OOIDA Foundation

RESEARCH
SAFETY
EDUCATION

January 2024

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

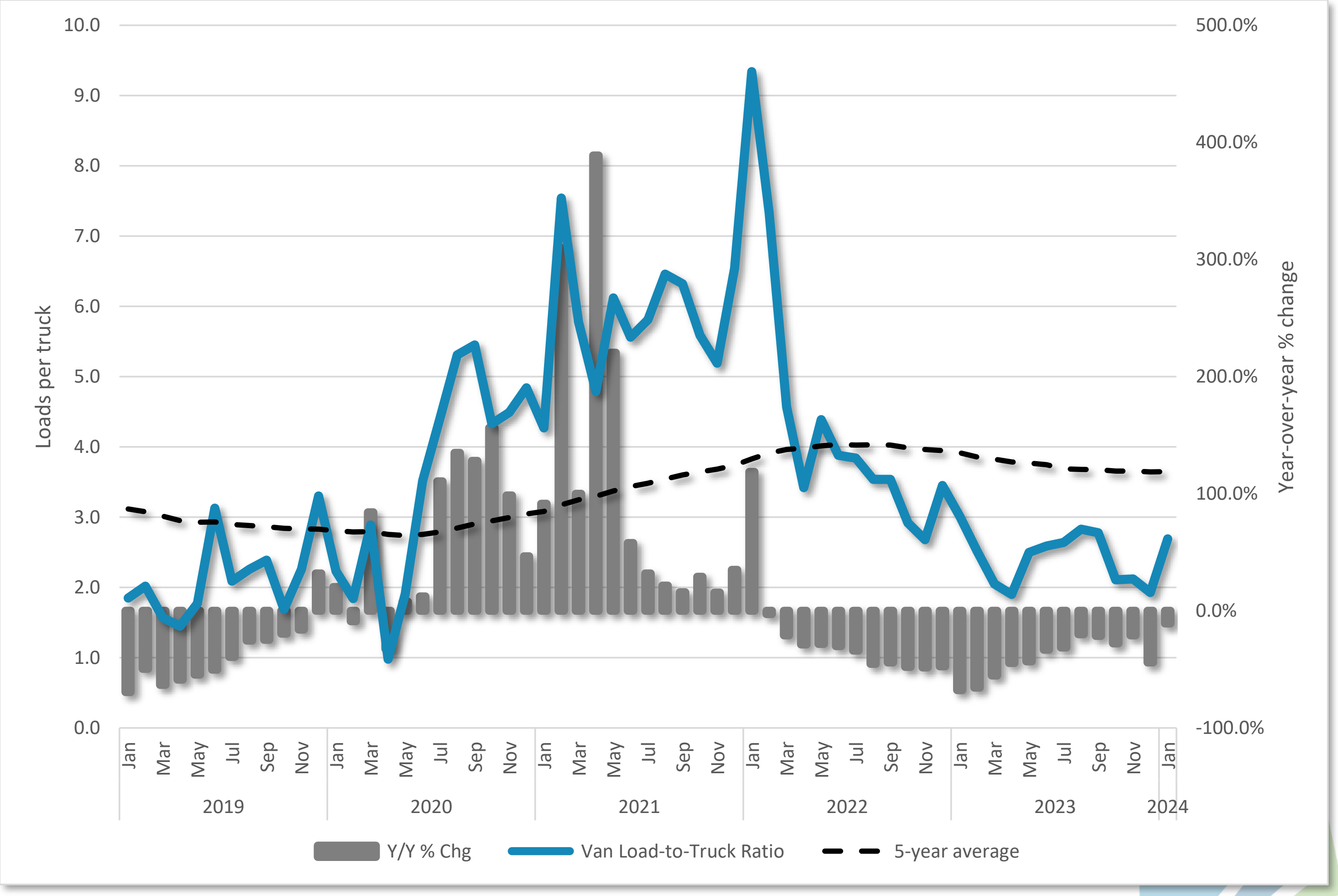
Why it matters: Changes in the ratio often signal impending changes in rates.

Our thoughts: The Van Load-to-Truck ratio jumped in January, but that is due to seasonality. Demand typically picks up at this time of year. The ratio is sitting 25.2% above 2019 levels.

- The Van Load-to-Truck Ratio increased 39.4% month-over-month to 2.69, after falling 9.0% last month.
- The ratio is 10.6% lower than last year and 26.3% lower than the 5-year trend. The ratio has declined year-over-year for 24 straight months.

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

- Unlike last month, only 4 regions experienced decreases in demand. The greatest decline was in the Pacific Northwest where ratios dropped 34.6%, from 3.18 to 2.08.



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

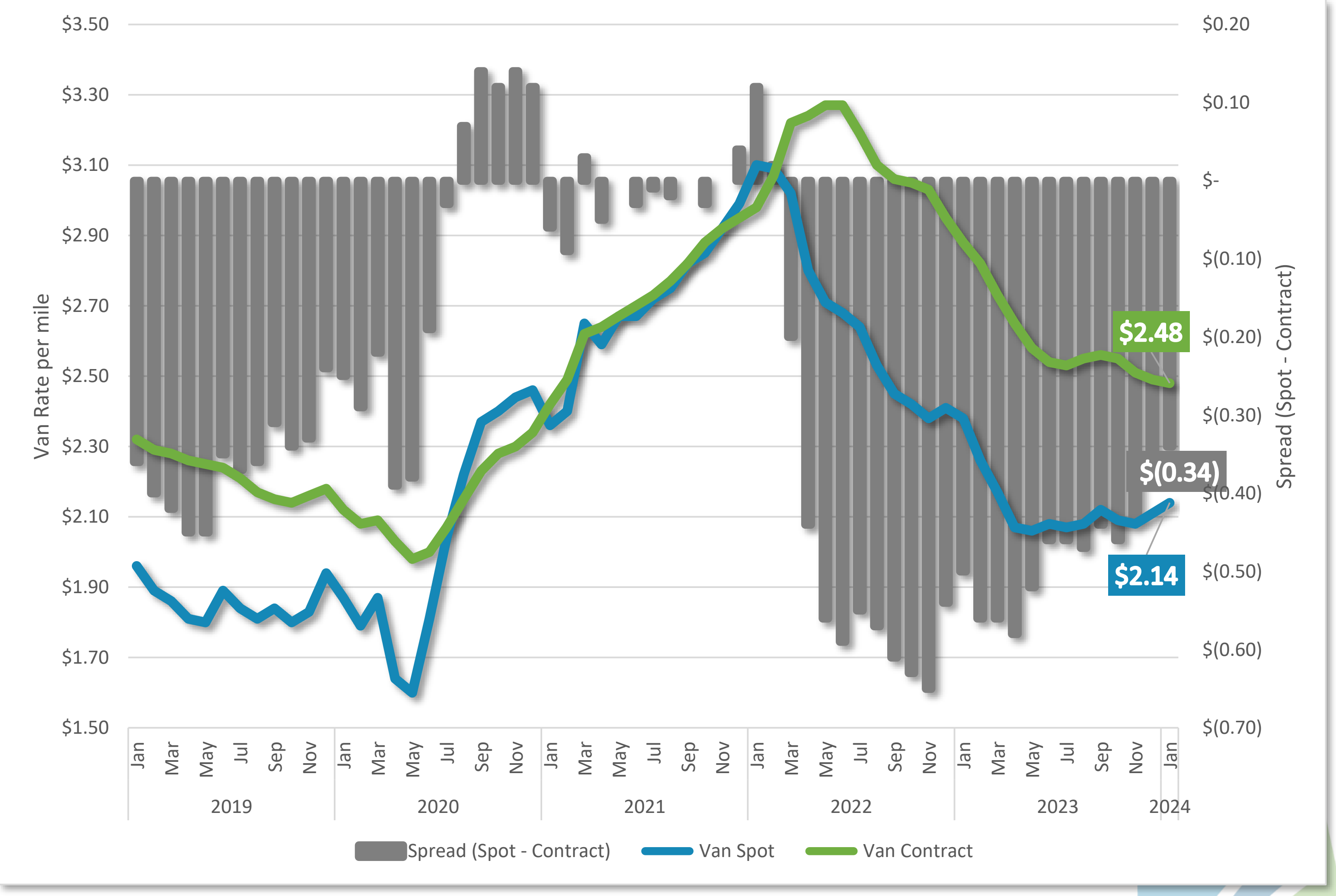
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates ticked up in January, but remain well below where we were last year.

- Spot rates for vans increased $0.03 per mile month-over-month to $2.14, marking two months of increases, but are $0.24 per mile lower than last year.
- Contract rates decreased by $0.01 to $2.48 per mile following adjustments, which means the spread between contract rates and spot rates dropped by $0.04 to $0.34, which is 32% better Y/Y when the spread was $0.50.
- Spot rates are 6.2% below the 5-year trend, while contract rates are 3.2% below.

DAT's ratecast model predicts spot rates excluding fuel will drop about $0.10 per mile heading into the end of March, but seasonality tells us to expect an uptick by this time.

- DAT's extended forecast has van spot rates excluding fuel jumping up $0.17 per mile in February, before experiencing a steady decline until June 2024.
- DAT's extended forecast believes rates will reach $1.94 per mile one year from now.



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.

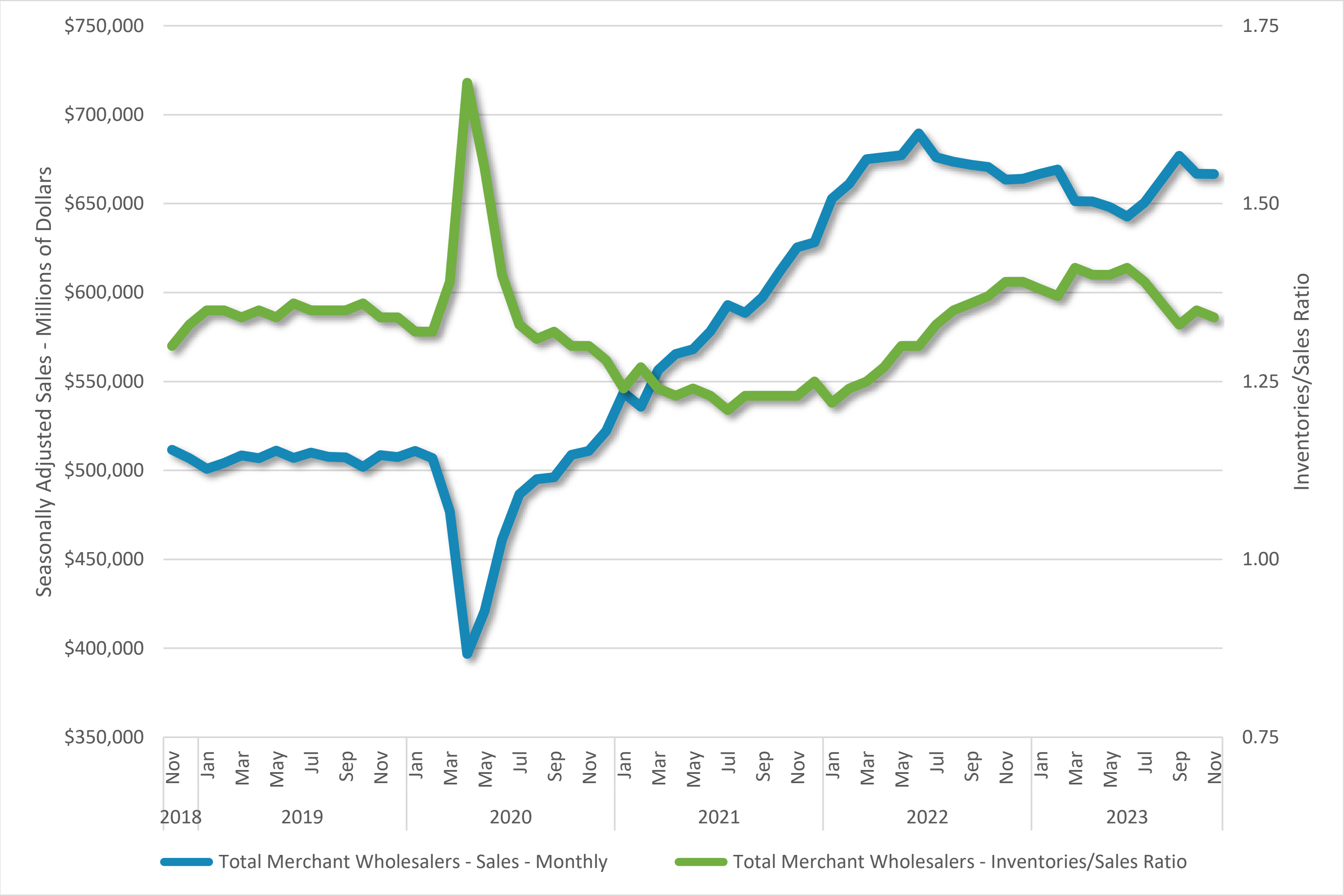
- The U.S Census Bureau reports monthly sales data and inventory-to-sale ratios for different types of industries.

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

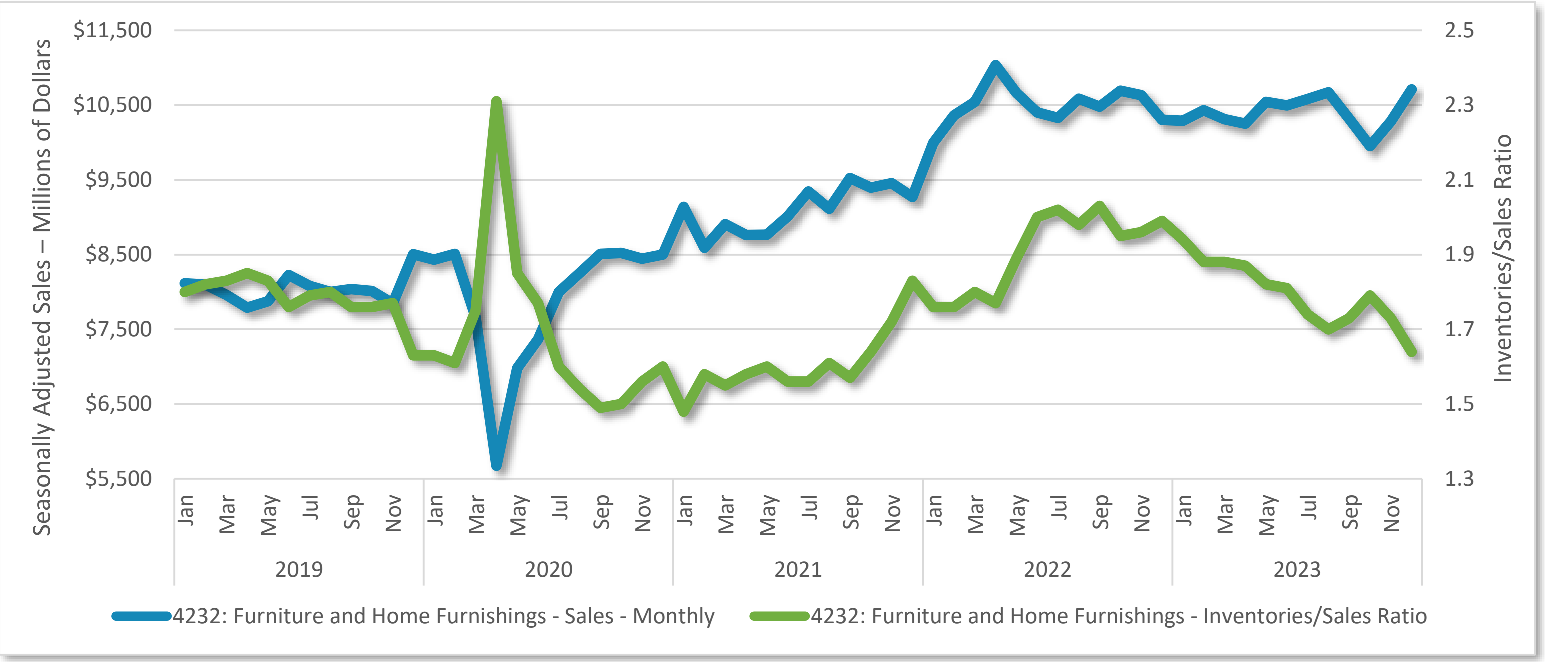
Why it matters: Large appliances and furniture generate freight for the dry van segment of the industry.

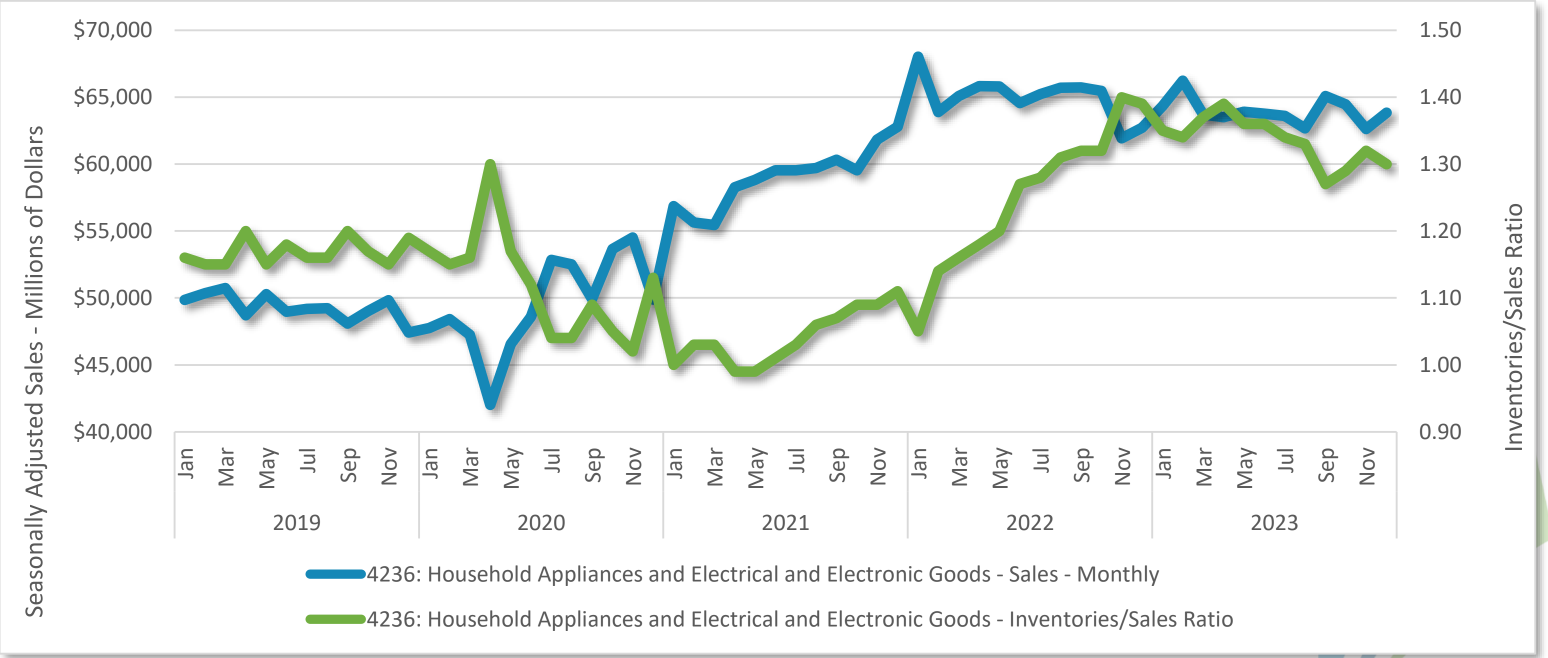
- Sales and inventories can help an owner-operator to see what direction freight demand is headed.

Our thoughts: Both furniture and household appliance wholesalers moved in the right direction in December as sales increased while inventory ratios simultaneously decreased.

- Furniture Sales increased 4.2% to $10.7 billion after increase 3.3% in the previous month, while ratios dropped 5.4% to 1.59.
- Compared to last year, sales increased $407 million, or 4.0%, and ratios have decreased 18.0%.
- Household appliances sales increased 1.9% to $63.84 billion, and ratios decreased 1.5% to 1.30.
- Sales are $1.1 billion higher than last year, marking two straight months of Y/Y increases, and ratios are 6.5% lower, the fourth Y/Y decline in 23-months.

Although inventory levels are lower now than at the start of 2023 (15.9% for furniture and 3.7% 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:

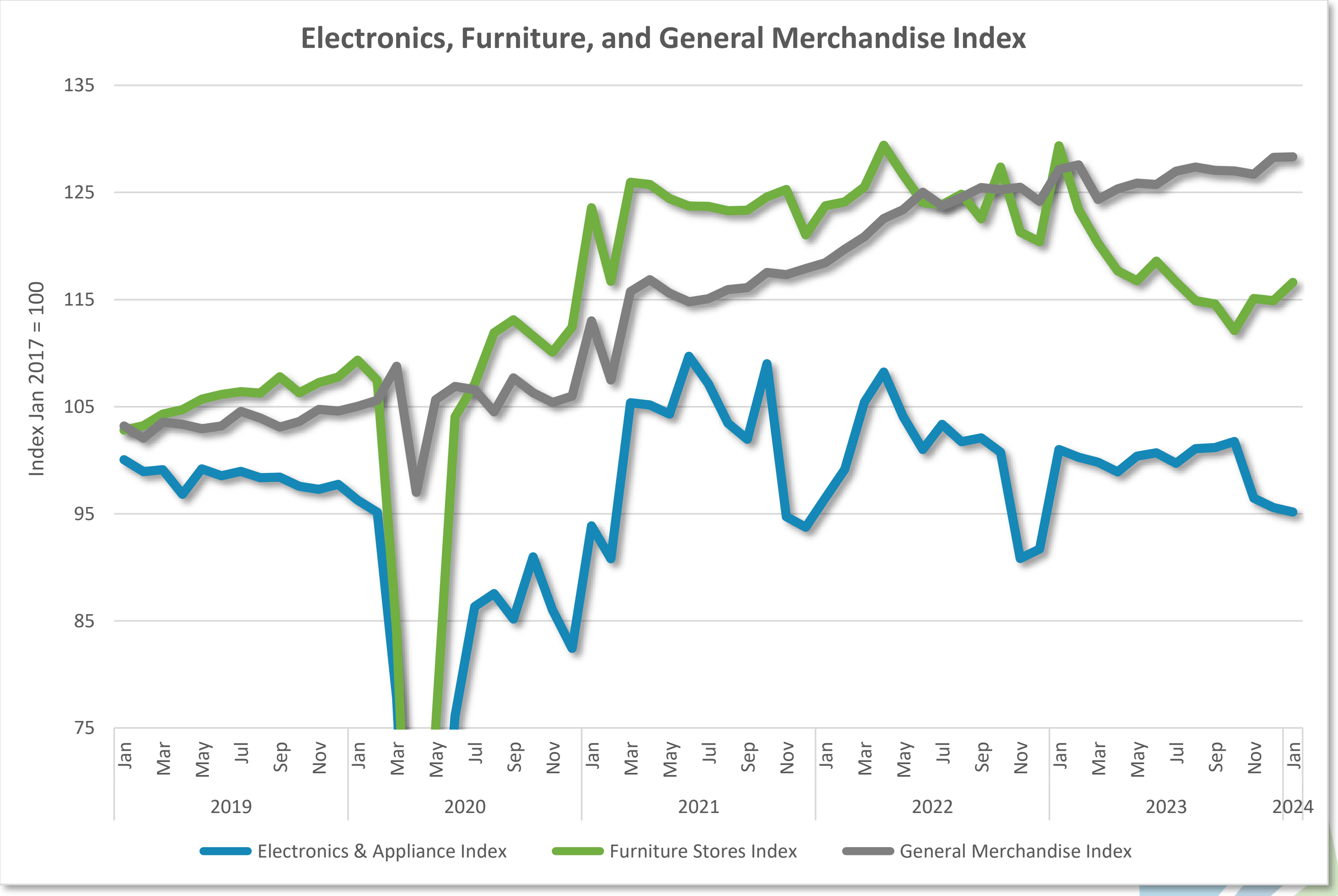
- Electronics and appliance stores (EAS)
- Furniture stores (FS)
- General merchandise stores (GMS), such as Walmart, Target, Costco, Kohl's, etc.

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 only declined for EAS in January, while FS experienced growth and GMS remained flat.

- EAS decreased 0.4%, or $32 million, M/M to $7.33 billion, marking three straight months of decreases. EAS is 5.8%, or $451 million, lower Y/Y.
- FS increased 1.5% M/M to $11.07 billion, and is 9.8%, or $1.2 billion, lower Y/Y. FS has declined Y/Y for 12 straight months.
- GMS increased 0.05% M/M, or $34 million, to $73.94 billion, and is up 0.9%, or $683 million, 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

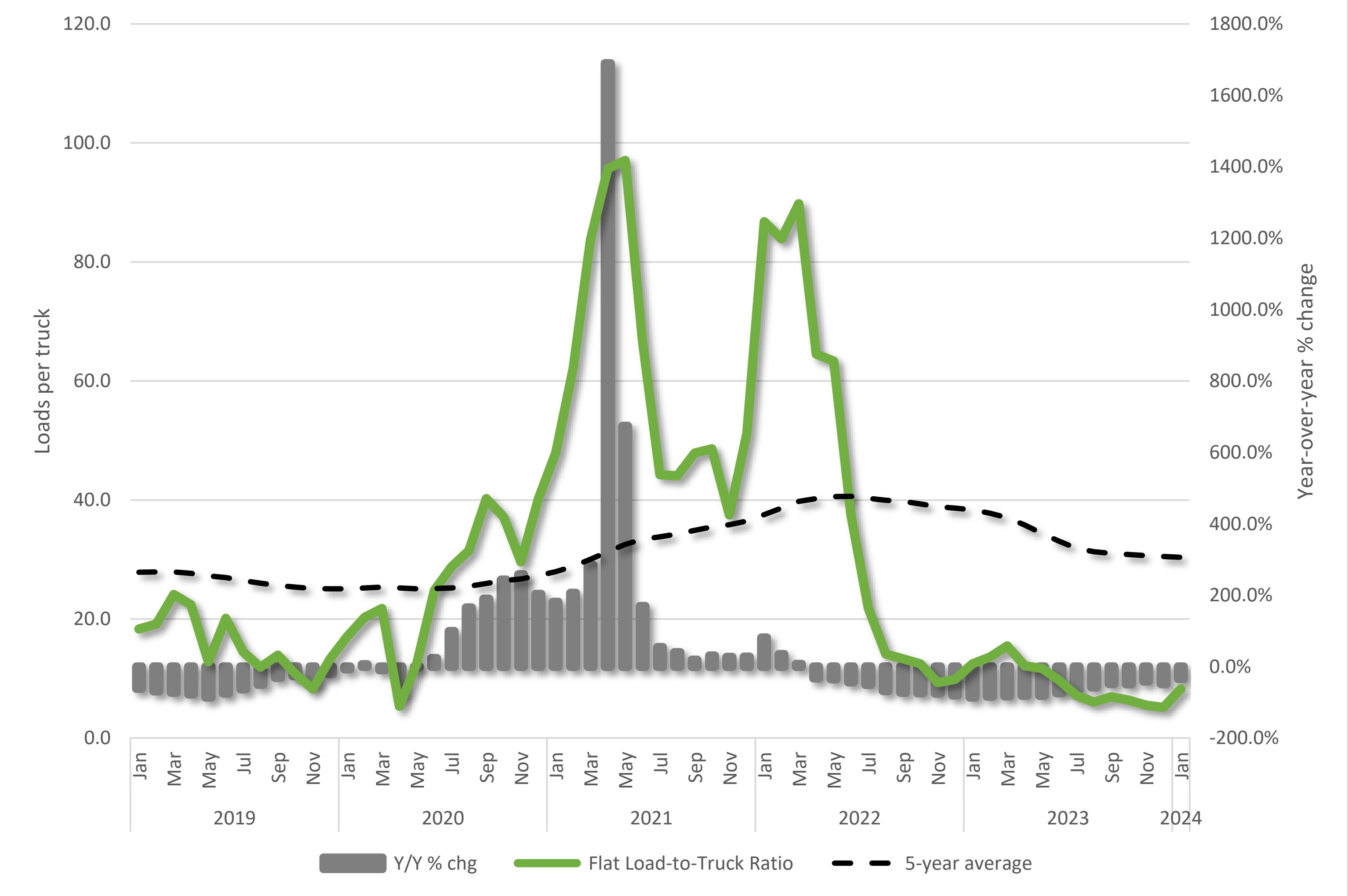
Why it matters: Changes in the ratio often signal impending changes in rates.

Our thoughts: Load posts jumped in January due mostly to seasonality. The ratio is 47.7% below 2019 levels.

- The Flatbed Load-to-Truck Ratio increased 61% month-over-month to 8.26, after decreasing 7.1% last month.
- The ratio has declined 33.8% since last year when there were 14.47 loads for every truck. The ratio has declined year-over-year for 22 consecutive months.
- The ratio is 72.8% below the 5-year trend.

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

- Only 2 out of 16 regions experienced an decrease in load-to-truck ratios for flatbed. The greatest being the PNW.



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

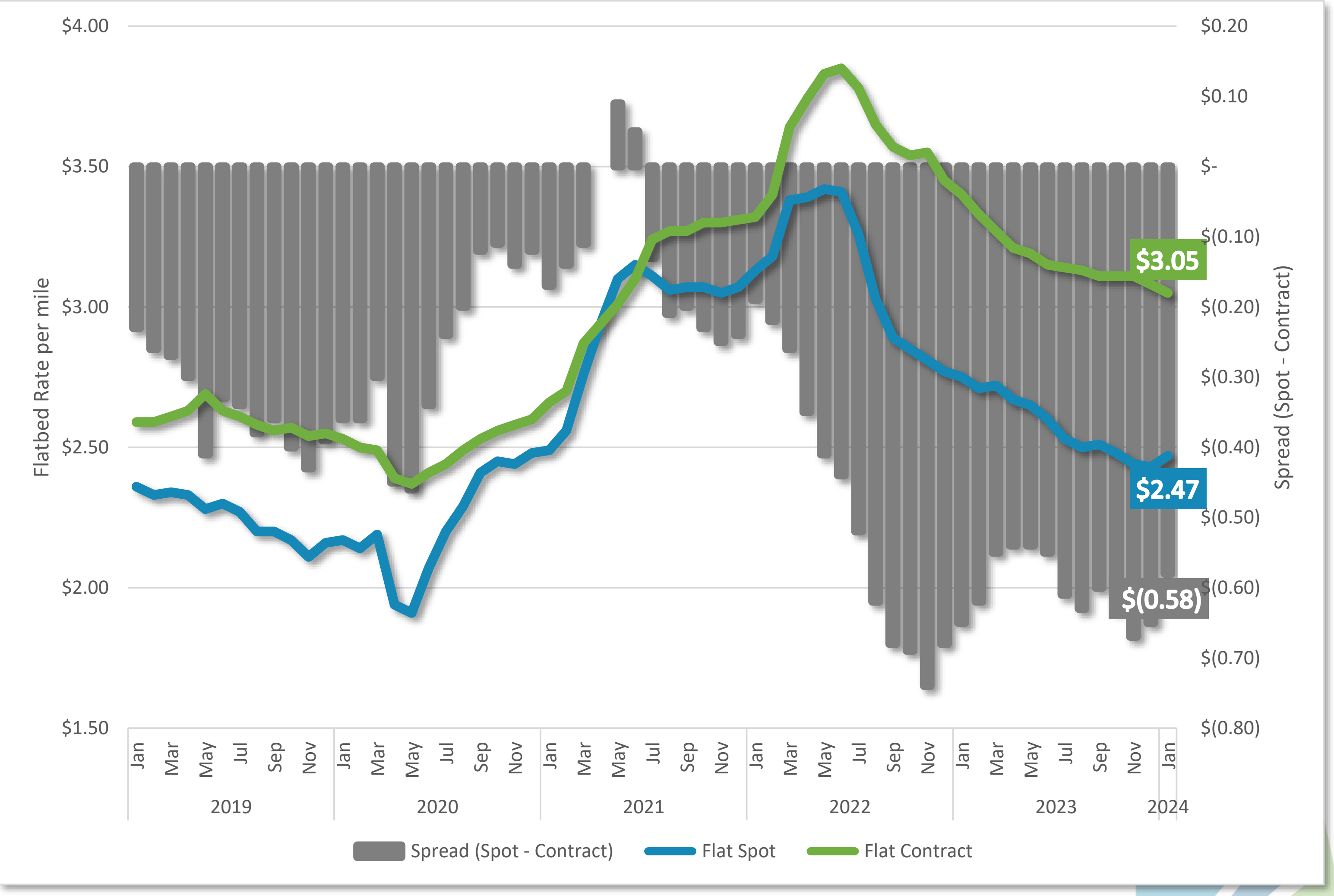
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Spot rates ticked upward in January, after declining a penny last month.

- The spot market increased $0.04, or 1.6%, to $2.47 per mile month-over-month, and is $0.28 lower year-over-year when it was $2.75.
- The contract market decreased $0.03 to $3.05 per mile following adjustments, which is $0.35 lower than last year.
- The spread between contract and spot declined $0.07 to $0.58, which is 10.8% better than a year ago.

DAT's ratecast predicts that spot rates excluding fuel will tick upward about $0.05 as we get closer to the end of March.

- DAT's extended forecast predicts that flatbed spot rates excluding fuel will jump $0.19 in February and then steadily increase until August 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.

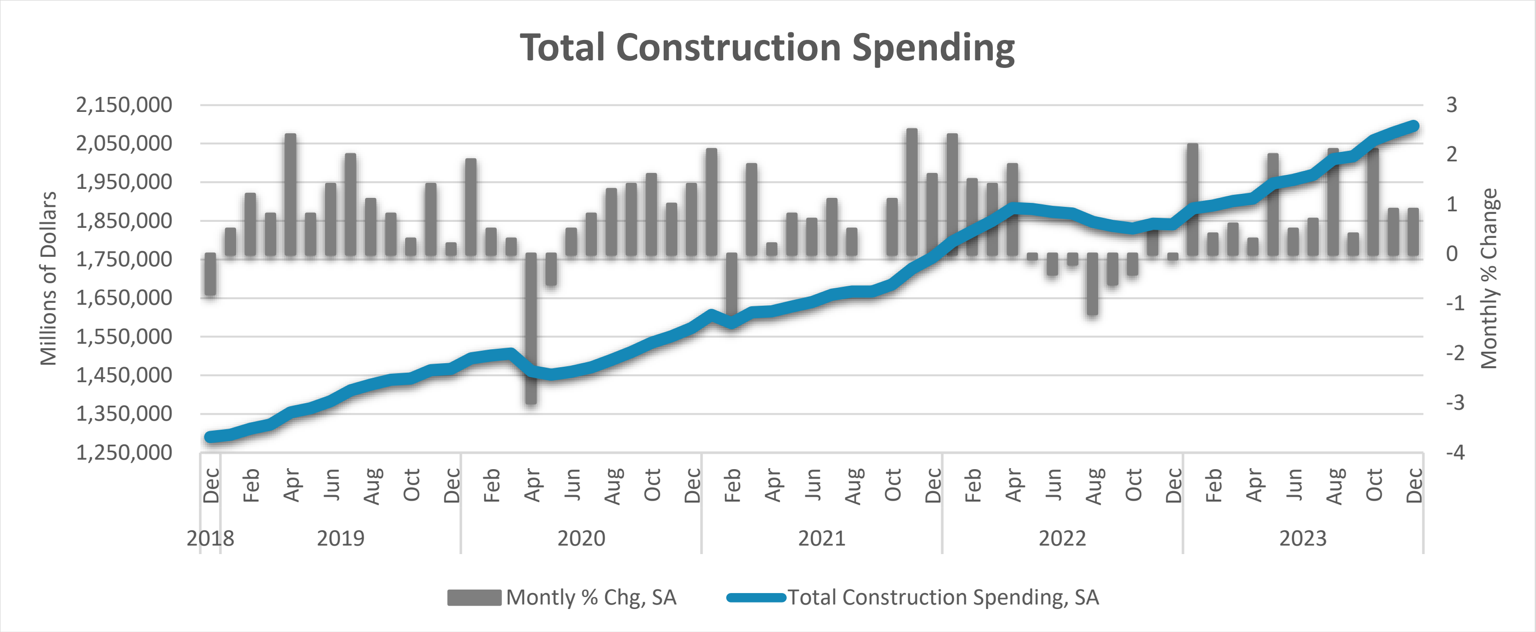
Why it matters: Construction spending helps boost the economy, especially spending that is dedicated to building roads and bridges.

- 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.

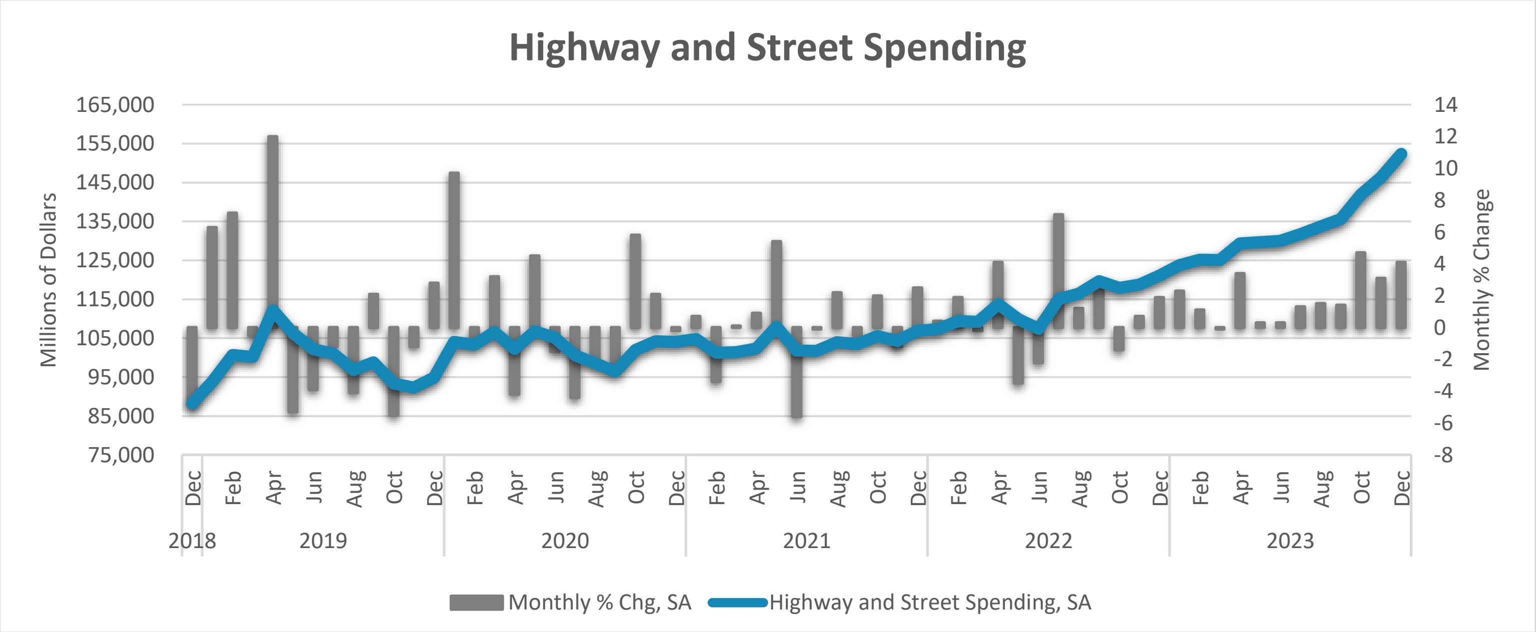
Our thoughts: Total construction spending (TCS), highways and streets (HSS) spending, and non-residential spending (NRS) increased in December.

- TCS increased by 0.9%, or $17.7 billion, to $2.1 trillion, which is $255.1 billion, or 13.9%, higher year-over year, and 25.7% above the 5-year trend.
- HSS increased 4.1% to $152.38 billion after being adjusted upward in November, and is up 25.9%, or $31.35 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:

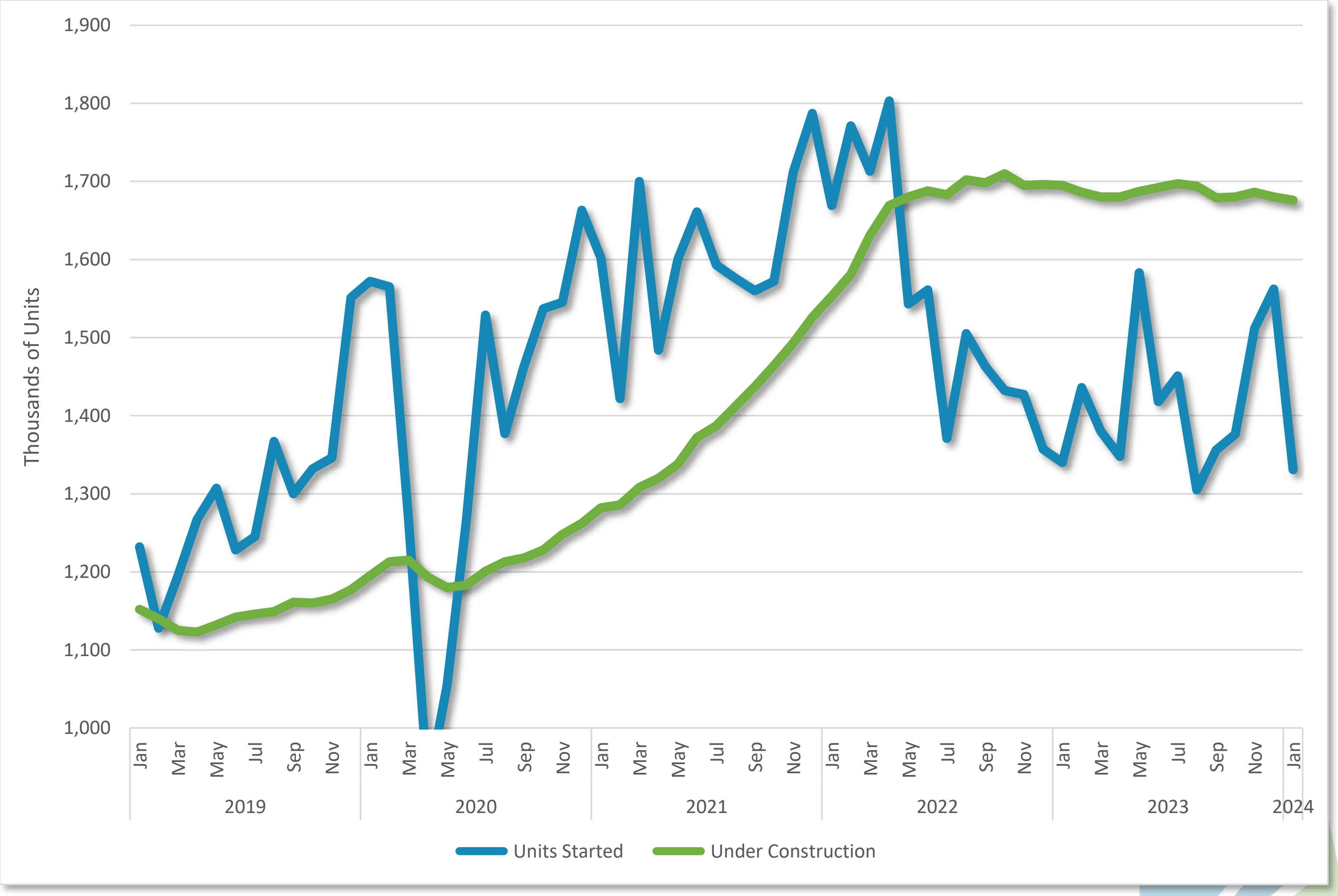
- Housing starts, and
- Housing under construction.

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 dropped in January following a 3.3% rise in December after adjustments. Housing continues to remain resilient 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 few quarters to unfold, if it does at all.

- New starts decreased 14.8%, or 231,000 houses, month-over-month to 1.33 million, and are down 0.9%, or 9,000 homes year-over-year (Y/Y).
- Houses under construction ticked downward 0.2% to 1.676 million, and are 1.1% lower Y/Y.
- Completed houses decreased 8.1% month-over-month and are up 2.8%, or 39,000 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).

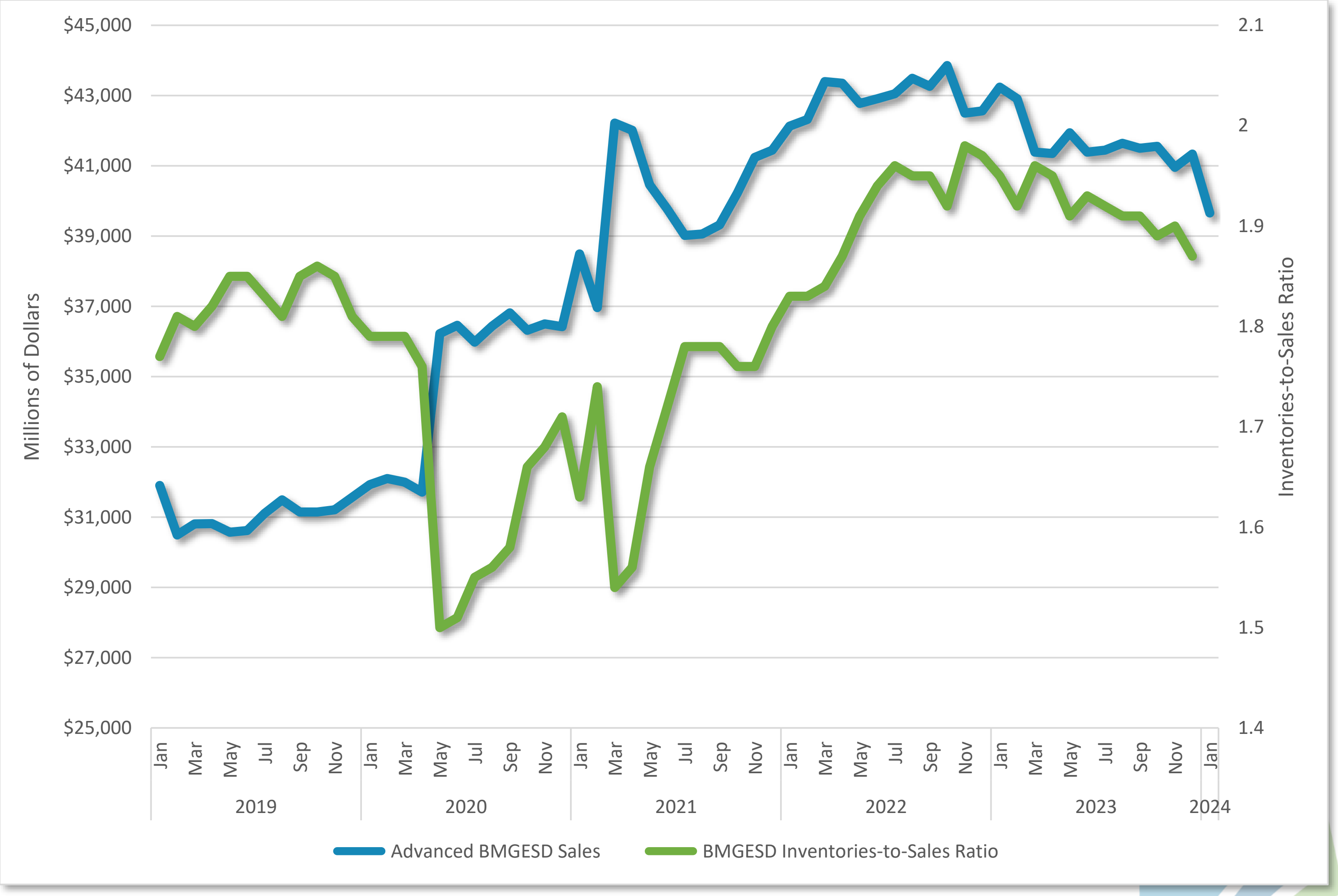
Why it matters: Retail sales give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

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

Our thoughts: BMGESD sales fell in January after increasing slightly in December following adjustments, and inventories declined again in December as retailers right-size their inventories.

- The BMGESD retail sales dropped 4.1% month-over-month to $39.65 billion, and are 8.3%, or $3.6 billion, lower year-over year.
- Sales are $1.5 billion higher than the 5-year average.
- Inventories-to-sales ratios declined 1.6% to 1.87 in December, and are 4.1% lower year-over-year.

Although retailers continue to right-size their inventory, as we are just 2.4% above 2019 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.

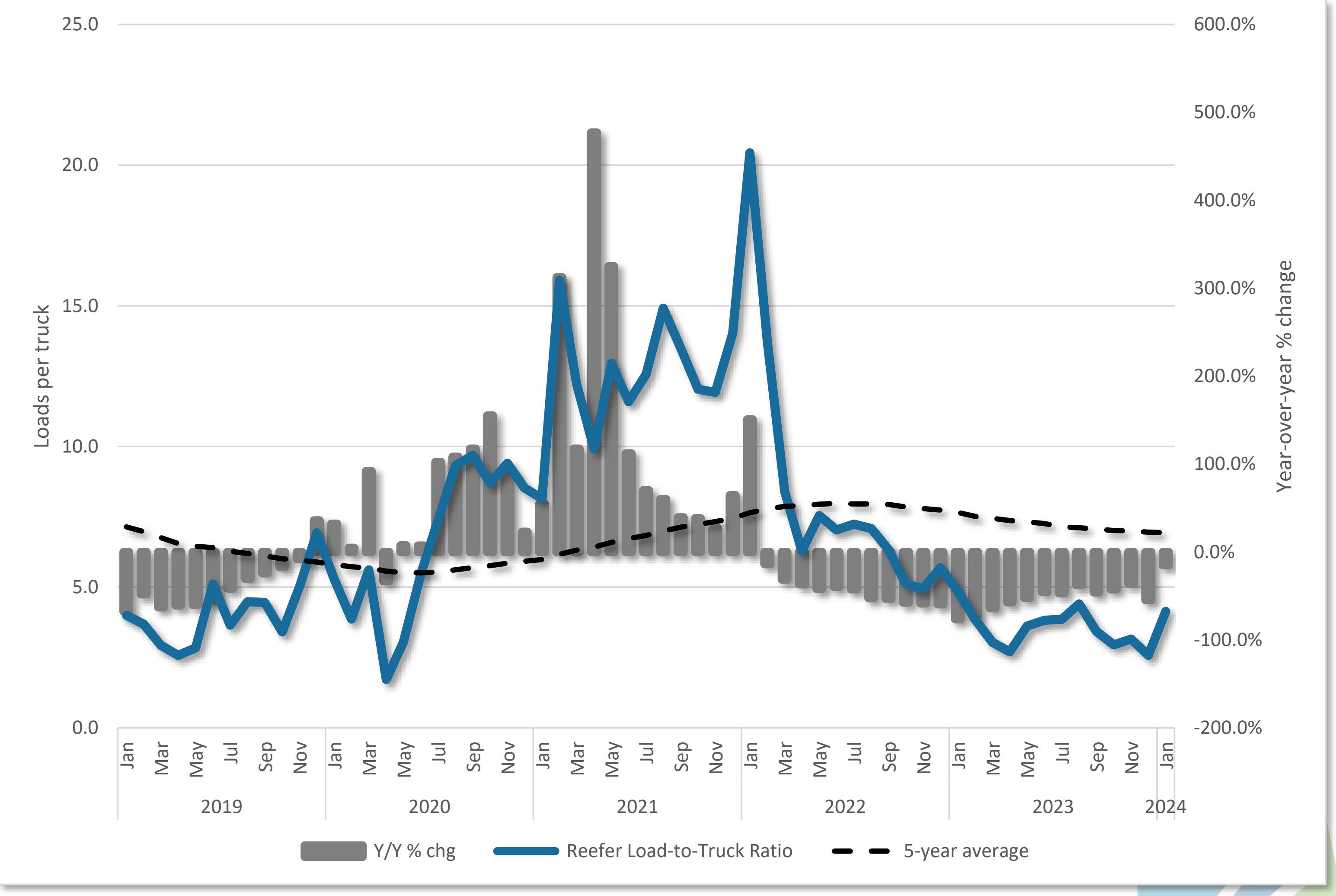
Why it matters: Changes in the ratio often signal impending changes in rates.

Our thoughts: Reefer demand moved upward in January following a 18.4% decrease in the previous month. This follows the usual seasonal trend.

- The ratio increased 60.5% month-over-month to 4.14 loads to every one truck posted.
- The ratio is 14.8% lower than last year when the ratio was 4.86, and 40.3% below the 5-year trend.
- The ratio has declined year-over-year for 23 straight months.

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

- Just one out of 16 regions experienced an decrease in load-to-truck ratios for reefer, that being the Florida-to-Georgia, which decreased 19.9% to 5.06.



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

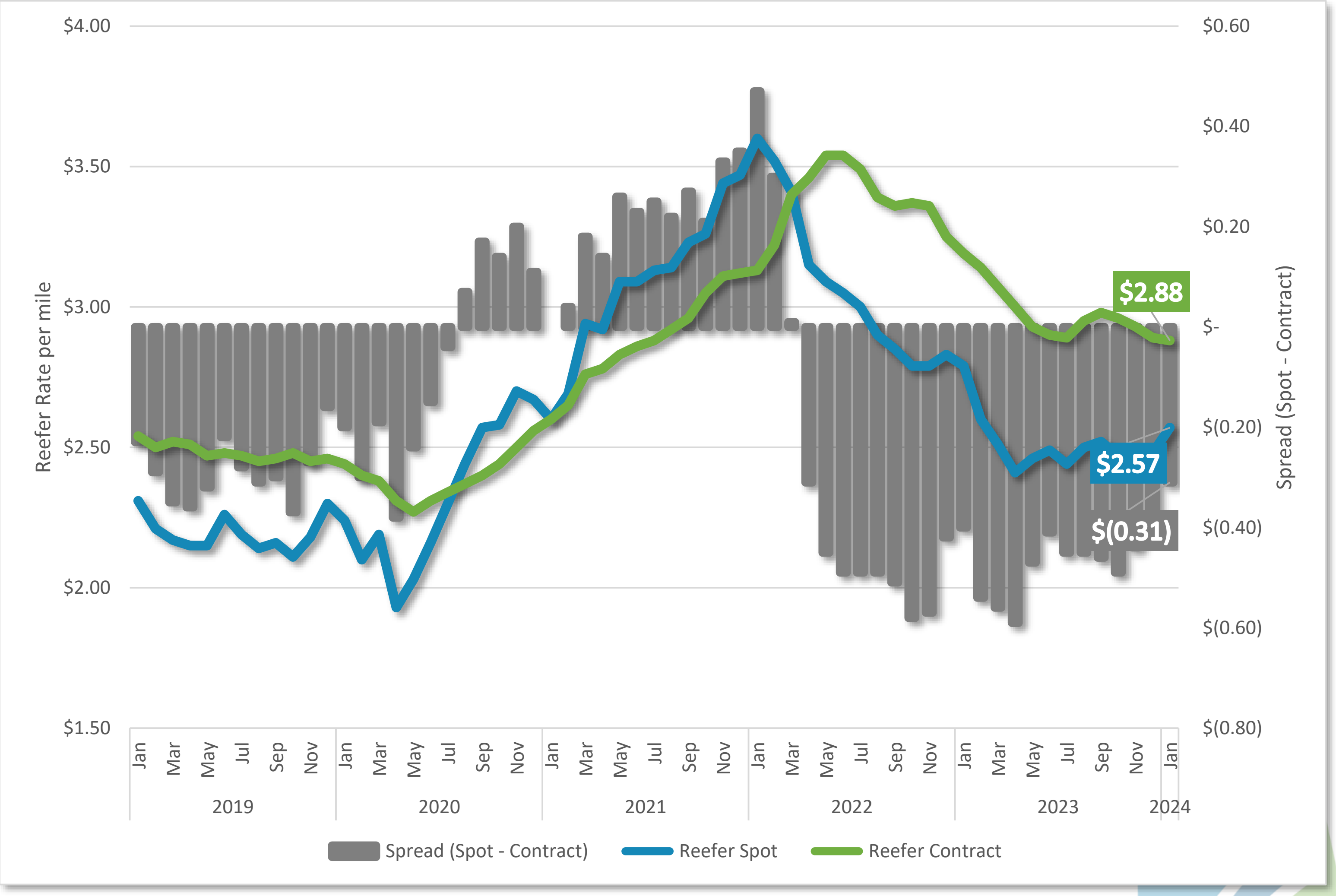
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

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 decline about $0.05 as we get closer to the end of March due to falling volumes coming out of California.

- 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.

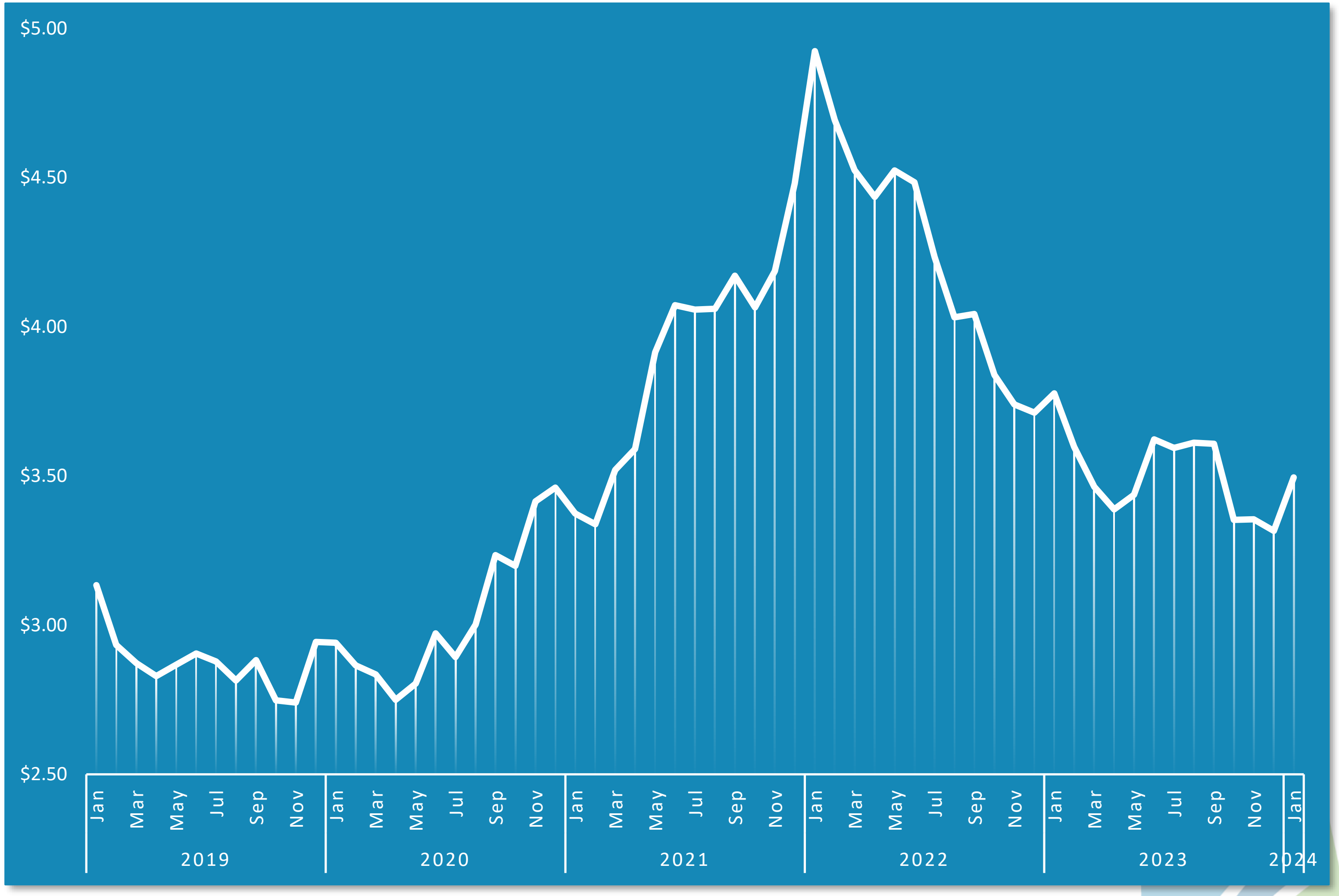
Why it matters: Produce requires fast and efficient movements of perishable commodities.

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

Our thoughts: Fruit and vegetable reefer rates are 29%, or $1.43 per mile, below their high in January 2022.

- Rates per mile increased 5.4%, month-over-month to $3.50 in January, marking three months out of seven of increases as we start the new year.
- Rates are $0.28 per mile, or 7.5%, lower year-over-year, and are $0.02 per mile, or 0.6%, lower than the five year trend.

According to USDA, carriers in the Mexico-Texas region experienced the greatest increase in pay per mile month-over-month, rising $0.39 per mile to $2.99, followed by the California region with a $0.28 per mile increase.



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

Fruit and Vegetable Industry: Truck Volume

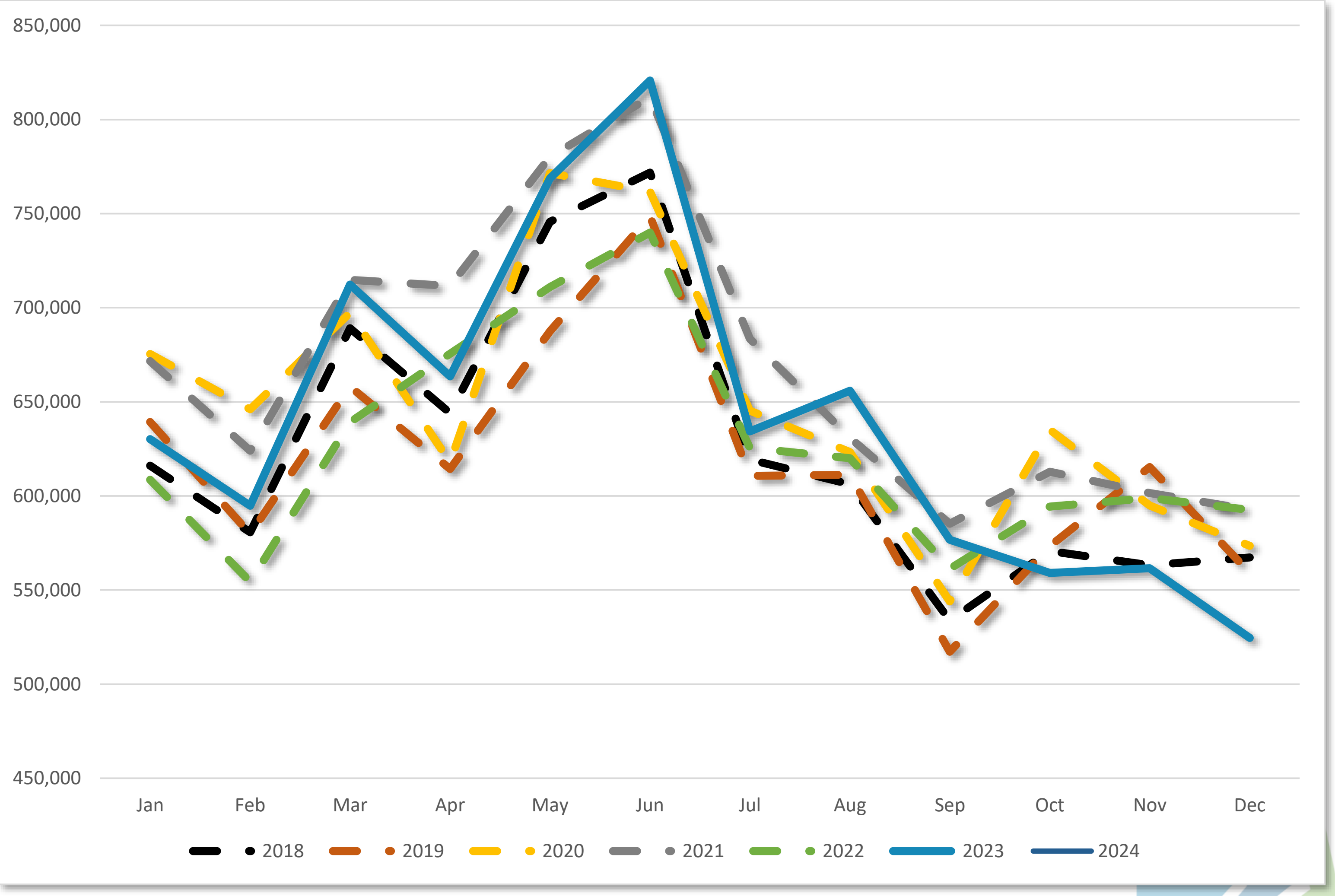
The big picture: The USDA's Crops report includes daily fruit and vegetable volume data by weight for different regions and commodities.

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 once more in January after experiencing a 6.6% decrease in December following adjustments. The chart depicts that volumes are currently under the usual seasonal trend for this time of year.

- Reefer volumes decreased 2.6% month-over-month to 510,990 pounds, and are 18.9%, or 119,211 pounds, lower year-over-year. Volumes are 20.3% below the 5-year trend.
- The California region decreased 40.1% month-over-month, and is 80.4% lower compared to last year.
- Several regions experienced decreases in volumes, including California, Mexico-New Mexico, and Mid-Atlantic. In fact, 73% of the regions saw volumes fall month-over-month.
- The Mexico-Arizona and Mexico-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

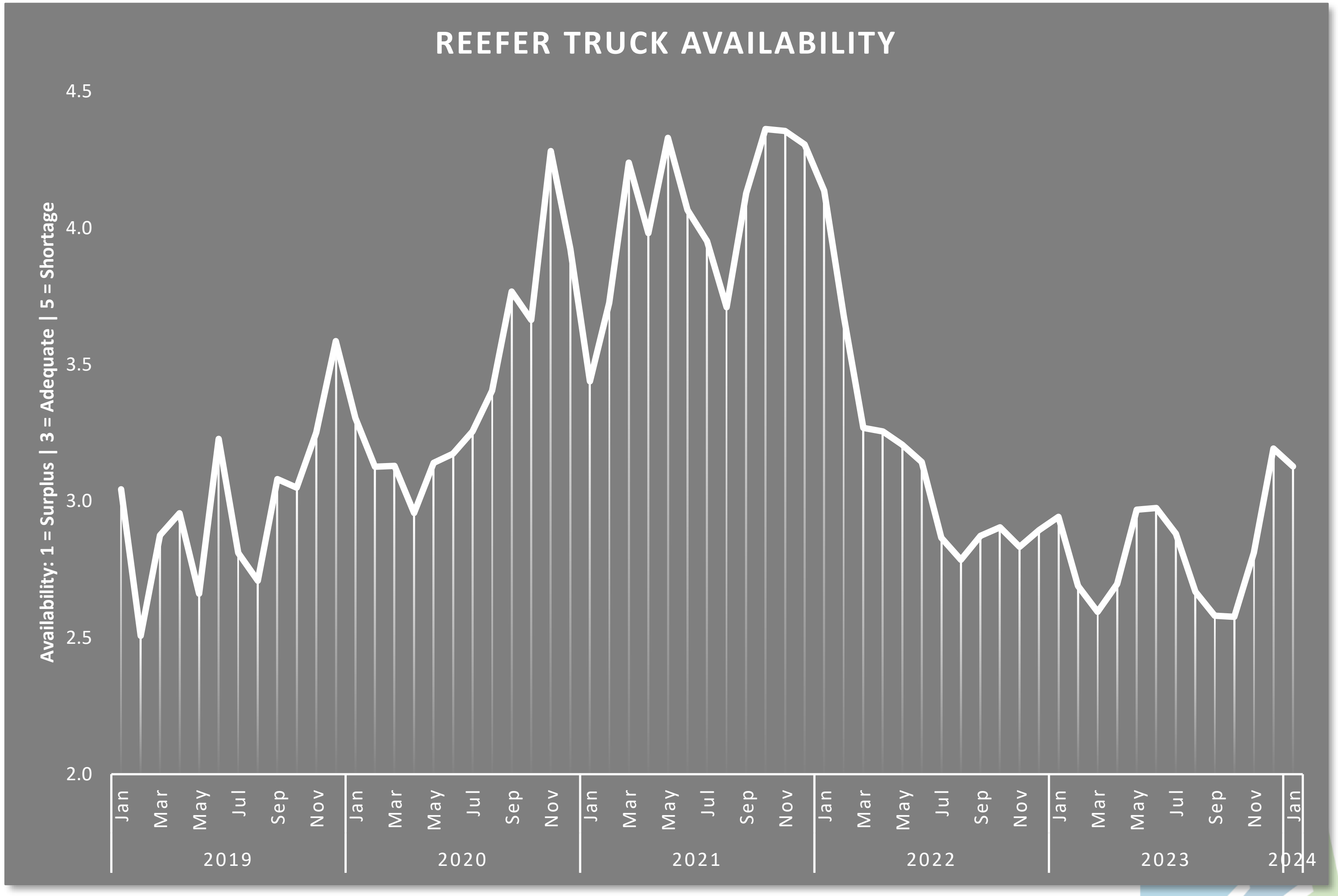
The big picture: The USDA's Crops report includes daily fruit and vegetable data for refrigerated truck availability across different regions and commodities.

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 loosened even despite an increase in rates due to the end of year holidays, which is the typical seasonal trend.

- Reefer truck availability loosened to 3.13. Availability is down 6.3% over the previous year when it was 2.94.
- Capacity either remained flat or loosened for ever region in the country. The Mexico-Texas and PNW regions were the only regions that tightened in January.
- Conditions in California loosened in January from 3.33 to 3.10 as rates increased and volumes fell, which isn't unusual for this time of year.



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

Trucking Market Update

Trucking Market Update

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

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

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

Volume: Transportation Service Index (TSI)

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

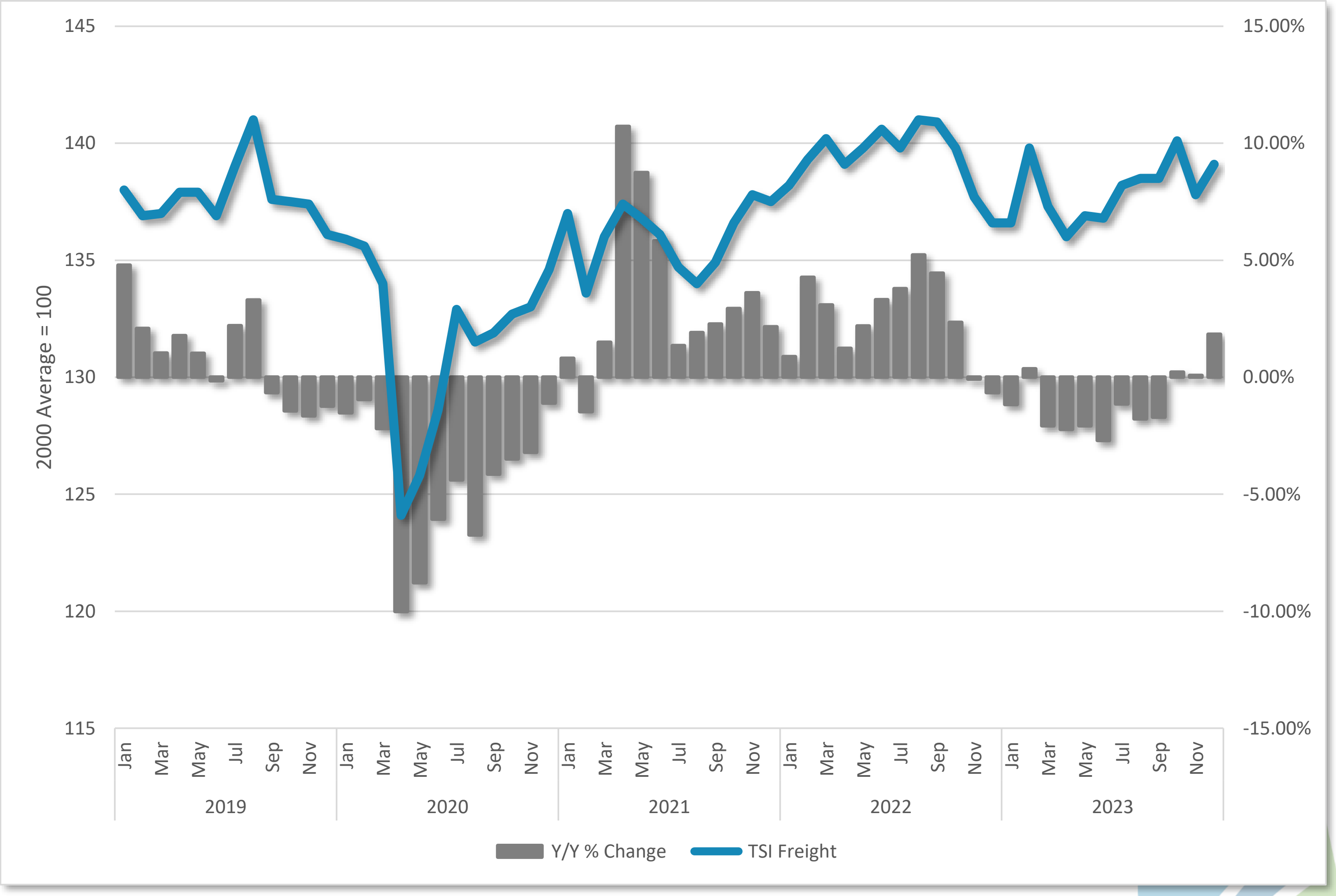
Why it matters: Changes in the TSI reflect changes in the demand for goods and services.

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

Our thoughts: Freight volumes increased in December due to seasonally adjusted increases in air, intermodal, rail, and trucking, while pipeline and water declined.

- The TSI increased 0.9% month-over-month to 139.1, and is 1.8% higher than a year ago, marking three straight months of year-over-year increases.
- November was 1.3% below the all-time high of 141.1 in August 2022.

December's increase came in the context of mixed results for other indicators. The Industrial Production Index was up 0.1%, reflecting increases in manufacturing and mining, while utilities decreased. Housing starts were down 4.3%, and personal income increased 0.3%.



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.

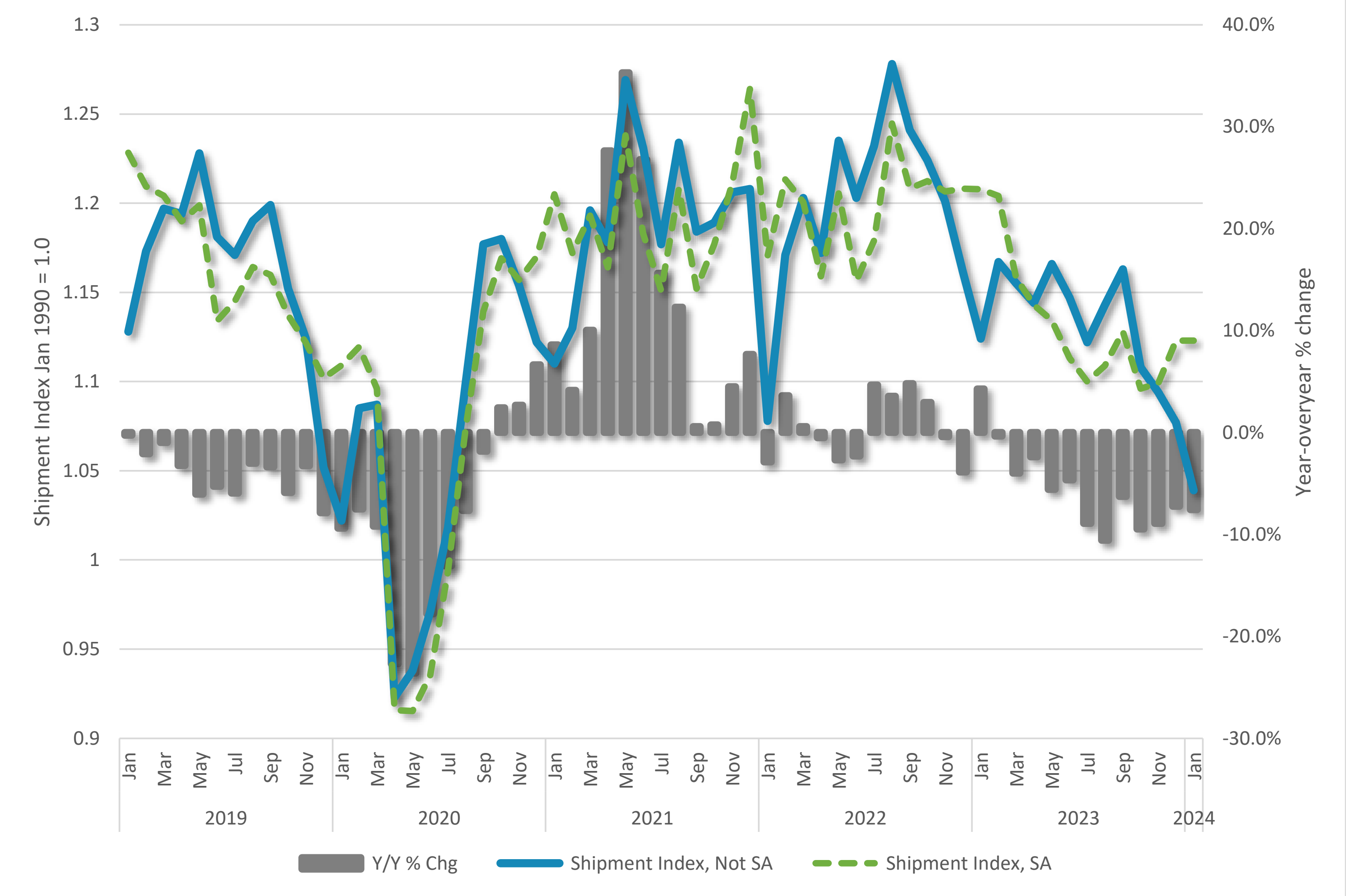
Why it matters: This index shows monthly shipment volumes from the entire Cass client base.

Our thoughts: the Cass Shipment Index was down 3.5% month-over-month to 1.04 in January, but flat at 1.12 when seasonally adjusted (SA). The Shipment Index has declined year-over-year for 12 consecutive months.

- Expenditures, which measures the total amount spent of freight, decreased 2.5% to 3.25 when SA.
- Inferred rates, which are calculated by dividing expenditures by shipments to explain the movement in cost per shipment, decreased 2.6% to 2.89 when SA.
- Truckload linehaul rates, which includes both spot and contract rates, decreased 0.6% to 140.4 and is down 5.9% year-over-year, which is a new cycle low.

Bottom line: Cass believes that the current downcycle is nearing completion due to rising import and intermodal trends as well as a change in the truckload and less-than-truckload modal mix.

- Historically, the market tightens when the TL mix falls and the LTL mix rises, which thereby causes rates to increase. These two modes have almost inverted, which is a positive sign. However, we'll need to wait and see.



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

Supply: Truck Employment

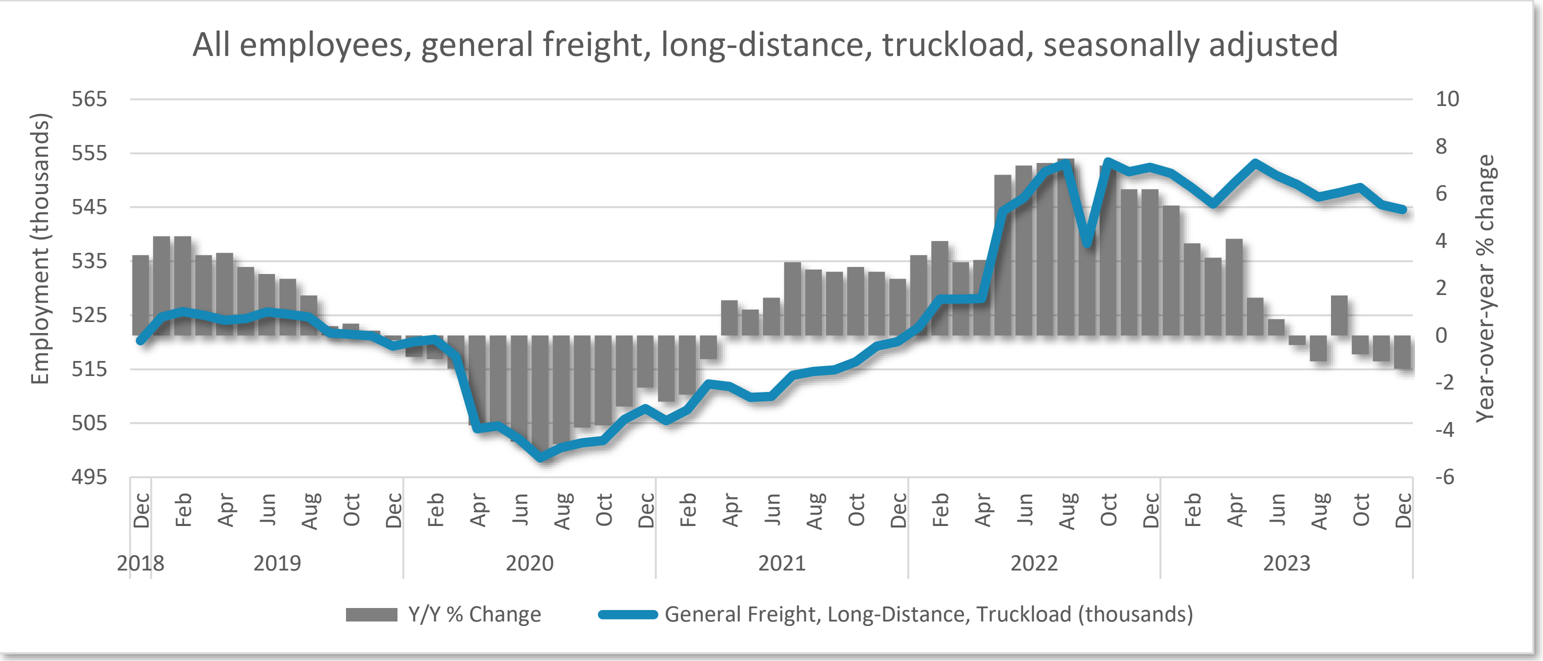
The big picture: The Bureau of Labor Statistics releases monthly payroll data concerning various industries and sectors, including trucking.

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

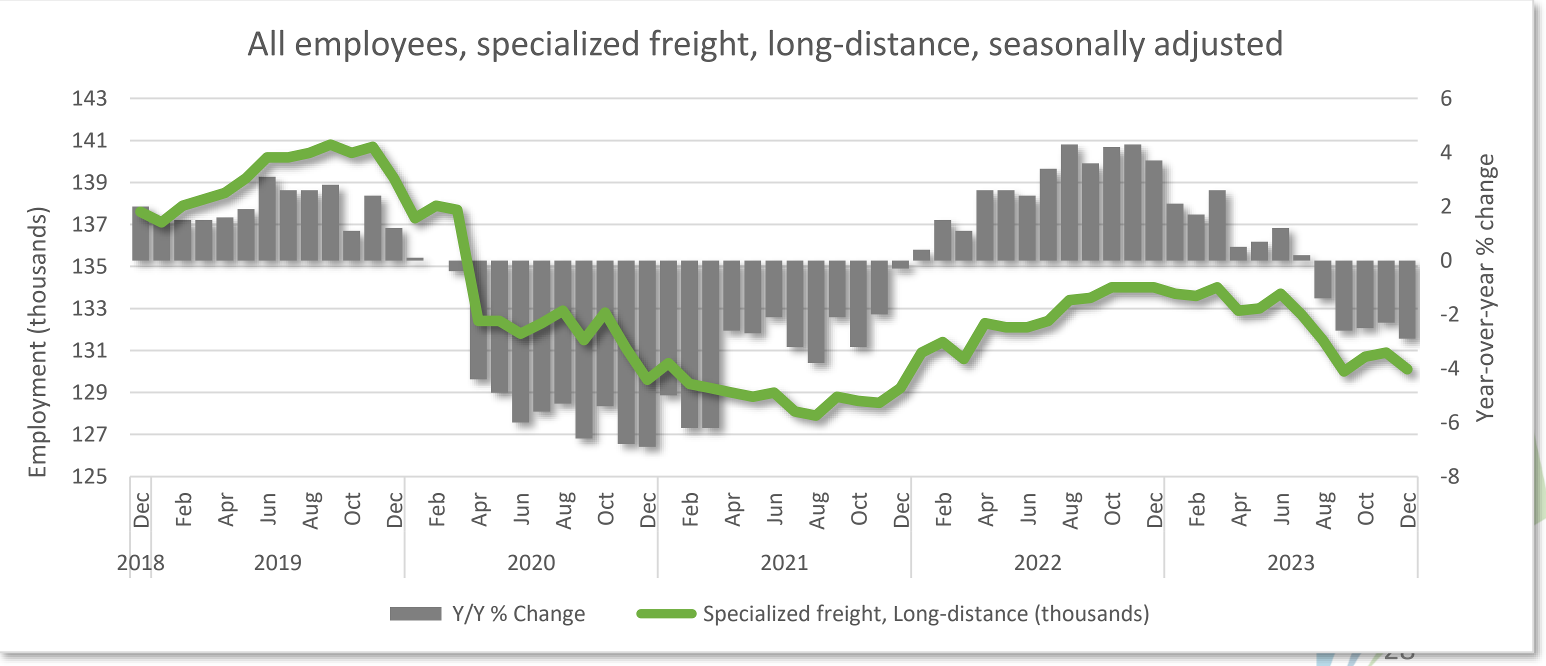
- Employment levels are also a good indicator for demand and rates, as demand drives supply. Thus, when demand increases, wages and rates also increase to attract more supply. The opposite is also true.

Our thoughts: Truck employment numbers overall (not pictured) increased for the third straight month at 0.15% in December to 1,555.7 million people following adjustments. However, this is the sixth consecutive month of year-over-year decreases.

- Employment for general freight trucking, long-distance, truckload, which best represents our members, decreased 0.2%, or 900 jobs, month-over-month in December.
- It is 1.4%, or 7,800 jobs, lower year-over year, 3.4% above the 5-year trend, and 8.1% higher than April 2020.
- Specialized freight trucking, long-distance, which represents flatbed, reefers, and other equipment types, decreased 0.6%, or 800 jobs, month-over-month.
- This figure is 2.9%, or 3,900 jobs, lower year-over-year, and is 2.4% below the 5-year trend. This is the fifth 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.

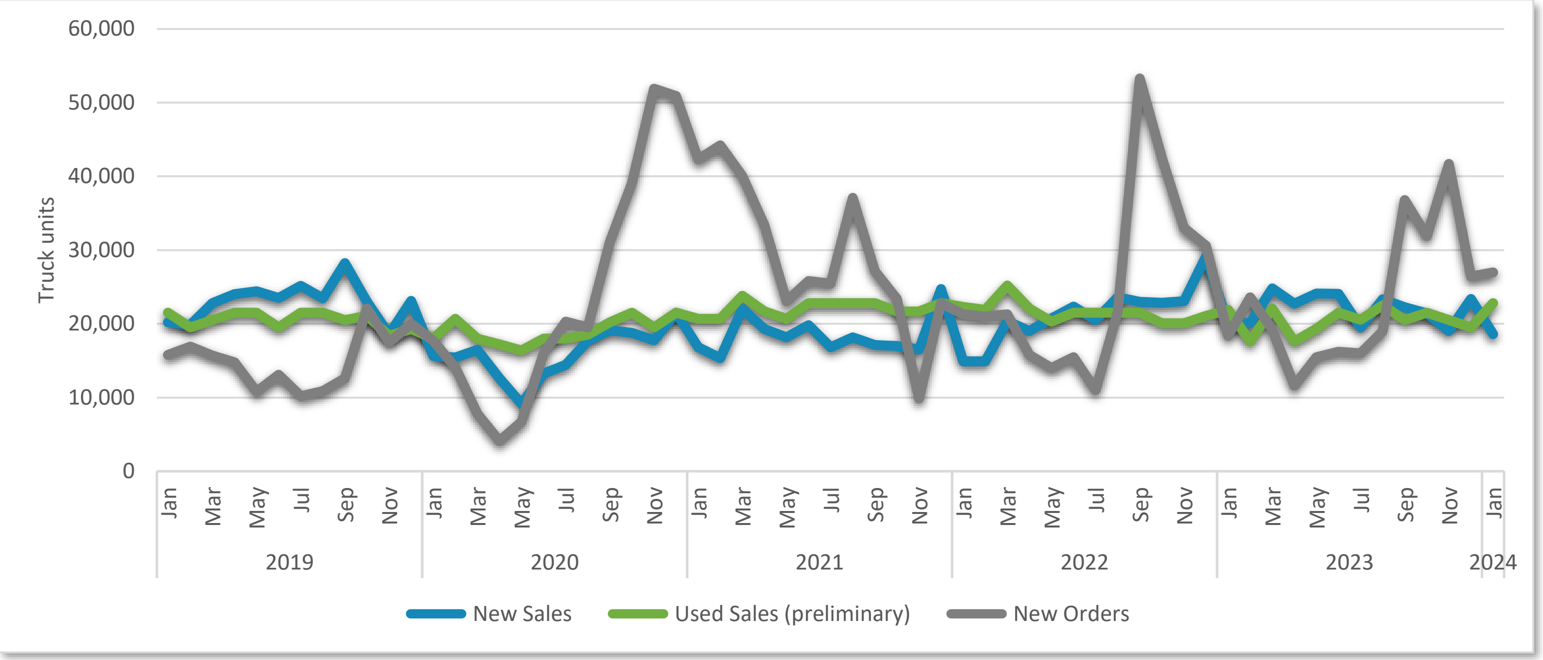
Why it matters: Class 8 orders and sales data will help an owner-operator to see both the demand for trucks and current truck capacity.

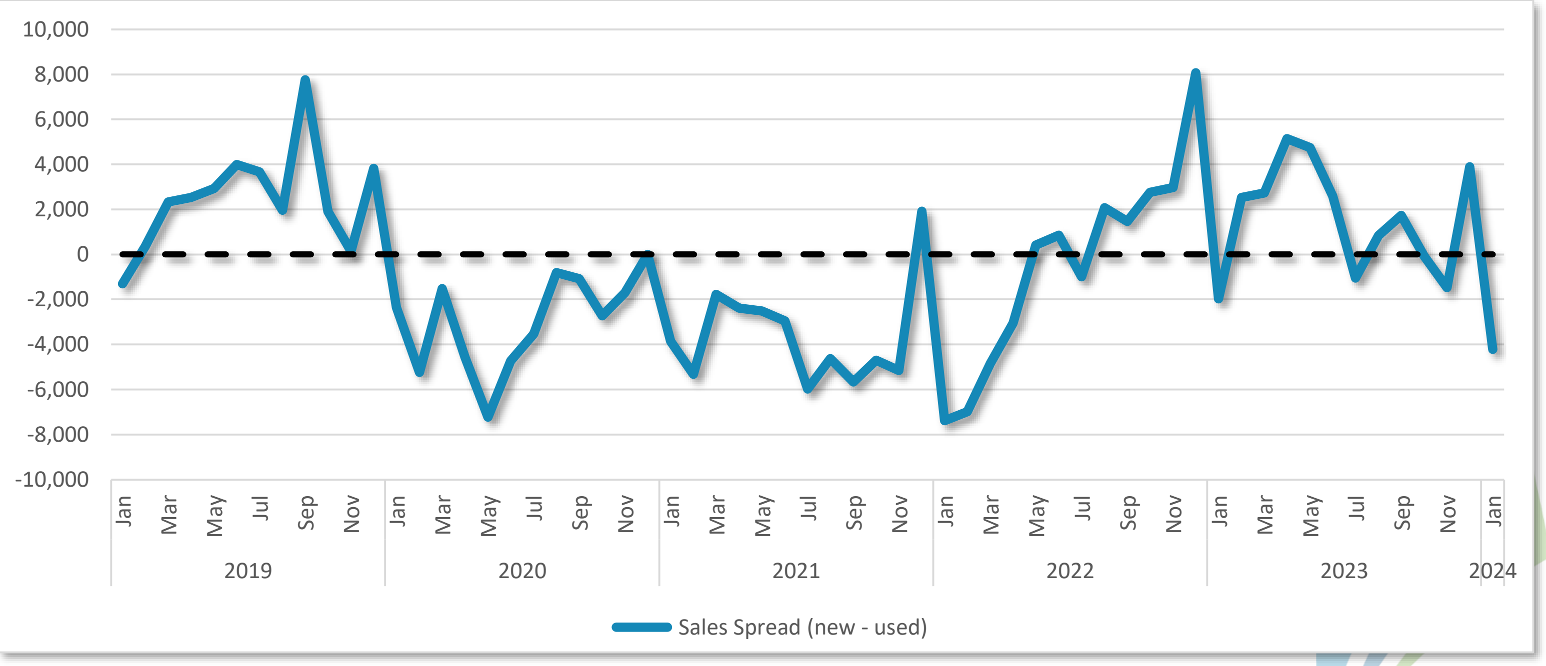
- Demand for trucks tends to spike when new orders increase following a steady increase in rates as depicted in the top figure (2017-2018 and 2020).
- Truck capacity tends to loosen when new sales eclipse used sales as shown in the bottom chart (2018-2019 and 2022-2023).

Our thoughts: New sales decreased 20.5% in January to 18,594 after dropping 22.9% in November following adjustments, and are 6.7% lower year-over-year, while new orders increased 2.3% to 27,000.

- Preliminary used sales figures increased 17%, or 3,315 units, in January to 22,815, and are up 4.2% compared to last year.
- Used sales eclipsed new sales by 4,221 units, reversing last month's trend. This is only the fourth time in 13-months that used sales surpassed new.

The industry has experienced overcapacity, or too many trucks, since the fourth quarter of 2022. Though it's not the primary cause for low rates it hasn't been helpful either.





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

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

Rates: Logistics Managers' Index (LMI)

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

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

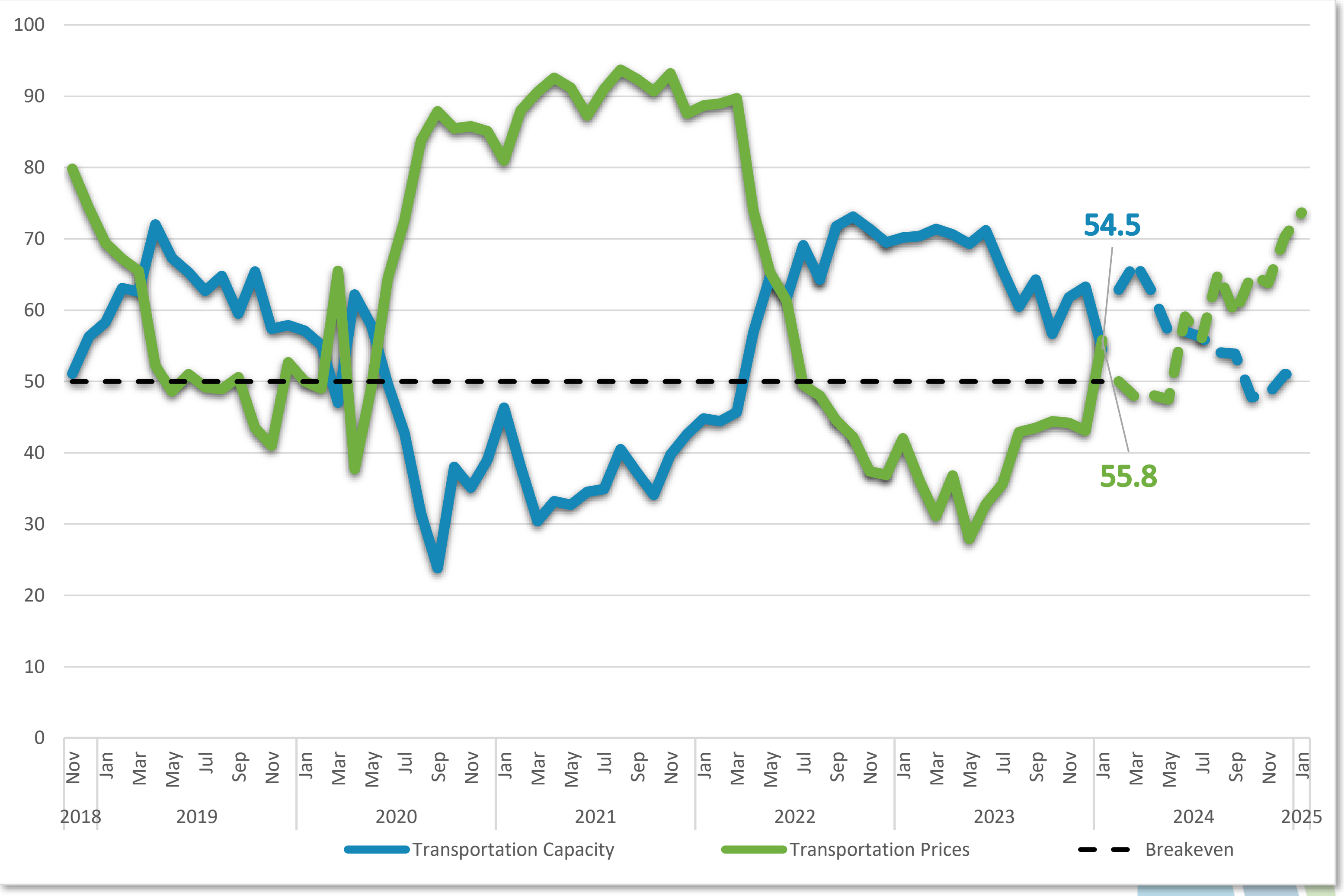
Why it matters: The LMI reflects the strength of the overall economy as it measures both upstream and downstream conditions.

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

Our thoughts: The LMI overall increased 5 points to 55.6. This is the first time since September 2019 that every metric in the LMI is reading in expansion territory, including transportation prices. This increase is due to increase in inventory levels and costs.

- Transportation prices and capacity inverted this month. Every time these two metrics invert it signals a shift in the market. However, don't put too much stock in this yet.
- Prices increased 29.5% month-over month to 55.8, and are 32.9% higher year-over-year (Y/Y), when the index read 42.
- Transportation capacity decreased 13.9% to 54.5, which is 9% higher Y/Y. Transportation capacity hasn't fallen under 60 since October.

Aggregate logistics prices (ALP), which includes inventory costs, warehousing prices, and transportation prices, increased 13.6% to 186.8 and is well below the readings we saw during the heaviest inflationary period in 2022, which were often over 250. ALP is 5.9% lower Y/Y.



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.

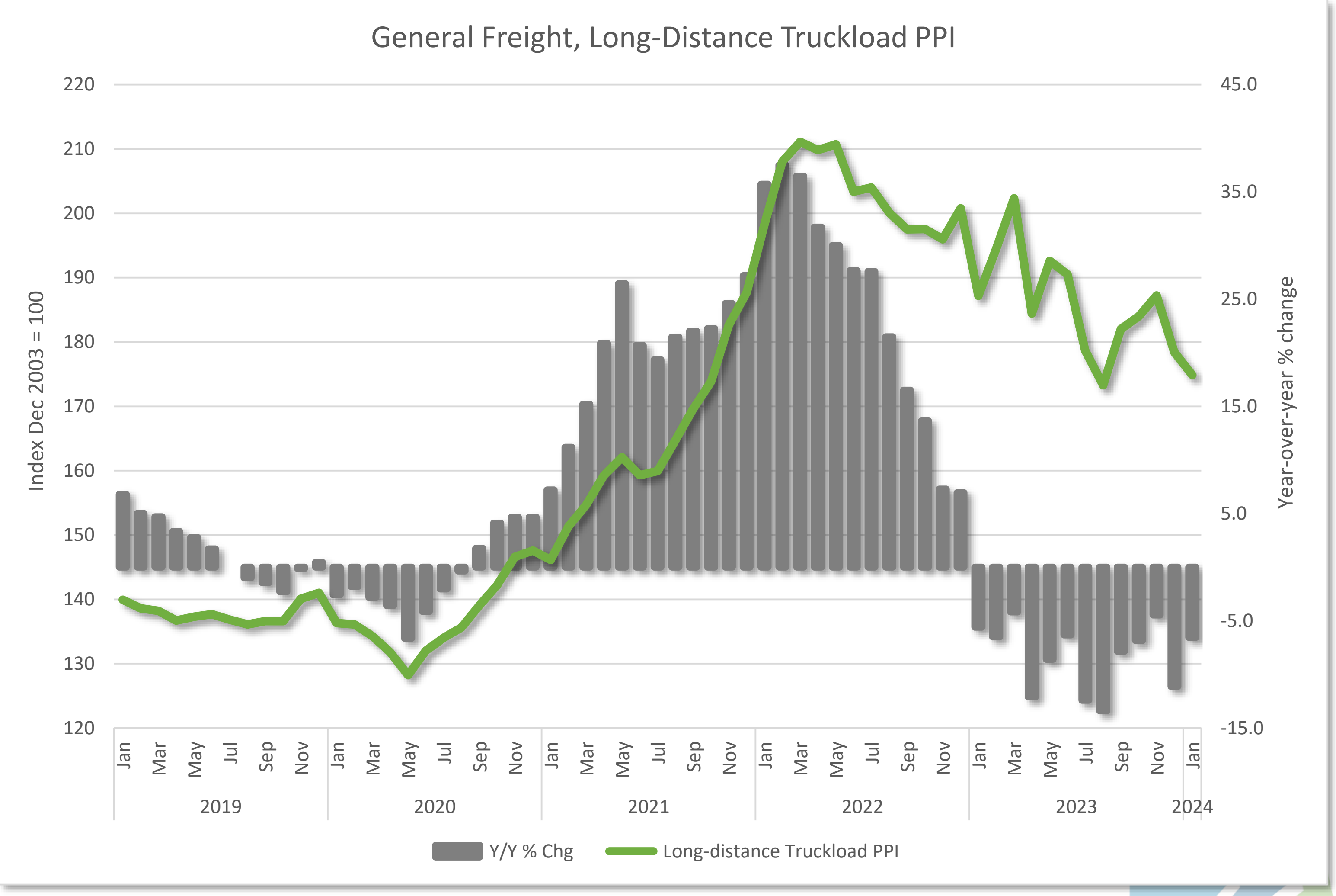
- One index focuses on long-haul, truckload carriers.
- This index shows how much carriers are charging their customers.

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 January after declining 4.7% in December following readjustments. The index has decreased 17% since its high in May 2022.

- The long-haul PPI decreased 2.0% to 174.9, month-over-month, after the BLS re-adjusted the figure for December.
- The PPI is 6.6% lower year-over-year, but 5.4% above the 5-year trend.

Whereas we saw the PPI increase from August to November, the index has now decreased for two consecutive months, and has declined Y/Y for 13 straight months. The new freight cycle won't start materializing at least until the second half of 2024, and even then, it will be a slow gradual climb.



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

Costs: Diesel Fuel

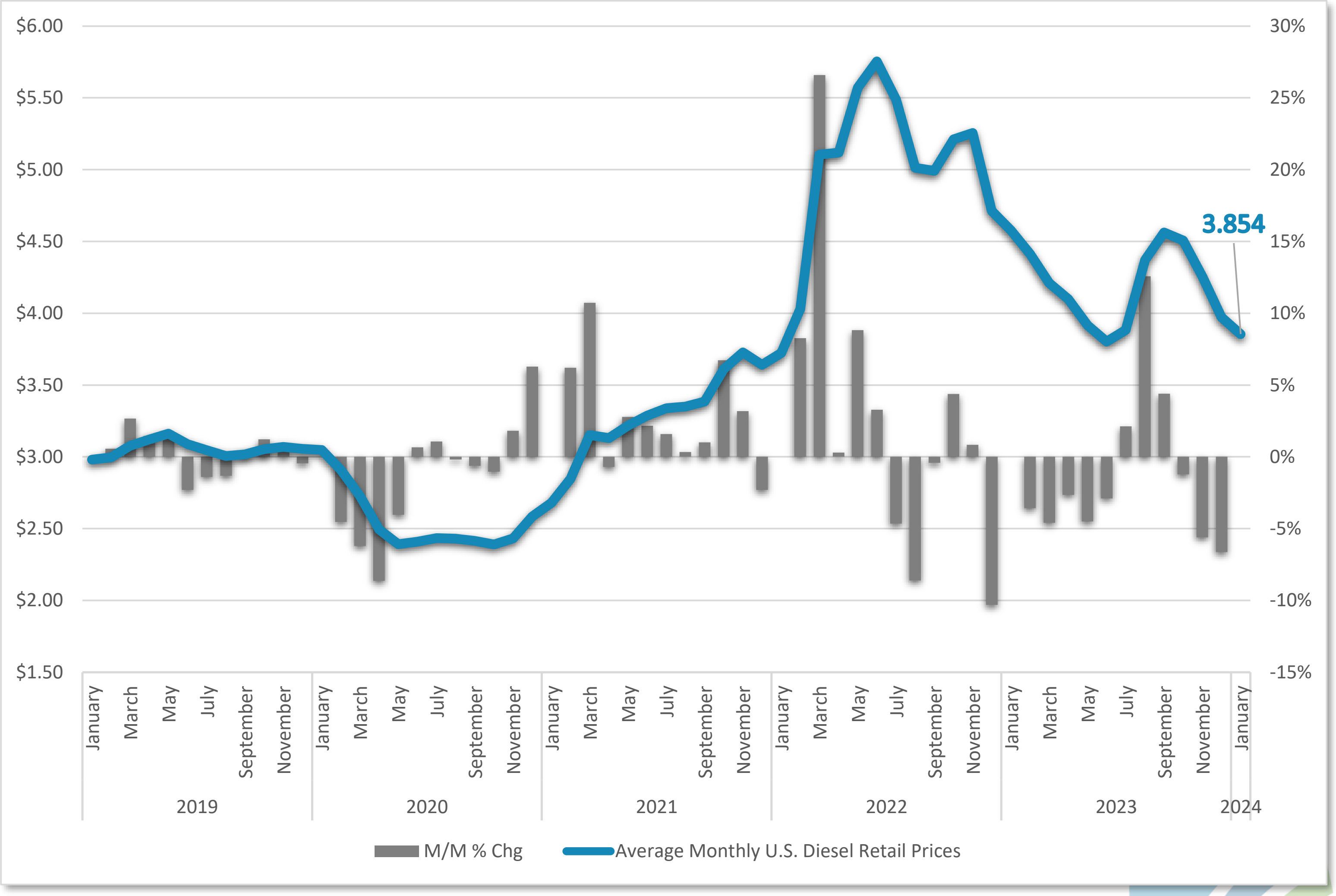
The big picture: The U.S. Energy Information Administration (EIA) tracks the weekly changes in on-highway diesel fuel prices throughout the country.

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 $0.12 per gallon after falling $0.28 in December and $0.25 in November. Prices through January have declined $1.90 per gallon since the high of $5.75 in June 2022.

- The average price for diesel fuel decreased 3% month-over-month to $3.85 per gallon, marking four consecutive months of decreases and the second time diesel has been un $4 since July 2023.
- The average diesel price is 15.8% lower year-over-year, but 6.3%, or $0.23 per gallon, higher than the 5-year trend.
- The average price has been down year-over-year for 11 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.

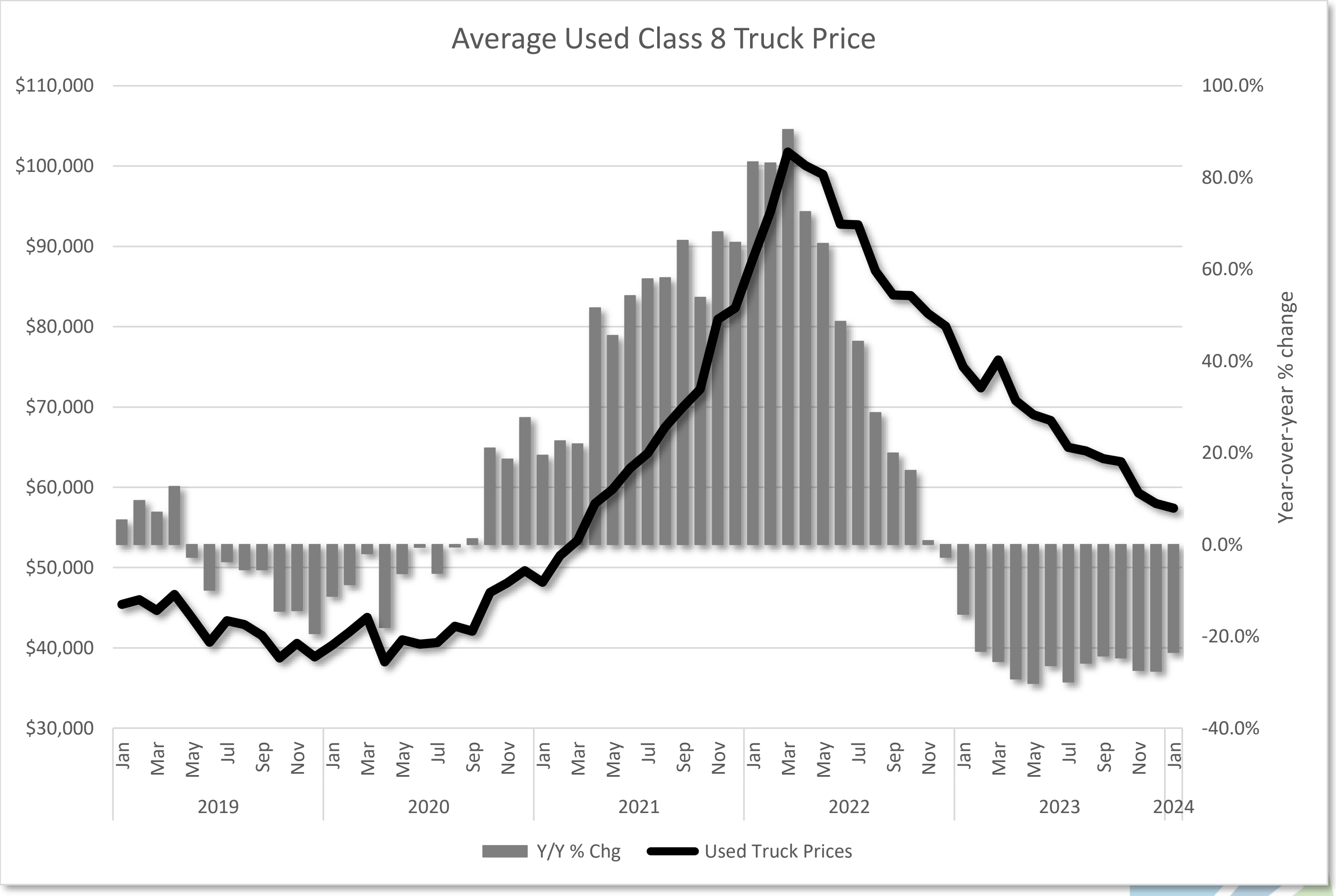
Why it matters: Used truck prices provide a good picture of the strength or weakness of the freight market. For example, monthly year-over-year decreases indicate that the market is in a downcycle due to weak demand.

- 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 in January continued the downward trend slightly after falling 2.2% in December following readjustments. Prices have fallen 43.6% since the high in March 2022, but remain significantly above than the pre-pandemic average of $42,000.

- Used Class 8 truck prices decreased $580 to approximately $57,395.
- This is 23.5% lower year-over year, and 6.6% below than the 5-year trend.

Year-over-year comparisons have been negative for 14 consecutive months, which does not bode well 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

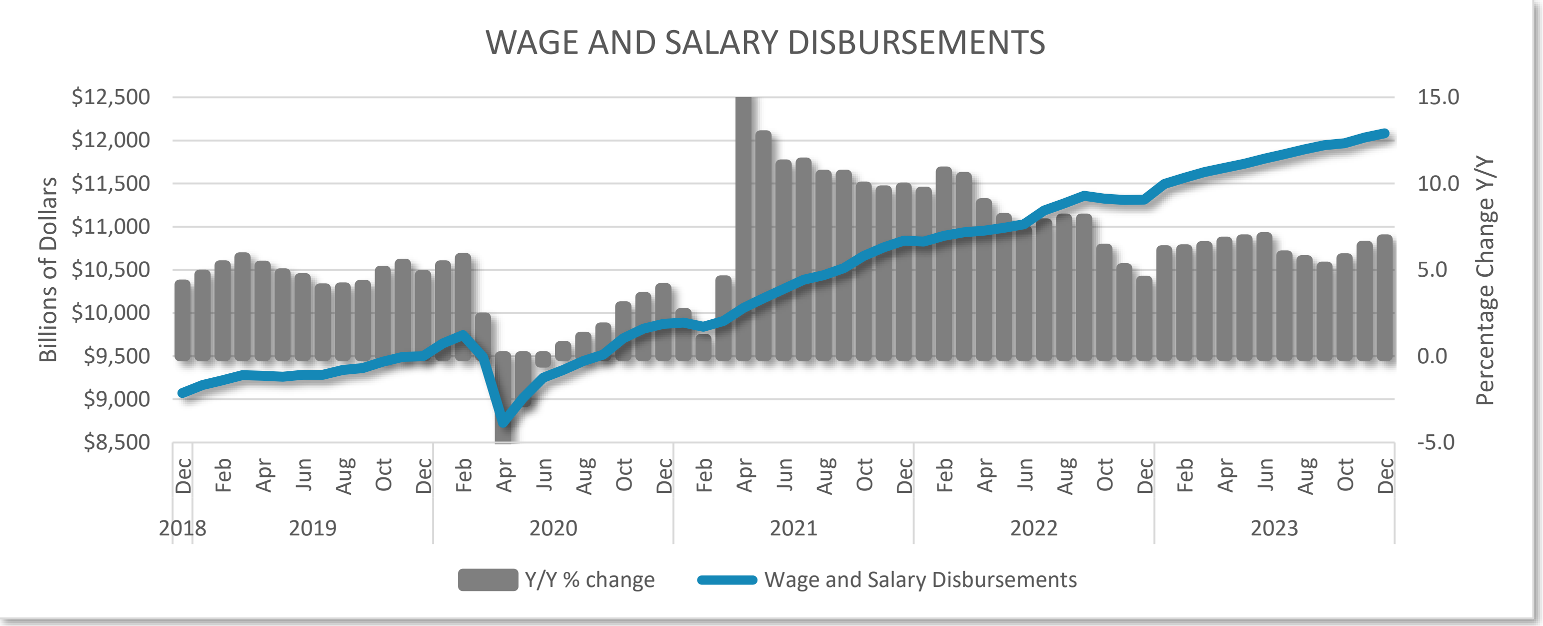
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so to does business and shipping activity.

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

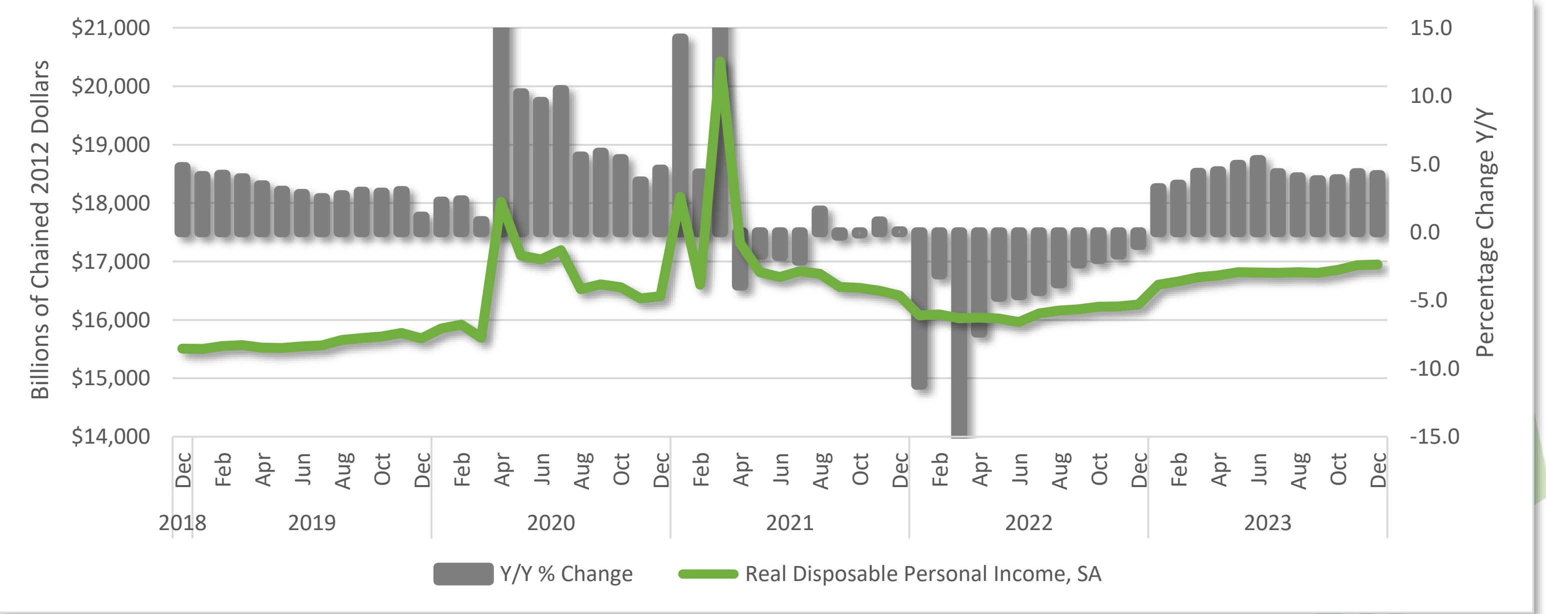
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

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

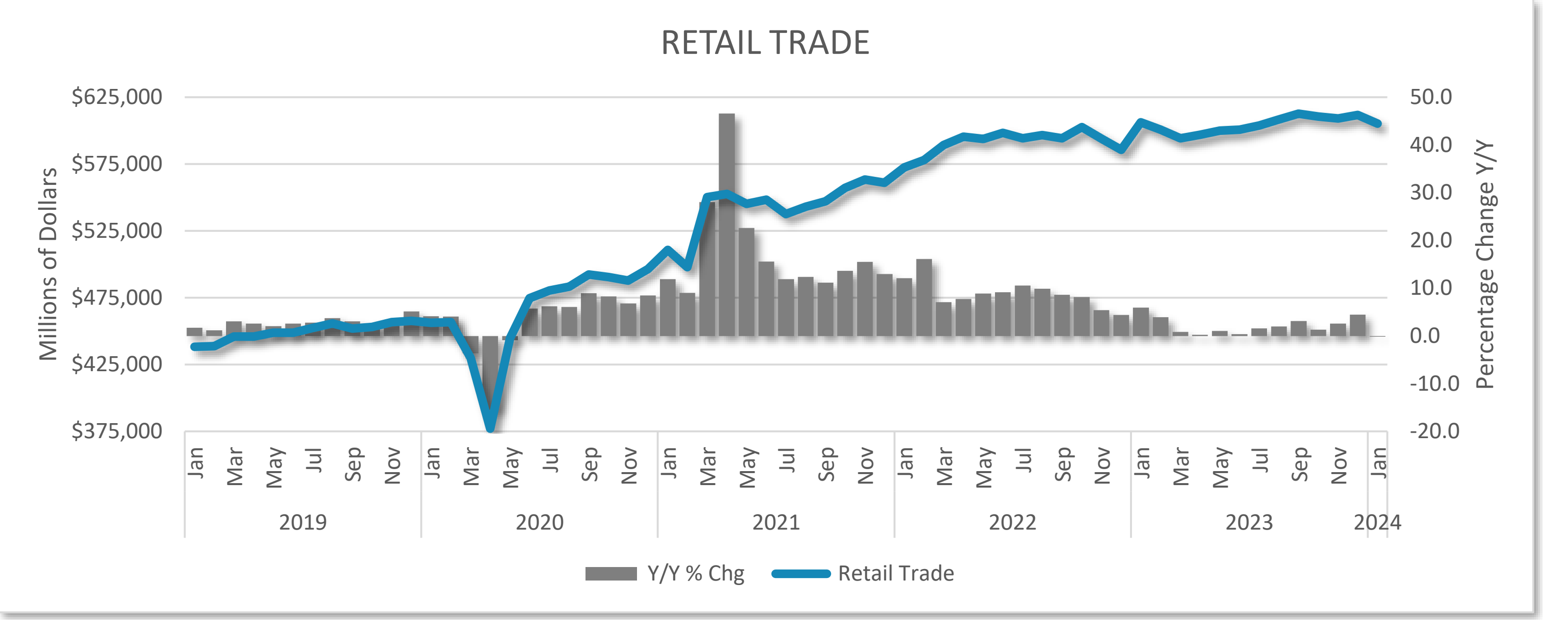
Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- 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.

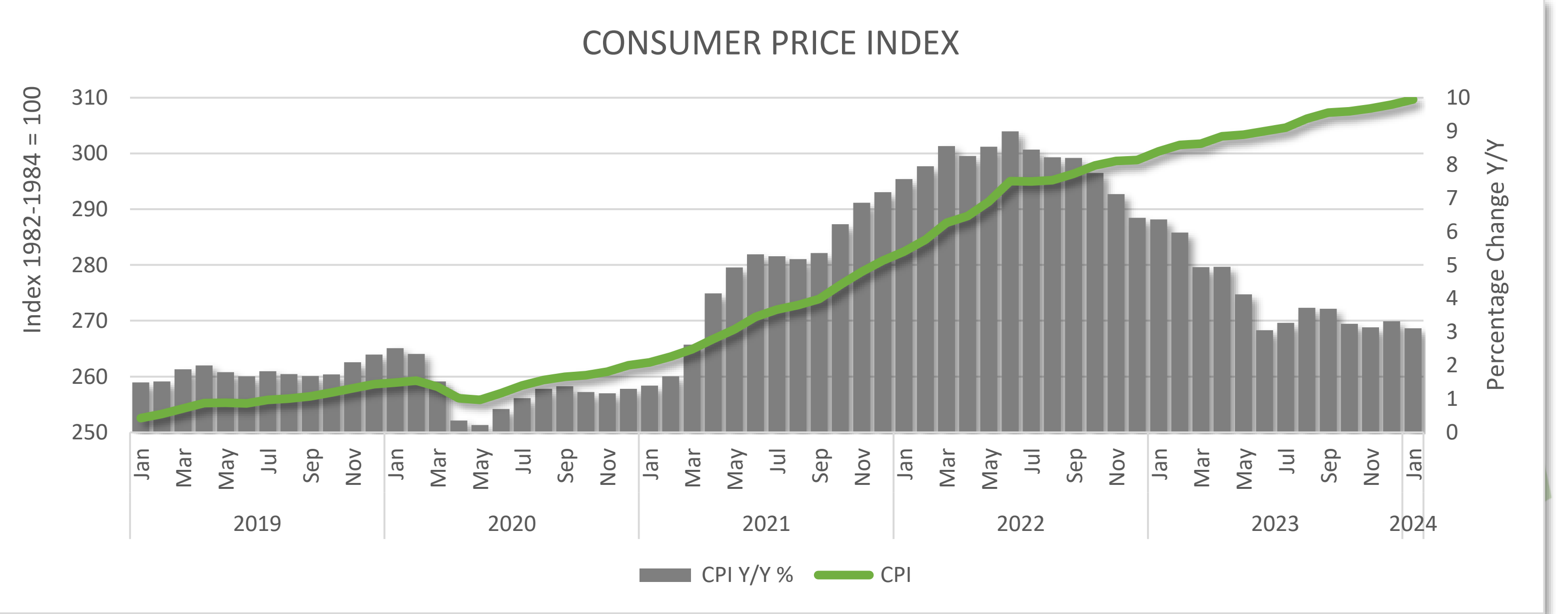
Our thoughts: Retail trade fell month-over-month in January after declining 0.6% in the previous month following adjustments to December’s data.

- 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.



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.

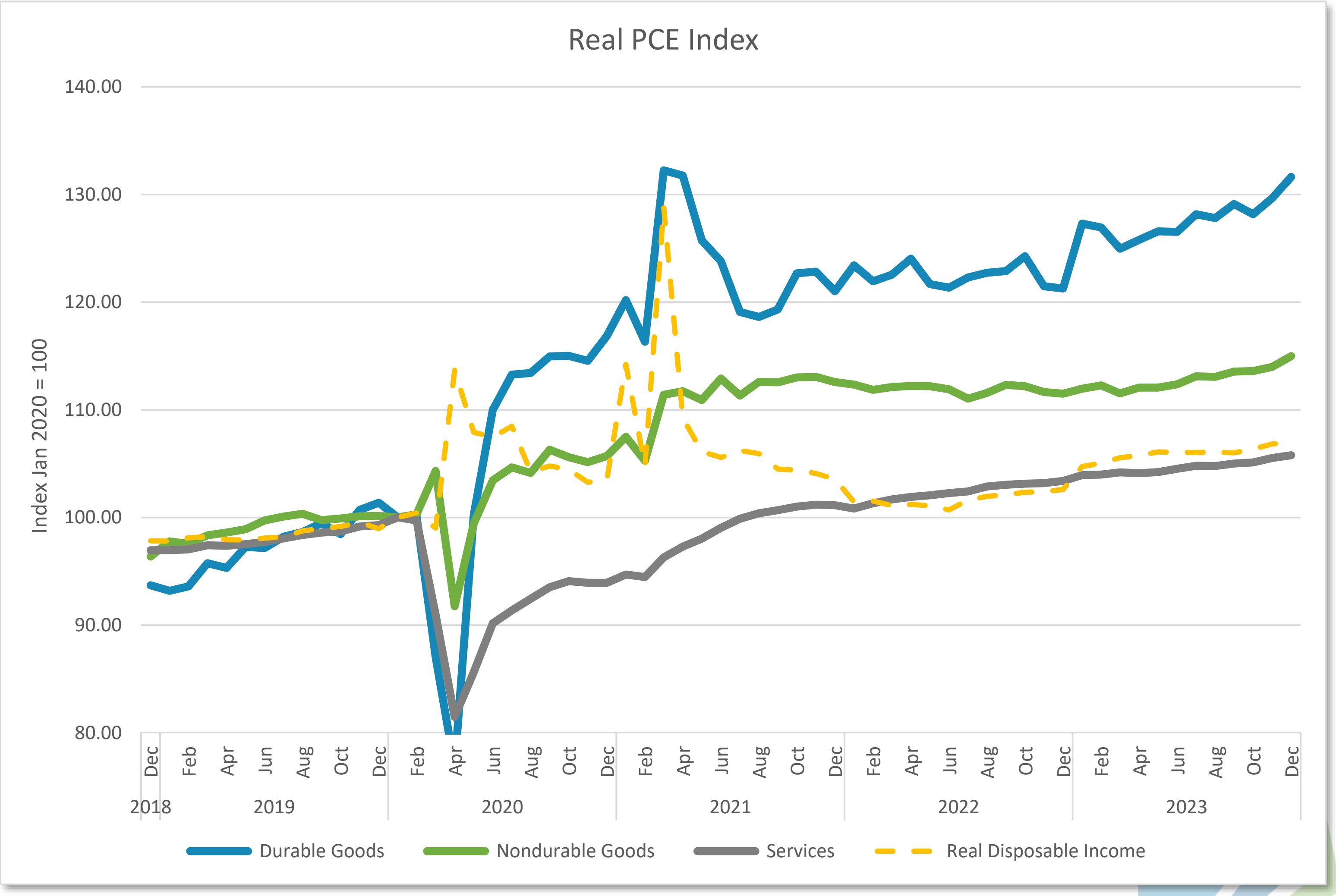
- The PCE measures a broad spectrum of consumer spending for a period of time.

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 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.

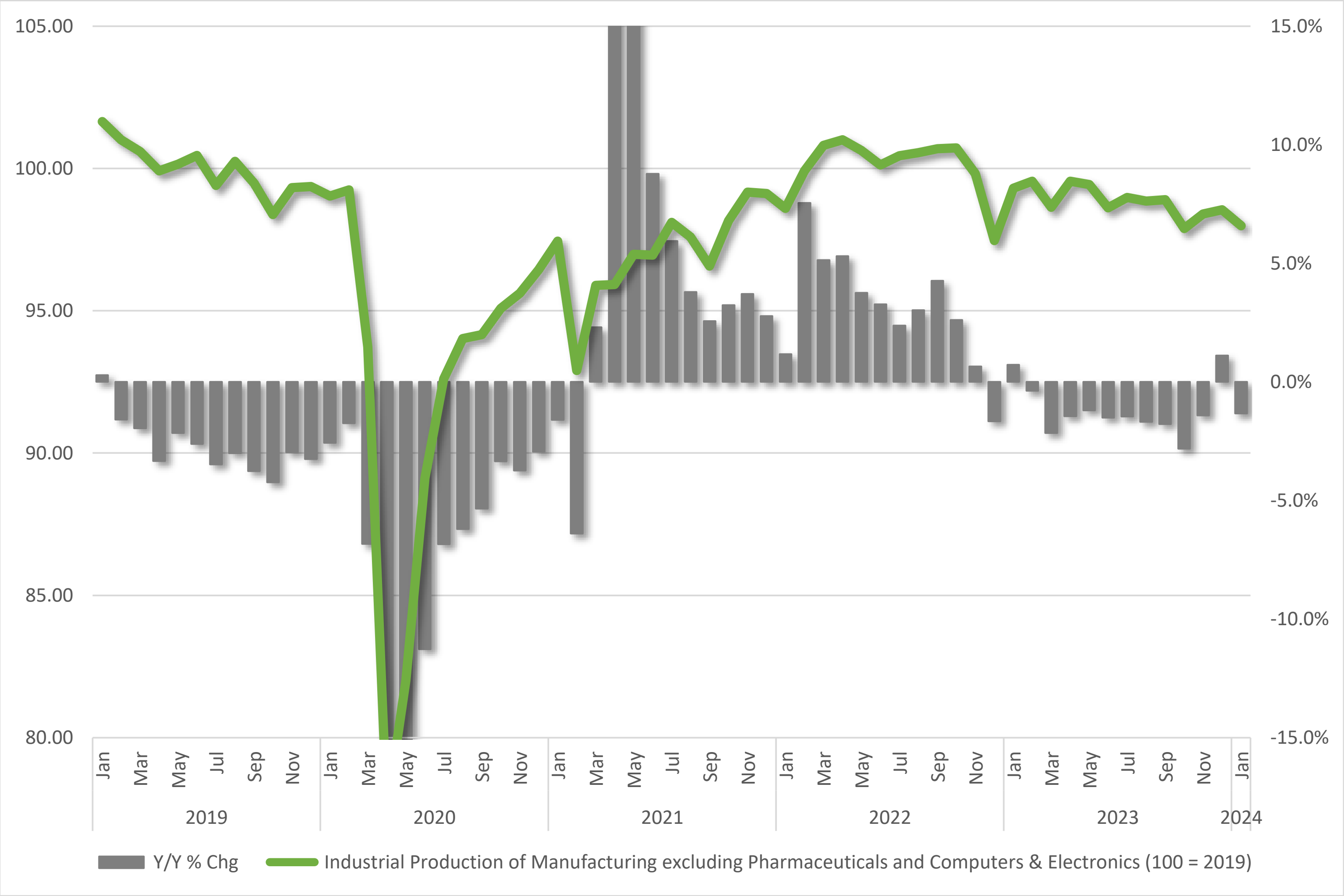
This is especially true when removing pharmaceuticals (NAICS 3254) and computer and electronic products (NAICS 334), as these sectors have an outsized influence on the overall manufacturing index considering how little freight they generate.

- 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 was 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.

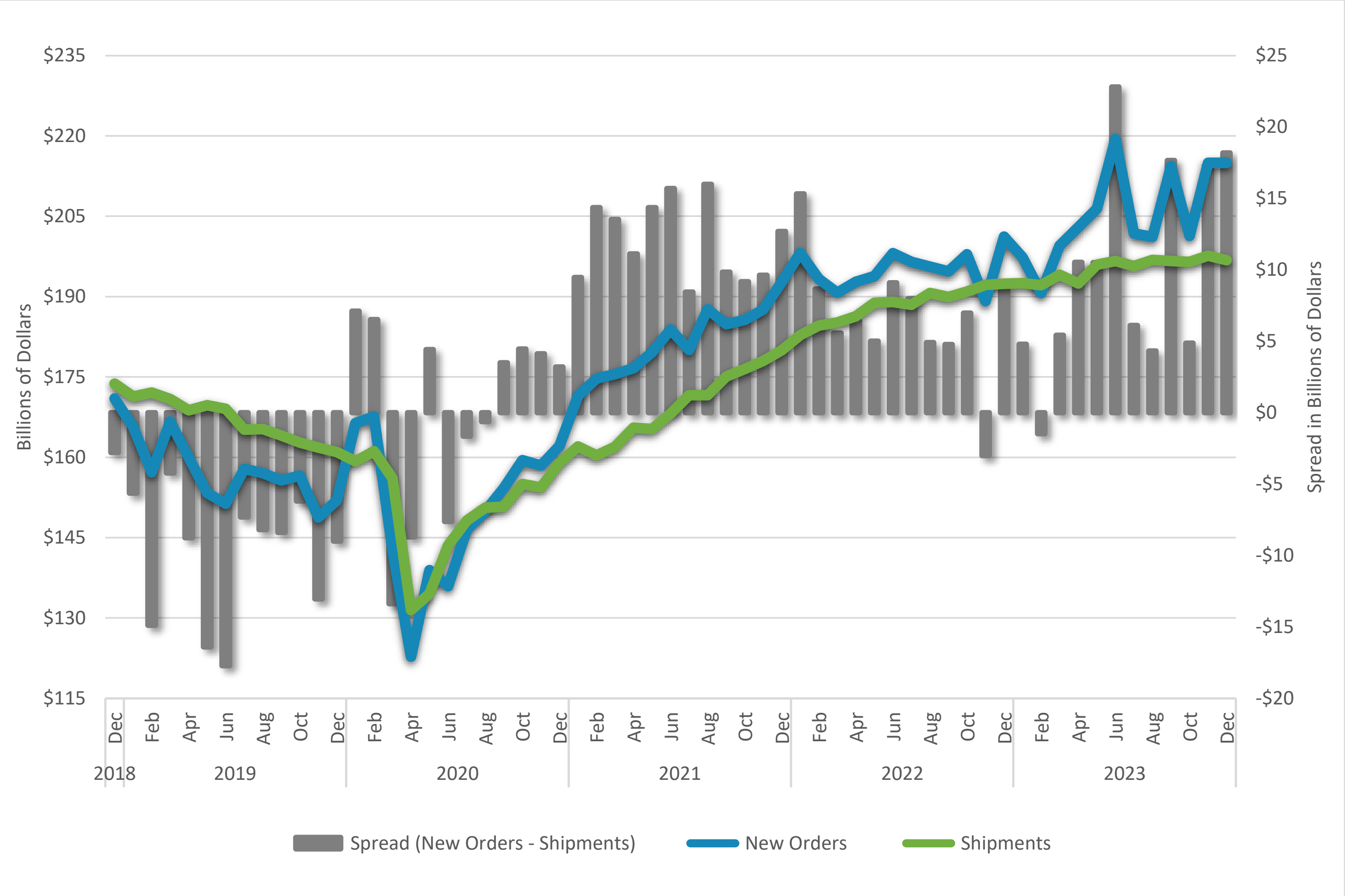
Why it matters: When unfilled new orders outperform shipments for unfilled orders, backlogs increase and we see growth in manufacturing activity. The reverse is also true.

- 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 is indicates contraction, while any number above 50 indicates expansion.

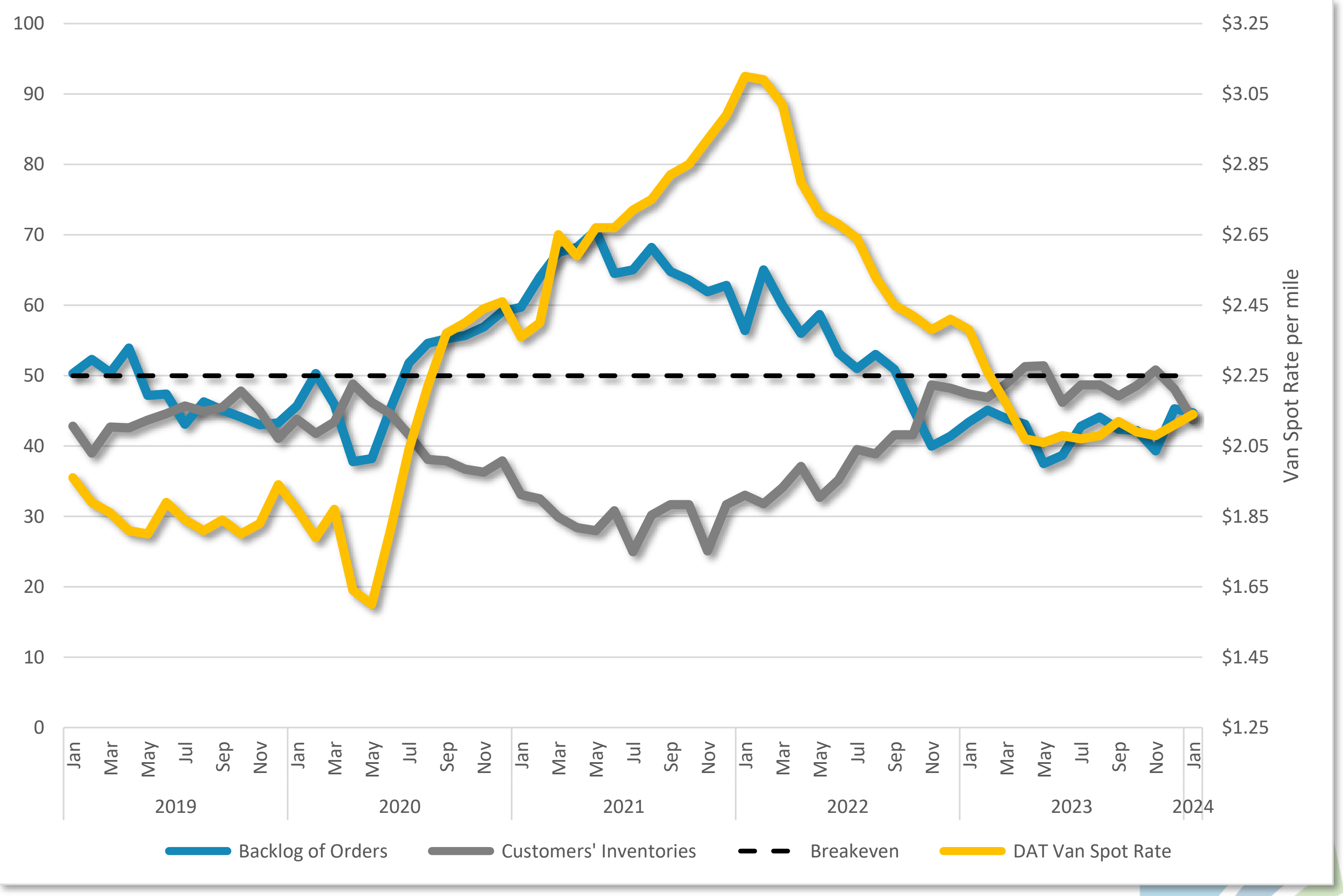
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart.

- 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 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.

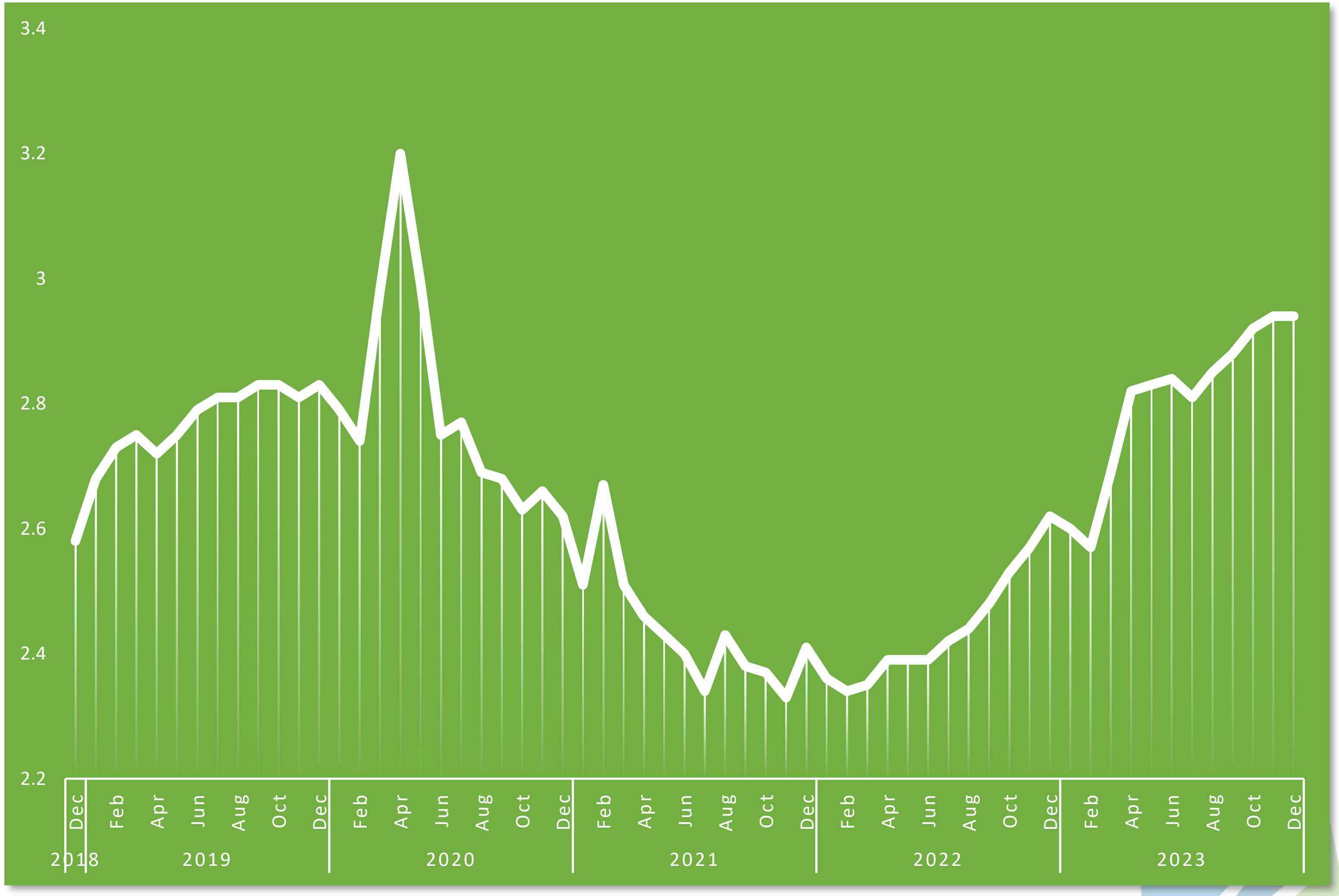
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

- 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

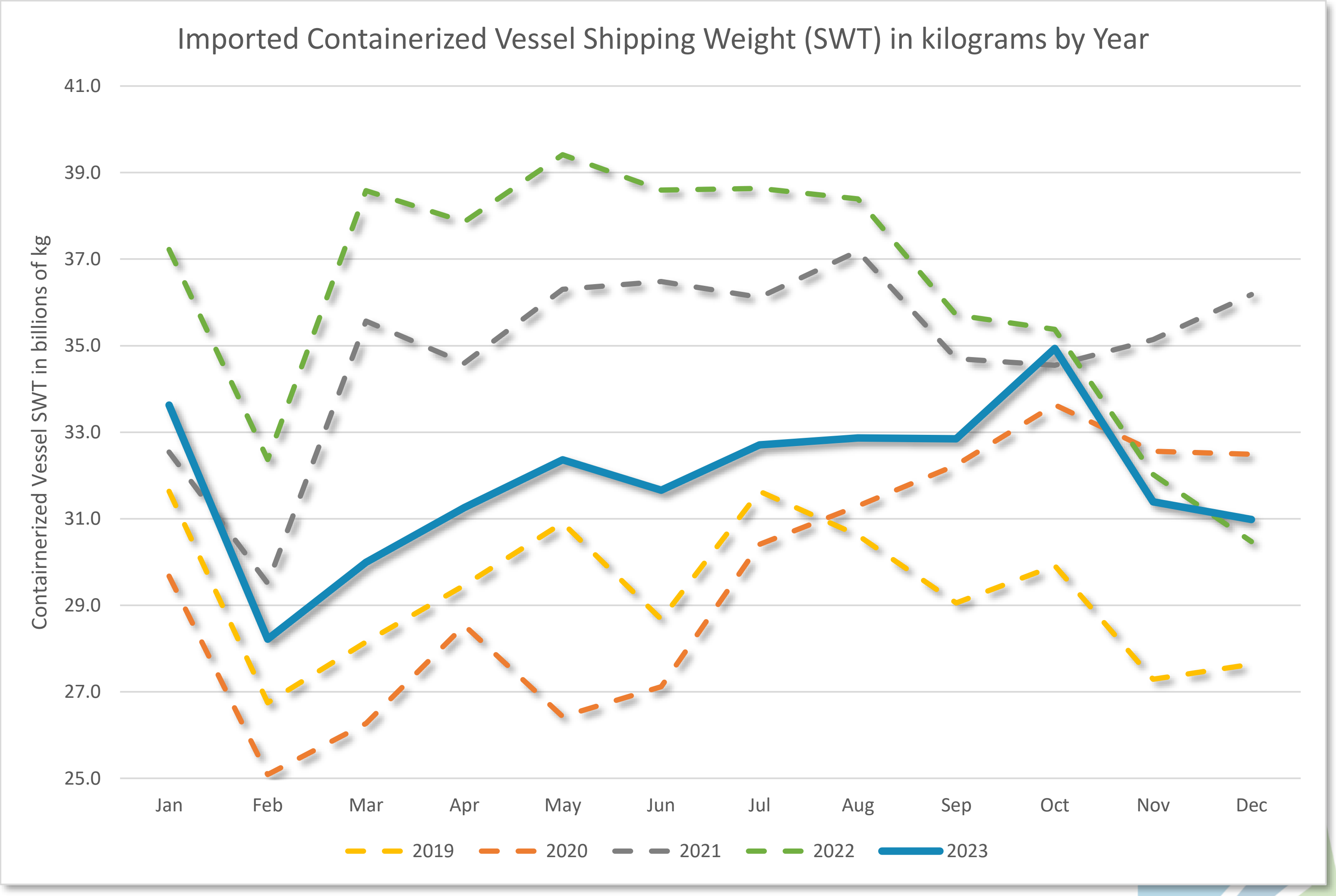
The big picture: It's common today to see products from all over the world in local stores as we truly live in a global economy.

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.

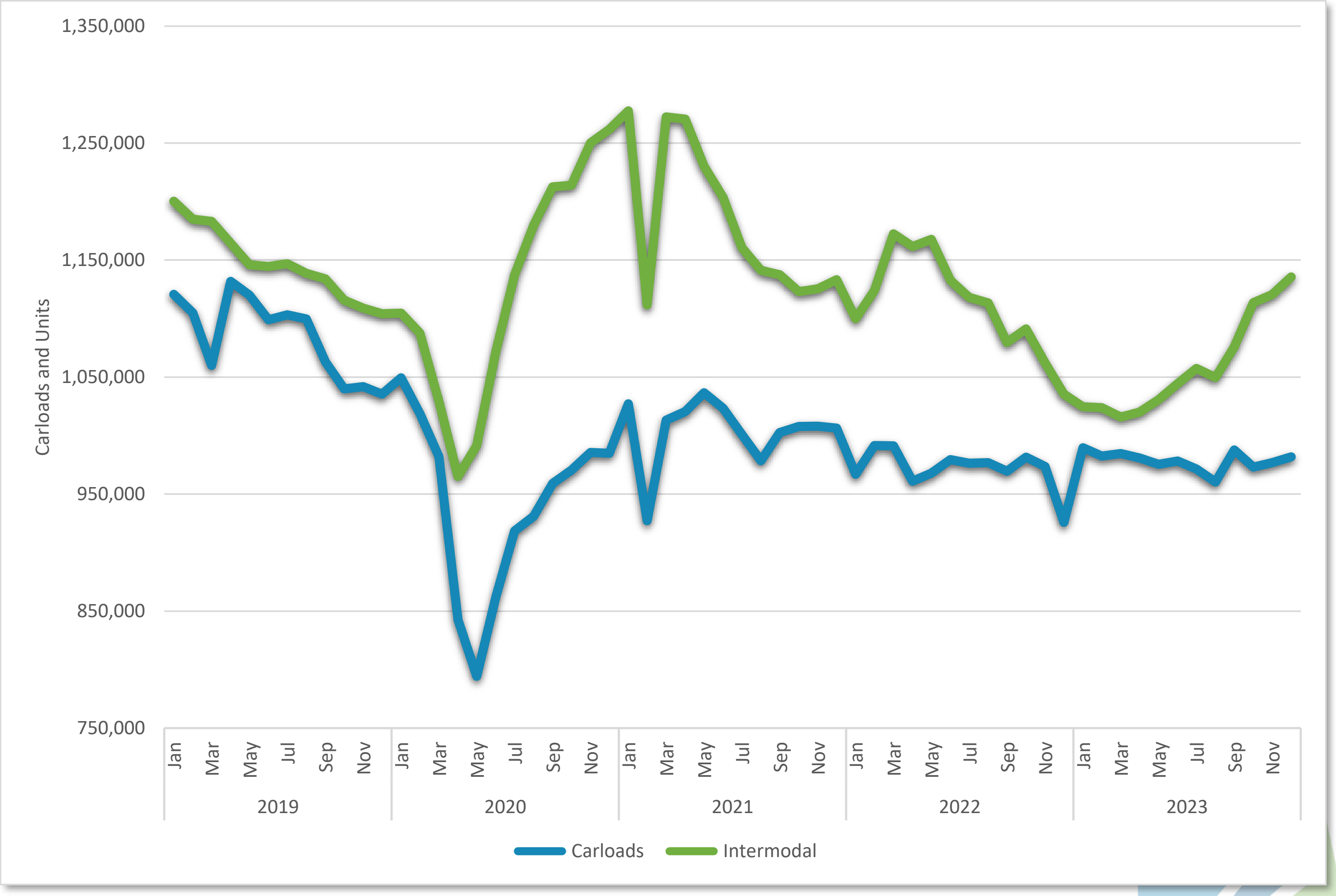
- While the rail and truck industries often compete with each other, they also work hand in hand.

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 an to the right as more freight moves back to the west coast and import volumes continue to perform well. Intermodal is posed 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

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.

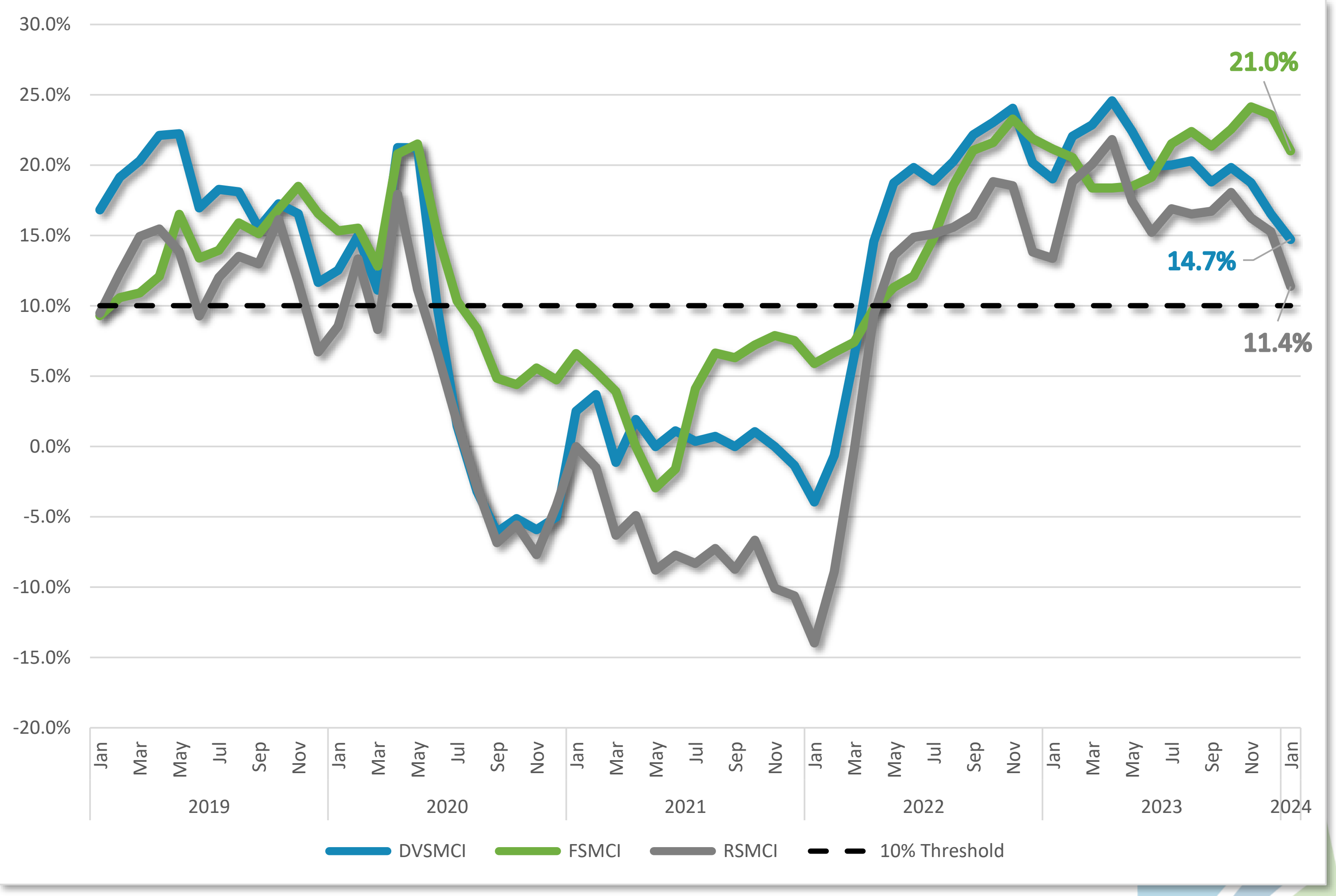
Why it matters: Whenever the SMCI for dry van (DVSMCI), flatbed (FSMCI), or reefer (RSMCI) crosses above the 10% threshold, the spot market enters into bear territory.

- 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: While it appears that the freight market is about to turn upward again, as the RSMCI is very close to the 10% threshold, I would caution you from reading too much into January's numbers.

- The DVSMCI dropped 10.9% month-over-month (M/M) to 14.7% and is 22.6% lower year-over-year (Y/Y).
- The FSMCI declined 10.9% M/M and is 0.6% lower Y/Y.
- The RSMCI declined 25.5% M/M and is 15% lower Y/Y.

All three SMCIs declined again in January. However, this is more due to seasonality than a true signal that the next upcycle is about to begin, as demand still hasn't recovered from its' trough.



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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