

APRIL  
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# STATE OF THE INDUSTRY

## R E P O R T

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

# Stable demand, excess capacity

March 26, 2024 | 12 p.m. EDT

## Overview

March traditionally acts as the starting point for the spring shipping season while also impacted by the end of the first quarter. The truckload market remains oversupplied as tender rejection rates fell through the month, but demand has been fairly stable throughout March. Spot rates have had a slight reaction to the end of the month and the end of the quarter but remain depressed compared to last year.

The intermodal market is showing some signs of growth as volumes as a whole are up nearly double digits over last year. The growth is really being driven by international intermodal volume as opposed to domestic intermodal. The intermodal contract savings rate has started to move back toward its long-term average, which could make intermodal more attractive later in the year.

The recovery from the Lunar New Year isn't quite as strong as many hoped, but twenty-foot equivalent unit volumes headed to the U.S. aren't signaling any red flags at the moment. Container ship line executives are predicting an earlier-than-normal peak season while imports into Mexico as a way to skirt tariffs is also becoming increasingly popular.

The collapse of the Francis Scott Key Bridge in Baltimore and the ramifications of that are yet to be fully understood, but the situation is fluid and could cause disruptions in the coming weeks.

Elsewhere, the macroeconomic outlook remains fuzzy as inflation metrics came in higher than expected, but Federal Reserve officials and analysts still expect three rate cuts in 2024.

Macro indicators	(y/y change)
Feb. industrial prod. change	+0.1% (-0.2%)
Feb. retail sales change	+0.6% (+1.5%)
Feb. U.S. Class 8 orders	25,700 (+11%)
Feb. U.S. trailer orders	20,500 (-21%)

Truckload indicators	(y/y change)
Tender rejection rate	3.48% (+1 bps)
Average dry van spot rate <sup>1</sup>	\$2.28/mi (-3%)
LAX to DAL spot rate <sup>2</sup>	\$2.09/mi (+6.1%)
CHI to ATL spot rate	\$2.54/mi (-0.4%)

Tender volumes	(y/y change)
Atlanta	384.22 (-7.32%)
Dallas	387.86 (+17.86%)
Los Angeles	252.25 (+9.46%)
Chicago	228.11 (+15.46%)

Tender rejections	(y/y change)
Atlanta	2.99% (+111 bps)
Dallas	3.25% (+68 bps)
Los Angeles	2.99% (+135 bps)
Chicago	2.2% (-70 bps)

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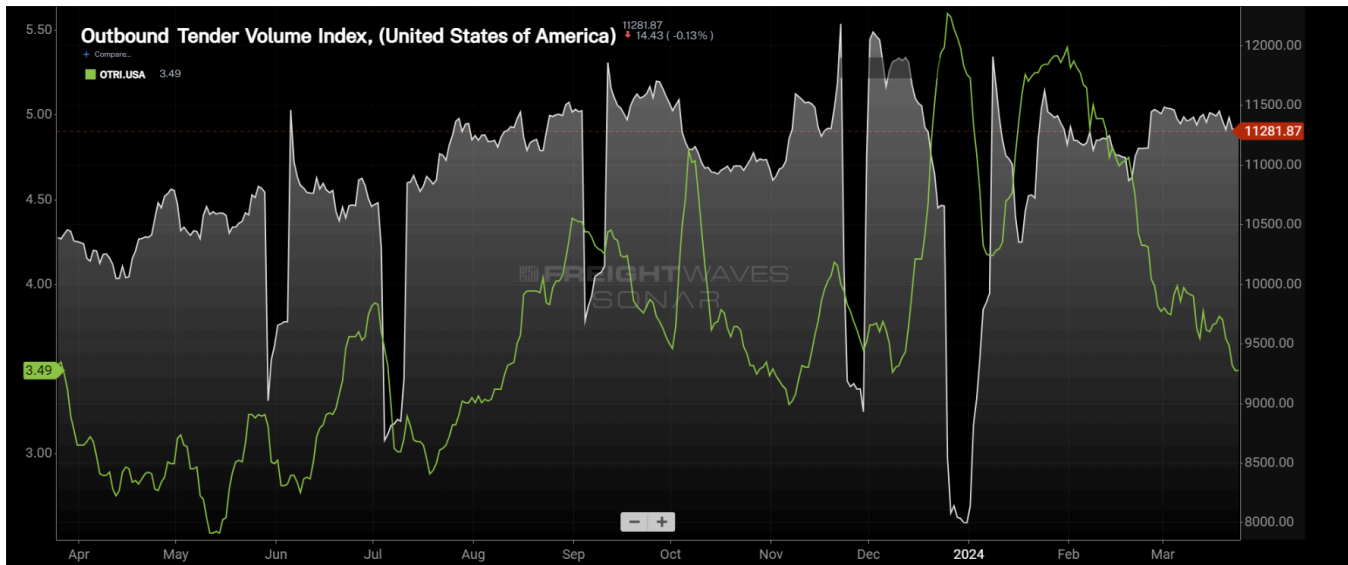
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<sup>1</sup> FreightWaves National Truckload Index  
<sup>2</sup> FreightWaves TRAC spot rate

## Truckload markets

February proved to be the correction period for the domestic truckload market as both spot and rejection rates spent most of the month in free fall. Falling demand was not the driving factor as capacity was recovering from winter weather that disrupted shipping networks for a few weeks in January and kept spot and rejection rates unusually high. March continued that trend with demand remaining fairly stable throughout the month, and tender rejection rates continued their decline.



Source: FreightWaves SONAR. Outbound Tender Volume Index (white, right axis) and Outbound Tender Reject Index (green, left axis).

The market has seen relatively strong first-quarter demand, though it hasn't necessarily been felt by all market participants given the abundance of capacity. In February, the Outbound Tender Volume Index (OTVI) outperformed last year's levels by nearly 10%. That trend continued into March, with OTVI outperforming last year's March average by 9.6%.

The significant pull forward in demand ahead of the Lunar New Year holiday has allowed for freight demand to remain rather stable throughout March as OTVI is up 1.25% m/m. As the calendar turns to April and the first quarter comes to a close, the trend to pay attention to is the direction OTVI goes in April. If OTVI breaks away from the seasonal decline it has experienced in the first half of April for each of the past four years, that sets up for the summer season to show continued volume growth.

Demand growth has been polarized this winter as long-haul (greater than 800 miles) and local (less than 100 miles) load volumes have grown the most at 15% and 25%, respectively. Regional demand has also been up, but much less so than the other two. Long-haul freight demand is associated with replenishment or middle-mile freight, while local moves are tied to high upstream and far downstream demand. Elevated levels of each of these supports longer-term resilience in the coming months.

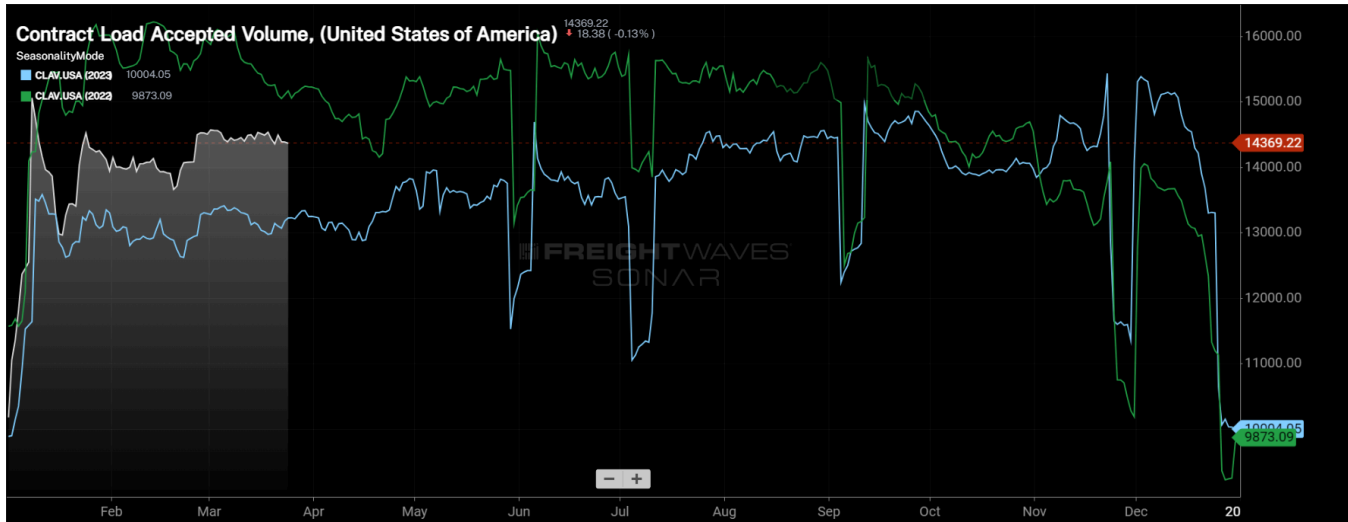


Chart: FreightWaves SONAR. Contract Load Accepted Volume: 2024 (white), 2023 (green) and 2022 (blue).

Since OTVI accounts for both accepted and rejected tenders, it doesn't necessarily display true freight volume levels because of the inclusion of rejected tenders.

Contract Load Accepted Volume (CLAV) is an index that measures accepted load volumes moving under contractual agreements; in short, it is similar to OTVI but without the rejected tenders. At present, accepted tenders are up 8.6% y/y. Over the past month, CLAV is up 2.2%, highlighting that demand, especially contract freight demand, has been relatively strong and stable throughout March.

**Net changes in trucking authorities turns positive at the end of Q1**

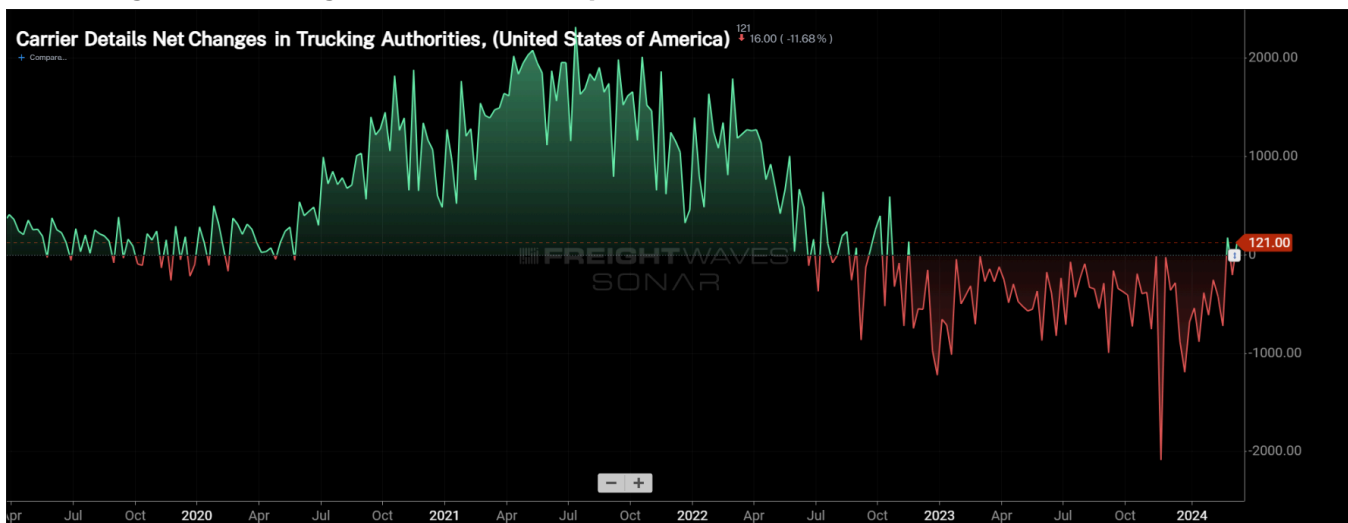


Chart: FreightWaves SONAR. Carrier Details Net Changes in Trucking Authorities

The most concerning trend from a transportation service provider perspective that materialized in early March was the shift in direction of operating authorities. Active operating authorities issued by the FMCSA for motor carriers of property were in free fall until the last week of February before

flattening through the first few weeks of March. Net authorities still dropped during this period, but the sharp directional shift may mean there is a pause on sharp numbers of exits.

Authorities are not a pure measure of capacity but are helpful in understanding the directional trends in capacity growth or deterioration. Authorities have hit “floors” intermittently during the course of this cycle but have resumed downward trends within a few weeks. Most signs point to this being unsustainable, but this may simply be more indicative of getting to the bottom of the weaker operators who entered within the past three years.

**Net revocations slow in Q1, still elevated compared to pre-pandemic**

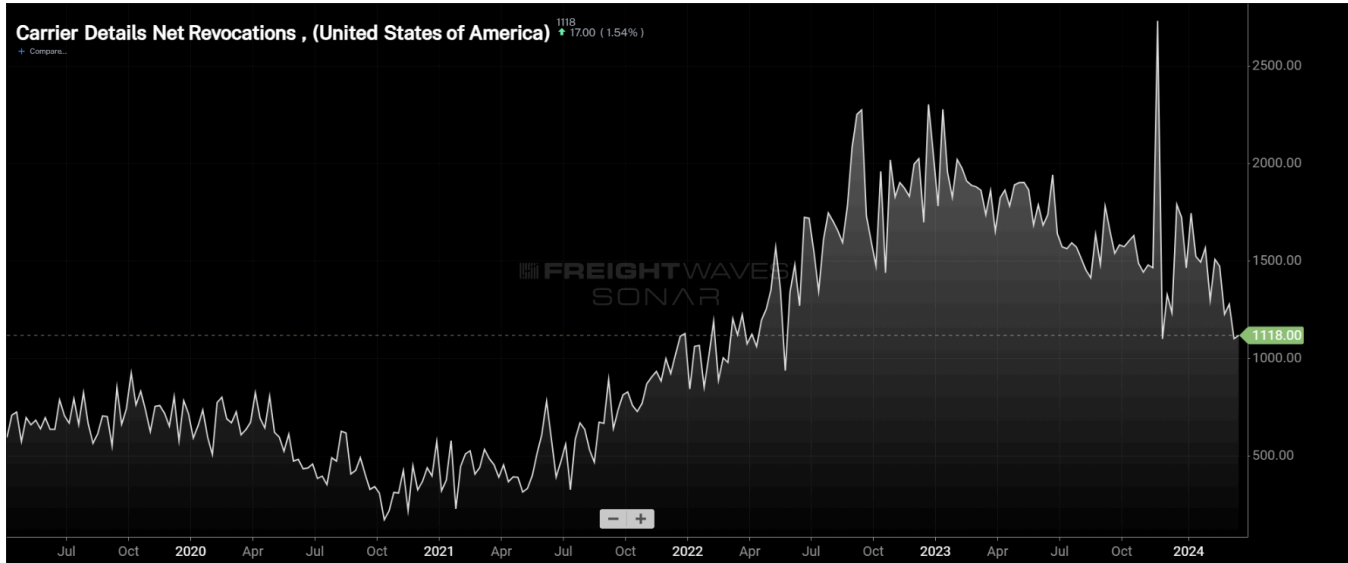
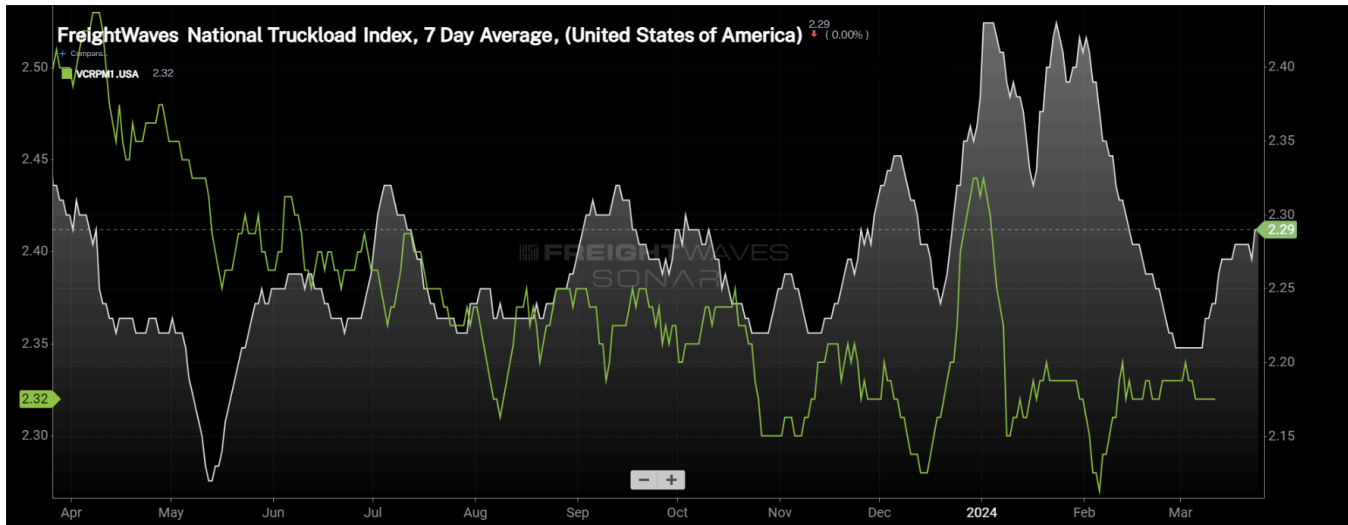


Chart: FreightWaves SONAR. Carrier Details Net Revocations

Looking into the details of the operating authorities, 61% of the exits since September have come from operators with less than three years of activity, with 26% coming from carriers with more than five years.

Regardless, if this trend persists, it could mean an extension of a softer transportation sourcing environment.

Spot rates suffer in February, propping exit door for excess capacity



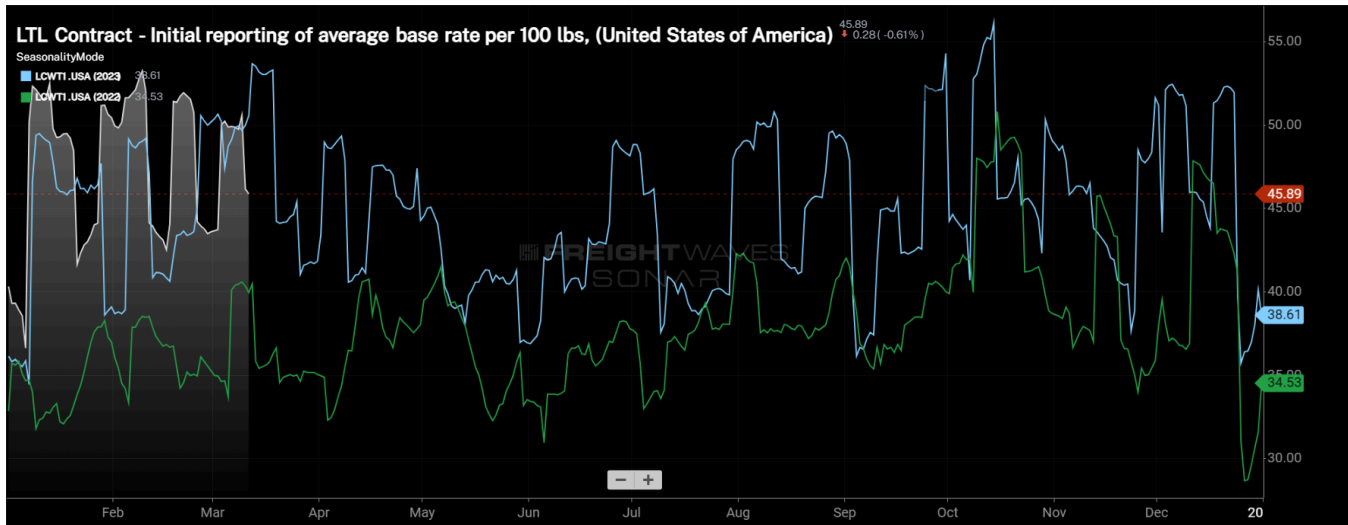
Source: FreightWaves SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

Truckload dry van spot rates fell through the entirety of February before slowly ticking higher through the first half of March. The declining spot rates were probably more of a correction to the normal after an overheated January. The spot market tends to be somewhat emotional and overreactive as well due to the nature of its participants.

The National Truckload Index (NTI) — a seven-day moving average of national dry van spot rates that is inclusive of fuel — is down 1.7% y/y at \$2.33 per mile as the positive momentum through March has narrowed the year-over-year gap significantly. Over the past month, the NTI has increased by 5 cents per mile, highlighting the positive momentum felt throughout March.

Contract rates, which are exclusive of fuel and other accessorials, remain remarkably stable as rate reductions are less in the spotlight with the market showing signs that a recovery is on the horizon. There is still the likelihood that contract rates will see some downward movement as a recent FreightWaves survey found expectations for contract rates to be down by mid-single digits y/y. At present, the initially reported dry van contract rate per mile stands at \$2.32, down 8.7% y/y but flat month over month.

**LTL carriers place bets on near-term growth**



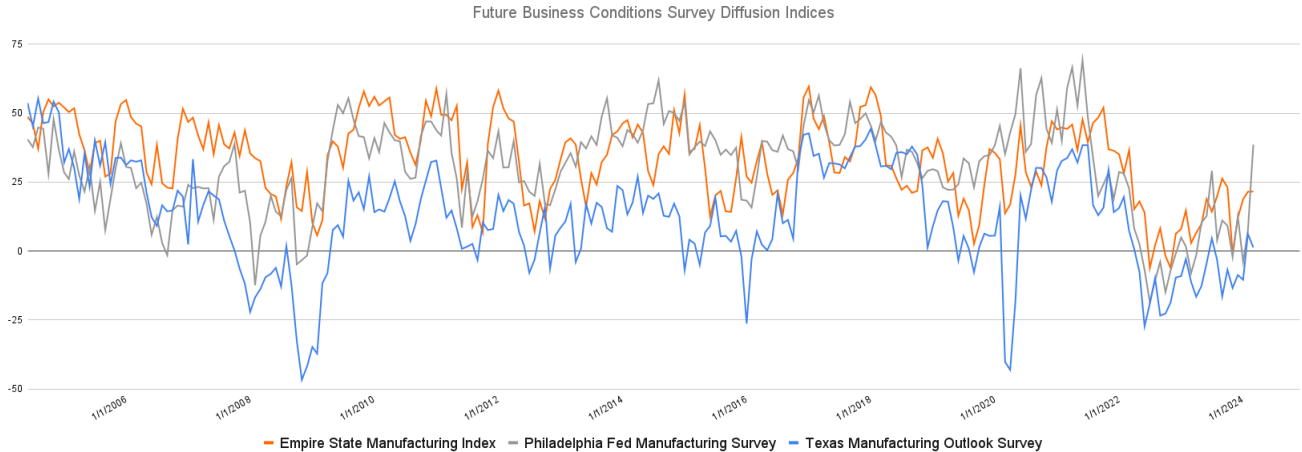
Source: FreightWaves SONAR. Initially reported LTL contract rate per hundredweight: 2024 (white), 2023 (blue) and 2022 (green).

LTL carriers that have provided midquarter updates highlighted that February was slightly better than January, in terms of total shipments and revenue metrics as revenue per hundredweight gained some positive momentum.

LTL carriers have been trying to push prices higher through general rate increases (GRIs) throughout the downcycle, and the elimination of one of the largest carriers has lent the GRIs some credibility. At the time of writing, the average LTL contract rate has risen \$1.75 per hundredweight over the past month, now sitting at \$45.89 per hundredweight.

**Macroeconomic conditions**

Throughout the start of 2024, business leaders across the country have been more optimistic about the next six months, in terms of business conditions. Inflation risks continue to pop up, but for the manufacturing sector, the hopes of lower interest rates throughout the year lead to optimism for future business conditions in the back half of the year.



While many firms believed that things were on the road to recovery, March proved to be more challenging than many initially expected. The result was March’s Empire State Manufacturing Index saw the Current Business Conditions Index drop by 18.5 points to a reading of minus 20.9. Forty-six percent of respondents to the survey reported that business conditions were worse than they were in February, compared to 34.8% who said February was worse than January. If there is a positive for freight as a whole, it is that inventory levels in the area continue to decline as the Current Inventories Index dropped by 3.3 points m/m to minus 12.9, the lowest level since 2020.

The future outlook for business conditions from the Empire State Manufacturing Index remained fairly stable as the forward-looking General Business Conditions Index rose just 0.1 m/m to 21.6. Respondents are expecting growth among new orders and shipments as both the Future New Orders Index, rising 1 point m/m, and the Future Shipments Index, rising 8.4 points m/m, increased. While the potential for lower interest rates is making firms more optimistic about the future, future capital expenditures expectations aren’t growing at an extremely fast rate. The forward-looking Capital Expenditures Index increased by 0.2 points m/m in March to 11.9 as only 25.7% of respondents expect higher capex in the next six months, down from 27.7% of respondents in the February survey.

Optimism abounds in the Philadelphia area where firms are as hopeful about the next six months as they have been in over two years. The current General Business Activity Index within the Manufacturing Business Outlook Survey, conducted by the Federal Reserve Bank of Philadelphia, dropped by 2 points m/m in March to 3.2. The forward-looking General Business Activity Index rose 30.8 points m/m to 38.6, the highest it has been since July 2021. Fifty percent of respondents expect that business activity will improve over the next six months.



The Federal Reserve Bank of Dallas releases the Texas Manufacturing Outlook Survey during the final week of the month, but like the other surveys, February brought cautious optimism for future business conditions. The survey's Future General Business Activity Index rose 16.6 points m/m to 6.2. This latest reading is considerably below the series' all-time average of 12.4. Only 12.2% of respondents expect conditions to worsen in the next six months, an improvement from the 22% in January's release.

Hiring trends have remained strong, though openings are dwindling. In February, the total number of payrolls increased by 275,000, well in excess of the 198,000 new jobs that analysts were expecting. With that said, the jobs report, like many government reports, is subject to revision, and the December and January revisions saw sizable reductions.

Health care hiring has continued at a feverish pace, adding 66,700 jobs during February. The hiring trends also hit the hospitality space, with food services and drinking places, better known as bars and restaurants, seeing payrolls increase by 41,600 in February.

The increases in the latter highlight the bifurcation in layoffs and where hiring is taking place. Most of the layoff announcements have occurred in white-collar jobs, especially in the tech industry, and the additional hiring at bars and restaurants highlights the fact that individuals are in need of a job to generate some level of income.

The transportation sector experienced fairly strong growth in the number of payrolls in February, but much of the growth was from the couriers and messengers subsector. The overall transportation sector of the economy added 19,700 jobs during February. The overall transportation sector of the economy has 6,511,400 payrolls, down 76,600 from the same period last year. The couriers and messengers subsector was the primary area of growth, adding 17,300 payrolls during the month.

### **Maritime: Lunar New Year, Red Sea impacts easing**

Maritime markets in early 2024 present a complex picture as the sector emerges from the Chinese Lunar New Year. As ocean carriers navigate post-holiday market conditions, spot rate trends and booking volumes are converging to provide a clearer picture of stabilization prospects in the coming months.

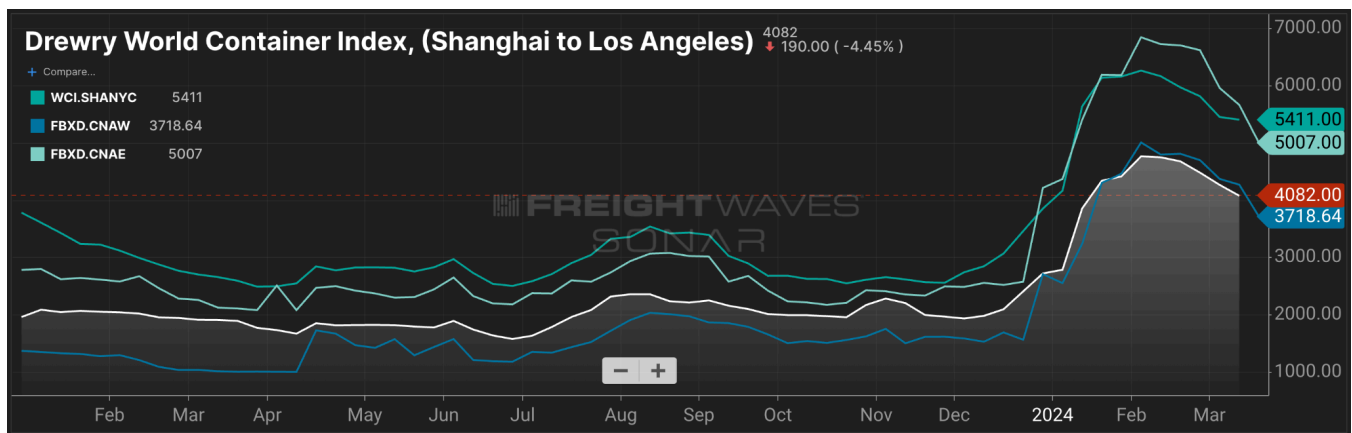
Additionally, a recalibration in spot rates across trans-Pacific trade lanes marks a significant cooling from the spikes influenced by geopolitical tensions in recent months, namely the Houthi rebel activities in the Red Sea. The recent downward trend in spot rates suggests a shift away from acute impacts of these disruptions, which in turn indicates that supply chains are adapting and the conflict is having a diminishing effect on freight rates.

U.S. container ports, the essential nodes of the maritime trade network, exhibit divergent patterns. While the Port of Los Angeles shows a notable decline in imports, Long Beach and other major ports reflect robustness with substantial upticks in import volumes. The yearly growth in maritime shipments aligns with a resilient trade structure capable of weathering the cycles of global commerce, including the pronounced dips and recoveries that are the hallmark of Lunar New Year.

Concurrently, while volumes look OK at the moment, the Ocean Booking Volume Index's sputtering indicates a threat to momentum. The sector is rebounding from the Lunar New Year shutdown, but it's not yet clear where volume levels will be once the rebound plateaus.

Moreover, the Ocean TEU Booking Lead Times Index, with slight variances in booking-to-departure durations, indicates a stable operational cadence. Simultaneously, the Ocean TEU Rejection Index's recent dip implies an improving alignment of demand with carrier capacity, which is critical for ensuring the smooth facilitation of global trade.

As maritime markets venture past the LNY period, the focal point shifts to how these indices will inform the adaptation strategies of carriers and shippers. The trajectory of spot rates, import volumes and booking metrics post-Lunar New Year will be pivotal in forecasting domestic freight transportation's direction for the remainder of the year. Inflows on the container front will surely play a pivotal role in the coming U.S. freight rebound.



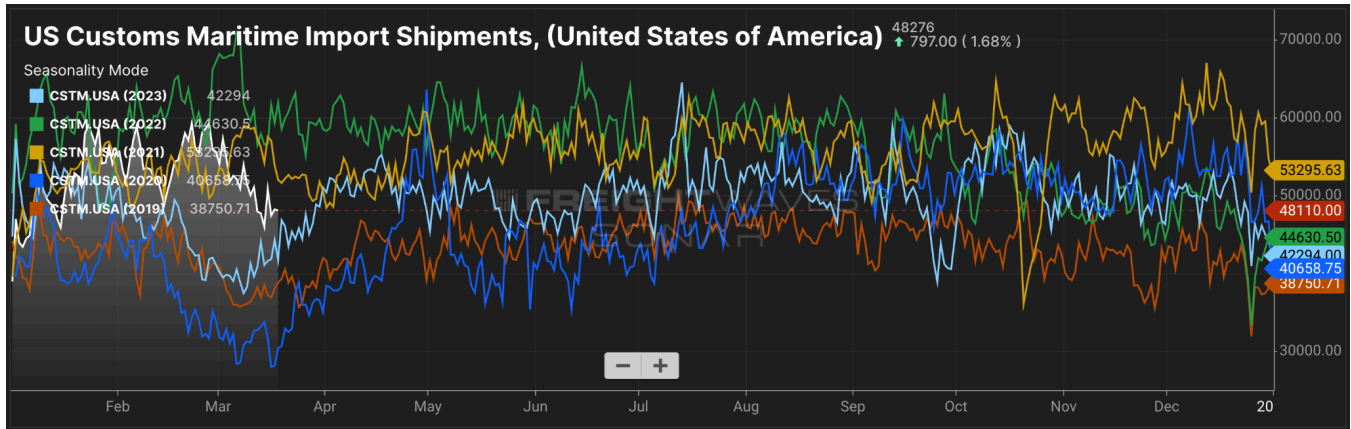
Source: FreightWaves SONAR — Container spot rates, YTD view: Drewry World Container Indexes: Shanghai to Los Angeles (white), Shanghai to New York (teal), Freightos Baltic Daily Index: China to North America west coast (dark blue) and China to North America east coast (light blue).

Container spot rates to the U.S. have moderated from last month's elevated figures, signaling a tempering of the pricing power carriers wielded amid recent geopolitical incidents. The latest readings from Freightos and Drewry indexes show a noteworthy calming across key trans-Pacific trade lanes.

Spot rates from Shanghai to New York City (WCI.SHANYC) and Shanghai to Los Angeles (WCI.SHALAX) registered m/m decreases of 11.73% and 14.06%, respectively. The broader indices, reflecting measures from China to the North American west coast (FBXD.CNAW) and east coast (FBXD.CNAE), also show downward adjustments of 22.53% and 25.27%, respectively, from the prior month.

This easing of rates, while significant m/m, should be contextualized within the larger y/y trends that have previously seen dramatic escalations. Notably, over the past year, each of these routes has experienced triple-digit percent rises.

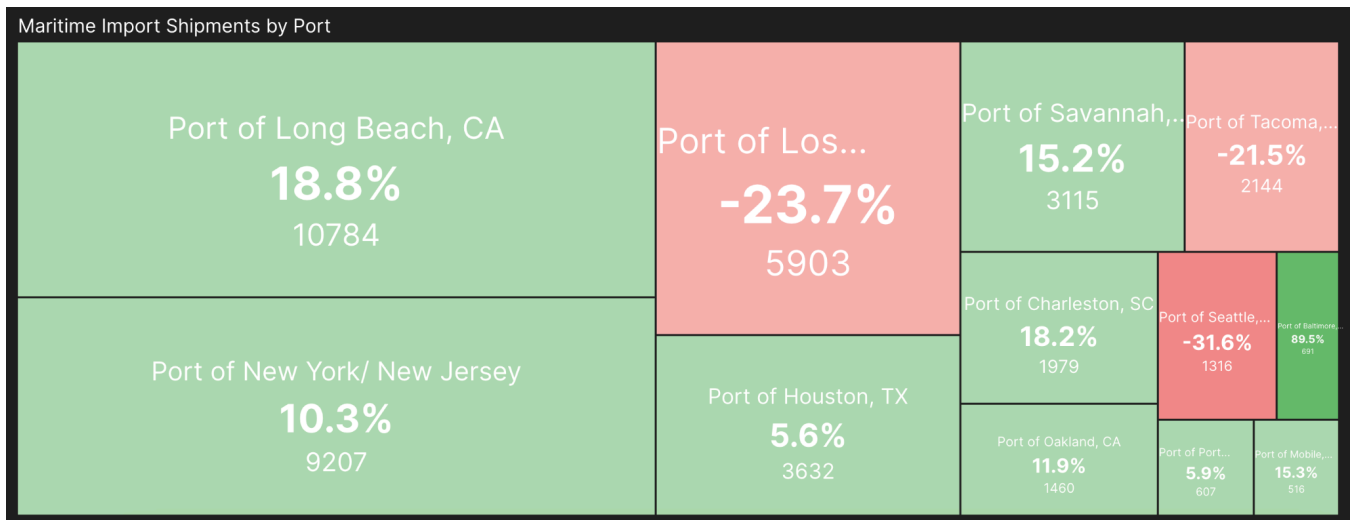
The decline in spot rates suggests that the maritime market is moving past the peak impact of the Houthi attacks in the Red Sea, and other geopolitical disruptions, on shipping logistics. The U.S., despite its relative insulation from these Red Sea reroutes, especially when compared to Europe, has not been immune to the resultant global trade shifts. The recent trends affirm the deep interconnectivity of international trade and the gradual adjustments of the ocean cargo sector.



Source: FreightWaves SONAR — U.S. Customs Maritime Import Shipments, both containerized and noncontainerized, five-year view.

In the latest reporting period, U.S. maritime import shipment volumes, as indexed by CSTM.USA, have contracted by approximately 15.3% m/m, largely as a result of the Chinese Lunar New Year.

However, contrasting with the monthly contraction, the y/y analysis paints a more positive picture, with an 8.36% increase in import shipment volumes compared to the same period last year. This annual growth gives evidence of a longer-term resilience in trade activity.



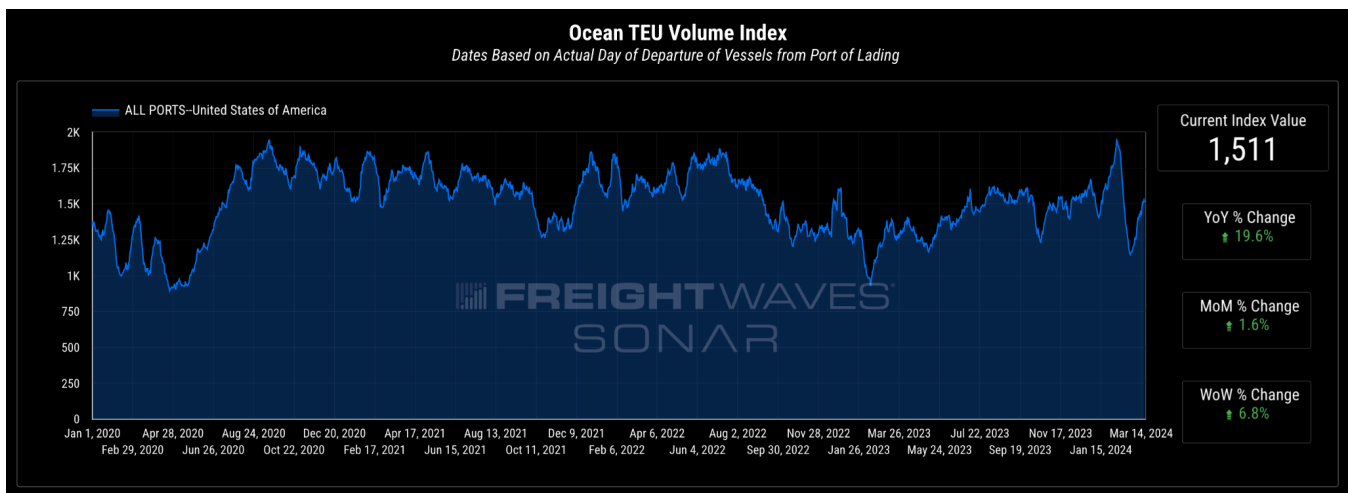
Source: FreightWaves SONAR. Maritime Import Shipments by Port — Tree Map.

The Port of Los Angeles experienced a decrease in maritime import shipments by 23.7% year over year, a significant shift from its previously reported increases. The Port of Long Beach, however,

shows a more positive trend with an 18.8% rise in imports compared to the previous year, indicating robust activity.

Among other notable changes, the Port of Savannah, Georgia, and the Port of Charleston, South Carolina, reported increases of 15.2% and 18.2%, respectively, suggesting an uptick in their handling capacities. On the other end of the spectrum, the Port of Seattle saw a considerable contraction in shipments by 31.6% year over year.

These figures reflect the variable and dynamic nature of port activities, influenced by a multitude of factors including market demands, operational adjustments and broader economic conditions. But the timing of LNY and the irregularity of reporting schedules can affect yearly comparisons, adding a layer of complexity to the interpretation of these data points.

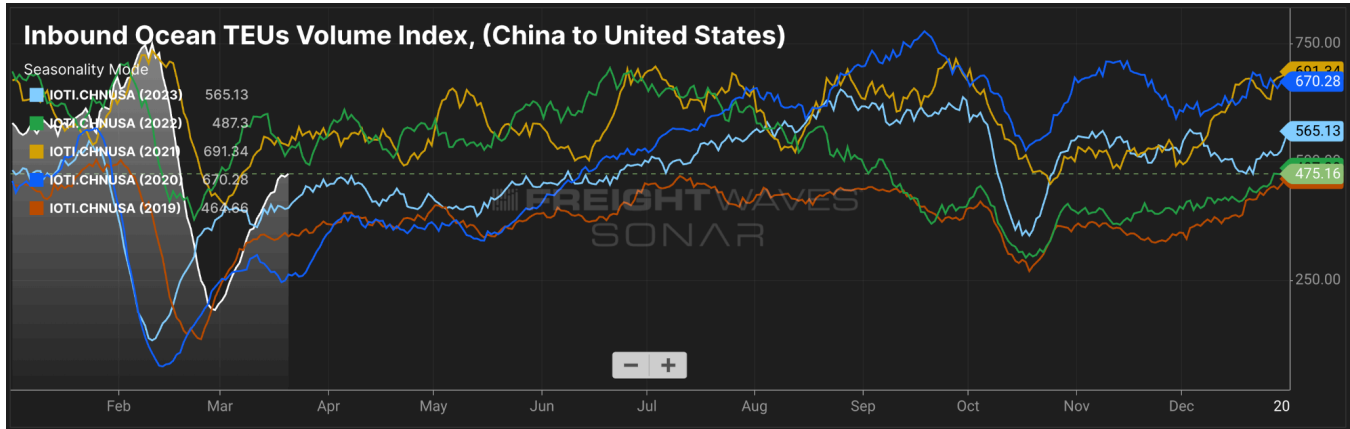


Source: FreightWaves Container Atlas. Ocean TEU Volume Index — all global ports to all U.S. ports.

The Ocean TEU Volume Index, gauging container trade from global ports to U.S. ports, has exhibited a notable y/y increase of 19.6%, highlighting sustained growth in maritime trade volume. The m/m data presents a modest increase of 1.6%.

This monthly rise reflects a steadying of trade volumes, likely benefiting from a resurgence in shipping activities as operations return to full swing following the LNY holiday. This increase is aligned with the industry’s expected cyclical patterns, which are typically marked by a lull during the LNY period followed by a steady revival.

The Ocean TEU Volume Index continues to serve as a key indicator of the robustness of maritime trade, with its significant y/y expansion underscoring the resilience and enduring importance of ocean freight in the global supply chain.

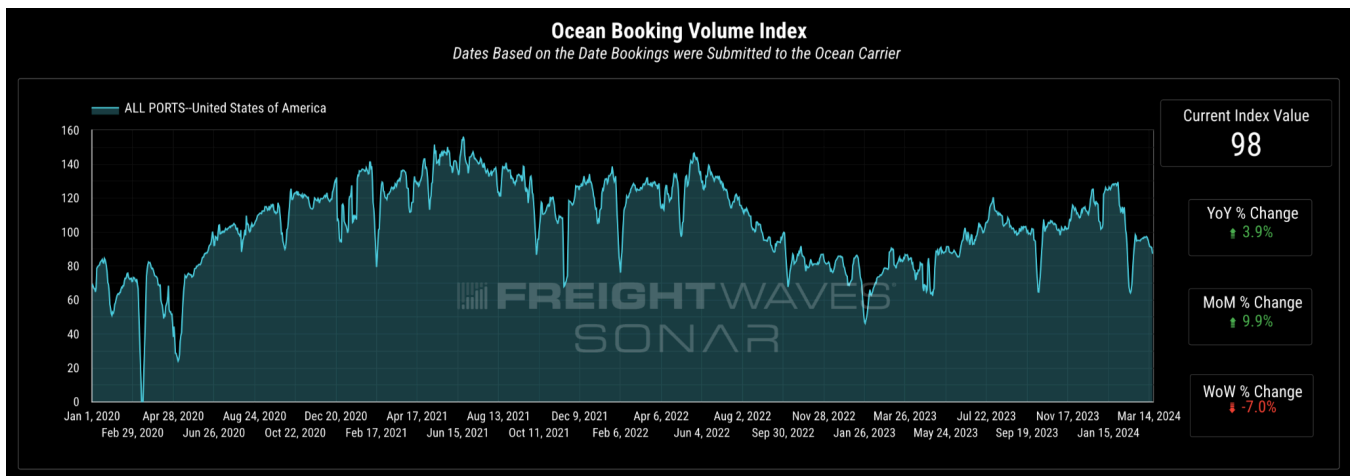


Source: FreightWaves SONAR, Inbound Ocean TEU Volume Index — China to U.S.: 2024 (white), 2023 (light blue), 2022 (green), 2021 (yellow), 2020 (darker blue) and 2019 (orange).

The Inbound Ocean TEU Volume Index from China to the United States (IOTI.CHNUSA) currently registers at 475.16. This measurement is a notable indicator of the trade activity rebound following LNY.

This year's index demonstrates a strong recovery from the lunar holiday's low point — a trough around 185 recorded in the closing days of February — showing a substantial resurgence of 156.84% in shipping activity as businesses resume operations and ramp up to meet demand.

Nevertheless, while the recent increase is a positive sign of revitalization, the current index value stands 36.65% lower than the pre-Lunar New Year peak, which reached around 750 on Feb. 10. The contrast between the current volume and the zenith of pre-holiday activity provides a look into the progress still required to return to the heightened levels of trade seen at the beginning of the year.

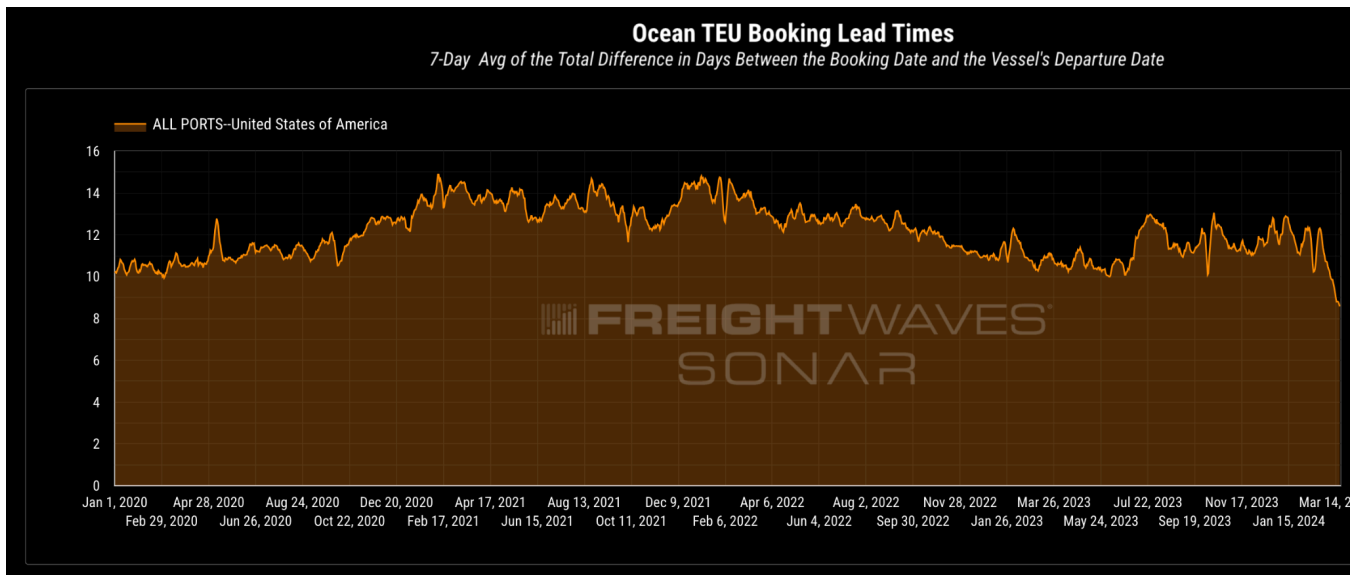


Source: FreightWaves Container Atlas. Ocean Booking Volume Index — all global ports to all U.S. ports.

Every year, LNY causes a sharp downturn in ocean cargo volume coming into the U.S. This drop shows up clearly even when looking at all countries of origin, because China is far and away our

largest export partner for containers. Once LNY celebrations have ended and Chinese manufacturing roars back to life, we see maritime imports bounce back. This year, however, the Container Atlas Ocean Booking Volume Index — which measures TEU volumes being booked with container lines — is showing some sluggishness. This is a more forward-looking measure than the Ocean TEU Volume Index or IOTI.USA because it tracks booking activity rather than confirmed estimated dates of departure.

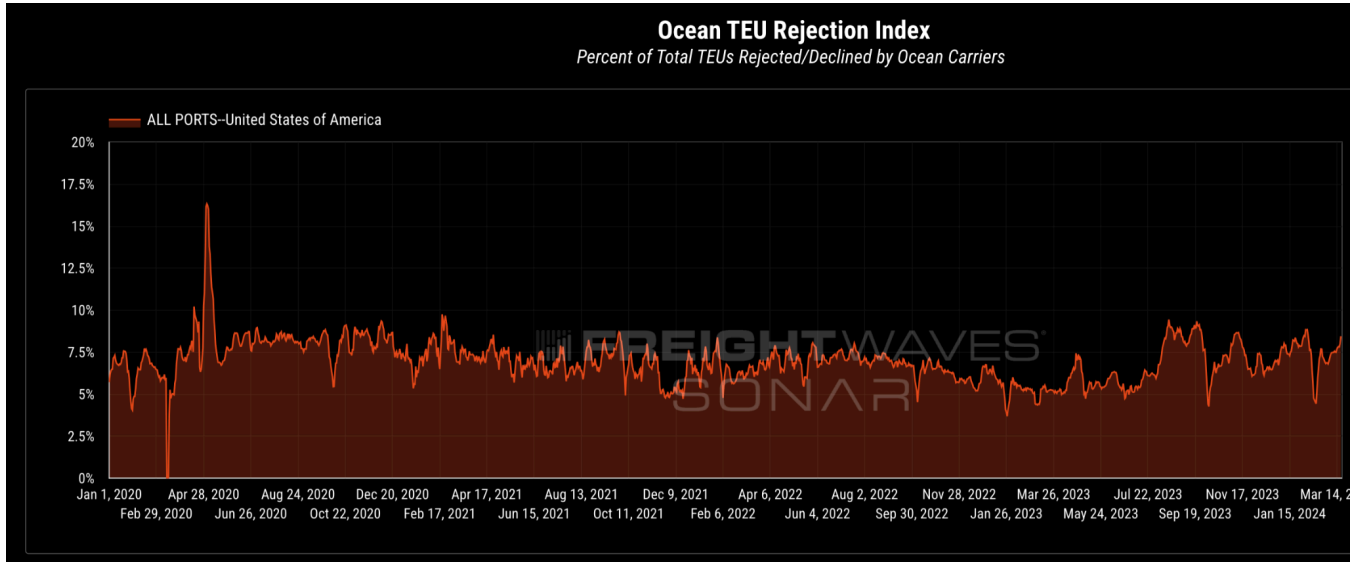
There are several reasons this could be happening, and it doesn't necessarily spell future weakness for domestic freight volumes. For one, recent reports [have noted a spike](#) in Chinese exports to Mexico, which could be due in part to an effort to skirt tariffs on some goods that are ultimately destined for the U.S. This freight would no longer show up in data that captures ocean cargo bound for U.S. ports. But there is also a chance that container line executives [like Hapag-Lloyd CEO Rolf Habben Jansen](#) are overly bullish on depleted global inventory levels and the strength of American consumption. If that is the case, the chance of a meaningful improvement in pricing power for logistics service providers in Q2 falls close to zero.



Source: FreightWaves Container Atlas. TEU booking lead times — all global ports to all U.S. ports.

The Ocean TEU Booking Lead Times Index offers insight into the duration between the placement of a booking and the departure of a vessel. As of March 2, the lead time is at 10.73 days, showing a minor increase from 10.45 days recorded on the same date in 2023 and a slight decrease from 11.49 days noted at the beginning of February 2024.

This slight uptick in lead times y/y could indicate an increase in demand or capacity constraints affecting the scheduling of shipments. Monitoring trends in the Ocean TEU Booking Lead Times Index is useful for understanding changes in the maritime industry's operational pace and efficiency. While the current figures suggest a relatively stable environment for shipping logistics, the small fluctuations underscore the dynamic nature, which must constantly adapt to both the cyclical patterns of global commerce and the evolving demands of the supply chain.



Source: FreightWaves Container Atlas. Ocean TEU Rejection Index — all global ports to all U.S. ports.

The Ocean TEU Rejection Index serves as an indicator of the rate at which ocean carriers decline cargo bookings. As of March 1, the Index stands at 6.87%, which marks a decrease from the previous month's figure of 8.37%. This reduction suggests an improvement in the balance between demand for shipping capacity and the availability of carrier space, potentially indicating a post-peak season adjustment or an enhancement in carrier operational efficiency.

Compared year over year, the current rate is notably higher than the 5.04% recorded on March 1, 2023. This elevation could reflect a tightening in the market, pointing to increased demand or possibly to more selective booking practices by carriers.

Such shifts in the Ocean TEU Rejection Index are significant for stakeholders, as they provide insights into carrier behavior and market capacity. An increase can signal more competition for space on vessels, emphasizing the need for shippers to plan ahead. The industry's agility in adjusting to these fluctuations is crucial in maintaining a fluid supply chain and mitigating the risk of cargo rollovers.

## Rail intermodal: Seasonal softness, strong annual gains

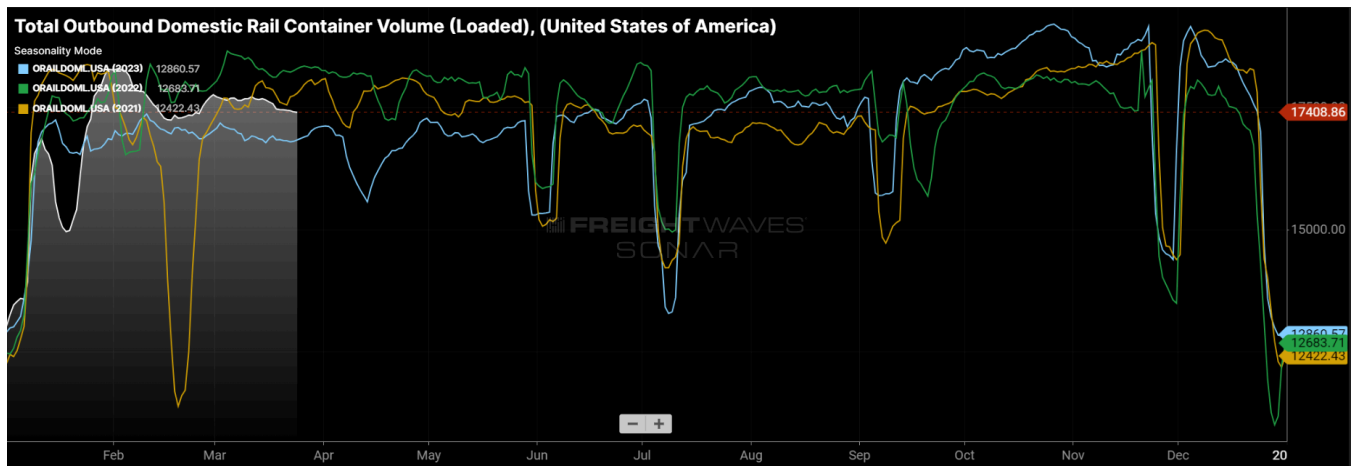


Chart: FreightWaves SONAR. Loaded domestic intermodal container volumes for 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

The intermodal market has shown some signs of near-term softness from a volume perspective, though volumes as a whole are much stronger than they were this time last year. Much of the decline in intermodal volumes since the beginning of March is seasonal, following trends established in each of the past two years.

The slowdown in the intermodal market is highlighted by the fact that total intermodal volume, which includes both domestic and international containers as well as loaded and empty containers, is down 1.2% over the past month. Even with the decline, total intermodal volume is up 12.7% y/y. Data published by the Association of American Railroads (AAR) shows containerized intermodal volume up a healthy 10.8% y/y since Jan. 1 and up 13.3% y/y the past four weeks.

While the growth on an annual basis is impressive, it doesn't tell the entire story.

Domestic loaded intermodal container volumes have actually grown by 0.1% over the past month, but since March 1, domestic loaded volumes are down nearly 2%. Even with the slight growth over the past month, the annual growth is much more modest, up 3% y/y.

The truth growth story over the past year has been the resurgence of loaded international intermodal volumes. Over the past year, loaded international intermodal volumes have grown by 17.2%, far exceeding the growth experienced by the loaded domestic intermodal market. Some of the growth can be attributed to containers not having to be turned nearly as quickly as they have been in the past, so container ship lines can have containers move inland as opposed to having to rely heavily on transloading. The growth in loaded international intermodal volumes did slow over the past month, falling 2.1% m/m, but the annual growth can't be overstated.

Empty container volumes have also been an area of growth, boosting overall intermodal volumes, though the segments are much smaller than the loaded segment. Empty domestic volumes have fallen by 2.9% over the past month, but compared to this time last year, domestic empty container



volumes are up over 40%. As in the loaded segment, international volume growth is leading the way with empty container volumes as well. Over the past month, empty international intermodal volumes are down 1.7% m/m, but over the past year those volumes are up 84.6%.

**Intermodal contract rates rebound, still down y/y**

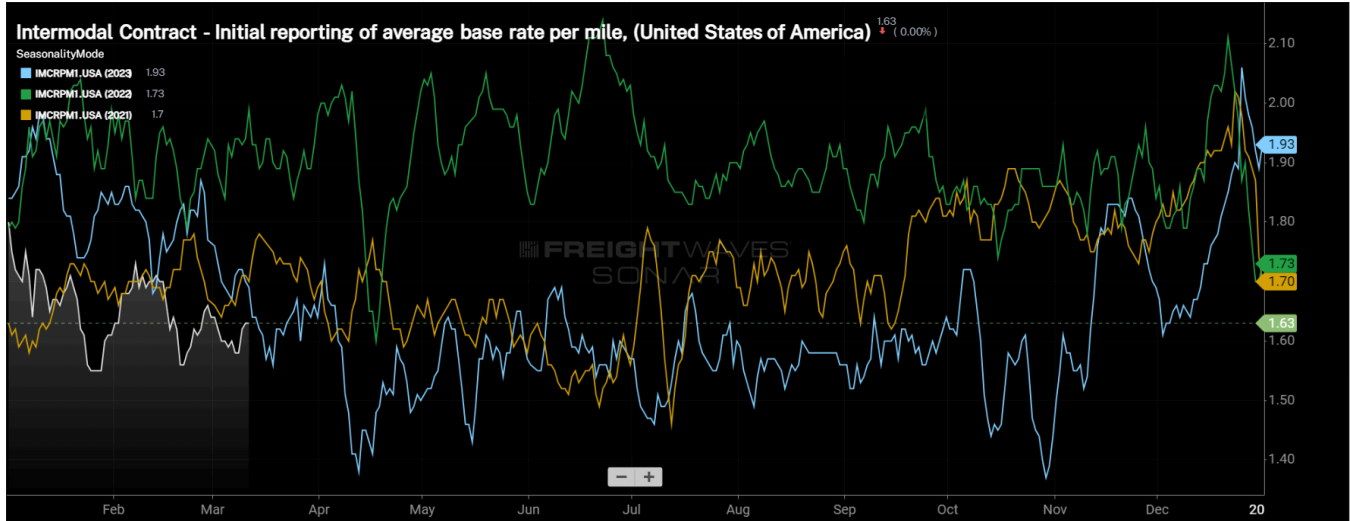


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

Average domestic intermodal contract rates, excluding fuel surcharges (shown above via the IMCRPM1.USA data set), continue to show steep declines year over year and on a two-year stack, although the year-ago comps get easier as the year progresses. Year to date, domestic intermodal contract rates are down 8.8% y/y and are 13.1% below 2022 levels. Those same rates are currently roughly in line with 2021 levels.

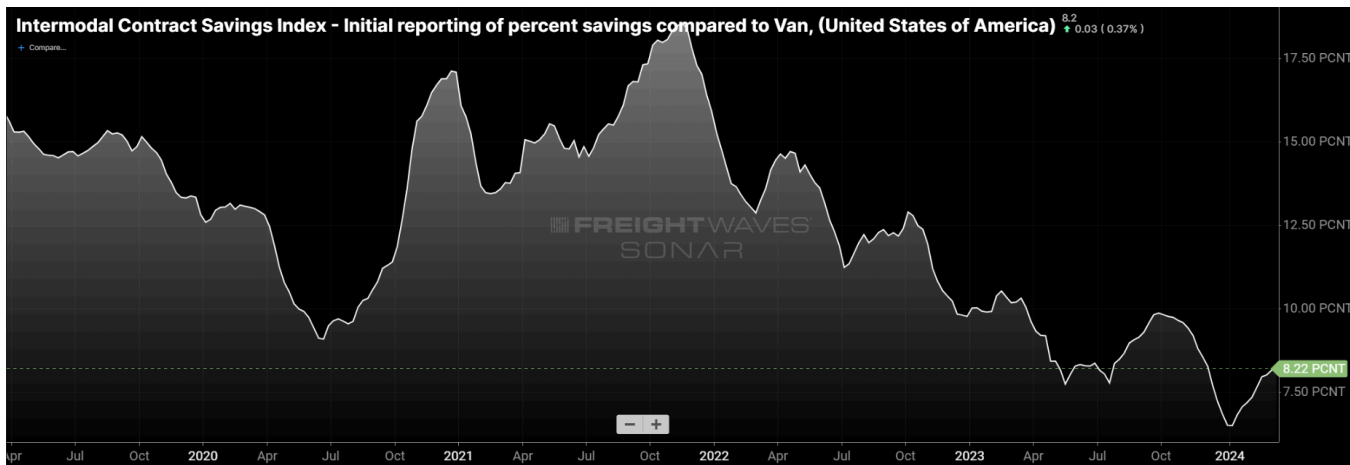


Chart: FreightWaves SONAR. Intermodal Contract Savings Index.

After bottoming out in the early weeks of 2024, the value proposition for intermodal is starting to recover as the Intermodal Contract Savings Index starts to move higher, though it is still well below its long-term average. The Intermodal Contract Savings Index is the percentage savings the initially

reported intermodal contract presents when compared to the initially reported dry van contract rate. Currently sitting at 8.22%, it has improved from the 7.66% in last month's report, an indication that intermodal pricing is attempting to become more competitive with truckload. The savings presented is still significantly lower than normal, creating pricing pressure.

While the vast majority of volume in the intermodal market runs under contract, comparing current intermodal spot rates in the densest lanes to year-ago levels is a way to gauge relative tightness in the market. We believe intermodal spot rates are still useful for assessing whether the Class I railroads are protecting capacity for contractual shippers, which happens when equipment or capacity on trains becomes scarce.

The national average intermodal spot rate, which is an average of the intermodal spot rate in 100 lanes, suggests that carriers are generally not concerned with securing capacity for contractual shippers. The average door-to-door intermodal spot rate to move 53-foot containers is just \$1.69 a mile currently, down from \$1.79 at this time last year.

The Chicago-to-El Paso, Texas, lane is a notable exception. There, the current intermodal spot rate is \$3.43 a mile, including fuel surcharges, up from \$2.75 one year ago. The intermodal spot rate along this lane is higher than both the dry van contract and spot rate, according to the FreightWaves Trusted Rate Assessment Consortium. That's an indication that the rails are protecting capacity for contracted customers along this lane.

Across the other densest intermodal lanes, spot rates did find some upward movement over the past month. The lone exceptions to the upward movement in intermodal spot rates over the past month are the major backhaul lanes of Chicago to Atlanta, which dropped 17.9% m/m, and Dallas to Los Angeles, which fell by 2% m/m. Compared to this time last year, many of the spot rates along the densest intermodal lanes are still negative, but there has been some improvement out of Los Angeles and Chicago.

**Intermodal spot rates see boost m/m, still down y/y**

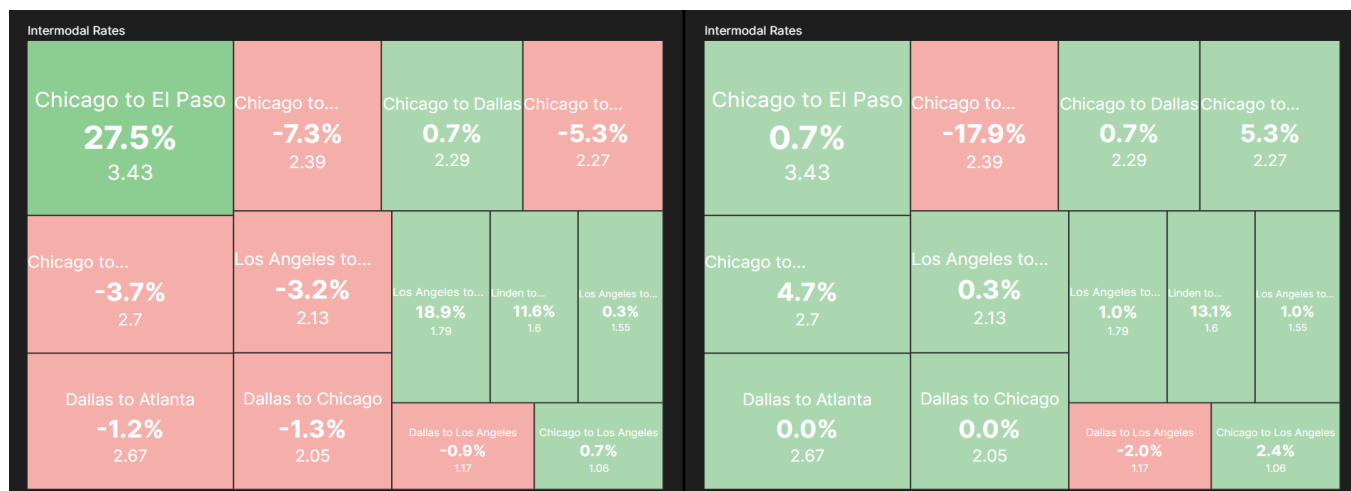


Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

Intermodal tender rejections offer a way to gauge service disruptions as carriers often operate on “auto-accept,” especially when contract rates are competitive with spot rates. The current national intermodal rejection rate stands at 0.77%, with very limited signs of disruption as rejection rates out of Los Angeles currently stand at 2.16%.

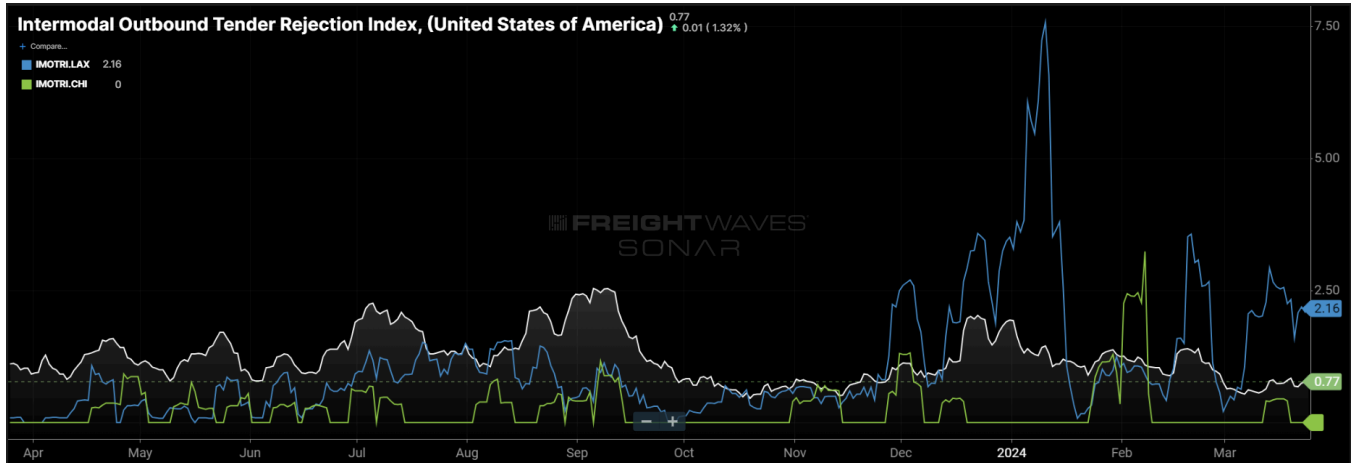


Chart: FreightWaves SONAR. Domestic intermodal tender rejection rates for national (white), outbound Los Angeles (blue) and Chicago (green) loads.

**What else we’re watching**

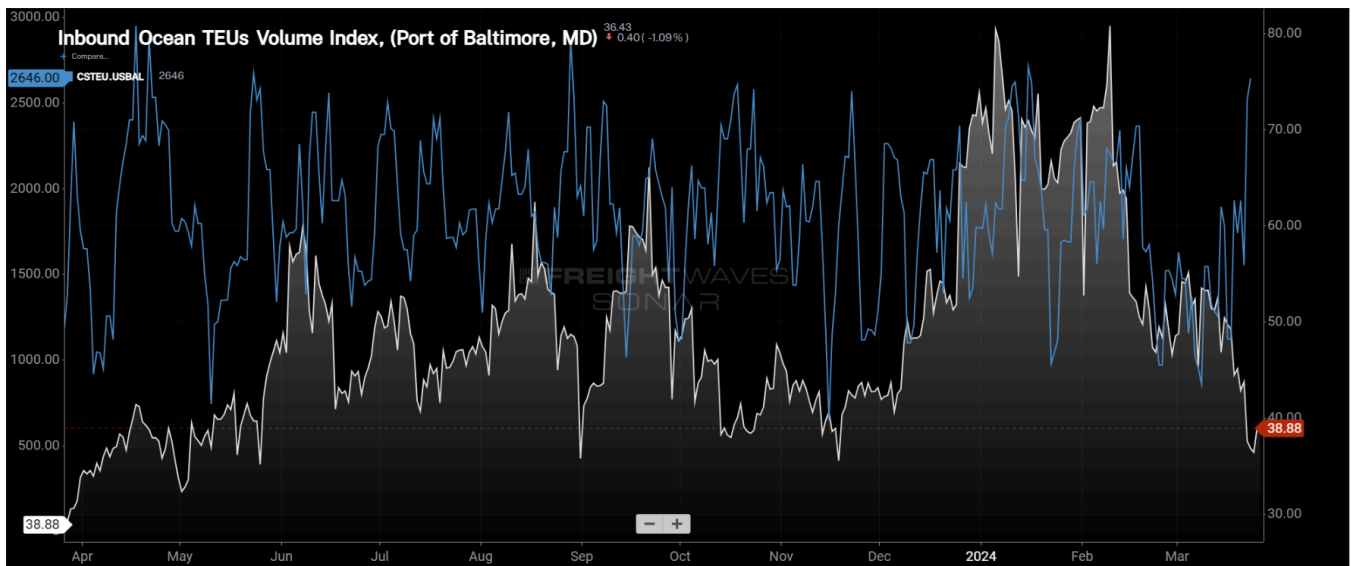


Chart: FreightWaves SONAR. Inbound Ocean TEU Volumes for the Port of Baltimore (white, right axis) and U.S. Customs Maritime Import TEUs for the Port of Baltimore.

On the morning of March 26, a container ship hit the Francis Scott Key Bridge in Baltimore, causing a large section of the bridge to collapse. This effectively halted port operations due to surface transportation providers being unable to access the port. This is likely to cause a short-term disruption to East Coast ports as a whole, as it’s unclear when the port will resume operations.

Ocean carriers will divert vessels that were scheduled to call the Port of Baltimore, shifting container volumes to some of the other major East Coast ports, which will likely be able to handle the influx. Given that there is excess capacity across the country, the initial read is that the market should be able to absorb the excess freight, though there could still be short-term disruptions across the board.

Why is the disruption likely not to be as large overall as it would be if the same situation happened at other ports?

The Port of Baltimore is the 12th-largest port in the country in terms of imported TEUs, according to FreightWaves SONAR's Container Atlas application. The Baltimore trucking market is the 24th-largest market in terms of outbound tender market share, with 1.24% of total outbound tenders in the country. The outbound freight leaving the Baltimore market is very regional, with 36% of tenders not leaving Maryland, 22% moving into Pennsylvania and 15% moving into Virginia.

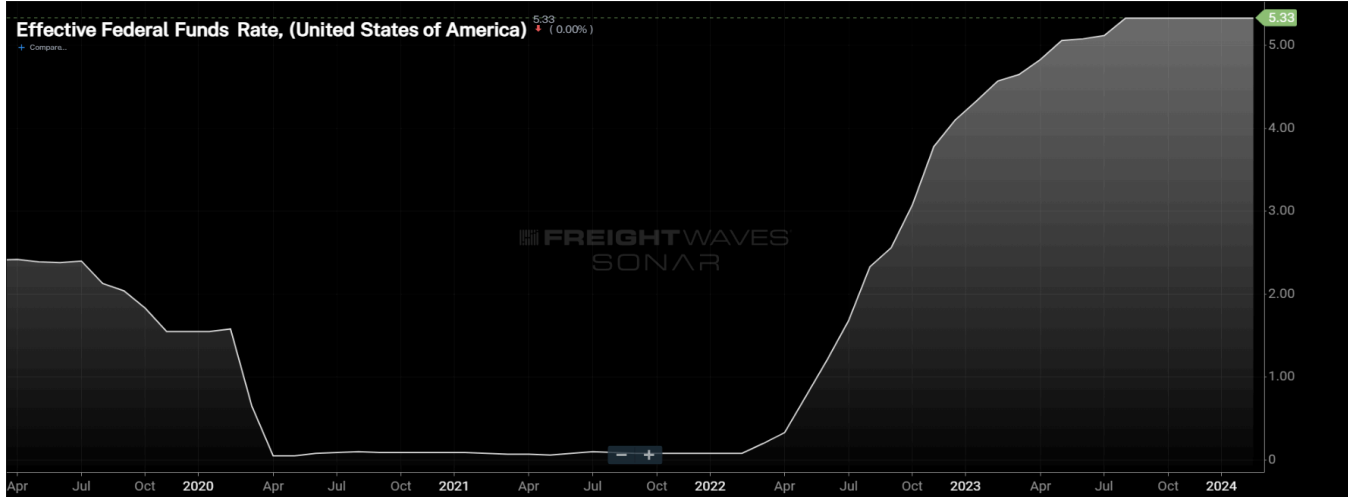
What does make Baltimore different from other large ports, especially on the East Coast, is the exposure to the automotive industry. The Port of Baltimore is the largest automotive port in the country, handling 847,158 autos and light trucks in 2023. This was the most of any U.S. port — a position Baltimore has held for 13 straight years, according to the Maryland State Archives.

This exposure could create some level of disruption around the port and potential rail activity, specifically automotive rail carloadings. The intermodal market in Baltimore is likely to face little to no disruption for a few reasons. Again, most of the freight is regional and thus not appropriate for intermodal moves. Additionally, the market is very small: less than 1% of total intermodal volume due to height restrictions for the Howard Street Tunnel.

To be sure, this is a fluid situation that will evolve over the coming weeks and months. There will be some level of disruption, but it's not clear how significant that will be.

Elsewhere, the Federal Reserve continued its "wait and see" approach around adjusting the federal funds rate at the Federal Open Market Committee's most recent meeting. The decision was to hold the target range for the federal funds rate stable for the fifth consecutive meeting, unsurprisingly after an uptick in inflation and unemployment during February. The continued pause pushes expectations for rate cuts later in the year, as analysts continue to expect three interest rate cuts throughout 2024, with the next possibility for an announcement coming on May 1.

American consumers continue to face elevated levels of inflation, above the Federal Reserve's long-term target of 2%, but in recent months prices have been rising faster m/m after a sharp slowdown in price increases.

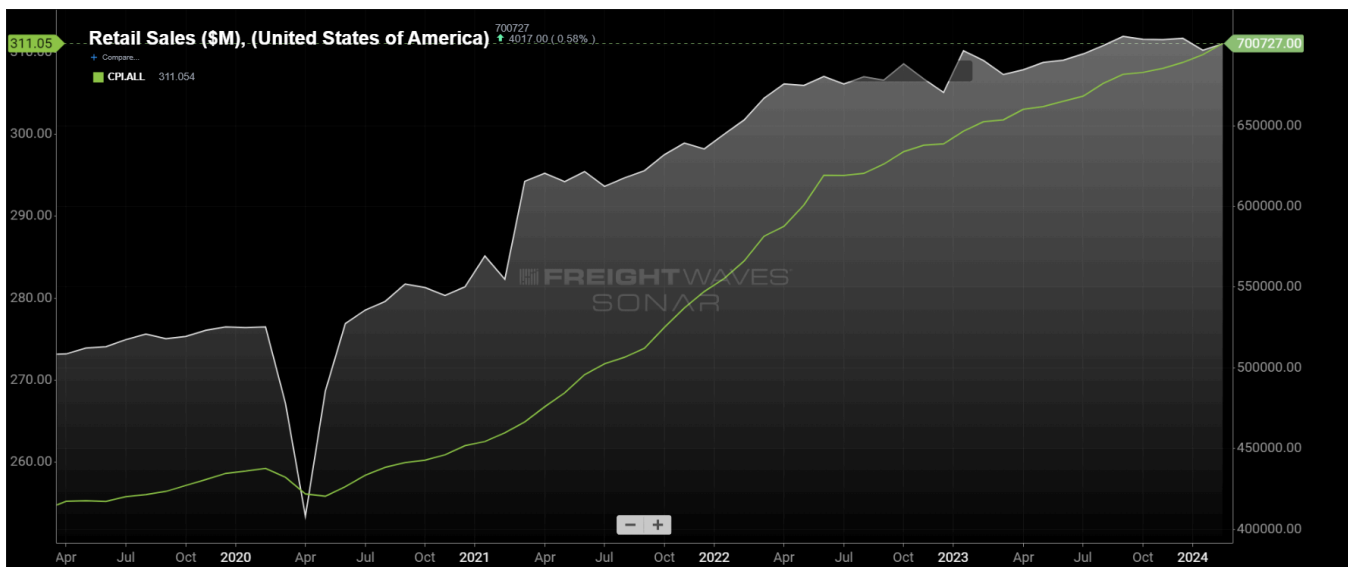


Source: FreightWaves SONAR. Effective federal funds rate.

The Consumer Price Index, one of the widely used gauges for inflation, though not the Federal Reserve’s preferred method, continued to increase in February. The CPI rose by 0.4% m/m in February. The increase was in line with what analysts were expecting, but it was the largest m/m increase in the CPI since September. The 12-month running total for the CPI came in at 3.2%, up from 3.1% in January.

Core inflation, which is the CPI but minus food and energy prices due to the volatile nature of pricing, matched the overall index, rising 0.4% m/m. Core inflation was up 3.8% y/y. Both metrics were higher than what analysts were expecting.

Energy prices were a primary driver of the increase in the headline CPI figure, rising 2.3% m/m, the largest monthly increase since August. Shelter prices continue to be a thorn in the side of core inflation, rising by 0.4% m/m in February, up 5.7% y/y.



Source: FreightWaves SONAR. Consumer Price Index (green, left axis) versus retail sales (white, right axis).

Consumer spending bounced back from the slowdown in January but fell short of expectations. Total retail sales increased by 0.6% m/m in February, outpacing the increase in pricing. Total retail sales were up 1.5% y/y and when adjusted for inflation are negative on a y/y basis, indicating some level of pullback by consumers.

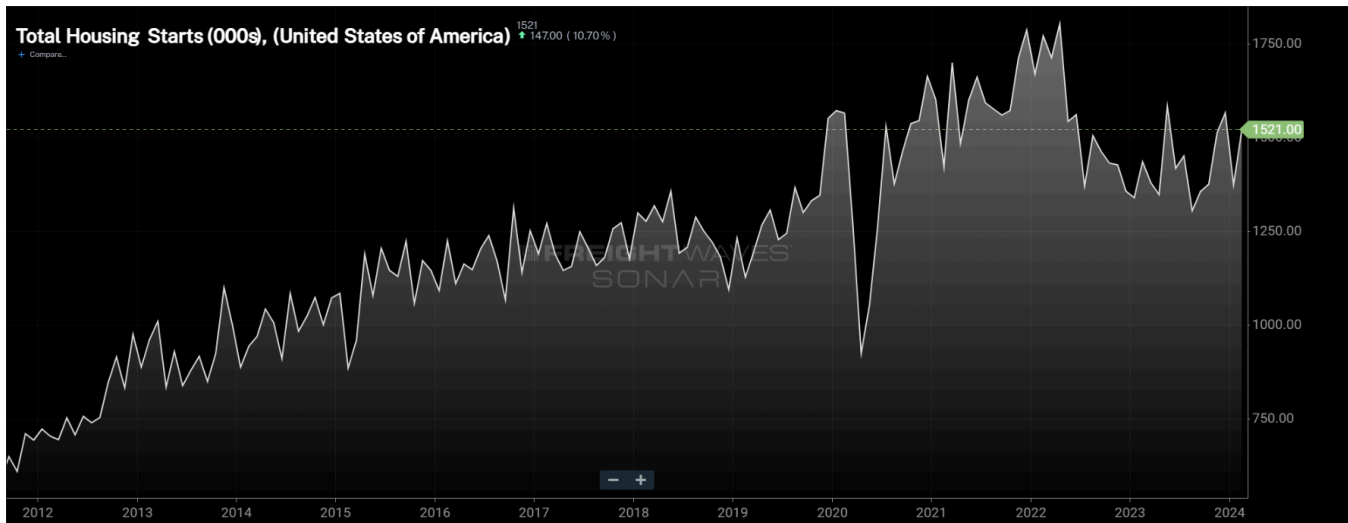
Discretionary spending continues to be impacted by slowing spending trends, with apparel, furniture and nonstore retailer sales all dropping m/m. Furniture sales dipped by 1.1% m/m in February, down over 10% y/y. Clothing stores were down 0.5% m/m, and nonstore retailers saw sales slip by 0.1% m/m.

Consumers have turned to credit as a way to fund their purchasing behaviors, with outstanding revolving credit continuing to rise. Total outstanding revolving credit increased by 0.6% m/m in January, totaling \$1.328 trillion.

With the Fed not raising interest rates again, mortgage rates have slowly been trending back down closer to the federal funds rate. Per Freddie Mac, the average 30-year fixed rate mortgage currently stands at 6.6%, down 35 basis points from the previous month but 45 basis points higher than it was this time last year.

Despite increases in mortgage rates throughout February, Fannie Mae’s Home Purchase Sentiment Index (HPSI) rose another 2.1 points m/m to 72.8. The increase was slower than that of the previous two months but brought the overall index to the highest level since March 2022.

Doug Duncan, Fannie Mae’s senior vice president and chief economist, stated in the March 7 release of the HPSI, “If their [consumers’] expectations come true and rates move closer to the 6-percent mark by the end of 2024, as we currently expect, then it’s likely that consumer sentiment on both sides of the transaction will improve, perhaps leading to a further thawing of the housing market.”



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

After softness in housing arrived in January, likely aided by winter weather that swept the nation, housing, especially housing starts and permits, was a bright spot in February. Total housing starts increased by 10.7% m/m in February to a seasonally adjusted annual rate (SAAR) of 1,572,000. The increase in overall housing starts brings the SAAR to the third-highest level of the past year, just short of May and December. Total housing starts in February were up 5.9% y/y.

The increases in housing starts were widespread as both single-family and multifamily starts were higher m/m.

Single-family housing starts rose by 11.6% m/m in February, up more than 35% from February of last year. With the increase in single-family starts in February, the SAAR reached the highest level in the past year, a positive for future demand. Multifamily housing starts were up 8.6% m/m but are still down 35.9% compared to the same period last year.

The growth in housing starts stemmed solely from two regions: the South and Midwest. Total housing starts in the Midwest increased by 50.7% m/m, inflecting positively y/y, now up 8% y/y. Single-family starts in the Midwest were up 40.2% m/m in February and over 80% y/y. In the South, total housing starts increased by 15.7% m/m.

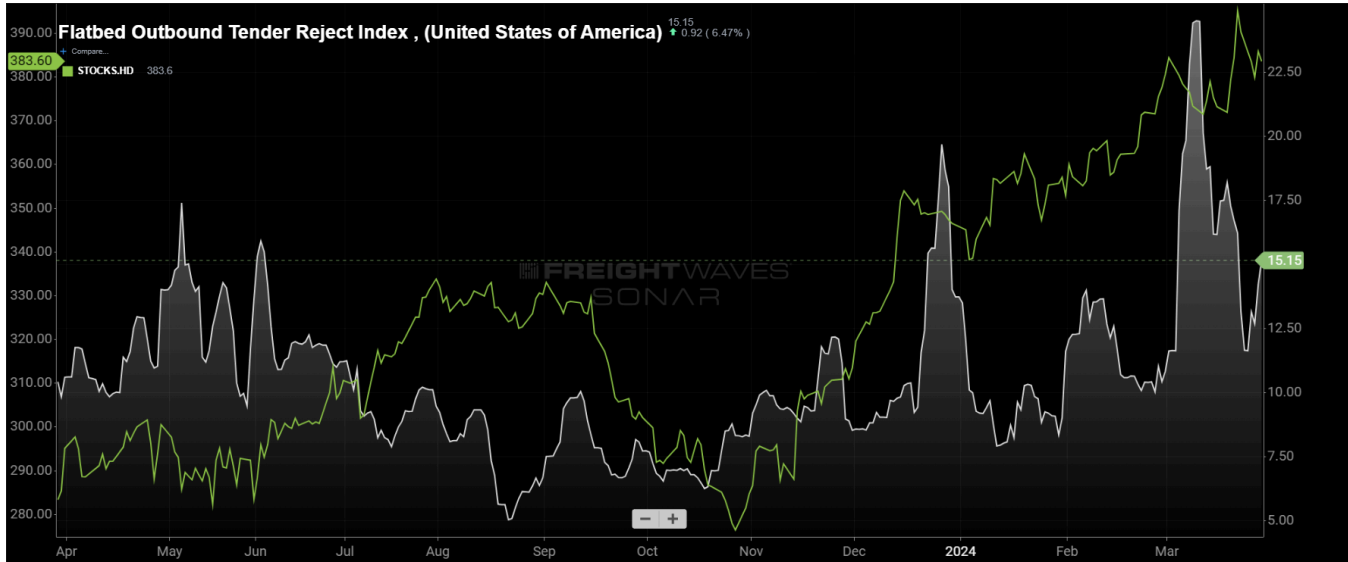
The industrial sector of the economy, which includes housing, isn't all positive, however. The Institute for Supply Management's Manufacturing Purchasing Managers' Index (PMI) highlighted challenges that the manufacturing sector continues to face. The PMI came in at 47.8% in February. This is a slowdown from January's reading of 49.1%, an indication that the manufacturing sector is still under pressure.

New orders retreated into contraction territory once again, falling to 49.2% after expanding in January, an indication of persistent headwinds for future demand. While new orders contracted during the month, backlogs continued to contract though production was also in contraction during February. The Backlog of Orders Index came in at 46.3%.

The Customers' Inventories Index remained in the "too low" category in February. 19.4% of respondents reported inventory levels that were too low, down from January's release in which 22.9% reported inventory levels that were too low.

The Dow Jones Industrial Average (DJIA) is closing the first quarter of 2024 with the strongest first quarter since 2021, posting a year-to-date gain of 5.55%. The DJIA is a price-weighted average of 30 of the largest companies in the world, from industries ranging from industrials, like machinery and oil and gas, to consumer goods and financial services.

The all-time high creates an allure that a recovery in industrials is underway, but looking underneath the hood, trends pulling the index higher are those exposed to consumer conditions. The Walt Disney Co., which represents 2% of the overall DJIA, has seen stock price increases of over 34% since the beginning of the year, the largest YTD increase of the 30 companies in the index.



Source: FreightWaves SONAR. Flatbed Outbound Tender Reject (white, right axis) and Home Depot stock price (green, left axis)

There were a few industrial companies that saw increases in the DJIA: Caterpillar, Home Depot, Chevron and Dow Chemical. Caterpillar, which represents 6% of the overall index, experienced the second-largest YTD gains in stock price, rising 25.19%. Home Depot, which recently announced an acquisition of SRS Distribution to lean more into building materials, saw its stock price grow by 11.16% YTD. It also makes up over 6% of the overall index. Chevron and Dow both underperformed the overall index with YTD gains of 5.53% and 4.7%, respectively.

The stock market trends to be a forward-looking indicator as investors effectively make bets on how the next few quarters will turn out. With the gains in the industrials, specifically the two companies listed above, investors are expecting growth in the sector. This growth is fueled by a couple of different components, but arguably the largest impact is the expectation that interest rates will be cut throughout the later stages of 2024 and into 2025.

The Flatbed Outbound Tender Reject Index, a measure of flatbed activity, has increased throughout the first quarter. This growth shows that activity in the industrial space, especially housing, is starting to gain momentum heading into the warmer months. If the Federal Reserve does in fact cut interest rates through the year, it will lead to increased capital expenditures, which favors the industrial sector. Combining the potential for interest rate cuts with the infrastructure spending bill that is still flowing into the economy, the groundwork is laid for industrial-exposed sectors to have a fairly healthy year.

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