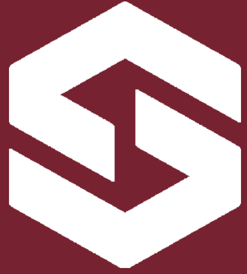


The Rearview & the Road Ahead: **Monthly Market Update**

Demand Levels & Outlook

Stability Masks Growing Year-Over-Year Rejection Gap

The market has exhibited stability in recent weeks, with the Outbound Tender Reject Index showing a minimal dip of 0.09% to 4.49%. While this slight decline contrasts with last year's upward trend during this period, it's noteworthy that the OTRI remains 1.11% higher year-over-year and 0.64% above 2019 levels, indicating a widening gap in recent weeks. An elevated OTRI means that carriers are rejecting a higher percentage of tendered shipments, leading to difficulties for shippers in securing capacity, especially for urgent or time-sensitive shipments. The competition for limited capacity can drive up shipping rates. Shippers may face higher costs to move their goods.

Residential Slump Drags on Building Material Demand

The residential construction sector continues to face headwinds. Existing single-family home sales remain sluggish, directly impacting the demand for large appliances and construction materials. Investment in permanent residential structures has seen only a slight year-over-year increase, with no unseasonal growth. This stagnation suggests continued softness in demand for essential building materials like lumber and drywall. Consequently, the trucking industry should not expect a significant boost from the residential sector in the near term.

Agriculture, Automotive, and Energy Slumps Hit Freight Volumes Hard

In agriculture, lower commodity prices for crops like corn and soybeans have reduced farmer profitability, leading to decreased demand for farm equipment and corresponding freight, as seen in John Deere's layoffs. The automotive sector is also under strain, with softening vehicle sales potentially reducing automotive freight demand. In energy, a 14% year-over-year decline in drilling oil and gas wells has cut freight volumes for related machinery, and despite increased production of electrical equipment due to summer heat, it is not enough to counterbalance the overall downturn in manufacturing.

Stagnant Investment and Layoffs Push Truckload Bull Market to 2025

Capital investment activity, a critical driver of trucking demand, remains weak across key sectors. Stagnant residential construction, reduced agricultural investments, and declining energy production all point to a continued freight recession through the remainder of 2024. With interest rate sensitive sectors eyeing potential layoffs and no major catalysts on the horizon, the long awaited truckload bull market may not materialize until mid 2025. This rebound is contingent on future economic conditions and potential rate cuts by the Federal Reserve.

Seasonal Freight Dip Overcome by Strong Short Haul Performance

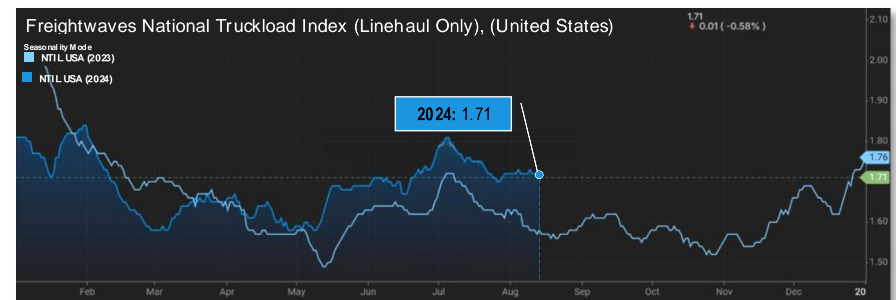
Freight volumes experienced a sluggish start in August, consistent with historical trends, as tender volumes typically dip during the first half of the month. The Outbound Tender Volume Index, a key indicator of national freight demand, reflected this trend with a 1.24% decline week over week. However, a year-over-year comparison offers a more optimistic perspective, with tender volumes up by 1.87%, driven primarily by a surge in short haul freight (under 100 miles), which has risen nearly 25% y/y.

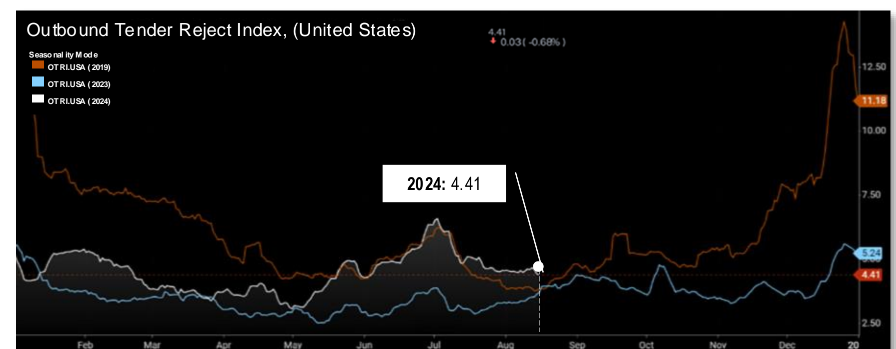
The early August lull is partially attributed to consumer spending trends, with a 1.7% y/y decline reported by Bank of America for the week ending August 3. Spending on furniture, home improvement, and entertainment has particularly dragged down overall consumer expenditure. Nonetheless, freight markets remain mixed, with 68 out of 135 markets seeing an uptick in tender volumes week over week.

Mode - Specific Insights

Dry Van Market: The dry van market continues to struggle. Van tender volumes have been on a downward trend since early June, with the Van Outbound Tender Volume Index dropping 1.8% over the past week. This marks the lowest level since mid May, excluding holiday impacts, pushing van volumes into negative territory on a y/y basis, down 0.05%.

Reefer Market: The refrigerated truckload market, which had shown positive momentum in late July, saw a 0.92% decline in the past week, though it still holds a 1.35% y/y gain. The Reefer Outbound Tender Reject Index has consistently averaged above 8% since June, reflecting heightened demand and tighter capacity. The Reefer Truckload Index (RTI), tracking average spot rates for refrigerated freight, has also risen by approximately 13% since April's end.





Source: FreightWaves

Supply, Capacity, & Carrier Operating Costs

Capacity Shifts: Fewer Markets See Rising Rejections

Geographically, capacity dynamics varied across markets. Of 135 markets, 53 reported an increase in rejection rates, down from 67 markets the previous week. Southern California markets, including Ontario and Los Angeles, saw significant declines, with rejection rates dropping by 0.97% bps and 0.96% bps, respectively. However, the Houston market stood out with a 2.49% increase in rejection rates week-over-week, reflecting ongoing volatility in that region.

Mode - Specific Insights

- **Dry Van:** The Van Outbound Tender Reject Index dipped 0.06% w/w but remains 1.17% higher than this time last year. Rejection rates have consistently stayed above 1.00% y/y since early May, suggesting a stable but slightly tightening market for dry van freight.
- **Reefer:** Reefer tender rejection rates declined by 0.48 % w/w, settling at 7.75%. Despite this national decline, certain markets, such as Ontario, CA, faced capacity constraints, with rejection rates spiking by 5.80% w/w. Year-over-year, reefer rejection rates are 2.76% higher, indicating persistent challenges in specific regions.
- **Flatbed:** Flatbed rejection rates increased by 0.36% to 6.93% over the past week, though they remain 2.14% lower y/y. The industrial sector continues to face pressure, and market conditions are expected to stay challenging until potential interest rate cuts provide relief.

Dry Van Contracts Inch Up, But Still Lag Behind Last Year

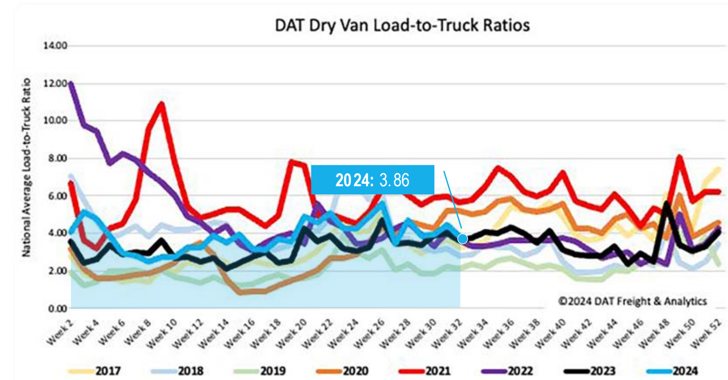
As August progresses, spot rates have shown stability, with the National Truckload Index holding at $2.29 per mile, up $0.07 y/y. The linehaul variant, excluding fuel surcharges, also remained steady at $1.71 per mile, reflecting a $0.13 y/y increase. This stability is a positive indicator for carriers, showcasing their resilience despite ongoing market challenges.

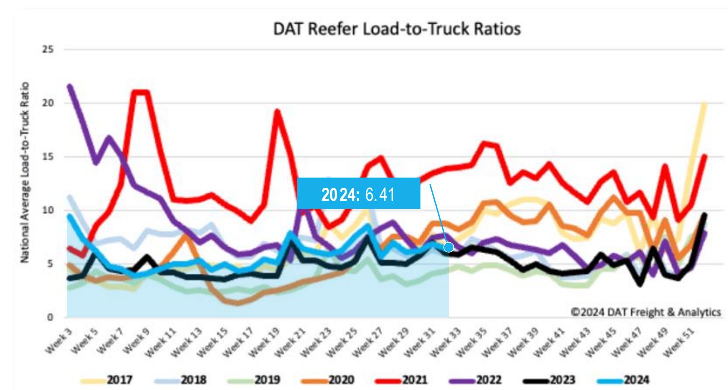
Dry van contract rates saw a modest $0.02 increase per mile, reaching $2.31, but they remain down $0.05 from last year, reflecting a slight 2% decline. The spread between NTIL and dry van contract rates is trending back to pre-pandemic levels, suggesting potential shifts as the Labor Day holiday approaches.

Dry Van Lulls, Reefer Market Braces for Impact

The current market environment is marked by significant uncertainty surrounding supply and capacity. The dry van sector, which shares overlapping capacity with the refrigerated market, has remained relatively subdued. However, the potential for carriers to switch from dry van to temperature-sensitive freight adds a layer of complexity to the market. This fungibility means that as dry van rates recover, the refrigerated market could face increased pressure.

One key factor influencing market conditions is the theory of a supply-side bull market. This theory suggests that a reduction in capacity due to low rates could trigger a pricing upswing. However, this is challenged by the high price elasticity of trucking capacity—when prices rise, capacity typically follows, albeit with a lag. As a result, while capacity exits may bring the market to equilibrium, they are unlikely to trigger a bull market without a corresponding positive demand shock.





Source: DAT

Contract & Spot Market Rate Trends

Rejection Rates Poised for Labor Day Surge

Throughout August, the freight market has demonstrated notable stability, particularly in spot rates. Rejection rates, which often serve as an early indicator of market shifts, have remained largely unchanged since the beginning of the month. This stability has kept spot rates at levels comparable to those observed around Memorial Day. However, with the Labor Day holiday approaching, a rise in rejection rates could potentially trigger a surge in spot rates, similar to the pattern seen during the Fourth of July.

In the past week, the National Truckload Index, a key indicator that includes fuel surcharges and accessorials, saw a slight decline of $0.02 per mile, settling at $2.29 per mile. Despite this decrease, the NTI remains up by $0.06 per mile year-over-year, marking a 2.7% increase. The linehaul variant of the NTI (NTIL), which excludes fuel surcharges, also dipped by $0.01 per mile to $1.71. However, the NTIL is still $0.14 per mile higher than it was at this time last year, signaling favorable conditions for carriers that have endured the market's recent challenges.

Dry Van Stability Signals Focus Shift to Quality

Dry van contract rates have remained steady at $2.31 per mile for the past week, continuing a trend of consistency throughout 2024. This stability suggests that the significant cost savings seen in prior years have leveled off, with a growing emphasis on service quality. Nonetheless, contract rates are down by 5 cents per mile year-over-year, reflecting a modest 2% decline.

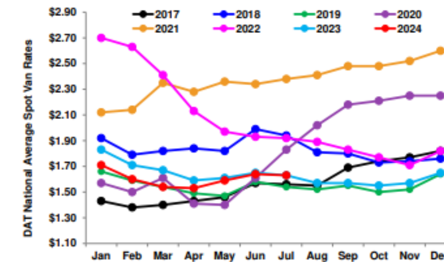
Interestingly, the spread between the NTIL and dry van contract rates is returning to levels seen before the pandemic, as contract rates have inched higher in recent weeks. If spot rates increase heading into Labor Day, this spread could resemble the patterns observed in the final months of 2019.

Refrigerated Rates Edge Up, Contract Pressure Remains

The refrigerated load market has seen spot rates trending upward, driven by a mix of seasonal and non-seasonal factors. The Refrigerated Truckload Index has increased by 13% since April, reflecting a stable yet volatile rate environment. However, the absence of significant disruptions in key produce-hauling lanes suggests that these rate increases may be more influenced by broader market conditions rather than specific seasonal events.

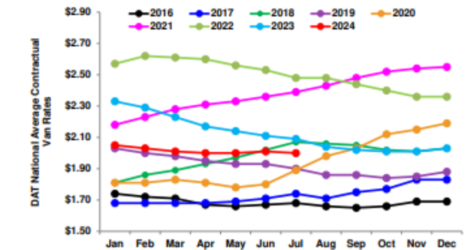
Contract rates for refrigerated loads are expected to remain under pressure as both carriers and shippers navigate the uncertain market landscape. With the likelihood of further rate reductions and the absence of major demand shocks, the market may continue to experience normal seasonal fluctuations in capacity tightness rather than a pronounced shift toward a bull market.

Exhibit27: National Average Spot Van Rates ex. Fuel Surcharge



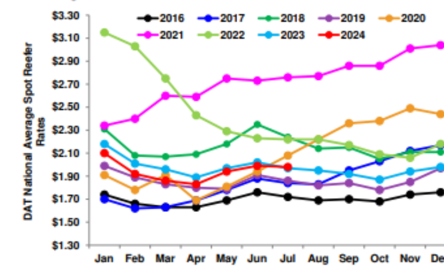
Source: Morgan Stanley Research, DAT Solutions (www.dat.com/resources/trendlines); Note: DAT sources from over $24 B in transactions and 65k lanes.

Exhibit28: National Average Contract Van Rates ex. Fuel Surcharge



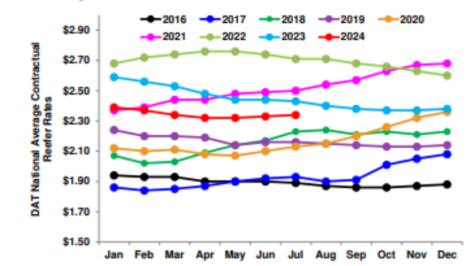
Source: DAT Solutions, Morgan Stanley Research

Exhibit29: National Average Spot Reefer Rates ex. Fuel Surcharge



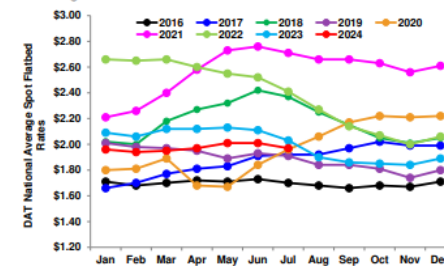
Source: DAT Solutions, Morgan Stanley Research

Exhibit30: National Average Contract Reefer Rates ex. Fuel Surcharge



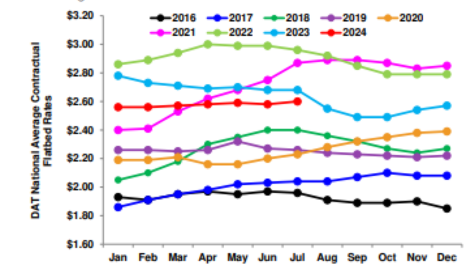
Source: DAT Solutions, Morgan Stanley Research

Exhibit31: National Average Spot Flatbed Rates ex. Fuel Surcharge



Source: DAT Solutions, Morgan Stanley Research

Exhibit32: National Average Contract Flatbed Rates ex. Fuel Surcharge



Source: DAT Solutions, Morgan Stanley Research

Source: Morgan Stanley