

Market Update

Demand Levels & Outlook

Market Stability Amid Sector Variances

The market maintains a semblance of stability, albeit with nuanced variations across sectors. While we observe a marked decrease in truck tonnage, signaling subdued demand, there are pockets of resilience, particularly in segments like home improvement, groceries, and superstores, where we witness sustained growth trends. These positive indicators are bolstered by the ongoing nearshoring initiatives, which are driving increased cross-border freight activity, especially among Mexican carriers importing U.S. goods.

Looking ahead, sustained consumer demand coupled with anticipated improvements in spot rates are poised to foster a more carrier-friendly environment starting in Q3 2024. However, it's essential to note that the market's path to recovery remains gradual, with a complete return to pre-pandemic levels remaining uncertain. As we navigate through these fluctuations, it becomes imperative for stakeholders to remain agile and adaptive to evolving market dynamics.

Overcoming Geopolitical Hurdles

The global relations landscape casts a shadow over transit times for shipments from Asia, India, and the Middle East, necessitating proactive measures to mitigate disruptions. Shippers are advised to factor in additional lead time for order placement and consider diversifying ports of entry to navigate through the current challenges effectively.

Post-Yellow Fallout Normalization

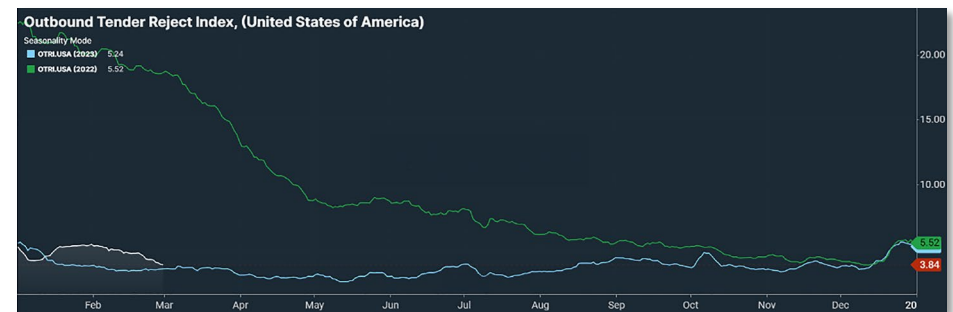
In the LTL market, normalization continues post the Yellow fallout, with carriers exhibiting disciplined pricing strategies amidst weak demand. While rates display a positive year-over-year growth trend, the supply base's consolidation empowers carriers to manage costs effectively.

Cross-border Mexico operations witness a brief disruption due to customs brokerage system issues, emphasizing the importance of robust contingency plans. Additionally, recent protests underscore the significance of addressing safety concerns and enhancing collaboration within the transportation ecosystem.

Preparing for Produce Season and Tightening Capacities

The market's trajectory reflects a shift from the heightened demand witnessed during the pandemic era, with ample carrier capacity contributing to sustained rate levels. However, as we anticipate the onset of produce season, temporary supply dislocations are anticipated, potentially influencing rate dynamics.

Procurement strategies should focus on fostering strategic partnerships, developing low-volume strategies, and leveraging technology to optimize operational efficiencies. Moreover, preparing for the market's tightening in the latter half of the year necessitates proactive planning and alignment with carrier partners.



Source: FreightWaves

Supply, Capacity, & Carrier Operating Costs

Understanding Market Forces through the LMI

The current market presents a mixed picture with nuanced shifts in supply, capacity, and operating costs. As per the Logistics Manager's Index (LMI), the logistics industry continues to expand, albeit modestly. However, various factors, such as shifting production strategies, increased imports from Mexico, and emerging intermodal trends, contribute to a dynamic landscape.

Mexican Carriers Reshaping Capacity Dynamics

The influx of Mexican carriers importing U.S. goods has significantly impacted capacity dynamics, with a notable increase in registered vehicles and fleet sizes. This trend is likely to persist as companies seek alternatives amidst ongoing international tensions.

Challenges Amidst Departing Carriers

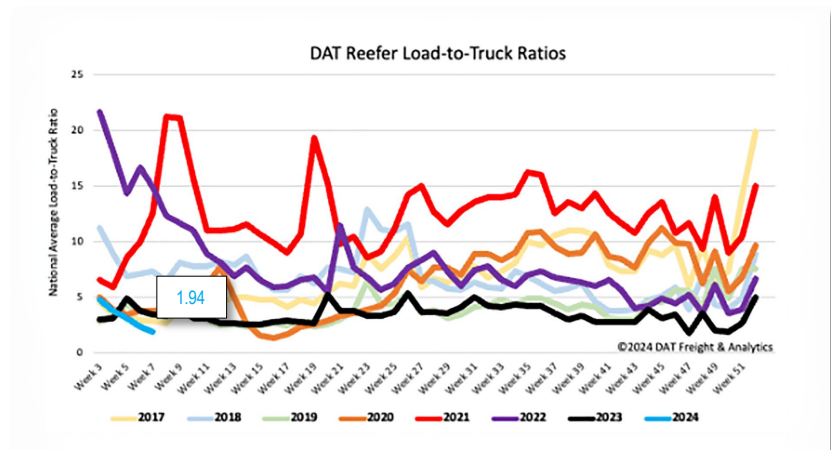
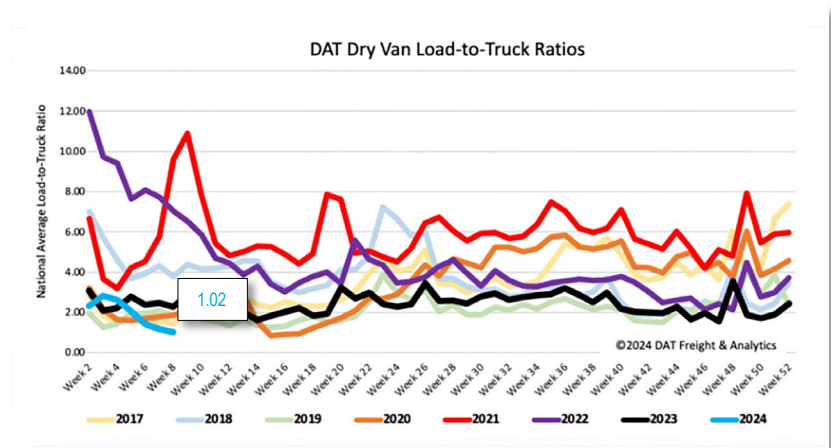
Operating costs, particularly fuel prices, have been on the rise, signaling potential margin pressures for carriers. Diesel prices reversed their decline trend, increasing by 3.1% month-over-month. This uptick, coupled with recent weather-related disruptions, highlights carriers' vulnerability to external factors impacting production and pricing.

Intermodal Up, Service Remains Strong

Intermodal volumes have shown a steady increase, with ample capacity available in major metro areas. However, pricing appears to have reached a trough, with carriers exercising discipline amidst lower long-term rate offers. Service metrics remain stable, reflecting consistent operational performance within the intermodal sector.

Bid Season Buzz as Carriers Plot Moves

The less-than-truckload segment is experiencing heightened activity in bid season, with carriers strategically bidding on new opportunities while maintaining pricing discipline on existing business. Despite a slowdown in carrier exits, profitability concerns persist, fueled by declining spot rates and rising operating costs.



Contract & Spot Market Rate Trends

Market Shifts and Equilibrium

March brings us interesting insights regarding Contract & Spot Market Rate Trends. We're seeing a notable shift in the relationship between spot and contract rates, indicating a return to normalcy within market dynamics.

Traditionally, spot rates have maintained a modest discount compared to contract rates, typically ranging between 20 to 35 cents per mile less. However, during the peak of the COVID-induced freight surge, spot rates skyrocketed, surpassing contract rates. This anomaly presented carriers with a unique opportunity to capitalize on the spot market's lucrative returns.

Conversely, when spot rates plunged in the second quarter of 2022, some shippers took advantage by disregarding contract rates, leading to disruptions in market equilibrium. Now, with spot and contract rates gradually realigning, we're witnessing a reemergence of rational behavior in the market.

However, this equilibrium might be fragile. As contract rates catch up to current realities, carriers may be tempted to reject contracted freight in favor of more lucrative spot market opportunities. This shift in behavior could potentially lead to a surge in rejection rates, as evidenced by the recent departure of over 4,000 carriers in February alone.

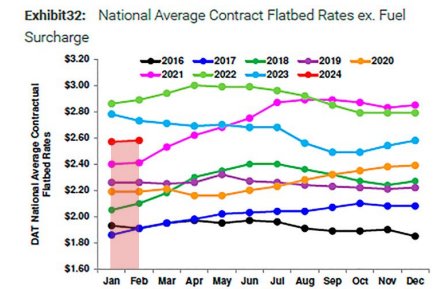
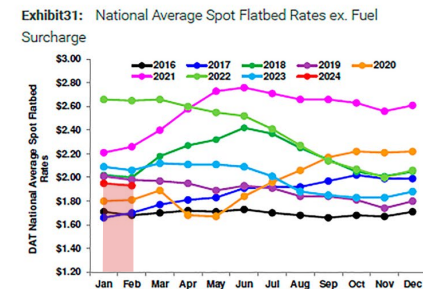
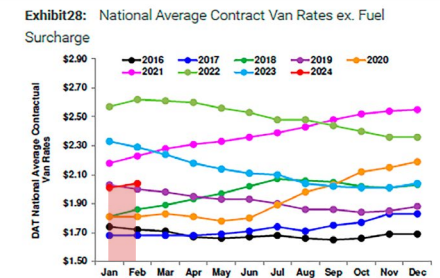
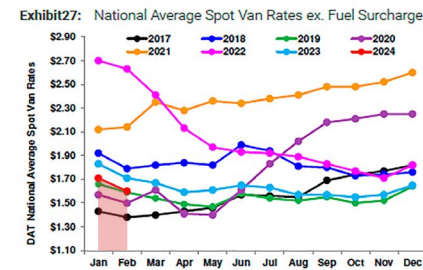
Optimism Amidst Volatility

Despite this volatility, there are signs of optimism. While spot rates remain relatively low, there's a steady increase in new carrier registrations, suggesting cautious optimism among industry newcomers. We anticipate rate improvements throughout the year, which could further bolster the confidence of both existing and prospective carriers.

Looking ahead, it's crucial for stakeholders to navigate this transitional phase with strategic foresight. Regional disparities and haul lengths continue to influence rate dynamics, emphasizing the need for adaptability and agile decision-making.

Navigating Inflationary Pressures

In an inflationary environment where operating costs are on the rise, maximizing utilization and strategic network planning become paramount for carriers and shippers alike. While contract rates may see modest decreases in the short term, discussions around potential rate increases loom on the horizon, prompting shippers to prepare accordingly.



Source: Morgan Stanley



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