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STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

Hurricane Helene impacts production

October 28, 2024 | 2 p.m.

Overview

The freight market is in the midst of a change as capacity continues to exit the market. The more niche markets are seeing the changes happen faster than the dry van market, but data suggests a transition is underway from an extremely loose freight market to a tighter one.

The macroeconomic environment was largely unchanged in October as the economy digested the interest rate cut in September. Consumers are continuing to spend at a rate faster than analysts expected, but inflation remains prevalent. The Federal Open Market Committee has two remaining meetings this year, and current predictions are that interest rates will be cut by another 50 basis points before the end of the year. If that happens, it could be the catalyst needed for oil and gas companies to deploy capital in 2025.

Domestic oil production took a hit in September and will likely not set another all-time high until November after Hurricane Helene caused a slowdown in production at the end of September and early October. At the same time, OPEC+ expects to start reducing production restrictions in December, adding over 180,000 barrels per day in output.

Oil prices have come under significant pressure to end October. With Iran attacking Israel in early October, many believed that retaliatory attacks would impact prices positively. The retaliatory attacks happened on Oct. 26, but Israel spared Iranian oil production facilities, which led to one of the most significant single-day price declines in recent years. Forecasts for crude oil prices remain positive heading into 2025, but the peak is expected to be less extreme than previously forecast.

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	270 (-8.2%)
Gulf Coast Basin	68 (-11.7%)
Anadarko Basin	47 (-2.1%)
Total	**612 (-7.3%)**

Crude oil prices per barrel (y/y change)

WTI crude	$67.43 (-18.36%)
Brent crude	$71.06 (-17.93%)
Brent-WTI Spread	**$3.63 (-21.1%)**

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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 for drivers in any other mode. This 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, harming not only drivers and their equipment but also 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 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, in part because safety can be compromised by the (often) time-sensitive nature of such deliveries. As such, it is critical that the pre-trip inspection be fully carried out, not only with regard 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 during 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, side 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 signs that capacity is exiting the market, which is needed to firm up pricing, but at a relatively slow rate. The back half of the year is traditionally a period when capacity tightens across modes. But with all the added capacity throughout the year, the usual tightening was muted throughout the fourth quarter of 2023.

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 falling rapidly, 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 have to report the data only once every two years, so the growth over the past two years is evident from the rise in July's 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 have to report this number only biennially, 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 having to report only 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%.

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, 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 less dramatic 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, having to report counts to the FMCSA only once every two years may mean the data does not show the capacity exiting the market as quickly as it actually does.

National economic outlook

Not much has changed from an interest rate perspective since the Federal Open Market Committee's mid-September meeting. Eyes are now on the FOMC meeting Nov. 6-7 to see whether Federal Reserve officials believe that the economy can absorb another interest rate cut. The belief among Fed officials is that there will be further reductions totaling 50 basis points before the end of the year, but there are mixed feelings about how that would occur.

Analysts are currently expecting that Fed officials will opt for a 25-bps reduction to the federal funds rate at the November meeting and then another 25-bps reduction at the December meeting. Federal Reserve officials are tempering expectations based on comments they are making around the potential for aggressive interest rate cuts. Chris Waller, a Federal Reserve governor, stated in a speech at Stanford University, "I view the totality of the data as saying monetary policy should proceed with more caution on the pace of rate cuts than was needed at the September meeting."

Even with those expectations, there is a chance the Fed takes a wait-and-see approach as it did with the first interest rate reduction. The two data points that garner the most attention when it comes to Federal Reserve policies are employment and inflation.

The Fed still has its hands full dealing with inflation, as the most recent data highlighted that it isn't going to go away easily. Now, the FOMC did decide to reduce interest rates in September and will continue to weigh recent data on whether the agency will continue to ease policy or if it acted prematurely.

The Consumer Price Index rose by 0.2% m/m in September, matching August's increase. Analysts were expecting the CPI to increase by 0.1% during the month, so the print was slightly hotter than expected, which presents a challenge for the FOMC. The 12-month running total for the CPI came in at 2.4%, also 0.1% higher than expectations but the lowest level since February 2021.

Core inflation, which removes the more volatile food and energy prices, experienced a larger increase during the month, rising 0.3% m/m and 3.3% y/y. Core inflation is a metric that the FOMC tends to gravitate toward when making policy decisions, using the Core Personal Consumption Expenditures Index, so the stickiness in core inflation may lead to a more cautious FOMC moving forward.

The volatility in both energy and food prices was evident in September, in differing ways. Energy prices fell significantly during the month, while food prices, specifically food-at-home prices, experienced one of the largest increases of the year.

Overall energy prices fell by 1.9% m/m in September and were down 6.8% y/y. Diving deeper into energy prices, gasoline prices were one of the main reasons for the deflation experienced during the month. Gasoline prices fell by 4.1% m/m and 15.3% y/y during September.

Food prices, which had been steadily increasing, rose by 0.4% m/m during September, the largest increase of the year. Overall food prices are 2.3% higher y/y. Food-at-home prices increased by 0.4% m/m, matching the overall increase. Food-at-home prices were still just 1.3% higher than they were last year. Food-away-from-home prices increased by 0.3% m/m, rising in line with the rate at which they have been rising in recent months. On a year-over-year basis, food-away-from-home prices are up 3.9% y/y.

Shelter prices, the primary source of core inflation, continued to rise in September but at a slower rate than in recent months. Shelter prices increased by 0.2% m/m in September after rising by 0.4% and 0.5% m/m, respectively, in the previous two months. Shelter prices are up 4.9% y/y.

While inflation remains a thorn in the side of consumers, they continue to show a willingness to spend. Retail sales came in better than expected once again, showing that there was no summer slowdown in spending. Retail sales grew by 0.4% m/m in September, better than the 0.3% increase many expected. Total retail sales are up 1.7% y/y.

Furniture and electronics sales continue to lag. Furniture sales fell by 1.4% m/m in September and 2.3% y/y. Electronic sales fell by 3.3% m/m and 4.6% y/y.

Gasoline station spending was also a drag on retail sales, falling by 1.6% m/m and 10.7% y/y. The decline in sales is more a function of lower gasoline prices than a slowdown in demand.

Nonstore retail sales continue to grow, rising by 0.4% m/m and 7.1% y/y in September. With retailers creating shopping holidays in early October, there will likely be another boost to nonstore retail sales in October.

Labor market

The labor market, despite showing signs of cooling throughout much of the year, allowing the runway for a more aggressive interest rate cut, has held up OK in the past two months. The employment report in September showed that the economy added 254,000 jobs during the month. To put that into perspective, analysts were expecting 150,000 jobs to be created during the month.

On top of that, after an abysmal initial release, the August jobs number revision came in 17,000 higher than the initial release at 159,000 added jobs. These two releases seem to break the trend of challenging jobs report releases, but the revision to the September figures will be important to watch on the first Friday in November.

The job growth opportunities remain in the same industries that they have all year, with health care, leisure and hospitality, and government adding the most jobs during September. The health care sector added 45,200 jobs during September. Government added 31,000, but many of those jobs are in state and local rather than federal government hiring.

Restaurants and bars were hiring with a vengeance during September, with one of the largest increases in the past year, adding 69,400 jobs during the month.

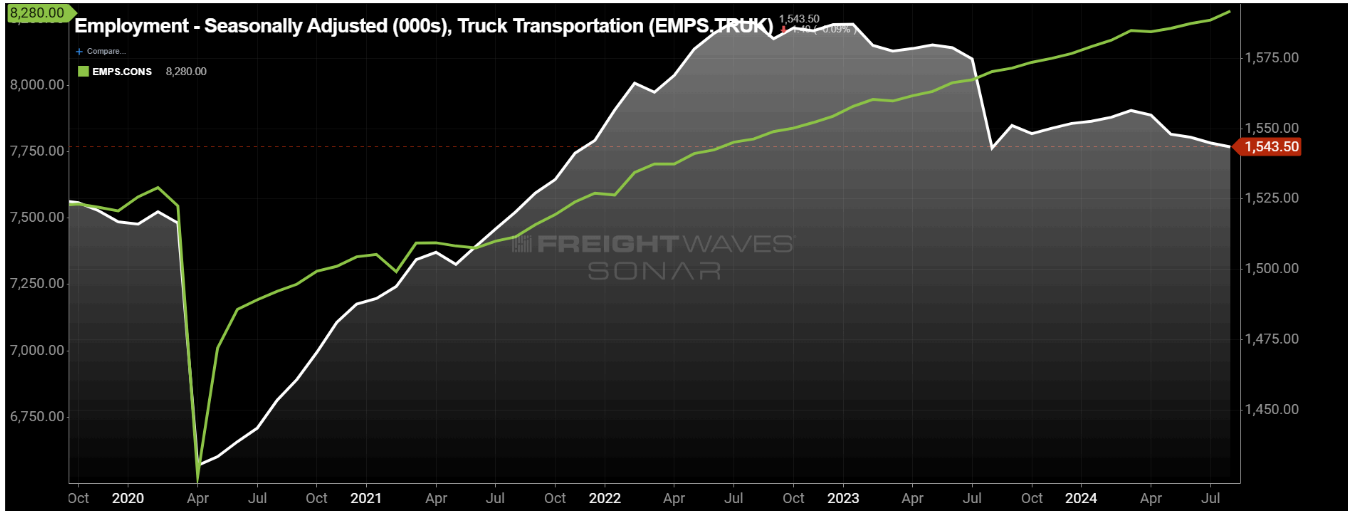
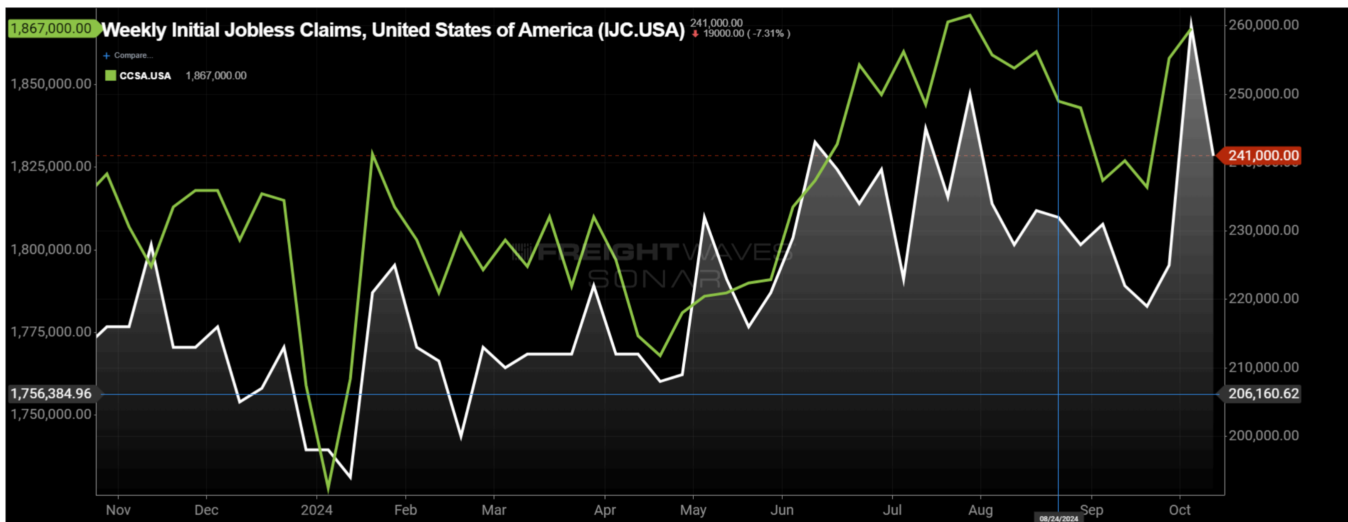


Chart: FreightWaves SONAR. Truck transportation payrolls (white, right axis) and construction payrolls (green, left axis).

The construction sector of the economy experienced growth, adding 25,000 jobs during the month. Much of that growth was driven by specialty trade contractors, which saw payrolls grow by 22,800.

The transportation industry as a whole experienced contraction, losing 8,600 jobs during September. The primary reason for the decrease was an 11,000 reduction in warehousing and storage payrolls. Truck transportation payrolls fell by 700 in September.

Payrolls in the oil and gas sector were up in September, rising by 700 m/m. Total oil and gas sector payrolls are currently 119,800, up 2,200 over the past year.



SONAR: Weekly Initial Jobless Claims (white) and 4-week moving average of initial jobless claims (green).

A recent spike in initial jobless claims created what appears to be a short-term blip on the radar as opposed to a significant change in trend direction. For the week ending Oct. 5, initial jobless claims

spiked to 260,000, but in the week following, the week ending Oct. 12, initial jobless claims dropped 19,000 w/w to 241,000. Initial jobless claims are higher than they were this time last year, up 19% y/y.

Continuing claims reversed course from the declines during the summer months, moving higher in line with initial jobless claims. Continuing claims increased by 9,000 w/w in the most recent week for which data is available, the week ending Oct. 5. Continuing claims are 3.3% higher than they were this time last year.

After a significant downturn in the number of job openings in July, there was a recovery in August, slowing the downward trend in the number of openings. Total openings increased by 329,000 in August, erasing all of July's decline and then some. Total job openings stood at 8,040,000 in August, the first time eclipsing 8 million since May. Even with the increase in August, there were still 1.3 million fewer openings this year compared to last.

The overall increase in the number of openings was driven largely by the construction industry. During August, the construction industry added 138,000 job openings, one of the largest increases in recent years, eclipsing the 116,000 job opening m/m increase in February 2023. The construction industry had 370,000 openings in August, down just 16,000 from the year prior and the most since March.

Openings in the trade, transportation and utilities sector — which includes oil and gas as well as transportation — rose by 92,000 in August. Openings in August totaled 1,130,000, down 162,000 from August 2023. The increase in openings in this sector came from the transportation, warehousing and utilities subsector where openings increased by 77,000 m/m.

The quit rate, which is the number of resignations during the month as a percentage of total unemployment, decreased by 0.1 percentage points in August to 1.9%, after July's quit rate was revised down by 0.1 percentage points. The quit rate for the trade, transportation and utilities sector fell by 0.4 percentage points to 2%. The quit rate for the construction sector fell by 0.1 percentage points to 1.6%.

Housing and construction

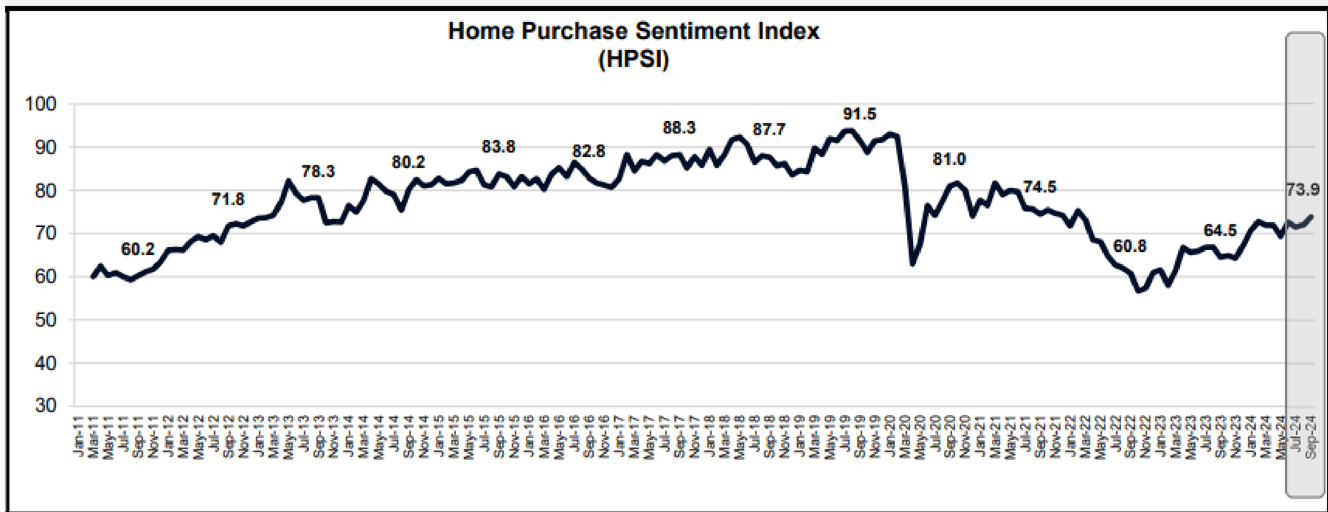
Contrary to what many believed would happen with an interest rate cut, mortgage rates have actually moved higher since the announcement of the cut. The average 30-year fixed rate mortgage has increased by 35 bps in the past month to 6.44%, according to Freddie Mac. The recent increases are a swift reversal from the downward trend established at the end of April.

With the uptick in mortgage rates over the past month, mortgage demand is starting to slow. According to the most recent Mortgage Bankers Association weekly application survey, for the week ending Oct. 11, mortgage applications dropped by 17% from the previous week. Higher mortgage rates when consumers are expecting declines in mortgage rates creates a challenge for the housing market as a whole.

With the rate cut in September, sentiment around purchasing a home improved. The Home Purchase Sentiment Index produced by Fannie Mae increased by 1.8 points m/m in September to 73.9. The index is up 9.4% y/y.

The Home Purchase Sentiment Index

The HPSI increased by 1.8 points to 73.9 in September.



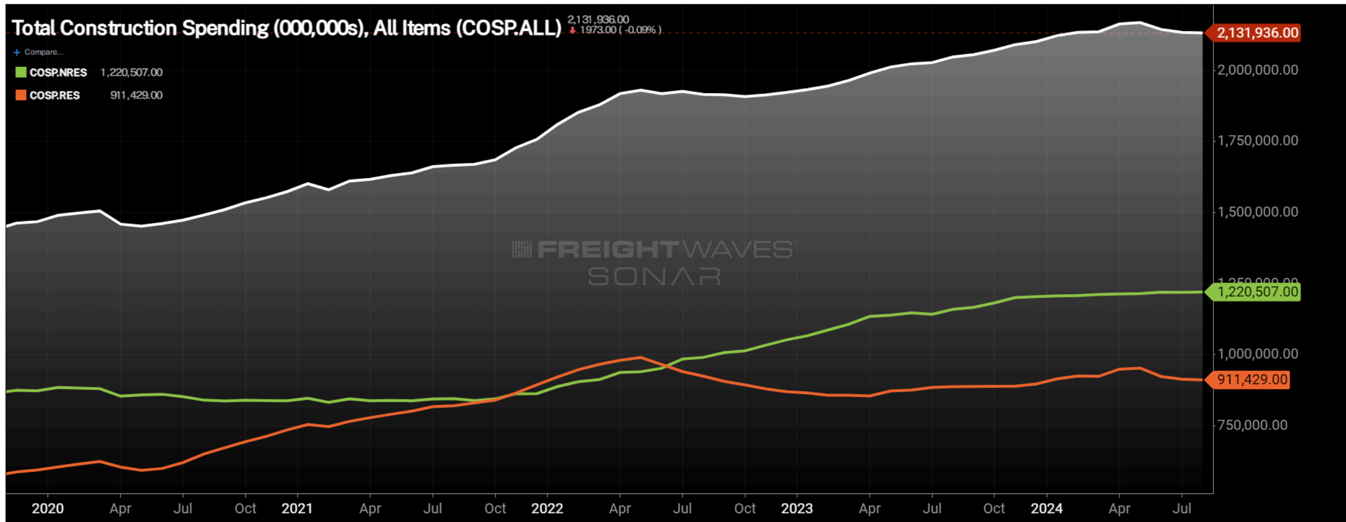
"Although most consumers continue to think it's a 'bad time' to buy a home, the recent shift in attitude toward mortgage rates is pushing overall housing sentiment higher," said Mark Palim, Fannie Mae senior vice president and chief economist, in the Oct. 7 release.

Eighty-one percent of respondents said they believe it is a "bad time" for a home purchase, which is actually slightly lower than it was last month when 83% gave that response.

The biggest shift in respondents was in how many – 42% – believe mortgage rates will decline over the next year. The difference between the percentage who believe mortgage rates will decline versus those who believe mortgage rates will increase currently sits at a 15% net decline over the next 12 months. It was minus 3% just three months ago, meaning a larger percentage believed that mortgage rates would increase compared to the percentage who believed they would be lower.

Even as sentiment continues to improve, existing home sales, which make up most sales, remain under pressure. In August, existing home sales fell by 2.5% m/m. They were down 4.2% y/y. The only region where existing home sales didn't decline was the Midwest. Inventory of unsold homes continues to creep higher, rising 0.7% m/m to 1.35 million, or the equivalent of 4.2 months' supply.

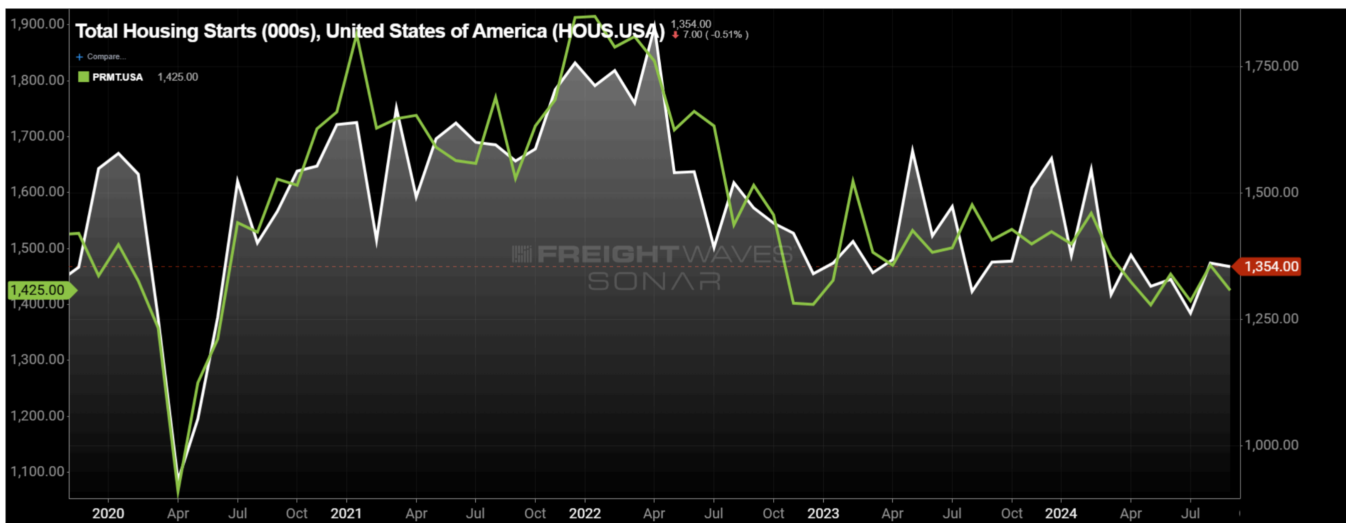
What is interesting is that the average sales price continues to rise despite the slowing sales and growing inventory levels. The median existing home sales price increased 3.1% y/y to $416,700.



August presented a slight challenge for the construction sector. Total construction spending fell by 0.1% m/m to a seasonally adjusted annual rate (SAAR) of $2.13 billion. Compared to August 2023, total construction spending was 4.1% higher this year.

Residential construction spending suffered its third consecutive monthly decline in August. The residential construction spending SAAR fell by 0.3% m/m in August to $911.4 million. Residential construction spending was 2.7% higher y/y.

Nonresidential construction spending inched higher in August. It rose by 0.1% m/m to a SAAR of $1.22 billion. Nonresidential construction spending was up 5.2% y/y. This growth really stemmed from communication, which increased 1.3% m/m, and conservation and development, which increased by 2.2% m/m.



Looking upstream in housing, activity slowed in September, which is interesting given that FOMC cut the federal funds rate target during the month. Housing starts fell by 0.5% m/m in September to

a SAAR of 1,355,000. Single-family housing starts fared better than multifamily starts, rising 2.7% m/m and 5.5% y/y, while multifamily housing starts fell 4.5% m/m and 15.7% y/y.

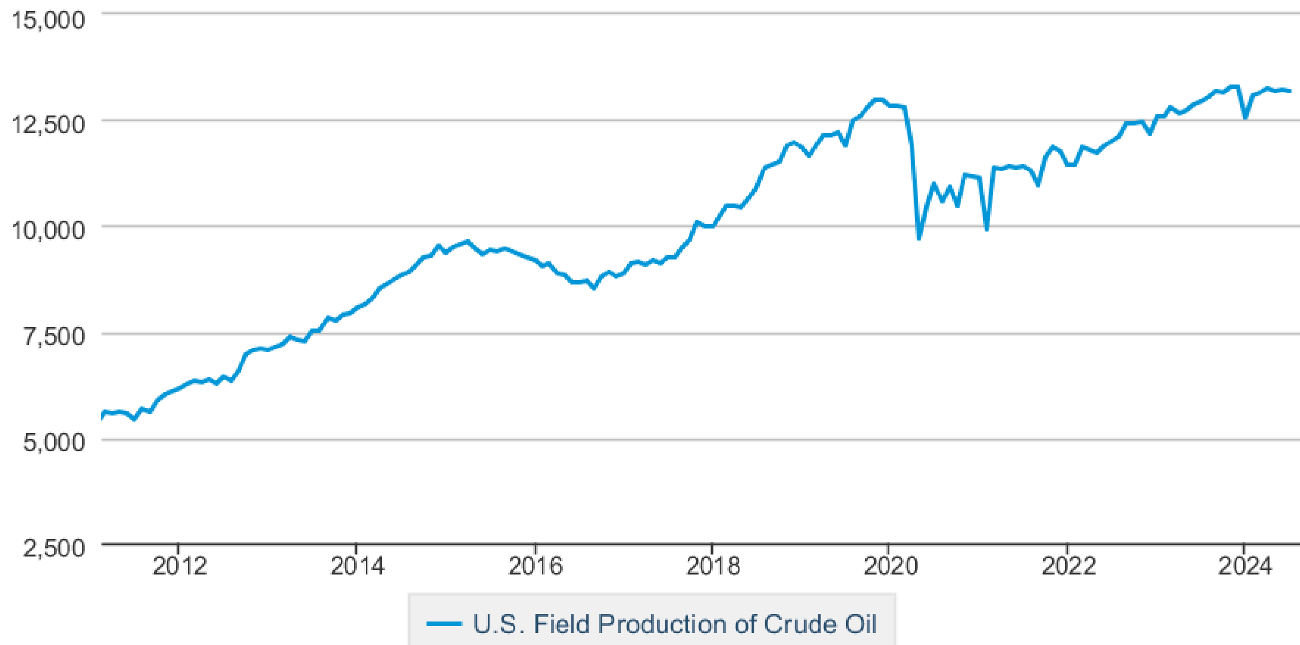
Oil market

The oil market continues to be impacted by the risks associated with a potential conflict escalation in the Middle East being a driver of crude oil pricing throughout the month. At the beginning of October, OPEC+ ministers met to discuss output policy at least through the next meeting, which is scheduled for Dec. 1.

OPEC+ ministers opted to keep policy the same at the October meeting, as the countries plan to begin lifting restrictions on production in December. OPEC+ countries are expected to increase production by 180,000 barrels per day (bpd) during the month, about 3% of total production. That could change however, especially at the meeting in early December, depending on the direction of both demand and price during November. The increase in production was initially set to begin in October, but weak demand that was contributing to lower oil prices caused OPEC+ to push the increased production back.

While producers overseas weigh their options in terms of production to close out 2024, domestic oil production remains elevated, though September faced some challenges. In September, domestic crude oil production fell by 110,000 bpd from the August revision of 13.36 million bpd. Total production in September was 13.25 million bpd, matching April's production figures – good enough for the second-highest production month of 2024.

The challenges in September really happened at the end of the month as Hurricane Helene caused a production slowdown in the Gulf of Mexico. It is estimated that the storm, while impacting the Big Bend region of Florida, shuttered about a quarter of the production facilities in the Gulf of Mexico.



Data source: U.S. Energy Information Administration

With the slight slowdown in production in September thanks in part to Hurricane Helene, the forecast for another all-time high in oil production is pushed out another month. In September's U.S. Energy Information Administration (EIA) Short-Term Energy Outlook, expectations were for domestic crude oil production to set a new high in each month of the fourth quarter. With the impacts of the hurricane, that isn't likely to happen as production forecasts were revised lower for October. The Short-Term Energy Outlook released in October now projects that domestic crude production will rebound in October, falling about 40,000 bpd short of August's production, but then will continue to grow through December before plateauing until the back half of 2025.

The Baker Hughes active rig count is thought to signal future demand for drilling as well as inputs into the oil industry. The count for the U.S. as a whole totaled 585 rotary rigs as of Oct. 25. The latest count did show a slight decline, falling by three rigs, now matching the total from late August. Rig counts are down by 40 compared to this time last year, a 6.4% decline.

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	47	-1	-2.1%	-1	-2.1%
Appalachia	32	-1	-3.0%	-6	-15.8%
DJ Basin	11	2	22%	-2	-15.4%
Gulf Coast Basin	68	-1	-1.4%	-9	-11.7%
Permian Basin	270	-8	-2.9%	-24	-8.2%
Williston Basin	40	2	5%	8	25%
Other	144	-18	-11.1%	-14	-8.9%
Total	**612**	**-25**	**-3.9%**	**-48**	**-7.3%**

Source: Enverus daily active rig count as of Oct. 27.

Looking across the basins tracked by Enverus, there are some positive takeaways. There was an increase in active rig counts in both the DJ Basin and the Williston Basin. The Williston Basin also turned positive on a year-over-year basis. The Permian Basin continues to see reduction in rig counts, but as some of the largest exploration and production companies have stated in earnings reports, 2025 appears to be the year smaller players start deploying capital again, especially if the FOMC continues to cut interest rates.

Crude prices bounce on threat of production halts in Libya

October has been the tale of two halves when it comes to oil prices. At the beginning of the month, oil prices surged, reaching the highest levels in over a month, but in the back half of the month, oil prices have come under pressure, including one of the largest daily declines in the past two years.

The conflict in the Middle East has been the primary reason for the drop in crude oil prices in the final week of October. After Iran launched an attack on Oct. 1 against Israel, fears of retaliation set in and drove crude prices higher during the first week of the month. Additionally, two hurricanes in the Gulf of Mexico provided a boost to prices, though it was fairly short-lived as production sites were largely spared any damage.

On Oct. 26, Israel launched targeted attacks against Iran. The concerns were that Israeli attacks would focus not only on military sites but also oil production facilities, a major driver of the Iranian economy. As reports come out of Iran, oil production facilities appear to have been spared, causing a sell-off and sending oil prices significantly lower.

Additionally, the recent growth in U.S. crude inventories could be having negative effects on pricing. Over the past month, the U.S. has increased crude inventories by nearly 13 million barrels, growing inventories greater than expectations in three of the past four weeks.

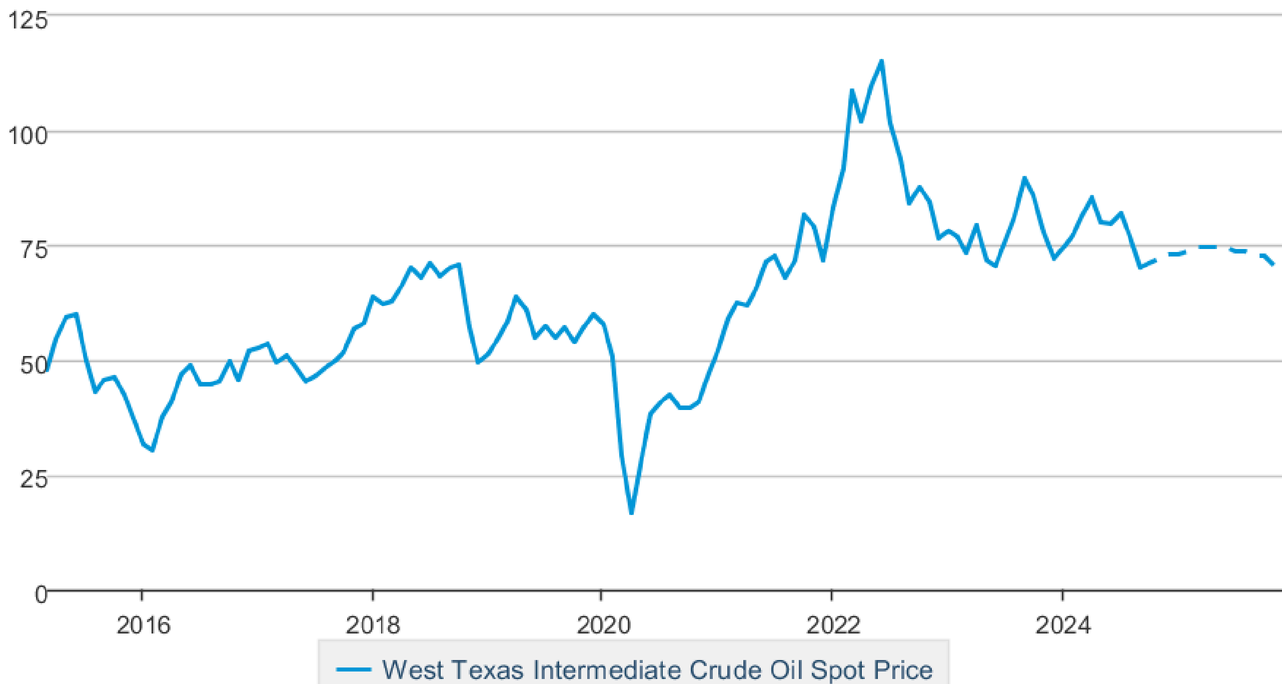
In the OPEC+ Monthly Oil Market Report for October, the organization remains optimistic about overall global economic growth, especially in the U.S., revising its 2024 U.S. estimates slightly higher to 2.5%, but it expects growth in the U.S. to total 1.9% in 2025. But even with the optimism, some of the bullishness surrounding oil demand is fading. The organization lowered its 2024 oil demand growth forecast by 106,000 bpd. It also lowered expectations for growth in 2025 but continues to cite China as the country that will be a contributor to the growth after the Chinese economy has lagged behind the rest of the world for much of 2024.

The bearish undertones in the International Energy Agency's forecast for global oil demand growth continued in October. The IEA expects global oil demand to grow by just under 900,000 bpd in 2024, compared to 2.1 million bpd in 2023. The agency also expects demand in 2025 to be subdued compared to 2023, growing by 950,000 bpd in 2025.

The IEA also highlighted that the tensions in the Middle East as well as the resumption of activity from Libya created the upward move in crude oil prices globally.

For now, prices of WTI — a domestic benchmark — are down $3.94, to $67.82 per barrel, following Israel's avoiding Iranian oil production facilities. Over the past month, WTI prices have declined by 0.66% and are down 17.86% y/y.

According to EIA projections, crude oil prices, both Brent and WTI, will be higher in the back half of 2024 despite short-term pressure.



Data source: U.S. Energy Information Administration

The EIA's latest Short-Term Energy Outlook (STEO), published in early October, didn't capture the upward move to start October and missed the decline in the back half of the month. The STEO forecasts WTI crude spot prices to close out October at $71 per barrel, a nearly 5% premium from where WTI is currently trading. Expectations are for WTI crude prices to move higher through the first half of 2025, though the peak is now expected to be lower than previously expected at $74.50 per barrel in May, compared to the greater than $80 per barrel expected in the September STEO.

What else we're watching

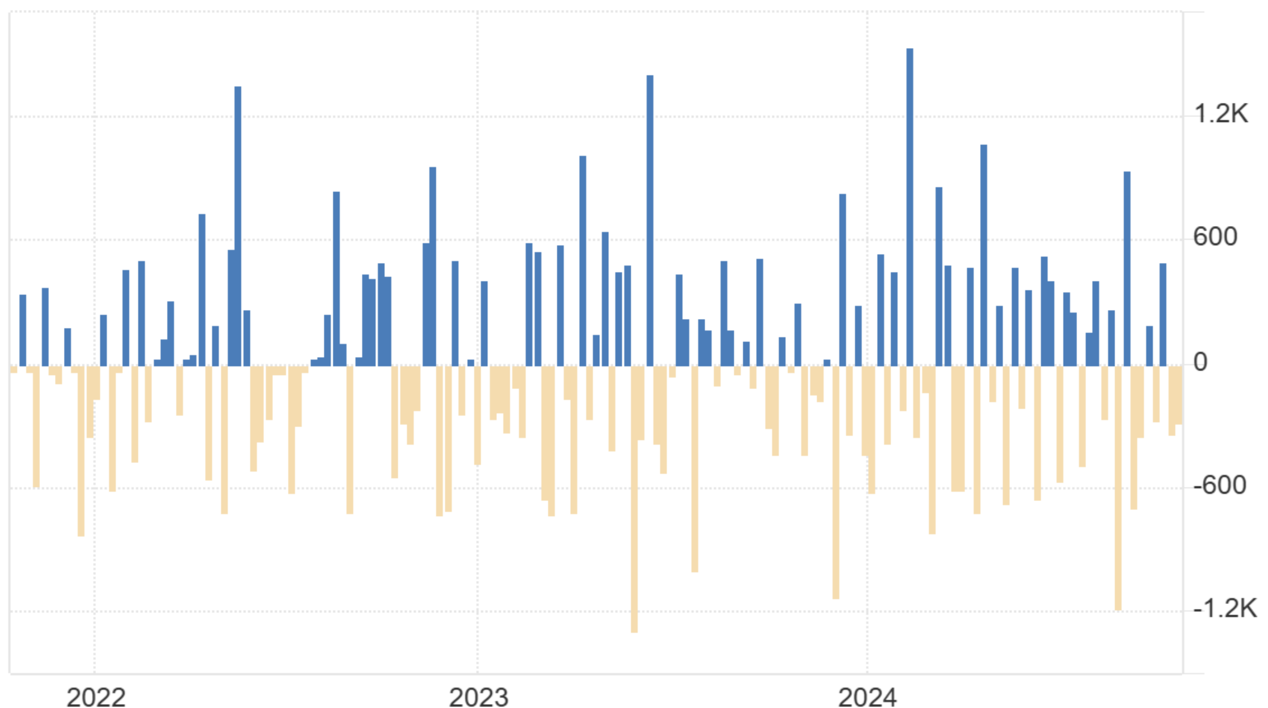
Crude stocks in Cushing, Oklahoma, have recovered slightly in recent weeks but remain depressed compared to where they were for much of the year. Over the past month, crude inventory stocks have grown by 1,849,000 barrels. In the week ending Oct. 11, crude stocks in Cushing eclipsed 25 million barrels for the first time since late August. Crude stocks in Cushing are up 16% from this time last year, when there were concerns that oil reserves would be depleted to unsustainable levels. The 20 million-barrel threshold is arguably the most important number to watch moving forward.

Why is 20 million barrels the magic number?

That is the average daily consumption in the U.S. Additionally, in the Cushing stock, anything under 20 million barrels is effectively not usable for production. So the little boost in October is important for inventory levels that challenged the 20 million-barrel level just a little over a month ago. At present, there are 1.23 days' worth of inventory in Cushing stocks, up from 1.14 days in last month's report and 1.06 days at this time last year.

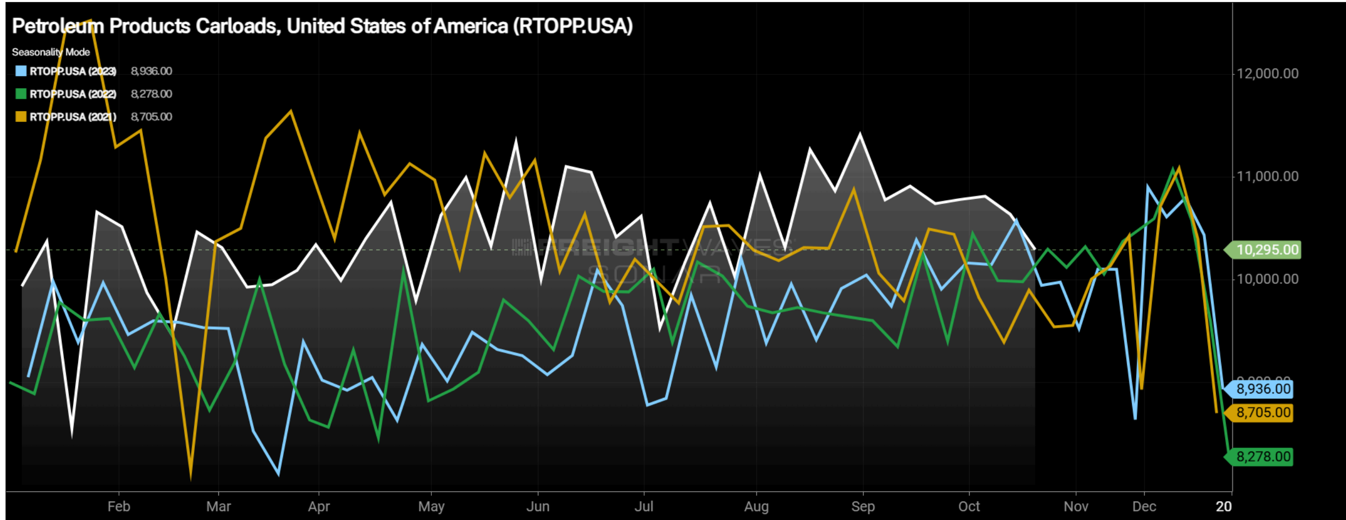
The challenge moving forward is that colder months are on the horizon. That brings more demand, especially for home heating oil, which competes for refining capacity with diesel No. 2. The months leading into the winter months are important to build U.S. home heating oil stocks, especially with weather being unpredictable. In September, there were just 39 U.S. heating degree days. According

to the EIA, "a degree day compares the mean (the average of the high and low) outdoor temperatures recorded for a location to a standard temperature, usually 65 degrees Fahrenheit in the United States." Thus a heating degree day measures how low the temperature was for a given period of time. Compared to 2023, there were seven fewer heating degree days and indications of more mild temperatures, thus less demand for home heating oil. In the most recent STEO, projections for the number of heating degree days indicate a slightly colder winter than in 2023/24, but the peak number of heating degree days is lower (i.e., expectations are for higher degree heating days in aggregate for December through February, but January's peak is lower).



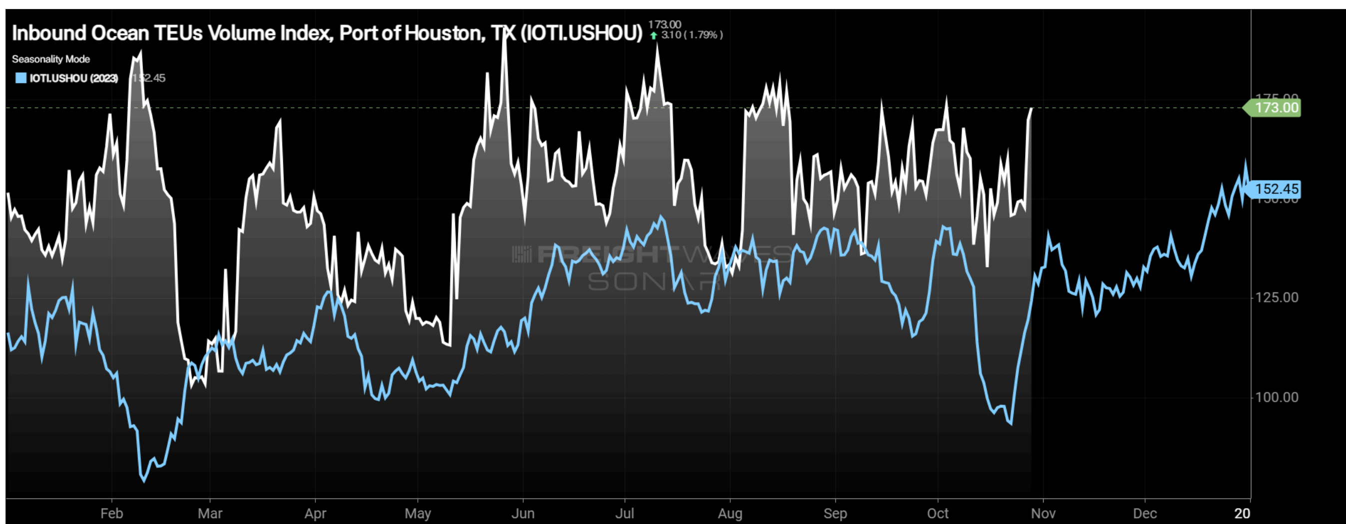
Source: tradingeconomics.com | U.S. Energy Information Administration

With lower temperatures creeping in across the country, demand for home heating oil has gained some momentum as evidenced by the reduction in inventory. Heating oil stocks in four of the past six weeks have been drawn down. In the week ending Oct. 18, the most recent week for which data is available, heating oil stocks fell by 280,000 barrels. Since the beginning of October, home heating oil stocks have experienced a net reduction of 126,000 barrels. For comparison, last October, home heating oil stocks experienced a net reduction of 26,000 barrels.



FreightWaves SONAR: Petroleum Product Carloads. 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

As domestic oil production faced pressure in late September and early October, petroleum product carloads are starting to suffer from the slowdown. Over the past month, the number of petroleum product carloads is down 4.2%, falling to the lowest level since early August. Even with the decline, the railroads are moving more petroleum products than they have the past three years. Compared to the same week last year, petroleum product carloads are 3.5% higher. If crude oil production does increase in the coming months, expect an uptick in petroleum product carloads as rail service has remained fairly healthy.



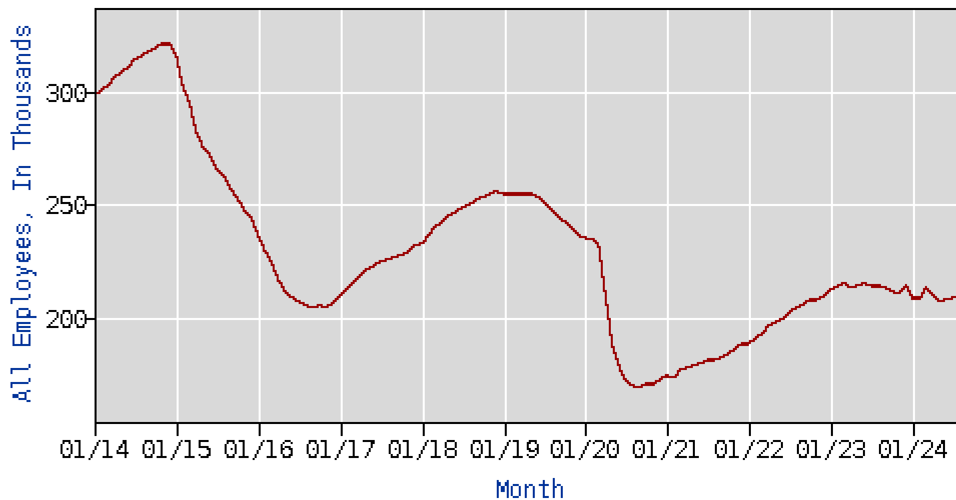
FreightWaves SONAR: Inbound Ocean TEU Index to the Port of Houston. 2024 (white) and 2023 (blue)

The strike by the International Longshoremen's Association was short-lived, only lasting three days before a tentative agreement was reached. The agreement effectively extended the current master contract until Jan. 15, 2025, allowing for continued negotiations for new contract requirements. The extension, while it brought port workers back to work, also created the potential for another

disruption in the coming months. If the tentative agreement isn't agreed upon by the rank and file, port workers could go on strike once again on Jan. 15.

If there is a positive, that potential timeline for a strike isn't as detrimental to U.S. supply chains, specifically in the retail space, that rely on bringing goods in during the early stages of the fourth quarter versus the first quarter that is traditionally a slower period of the year for freight. A pull forward ahead of the Lunar New Year could be impacted by the potential for that strike, but it's still too early to tell if that will actually occur.

The strike had limited impact on the rate of TEUs destined for the Port of Houston. Over the past month, the Inbound Ocean TEU Volume Index (IOTI) has increased by 9.8%, and TEU volumes headed to the Port of Houston are near the highest level of the year. The IOTI for the Port of Houston is 39% higher than it was this time last year. China and Mexico are the primary trading partners utilizing the Port of Houston, representing over 40% of TEUs cleared at the port over the past month.



Source: U.S. Bureau of Labor Statistics, Texas Economy at a Glance. Mining and Logging Employment figures

The employment situation in Texas is an interesting one. Total nonfarm payrolls have increased by 2.3% over the past year, which is a sign of a growing economy, but where the growth is happening is a sign of a changing economy. The Texas employment market was driven heavily by mining and logging, which includes the oil and gas industry. That sector has seen the number of jobs reduced by 1.7% over the past year and over 33% in the past decade. At the same time, education and health services have grown payrolls by 3.2% over the past year and nearly 30% over the past decade.

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