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.

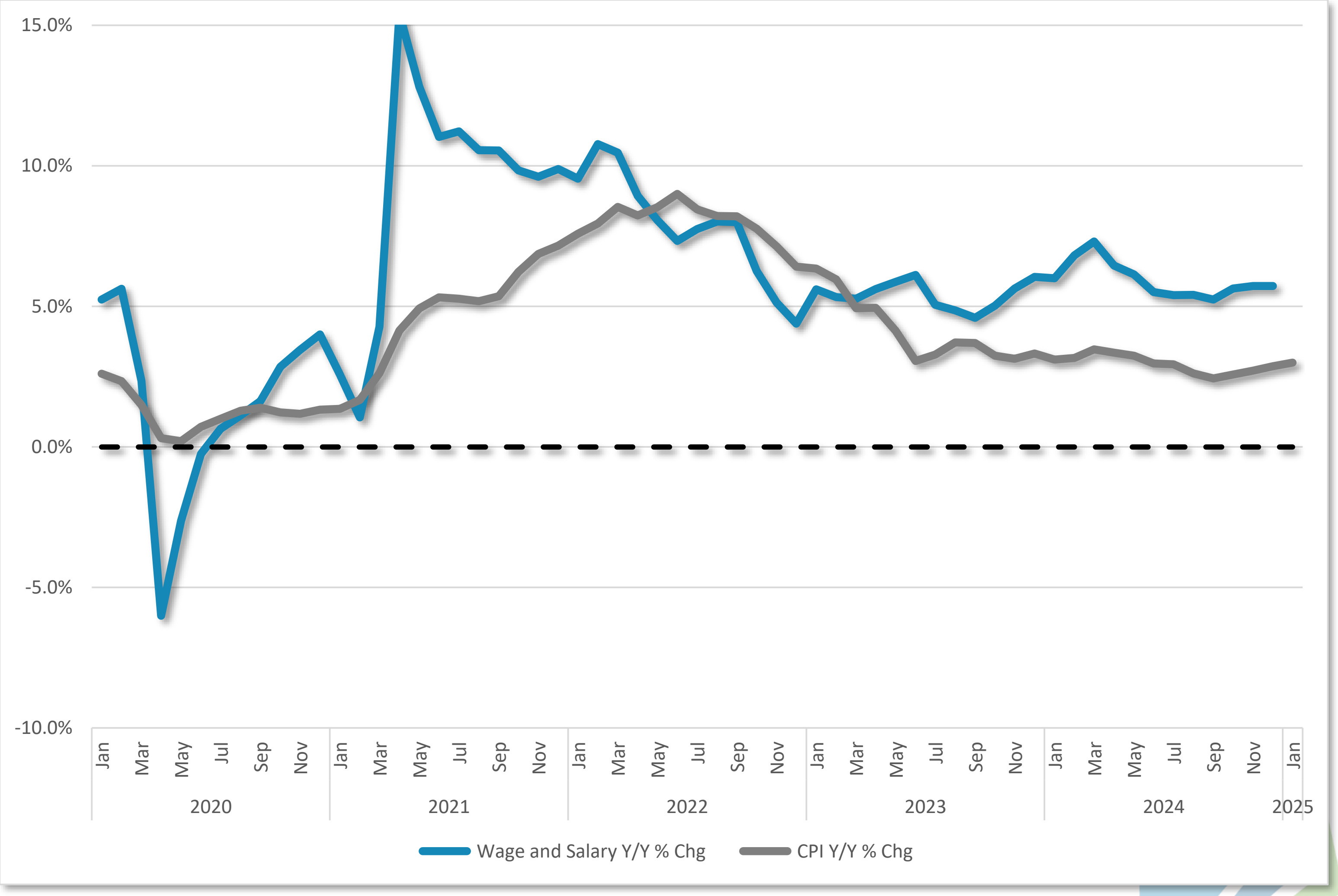
Why it matters: Wage and salary growth as well as CPI have great influence on consumers and can thereby help the Owner-operator gauge the health of the market.

- 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 December, while CPI moved upward again in January.

- Wages and Salary disbursements increased 0.4%, or $54.4 billion, month-over-month.
- In terms of year-over-year growth, wages and salary disbursements are 4.7% higher.
- The BLS reported that the CPI rose 3.0% in January from year-ago levels, which was an increase from December's 2.9% 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, if that.

Core CPI, which excludes food and energy, rose 2.4% month-over-month to 3.3%. Services and shelter, the down over last month, continue to come in high. Energy spiked last month to 0.8%.



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.

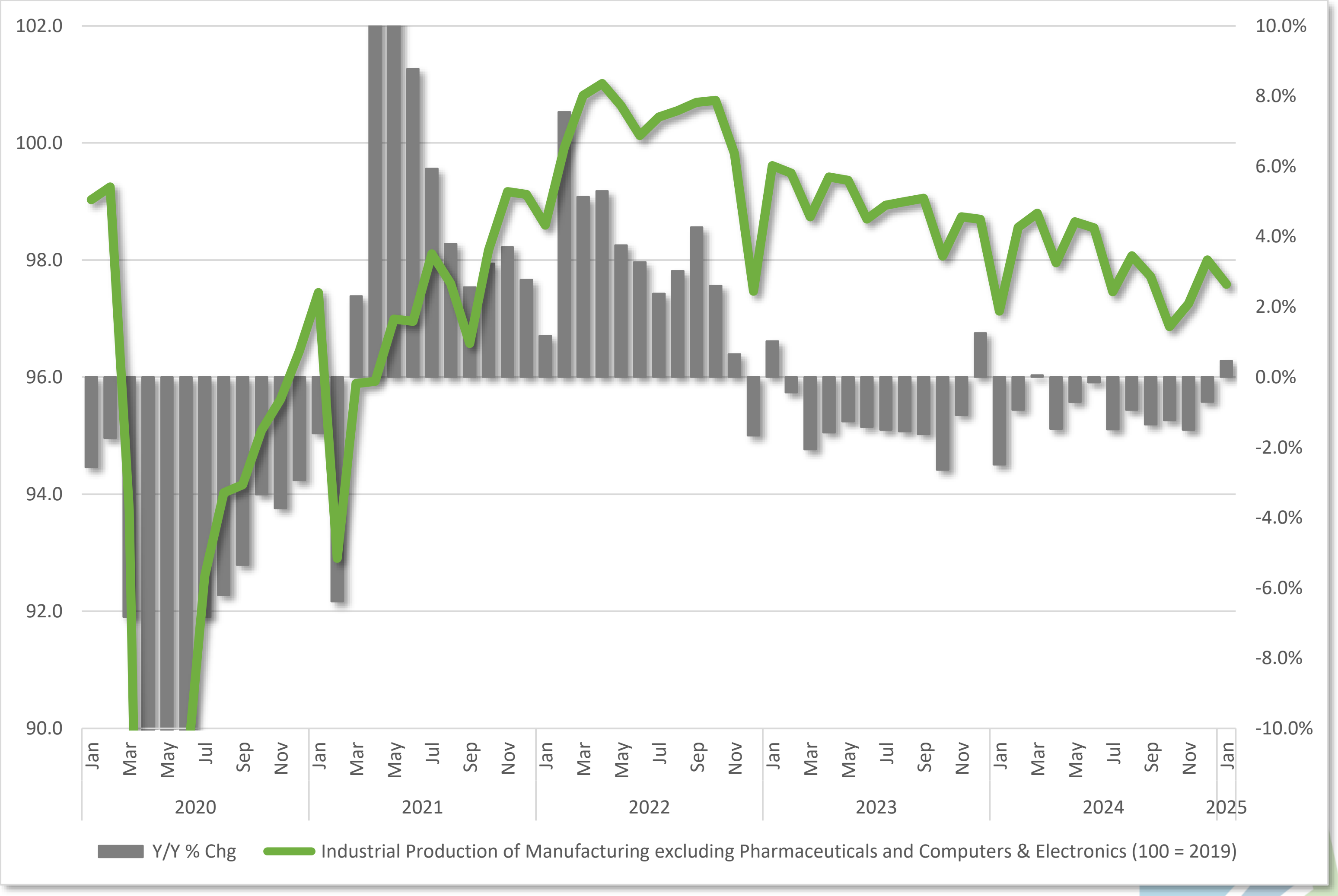
This is especially true when removing pharmaceuticals (NAICS 3254) and computer and electronic products (NAICS 334), as these sectors have an outsized influence on the overall manufacturing index considering how little freight they generate.

- 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 decreased month-over-month, while simultaneously increasing year-over-year (Y/Y) in January.

- Manufacturing activity decreased 0.4% to 97.58 after increasing 0.8% last month following adjustments, but is up 0.5% Y/Y.
- Activity was up Y/Y for just the 4th time in 25 months, and for the first time in 10 consecutive months
- Activity was 2.4% below 2019 levels.

While the current manufacturing recession has been ongoing for eight quarters, some freight generating sectors are beginning to turn a corner. Nonmetallic mineral products (NAICS 327) and wood (NAICS 321) are just a couple examples of this.



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.

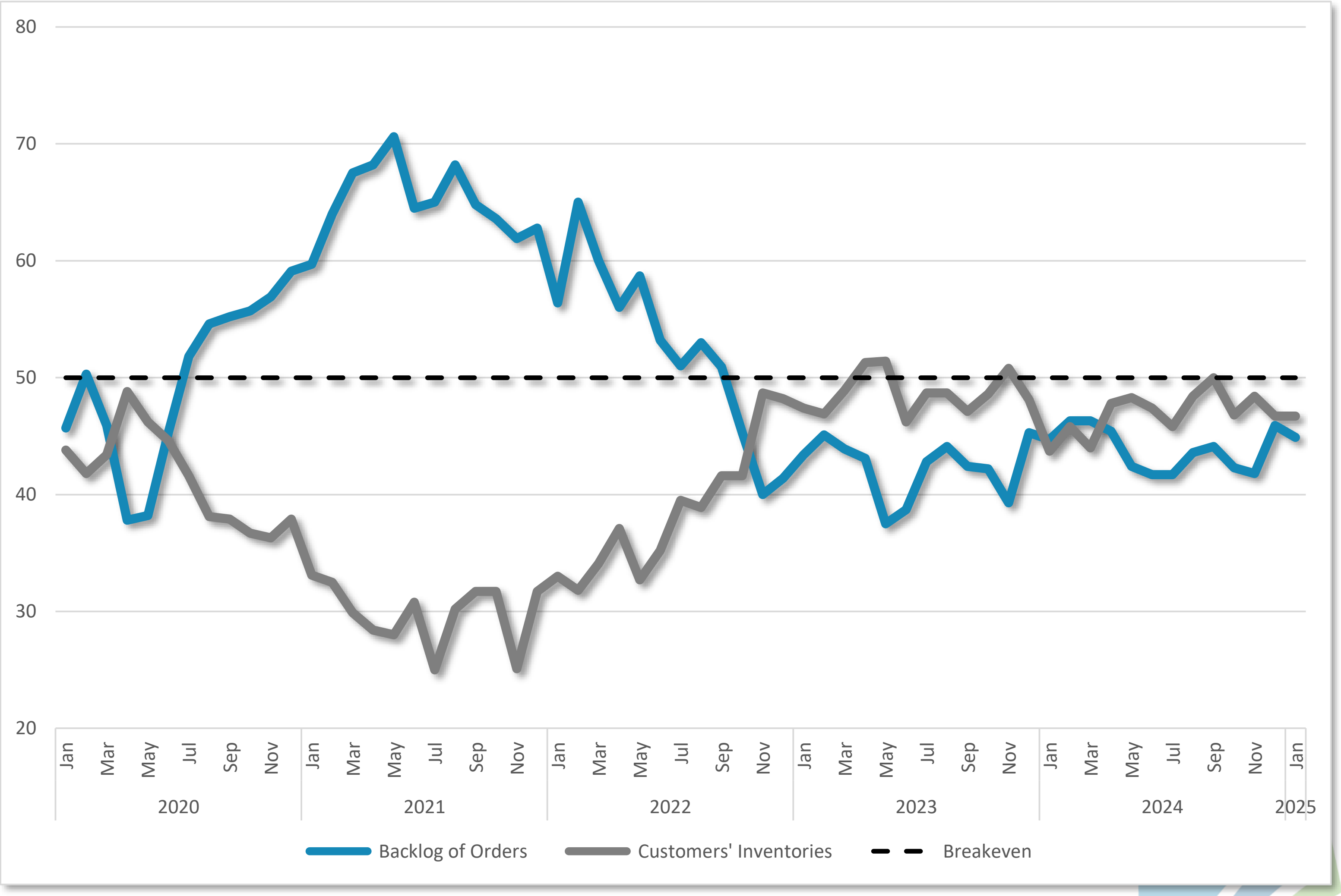
Why it matters: The ISM Manufacturing PMI is a reliable economic indicator and provides a sense of direction for the trucking market as shown in the chart. The ISM is highly correlated with spot rates.

- 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 expanded in January for the first time since March 2024. The New Orders Index (not pictured) increased 2.6 points to 55.1%, moving into expansion territory for the 3rd consecutive month.

- Backlogs decreased 2.2% to 44.9, after jumping 9.8% last month. Backlogs have been in contraction territory for 28 straight months.
- Customers' inventories stayed flat at 46.7. They are 6.9% higher year-over-year when they were 43.7.
- Inventories remained above backlogs, which is bad for freight.

The bottom line: Demand and production improved. Output, measured by production and employment, was positive as factory output improved compared to December, indicating that panelists' companies are proceeding with growth plans. Employment was stable as final head-count adjustments were made, in many cases among the white-collar workforces.



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.

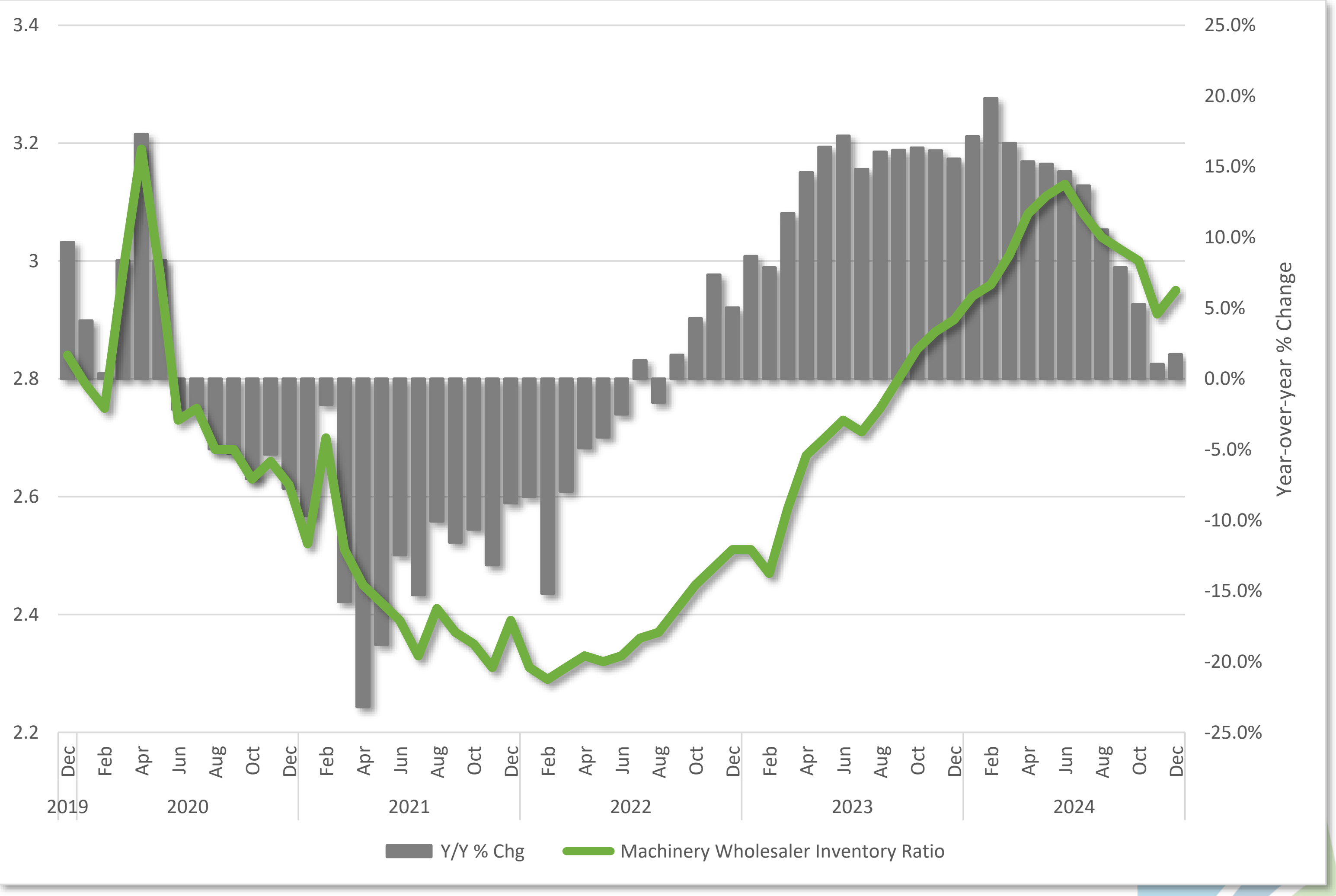
Why it matters: Movements in the inventory ratio for machinery wholesalers closely tracks the conditions in the trucking sector historically.

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

Our thoughts: Inventory levels increased in this sector for the first time in six months. Inventories are 6.2% above 2019 levels when the ratio was 2.8.

- The inventories-to-sales ratio jumped 1.4% to 2.95 after plummeting 3.0% in the previous month.
- The ratio is 1.7% higher year-over-year. The ratio has increased Y/Y for 30 straight months.

A respondent to ISM's survey who operates in this sector explained, "Although we are in our busy season, our demand for the first two weeks of 2025 has outpaced normal levels for this period of time."



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 increased month-over-month (M/M) in December, which is abnormal for this time of year, after decreasing 3.6% in November. Exports declined after jumping the previous month, 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 increased 2.8%, or 493 million kgs, M/M to 18 billion kgs. Imports are 16.4% higher Y/Y and 22.2%, or 3.27 billion kgs, above 2019 levels.
  - Last month was the 11th consecutive Y/Y increase.
- Exports (not pictured) fell 5.3%, or 532.6 million kgs, M/M, but are 0.5% higher than last year, marking 13 months out of 14 of Y/Y increases.
  - Exports are now 12.6% 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.

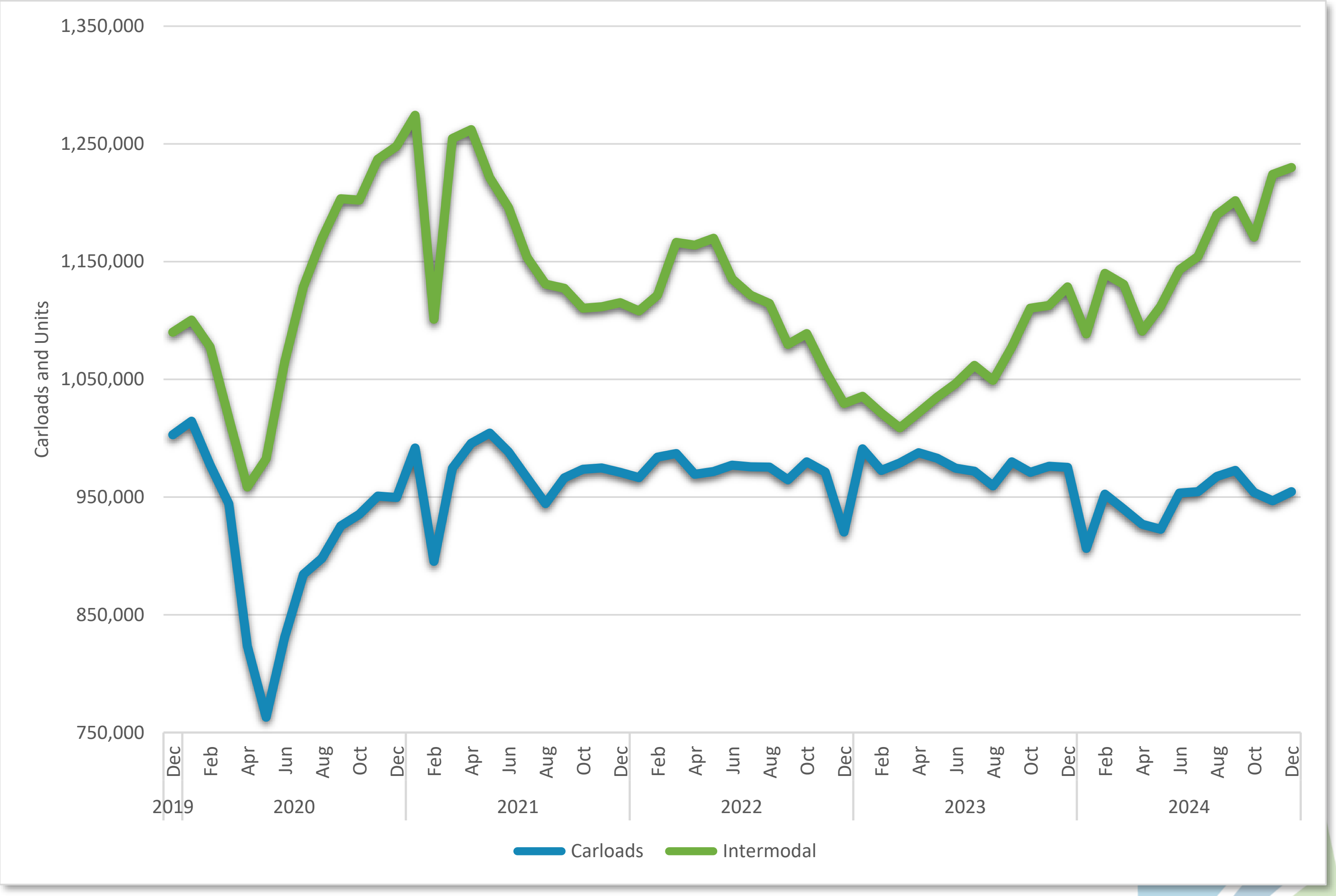
Why it matters: Most freight that is transported by rail, will require a truck for the final mile.

- 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 to rise year-over-year, though some believe this pace will cool in 2025. Importers, grateful for the averted port strikes, have increased their inventory levels by pulling orders forward due to tariff uncertainty, which may lead to softening demand in 2025.

- Carloads increased 0.8%, or 7,855, month-over-month to 954,620, but are down 2.1%, or 20,570 carloads, year-over-year. This marks the 11th Y/Y decrease in 12 months.
- Intermodal increased 0.5% to 1.229 million, and is up 9.0%, or 101,399 loads, year-over-year.
- Carloads are 12.0% below 2019 levels, while intermodal is 9.7% higher than 2019.

According to C.H. Robinson, "Intermodal pricing is expected to climb in the low, single-digit range through 2025." However, C.H. Robinson also states, "Intermodal spot rates remain depressed, reflecting the current truckload market."



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

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