The Positive Pulse

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Transportation Market Report- May 2023

Welcome to May as we sail through Q2!!

The US economy, along with North America as a whole, has been defying the pessimistic predictions of many who anticipated a recession. For at least 16 months, we've been hearing the word "recession" from various experts, yet we've witnessed the resilience of our economy. Despite facing inflation-related challenges, we've seen healthy adjustments in many essential products and commodities. Since January 2022, freight prices have gradually decreased, accelerating throughout the year. As expected, Q1 of 2023 began with lighter demand and continued weakness in most transportation modes due to the winter season.

However, April brought a shift, with prices stabilizing across numerous transport modes. We believe that despite some contrasting data, there is still a strong demand for trucking services across many industries. From a capacity perspective, nearly everyone had expanded their fleets with additional trucks, and there is still an oversupply of inventory to address in many areas. Moreover, the lingering bullwhip effect is still in effect at almost all ports. However, if there is anything to call "close to normal", we believe that demand continues to chug along at a healthy pace.

Embrace this opportunity to capitalize on lower freight prices and reconnect with markets that may have been priced out during the turmoil following the pandemic. A return to 2019-level freight pricing could significantly lower product costs and help regain demand that might have been previously lost due to inflation.

Transportation Market Movements

As we forge ahead into Q2, we're delighted to see signs of stability and opportunity emerging in the freight market, making it a friendlier operating space for most shippers. Despite lingering challenges like high inventory levels, we're witnessing encouraging trends like increasing demand for building materials and modest rate hikes driven by the produce markets in the Southeast and California. Consumer packaged goods (CPGs) continue to remain stagnant, and along with some capacity recently exiting the market, an increase in spending on CPGs remains one of the few levers that could provide upward pressure on currently historically low shipping costs. International container moves have shown an increase, and many are pointing to this as the lever that will lower capacity and drive rates higher. However, when we look at future bookings, there is very little that gives confidence to this idea.

Shippers are pushing lanes that would normally run at contract rates out to 3PL providers to take advantage of the lower spot rates and providers are scrambling to lower contract rates to gain back the lost volume. Shippers should expect to leverage this activity and lock in lower contract rates with confidence that they will hold through 2023. Shippers who are normally strapped with balancing service and cost, can now focus more on providers that provide the best service, with the expectation that the savings will be there as well. Many are starting to realign their shipments, moving from rail to OTR, to take advantage of both lowered costs and improved service, which is available through partnering with a 3PL.

We genuinely believe that now is the time for shippers to capitalize on these market conditions, locking in lower contract rates, and focusing on partnering with providers that offer exceptional service. As we navigate this dynamic landscape, remember that every twist and turn present's a new opportunity for growth. Stay focused on striking the perfect balance between service and cost, and embrace the possibilities that lie ahead. Together, we'll continue to thrive and adapt, seizing every chance to bolster your business and achieve success.

Now that we've set the stage for the current market conditions, let's dive deeper into the data, to further understand the trends shaping our truckload market. This information is designed to help you make informed decisions and navigate the ever-evolving landscape with confidence.

Truck Load Markets

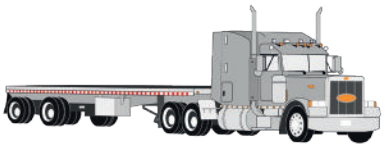
*(**NOTE: As we analyze the data, there are many references to 2019 and the trucking recession. As you can see – we are operating at or near those levels in many areas.)*

Dry Van Market

- National Truckload Index is down 26.2% YoY at $1.62 per mile on spot rates ($.10/mile higher than 2019).
- Current contract rates are still elevated compared to the drop-in spot rates since the start of 2023.
  - Contract rates are currently down 14.3% YoY.
  - Contract rates should remain stable following the quarterly bid season at the end of Q2.

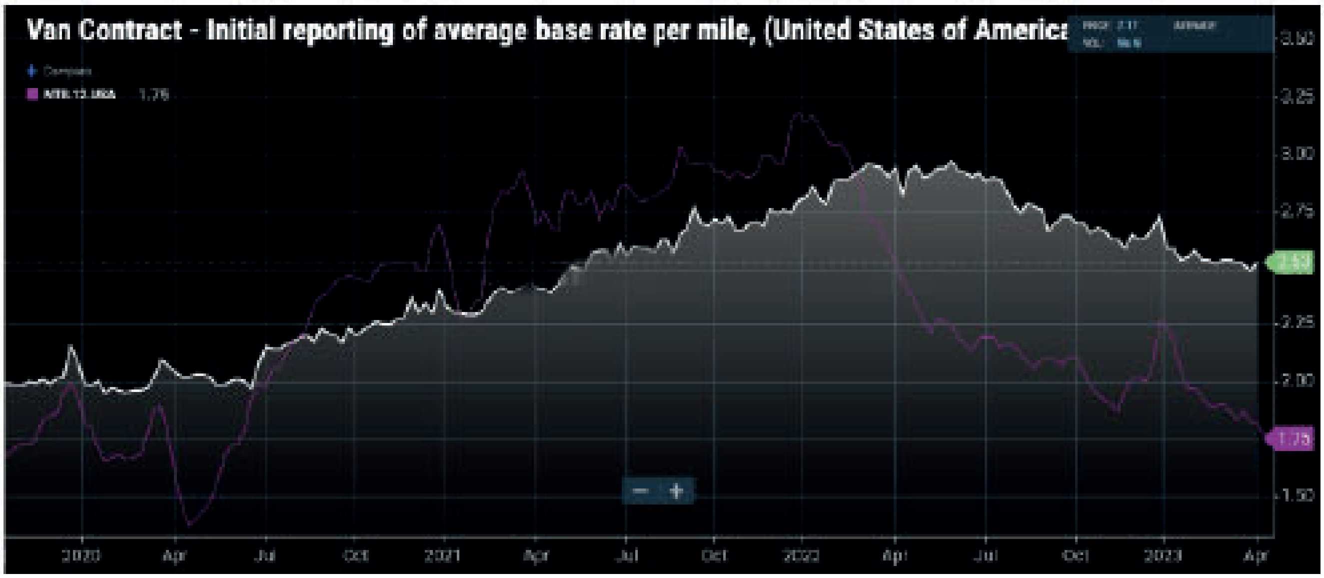
Reefer Van Market

- National Truckload Index is down $.56 per mile at $1.90 per mile ($.04/mile higher than 2019).
- While reefer spot postings continue to increase, they remain well below 2022.
- While usually a driver of capacity woes, reefer produce volumes are at their lowest since 2016.
- Carriers posting their equipment for-hire are continuing to increase and are 7% higher than during the trucking recession of 2019.



Flatbed Market

- Spring seasonal Flatbed rates have increased slightly.
- Construction activity is expected to drive demand for trucks.
- Long term rates through Q3 expected to remain stable.



(2023, Van Contract – Initial reporting of average base rates per mile, United States of America, accessed 3 May 2023, https://www.freightwaves.com/wp-content/uploads/2023/04/24/FW-SONAR-State-of-Freight-April-2023-1.pdf)

Key Indicators to a Shippers Market

- **Contract rates continue to be drastically above spot rates with a historical rate gap of $.78 per mile.**
  - While contract rates remain high, they are dropping to spot rates as RFP awards are made through Q2/3.
  - This is driving contract acceptance by carriers/3PLs as they look to get higher paying loads while maintaining volumes.
  - There is relief in freight costs for shippers by balancing pushing loads out to the spot market and maintaining contract compliance.
  - Shippers are leveraging 3PLs while spot rates are lower to save money and leverage the asset carriers to further lower their contract rates in order to secure volume.

- **Stale truckload volumes continue to drive tender rejections lower**
  - With carriers looking to keep drivers on the road, rates could drop further unless upward pressure from less capacity begins to drive them up.
  - Typical April ramp up of CPG and produce have slowed due to increased inventory and inflation.

- **Intermodal volumes did show increases in April.**
  - Volumes are surging due to an increase in international containers moves, although those are up over 15% from the previous month, they are still down 6.4% YoY.
    - International bookings are down and not expected to continue to drive volumes.
  - Contract compliance is an issue as shippers look to capitalize on the improved service of moving OTR.
  - Contract rates have continued to drop and are 13% lower from the start of the year and down 20% YoY.
  - Intermodal and OTR rates have become more comparable leading to risk of lower rail volumes as shippers utilize the quicker turnaround of OTR.

- **What Could Drive Tighter Capacity and Rates Up?**
  - April saw an increased number of mid-sized carriers exit the market
    - This is following March, a month where we saw layoffs and bankruptcy filings rise for the top 3% of carriers by size.
    - This is one of the few marks that can be viewed as affecting rates with upward pressure.
  - Increased CPGs performance.

Thank you for taking the time to read our market insights, we sincerely hope you found them informative and helpful.

Final Thoughts from Aden Logistics:

In conclusion, we hope you feel empowered and prepared to face the challenges that lie ahead. By focusing on service and reliability, while thoughtfully balancing cost considerations, you can confidently navigate the twists and turns of these markets. Remain vigilant for factors that could impact capacity and rates, and always keep an eye out for growth opportunities, even in the face of adversity.

Thank you for taking the time to read our market insights, we sincerely hope you found them beneficial.

Let's make this month exceptional, and we look forward to connecting with you in June!!

Sincerely,

The Aden Logistics Team

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