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STATE OF THE INDUSTRY

R E P O R T

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

Soft peak, cut forecasts

November 21, 2023 | 5 p.m. EDT

Overview

The truckload market is becoming increasingly reactive to holidays, but the market itself remains extremely soft. After a soft October and a rally to start November, the momentum was unsustainable and rates remain close to where they have been over the past six months. The question now is how carriers react to the Christmas holiday.

The intermodal market has cooled off from its strong October, but the market is maintaining strength compared to last year. There have been fewer international empty container movements, which is causing a drag on overall intermodal demand, but loaded volumes, both domestic and international, remain resilient. With that said, the railroads and intermodal marketing companies are dropping rates in order to gain volumes.

The maritime market remains somewhat challenged as there were no clear signs of a peak. Import levels clearing U.S. Customs suffered early in November and tried to recover in the middle of the month. Ocean bookings have continued to trend lower as time sensitivity is largely gone but carriers are making efforts to push spot rates up along the trans-Pacific.

The macroeconomy continues to show that there are challenges ever present. Retail sales slowed for the first time in six months, impacted by lower gas prices largely, but the month was also the first time in more than three years that student loans were being paid. The difficult consumer conditions are causing retailers, especially focused on discretionary spending, to cut sales forecasts heading into the holiday retail season.

Macro indicators (y/y change)

Oct. industrial prod. change	-0.6% (-0.7%)
Oct. retail sales change	-0.1% (+2.5%)
Oct. U.S. Class 8 orders	25,800 (-24%)
Oct. U.S. trailer orders	34,400 (-21%)

Truckload indicators (y/y change)

Tender rejection rate	4.13% (-33 bps)
Average dry van spot rate ¹	\$2.26/mi (-11%)
LAX to DAL spot rate ²	\$2.29/mi (-3%)
CHI to ATL spot rate	\$2.57/mi (-12.3%)

Tender volumes (y/y change)

Atlanta	420.28 (+0.73%)
Dallas	366.05 (+22.2%)
Los Angeles	276.95 (+1.73%)
Chicago	205.57 (-7.58%)

Tender rejections (y/y change)

Atlanta	2.79% (-60 bps)
Dallas	1.9% (-168 bps)
Los Angeles	3.59% (+124 bps)
Chicago	4.28% (+65 bps)

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¹ FreightWaves National Truckload Index

² FreightWaves TRAC spot rate

Truckload markets

The freight market shrugged off the weakness in October and started November stronger than many expected. The rally in freight demand stalled out in the middle of November, but the market is experiencing some signs of a peak season, albeit a weak peak overall. The lull in freight demand in October is seasonal, but the uptick leading into peak was slightly later, starting in November compared to mid-October.

The uptick in freight demand was largely unfelt by market participants as rejection rates remained remarkably low, only moving higher as the Thanksgiving holiday season approached. As retailers have announced third-quarter earnings, the largest companies have seen inventory levels correct, a necessity for future freight demand.

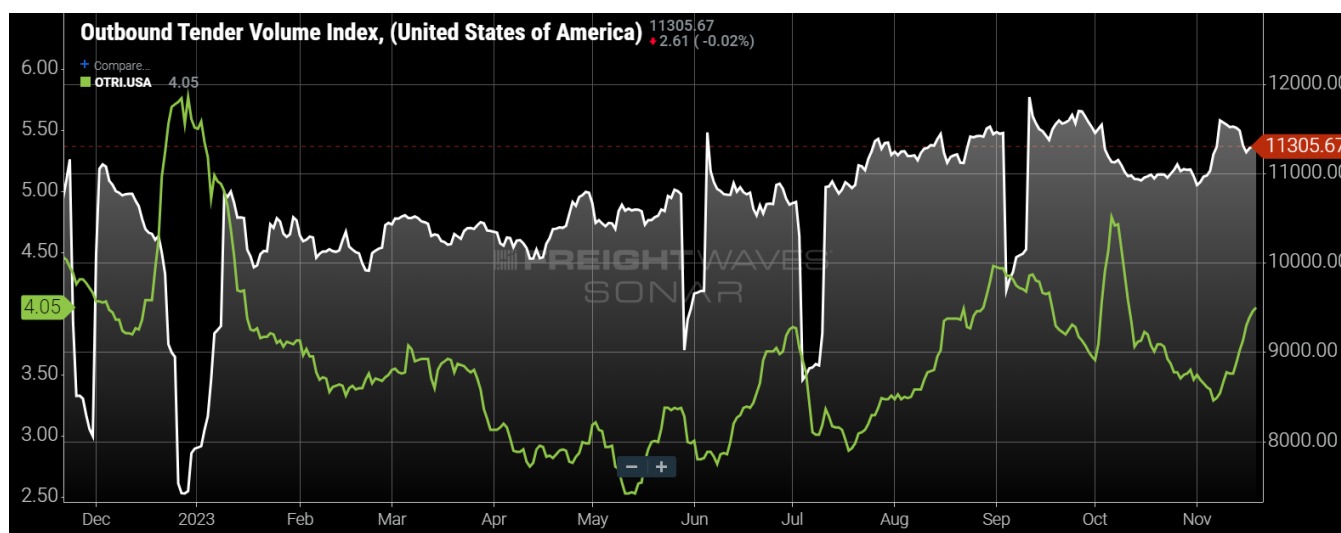


Chart: FreightWaves SONAR. Outbound Tender Volume Index (white, right axis) and Outbound Tender Reject Index (green, left axis).

The freight market has capitalized on a softer than normal November that occurred last year, causing freight volumes to turn positive year over year (y/y) for the first time since February 2022. With volume levels inflecting positive y/y, it signals that the freight recession is now not a demand-driven event but caused by excess capacity. The Outbound Tender Volume Index (OTVI) is currently 8.53% higher than it was this time last year.

Over the course of 2023, freight volumes have been growing on a quarterly basis. From the first quarter to the second, OTVI grew by 3%. From Q2 to the third quarter, OTVI grew by 4.9%. Despite the seasonal weakness in October, volumes now midway through the fourth quarter are 1.4% higher than Q3.

While the volume gains in the fourth quarter are modest, especially when compared to the growth of previous quarters, it shows the strength in volumes in November. Over the past month, OTVI has grown by 2.86%, even with momentum slowing in the back half of November.

As the calendar turns to December, it is important to remember that the month is traditionally one of the softest for contracted volumes and is more impacted by capacity coming off the road as opposed to strong volume growth.

There is evidence of the holidays impacting capacity as a whole as the Outbound Tender Reject Index (OTRI), a measure of the percentage that tenders are rejected from transportation providers, has increased in the week of Thanksgiving. The concern on the capacity front is that while there is an upward trend, the overall reading is still around 4%, an indication of how loose the market is.

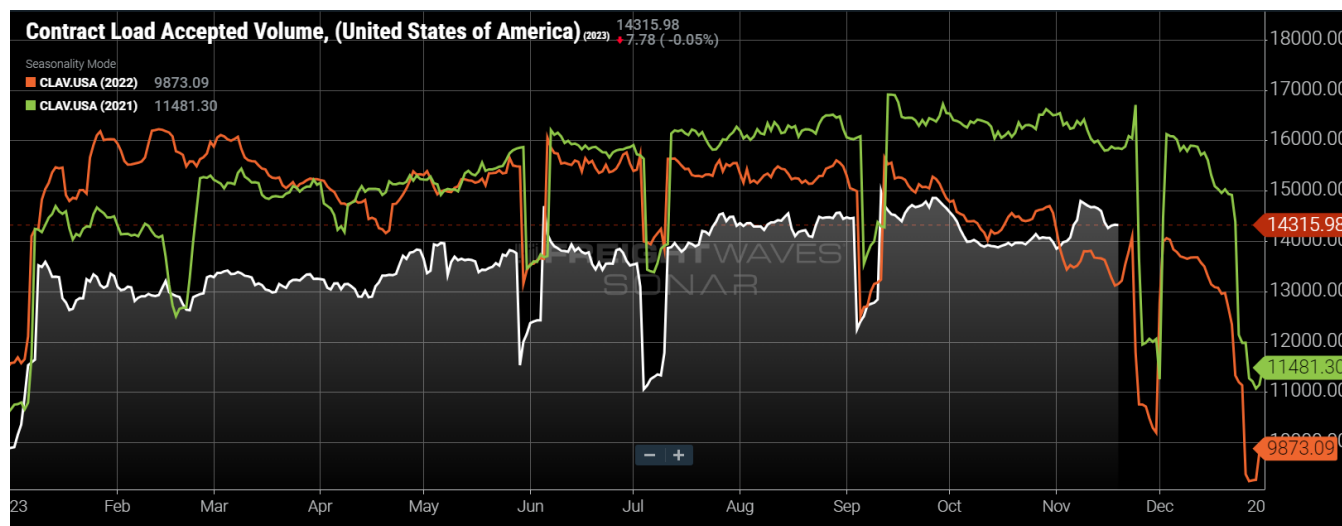


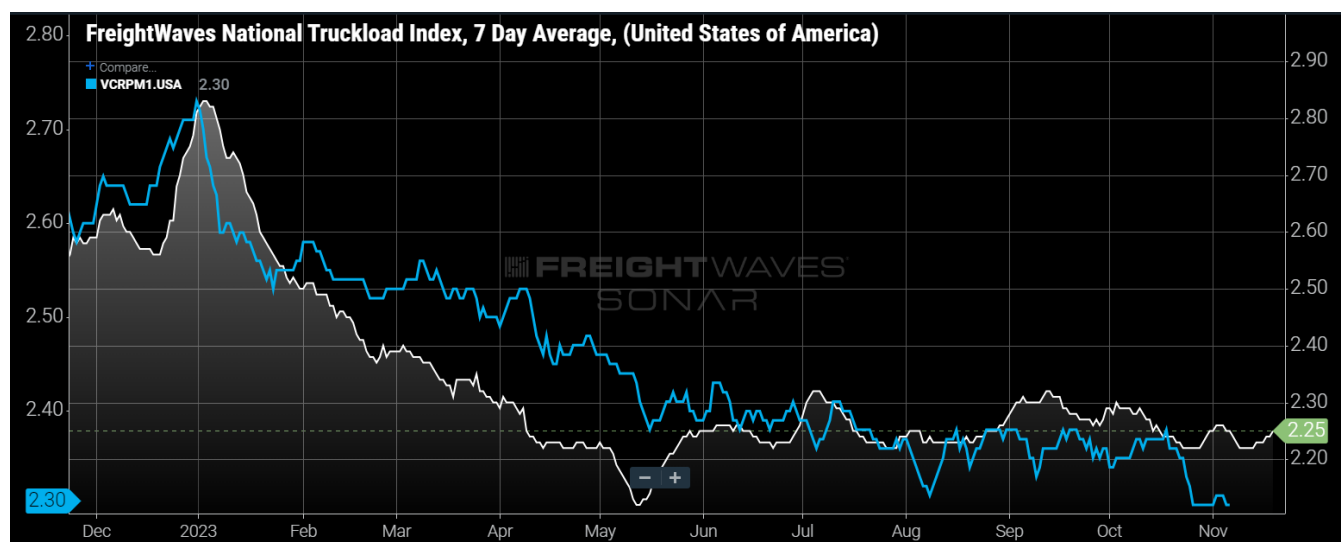
Chart: FreightWaves SONAR. Contract Load Accepted Volume: 2023 (white), 2022 (orange) and 2021 (green).

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 up 9.22% y/y as carriers continue to accept nearly every load offered.

Over the next month, the more important metric to pay attention to is OTRI. Carriers, especially those exposed to the spot market, will have a decision to make: Do you stay on the road and try to take advantage of a likely upward movement in spot rates? Or do spot rates leave a lot to be desired and you'd rather stay home and enjoy family time?

Holiday impacts are starting



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

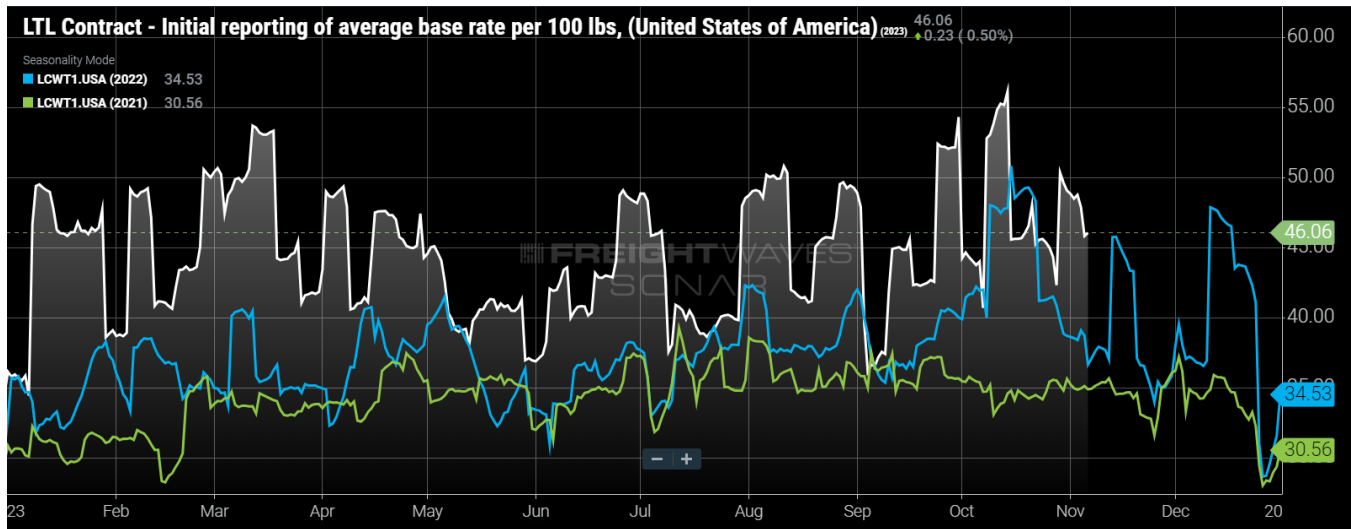
The spot market continues to trend sideways as carriers have been unable to sustain any momentum. When the market softened throughout October, the FreightWaves National Truckload Index (NTI) followed suit. While seasonality suggests that spot rates will rise between now and the first week in January, the inability to hold onto momentum means the upward move starts from a lower level, making it more difficult to push rates up anywhere close to where they were during peak season last year.

The NTI — a fuel-inclusive, seven-day moving average of national dry van spot rates — is off 11.4% (or 29 cents per mile) over the past year, currently at \$2.25 per mile. That is just a 1 cent-per-mile increase from a month ago and equal to the average over the past six months. The NTI is 20.5% off the peak set on Jan. 2 and the expectations over the next 30 days

Contract rates — which are exclusive of fuel and other accessories — continue to feel the downward pressure and as bid season for 2024 has largely happened, there is a possibility that there is another leg lower in Q1. Over the past month, the initially reported dry van contract rate, which is reported on a two-week lag, is down 5 cents per mile to \$2.30 per mile. Contract rates are 34 cents per mile lower than they were this time last year.

The spread between contract and spot rates remains remarkably wide, which is an indication of the downward pressure that is persistent on contract rates. The concern going into 2024 is that if contract rates are pushed lower and the market turns, shippers are at risk of routing guides collapsing and the impacts to transportation budgets if that happens.

LTL carriers coast on upward rate pressure



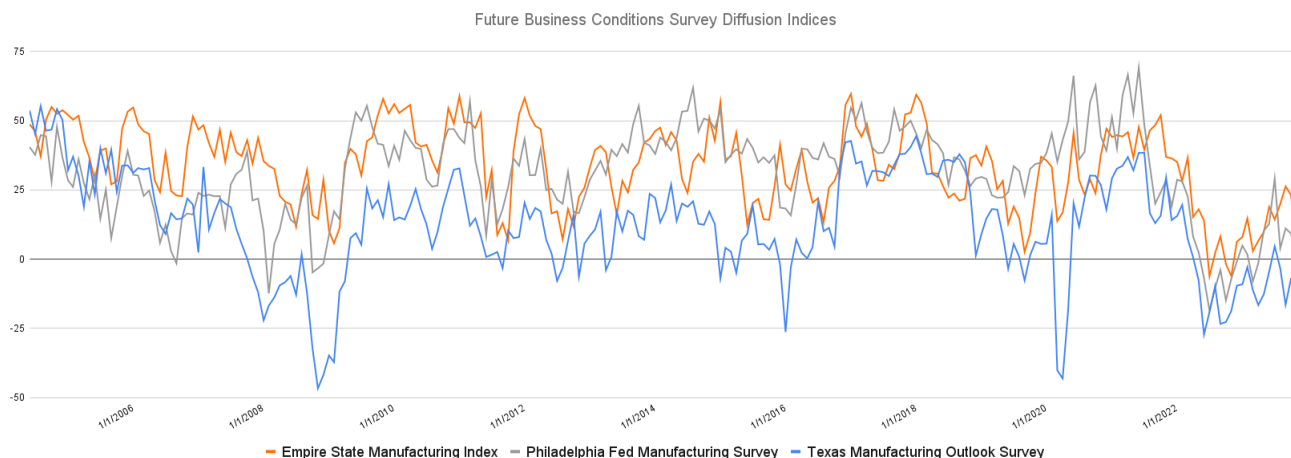
Source: FreightWaves SONAR. Initially reported LTL contract rate per hundredweight: 2023 (white), 2022 (orange) and 2021 (green).

Less-than-truckload pricing remains resilient. Losing one of the largest LTL carriers in the country certainly helps keep LTL pricing strong as the freight is largely having to be repriced higher with new carriers. Additionally, LTL carriers continue to announce general rate increases ranging from 4.9% to well over 7% that are set to go into effect in early December.

At the time of writing, the average LTL contract rate has risen \$2.05 per hundredweight over the past month. Now sitting at \$46.06 per hundredweight, shipping via LTL is 21% more expensive than it was a year ago.

Macroeconomic conditions

Businesses across the manufacturing industry experienced a swift reversal in their optimistic outlooks. While industrial production was lower in October due to the strikes at automotive manufacturers, businesses across the country have a negative outlook over the next six months. Some of the declines stem from higher interest rates curbing investments in technology but also just overall macroeconomic headwinds.



In the most recent Empire State Manufacturing Survey, the current business conditions index turned positive once again, rising 13.7 points month over month (m/m) to 9.1, the highest level in months. This reversal is a signal that things in November weren't as bad as many were expecting in the region, but forward-looking metrics highlight worsening conditions. The forward-looking general business conditions index entered contraction territory for the first time in 2023, dropping 24 points m/m to minus 0.9. Because the index is a diffusion index, the drop in the overall number stems from a 17.9-point drop in the number of respondents expecting better conditions in the next six months.

Within the survey, the freight-intensive Shipments Index highlights growing concerns about customer demand in the near future. While the index did remain comfortably positive at 10.8, it fell 4.4 points m/m, indicating a slower rate of expansion than previously anticipated. The current Shipments Index fared better, rising 8.6 points m/m to 10. The forward-looking New Orders Index shows the positive sentiment is waning after a 14.8-point m/m drop to 4.6.

Like their counterparts in New York, Philadelphia firms saw conditions slightly better in November but expect the next six months to be challenging. The current General Business Activity Index within the Manufacturing Business Outlook Survey, conducted by the Federal Reserve Bank of Philadelphia, rose a scant 3.1 points m/m but remained in contraction at minus 5.9. The forward-looking General Business Activity Index, however, revealed manufacturers' pessimism about the next six months, falling 11.3 points m/m to minus 2.1 points, the first negative reading since April.

The Federal Reserve Bank of Dallas releases the Texas Manufacturing Outlook Survey during the final week of the month, but the mood of Texan business firms in October remained negative overall. The survey's Future General Business Activity Index actually increased in October by 9.7 points m/m but

remained in contraction territory at minus 6.8 points. This latest reading is considerably below the series' all-time average of 12.7. Only 13.6% of survey respondents believe that conditions will improve over the next six months, against the 20.4% of firms that expect them to worsen.

Data from the labor market continues to be wildly unpredictable as the most recent headline employment number fell short of expectations. After payrolls grew significantly in September, October's growth was more tepid. Total nonfarm payrolls grew by 150,000 m/m, below the 170,000 m/m increase that analysts were expecting. The unemployment rate rose in October, up to 3.9%, up half a percentage point from the April low.

The transportation segment experienced a reduction of 12,100 positions in October. The truck transportation subsector, which has seen numerous bankruptcies in recent months, experienced a reduction of 5,000 positions in October. Warehousing and storage also experienced a dramatic reduction in payrolls, eliminating 11,400 positions in October. Air transportation remains a bright spot as head count grew again, adding 3,500 positions in October.

Maritime: Charting a course through varied waters

The maritime sector is charting waters marked by subtle shifts and overall resilience. The recent ebb in maritime imports — while noticeable — sits within a broader context of continued industry robustness. Set against a backdrop of pre-pandemic standards, the current performance remains strong, though with a less frenetic pace than during the pandemic's height.

There are challenges on the horizon, like potential disruptions from external economic and geopolitical factors. But these variables appear less likely to severely disrupt the sector's momentum. In essence, maritime is evolving, showing its adaptability amid a changing trade environment.

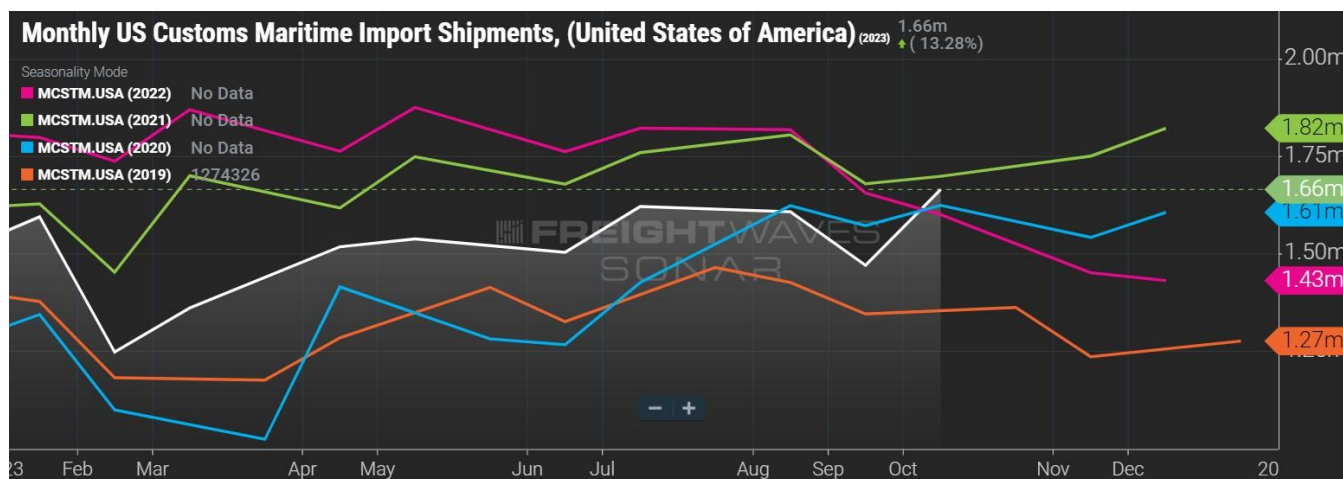
The maritime industry is holding a steady keel in this post-pandemic era. Volumes have strengthened through much of the year, and while carriers are no longer the beneficiaries of sky-high spot rates, they're getting by. U.S. ports are navigating through these changes, with some experiencing spikes in activity while others adjust to a recalibrated pace.

Shippers are proceeding with caution, no doubt, but the steady booking volumes signal a confidence in the market's prospects. It's not possible to say definitively that the U.S. is in the midst of a "soft landing," but this maritime market lends some credence to the idea. Overall, the sector is showcasing an ability to adapt and maintain progress as it sails through the diverse currents of global trade.

Key takeaways

- U.S. maritime imports have increased by 13.3% m/m, showing robust sector activity.
- The Ocean TEU Volume Index's substantial m/m rise points to continued strong demand and trade flow.
- The China-to-U.S. trade lane maintains a strong growth trajectory, with a notable y/y increase.
- The Ocean Booking Volume Index indicates a short-term pullback but maintains a slight y/y increase.

- The TEU Booking Lead Times Index suggests increased efficiency, with faster turnaround from booking to departure.
- The Ocean TEU Rejection Index shows minor fluctuations, signaling steady carrier booking acceptance rates.
- Maritime spot rates are mixed, with some routes experiencing growth and others slight declines.

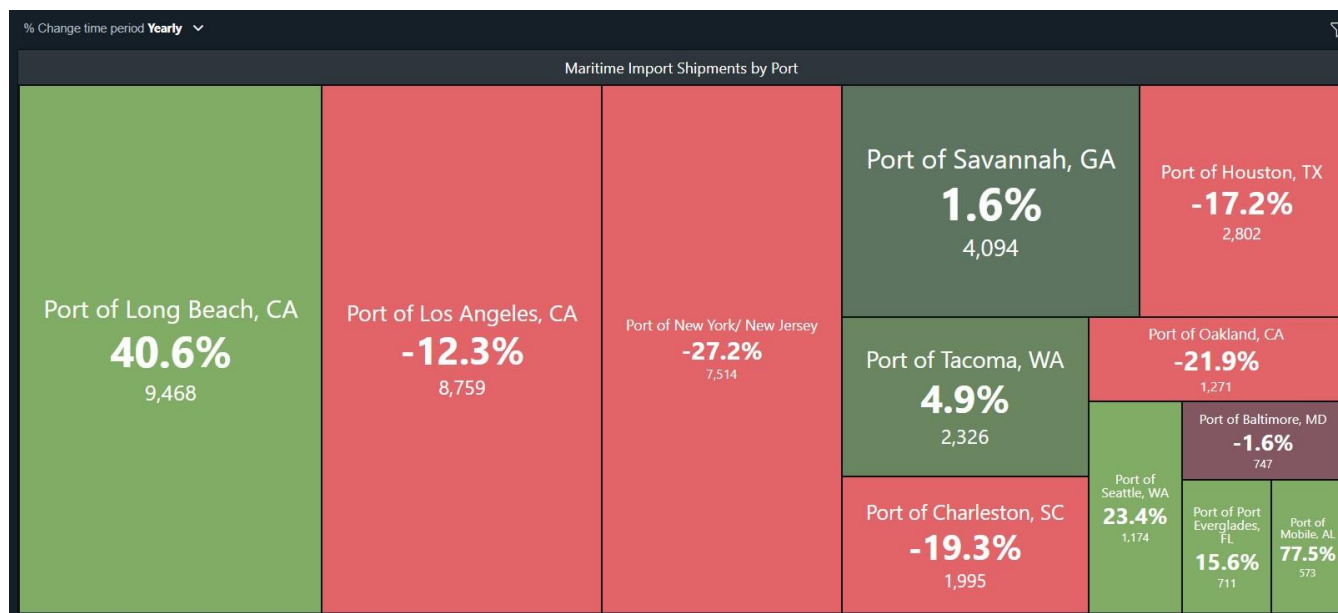


Source: FreightWaves SONAR — Monthly U.S. Customs Maritime Import Shipments, both containerized and non-containerized: 2023 (white), 2022 (pink), 2021 (green), 2020 (blue) and 2019 (orange).

October saw a 13.3% m/m surge in import volumes, a robust indicator contrasting with the previous month's dip. Yearly analysis also reveals a solid 4% growth.

Despite the fluctuations characteristic of global trade, the upward trend represents a positive adjustment rather than a mere rebound from the pandemic's anomalous peaks. The sector's performance is not merely returning to the old normal but establishing a new benchmark for trade volumes.

The current figures exceed those of October 2019 by a substantial margin, which means we are seeing real expansion. While the pace may have normalized compared to the frenetic activity seen in the pandemic years, the data suggests a sector that's progressing steadily forward.



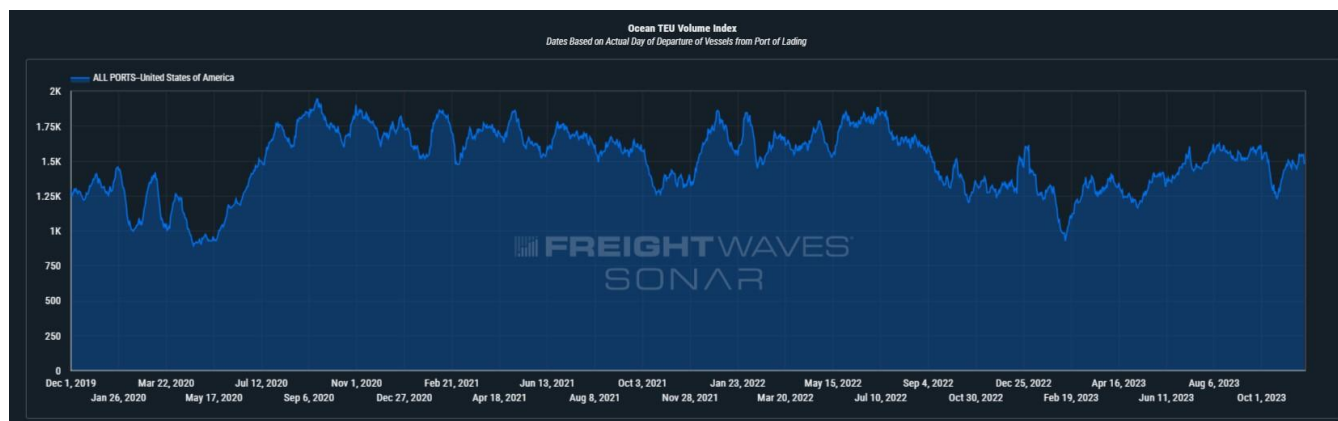
Source: FreightWaves SONAR. Maritime Import Shipments by Port — Tree Map.

The Port of Long Beach has seen substantial y/y growth of 40.6%, signaling robust activity and an expanding role in trade. In contrast, the neighboring Port of Los Angeles faced a downturn of 12.3%.

The Eastern Seaboard presents a variable landscape. The Port of New York and New Jersey experienced a significant contraction of 27.2%. Conversely, the Port of Savannah demonstrated a modest but positive growth of 1.6%, hinting at resilience amid challenging market conditions.

Farther south, Port Houston and the Port of Charleston saw declines of 17.2% and 19.3%, respectively, while the Port of Baltimore maintained relative stability with a slight decrease of 1.6%. In the Gulf, the Port of Mobile emerged as a surprise growth leader with an impressive 77.5% increase.

As always, it's important to note that yearly comparisons are likely to be influenced by different processing timelines from U.S. Customs and Border Protection.



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

The Container Atlas Ocean TEU Volume Index, a bellwether for global to U.S. port container trade, exhibited significant momentum with a 17.5% m/m increase. This upswing, coupled with a 13.9% rise on a y/y basis, points to a robust and expanding maritime sector.

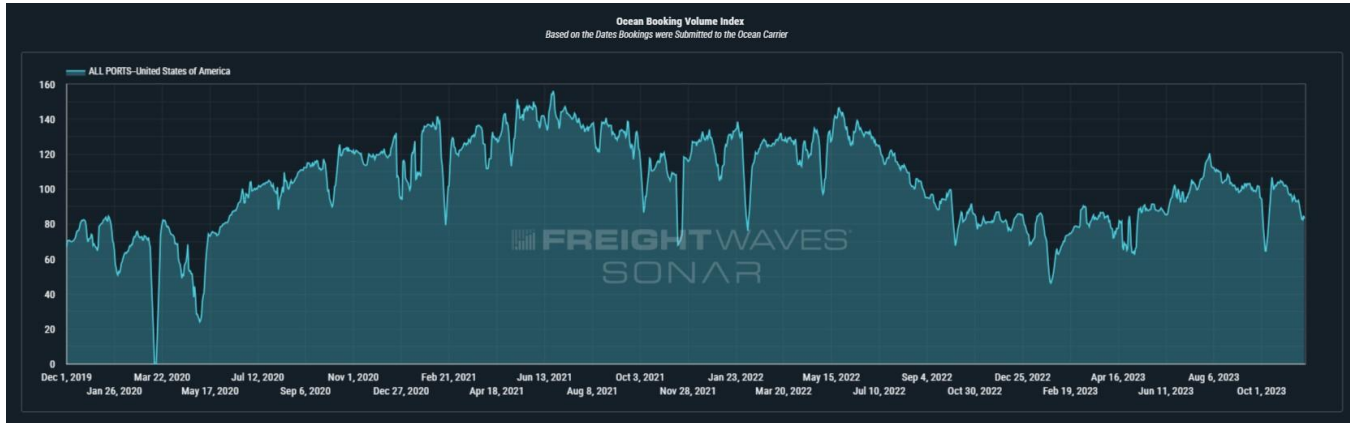
The index's growth suggests that, despite global uncertainties, there is sustained demand for goods and a continued flow of trade. Retailers may be restocking inventories or responding to market demand and shippers are likely capitalizing on favorable trade conditions. This positive performance may reflect confidence in the market's ability to navigate through existing macroeconomic challenges and geopolitical tensions.



Source: FreightWaves SONAR, Inbound Ocean TEU Volume Index — China to U.S.: 2023 (white), 2022 (green), 2021 (blue), 2020 (orange), 2019 (purple) and 2018 (yellow).

The Inbound Ocean TEU Volume Index (IOTI), tracing trade from China to the U.S., reveals a 6.7% growth m/m, bolstering the view of sustained trade activity between these economic powerhouses. Notably, the index has surged 25.89% y/y, a robust indication of the corridor's vitality.

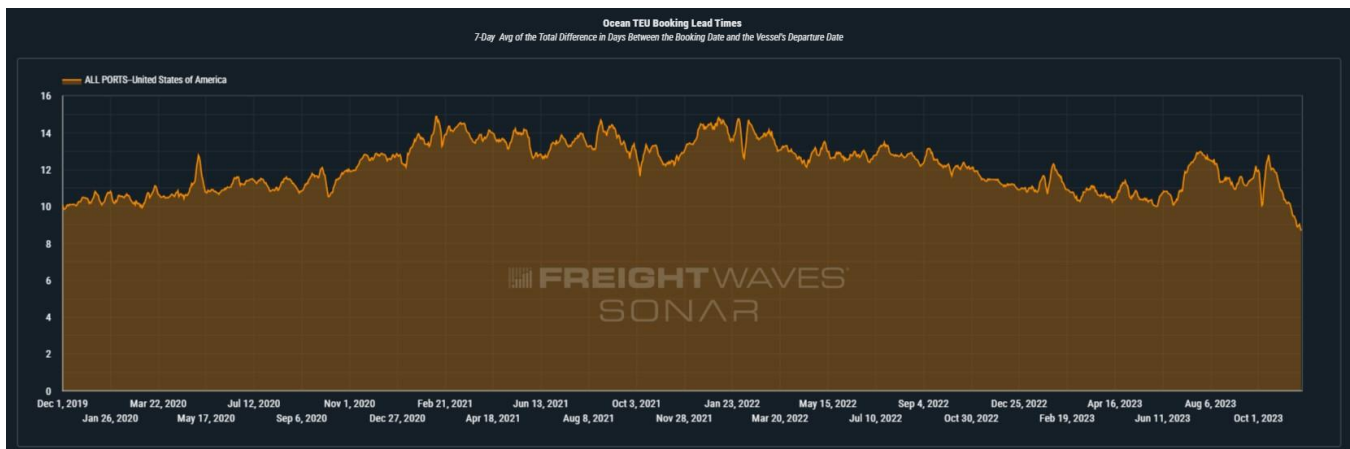
This consistent upward trend, despite global economic headwinds, underscores a deepening trade relationship. The current data refutes any notion of a waning in the fundamental strength of China-U.S. trade flows. It suggests that, even as diversification of supply chains is pursued, the volume of goods moving across the Pacific remains on a strong upward path, pointing to the intertwined nature of the two economies.



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

The Ocean Booking Volume Index, which tracks bookings submitted to ocean carriers, presents a contrasting picture with a roughly 20% decrease compared to the previous month's activity. However, the y/y perspective offers a silver lining, showing a modest increase of approximately a 2.5% uptick in activity.

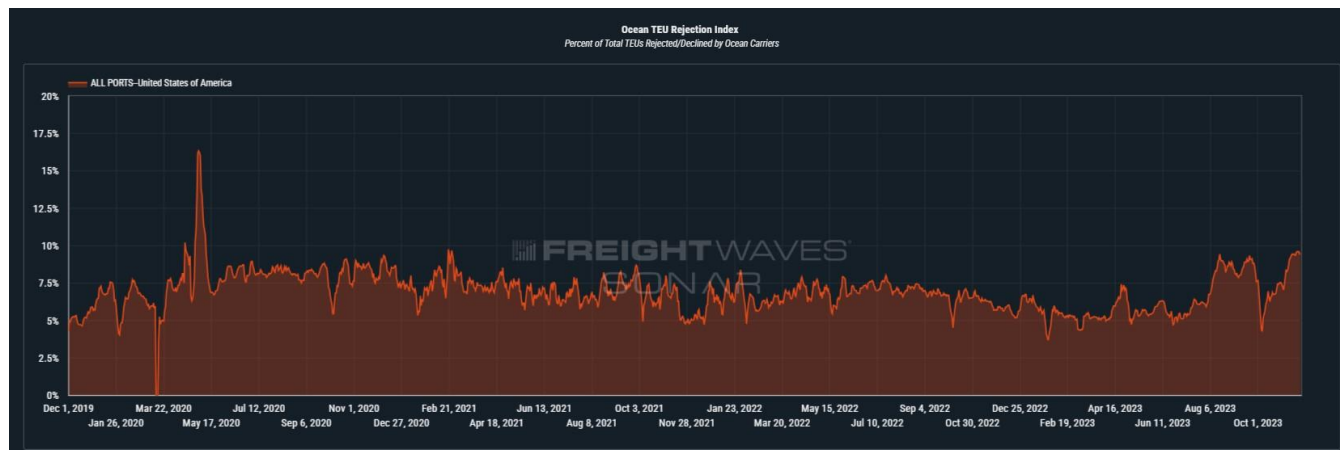
This deceleration in the short term may reflect a recalibration of shipper expectations in anticipation of market changes or a normalization following a period of high demand. The modest yearly growth, while not indicative of a significant expansion, points to a gradual but persistent increase in shipping activity, offering a nuanced view of the maritime sector's trajectory amid complex global trade dynamics.



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

The TEU Booking Lead Times Index, which measures the interval from booking to vessel departure, has seen a notable decrease to 10.4 days as of Oct. 31, reflecting a 13% m/m decline. This downturn in lead times could imply a current environment in which carriers are able to accommodate bookings more promptly.

It's important to recognize that such data is subject to ongoing revision, and as such, is read at the end of each month for the most accurate representation. This latest figure points to a potentially more agile and responsive maritime logistics environment, responding to the needs of shippers with greater immediacy.



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

The Ocean TEU Rejection Index, which measures carriers' refusal of confirmed bookings, ticked down slightly to 7.05% as of Oct. 31, from 7.65% at the end of September. This is a marginal change and might not change what looks to be an overall upward trajectory over the last few months compared to the beginning of the year.

It is important to consider these figures within a broader temporal context, as they may be subject to revisions. Nonetheless, the current data implies that, while there may be minor fluctuations, the overall trend is not yet indicative of significant volatility in carriers' willingness to accept bookings.



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

Maritime spot rates are presenting a mixed landscape. The Freightos Baltic Daily Index for China to North America's West Coast (FBXD.CNAW) shows a modest m/m increase of 1.3%. Meanwhile, the rate to North America's East Coast (FBXD.CNAE) grew by a more substantial 7.4% m/m.

In contrast, the Drewry World Container Indexes reflect a slight contraction for shipments from Shanghai to New York (WCI.SHANYC) with a 0.30% decrease m/m. However, the route from Shanghai to Los Angeles (WCI.SHALAX) experienced a significant upturn, marking an 11.6% growth m/m.

These divergent trends suggest varied dynamics across shipping lanes. The increases could indicate a tightening in capacity or a surge in demand on certain routes, while the decrease may point to softening demand in others. Carriers and shippers alike are navigating a complex (but ultimately low) rate environment.

Rail intermodal: Past the peak but not all that bad

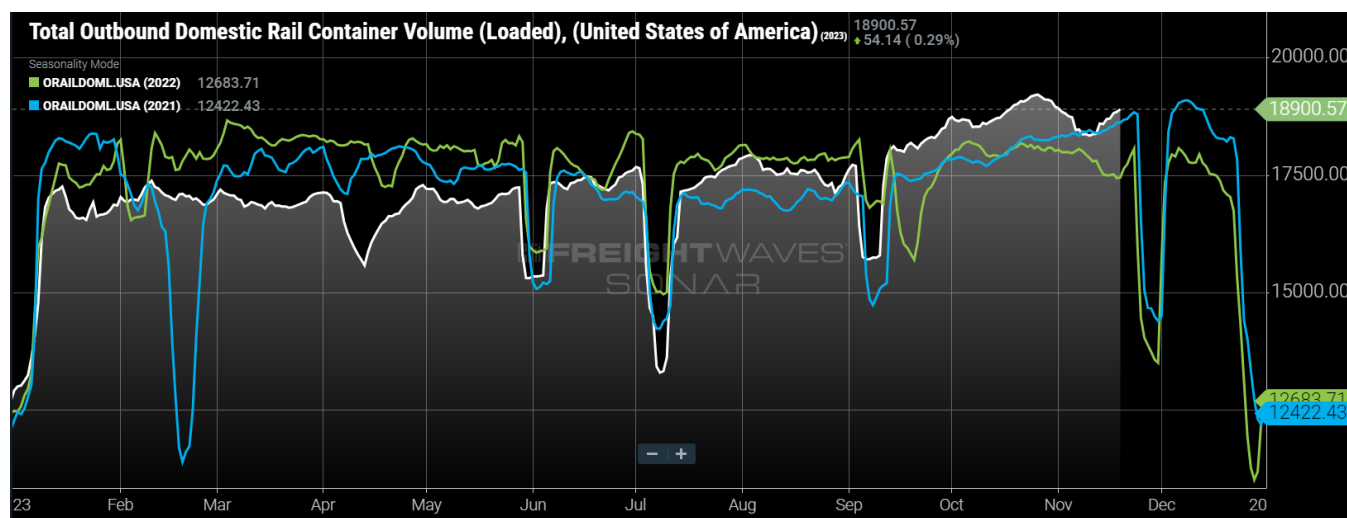


Chart: FreightWaves SONAR. Loaded domestic intermodal container volumes for 2023 (white), 2022 (green), 2021 (blue) and 2020 (orange).

The intermodal market continues to see strength despite the traditional peak season having passed. With that said, intermodal volumes are lower than they were this time last month, but Q4 as a whole is shaping up to be the best quarter, from a volume perspective, of the year. Total intermodal volumes are down 4.4% over the past month but are 6.3% higher than they were this time last year.

Loaded domestic intermodal volumes are holding up the best out of any of the subsegments within the intermodal market. Over the past month, loaded domestic intermodal volumes have only fallen by 1.2% and, after declining in the early parts of November, have started to move back higher. Since Nov. 10, loaded domestic intermodal volumes have risen by 3%. Compared to this time last year, loaded volumes have grown by 8%.

The growth in container fleets by various intermodal marketing companies is still being felt compared to last year, but they are less available than they were this time last month. Over the past

month, domestic empty intermodal volumes have dropped by 12.6%, but when compared to this time last year, empty volumes are 19.1% higher.

The international intermodal market remains challenged as import volumes have taken a hit over the past year. Loaded international intermodal volumes have declined by 6.8% and empty international intermodal container volumes have dropped by 6.6%. The biggest difference in the two shows up in the y/y comparisons. Loaded international intermodal volumes are up 8.5% y/y. Empty international container volumes are down 15.4%

The decline in empty international volumes could largely be attributed to goods being transloaded from international containers into domestic containers, limiting the number of international containers that are entering rail hubs like Chicago. Loaded international intermodal container volumes into Chicago are down 9% y/y, which led to a drop in empty volumes.

Intermodal contract rates find some footing in September and October

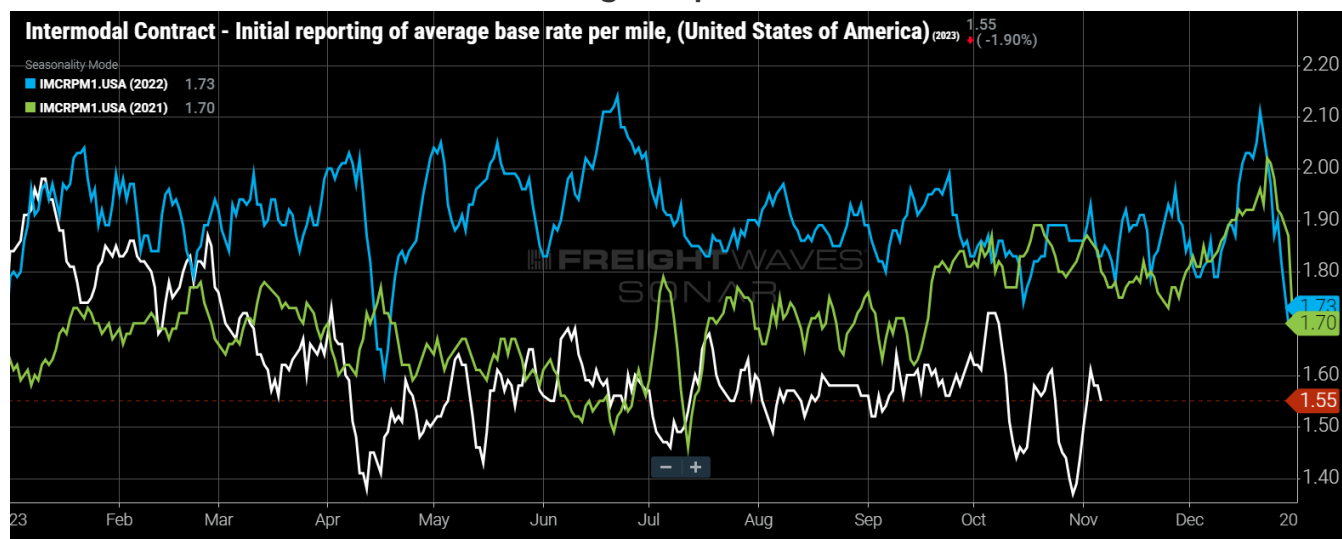


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2023 (white), 2022 (blue) and 2021 (green).

Intermodal contract pricing remains challenged after moving lower throughout the past month. The drop in intermodal contract pricing is likely due to both IMCs and railroads dropping prices in an attempt to grow volumes. Additionally, IMCs have been intensifying the conversations with shippers about testing out intermodal as an alternative to truckload in an effort to save money within transportation budgets.

Currently, intermodal contract rates, excluding fuel, are down 17 cents per mile (or 9.9%) over the past month, sitting at \$1.55 per mile. Intermodal contract rates did fall below \$1.40 per mile in the final week of October before recovering, but the downward pressure persists as 2024 approaches. Currently, intermodal contract rates are 27 cents per mile (or 14.8%) lower than they were this time last year.

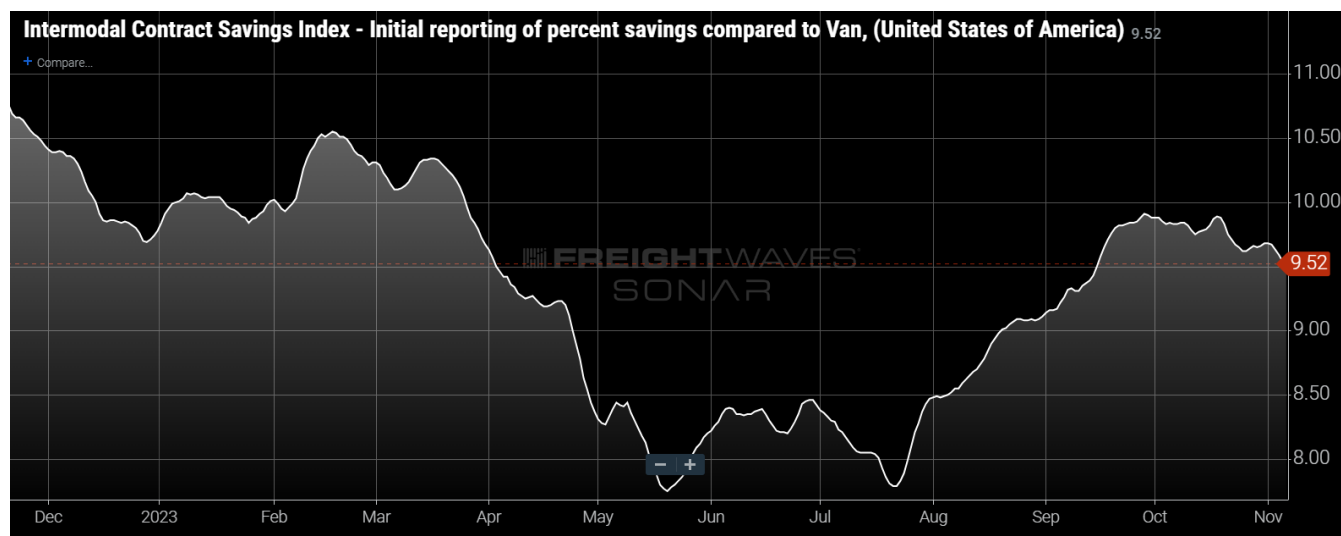


Chart: FreightWaves SONAR. Intermodal Contract Savings Index.

The Intermodal Contract Savings Index (IMCSI) remains well below its historical average, indicating that the discount presented to shippers to use intermodal isn't as advantageous as it has been in past cycles.

The IMCSI, a measure of the discount that intermodal presents compared to dry van, has been trending lower since the beginning of October. Over the past month, the IMCSI has decreased by 31 basis points to 9.52%. This decline coupled with the historically low level indicated that intermodal contract prices will continue to slide as new bids are implemented and old contracts expire.

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

After rebounding in October, the national door-to-door intermodal spot rate has been declining as railroads are trying to secure all the volume possible. Currently, the national intermodal spot rate, which includes fuel, sits at \$1.71 per mile, 3 cents per mile lower than it was last month. Over the past year, the national intermodal spot rate has dropped by 18 cents per mile.

Intermodal spot rates across the densest lanes in the country are lower over the past month, signaling the weakness in pricing power that both IMCs and railroads have in the current environment. Spot rates out of Chicago are higher y/y across some of the densest lanes, but increases y/y are few and far between.

Railroads attempting to grow incremental volumes by dropping spot rates

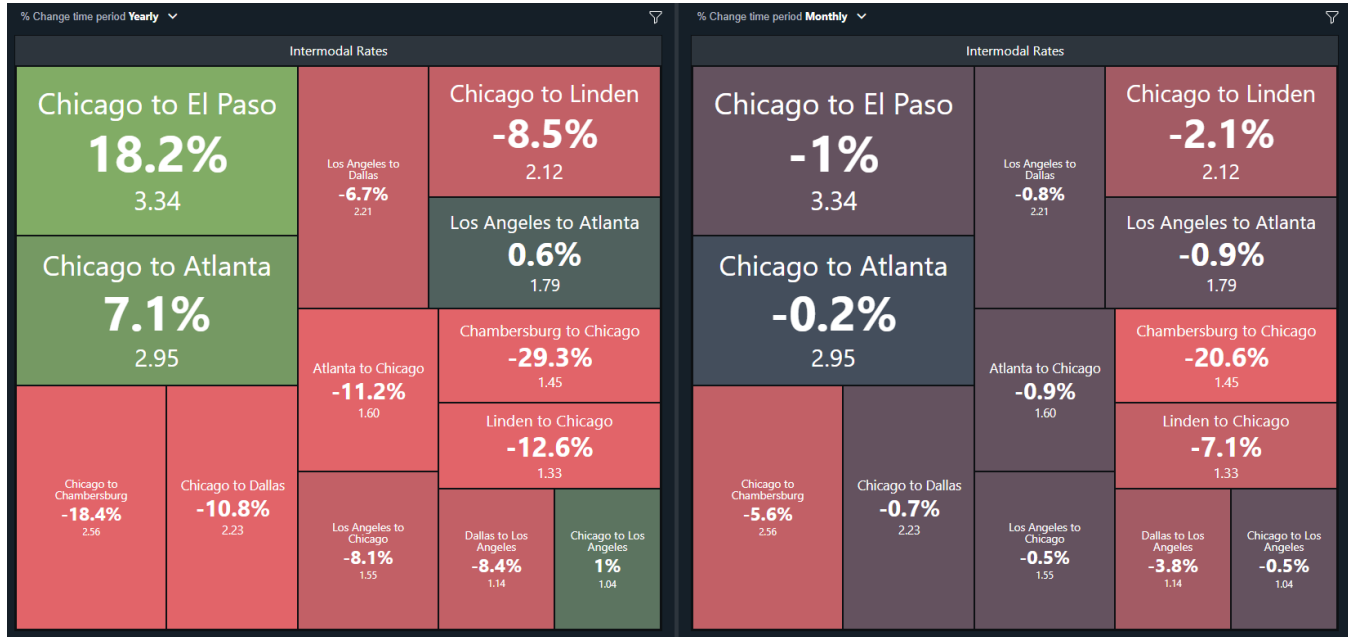


Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

Intermodal tender rejections offer a way to gauge service disruptions as carriers often operate on “auto accept,” especially when contract rates are competitive with spot rates. The current national intermodal rejection rate stands at 0.77%, while they are nonexistent in Chicago and 0.55% in Los Angeles. Intermodal rejection rates this low signal that there are very few service disruptions affecting the rails at the moment.

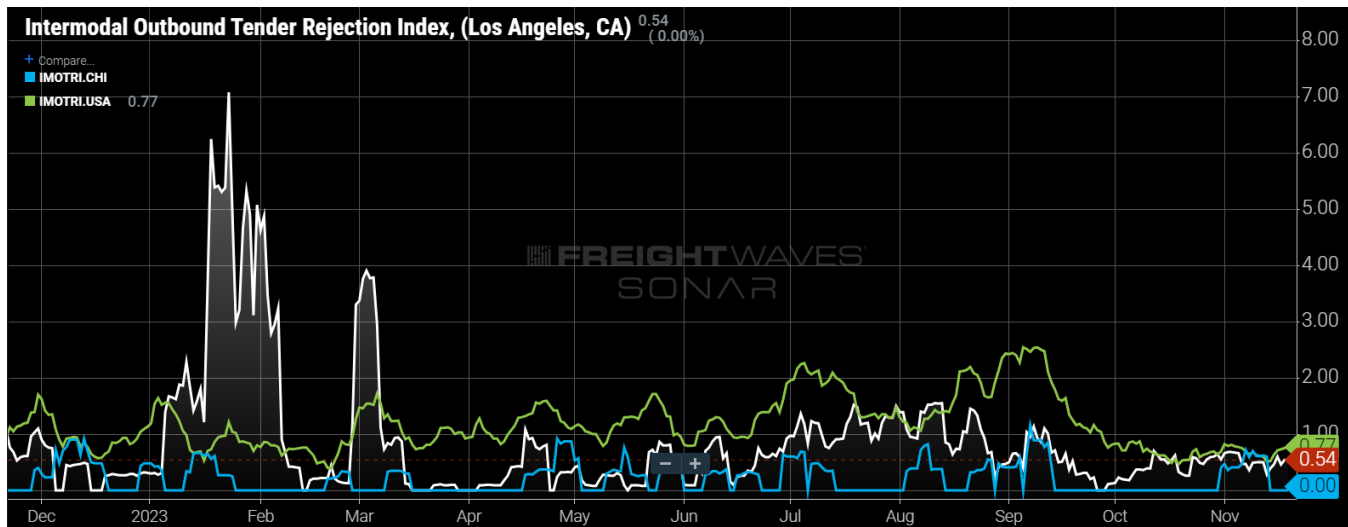
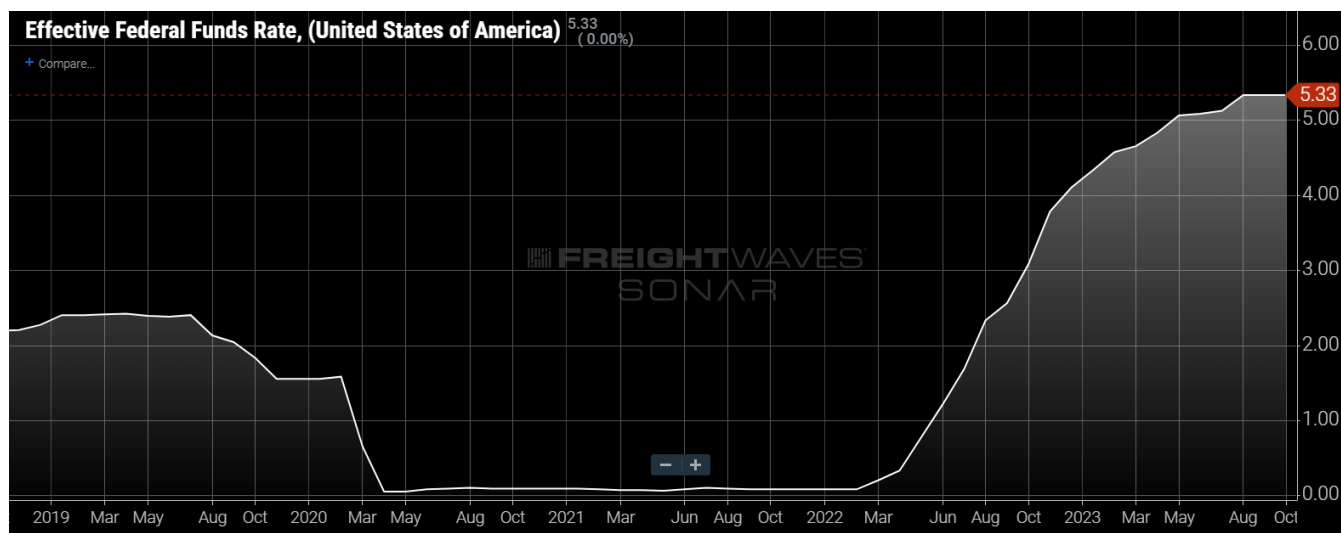


Chart: FreightWaves SONAR. Domestic intermodal tender rejection rates for outbound Los Angeles (white) and Chicago (blue) loads.

What else we're watching

The Federal Reserve continues to monitor inflation metrics as the central bank has been focused on curbing inflation for over a year. At the most recent Federal Open Markets Committee (FOMC) meeting, it opted to hold interest rates stable once again. The FOMC is meeting one more time before the end of the year, with the expectation that interest rates will once again remain stable.



Source: FreightWaves SONAR. Effective federal funds rate.

The Federal Reserve seems content at the current moment to hold interest rates higher for longer, which eventually curbs economic activity, and thus can keep the freight market lower for longer. The good news is that inflation metrics have shown signs of peaking but even so, prices do continue to creep higher on a monthly basis.

The Consumer Price Index (CPI), a widely used metric to gauge inflation, was flat in October, the lowest m/m reading of the index since July 2022. The decline has allowed the 12-month total to fall to 3.2%, down from 3.7% in September. Core inflation, or the CPI excluding energy and food due to their volatility, increased by 0.2% m/m in October with the 12-month total at 4%. The increases in core inflation stem largely from shelter prices, which rose 0.3% m/m and are 6.7% higher y/y.



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

The latest print of the Producer Price Index (PPI) saw supply-side prices experiencing deflation for the first time since May. The PPI for final demand fell by 0.5% m/m in October but is 1.3% higher than it was this time last year. The index for final demand goods dropped by 1.4% m/m, largely due to a drop in energy prices during October. The index for final demand services was unchanged thanks to a 1.5% m/m increase in transportation and warehousing.

The manufacturing sector is taking a breather after recovering throughout the summer month. Per the Federal Reserve, industrial production dropped by 0.6% m/m in October and is 0.7% lower than it was in 2022. These declines are worrisome as manufacturing has helped drive volumes. The United Auto Workers strike that affected various plants across the country likely impacted the overall drop as industrial production of motor vehicles and parts dropped by 10% m/m.

Now that the union and Detroit Three automakers have agreed to a labor contract, the November industrial production is likely to see an improvement as assembly lines are turned back on. This will be extremely important, especially in the first part of the year as there are signals that the consumer side of the economy is slowing.

Exhibit 8: Change in average daily spending per HH by income cohort, Oct 2023 vs Sep 2023, not seasonally adjusted

In the lower-income group, HHs that started student loan payments in Oct underperformed HHs that were already making (early) payments this year



Source: BAC internal data. "Started payments in Oct" refers to HHs that made their first federal student loan payment of 2023 from a BAC deposit account in October. "Early payments" refers to HHs that made at least one payment from a BAC deposit account between January and September 2023.

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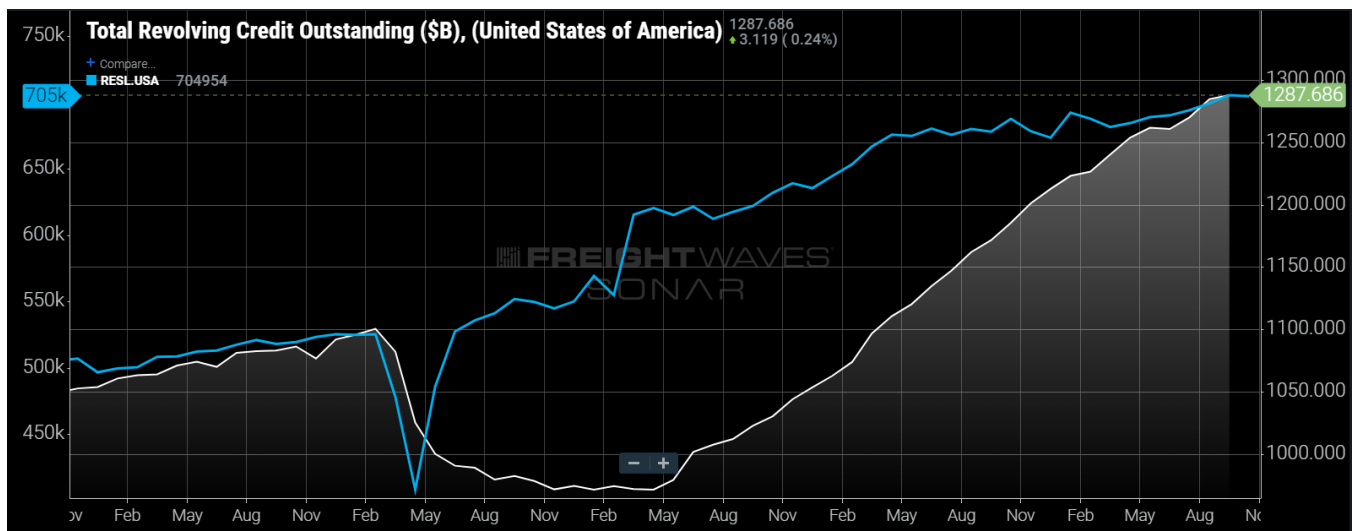
October marked the resumption of student loan repayments and the impacts overall are relatively small, at least to start. According to Bank of America's most recent monthly credit card spending report, total spending per household fell by 0.2% m/m and 0.5% y/y.

The impacts of student loan repayments showed up in the lower-income cohort (those earning less than \$50,000) as daily spending for those who made their first payment in October fell by 2.5% m/m.

An important thing to note about resumptions of payments, if an individual made a payment in March 2020, it was counted as an extra payment and pushed the first payment to November.

Source: Bank of America card spending report

Consumer credit health is an area to pay significant interest to over the next few months as there have been signals that consumers are becoming increasingly reliant on credit. Total outstanding revolving credit increased by 0.2% m/m in September, while credit card balances have eclipsed \$1 trillion. Additionally, interest rates on credit cards have now approached 23%, a strain that has impacts that are felt on a lag.



Source: FreightWaves SONAR. Total revolving credit outstanding, in billion USD (white, right axis), versus online retail sales, in million USD (blue, left axis).

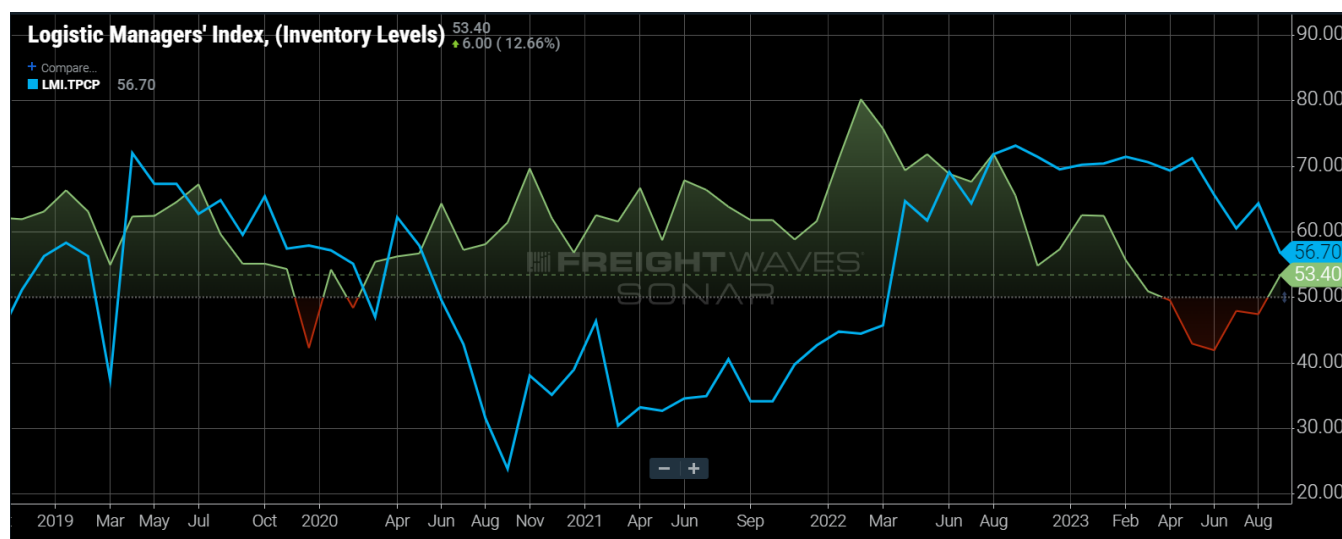
The further signals of a constrained consumer are showing in retail sales, which fell for the first time in six months. Total retail sales fell by 0.1% m/m in October, but some of the increase is due to prices falling in some categories, like gasoline prices, as retail sales aren't adjusted for inflation. Total retail sales excluding gas stations actually increased 0.1% m/m in October.

October brought the beginning of retailers across the country trying to spur spending by events like Amazon's Prime Big Deal Days. The impacts, however, were relatively small despite the grandiose effort. Nonstore retailers, which include e-commerce sales, increased by 0.2% m/m. In comparison, similar events around Amazon's Prime Day in July caused overall nonstore retailers sales to jump 1.6% m/m.

Retailers as a whole are signaling the consumer is slowing spending by cutting forecasts for holiday sales. Throughout the third-quarter earnings reports, retailers including Target, Best Buy and The Home Depot, which thrive on discretionary spending, expect that holiday quarter comparable sales to decline in the mid-single digits.

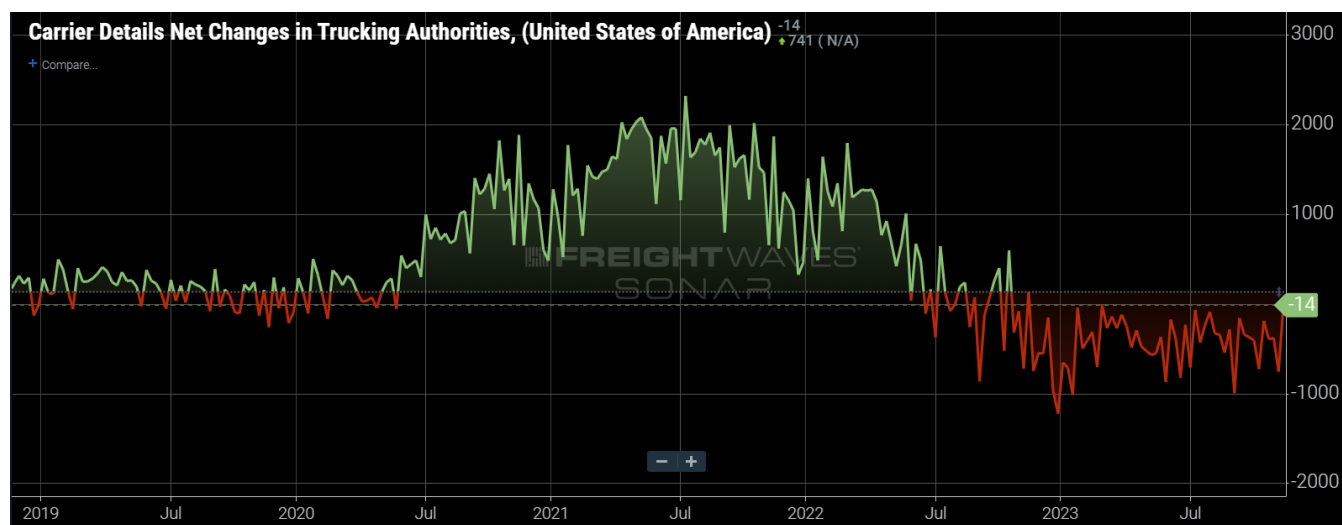
Additionally, consumers are searching for value, which has created windfalls for retailers like Walmart, where comparable sales are growing and expected to continue to grow through the holiday season.

The risks associated with slower spending in the holiday season is that there won't be a need to backfill inventory levels. According to the Logistics Managers' Index (LMI), inventory levels were reduced and transportation capacity is growing at the slowest rate, which is a positive, but there will need to be further reduction to balance the freight market.



Source: FreightWaves SONAR. Logistics Managers' Index inventory levels (baseline) and transportation capacity (blue).

The LMI is a diffusion index, meaning that any reading above 50 is considered expansionary and a reading below 50 is indicative of contraction. The growth in inventories leading into the holiday season isn't a surprise, but the growth is slower than it has been in previous years.



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

Even though the LMI is showing capacity growth albeit at a slower rate, capacity is leaving the market. The Carrier Details Net Changes in Trucking Authorities has shown that every week in 2023, there has been a net reduction in the number of trucking authorities, a positive for an industry that needs to reduce capacity.

The problem is that about 400 carriers have been leaving the market on average per week throughout 2023. In the boom cycle of July 2020 through March 2022, there were on average 1,300 new authorities per week. With authorities dropping at one-third the pace of the entrants into the market, it would take nearly five years to erode all of the growth.

The good news is that all of the capacity doesn't have to be reduced to meet demand levels. Since 2019, total freight demand has grown by 18%, but the number of authorities has grown by 47%. Now the largest shakeouts in capacity stem in the first and final weeks of the year, so it is likely that capacity leaves the market faster in the coming weeks and months, but the abundance of capacity appears to be in the market for an extended period.

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