

Economic Panel



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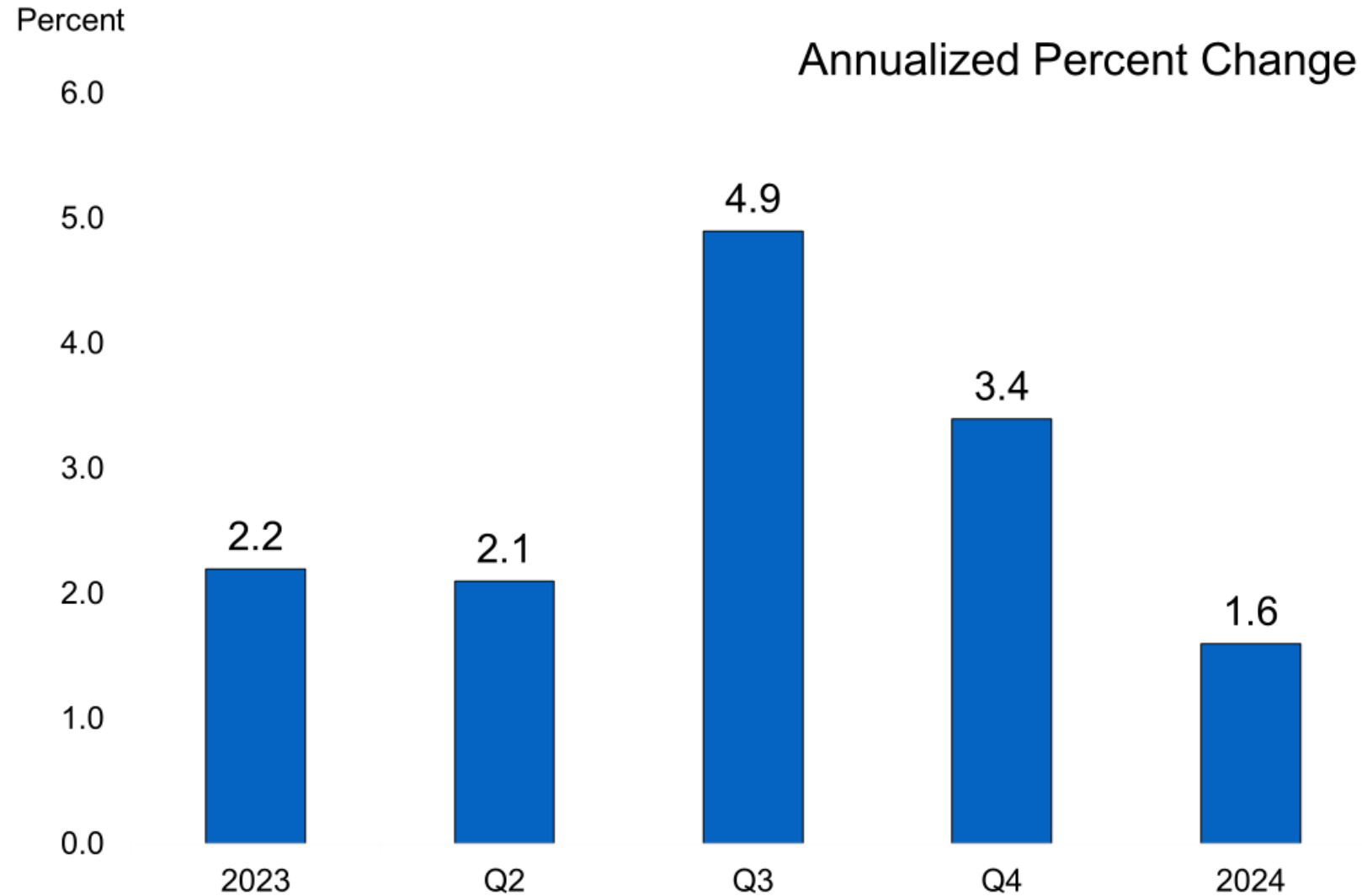
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Economic Panel

ELEVATE
***TMSA* CONFERENCE**

June 9-11, 2024 | New Orleans

Real Gross Domestic Product

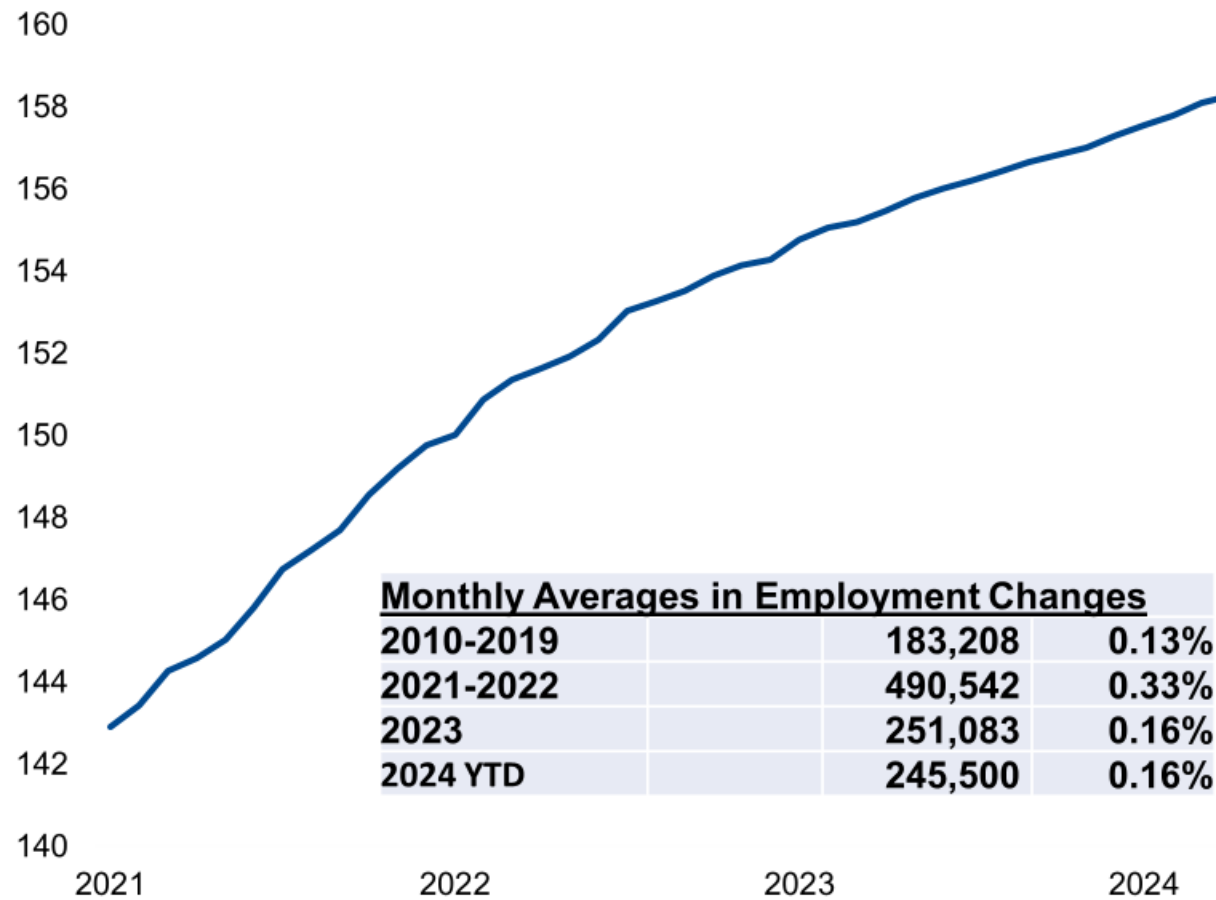


Sources: Bureau of Economic Analysis, S&P Global

Key U.S. Employment Metrics

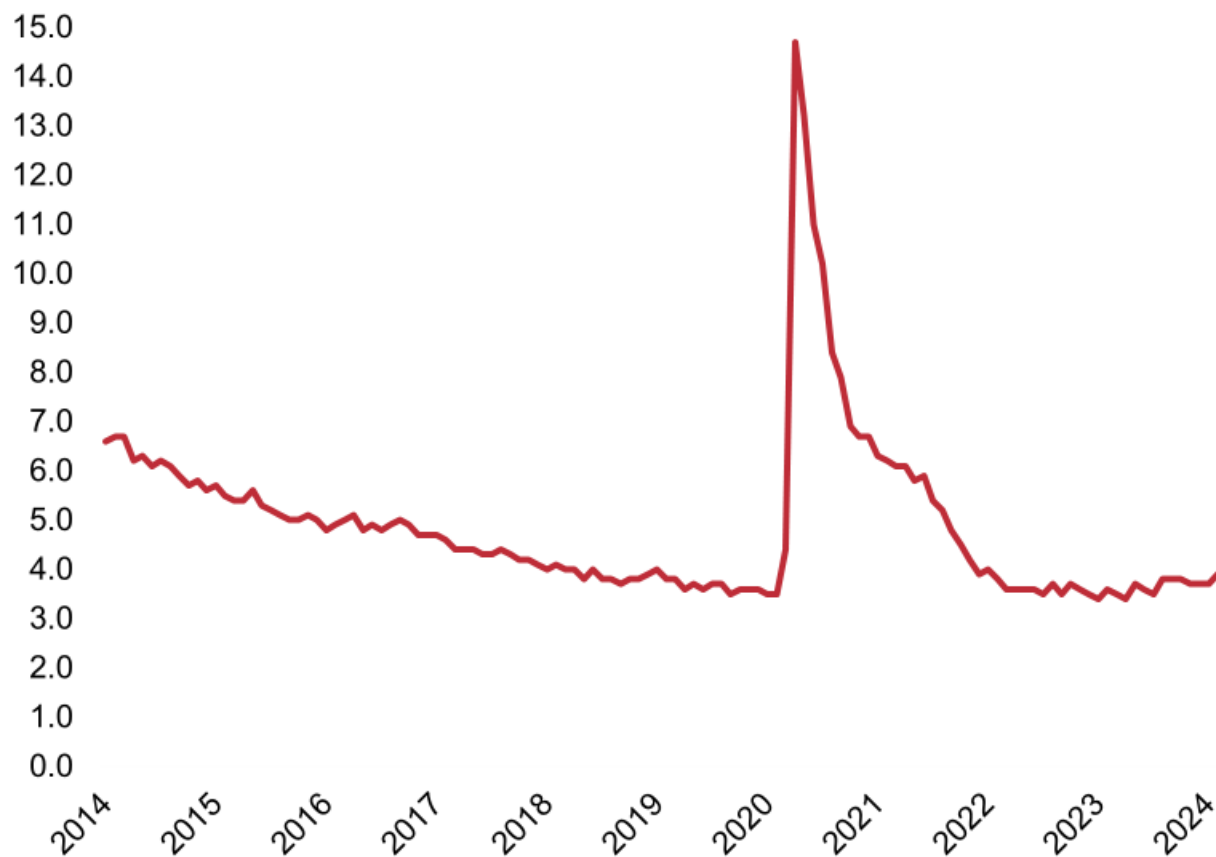
Payroll Employment

Seasonally Adjusted, Non-farm, Millions



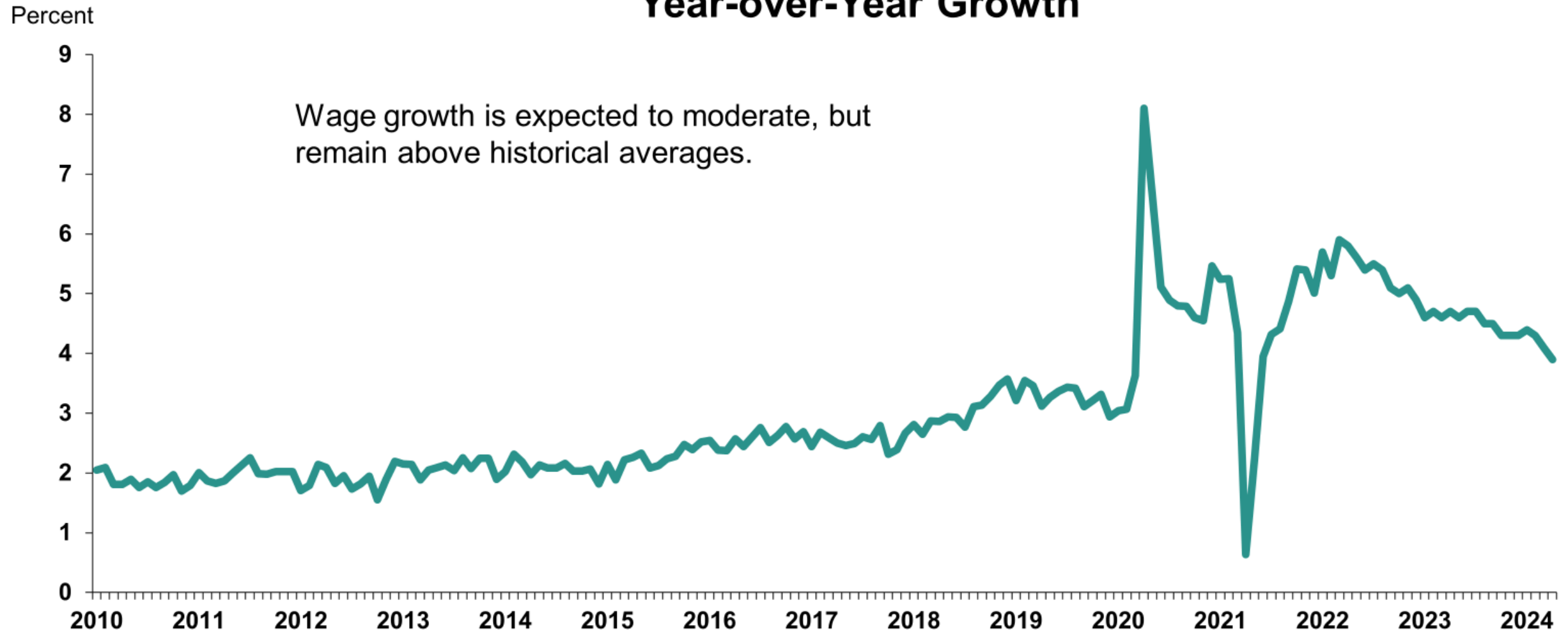
Unemployment Rate

Percent



Average Hourly Earnings of All Employees, Total Private Sector

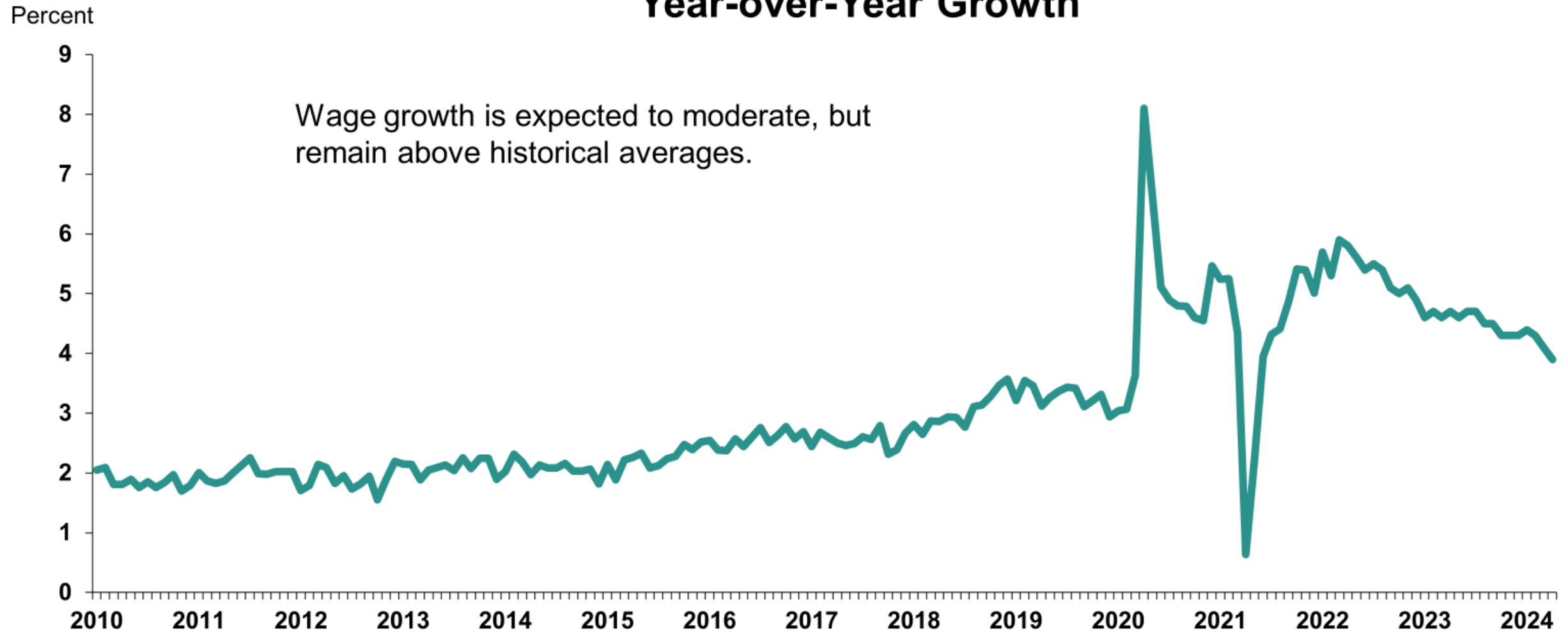
Year-over-Year Growth



Source: Bureau of Labor Statistics

Average Hourly Earnings of All Employees, Total Private Sector

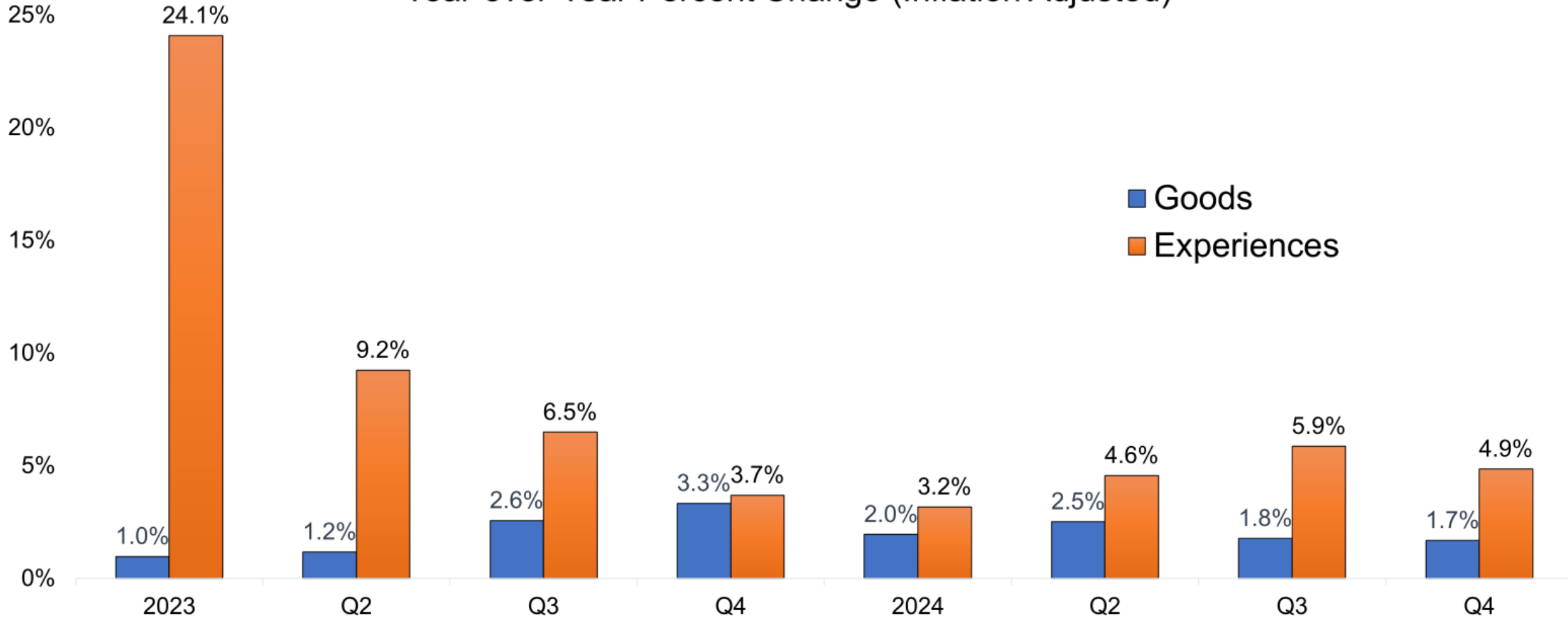
Year-over-Year Growth



Source: Bureau of Labor Statistics

Consumer Spending – Goods vs Experiences

Year-over-Year Percent Change (Inflation Adjusted)

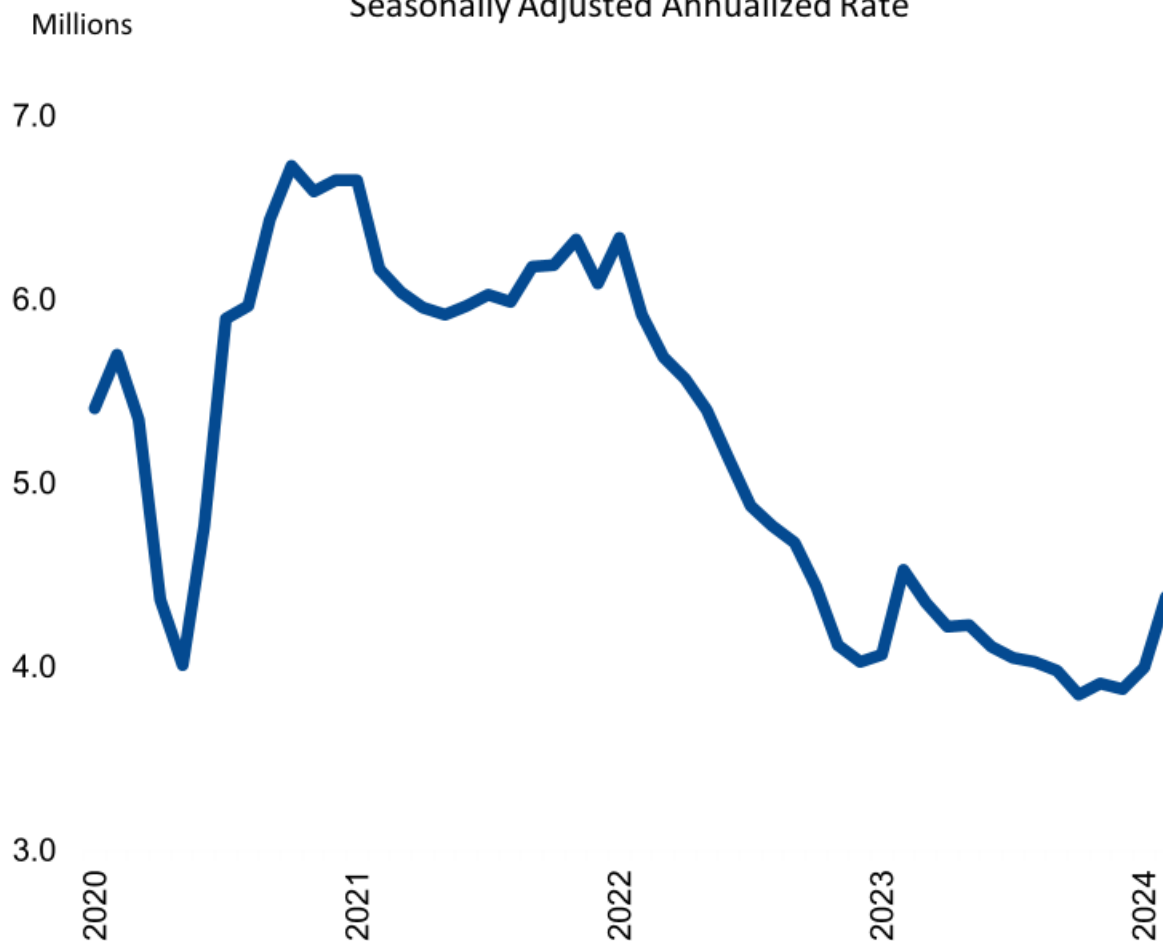


Sources: Bureau Economic Analysis, S&P Global, ATA

Housing Market Indicators

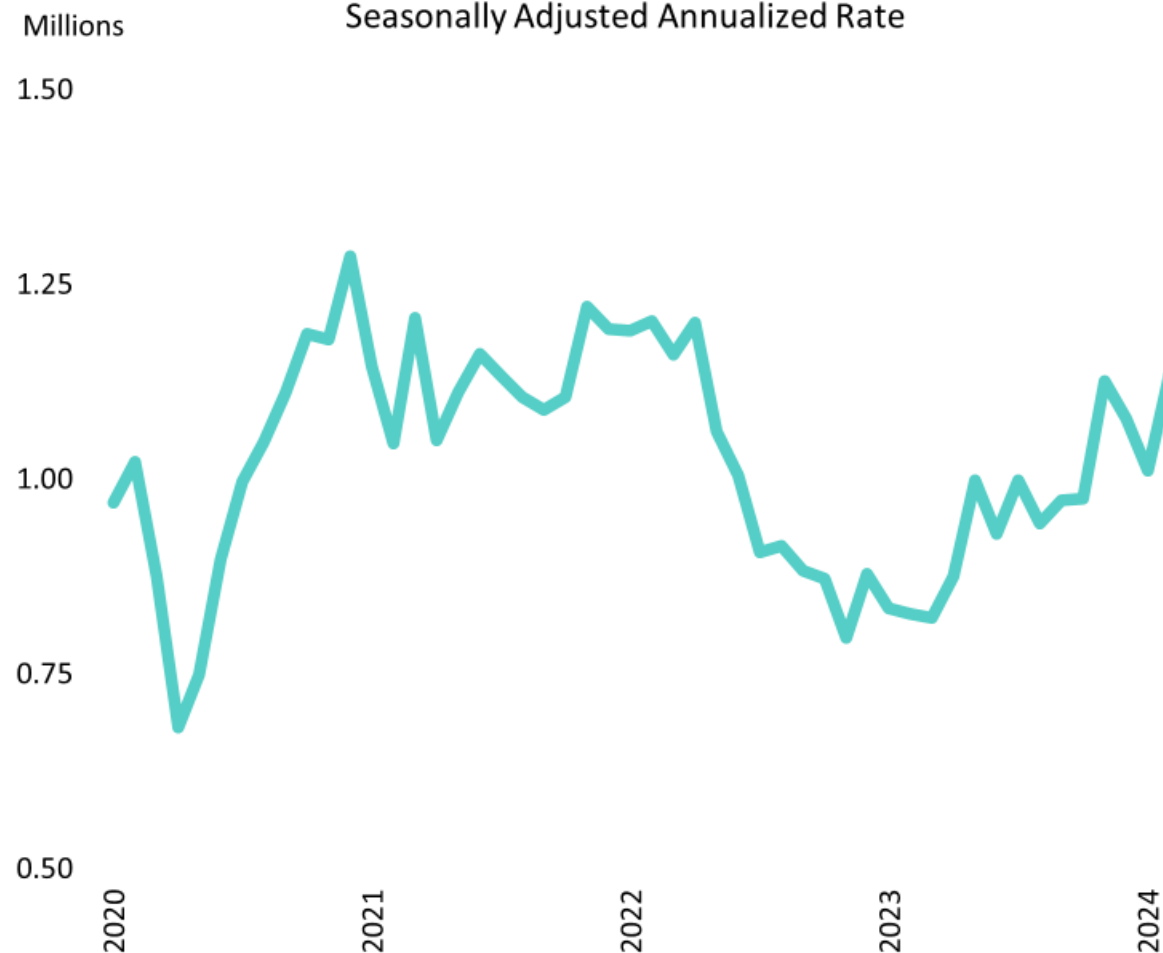
Existing Home Sales

Seasonally Adjusted Annualized Rate



Level of Starts – Single Family Units Only

Seasonally Adjusted Annualized Rate



Sources: National Association of Realtors, Census Bureau

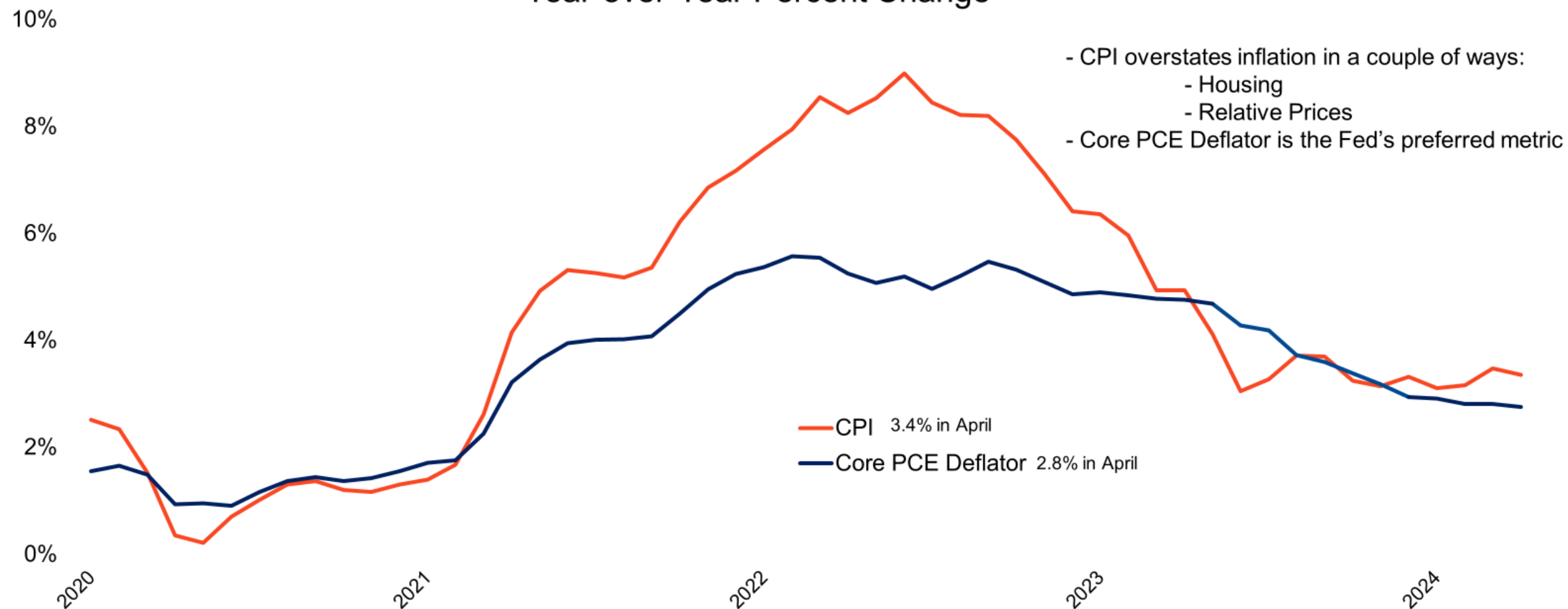
Federal Funds Interest Rate



Source: Federal Reserve

Various Inflation Metrics

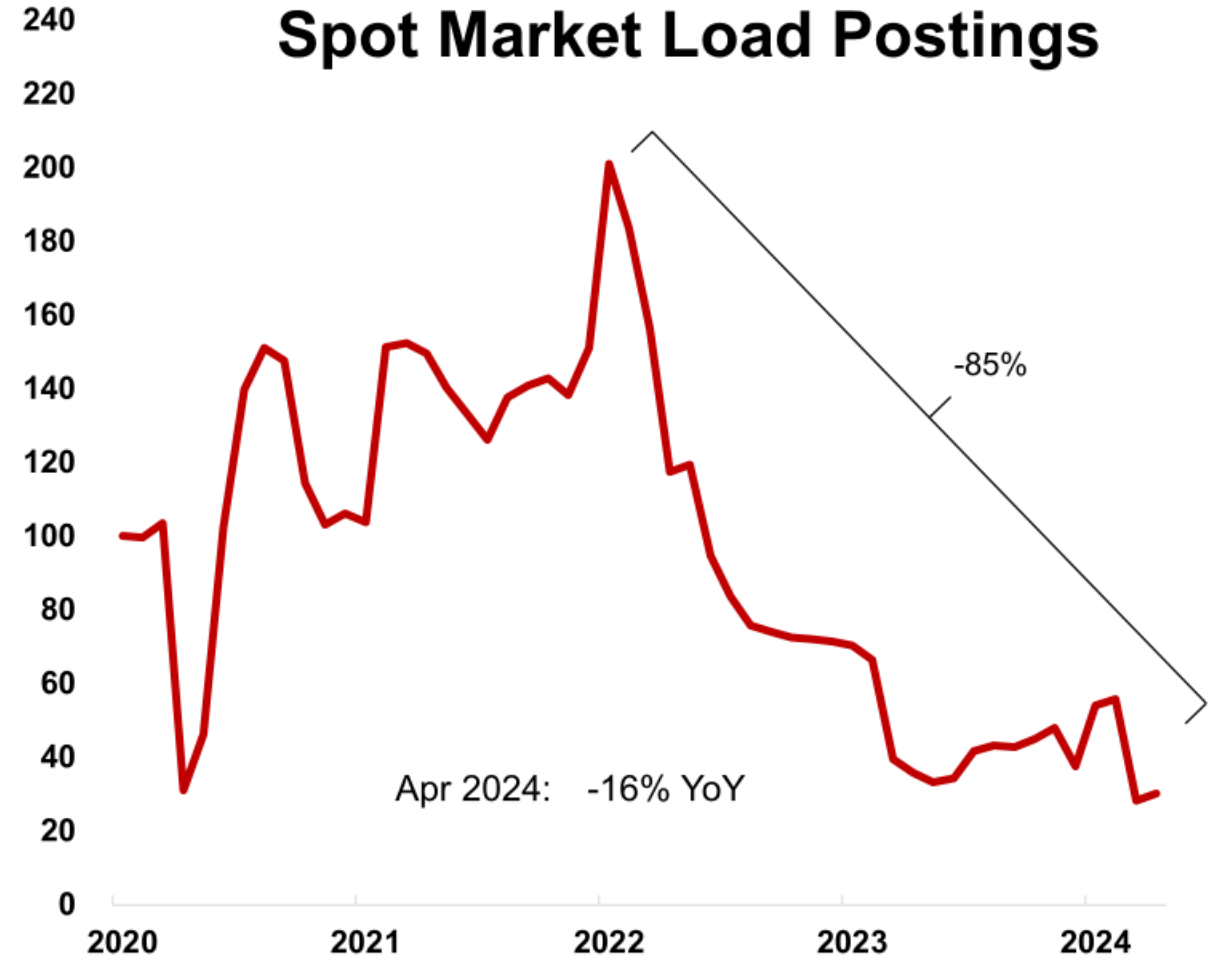
Year-over-Year Percent Change



Sources: Bureau of Labor Statistics & Bureau of Economic Analysis

Truckload Loads

(Index; January 2020 = 100)

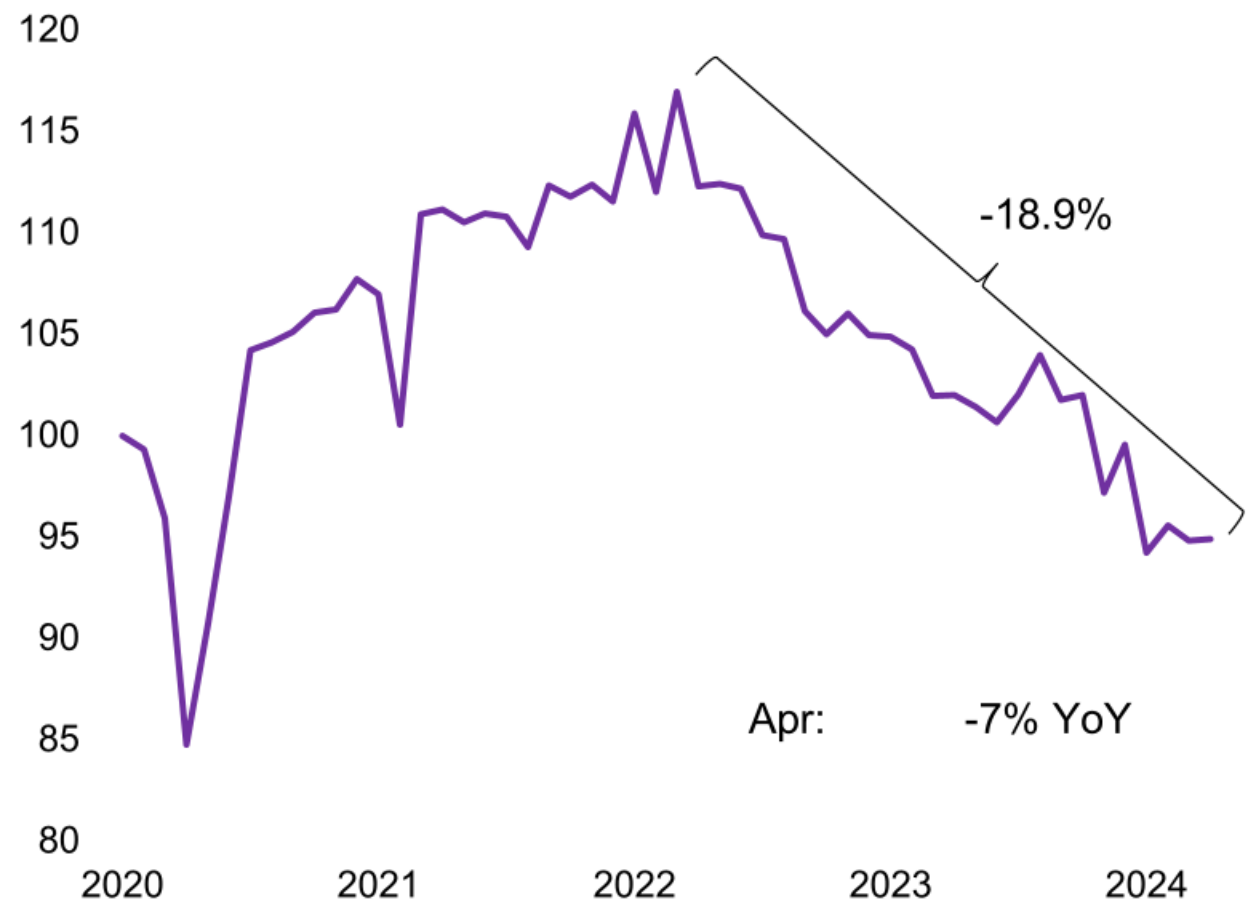


Sources: ATA's Trucking Activity Report & DAT.com

Less-Than-Truckload Loads

Index, January 2020 = 100

Shipments



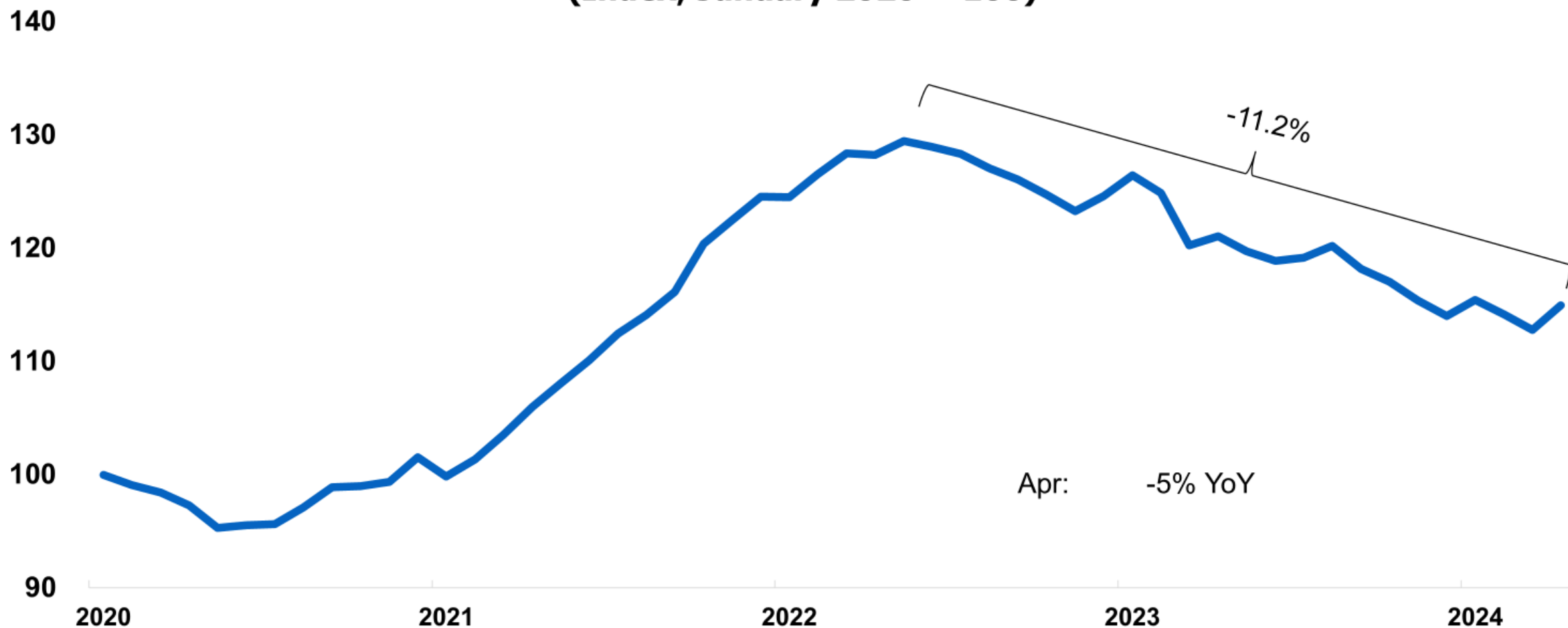
Tonnage



Source: ATA's Trucking Activity Report

Contract Truckload Average Revenue per Mile

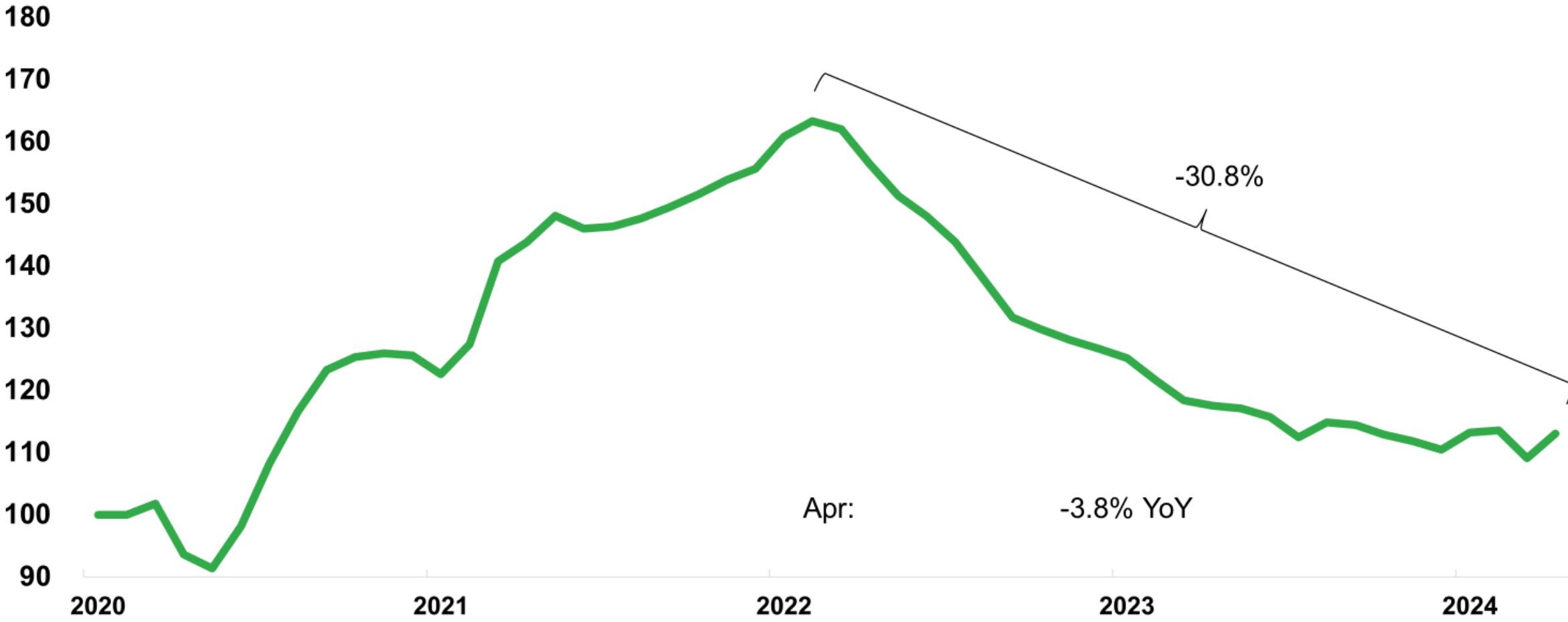
(Index; January 2020 = 100)



Source: ATA's Trucking Activity Report

Spot Market Rates

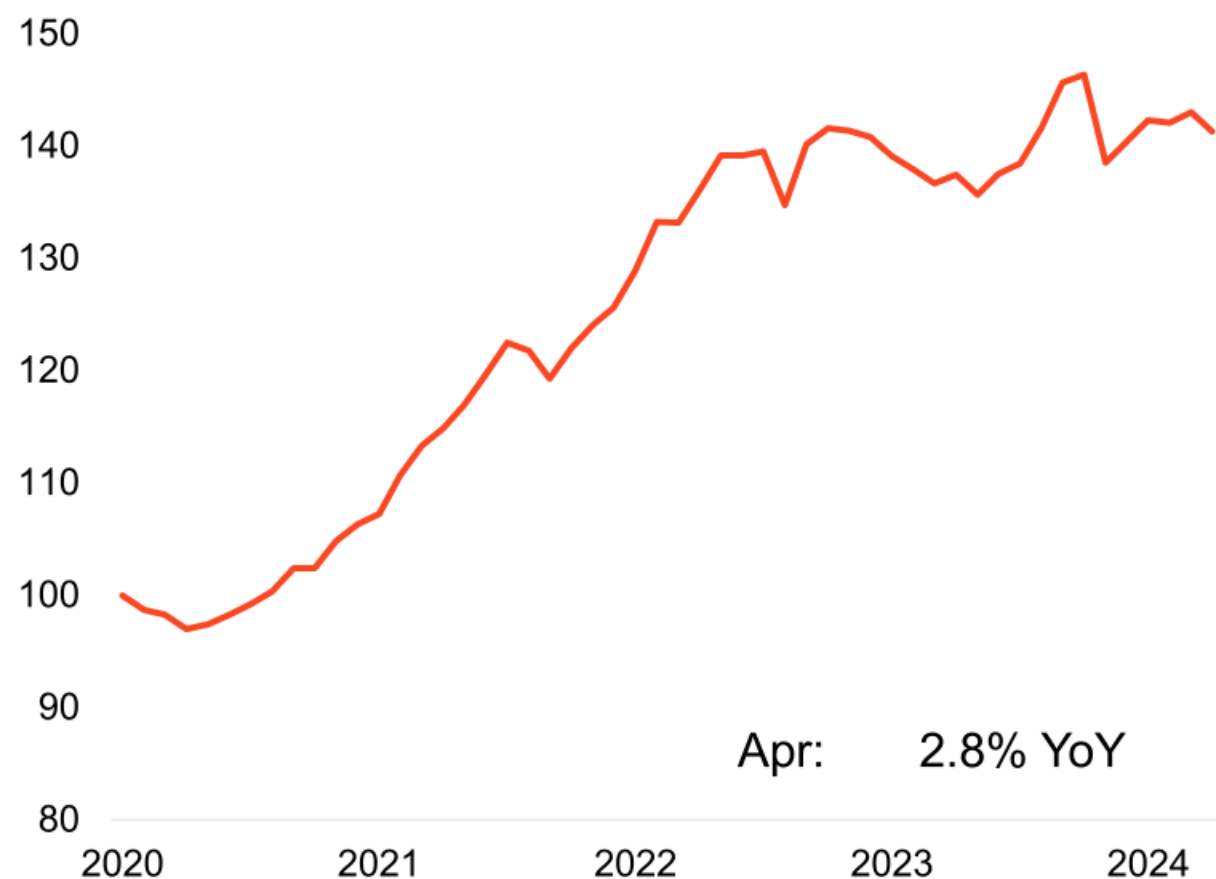
(Index; January 2020 = 100)



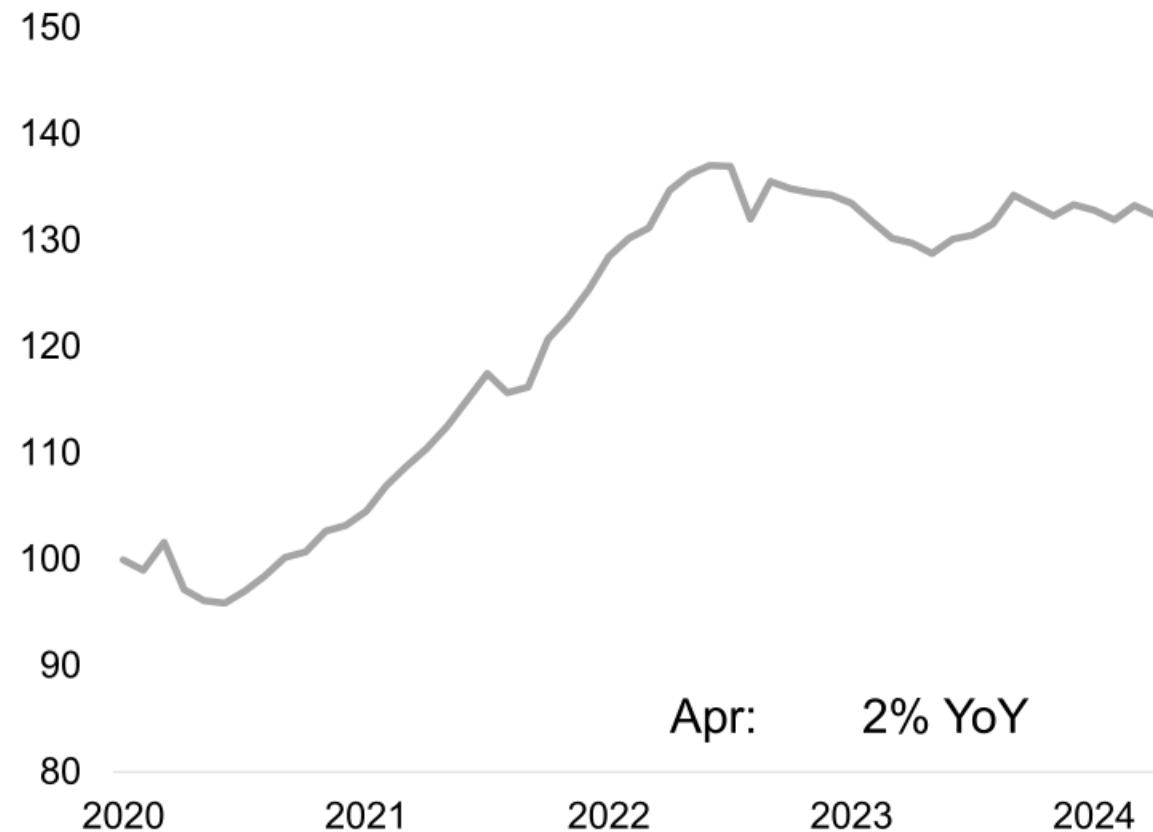
LTL Pricing Proxy Metrics

Index, January 2020 = 100

Revenue per Ton



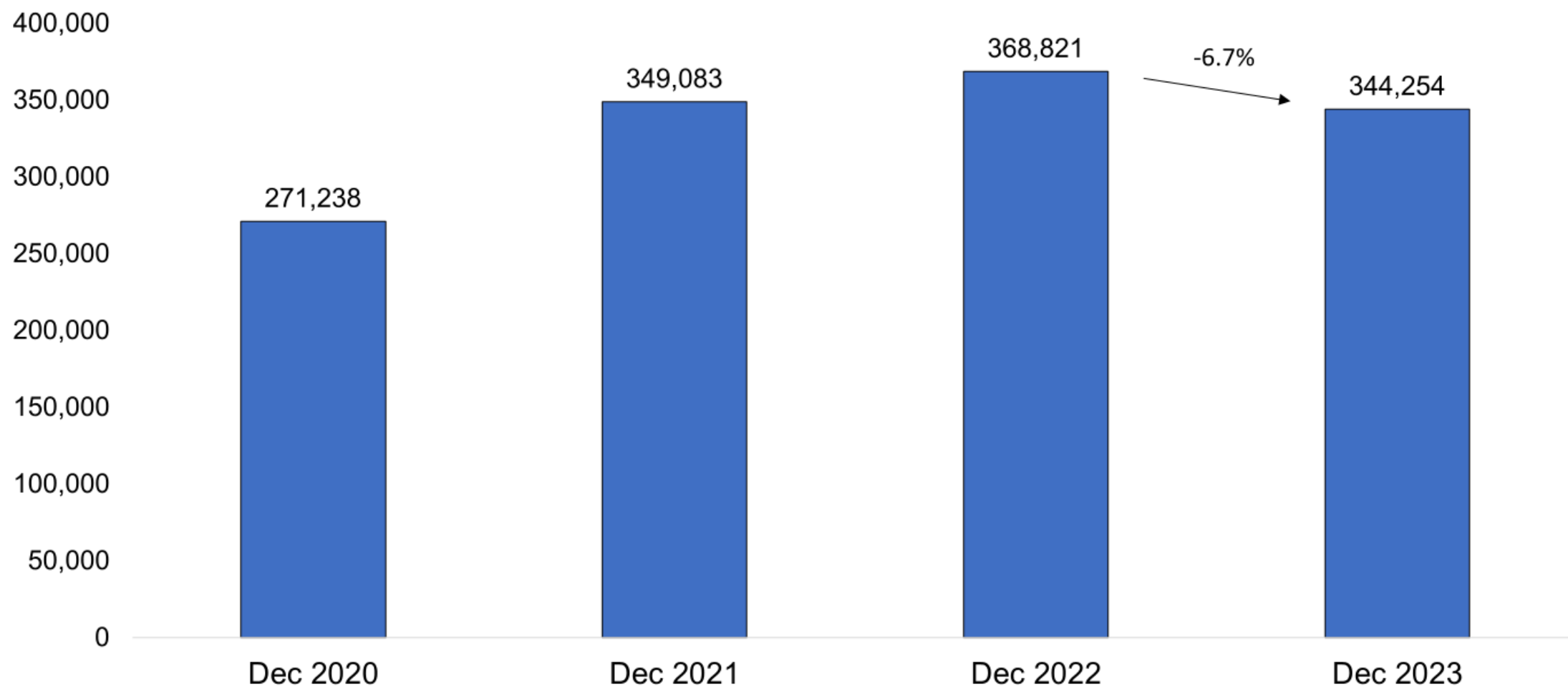
Revenue per Shipment



Source: ATA's Trucking Activity Report

Property Carriers with Interstate Operating Authority are Exiting the Market

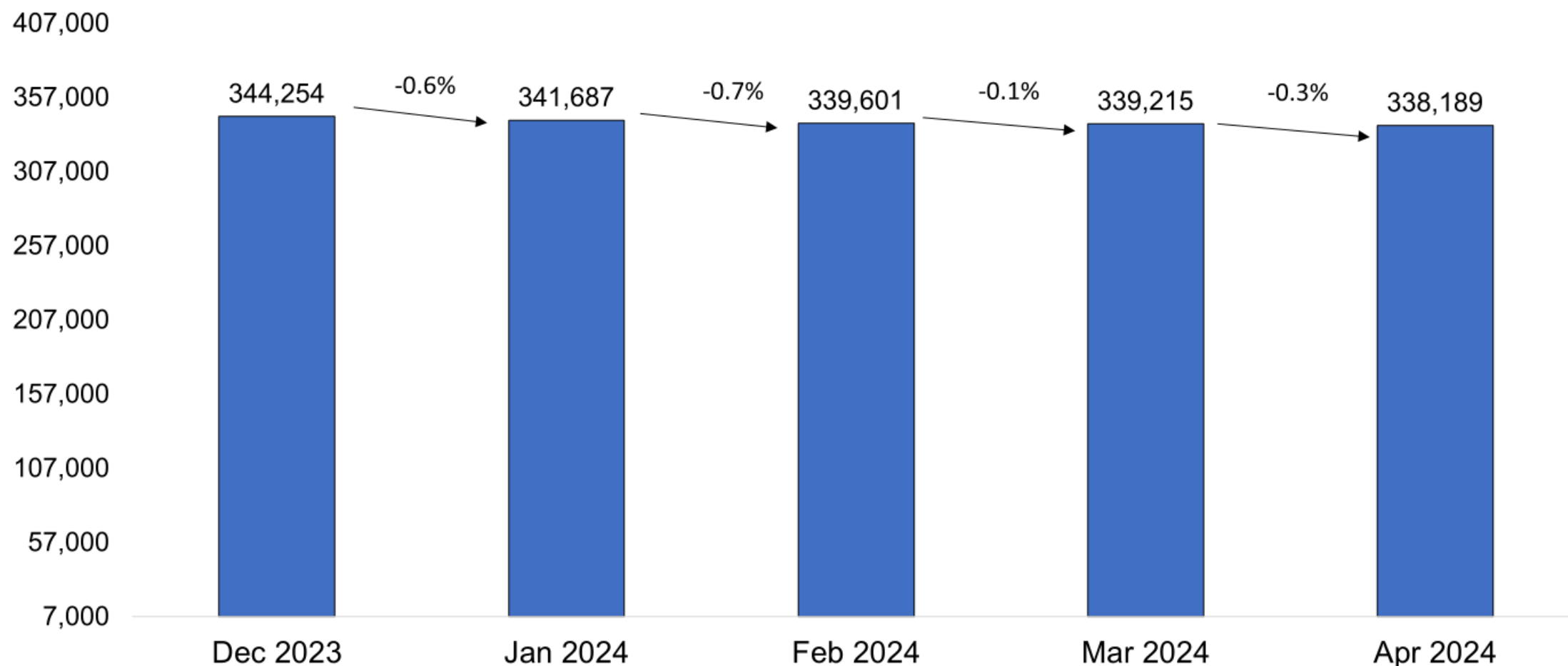
December Snapshots



Source: FMCSA Licensing & Insurance Snapshot

Property Carriers with Interstate Operating Authority are Exiting the Market

Recent Snapshots



Source: FMCSA Licensing & Insurance Snapshot

Reading the Economic and Transportation Tea Leaves

June 11, 2024

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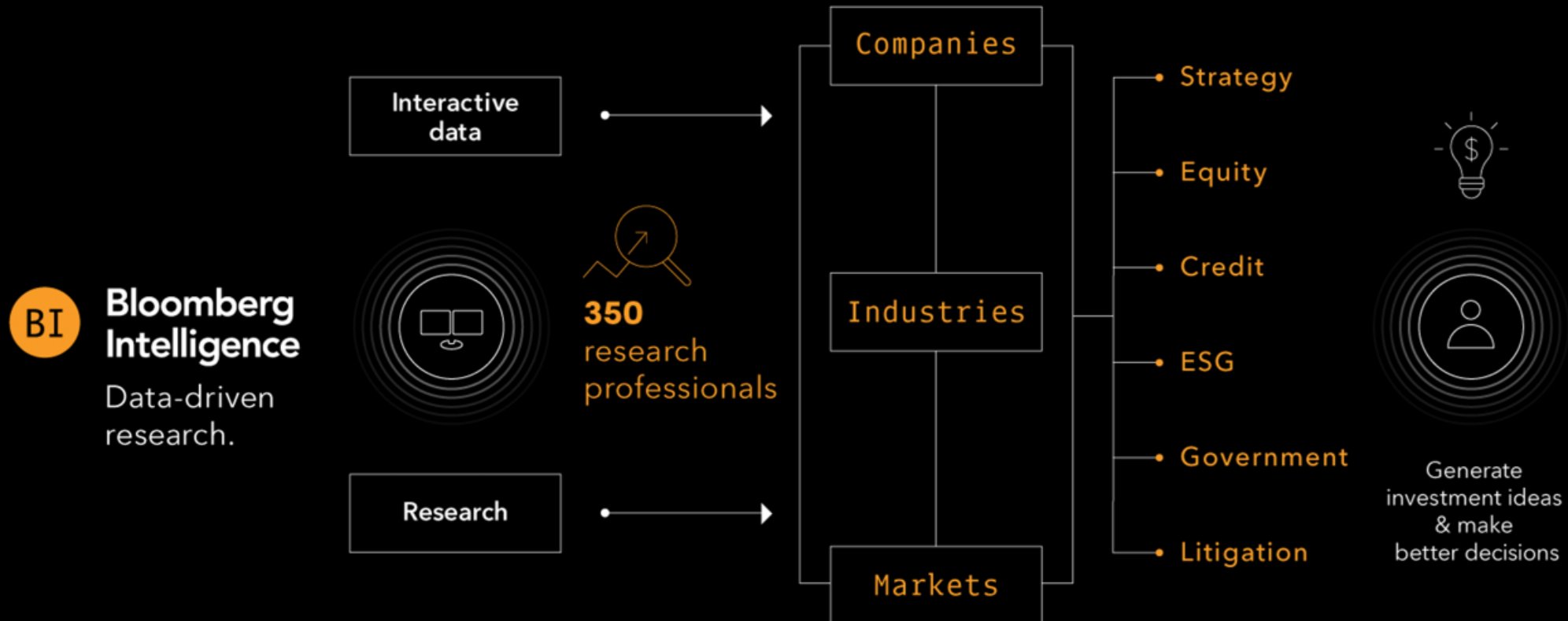
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data contributors

135+
industries

2,000+
companies

15yrs
avg. analyst experience

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Freight Markets and Economic Outlook

TMSA Elevate Conference 2024

June 11, 2024

Today's Speaker



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Senior Freight Transportation
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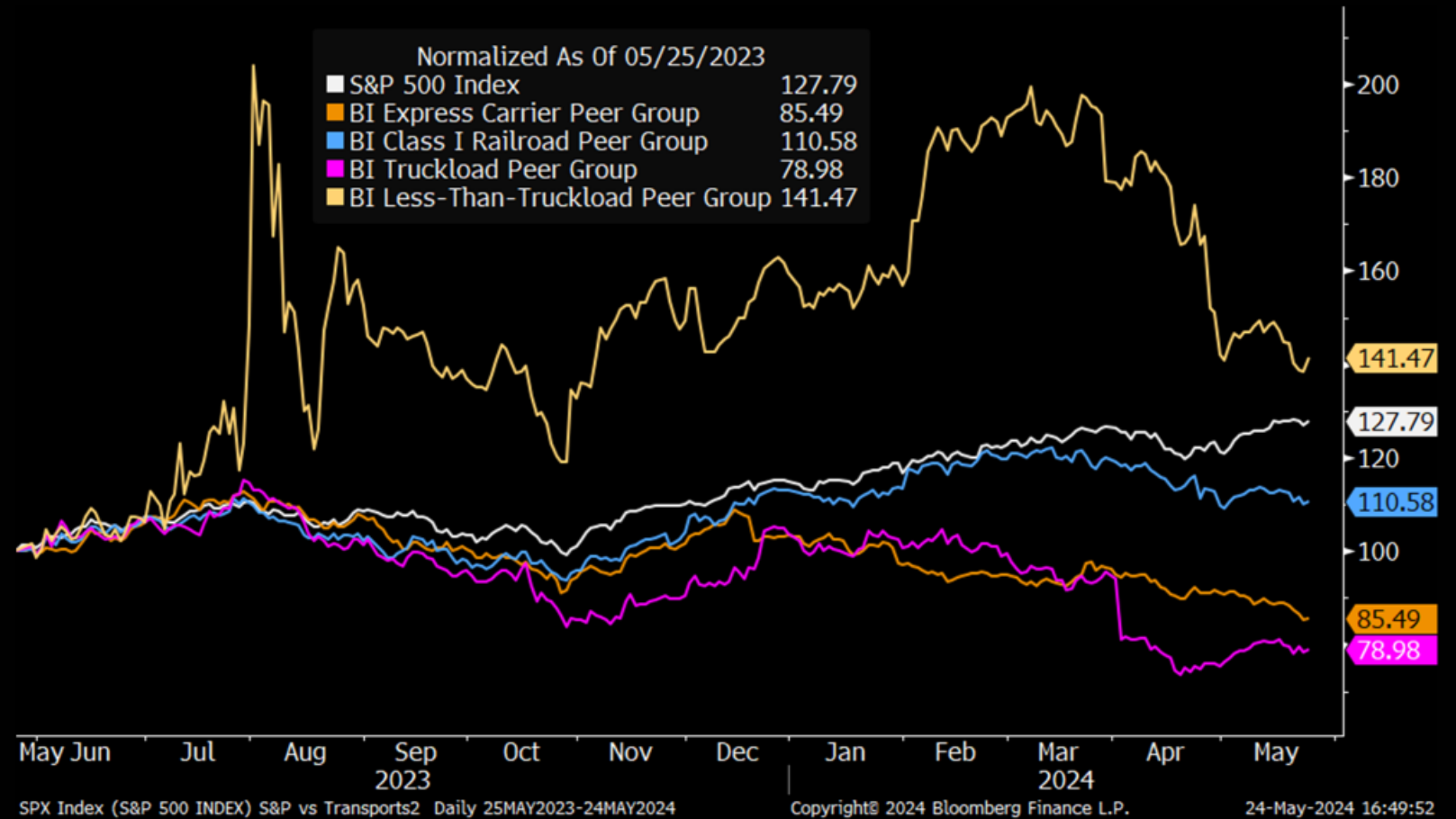
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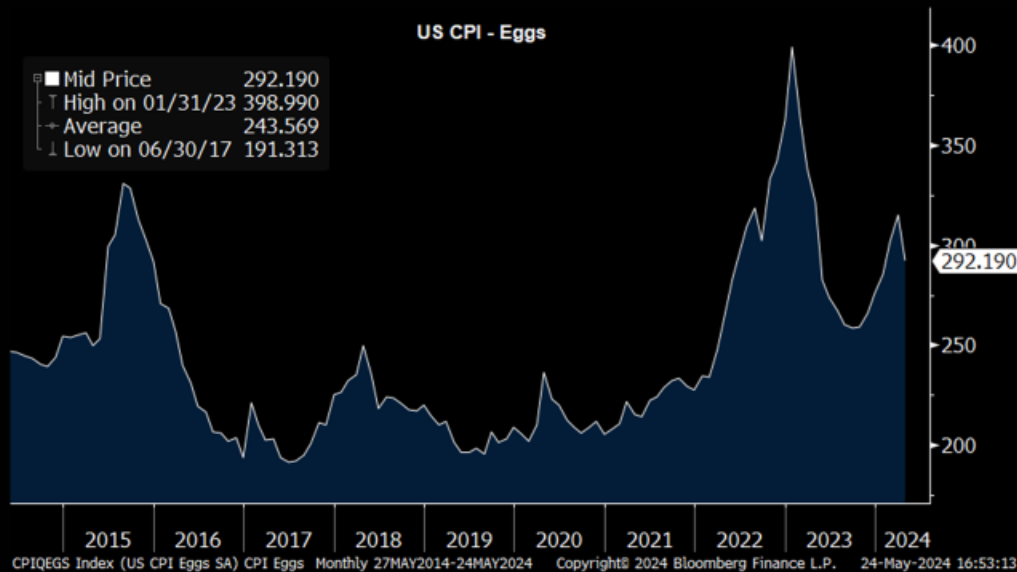
Email: lkaskow1@bloomberg.net

Only Less-Than-Truckload Carriers have Outperformed the Broader Market Over the Last 12 Months

- Freight transportation and logistics shares face headwinds from moderating economic demand and normalizing rates.
- Less-than-truckload carriers got a boost from Yellow ceasing operations, solid pricing and margin expansion opportunities.
- U.S. railroads leading the Class I higher on self help initiatives at CSX and Union Pacific as well as Norfolk Southern targeted by activists.
- The group has underperformed the broader market (+11.2%) year-to-date
 - BI LTL (-11.3%)
 - BI Railroads (-2.1%)
 - BI Express Carriers (-17.2%)
 - BI Truckload (-23.8%)



Challenges Abound



Number of Factors Weighing on Economic Growth, Freight Demand

Indicator	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Economic Activity										
■ Real GDP (YoY%)	2.5	3.0	2.5	-2.2	5.8	1.9	2.5	2.4	1.7	2.0
Consumer Spending ...	2.6	2.7	2.0	-2.5	8.4	2.5	2.2	2.3	1.8	2.0
Government Spendin...	0.6	2.0	3.9	3.2	-0.3	-0.9	4.1	2.6	1.2	1.1
Private Investment ...	4.4	5.8	3.1	-4.7	8.7	4.8	-1.2	3.0	2.8	3.1
Exports (YoY%)	4.1	2.9	0.5	-13.1	6.3	7.0	2.6	2.0	2.5	3.0
Imports (YoY%)	4.7	4.0	1.2	-9.0	14.5	8.6	-1.7	2.9	2.6	3.0
Industrial Production (Yo...	1.3	3.2	-0.7	-7.2	4.7	3.4	0.2	0.2	1.5	1.8
Price Indices										
CPI (YoY%)	2.1	2.5	1.8	1.2	4.7	8.0	4.1	3.2	2.4	2.3
■ PCE Price Index (YoY%)	1.8	2.1	1.4	1.1	4.2	6.5	3.8	2.6	2.2	2.1
Core PCE (yoy%)	1.6	1.9	1.7	1.3	3.6	5.2	4.1	2.8	2.3	2.1
Housing Market										
Housing Starts (000s SAA...							1393	1421	1481	1487
New Home Sales (000s S...							682	690	736	760
Existing Home Sales (Mln...							4.1	4.2	4.6	5.0
Building Permits (000s S...							1450	1490	1518	1545

Economic growth, higher fuel costs, tight labor markets and supply chain constraints has created inflationary pressures not seen since the 1980s.

Headline CPI rose 3.4% in April, moderating from 9.1% in June 2022.

Low unemployment and stubborn inflation could mean the Fed could be slow to begin easing.

Geopolitical and black swan events are the biggest risks to economic recovery.

Recent stimulus actions by China could help shore up its economy and help spur additional global trade.

The inventory destocking cycle appears near the end in the US.

A return to seasonality a welcome sign as demand patterns normalize.

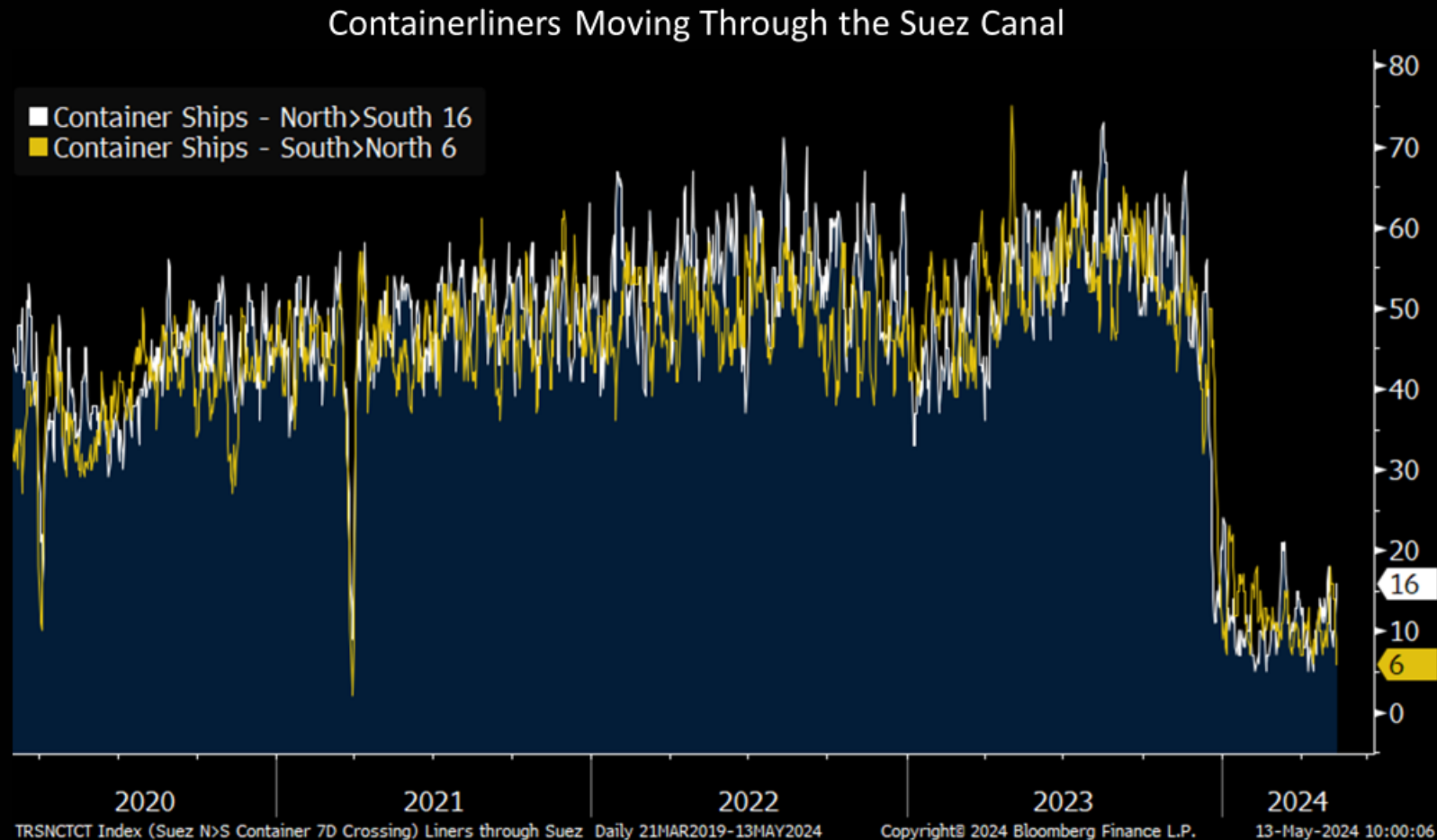
Earnings Growth May Not Be Broad Based Until 2025 For Freight Carriers

	2023 Revenue Growth	2023 EPS Growth	2024E Revenue Growth	2024E EPS Growth	2025E Revenue Growth	2025E EPS Growth
North American Class I Railroads	-3.0%	-5.1%	2.8%	8.4%	5.3%	12.7%
North American Truckload Carriers	-9.9%	-48.0%	-2.3%	-26.3%	8.2%	50.7%
North American Less-Than-Truckload Carriers	-6.3%	-17.3%	6.5%	10.2%	10.1%	30.1%
Global Integrated Logistics Providers	-7.9%	-18.2%	1.5%	-3.1%	4.5%	19.7%

Key drivers for revenue and earnings growth in 2024:

- Rails – Intermodal could lead volumes higher as the industry makes more progress related to reliability and service. Rate increases offset inflationary pressures coupled with improved fluidity
- Truckload – Slack capacity limits meaningful rate increases until late 2H when the demand picture could improve. Earnings growth may return in 2025.
- Less-Than-Truckload – Pricing remains strong, tonnage growth comparisons become more challenging as near anniversary of Yellow bankruptcy.
- Parcel Carriers – Aligning resources, rate-driven margin gains, technology-fueled productivity gains, B2B recovery

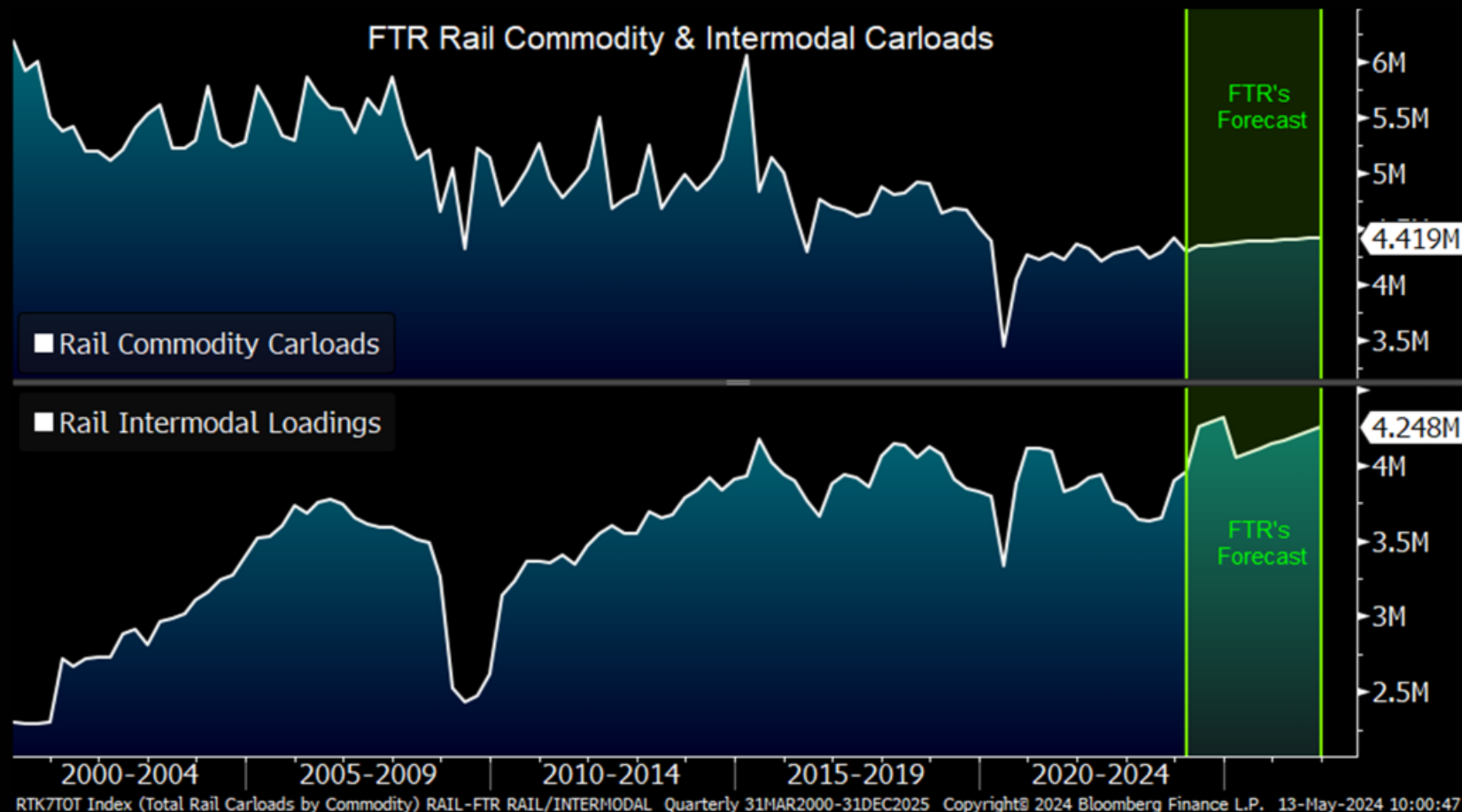
Latest Black Swan Event – The Suez Canal Dislocation



- The Suez Canal is a major artery for the global economy, with about 10-12% of world trade passing through it each year.
- The canal ensures the efficient flow of materials and goods between Asia and Europe, and is key to keeping global supply chains moving.
- Vessels are adding 10-12 days to their voyage when they are diverted away from the Suez Canal to around the Cape of Good Hope.
- Ships hauling commodities from Iran and Russia will likely be the major users of the Suez since those countries are aligned with the Houthis.
- Shipping rates are beginning to normalize as capacity adapts to the new normal.

Intermodal May Lead Railroad Volume Higher in 2024

- After two years of volume declines, North America railroad volume growth may inflect into positive territory in 2024, in our view.
- FTR expects U.S. intermodal traffic to rebound 7% in 2024 after 3.4% declines in 2022 and 2023.
- Intermodal growth will be driven by inventory destocking, normalizing season trends and improving railroad service, in our view.
- Commodity carloads may inch 0.7% lower in 2024 according to FTR forecasts. Weakness in motor vehicles and coal will be a drag growth lower this year.
- Coal growth may inflect negatively in 2024, continuing its long-term secular decline.



Precision Driving Operating Leverage

Precision scheduled railroading (PSR) could drive further margin improvement and profitability improvements, now that all public Class I railroads are employing the operating philosophy on their networks.

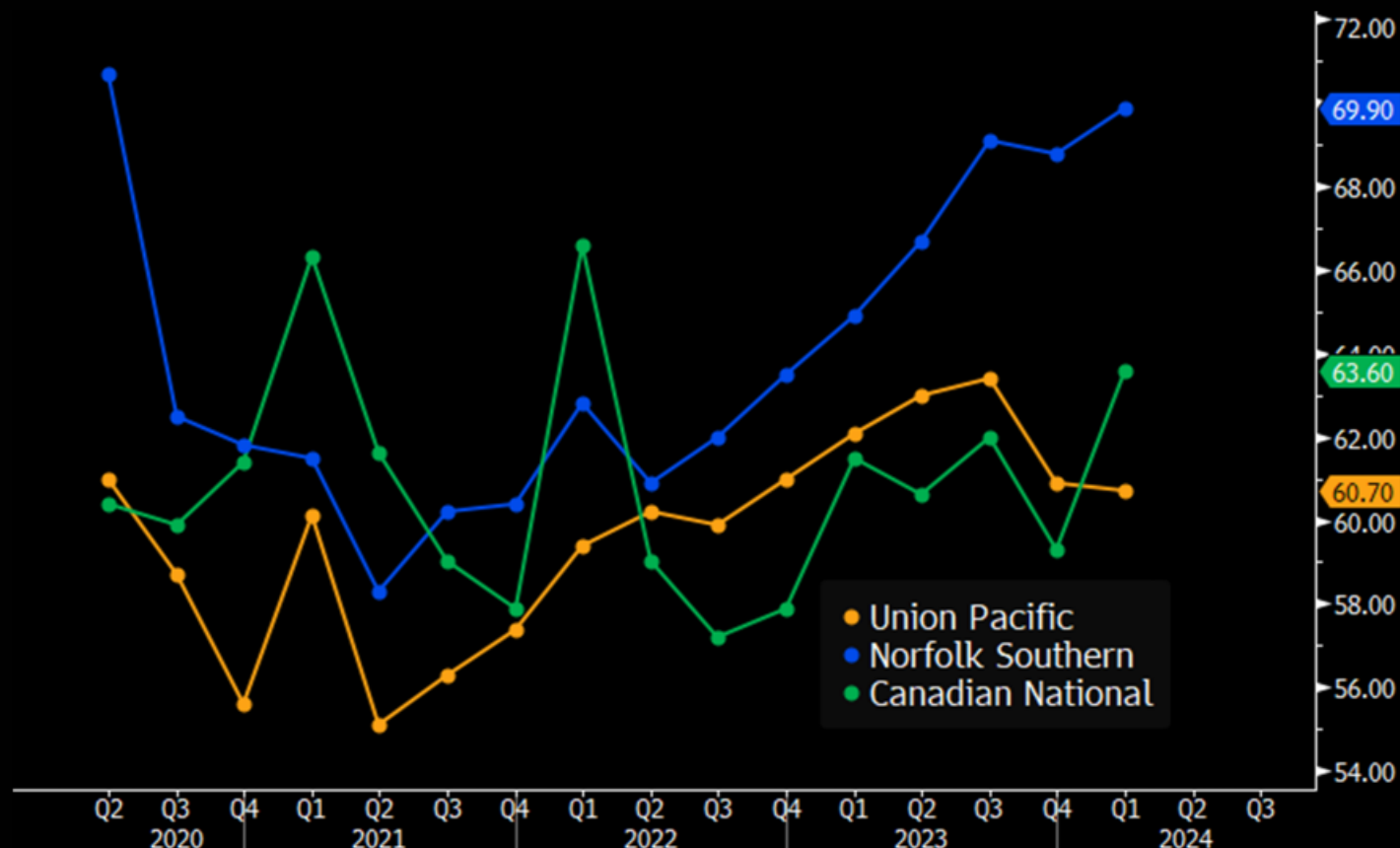
Norfolk Southern and Union Pacific are in the early innings and have the most to gain. Canadian National refocused back to margins from profitable growth. Canadian Pacific will be focused at improving KC Southern's operations.

Operating ratios may improve by 117 bps in 2024 according to consensus estimates. This would bring the median public Class I rails' operating ratio to 60.9%.

Better service will go a long way in improving profitability. Railroads are playing catch-up after overreacting following the decline in volumes at the start of pandemic.

Source: Bloomberg L.P.

Adjusted Operating Ratio (%)



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Improved Rail Service Will Make Everyone Smile

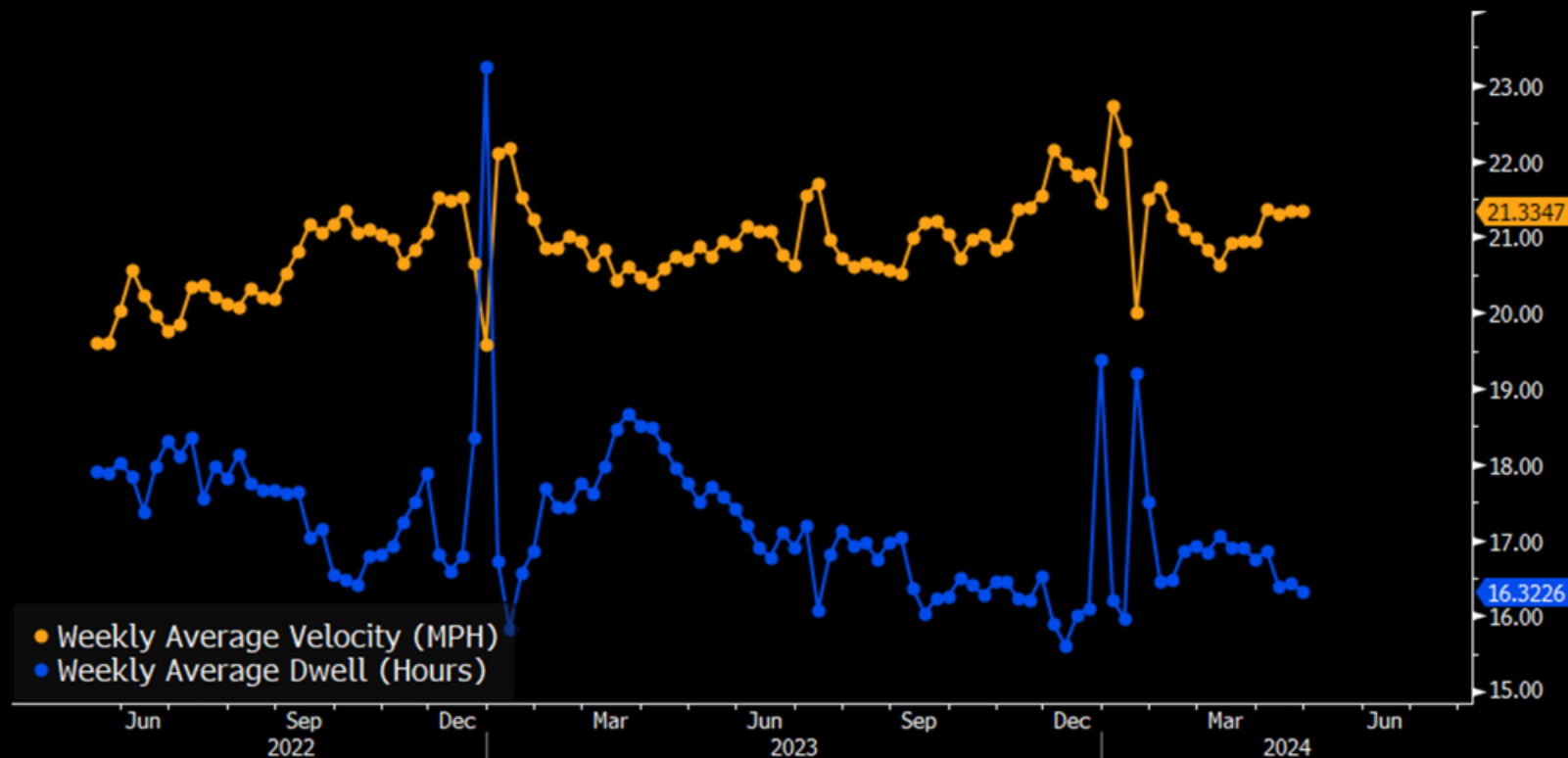
Network velocity (higher = better) and dwell times (lower = better) are moving in the right direction for Class I railroads.

Fluidity has improved recently. Train are running 4.2% faster from last year on a four-week moving average and dwell times improved by 4.3% as of March 1. The industry is trying to get back to pre-pandemic service levels.

Norfolk Southern fluidity was hit following the derailment in Palestine Ohio in Feb. 2023. Union Pacific was impacted the most from labor shortages in addition to recent network washouts. It has been making progress but still lag its peers.

U.S. railroads have made significant progress at hiring and training workers. They aggressively furloughed/laid off employees at the onset of the pandemic and were not prepared for when volumes surge back.

Class I Performance Metrics



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Intermodal Rates Waiting For Trucking Rebound

Intermodal spot rates are falling, inline with the trucking market. InTek's All-In 53-Foot Spot Rate Index is down 7.7% on average in 2024.

Despite the weakness rates are in good shape, up 8.3% from the pre-pandemic levels in 2019.

Looser trucking conditions will weigh on core intermodal rates near-term. We expect truckload spot rates to show signs of growth later this year.

Railroads have a long history of price discipline, looking to raise rates above rail inflation.

Railroads need to mitigate rising costs, especially as it relates to labor inflation and equipment expenses.

Intermodal Spot Rates – Top 18 Lanes

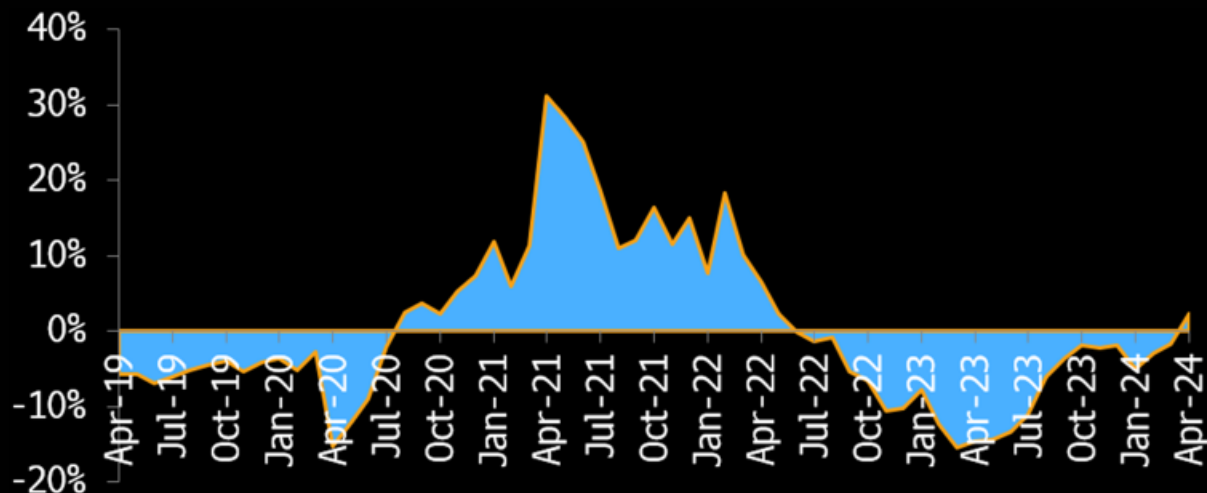


LTL Disciplined Through the Cycle

Less-than-truckload carriers were unable to beat earnings expectations in 1Q, with median EPS for the BI North America LTL peer group 2.1% below consensus as weather affected volume and costs. XPO was the standout, exceeding estimates on progress from recent productivity initiatives. We believe carriers will remain rational with pricing, even as tonnage demand comes under pressure.

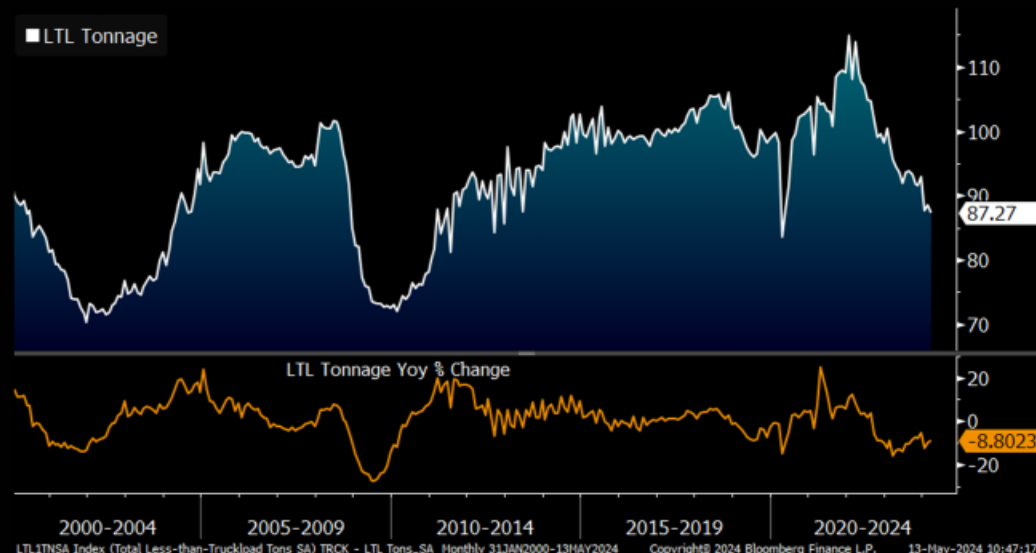
Yellow's bankruptcy further consolidated the LTL industry, providing opportunities to gain market share and created a stronger-for-longer pricing environment for carriers.

Old Dominion's Monthly Tonnage Growth (%)



Source: American Trucking Associations, Bloomberg Intelligence

ATA Seasonally Adjusted Tonnage



Old Dominion's April Statistics:

- Shipments +3.3%
- Tonnage +2.3%
- Revenue per Hundredweight Ex-FSC +4.7%

XPO's April Statistics:

- Shipments +4.8%
- Tonnage +3.1%

Saia's April Statistics:

- Shipments +17.0%
- Tonnage +6.5%

ArcBest's April Statistics:

- Shipments -7.0%
- Tonnage -22.0%
- Revenue per Hundredweight +24.0%

Container Liner Rates Sailing Past the Peak

2022 will likely mark peak earnings for global containership operators now that rates are normalizing from their unsustainable levels.

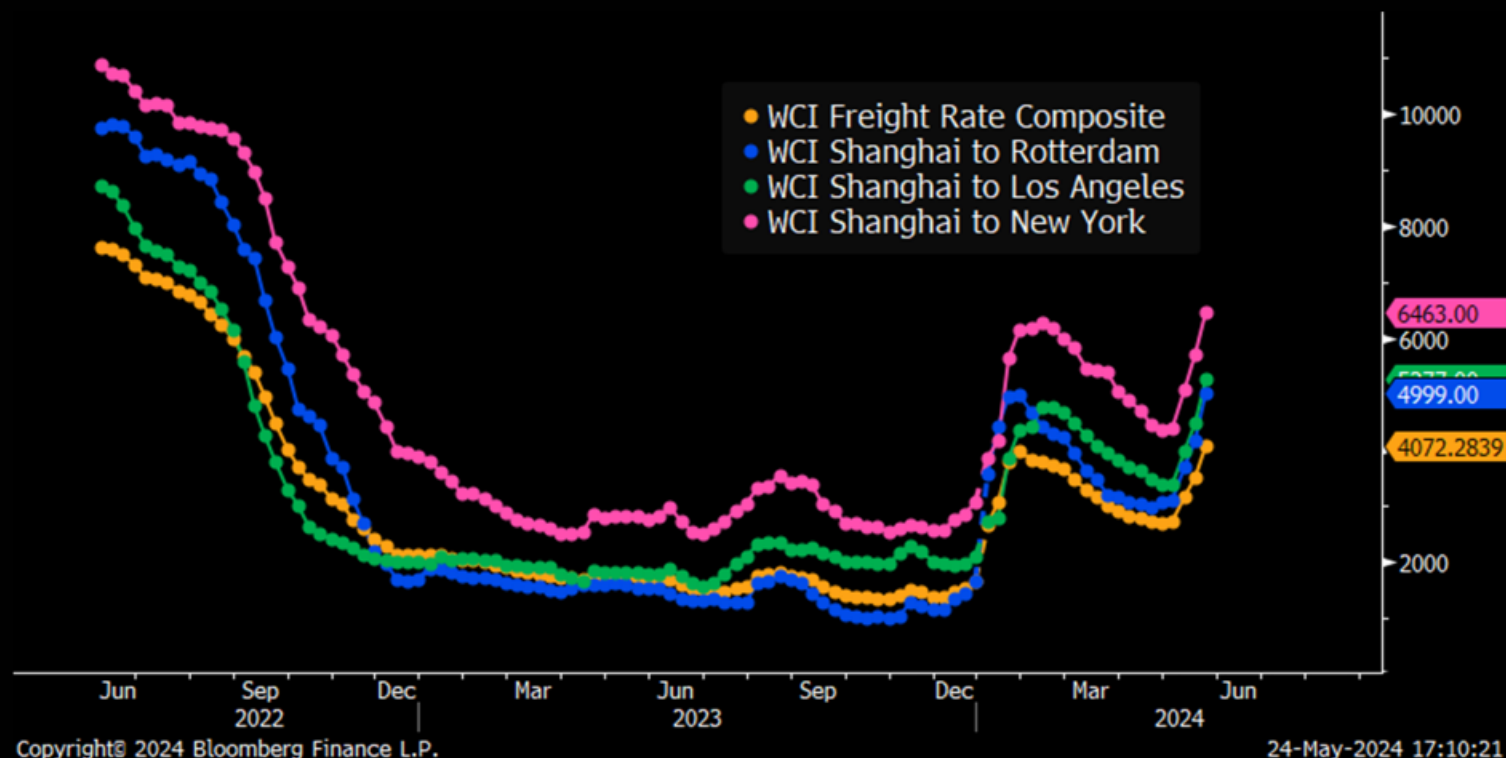
Spot container liner rates from China (SCFI) are up 100% from on average in 2024, while contract rates (CCFI) are 20% higher from the dislocation created by the Red Sea crisis.

Volume was up 9.3% in 1Q24. It may increase by low-to-mid-single digits this year.

Rates will face structural headwinds from increased ordering activity. The orderbook as a percentage of the fleet is 21%, 280 bps above its 10-year average, based on Clarksons' data.

Supply growth has outpaced demand growth 17 out of the last 23 years, according to Clarksons. The Red Sea Crisis may provide a short-term reprieve. Supply growth is expected to outpace demand in 2025.

Container Rates (USD per FEU)



Air Freight Rates Descending for Sky High Levels

Supply-chain bottlenecks and capacity constraints should keep air freight spot pricing well above norms this year.

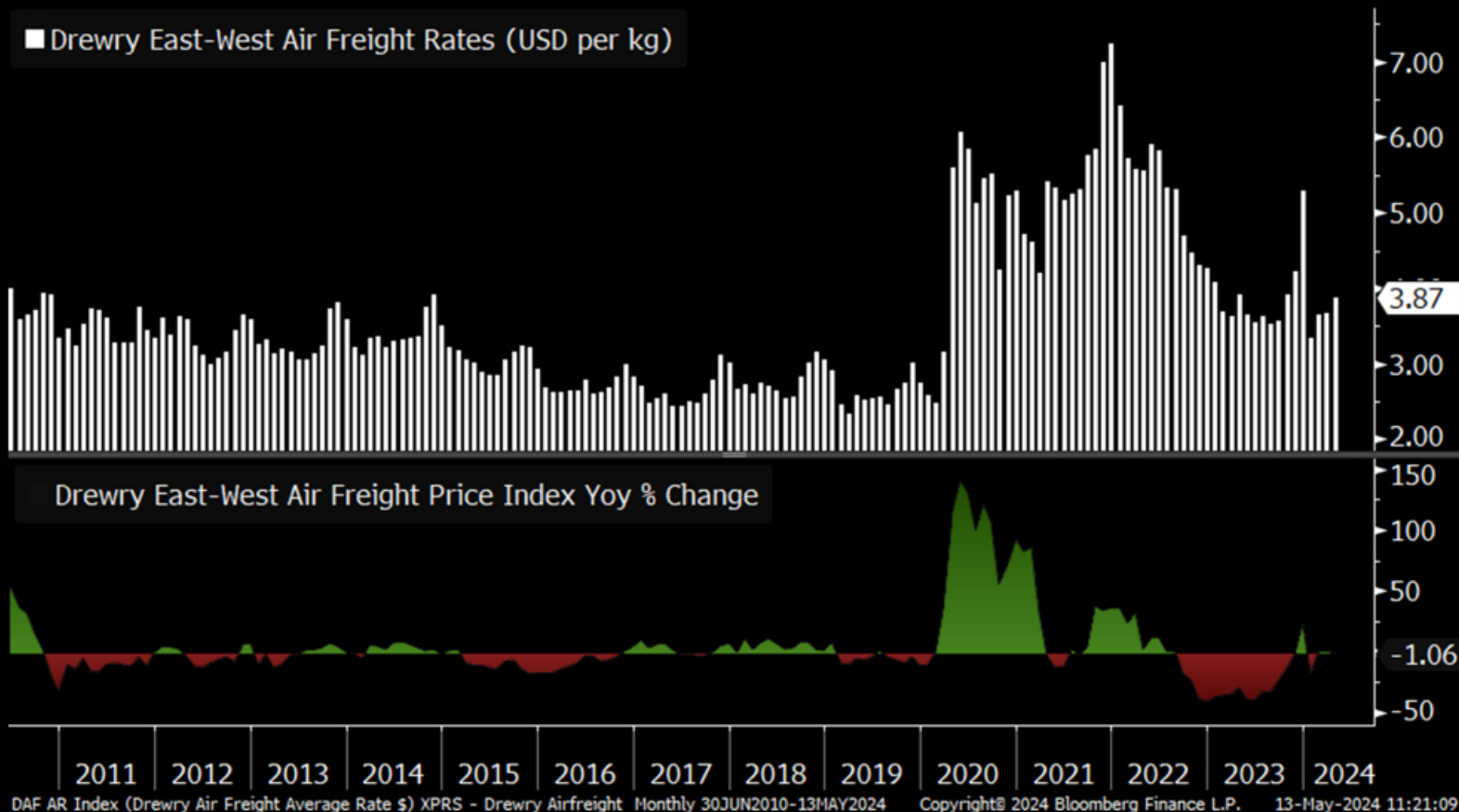
International air cargo capacity was up 11.4% in March, according to IATA data.

Air freight rates are up 2.5% from last year during the week of April 29 according to WorldACD. Rates continue to normalized from unsustainable levels reached during the pandemic.

The Red Sea crisis has been an incremental positive for air freight demand and rates.

A return to normal seasonal trends should bode well for demand ahead of peak season in 2024.

Air Freight Rates by Drewry



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Thank you

Contact the Bloomberg Intelligence Analyst

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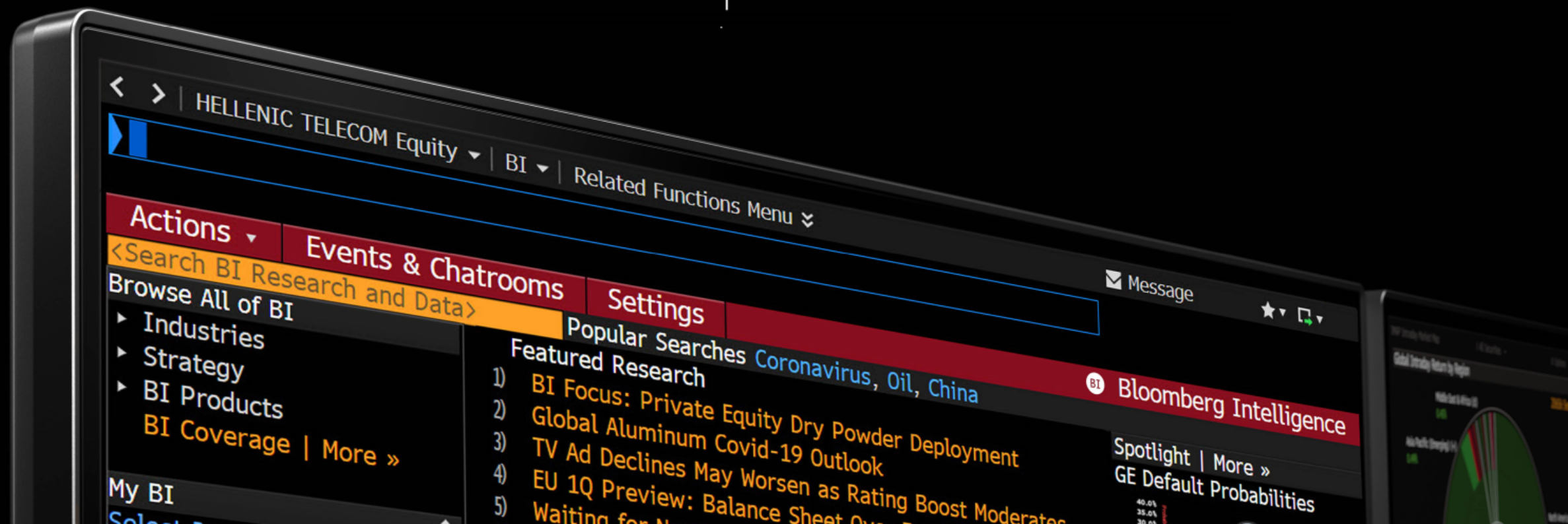


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Truckload Market Overview

May 2024

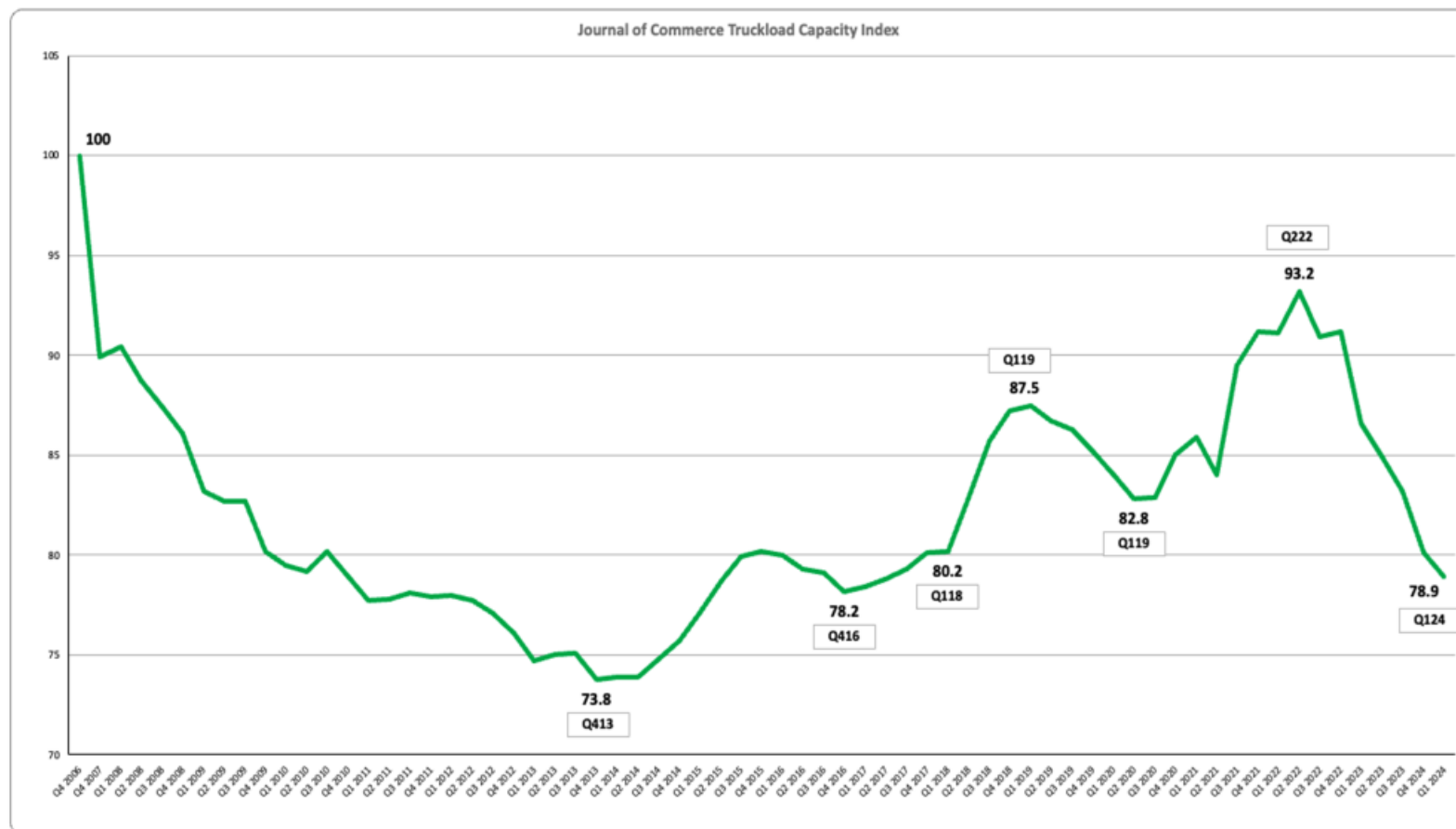
Dean Croke, Principal Analyst

State of the Market Summary

- On the demand side, the economy is still chugging along, basically moving sideways from a freight perspective
- Year over year import volumes have increased on both the East and West coasts – suggesting that consumer demand is still strong despite historically high interest rates.
- But, we do not foresee a large enough demand trigger to cause the market to revert suddenly – as it did in Q1 2020 with the onset of the pandemic demand cycle.
- So, the soft market will continue throughout 2024, barring any events that would trigger dramatically increased demand. Hurricane season could be the wild card.
- Lots of mixed signals on the supply side - higher used truck sales are driving down prices encouraging capacity to enter the market. On top of that, the 2027 pre-buy is underway.
 - May Class 8 truck orders up 46% m/m, and 49% y/y

Truckload Supply Trends

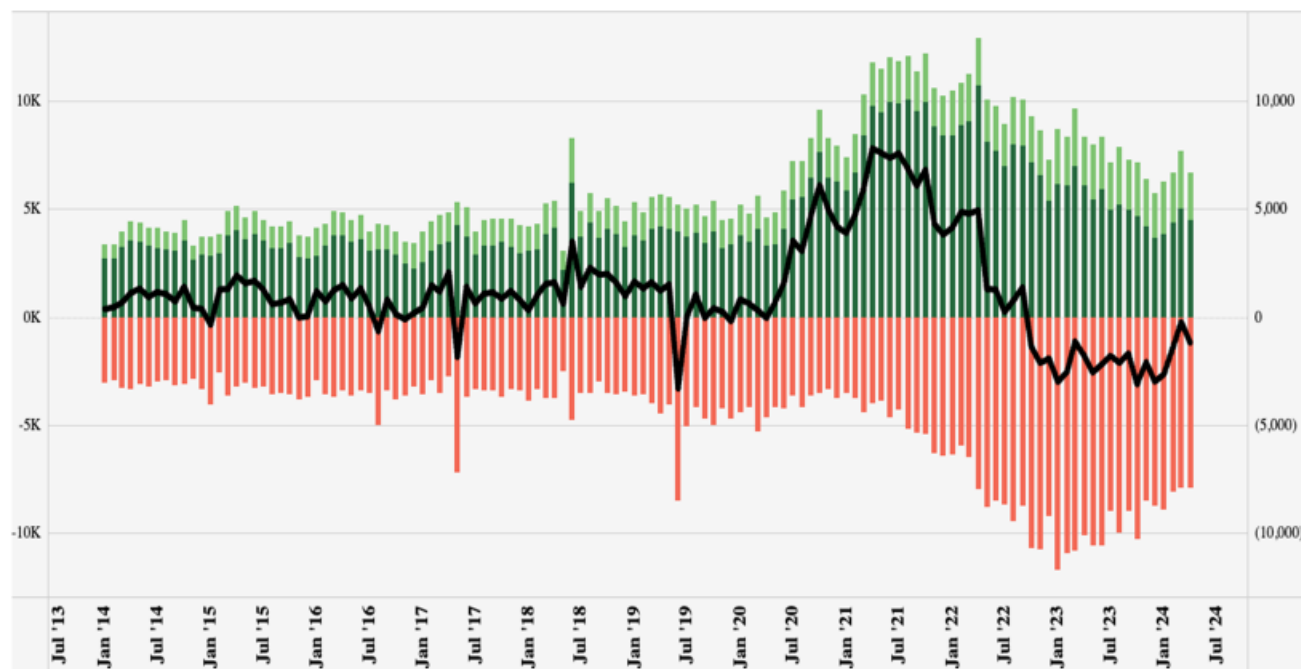
Large Fleet Capacity - Quarterly Changes



TCI measures truck capacity at large, publicly traded trucking companies on a quarterly basis using end-of-quarter truck counts reported within their earnings statements. Indexed to 100 during the 4th quarter in 2006.

- Big carrier capacity cuts in the first quarter pulled the JOC Truckload Capacity Index (TCI) down 78.9
- Since the TCI peaked in 2022, the publicly owned carriers in the index survey group have cut their collective truck count by 15.4%.
- The last time the TCI was below 80 was in the third quarter of 2017 — before the capacity crunch and trucking boom of 2018.
- TCI dropped 2.4% from the fourth quarter and 7.7% from Q1 2023.

Interstate Truckload Capacity - Monthly Changes



Note: This data applies to all vehicles involved in interstate commerce over 10,000 lbs GVW.

Measure Names

- Re-Entrances, Daily
- News, Daily
- Departures, Daily
- Net Change, Daily

Month of Month, Beg.: **Mar '24**

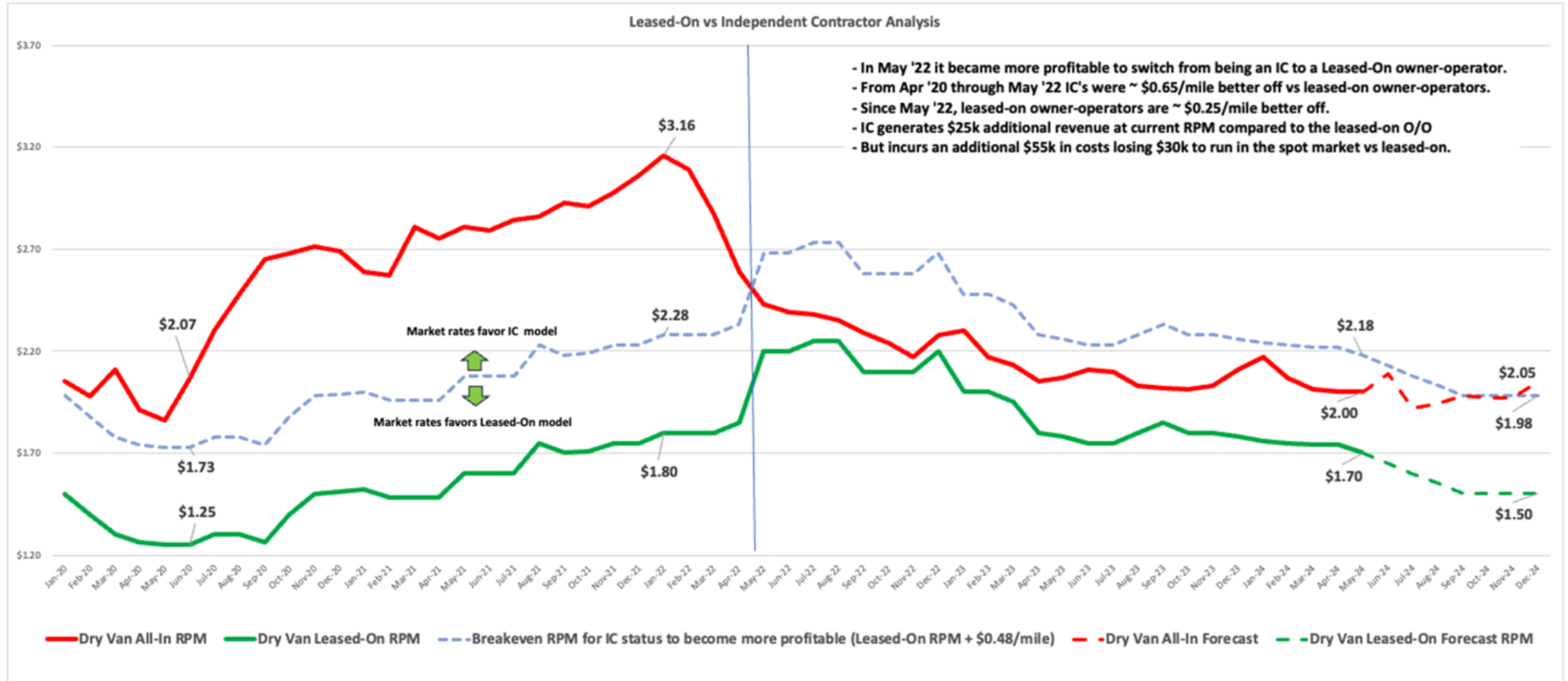
New Entrances: **4,767**
 Re-Entrances: **2,756**
 New + Re-Entrances: **7,523**
 Departures (-): **(7,826)**
 Net Change: **(303)**

Month of Month, Beg.: **Apr '24**

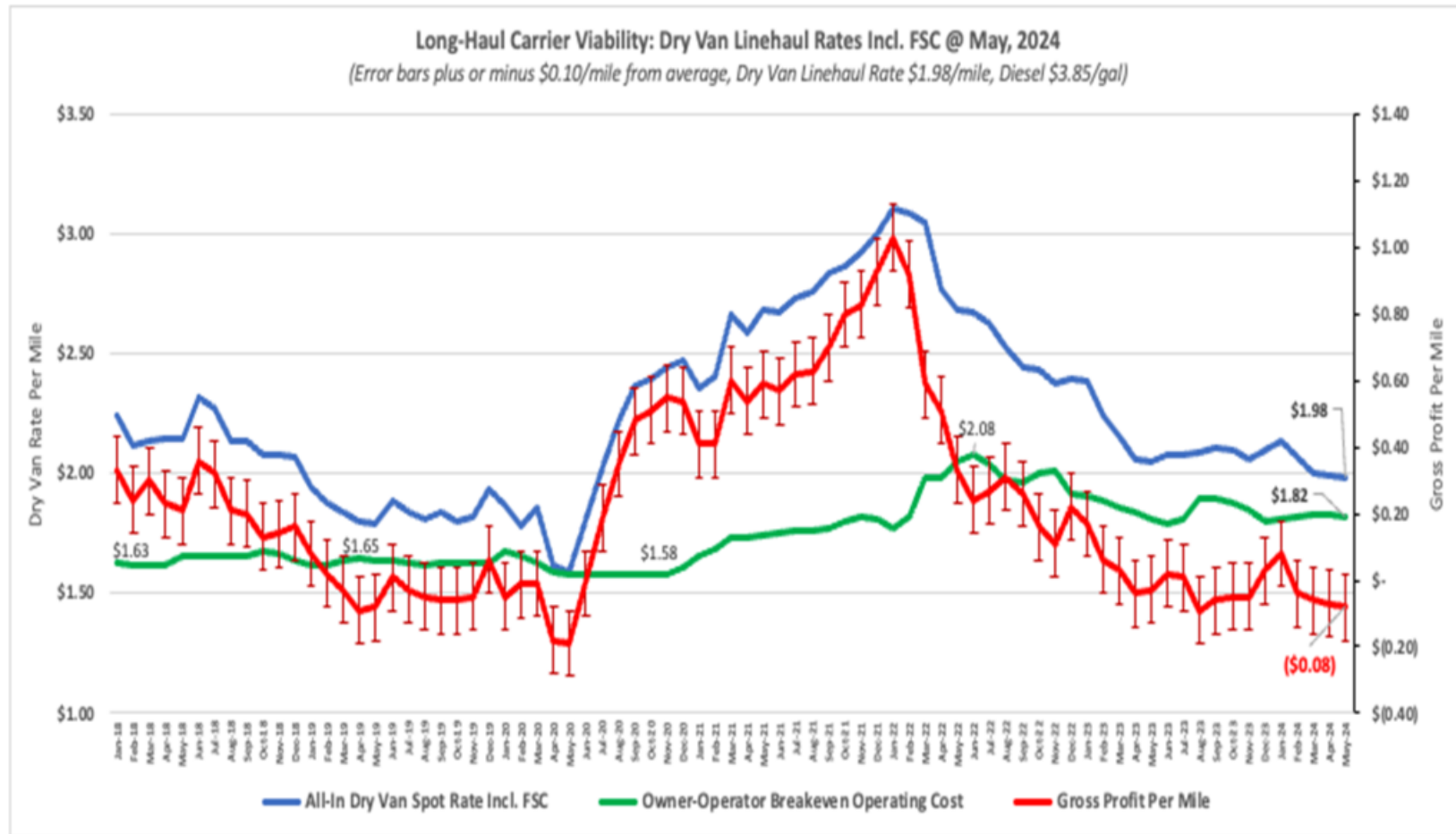
New Entrances: **4,513**
 Re-Entrances: **2,197**
 New + Re-Entrances: **6,710**
 Departures (-): **(7,892)**
 Net Change: **(1,182)**

- The rate of interstate carrier entering the market slowed in April after strong growth in the first quarter.
- Carrier exits were mostly flat in April, but 1,120 fewer carriers joined the market.
- 96% of exits are in fleets with less than 10 power units:
 - 71% are owner-operators, 18% have 2-3 PUs, 7% have 4-9 PUs
- 93% of new and reactivated carrier authorities have 1-3 power units
- New carrier authorities (dark green) down 10% m/m and 26% y/y
- Reactivated authorities (light green) down 17% m/m and 2% y/y.
- For every 10 that leave, 8 join.

Independent Contractor (IC) vs Leased-On O/O



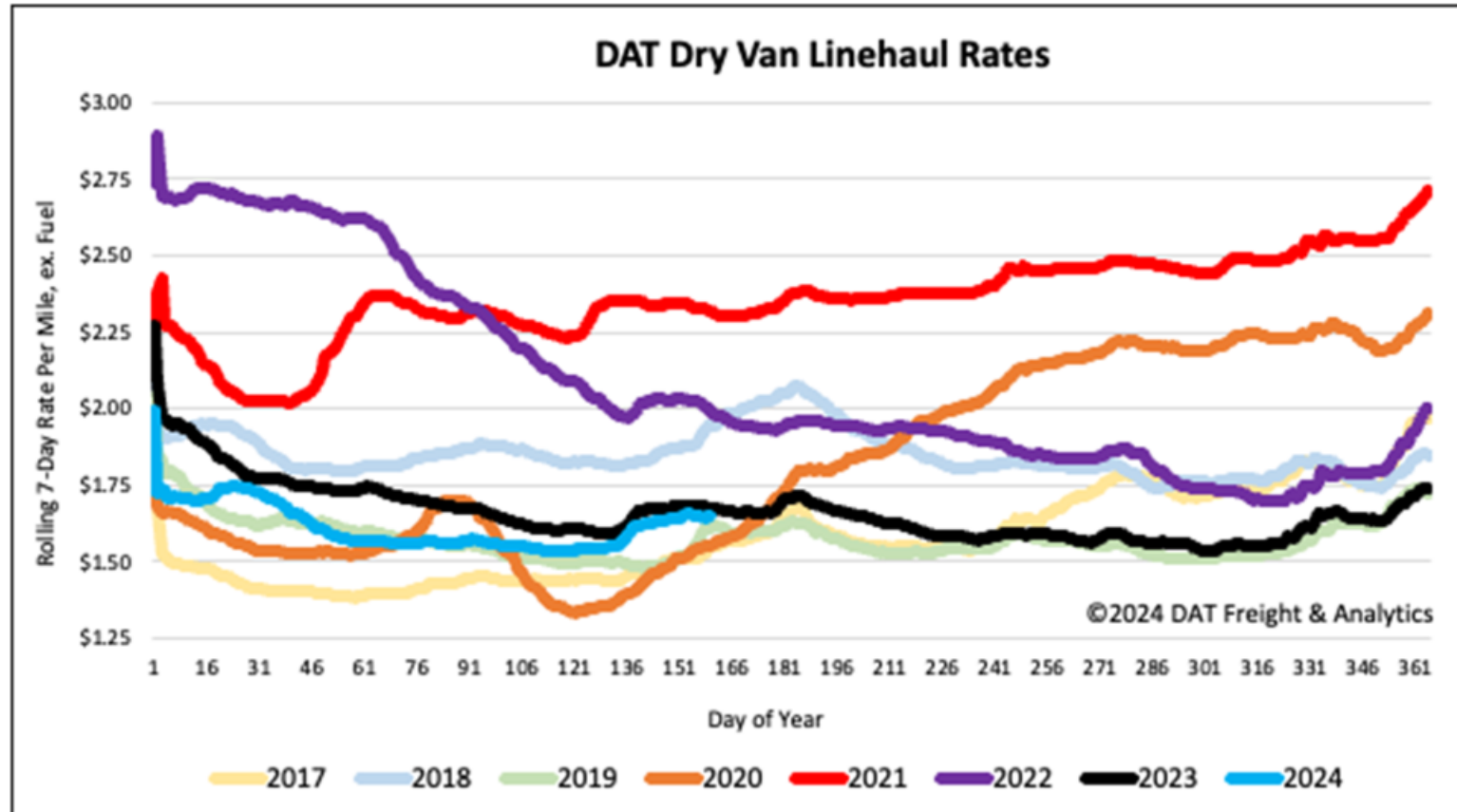
Owner-Operator Cost Dynamics



- Long-Haul carrier profitability declined in the first four months as spot rates continued to bottom out.
- Year-to-date, carriers are losing \$0.08/mile or the equivalent of \$8,000/year annual profit - identical to May '19.
- In contrast, Independent Carriers (IC) were making the equivalent of \$1.00/mile gross profit at the peak of the capacity crunch in late 2021, then - \$0.02/mile in 2019 and \$0.24/mile throughout 2018.
- At \$1.82/mile, the average long-haul spot market carrier is barely getting by and not generating sufficient gross profit to cover major downtime.
- Error bars are set at +/- \$0.10 (\$0.30)

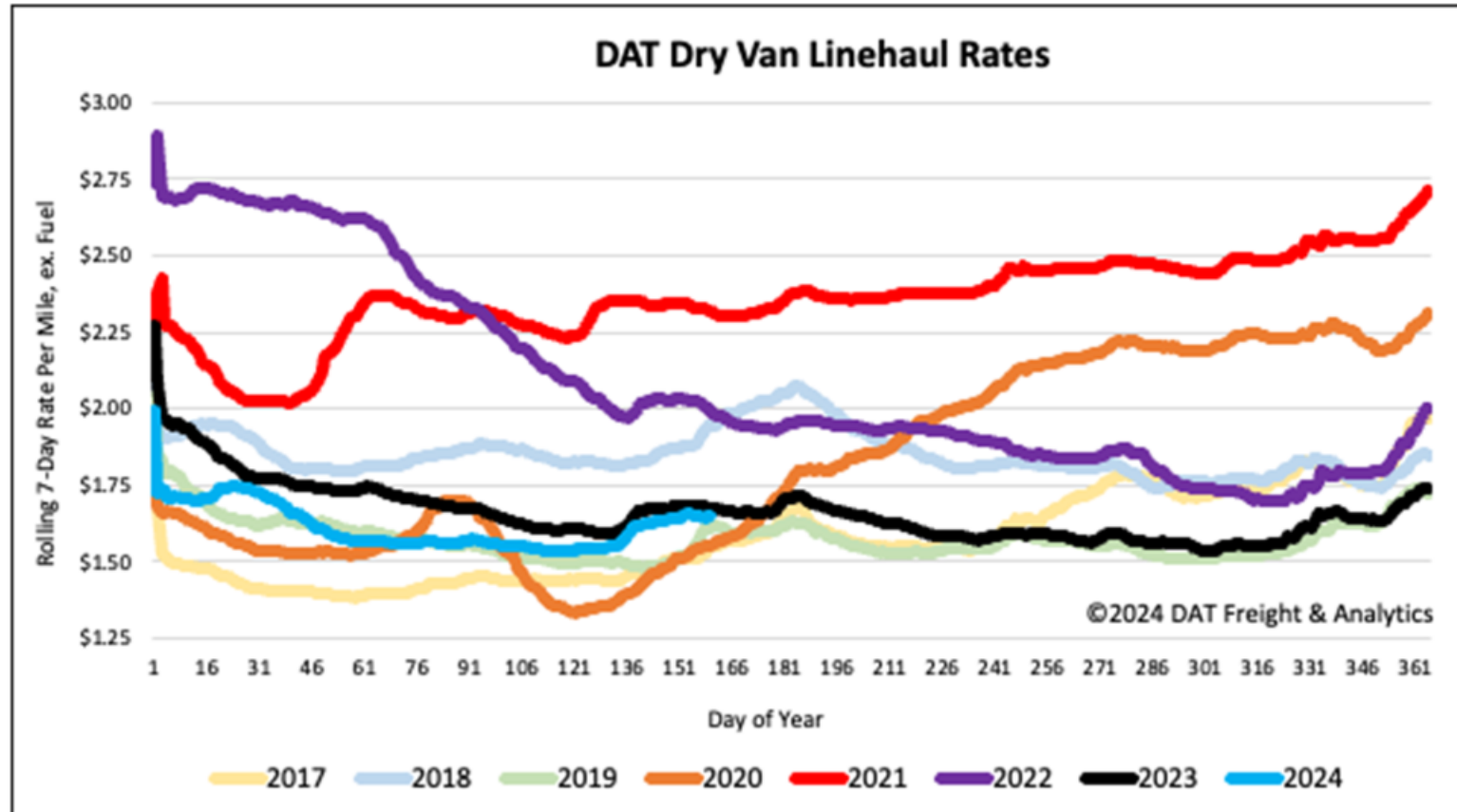
Rate Trends

Rate Trends - Dry Van



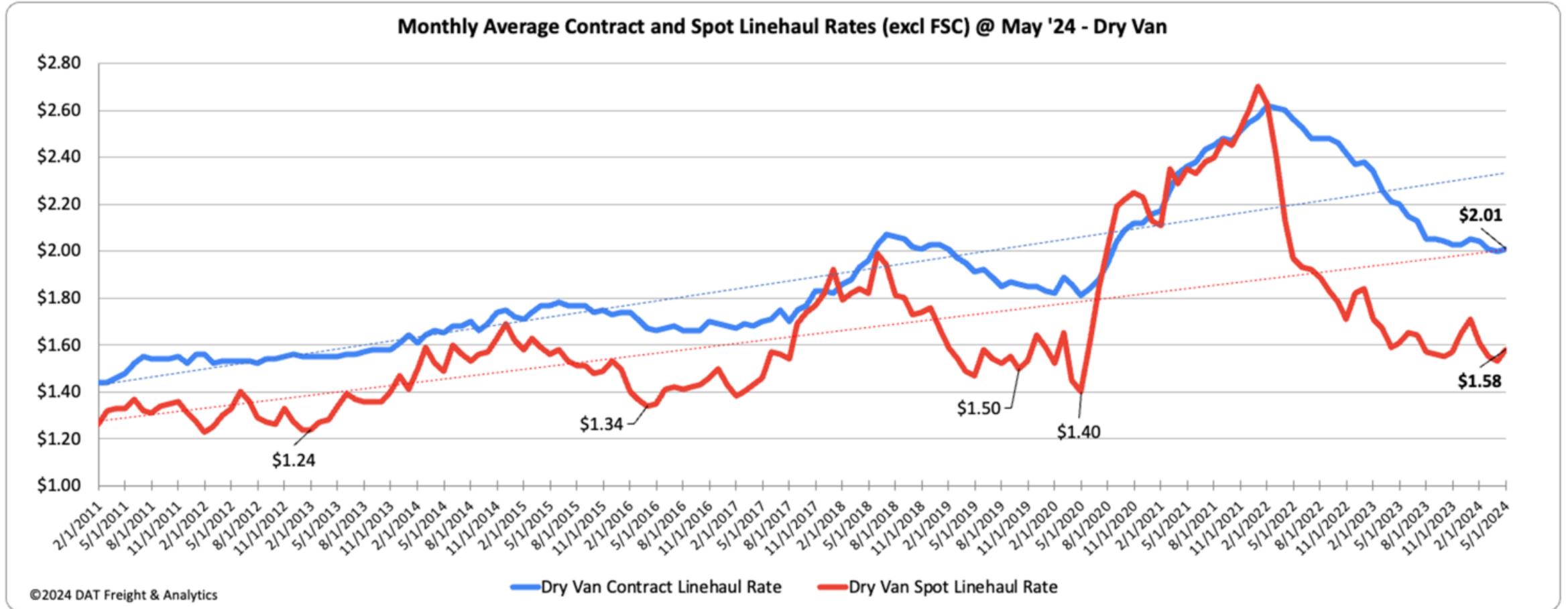
- The national average dry van linehaul rate was primarily flat last week as carriers returned to the market in full force.
- At \$1.66/mile, linehaul rates are \$0.02/mile lower y/y on a 9% higher volume of loads moved in Week 23.
- DAT's Top 50 lanes, based on the volume of loads moved, averaged \$2.01/mile last week, 0.35/mile higher than the national average.

Rate Trends - Dry Van

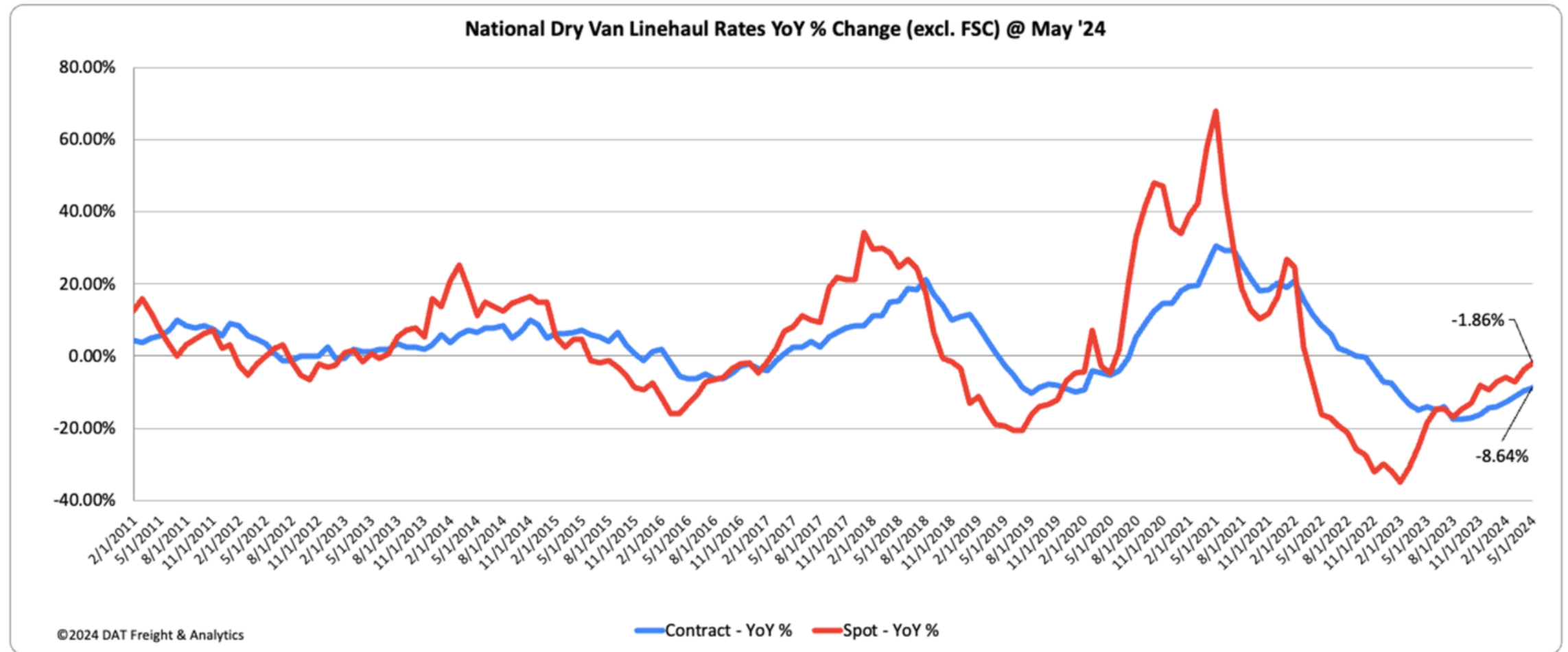


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Long-Term Rate Trends - Dry Van



Long-Term Rate Trends - Dry Van



Contract Rate Trends @ 5/30



Dry Van

- Active rates **up** 1.0% (-1.0%)
- Replacement rates are negative 6% (-1.2%)
- This means that new contract rates are about 6% below the rates being replaced.



Temp Control

- Active rates are **up** 1.0% (-1.0%)
- Replacement rates negative 3.8% (-3.2%)



Flatbed

- Active rates are down 1.2% (-0.9%)
- Replacement rate are down 3.2% (-6.2%)



Intermodal

- Active rates are down 1.3% (-1.7%)
- Replacement rate is down 7.4% (-4.8%)

Key Trends

- 15% of lanes handle 72% of spend & 80% of volume - much focus in this area in RFP's
- Shrinking New Rate Differentials (NRD) across all modes and the bottoming out of the spot markets suggest that the era of double-digit savings from RFPs is ending.
- Contract rates typically follow spot rates on a 4-6 month lag.
- Replacement rates for all modes remained negative in low single digits.