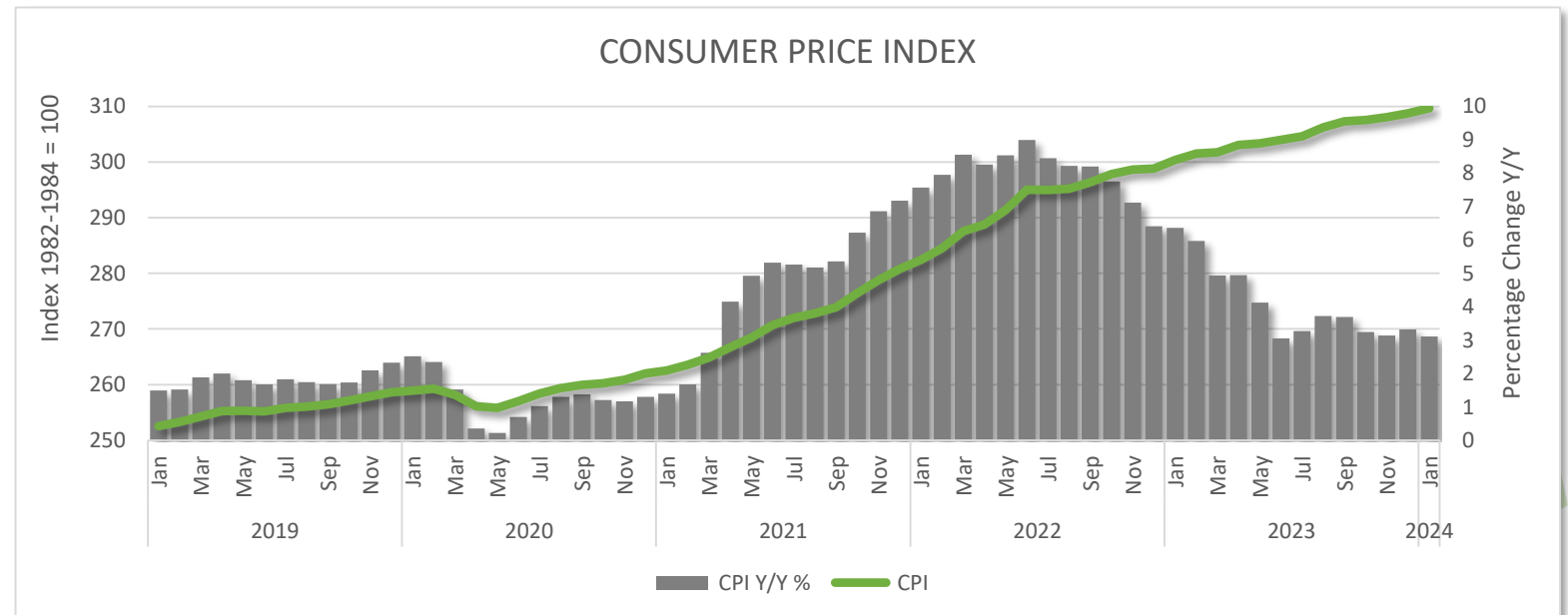
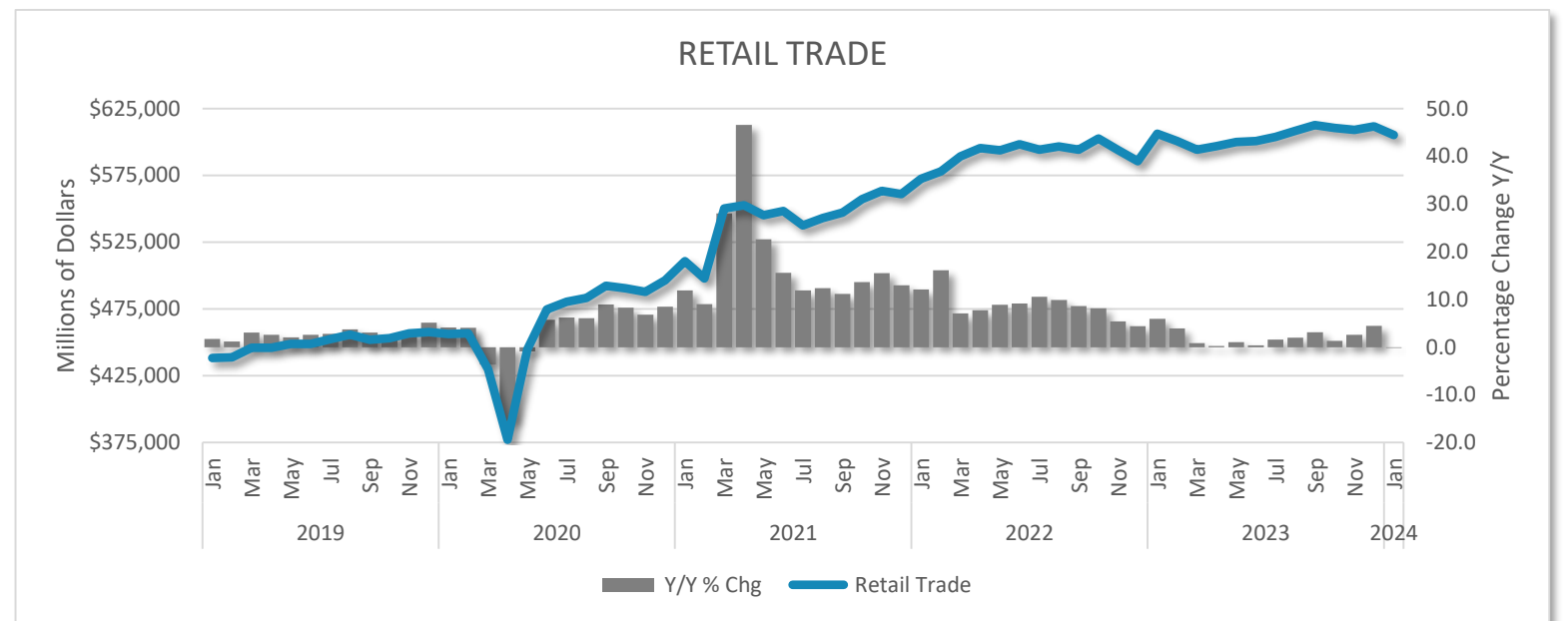
Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- 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 fell month-over-month in January after declining 0.6% in the previous month following adjustments to December's data.

- Retail trade decreased 1.1%, or \$6.5 billion, month-over-month in January to \$605.2 billion, and is 0.2%, or 1.1 billion, lower Y/Y. This is the first Y/Y decline since May 2020.
- CPI increased by 0.9 to 309.7, which is 3.1% higher than it was a year ago. Y/Y growth is remaining persistently high, which could threaten the FED's promise to cut rates 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.



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.

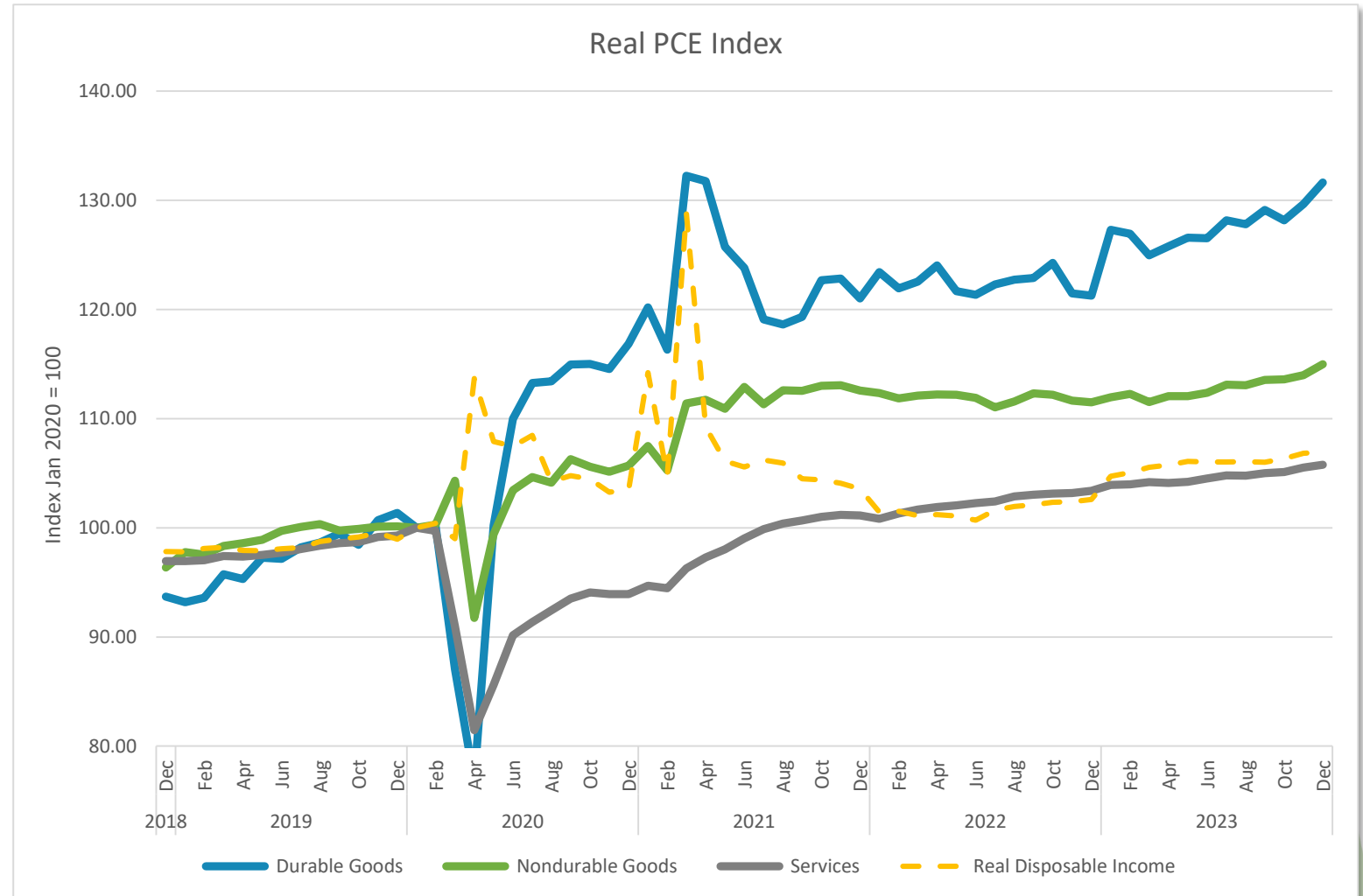
- The PCE measures a broad spectrum of consumer spending for a period of time.

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 December, marking two consecutive months of increases for each spectrum even after adjustments.

- Consumer spending for durable goods increased 1.5% to \$2.106 trillion, and is 8.5%, or \$165.7 billion, higher year-over-year and 14.7%, or \$269.6 billion, above the 5-year trend.
- Spending for non-durable goods grew 0.9% to \$3.419 trillion, which is 3.1% higher Y/Y and 7.1%, or \$226.3 billion, above the 5-year trend.
- Spending on services rose 0.3% to \$10.167 trillion and is 2.3% 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.

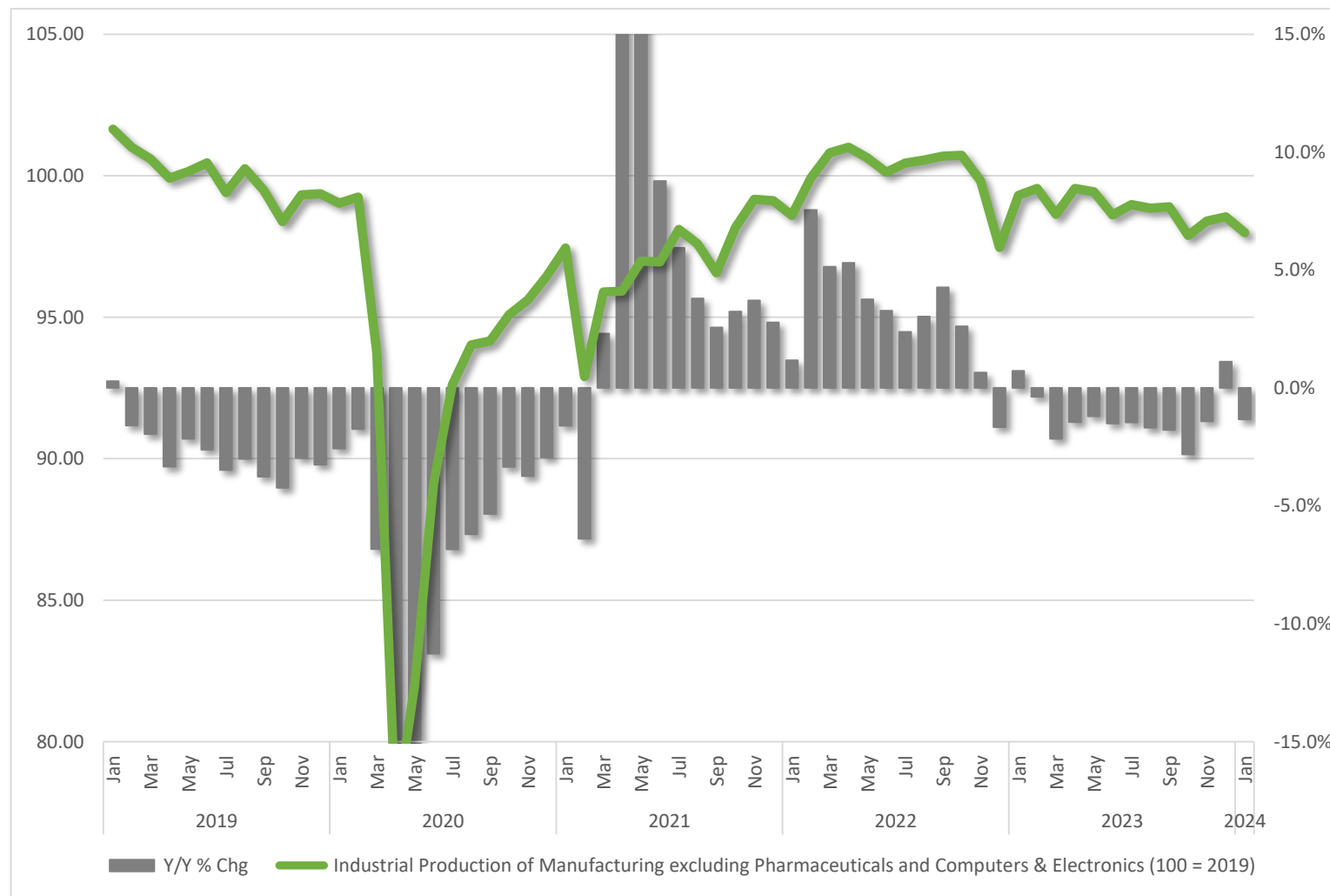
This is especially true when removing pharmaceuticals (NAICS 3254) and computer and electronic products (NAICS 334), as these sectors have an outsized influence on the overall manufacturing index considering how little freight they generate.

- 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 decreased month-over-month in January and fell year-over-year, due in part to the polar vortex that took place in December 2022.

- Manufacturing activity decreased 0.6% to 97.99 after increasing 0.2% last month following adjustments, and is down 1.3% year-over-year (Y/Y).
- Activity has been down again for the 11th time in 13 months, and is 2.0% below 2019 levels.

According to Professor Jason Miller, January's industrial production data throws a pail of water on the prediction by some that a turnaround is imminent.



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.

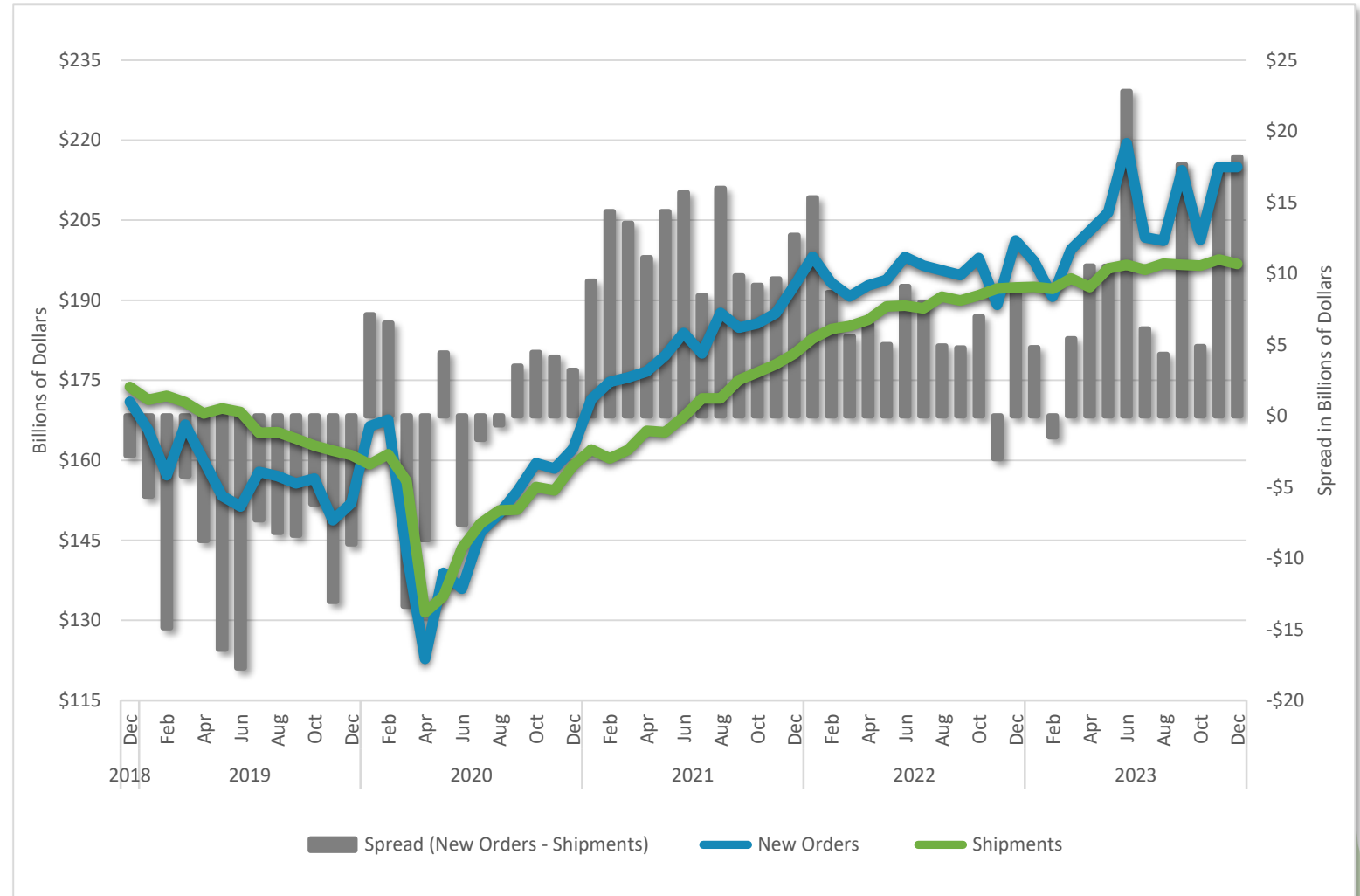
Why it matters: When unfilled new orders outperform shipments for unfilled orders, backlogs increase and we see growth in manufacturing activity. The reverse is also true.

- 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 tenth straight month in December. New orders for make-to-order products typically decline during manufacturing recessions. Again, this has yet to happen.

- New orders were basically flat at \$214.98 billion in December, and are 6.9%, or \$13.8 billion, higher year-over-year.
- Shipments decreased 0.4% to \$196.8 billion.

The spread between new orders and shipments expanded from \$17.3 billion to \$18.1 billion, representing a 5.0% 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 indicates contraction, while any number above 50 indicates expansion.

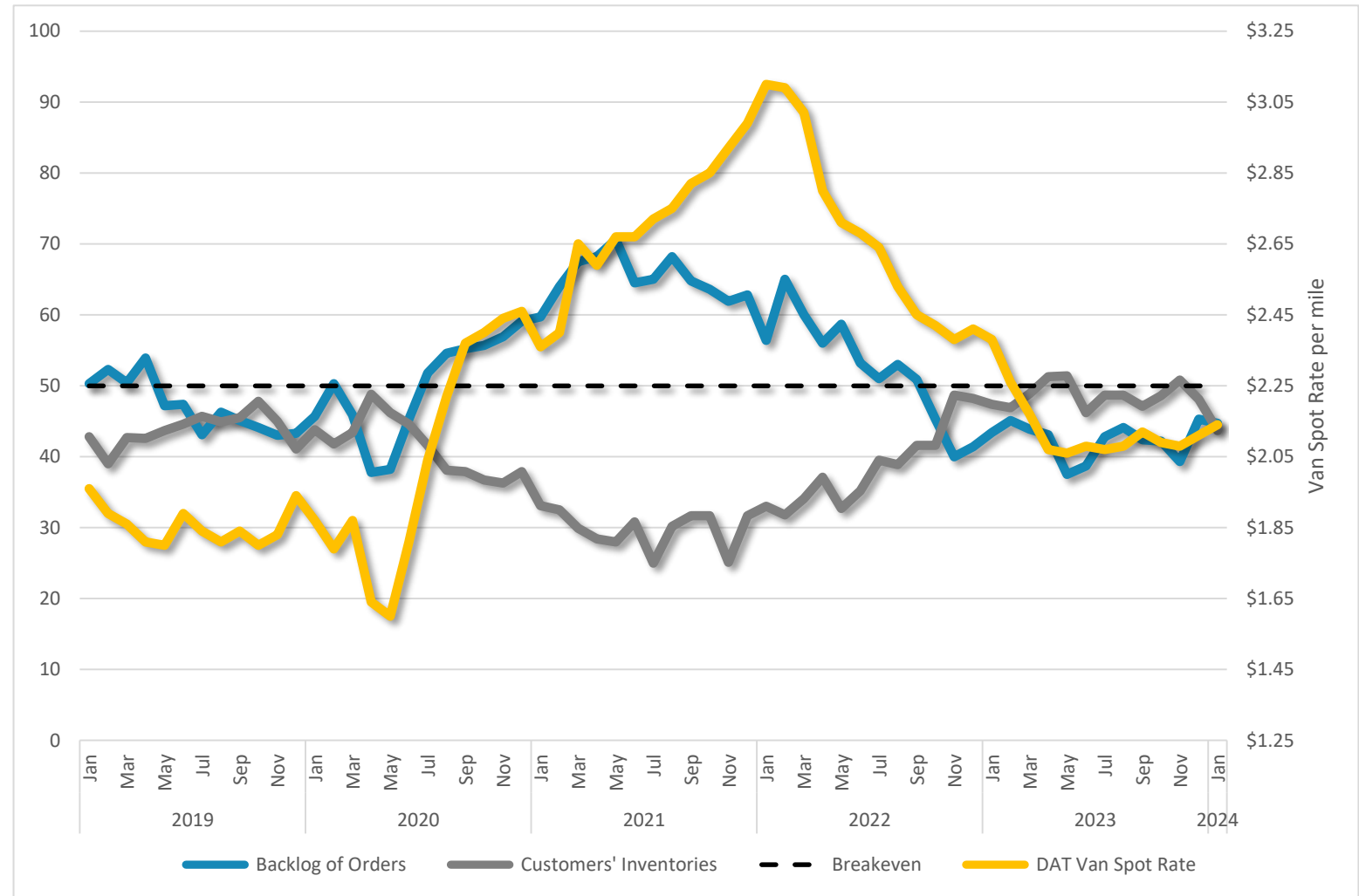
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart.

- 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 marginal rate in January as compared to December, posting a reading of 49.1%. The New Orders Index moved into expansion territory at 52.5%, which is positive news.

- Backlogs declined 1.3% month-over-month to 44.7, after jumping 15.3% last month. Backlogs have been in contraction territory for sixteen straight month, and are up 1.3 percentage points year-over-year.
- Customers' inventories decreased 9.1% to 43.7. They are 7.8% lower year-over-year.
- Inventories are now lower than backlogs for the first time since October 2022.

The bottom line: Demand moderated, output/consumption expanded slightly, and inputs continued to accommodate future demand growth as 4 of 17 industries registered 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.

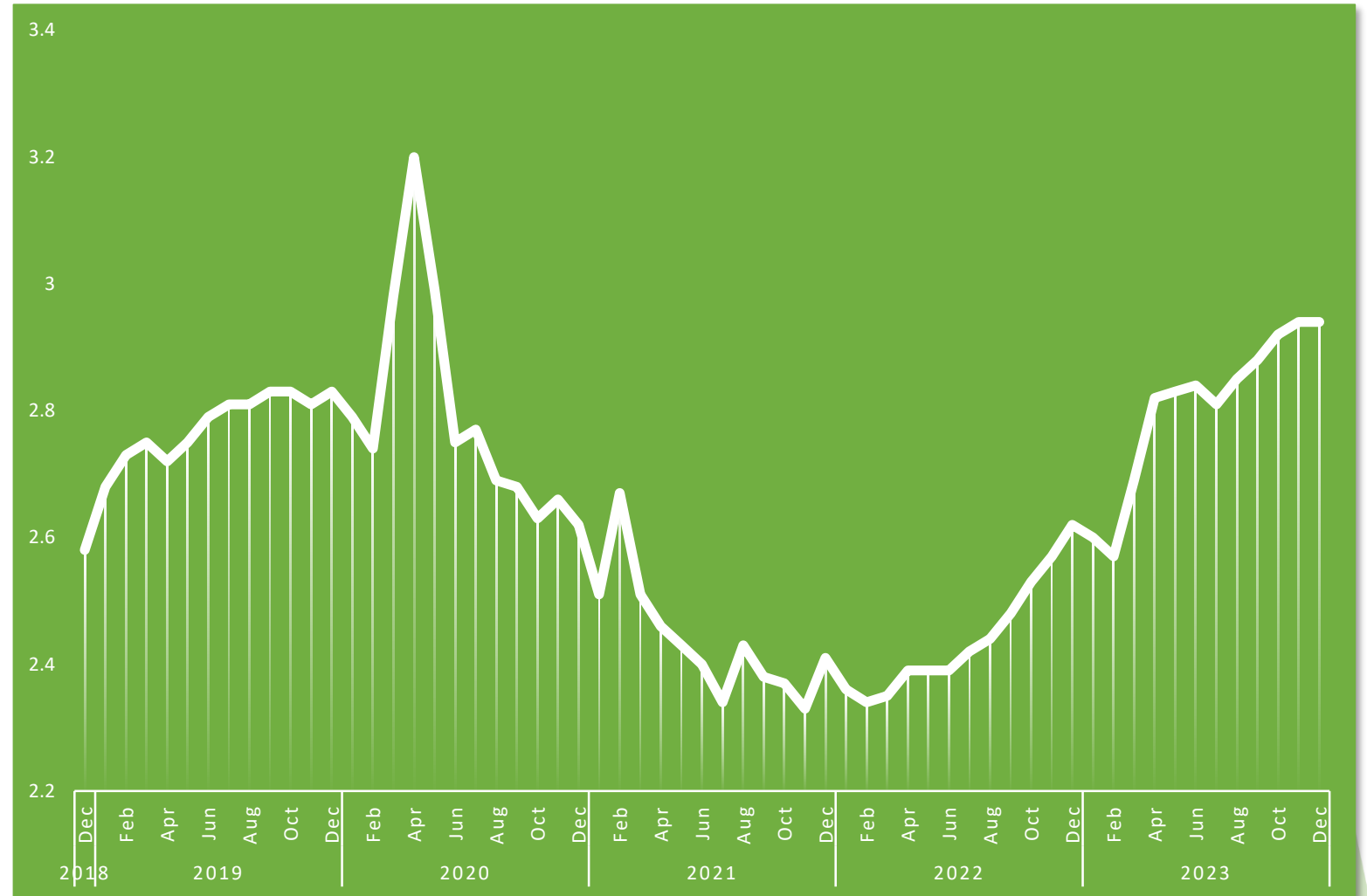
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

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

Our thoughts: Inventory levels stayed flat in this sector in December, which correlates well with ISM's survey. Hopefully we have reached the peak. Inventories are 5.8% above 2019 levels.

- The inventories-to-sales ratio remained flat at 2.94.
- The ratio is 12.2% higher year-over-year. The ratio has been higher Y/Y for 18 straight months.

One respondent to ISM's survey in this sector wrote, "December sales were very strong but slower for the first part of January, as was expected. We expect to see steady sales going forward, if the (U.S. Federal Reserve) continues to hold rates and suggests a rate cut in the future.."



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

Ocean: Exports and Imports

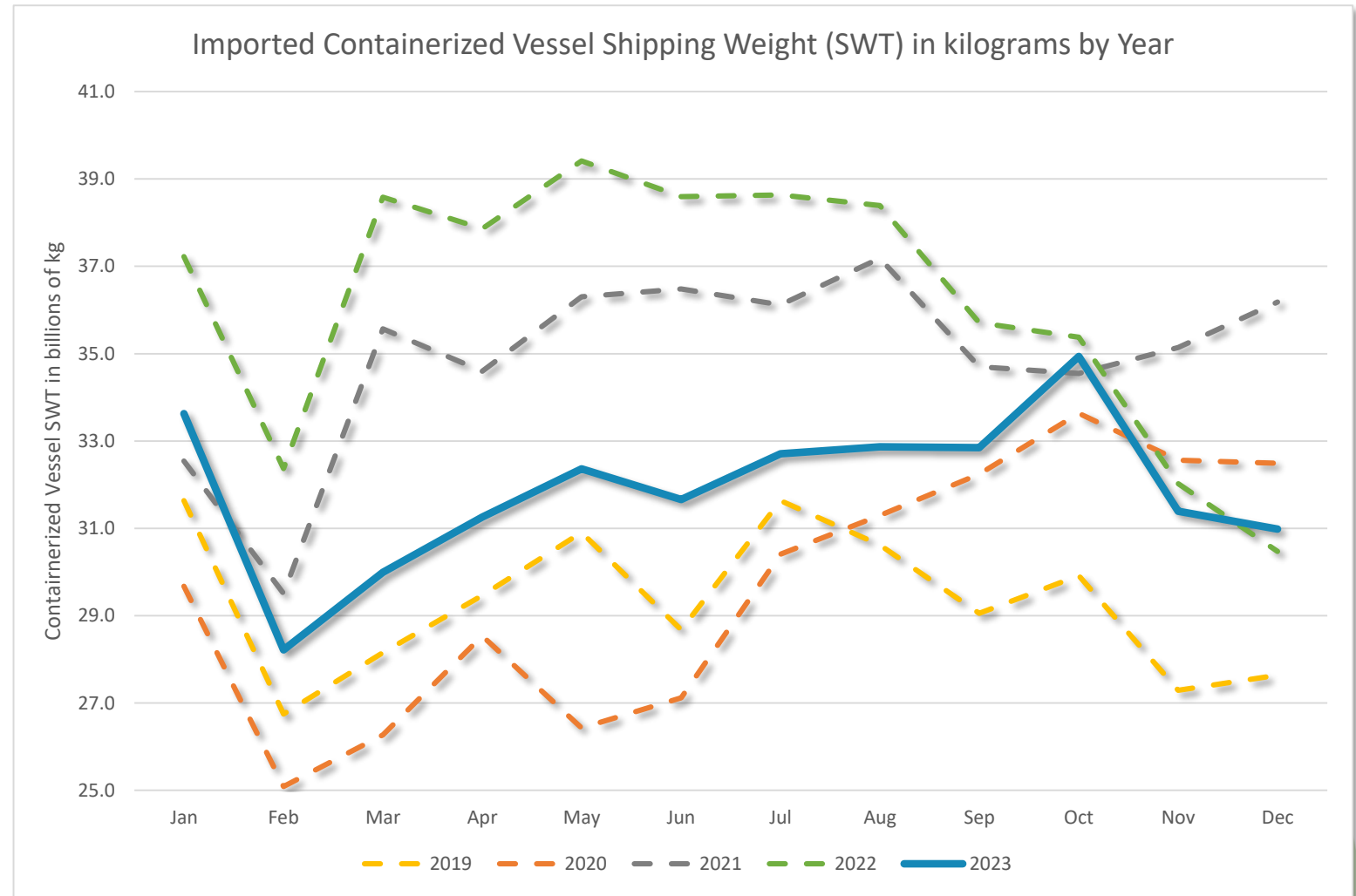
The big picture: It's common today to see products from all over the world in local stores as we truly live in a global economy.

Why it matters: High levels of imports signal a strong domestic demand and a growing economy.

- The U.S. trade deficit tends to worsen when the economy is growing strongly.
- **Yes, but** it's important to note that exports and imports are not a large driver of freight movement compared to manufacturing, accounting for only 5% of all truck freight.

Our thoughts: Although imports are down year-over-year, they are actually quite healthy as they are 5.7% above 2019 levels.

- Imports decreased 1.3%, or 407.2 million kilograms, month-over-month in December to 30.98 billion kgs, but are 1.7% higher year-over-year.
- This is the first Y/Y increase in 13-months.
- Exports ticked up 0.7%, or 124.1 million kgs, month-over-month in December, and are 4.7% higher than last year, marking two straight months of Y/Y increases.



Source: U.S. Census Bureau | <https://usatrade.census.gov/> | Monthly

Rail: Rail Carloads and Intermodal

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

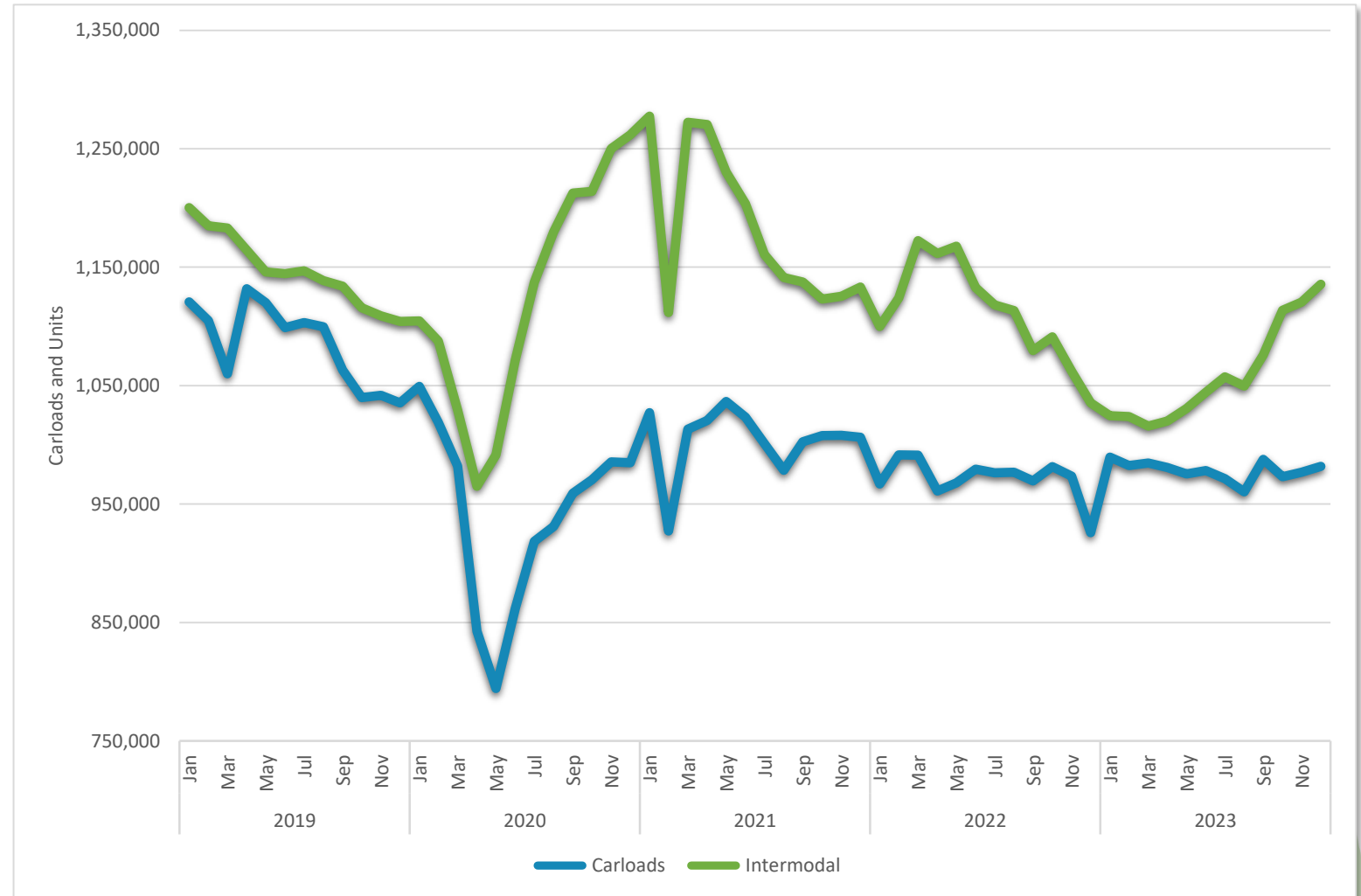
- While the rail and truck industries often compete with each other, they also work hand in hand.

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 and to the right as more freight moves back to the west coast and import volumes continue to perform well. Intermodal is poised to have a good year in 2024.

- Carloads increased 0.5% month-over-month in December to 981,735, but are up 6%, or 55,964 carloads, year-over-year due to tough comparisons.
- Intermodal increased 1.4% to 1.135 million, and is up 9.7%, or 100,218 loads, year-over-year.
- Carloads are sitting below their 5-year trendline by 1.5%, while intermodal is above that trend by 0.9%.



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