Market Update – The Rearview & the Road Ahead

Demand Levels & Outlook

Rising Rejections and Tight Capacity Hint at Recovery

The market is showing early signs of recovery from a prolonged recession. Tender rejections are rising, and capacity is tightening, suggesting a carrier-favorable shift, though sluggish manufacturing tempers optimism. A balanced market may emerge by early 2025.

- **Outbound Tender Volume Index**: ↓ 2.24% w/w, ↓ 1.87% y/y
- **Contract Load Accepted Volume**: ↓ 2.1% w/w, ↓ 3.89% y/y
- **Short-haul volumes**: ↑ 0.63% w/w (possible stabilization)

Freight growth remains minimal, increasing just 0.1% in Q3 2024. Container imports from China surged in anticipation of tariff hikes, reaching pre-2019 tariff levels. These tariff increases are expected to raise product prices further.

- **Freight growth**: Q3 2024 ↑ 0.1%
- **Container imports**: Rebounded to pre-2019 levels
- **Tariff impact**: Expected price increases

Imports Fall, Warehousing Cools

Investment in warehouse construction remains elevated—30% above 2017 levels—but dropped 20% y/y due to high vacancy rates and interest rates. Supply production is gradually recovering, though nonresidential construction growth remains unlikely in the near term.

- **Warehouse construction**: 30% above 2017, ↓ 20% y/y
- **Construction supplies**: Gradual improvement into 2025

October import volumes fell 6% y/y as shippers avoided peak surcharges and upcoming tariff hikes. East Coast logistics have faced disruptions from ongoing port strikes, while regulatory changes could further limit capacity.

- **Imports in October**: ↓ 6% y/y
- **Driver regulations**: FMCSA Clearinghouse-II could remove 177,000 drivers
- **Immigration enforcement**: May affect 20% of the driver workforce

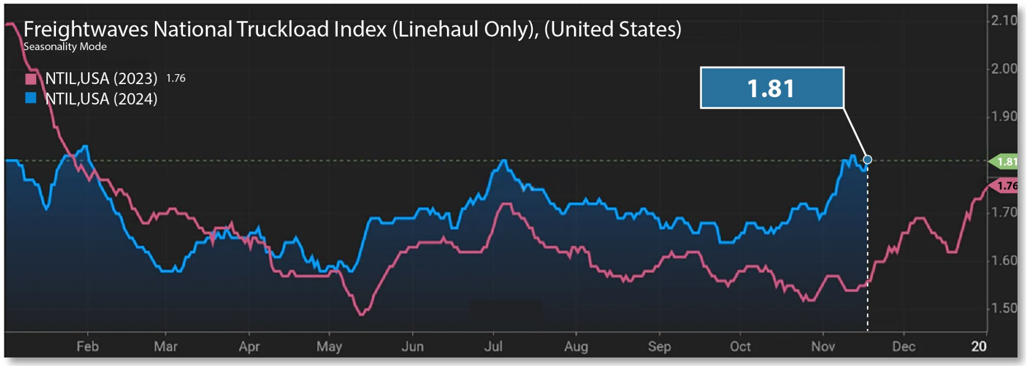
Long-Haul Intermodal Gains Ground

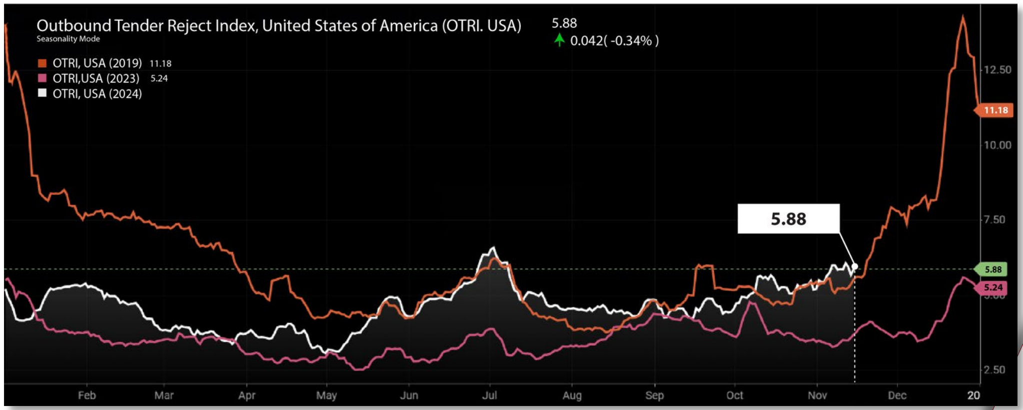
Reefer volumes showed year-over-year growth (+0.67%), though slightly down week-over-week (-0.8%). Dry van demand declined (-2.4% w/w), while intermodal volumes outperformed truckload, growing 8% y/y. Long-haul intermodal is replacing truckload capacity, particularly on routes like Los Angeles to Chicago, reducing weekly truckload pressure by 2,200–2,500 loads.

- **Reefer volumes**: ↑ 0.67% y/y, ↓ 0.8% w/w
- **Dry van volumes**: ↓ 2.4% w/w
- **Intermodal demand**: ↑ 8% y/y
- **LA to Chicago intermodal**: Replacing ~2,200–2,500 truckloads/week

ILA Stands Firm Against Semi-Automation Proposals

Labor negotiations between the ILA and USMX are stalled over automation concerns, with a critical deadline of January 15 approaching. The ILA advocates for human oversight to ensure safety and efficiency, rejecting semi-automation proposals.





Source: FreightWaves

Supply, Capacity & Carrier Operating Costs

Deferred Maintenance Hits Hard

Independent truckers continue to struggle with rising expenses. Average truck payments are nearing $3,000/month, which places a heavy burden on owner-operators while rates slowly recover. Deferred maintenance is now unsustainable, pushing up upkeep and repair costs. Carrier costs overall have risen by 15-20% since pre-COVID, with diesel still a primary cost concern despite moderated prices.

- Average truck payments: ~$3,000/month
  - Maintenance costs: Increased sharply due to deferred upkeep
  - Carrier costs: ↑ 15-20% from pre-COVID levels
  - Diesel expenses: Remain a significant part of budgets

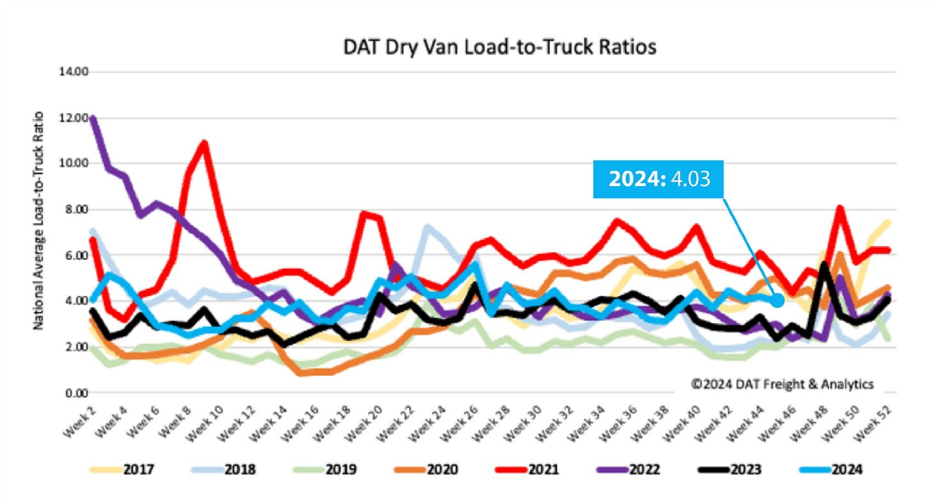
Flatbed Rejections Spike Amid Hurricane Relief Efforts

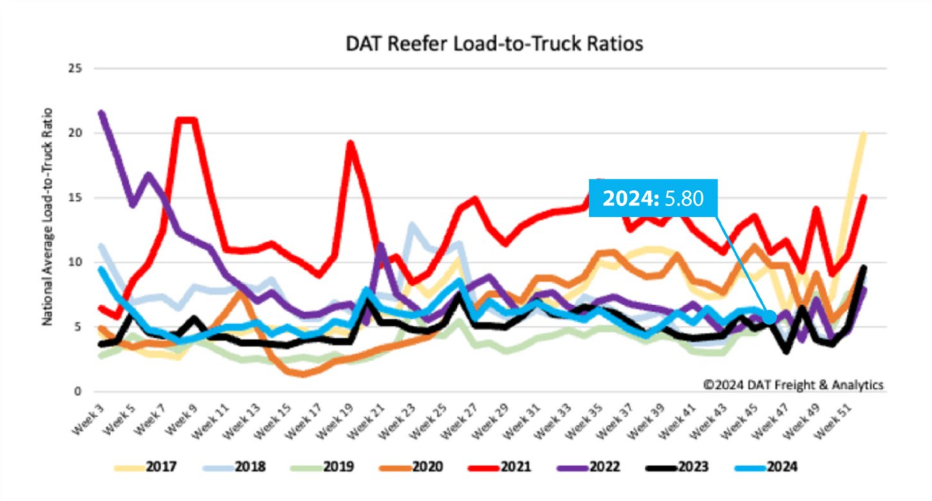
Carrier capacity is rebalancing, with larger carriers seeing some stabilization. New truck orders fell by 5.2% y/y as fleets cautiously manage growth. Drivers are covering more ground—averaging 93,000 miles annually (up from 85,000 during COVID)—to make the most of existing assets.

Tender rejection rates dropped slightly (down 13 basis points) to 5.88%, though they remain higher than last year (+198 basis points). Reefer rejections fell by 130 basis points to 16.22% but remain high. Elevated flatbed rejection rates are partly due to hurricane relief efforts.

Truck Orders & Rejection Rates Recap

- New truck orders: ↓ 5.2% y/y
- Driver miles: Averaging 93,000 miles annually, up from 85,000 during COVID
- Truckload tender rejection rates: ↓ 13 basis points to 5.88%
- Reefer rejections: ↓ 130 basis points to 16.22%
- Dry Van Rejections: ↓ 5 basis points to 5.1%
- OTRI: ↓ 13 basis points to 5.88%, still 198 basis points higher y/y





Source: DAT

Contract & Spot Market Rate Trends

Spot Rates Outpace Contracts

Dry van spot rates have increased by $0.04 per mile since October and are expected to rise another $0.0 9by mid-December. Reefer rates are rising seasonally with holiday demand, peaking around Thanksgiving and likely cooling after Cyber Monday. Flatbed rates are following seasonal patterns, increasing by $0.02 per mile. Contract rates for dry van remain 10% below spot rates, though shippers are beginning to accept modest increases due to tightening conditions.

- Dry van spot rates: ↑ $0.04 per mile since October
- Reefer rates: Seasonal uptick, peaking around Thanksgiving
- Flatbed rates: ↑ $0.02 per mile

Capacity Rebalancing Drives Spot Rate Increases Across Modes

Dry van spot rates are up, driven by capacity rebalancing, but the dry van load-to-truck ratio has dropped to 4.03 due to reduced freight volumes. Reefer load-to-truck ratios are at 6.61, reflecting high demand and reduced produce volumes. Reefer spot rates average $2.23 per mile, up $0.09 from last year. Flatbed rates average $1.99 per mile, despite a 12% decline in loads moved. National truckload spot rates increased to $1.78 per mile, up from $1.54 last year.

- **Dry Van Load-to-Truck:** 4.03
- **Reefer Load-to-Truck:** 6.61
- **Reefer Spot Rates:** $2.23/mile (up 9¢ y/y)
- **Flatbed Rates:** $1.99/mile, despite 12% drop in loads

Rate Gap Narrows

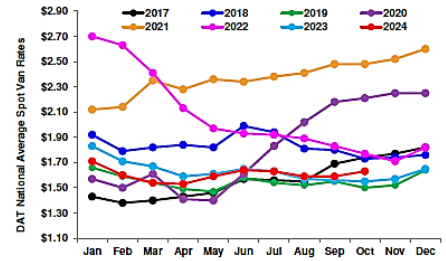
Spot rates have climbed to an average of $2.35 per mile, a $0.12 increase from last year. Dry van contract rates are at $2.33 per mile, narrowing the spot-contract gap by $0.12 year-over-year. As the gap narrows, carriers are increasingly opting for spot opportunities over contracted loads.

- Spot rates: $2.35 per mile, ↑ $0.12 y/y
- Dry van contract rates: $2.33 per mile, narrowing gap by $0.12 y/y

Spot-Contract Gap Fuels Shift in Carrier Priorities

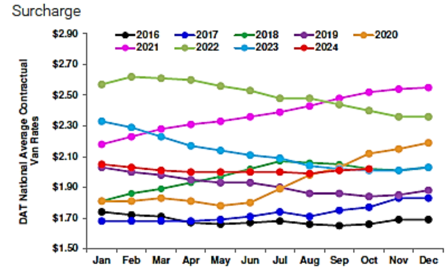
The narrowing gap between spot and contract rates has led to reduced truckload carrier compliance since May 2023. Carriers are prioritizing the spot market, which offers better margins.

Exhibit35: National Average Spot Van Rates ex. Fuel Surcharge



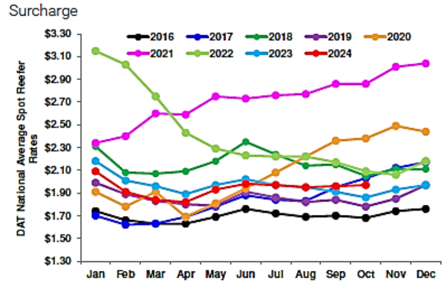
Source: Morgan Stanley Research, DAT Solutions (www.dat.com/resources/trendlines); Note: DAT sources from over $24 B in transactions and 65k lanes.

Exhibit36: National Average Contract Van Rates ex. Fuel Surcharge



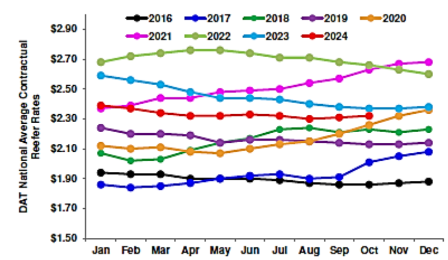
Source: DAT Solutions, Morgan Stanley Research

Exhibit37: National Average Spot Reefer Rates ex. Fuel Surcharge



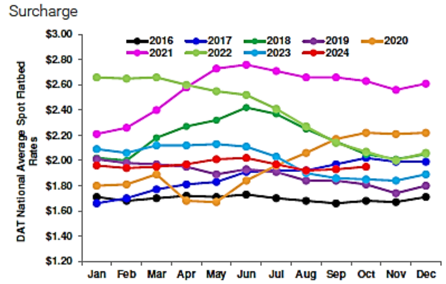
Source: DAT Solutions, Morgan Stanley Research

Exhibit38: National Average Contract Reefer Rates ex. Fuel Surcharge



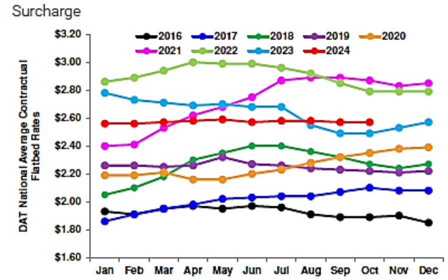
Source: DAT Solutions, Morgan Stanley Research

Exhibit39: National Average Spot Flatbed Rates ex. Fuel Surcharge



Source: DAT Solutions, Morgan Stanley Research

Exhibit40: National Average Contract Flatbed Rates ex. Fuel Surcharge



Source: DAT Solutions, Morgan Stanley Research

Source: Morgan Stanley

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