FREIGHT MARKET UPDATE

FOURTH QUARTER 2022

TranzAct Technologies Inc.

www.tranzact.com

OVERALL MARKET OUTLOOK

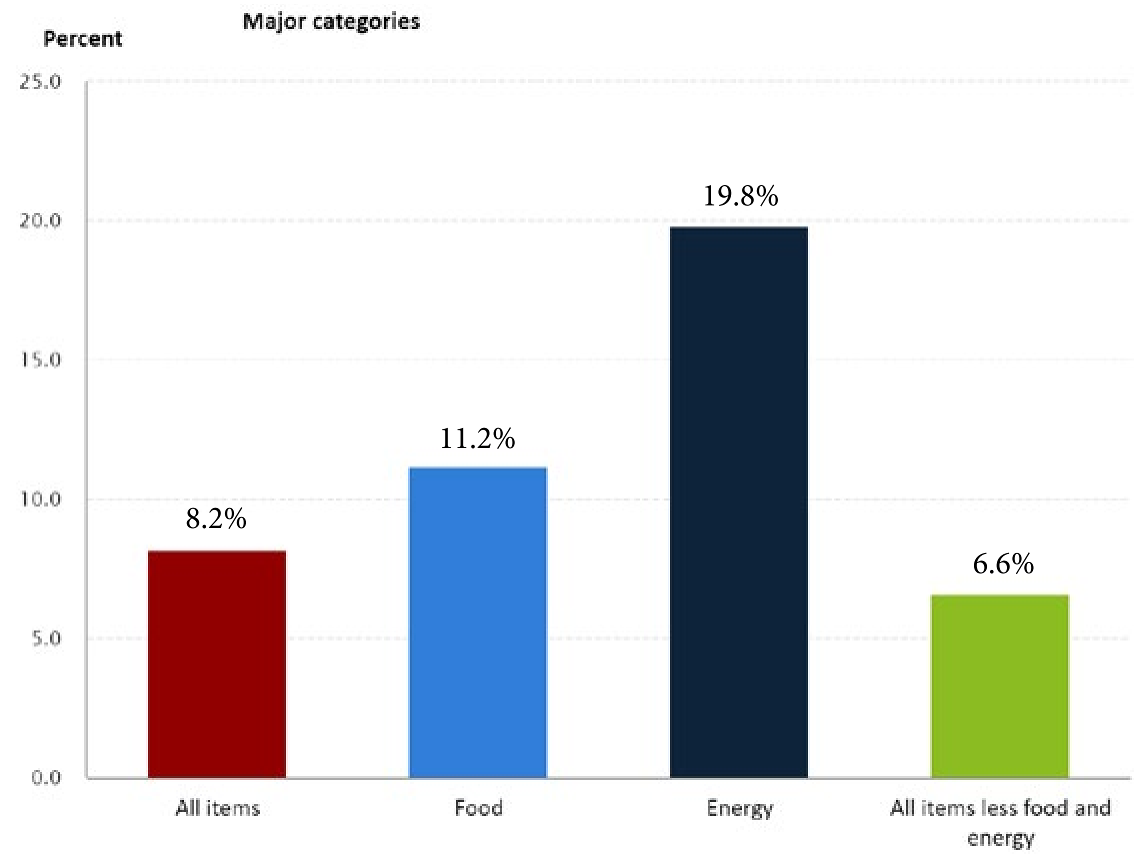
There continue to be many mixed signals in the economy as consumer demand, imports, and inflation decline somewhat, while unemployment remains low.

Employment – For September 2022, the U.S. Bureau of Labor Statistics (BLS) [Employment Situation Summary] reported a 263,000 increase in nonfarm payroll employment and a sustained unemployment of 3.5%. Their report mentioned, “Notable job gains occurred in leisure and hospitality and in health care.”

Inflation (Consumer Price Index) – Meanwhile, the [Consumer Price Index] for All Urban Consumers increased 0.4% in September and 8.2% over the last 12 months according to the BLS.

According to the report, “Increases in the shelter, food, and medical care indexes were the largest of many contributors to the monthly seasonally adjusted all items increase.” During the same time period, these increases were partly offset by a 4.9% decline in the gasoline index.

12 month % change, Consumer Price Index, selected categories September 2022, not seasonally adjusted



Source: [U.S. Bureau of Labor Statistics]

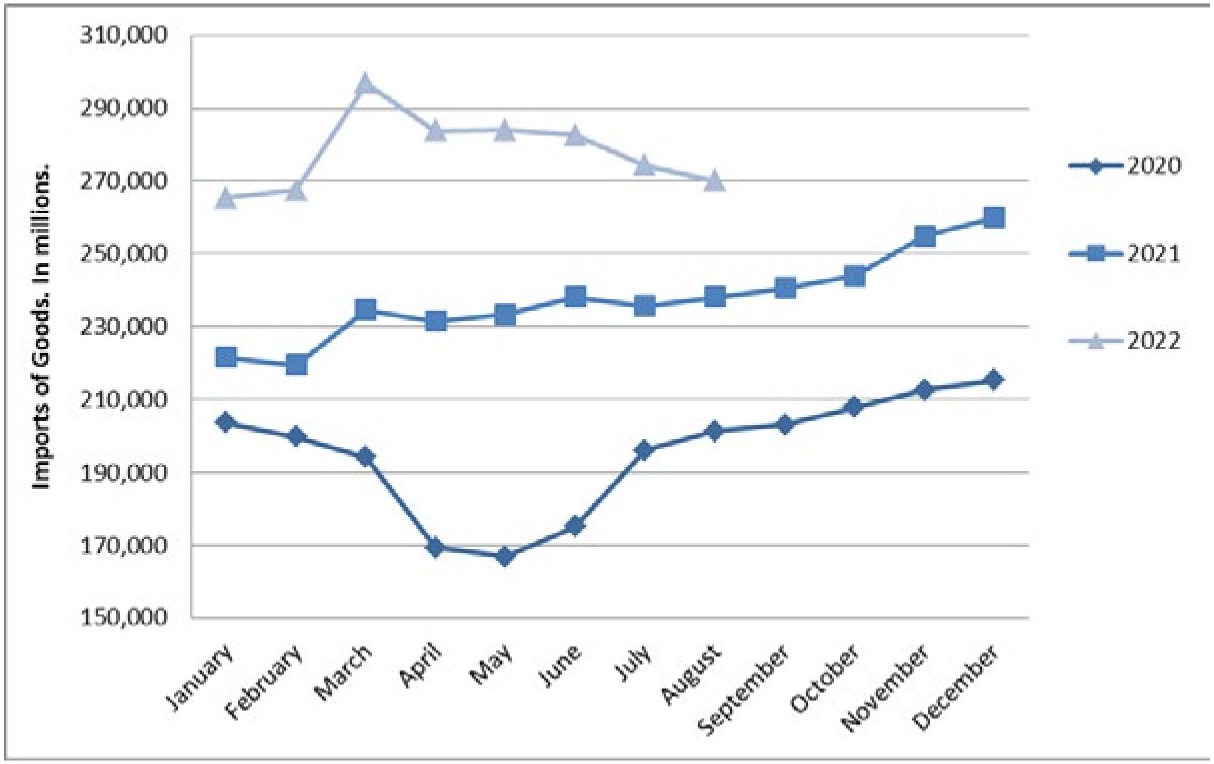
OVERALL MARKET OUTLOOK

Imports - In August 2022, imports of goods decreased $4.1 billion to $270.1 billion. Industrial supplies and materials decreased $4.1 billion while capital goods decreased $1.1 billion, and automotive vehicles, parts, and engines increased $1.1 billion, according to report [U.S. International Trade in Goods and Services for August 2022.]()

Manufacturing - As reported in the latest [Monthly Advance Report on Durable Goods Manufacturers' Shipments Inventories and Orders](), "New orders for manufactured durable goods in August, down two consecutive months, decreased $0.6 billion or 0.2 percent to $272.7 billion, the U.S. Census Bureau announced today. [...] Transportation equipment, also down two consecutive months, drove the decrease, $1.0 billion or 1.1 percent to $92.0 billion."

Shipments of manufactured goods increased during this time: "Shipments of manufactured durable goods in August, up fifteen of the last sixteen months, increased $2.0 billion or 0.7 percent to $272.1 billion."

U.S. International Trade - Imports of Goods
Seasonally Adjusted (by Commodity/Service)
In millions of dollars. Details may not equal totals due to rounding.



Source: [Bureau of Economic Analysis]()

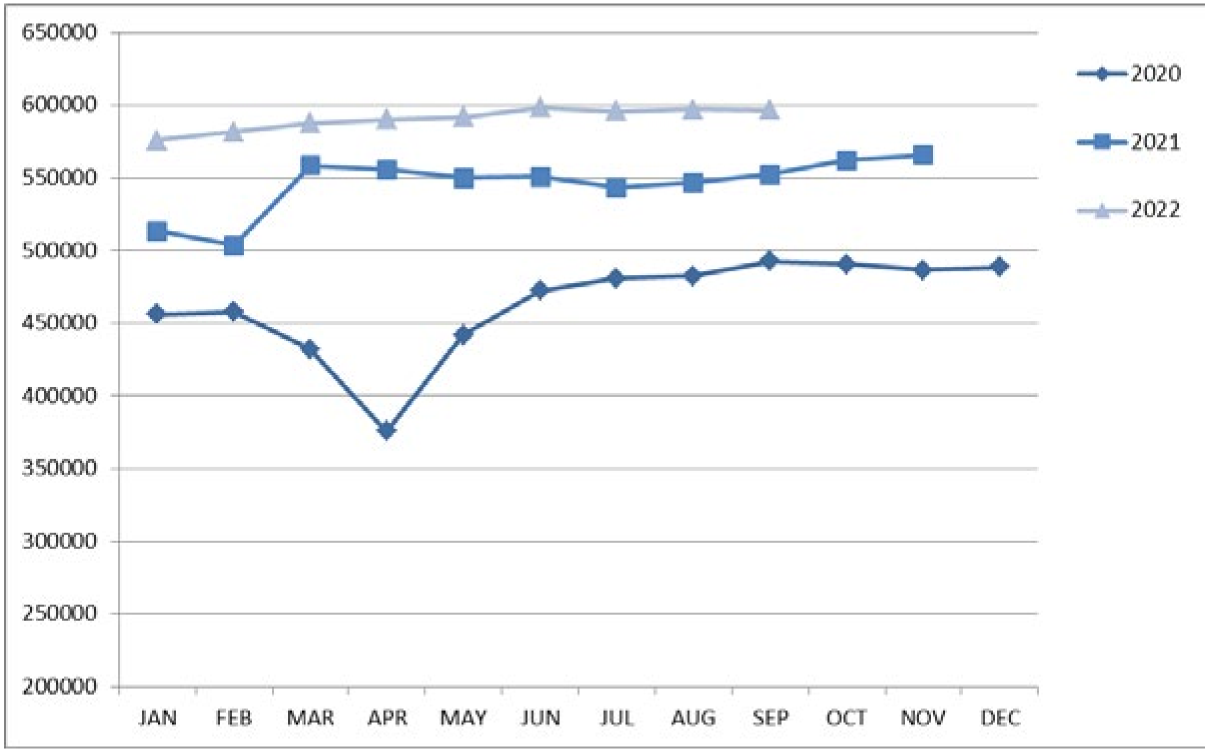
OVERALL MARKET OUTLOOK

Inventories - Inventories of manufactured durable goods have continually increased for 19 months, according to the Monthly Advance Report on Durable Goods, Manufacturers' Shipments, Inventories, and Orders for August 2022. The increase was led by machinery, which has been up 22 consecutive months. New orders for durable goods were down slightly month to month for the last two months, but have grown 10.9% YTD, slightly ahead of inflation. Excluding transportation however, new orders have only grown 8.0% YTD.

Retail sales - For September 2022, the advance estimate of U.S. retail and food services sales (adjusted for seasonal variation and holiday and trading-day differences, but not for price changes) was $684 billion, which is even with August 2022 and 8.2% above September 2021 with inflation also tracking at 8.2%. Retail trade sales were up 7.8% YTD versus last year. The leaders in this category were gasoline stations (up 20.6%) and Nonstore retailers (up 11.6%).

Retail Trade: U.S. Total

Not Seasonally Adjusted Sales - Monthly [Millions of Dollars]



Source: U.S. Census Bureau Time Series Data

TRUCKLOAD MARKET

Volumes in the truckload market have dropped significantly as shown by sources such as the Outbound Tender Volume Index (USA) produced by FreightWaves. In 2021, volumes stayed well above 2020 until the fall, when they tracked roughly even until around March 2022. Despite a significant decline around this time, volumes remained above 2020 levels until around July 2022, and have been tracking below previous years since.

Truckload rates have fallen accordingly. Sources such as JOC or DAT show spot rates declining since the beginning of this year and falling below 2021 levels around May 2022. Spot rates have dropped significantly below contract rates, making it a favorable environment for renegotiating rates. Recently, FreightWaves reported in their Sonar Weekly Update for the week of October 9 that "many shippers are seeking high single-digit rate reductions for incumbents."

Relief is also coming from diesel prices continuing to decline. In early October an [OPEC press release] announced their intention to cut production and this may cause price increases in the future.

LTL MARKET

LTL carriers continue to exhibit and benefit from the pricing discipline they've shown in the past. According to a FreightWaves article, "The freight market has been in a tailspin since the spring, but the less-than-truckload carriers are still increasing rates." The article also explained that a smaller and less transparent spot market for LTL keeps the rates somewhat more stable.

For 2023, analysts expect LTL rates to continue to increase at a slower pace. However, FedEx Freight recently announced that increases for 2023 (effective January 2) will range from 6.9 to 7.9% depending on a shipper's freight profile. Recently FedEx has been in the news for announcing the largest general rate increase in their history, a decline in both volumes and operating income, and plans to reduce costs by about $4 billion by 2025.

At Yellow, tonnage has been down while they undertake restructuring to consolidate their LTL brands but yields have been up. XPO has also made a structural change by spinning off RXO, its tech-enabled brokered transportation platform.

PARCEL

On the parcel front, rates continue to increase like usual while volumes slow down or decline.

In late September, FedEx announced their historic 6.9% general rate increase effective in 2023. The rate increase for UPS is expected to be issues at the end of October. UPS will be renegotiating their contract with the Teamsters in 2023 since the current contract will expire at the end of June. There are indications that this will be another round of intense negotiations.

Recently, we held an interview with parcel expert Jerry Hempstead to hear his take on the FedEx rate increase and his advice for shippers. He emphasized that everything is negotiable, and that "Shippers should not feel any qualms about calling even in the middle of a contract and saying 'Let's negotiate this.'" He also suggested entering into negotiations with a wish list of what's most important for your business, staying plugged into the news about parcel carriers, and looking for alternatives amongst regional parcel carriers.

His advice for dealing with a potential UPS strike is to be proactive in developing a plan with alternatives. While international shipments could easily be transitioned to DHL and FedEx, he cautioned that for domestic next day air you need to have a pre-existing relationship with FedEx, and they may not onboard new customers during a work stoppage. For ground shipments, consider regional carriers with a large network such as LaserShip/OnTrac.

RAIL & INTERMODAL

The ongoing negotiations between the rail unions and management have gained national attention after a strike was narrowly averted in mid-September. Soon afterward on October 10, a major rail union rejected a proposed labor contract, reviving the possibility of a strike. The latest decision comes from the Brotherhood of Maintenance of Way Employees Division (BMWED) which is the third largest of the twelve rail unions. According to the union there could be a strike in the future, but not until November 19.

FreightWaves reported that four unions have ratified agreements with the railroads but two of the largest rail unions have yet to vote. They will be mailed ballots in late October that allow a 21-day voting period. With this timeline, the outcome should be known in mid-November around the time that the BMWED may strike. While a strike would likely be met with intervention from Congress, a short rail strike or a minimal work stoppage could have a significant impact on supply chains.

Rail and Intermodal Volumes: According to the American Association of Railroads, total U.S. carload traffic for the first 40 weeks of 2022 (9.2m carloads) was flat with the same period last year; and intermodal units (10.5m units) were down 5% from last year. Total combined U.S. traffic decreased 2.7% year to date from 2021.

OCEAN

On the ocean front, shippers have seen a major drop in spot rates from their highs reaching around $20k or more to new lows around $2k that are close to pre-pandemic rates.

At the same time, volumes haven't declined at a rate anywhere close to this in 2022, and have tracked above 2021 levels for most of the year.

As Peter Tirschwell explained during [a recent interview we held with him]: "One of the reasons why the rates are going down while the volumes are not really going down is because port congestion has eased." The number of ships idling off the coast of LA and Long Beach has gone from historic highs surpassing 100 to 7 or 8 ships. Although the East and Gulf coasts have taken on higher volumes, overall congestion is lower.

Uncertainty continues to make the West Coast a questionable destination for shippers as the negotiations between the Pacific Maritime Association (PMA) and the ILWU continue.

BLANK SAILINGS

A lot of the dialogue around blank sailings is "Well what you're doing is using capacity to manipulate the market." The carriers view it as "No ... we are not obligated to provide capacity is there's not sufficient demand."

- Peter Tirschwell, VP Maritime & Trade, IHS Markit

AIR

In the air freight market, the peak season seems to have been pushed down by lower demand and higher capacity. FreightWaves reported in early October, “Air freight spot rates tumbled 9% year over year in September to below the 2021 level for the first time this year, Xeneta, an ocean and air freight rate benchmarking and data analytics firm, reported Wednesday. The cost to ship by air lowered another 2.8% in the past week and is now 21.6% less than a year ago, according to the Baltic Air Index. A year ago rates were up about 80% on a yearly basis.” In line with this, there are reports that volumes are down around 12% from last year.

Meanwhile, the airlines continue to experience strong consumer demand despite recession fears, helping to increase capacity. IATA recently reported that capacity in August 2022 was 6.3% above August 2021. Willie Walsh, IATA’s Director General commented, “Air cargo continues to demonstrate resilience. Cargo volumes, while tracking below the exceptional performance of 2021, have been relatively stable in the face of economic uncertainties and geopolitical conflicts. Market signals remain mixed.”

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