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 break down 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

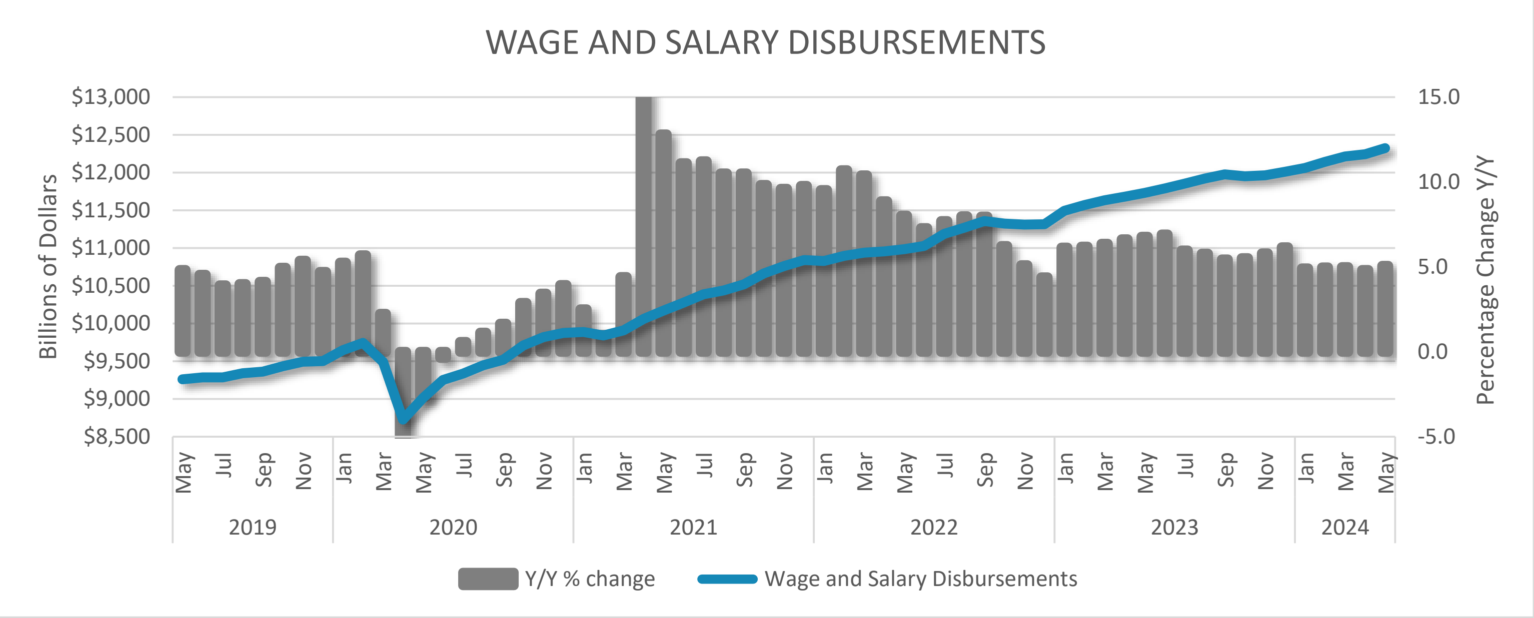
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so too does business and shipping activity.

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

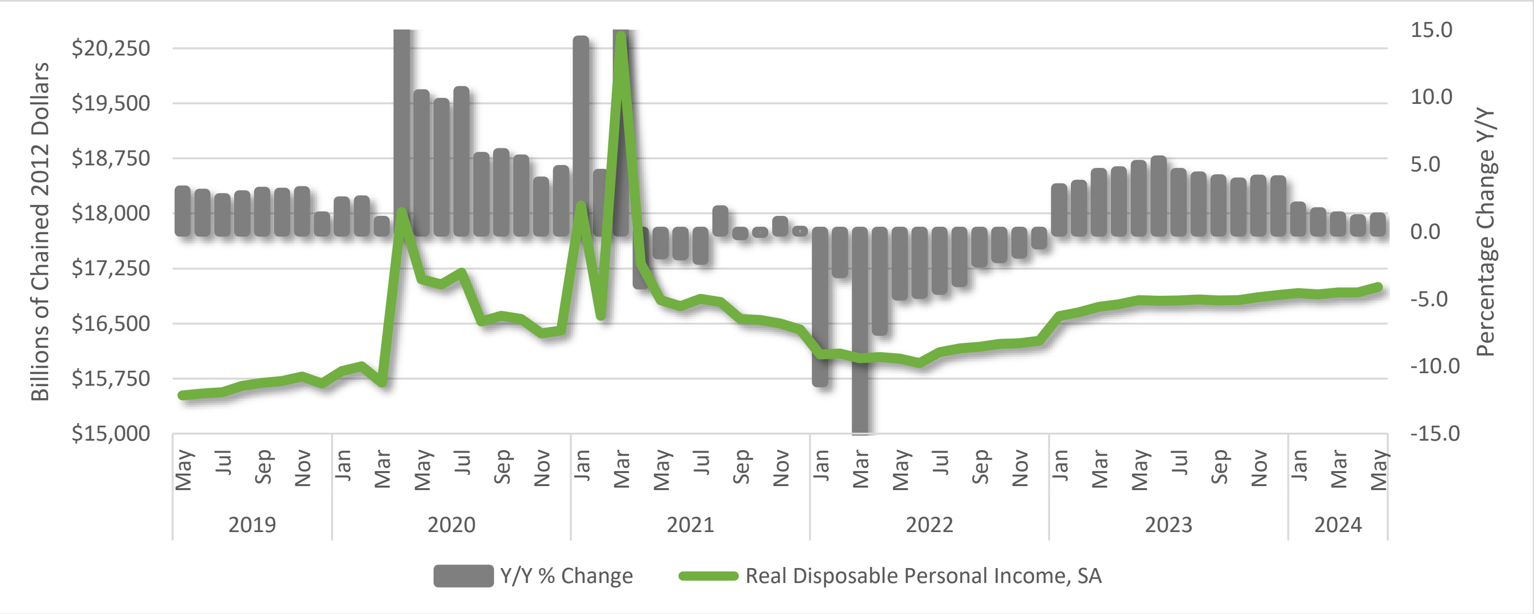
- For example, when disposable income and consumer sentiment are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream.

Our thoughts: Wages and salaries, as well as real disposable income, continue to grow year-over-year. Real disposable income however continues to grow at a much slower pace.

- Wages and Salary disbursements grew 0.7%, or $83.5 billion, month-over-month in May.
- In terms of year-over-year growth, wages and salary disbursements are 5.1% higher.
- Real disposable income, which is adjusted for inflation, increased 0.5% month-over-month to $17 trillion, after remaining flat in April.
- Real disposable income is 1.1%, or $181.1 billion higher year-over-year, and is tracking just 0.6% 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.

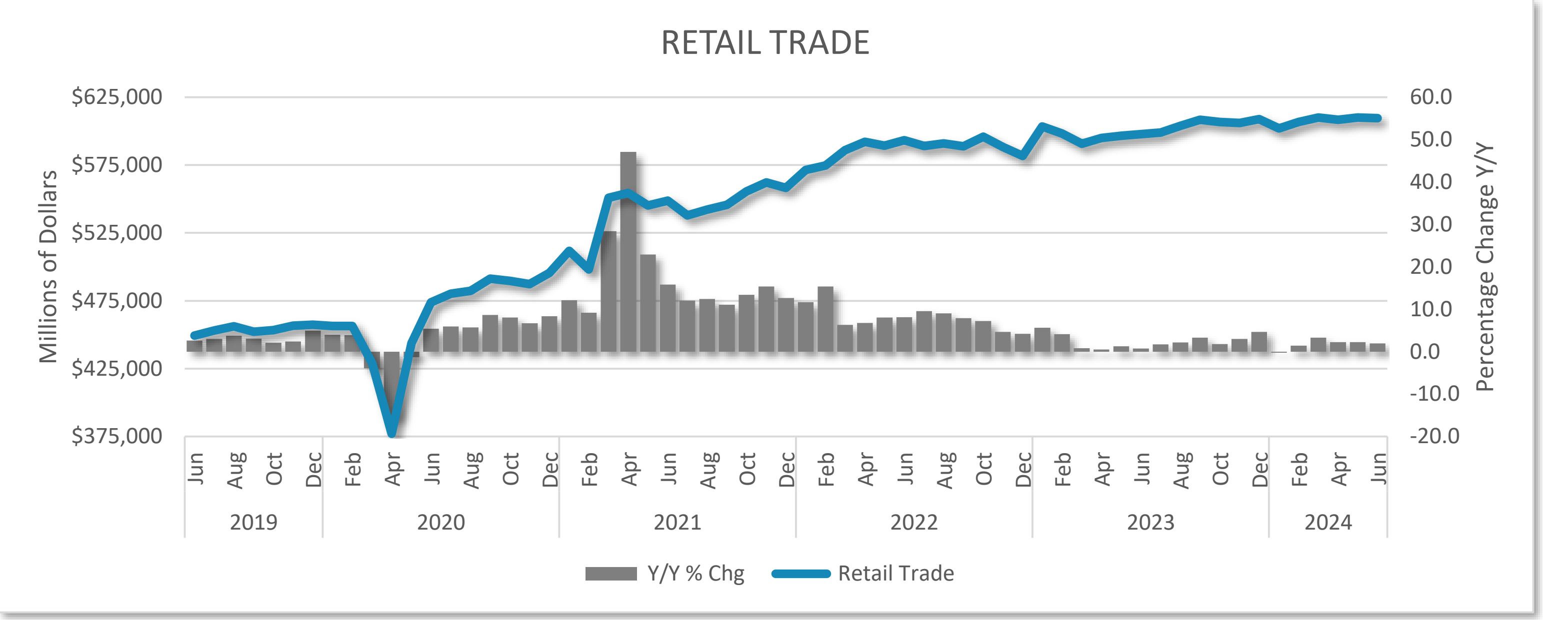
Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- 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 stayed decreased in June after increasing 0.2% in the previous month following adjustments to the data.

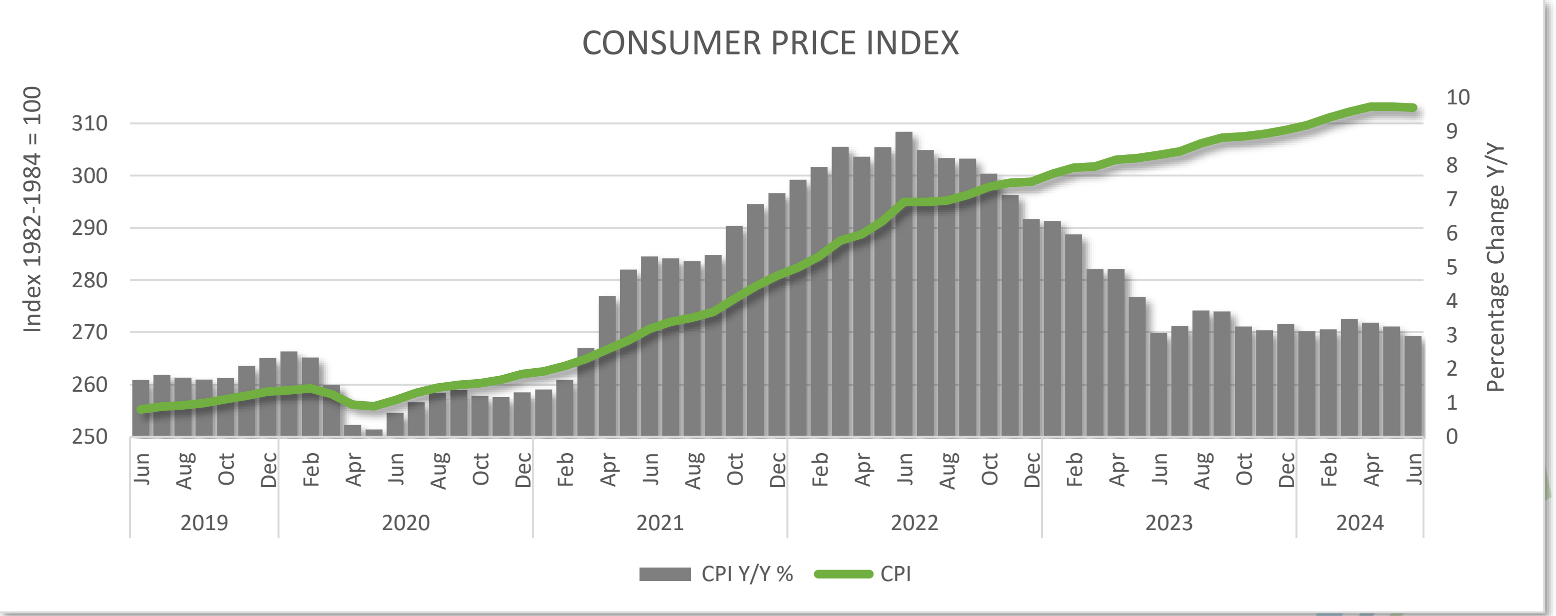
- Retail trade decreased 0.07%, or $415 million, month-over-month to $609.4 billion, and is 2.0%, or $11.6 billion, higher Y/Y. There has only been one Y/Y decrease in 48 months.
- CPI decreased by 0.2 to 313.0, which is 3.0% higher than it was a year ago. CPI continues to come in hot and is well below the FED's 2% target range. Some analysts believe the FED will cut rates in September, but don't bet on it.

Core CPI, which excludes food and energy, declined 3.9% month-over-month to 3.3%. The shelter and service components of CPI remain high (above 5%), while the energy component cooled significantly in June, which might help lower the overall 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.

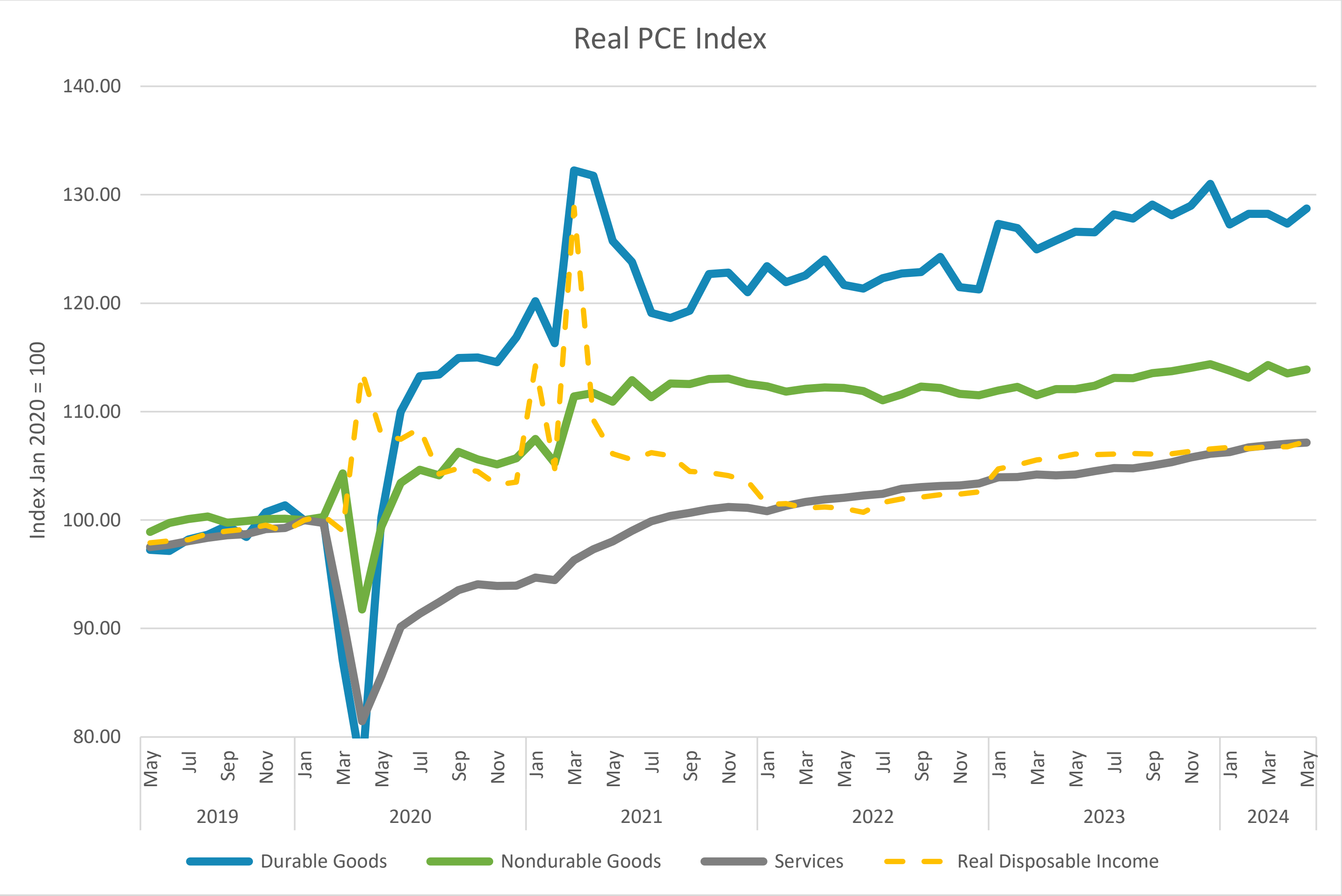
- The PCE measures a broad spectrum of consumer spending for a period of time.

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: Durable and non-durable goods, as well as services, grew in May.

- Consumer spending for durable goods increased 1.1% to $2.056 trillion, and is 1.7%, or $34.5 billion, higher year-over-year. Durable goods spending has increased Y/Y for 4 consecutive months.
- Spending for non-durable goods increased 0.3% to $3.38 trillion, which is 1.6% higher Y/Y. Non-durable goods spending has increased Y/Y for 12 straight months.
- Spending on services rose 0.1% to $10.29 trillion and is 2.8% higher Y/Y. Services are 9.4% higher than 2019 levels.



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.

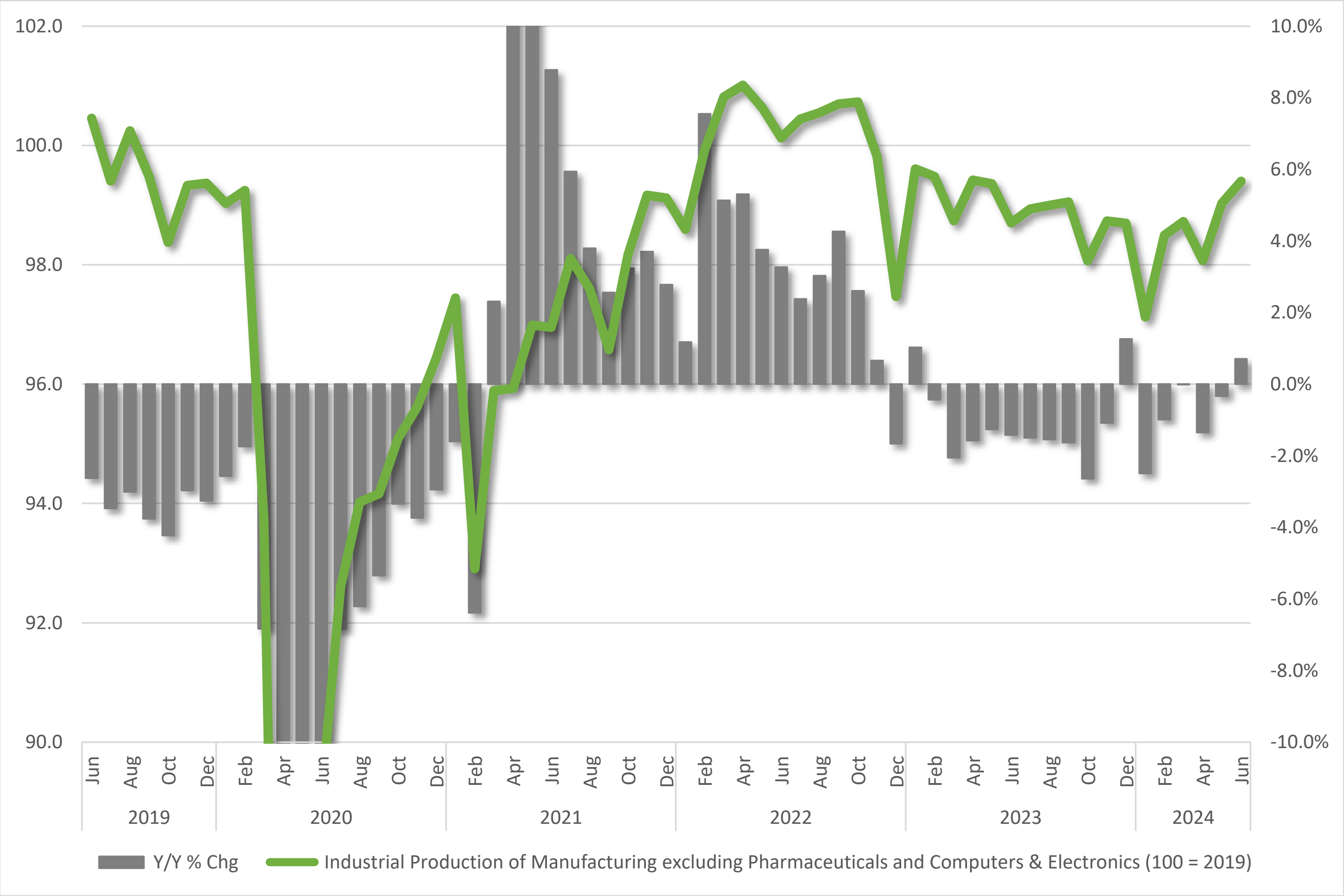
This is especially true when removing pharmaceuticals (NAICS 3254) and computer and electronic products (NAICS 334), as these sectors have an outsized influence on the overall manufacturing index considering how little freight they generate.

- 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 both month-over-month and year-over-year (Y/Y), in May.

- Manufacturing activity increased 0.38% to 99.4 after increasing 1.0% last month following adjustments, and is up 0.7% Y/Y.
- Activity was up Y/Y for the 3rd time in 18 months, and is 0.6% below 2019 levels.

Two consecutive quarters of declining seasonally adjusted manufacturing activity represents a manufacturing recession. The current recession has been ongoing for six 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.

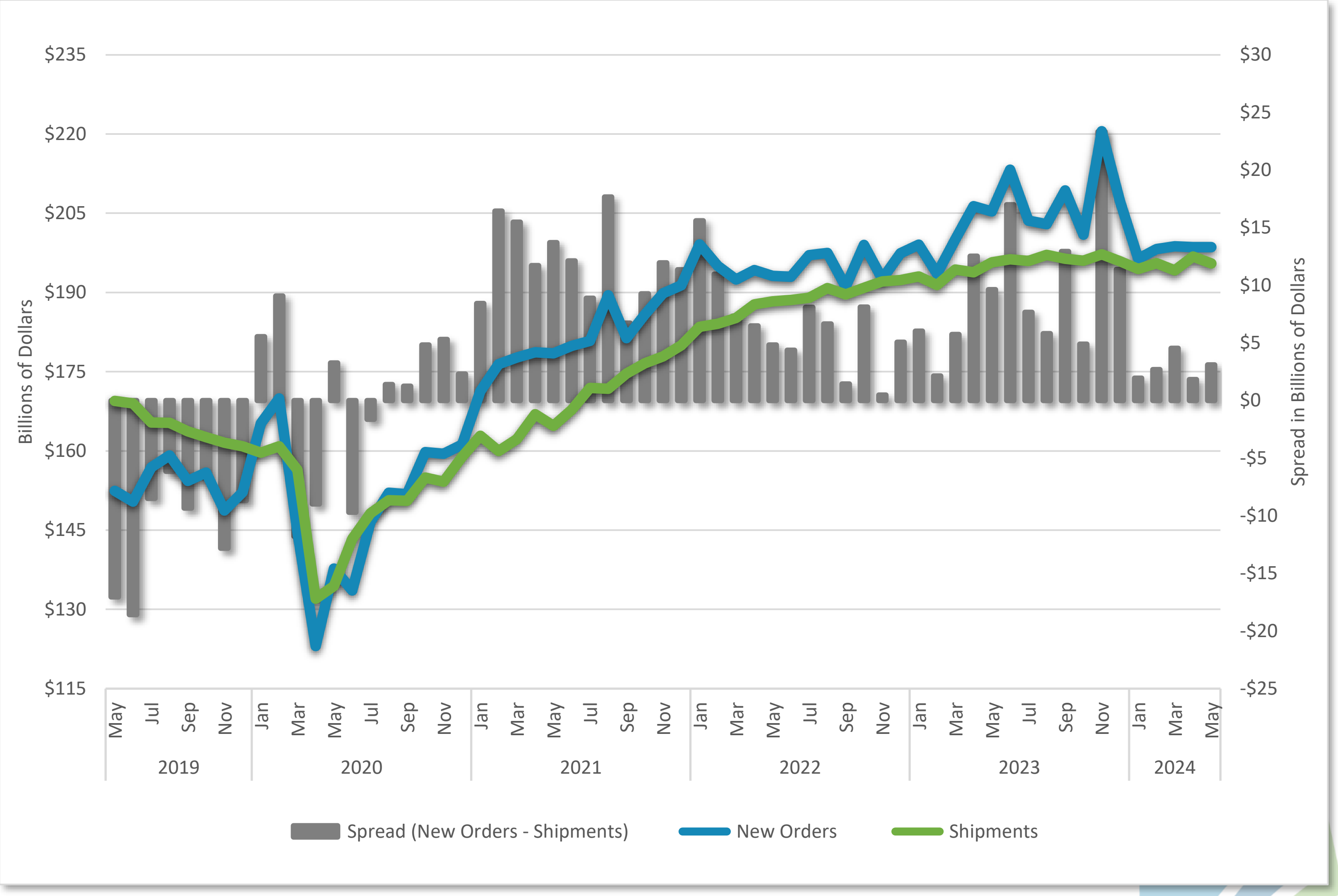
Why it matters: When unfilled new orders outperform shipments for unfilled orders, backlogs increase and we see growth in manufacturing activity. The reverse is also true.

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

Our thoughts: New orders eclipsed shipments in May for the 46th consecutive months after adjustments. New orders for make-to-order products still haven't declined during the current manufacturing recession.

- New orders remained flat month-over-month at $198.6 billion in May after decreased 0.1% following adjustments in April, but are 3.3%, or $6.7 billion, lower year-over-year (Y/Y). Marking 4 decreases in 5 months.
- Shipments decreased 0.7% to $195 billion and are 0.1% lower Y/Y. This is the 2nd Y/Y decline in three months.

The spread between new orders and shipments increased 69.1% month-over-month to $3.1 billion. The gap between new orders and shipments has been significantly lower over the past five months even despite the increase.



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.

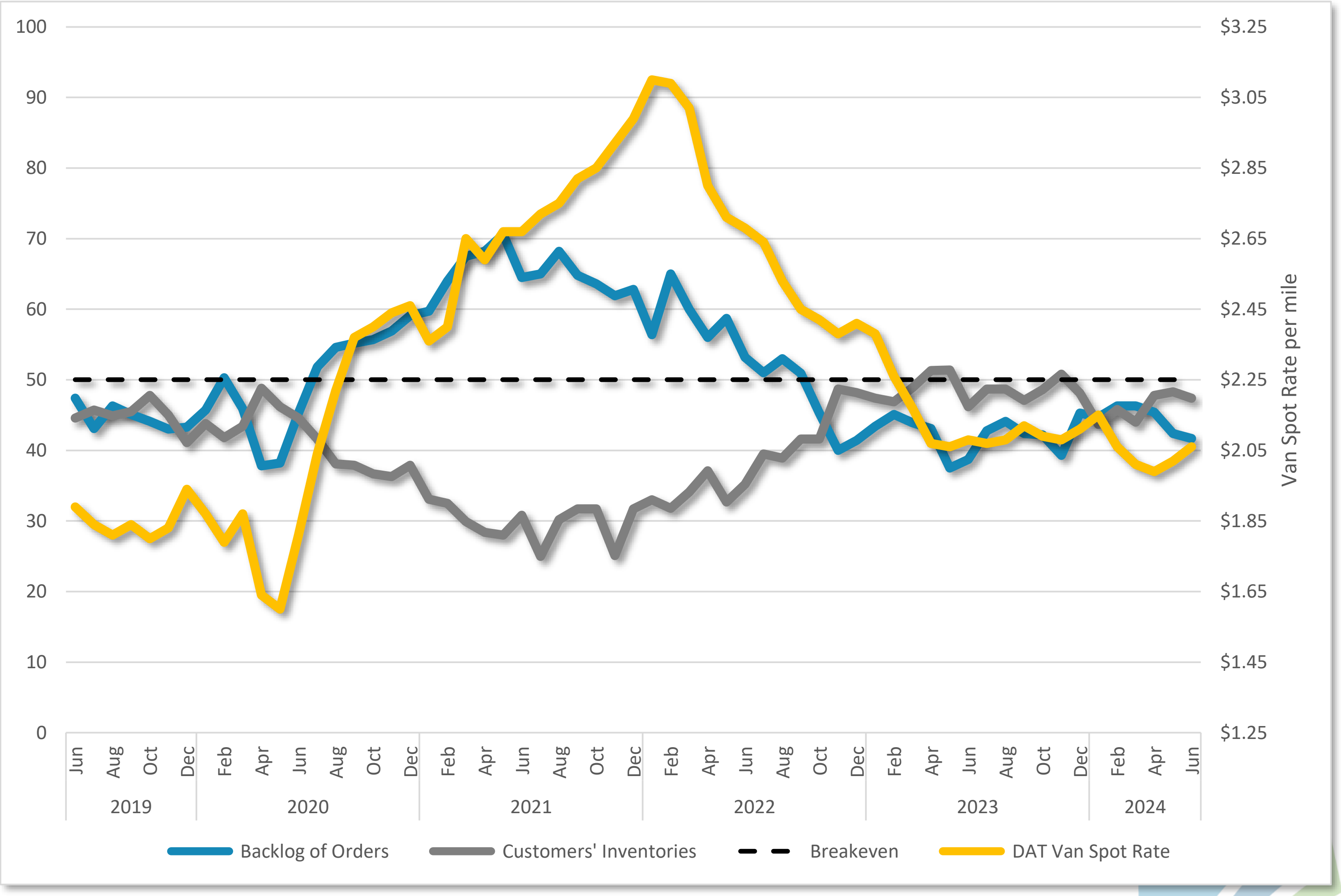
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart. The ISM is highly correlated with spot rates.

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

Our thoughts: According to ISM, the U.S. manufacturing sector moved further into contraction territory due to subdued demand. The New Orders Index improved but remained in contraction territory at 49.3%, which is bad news.

- Backlogs declined 1.7% month-over-month to 41.7, after dropping 6.6% last month. Backlogs have been in contraction territory for 21 straight months, but are up 3.0 percentage points year-over-year.
- Customers' inventories decreased 1.9% to 47.4. They are 2.6% lower year-over-year.
- Inventories are still above backlogs, which is bad for freight.

The bottom line: Demand slowed due to declines in New Orders, Backlog Orders, as well as 'just right' inventory levels, output declined compared to May, 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.

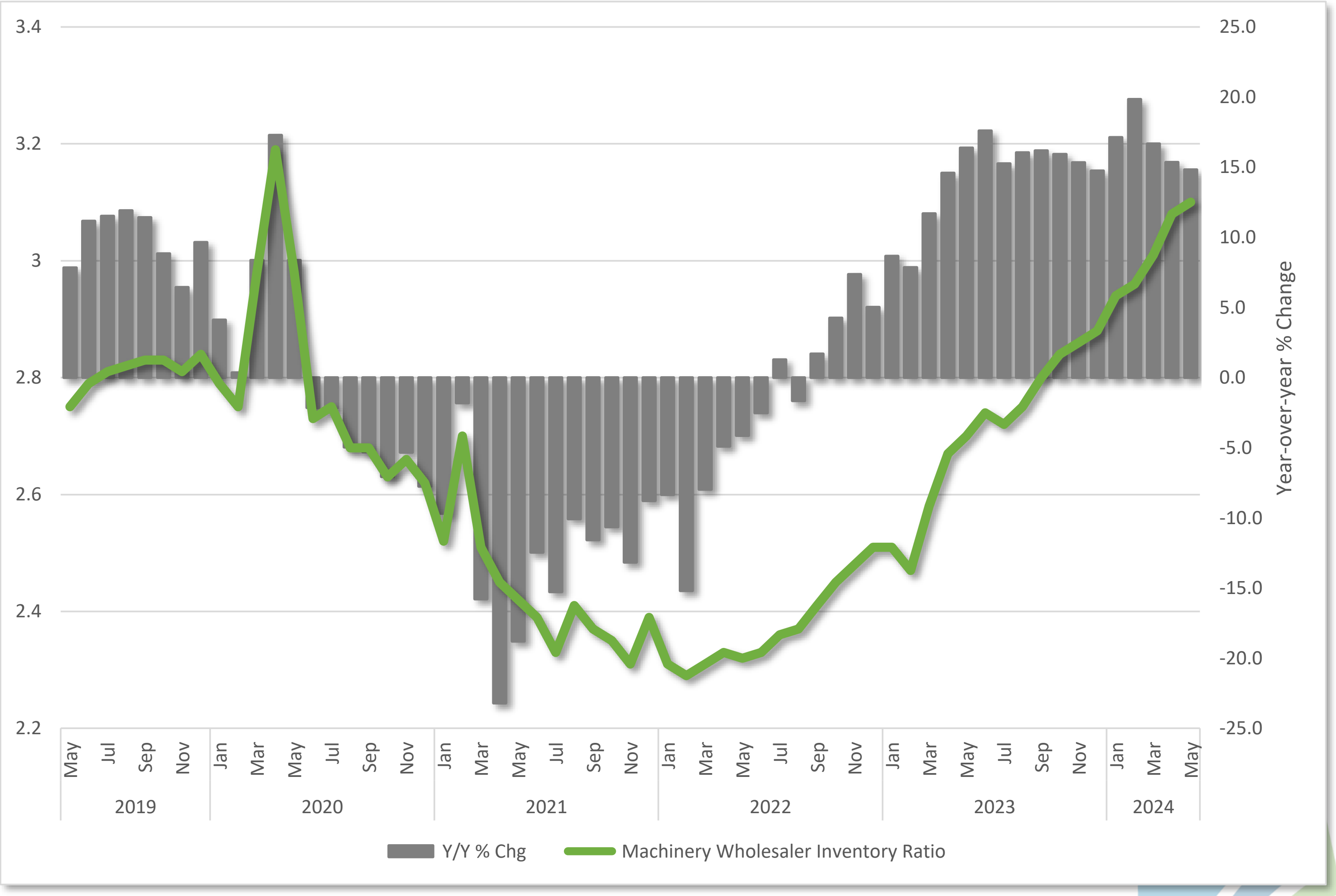
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

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

Our thoughts: Inventory levels continued to rise in this sector in May. Inventories are 11.6% above 2019 levels.

- The inventories-to-sales ratio increased 0.6% to 3.10 after increasing 2.3% in the previous month.
- The ratio is 14.8% higher year-over-year. The ratio has been higher Y/Y for 23 straight months.

One respondent to ISM's survey in this sector wrote, "Sales backlog is decreasing. We have furloughed a portion of our workforce as a result."



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: Imports continue to perform well, while exports dipped again month-over-month (M/M) but continue to do well year-over-year (Y/Y). In fact, imports are currently 21.6% or 3.18 billion kilograms (kgs), above 2019 levels.

- Imports increased 5.2%, or 881.8 million kgs, M/M in May to 17.91 billion kgs, and are 10.9% higher Y/Y.
- Last month was the 4th consecutive Y/Y increase.
- Exports decreased up 2.2%, or 216.31 million kgs, M/M in May, but are 8.2% higher than last year, marking seven straight months of Y/Y increases.
- Exports however are 12.9% below 2019 levels.

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.

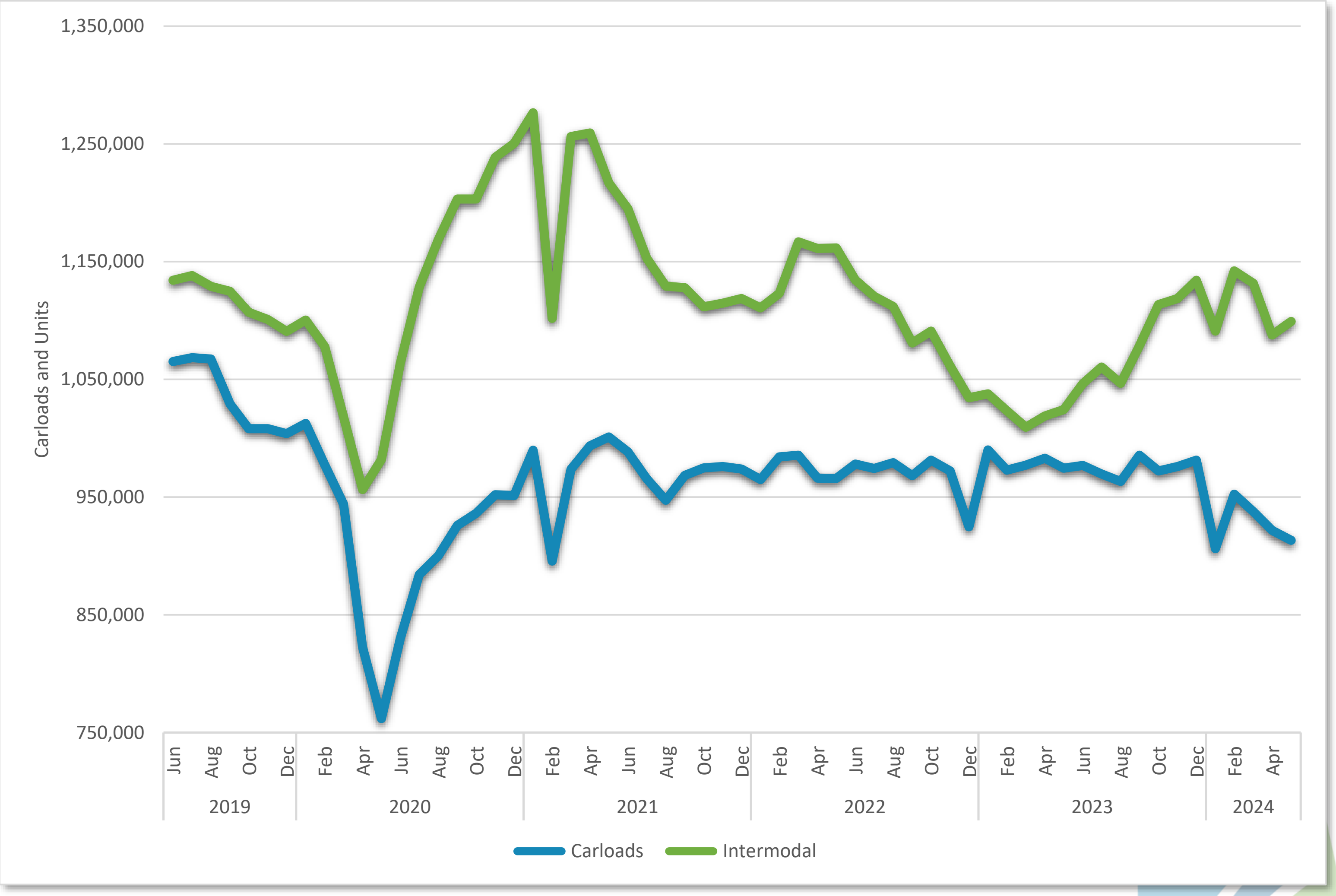
- While the rail and truck industries often compete with each other, they also work hand in hand.

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 to slide overall in May, while intermodal's upward momentum picked back up again following last month's decrease.

- Carloads decreased 0.9%, or almost 8,500, month-over-month to 913,205, and are down 6.5%, or 63,800 carloads, year-over-year.
- Intermodal increased 1.1% to 1.1 million, and is up 5.1%, or 52,850 loads, year-over-year.
- Carloads are 15.8% below 2019 levels, while intermodal is 4.2% lower than 2019. Industry analysts believe that 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