

OCTOBER  
2025

# STATE OF THE INDUSTRY

## R E P O R T

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

SONAR



# Waiting for a change

September 23, 2025 | 1 p.m. ET

## Overview

Freight demand bottomed out in August and early September as tender volumes hit annual lows before bouncing back slightly around Labor Day. Demand has since stabilized, though uncertainty about the broader economy remains high. Many supply chain strategies appear to be stuck in a purely reactive mode, awaiting clarity on policy direction.

The truckload sector has borne the brunt of the economic slowdown, with intermodal continuing to capture a share of long-haul freight. Even so, rejection rates remain elevated and on a gradual upward trend. Shippers' reactive posture could ultimately fuel greater volatility, though economic headwinds look firmly in place for the rest of the year.

Intermodal demand posted year-over-year growth into mid-September, but international container volumes have continued their decline since early July. In contrast, domestic container volumes have been expanding since that same time.

Import demand fell through much of August but leveled off in early September, averaging 10–15% below 2024 levels. Tariffs have disrupted normal seasonality, making year-over-year comparisons less meaningful, though some overall deterioration is evident when looking across the year. Carriers are actively managing shifting trade patterns through blank sailings, which has helped keep rates relatively stable.

The U.S. economy is sending mixed signals: On the one hand, consumer spending is strong and inflation is low. On the other, the labor market is alarmingly weak and manufacturing

sentiment is subdued. The latter headwinds caused the Federal Reserve to resume its cutting cycle at its latest meeting, with future cuts in 2025 likely. This news is especially good for the housing market, which continues to be weighed down by high mortgage rates and low builder confidence.

## Macro indicators (y/y change)

Aug. industrial prod. change	+0.1% (+0.9%)
Aug. retail sales change	+0.6% (+4.8%)
Aug. U.S. Class 8 orders	10,656 (-18%)
Aug. U.S. trailer orders	3,106 (+11%)

## Truckload indicators (y/y change)

Tender rejection rate	5.24% (+34 bps)
Average dry van spot rate <sup>1</sup>	\$2.30/mi (+2.6%)
LAX to DAL spot rate <sup>2</sup>	\$2.28/mi (-2.2%)
CHI to ATL spot rate	\$2.66/mi (+9.1%)

## Tender volumes (y/y change)

Atlanta	350.83 (-11%)
Dallas	330.16 (-4%)
Los Angeles	282.4 (-18%)
Chicago	169.45 (-20%)

## Tender rejections (y/y change)

Atlanta	5.87% (+258 bps)
Dallas	4.2% (+45 bps)
Los Angeles	3.72% (-41 bps)
Chicago	6.28% (+31 bps)

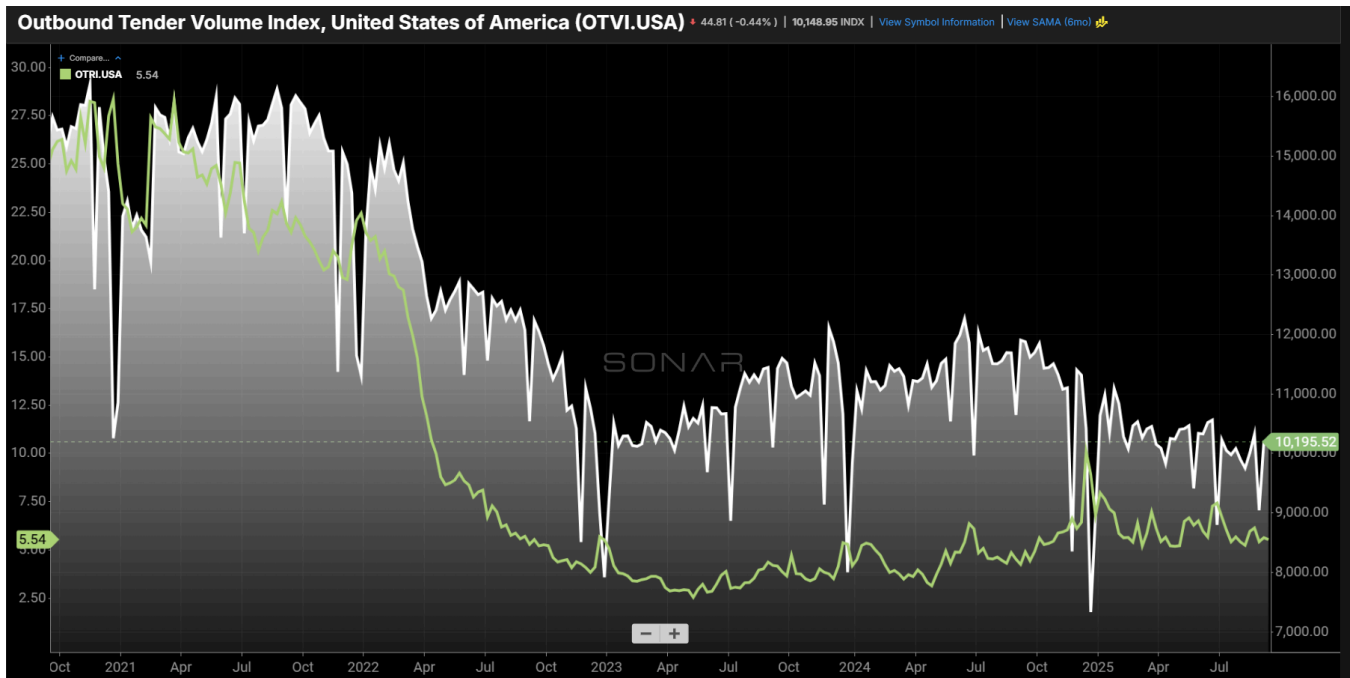
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<sup>1</sup> FreightWaves National Truckload Index

<sup>2</sup> FreightWaves TRAC spot rate

## Truckload markets

There was very little change in the dynamics of the truckload environment through August and into September. Demand bottomed out in mid August and then experienced a seasonal bump around Labor Day. Perhaps the biggest takeaway is that in terms of rejections it did not necessarily matter that demand fell into August. Economically there is more negative than positive around what could sustainably influence freight moves through the rest of the year, but that may not matter as much as it traditionally has thanks in part to the ongoing reduction of supply side dynamics.



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

Truckload tender volumes continued to bounce between a -10% and -15% y/y decline from early August into mid-September. The OTVI bottomed out at 9,701 on August 12 but was back above 10,100 where it remained into the first half of September by month end. A lot of the annual deterioration remained tied to the loss of share to intermodal for long haul freight. The 800 mile plus mileage band tender volumes averaged close to 30% lower y/y except for a brief surge occurring right around Labor Day. The retraction in long haul demand growth meant that there was not a sustainable shift back to truckload as of yet, but it is a signal that shippers may call on the trucking space later in the year when the sense of urgency is much higher in the retail space.

Tender rejection rates hit their highest Labor Day value in four years, topping 6.3% in the week (only hit 4.86% in 2024) leading up to the holiday. While this is a bit of a milestone, it is still not high enough to say that the market is tight enough to place long term inflationary pressure on rates. The headlining story remains that rejection rates continue to trend higher destitute weakening demand conditions. The secondary takeaway is the ongoing increasing volatility of rejections as carrier networks are not nearly as buffered as they were in either of the previous two years. Rejection rates are much more responsive and rise more sharply, but also recover nearly as fast.

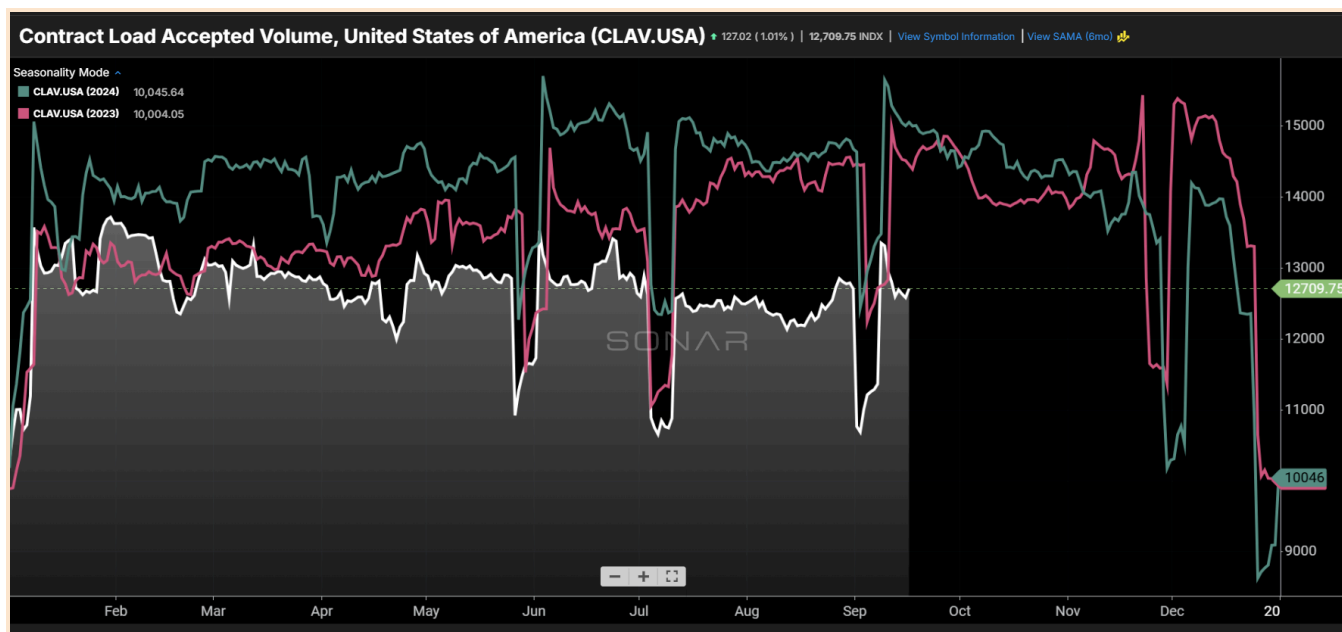
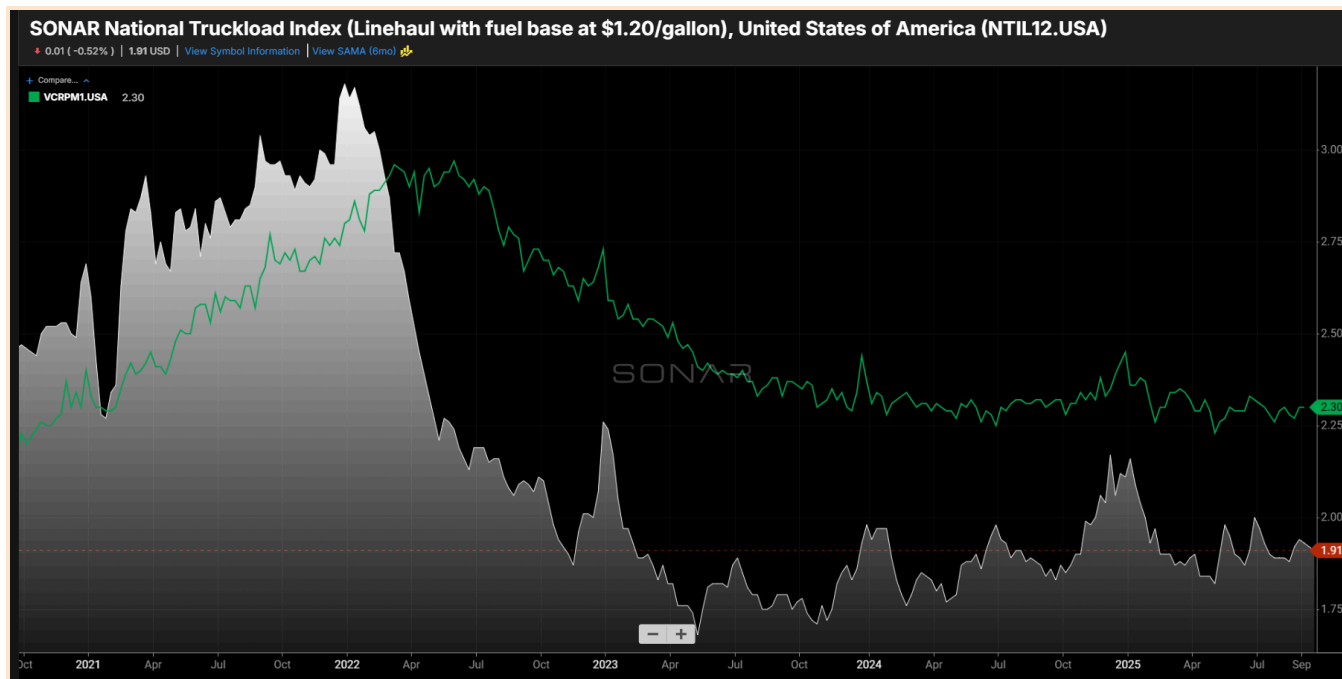


Chart: SONAR. Contract Load Accepted Volume: 2025 (white), 2024 (blue) and 2023 (pink).

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 15.2% y/y.

## Spot rates continue to inch higher while contracts stagnate



Source: SONAR. National Truckload Index excluding fuel costs above \$1.20/gal (white) and initially reported dry van contract rates (green).

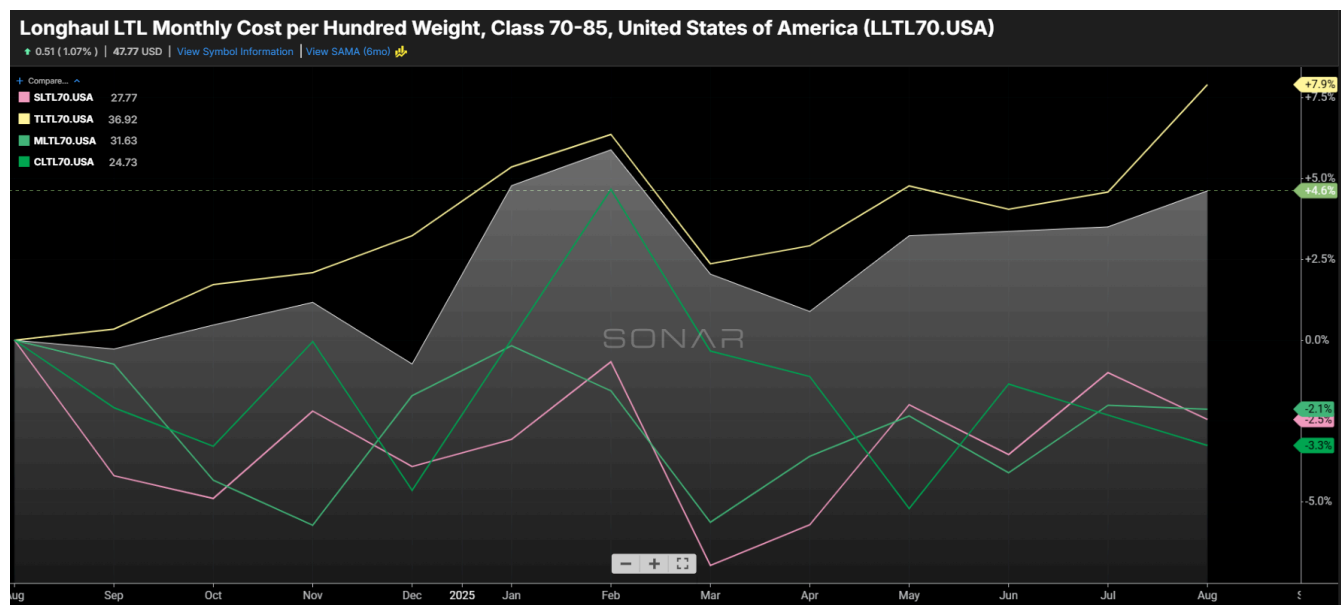
Spot rates, excluding estimated fuel costs above \$1.20/gal (to make them comparable to contract linehaul rates), were up 2–3% year over year through most of September and outperformed August by a similar margin. The longer-term upward trend remains intact, mirroring rejection rates. While there have been no strong breakout moments, the response to Labor Day this year was much stronger than in 2024. Last year, the NTIL12 barely moved, but this year rates rose nearly 4% in the week leading up to the holiday.

In contrast, contract rates—excluding fuel surcharges—have been essentially flat over the past month compared to the prior year. This suggests that shippers are not aggressively pursuing or achieving reductions in long-term rates. The SONAR invoice dataset, which is heavily weighted toward traditional shipper-to-carrier relationships, tends to trend higher than both transactional rates and managed transportation rates offered by 3PLs, since it leverages a smaller pool of carriers.

The outlook for the upcoming bid season appears fairly neutral, given the lack of foreseeable demand-side stimulus. However, supply-side economics are weakening, and the transactional market is showing increased reactivity. From this perspective, it will not take much pressure to push the spot market higher. Carrier exits remain elevated and are expected to continue through the winter, making the next 12 months increasingly tenuous from a sourcing standpoint.



## LTL flashes mixed signals



Source: SONAR. Monthly cost per hundred weight by length of haul. Longhaul (white), tweener (yellow), midhaul (light green), shorthaul (pink), local (dark green).

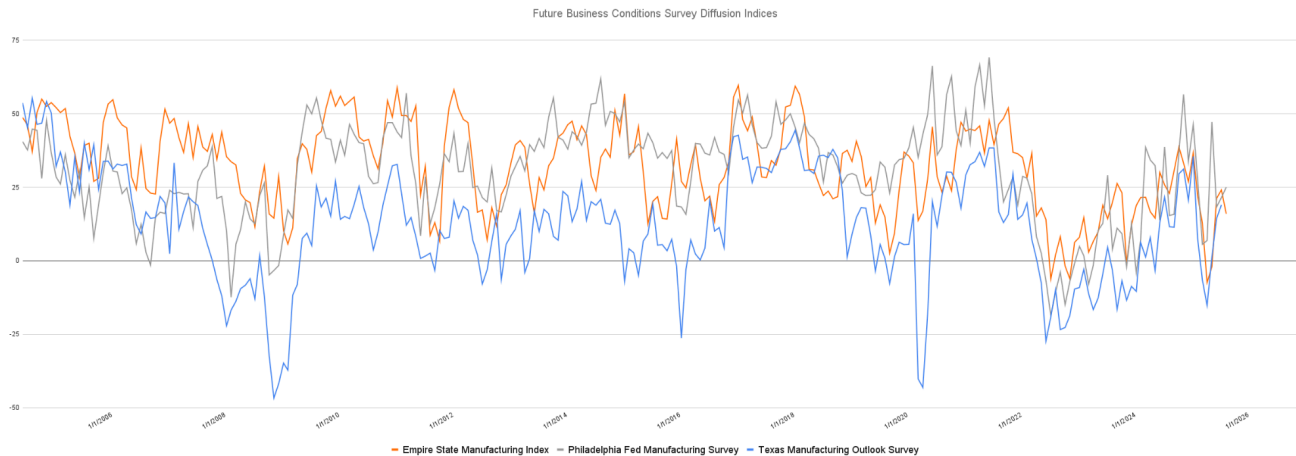
The LTL market is sending mixed signals. Higher freight classes are showing more rate increases than decreases, while lower (denser) classes are seeing more declines. Mid-range classes (70–85) are also mixed, with longer-haul shipments trending higher over the past year, while regional and local freight shows slight downward momentum.

Overall, carriers still hold some leverage in choosing the freight they want to move. It's not surprising that denser freight remains the most desirable, but it is notable that carriers have been able to push rates higher at all. In August, every mileage band for class 125 and above posted some level of increase, while the opposite was true for classes 50–65.

Regionally, freight originating in the Northeast saw some of the most consistent increases, while the Midwest and Southeast experienced the least rate pressure. The LTL market has always been somewhat insulated from the truckload sector due to its lower fragmentation, though it is rarely fully detached. As long as the broader truckload environment remains loose, LTL rate inflation will likely remain capped.

## Macroeconomic conditions

Sentiment in the U.S. industrial sector was scattered in the latest round of data, with national surveys diverging on whether the sector is seeing contraction or growth. Still, the differences are slight in the grand scheme of things: Manufacturers broadly appear cautiously optimistic about the potential for an industrywide recovery, though ongoing concerns over supply chain disruptions and rising input costs — both linked to U.S. trade policy — persist.



The September release of the Empire State Manufacturing Survey, conducted monthly by the Federal Reserve Bank of New York, saw its headline General Business Conditions Index drop 21 points to minus-8.7 — its first negative reading in three months. New orders and shipments both fell sharply, while employment held steady. Despite the present gloom, respondents still foresaw growth for the next six months: The forward-looking headline index ticked down 1.2 points but remained firmly positive at 14.8, with the future New Orders Index seeing a slight bump of 0.3 points to 16.6.

In late August, the Texas Manufacturing Outlook Survey, released by the Federal Reserve Bank of Dallas, showed signs of stabilization. The Current General Business Activity Index fell to minus-1.8, down from 0.9 in July and marking only a mild contraction. The Production Index, a key measure of state manufacturing conditions, decreased to 15.3 from July's 21.3 — a strong indication of growth, albeit at a slower rate. Forward-looking indicators also showed mixed results, suggesting manufacturers anticipate better business activity in the coming six months, though survey respondents noted lingering uncertainty related to tariffs and broader economic headwinds.

National sentiment indicators reflected these ongoing challenges. The Institute for Supply Management's Manufacturing PMI rose to 48.7 in August, up 0.7 points from July's reading but falling short of the consensus forecast of 49. The New Orders Index returned to expansion at 51.4 after a 4.3-point gain, though production and employment remained in contraction. As one anonymous manufacturer of computer and electronic products noted, "Tariffs continue to wreak havoc on planning/scheduling activities ... Plans to bring production back into U.S. [sic] are impacted by higher material costs, making it more difficult to justify the return."

Concurrent with this release, however, was S&P Global's US Manufacturing PMI for August, which saw the strongest improvement in operating conditions since May 2022. The headline index rose to 53.0 from July's 49.8, driven by stronger new orders and gains in production. Still, as with the ISM's survey, input costs continued to rise amid concerns over tariffs.

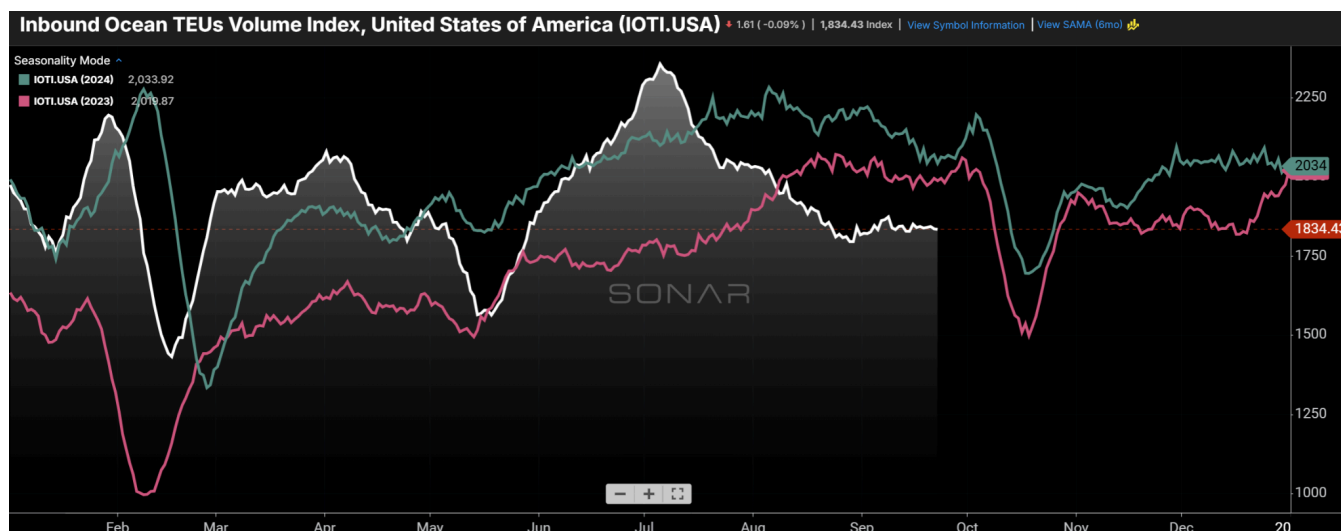
Chris Williamson, chief business economist at S&P Global Market Intelligence, summarized the report's findings: "Purchasing managers reported that the US manufacturing [sector] was running hot over the summer. The past three months have seen the strongest expansion of production since the first half of 2022, with the upturn gathering pace in August amid rising sales. Hiring also picked

up again in August as factories took on more staff to meet an influx of new orders... The manufacturing sector is therefore on course to provide a boost to the US economy in the third quarter.”

Turning to the hard data, the industrial sector showed signs of softening in July. Industrial production fell 0.1% after a 0.3% uptick in June, below consensus expectations. Manufacturing output was unchanged from June to July after a similar 0.3% gain in June, reading 1.4% above year-ago levels. Capacity utilization for manufacturing edged down to 76.8% versus the total industry average of 77.5%. In a separate release, new orders for manufactured goods fell 1.3% in July, down three of the past four months.

## Maritime

The Inbound TEU Volume Index has been one of the most volatile data sets in SONAR and also one that has departed most from normal seasonal trends this year. It illustrates how impactful trade policy is on both the total volume and timing of imports. The surge in import bookings early in the third quarter led to ports setting records or near-records in July and August. The latest bookings data and retailer [comments](#) suggest that ports will see import volumes moderate in the fourth quarter. It shows that overseas ocean booking volume peaked at the start of July, whereas an early August peak is more normal, and is currently trending about 10% below last year's level. Import bookings data also shows that there was no significant demand surge leading up to China's Golden Week, as is often the case.

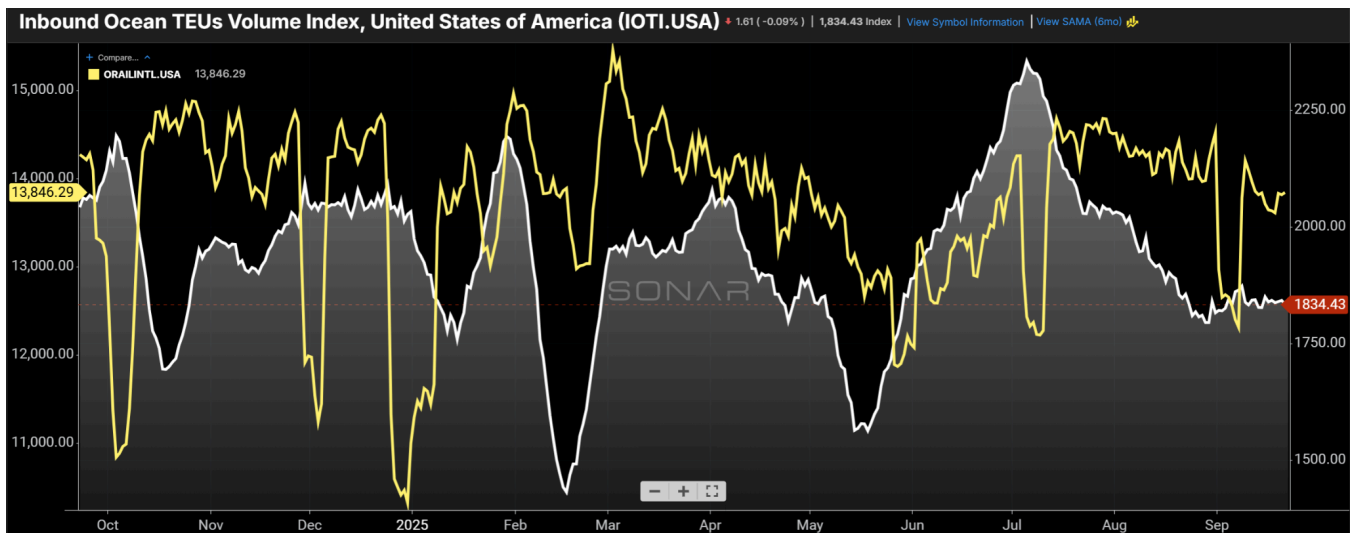


Source: SONAR. The Inbound Ocean TEU Volume Index, a measure of ocean demand taken at the point of overseas origin for 2025 (white), 2024 (green), and 2023 (pink).

International rail intermodal, which involves the movement of intact 40' ocean containers, is likely to be the surface transportation sector most impacted by a potential decline in containerized import volume. The chart below shows that import bookings are typically a leading indicator for international intermodal volume. However, the impact on truckload demand remains to be seen. While a drop in imports in the fourth quarter could reduce demand for long-haul truckload, inventories at upstream locations are generally at elevated levels, so the demand to move inventory downstream to locations closer to consumption could pick up much of the slack. Recent SONAR

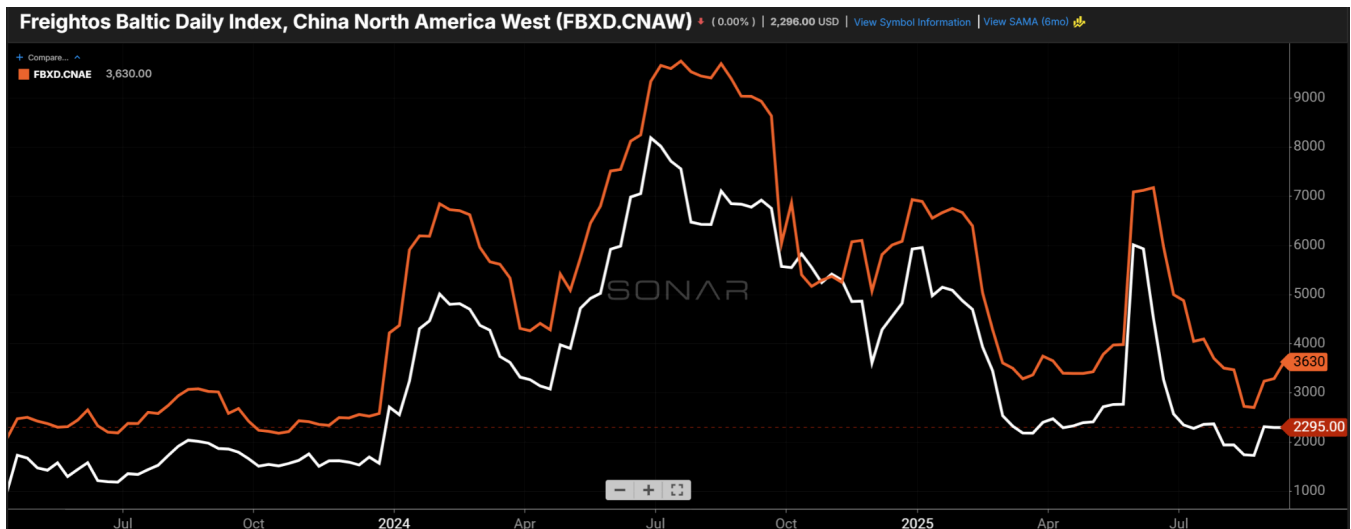


truckload volume data shows a significant pickup in long-haul tender volume from the Los Angeles and Ontario, California regions.



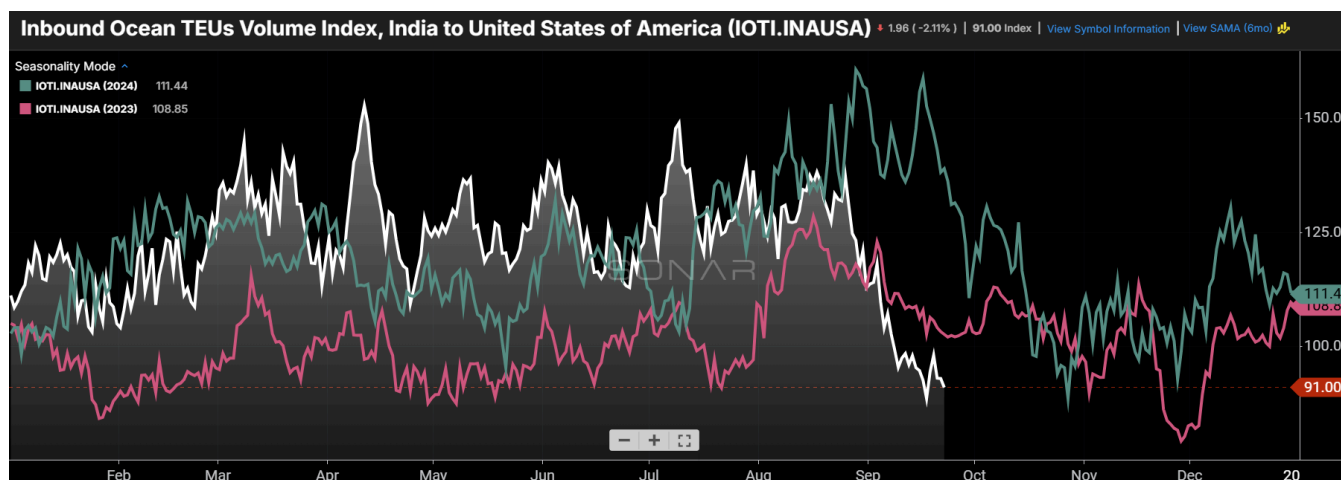
Source: SONAR. The Inbound Ocean TEU Volume Index (white) on a dual axis against loaded international intermodal volume (yellow).

Freightos-published spot rates to move 40' containers from China to the US are near the low end of their range since the start of the Red Sea attacks in late 2023. While rates rose in August and September, that appears to be related to the run-up to Golden Week, which starts on October 1. Ahead of the holiday, carriers are temporarily reducing capacity by blanking sailings. In addition, the bounce in rates coincides with general rate increases. The broader downward trend in ocean spot rates, which are well below year-ago levels, is largely due to the current lackluster demand, particularly in the Asia-to-US trade lanes.



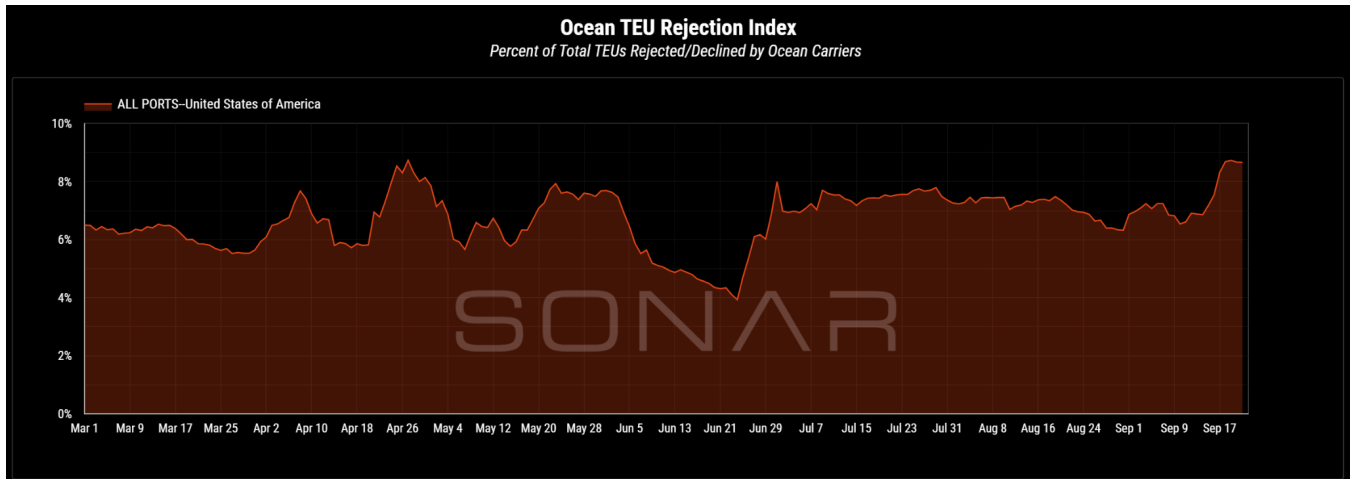
Source: SONAR. Freightos Baltic Daily Index: China to North American West Coast (white) and China to North American East Coast (orange).

Imports have clearly been pressured by the Trump administration's trade policy, including the end to the *de minimis* exemption, which previously allowed imports valued less than \$800 to enter duty-free, as well as other tariffs. The recent tariffs on India are one such example. On August 27th, a new 25% tariff went into effect on India related to (or with the pretext of) India buying and reselling Russian oil. That brings the total tariff on Indian imports to 50% when combined with the 25% tariffs that went into effect in April. The impact is felt in SONAR in the Inbound Ocean TEU Volume Index, a 14-day moving average based on container count. Container volume in the trade lane is down 34% since its peak in August. In a Flexport newsletter last week, it said, "supply is outstripping demand and we are seeing capacity management in full effect through September for Indian Subcontinent specific services." SONAR also shows that the drop in India imports primarily impacts the US East Coast ports.



Source: SONAR. The Inbound Ocean TEU Volume Index for India to the United States for 2025 (white), 2024 (green), and 2023 (pink).

A key part of that Flexport quote above was that carriers are engaging in "capacity management." That means they are managing capacity downward to support rates. Carriers can do that by cancelling sailings and slowing down vessels. The SONAR chart below is an illustration. It shows the Ocean TEU Rejection Index for all ports inbound to the United States. The portion of containers being rejected increased from 4% in June to over 8% currently. The rejection rate in the China-to-US lane is exceeding the national average from China to the US – it is currently 13.6%.



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

## Rail intermodal

Domestic intermodal volumes showed strength in August and early September, trending at least as high each week as the historically strong volumes of one year ago. In the past week, containerized domestic intermodal volume was up 1% year over year, against a difficult year-ago comparison. In contrast to international intermodal volume (down 3% year over year in the past week), domestic intermodal volume has shown to be relatively unimpacted by this year's import pull-forward.

Domestic intermodal volume has also taken share from dry van this year, particularly for long-haul loads outbound from Southern California, though that trend has partially reversed in recent weeks. Domestic containers remain abundant following investments from the domestic intermodal carriers. The current combination of price and service offered by domestic intermodal provides shippers with an attractive value proposition that is being reflected in volumes.

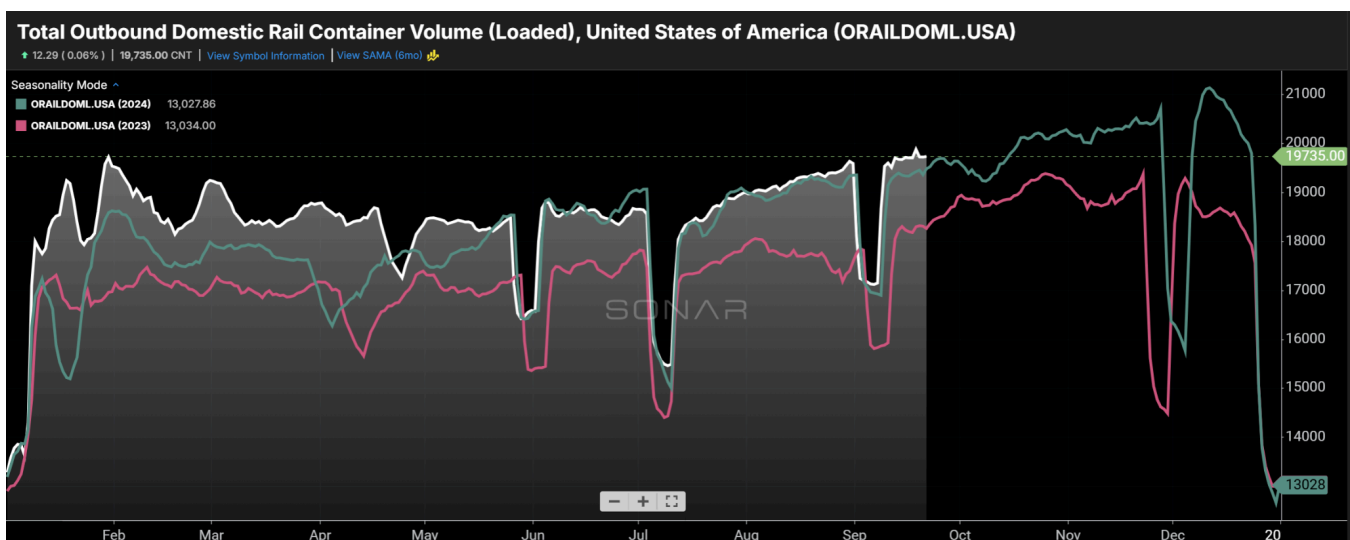


Chart: SONAR. Loaded domestic intermodal container volumes for 2025 (white), 2024 (blue) and 2023 (pink).

There is a lot of pushback from shippers and labor on Union Pacific's pending acquisition of Norfolk Southern. That may make a difference in terms of concessions that the deal is contingent upon, but it may not matter for its approval. The President is supportive of Union Pacific's acquisition of Norfolk Southern, which was clear not only from words but also from recent changes, legally or not, to the composition of the Surface Transportation Board. As a result, it now seems more likely that the acquisition will be completed. It also appears that there will be only one transcontinental railroad combination, as BNSF's owner and the other Class I management teams have opted to instead focus on collaborative partnerships.

That has prompted a debate over whether collaborative partnerships can truly be a substitute for M&A. Union Pacific's CEO says they can't be because, as soon as the going gets tough, the organizations put their own interests over any interest of a partnership. There can also be less incentive to invest in one's own terminals and infrastructure if a partner railroad will receive much, or most, of the economics of any incremental volume. Nevertheless, it's clear that the Class I railroads other than the two combining ones will be redoubling their efforts to grow intermodal volume. In short, intermodal is a growth area again, and shippers should re-evaluate their networks to see if they can save shipping costs by introducing intermodal volume in new lanes. Examples of such "watershed" lanes that could emerge include Dallas to Columbus and Houston to Charlotte.

### Intermodal spot rates ease after early peak season surcharges

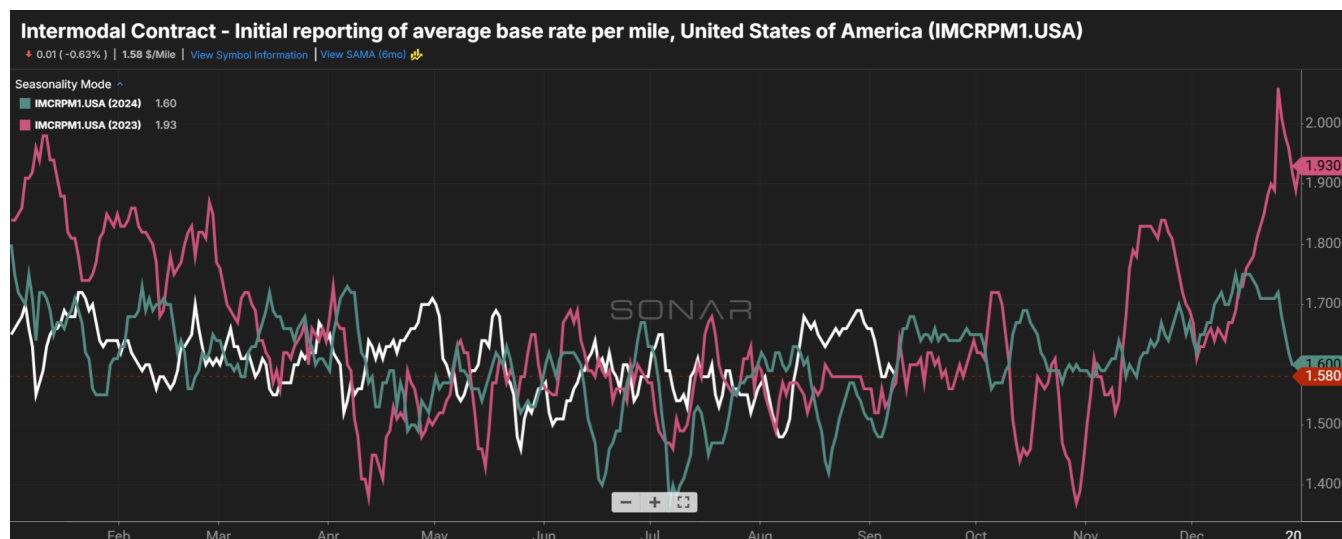


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2025 (white), 2024 (blue), and 2023 (pink).

After a period of several months of average intermodal contract rates (chart above) trending roughly in line with the prior two years, they have risen since early August. While that number could be influenced by the mix (it retreated some during the first week of September), since it is derived from a database of transactions, largely in the consumer packaged goods and automotive sectors, it could also be an early sign that intermodal contracts are being repriced higher for those utilizing a fall bid season. Nevertheless, the average spread between intermodal contract rates and dry van truckload contract rates remains very significant, at 1.58/mile and \$2.30/mile, respectively, excluding fuel

surcharges. There are also wide spreads on an individual lane level, in most cases, where intermodal contract rates are often 20%-30%, or more, below dry van lanes, when fuel surcharges are included for both modes.

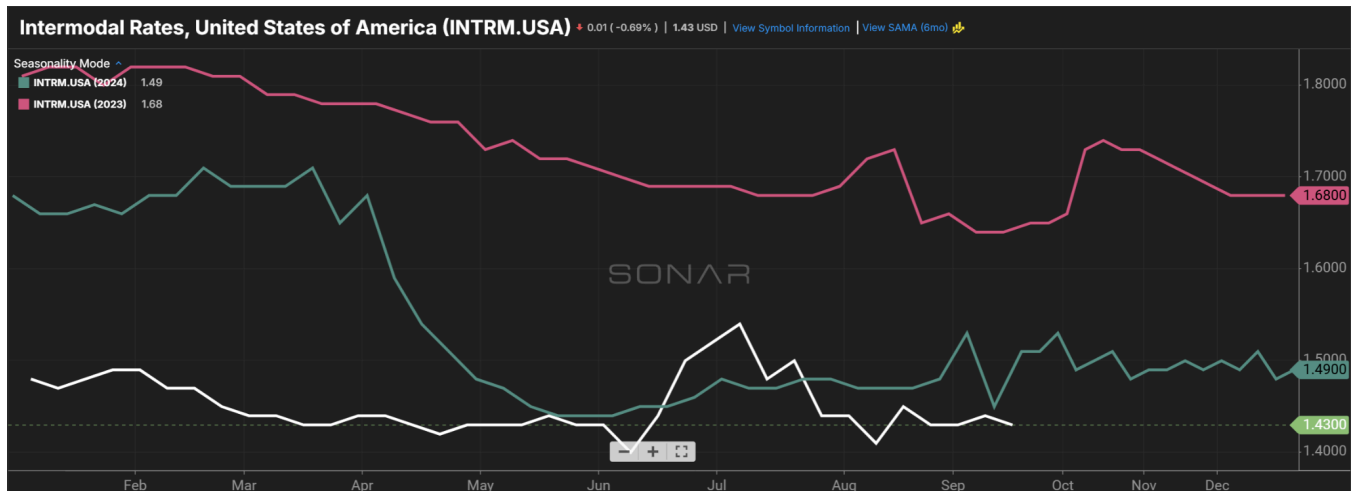


Chart: SONAR. Average intermodal spot rates to move 53-foot containers door to door, including fuel surcharges for 2025 (white), 2024 (green), and 2023 (pink).

Intermodal spot rates also suggest that there is almost no need for carriers to protect capacity for contractual shippers. They rose in July to reflect the earliest peak season surcharges on record, but then retreated in August and September to below last year's levels.

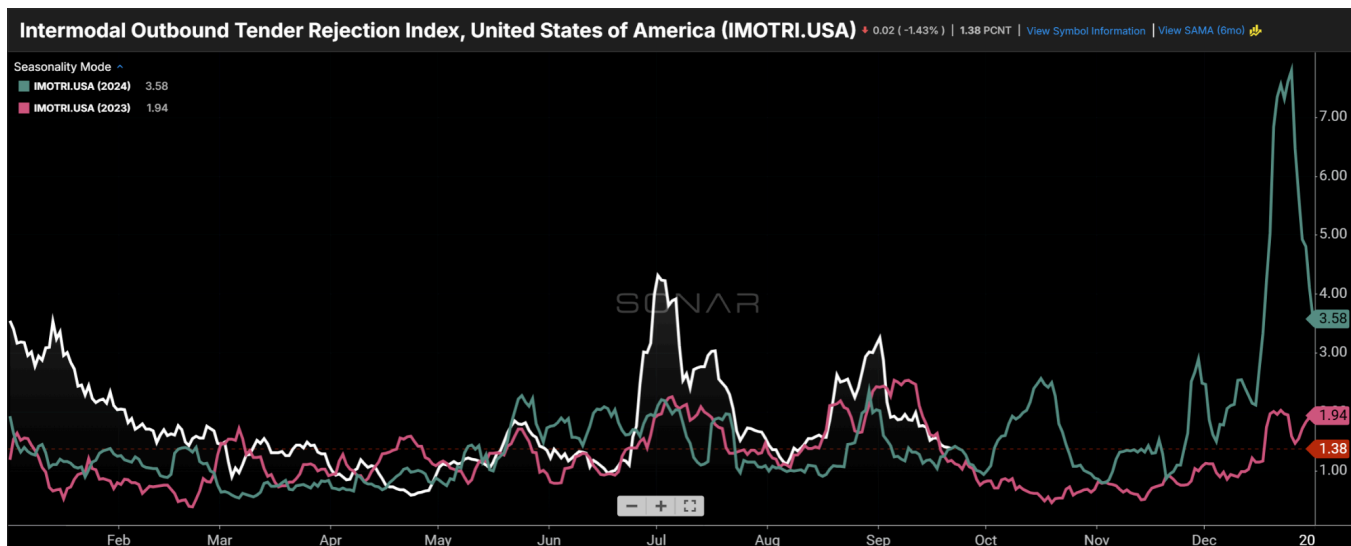


Chart: SONAR. National intermodal outbound tender rejection rates in 2025 (white), 2024 (blue), and 2023 (pink).

Intermodal tender rejections offer a way to gauge service disruptions, as carriers often operate on "auto-accept." Intermodal tender rejection rates tend to rise when there are service disruptions and terminals become overwhelmed. Intermodal rejection rates were just 1.38% in the past week, which indicates there are no red flags as far as intermodal tender rejections are concerned.



## What else we're watching

Marking the fourth time in as many months that U.S. and Chinese delegations have met in European cities, a new round of trade negotiations began in Madrid on Sept. 14. The two parties last met in Stockholm in July, a meeting which yielded an additional 90-day tariff pause between the two countries. With this extension set to expire on Nov. 10, officials are scrambling to set the table for a meeting between China's President Xi Jinping and U.S. President Donald Trump — most trade experts believe that no substantial breakthrough will be achieved until a meeting between these two leaders is held.

Yet, although Trump has repeatedly affirmed his openness to attend such a meeting, China appears reluctant to follow suit until the finer details of a trade deal are set in stone. The key points of contention, from China's end, seem to be the lifting of U.S. restrictions on computer chips necessary for AI development as well as that of the U.S.' 20% fentanyl-related tariff. On the other end of the table, the U.S. desires commitments from China to purchase agricultural goods like soybeans (as well as other goods, like energy, aircraft and medical devices) and for China to sign off on the sale of TikTok to a U.S. entity.

If nothing else, some progress has been made in this last request: Trump announced that he would speak with President Xi on Sept. 19 to discuss the framework reached in Madrid needed to keep TikTok running in the U.S. While this issue might seem trivial — Trump himself stated that his top concern was “frankly, more importantly, a big [trade] deal” — its resolution marks the *sine qua non* for a Trump-Xi meeting at the Asia-Pacific Economic Cooperation forum in late October and for any possible state visit to China (the last of which occurred in 2017).

Despite the lack of substantial headway with China, the U.S. has secured trade agreements with several other parties, such as Japan, the United Kingdom and the European Union. Even though most coverage of the U.S.' current tariff policies is critical, these deals are widely seen to be more beneficial to the U.S. than not — especially the deal with Japan, which leveraged a pledge to invest \$550 billion in U.S. manufacturing and technology for a (still-high) 15% tariff on Japanese goods.

The first revision to Q2 GDP saw the U.S. economy expand at an annualized rate of 3.3%, up from its initial reading of 3%. This revision was the strongest print since Q2 2023, though its strength was largely in plummeting imports (which correlate negatively with GDP). In other words, as Q1's negative growth should not have been feared just because it hosted a tsunami of front-loaded imports, Q2's strong performance is not automatically worth celebrating just because imports tapered off due to tariff pressures. Even though imports are a drag on GDP, they are obviously positive for freight demand.

Still, there were some truly bright spots in the data. Consumer spending — responsible for three-quarters of the U.S. economy — was revised up from 1.4% to 1.6% annualized growth. But even this line item is not wholly without blemish: While spending on bulky, freight-intensive durable goods had initially been pegged at 3.7% growth, this figure was revised down to a (nonetheless respectable) 2.6%.

One of the puzzles from the initial print was resolved in this revision: Fixed investment initially contributed a measly 8 basis points to Q2's growth. This figure was surprising, given all of the buzz

around businesses' investments in AI infrastructure like data centers; the contribution was revised to 59 basis points. Another piece of good news for the trucking industry: Nonfarm private inventories were a 336-basis-point drag on GDP, meaning that firms are trying to thread the needle with just-in-time inventory strategies after building their stocks up in Q1. Anyone who remembers 2020-21 will recall how such strategies can be vulnerable to demand shocks and supply chain disruptions, which could then trigger a melt-up in carrier rates.

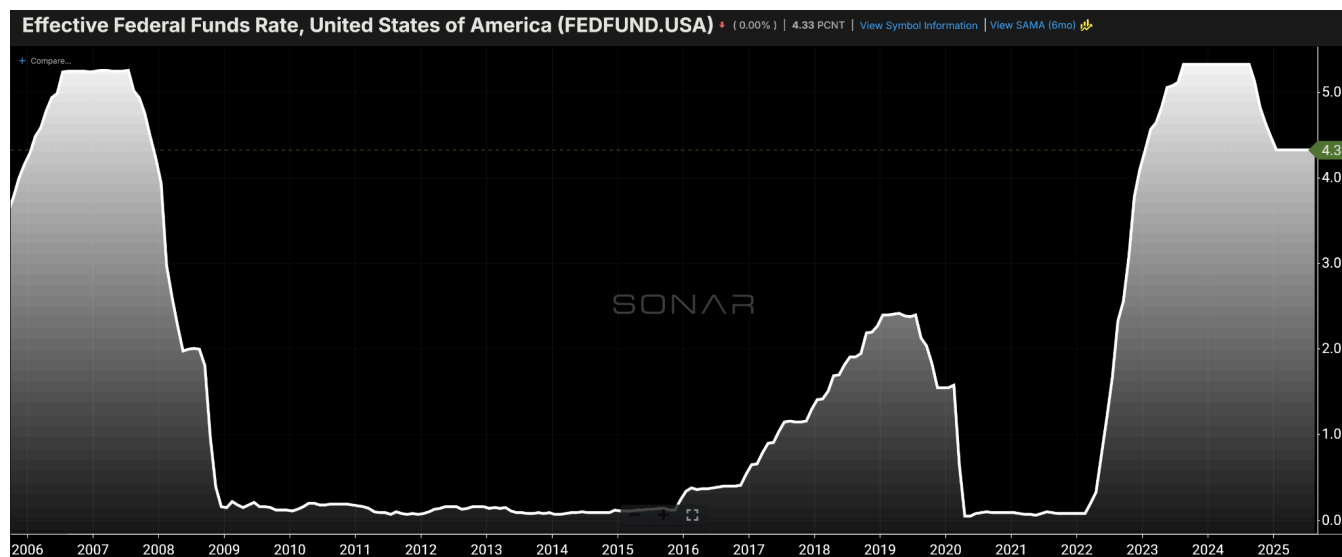


Chart: SONAR. Effective federal funds rate.

But a healthy economy in Q2 was not enough to persuade the Federal Reserve to continue to delay its interest-rate cutting cycle at its September meeting. The August print on the labor market was truly abysmal: Far from the consensus expectation of adding 75,000 nonfarm jobs month over month (m/m), the headline figure came in at a dismal 22,000. Yet the bad news did not stop there: While July's growth was revised up by 6,000, June's was revised down from 27,000 to minus-13,000 — marking the first negative jobs print since 2020.

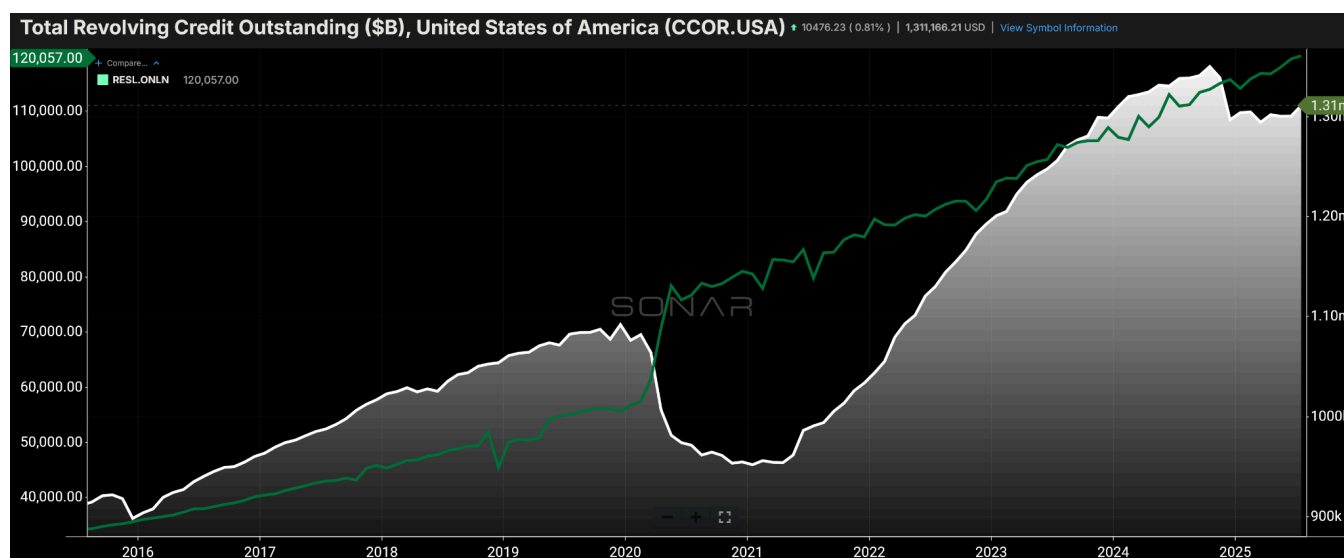
Transportation and warehousing escaped this mess relatively unscathed, as the sector added 3,600 jobs in August. Still, as has been the case for many months now, this growth was driven by the couriers and messengers subsector (up 3,700 jobs). This category does include parcel delivery companies like UPS and FedEx, but also local food and grocery delivery services such as DoorDash and Postmates, adding to the (arguably unsustainable) “gig economy.” The truck transportation subsector, on the other hand, saw a net loss of 900 positions — welcome news for all those hoping carriers' capacity will rebalance to shippers' demand.

The unemployment rate also crept up from 4.2% to 4.3%. Fed Chairman Jerome Powell had previously argued that it was not necessarily healthy for the unemployment rate to remain steady only because the labor market was shrinking, since the risk was that the labor force might stop shrinking. As it turns out, that abrupt reversal is exactly what transpired in August: Despite a decline in foreign-born workers due to immigration declines and deportations, the labor force surprisingly rose by 436,000 from July to August — presumably as new graduates emerged from college and high school.

Further compounding this weakness, the Bureau of Labor Statistics released its preliminary annual benchmark revision four days later. This revision downwardly adjusted U.S. nonfarm payrolls by a record 911,000 (or 6%) for the 12 months through March 2025. This release implies average monthly job growth in that period of roughly 71,000 — half of the previously reported 149,000. Key downward revisions hit the sectors of wholesale and retail trade, professional and business services, leisure and hospitality, and manufacturing, though impacts were felt across nearly every industry and state. To make matters worse, this adjustment comes on the heels of last year's downward revision of 818,000 jobs, which was (at the time) the second-largest since 2009, during the global financial crisis.

Despite the widespread fears that the U.S.' new tariffs would trigger an inflationary crisis and would therefore weigh on consumer spending, such fears have proved unfounded for now. In August, U.S. retail sales grew 0.6% over the previous month, matching July's 0.6% m/m gain and outperforming every forecast in Bloomberg's survey of economists (consensus was for a 0.2% m/m gain). Perhaps unsurprisingly, the greatest strength was seen in clothing and clothing accessories stores (up 1% m/m) and sporting goods, hobby, musical instrument and book stores (up 0.8% m/m) — both byproducts of August's back-to-school season.

Still, there were some surprise upticks, like nonstore retailers' 2% m/m gain. One might think that August is a tough month for growth on e-commerce platforms, given the abundance of retailers' sales events in July (such as Amazon's Prime Day). While nominal retail sales were up 5% over last year, a quick and dirty adjustment for inflation shows that 'real' retail sales were up 2.1% — not a bad performance, and certainly not one of a consumer crushed by tariffs.



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

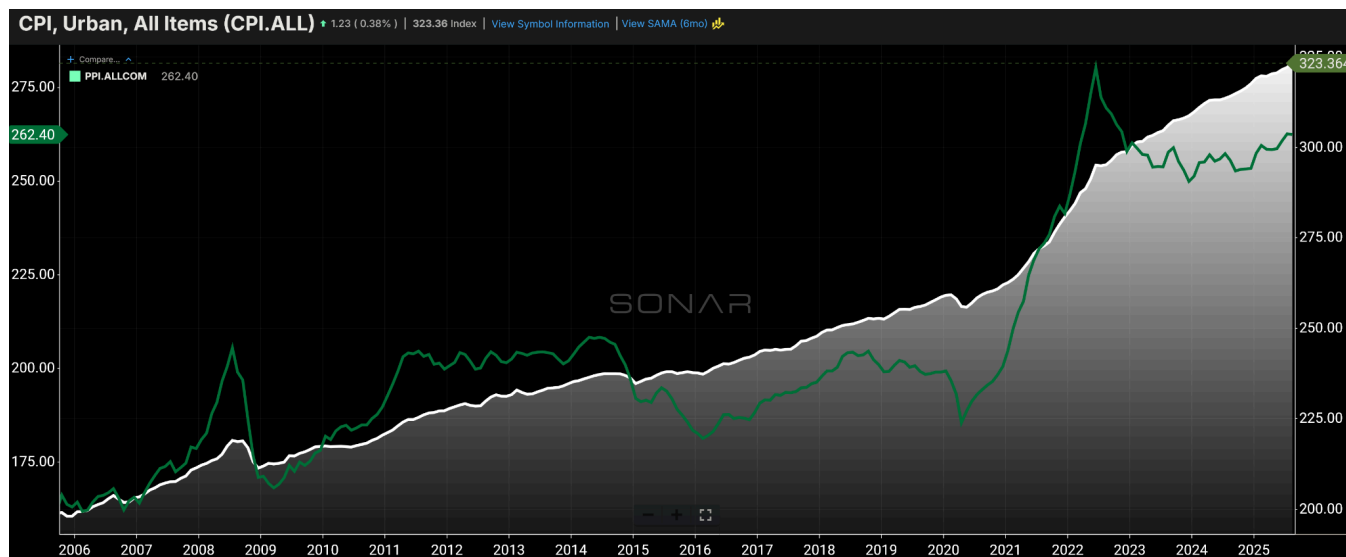
The caveat to that latter claim, as always, is that the U.S. consumer is quite adept at spending money they do not have. While data for August is not yet available, July's report on consumer credit was worrisome: Revolving credit, which is primarily credit card debt, skyrocketed at an eye-watering 9.7% annual rate. The Federal Reserve's latest report on consumer credit erased concerns that had been building: June initially saw the first two-month string of declines in revolving credit since April 2021,

stoking fears that consumers were finally tapped out and that freight demand would suffer as a result.

But not only would July's surprise gain have wholly offset May and June's initially reported drops on its own, but June's \$1 billion decline in revolving credit was revised upward to a slight gain of \$200 million. Of course, depending on how one looks at it, this report spells trouble either way: If consumer demand for revolving credit slows, it could mean that they are simply unable to afford taking on more debt. On the other hand, if it accelerates further as in July, it might imply that consumers are running out of cash on hand, and are instead papering over the gaps with their credit cards.

There are some indicators that point to a growing unease among households, potentially curbing spending in the months ahead. The University of Michigan's preliminary Survey of Consumers for September reported a notable drop in sentiment: The headline index fell 4.8% to 55.4 — its lowest reading since May and well below market forecasts of 58.0. The current economic conditions index slipped slightly, but the index of consumer expectations tumbled more sharply, reflecting heightened concerns over rising unemployment and inflation. About 65% of respondents anticipated higher joblessness over the next 12 months, a grim sentiment supported by recent, abysmal data from the labor market.

The good news, however, was that August did not bear signs of more inflation coming down the pipeline. Marking its first deflationary month since April, the Producer Price Index shrank 0.1% m/m in August, far cooler than the consensus forecast of a 0.3% m/m rise and a welcome relief from July's surprise jump of 0.7% m/m (revised down from its initial reading of 0.9%). Even though the PPI's July gain did not appear greatly connected to U.S. trade policy, since it was driven mostly by services, it threatened to be indicative of a larger and stickier trend.



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

Yet there was nothing in August's print on consumer inflation that was particularly damning. In fact, it was difficult to derive any sort of narrative whatsoever: The Consumer Price Index performed in line with consensus, rising 0.4% m/m (slightly above the 0.3% forecast). The core CPI — which excludes goods with volatile pricing like food and energy — ticked up 0.3% as expected.

However, as with July's puzzling report on producer inflation, August's rise in the CPI had less to do with tariff-affected goods and more to do with services. The index for shelter rose 0.4% in August and was the single largest factor in the headline rise. Drivers of the core CPI's rise included motor vehicle repair (up 5% m/m), vehicle parts and equipment other than tires (up 2% m/m), gasoline (up 1.9% m/m), airline fares (up 5.9% m/m), and girls' apparel (up 3.5% m/m).

Unfortunately, all but the last two spending categories bear directly on carriers' operational costs. Going forward, it is probable that carrier rates will have to rise since margins have long been squeezed. Still, this dynamic will be an odd one: Even though rates are set to increase, it is also likely that excess capacity will resume its exodus out of the market given the higher cost of doing business amid relatively weak demand.

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 year, 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 6.35%, 23 bps lower m/m but up 15 bps y/y.

Existing-home sales, which comprise the vast majority of home sales in the U.S., rebounded from but did not fully erase June's dip. According to the National Association of Realtors, sales of existing homes rose 2% m/m at an annualized rate of 4.01 million in July. Unlike June, in which sales were flat y/y, July saw modest growth in transactions of 0.8% y/y. Equally modest was the reduction in the median sales price of an existing home, which receded 2.4% m/m to \$422,400 — a level still 0.2% higher than last year and one which lingered near June's record high of \$432,700.

Housing starts fell to their lowest level since May, with the market increasingly saturated with new and unsold inventory. In August, new construction tumbled 8.5% m/m — far worse than the 4.4% decline expected. Single-family starts were down 7% m/m to their lowest level in over a year; multi-family starts plunged 11% m/m, fully erasing July's 4.6% m/m gain. Still, mortgage rates have been falling since May, a trend that will be aided by the Fed's September cut. More importantly, mortgage applications soared 29.7% on a weekly basis in the week ending Sept. 12, the sharpest growth rate since January and the second-highest since interest rates crashed early in the pandemic.



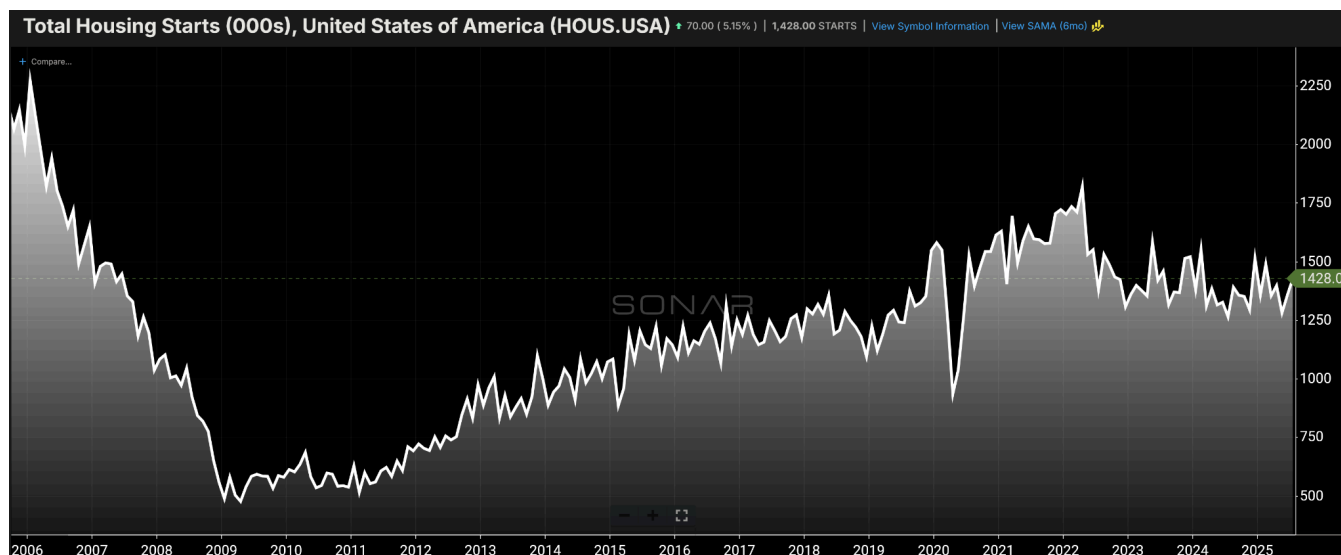


Chart: SONAR. Total U.S. housing starts (in thousands).

“Housing affordability is hurting buyer traffic for builders,” said Buddy Hughes, chairman of the National Association of Home Builders (NAHB), “and as a result builders have slowed single-family home construction.” NAHB Chief Economist Robert Dietz, commenting on the Fed’s latest cut, added: “This return to monetary policy easing will help the mortgage market indirectly and lead to lower interest rates for building and land development loans, which will help builders to boost housing production.”

These deteriorating fundamentals were reflected in homebuilder sentiment from September. The NAHB/Wells Fargo Housing Market Index, which surveys builders of single-family homes, was unchanged in September from last month’s reading of 32. September thus marked 17 consecutive months of contraction below the no-change mark of 50, reflecting persistent pressures from elevated mortgage rates, weak buyer traffic and supply-side hurdles. This sentiment index has hovered between 32 and 34 since May. The three components of the headline index performed differently: Current sales conditions were stable at 32, sales expectations over the next six months rose two points to 45, and traffic of prospective buyers saw a one-point decline to 21.

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