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

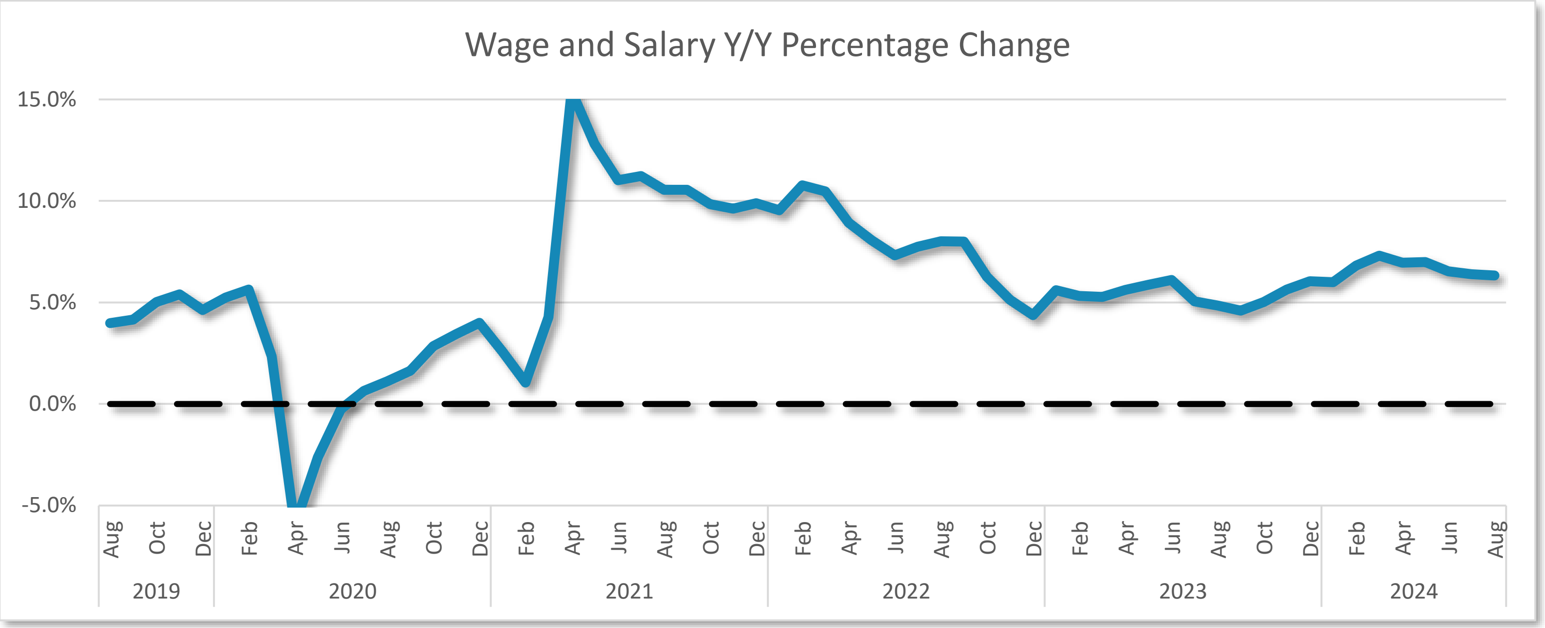
The big picture: Consumers move the U.S. economy. As consumer conditions and sentiments change, so too does business and shipping activity.

Why it matters: Wage and salary growth and disposable income have great influence on consumers.

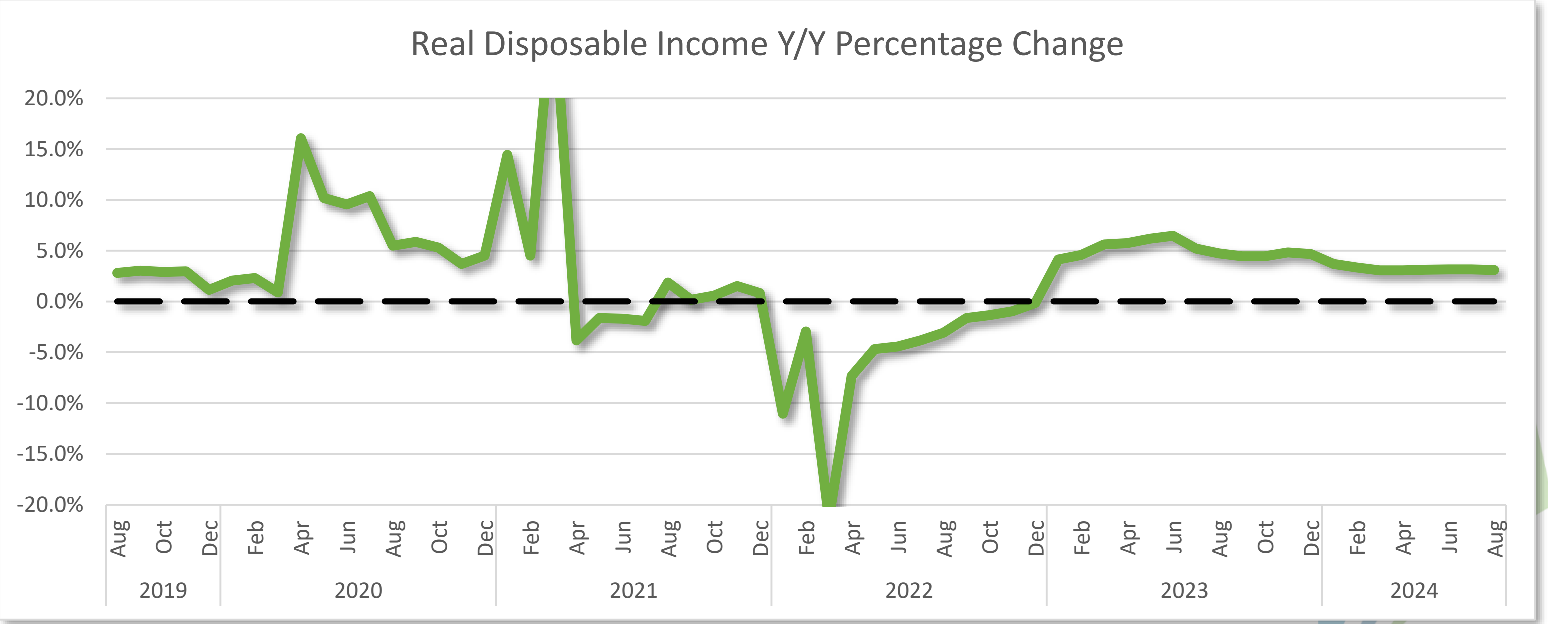
- For example, when wage and salary growth and disposable income are high, people typically purchase more goods, both durable and non-durable.
- This creates more freight demand downstream. Conversely, when wage growth continues to slide it creates a headwind for demand.

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

- Wages and Salary disbursements grew 0.5%, or $58.2 billion, month-over-month.
- In terms of year-over-year growth, wages and salary disbursements are 6.3% higher.
- Real disposable income, which is adjusted for inflation, increased 0.1% month-over-month to $17.614 trillion, after increasing 0.1% in July.
- Real disposable income is 3.1%, or $528.2 billion, higher year-over-year, and is tracking 3.8% higher than the 2019 trendline, which is a significant jump from last month.



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.

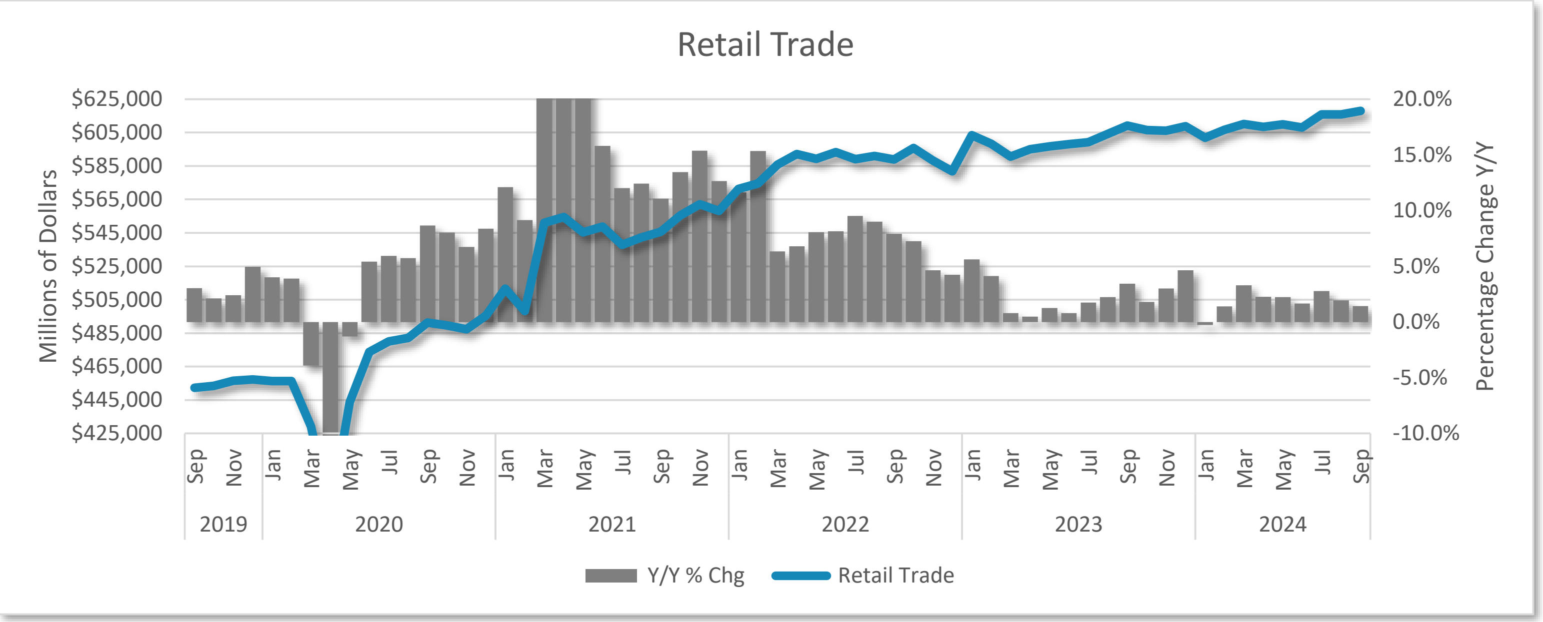
Why it matters: Both retail sales and CPI can help the owner-operator gauge the economic health of the country and thereby the freight market.

- 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.

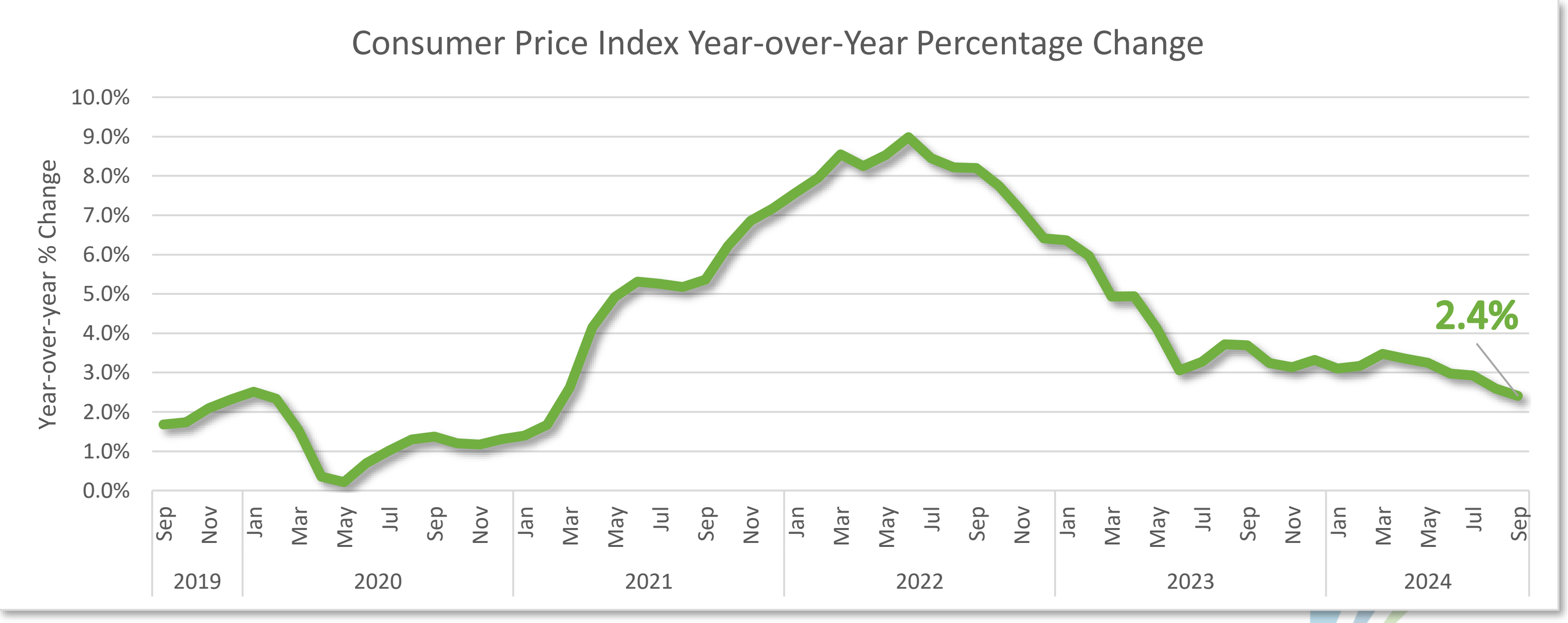
Our thoughts: Retail trade increased in September after increasing 0.3% in the previous month following adjustments to the data.

- Retail trade increased 0.3%, or $2.07 billion, month-over-month to $617.958 billion, and is 1.4%, or $8.78 billion, higher Y/Y. There has only been one Y/Y decrease in 51 months, and that was January 2024.
- CPI increased by 0.6 to 314.7, which is 2.4% higher Y/Y. CPI, as well as the labor market, continues to slow, which is why the FED cut interest rates in September and plans to implement more cuts in the near future.

Core CPI, which excludes food and energy, decreased 0.2% month-over-month to 3.3%. The shelter and service components of CPI remain high (close to 5%), but are continuing to cool. The energy component is negative 6.9%.



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

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.

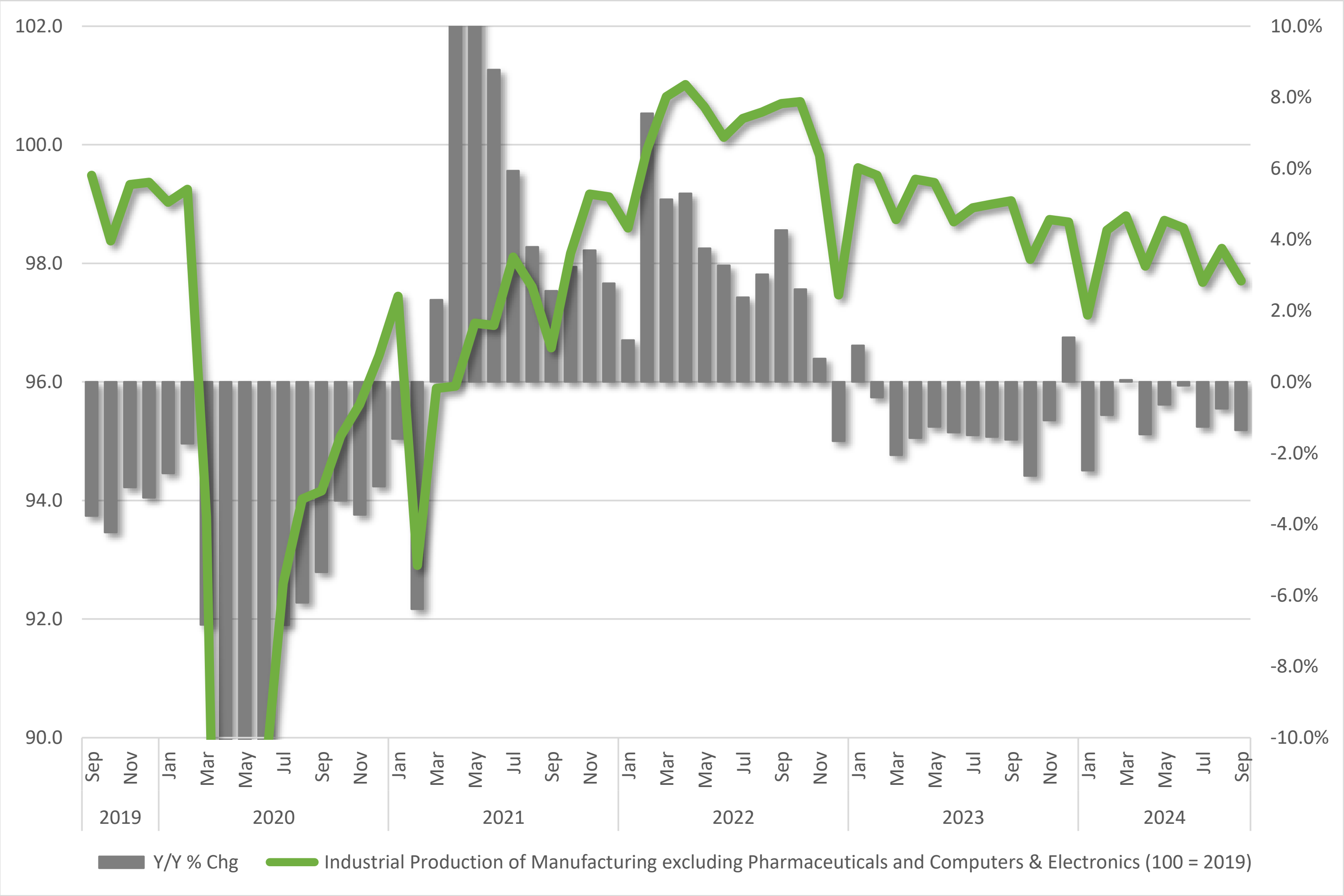
This is especially true when removing pharmaceuticals (NAICS 3254) and computer and electronic products (NAICS 334), as these sectors have an outsized influence on the overall manufacturing index considering how little freight they generate.

- 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 decreased month-over-month and declined year-over-year (Y/Y) in September.

- Manufacturing activity decreased 0.56% to 97.71 after increasing 0.58% last month following adjustments, and is down 1.4% Y/Y.
- Activity was down Y/Y for the 18th time in 22 months, and is 2.3% 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, and appears to be headed for a seventh.



Source: Federal Reserve Board | https://www.federalreserve.gov/releases/g17/Current/ | 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.

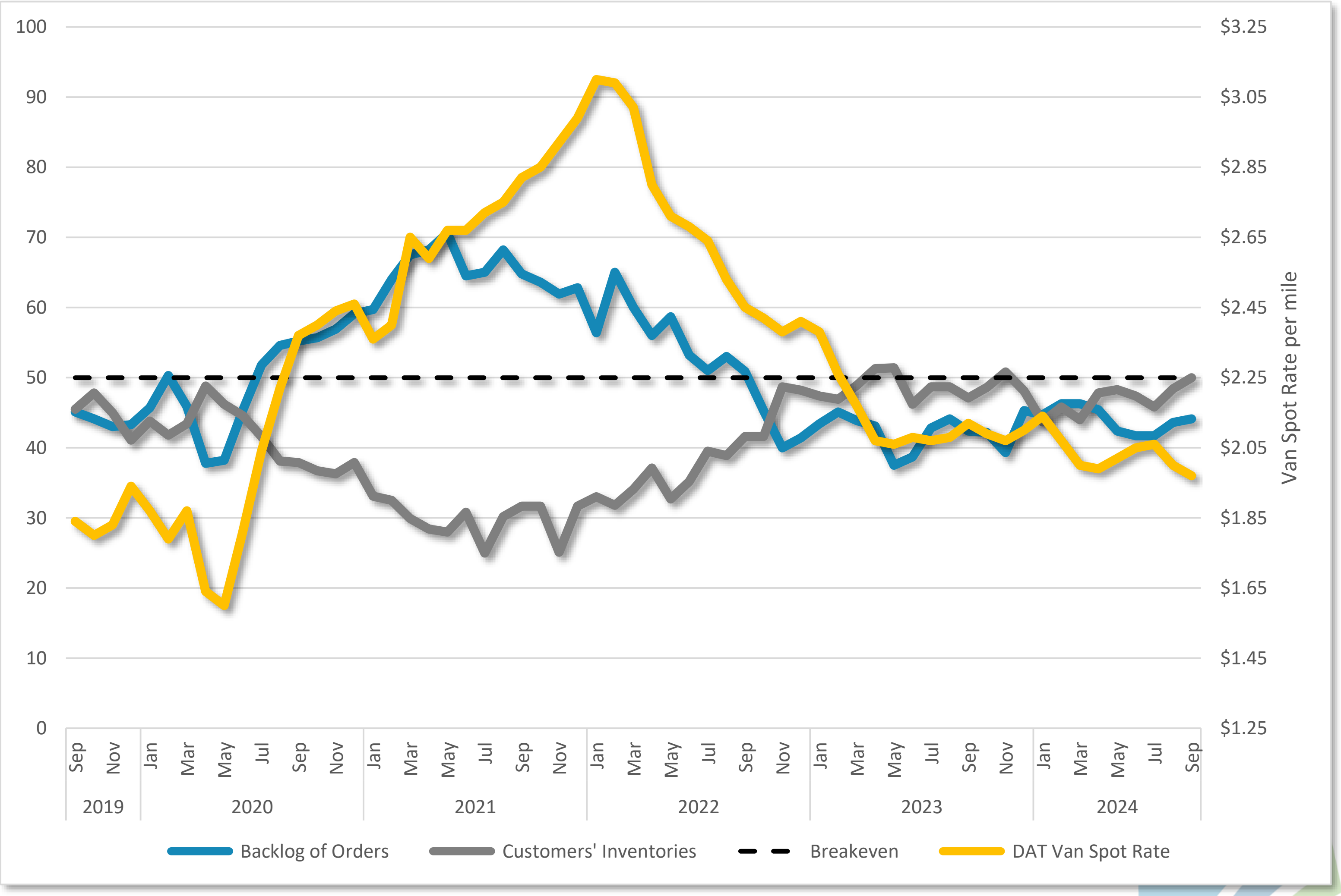
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart. The ISM is highly correlated with spot rates.

- 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 contracted in September for the 6^{th} consecutive month and the 22^{st} time in the last 23 months. The New Orders Index increased 1.5 points to 46.1%, but remains in contraction territory.

- Backlogs increased 1.1% to 44.1, after jumping 4.6% last month. Backlogs have been in contraction territory for 24 straight months, but increased 1.7 percentage points year-over-year.
- Customers' inventories increased 3.3% to 50. They are 6.2% higher year-over-year, which is a headwind for freight.
- Inventories are still above backlogs, which is also bad for freight.

The bottom line: Demand remains subdued, as companies show an unwillingness to invest in capital and inventory due to previous federal monetary policy and election uncertainty. The share of manufacturing sector GDP registering below 45 percent (a good barometer of weakness) was 41% in September, an 8-point improvement from last month.



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.

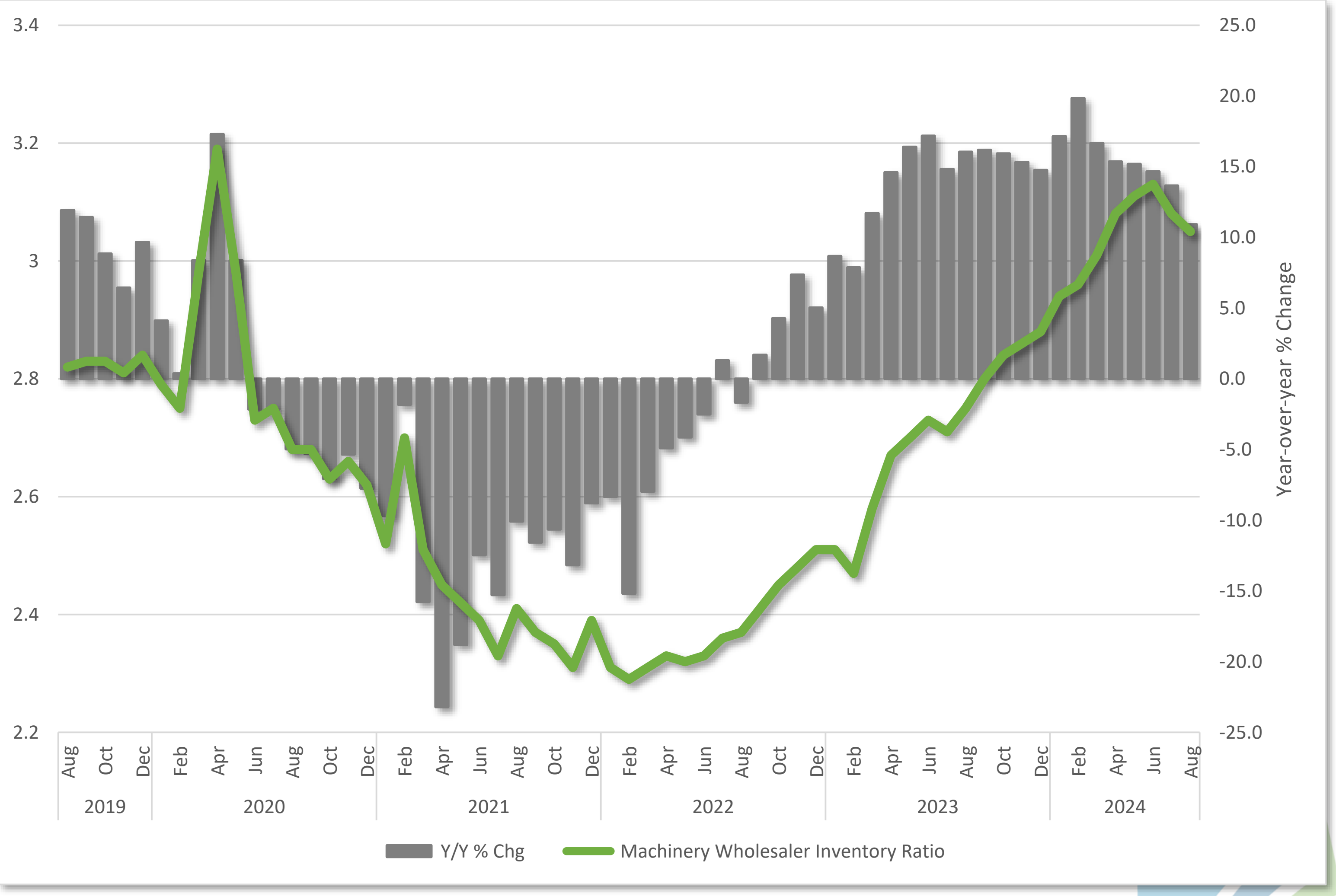
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

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

Our thoughts: Inventory levels dropped in this sector for the second time in 14 months. Inventories are 9.8% above 2019 levels when the ratio was 2.8.

- The inventories-to-sales ratio decreased 1.0% to 3.05 after decreasing 1.6% in the previous month.
- The ratio is 10.9% higher year-over-year. The ratio has increased Y/Y for 26 straight months, but has perhaps found its peak.

One respondent to ISM's survey in this sector wrote, "A continuing low order rate is resulting in ongoing manufacturing adjustments to balance output with demand."



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 declined month-over-month (M/M) in August, while exports increased. Imports continue to perform well however, when we look at year-over-year (Y/Y) comparisons.

- Imports decreased 3.7%, or 679.5 million kgs, M/M to 17.93 billion kgs. Imports are 9.2% higher Y/Y and 21.7%, or 3.2 billion kgs, above 2019 levels.
    - Last month was the 7th consecutive Y/Y increase.
- Exports (not pictured) increased 4.3%, or 389.78 million kgs, M/M, and are 7.1% higher than last year, marking 10 straight months of Y/Y increases.
    - Exports however are 14% 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.

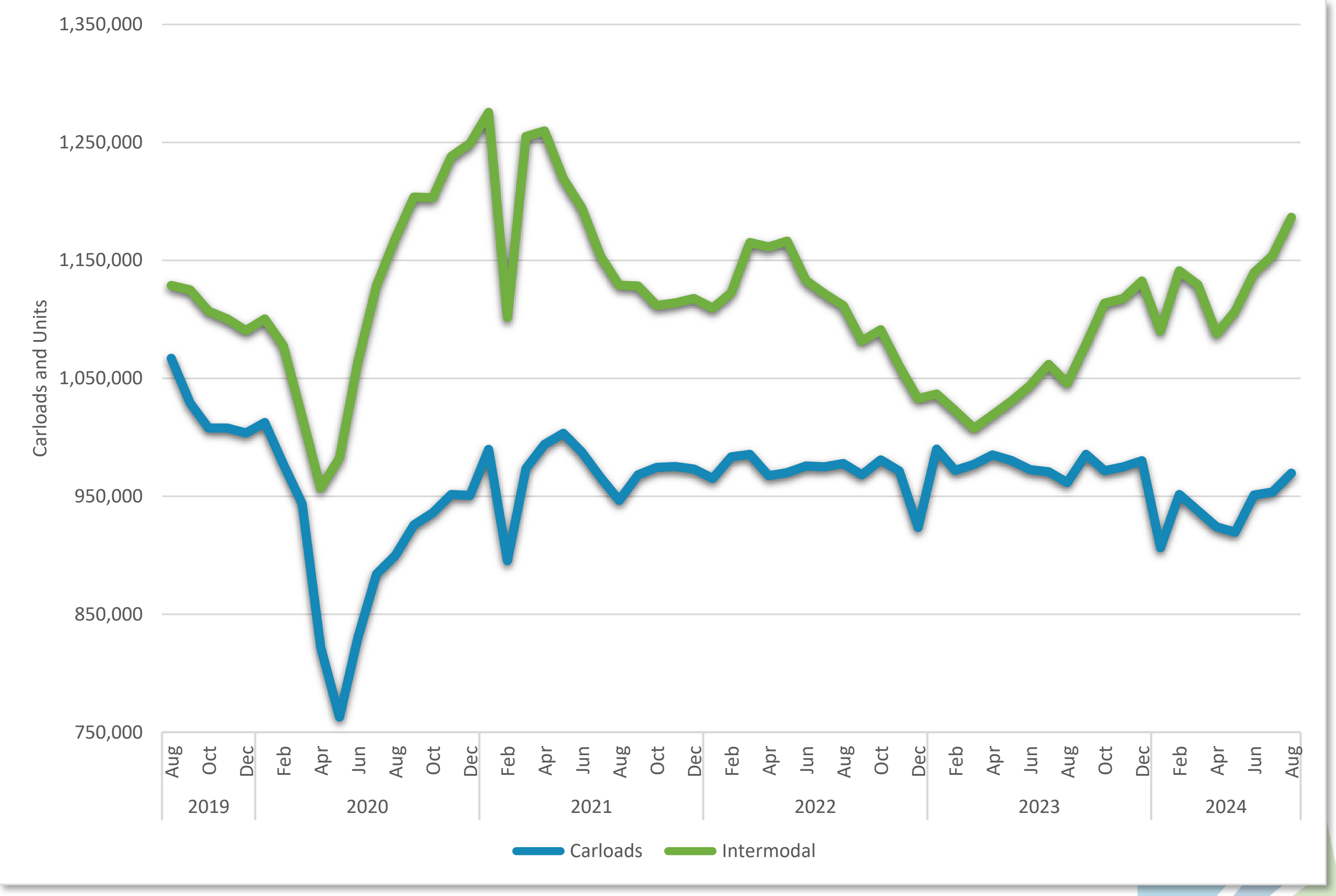
Why it matters: Most freight that is transported by rail, will require a truck for the final mile.

- 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: Union Pacific (UP) recently announced that intermodal markets are constrained in California as volume has continued to grow following Labor Day. UP announced peak season surcharges, which it expects will be in place through October. Both carloads and intermodal ticked up in August.

- Carloads increased 1.7%, or 15,968, month-over-month to 969,647, and are up 0.8%, or 7,885 carloads, year-over-year. This is the first Y/Y increase in 8 months.
- Intermodal increased 2.8% to 1.186 million, and is up 13.4%, or 140,633 loads, year-over-year.
- Carloads are 10.6% below 2019 levels, while intermodal is 3.4% higher than 2019.

Growth in intermodal has remained strong throughout 2024, primarily due to international intermodal. According to C.H. Robinson, intermodal volume performance is up 12% since Labor Day and 9.5% year-over-year.



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