



Market Update: The Rearview & the Road Ahead

Demand Levels & Outlook

Freight Demand: Weak Overall, but Not Uniform

- **Broad truckload demand remains soft**
 - The Outbound Tender Volume Index (OTVI) is ↓ 11% year over year
 - This index captures a wider mix of industrial and capital-goods freight
- **Consumer-oriented freight is far more resilient**
 - The Truckload Volume Index (STVI), which is more heavily weighted toward food, beverage, CPG, and shorter-haul freight, is ↓ only 3% year over year
 - This better reflects the freight mix experienced by large contract-focused carriers

Industrial Freight Signals Remain Under Pressure

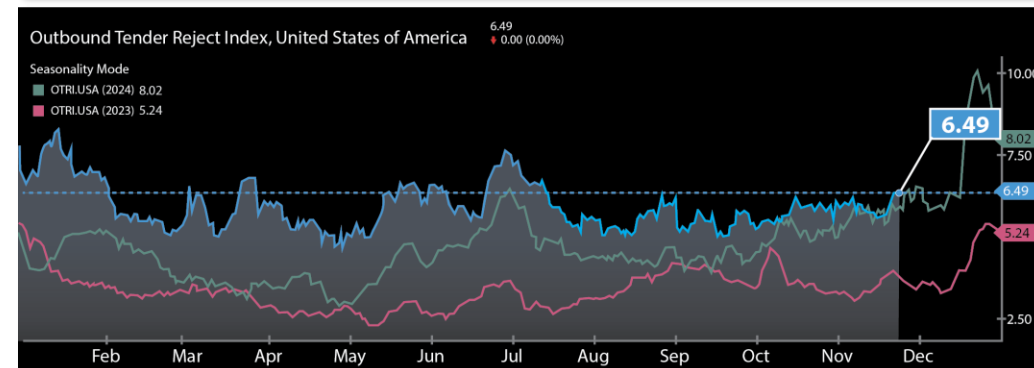
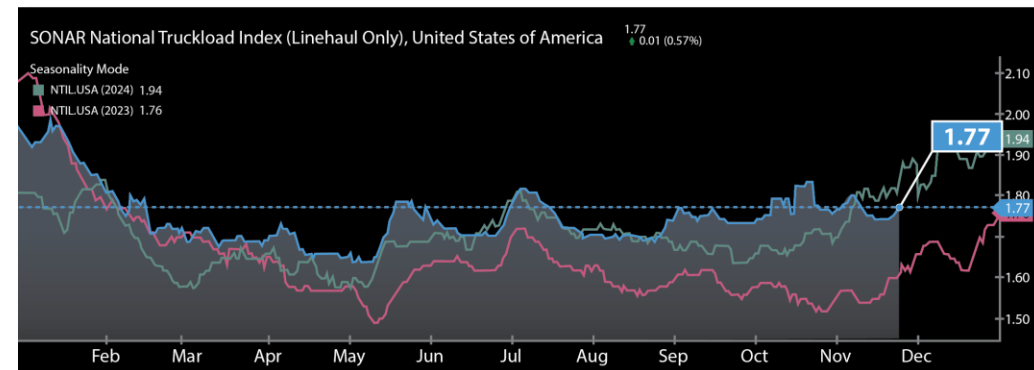
- **Automotive trade flows**
 - Automotive imports are ↓ 15% versus 2023 averages
 - Automotive exports are ↓ 22.6%, falling below pre-pandemic levels
- **Capital investment indicators**
 - Imports of industrial and service machinery are ↓ 9% from 2023 levels
 - Imports of generators and electrical equipment are ↓ 13% from recent highs
 - These declines signal reduced capital investment rather than a shift to domestic sourcing
- **Manufacturing output adjusted for freight relevance**
 - When high-value, low-freight sectors are removed, U.S. manufacturing output is effectively back to mid-1990s levels
 - This adjusted view aligns far more closely with actual trucking demand

Capacity and Market Balance: Near Equilibrium

- **National tender rejection rates**
 - Legacy data: 6.49%
 - New rejection index (STRI): 7.35%
 - This range historically signals a near-balanced market rather than oversupply or shortage
- **By equipment type**
 - Dry van: 6.09%
 - Reefer: 14.85%
 - Flatbed: 13.51%
 - Reefer and flatbed markets are materially tighter than dry van

Cass Freight Index: Confirmation, Not Contradiction

- **Shipments**
 - ↓ 7.6% year over year
 - On track for roughly a 6% decline for full-year 2025
 - Brief Q3 improvement faded as pre-tariff inventories were worked down
- **Expenditures**
 - ↓ 1.2% year over year
 - Lower volumes offset by higher implied rates due to modal mix shifts toward truckload
- **Truckload Linehaul Index**
 - ↑ 2.2% year over year
 - Indicates modest pricing power returning during peak seasonal periods



Source:Freightwaves

Supply, Capacity & Carrier Operating Costs

Capacity: Shrinking, But Not Collapsing

- Tender rejection rates, a proxy for available capacity, show the market inching closer to balance
- Dry van capacity remains relatively loose, while reefer and flatbed capacity are materially tighter
- Capacity reductions have been driven primarily by financial strain rather than demand recovery. However, capacity has not exited fast enough to generate sustained pricing power.

Regulatory Enforcement Emerges as a Meaningful Supply-Side Force

- English-language proficiency enforcement and non-domiciled CDL scrutiny could remove up to 5% of industry capacity over time
- Analysts agree these measures create a rising floor under rates, but are unlikely to trigger an immediate capacity shock on their own

FTR estimates English-language enforcement may remove roughly 25,000 drivers in the first year, which is notable but not enough to independently tighten the market.

Carrier Costs Keep Rising as Freight Rates Stall

- Contract rate growth expectations for 2026 are mid-single digits at best, with many forecasts under 2%
- This level of rate growth is insufficient to offset inflation, equipment costs, insurance, and compliance expenses
- Analysts increasingly describe the outlook as a “marginless recovery”

Structural Barriers Continue to Limit Fleet Reinvestment

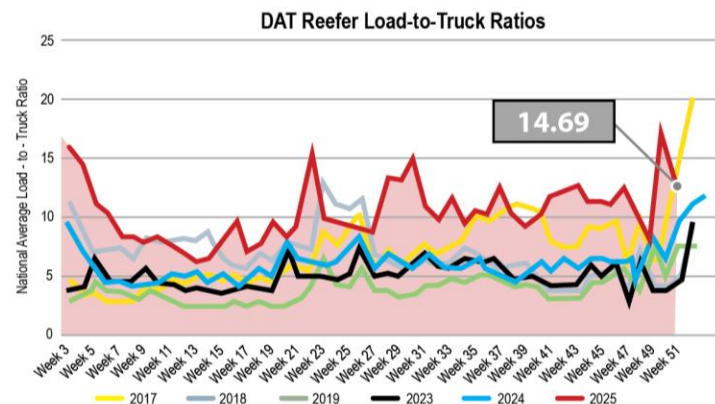
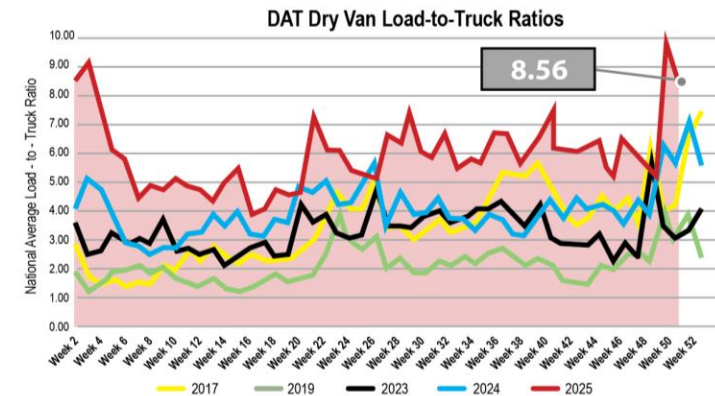
- Section 232 tariffs add a 25% levy on foreign content in imported trucks, pushing up equipment prices
- EPA 2027 emissions clarity helps long-term planning, but does not solve near-term ROI challenges
- At current profitability levels, a meaningful tractor pre-buy is unlikely before late 2026
- Private fleets are also pulling back after significant overbuying in 2023–2024.

Unusual Small Carrier Resilience Is Prolonging the Cycle

- New carrier formation remains elevated at roughly 5,000 new authorities per month
- Many small operators are surviving on thin margins, hoping to outlast the downturn
- This resilience is preventing a faster supply reset, even as larger carriers have already cut to the bone

Insurance and Financing: The Wild Cards

- Insurance premiums are expected to rise meaningfully in 2026
- Financing remains tight, limiting the ability of marginal carriers to refresh equipment
- These pressures could trigger a delayed but sharper wave of capacity loss if rates do not improve



Contract & Spot Market Rate Trends

Spot Rates Are Sending Clear Signals

Truckload spot rates excluding fuel increased 8% over a two-week period from November 19 to December 4, a sharper move than seen in the same seasonal window over the past two years. These sudden increases, rather than sustained climbs, have become a defining feature of this market cycle.

Spot Rates Reflect Carrier Pricing Power, Not Just Demand

Spot rates are a strong indicator of carriers' perception of the value of their capacity. For most of the past three years, excess capacity has limited carriers' ability to raise prices. That dynamic is beginning to shift, but unevenly.

Key context:

- Over 100,000 new motor carrier authorities entered the market in 2021–2022
- Roughly 50,000 authorities have exited since early 2023, but the reduction has been slow
- Demand has weakened at the same time, masking the impact of capacity exits

Weather and Enforcement Are Driving Short-Term Spikes

Recent spot rate increases have been closely tied to winter weather disruptions and region-specific regulatory enforcement, rather than broad market tightening.

Examples from the data:

- Midwest winter storms drove week-over-week reefer rate increases of 20%–23% on key lanes
- Capacity avoidance tied to enforcement activity has caused sharp pricing swings on select backhaul lanes
- These impacts have been localized, not national

Contract Rates Are Beginning to Respond

The long-running inversion where spot rates remained below contract rates appears to be nearing an inflection point after roughly 44 months. While not fully reversed, tightening spot conditions are now influencing contract negotiations.

Contract market trends emerging in bid activity

- **West Coast outbound lanes** showing the strongest upward pressure, particularly long haul
- **Northeast outbound lanes** are experiencing double-digit increases in some corridors
- **Core Midwest lanes** largely flat, reflecting stable volumes and competition
- Shippers increasingly prioritizing service reliability and carrier sustainability over lowest-cost awards

Near-Term Rate Outlook

Forecast models through early January show broad agreement across equipment types, with rates expected to remain elevated through the holiday period before easing seasonally.

Highlights

- Dry van spot rates projected to rise modestly through early January
- Reefer markets face the highest upside risk due to weather sensitivity
- Flatbed rates expected to remain comparatively stable



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