JULY
2023

STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

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June 23, 2023 | 9 a.m. EDT

Overview

The truckload market is still suffering from numerous headwinds, including a lackluster produce season, instability in credit markets and continually high interest rates. That said, spot rates have rebounded from what appears to be this cycle's floor and are now stabilizing. Contract rates, however, continue along their stepwise decline.

The intermodal market awaits its upcoming bid season, although there is little to which carriers can look forward. Demand continues to be subdued, but rail service has seen some incremental improvements.

The ocean market was rocked after May saw unseasonal declines in both containerized and non-containerized imports as well as future bookings, indicating a significant potential for weakness in the back half of 2023. East Coast ports continue to gain ground over their West Coast counterparts, since the latter has been shaken by labor disruptions and uncertainty.

The macroeconomic environment remains a challenge for consumers and manufacturers alike. Manufacturers, according to the three regional Federal Reserve surveys, believe that future conditions will improve little over their current, deteriorated circumstances.

The consumer, meanwhile, continues to face difficult credit conditions as lending becomes tighter and the costs of servicing debt rises.

The impacts of student loan debt repayments resuming looms large on the freight market as resumption begins in October. The average student loan payment is nearly $400 and, after nearly three years of deferment, could have an outsized impact on consumers' discretionary spending.

Macro indicators	(y/y change)
Industrial prod. m/m change	-0.2% (+0.2%)
Total retail sales m/m change	+0.3% (+1.6%)
May U.S. Class 8 orders	12,278 (+7.1%)
May U.S. trailer orders	16,800 (-61%)

Truckload indicators	(y/y change)
Tender rejection rate	3.62% (-409 bps)
Average dry van spot rate[1]	$2.22/mi (-22.4%)
LAX to DAL spot rate[2]	$2.06/mi (-21.1%)
CHI to ATL spot rate	$2.17/mi (-22.2%)

Tender volumes	(y/y change)
Atlanta	428.46 (-14.54%)
Dallas	368.10 (-8.73%)
Los Angeles	253.27 (-16.48%)
Chicago	199.10 (-9.15%)

Tender rejections	(y/y change)
Atlanta	3.25% (-668 bps)
Dallas	5.96% (-37 bps)
Los Angeles	3.97% (-75 bps)
Chicago	2.47% (-404 bps)

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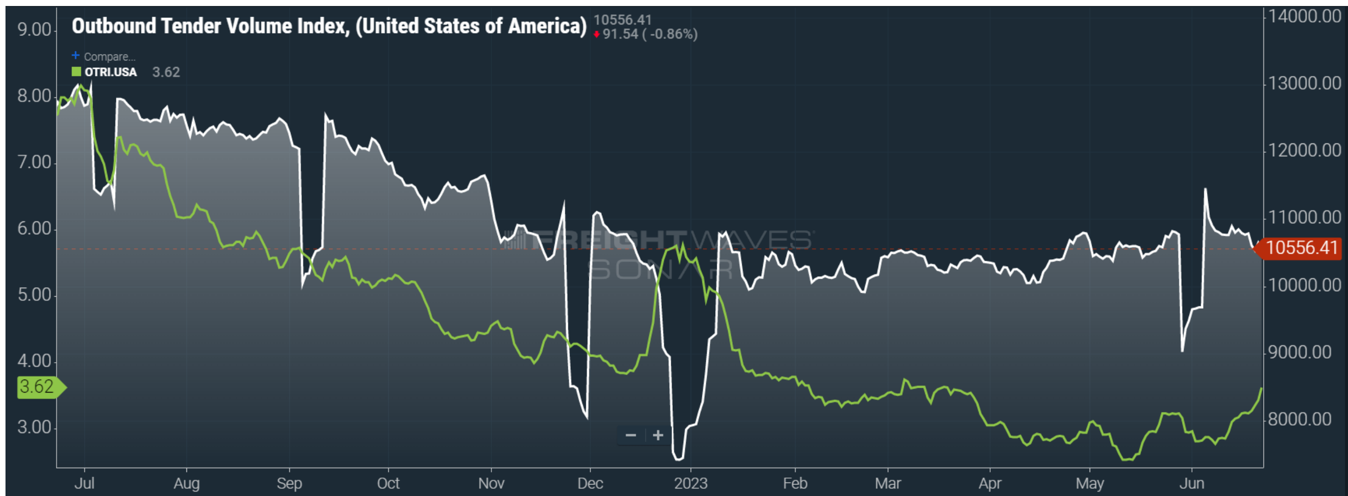
[1] FreightWaves National Truckload Index
[2] FreightWaves TRAC spot rate

Truckload markets

Unwelcome comparisons between the current freight market and that of 2019, the year of the trucking industry's last recession, are growing in number. Produce season, which had been adversely impacted by late-winter storms in California, is looking to be a damp squib this year. Consumer confidence continued along an extended decline in May, weighed down by a very pessimistic six-month outlook. Manufacturers are similarly pessimistic in expectations of customer demand failing to improve significantly in the coming six months.



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

In June 2022, when market deterioration was still sending ripples throughout the industry, freight demand was steady in the stretch between Memorial Day and Independence Day. This same trend held true even in 2019. Yet, in 2023, freight demand peaked to a year-to-date high immediately following Memorial Day and has been tumbling ever since. The Outbound Tender Volume Index (OTVI), which measures national freight demand by shippers' requests for capacity, is now showing a novel decline in its five-year data set. At present, OTVI is down 17.2% on a year-over-year (y/y) basis.

With the advent of July, produce season is nearing its conclusion. Texas and Florida both had respectable but somewhat disappointing outputs in 2023. Texas' Reefer Outbound Tender Volume Index (ROTVI) did outpace year-ago levels during much of May and June, yet it trailed in April and, more substantially, in March. Florida, meanwhile, saw its ROTVI perform very much in line with levels set in 2019, 2020 and 2022, though it unsurprisingly failed to meet the renegade success of 2021.

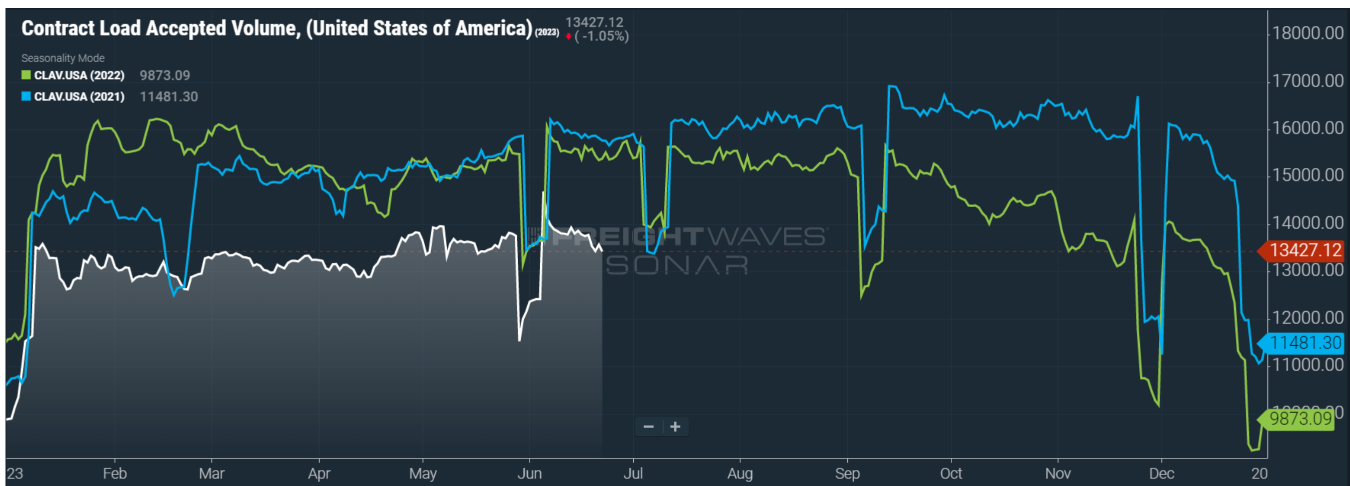
California, on the other hand, vastly underperformed against the past three years. Given the incredible flooding that swept the state during the winter, and that California law prohibits harvesting flooded farmland for fear of bacterial contaminants, such a weak performance was to be expected. California's ROTVI was roughly in line with that of 2019, though its actual flow of freight was notably lower, as reefer rejections in 2019 were nearly triple those of 2023.

Turning to the Atlantic, hurricane season is shaping up to be milder than in previous years. The National Oceanic and Atmospheric Administration (NOAA) forecasts that the influence of El Niño —

which suppresses activity in the Atlantic basin by introducing high vertical wind shears that disperse would-be hurricanes — has a 40% chance of causing a "near-normal season." NOAA also has 70% confidence in this prediction. But counteracting this influence is the presence of warm sea surface temperatures, which are conducive to hurricane formation. Should El Niño fail to strengthen by the fall, it is likely that this season will be more active than usual, but not quite as active as the past three years.

As intimated previously, the four-week window between Memorial Day and the Fourth of July is historically host to a healthy amount of freight volume. Elevated consumer activity in the summer shopping season means that retailers can clear their inventory and restock for the important back-to-school season in mid-to-late August.

But consumer spending during the summer is normally focused on bulky durable goods, such as patio furniture, lawn equipment and outdoor grills. These goods have increasingly become affordable only through credit plans, especially the six-month "buy now, pay later" (BNPL) plan that has risen in prominence. Yet consumer credit is already in a precarious position, even before factoring in October's planned resumption of student loan repayments. As a result, several BNPL firms — which have made their payment plans broadly available in order to grow market share — are now tightening their credit standards, fearing a potential wave of defaults. It is thus little surprise, then, that OTVI is down 1.6% on a month-over-month (m/m) basis.

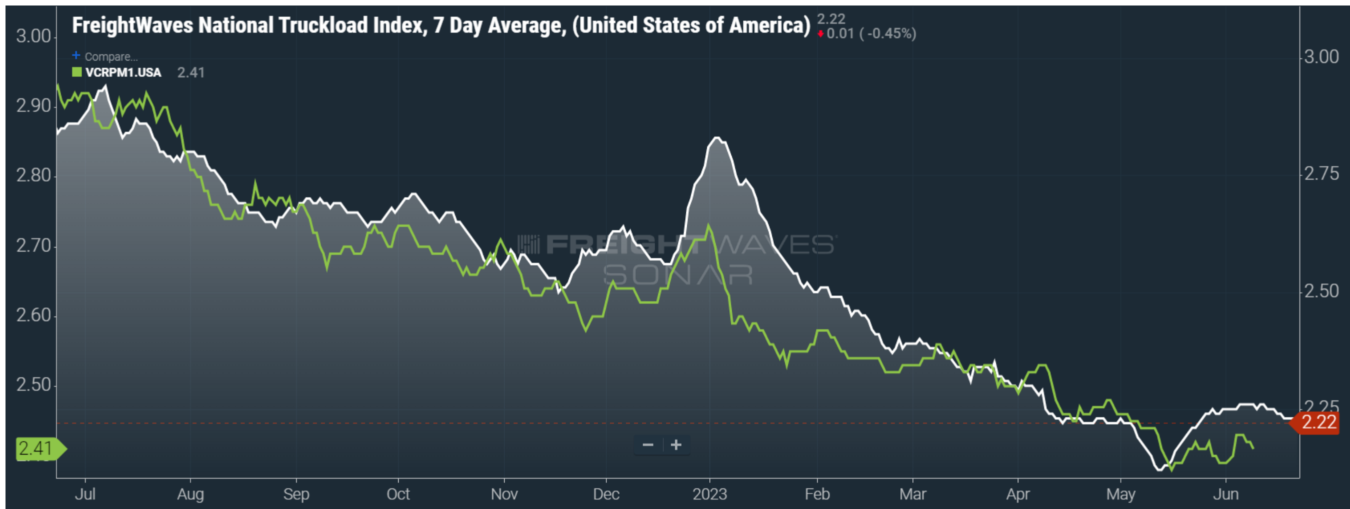


Source: FreightWaves SONAR. Contract Load Accepted Volume: 2023 (white), 2022 (green) and 2021 (blue).

Even though OTVI began to underperform on a y/y basis early in 2022, the truckload market was propped up by falling tender rejections until last May. 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 13.5% y/y. This data suggests that actual cracks in freight demand — and not merely declining tender rejection rates — are driving OTVI to lower levels.

Spot rates bounce back

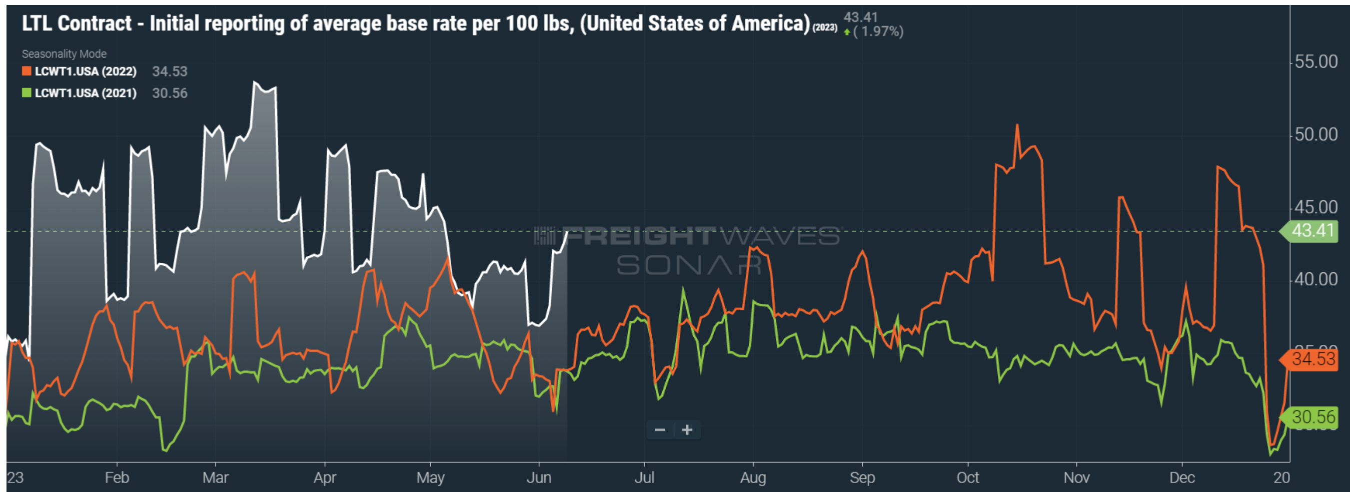


Source: FreightWaves SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

Despite the foreboding surrounding present and near-future freight demand, there is cause for celebration of spot rates. At their recent low in mid-May, spot rates had nearly fallen to 2019 levels — even before accounting for the 19% inflation rate between then and now, nor for the rising cost of diesel fuel, carrier insurance and maintenance on aging fleets. Yet spot rates, capitalizing on upward momentum triggered by capacity going offline during mid-May's International Roadcheck and Memorial Day weekend, are finally stabilizing. The National Truckload Index (NTI) — a fuel-inclusive, seven-day moving average of national dry van spot rates — is nevertheless down 22.4% y/y at $2.22 per mile.

Contract rates — which are exclusive of fuel and other accessorials — did see some degree of correction. But such correction is not undue, given that June 2022 saw contract rates peak at an all-time high of $2.98 per mile. As the 12-month contracts set at this peak expired, it is only natural that shippers would drive contract rates lower to rein in transportation costs. At the time of writing, contract rates are down 18% y/y at $2.41 per mile.

Labor disruptions and tonnage declines mar LTL outlook



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

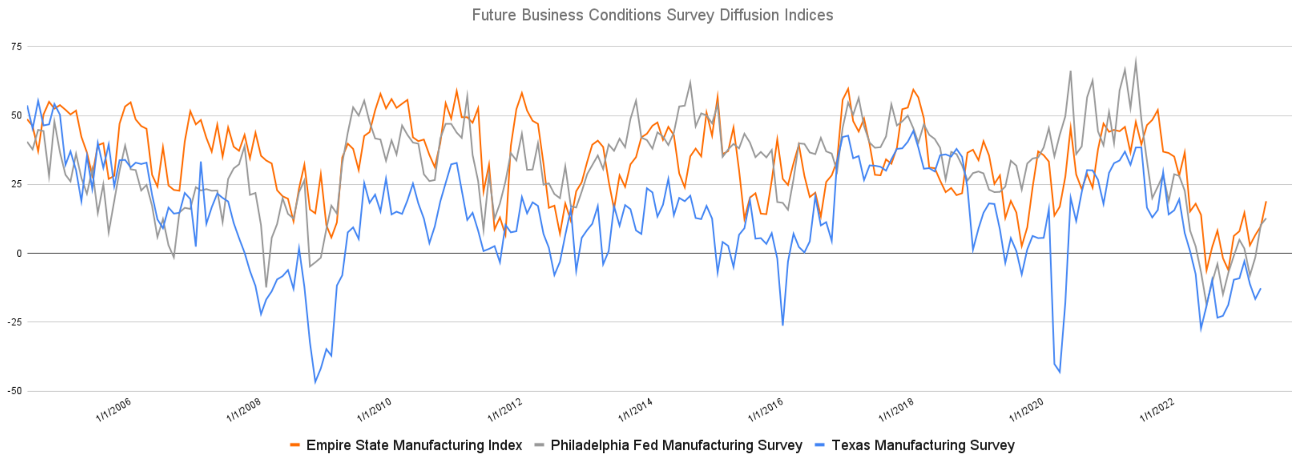
Rebounding from a stepwise decline begun in the back half of March, LTL contract rates were higher at the start of June than they were throughout most of May. That said, they have yet to match the levels of any other plateau in the year to date. During the past two years, LTL rates have seen steady but appreciable growth throughout the summer months. It is still too early to judge whether rates will follow similar growth in 2023, but LTL carriers can take comfort in knowing that their rates continue to outperform any other year on record by a considerable margin.

At the time of writing, the average LTL contract rate has risen $4.20 per hundredweight over the past month. Currently sitting at $43.41 per hundredweight, shipping via LTL is 28.3% more expensive than it was a year ago.

Recent updates from major LTL carriers that detail the months of April and May portray an industry that is beset by troubles. Yearly tonnage declines were reported among all but one of six carriers. Of the four carriers that included revenue data in their updates, all had similarly reported y/y declines — in most cases by double-digit percentages. Some of the industry's trouble can be found in carriers' labor negotiations with the International Brotherhood of Teamsters, which is presenting a hard-line front in opposing consolidation of LTL networks and is firm in demanding higher wages. Against some carriers, the Teamsters union has resorted to striking, which has deterred some shippers away from the mode altogether.

Macroeconomic conditions

Though some measure of optimism was found among some manufacturers in June, it comes with the caveat that the future is expected to bear a great resemblance to current business conditions. Current business conditions, meanwhile, have yet to recover from May's tsunami of discontent. High interest rates and uncertainty surrounding the Federal Reserve's future course of actions have proved to be a major counterweight against future investment and customer demand.



New York manufacturers broadly saw their lot improve in June, albeit only modestly from May's steep decline in confidence. In the most recent Empire State Manufacturing Survey, the current business conditions index rose 38.4 points m/m out of the red, settling at 6.6. While any recovery is welcome news, this recent gain failed to undo May's 42.6 point m/m decline. The forward-looking General Business Conditions Index rose 9.1 points m/m to 18.9, indicating slight but notable hope for improvement over the next six months.

Within the survey, the freight-intensive Shipments Index performed similarly, rising a slim 2.1 points m/m to 17.9. That said, the New Orders Index actually fell 4.2 points m/m but remained in the general neighborhood at 13.8. Taken together, these two indexes point to reasonable growth in customer activity by the end of 2023. Yet firms are playing their cards close to their chest: After falling close to zero in May, the Capital Expenditures Index rose 7.1 points m/m to only 8. A similar trend was observed in the Technology Spending Index, which ticked up 3.1 points m/m to 5.

Comparable movement was seen among Philadelphia firms, though their assessment of the present was negative. The current General Business Activity Index within the Manufacturing Business Outlook Survey, conducted by the Federal Reserve Bank of Philadelphia, fell 3.3 points m/m to minus 13.7. It is thus cold comfort that the forward-looking General Business Activity Index swelled 23 points m/m to 12.7, as not much improvement relative to the present is expected.

Gloom aside, Philadelphia firms were similarly optimistic about shipments and new orders growing over the next six months. The forward-looking Shipments Index gained an additional 23.8 points m/m in May, pushing it to a solid 28.3. Likewise, the forward-looking New Orders Index rose 16.4 points m/m to 14.1. This expectation of future growth comes on top of the special questions section of the survey, in which respondents were asked about their level of production in the second quarter relative to the first. Nearly 46% of firms noted an increase in opposition to the 24% that saw a decline; 30%, meanwhile, reported no change whatsoever.

The Federal Reserve Bank of Dallas releases the Texas Manufacturing Outlook Survey during the final week of the month, but the mood of Texan business firms in May was similar to that of their New York and Philadelphia counterparts in the previous month. The survey's Current General Business

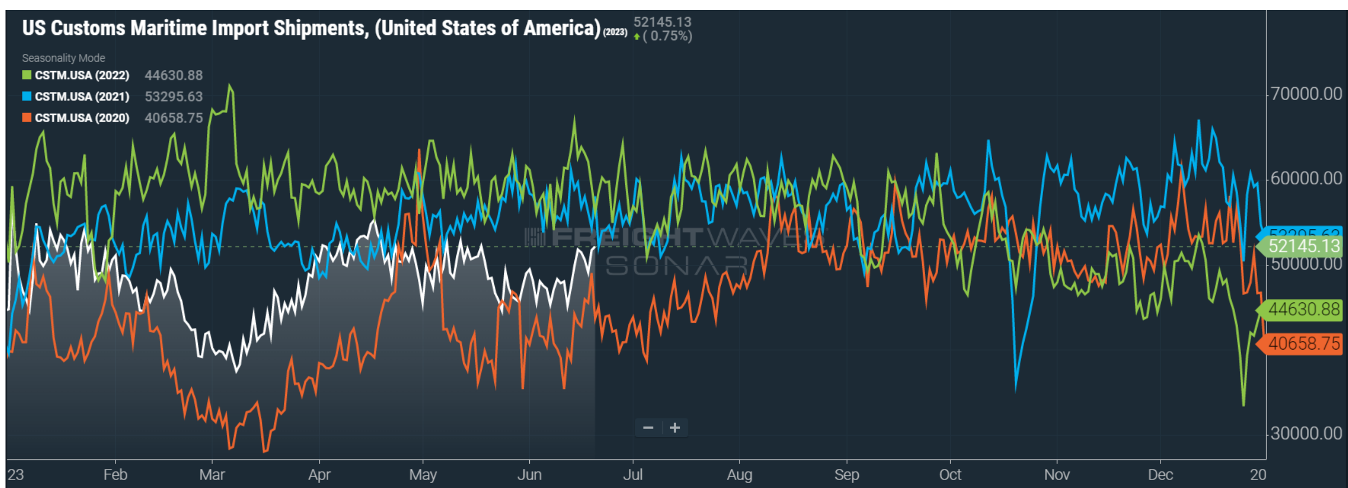
Activity Index fell 5.7 points m/m to minus 29.1, though the forward-looking index ticked up 3.9 points m/m to minus 12.7. This six-month outlook is well below the series' all-time average of 13.1. Only 16.5% of respondents believe conditions will improve over the next six months, in stark contrast to the 29.2% of firms that expect them to worsen.

The May jobs report was blazing hot, wildly outperforming economists' forecasts for the 14th consecutive month. There were 339,000 nonfarm jobs added in May, far exceeding consensus growth expectations of 195,000 and above April's upwardly revised growth of 294,000 jobs. The unemployment rate, however, rose from 3.4% to 3.7% against expectations of a slight rise to 3.5%. This discrepancy between the Household Survey — which is responsible for printing the unemployment rate and in which 310,000 jobs were reported to be lost in May — and the Establishment Survey, which publishes headline job growth, is once again nearing a gap of record width. The transportation segment gained 1,800 positions in April, a figure revised heavily downward from a gain of 10,600. In May, this segment saw explosive growth of 24,200 jobs. The truck transportation subsector, which saw only a meager gain of 600 positions, was largely on the sidelines in May, ceding to the transit and ground transportation subsector's growth of 11,800 jobs.

Maritime: Weak peak season awaits

In last month's report, we touched on the surprising resilience of the maritime freight market, even as the industry continues to combat a slowdown in demand amid a surge in capacity. This month, we turn to a less bullish stance as maritime's peak season — which commences typically in August and lasts through October — is expected by retailers and supply chain professionals to be weaker than normal.

According to a June survey conducted by CNBC, which included responses from the National Retail Federation, the American Footwear and Apparel Association, Council of Supply Chain Management Professionals and United National Consumer Suppliers, 43% of respondents expect to order less than they did in 2022, compared to 21% that anticipate growth in orders.



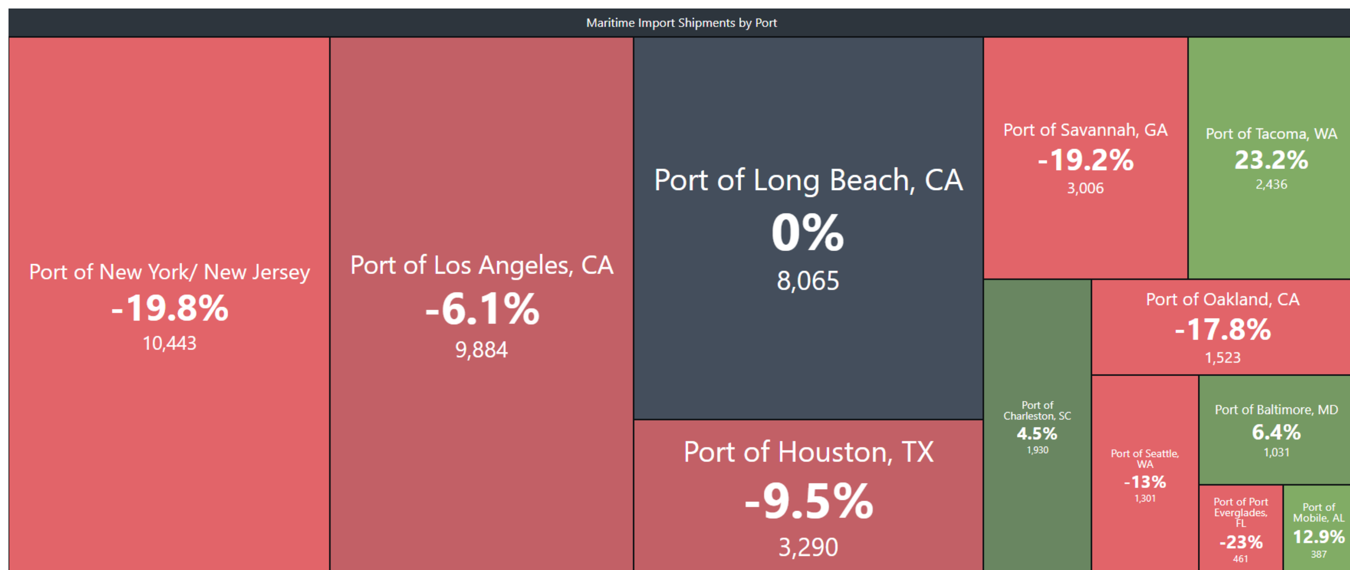
Source: FreightWaves SONAR — U.S. Customs Maritime Import Shipments, both containerized and non-containerized: 2023 (white), 2022 (green), 2021 (blue) and 2020 (orange).

In May, the daily average of containerized and non-containerized imports saw a notable decline of 5.1% m/m. Such a m/m decline has not been seen in the past two years, as imports are typically expected to gain momentum in the spring and summer months that lasts until peak season.

Even so, the market was already showing early signs of deterioration at this time last year: The daily average of maritime imports in May 2022 was only 1.7% higher than it was in the month preceding.

While ocean freight markets are far from ideal at present, they could nevertheless be worse. Relative to May 2019, the U.S. imported 8.2% more ocean shipments in May of this year.

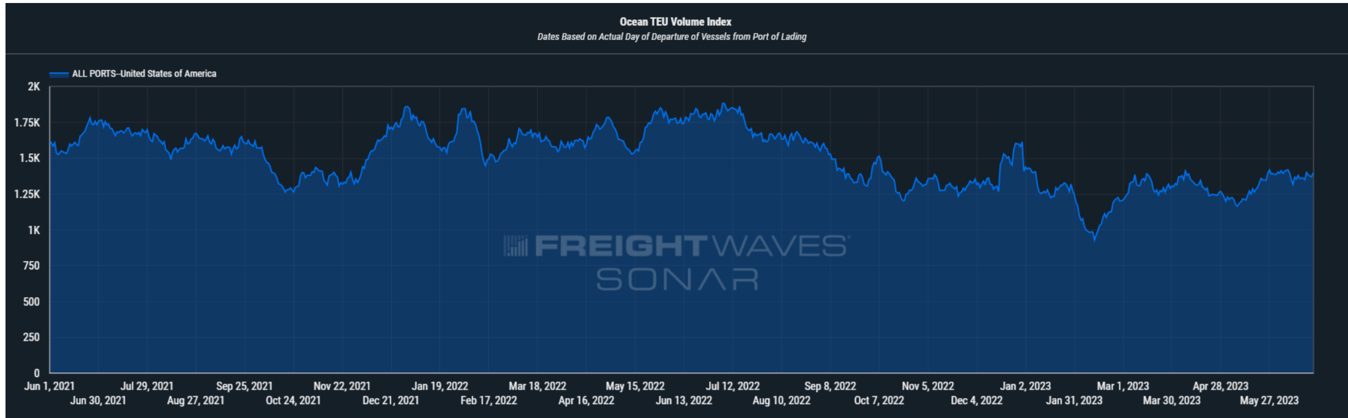
New York takes the crown



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

When tracking maritime imports on a yearly basis, it is important to keep in mind that U.S. Customs and Border Protection agents process shipments on a range of different timelines. Accordingly, such y/y comparisons can sometimes fail to be strictly apples to apples. Still, the effects of recent labor uncertainty at the ports of Los Angeles and Long Beach can already be seen, as the Port of New York/New Jersey has unseated both as the U.S.' premier importer at the time of writing.

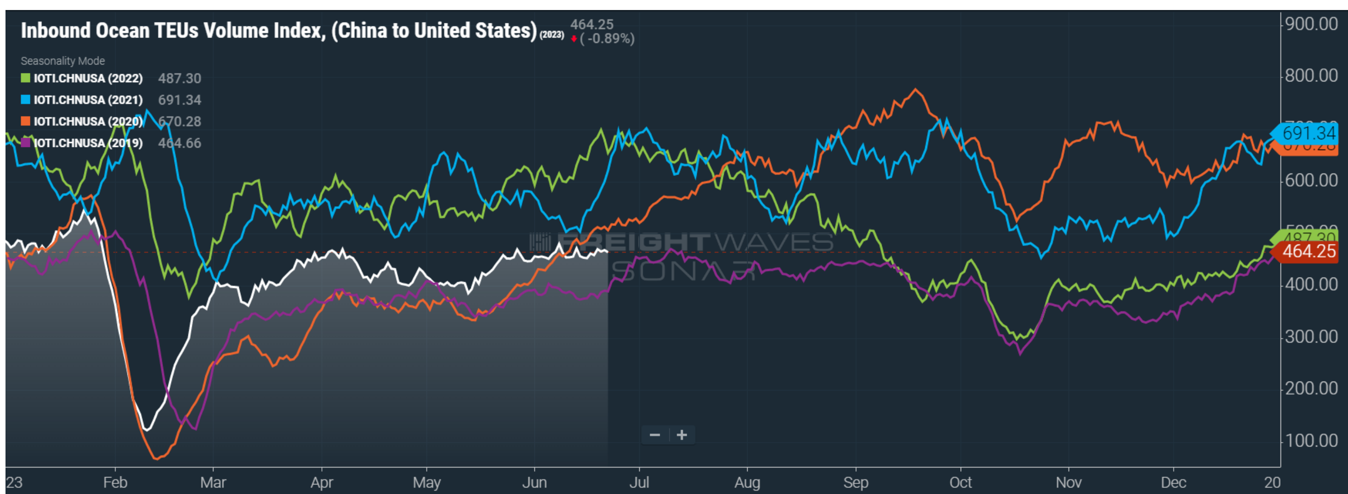
Smaller, more nimble ports are the only ones that are seeing noteworthy growth in import demand: The Port of Tacoma, Washington, is up an impressive 23.2% y/y, while the Port of Mobile, Alabama, is up a respectable 12.9% y/y. But the broader decline in import demand is most apparent in the largest ports, regardless of coastal affiliation: Port Houston, albeit known more for its energy exports than for handling imports, is down 9.5% y/y; the Port of New York/New Jersey is down a shocking 19.8% y/y, even in pole position; and import activity at the Port of Los Angeles has fallen 6.1% y/y.



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

Ocean volume, as measured by the Container Atlas Ocean TEU Volume Index, is up around 1.8% from this time last month. Because this metric measures twenty-foot equivalent unit volumes based on when the container departs the port of origin, it tends to be a leading indicator for the earlier-discussed CSTM.USA. The latter measures when CBP agents report import shipments (i.e., after the voyage). Considering it that way, we would expect imports to remain mostly flat through the rest of April.

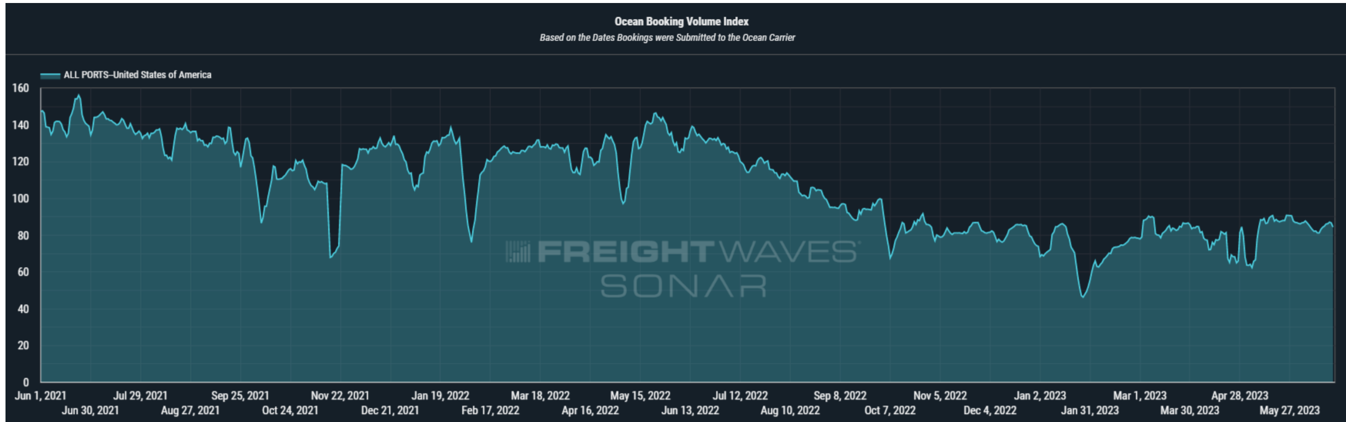
This is positive for freight transportation as a whole because it means volume is likely to remain strong in the near term. But it's worth keeping in mind that this index is still about 25.4% lower than at this time in 2022.



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

The overall ocean market continues to decelerate and container movements from Asia to the U.S. are no exception. The Inbound Ocean TEU Volume Index (IOTI) from China to the U.S. has declined significantly on a 12-month basis. Although the index has yet to return fully to the lows of 2019, it could dip below those levels as soon as July if the current weakness persists.

Earlier this year, TEU volumes from China to the U.S. tracked relatively closely to 2019 levels. There has since been a divergence. Currently, the IOTI from China to the U.S. is 19% higher than 2019 levels but 29% lower than 2022 levels.

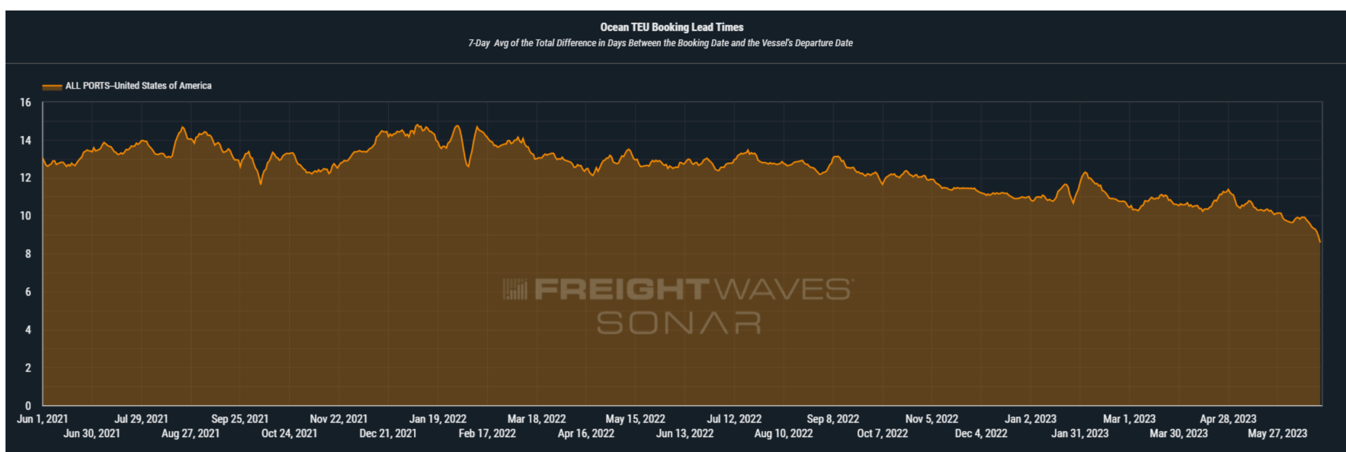


Source: FreightWaves Container Atlas, Ocean Booking Volume Index — all global ports to all U.S. ports.

The outlook for future volume is cause for a measure of pessimism, especially since the early stages of maritime peak season should be driving bookings higher. Yet the Ocean Booking Volume Index, which projects near-future trends by measuring current bookings submitted to ocean carriers, is actually down 4% m/m.

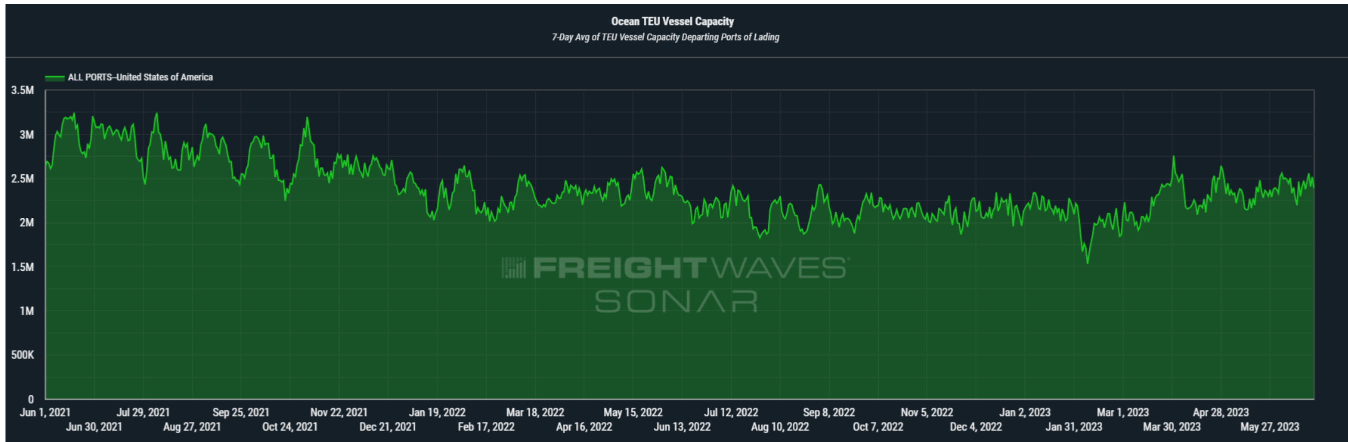
Yearly comparisons of maritime imports must be made against the caveat that 2022's peak season, which historically runs from August to October, was pushed up closer to the spring. As retailers were still stinging from the supply chain disruptions of the previous year, holiday goods for 2022 were front-loaded in May and June.

That said, the present weakness cannot be waved off just because last year's peak season was earlier than usual. Bookings are down by a significant 35% y/y.



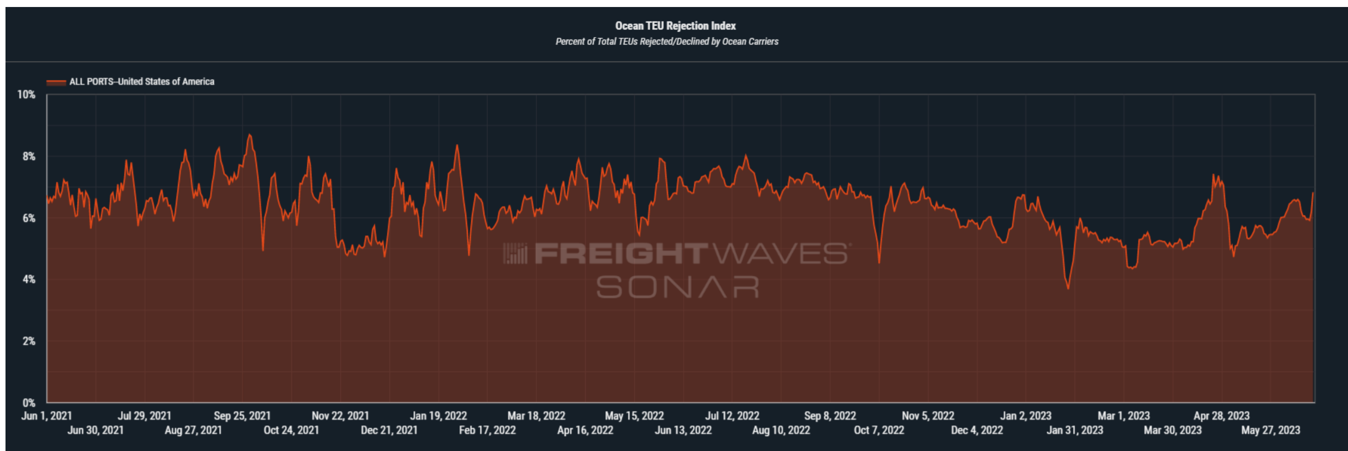
Source: FreightWaves Container Atlas, TEU booking lead times — all global ports to all U.S. ports.

The trend of shrinking ocean TEU booking lead times continues. The index is down by 15.5% from last month, indicating a sharp decrease in lead times. Currently, lead times average around 8.6 days, which is a notable decrease from the same period last year when they were 12.7 days. This represents a y/y drop of approximately 32.3%. This reduction in lead times indicates that the gap between booking dates and a vessel's departure date is narrowing.



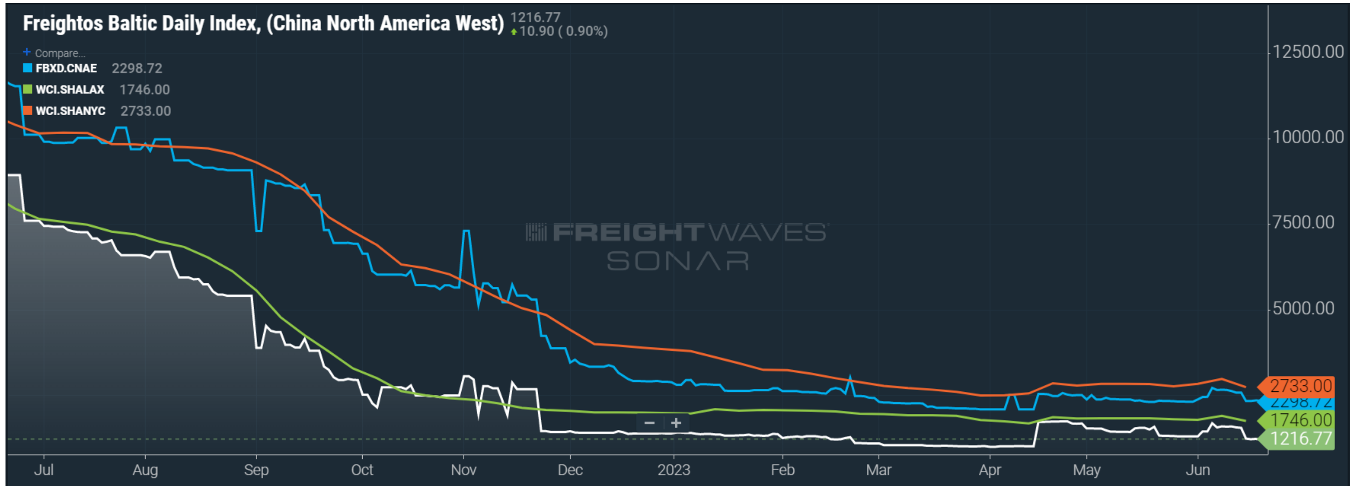
Source: FreightWaves Container Atlas, Ocean TEU Vessel Capacity — all global ports to all U.S. ports.

Capacity for U.S.-bound containers in the ocean market continues to tick up. The index has seen an increase of approximately 1.13% from last month. This upward trend is a positive development for U.S.-based trucking and rail companies, as it suggests the potential for additional freight during this period — should demand swell, that is.



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

TEU rejections have been rising stepwise since their recent valley in early May. At the time of writing, TEU rejections have climbed to 6.83% — a level roughly comparable to their year-ago reading at 7.18%. Keep in mind that this rejection index doesn't work the same way as the truckload market's gauge. Instead, it's based on ocean carriers refusing already confirmed bookings and not rolling the shipment onto a later vessel.



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

The success that ocean carriers achieved with a general rate increase (GRI) implemented in mid-April was short-lived. Although these GRIs did manage to prod trans-Pacific spot rates from April's cycle low, rates have resumed their decline to levels comparable to those of late Q1.

Part of these GRIs' failure to find any lasting power stems from the resolution of labor contract negotiations between the International Longshore and Warehouse Union and West Coast ports. The most recent round of negotiations with the ILWU lasted for more than a year, casting a cloud of uncertainty over shippers to West Coast ports: Slowdowns and other labor disruptions had been initiated by the ILWU in early June, effectively shutting down operations at the key ports of Los Angeles and Long Beach. But with contracts now in place, there is little reason to fear peak season disruption to U.S. cargo flows.

The Freightos Baltic Daily Index, which tracks the average spot rate for China-North America West Coast, currently stands at $1,217 per forty-foot equivalent unit. This represents a substantial increase of nearly 21% from the rate just prior to the increase. However, it also marks a decrease of nearly 30% from the rate immediately following the GRI. The index for China-North America East Coast is currently at $2,299 per FEU, reflecting a 10% increase from pre-GRI levels, but a decrease from its recent peak.

In a similar vein, the Drewry World Container Indexes have also recorded comparable shifts. The spot rate per FEU for shipping from Shanghai to New York has seen an increase of about 10% since the start of April. Conversely, the cost of shipping a container from Shanghai to Los Angeles has become approximately 1.6% less expensive.

Rail intermodal: Running out of track

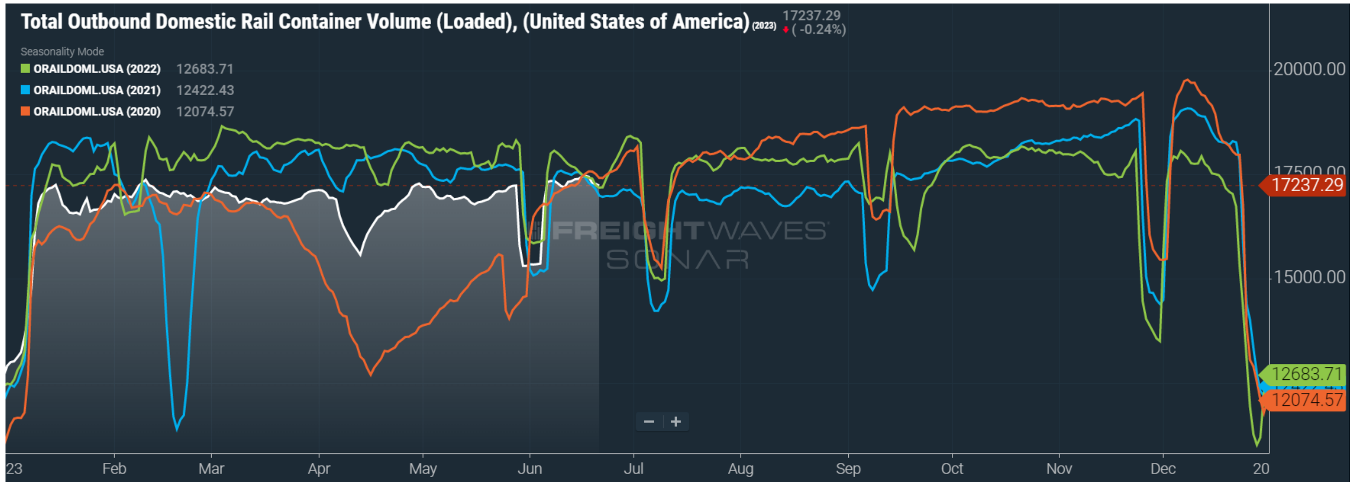


Chart: FreightWaves SONAR. Loaded domestic intermodal container volumes for 2023 (white), 2022 (green), 2021 (blue) and 2020 (orange).

Intermodal demand continues to be subdued, despite some regional pockets of strength. Many of the major intermodal players, in line with other participants in the broader freight market, have stated their inability to predict the end of the current downcycle. Rather, these carriers are existing in limbo until the resolution of the upcoming intermodal bid cycle. While intermodal bid season typically commences in October, most rate changes are in place by the end of Q2.

That said, intermodal volumes are currently higher than they were at this time of year in both 2022 and 2021. Some of this growth is due to incremental improvements in rail service, about which rail carriers have faced increased scrutiny from all levels of government. Intermodal volumes are, at the time of writing, up 1.2% y/y and 0.8% m/m.

Domestic loaded intermodal container volumes have rebounded from their Memorial Day dip but have shown inconsistent growth over the month of June. During the current cycle, the only year in which loaded intermodal volumes increased consistently over June was 2020, when intermodal volumes were helped by desperate shippers switching modes. Currently, loaded intermodal volumes are up 0.8% m/m.

Empty domestic intermodal container volumes are up 0.9% m/m and a more notable 8.6% y/y.

The largest growth in the intermodal sector is found in loaded international containers, which recently reached a year-to-date peak in mid-June. Although that growth has been somewhat checked, total loaded international intermodal container volumes are still up 0.3% m/m. With the benefit of extremely favorable though short-lived comps, loaded international intermodal volumes have managed to increase 1% y/y.

Empty international intermodal container volumes are, on the other hand, down 2.6% m/m after coming down from a blistering rally in the first week of June. Unlike the slight increases found in other segments, empty international intermodal container volumes are down 8.2% y/y.

Domestic intermodal contract rates see final hurrah before bid season

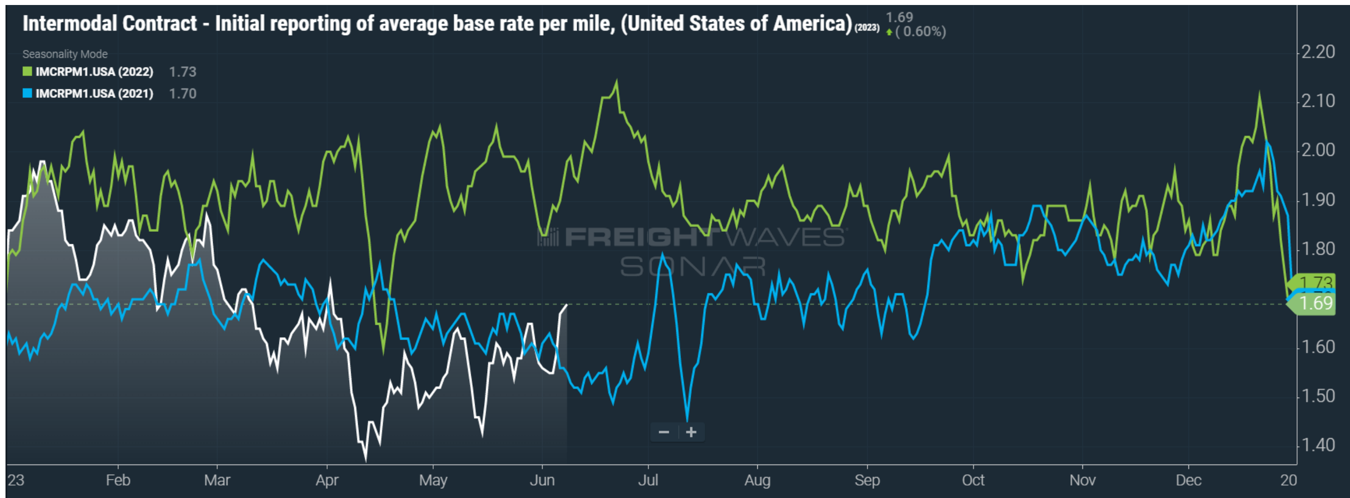


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2023 (white), 2022 (green) and 2021 (blue).

In early June, intermodal contract rates leapt up to their highest reading since the beginning of April, reflecting the aforementioned rally in intermodal container volumes. These gains do not, however, appear to be unambiguously indicative of the market's future direction since — as noted above — many key intermodal carriers are expecting prices to reset in the upcoming bid season.

For now, at least, initially reported, fuel-exclusive intermodal contract rates have risen 6 cents per mile m/m to $1.73.

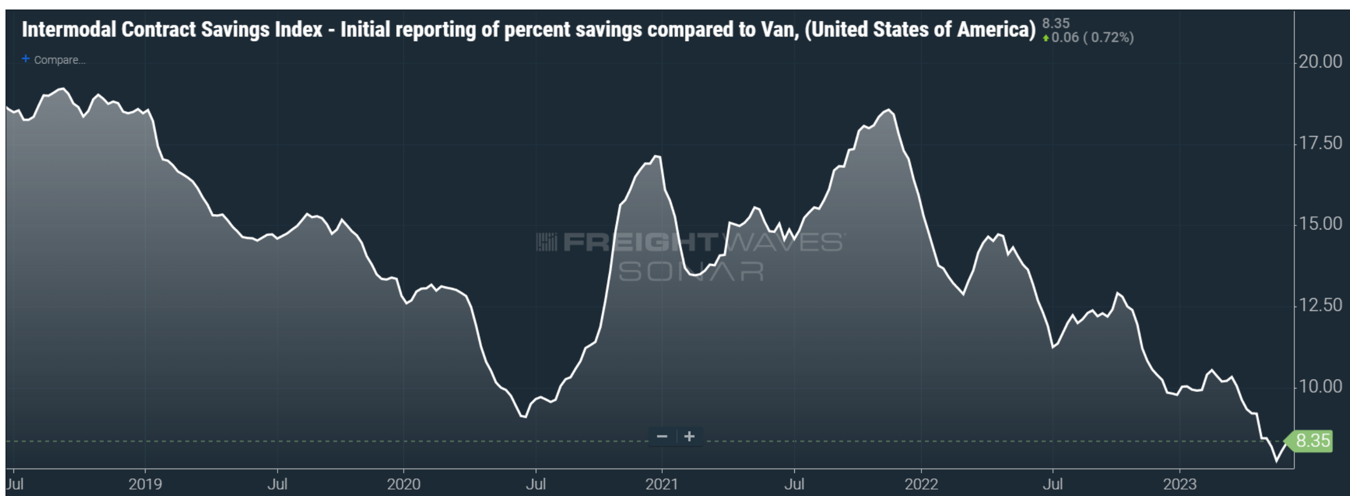


Chart: FreightWaves SONAR. Intermodal Contract Savings Index.

The Intermodal Contract Savings Index (IMCSI) represents the percent savings intermodal contract rates offer compared to dry van contract rates. In mid-May, the IMCSI plummeted to all-time lows in its five-year data set and has since only rebounded to the levels of late April. Given this dip and recovery, the IMCSI is up only 5 basis points (bps) m/m at 8.35%.

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.

With the door-to-door intermodal spot rate on a national basis continuing to trend lower, dropping 2% over the past month, capacity isn't being protected for contractual shippers and rail carriers are trying to secure any volume they can.

The door-to-door intermodal spot rates across all the densest intermodal volume lanes, except Chicago to El Paso, Texas, remain negative on a y/y basis, indicating capacity conditions on the rails have improved. June has been a month of stagnation for many of the densest intermodal lanes, with many seeing slight declines m/m. Yet the gains that proved to be exceptions were only found on the less prominent end of these major lanes: Linden, New Jersey, to Chicago saw a 5.9% m/m boost but still remains 18.3% below year-ago levels.

Intermodal spot rates largely stagnant in June

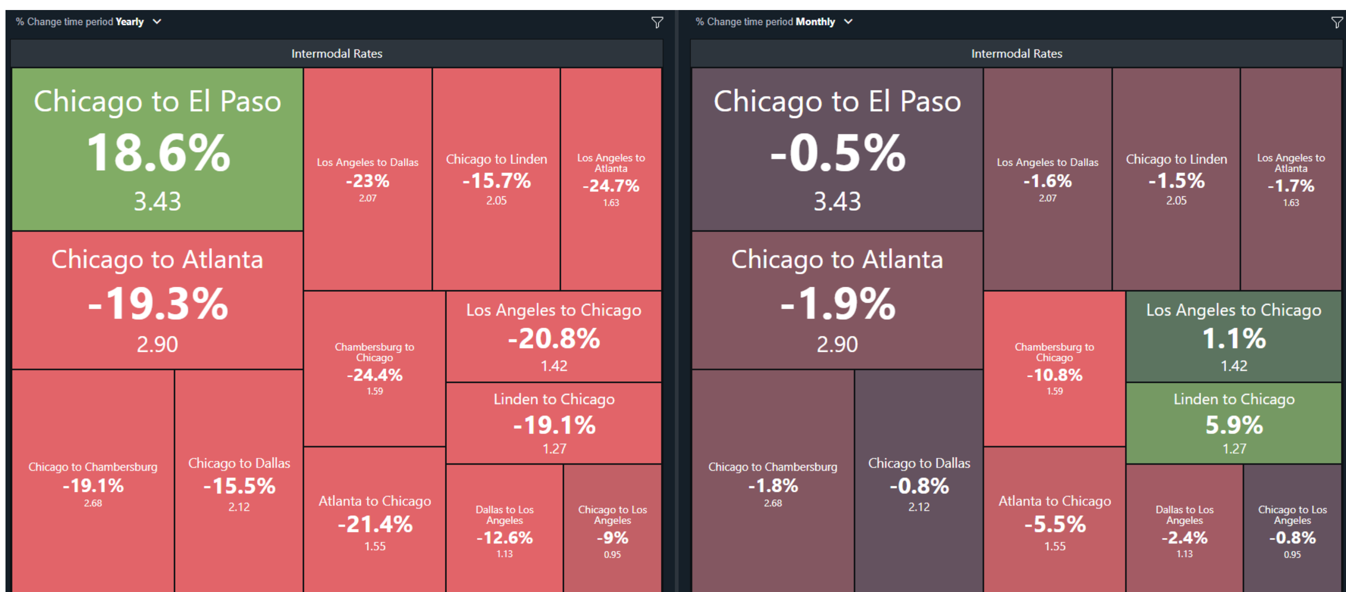


Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

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 1.25% and nearly nonexistent in both Los Angeles and Chicago.

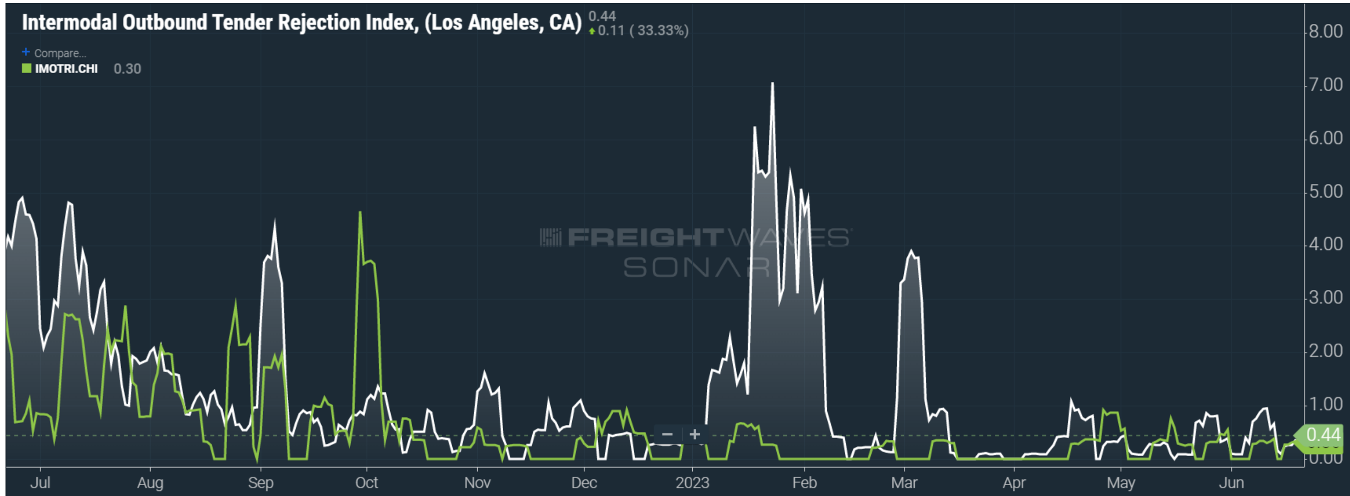
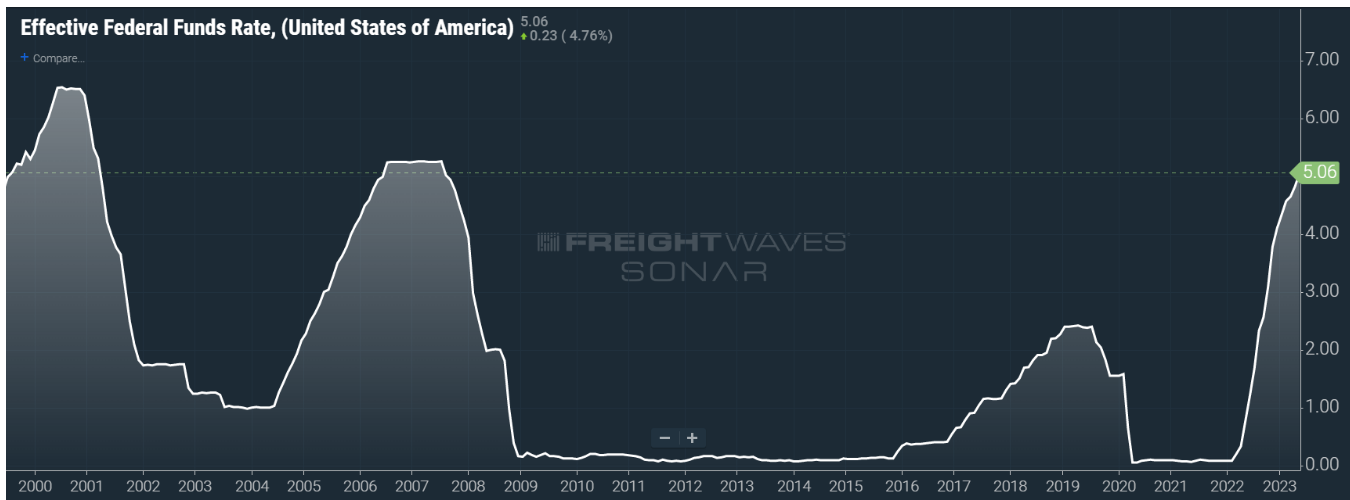


Chart: FreightWaves SONAR. Domestic intermodal tender rejection rates for outbound Los Angeles (white) and Chicago (green) loads.

What else we're watching

For the first time in its current tightening cycle, the Federal Reserve withheld any increase to interest rates at its meeting in June. This pause was decided, per the Federal Open Market Committee, in order that it might have more time "to assess additional information and its implications for monetary policy." These remarks from the FOMC point to the natural lag that separates monetary tightening and the hoped-for reduction in broad demand, though the Fed has left the door open for future tightening.



Source: FreightWaves SONAR. Effective federal funds rate.

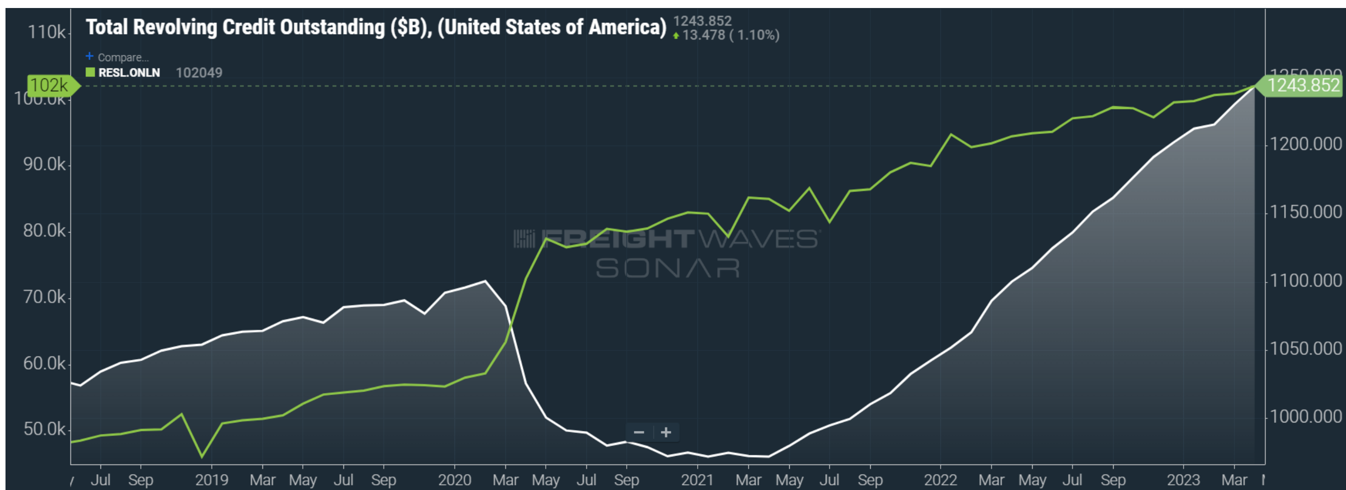
Take, for instance, Fed Chair Jerome Powell's mid-June testimony before Congress, in which he presented the central bank's semiannual monetary report. In this report, Powell related both the Fed's assessment of the United States' current economic situation as well as its outlook for the near-term future. Although the economy "has continued to expand at a modest pace," kept afloat by a confoundingly robust labor market and healthy consumer spending, "the most interest

rate-sensitive sectors of the economy" — namely, construction, housing and business fixed investments — have already reacted to the Fed's rate hikes. Since early 2022, the Fed has raised its policy interest rate by five whole percentage points, or 500 bps.

This uneven state of economic health is at once expected and surprising: expected, since it is obvious that fixed investments would suffer first from higher interest rates, but surprising, as market fundamentals apparently fail to explain why the labor market remains so robust. In fact, there are two primary factors behind the job market's continued resilience, one of which is a mismatch between the growing pool of college-educated job seekers and employers' need for both skilled physical labor and unskilled service workers.

The other factor is less tangible and more speculative. Given the recent volatility in the labor market, employers are likely retaining employees in excess out of fear that, should a new wave of customer demand suddenly swell, they would be unable to find qualified workers at that time. This trend of employee retention for the sake of retention was writ large in the tech industry, which is why it has undergone a notable series of mass layoffs over the past year. Yet if business conditions should continue to deteriorate, firms will eventually be forced to cut staff and become leaner overall. If (or when) this trigger is pulled, it will clearly mark the start of a broad economic recession.

In addition to the aforementioned reasons for allowing a pause in rate hikes, the Fed is quite sensitive to the lurking instability of credit markets. As mentioned previously, BNPL firms are uncharacteristically tightening their credit standards for payment plans offered, aware of the quickening possibility of mass defaults. The resumption of student loan repayments now has a definitive date set in October, following Congress' June bill on the debt ceiling. Last, but by no means least, the recent banking crises and closures still weigh heavily on traders' minds.

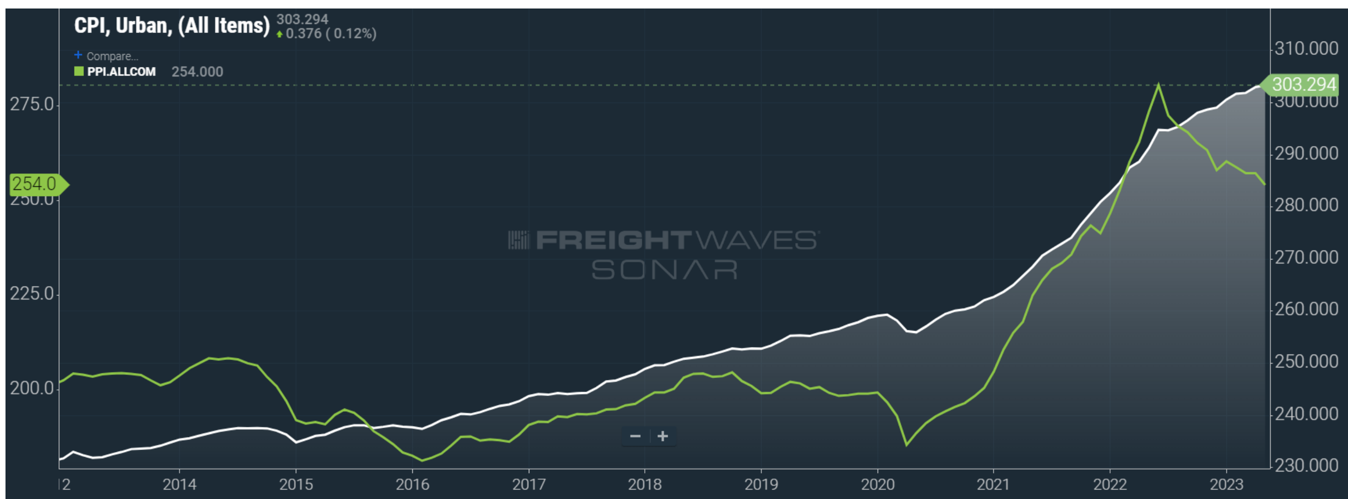


Source: FreightWaves SONAR. Total revolving credit outstanding, in billion USD (white, right axis) versus online retail sales, in million USD (green, left axis).

Such troubled waters have yet to arrest consumers' accumulation of credit card debt. In April, the total amount of revolving credit (which includes credit card debt) leapt 13.1% y/y, handily outpacing Q1 2023's average of 9.3% y/y growth. Non-revolving credit, meanwhile, was up 3.2% y/y, also above Q1's average of 2.6% y/y growth. Unfortunately, non-revolving credit is likely to grow as new

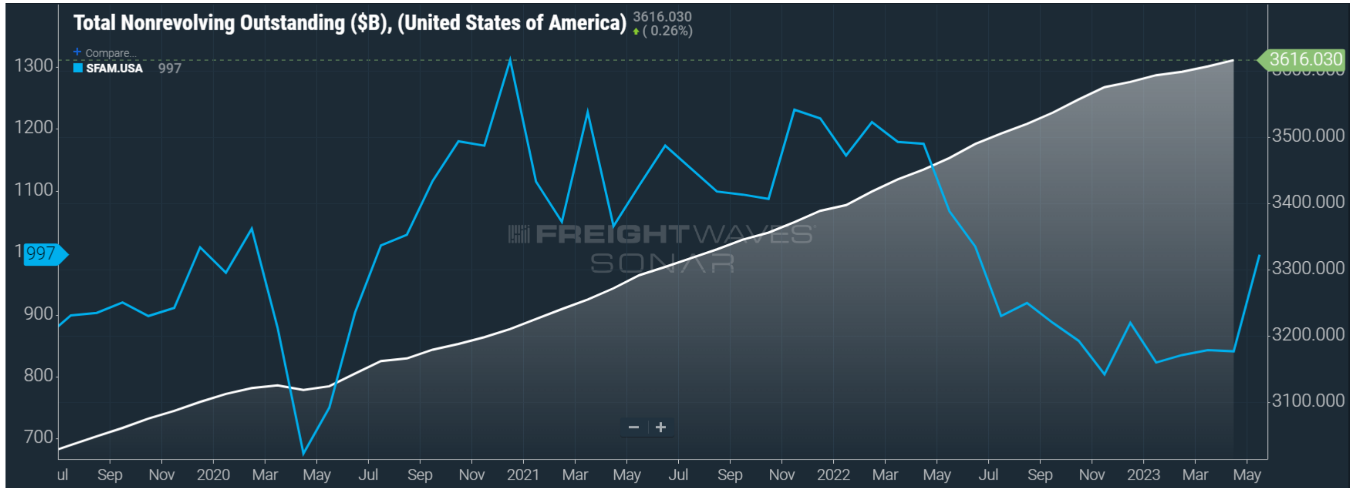
mortgages are sought during the busier spring/summer home-buying season, not to mention the influx of new student loans in August and September.

But there is a strong potential case for interest rates to come down in the near future, which would make holding such debt less expensive. The May print of the Consumer Price Index (CPI) showed that, while the rate of inflation still remains far above the Fed's 2% y/y target, demand-side price pressures have eased significantly. The headline index rose 4% y/y, the lowest such increase since March 2021 and less than half of June 2022's peak growth of 9.1% y/y. The core CPI, which excludes goods with volatile pricing like food and energy, was up by a hotter 5.3% y/y, mostly due to high costs of shelter, new automobiles, vehicle maintenance and insurance. Meanwhile, energy costs have come down substantially: Gasoline prices are down 19.7% y/y while fuel oil has fallen 37% y/y in cost. 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."



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

In even better news, supply-side inflation is finally under the Fed's 2% target. May's print of the headline Produce Price Index (PPI) — which tracks the inflationary pressures faced by producers across a number of industries — was up a mere 1.1% y/y, the lowest reading since December 2020. The index tracking final demand goods was down 1.6% y/y, helped in large part by a 6.8% y/y decline in final demand energy. The further one looked upstream in the stages of intermediate demand, the more that price pressures eased, with many sectors reporting that their input costs had fallen on a y/y basis. Speaking broadly, it takes six to 12 months for supply-side inflation to inform consumer prices, but May's PPI clearly showed that deflationary movements are well underway.

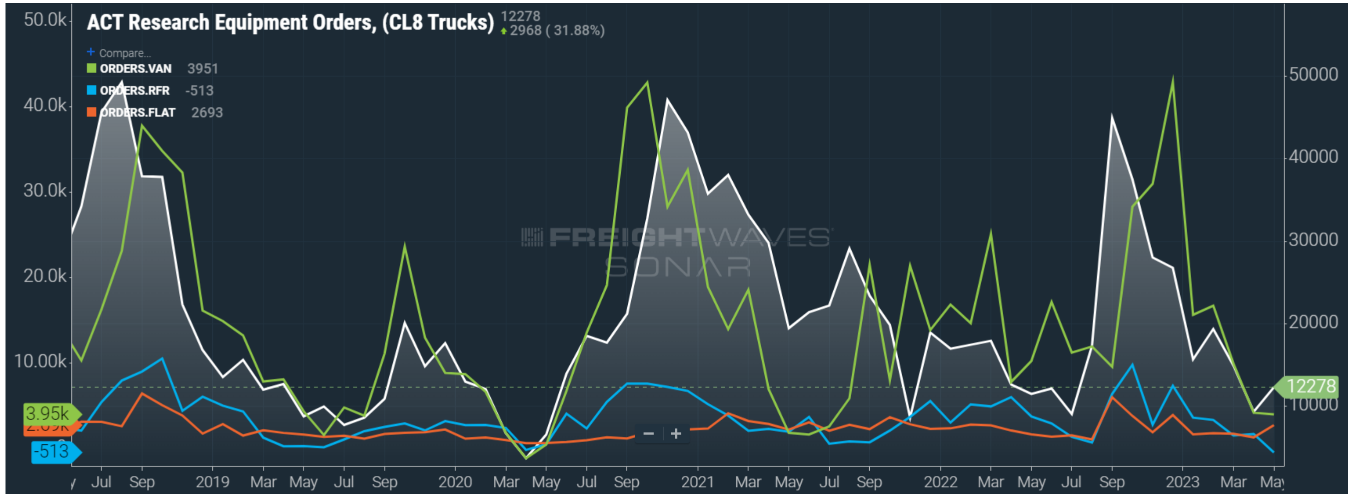


Source: FreightWaves SONAR. Total non-revolving credit outstanding, in billion USD (white, right axis) versus single-family housing starts, in thousands (blue, left axis).

While there is some element of deflation at work in the housing market, there is also a spike in recent homebuilding activity. On the deflationary side, existing-home prices in May posted their largest y/y decline in more than 11 years: According to data from the National Association of Realtors (NAR), the national median existing-home price fell 3.1% y/y to $396,000 in May. This decline should be unsurprising given that the average 30-year fixed-rate mortgage was more than 6.7% at the start of June.

But it is precisely high mortgage rates that are limiting the availability of existing homes on the market since, if homeowners managed to secure mortgages when rates averaged less than 3%, they would be forced to pay considerably more interest if they chose to sell their homes and move. This restraint on the potential for existing homes to be listed is not the only factor behind persistent tightness in the housing market, however. After the 2008 subprime mortgage crisis led to the Great Recession, any enthusiasm for homebuilding was severely curbed, triggering a shortfall of new construction. This shortfall was made worse by the early stages of the pandemic, during which low interest rates and stay-at-home measures ignited a storm of homebuying.

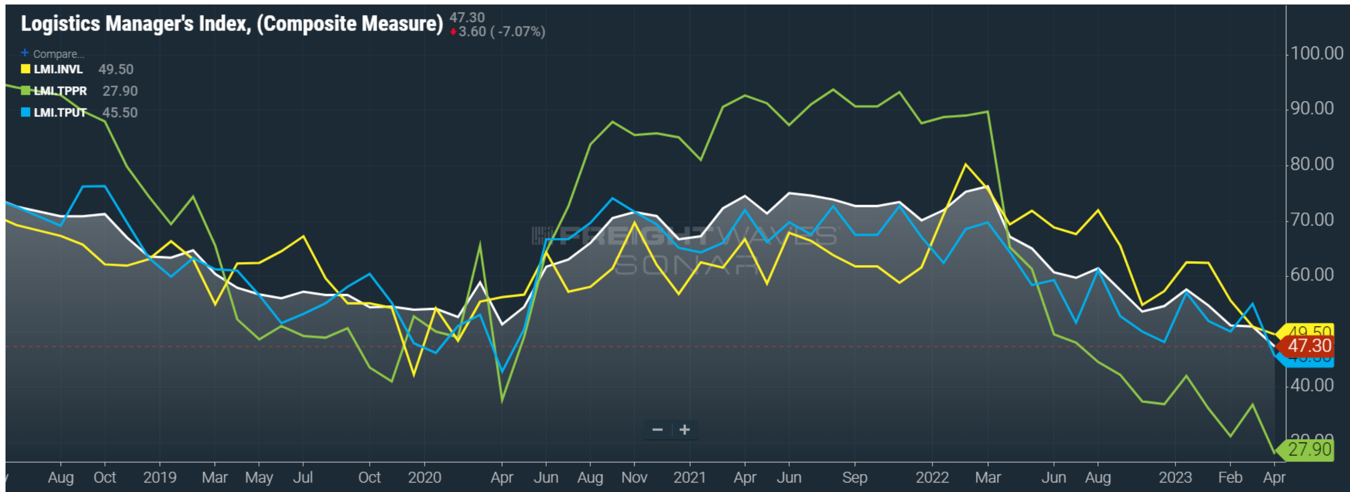
So, though mortgage rates remain stubbornly high — averaging 6.67% for a 30-year fixed rate at the time of writing — homebuilders are responding less to higher input costs and more to the housing market's fundamentals of undersupply and overdemand. This shift in priorities would explain why, in May, housing starts rose 291,000 m/m for the largest m/m increase of actual units. Translated to a 21.7% m/m jump in beginning home construction, May's reading is the biggest m/m percentage increase since October 2016. This bounty was spread relatively evenly between single-family and multifamily (i.e., rental) homes, which saw respective gains of 18.5% m/m and 28.1% m/m.



Source: FreightWaves SONAR, ACT Research. Monthly orders of new Class 8 trucks (white, right axis) versus monthly orders of trailers (left axis), categorized by dry van (green), reefer (blue) and flatbed (orange).

After seeing a huge spike in September of last year, new orders of Class 8 trucks have fallen quite significantly. Still, this data can be misleading without the proper context: OEMs, having learned painful lessons during the semiconductor supply crisis, have grown wary of opening their order books to a great degree. Meanwhile, enterprise carriers remain keen to refurbish their aging fleets with new equipment. As a result, build slots for 2023 are virtually full, while order books for 2024 will not open until August (at the earliest). In spite of these supply constraints placed by cautious OEMs, new orders for Class 8 trucks were up 32% m/m and 7% y/y in May.

Trailer orders, meanwhile, tell a slightly different and more pessimistic story. In May, orders for dry van trailers slid 5% m/m to fewer than 4,000. While this decline represents a 91% fall from December's peak of 49,000 dry van trailer orders, such orders historically peak near the end of the year and so the difference is not at all abnormal. What is telling, however, is the 61% drop from May of last year, which accurately reflects the ongoing deterioration of the spot market. A similar trend is present in reefer trailer orders, which actually turned negative in May due to a spate of cancellations. Nevertheless, flatbed trailers saw significant growth (113% m/m and 67% y/y) that displays the mode's relative profitability and continued tightness of capacity.



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

Finally, the May release of the Logistics Managers' Index (LMI) saw the headline index fall into contraction for the first time in its history, which stretches back to September 2016. The LMI tumbled 3.6 points m/m to 47.3 in May, marking the third consecutive month in which it has reached an all-time low. Although the biggest drivers of this contraction can be pinned on declines in the Transportation Utilization (down 9.5 points m/m to 45.5) and Transportation Prices (down 8.9 points m/m to 27.9) indexes, there is a silver lining. The Inventory Levels Index fell 1.5 points m/m into contraction at 49.5, yet the fact that shippers' inventories are shrinking is a tailwind — however slight — for future truckload freight flows.

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