Monthly Market Report:
The Rearview and the Road Ahead

Demand Levels & Outlook

Economic Context

Recent data from the U.S. Census Bureau indicates a significant rebound in real median household incomes for 2023, with a 3.96% increase from the previous year. This recovery suggests resilience in consumer spending, a vital component supporting freight demand. As households regain purchasing power, sectors such as retail are reporting strong performances, which bodes well for trucking demand.

Employment and Payroll Trends

The Quarterly Census of Employment and Wages reveals that the dry van truckload sector's payrolls have reverted to levels seen in early 2019, reflecting a 6-7% decline from the highs of late 2021. This downturn aligns with an anticipated stabilization in trucking demand, suggesting a long-term adjustment rather than a short-lived fluctuation.

Freight Volume Metrics

The For-Hire Trucking Ton-Mile Index recorded a minor year-over-year decline of 0.3% in July 2024, the smallest negative reading since January 2023. This stabilization, coupled with anticipated interest rate cuts, indicates the potential for improved demand in the first half of 2025. Notably, sectors such as motor vehicle and parts manufacturing contribute approximately 5% of total trucking demand.

Freight Market Steadies Amid Subtle Capacity Shifts

Based on changes in the National Truckload Index (NTIL) and Outbound Tender Reject Index (OTRI) since the last reporting period, here's what we can infer:

National Truckload Index (Linehaul Only)

- Last period: 1.71
- Current period: 1.66

Helene Recovery Intensifies

The aftermath of Hurricane Helene is creating significant fluctuations in demand, particularly in the Southeast. FEMA's large-scale response, including the deployment of 3,500 federal personnel and the delivery of over 1.9 million MREs, more than 1 million liters of water, and 95,000 tarps, highlights the immediate surge in demand for relief supplies. This activity is concentrated in impacted states like Florida, Georgia, and the Carolinas, where FEMA has established operational bases and supply routes. The strain on logistics networks and infrastructure, combined with power outages and ongoing road closures, will likely sustain elevated demand for freight services throughout the recovery period.

With major disaster declarations across 55 counties in Florida and the Carolinas, demand for both short- and long-haul transportation is expected to remain high as disaster relief accelerates. Key freight, such as water and generators, are ongoing, and continuous restoration efforts contribute to heightened demand for heavy equipment and supplies. Supply chain bottlenecks may persist as FEMA and state agencies coordinate to stabilize impacted areas.

The NTIL's dip from 1.71 to 1.66 suggests a slight softening in spot market rates, possibly due to:

- Lower freight demand or increased truck availability.
- Seasonal downturns or less urgent shipments.

While the decline is minor, it indicates a slight ease in rates rather than a major market shift.

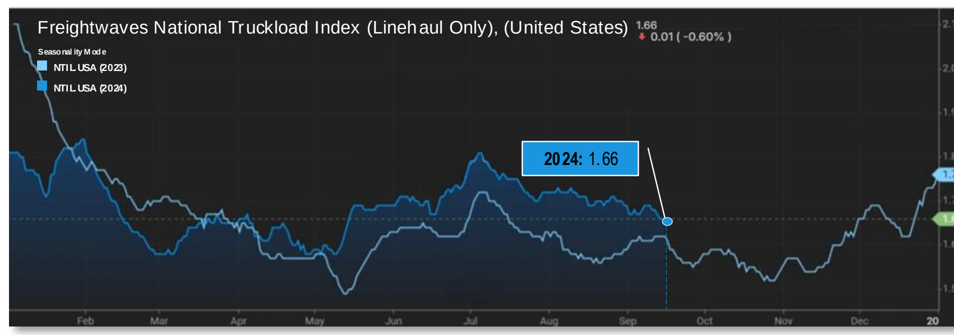
Outbound Tender Reject Index

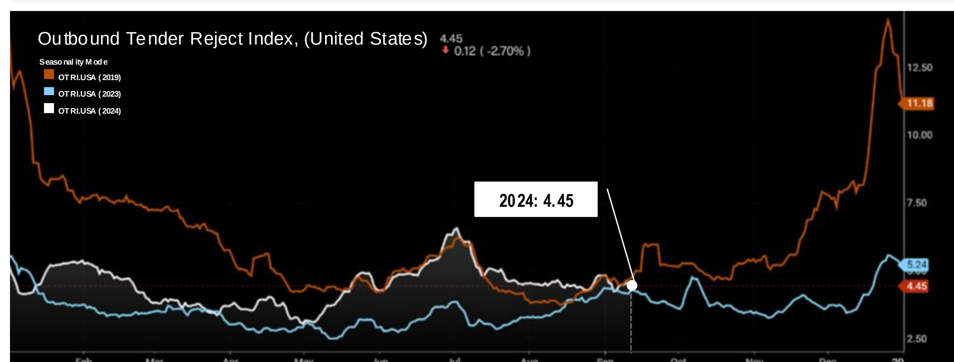
- Last period: 4.41
- Current period: 4.45

The OTRI's small rise from 4.41 to 4.45 suggests slightly more rejections of contracted loads, implying:

- Tightening capacity on certain routes.
- Carriers prefer spot market rates over contract rates.

The increase shows carriers leaning slightly toward spot freight without signaling a major capacity issue.





Source: FreightWaves

Supply, Capacity, & Carrier Operating Costs

Capacity Reduction in the Dry Van Truckload Sector

Recent estimates suggest that payrolls in the dry van truckload sector have decreased to approximately 520,000, a 4.4% decline from the 538,000 reported by the Current Employment Statistics survey. This reduction of 27,000 jobs since December 2022 mirrors capacity levels seen in early 2019. Notably, the Quarterly Census of Employment and Wages data presents a more reliable portrayal of payroll fluctuations, as it is derived from administrative records, unlike the CES, which tends to overestimate workforce numbers. This discrepancy highlights that the capacity in the sector may be overstated in monthly surveys, suggesting a need for stakeholders to recalibrate expectations regarding available truckload capacity.

Load-to-Truck Ratios: Indicators of Market Conditions

As of mid-September, load-to-truck ratios have shown a decline across all major equipment types, indicating a softening demand environment:

- Van Ratio: 3.27, down from 3.86 in August
- Reefer Ratio: 5.03, down from 6.41 in August

These ratios, sourced from the DAT One marketplace, reflect the balance between truckload supply and demand, serving as crucial indicators of pricing conditions in the spot freight market.

Challenges and Rejection Rates

Despite some signs of easing demand, the freight market remains characterized by significant operational challenges. For example, the Outbound Tender Reject Index rose by 17 basis points to 4.45%, signaling ample capacity within the market, albeit still below 2019 levels by 40 basis points. This increase in rejection rates highlights a complex interplay between market conditions and carrier willingness to accept loads.

Port Strike

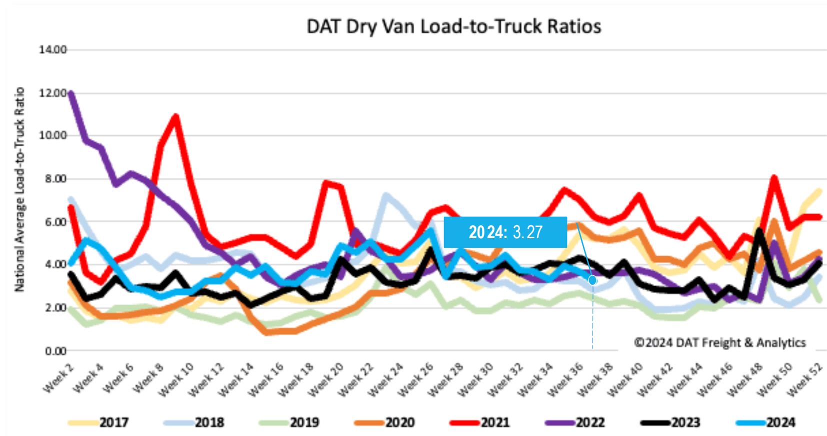
The port strike disruption poses a significant threat to supply chains. The International Longshoremen's Association, representing 85,000 dockworkers, seeks wage increases, job security, and protection against automation. With no agreement in place, this strike could halt 50% of U.S. import/export activity, stranding cargo, rerouting goods, and driving up costs.

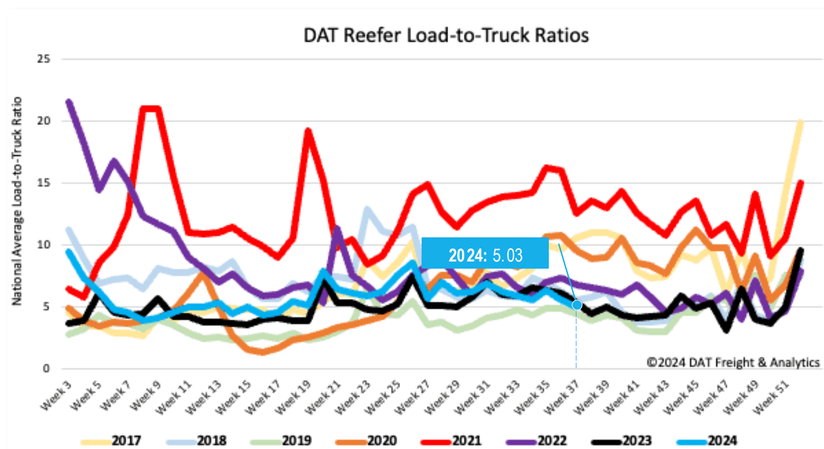
The surge in port calls—up 27% year-over-year—reflects the pre-strike contingency planning, but supply chain disruptions will likely push inventory costs up. Small and medium-sized businesses, already burdened by inflation and extended inventory cycles, may struggle to absorb these increases. Immediate impacts include escalating costs for goods like food, vehicles, and electronics, with ocean carriers announcing surcharges as high as $3,000 per container. The operational backlog from even a short strike could last weeks.

With ripple effects spanning multiple sectors, from retail to agriculture, a prolonged strike could cost the U.S. economy up to $5 billion daily.

Equipment Orders and Market Sentiment

Trailer orders have declined significantly year-over-year, with August figures dropping 40% compared to August 2023. This downturn reflects a cautious sentiment among fleets, leading to a pause in new equipment orders. Industry experts anticipate this trend may persist throughout 2024, with a notable impact on the size and timing of orders for 2025 as OEMs begin to open their order books.





Source: DAT

Contract & Spot Market Rate Trends

Current Spot and Contract Market Rates

According to FTR's recent analysis, truckload spot rates are projected to rise significantly, with forecasts indicating an increase of 6.5% to 7% in 2025. This optimistic outlook is underpinned by steady loadings and signs of recovery in the freight market. Avery Vise, Vice President of Trucking at FTR, highlighted these trends during the 2024 FTR Transportation Conference in Indianapolis on September 10.

September Spot Rate Trends

- Van: $1.99 (down from $2.01 in August)
- Flatbed: $2.39 (down from $2.40 in August)
- Reefer: $2.39 (down from $2.41 in August)

The second quarter of 2024 saw spot rates reach a four-year low, as noted by Bank of America Research Analyst Ken Hoexter. However, the current national average diesel price is $3.56 per gallon, significantly lower than the previous year. This decrease has helped maintain relatively stable carrier margins, even in the face of declining linehaul rates.

Analyzing Spot and Contract Rates: Morgan Stanley's Latest Report

Truckload rate expectations (ex-fuel) slightly declined to -0.8% from -0.7%, remaining between -0.7% and -0.8% for six consecutive Morgan Stanley reports.

Carrier and Broker Sentiment

Carrier outlook turned more bearish, citing slower capacity exits and weaker demand, though some noted tightening capacity and the potential need to raise 12-month contract rates. Broker commentary remained balanced, with niche markets experiencing tightness but an overall "holding pattern" as the market awaits the U.S. presidential election.

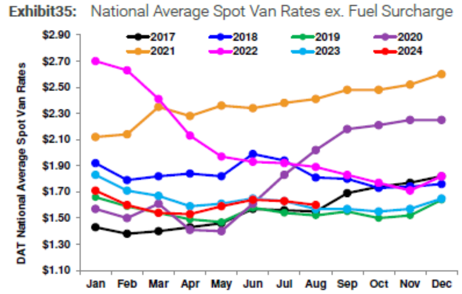
Key Takeaways

- **Stable Rate Expectations:** Consistent but negative rates (-0.8%) suggest a challenging pricing environment.
- **Mixed Capacity Conditions:** Tightness in niche markets contrasts with widespread capacity, pressuring rates.
- **External Disruptions:** Events like port strikes and the election could alter market dynamics.

Impact on Long-Term Contract Rates

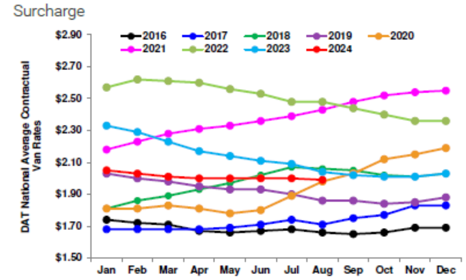
The volatility in spot rates is beginning to influence long-term contract negotiations. Shippers, cautious of future disruptions, are increasingly inclined to lock in higher contract rates to ensure capacity availability. This trend highlights a growing awareness among shippers of the necessity to balance short-term cost savings with long-term stability.

Exhibit35: National Average Spot Van Rates ex. Fuel Surcharge



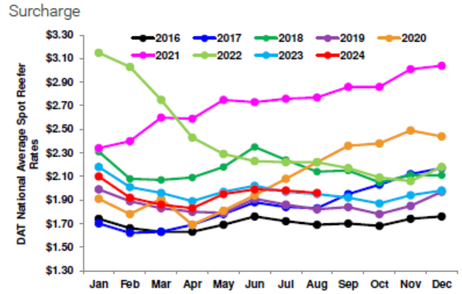
Source: Morgan Stanley Research, DAT Solutions (www.dat.com/resources/trendlines); Note: DAT sources from over $24 B in transactions and 65k lanes.

Exhibit36: National Average Contract Van Rates ex. Fuel Surcharge



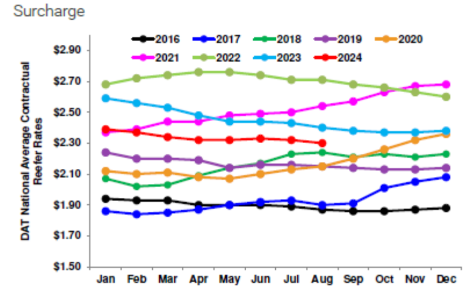
Source: DAT Solutions, Morgan Stanley Research

Exhibit37: National Average Spot Reefer Rates ex. Fuel Surcharge



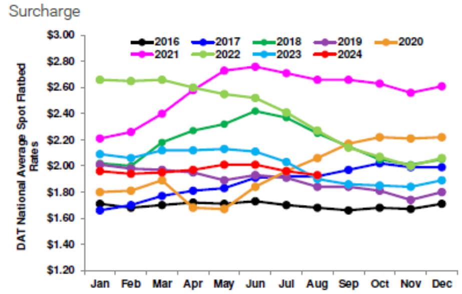
Source: DAT Solutions, Morgan Stanley Research

Exhibit38: National Average Contract Reefer Rates ex. Fuel Surcharge



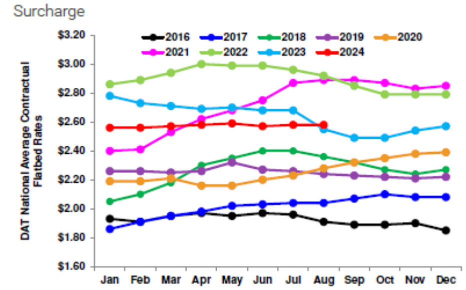
Source: DAT Solutions, Morgan Stanley Research

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

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