FEBRUARY
2025

STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

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Shaking the seasonal norms

January 24, 2025 | 1 p.m. EDT

Overview

The transportation market is trying to get through January without entering its typical seasonal depression.

The truckload market is experiencing lower volume levels than the previous two years, but tender rejection rates have remained elevated into the new year thanks in large part to winter weather in the south.

The intermodal market continues to be the beneficiary of less time sensitivity and strong import levels. Intermodal volumes really didn't decline seasonally in the fourth quarter, which is abnormal, but it sets the market up for continued growth into 2025. The only potential derailments would be service degradation and a dramatic slowdown in imports.

Current import levels suggest that more freight is moving into the country than there was last year. Now the questions on the maritime side of the market are: how do ocean carriers handle adding the capacity that is expected to come online during the year and what do potential tariffs do for volumes? Ocean spot rates suggest that carriers didn't have as much pricing leverage to start the year as they expected, but ocean spot rates are still elevated.

The macroeconomy continues to be in a relatively healthy state, at least on the consumer side. Consumers have continued to spend and it doesn't appear that it will stop anytime soon. The labor market remains in a fairly strong place and inflation, while up slightly to close 2024 is still under control for the time being. The manufacturing side of the economy is still lagging behind and fewer interest rate cuts in 2025 will likely dampen potential activity.

Macro indicators	(y/y change)
Dec. industrial prod. change	+0.9% (+0.5%)
Dec. retail sales change	+0.4% (+3.9%)
Dec. U.S. Class 8 orders	36,500 (+39%)
Dec. U.S. trailer orders	24,300 (-3%)

Truckload indicators	(y/y change)
Tender rejection rate	7.09% (+179 bps)
Average dry van spot rate[1]	$2.44/mi (+0.8%)
LAX to DAL spot rate[2]	$2.30mi (+14.4%)
CHI to ATL spot rate	$3.26/mi (+17.7%)

Tender volumes	(y/y change)
Atlanta	336.44 (-6.9%)
Dallas	321.81 (-13.3%)
Los Angeles	257.7 (-2%)
Chicago	180.41 (-20.3%)

Tender rejections	(y/y change)
Atlanta	6.76% (+410 bps)
Dallas	7.31% (+436 bps)
Los Angeles	4.1% (+71 bps)
Chicago	7.13% (+121bps)

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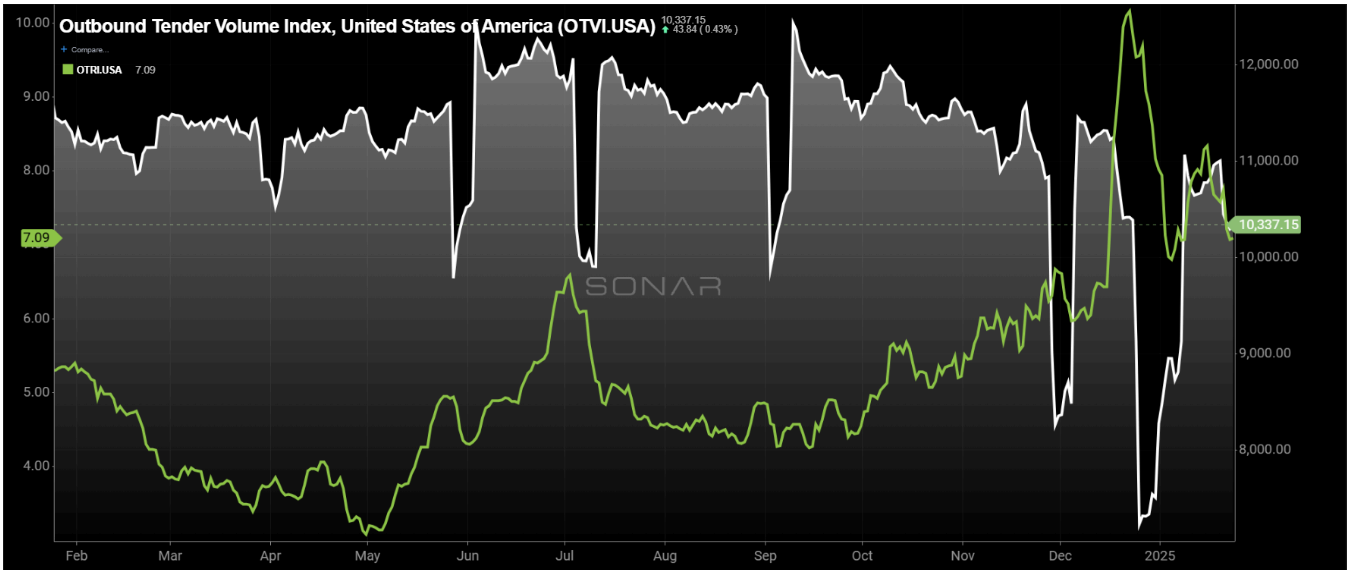
[1] FreightWaves National Truckload Index
[2] FreightWaves TRAC spot rate

Truckload markets

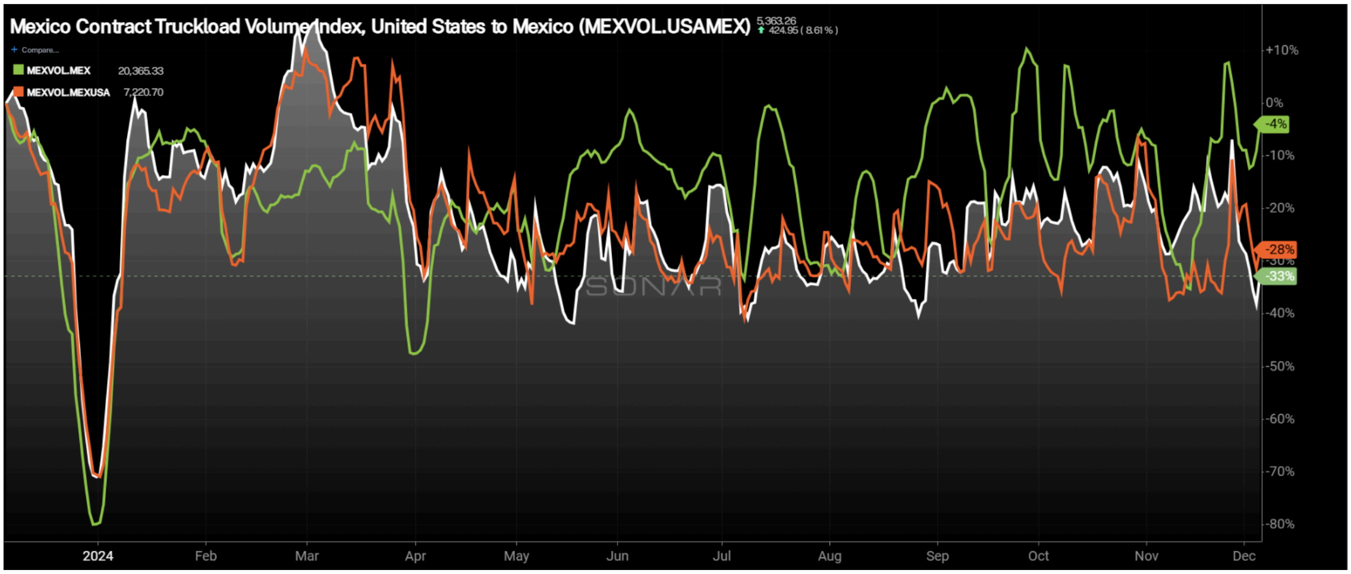
The truckload market has been increasingly impacted by winter weather events, especially when compared to other large-scale disruptive weather events like hurricanes. As the first quarter is firmly underway, the market still faces some headwinds from a demand perspective that is extremely hard to forecast. Volumes in other modes have been relatively strong, but it hasn't translated to truckload volumes, largely due to freight being less time sensitive than it was during the COVID-19 pandemic.



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

Truckload volumes are moving in a more seasonal pattern to start the year, compared to the unseasonal decline that began around Labor Day and lasted through the end of the year. While tender volumes are moving in a seasonal pattern, that doesn't mean that it's a positive sign as January and February are typically challenging for freight volumes. The Outbound Tender Volume Index is up against easy comps at the moment compared to last month, currently up 41%. That is solely due to the timing for the holidays. Earlier in the month, volumes were running down 5% m/m which is far more representative of what was happening in the market than the growth shown currently. Compared to this time last year, tender volumes are down nearly 10%, though some of the decline has to do with a later Martin Luther King Jr. holiday, but even so for much of January, tender volumes have been running down in the mid-single digits.

The truckload market really is the tale of two markets at the moment. The dry van side of the market continues to combat lower tender volumes as strong imports really haven't boosted the market. The Van Outbound Tender Volume Index was down over 7% m/m ahead of the holiday comps and was also down mid-single digits y/y for much of January. The reefer side of the market continues to see strong growth. The Reefer Outbound Tender Volume Index was up mid-single digits compared to last month for much of January and up high single digits y/y.



Source: SONAR. Mexico Contract Truckload Volume Index, relative view. Northbound (orange), southbound (white) and intra-Mexico (green).

Intra-Mexico truckload volumes continue to be the outperformer of the Mexico contract truckload volume data. Intra-Mexico volumes have fallen by 4% over the past year, while cross-border volumes are down significantly worse, but it will be interesting to see if that decline in cross-border is just a result of the holidays or if it is a broader issue. Northbound volumes from Mexico to the U.S. are down 28% y/y, while southbound volumes from the U.S. to Mexico are down 33%.

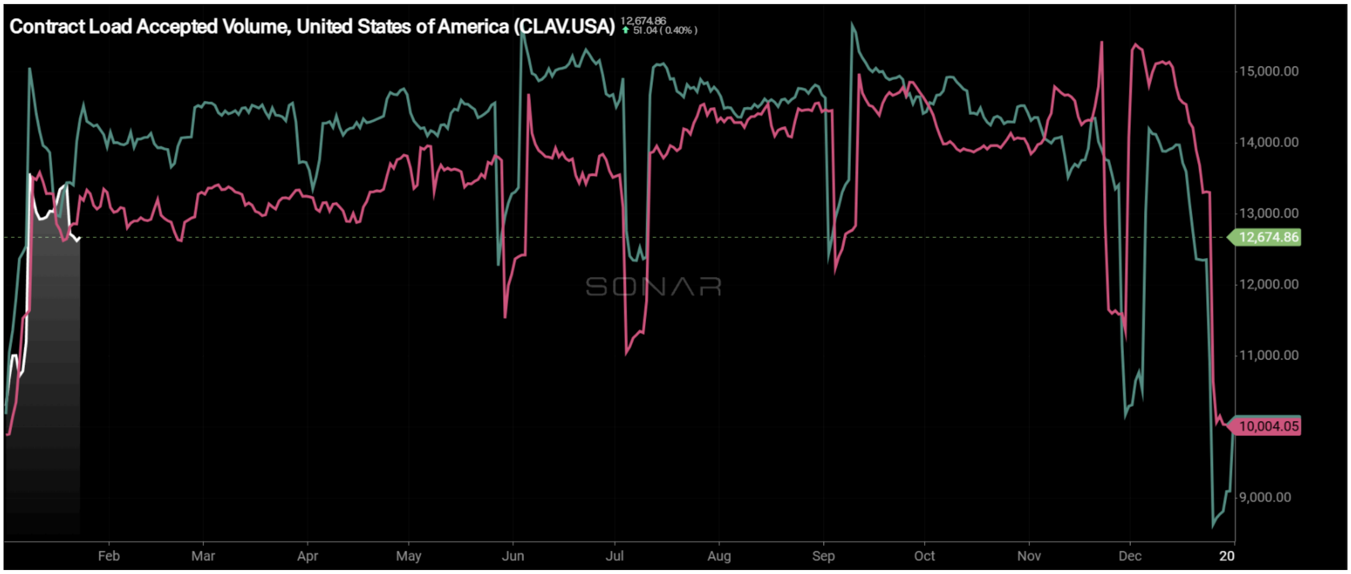


Chart: SONAR. Contract Load Accepted Volume: 2025 (white), 2024 (green) and 2023 (pink).

Contract Load Accepted Volume is an index that measures accepted load volumes moving under contractual agreements; in short, it is similar to OTVI but without the rejected tenders. At present, accepted tenders are up 45.37% m/m, due to holiday comps, but were down mid-single digits for the majority of January. Accepted tenders are down 11.4% y/y at the moment, a decline that has been similar to the rest of January.

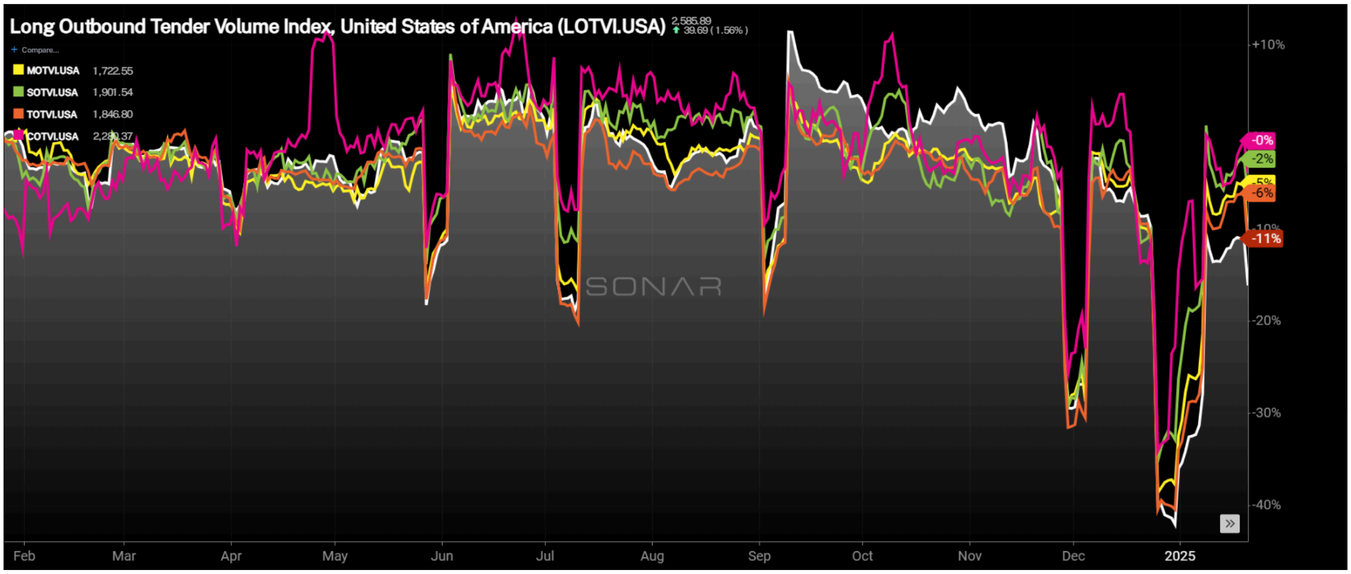


Chart: SONAR. Relative view of tender volumes by mileage band: 800-plus miles (white), 450-800 miles (orange), 250-450 miles (yellow), 100-250 miles (green) and less than 100 miles (pink).

Across the mileage band, volumes continue to face headwinds, with only loads moving less than 100 miles being flat y/y, while the rest are down significantly. Long haul, or loads moving more than 800 miles, have experienced the sharpest decline, down 11% y/y ahead of the holiday comps. Part of the reason for the decline in long haul truck volumes has been the rise of intermodal volumes. It will be interesting to pay attention to the shorter lengths of haul in the coming months and the relationship with intermodal volumes. If intermodal volumes continue to outperform, as the freight moves closer to areas of consumption, it will help drive some of the volume in the shorter lengths of haul.

With headwinds continuing to be present on the volume side of the market, the capacity side of the market is showing that the market is moving to a tighter state of being. The Outbound Tender Reject Index briefly touched double-digits during the Christmas holiday period, but it didn't retreat as the seasonal patterns might expect. Instead, severe winter weather impacting areas of the country not equipped to handle it has kept rejection rates elevated into 2025. The Outbound Tender Reject Index currently sits at 7.09%, down 260 basis points m/m, but 46 bps higher than the Thanksgiving holiday reading. Additionally, tender rejection rates are 179 basis points higher than they were this time last year.

If capacity continues to exit the market like the data is currently suggesting, any sudden shock to the demand side of the market will put the capacity side of the market under significant pressure. Even without a demand side shock, the market is entering a fundamentally tighter state, though it likely wouldn't be as inflationary as recent cycles.

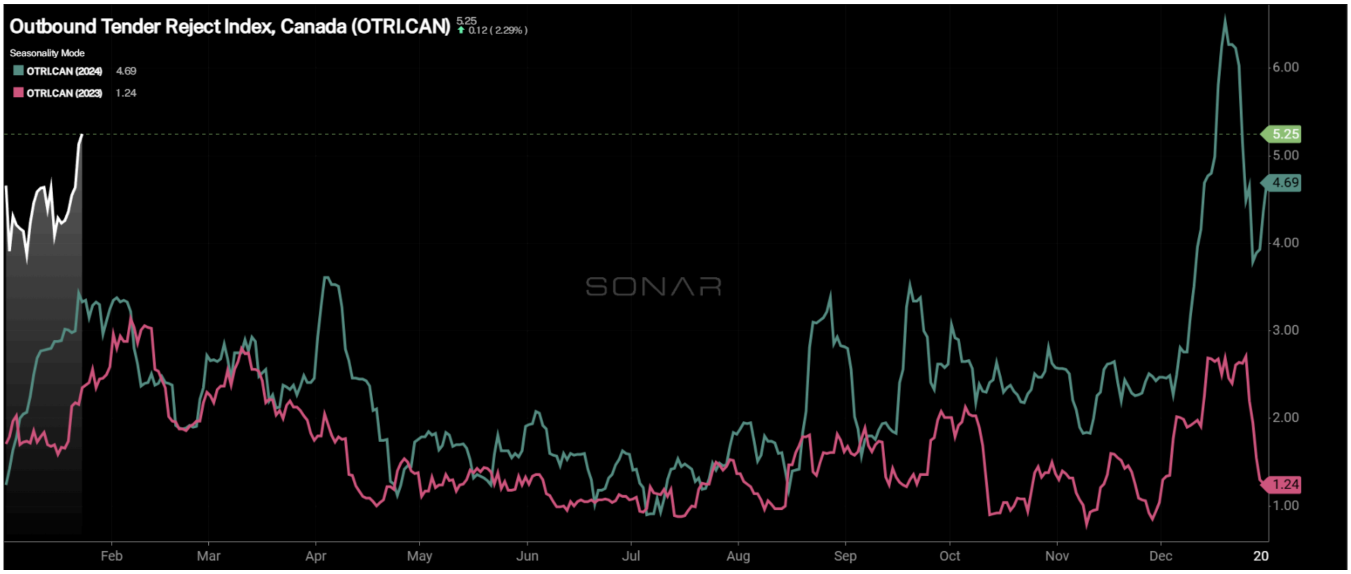
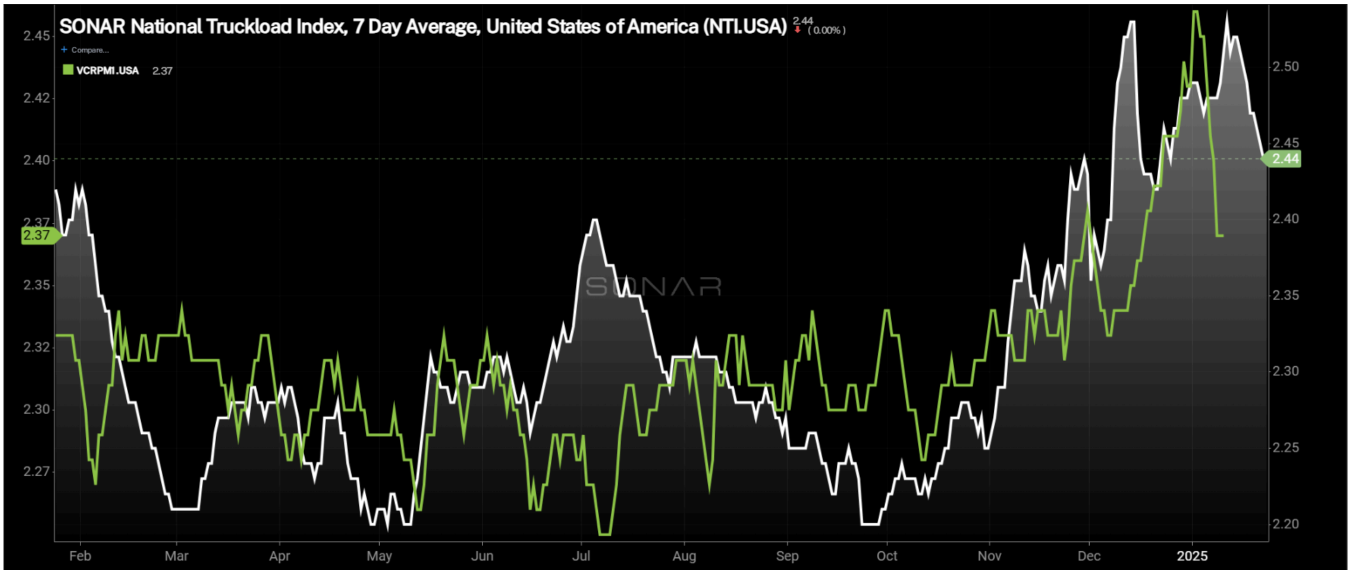


Chart: SONAR. Outbound Tender Reject Index for Canada: 2024 (white), 2023 (pink), 2022 (green) and 2021 (yellow).

The truckload market in Canada is facing capacity pressures, though rejection rates are low relative to the U.S. Over the past month, the tender rejection rate in Canada has risen by 60 basis points to 5.25%. Tender rejection rates in Canada are more than double where they were to start December. Compared to this time last year, tender rejection rates in Canada are up 192 bps, though unlike in the U.S., tender rejection rates tend to move higher in Canada during the back half of January.

Spot rates retreating post-holiday



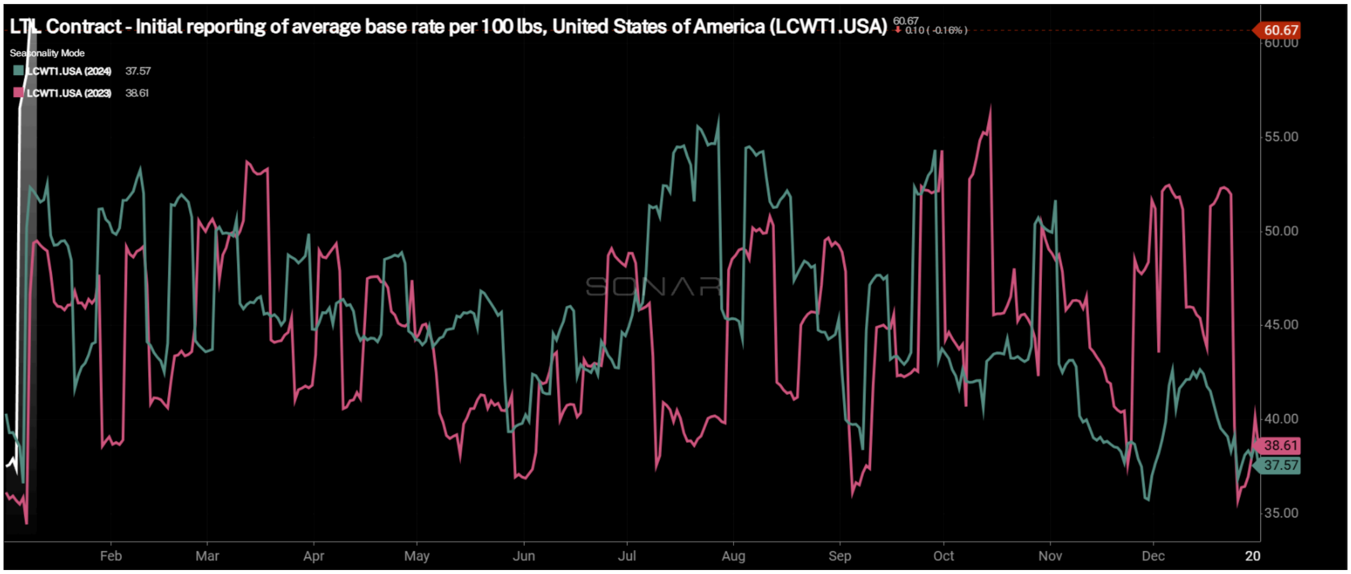
Source: SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

Spot rates experienced positive reactions not only to the holidays but also the winter weather to start January, staying elevated for longer into January than normal. The SONAR National Truckload Index

– a seven-day moving average of national dry van spot rates that is inclusive of fuel – has finally given back some of the recent increases associated with the holidays and weather. Over the past month, the NTI has fallen by one cent per mile to $2.44. That is one cent per mile higher than it was this time last year, which was a time that inflationary due to winter weather was also present. Removing fuel from the NTI, spot rates are up 6 cents per mile y/y, a sign that the underlying rate has indeed moved higher.

Contract rates, which are reported on a 14-day lag, experienced the holiday boost to set a new 52-week high, but were faster to retreat than the spot rates. Over the past month, the initially reported dry van contract rate per mile, excluding fuel, is four cents per mile at $2.37. The contract rate reached $2.46 on New Year's Day to set the new high. Compared to this time last year, contract rates are up 7 cents per mile and it will be interesting to see if that continues as publicly-traded truckload companies are reporting positives around revenue per loaded mile.

LTL carriers attempting to push GRIs to start the year.



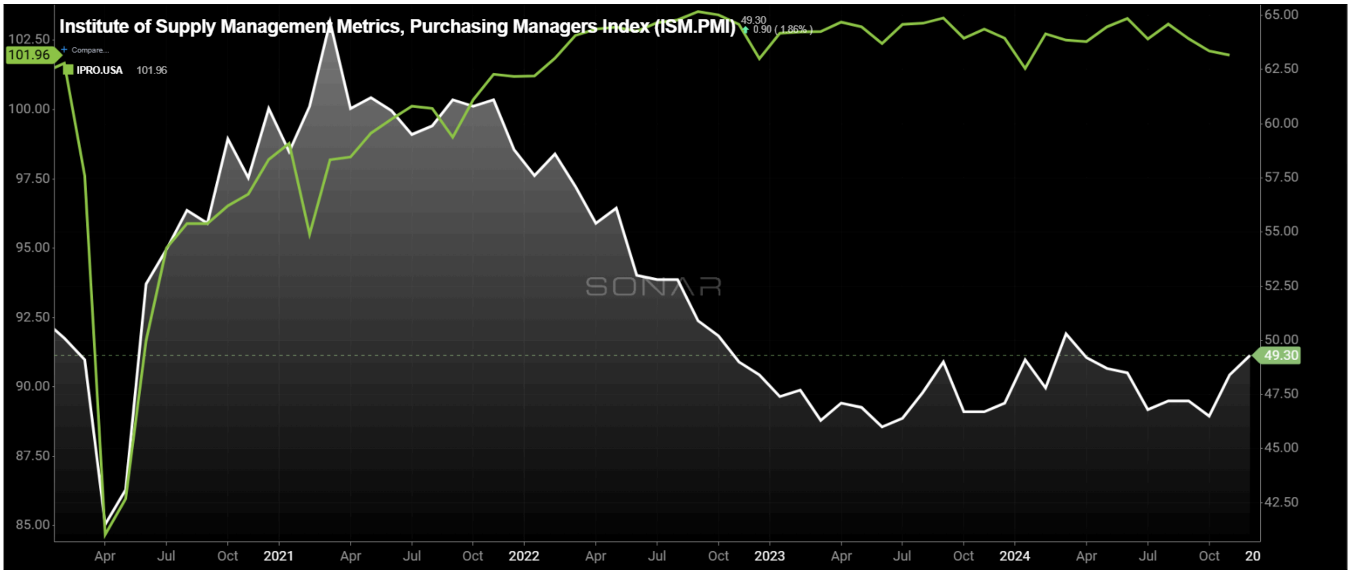
Source: SONAR. Initially reported LTL contract rate per hundredweight: 2024 (white), 2023 (pink) and 2022 (green).

The less-than-truckload market saw pricing power deteriorate in the final quarter of 2024 as the anniversary of the exit of one of the largest carriers passed. LTL carriers are clearly being more disciplined in pricing to start 2025 with a significant increase to the initially reported LTL contract rate per hundredweight. Now the question is: does the increase have to do with mixing of freight or is it a product of carriers trying to push General Rate Increases to start the year? Either way, the initially reported LTL contract rate per hundredweight is up 17% year over year. An increase that significant seems unsustainable without a demand side increase, so it will be interesting to see what happens in the coming months.

Macroeconomic conditions

The manufacturing sector remains asleep at the wheel as there hasn't been much positive news on that front. A less aggressive Federal Reserve could certainly limit large capital-intensive projects by manufacturers, but there is the potential for tax breaks to help stimulate the industrial side of the economy.

Those will be trends to monitor in 2025 and beyond. At present, the manufacturing sector remains in contraction.



For the ninth consecutive month and the 25th of the past 26 months, the Manufacturing Purchasing Managers' Index produced by the Institute for Supply Management was in contraction. The PMI came in at 49.3 in December, up 0.9 points m/m. A positive sign despite the manufacturing sector remaining in contraction is that the overall economy continues to expand, as evident by the PMI's remaining above 42.5.

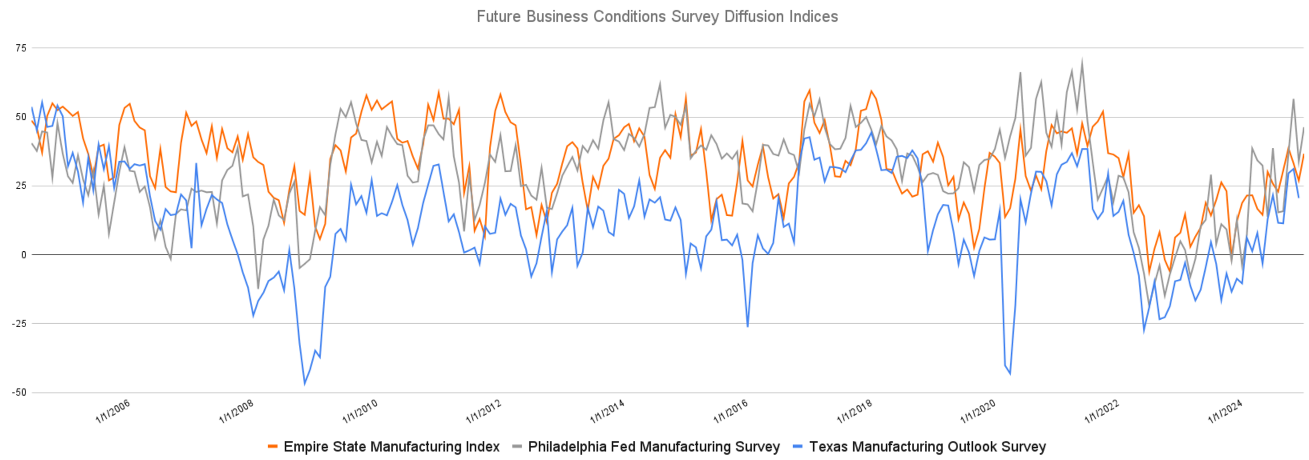
New orders continue to be a bright spot overall as they have now been in expansionary territory for two consecutive months. The New Orders Index increased by 2.1 points m/m to 52.5, though just 21% of respondents reported higher levels of new orders.

Another positive trend is that manufacturers' customers appear to be running leaner inventory levels at the moment. The Customers' Inventories Index fell by 1.7 points m/m in December to 46.7, bringing it into "too low" territory. 18.2% of respondents stated that customer inventory levels were too low, compared with 13.9% in November.

Something that has been interesting within the PMI is the downward trend in the Employment Index. For seven consecutive months, the Employment Index has been in contraction, falling by 2.8 points m/m in December to 45.3. This slowdown in employment suggests continued layoffs hitting the manufacturing sector, where the theme going forward appears to be: doing more with less.

While the PMI suggests a slowdown in manufacturing, industrial production grew during December. Overall industrial production grew by 0.9% m/m in December, the fastest monthly growth figure in more than two years. Industrial production was up 0.5% y/y in December.

Manufacturing increased production by 0.6% m/m but was unchanged from December 2023. Industrial production of business equipment experienced the largest monthly increase, rising by 1.4% m/m, though it was still down 4.3% y/y.



Manufacturing conditions were even more challenging in January in New York than they were in December. The Empire State Manufacturing Survey, conducted by the Federal Reserve Bank of New York, showed that the current General Business Conditions Index fell by 14.7 points m/m to minus 12.6. New orders and shipments followed the way of the overall index, declining by double digits and entering negative territory. The New Orders Index fell by 12.9 points m/m to minus 8.6 and the Shipments Index fell by 10.8 points m/m to minus 1.7.

Interesting enough, the slowdown in conditions during January was actually met with some optimism about the next six months. The forward-looking General Business Conditions Index increased by 9.8 points m/m to 36.7, the highest level since October. Firms are more optimistic about new orders, rising 5.9 points m/m to 34.2 as more than 50% of respondents expect higher order levels in the next six months.

Sentiment in Philadelphia was dramatically different from that in New York. The Manufacturing Business Outlook Survey conducted by the Federal Reserve Bank of Philadelphia showed the current General Business Activity Index increased by 55.2 points m/m from minus 10.9 to positive 44.3. The forward-looking General Business Activity Index also increased by 12.5 points m/m to 46.3. New orders and shipments were two sources of optimism for the six months ahead.

Manufacturing conditions in Texas improved in December after a slowdown in November. The current General Business Activity Index of the Federal Reserve Bank of Dallas' Texas Manufacturing Outlook, increased by 6.1 points to positive 3.4. It will be interesting to see if business activity contracts in January, given winter weather impacted parts of the state during the month. Looking ahead, optimism is fading slightly as the forward-looking General Business Activity Index fell by 10.6

points m/m to 20.6, though it is the seventh consecutive month that firms are bullish on the next six months.

On the employment front, the labor market continues to be relatively strong, with the January jobs report besting analysts expectations once again. Total nonfarm payrolls increased by 256,000 in December, compared to the expectations of 155,000 added jobs during the month. The unemployment rate ticked slightly lower during the month, falling by a tenth of a percentage point to 4.1%. While the unemployment rate is certainly higher than it has been for much of the past three years, it is still historically low relative to pre-pandemic levels.

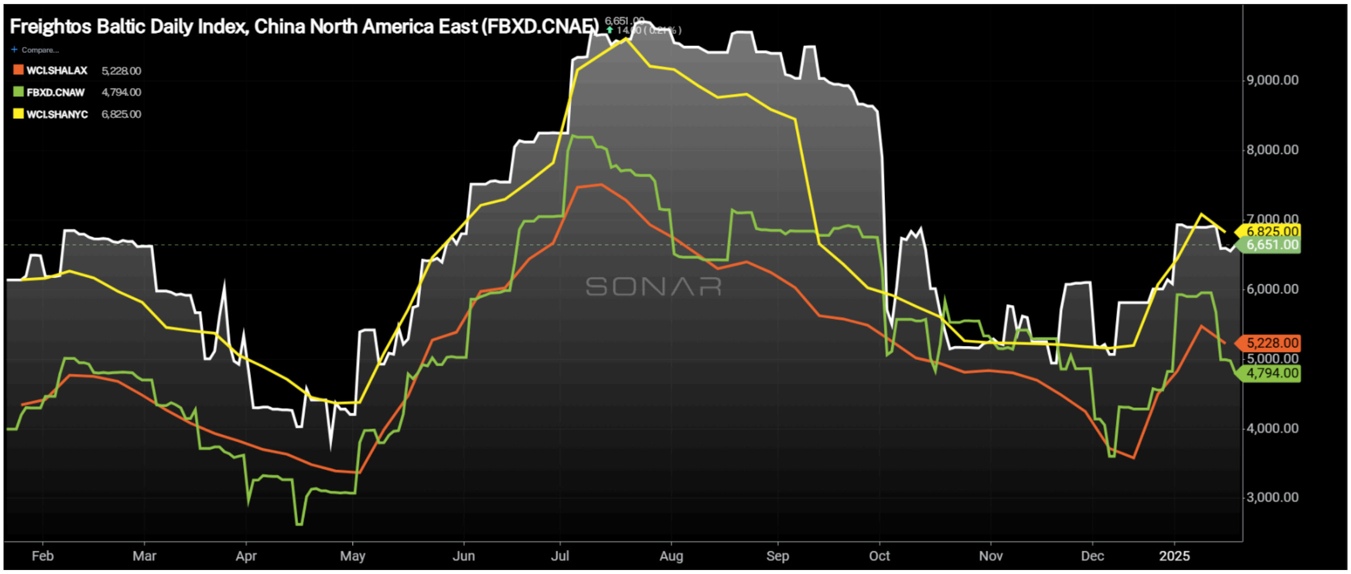
The growth in December continued to be led by the segments of the economy that have been pushing forward: leisure and hospitality, health care, and government. The leisure and hospitality sector added 43,000 jobs in December, up 1.9% year over year. Much of that increase was from increased hiring at food service and drinking places, better known as bars and restaurants, which added 29,800 jobs during the month. The health care sector added 46,100 jobs in December.

Government payrolls expanded by 33,000 in December, but there is nuance to that figure, as it captures hiring at all levels: local, state and federal. The growth in December was largely at the local and state levels, adding 17,000 and 10,000 jobs, respectively.

One bright spot outside of the three segments mentioned above that have arguably carried the labor market forward throughout the past year was the growth in retail trade payrolls. While December tends to be a month when retailers do hire seasonally, the seasonally adjusted payrolls increased by 43,400 during the month. Much of that growth was in general merchandise, which added 12,700, and clothing, which added 22,600.

Maritime: Peak season waning, volumes off recent highs

The ocean market is entering one of the strongest periods of the year as the Lunar New Year rapidly approaches. Ocean spot rates are retreating, but some of that is a result of capacity being added to the market and limited time sensitivity in freight once it arrives stateside. After the Lunar New Year passes, the potential impacts from tariffs arguably becomes more impactful to the market, though the prolonged peak season of 2024 may minimize those impacts initially.

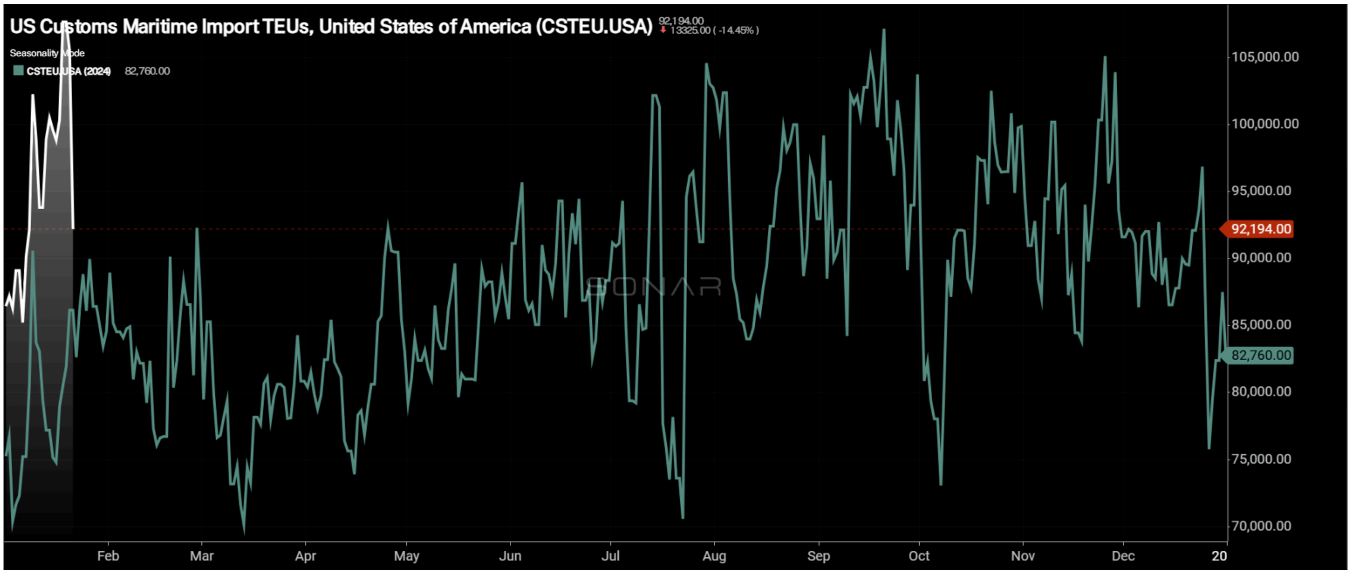


Source: SONAR. Container spot rates, YTD view: Drewry World Container Indexes: Shanghai to Los Angeles (orange), Shanghai to New York (green). Freightos Baltic Daily Index: China to North American West Coast (yellow) and China to North American East Coast (white).

Ocean spot rates are still elevated across the majority of the major indices on both a monthly and annual basis, but have declined since the beginning of the year. The reasoning behind that is the general rate increases that ocean carriers tried to push through at the beginning of the year aren't sticky.

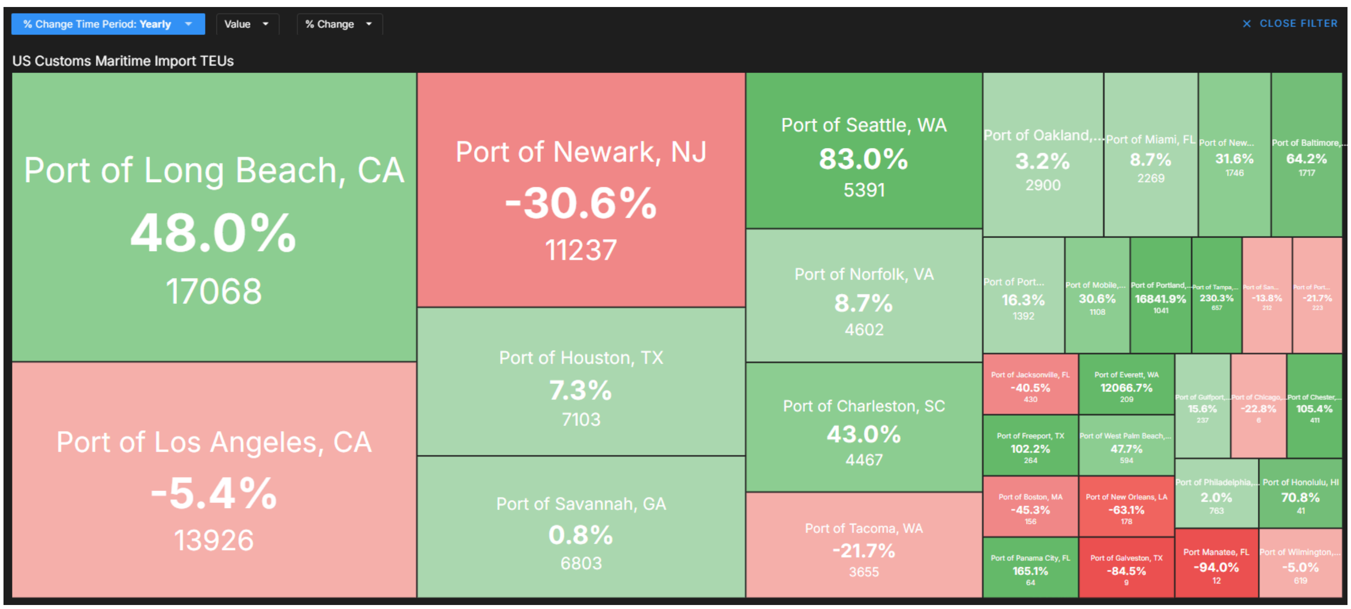
The Freightos Baltic Daily Index from China to the North American West Coast was the only granularity of the four that declined, falling 0.6% m/m to $4,794 per 40-foot equivalent unit. Despite the monthly decline, the rate is still 19.9% higher than it was this time last year. From China to the North America East Coast, spot rates increased by 9.3% m/m to $6,651 per FEU, up 8.3% y/y. The gap with year-ago levels has narrowed significantly, showing that pricing power is dwindling, though they remain well off the 52-week low.

The Drewry World Container Index showed significant monthly increases, though they have retreated since the beginning of the year. The WCI from Shanghai to Los Angeles increased by 46% m/m to $5,228 per FEU, up 87.4% y/y. The WCI from Shanghai to New York experienced a smaller increase, rising 31.3% m/m to $6,825 per FEU, up 63.7% y/y.



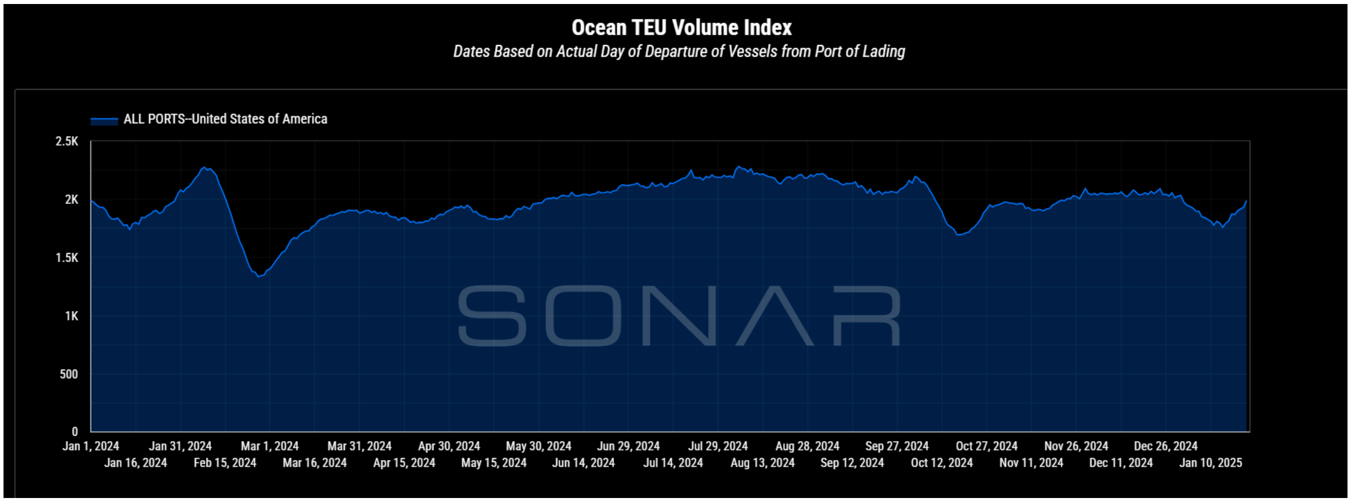
Source: SONAR. U.S. Customs Maritime Import TEUs: 2025 (white) and 2024 (green).

Even though peak season is in the rearview, throughput of containers at ports across the country is still outperforming year ago levels. The gap with year-ago levels is arguably wider than it was even with a decline associated with Martin Luther King Jr. Day. Ahead of the MLK holiday, TEUs clearing customs at U.S. ports were up 19.6% m/m and 33.7%.



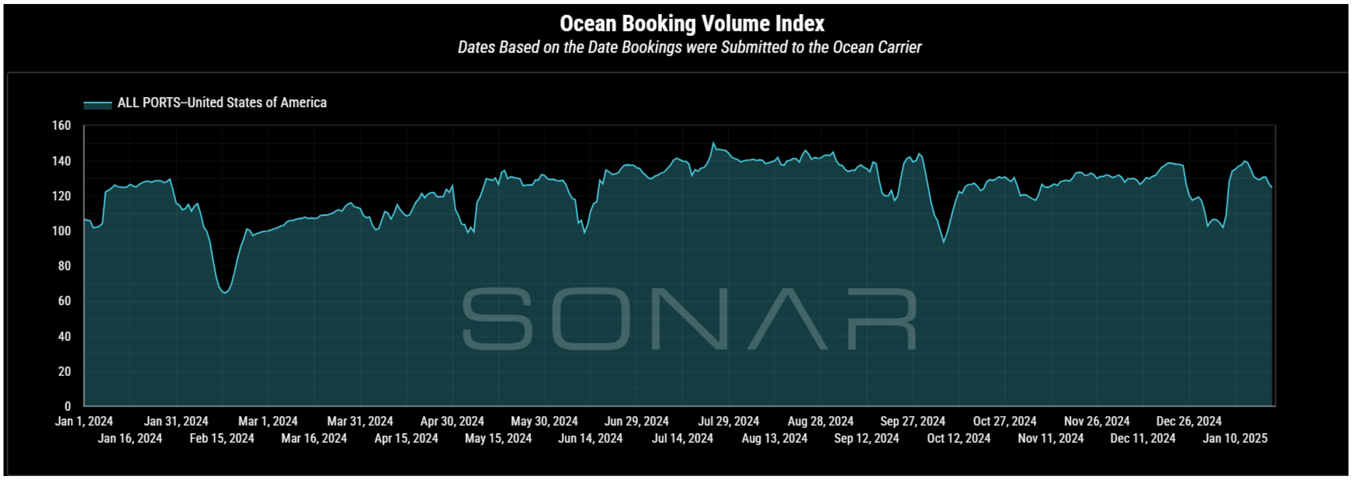
Source: FreightWaves SONAR. Maritime Import Shipments by Port — Tree Map.

The threat of labor disputes at East Coast ports has been resolved and there haven't been any significant impacts to throughput, a sign that there was a level of preparation ahead of the potential strike. Volumes across both coasts experienced sizable increases over the past month, including at the Port of Long Beach are up 36% over the past month.



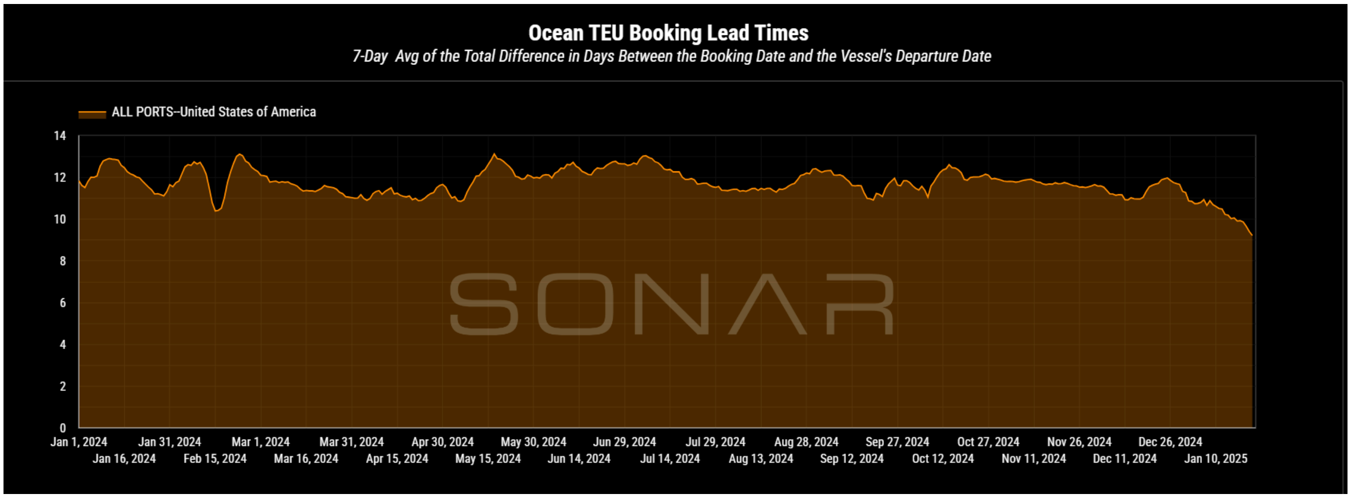
Source: SONAR Container Atlas. Ocean TEU Volume Index — all global ports to all U.S. ports.

The Ocean TEU Volume Index, a gauge of container trade from all global ports to all U.S. ports as TEUs leave origin ports, is rebounding from the holidays, though it is still down month over month. Over the past month, the Ocean TEU Volume Index inbound to all U.S. ports fell by 0.8%, following a comparable trend to 2024 throughout much of January. A slightly earlier Lunar New Year has accelerated the growth year over year, now up 7.3%. From China to the U.S. the growth is even more impressive, rising 12% m/m and 15% higher than this time last year.



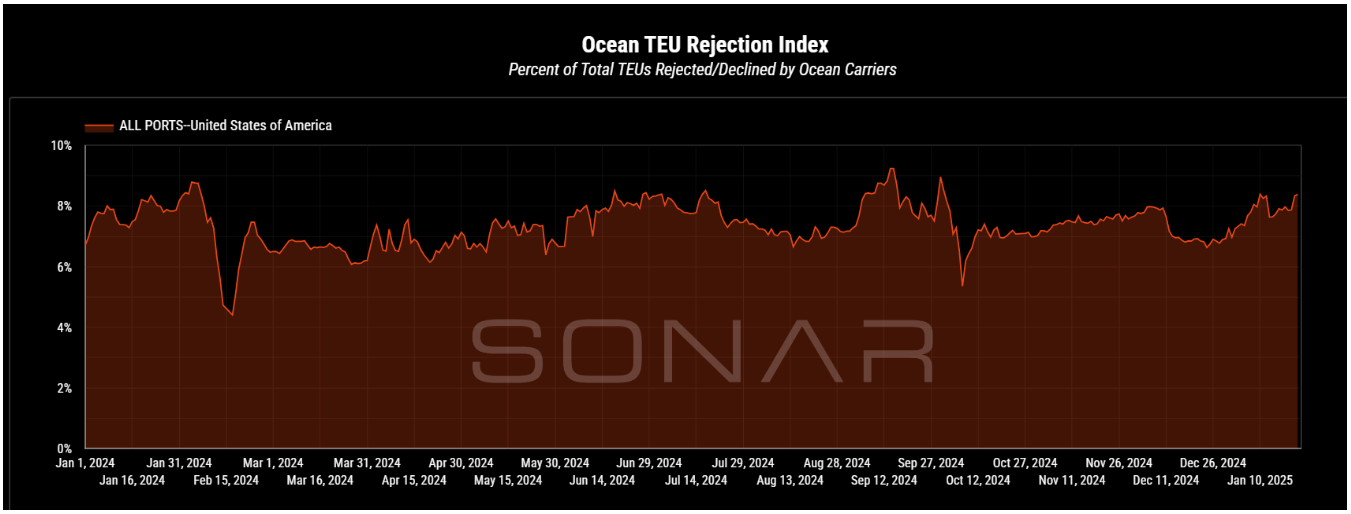
Source: SONAR Container Atlas. Ocean Booking Volume Index — all global ports to all U.S. ports.

With an earlier Lunar New Year compared to last year, the front running to book space on vessels not only started earlier, but also retreated earlier. The Ocean Booking Volume Index declined by 9.7% m/m, moving lower in recent weeks as the last push ahead of the Lunar New Year happened. Compared to this time last year, ocean bookings are down 2.9%, again in large part due to the upcoming holiday in Asia.



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

Ocean TEU Booking Lead Times continue to get shorter, which can explain some of the decline in ocean bookings. Over the past month, ocean tender lead times have been cut by two and a half days to 9.22 days, the shortest the lead time has been over the past year. Similarly, lead times are 2.6 days shorter than they were this time last year.



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

The Ocean TEU Rejection Index signals that ocean carriers are trying to flex their pricing power, but it is coming up short, evident by the recent declines in ocean spot rates. The Ocean TEU Rejection Index is up 154 basis points over the past month to 8.39%. It matches where it was earlier in the month, right as ocean carriers were trying to push off the GRIs and unwilling to accept freight that was priced lower. This increase in January seems to be seasonal as ocean rejection rates are flat year over year, but as 2025 progresses, it'll be interesting to see how this changes given new ocean capacity will be coming online.

Rail intermodal: Import growth continues to drive intermodal traffic

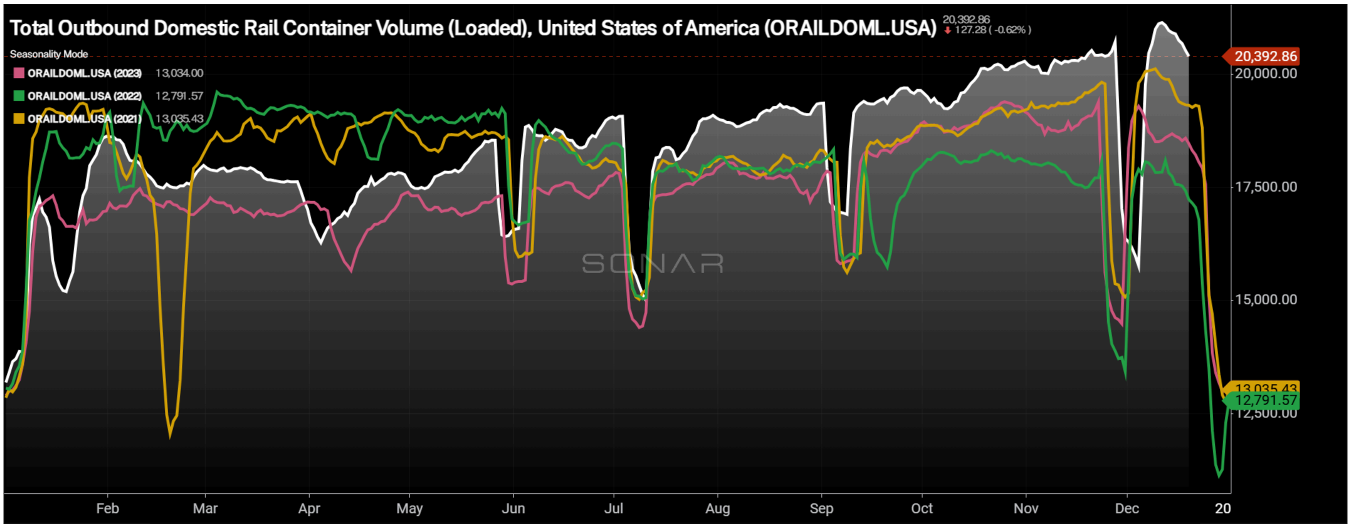
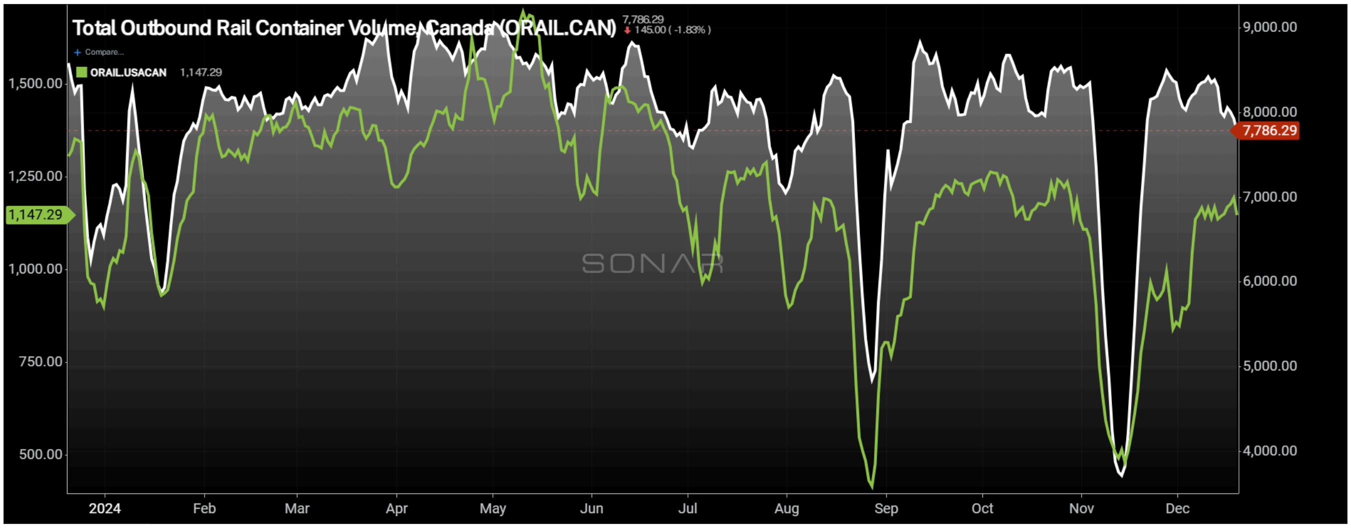


Chart: SONAR. Loaded domestic intermodal container volumes for 2024 (white), 2023 (pink), 2022 (green) and 2021 (yellow).

The intermodal market long peak season is carrying over to 2025 and now with time sensitivity around the holidays now firmly in the rearview mirror, it sets the stage for the intermodal to continue to be a growth area. It seems as the only thing that could derail intermodal momentum. Total intermodal volume, while impacted by the Martin Luther Kind Jr. Day holiday, has continued its growth. Total intermodal volumes have increased by 21% over the past month, but the monthly comps for the intermodal market are against easier comps. Total intermodal volumes are up 9.2% year over year, highlighting the growth experienced across the intermodal market.

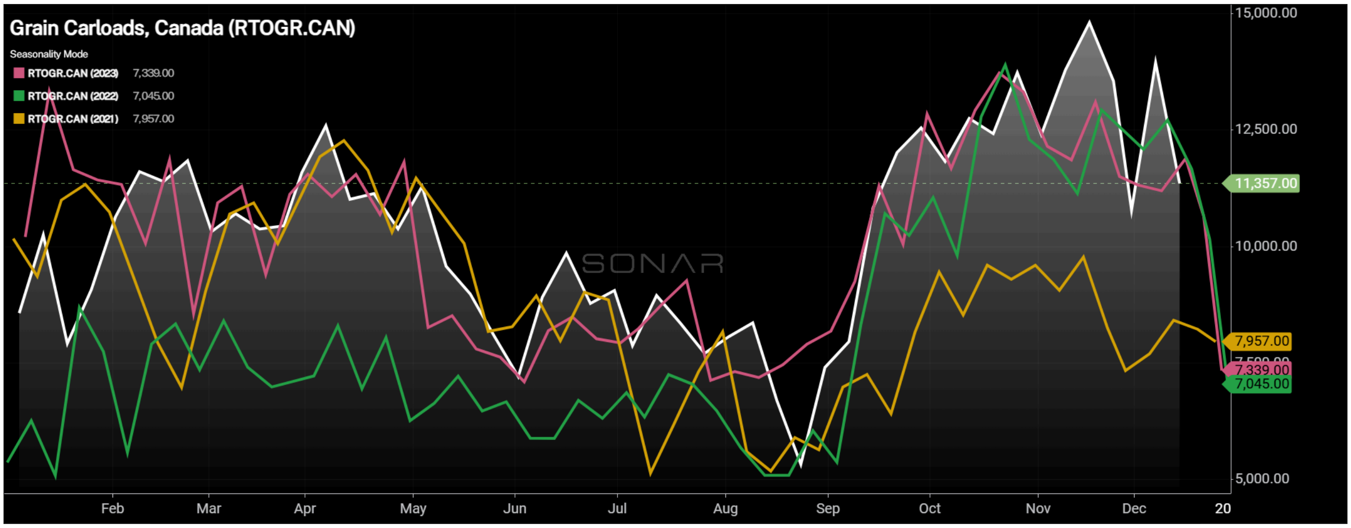
The domestic side of the market was one of the main areas of growth, especially in the final quarter of 2024, has continued its momentum into the beginning of the year. Loaded domestic intermodal volumes increased by 19.4% m/m and are up 4.1% y/y. Empty volumes grew by 9.3% m/m, but are up 41.3% y/y, highlighting an increase in repositioning empty containers into markets where imports are feeding loaded volumes.

The international side of the market continues to benefit from strong import levels. Limited warehousing availability in Southern California and the ability to use containers as rolling storage that doesn't have to be recognized as inventory. Loaded international intermodal increased by 16.4% over the past month and were just 0.2% higher y/y. Based on continued strength in ocean volumes heading for the U.S. loaded international intermodal volumes will likely continue to outperform year ago levels throughout the first quarter. Empty international container volumes increased by 53.7% m/m and were up 41.2%y/y. A lot of that growth is due to volumes moving into Southern California, where inbound empty international volumes are up nearly 100% y/y.



SONAR: Total intermodal container volume: Canada (white, right axis) and U.S. to Canada (green, left axis)

The situation in Canada has improved over the past month with intermodal container volumes growing. Over the past month, total intermodal volumes originating in Canada increased by 24.4%. Intermodal volumes originating in Canada are up 9.6% y/y, fully recovering from the work stoppage in November. Cross-border movements from the U.S. to Canada increased by over 50% m/m, though this is more impacted by holidays, but even so, volumes are still up 16.9% y/y. Intermodal moves moving the other direction originating in Canada and finishing in the U.S. increased by 41.7% m/m, but are down 17.6% y/y.



SONAR: Total Grain Carloads originating in Canada: 2024 (white), 2023 (pink), 2022 (green) and 2021 (yellow).

Grain carloads in Canada remain relatively strong to kick off 2025, though they have been moving slightly lower since mid-November, the traditional peak season. Over the past month, grain carloads in Canada have declined by 2.5%, but are still up 43.6% y/y.

Intermodal contract rates continue to trend sideways

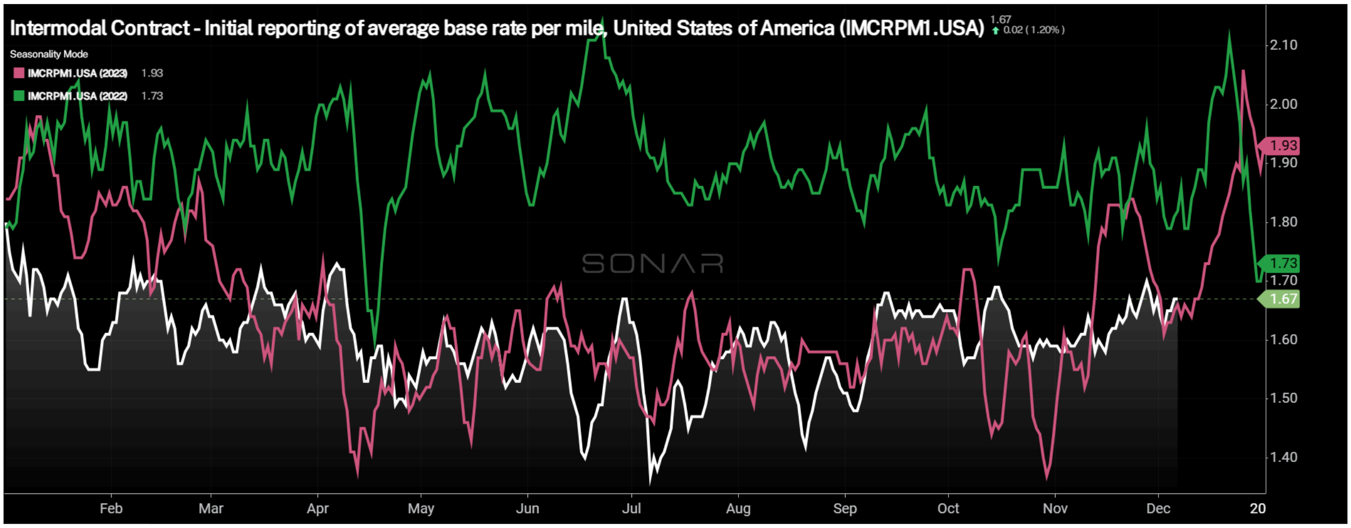


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2024 (white), 2023 (pink) and 2022 (green).

Intermodal contract rates are starting the year at the bottom end of the range they have been in since early September. The sharp downward move to start the year likely isn't indicative of the direction that intermodal contract rates will move during the year, given the intermodal market is likely to continue to grow during 2025. At the moment, the initially reported intermodal contract rate has declined by 15 cents per mile over the past month to $1.57. That decline matches the year over year decline, but again it seems more likely than not that there will be some upward movement in intermodal contract rates throughout 2025, especially if the long peak continues.

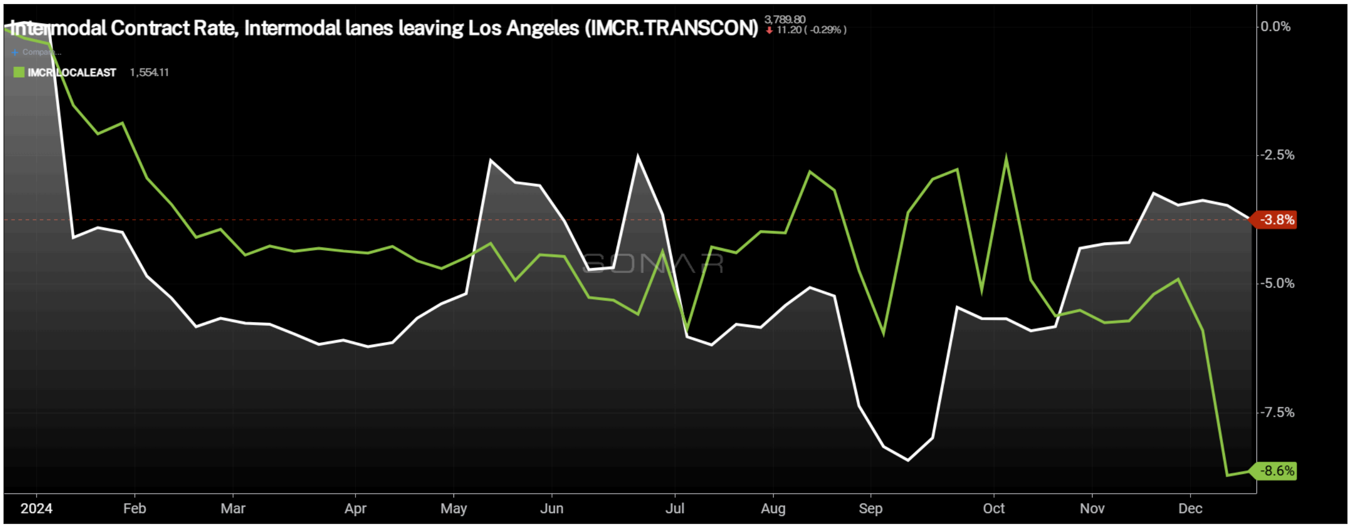


Chart: FreightWaves SONAR. Intermodal contract rates on a relative view: Transcontinental (white) and Local East (green).

The vast majority of intermodal movements happen under contractual agreements, and new intermodal contract rate data shows how different intermodal contract rates move based on geography. The Local East intermodal contract rate, or intermodal contract rates on high-volume intermodal lanes in the Eastern half of the country, have been far more reactive to market conditions. Over the past year, the Local East intermodal contract rate has declined by 4.2%. Since the lengths of haul in the Local East are more competitive with truckload, the market is more reactive than the transcontinental rates, rising by 0.3% m/m, in part due to the tightening in the truckload market over the course of the past month. The transcontinental intermodal contract rate, or the average rate for the densest intermodal lanes leaving Los Angeles, have fallen by 2.8% y/y.

Intermodal spot rates also show signs of whether intermodal carriers are protecting contracted capacity for shippers, and it appears that is happening more often. Intermodal spot rates across the majority of the densest lanes have increased over the past month were on the rise, though some of those increases were along backhaul lanes like eastbound out of Chicago. A headhaul lane like Los Angeles to Chicago experienced lower spot rates over the past month.

Intermodal spot rates largely higher m/m, though its along the backhaul lanes

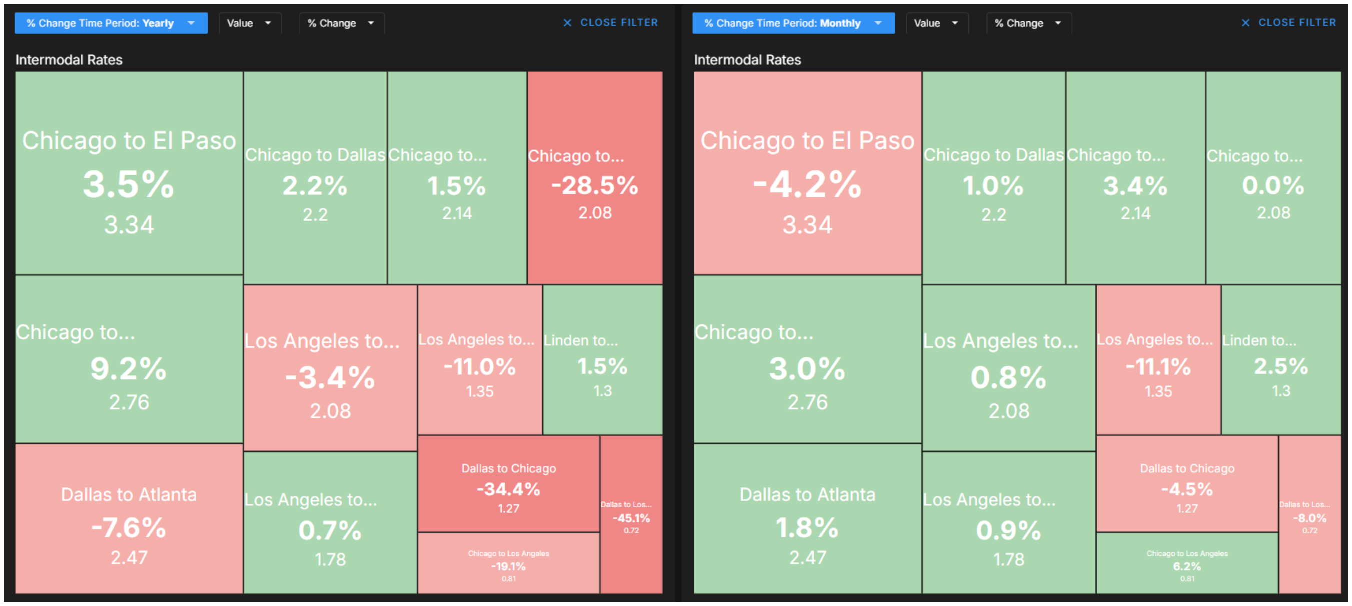


Chart: SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

Intermodal tender rejections offer a way to gauge service disruptions as carriers often operate on “auto-accept,” especially when contract rates are competitive with spot rates. Intermodal tender rejection rates are on the decline, 487 basis points though that is largely due to the holiday, now at 2.45%.

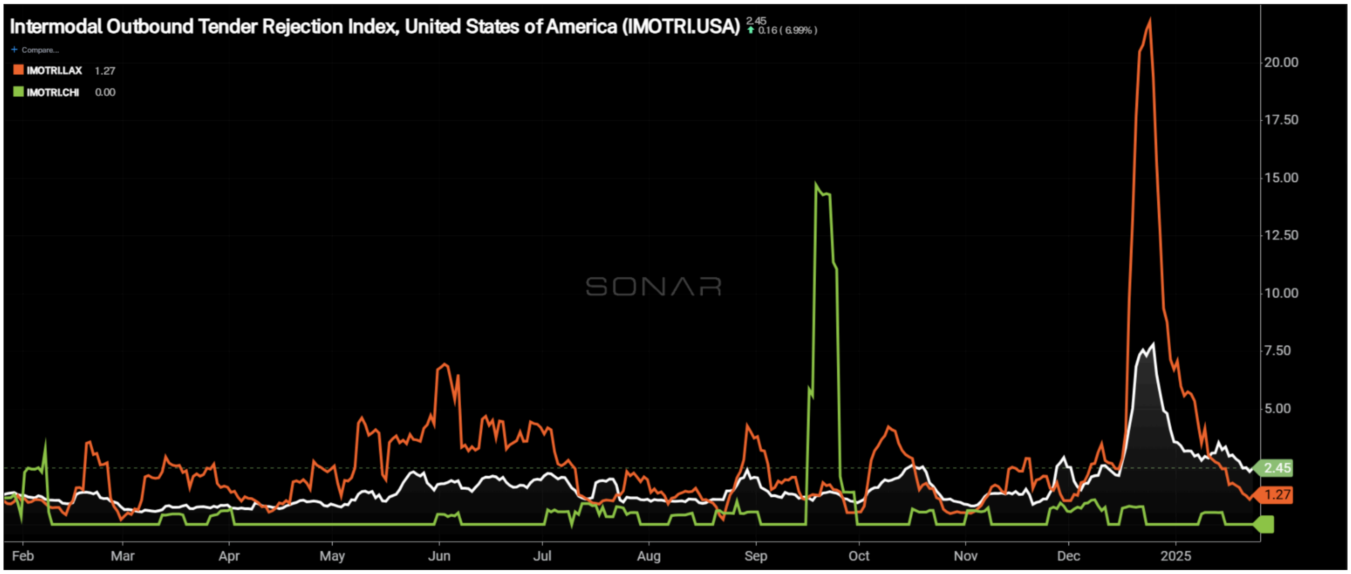


Chart: SONAR. Domestic intermodal outbound tender rejection rates for national (white), Los Angeles (orange) and Chicago (green) loads.

What else we're watching

With the Federal Open Market Committee remaining aggressive with rate cuts to close out 2024, it might appear that the FOMC has become more dovish based on recent data. But that may not actually be the case, and it isn't out of the question for the FOMC to turn hawkish at some point in 2025. The first meeting of the year is scheduled for Jan. 28-29. Expectations are for the FOMC to pause interest rate reductions at the meeting.

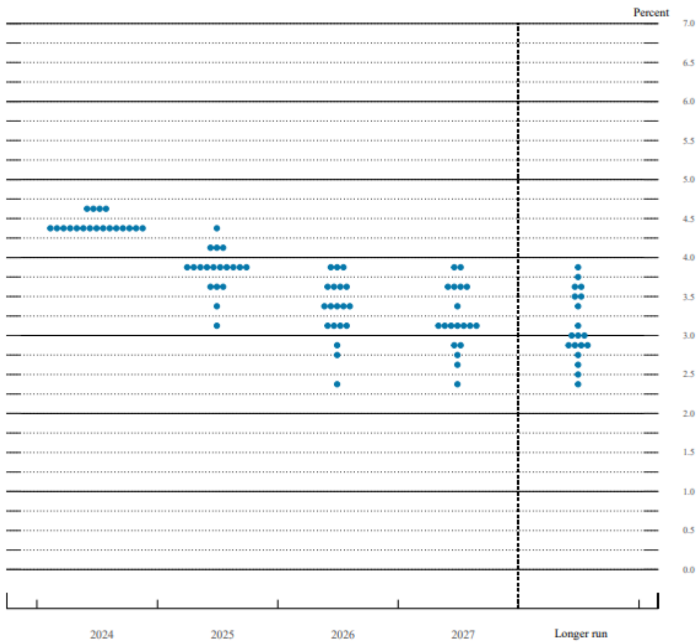
The reason for the pause is likely that the FOMC wants to wait for new data to continue to roll in, giving the economy time to catch its breath after three consecutive cuts. The FOMC has stated its main two objectives in determining monetary policy: Achieve maximum employment and have inflation remain near a long-term target of 2%.

The employment situation closed out 2024 stronger than expected, and the inflation metrics were better than expectations, but that doesn't mean the FOMC is going to just continue cutting rates when there is still uncertainty surrounding inflation and labor.

As it does once per quarter, the FOMC releases the expectations for future policy decisions in multiple forms, but the one most widely talked about is the dot plot. The dot plot is effectively a measure of what each FOMC participant expects as the midpoint of the target range for the federal funds rate at the end of each year.

In the September dot plot, the median projection was for the target range of the federal funds rate to end between 3.25% and 3.5%, with a true median of 3.4%, implying 100 basis points worth of cuts during 2025.

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

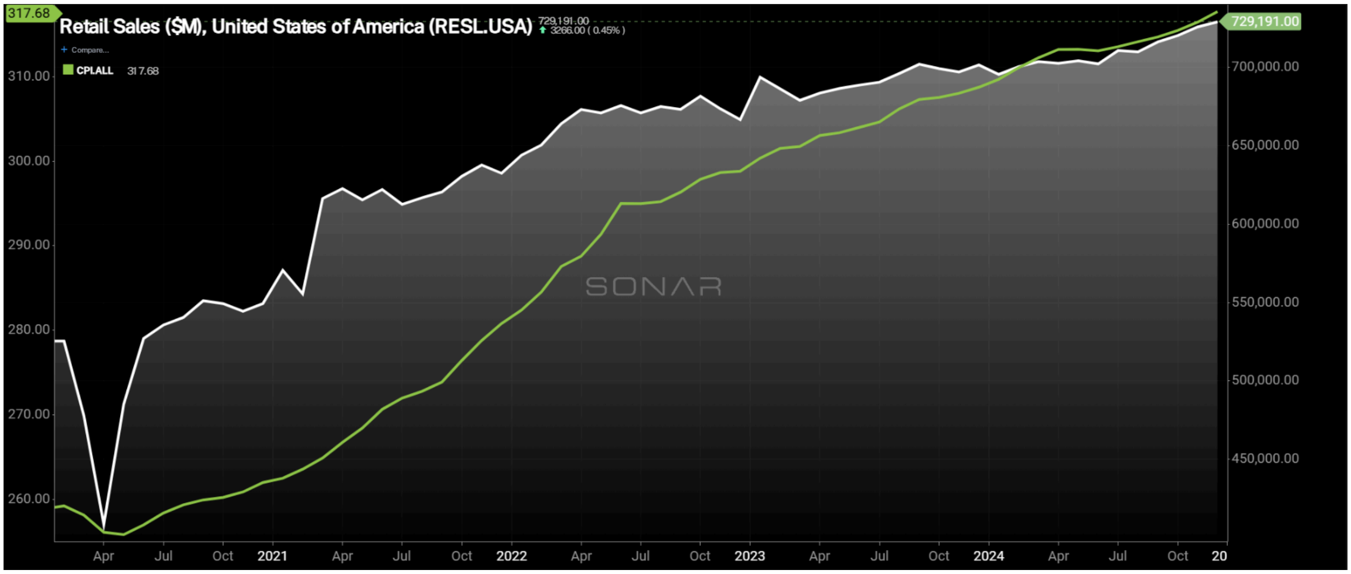


Source: Federal Open Market Committee's Summary of Economic Projections

In December's publication, the median projection moved 50 basis points higher, to a median range between 3.75% and 4%, with a true median of 3.9%. This implies that FOMC officials now expect just 50 basis points worth of cuts throughout the entirety of 2025 based on recent economic data.

What will be interesting is how much political influence the new administration has over the Federal Reserve, which is supposed to be apolitical and make policy decisions based on data. In the first Trump administration, there was pressure on the Federal Reserve to hold interest rates as low as possible to compete globally with countries where interest rates in some cases were negative. The question would be, if there were more cuts than initially expected in 2025, does that derail the progress on the inflation front, and what impacts do the potential tariffs being floated by the incoming administration have on inflation.

Inflation has been a hot topic – and rightly so as it isn't retreating as quickly as many would like. Even though inflation readings were better than expectations to close out 2024, it is still a prevalent challenge for consumers moving into 2025.



The Consumer Price Index increased by 0.4% in December, accelerating from the 0.3% increase in November. The increase in December was the largest monthly increase since April. The 12-month running total for the headline CPI was 2.9%, approaching the Fed's long-term target of 2% for inflation, though the CPI is not the Fed's preferred method of inflation. Both the monthly and 12-month totals for the CPI were in line with analysts' expectations.

The challenge for consumers is that inflation has accelerated for two consecutive months, indicating that it is still very much present in everyday life. Now if there was some semblance of good news from the CPI report, it is that much of the inflation was driven by energy prices, which were still down y/y. Overall energy prices increased by 2.6% m/m in December, the largest increase in more than six months. Why is that good? Energy closed out the year down 0.5% y/y, so even with the volatility, the long-term trend is that energy prices are falling. Gasoline prices increased by 4.4% in December but were still down 3.4% y/y.

The rate of increase in food prices slowed slightly in December, rising by 0.3% m/m, down from the 0.4% m/m increase in November. Food prices, which typically are volatile in nature similar to energy prices, were surprisingly stable throughout 2024, with steady increases on a monthly basis. The 12-month running total for food prices was up 2.5% during the year. Both food-at-home and food-away-from-home prices increased by 0.3% m/m in December, though food-at-home prices had a less severe increase throughout the entirety of 2024. Food-at-home prices increased by 1.8% during the 12 months ending Dec. 2024, while food-away-from-home prices rose by 3.6%.

Core inflation, or the CPI excluding food and energy prices due to their volatile nature, remains elevated, though December's figures bested expectations. Core inflation increased by 0.2% m/m in December, a tenth of a percentage point better than what analysts projected. The increase in December was also the slowest rate of price increases since July. The 12-month total for inflation came in at 3.2%, also a tenth of a percentage point below analysts' expectations.

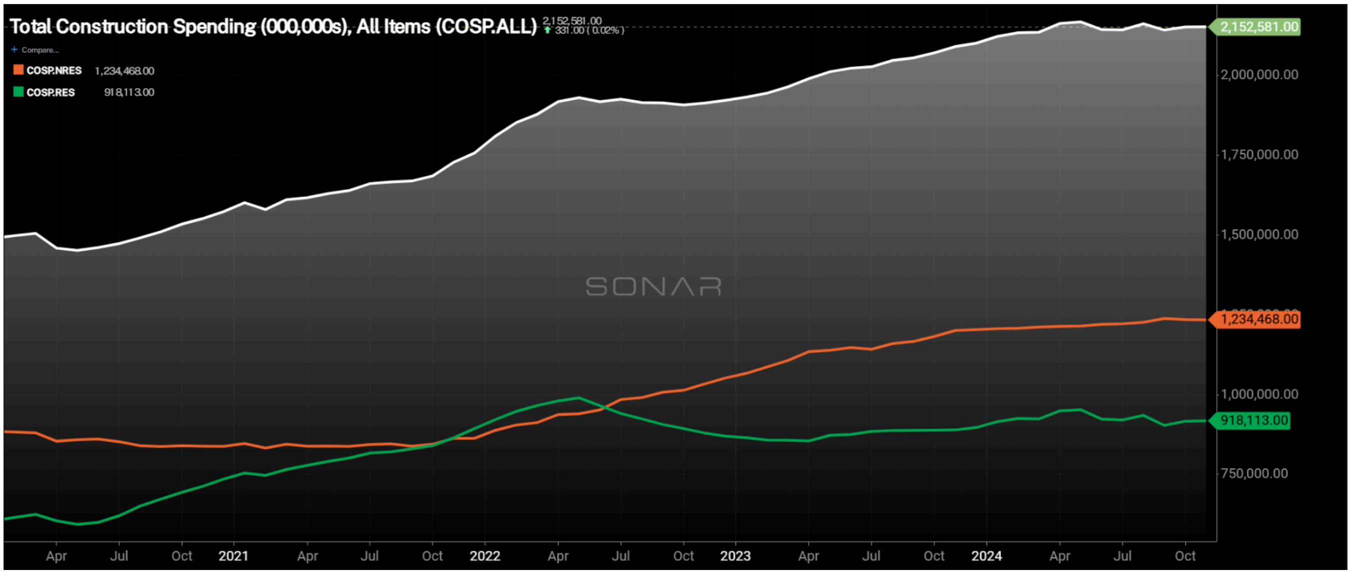
Shelter prices continue to be the main driver of inflation, representing more than 30% of the overall CPI. Shelter prices increased by 0.3% m/m for the third consecutive month. Shelter prices are up 4.4% y/y.

While inflation's impact on consumers remains, it hasn't stopped them from spending. December's retail sales continued to show that consumers are willing to spend, though sales growth slowed in December. Total retail sales released by the U.S. Census Bureau grew by 0.4% m/m in December, down from the 0.8% m/m growth in November. Some of the slower growth is likely a result of a later-than-normal Thanksgiving holiday, which created a shorter timeline for the retail holiday season. December's growth in retail sales fell short of analysts' expectations of 0.6% m/m growth, but again some of the spending was likely pulled forward into November. Even with the slower growth, retail sales were up 3.9% y/y, continuing to outpace the rate of inflation.

There were several bright spots in the retail sales report, including an uptick at: furniture stores, sporting goods, hobby, musical instrument and bookstores, and clothing stores. All three of the categories saw sales grow by over 1.5% m/m in December. In essence, more discretionary purchases were made in December than in previous months, which isn't necessarily a surprise given the holidays during the month.

Gasoline station sales also accelerated by 1.5% m/m in December, likely a result of the aforementioned inflation in gasoline prices.

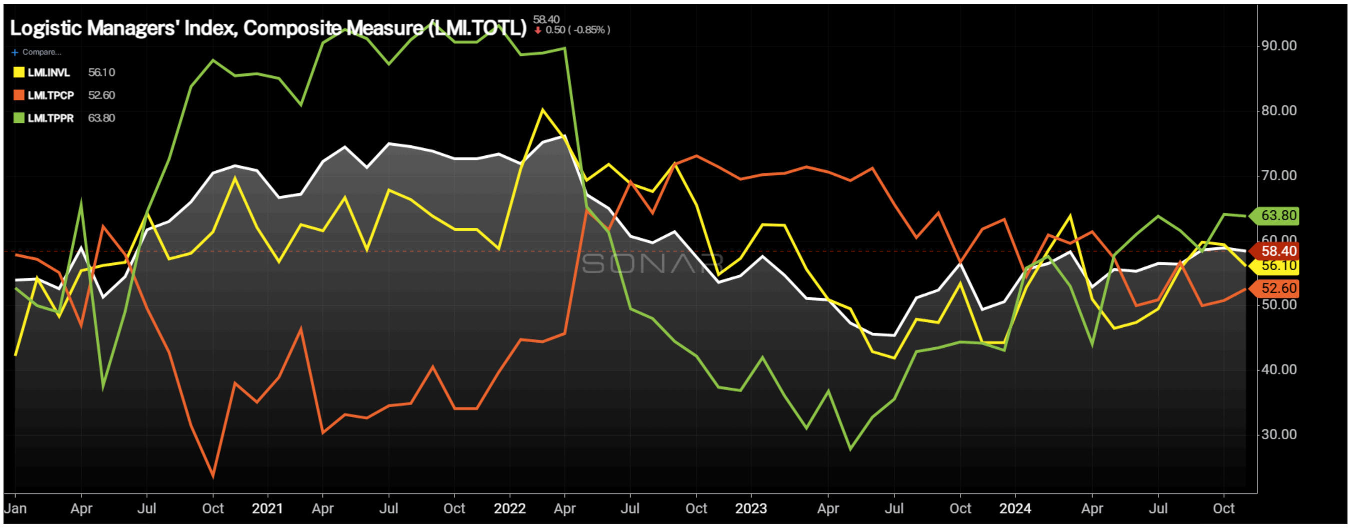
As expected during the winter months, sales of building materials and dealer sales of garden equipment and supplies were muted in December, falling by 2% m/m. This decline was the largest of the categories tracked within the retail sales report. Sales at these stores were down 1.2% y/y. In the months ahead, this will be an area to pay attention to see if consumers continue to spend on discretionary purchases or if they retreat following the holiday season.



While the housing market is in a state of "think one thing, do another," the construction industry as a whole has continued to outperform year-ago levels. In November, the most recent month for which data is available, total construction spending was flat m/m. Total construction spending came to a seasonally adjusted annual rate (SAAR) of $2.153 trillion, up 3% y/y.

Residential construction spending was a source of growth in November, rising 0.1% m/m to a SAAR of $918.1 billion. Residential construction spending was up 3.2% y/y during the month.

Nonresidential construction spending offset the growth in residential construction spending, falling by 0.1% m/m to a SAAR of $1.234 trillion. Nonresidential construction spending was still 2.8% higher y/y even with the slight slowdown in the month. The manufacturing sector, the largest sector of nonresidential construction spending, fell by 0.2% m/m to a SAAR of $235.9 billion, up 11.3% y/y.

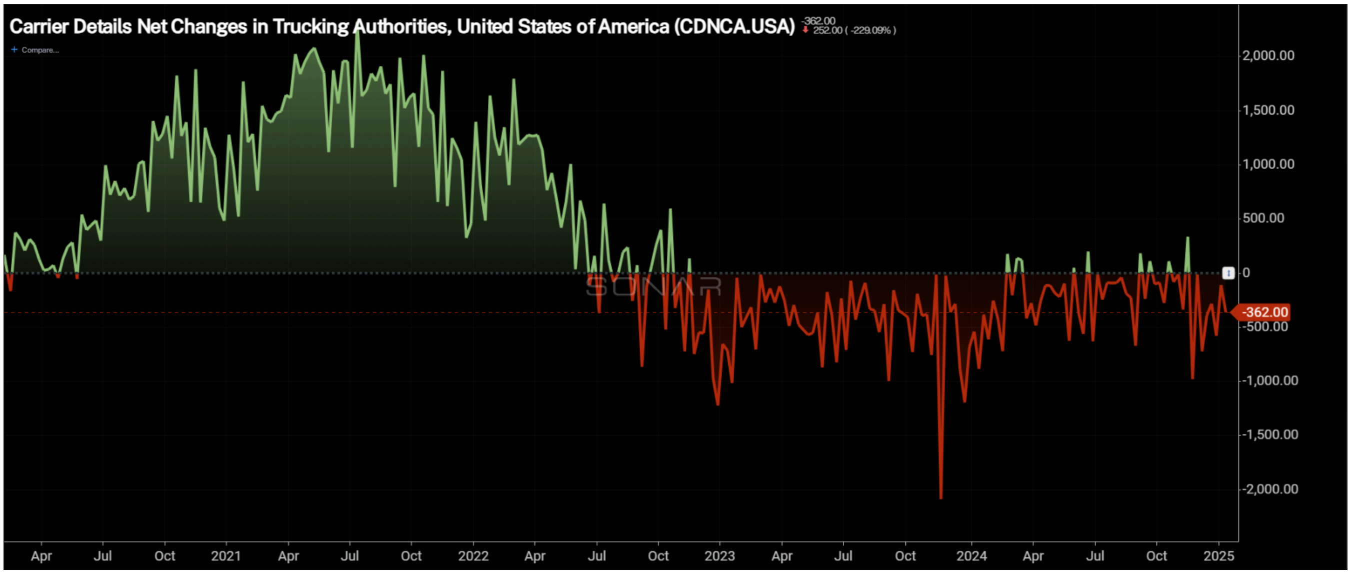


Source: SONAR. Logistics Managers' Index (white), inventory levels (yellow), transportation prices (green) and transportation capacity (orange).

The logistics industry remains firmly in expansion territory as the Logistics' Managers Index remains above 50. The growth rate in December slowed slightly, as the LMI fell by 1.1 points m/m in December to 57.3.

The reason for the slower growth during the month is largely due to downstream inventories being sold off with one of the sharpest inventory level reductions on record. Overall inventory levels were unchanged at 50, but the differences between upstream and downstream inventory levels was significant. Upstream inventory levels grew in December at a level of 57.9, while downstream inventory contracted at a rate of 33.9. The growth in upstream inventory is arguably a healthy level for consistent growth, while the downstream inventory contraction suggests that consumers showed up for the holiday season.

The LMI also suggests that transportation prices will be on the rise during 2025. Transportation prices increased in December, rising by 3 points m/m to 66.8, the highest level since April 2022. Future expectations are for transportation prices to reach 77 by the end of 2025, a sign of significant increases during the year.



Source: SONAR. Carrier Details Net Changes in Trucking Authorities

Capacity is continuing to exit the market to start 2025, continuing the mass exodus that began in earnest at the end of 2022. The seasonal drop in exits occurred during the final weeks of 2024. Throughout 2024, the average net authorities was 241 net exits per week. In 2025, there will likely be continued exits in the market given that changes to the direction in capacity are significantly longer than the demand side of the equation.

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