

MONTHLY MARKET UPDATE:

What the Data Is Telling Us
About the Freight Market

Presented by:

 **FREIGHT**WAVES

113.19

VOLUME

43.8 M

OPEN: 112.23

CLOSE: 113.19

HIGH: 113.69

LOW: 112.13

ma (50,ma,0,n)
(right-click to manage)

About Our Presenters



Craig Fuller, CEO and Managing Director, FreightWaves

Craig is the CEO and Founder of FreightWaves, the largest provider of news, content, and analytics for the freight market. The company is also the founder of Blockchain in Transport Alliance (BITA), a consortium of technology enterprises, manufacturers, carriers, and logistics technology organizations committed to implementing blockchain technology in transportation. Prior to founding FreightWaves, he was the founder and CEO of TransCard, a fleet payment processor that was sold to US Bank. He also has been deep in the industry, having founded and managed the largest provider of on-demand trucking services in North America, the Xpress Direct division of US Xpress Enterprises.



Ibrahiim Bayaan, Chief Economist, FreightWaves

Ibrahiim Bayaan is a business economist with a wealth of experience in the transportation sector. Prior to joining FreightWaves, Ibrahiim headed up economic analysis at UPS beginning in 2010. In this capacity, he played a key role in revamping international, domestic, and regional forecasting procedures, developing statistical models explaining macroeconomic activity and the effects on transportation patterns. Ibrahiim was also responsible for disseminating the economic outlook both inside and outside of UPS, delivering key insights on the economy and the effects on the transportation industry.

WHO WE ARE

FreightWaves is building a world-class community in freight that uses data and technology to understand, analyze, react, forecast, and de-risk the market

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BEHIND THE SCENES

25

Market reporters

4

Economists

7

PhDs

2.7x

More time on site than any
other freight-related site

2.4B

Monthly audience

3M

Monthly page views

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THE IMPORTANCE OF

DATA + TRIBAL KNOWLEDGE

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Today's Agenda

- Understanding GDP results
- Recent freight demand performance
- Policy update
- Trends in freight capacity and pricing
- Regional freight patterns

Ibrahiim's Summary

Freight demand stalling overall

Manufacturing, trade struggling

Retail stabilizing

Hiring flat within trucking

Rates coming down

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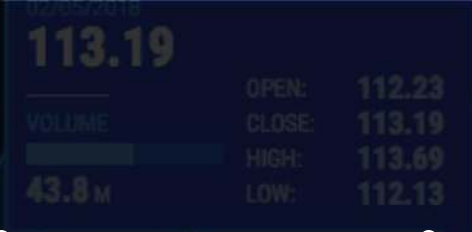
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Craig's Summary

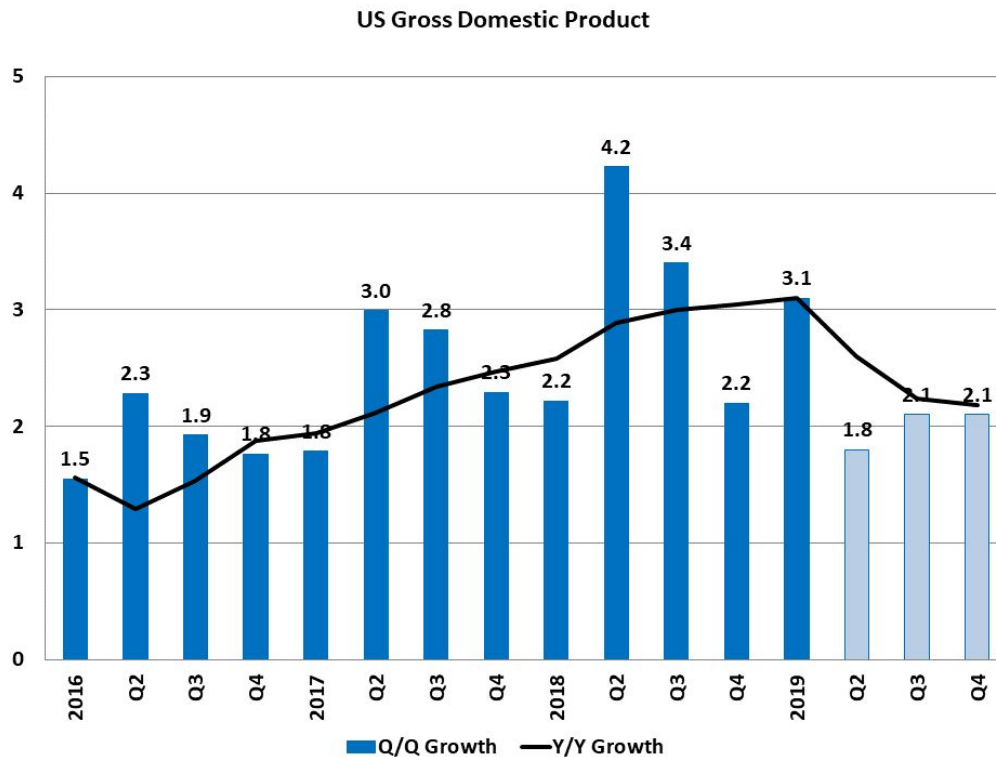


Seasonal volumes returned in June, still down from 2018

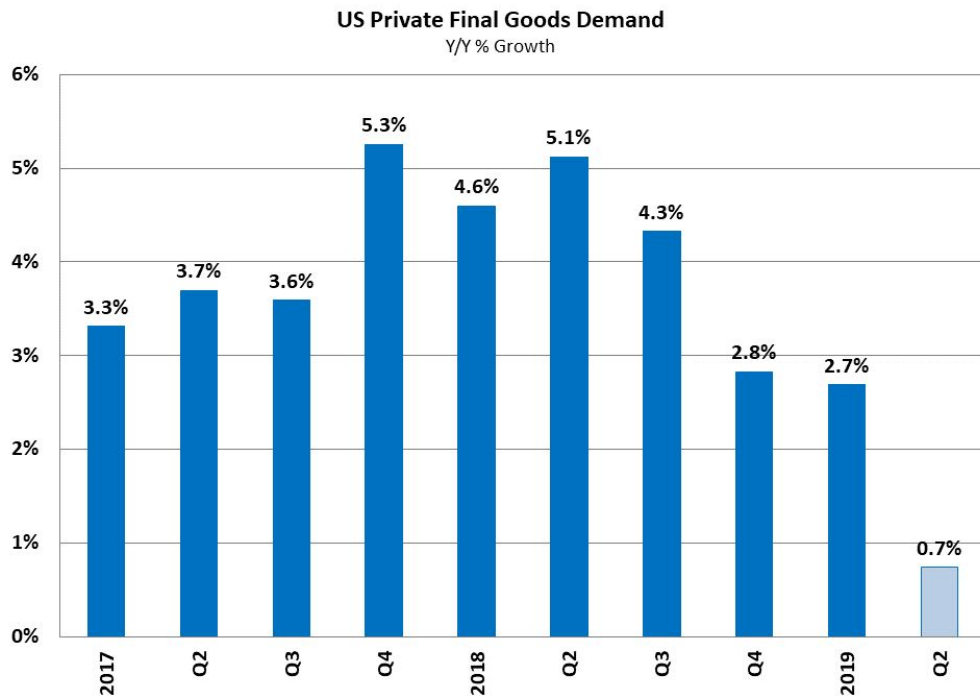
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Activity around the ports remains stronger than average, reefer demand and Roadcheck create disruptions

Current Economic Situation



Goods Demand



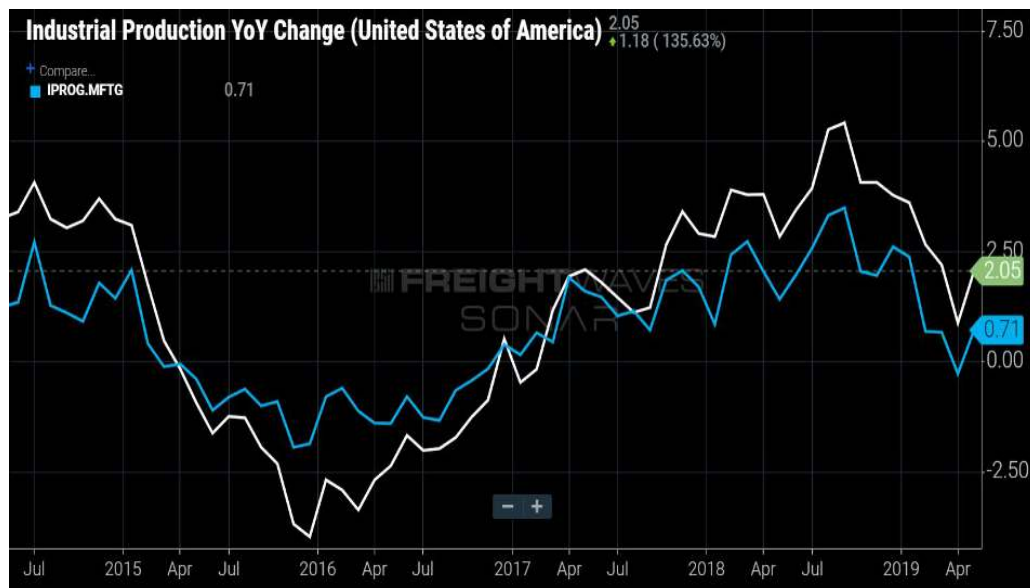
Source: Bureau of Economic Analysis, FreightWaves Economics

Key Highlights

- Private final demand for goods focuses on the components of GDP that relate to the goods side of the economy
- Year-over-year growth peaked in from 4Q 2017 through mid-2018
- Growth has decelerated below 1%, with only consumer spending driving growth

Manufacturing

SONAR Ticker: [IProg.USA](#) | [IProg.MFTG](#)

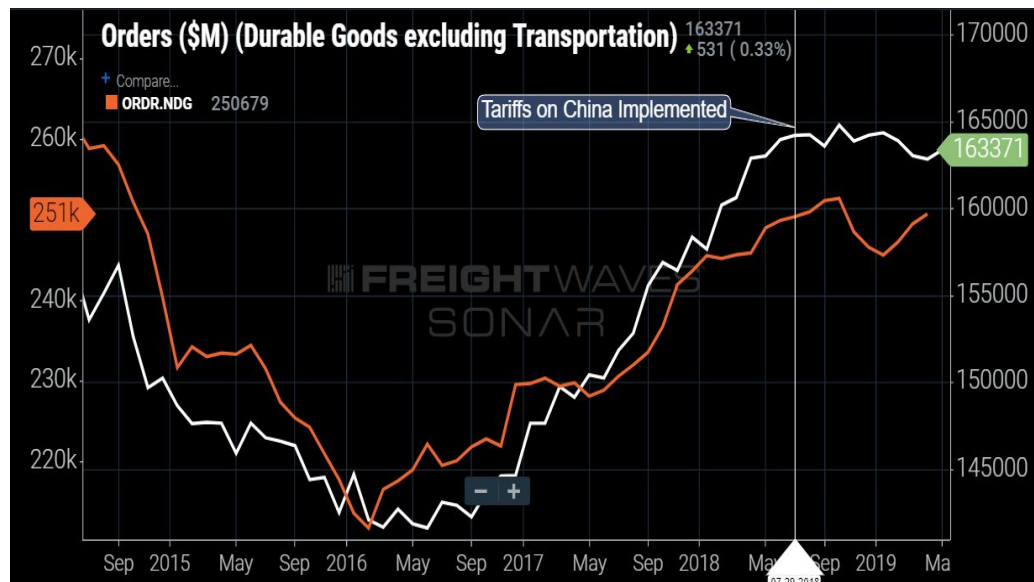


Key Highlights

- Manufacturing activity has fallen thus far in 2019
- Year-over-year growth crossed into negative territory in April, before improving in May
- Manufacturing is suffering from reduced business demand, poor export environment

Factory Orders

SONAR Ticker: [ORDR.DGXT](#) | [ORDR.NDG](#)

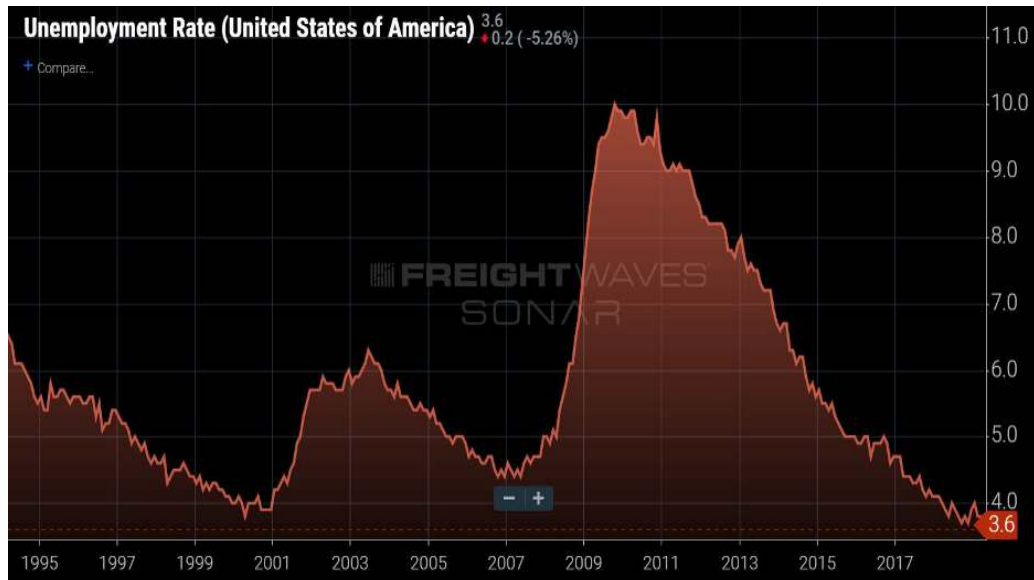


Key Highlights

- Durable goods orders have stalled since 3Q 2018
- Nondurable manufacturing orders declined in 4Q but began to rebound in February
- Tariff concerns likely holding back orders, shipments from manufacturers

Labor market

SONAR Ticker: [UEMP.USA](#)



Key Highlights

- Job growth slipped in May but remains generally strong
- Unemployment remains near multi-decade lows
- Wage growth remains healthy
- Eases fears about near-term retail outlook

Retail activity

SONAR Ticker: [RESLG.USA](#)



Key Highlights

- Retail growth has stabilized around 3% in the 2nd quarter
- Growth is still well below the pace seen in the middle of last year
- Eyes on labor market conditions to determine the outlook for retail

E-commerce

SONAR Ticker: [RESLG.ONLN](#)



Key Highlights

- Electronic shopping & mail order sales serve as a monthly proxy for e-commerce
- Suspicious dip in December, but data has been in double digits for years
- Positive sign for parcel, LTL carriers

Housing and Construction

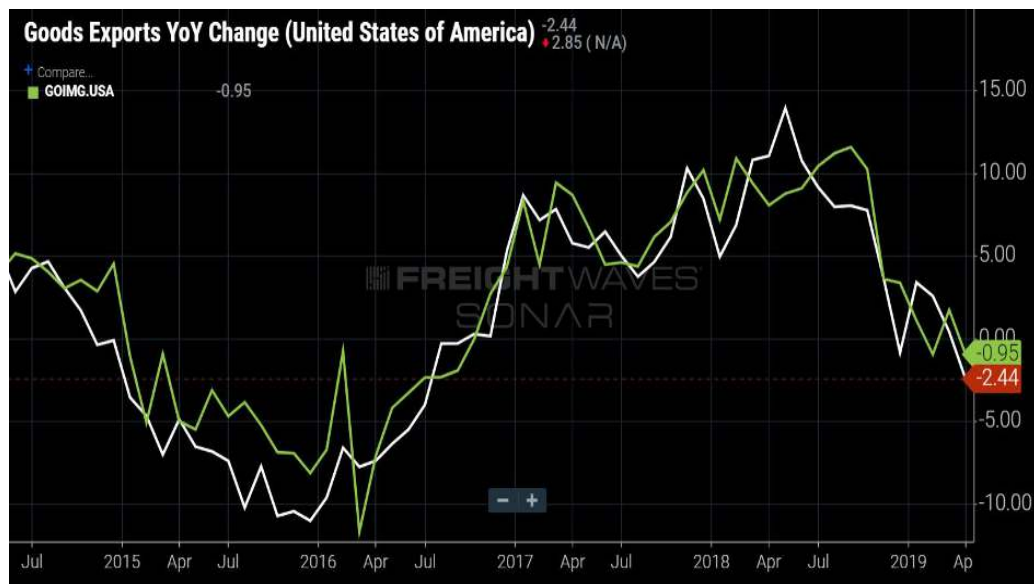


Key Highlights

- Single-Family New Home Sales dropped for a consecutive month, down 7.8% from April
- Builders will have to compete with existing homes at the entry level home price point
- Mortgage rates dropped throughout May and didn't spur any new build activity

Goods trade

SONAR Ticker: [GOEXG.USA](#) | [GOIMG.USA](#)

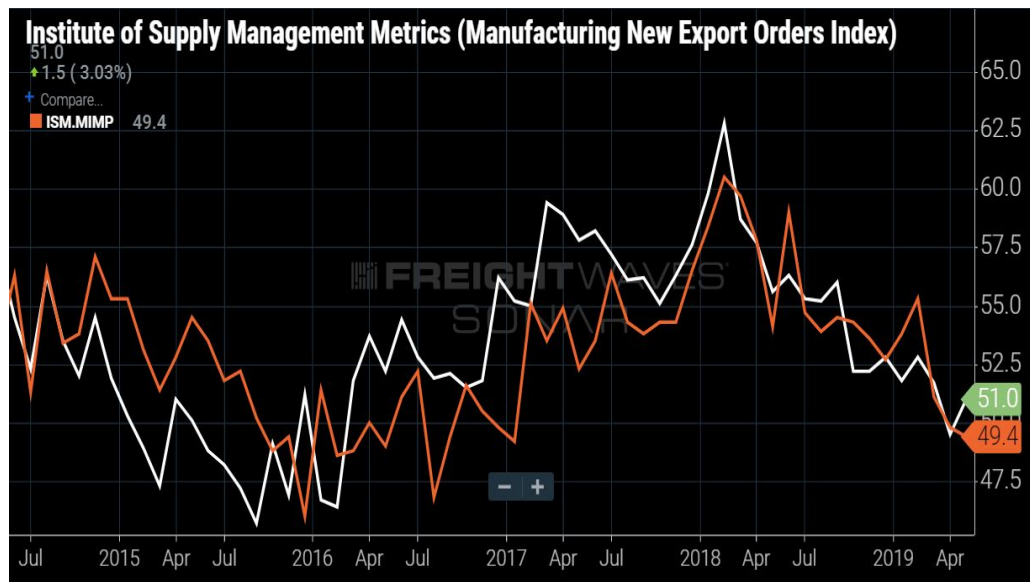


Key Highlights

- Goods import and export growth have clearly downshifted
- Goods import, export growth negative for first time since 2016, though prelim results from May show a surge
- Dollar strength, slower global growth, tariffs harming growth

Survey data

SONAR Ticker: [ISM.MEXP](#) | [ISM.MIMP](#)



Key Highlights

- ISM data on exports, imports has clearly downshifted, crossing into contractionary territory
- Softer growth likely behind most of the recent weakening
- Tariffs are likely to introduce additional volatility

Policy Update

U.S. - China Relations

Mexico

Monetary Policy

Key Highlights

- U.S. ramped up tariffs on \$200 billion of Chinese imports to 25%
- Threats of implementing tariffs on all goods coming from China
- G-20 meeting this weekend with President Trump and President Xi

Policy Update

U.S. - China Relations

Mexico

Monetary Policy

Key Highlights

- President Trump threatened escalating tariffs on Mexico as leverage in immigration
- Deal reached in early-June to avoid tariffs
- Tariffs as a general weapon?

Trade and tariffs

U.S. - China Relations

Mexico

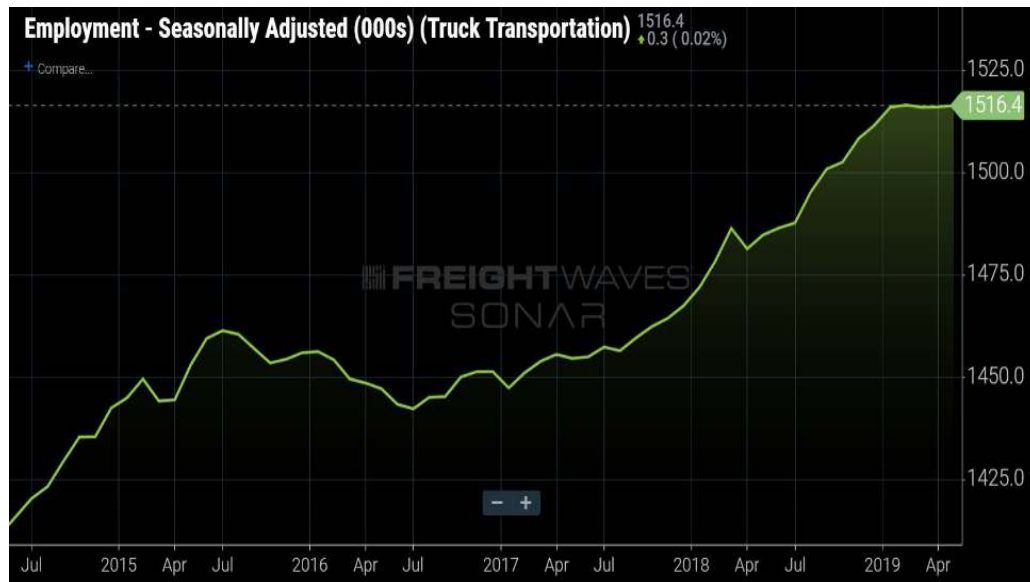
Monetary Policy

Key Highlights

- Federal Reserve held interest rates constant in the most recent meeting
- Rate decrease increasingly likely in upcoming months
- Positive for growth, but not likely to affect economy until 2020

Trucking Hires

SONAR Ticker: [EMPS.TRUK](#)

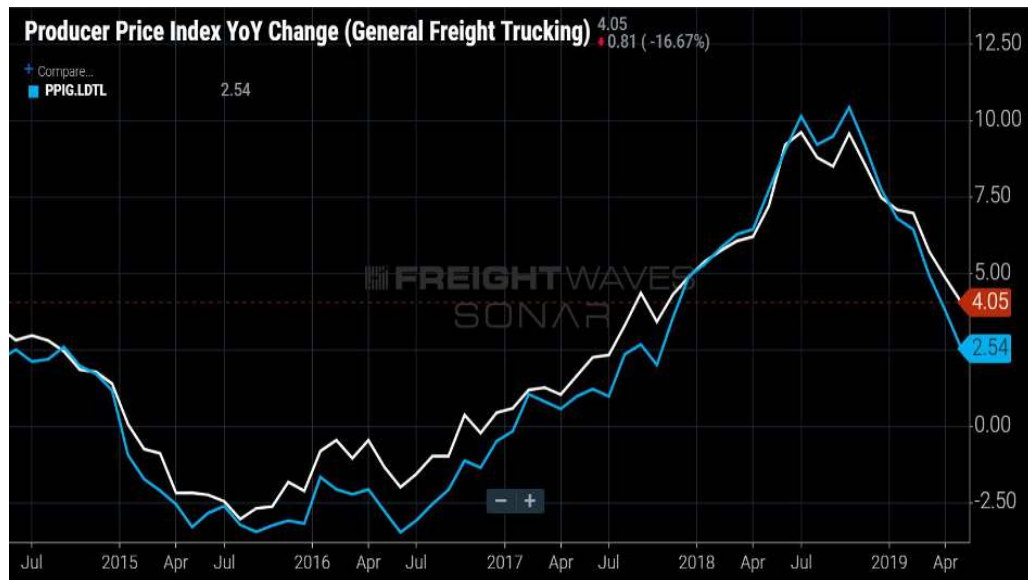


Key Highlights

- Trucking employment has stalled in 2019
- 44k jobs added in the industry in 2018, signaling increased capacity
- Conditions in the industry suggest that carriers will likely reduce payrolls

Freight Rates

SONAR Ticker: [PPIG.GFTK](#) | [PPIG.LDTL](#)

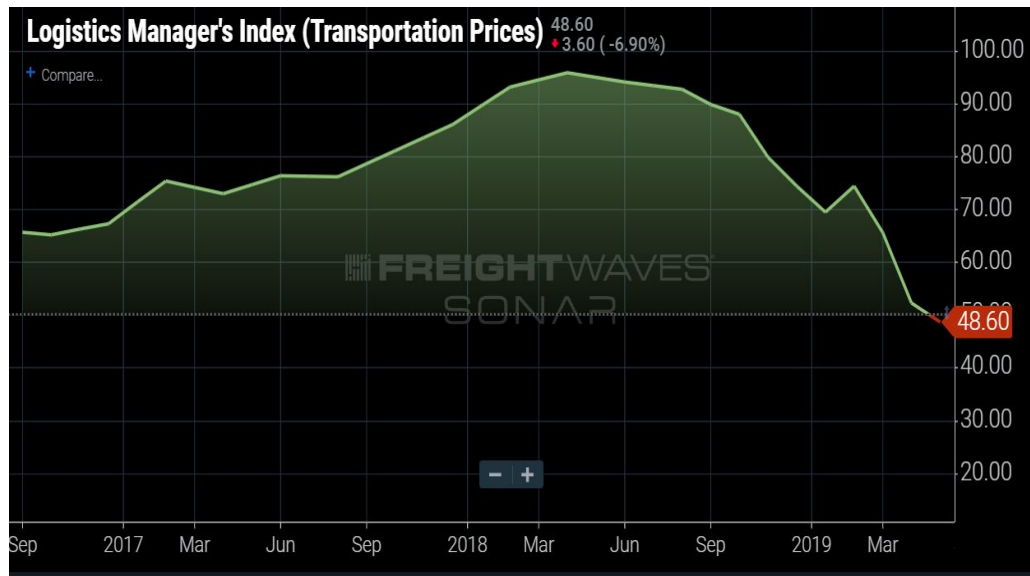


Key Highlights

- Rates for long distance trucking declined for the fourth straight month in May
- Year-over-year growth continues to decelerate, reaching 2.5%
- Even if freight volumes improve in upcoming months, expanded capacity will put downward pressure on rates

Logistics Managers' Index

SONAR Ticker: [LMI.TPPR](#)



Key Highlights

- Survey data from the LMI looks at various conditions in warehousing and transportation
- Pricing responses fell into contractionary territory in May
- Reinforces results from PPI data

Freight Market Update

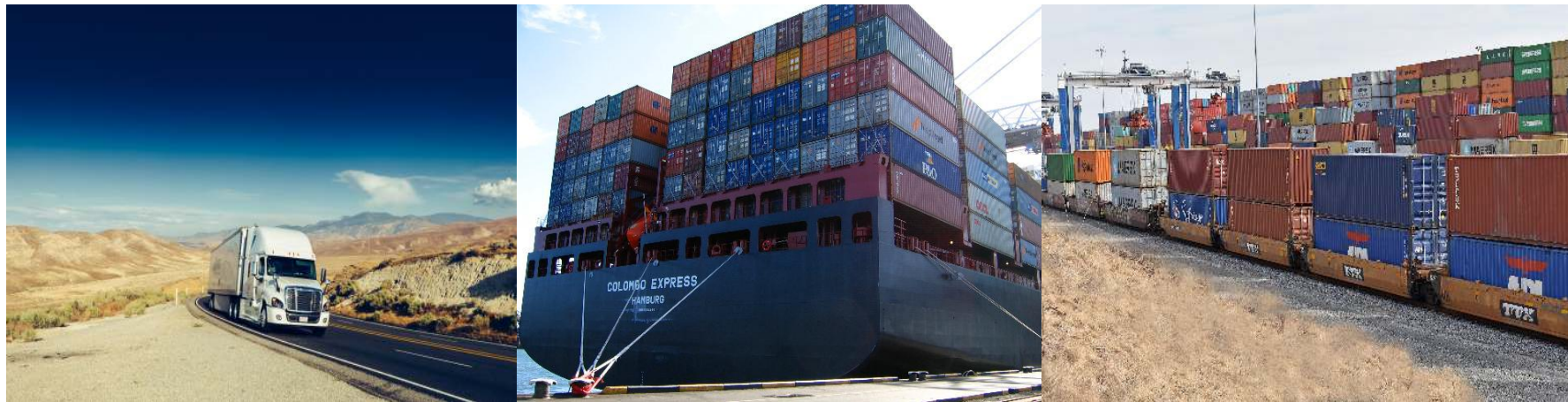
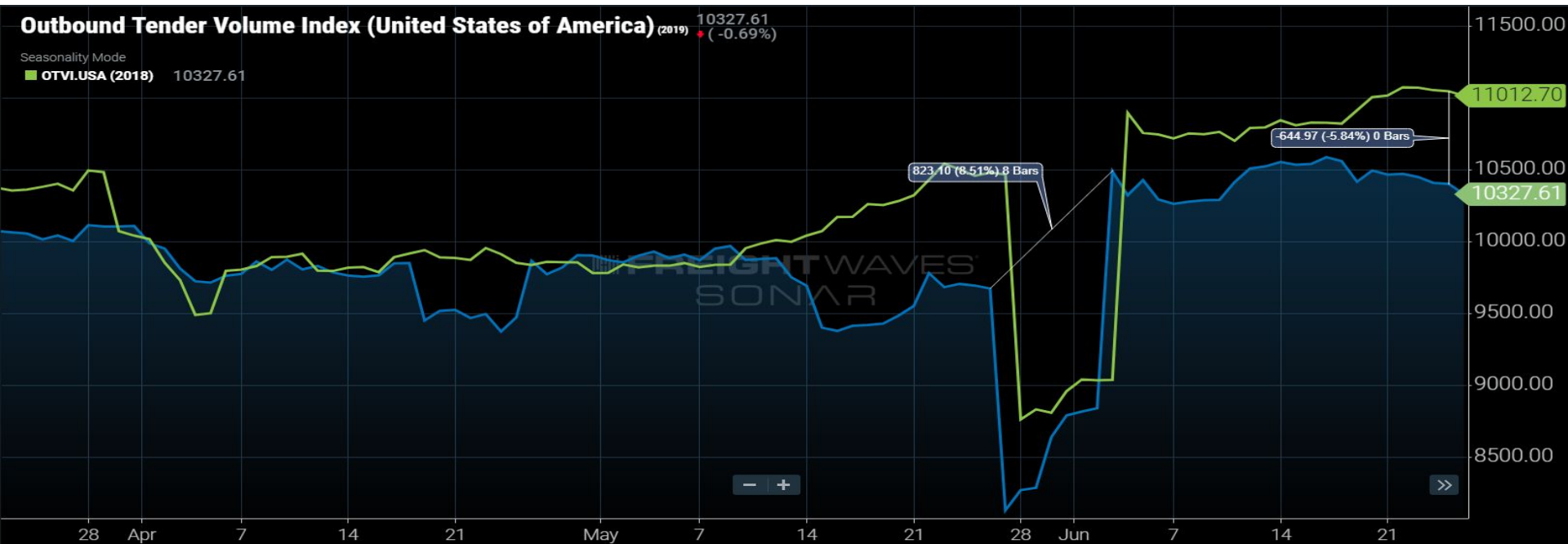


Photo: Shutterstock

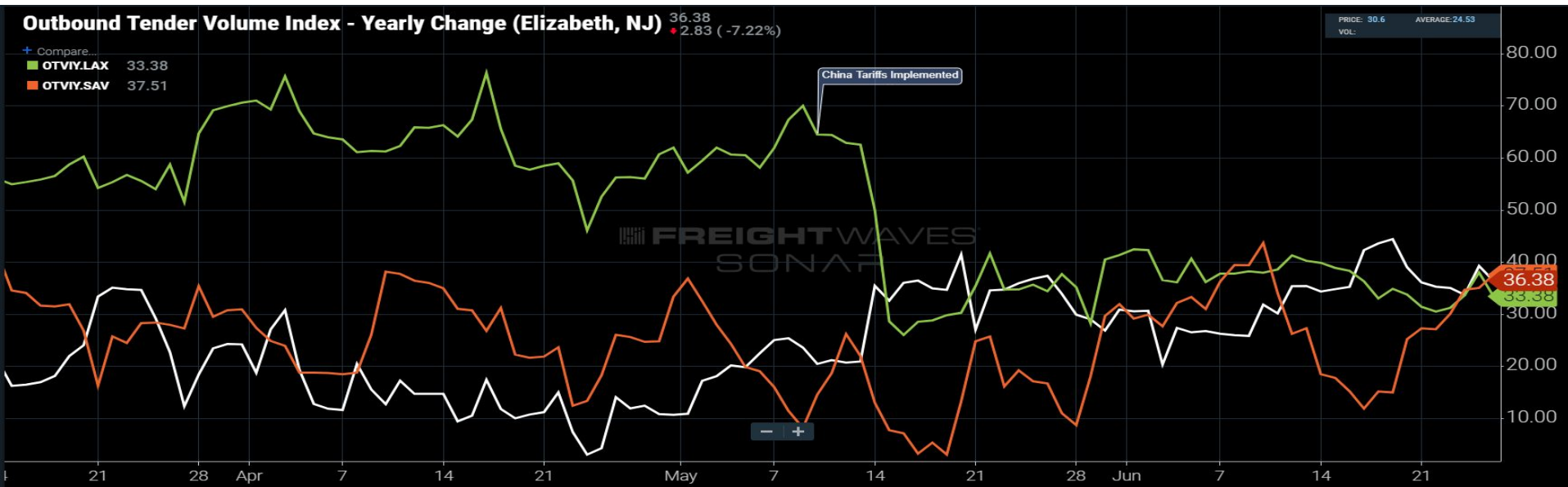
Key Highlights

- Seasonal volumes arrived after Memorial Day - volumes increased 8.5%.
- Still underperforming compared to 2018 - averaging 3.9% down from June 2018, May was 4% off.



Key Highlights

- Top 3 port markets averaging 30% above 2018 outbound volumes.
- Outbound volume Year-over-year change - percent difference from same time last year
- L.A. volumes up 33% up in June 19 vs. 18 vs 70% up in April 19 vs. 18 while East Coast volumes increase. (OTVI.EWR up 21% June vs. May)
- OB volumes from L.A. saw massive drop post tariff implementation (May 10)



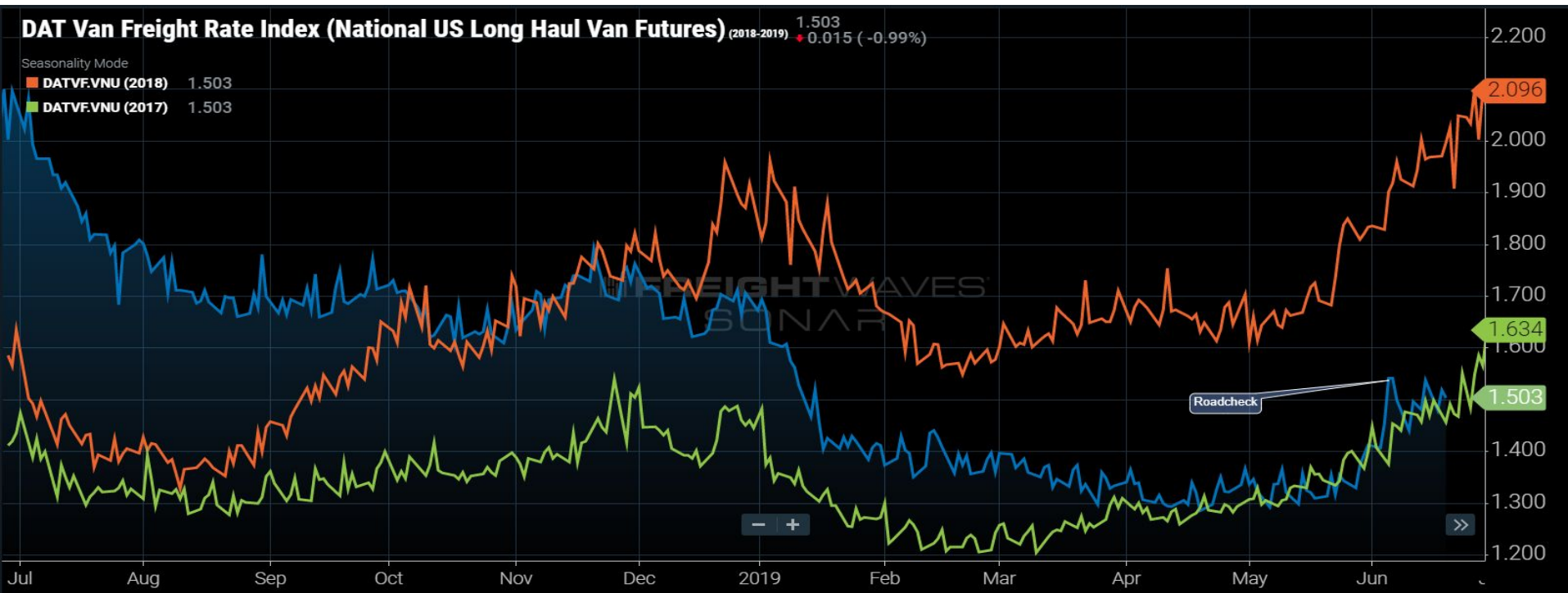
Key Highlights

- Volumes down in major freight cities of Atlanta, Joliet (Chicago), and Harrisburg (Philadelphia).
- Average over 10% total U.S. freight volume.
- Atlanta 2.2% down sequentially vs May volumes, 21% off June 2018.
- Joliet (Chicago) 1.5% down vs May, 24% off June 2018.



Key Highlights

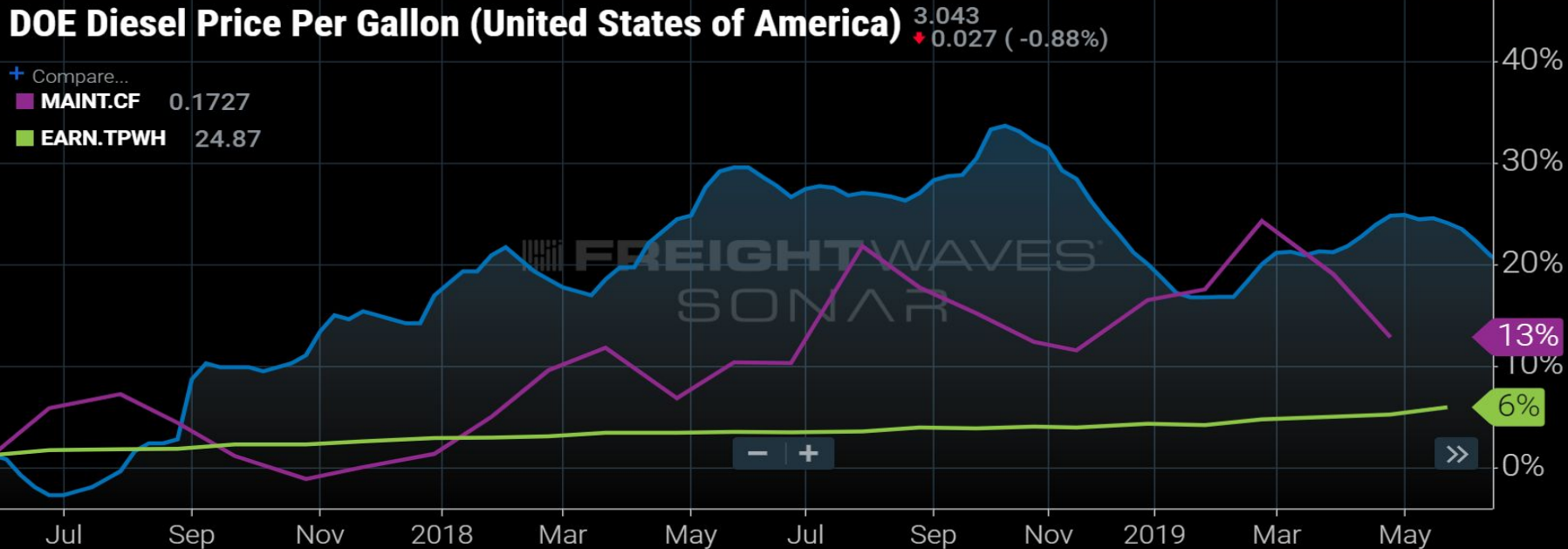
- Spot rates for van are tracking right in line with 2017.
- Roadcheck week had an amplified impact.



Key Highlights

- Costs increased significantly since June 2017.
- Diesel costs are 20% higher, Maintenance costs are 13% higher, and wages are 6% higher for all transportation and warehousing sector, 11-12% for drivers.

DOE Diesel Price Per Gallon (United States of America)



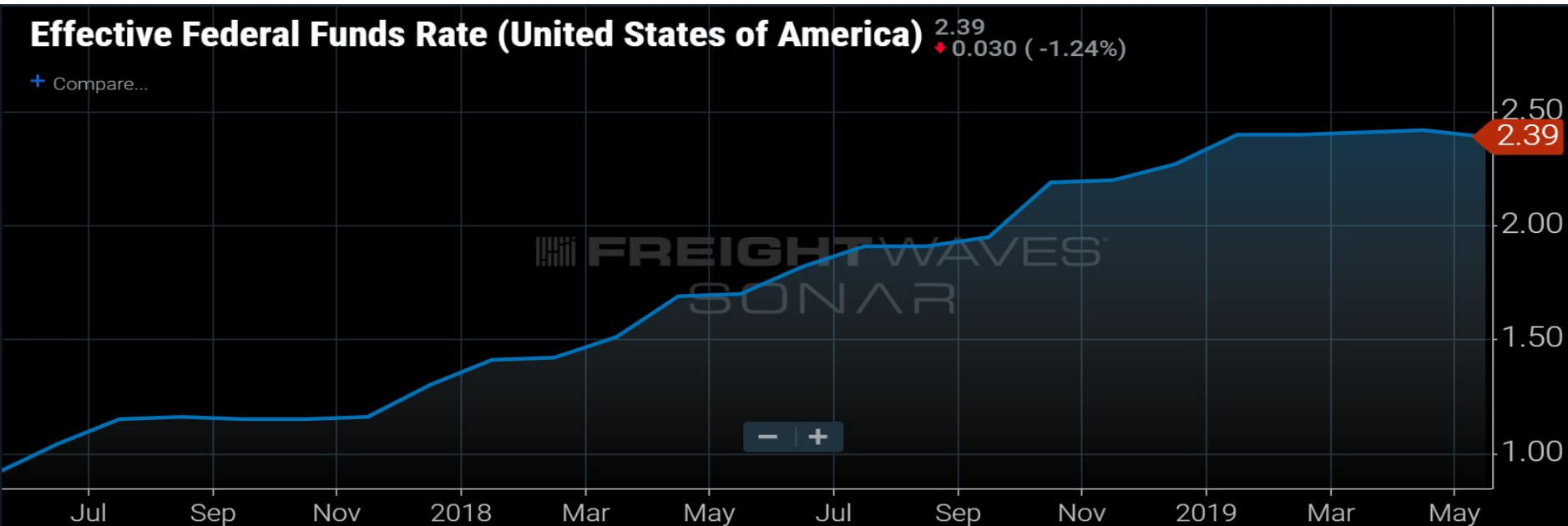
Key Highlights

- Fed funds rate much higher vs 2017. Under 1% in June 2017.
- Cost of capital/investment much higher now.

Effective Federal Funds Rate (United States of America)

+ Compare...

2.39
↓ 0.030 (-1.24%)



SONAR Ticker: [OPRAT.FCFOO](#), [OPRAT.VCFOO](#),
[OPRAT.RCFOO](#)

Key Highlights

- Operating ratio measures operational efficiency, how effective are operating costs generating revenue. (Does not include debt or equities)
- Reefer ORs holding up at 96.7%, while van and flatbed carriers climb from low 90s to almost 99, i.e. making \$0.01 for every dollar spent.

Operating Ratio (Company Fleet and Leased Fleet - Flatbed)



Key Highlights

- Indicator of carrier behavior and willingness to reject dedicated loads in the market.
- Roadcheck has a bigger impact than Memorial Day.

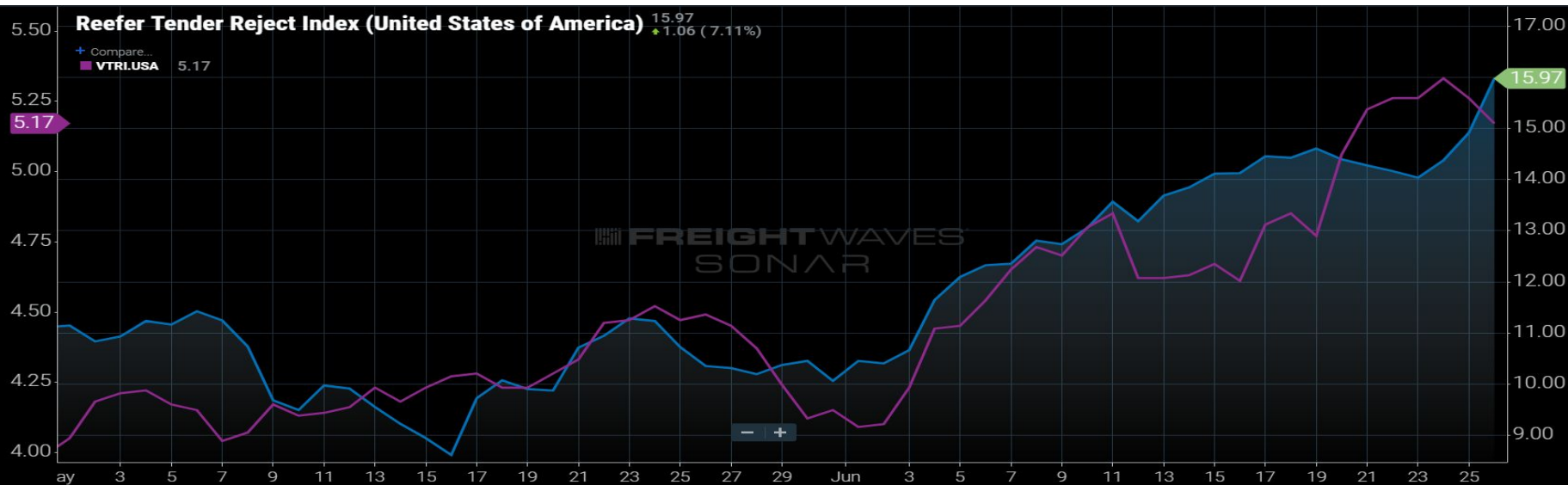


National Tender Rejections and Capacity

SONAR Ticker: [RTRI.USA](#), [VTRI.USA](#)

Key Highlight

- Reefer tender rejections accelerated in June. RTRI up 591 bps, VTRI up 108 bps since May 31.
- Delayed harvests from excess rains in California and Mexico create disruptions.



Agricultural freight spot rates

SONAR Ticker: [AGRATE.LAXATL](#)

Key Highlight

- California produce season in full swing as rates climb through the end of June.
- Rainy spring prevents harvests.



SONAR Ticker: [ORDERS.CL8](#)

Key Highlights

- New truck orders continue to fall back from a YoY perspective. Down 70% vs May 2018.
- May orders lowest in over 5 years.



SONAR Ticker: INTRM.LAXDAL, DATVF.LAXDAL

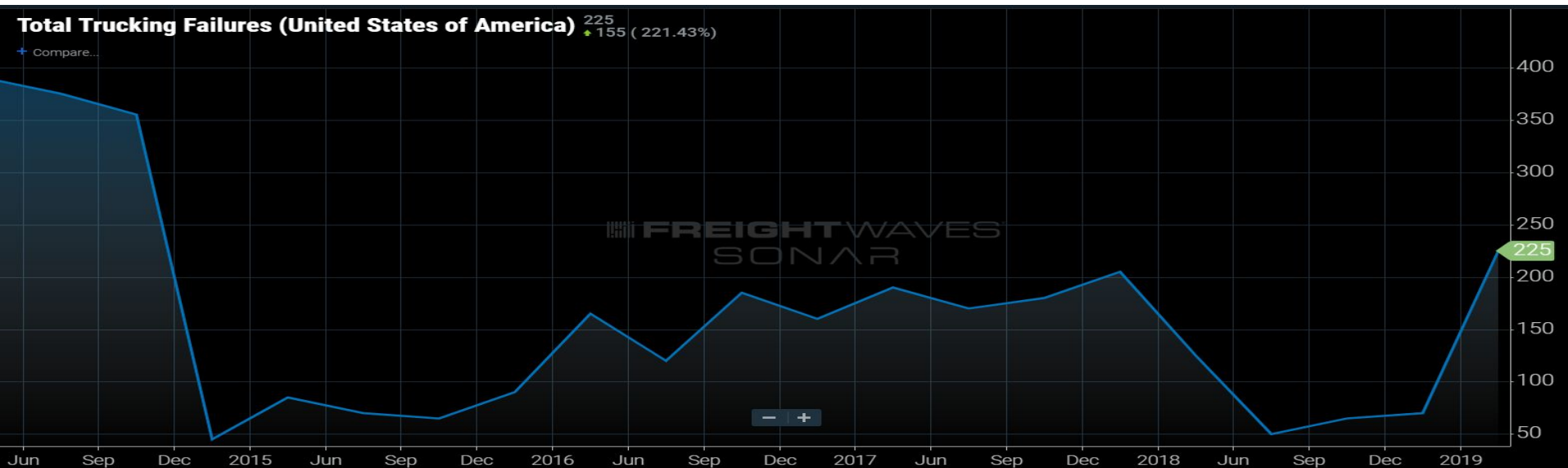
Key Highlights

- Intermodal container volume is down 6.5% on the rail vs June 2018.
- Trucking spot rates increased in June, while Intermodal rates were flat, making trucking more attractive in relation.



Key Highlights

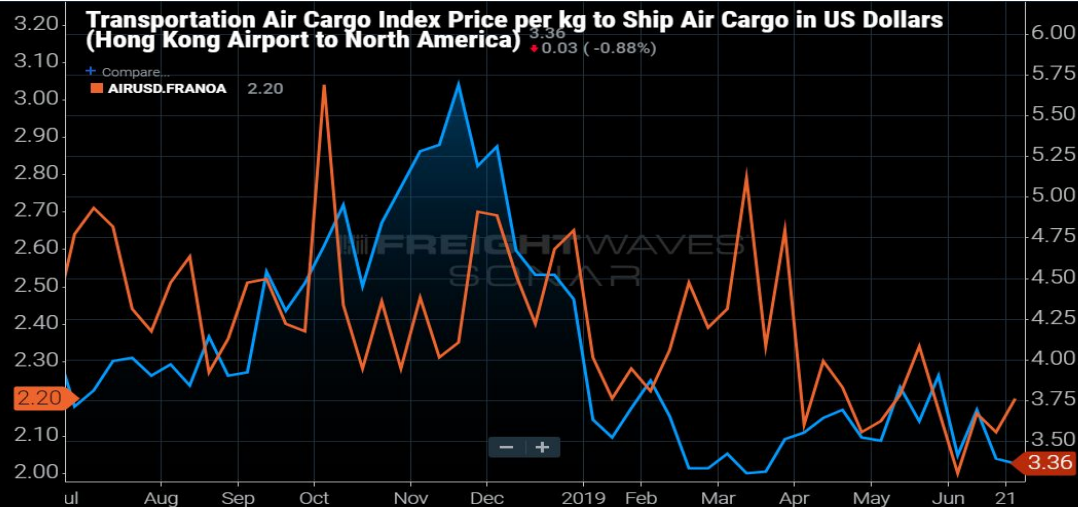
- Based on trucking companies' bad debt being written down as bankruptcies are not the best indicator for small carriers. Quarterly figure.
- Hit a multi-year high in 1Q 2019.
- Highest failure number since 3Q 2014.



SONAR Ticker: [AIRUSD.HKGNOA](#), [AIRUSD.FRANOA](#)

Key Highlights

- Air rates from Frankfurt to North America down from \$2.55/kg to \$2.20/kg YoY.
- Rates from Frankfurt to North America are down 20% since the beginning of 2018.
- Rates from Hong Kong to North America are off 13% YoY
- Volume (April YoY) down 4.7%, May volumes update expected shortly



| APRIL 2019 (% YEAR-ON-YEAR) | WORLD SHARE ¹ | FTK | AFTK | FLF (%-PT) ² | FLF (LEVEL) ³ |
|-----------------------------|--------------------------|-------|-------|-------------------------|--------------------------|
| Total Market | 100.0% | -4.7% | 2.6% | -3.5% | 46.3% |
| Africa | 1.7% | 4.4% | 12.6% | -2.9% | 37.4% |
| Asia Pacific | 35.4% | -7.4% | -0.1% | -4.1% | 51.8% |
| Europe | 23.4% | -6.2% | 4.2% | -5.5% | 49.6% |
| Latin America | 2.6% | 5.0% | 18.7% | -4.3% | 32.5% |
| Middle East | 13.3% | -6.2% | 0.7% | -3.4% | 45.8% |
| North America | 23.7% | 0.1% | 2.5% | -1.0% | 40.5% |

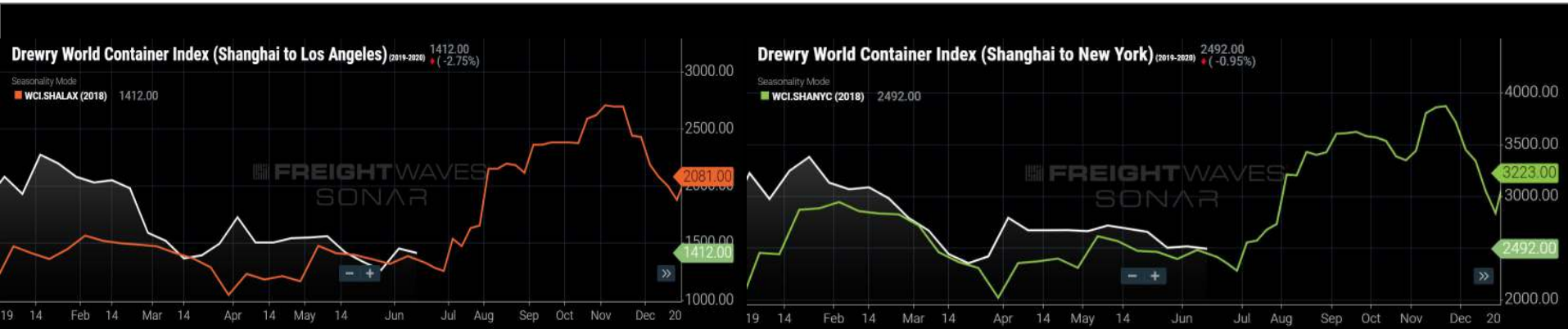
1- % of Industry FTKs in 2018 2- Year-on-year change in load factor 3- Load factor level

China to U.S. Container Rates

SONAR Ticker: WCI.SHALAX, WCI.SHANYC (Seasonality - 1 - Full Year)

Key Highlights

- Container spot prices will receive an increase on July 1st. Rates are likely to increase between \$250-350 USD
- A pull forward of demand is increasingly likely, but its impact on spot rates are expected to be minimal
- Spot prices are predicted to follow very similar trend lines to Q3 and Q4 of 2018, but are not likely to increase beyond November 15th.
- Spot prices expected to max out around \$2350 to the West Coast and \$3350 to the East Coast per 40' container



Import Container Volumes - Major U.S. Ports

SONAR Ticker: IMPTEU.USLAX, IMPTEU.USNYC (Seasonality - 1 Full Year)

Key Highlights

- U.S. Ports are still pacing for 2-3% increase in container volumes YOY
- A pull forward of demand is increasingly likely, but its impact on port volumes should be minimal as most ports have made operational adjustments to increase throughput in preparation of growing volumes
- 2019 volumes should align with 2018 volumes from July 1st
- Rates expected to max out around \$2350 to the West Coast and \$3350 to the East Coast



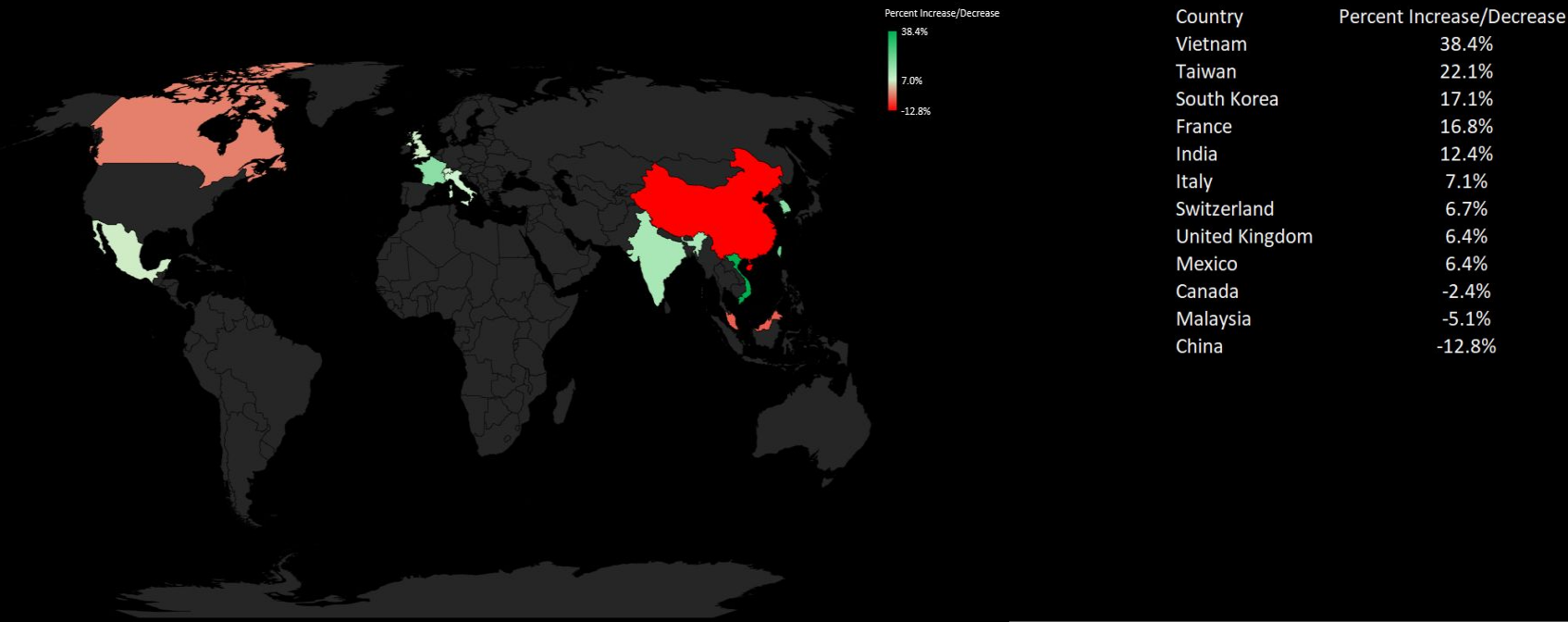
Trade War's Impacts on U.S. Imports

Key Highlights

- The U.S. - China Trade War is forcing U.S. importers to reduce dependency on China by moving their operations to other countries.
- According to Statista, in the first four months of 2019, Vietnamese exports to the U.S. grew 38.4 percent year-over-year. Taiwan and South Korea have also had major gains from U.S. importers moving out of China.

U.S. Imports From Vietnam Surge at China's Expense

% change in U.S. goods imports from its top import partners (Jan-Apr.2019 vs. Jan-Apr.2018)



Summary

- The freight economy struggled in 1Q and renewed concerns over trade policy threaten growth the rest of this year
- Trucking employment has stalled, but the industry still faces excess capacity
- Rates are falling and may continue to fall even if volume growth improves
- We are in an oversupplied market with geopolitical headwinds.

Q & A

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