FREIGHT MARKET UPDATE

FIRST QUARTER 2024

TranzAct Technologies Inc.

OVERALL MARKET OUTLOOK

As a new year begins the freight recession persists throughout most of the industry, while the economy continues to exceed many expectations.

Employment

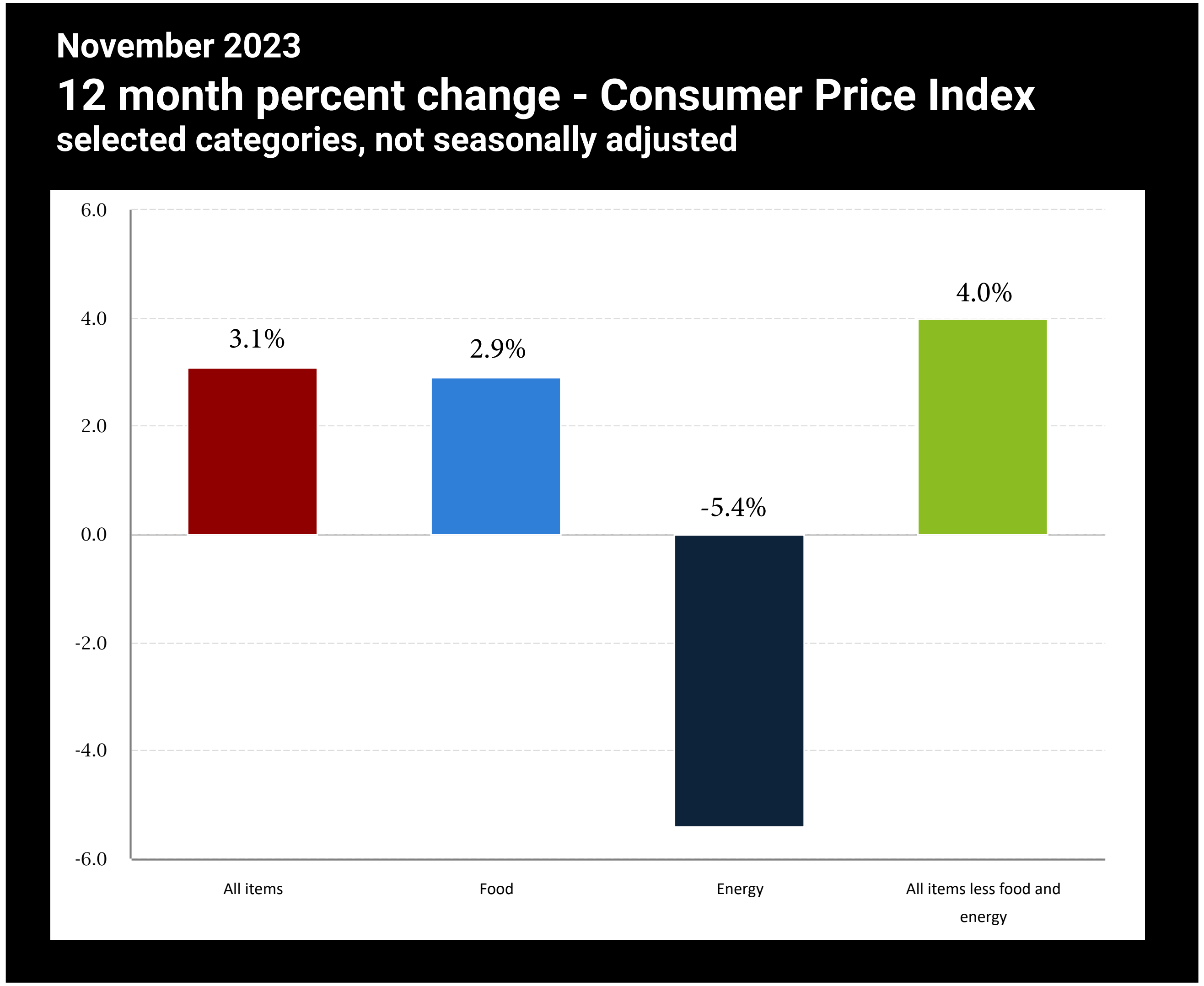
The December 2023 unemployment rate was reported at 3.7% while nonfarm payroll employment increased by 216,000 according to the U.S. Bureau of Labor Statistics (BLS) Employment Situation Summary.

The report noted that job increases occurred in several different areas such as, "government, health care, social assistance, and construction, while transportation and warehousing lost jobs."

Inflation (Consumer Price Index)

Meanwhile, inflation increased 0.1% in November and has risen 3.1% over the past 12 months, as reported by the Consumer Price Index Summary from the BLS.

Their report noted the contributors to the increase: "The index for shelter continued to rise in November, offsetting a decline in the gasoline index. The energy index fell 2.3 percent over the month as a 6.0-percent decline in the gasoline index more than offset increases in other energy component indexes."



Source: U.S. Bureau of Labor Statistics

OVERALL MARKET OUTLOOK

Imports

In October 2023 (the most recent month available) imports of goods only, excluding services, increased $0.3 billion from the previous month to $263.3 billion. Capital goods increased $1.8 billion, while automotive vehicles, parts, and engines decreased $1.0 billion.

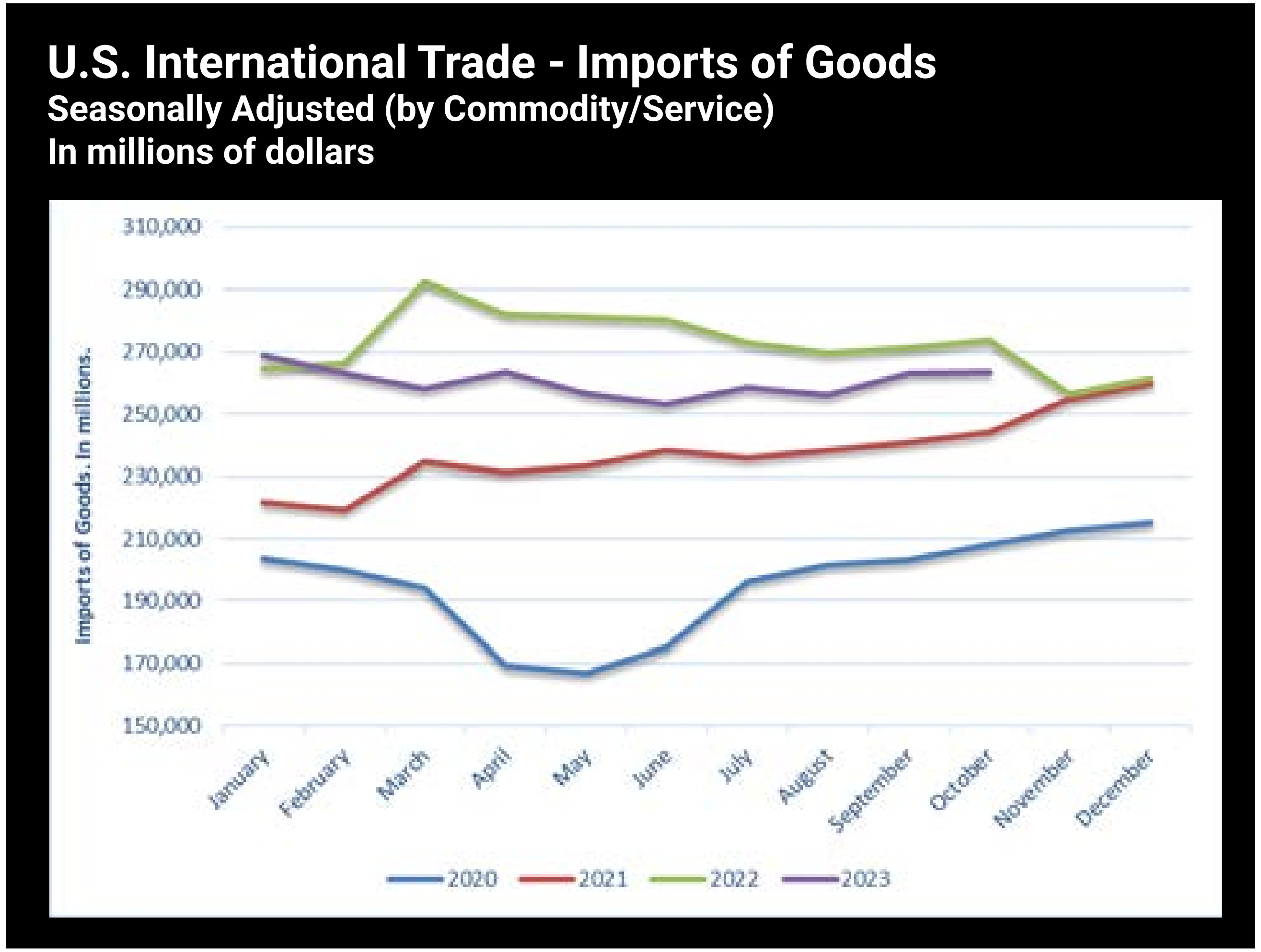
Imports of goods were down from October 2022 levels, when the total imports were roughly $274 billion, according to the latest [report on U.S. International Trade in Goods and Services.]

Manufacturing

New orders of manufactured durable goods increased $15.1 billion or 5.4% in November 2023 versus the previous month, as reported in the latest Monthly Advance Report on Durable Goods Manufacturers' Shipments Inventories and Orders.

Shipments of manufactured durable goods increased $2.9 billion or 1.0% in the same month.

For 2023 vs 2022 year-to-date, new orders are up 4.5% and new shipments are up by 3.5%.



Source: Bureau of Economic Analysis

OVERALL MARKET OUTLOOK

Inventories

Inventories of manufactured durable goods increased $0.4 billion or 1.0% in November versus the previous month, according to the latest [Monthly Advance Report on Durable Goods, Manufacturers' Shipments, Inventories, and Orders.] Total inventories of goods are also up 1.0% for 2023 YTD vs 2022.

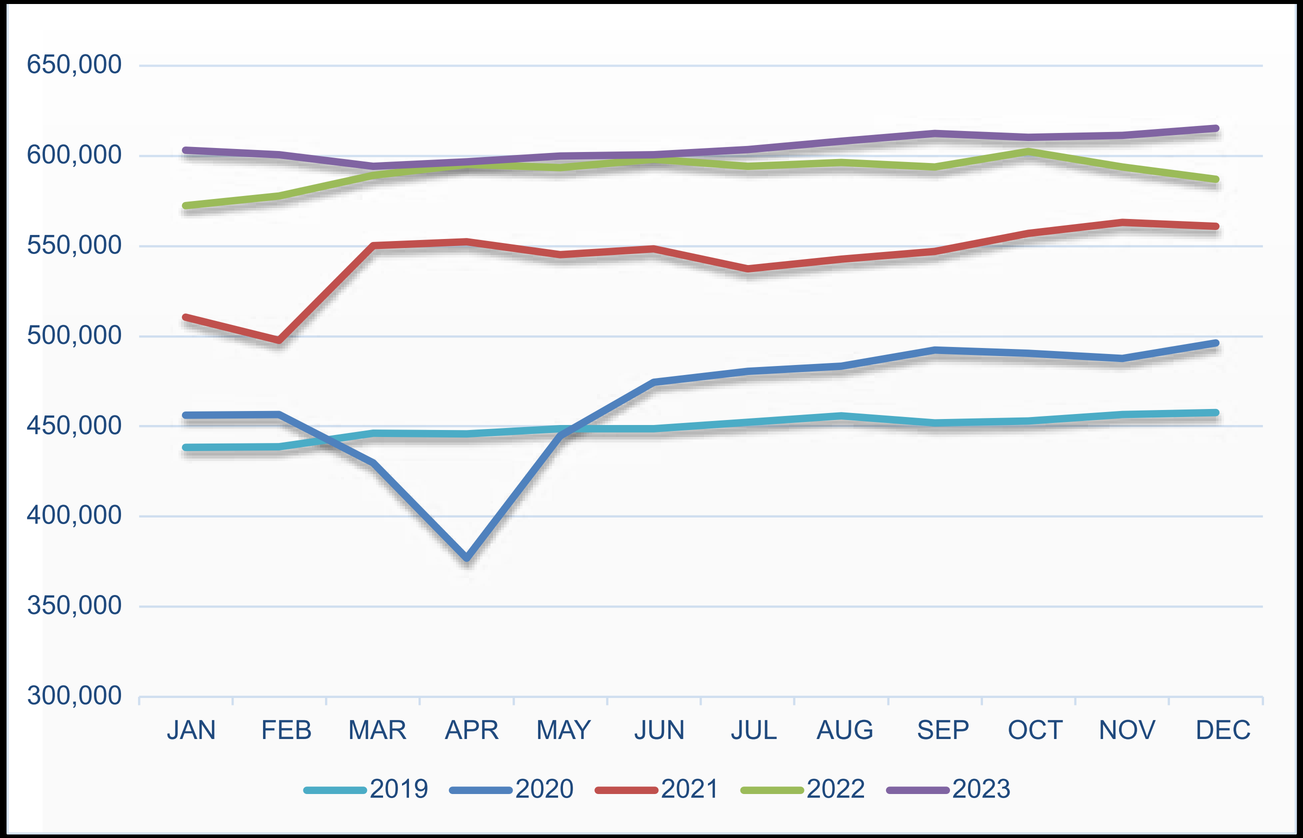
Retail sales

U.S. retail and food services sales were up 0.6% in December 2023 vs the previous month and up 5.6% versus December 2022, according to the [Advance Monthly Sales of Retail and Food Services, September 2023.] Total sales for the past 12 months were up 3.2% versus the previous 12-month period.

Retail trade sales alone were up 0.6% from November 2023 (the most recent data available) and 4.8% above last year.

The report highlighted the contributors to the increase: "Nonstore retailers were up 9.7 percent (±1.6 percent) from last year, while food services and drinking places were up 11.1 percent (±2.3 percent) from December 2022."

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, the freight recession continues. In December 2023, spot load posts were down about 57% versus a year ago according to DAT Trendlines.

The Van load to truck ratio for December 2023 was 1.93 which was the second lowest ratio of 2023.

Throughout the fourth quarter, spot rates for van, reefer and flatbed remained essentially flat, and the inversion with contract rates continues.

In 2023, truck transportation employment reached an all time high of 1.61 million jobs in January and ended the year slightly lower with 1.59 total jobs, according to the U.S. Bureau of Labor Statistics.

Diesel prices have fallen throughout the third quarter after rising in the second quarter of last year. As of the week of January 1, diesel retail prices were reported at $3.88 per gallon.

LTL MARKET

The LTL market made news in 2023 with the closure of Yellow and the impact of this event continues to unfold.

In December 2023, the results from the initial auction of terminals were announced. The top buyers of these terminals were XPO, Estes, R&L Carriers, and Saia. At the top of the list, XPO paid over $870 million for 28 properties, which amounts to $230,000 per terminal door. Altogether, the terminals that have been sold raised almost $1.9 billion. The remaining terminals for sale include ones located near metropolitan areas such as Chicago, Atlanta, New York/ New Jersey and Stockton (Tracy) California, which are considered to be the “Crown Jewels” of the network.

The total impact of the Yellow closure is expected to take at least another year as the sale concludes and the properties either resume LTL operations or are repurposed. Since many of the acquirers were LTL carriers, it appears that these terminals will continue to be used for handling LTL freight. This is important because there were concerns that if these terminals were purchased and repurposed or just shut down, it would have an impact on the total capacity available.

PARCEL

In the parcel industry, Amazon grabbed headlines in November 2023 for surpassing both UPS and FedEx in parcel volumes. Only the U.S. Postal Service exceeds them now, according to the *Wall Street Journal*.

In 2022, Amazon delivered about 5.2 billion packages total and in 2023, they delivered 4.8 billion packages by Thanksgiving. In comparison, UPS delivered 5.3 billion packages in 2022. FedEx is currently delivering roughly 3 billion packages per year and was surpassed by Amazon back in 2020.

What does this mean for companies that rely on parcel carriers?

We're seeing both UPS and FedEx search for ways to improve their profitability with existing business. As these companies strive to improve their margins, customers may see the impact in the form of changing service levels or increasing assessorial charges.

RAIL & INTERMODAL

In 2024, key rail sector issues and opportunities center around safety, improving and expanding services, and labor negotiations. The current Chairman of the STB, Marty Oberman, announced that he will not pursue another term in 2024 which may lead to new agendas under new leadership.

While rail safety gained attention last year, there still has not been action on the bipartisan Railway Safety Act of 2023, which is awaiting the Senate floor.

In 2023, there was also a focus on expanding intermodal offerings in order to be more competitive in new lanes, as noted in a recent FreightWaves article.

In 2024, labor negotiations will resurface between the railroads and rail unions for the contract beginning on January 1, 2025. These discussions will be watched closely by many since the last round of negotiations resulted in a near strike and required intervention from Congress.

Railroad volumes

In 2023, total U.S. carloads increased 0.7% and intermodal units decreased 4.9% from 2022. Combined, there was a 2.3% decrease in U.S. rail traffic in 2023 vs 2022, according to the American Association of Railroads (AAR). However, the fourth quarter of the year was the strongest in which carloads were up 2% and intermodal units were up 5.5% versus the same period a year ago.

For all of 2023, Canadian rail traffic volume was down 2.4% and Mexican volume was up 2.1% versus the same period a year earlier.

START THE DIALOGUE

Your LTL carrier today has a set of analytics around your business that, if you're interested, would be a great place to start a dialogue that says, "How can I improve the throughput at my dock from an LTL perspective?"

Steve Robinson, CEO, The Supply Chain Project

OCEAN

In the ocean sector, disruptions and higher rates from the issues at the Red Sea and Panama Canal are at the forefront.

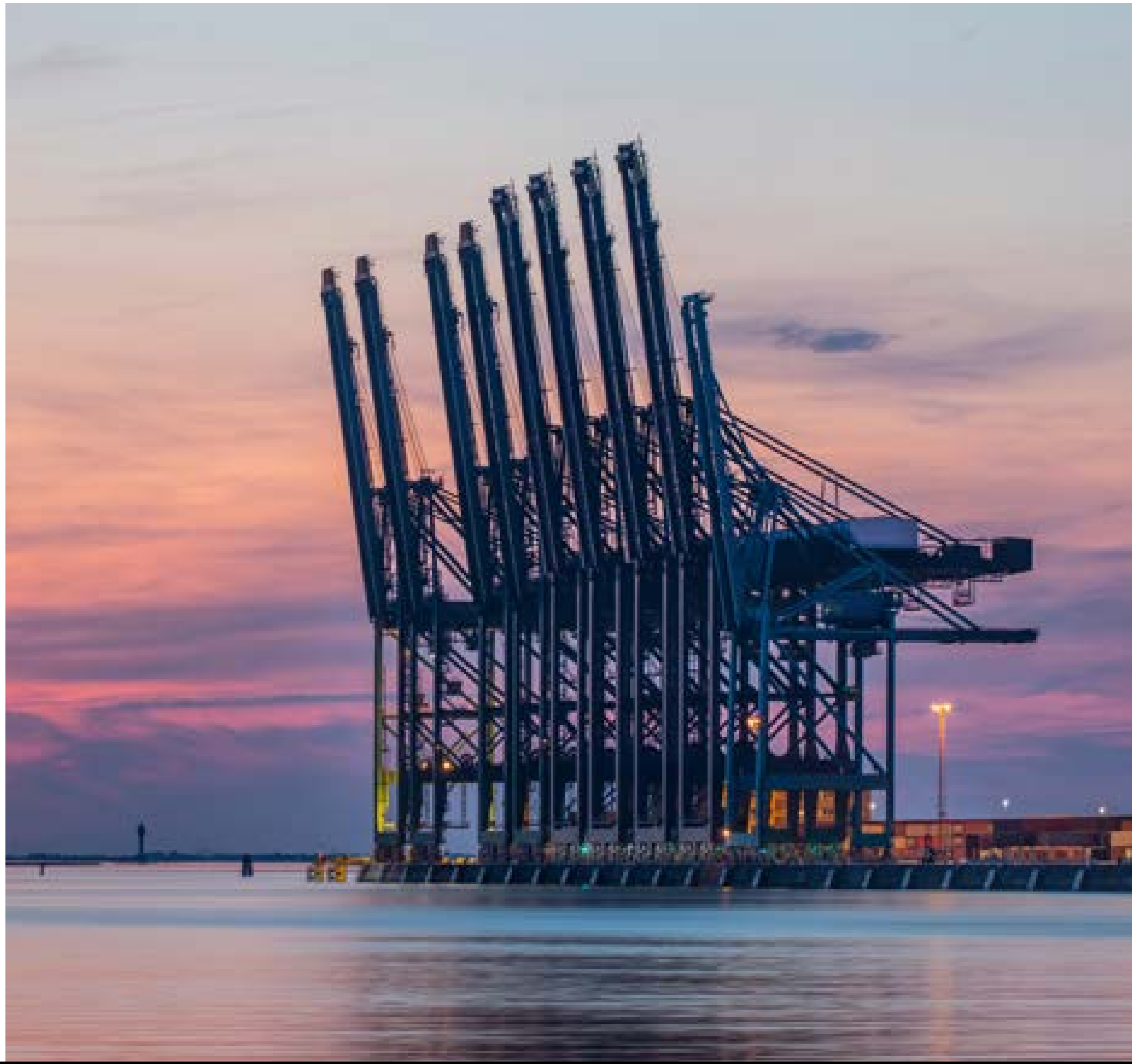
Ongoing attacks in the Red Sea have caused Maersk and other ocean carriers to divert all vessels from this route and to travel around the Cape of Good Hope instead. This has caused escalations in spot rates that vary by route due to the widespread impact.

As of January 4, the Drewry World Container Index was reported at $2670, which is an increase of 61% from the week earlier and an increase of 25% from the same week last year.

This disruption is complicated by the drought conditions at the Panama Canal. Last year, low water levels at the Panama Canal caused the Panama Canal Authority to restrict traffic in a number of ways since March 1, 2023.

The conditions are expected to continue until the next rainy season which begins in May, after which any restrictions will be adjusted. As reported by FreightWaves, this could impact contracts for the next year which will be signed before that time.

The number of ships waiting at the Panama Canal and average days spent waiting have both increased recently, and with ships now rerouting to avoid the Red Sea, the situation is being watched closely.



TranzAct Technologies Inc.

AIR

In the air freight market, carriers faced declining demand and revenue for much of 2023 before seeing improvement from peak season and a surge of e-commerce orders from China.

According to FreightWaves, "Freight rates were down 40% to 50% for much of the year, before rallying in recent months. Rates are now 50% ahead of 2019 levels after narrowing to about 20%." These challenging conditions earlier in the year led air cargo carriers to reduce their operations and investments.

Looking forward, the long-term downturn in demand isn't expected to improve until late 2024.

Another FreightWaves article noted, "The International Air Transport Association (IATA) recently forecast that airfreight volume will grow 4.5% in 2024, building on this year's second-half momentum. Shipment traffic will contract 3.8% in 2023 after declining 8.2% last year, it said, as global supply chains stabilize and there is less need for fast delivery. Other analysts anticipate air cargo volumes will increase 1% to 3%, in line with economic projections."

The article also noted that continued expansion of capacity from increased air travel could likely outpace growth in demand, and put downward pressure on rates. "Alex Fuller, UPS' director of marketing for international airfreight, anticipates a strong rebound for air cargo, with rates dipping in the first quarter and staying relatively flat through June before rising substantially in the back half of the year."

However, diversions coming from the Red Sea situation could bolster air freight before then.

TranzAct Technologies Inc.

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:
www.tranzact.com/resources

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