FREIGHT MARKET UPDATE

FIRST QUARTER 2023

TranzAct Technologies Inc.

www.tranzact.com

OVERALL MARKET OUTLOOK

The new year has begun with hopeful economic indicators and some questioning whether a recession will materialize anytime soon.

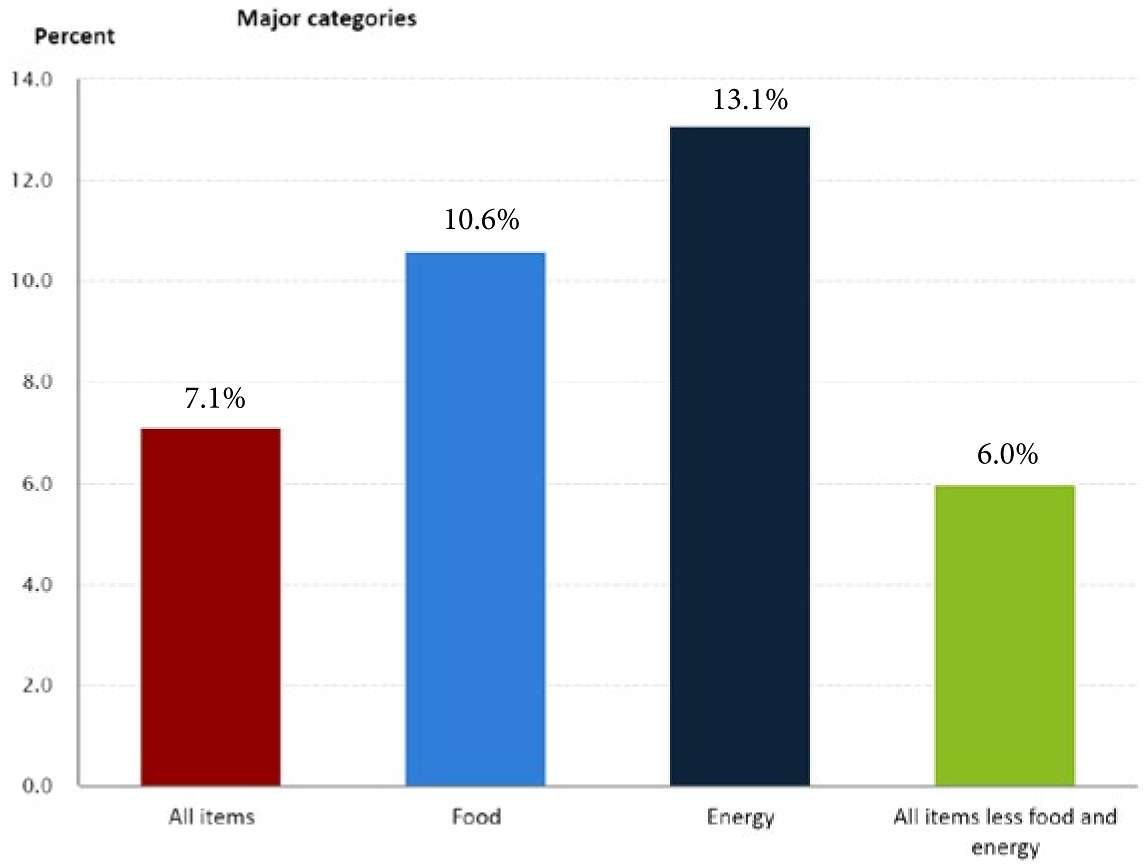
Employment – For December 2022, the U.S. Bureau of Labor Statistics (BLS) Employment Situation Summary reported a 223,000 increase in nonfarm payroll employment and a sustained unemployment of 3.5%. Their report mentioned, "Notable job gains occurred in leisure and hospitality, health care, construction, and social assistance."

Inflation (Consumer Price Index) – Meanwhile, the Consumer Price Index for All Urban Consumers increased 0.1% in December and 7.1% over the last 12 months according to the BLS.

The report noted the contributors: "The index for shelter was by far the largest contributor to the monthly all items increase, more than offsetting decreases in energy indexes."

Similarly, the Producer Price Index rose 0.3% in November and 7.4% for the past 12 months.

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



Source: U.S. Bureau of Labor Statistics

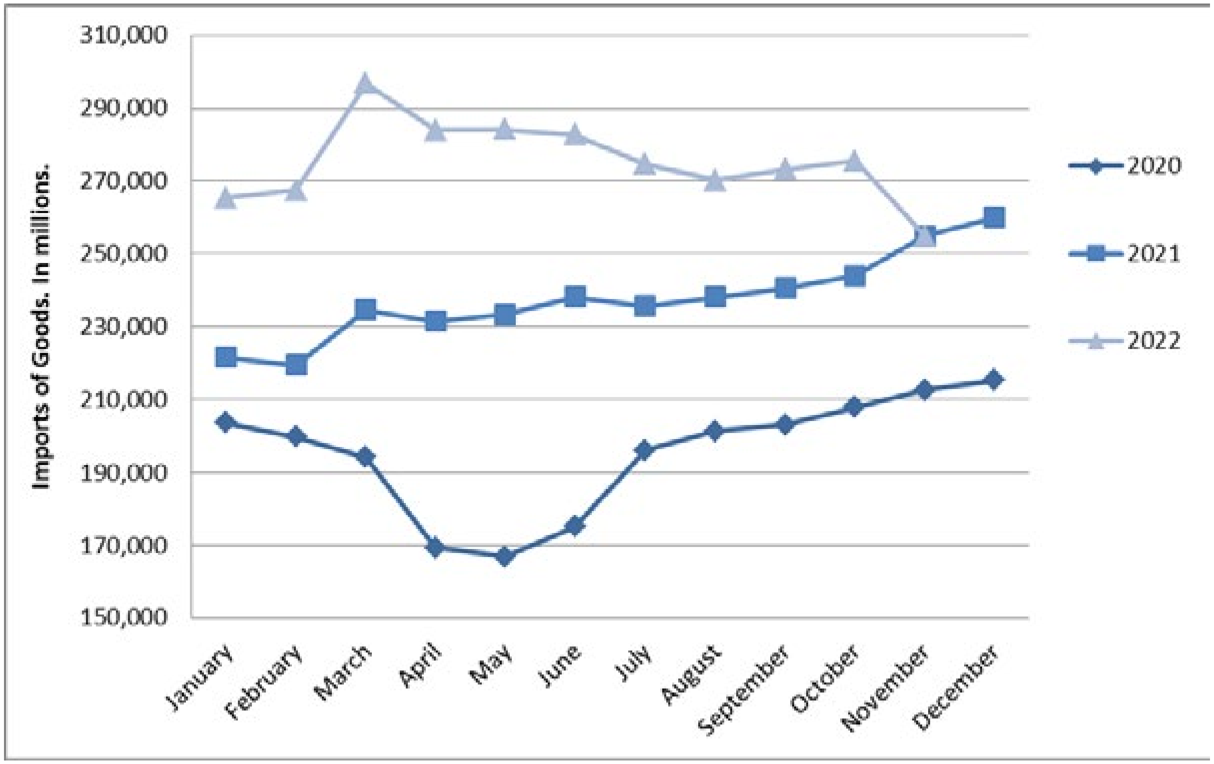
OVERALL MARKET OUTLOOK

Imports - In November, imports of goods decreased $20.7 billion to $254.9 billion. These decreases came across the board from consumer goods ($8.8 billion), industrial supplies and materials ($3.7 billion), automotive vehicles, parts, and engines ($3.3 billion), and capital goods ($3.0 billion) according to the latest report on 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 were down in November from the month prior due to a pull back on transportation equipment:

"New orders for manufactured durable goods in November, down following three consecutive monthly increases, decreased $5.8 billion or 2.1 percent to $270.6 billion, the U.S. Census Bureau announced today. This followed a 0.7 percent October increase. [...] Excluding transportation, new orders increased 0.2 percent."

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

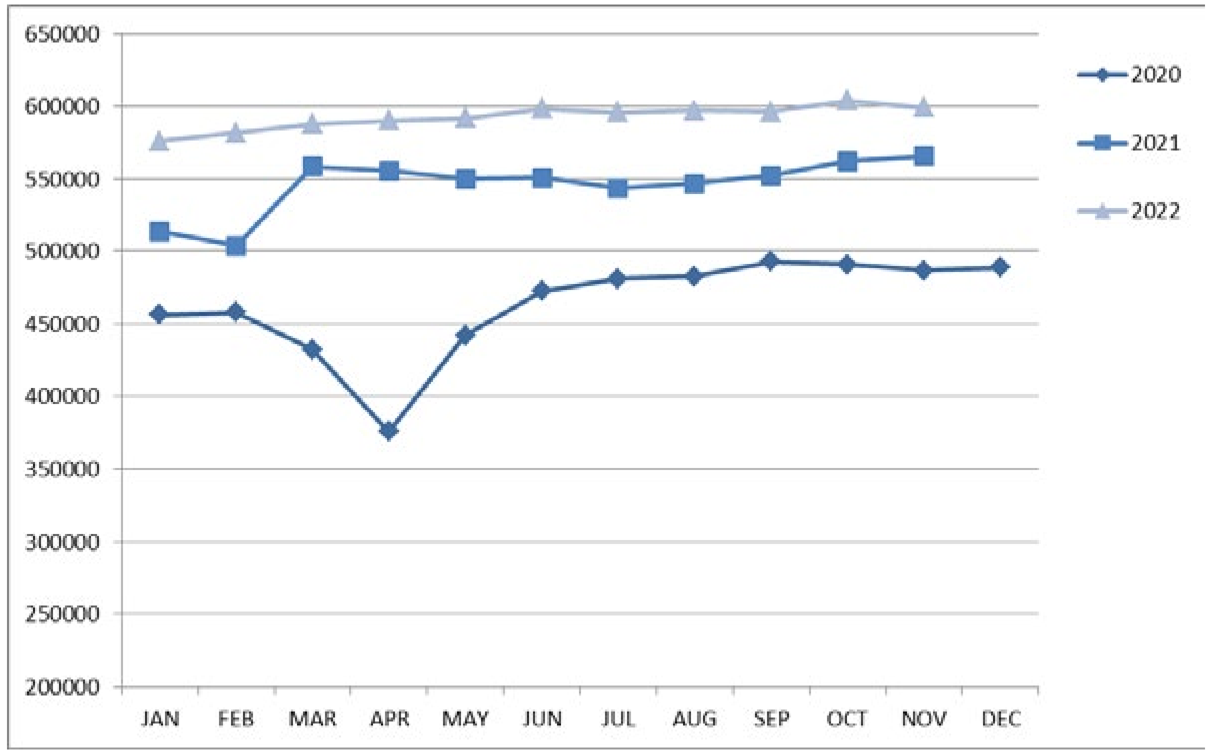
OVERALL MARKET OUTLOOK

Inventories - Inventories of manufactured durable goods have continually increased for twenty-two months, according to the Monthly Advance Report on Durable Goods, Manufacturers' Shipments, Inventories, and Orders.

Retail sales - For November 2022, the [advance estimates of U.S. retail and food services sales] (adjusted for seasonal variation and holiday and trading-day differences, but not for price changes) were $689.4 billion, which is up 6.5% above November 2021, slightly below inflation for this time period.

According to the latest report, "Gasoline stations were up 16.2 percent (±1.6 percent) from November 2021, while food services and drinking places were up 14.1 percent (±3.0 percent) from last year."

Retail Trade: U.S. Total
Not Seasonally Adjusted Sales - Monthly [Millions of Dollars]



Source: U.S. Census Bureau Time Series Data

TRUCKLOAD MARKET

In the truckload market, shippers are finding relief from greater capacity and reduced rates. According to the FreightWaves National Truckload Index, “contract rates for dry van truck movements are down 4% compared to the previous year, while the smaller and more volatile spot market has sunk 23% over the same period.” A greater decline in contract rates is anticipated since carriers will be eager to move as much freight under contract as possible in the current environment.

Volumes have decreased since the past summer, due to declining imports and consumer demand. In December 2022, spot load posts were down about 57% versus a year ago, as shown by DAT Trendlines.

Diesel prices have increased while trucking rates have declined. Average U.S. retail diesel prices began 2022 at $3.61 per gallon and ended the year at $4.54 per gallon, according to the U.S. Energy Information Administration. The rising costs of diesel have disproportionately hurt smaller carriers that pay retail prices rather than buying fuel in bulk.

LTL MARKET

In the LTL industry, carriers are continuing to issue rate increases in many cases despite volume declines, while making concessions in other cases.

As reported in a FreightWaves article, “Across the industry, GRIs are coming in level or a little light of last year’s increases as freight demand has moderated from the all-time highs that extended into early 2022.” The GRI from Old Dominion was reported to be 4.9% and the increases from other major LTL carriers are within close range.

Volume declines have been significant in the final quarter of the year, ranging from single digits to the mid-twenties. In response to the large volume declines, FedEx Freight recently began a program of voluntary furloughs that will last until March 6, 2023.

At the same time, recently FedEx Freight announced an operating income increase of 32% year-over-year, driven by an 18% yield increase. They noted that this was partially offset by the impact of higher salaries, employee benefits, and decreased shipments.

TRUCKLOAD & LTL SOURCING

“The challenge is just because you have faster optimization, and better software, it has not sped up the process. [...] The optimization has not reduced the time, it’s increased the ability to dive in.”

- Chris Caplice, Executive Director of MIT’s Center for Transportation & Logistics

PARCEL

In the parcel industry, UPS and FedEx have issued a historically high 6.9% General Rate Increase for 2023. The UPS increase took effect first on 12/27/22 followed by the FedEx increase effective 1/2/23.

As parcel expert Jerry Hempstead has noted in our interviews with him, the general increase can play out in many different ways depending on a shipper's zones, weights, volumes, and negotiations. As accessorial charges grow in both number and cost, they can have the largest impact in some cases. It's important to know how these increases apply to your company specifically in order to create the most accurate budget possible.

UPS will be renegotiating their contract with the Teamsters this summer. The current contract expires at the end of June and on the union side the negotiation will be led by Teamsters General President, Sean O'Brien, who was elected in March, 2022 and led the negotiations with UPS in 2017. Shippers who could be impacted by a strike could benefit from scenario planning and considering their alternatives and options, such as the forward deployment of inventory.

RAIL & INTERMODAL

The railroads made top news headlines for a stretch in late November and early December when a potential strike loomed, and was later averted with legislation. After Congress invoked the power of the Railway Labor Act to pass legislation preventing a strike, a new bill was signed into law in early December that will last until the end of 2024.

According to the American Association of Railroads (AAR), total U.S. carload traffic for calendar year 2022 was nearly 12 million carloads, which is down 0.3% from 2021. Intermodal traffic for 2022 was 13.5 million intermodal units, down 4.9% from 2021. Combined, total U.S. traffic for 2022 was 25.4 million carloads and intermodal units, a decrease of 2.8% from 2021. AAR Senior Vice President John T. Gray noted that “Intermodal volume in 2022 was the sixth best ever, but down from an even stronger 2021.”

Reports of service issues have continued, most recently with the Surface Transportation Board intervening to address service issues between Union Pacific and Foster Farms.

OCEAN

On the ocean front, volumes fell significantly in later part of 2022. The Wall Street Journal reported that volumes around the country in November were down about 19% versus a year ago.

The ports of Los Angeles and Long Beach had the steepest decline at 26% and have seen declining volumes throughout the year as the labor contract remains unsettled. The executive director of the Port of Los Angeles, Gene Seroka, recently commented, “Our next cycle on contracting typically happens end of February [or] early March so that’s a mile marker that’s out there that we really need to hit.”

Ocean container rates have also fallen sharply over the past year. Drewry’s composite World Container Index for the week of January 5, 2023 was at \$2,135 per 40ft container, a major decline from almost \$10k a year ago.

To put this in context, their report also noted that this index is 21% below the 10 year average of \$2694. In addition to more favorable pricing, shippers are also seeing improvements in transit times and port delays.

AIR

In the air freight market, global demand has decreased significantly and capacity has decreased slightly. The International Air Transport Association (IATA) reported for November 2022, "Global demand, measured in cargo tonne-kilometers (CTKs*), fell 13.7% compared to November 2021. Capacity (measured in available cargo tonne-kilometers, ACTK) was 1.9% below November 2021."

The largest year-over-year decreases in air cargo volumes happened in the Asia-Pacific market (18.6%) which was impacted by "lower levels of trade and manufacturing activity and disruptions in supply chains due to China's rising COVID cases" and in the European market (16.5%) which was impacted by the war in Ukraine and high inflation in Turkey. The decrease in North America (6.6%) was milder in comparison.

Air freight rates have been falling in line with volume declines. Xenata reported that the "Air freight rate from East Asia to the US has been trending downwards for most of 2022." For perspective, the pricing for this route spiked in March 2020, then remained elevated for two years, and in the past year has steadily declined but is still about double pre-pandemic levels. The route from East Asia to Europe followed a similar pattern. Going forward, short term contracts may be sought due to the ongoing decline in rates.

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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.

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TranzAct Technologies, Inc.
360 W. Butterfield Rd., Ste. 400
Elmhurst, IL 60126
630.833.0890
solutions@tranzact.com
www.tranzact.com