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 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 Wage Conditions** help us to see the impact of inflation and therefore purchasing power.
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 Wages:
Wages and CPI

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

- While the Consumer Price Index (CPI) measures the average price change for a basket of goods and services over time.

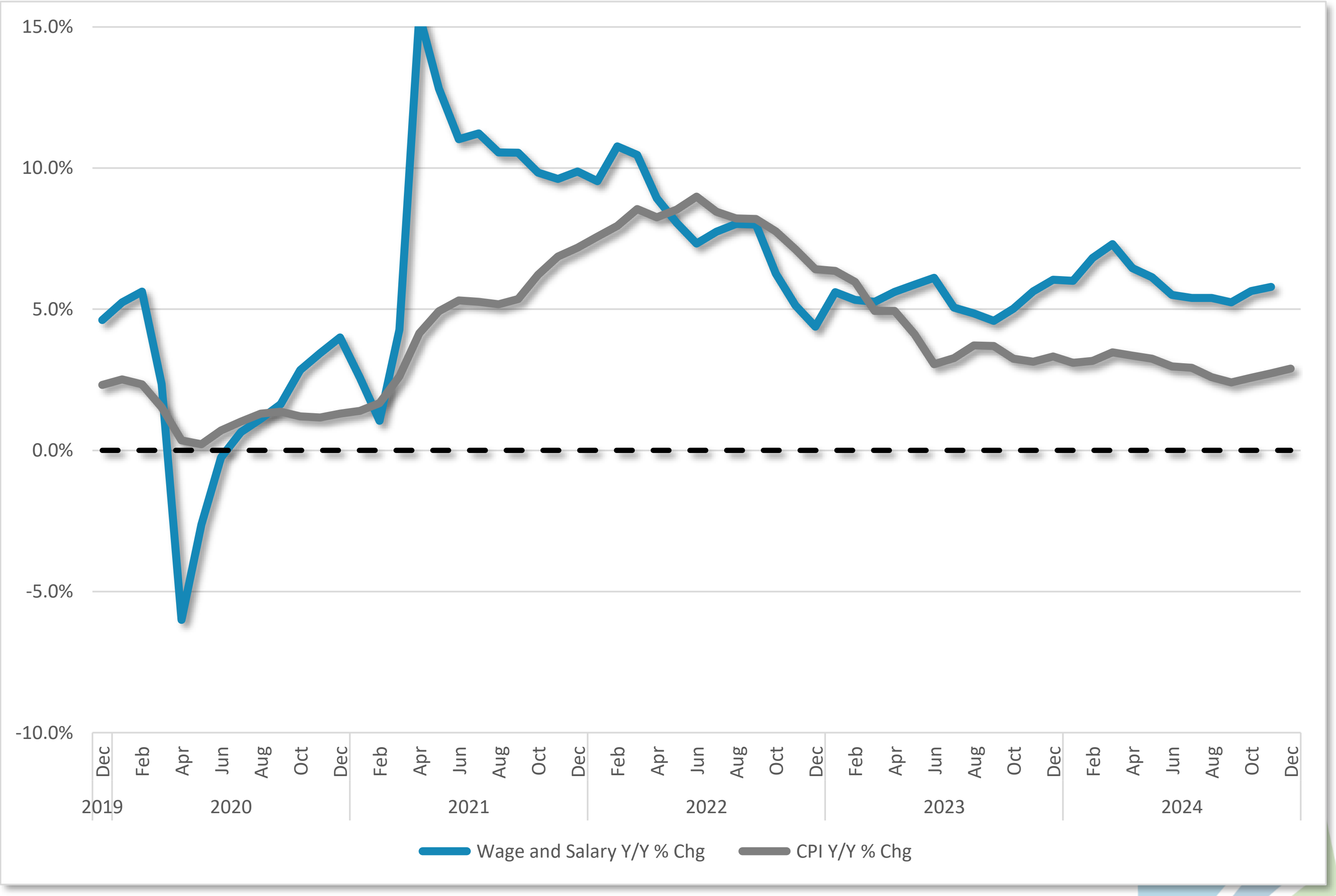
Why it matters: Wage and salary growth as well as CPI have great influence on consumers and can thereby help the Owner-operator gauge the health of the market.

- For example, when wage and salary growth outstrip CPI, 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 grew ever so slightly in November, while CPI moved upward again in December.

- Wages and Salary disbursements increased 0.6%, or $73.6 billion, month-over-month.
- In terms of year-over-year growth, wages and salary disbursements are 5.3% higher.
- The BLS reported that the CPI rose 2.9% in December from year-ago levels, which was an increase from November's 2.7% rate.
- The Fed cut interest rates each month between September and December, but now they're projecting that they will only cut rates a half point in 2025, which likely means two rate cuts.

Core CPI, which excludes food and energy, declined 1.6% month-over-month to 3.2%. Services and shelter continue to come in high.



Source: FRED| https://fred.stlouisfed.org/graph/?graph_id=1397250&rn=408 | 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.

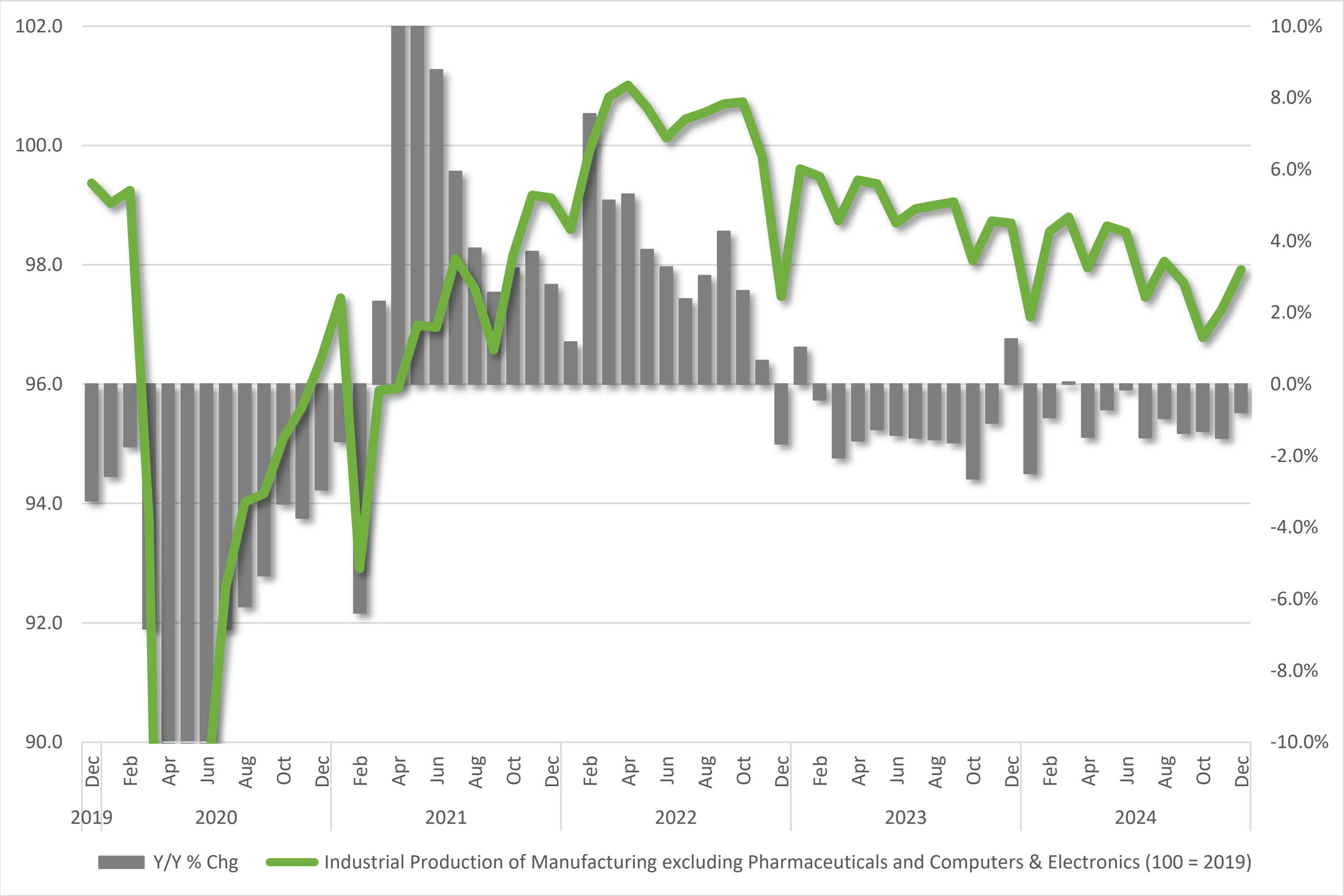
This is especially true when removing pharmaceuticals (NAICS 3254) and computer and electronic products (NAICS 334), as these sectors have an outsized influence on the overall manufacturing index considering how little freight they generate.

- 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 once again increased month-over-month, while simultaneously declining year-over-year (Y/Y) in December.

- Manufacturing activity increased 0.7% to 97.92 after increasing 0.5% last month following adjustments, but is down 0.8% Y/Y.
- Activity was down Y/Y for the 21th time in 24 months, and is 2.1% below 2019 levels.

A manufacturing recession is defined as two consecutive quarters of declining seasonally adjusted manufacturing activity. The current recession has been ongoing for eight straight quarters. Some freight generating sectors are starting to turn a corner, such as nonmetallic mineral products (NAICS 327), paper (NAICS 322), and wood (NAICS 321.



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.

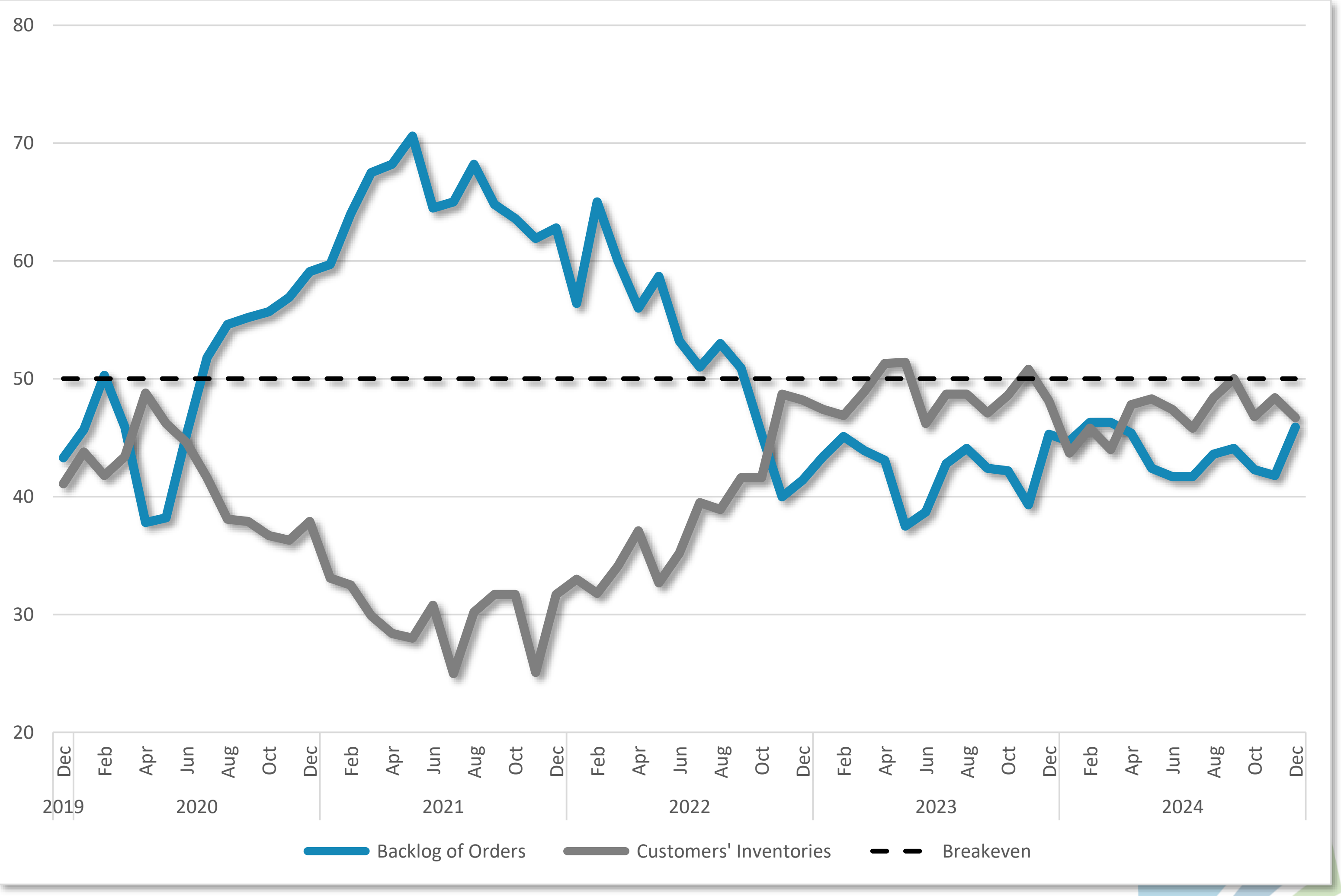
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart. The ISM is highly correlated with spot rates.

- 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 December for the 9th consecutive month, though the New Orders Index (not pictured) increased 2.1 points to 52.5%, moving into expansion territory for the 2nd consecutive month.

- Backlogs jumped 9.8% to 45.9, after decreasing 1.2% last month. Backlogs have been in contraction territory for 27 straight months, but are at there highest point since September 2022.
- Customers' inventories decreased 3.5% to 46.7. They are 2.9% lower year-over-year.
- Inventories are still above backlogs, which is bad for freight.

The bottom line: Demand improved, as companies prepare for 2025 with the benefit of the election cycle ending. Output, measured by production and employment, was positive. Inputs, defined as supplier deliveries, inventories, prices, and imports, are still accommodating future growth, with inventories and imports improving marginally.



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.

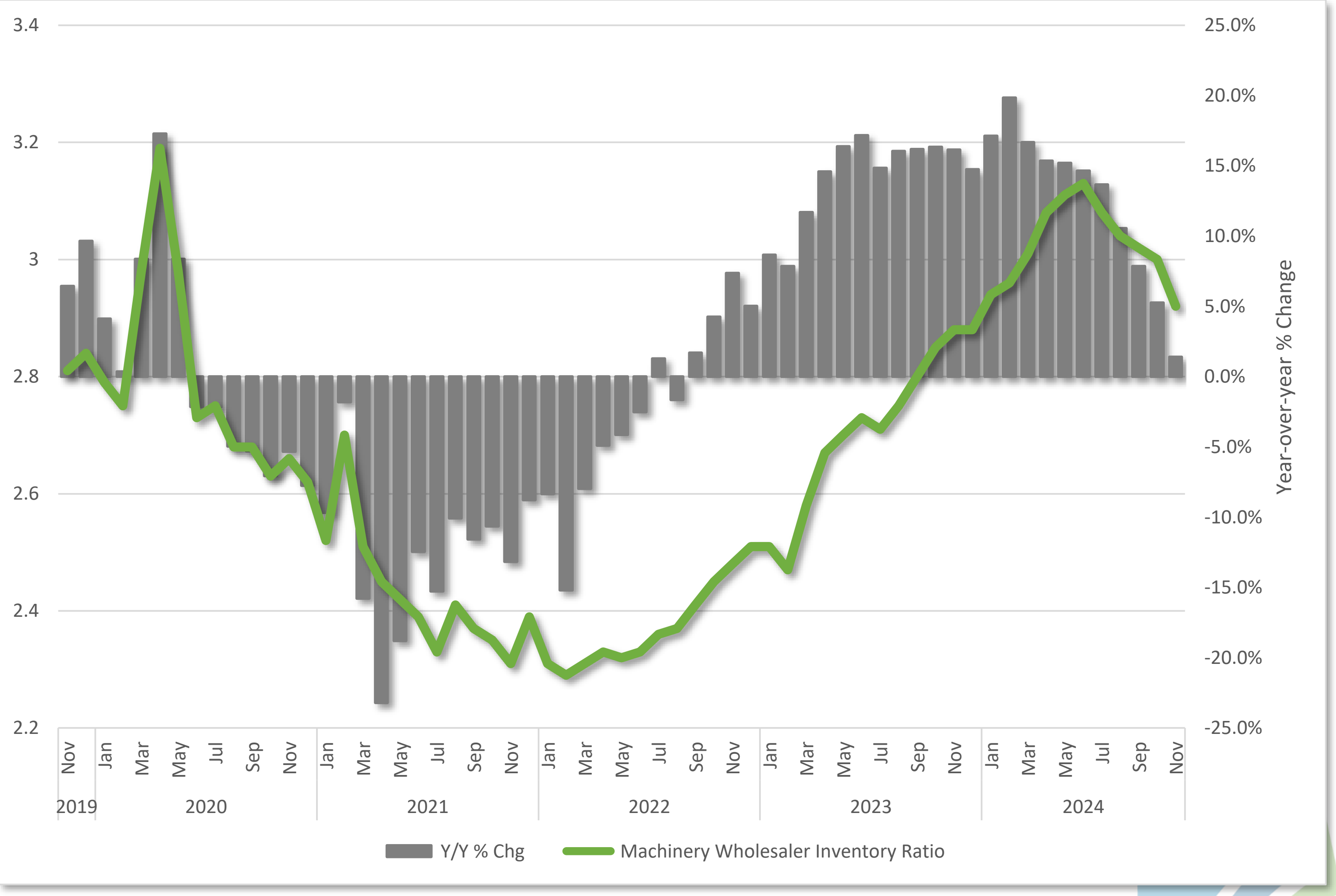
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

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

Our thoughts: Inventory levels dropped in this sector for the fifth consecutive month. However, inventories are still 5.1% above 2019 levels when the ratio was 2.8.

- The inventories-to-sales ratio plummeted 2.7% to 2.92 after decreasing 0.7% in the previous month.
- The ratio is 1.4% higher year-over-year. The ratio has increased Y/Y for 29 straight months, but is at its lowest point since September 2022.

A respondent to ISM's survey who operates in this sector explained that some of this decline is due to seasonality, writing that have experienced a "significant slowdown in production requirements in the last two months of the year."



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 major drivers of freight movement compared to manufacturing, accounting for only 5% of all truck freight.

Our thoughts: Imports decreased month-over-month (M/M) in November, which is normal for this time of year, after increasing 1.4% in October, while exports surprisingly jumped, perhaps due to the election and the threat of retaliatory tariffs. Imports continue to perform well, especially when we look at year-over-year (Y/Y) comparisons.

- Imports decreased 3.6%, or 661.6 million kgs, M/M to 17.51 billion kgs. Imports are still 11.9% higher Y/Y and 18.9%, or 2.77 billion kgs, above 2019 levels.
    - Last month was the 10th consecutive Y/Y increase.
- Exports (not pictured) jumped 19.6%, or 1.653 billion kgs, M/M, and are 6.3% higher than last year, marking 12 months out of 13 of Y/Y increases.
    - Exports are now 7.7% 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.

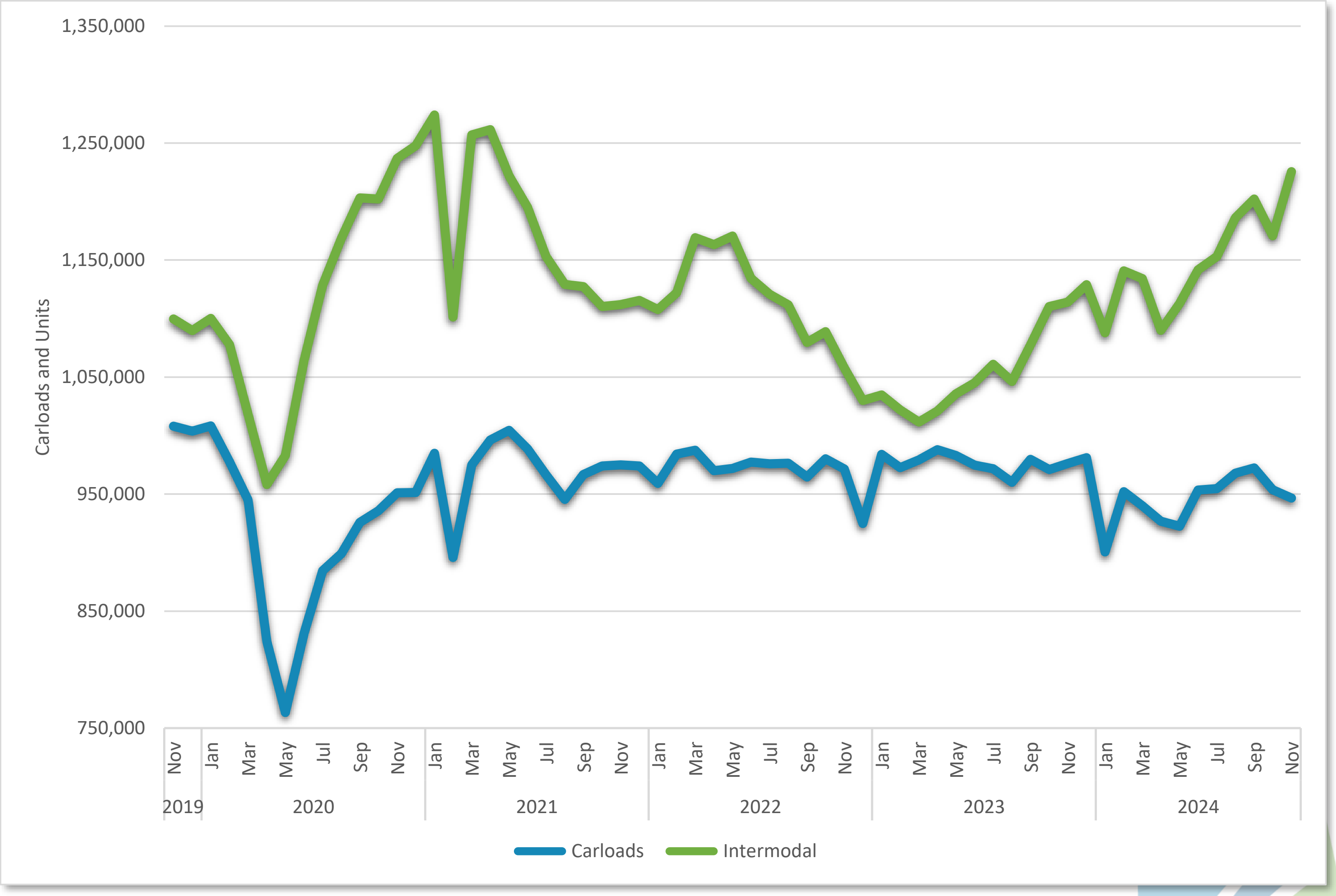
Why it matters: Most freight that is transported by rail, will require a truck for the final mile.

- 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: Intermodal continues on its tear as a potential U.S. East and Gulf Coast port strike was averted in January. Moreover, importers, fearing a potential wave of new tariffs, have moved to pull orders forward. Carloads on the other hand continue to fall.

- Carloads decreased 0.7%, or 7,112, month-over-month to 946,622, and are down 3.5%, or 34,478 carloads, year-over-year. This marks the 10th Y/Y decrease in 11 months.
- Intermodal jumped 4.7% to 1.225 million, and is up 8.6%, or 96,662 loads, year-over-year.
- Carloads are 12.7% below 2019 levels, while intermodal is 6.8% higher than 2019.

According to C.H. Robinson, "Expect increased pricing in the low, single-digit range through 2025 due to new U.S. railroads that have labor agreements and inflationary pressure." Railroads are confident spot prices will jump dramatically in the second half of 2025.



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

Source: Intermodal: https://fred.stlouisfed.org/series/RAILFRTINTERMODALD11 | Monthly