

JULY
2025

STATE OF THE INDUSTRY

R E P O R T

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

SONAR



Interesting times ahead

June 23, 2025 | 1 p.m. ET

Overview

Freight demand is likely to receive a much-needed boost as importers take advantage of a 90-day reduction in U.S. tariffs on Chinese goods, which — at the time of writing — is set to expire in mid-August but will presumably be extended further.

The truckload market, however, is not set to benefit greatly from this surge in imports. Even though the sector has suffered from flagging demand in recent months, it has continued to show relative strength in tender rejections and per-mile pricing, frustrating narratives of an industry-wide recession. Seasonal trends are likely to favor truckload volumes later in the summer and fall, but the market remains sparse until such a time.

Intermodal carriers have grown more optimistic, thanks to positive developments from June's U.S.-China trade talks. Forecasts for the segment's peak season are temperate but generally positive, with the potential for surprise growth. As with trucking, seasonality is set to dictate the tempo of intermodal demand in 2025.

Being the furthest upstream, the maritime market is already exposed to the massive shakeup in trade flows, as reflected in skyrocketing container rates. Israel's attacks on Iran, which began on June 13 and have grown to include the U.S., have injected a great deal of geopolitical risk into supply chains. Trans-Pacific container bookings have risen substantially in accordance with cooling U.S.-China trade tensions.

The macroeconomic picture is murky, but the Federal Reserve believes the U.S. economy has strength enough to endure another month without interest-rate cuts. Despite progress in

taming inflation, prices are set to rise after the Israel-Iran war triggered a rally in the oil market. Retail sales were depressed in May, and both the manufacturing and construction sectors are showing notable weakness, leading some analysts to argue that the Fed is waiting too long to cut rates.

Macro indicators (y/y change)

May industrial prod. change	-0.2% (+0.6%)
May retail sales change	-0.9% (+3.3%)
May U.S. Class 8 orders	10,300 (-42%)
May U.S. trailer orders	5,030 (+79%)

Truckload indicators (y/y change)

Tender rejection rate	5.62% (+22 bps)
Average dry van spot rate ¹	\$2.27/mi (-2.2%)
LAX to DAL spot rate ²	\$2.04/mi (-14%)
CHI to ATL spot rate	\$2.21/mi (-12%)

Tender volumes (y/y change)

Atlanta	365.94 (-10.3%)
Dallas	384.96 (-10.3%)
Los Angeles	208.47 (-39.6%)
Chicago	171.21 (-20.5%)

Tender rejections (y/y change)

Atlanta	8.3% (+20 bps)
Dallas	5.43% (-32 bps)
Los Angeles	2.78% (-387 bps)
Chicago	5.27% (+309 bps)

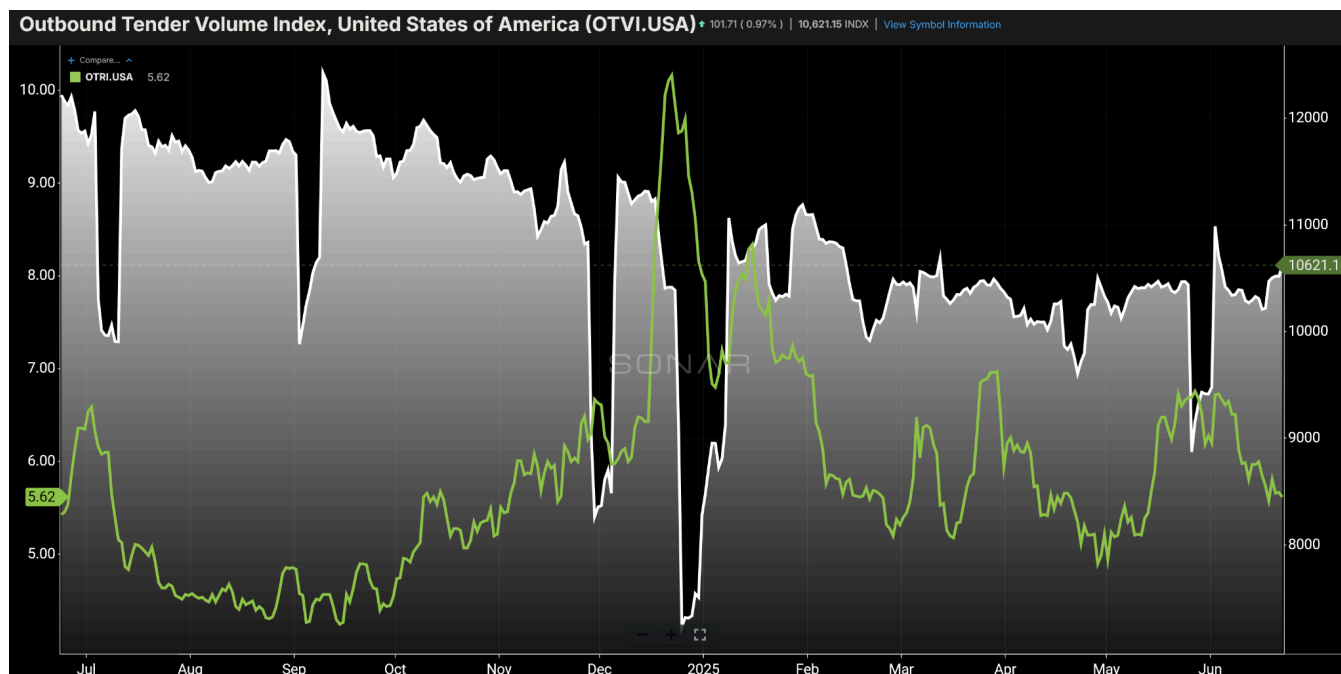
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¹ FreightWaves National Truckload Index

² FreightWaves TRAC spot rate

Truckload markets

Despite a post-Memorial Day rally that brought truckload demand near its year-to-date high, there continues to be little change to market fundamentals. A promised deescalation in the U.S.-China trade war (discussed below) should provide shippers greater clarity going forward, though many have already taken advantage of the 90-day ceasefire. In any case, trucks are not expected to be the primary beneficiary of this new influx of maritime imports, as — with little urgency to get this freight to its final destination — most of it will fall to the rails.



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

Truckload tender volumes remained stuck in a 6%-10% annual deficit throughout May and have only depreciated further in June so far. Given mid-May's surprise announcement of a pause on most Chinese tariffs, which looks to have been extended further in early June, there is an "air pocket" where inventory levels will drop but shippers have a 90-day window in which to restock. This dynamic could seed some chaos in transportation markets once restocking efforts converge with another round of frontloaded imports, though it remains likely that the rails will grab the lion's share of this volume. At present, the Outbound Tender Volume Index (OTVI) is down 13.1% year over year (y/y).

Somewhat oddly, truckload volumes are a sharp indicator that the trucking industry is in a severe recession but are uncorroborated by relative strength in tender rejections and spot rates. This stand-alone nature of the metric's performance suggests that the root of volumes' suffering lies beyond a simple lack of consumer confidence and degradation in interest-rate sensitive sectors of the economy. Perhaps more importantly, some shippers have started to rely on private and dedicated fleets more heavily in the past year, not to mention the fact that intermodal has taken demand from trucks. For the time being, OTVI is up a slight 1.7% month over month (m/m).

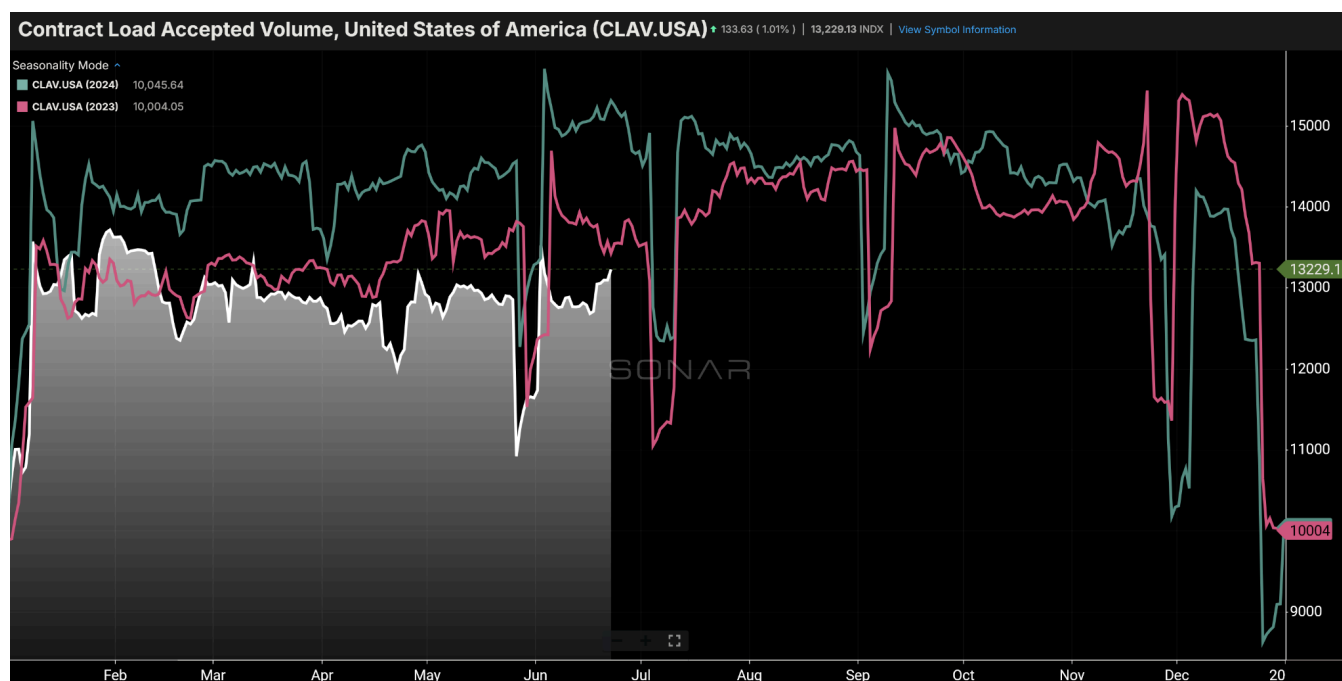
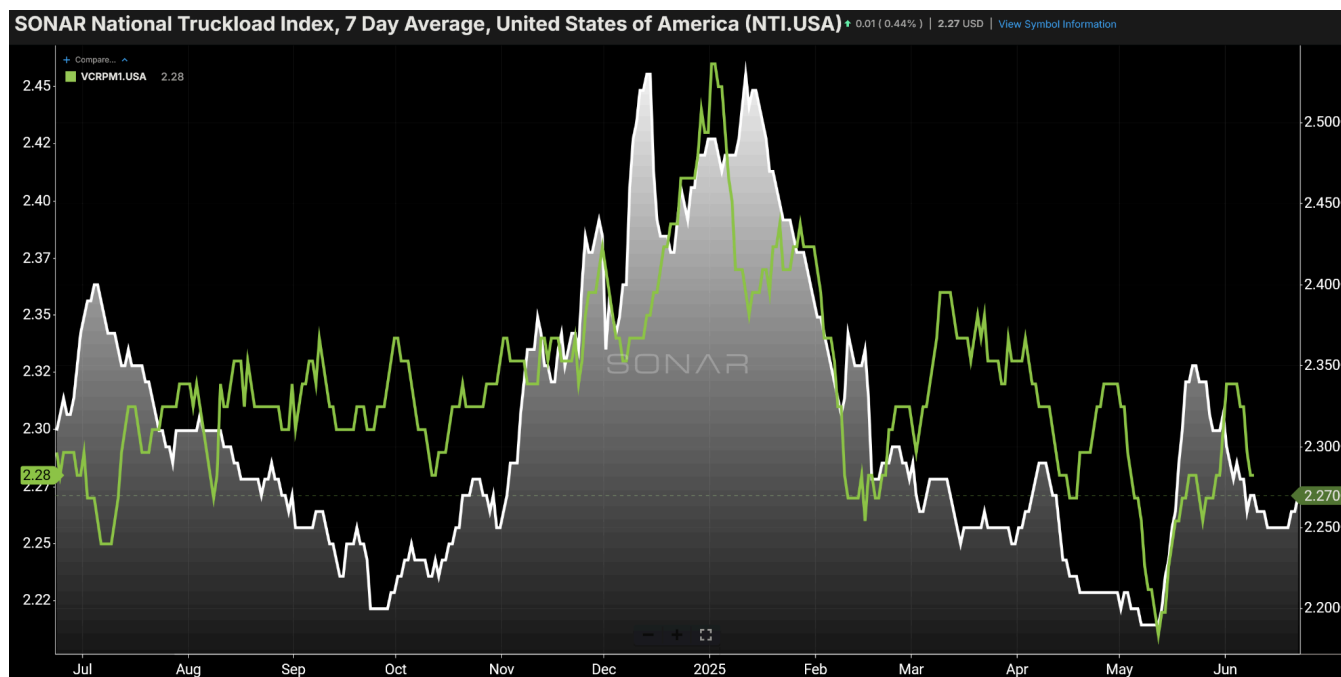


Chart: SONAR. Contract Load Accepted Volume: 2025 (white), 2024 (blue) and 2023 (pink).

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 13.3% y/y.

Waning capacity elevates rates above demand trends



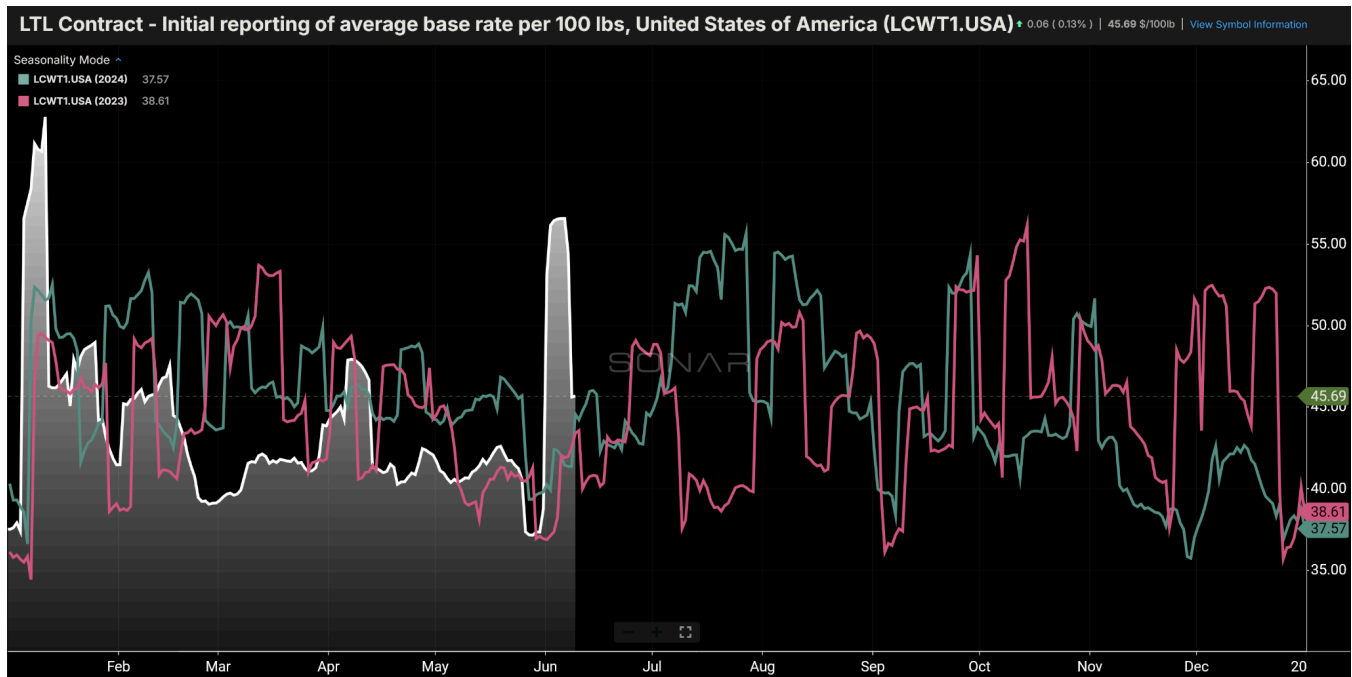
Source: SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

After skyrocketing in response to late May's one-two punch of the Commercial Vehicle Safety Alliance's International Roadcheck (more commonly known as "Blitz Week") and Memorial Day, spot rates expectedly tempered in early June. Even so, rates settled to a level above the one at which they began Q2, implying that sourcing capacity still remains an issue for some shippers. This struggle is not terribly surprising, given the many bankruptcies and layoffs in the trucking and logistics sector that have littered headlines over the past several weeks.

The National Truckload Index (NTI) — a seven-day moving average of national dry van spot rates that is inclusive of fuel — has fallen from early June's peak but is rising in accordance with seasonality, down 2.2% y/y at \$2.27 per mile.

Despite posting a solid (albeit unimpressive) performance in Q1, contract rates — which are exclusive of fuel and other accessories — have been depressed on a yearly basis since early May. Analysts, however, largely expect this depression to be a temporary side effect of Q2's aforementioned "air pocket," in which demand suddenly plunges. Assuming that consumers will maintain demand in the back half of the year, the first-half drawdown of inventory should lead to a seasonal restocking that could very well avoid the rails, given its timeliness. In the meantime, contract rates are down 1.3% y/y at \$2.28 per mile.

LTL carriers divided into haves and have-nots



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

Overall, the less-than-truckload segment is battered by crosswinds. On the one hand, those carriers that aggressively sought to gain market share after the bankruptcy of Yellow Corp. are seeing diminishing returns in tonnage as the comps become more difficult. On the other, carriers that have posted a long string of tonnage declines are seeing their fortunes reverse slightly for the better. Still, nearly all carriers have pointed to a sustained weakness in demand from the manufacturing sector, which generates roughly two-thirds of the segment's freight.

At the time of writing, the average LTL contract rate has risen \$4.52 per hundredweight over the past month. Currently sitting at \$45.69 per hundredweight, shipping via LTL is 2.5% more expensive than it was a year ago.

Memorial Day pressures triggered a sharp but brief spike in LTL rates, which rose \$19.18 per hundredweight (or 51%) over a single week. Of course, much of these gains have since been lost, though it appears that rates might plateau at a higher level than they were previously. This seasonal uptick greatly overshadows any comparable rise in recent years, suggesting that the market is vulnerable to a sudden melt-up. Should manufacturing demand come back online to a significant degree, it is likely that LTL rates would react quickly and substantially.

Macroeconomic conditions

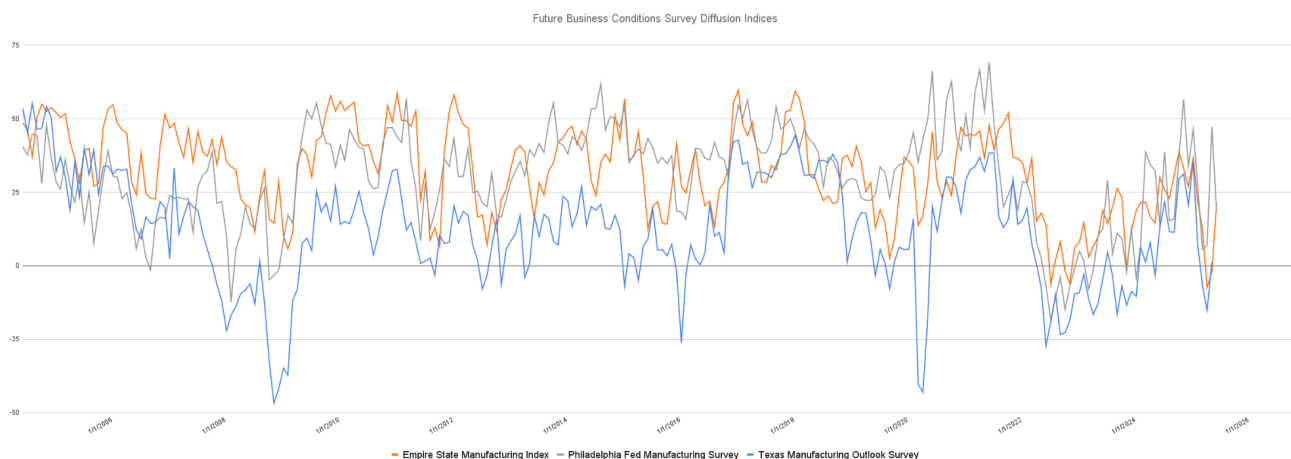
Although both sentiment and hard data reflect a minor downturn in the industrial sector for Q2, manufacturers are broadly hopeful that their fortunes will reverse in the near future.

One possible hurdle, however, could arise in the form of a sustained rally in energy prices: In the early hours of June 13, Israel attacked dozens of Iranian nuclear facilities and military bases, killing key military commanders and nuclear scientists. Israel's attacks — which have lasted for several days as part of an ongoing (at the time of writing) campaign — extended to civilian targets, including oil fields and refineries, public airports, residential buildings, media facilities and factories.

Soon afterwards, Iran launched a large-scale retaliatory attack against Israel, targeting civilian and military targets including an oil refinery complex. As of mid-June, the U.S. has not joined Israel in attacking Iran, nor has it been attacked. Secretary of State Marco Rubio disavowed the U.S.' involvement in the initial bombings, stating that Israel acted independently.

That said, it was confirmed on June 16 that several U.S. ships, including two aircraft carriers, are being deployed to the region. Whether this deployment is merely a show of support for Israel or else is a preparation for more aggressive operations is not yet certain. For his part, President Trump expressed his opposition over a plan to kill Iran's Supreme Leader Ayatollah Ali Khamenei, instead urging both sides to "talk immediately before it's too late."

Unsurprisingly, given the abundance of both oil and complex geopolitical affiliations in the region, oil prices shot up following the attacks. Prices of West Texas Intermediate crude (WTI) — a domestic benchmark — jumped by more than \$10 in the attacks' immediate aftermath and have since settled above \$70 per barrel. An extended rally in prices is not likely at present, given the fact that global oil demand is projected to slow down in 2025 and beyond, as well as the fact that Iran is not as big of a producer as the U.S., Saudi Arabia, or Russia.



The June print of the Empire State Manufacturing Survey, conducted monthly by the Federal Reserve Bank of New York, was expected to show a slight recovery in its headline index with a reading of minus-6.0. The index, which is based on survey responses collected between June 2 and

June 9 (i.e., before the U.S.-China trade talks in London concluded), instead fell further from minus-9.2 to minus-16.0.

This bad news was, however, balanced by surprising growth in the survey's forward-looking General Business Conditions Index, which gauges expectations for developments over the next six months. For the first time since March, firms were more optimistic than not with the index jumping 23.2 points m/m to 21.2. Similarly large gains were seen in the future Shipments Index (up 26.4 points m/m to 23.0) and New Orders Index (up 28.8 points m/m to 28.8), as firms grow more confident that the U.S.' many trade wars are trending toward deescalation.

The Federal Reserve Bank of Dallas releases the Texas Manufacturing Outlook during the final week of the month, but the mood of Texan business firms in May was similar to that of their New York counterparts in June. The survey's Current General Business Activity Index was markedly negative at minus-15.3, albeit rising with a 20.5-point m/m gain. As in New York, however, Dallas' Future General Business Activity Index climbed out of the red, rising 16.5 points m/m to 1.3.

An anonymous respondent from the computer and electronic product manufacturing sector summed up the state of the industry quite clearly: "We are still seeing a slowdown in RFQs [requests for quotations] and new orders, but we believe that is largely due to the uncertainty related to tariffs. As new deals are announced, especially with China, we expect normal business activity and growth to resume. We are moving forward with our capital investment plans to support future growth." Whether next month's survey will reflect this hoped-for impact from the London U.S.-China trade talks in June remains to be seen.

Still, not all sentiment indicators are trending as positively. At the end of May, the Institute for Supply Management's Manufacturing PMI suffered a 0.2-point m/m decline and continued to languish in contraction with a sub-50 print of 48.5. Another manufacturer of computer and electronic products had a sharply more pessimistic appraisal of the current situation: "Government spending cuts or delays, as well as tariffs, are raising hell with businesses. No one is willing to take on inventory risk."

Concurrent with this release, however, was S&P Global's US Manufacturing PMI, which saw the headline index break from the stagnation of the previous two months with a 1.8-point m/m rise to 52.0. May's gain was primarily driven by an uptick in new orders and rapid growth of input inventories, which swelled at their fastest pace in the index's 18-year history.

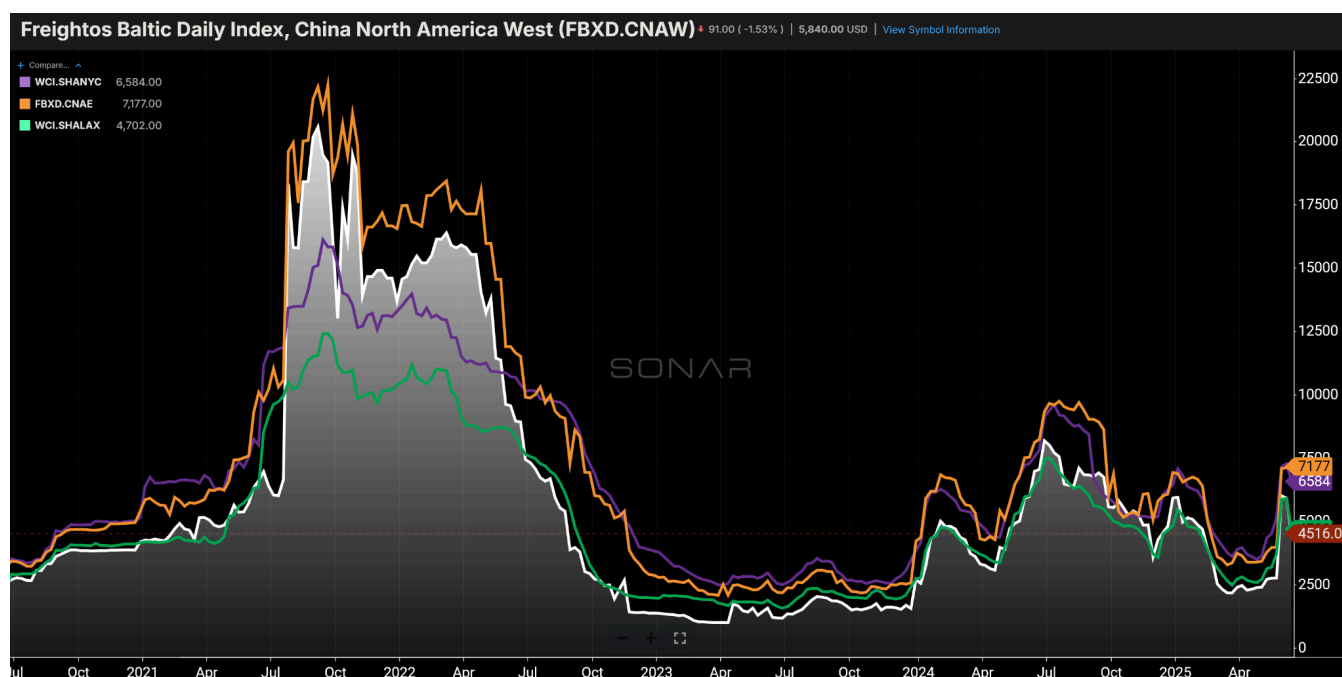
Despite this positive release, not all was sunshine in the U.S. manufacturing sector as Chris Williamson, chief business economist at S&P Global Market Intelligence, wrote: "The rise in the PMI during May masks worrying developments under the hood of the US manufacturing economy. While growth of new orders picked up and suppliers were reportedly busier as companies built up their inventory levels at an unprecedented rate, the common theme was a temporary surge in demand as manufacturers and their customers worry about supply issues and rising prices.

"These concerns were not without basis," Williamson continued. "Supplier delays have risen to the highest since October 2022, and incidences of price hikes are at their highest since November 2022, blamed in most cases on tariffs. Smaller firms, and those in consumer facing markets, appear worst hit so far by the impact of tariffs on supply and prices."

Turning now to the hard data, the industrial sector does appear to be suffering. Industrial production fell 0.2% m/m after a 0.1% gain in April, below consensus expectations of a 0.1% drop. Manufacturing output did, however, benefit from a slight 0.1% m/m uptick after a nasty 0.5% tumble in April. Yet this growth, which was driven by a 0.4% m/m rise in durable goods production, owed much to the transportation industry — output of motor vehicles and parts rose 4.9% m/m, and output of aerospace and miscellaneous transportation equipment grew 1.1%. All other durables, like fabricated metal products, machinery, and nonmetallic mineral products, posted declines of at least 1%.

Maritime: Chaos proves a boon

For the second year in a row, political instability remains at the forefront of maritime concerns among shippers, according to a survey released by the International Chamber of Shipping. Ironically, this report was released on June 13, a day after which geopolitical risk exponentially rose thanks to Israel's attacks on Iran. The major worry, though one that has yet to be realized fully, is that Iran will close the vital Strait of Hormuz to tankers and container ships.



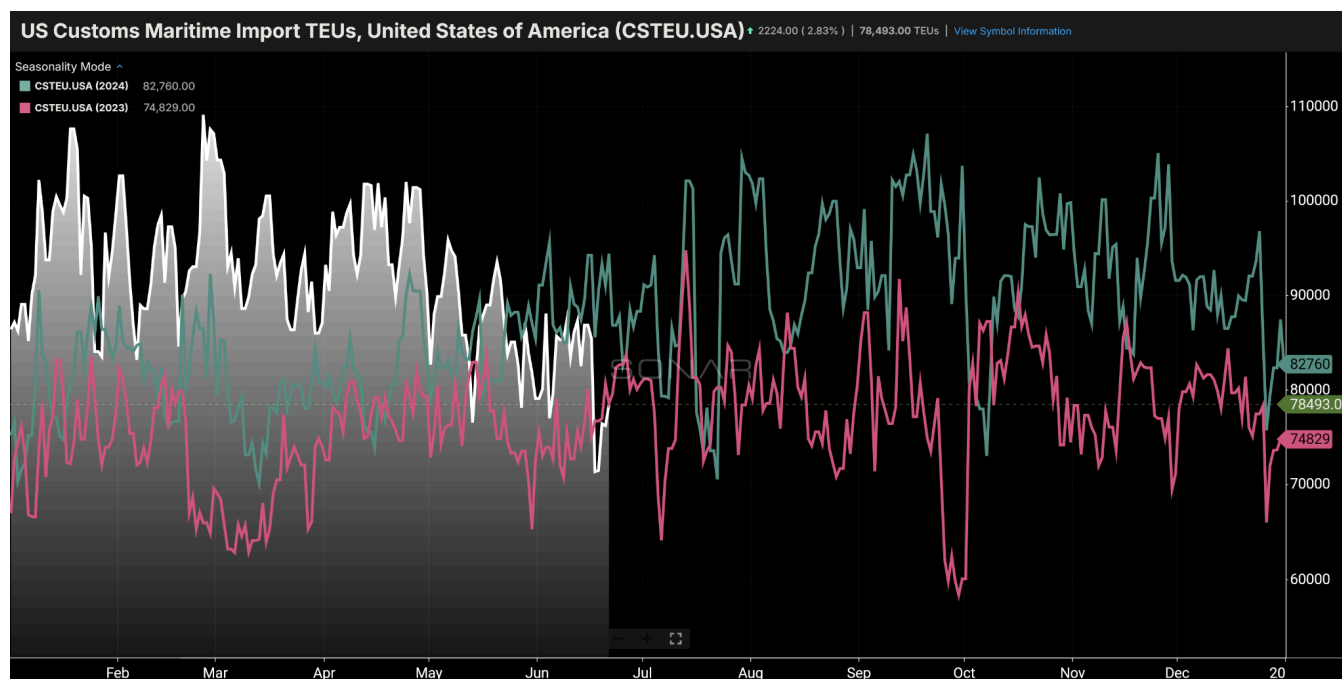
Source: SONAR. Freightos Baltic Daily Index: China to North American West Coast (white) and China to North American East Coast (orange). Drewry World Container Indexes: Shanghai to Los Angeles (green), Shanghai to New York (purple).

Though some shippers have continued sailings through the region, others have not. Either way, ocean rates will rise, whether due to a reduction in capacity from lengthier routes or due to higher war-risk insurance premiums. Yet even before this conflict escalated, container rates were rising as ocean lines implemented general rate increases (GRIs) beginning on June 1. These GRIs are largely in response to China's ports grappling with backlogs from an earlier lull in demand, alongside the realignment of vessels and equipment to other lanes during the tariff quiet period.

Trans-Pacific container rates have risen sharply throughout June in response to geopolitical risk and GRIs, though they face difficult comps on a yearly basis. All four major indexes from China to both North American coasts are up significantly on a monthly basis but are down by a lesser degree on a yearly one.

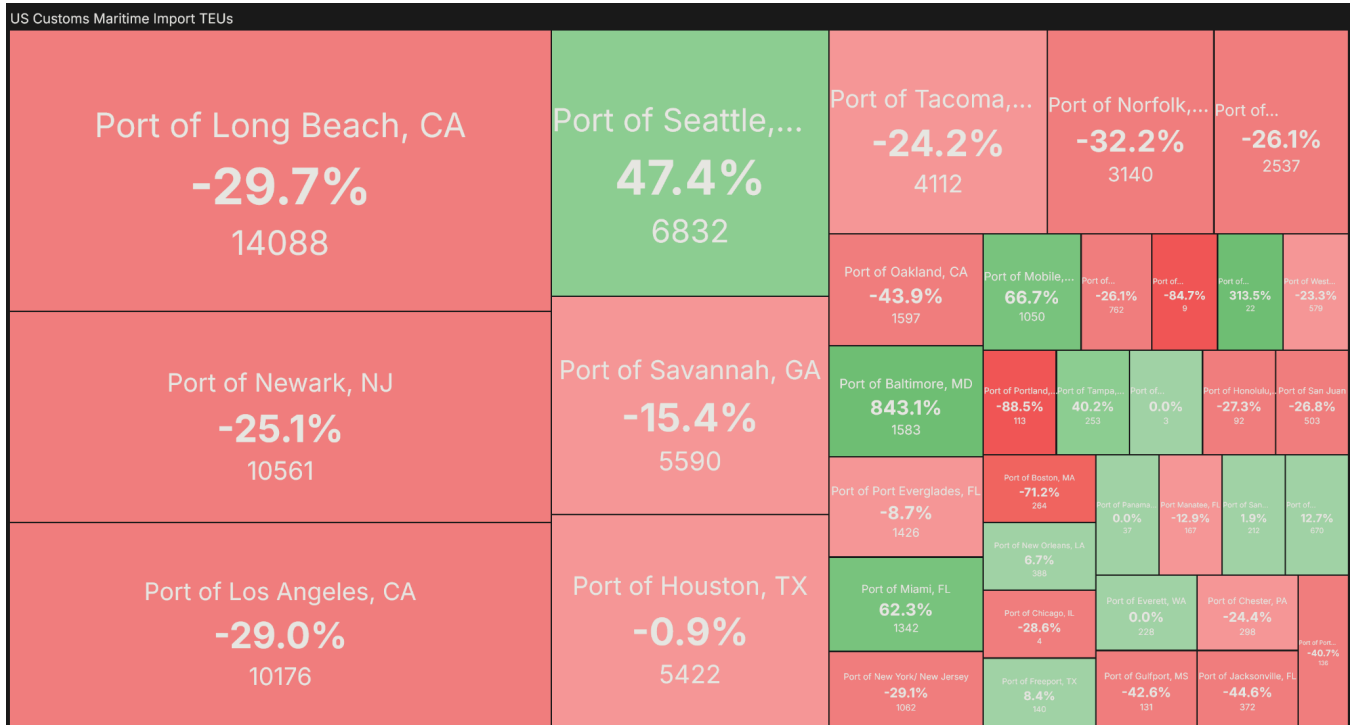
The Freightos Baltic Daily Index from China to the North American East Coast saw the largest rally, as the index has risen 81% m/m to \$7,177 per 40-foot equivalent unit. On a yearly basis, however, rates along this lane are down 12%. From China to the North American West Coast, spot rates have risen 63% m/m to \$4,516 per FEU but are down 35% y/y — the largest such decline.

The Drewry World Container Index likewise saw significant growth on a monthly basis: The WCI from Shanghai to Los Angeles is up 74% m/m to \$4,702 per FEU, down 27% y/y. The WCI from Shanghai to New York, however, holds the dubious distinction of the smallest monthly gain, though — with the index up 45% m/m — its performance should not be shamed. The index is, however, down 13% y/y.



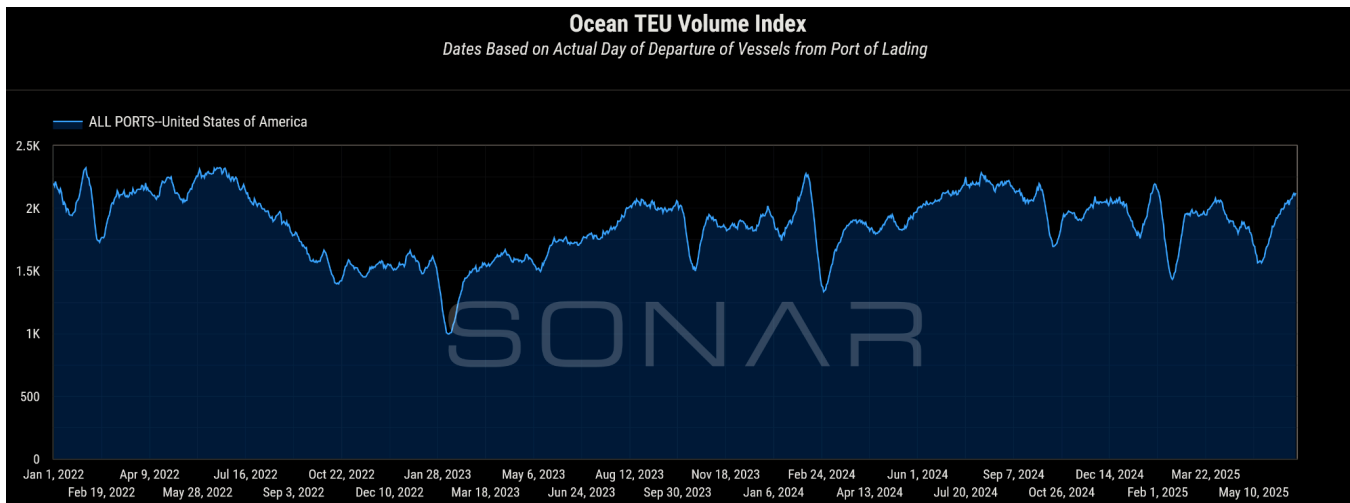
Source: SONAR. U.S. Customs Maritime Import TEUs: 2025 (white), 2024 (blue) and 2023 (pink).

The much-ballyhooed air pocket is manifesting at U.S. ports, with growth down substantially on both a yearly and monthly basis. The Port of Los Angeles, for example, saw a 10-month streak of container volume growth end in May as tariffs impacted the flow of trade. In fact, the port recorded its lowest volumes in more than two years with output falling 19% m/m, a clear violation of seasonal trends. Compared with this time last month, 7.8% fewer TEUs are clearing U.S. ports. Relative to 2024, TEUs clearing U.S. ports are down by a weightier 16.9% y/y.



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

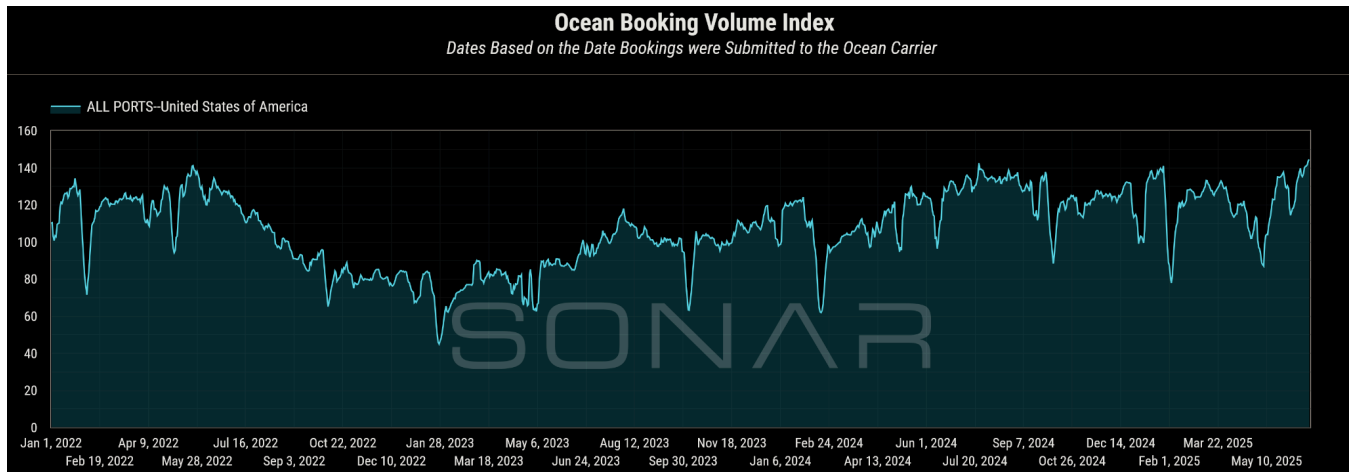
An appreciable number of U.S. ports are, however, still seeing imported TEUs outpacing year-ago levels, with only two of the top five busiest ports (the Port of New York and New Jersey and the Port of Savannah, Georgia) seeing a y/y decline. Though there is necessarily some delay between a ship's arrival at a port of discharge and its goods' clearing customs, the United States' busiest container ports have very slim backlogs at present.



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

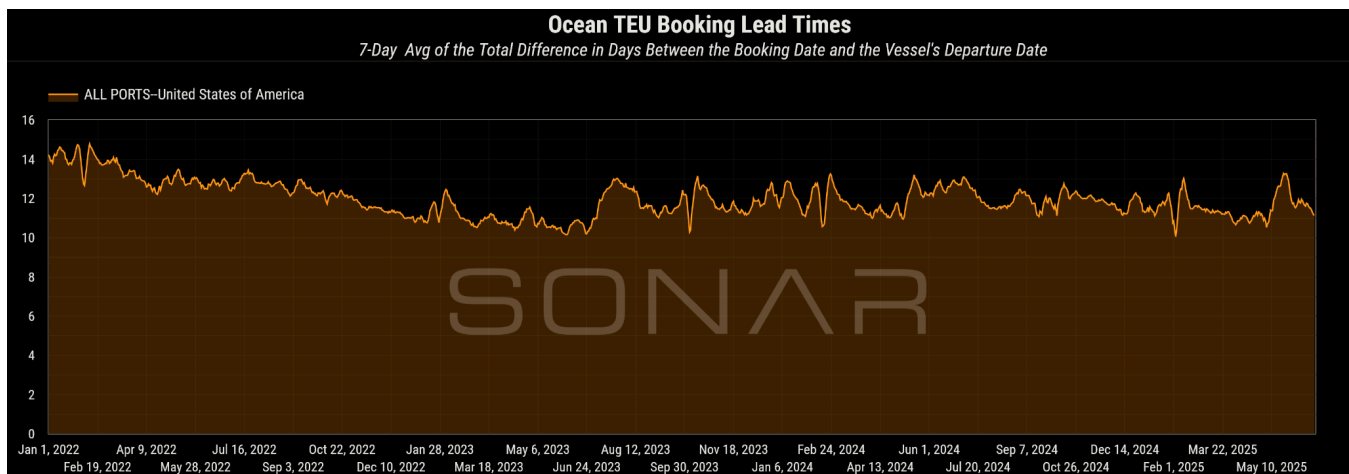
The Ocean TEU Volume Index, a gauge of container trade from all global ports to all U.S. ports as TEUs leave origin ports, has risen steadily since reaching a nadir in mid-May. Over the past month,

the Ocean TEU Volume Index inbound to all U.S. ports shot up 24%, an overt reflection of the deescalatory impact of the recent U.S.-China trade talks. Even so, TEU volumes remain up a modest 2.7% y/y for the time being.



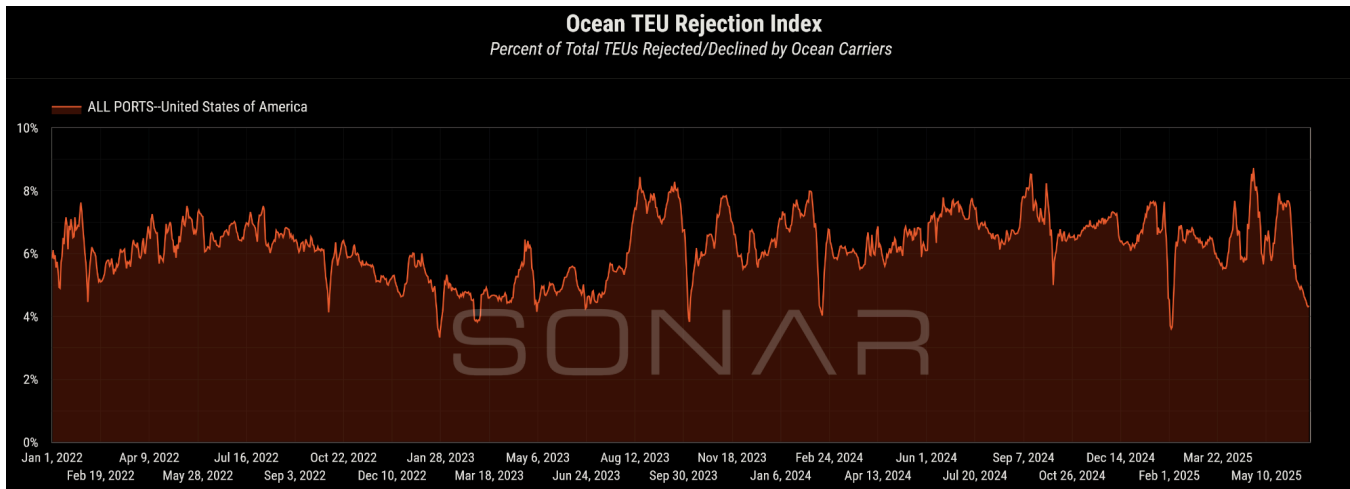
Source: SONAR Container Atlas. Ocean Booking Volume Index — all global ports to all U.S. ports.

Further upstream, bookings have risen in two bursts, with the former caused by the 90-day reduction on Chinese tariffs and the latter reflecting the positive developments with China in London. The Ocean Booking Volume is up 6.4% over the past month, with comparisons being drawn against the initial rally in bookings. Bookings are also up 13.4% compared to this time last year, though yearly comps will become more difficult in the coming months.



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

Ocean TEU Booking Lead Times are on a precipitous decline, nearly matching the four-year lows from February. 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 cooling. U.S. trade policy has proved mercurial in 2025 so far, and thus even the promise of a more permanent trade deal with China is unlikely to assuage shippers completely. Over the past month, booking lead times fell 16% to an average of just over 11 days.



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

The Ocean TEU Rejection Index has plummeted in June, signaling that ocean carriers are no longer trying to artificially adjust capacity in the face of genuine geopolitical risks. Rerouting vessels from the Strait of Hormuz — and possibly the Suez Canal once again — has eaten into capacity to a sufficient degree by itself. Over the past month, ocean TEU rejection rates sank 330 bps to 4.34%, 298 bps lower than they were this time last year.

Rail intermodal: Coming around the bend?

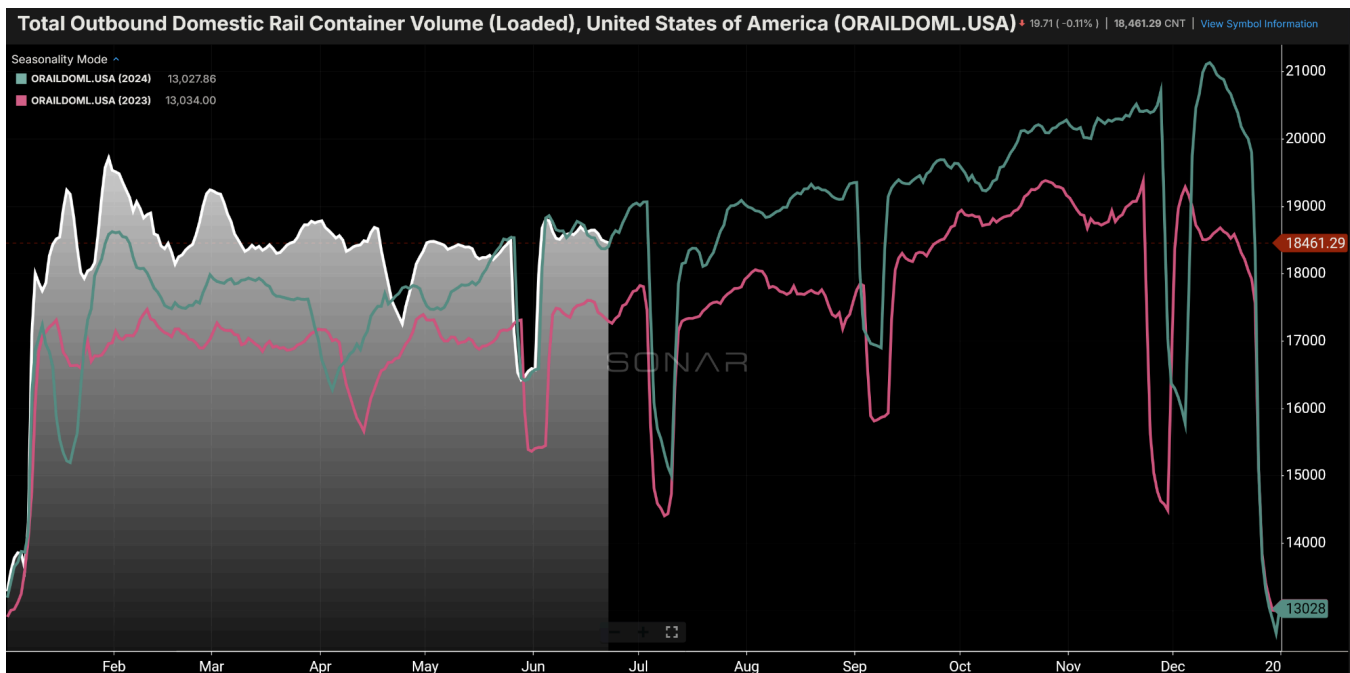


Chart: SONAR. Loaded domestic intermodal container volumes for 2025 (white), 2024 (blue) and 2023 (pink).

At an investor conference in mid-June, intermodal carriers appeared far more optimistic than they were during the round of Q1 earnings calls. Although some executives cautioned that demand trends were not entirely back to normal, they did note a return to seasonality from many of their customers. Forecasts for the peak season were temperate but generally positive with the likelihood of a surprise to the upside, given the coming wave of maritime imports.

But that wave has yet to impact rail demand, as intermodal volumes are down 2.3% m/m and 1% y/y. Carriers generally have enough capacity to handle incremental volume; domestic intermodal carriers have an excess of containers, and ocean lines have sufficient international containers to make them willing to send containers inland intact.

Given the mad dash to resupply ocean carriers with containers, the international segment of intermodal is weaker than its domestic counterpart. Total international intermodal volumes are down 4.5% m/m compared to the 0.6% m/m fall in total domestic volumes. Similarly, the yearly gains in domestic volumes are reflected by yearly declines in international ones, with the former up 0.9% y/y and the latter down 3.3% y/y.

Still, the international segment is showing positive growth where it arguably matters most: Total loaded international containers are up 3.7% m/m and 2.3% y/y, gains entirely offset by striking 25.7% m/m and 19.1% y/y declines in the movement of empty international containers. Comparably, the loaded half of the domestic segment is outperforming the less significant empty half: Total loaded domestic containers are down only 0.3% m/m and are up a slim 0.9% y/y, while total empty domestic containers are down 2.1% m/m. Empty domestic containers are, however, up 4.2% y/y thanks to favorable comps.

Intermodal contract rates in early stages of recovery

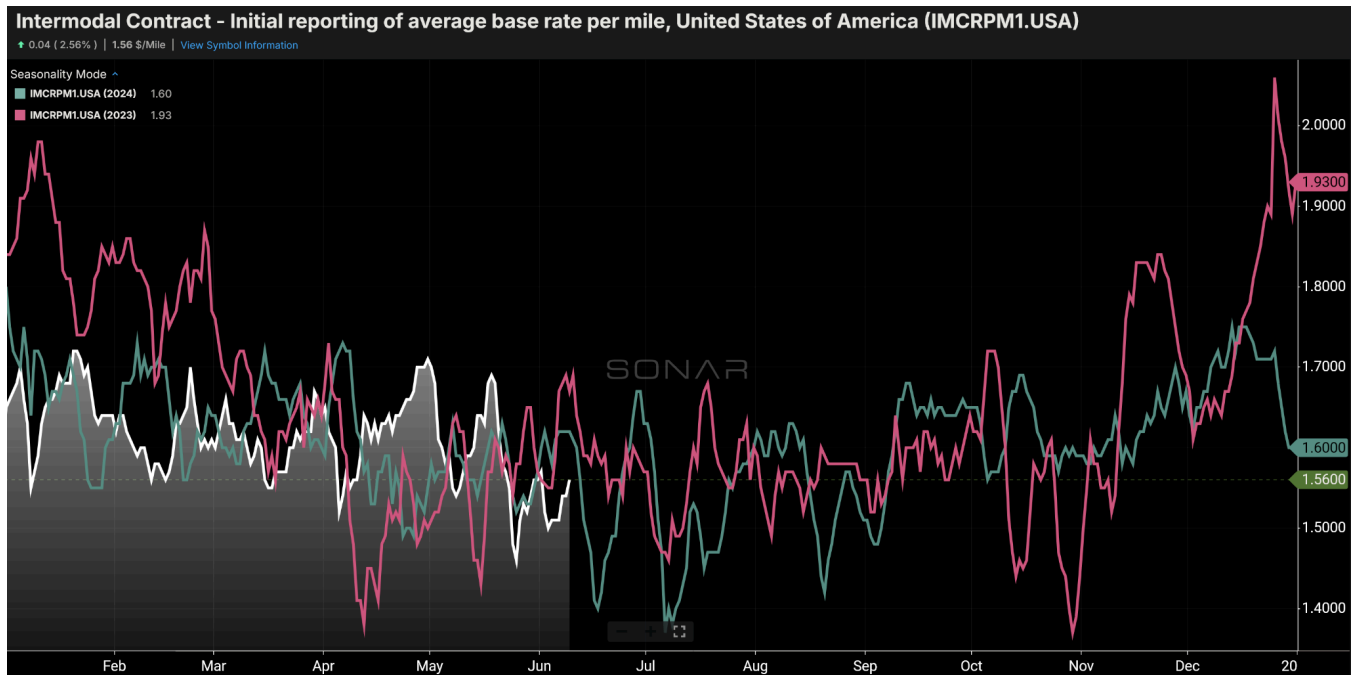


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2025 (white), 2024 (blue) and 2023 (pink).

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, though preliminary data suggest shorter peaks and wider valleys to be the defining feature of rates' natural fluctuations this year. At the time of writing, initially reported intermodal contract rates are averaging \$1.56 per mile, down 3 cents from the month prior. This initially reported average is 6 cents per mile lower than it was at this time last year.

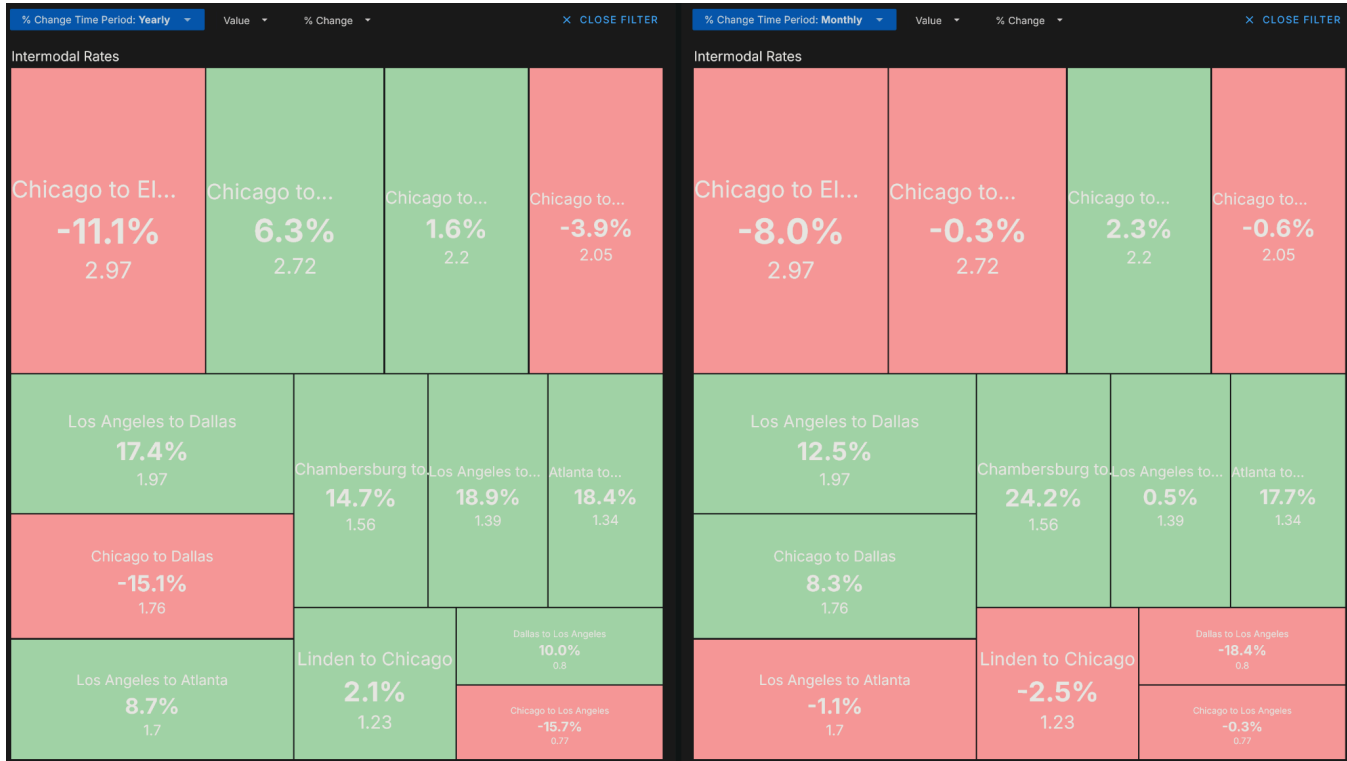


Chart: SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m changes.

On the other side of the equation, intermodal spot rates suggest that there is almost no need for carriers to protect contracted capacity. In mid-June, the national intermodal spot rate decayed to its lowest level — excepting the first few months of the pandemic — since August 2017. On average, intermodal spot rates are down 0.7% y/y and remain unchanged on a m/m basis. Looking at the densest lanes, spot rates are up on a yearly basis for all but four — all outbound from Chicago — in which rates are mostly down in the low double-digits.

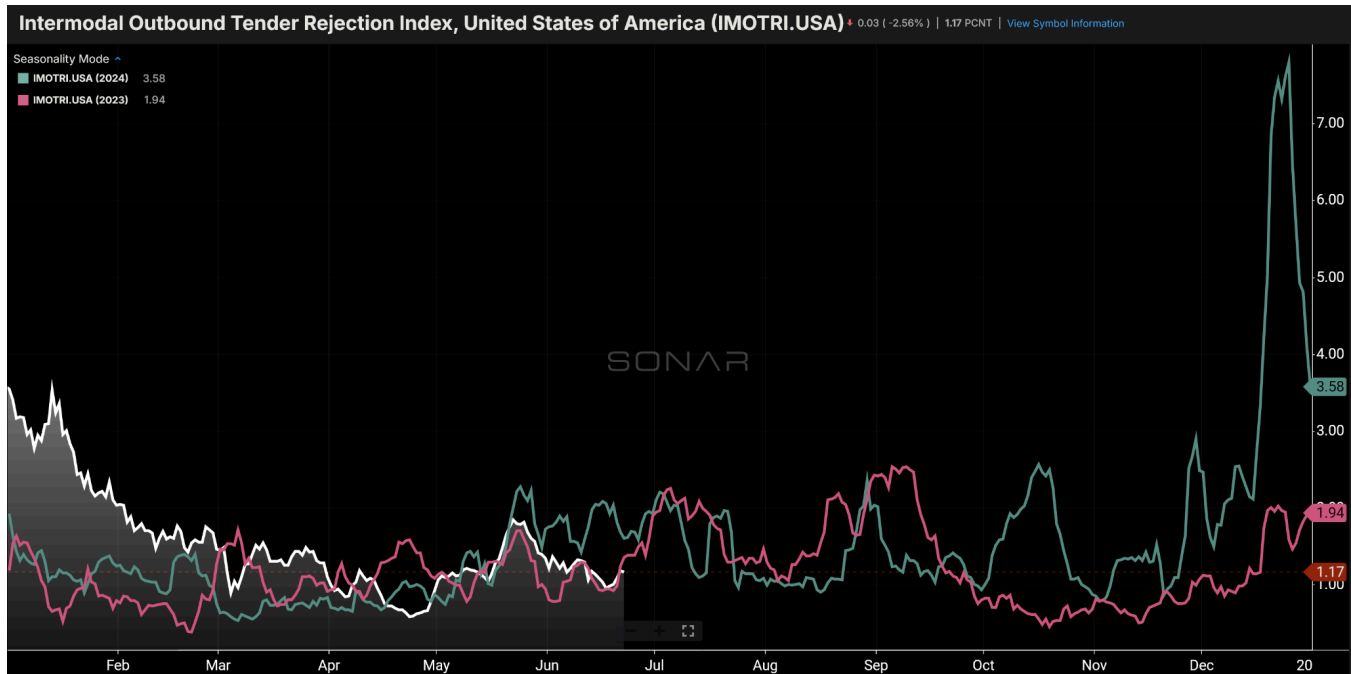


Chart: SONAR. National intermodal outbound tender rejection rates in 2025 (white), 2024 (blue) and 2023 (pink).

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 tender rejection rates have fallen by 65 bps over the past month to 1.17%, 44 bps lower than they were this time last year.

What else we’re watching

After a two-day session of presumably intense negotiations in London, U.S. and Chinese officials were reported to have reached a trade deal on June 10. Although the details of the agreement are speculative — and the agreement itself is still tentative a week later — both parties have hinted at some of the deal’s features.

President Donald Trump announced that, under this agreement, the U.S.’ effective tariff rate on Chinese goods would be 55%, while China’s levies against the U.S. would total 10%. During the negotiations, anonymous officials told Reuters, China (as yet, unsuccessfully) pushed for a quid-pro-quo exchange: The U.S. would lift its restrictions on selling the most advanced AI chips to China, while China would resume the export of military-use rare earth magnets to the U.S.

U.S. officials have signalled that they are looking to extend the current ceasefire with China, which expires on August 10, for an additional 90 days while these most contentious points are further negotiated. But, according to comments from both sides, it appears that this sticking point — even if unresolved — is unlikely to impede a broader agreement on tariffs.

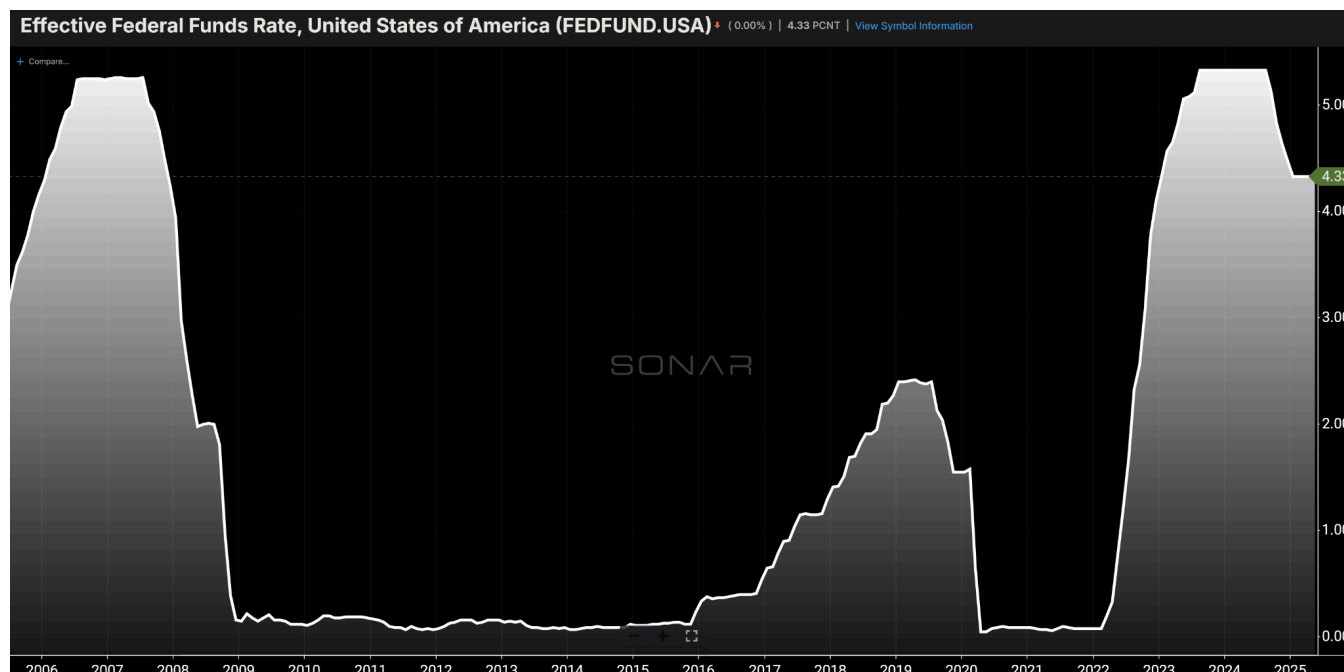


Chart: SONAR. Effective federal funds rate.

Still, despite the likelihood of deescalation in this trade war, the Federal Reserve is committed to its “wait-and-see” approach to monetary policy. Following its mid-June meeting, the Fed announced that it would maintain its target range for federal interest rates between 4.25% and 4.5%. Support behind this hawkish pause has gained momentum among voting Fed members in recent months: The current “dot plot,” which represents officials’ rate projections for the end of the year, saw three members shift their expectations towards withholding cuts until at least 2026.

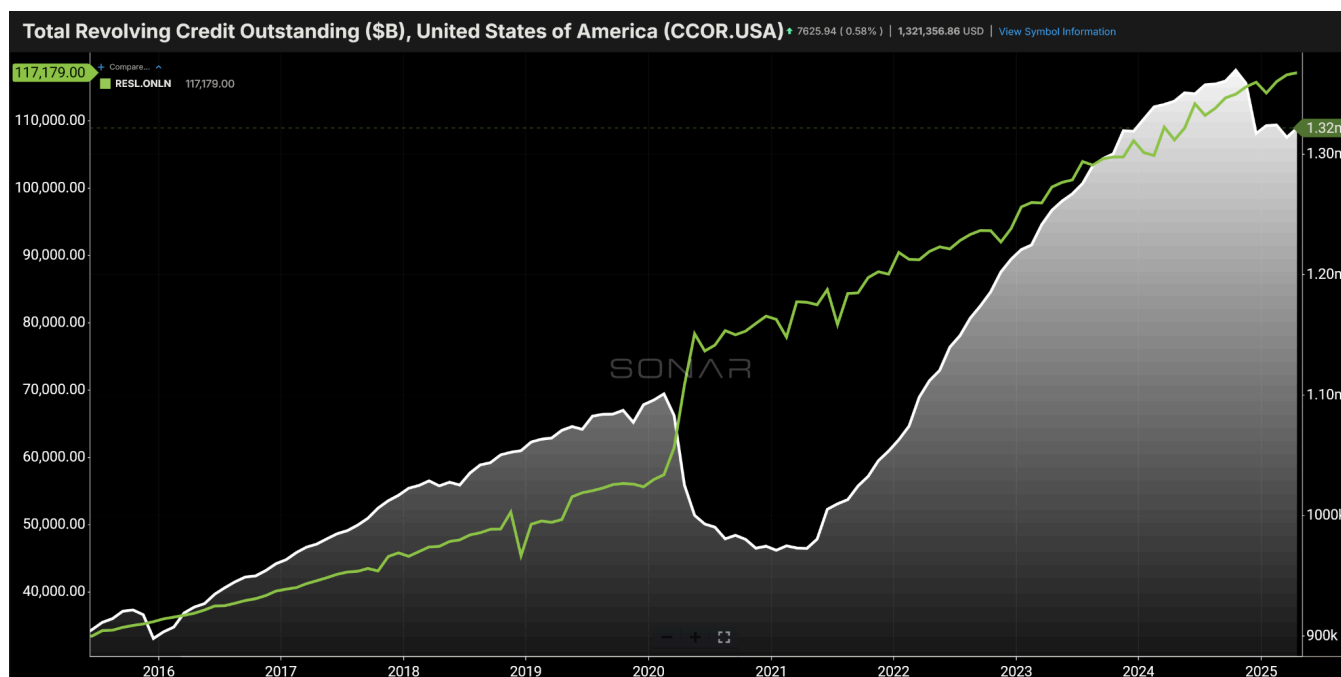
While uncertainty around global trade policy has eased, geopolitical uncertainty has soared after Israel attacked Iran on June 13, kickstarting a rally in crude oil prices (discussed below). Yet the Fed’s decision to withhold cuts in June was almost certainly sealed after the release of official payroll data from May. Well above the consensus estimate of 126,000 and whispers of a sub-100,000 print, a total 139,000 nonfarm jobs were added in the month.

Looking beyond the headline, however, there were hefty downward revisions to prior months’ data. April’s surprise growth was revised 30,000 jobs lower to 147,000, while March’s print was pulled from 185,000 to 120,000. The unemployment rate did, however, hold steady at 4.2%, in line with consensus.

Though the transportation and warehousing sector saw growth of 5,800 positions month over month (m/m), nearly all of this growth was limited to the couriers and messengers subsector (up 6,500 jobs m/m). This subsector does encompass parcel delivery companies like UPS and FedEx, but it also represents local food and grocery delivery services such as DoorDash and Postmates. The truck transportation subsector, on the other hand, saw a modest reduction in headcount with only a net 900 jobs lost m/m.

Following April’s release that frustrated nearly all predictions to the upside, a sharp correction in retail sales was expected for May. What the print showed was instead utter destruction of consumer

demand. This time, markets were not caught entirely off-guard: The abnormally prescient analysts at Bank of America forecasted a 0.6% m/m decline in headline retail sales.



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

On a seasonally adjusted basis, U.S. retail sales tumbled 0.9% m/m — the largest drop since March 2023, and one made worse by the fact that April's 0.1% gain was revised down to a 0.1% slump. Spending at gasoline stations fell 2% m/m, likely impacted by a recent decline in gas prices. Auto sales were another millstone about the neck, falling 3.9% m/m as consumers had already rushed to beat potential tariff-induced price hikes.

Even disregarding these headwinds, retail sales were still weak: Excluding motor vehicles and parts as well as gasoline stations, sales were down 0.1% m/m. Consensus forecasts, which had accounted for May's softness in auto and gas spending, thought that this category would see a 0.4% m/m rise — once again, Bank of America analysts were not fooled, bracing instead for a 0.2% m/m stumble.

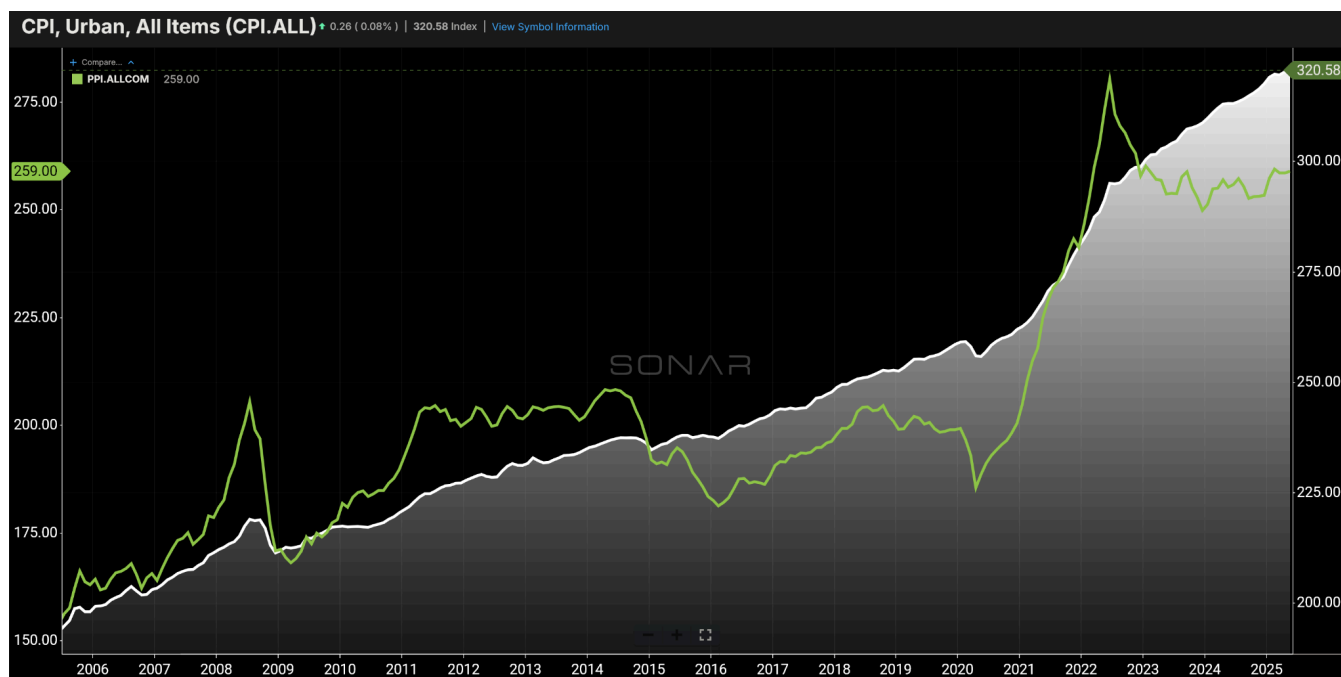
Strangely, considerable weakness was shared among dealers of building materials, garden equipment and other supplies. Despite the seasonal tailwind for such purchases, sales in this category were down not only 2.7% m/m but also 1.1% y/y. To be sure, a softening construction sector (discussed below) does offer some explanation towards this decline. But it also points to a consumer with less appetite for (mostly discretionary) DIY projects in the season when such demand is usually seen.

While consumer sentiment did improve in June, according to the University of Michigan's monthly Survey of Consumers, it remained depressed relative to 2024. The headline index was up 15.9% m/m but down 11.3%. Notably, consumer expectations for year-ahead inflation — though tempered from

April's reading at 6.6% y/y growth — were still astronomically high as respondents believed prices would rise 5.1% by June 2026.

In fact, forecasts for tariff-driven price increases were not only held by consumers but were virtually unanimous: Economists surveyed by Reuters bet that a rise in core inflation “would be attributable to higher prices from President Donald Trump’s sweeping import duties,” and that “May would mark the start of tariff-related high inflation readings that could last through year-end.” May’s release of the consumer price index, then, was set to be the first real test of how consumer prices would be impacted by historically high tariffs.

Thankfully, these fears were not anywhere near being borne out in the actual data. Headline inflation was up a scant 0.1% m/m, below consensus expectations of a 0.2% m/m rise. The CPI was up 2.4% y/y — very near the Fed’s ultimate target of 2% y/y price growth. Core inflation, which excludes items with volatile pricing like food and energy, was similarly up 0.1% m/m. In a Bloomberg survey of 73 economists, not one had forecast a core reading as low as 0.1%.



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

On the heels of this cooler-than-expected print on demand-side inflation came a similarly cool release of the producer price index. Like its consumer-facing counterpart, the PPI rose only 0.1% m/m against expectations of a 0.2% m/m uptick. The core PPI, which also excludes goods with volatile pricing like food and energy, likewise rose 0.1% m/m, handily beating the consensus forecast for a 0.3% m/m gain.

Not only has any fallout from the Trump administration’s sweeping tariffs yet to be apparent, but producer inflation is easing the further upstream one looks. Prices of final demand goods, for

example, were up 0.2% m/m in May, though those of stage 2 intermediate goods were actually down 1.4% m/m.

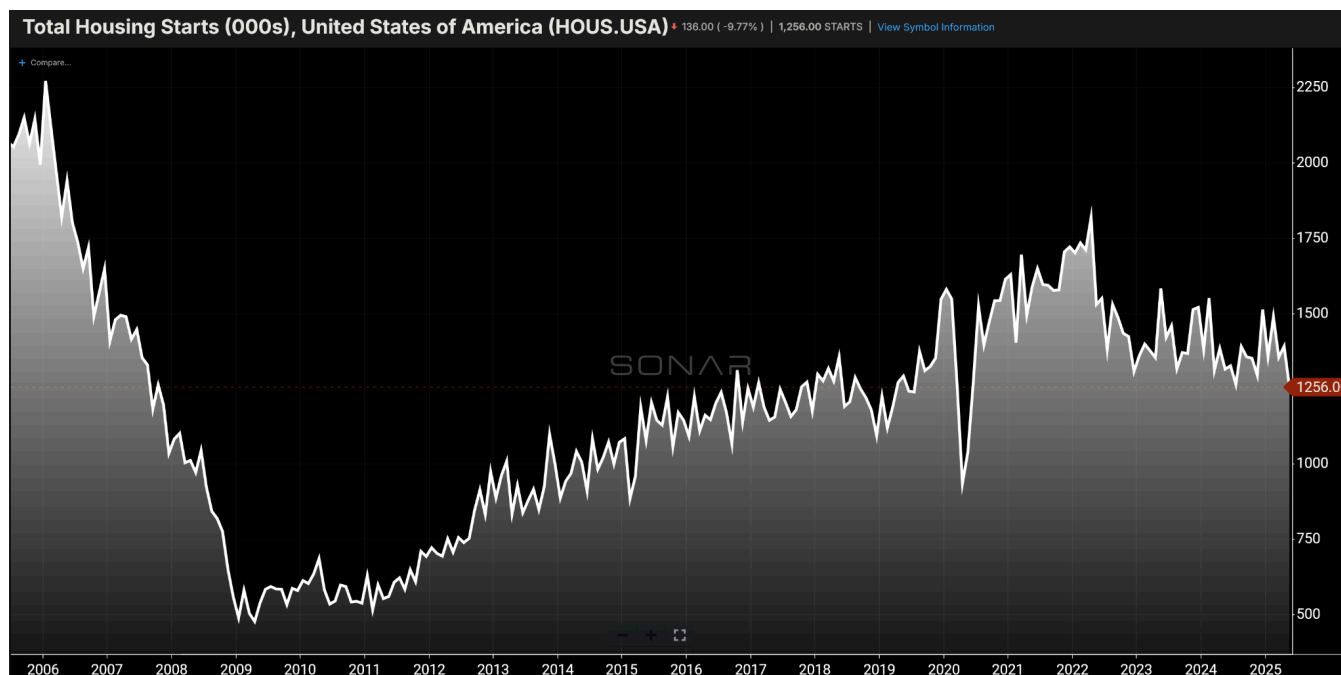
In a normal economy — the one of the last several years has been anything but — producer inflation takes roughly six months to trickle down to the consumer. Analysts have already revised their forecasts following the PPI's latest release, pushing the first appearance of tariff-induced inflation from May to the second half of 2025. Whether analysts will continue kicking the can in the coming months remains an open question.

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 markets more attractive.

But this dynamic has not held over the past year, as intractably high mortgage rates weigh on housing market activity. Per Freddie Mac, the average rate on a 30-year fixed mortgage now stands at 6.84%, 3 basis points higher m/m and only 9 bps lower y/y.

Existing-home sales, which comprise the vast majority of home sales in the U.S., were forecast to see a small recovery in April after March's sharp decline. Instead, according to the National Association of Realtors, existing-home sales slid a further 0.5% m/m after tumbling 5.9% m/m in March, considerably worse than the 2% rise expected. This performance marks the weakest April since 2009, when the housing market was decimated by the global financial crisis. Little surprise, then, that sales were negative on a yearly basis, falling 3.1%. Despite this substantial blow to sales volume, the median price of an existing home continues to rise, up 1.8% y/y at \$414,000.

Unsurprisingly, this combination of high prices and mortgage rates has depressed demand for new residential construction. In May, housing starts fell to a five-year low — that is, to their lowest since the height of COVID lockdowns — after a brutal 9.8% m/m tumble, blowing away the consensus forecast that had predicted starts to remain virtually unchanged. Thankfully, there was somewhat of a silver lining: May's collapse was perpetrated entirely by weakness in the multi-family segment, which saw starts plunge 30.4% m/m in their steepest drop since 2022. Single-family starts, however, did not show much strength, rising only 0.4% m/m.



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

“Single-family permits and construction starts are down on a year-to-date basis for 2025 for what has been a disappointing spring housing market, given ongoing elevated mortgage interest rates, challenging housing affordability conditions led by higher construction costs, and macroeconomic uncertainty,” commented Robert Dietz, chief economist at the National Association of Home Builders (NAHB). “NAHB is forecasting that 2025 will end with a decline for single-family housing starts.”

A day prior to this release, confidence among U.S. homebuilders fell to its lowest point since December 2022, as would-be buyers were deterred by persistently high mortgage rates and economic anxieties over potential fallout from tariffs. The NAHB/Wells Fargo Housing Market Index, which surveys builders of single-family homes, fell two points to 32 in June, below the consensus forecast for a reading of 36. Homebuilders anticipate that the Trump administration’s tariffs will raise the cost of a newly constructed single-family home by nearly \$11,000.

Though all of the index’s components languished in contraction with sub-50 readings, the real shock was the measure of current sales conditions, which fell to its lowest level since 2012. It goes without saying that comparisons to 2012 are less than favorable, since the housing market was then grappling with aftershocks from the 2007-08 subprime mortgage crisis, which precipitated the global financial crisis of 2008. Hopefully, a similarly depressed sentiment is the only comparison that can be drawn between now and then.

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