Q1 2024

# Q1 2024 SHIPPER RATE REPORT



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*Disclaimer: The analysis and projections expressed within this report were compiled by FreightWaves based on internal data, industry data, and/or data provided by U.S. Bank and do not necessarily reflect the views of U.S. Bank or BlueGrace Logistics.*


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# Executive Summary and Forecast

Signs of a nascent recovery, which first appeared in the previous quarter, continued to present themselves in the fourth quarter of 2023. Since the nature of this recovery tends to be controversial among industry analysts, it is well worth clarifying what the term does and does not entail. The current upturn — such as it is — implies growing distance from the market's cycle low, which occurred in May 2023. Shippers' demand was remarkably stable in the back half of last year and continues to gain strength into 2024. In sum, the early stages of this recovery are characterized by a rebalancing market, a return to normalcy after a four-year period of volatility.

What this recovery is not — at least, not presently — is immediate and rapid growth in freight demand that can satisfy the excess capacity lingering in the market. Some industry participants have had their expectations for growth reshaped by the historic rally witnessed throughout 2020-21. Such expectations should be tempered, as they will almost certainly lead to disappointment otherwise. The U.S. consumer has been surprisingly resilient over the past two years, despite numerous indications that warned to the contrary. Whether consumers can continue to not only sustain but grow their spending on freight-intensive goods in 2024 is a risky bet to make. This risk is compounded by potential retaliation from the Federal Reserve, which might respond to a too-hot goods economy with further monetary tightening.

A broad economic recession, then, is the most obvious threat to this recovery. But there are others: The excess capacity that entered the industry in the gold rush of 2020-21 has — like the U.S. consumer — proved tenacious in remaining within the market. While the reasons for its unusual tenacity will be discussed in a later section, it is sufficient to say that a continued stalling of its exit will delay, if not disrupt, a full recovery. Geopolitical powder kegs might also reignite inflation: Although the U.S. is relatively insulated from recent developments in the Red Sea, there is a nonzero possibility that discrete conflicts in the Middle East, Eastern Europe and East Asia could coalesce and further jeopardize global trade.

In the final quarter of 2023, however, there were no significant inflationary pressures on carrier rates, save for holiday-related gains that were far weaker than usual. The national average of fuel-inclusive spot rates rose only 0.4% — below even the low end of our previous forecast for a 0.5% to 3% quarterly gain. Despite the persistent rise in operational costs and still-thinning margins, small carriers continued to subsist on brokerage volumes. This lifeline is unlikely to exist much longer, given the expected depreciation in contract rates during the current bid cycle.

While all indications from shippers point to a mild start to 2024 in lockstep with traditional seasonality — Q1 is commonly known as the "quiet season," after all — there were early signals of a tightening market in January. Part of this tightening was caused by severe winter storms across most of the contiguous U.S., limiting capacity, while another part is simply the first stage in a coming exodus of carriers from the marketplace. A particularly favorable trend for carriers is the broad shift among shippers to a "just-in-time" inventory strategy that hinges on widespread capacity, stable demand from customers, and a steady flow of inputs or products from further upstream. If just one of these factors runs counter to shippers' expectations, upward pressure will be exerted on spot rates.

In light of these market conditions, we believe that spot rates will undergo their first significant improvement since 2021. Preliminary data already shows that spot rates were quick to rise in mid-January, in defiance of seasonal norms. Accordingly, we predict that Q1 spot rates will see a noticeable increase of 3% to 6% over the previous quarter. Contract rates, which tumbled 1.3% from Q3 to Q4 in line with our forecast, should remain more or less constant throughout Q1 as the ongoing bid cycle nears resolution.

**FIGURE 1:** U.S. CONSUMER SPENDING WAS CLOSE TO 2022 LEVELS IN FOURTH QUARTER, DESPITE DIFFICULT COMPS AS GAS PRICES FELL ON A YEARLY BASIS.

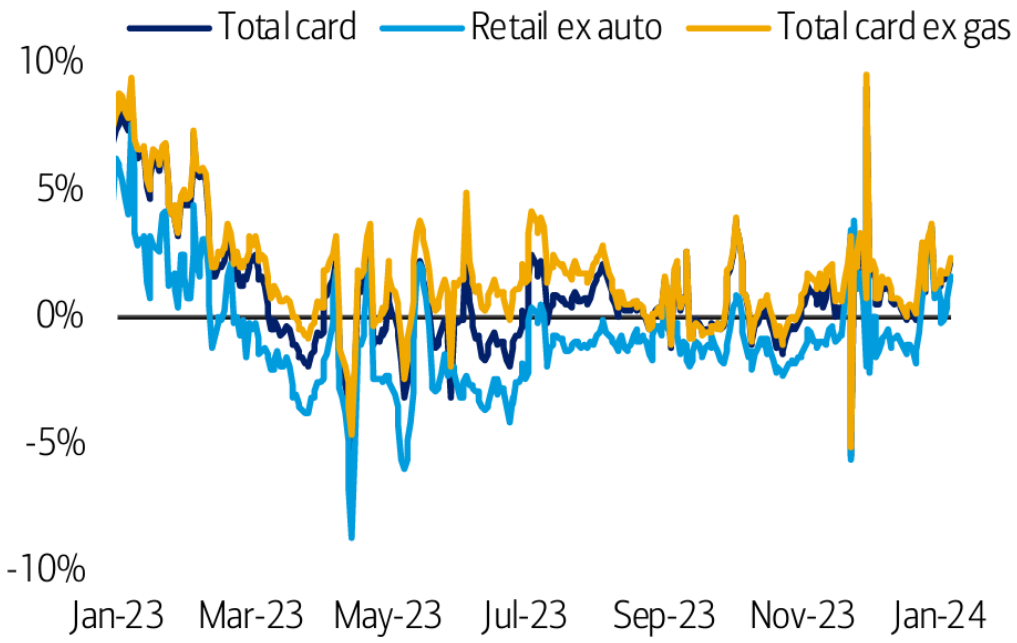
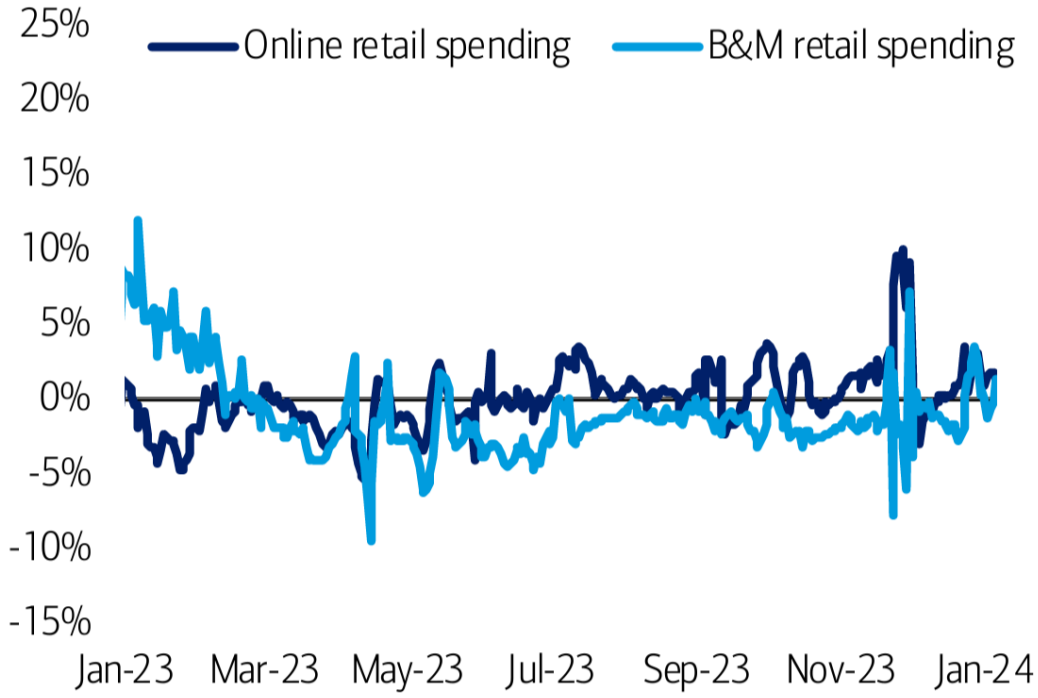
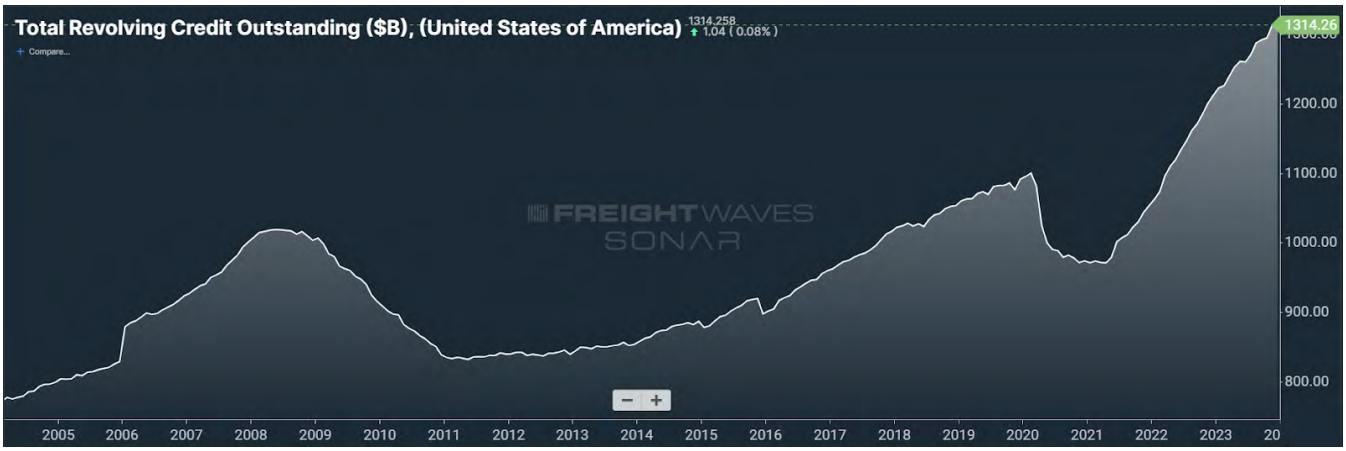



**FIGURE 2:** E-COMMERCE ACTIVITY OUTPACED 2022 FOR MUCH OF Q4, WEIGHING ON BRICK-AND-MORTAR SPENDING

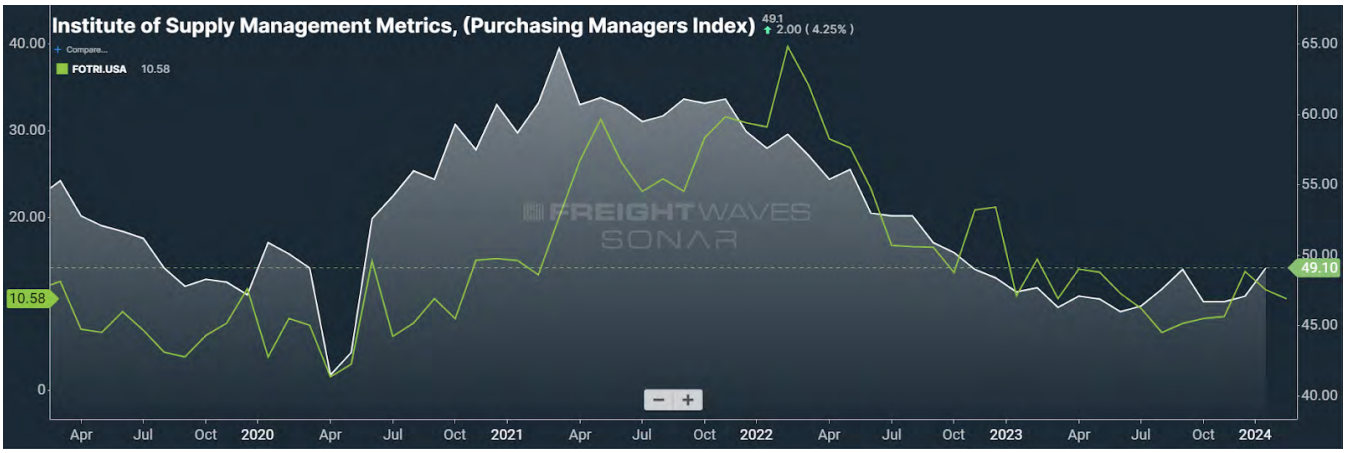


## **FIGURE 3:** U.S. CONSUMERS CONTINUE TO ACCUMULATE REVOLVING CREDIT DEBT AT A RAPID CLIP, GREATLY OUTPACING PRE-PANDEMIC LEVELS




(CHART: FREIGHTWAVES SONAR, TOTAL REVOLVING CREDIT OUTSTANDING {IN BILLION USD})

## **FIGURE 4:** THE U.S. INDUSTRIAL ECONOMY SUFFERS CONTRACTION




(CHART: FREIGHTWAVES SONAR, PURCHASING MANAGERS' INDEX {WHITE; RIGHT AXIS} COMPARED TO THE NATIONAL FLATBED OUTBOUND TENDER REJECT INDEX {GREEN; LEFT AXIS})

## **FIGURE 5:** FREIGHT MARKET KEY METRICS FROM PREVIOUS SEVEN QUARTERS

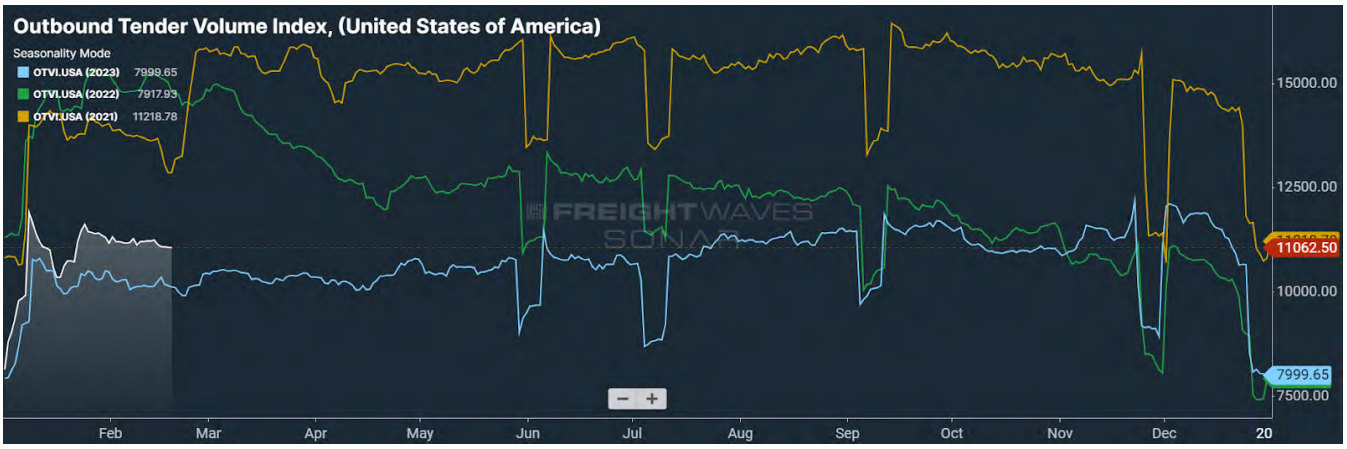
| DAILY AVERAGES | | | | | | | |
|---|---|---|---|---|---|---|---|
| **METRIC** | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Tendered Load Volumes Index **OTVI.USA** | 12,671.64 | 12,140.68 | 10,533.16 | 10,160.53 | 10,479.25 | 10,996.01 | 10,909.19 |
| Tender Rejection Rate **OTRI.USA** | 9.23% | 6.13% | 4.55% | 3.79% | 3.01% | 3.67% | 4.00% |
| Inbound Ocean TEUs Index **IOTI.USA** | 1,705.74 | 1,614.97 | 1,358.85 | 1,240.02 | 1,327.57 | 1,536.25 | 1,479.10 |
| National Truckload Index* **NTI.USA** | $2.95 | $2.75 | $2.61 | $2.48 | $2.23 | $2.26 | $2.27 |

*INCLUSIVE OF FUEL

| DAILY AVERAGES (QoQ Change) | | | | | | | |
|---|---|---|---|---|---|---|---|
| **METRIC** | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| Tendered Load Volumes Index **OTVI.USA** | -11.4% | -4.2% | -13.2% | -3.5% | 3.1% | 4.9% | -0.8% |
| Tender Rejection Rate **OTRI.USA** | -51.4% | -33.6% | -25.8% | -16.7% | -20.6% | 21.9% | 9.0% |
| Inbound Ocean TEUs Index **IOTI.USA** | -8.9% | -5.3% | -15.9% | -8.7% | 7.1% | 15.7% | -3.7% |
| National Truckload Index* **NTI.USA** | -13.7% | -6.8% | -5.1% | -5% | -10.1% | 1.3% | 0.4% |

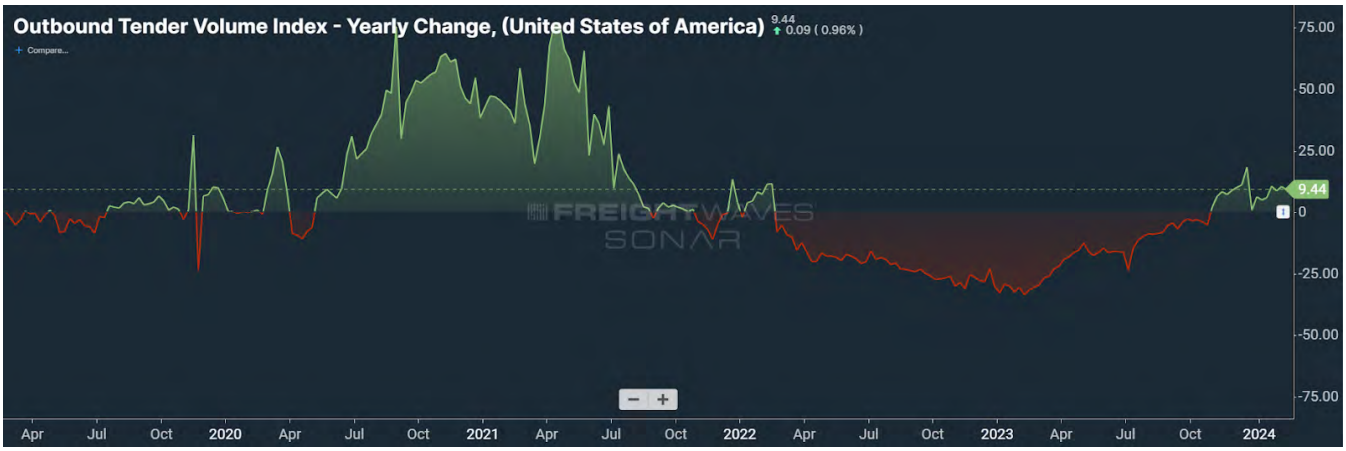
*INCLUSIVE OF FUEL

## **FIGURE 6:** NATIONAL OUTBOUND TENDER VOLUME INDEX




(CHART: FREIGHTWAVES SONAR, NATIONAL OUTBOUND TENDER VOLUME INDEX YTD 2024 {WHITE}, COMPARED TO FULL-YEAR 2023 {BLUE}, 2022 {GREEN} AND 2021 {ORANGE})

**FIGURE 7:** NATIONAL OUTBOUND TENDER VOLUME INDEX — YEAR-OVER-YEAR PERCENTAGE CHANGE




(CHART: FREIGHTWAVES SONAR, NATIONAL OUTBOUND TENDER VOLUME INDEX SHOWN AS A YEARLY PERCENT CHANGE)

> **2024 is shaping up to follow traditional seasonal patterns, with demand growing throughout the year. The gap between spot and contract rates is closing, TL and LTL are approaching equilibrium (a sign of a market correction), import volumes are strong and carrier revocations (capacity leaving the marketplace) are increasing. These signs point to an inflection point in the market at some point in 2024.**
>
> **Bryce Williford**
> Senior Vice President of 3PL Services, BlueGrace Logistics

# Q4 2023 U.S. Bank Freight Payment Index — Our Takeaways

## NATIONAL SHIPMENTS AND SPEND INDEX PERFORMANCES

In the fourth quarter of 2023, freight markets suffered from continued softness in shipment volumes that frustrated the abundant capacity remaining. Shippers of all stripes, though especially retailers, neared the end of their inventory drawdowns in Q4, exerting short-term downward pressure on freight demand. This pressure was actually beneficial to the health of freight markets headed into 2024, however, for two reasons. First, carriers that endured a less-than-profitable holiday season are more likely to exit the marketplace during Q1's quiet season. Federal Motor Carrier Safety Administration data on the net changes of carrier authorities [Fig. 12] shows that a greater number of carriers have left the industry than have entered every month since October 2022, despite the fact that many owner-operators tend to let their authorities quietly expire rather than bother with official revocation.

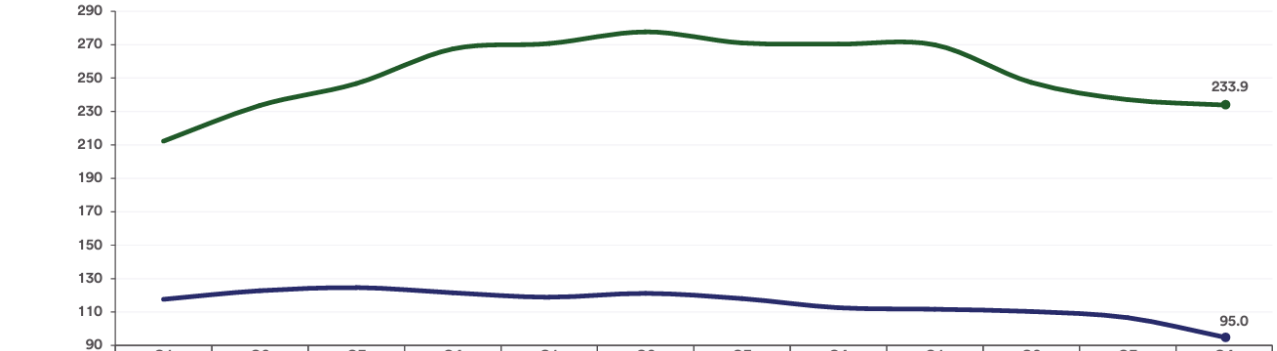
Second, a lean approach to inventory management is more susceptible to unforeseen disruptions, whether from a sudden drop in carriers' supply or a surge in consumer demand. In order for these tailwinds to develop, it was first necessary for shippers to withhold potential freight from the market. It is little surprise, then, that the U.S. Bank National Shipments Index tumbled 10.9% on a quarterly basis. Compared to 2022, fourth-quarter shipments fell 15.7%, marking both the seventh consecutive quarter with a year-over-year decline, and the largest such in that period.

We believe that the volume of freight shipments will finally reverse course and show signs of expansion in the first quarter of 2024, which faces highly favorable comps on a yearly basis. The quiet season of 2023 was true to form, weighed down by weak manufacturing sentiment, a lull in imports, and late-winter storms and flooding that reduced crop yields in California. Data from the first quarter draws a sharp contrast: Manufacturers are once again reporting an uptick in new orders, imports are surging from China and elsewhere, and the produce season shows early signs of health.

Reflecting the soft freight environment of Q4, the U.S. Bank National Spend Index fell on both a quarterly and yearly basis. The index contracted 1.4% from the previous quarter, albeit at a slower rate than before: Q3's 4.2% quarterly decline was nearly three times that of Q4's contraction. Given the overabundance of capacity lingering in the market, carriers have seen their pricing power weaken, which the National Spend Index's 13.5% yearly decline clearly reflects.

The outlook for freight spending in the coming quarter is somewhat unclear. Spot rates are poised to see their first significant growth since 2021, helped by easy comps and unseasonal tightness. Yet the majority of freight moves under contract. Contract rates for the coming year are, at the time of writing, still being determined in a bid season that lasts from October to February. Whether shippers elect to exercise it or not, this bid season will likely be the last opportunity of the cycle for them to use their substantial pricing power in negotiating contract rates. Given these mixed signals, we expect an appreciable decline in spending on a yearly basis and a more modest decline — or even a slight uptick — from Q4.

## **FIGURE 8:** U.S. BANK SHIPMENT AND SPEND INDEXES (2020-2023 YTD)




| | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Spend | 212.2 | 233.6 | 246.8 | 267.5 | 270.7 | 277.6 | 271.0 | 270.4 | 269.9 | 247.4 | 237.1 | 233.9 |
| Shipments | 117.5 | 122.7 | 124.6 | 121.6 | 118.9 | 121.1 | 118.0 | 112.6 | 111.7 | 110.3 | 106.6 | 95.0 |

### Q4 2023 National Freight Market Overview

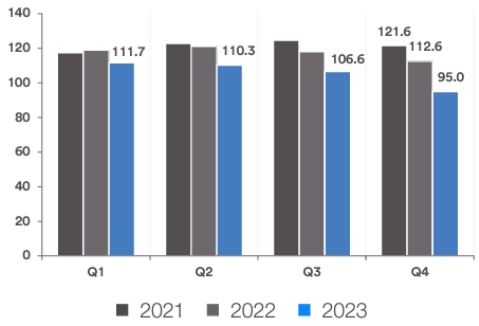
Source: U.S. Bank

| Shipments | |
|---|---|
| Index value | 95.0 |
| Quarterly % change | -10.9% ▼ |
| Yearly % change | -15.7% ▼ |

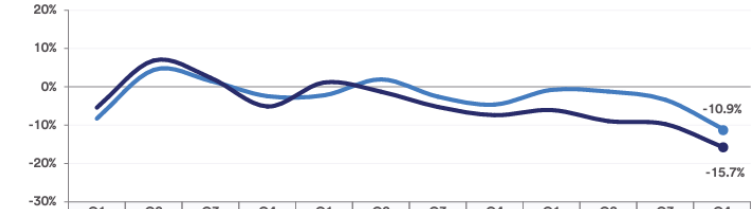
| Spend | |
|---|---|
| Index value | 233.9 |
| Quarterly % change | -1.4% ▼ |
| Yearly % change | -13.5% ▼ |

## **FIGURE 9:** U.S. BANK SHIPMENT AND SPEND INDEXES (2021-2023 QUARTERLY PERFORMANCE)

**Shipments – index value**

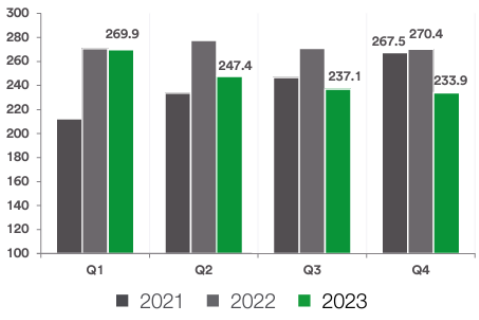



**Shipments – % change**

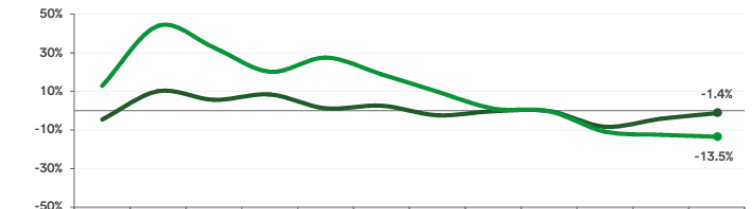



| | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| QoQ | -8.3% | 4.4% | 1.5% | -2.4% | -2.2% | 1.9% | -2.6% | -4.6% | -0.8% | -1.2% | -3.4% | -10.9% |
| YoY | -5.4% | 6.8% | 2.4% | -5.1% | 1.1% | -1.3% | -5.3% | -7.4% | -6.1% | -9.0% | -9.7% | -15.7% |

**Spend – index value**




**Spend – % change**




| | Q1 2021 | Q2 2021 | Q3 2021 | Q4 2021 | Q1 2022 | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| QoQ | -4.7% | 10.1% | 5.6% | 8.4% | 1.2% | 2.6% | -2.4% | -0.2% | -0.2% | -8.3% | -4.2% | -1.4% |
| YoY | 12.8% | 44.0% | 32.6% | 20.2% | 27.5% | 18.8% | 9.8% | 1.1% | -0.3% | -10.9% | -12.5% | -13.5% |

Source: U.S. Bank

## REGIONAL SHIPMENTS AND SPEND INDEX PERFORMANCES

Regional shipment performance was negative across the board on both a quarterly and yearly basis, though to varying degrees. The West Regional Shipments Index dipped 2.9% from the previous quarter, its fall cushioned by high produce activity in the Pacific Northwest and a modest volume of imports in Southern California. That said, it was among the worst performers on a yearly basis, tumbling 16.3%.

The West is a bellwether for freight markets: Thanks to the import boom at the ports of Long Beach and Los Angeles, it heralded the start of the industry's rally back in 2020. On the other hand, it was also the first to betray significant weakness in 2022. Given the troubles plaguing the Suez and Panama canals, as well as the resolution of 2023's labor uncertainty, ports in Southern California are once again highly attractive to global markets.

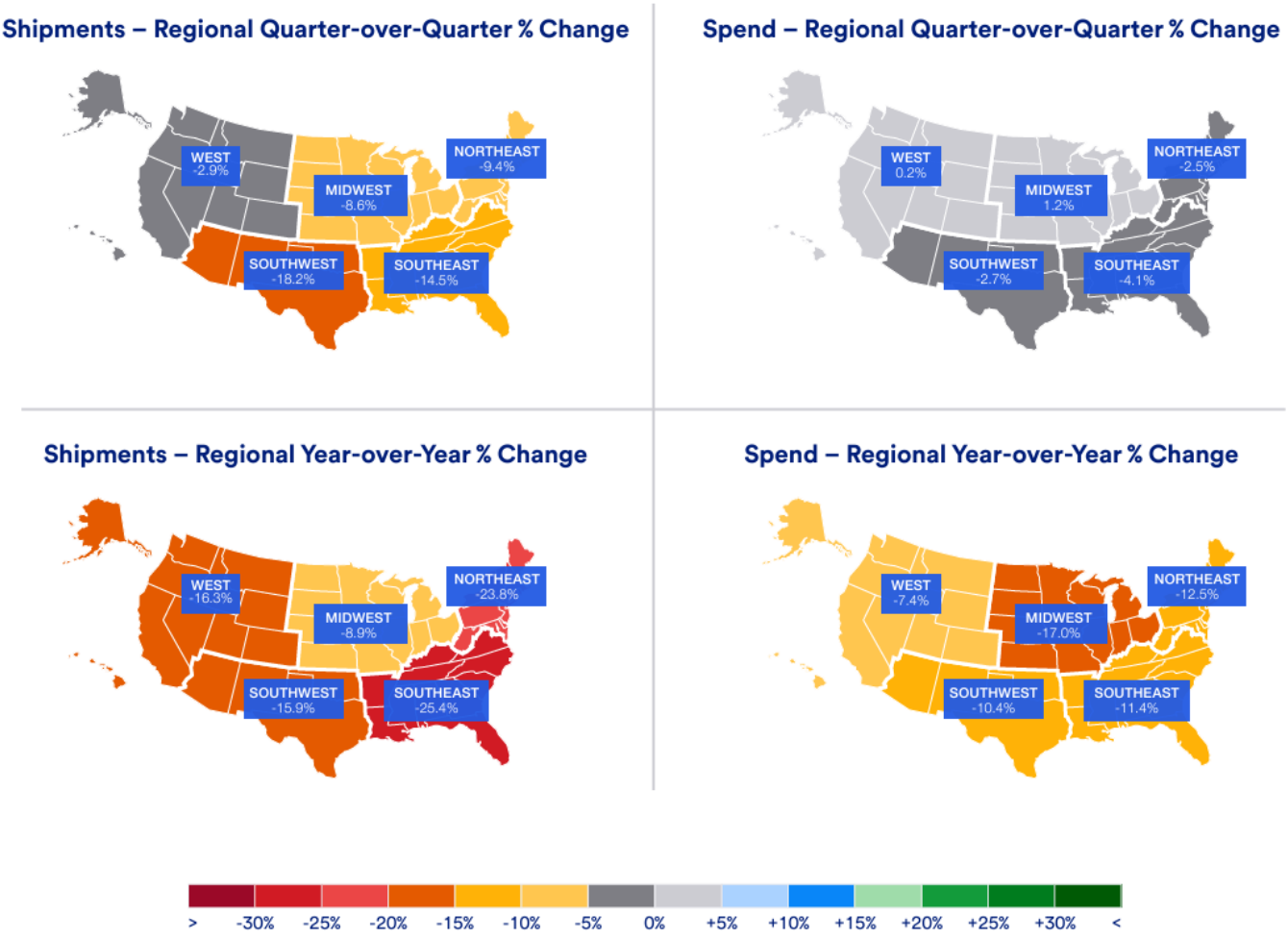
Despite being primed for long-term growth from increasing cross-border trade with Mexico and the development of Phoenix as a logistics hub, the Southwest Regional Shipments Index fell 18.2% on a quarterly basis and 15.9% year over year. Retail and home sales alike fell in the region during the quarter, a headwind that is expected to persist into the first half of 2024 at least.

The Midwest gave a middling performance in Q4, weighed down by weakness in the manufacturing sector, sluggish activity in housing markets and dampened spending by consumers. The Midwest Regional Shipments Index accordingly fell 8.6% from Q3 and 8.9% from Q4 2022. A recent uptick in manufacturing activity, helped also by the resolution of last quarter's strike by the United Auto Workers, could spur net growth in the Midwest region as soon as the first half of 2024.

The Northeast and Southeast regions had the dubious distinction of suffering the largest yearly declines in volumes, with their respective Regional Shipments Indexes down 23.8% and 25.4%. The Northeast Regional Shipments Index, which declined 9.4% on a quarterly basis, was damaged by a lack of maritime imports at the Port of New York and New Jersey, which ceded its brief primacy to the Port of Los Angeles in the quarter. The Southeast Regional Shipments Index, which slid 14.5% on a quarterly basis, struggled to contend with a shift in consumer spending to services rather than freight-intensive goods.

On a yearly basis, freight spending fell across all regions as the long-awaited holiday bump was somehow more anemic in 2023 than in 2022. Yearly declines in regional spend indexes ranged from 7.4% in the West to 17% in the Midwest. At the same time, these two regions were the only ones to see growth in spending over the previous quarter: The West Regional Spend Index was up 0.2% on a quarterly basis, while the Midwest Regional Spend Index rose 1.2%, both helped in part by rising diesel prices.

**FIGURE 10:** U.S. BANK REGIONAL SHIPMENT AND SPEND INDEXES' Q4 PERFORMANCE (QUARTER OVER QUARTER AND YEAR OVER YEAR)




Source: U.S. Bank

**Throughout 2023, our Index consistently revealed significant declines in spending by shippers. While spending dropped again in the fourth quarter, we are seeing indications that might suggest trucking supply is coming into balance with demand.**

**Bobby Holland**
Director of Freight Business Analytics, U.S. Bank.

# Q4 2023 Review of Truck Capacity (Supply)

In line with Q3's streak-disrupting trend, shippers again found capacity more difficult to secure in the fourth quarter than in the previous one. As was the case with Q3, these gains in tender rejections were slight on a grand scale, unable as they were to effect drastically higher spot rates. In fact, excepting late December's traditional rise in tender rejections, carrier compliance was virtually unchanged from Q3 to Q4. Still, any sign of improvement — no matter how small — is further evidence that freight markets are gaining distance from the cycle's floor.

In the weeks before Christmas, rejection rates did tick upward to an appreciable degree, topping out at 5.6% of contracted loads being rejected. Compared to Q4's average of 4%, such a gain is welcome to carriers. But this high was not only unable to match December 2022's peak, it is barely comparable to tender rejection rates in a normal market — that is, in a market undergoing neither expansion nor contraction that is also outside the influence of seasonal factors like holidays.

Tender rejections are primarily driven by two forces. The first, and most common, scenario occurs when carriers abandon their previously contracted freight to pursue higher-paying opportunities in spot markets. Yet, despite the noteworthy decline in contract rates in Q4 and the slight improvement in spot rates, the spread between the two rates remains considerably wider than is normal. As such, the contract space was still more favorable to carriers last quarter, incentivizing carrier compliance.

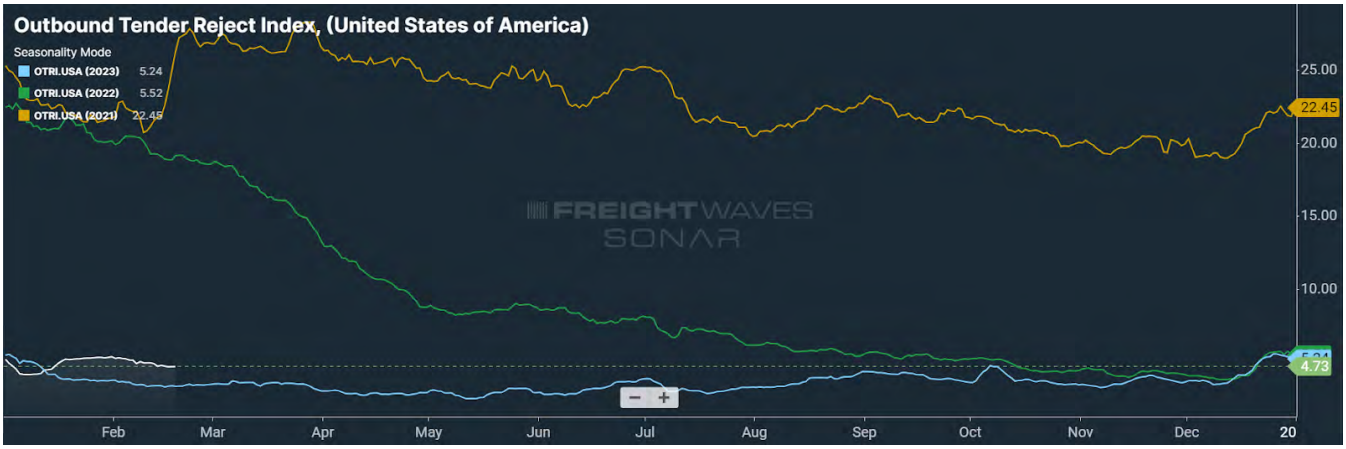
The second factor behind rising tender rejection rates is just a plain lack of capacity caused by market volatility. Such volatility can take more than a few forms: Holidays tend to drive up tender rejections as carriers elect to remain off the roads and spend time away from work. Q4 was host to the three most noteworthy holidays around which tender rejections spike: namely, Thanksgiving, Christmas and New Year's Eve. The gains around Thanksgiving were insubstantial and quickly lost, though tender rejections did rise consistently in anticipation of Christmas and New Year's Eve.

Looking forward to the first quarter of 2024, there are signs that a significant exodus of carriers is already underway. According to data from the FMCSA [Fig. 12], the net change in the number of trucking authorities has been consistently negative since October 2022. Before the current cycle, the month in which the largest number of carriers left the industry without replacement was November 2016, which saw a net loss of 329 authorities. Over six times that number vanished in November 2023, which posted a net loss of 2,087 authorities.

This data does not even capture the full scope of the capacity runoff currently taking place, however. FMCSA requirements state that interstate carriers must renew their authorities every two years. Since it is not uncommon for carriers to exit the industry only temporarily — that is, only until the next upturn occurs — many of those leaving do not bother with official revocation. Instead, they either renew their authorities if the industry is booming or else let it expire quietly. This behavior implies a lag of up to two years to effectively measure the amount of capacity leaving the marketplace.

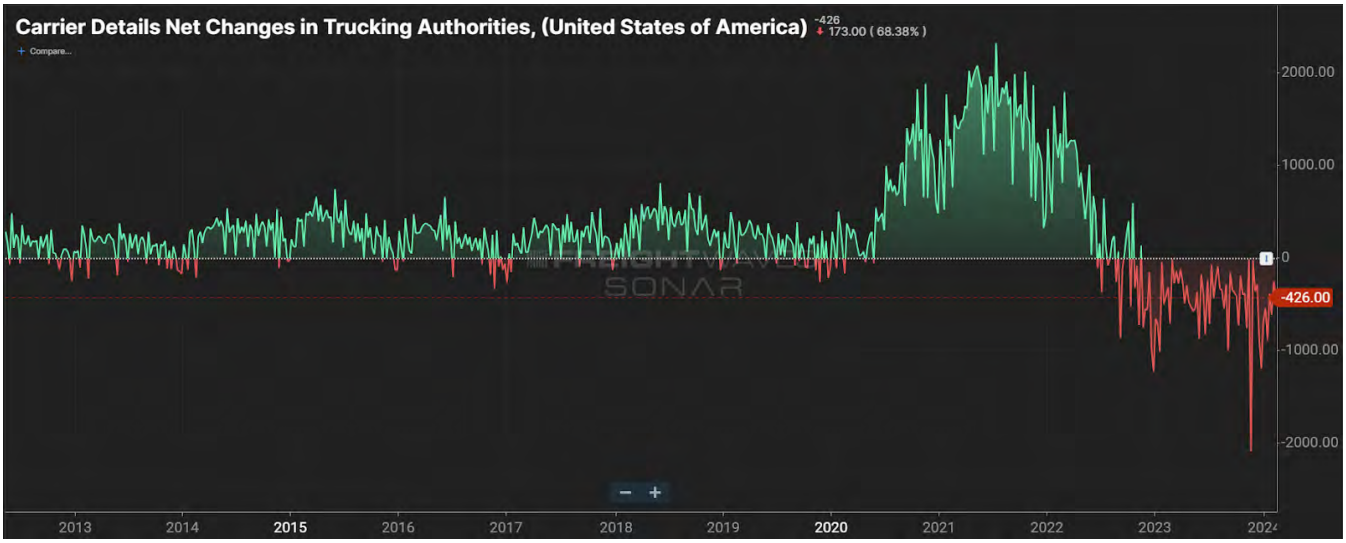
In short, capacity is likely to become more difficult to secure in the first quarter of 2024, despite the absence of major seasonal pressures. A relative lack of freight activity in the quiet season should provide ample reason for excess capacity to leave the marketplace, especially since rising operational costs eat away at ever-thinning margins. Even so, the worst-case scenario for shippers is that tender rejection rates return to their average range of 5% to 7% as is consistent with market normalization.

## **FIGURE 11:** NATIONAL OUTBOUND TENDER REJECT INDEX




(CHART: FREIGHTWAVES SONAR, NATIONAL OUTBOUND TENDER REJECT INDEX YTD 2024 {WHITE}, COMPARED TO FULL-YEAR 2023 {BLUE}, 2022 {GREEN} AND 2021 {ORANGE})

## **FIGURE 12:** NET CHANGES IN TRUCKING AUTHORITIES




(CHART: FREIGHTWAVES SONAR, NET CHANGES IN TRUCKING AUTHORITIES)

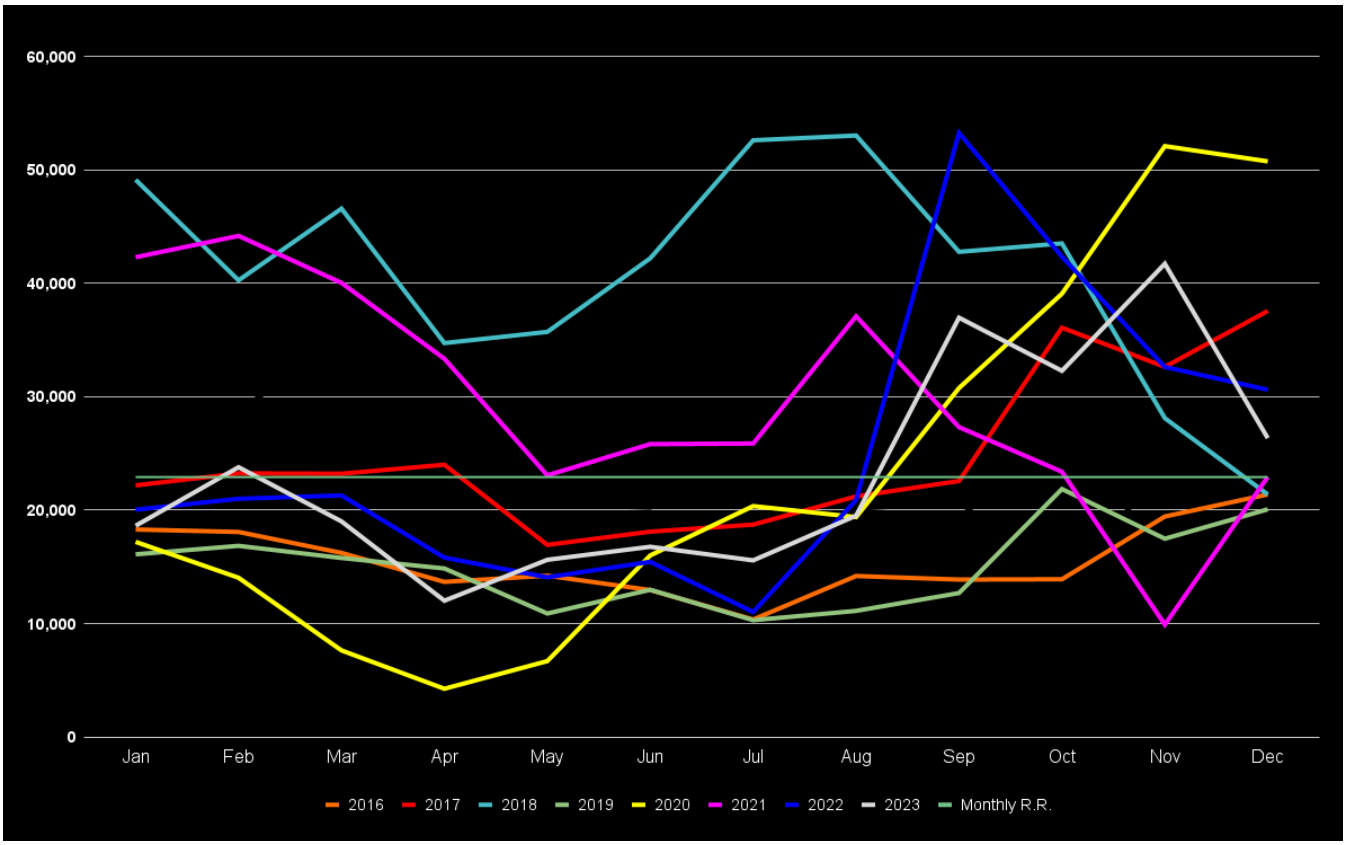
## CAPACITY — NEW CLASS 8 TRUCK ORDERS

Compared to 2022, bookings of new Class 8 truck orders in the fourth quarter fell by an average of 5%. This slight decline is more indicative of OEMs' cautious approach to satisfying pent-up demand than of any significant weakness in customers' appetites. According to comments by analysts at ACT Research, private fleets are driving the vast majority of pent-up demand given the sustained weakness in carrier rates. While OEMs are bracing for weak demand in 2024, there is a chance that vocational trucks needed for construction and oil production could act as a support pillar in the year to come. Investments in manufacturing are heavily incentivized by legislation like the CHIPS and Science Act and the Inflation Reduction Act.

Although there is a risk that OEMs' backlogs, which are still of considerable length, mask a slowdown in new orders, OEMs vehemently deny any such weakness. Their primary customer bases, they argue, are enterprise and private fleets that cannot afford to ignore aging equipment. More importantly, OEMs claim order cancellations are still low.

Thanks mainly to a pickup in orders seen in the back half of the year, OEMs finished 2023 with a total of 278,267 orders — a figure just sufficient to meet ACT Research's estimate of replacement demand, which sits at 275,000.

**FIGURE 13:** NEW CLASS 8 TRUCK ORDERS (ACT RESEARCH)




Source: ACT Research, FreightWaves

## **FIGURE 14:** NEW CLASS 8 TRUCK ORDERS — ABSOLUTE MONTHLY VALUES (2016-2023)

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Y/Y | M/M |
|---|---|---|---|---|---|---|---|---|---|---|
| **JAN** | 18,297 | 22,188 | 49,136 | 16,105 | 17,204 | 42,307 | 21,041 | 18,624 | -7.1% | -39.2% |
| **FEB** | 18,078 | 23,245 | 40,271 | 16,854 | 14,040 | 44,190 | 21,006 | 23,790 | 13.3% | 27.7% |
| **MAR** | 16,233 | 23,215 | 46,593 | 15,783 | 7,632 | 40,049 | 21,301 | 19,010 | -11% | -20.1% |
| **APR** | 13,676 | 24,007 | 34,735 | 14,859 | 4,251 | 33,353 | 15,820 | 12,016 | -24% | -36.8% |
| **MAY** | 14,224 | 16,940 | 35,721 | 10,886 | 6,690 | 23,072 | 14,081 | 15,623 | 11% | 30% |
| **JUN** | 12,955 | 18,104 | 42,213 | 12,979 | 16,010 | 25,824 | 15,444 | 16,773 | 8.6% | 7.4% |
| **JUL** | 10,358 | 18,726 | 52,618 | 10,298 | 20,359 | 25,876 | 11,025 | 15,573 | 41.3% | -7.2% |
| **AUG** | 14,194 | 21,213 | 53,040 | 11,119 | 19,389 | 37,096 | 20,892 | 19,513 | -6.6% | 25.3% |
| **SEP** | 13,880 | 22,573 | 42,781 | 12,692 | 30,768 | 27,323 | 53,271 | 36,974 | -30.6% | 89.5% |
| **OCT** | 13,907 | 36,092 | 43,526 | 21,864 | 39,089 | 23,391 | 42,359 | 32,287 | -23.8% | -12.7% |
| **NOV** | 19,440 | 32,637 | 28,114 | 17,483 | 52,104 | 9,902 | 32,630 | 41,732 | 27.9% | 29.3% |
| **DEC** | 21,386 | 37,569 | 21,381 | 20,073 | 50,760 | 22,937 | 30,623 | 26,352 | -13.9% | -36.9% |
| | **186,628** | **296,509** | **490,129** | **180,995** | **278,296** | **355,320** | **298,493** | **278,267** | | |
| Y/Y CHANGE | -35.59% | 58.88% | 65.30% | -63.07% | 53.76% | 27.68% | -15.99% | -6.78% | | |
| MONTHLY AVG | 15,552 | 24,709 | 40,844 | 15,082 | 23,191 | 29,610 | 24,874 | 23,189 | | |
| ANNUALIZED | 186,628 | 296,509 | 490,129 | 180,995 | 278,296 | 355,320 | 298,493 | 278,267 | | |
| REPL. RATE | 275,000 | 275,000 | 275,000 | 275,000 | 275,000 | 275,000 | 275,000 | 275,000 | | |
| MONTHLY R.R. | 22,917 | 22,917 | 22,917 | 22,917 | 22,917 | 22,917 | 22,917 | 22,917 | | |
| SHORTFALL (OVERCAPACITY) | 4% | -1% | -9% | 4% | 0% | -3% | -1% | 0% | | |

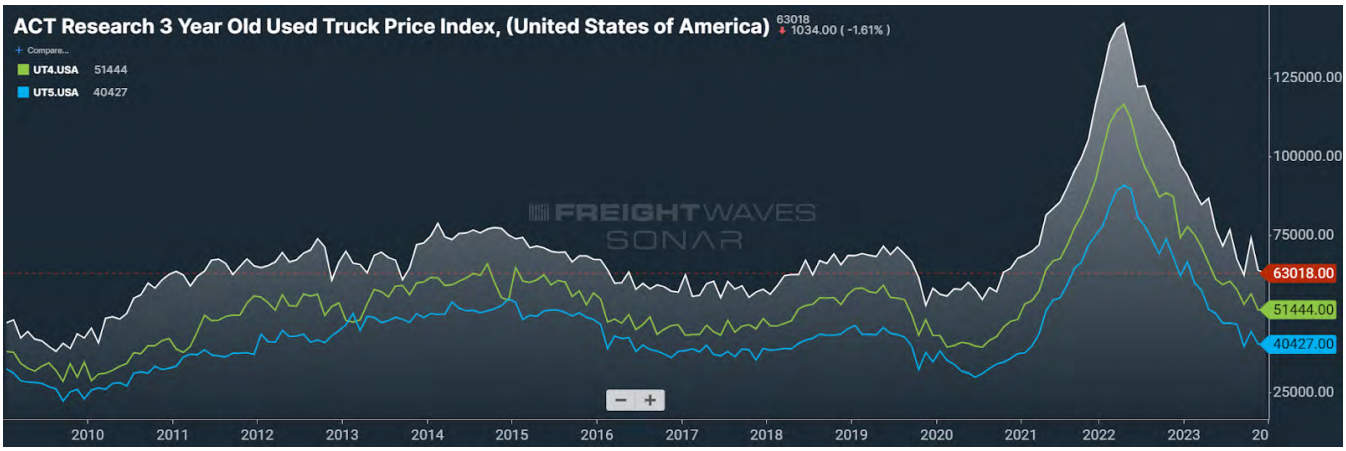
Source: ACT Research, FreightWaves

### CAPACITY — USED TRUCK PRICES

Prices of used trucking units continued to moderate in Q4 as the inhospitable spot market environment rebuffed new drivers from entering the industry and compelled some existing carriers to relinquish their authorities (and thus sell their equipment). In fact, used truck prices fell below 2019 levels — an incredible feat, considering the 20% rate of broad inflation over that period. The initial rise in used truck prices seen in 2021 was a result of record-high spot rates tempting new recruits at a time when fulfillment of new Class 8 truck orders was constrained by component shortages.

As can be seen in the graph below, the rapid appreciation of the past two years was not only unprecedented but also unsustainable. Given the current market downturn, used prices are falling off their highs as those carriers exiting the industry struggle to recoup their investments. There is apparently little room for these prices to fall any further, given that they are already near the lows of 2017-18, but recent trends suggest that used truck prices will continue to decline regardless.

## **FIGURE 15:** ACT RESEARCH USED TRUCK PRICES




(CHART: FREIGHTWAVES SONAR, ACT RESEARCH PRICE FOR 3-YEAR-OLD TRUCKS {WHITE}, 4-YEAR-OLD TRUCKS {GREEN} AND 5-YEAR-OLD TRUCKS {BLUE})

## **FIGURE 16:** AVERAGE USED TRUCK PRICES BY QUARTER

| AVERAGE USED TRUCK PRICES BY AGE | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Q2 2022 | Q3 2022 | Q4 2022 | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 |
| 3 years old | **$132,757** | **$116,899** | **$103,709** | **$89,398** | **$78,571** | **$68,970** | **$67,078** |
| 4 years old | **$110,559** | **$92,114** | **$83,491** | **$74,844** | **$62,297** | **$57,198** | **$53,115** |
| 5 years old | **$87,238** | **$73,624** | **$68,095** | **$61,426** | **$49,675** | **$44,629** | **$41,845** |

Source: ACT Research, FreightWaves

# Q4 2023 Review of Load Volumes (Demand)

After freight demand proved remarkably constant in the final weeks of Q3, tender volumes began to slide in October. This weakness was not a strict indication that the industry's nascent recovery had stalled. Rather, it was a highly seasonal trend that appears in even the most booming years of freight demand, including 2020 and '21. Nevertheless, October was a month in which several warning signals were broadcast, such as those concerning consumer confidence and manufacturing activity.

Throughout Q4, shippers of all stripes were primarily focused on concluding the final stages of their inventory burn-offs, not on plying freight markets with fresh volumes. This broad shift from a "just-in-case" to a "just-in-time" inventory strategy was made possible by the overabundance of cheap capacity in the spot market, which serves as a safety net guarding against potential disruptions to contracted loads.

In the first week of October, China halted or significantly slowed operations in its manufacturing and distribution hubs during the country's celebration of Golden Week. From Sept. 26 to Oct. 6, booked volumes to the U.S. from all ports — not just China's — tumbled by more than 37% before recovering from the holiday. It is worth noting that these bookings preceded the vessels' actual date of departure by roughly nine days, that transit times to the U.S. averaged over 27 days and that port delays (whether at the shipping or receiving ports, or both) averaged a little under four days.

Barring any major congestion at the ports of discharge, the above figures imply that Golden Week's disruption to the flow of U.S. imports was not felt until approximately six weeks after the holiday. This 40-day lag left these imports with less than a week to move before Thanksgiving Day, contributing to November's strong performance that mirrored the month's growth in 2020.

But November's encouraging growth was not brought about solely by the surge in Chinese imports. Consumers proved more than willing to assist retailers' destocking efforts during the month's sales events, including Black Friday and Cyber Monday. According to data from Adobe Analytics, spending on Cyber Monday alone was up 9.6% over 2022 at $12.4 billion, as the top-selling categories trended more toward big-ticket items over smaller purchases. Such demand growth for durable goods is unambiguously positive for truckload markets, especially as the replacement cycle begins for durable goods purchased in the 2020-21 boom.

Following a predictable slump after Thanksgiving, shipper activity began December with surprising vigor, with freight demand remaining more or less stable in the first half of the month. This trend was in stark contrast to previous years, when tender requests suffered a more dramatic seasonal dip. In fact, if considering only accepted tenders that constitute the actual flow of freight, volumes began to outpace 2020 in mid-December and came within reach of 2021 — the industry's best year on record. Naturally, however, the back half of the month saw freight demand plummet amid the holiday closures of logistics facilities.

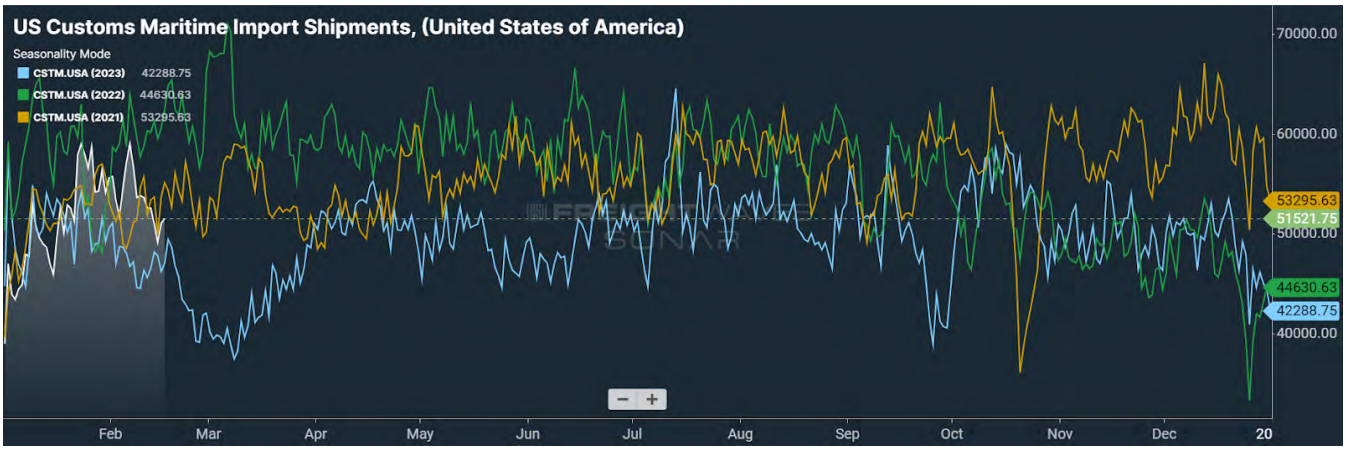
Turning to the ocean, maritime markets were, and continue to be, defined by rising geopolitical tensions. The outbreak of war between Israel and Hamas threatened to portend a broadening scope of military action in the Middle East. Iran-backed Houthi rebels from Yemen launched a series of attacks on, and hijackings of, commercial vessels in the Red Sea, beginning in November. These indiscriminate attacks forced virtually all container ships to avoid the Suez Canal and instead reroute around the Cape of Good Hope, driving up transit times and carrier rates.

While ocean shipments to and from the U.S. are normally unaffected by the Red Sea crisis, a prolonged drought at the Panama Canal — worsened by Panama's driest October on record — severely restricted the number of transits permitted, limiting access between Asia and the East Coast. This drought caused two out of the three global container shipping alliances to reroute their services from the Panama Canal to the Suez Canal, and then eventually to divert around the Cape of Good Hope. As traffic continues to be restricted at these two important bottlenecks, it is likely that some volumes bound from Asia to the East Coast will instead arrive at West Coast ports, feeding intermodal and truckload demand at those origins.

Preliminary data suggests that West Coast ports are starting the year at a confident pace. China's celebration of Lunar New Year, which began in mid-February and lasts two weeks, consistently dampens maritime activity as the country shuts down its manufacturing and export facilities during the holiday. In most years, bookings rise substantially in the run-up to Lunar New Year. Not so in 2023, when bookings failed to match even the anemic levels of the previous December. Thankfully, 2024 appears to be a return to normalcy in this regard: The Port of Los Angeles recently posted its second-best January on record, surpassed only by January 2022, which was fueled by pandemic-related spending.

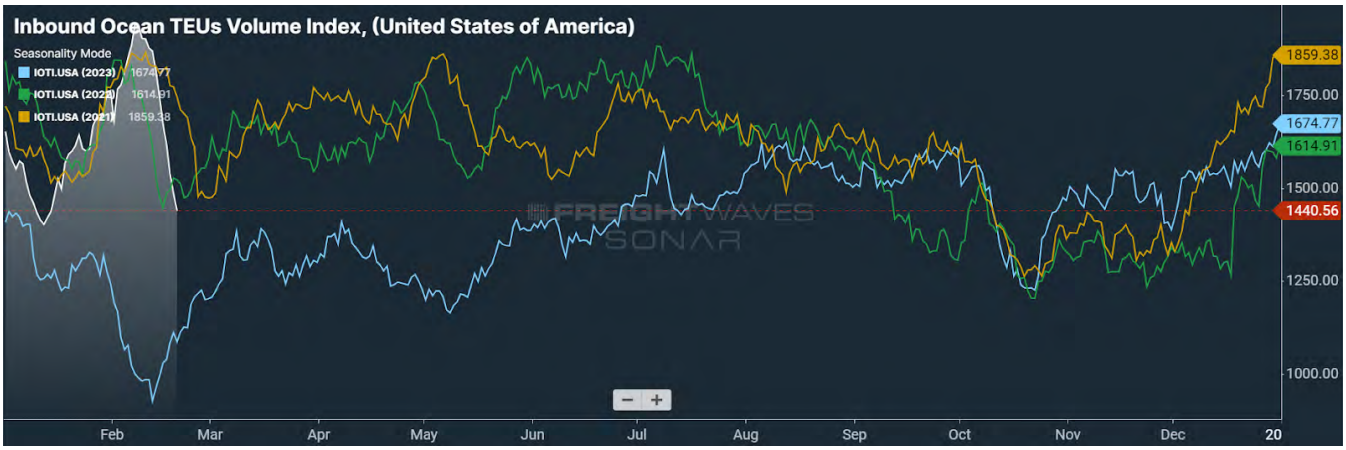
When the Lunar New Year-induced lull of Chinese imports does finally reach the U.S., there is good reason to believe that this weakness will be covered by existing import volumes at port warehouses and distribution centers. Demand from the onset of produce season, which begins in Texas and Florida before centering around California in the late spring, will also be a tailwind.

## **FIGURE 17:** U.S. CUSTOMS MARITIME IMPORT SHIPMENTS




(CHART: FREIGHTWAVES SONAR, CONTAINERIZED AND NONCONTAINERIZED U.S. CUSTOMS MARITIME IMPORT SHIPMENTS YTD 2024 {WHITE}, COMPARED TO FULL-YEAR 2023 {BLUE}, 2022 {GREEN} AND 2021 {ORANGE})

## **FIGURE 18:** INBOUND OCEAN TEUS VOLUME INDEX




(CHART: FREIGHTWAVES SONAR, INBOUND OCEAN TEUs VOLUME INDEX BY DEPARTURE DATE FROM THE ORIGIN PORT YTD 2024 {WHITE}, COMPARED TO FULL-YEAR 2023 {BLUE}, 2022 {GREEN} AND 2021 {ORANGE})

# Review of Trucking Rates

In shippers' continued pursuit to exercise their abundance of pricing power, contract rates declined throughout the quarter, defying seasonal norms. After experimenting with monthly and quarterly "minibids" during the most volatile periods of the prior boom, the vast majority of shippers have returned to the standard yearly bid cycle. This bid season traditionally lasts from October to February, and its effects are not typically apparent until mid-January.

Even in bid seasons favorable to shippers, gains made around the winter holidays are normally sufficient to offset any rate declines in a quarterly average. It is thus rare to see contract rates decline from Q3 to Q4. Yet Thanksgiving did not bring about any gains worth mentioning, and contract rates hit their yearly low in mid-December. While they did rally at the end of the year, their peak only reached levels last seen in May. Predictably, these holiday gains evaporated by the second week of January.

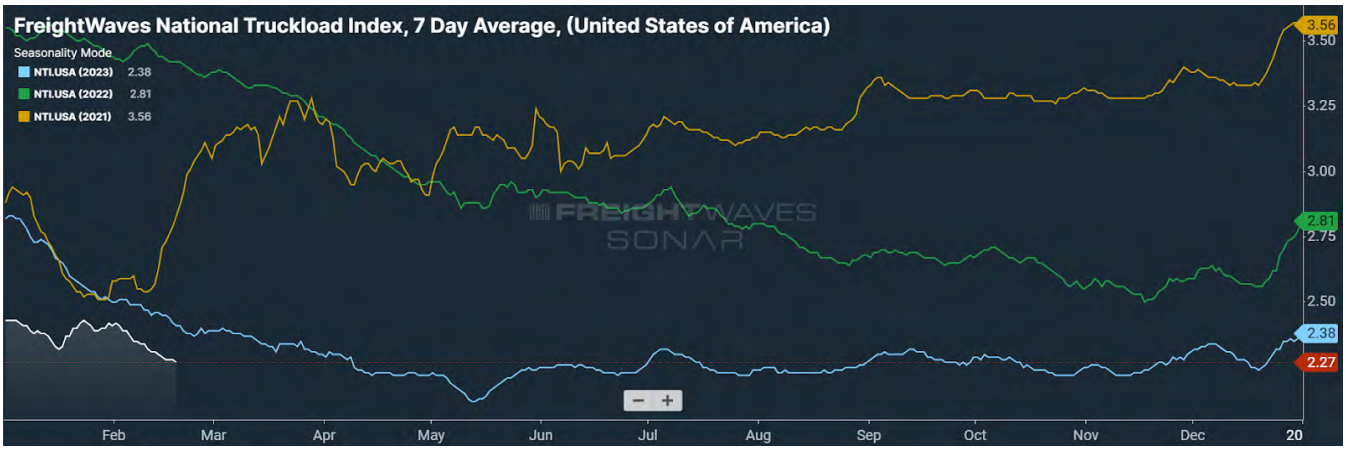
Throughout the fourth quarter, contract rates — which are exclusive of fuel and other accessorials — averaged $2.34 per mile. Contract rates therefore fell by an average of 1.3% from Q3, in line with our previous forecast that they would decline 1% to 3% on a quarterly basis.

Spot rates' Q4 performance was similar to that of contract rates, save for the fact that spot rates were able to maintain their post-Thanksgiving upward momentum for a few weeks before falling in mid-December. That said, spot rates never came close to approaching May's yearly low, which we continue to believe is the absolute floor of this rate cycle.

Furthermore, the National Truckload Index (NTI) — a seven-day moving average of national dry van spot rates that is inclusive of fuel and other accessorials — struggled against the headwind of falling diesel prices. Diesel is often the largest expense for owner-operators: When diesel prices rise, the rate at which owner-operators exit the industry tends to accelerate. Large enterprise fleets, which have access to diesel at wholesale prices, can negotiate higher rates based on retail prices and pocket the difference. But since diesel prices fell throughout Q4, excess capacity was able to linger in the market and thus remain an impediment to spot rate increases.

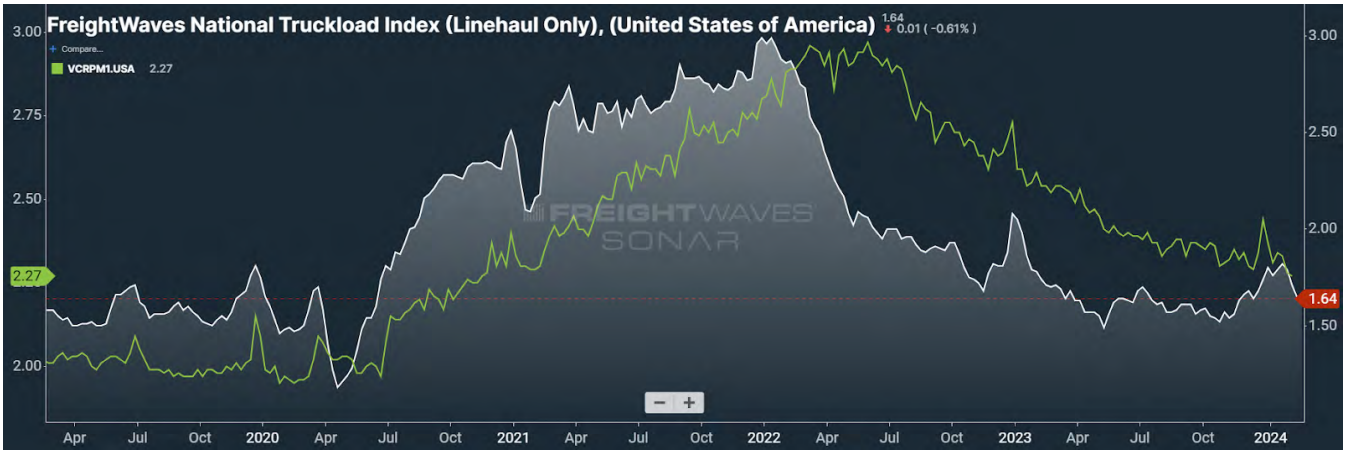
Averaging $2.27 per mile during Q4, the NTI rose only 0.4% from the previous quarter, below even the low end of our prior forecast of a 0.5% to 3% gain. Yearly comparisons are unfavorable to spot and contract rates alike: The NTI sank by a quarterly average of 13% from 2022, while contract rates fell 12% from year-ago levels.

## **FIGURE 19:** NATIONAL TRUCKLOAD INDEX (INCLUSIVE OF FUEL)




(CHART: FREIGHTWAVES SONAR, NATIONAL TRUCKLOAD INDEX YTD 2024 {WHITE} COMPARED TO FULL-YEAR 2023 {BLUE}, 2022 {GREEN} AND 2021 {ORANGE})

## **FIGURE 20:** NATIONAL TRUCKLOAD INDEX (LINEHAUL ONLY, EXCLUDING FUEL) — COMPARED TO INITIALLY REPORTED VAN CONTRACT RATES (EXCLUDING FUEL)




(CHART: FREIGHTWAVES SONAR, NATIONAL TRUCKLOAD INDEX, LINEHAUL ONLY 2022-3 {WHITE, RIGHT AXIS} COMPARED TO INITIALLY REPORTED VAN CONTRACT RATES {GREEN, LEFT AXIS})

# Trucking Forecast for the First Quarter of 2024

Over the course of December, messaging from the Federal Reserve transitioned from a continued reluctance to speak on future rate hikes to a naked dovishness. Fed Chairman Jerome Powell, in remarks made at the beginning of the month, stated that "it would be premature ... to speculate on when policy might ease. Not two weeks later, in comments made after the Federal Open Market Committee's (FOMC) mid-December meeting, Powell admitted that rate cuts are something that "begins to come into view" and "clearly is a topic of discussion ... for us at our meeting."

This seemingly abrupt pivot — made concurrently with the release of strong data from the labor market, unexpectedly high consumer sentiment and still-hot data on demand-side inflation — encouraged markets that the Fed's cutting cycle would begin as soon as March. Yet Powell all but precluded this possibility at the FOMC's January meeting, citing an insufficient amount of "good data" behind its decision to hold rates steady in January. In the weeks following, even more inflationary data has been released, suggesting that the Fed might entirely revise its timeline on when to begin quantitative easing.

Such uncertainty is a difficult headwind for the trucking industry, which depends on the continued strength of consumer demand for recovery in the coming months. Yet strength in consumer spending alone is not enough to rescue the freight economy: The second half of 2023 was marked by robust spending fueled by credit card usage. In November, for instance, the total amount of revolving credit (which includes credit card debt) surged by $19.1 billion at an annual rate of 17.7% to a new all-time high of $1.31 trillion, per Fed data.

Whether the U.S. consumer can be the growth engine behind 2024's freight market recovery has therefore come into question. The total amount of consumer credit was expected to rise by consensus forecasts of $16 billion in December but instead rose by a meager $1.6 billion. This diminishing reliance on credit could be a bullish signal that consumers are focused on long-term financial health, if not for the fact that the personal saving rate also tumbled to a 12-month low of 3.7% in December — a level nearly half its pre-pandemic average.

Preliminary data from 2024 suggests that freight demand is on track to outpace the previous year by a considerable degree. Still, tender rejections and spot rates alike are slow to move upward, ensuring that the lion's share of pricing power will remain with shippers for now.

## SEASONALITY CONSIDERATIONS

All signs point to a stronger Q1 than last year. Shippers were unseasonably proactive in 2022 after suffering through the extreme volatility of the previous year. Not so with 2023, in which Q1's quiet season lived up to its title. In January 2024, bookings and volumes were unambiguously robust at U.S. ports, particularly those along the West Coast. This surge in imports should negate any lull brought on by China's celebration of Lunar New Year, while volumes from the beginning of produce season should supplement freight activity in Texas and Florida.

## RATE INFLATION FORECAST FOR Q1 2024

Our team at FreightWaves expects spot rates to rise 3% to 6% on a quarterly basis in Q1. Severe winter storms throughout much of the contiguous U.S. helped to boost spot rates in mid-January, a trend that is forecast to continue in various parts of the country until spring. While there are obvious signs that excess capacity remains in the marketplace, there are also signs that a carrier exodus is underway. If such an exit accelerates in Q1, spot rates will rise accordingly.

Contract rates are still notably high relative to spot rates, though the spread between the two narrowed significantly in the first six weeks of 2024. Typically, contract rates command a premium of 35 to 45 cents per mile when markets are stable. In 2023, however, this spread averaged 77 cents per mile, nearly double the median norm. January 2024 has already brought with it significant signs of normalization, as the spread averaged 55 cents per mile in the month. Still, there is room for contract rates to fall further by the end of the current bid season, which will likely be the last of the cycle in which shippers have the undisputed bulk of pricing power. We thus anticipate that contract rates will fall 0.5% to 2% over the coming quarter.

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