The Rearview & the Road Ahead: **Monthly Market Update**

Demand Levels & Outlook

E-commerce Dominance Continues to Grow

The latest Q1 2024 e-commerce supplement for retail trade, incorporating benchmarking from the 2022 Annual Retail Trade Survey, highlights robust growth in online retail. E-commerce sales as a percentage of total retail trade reached unprecedented levels in Q1 2023, surpassing even the peaks observed during the COVID-19 lockdowns in Q2 2020. This resurgence marks a notable uptick in e-commerce's trajectory, now 1.5 percentage points above the pre-COVID trendline.

The alignment between non-store retailers and brick-and-mortar retailers underscores a synchronized growth pattern. Since Q1 2018, non-store e-commerce sales have surged by 113%, slightly outpacing the 99% increase in brick-and-mortar e-commerce sales over the same period.

US-Canada Truck Traffic Lags

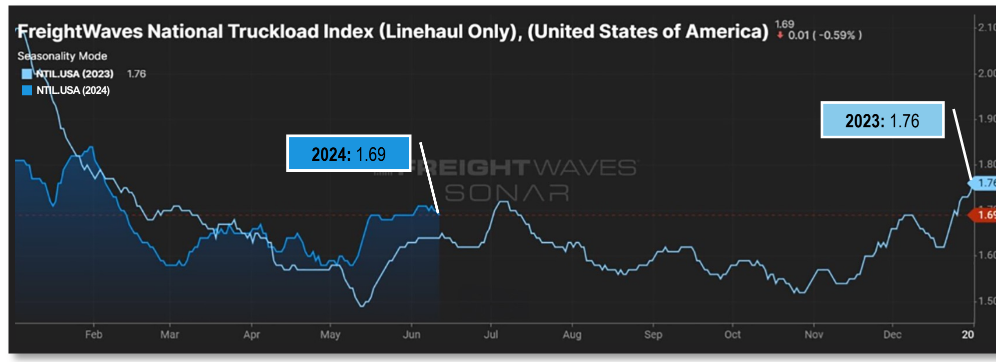
While northbound truck crossings from Mexico continue to rise steadily, southbound truck crossings from Canada to the USA, although yet to recover to pre-COVID levels, show promising signs of potential recovery. Down approximately 100,000 crossings per quarter from 2017-2018 levels, current volumes represent a notable decline, influenced by factors such as reduced demand for Canadian lumber amid slower housing starts and shifting automotive production dynamics favoring southern U.S. locations. However, with the right conditions, a rebound could be on the horizon.

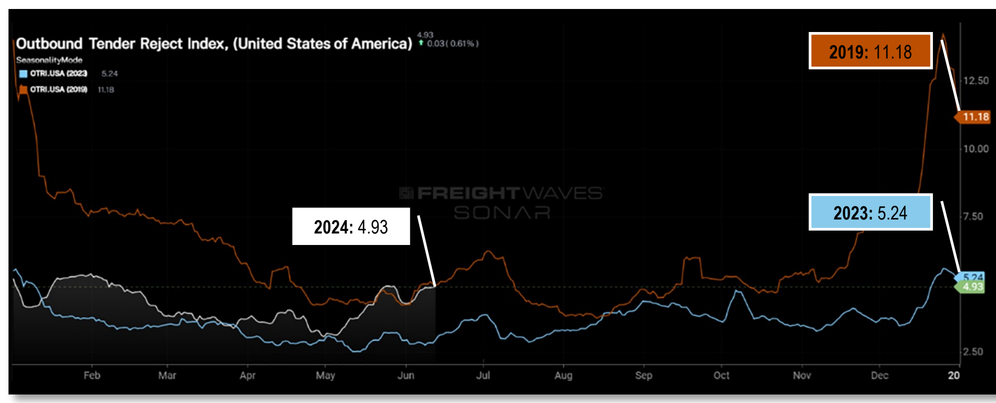
Dry Van Rates in the Slow Lane Until 2025

The dry van T.L. spot market conditions have remained persistently weak through May 2024, mirroring overall subdued freight demand. The latest indicators from ISM's Manufacturing PMI underline the sluggishness in domestic manufacturing, a key driver of trucking demand. Prospects for significant demand improvements in sectors like residential construction or commodities remain dim for the remainder of 2024, with potential recovery not expected until Q2 2025.

Credit Card Delinquency Rates Show Signs of Stabilizing

Encouraging signs have emerged from Q1 2024 data on credit card delinquency rates, indicating a slowing increase and suggesting a possible plateau. The correlation with the Federal Open Market Committee's interest rate decisions highlights a historical pattern where sharp rate hikes coincide with higher delinquency rates. Understanding this relationship provides insights into consumer financial health, crucial for carriers heavily involved in consumer-oriented shipping.





Source: FreightWaves

Supply, Capacity, & Carrier Operating Costs

Payrolls Signal Recessionary Echoes

The latest data on truck transportation payrolls reveals interesting insights into the current freight market cycle. Following the peak in July 2022, payrolls have steadily declined, echoing patterns seen in historical recessions. As of April 2024, payrolls have dropped by 2% from the peak, with the most significant decline (2.5%) occurring in August 2023, post-Yellow Corp's failure. This downturn closely mirrors the recessionary trends observed after the March 1990 peak, highlighting comparable depths and challenges in the freight industry's supply availability and capacity utilization.

Supply Chains See Progress, But Challenges Remain

The Federal Reserve Bank of New York's forthcoming Supply Availability Index promises to enhance our understanding of supply chain dynamics. Benchmarking against the Census Bureau's Quarterly Survey of Plant Capacity Utilization, recent data indicates a substantial decrease in material supply issues since late 2021. Both indices report a 50-60% decline from their peak, indicating a positive trend in resolving supply constraints. However, QSPC data through Q4 2023 remain significantly elevated, reinforcing ongoing challenges despite improvements.

Nearly Half of New Carriers Operate Part-Time

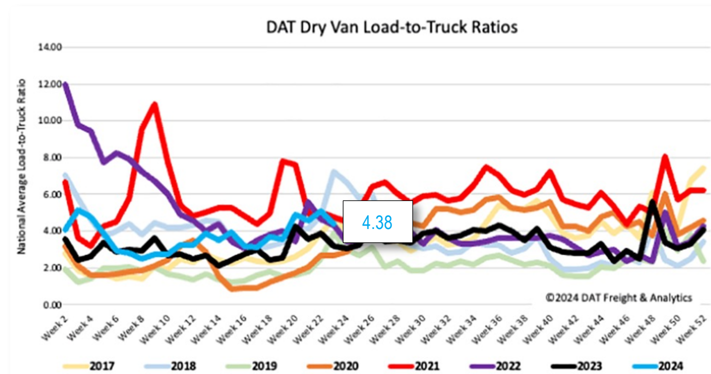
The Census Bureau's Non-employer Statistics program provides critical insights into the evolving landscape of trucking capacity, particularly among non-employer businesses in general freight trucking. The number of these businesses has surged from approximately 300,000 in 2013 to 530,000 in 2021, underscoring a notable trend toward non-traditional employment structures in the industry. Despite this growth, a significant portion (nearly 40%) of these firms operate on a part-time basis, reflected in lower annual revenues below $50,000.

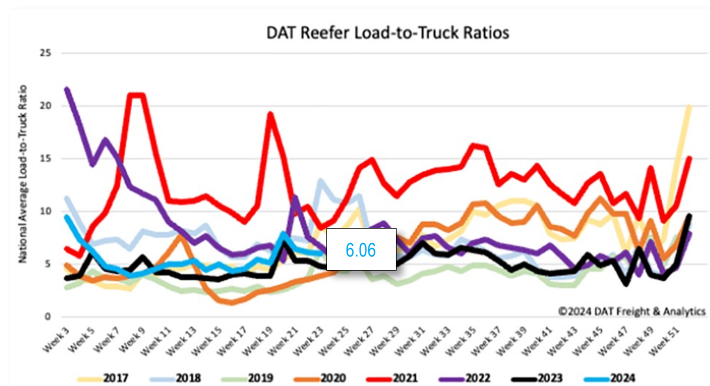
Implications for the Freight Market

The rise of non-employer businesses presents a nuanced challenge for assessing trucking capacity. While their numbers have grown, inflation-adjusted revenue per business has declined, indicating a proliferation of what could be termed 'marginal' operations. This trend suggests a more flexible workforce that engages more heavily during market upswings but may reduce activity during downturns, such as the current freight recession. This dynamic raises questions about how industry metrics like operating authorities accurately reflect actual capacity amidst evolving business models.

Truckers Face Rising Costs; 4th of July to Test Rates

The market faced heightened capacity during the CVSA International Road Check and Memorial Day, influencing supply dynamics as drivers opted to stay on the road due to rising operating costs despite flat spot rates. Looking ahead to the 4th of July, which traditionally resets spot rate baselines higher, there is a question of whether current elevated rates will hold against potentially muted demand and increased capacity expansions.





Source: DAT

Contract & Spot Market Rate Trends

Producer Price Index Insights

Looking at the producer price indexes, the post-COVID period has highlighted significant shifts in wholesale trade dynamics. The Bureau of Labor Statistics says wholesalers have notably increased their gross margins since March 2021. Currently, wholesalers are generating approximately 30% higher gross margins per transaction compared to pre-COVID levels in 2019.

This surge in gross margins raises questions about the underlying drivers. A plausible explanation, as discussed in recent research, points towards post-COVID hoarding behaviors and persistent supply chain disruptions. These factors created an environment where wholesalers found ample opportunity to raise prices, sustaining elevated gross margins even as wholesale sales growth moderated.

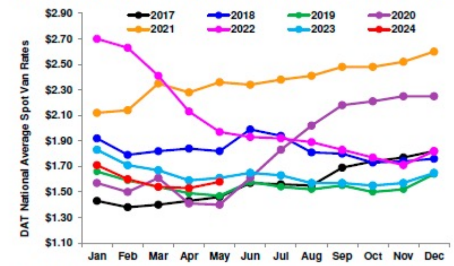
Wholesale Profits Set to Drive Up Freight Costs

Wholesalers are seeing a big jump in profits per transaction compared to before the pandemic Wholesalers with more money might be willing to pay more for shipping, which could push up prices in the spot market. They might also be less concerned about price increases when negotiating contracts with carriers as long as they're guaranteed to get the goods they need. Overall, high margins for wholesalers could translate to higher freight costs across the board.

Truckload Rates Spike as Early Summer Heats Up

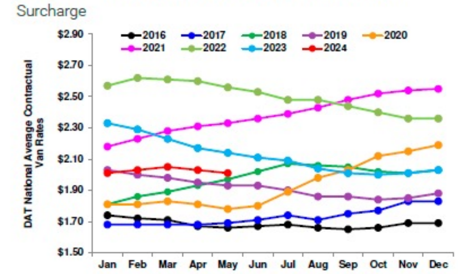
Early summer has spurred significant rate inflation across truckload segments. Following Memorial Day, truckload rates surged by 5%-10% sequentially, echoing historical trends where 2023 saw a 10% increase, setting a higher baseline, while 2024 started with an 8% rise. Last month, truckload rates escalated by 5.1% month-over-month (M/M), with dry van up 5.4%, reefer up 6.6%, and open deck up 3.1%. Year-over-year comparisons showed total rates rose by 3.0%, dry van by 3.3%, reefer by 6.3%, with flatbed slightly down at -0.8% Y/Y. LTL carriers maintained strong pricing discipline, with GRIs of 4.9%-5.9% and CSP adjustments ranging from 3%-7%, targeting specific lanes or freight characteristics. Intermodal sectors faced lower long-term contract offers from railroads, while spot rates remained stable despite ongoing pressure.

Exhibit35: National Average Spot Van Rates ex. Fuel Surcharge



Source: Morgan Stanley Research, DAT Solutions (www.dat.com/resources/trendlines); Note: DAT sources from over $24 B in transactions and 65k lanes.

Exhibit36: National Average Contract Van Rates ex. Fuel Surcharge



Source: DAT Solutions, Morgan Stanley Research

Exhibit37: National Average Spot Reefer Rates ex. Fuel Surcharge

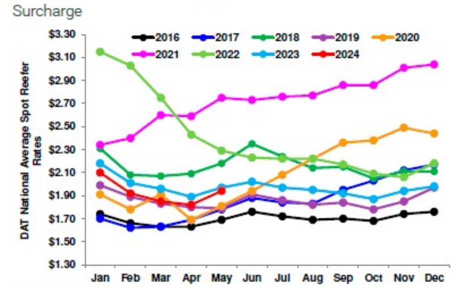


Exhibit38: National Average Contract Reefer Rates ex. Fuel Surcharge

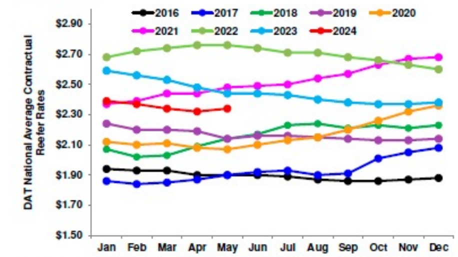


Exhibit39: National Average Spot Flatbed Rates ex. Fuel Surcharge

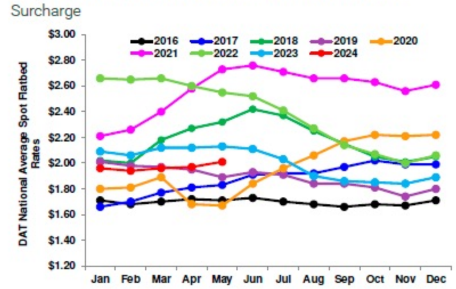
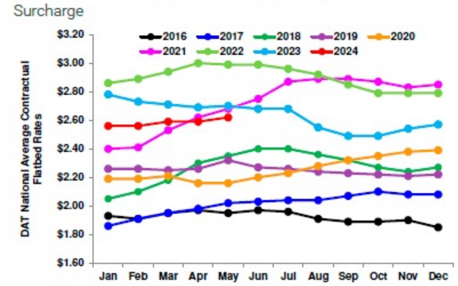


Exhibit40: National Average Contract Flatbed Rates ex. Fuel Surcharge



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