Q4 SHIPPER RATE REPORT

(P)

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FIG. # LIST OF FIGURES

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Executive Summary and Forecast

Stability reigned supreme among truckload markets in the third quarter of 2023. This stability was inherited from the first half of the year, the latter part of which suffered what is likely to be this cycle's bottom. Thus, Q3 2023 marked the faint beginnings of the industry's recovery, a recovery characterized by stepwise growth and a return to seasonal norms. That the industry is recovering from a recession is further implied by a growing number of parallels between current market conditions and those of 2019, when the market was similarly returning to normalcy after a sharp downturn.

Resilience in consumer spending was a surprising tailwind to volume growth in the quarter, buoyed as it was by sales events from major retailers held immediately prior to the back-to-school shopping season. In fact, according to the Bureau of Economic Analysis, personal consumption on goods skyrocketed from an annualized 0.5% in Q2 to 4.8% in Q3. The bulk of this meteoric rise was attributed to spending on durable goods — specifically on recreational goods such as televisions, computers and music — which rose from a 0.3% annualized drop in Q2 to a 7.6% gain in Q3.

Unfortunately, this incremental and quickly arrested growth likely marks the height of 2023's truckload peak season. Imports from China were muted in the first weeks of Q4, restrained by their flagging economy and national holidays like Golden Week. Domestic manufacturers are broadcasting pessimism amid an environment of tight monetary policy that discourages investments. The aforementioned durable goods spending is a double-edged sword since, as the name implies, such goods are lasting and therefore purchased infrequently.

Carriers were unable to take advantage of Q3's sporadic growth in shippers' demand, as fuel-inclusive spot rates rose only 1.3% from the previous quarter — well below our previous forecast of a 4% to 7% quarterly gain. Despite rising operational costs and thinning margins, small carriers proved far more resilient than we had previously thought, thanks largely to subsistence-level volume provided by freight brokerages. Yet brokerages are now themselves in jeopardy, given compressing margins and the diminished supply of venture funding.

Looking ahead to Q4 2023, seasonality will be the primary force presiding over carrier rates and availability of capacity. Tender rejections will rise during the quarter's major holidays, providing some upward pressure — however brief or slight — on spot rates. Yet actual freight flow is unlikely to rise appreciably in Q4: At best, the truckload market's true recovery will not begin until Q2 or Q3 of 2024. Hopes of a "peak season" should be tempered before disappointment settles in.

In light of these market conditions, we believe that spot rates will be little changed in Q4. Although spot rates will almost certainly skyrocket at the end of December, they have (at the time of writing) already slipped beneath their Q3 average. Accordingly, we predict that Q4 spot rates will see a modest rise between 0.5% and 3% over the previous quarter. The more interesting question concerns the direction of contract rates, as bid season typically lasts from October through March. The spread between spot and contract rates remains abnormally high, meaning that shippers could choose to take advantage of their abundant pricing power. Yet, in this downturn, shippers have also proved to be more cautious than in previous cycles, and could thus decide that securing long-term capacity is more important than short-term savings.

FIGURE 1: U.S. CONSUMER SPENDING REMAINS CLOSE TO 2022 LEVELS IN THIRD QUARTER, WITH SHORT-LIVED STRENGTH PRIOR TO Q4

Spending per household (HH) based on BAC aggregated credit and debit card data (year-over-year (y/y) % change of the 7-day moving average (ma) of spending levels) Retail ex-auto spending was down 1.1% y/y in the week ending in Sep. 16

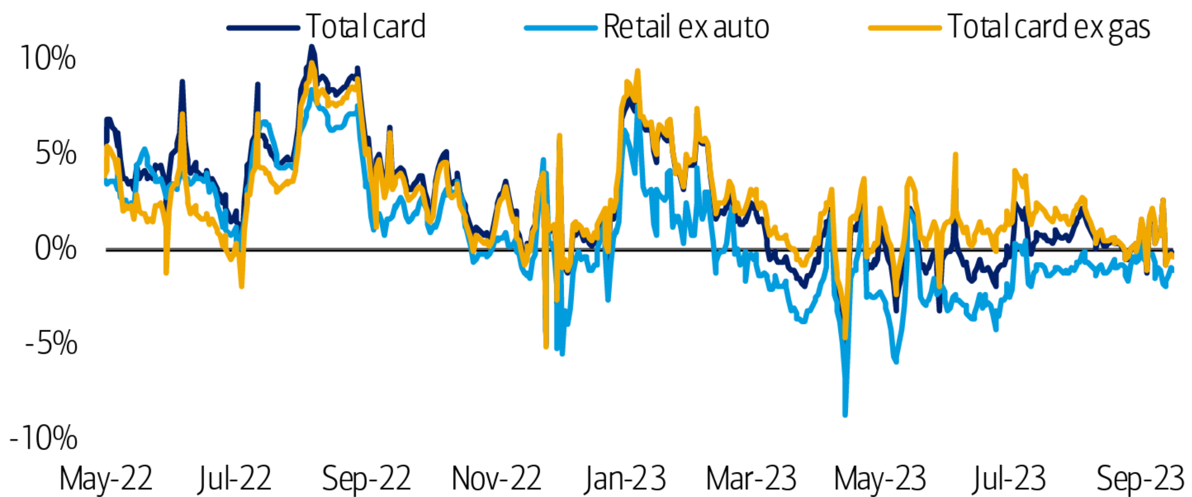


FIGURE 2: E-COMMERCE AND BRICK-AND-MORTAR SPENDING FINISH Q3 CLOSE TO 2022 LEVELS

Online (card not present) and B&M retail spending per HH, based on BAC aggregated card data (y/y %change of 7-day ma of spening levels) B&M retail spending growth was close to zero on a y/y basis in the week ending Aug. 5, while online retail spending was up 1.1% y/y

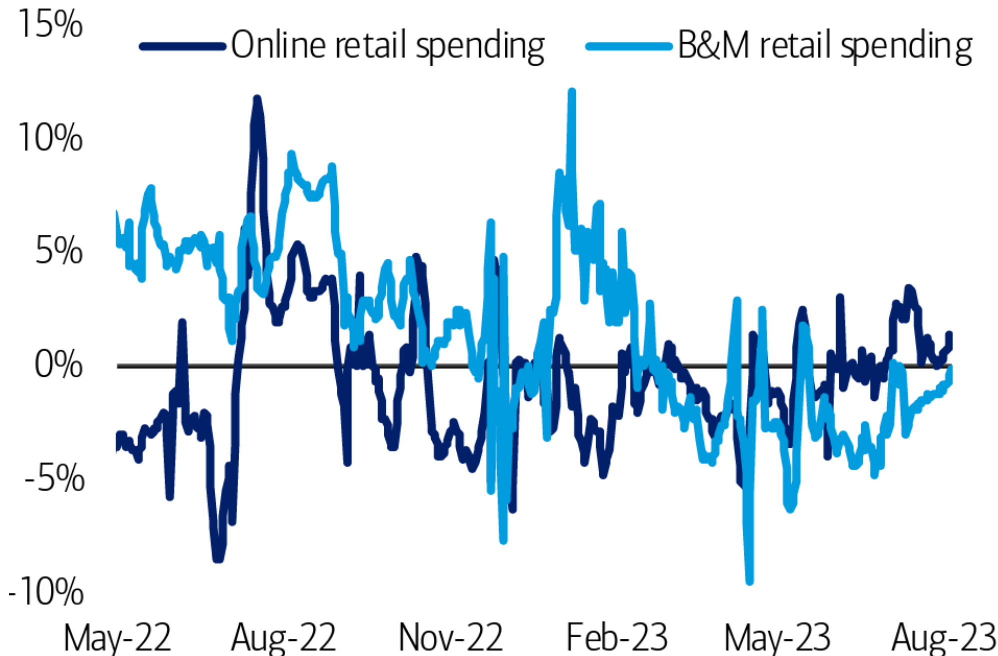
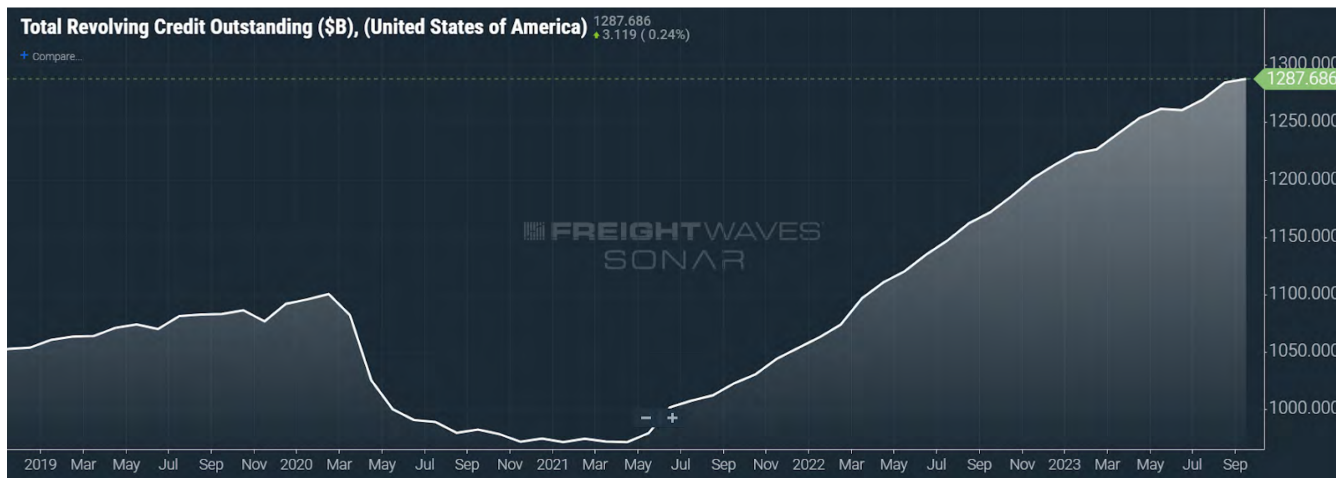


FIGURE 3: U.S. CONSUMERS CONTINUE TO ACCUMULATE REVOLVING CREDIT DEBT AT A RAPID CLIP, GREATLY OUTPACING PRE-PANDEMIC LEVELS



(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

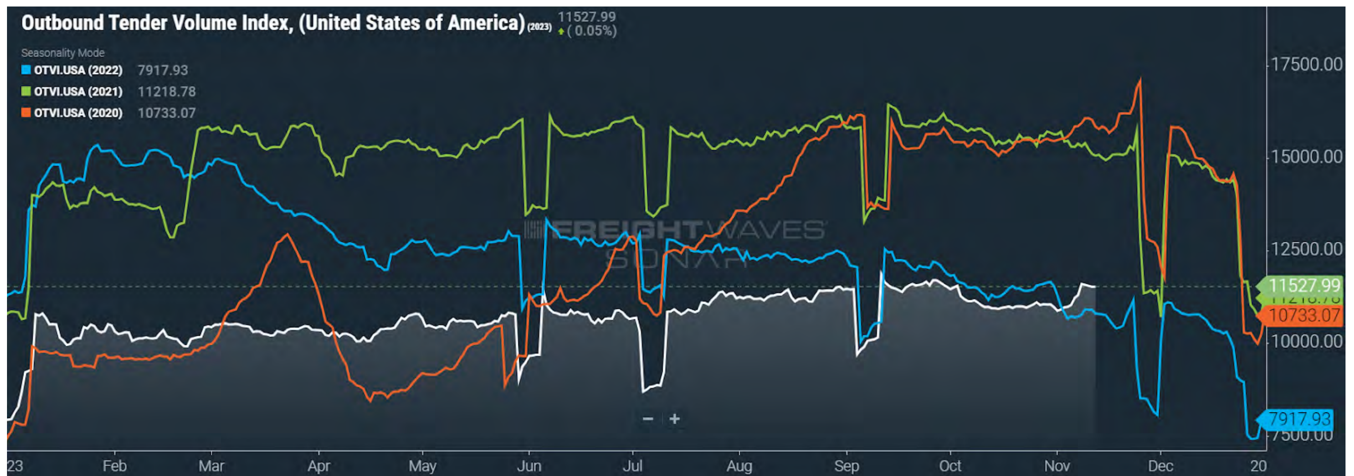
DAILY AVERAGES							
METRIC	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Tendered Load Volumes Index **OTVI.USA**	**14,296.19**	**12,671.64**	**12,140.68**	**10,533.16**	**10,160.53**	**10,479.25**	**10,996.01**
Tender Rejection Rate **OTRI.USA**	**18.98%**	**9.23%**	**6.13%**	**4.55%**	**3.79%**	**3.01%**	**3.67%**
Inbound Ocean TEUs Index **IOTI.USA**	**1,643.30**	**1,705.74**	**1,614.97**	**1,358.85**	**1,240.02**	**1,327.57**	**1,536.25**
National Truckload Index* **NTI.USA**	**$3.42**	**$2.95**	**$2.75**	**$2.61**	**$2.48**	**$2.23**	**$2.26**

*INCLUSIVE OF FUEL

DAILY AVERAGES (QoQ Change)							
METRIC	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
Tendered Load Volumes Index **OTVI.USA**	**2.1%**	**-11.4%**	**-4.2%**	**-13.2%**	**-3.5%**	**3.1%**	**4.9%**
Tender Rejection Rate **OTRI.USA**	**-7.1%**	**-51.4%**	**-33.6%**	**-25.8%**	**-16.7%**	**-20.6%**	**21.9%**
Inbound Ocean TEUs Index **IOTI.USA**	**3.8%**	**-8.9%**	**-5.3%**	**-15.9%**	**-8.7%**	**7.1%**	**15.7%**
National Truckload Index* **NTI.USA**	**2.7%**	**-13.7%**	**-6.8%**	**-5.1%**	**-5%**	**-10.1%**	**1.3%**

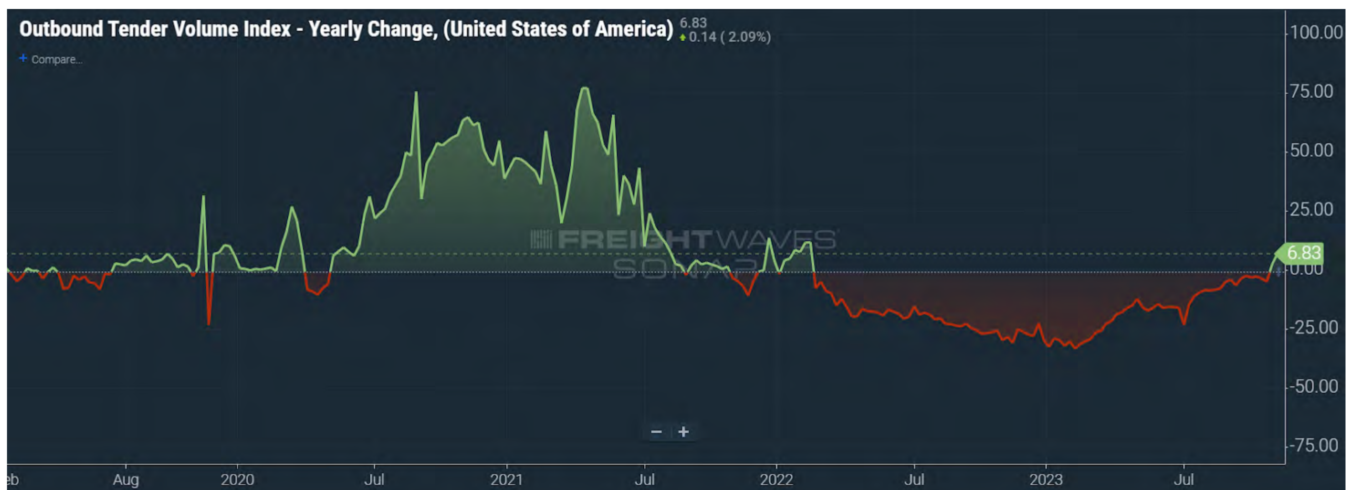
*INCLUSIVE OF FUEL

FIGURE 6: NATIONAL OUTBOUND TENDER VOLUME INDEX



(CHART: FREIGHTWAVES SONAR, NATIONAL OUTBOUND TENDER VOLUME INDEX YTD 2023 {WHITE}, COMPARED TO FULL-YEAR 2022 {BLUE}, 2021 {GREEN} AND 2020 {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)

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Freight rates have remained stable so far in Q4 and shipment volumes have seen a measurable increase for peak season. Contract rates remain above spot rates and route guides are performing well. I expect volumes and rates to remain at or near current levels through the end of the year and for the first quarter of 2024.

Bryce Williford, Senior Vice President of 3PL Services, BlueGrace Logistics

Q3 2023 U.S. Bank Freight Payment Index — Our Takeaways

NATIONAL SHIPMENTS AND SPEND INDEX PERFORMANCES

In the third quarter of 2023, freight markets continued to be challenged by a number of headwinds despite resilience throughout the broader U.S. economy. Discretionary spending, which was impacted by price increases of household essentials, tended to favor services — including travel, in-person events such as concerts and movies, and restaurants — over freight-intensive goods. Housing affordability declined as the median sales price for homes in Q3 rose 3% over the prior quarter, even as rising mortgage rates reached 23-year highs. Activity in the manufacturing sector suffered persistent contraction throughout Q3, while sentiment among industrial firms was notably grim concerning hopes for improving conditions in the near future. It is little surprise, then, that the U.S. Bank National Shipments Index tumbled 3.4% on a quarterly basis. Compared to 2022, third-quarter shipments fell 9.7%, marking both the sixth consecutive yearly decline and the largest such decline in that period.

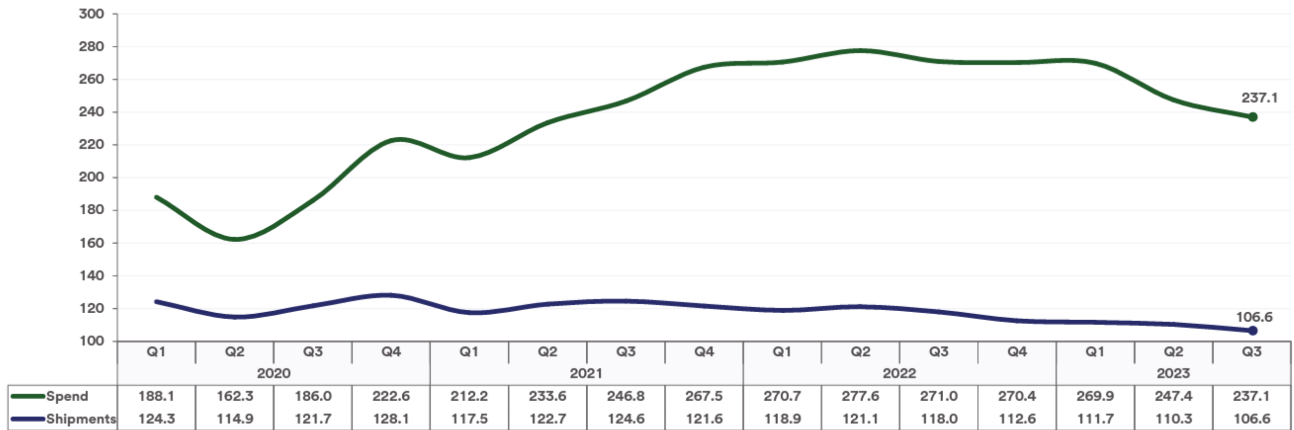
We believe that the volume of freight shipments will continue along its current path of contraction in the fourth quarter, though yearly comparisons should become far more favorable than they were in Q3. According to FreightWaves data, volumes are averaging 10% higher in Q4 so far than they were in 2019. With shippers' destocking efforts either complete or nearly so, the industry has become more exposed to seasonality than it has been at any point in this cycle. Unfortunately for carriers, Q4 is a historically weak season for freight demand, littered as it is with major holidays.

Reflecting the soft freight environment of Q3, the U.S. Bank National Spend Index fell on both a quarterly and yearly basis. The index contracted 4.2% from the previous quarter, albeit at a slower rate than before: Q2's 8.3% quarterly decline was nearly double that of Q3's contraction. Given the overabundance of capacity lingering in the market, carriers have seen their pricing power diminish significantly, of which the national spend index's 12.5% yearly decline is a clear reflection.

But the outlook for freight spending in the coming quarter is less than clear. Since bottoming at what is likely to be a cycle low in mid-May, spot rates have seen mild improvements. While the underlying market dynamics do not yet support significant spot rate gains in the rest of 2023, seasonal pressures around holidays should boost Q4's average to a higher level than in Q3. At the same time, the majority of freight is handled under contract at rates that still command a large premium over spot rates. Q4 historically marks the beginning of bid season, implying that shippers could flex their pricing power to narrow the spread between contract and spot rates.

Shippers' caution might ultimately prevail, however, keeping contract rates more or less stable. The question then becomes whether shippers will prioritize savings in transportation spend over supply chain resilience. At present, shippers seem to be exercising their pricing power to negotiate lower contract rates, though there is not yet sufficient evidence to affirm either conclusion. Given these mixed signals, we expect a sharp decline in spending on a yearly basis and a more modest decline from Q3.

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



Q3 2023 National Freight Market Overview

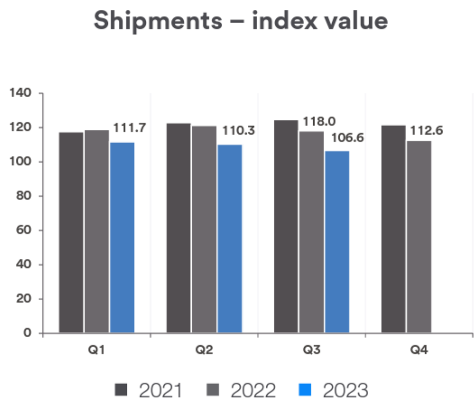
Source: U.S. Bank

Spend	
Index value	237.1
Quarterly % change	-4.2% ▼
Yearly % change	-12.5% ▼

Shipments	
Index value	106.6
Quarterly % change	-3.4% ▼
Yearly % change	-9.7% ▼

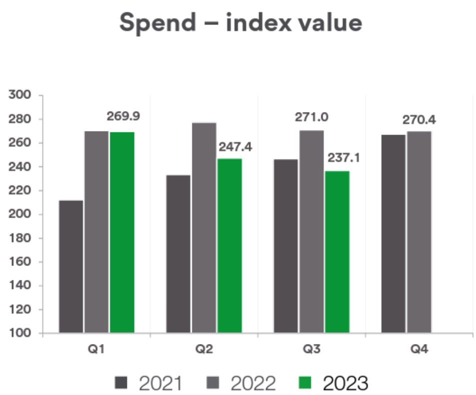
FIGURE 9: U.S. BANK SHIPMENT AND SPEND INDEXES (2021-2023 YTD QUARTERLY PERFORMANCE)

Shipments – index value

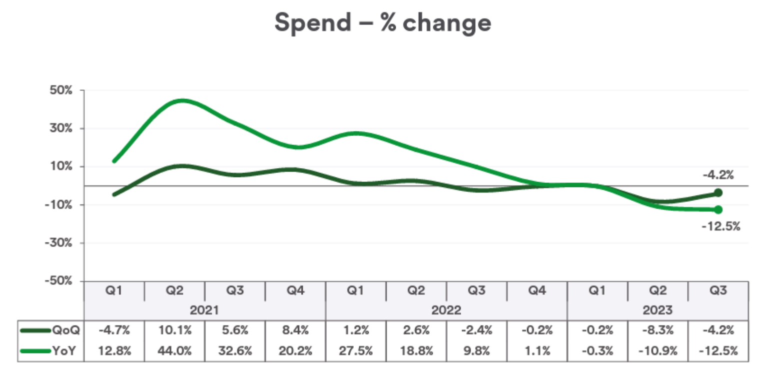


Shipments – % change

Spend – index value



Spend – % change



Source: U.S. Bank

REGIONAL SHIPMENTS AND SPEND INDEX PERFORMANCES

On a quarterly basis, regional shipment performance was negative across the board, though the Southwest did stand alone in realizing year-over-year gains. Trade with Mexico helped Texas' cross-border markets in outperforming 2022's shipment levels, and this trend is expected to grow over the next decade. That said, freight activity at the border slowed from Q2 to Q3, while housing starts dipped significantly. So, while the U.S. Bank Southwest Regional Shipments Index did rise 3.3% on a yearly basis, it fell 4.8% on a quarterly one.

The Northeast and Southeast, while representing two very different freight markets, both saw their Q3 regional shipment indexes slide 2.7% from Q2. While the Northeast is a very consumer-driven freight region, it also hosts volumes from the Port of New York/New Jersey, which overtook the Port of Los Angeles in early Q3 as the nation's busiest port in shipments handled. But this victory was hollow, given the contraction in ocean volumes on a yearly basis. Accordingly, the U.S. Bank Northeast Regional Shipments Index tumbled 20.8% from year-ago levels. The Southeast, meanwhile, also suffered from difficult comps, declining consumer activity and a challenging housing market. The U.S. Bank Southeast Regional Shipments Index fell 14% from Q3 2022.

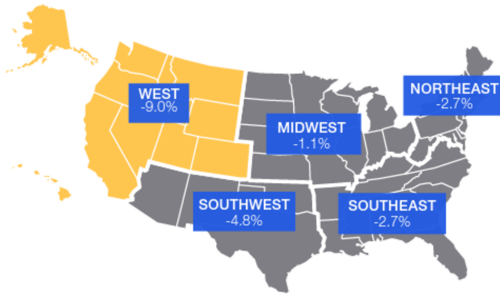
Volumes in the Midwest suffered acutely from weakness in the manufacturing sector and housing markets. In the third quarter, housing starts in the Midwest fell 15% from the previous quarter and 9% from year-ago levels. Late in the quarter, volumes from the automotive sector took a hit from the United Auto Workers' strike against three key automakers in the region: Ford, General Motors and Stellantis (formerly Chrysler). Accordingly, the U.S. Bank Midwest Regional Shipments Index contracted 1.1% from the prior quarter and 6.3% from Q3 2022.

The West had the dubious distinction of suffering the largest decline in shipments on both a quarterly and yearly basis, with the U.S. Bank West Regional Shipments Index falling 9% and 22.9%, respectively. The waning influence of China as a trade partner was felt in container ports along the West Coast, which were also impacted by uncertainties surrounding labor security — uncertainties that were not settled until late Q3, when a six-year contract with the International Longshore and Warehouse Union was reached.

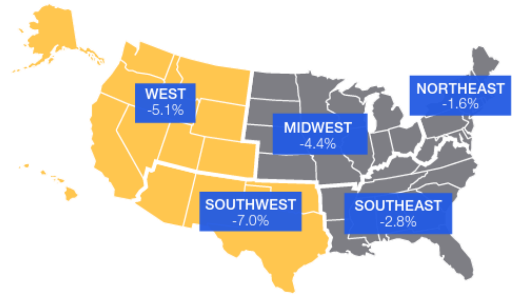
Freight spending fell across all regions from Q2 to Q3, betraying the national scale of capacity's overabundance. Quarterly declines in regional spend indexes ranged from 1.6% in the Northeast to 7% in the Southwest. Freight spending also saw negative growth when facing yearly comps, though the Southwest's 4.6% and Southeast's 5.1% declines were milder than the West's 14.1% and Midwest's 17.9% collapses.

FIGURE 10: U.S. BANK REGIONAL SHIPMENT AND SPEND INDEXES' Q3 PERFORMANCE (QUARTER OVER QUARTER AND YEAR OVER YEAR)

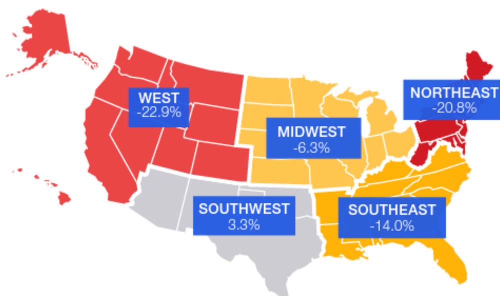
Shipments – Regional Quarter-over-Quarter % Change



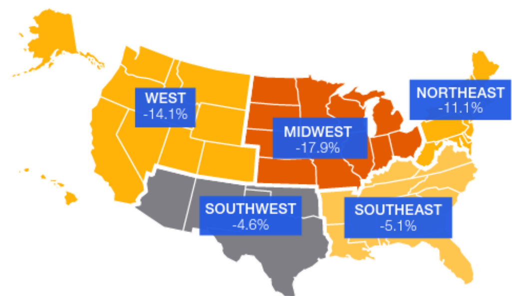
Spend – Regional Quarter-over-Quarter % Change

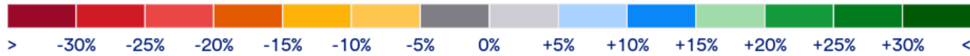


Shipments – Regional Year-over-Year % Change



Spend – Regional Year-over-Year % Change





Source: U.S. Bank

Q3 2023 Review of Truck Capacity (Supply)

For the first time in two years, shippers found capacity more difficult to secure in the third quarter than in the previous one. This disruption of a downward trend should not be blown out of proportion, however, as Q3's gains were only slight and perhaps imperceptible to some shippers, depending on their primary regions and modes. Flatbed carriers, for example, suffered a profound erosion of their pricing power in Q3 as demand from the construction and industrial sectors weakened. But reefer tender rejection rates rose sharply in late August, bolstered by an Atlantic hurricane season that was more active than was previously forecast.

Rather, Q3's rise of tender rejection rates as a national average is one signal among others that this cycle's bottom has already passed. Any potential for conditions to worsen for the consumer or for industrial firms is, somewhat paradoxically, a boon for the carriers that are able to remain in the market. Capacity has remained unusually abundant during this downturn as even smaller and less experienced carriers were able to subsist on their record profits from the recent boom. But such war chests are running thin as carriers are finally exiting the marketplace to an appreciable degree.

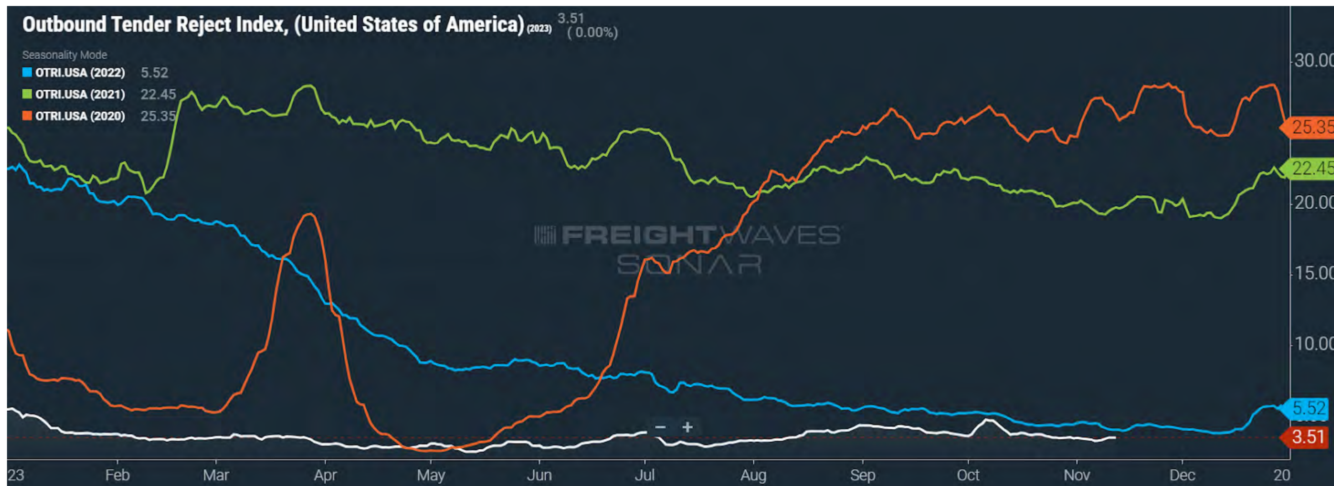
Tender rejections are primarily driven by two forces. The first, and most common, scenario occurs when carriers abandon their previously contracted freight to pursue higher-paying opportunities in spot markets. Yet, despite the noteworthy decline in contract rates in Q3 and the slight improvement of spot rates, the spread between the two rates remains considerably wider than is normal. As such, the contract space is still more favorable to carriers, which should incentivize carrier compliance.

The second factor behind rising tender rejection rates is a simple lack of capacity caused by market volatility. This volatility can take more than a few forms: Holidays tend to drive up tender rejections as truckers elect to remain off the roads and spend time away from work. Q3 was host to two holidays around which tender rejections spiked: Independence Day and Labor Day. The gains around Independence Day were quickly lost, but carriers managed to retain momentum from the Labor Day spike throughout the first half of September. This retention, coupled with the corresponding rise in volumes during that period, implies a return to seasonal trends made more explicit by shippers' broader shift to just-in-time inventory strategies.

Looking forward to the fourth quarter, volatility should increase around the season's major holidays. Carriers should continue to exit the marketplace in Q4, though likely not in a remarkable or united exodus. Instead, this departure will be of small carriers overleveraged with payments on equipment purchased during record inflation, or of those carriers unable to turn profits against rising operational costs like insurance or vehicle maintenance. The first half of 2024, which is forecast by the Federal Reserve and other analysts to be an especially challenging economic environment, should be the period in which capacity diminishes to a more significant degree.

In short, then, capacity should become more difficult to secure in the fourth quarter, with tightness converging around the holidays scattered throughout the season. This expectation should not be measured against the record conditions of 2020 or 2021, but rather the milder, more seasonal tightness of 2019 or even last year.

FIGURE 11: NATIONAL OUTBOUND TENDER REJECT INDEX



(CHART: FREIGHTWAVES SONAR, NATIONAL OUTBOUND TENDER REJECT INDEX YTD 2023 {WHITE}, COMPARED TO FULL-YEAR 2022 {BLUE}, 2021 {GREEN} AND 2020 {ORANGE})

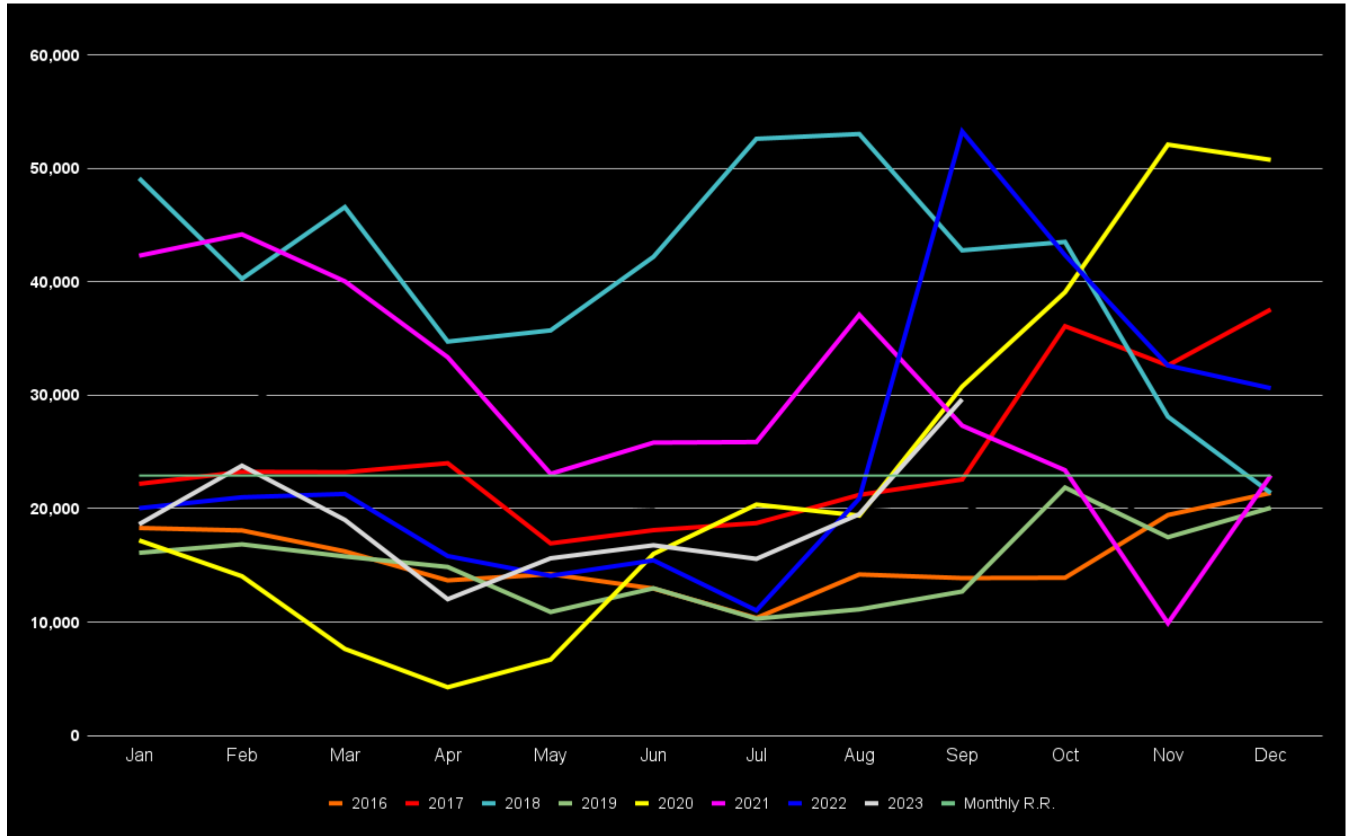
CAPACITY — NEW CLASS 8 TRUCK ORDERS

Compared to 2022, bookings of new class 8 truck orders in the third quarter fell by an average of 3.2%. This slight decline is more indicative of OEMs' cautious approach to satisfying pent-up demand than of any significant weakness in customers' appetites. While the supply chain disruptions that hampered OEMs' production for more than two years have largely passed, OEMs are now primarily concerned with keeping their order books at a manageable level. On average, orders placed in the third quarter would take seven months to fulfill compared to the usual five-month wait.

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

New orders are pacing at an annualized rate of 227,432 trucks for 2023. If order books are not opened up more substantially in the final quarter of the year, this figure will be insufficient to meet ACT Research's estimate of replacement demand, which sits at 275,000 units, by a shortfall of 2%.

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



Source: ACT Research, FreightWaves

FIGURE 13: 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	29,652	-44.3%	52%
OCT	13,907	36,092	43,526	21,864	39,089	23,391	42,359			
NOV	19,440	32,637	28,114	17,483	52,104	9,902	32,630			
DEC	21,386	37,569	21,381	20,073	50,760	22,937	30,623			
	186,628	**296,509**	**490,129**	**180,995**	**278,296**	**355,320**	**298,493**	**170,574**		
Y/Y CHANGE	-35.59%	58.88%	65.30%	-63.07%	53.76%	27.68%	-15.99%	-42.85%		
MONTHLY AVG	15,552	24,709	40,844	15,082	23,191	29,610	24,874	18,953		
ANNUALIZED	186,628	296,509	490,129	180,995	278,296	355,320	298,493	227,432		
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%	2%		

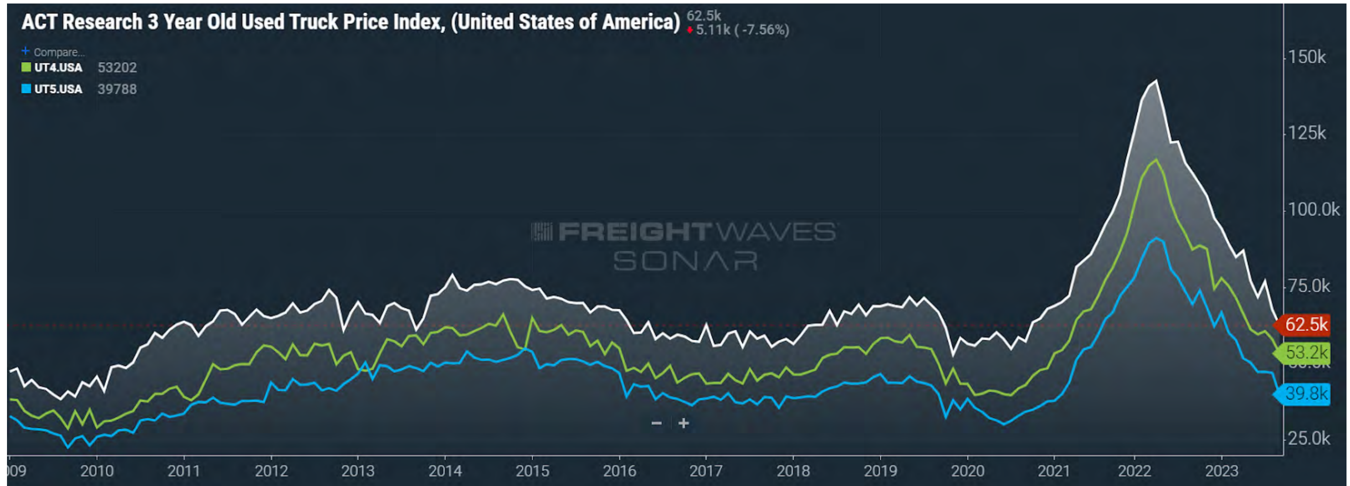
Source: ACT Research, FreightWaves

CAPACITY — USED TRUCK PRICES

Prices of used trucking units continued to moderate in Q3 as the inhospitable spot market environment rebuffed potential 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 2017–2018, 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							
	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023
3 years old	**$134,338**	**$132,757**	**$116,899**	**$103,709**	**$89,398**	**$78,571**	**$68,970**
4 years old	**$109,191**	**$110,559**	**$92,114**	**$83,491**	**$74,844**	**$62,297**	**$57,198**
5 years old	**$83,852**	**$87,238**	**$73,624**	**$68,095**	**$61,426**	**$49,675**	**$44,629**

Source: ACT Research, FreightWaves

Q3 2023 Review of Load Volumes (Demand)

After the scheduled lull brought about by Independence Day, freight demand rose slightly but steadily during the third quarter. Though volatility has been the primary constant in truckload markets since 2020, there have been enduring trends that dictate when freight demand waxes or wanes. One historical trend is that tender volumes gain momentum in mid-July before rising appreciably in August. This trend was witnessed in 2019, 2020 and 2021 — three years during which market conditions fluctuated wildly. Conspicuously absent from the above list is 2022, the year in which the market's current downturn began.

The measure of freight demand in Q3 2023 is the strongest indicator that the market has, after a long period of extreme volatility, returned to traditional seasonality and is now recovering from this cycle's low. In the week after Independence Day, truckload volumes grew on a two-week basis. Such growth was not witnessed last July, when freight markets were in decline, nor in 2021 — arguably the best year for truckload volumes on record — nor even in 2020, when shippers scrambled to push loads amid a pandemic-era tsunami of consumer activity. In fact, such growth had not been seen since July 2019, when the industry was recovering from a lingering recession.

No small part of July's growth was caused by a string of sales events at both online and brick-and-mortar retailers, such as Amazon's Prime Day and Target's concurrent Circle Week. While these events primarily benefit parcel shippers, truckload demand in late July was almost certainly bolstered by the reverse logistics sector, since item returns are common during such sales.

As mentioned previously, Q3 saw shippers across the board — but especially retailers — switch from a "just-in-case" to a "just-in-time" strategy of managing inventory. The reasons for this shift are simple: Capacity is now abundant and easy to secure, while shippers are in the final stages of destocking after suffering from a glut of inventory, if such destocking efforts have not already been completed. Consumer demand has not only quieted but has also returned to the predictable ebbs and flows governed by seasonality.

One such predictable trend was the back-to-school shopping season, which gave a modest bump to freight demand in the back half of July and early August. Spending in this season was softer than in 2022, albeit against historically difficult comps. As it was in 2019 and 2021, August was a month of slow and steady growth in shippers' demand. It might seem nonsensical that a trend can parallel both 2019 — the year of the industry's last recession — and 2021, arguably the strongest year of volumes in recent history. Yet the drivers of August 2023's performance more closely resemble those of 2019, insofar as both periods mark the early stages of recovery from a market downturn.

Even so, freight demand still faced difficult comps on a yearly basis, despite the fact that 2022 was host to the initial decline of this cycle. With the benefit of hindsight, it is clear that the consumer was slow to react to the inflationary pressures that came to a fever pitch in the summer of last year. Strength in discretionary spending also prolonged shippers' exposures to the bullwhip effect, which occurs when consumer demand is grossly magnified by upstream producers.

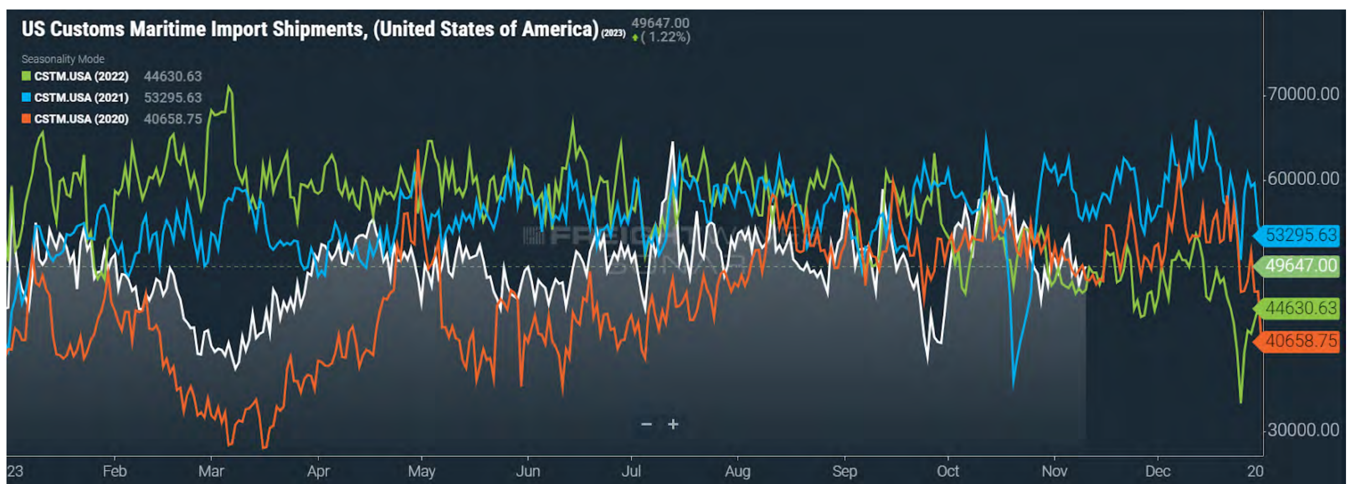
Turning to the ocean, there were marked signs of health in maritime markets at the beginning of Q3. While import volumes in July were down 14% year-over-year, the comparison is maddeningly difficult given the uniqueness of the COVID-driven import boom. It is rather worth stating that volumes have returned to their pre-pandemic normal, as July volumes were perfectly unchanged from those of July 2019.

There was an open question about 2023's strong Q3 performance as to whether the rally in container shipping spot rates was caused by peak-season demand or induced by shipping lines intentionally constraining capacity. As import volumes continued to rise above 2019 levels throughout the quarter, it became clear that at least some of the rate gain was demand-driven.

Near the end of the quarter, spot rate momentum began to shift away from ports along the East Coast, returning instead to their West Coast counterparts. Volumes handled by the Port of Los Angeles rose 55% year-over-year in September, as fears surrounding labor security were quelled by the ratification of a six-year contract between the Pacific Maritime Association and the International Longshore and Warehouse Union.

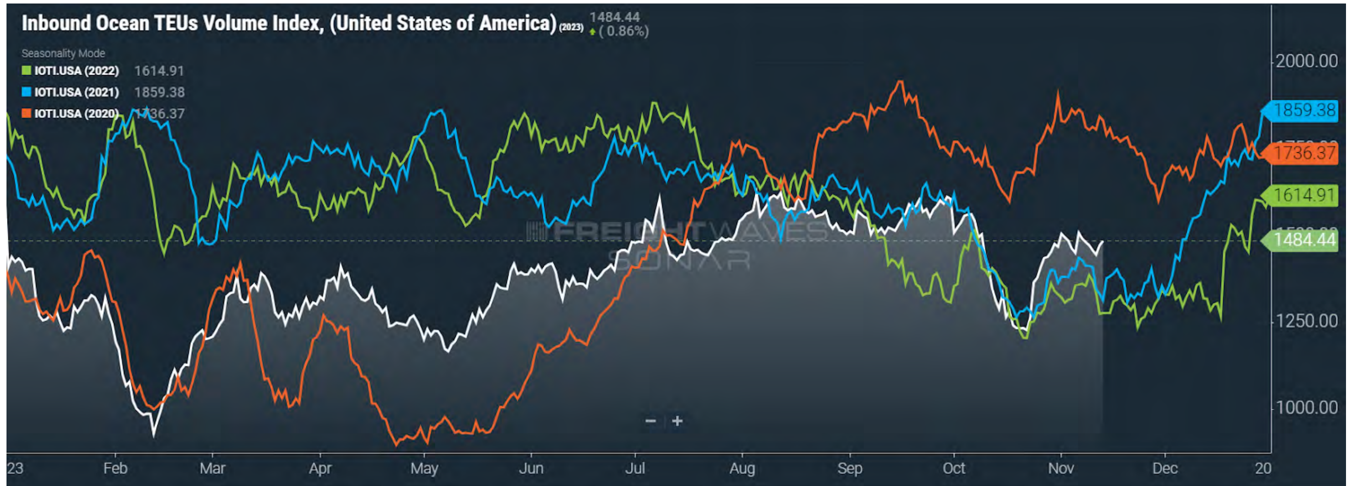
Looking ahead to Q4, bookings have risen in the back half of October over 2021 and 2022 levels, though China's yearly celebration of Golden Week at the beginning of the quarter was an expectedly strong headwind to volumes. 2023's peak season was, however, earlier and less "peaky" than in recent years, so an eleventh-hour surge in ocean demand is improbable. While imports will continue to feed truckload markets, they will not single-handedly bring about a balance between demand and the overabundance of capacity lingering in the industry.

FIGURE 16: U.S. CUSTOMS MARITIME IMPORT SHIPMENTS



(CHART: FREIGHTWAVES SONAR, CONTAINERIZED AND NONCONTAINERIZED U.S. CUSTOMS MARITIME IMPORT SHIPMENTS YTD 2023 {WHITE}, COMPARED TO FULL-YEAR 2022 {GREEN}, 2021 {BLUE} AND 2020 {ORANGE})

FIGURE 17: INBOUND OCEAN TEUS VOLUME INDEX



(CHART: FREIGHTWAVES SONAR, INBOUND OCEAN TEUs VOLUME INDEX BY DEPARTURE DATE FROM THE ORIGIN PORT YTD 2023 {WHITE}, COMPARED TO FULL-YEAR 2022 {GREEN}, 2021 {BLUE} AND 2020 {ORANGE})

Review of Trucking Rates

Contract rates — which are exclusive of fuel surcharges and other accessorials — quickly recovered from their Independence Day dip, reaching their quarterly peak of $2.41 per mile in mid-July. But over the ensuing month, contract rates would fall to their lowest average since February 2021. This drop mirrors the trend seen in 2022: After reaching an all-time high in June, contract rates would fall 6% from mid-July to mid-August. Unlike in 2022, however, contract rates in Q3 2023 managed to level out and avoid new lows in the subsequent weeks. Compared to Q2, contract rates fell by an average of 2.5% over the quarter — on the low end of our previous forecast that contract rates would decline 2% to 5% on a quarterly basis.

Contract rates have nevertheless maintained a wide spread over spot rates, despite a lull in freight demand giving shippers the needed leverage to negotiate rates lower and narrow the spread. Bid season historically commences in October and lasts until the end of Q1, so it is possible that we could see contract rates align more closely with the market's current weakness.

On the other hand, just as the American consumer often proves more resilient than expected, shippers might prove more cautious than fundamentals imply. Given their broader shift to a "just-in-time" inventory strategy, long-term capacity security might be a top-of-mind concern for shippers.

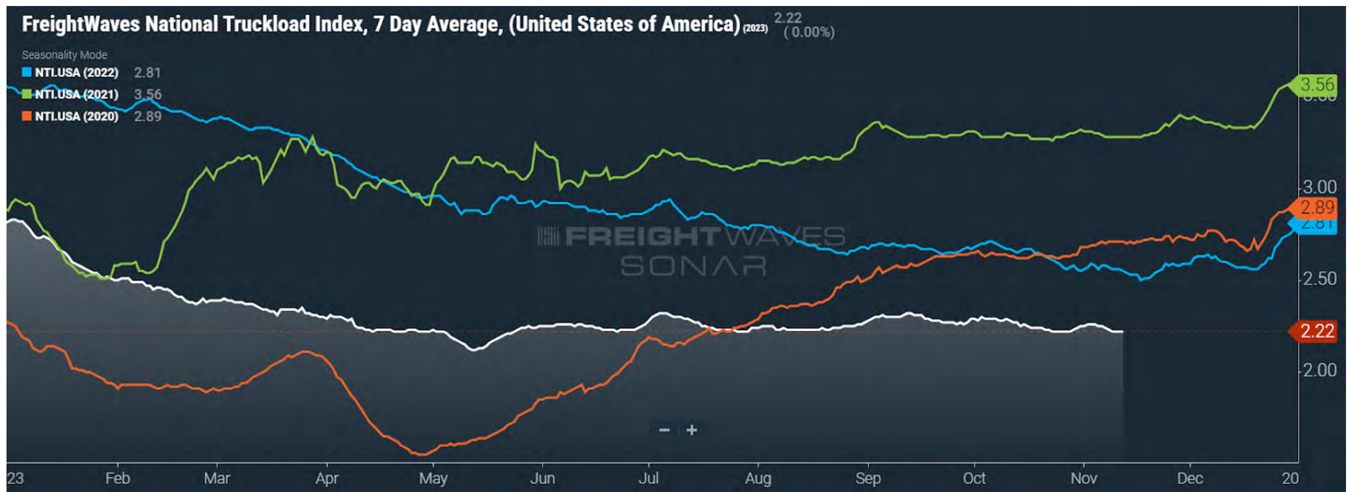
Spot rates' Q3 performance was nearly the antithesis of contract rates', as spot rates saw an initial boost from capacity tightening during Independence Day week. Rather than immediately tumbling from this peak, as would be expected after the passing of a short-lived influence, the National Truckload Index (NTI) — a seven-day moving average of national dry van spot rates that is inclusive of fuel and other accessorials — declined only gradually until late July.

From then until the end of August, fuel-inclusive spot rates were absolutely stagnant as rising diesel costs offset declining linehaul rates. In late August, the NTI rose in anticipation of the Labor Day capacity squeeze.

Once again, rather than losing these holiday gains like so many times prior, carriers were not only able to retain this rate momentum but managed to build upon it. By the halfway point of September, some of the wind had been taken out of spot rates' sails, though the NTI still finished the quarter at levels in line with early April.

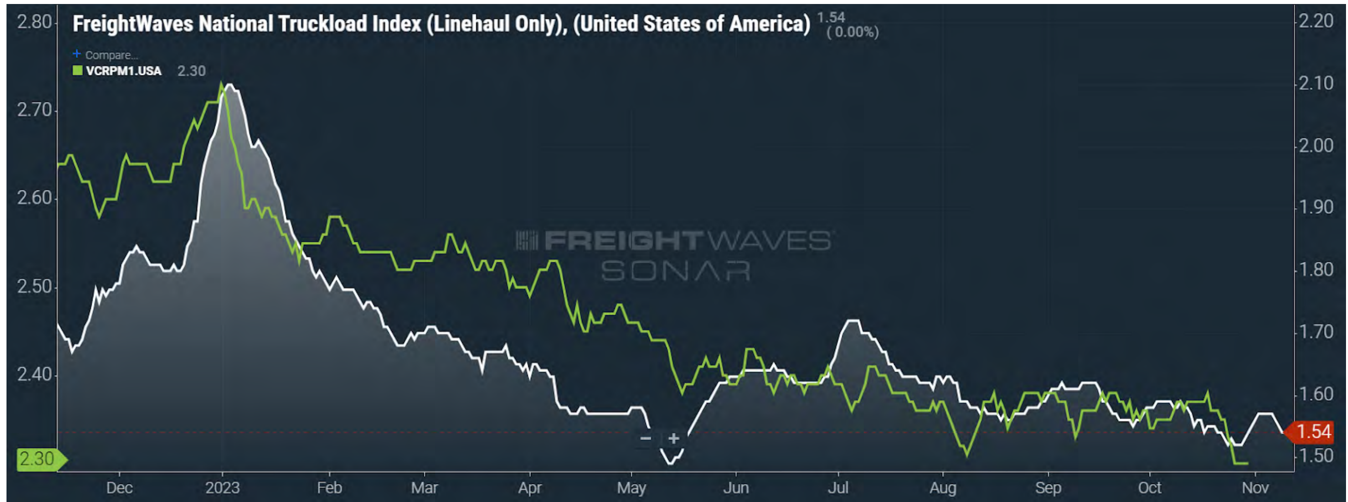
Averaging $2.26 per mile during Q3, the NTI rose only 1.3% from the previous quarter, considerably below our prior forecast of quarterly gains between 4% and 7%. Yearly comparisons are brutal for spot and contract rates alike: The NTI sank by a quarterly average of 17.8% from 2022, while contract rates fell 15% from year-ago levels.

FIGURE 18: NATIONAL TRUCKLOAD INDEX (INCLUSIVE OF FUEL)



(CHART: FREIGHTWAVES SONAR, NATIONAL TRUCKLOAD INDEX YTD 2023 {WHITE} COMPARED TO FULL-YEAR 2022 {BLUE}, 2021 {GREEN} AND 2020 {ORANGE})

FIGURE 19: 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 Fourth Quarter of 2023

At its November meeting, the Federal Open Market Committee held target rates for the second consecutive time, though it left the door open for future hikes. Yet recent data has revealed some forming cracks that might negate the need for additional tightening: Business investment was softer than expected in Q3, elevated borrowing rates should prove a substantial headwind to future economic activity and manufacturers' sentiment is sharply negative. In October, the ISM manufacturing index fell to 46.7, marking the 12th consecutive month of contraction in the sector.

Consumer sentiment is also far from positive. The University of Michigan's October release of its consumer sentiment index showed that one-year expected business conditions fell 16% across all consumers, while expectations over personal finances slid 8% due to persistent concerns about inflation. The Conference Board's October print of its consumer sentiment index, meanwhile, saw the expectations index dip to 75.6. In the survey's 38-year record, any reading below 80 has historically signaled a recession within the coming year.

Rising interest rates have yet to have a deleterious effect on consumer spending, however. Per data from the Federal Reserve, the average interest rate on a credit card plan rose to 21.19% in August, well above the 16.26% average seen in 2022. At the same time, the total amount of revolving credit — which includes credit card debt — rose to an annualized 13.9%. There is a chance that consumers might thread the needle in curbing spending without triggering long-term repercussions. Such self-moderation would, however, frustrate the nascent recovery of freight markets.

SEASONALITY CONSIDERATIONS

Signs point to a softer Q4 this year than in 2022. Consumer demand for goods has continued to weaken as import volumes fall on a yearly basis. Any demand indicative of a peak season for truckload markets has already passed. That said, seasonality will still be a factor: Securing capacity around the holidays could prove to be a challenge, depending on one's market.

With regard to the broader economy, December is traditionally a month with the second-highest number of layoffs and discharges in the year. If the labor market's momentum is arrested by a particularly harsh December, it could tip the economy into a recession that lasts into the second half of 2024. Such a recession would all but quash hopes for a near-term recovery in freight markets.

RATE INFLATION FORECAST FOR Q4 2023

Despite a relatively dim outlook for freight demand in the coming quarter, our team at FreightWaves expects spot rates to rise 0.5% to 3% on a quarterly basis in Q4. While spot rates did fall below their Q3 average in October, the counterweight of seasonal rate pressures should prove sufficient to bring about at least a modest gain. A larger exodus of carriers from the industry is unlikely to occur until the first half of 2024, but if this mass exit is accelerated, spot rates will rise accordingly.

Contract rates remain abnormally high, especially relative to spot rates. Typically, rate movement in the contract space lags behind spot markets by six or so months, though contract rates have changed little since mid-Q2. More dramatic fluctuations might be seen during the current bid season, which traditionally lasts from October to February. But after the recent volatility in freight markets, supply chain resilience has increasingly been top of mind among C-suite executives. On the other hand, tightening transportation budgets would be a simple way to offset potential revenue losses, should a broad economic recession come to pass. We anticipate that contract rates will fall 1% to 3% over the coming quarter.

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