



Market Update: The Rearview & the Road Ahead

Demand Levels & Outlook

Where Demand Stands Today

According to trucking ton-mile data, freight demand reached a seasonally adjusted low point in Q2 2024 and has been slowly improving since.

That modest demand recovery, combined with significant carrier exits throughout 2024 and early 2025, helps explain why capacity has tightened even though freight volumes remain historically soft.

To put growth into perspective:

- Q3 2025 demand was up just 0.8% year-over-year
- Compare that to prior bull markets:
 - Q3 2017: ↑ 2.4%
 - Q4 2017: ↑ 3.7%

Those past cycles saw rapid demand expansion for 18 months or more. There is currently no evidence of that kind of acceleration heading into 2026.

Why Demand Growth Remains Muted

Several key end-markets that typically drive freight volumes are still underperforming:

- **Single-family housing:** Weak activity limits building materials and furniture demand
- **Manufacturing:** Operating below capacity due to soft orders and input constraints
- **Energy & fracking:** No meaningful rebound to drive heavy industrial freight

At the same time, tariffs are beginning to create supply-side friction, not demand-side momentum.

Recent Census data shows:

- Rising shortages of raw materials for:
 - Primary metals
 - Transportation equipment
 - Food manufacturing
- No increase in insufficient orders, meaning demand isn't the bottleneck, inputs are

This matters because firms facing material shortages are historically more likely to raise prices, not increase production or shipping volumes.

What This Means for the Market Outlook

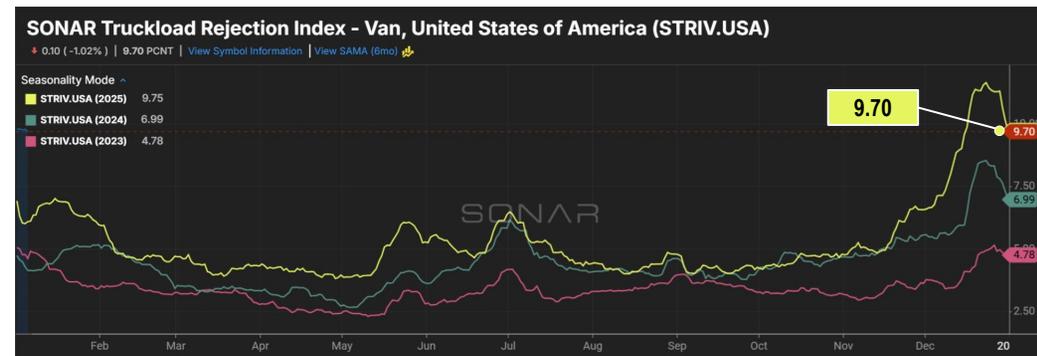
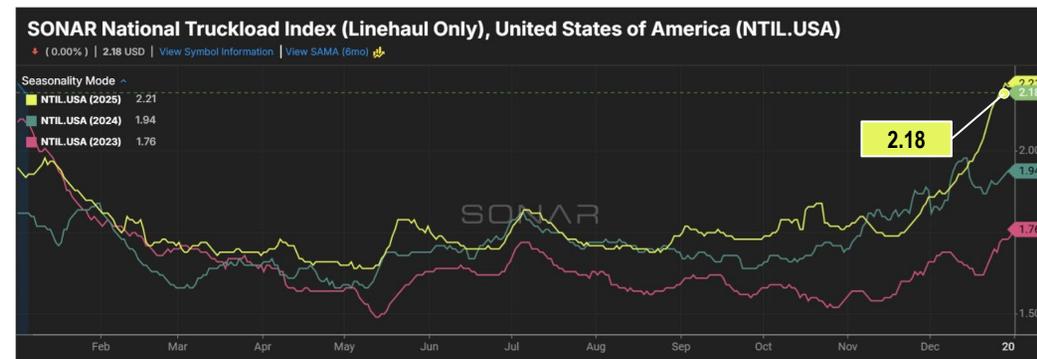
Near Term (Q1–Q2 2026)

- Tight capacity can persist even with slow demand growth
- Spot rates may remain elevated temporarily
- The market feels tight, but it's being driven more by capacity discipline than demand strength

Medium Term (Q3–Q4 2026)

If spot rates stay elevated through Q1:

- Carriers are likely to begin adding capacity
- New capacity typically comes online within 6–9 months
- Without faster demand growth, this risks pushing the market back toward excess supply



Source:Freightwaves

Supply, Capacity & Carrier Operating Costs

Capacity & Costs: Tight, But Under Strain

Transportation capacity tightened sharply at year-end. The Logistics Managers' Index (LMI) shows capacity fell to a four-year low in December:

- Transportation Capacity Index: 36.9
- Lowest since October 2021
- First contraction since March 2022, when the freight recession began

At the same time:

- Transportation utilization rose to 58.2
- Transportation pricing increased to 66.7, the highest since January 2025
- Pricing sat nearly 30 points above capacity, signaling a tight market on paper

Tight Capacity ≠ Healthy Carriers

Market signals point to tightening conditions, but the carrier base remains fragile:

- Tender rejections are rising, as carriers become more selective
- Peak-season pressure was amplified by CDL and language enforcement
- Capacity buffers are thinner after two years of sustained carrier exits

Despite tighter utilization:

- A meaningful share of miles remains non-revenue generating
- Fixed costs remain elevated, keeping many carriers near break-even
- Financial resilience across the industry remains limited

Operating Costs Remain the Core Problem

Data from the American Transportation Research Institute (ATRI) explains why carrier stress persists:

- Average total cost per mile: \$2.26 (slightly lower due to fuel)
- Non-fuel costs: \$1.779 per mile, a record, up 3.6%

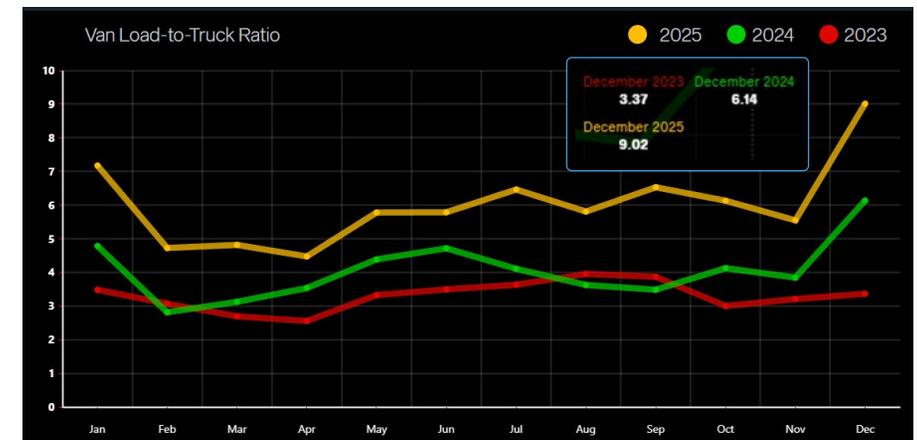
Key cost drivers:

- Truck & trailer payments: ↑ 8.3% (record 39¢/mile)
- Driver wages: ↑ 2.4%
- Driver benefits: ↑ 4.8%
- Non-driver staff cut: ↓ 6.8%

Economists consistently point out that this is the most dangerous phase of the trucking cycle—when demand remains weak, but costs stay high. Even well-run carriers can run out of cash before conditions improve. These exits are a primary reason capacity feels tight today.

At the same time, U.S.–Mexico freight flows are acting as a partial stabilizer, with Mexican exports to the U.S. up roughly 15%. Cross-border volumes are helping offset softness elsewhere, but that stability comes with added complexity, including security risks, alternate routing needs, and heavier compliance requirements.

Fuel offers little near-term relief. Oil markets are expected to remain well supplied in 2026, and any meaningful increase in Venezuelan production would take years, not months. As a result, carriers should not expect fuel costs to meaningfully offset elevated operating expenses.



Source: DAT

Contract & Spot Market Rate Trends

Spot Rates: Sharp Moves, Temporary Drivers

Spot rates jumped late 2025, rising roughly 10% year over year and about 8% on a seasonally adjusted basis over the past month, according to ACT Research. The increase was driven by short-term disruptions, not a rebound in freight demand. Key drivers included:

- Severe winter weather
- Holiday shipping activity
- Temporary labor and capacity disruptions

The most important factor was holiday-driven capacity loss. During normal weeks, 85–95% of tractors are typically in service. Over the holidays, utilization can fall to 30–50% as drivers take time off.

That sudden drop in available trucks is enough to lift spot prices even when demand is unchanged.

Spot rates rose because trucks went home, not because freight volumes recovered.

Why Rates Can Rise While Freight Stays Flat

Freight volumes remain roughly in line with 2019 levels, but capacity has been structurally reduced through:

- Carrier bankruptcies
- Compliance-driven exits
- Regulatory pressure

With fewer trucks competing for the same freight, pricing becomes more sensitive to disruptions. That dynamic explains why rates can rise even as:

- Load counts remain soft
- Retail restocking is muted
- Manufacturing demand stays uneven

Contract Rates: Stable, For Now

Contract pricing has been far less reactive than spot markets. Retailers and shippers entered peak season with:

- Inventory plans set months in advance
- Elevated inventory-to-sales ratios
- A cautious approach to restocking

Post-holiday inventory drawdowns are normal seasonal behavior, not a signal of a Q1 demand surge. With sales largely flat on a price-adjusted basis, there is little incentive for shippers to lock in higher contract rates early in 2026.

Mode-Specific Spike: Refrigerated Freight

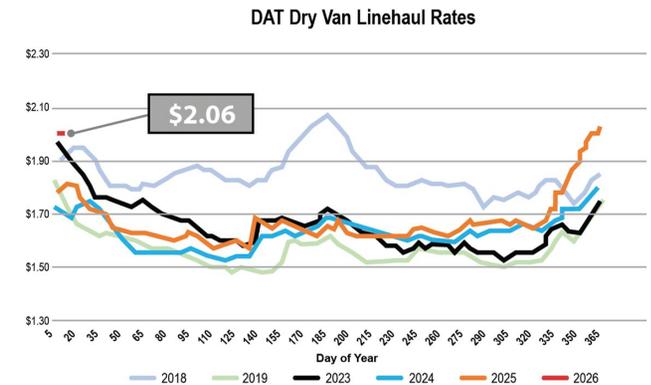
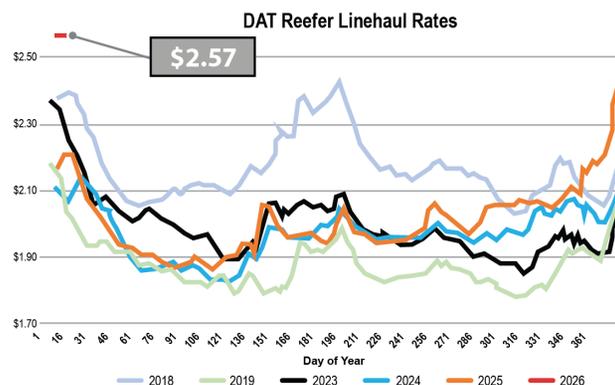
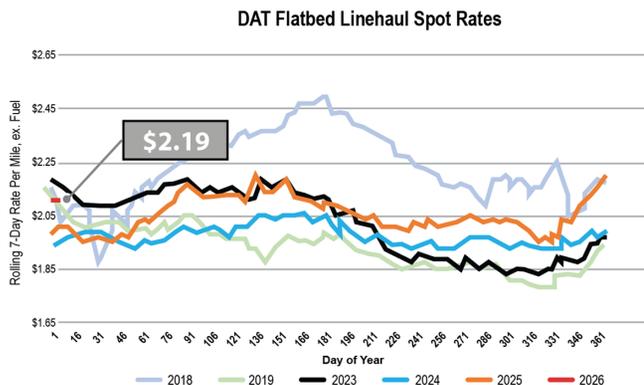
The most pronounced rate increases occurred in temperature-controlled freight, where disruptions were both acute and localized. A major Midwest winter storm after Thanksgiving:

- Constrained dry van capacity
- Forced “protect-from-freeze” freight into reefers
- Pulled equipment out of normal produce lanes

As a result:

- Midwest reefer spot rates jumped 23% in a single week
- National reefer rates rose 10% over four weeks
- ICE and border-region enforcement further tightened capacity in markets like McAllen, TX

These spikes were weather- and enforcement-driven, not structural, but they highlight how fragile spot pricing has become when marginal capacity disappears.





Our Greatest Asset

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