Market Update – The Rearview & the Road Ahead

Demand Levels & Outlook

Labor Crunch Clamps Down on U.S. Manufacturing

Labor shortages remain a key constraint in U.S. manufacturing, with significant implications for freight demand.

In Q3 2024, 20.6% of manufacturing plants reported labor shortages, down from 46.3% in 2021 but still double the 2014 - 2016 average.

- **Food Manufacturing:** Contributes 14.5% of freight ton-miles. Persistent labor shortages risk raw material disruptions, amplified by reliance on immigrant labor.
- **Chemicals:** Elevated shortages correlate with high capacity utilization.
- **Petroleum & Coal Products:** Output exceeds 2021 levels despite labor challenges.

Data Centers Surge, Office Freight Slumps

- **Data Centers:** Construction surged 40% year-over-year, fueling demand for materials and equipment freight.
- **Warehousing:** Stabilizing after a 20% year-over-year decline, supporting steady freight demand.
- **Office Buildings:** Construction remains ↓29% from 2019, with minimal freight demand expected.
- **Manufacturing Plants:** Growth is concentrated in electronics and electrical equipment, while other sectors remain flat.

E-Commerce Drives Short-Haul Surge as Rail Takes Over Long-Haul

Shifting consumer behavior and supply chain strategies are altering truckload freight patterns:

- **Short-Haul Freight:** Demand (<100 miles) ↑13% year-over-year, driven by e-commerce and faster delivery requirements.
- **Long-Haul Freight:** Volumes (>450 miles) ↓13% year-over-year as intermodal rail gained popularity (+6% year-over-year growth).

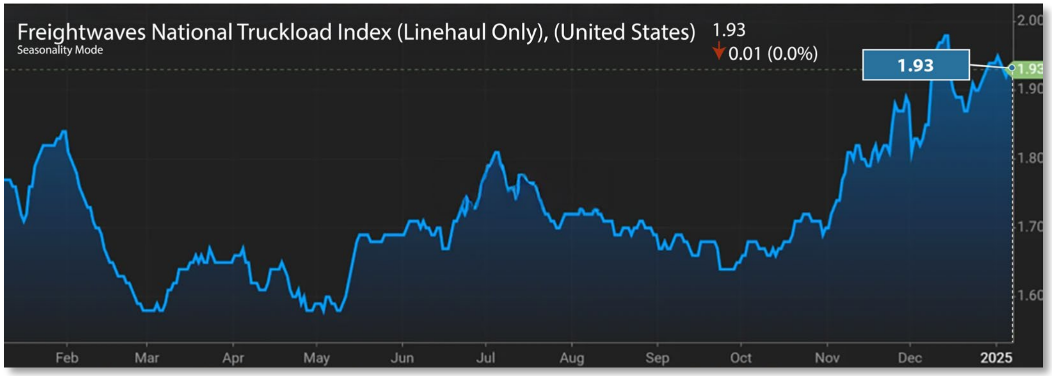
ILA-USMX Pact Stabilizes Ports with Smart Automation

The tentative ILA-USMX agreement has stabilized operations at East and Gulf Coast ports, averting disruptions while introducing semi-automation and safety improvements.

$39M Losses Drive Shippers Toward Insurance

Cargo theft increased 14% year-over-year in Q3 2024, with more than $39M in losses across nearly 800 incidents, according to a study by CargoNet. Rising risks have pushed 90% of shippers to secure insurance.

- **Insurance Market:** Valued at $57.06 billion in 2024, growing at a 4.3% CAGR.
- **Operational Adjustments**: High-risk commodities, such as perishables and luxury goods, often face insurance exclusions, driving demand for advanced cargo tracking and theft prevention technologies.



Source: FreightWaves

Supply, Capacity & Carrier Operating Costs

Diesel Prices See Mixed Week

Over the past seven weeks, diesel prices have shown an uneven yet upward trajectory.

- **Current National Average:** $3.503 per gallon (a $0.027 ↑ increase this week).
- **Seven-Week Net Change:** ↑ $0.012 overall, with four gains and three drops.
- **Year-over-Year Difference:** ↓ $0.0373 compared to the same period in 2023.

Baltimore Bridge Collapse Spurs Trucking Costs

The Francis Scott Key Bridge in Baltimore, which collapsed in March 2024 after a containership collision, is a stark example of how infrastructure failures can severely impact carriers. Its prolonged closure and delayed reopening for truck traffic highlight significant operational hurdles. Researchers project $92.8 million in additional annual trucking costs starting in 2025, rising to $446 million by 2028 if the bridge reopens on schedule. Detours via I-695 and other routes add an estimated 1.1 million trucking hours annually.

- **Increased Fuel Use and Maintenance:** Extra miles add to fuel consumption and vehicle wear.
- **Route Restrictions:** Height, width, and trailer-type limits in tunnels force carriers onto longer, more congested roads.
- **Reduced Freight Volumes at the Port of Baltimore:** Container throughput dropped from 624,526 tons in March 2024 to 526,700 in October 2024.

The Rising Cost of Congestion

Congestion has emerged as a critical cost driver even in areas without major infrastructure failures. According to data from the American Transportation Research Institute, highway congestion cost the trucking industry a record $108.8 billion in 2022 - a 15% spike from the previous high of $94.6 billion in 2021.

- **Wasted Diesel:** 6.4 billion gallons, equivalent to $32.1 billion.
- **Environmental Impact:** An additional 65.4 million metric tons of CO2 emitted.
- **Per-Truck Costs:** $7,588 per registered combination truck, mirroring the idle time of over 430,000 drivers in a typical work year.

New Rate Differential Sparks Rising Costs

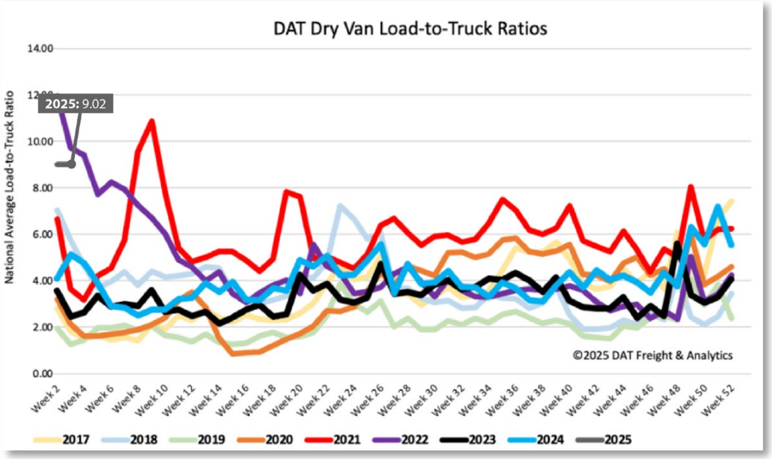
Recent evidence for a shifting market includes the New Rate Differential, which turned positive in August 2024. This key indicator suggests a climb in contract rates, signaling potential cost increases for shippers and further pressure on smaller carriers.

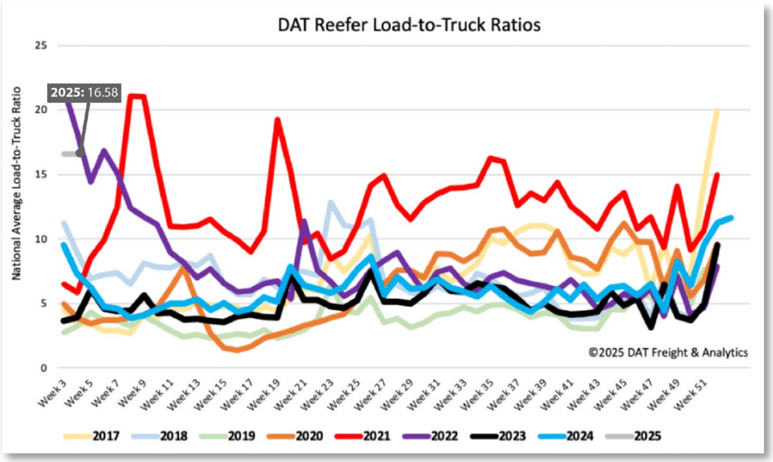
- **Higher Operating Costs for New Entrants:** At least 20% more than before, driven by insurance premiums and truck financing.
- **Financing Challenges:** Elevated costs tied to the inflated used-truck market from 2021–22.
- **Projected Market Flip:** Most likely after Q2 2025, barring major disruptions.

Remanufactured Parts on the Rise

In response to higher operating costs, fleets are turning to creative solutions, including remanufactured parts that offer a viable middle ground between brand-new components and standard repair. Key advantages include:

- Lower cost than new parts
- Reduced lead times during supply chain disruptions
- Alignment with corporate sustainability goals through material reuse





Source: DAT

Contract & Spot Market Rate Trends

Steady as She Goes: Dry Van Contract Rates Hold

Contract freight rates in the dry van sector have remained relatively stable at a national average of $1.80/mile, up only 2% year-over-year. This contrast suggests that while spot markets react swiftly to immediate supply-demand imbalances, contract rates adjust more slowly, influenced by longer-term trends such as consistent manufacturing demand and ongoing investments like TSMC's $65 billion commitment in Arizona. The divergence between spot rate increases and moderate contract rate shifts indicates that short-term disruptions—like holiday shipping variances and front-loading of imports - are more readily absorbed in the spot market.

- **National dry van contract rate:** $1.80/mile (↑ 2% YoY).
- Contract rates are less volatile than spot, reflecting long-term stability.
- Historical context of semiconductor investments supports ongoing contract demand.

Reefer Rates Climb as Storms Strain Capacity

Reefer spot rates recently increased to $2.22/mile, up $0.21/mile over four weeks, despite a slight $0.03/mile dip from earlier in 2024. Factors such as Winter Storm Blair have exacerbated rate hikes due to protect-from-freeze clauses, while load-to-truck ratios of 16.58 highlight exceptionally tight capacity at the start of 2025.

- **National reefer spot rate:** $2.22/mile (↑ $0.21 in four weeks).
- **Reefer LTR:** 16.58, indicating tight capacity.
- Weather impacts (Winter Storm Blair) influencing spot rates.

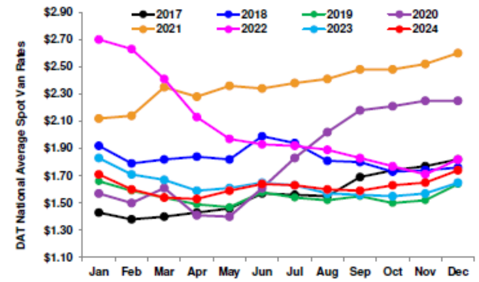
In terms of contract implications, elevated reefer spot rates in peak seasons may pressure shippers to secure longer-term contracts at higher rates, particularly for critical produce lanes.

Flatbed Freight Unshaken by Local Commotion

National flatbed spot rates remain stable, slightly declining to an average of $1.98/mile despite several localized spikes.

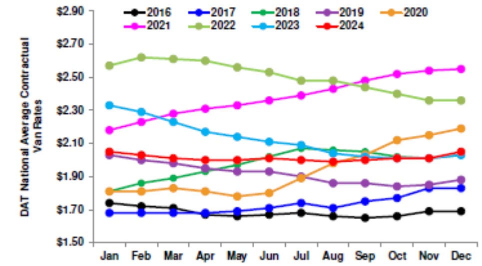
- **National flatbed spot rate:** $1.98/mile (slight decline).
- **Flatbed LTR:** 23.96 at week 1, 2025.
- Residential construction outlook supports long-term contract growth.

Exhibit35: National Average Spot Van Rates ex. Fuel Surcharge



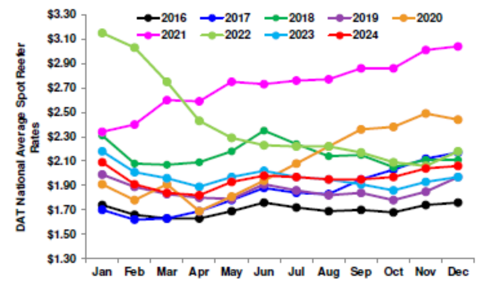
Source: Morgan Stanley Research, DAT Solutions (www.dat.com/resources/trendlines); Note: DAT sources from over $24 B in transactions and 65k lanes.

Exhibit36: National Average Contract Van Rates ex. Fuel Surcharge



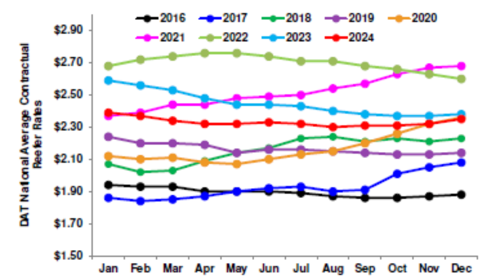
Source: DAT Solutions, Morgan Stanley Research

Exhibit37: National Average Spot Reefer Rates ex. Fuel Surcharge



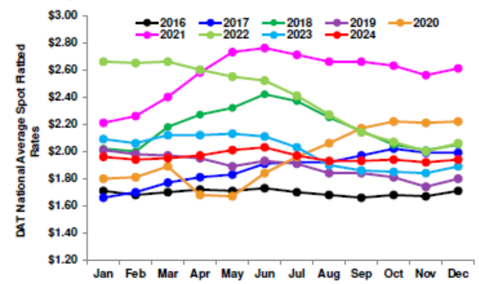
Source: DAT Solutions, Morgan Stanley Research

Exhibit38: National Average Contract Reefer Rates ex. Fuel Surcharge



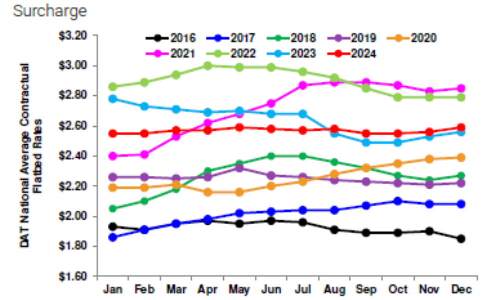
Source: DAT Solutions, Morgan Stanley Research

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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