Market Update – The Rearview & the Road Ahead

Demand Levels & Outlook

Core Freight Metrics Soft with Hints of Stabilization

- Shipment Volume: ↓ 5.8% quarter-over-quarter and 13.8% year-over-year. Severe weather (including rare Southern snow and California wildfires) and weak consumer goods demand contributed to the ongoing decline.
- Freight Spend: ↓ 2.5% QoQ and 8.6% YoY. Notably, this is the *smallest YoY drop since Q1 2023*, suggesting a potential floor forming after four quarters of declines greater than 20%.
- Rates: Modest improvement. Spot rates ↑ 0.9% and contract rates 0.8% from Q4 2024, hinting at tightening capacity as fleet exits increase and diesel prices inch higher (↑ 2.3% QoQ).

Economic Factors Driving Volatility & Short-Term Demand

Tariff Policy and Inventory Pull-Forward

- With U.S.-China tariffs peaking at 145%, Q1 saw a massive frontloading of imports. The 90-day tariff pause announced in April (dropping reciprocal tariffs to 10%) may trigger a temporary bump in containerized freight as companies reinstate orders and rush Q3 shipments.
- This pull-forward effect was especially visible in computer, peripheral, and communications equipment investments, ↑ 21% and 19%, respectively, contributing to record equipment spending. Yet, this demand is not evenly spread across all freight categories. For example, investment in agricultural machinery is ↓ 15% YoY.

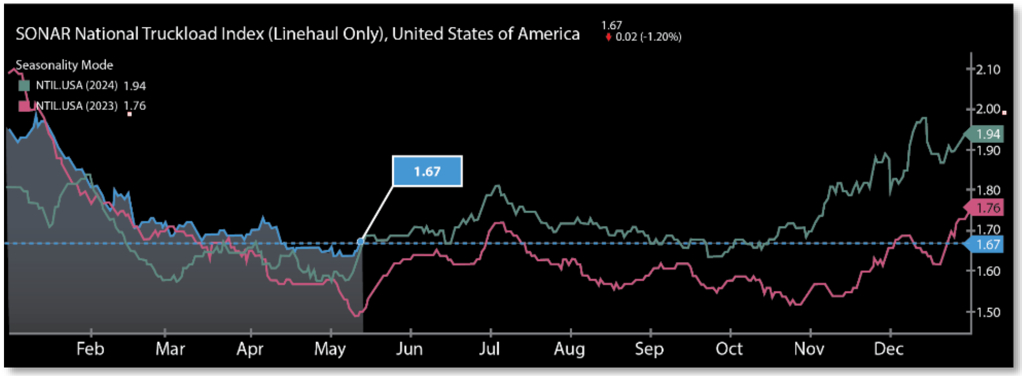
Regional Disparities Reflect Localized Strengths and Struggles

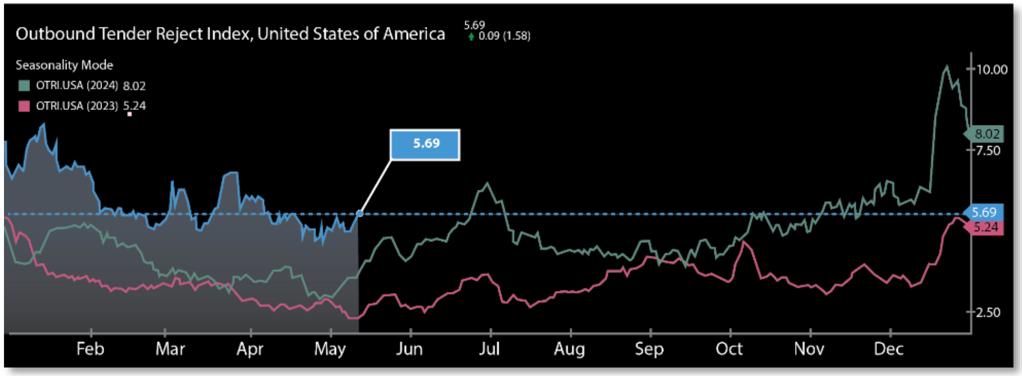
- Northeast: Led the country with a 3.6% increase in shipments and 4.1% growth in spend, driven by retail resilience and higher import volumes.
- Midwest and Southeast: Lagged significantly due to housing sector weakness, manufacturing slowdowns, and adverse weather.

Back-to-School Shipping May Provide Demand Boost

The market could see a short-term lift as retailers ramp up orders ahead of the back-to-school season. The 90-day pause in tariffs between the U.S. and China is encouraging importers, especially small to mid-sized retailers, to move quickly while trade conditions are favorable.

Bookings for U.S.-China freight are already up 50% week-over-week. Experts expect higher volumes to hit West Coast ports by late June, just as the produce season peaks. This will likely increase demand for trucks and trains to move goods inland, putting upward pressure on spot rates. While many carriers have lowered Q2 expectations, this import surge could lead to stronger-than-expected results.





Source:Freightwaves

Supply, Capacity & Carrier Operating Costs

Class 8 Truck Orders Hit Post-Pandemic Lows

Class 8 tractor orders, a key indicator of future trucking supply, fell sharply in April:

- ACT Research reports 7,600 orders, ↓52% YoY, the lowest since May 2020.
- FTR pegged April orders at 7,400, ↓ 54% YoY, far below the April 7-year average of nearly 19,000 units.

Analysts cite tariff-driven cost increases, economic malaise, and regulatory uncertainty (including Trump's new ELP mandate) as key factors in the rapid cooling of equipment demand.

Trans-Pacific Ocean Capacity Near Breaking Point

Following a temporary tariff rollback, pent-up Chinese export volumes are flooding back into the eastbound trans-Pacific market. However:

- Over 34% of capacity had been withdrawn via blank sailings in prior weeks.
- Forwarders report ships already 85–90% full, with significant equipment shortages and rate hikes expected.
- Port congestion risks loom large, as U.S. terminals remain unequipped for sharp surges in import volume.

Tariffs Amplify Equipment and Parts Inflation

- Equipment costs are expected to rise by low single-digit percentages, according to Werner, particularly if the 30% U.S. tariff on Chinese imports persists beyond the temporary rollback.
- OEM pricing is fluid, but used truck values remain strong, providing a partial hedge.

Fuel Costs Decline, Offering Temporary Relief

- Diesel prices have dropped $0.142 over the past month to $3.497/gal, ↓ nearly $0.40 YoY.

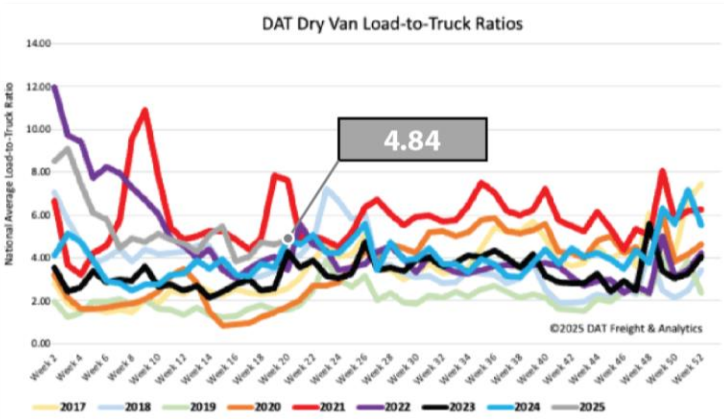
This trend offers short-term margin relief but may not hold if demand and global trade flows rebound suddenly.

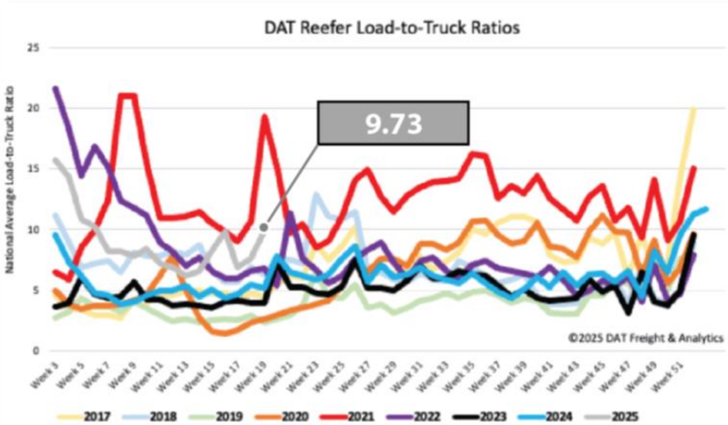
Freight Activity Signals

- Logistics Manager's Index: Transportation prices jumped 5.8 pts to 62.3 in April, outpacing capacity, which rose just 1.6 pts to 55.2.
- Outbound tender volumes ↓ 3.6% WoW in early May, while tender rejections ↑ 4.9% to 5.39%, led by reefer lanes.

Policy Wildcards

The ELP mandate could sideline thousands of drivers if strictly enforced, potentially cutting capacity and pushing rates up by 15%, per analysts.





Source: DAT

Contract & Spot Market Rate Trends

Spot Market: Holding Strong Amid Disruption

Spot market trends suggest a strengthening environment, particularly for small fleets and in certain modes:

Dry Van:

- Linehaul rates: $1.62/mile, ↑ $0.06 YoY.
- Top 50 lanes: Averaging $1.90/mile.
- Load-to-truck ratio: 4.93 (second highest for Week 18 in nine years).
- Forecast: Rates expected to rise $0.09 to $1.71 by June 6.

Reefer:

- Current rate: $1.92/mile (↑ $0.01 YoY).
- Miami seasonal surge: $2.16/mile in early May, driven by floral and watermelon volumes (+ ↑ $0.21 WoW).
- Forecast: Rates expected to climb to $2.00/mile by early June.

*Note: Produce season is underwhelming so far with volumes ↓ 18% nationally and 54% in California YoY.

Flatbed:

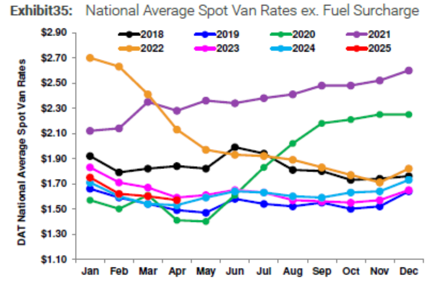
- Current rate: $2.16/mile (↑ $0.16 YoY).
- Forecast: Rate ↑ to $2.22/mile by early June.
- Volumes: ↑ 17% WoW; capacity loosening as more equipment enters the market.

Contract Market: Stable but Vulnerable

Despite short-term spot market strength, contract rates remain flat across modes, with minimal movement in response to macroeconomic shifts.

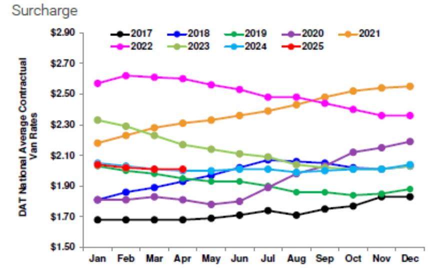
- Spot premium ratio *(A measure of the percentage difference between spot and contract rates)* : ↓ 14.8% (spot rates remain significantly below contract rates).
- New rate differential *(measure of the difference between the rates in new contracts and the ones they're replacing)*: ↑ 1.4%, suggesting slight upward pressure from shipper RFPs.
- Contract Rate Index *(A measure of the average rate per mile paid on long-term freight contracts)* : Flat across dry van, reefer, and flatbed.

Exhibit35: National Average Spot Van Rates ex. Fuel Surcharge



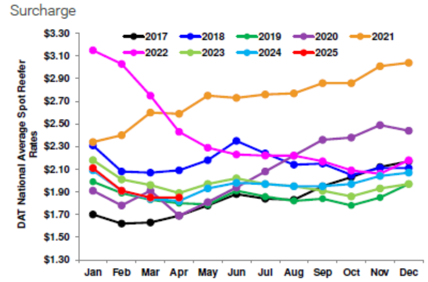
Source: Morgan Stanley Research, DAT Solutions (www.dat.com/resources/trendlines); Note: DAT sources from over $24 B in transactions and 65k lanes.

Exhibit36: National Average Contract Van Rates ex. Fuel Surcharge



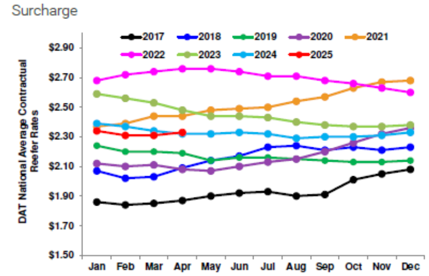
Source: DAT Solutions, Morgan Stanley Research

Exhibit37: National Average Spot Reefer Rates ex. Fuel Surcharge



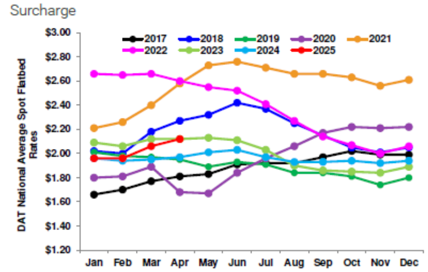
Source: DAT Solutions, Morgan Stanley Research

Exhibit38: National Average Contract Reefer Rates ex. Fuel Surcharge



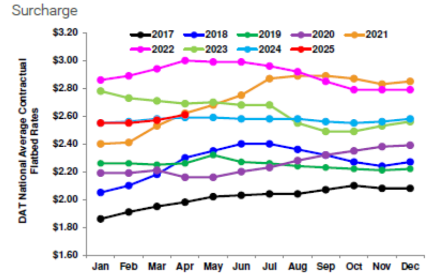
Source: DAT Solutions, Morgan Stanley Research

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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