

MAY
2024

STATE OF THE INDUSTRY

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April 24, 2024 | 9 a.m. EDT

Overview

The truckload market continues to shake off April's reputation as a slow month. Truckload volumes have been remarkably stable after the Easter holiday lull, and rejection rates have been trending higher, albeit slowly, since mid-March. New contract rates continue to be repriced lower as spot market rates have been relatively stable since mid-March.

The intermodal market continues to be under pressure, at least from the pricing perspective. Intermodal volumes remain elevated compared to last year, but the international intermodal side has grown much faster than the domestic side of the market. Intermodal contract rates, like dry van truckload rates, continue to highlight an oversupplied market.

The maritime market is one that has seen a recovery from the Lunar New Year and is setting up for a decent summer. Despite relatively healthy volumes, ocean carriers continue to see pricing power slip through their grasp as ocean spot rates continue to trend lower. External factors are starting to wear on spot rates, and the market isn't willing to support any upward pressure that container ship lines are attempting to place on spot market rates.

A hotter-than-expected inflation report has tempered expectations for interest rate cuts at upcoming Federal Open Market Committee meetings. Fed officials are having to combat inflation while maintaining maximum employment. Employment metrics continue to show strength in the labor market, but looking under the hood provides a slightly different picture based on industry hiring trends.

Macro indicators	(y/y change)
March industrial prod. change	+0.4% (Unch.)
March retail sales change	+0.7% (+4%)
March U.S. Class 8 orders	18,200 (-4%)
March U.S. trailer orders	13,600 (-19%)

Truckload indicators	(y/y change)
Tender rejection rate	3.84% (+105 bps)
Average dry van spot rate ¹	\$2.23/mi (+0.5%)
LAX to DAL spot rate ²	\$2.01/mi (+16.2%)
CHI to ATL spot rate	\$2.38/mi (+4.8%)

Tender volumes	(y/y change)
Atlanta	402.11 (-1.13%)
Dallas	376.27 (+10.07%)
Los Angeles	276.89 (+10.46%)
Chicago	219.26 (+14.81%)

Tender rejections	(y/y change)
Atlanta	4.2% (+250 bps)
Dallas	2.71% (-66 bps)
Los Angeles	4.64% (+262 bps)
Chicago	2.38% (+62 bps)

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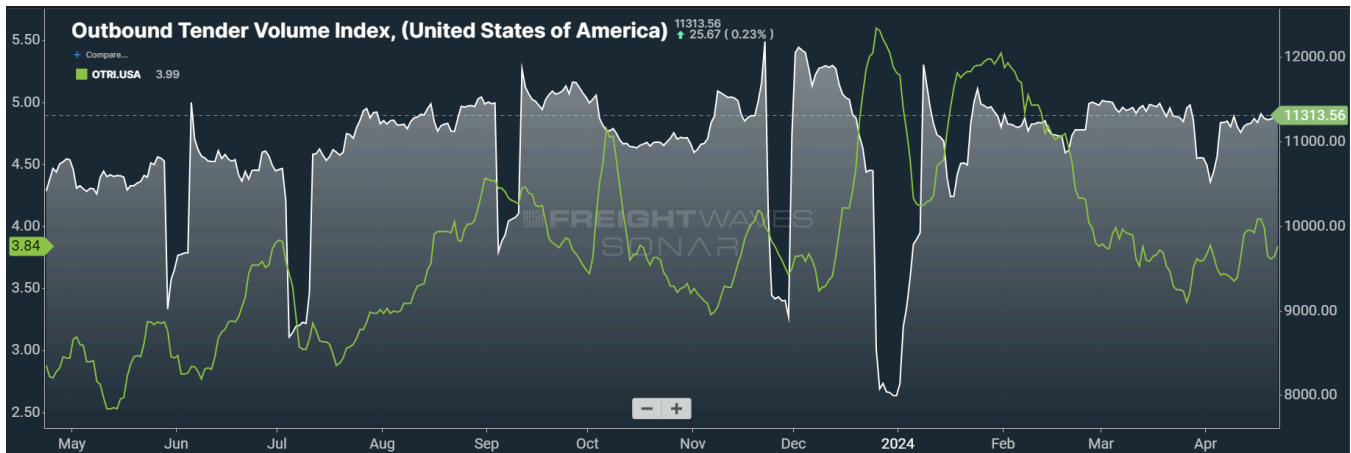
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¹ FreightWaves National Truckload Index
² FreightWaves TRAC spot rate

Truckload markets

Keeping the pace set at the start of the year, freight demand has been incredibly stable in the transition from the first to the second quarter. This prolonged showing of stability only serves to highlight the marked overcapacity lingering in the market. Of course, there is a twisted logic behind any possible recovery: The longer that subsistence-level volumes goad carriers into staying active, the longer that a proper rebalancing of demand and supply will take, thus delaying a significant rise in spot rates and tender rejections.



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

By no means is April one of the hottest months for freight activity, contending as it does with the post-Lunar New Year lull in Chinese imports and the first stages of produce season, which are almost entirely localized to Florida and Texas. Despite this historical softness, April 2024 has proved to be a solid month for shippers, many of whom are patiently rebuilding their inventories in anticipation of Q3. April's performance will make for difficult comps come May, when a greater level of freight demand is traditionally expected. For the time being, however, the Outbound Tender Volume Index (OTVI) is up 0.7% month over month (m/m).

The one noteworthy exception to the recent strength occurred at the end of March, though this dip is easily explained by the seasonal slump that happens around Easter. Given the variability of when Easter falls — anywhere from March 22 to April 25 — it can throw a wrench into comparisons made against previous years. Surprisingly, however, this year's OTVI has consistently outpaced that of 2023 in the year to date. This relative strength suggests that the worst of the recent freight recession is firmly in the past, with any future upsets likely regional and extremely temporary in nature. In the absence of such disruptions, OTVI is up 7.2% year over year (y/y).

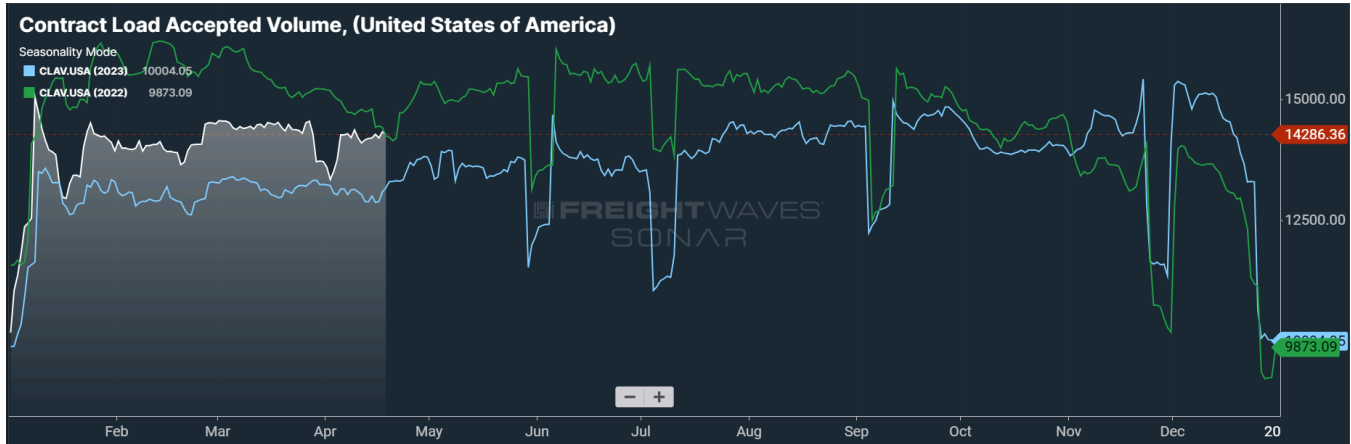
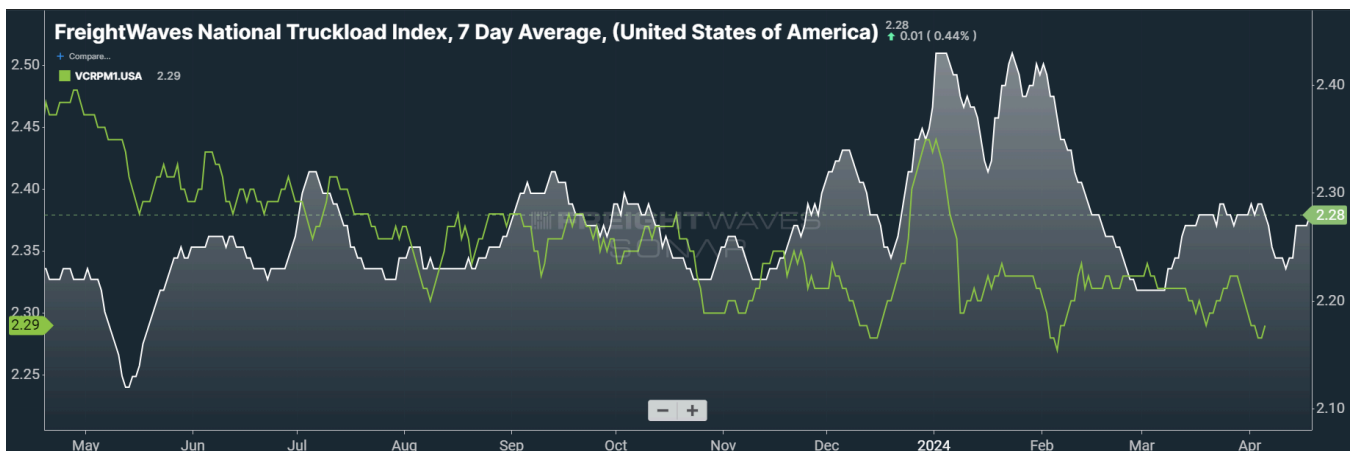


Chart: FreightWaves SONAR. Contract Load Accepted Volume: 2024 (white), 2023 (green) and 2022 (blue).

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 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 7.5% y/y. This narrowing y/y difference implies that actual freight flow is recovering from this cycle's bottom.

Rising diesel prices aid latest spot rate increases



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

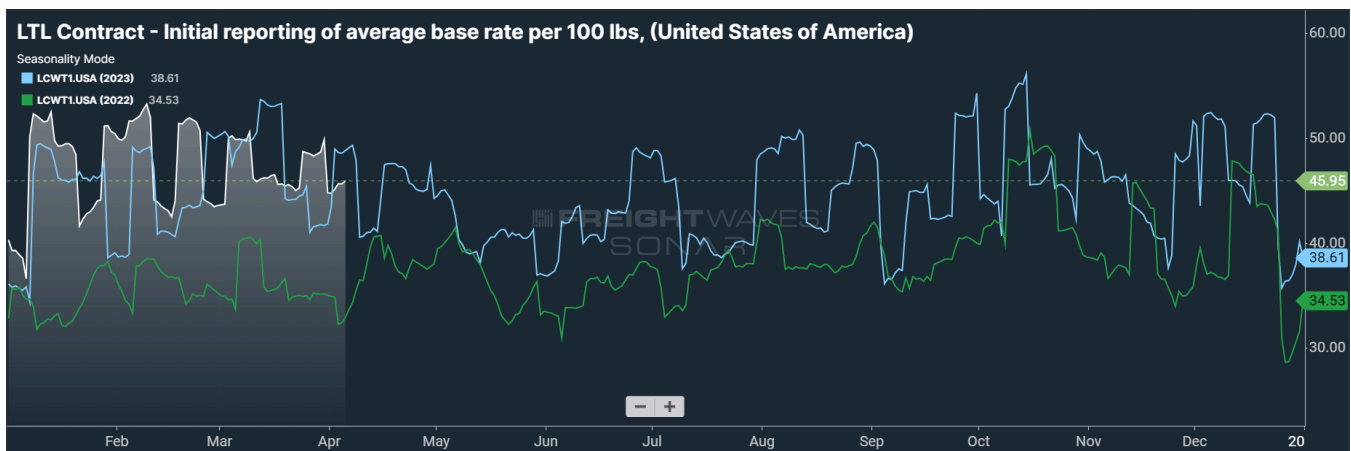
After tumbling from unseasonal highs throughout February and early March, truckload dry van spot rates have found some stability of their own. At the time of writing, spot rates are slowly climbing, though whether this trend is a sign of things to come in May and beyond is still a matter of doubt. Although nowhere near the peaks of Q4 2023, retail prices of diesel have been rising as well, which can help carriers negotiate higher rates on the spot market. Rate discussions surrounding fuel costs

tend to be inexact, emotional and directional, and it is not uncommon for carriers to use rising fuel costs as cover for general rate increases.

For now, the National Truckload Index (NTI) — a seven-day moving average of national dry van spot rates that is inclusive of fuel — is up 0.5% y/y at \$2.23 per mile.

Contract rates, which are exclusive of fuel and other accessorials, have already depreciated following the recent bid cycle, in which shippers were heavily favored. Still, April can play host to some wild swings as the new rates take effect, and it will likely not be until the end of the month — or even the middle of May — that contract rates’ footing is more or less secured for the rest of the year. At present, contract rates have fallen 9.5% y/y to \$2.29 per mile.

LTL carriers set sights on further expansion



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

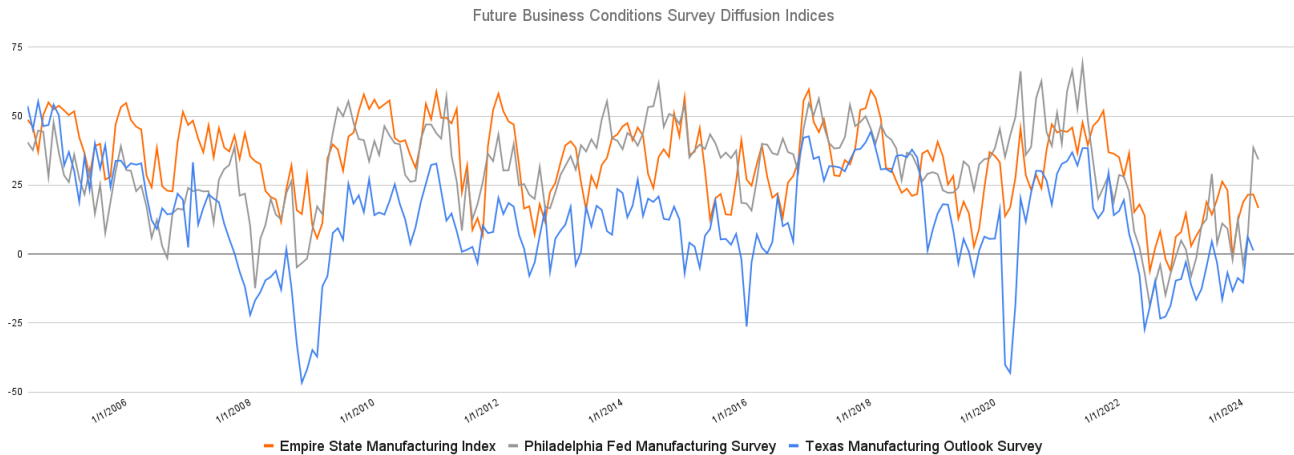
After the dissolution of a national less-than-truckload carrier in 2023, remaining heavyweights in the sector are carving up their shares of the facilities left behind. Acquisition of terminals, particularly as part of a “national expansion,” has been a common refrain over the past few weeks. While the back half of 2023 saw carriers allow the vacuum left by one of the largest LTL provider’s departure to drive up rates, 2024 is shaping up to be a year of aggressive expansion.

As is often the case, the justification for such expansion is to provide customers with higher levels of service — in reality, these major carriers are vying to secure volume. But for the most part, LTL carriers have maintained discipline as to the quality of the newly accepted freight, knowing that they face competition limited enough to justify a choosier approach.

At the time of writing, the average LTL contract rate has risen 28 cents per hundredweight over the past month. Now sitting at \$46.40 per hundredweight, shipping via LTL is 14.3% more expensive than it was a year ago.

Macroeconomic conditions

Though manufacturers' optimistic outlooks have been sustained by the belief that interest rate cuts were just around the corner, pessimistic cracks are beginning to form in those outlooks as the possibility of rate cuts fades. A rise in energy prices has also proved an obstacle for what has been otherwise seen as the early stages of a full recovery in the industrial economy. If manufacturers keep raising prices in attempts to cover rising input costs, it will reinforce the stickiness of inflation that has already delayed rate cuts.



Rather than the bellwether that it usually is, New York was something of an outlier regarding manufacturing activity in April. Reports from the Institute for Supply Management (ISM) and S&P Global both indicated that the manufacturing sector was clearly rebounding. Not so in New York: April's Empire State Manufacturing Index saw the current Business Conditions Index rise only a slight 6.6 points m/m — not nearly enough to push the final reading of minus 14.3 into expansionary territory. A worsening decline in the Shipments Index (down 7.5 points m/m to minus 14.4) and a worrying uptick in the Prices Paid Index (up 5 points m/m to 33.7) stoked the region's discontent.

The upshot of things getting worse in the present is the belief that they will usually improve, which still holds among New York manufacturers. So, although the forward-looking General Business Conditions Index suffered a decline of 4.9 points m/m, the index still read positive at 16.7. But while nearly all of the forward-looking subindexes had ultimately positive readings, almost all — with the striking exception of the Prices Paid Index (up 4.8 points m/m to 40.4) — fell from March's levels. Continued deterioration at this rate would be enough to flip some of these indexes, including even the General Business Conditions Index, by June.

The outlook in Philadelphia was uncharacteristically sunny, however, thanks in large part to present-day expansion in its manufacturing sector. The current General Business Activity Index within the Manufacturing Business Outlook Survey, conducted by the Federal Reserve Bank of Philadelphia, rose 12.3 points m/m to 15.5. This gain was made possible by an uptick in new orders (up 6.8 points m/m to 12.2) and shipments (up 7.7 points m/m to 19.1) alike, though the rise of input costs greatly exceeded that of prices received. Accordingly, Philadelphia firms reported a further reduction of their head counts, with the Number of Employees Index down 1.1 points m/m to minus 10.7. The

forward-looking General Business Activity Index, despite losing 4.3 points m/m, was staunchly positive at 34.3.

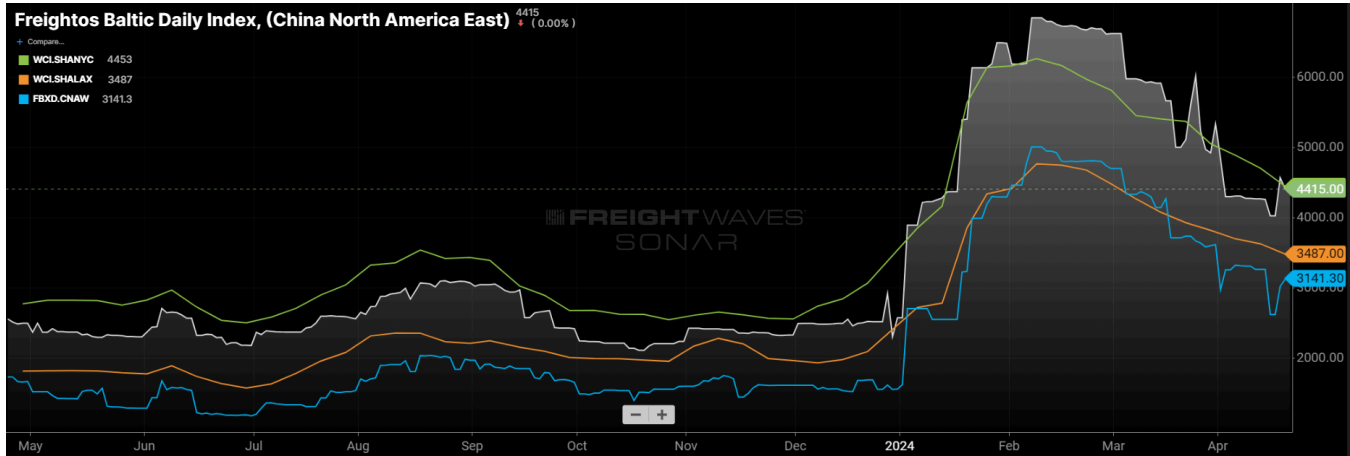
The Federal Reserve Bank of Dallas releases the Texas Manufacturing Outlook Survey during the final week of the month, but the mood of Texas business firms in March was comparable to that of their New York counterparts in April. The survey's Future General Business Activity Index fell 4.9 points m/m to 1.3, bringing it to the edge of contraction after an all-too-brief stay above the line. This latest reading is considerably below the series' all-time average of 12.3. Only 18.3% of survey respondents believe that conditions will improve over the next six months, against 17% of firms that expect them to worsen.

Data from the labor market continued to outshine even the most bullish forecasts in March, as the month was host to job growth nearly 50% higher than consensus expectations. A total of 303,000 nonfarm positions were added in March — far higher than the consensus forecast of 214,000 and even the highest Wall Street estimate of 290,000. This growth came against difficult comps from February, which added a seasonally adjusted 270,000 jobs (revised down from the initial print of 275,000). The transportation sector was largely on the sidelines in the month, adding a meager 1,200 net jobs. Still, growth of 5,100 jobs in the truck transportation subsector helped to offset losses from the warehousing and storage subsector, which lost a total of 5,500 positions.

Maritime: Demand stable, rates falling

The maritime market has recovered from the Lunar New Year, and the initial Red Sea conflict shocks have largely subsided. The market has signaled that there is still relative strength in volumes compared to last year. Executives at the container ship lines are under the belief that there will be an earlier-than-normal peak season.

Now, the container ship lines have been trying to push general rate increases (GRIs) to customers since the Lunar New Year and the beginning of the Red Sea conflict in an effort to offset some of the additional costs that come from circumnavigating the Cape of Good Hope at the tip of southern Africa. While the GRIs were fairly sticky in the beginning, ocean spot rates have been declining since early February. These increases impact ocean spot rates to North America despite the conflict largely impacting Asia-to-Europe trade versus Asia-to-North America trade.



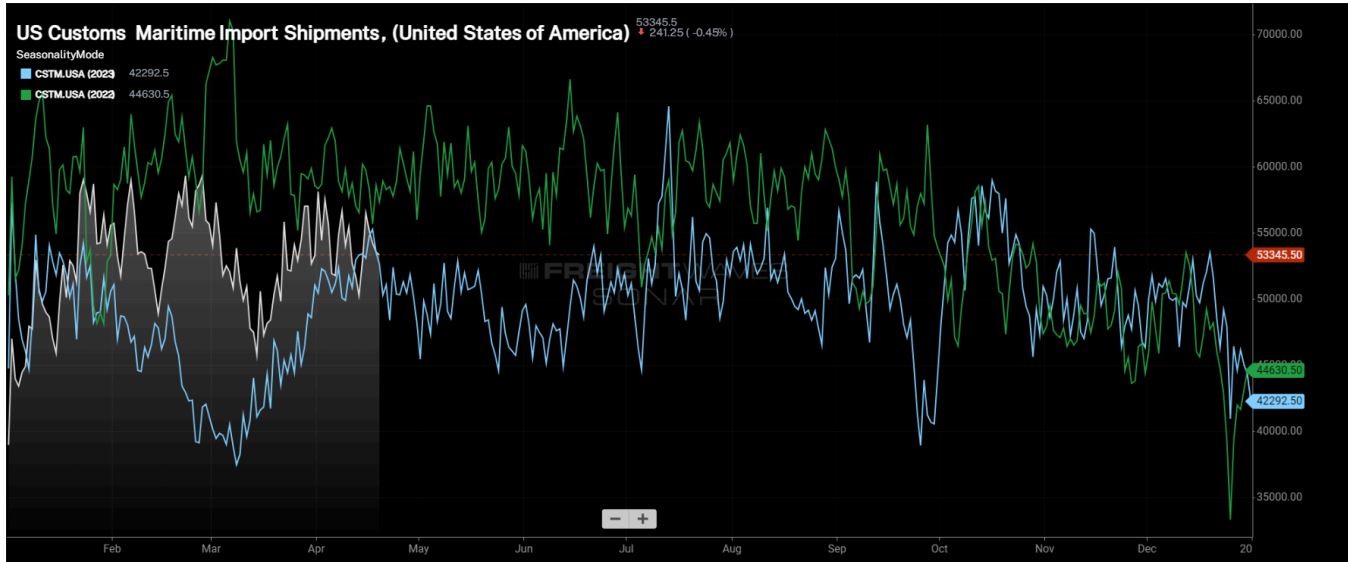
Source: FreightWaves SONAR — Container spot rates, YTD view: Drewry World Container Indexes: Shanghai to Los Angeles (orange), Shanghai to New York (green), Freightos Baltic Daily Index: China to North America west coast (blue) and China to North America east coast (white).

The container ship companies tried to push spot rates up in mid-April, but the efforts are all for naught as the market quickly brushed them off. Both the Freightos and Drewry indexes show that container spot rates are continuing to decline from their peak, though they are still elevated compared to this time last year.

The Freightos Baltic Daily Index from China to the North American west coast has dropped by 16% over the past month to \$3,141.3 per forty-foot equivalent unit (FEU), but even with the declines, the spot rate is still 81.5% higher y/y. From China to the North American east coast, the monthly decline was more aggressive, dropping 21.4% m/m to \$4,415 per FEU, but it was still over 70% higher than it was this time last year.

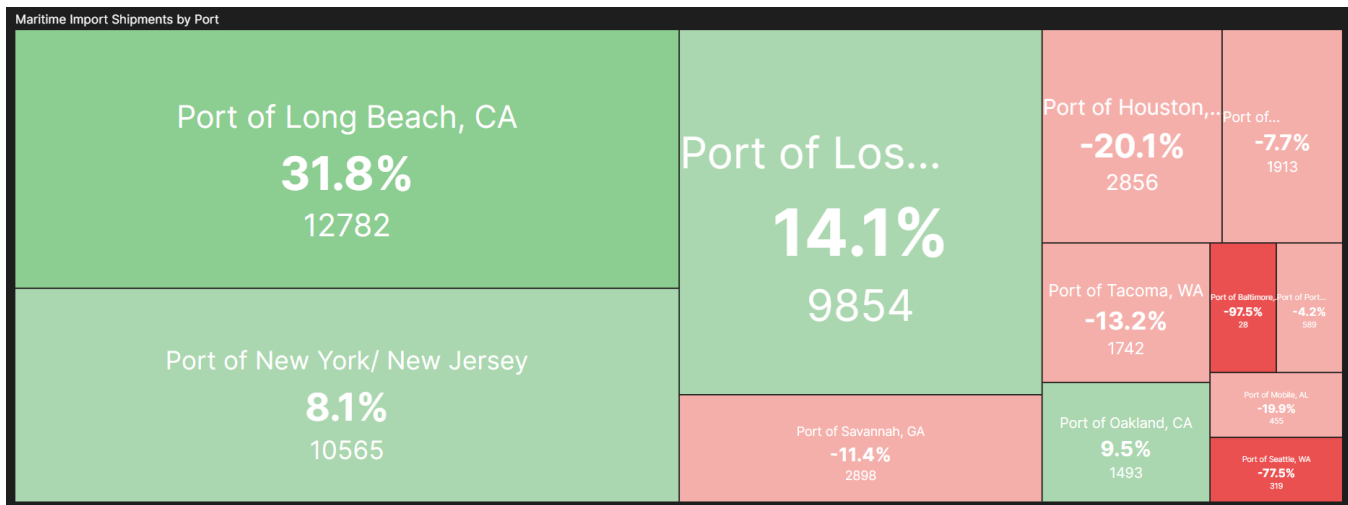
The Drewry World Container Index (WCI) experienced a less severe decline but has been steadily falling since the first week of February. The WCI from Shanghai to New York registered a decrease of 17.2% m/m to \$4,453 per FEU but is 74.5% higher than it was last year. The WCI from Shanghai to Los Angeles currently stands at \$3,487 per FEU, down 11.4% m/m but up 108.3% y/y.

The container ship lines hoped that demand following the Lunar New Year would be strong enough to support the higher spot rates, but that hasn't come to fruition. Despite the declines in spot rates, import demand has declined over the past month, but it is in a better position than it was this time last year.



Source: FreightWaves SONAR — U.S. Customs Maritime Import Shipments, both containerized and noncontainerized: 2024 (white), 2023 (blue) and 2022 (green).

U.S. maritime import shipments continue to track above 2023 levels and have recently challenged 2022 levels. Over the past month, U.S. maritime import shipment volumes have expanded by 5.9%, a sign that the Lunar New Year lull is in the rearview mirror. U.S. maritime import shipments are up 1.3% over the same period last year.



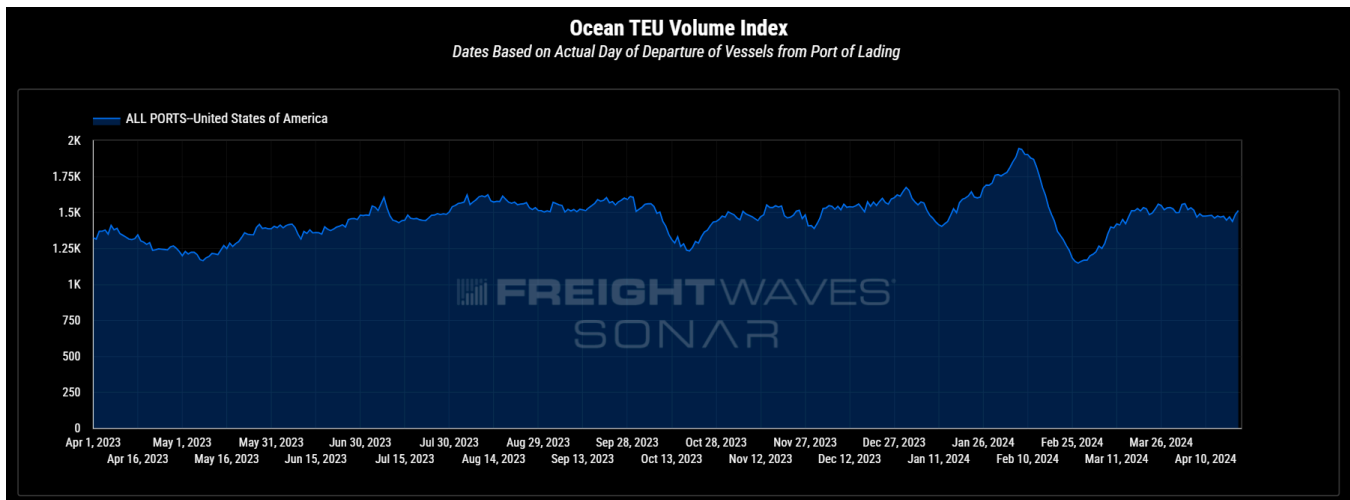
Source: FreightWaves SONAR. Maritime Import Shipments by Port — Tree Map.

The biggest ports across the country, especially those in Southern California, are largely experiencing import levels higher than they were this time last year. Both the Port of Los Angeles and the Port of Long Beach are seeing import volumes up by double digits year over year, increasing 14.1% and 31.8% y/y, respectively. These increases highlight how the ports are experiencing some level of shift back to the West Coast. The growth at these West Coast ports can be attributed to the recovery following the Lunar New Year as import shipments are up 30.3% and 28.1% m/m, respectively.

The Port of New York and New Jersey has also experienced fairly robust import growth as import shipments there are up 8.1% y/y. The port has also experienced growth over the past month as import shipments are 4.4% m/m.

The effects of the Francis Scott Key Bridge collapse in Baltimore are fully evident as import shipments into the port are off by 96.9% m/m and 97.5% y/y.

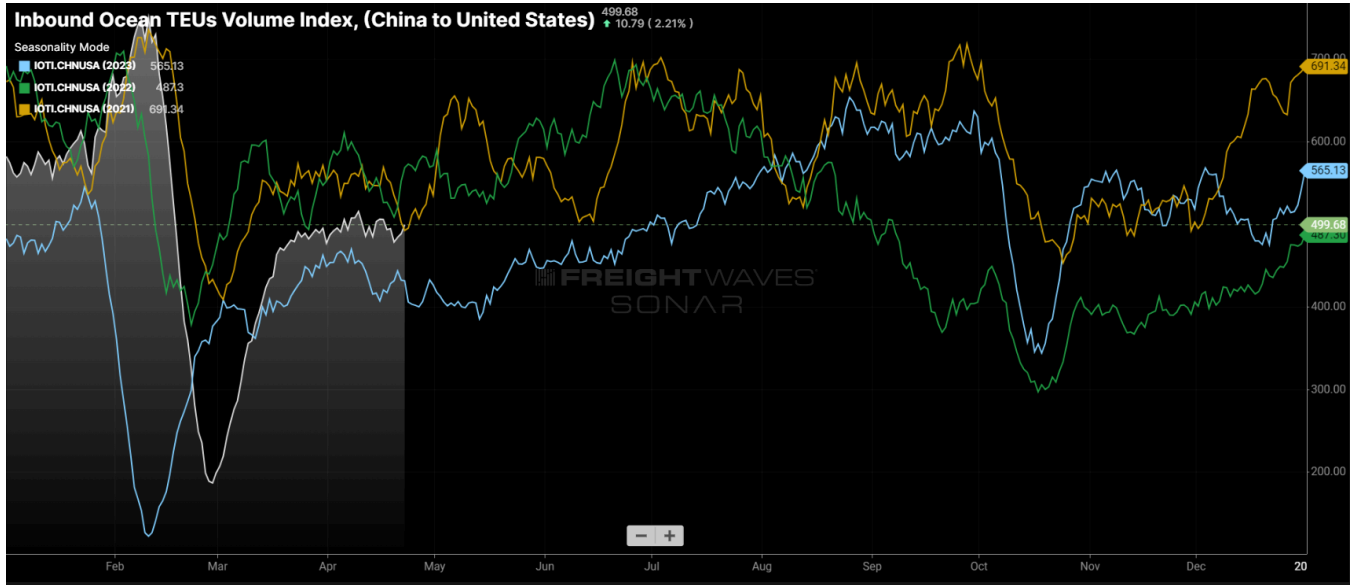
The Port of Savannah, Georgia, has seen import shipments drop by 29% m/m, but this is likely still due to the impacts of the Lunar New Year as volumes of twenty-foot equivalent units into the market reached the lowest level on Feb. 29. Conversely, the Port of Charleston, South Carolina, has seen import shipments increase by 5% over the past month, but they are still off by 7.7% y/y.



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

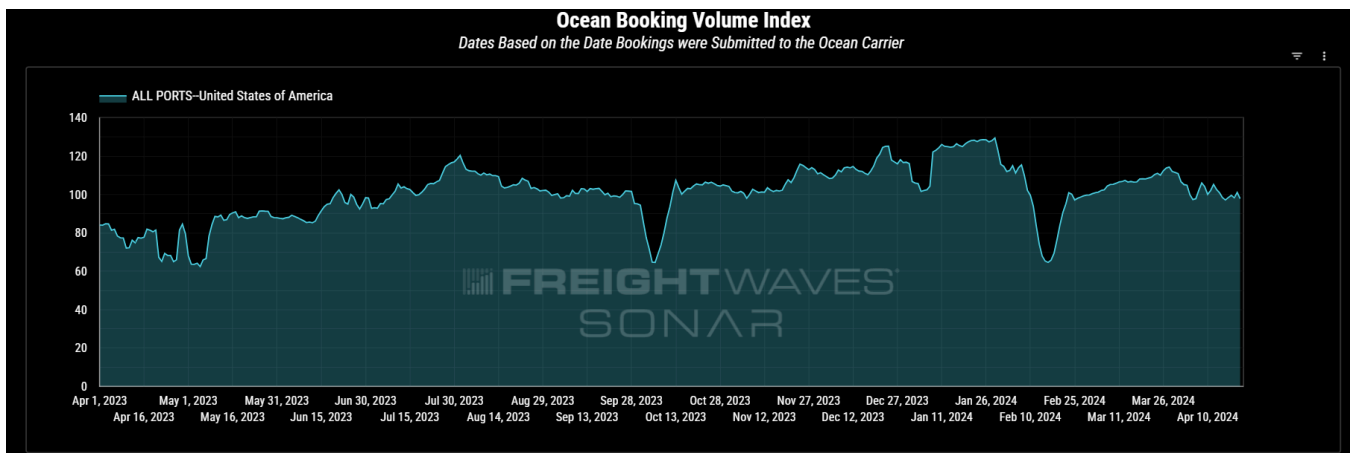
The Ocean TEU Volume Index, gauging container trade from all global ports to all U.S. ports as TEUs leave origin ports, has been steady as it goes following the Lunar New Year holiday. Over the past month, inbound ocean TEU volumes have increased by 2.8%. Compared to this time last year, inbound ocean TEU volumes have grown by 23%.

The growth is impressive as it bucks the trend where ocean volumes soften in April before gaining momentum in the summer months that is sustained into peak season. This creates an environment in which volume growth is healthy and appears to be sustainable heading into the summer shipping months.



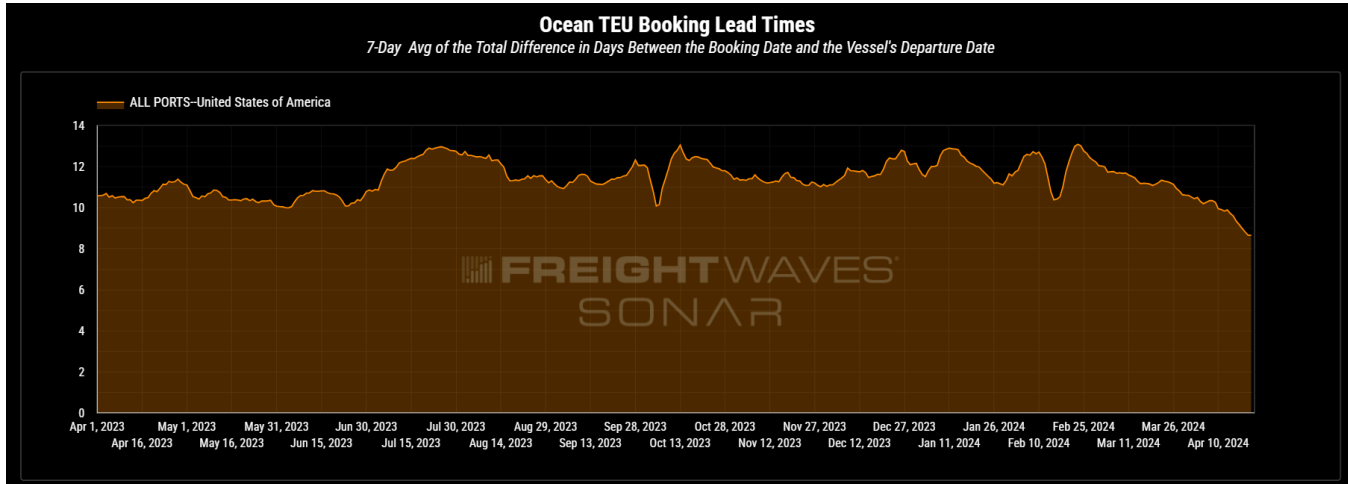
Source: FreightWaves SONAR, Inbound Ocean TEU Volume Index — China to U.S.: 2024 (white), 2023 (light blue), 2022 (green) and 2021 (yellow).

The Inbound Ocean TEU Volume Index from China to the U.S. (IOTI.CHNUSA) echoes the trends in the overall market: Volumes in April are stronger than they were in March. From China to the U.S., ocean TEU volumes have increased by 4.2% over the past month and are 15.7% higher than they were this time last year. If ocean TEU volumes follow a similar pattern to last year, this summer will be one of robust ocean demand that would challenge 2021 and 2022 levels.



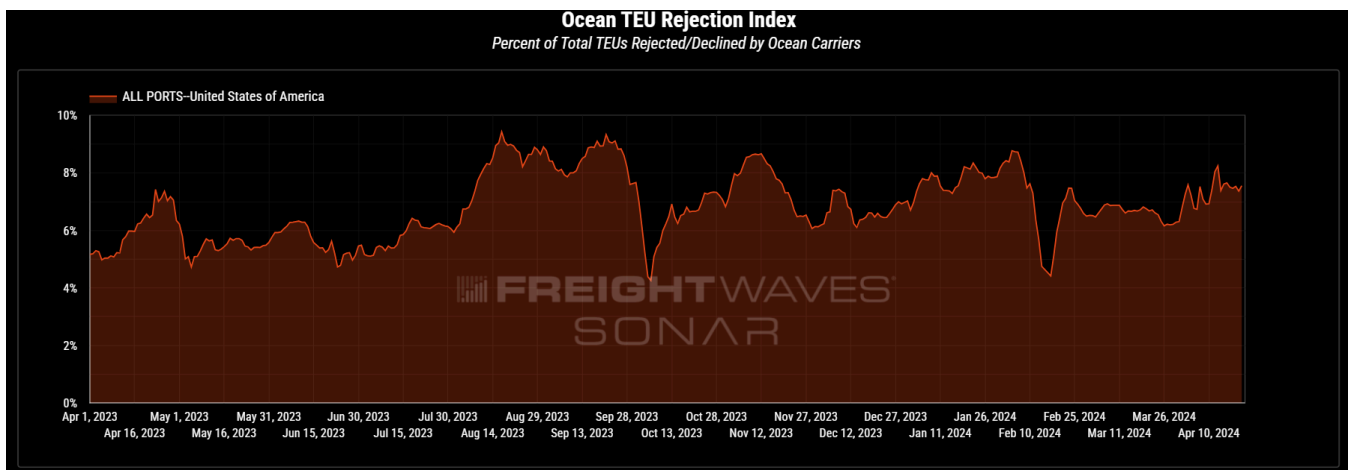
Source: FreightWaves Container Atlas. Ocean Booking Volume Index — all global ports to all U.S. ports.

The past month has presented a challenge for ocean booking volumes, which have dropped by 9.88% m/m. The decline isn't something to be too concerned about, at least not yet, as the metric is based on when bookings are submitted to ocean carriers. If shipments are being submitted closer to the day of transit, it can help deflate the number of bookings. This is likely the cause as Ocean TEU Booking Lead Times have been declining for quite some time, dropping by more than 20% in the past month.



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

Ocean TEU Booking Lead Times are 20% shorter than they were this time last year. Some of this is driven by declining spot rates, and if containers can be booked on vessels closer to the date of departure, costs may actually decline, especially in the spot market.



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

The Ocean TEU Rejection Index serves as an indicator of the rate at which ocean carriers decline cargo bookings. As of April 21, the Index stands at 7.56%, an increase of 88 basis points over the past month. The increase signals that ocean carriers are being more selective in the freight they take, but it is also an attempt to keep spot rates inflated for as long as possible against market dynamics.

Compared to this time last year, the Ocean TEU Rejection Index is 111 bps higher, signaling that the market is slightly tighter than last year. This tightness isn't necessarily being driven by a surge in demand but by a combination of healthy demand and the fact that total TEU Vessel Capacity has declined significantly.

Rail intermodal: Pricing challenges, but volumes remain healthy

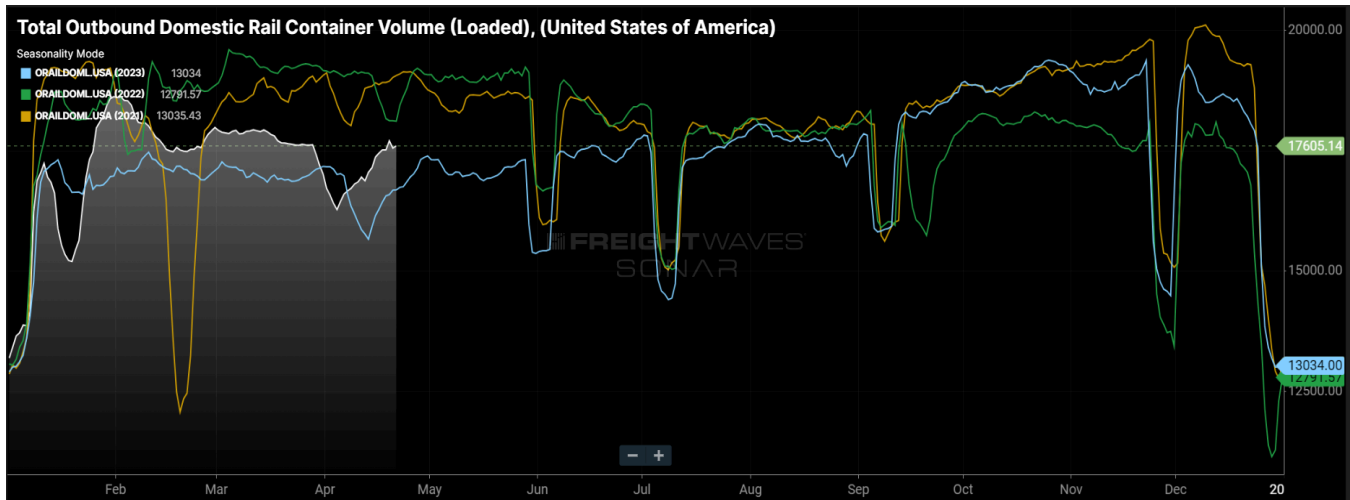


Chart: FreightWaves SONAR. Loaded domestic intermodal container volumes for 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

The intermodal market growth continues to be impressive, feeding off the y/y growth in imports in March. Even with the growth throughout the first quarter of 2023, one of the largest intermodal marketing companies (IMCs) reported that volumes were flat y/y, signaling that the environment is extremely competitive.

Overall intermodal volumes have recovered from a slowdown in the early stages of April, now up 0.6% m/m. Total intermodal volume has grown by 12.9% over the past year, driven by growth in both loaded and nonrevenue empty volumes. Over the past month, total loaded intermodal volumes have increased by 0.5% and are 11.1% higher than this time last year. Empty volumes are up 1.1% m/m and 21.3% y/y.

The domestic intermodal side of the market has grown more slowly than the overall market. Over the past month, loaded domestic intermodal volumes are down by 0.1%, but most of the decline can be attributed to the Easter holiday at the beginning of the month.. Loaded domestic intermodal volumes have increased by 5.1% over the past year. Certain areas of the country are performing better than others.. In Southern California, loaded domestic intermodal volumes out of the Los Angeles market are up 11.5% year over year. This aligns with what the large IMC that recently reported earnings stated when it reported that Southern California volumes were up double digits y/y in the first quarter.

Strength in imports has led to stronger international intermodal volumes. Loaded international intermodal volumes have increased by 1.3% over the past month and are up 20.2% over the past year.

Empty container volumes as a whole have increased over the past month, but empty domestic intermodal volumes have dropped by 2.3% over the past month. Even with the decline, empty domestic intermodal volumes are up 10.8%. Empty international intermodal container volumes have been a driver of growth for total volume, and that has continued into April. Empty international intermodal volumes are 4% higher m/m and are 31.1% higher than they were this time last year.

Intermodal contract rates rebound, still down y/y

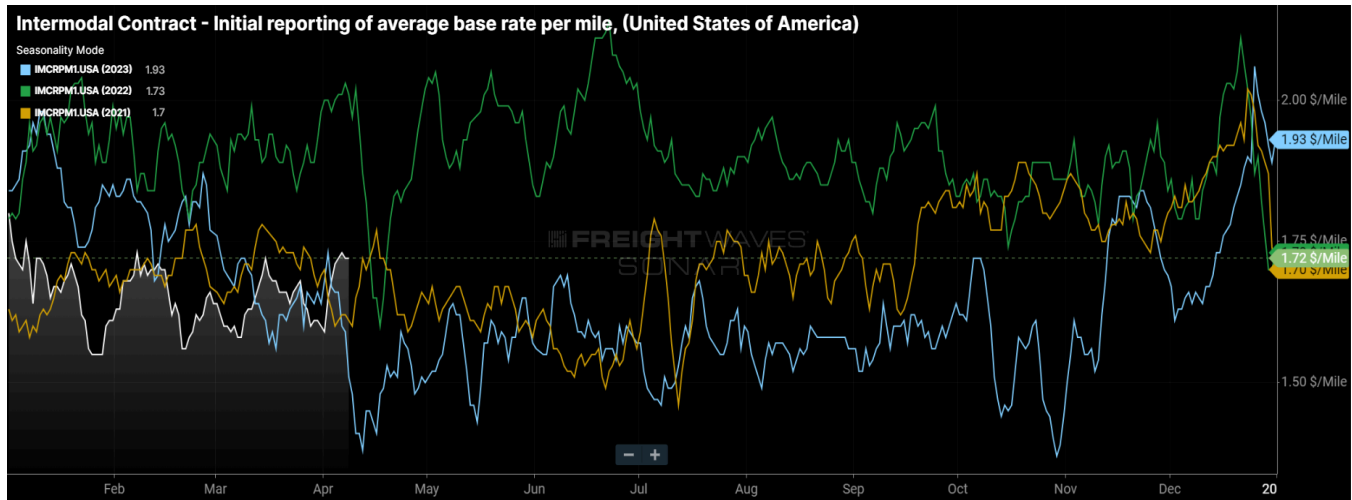


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

Average domestic intermodal contract rates, excluding fuel surcharge (shown above via the IMCRPM1.USA data set) were 6.7% below year-ago levels in the first quarter, but as new bids are coming online in the second quarter, contract rates are more in line with last year’s levels. The market is signaling that looseness in the intermodal market is largely priced in. At present, IMCRPM1 is 13.9% higher than it was last year at \$1.72 per mile, but there was a significant drop in contract rates to start April in 2023 before they recovered in the latter part of the month.

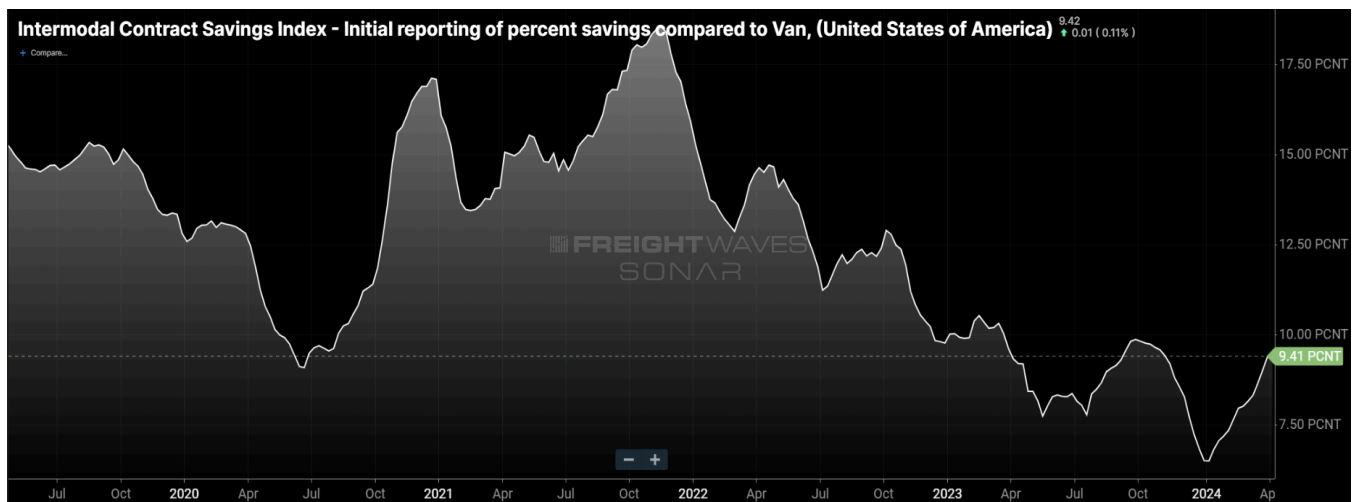


Chart: FreightWaves SONAR. Intermodal Contract Savings Index.

Despite the y/y gains in contract rates at the moment, intermodal contract pricing is still under pressure. This stems from the fact that the discount that intermodal traditionally offers compared to truckload is still historically low. The Intermodal Contract Savings Index, which is the percent difference between the initially reported dry van contract rate excluding fuel and the initially reported intermodal contract rate excluding fuel, stands at 9.41%, the highest it has been in 2024.

While the trend is a positive for the intermodal market, the savings index is still well below its historical average of 13.93%.

The intermodal spot rate data in SONAR (53-foot containers door to door including fuel) also suggests that intermodal capacity remains plentiful. While not much intermodal volume moves on the spot market, weekly spot rates sometimes move sharply week to week as carriers, at times, look to protect capacity for contractual shippers. In the most recent week, the average domestic intermodal spot rate (an average of 100 lanes) to move 53-foot containers door to door is just \$1.59 a mile, including fuel. For comparison, in last year’s loose intermodal market, the range was \$1.64-\$1.82.

Among the densest intermodal lanes across the country, the vast majority are lower on both a monthly and yearly basis. The only increase among the 13 densest intermodal lanes is the Chicago-to-El Paso, Texas, lane which is up 0.5% m/m and 29.2% y/y. The intermodal spot rate, which includes fuel, is \$3.45 per mile, well above both the dry van contract and spot rate, according to the FreightWaves Trusted Rate Assessment Consortium. Intermodal spot rates this high in comparison indicate that the rails are protecting capacity for their contracted customers along this lane.

Intermodal spot rates down significantly y/y and m/m

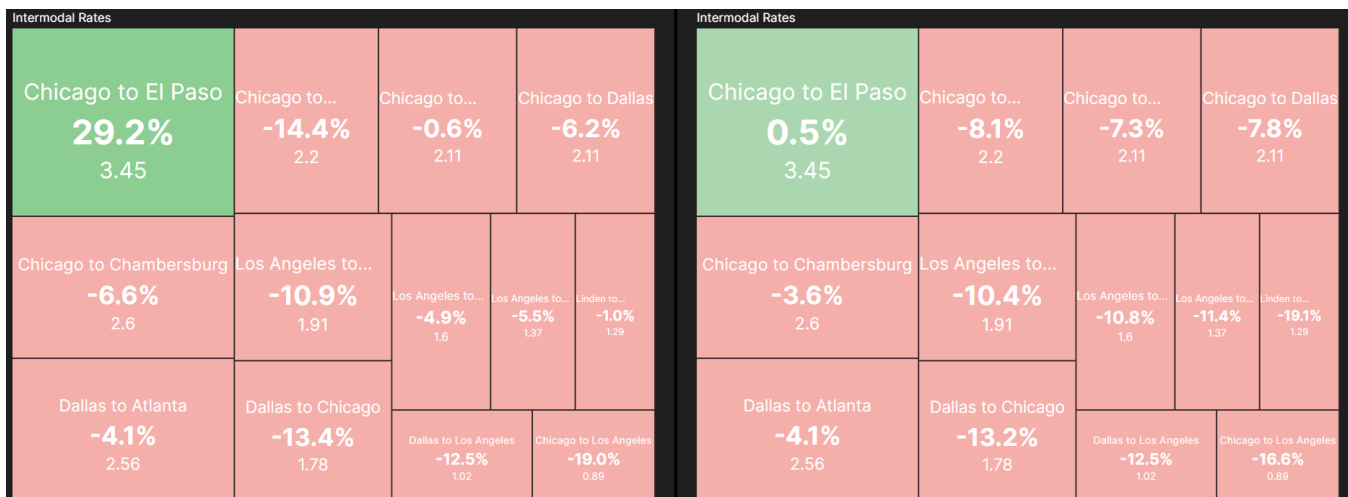


Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

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. The current national intermodal rejection rate continues to trend higher, now above 1%, at 1.03%. Intermodal rejection rates in Los Angeles jumped to 1.82% as increased volatility has hit the market.

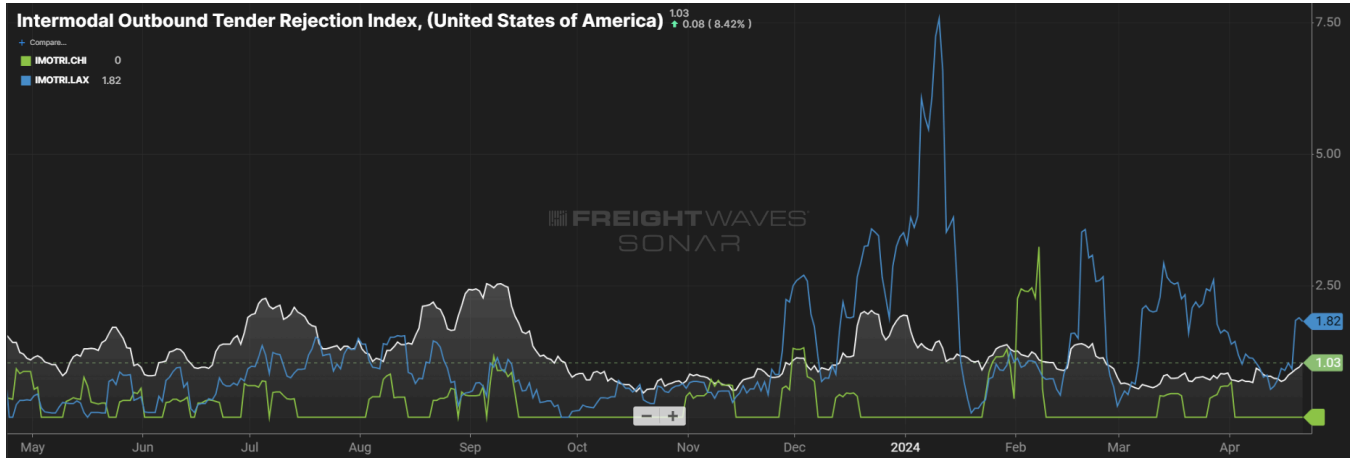
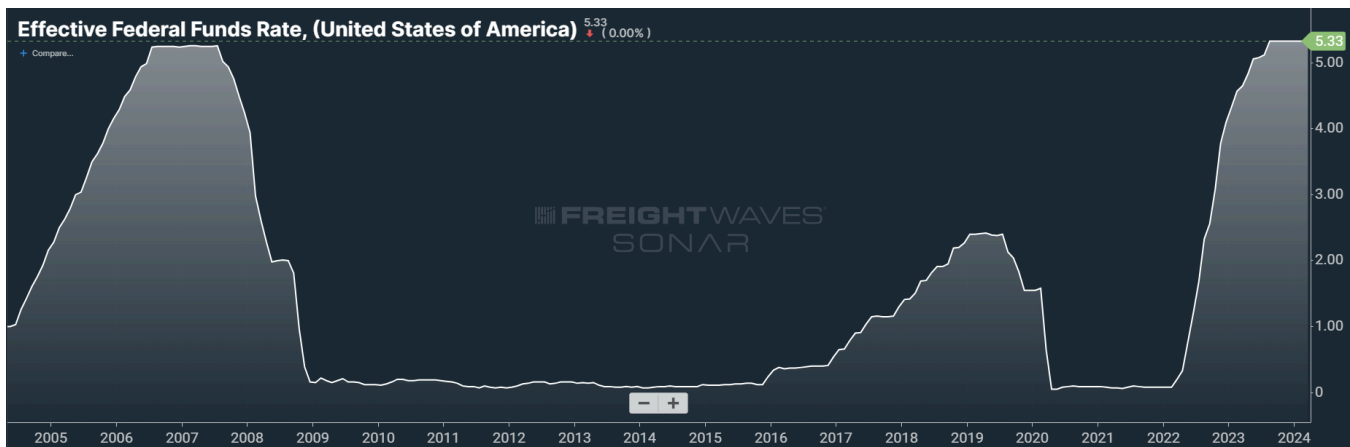


Chart: FreightWaves SONAR. Domestic intermodal outbound tender rejection rates for national (white), Los Angeles (blue) and Chicago (green) loads.

What else we're watching

Earlier this year, Wall Street was convinced that the Federal Reserve would issue at least three interest rate cuts in 2024 — possibly beginning as soon as the Fed’s meeting in April. After a full quarter of hotter-than-expected data from the labor market and inflation, the question has shifted to whether cuts will be made at all. Fed Chairman Jerome Powell made remarks in mid-April that reinforced the market’s skepticism, stating that “the recent data have clearly not given us greater confidence [in easing policy] and instead indicate that it is likely to take longer than expected to achieve that confidence.” While this stance was broadly received as a sharp pivot from the Fed’s previous position, it follows from Powell’s earlier comments that rate cuts are dependent on a sufficient amount of “good data.”



Source: FreightWaves SONAR. Effective federal funds rate.

The Federal Reserve’s goal in adjusting interest rates is to combat inflation while maintaining maximum employment. The labor market has remained resilient, as the jobs report has bested analysts’ expectations every month since October 2023.

In March, the jobs report showed headline job growth of 303,000 from February, well ahead of analysts' expectations of 200,000. The increase in payrolls caused the unemployment rate to inch lower, dropping to 3.8% in March from 3.9%. This happened even as the labor force participation rate edged up slightly.

Looking under the hood highlights how the labor market may not be as resilient as it appears, given where hiring trends have been the strongest. In March, 23% of the increase in nonfarm payrolls originated from government hiring. Government payrolls rose by 71,000 in March, with much of the increase at the local government level.

Leisure and hospitality was again responsible for a large portion of the increase in nonfarm payrolls, adding 49,000 jobs during March. Restaurant and bar hiring accounted for 28,300 of the added leisure and hospitality payrolls.

Combining leisure and hospitality with government hiring, the two sectors accounted for nearly 40% of the added payrolls in March. Health care was also an area of growth, adding 72,300 jobs in March. Nearly two-thirds of hiring in March stemmed from these three sectors: health care, hospitality and government.

Retail shops also spent March beefing up their workforce, specifically those in general merchandise. General merchandise retailers added 20,100 jobs in March, with department stores adding 7,700 of the jobs and warehouse clubs and supercenters adding the other 12,400.

One of the reasons for the growth in these sectors has been the expansion of the part-time workforce. The number of individuals working part time for noneconomic reasons³ grew by 572,000 in March. At the same time, the number of wage and salary workers, better known as full-time workers, for nonagricultural private industries fell by 164,000.

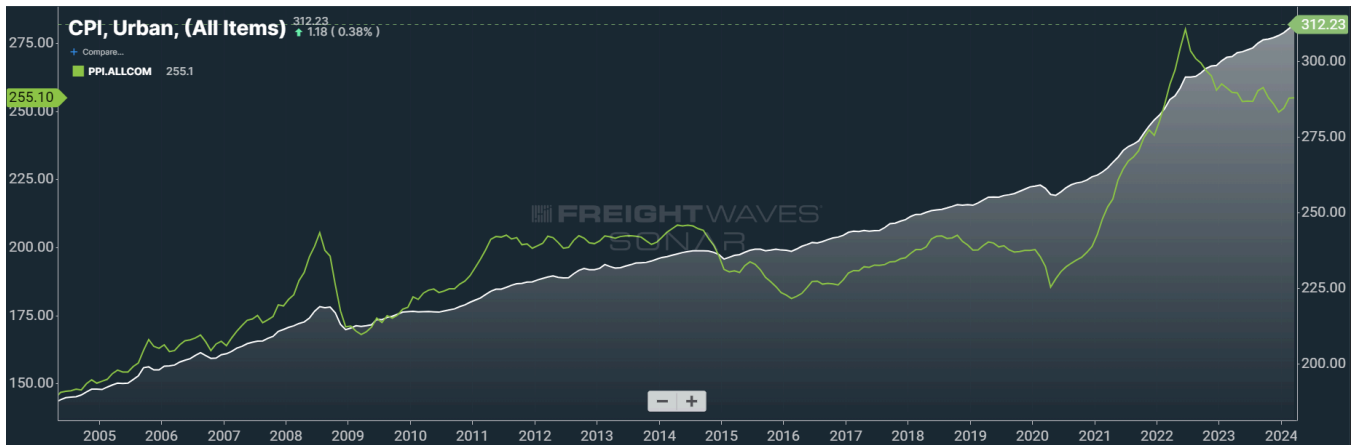
Perhaps the biggest blow to the possibility of near-term rate cuts was dealt by the release of demand-side inflation data from March. The headline Consumer Price Index (CPI) rose 0.4% m/m and 3.5% y/y, slightly above consensus forecasts of 0.3% m/m and 3.4% y/y gains. The core CPI — which excludes goods with volatile pricing like food and energy — was also hotter than the 3.7% y/y bump expected, rising 3.8% instead. Indexes for shelter and gasoline, which were up 0.4% m/m and 1.7% m/m, respectively, combined to account for more than half of the overall CPI's monthly increase.

While these beats worked against the potential for a “soft landing,” the scenario in which inflation is tamed while a recession is avoided, they might not appear too major on their own. Yet the March CPI was devastating for two reasons: First, it was another release in a string of releases in which headline inflation was wildly above the Fed's 2% y/y target, and one without any signs of cooling down soon.

Second, and more importantly, it painted an ugly picture on “supercore” inflation: that is, core services less housing. The Fed has consistently singled out supercore inflation as its most valued metric in knowing when to begin easing policy, which is why March's surprise gains of 0.7% m/m and

³ Refers to persons who usually work part time for noneconomic reasons such as childcare problems, family or personal obligations, school or training, retirement or Social Security limits on earnings, and other reasons. This excludes persons who usually work full time but worked only 1 to 34 hours during the reference week for reasons such as vacations, holidays, illness, and bad weather.

5% y/y — the latter of which was the hottest it has been since last April — were uniquely effective in crushing hopes for near-term rate cuts.



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

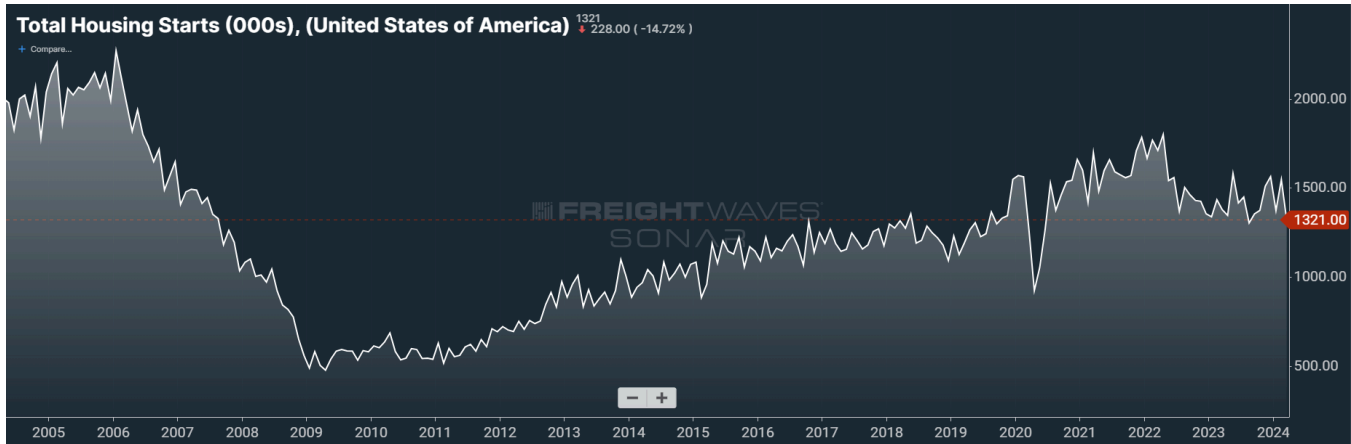
News about supply-side inflation, while positive, was not positive enough to offset gains in consumer inflation. The headline Producer Price Index (PPI) — which tracks inflationary pressures faced by producers across a number of industries — was up 2.1% y/y, edging below the consensus forecast of a 2.2% y/y gain. Yet the core PPI rose slightly above expectations of a 2.3% y/y gain, rising 2.4% instead. Turning to gasoline, price increases for which were a major driver of demand-side inflation in March, prices for producers fell 3.6% m/m on a seasonally adjusted basis. But looking at the raw, non-seasonally adjusted data, final demand gas prices swelled 6.3% m/m, which helps to explain why retail gasoline prices are at their highest in six months.

Despite rising energy prices, the U.S. manufacturing sector did appear to be rebounding in March, albeit while contending with higher input costs. Two reports, the ISM Manufacturing PMI and the S&P Global US Manufacturing PMI, confirmed the uptick in supply-side inflation seen in March's release of the PPI. This rise has naturally led producers to hike prices in response: "The upturn [in the manufacturing sector] is, however, being accompanied by some strengthening of pricing power," wrote Chris Williamson, chief business economist at S&P Global Market Intelligence.

"Average selling prices charged by producers rose at the fastest rate for 11 months in March as factories passed higher costs on to customers, with the rate of inflation running well above the average recorded prior to the pandemic," Williamson continued. "Most notable was an especially steep rise in prices charged for consumer goods, which rose at a pace not seen for 16 months, underscoring the likely bumpy path in bringing inflation down to the Fed's 2% target." The link between growth in the manufacturing sector and consumer-facing inflation thus seems to be a double-edged sword for carriers, as demand will continue to supply them with enough freight to keep excess capacity in the market. Meanwhile, interest rates that are stubbornly high will continue to raise the cost of doing business, making it more difficult to find comfortable margins.

Prolonging the current period of quantitative tightness has also had a deleterious effect on the housing market: After falling from October's two-decade peak of 7.79% to December's 6.61%, the average rate on a 30-year fixed mortgage is again trending higher. At the time of writing, this rate

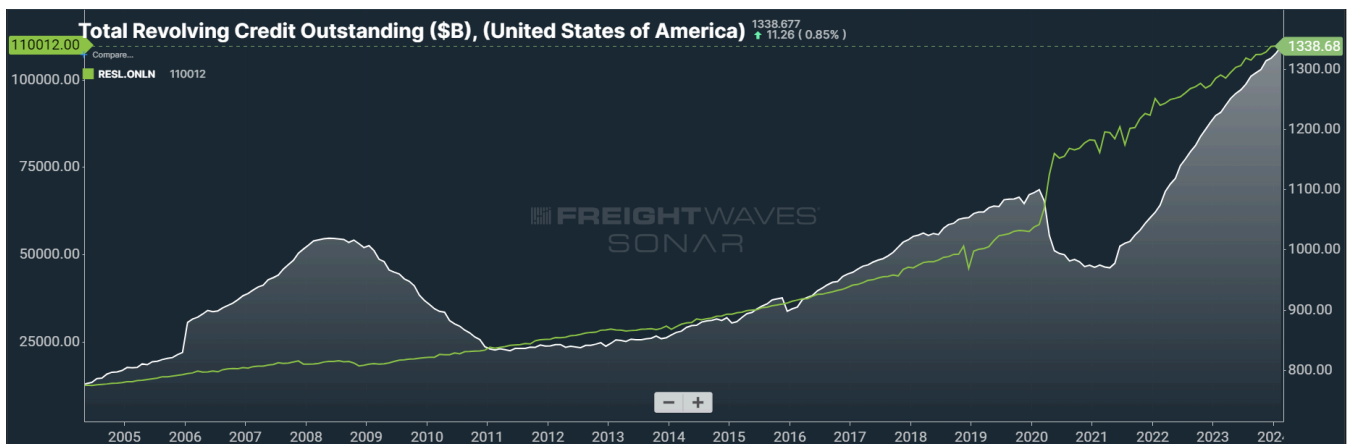
has risen week after week since late March, currently sitting at 7.1%. Home prices similarly remain well above their pre-pandemic averages: S&P's CoreLogic Case-Shiller U.S. National Home Price Index saw housing prices in January rise 6% y/y and an incredible 52% over January 2019.



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

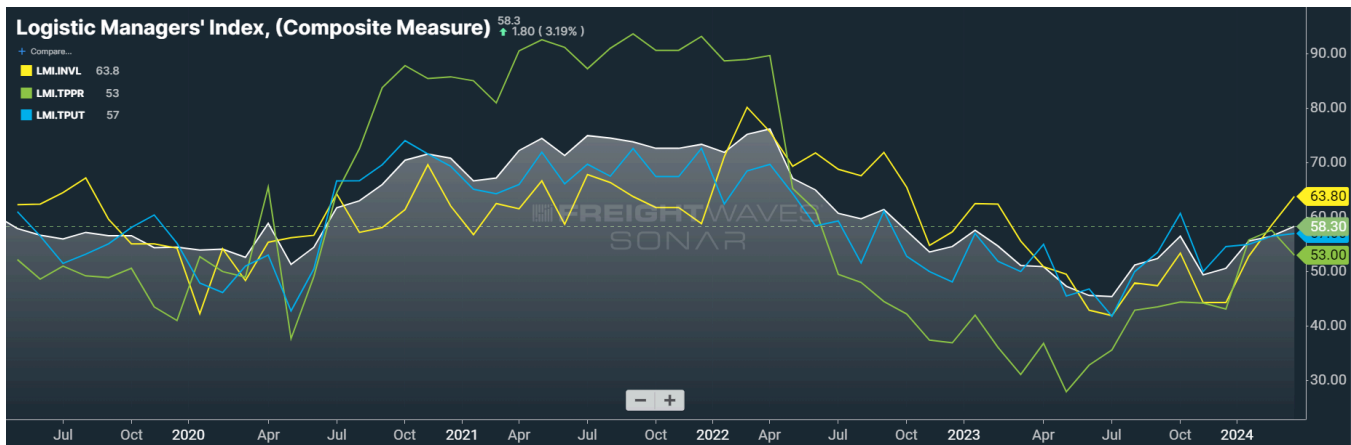
Demand for new homes also deteriorated in March. Though a relatively minor 2.4% m/m drop in housing starts was expected, the reality was far more grim: Housing starts crashed 14.7% in March, marking the largest monthly drop since April 2020, when the sector was rocked by the COVID lockdowns. Sales of existing homes, according to data from the National Association of Realtors, likewise fell 4.3% m/m and 3.7% y/y in the month — a stark reversal of a market in which demand from would-be homebuyers greatly outstripped supply.

Yet even if new construction were booming, the U.S. consumer appears to have little room to take on additional debt. Data from the Fed shows that the total amount of revolving credit — which includes credit card debt — rose \$11.3 billion at an annualized rate of 10.2% in February. The timing of this rise could hardly be worse, since the average interest rate on a credit card plan also hit an all-time high of 21.59% in the month. Meanwhile, the personal saving rate dropped to 3.6% in February, the lowest it has been since December 2022. Without the means to take on much additional debt, let alone pay off that which is already owed, it is unclear how consumers will behave in the upcoming shopping seasons.



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

Total card spending data from Bank of America arguably showed the first few cracks in this tense state of affairs. Consumer spending in March was up 0.3% y/y — with inflation-adjusted or “real” spending likely negative — and down 0.7% from February. BofA also explains this y/y growth by noting that Good Friday fell in March this year (as opposed to April in 2023), which makes for easier comps. Nevertheless, only spending on freight-intensive goods was positive over February, as clothing (up 0.2% m/m), online retail (up 0.9% m/m) and home improvement (up 1.5% m/m) were the sole categories to see growth. Discretionary spending has declined across all income brackets on a yearly basis, though it retains most of the gains it made since the pre-pandemic year of 2019.



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

Finally, the March release of the Logistics Managers' Index (LMI) saw the headline index not only remain in expansionary territory, as it has since December, but also reach its fastest rate of expansion since September 2022. In March, the LMI rose 1.8 points m/m to 58.3. This growth has largely been driven by shippers' long-term plans for inventory expansion finally coming to fruition, as the Inventory Levels subindex swelled 5.3 points m/m to 63.8. On the other hand, the Transportation Prices subindex tumbled 4.6 points m/m to 53 — while any reading above 50 indicates expansion, this latest reading suggests that carrier rates will be slow to rise and vulnerable to occasional setbacks.

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