Q2 2024

Q2 2024 FREIGHT RATE REPORT

FREIGHTWAVES

FREIGHTWAVES **FREIGHTINTEL RESEARCH**

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Executive Summary and Forecast

Truckload markets faced unusual volatility in the first quarter of 2024, a period often described as the industry's "quiet season." January showed early signs of a tightening market after nearly two years of overcapacity, thanks to the confluence of severe winter storms and a federal holiday. This growth was soon revealed to be a bull trap, however, as promising gains in tender rejections and spot rates began to be undone in February. Nevertheless, although carrier-facing metrics realigned with seasonal norms in the back half of the quarter, demand from shippers continued to see consistent and meaningful growth over 2023 and throughout Q1 2024.

In fact, despite the obstinance of supply-side inflation, consumers proved remarkably resilient in Q1. Compared to 2023, first-quarter retail sales were up 2.8%, with notable growth seen in e-commerce and other nonstore retailers. Even so, there were pangs of seasonality, such as China's celebration of Lunar New Year that weighed on import volumes late in the quarter. News from the manufacturing sector was also less than heartening, though some industries remarked on the start of a positive inflection. On the whole, however, freight demand was blameless for the ills of truckload markets.

Instead, the extensive glut of capacity continued to weigh on tender rejections and carrier rates throughout the quarter. The national average of fuel-inclusive spot rates rose only 2.2% over Q4, a slim improvement — though an improvement nonetheless — over some of the lowest rates in recent memory. January's aberrant surge in spot rates was swiftly undone in February. Yet despite the persistent rise in operational costs and ever-thinning margins, owner-operators continued to subsist on brokerage volumes. Frustrating expectations that carriers would exit the marketplace en masse during the quiet season, the exodus of capacity appeared to slow late in the quarter [Fig. 9]. A few weeks in March actually posted net gains in trucking authorities — the first such gains since November 2022.

Looking to the remainder of the year, it seems that the health of the freight market will be largely tied to that of the broader economy. Shipper demand is unlikely to prove a headwind in Q2 or Q3. Given the potential for labor uncertainty this fall at East and Gulf Coast ports (discussed below), shippers should pull forward their peak season orders to the coming months. Any apparent risks to consumers' health must also be tempered by their track record over the past two years. The replacement cycle for some of the durable goods purchased during the 2020–2021 boom is likely to begin soon: Personal electronics, furniture and small appliances are the most obvious candidates for replacement, especially during Memorial Day and Independence Day sales events.

Instead, the health of the trucking industry will primarily be determined — as it has been for many quarters now — by success or failure in rebalancing spare capacity to demand. Given that owner-operators managed to endure the relative famine of Q1's market, there is no longer a guaranteed or even expected timeline for this to occur. It is rather likely that carriers will quietly hang up their authorities based on the health of their individual businesses, which can vary wildly. If and when these carriers exit, it is equally possible that they will be replaced by a steady trickle of new entrants.

In light of these market conditions, we believe that dry van spot rates will suffer a notable decline in the second quarter. Any expected growth in freight demand is unlikely to deter excess capacity from lingering in the market, thus remaining a stiff headwind for spot rates. Moreover, spot rates declined in the second quarters of 2022 and 2023, and there is little cause to believe 2024 will prove an exception to this trend. Accordingly, we predict that truckload spot rates in Q2 will decline 2–6% from the previous quarter. Contract rates should similarly be impacted by the end of the recent bid cycle, one in which shippers continued to possess the bulk of pricing power.

Container spot rates in the ocean market, which declined by roughly 25% from Q1 to Q2 of last year, might see a less significant decline, if not relative stability. One factor that makes for difficult comps, as will be discussed later, was the impact of Houthi attacks on container vessels in the Red Sea. Such attacks ramped up early in the first quarter, exerting considerable (albeit short-lived) upward pressure on container spot rates. While the rally faded in early March, a new one has — at the time of writing — since gripped the market. That said, there is plenty of ground to cover if Q2 hopes to post positive growth over Q1: Container rates are currently averaging 18% below the prior quarter.

FIGURE 1: U.S. CONSUMER SPENDING UNDERPERFORMED AGAINST 2023 LEVELS IN THE FIRST QUARTER, STRUGGLING TO OVERCOME A BROAD-BASED DEFLATION IN GOODS

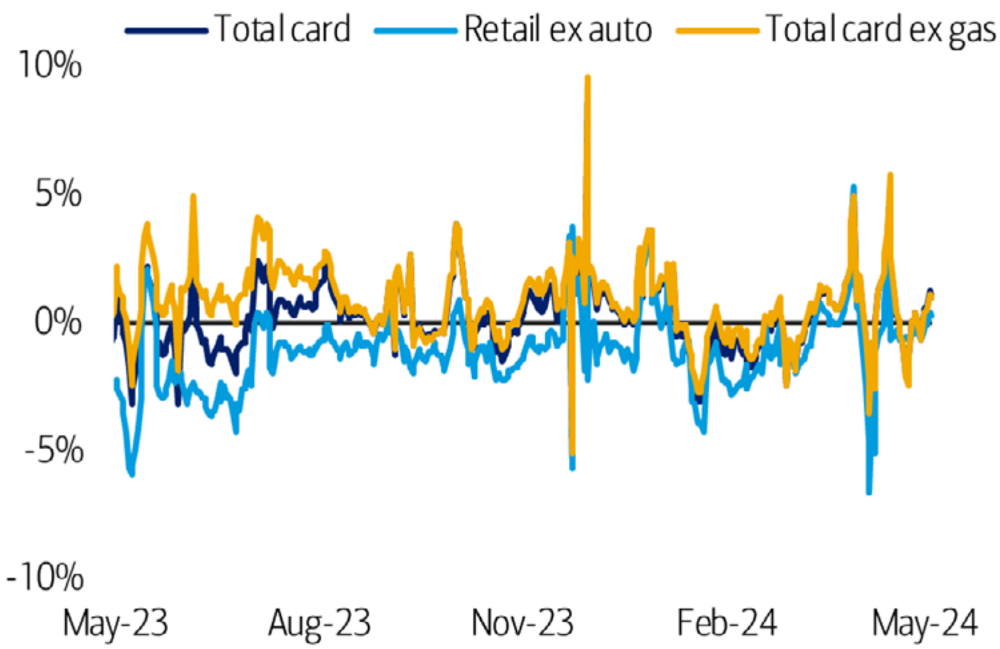


FIGURE 2: E-COMMERCE ACTIVITY OUTPACED 2023 FOR MUCH OF Q1, WEIGHING ON BRICK-AND-MORTAR SPENDING

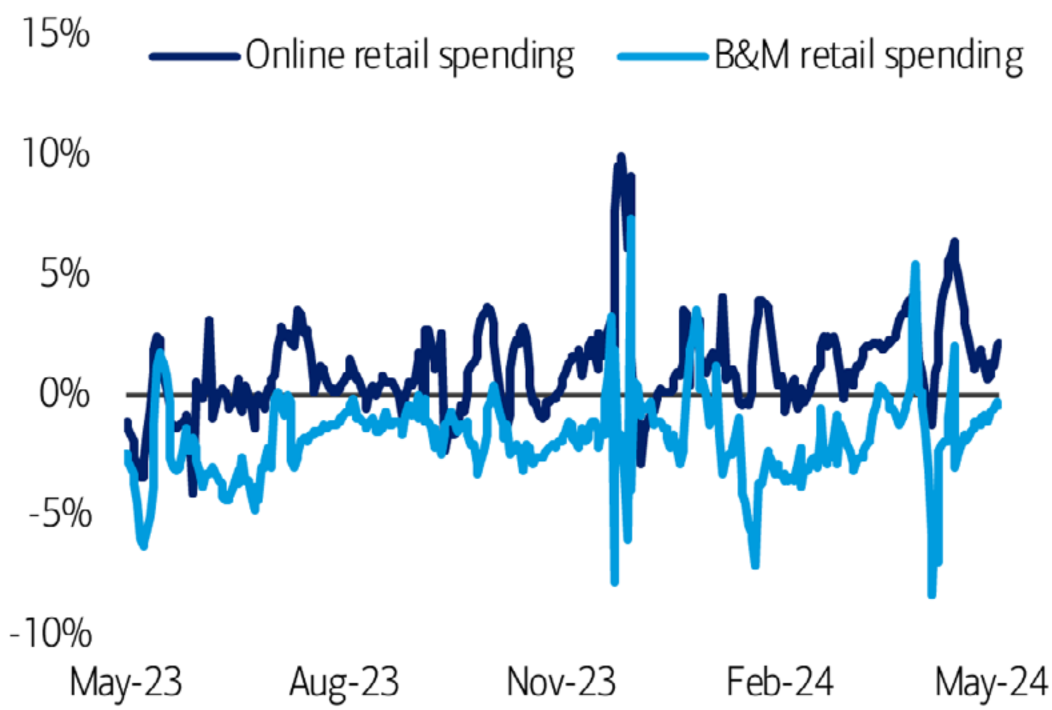
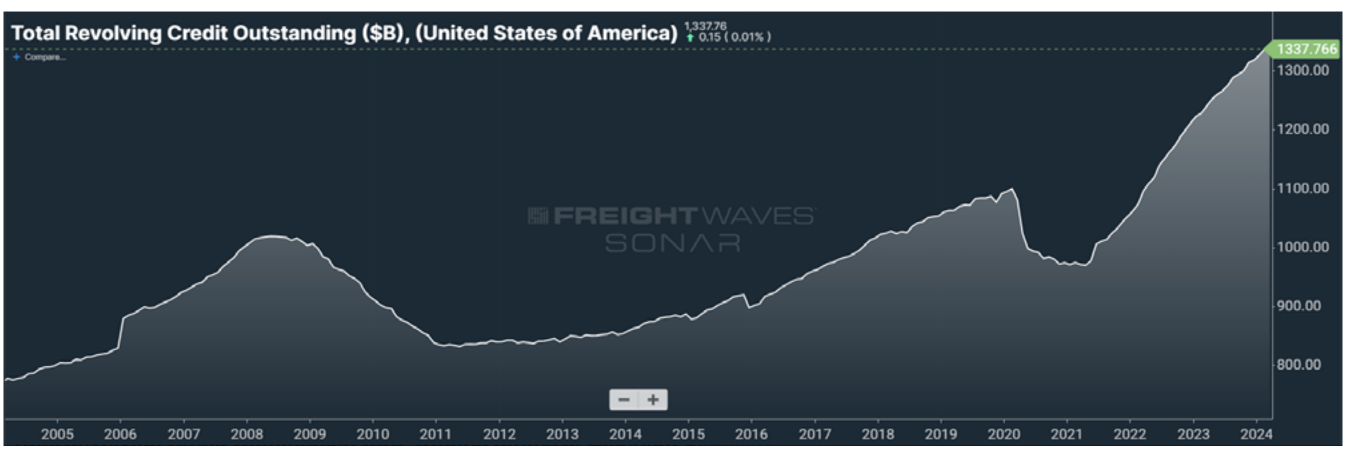


FIGURE 3: U.S. CONSUMERS CONTINUE TO ACCUMULATE REVOLVING CREDIT DEBT AT A RAPID CLIP, GREATLY OUTPACING PRE-PANDEMIC LEVELS



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

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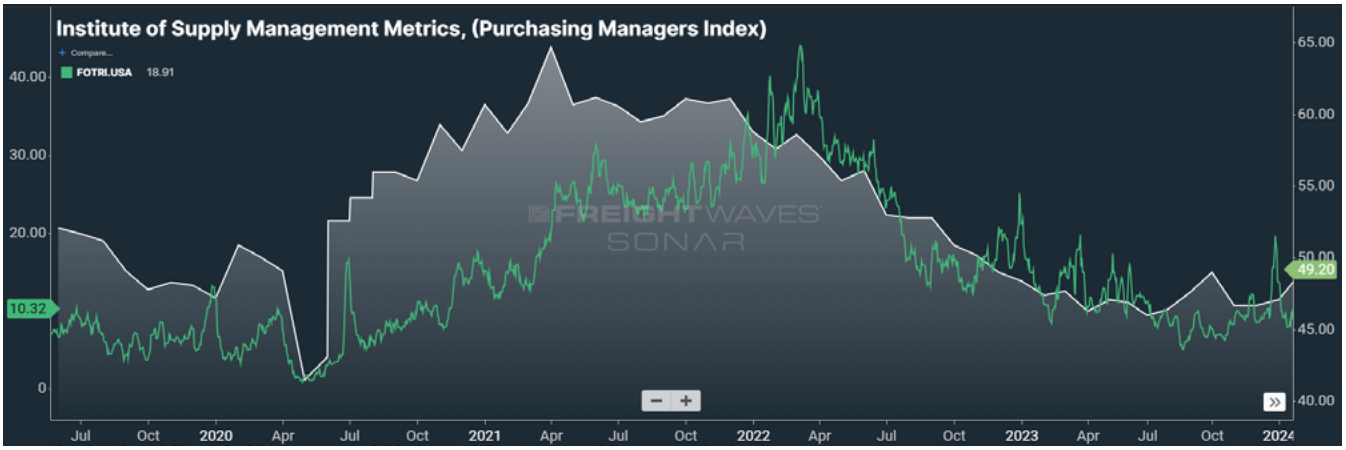
FIGURE 4: THE U.S. INDUSTRIAL ECONOMY SUFFERS CONTRACTION



(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

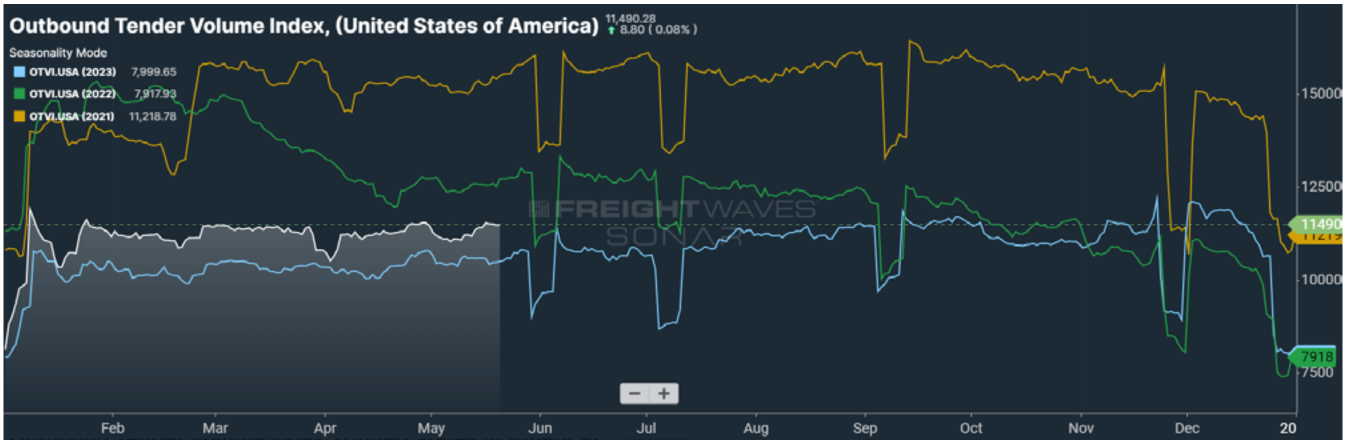
DAILY AVERAGES							
METRIC	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
Tendered Load Volumes Index **OTVI.USA**	**12,140.68**	**10,533.16**	**10,160.53**	**10,479.25**	**10,996.01**	**10,909.19**	**10,187.99**
Tender Rejection Rate **OTRI.USA**	**6.13%**	**4.55%**	**3.79%**	**3.01%**	**3.67%**	**4.00%**	**4.44%**
Inbound Ocean TEUs Index **IOTI.USA**	**1,614.97**	**1,358.85**	**1,240.02**	**1,327.57**	**1,536.25**	**1,479.10**	**1,526.38**
National Truckload Index* **NTI.USA**	**$2.75**	**$2.61**	**$2.48**	**$2.23**	**$2.26**	**$2.27**	**$2.32**

*INCLUSIVE OF FUEL

DAILY AVERAGES (Q/Q Change)							
METRIC	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
Tendered Load Volumes Index **OTVI.USA**	**-4.2%**	**-13.2%**	**-3.5%**	**3.1%**	**4.9%**	**-0.8%**	**-6.6%**
Tender Rejection Rate **OTRI.USA**	**-33.6%**	**-25.8%**	**-16.7%**	**-20.6%**	**21.9%**	**9.0%**	**11.0%**
Inbound Ocean TEUs Index **IOTI.USA**	**-5.3%**	**-15.9%**	**-8.7%**	**7.1%**	**15.7%**	**-3.7%**	**3.2%**
National Truckload Index* **NTI.USA**	**-6.8%**	**-5.1%**	**-5%**	**-10.1%**	**1.3%**	**0.4%**	**2.2%**

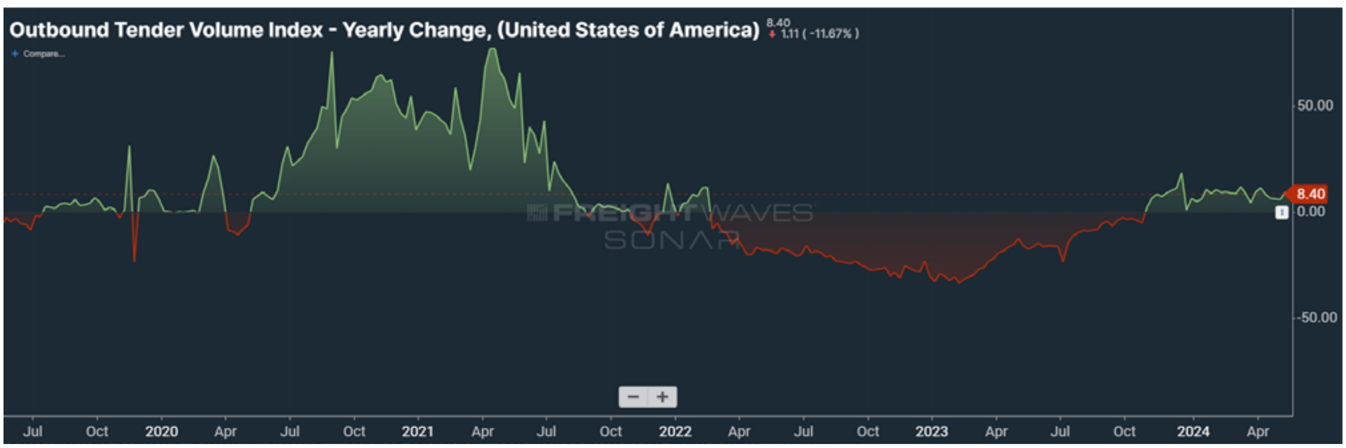
*INCLUSIVE OF FUEL

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)

Q1 2024 Review of Capacity (Supply)

Due to the concurrence of severe winter storms and a federal holiday in late January, shippers found truckload capacity more difficult to secure in the first quarter than in the previous one. Yet this average does not properly convey the quarter's full story of a tighter-than-expected first half and a far mellower second half. Tender rejections began to outpace year-ago levels by the second week of January, rising to a peak of 5.4% at the end of the month.

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 while the spread between contract and spot rates narrowed significantly in Q1, contract rates declined only slightly on a quarterly basis and thus still commanded a considerable premium. In other words, it would be short-sighted for carriers to jeopardize a stable relationship with shippers, negatively impacting their compliance metrics for only a handful of profitable loads on the spot market. Many carriers have endured this downturn for so long precisely by subsisting on contracted freight from shippers and brokers.

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: This year, a cold snap that affected most of the contiguous U.S. caused unforeseen congestion and delays in mid-to-late January. Carriers weighed their personal scales of reward versus risk, with many opting to stay off the roads until such dangerous conditions subsided. Federal holidays, such as Martin Luther King Jr. Day, also incentivize many carriers to spend time away from work.

The brief and ultimately minor rise in tender rejections was driven by such market volatility, which ultimately proved ephemeral. Although tender rejection rates would continue to outperform those of 2023 for almost the entirety of the remaining quarter, they would also begin a slow and stepwise decline that lasted until the end of March.

It is perhaps in this rise and fall that the effects of "soft retirement" can be seen: Since this current cycle of downturn and recovery is playing out on a longer timeline than is usual, and since market dynamics are increasingly localized to smaller regions, many owner-operators — a segment that comprises the bulk of the nation's capacity — are electing to sit on their trucks and authorities until it is more profitable than not to move loads. Operational costs, such as maintenance and insurance, have steadily risen with the pressures of broad inflation. Fuel costs, which had been declining for three months, began to rise as US refineries suffered weather-related shutdowns.

If a sudden market reversal should occur, such as what happened in January, it is no great feat for these carriers to mobilize their fleets and take on new loads with comfortable margins. This behavior is why February proved to be a bull trap: Carriers were quick to reenter the market when spot rates rose, but once the momentary rate pressures faded, the market was still struggling from a base level of overcapacity. Rejections, therefore, declined over the remainder of Q1, eventually stabilizing at their pre-crisis levels.

Looking to the second quarter, owner-operators will continue waiting on the sidelines until some disruption exposes a need for additional capacity. One likely disruption was the Commercial Vehicle Safety Alliance's International Roadcheck, also known colloquially as "Blitz Week." Blitz Week is a perennial, 72-hour period in which nearly all commercial vehicles and drivers are inspected for regulatory compliance. Given that the dates of these inspections are announced well in advance — this year, Blitz Week occurred from May 14-16 — it is not uncommon for drivers to halt operations over the period, avoiding the delays common with truck inspections. At the time of writing, the impact of Blitz Week has been felt and has apparently translated to sustained upward momentum in tender rejections.

Container lines face a similar problem as their trucking counterparts. Although there have been severe, sustained disruptions to trade — the two most impactful being the Red Sea crisis and the drought restrictions at the Panama Canal — the market saw record capacity growth in 2023 and continues to see rapid growth in the year so far. Even though there are predictions, like that from Maersk's CEO, that the expanding scope of the Red Sea crisis will eat into Asia-Europe container ship capacity by 20% in Q2, the market as a whole contains more than enough capacity to absorb the shock from any foreseeable disruptions.

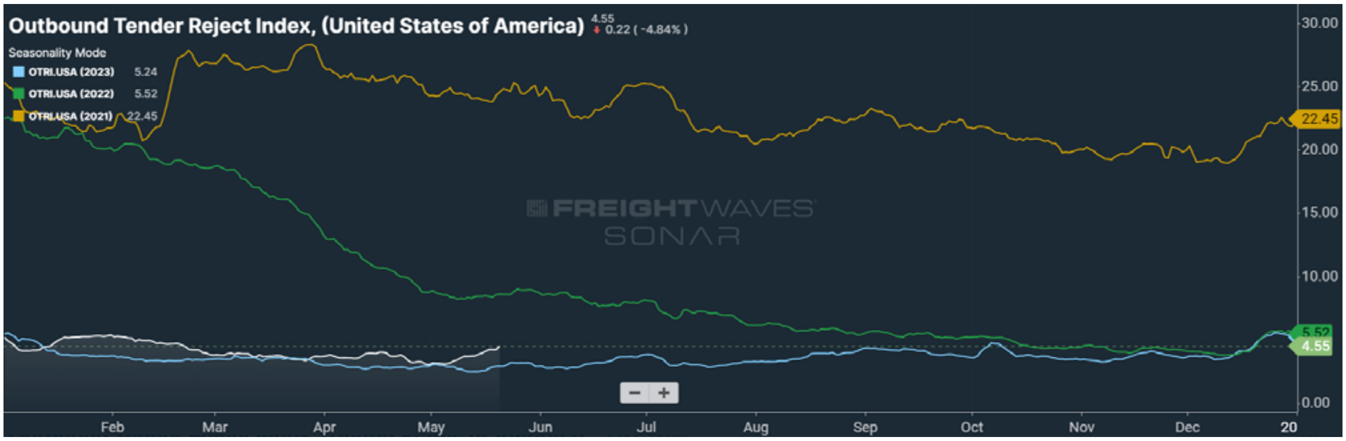
This capacity glut was, of course, driven by the pandemic-era import boom in North America and elsewhere. In the combined years of 2021 and 2022, fewer than 30,000 TEUs were scrapped. By comparison, 650,000 TEUs were torched in 2016 alone. Now, even as vessel recycling activity is set to reach all-time highs, so also is the number of newbuilds. In 2023, roughly 2.2 million TEUs of fresh capacity entered the market. Some 1.6 million TEUs are currently on order for 2024. Analysis from Sea-Intelligence indicates that 2024 will see overcapacity peak at 14% and that the market will not recover until 2028 at the earliest — though these figures were drawn, per the report, "using rather optimistic assumptions."

In short, container lines will have to rely heavily on slow steaming and even idling to yield higher rates in the near future, though these tactics have a limited influence on the overall market. China, in particular, will be a thorn in the side of those that wish to constrain supply, as the country has habitually sought to stimulate its economy by pumping the orderbooks of state-owned enterprises like China Cosco. This strategy not only keeps its domestic shipbuilders busy, but also artificially subsidizes the costs of its export economy.

Intermodal capacity is in a somewhat unique place since the segment rarely faces major changes in service planning. J.B. Hunt — by far intermodal's largest player — has nevertheless invested heavily in capacity in recent years: In 2022, it announced plans to expand its intermodal fleet by 40% by 2027 at the latest. J.B. Hunt also stated its intention to grow its intermodal capacity to 150,000 containers by 2027, a goal it has reaffirmed several times since.

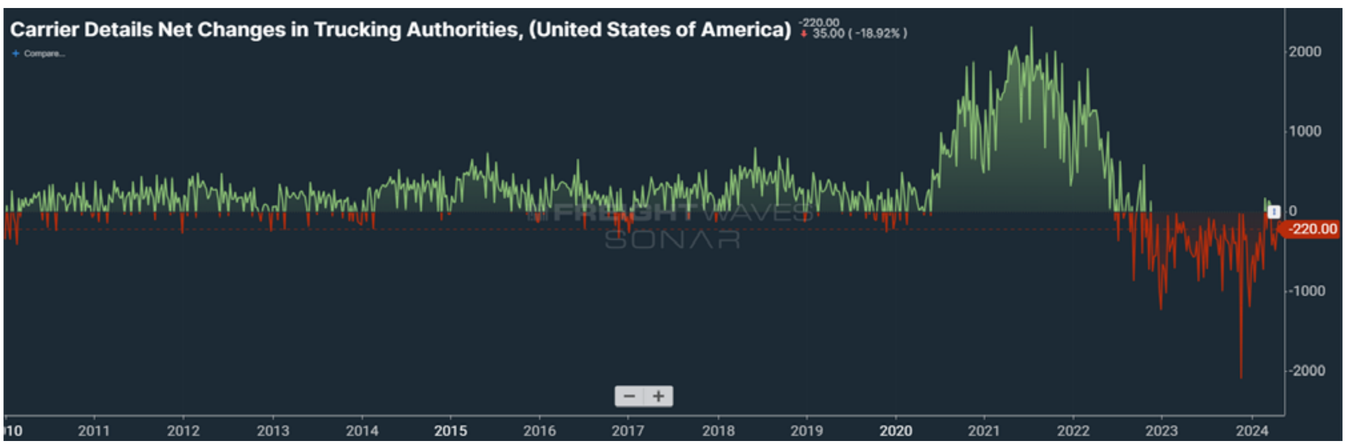
These moves were seen as necessary to compensate for the abysmal rail service witnessed at the time, which resulted in long dwell times and low container velocity. Even though it posted a large earnings miss in Q1 2024 (intermodal revenue was down 9% from 2023), J.B. Hunt reaffirmed its resolve to increase capacity ahead of demand, precluding any future disruptions to rail service.

FIGURE 8: NATIONAL OUTBOUND TENDER REJECT INDEX



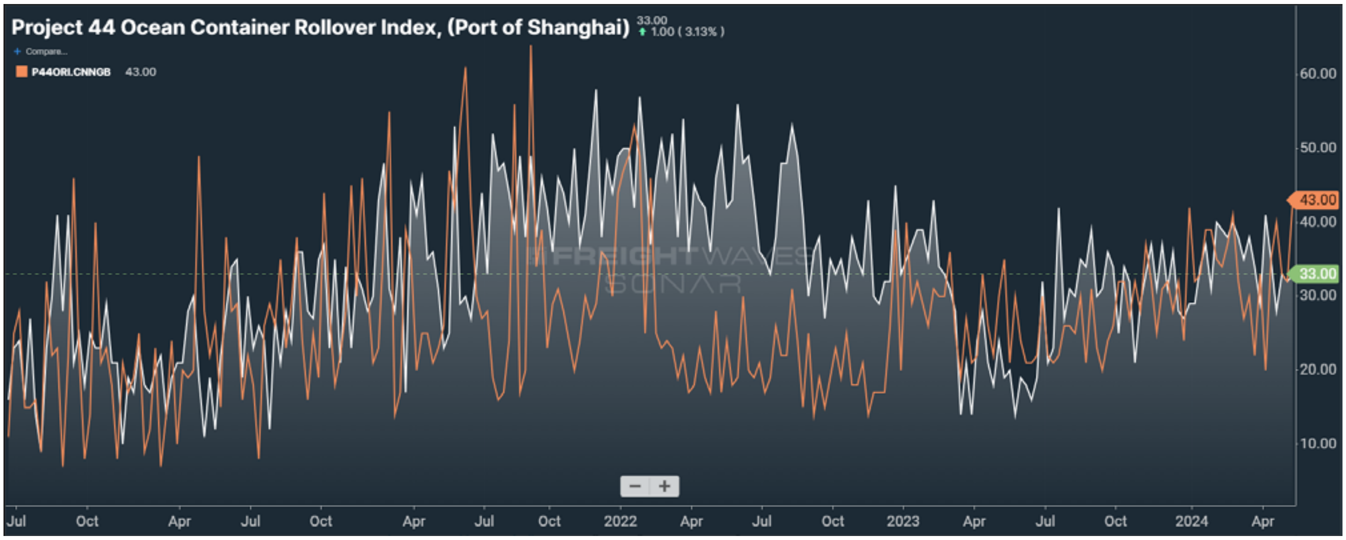
(CHART: FREIGHTWAVES SONAR, NATIONAL OUTBOUND TENDER REJECT INDEX YTD 2024 {WHITE}, COMPARED TO FULL-YEAR 2023 {BLUE}, 2022 {GREEN} AND 2021 {ORANGE})

FIGURE 9: NET CHANGES IN TRUCKING AUTHORITIES



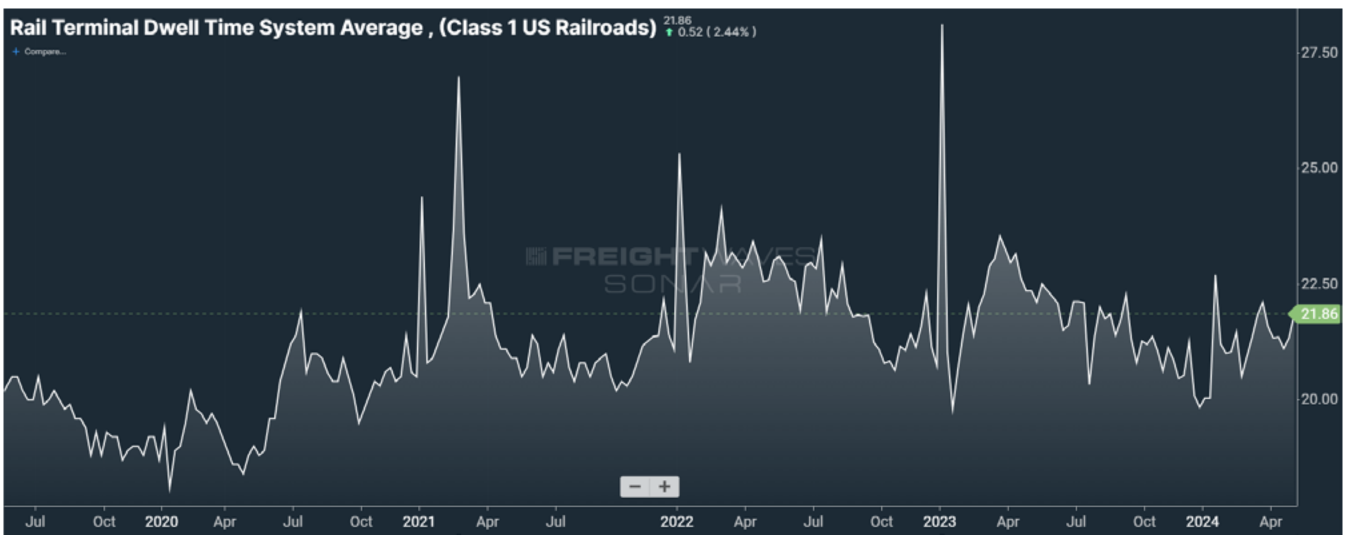
(CHART: FREIGHTWAVES SONAR, NET CHANGES IN TRUCKING AUTHORITIES)

FIGURE 10: PROJECT44 OCEAN CONTAINER ROLLOVER INDEX



(CHART: FREIGHTWAVES SONAR, PROJECT44 OCEAN CONTAINER ROLLOVER INDEX AT THE PORT OF SHANGHAI {WHITE} AND THE PORT OF NINGBO {ORANGE})

FIGURE 11: RAIL DWELL TIME, SYSTEM AVERAGE ACROSS ALL CLASS I RAILROADS



(CHART: FREIGHTWAVES SONAR, RAIL DWELL TIME, SYSTEM AVERAGE {CLASS I RAILROADS})

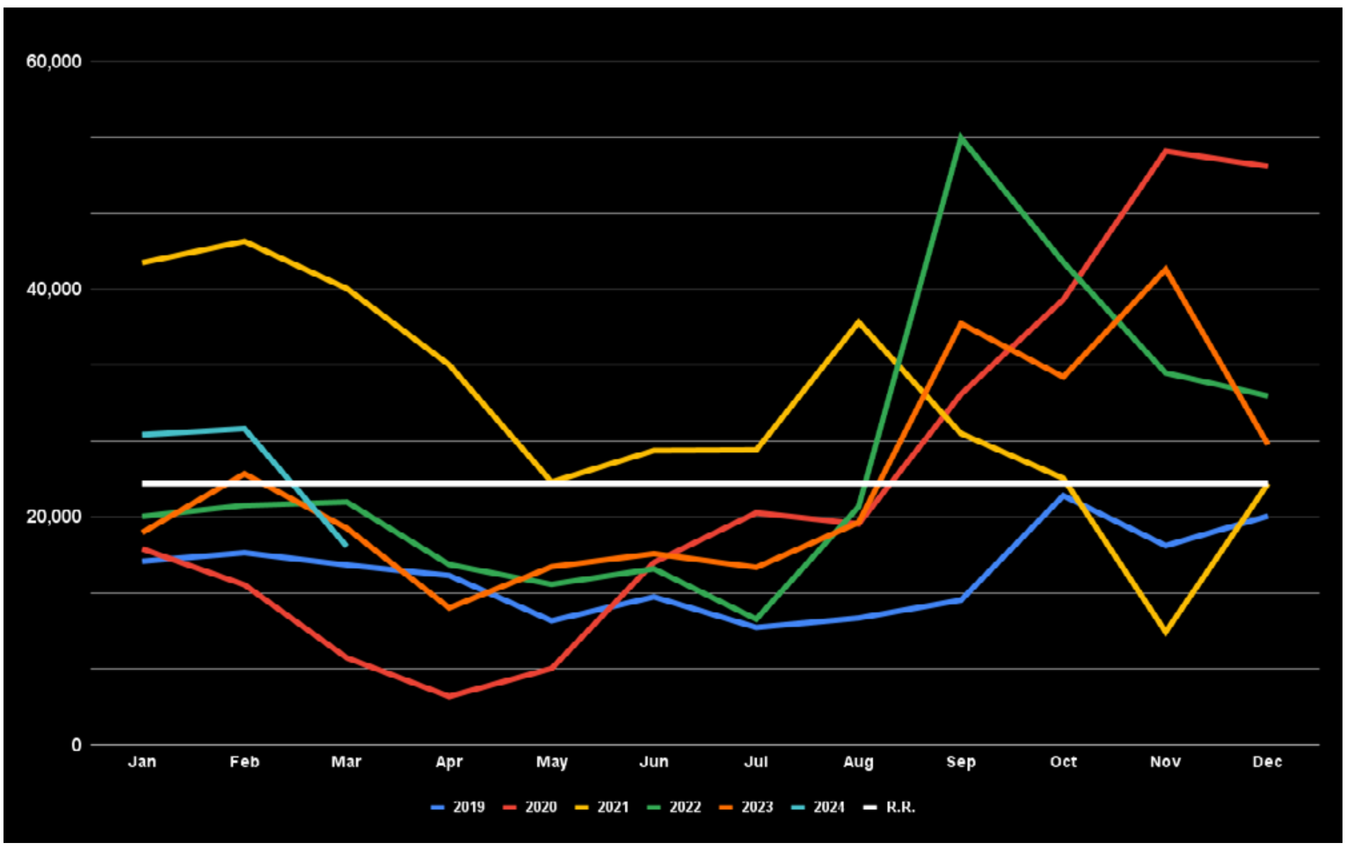
CAPACITY — NEW CLASS 8 TRUCK ORDERS

Compared to 2023, bookings of new Class 8 truck orders in the first quarter rose by an average of 18.1%. Large enterprise and private fleets comprise the bulk of OEMs' customer base, insulating demand for new trucks from depressed spot market activity. Flows of contracted freight were surprisingly robust in Q1, leading enterprise fleets to invest in equipment to support a long-term growth strategy. That said, while January proved to be unseasonably active, demand for new trucks moderated back to seasonal norms by March.

OEMs continue to assert that their backlogs, which are still of considerable length, are not masking a slowdown in new orders beyond what is reported. Analysts at ACT Research, however, project that demand in 2024 will soften from an incredible start: By the end of the year, orders should satisfy but not wildly exceed replacement demand.

For now, new orders are pacing at an annualized rate of nearly 290,000 trucks for 2024. Even if demand tapers off in the coming months, there is a slight buffer to ensure that the year will meet ACT Research's estimate of replacement demand, which currently sits at 275,000 units.

FIGURE 12: NEW CLASS 8 TRUCK ORDERS (ACT RESEARCH)



Source: ACT Research, FreightWaves

FIGURE 13: NEW CLASS 8 TRUCK ORDERS — ABSOLUTE MONTHLY VALUES (2017-2024 YTD)

	2017	2018	2019	2020	2021	2022	2023	2024	Y/Y	M/M
JAN	22,188	49,136	16,105	17,204	42,307	21,041	18,624	27,212	46.1%	3.3%
FEB	23,245	40,271	16,854	14,040	44,190	21,006	23,790	27,745	16.6%	2.0%
MAR	23,215	46,593	15,783	7,632	40,049	21,301	19,010	17,410	-8.4%	-37.2%
APR	24,007	34,735	14,859	4,251	33,353	15,820	12,016			
MAY	16,940	35,721	10,886	6,690	23,072	14,081	15,623			
JUN	18,104	42,213	12,979	16,010	25,824	15,444	16,773			
JUL	18,726	52,618	10,298	20,359	25,876	11,025	15,573			
AUG	21,213	53,040	11,119	19,389	37,096	20,892	19,513			
SEP	22,573	42,781	12,692	30,768	27,323	53,271	36,974			
OCT	36,092	43,526	21,864	39,089	23,391	42,359	32,287			
NOV	32,637	28,114	17,483	52,104	9,902	32,630	41,732			
DEC	37,569	21,381	20,073	50,760	22,937	30,623	26,352			
	296,509	**490,129**	**180,995**	**278,296**	**355,320**	**298,493**	**278,267**	**72,367**		
Y/Y CHANGE	58.88%	65.30%	-63.07%	53.76%	27.68%	-15.99%	-6.78%	18.11%		
MONTHLY AVG	24,709	40,844	15,082	23,191	29,610	24,874	23,189	24,122		
ANNUALIZED	296,509	490,129	180,995	278,296	355,320	298,493	278,267	289,468		
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)	-1%	-9%	4%	0%	-3%	-1%	0%	-1%		

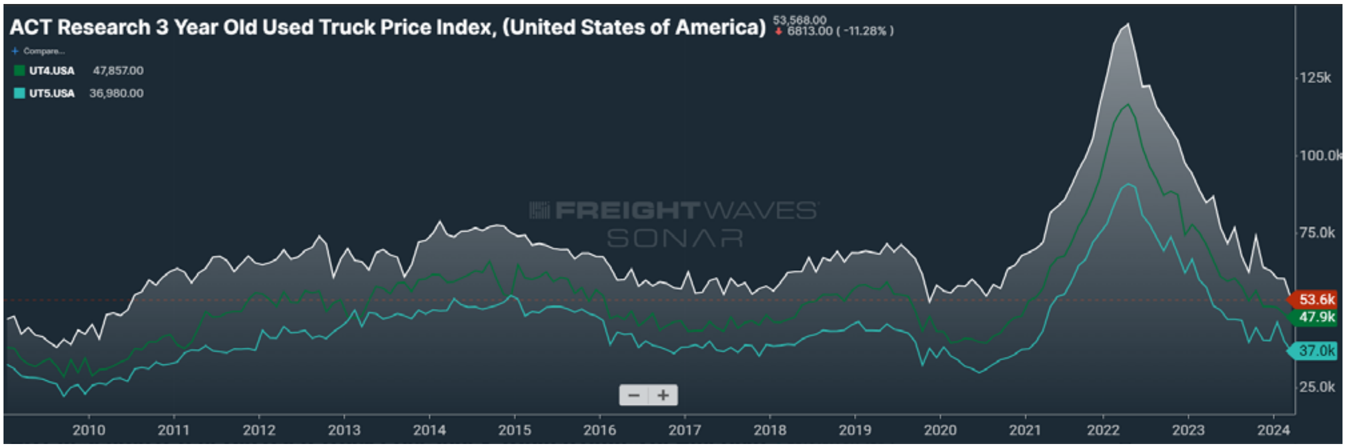
Source: ACT Research, FreightWaves

CAPACITY — USED TRUCK PRICES

Prices of used trucking units continued to moderate in Q1 as the inhospitable spot market environment rebuffed many would-be drivers from entering the industry and compelled some existing carriers to relinquish their authorities (and thus sell off their equipment). In fact, used truck prices fell back to their 2010 lows — an incredible feat considering the 43% rate of broad inflation since that period. The initial rise in used truck prices 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 ubiquitous 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 from 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 2010, but recent trends suggest that used truck prices will continue to decline regardless.

FIGURE 14: 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 15: AVERAGE USED TRUCK PRICES BY QUARTER

AVERAGE USED TRUCK PRICES BY AGE							
	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
3 years old	**$116,899**	**$103,709**	**$89,398**	**$78,571**	**$68,970**	**$67,078**	**$58,148**
4 years old	**$92,114**	**$83,491**	**$74,844**	**$62,297**	**$57,198**	**$53,115**	**$49,529**
5 years old	**$73,624**	**$68,095**	**$61,426**	**$49,675**	**$44,629**	**$41,845**	**$41,143**

Source: ACT Research, FreightWaves

Q1 2024 Review of Volumes (Demand)

Freight demand was remarkably stable throughout the first quarter of 2024, offering perhaps the clearest indication that the trucking industry is in a recovery — painful and protracted though it might seem to carriers. January historically marks the start of the “quiet season” in truckload markets, since shippers and consumers alike are recovering from a busy holiday buying season. Freight activity was briefly depressed by facility closures and capacity going offline in mid-January, when a rash of severe winter storms rattled power grids and stoked congestion. But demand was quick to recover in the following weeks, reflecting shippers’ vocal shift from burning through to rebuilding their inventories.

Even in the face of stubbornly high inflation, consumer spending was robust over the first quarter, prompting shippers to refocus on inventory growth. Retail sales were up 2.8% over Q1 2023, with electric gains seen in clothing (up 3.4%), general merchandise (up 4.9%) and nonstore retailers including e-commerce (up 8.7%). Wages grew at an average rate of 4.9% relative to 2023, outpacing the average 3.3% uptick in consumer inflation. Data from the labor market continued to outshine even the most bullish forecasts throughout Q1, with job growth underpinning consumers’ resilience.

But this resilience arguably has its expiration guaranteed by its nature: Earlier this year, a trend known as “doom spending” — spending on luxury goods, experiences and other discretionary items as a means of coping with economic stress — gained popularity. According to a survey by Credit Karma, 96% of Americans stated concerns about the health of the U.S. economy, while 27% admitted to doom spending. Rates were even higher among younger generations: 35% of Gen Z and 43% of millennials engaged in the practice.

This trend is reflected elsewhere in personal finance data: Per the Federal Reserve, revolving credit (which includes credit card debt) continued to rise in Q1, growing at an annual rate of 5.7%. Surprisingly, February marked the fastest growth since last November, when credit was in high demand during the Black Friday and Cyber Monday shopping events. It has also become more expensive to hold such debt, as the average interest rate on a credit card plan rose to a new all-time high of 21.6%. What is more, the personal saving rate — the percentage of disposable income that is not spent — fell in March to 3.2%, its lowest level since October 2022.

Skepticism regarding the near-term health of the US consumer must be tempered by the fact that such bearish forecasts have been frustrated before. The early stages of the current inflationary cycle nearly erased savings made during the pandemic, while several small and midsize banks collapsed in the first half of 2023. As a result, it was widely feared that consumers would soon be tapped out.

Nevertheless, spending has continued to grow, and several sectors are anticipating a recovery. While there are a few theories as to why such resilience has been displayed, including the contentious belief that high interest rates are actually sustaining inflation by driving more income to consumers via bond investments and savings accounts, there is not yet a firm consensus. In short, despite the confluence of data that might suggest otherwise, it is risky to bet against a US consumer who has been the foundation for stable truckload demand.

There were numerous challenges on the maritime front throughout the quarter that made Q1’s stability all the more impressive. Most notably, Yemen-backed Houthi rebels ramped up their attacks on cargo ships in and around the Red Sea, prompting strategic reroutes around Africa’s Cape of Good Hope that weighed on capacity and sparked a brief rally in container spot rates. Although these attacks initially wrought havoc on routing guides and transit times, it soon became clear that the maritime market — much like its counterpart in trucking — had more than enough capacity to absorb these disruptions.

But there was still the issue of the Panama Canal, which was suffering from droughts at the peak of its dry season. In their efforts to continue operations despite low water levels, canal authorities began to severely restrict the number of transits per day. This restriction proved a massive headwind to trade between East Asia and the US East Coast that, in calmer times, would not have been so: Shippers would instead reroute vessels through the Suez Canal, adding two or so days to transit times. Yet the unrest caused by the aforementioned Houthi attacks forced container ships to evacuate the region, either stranding vessels at the Panama Canal until they can obtain a rare slot or driving them to also reroute around the Cape of Good Hope, tacking on another week or two to transit times.

The impact of disrupted trade between Asia and the US East Coast was fortunately lessened by the celebration of Lunar New Year in February. Since manufacturing and port operations are suspended during this two-week period, imports from China and other East Asian countries are few and far between. As this holiday is a known factor, shippers traditionally rush to get their freight loaded before it begins. While this rush was not seen last year, it returned with a vengeance in 2024: Bookings to the U.S. reached all-time highs for this period, outshining even the booming years of 2021 and 2022 [Fig. 17].

In fact, import volumes were strong throughout the quarter. January saw the largest monthly gain of containerized imports in seven years, with volumes up nearly 10% over 2023. The Port of Los Angeles posted its second-busiest January on record — outdone only by 2022 — with handled volumes up 18% from the year prior. Import volumes continued to impress until the end of March, when the lull caused by Lunar New Year finally reached US shores.

The outlook for the quarter ahead is somewhat murky, though it is extremely likely that maritime's peak season — which historically lasts from mid-Q3 to early Q4 — will be pulled forward by a considerable degree. While authorities are optimistic that the Panama Canal will be able to accommodate more vessels in the coming months, it might be too late to reverse the decline in East Coast ports' market share: The labor contract between the International Longshoremen's Association (ILA) and the United States Maritime Alliance (USMX) is set to expire at the end of September.

The ILA represents some 70,000 dockworkers, while the USMX represents employers at 36 ports along the East and Gulf coasts — including three of the U.S.'s five busiest ports: the Port of New York and New Jersey, the Port of Savannah, Georgia, and the Port of Houston. In November, ILA leadership warned roughly 45,000 of its members to "prepare for the possibility of a coastwide strike in October 2024." Shippers are unwilling to gamble their freight on whether or not the ILA is bluffing: Indeed, given the labor actions of the past two years, it is safest to assume that the workers are fully prepared to strike. In short, all freight that can be pulled forward before the strike deadline will likely be pulled forward, possibly leaking into the tail end of Q2.

Trade between China and the U.S. is also being threatened in both directions, though for quite different reasons. The two presumptive candidates in this year's presidential election, former President Donald Trump and incumbent President Joe Biden, have proposed tariffs of varying degrees on Chinese goods. Trump recently stated that, if elected, he would impose a tariff of 60% or more on Chinese goods as well as a 100% tariff on all automobiles manufactured outside the U.S.

Although Biden has criticized such broad measures, he has voiced his intention to triple existing tariffs on Chinese steel and aluminum and has implemented a new series of tariffs on various Chinese goods.

These new tariffs, which will take effect in phases over the next three years, will raise the tax rate on semiconductors and solar cells from 25% to 50%, syringes and needles from 0% to 50%, lithium-ion batteries from 7.5% to 25% and, perhaps most importantly, electric vehicles from 25% to 100%.

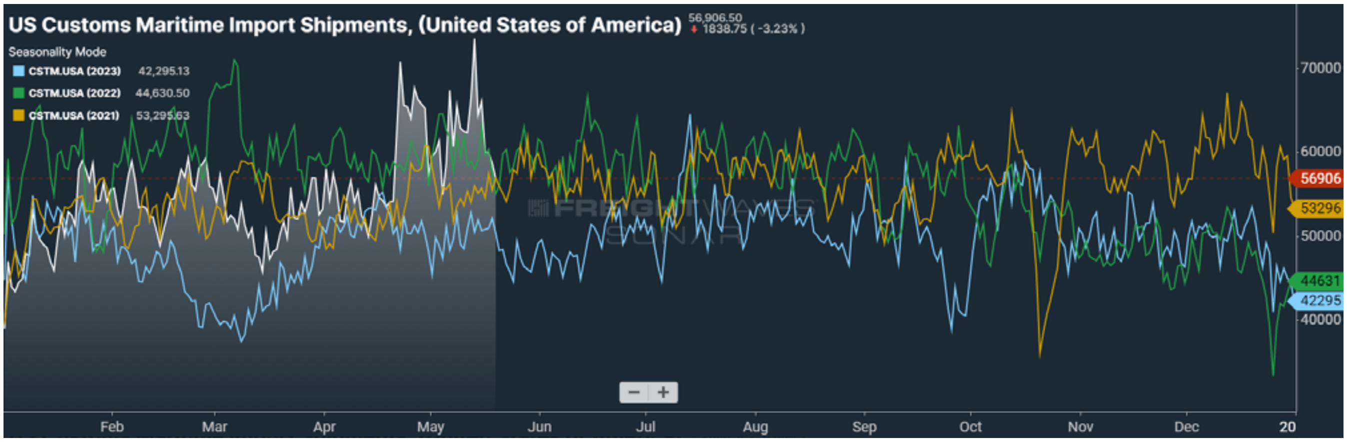
Meanwhile, the flow of goods from the U.S. to China is jeopardized by the potential for low flows on the Mississippi River this year. If this forecast comes to pass, it would mark the third consecutive year in which the waterway was at risk of bottlenecks. The U.S. is the world's largest producer and second-largest exporter of soybeans, and roughly two-thirds of soybeans grown in the U.S. are shipped along the Mississippi River. China is by far the largest purchaser of U.S. soybeans, importing $15.16 billion in 2023 alone. The U.S. is estimated to have lost $20 billion of economic output in 2022, a year in which the Mississippi River suffered an extreme drought. Needless to say, a drought of comparable magnitude this year would be a major headwind for trade.

The collapse of Maryland's Francis Scott Key Bridge in late March will have a notable if limited impact on East Coast volumes. Access to the Port of Baltimore has been mostly blocked following the bridge's collapse; the port has since seen a modest re-opening but is expected to be impacted indefinitely. While the port is not a significant source of container volumes, it is an important center for the trade of wheeled cargo such as automobiles and farm machinery. Containerized freight that was bound for Baltimore should find ready accommodation at other East Coast ports such as New York and New Jersey, Savannah and Charleston.

Turning to intermodal, Q1 2024 saw significant demand growth that helped to justify long-term growth strategies in the space. Q1's average of total US volume, including both loaded and empty containers, was up 16% over 2023, 8.7% over 2022 and even 0.57% over the heady days of 2021. Looking strictly at loaded intermodal containers shows less growth but growth nonetheless. Loaded volumes rose 10% from 2023 and a slim 0.83% from 2022, though they understandably failed to live up to 2021 by 6%. Reports from specific intermodal providers were not as cheerful: J.B. Hunt saw volumes decline 9% from the quarter prior, though they were up 0.2% over Q1 2023.

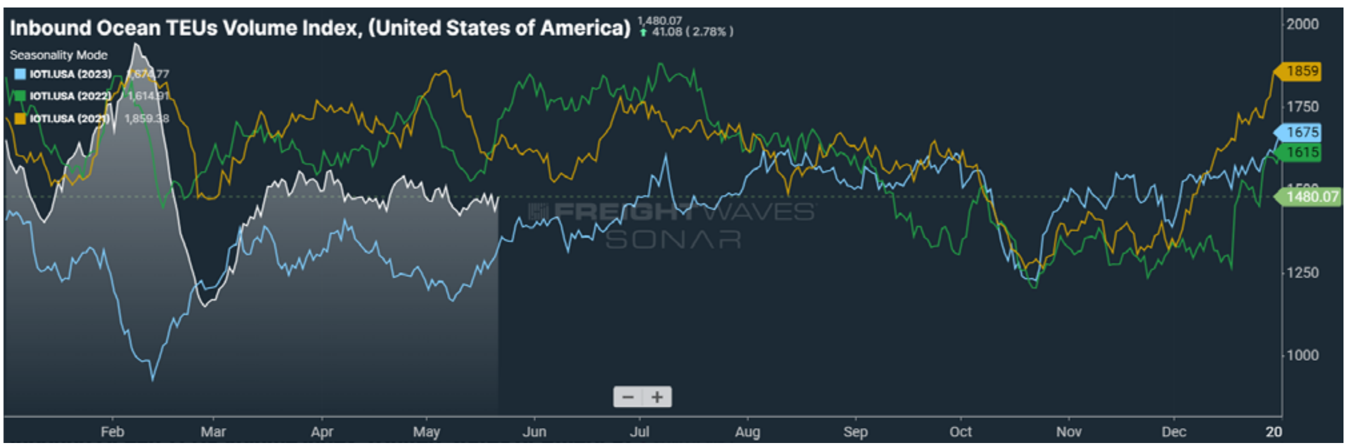
Even so, most of the major players are betting on a reversal of fortune, possibly as soon as the back half of 2024. In November, J.B. Hunt and BNSF announced a joint venture, dubbed Quantum, that aims to compete more aggressively with the dry van truckload sector. Quantum's pricing will be somewhere between normal intermodal rates and dry van rates, with promises of faster and more reliable service. By its own analysis, J.B. Hunt projects that the service will support the conversion of 7 million to 11 million loads from over-the-road trucking to intermodal. Whether or not this forecast holds true, it is a clear sign that the segment is priming itself for growth.

FIGURE 16: U.S. CUSTOMS MARITIME IMPORT SHIPMENTS



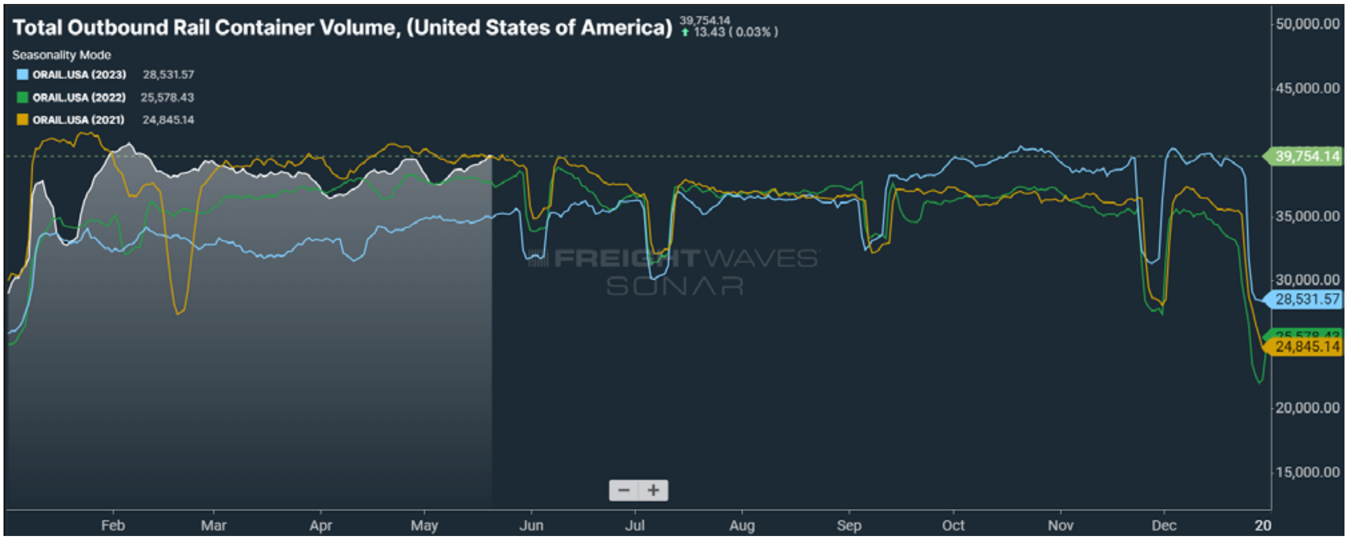
(CHART: FREIGHTWAVES SONAR, CONTAINERIZED AND NON-CONTAINERIZED U.S. CUSTOMS MARITIME IMPORT SHIPMENTS YTD 2024 {WHITE}, COMPARED TO FULL-YEAR 2023 {GREEN}, 2022 {BLUE} AND 2021 {ORANGE})

FIGURE 17: 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 {GREEN}, 2022 {BLUE} AND 2021 {ORANGE})

FIGURE 18: TOTAL U.S. OUTBOUND INTERMODAL CONTAINER VOLUMES



(CHART: FREIGHTWAVES SONAR, TOTAL U.S. OUTBOUND INTERMODAL CONTAINER VOLUMES YTD 2024 {WHITE}, COMPARED TO FULL-YEAR 2023 {BLUE}, 2022 {GREEN} AND 2021 {ORANGE})

Q1 2024 Review of Rates

In what looks to be the final year of bid cycles before shippers lose some or all of their overwhelming pricing power, contract rates fell in accordance with seasonal norms, though not by much. A presumptive retrospective would suggest that shippers have taken to heart the lessons learned from pandemic-era disruptions, prioritizing service and supply chain resilience over short-term savings. Whether this forbearance from driving contract rates to the bottom will be repaid in kind once carriers inevitably regain pricing power remains to be seen.

The theory that shippers are acting from an abundance of caution rather than a lack of leverage is supported not only by depressed tender rejections and spot rates, but also by the persistent rise in lead times. Lead times — the period between a shipper's request for capacity and when the load is scheduled to move — averaged three days in Q1 2024, rising nearly half a day from the year prior.

As a result, contract rates (which are exclusive of fuel and other accessorials) tumbled slightly to an average of $2.32 per mile for the quarter. Contract rates therefore fell by an average of 0.9% from Q4, in line with our previous forecast that they would decline 0.5% to 2% on a quarterly basis.

Following the trend in tender rejections, spot rates were surprisingly vigorous in the first half of Q1. Even before weather-related disruptions and a federal holiday converged to drive rates higher in mid-January, spot rates were able to maintain their post-Q4 holiday momentum over a longer period than in recent years. Carriers were then able to capitalize on the aforementioned disruptions, holding rates steady until the quarter's second half. Spot rates resumed their expected decline in February, falling to a quarterly low at the beginning of March. Still, this low did not come near that of May 2023, 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 relative to Q4, excess capacity was able to linger in the market and thus remain an impediment to future spot rate increases.

Averaging $2.32 per mile during Q1, the NTI rose only 2.2% from the previous quarter, below even the low end of our prior forecast of a 3–6% gain. Yearly comparisons are unfavorable to spot and contract rates alike: The NTI sank by a quarterly average of 6.5% from 2023, while contract rates fell 9% from year-ago levels.

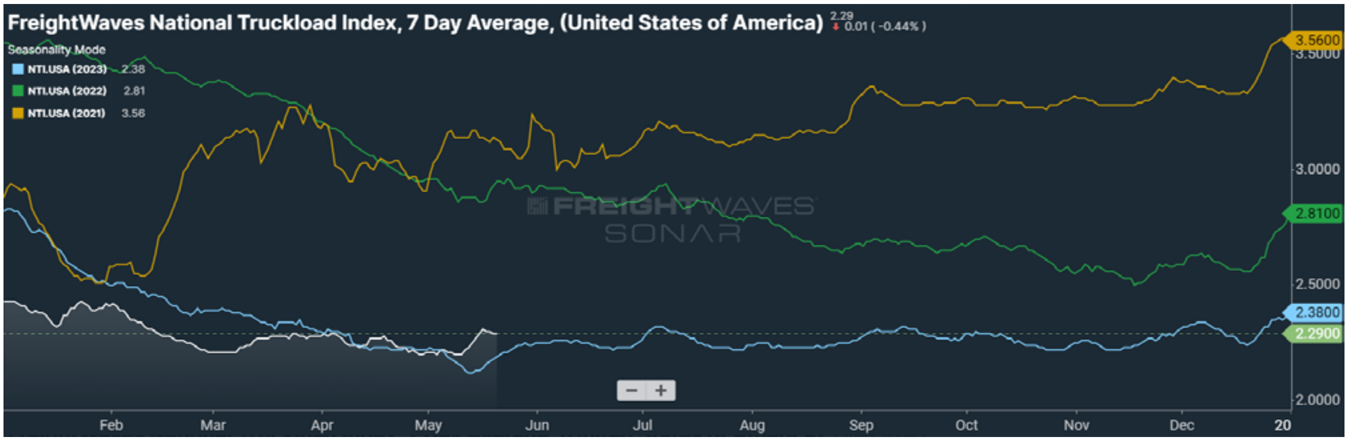
As mentioned previously, container rates on the ocean spiked early in Q1, responding to escalating attacks from Yemen-backed Houthi rebels. This violence caused liners to bypass the Red Sea (and thus the Suez Canal), rerouting instead around Africa's Cape of Good Hope. While it was initially feared that this longer route would tie up capacity, it soon became clear that container liners had plenty to spare. As a result, ocean spot rates began to fall precipitously throughout March.

Still, container rates climbed substantially over Q1 2023 by every metric. The Drewry World Container Index (WCI) was up 83% over year-ago levels, while the Freightos Baltic Daily Index (FBXD) was up 60%. Even lanes that ostensibly had little to do with the crises at the Suez or Panama canals — like those from China to the West Coast — took advantage of the market's chaos: The WCI from Shanghai to Los Angeles rose 106% over Q1 2023, while the FBXD from China to the West Coast was up 234%. Some of these gains, it should be noted, were caused by the upward pressure exerted by China's celebration of Lunar New Year.

Despite the inhospitable rate environment throughout most of the quarter, shippers knew that pricing power would soon swing back in their favor. Trans-Pacific contracts for container shipping usually begin at the start of May and are negotiated well in advance — most contracts are finalized by the beginning of April. But since contract rates are informed by spot rates, and since shippers knew that spot rates would fall even further through the end of March and into April, negotiations went down to the wire this year. Even so, carriers insisted that they were not seeking outlandish rate hikes: Yearly increases were range-bound more to $100–200 per 40-foot equivalent unit than the rumored $400–600.

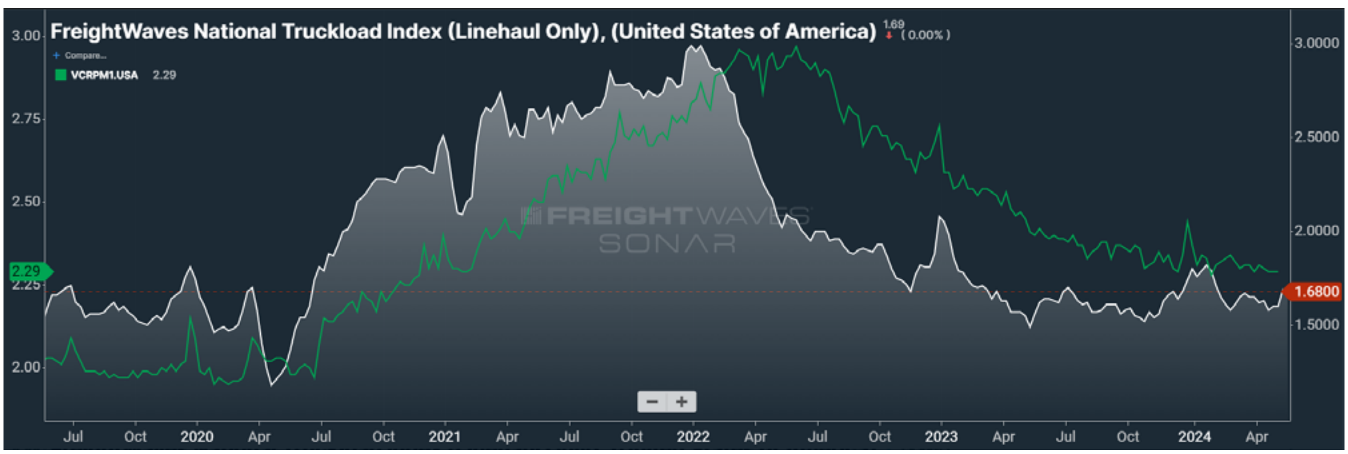
Unlike the ocean, however, there were few sources of upward pressure on intermodal rates in the first quarter. Contract rates averaged an 8% decline versus 2023 and 18% versus 2022, while spot rates performed similarly. J.B. Hunt — the segment's leading provider — noted that it repriced 40% of its total intermodal contracts during the Q1 bid season. Shelley Simpson, then-president of J.B. Hunt (now CEO), said in February that "pricing in the one-way parts of our business ... is unsustainable. The market has to give." At the time of writing, intermodal contract rates are barely in line with 2023, while spot rates are woefully underperforming.

FIGURE 19: NATIONAL TRUCKLOAD INDEX (INCLUSIVE OF FUEL)



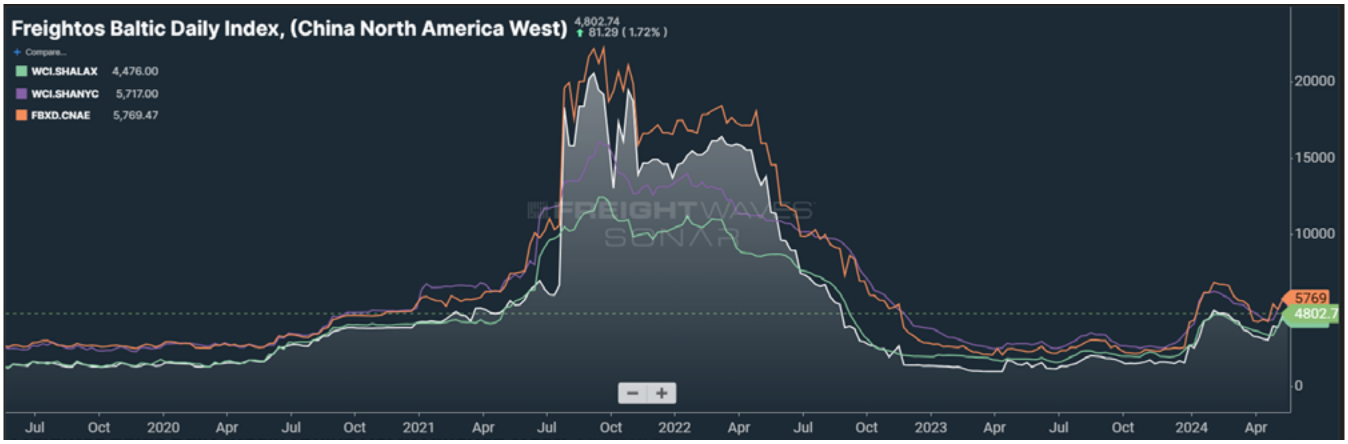
(CHART: FREIGHTWAVES SONAR, NATIONAL TRUCKLOAD INDEX YTD 2024 {WHITE} COMPARED TO FULL-YEAR 2023 {BLUE}, 2022 {GREEN} AND 2021 {ORANGE})

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



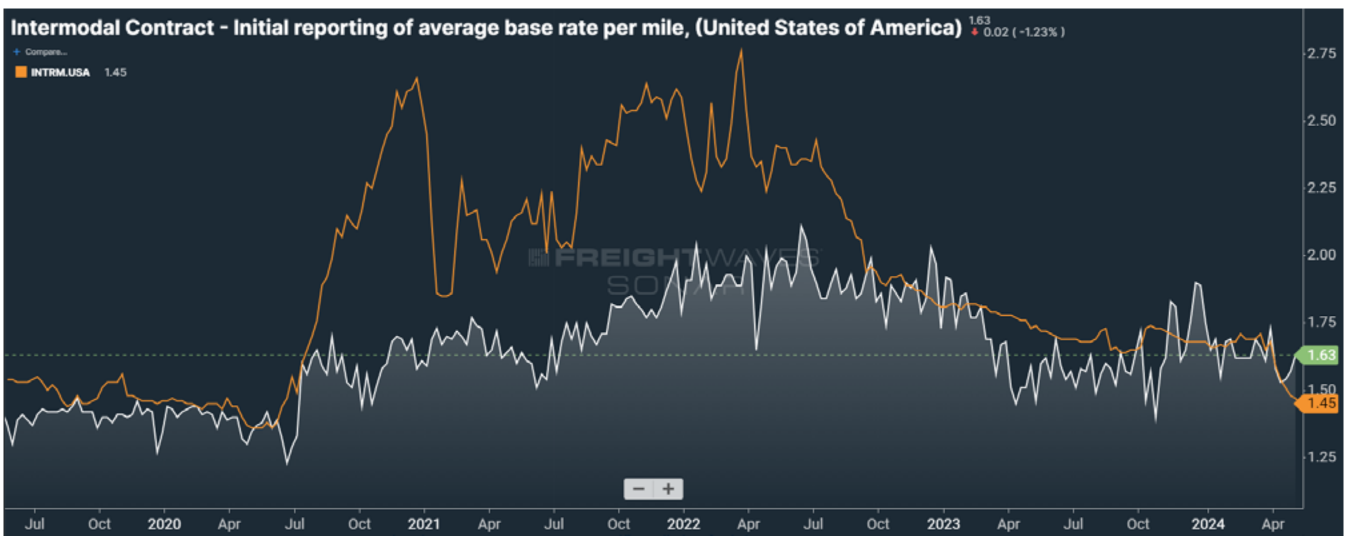
(CHART: FREIGHTWAVES SONAR, NATIONAL TRUCKLOAD INDEX, LINEHAUL ONLY 2023-2024 {WHITE, RIGHT AXIS} COMPARED TO INITIALLY REPORTED VAN CONTRACT RATES {GREEN, LEFT AXIS})

FIGURE 21: NATIONAL TRUCKLOAD INDEX (INCLUSIVE OF FUEL)



(CHART: FREIGHTWAVES SONAR, FREIGHTOS BALTIC DAILY INDEX FROM CHINA TO NORTH AMERICA WEST {WHITE} AND TO NORTH AMERICA EAST {ORANGE}, DREWRY WORLD CONTAINER INDEX FROM SHANGHAI TO LOS ANGELES {GREEN} AND TO NEW YORK CITY {PURPLE})

FIGURE 22: INITIALLY REPORTED INTERMODAL CONTRACT RATES — COMPARED TO INTERMODAL SPOT RATES



(CHART: FREIGHTWAVES SONAR, INITIALLY REPORTED INTERMODAL CONTRACT RATES {WHITE} COMPARED TO INTERMODAL SPOT RATES {ORANGE})

Forecast for the Second Quarter of 2024

Dovish comments by Federal Reserve officials in the final weeks of 2023 led to a widespread belief that the Fed would begin to cut rates as soon as March, with the full year of 2024 expected to host three cuts in all. These expectations were dashed, however, when a stream of inflationary data was released over the course of Q1. The question has now shifted to whether any cuts will be made this year: Fed Chairman Jerome Powell made remarks in mid-April that reinforced Wall Street's skepticism, stating that "the recent data have clearly not given us greater confidence [in easing policy] and instead indicate that it is likely to take longer than expected to achieve that confidence."

Prior to this seemingly final nail in the coffin, manufacturers and even consumers had expressed a patient optimism in numerous sets of soft data. For instance, April's release of the Fannie Mae Home Purchase Sentiment Index saw the headline index dip for the first time in four months, as more consumers believe that mortgage rates will rise than decline over the coming year. Expectations for short-term inflation, in the University of Michigan's Index of Consumer Sentiment, similarly rose in April to their highest level since last November. That the average consumer is sensitive to the Fed's return to hawkishness is an impressive feat but also one likely pointing to a more wary consumer with a decreased appetite for discretionary spending.

In March, the US manufacturing sector was awash in bullish sentiment: Indexes that had long shown contraction were turning positive, even at the risk of sustaining supply-side inflation. But April's "flash" release of the S&P Global U.S. Manufacturing PMI saw the headline index dip to 49.9, a reading indicative of contraction. "Further pace may be lost in the coming months," wrote Chris Williamson, Chief Business Economist at S&P Global, "as April saw inflows of new business fall for the first time in six months and firms' future output expectations slipped to a five-month low amid heightened concern about the outlook."

But barring an improbable collapse in consumer confidence and industrial output, the fundamental challenges faced by the industry have not changed. Actual freight flows are still on track to outperform 2023 by a wide margin, with comparisons to the heady years of 2021–2022 becoming ever more appropriate. This abundance of demand is not felt by carriers, however, since it provides just enough sustenance to retain the excess capacity needing to be shed. Consequently, carrier rates will not improve to an appreciable degree so long as carriers' supply remains unconstrained.

SEASONALITY CONSIDERATIONS

Warm weather is forecast over the coming months for almost all of the contiguous U.S., a trend set to affect produce volumes differently across different regions. The National Oceanic and Atmospheric Administration projects an 85% chance that El Niño conditions will come to an end by June and a 60% chance that La Niña will develop by August. This latter forecast, should it come to pass, could signal drier conditions in California's San Joaquin Valley — one of the nation's central breadbaskets. On the other hand, most of the Atlantic Coast and nearby states are projected to see wetter-than-normal conditions this summer, near the peak of their produce seasons. Reefer demand will vary accordingly by region.

Retailers' Q1 behavior of rebuilding inventories is a good indicator of their projections for the summer shopping season, the first event of which is the Memorial Day sales event in late May. Spending growth over Memorial Day weekend is typically driven by durable goods such as home appliances, furniture and consumer electronics. Given their status as durable goods, many of these items have replacement cycles of three to five years. Following the boom of 2020–2021, this year could herald an uptick in durable goods spending — at the very least, 2024 faces favorable comps against last year. Shipments of beverages, whether alcoholic or soft drinks, are also set to ramp up as the summer approaches.

RATE INFLATION FORECAST FOR Q3 2024

Our team at FreightWaves expects spot rates to fall 2% to 6% on a quarterly basis in Q2. The industry's quiet season did not see excess capacity leave the market to any appreciable extent — in fact, the net amount of new trucking authorities was positive for a few weeks in March. Freight demand should rise along seasonal trends during the second quarter, creating a more hospitable environment for excess capacity to be retained. Meanwhile, spot rates have declined precipitously in the second quarters of 2022 and 2023, and there is little to suggest a break in this pattern for 2024.

Contract rates are still abnormally high relative to spot rates, but this spread is likely to narrow over the coming quarter. Many enterprise carriers have already noted that they faced greater-than-expected pressure on contract rates in the most recent bid season. Larger carriers can exercise more discretion about their customer mix and thus can refuse contract rates that they deem unsustainable. This trend might imply a greater share of contracted loads falling to the spot market in Q2, protecting contract rates from a noticeable decline. Nevertheless, struggling brokerages appear willing to take on as much contracted freight as possible, even at lower rates. We therefore anticipate that contract rates will fall 1% to 4% over the course of Q2.

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