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

Demand Levels & Outlook

Food Manufacturing Powers Demand with Major Ton-Miles Impact

Food manufacturing continues to play a pivotal role in driving demand, contributing significantly to total ton-miles. According to the 2017 Commodity Flow Survey, this sector accounts for nearly 15% of total ton-miles in the United States. Annually, it generates approximately 20 million shipments, each exceeding 10,000 pounds, with an average haul distance of 483 miles per load. Understanding seasonal patterns is crucial for optimizing logistics strategies, as peak periods coincide with increased production and consumer demand.

Seasonal Peaks in Ice Cream and Produce Production Drive Demand Surges

In the food manufacturing sector, ice cream and frozen dessert production sees a notable seasonal peak from April to August, with June marking the highest production levels due to increased summer demand. During these peak months, production levels can surge by 20-30% above the yearly average. Similarly, produce production peaks from July through October, with August and September being the most significant months. However, recent trends suggest a reduction in these seasonal spikes, possibly indicating shifts in production or consumption patterns. The for-hire truck transportation industry, known for its adaptability, is well-equipped to handle these changes.

Declining U.S. Manufacturing Exports Impact Trucking Demand

Recent data from the Census Bureau highlights subdued performance in U.S. manufacturing exports, particularly in containerized food exports and similar products. This decline directly impacts domestic trucking demand, reflecting lower volumes moving through the transportation network.

Flat Trucking Volumes Despite Import Surge

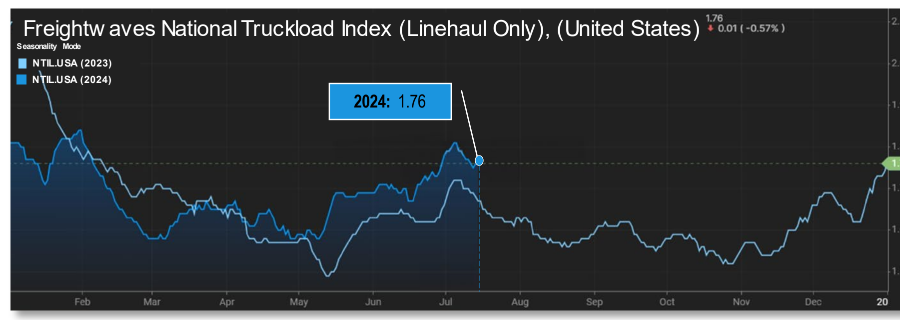
Despite a 4.7% year-over-year increase in containerized imports in early 2024, trucking volumes and rate conditions remain stagnant. The disparity underscores the limited impact of imports on overall truckload shipments compared to domestic manufacturing outputs.

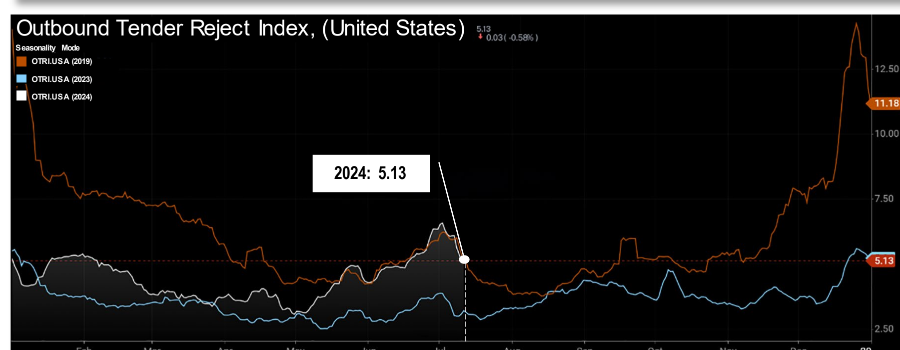
Hurricane Beryl Disrupts Texas Gulf Coast Supply Chains

Hurricane Beryl recently disrupted supply chain operations along the Texas Gulf Coast. Significant disruptions, including halted operations at the Port of Houston and ongoing power outages, have temporarily affected warehousing and trucking operations. While recovery efforts are underway, minor delays in freight movement may persist as logistics providers restore normal operations. Historical data suggests localized demand spikes post-hurricane rather than sustained national impacts on trucking volumes.

Shifting Demand in Motor Vehicles and Electrification Growth

Motor vehicle production, despite strong current output levels, faces potential demand softening that could impact future trucking demand. Conversely, industries like electrical equipment and components are poised for growth, benefiting from reshoring trends and advancements in electrification efforts. These factors suggest a nuanced landscape where specific sectors may mitigate broader challenges through strategic initiatives and technological advancements.





Source: FreightWaves

Supply, Capacity, & Carrier Operating Costs

U.S. Manufacturing Resilience Amid Red Sea Crisis

The Census Bureau's Q1 2024 Quarterly Survey of Plant Capacity Utilization shows U.S. manufacturing resilience despite the Red Sea crisis. Manufacturers reporting constraints due to "Insufficient Supply of Materials" dropped from 16.3% in Q4 2023 to 10.3% in Q1 2024, the lowest since Q4 2020. Logistics and transportation constraints are minimal at 3.3%. While high container shipping spot prices persist, landside disruptions in the U.S. are contained, but West Coast ports haven't regained market share due to issues like Panama Canal challenges and potential strikes. Strategic shifts to East and Gulf Coast ports are supported by infrastructure investments and demographic trends. The Red Sea crisis has disrupted shipping routes, forcing diversions around the Cape of Good Hope, increasing congestion at East Coast ports, prolonging vessel wait times, and operational delays. The rolling pools phenomenon, where shipments are delayed and rescheduled due to capacity constraints, is more prevalent. Carrier operating costs have risen due to extended travel distances, increased fuel consumption, and added resources needed to manage congestion.

Government Loans Prolong Trucking Recession

The extended trucking recession stems largely from a government program that provided small carriers with billions in cheap, long-term credit. Following COVID-19, an oversupply of trucks led to rates dropping to $1.49 per mile by May 2023, rising modestly to $1.60 by May 2024. Despite expectations of market correction, small fleets persisted, keeping rates low.

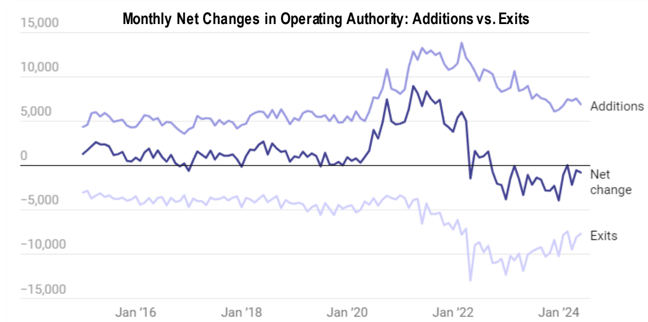
The SBA's COVID-19 Economic Injury Disaster Loan (EIDL) program, initiated in March 2020, offered loans up to $2 million at 3.75% interest, injecting $390 billion into the economy by January 2022. This included $37 billion into transportation, averaging $88,200 per loan for 419,500 recipients.

This influx of credit had major effects on carrier costs allowing small carriers to endure despite economic challenges. For instance, an owner-operator could sustain operations for two years with an $88,000 loan, even if earnings halved.

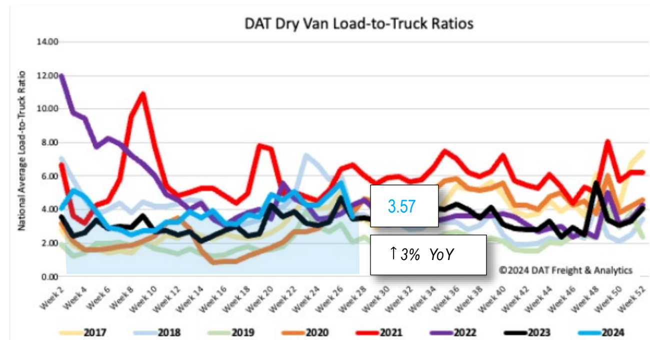
The SBA's decision to start loan collections may strain carriers, particularly those with loans secured against assets like residences or trucks. Aging fleets needing maintenance could further burden small carriers, potentially accelerating exits and flooding the used truck market. High customer churn for vendors reliant on small carriers may result. Despite recent upticks in tender rejection rates, reaching over 6%, the industry faces uncertainty if COVID-19 financial support ends, possibly triggering a capacity crunch in 2025. Carrier strategies in loan management, fleet upkeep, and economic shifts will dictate future industry stability.

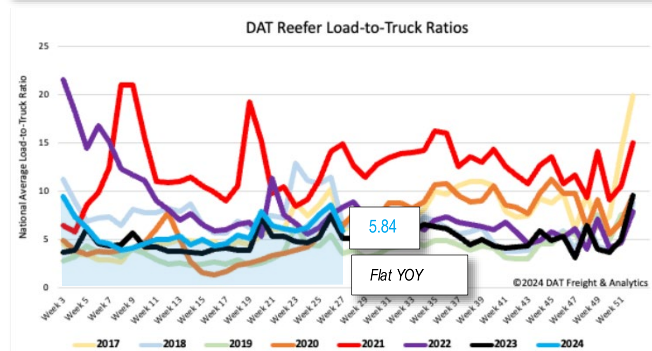
Industry Faces Ongoing Business Exits Despite Slowing Rates

Federal data reveals a significant attrition of about 9,000 trucking businesses exited the market in April, with slower rates observed in May and June. However, exits continued to outpace new entries during this period. Despite the slowdown in exits compared to earlier in the year, the overall trend remains highly negative when viewed historically. The industry has seen a net increase of over 93,000 carriers since February 2020, contributing to sustained market saturation.



Source: FMCA





Source: DAT

Contract & Spot Market Rate Trends

Spot Market Sees Sharp July 4 Decline, Rates Hold Firm Amidst Freight Drop

During the week of July 4, the spot market saw significant declines in load and truck postings, a typical post-holiday trend as business operations scaled back. Data from DAT and FTR Transportation Intelligence revealed notable drops: load postings on DAT One plummeted 48% to 1.26 million, while truck postings fell 21% to 262,943. This decline extended across equipment types, with dry van load postings down 49.9% to 618,011 and truck postings 21.9% lower at 172,876. Refrigerated loads fell 42.6% to 317,301, with truck postings down 15.4% to 54,335, and flatbed load postings dropped 49.2% to 326,464, with truck postings decreasing 25.9% to 35,632. FTR reported a similar trend, noting a 43.1% decrease in load activity and a 16.1% drop in truck postings, marking the lowest load-to-truck ratio since December across multiple equipment categories.

Despite the sharp decrease in freight volumes, spot market rates demonstrated resilience and relative stability. According to DAT, average spot market rates for dry van freight remained steady at $1.70 per mile, refrigerated rates increased slightly to $2.04, and flatbed rates decreased marginally to $2.05. FTR reported a 1.7-cent increase in average broker-posted rates across all equipment types. Year-over-year comparisons varied, with some rates showing marginal decreases while others saw slight increases, reflecting a balanced market response to the holiday-driven downturn.

Hurricane Beryl's impact on Gulf Coast markets, particularly for van and flatbed freight, may tighten capacity further. Ongoing labor disputes at East Coast ports could redirect import flows, potentially altering freight dynamics and spot rates in affected regions. Increased import volumes at West Coast ports, such as Los Angeles and Long Beach, also present opportunities and challenges, influencing lane activity and spot market trends.

Regional Insights

The California reefer market continues to show stability with inbound rates holding steady at $1.71 per mile, consistent with the previous year's figures. From interior points such as Salt Lake City and Omaha, rates exhibit variability, reflecting localized market dynamics.

In Los Angeles and Ontario, robust import activities have bolstered truckload volumes by a notable 25%, resulting in a month-over-month increase in spot rates ranging from 3.5% to 4.5%. Concurrently, linehaul rates have tightened, approaching levels reminiscent of those observed in 2022.

In the Midwest, decreased steel production in Indiana has had a significant impact, leading to reduced truckload volumes and spot rates from markets in Ft. Wayne and Gary, which declined 5.6% year over year.

Canada's Labor Disputes Shake Agricultural Freight

Ongoing labor disputes in Canada and fluctuations in agricultural equipment demand are influencing regional freight dynamics. Anticipated reductions in net farm income by 25% in 2024 add further complexity to market projections.

The market's ability to sustain elevated spot rates through Labor Day remains uncertain, contingent upon demand resilience and capacity adjustments across critical freight corridors.

Exhibit35: National Average Spot Van Rates ex. Fuel Surcharge

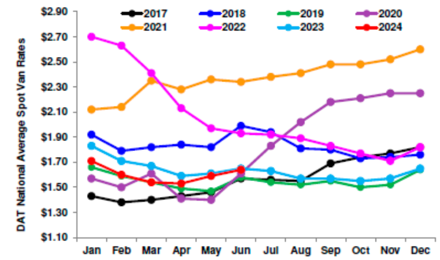


Exhibit36: National Average Contract Van Rates ex. Fuel Surcharge

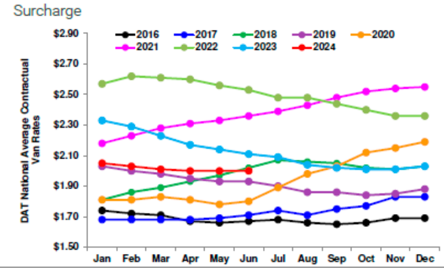


Exhibit37: National Average Spot Reefer Rates ex. Fuel Surcharge

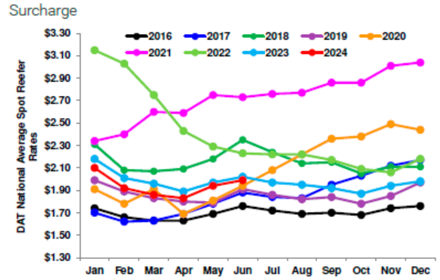


Exhibit38: National Average Contract Reefer Rates ex. Fuel Surcharge

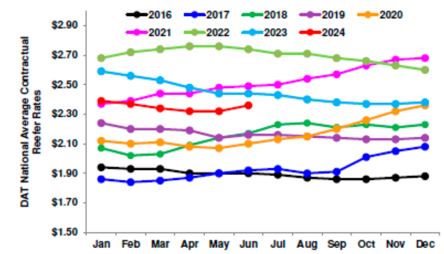


Exhibit39: National Average Spot Flatbed Rates ex. Fuel Surcharge

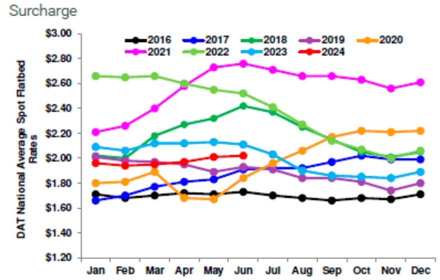
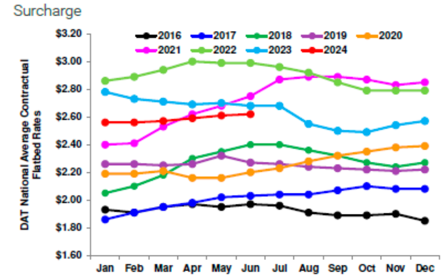


Exhibit40: National Average Contract Flatbed Rates ex. Fuel Surcharge



Source: Morgan Stanley