Market Update – The Rearview & the Road Ahead

Demand Levels & Outlook

The State of Tariffs and Their Impact on Supply Chains

U.S. Tariff on Canadian Aluminum (50%)

The U.S. has imposed a 50% tariff on aluminum imports from Canada and a 25% tariff on steel and aluminum imports from most countries. The U.S. produces only 670,000 tons of primary aluminum annually, while it imports over 2 million tons from Canada.

Industries Affected:

- Automotive: Higher material costs for vehicle production.
- Packaging: Increased costs for aluminum cans and food containers.
- Manufacturing: Rising expenses for aluminum-based products.

Tariffs on Mexican Imports (25%)

Certain Mexican fruit imports, previously duty-free, now face a 25% tariff, forcing importers to navigate compliance with the U.S.-Mexico-Canada Agreement or seek alternative sourcing.

Industries Affected:

- Agriculture & Retail: Higher prices for produce, particularly citrus, avocados, and berries.
- Food Processing: Increased costs for manufacturers that rely on Mexican-sourced ingredients.

U.S.-EU Trade Conflict Escalation

The European Union has imposed tariffs on $28 billion worth of U.S. goods. In response, the U.S. is considering a 200% tariff on European wines, champagnes, and alcoholic beverages.

Industries Affected:

- Wine & Spirits: Increased costs for imported European alcoholic beverages.
- U.S. Exporters: New trade barriers for American products in the EU.

U.S.-China Trade War Intensifies

The U.S. has added a 20% blanket tariff on top of existing 10% duties on Chinese imports. China has responded with up to 15% tariffs on U.S. farm goods like chicken and pork. The U.S. has also signed a measure allowing for reciprocal tariffs by April 2.

Industries Affected:

- Agriculture: Farmers face declining exports and higher storage costs for unsold goods.
- Retail & Consumer Goods: Increased costs for Chinese-manufactured goods, affecting pricing and inventory planning.

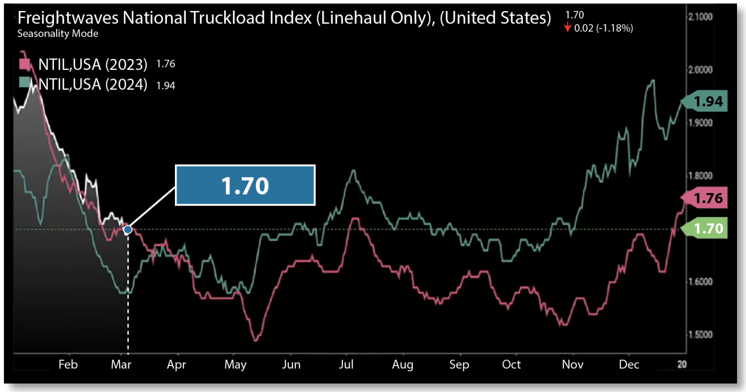
Freight Market Tightness on the Horizon?

The freight market remains volatile, with tender rejection rates fluctuating due to tariff shifts and disruptions in specialized freight. Flatbed markets have been particularly reactive to recent trade policies, pushing rejection rates higher.

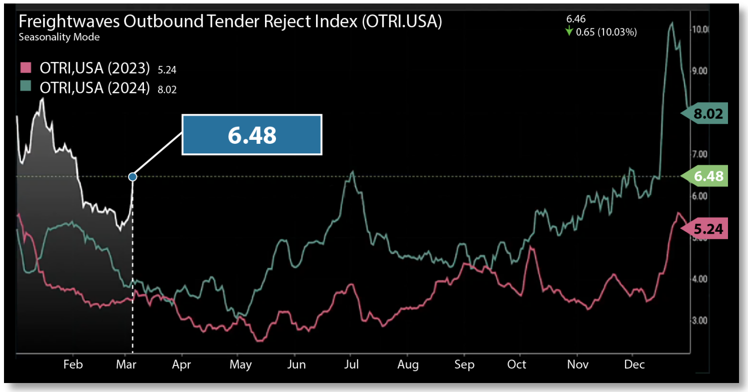
March demand has been mixed—consumer goods movement remains sluggish due to high inventories and early imports, while steel and aluminum tariff impacts have driven stronger demand in certain sectors.

April typically sees a freight slowdown, but May could mark an inflection point as tightening truckload capacity meets seasonal demand, potentially straining the market.

West Coast port activity is 15% above historical norms, raising questions about sustained import volumes or another frontloading rush ahead of new tariffs.



Source: Freightwaves



Supply, Capacity & Carrier Operating Costs

Diesel Prices

Diesel prices have dropped for the second consecutive week, marking a $0.115 decline over this period. The Department of Energy/Energy Information Administration reported an average diesel price of $3.582 per gallon, nearing its lowest level for the year at $3.561 per gallon recorded in early January.

Diesel expenses typically rank as the second-largest operational cost after labor for carriers. Lower fuel prices provide a much-needed financial reprieve, especially for small carriers operating on thin profit margins. However, despite this positive trend, broader economic uncertainties, including recession fears and potential retaliatory tariffs, could have long-term implications for the U.S. refining industry.

Refinery Capacity at Risk?

The U.S. refining sector, a crucial component of fuel supply, faces potential challenges due to shifting trade policies and international competition. Longtime energy economist Philip Verleger warns that tariffs on imports, including energy-related goods, could trigger retaliatory measures from key trading partners. Given that U.S. refiners export approximately 3.7 million barrels per day of finished petroleum products—1.3 million barrels of which is ultra-low sulfur diesel — retaliatory tariffs could significantly impact refinery profitability and capacity.

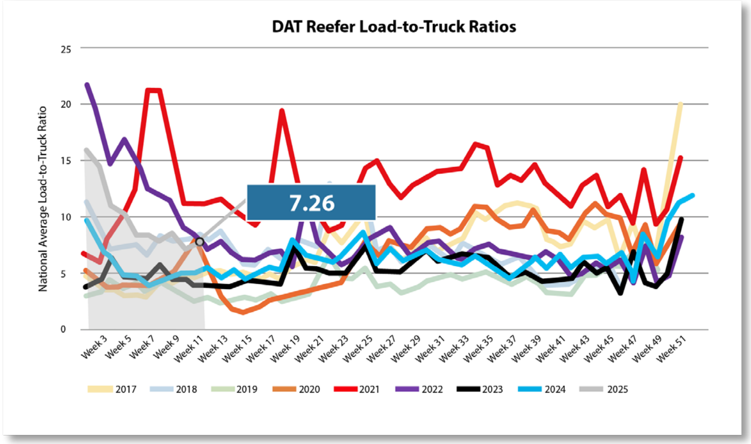
Furthermore, the recent closure of the LyondellBasell refinery, one of the oldest in the Gulf Coast, exemplifies how structural changes in global refining may further constrain U.S. fuel production. As new refineries come online in the Middle East and Africa, such as Nigeria's colossal Dangote refinery, competition for market share in the Atlantic basin intensifies.

Carrier Operating Costs and Freight Rates

Despite falling fuel prices, carrier operating costs remain elevated. Long-haul spot market operating costs averaged $1.80 per mile in February 2025, consistent with 2024 levels but still $0.18 per mile higher than pre-pandemic rates in 2019. Meanwhile, dry van linehaul rates have struggled to keep pace with rising expenses. February spot rates averaged $1.66 per mile nationally, only $0.04 above 2019 levels, reinforcing concerns about profitability for smaller carriers.

Tariff Impact on Carrier Costs

- **Higher fuel costs:** If tariffs disrupt global oil imports, diesel prices may rise despite recent declines.
- **Increased compliance costs:** Carriers will need to invest in updated documentation, customs declarations, and compliance checks.
- **Potential job losses:** Rising costs may force businesses to cut logistics expenses, impacting employment levels in the trucking sector.



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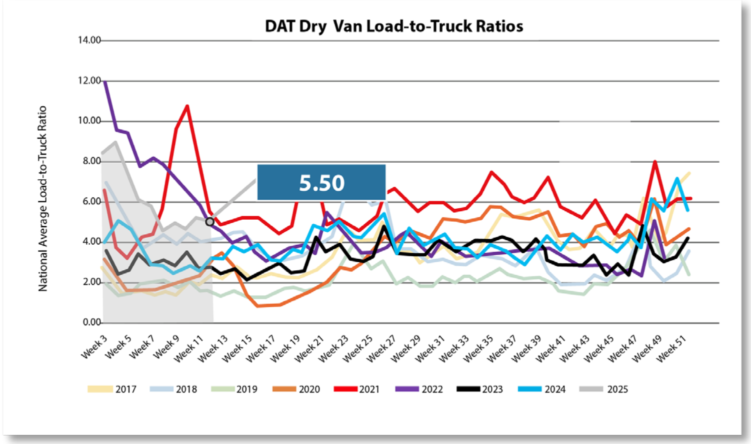


Contract & Spot Market Rate Trends

Spot Market Trends: Seasonal Stability or False Hope?

Spot market rates show fluctuations but remain below year-over-year comparisons, reinforcing the effects of prolonged overcapacity.

- Dry Van Spot Rates: Averaged $2.03 per mile, ↑ 0.8% week-over-week but still ↓ 9.2% from March 2024.
- Reefer Spot Rates: $2.37 per mile, ↑ 0.4%, though the expected seasonal boost from produce season remains weaker than usual.
- Flatbed Spot Rates: Holding relatively steady at $2.52 per mile, benefiting from strong demand in construction and heavy equipment hauling.

DAT data for February 2025 also confirmed declining freight volumes:

- Van loads: ↓ 8.5% month-over-month.
- Reefer freight: ↓ 11.3% from January.
- Flatbed volumes: ↑ 0.4%, reflecting steady construction sector demand.

Contract Market: Holding the Line Amid Uncertainty

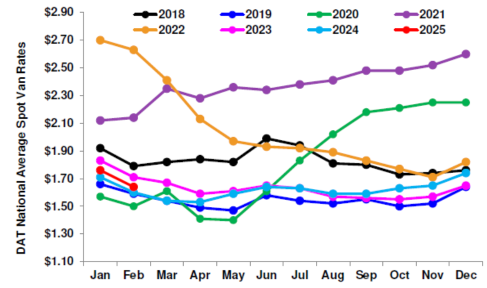
Unlike the volatile spot market, contract rates remained relatively stable in February and early March:

- Contract Van Rate: $2.43 per mile, ↓ $0.01 from January, ↓ $0.07 from February 2024.
- Contract Reefer Rate: $2.75 per mile, unchanged from January but ↓ $0.14 year-over-year.
- Contract Flatbed Rate: $3.05 per mile, ↓ $0.02 month-over-month.

The stability of contract rates suggests shippers and brokers are leveraging their pricing power in a soft market, further evidenced by the widening spread between contract and spot pricing:

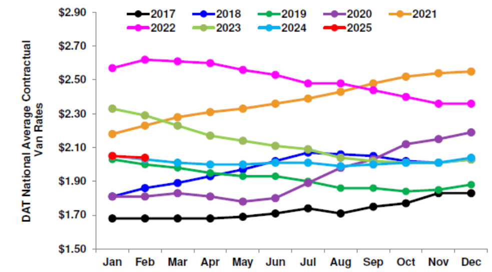
- Van: $0.39 per mile, ↑ $0.10 cents from January.
- Reefer: $0.39 per mile, ↑ $0.18 cents from the previous month.
- Flatbed: $0.60 per mile, ↓ slightly by $0.03 but still maintaining the largest gap.

Exhibit27: National Average Spot Van Rates ex. Fuel Surcharge



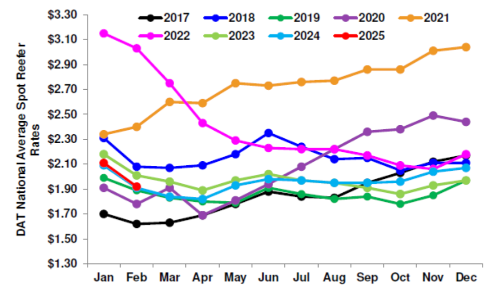
Source: Morgan Stanley Research, DAT Solutions (www.dat.com/resources/trendlines); Note: DAT sources from over $24 B in transactions and 65k lanes.

Exhibit28: National Average Contract Van Rates ex. Fuel Surcharge



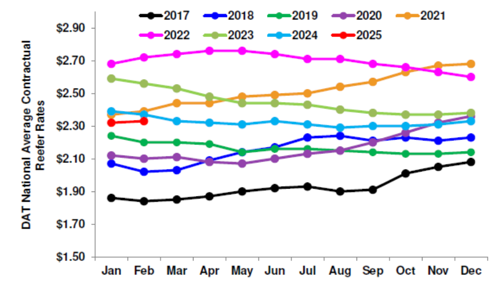
Source: DAT Solutions, Morgan Stanley Research

Exhibit29: National Average Spot Reefer Rates ex. Fuel Surcharge



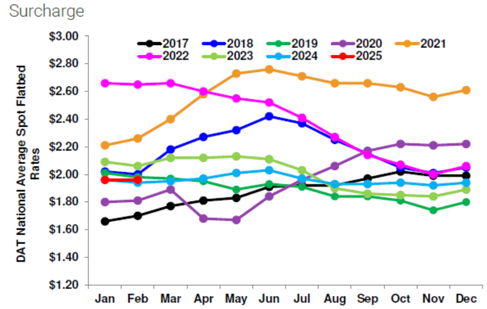
Source: DAT Solutions, Morgan Stanley Research

Exhibit30: National Average Contract Reefer Rates ex. Fuel Surcharge



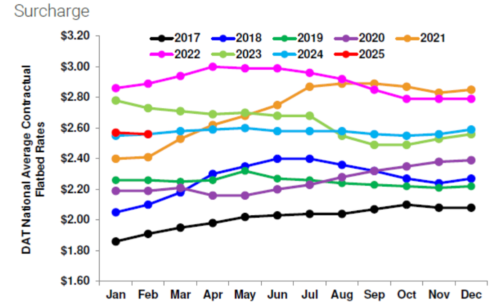
Source: DAT Solutions, Morgan Stanley Research

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

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