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STATE OF THE INDUSTRY

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SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

SONAR



Checking for a pulse

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Overview

The trucking industry might be nearing a turn in 2026 after enduring an historic recession — but that turn is not quite here. Truckload markets are closing out 2025 in the same stubbornly depressed state they have occupied for much of the past three years, with weak demand and overcapacity eroding carriers' pricing power. Volumes have clawed back some ground from October's lows but remain deeply negative on a yearly basis, with virtually no seasonal bump in tender rejections or spot rates to be found.

Ocean container markets are similarly stuck in a holding pattern, though 2026 threatens to be worse — not better — for carriers. Their attempt to juice rates via GRIs lasted only two weeks before those gains (and more) were erased. A mass return to the Suez Canal next year would be a major headwind for rate growth, though rates are forecast to decline regardless.

Despite soft import volumes, the intermodal sector alone is enjoying the fruits of a traditional peak season. For once, growth is shared between the international and domestic segments alike. There is an open question about whether carriers will be able to push rate increases in the current bid season, or if the truckload market is too loose for such increases to take hold. Still, there are convincing arguments in either direction.

With the longest U.S. government shutdown now in the history books, it falls on analysts to comb through the wreckage of delayed reports to judge the health of the economy. Sadly, the data fog is lifting but slowly, creating a problem for the Federal Reserve at its next meeting. As the U.S.-China trade war has

reached a stalemate, the White House will give its full attention to taming inflation prior to the 2026 midterm elections. Manufacturers are cautiously hopeful for near-term improvements, but current sentiment remains mixed.

Macro indicators (y/y change)

Aug. industrial prod. change	+0.1%
(+0.9%)	
Oct. retail sales change	-0.2% (exp.)
Oct. U.S. Class 8 orders	19,743 (-16%)
Oct. U.S. trailer orders	13,959 (+3%)

Truckload indicators (y/y change)

Tender rejection rate	6.25% (+14 bps)
Average dry van spot rate ¹	\$2.33/mi (-1.3%)
LAX to DAL spot rate ²	\$2.36/mi (-11%)
CHI to ATL spot rate	\$2.82/mi (+8%)

Tender volumes (y/y change)

Atlanta	331.64 (-9%)
Dallas	290.07 (-14%)
Los Angeles	277.75 (-12%)
Chicago	164.63 (-20%)

Tender rejections (y/y change)

Atlanta	3.74% (-179 bps)
Dallas	4.96% (+14 bps)
Los Angeles	4.97% (-82 bps)
Chicago	6.69% (-135 bps)

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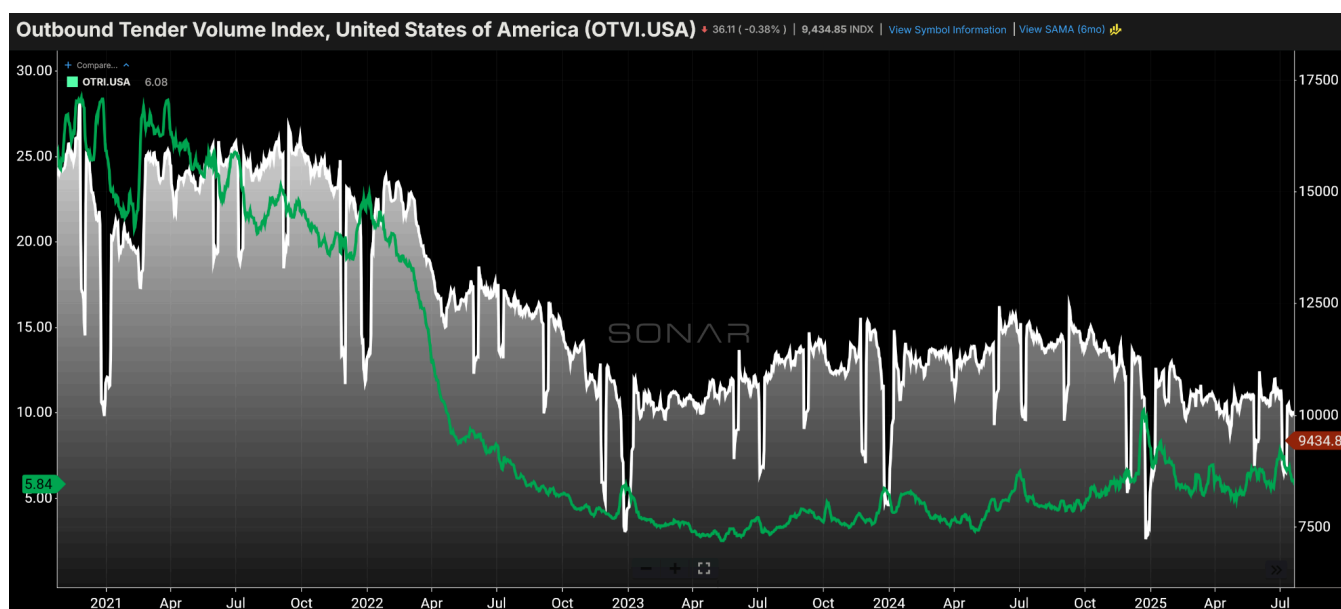
¹ FreightWaves National Truckload Index

² FreightWaves TRAC spot rate

Truckload markets

Freight demand remained deeply depressed throughout October and into November. Little surprise, as the market is still gripped by the underlying structural imbalance that has defined the past three years: persistent industrial and consumer demand weakness colliding with a capacity base that — until quite recently — was inflated by non-domiciled CDL holders.

That the FMCSA is cracking down on non-domiciled CDL holders, enforcing English-language proficiency requirements, and investigating substandard training facilities (or “CDL mills”) is a rare glimmer of hope for carriers. The ongoing freight recession, which has now lasted for an historic three years, has prompted innumerable theories as to its unusual endurance. Finally, its causes are becoming clear.



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

After their annual deficit reached a nadir of 20% in early October, tender volumes have slowly clawed their way back to the 10%-15% range over the past several weeks. With 2025 almost in the rearview mirror, it is safe to say the year has consistently been a clear deterioration from the already-soft conditions that characterized 2024, extinguishing the recovery momentum that had appeared to build in the final months of last year. As discussed below, the only real difference between the two years was the beginning of a supply shock in late September, one which is still developing. At present, the Outbound Tender Volume Index (OTVI) is down 13.1% year over year (y/y).

In a typical year, October serves as the launch ramp for seasonal truckload demand driven by holiday inventory building, late produce-season tails, and a traditional pre-Black Friday surge that normally lifts volumes into November's peak. This year, however, these seasonal forces largely failed to appear: The market was instead overwhelmed by the persistent U.S. industrial slowdown and weak housing market. Currently, OTVI is up only 3.8% month over month (m/m).

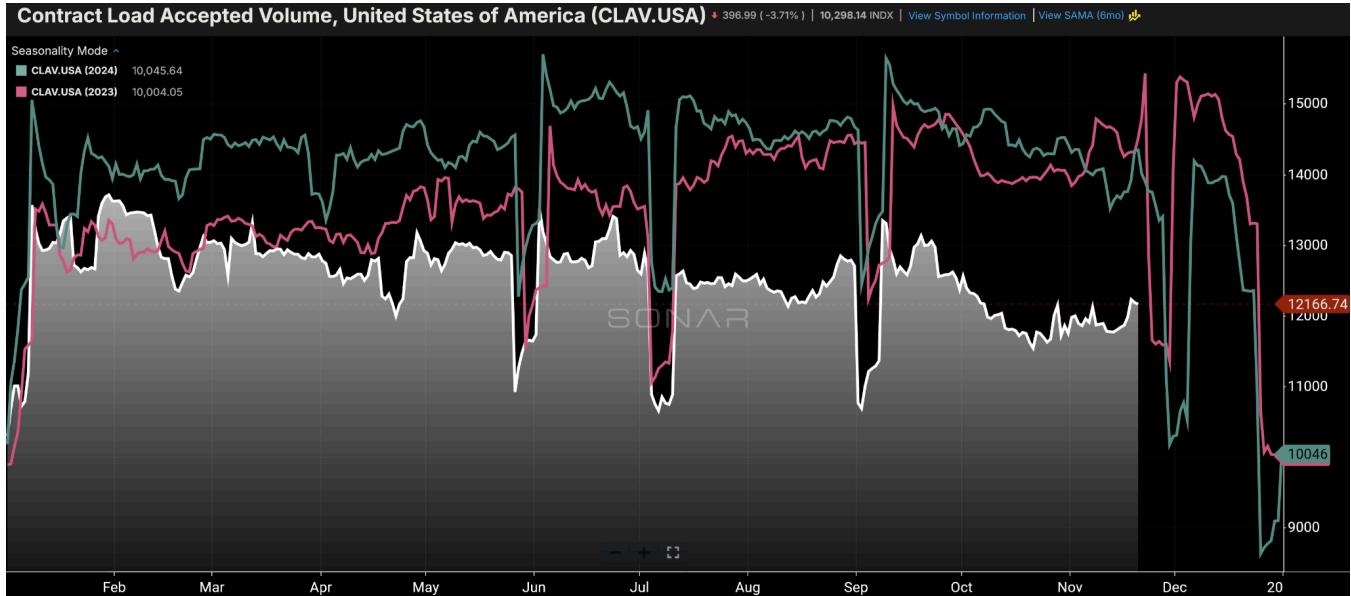
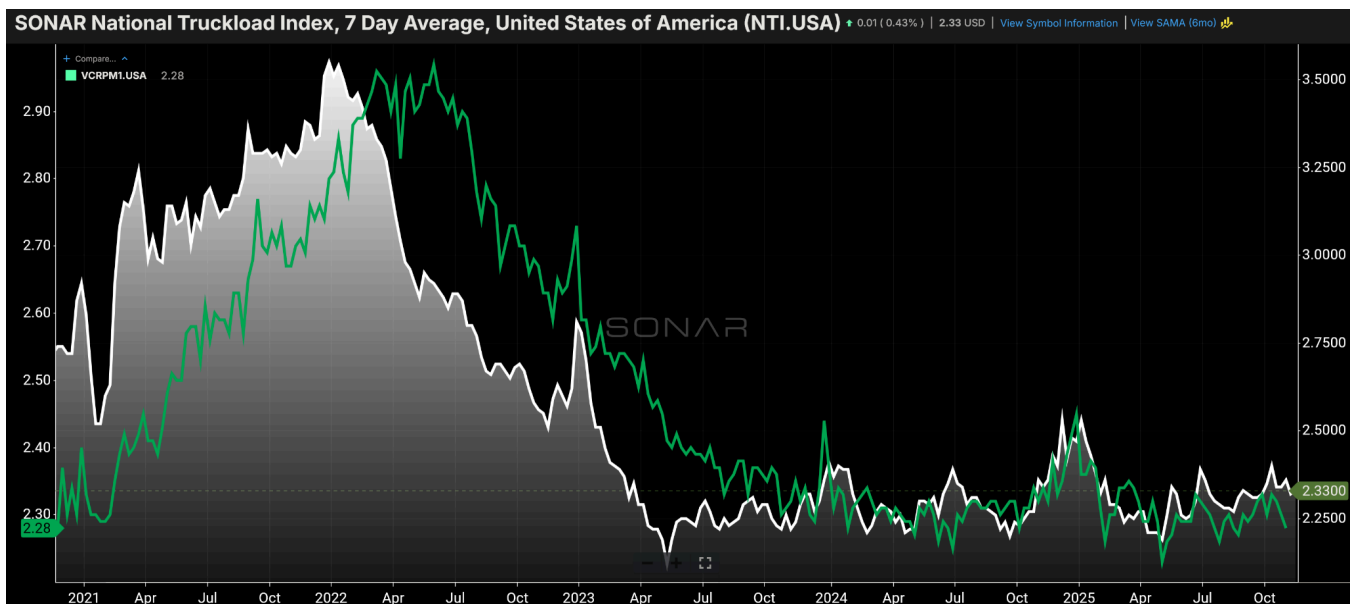


Chart: SONAR. Contract Load Accepted Volume: 2025 (white), 2024 (blue) and 2023 (pink).

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 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 down 13.2% y/y.

Tightening capacity fails to translate into November rate gains



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

Although spot markets reacted strongly to tightening capacity in the first half of October, this momentum was not sustained in the latter half of the month. This soft spot rate environment has persisted into November, which has shown little evidence of a meaningful peak-season surge. Indeed, tender rejection rates have remained worryingly flat over the first three weeks of November, despite the traditional pre-Thanksgiving rally that should already be apparent.

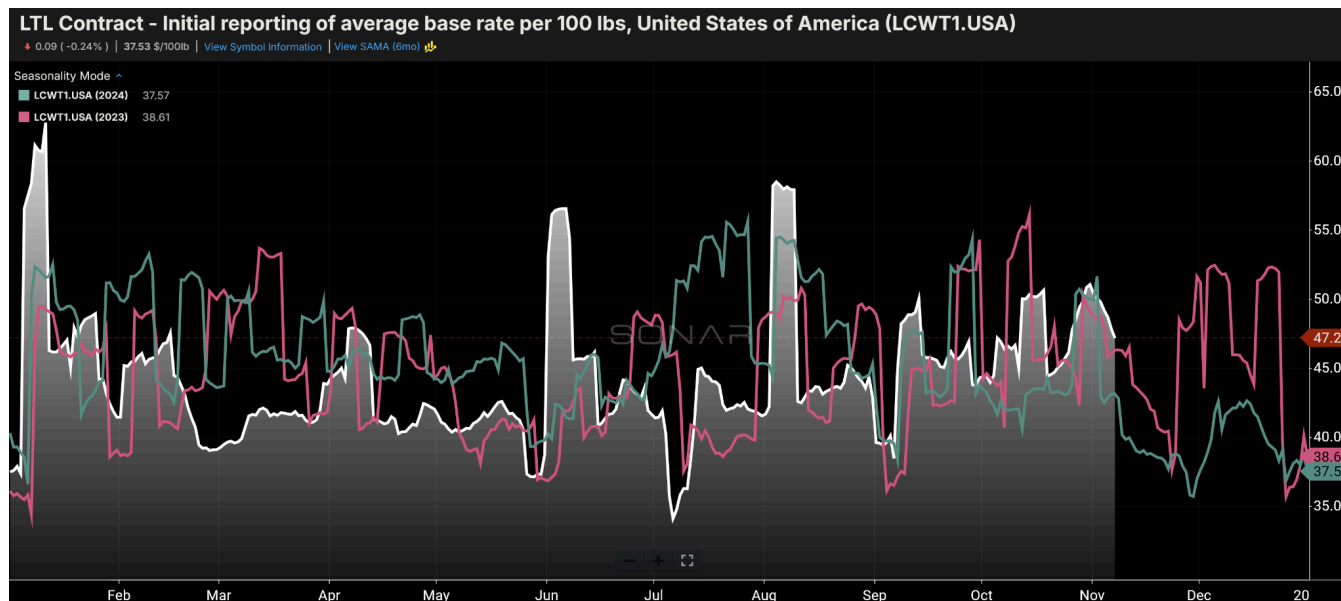
Accordingly, the National Truckload Index (NTI) — a seven-day moving average of national dry van spot rates that is inclusive of fuel — has changed little throughout the month and is well below October's high. The NTI is down 1.3% y/y at \$2.33 per mile.

Even so, carriers and brokers are betting on the increased regulatory action that is targeting non-compliant CDL holders to tip the scales in 2026, reintroducing volatility into spot markets. The D.C. Court of Appeals issued a stay on FMCSA's interim rule that restricts CDL eligibility for certain non-citizens, pausing enforcement while the court reviews arguments. In other words, the pause allows roughly 200,000 affected truckers to maintain or renew their CDLs. The stay, however, is only a temporary measure and could be undone within a month or two.

Yet even if the interim rule is struck down by the courts, it still might not reverse the capacity crunch. Under the second Trump administration, the FMCSA has exercised far more scrutiny than it has in recent years. Larger carriers, who are extremely proactive about compliance, will not flinch at this heightened scrutiny. But one party that will be going over their operations with a fine-toothed comb is insurance companies, which are unlikely to underwrite coverage for carriers employing non-domiciled CDL holders. Thus, even if the interim rule is overturned, 2026's capacity environment could still be far more fragile.

Unsurprisingly, contract rates — which are exclusive of fuel and other accessorials — have not felt much impact from the ongoing loss of capacity, for two reasons. First, contract bid cycles have long returned to their typical, annual basis after the COVID-era flirtation with mini-bids, and so will not reflect pricing dynamics of the spot market for several months. Second, and more importantly, contracts are rarely awarded to carriers with dubious hiring practices, such as the employ of undocumented migrants. For the time being, contract rates are down 2.1% y/y at \$2.28 per mile.

Less-than-truckload cedes market share to full-truckload segment



Source: SONAR. Initially reported LTL contract rate per hundredweight: 2025 (white), 2024 (blue) and 2023 (pink).

In the recent Q3 earnings season, LTL carriers were laser-focused on efficiency initiatives and cost controls at the trough of the market cycle. Although there were several beats to earnings forecasts, no carriers were optimistic about the final quarter of 2025. Quite the opposite: Most carriers warned of margin deterioration in a soft and subseasonal Q4. U.S. manufacturers (see below) continue to broadcast mixed signals about whether their sector is growing or not. Still, industrial firms are largely in agreement that not much has changed in the back half of 2025.

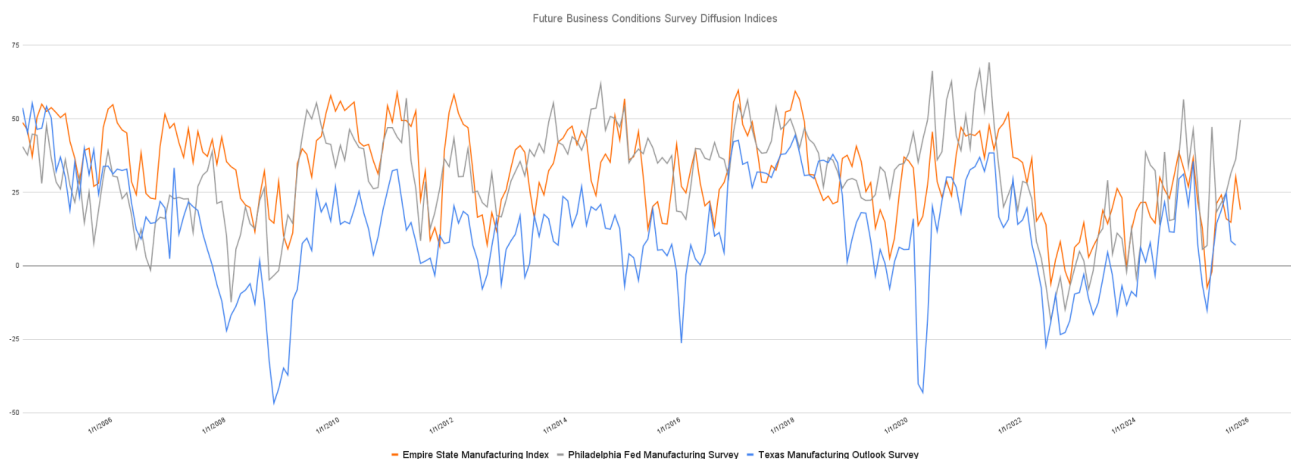
At the time of writing, the average LTL contract rate has risen 52 cents per hundredweight over the past month. Currently sitting at \$47.20 per hundredweight, shipping via LTL is 9.3% more expensive than it was a year ago.

Given that LTL pricing broke into new highs last quarter, it is perhaps unsurprising that there is a modal shift underway. Intermodal demand has risen this year at the direct expense of the full-truckload segment. Yet LTL carriers are now reporting an ironic twist: Shippers have been increasingly consolidating smaller loads into full truckloads as a response to high LTL rates. Whether this trend continues into next year is an open question; LTL rates are forecasted to again remain elevated during Q4, which could accelerate the modal shift.

Macroeconomic conditions

Sentiment in the manufacturing sector, the largest driver of domestic truckload demand, was markedly divided throughout Q3 — a trend that has continued in Q4 so far. While New York manufacturers saw an unexpected brightening of their current business conditions, hope for future improvement in the sector ebbed. This outlook was nearly the mirror image of their counterparts in

Philadelphia, in which present conditions continued to worsen but optimism grew for the coming six months.



Building on October's surprising turn towards bullishness, the Empire State Manufacturing Survey — conducted monthly by the Federal Reserve Bank of New York — surprised markets yet again in November. The survey's headline General Business Conditions Index surged 8.0 points m/m to 18.7, completely torpedoing the consensus forecast of a dip to 5.8 and marking its fourth expansionary reading in the last five months. This stunning growth was driven by an equally impressive gain in the New Orders Index (up 12.2 points m/m to 15.9) and a lesser but still appreciated gain in the Shipments Index (up 2.4 points m/m to 16.8).

Yet, although New York manufacturers continue to expect that conditions will improve over the coming six months, their optimism lost some enthusiasm. The forward-looking General Business Conditions Index fell 11.2 points m/m to a still-expansionary 19.1. Similar performances were seen in the future counterparts of the indices for New Orders (down 11.6 points m/m to 23.3) and Shipments (down 8.3 points m/m to 23.3). One bright spot, however, was the Capital Expenditures Index, which rose 14.4 points m/m out of the red to 11.5. This latter gain was likely effected by tax advantages under the Trump administration's aforementioned deregulatory agenda, though an expectation for falling interest rates certainly played a role also.

The outlook among Philadelphia manufacturers was not so sunny, however. November's print of the Manufacturing Business Outlook Survey — conducted monthly by the Federal Reserve Bank of Philadelphia — saw the headline index remain in contraction at minus-1.7, even after climbing 11.1 points m/m. This monthly growth occurred despite most of the current indicators plummeting: most notably, the indices for new orders (down 26.8 points m/m to minus-8.6) and shipments (down 14.7 points m/m to minus-8.7).

Perhaps out of the belief that, since present conditions had deteriorated so much, the future could not help but see improvements, the forward-looking index for general business activity rose 13.4 points m/m to 49.6. The forecast for new orders gained 5.8 points m/m to 55.6, yet the outlook for shipments remained flat at 48.4. It is somewhat odd to see such strong optimism relative to New

York, in which manufacturers are generally contented with their present lot and do not see as much runway for further growth.

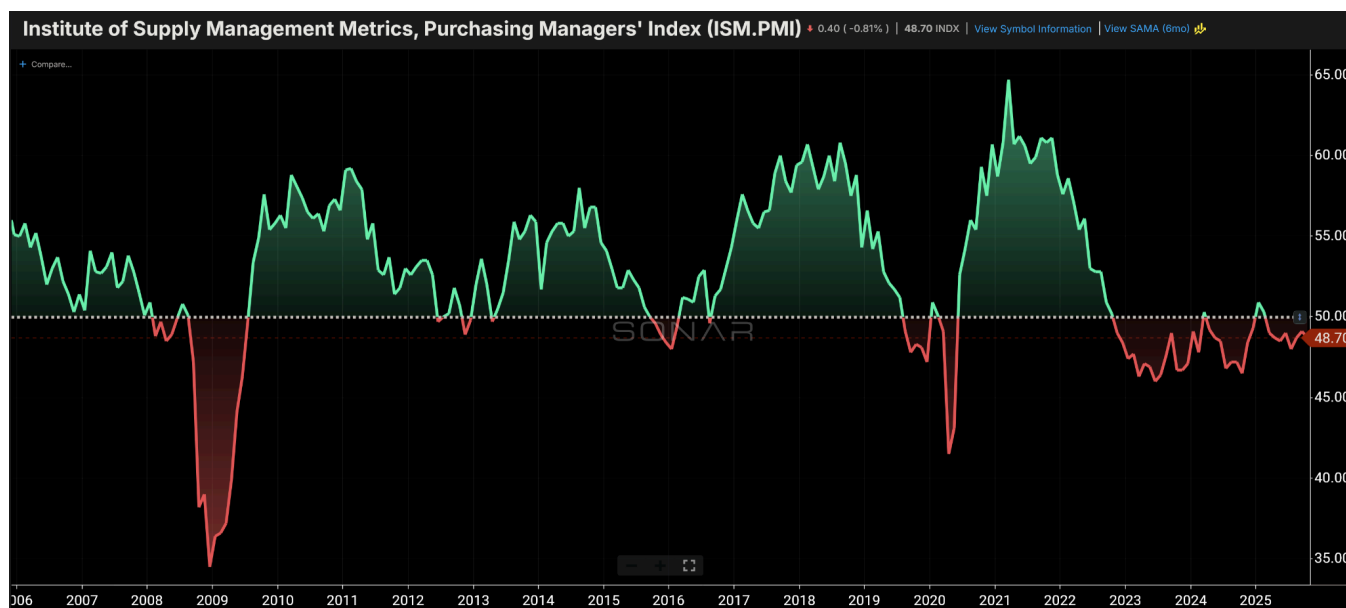


Chart: SONAR. Institute for Supply Management's Manufacturing PMI.

National sentiment indices were similarly confusing. Firms are unable to form a consensus on whether the sector is expanding or contracting, although most agree the intensity of either change is low. The Institute for Supply Management's Manufacturing PMI eased to 48.7 in October, down 4 points from 49.1 in September. October's reading thus marked the eighth consecutive month of contraction. Even within the survey, the subindices were divided: New orders rose 0.5 points m/m but remained in the red at 49.4%; production fell 2.8 points m/m and fell into contraction at 48.2%; and supplier deliveries accelerated 1.6 points m/m to 54.2%.

Prices continued to increase but at a slower pace, down 3.9 points m/m at 58%, while new export orders and imports both improved but remained in contraction at 44.5% (up 1.5 points m/m) and 45.4% (up 0.7 points m/m), respectively. Six industries reported growth, up from the lonely two in September. 58% of manufacturing GDP contracted (down from 67%), yet the share in strong contraction rose to 41%, up 13 whole points from the month prior.

Looking at the S&P Global US Manufacturing PMI is almost like looking at data from another sector altogether. S&P's headline PMI rose to 52.5 in October, the third consecutive month of expansion. Output increased at a stronger rate, supported by the fastest growth in new orders in 20 months. This growth was driven primarily by domestic demand, as new export orders declined for the fourth straight month — the sharpest drop since July — for obvious reasons.

Chris Williamson, chief business economist at S&P Global Market Intelligence, summarized the report: "US manufacturers reported a solid start to the fourth quarter with production rising at an increased rate in response to an encouragingly robust jump in new orders. However, lift the hood and the picture is not so healthy. Most worrying is the unprecedented rise in unsold stock reported in

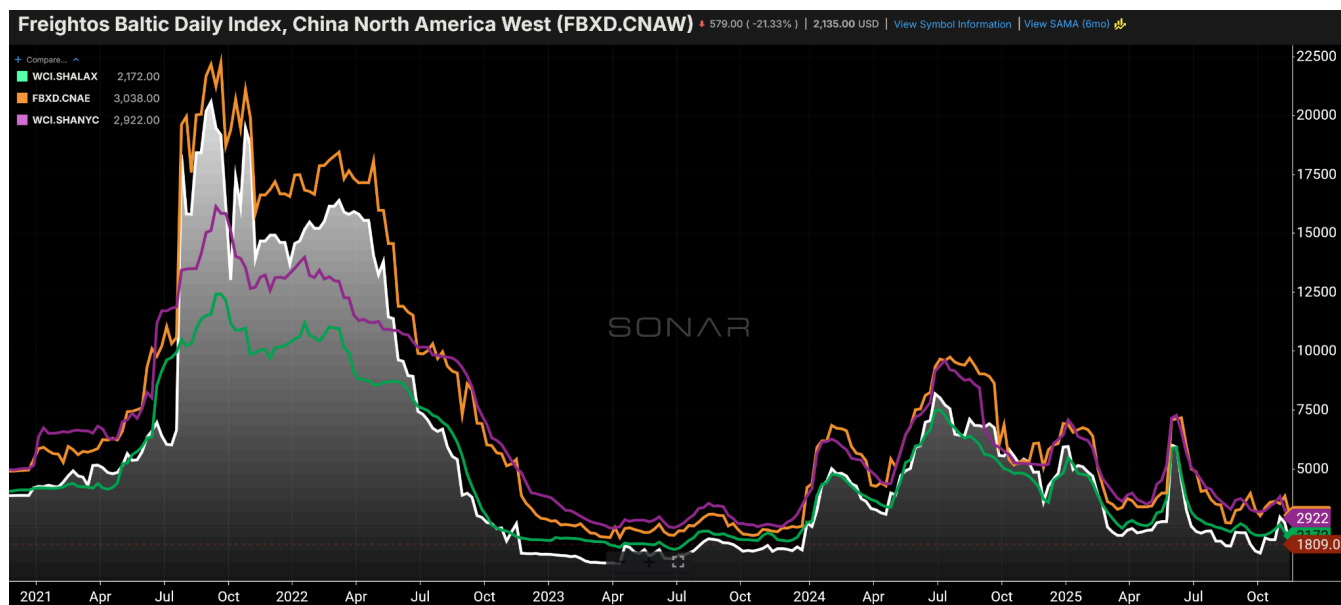
October, widely linked to weaker than anticipated sales to customers, especially in export markets, which could trigger a downshifting of production in the coming months unless demand revives.”

Helping to explain the fading enthusiasm seen among New York manufacturers, Williamson continued: “Companies have also become less optimistic about the year ahead, with sentiment back down close to the gloomy levels seen around the April tariff announcements. US trade policy uncertainties are again a big factor in damaging business spirits, with tariff policies being increasingly blamed both on rising export losses and import supply chain disruptions. ... Business confidence among producers of consumer goods is now down to its lowest for two years as firms [grow] increasingly worried about household spending in the US and falling sales to consumers in export markets.”

Maritime

Although the U.S.-China trade war has been frozen by a year-long ceasefire (discussed further below), there is little indication that trans-Pacific lanes will see a resurgence in the near future. Accordingly, ocean carriers are attempting to combat this uncertainty by issuing general rate increases, hoping that container rates will thereby gain a semblance of positive momentum.

This gambit, which not only sought to combat weak demand but also rising overcapacity via blanked sailings, went into effect on Nov. 1. Initially, the GRIs did manage to double container rates from their October lows. Yet these gains were held for only two short weeks before rates fell below even their pre-GRI levels, if not quite as low as October’s nadir.



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

Perhaps the best way to characterize the container shipping market is that it, like the trucking industry, is in a fragile rebalancing phase. After the extended period of trade-policy whiplash and

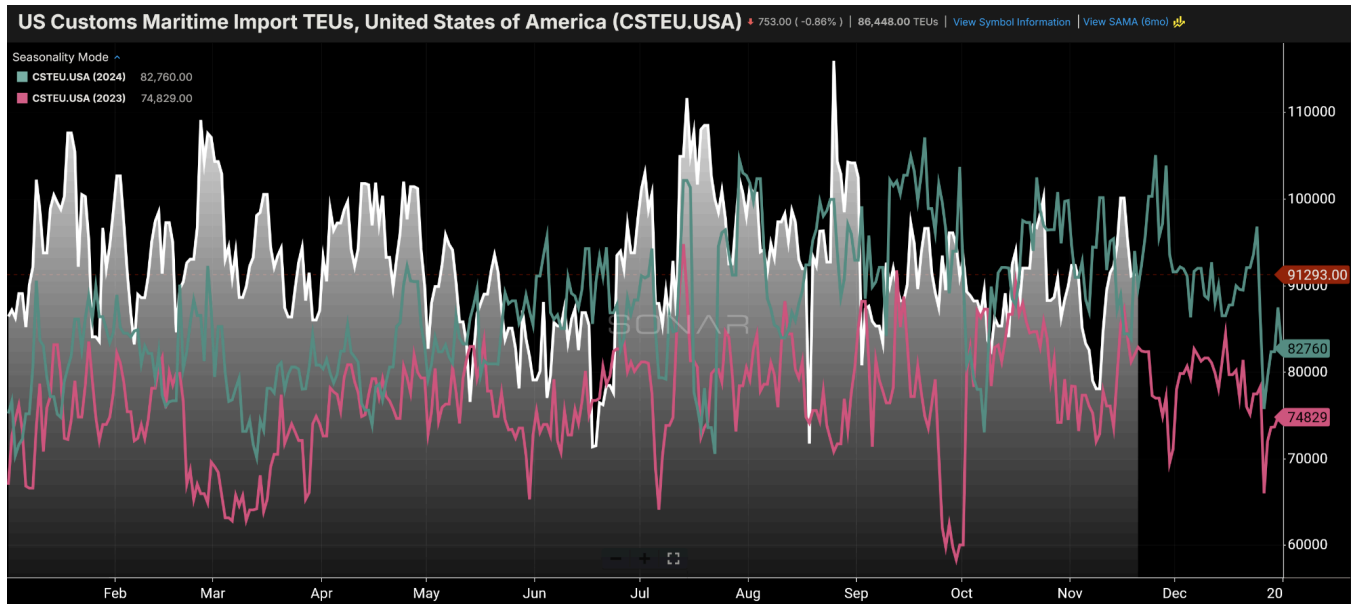
frontloaded import peaks earlier this year, Q3 results across the major carriers showed the clearest picture yet of the post-boom adjustment: Worldwide, volume growth continued, but it was completely overshadowed by sharply lower freight rates and rising unit costs, effecting steep y/y declines in operating margins.

The sudden pause in Houthi-related disruptions in the Red Sea — triggered by the tenuous Israel-Hamas ceasefire — has introduced the single largest wildcard for 2026. If this pause in attacks lasts long enough to convince carriers to resume routes along the Suez Canal, it would release the equivalent of roughly 2 million 20-foot equivalent units of absorbed capacity back into the market. Freeing up 8%-10% of global fleet capacity in this way would devastate rates if carriers do not preemptively idle or slow-steam a significant portion of their fleets. But with or without this return to the Suez, global container rates are expected to fall up to 25% in 2026.

Given the indelible weakness and substantial overcapacity in the industry — not to mention the effect that a mass return to the Suez would have — trans-Pacific container rates remained depressed in the back half of November, after the sugar-rush of GRIs faded. While rates are not quite at October's two-year lows, they are quickly barreling toward them.

The Freightos Baltic Daily Index from China to the North American West Coast has fallen 9.3% m/m to \$1,809 per 40-foot equivalent unit and is down 62.8% y/y. Whether it will return to last month's two-year low of \$1,431 per FEU is not yet known, but it certainly appears to be headed that way at a fast clip. This decline is arguably more severe — but far more volatile and thus far less assured — in spot rates from China to the North American East Coast: On Nov. 18, rates jumped more than \$1,000 per FEU over the day before, held that exact gain for one day, then finally plummeted more than \$1,000 per FEU the next day. Rates along this lane have fallen 15.3% m/m and are down 46.8% y/y.

The Drewry World Container Index, being released weekly, has yet to reflect the full declines seen in the above indices. Nevertheless, the WCI from Shanghai to Los Angeles is down 5.2% m/m (and 51.6% y/y) to \$2,172 per FEU. The WCI from Shanghai to New York has fallen 14.6% m/m to \$2,922 and is 43.9% below year-ago levels.



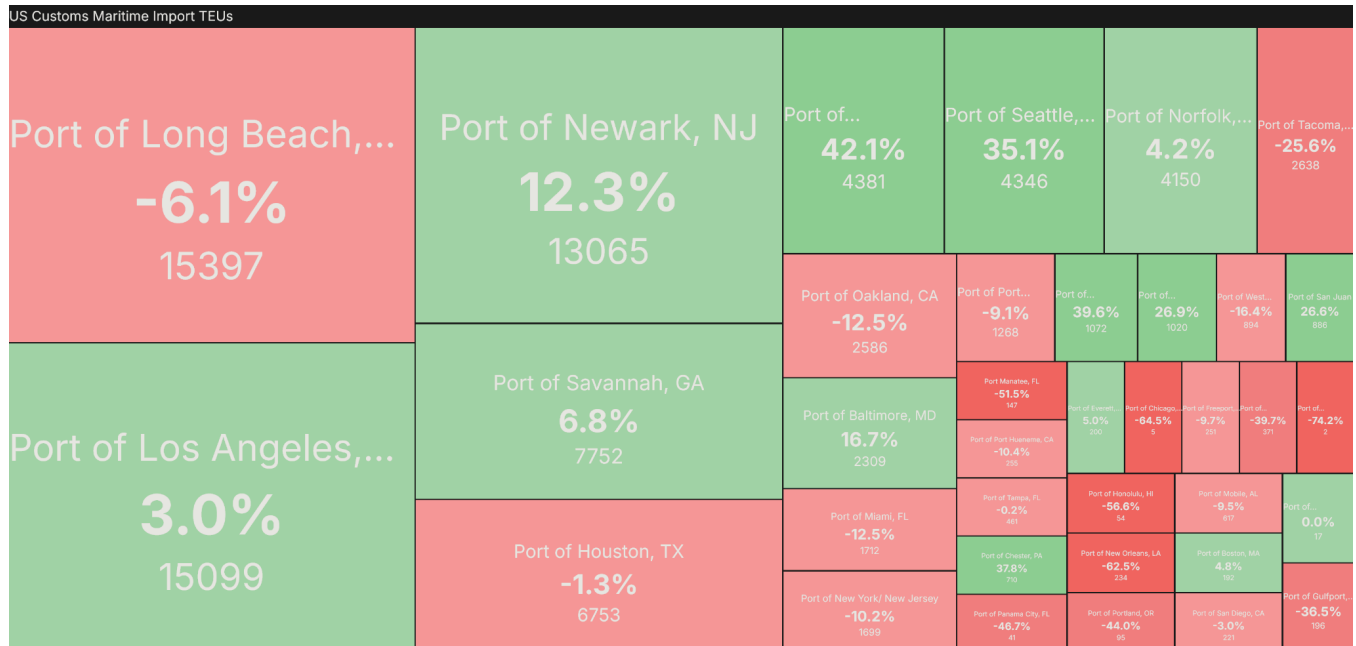
Source: SONAR. U.S. Customs Maritime Import TEUs: 2025 (white), 2024 (blue) and 2023 (pink).

Those seeking further confirmation that maritime's peak season is well and truly spent need look no further than at U.S. container import volumes. After peaking to a new all-time high in late August, volumes naturally fell in September. October's volumes were essentially flat on a monthly basis — only the second time in a decade that October failed to show a seasonal increase — and finished well below the range seen in a typical peak season.

Container volumes deteriorated further in early November, though a dead-cat bounce around the middle of the month did occur. Forecasts now call for accelerating y/y declines through December, followed by a sharper drop in Q1 2026 as the early-2025 front-loading wave fully unwinds. Retail inventories remain elevated after the tariff-induced pull-forward, reducing the urgency for replenishment in the next several months.

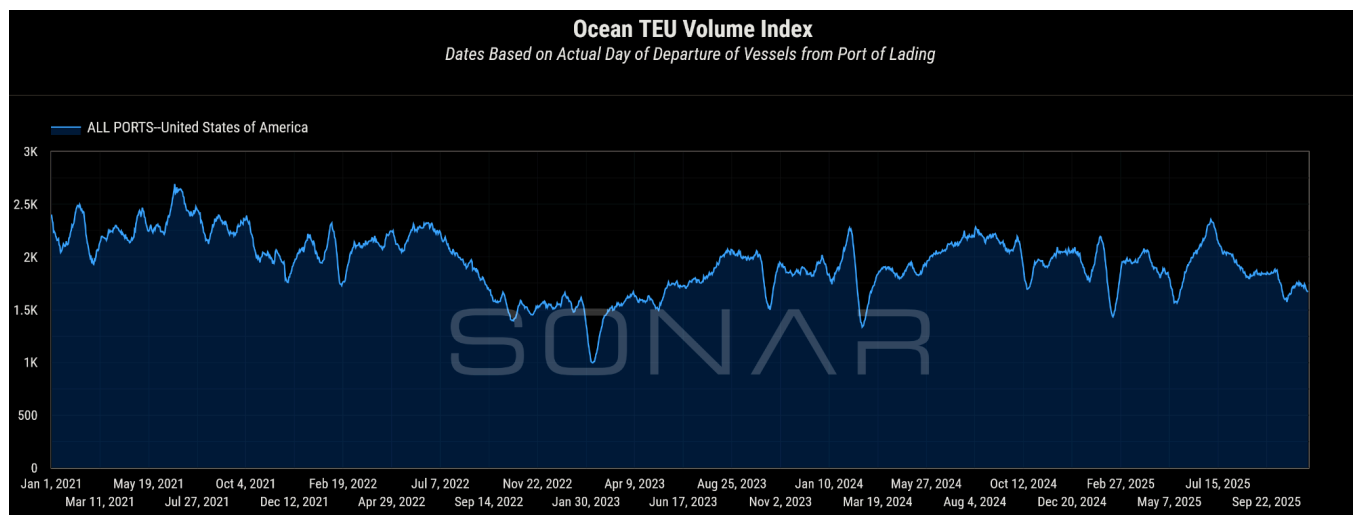
Somewhat remarkably, the Port of Long Beach is moving containerized cargo ahead of the record-setting pace it achieved in 2024 — despite the fact that the port saw October volumes drop nearly 20% y/y. That said, to say that this October faced difficult comps would be a great understatement: October 2024 was the strongest month in the port's 114-year history.

Nor is Long Beach a fluke, as the neighboring Port of Los Angeles is on track to break a record of its own. "With six weeks to go," said Gene Seroka, the port's executive director, "we are within reach of the 10 million container unit-mark for the year. If we reach that milestone, it would be the third time in our history and something no other Western Hemisphere port has achieved even once."



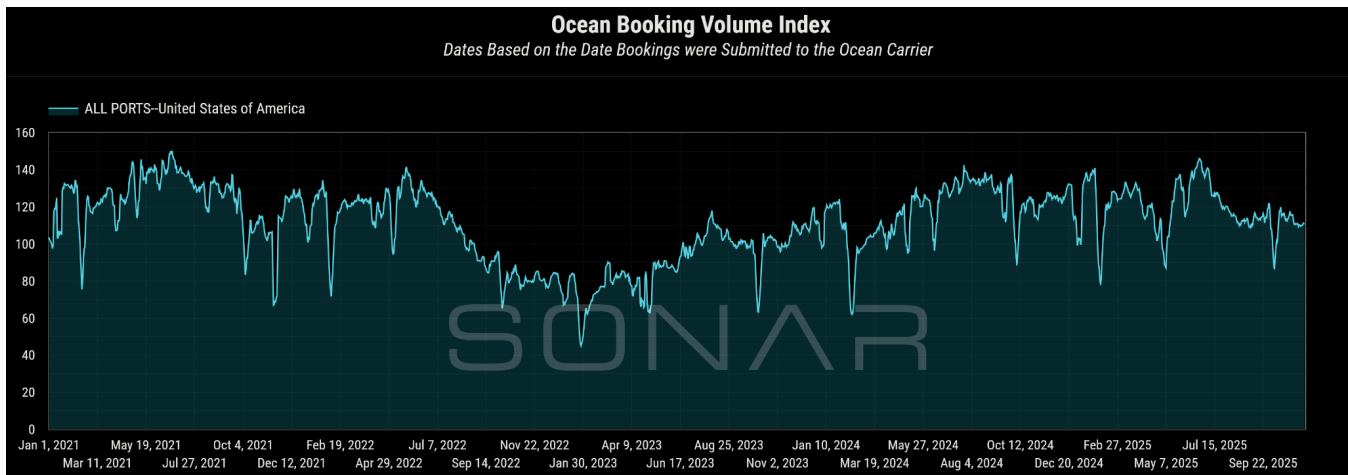
Source: SONAR. Maritime Import Shipments by Port — Tree Map.

As can be seen in the tree map above, ports' performance against year-ago comps is rather mixed, though the U.S.' largest ports are generally seeing y/y growth. Of the top seven ports, only two are reporting y/y declines. The first, the Port of Long Beach, is easily explicable given the difficulty of its aforementioned comps. The second is the Port of Houston, whose decline is similarly intelligible: Exports are the main engine of the port's growth, given its proximity to the Permian Basin and various manufacturing hubs. To oversimplify, however, ports along the East Coast are more inured against declining imports from China and so are seeing greater y/y growth than their West Coast counterparts.



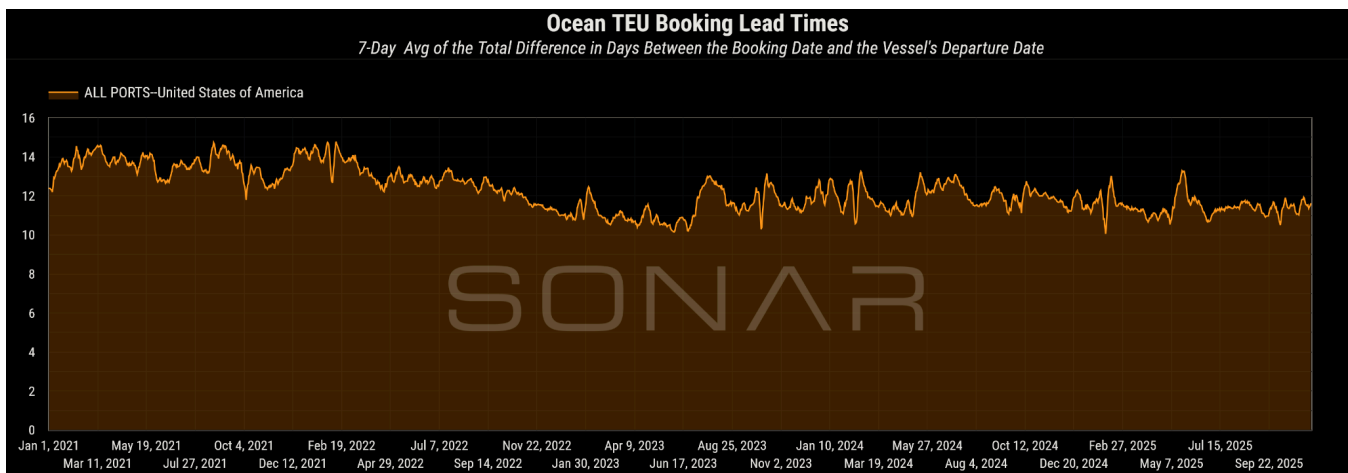
Source: SONAR Container Atlas. Ocean TEU Volume Index — all global ports to all U.S. ports.

The Ocean TEU Volume Index, a gauge of container trade from all global ports to all U.S. ports as TEUs leave origin ports, recouped some of October's steep losses in November only to lose them once again by the month's end. While not quite at the lows of mid-May — before the first U.S.-China tariff ceasefire took effect — the index is close to them. Over the past month, the Ocean TEU Volume Index inbound to all U.S. ports has risen 2.6% against easy comps but is set for further decline in the coming weeks. Inbound TEU volumes are down 15.2% y/y, yet another casualty of the pull-forward measures shippers have taken relative to last year.



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

Further upstream, bookings have slowly unwound October's rally, which was triggered by the unexpected ratcheting of U.S.-China trade tensions at the time. But with the year-long tariff ceasefire now in effect, shippers are feeling little urgency to add to their already-abundant stateside inventories. Relative to October, the Ocean Booking Volume Index is down 2.6% and has fallen 13.2% y/y.

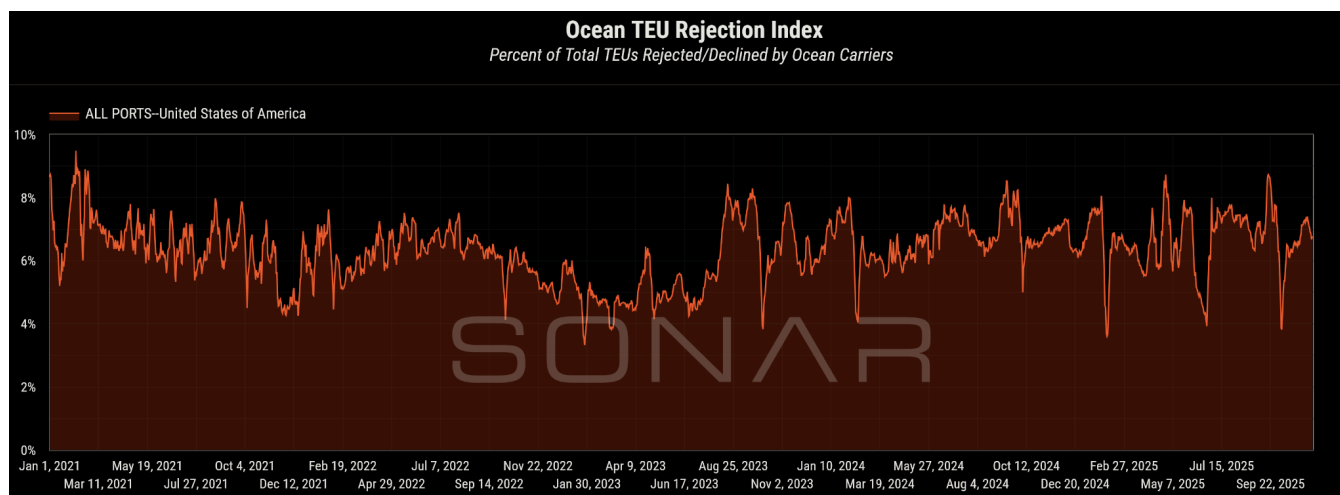


Source: SONAR Container Atlas. TEU booking lead times — all global ports to all U.S. ports.

Ocean TEU Booking Lead Times have been oscillating upwards over the past two months, an unusual pattern in a dataset that traditionally sees either stability or rapid gains and losses. No doubt,

shippers are having knee-jerk responses to minute-by-minute changes to trade policy and seasonal tightness. Still, despite their unsteady upward crawl, lead times are shorter than they have been in recent years.

Shorter lead times can be interpreted a handful of ways, but the most likely explanation at present is that shippers are desperate to get their imports stateside while U.S.-China tensions are rising. Over the past month, booking lead times have been virtually unchanged at an average of 11.6 days.



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

The Ocean TEU Rejection Index, mirroring the impact of November's GRIs and trending along with container rates, experienced a limited rally in the first half of the month that was erased in the latter half. As mentioned previously, ocean carriers are pulling nearly every lever within reach to goose rates — including blanking sailings — but are simply unable to overcome the market's tremendous overcapacity and demand issues. Over the past month, ocean rejection rates have risen 51 bps to 6.78% but are still 18 bps lower than they were at the same time last year.

Rail intermodal

Union Pacific and Norfolk Southern cleared the first major hurdle to their proposed merger in mid-November, when shareholders overwhelmingly backed their deal to create the U.S.' first transcontinental railroad. The railroads plan to file their merger application with the Surface Transportation Board in early December. From this point, it could be smooth sailing for the deal: The proposal garnered support from President Trump in mid-September, who said that it "sounds good to me."

Not all are as contented with the merger, however: Aside from the usual suspects — such as fellow Class I railroad BNSF Railway — nine attorneys general from Republican-leaning states expressed their concern that the merger "could compromise our national security." In a letter addressed to the STB's leadership, the officials argued the merger "will result in undue market concentration that stifles competition and therefore creates higher prices, lower reliability, and less innovation at the expense of America's manufacturers and, ultimately, America's consumers." The letter urged regulators to conduct a "thorough and exacting review."

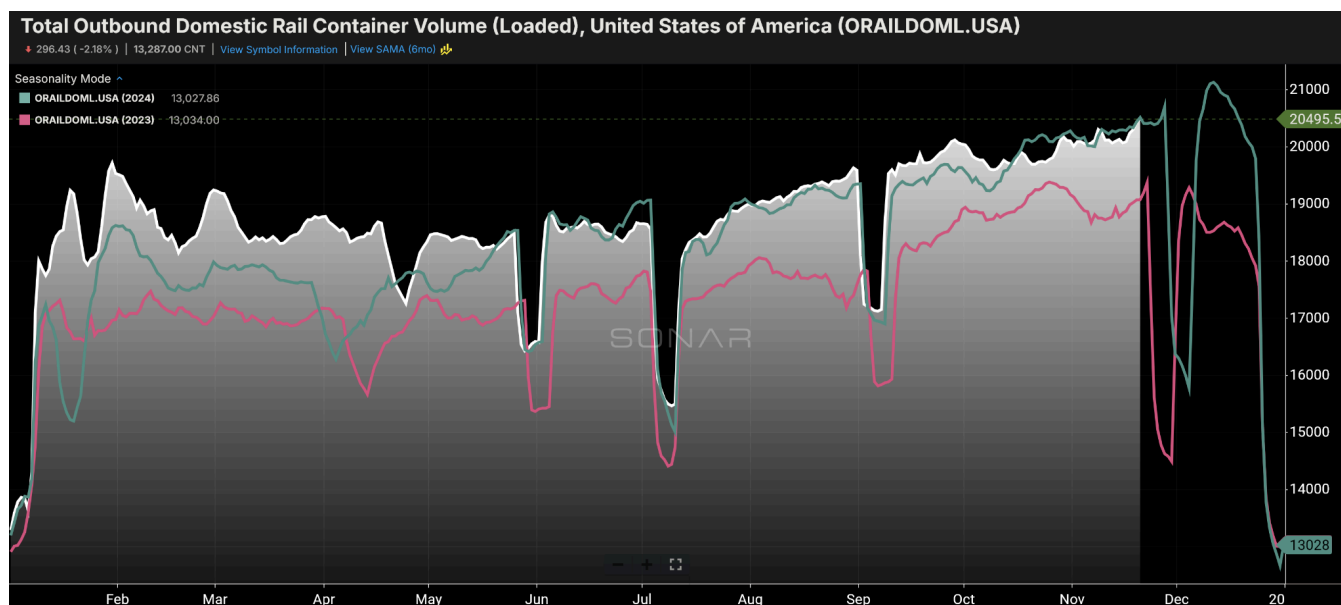


Chart: SONAR. Loaded domestic intermodal container volumes for 2025 (white), 2024 (blue) and 2023 (pink).

Doubtlessly, BNSF leadership was cheering on the sidelines, having repeatedly argued these points over the past several months. Indeed, in a recent one-page paper headlined “Costly, Unnecessary, Anti-Competitive and Bad for the U.S. Economy,” BNSF claimed that UP would close 300 intermodal lanes if the merger was concluded. The claim prompted a sharp rebuttal from UP CEO Jim Vena: “First of all, we do not have 300 lanes in intermodal. There are not that many lanes. ... I find it interesting that [BNSF parent] Berkshire [Hathaway] is coming after us that hard.”

Despite the lingering weakness of U.S. import demand, however, intermodal volumes are on a notable upturn at the time of writing. Though down 3.4% y/y, total intermodal volumes are up 2.5% m/m. This growth is likely seasonal and coming at the expense of long-haul trucking, as consumer spending around the holidays appears strong enough in preliminary data.

In a surprising turn of events, it is not one single segment driving intermodal's gains but both. Of the two, the international segment is slightly stronger, with total volumes up 2.6% m/m. This rally is practically inevitable, given the forecasts of growth — albeit slower growth than in 2024, but growth nonetheless — of retail sales this holiday season. The velocity in both halves of the international segment is strong, with loaded international volumes up 2.6% m/m and empty volumes up 2.5% m/m. Even so, international volumes are down 7.8% y/y, with loaded volumes down 5.2% y/y and empties down 15.9% y/y.

Domestic intermodal volume (up 2.5% m/m) has been far more consistent over the past few months, even managing to hold its own against difficult year-ago comps by staying virtually unchanged (down 0.1% y/y) over the period. The domestic segment is well protected against the wonky maritime peak season: A substantial volume of pulled-forward shipments this year was warehoused near port locations, providing a steady demand for 53' containers in regions closer to consumption centers. Although empty domestic intermodal volumes are down 3.2% m/m, they too are faring well on an

annual basis (down 0.1% y/y). Loaded domestic intermodal volumes, meanwhile, are up 3.8% m/m and also down only 0.1% y/y.

Intermodal contract rates: Is there room to grow?

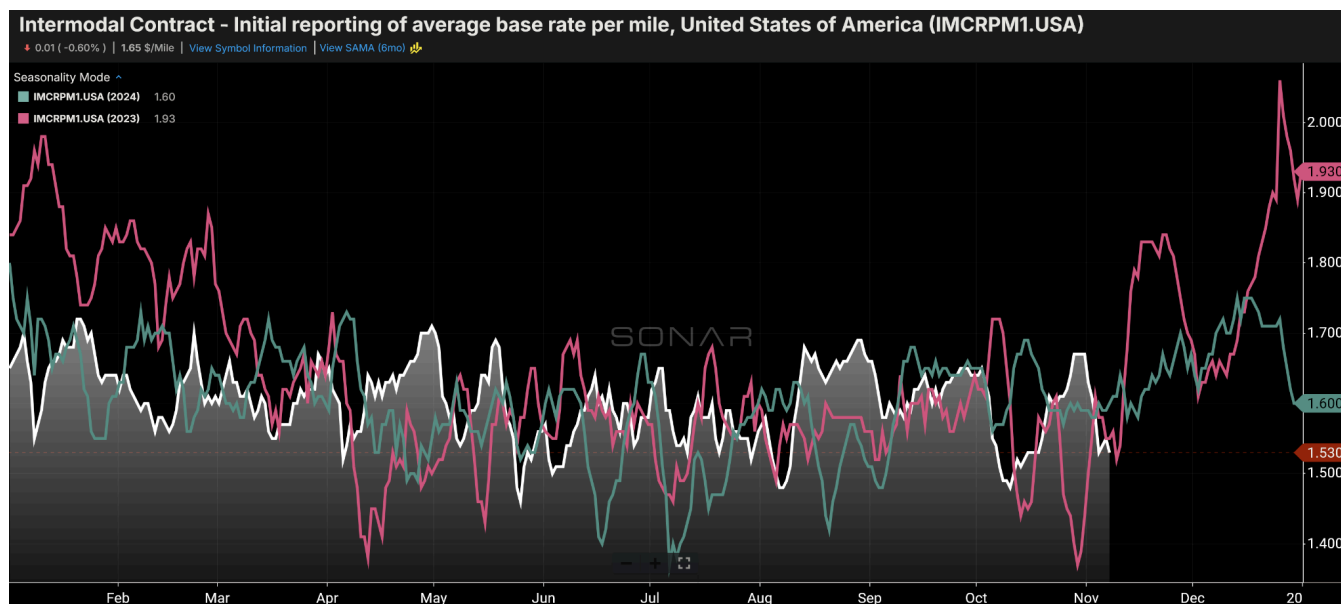


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2025 (white), 2024 (blue) and 2023 (pink).

For the most part, intermodal contract rates were tightly rangebound between \$1.50 and \$1.75 per mile in 2024. This trend has continued into 2025, with the caveat that the defining feature of rates' natural fluctuation this year has been shorter peaks and wider valleys. Intermodal contract rates averaged \$1.53 per mile in October 2025, up 3.4% from September's average but down 4.4% from year-ago levels.

With the start of intermodal's bid season at hand, the burning question is obviously whether carriers will have any substantial pricing opportunities, or if the truckload market is still too loose for rate increases to take hold. Unfortunately, the signals here are mixed: Rate increases are typically influenced by whether there is a meaningful peak season (which is apparent this year). Moreover, intermodal service levels have generally been solid, and rate savings against truckload exist in most major intermodal lanes — both of which support rates rising soon.

Domestic intermodal carriers, however, still have plenty of spare capacity based on container availability, so shippers could be able to shop around and play one carrier off another. All in all, the deciding factor here will likely be how the truckload market develops — more specifically, whether seasonal tightness around the holidays suggests that enough trucking capacity has been shed to make a carriers' market appear imminent.

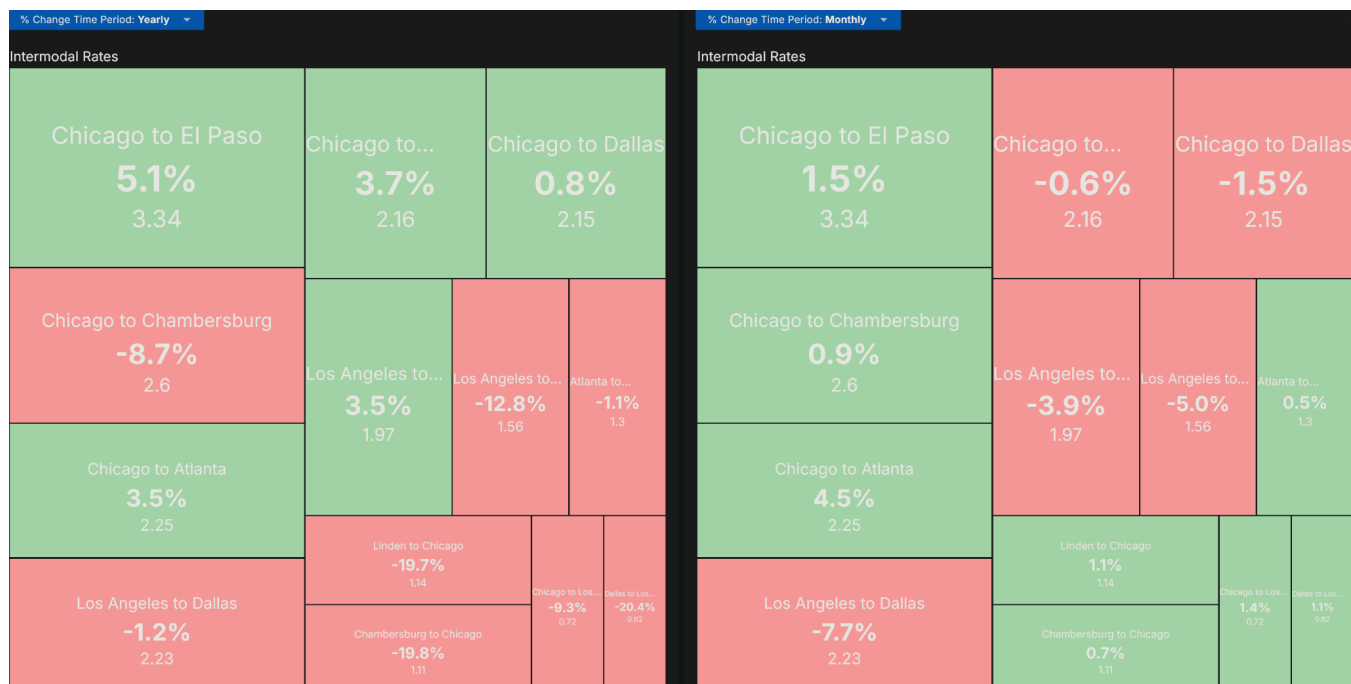


Chart: SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

On the other side of the equation, intermodal spot rates suggest that there is almost no need for carriers to protect contracted capacity. In November, the national intermodal spot rate has more or less stabilized just above year-to-date lows — an inauspicious omen for the coming year. On average, intermodal spot rates have fallen 4.6% m/m to \$1.44 per mile, down 4% y/y.

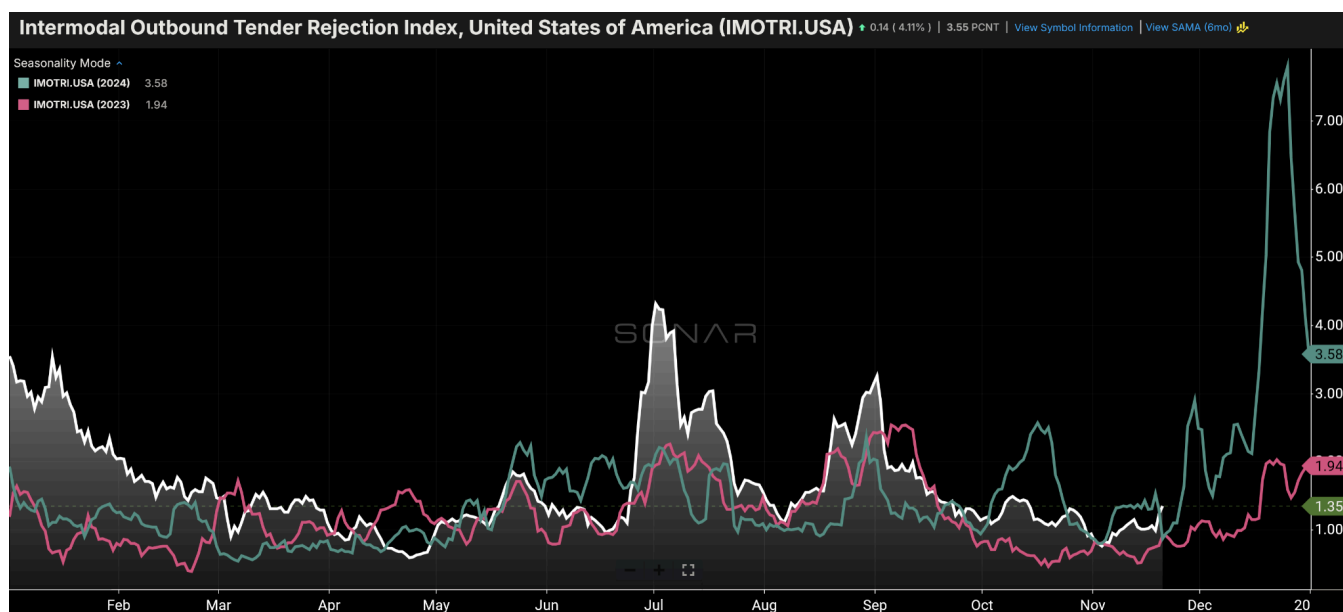


Chart: SONAR. National intermodal outbound tender rejection rates in 2025 (white), 2024 (blue) and 2023 (pink).

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. Intermodal rejection rates averaged 1.35% in November 2025, up 16 bps from the month prior and 48 bps from year-ago levels — a change minute enough to signal sufficient capacity and improved reliability among carriers.

What else we’re watching

Lasting 43 days, the longest shutdown of the U.S. federal government came to a close on Nov. 12. Analysts estimate that the shutdown will be a drag of 60 to 90 basis points (bps) on GDP in Q4, though estimates range as high as 150 bps. Beyond this effect, however, the shutdown appears to be mostly sound and little fury: Q1 2026’s GDP growth will be boosted as hours worked and government spending renormalizes, just as negative growth in Q1 of this year — the result of a massive pre-tariff wave of imports — led to robust, but ultimately meaningless, growth in Q2.

Arguably the worst effect of the shutdown from a macroeconomic standpoint was the lack of key economic data. Payroll figures from September were eventually released (as discussed below), but certain datasets will retain a blank spot — most notably, the Consumer Price Index for October.

Inflation data cannot be collected retroactively, and November’s data will be skewed in at least two ways: First, given the time constraints, the sample size will be smaller than in normal months (Bank of America estimates a reduction of roughly 25%). But second, November’s CPI data will be skewed by post-Thanksgiving sales events such as Black Friday. In other words, a clean reading on inflation will not be possible until January at the earliest.

The reason the data blackout is such an important problem is that the Federal Reserve will be once again flying effectively blind at its December meeting. The data fog is likely to convince the Fed to be overly cautious when deciding to cut interest rates; the key determinant of a cut in December would be a high November unemployment rate, with the cutoff most probably at 4.5% or above.

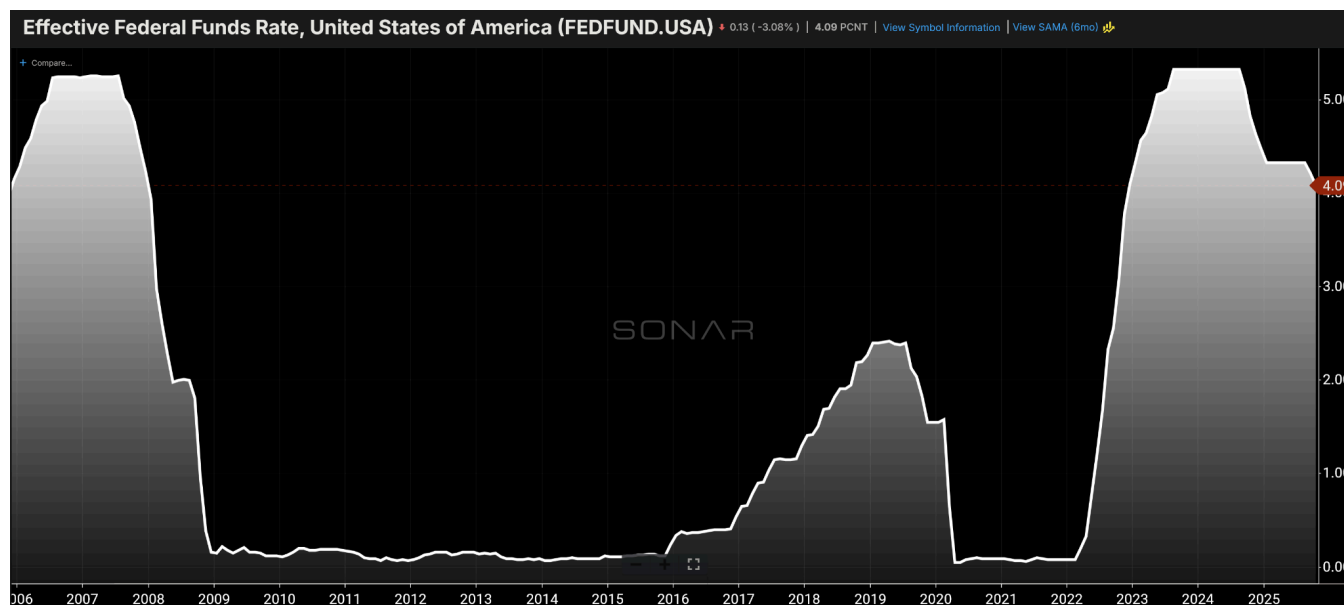


Chart: SONAR. Effective federal funds rate.

Still, the Fed's decision is complicated by more than the lingering effects of the blackout. Last week, the White House released an updated list of agricultural products that qualify for an exemption to the sweeping "reciprocal" tariffs. Mostly, these exemptions are granted to food products that cannot be grown in the U.S. (like coffee, spices, cocoa and tropical fruits), thus frustrating the tariffs' long-term goal of reshoring goods production. This move is part of a larger campaign by the Trump administration, termed "Operation Affordability," to lower food prices ahead of the 2026 midterm elections.

Another pre-election overture from the White House — one that will most hinder the Fed's battle against rising inflation — will be the huge injection of disposable income in the first half of 2026. Part of this injection is guaranteed: The One Big Beautiful Bill Act, passed in July, will provide an estimated \$91 billion in tax relief thanks to its retroactive provisions for 2025. This number includes approximately \$59 billion disbursed through tax refunds (primarily between February and April during filing season) and \$32 billion in reduced liabilities, such as the new "no tax on tips" policy and a \$6,000 "senior bonus" deduction for Social Security recipients.

But President Trump has publicly floated the idea of a \$2,000 "tariff rebate" check that would function much like the COVID-era stimulus checks. On Nov. 9, Trump wrote that "a dividend of at least \$2000 a person (not including high income people!) will be paid to everyone." Yet not all in his cabinet were on board: The same day, Treasury Secretary Scott Bessent stated in an interview that he had not discussed the tariff rebate idea with the president, saying that the dividend "could come in lots of forms, in lots of ways... It could be just the tax decreases that we are seeing on the president's agenda — you know, no tax on tips, no tax on overtime, no tax on Social Security, deductibility of auto loads."

One week later, Bessent appeared for another interview in which, regarding the \$2,000 rebate checks, he stated: "We will see. We need legislation for that... Those could go out." Bessent clarified that the payments would be "for working families" with an income limit. On the next day, Trump

indicated that Americans could expect the \$2,000 rebate checks by “mid-2026”; when pressed by a reporter if the checks would arrive by Christmas of this year, Trump shot down the possibility.

Leaving aside potential disagreement within his cabinet and the possibility of legislative aid in pushing these checks, there is one major obstacle to the idea: the Supreme Court. In early November, the Supreme Court began hearing the case on the legality of tariffs effected under the International Economic Emergency Act (IEEPA). IEEPA tariffs represent about 70% of the U.S.’ current effective tariff rate of 15% and thus account for roughly 1.5% of GDP in revenues.

There are three central questions to this case. The first is whether IEEPA grants the president to tariff or not; the second is whether the current tariffs can be likened to a tax, a power which constitutionally rests with Congress; the third is whether the Supreme Court itself can have the responsibility to arbitrate what is and what is not a national emergency, a power which traditionally falls under the purview of the executive branch. Accordingly, the Supreme Court could rule firmly against the legality of IEEPA tariffs; it could differentiate among the imposed tariffs, finding that some are legal (like the fentanyl-emergency tariffs) and some are not (like the broad reciprocal tariffs); or it could defer the matter entirely to the president.

Unfortunately for the Trump administration — and perhaps fortunately for the Fed — most of the justices on the Supreme Court have expressed open skepticism about the president’s authority to impose tariffs under IEEPA. For one, Chief Justice John Roberts unambiguously stated that tariffs are “the imposition of taxes on Americans,” which “has always been the core power of Congress.” Other justices, including appointees from the first Trump administration, also voiced concern that IEEPA tariffs marked a violation of the separation of powers. Either way, a ruling could be possible as early as mid-December.

There are many possibilities on what may occur if some or all of these tariffs are voided — too many, in fact, to cover in this current paper. But the primary takeaways are that: the Trump administration will immediately seek to pull other levers (e.g., Section 122) to keep the tariffs in place; the U.S.’ trade deals made under this regime would likely be invalidated, though they might not; the effective tariff rate would fall to around 12% until the tariffs are reinstated; and about half of the tariff revenues lost to the adverse ruling could be recovered.

It is admittedly strange timing that this Supreme Court drama is unfolding just after the U.S. and China agreed to a ceasefire in their trade war. Effective Nov. 10, both parties withdrew the bulk of their tariffs against one another, pledging to suspend further escalations for one year. Not coincidentally, this ceasefire expires just after the U.S.’ 2026 midterm elections, freeing the administration up to focus on its other agendas — like deregulation — until that time.

One of the major aims of the Trump administration’s deregulation agenda is undoubtedly to resuscitate the ailing labor market by incentivizing businesses’ investments. (Of course, such incentives can only be so effective while interest rates are still high.)

It is truly difficult to tell, looking at September’s delayed payroll data, whether the jobs market is in such dire straits or not. Job growth in the month smashed through all previous estimates from Wall Street — which ranged from 100,000 to minus-20,000 — and was more than double the consensus

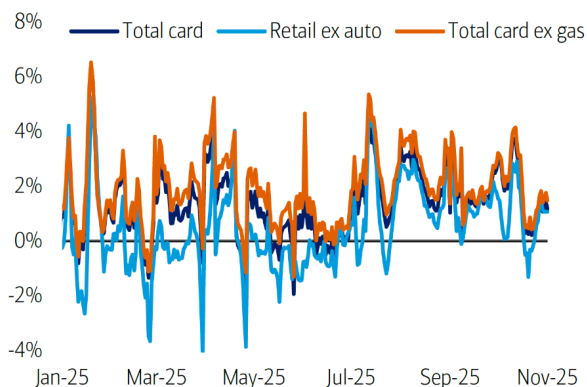
forecast of 50,000, with the headline number shooting to 119,000. This growth makes September the strongest month for job creation since April.

This growth did not reach the transportation and warehousing sector, however, as jobs there fell by 25,300 m/m. Though the largest losses were sustained in the warehousing and storage subsector (down 10,700 m/m), there was a steep decline in the truck transportation subsector (down 6,800 m/m) as well as among couriers and messengers (down 6,700 m/m). This latter category does include parcel delivery companies like UPS and FedEx, but also local food and grocery delivery services such as DoorDash and Postmates.

Yet, even as the headline payrolls number was blisteringly hot, a glance at the unemployment rate dumped cold water on the celebration. The unemployment rate ticked up to 4.4%, its highest level since October 2021. Recall that analysts pegged the Fed's willingness to cut rates in December — data fog be damned — at the unemployment rate settling at 4.5% or above. The next official labor market print will arrive the day before the Fed begins its blackout phase for the December rate decision; it could very well convince them that rising unemployment is a greater concern than rising inflation.

Given the fact that official data releases are still playing catch-up after the federal government shutdown ended on Nov. 12, no data on retail sales nor on consumer or producer inflation has yet been released. That said, Bank of America forecasted that headline retail sales in October likely fell 0.2% m/m, in line with consensus. The analysts were, however, more bullish on the control group — retail sales excluding autos, gasoline, building supplies and restaurants — as Bank of America predicted sales rose 0.5% m/m against consensus of a lesser 0.3% m/m gain.

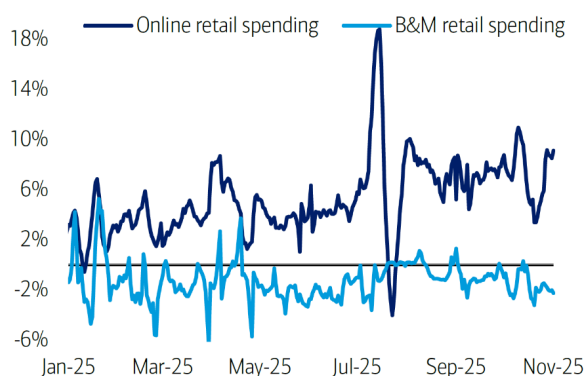
Total card, retail ex auto and total card ex gas spending, per HH, based on BAC aggregated card data (y/y %change of the 7-day ma of spending levels)



Source: BAC internal data

BoFA GLOBAL RESEARCH

Online (card not present) and B&M retail spending, per HH, based on BAC aggregated card data (y/y %change of 7-day ma of spending levels)



Source: BAC internal data. Note: B&M retail means retail purchases at the store. Card not present is largely online but could include purchases made over the phone.

BoFA GLOBAL RESEARCH

As mentioned in last month's report, Bank of America has a stellar track record whenever its forecast deviates from the norm. This track record is due, in no small part, to its direct access to card spending data. Total card spending per U.S. household, as measured by Bank of America's aggregated credit and debit cards, was up 2.4% y/y and 0.3% m/m in October. The bulk of these gains came from growth in spending on electronics (up 2.3% m/m), department stores (up 1.6% m/m), furniture and online retail (both up 1% m/m).

Breaking down its data between high-income versus low- and middle-income households, Bank of America's latest release reinforces the notion of the "K-shaped economy" — in which two classes of consumers are finding themselves in wildly different circumstances. The upper half of the K tends to have its wealth tied up in equity markets, which are booming thanks to the hype surrounding AI. The lower half of the K, households that are generally not exposed to the stock market, are struggling to keep afloat amid the rising tide of inflation.

BofA Consumer Prism

Exhibit 8: The gap in lower- and higher-income spending remains somewhat steady

Total card spending by category, income, age and region, (y/y % change of the 7-day ma of spending levels)

	11/1	10/25	10/18	10/11	10/4	9/27	9/20	9/13	9/6	8/30	8/23	8/16	8/9
Total card spending	1.2%	0.8%	0.3%	3.7%	2.2%	2.2%	1.8%	1.5%	1.8%	2.8%	1.1%	1.8%	3.5%
By category													
Retail ex auto	1.1%	0.6%	-0.5%	2.7%	0.4%	1.6%	1.6%	1.2%	0.8%	2.3%	0.6%	1.3%	3.0%
Airlines	-3.5%	-3.1%	-2.7%	0.4%	-1.6%	-5.0%	-5.2%	-3.8%	1.4%	-4.3%	-3.0%	-1.8%	-4.3%
Lodging	-2.8%	-2.6%	-0.2%	-1.1%	0.0%	-3.7%	-1.0%	-2.4%	-4.0%	-1.9%	-2.5%	-0.4%	0.3%
Entertainment	-14.2%	-19.4%	-2.1%	-3.5%	-3.9%	-0.4%	-1.1%	1.6%	-6.3%	-2.6%	-7.2%	-7.2%	0.0%
Restaurants & bars	-1.0%	0.5%	-0.4%	3.3%	3.2%	2.6%	2.1%	2.2%	2.6%	2.8%	1.7%	2.1%	4.5%
Transit	9.0%	8.7%	12.6%	2.6%	7.2%	9.4%	4.7%	4.6%	4.1%	11.5%	6.0%	6.8%	5.0%
Gas	-4.0%	-3.7%	-3.1%	-1.9%	-1.0%	-1.2%	-0.3%	-2.3%	-2.1%	-3.9%	-4.9%	-5.4%	-4.9%
Clothing	3.3%	1.7%	1.6%	6.9%	1.9%	2.1%	-0.9%	2.6%	-0.1%	3.2%	0.3%	3.8%	7.4%
Furniture	-3.4%	-1.8%	-4.1%	2.4%	0.3%	-0.6%	-3.2%	-5.0%	-4.9%	3.4%	-1.6%	-2.2%	4.3%
Department store	-0.9%	0.3%	-2.7%	1.9%	-5.0%	-4.4%	-5.8%	-4.1%	-4.9%	0.1%	-2.9%	-2.8%	-1.4%
Home improvement	-5.5%	-5.4%	-7.2%	-3.4%	-4.2%	-3.2%	-3.3%	-3.4%	-1.2%	-2.0%	-4.1%	-3.9%	0.8%
Electronics	7.2%	5.2%	3.0%	5.5%	8.5%	-5.3%	17.1%	1.0%	-0.7%	6.8%	0.7%	1.5%	6.0%
Grocery	0.2%	1.0%	-1.0%	-0.4%	-2.6%	-0.5%	-0.1%	0.1%	0.0%	1.5%	0.6%	1.2%	1.3%
General Merchandise	5.4%	4.6%	3.3%	5.6%	-2.3%	4.5%	3.9%	3.0%	3.1%	4.7%	3.0%	4.2%	4.4%
Total B&M retail	-2.3%	-1.5%	-2.7%	-0.3%	-2.0%	-0.4%	-0.9%	-1.1%	-1.2%	0.1%	-1.2%	-0.9%	1.1%
Total online retail	9.1%	5.6%	4.8%	10.6%	7.1%	7.0%	8.2%	7.1%	5.9%	8.3%	5.4%	7.4%	8.5%
By income													
Lower income	0.0%	-0.2%	-1.0%	2.1%	1.2%	1.4%	0.9%	0.7%	0.7%	1.7%	-0.5%	-2.5%	1.8%
Middle income	0.9%	0.6%	0.0%	3.7%	1.7%	2.2%	1.7%	1.3%	1.5%	2.6%	0.9%	1.6%	3.2%
Higher income	2.1%	1.7%	1.2%	4.7%	3.0%	2.7%	2.2%	2.3%	2.8%	3.3%	2.0%	0.7%	4.3%
Top 5%	3.5%	2.4%	3.3%	6.4%	4.7%	3.7%	2.8%	3.8%	4.3%	3.9%	3.0%	2.0%	6.0%
Top 1%	5.0%	3.3%	6.3%	7.7%	6.2%	4.1%	3.8%	4.1%	5.0%	5.0%	3.4%	2.1%	7.2%
By age													
Gen Z	3.7%	3.1%	2.5%	5.4%	5.1%	3.8%	4.3%	3.5%	3.4%	3.9%	2.2%	-0.5%	5.1%
Millennials	0.9%	0.7%	0.4%	3.8%	2.5%	2.2%	2.0%	1.5%	1.7%	2.7%	1.0%	-1.4%	3.4%
Gen X	0.2%	-0.1%	-0.6%	2.6%	1.5%	1.1%	0.5%	0.4%	0.9%	1.7%	-0.1%	0.7%	2.1%
Baby boomers	1.5%	1.2%	0.3%	4.4%	1.7%	2.6%	2.0%	2.4%	2.2%	3.4%	1.9%	2.6%	4.4%
Traditionalists	0.5%	0.8%	-0.7%	4.2%	0.9%	2.9%	2.5%	2.4%	2.9%	3.7%	2.6%	1.9%	4.6%
Multi-gen younger	2.4%	1.8%	1.3%	4.7%	3.0%	3.2%	2.7%	2.4%	2.5%	3.4%	1.7%	2.1%	4.0%
Multi-gen older	2.1%	1.8%	1.4%	4.8%	2.6%	3.3%	2.6%	2.7%	2.8%	3.6%	1.8%	2.6%	4.3%
By region													
Midwest	2.7%	1.7%	-0.1%	2.3%	1.8%	2.3%	1.8%	1.7%	2.8%	4.2%	1.6%	2.8%	3.1%
Northeast	1.5%	1.7%	-1.1%	2.9%	1.4%	1.7%	1.8%	1.6%	1.3%	3.0%	1.0%	2.0%	4.7%
South	0.2%	-0.1%	-0.1%	4.7%	1.3%	2.9%	1.4%	1.2%	1.4%	2.0%	0.0%	0.9%	2.9%
West	1.7%	1.1%	1.3%	3.2%	3.4%	1.5%	2.0%	1.7%	2.3%	3.0%	2.1%	2.4%	3.3%

Source: BAC internal data. Note: The 1-yr % change shows the change between the current date at the head of the table column and its comparable date a year ago. Total card spending includes total BAC card activity, which captures retail sales and services that are paid with cards. Does not include ACH payments. B&M (Brick & Mortar) retail means retail purchases at the store. Total online retail corresponds to purchases in which the card was not present. These are largely online purchases but could include purchases made over the phone. Gas includes some convenience store purchases at gas stations. The General Merchandise and Department store categories have been adjusted and restated. This has no impact on total retail spending. "Multi gen younger" = HHs with card holders from multiple generations, the oldest of whom is Gen X or younger. "Multi gen older" = HHs with card holders from multiple generations, the oldest of whom is a Baby Boomer or older.

BofA GLOBAL RESEARCH

The BofA Consumer Prism above highlights a steady and substantial gap in spending growth between these two halves of the K that has remained consistent over the last quarter. (The numbers in the above table depict the y/y growth of each week's seven-day moving average; the colors

indicate the rate of change in growth from the previous week.) The disparity here is more pronounced in discretionary, luxury spending categories like airlines, furniture, lodging and cruises.

Further evidence that the current economy is K-shaped can be found in companies' latest round of earnings calls. Delta Air Lines stated that demand for its premium seating options is so great that it will soon generate more revenue than its coach offerings, despite capacity for the latter representing more than three-quarters of a typical flight. Similarly, Ford said that its profit was driven by its top-of-the-line models.

On the other hand, Chipotle has slashed its full-year sales outlook every quarter in 2025 so far, as CEO Scott Boatwright blamed “persistent macroeconomic pressures” for the restaurant’s poor Q3 performance. Home Depot similarly cut its full-year outlook with demand for home renovation and big-ticket items fading. Target’s Q3 earnings also reflected a squeeze on low- and middle-income consumers, noting declining store traffic and margin pressure. Yet one of the largest off-price retailers in the U.S., TJ Maxx, had a very solid Q3 with households trading down from more costly stores like Target.

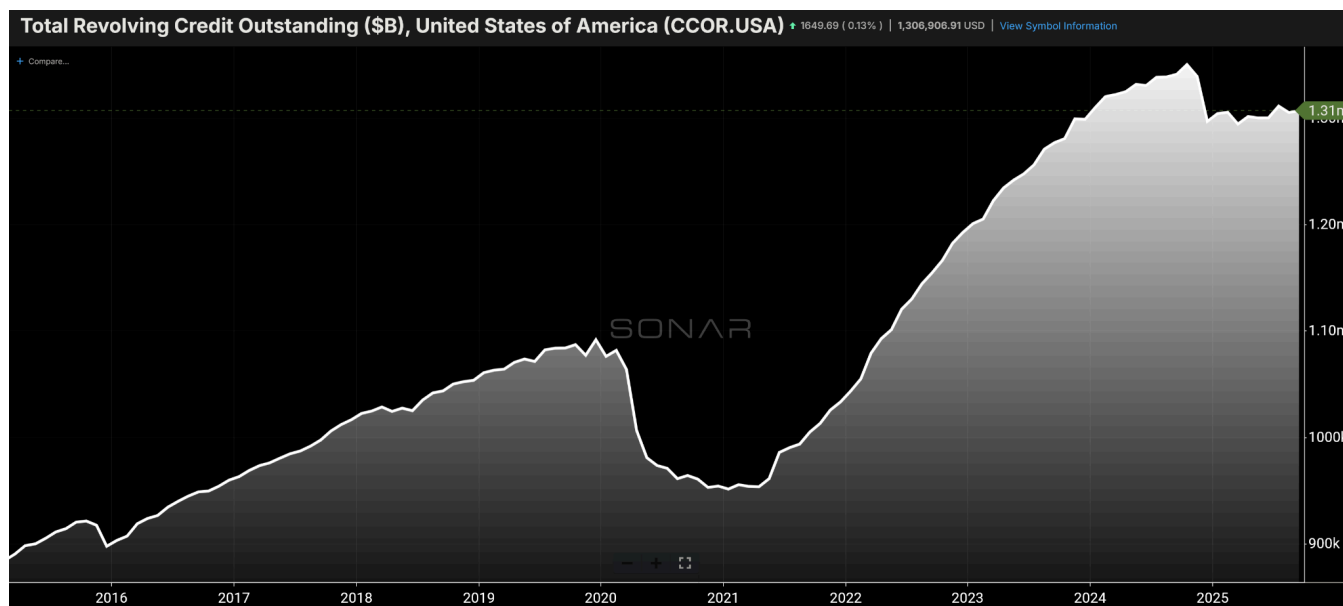


Chart: SONAR. Total revolving credit outstanding, in billion USD.

The worry is that, even as consumers tighten their budgets by trading down or abstaining, the upward march of inflation alone is compelling households to spend money they do not have. One month after barely printing in the black, U.S. consumer credit jumped in September to a new record high of \$5.077 trillion. September’s growth thus marks a rise of \$13.1 billion, which was far higher than the consensus forecast for a gain of \$10.5 billion.

Revolving credit, a category mostly composed of credit card debt, fell at a dismal, seasonally adjusted annual rate of 5.6% in August. This decline was worrisome, as it implied that the U.S. consumer was nearing the end of their rope and unable to afford taking on more credit card debt. But revolving credit rebounded in September at an SAAR of 1.5%. Change in revolving credit — whether negative or positive — is something of a catch-22: It is troubling if it falls, but it is arguably

more troubling when it rises in a slowing economy. Such a rise might imply that consumers are running out of cash on hand, and are instead papering over gaps with credit.

Consumer sentiment surveys, then, are a useful tool in determining whether revolving credit is rising for this perilous reason or if it is growing out of sheer exuberance. Unfortunately, the most recent surveys suggest the former. The University of Michigan's preliminary Survey of Consumers for November saw its headline index fall to a three-and-a-half-year low, well below consensus of 53.2 at 50.3. Confidence in current economic conditions shrank as worries over job availability, inflation, and policy uncertainties exacerbated by the government shutdown took center stage.

The Conference Board's Consumer Confidence Index also echoed this caution. Its headline index dipped 1 point m/m to 94.6 in October, marking a third consecutive monthly decline. Still, there was some good news: For the first time since December 2024, the Present Situation Index saw positive month-over-month (m/m) growth, rising 1.8 points m/m to 129.3. This gain reflects improved views on current business conditions and availability of jobs.

Conversely, the Expectations Index fell 2.9 points m/m to 71.5, signaling growing pessimism about the future health of businesses, labor markets, and consumers' income. This subindex has lingered below 80 since February, a threshold that has historically been indicative of a looming recession. Inflation expectations ticked up to 5.9% yearly price growth over the next 12 months (from September's 5.8%), with over half of consumers anticipating higher interest rates.

As mentioned previously, October's inflation print will be skipped due to the impossibility of retroactively collecting data. But, since last month's report, the Bureau of Labor Statistics did issue an emergency release of the Consumer Price Index for September. This delayed release was mercifully (albeit only slightly) softer than expected, with the headline CPI up 0.3% m/m and 3% y/y against forecasts of a 0.4% m/m and 3.1% y/y rise.

The good news is that, although September's CPI posted the largest annual growth since the start of the year, the primary culprit — gasoline (up 4.1% y/y) — is expected to come down as oil prices cratered in October and weakened in November. It will take a few months for these falling oil prices to translate into low prices at the pump, but the Fed will be looking forward when making its rate-cut decision in December. The core CPI, which excludes goods with volatile pricing like food and energy, increased 0.2% from August — the slowest rate in three months.

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

But this dynamic has not held over the past few years, as intractably high mortgage rates are weighing on housing market activity. Per Freddie Mac, the current average rate on a 30-year fixed mortgage stands at 6.24%, 3 bps lower m/m and 54 bps lower y/y.

Existing-home sales, which comprise the vast majority of home sales in the U.S., increased to a seven-month high in September — a high which was then topped in October. Yet even this data

confronts us with the K-shaped economy, as most of the sales activity was concentrated in the upper end of the market. Even so, existing-home sales rose 1.5% m/m in September and 1.2% m/m in October. The median sales price of an existing home is mercifully down from June's high of \$432,700, but October's gain partially reversed September's decline, with the median price up 2.1% y/y at \$415,200.

As with most official datasets typically covered in this report, further details on housing starts and building permits were delayed by the government shutdown and have yet to be released. At the time of writing, the consensus forecast is for October's housing starts to come in at 1.32 million, a bit higher than August's — the last month for which data is available — 1.31 million. Building permits are expected to see a 0.6% bump over August to 1.33 million.

These forecasts are made more credible by the current release of the National Association of Home Builders (NAHB)/Wells Fargo Housing Market Index, which gauges national sentiment around single-family construction. The headline index ticked up one point from October to 38 — its highest reading since April, albeit one which indicates contraction under the no-change threshold of 50. Future sales expansions barely managed to remain expansionary, falling three points from the month prior to 51. The survey also revealed that 41% of builders stated they cut prices in November, a record high in the post-pandemic era, by an average of 6%.

"More builders are using incentives to get deals closed, including lowering prices," said NAHB Chairman Buddy Hughes, "but many potential buyers still remain on the fence." NAHB Chief Economist Robert Dietz added, "We continue to see demand-side weakness as a softening labor market and stretched consumer finances are contributing to a difficult sales environment. After a decline for single-family housing starts in 2025, NAHB is forecasting a slight gain in 2026 as builders continue to report future sales conditions in marginally positive territory."

Indeed, the NAHB is not alone in forecasting a brighter tomorrow for the U.S. housing market. Goldman Sachs recently argued that "if mortgage rates remain around 6.15% ... the pace of home price appreciation is likely to start to recover in 2026 due to pent-up housing demand." Lawrence Yun, chief economist at the National Association of Realtors, believes that sales of existing homes will rebound 14% in 2026 after years of stagnation. "Next year is really the year that we will see a measurable increase in sales," Yun said in mid-November. "Home prices nationwide are in no danger of declining."

Not all data supports such a sunny outlook, however. The number of foreclosures across the U.S. has been on a rapid incline, according to research from ATTOM. In October, foreclosure starts were up 6% m/m and 20% y/y, while completed foreclosures skyrocketed 32% y/y. "Even with these increases," cautioned ATTOM CEO Rob Barber, "activity remains well below historic highs."

Still, this optimistic spin ignores the fact that lenders do not always immediately press for a foreclosure if the borrower is severely behind on payments. Rather, it is common for lenders to forbear, modify loans, or hold off on issuing notices of default (i.e., foreclosure starts). First, it is important to note that banks do not automatically assume possession of a foreclosed home; a foreclosure is a forced public sale in which the lender makes the initial bid, the price of which is determined by the loan's outstanding balance, insurance, unpaid taxes and the costs of the foreclosure process itself, among other factors.

If no third-party buyer exists to outbid the lender, then the bank repossesses the property. The lender can keep this title on their books as real estate owned (REO). Upon acquiring REO, the lender records the property at the lower of its carrying amount — the book value of the loan plus costs — or fair value minus selling costs. If initial fair value exceeds the carrying amount, no immediate loss is booked; in other words, the lender is able to presume that the value of the property exceeds their initial investment.

But if housing prices fall (say, due to a weakening labor market), the lender is stuck with the property unless it wishes to sell at a loss. Thus, there are several reasons why a lender might wish to delay foreclosure proceedings: Delays avoid costly legal fees, property maintenance, and immediate recognition of losses, while foreclosures are expensive and flood markets with supply. In declining markets, REO sales at losses hurt banks' balance sheets more.

To summarize, then, that foreclosures were up 32% y/y in October is cause for concern alone. Yet this figure does not reveal the number of borrowers that are at risk of foreclosure, but are avoiding it simply because the lender does not want to risk assuming ownership of a property depreciating in value. There are plenty of alarm bells ringing that suggest the U.S. consumer is in a tight spot, from delinquency rates on credit cards to Q3 earnings. The housing market might thus be nearer to a collapse than many suppose.

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