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RESEARCH
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4th Quarter 2023

MARKET UPDATE

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Owner-Operator Outlook

Owner-Operator Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, we tend to breakdown the industry into three main operational types: Owner-Operators, Leased-on Owner-Operators, and Company Drivers.

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 Owner-Operator outlook, we will look at:

1. **Volumes,** which will give us a picture of demand, or in other words, the number of trucks the market needs to move freight.
2. **Revenues and Broker Costs,** which illustrate how much the average Owner-Operator can expect to earn.

We will examine three key economic indicators that directly impact the Owner-Operator segment of the market:

1. C.H. Robinson's Volume per quarter
2. C.H. Robinson's Truckload Revenue per quarter
3. C.H. Robinson's Truckload Price and Cost per quarter

Volumes: C.H. Robinson's Volumes per Quarter

The big picture: C.H. Robinson is one of the world's largest logistics platforms, with $30 billion in freight under management and 2022 total revenues of $24.7 billion.

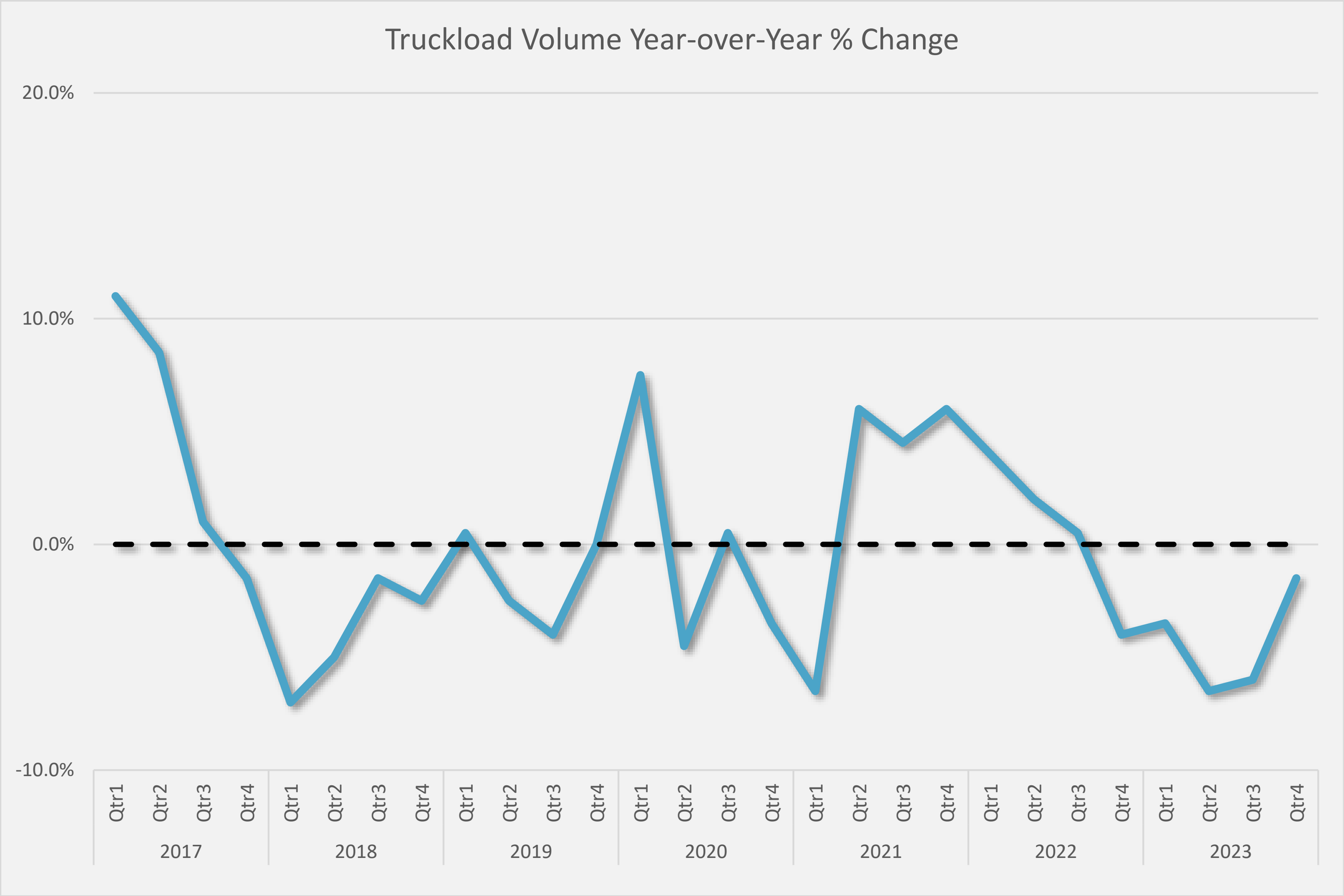
Why it matters: C.H. Robinson is the largest freight brokerage in the U.S., meaning they have a lot of visibility into the industry.

- This especially includes truckload volumes, which helps to provide insight into levels of demand.
- Notice how the owner-operator market tends to perform well when quarterly percentage changes are above zero.

Our thoughts: Truckload volumes have increased for two straight quarters, but still remain in negative territory thereby putting downward pressure on rates. Volumes have been in negative territory for the past five quarters and are down 750 basis points since Q4 2021.

- Truckload volumes increased 4.5%, or 450 basis points, quarter-over-quarter to -1.5%.
- Volumes are down 550 basis points from last year.

The decrease in volumes has also impacted the routing guide depth, which now sits at 1.16, down nearly 64% from its peak in Q4 2020.



Source: C.H. Robinson | https://investor.chrobinson.com/Financials/Quarterly-Results/default.aspx | Quarterly

Revenues: C.H. Robinson’s Truckload Revenue

The big picture: C.H. Robinson is one of the world's largest logistics platforms, with $30 billion in freight under management and 2022 total revenues of $24.7 billion.

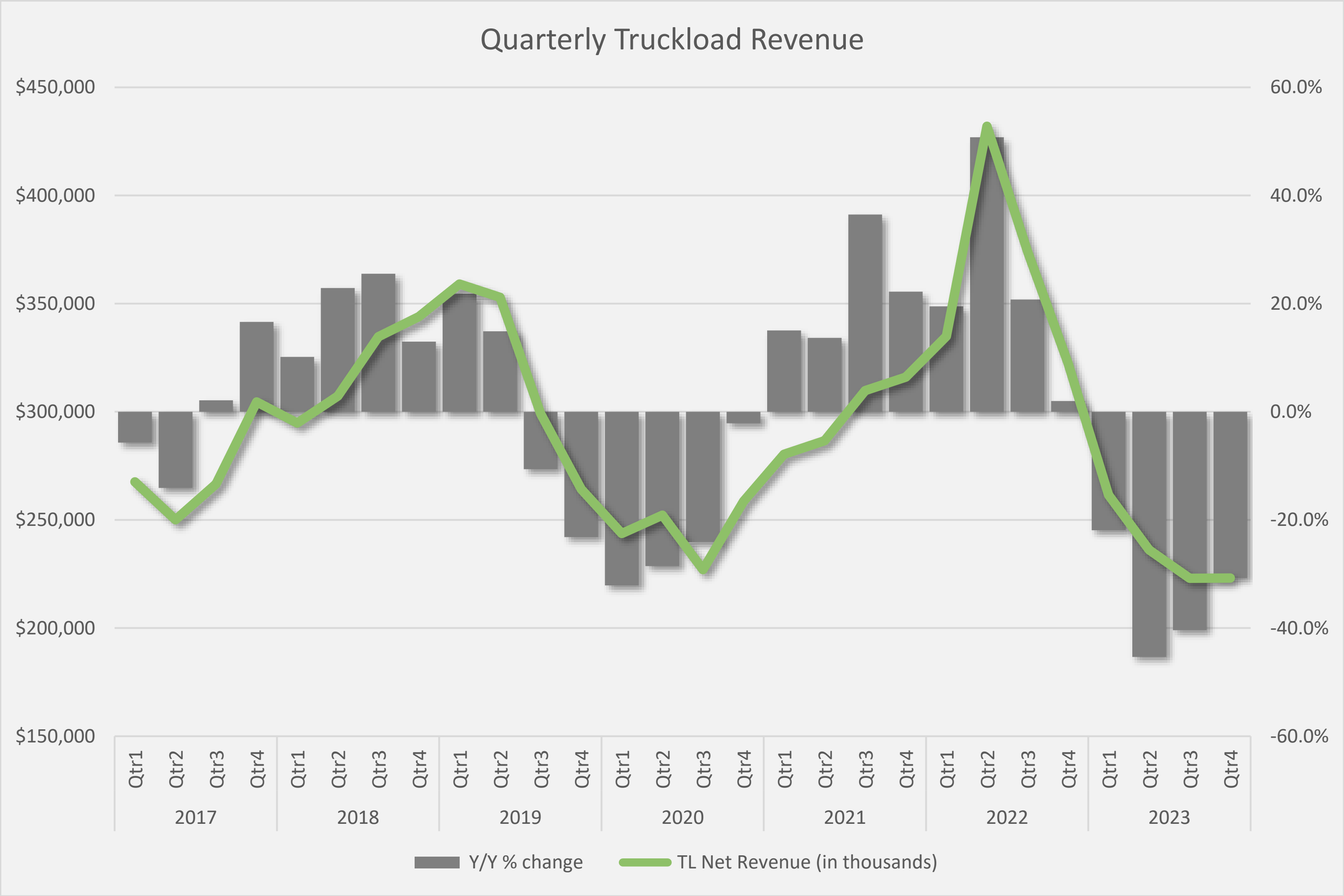
Why it matters: C.H. Robinson is the largest freight brokerage in the U.S., meaning they have a lot of visibility into the industry.

- C.H. Robinson’s truckload revenue closely tracks the conditions in the trucking sector historically.
- Owner-operators tend to see higher rates on average as C.H. Robinson’s truckload revenue increases, such as in 2018 and 2021.

Our thoughts: Net truckload revenue has increased over the past two quarters but is still down 48.4% from it’s high in Q2 2022. The chart demonstrates that the trucking industry entered a downturn starting in Q3 of 2022 and suggests that we still have a long way to go before the next cycle begins.

- Truckload revenue remained relatively flat quarter-over-quarter at $223.1 million.
- Revenues are down 33.4%, or $111.8 million, compared to last year, and 24.1% over the 5-year trend.

Fourth quarter results didn’t meet C.H. Robinson’s expectations as they continue to battle through weak freight demand and over carrier capacity.



Source: C.H. Robinson | https://investor.chrobinson.com/Financials/Quarterly-Results/default.aspx | Quarterly

Broker Costs: Truckload Price and Cost Change

The big picture: C.H. Robinson is one of the world's largest logistics platforms, with $30 billion in freight under management and 2022 total revenues of $24.7 billion.

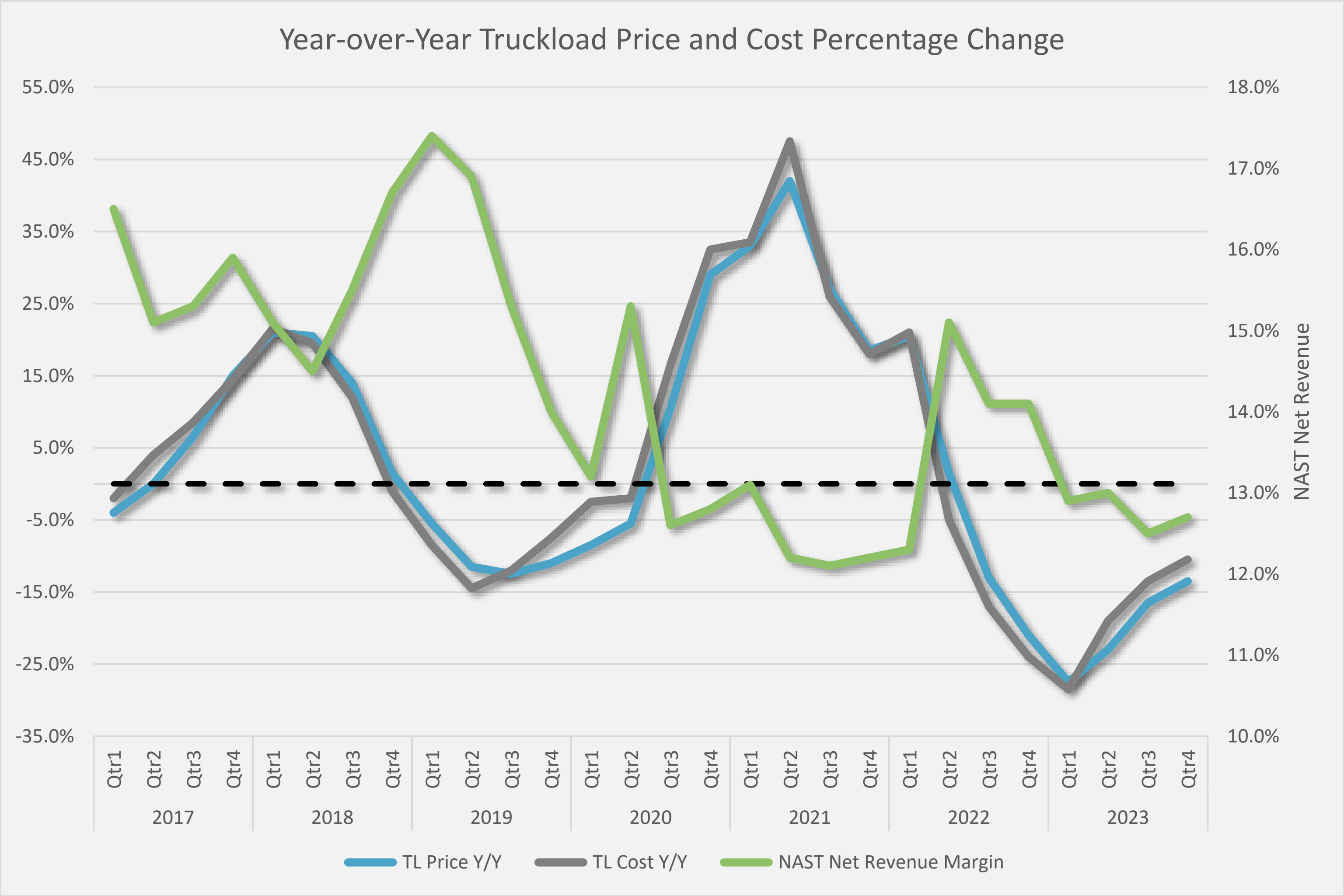
Why it matters: C.H. Robinson typical generates greater margins during down-cycles as they tend to be more selective with their pricing, whereas the opposite is also true.

- The TL Price is what C.H. Robinson charges shippers, while TL Cost is what they pay to the carrier.
- There is a strong correlation between the two, with carrier cost most often leading shipper price.

Our thoughts: The Owner-Operator outlook tends to mirror the shift in C.H. Robinson's North American Surface Transportation (NAST) net revenue margin. In other words, spot rates tend to improve when C.H. Robinson's margins decline and vice versa.

- TL Price increased 300 basis points (BPS) quarter-over-quarter to -13.5%, and is down 3,400 BPS since last year.
- TL Cost increased 300 BPS quarter-over-quarter to -10.5%, and is down 3,150 BPS year-over-year.

Both TL Price and TL Cost have been in negative territory since Q2 of 2022. C.H. Robinson's net revenue margin paused its decent in Q4 2023, perhaps indicating that the start of the next upcycle is still a ways off.



Source: C.H. Robinson | https://investor.chrobinson.com/Financials/Quarterly-Results/default.aspx | Quarterly

Leased-on Owner-Operator Outlook

Leased-on Owner-Operator Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, we tend to breakdown the industry into three main operational types: Owner-Operators, Leased-on Owner-Operators, and Company Drivers.

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 Leased-On Owner-Operator outlook, we will look at:

1. **Volume and Capacity,** which will give us a picture of demand, or the number of trucks the market needs to move freight.
2. **Revenues,** which illustrate how much the average Leased-on Owner-Operator can expect to earn.

We will examine three key economic indicators that directly impact the Leased-on Owner-Operator segment of the market:

1. Landstar's BCO Loads per quarter
2. Landstar's BCO Provider and Truck Counts per quarter
3. Landstar's BCO Revenue per Load per quarter

Volumes: Landstar's Loads per Quarter

The big picture: Landstar is a transportation services company specializing in logistics and more specifically third-party logistics.

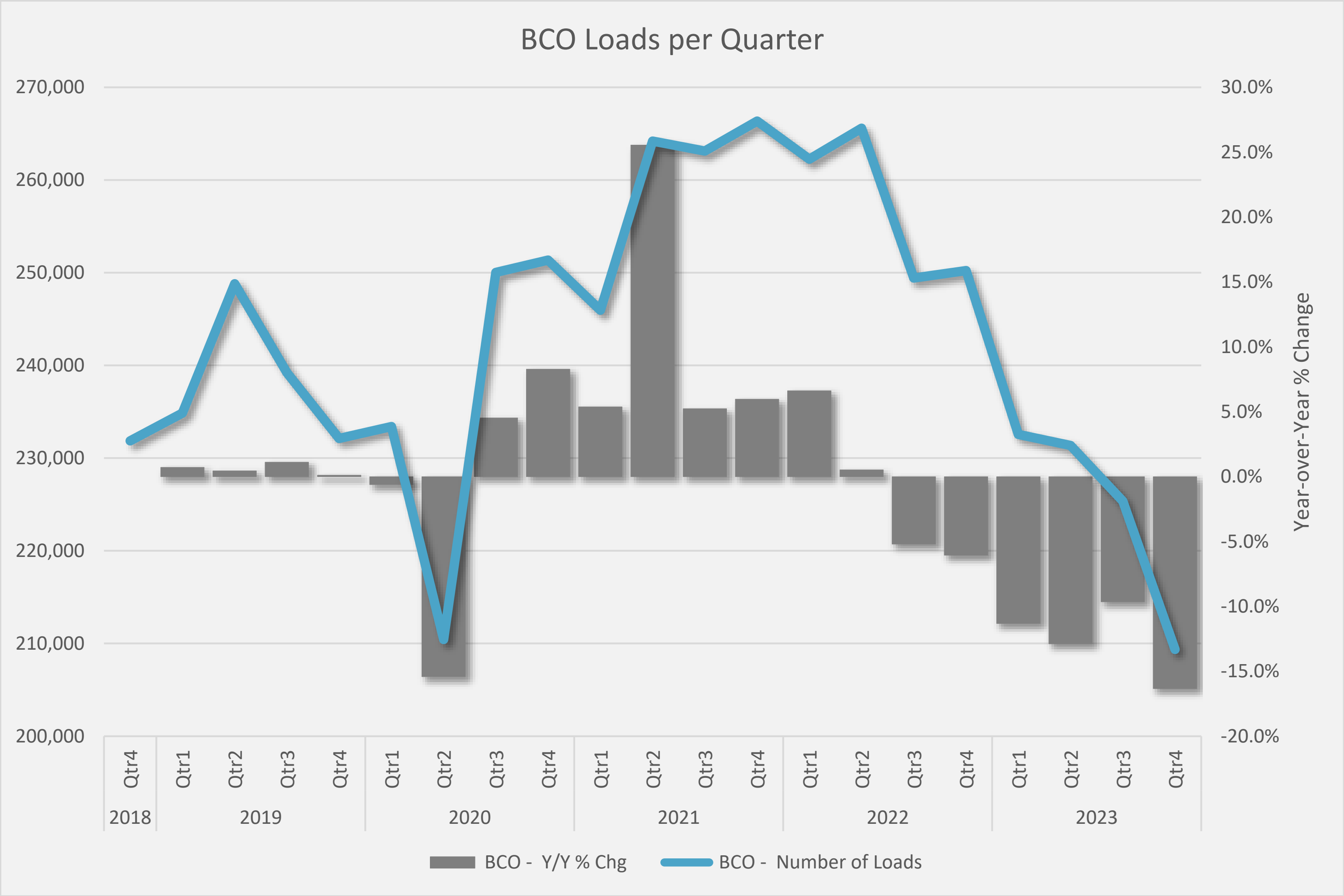
Why it matters: Landstar utilizes an extensive network of more than 10,000 leased-on owner-operators, referred to internally as BCO's.

- Loads per quarter for Landstar's BCO's serves as a good proxy for volumes, and thereby demand, for the leased-on owner-operator.

Our thoughts: According to Landstar President and CEO Jim Gattoni, the number of loads hauled via truck through have trended reasonably in-line with historical, pre-pandemic sequential patterns.

- Loads decreased 7.1%, or 16,000 loads, quarter-over-quarter to 209,350.
- Loads are down 16.3%, or 40,880, year-over-year, down 21.2%, or 56,240 loads, since the high in Q2 2022, and are 13.8% below the 5-year trend.

Gattoni explained that the same soft freight market fundamentals, such as low demand, weak manufacturing, weaker than typical peak season, and too much capacity, that occurred during 2023, continued through Q4.



Source: Landstar System, Inc.| https://investor.landstar.com/financial-news | Quarterly

Capacity: Landstar's BCO Providers and Truck counts

The big picture: Landstar is a transportation services company specializing in logistics and more specifically third-party logistics.

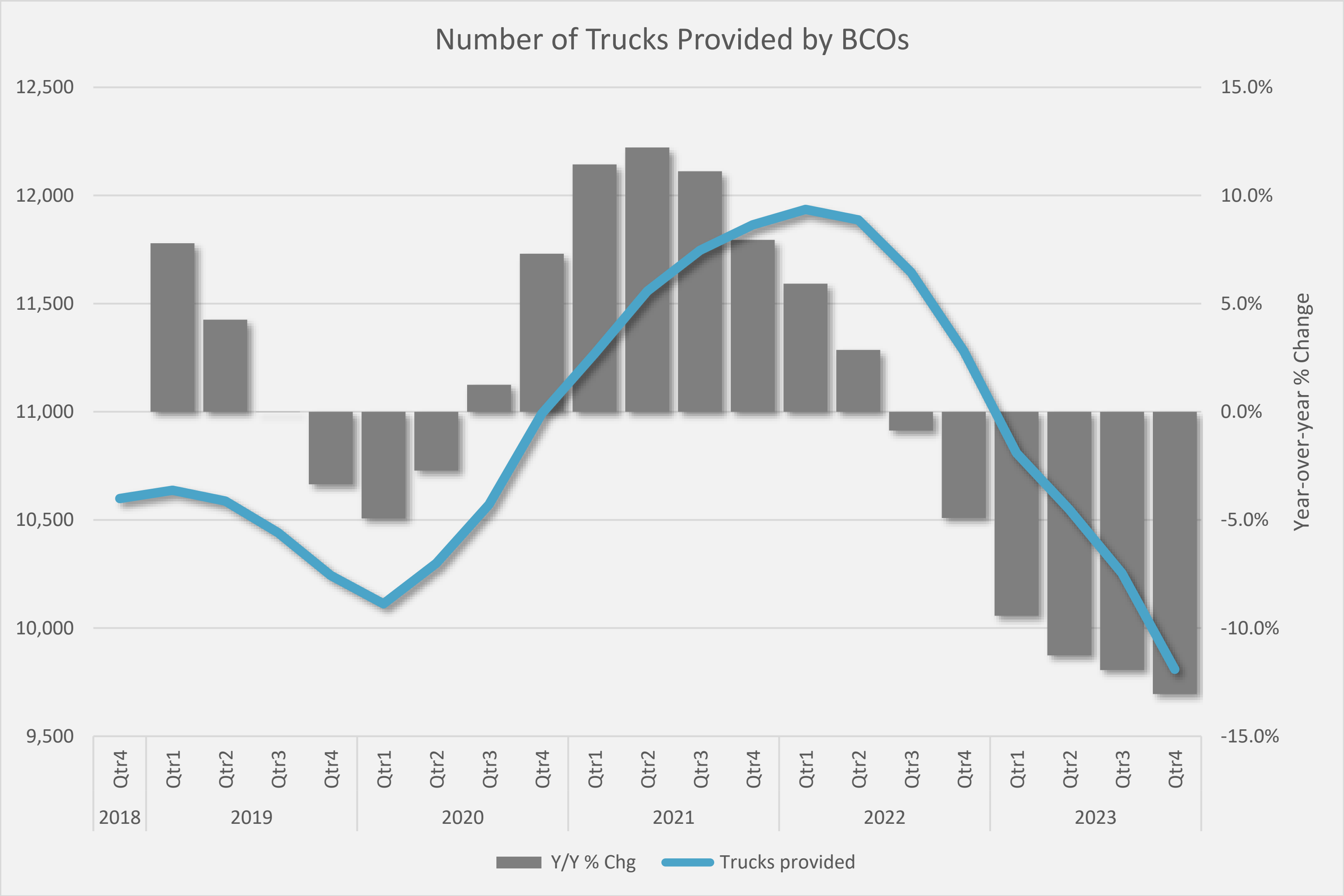
Why it matters: Landstar utilizes an extensive network of more than 10,000 leased-on owner-operators, referred to internally as BCO's.

- The number of trucks that BCOs provide to Landstar tracks well with levels of demand.
- As demand increases, so to do the number of trucks and vice versa.

Our thoughts: The number of trucks that BCOs provide has declined 17.5%, or 2,078 trucks, since the start of the freight recession in Q2 2022. In fact, the number of trucks provided by BCO's has declined for 8 straight quarters.

- Trucks provided declined 4.3%, or 444, quarter-over-quarter to 9,809, which is the first time since Q1 2018 that trucks dipped below 10,000, and are 13%, or 1,472, lower year-over-year.
- The number of trucks has decreased year-over-year for 6 straight quarters, and is 6.0%, or 654, below the 5-year trend.

The number of trucks provided is a good barometer for where the freight market is for the leased-on owner-operator.



Source: Landstar System, Inc.| https://investor.landstar.com/financial-news | Quarterly

Revenues: Landstar's Revenue Per Load

The big picture: Landstar is a transportation services company specializing in logistics and more specifically third-party logistics.

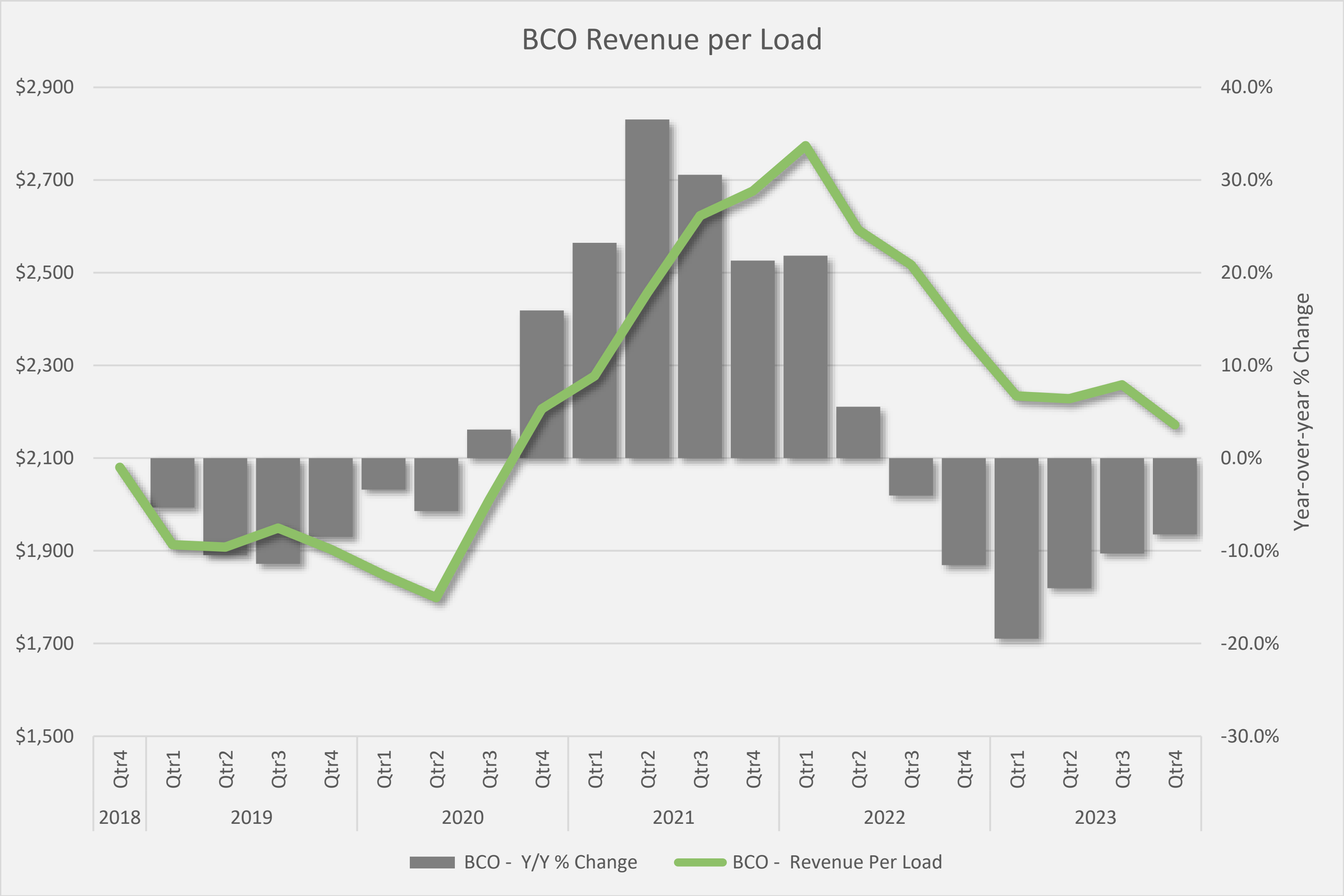
Why it matters: Landstar utilizes an extensive network of more than 10,000 leased-on owner-operators, referred to internally as BCO's.

- Similar to loads and trucks, BCO revenue per quarter gives us good visibility into rates for the leased-on owner-operator.
- More important than the exact number, is the direction the trendline is taking.

Our thoughts: The BCO revenue per load has declined 21.7%, or $602, from its peak in Q1 of 2022. The BCO's revenue per load has slowed from it's rapid descent, but it doesn't appear likely that it will change its' course anytime soon.

- BCO revenue per load declined 3.8%, or $86, quarter-over-quarter to $2,172.
- Revenue is down 8.2%, or $195, year-over-year. It has decreased year-over-year for 6 consecutive quarters.

Gattoni explained, "As expected, the soft macro-freight environment experienced throughout 2023 continued through the 2023 fourth quarter. The soft macro-freight environment, along with the additional operating week in the 2022 fourth quarter, made for challenging 2023 fourth quarter to 2022 fourth quarter comparisons."



Source: Landstar System, Inc.| https://investor.landstar.com/financial-news | Quarterly

Company Driver Outlook

Company Driver Outlook

The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, we tend to breakdown the industry into three main operational types: Owner-Operators, Leased-on Owner-Operators, and Company Drivers.

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 Company Driver outlook, we will look at:

1. **Volume and Capacity,** which will give us a picture of demand, or the number of trucks the market needs to move freight.
2. **Revenues,** which illustrate how much the average Company Driver can expect to earn.

We will examine three key economic indicators that directly impact the Company Driver segment of the market:

1. U.S. Census Bureau's Real Wholesale Trade year-over-year percentage change
2. BLS Employment figures for General, Long-Distance, TL and LTL
3. BLS Average weekly earnings in 1982-1984 dollars

Volumes: Real Wholesale Trade Sales

The big picture: Wholesalers act as intermediaries between manufacturers and retailers, purchasing products in bulk and then reselling them to other businesses.

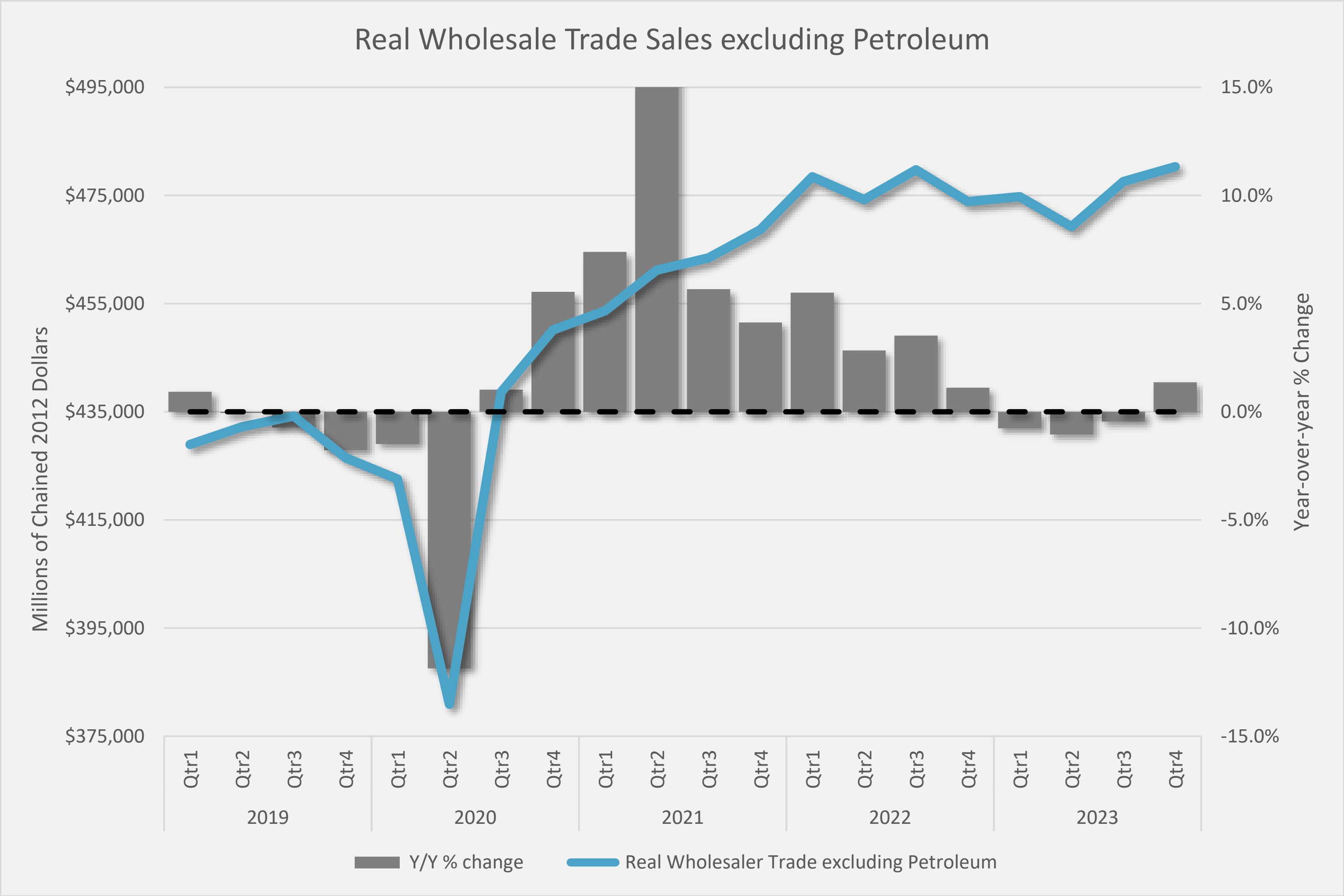
- The U.S Census Bureau reports data for different types of industries.

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.

- Year-over-year percentage changes in inflation adjusted wholesale trade sales data correlate well with periods we typically define as freight recessions in trucking.

Our thoughts: When we look at real wholesale trade sales data excluding petroleum due to its’ recent volatility with fuel prices, we see that sales increased 0.6% to $480.3 billion, marking two consecutive quarters of increases.

- Sales increased 1.4%, or $6.4 billion, year-over-year and are 5.9% above the 5-year trend.
- The year-over-year percentage increased 182.1 basis points from the previous quarter, from -0.5% to 1.8%.
- This is the first year-over-year increase in three quarters, which could be a positive signal for future freight demand, especially as inventories come under control.



Source: U.S. Census Bureau | https://www.census.gov/econ/currentdata/ | Monthly

Capacity: General freight, Long-distance, TL Employment

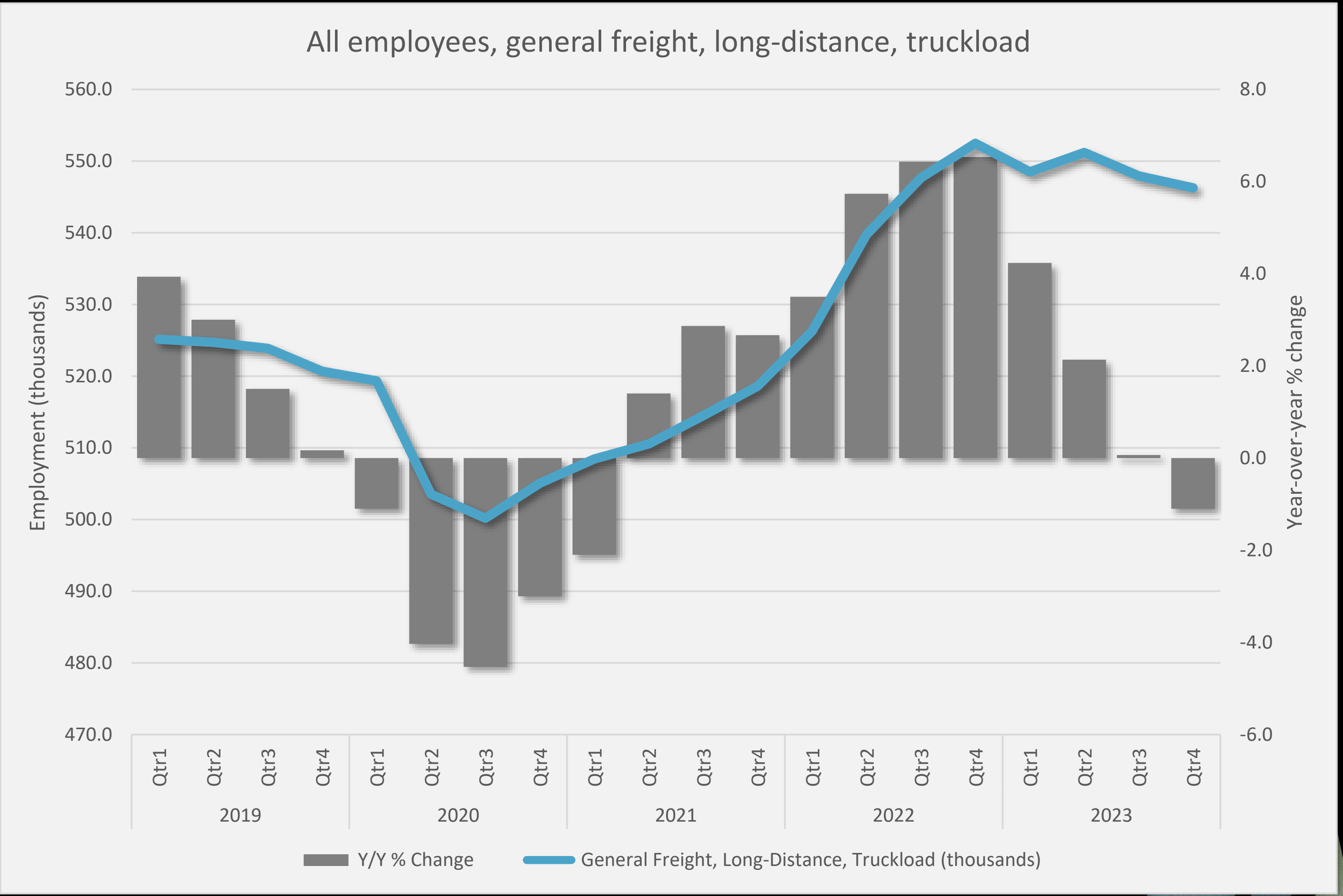
The big picture: The Bureau of Labor Statistics releases monthly payroll data concerning various industries and sectors, including trucking.

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 ultimately have a large impact on rates. If there are too many drivers for too little freight, rates will go down.

Our thoughts: Employment for the general freight, long-distance, truckload sector, which best represents our membership, decreased quarter-over-quarter as the industry continues to downsize to meet weaker demand.

- Employment decreased 0.3%, or by 1,700 jobs, in Q4 2023, and is 1.1%, or 2,200 jobs, lower year-over-year.
- This is the first year-over-year decline since Q1 2021, and highlights the over capacity issue currently facing the industry.
- Employment is 3.7%, or 19,500 jobs, higher than the 5-year trend.



Source: BLS| https://beta.bls.gov/dataViewer/view/timeseries/CES4348412101 | Monthly

Revenues: BLS Average Weekly Earnings, General freight, Long-distance, TL

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

Why it matters: Payroll data includes inflation-adjusted average weekly earnings for a variety of sectors in trucking.

- This provides us with a good indicator of what company drivers are earning per week.

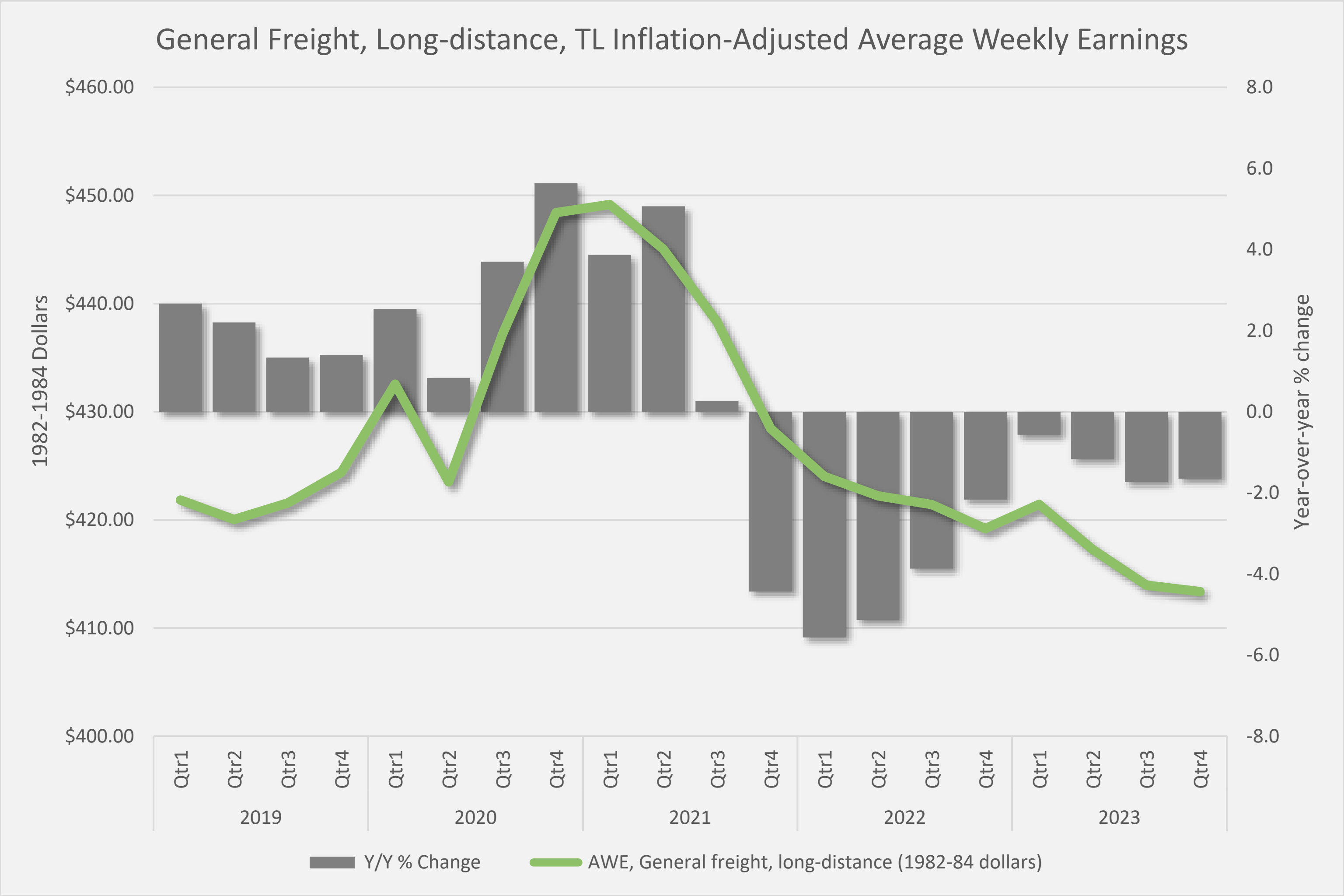
Our thoughts: Average weekly earnings (AWE) for general freight, long-distance, truckload (GFLD) decreased in Q4 2023.

- AWE for GFLD decreased 0.1%, or $0.60, quarter-over-quarter to $413.37, and is 1.4%, or $5.80, lower year-over-year..

- Earnings are 3.2%, or $13.80, lower than the 5-year average.

AWE is not only a good indicator for compensation, but it also helps to highlight the current state of the freight market. Pay has decreased 7.1% since its high in Q2 2021.

- Inflation-adjusted pay is now 2.0%, or $8.59, below 2019 levels.



Source: BLS| https://beta.bls.gov/dataViewer/view/timeseries/CES4348412012 | Monthly

Overall Trucking Industry

Overall Trucking Industry

OOFI designed this quarterly update to help truckers gain insight into the current conditions of today's trucking industry. To do so, we will look at:

1. **Volume,** which will give us a picture of demand, or the number of trucks the market needs to move freight.
2. **Prices,** which illustrate how much the industry is spending to move freight.

We will examine three key economic indicators that directly impact the trucking industry:

1. US Bank Shipment Index
2. US Bank Spend Index
3. US Bank Shipment and Spend Regional Index

Volumes: US Bank Shipment Index

The big picture: U.S. Bank Freight Payment processes more than $46 billion in freight payments annually.

- The source data contains both truckload and less-than-truckload volumes.

Why it matters: The U.S. Bank Freight Payment Index (FPI) is a barometer for freight shipping trends and spending volumes on national and regional levels.

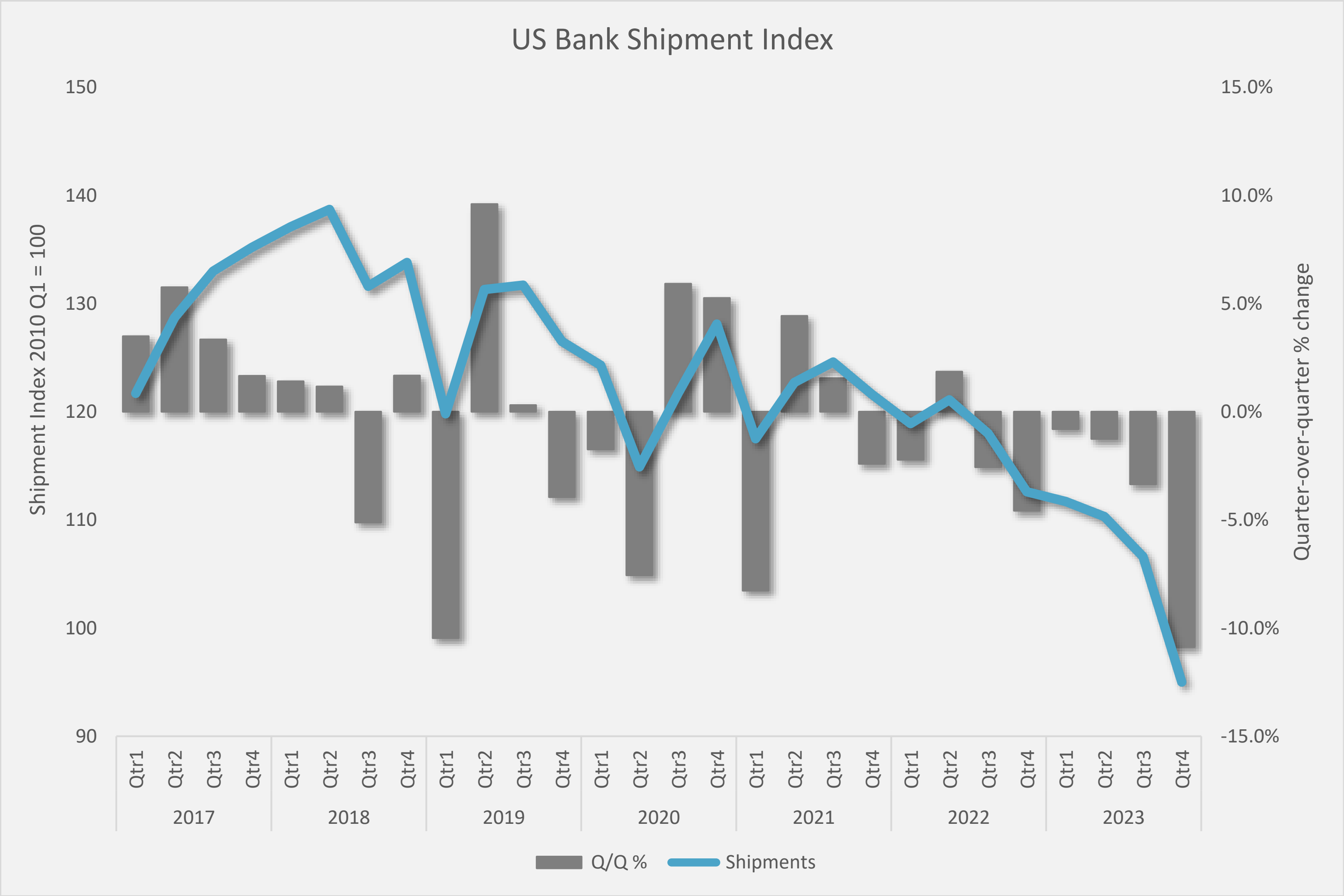
- U.S. Bank's Shipment Index measures the number of actual shipments it's client send, thus making it a good proxy for freight volumes overall.

Our thoughts: According to U.S. Bank, consumer spending changes combined with decelerating economic activity in general and businesses prioritizing the reduction in inventory levels weighted heavily on the truck freight market. The Shipment Index has fallen for six straight quarters, and has declined year-over-year in the previous seven.

- The Shipment Index decreased 10.9% to 95 in Q4 2023, and is 12.5% lower year-over-year.

- The index is 19.1% below the 5-year trend.

This quarter's year-over-year decline is the steepest since the start of the 2019.



Source: U.S. Bank | https://www.usbank.com/corporate-and-commercial-banking/industry-expertise/transportation/freight-payment-insights.html | Quarterly

Prices: US Bank Spend Index

The big picture: U.S. Bank Freight Payment processes more than $46 billion in freight payments annually.

- The source data contains both truckload and less-than-truckload volumes.

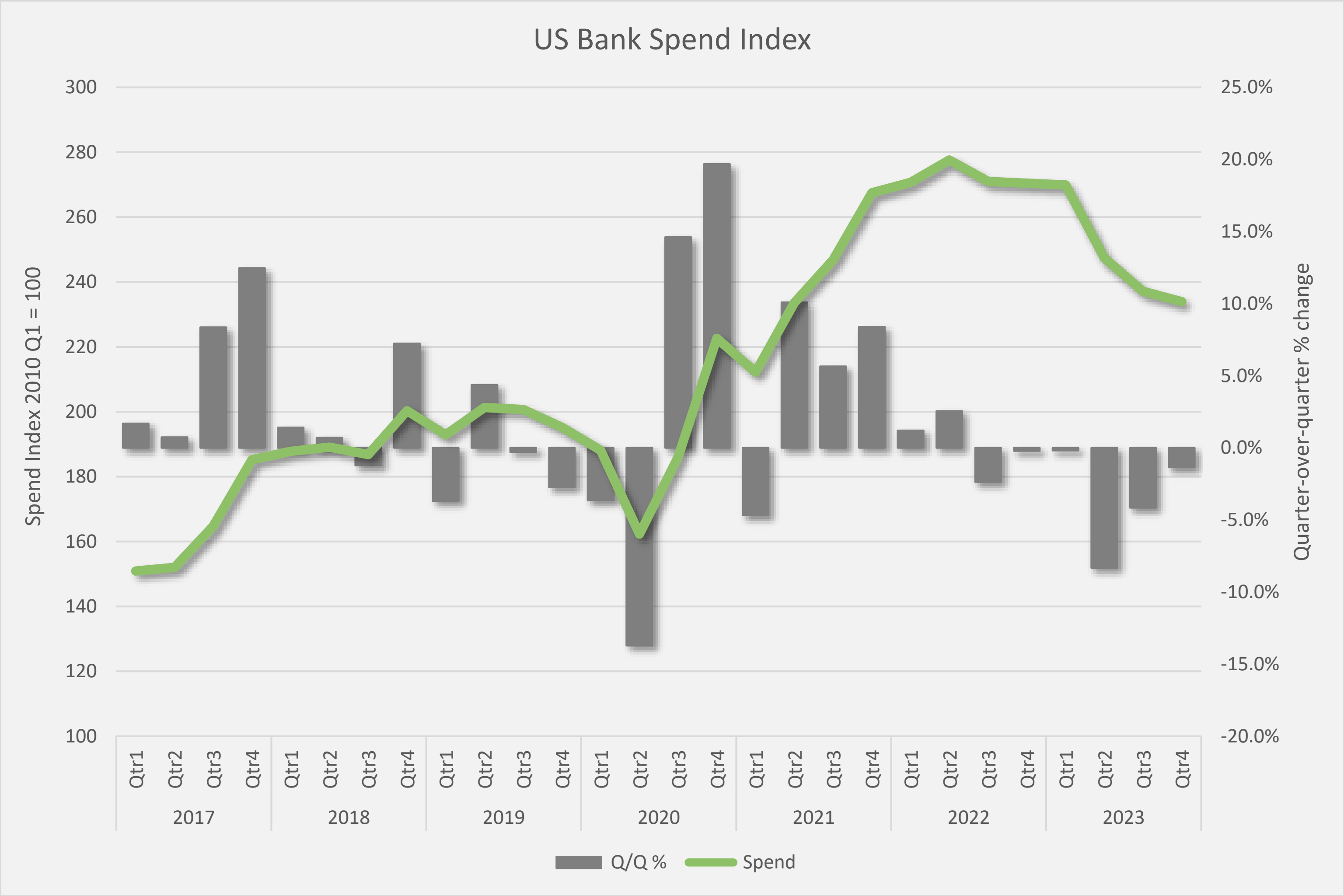
Why it matters: The U.S. Bank Freight Payment Index (FPI) is a barometer for freight shipping trends and spending volumes on national and regional levels.

- U.S. Bank's Spend Index measures how much it's client spend on freight, thus making it a good indicator for rates overall.

Our thoughts: The Spend Index contracted for the sixth straight quarter, though this was the smallest reduction in three quarters. It's indicative of the challenging marketplace that carriers are facing.

- The Spend Index decreased 4.2% quarter-over-quarter, and is 11.7% higher year-over-year.
- The Index is 10.9% higher than the 5-year trend compared to 16.3% last quarter.

According to U.S. Bank, "Drops in spending weren't as large as the declines in volumes. This suggests that there were some reductions in freight capacity in the industry, keeping costs higher." Carriers operating exclusively in the spot market have been under tremendous pressure.



Source: U.S. Bank | https://www.usbank.com/corporate-and-commercial-banking/industry-expertise/transportation/freight-payment-insights.html | Quarterly

Prices: US Bank Shipment and Spend Regional Index

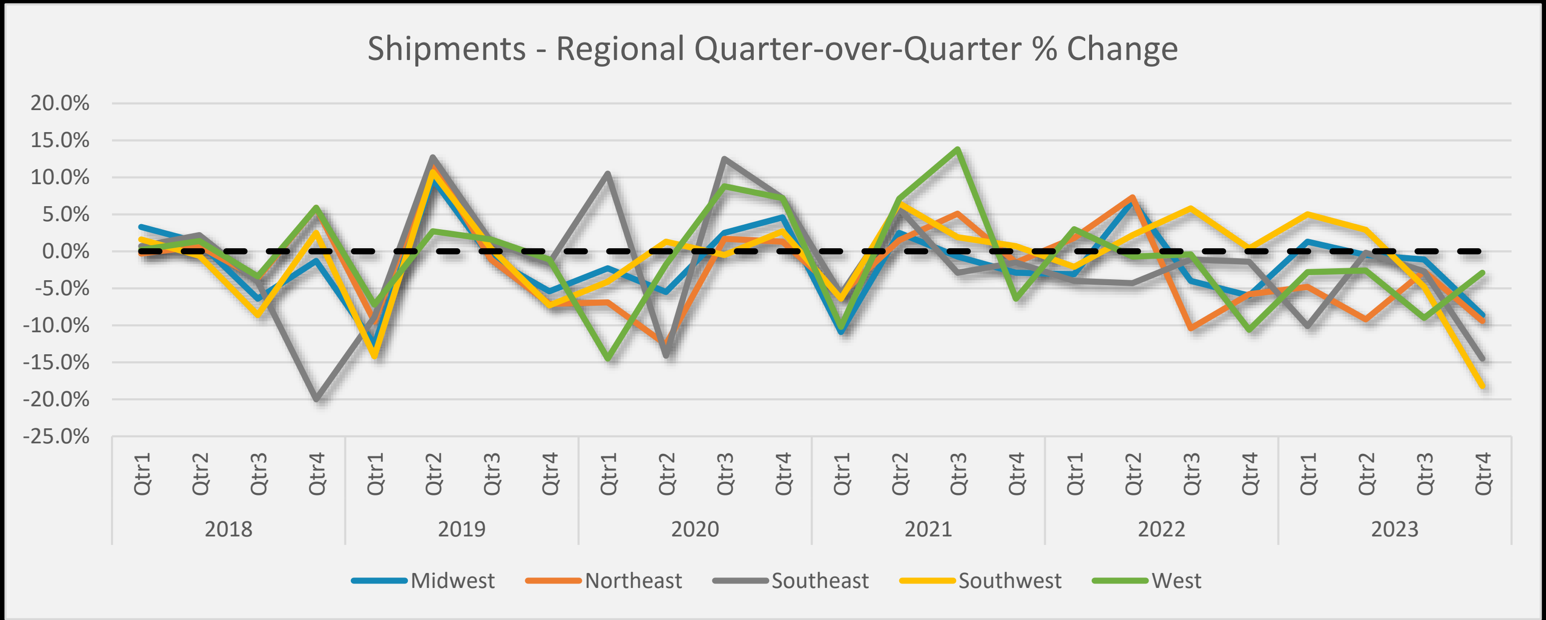
The big picture: U.S. Bank Freight Payment processes more than $46 billion in freight payments annually.

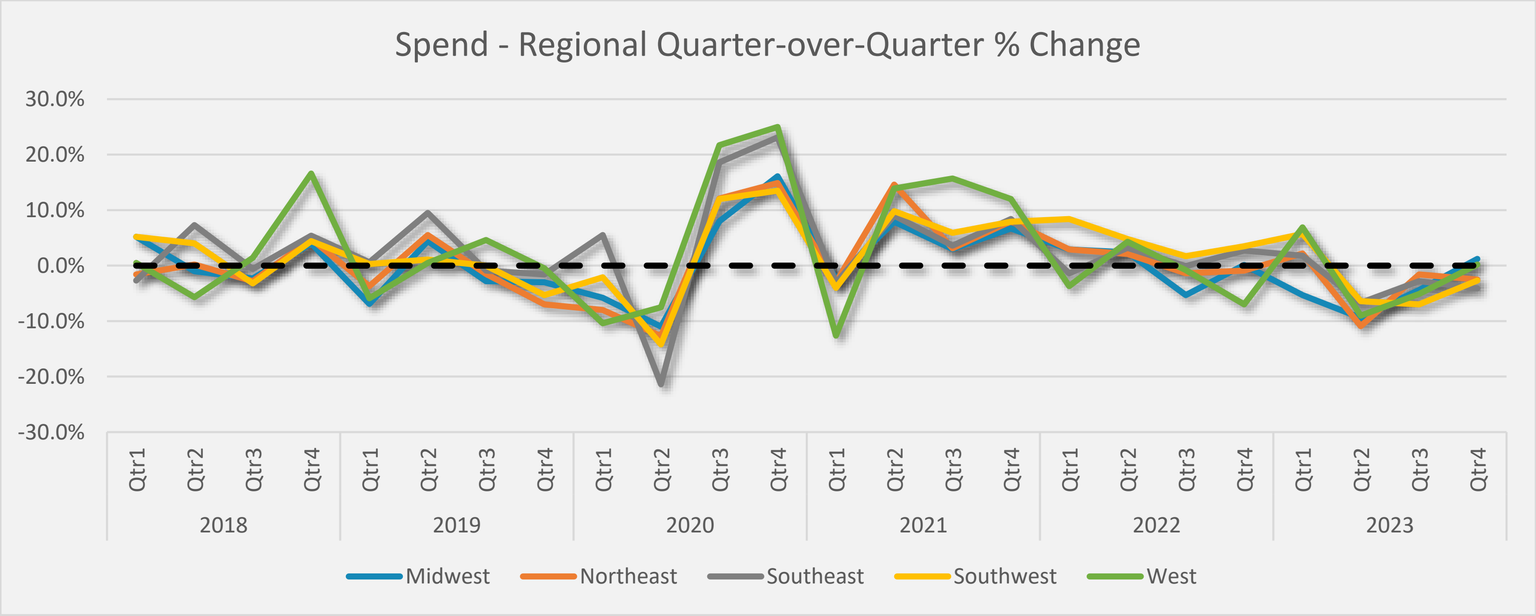
- The source data contains both truckload and less-than-truckload volumes.

Why it matters: The U.S. Bank Freight Payment Index (FPI) is a barometer for freight shipping trends and spending volumes on national and regional levels.

Our thoughts: According to U.S. Bank, "All regions posted sequential declines in shipments during the fourth quarter, and all except the west region saw significant declines. The largest drops were in the south generally, with the Southwest region reporting an 18.2% decline, while in the Southeast region shipments contracted by 14.5%."

- While not double-digit declines, the Midwest (-8.6%) and Northeast (9.4%) recorded large decreases as well.
- Spending by shippers for truck services fell less than volumes for all regions. Two regions actually experienced increases, namely the West (0.2%) and the Midwest (1.2%). "The fact that volumes were weaker than spending in all regions further supports that freight capacity changes are likely occurring…"





Source: U.S. Bank | https://www.usbank.com/corporate-and-commercial-banking/industry-expertise/transportation/freight-payment-insights.html | Quarterly

Overall Freight Market

Overall Freight Market

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:

1. **Demand,** which will give us an idea of how many trucks the market needs to move freight.
2. **Rates,** which illustrate how much the industry can expect to earn.

We will examine three key economic indicators that directly impact the trucking industry:

1. U.S. Census QPC Capacity Utilization and Average Hours of Operation
2. U.S. Census QPC Insufficient supply and orders, and Sufficient inventories of finished goods
3. BLS PPI General Freight, Long-distance, TL and LTL

Demand: Capacity Utilization and Average Hours of Operation

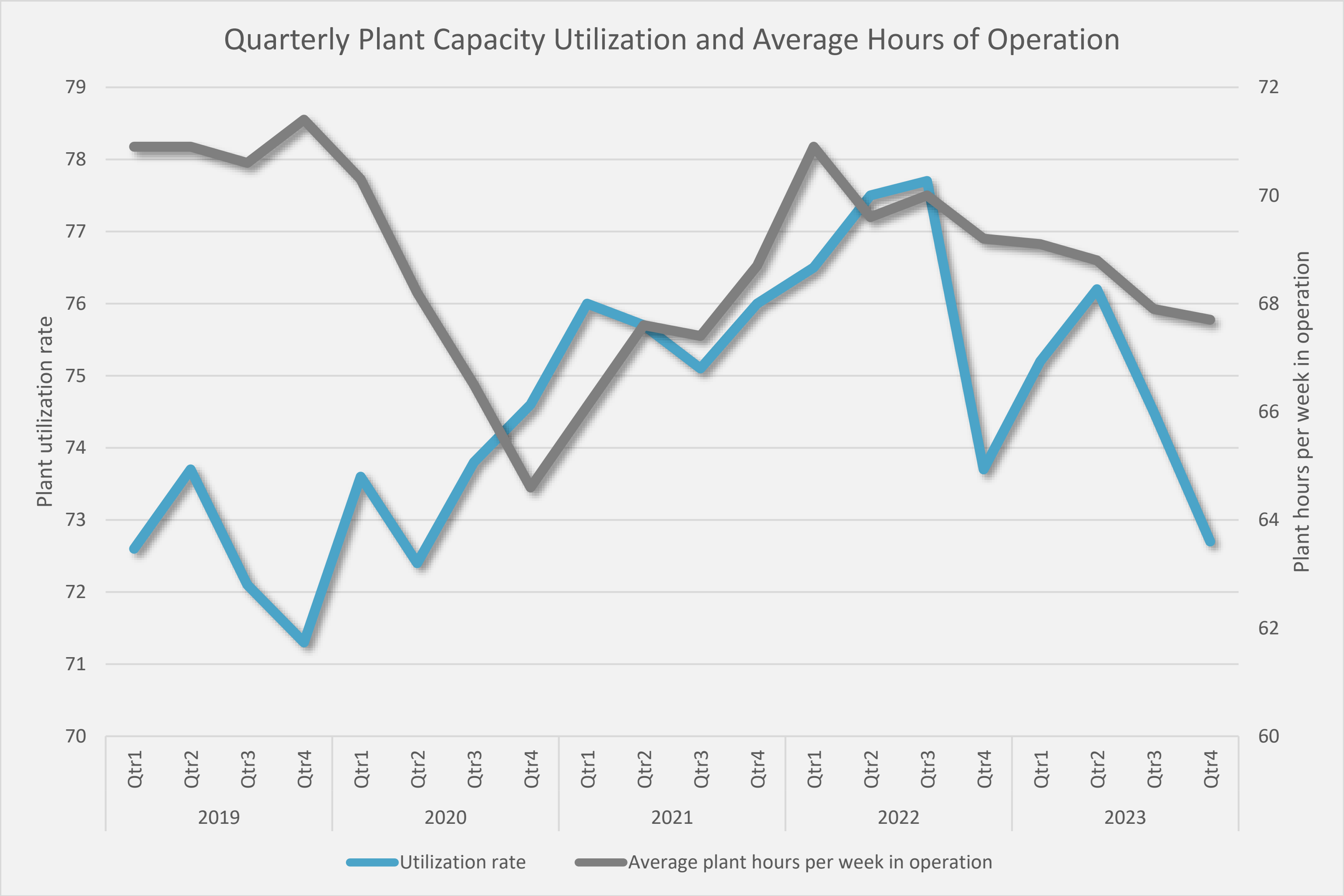
The big picture: The U.S. Census Bureau publishes the Quarterly Survey of Plant Capacity Utilization (QPC), which provides quarterly statistics on plant capacity utilization rates for the manufacturing and publishing sectors of the U.S. economy.

Why it matters: Manufacturing accounts for 59% of for-hire trucking ton-miles. The QPC collects data on actual production and the full production capability at manufacturing plants.

- Plant utilization and hours of operation are a good proxy for industrial and manufacturing production.
- As plant utilization rates and hours increase, so too does freight demand. The opposite is also true.

Our thoughts: The utilization rate for all manufacturing sectors decreased 2.4% following a 2.2% increase in Q3 after adjustments, while hours of operation declined 0.3% quarter-over-quarter in Q4 2023, marking five straight quarters of decline.

- Utilization is 1.4% lower year-over-year, but 0.4% above 2019 levels. But it's 2.5% below the 5-year trend.
- Hours of operation are 2.2% lower than this time last year, and 4.6% lower than 2019 levels, which is bad indicator for demand.



Source: U.S. Census Bureau| https://www.census.gov/programs-surveys/qpc/data/tables.html | Quarterly

Demand: Insufficient Supply and Orders, Sufficient Inventories

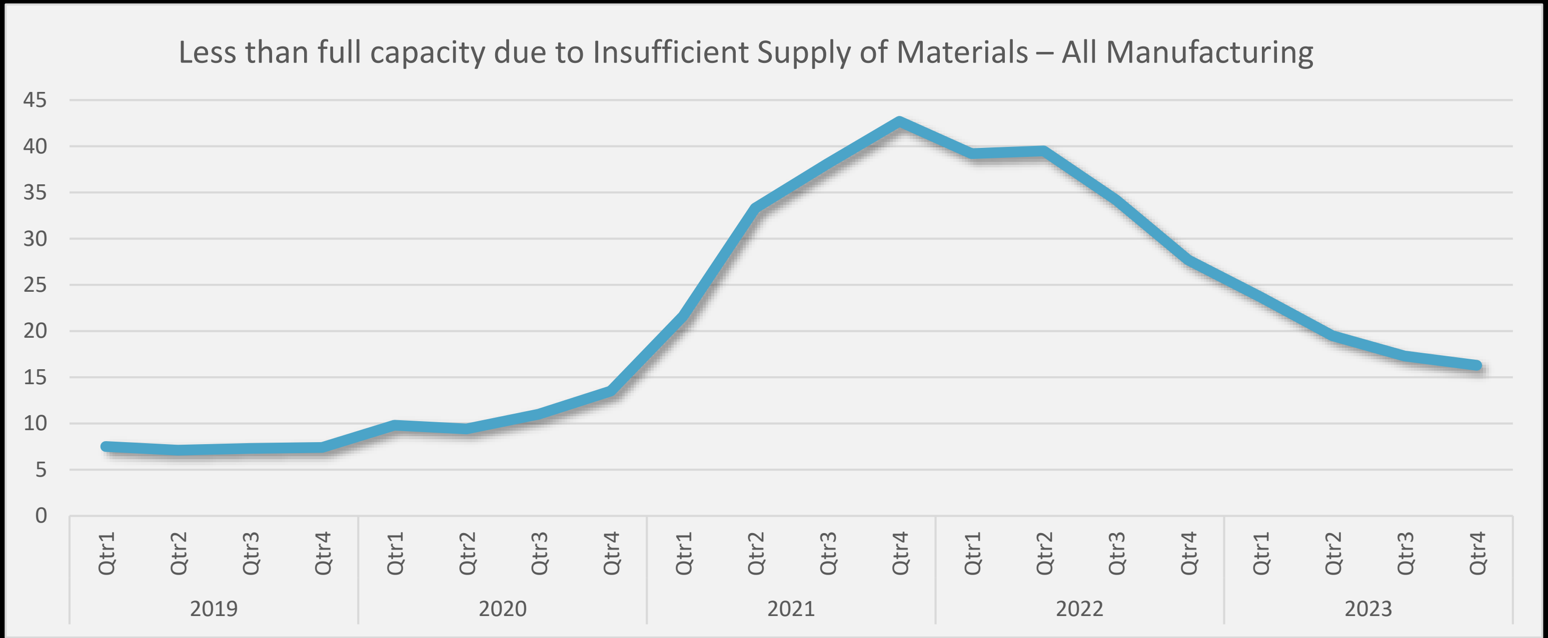
The big picture: The U.S. Census Bureau publishes the Quarterly Survey of Plant Capacity Utilization (QPC), which provides quarterly statistics on plant capacity utilization rates for the manufacturing and publishing sectors of the U.S. economy.

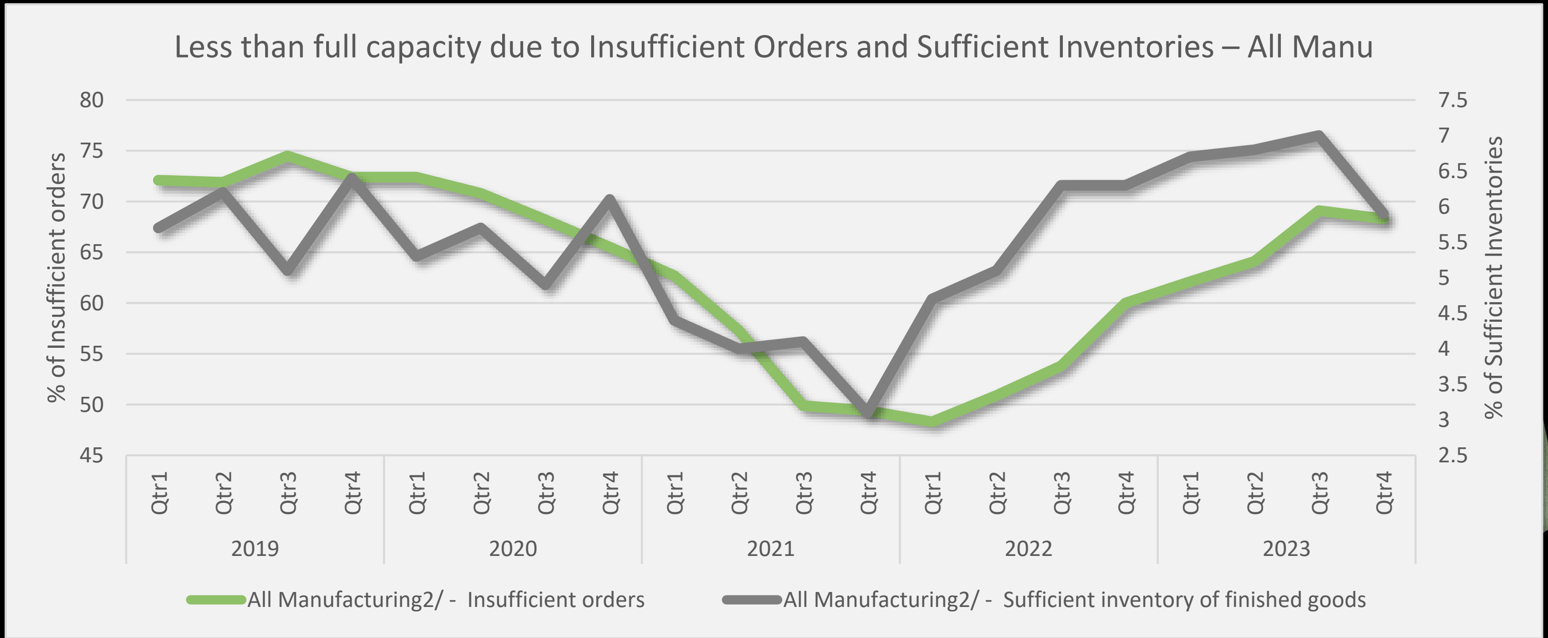
Why it matters: The QPC also collects data concerning the primary reasons for why a plant's production for the quarter is less than their full capability.

- The percentage of plants that indicate that they are running at less than full capacity because of insufficient supply of materials increases when demand peaks.
- While reasons such as insufficient orders and sufficient inventories of finished goods decrease during those peak seasons, and vice versa.

Our thoughts: The percentage of plants experiencing an insufficient supply of materials decreased 5.8% quarter-over-quarter to 16.3 following a 11.3% decrease last quarter after adjustments, while the percentage of plants citing insufficient orders and sufficient inventory decreased 1.2% and 15.7%, respectively in Q4 2023.

- Insufficient supply is 41.2% lower Y/Y but 122.5% above 2019 levels.
- Insufficient orders are 13.8% higher Y/Y
- Sufficient inventories are 6.3% lower Y/Y, perhaps indicating that inventories are finally coming under control.





Source: U.S. Census Bureau| https://www.census.gov/programs-surveys/qpc/data/tables.html | Quarterly

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.

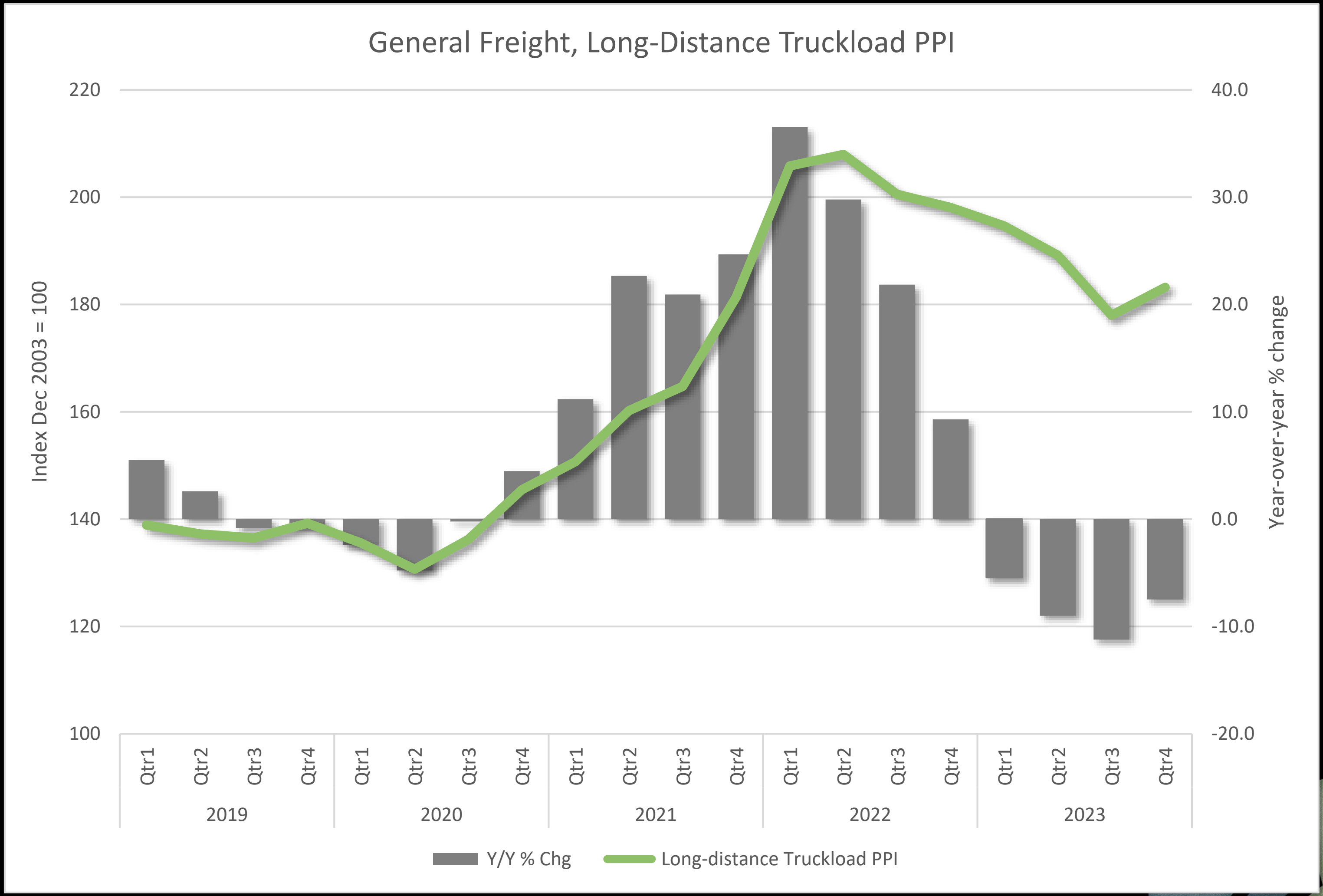
- One index focuses on long-haul, truckload carriers.
- This index shows how much carriers are charging their customers. It focuses primarily on contract rates.

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 2.9% in the fourth quarter, but is still down 11.9% from the high in May 2022. This is actually a bad signal for freight rates as we continue to wait for contract rates to drop under, or close to, spot rates.

- The long-haul PPI increased 2.9% to 183.2, quarter-over-quarter, following a 3.2% drop last quarter after the BLS re-adjusted the figure for Q3.
- The PPI is 7.5% lower year-over-year, and has declined Y/Y for the past four quarters.

Though the PPI ticked upward in the fourth quarter, it appears that it still has farther to fall. We continue to bounce along the bottom of the trough until demand picks up enough to ignite the next upcycle, which doesn't look likely anytime soon.



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

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