JULY
2023

STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

Drilling depression

June 27, 2023 | 3 p.m.

Overview

The freight market continues to see growth in capacity, but it is entering at a slower pace than in previous years. The flatbed market remains one of the tightest markets by equipment type, but rates have slowly started to come down, just not at the same pace as dry van rates.

The macroeconomic environment remains an interesting phenomenon as the labor market remains relatively strong, but other conditions are becoming more difficult. Nonresidential construction spending continues to be a strength, growing on a monthly basis for the third consecutive month.

Recessionary fears are impacting domestic oil production, despite potential for undersupply in the back half of the year. Domestic oil production fell by 220,000 barrels per day in the month, which followed an upward revision to April's numbers.

West Texas Intermediate crude prices fell briefly below $68 per barrel, but oil and gas companies are facing cost headwinds. In a survey conducted by the Dallas Federal Reserve, respondents highlighted noticeably lower cash flows.

The railroads continue to see increases in plastics and petroleum product carloadings, slowly crawling out of the depressed levels experienced in 2022. While the rails have thought of intermodal as a growth arm, the plastics and petroleum product carloadings may actually be an area of opportunity if domestic oil production is able to recover.

Fleet counts (six-month change)

Total for-hire fleets	300,027 (+8.8%)
Total private fleets	158,865 (+1.2%)
For-hire oil field specialization	20,190 (+1.4%)
Private fleet oil field specialization	8,256 (-1%)

Tractor counts (six-month change)

Total for-hire tractors	1,810,000 (+2.3%)
Total private tractors	766,799 (+0.6%)
For-hire oil field specialization	326,544 (-1%)
Private fleet oil field specialization	53,747 (+1%)

Active daily rig count (y/y change)

Permian Basin	322 (+1.9%)
Gulf Coast Basin	84 (-28.2%)
Anadarko Basin	52 (-30.7%)
Total	**737 (-13.5%)**

Crude oil prices per barrel (y/y change)

WTI crude	$69.37 (-36.91%)
Brent crude	$74.06 (-28.23%)
Spread	**$-4.69 (-26.5%)**

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Flatbed safety is exacting but essential

Given the open nature of flatbed trailers, it is arguably more important for flatbed drivers to follow best safety practices than in any other mode. This importance is compounded by the fact that flatbed drivers are uniquely responsible for ensuring that their loads are properly secured and, if necessary, covered by tarps. Otherwise, cargo can shift or even fall in transit, causing damage not only to drivers and their equipment but also to fellow motorists.

Thus, drivers should first choose high-quality straps, chains and binders that are designed to withstand the weight and type of cargo being transported. When loading, drivers must be careful to confirm that cargo is distributed evenly across the deck to maintain stability and to prevent excessive stress on specific areas of the flatbed. If applicable, drivers should employ edge or corner protectors to protect both straps from sharp edges as well as sensitive cargo from damage caused by undistributed downward force.

Flatbeds also serve a vital role for the domestic oil and gas industry, one in which safety can be compromised by the (often) time-sensitive nature of such deliveries. As such, it is critical that the pre-trip inspection is fully carried out, not only to the vehicle and trailer but also to the rigging equipment used, checking for frays or other signs of excessive wear.

Finally, special attention should be paid to the surroundings when the flatbed is not in use, particularly when loading and unloading. Trucks should be parked on a surface that is as flat as possible, taking care that the truck is not only level from front to back but also untroubled by side grades. To be sure, steep grades need special attention when the truck is in motion, such that a heavy object does not suddenly shift forward into the cab or backward into any traffic. When dealing with hazardous materials, drivers should be aware of potential obstacles during loading and unloading that could impede an evacuation route.

Truck capacity outlook

The trucking capacity outlook is showing some signs of slowing growth during the back half of 2022, but capacity is increasing nonetheless. The back half of the year is traditionally a period when capacity tightens across various modes. But with all the added capacity throughout the year, the usual tightening was muted throughout the fourth quarter of 2022.

The interesting growth areas haven't necessarily been in carriers or tractors but in the number of trailers added over the past few years. When the market reacted to the COVID-19 pandemic, semiconductor shortages prevented new truck order backlogs from being worked through. This led to fleets investing elsewhere, namely in trailer counts, which was one of the first areas addressed when the increased rates were sustained throughout the back half of 2020 and early '21.

With rates rapidly falling, the growth in capacity will likely return to levels closer to 2019 until some of the capacity added over the past year is removed from the market.

Total Fleets, Tractors and Trailers				Percent Change since February 2022		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	498,170	2,780,000	4,298,588	5.75%	1.83%	14.34%
Feb-22	471,102	2,730,000	3,759,410			

Total For-Hire Fleets, Tractors and Trailers				Percent Change since February 2022		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	300,027	1,810,000	3,022,330	8.76%	2.26%	1.00%
Feb-22	275,856	1,770,000	2,992,449			

Total Private Fleets, Tractors and Trailers				Percent Change since February 2022		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	158,865	766,799	1,147,612	1.20%	0.63%	49.63%
Feb-22	156,979	761,967	766,961			

Source: Federal Motor Carrier Safety Administration monthly census data.

Since February 2022, the total number of fleets, which is filtered to those that report having at least one tractor and 20,000 or more annual miles per tractor on their MCS150 forms, has increased by 5.75%. Carriers only have to report the data once every two years, so the growth over the past two years is evident from the rise in July's above numbers compared to February's. The average fleet size (number of tractors divided by fleet count) declined from 5.8 to 5.5, which indicates that growth is stemming from smaller carriers entering the market.

Growth in carrier and tractor counts is emerging from for-hire carriers, which is expected as the number of owner-operators has increased dramatically over the past two years. Overall, the number of carriers has jumped by 8.8% since February, but the number of tractors has increased by only 2.3%. This signals that owner-operators are the largest group to experience growth between February and July 2022.

While the for-hire side of the trucking industry is experiencing gains in carriers and tractors, private fleets are where most of the growth in trailer counts is originating. Between February and July 2022, private fleet trailer counts increased by 49%. Again, it is important to note that carriers only have to report this number once every two years, so it really shows the growth over the past two years.

The for-hire market may see some consolidation — and bankruptcies — over the next six to 12 months, but it may not actually show up in the data, with carriers only having to report once every two years and new carriers always entering the market. As the freight market softens, the difference is that drivers will return to the umbrella of large enterprise carriers and thus may actually be double counted at some point in the future.

Total Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	28,446	380,291	1,074,897	0.7%	-0.5%	0.9%
6 months ago	28,260	382,131	1,065,222			
Total For-Hire Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				**6 month % Change**		
Time Period	**Carriers**	**Tractors**	**Trailers**	**% Carriers**	**% Tractors**	**% Trailers**
Feb-22	20,190	326,544	923,705	1.4%	-0.7%	1.2%
6 months ago	19,906	328,902	912,408			
Total Private Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				**6 month % Change**		
Time Period	**Carriers**	**Tractors**	**Trailers**	**% Carriers**	**% Tractors**	**% Trailers**
Feb-22	8,256	53,747	151,192	-1.2%	1.0%	-1.1%
6 months ago	8,354	53,229	152,814			

Source: FMCSA monthly census data.

The capacity landscape for carriers with oil and gas exposure was relatively unchanged from six months ago as their numbers have increased across the board. The largest rise is in the for-hire market, where the number of carriers has risen by 1.4%.

Even with additional carriers in the market, the number of available tractors has declined by nearly 1%, indicating a couple of things: Smaller carriers are entering the market and larger carriers with exposure to oil and gas are thinning out their fleets.

While the number of tractors has declined in the past six months, for-hire carriers have added trailer capacity to their fleets, increasing the number of available trailers by 1.2% in the six-month span.

Private fleets haven't experienced the same fate, as there were 98 fewer private carriers operating in the oil and gas space over the past six months. Those continuing to operate have added to their fleets, however, as the number of available tractors has increased by 1%.

Trends that have hampered the growth of fleets over the past two years have gone away. The used truck market is facing a massive correction as the used truck price bubble finally bursts. Both ACT Research and J.D. Power expect an increase in used trucks to hit the market in the coming month as the number of new deliveries in December hit a record high.

Total Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	993	15,858	11,629

Total For-Hire Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	549	3,651	5,262

Total Private Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California

Time Period	Carriers	Tractors	Trailers
Jul-22	395	11,799	5,967

Source: FMCSA monthly census data.

Nearly 1,000 carriers based in California were operating in oil field services or liquid/gas specialization as of last July. The vast majority, as in both the overall trucking industry and the oil and gas industry, were for-hire carriers. More than 55% of the fleets in California that operate in the space are for-hire carriers, whereas private fleets make up just under 40% of carriers.

Private fleets do make up the vast majority of tractors in California. Of the 15,858 total tractors that operate in the oil and gas industry, 11,799 are from private fleets, which is roughly 75%. For-hire fleets have an average of 6.65 tractors, compared to private fleets with nearly 300 tractors in operation.

The difference in trailers is more equal as for-hire fleets have 45% of the trailers in California. But it is important to note that this data only includes owned trailers and not those that carriers have leased.

Ultimately, the capacity outlook appears quite different than it did at the beginning of 2022. The extreme growth over the past two years has passed its peak and is slowly starting to correct itself. However, only having to report counts to the Federal Motor Carrier Safety Administration once every two years may cause the data to not show the capacity exiting the market as quickly as it actually does.

National economic outlook

Signals from the broader economy are pointing toward a bearish outlook for the remainder of the year, though investor sentiment largely continues to be bullish. The labor market does continue to

show signs of unshakable health, but credit markets appear to be on the verge of a crisis. As such, any forecast for the consumer must necessarily be mixed.

The Consumer Price Index (CPI), a widely used measure of inflation, showed that — while the rate of inflation still remains far above the Federal Reserve's 2% target — demand-side price pressures eased significantly in May. The headline index rose 4% on a year-over-year (y/y) basis, both the lowest such increase since March 2021 and less than half of June 2022's peak growth of 9.1% y/y. According to a forecast by Credit Suisse chief strategist Jonathan Golub, June's headline CPI is expected to print at 3.2% y/y growth, which would "represent one of the greatest drops experienced in a 2-month period over the past 70 years."

Energy prices, which were the primary culprit behind inflation's rise in February 2022, have continued to be the main source of relief for consumers as they have declined substantially over the past several months. In May, total energy prices fell 3.6% on a month-over-month (m/m) basis — the largest monthly decline over the past six months. Energy prices were also down 11.7% y/y. May's decline was greatly driven by a 7.7% m/m drop in prices of fuel oil, which was down a substantial 37% y/y. Motor fuel prices also fell in May, tumbling 5.6% m/m and 20% y/y. Gasoline in particular is down 5.6% m/m and a comparable 19.7% y/y. Yet, according to AAA data, gasoline and diesel prices set all-time highs in mid-June of last year and — given that the summer travel season has already commenced — it is likely that motor fuel prices will rise in June's report.

After stalling in March and April, food prices in May once again rose 0.2% on a m/m basis. In contrast to the beginning of the current inflationary cycle, food-at-home prices are increasing more slowly than those for food away from home, posting respective growth of 0.1% m/m and 0.5% m/m. Part of the slowdown in grocery prices can be attributed to an uptick in consumer preference for private-label offerings: According to data from the Private Label Manufacturers Association, the dollar spend on private-label brands jumped 10.3% over the first quarter of 2023, whereas national brands grew by only 5.6%. Despite this shift, food-at-home prices are still up 5.8% y/y compared to 8.3% y/y growth in food away from home.

Core inflation, or the CPI excluding typically volatile food and energy prices, remains stickier than the headline index thanks to an earlier surge in housing-rental prices. Although rental prices have cooled since last year's peak, this downtick will only factor into inflation data after a lag, due to the average length of rental lease agreements. Core inflation is up 0.4% m/m and 5.3% y/y.

Continuing April's reversal of two consecutive monthly declines, retail sales rose again in May, signaling that consumers are continuing to spend despite the effects of inflation. Retail sales rose 0.3% m/m — contrary to consensus expectations of a 0.2% m/m decline — and 1.6% y/y in May. Removing the automotive sector (motor vehicles and parts as well as gasoline stations), spending is holding up even better as sales rose 0.4% m/m and 3.9% y/y.

At its June meeting, the Federal Reserve initiated a pause in its current tightening cycle in order to "assess additional information and its implications for monetary policy." Yet, with a target range of 5% to 5.25%, the currently high federal funds rate makes for tighter lending conditions and higher costs of servicing debt. Despite these obstacles, consumers continue to accrue more debt, with total outstanding revolving credit rising 13.1% y/y in the most recent release. Higher interest rates coupled

with higher balances could be a major headwind to spending in the coming months as the effects of higher interest rates materialize further.

Labor market

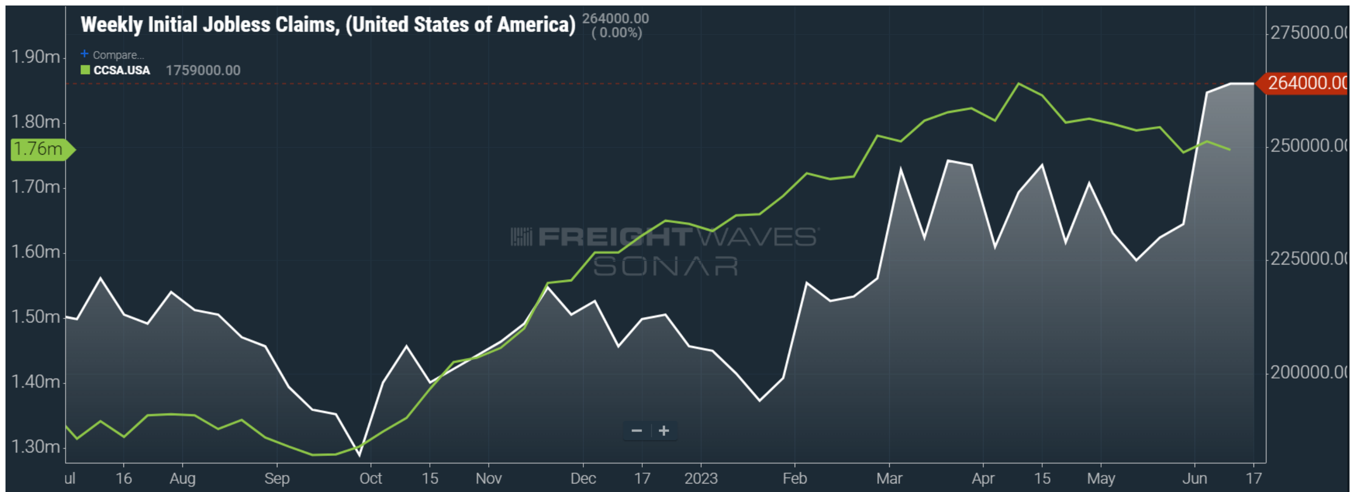


Chart: FreightWaves SONAR. Weekly initial jobless claims (white, right axis) and continuing claims (green, left axis).

Layoffs continue to pop up around the country, and some of the impacts of the large number of layoffs that occurred earlier in the year are starting to show up in initial jobless claims. Initial jobless claims remained above the 200,000 mark in the most recent release, coming in at 264,000. Over the past year, initial jobless claims have increased by 48,000. As severance packages expire and it is still difficult to secure employment in the current labor market, despite high levels of job openings, initial jobless claims were going to increase. It was just a matter of time, especially as some of the largest employers in the country made sizable cuts earlier in the year. Continuing claims remain elevated as well, coming in at 1,759,000 in the most recent release, nearly 420,000 higher than the same time last year.

The job openings report reversed March's decline, signaling continued tightness in the labor market. Openings rose by 358,000 to 10,103,000 in April. Yet there were more than 1.6 million fewer job openings than in April of last year, showing some slight correction. While layoffs have largely stemmed from white-collar jobs, including those in Silicon Valley, job openings in the leisure and hospitality industries have continued to rise, indicating that labor market supply and demand are disconnected, thus inflated opening levels.

Following a month in which the number of job openings declined, the construction sector experienced an increase in openings in March. Total construction job openings rose by 68,000 in April to 383,000, erasing all of March's decline and then some.

Openings in the trade, transportation and utilities sector — which includes oil and gas as well as transportation — rebounded significantly from March's decline. Openings were up 329,000 in April, bringing the total number of openings in the sector to 1,765,000, 197,000 fewer than in the same period last year.

The quit rate, which is the number of resignations during the month as a percentage of total unemployment, continues to slide, declining by 0.1 percentage point to 2.4%, less than it was in January. The quit rate for the trade, transportation and utilities sector rose to 3.1%, up 0.1% m/m but down 0.4% y/y. The quit rate for the construction sector increased even more in April, up 0.3% m/m to 2.1%.

The jobs report continued to exceed analysts' expectations. Total nonfarm payrolls increased by 339,000 in May, wildly outperforming against consensus growth estimates of 195,000 and up from April's upwardly revised growth of 294,000 jobs. Nonfarm payrolls were 2.6% higher y/y in May.

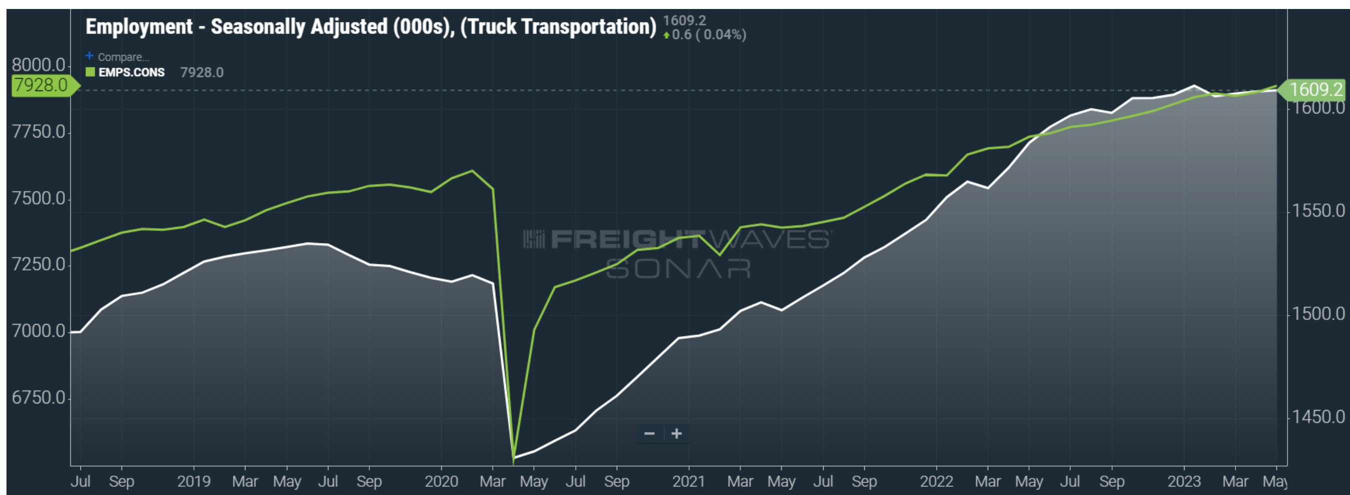


Chart: FreightWaves SONAR. Truck transportation payrolls (white, right axis) and construction payrolls (green, left axis).

The transportation segment returned to top form in May. In April, this segment gained 1,800 positions, a figure revised heavily downward from a gain of 10,600. In May, the segment saw explosive growth of 24,200 jobs. The truck transportation subsector, which saw only a modest gain of 600 positions, was largely on the sidelines in May.

The oil and gas sector continues to add payrolls at a relatively slow pace, adding 600 workers to payrolls in May after adding 700 in April. The oil and gas sector has lost 1,400 workers to payrolls over the past year.

The construction industry recovered further in May as construction season ramps up to its full swing, adding 25,000 jobs in the month. This increase compounds April's downwardly revised gain of 13,000 positions. Overall construction payrolls have added 192,000 jobs in the past year.

Housing and construction

As mentioned previously, the Federal Open Market Committee (FOMC) initiated a pause in the current rate tightening cycle at its June meeting. The FOMC has left the door open for future increases in the remainder of 2023, however, as most officials anticipate another two rate hikes before the year's conclusion.

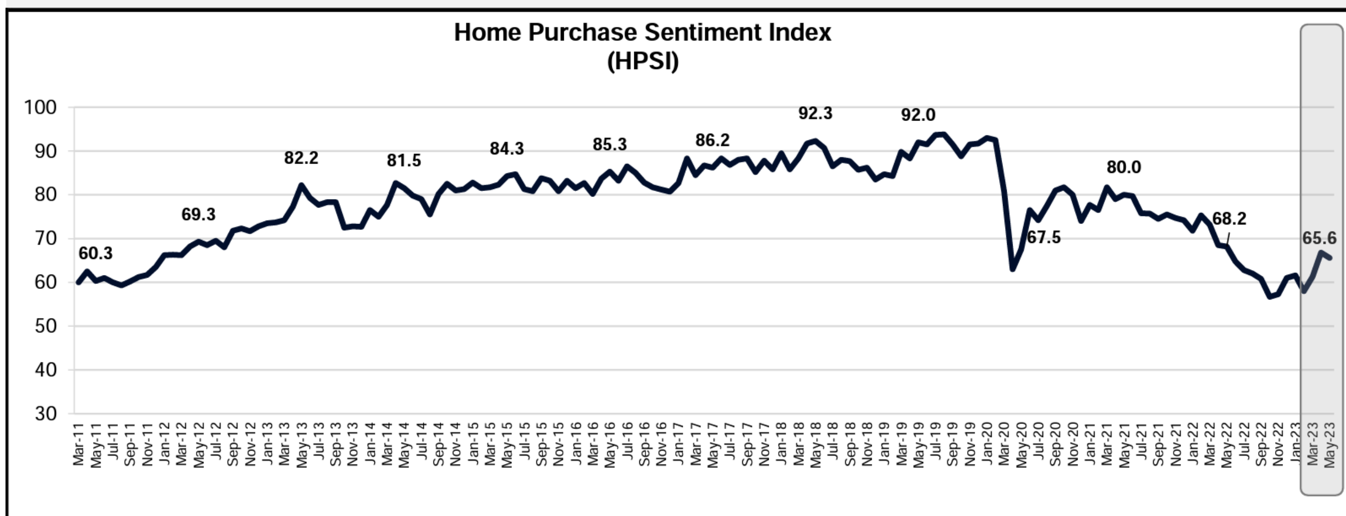
The tight lending environment has caused mortgage demand to stagnate in recent weeks as mortgage rates have rebounded. According to the Mortgage Bankers Association, the market composite index — a measure of mortgage loan application volume — rose only 0.2% in the most recent week, the week ending June 16.

The result of higher interest rates is elevated mortgage rates that are sticky. Per Freddie Mac, 30-year fixed-rate mortgages averaged 6.67% in the week ending June 22, 86 bps higher than this time last year.

The Home Purchase Sentiment Index (HPSI), produced by Fannie Mae, fell 1.2 points m/m to 65.6 in May. A combination of high mortgage rates and elevated home prices has soured the HPSI near the end of the spring homebuying season.

The Home Purchase Sentiment Index

The HPSI decreased by 1.2 points to 65.6 in May.



Source: Fannie Mae Home Purchase Sentiment Index.

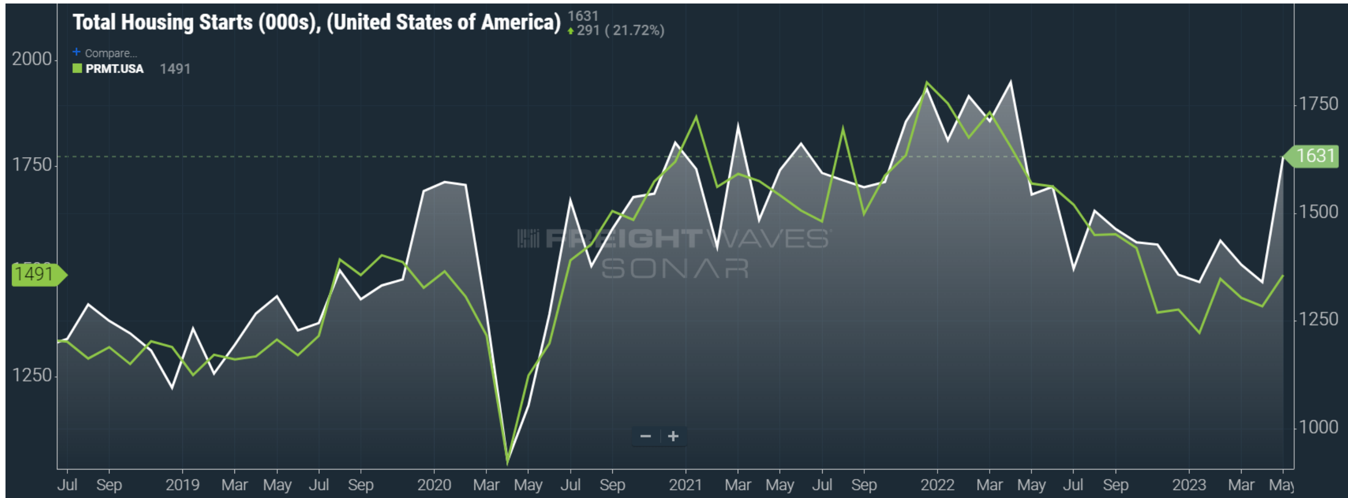
As mortgage rates have continued to increase over the past few weeks, consumer sentiment about the direction of mortgage rates has declined since April. A meager 19% of respondents expect mortgage rates to decline over the next 12 months, compared to the 50% that expect them to rise.

Concerns for job loss continue to rise as 22% of respondents are now concerned about losing their jobs over the next 12 months, up from 12% in May 2022.

Housing starts roared in May, with positives showing up in single-family and multifamily (i.e., rental) units alike. Overall housing starts in May jumped by 291,000 over April — the largest m/m increase of actual units in the series' history. Translated to a 21.7% m/m jump in housing starts, May's reading is the biggest m/m percentage hike since October 2016. Housing starts are now up 5.7% from year-ago levels, indicating the large imbalance between buyers' demand and supply of available homes.

Single-family housing starts in May saw a m/m increase of 156,000, or 18.5%, to 997,000. This latest reading marks the highest level of beginning home construction since June of last year, when headline inflation was at its peak. Nevertheless, single-family housing starts are down 6.6% y/y.

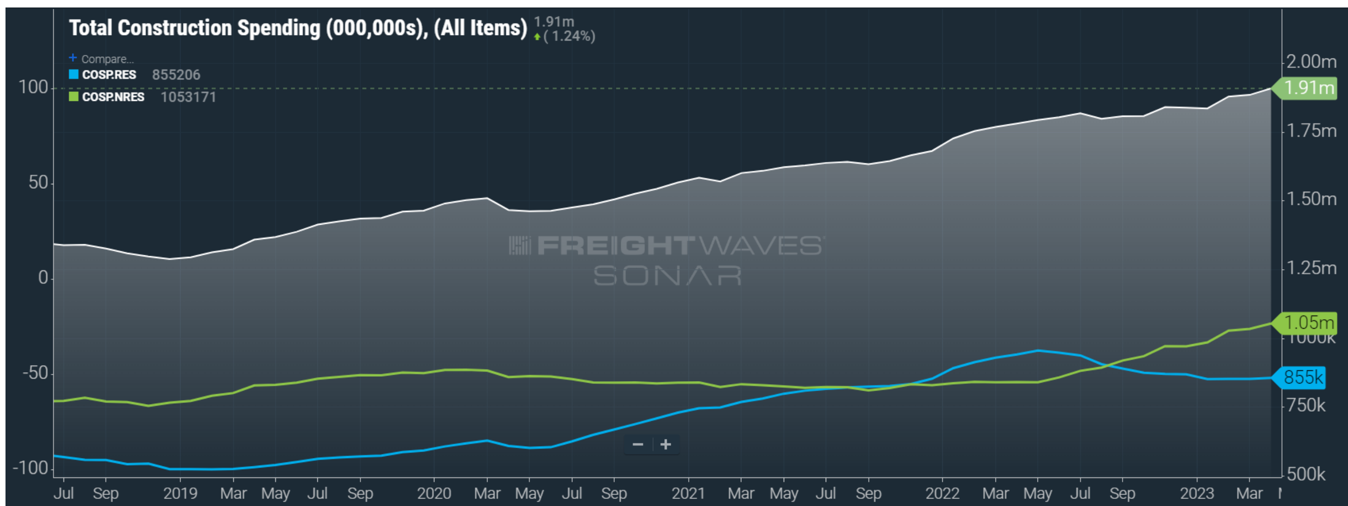
Multifamily housing starts had an even better month, increasing by 28.1% m/m to 487,000. Multifamily housing starts were a staggering 39.6% higher y/y in May, which risks a string of overbuilding rental units.



Source: FreightWaves SONAR. Total U.S. housing starts (white) and total new build permits (green).

Sales of existing homes reversed course somewhat with a slight rise, but the housing market remains challenged overall. According to the National Association of Realtors, existing home sales ticked up 0.2% m/m, failing to undo April's decline of 3.4% m/m. While all four regions saw y/y declines, existing home sales rose 1.5% m/m in the South and 2.6% m/m in the West.

The average price for an existing home continued to rise in May, increasing $7,300 over April to $396,100. Existing home sale prices are still lower than this time last year, however, down 3.1% y/y.



Source: FreightWaves SONAR. Total construction spending (white), nonresidential construction spending (green) and residential construction spending (blue).

Total construction spending rose quite significantly in April, helped by strong investments in nonresidential spending. The seasonally adjusted annual rate for total construction spending in April totaled $1.91 trillion, increasing 1.2% m/m even as March's data saw a hefty upward revision from $1.83 trillion to $1.88 trillion. Total construction spending is also up 7.2% y/y.

Any weakness in construction spending during April was mainly found in the residential side, which nevertheless saw a 0.4% m/m after seven consecutive monthly declines. Residential construction spending totaled $855.2 billion, down 9.1% y/y. Spending toward nonresidential construction grew 1.9% m/m in April to $1.05 trillion, up 25.3% y/y.

Oil market

Oil markets are increasingly divided by two, wholly separate perspectives. Bulls argue that, following Saudi Arabia's surprise production cut of 1 million barrels per day (bpd) at OPEC+'s meeting in early June, oil demand is primed to outstrip supply in the back half of 2023. In fact, both Wall Street investors and analysts from the International Energy Agency are largely in agreement that a rebounding Chinese economy will drive oil prices dramatically higher as the year progresses.

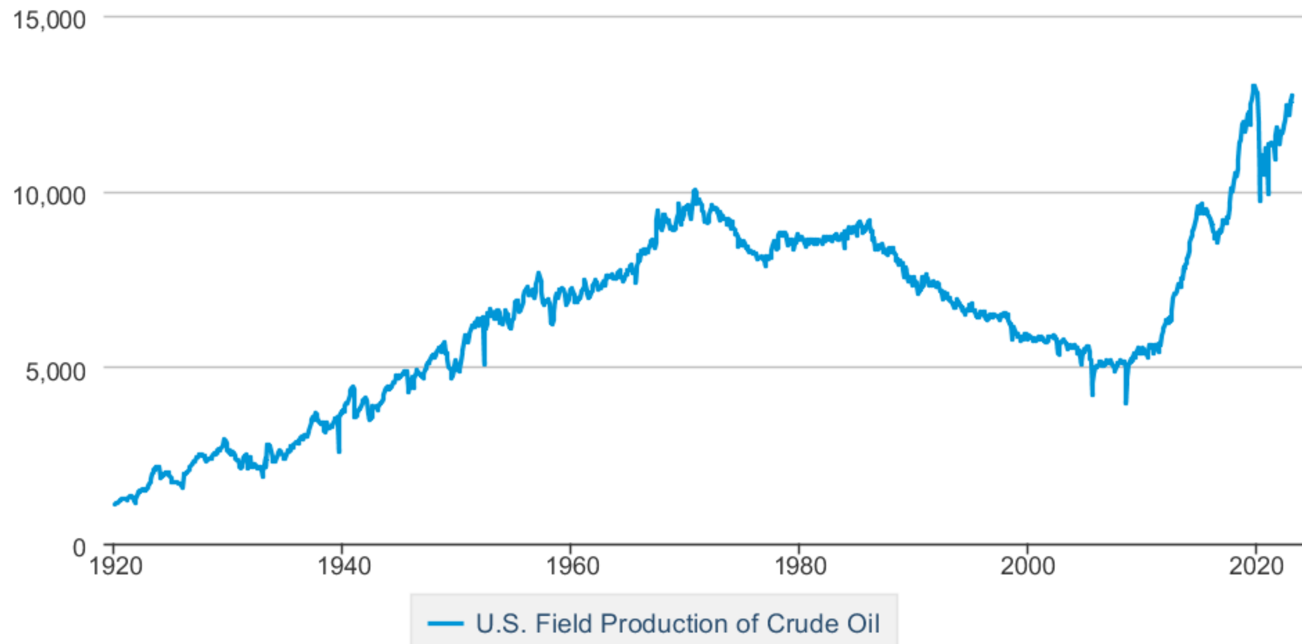
Yet not only does Wall Street lack any desire to invest in domestic production — after learning the painful lessons from the previous oil boom, no doubt — but oil prices themselves have not seen any significant and sustainable rally in recent memory.

The prevailing bearish sentiment counters by deflating any expectations for a resurgence in Chinese oil demand. To be sure, this readjustment is seemingly supported by reports from China itself, which note the frustrating lack of consumer appetite for its manufactured goods. Bears also note the decoupling of gross domestic product from oil demand, especially as work-from-home trends continue to negatively impact demand for gasoline.

Finally, and somewhat surprisingly, bears argue that oil demand and supply seem to be in balance. Fears of domestic production dropping off due to a lack of investment, they claim, are largely overblown because they ignore the growing efficiency of capital use. International supermajors are, for the same price, able to produce nearly double the output than they were in 2019. Oil-producing countries other than the U.S., from Australia to Venezuela, are showing healthy trends in output that should be sufficient to meet demand.

Despite the bears' optimism, gross domestic oil production fell 220,000 bpd m/m in May. This decline compounds April's already-significant drop of 70,000 bpd m/m, albeit one that only occurred after April production figures were heavily revised from 12.42 million bpd up to 12.64 million.

In the April print of its Short-Term Energy Outlook, the U.S. Energy Information Administration (EIA) forecast that domestic crude oil production would regain some momentum in May with a rise of 160,000 bpd m/m. Not only did this gain fail to materialize, production in May was 160,000 bpd lower than the EIA's forecast of 12.58 million.



May's losses are a significant blow to the sector, widening the gap between current levels of production and their pre-pandemic highs. In November 2019, gross domestic crude oil production was at a record average of 13 million bpd. According to this month's forecast, the EIA does not expect production to exceed those levels until November 2024. The EIA does, however, expect the full years of 2023 and '24 alike to outpace 2019's average of 12.32 million bpd. In June, the EIA projects that crude oil production will recoup all of May's losses, rising 220,000 bpd m/m to 12.58 million.

The Baker Hughes active rig count is thought to signal future demand for drilling as well as inputs into the oil industry. The Baker Hughes active rig count for the U.S. as a whole totaled 682 rotary rigs as of June 23. This latest count marks a brutal decline of 9.4% y/y, continuing a series of y/y losses not seen since April 2021.

Breaking that down into basins, Enverus, a leading SaaS company focused on the energy market, releases daily active rig counts.

Basin	Daily Active Rig Count	1-mo. Change	M/M Percent Change	1-yr. Change	Y/Y Percent Change
Anadarko Basin	52	-6	-10.3%	-23	-30.7%
Appalachia	44	-8	-15.4%	-11	-20%
DJ Basin	15	-1	-6.2%	-4	-21.1%
Gulf Coast Basin	84	4	5%	-33	-28.2%
Permian Basin	322	-2	-0.6%	6	1.9%
Williston Basin	35	0	0%	-8	-18.6%
San Joaquin Basin	2	0	0%	-5	-71.4%
Other	183	10	5.8%	-37	-16.8%
Total	**737**	**-3**	**-0.4%**	**-115**	**-13.5%**

Source: Enverus daily active rig count as of June 25.

The quarterly energy survey conducted by the Federal Reserve Bank of Dallas reflected the prevailing negativity in the oil and gas sector. The survey's business activity index, which is a broad measure of conditions facing energy firms in the region, fell to zero in 2023's second quarter from 2.1 in Q1. The business activity index also fell from 27.7 in Q2 2022 to 17.2 in 2023.

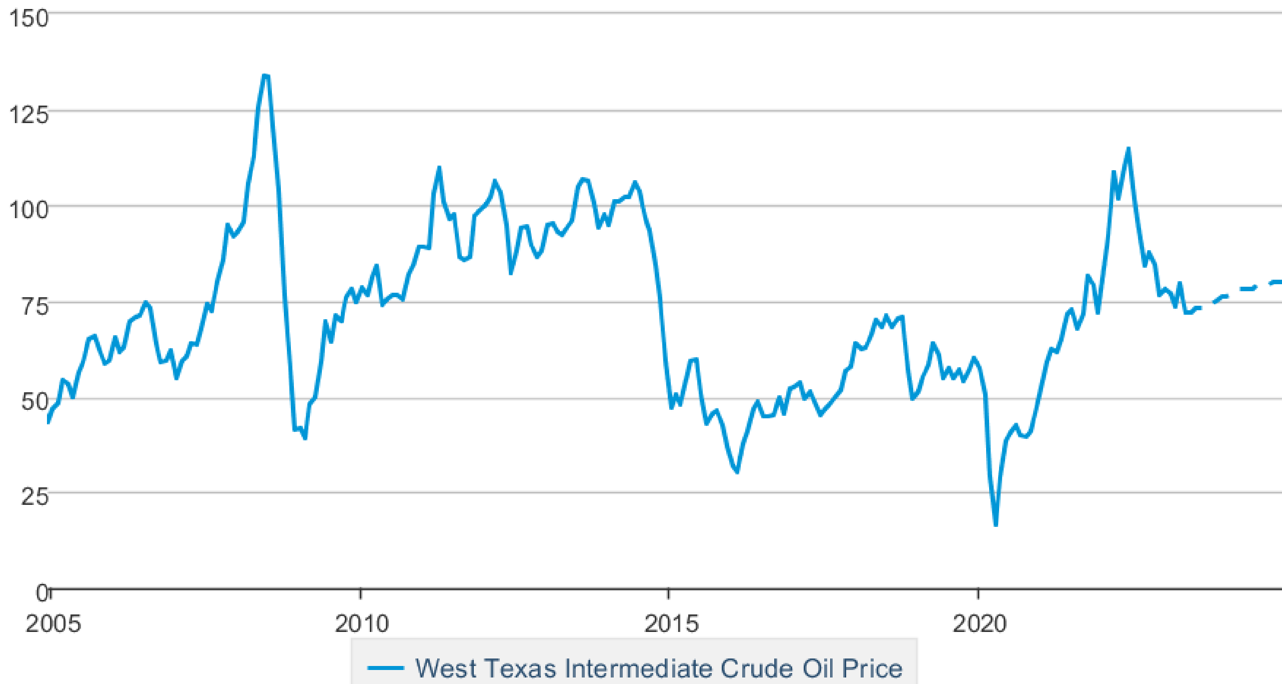
Yet conditions were slightly better for exploration and production (E&P) firms, as their level of business activity was indexed at 1 in Q2, up 3.1 points from minus 2.1 in the previous quarter. E&P firms did, however, note a decline in their output, since their oil production index fell 2.5 points to 8 from Q1's 10.5. Capital expenditures among E&P firms were also reduced, with its index dropping 5.3 points from 7.4 in Q1 to 2.1 in Q2. While the general outlook of E&P firms did improve from minus 18.9 in the prior quarter, their company outlook index still remained in the red at minus 8.4.

Crude prices drop below $68 a barrel in early June before settling near $70

As mentioned previously, the fact that oil prices have continued to decline even after Saudi Arabia removed 1 million bpd from global markets is a clear indication of bearish recessionary fears. The fundamentals of supply and demand — especially if the summer travel season is as explosive with pent-up demand as is forecast — have little to no bearing on prices at present. The aforementioned Baker Hughes rig count has been declining for seven consecutive weeks and is at its lowest since April of last year. In the words of one anonymous commenter in the Dallas Fed Energy Survey: "Oil prices seem to be trading like a financial instrument terrified of this pending recession instead of paying attention to supply-and-demand fundamentals, which are pointing to pretty strong draws headed our way."

Accordingly, prices of West Texas Intermediate crude (WTI) — a domestic benchmark — are down 7% from late-May's peak of $74.34 a barrel. It is worth stressing that this peak occurred prior to Saudi Arabia's June 4 announcement of its production cut, which saw WTI rise to $72.53 a barrel before falling seven days later to $67.12 a barrel. A majority of respondents to the Dallas Fed Energy Survey expect WTI to trade between $80 and $85 a barrel by the end of 2023.

According to EIA projections, WTI crude prices will rise slowly throughout 2023 and 2024, though some analysts remain slightly more bullish.



Data source: U.S. Energy Information Administration

The EIA's latest Short-Term Energy Outlook, published in early June, retained its previous bearishness on WTI prices from May's report. In early May, the EIA had forecast that the spread between WTI and Brent spot prices would average $5/bbl during 2023, an outlook it reaffirmed in June. The EIA also anticipates this $5/bbl spread throughout 2024, citing its expectation for crude inventories to rise in the back half of 2023 as well as concerns about the weakening global economy to support its low estimate of Brent spot prices. Nevertheless, the EIA still believes that global oil consumption will outpace supply in 2023.

Nearly all analysts agree that bearish sentiment will continue to outweigh any imbalance in the fundamentals of supply and demand, though some investment firms believe that WTI will conclude 2023 on a higher note than the EIA forecasts. Goldman Sachs, despite recently slashing its December WTI price forecast from $89 per barrel, expects WTI to finish the year at $81 per barrel — above the EIA's December forecast of $76 a barrel. In some respects, Saudi Arabia's efforts to boost oil prices are being undone by one of its fellow OPEC+ members: Russia, with an economy suffering from ongoing Western sanctions, is desperate to trade oil with China, India and any other buyer it can find.

Plastics see sharp growth on the rails

A new rail safety bill, drafted in response to the February derailment of a train in East Palestine, Ohio, is headed to the Senate floor. The legislation, named the Railway Safety Act of 2023, was assembled prior to the conclusion of the National Transportation Safety Board's ongoing investigation into the East Palestine derailment and proposes a number of changes to the rail industry. Chief among these are restrictions on train length and weight, a mandate that all freight trains operate with a two-person crew and an increase in rail car safety inspections.

Support for this bill could be galvanized by another derailment of a train carrying hazardous materials. On June 24, eight rail cars operated by Montana Rail Link (MRL) derailed, triggering a bridge collapse and causing the tankers to leak petroleum products — namely, asphalt and molten sulfur — into the Yellowstone River. MRL is a Class II regional railroad that operates over 900 route miles of track in Montana and Idaho. In March, the Surface Transportation Board approved a petition for BNSF Railway, which has held a long-standing lease agreement with MRL, to terminate this agreement and for BNSF to take over MRL's operations.

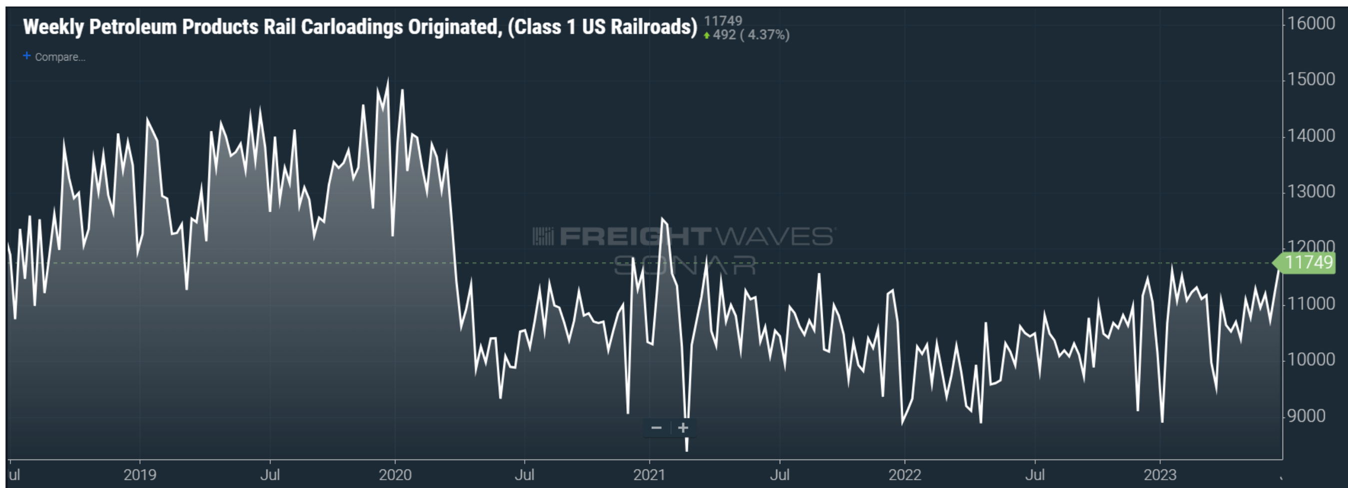


Chart: FreightWaves SONAR — Weekly Petroleum Products Rail Carloadings Originated, all Class I U.S. railroads.

Despite this bad publicity, the number of carloads for petroleum products — which is used as a proxy for the volume of rail intermodal plastics — recently grew to its highest level since March 2021. Across all Class I railroads, this number has grown 7.3% m/m and 11.9% y/y. While the U.S. plastics industry has been in a trade deficit for the past few years, a several-year span prior saw a robust trade surplus, with Canada and Mexico being the industry's largest importers. The potential for growth with these two partners can be realized on the rail network that spans all three countries.

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