

AUGUST
2024

STATE OF THE INDUSTRY

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SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

Peak season freight headed to US shores

July 25, 2024 | 9 a.m. EDT

Overview

The Fourth of July holiday revealed signs of fragility in the truckload market. Tender rejection rates continue to track similarly to 2019 levels, indicating that if the exodus of capacity continues, 2025 will be a tighter freight environment. Pricing remains a challenge as spot rates are retreating from recent highs. The LTL market isn't facing the same pricing challenges as the truckload market, as intermodal contract rates are increasing in line with what publicly traded LTL carriers are announcing in Q2 earnings.

The intermodal market stands to gain some momentum from the volume side in the coming months as ocean volumes remain strong. The challenge in the intermodal market at the moment is pricing. The percentage savings that intermodal offers to truckload is the smallest it has been in quite some time, especially on movements shorter than 1,200 miles.

Ocean volumes remain healthy heading into the traditional peak season. Ocean spot rates have continued to increase on a monthly basis, but rates to the East Coast have moved off their recent highs. The risks of tariffs could create a sizable pull forward in freight, which could hold demand at elevated levels into Q4.

Eyes are now on the Federal Reserve and the impending decision about interest rate cuts in September. Inflation data for the past three months has been positive, including a deflationary reading in June, while unemployment has been ticking up slightly, though still historically low. Consumers continue to spend, and an interest rate cut would accelerate that trend while also boosting industries like housing.

Macro indicators	(y/y change)
June industrial prod. change	+0.6% (+1.6%)
June retail sales change	Unch. (+2.3%)
June U.S. Class 8 orders	13,100 (-6%)
June U.S. trailer orders	4,800 (+44%)

Truckload indicators	(y/y change)
Tender rejection rate	4.64% (+147 bps)
Average dry van spot rate ¹	\$2.31/mi (+3.6%)
LAX to DAL spot rate ²	\$2.28/mi (+3.2%)
CHI to ATL spot rate	\$2.36/mi (+3.1%)

Tender volumes	(y/y change)
Atlanta	385.19 (-10.41%)
Dallas	351.4 (-4.7%)
Los Angeles	317.16 (+10.79%)
Chicago	219.48 (+0.94%)

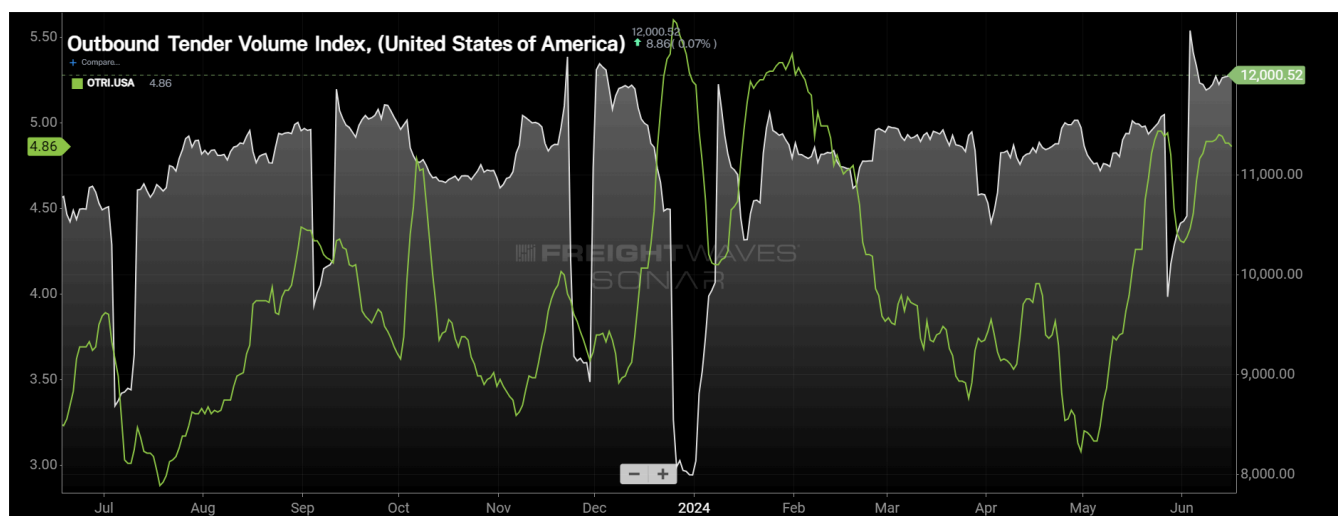
Tender rejections	(y/y change)
Atlanta	5.56% (+214 bps)
Dallas	5.01% (+160 bps)
Los Angeles	5.99% (+186 bps)
Chicago	3.44% (+147 bps)

Tony Mulvey
Senior Analyst
tmulvey@freightwaves.com
(423) 637-1940

¹ FreightWaves National Truckload Index
² FreightWaves TRAC spot rate

Truckload markets

The truckload market continues to show signs that the market is becoming increasingly fragile but hasn't flipped. The Fourth of July holiday highlighted that growing fragility. Rejection rates surged to levels not experienced since the Christmas holiday but also have held higher during a traditionally slower period for freight. The freight market has also experienced higher volume levels, but with the market still in a state of overcapacity, the increase hasn't been felt, broadly speaking. With the maritime market showing signs of significant growth, it is setting up for the fourth-quarter peak to be one of the stronger volume periods in quite some time.



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

True to form, July was a more challenging month than June as tender volumes were down from pre-Fourth of July levels and tender rejection rates were at the lowest level they have been since early June. The Outbound Tender Volume Index (OTVI), a measure of shippers' requests for truckload capacity, declined by 3.06% month over month, true to form for July. OTVI was 5.54% higher than it was at the same time last year, the narrowest the gap with year-ago levels has been since early May.

The slowdown in volume is spread fairly evenly across equipment types, which isn't a surprise as the strongest period of freight during the summer has now passed. Dry van volumes, measured by the Van Outbound Tender Volume Index, have dropped by 2.82% over the past month but are now just 4.16% higher than they were last year. This is the narrowest the gap has been with year-ago levels since Jan. 21. Reefer volumes, as measured by the Reefer Outbound Tender Volume Index, have declined by 2.48% over the past month, but the gap with last year has increased despite the m/m decline. Reefer volumes are currently 8.28% higher than they were this time last year, the widest the gap has been since early February.

As would be expected with the sizable decline at the national level, volumes are largely lower at the market level across the country. Over the past month, just 46 of the 135 freight markets within SONAR have experienced volume growth. Much of the growth has stemmed from smaller markets, but Harrisburg, Pennsylvania, has seen tender volumes increase by 11.53% over the past month, while

the major port markets of Savannah, Georgia, and Houston have seen volumes grow by 10.69% and 9.17%, respectively.

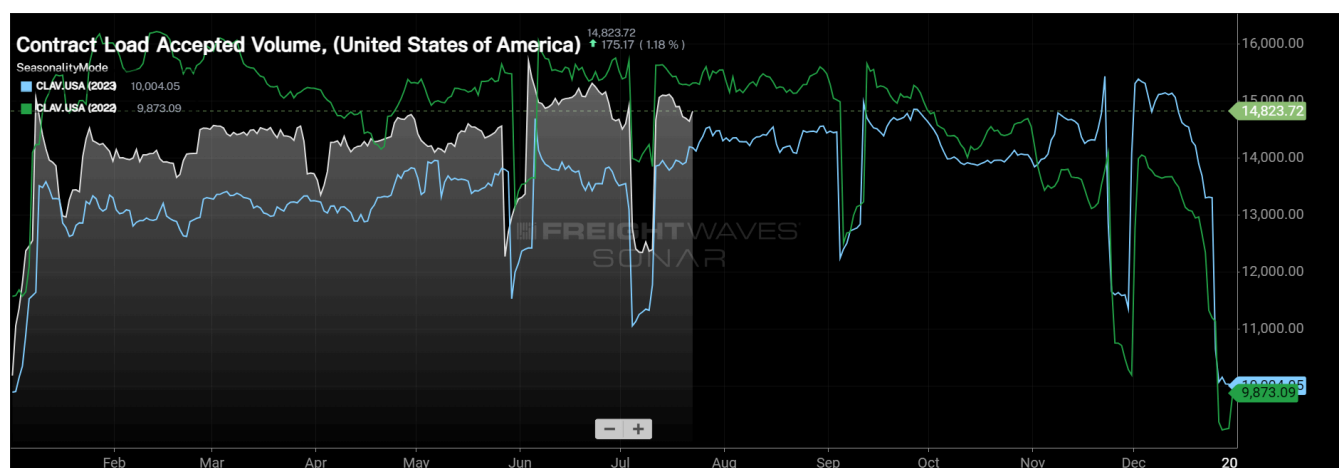


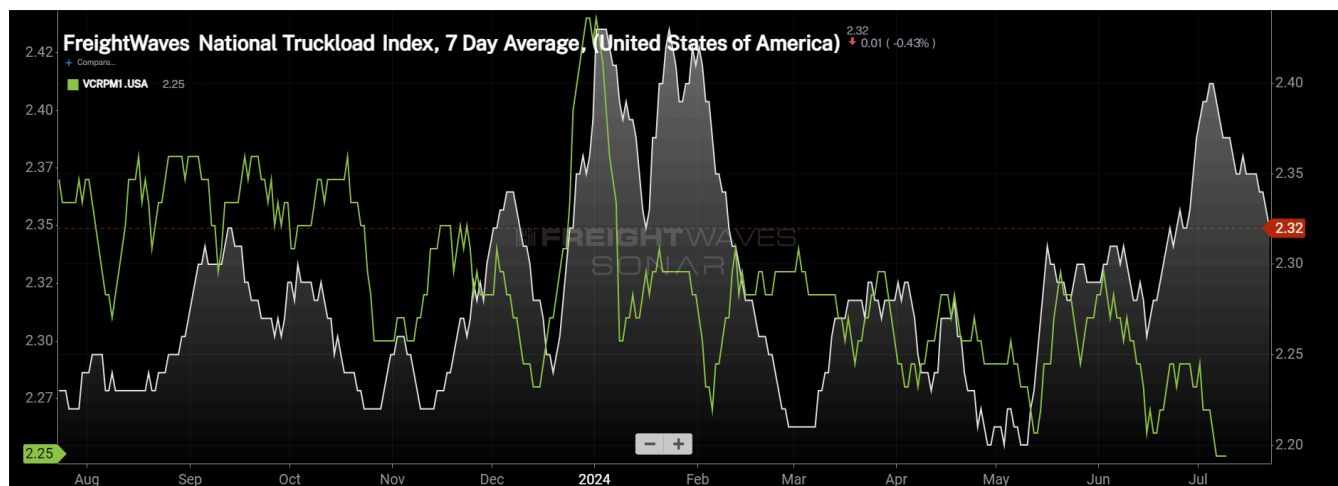
Chart: FreightWaves SONAR. Contract Load Accepted Volume: 2024 (white), 2023 (green) and 2022 (blue).

Contract Load Accepted Volume 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 just 3.8% year over year, the smallest increase of the year, outside of holiday comparisons. The slowing growth isn't something to be too concerned about yet as upstream activity is gaining some momentum, which could help drive more growth in the final four months of the year.

Tender rejection rates, a measure of relative capacity in the market, have dipped back below the 5% mark as capacity returned to the road following the Fourth of July holiday. Immediately after the holiday, rejection rates held above the 5% mark for the first half of July, before falling to close out the month. Even with the recent decline, tender rejection rates are 160 bps higher than they were this time last year.

The most recent comparison to where tender rejection rates are is 2019. At present, tender rejection rates are 47 basis points higher than they were at this time in 2019. This signals that, while the seasonal decline in July has happened, it wasn't quite as severe as it was in 2019. If the pattern holds true, rejection rates will likely start trending up midway through August and continue that momentum into the final stages of the year. This trend would set up 2025 to be a tighter freight market than it has been since early 2022.

Spot rates quickly retreat from holiday high



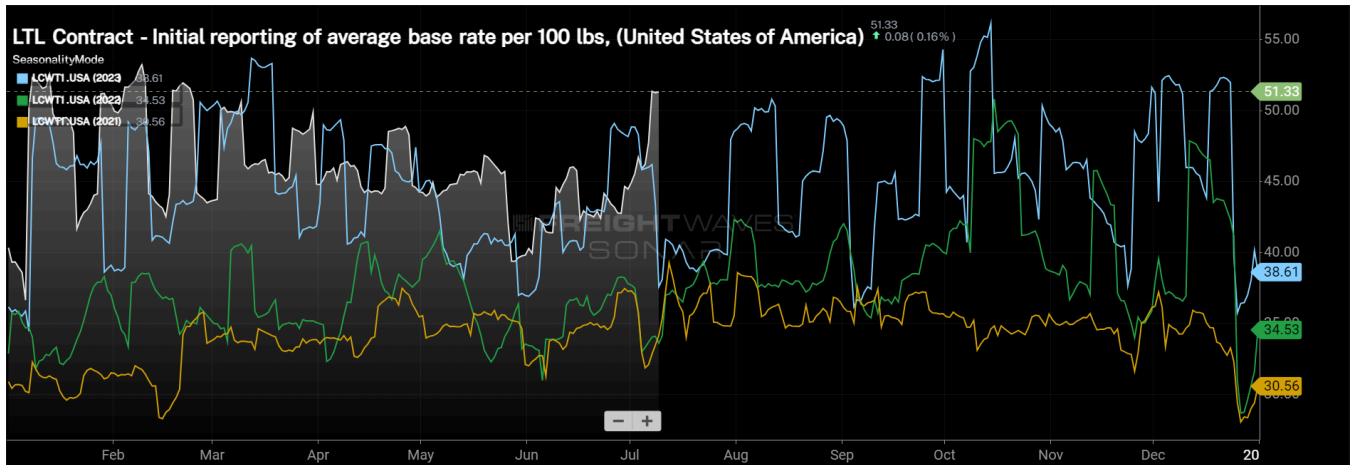
Source: FreightWaves SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

Spot rate deterioration was expected following the Fourth of July holiday, especially as carriers returned to the market. The result has been that the FreightWaves National Truckload Index — a seven-day moving average of national dry van spot rates that is inclusive of fuel — has fallen 6 cents per mile since July 1. It is down 8 cents per mile from the Fourth of July peak but is flat m/m.

While spot rates have slid in July, it is important to note where they stand relative to where they were last year. At present, the NTI is 9 cents per mile higher than it was in 2023, widening the gap from last month's report when the NTI was 8 cents per mile higher y/y. This rate inflation is a function of carriers exiting the market, signaled by tender rejection rates trending higher quarter over quarter starting in the second quarter of last year.

While spot rates have increased y/y, contract rates are setting 52-week lows. The initially reported dry van contract rate currently sits at \$2.25 per mile, 6 cents per mile lower than it was at this time last month. The initially reported van contract rate is 14 cents per mile, or 5.9%, lower than it was last year. With contract rates moving to new lows even as spot rates have been moving higher since March, the spread between the two is coming into pre-pandemic range. Effectively, contract rates likely will be unable to fall much further, and those who are continuing to push for contract rate reductions are introducing risks to routing guides as the market is showing signs of shifting.

A bounceback in LTL rates



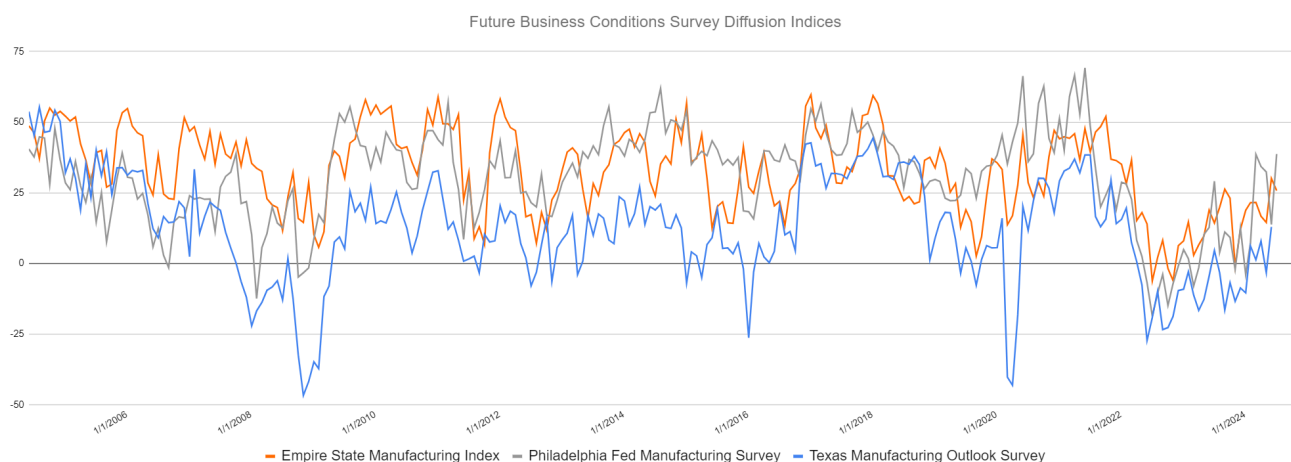
Source: FreightWaves SONAR. Initially reported LTL contract rate per hundredweight: 2024 (white), 2023 (blue) and 2022 (green).

Despite the industrial side of the economy remaining in contraction, according to the Institute for Supply Management's Purchasing Managers' Index for manufacturing, less-than-truckload pricing found upward momentum in mid-June that carried into July. The average LTL contract rose by \$6.75 per hundredweight over the past month. Now sitting at \$51.33 per hundredweight, it is 36% more expensive to ship via LTL than it was last year. It will be interesting to see as the second earnings season progresses how publicly traded LTL carriers talk about the current pricing environment, as the industry as a whole appears far more price-disciplined than its truckload market sector.

Macroeconomic conditions

June was another month in which the manufacturing sector was under pressure. The Manufacturing Purchasing Managers' Index remained in contraction for the third month in a row, coming in at 48.5. The reading was slightly lower than May's 48.7, indicating there was a slight slowdown in the manufacturing sector from the month prior.

New orders continue to be a headwind for the sector. They remained in contraction in June once again. The New Orders component of the index crept slightly closer to the 50 mark, which indicates that new orders are coming closer into balance. In June, the New Orders component increased by 3.9 points m/m to 49.3.



July's Empire State Manufacturing Index saw the current Business Conditions Index reverse course slightly, falling by 0.6 points month over month as the index remained negative at minus 6.6. A positive sign is that although the index remains in contraction, the Shipments Index stayed in expansion territory for the second consecutive month, rising by 0.6 points m/m to 3.9.

The forward-looking General Business Conditions Index decreased by 4.3 points month over month, highlighting the fact that June's increase was just a blip on the radar. The index currently sits at 25.8, the second-highest level of the year.

The outlook in Philadelphia was far more positive than in the New York Fed's survey. The current General Business Activity Index within the Manufacturing Business Outlook Survey, conducted by the Federal Reserve Bank of Philadelphia, rose by 12.6 points month over month to 13.9. The increase was driven by both the New Orders and Shipments turning positive, rising 22.9 points to 20.7 and 35 points to 27.8, respectively. The forward-looking General Business Activity Index experienced a significant increase, rising 24.9 points m/m to 38.7, the highest level since July 2021.

The mood of Texas business firms remained sour in June. The Current General Business Activity Index of the Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey rose by Current General Business Activity Index rose by 4.3 points month over month to minus 15.1, well below its average of 0.8. The survey's Future General Business Activity Index turned positive once again, rising 16.2 points m/m to 12.9.

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 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 industry.

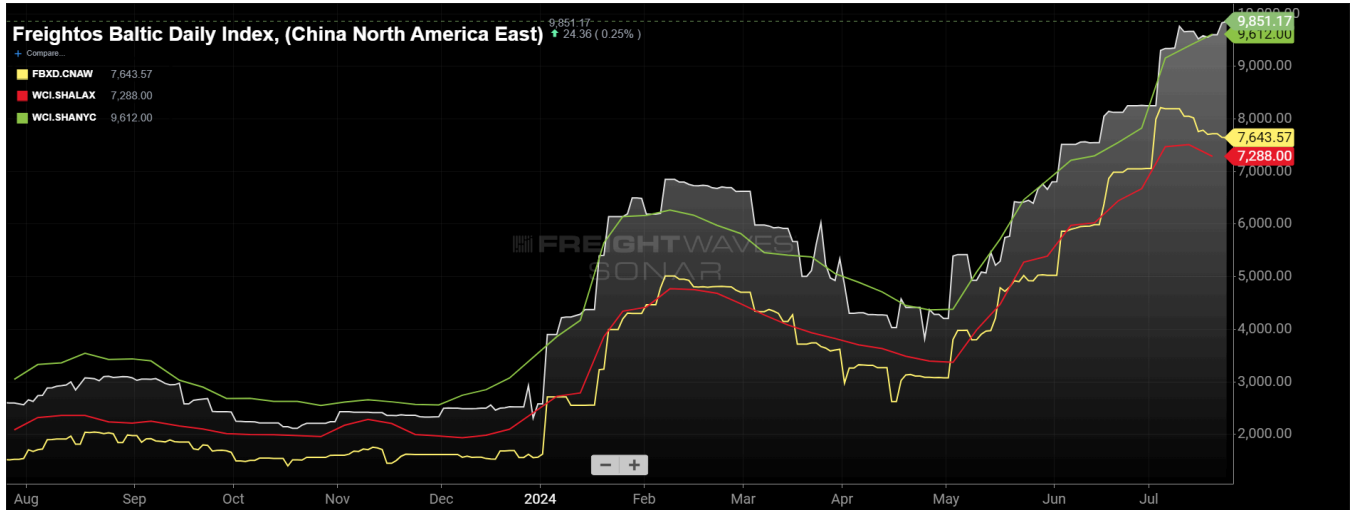
Retail hiring slowed in June but not everywhere. Overall, retail trade saw a reduction of 8,500 jobs during June, but general merchandise stores added 5,200 jobs during the month.

Maritime: Spot rates continue to reach new heights

The maritime industry hasn't really shown signs of slowing into the period that is the start of the traditional peak season. The market has seen rates, especially those to the North American east coast, continue to inch slightly higher, while west coast rates are off the highs but still well elevated compared to this time last year.

As the calendar progresses and the risk of tariffs mounts, especially the risk of 60% tariffs on Chinese goods, it will create a fairly sizable pull forward of freight into 2024, keeping upward pressure on ocean rates in a period when ocean bids are taking place.

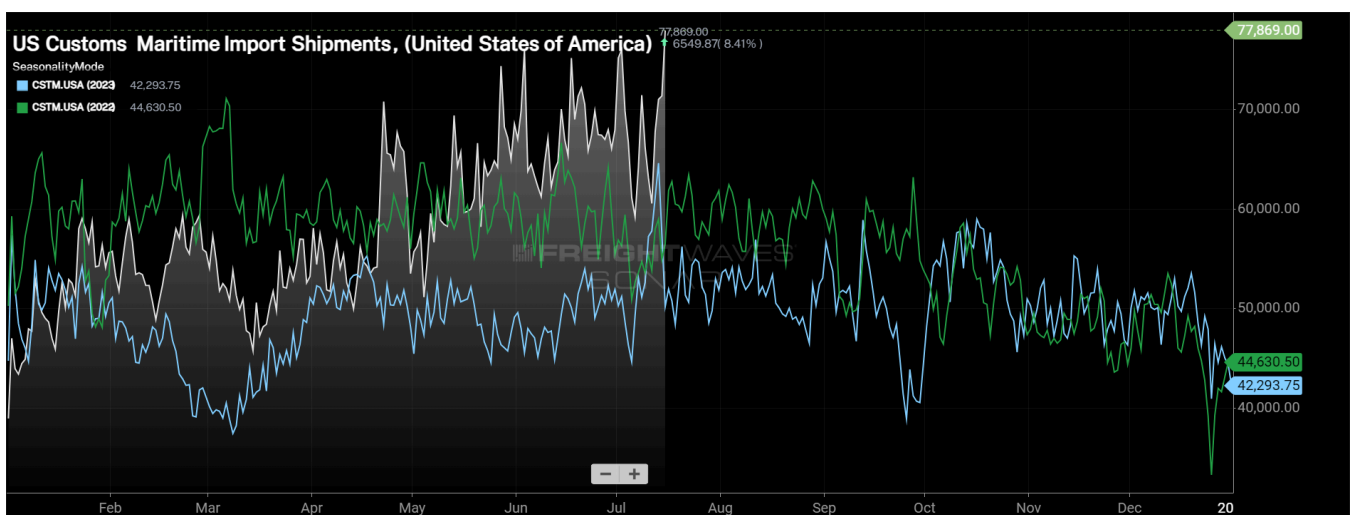
Even so, in the current environment, ocean demand remains strong, and throughput at the ports is near all-time highs, even against the comps from 2021 and early 2022.



Source: FreightWaves SONAR. Container spot rates, YTD view: Drewry World Container Indexes: Shanghai to Los Angeles (orange), Shanghai to New York (green). Freightos Baltic Daily Index: China to North American West Coast (yellow) and China to North American East Coast (white).

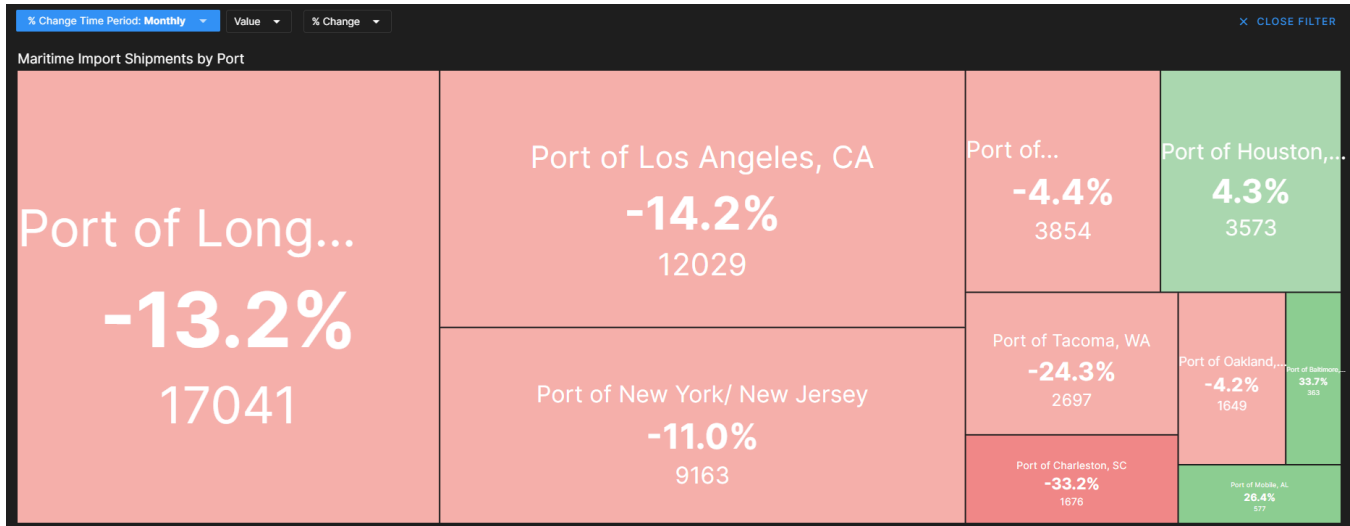
The Freightos Baltic Daily Index from China to the North American West Coast has risen by 8.4% over the past month to \$7,643.57 per 40-foot equivalent unit. With the month-over-month increase, the spot rate along this lane is 402.7% higher than it was a year ago. From China to the North American East Coast, the monthly increase was more aggressive: It rose 19.4% month over month to \$9,851.17 per FEU, up 278.4% compared to this time last year.

The Drewry World Container Index followed suit as trans-Pacific rates continued to rise but by a smaller amount than in recent months. The WCI from Shanghai to New York registered an increase of 27.3% month over month to \$9,612 per FEU, up 254% compared to this time last year. The WCI from Shanghai to Los Angeles currently stands at \$7,288 per FEU, up 13.2% month over month and 307.2% year over year.



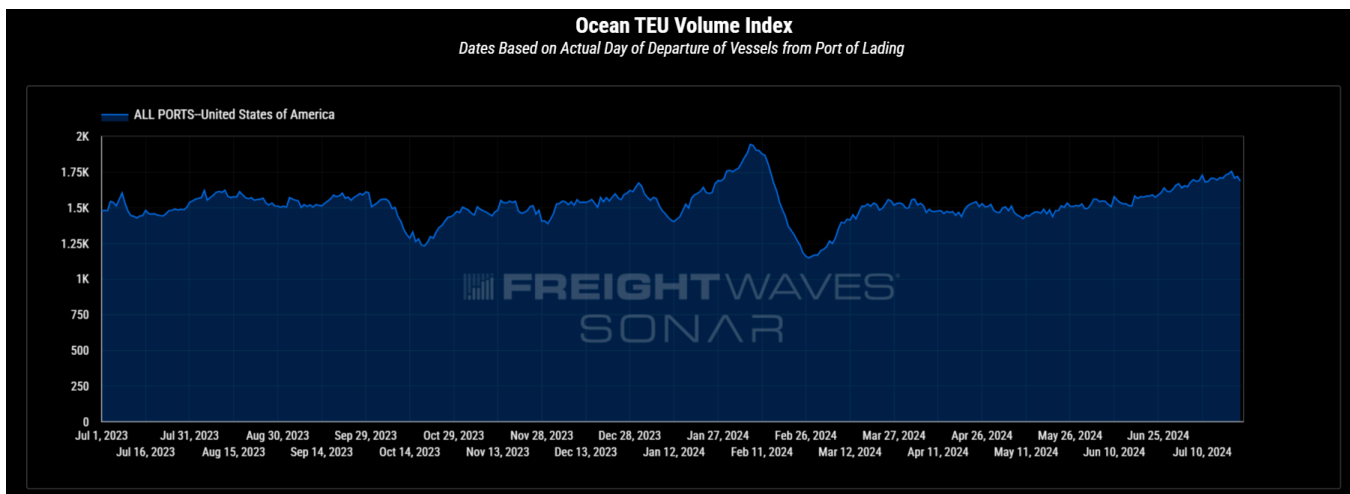
Source: FreightWaves SONAR. U.S. Customs Maritime Import Shipments, both containerized and noncontainerized: 2024 (white), 2023 (blue) and 2022 (green).

U.S. imports are setting new year-to-date highs, far in excess of volumes experienced last year, as the uptick in import volumes, based on the time of booking, had continued to trend higher throughout the time frame when ocean spot rates were rising. Over the past month, U.S. maritime import shipment volumes have grown by 3.7%. At present, those volumes are 53.4% higher than 2023 levels, but the comps remain challenging as the way Customs officials clear shipments is often quite volatile.



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

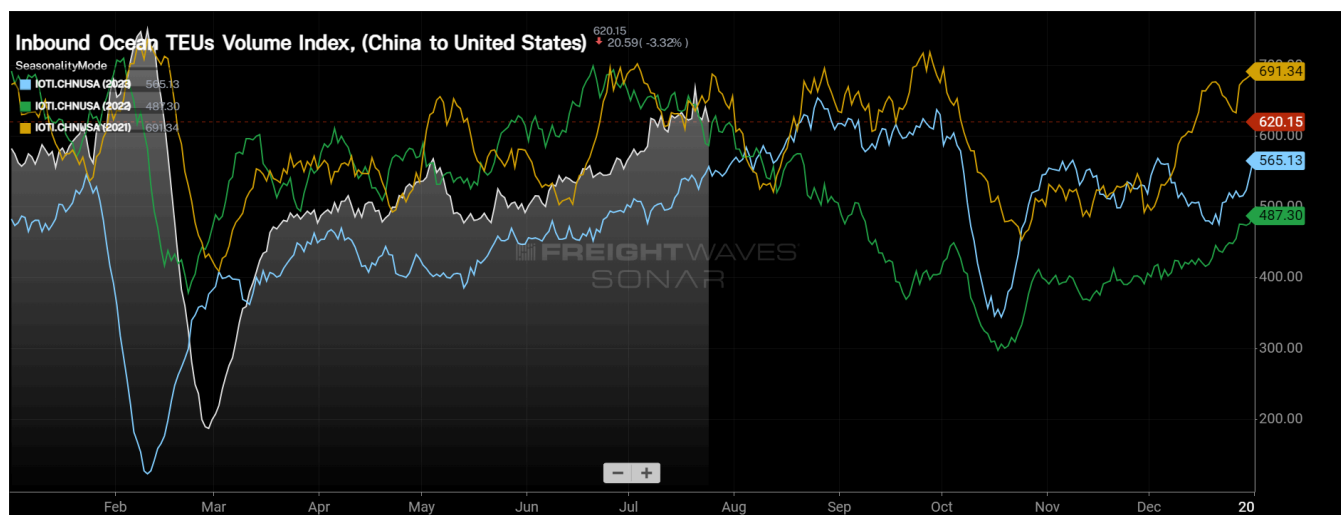
Despite being impacted by Hurricane Beryl, the Port of Houston has experienced growth over the past month as import shipments have increased by 4.3% m/m. The boost in the past month has been strong enough to turn y/y figures positive, now up 1.6% y/y.



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

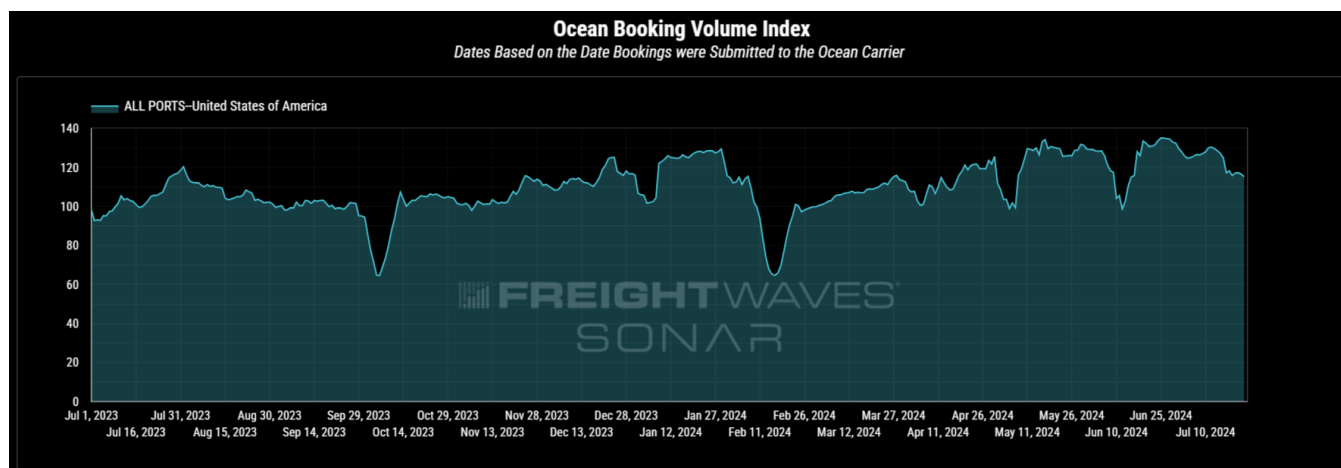
The Ocean TEU Volume Index, gauging container trade from all global ports to all U.S. ports as TEUs leave origin ports, has steadily increased during the past month. Over the past month, inbound ocean TEU volumes are up 6%. Compared to this time last year, inbound ocean TEU volumes have

grown by 15.4%. The growth over the past month and year has been impressive, but if it continues into the coming months, peak season this year will be far more impressive than last year.



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

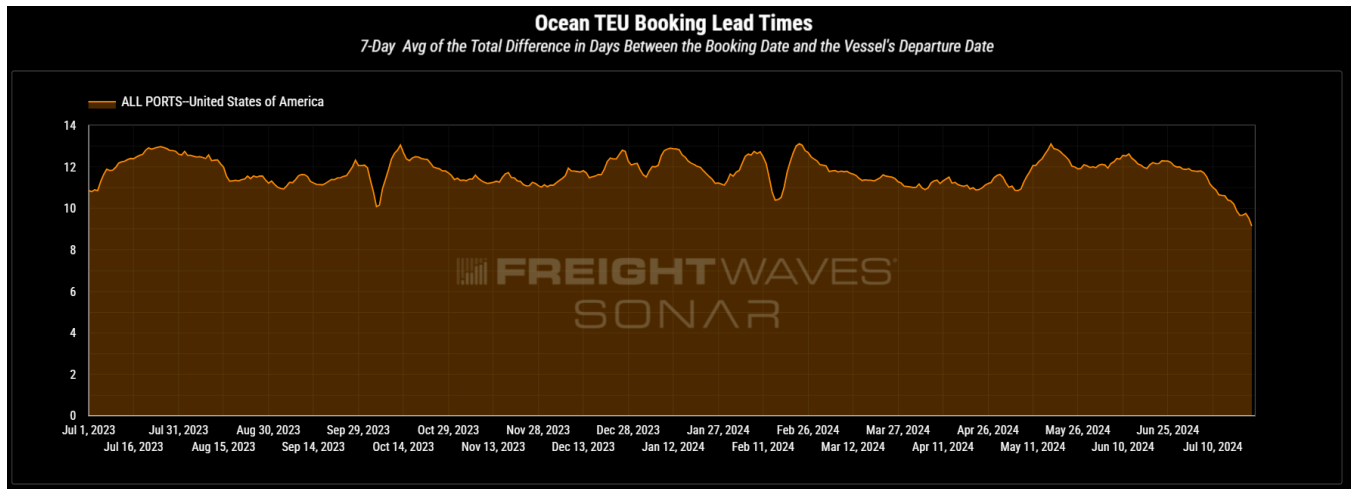
The Inbound Ocean TEUs Volume Index from China to the U.S. (IOTI.CHNUSA) has grown more aggressively than at the global level, highlighting that some of the recent increases is driven by early peak season moves. Over the past month, IOTI.CHNUSA has increased by 13.8%, and compared to last year it is up 11.4%.



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

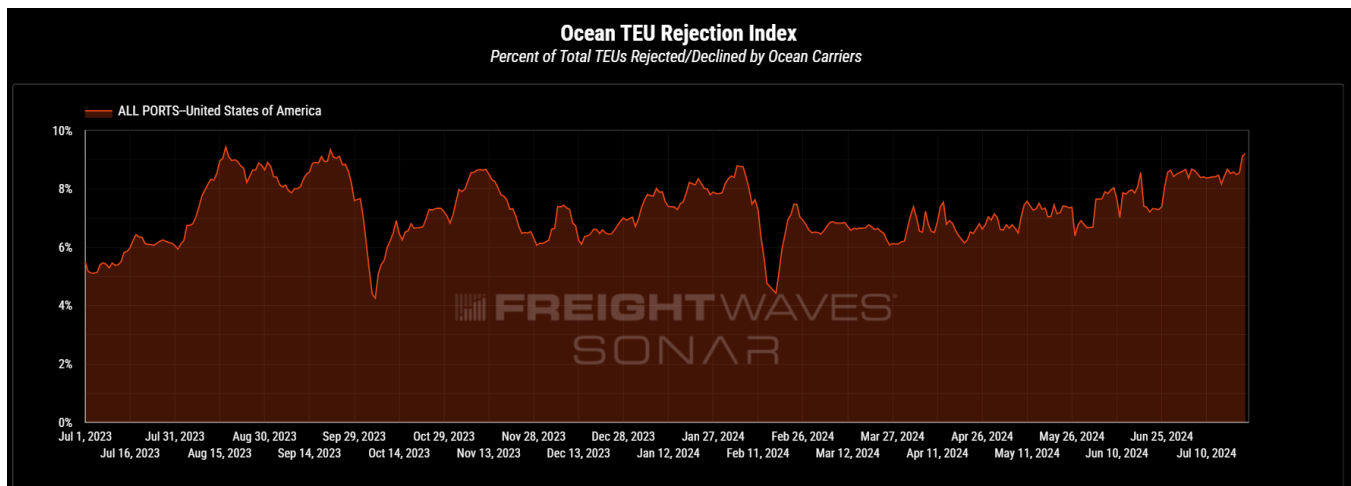
The past month has presented a challenge for ocean booking volumes, which have dropped by 12.4% month over month. The decline isn't something to be too concerned about, at least not yet, as the metric is based on when bookings are submitted to ocean carriers. If shipments are being submitted closer to the day of transit, it can help deflate the number of bookings. This is likely the cause as

Ocean TEU Booking Lead Times have been declining for quite some time, dropping by more than 25% in the past month.



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

Ocean TEU Booking Lead Times are 29% shorter than they were this time last year. Lead times will continue to come under pressure, especially the later we get into peak season. If ocean carriers are able to keep upward pressure on spot rates for the foreseeable future, carriers will be more likely to book space on their vessels in order to maximize revenue.



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 July 23, the Index stands at 9.21%, an increase of 190 basis points over the past month. The increase signals that ocean carriers are being more selective in the freight they take, but it is also an attempt to keep spot rates inflated as long as possible against market dynamics.

Compared to this time last year, the Ocean TEU Rejection Index is 312 bps higher, signaling that the market is slightly tighter than last year's.

Rail intermodal: Ramping up for the peak

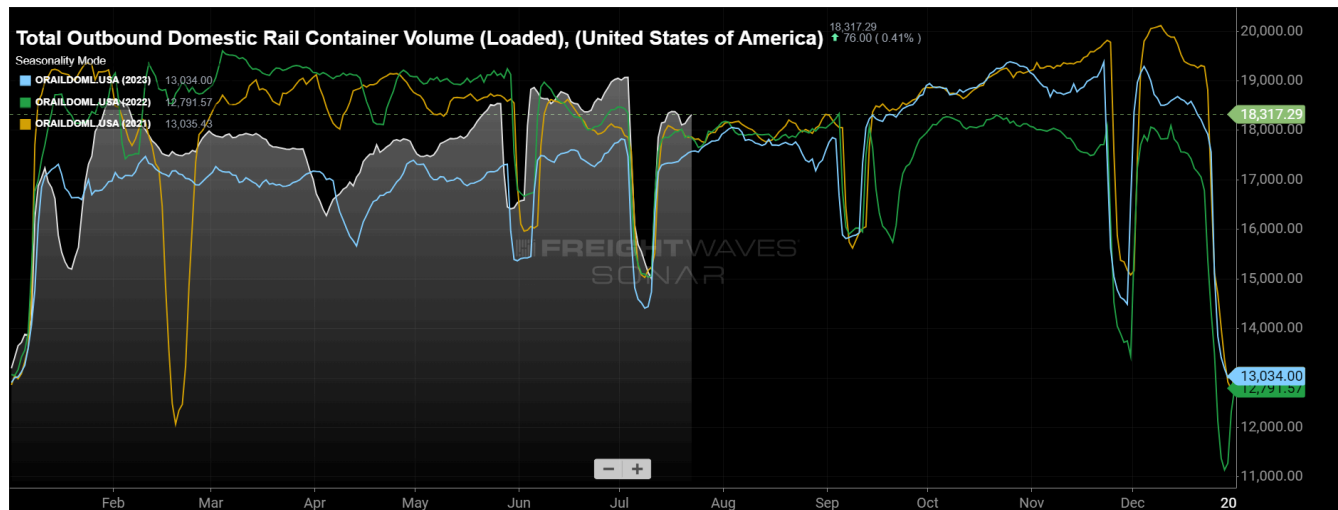


Chart: FreightWaves SONAR. Loaded domestic intermodal container volumes for 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

The strong import levels have been a welcome sight for the intermodal market, which from a volume perspective had largely held up throughout the freight recession. Total intermodal volume levels, which include both domestic and international containers as well as empty and loaded, are 11.1% higher than they were at this time last year. This is consistent with reports published weekly by the Association of American Railroads, which has shown near double-digit growth in intermodal volumes for much of the second quarter and is currently up 8% y/y. Overall intermodal volumes have increased by 0.5% m/m.

The domestic intermodal market has had a more sluggish start to the back half of the year than the overall market. Loaded domestic intermodal volumes are down 1.7% m/m after the strong surge in volumes throughout June. The sluggish start to H2 isn't a concern, at least as of yet, as loaded domestic intermodal volumes are still 4.3% higher than they were last year. The higher import levels will take time to enter the market but should create a boost to volumes in August and September, when ocean carriers can't afford to have boxes go inland as often as they have throughout the first half of 2024.

While loaded volumes are suffering m/m declines, empty domestic container volumes are growing the fastest of any of the segments. Over the past month, empty domestic container volumes have fallen by 0.1% but are 11.3% higher than they were this time last year. This increase is likely a sign intermodal marketing companies are gearing up for peak season and repositioning empty equipment in the port markets. This is especially evident in the Los Angeles market as inbound empty domestic container volumes are up 47% y/y and 26% above the first-half average.

The international side of the market, after taking a slight breather in June, has come on strong in July. Total loaded international intermodal volumes have increased by 2.4% over the past month, though that is against softer comps. International loaded volumes have been the primary driver of volume growth, rising 13.7% over the past year, accounting for a little over 40% of total loaded intermodal volume.

Empty international volume has increased by 4.7% over the past month and 37% y/y. These increases are a sign that ocean carriers want containers back in port markets to capitalize on the higher ocean rates along the headhaul lanes (China to North America). Inbound empty volumes to the west coast port markets both in the U.S. and Canada are all up over 50% y/y.

Intermodal contract rates are suggesting contract rates may have bottomed

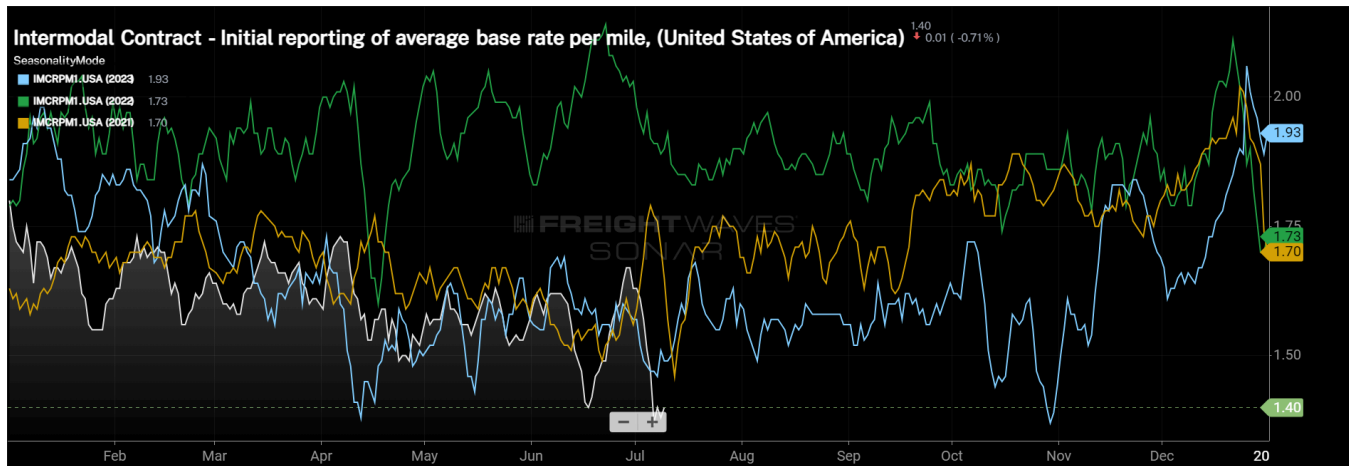


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

The past two intermodal bid cycles have resulted in contractual rates decreases, on average. Now, intermodal contractual rates, in aggregate, appear to be roughly in line with 2021 levels and are no longer showing steep year-over-year decreases as rates lap mid-2023 softness. Intermodal carriers often talk about volume as being a leading indicator for pricing, and that may be true going forward, particularly for bids conducted early next year and especially if this year's fall peak season is strong.

At present, the initially reported intermodal contract rate excluding fuel is down 8 cents per mile year over year at \$1.41 per mile. Additionally, the intermodal contract savings rate sits near historic lows at 6.9%, though it is being weighed by loads moving under 1,200 miles, while those over 1,200 miles are offering adequate savings to drive mode shifts.

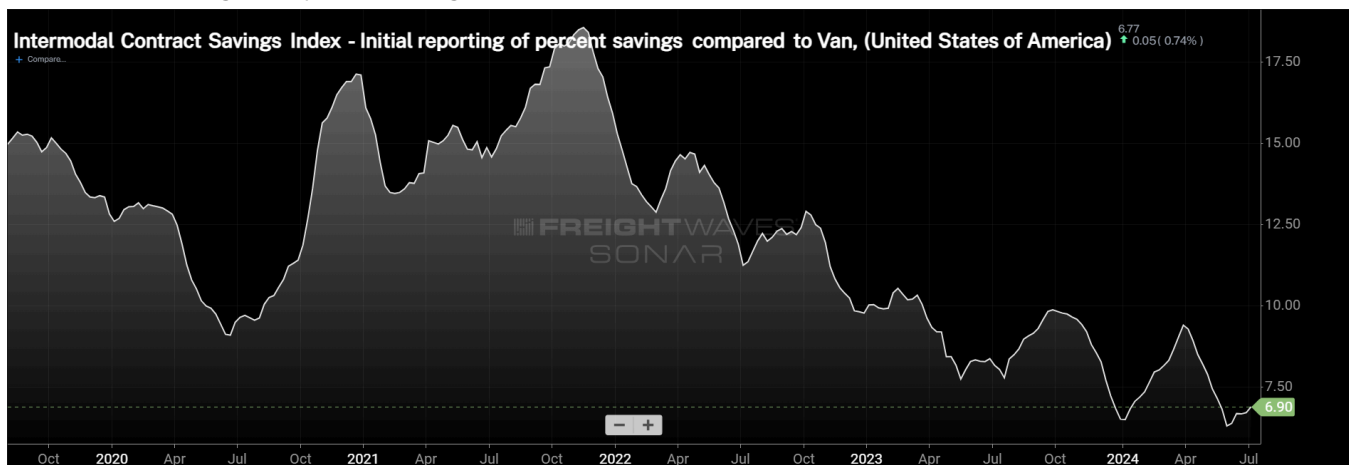


Chart: FreightWaves SONAR. Intermodal Contract Savings Index.

One major intermodal marketing company highlighted in its second-quarter earnings call that a competitive truckload market impacted the business in the second quarter, especially in the Eastern half of the country. The Intermodal Contract Savings Index, which is the savings that intermodal contract rates offer compared to dry van contract rates, fell to new lows in June and remains well below the historical average.

The intermodal spot rate data in SONAR (53-foot containers door to door, including fuel) also suggests that intermodal capacity remains plentiful. While not much intermodal volume moves on the spot market, weekly spot rates sometimes move sharply week to week as carriers look to protect capacity for contractual shippers. In the most recent week, the average domestic intermodal spot rate (an average of 100 lanes) to move 53-foot containers door to door is just \$1.47 a mile including fuel, a 12.5% decline from the same week a year prior.

Over the past month, intermodal spot rates across the densest intermodal lanes did move slightly higher, but all the increases are small relative to the declines they have suffered over the past year. Outbound Dallas and Los Angeles led the way with increases. The Dallas to Chicago intermodal spot rate increased by 6.7% over the past month, the largest increase among the densest intermodal lanes, to \$1.29 per mile. Even with the monthly increase, the spot rate is 36.2% lower than it was this time last year.

The intermodal spot rate from Los Angeles to Chicago increased by 0.6% m/m to \$1.18 per mile, 18.4% lower than it was this time last year. This is a lane where carriers have dropped their spot rates significantly to pick up incremental spot volume as the lane presents a 40% discount compared to the FreightWaves TRAC spot rate from Los Angeles to Chicago.

Intermodal spot rates remain depressed

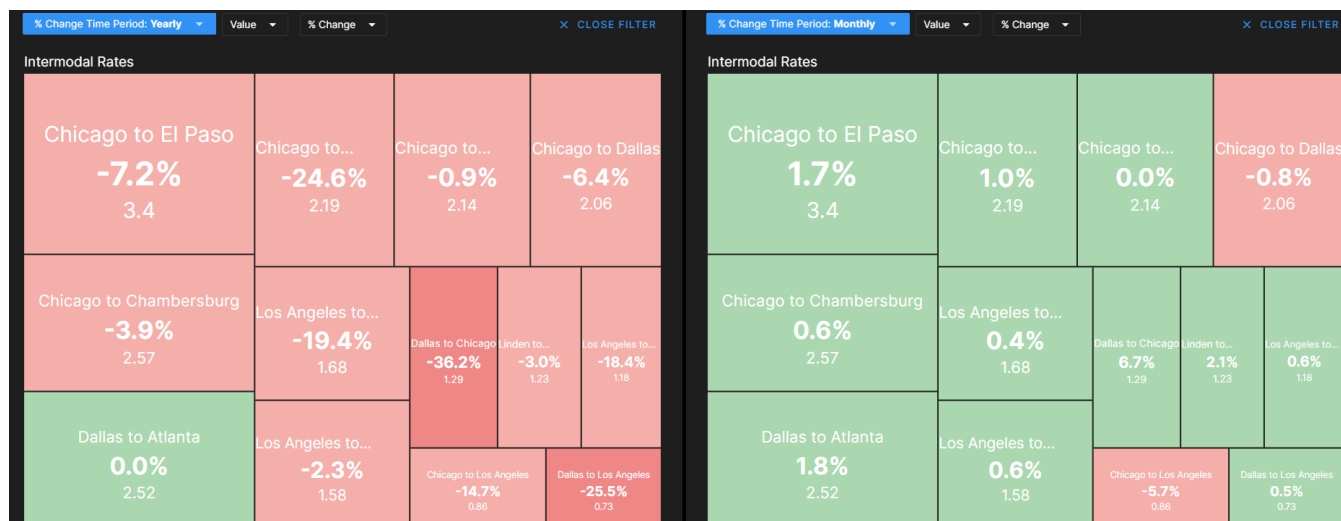


Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

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 has stabilized at 1.7%. Intermodal tender rejection rates out of Los Angeles and Chicago are both below the national average, signaling that there is very little, if any, network disruption happening in these markets.

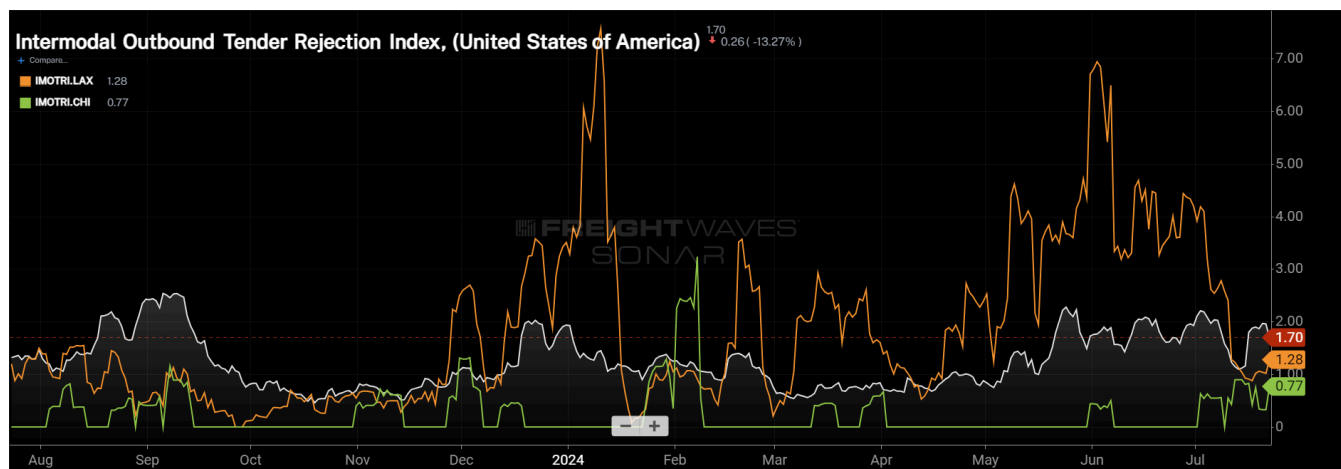


Chart: FreightWaves SONAR. Domestic intermodal outbound tender rejection rates for national (white), Los Angeles (orange) and Chicago (green) loads.

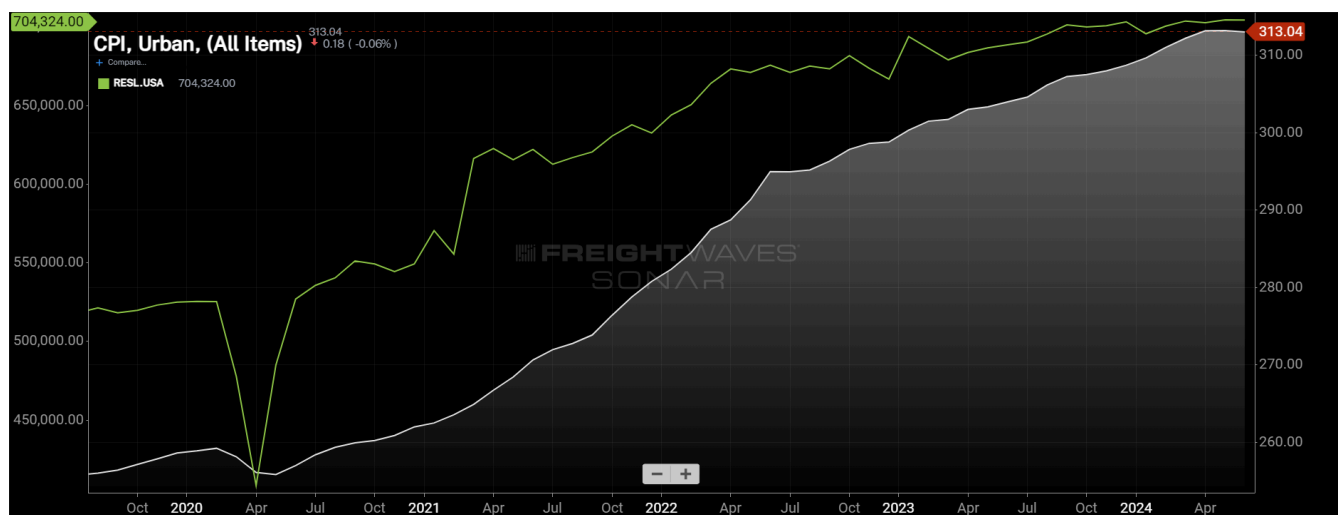
What else we’re watching

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.



SONAR: Consumer Price Index (white, right axis) and Retail Sales (green, left axis)

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.

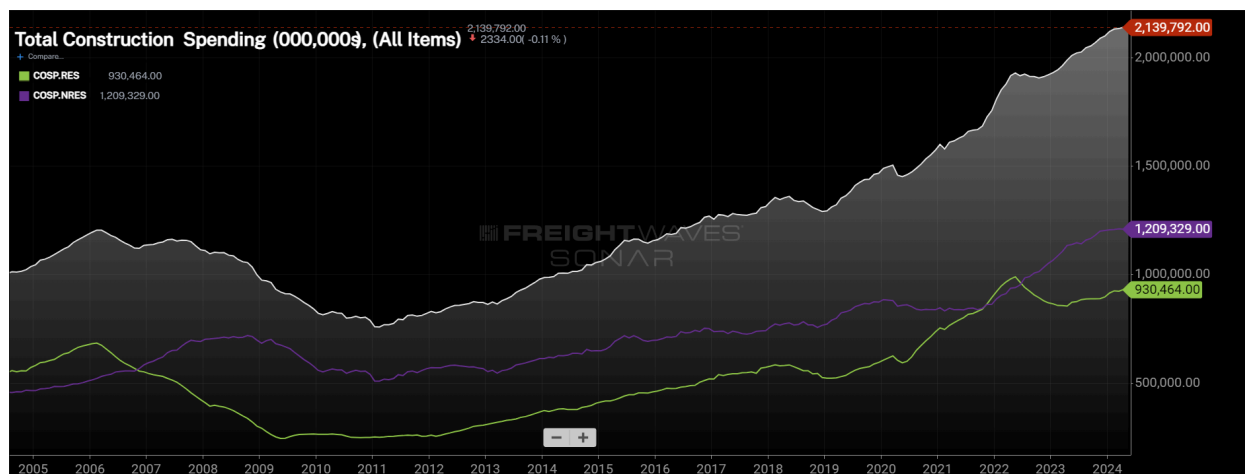
Vehicle prices continue to drop. New vehicle prices fell by 0.2% m/m, the fifth consecutive month in which new vehicle prices have fallen. Even with the five consecutive monthly declines, new vehicle prices are only 0.9% lower than they were in June 2023. Used vehicle prices, on the other hand, are under 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.

Motor vehicle sales and gas station sales were drags on overall retail sales. Motor vehicle and parts dealers sales were down 2% m/m in June and 2.2% y/y. Gas station sales were down 3% m/m and 0.4% y/y. As retail sales aren't adjusted for inflation, a portion of these declines stems from the lower prices mentioned above.

The biggest winners in June were nonstore retailer sales, which increased by 1.9% m/m. The growth in those sales is evident when compared to this time last year as nonstore retailer sales were 8.9% higher y/y. The growth will likely continue into July's data as Amazon's Prime Day event July 16-17 and reactions from competitors are likely to fuel growth in e-commerce sales.

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.



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.

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.



Source: FreightWaves SONAR. Logistics Managers' Index (white), inventory levels (yellow), transportation prices (green) and transportation utilization (purple).

The Logistics Managers' Index remained in expansion territory in June, though the overall index did decline slightly. The overall composite index for the LMI fell by 0.3 points m/m to 55.6, marking the seventh consecutive month of expansion. A few interesting things came out of the LMI report released in early July, the first being that transportation prices exceeded transportation capacity for the second consecutive month. Transportation capacity fell by 7.3 points m/m to 50, while transportation prices increased by 3.2 points to 61, the highest level since September 2022. Authors of the LMI pointed out that this trend is expected as peak season arrives, but if the trend continues and the spread remains wide, it would mark the end of the freight recession that started in 2022. Second, while inventory levels remained in contraction as a whole, upstream and downstream firms are taking different inventory management approaches. Inventory levels for upstream firms came in at 51.5, suggesting they are building inventories, likely ahead of peak season, while downstream firms (like retailers) are running far leaner as inventory levels came in at 37 during June.

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