Market
Update

Demand Levels & Outlook

Supply Chain Resilience and Nearshoring Trends

Nearshoring gains traction as businesses reassess their global strategies, potentially reshaping trade lanes and demand patterns. Red Sea security concerns have highlighted the vulnerability of supply chains, emphasizing the urgent need for proactive measures to address concerns over cargo theft.

Mixed Signals and Inflation Concerns

The consumer price index increased 0.3% in January, the Bureau of Labor Statistics reported. On a 12-month basis, that came out to 3.1%, down from 3.4% in December. Shelter prices accounted for much of the rise, climbing 0.6% on the month, contributing more than two-thirds of the headline increase. On a 12-month basis, shelter rose 6%.

Inflation concerns have spurred talks of further hesitation by the Federal Reserve to curtail interest rates. Current data aligns with the Federal Reserve's plan, acknowledging improvement but recognizing that work remains. The positive shift is cautiously seen as a step in the right direction.

Consumer Spending, Job Market, and Economic Outlook

A recent report from Bank of America highlights a 0.2% year-over-year decline in total card spending per household in January, following a 0.2% YoY rise in December. On a seasonally adjusted basis, per-household spending dropped by 0.3%.

A stable labor market in early February, reflected in flat initial jobless claims at pre-pandemic levels, indicates confidence and resilience. The almost stagnant unemployment rate underscores a tight labor market. This could reduce the risk of sudden crashes in truckload demand, providing assurance to the sector amid economic uncertainties.

Bank of America's latest Participant Pulse reveals that consumers have maintained elevated savings buffers, and there is no significant indication that individuals are tapping into their longer-term retirement savings. This financial resilience contributes to overall economic stability and provides a safety net for consumers, potentially impacting their spending behavior and the broader economic landscape.

Cross-Border Dynamics and Mexico's Influence

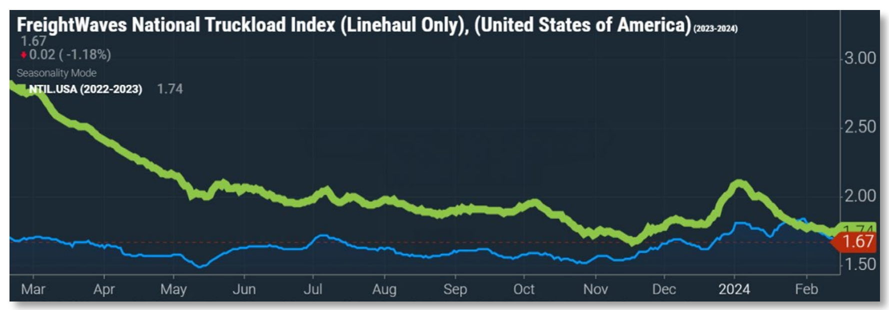
In 2023, Mexico emerged as the top U.S. trading partner in cross-border transportation. Industries like furniture played pivotal roles, contributing to a 3% year-over-year increase in total trade of goods. This underscores the growing influence of Mexico in shaping North American trade dynamics.

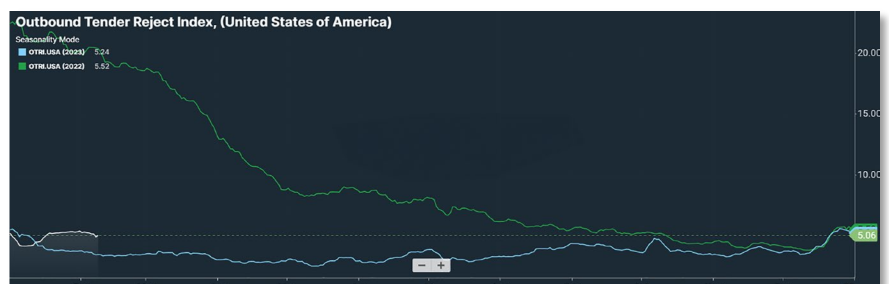
U.S. Trucking: Market Insights

Intermodal volumes are slightly up by 1.2% year-over-year, with outbound Mexico loads particularly strong. While service remains high, rate increases are unlikely in the near term. Though ocean-bound disruptions like the Red Sea situation haven't impacted ground directly, they indirectly influence air freight, where demand from China to North America remains strong.

Regulatory Changes

The introduction of the Complemento Carta Porte regulation on January 1st initially caused shipping process complexities and delays. Shippers and carriers are advised to anticipate disruptions, expecting them to subside as the regulation becomes commonplace.





Source: FreightWaves

Supply, Capacity, & Carrier Operating Costs

Supply Perspectives & Capacity Challenges

Overall supply reports indicate excess capacity across segments. Yellow's impact, though initially concerning, has softened as its volume dispersed evenly among carriers, alleviating fears of reduced capacity.

Intermodal volumes in the first four weeks of 2024 show a modest 1.2% year-over-year increase, driven by outbound Mexico traffic. Abundant capacity is evident across most segments, and LTL carriers, despite stabilized pricing amid heightened competition, continue to grapple with excess capacity.

The recent East Coast storm serves as a reminder of localized challenges, highlighting the potential for capacity constraints due to weather events. The Panama Canal and Red Sea situations influence transit times, potentially diverting ocean freight onto land routes, affecting localized drayage capacity on the West Coast.

Despite longer transit times and delays, ocean capacity remains relatively stable, with carriers rerouting freight via train to maintain an East Coast port strategy. Winter weather storms temporarily inflated load-to-truck ratios for dry van, refrigerated van, and flatbed capacities in January, but these ratios show signs of normalization moving into February.

Operating Costs

National diesel prices have dropped for four consecutive months, reaching $4.229 per gallon as of February 15, 2024, a 16.5-cent decrease from the previous month and a substantial 55.7-cent drop since June 2022. However, they still remain elevated compared to pre-pandemic levels in February 2020, when the national average was $2.606 per gallon. Labor market tightness persists, exerting upward pressure on carriers' labor costs.

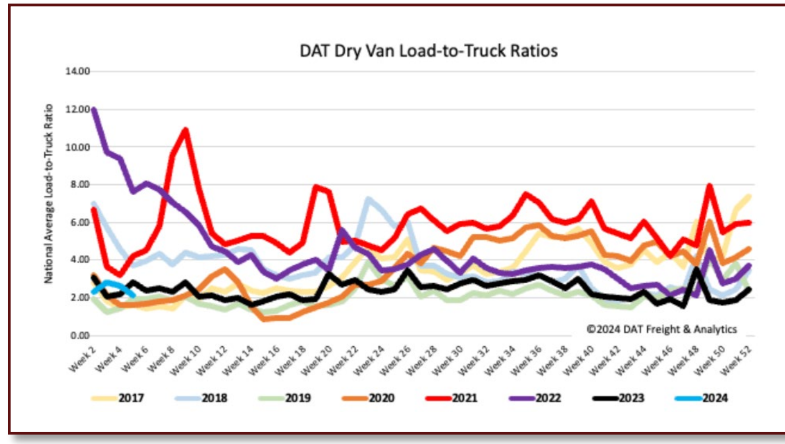
Despite brief post-winter storm disruptions in January, February's standard seasonal trends indicate ample capacity, with the DAT U.S. LTR for week 6 at 2.3:1.

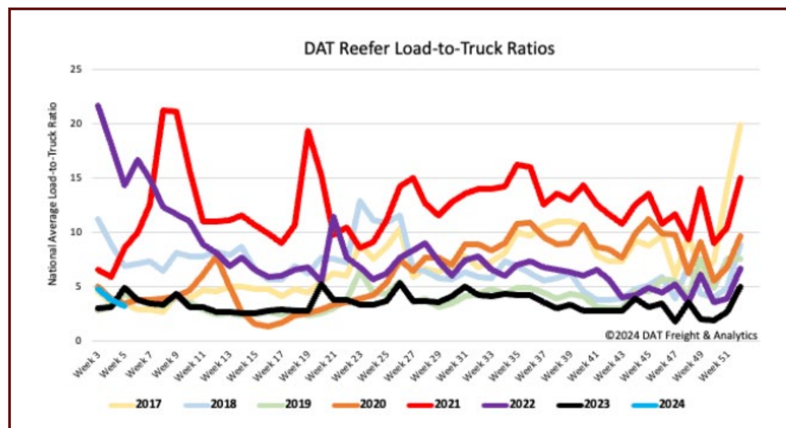
Unlike dry van and refrigerated truckload sectors, flatbed capacity saw minimal disruption from winter storms. Anticipated tightening in late February and March, driven by increased demand from southern states, may lead to a moderate cost increase.

The breakeven estimate for 2024, assuming a flat breakeven from 2023, indicates a notable increase in the annual rate of truckload operating cost inflation. This shift suggests a changing landscape influenced by increased cumulative profits for owner-operators during the post-pandemic up-cycle.

Authority Drop Signals Capacity Crunch

Since November, there has been a 12% increase in the drop of net active truckload operating authorities, signaling a potential tightening of the truckload market. The majority of these authorities belong to smaller carriers, emphasizing the challenges in accurately measuring available capacity.





Source: DAT

Contract & Spot Market Rate Trends

Contract Rates: Stability Amidst Uncertainty

Despite reduced tonnage levels, contract rates are holding steady, signaling stability in the near term. The recent bankruptcy of Yellow Corporation had a unique impact, diffusing its volume across various carriers and preventing any single entity from dominating the market. This dispersion contributed significantly to the overall stability of contract rates.

LTL carriers grapple with excess capacity, hinting at potential downward pressure on contract rates in the future. Nevertheless, carriers are exhibiting strong price discipline, tempering concerns of a significant rate decline.

Spot Market Rates: Navigating Modest Volatility

Despite a relative slowdown in January compared to the holiday spike, spot rates have seen recent declines, bringing the spot-contract gap to $0.59. All-in spot rates are down 26% year-over-year, while linehaul spot rates have decreased by nearly 34%. Contract rates are down 6.5% year-over-year, and linehaul contract rates are down 11.1% from their February 2022 peak.

The Lunar New Year festivities in China play a predictable role in influencing spot rates, as reduced production leads to lower demand for imports. Additionally, the recent winter storm along the East Coast has caused localized disruptions, potentially affecting spot rates in the affected areas.

The ongoing water level issue at the Panama Canal is restricting capacity and disrupting transit times, potentially impacting spot rates for ocean-bound cargo.

Mexican Market Softens Amid Political Uncertainty

Despite Mexico emerging as the top U.S. trading partner in 2023, the Mexican market remains soft. The upcoming presidential election in June introduces potential headwinds, impacting the Mexican peso and foreign direct investment, which could lead to increased transport rates for shippers.

Global Shipping Tensions and Rate Surges

Global shipping tensions are escalating as companies circumvent the Suez Canal, diverting significant cargo away from the Red Sea to avoid security threats. This strategic shift is causing a substantial surge in shipping rates, exceeding $200 billion worth of goods. Various rate indices show a spike of around $500 per Twenty-foot Equivalent Unit (TEU) as of February 1st, with expectations of further increases in March.

Full Truckload Trends: Sustained Upward Movement

Following increases in November and December, January witnessed a 3.9% month-over-month increase in full truckload rates. Refrigerated shipments saw the most significant jump at 6%, driven by protect-from-freeze needs during a nationwide cold snap. Rates, while still below last year's levels, have shown sustained upward movement over the past three months across all equipment types.

Exhibit27: National Average Spot Van Rates ex. Fuel Surcharge

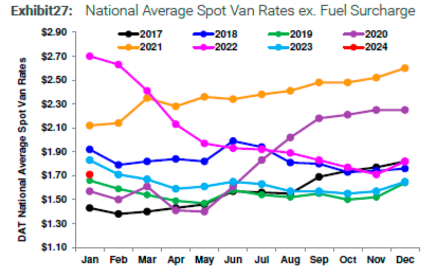


Exhibit28: National Average Contract Van Rates ex. Fuel Surcharge

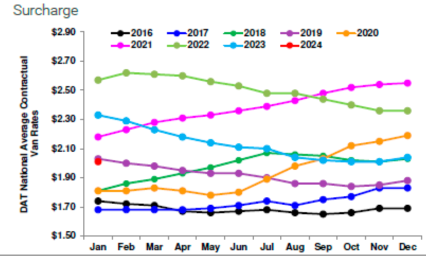


Exhibit31: National Average Spot Flatbed Rates ex. Fuel Surcharge

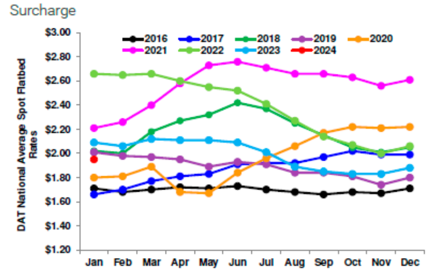
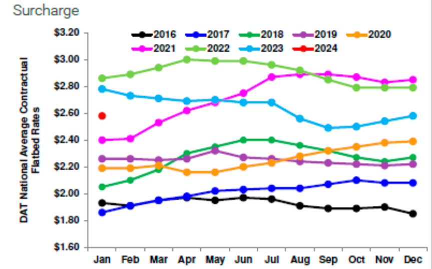


Exhibit32: National Average Contract Flatbed Rates ex. Fuel Surcharge



Source: Morgan Stanley

We are Spot

SPOT

There has never been a time like this. And there has never been a partner like Spot. We Are **Relentless**. We Are **Problem-Solvers**. We Are **Different**. We Are **Passionate**. We Are **Up to the Challenge**. And...

WE NEVER LOSE OUR DRIVE TO DELIVER.

spotinc.com 866.971.7768