Market Update – The Rearview & the Road Ahead

Demand Levels & Outlook

Freight Gears Up for a 2025 Comeback

The Federal Open Market Committee began cutting interest rates in 2024 to stimulate growth, setting the stage for a potential freight market recovery in 2025. The reductions include:

- 50 basis points in September 2024.
- 25 basis points in November 2024.

Lower financing costs are expected to drive recovery across key freight-generating sectors, including residential construction, machinery manufacturing, and motor vehicles.

Rate Cuts Spark Market with Housing, Machinery and Auto Leading

Residential Construction: Interest rate cuts are expected to boost housing starts and renovation projects, making mortgages and construction financing more affordable. This will directly increase demand for flatbed freight to transport building materials such as:

- Cement and concrete
- Lumber and plywood
- Millwork products

Historically, housing booms following rate cuts have led to significant freight surges, particularly in flatbed trucking. A similar trend is anticipated in Q1 and Q2 of 2025.

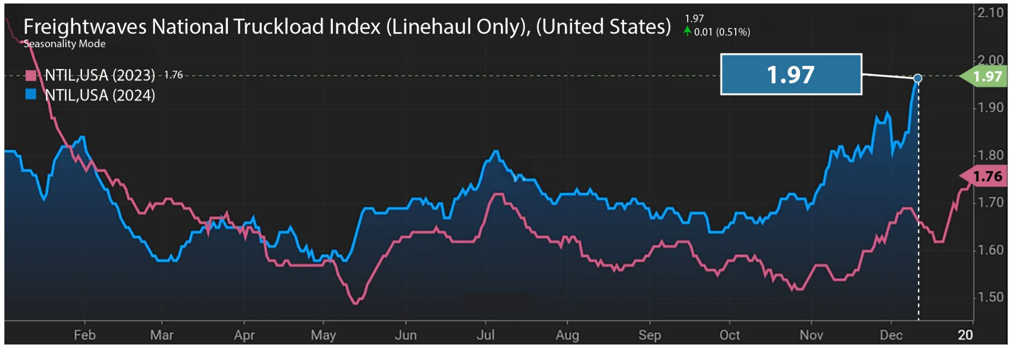
Machinery Manufacturing: After sharp declines in 2023, machinery wholesalers are carrying inventories 17% above 2019 levels, while sales remain only 9% higher than pre-pandemic levels. Lower rates will enable businesses to finance equipment purchases, driving replenishment orders and increased production of components like screws, nuts, and bolts. Demand normalization is expected by mid-2025.

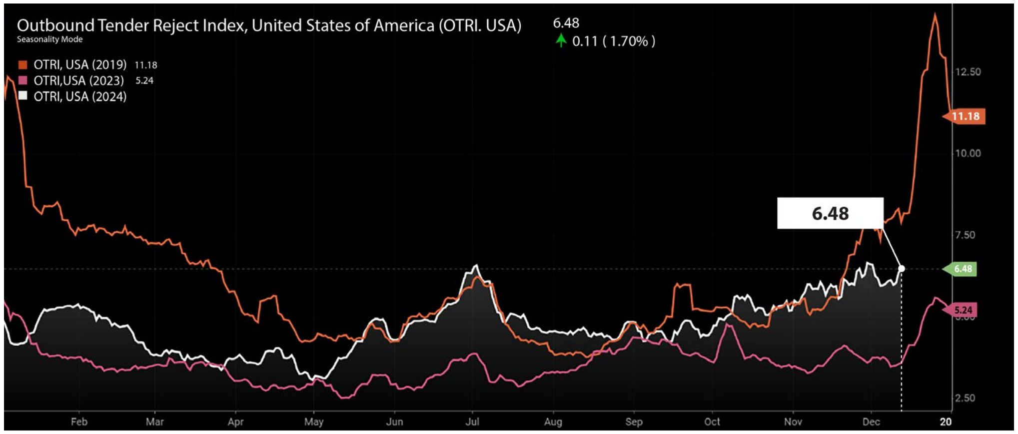
Motor Vehicle Sales: The auto sector continues to demonstrate strength, with November 2024 recording 13.54 million light truck sales, the third-highest month in history. This uptick will drive freight demand for vehicle parts and steel production.

- Machinery manufacturing inventories: 17% above 2019 levels.
- Machine manufacturing sales: ↑ 9% compared to pre-pandemic levels.
- November light truck sales reached 13.54 million, the third-highest month in history.

Economic Risks and Uncertainties

- Potential trade policy changes, such as tariffs on imports, could disrupt freight flows and increase costs for domestic manufacturers that rely on raw materials like steel and wood.
- Weak productivity in U.S. manufacturing remains a concern, potentially constraining competitiveness and limiting freight associated with exports.





Source: FreightWaves

Supply, Capacity & Carrier Operating Costs

Rejections Spike, Capacity Takes a Hit

In December 2024, tender rejection rates reached 6%, a marked increase from September levels (4.5%). This exceeds typical seasonal pressures and underscores structural shifts within the freight market.

While rejection rates remain below pre-pandemic peaks, they indicate a continued contraction in truckload capacity, driven by rising carrier exits and diminishing fleet sizes. Notably:

- Dry Van Load-to-Truck Ratio: ↑ 16% YoY to 6.50.
- Reefer Load-to-Truck Ratio: ↑ 8.67, reflecting sustained demand for temperature-controlled freight.
- Flatbed Capacity: ↓ 3% YoY to 15.81.

Load Volume Stability Conceals Capacity Erosion

Carriers are accepting the same load volumes as April 2023—considered the floor of the freight recession—while the Outbound Tender Reject Index more than doubled to 6.5%. This divergence highlights:

- Increased rejection rates are driven by capacity erosion on the supply side rather than by rising demand.
- A record 350 net carrier exits per week for the past two years has steadily reduced active capacity. Though exits have slowed, smaller fleet reductions remain untracked, amplifying real market strain.

Rising Rejections, Port Dispute Threaten Capacity

Post-Labor Day, rejection rates usually stabilize or decline, but since late September, they have risen steadily—an anomaly not seen since 2019. Adding to capacity concerns, the ILA-USMX automation dispute poses a significant threat to East and Gulf Coast ports after January 15, 2025. A prolonged strike exceeding two weeks could remove substantial trucking capacity, drive up ocean freight rates, and trigger cascading supply chain disruptions.

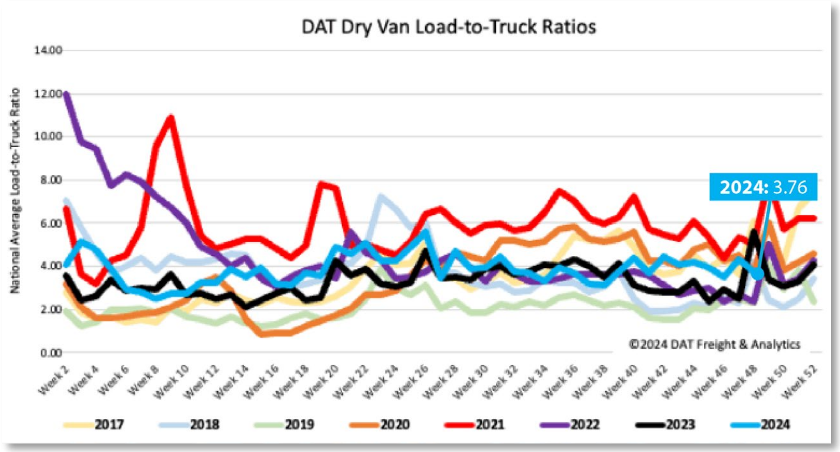
Diesel Drops to 3-Year Low, Insurance Costs Keep Climbing

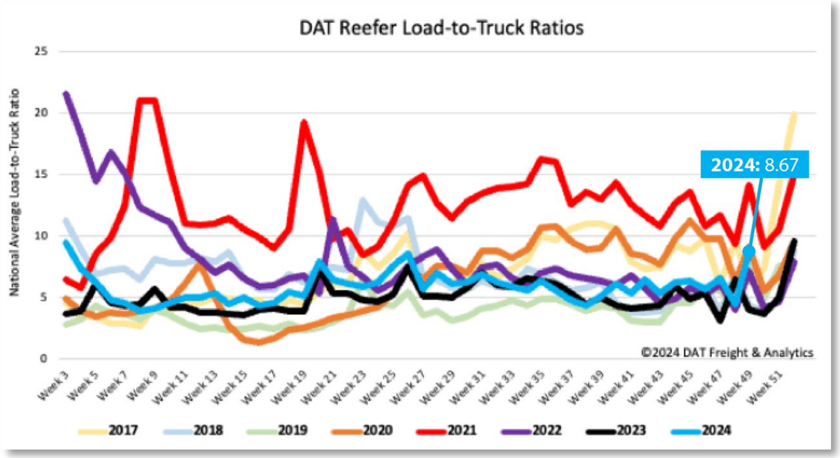
Diesel prices have fallen to their lowest since October 2021, dropping to $3.458 per gallon, with an $0.082 weekly decrease offering much-needed relief. Despite geopolitical tensions, market fundamentals suggest limited upward pressure on fuel costs in the near term.

- Trucking insurance premiums ↑ 5% annually, driven by cargo theft and sky-high legal settlements.

Private Fleets Pay Up, For-Hire Fleets Play Catch-Up

Private fleets maintain a 20% pay gap over for-hire fleets, with pay growing 2%-5% annually. Regional drivers saw a 25% increase in W-2 pay since 2021, as private fleets actively adjust compensation to recruit and retain talent. For-hire fleets, by contrast, have experienced slower, incremental pay growth since late 2023.





Source: DAT

Contract & Spot Market Rate Trends

Spot Rates Poised for Early 2025 Rebound

Dry Van
Spot rates currently sit at $1.72 per mile, reflecting a $0.07 increase YoY. These gains are modest given ongoing market softness and weak seasonal tightening in Q4. Forecasts anticipate a $0.12 increase by early January 2025, reaching $1.86 per mile as demand stabilizes.

Refrigerated
Reefer spot rates are at $2.05 per mile, marking a $0.10 YoY increase but still $0.07 below 2022 levels. While a slight short-term dip is expected, rates are forecasted to rebound as demand aligns with seasonal trends, closing the gap with contract rates.

Flatbed
Spot rates have risen to $1.97 per mile, a $0.07 YoY improvement but still $0.06 below 2022 levels. Projections indicate a potential $0.08 increase, with rates reaching $2.07 per mile by January 2025, supported by increased freight demand in the construction and industrial sectors.

Spot Rate Premium Ratios
Spot rates remain discounted relative to contract rates across all modes but are showing upward movement:

- Dry Van: -6.9%, trending upward.
- Reefer: -4.7%, with slow improvement.
- Flatbed: -4.7%, mirroring trends in other freight segments.

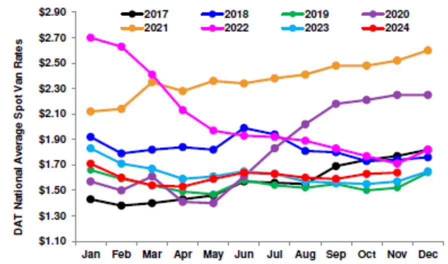
Spot Market Share
Spot freight currently constitutes 15% of total freight volume across all modes, driven by shippers capitalizing on lower rates. Reefer freight, in particular, is seeing significant spot market utilization due to favorable cost advantages.

Contract Rates Steady, Set to Climb

Contract rates across Dry Van, Reefer, and Flatbed remain largely flat, signaling continued caution in long-term shipper-carrier agreements. Shippers are benefiting from lower spot market rates, particularly in the refrigerated segment, but this dynamic may shift as capacity tightens.

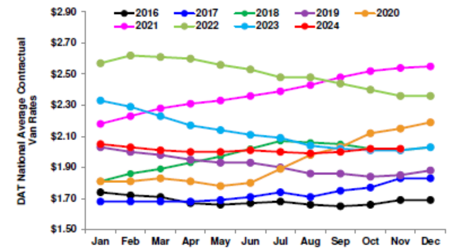
H2 2025 Outlook
Experts anticipate 4–6% contract rate increases, with some predicting hikes of up to 8% in response to projected market stabilization and growing demand.

Exhibit35: National Average Spot Van Rates ex. Fuel Surcharge



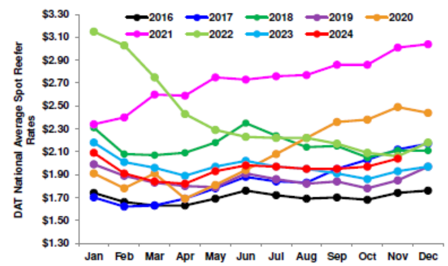
Source: Morgan Stanley Research, DAT Solutions (www.dat.com/resources/trendlines); Note: DAT sources from over $24 B in transactions and 65k lanes.

Exhibit36: National Average Contract Van Rates ex. Fuel Surcharge



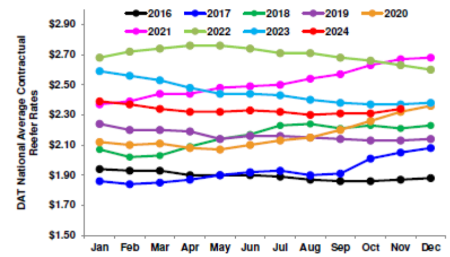
Source: DAT Solutions, Morgan Stanley Research

Exhibit37: National Average Spot Reefer Rates ex. Fuel Surcharge



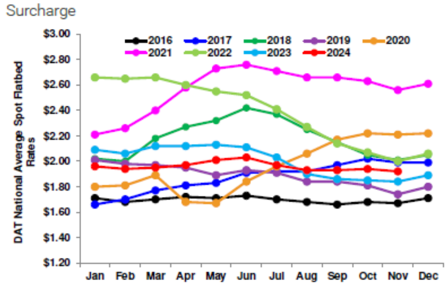
Source: DAT Solutions, Morgan Stanley Research

Exhibit38: National Average Contract Reefer Rates ex. Fuel Surcharge



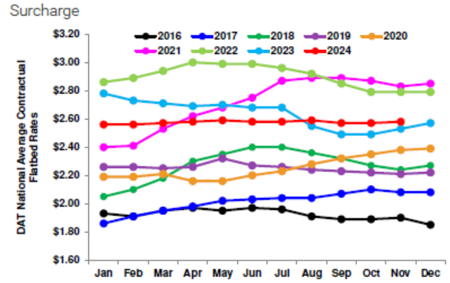
Source: DAT Solutions, Morgan Stanley Research

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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