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Labor Day wasn't enough to boost freight market

September 23, 2024 | 2 p.m. EDT

Overview

Labor Day was the next potential catalyst for the truckload market, but it came and went with no true disruptions. Throughout September, tender volumes have remained strong year over year, but spot rates have been under pressure as rejection rates have retreated from their summer highs.

The intermodal market has been there to handle the stronger demand levels, driven by record import levels. Intermodal's value proposition of cost versus service will face pressure in the coming months, but intermodal providers have clearly improved operations as they have been able to handle the growth in volume.

The ocean market is starting to move past peak season as inbound TEU volumes are retreating from recent highs. Ocean spot rates have also started to retreat from recent highs. Golden Week is rapidly approaching, which tends to mark the end of maritime peak season, but as the election draws closer it will be important to see the role potential tariffs play in driving volumes during the traditionally softer months.

The macroeconomy was handed a 50-basis-point cut to the federal funds rate by the Federal Open Market Committee. This cut, along with expectations for another 50-bp reduction by the end of the year, could be the driving force behind some industrial activity, especially in 2025.

For now, the consumer continues to drive the economy as retail sales were better than expected and inflation data has been trending toward the long-term target of 2%.

Macro indicators	(y/y change)
Aug. industrial prod. change	+0.8% (Unch.)
Aug. retail sales change	+0.1% (+2.1%)
Aug. U.S. Class 8 orders	12,400 (-16%)
Aug. U.S. trailer orders	7,700 (-40%)

Truckload indicators	(y/y change)
Tender rejection rate	4.89% (+98 bps)
Average dry van spot rate ¹	\$2.23/mi (-1.8%)
LAX to DAL spot rate ²	\$2.31/mi (+9%)
CHI to ATL spot rate	\$2.41/mi (-7.3%)

Tender volumes	(y/y change)
Atlanta	398.3 (-4.2%)
Dallas	345.89 (+6.3%)
Los Angeles	346.4 (+12.1%)
Chicago	212.55 (+0.1%)

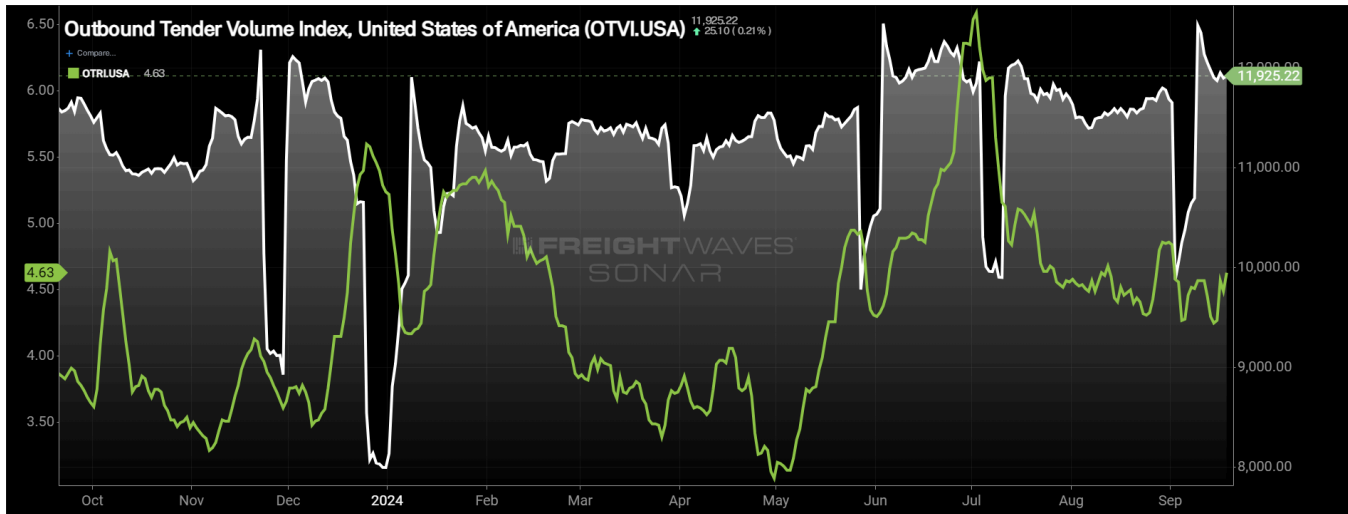
Tender rejections	(y/y change)
Atlanta	3.29% (+44 bps)
Dallas	3.75% (+63 bps)
Los Angeles	4.13% (-83 bps)
Chicago	5.97% (+235 bps)

Tony Mulvey
Senior Analyst
tmulvey@freightwaves.com
(423) 637-1940

¹ FreightWaves National Truckload Index
² FreightWaves TRAC spot rate

Truckload markets

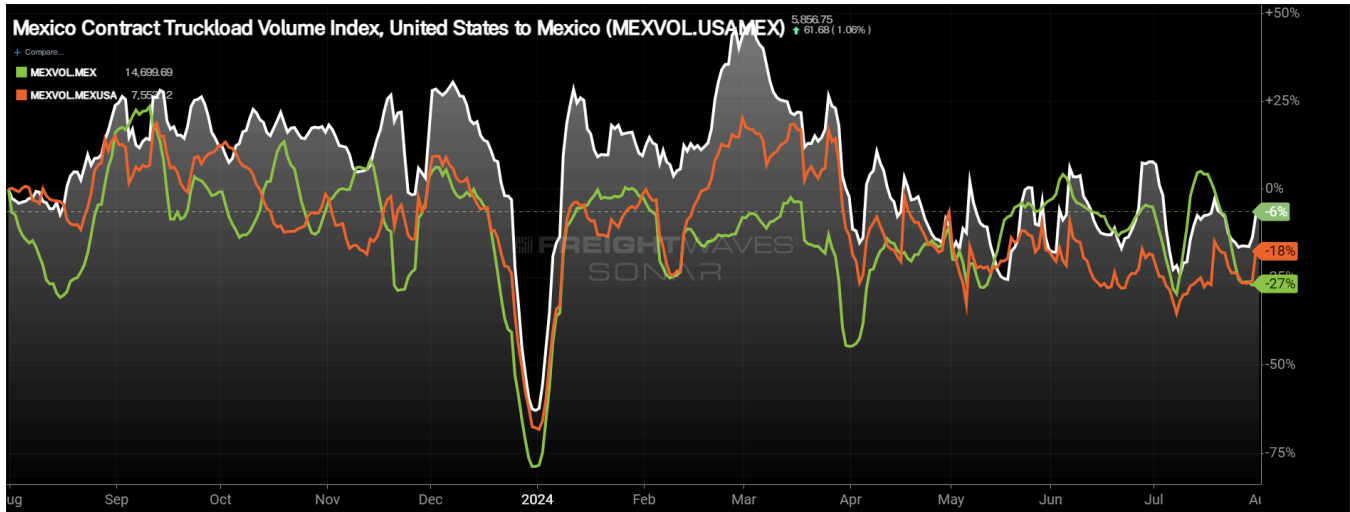
Labor Day passed without creating any real disruption in the truckload market, which is a sign that the market still has plenty of capacity to bleed off. The positive sign, despite the softness around the Labor Day holiday, is that demand remains strong compared to this time last year and capacity exits are continuing. Additionally, strong import volumes have yet to enter the truckload market in any meaningful way, outside the shortest lengths of haul, which will likely create a boost in the fourth quarter, but after that it looks like a challenging environment until after the first few months of 2025.



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

Truckload volumes rebounded through August and have remained elevated through September. The Outbound Tender Volume Index (OTVI), a measure of shippers' requests for truckload capacity, is up 3.24% month over month but down slightly from the post-Labor Day holiday peak. The gap with year-ago levels has narrowed after the Labor Day peak, now up 2.83% year over year, down from over 5% in early September.

The growth in volumes has predominantly been driven by the dry van market, but the reefer market hasn't completely missed out on the growth. The Van Outbound Tender Volume Index has risen faster than the overall market, rising 4.34% m/m. While van volumes are still 2.32% higher than they were this time last year, the gap has narrowed in recent weeks. However, the stronger import levels that are flowing through should help create a wider gap in the coming months. Reefer volumes have seen a more modest increase over the past month as the Reefer Outbound Tender Volume Index has increased by 1.73%. Reefer volumes are still down 2.39% compared to this time last year, but they have recovered from the reefer market's own mini freight recession as volumes are 13% higher than they were in April.



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

The Mexico truckload market has been under pressure the past couple of months as volumes have diminished. Over the past year, volumes both intra-Mexico and between the United States and Mexico have suffered. Southbound volumes from the U.S. to Mexico are down 6% y/y through the end of July. Intra-Mexico contract truckload volumes have suffered the most over the past year, down 27% through the end of July. Northbound volumes from Mexico to the U.S. are right in the middle, down 18% through the end of July. With interest rates now headed lower, it will be interesting to see how capital expenditure budgets get deployed in early 2025, which could help boost manufacturing and trade between the U.S. and Mexico.

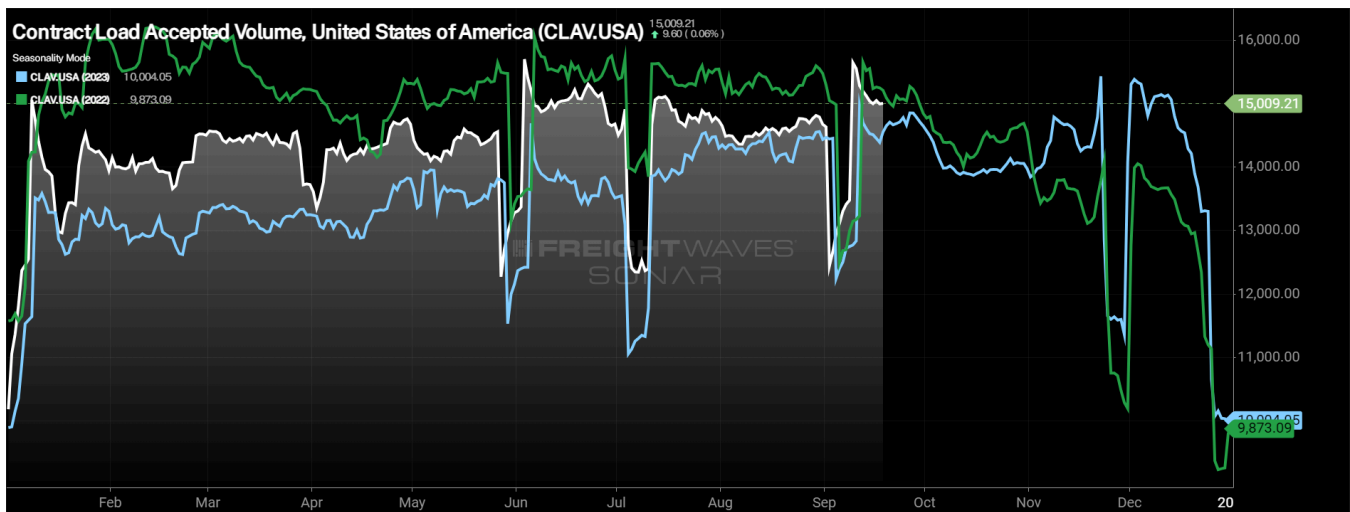


Chart: FreightWaves SONAR. Contract Load Accepted Volume: 2024 (white), 2023 (green) and 2022 (blue).

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 2.02% year over year, which is an improvement from September's report,

when accepted tenders were up less than 1% y/y. Accepted tenders are 1.4% below where they were in 2022.

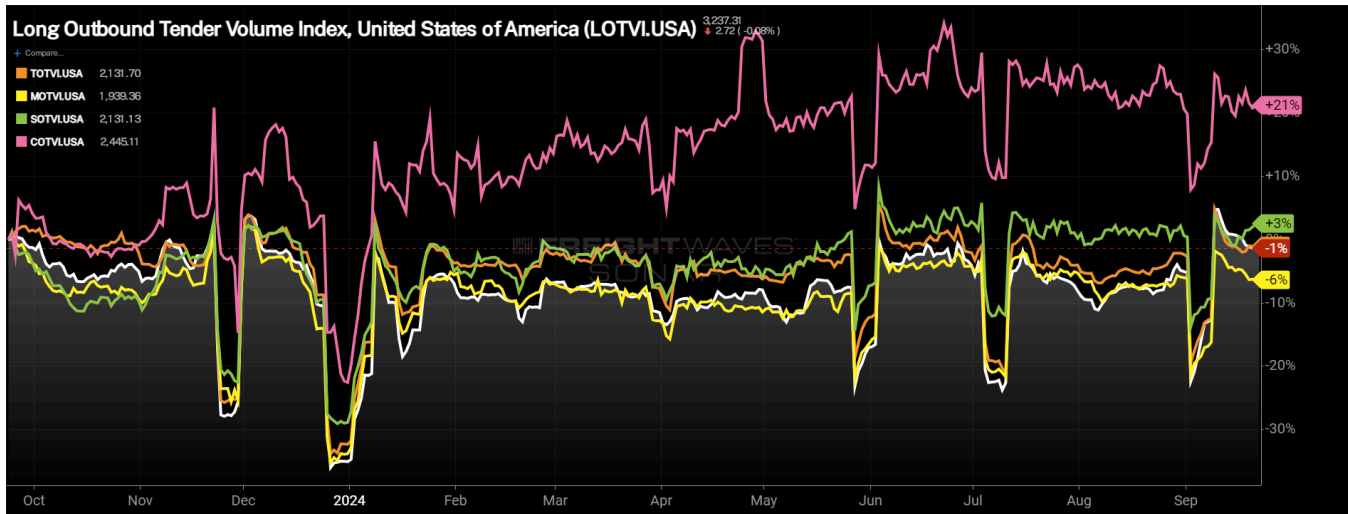


Chart: FreightWaves SONAR. Relative view of tender volumes by mileage band: 800-plus miles (white), 450-800 miles (orange), 250-450 miles (yellow), 100-250 miles (green) and less than 100 miles (pink).

The volume growth that is being experienced in the market is solely from loads in the local length-of-haul mileage band. The local length of haul, loads moving 100 miles or less, has experienced volume growth of over 21% y/y as goods are flowing from port markets to warehouses, especially in places like Southern California where freight is moving from the ports of Los Angeles and Long Beach inland to warehouses in the Inland Empire. The longer lengths of haul, especially long-haul loads moving 800 miles or more, and tweener loads moving 450 to 800 miles, are down 1% compared to this time last year. As the need for more timely service ramps up into peak season, there will be a shift from intermodal, which has effectively kept slack in the market, into truckload, but the challenge is pinpointing exactly when that will be and whether capacity will be in the correct locations to handle changes in volume without disruption.

On the capacity front, the market is still oversupplied as the reaction to the Labor Day holiday was effectively nonexistent. The Outbound Tender Reject Index, a measure of relative capacity, hasn't been above 5% since the Fourth of July holiday, though it found some resistance around 4.25%. At present, the OTRI sits at 4.89%, 48 basis points higher than where it was this time last month and up 106 y/y.

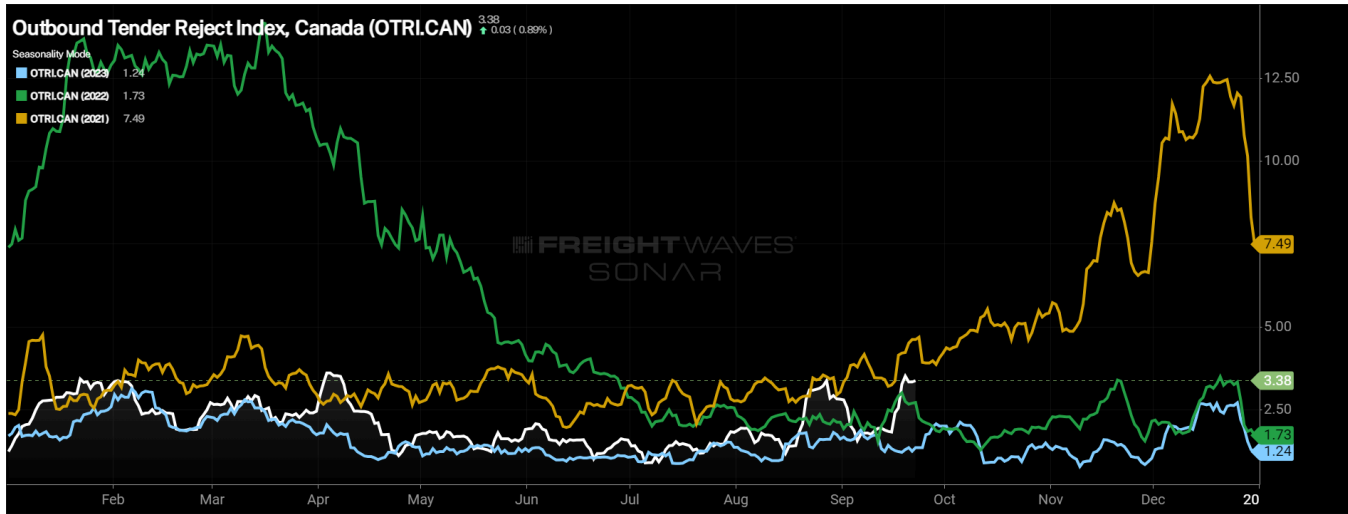
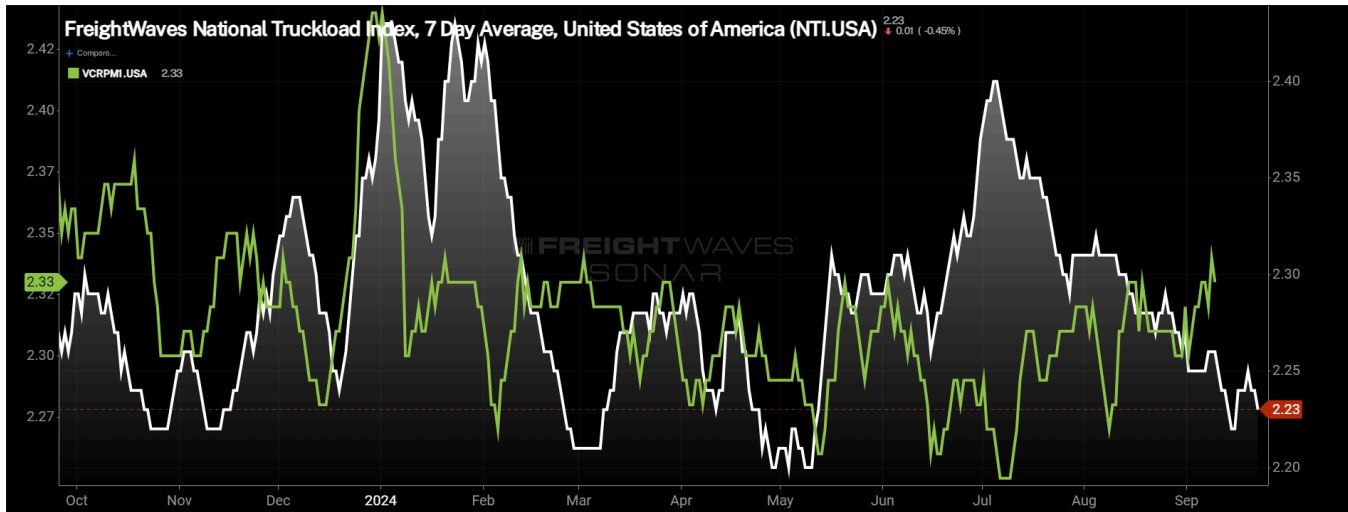


Chart: FreightWaves SONAR. Outbound Tender Reject Index for Canada: 2024 (white), 2023 (green), 2022 (blue) and 2021 (yellow).

Tender rejection rates on loads originating in Canada remain well below levels seen in the U.S. Part of the reason for this is that most of the freight movements within Canada are shorter lengths of haul and moving freight around consumption centers as opposed to long hauls from ports inland. The rails tend to dominate the long lengths of haul in Canada, especially when winter weather can significantly impact roads.

The truckload market in Canada did see a little pressure when the lockout occurred and the OTRI for loads originating in Canada more than doubled in just a couple of days. During the time leading into the lockout and immediately after, the OTRI for loads in Canada eclipsed 3% for the first time since April. At present, the OTRI for Canada sits at 3.38%, one of the highest levels of the year. Moving forward, it will be interesting to see if this is a short-term sign of volatility or an underlying change within the Canadian truckload market.

Spot rates continue to retreat from summer highs

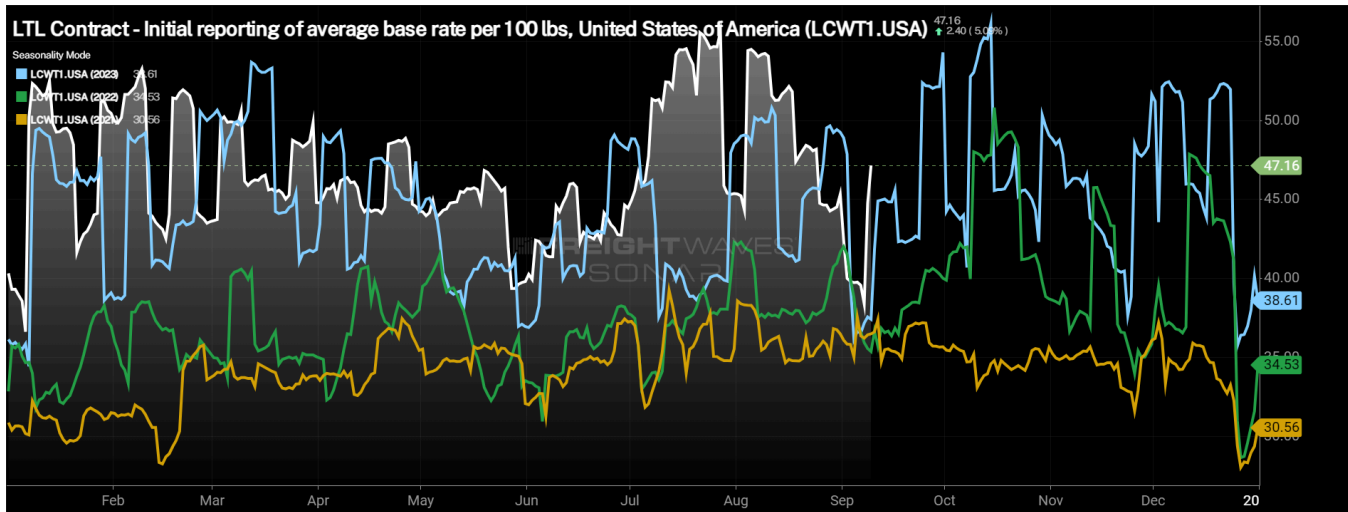


Source: FreightWaves SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

The truckload market, while able to hold on to gains around International Roadcheck in mid-May through the beginning of August, has seen spot rates retreat from their summer highs. The FreightWaves National Truckload Index — a seven-day moving average of national dry van spot rates that is inclusive of fuel — has fallen by 4 cents per mile over the past month to \$2.23. Spot rates are also 4 cents per mile lower than they were this time last year, a sign that while capacity is leaving the market, it has yet to do so in any meaningful way.

Part of the reason there might have been limited disruptions around the Labor Day holiday is that contract rates received a little boost, moving to the highest levels of the year. The initially reported dry van contract rate, which excludes fuel, increased by 5 cents per mile over the past month to \$2.33. It's the highest that contract rates have been since Memorial Day weekend and is in line with where they were this time last year.

LTL rates fall in the late stages of summer



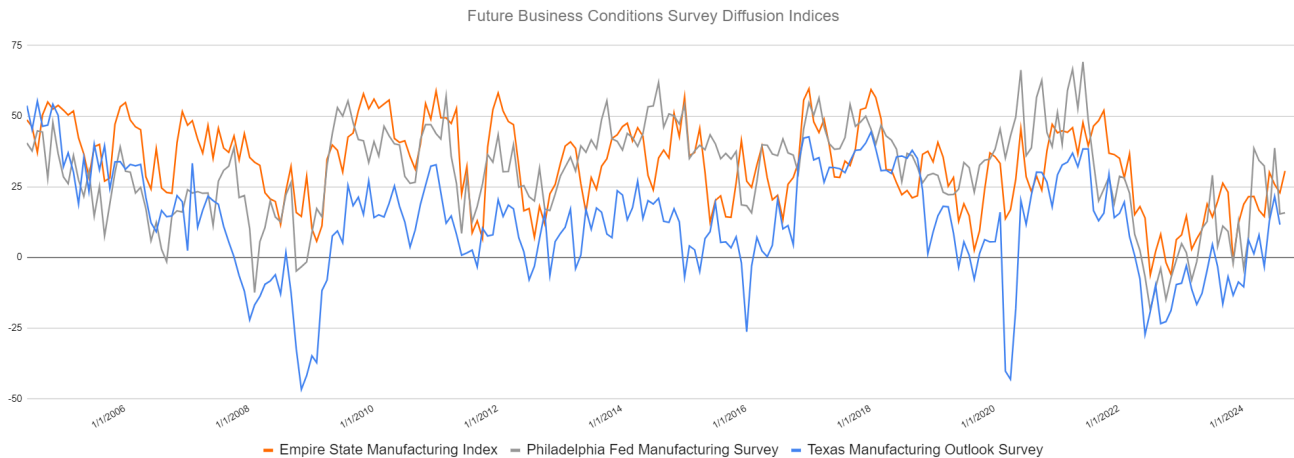
Source: FreightWaves SONAR. Initially reported LTL contract rate per hundredweight: 2024 (white), 2023 (blue) and 2022 (green).

The industrial side of the economy has been under pressure for quite some time, and that pressure is now flowing into less-than-truckload pricing. The average LTL contract rate is down \$7.09 per hundredweight over the past month to \$47.16. The LTL contract rate is still elevated compared to this time last year, up 26% at the moment, but if the industrial economy continues to lag behind the consumer side of the economy, it could put increased pressure on LTL pricing now more than a year after one of the largest LTL carriers exited the market.

Macroeconomic conditions

The industrial side of the economy has remained challenged as the Federal Reserve's monetary policy has been more restrictive. Though August, unlike July and September, lacked a hurricane, the industrial side of the economy remained in contraction, according to the Institute for Supply Management's Manufacturing Purchasing Managers' Index. The Manufacturing PMI came in at 47.2 in August, up 0.4 points from the July report. It marks the fifth consecutive month in which the manufacturing sector contracted and the 21st time in the past 22 months. It is worth noting that while the manufacturing sector is in contraction, represented by the PMI being below 50, the overall economy continues to expand, represented by the manufacturing PMI above 42.5.

New orders remained in contraction for the fifth consecutive month, falling faster than they did in July and the lowest the diffusion index has been since May 2023. The New Orders component of the index fell by 2.8 points m/m during August, to 44.6. The biggest concern surrounding the New Orders component is that instead of moving back toward expansion territory, contraction has accelerated in recent months. Lower interest rates should help alleviate some of the pressure that new orders are under, but that will have a lagging impact as capital expenditures will likely be pushed into 2025.



The Empire State Manufacturing Index turned positive for the first time this year in the September release from the New York Federal Reserve regional bank. The diffusion index increased by 16.2 points month over month to 11.5. Nearly every subcomponent of the index rose during the month, including the Inventory Index, which rose by 10.6 points m/m to zero. Additionally, the Shipments Index grew significantly, rising 17.6 points m/m to 17.9.

The forward-looking General Business Conditions Index increased to the highest level it has been since March 2022. The index rose by 7.7 points m/m to 30.6. The increase in the index was driven by a smaller percentage of respondents expecting conditions to worsen compared to an increase in optimism. Just 14% of respondents expect conditions to worsen over the next six months compared to 22.2% in August's report. The respondents have a more positive outlook for new orders and shipments over the next six months compared to August.

The Manufacturing Business Outlook Survey conducted by the Federal Reserve Bank of Philadelphia also showed business activity improving in September. The current General Business Activity Index turned positive again in September, rising 8.7 points m/m to 1.7. New orders and shipments came under pressure during September as both of the corresponding industries turned negative in the month. The outlook for the next six months was largely unchanged from the August release as the future General Business Activity Index increased just 0.4 points m/m to 15.8.

August was slightly more positive in Texas as production turned positive, but overall activity remained weak. The current General Business Activity Index of the Federal Reserve Bank of Dallas' Texas Manufacturing Outlook rose by 7.8 points m/m in August to minus 9.7. The outlook for potential improvements over the next six months soured in August, though it was still in positive territory. The survey's Future General Business Activity Index fell by 10 points m/m in August to 11.6, the third consecutive month the index has been in expansion territory.

Lower interest rates have arrived. Well, they've been announced anyway. At the September meeting of the Federal Open Market Committee, officials determined that the first cut to the target range of the federal funds rate in over four years would be 50 basis points. The 50-bps cut was expected by the market as favorable inflation data and a cooling labor market created the runway for a more aggressive cut. The cut will bring the target range for the federal funds rate to 4.75% - 5%.

What provided the basis for the larger cut than the 25 bps that was expected for much of the past two months?

The employment report has been underwhelming for multiple months in a row. The August jobs report showed that total nonfarm payrolls expanded by 142,000 during the month. This was an improvement from the 89,000 jobs added during July, which was downwardly revised from 114,000. It did fall well short of the 161,000 jobs that analysts were expecting to be added during the month.

The unemployment rate fell by 10 basis points to 4.2% as the labor force participation rate held steady during the month at 62.7%.

The construction sector of the economy experienced growth, adding 34,000 jobs during the month. Much of that growth was driven by specialty trade contractors, which saw payrolls grow by 14,800.

The biggest drivers of job growth continue to be health care, leisure and hospitality, and government. The health care sector added 30,900 jobs during August, up 4% from the year prior. Leisure and hospitality added 46,000 jobs during the month, with much of that growth coming from food services and drinking places, aka restaurants and bars. Restaurants and bars added nearly 30,000 jobs during the month. The government added 24,000 jobs during August, but much of that growth came at the local government level, which added 22,000.

The transportation industry as a whole experienced expansion in hiring, adding 7,900 jobs during August. However, truck transportation experienced the opposite as payrolls were reduced by 1,400 during the month.

Maritime: Peak season waning, volumes off recent highs

Peak season has arguably come and gone as demand has started to fall off ahead of Golden Week, but the peak season has been stronger than expected. Ports, especially along the West Coast, are reporting record-high levels of imports, which is likely to continue into early October as bookings were quite strong throughout the first half of September.

While demand is starting to show some signs of softening, ocean spot rates are continuing to retreat, which is likely a combination of a couple of things: capacity constraints as sailings around the Cape of Good Hope rather than via the Red Sea continue and slowing demand.

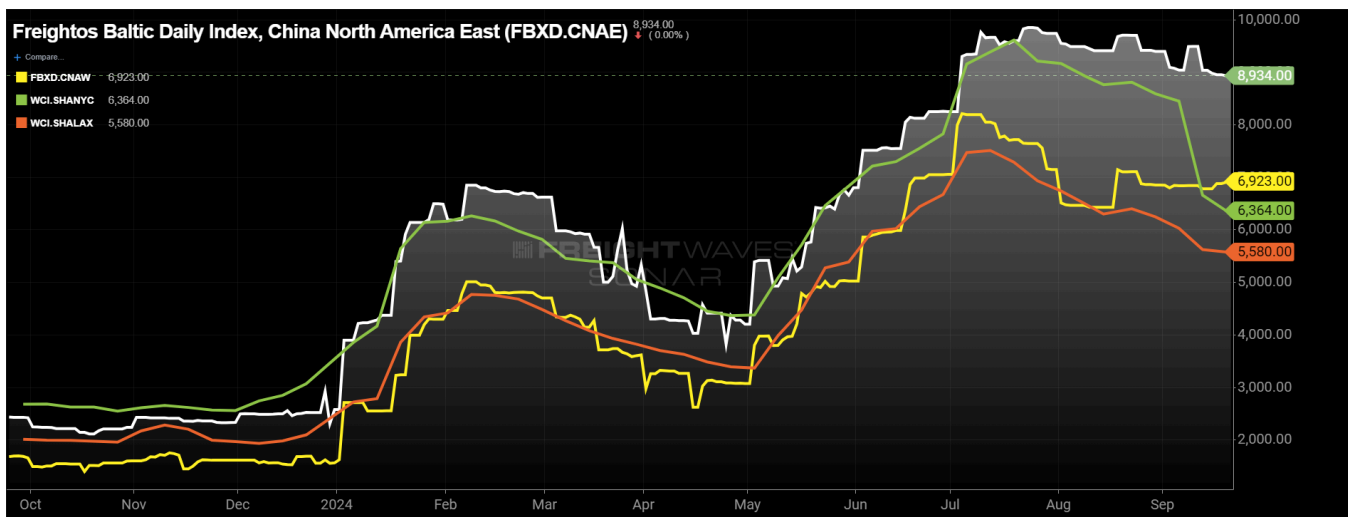
All eyes are on the International Longshoremen's Association (ILA) and the growing likelihood of a strike among port workers. In mid-September, several trade groups urged President Biden to intervene to prevent a potential labor stoppage, but reports from Washington, D.C., indicate Biden will not step in.

The ILA represents more than 45,000 union workers at 14 ports, from Boston to Houston. The union is seeking wage increases of more than 75% over a proposed six-year agreement. Both the ILA and

the United States Maritime Alliance have remained relatively quiet in the lead-up to the strike, with no negotiations scheduled as of Sept. 24.

On Sept. 23, the American Apparel & Footwear Association sent a letter to the president outlining the situation. AAFA President and CEO Steve Lamar warned that the three dozen East and Gulf Coast ports affected by a work stoppage "will lose business long term as importers switch to the West Coast ports. The West Coast ports will face severe disruptions with limited capacity to absorb these products."

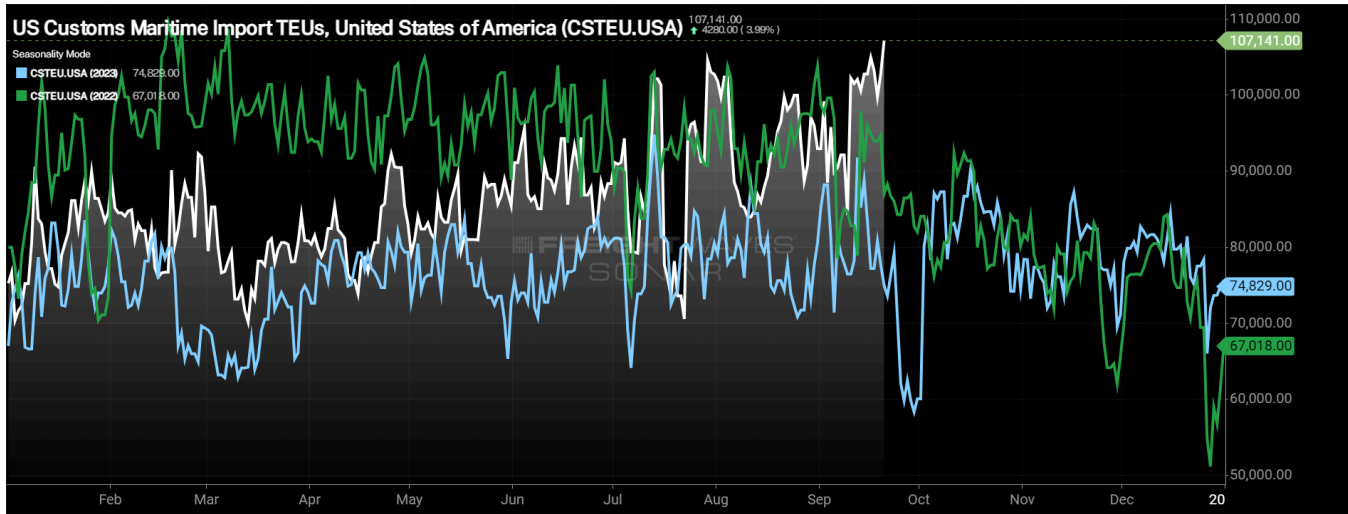
The Port of New York and New Jersey, one of the largest in the country, is urging shippers to wind down cargo operations ahead of the strike deadline. Bethann Rooney, the port's director, said in a Sept. 23 letter, "It is important that you do everything possible to pick up your import cargo before the close of business on Monday, Sept. 30, as there will be no opportunities to deliver any cargo once a strike begins."



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 American West Coast (yellow) and China to North American East Coast (white).

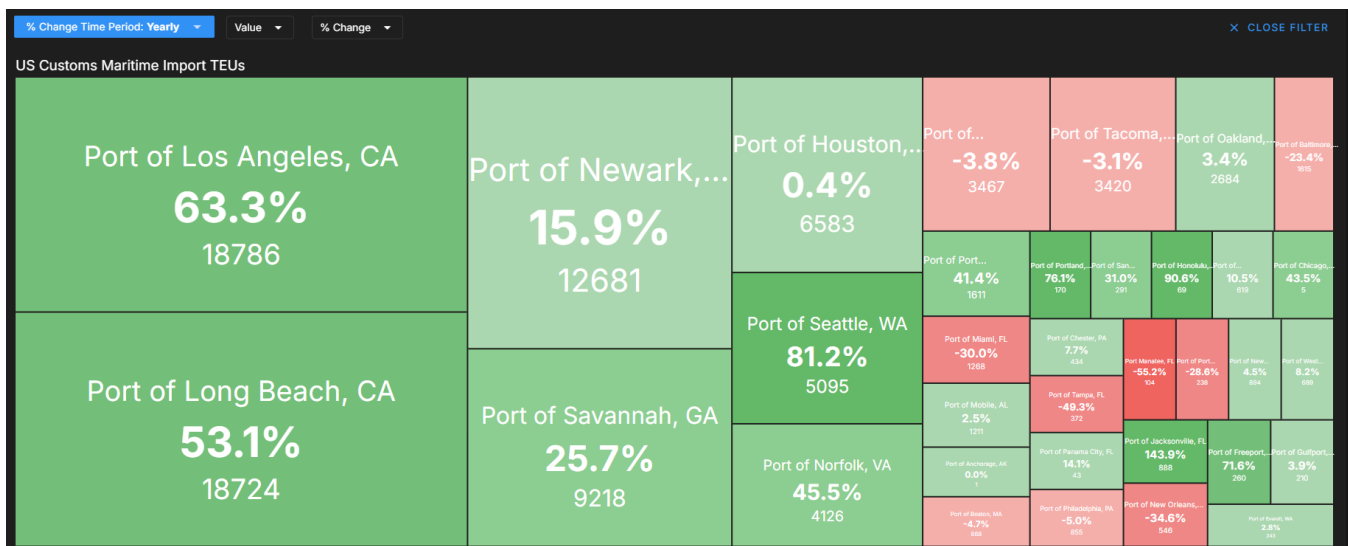
The Freightos Baltic Daily Index from China to the North American West Coast has fallen by 2.6% over the past month to \$6,923 per 40-foot equivalent unit. Despite the month-over-month decrease, the spot rate along this lane is 286.2% higher than it was a year ago. From China to the North American East Coast, the monthly decline was even more aggressive: It fell by 7.9% month over month to \$8,934 per FEU, up 233% compared to this time last year.

The Drewry World Container Index followed suit as trans-Pacific rates fell, dropping much more significantly than the Freightos spot rates. The WCI from Shanghai to New York registered a decrease of 27.8% month over month to \$6,364 per FEU, but it is up 109.9% compared to this time last year. The WCI from Shanghai to Los Angeles currently stands at \$5,580 per FEU, down 13.5% month over month but up 158.1% year over year.



Source: FreightWaves SONAR. U.S. Customs Maritime Import TEUs: 2024 (white), 2023 (blue) and 2022 (green).

U.S. import levels remain at or near all-time highs, setting year-to-date records in mid-September, which isn't necessarily a surprise given the surge in TEUs that departed overseas throughout August. The way customs officials clear TEUs can create challenges in comparing data with previous years because the data is quite volatile. At present, import TEU volumes are 11% higher than they were this time last month, 42.9% higher year over year and up 23% over 2022 levels.

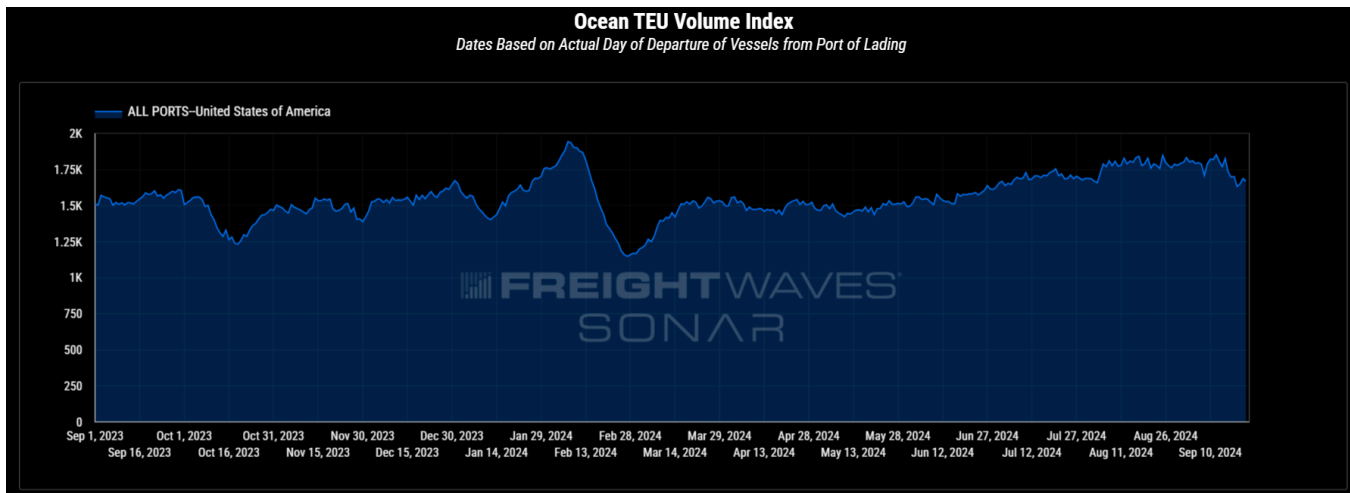


Source: FreightWaves SONAR. Maritime Import Shipments by Port — Tree Map.

The growth in TEU volumes has been widespread as the largest ports on both coasts have seen double-digit growth year over year, but the West Coast ports have been the clear winner. Some of the reasons for the pronounced increases on the West Coast include the potential strike of the International Longshoremen's Association at the East and Gulf Coast ports, challenges at the Panama Canal which have been easing, and the continued conflict in the Red Sea, though this is less impactful to trans-Pacific trade lanes.

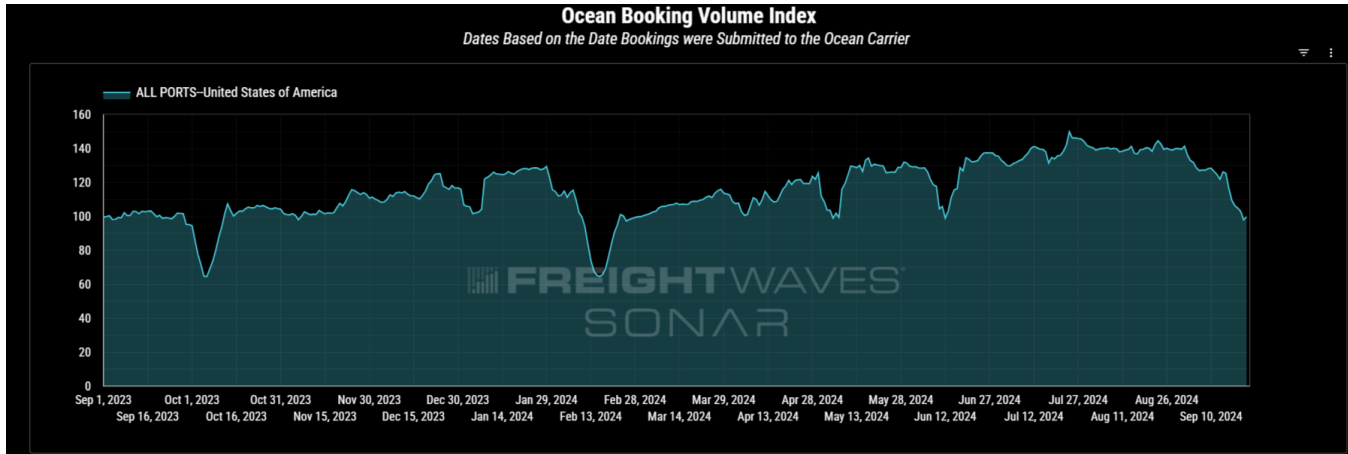
The ports of Los Angeles and Long Beach continue to be the driving force behind stronger volumes as both ports have seen TEU volumes grow by over 50% in the past year. On a monthly basis, there has been a slight decline at the Port of Los Angeles as TEU volumes are down 3.2% m/m, but that is likely a factor of timing in clearing TEUs rather than a significant slowdown in imports. A true slowdown will come in the fourth quarter after the elevated level of bookings retreats, especially after Golden Week.

The East Coast ports are also experiencing growth in TEUs over the past year but far smaller than their West Coast counterparts. The ports of Savannah, Newark and Houston have all seen volumes grow over the past year, ranging from 0.4% in Houston to 25.7% in Savannah, but with an impending strike by the ILA, those will likely come under pressure in the coming weeks.



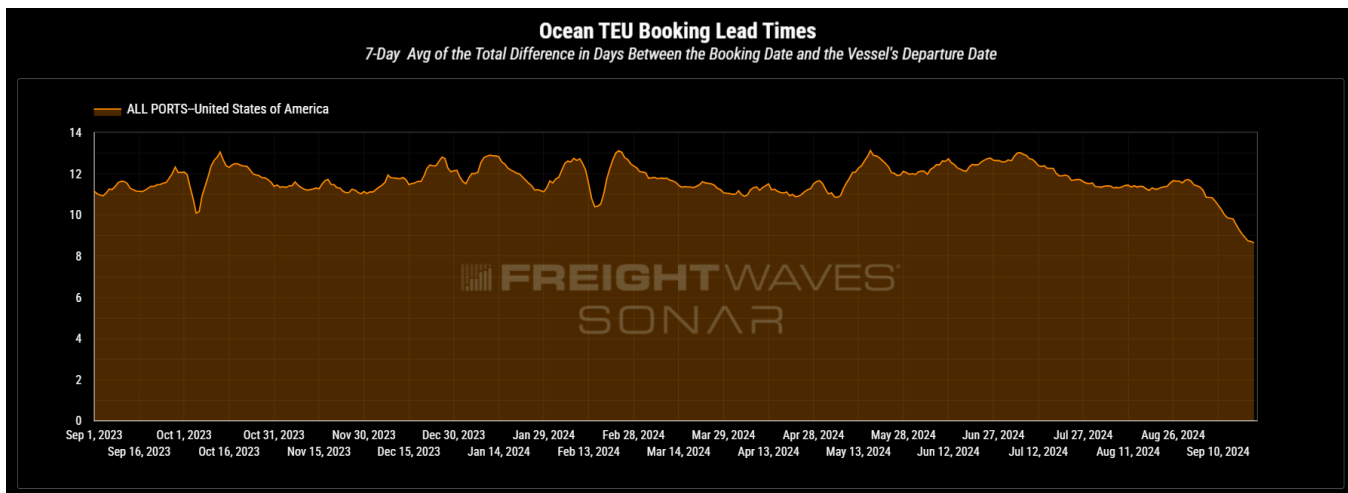
Source: FreightWaves Container Atlas. Ocean TEU Volume Index — all global ports to all U.S. ports.

The Ocean TEU Volume Index, gauging container trade from all global ports to all U.S. ports as TEUs leave origin ports, are retreating from recent highs, a sign that peak season is drawing to a close. Over the past month, inbound ocean TEU volumes are down 6.7%. Inbound ocean TEU volumes are still up 6.5% compared to this time last year, a sign that this year’s peak season on the ocean was far more robust than it was in 2023. As election season draws closer, there is the potential for stronger-than-expected volumes if tariffs become increasingly likely, but that probably won’t play out until the time between the election on Nov. 5 and the inauguration on Jan. 20, 2025.



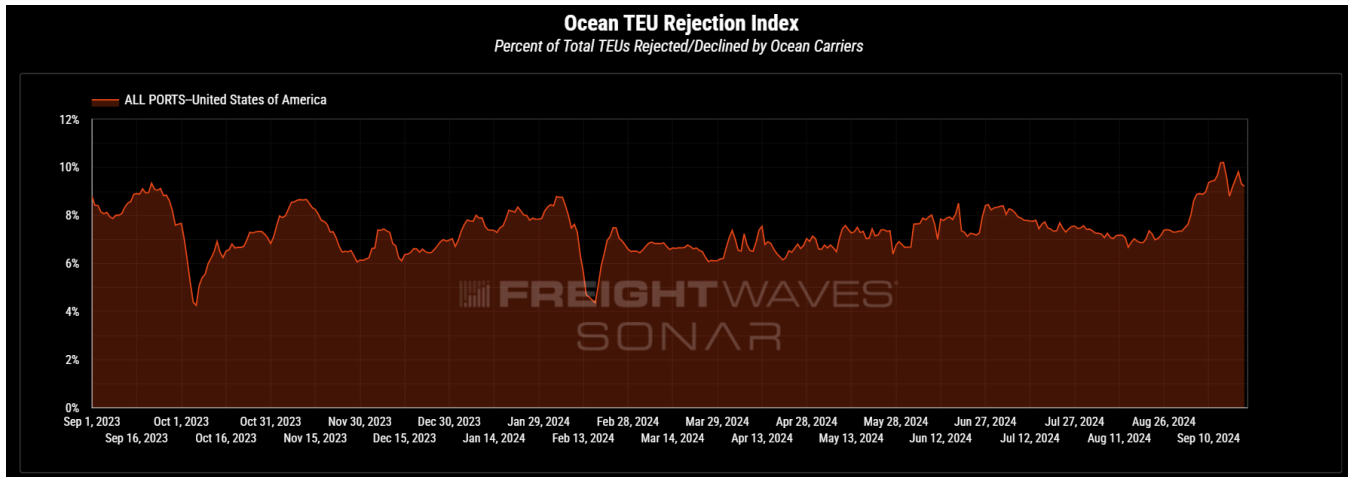
Source: FreightWaves Container Atlas. Ocean Booking Volume Index — all global ports to all U.S. ports.

As with TEU volumes, bookings are retreating, but the decline isn't as severe as the picture currently looks. The Ocean Booking Volume Index is an index based on when a booking is confirmed by an ocean carrier, thus it can vary greatly because shipments can be booked closer to the date of departure or shipment sizes can fluctuate. Over the past month, ocean booking volumes are down 30%, but they are flat year over year.



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

Ocean TEU Booking Lead Times continue their decline as it appears there is plenty of available space on vessels overseas and shippers are confident in their ability to get goods on the container ships. Over the past month, TEU Booking Lead Times are 24% shorter.



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 Sept. 22, the index stands at 9.21%, an increase of 198 basis points over the past month. The increase signals that ocean carriers are being more selective in the freight they take, but it also suggests an attempt to keep spot rates inflated as long as possible against market dynamics.

Rail intermodal: Import growth continues to drive intermodal traffic

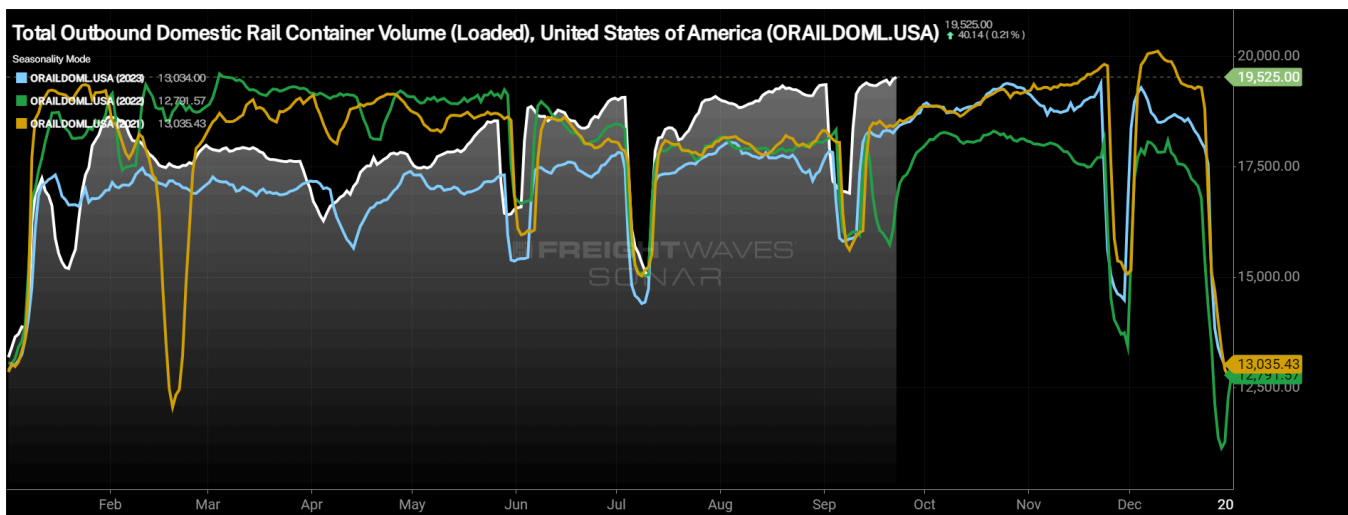


Chart: FreightWaves SONAR. Loaded domestic intermodal container volumes for 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

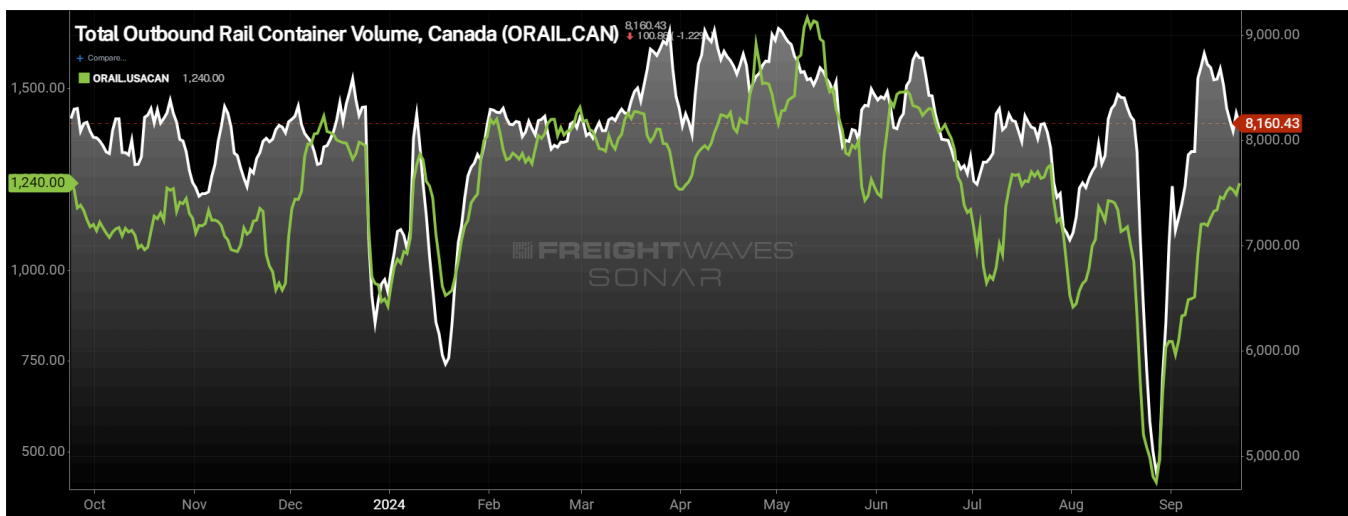
The intermodal market has been a pressure relief valve for the freight market as record import levels haven't been disruptive to the market. The challenge for the intermodal market moving forward is that time becomes an increasingly important value proposition that truckload presents compared to intermodal service. Even with those challenges on the horizon, intermodal volumes continue to show strength compared to previous years, thanks in large part to the higher import volumes. Total intermodal volumes are 11.8% higher than they were this time last year and 1.3% higher than they were this time last month.

Domestic volumes had lagged behind the international market for much of the year, and that has continued throughout the third quarter. Loaded domestic intermodal volumes have had a fairly strong month, outpacing the growth in loaded international intermodal volumes, albeit just barely. Over the past month, domestic loaded intermodal volumes have increased by 2%, which is fairly modest growth as the market builds into its peak in October and early November. Compared to this time last year, loaded domestic intermodal volumes are up 5.7%.

While the domestic market is seeing loaded volumes grow, empty volumes are down over the past month. Empty domestic intermodal container volumes are down 7.5% m/m, though they are still 3.3% higher y/y. Many of the empty containers are being repositioned into Southern California as inbound empty domestic intermodal container volumes into the Los Angeles market are up 1.8% m/m and 13.1% y/y.

The international side of the intermodal market continues to see growth in both loaded and empty volumes. Total loaded international intermodal container volumes increased by 1.9% over the past month, which isn't necessarily surprising as maritime peak season is wrapping up and containership lines are more comfortable allowing their containers to travel inland. Over the past year, loaded international intermodal container volumes have grown by 14.5%.

The growth in empty container volumes is far greater than that of the loaded side of the international intermodal market. Over the past month, empty international intermodal container volumes have grown by 3.9%. Empty international intermodal volumes are up over 40% compared to this time last year.



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

After a brief lockout by rail workers in Canada, the Canadian intermodal market has recovered. The work stoppage was enough to cause network fluidity disruptions, but those disruptions lasted about a week and volumes quickly returned to the rails. Over the past month, total intermodal container volume originating in Canada has grown by 15%, but that is against a fairly easy comp as the disruptions were just beginning. Compared to this time last year, intermodal volumes originating in

Canada are down 1.7%, but again some of that decrease is due to rerouting containers through the U.S. West Coast ports. Intermodal volumes originating in the U.S. destined for Canada are up 1.4% y/y after rising 156% m/m, again due to the timing of the lockout.



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

Canadian grain shippers faced a far more challenging environment with the short-term lockout as there are very few, if any, alternative modes of transportation and the lockout happened right ahead of the seasonal harvest/shipping season. The positive sign for the Canadian grain shippers is that network fluidity improved and the number of grain carloads surged back to near 2023 levels. Over the past month, grain carloads originating in Canada have increased by 61.7% and are now just 4% below y/y levels, but those levels could be challenged in the coming weeks.

Intermodal contract rates continue to trend sideways

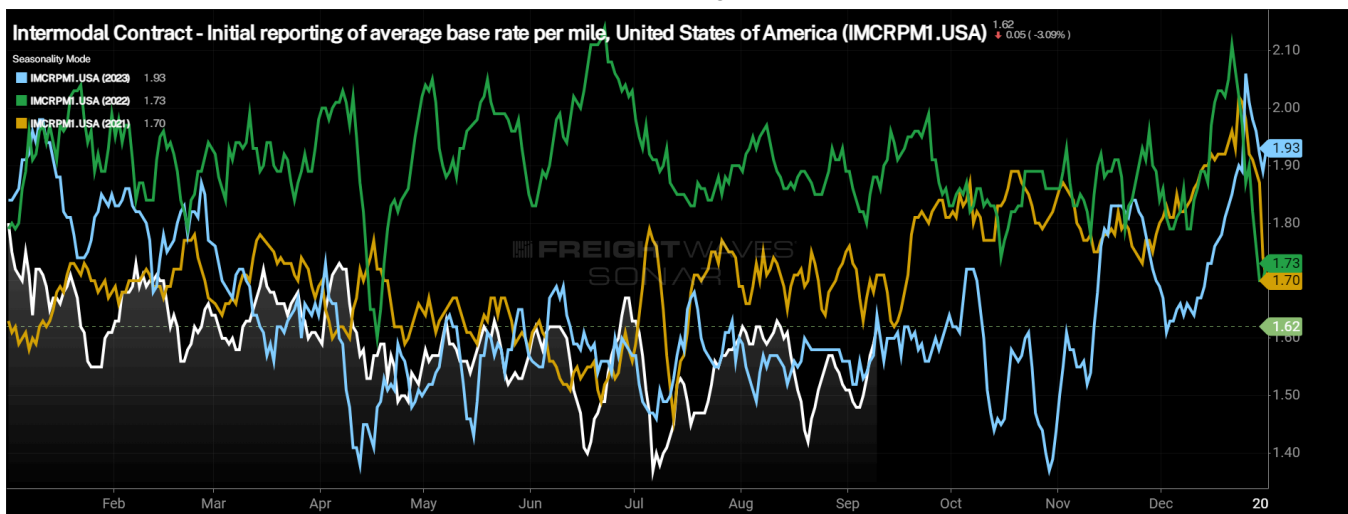


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

Intermodal contract rates have been trending sideways since the beginning of the second quarter, a sign that significant cost reductions have already occurred in a market that is showing signs of life. Over the past month, the initially reported intermodal contract rate excluding fuel has increased by 2 cents per mile to \$1.62. At present, the initially reported intermodal contract rate is just 2 cents per mile lower than it was in 2023.

While the vast majority of intermodal movements happen under contractual agreements, intermodal spot rates provide insights into intermodal providers' view of the current environment. The intermodal spot rate data within SONAR (53-foot container door to door, including fuel) suggests that intermodal capacity is readily available and intermodal providers are being aggressive in trying to capture excess freight. 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 \$1.51 a mile including fuel, up 2.7% from September's report but down 8.5% from the same week last year.

Over the past month, over half of the densest intermodal lanes saw intermodal spot rates take another leg lower. Rates out of Los Angeles were the bright spots, which isn't necessarily a surprise given the influx in volume out of the market, as intermodal providers "protect" capacity for contractual shippers. The rate from Los Angeles to Chicago rose by nearly 20% in the past month to \$2 per mile, up over 30% compared to this time last year.

Out of Chicago, intermodal spot rates remain under pressure. The backhaul from Chicago to Los Angeles saw intermodal spot rates drop by 8.8% over the past month and over 25% from this time last year to just 77 cents per mile. This drop is an indication that intermodal providers are willing to do anything to generate some level of revenue on the container movement back to the hottest market in the country.

Intermodal spot rates drop out of Chicago, rise out of LA

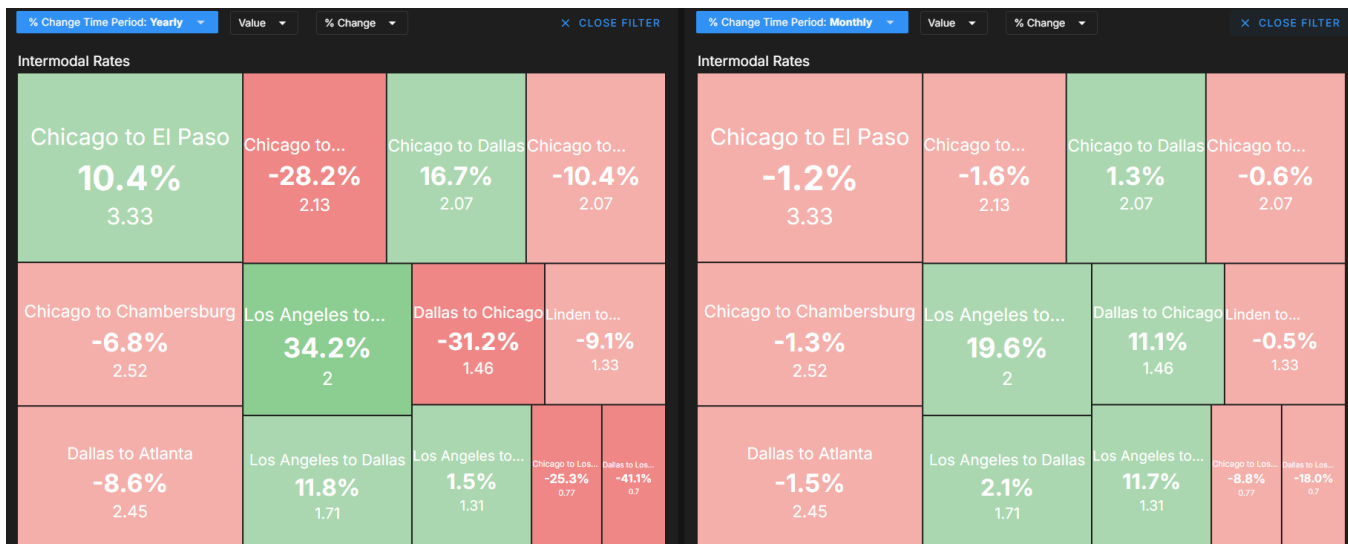


Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

Surcharges on the West Coast due to strong demand are not currently reflected in intermodal spot or contract rates. Union Pacific was the first to announce such surcharges for intermodal customers, particularly in California. After initially imposing surcharges in Southern California, the company has now added them to intermodal moves from the Oakland market. In its announcement, Union Pacific cited anticipated strong future demand as the reason for the surcharges, which are expected to constrain container availability. In Southern California, the surcharges took effect Sept. 1 and impact both standard MCP (large contract shippers) and aggregate MCP (low-volume shippers). In Northern California, the surcharges will affect aggregate MCP.

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 remains relatively low at 1.42%, just slightly above where it was this time last year.

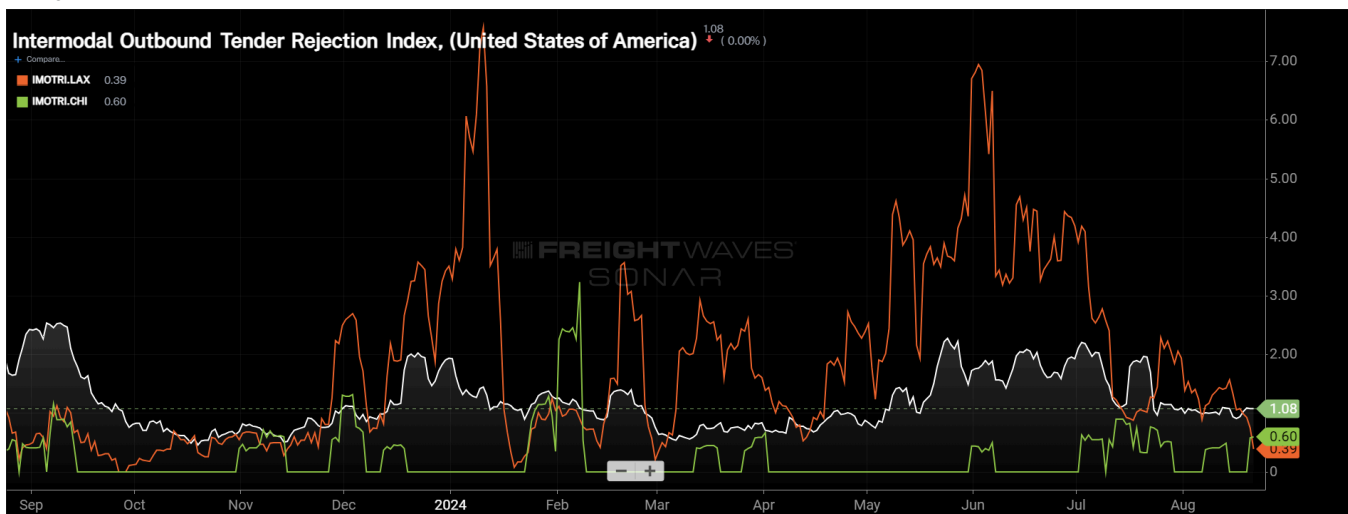
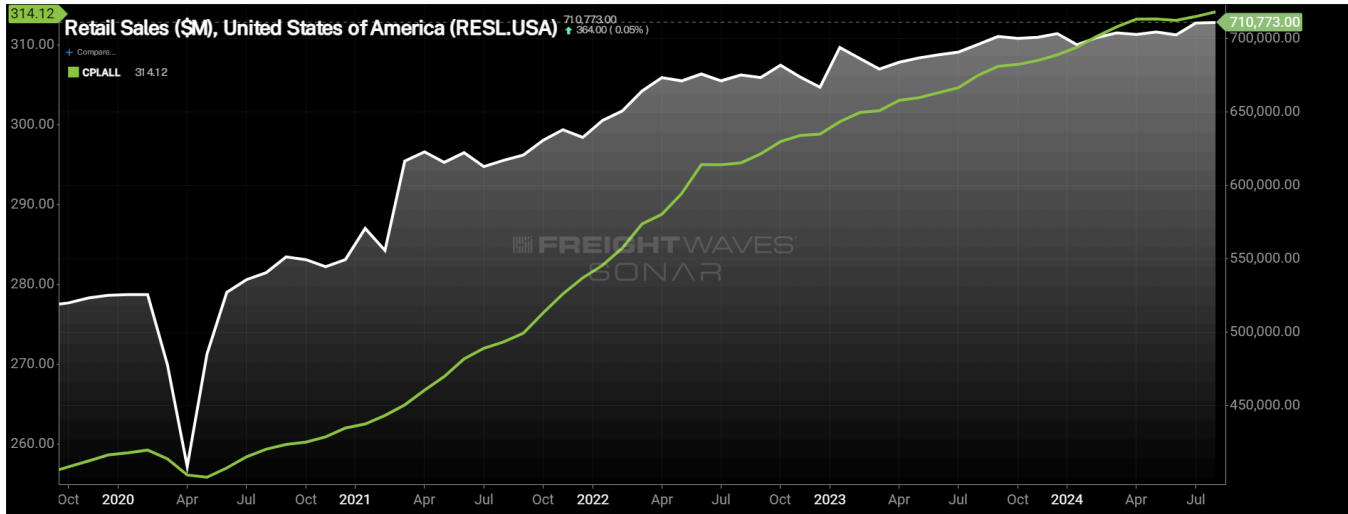


Chart: FreightWaves SONAR. Domestic intermodal outbound tender rejection rates for national (white), Los Angeles (orange) and Chicago (green) loads.

What else we’re watching

Inflation data continues to present challenges for the Federal Reserve as core inflation remains above the central bank’s target range of 2%. The good news is that the rate of inflation does continue to inch lower despite overall prices rising. Additionally, a positive sign on the consumer front is that an expected slowdown in spending in August didn’t come to fruition.



The Consumer Price Index rose by 0.2% m/m in August, matching the monthly increase in July. The headline figure matched analysts' expectations once again, indicating that inflation is actually coming under control. The challenge in August was the primary driver of lower inflation was energy and food prices. Even so, the 12-month running total for the CPI came in at 2.5%, the lowest level since February 2021.

Core inflation, which removes the more volatile food and energy prices from the CPI, increased by 0.3% m/m, a slightly hotter report than analysts were expecting. The 12-month running total for core CPI matched July's reading at 3.2%.

Energy prices continue to be an area of relief for consumers as they fell once again, marking the third monthly decline in prices in the past four months. Overall energy prices fell by 0.8% m/m in August, the smallest of the three declines, but a decline nonetheless. Overall energy prices were down 4% y/y in August. Gasoline prices had a more modest decline, falling by 0.6% m/m in August. Gasoline prices were down 10.3% y/y.

Food prices, while they have a reputation for being volatile, have been anything but in the past couple of months. Overall food prices increased by 0.1% m/m, down slightly from the 0.2% m/m increase in July. The 0.2% increase in July was the largest monthly increase in 2024, and overall prices are just 2.1% higher than they were in August 2023. Food-at-home prices were unchanged in August and up just 0.9% y/y. Food-away-from-home prices were up 0.3% m/m in August, a slight acceleration in price increases from July's 0.2% m/m increase, and are 4% higher y/y.

Shelter prices continue to tell the story of the battle on inflation and why there hasn't been as much success in bringing core inflation down as fast as the headline figure. Shelter prices increased by 0.5% m/m in August, the largest monthly increase in 2024. Shelter prices are 5.2% higher than they were this time last year. Shelter prices represent over 36% of the total CPI, more than double the proportion of CPI represented by food prices and more than five times greater than that of energy prices.

The continued improvement on inflation is one element of the consumer side of the economy, but spending is another. Expectations for spending in August were for there to be a slowdown after

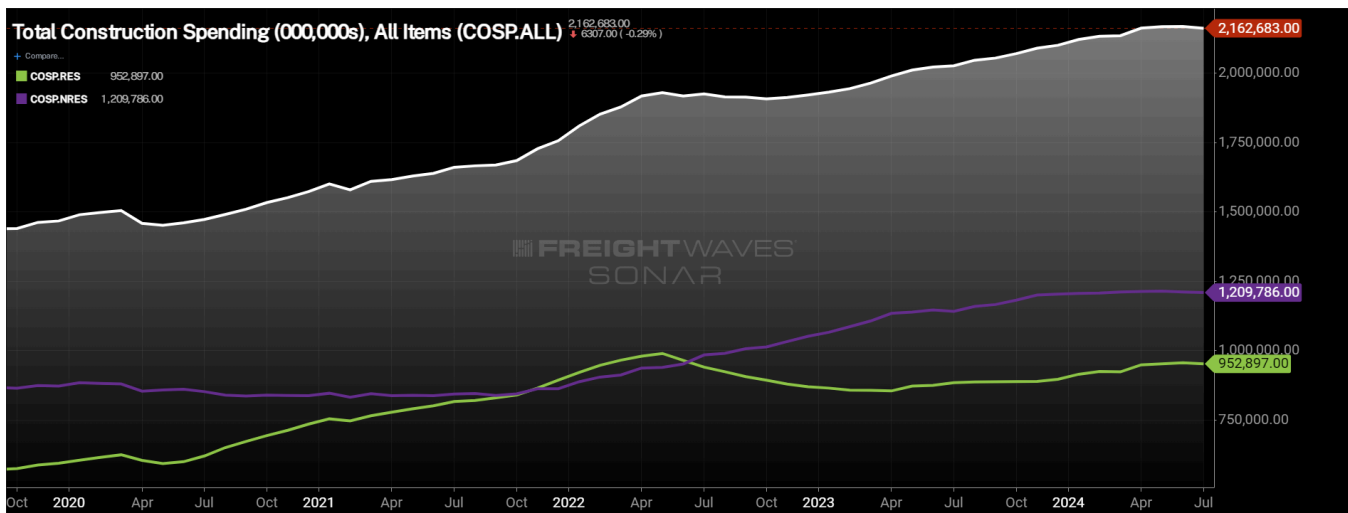
strong spending data in July, but the expectations doubted the ability of the American consumer to spend money. The monthly retail sales figures released by the U.S. Census Bureau showed an increase in sales by 0.1% m/m. Expectations for retail sales in August were for a 0.2% m/m decline. Headline retail sales were 2.1% higher y/y, so still pacing under the rate of inflation, but the gap continues to close.

A positive sign for retail sales is that removing gasoline and autos, sales actually accelerated, rising 0.2% m/m and 3.3% y/y. The reason for this was a slowdown in gasoline station spending. Gas station spending fell by 1.2% m/m in August and was 6.8% lower y/y, but the reason for the decline has more to do with price decreases than with softer demand.

E-commerce sales have stayed hot throughout the summer months, and that continued into August. Nonstore retail sales increased by 1.4% m/m in August and were 7.8% higher y/y.

Furniture continues to be a drag on retail sales. Furniture sales fell by 0.7% m/m and y/y. These declines aren't unexpected given management teams at various retailers have stated that consumers aren't making large ticket purchases but are instead opting for smaller purchases in the pursuit of value.

Construction spending continues to be challenged, which isn't a surprise given the higher interest rate environment but also comes at a time when construction activity is at its strongest in the year. Total construction spending fell by 0.3% m/m to a seasonally adjusted annual rate of \$2.162 trillion. Even with the slowdown in total construction spending in July, spending was still 6.7% higher y/y.



Residential construction spending fell once again in July, dropping by 0.4% m/m, matching the decline from June's initial report. The SAAR for residential construction spending came in at \$952.9 billion in July. Residential construction spending was the driving force behind the y/y growth in total construction spending, rising 7.7% y/y.

Nonresidential construction experienced a slightly better July than the residential side of the equation, falling 0.2% m/m in July. The SAAR for nonresidential construction spending totaled \$1.21

trillion, up 5.9% y/y. Manufacturing spending continues to be a bright spot, rising 0.1% m/m in July and 20.4% y/y.

Looking upstream in housing, activity rebounded in August. Housing starts jumped 9.6% m/m in August to a SAAR of 1,356,000, the highest level since April. With the increase, housing starts turned positive y/y, up 3.9%. The growth stemmed solely from single-family housing starts, which rose by 15.8% m/m and were 5.2% higher y/y. Multifamily housing starts fell after a really strong July, down 6.7% m/m and 6.2% y/y.



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

The Logistics Managers' Index remains in expansion territory, though the rate of expansion slowed slightly in August. The overall composite index for the LMI fell by 0.1 points m/m to 56.4. The LMI signaled that transportation capacity was growing once again, coming in at 56.7, up 5.8 points m/m. Within the releases of the LMI, the belief surrounding the expansion in capacity is small carriers and owner-operators "getting off the sidelines" due to expectations of a bump around the Labor Day holiday. With the holiday not being very impactful, it will be interesting to see if there is a reduction in capacity in September or if the capacity holds through peak season.

Inventory levels started to build again in August, rising 6.1 points m/m to 55.7, breaking a three-month streak of contraction. The inventory build continues to be driven by upstream firms while downstream firms continue to run thinner inventories. Upstream inventory levels came in at 59.4 (54.7 in July) while downstream firms' rate of contraction slowed as the downstream inventory levels came in at 46.3 (40 in July.)

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