

JUNE  
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# STATE OF THE INDUSTRY

## R E P O R T

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

SONAR



## Too much Texas tea

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### Overview

The dynamics in the freight market continue to evolve as overall demand has declined, but the capacity side of the market has remained fairly stable. Niche markets are facing a more volatile period, which is to be expected during periods of transition.

The macroeconomic picture is similarly volatile. Given whiplash by the rapidity of tariffs and the equal rapidity of new trade deals, businesses are largely resigned to waiting for greater clarity on policy. A 90-day pause on most tariffs between the U.S. and China allows shippers a narrow window in which to import Chinese goods under a 30% levy. The Federal Reserve is still committed to its “wait-and-see” approach to monetary policy, justified by a healthy labor market and cooling inflation.

Globally, oil markets are facing oversupply as a seeming inevitability: Saudi Arabia has all but given up on its \$90-a-barrel target and has raised OPEC+’s production beyond expectations. This move aligns with President Donald Trump’s desire to see cheaper energy, though U.S. crude producers are less than pleased. Domestic oil production has been revised heavily downward in recent months but is expected to peak in December.

Crude inventories in Cushing, Oklahoma, are low, and efforts to refill the Strategic Petroleum Reserve are slow but in motion. U.S. petroleum consumption, however, is well above year-ago levels. Rail carloads of petroleum products show sustained, if uneven, growth.

### Fleet counts (six-month change)

Total for-hire fleets	300,027 (+8.8%)
Total private fleets	158,865 (+1.2%)
For-hire oil field specialization	20,190 (+1.4%)
Private fleet oil field specialization	8,256 (-1%)

### Tractor counts (six-month change)

Total for-hire tractors	1,810,000 (+2.3%)
Total private tractors	766,799 (+0.6%)
For-hire oil field specialization	326,544 (-1%)
Private fleet oil field specialization	53,747 (+1%)

### Active daily rig count (y/y change)

Permian Basin	267 (-6.3%)
Gulf Coast Basin	67 (+1.5%)
Anadarko Basin	62 (+14.8%)
<b>Total</b>	<b>637 (+0.8%)</b>

### Crude oil prices per barrel (y/y change)

WTI crude	\$64.30 (-22.3%)
Brent crude	\$66.87 (-23.2%)
<b>Brent-WTI Spread</b>	<b>\$3.83 (+0.6%)</b>

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## Flatbed safety is exacting but essential

Given the open nature of flatbed trailers, it is arguably more important for flatbed drivers to follow best safety practices than for drivers in any other mode. This is compounded by the fact that flatbed drivers are uniquely responsible for ensuring that their loads are properly secured and, if necessary, covered by tarps. Otherwise, cargo can shift or even fall in transit, harming not only drivers and their equipment but also fellow motorists.

Thus, drivers should first choose high-quality straps, chains and binders that are designed to withstand the weight and type of cargo being transported. When loading, drivers must be careful to confirm that cargo is distributed evenly across the deck to maintain stability and to prevent excessive stress on specific areas of the flatbed. If applicable, drivers should employ edge or corner protectors to protect straps from sharp edges as well as sensitive cargo from damage caused by undistributed downward force.

Flatbeds also serve a vital role for the domestic oil and gas industry, in part because safety can be compromised by the (often) time-sensitive nature of such deliveries. As such, it is critical that the pre-trip inspection be fully carried out, not only with regard to the vehicle and trailer but also to the rigging equipment used, checking for frays or other signs of excessive wear.

Finally, special attention should be paid to the surroundings when the flatbed is not in use, particularly during loading and unloading. Trucks should be parked on a surface that is as flat as possible, taking care that the truck is not only level from front to back but also untroubled by side grades. To be sure, side grades need special attention when the truck is in motion, such that a heavy object does not suddenly shift forward into the cab or backward into any traffic. When dealing with hazardous materials, drivers should be aware of potential obstacles during loading and unloading that could impede an evacuation route.

## Truck capacity outlook

The trucking capacity outlook is showing signs that capacity is exiting the market, which is needed to firm up pricing, but at a relatively slow rate. The back half of the year is traditionally a period when capacity tightens across modes. But with all the added capacity throughout the year, the usual tightening was muted throughout the fourth quarter of 2023.

The interesting growth areas haven't necessarily been in carriers or tractors but in the number of trailers added over the past few years. When the market reacted to the COVID-19 pandemic, semiconductor shortages prevented new truck order backlogs from being worked through. This led to fleets investing elsewhere, namely in trailer counts, which was one of the first areas addressed when the increased rates were sustained throughout the back half of 2020 and early '21.

With rates falling rapidly, the growth in capacity will likely return to levels closer to 2019 until some of the capacity added over the past year is removed from the market.

Total Fleets, Tractors and Trailers				Percent Change since February 2022		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	498,170	2,780,000	4,298,588	5.75%	1.83%	14.34%
Feb-22	471,102	2,730,000	3,759,410			
Total For-Hire Fleets, Tractors and Trailers				Percent Change since February 2022		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	300,027	1,810,000	3,022,330	8.76%	2.26%	1.00%
Feb-22	275,856	1,770,000	2,992,449			
Total Private Fleets, Tractors and Trailers				Percent Change since February 2022		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	158,865	766,799	1,147,612	1.20%	0.63%	49.63%
Feb-22	156,979	761,967	766,961			

Source: Federal Motor Carrier Safety Administration monthly census data.

Since February 2022, the total number of fleets, which is filtered to those that report having at least one tractor and 20,000 or more annual miles per tractor on their MCS150 forms, has increased by 5.75%. Carriers have to report the data only once every two years, so the growth over the past two years is evident from the rise in July's numbers compared to February's. The average fleet size (number of tractors divided by fleet count) declined from 5.8 to 5.5, which indicates that growth is stemming from smaller carriers entering the market.

Growth in carrier and tractor counts is emerging from for-hire carriers, which is expected as the number of owner-operators has increased dramatically over the past two years. Overall, the number of carriers has jumped by 8.8% since February, but the number of tractors has increased by only 2.3%. This signals that owner-operators are the largest group to experience growth between February and July 2022.

While the for-hire side of the trucking industry is experiencing gains in carriers and tractors, private fleets are where most of the growth in trailer counts is originating. Between February and July 2022, private fleet trailer counts increased by 49%. Again, it is important to note that carriers have to report this number only biennially, so it really shows the growth over the past two years.

The for-hire market may see some consolidation — and bankruptcies — over the next six to 12 months, but it may not actually show up in the data, with carriers having to report only once every two years and new carriers always entering the market. As the freight market softens, the difference is that drivers will return to the umbrella of large enterprise carriers and thus may actually be double counted at some point in the future.

Total Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	28,446	380,291	1,074,897	0.7%	-0.5%	0.9%
6 months ago	28,260	382,131	1,065,222			
Total For-Hire Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	20,190	326,544	923,705	1.4%	-0.7%	1.2%
6 months ago	19,906	328,902	912,408			
Total Private Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	8,256	53,747	151,192	-1.2%	1.0%	-1.1%
6 months ago	8,354	53,229	152,814			

Source: FMCSA monthly census data.

The capacity landscape for carriers with oil and gas exposure was relatively unchanged from six months ago as their numbers have increased across the board. The largest rise is in the for-hire market, where the number of carriers has risen by 1.4%.

Even with additional carriers in the market, the number of available tractors has declined by nearly 1%, indicating a couple of things: Smaller carriers are entering the market, and larger carriers with exposure to oil and gas are thinning out their fleets.

While the number of tractors has declined in the past six months, for-hire carriers have added trailer capacity to their fleets, increasing the number of available trailers by 1.2% in the six-month span.

Private fleets haven't experienced the same fate, as there were 98 fewer private carriers operating in the oil and gas space over the past six months. Those continuing to operate have added to their fleets, however, as the number of available tractors has increased by 1%.



**Total Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California**

Time Period	Carriers	Tractors	Trailers
Jul-22	993	15,858	11,629

**Total For-Hire Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California**

Time Period	Carriers	Tractors	Trailers
Jul-22	549	3,651	5,262

**Total Private Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California**

Time Period	Carriers	Tractors	Trailers
Jul-22	395	11,799	5,967

Source: FMCSA monthly census data.

Nearly 1,000 carriers based in California were operating in oil field services or liquid/gas specialization as of last July. The vast majority, in both the overall trucking industry and the oil and gas industry, were for-hire carriers. More than 55% of the fleets in California that operate in the space are for-hire carriers, whereas private fleets make up just under 40% of carriers.

Private fleets do make up the vast majority of tractors in California. Of the 15,858 total tractors that operate in the oil and gas industry, 11,799 are from private fleets, which is roughly 75%. For-hire fleets have an average of 6.65 tractors, compared to private fleets with nearly 300 tractors in operation.

The difference in trailers is less dramatic as for-hire fleets have 45% of the trailers in California. But it is important to note that this data only includes owned trailers and not those that carriers have leased.

Ultimately, the capacity outlook appears quite different than it did at the beginning of 2022. The extreme growth over the past two years has passed its peak and is slowly starting to correct itself. However, having to report counts to the FMCSA only once every two years may mean the data does not show the capacity exiting the market as quickly as it actually does.

## National economic outlook

After a few months of nail-biting suspense over the potential impacts of the United States' multifront trade war with China, Mexico and others, most economic analysts are starting to take sighs of relief. On May 12, the U.S. and China jointly announced a surprising trade deal that saw both parties suspend the bulk of their newly implemented tariffs for 90 days. Under this ceasefire, the effective U.S. tariff rate on China has fallen from 145% to 30%, while China's has dropped from 125% to 10%.

Whether this pause will lead to a more permanent trade deal or, as some analysts fear, will even last the full 90-day period is a matter of debate. Even if these present terms become the new baseline for the remainder of President Donald Trump's term, a 30% levy on Chinese goods is still a deterrent — though obviously not one as strong as the prior 145% tariff.

Still, businesses are relieved that the United States' relationships with its most important trade partners are normalizing. The administration of Mark Carney, Canada's newly elected prime minister, suspended nearly all of its retaliatory tariffs on U.S. products in mid-May. This announcement was made soon after Carney's post-election trip to the White House, which was marked by congeniality between the two leaders.

While no U.S.-Canada trade deal has been made public at the time of writing, May has been characterized by a flurry of dealmaking. China, the United Kingdom, Saudi Arabia, Qatar and the United Arab Emirates have all negotiated a trade deal with the U.S., and all in the span of a single week. Trade deals from the latter group of countries came about as a result of Trump's three-nation tour of the Middle East, a trip that also yielded a written proposal for a nuclear deal with Iran — which would see Iran effectively dismantle its nuclear weapons program in exchange for sanctions relief, and to which it seems agreeable — and sanctions relief for Syria.

U.S. Treasury Secretary Scott Bessent has also stated that negotiations with Japan have been "very productive," Indonesia has been "very forthcoming" in trade talks, and a proposal from Taiwan is "very good." Meanwhile, discussions with India, which is positioning itself to replace China as a manufacturing hub, are still ongoing: India has lowered import tariffs on select U.S. goods such as bourbon and motorcycles, but it is hesitant to concede to U.S. requests for the country to open its market for ethanol imports, given its interest in energy independence.

Considering this progress and that which is likely to come, should businesses finally let go of their fears of an economic recession?

Over the past few months, there has been a widening gap between positive "hard" data, such as labor market growth and factory orders, and "soft" sentiment-based data, which soured in response to the U.S. tariffs. Is this gap likely to close in the coming months?

The sticking point with businesses, especially those upstream in the industrial sector, seems not to be the tariffs themselves (though many executives have probably lost sleep over their unknown and probably deleterious effects) but rather the chaotic character of Trump's trade policies, which frustrates guidance and confuses plans for capital expenditures. In effect, the easy-come, easy-go implementation of these new tariffs and the rapidity by which trade deals have been negotiated and finalized are unlikely to assuage firms' concerns.

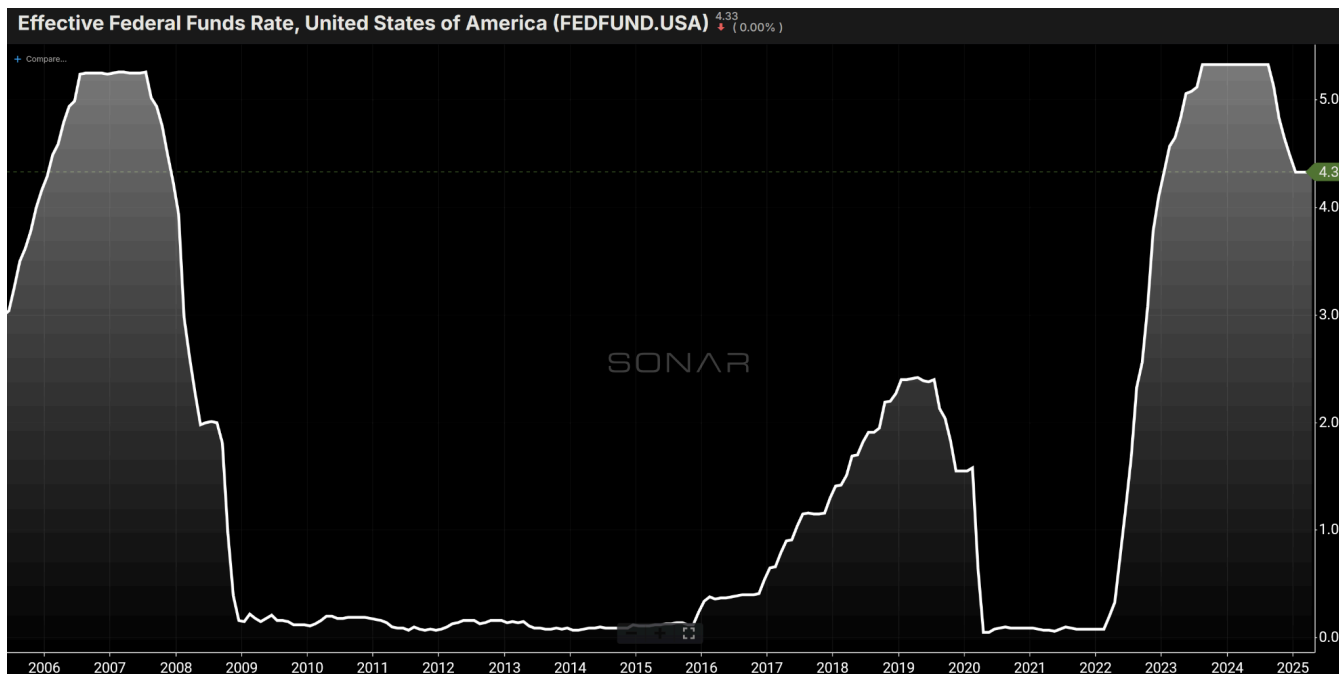


Chart: SONAR. Effective federal funds rate.

But, adhering to its often-stated data dependence, the Federal Reserve under Chair Jerome Powell has a measured appraisal of recent economic developments. At its conference in early May, the Fed elected to maintain its target range for federal interest rates between 4.25% and 4.5%.

In the formal statement accompanying its decision, the Fed stated, “Although swings in net exports have affected the [Q1 GDP] data, recent indicators suggest that economic activity has continued to expand at a solid pace.” Indeed, while much ado was made about the U.S. economy’s contracting at the start of 2025, this contraction was almost entirely due to a tidal wave of pre-tariff imports.

Without question, this extension of the Fed’s “wait-and-see” approach was granted by April’s shockingly robust print on payrolls. The U.S. economy added 177,000 nonfarm jobs in the month, blowing past consensus for a 138,000 m/m gain and topping even Wall Street’s highest estimate for 171,000 m/m growth.

While the transportation and warehousing sector saw robust growth of 29,000 positions m/m, the lion’s share of this gain came from warehousing and storage (up 9,800 m/m) and couriers and messengers (up 8,400 m/m). This latter subsector does include parcel delivery companies like UPS and FedEx, but it also represents local food and grocery delivery services such as DoorDash and Postmates. The truck transportation subsector, on the other hand, saw March’s payroll growth of 7,000 m/m (revised down from 9,600 m/m) slow to a crawl, as only 1,400 trucking jobs were created in April.

Before this release, it was not uncommon to find expectations for a rate cut in May: Citibank, for one, initially called for a cut of 25 basis points (bps), though it later pushed its forecast out to the Fed’s June meeting. Other investors — like Goldman Sachs and Barclays — kicked their rate-cut forecasts even further, from June to July. With the job market maintaining its health even while buffeted by headwinds, the Fed feels no urgency for further easing.



## Manufacturing

There are some early indications that the U.S. industrial sector is forgoing pessimism in hopes of a sector-wide recovery, though most of the latest sentiment data has yet to reflect this turn, as it predates many of the whirlwind trade deals discussed below.

The May print of the Empire State Manufacturing Survey, conducted monthly by the Federal Reserve Bank of New York, was expected to see its headline index slip further into contraction with a reading of minus 9. The index, which is based on survey responses collected between May 2 and May 9 (i.e., before the U.S.-China ceasefire was announced), read slightly worse than expected, dropping 1.1 points m/m to minus 9.2. Worryingly, the current index for input prices jumped 8.2 points m/m to 59 — its highest reading since July 2022, the peak of the current inflationary cycle. At the same time, the Prices Received Index slipped 5.8 points m/m to 22.9, suggesting that firms' profit margins are narrowing.

The survey's forward-looking General Business Conditions Index, which gauges expectations for developments over the next six months, rose 5.4 points m/m to minus 2. Although this reading still indicates that manufacturers are bracing for a prolonged contraction, there is a strong possibility that the subsequent deescalation in the United States' trade wars could instill enough hope to turn the index positive next month.

Sentiment in the Manufacturing Business Outlook Survey, conducted by the Federal Reserve Bank of Philadelphia, was far sunnier — in part because responses were collected until May 12, when the U.S.-China tariff pause was revealed. Its headline index, which was forecast to rise from minus 26.4 to minus 11, unexpectedly surged 22.4 points m/m to minus 4. Again, this reading is indicative of mild contraction, though it handily beat consensus and likely signals the bullish effect that finalized trade deals will have.

Yet even more surprising was the growth in the headline index's forward-looking counterpart, which ballooned 40.3 points m/m to 47.2 in May. Growth was expected across all components of a business, from new orders (up 43.1 points m/m at 49.7) to shipments (up 46.1 points m/m at 51.1) to payroll counts (out of contraction after a 23.6-point m/m rise to 23). Better news still was the decline in the future-facing Prices Paid Index, which ticked down a modest 1.5 points m/m, as well as the 17.7-point m/m fall in the Prices Received Index — taken together, these losses promise consumers relief from inflationary pressures later in the year.

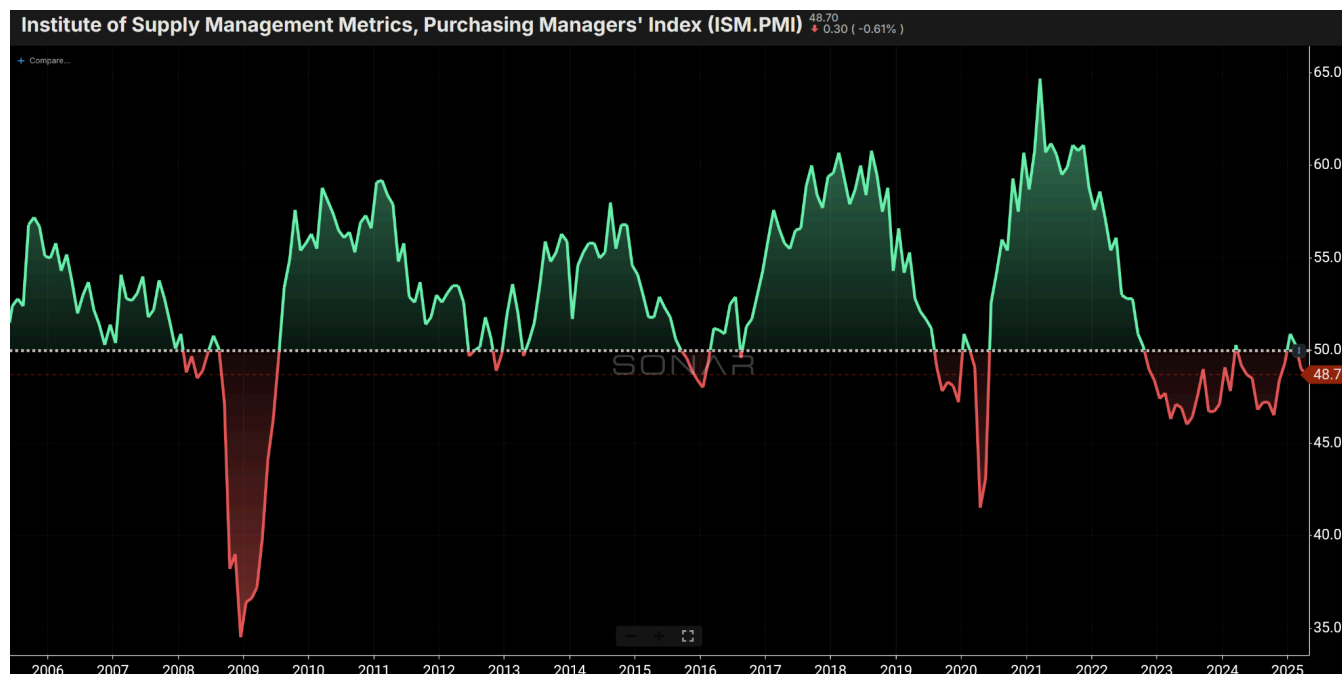


Chart: SONAR. Institute for Supply Management's Manufacturing PMI.

Another key sentiment index for the industrial sector, the Institute for Supply Management's Manufacturing PMI, sank slightly deeper into contraction. For the second consecutive month, the headline PMI carried a sub-50 (i.e., contractionary) reading, falling 0.3 points m/m to 48.7 in April. As per usual, survey responses were collected throughout the whole month, though most tend to arrive in the last week or so.

Of the 17 manufacturing industries surveyed, all but six reported growth in April (listed by the intensity of contraction): wood products; furniture and related products; paper products; food, beverage and tobacco products; transportation equipment; and fabricated metal products.

A similar sentiment index, the S&P Global US Manufacturing PMI, revealed a slight pickup in the rate of expansion in April. Up from March's reading at 50.2, the PMI grew only 0.5 points m/m to 50.7, hovering just above the no-change mark of 50. There were plenty of negatives in the report, however: The number of jobs in the sector shrank for the first time in six months, while manufacturing production fell for the second month in a row. Tariffs introduced in April led to inflation of both input costs and selling prices, with the latter rising by the greatest degree in more than two years.

The U.S. industrial sector appears to be running out of steam, according to Chris Williamson, chief business economist at S&P Global Market Intelligence: "Manufacturing continued to flat-line in April amid worrying downside risks to the outlook and sharply rising costs. Factory output fell for a second successive month as tariffs were widely blamed on a slump in export orders and curbed spending among customers more broadly amid rising uncertainty.

"Although the survey saw some producers report evidence of beneficial tariff-related switching of customer demand away from imports," Williamson continued, "any such sales increase was countered by worries over tariff-related disruptions to supply chains and lost export sales. This served

to drive business confidence about prospects in the year ahead down sharply to the gloomiest for 10 years.”

That this point in particular weighed on sentiment likely bodes well for future surveys: Some of the United States’ trading partners have made concessions in recent trade deals, chief among them promises to increase spending on imports from the U.S. If April’s growth in domestic demand can be maintained while export sales return to form, the manufacturing sector will face very good odds for a recovery in the near future.

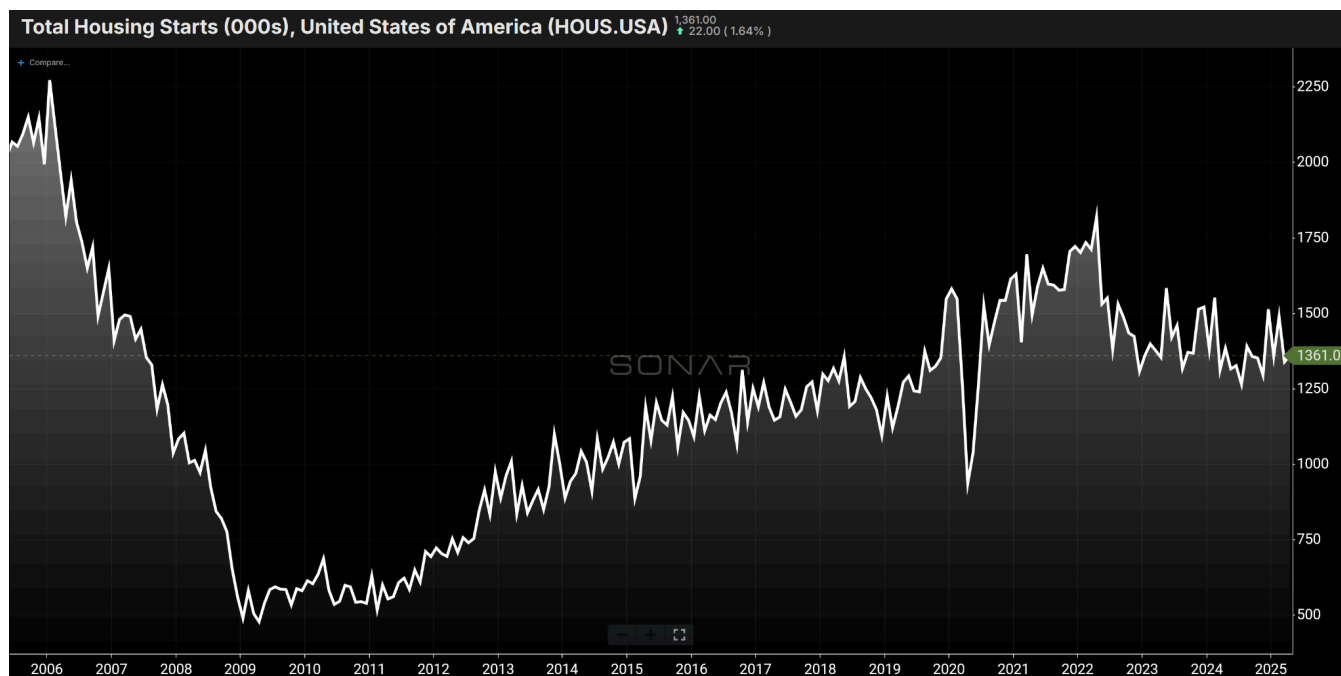
## Housing and construction

Since falling from this cycle’s peak at 7.79% in October 2023, the average rate on a 30-year fixed mortgage has remained solidly rangebound between 6% and 7%. In 2022-23, rising mortgage rates did not — as they normally do — deter prospective buyers from purchasing homes, given a rare combination of low inventory levels and a nationwide shift to remote work that made rural housing markets more attractive.

But this dynamic has not held over the past year, as intractably high mortgage rates are weighing on housing market activity. Per Freddie Mac, the current average rate on a 30-year fixed mortgage stands at 6.81%, only 2 basis points lower m/m but 21 bps lower y/y.

Existing-home sales, which comprise the vast majority of home sales in the U.S., were forecast to suffer a hefty correction in March after an unexpectedly large jump the month prior — and they did. According to the National Association of Realtors, existing-home sales tumbled 5.9% m/m, considerably worse than the 3.1% m/m drop expected and erasing February’s upwardly revised 4.4% m/m gain. In fact, not only was this downturn the biggest m/m drop since 2022, it was the weakest March since 2009, when the housing market was decimated by the global financial crisis. Unsurprisingly, sales were negative on a yearly basis, falling 2.4%. Despite this substantial blow to sales volume, the median price of an existing home continues to surge, up 4.5% y/y at \$544,500.

It is little surprise, then, that this combination of high prices and mortgage rates is weighing on new construction. In April, housing starts rebounded only feebly from March’s 10.1% m/m nosedive, rising just 1.6% m/m against expectations of a 4% m/m gain. But the single-family market saw no such recovery from March’s 13.8% m/m decline, as starts fell a further 2.1% m/m and are down 12% y/y. The more forward-looking data on building permits was even worse for the single-family segment, with planned construction down 5.1% m/m and 6.2% y/y.



Source: SONAR. Total U.S. housing starts (in thousands).

“The decline in single-family housing starts in April mirrors builder sentiment, as elevated interest rates, uncertainty on the tariff front and rising construction costs are exacerbating housing affordability challenges,” said Buddy Hughes, chairman of the National Association of Home Builders (NAHB). “In turn, this is making it more difficult for builders to deliver entry-level housing at a price point that is accessible to home buyers.”

Indeed, homebuilder sentiment in May was far more grim than expected, in perhaps the first recent instance of hard data aligning with soft data. The NAHB/Wells Fargo Housing Market Index, which surveys builders of single-family homes, saw all three of its components languish in contraction with sub-50 readings. The headline index fell 6 points m/m to 34, far worse than the 40 expected. Current sales conditions fell 8 points m/m to 37, affirming the downturn seen in existing-home sales. Expectations for sales in the coming six months edged 1 point lower m/m to 42, suggesting little relief from this hostile climate.

## Oil market

Despite the aforementioned deescalation in the United States’ multifront trade war, oil prices have yet to undergo a meaningful recovery from the pandemic-era lows first seen in early April. While demand forecasts are not as bearish as they were last month, concerns of a global supply glut have yet to be dispelled. With cash-strapped Saudi Arabia at the helm, OPEC+ threw another curveball at its meeting in early May: The cartel announced an output hike of 411,000 barrels per day (bpd) for June, nearly triple that which had been expected.

What exactly Saudi Arabia intends with these increases is a matter of some debate; it needs oil to be above \$90 a barrel to balance its budget, which has been strained by its ambitious Vision 2030 investment program. The most common argument is that the de facto head of OPEC+ is attempting to punish quota violators like Kazakhstan and Iraq for repeatedly overproducing despite the cartel’s

curbs. As a result, Saudi Arabia has shouldered the brunt of compensating for this overproduction and now appears ready to expose these cheaters to the market, letting the ensuing price declines do the disciplining.

But Bloomberg's Javier Blas believes that this objective is merely a "collateral benefit," arguing that Saudi Arabia realizes that a supply glut is nearly inevitable: The U.S. is close to removing sanctions against Iran and is urging its domestic producers to increase production (however successfully). Moreover, Blas notes, U.S.-Russia relations are improving, which could lead the latter to turn its back on its transactional relationship with Saudi Arabia.

Finally, the kingdom might be seeking to hoist the U.S. by its own petard, as Trump is urging OPEC to lower prices even as U.S. producers cry for a rally. Yielding to Trump's request would cause Saudi Arabia to gain market share and reconsolidate pricing power within OPEC, at the cost of some short-term pain.

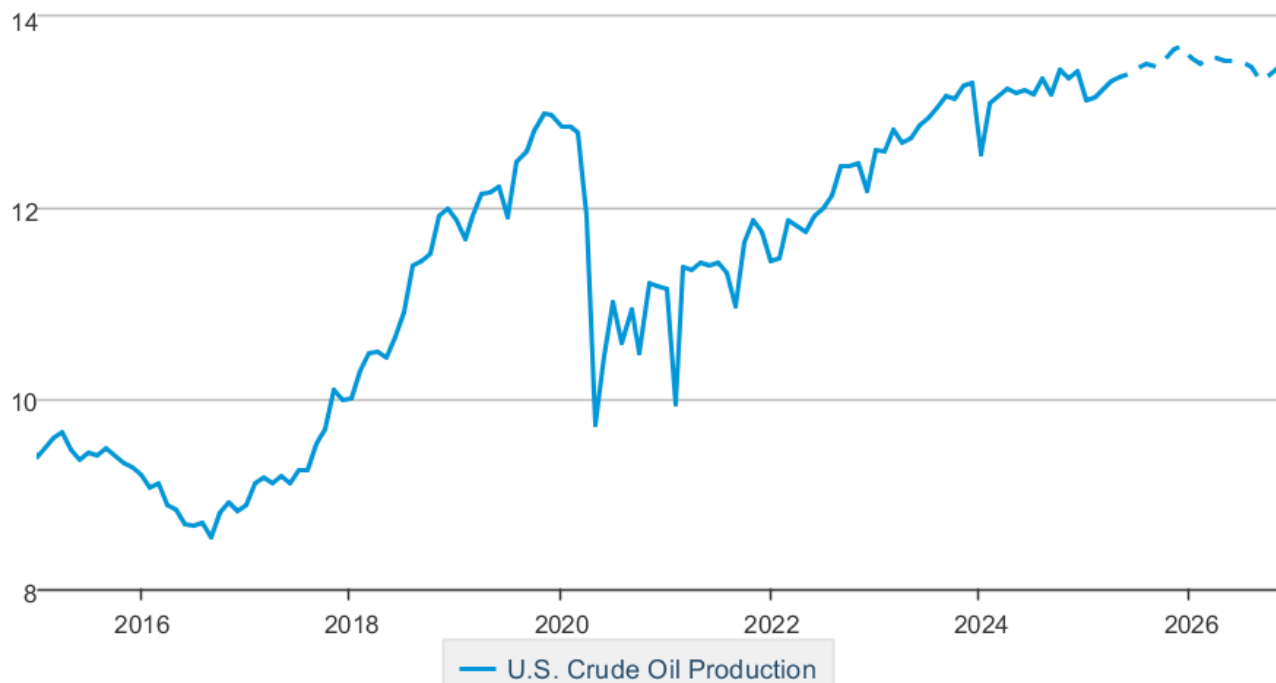
This pain is felt also by U.S. producers: In April, gross domestic oil production rose 100,000 bpd m/m to 13.33 million bpd, compounding March's growth of 70,000 bpd m/m. But production figures have been heavily revised, with March's data pulled down 320,000 bpd m/m from its initial reading of 13.55 million.

In a prior print of its Short-Term Energy Outlook, the U.S. Energy Information Administration forecast that domestic crude oil production would fall 110,000 bpd m/m, to 13.44 million bpd, in April. Thanks to the massive downward revision, however, the EIA was wrong about both the direction of April's growth and the magnitude of its output. April's production fell 110,000 bpd short of the EIA's previous forecast.



## U.S. Crude Oil Production

million barrels per day



Data source: U.S. Energy Information Administration

After factoring in revisions to prior months' data, the EIA now predicts that domestic crude oil production hit its slump in January and will continue to rise from it — albeit unsteadily — until peaking in December at 13.7 million bpd. In 2026, domestic production is expected to begin a slow decline that will persist for the remainder of the year. The EIA continues to predict that the full years of 2025 and '26 will outpace 2024's production average of 13.21 million bpd, which should solidify the United States' status as the top global oil producer. In May, the EIA projects that crude oil production will rise 40,000 bpd m/m to 13.37 million bpd.

The Baker Hughes active rig count is thought to signal future demand for drilling as well as inputs into the oil industry. The Baker Hughes active rig count for the U.S. as a whole totaled 576 rotary rigs as of May 9. This latest count marks a steep decline of 4.6% y/y, continuing a series of y/y losses.

Breaking that down into basins, Enverus, a leading SaaS company focused on the energy market, releases daily active rig counts.

Basin	Daily Active Rig Count	1-mo. Change	M/M Percent Change	1-yr. Change	Y/Y Percent Change
Anadarko Basin	58	-4	-6.5%	10	20.8%
Appalachia	32	-5	-13.5%	-2	-5.9%
DJ Basin	11	-1	-8.3%	2	22.2%
Gulf Coast Basin	63	-4	-6%	-2	-3.1%
Permian Basin	258	-11	-4.1%	-23	-8.2%
Williston Basin	30	-1	-3.2%	-6	-16.7%
Other	152	-9	-5.6%	12	8.6%
<b>Total</b>	<b>604</b>	<b>-35</b>	<b>-5.5%</b>	<b>-9</b>	<b>-1.5%</b>

Source: Enverus daily active rig count as of May 21.

Global supermajors are putting on a brave face in the Q1 earnings season, touting the lessons learned from the pandemic as having shaped their contingencies for shareholder returns and capital expenditures — even in a highly bearish market. Breakeven prices vary by region and producer, but the consensus is that new wells in the Permian Basin break even near \$62 a barrel, though some established wells can be profitable even as low as \$38 per barrel. Accordingly, most of the supermajors are keeping calm and carrying on, with no plans to scale back investment.

Despite the stoicism, many of the top producers have noted that onshore U.S. oil production will peak soon, if it has not already. “Most of the shale basins,” said Vicki Hollub, president and CEO of Occidental Petroleum at March’s CERAWeek, “have now either plateaued or [are] starting to decline, except for the Permian. If companies continue to talk about dropping activity levels, I think that the Permian could plateau sooner than we expected — and we had expected the Permian to continue growth through 2027.”

### China hit hard in early stages of trade war with the U.S.; 90-day tariff pause led to crude prices recovering to \$63 a barrel

After tanking in early April in response to Trump’s “Liberation Day” tariff announcement, U.S. oil prices have failed to come close to their year-to-date highs around \$80 a barrel. In fact, prices hit their lowest level in more than four years at the start of May, before traders bought the dip and kick-started a modest rally. China in particular has been on a spending spree for the past several months, with refiners aggressively stockpiling crude oil over fears of an ever-escalating trade war with the U.S. as well as tightening sanctions on Iran.

While no official data exists on Chinese oil inventories, one can calculate the rate of builds and draws based on official data of imports, domestic production and refinery processing rates. By this formula, China stockpiled approximately 1.74 million bpd in March and 1.89 million bpd in April. China’s fears were apparently well founded as, in mid-May, the U.S. imposed sanctions on more than 20 companies implicated in shipping billions of dollars’ worth of Iranian oil to China.

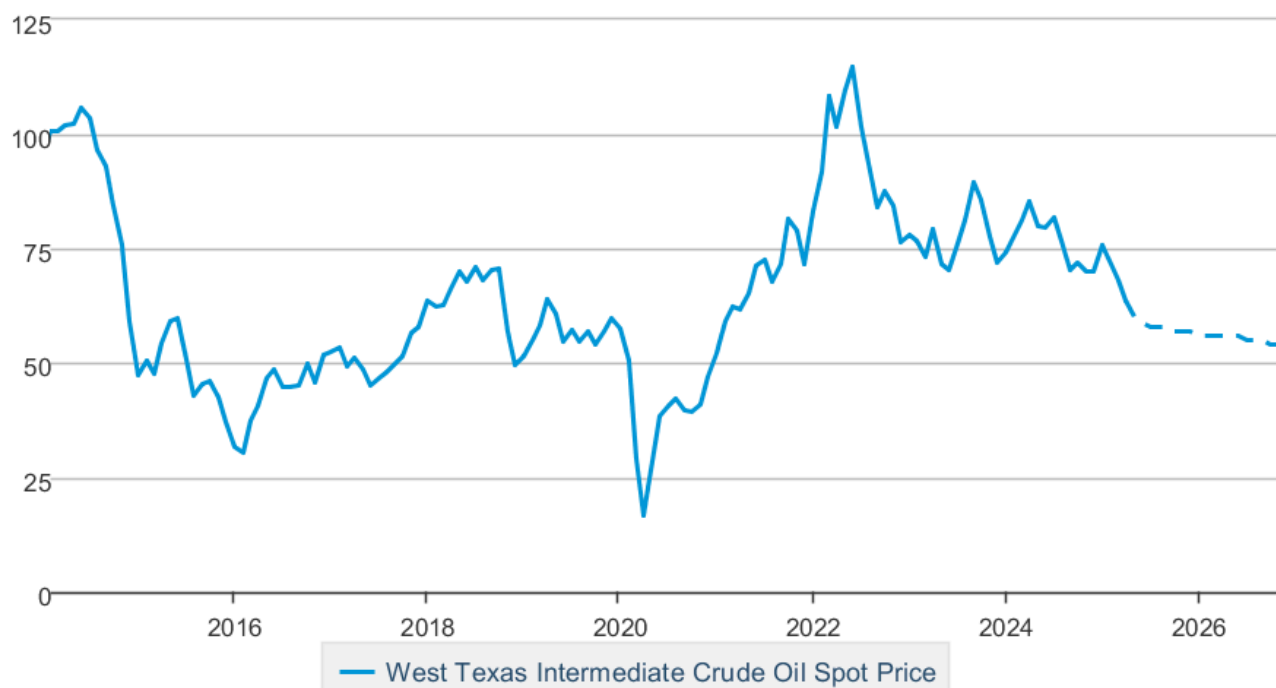
But as far as China’s industrial demand for oil is concerned, that level is extremely dependent on developments in the U.S.-China trade war. Prior to the current 90-day ceasefire, in which U.S. tariffs on Chinese goods have dropped from 145% to 30%, the Financial Times reported that Chinese factories were slowing production, furloughing workers, suspending overtime and even shuttering operations entirely, depending on their exposure to the U.S. market. As a result, China’s industrial output in April grew 6.1% y/y — which, like all official data from China, is a number that should be taken with a grain of salt — slowing heavily from 7.7% y/y growth in March.

Regardless, the rally that was initiated on May 5 by traders buying the dip was unexpectedly sustained by the May 12 announcement of the 90-day mutual reduction in U.S.-Chinese tariffs. Accordingly, prices of West Texas Intermediate (WTI) crude — a domestic benchmark — rose more than \$6.50 a barrel from May's four-year low at \$57.13 after the ceasefire was announced. Since then, WTI prices have come down somewhat on comments that Trump was nearing a finalized deal with Iran (which would add more supply to global markets) and on Moody's May 19 downgrade of the U.S. credit rating, which triggered a sell-off of U.S. assets including oil.

**According to EIA projections, WTI will continue its descent through 2026 to \$54 a barrel, with most analysts in agreement.**

## West Texas Intermediate Crude Oil Spot Price

dollars per barrel



Data source: U.S. Energy Information Administration

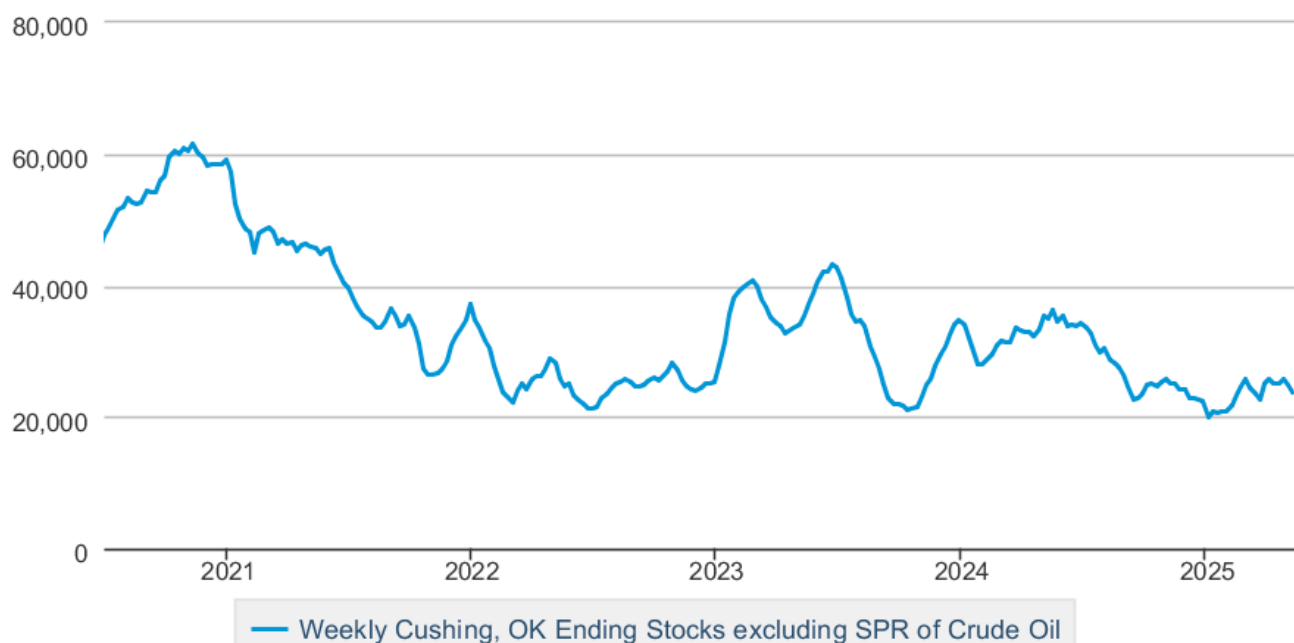
The EIA's latest Short-Term Energy Outlook, published in early May, reaffirmed the agency's total collapse in confidence for WTI prices going forward. In March, the EIA had forecast that WTI would rise to \$70.50 a barrel in October before ending 2025 at \$68.50. This forecast was drastically revised in April, with the EIA predicting that WTI was on an uninterrupted decline until at least the end of 2026, sinking to \$60 a barrel by year's end and \$56 by the end of 2026. This forecast was more or less restated in May's report, though the price targets were revised down to \$57 a barrel for December 2025 and \$54 for December 2026.

And though traders tend to be markedly more bearish than EIA projections, since they are more vulnerable to reactionary impulses, most institutional firms are broadly in agreement with the EIA's latest forecast. Despite revising its outlook for global demand upward in late May, Goldman Sachs maintained its oil price forecast at \$60 a barrel for Brent crude and \$56 for WTI in 2025. At the time of the forecast's release, Brent was trading at more than \$65 a barrel and WTI at over \$62. Like the EIA, Goldman expects the benchmarks to fall further next year, with Brent dropping to \$56 a barrel and WTI to \$52.

## What else we're watching

### Weekly Cushing, OK Ending Stocks excluding SPR of Crude Oil

Thousand Barrels



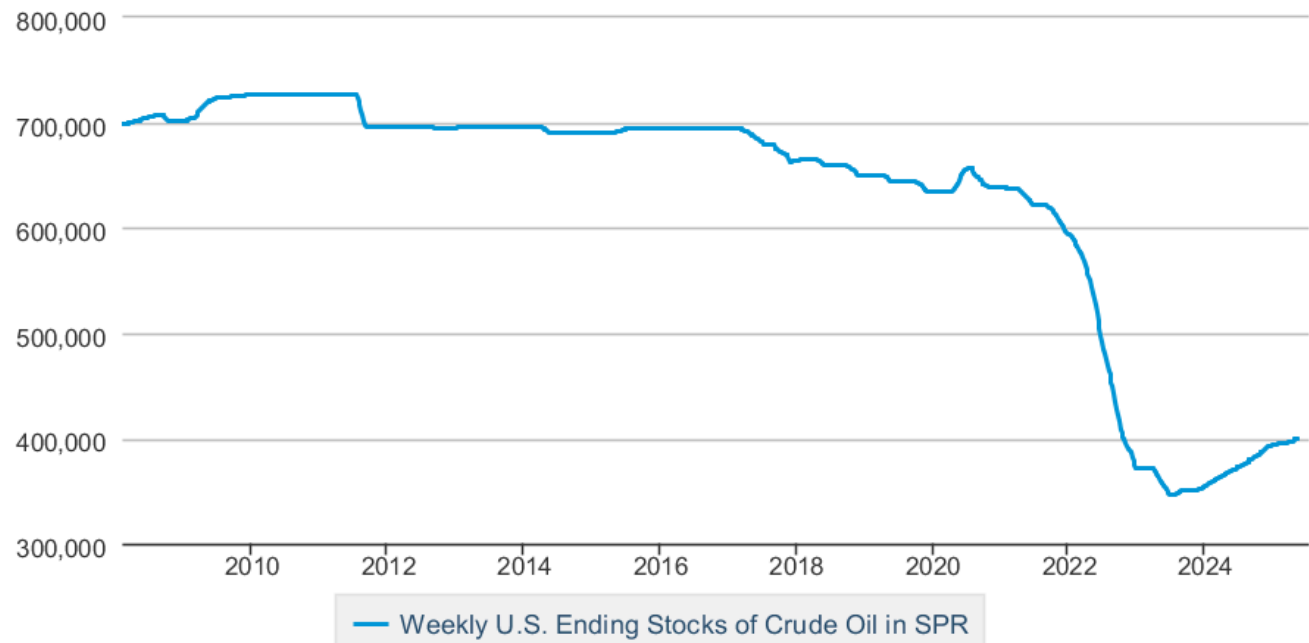
Data source: U.S. Energy Information Administration

U.S. crude stocks saw a surprise build at the beginning of May, which capped oil prices in the post-ceasefire rally that had been building. Crude inventories rose 3.5 million barrels to 441.8 million barrels in the week ending May 9, completely confounding analysts' forecasts for a 1.1 million-barrel draw.

Despite this massive and surprising gain, crude inventories at Oklahoma's Cushing Hub have been on a steady decline throughout the first half of May. In the week ending May 9, stocks at the Cushing Hub fell 1.1 million barrels from the week prior to 23.9 million barrels, marking a 31.7% y/y decline.

## Weekly U.S. Ending Stocks of Crude Oil in SPR

Thousand Barrels



Data source: U.S. Energy Information Administration

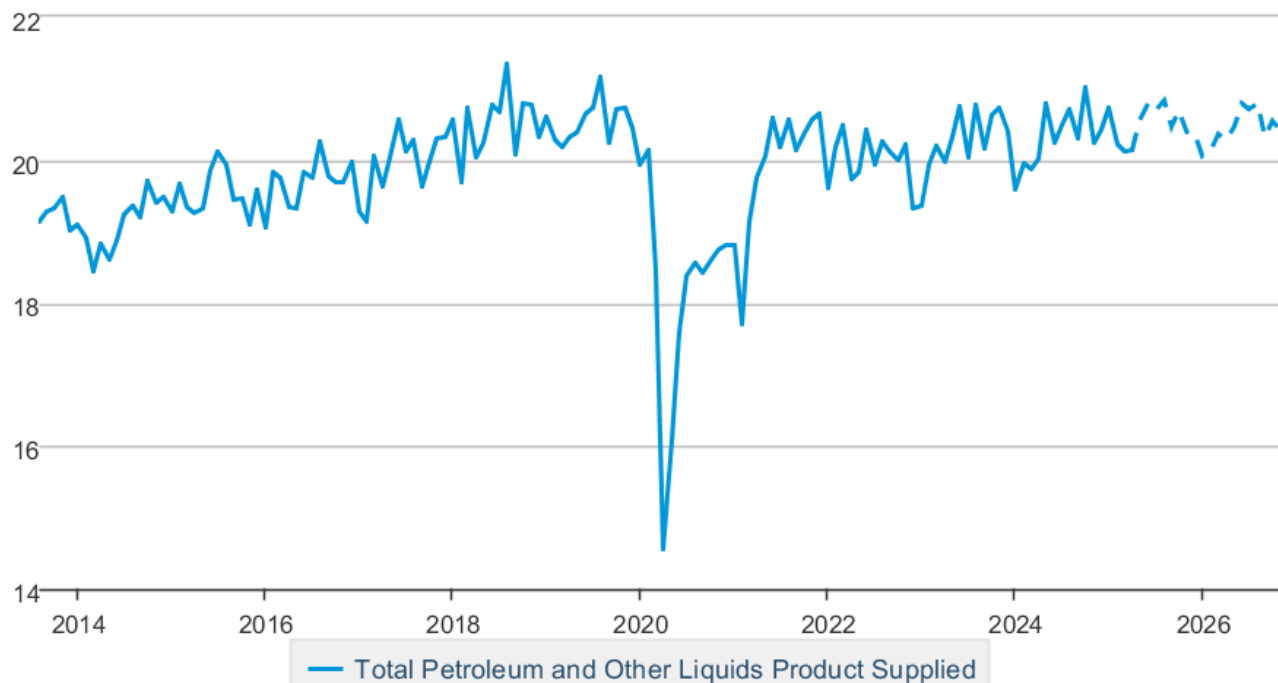
Levels of the U.S. Strategic Petroleum Reserve have been diminished ever since the previous administration drew heavily (and controversially) from it in 2022, in an effort to protect against the sudden loss of Russian supply. This sale of nearly 300 million barrels pushed the SPR to its lowest level in 40 years.

At the time of writing, the Budget Reconciliation Bill — proposed by U.S. House Republicans — faces the Senate after narrowly winning over conservative hard-liners, who desired greater spending cuts to Medicaid and similar government programs. The bill proposes \$1.321 billion for refilling the SPR, as well as \$218 million for maintenance of and repairs to SPR storage facilities. Despite the hard-liners' contentions over the budget's allowances, no such objection has been made public over refilling the SPR by this degree, and so it is likely that the SPR will soon be close to its maximum capacity.



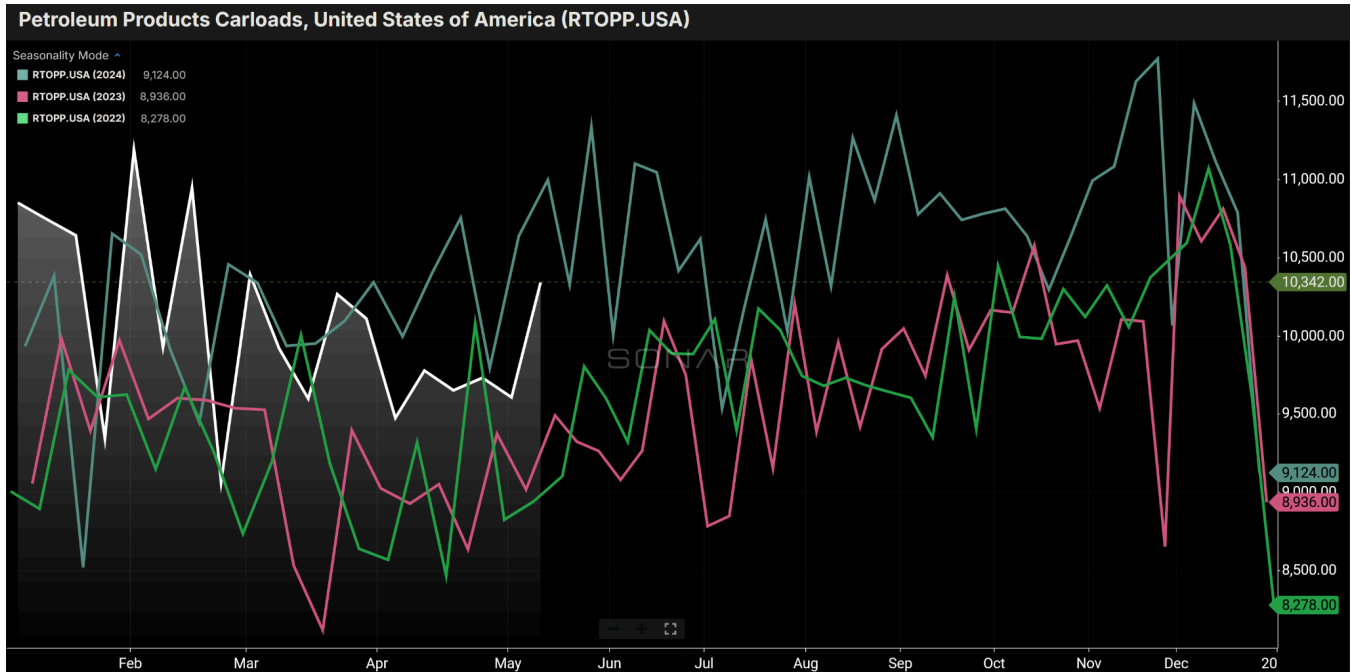
## Total Petroleum and Other Liquids Product Supplied

million barrels per day



Data source: U.S. Energy Information Administration

Although, at 400 million barrels, its stocks are currently far below this capacity, the SPR is at its fullest since October 2022, with inventories up 8.7% y/y. In an emergency, assuming that both domestic production and imports were entirely halted, the SPR would be sufficient to meet U.S. demand for just over 19 days. U.S. consumption of petroleum and all other liquid fuels has yet to return to 2019's pre-pandemic high of 20.5 million bpd but, unlike its previous report in April, the EIA now expects consumption to match this rate in 2025. At present, U.S. consumption averages 20.1 million bpd.



Source: SONAR. Rail carloads of petroleum products: 2025 (white), 2024 (green), 2023 (pink) and 2022 (dark green).

Despite entering Q2 on the wrong foot, rail volumes of petroleum products saw a resurgence in May that narrowed the gap with the vigorous levels of 2024. Total carloads of petroleum products remain off the year-to-date peak seen in early February but are showing substantial growth compared to 2023-24 so far. Over the past month, total petroleum product carloads are up 5.8% but are down 6% compared to the same week last year.

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