# FREIGHT MARKET UPDATE

SECOND QUARTER 2023

# EXECUTIVE SUMMARY

Welcome to TranzAct's Quarterly Freight Update for the Second Quarter, 2023. One recent comment on the state of our freight market has stood out to me. During a call with the financial analysts, J.B. Hunt's President Shelley Simpson said: "To start, we're in a challenging freight environment where there is deflationary price pressure for an industry that continues to face inflationary cost pressures. Simply stated, we're in a freight recession."

For several months now there has been a precipitous drop in demand in the freight markets. Consequently, we have been inundated with questions about where freight rates are going. Since each shipper is unique, there is no "one size fits all" answer, but here is an overview of what we do know and what you should expect for your freight budgets.

**Market Trends - On a Year-Over-Year basis:**

- Ocean rates are down by 70% to 90% (and that is no misprint).
- Truckload rates are down by 15% to 30%.
- LTL rates are all over the place.
    - Shippers with great rates are seeing some slight increases (e.g. 3% - 5%).
    - Smaller shippers (a.k.a. annual LTL spend $500K- $5M) who use the right sourcing strategies are achieving significant savings through rate reductions (e.g. 10% to 15%). Having the right sourcing strategy for your LTL negotiations is more important than ever before.
- Parcel rates are varied like LTL rates. That said using the right sourcing strategy for your parcel negotiations can result in lower parcel costs.

Additionally, I'd like to highlight a few very important freight issues that you and your team need to know and address as part of your scenario planning exercises for 2023.

First, labor issues loom large in 2023. The upcoming negotiation between UPS and the Teamsters is getting a lot of attention, but the Teamsters will also be negotiating new National Master Freight Agreements (NMFA) with ABF and TForce, since their respective agreements expire on June 30 and July 31. The Teamsters are also in intense discussions with Yellow about the "One Yellow" initiatives that involve the closure of terminals.

Second, freight demand is weak, but carriers are reluctant to shrink their available capacity since they want to have that capacity for when the market rebounds. If the freight markets don't rebound in the foreseeable future (a.k.a. the next three to six months), shippers should expect to see carriers idle or shrink their capacity. This could result in higher rates down the road when the market does rebound.

Third, there is some important "stuff" that is happening in Washington D.C. to know about. The Senate is currently considering the nomination of Julie Su to be the U.S. Secretary of Labor. As California's Secretary of Labor, Ms. Su had a role in the passage of California's AB5 law, so some are concerned that there could be a big emphasis on reclassifying millions of contractors as employees. That would be a big deal for carriers and shippers.

**Next Steps** - In addition to this update we recommend the Georgia Logistics Market Snapshot which also provides economic data and updates by mode. If you or your team have questions or would like to discuss any of this information – especially how to do your transportation sourcing events the right way, set up a time to meet with us on Calendly.

We wish you the best as you navigate the market and know that we are here to support you if you have questions or concerns.

# OVERALL MARKET OUTLOOK

Overall we continue to see mixed signals in the economy, with consumer demand for goods declining to normal levels alongside continued low unemployment and increasing demand for air travel.

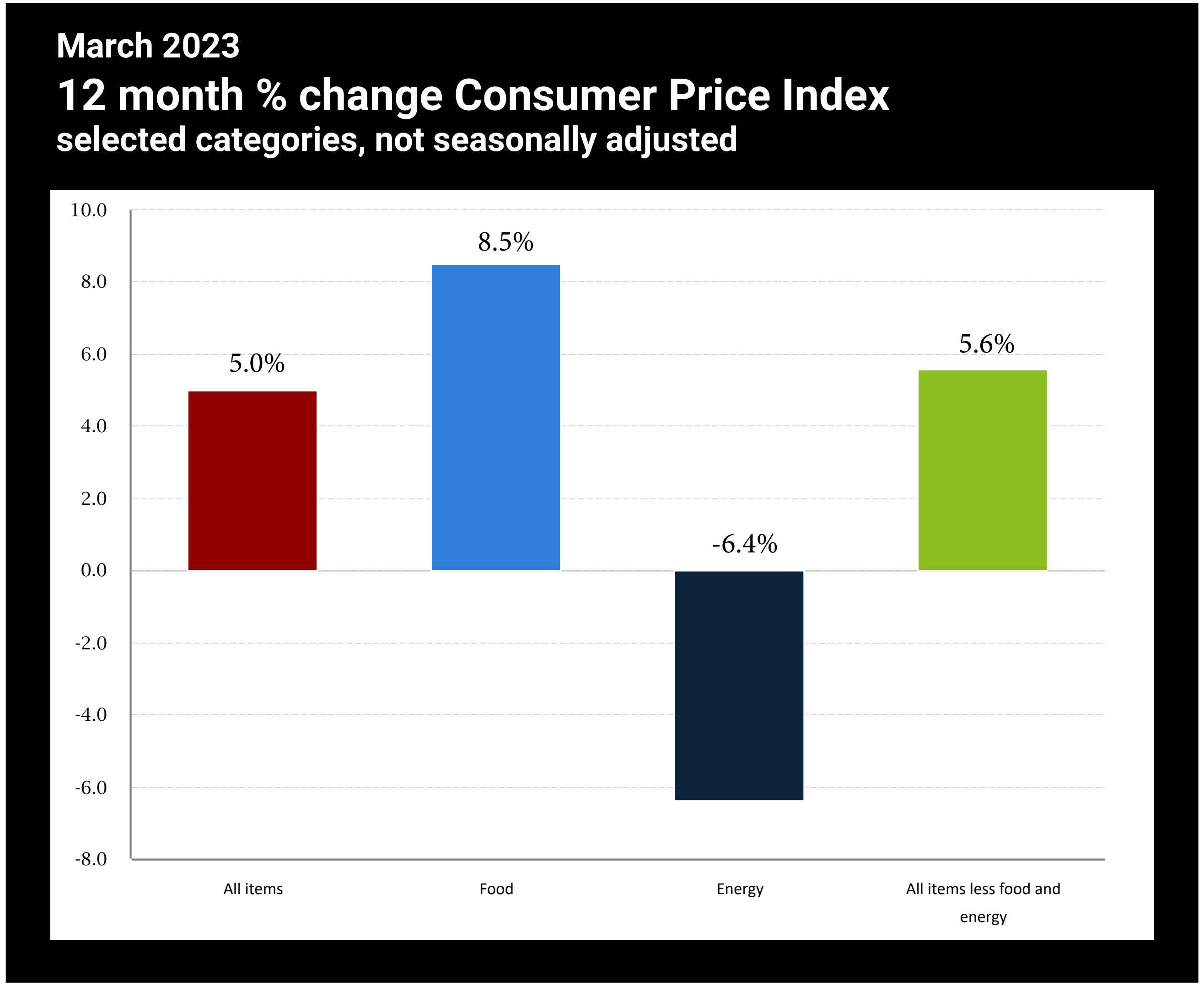
**Employment**

For March 2023, the U.S. Bureau of Labor Statistics (BLS) Employment Situation Summary reported a 236,000 increase in nonfarm payroll employment and an unemployment rate of 3.5%. Their report mentioned, “Employment continued to trend up in leisure and hospitality, government, professional and business services, and health care.”

**Inflation (Consumer Price Index)**

Meanwhile, the Consumer Price Index for All Urban Consumers increased 0.1% in March and 5.0% over the last 12 months according to the BLS.

The report noted the major contributors: “The index for shelter was by far the largest contributor to the monthly all items increase. This more than offset a decline in the energy index, which decreased 3.5 percent over the month as all major energy component indexes declined. The food index was unchanged in March with the food at home index falling 0.3 percent.”




Source: U.S. Bureau of Labor Statistics

# OVERALL MARKET OUTLOOK

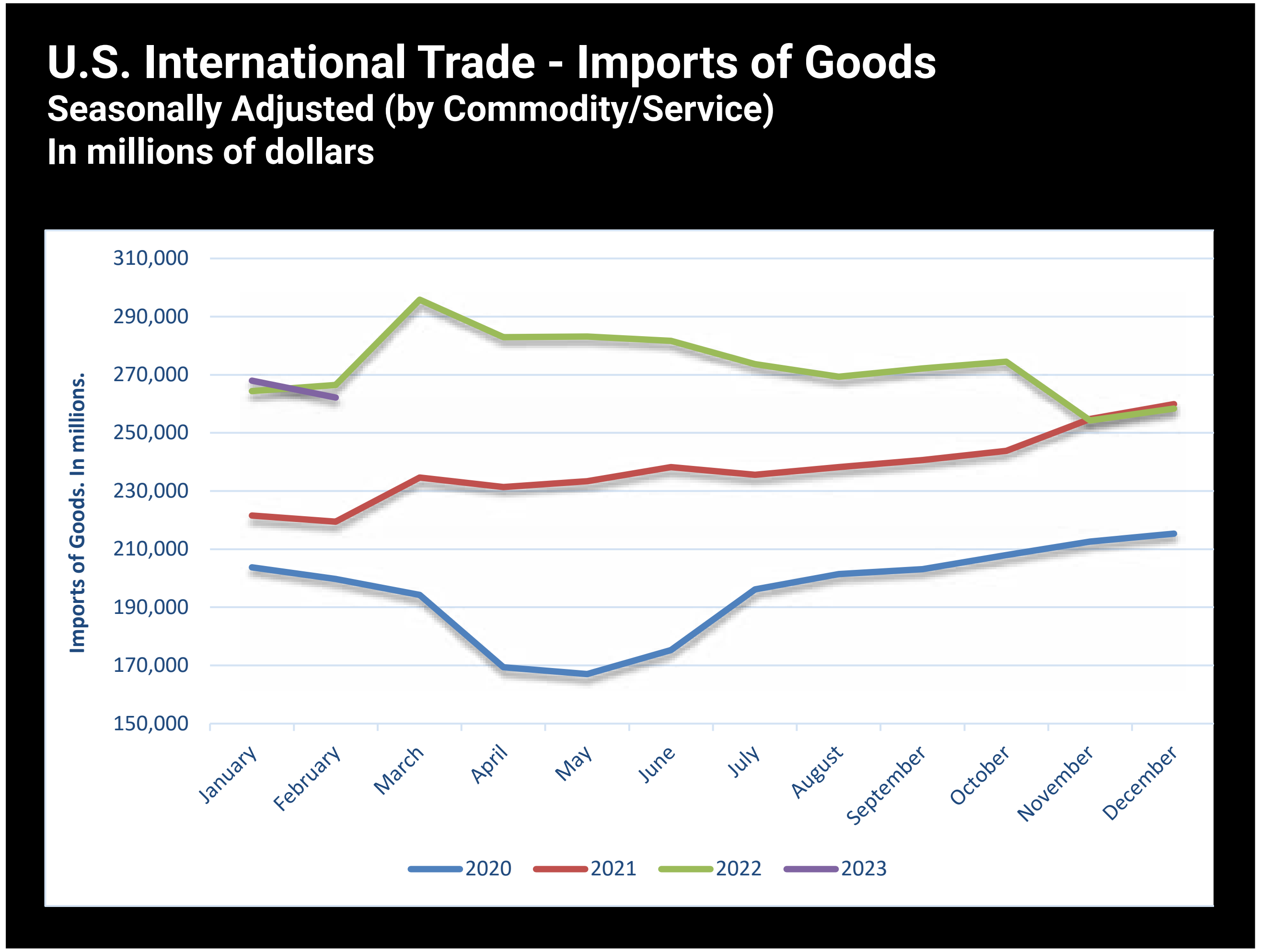
**Imports**

In February, imports of goods decreased $5.8 billion to $262.2 billion, while imports of services increased by $0.8 billion, according to the latest report on U.S. International Trade in Goods and Services. While a slight decline is typical during this time of the year, February's total is below the previous year also.

**Manufacturing**

New orders for manufactured goods are trending down, as reported in the latest Monthly Advance Report on Durable Goods Manufacturers' Shipments Inventories and Orders. "New orders for manufactured durable goods in February, down three of the last four months, decreased $2.6 billion or 1.0 percent to $268.4 billion."

Transportation equipment played a notable role in the decrease. "Excluding transportation, new orders were virtually unchanged. Excluding defense, new orders decreased 0.5 percent. Transportation equipment, also down three of the last four months, drove the decrease."




Source: Bureau of Economic Analysis

# OVERALL MARKET OUTLOOK

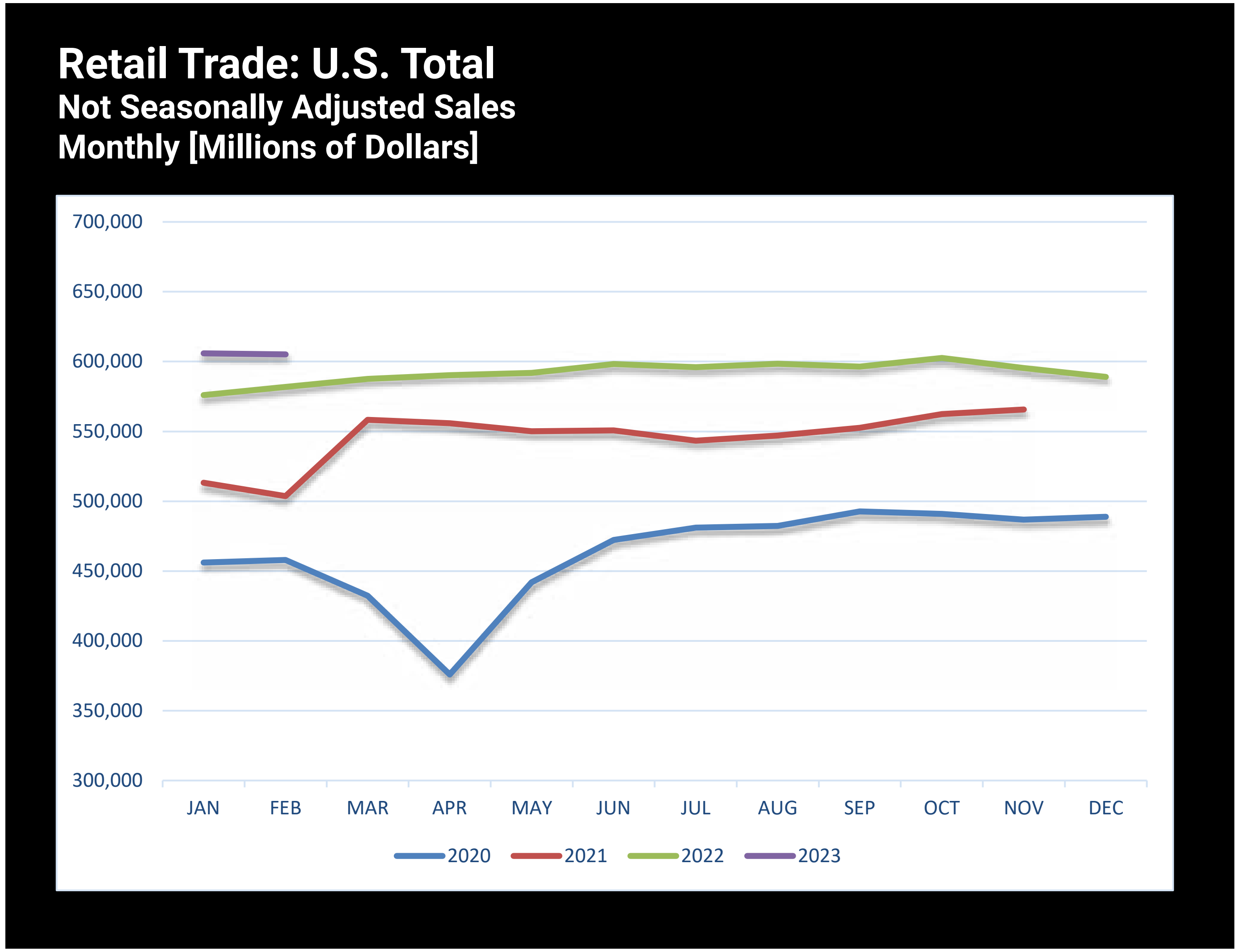
**Inventories**

Inventories of manufactured durable goods increased in February 2023 and for 24 of the last 25 months, according to the latest [Monthly Advance Report on Durable Goods, Manufacturers' Shipments, Inventories, and Orders.] In January there was a slight decline of 0.2%.

**Retail sales**

In February 2023, U.S. retail and food services sales were down 0.4% versus January and up 5.4% versus a year ago. Retail trade sales alone were down approximately 0.1% from January 2023, and 4% above last year, according to the [Advance Monthly Sales of Retail and Food Services, February 2023.]

The report noted the areas of growth: "Food services and drinking places were up 15.3 percent (±2.6 percent) from February 2022, while general merchandise stores were up 10.5 percent (±0.2 percent) from last year."




Source: U.S. Census Bureau Time Series Data

# TRUCKLOAD MARKET

In the truckload market, shippers continue to find relief from reduced rates, greater capacity, and fewer disruptions.

Spot rates continue to fall month to month for van, flatbed, and reefer. In March 2023, spot load posts were down about 68% versus a year ago according to DAT Trendlines. The Load to Truck ratio for March 2023 was reported at 2.05 by DAT, which is lower than any figure reported in all of 2021 or 2022.

As a result, the inversion of spot and contract rates has also continued. As recently reported in Logistics Management, "the national average spot van rate was down $0.14, to $2.24 per mile and $0.63 below the average contract van rate, coming in at its lowest monthly average going back to August 2020, while falling $0.85 annually".

The article went on to explain that spot volumes are normal historically, but drastically lower than the heights of the pandemic. The issue at hand now is over capacity. "Croke said that capacity is trending along at much higher levels than what is seen historically, due to the record influx of carriers that really peaked in June 2021, when the motor carrier sector was adding around 8,000 carriers per month. What's more, he said capacity is still leaving the industry but at a slowing rate."

After reaching a historic high of $5.81 in June 2022, diesel prices have trended downward overall. As of the week of 4/17/23, diesel retail prices were reported at $4.12 per gallon.

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# LTL MARKET

In the LTL market, rate trends have been mixed depending on different shipping profiles and declines have been seen in many areas.

Looking ahead, both capacity and rates will be influenced by the outcomes of negotiations the Teamsters are holding with ABF and TForce Freight.

In early March 2023, bargaining between the Teamsters and TForce Freight started for the current contract which expires July 31, 2023. Later in March, the Teamsters met with ABF Freight to begin negotiations for a new national contract for the contract that expires June 30, 2023.

Another discussion underway is between the Teamsters and Yellow since there are concerns about the restructuring of the Yellow (YRC) network. Since the Teamsters are on Yellow's board, they have a powerful voice in addressing the consolidation occurring under the "One Yellow" initiative. This initiative focuses on cutting redundancies and involves the closing of terminals in the YRC network.

As companies consider their own negotiations with LTL carriers for rates, here are a few questions to consider:

- How will my freight fit within a particular carrier's network?
- What are the critical issues affecting my carriers?
- What issues are carriers anticipating in the next 6-12 months?

# PARCEL

**UPS Negotiations**

Negotiations over a new contract between the Teamsters and UPS are underway. The current contract that covers about 340,000 employees in the United States ends on July 31, 2023 and the President of the Teamsters, Sean O'Brien, has cautioned UPS that his members will strike on August 1 if there is not a new contract in place by then.

**FedEx Restructuring**

FedEx recently made headlines after its announcement of a major restructuring. Transport Topics reported that the change "will combine nearly all of its ground, air and other operations by June 2024 as part of a $4 billion cost-cutting initiative, the company announced April 5. The planned 14-month, phased-in transition ultimately will consolidate FedEx Express, FedEx Ground, FedEx Services and other FedEx operating companies into Federal Express Corp., which will become a single company that the company said will operate as a unified, fully integrated, air-to-ground network under the FedEx brand." LTL operations under FedEx Freight will remain separate.

**Parcel Rates**

Following tradition, rates in the parcel industry continue to rise. FreightWaves reported "ground parcel rates were up 4% sequentially in the first quarter on higher package weights. Fuel surcharges are outpacing the actual declines in fuel prices. The implementation of multiple fuel surcharges last year along with general rate increases were credited with keeping yields up. Also, the current mix has more small and midsize shippers, which do not get the same discounts large shippers do."

# RAIL & INTERMODAL

The railroads made headlines in February due to the derailment in East Palestine, and its aftermath. In response, Class I railroads have agreed to new measures detailed by the American Association of Railroads (AAR) such as closer spacing for HBDs, and additional training for first responders.

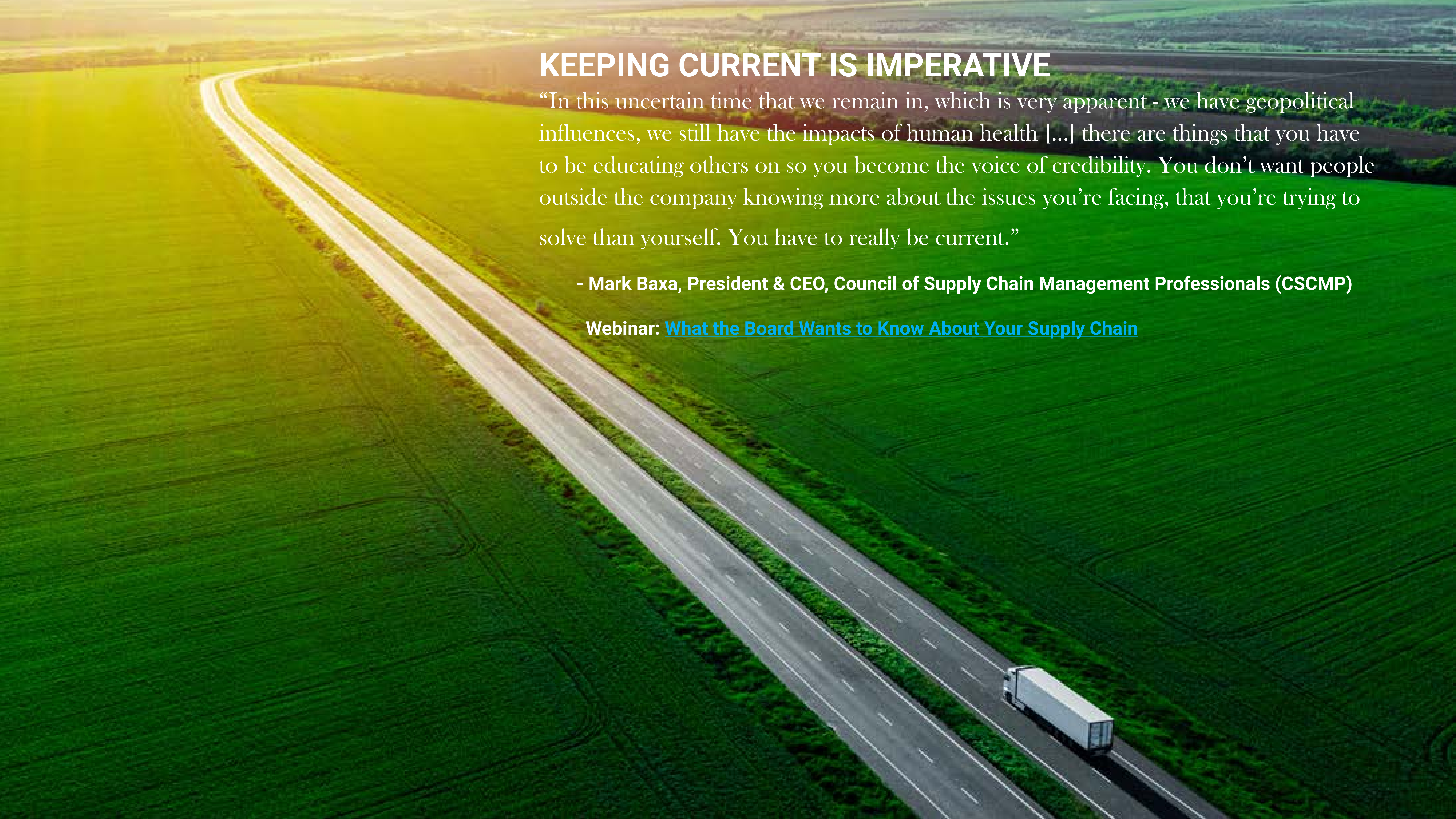
While the AAR has cited data showing that the recent decade has been the safest ever for freight railroads, with the hazmat accident rate down 78% percent since 2000, the attention to this incident has spurred further action.

Rail safety bills have been introduced in Congress that could impact the actions of the Federal Railroad Administration (FRA) or requirements for railroad operators, such as the Railway Safety Act and the Railway Accountability Act.

**Railroad volumes**

According to the American Association of Railroads (AAR), in March 2023 total U.S. carloads were down 1.2% from March 2022. For this same time period, intermodal traffic was down 13.3% and combined total traffic was down 7.6%.

AAR Senior Vice President John T. Gray noted that "Rail volumes today are being negatively influenced by broader economic trends, including slowdowns in industrial output, high inventory levels at many retailers, lower port activity and consumer spending that's not as robust as it was during most of the last three years".



## KEEPING CURRENT IS IMPERATIVE

"In this uncertain time that we remain in, which is very apparent - we have geopolitical influences, we still have the impacts of human health [...] there are things that you have to be educating others on so you become the voice of credibility. You don't want people outside the company knowing more about the issues you're facing, that you're trying to solve than yourself. You have to really be current."

**- Mark Baxa, President & CEO, Council of Supply Chain Management Professionals (CSCMP)**

**Webinar: What the Board Wants to Know About Your Supply Chain**

# OCEAN

In the ocean sector, rates have stayed at pre-pandemic levels after a sharp decline and service levels have improved.

Drewry reported their composite World Container Index at $1,774 per 40ft container on April 20, 2023. Similarly, Freightos reported a rate of $1406 for their Baltic Index (FBX) Global Container Freight Index on April 20, which is just about even with March 2020 and the years preceding the pandemic, when rates were pretty much flat for several years.

Volumes have been falling at most ports during the first quarter of 2023.

According to a Port of Los Angeles news release, “The Port of Los Angeles processed 623,234 Twenty-Foot Equivalent Units (TEUs) in March, closing out a soft first quarter. For the first three months of 2023, the Port handled 1,837,094 TEUs, down 32% compared to 2022, which was the best Q1 in the Port’s history.”

Decreases of a lesser magnitude were also experienced at East Coast ports, while the Port of Houston reported an increase in volumes in February.

There is still no contract in place between the PMA and the ILWU at the West Coast Ports. We will continue sharing any news coming out of the West Coast port negotiations as the expired contract nears the one-year point.

# AIR

Overall, air cargo demand has decreased in the past year while capacity has expanded.

According to [IATA's February Air Cargo Market Analysis], "Compared with a year ago, cargo tonne-kilometers (CTKs) were 7.5% lower". However, they also noted that February was "a significant improvement from the 14.9% annual decline in January."

At the same time capacity has expanded significantly. "Global air cargo capacity, measured by available cargo tonne-kilometers (ACTKs), grew 8.6% year-on-year (YoY). This growth was driven by the return of passenger aircraft belly-hold capacity in international markets, which increased 57.0% YoY and recovered 75.1% of pre-pandemic capacity in February."

Over the next several years, FedEx plans to reduce their air network. As reported by FreightWaves, "FedEx's (NYSE: FDX) cost-reduction strategy includes parking aircraft, accelerating the retirement of MD-11 freighters, increasing point-to-point flying and leaning more on contractors, commercial airlift and trucking."

Despite the decline in air cargo demand, Maersk Air Cargo recently opened a new route between the United States and China.

A Nationally and Internationally Certified Women's Business Enterprise, our superior technology, quality processes, and comprehensive network help our customers reduce costs while improving services.

Our solutions provide shippers of all modes with freight audit and payment, reporting and TMS applications, rate negotiation and procurement savings, contract development, consulting and analysis. With offices around the globe, we serve our clients on a 24/7 basis.

Access more great information online at:
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