Flatbed Market Outlook

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The trucking industry consists of several different types of operations and segments. While one size certainly doesn't fit all, market analysts typically break down the industry into three main sectors based on trailer type: Van, Flatbed, and Reefer.

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 Flatbed market outlook, we will look at:

1. **Demand** shows us how many trucks the market needs to move freight.
2. **Rates** illustrate how much the average owner-operator can expect to earn.

We will also examine three key economic indicators that directly impact the flatbed market:

1. Industrial Production Flatbed Composite Index
2. Housing
3. Advanced Retail Sales: Building Materials

Demand: Flatbed Market Demand Index (MDI)

The big picture: The Truckstop and FTR MDI measures the relative demand in the trucking market by calculating the ratio of load postings to truck postings on the Truckstop platform.

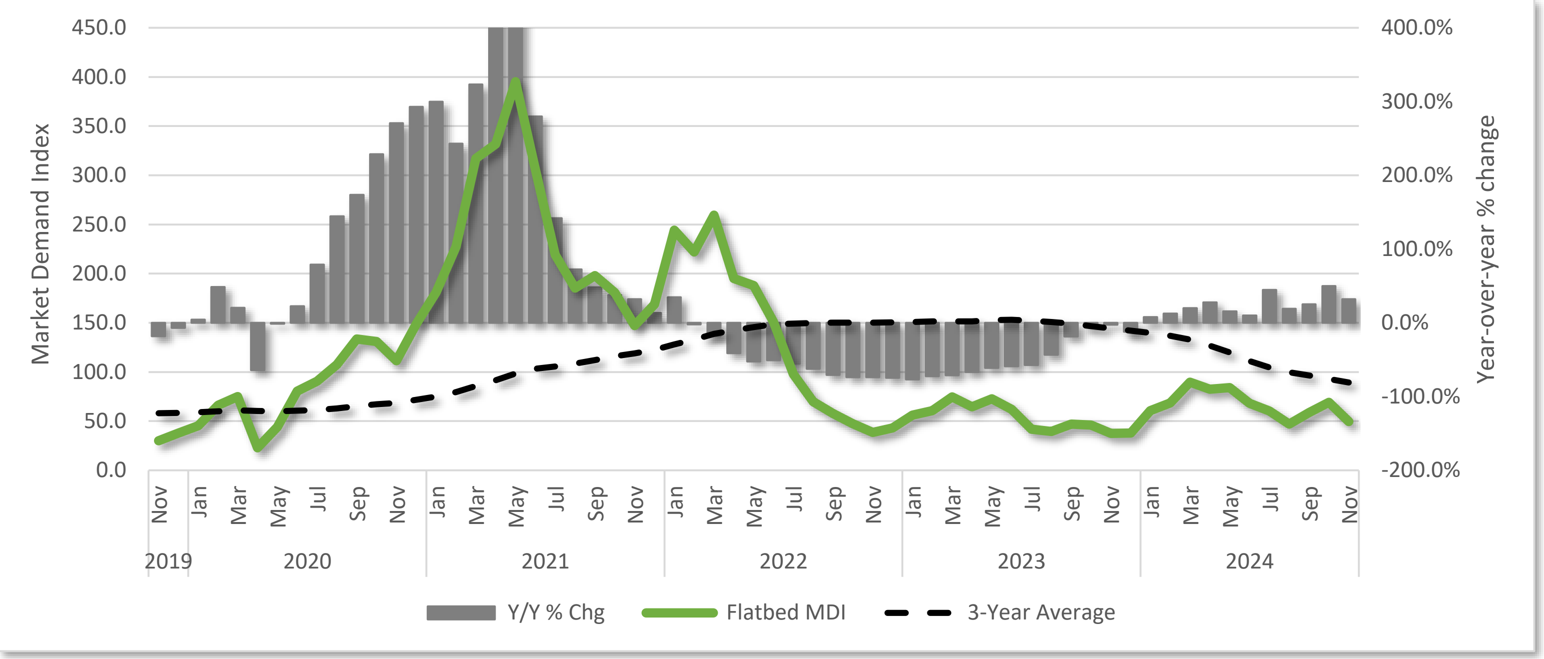
Why it matters: The MDI depicts the balance between available freight and available capacity at a given time, meaning that fluctuations in the ratio often signal impending changes in rates.

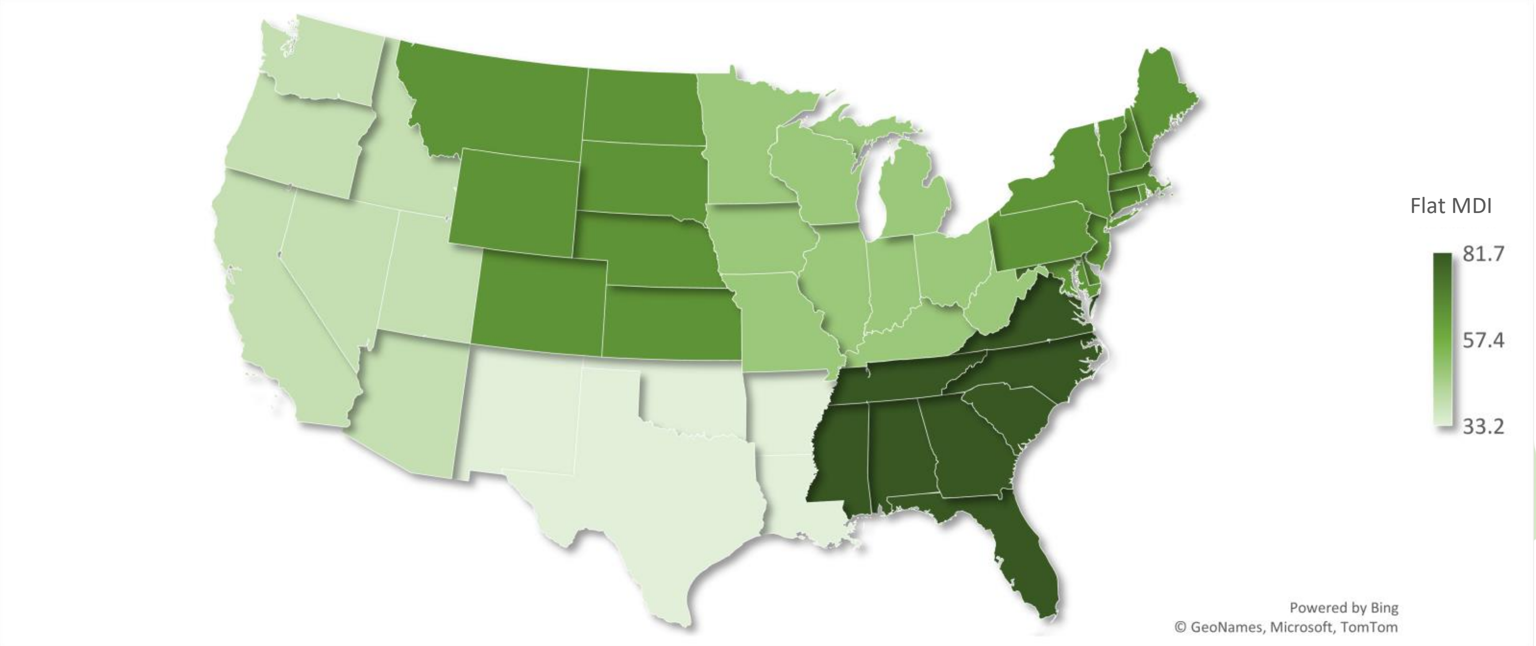
Our thoughts: The Flatbed MDI increased in December, which is quite normal for this time of the year as we head into the start of the new year.

- The Flatbed MDI increased 7.0% month-over-month to 53.0, after plummeting 28.5% last month.
- The increase was primarily due to a drop in capacity comparative to freight as the amount of available trucks decreased 9.9% compared to 3.7% for freight.
- The ratio is 40.2% higher than last year, marking six consecutive months of growth, but is 39.0% below the 3-year average, which indicates that new cycle has yet to begin.

Regionally speaking, ratios were more favorable for carriers operating in the Southeast (81.7) and Northeast (65.0) regions, respectively, compared to other areas in the country.

- 3 of the 6 regions experienced an increase in MDI. The largest increase being the South Central region, which jumped 29.1% from 25.2 to 33.2.





Source: Truckstop + FTR | https://freight.ftrintel.com/spotmarketinsights | Monthly

Rates: Flatbed Spot Rates

The big picture: Truckstop and FTR have partnered together to provide a comprehensive picture of the spot market for various load types, including flatbed.

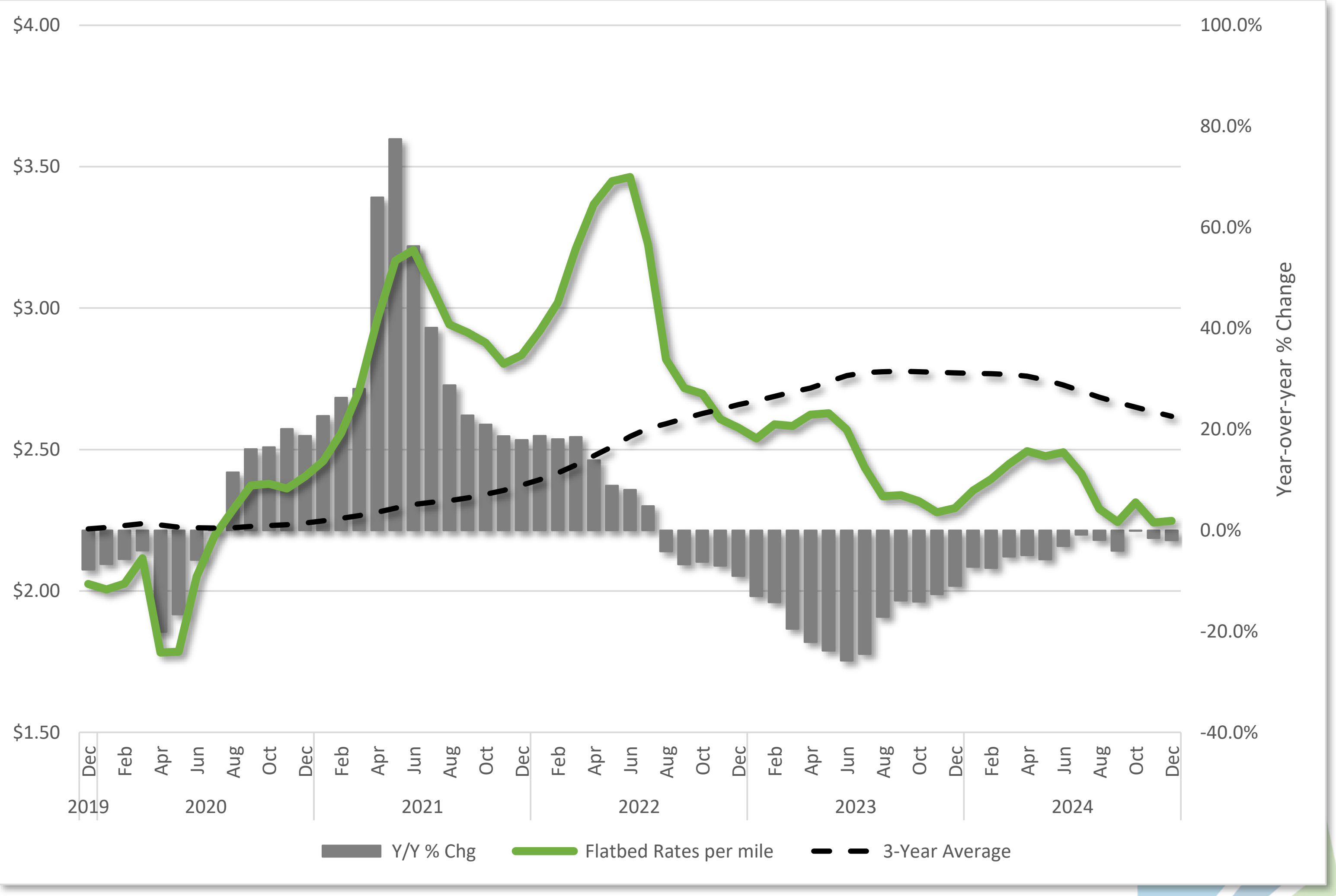
Why it matters: These rates reflect the condition of the freight market in real-time. Please note that they include fuel surcharges.

Our thoughts: Flatbed spot rates ticked upward month-over-month (M/M) in December, after decreasing $0.07 per mile last month.

- Spot rates increased $0.01 per mile M/M to $2.25, but are 2.0%, or $0.05 per mile lower than last year.
- Flatbed spot rates have decreased year-over-year for 29 consecutive months, and are $0.37 per mile below the 3-year moving average ($2.62).

Bottom line: The spread between the spot rate and the 3-year moving average clearly demonstrates where we are in the flatbed market cycle.

- The spread improved M/M by $0.02 per mile in December, and is $0.11 better than where we were last year.
- While the spread has improved 25.2%, or $0.12, from its bottom in April 2023, we still have a long way to go before we reach parity in this segment of the industry.



Source: Truckstop + FTR | https://freight.ftrintel.com/spotmarketinsights | Monthly

Industrial Production:
Flatbed Composite Index

The big picture: The Federal Reserve Board's Industrial Production (IP) index measures the real output of various manufacturing industries.

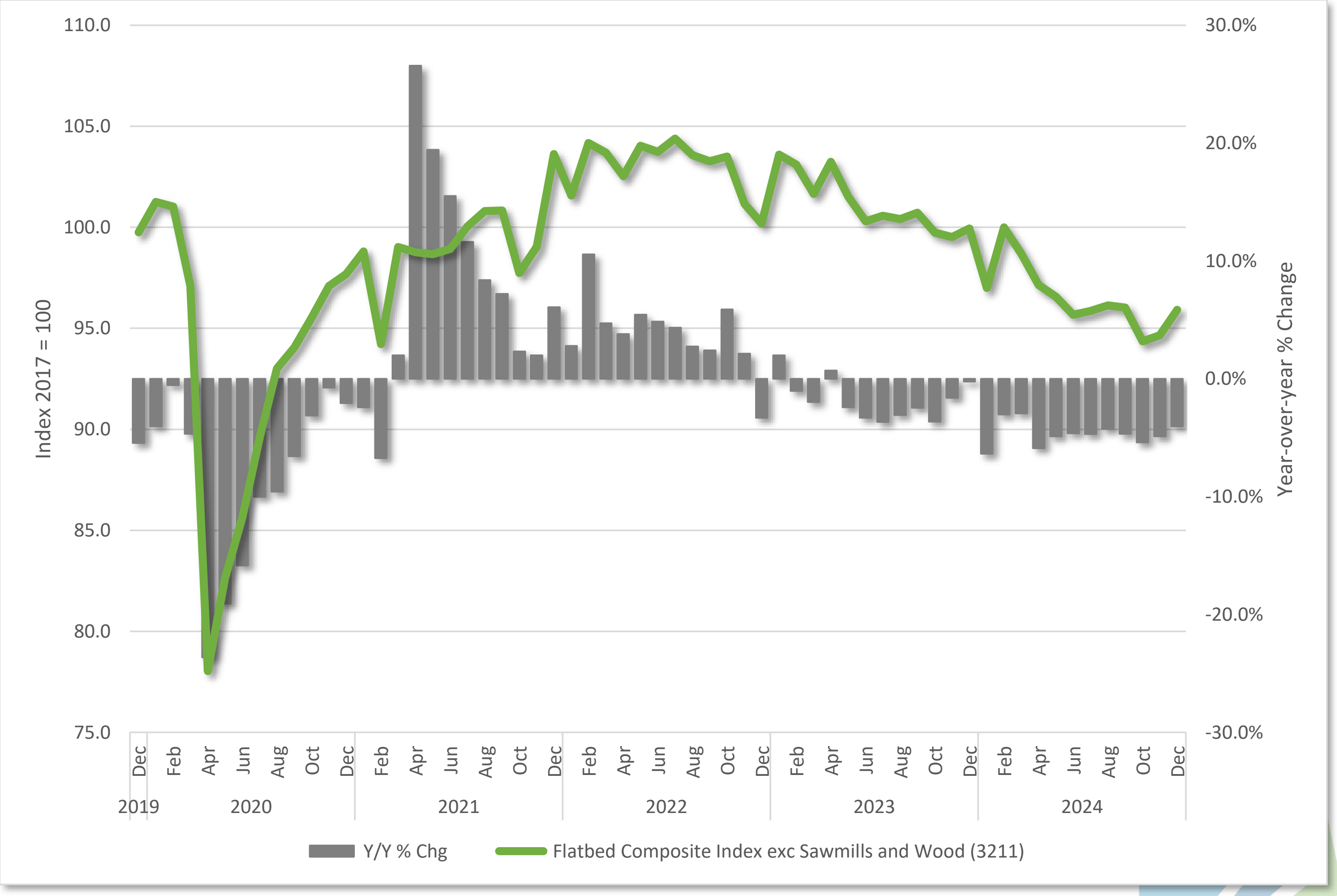
- Manufacturing makes up about 60% of all for-hire trucking ton-miles, making the IP Index a great indicator of future demand.

Why it matters: Flatbed trucking is often linked to industries related to steel production, construction materials, mining, agriculture equipment, heavy machinery, oil and gas equipment, and lumber shipments.

- With this in mind, we've created a composite index using these sectors to forecast demand for flatbed trucking.

Our thoughts: The seasonally-adjusted flatbed composite index (FCI), which correlates strongly with the spot market, increased in December after increasingly 0.3% in November following adjustments.

- The FCI rose 1.3% to 95.9, marking two consecutive months of increases following adjustments.
- The FCI is still 4.0% lower year-over-year however, when the index read at 99.9. The FCI has declined Y/Y for 20 straight months.
- The index is 4.3% below the 3-year average, which is 100.2.



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

Housing: Starts, Under Construction, Completed

The big picture: The U.S. Census Bureau publishes monthly estimates on the number:

- Housing starts, and
- Housing under construction.

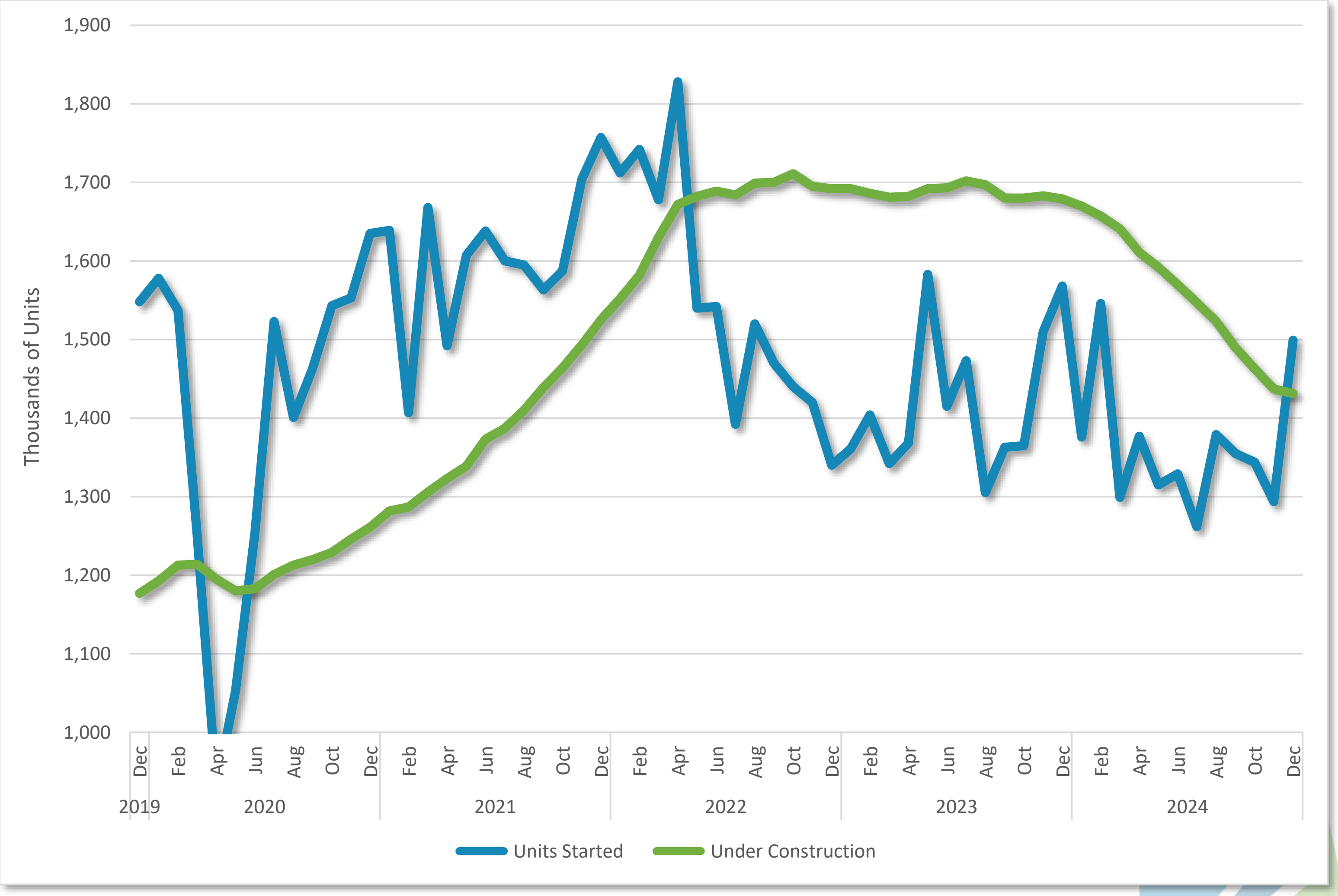
Why it matters: New housing is an important capital good that spurs additional consumer spending on appliances and furniture.

- It's a key economic indicator, especially for the flatbed trucking sector, which hauls a variety of building materials.

Our thoughts: Housing starts catapulted upward in December following a 3.7% decline in the previous month after adjustments. While December's jump was significant, the housing market continues to struggle. However, existing single-family home sales (not pictured) did increased and inventory levels did decline.

- New starts increased 15.8%, or 205,000 houses, month-over-month to 1.499 million, but are down 4.4%, or 69,000 homes year-over-year (Y/Y), marking 8 Y/Y decreases in 11 months.
- Houses under construction declined for the 12th consecutive month, decreasing 0.4% to 1.431 million, and are 14.8% lower Y/Y.
- Completed houses (not pictured) dropped 4.8% month-over-month and are down 0.8%, or 13,000 homes, Y/Y.

Bottom line: While the FED started to reverse their monetary policy by issuing rate cuts in September, it's important to understand that this will take several months before we see the effect of this—not to mention that interest rates don't directly impact mortgage rates and inflation continues to be a problem.



Source: FRED | https://fred.stlouisfed.org/series/HOUST and https://fred.stlouisfed.org/series/UNDCONTSA | Monthly

Advanced Retail Sales: Building Materials, Garden Equipment, Supplies Dealers

The big picture: Retail sales capture in-store, catalog, and out-of-store sales of both durable and non-durable goods.

- These are broken down into several categories, including building materials, garden equipment, and supplies dealers (BMGESD).

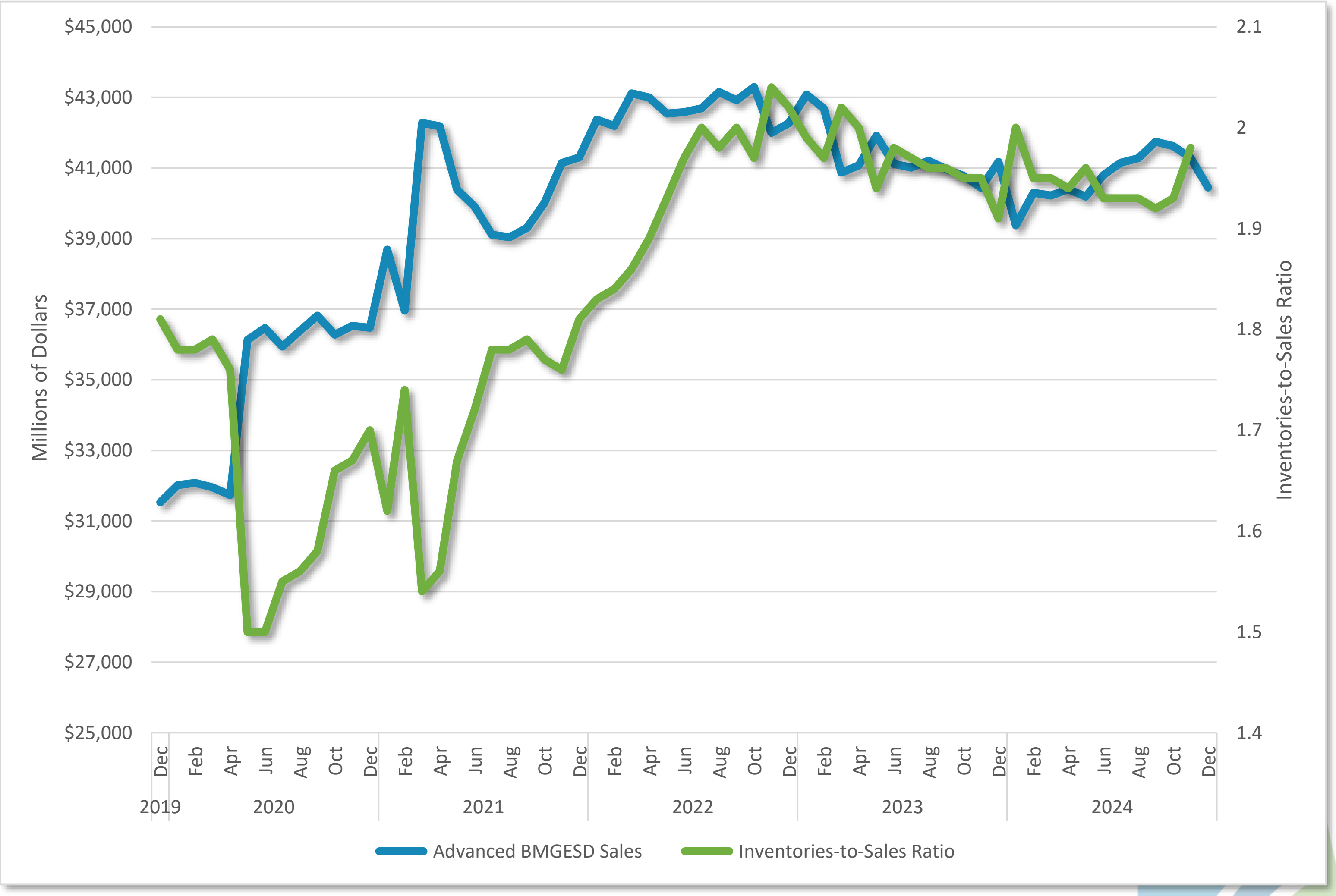
Why it matters: Retail sales give the owner-operator a pulse of the economy and its projected path toward expansion or contraction.

- **Advanced Sales** categories provide us an early snapshot from large retailers.

Our thoughts: BMGESD sales declined in December after decreasing 0.3% in the previous month following adjustments, while inventory levels increased in November even as retailers strive to right-size their inventories.

- The BMGESD retail sales fell 2.0% month-over-month to $40.451 billion, and are 1.8%, or $726 million, lower year-over year.
- Sales decreased Y/Y for the first time in six months.
- Inventories-to-sales ratios jumped 2.6% to 1.98 in November, and are 3.7% higher Y/Y.

While there have been some positive signs in this sector, it's important to note that BMFESD retailers continue to struggle with high inventory levels. In fact, inventories are 8.4% above 2019 levels. This a significant headwind for future freight demand, as demand overall remains low.



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