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

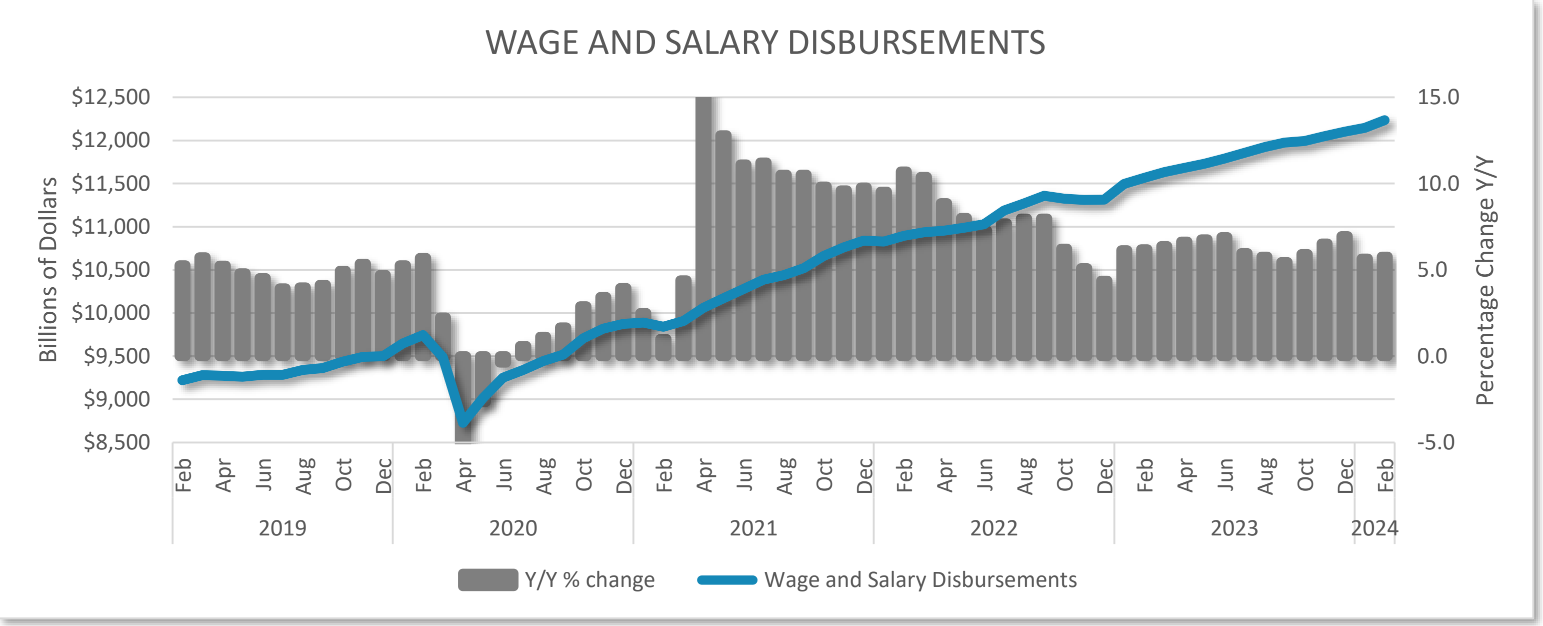
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so too does business and shipping activity.

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

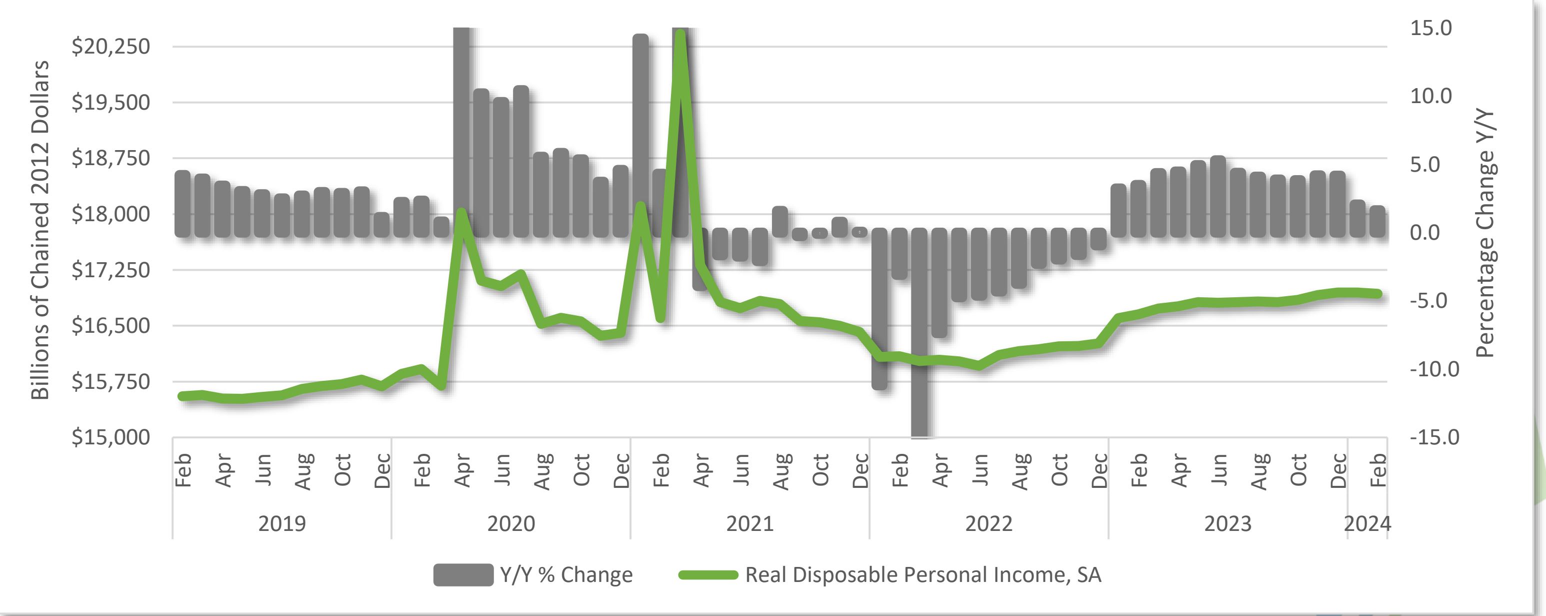
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

Our thoughts: Wages and salaries, as well as real disposable income, continue to grow year-over-year, albeit at a slower pace, as real disposable income decreased for the first time since September 2023.

- Wages and Salary disbursements grew 0.8%, or $92 billion, month-over-month in February.
- In terms of year-over-year growth, wages and salary disbursements are 5.77% higher.
- Real disposable income, which is adjusted for inflation, decreased 0.09% month-over-month to $16.93 trillion, ending four consecutive months of growth.
- Real disposable income is 1.7%, or $275.5 billion higher year-over-year, and is tracking 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.

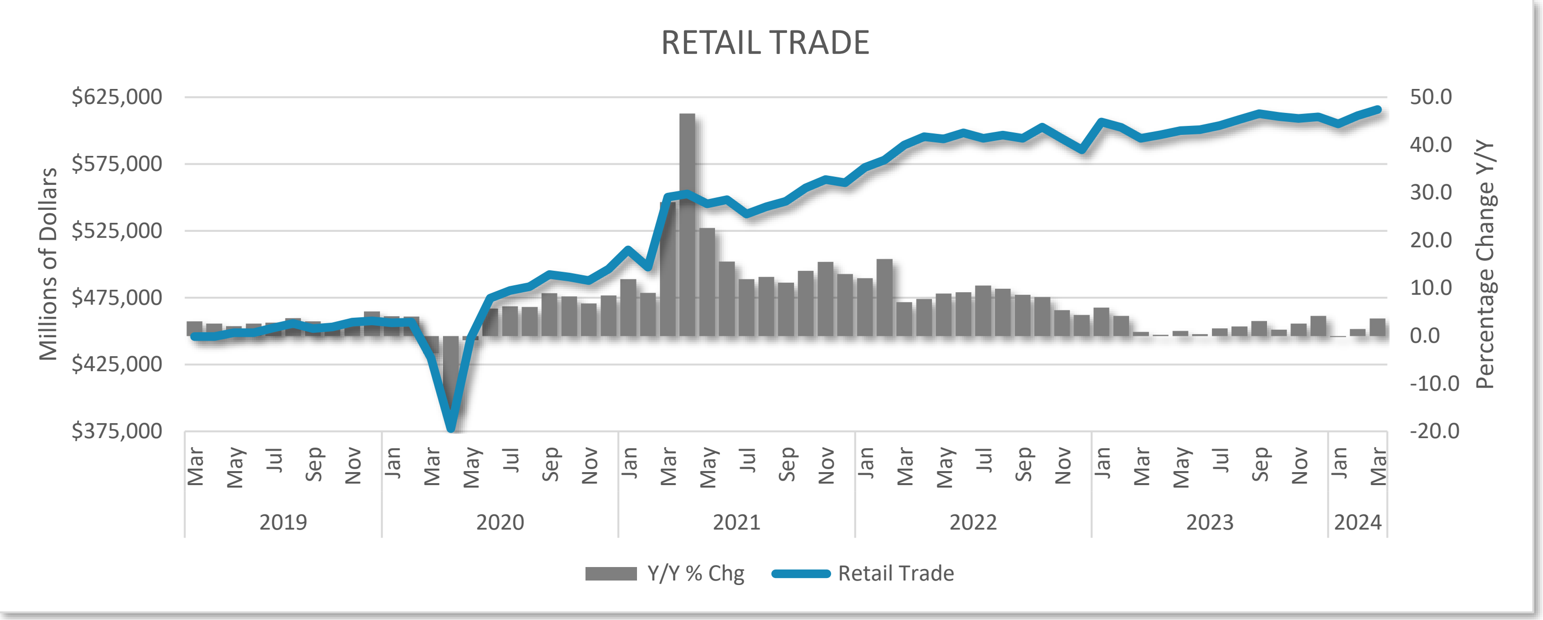
Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- 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 March after increasing 1.8% in the previous month following adjustments to the data.

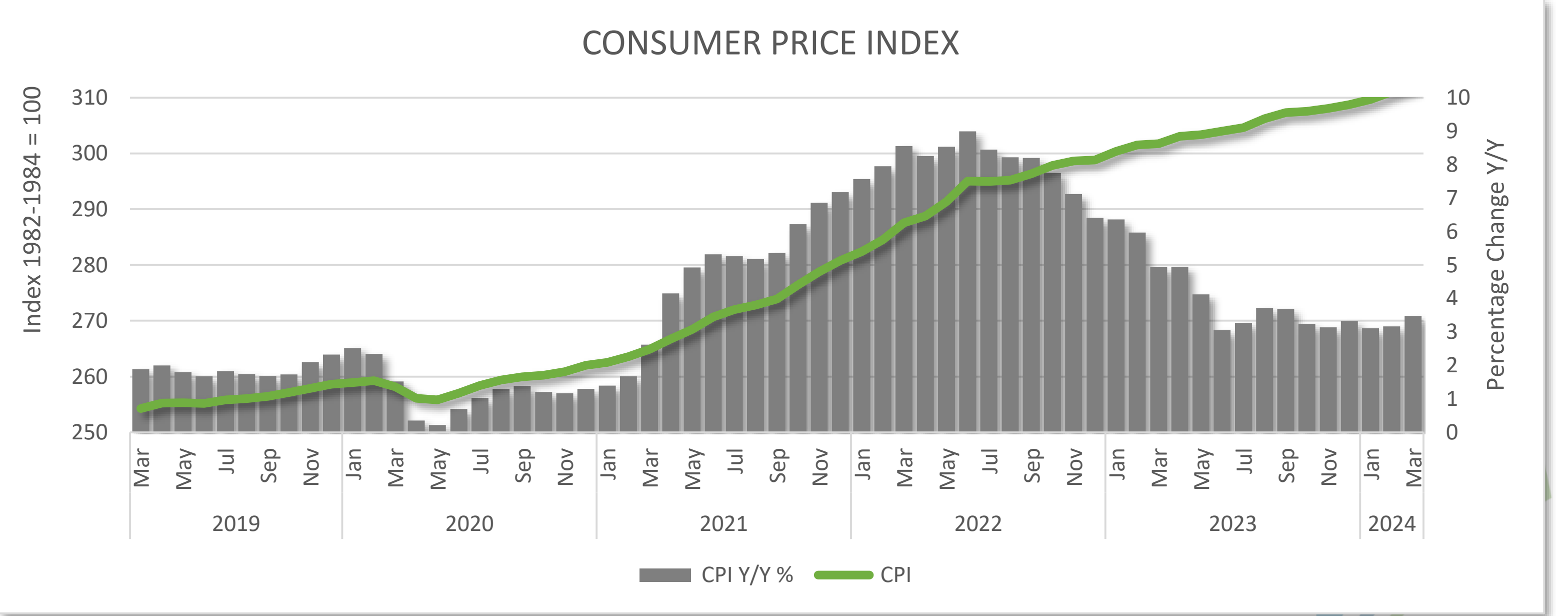
- Retail trade increased 0.8%, or $4.7 billion, month-over-month to $615.86 billion, and is 3.6%, or $21.6 billion, higher Y/Y. This reversed last month's trend, which was represented the first Y/Y decline since May 2020.
- CPI increased by 1.4 to 311.1, which is 3.2% higher than it was a year ago. CPI 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.

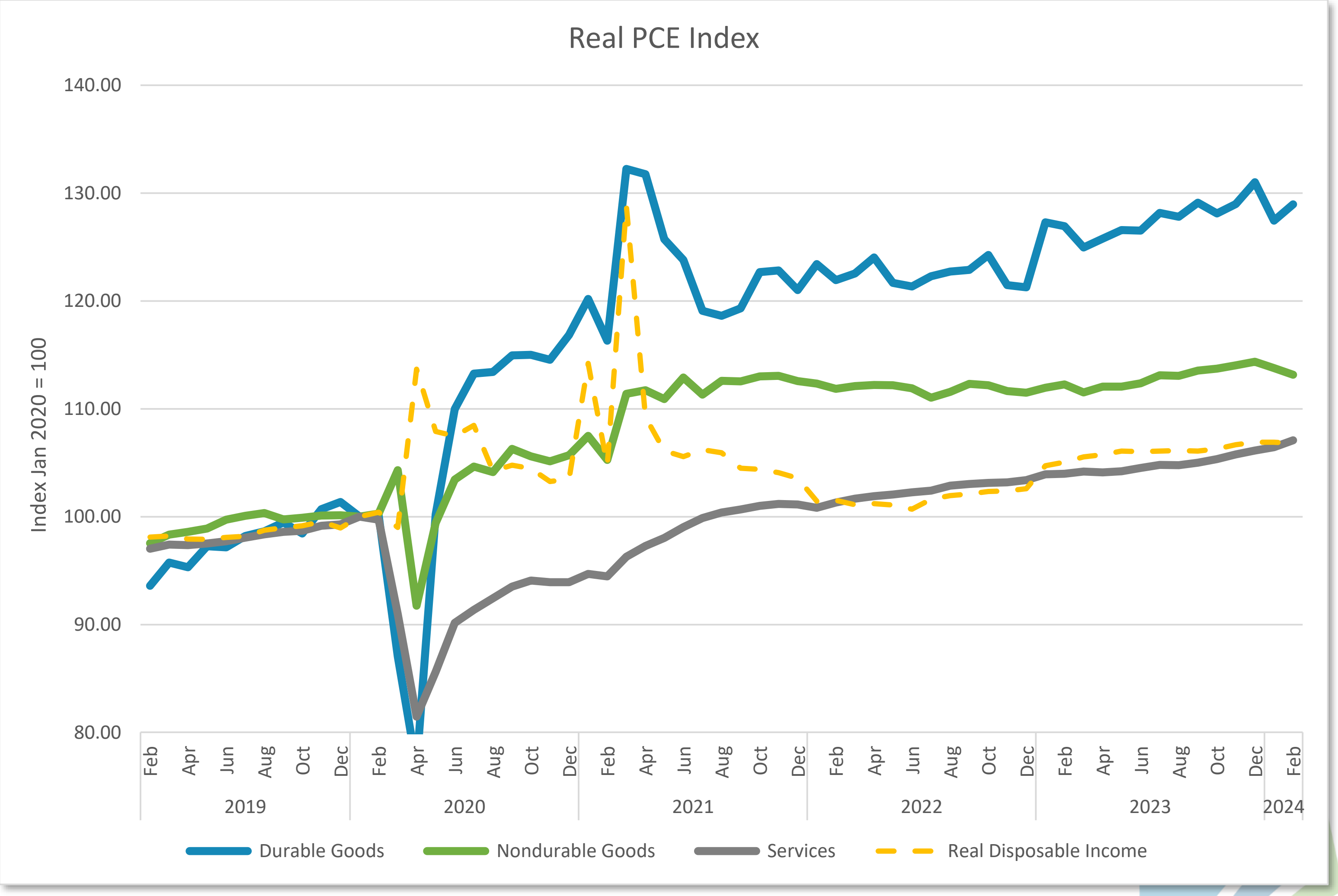
- The PCE measures a broad spectrum of consumer spending for a period of time.

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 services increased in February, while non-durable goods declined.

- Consumer spending for durable goods increased 1.2% to $2.06 trillion, and is 1.6%, or $32.5 billion, higher year-over-year and 11.3%, or $209.2 billion, above the 5-year trend.
- Spending for non-durable goods declined 0.6% to $3.36 trillion, which is 0.8% higher Y/Y and 4.9%, or $156 billion, above the 5-year trend.
- Spending on services rose 0.6% to $10.29 trillion and is 3% higher Y/Y. Services have risen 31.5%, or $2.46 trillion, since their cycle low in April 2020.



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.

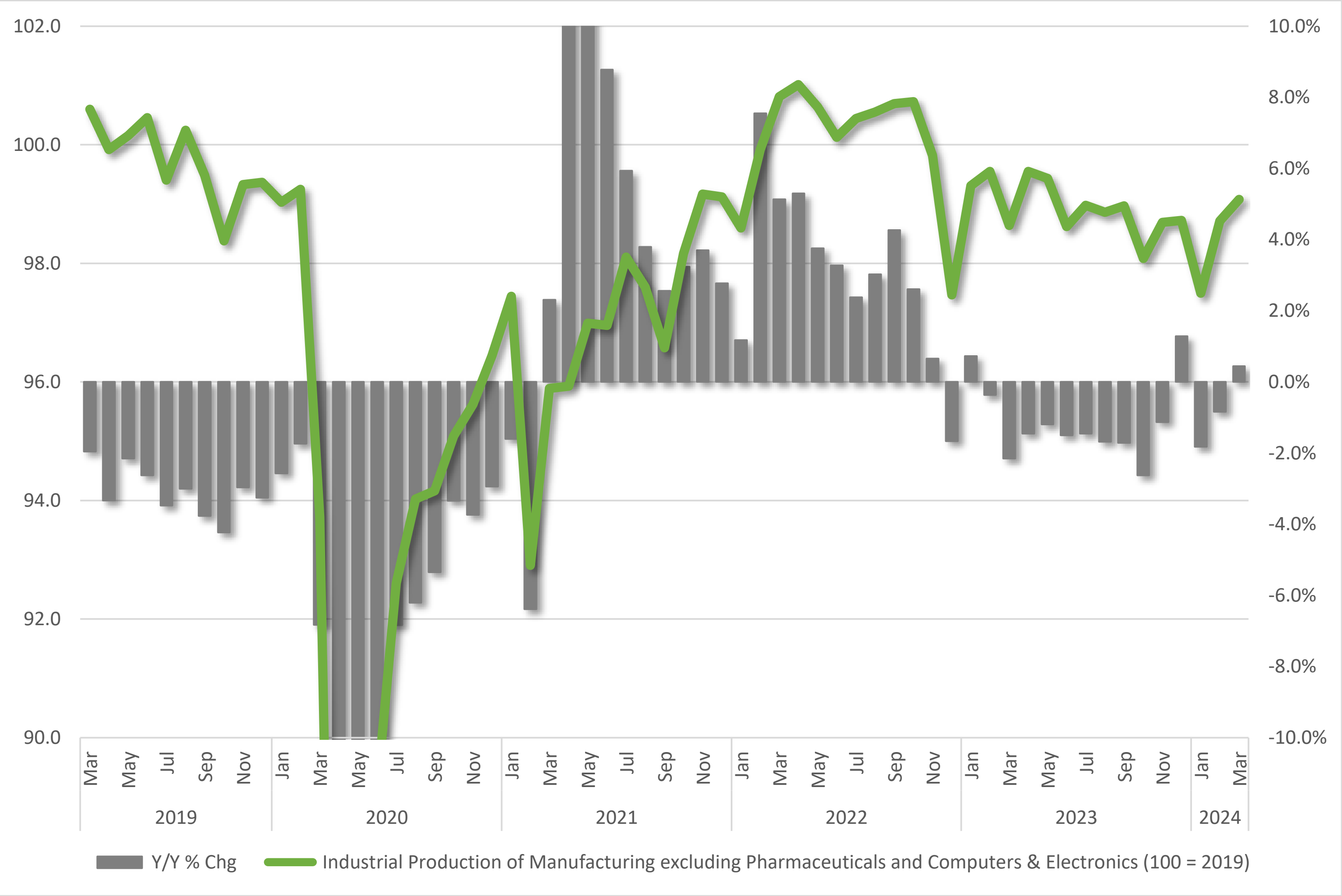
This is especially true when removing pharmaceuticals (NAICS 3254) and computer and electronic products (NAICS 334), as these sectors have an outsized influence on the overall manufacturing index considering how little freight they generate.

- 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 March and ticked upward year-over-year as well.

- Manufacturing activity increased 0.37% to 99.08 after increasing 1.2% last month following adjustments, and is up 0.4% year-over-year (Y/Y).
- Activity was up for the 2nd time in 4 months, and is 0.9% 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.

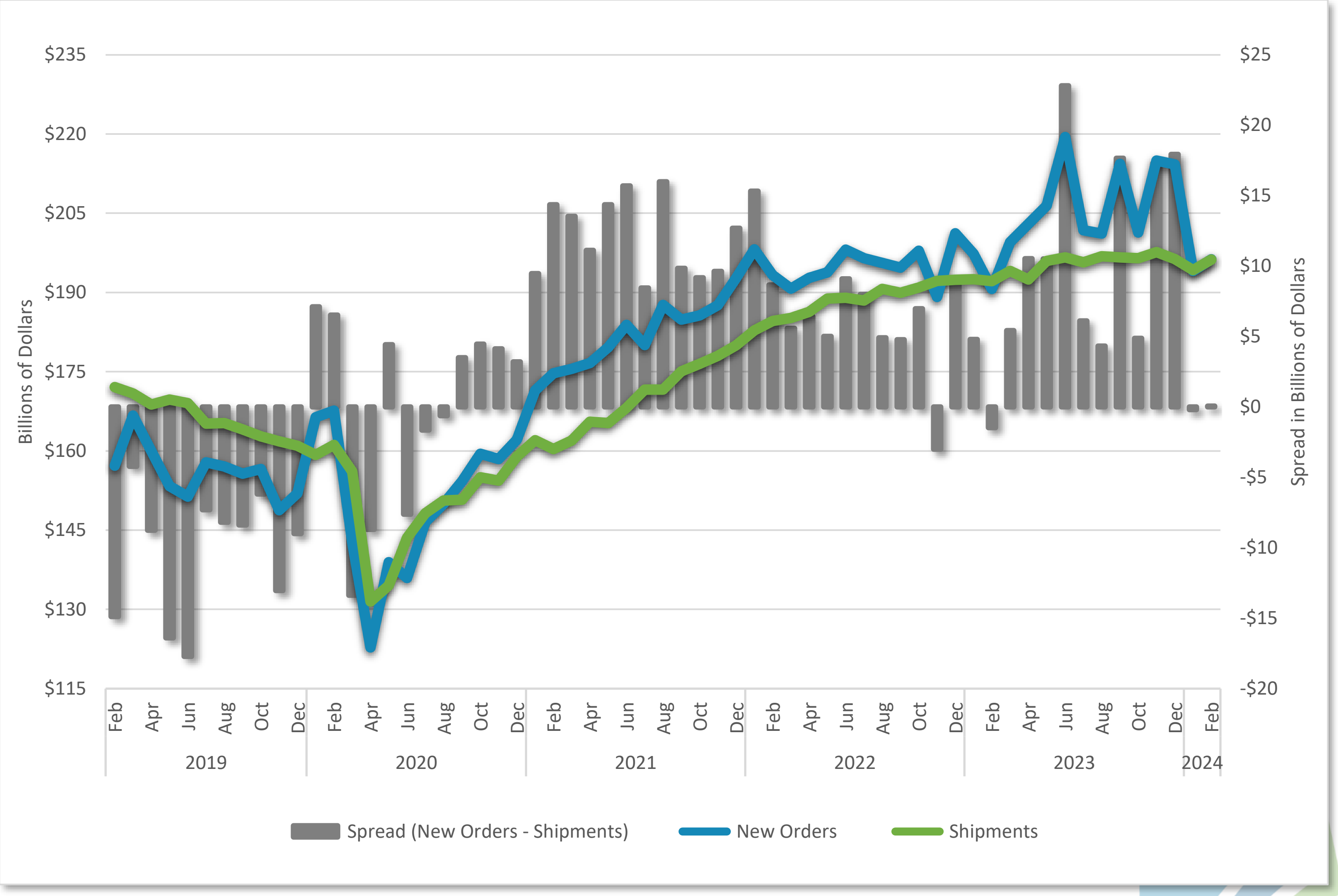
Why it matters: When unfilled new orders outperform shipments for unfilled orders, backlogs increase and we see growth in manufacturing activity. The reverse is also true.

- This expansion or contraction in activity, as captured by the spread between the two, coincides with trucking cycle.

Our thoughts: New orders only just eclipsed shipments in February, marking the 11th time in 12-months. Again, new orders for make-to-order products typically decline during manufacturing recessions. This has yet to happen.

- New orders increased 1.2% month-over-month to $196.29 billion in February after falling 8.4% following adjustments in January, and are 2.9%, or $825 million, higher year-over-year.
- Shipments increased 1.01% to $196.2 billion and are 2.1% higher year-over-year.

The spread between new orders and shipments increased from negative $202 million to positive $62 million. The large gap between new orders and shipments has quickly shrunk over the past couple months.



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.

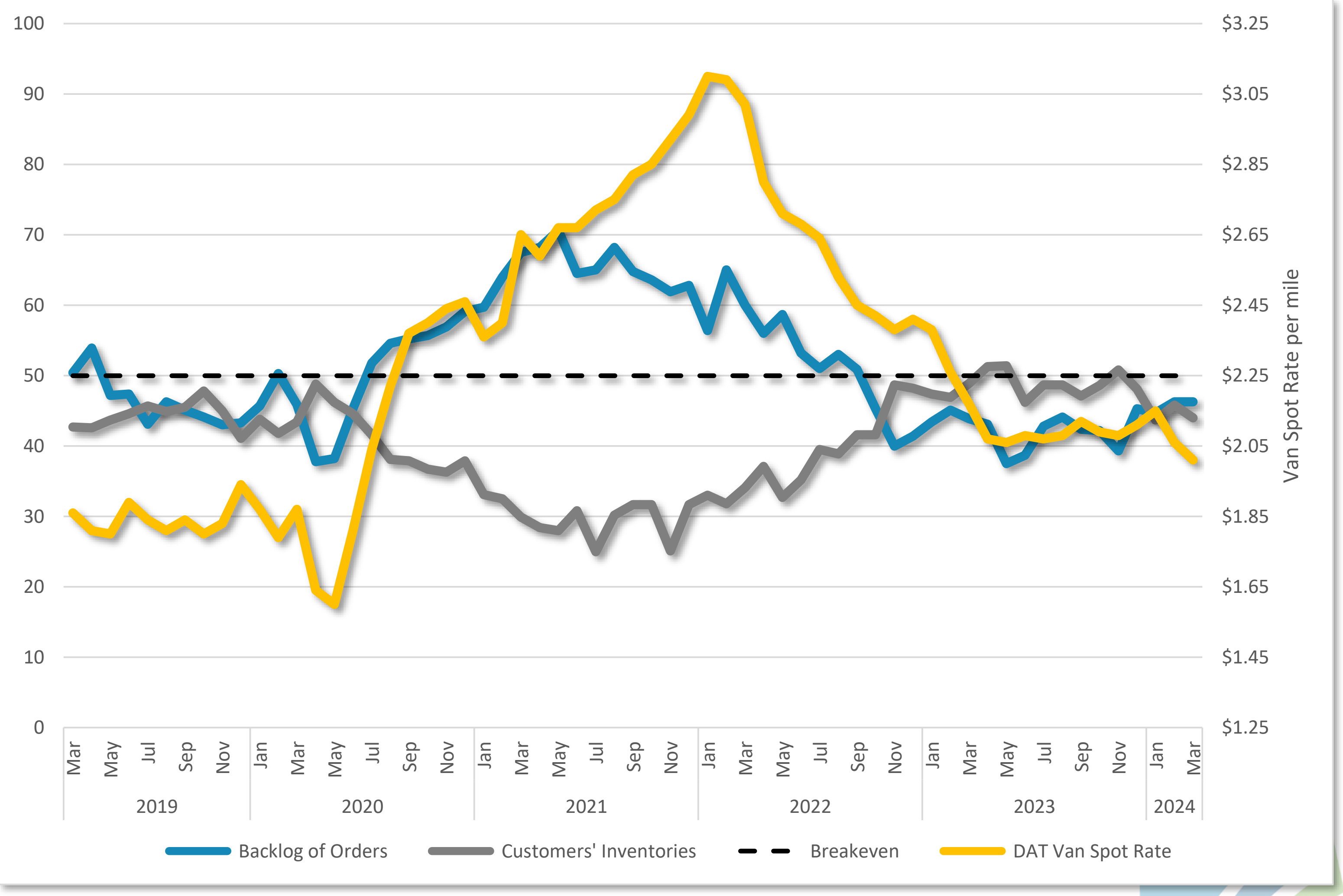
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart.

- When backlogs drop and customers' inventories move upward, rates rise. The opposite is also true.

Our thoughts: According to ISM, the U.S. manufacturing sector moved into expansion for the first time since September 2022. The New Orders Index moved back into expansion territory at 51.4%, which is good news.

- Backlogs remained flat month-over-month at 46.3, after increasing 3.6% last month. Backlogs have been in contraction territory for eighteen straight months, and are up 2.4 percentage points year-over-year.
- Customers' inventories decreased 3.9% to 44. They are 10% lower year-over-year.
- Inventories are lower than backlogs for the third straight month.

The bottom line: Demand was positive, output/consumption strengthened, and inputs continued to accommodate future demand 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 wholesaler's ratio consists of firms that sell bulldozers, farm equipment, industrial machines, supplies for those machines, and transportation equipment excluding motor vehicles.

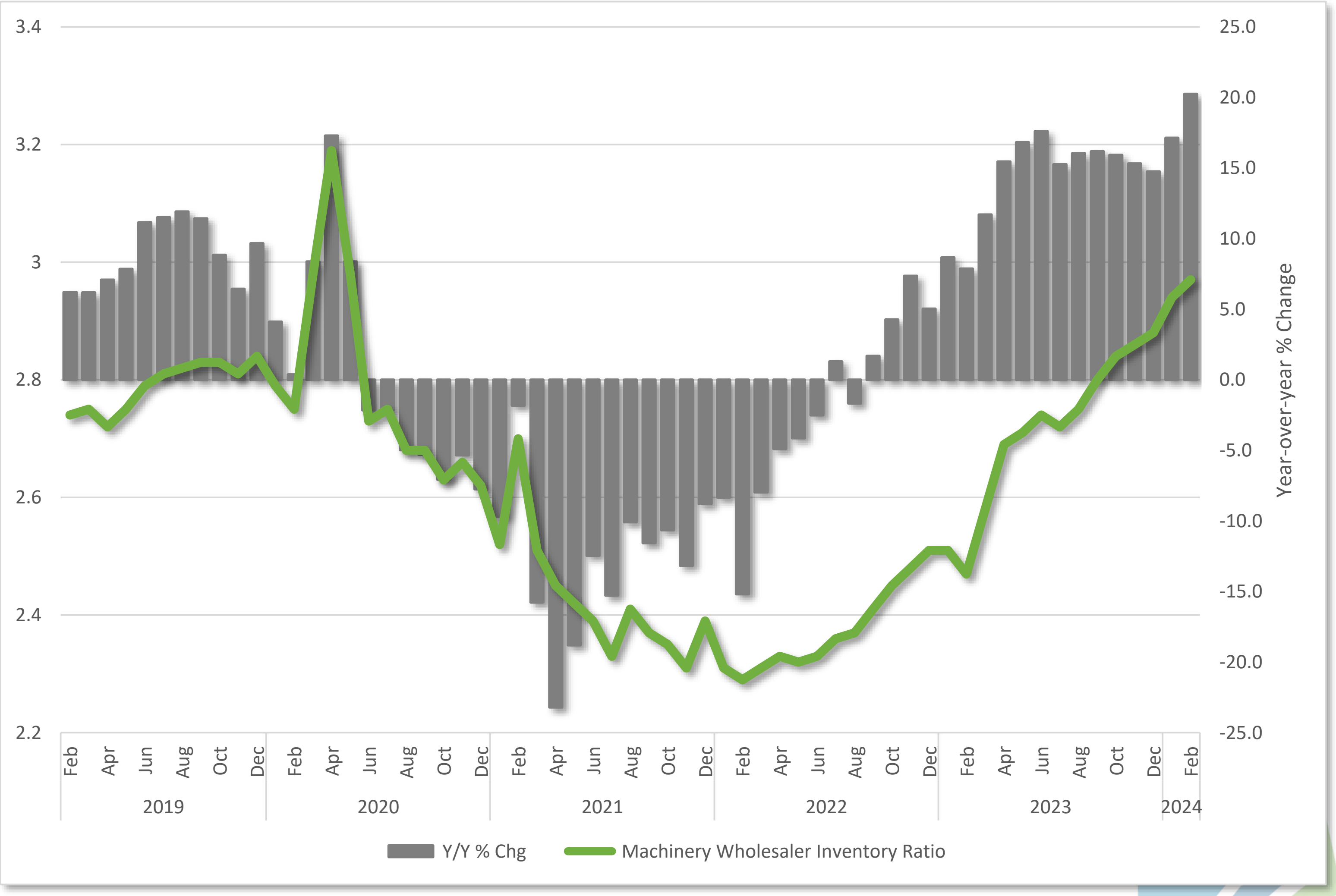
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

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

Our thoughts: Inventory levels rose in this sector in February albeit at a slower pace. Inventories are 7% above 2019 levels.

- The inventories-to-sales ratio increased 1% to 3.0 after rising 2.1% in the previous month.
- The ratio is 20.2% higher year-over-year. The ratio has been higher Y/Y for 20 straight months

One respondent to ISM's survey in this sector wrote, "Noticing an increase in suppliers' selectiveness regarding orders they quote and take. Additionally, there's been a noticeable increase in manufacturing companies targeted for acquisition by larger entities."



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 8.5% or 1.24 billion kilograms (kgs), above 2019 levels.

- Imports decreased 4.0%, or 657.5 million kilograms, month-over-month in February to 15.97 billion kgs, but are 13.3% higher year-over-year.
- Last month was only the 2nd Y/Y increase in 16-months
- Exports increased up 4.8%, or 432.67 million kgs, month-over-month in February, and are 8.9% higher than last year, marking four 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.

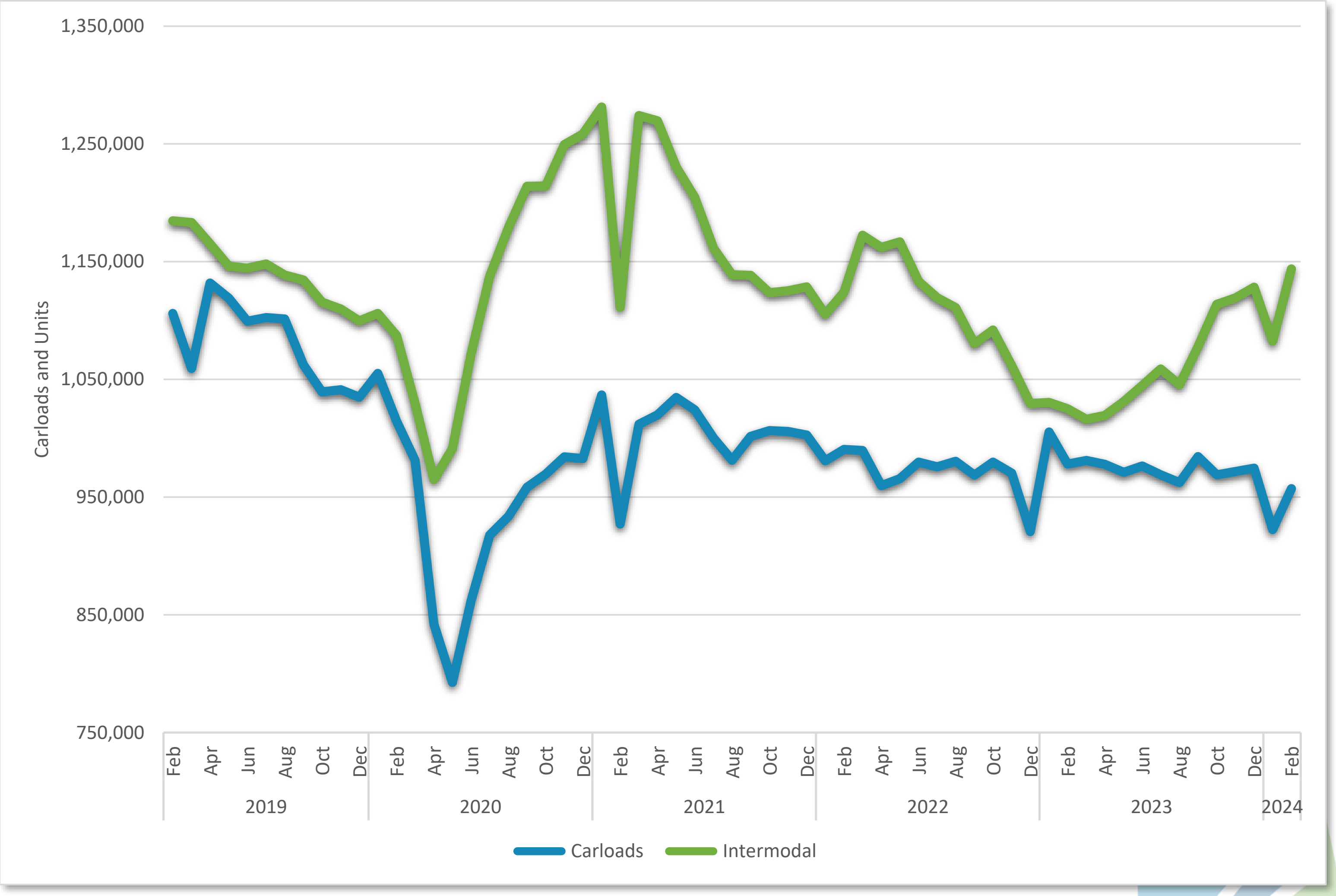
- While the rail and truck industries often compete with each other, they also work hand in hand.

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 bounced back slightly overall in February, while intermodal resumed it's upward momentum following last month's decrease as import volumes continue to perform well.

- Carloads increased 3.8% month-over-month in February to 957,197, but are down 2.1%, or 20,921 carloads year-over-year.
- Intermodal increased 5.7% to 1.143 million, and is up 11.6%, or 118,841 loads, year-over-year.
- Carloads are 11.8% below 2019 levels, while intermodal is just 0.3% lower than 2019, as intermodal is posed to have a good year in 2024.



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