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 affect the overall freight market and thus how they pertain to you as a small business owner.

Consumer and Labor:
Wages and Disposable Income

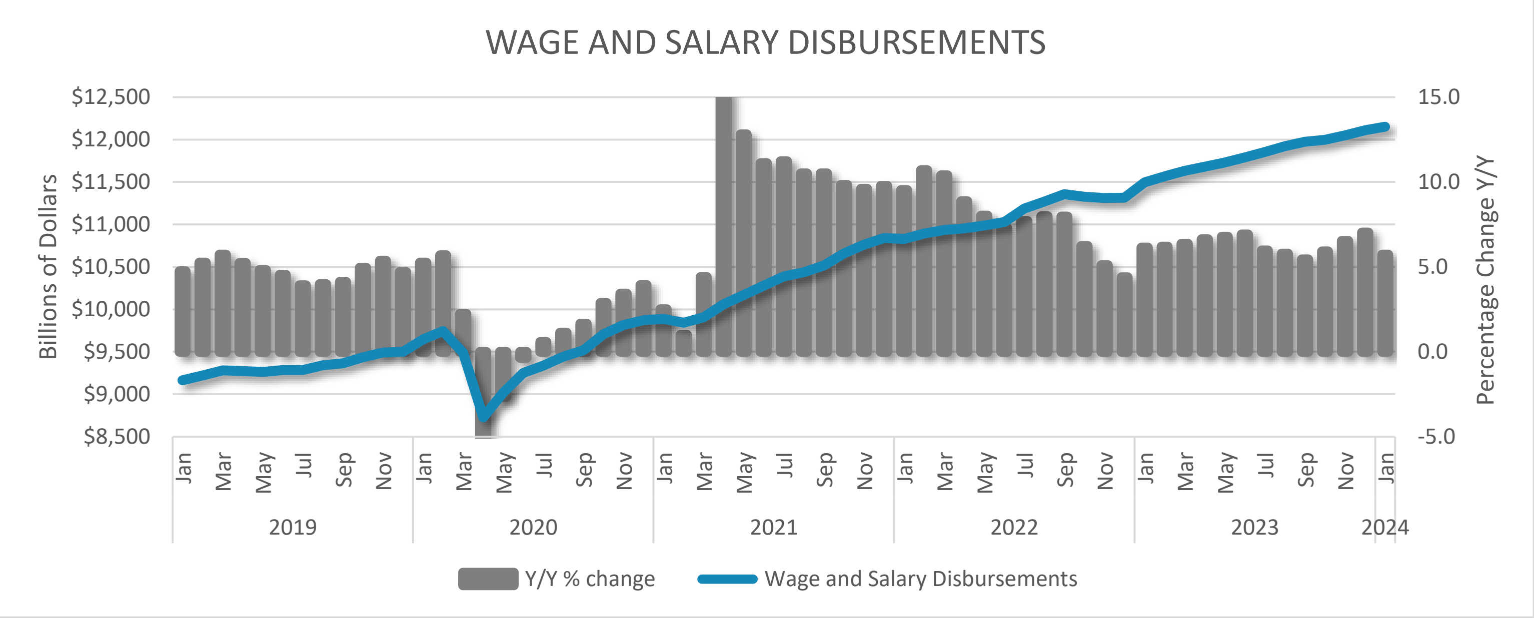
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so too does business and shipping activity.

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

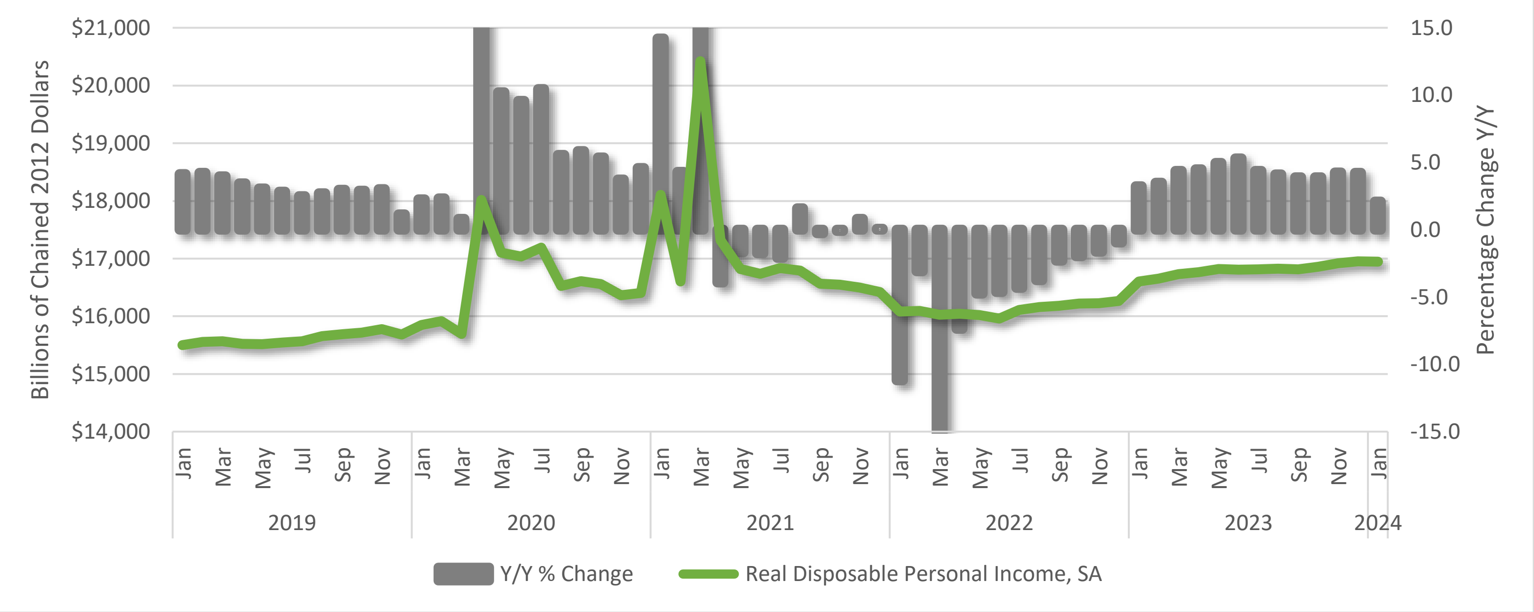
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

Our thoughts: Wages and salaries, as well as real disposable income, continue to grow year-over-year, albeit at a slower pace, as wages outpace inflation again in January.

- Wages and Salary disbursements grew 0.4%, or $43.4 billion, month-over-month in January.
- In terms of year-over-year growth, wages and salary disbursements are 5.72% higher due to difficult comparisons with the previous year.
- Real disposable income, which is adjusted for inflation, decreased 0.02% month-over-month to $16.95 trillion, ending three consecutive months of growth, and is 2.1%, or $348 billion higher year-over-year. It's slightly higher than the 2019 trendline.



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.

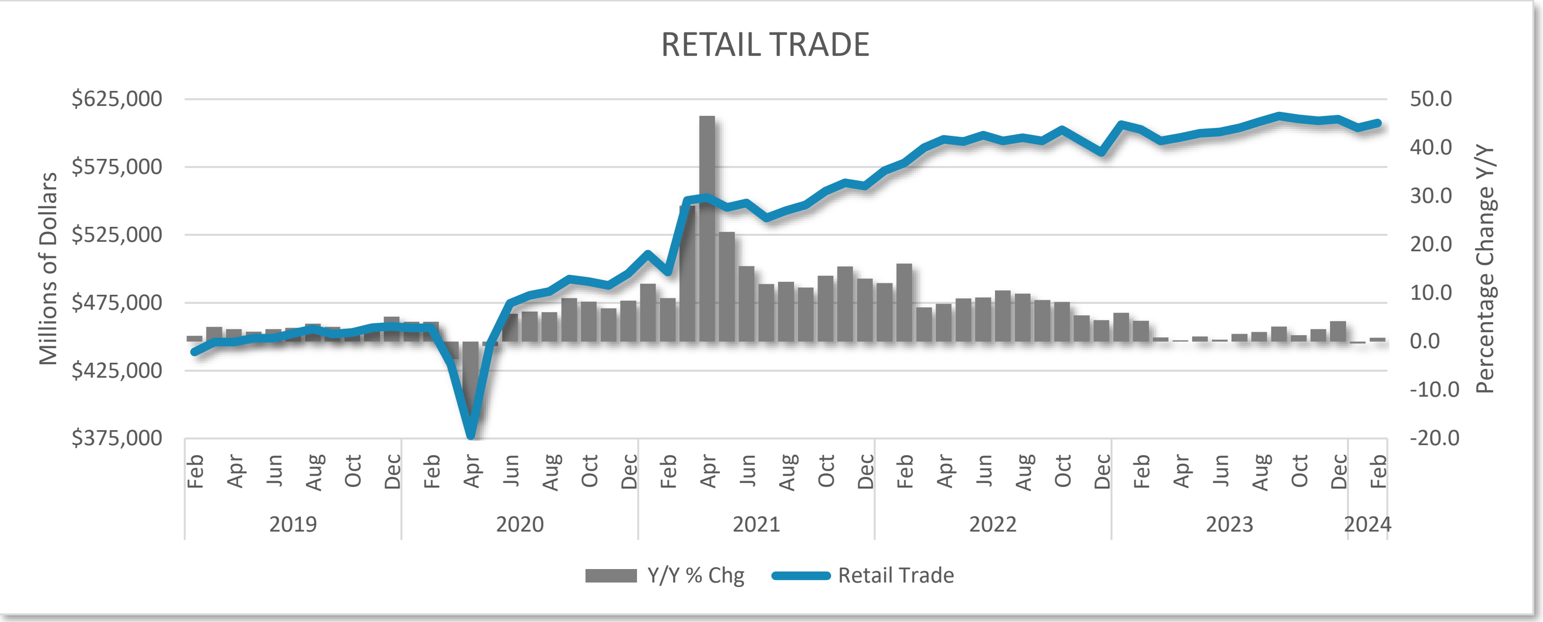
Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- 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.

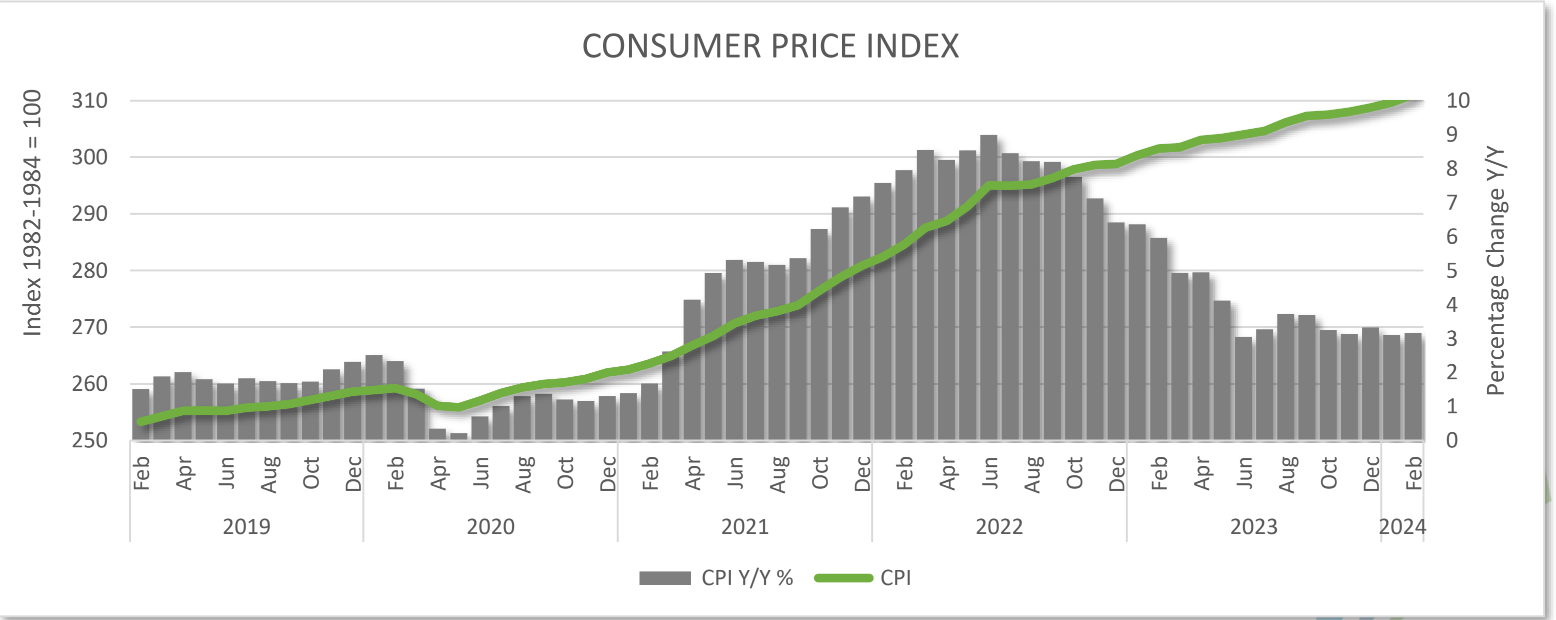
Our thoughts: Retail trade rose month-over-month in February after declining 0.5% in the previous month following adjustments to January's data.

- Retail trade increased 0.6%, or $3.6 billion, month-over-month to $607.43 billion, and is 0.8%, or 4.8 billion, higher Y/Y. This reversed last month's trend, which was represented the first Y/Y decline since May 2020.
- CPI increased by 1.4 to 311.1, which is 3.2% higher than it was a year ago. CPI continues to come in hot and is well below the FED's 2% target range. The FED still promises to cut rates this year, but this could delay such cuts.

Core CPI, which excludes food and energy, declined 2.9% month-over-month to 3.8%. The shelter and service components of CPI remain stubbornly high however, which is helping to prop up the inflation numbers.



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.

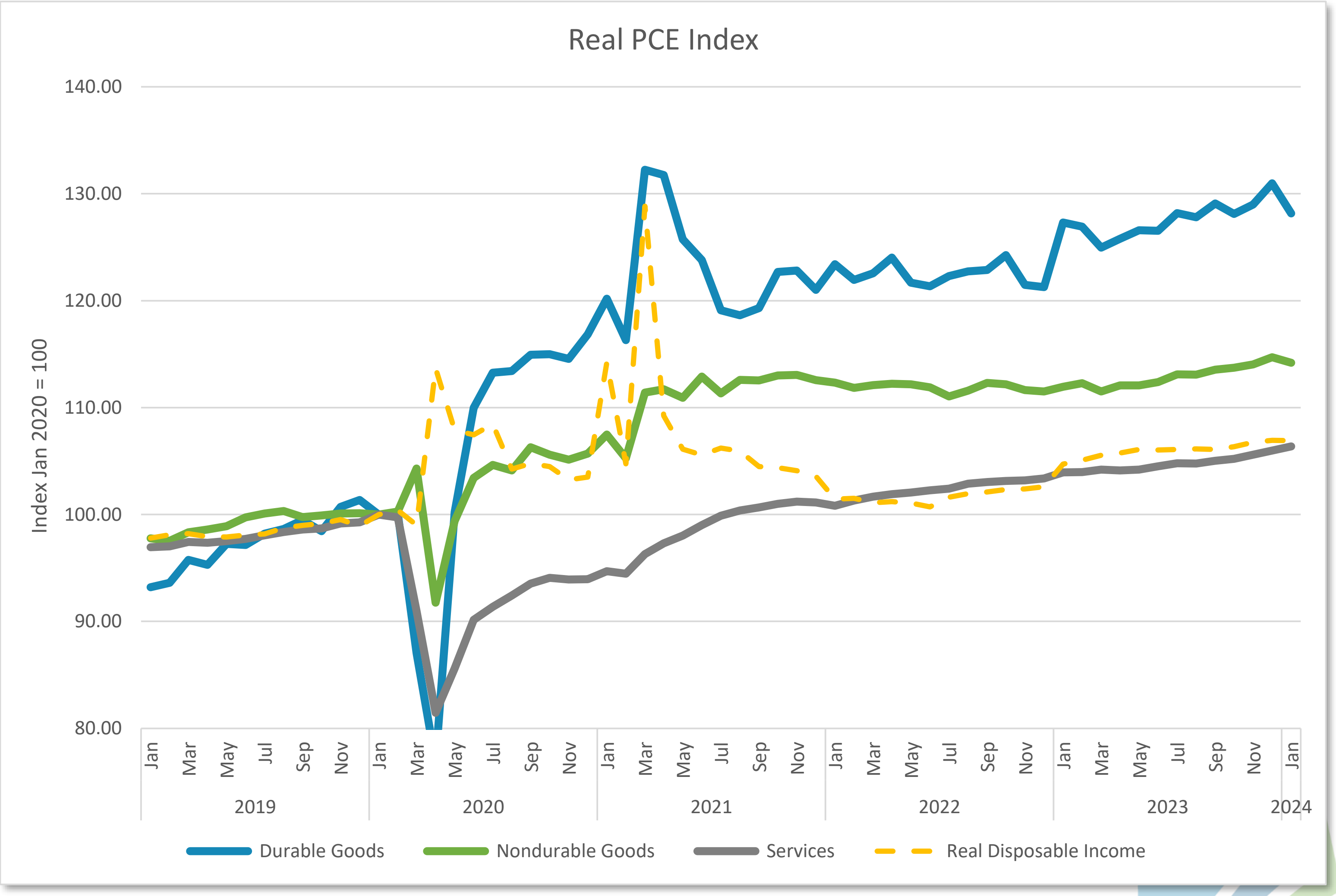
- The PCE measures a broad spectrum of consumer spending for a period of time.

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: Both durable goods and non-durable goods declined in January, ending two consecutive months of increases for each spectrum even after adjustments.

- Consumer spending for durable goods decreased 2.1% to $2.05 trillion, and is 0.7%, or $13.6 billion, higher year-over-year and 11.1%, or $205.5 billion, above the 5-year trend.
- Spending for non-durable goods declined 0.5% to $3.395 trillion, which is 2.0% higher Y/Y and 6%, or $193.5 billion, above the 5-year trend.
- Spending on services rose 0.4% to $10.223 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.

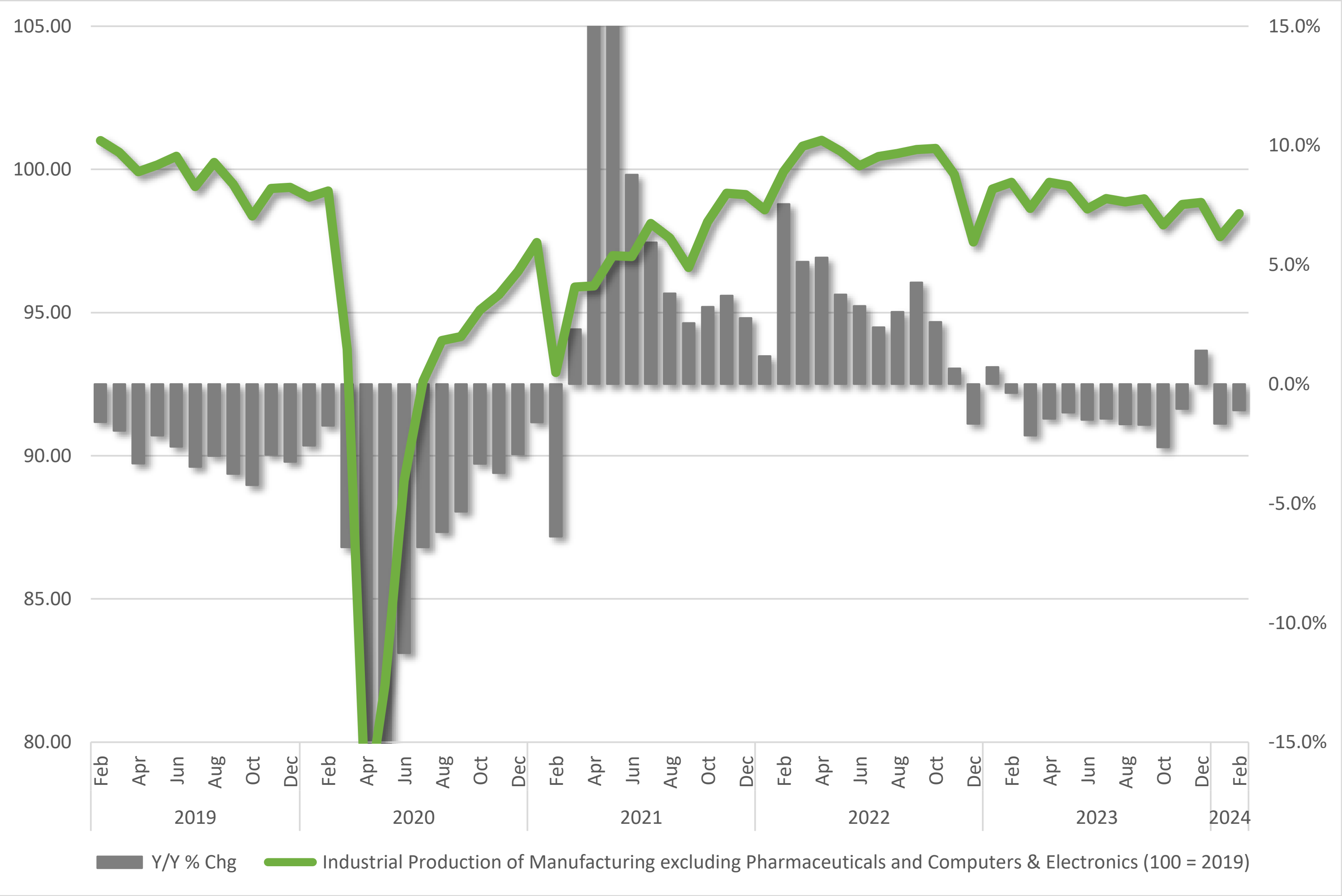
This is especially true when removing pharmaceuticals (NAICS 3254) and computer and electronic products (NAICS 334), as these sectors have an outsized influence on the overall manufacturing index considering how little freight they generate.

- 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 increased month-over-month in February but fell year-over-year.

- Manufacturing activity increased 0.8% to 98.45 after decreasing 1.2% last month following adjustments, and is down 1.1% year-over-year (Y/Y).
- Activity was down again for the 12th time in 14 months, and is 1.5% below 2019 levels.

According to Professor Jason Miller, two consecutive quarters of declining seasonally adjusted manufacturing activity represents a manufacturing recession. The current recession has been ongoing for five straight quarters.



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.

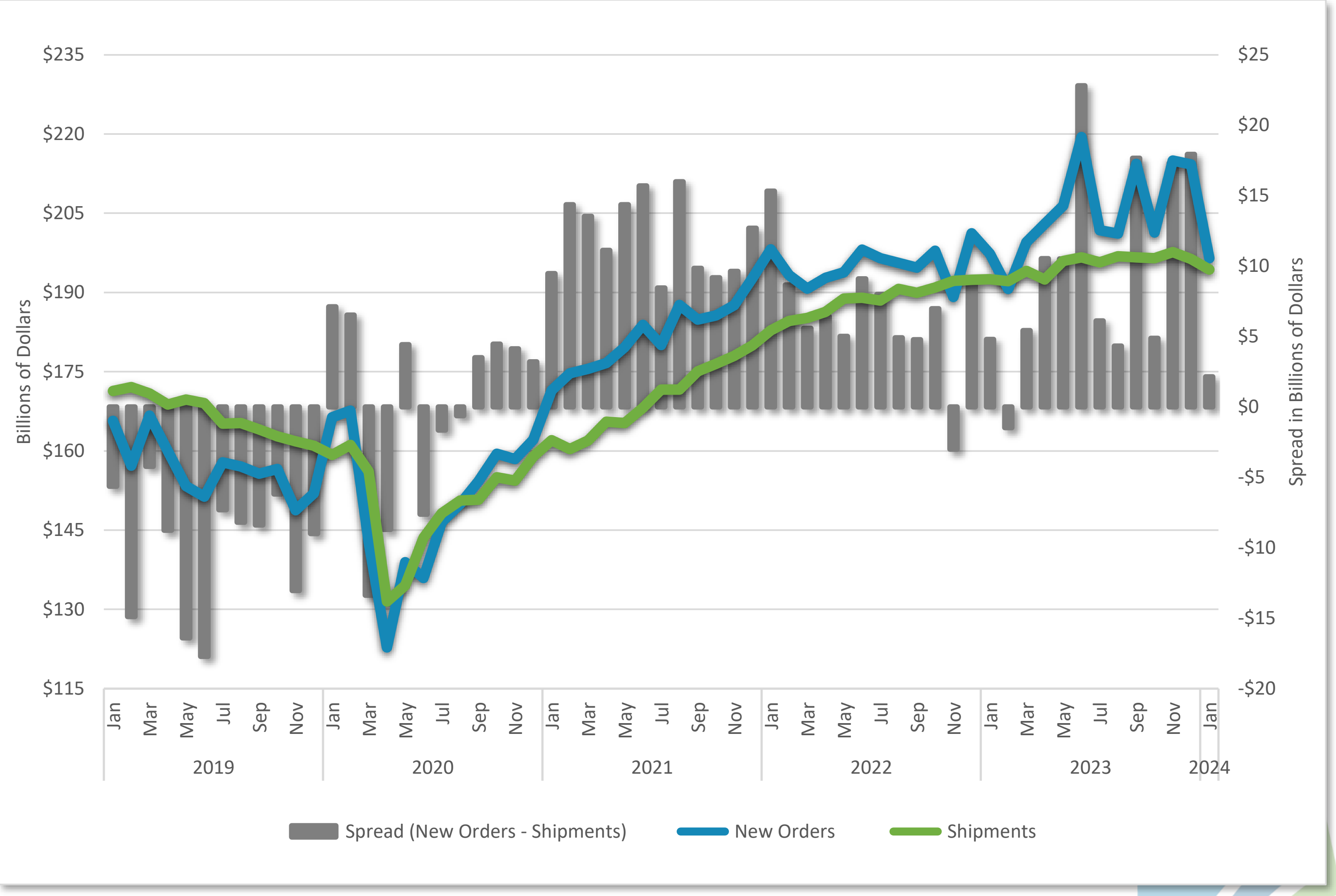
Why it matters: When unfilled new orders outperform shipments for unfilled orders, backlogs increase and we see growth in manufacturing activity. The reverse is also true.

- 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 eleventh straight month in January, but at a much slower pace. While new orders for make-to-order products typically decline during manufacturing recessions, this has yet to happen.

- New orders declined 8.3% month-over-month to $196.49 billion in January, and are 0.4%, or $825 million, lower year-over-year.
- This is the first Y/Y decline in 11-months.
- Shipments decreased 1.01% to $194.3 billion.

The spread between new orders and shipments dropped from $17.9 billion to $2.1 billion, representing an 88% decline, which is a bad 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.

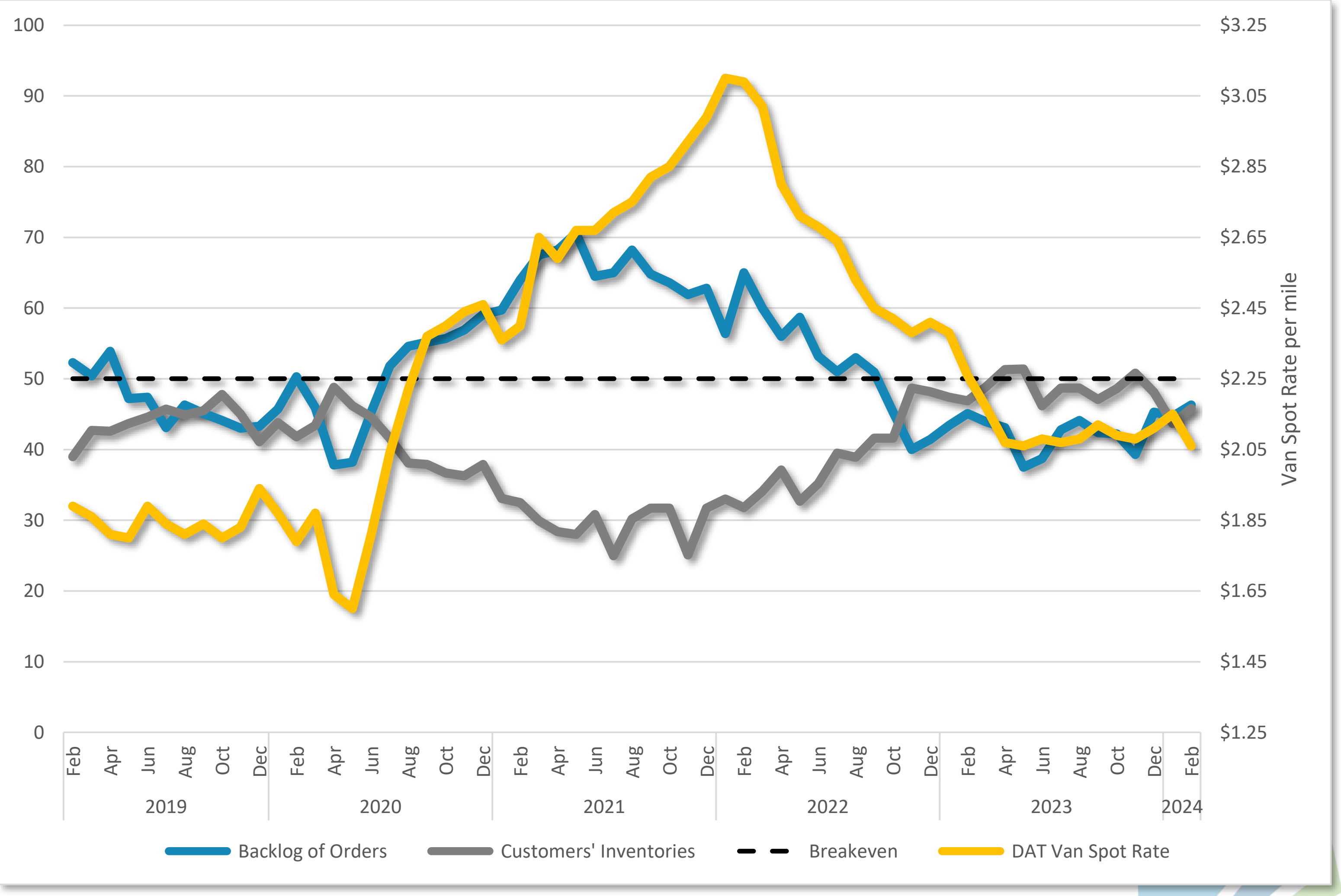
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart.

- 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 and at a faster rate in February as compared to January, posting a reading of 47.8%. The New Orders Index moved back into contraction territory at 49.2%, which is negative news.

- Backlogs increased 3.6% month-over-month to 46.3, after declining 1.3% last month. Backlogs have been in contraction territory for seventeen straight months, and are up 1.2 percentage points year-over-year.
- Customers' inventories increased 4.8% to 45.8. They are 2.3% lower year-over-year.
- Inventories are lower than backlogs for the second straight month. Last month marked the first time since October 2022.

The bottom line: Demand moderated, output/consumption dropped, and inputs continued to accommodate future demand growth but showed signs of stiffening.



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 wholesaler's ratio consists of firms that sell bulldozers, farm equipment, industrial machines, supplies for those machines, and transportation equipment excluding motor vehicles.

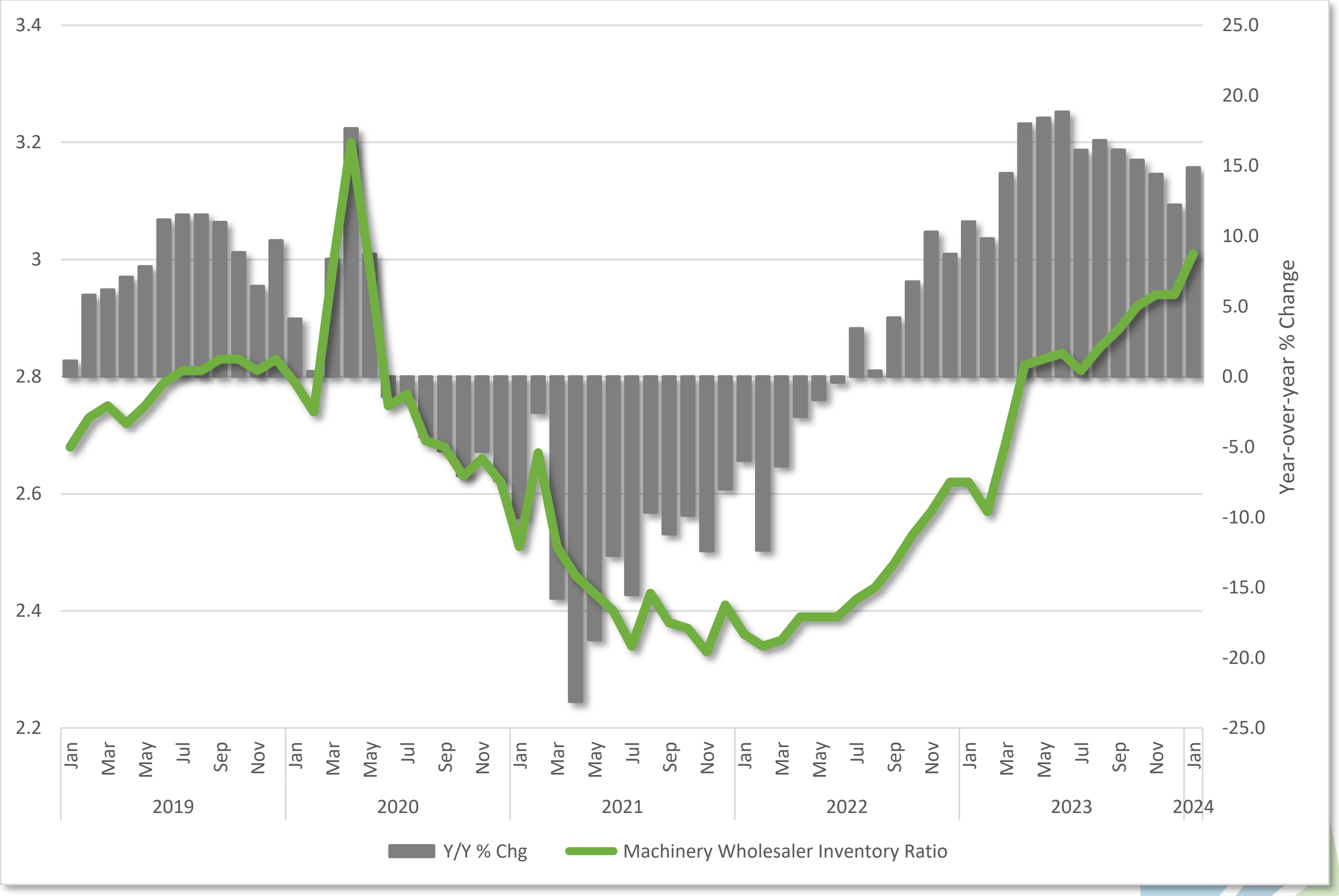
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

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

Our thoughts: Inventory levels rose in this sector in January. Hopefully inventories will peak soon and turn the other direction. Inventories are 8.3% above 2019 levels.

- The inventories-to-sales ratio increased 2.4% to 3.01.
- The ratio is 14.9% higher year-over-year. The ratio has been higher Y/Y for 19 straight months though it's starting to drop some.

One respondent to ISM's survey in this sector wrote, "Demand has finally picked up, with customer orders more closely resembling typical January and February levels. January was up 22 percent compared to December; February up 26 percent compared to January."



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: Despite what some might think, imports continue to perform well. In fact, imports are currently 12.9% or 1.9 billion kilograms (kgs), above 2019 levels.

- Imports increased 7.4%, or 1.14 billion kilograms, month-over-month in January to 16.63 billion kgs, but are 1.1% lower year-over-year.
- Last month was the only Y/Y increase in 15-months
- Exports dropped up 5.7%, or 540.58 million kgs, month-over-month in January, but are 2.3% higher than last year, marking three 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.

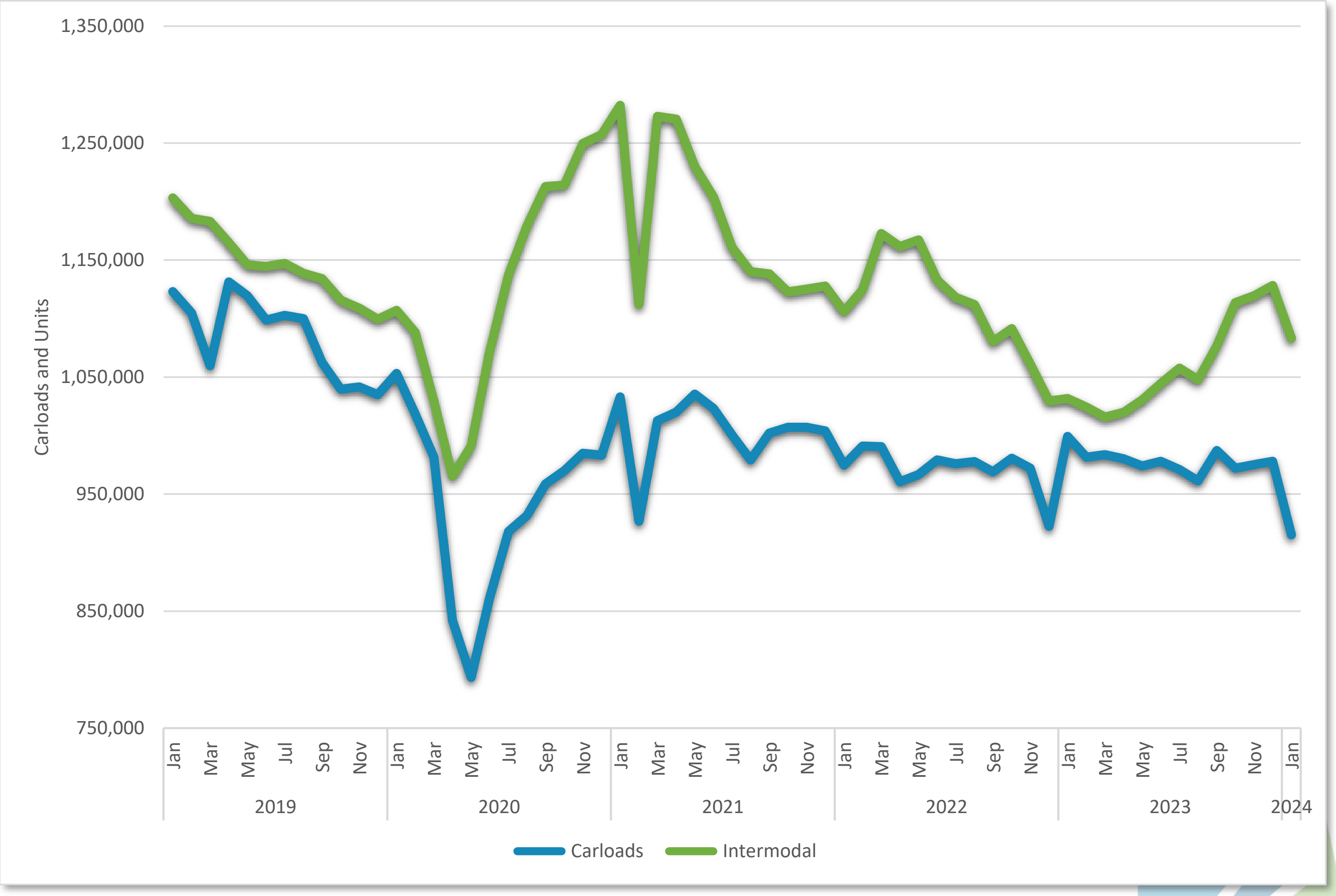
- While the rail and truck industries often compete with each other, they also work hand in hand.

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 continued their downward slide overall in January, while intermodal took a step backward following several months of increases as more freight moves back to the west coast and import volumes continue to perform well. Intermodal is still posed to have a good year in 2024.

- Carloads decreased 6.4% month-over-month in January to 915,172, and are down 0.8%, or 7,336 carloads.
- Intermodal decreased 4.0% to 1.083 million, but is up 5.2%, or 53,527 loads, year-over-year.
- Carloads are 15.6% below 2019 levels, while intermodal is 5.6% lower than 2019.



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