Market Update – The Rearview & the Road Ahead

Demand Levels & Outlook

Truckload Market Gets Pull-Forward Bump Then Slides

In Q1 2025, truckload demand saw a temporary boost as shippers rushed to get ahead of tariff hikes. This "pull-forward" activity helped push the rate-per-mile 5.9% above January 2018 levels. However, the effect faded quickly.

Spot rates have since fallen to $2.24/mile, ↓ $0.15 from February and ↓ 1.7% from last year. Tender volumes have declined 0.97% week over week and 0.81% month over month, showing soft demand across lanes.

Tariff Timeline Driving Demand Disruption

- April 2 – *"Liberation Day"*:
  - 10% universal tariff on all imports (excl. Canada/Mexico), effective April 5
  - "Reciprocal" tariffs on 60+ countries (China: 54%, Vietnam: 46%, EU: 20%)
  - Announcement of De Minimis elimination for Chinese imports, effective May 2
- April 5 – Import volumes momentarily surge as tariffs take effect
- April 8 – U.S. raises China tariffs to 120%; Chinese-made electronics no longer exempt
- April 9–11 – China retaliates with 125% tariffs, rare earth export bans, and blacklisting U.S. firms
- April 10 – U.S. imposes a 90-day global tariff suspension, but raises China's rate to 125%
- April 15 (projected) – EU rolls out $23B in retaliatory tariffs

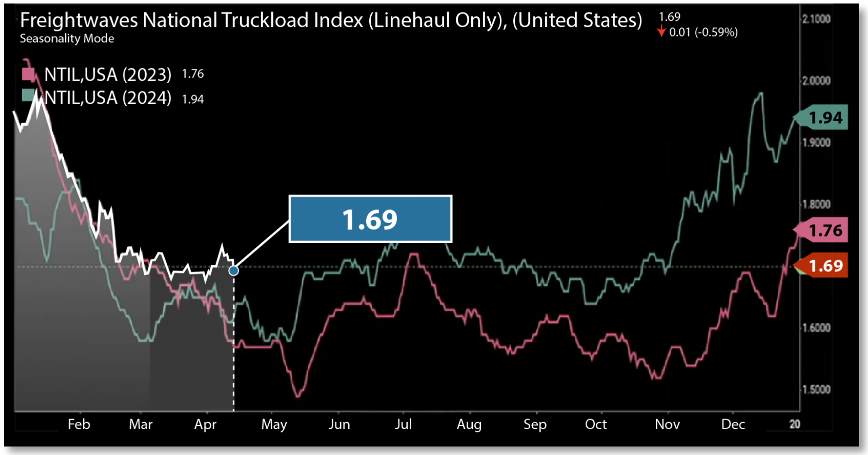
Carrier Capacity Mismatch Persists

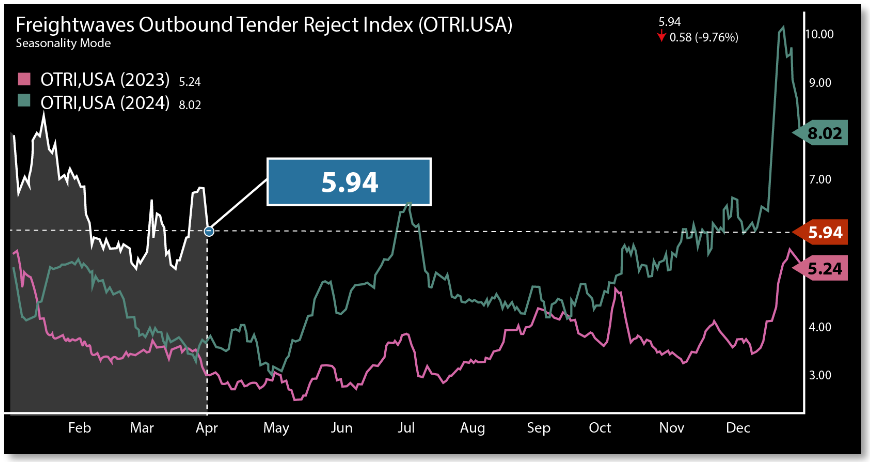
Despite softening rates, 203 net new trucking authorities were added the first week of April—↑ 32.7% week over week. This growth in capacity amid falling demand intensifies rate pressure.

LTL and Parcel Holding Steady as Warning Signs Emerge

LTL cost per shipment rose 1.5% quarter over quarter in Q1 2025, supported by fuel surcharges and GRIs, but faces looming softness tied to industrial slowdown and tariff impact on manufacturing inputs. The PMI returned to contraction in March, signaling a risk of near-term volume erosion.

Parcel demand faces an especially acute threat from the May 2 removal of the de minimis exemption for Chinese imports. This will subject all low-value e-commerce shipments from China to full tariffs—disrupting fast fashion and electronics flows. Air cargo rates out of Shanghai have already fallen to pre-pandemic levels, signaling weakening demand.





Source:Freightwaves

Supply, Capacity & Carrier Operating Costs

A Tale of Frontloading and Fatigue

- **Import Surge in Q1:**
  U.S.-bound container volumes ↑ 5.6% year-over-year in Q1 driven by a frontloading strategy from shippers anticipating tariff spikes. Much of this surge is attributable to low-truck-impact goods like gold, semiconductors, and pharma.

- **Muted Peak Season Ahead:**
  According to Port of LA's Gene Seroka, volumes are expected to decline 10% y/y in H2 due to inventory already staged domestically, forecasting a "subdued" peak. Expect seasonal softness to persist.

- **Truckload Demand Deterioration:**
  National dry van volumes are ↓ 9.5% y/y. While early April is seasonally soft, this drop exceeds normal patterns and reflects modal shifts and bloated inventories.

- **Intermodal Ascendant:**
  Rail intermodal volumes are ↑ 9.9% y/y, with average rates 30% cheaper than truckload. Long-haul lanes out of LA are especially seeing modal shift as urgency drops and shippers optimize cost.

Capacity is Tightening... for Now

- **Carrier Exits Slowing:**
  For the first time in three years, March saw more new trucking authorities granted than revoked . While this may reflect optimism, it could signal trouble if demand softens further.

- **Tender Rejection Rates Rising:**
  Currently at 6.09%, ↑ from 3.61% in 2024 and 2.87% in 2023, rejections indicate stronger carrier confidence in spot market options.

- **Spot Rates (Ex-Fuel):**
  ↑ 6.2% y/y, or $0.10/mile when excluding diesel's 10.3% y/y decline. Capacity attrition, not demand strength, is propping up these rates.

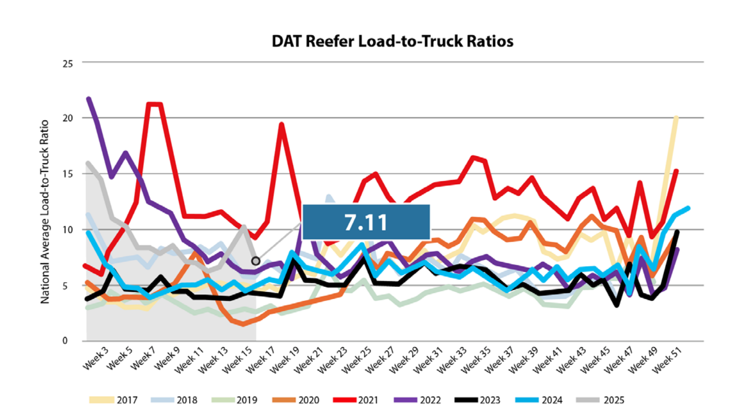
Carrier Operating Costs Rise Under New Tariff Burden

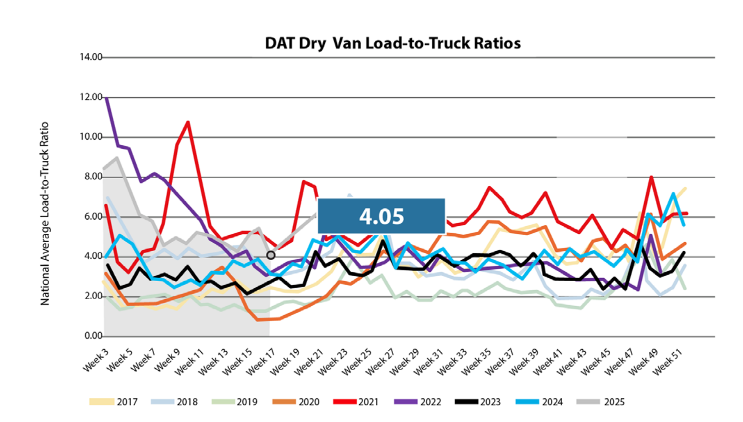
- Tariff Landscape as of April 11, 2025.
  - All imports: 10%+
  - China: 125%
  - Steel & aluminum: 25%
  - Autos (non-heavy trucks): 25%
  - Non-USMCA: 25%

- **Parts and Maintenance Costs Climbing:**
  "Bolts, bars, anything with steel" is now significantly more expensive. Even with heavy-duty trucks exempt from direct tariffs, indirect exposure is high. Preventive maintenance is being delayed, potentially leading to increased breakdowns and rental costs.

- **Tariff-Induced Uncertainty:**
  Companies are stalling investments due to policy whiplash. The White House's 90-day "pause" came days after declaring tariffs permanent, freezing expansion plans and curbing capital deployment.

- **Logistics Complexity and Customs Pressure:**
  Customs and Border Patrol (CBP) lacks the capacity to enforce rapid-fire trade rules. Logistics operators must expand clearance operations amid fluid regulatory conditions.





Source: DAT

Contract & Spot Market Rate Trends

LTL Contract Rates Hold Firm as Demand Softens

- The TD Cowen/AFS Freight Index reports that LTL rate-per-pound was 63.8% higher than 2018 levels in Q1 2025, with a 1.1 percentage point increase YoY.
- Despite lagging volumes (tonnage down mid-single digits YoY), LTL carriers have sustained yields through:
  - Contract prioritization over spot volume
  - Focus on profitable lanes
  - General rate increases now fully baked into 2025 pricing
- Cost per LTL shipment ↑ 1.5% sequentially and 0.5% YoY, partly due to:
  - Fuel surcharge increases (↑1.8% sequentially)
  - Rising fuel prices (↑ 3% sequentially)
  - Shrinking shipment weights (↓ 9% YoY), which tends to drive cost-per-pound up

TL Contract Rates Remain in a Historic Slump

- TL rate-per-mile index sits just 5.9% above the 2018 baseline—a modest recovery from Q4 2024 but still well below the 2022 high (↑ 25%).
- This marks the ninth consecutive quarter of rate stagnation, driven by:
  - Overcapacity and soft demand
  - Limited pricing power in long-haul lanes
  - Inventory pull-forward activity is masking underlying weakness
- The index is forecasted to decline 0.4 percentage points sequentially in Q2, with only a 0.5 percentage point YoY increase—a sign the TL market has yet to rebound meaningfully.

Spot Market Activity Sees a Cautious Reawakening

Van and Reefer: Small Gains with asterisks

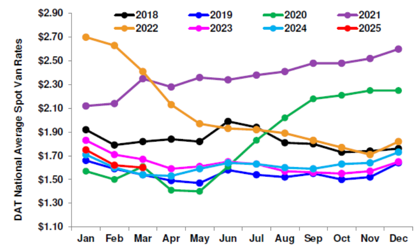
- Dry van spot rates rose $0.05 WoW in early April, up 1.2% YoY but still 12% below the 5-year average.
- Reefer spot rates climbed $0.085 cents, with volumes +12.7% WoW, +12% YoY, yet –27% vs. 5-year avg.
- These increases reflect a pull-forward of freight due to:
  - Early April tariff implementations (10% universal tariff and 54% cumulative for China)
  - Seasonal firming

Tariffs and Capacity Cuts Drive Flatbed Volatility

- Spot rates are ↑ 4% YoY and climbing for 8 straight weeks, supported by:
  - Imports of equipment and metals to front-run tariffs
  - Seasonal construction demand
  - Capacity reductions—particularly among flatbed operators during winter

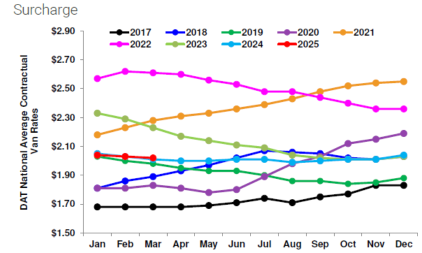
Flatbed tender rejections hit 40% in March—the highest since early 2022—underscoring tightening capacity in a thin market.

Exhibit35: National Average Spot Van Rates ex. Fuel Surcharge



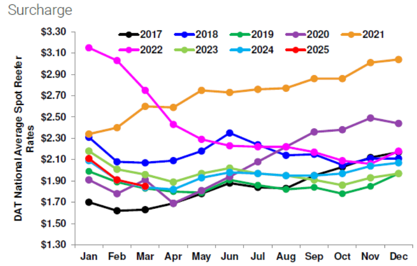
Source: Morgan Stanley Research, DAT Solutions (www.dat.com/resources/trendlines); Note: DAT sources from over $24 B in transactions and 65k lanes.

Exhibit36: National Average Contract Van Rates ex. Fuel Surcharge



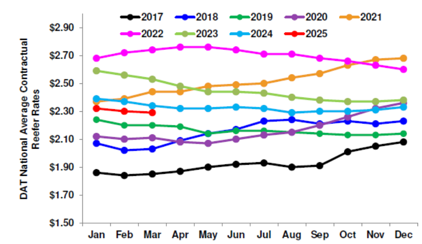
Source: DAT Solutions, Morgan Stanley Research

Exhibit37: National Average Spot Reefer Rates ex. Fuel Surcharge



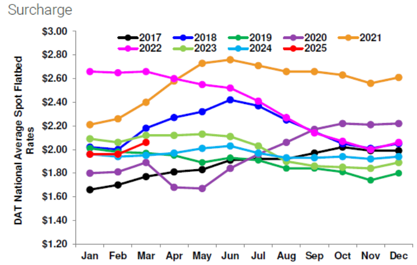
Source: DAT Solutions, Morgan Stanley Research

Exhibit38: National Average Contract Reefer Rates ex. Fuel Surcharge



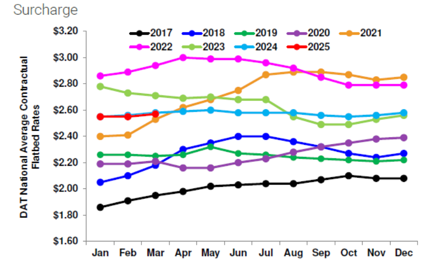
Source: DAT Solutions, Morgan Stanley Research

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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