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STATE OF THE INDUSTRY

R E P O R T

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

Prices up, production stable, inventories down

July 26, 2024 | 9 a.m.

Overview

The freight market continues to show signs of shifting, just at a very slow pace. Surprisingly, the equipment types exposed to the industrial side of the economy are having the most challenging time at present.

Why is that the case?

The industrial sector of the macroeconomy seems to be waiting for interest rate cuts before making significant investments. That is evident as active rig counts have dropped significantly over the past year and are down over 25% from the peak in 2022.

When interest rates in 2018-2019 were half of what they are today, total active rig counts were nearly double where they stand now.

Executives in the space believe there will be a return of smaller operators in 2025. The first interest rate cut since 2020, likely coming in September, should create some positive momentum for the industrial economy.

Oil and gas companies are still benefiting from higher prices, created by large drawdowns in inventory. If OPEC+ continues to push out the timeline for the phasing out of the voluntary 2.2 million-barrel-per-day cuts, it could help keep oil and gas prices elevated.

Of the nearly impossible-to-predict disruptors of oil and gas and freight as a whole, hurricane season is among the bigger ones. Hurricane Beryl had impacts on the Houston freight market, but it has since recovered, with carriers entering the market again and rail volumes and port activity gaining momentum.

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	273 (-8.1%)
Gulf Coast Basin	66 (-15.4%)
Anadarko Basin	42 (-12.5%)
Total	616 (-10.5%)

Crude oil prices per barrel (y/y change)

WTI crude	\$77.71 (+4.76%)
Brent crude	\$81.69 (+3.61%)
Brent WTI Spread	3.98 (-21.2%)

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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

Inflation data continues to show that it is making progress to the Federal Reserve's long-term target of 2%, but Fed Chairman Jerome Powell made it clear that inflation doesn't have to be at 2% for interest rates to start being cut. Positive inflation data for the third consecutive month has brought a cut in September into play.

Expectations are that, provided inflation data continues to trend positively, the Fed will cut the target range for the federal funds rate by 25 basis points at the September meeting of the Federal Open Market Committee.

Powell, recently speaking at the Economic Club of Washington, stated that the three recent inflation data releases "somewhat add confidence" that there is progress to the 2% target. Additionally, the chairman stated that there are hesitations in both cutting rates too fast and leaving rates too high for too long. The former brings inflation risks back on the table after progress has been made, whereas the latter brings slowing economic growth while also creating some level of risk to the labor market, which has seen the unemployment rate slowly move higher.

A month of deflationary data is the story from June, at least based on the headline inflation numbers. This marks the third consecutive month in which consumer-side inflation has been better than expectations and is leading to the increased optimism around interest rates cuts in the coming months.

The Consumer Price Index fell by 0.1% m/m, marking the first month in which prices entered deflationary territory since October 2020. The 12-month running total for the CPI came in at 3%, the lowest level since July 2023. Analysts were expecting consumer prices to rise by 0.1% m/m and 3.1% y/y.

Core inflation, which is the CPI excluding the more volatile food and energy prices, remained in inflationary territory, rising by 0.1% m/m. The 12-month running total for core CPI is 3.3% higher than it was this time last year. Both metrics also bested analysts' expectations for June's inflation numbers.

With core CPI rising and headline CPI entering deflationary territory, it means there were significant price changes in either food or energy. Energy prices have been far more volatile than food prices in recent months, causing nearly all of the deflation in June. Energy prices fell by 2% for the second consecutive month and were just 1% higher y/y. Gasoline prices experienced the largest drop, falling 3.8% m/m in June, and were 2.5% lower y/y.

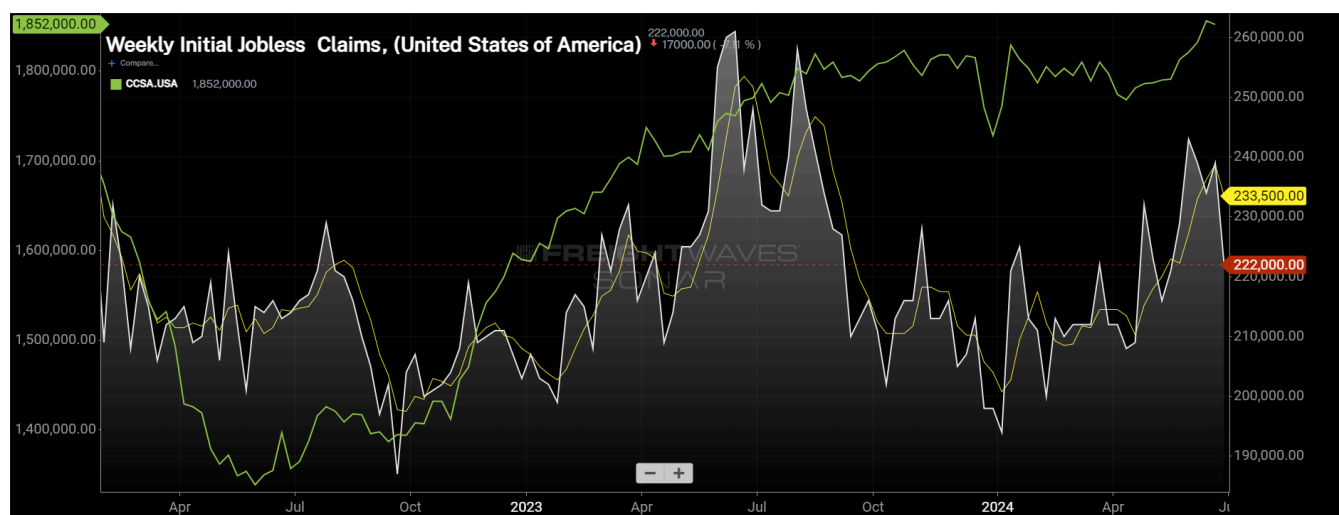
Food prices, on the other hand, increased slightly, rising 0.2% m/m and 2.2% y/y. Food-at-home prices haven't come under as much inflation pressure as food-away-from home. Food-at-home prices increased by 0.1% m/m in June and were just 1.1% higher y/y. Food-away-from-home prices increased by 0.4% m/m for the second consecutive month, accelerating from the 0.3% m/m increases experienced in March and April. Food-away-from-home prices are 4.1% higher y/y, highlighting that consumers are still under inflationary pressures in their day-to-day lives but that it isn't as widespread as it was for the past two years.

Shelter prices continue to rise, jumping by 0.2% m/m in June, up 5.2% y/y. Shelter prices represent a majority of core inflation, so the increases in shelter prices continue to have substantial impacts on the core CPI.

Vehicle prices continue to drop. New vehicle prices fell by 0.2% m/m, the fifth consecutive month in which new vehicle prices have fallen. Even with the five consecutive monthly declines, new vehicle prices are only 0.9% lower than they were in June 2023. Used vehicle prices, on the other hand, are under immense pressure. Used car and truck prices fell by 1.5% m/m in June, the fourth decline of greater than 1% m/m in the past six months. Used car and truck prices are 10.1% lower than they were this time last year as consumer demand has slowed for larger-ticket items.

One thing that remains consistent is the American consumer's ability and willingness to continue to spend. Retail sales data for June came in ahead of expectations, especially when excluding autos and gasoline spending. Headline retail sales were flat m/m in June while analysts were expecting retail sales to decline by 0.3% m/m. Retail sales excluding autos and gas station spending increased by 0.8% m/m, compared to expectations of a 0.2% m/m increase. Total retail sales are 2.3% higher than they were this time last year but haven't been able to outpace inflation, at least not yet. Retail sales excluding autos and gas stations were 3.8% higher y/y.

Labor market



SONAR: Weekly Initial Jobless Claims (white) and 4-week moving average of initial jobless claims (green).

Initial jobless claims, for the week ending July 6, the most recent week for which data is available, fell by 17,000 week over week to 222,000. The four-week moving average fell by 5,250 from the prior week to 233,500, highlighting that initial jobless claims have crept lower at an extremely slow pace. Compared to the same week a year prior, initial jobless claims were 10,000 lower than in 2023.

Continuing claims remain relatively stable. Continuing claims fell by 4,000 in the week ending June 29, the most recent week for which data is available, to 1,852,000. The four-week moving average did increase by almost 10,000, to 1,840,250. Continuing claims were up by 82,000 compared to the same week a year prior.

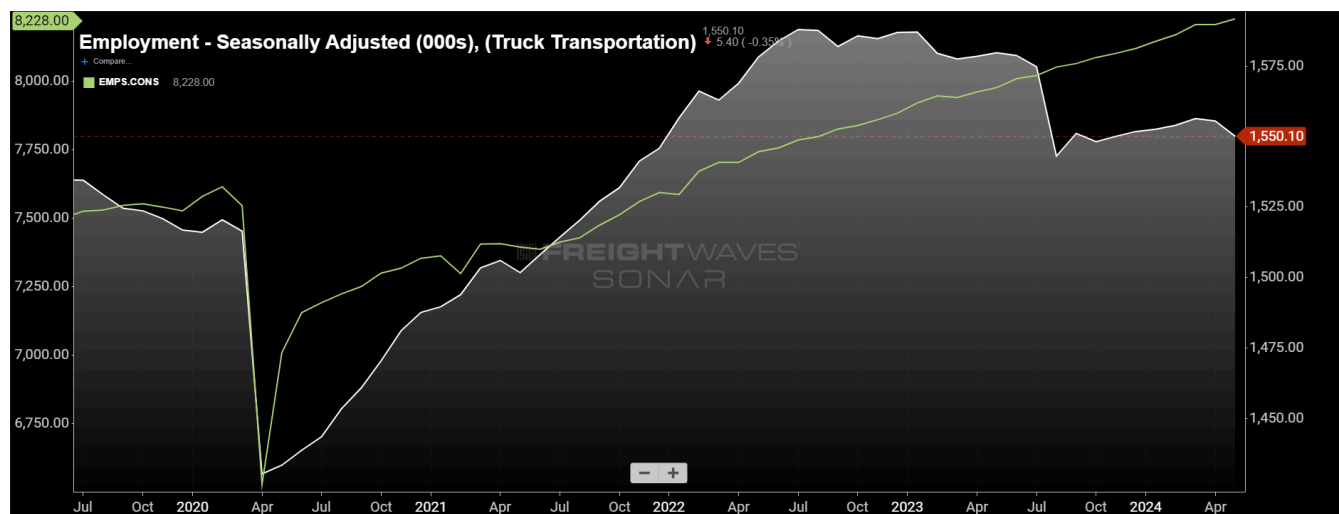


Chart: FreightWaves SONAR. Truck transportation payrolls (white, right axis) and construction payrolls (green, left axis).

On the employment front, the headline numbers for June's jobs report continued to beat analysts' expectations as nonfarm payrolls increased by 206,000 in the month. This eclipsed expectations of 200,000 added jobs during the month but was a slowdown from May's revised numbers.

As has been a trend throughout 2024, the initial nonfarm payroll figures have been revised lower in almost every month. In May, the initial figures showed payrolls increased by 272,000, but upon revision the total was actually 218,000, a nearly 20% downward revision. In April, nonfarm payrolls were revised lower by 10,000 from the initial report of 175,000.

The unemployment rate ticked up another 10 basis points to 4.1%, the highest it has been since November 2021. The bright spot is that most unemployed individuals are finding work fairly quickly as the less reported U-1 unemployment rate — the percent of the civilian labor force unemployed 15 weeks or longer — currently stands at 1.5%, the highest it has been since February 2022 and in line with where it was pre-pandemic.

The hiring growth continues to be driven primarily by health care and government hiring. The health care industry added 48,600 jobs during June and more than 750,000 over the past year. Government hiring remained robust, adding 70,000 jobs in June, with over 600,000 jobs added in the past year.

The construction industry, which has been challenged by the higher interest rate environment, experienced fairly robust hiring in June. The construction industry added 27,000 jobs during June, with the job growth occurring across all the subsegments of the broader construction industry.

Retail hiring slowed in June but not everywhere. Overall retail trade saw a reduction of 8,500 jobs during June, but general merchandise stores added 5,200 jobs during the month.

The transportation sector added 7,300 jobs in June, but the truck transportation segment saw a reduction of 100 jobs in the month, 1.9% lower than it was during the same month last year.

The oil and gas sector experienced an increase in the number of payrolls in June. The sector saw the number of payrolls rise by 1,300, expanding on May's gains. Total oil and gas sector payrolls are currently 121,400, up 4,500 over the past year.

Job openings rebounded in May after falling below the 8 million mark in April. Openings in May rose by 221,000, to 8,140,000, over a million fewer openings than April 2023.

The construction industry experienced a slight increase in the number of job openings in May. In May, the number of job openings in the industry increased by 2,000 m/m. The construction industry had 339,000 openings in May, down 38,000 from May 2023.

Openings in the trade, transportation and utilities sector — which includes oil and gas as well as transportation — were stable in May. Openings in May came in at 1,016,000, matching the number of openings in April.

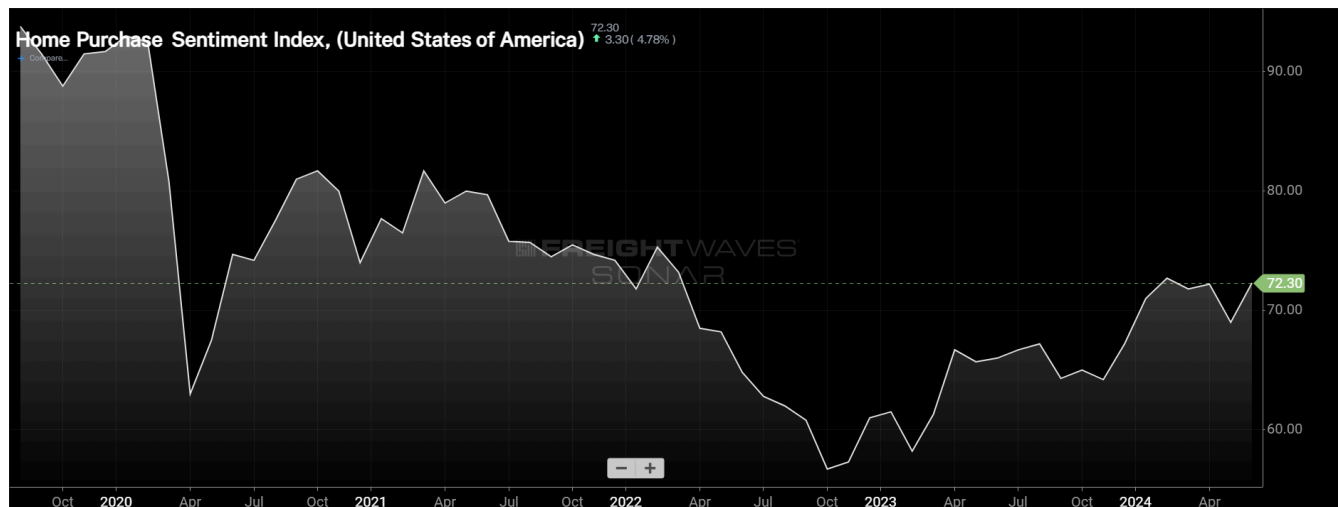
The quit rate, which is the number of resignations during the month as a percentage of total unemployment, remained stable at 2.2% in May. The quit rate for the trade, transportation and utilities sector inched higher by 0.1% to 2.5%. The quit rate for the construction section was increased by 0.1% as well to 2.4%.

Housing and construction

Positive inflation data and commentary from Fed officials is helping boost confidence in the housing market despite the higher interest rate environment. According to the Mortgage Bankers Association's Weekly Mortgage Application Survey for the week ending July 5, mortgage applications fell by 0.2% w/w. Mortgage Bankers Association Vice President and Deputy Chief Economist Joel Kan stated in the latest release that "The recent uptick in mortgage rates has slowed demand."

Mortgage rates overall have stayed around 7% for the past two months. Until interest rate cuts actually come to fruition, mortgage rates will likely stay around these levels as banks maintain the margin around 2.5% above the effective federal funds rate. According to Freddie Mac, the average 30-year fixed rate mortgage was 6.89% for the week ending July 11, just 7 basis points lower y/y.

With increased conversations around lower interest rates, sentiment around purchasing homes is improving. The Fannie Mae Home Purchase Sentiment Index (HPSI) increased by 3.2 points m/m to 72.6, the highest level in over two years. The HPSI is 6.6 points higher than it was this time last year.



SONAR: Fannie Mae Home Purchase Sentiment Index.

Mark Palim, Fannie Mae's vice president and deputy chief economist, said in the July 8 release, "Affordability concerns remain the primary driver of consumer housing sentiment, even as the topline findings from our monthly survey showed a modest uptick in optimism on both homebuying and home-selling conditions."

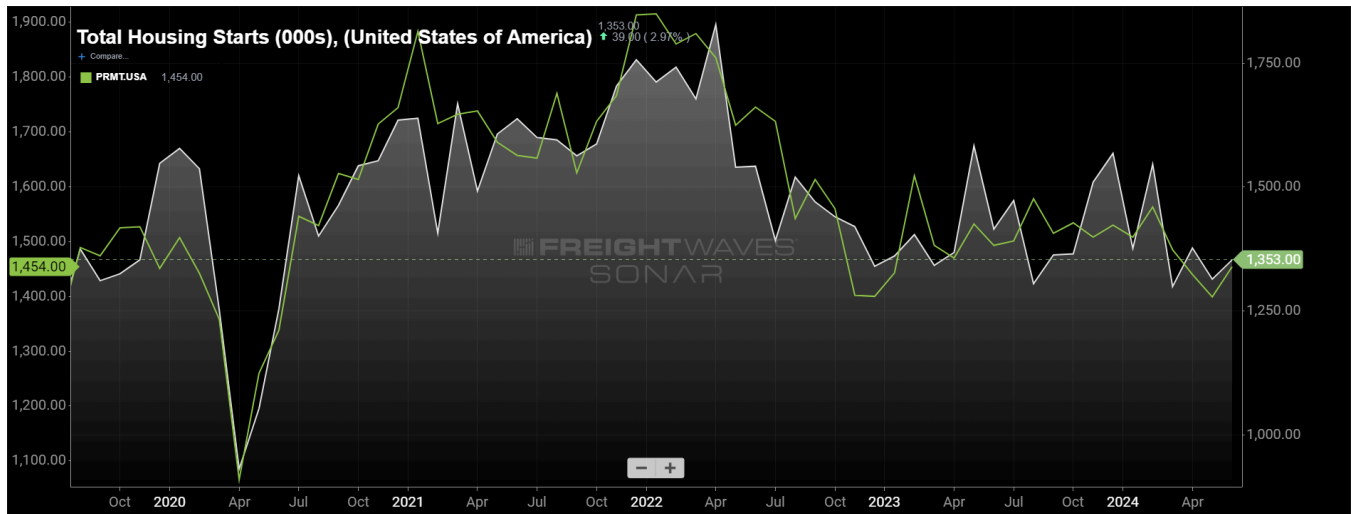
In the HPSI survey, 81% of respondents believe it is a bad time to purchase a home, which is down 5% from May's survey. The 81% of respondents is largely in line with the longer-term trend, but it will be interesting to see how this shifts as mortgage rates decline, though they will likely remain higher than pre-pandemic levels.

An increasing percentage of individuals believe home prices will increase over the next 12 months. 45% of respondents expect that home prices will increase over the next 12 months, while just 17% expect prices to decrease. Despite conversations about interest rate cuts, only 24% of respondents expect that mortgage rates will decline over the next 12 months and 33% expect rates to rise over the next year. Traditionally, when interest rates decline, asset prices will increase, but given the perception of housing supply in the market, sentiment shows that many expect house prices to continue to appreciate in the face of the belief that mortgage rates will rise (which seems unlikely given the comments from the Fed chair.)

Existing homes sales make up the vast majority of homes sales in the housing market, and they have continued to decline in recent months. After declining by 1.9% m/m in April, existing home sales dropped by 0.7% m/m in May, according to the National Association of Realtors. Compared to the year prior, existing home sales were 2.8% lower in May. The slowdown in sales is allowing inventory to grow as unsold existing home inventory increased by 6.7% m/m and total supply sits at 3.7 months, up from 3.5 months in April.

Sales in the South came under pressure in May, while they remained stable in the Northeast, Midwest and West.

Existing home sale prices continued to set new records, rising to \$419,300 in May, up 5.8% from the year prior.

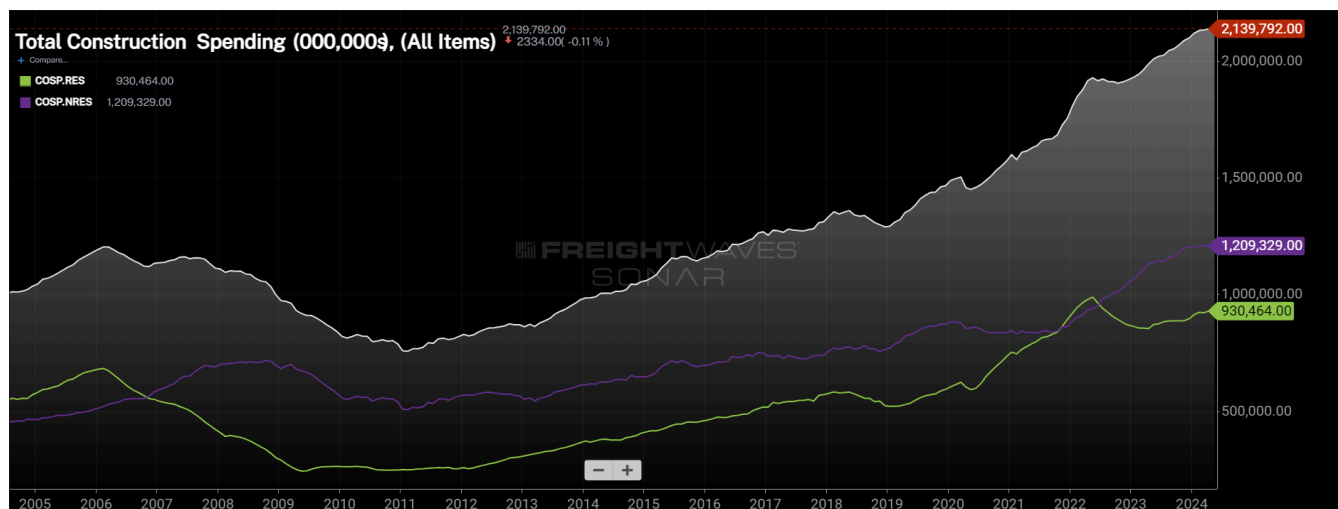


SONAR: Total Housing Starts (white, right axis) and Building Permits (green, left axis).

After a difficult May, housing starts experienced an uptick in June, but it was boosted entirely by multifamily housing starts. Total housing starts increased by 3% m/m in June to a SAAR of 1,353,000. Even with the monthly increase, total housing starts were down 4.4% y/y in June. The monthly metrics for single-family housing starts were underwhelming, falling 2.2% m/m in June. The SAAR for single-family housing starts sits at 980,000, the lowest of the year and the lowest it has been since October 2023. Even with the decline and falling below the 1 million mark once again, single-family housing starts are 5.4% higher than they were in June 2023.

Multifamily housing starts had a nice recovery in June, to reach the second-highest level of 2024. Multifamily housing starts increased by 22% m/m in June to a SAAR of 360,000. Even with the increase, multifamily housing starts are off by 23.4% y/y.

May's construction spending figures highlight the challenges the industry is facing in the higher interest rate environment. Total construction spending fell another 0.1% m/m in May, matching April's initially reported decline. The seasonally adjusted annual rate (SAAR) for total construction spending totaled \$2.14 trillion, down from \$2.142 trillion in April. With the slowdown felt the past couple of months, the gap with year-ago levels continues to narrow, now up 6.4%, compared to the 10% y/y increase in April.



SONAR: Total construction spending (white), residential construction spending (purple) and nonresidential construction spending (green).

Residential construction spending fell once again in May after rising during April. Residential construction spending decreased by 0.2% m/m in May to a SAAR of \$930,464,000. April's residential construction spending figure was revised higher by nearly \$30 million, thus the downward movement in May's figure. Residential construction spending growth is higher than overall construction spending, now 6.6% higher than it was this time last year.

Nonresidential construction spending matched the decline of total construction spending after April's figures were revised higher. Nonresidential construction spending fell by 0.1% m/m to a SAAR of \$1.209 trillion. Similar to total construction spending and residential spending, despite the decline m/m in nonresidential construction spending, it was 6.2% higher y/y. The manufacturing sector is the largest contributor to nonresidential construction spending, with a SAAR of \$234.1 billion, an increase of 1.3% m/m and 20.3% y/y.

Oil market

After a fairly busy second quarter with announcements of major acquisitions and OPEC+ cuts, July has been a little less active.

One of the more interesting releases in July came from Rystad Energy, which noted that global recoverable oil reserves have largely remained stable in 2024. Rystad estimates that [total global recoverable oil reserves sit at 1.5 trillion barrels](#), down about 52 billion barrels from the company's 2023 estimates and about 700 billion barrels below 2019 estimates. The decline on a y/y basis is driven by a reduction from Saudi Arabia, while Argentina was the only country to see a significant increase.

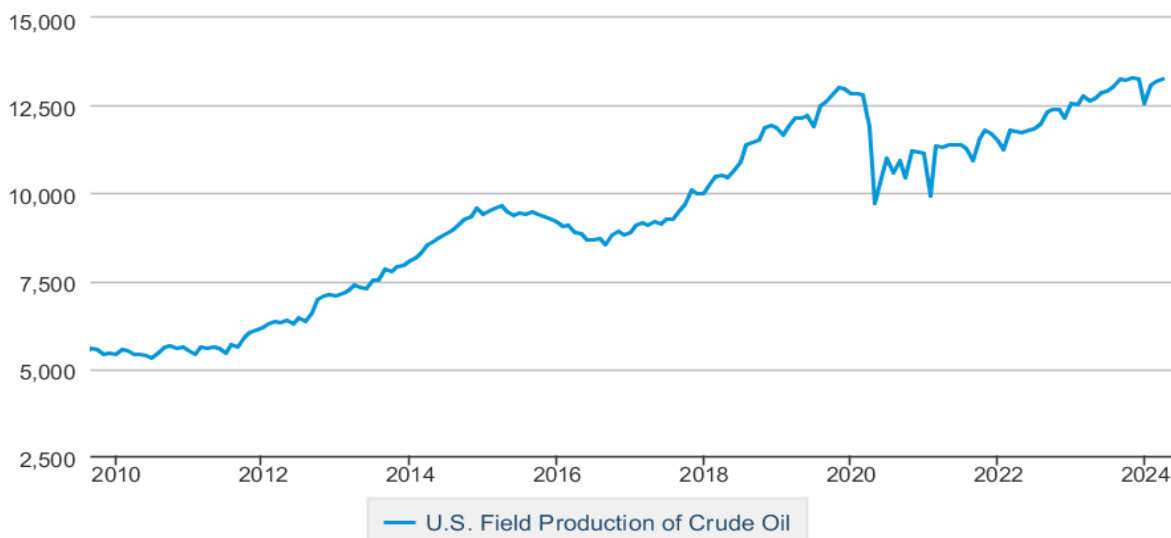
The company points out that much of the decline from 2019 until now is from reduced exploration activities. That idea of reduced exploration activity is apparent when looking at active rig counts (see below), but executives in the space expect that 2025 will be a better year in terms of exploration activity.

In May, gross domestic oil production rose to 13.2 million barrels per day (bpd) from April's 13.15 million bpd, increasing 50,000 bpd m/m. Production figures from previous months continued to be revised, as April's data was pulled up from an initial reading of 13.13 million bpd.

In a prior print of its Short-Term Energy Outlook, the U.S. Energy Information Administration (EIA) forecast that domestic crude oil production would fall by 40,000 bpd m/m to 13.09 million bpd in May. While the EIA's forecast missed the mark by over 10,000 bpd in May, the upside surprise brought monthly production up to match the EIA's full-year forecast of 13.2 bpd.

U.S. Field Production of Crude Oil

Thousand Barrels per Day



Data source: U.S. Energy Information Administration

Even with domestic production surprising to the upside, the EIA continues to predict that December's all-time-high domestic crude oil production will be surpassed in August 2025. The EIA continues to expect full-year production in 2024 to be 2% higher than it was the prior year, followed by a 4% increase in 2025. For June, the EIA projects that crude oil production will fall by 30,000 bpd m/m to 13.17 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 count for the U.S. as a whole totaled 586 rotary rigs as of July 19. This latest count marks a brutal decline of 12.4% y/y, aligning with Halliburton's rig count in North America, which declined by 12% y/y in the second quarter.

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	42	-3	-6.7%	-6	-12.5%
Appalachia	31	-6	-16.2%	-14	-31.1%
DJ Basin	12	3	33%	-3	-20.0%
Gulf Coast Basin	66	-6	-8.3%	-12	-15.4%
Permian Basin	273	10	3.8%	-24	-8.1%
Williston Basin	35	3	9%	0	0%
San Joaquin Basin	5	1	25%	2	67%
Other	152	-1	-0.7%	-15	-9.0%
Total	616	1	0.2%	-72	-10.5%

Source: Enverus daily active rig count as of July 25.

A positive sign in the oil market is the slight recovery in the Permian Basin, by far the largest oil shale in the Lower 48. The extremely active M&A space in the oil market has helped drive some of the overall decline in active rig counts as companies are largely searching for the next opportunity. In a recent [Wall Street Journal article](#), Halliburton's CEO was quoted from the company's second-quarter earnings call saying, "Never bet against North American entrepreneurs." This statement presented bullish sentiment, as the belief is that as companies merge, old assets will be sold off to smaller players that will be more aggressive in exploration, though the early belief is that it will take until 2025 for that to happen.

Crude prices find positive momentum, back above \$80 per barrel

Oil prices, especially domestically, have come under pressure in July after finding some positive momentum in June. Inventory levels have been drawn down significantly, which creates an interesting dynamic as crude prices have declined, but supply has also declined. Some of the decline in price is likely tied to the fact consumer demand has been fairly soft in the later stages of July than at the beginning.

The largest U.S. crude oil inventory draw in nearly a year happened the week of July 3. Crude inventories were reduced by over 12 million barrels per day, compared with expectations for just a 400,000-bpd reduction in inventory. This created upward pressure on price as the decline was likely a combination of consumer demand and drawing down inventory ahead of Hurricane Beryl. Since that week, reductions in inventory haven't come close to that level, an indication that consumer

demand during July hasn't been quite as strong as many would have expected. That is why West Texas Intermediate crude (WTI) prices have declined since the beginning of the month.

The International Energy Agency, which remains bearish on future demand, noted that Brent crude price increases in June were the market taking into account OPEC+'s voluntary production cuts as well as elevated geopolitical risks. The IEA's bearishness shone through when the agency cited concerns about China's economy as well as global inventories increasing in June. The IEA did hold world oil demand growth stable in both 2024 and 2025 in its July report.

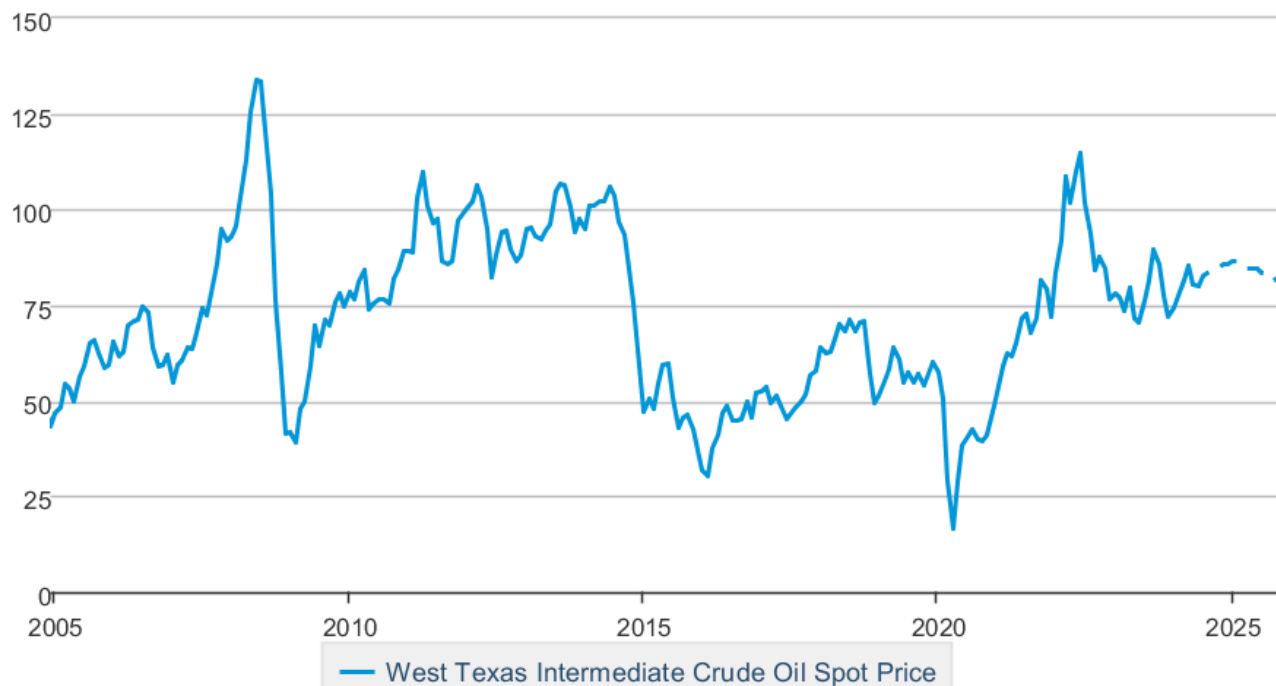
OPEC+ followed the IEA's forecast, holding global oil demand stable in its latest Monthly Oil Market Report at 2.2 million bpd. OPEC+ countries did reduce production in June by 125,000 barrels per day. As October 2024 approaches, which is the updated timeline for OPEC+'s voluntary 2.2 million-barrel-per-day production cuts to start to unwind, it will be interesting to see if the OPEC+ countries push the phasing out of the cuts out even later to keep prices elevated.

For now, prices of WTI — a domestic benchmark — are down about \$5 a barrel from early July's peak of \$83.88. Since the Fourth of July, the market has been in decline, and as a result WTI is now below where it was this time last year. WTI is only 2.3% below where it was this time last year.

According to EIA projections, crude oil prices, both Brent and WTI, will be higher in the back half of 2024.

West Texas Intermediate Crude Oil Spot Price

dollars per barrel



Data source: U.S. Energy Information Administration

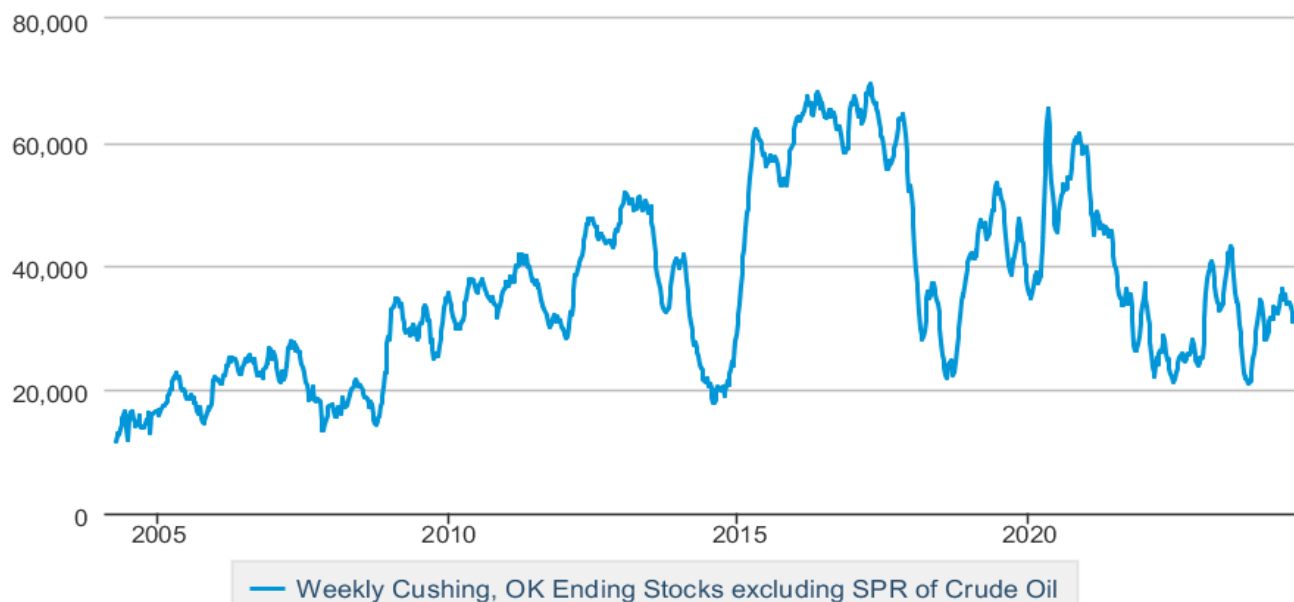
The EIA's latest Short-Term Energy Outlook, published in early July, became more bullish on Brent crude oil prices. Brent crude prices were \$84 a barrel in the first half of the year, and expectations are now for second-half 2024 Brent crude prices to be \$89. The EIA cites continued withdrawals from global inventories stemming from the extension of the OPEC+ voluntary cuts as the primary cause for the increase.

With the increase in Brent price expectations, the short-term outlook for WTI prices is also higher. The EIA expects that WTI spot prices will peak in January 2025 at \$86.5 a barrel, a more than 8% increase from the June reported spot price.

What else we're watching

Weekly Cushing, OK Ending Stocks excluding SPR of Crude Oil

Thousand Barrels



Data source: U.S. Energy Information Administration

After building up supply in Cushing, Oklahoma, throughout much of the first half of the year, inventory levels have been drawing down faster on a weekly basis since the beginning of July. In just the past month, the crude oil stock in Cushing has been reduced by nearly 4 million barrels, from 34.1 million barrels to 31 million barrels. Additionally, the stock has been reduced by 8.6% over the past year as inventory levels in Cushing are far leaner than they have been in the past 10 years.

A basic calculation of how many days of supply are left in Cushing is the current stock in Cushing divided by the average number of barrels consumed in a day. Based on April's consumption numbers of 600.2 million barrels for the month, across all the distillates, about 20 million barrels per day of petroleum products were consumed. With Cushing stock at a little over 33 million barrels at the end of April, it would indicate that there is about 1.67 days' worth of crude in inventory in Cushing.

The 20 million barrel number is important, as anything below that metric in Cushing would be considered "operational lows" and would likely not be usable for production of distillates.

Hurricane season is one type of disruption to the freight market that, while seasonal, is extremely hard to predict. What's even harder to predict are the impacts to the freight market when a hurricane makes landfall.

Predictions for the 2024 Atlantic hurricane season indicate that it could be one of the most active and most severe seasons in quite some time. So far, that prediction has already come to fruition as

Hurricane Beryl kicked off the Atlantic hurricane season with a bang, becoming the earliest Category 5 storm (sustained wind speeds of 157 mph) on record.



FreightWaves SONAR: Inbound Tender Reject Index: National Level (pink, left axis) and Houston (white, right axis).

The Inbound Tender Reject Index shows carrier sentiment around a given market based on the percentage of tenders being rejected in that market.

Around the Fourth of July, when factoring in tender lead times, rejection rates peaked on a national level on July 2 and then retreated (as expected) following the holiday as capacity returned. In Houston, the story was very different as carriers continued to avoid the market for nearly a week after the holiday until the storm cleared and damage was assessed. Inbound tender rejection rates in the Houston market peaked on July 11, three days after Beryl made landfall and a full week after the Fourth of July.



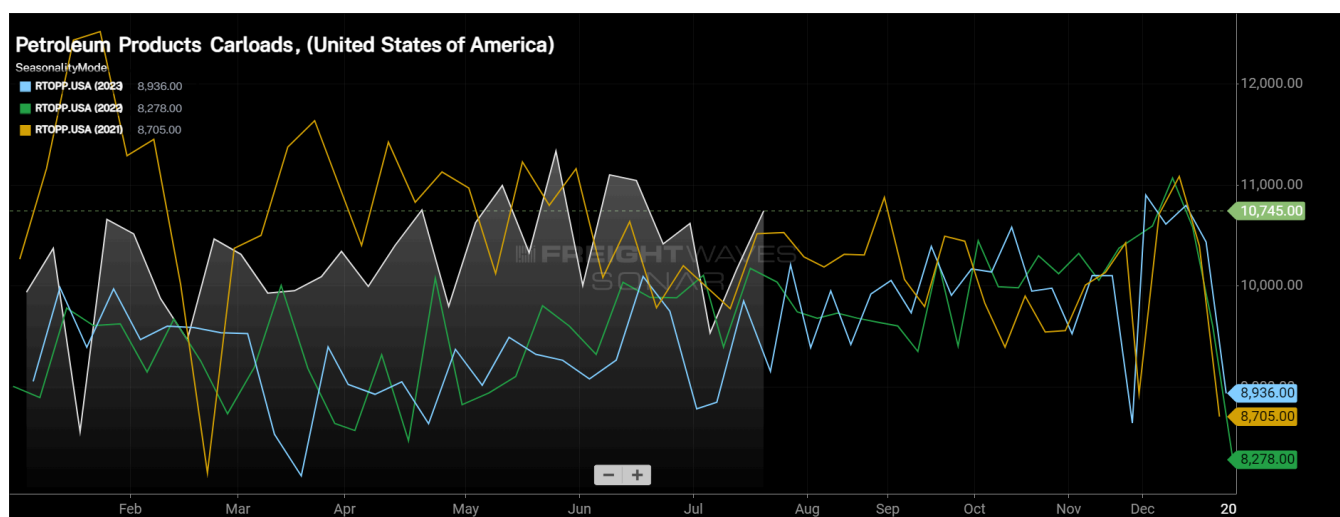
FreightWaves SONAR: Outbound Tender Reject Index: National Level (green, left axis) and Houston (white, right axis).

Outbound tender rejection rates also show when there are capacity challenges in a given market. Houston has been dealing with higher rejection rates since mid-June, not as an impact from Hurricane Beryl, but because the traditional decline after the Fourth of July hasn't appeared.

The traditional ebbs and flows of capacity in the freight market around holidays appeared at the national level around the Fourth of July. Rejection rates tend to increase ahead of the holiday as drivers come off the road and subsequently decline as drivers return, almost immediately following the holiday.

In Houston, that story was very different: Rejection rates stayed elevated throughout the holiday but have remained elevated ever since — one of very few markets to experience this and by far the largest freight market where it has occurred.

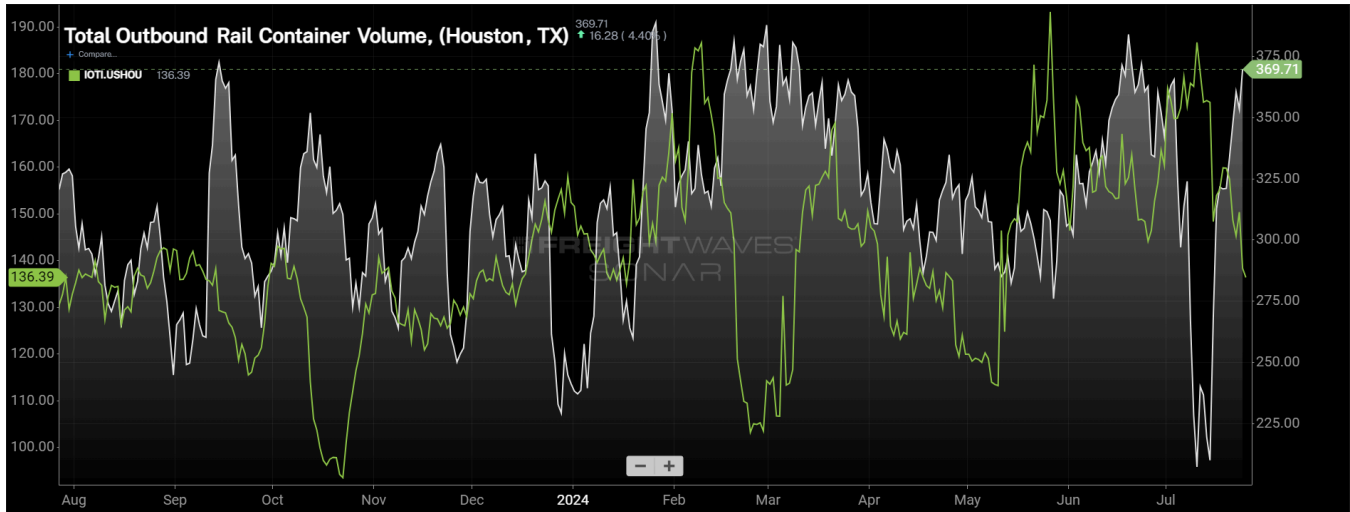
The reason? Carriers put driver safety first, holding equipment out of a given market that is being disrupted until it is safe to enter. This creates capacity disruptions in the market, and it can take up to a week for network fluidity to return. Thus, tender rejection rates have stayed elevated in the Houston market while the overall market experienced a return in capacity rather quickly.



FreightWaves SONAR: Petroleum Product Carloads. 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

Petroleum product carloads have been a boost to overall rail volumes throughout the year as only during one week were petroleum products below year-ago levels. In the most recent week for which data is available, the week ending July 20, petroleum product carloads were up 17.4% y/y. The year-to-date total is up 10.9%.

Chemical carloads are also holding up quite well, both in the most recent week and on a YTD basis. Chemical carloads were up 2.5% y/y in the week ending July 20 and up 4.1% YTD.



FreightWaves SONAR: Total Outbound Rail Container Volume out of Houston (white, right axis) and Inbound Ocean TEU Volume Index into Houston (green, left axis).

Rail volumes as a whole out of Houston have been strong throughout June and the back half of July. The early parts of July were impacted by Hurricane Beryl and the Fourth of July holiday, but volumes quickly returned following those two disruptions. Compared to this time last year, total rail volumes out of the Houston market are up 23.4%.

What has been driving this growth in rail traffic? Growth in imports into the market. The Inbound Ocean TEU Volume Index (IOTI) from all global ports to Houston, based on when a container departs its port of origin, is up 7.3% y/y at present. The IOTI for Houston has retreated from its recent high, down 28% from its early July peak, but that won't appear in the Houston market for nearly another month as the average transit time is 32 days.

What will impact the Houston market near term and is likely why there has been a strong resurgence in rail volume out of the market is the surge in imports ahead of July Fourth. The volumes that left in the final two weeks of June, creating the surge in the IOTI, have yet to be cleared by Customs, indicating that August will likely be stronger for outbound Houston volumes, both truckload and rail.

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