

SEPTEMBER  
2023

# STATE OF THE INDUSTRY

## R E P O R T

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

# Breaking the seasonal norms

August 25, 2023 | 9 a.m. EDT

## Overview

The truckload market saw a healthy bump in volumes to close out July and start August. By and large, the market did not feel this increase because capacity remains abundant as carriers haven't exited the market at a pace that many in the industry believed they would.

The intermodal market continues to show sequential growth but only about 1% quarter over quarter. While that's positive, the likelihood of a strong peak season for intermodal fades each day as the truckload market is a more attractive market in the current environment.

The ocean market has seen demand pick up a little steam over the past month but is still 5% lower than it was at this time last year. Given last year's muted peak season, the uptick this year is likely to spell a softer peak season overall as well.

The macroeconomic environment is a challenging one as consumer credit card debt has topped \$1 trillion for the first time at the same time that interest rates have hit the highest levels in over 20 years. This combination would indicate that consumers are in a tougher financial position, but they have been willing to continue to spend despite the Federal Reserve taking actions to curb demand.

A positive for the consumer is that the labor market remains tight, but the selectivity is dwindling as there is divergence in fields with available jobs (hospitality and blue-collar jobs) and those where layoffs have happened throughout the year (tech and white-collar jobs).

Macro indicators	(y/y change)
July industrial prod. change	+1% (-0.2%)
July retail sales change	+0.7% (+3.2%)
July U.S. Class 8 orders	16,000 (+45%)
July U.S. trailer orders	10,000 (-45%)

Truckload indicators	(y/y change)
Tender rejection rate	3.88% (-183 bps)
Average dry van spot rate <sup>1</sup>	\$2.24/mi (-15.5%)
LAX to DAL spot rate <sup>2</sup>	\$1.88/mi (-28.2%)
CHI to ATL spot rate	\$2.51/mi (-12.2%)

Tender volumes	(y/y change)
Atlanta	416.36 (-11.82%)
Dallas	355.49 (-5.32%)
Los Angeles	291.89 (-7.2%)
Chicago	187.51 (-16.93%)

Tender rejections	(y/y change)
Atlanta	3.03% (-194 bps)
Dallas	2.25% (-281 bps)
Los Angeles	5.29% (+306 bps)
Chicago	3.4% (-193 bps)

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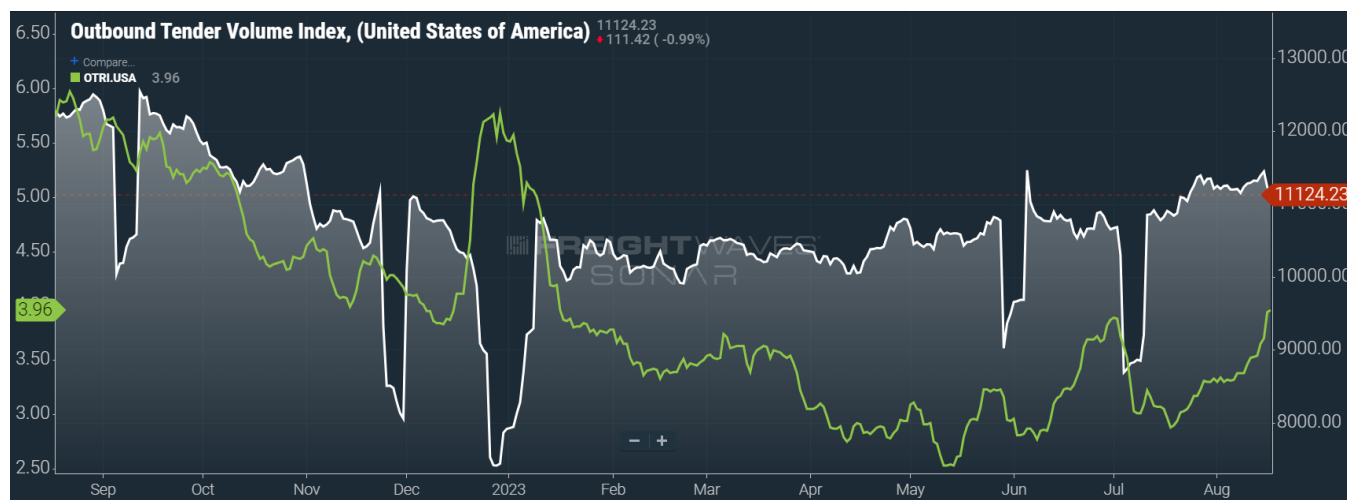
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<sup>1</sup> FreightWaves National Truckload Index  
<sup>2</sup> FreightWaves TRAC spot rate

## Truckload markets

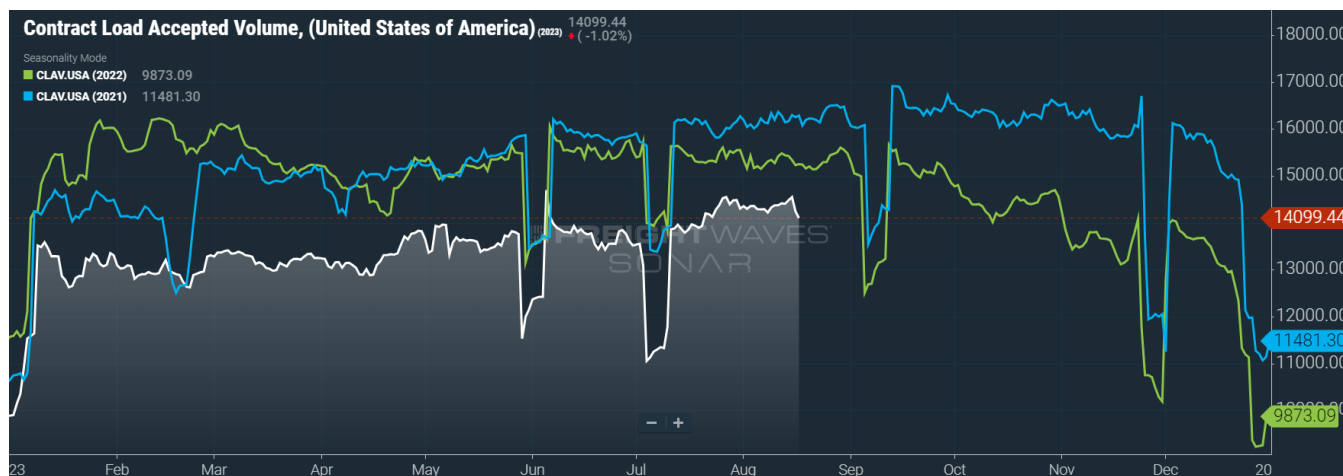
On the heels of a tough second quarter, carriers now face a tricky third quarter in which contract rates have continued to deteriorate. Yet trends in truckload volumes are in line with seasonality, even if shipper demand is not the windfall for which many had hoped. In short, pricing power remains firmly with shippers during 2023's peak season, and barring the usual disruptions to capacity during holidays, shippers are likely to retain this control throughout the remainder of the year.



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

After an appreciable bump at the end of July, freight demand remained relatively stagnant with only slight gains during the first half of August. In this regard alone, freight demand in August 2023 most resembles that of 2021, since 2020 was host to rapid growth, whereas truckload markets were deteriorating in 2022. September could prove key in providing much-needed momentum to the current market, though freight demand will be hampered briefly by facility closures over Labor Day weekend. At present, the Outbound Tender Volume Index (OTVI), which measures national freight demand by shippers' requests for capacity, is up 2.3% month over month (m/m).

In the most recent round of earnings calls, big-box retailers largely lowered their guidance for the remainder of the year. For some, this lowering displayed the tension between top-line weakness driven by macroeconomic factors — the return of student loan repayments and declining discretionary purchases by consumers foremost among them — and a significant potential to offset losses by reining in transportation spend. But not all spending categories are equally affected: Grocery and pharmacy purchases are seeing steady growth over 2022, while the back-to-school season did not disappoint. Amid this mixture of tailwinds and headwinds, OTVI is currently down 9.21% year over year.

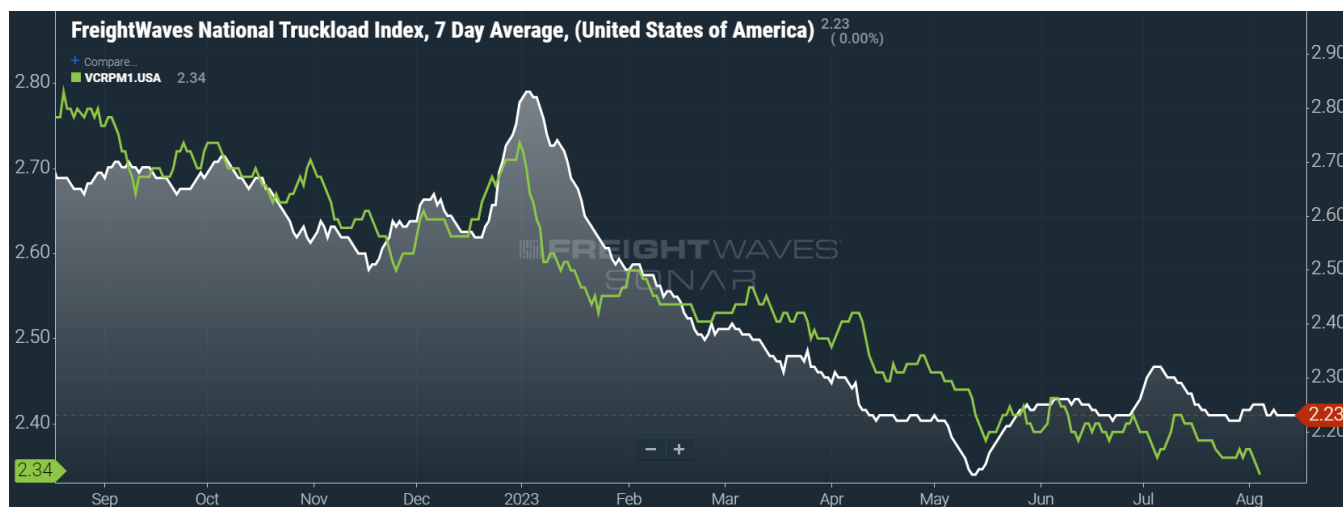


Source: FreightWaves SONAR. Contract Load Accepted Volume: 2023 (white), 2022 (green) and 2021 (blue).

Even though OTVI began to underperform on a y/y basis early in 2022, the truckload market was propped up by falling tender rejections for a few months. 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 (CLAV) 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 the moment, accepted tenders are down 6.45% y/y. This data suggests that actual cracks in freight demand — and not merely declining tender rejection rates — are driving OTVI to lower levels.

### Contract rates tumble in Q3

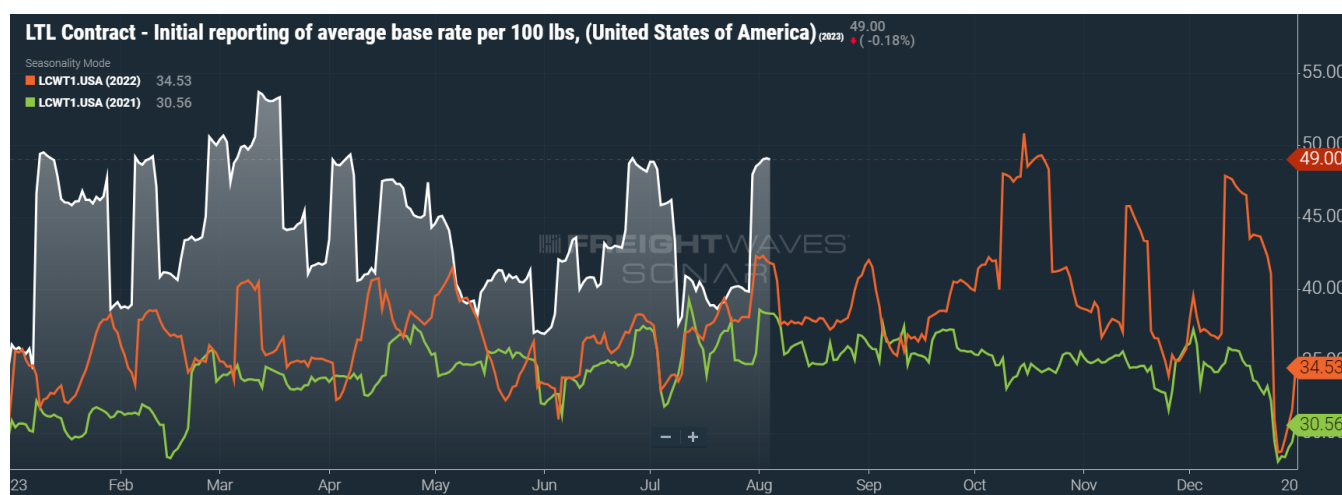


Source: FreightWaves SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

Besides capitalizing briefly on the Independence Day capacity squeeze, spot rates have not seen any significant change in Q3 so far, remaining perfectly in line with Q2's average. While such steadiness inspires confidence that the bottom of this cycle has passed, it is still painful to smaller carriers that operate primarily in the spot market. Over the past few months, prices of motor vehicle insurance and maintenance have consistently been notable drivers of inflation, eating into carriers' margins. Unfortunately, outside of Labor Day's narrow window, there is no apparent opportunity for spot rates to regain upward momentum. The National Truckload Index (NTI) — a fuel-inclusive, seven-day moving average of national dry van spot rates — is currently down 17% y/y at \$2.23 per mile.

Contract rates — which are exclusive of fuel and other accessorials — have deteriorated after the recent round of bid renegotiations, dropping to their lowest reading since February 2021. Such a decline was bound to happen, given the unsustainably wide spread between contract rates and linehaul spot rates that has persisted since mid-2022. Since this spread, which now sits at 72 cents per mile, continues to trend well above pre-pandemic averages, contract rates still have room to fall even further. For the time being, however, contract rates are down 16% y/y at \$2.34 per mile.

### LTL carriers are primed to raise rates



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

Following the bankruptcy filing of a national LTL carrier in early August, remaining players in the industry are revving their engines for accelerating prices. Last month, as this bankruptcy turned from rumor to eventuality, major LTL carriers were broadly united in demanding that shippers in need of capacity prepare contingencies as soon as possible or be left without service. As of mid-August, this stance still appeared to predominate, though it has been softened by some carriers' announcements of plans to add new terminals to their networks and trucks to their fleets.

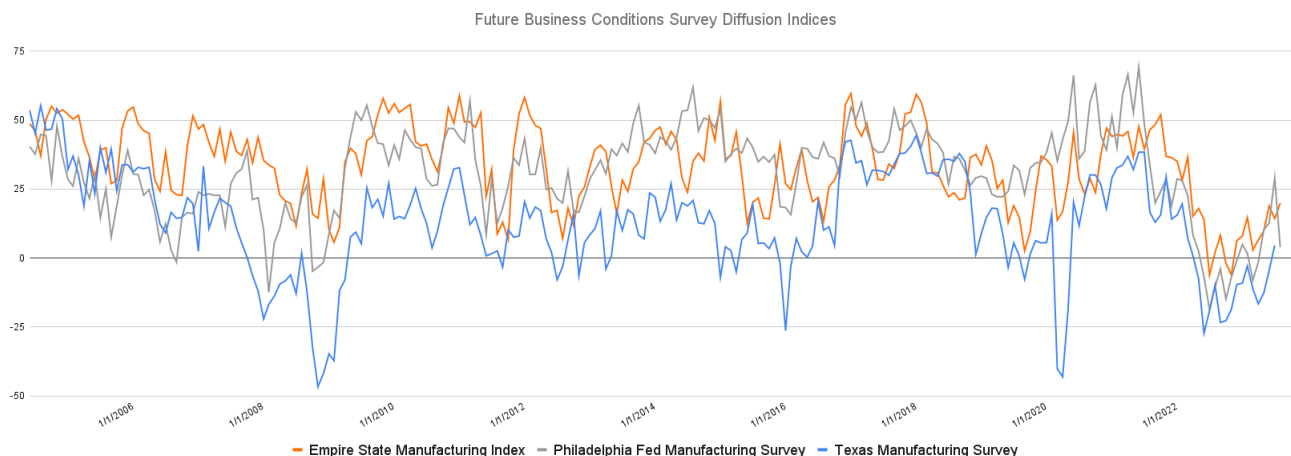
At the time of writing, the average LTL contract rate has risen \$2.81 per hundredweight over the past month. Currently sitting at \$49 per hundredweight, shipping via LTL is 17% more expensive than it was a year ago.



All major carriers remaining in the market reported substantial y/y gains in volume once the bankruptcy proceedings were underway. In a potential parallel to the FTL market, carriers are benefiting from tailwinds after capacity was taken offline — even though industrial demand is still quite weak at the moment. Although such an exodus has yet to be seen for this cycle, it is probable that FTL rates will only rise once a significant portion of capacity — particularly in the spot market — is lost.

## Macroeconomic conditions

Business conditions did not improve much, if at all, for manufacturers in August. The largest source of discontent was a marked weakness in their customers' activity, as new orders and shipments tumbled. Yet faced with such stagnation at present, manufacturers expect improving conditions over the next six months.



New York manufacturers struggled against trying circumstances in August, as a plurality of those surveyed noted that business conditions worsened relative to July. In the most recent Empire State Manufacturing Survey, the current business conditions fell sharply, shedding 20.1 points m/m to minus 19. This loss compounded July's decline of 5.5 points m/m, again plunging the index into contraction. The forward-looking General Business Conditions Index, however, rose 5.6 points m/m to 19.9, comfortably within expansionary territory.

Within the survey, the freight-intensive Shipments Index gained an impressive 17.6 points m/m to reach 29.6 — optimism in stark contrast to the current Shipments Index, which sank to minus 12.3 after losing 25.7 points m/m. The forward-looking New Orders Index performed similarly to the Shipments Index, as the former rose 17.1 points m/m to hit 28.1. Coupled with a marked rise in the Unfilled Orders Index (up 15.6 points m/m to 5.8) and a slight bump in the Inventories Index (up 6.8 points m/m to 1.9), manufacturers expect to have reached the end of their destocking phase in six months' time, favoring a just-in-time strategy as opposed to a just-in-case one.

Contrary to their New York counterparts, Philadelphia firms thought that business conditions improved in August. The current General Business Activity Index within the Manufacturing Business Outlook Survey, conducted by the Federal Reserve Bank of Philadelphia, swelled by 25.5 points m/m

out of the red to 12. At the same time, survey respondents in Philadelphia thought that any near-term improvements had already taken effect, as the forward-looking General Business Activity Index dropped 25.2 points m/m to 3.9.

This belief that the potential for recovery has already been realized trickled down to the New Orders and Shipments indexes, which fell a respective 20 points m/m and 22.4 points m/m to 18.2 and 14.9. And unlike New York manufacturers, Philadelphia firms believe that inventories require further reductions before destocking efforts are complete: The Inventories Index fell 1.8 points m/m to minus 7.3. Survey respondents also expect inflation will cool further over the next 12 months, predicting 4% y/y rises in prices received, compensation paid and consumer prices during that period.

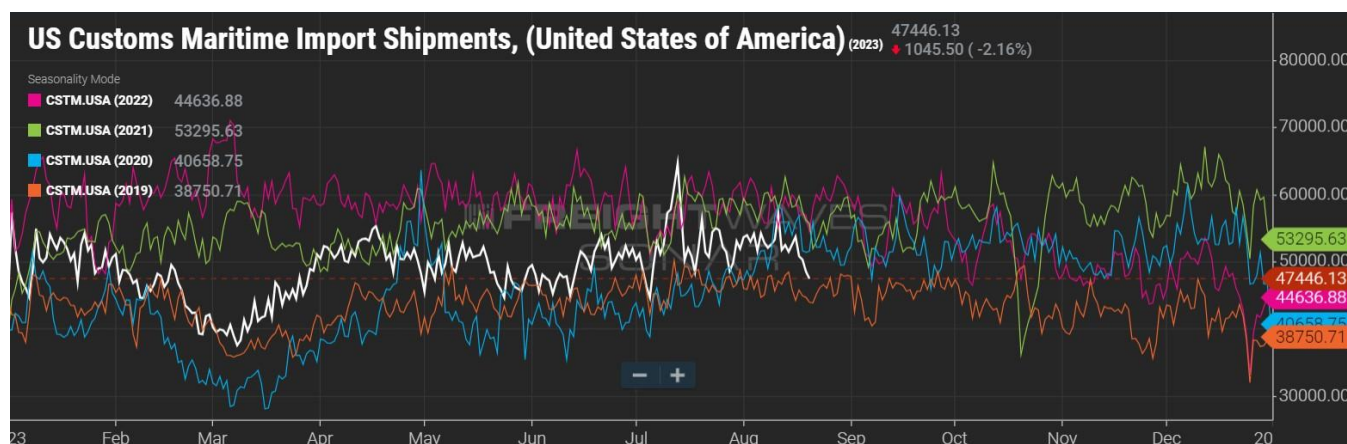
The Federal Reserve Bank of Dallas releases the Texas Manufacturing Outlook Survey during the final week of the month, but the mood of Texas businesses in July was similar to that of their New York counterparts in August. The survey's Current General Business Activity Index was sharply negative at minus 20, albeit after a meager m/m rise of 3.2 points. But the headline news is found in the survey's Future General Business Activity Index, which rose 9.1 points m/m to 4.6. This latest reading marks the first time that the index has been positive in more than a year, suggesting that the survey's respondents have finally called the bottom of this cycle. Nevertheless, this reading is considerably below the series' all-time average of 12.9. 18.8% of respondents believe that conditions will improve over the next six months, against the 14.2% of firms that expect them to worsen.

After June's report interrupted a string of 14 consecutive monthly beats, all eyes turned toward July's data from the labor market. Much attention was paid to the headline 187,000 jobs added in July, which was appreciably below consensus growth expectations of 200,000. This month would have marked the fewest jobs added since December 2020, save for the fact that June's growth was sharply revised down from 209,000 nonfarm jobs to 185,000. Yet while these figures do suggest an appropriate dovishness from the Federal Reserve, there were also inconsistencies: The unemployment rate ticked down from 3.6% to 3.5%, while wages grew 4.4% y/y — more than double the Fed's 2% y/y target. The transportation segment lost 8,700 positions in June, a figure revised down from a loss of only 6,900. In July, this segment shed a further 8,400 jobs. The truck transportation subsector, which lost 2,900 positions m/m, was one of the major drivers of the month's negative growth but was nevertheless outdone by losses in couriers and messengers (down 3,400 jobs m/m) and warehousing and storage (down 5,600 jobs m/m).

### **Maritime: Navigating peak season with newfound stability?**

The maritime freight landscape continues to exhibit a sense of fortitude as it navigates peak season. Traditionally spanning from August to October, this year's peak season appears to have moved ahead in the calendar. Though the current scenario may seem subdued when viewed against the extraordinary growth of the past few years, the industry is not in retreat. In fact, measured against the pre-COVID benchmarks of 2019, imports are consistently outpacing those levels.

Potential challenges are on the horizon, such as the resumption of student loan payments in October, which could impact consumer spending and thus imports. But these headwinds might not threaten the industry's solid foundation. The current trends in imports are indicative of a market that could be starting to thrive in a new normal.



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

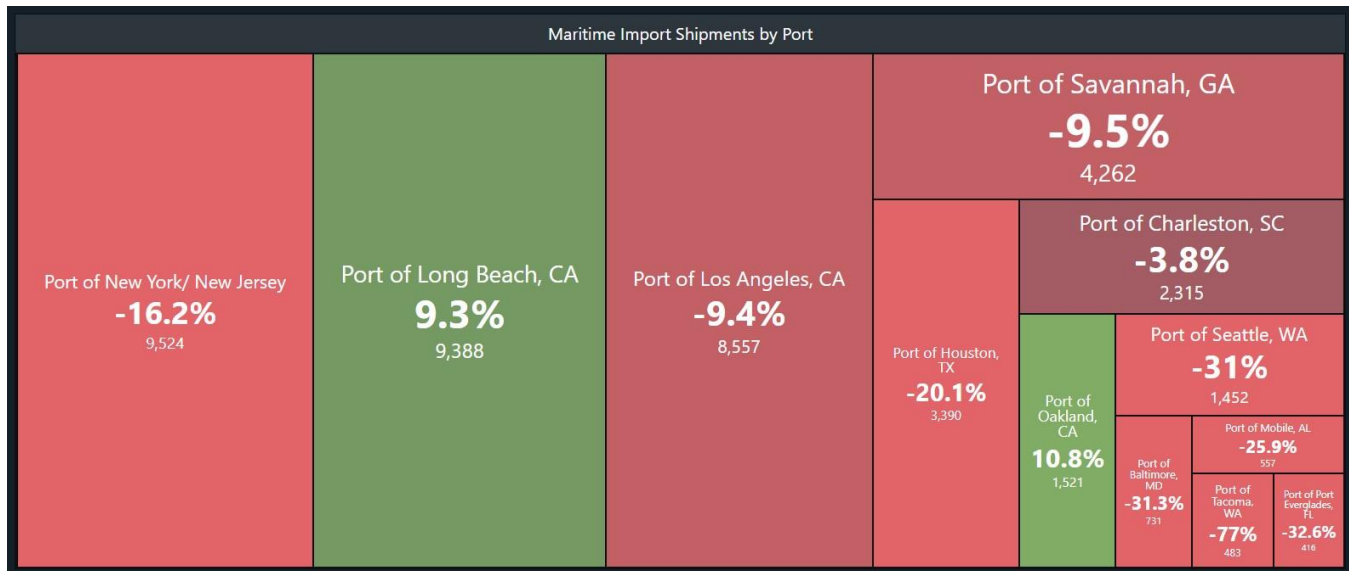
In July, the daily average of containerized and noncontainerized imports marked a noticeable increase of 6.2% m/m, a sign of steady momentum in the maritime industry. Though this growth may not signal a bullish trend as we continue through an extended peak season, it does not raise alarms either. The pattern reflects a market that is holding its ground, resiliently adapting to the seasonal ebbs and flows.

When juxtaposed against the previous year, the contrast becomes evident: a 16% decline y/y. This decline, however, must be viewed in the context of an unusually robust 2022, rather than as a sign of weakness.

The current ocean freight market continues to perform strongly, especially compared to pre-pandemic benchmarks. The 8.6% rise compared to July 2019 emphasizes the market's current vigor.



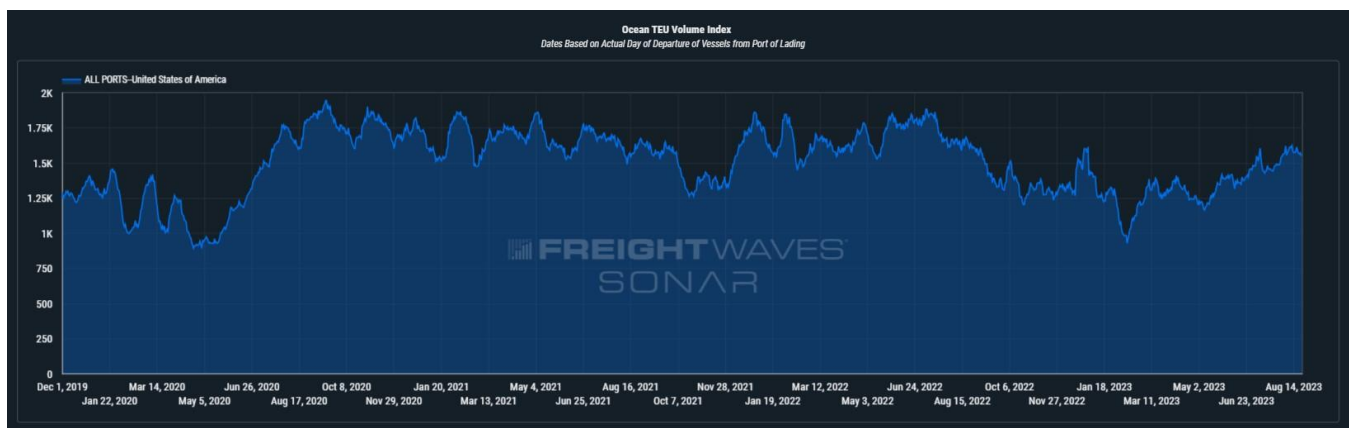
## Leaders and laggards in the ports



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

Yearly comparisons of maritime imports must be approached with caution, as U.S. Customs and Border Protection agents process shipments on varying timelines, making y/y data complex to interpret. Nevertheless, the recent figures reveal a mixed landscape, with some ports experiencing growth and others facing declines.

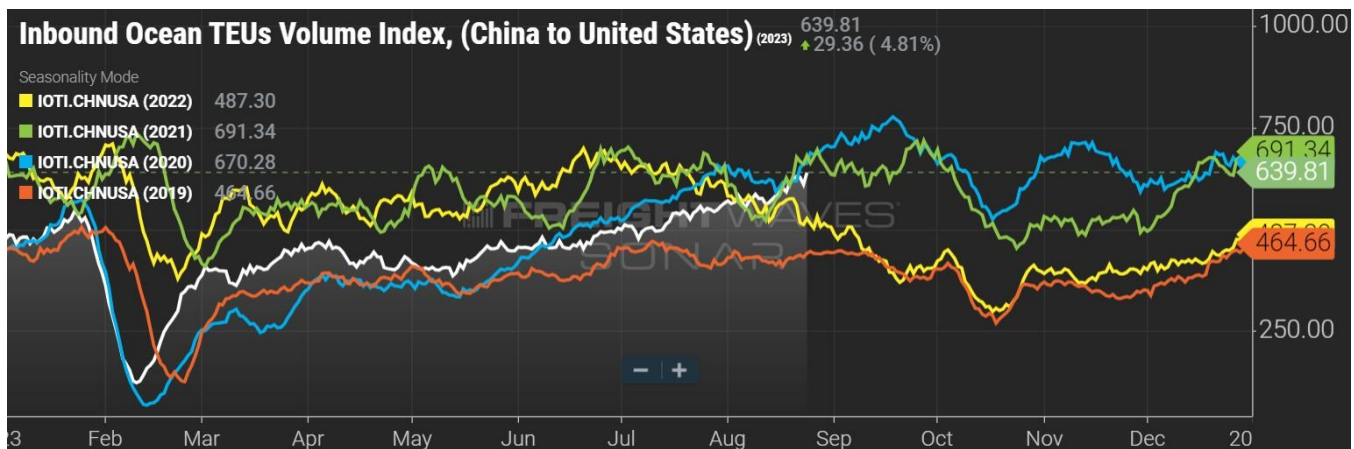
The Port of New York/New Jersey, though still the premier U.S. importer, has seen a decrease of 16.2% y/y. Meanwhile, the Ports of Long Beach and Oakland have bucked the trend, with increases of 9.3% and 10.8% y/y, respectively. On the other hand, the Ports of Los Angeles; Savannah, Georgia; Houston; Charleston, South Carolina; Seattle; Baltimore; Mobile, Alabama; Tacoma, Washington; and Port Everglades, Florida, have all faced declines, with the most significant drop observed at the Port of Tacoma, down 77% y/y.



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

The Container Atlas Ocean TEU Volume Index, a key metric that quantifies ocean volume in terms of twenty-foot equivalent unit volumes at the time of departure from the port of origin, has experienced a 5.3% rise m/m. This uptick serves as a leading indicator for the CSTM.USA, which tracks when CBP agents report import shipments post-voyage. Given this increase, it's reasonable to project that imports are likely to sustain their current levels in the near future.

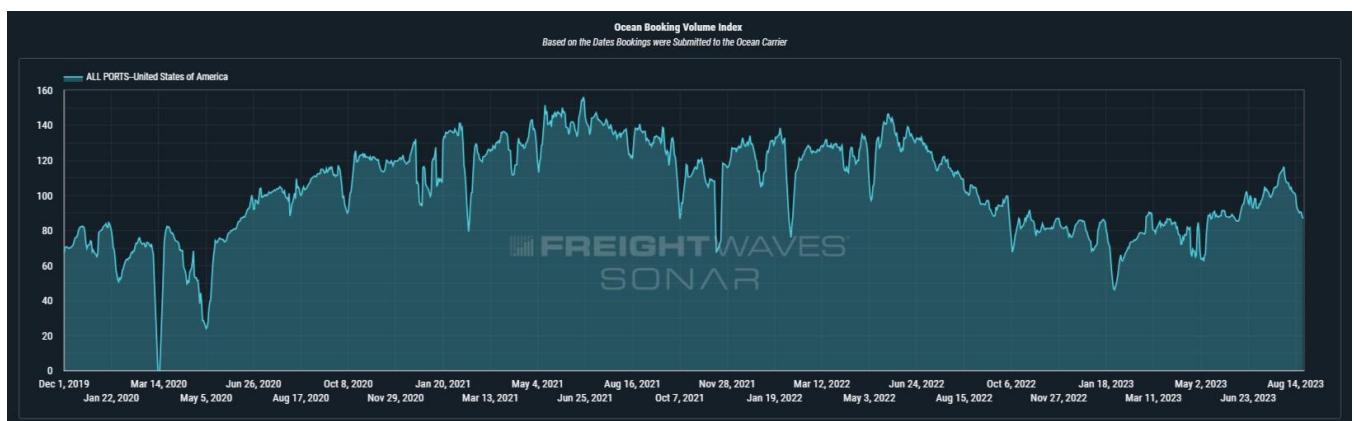
This moderate growth in volume is an encouraging sign for the freight transportation sector, reflecting a stable demand. However, it's essential to place these figures within a broader context. Despite the month-on-month growth, the index is 5% lower than in the same period last year. While this doesn't signal a crisis, it does indicate a market that is stabilizing at a level below the peaks of 2022.



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

The Inbound Ocean TEUs Volume Index (IOTI) from China to the U.S., a critical gauge of container movements between these two major trading partners, is revealing a resilient and evolving market. The index is about 24% higher than at this time in 2022 (the first time that's been true this year) and about 44% higher than in 2019.

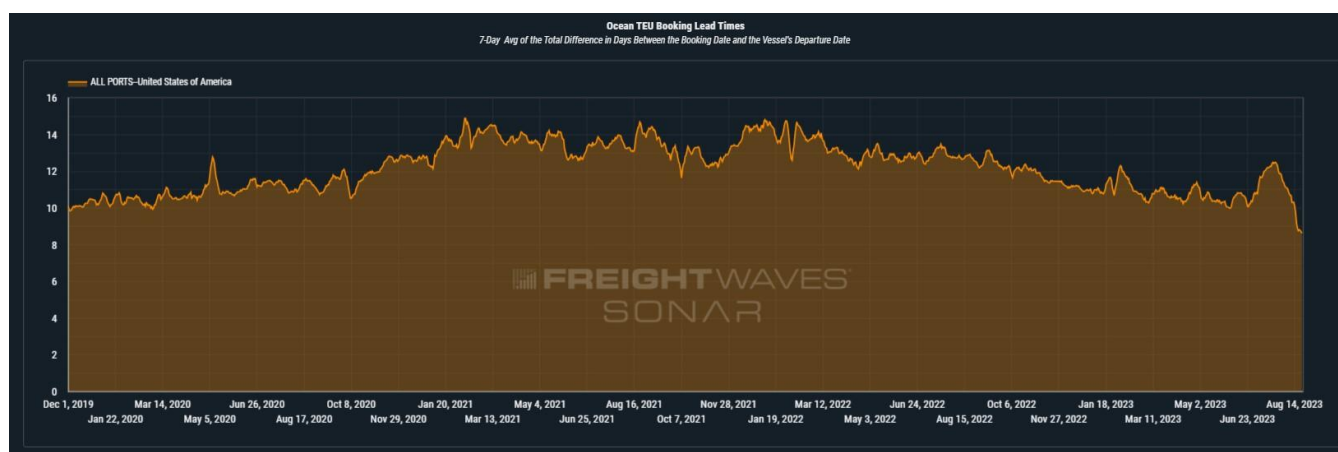
The current trend in the IOTI from China to the U.S. is indicative of a market in peak season.



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

The maritime sector's future volume outlook still gives some cause for concern. The Ocean Booking Volume Index, a key metric that forecasts near-term trends by monitoring current bookings submitted to ocean carriers, has experienced a sizable drop. With an 18.9% decline m/m and an 18.8% drop y/y, these figures present a notable decrease that could have implications for the ongoing peak season. It's important to recognize that year-over-year comparisons of maritime imports can be complex, particularly given the unusual timing of peak seasons this year and last.

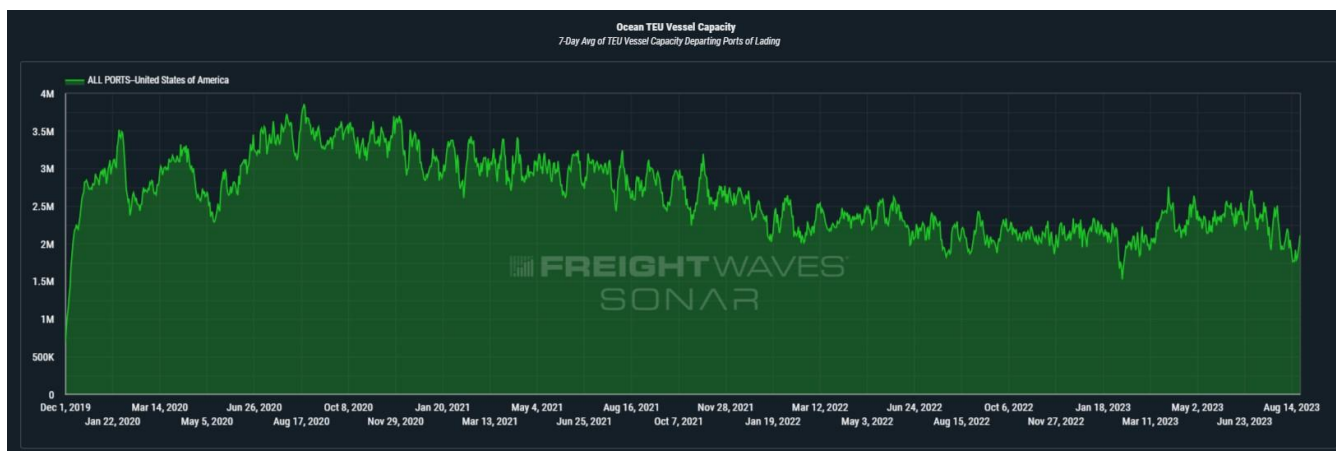
But the current downturn in future bookings cannot be attributed simply to the anomalies of an early peak season. This pattern may indicate a softer peak season ahead for the maritime sector, reflecting a cautious approach by shippers and a potential recalibration of expectations.



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

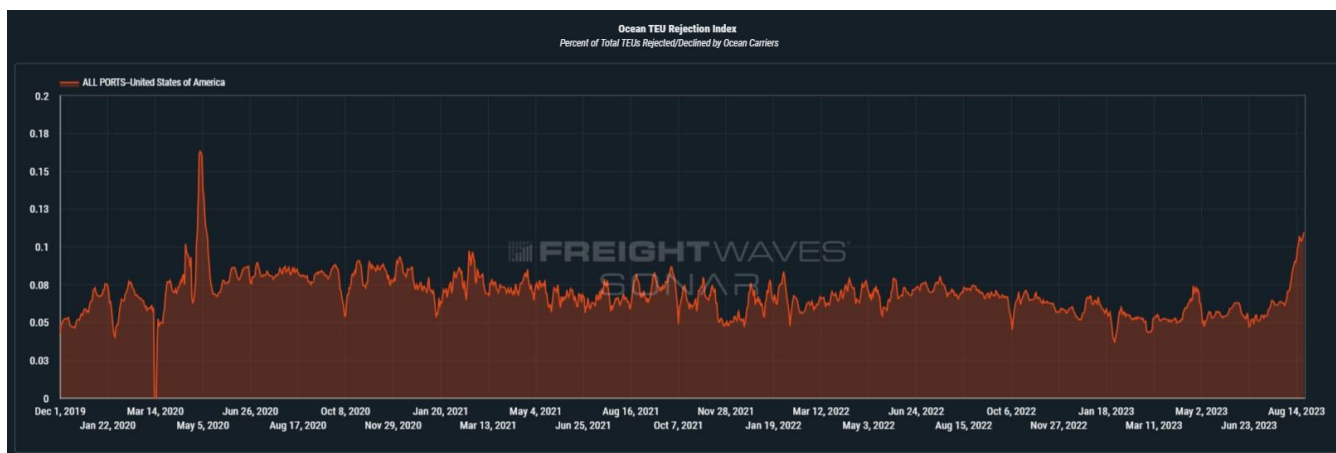
The maritime sector continues to experience a significant contraction in ocean TEU booking lead times. The index has plummeted by 29.5% m/m, a substantial reduction that brings the current average lead time to 8.79 days. This sharp decline signals a marked efficiency in the booking process, allowing for a tighter alignment between booking dates and a vessel's departure date.

It's worth noting that lead times are subject to upward revisions as more data becomes available. For example, last month's initial report of an average lead time of 8.8 days has been revised to higher than 12. Despite these adjustments, the longer-term trend is clearly downward, which could reflect a steadily more streamlined and responsive booking process.



Source: FreightWaves Container Atlas, Ocean TEU Vessel Capacity — all global ports to all U.S. ports.

U.S.-bound container capacity in the ocean market has declined by 13.2% m/m, a concerning dip that may affect domestic trucking and rail companies. Despite the y/y increase of 9.8%, the sudden monthly decrease raises questions about the immediate future of maritime freight. The industry will be closely watching to see if this figure stabilizes, ensuring a steady flow of goods for the domestic transportation sector. It should be noted that a similar dip was recorded at this time last month, and no major drop in volume occurred.



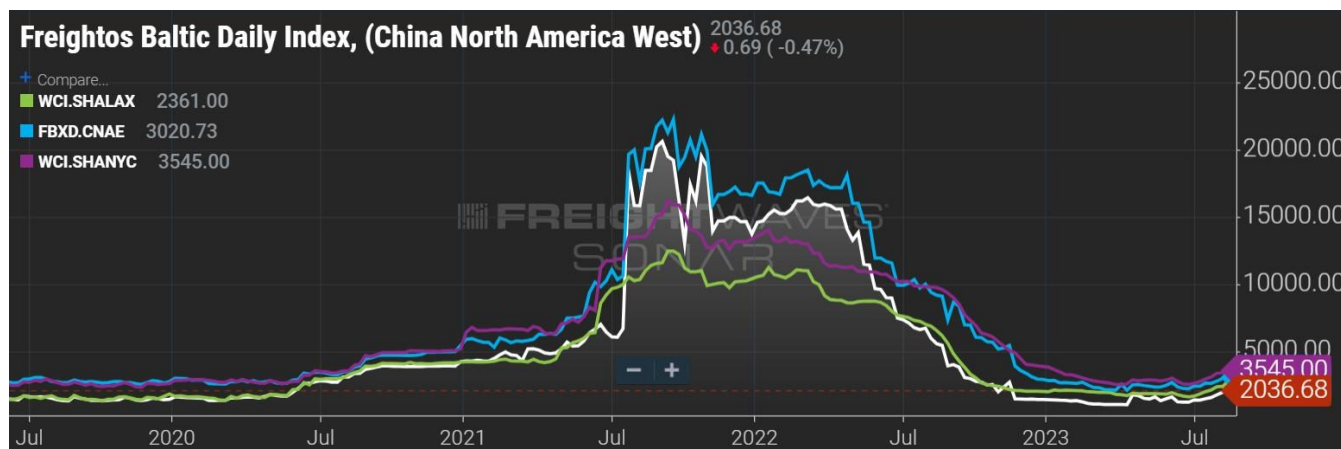
Source: FreightWaves Container Atlas, Ocean TEU Rejection Index — all global ports to all U.S. ports.

The Ocean TEU Rejection Index has seen a dramatic increase, surging 500 basis points, and is now up around 11%. This sharp rise has pushed the index to its highest level since early May 2020.

This index represents ocean carriers refusing already confirmed bookings and not rolling the shipment onto a later vessel. Unlike the truckload market's measure, this rejection index reflects a specific dynamic within ocean freight, where carriers are more selective in accepting bookings.

The sharp increase in rejections may signal underlying challenges in the market, such as capacity constraints or operational issues. It's a development that could have broader implications for the flow of goods and the efficiency of the maritime supply chain.





Source: FreightWaves SONAR — Container spot rates, four-year 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).

The maritime industry has witnessed a substantial surge in spot rates in recent weeks. The Freightos Baltic Daily Index, tracking the average spot rate for China-North America West Coast (FBXD.CNAW), has soared by 31.8% m/m. Meanwhile, the index for China-North America East Coast (FBXD.CNAE) has climbed by 18.1% m/m.

Further reflecting this trend, the Drewry World Container Indexes, which measure the spot rate per forty-foot equivalent unit for shipping from Shanghai to New York (WCI.SHANyc) and Shanghai to Los Angeles (WCI.SHALAX), have also reported significant increases. The SHANyc index has risen by 19.5% m/m, and the SHALAX index has seen a 17.5% m/m increase.



## Rail intermodal: Steady as it goes

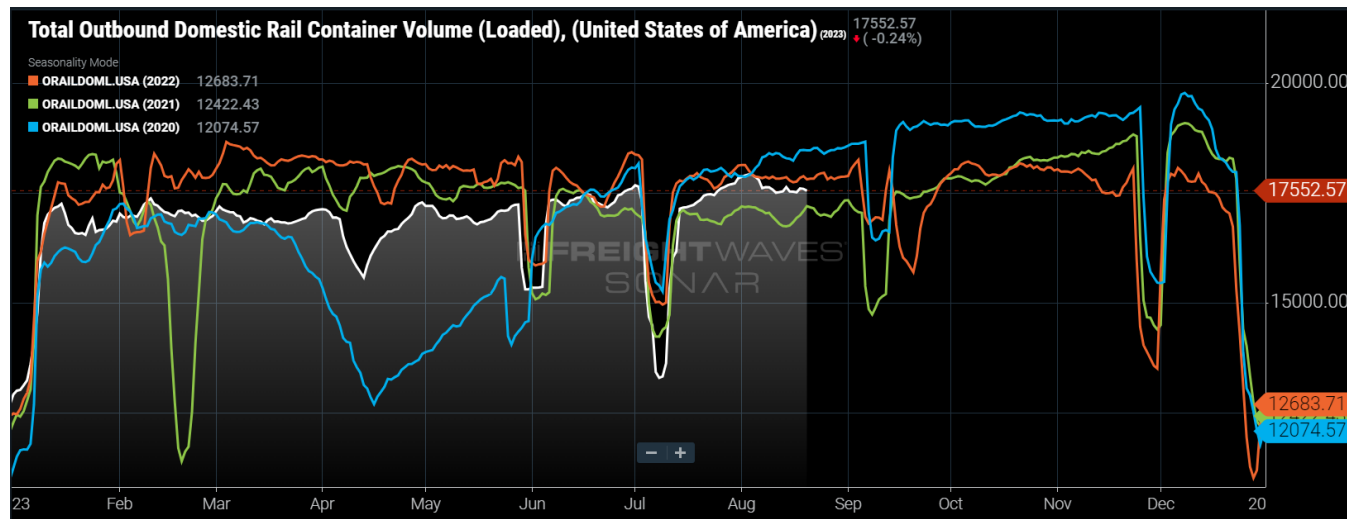


Chart: FreightWaves SONAR. Loaded domestic intermodal container volumes for 2023 (white), 2022 (green), 2021 (blue) and 2020 (orange).

The intermodal market, much like the truckload market, is breaking away from normal seasonal patterns through late July and August. The intermodal market has softened since the beginning of the month, but overall, intermodal volume levels are improving sequentially from the second to the third quarter.

Overall intermodal volumes, which include both empty and loaded domestic and international containers, have increased by 1.4% over the past month. August started with a fury, but momentum is slipping as overall intermodal volumes have declined by 1.4% since Aug. 1. Overall intermodal volumes are down 6.2% y/y.

Domestic intermodal volume, which is predominantly 53-foot containers, has increased by 0.3% over the past month, even after cooling from the peak at the beginning of the month. Domestic intermodal volumes are 2.4% lower than they were this time last year. With the momentum not really being sustained throughout August, it appears more and more likely that intermodal peak season will be muted.

The international intermodal market continues to suffer on a y/y basis, but some of the decline can be attributed to containership lines pulling capacity out of the market. Over the past month, loaded international intermodal volume has increased by 0.9%, stronger than the domestic market. Over the past year, the loaded international intermodal volumes have declined by 7.8%.

Container availability continues to improve as large intermodal marketing companies that placed orders for new containers are starting to appear in the market. The evidence of this stems from domestic empty intermodal container volume levels increasing by 8.9% in the past month. Over the past year, empty domestic container volumes have increased by 18%.

While domestic containers seem to be becoming more available, international containers have been taken offline by the containership lines, which own the vast majority of international intermodal

containers. Over the past month, empty international intermodal container volumes have increased by 3.4%, which is a welcome sight, despite volumes still being down 28.4% y/y.

### Domestic intermodal contract rates not declining as fast as they were

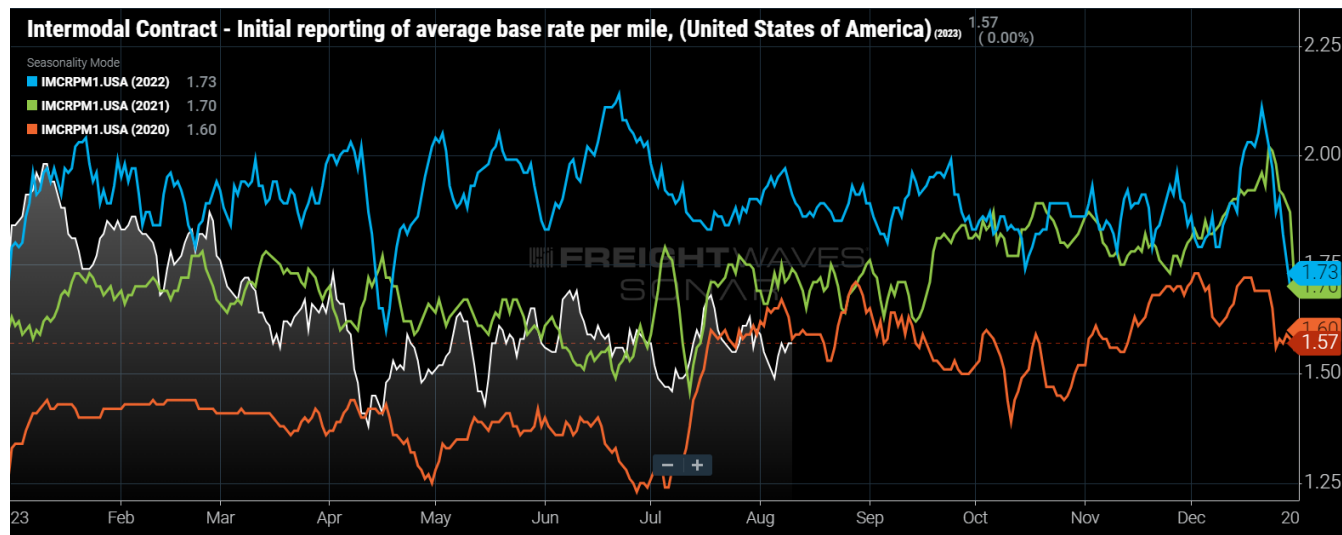


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2023 (white), 2022 (blue), 2021 (green) and 2020 (orange).

Intermodal contract rates have actually increased over the past month; looking back over the past three months, rates have been relatively stable overall. The intermodal contract rate, which excludes fuel, has increased by 8 cents per mile (or 5.3%) over the past month to \$1.57 per mile. The intermodal contract rate is competitive with the truckload spot rate, excluding fuel, which may entice shippers to move freight into the truckload market.

Over the past year, the intermodal contract rate has declined by 32 cents per mile (or 16.9%).

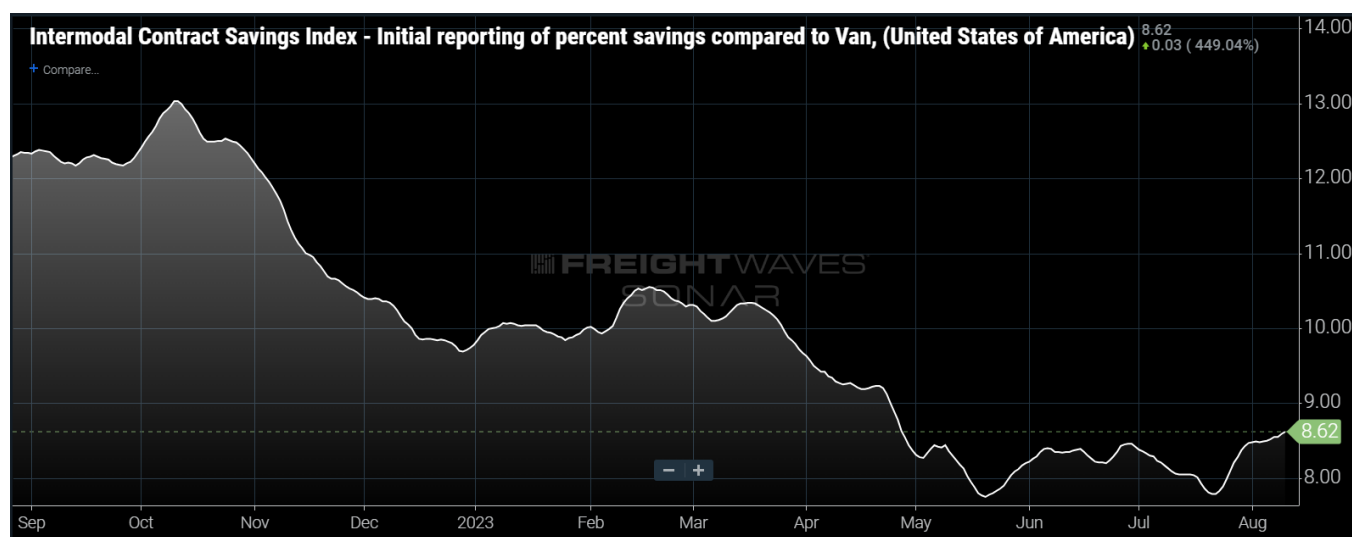


Chart: FreightWaves SONAR. Intermodal Contract Savings Index.

The Intermodal Contract Savings Index (IMCSI), a measure of the discount that intermodal presents compared to dry van, has started to climb back higher but is still near historic lows. Over the past month, the IMCSI has increased by 53 basis points to 8.62%, the highest level since April 27.

The discount that intermodal provides compared to the truckload market being as narrow as it is should incentivize the use of truckload movements as the service is traditionally better. However, as the railroads have improved service over the past year, shippers really haven't sought to implement modal shifts in a way that the limited discount might suggest.

A way to gauge the relative tightness in domestic intermodal capacity, as it relates to potential changes in contract rates, is by comparing the current intermodal spot rates in the densest lanes to year-ago levels. While a small proportion of intermodal volume moves on spot rates, we believe those 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.

The national door-to-door intermodal spot rate continues to trend lower, though the rate of decline has slowed in recent weeks. Over the past month, the intermodal spot rate has declined by 3 cents per mile to \$1.65, the lowest level since mid-July 2020.

The railroads are trying to remain competitive, especially in Southern California, as intermodal spot rates out of Los Angeles have taken a significant step lower over the past month. Arguably the two densest intermodal lanes — Los Angeles to Dallas and Los Angeles to Chicago — have experienced intermodal spot rates decline by 26.1% and 10.1%, respectively, m/m.

### Intermodal spot rates suffering from difficult comps

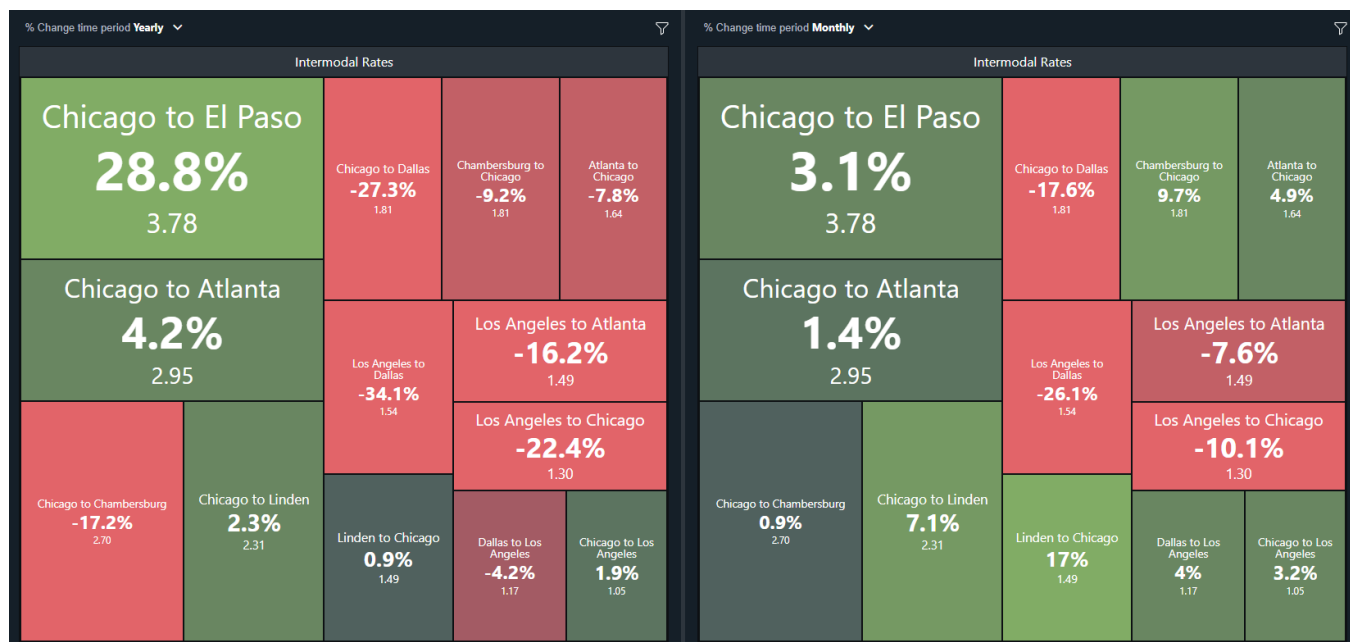


Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

While the vast majority of intermodal loads move under contractual agreements, another way to gauge network fluidity is through intermodal tender rejection rates. There are often limited tender rejection rates as carriers effectively “auto accept” freight. But when there are disruptions to the network, there will be an increase in rejection rates. Right now, there are few disruptions with railroads as they continue to auto accept freight as indicated by national intermodal rejections at 2.05%. Rejection rates in Chicago remain below 1% while in Los Angeles intermodal rejection rates have picked up a little steam — though not enough to signal service disruptions or push rates up.

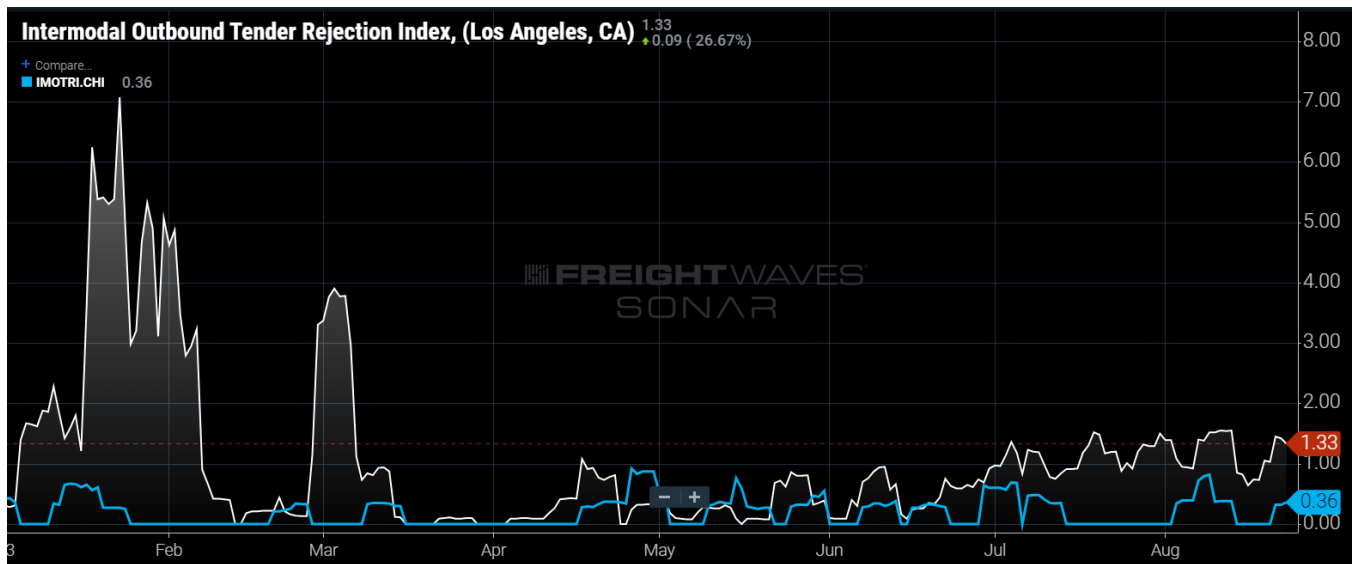
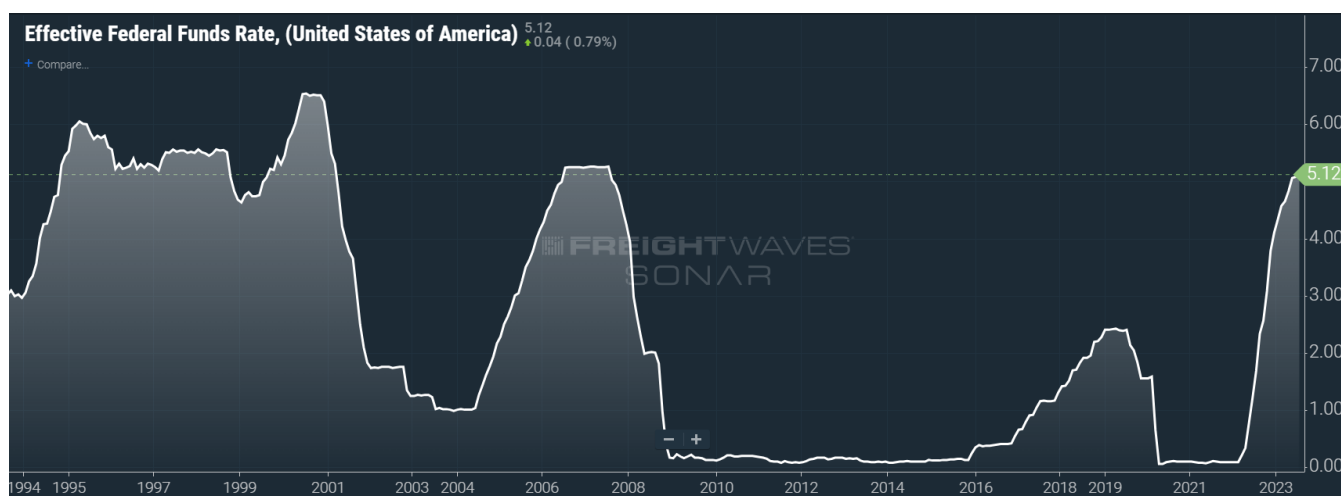


Chart: FreightWaves SONAR. Domestic intermodal tender rejection rates for outbound Los Angeles (white) and Chicago (blue) loads.

## What else we're watching

A general consensus has formed among close watchers of the Federal Reserve, which is now expected to issue one final interest rate hike in this cycle. The only real debate left is whether this last 25-bp hike will be delivered at the Fed's September meeting or in November. Three of the most dovish Fed officials recently implied that the tightening cycle is finished, while some of the more moderate policymakers are open to a pause in September. Ultimately, the Fed has repeatedly stressed its underlying belief that the risks of being too dovish outweigh those of being too hawkish, making a 25-bp raise in November the most likely outcome.



Source: FreightWaves SONAR. Effective federal funds rate.

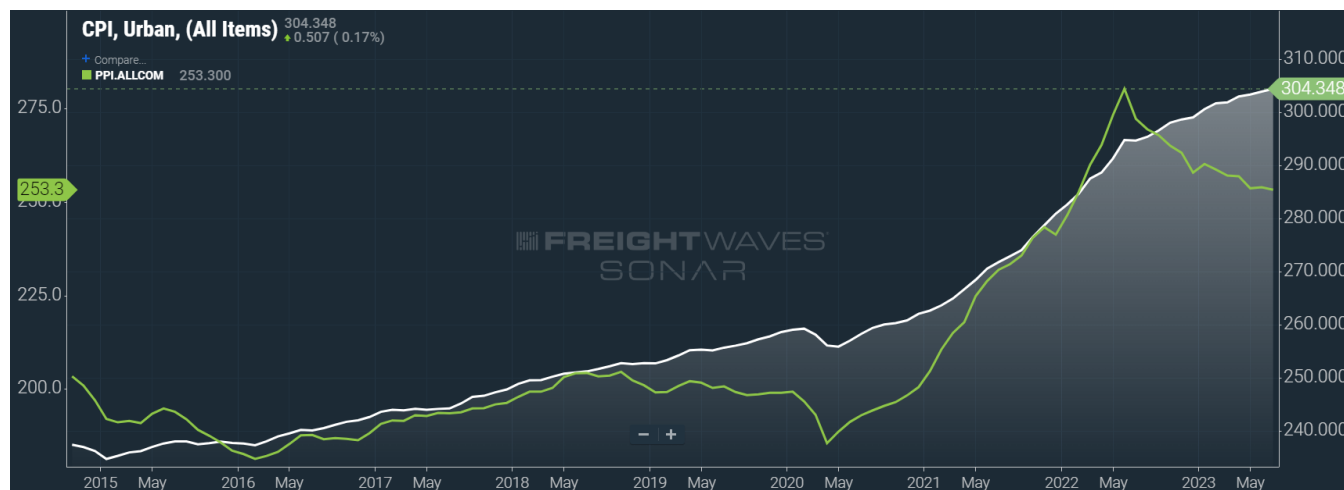
Analysts are more divided on whether the Fed will realize its once-unlikely goal of a “soft landing” — that is, taming inflation without triggering a recession. In the past few weeks, momentum has shifted toward belief in such “immaculate disinflation,” even though market watchers are largely split down the middle between bulls and bears. The bulls argue that a surprisingly strong Q2 GDP print, rosy data from the labor market and consumer spending, and serious movement toward disinflation all point to a soft landing.

But the bears retort with concerns about the near-term potential for a resurgence of inflation. Oil markets are becoming reacquainted with the fundamentals of supply and demand, as Saudi Arabia's continued withholding of production has finally driven global oil prices higher. Of course, high oil prices translate into higher fuel prices, weakening consumers' budgets for discretionary purchases. Food prices might also rise in response to a potential drought in the Midwest, the effects of El Nino and disruptions to global grain supply caused by Russia's withdrawal from a trade initiative with Ukraine.

For the time being, however, demand-side inflation has continued to cool, coming in slightly below consensus expectations. The July print of the Consumer Price Index (CPI) saw growth in the headline index of 3.2% y/y, supporting the case for a Fed pause in September. But July's headline CPI did interrupt a 12-month streak of consecutive y/y declines, albeit having done so due to more difficult comps against the back half of 2022. The core CPI, which excludes goods with volatile pricing like



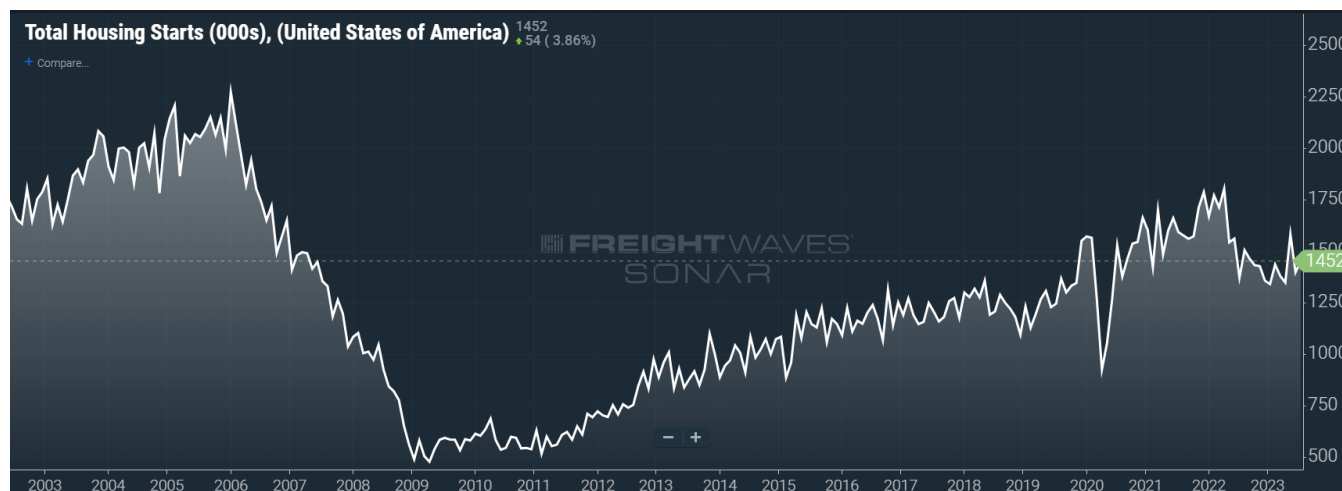
food and energy, remained sticky as it was up 4.7% y/y. Shelter costs (up 7.7% y/y) and prices of transportation services like automobile repair and insurance (up 9% y/y) continued to be the biggest drivers of core inflation. Falling energy prices, on the other hand, were once again the biggest drivers of disinflation: Gasoline prices declined 19.9% y/y, while fuel oil prices are down 26.5% y/y.



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

Unfortunately, supply-side inflation has returned after months of rapid disinflation, leaving the future direction of consumer prices uncertain. July's release of the Producer Price Index (PPI) — which tracks inflationary pressures faced by producers across a number of industries — was up 0.8% y/y after June's 0.1% y/y. Like the CPI, the PPI is facing more difficult comps in the back half of the year, but the PPI's 0.3% m/m jump is the largest such gain since January. Growth in final demand was primarily driven by services (up 2.5% y/y) and by construction (up 3.8% y/y), with final demand transportation and warehousing services up 0.5% m/m (though down 6% y/y).

In mid-August, the average 30-year fixed-rate mortgage surpassed late 2022's high of 7.08% and, at 7.09%, reached the highest reading since April 2002. The Fed's goal of keeping federal interest rates "higher for longer" does complicate the already-confusing housing market. On the one hand, such record-high mortgage rates should deter housing prices from rising any further, helping in the battle against inflation. On the other hand, demand for housing outweighs existing supply by so much that housing prices have yet to fall significantly.

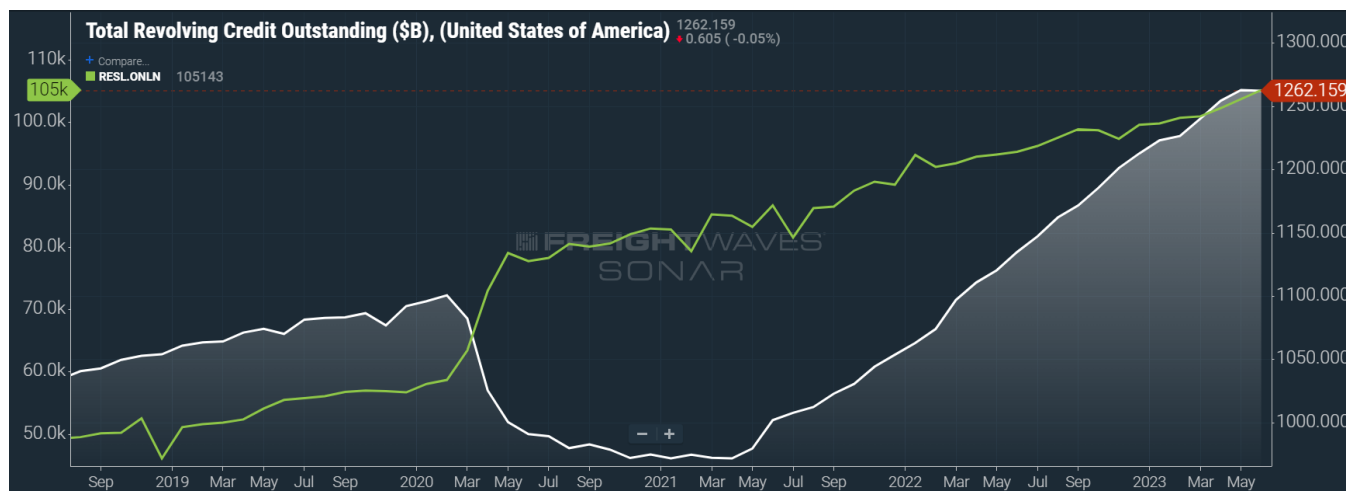


Source: FreightWaves SONAR. Total U.S. housing starts (in thousands).

This imbalance of supply and demand most obviously benefits U.S. homebuilders, who have recently become the darling of investment firms for their perceived resilience. According to data from the National Association of Realtors, newly constructed single-family homes have consistently represented 30% or more of all single-family homes on the market throughout 2023. For comparison's sake, this market share trended between 15% and 20% in the years leading up to the pandemic and reached an all-time low of 5.67% in June 2011. But the picture is not completely clear when looking at housing starts data from July: Although starts did rise 3.9% m/m, they did so after a significant revision to June's data (from minus 8% m/m down to minus 11.7% m/m). Building permits, meanwhile, rose only 0.1% m/m against expectations of a 1.5% m/m rise.

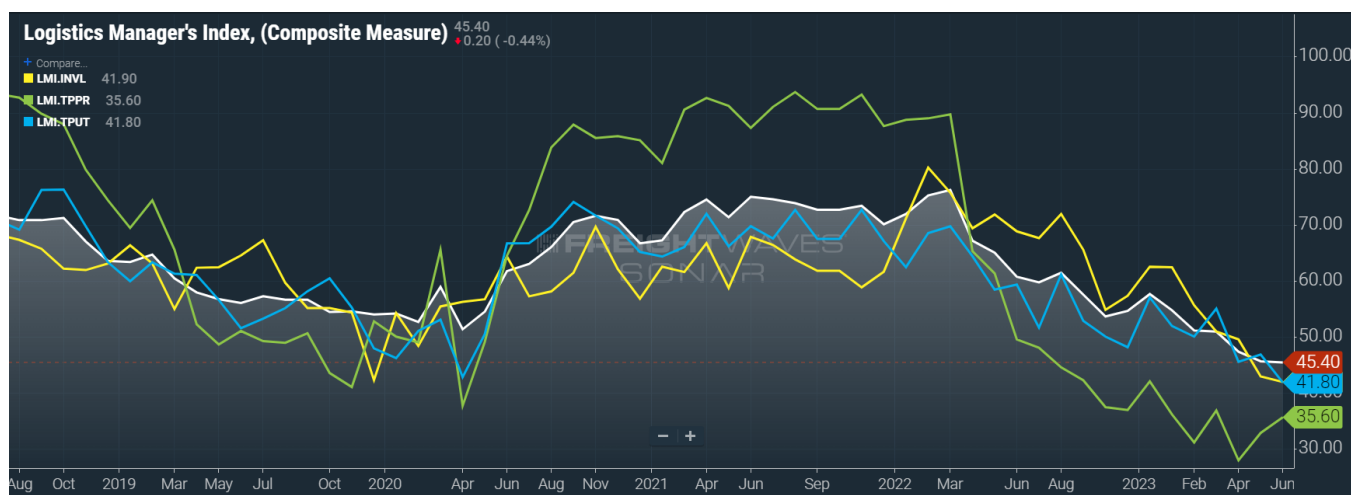
Unlike the housing market, rising federal interest rates have curbed consumers' appetite for revolving credit. In June, the total amount of revolving credit (which includes credit card debt) declined on a monthly basis for the first time since April 2021, in part due to spiraling credit card interest rates. Moreover, interest rates on 60-month car loans swelled to 7.81% — considerably above 2022's average of 5.36% and 2021's average of 4.82%.

Yet, according to the Fed's quarterly report on household debt and credit, credit card debt skyrocketed to a record \$1.03 trillion in Q2. Auto loans similarly reached an all-time high of \$1.58 trillion in the quarter. But consumers are still treading water amid all of this debt, since the rate of loans delinquent by 90 or more days was essentially flat in the first half of the year. In fact, severe delinquencies on credit card balances ticked down from 8.2% in Q1 to just 8% in Q2. At the time of writing, there is a one-year forbearance on penalties for missed student loan payments, which should give a little more runway to credit markets.



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

Total card spending data from Bank of America revealed that consumers took advantage of this runway. In July, spending per household was up a modest 0.1% y/y and a solid 0.7% m/m on a seasonally adjusted basis, driving overall retail sales up 0.7% m/m. Per the card spending data, gains were seen across both freight-intensive goods and service categories: Furniture (down 1.7% m/m) and lodging (down 1.5% m/m) were the only notable exceptions. According to Bank of America's analysis, the impact of student loan repayments on consumer spending is likely to be minimal, save for the impact on younger, lower-income household spending on discretionary items like clothing.



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

Finally, the July release of the Logistics Managers' Index (LMI) saw the headline index suffer contraction for the third consecutive month, also marking the third time in the LMI's history — which stretches back to September 2016 — that the index read below 50. The LMI lost 0.2 points m/m in July, falling to 45.4 and a new all-time low for the fifth consecutive month.

But the headline reading does conceal causes for optimism found in the component indexes, since the Inventory Levels Index fell 1 point m/m to 41.9 — its fastest rate of contraction in the survey's history. Such widespread destocking, which appears to be nearing its conclusion, will once again expose the industry to seasonality at heightened levels. It also marks shippers' confidence that they will be able to secure any needed capacity for just-in-time strategies. Yet, if shippers misjudge the amount of capacity available to them or the amount needed, it will create significant upward pressure on carrier rates.

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