Trucking Market Update

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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.

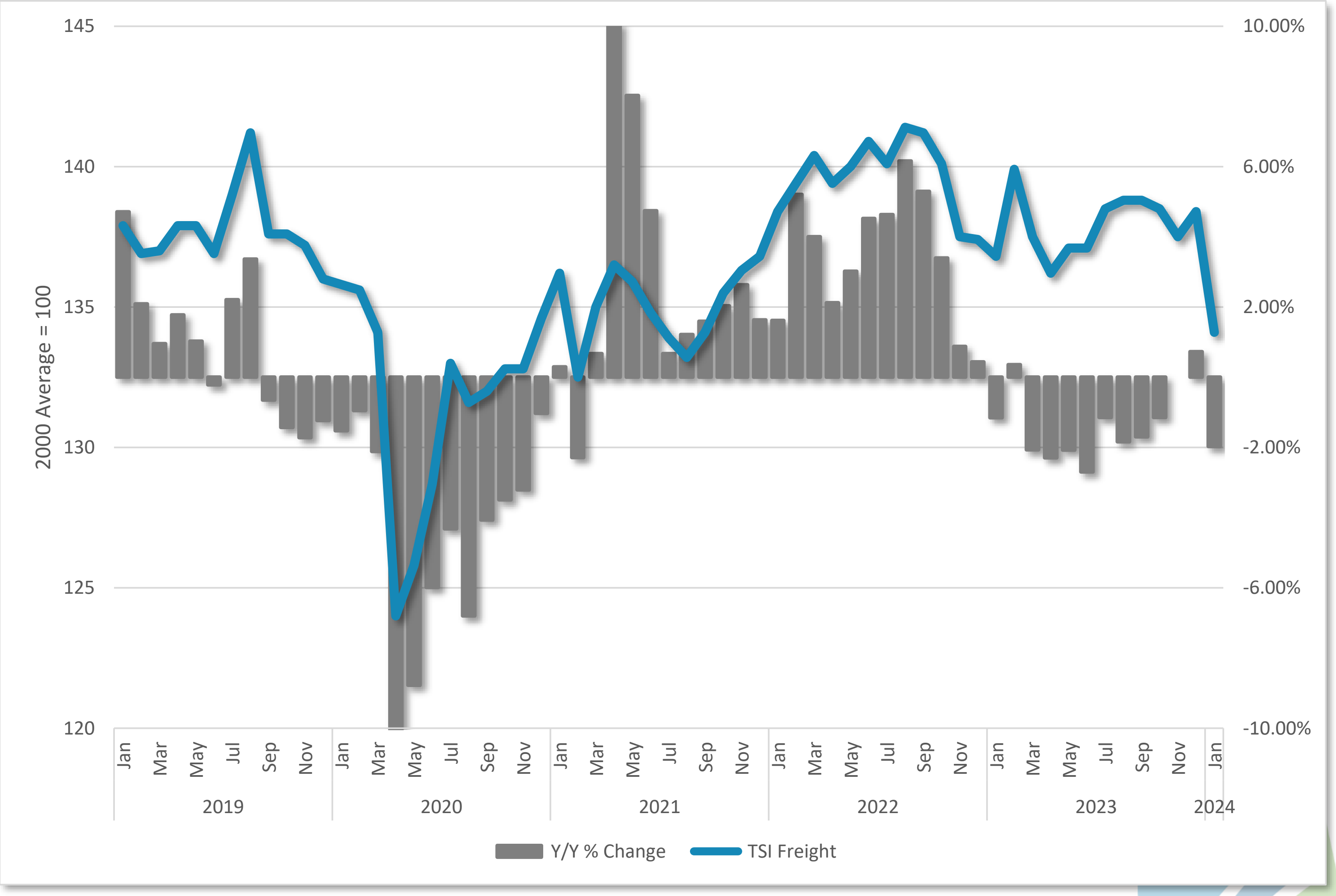
Why it matters: Changes in the TSI reflect changes in the demand for goods and services.

- 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 January due to seasonally adjusted decreases in air, intermodal, rail, and trucking, while pipeline and water increased.

- The TSI decreased 3.1% month-over-month to 134.1, and is 2.0% lower than a year ago. Following adjustments, the TSI has only increased year-over-year two times in the past 13-months.
- January was 5.2% below the all-time high of 141.1 in August 2022.

January's decrease came in the context of mixed results for other indicators. The Industrial Production Index declined 0.1%, reflecting decreases in manufacturing and mining, while utilities increased. Housing starts were down 14.8%, and personal income increased 1.0%.



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.

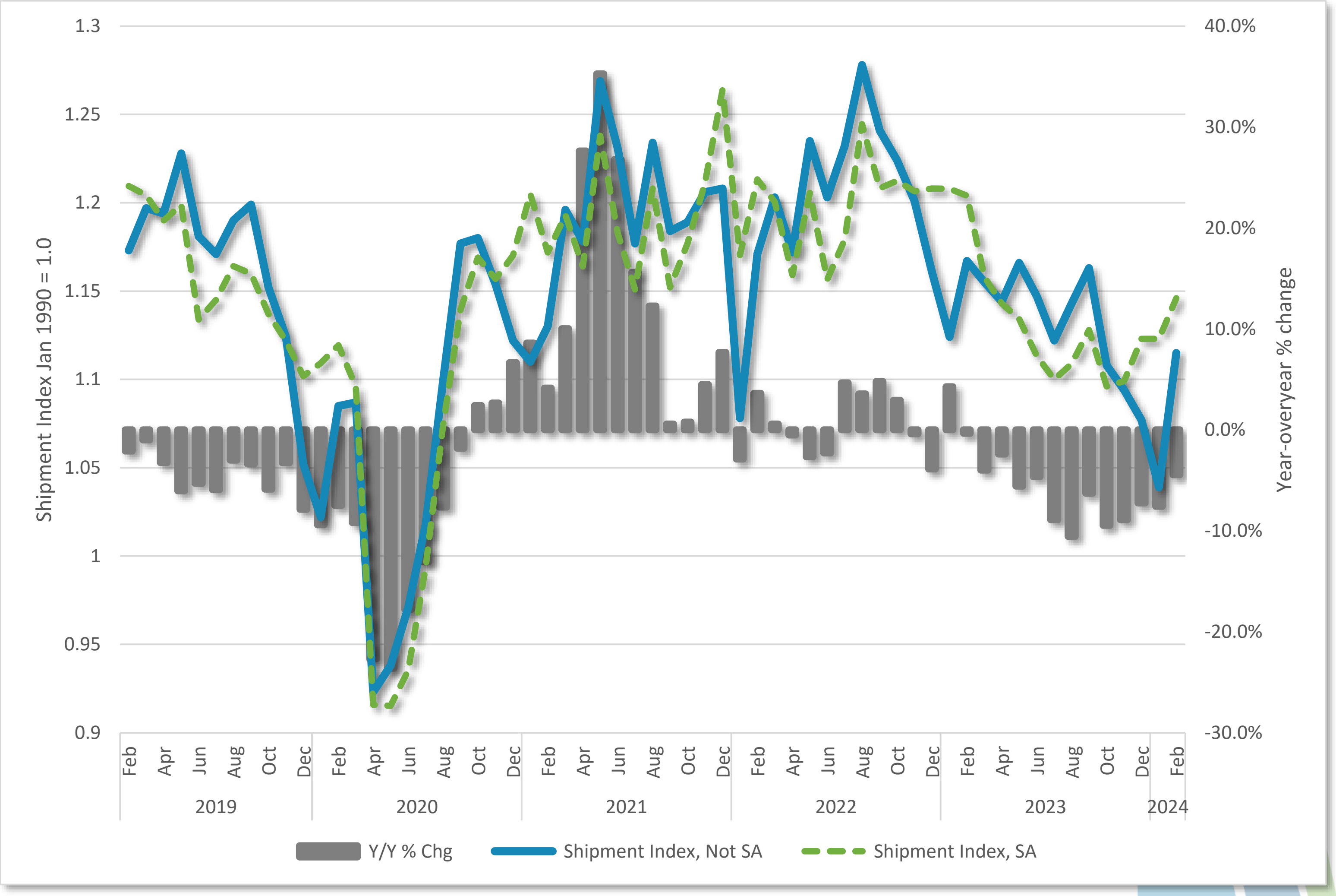
Why it matters: This index shows monthly shipment volumes from the entire Cass client base.

Our thoughts: the Cass Shipment Index was up 7.3% month-over-month to 1.12 in February, and up 2% to 1.15 when seasonally adjusted (SA), primarily due to Leap Day. The Shipment Index decreased year-over-year however, marking 13 consecutive months of decline.

- Expenditures, which measures the total amount spent of freight, increased 1.8% to 3.31 when SA.
- Inferred rates, which are calculated by dividing expenditures by shipments to explain the movement in cost per shipment, decreased 0.2% to 2.89 when SA.
- Truckload linehaul rates, which includes both spot and contract rates, increased 0.1% to 140.5 and is down year-over-over for 14 straight months at 5.4%.

Bottom line: Cass previously predicted that the current downcycle was nearing its completion. However, they have since changed the tone of the predictions stating, "the freight cycle is certainly stabilizing with rates below sustainable levels in many cases and little room for further savings."

- Cass believes that the long bottom in the freight cycle may lengthen even further as large carriers continue to order new capacity, perhaps to get in front of upcoming emission regs.



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

Supply: Truck Employment

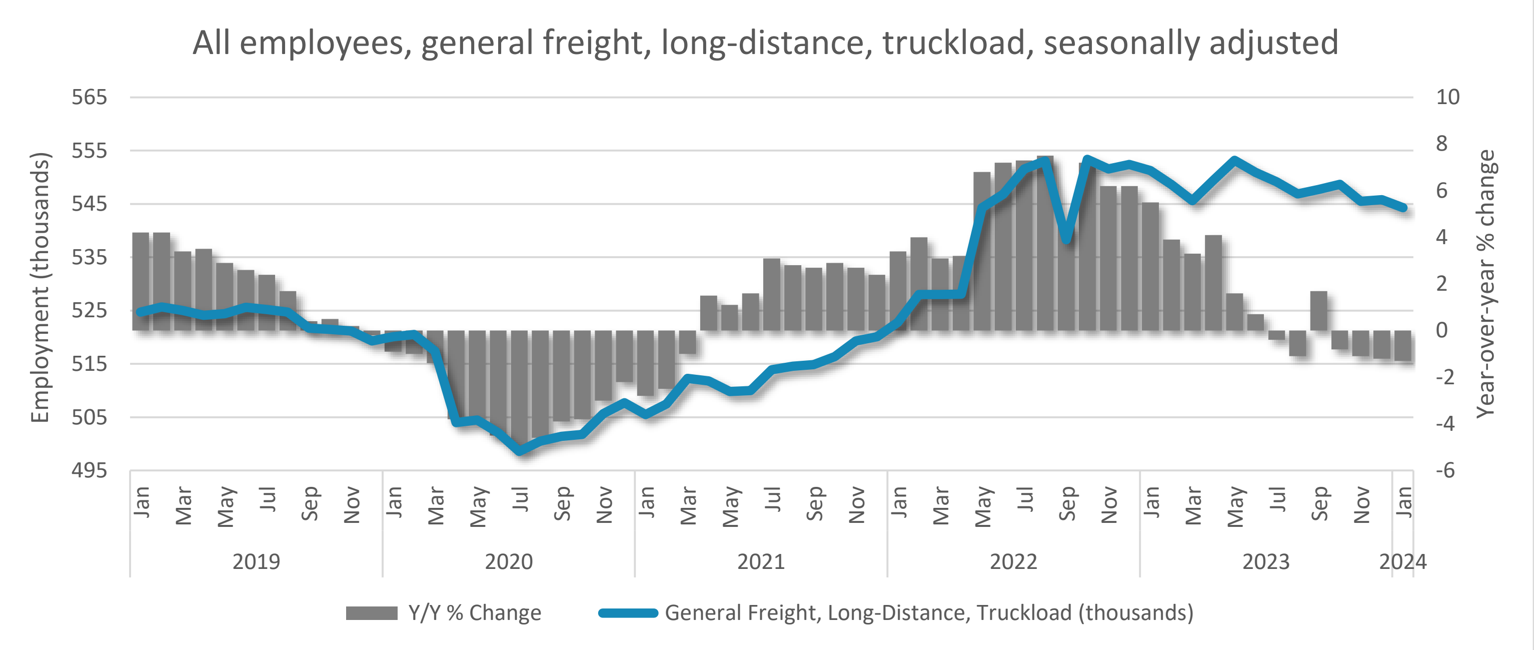
The big picture: The Bureau of Labor Statistics releases monthly payroll data concerning various industries and sectors, including trucking.

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

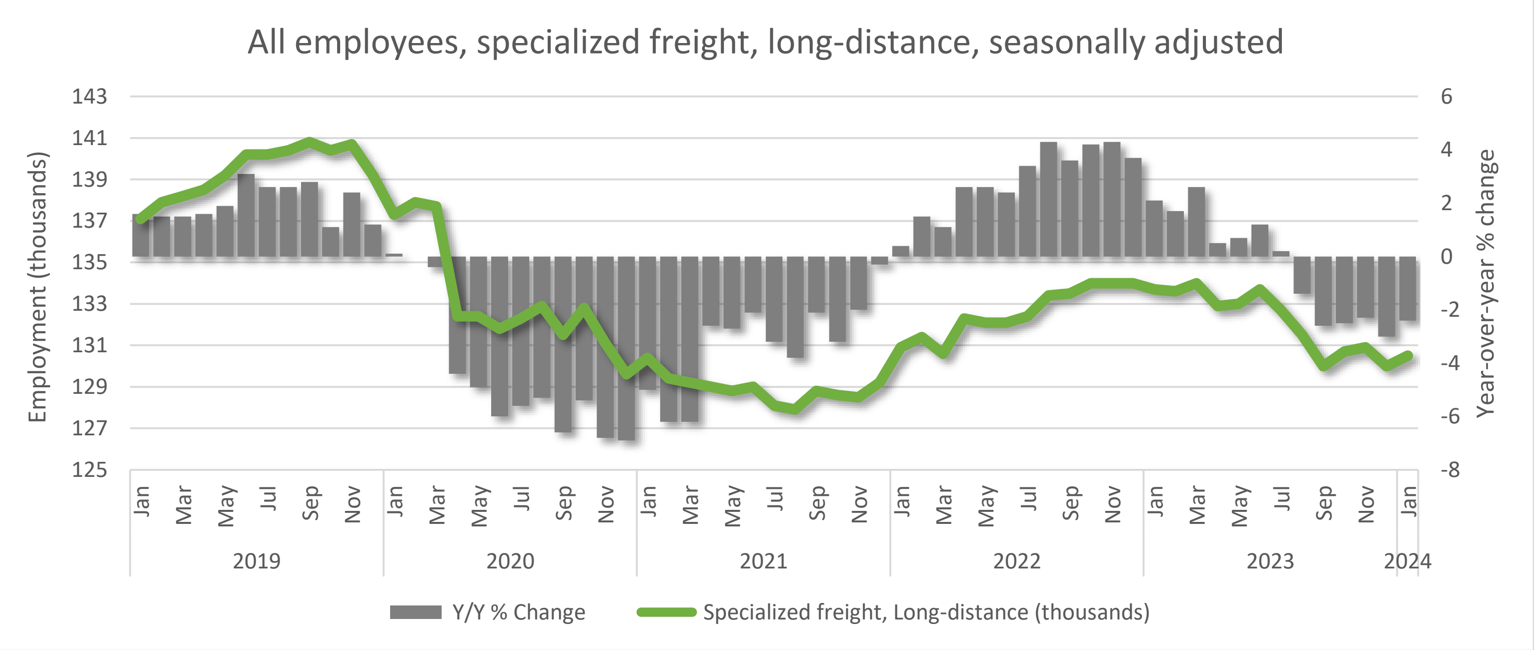
- Employment levels are also a good indicator for demand and rates, as demand drives supply. Thus, when demand increases, wages and rates also increase to attract more supply. The opposite is also true.

Our thoughts: Truck employment numbers overall (not pictured) decreased 0.02% in February to 1.55 million people following adjustments, ending three straight months of increases. However, this is the ninth consecutive month of year-over-year decreases.

- Employment for general freight trucking, long-distance, truckload, which best represents our members, decreased 0.3%, or 1,500 jobs, month-over-month in January.
- It is 1.3%, or 7,000 jobs, lower year-over year, 3.3% above the 5-year trend, and 4% higher than 2019 levels.
- Specialized freight trucking, long-distance, which represents flatbed, reefers, and other equipment types, increased 0.4%, or 500 jobs, month-over-month.
- This figure is 2.4%, or 3,200 jobs, lower year-over-year, and is 2.1% below the 5-year trend. This is the sixth 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.

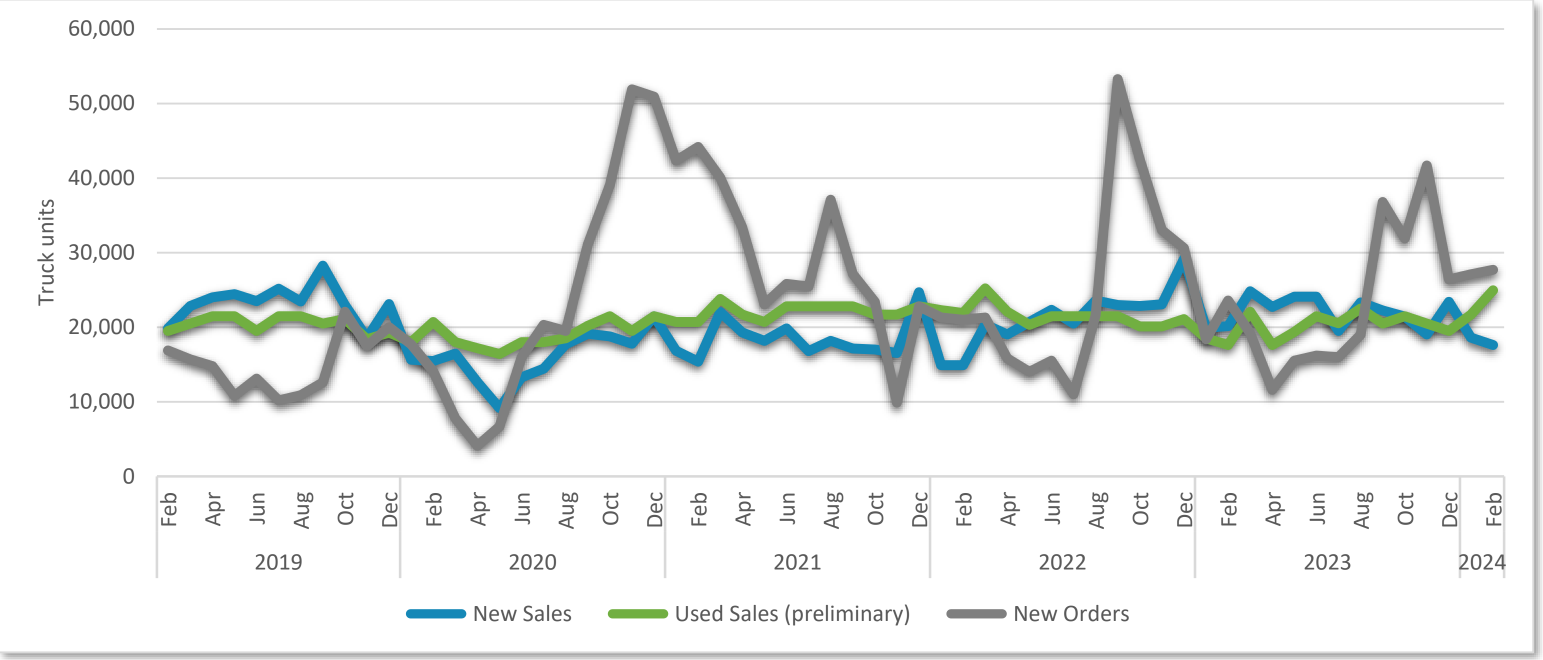
Why it matters: Class 8 orders and sales data will help an owner-operator to see both the demand for trucks and current truck capacity.

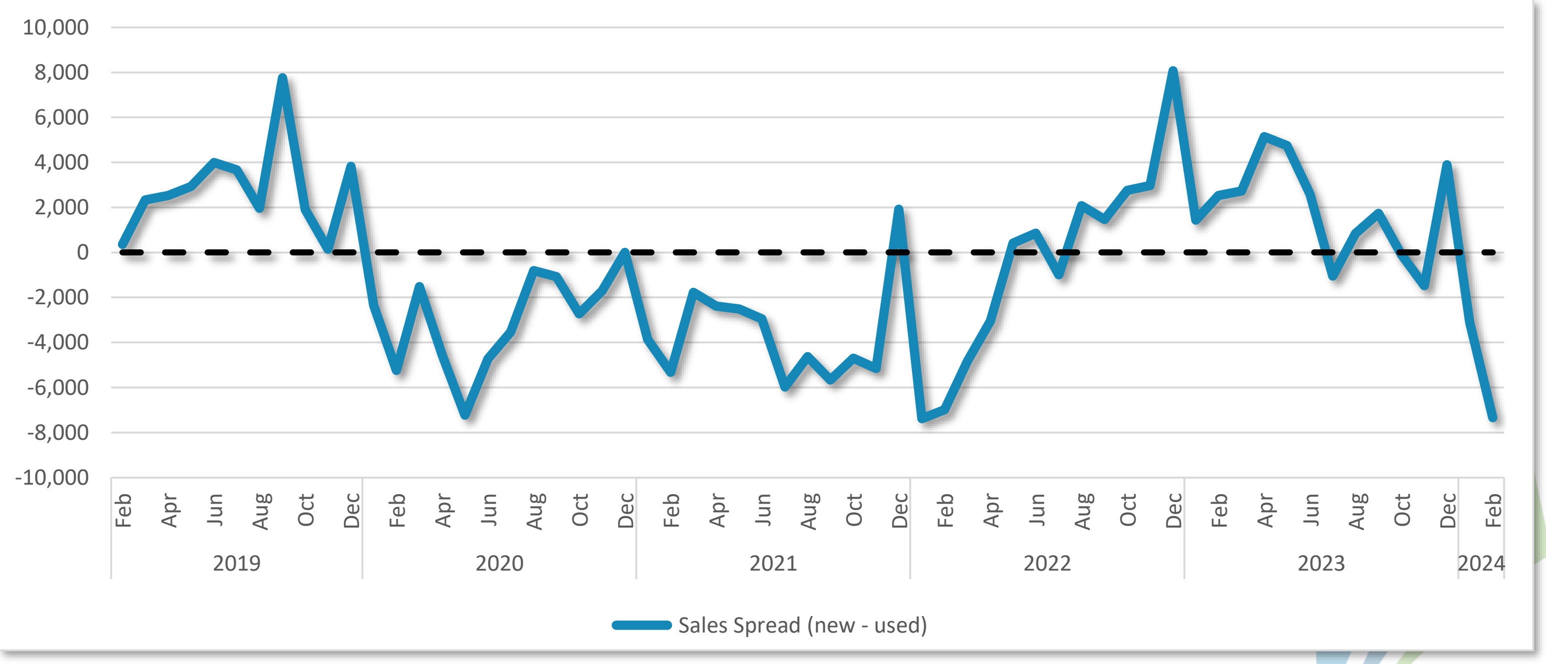
- Demand for trucks tends to spike when new orders increase following a steady increase in rates as depicted in the top figure (2017-2018 and 2020).
- Truck capacity tends to loosen when new sales eclipse used sales as shown in the bottom chart (2018-2019 and 2022-2023).

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 15%, or 3,255 units, in February to 24,955, and are up 41.8% compared to last year.
- Used sales eclipsed new sales for the second straight month. This time by 7,336 units. This is only the fifth time in 14-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.

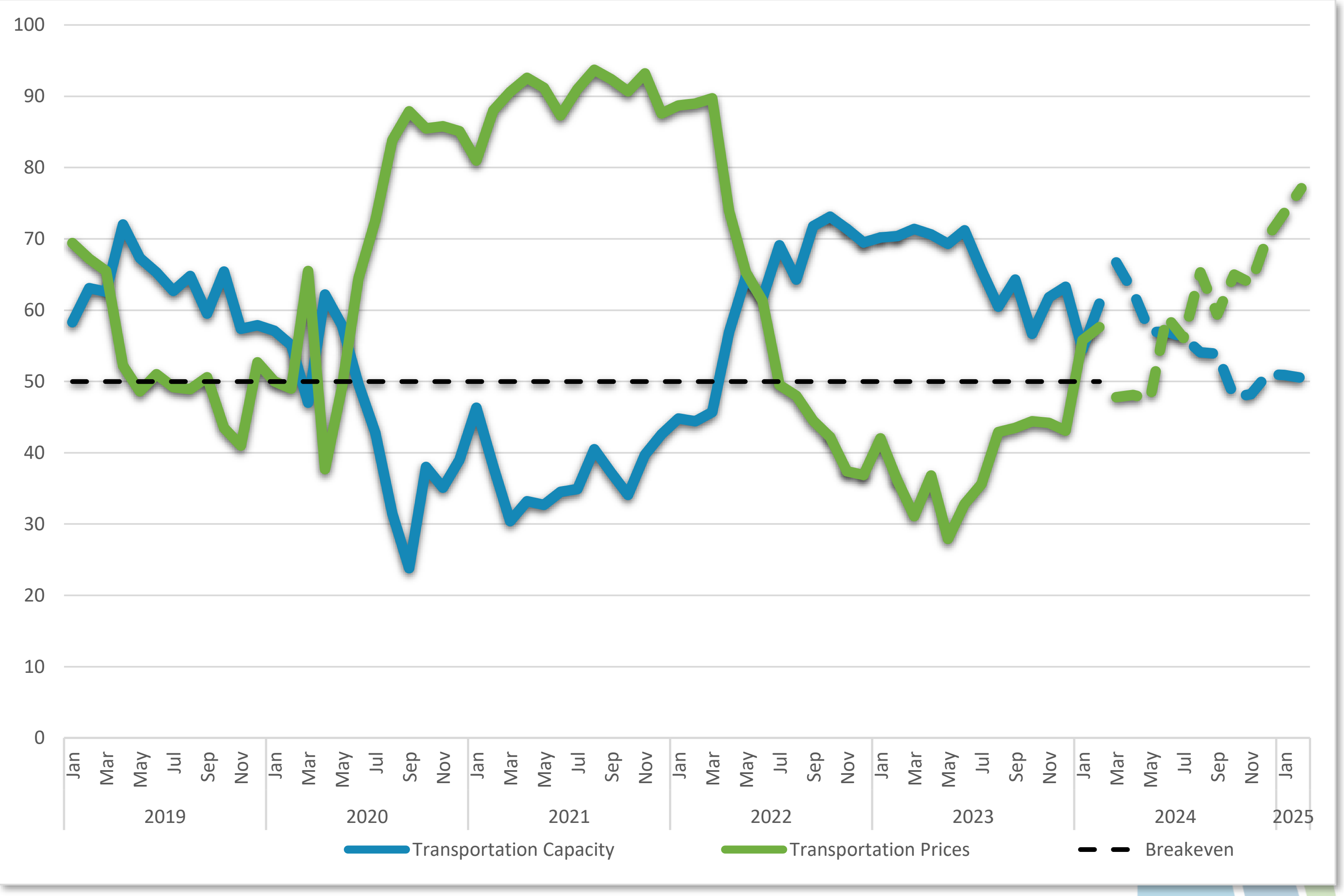
Why it matters: The LMI reflects the strength of the overall economy as it measures both upstream and downstream conditions.

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

Our thoughts: The LMI overall increased 0.9 points to 56.5. This is the second month where every metric in the LMI is reading in expansion territory, including transportation prices. In fact, transportation prices reached their fastest rate of growth since the start of the freight recession in June 2022.

- As we predicted last month, transportation prices and capacity inverted back in February, showing that we haven't yet entered a true growth period in the freight market.
- Prices increased 3.2% month-over month to 57.6, and are 59.6% higher year-over-year (Y/Y), when the index read 36.1.
- Transportation capacity increased 11.7% to 60.9, which is 13.5% lower Y/Y. Transportation capacity has only fallen under 60 twice since May 2022.

Aggregate logistics prices (ALP), which includes inventory costs, warehousing prices, and transportation prices, decreased 1.1% to 184.7 and are well below the readings we saw between 2020 and 2022, which were often over 250. ALP is 7.0% 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.

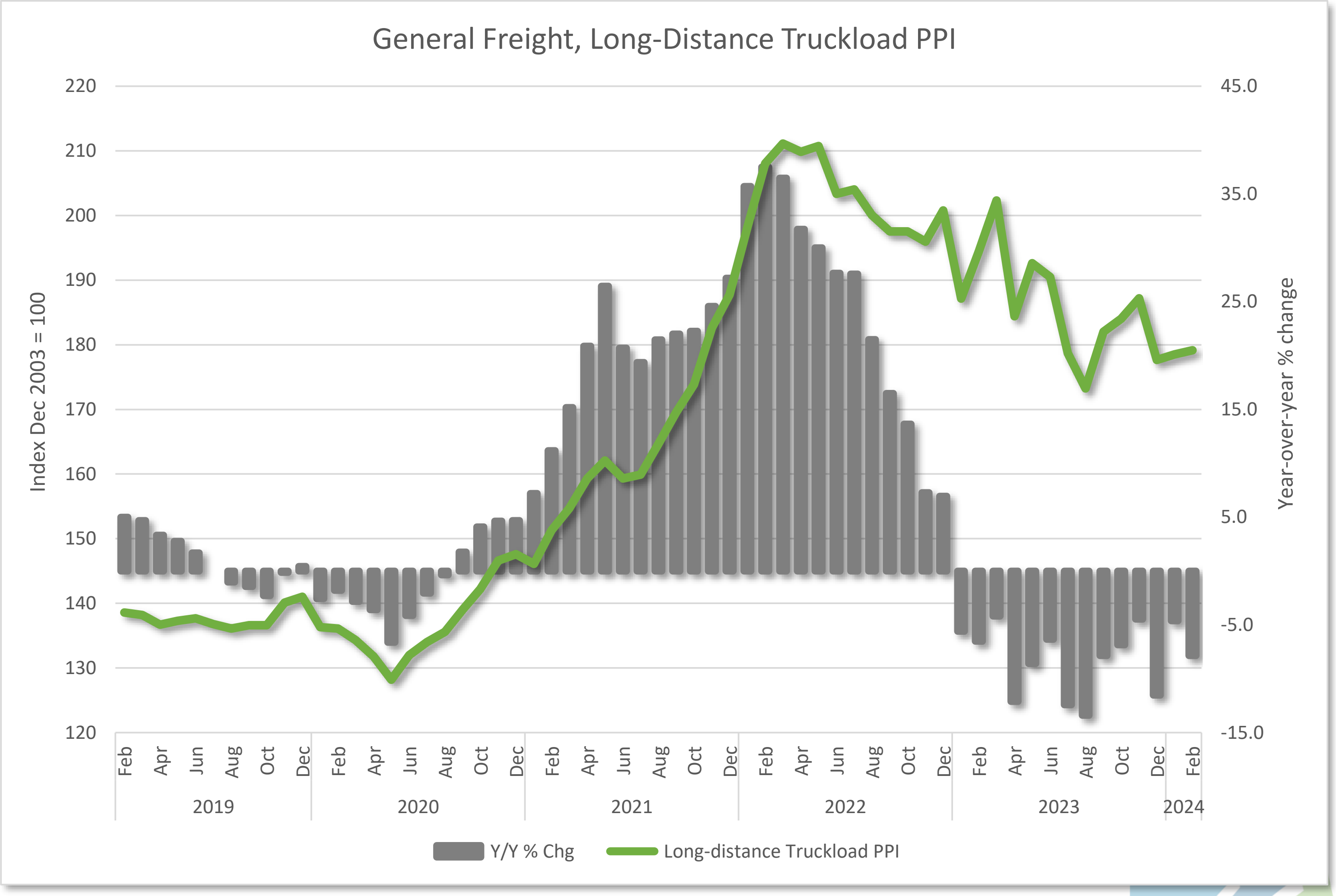
Why it matters: Changes in this particular index reflect the general direction that freight rates are heading (i.e., up or down) for the long-haul owner-operator.

Our thoughts: The index increased in February after ticking upward 0.5% in January following readjustments. The index has decreased 15% since its high in May 2022.

- The long-haul PPI rose 0.4% to 179.2, month-over-month, after the BLS re-adjusted the figure for January.
- The PPI is 7.9% lower year-over-year, but 7.6% above the 5-year trend.

While it appears that the PPI has climbed somewhat out of its' August 2023 trough, it has declined Y/Y for 14 straight months.

- Contrary to several articles out there, don't expect the new freight cycle to 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

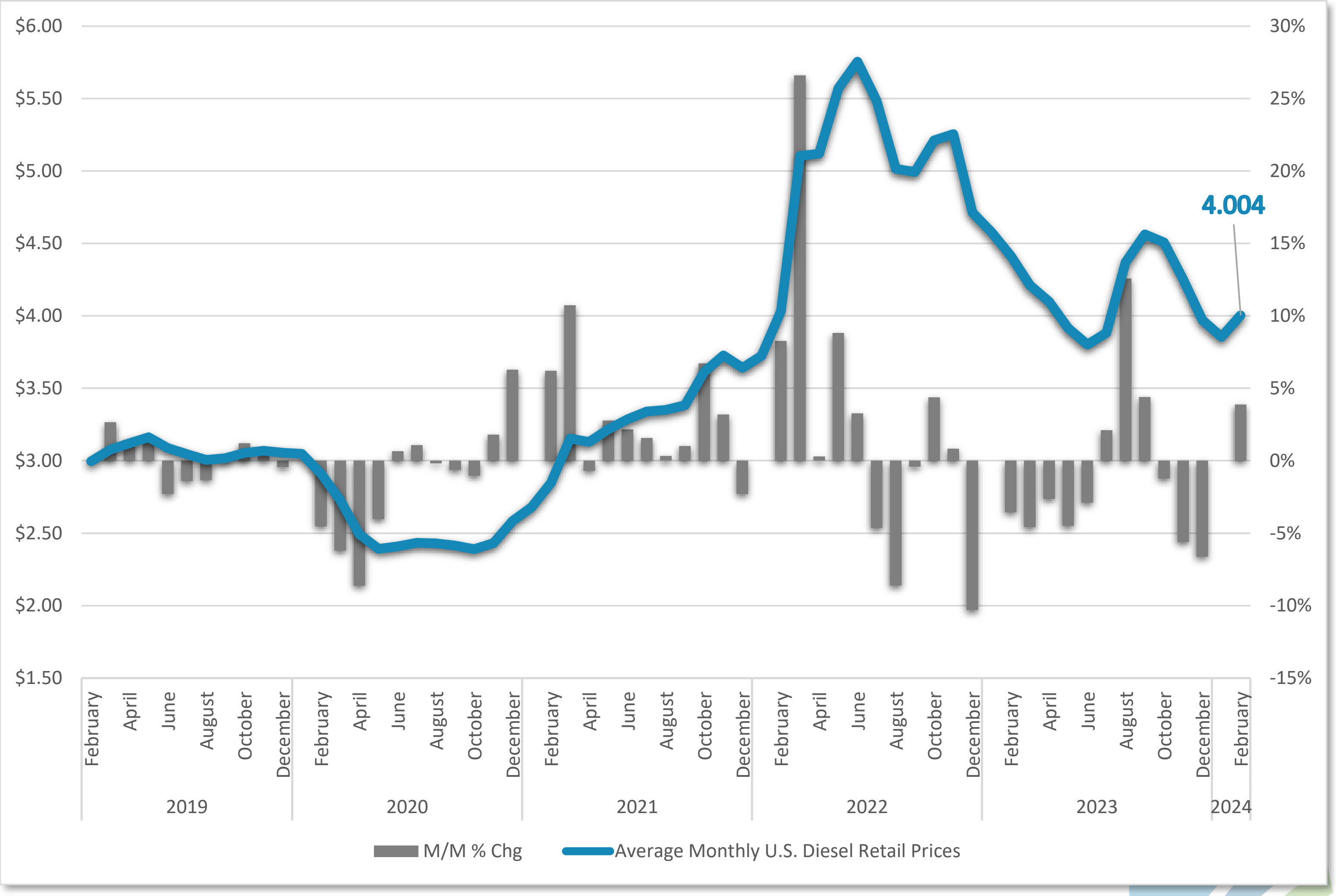
The big picture: The U.S. Energy Information Administration (EIA) tracks the weekly changes in on-highway diesel fuel prices throughout the country.

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 jumped $0.15 per gallon in February after falling $0.12 in January and $0.28 in December. Prices through February have declined $1.75 per gallon since the high of $5.75 in June 2022.

- The average price for diesel fuel increased 3.9% month-over-month to $4.00 per gallon, ending four consecutive months of decreases.
- The average diesel price is 9.3% lower year-over-year when the cost was $4.41 per gallon, but 10%, or $0.36 per gallon, higher than the 5-year trend.
- The average price has been down year-over-year for 12 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.

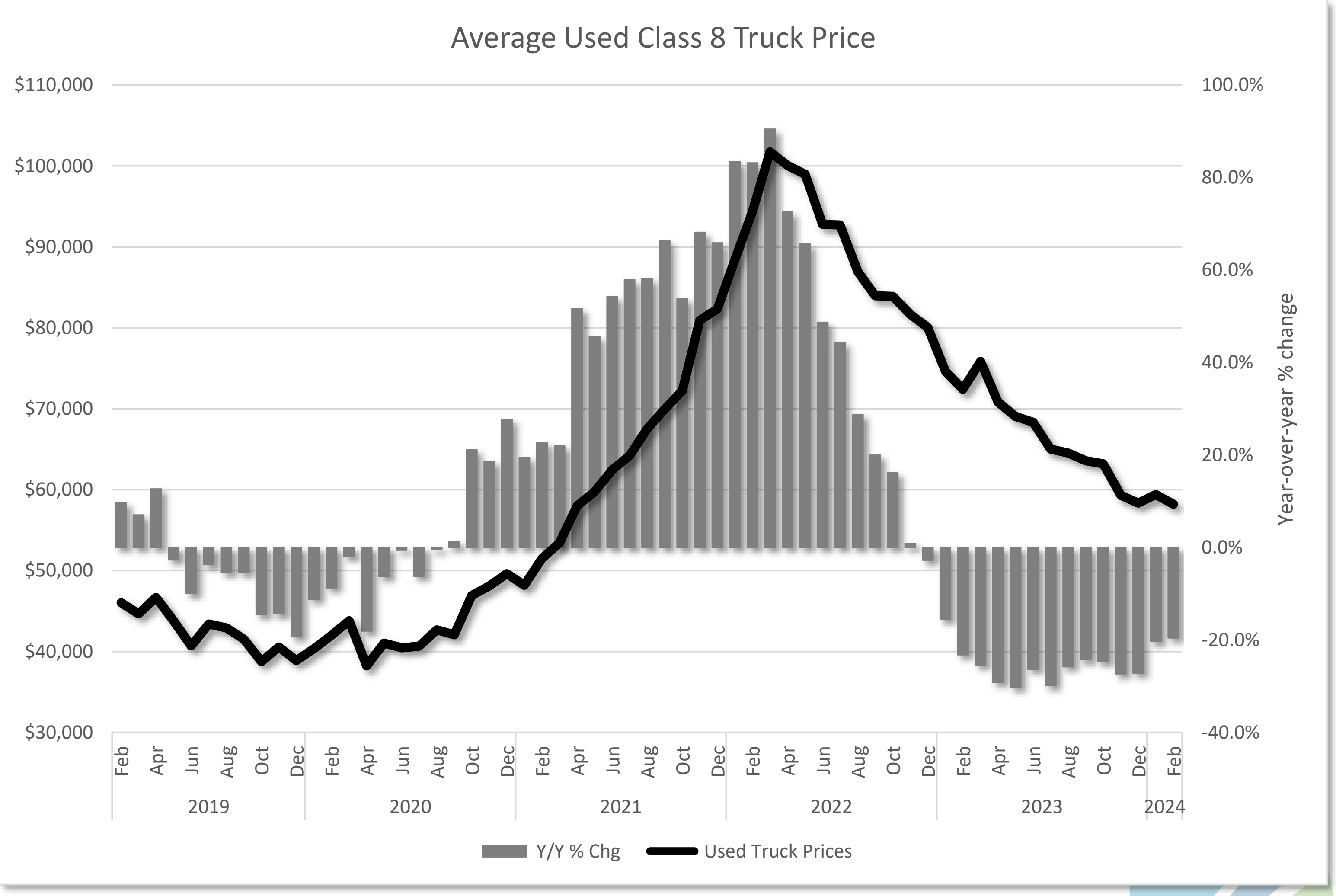
Why it matters: Used truck prices provide a good picture of the strength or weakness of the freight market. For example, monthly year-over-year decreases indicate that the market is in a downcycle due to weak demand.

- 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 February continued the downward trend slightly after increasing 1.8% in January following readjustments. Prices have fallen 42.8% since the high in March 2022, but remain significantly above than the 2019 average of $42,769.

- Used Class 8 truck prices decreased $1,188 to approximately $58,212.
- This is 19.6% lower year-over year, and 5.6% below than the 5-year trend.

Year-over-year comparisons have been negative for 15 consecutive months, which does not bode well for the overall freight market though it does help to lower costs.



Source: ACT Research | https://www.actresearch.net/ | Monthly | May's numbers are preliminary