Transportation & Logistics Update

Industry Specialty | October 2024

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Key Economic Indicators

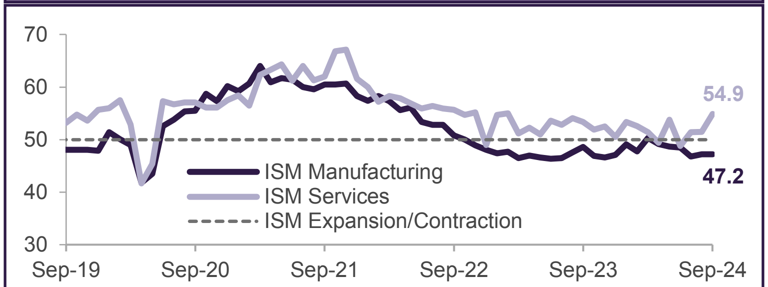
	Latest Release	Same 2023 Period	Prior Period	vs. Same 2023 Period	vs. Prior Period
GDP *(QoQ % Change)*(1)	**3.0%**	2.4%	1.6%	60 bps ▲	140 bps ▲
Core CPI *(YoY % Change)*(2)	**3.3%**	4.1%	3.3%	(84 bps) ▼	3 bps —
Core PCE *(YoY % Change)*(3)	**2.7%**	3.8%	2.6%	(110 bps) ▼	3 bps —
U.S. Retail and Food Services Sales *($ in BN)*(2)	**$714.4**	$695.9	$711.3	1.7% ▲	0.4% ▲
Total Business Inventory-To-Sales Ratio(3)	**1.38x**	1.36x	1.37x	1.5% ▲	0.7% ▲
Industrial Production Index(2)	**102.6**	103.3	102.9	(0.6%) ▼	(0.3%) ▼
U.S. Trade Balance *($ in BN)*(3)	**($70.4)**	($59.6)	($78.9)	(18.1%) ▼	10.7% ▲
Total Nonfarm Payroll *(MMs)*(2)	**159.1**	156.7	158.9	1.6% ▲	0.1% ▲
ISM Manufacturing Index(2)	**47.2**	48.6	47.2	(2.9%) ▼	0.0% —

Latest Release Date: (1) Q2 2024, (2) Sep. 2024, (3) Aug. 2024

*Note: Arrow colors are representative of the perceived impact to the economy. **Green** = positive impact, **Red** = negative impact*

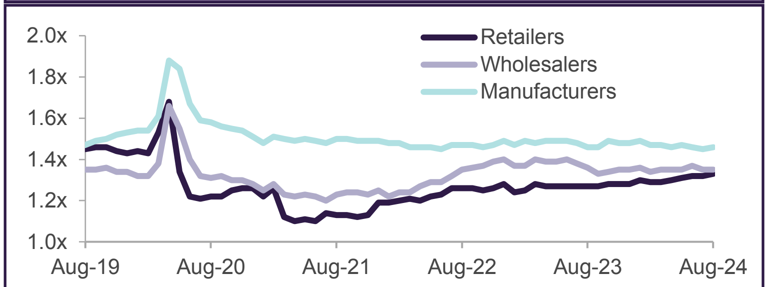
- **Real GDP increased at a 3.0%** annual rate in 2Q 2024, primarily driven by increases in consumer spending, private inventory investment, and nonresidential fixed investments. Nondurable goods manufacturing had the largest contribution of all industry groups, further highlighting consumer resiliency and willingness to spend.
- Inflation has cooled and is approaching the Fed's target rate of 2.0%. September **Core CPI registered at 3.3% in September, while the latest Core PCE, the Fed's preferred inflation indicator, came in at 2.7%.**
- The U.S. unemployment rate has been above 4.0% since May 2024 after staying below those levels for 27 consecutive months. A cooling labor market and economy are key factors causing a recalibration of the Fed's monetary policy.
- After more than two years of elevated rates, the **Federal Reserve cut its benchmark interest rate by 50 basis points** in September to a target range of 4.75% - 5.00%. The updated Fed plot is signaling another 50 basis points of cuts before the end of 2024, and **four cuts in 2025** bringing the benchmark rate to 3.25%-3.50%.

ISM Index: Manufacturing vs Services



- The ISM Manufacturing Index was unchanged in September compared to August, contracting for the 22nd time in the last 23 months.
- Despite economic uncertainty, activity in service sectors has remained consistent highlighting consumer resiliency.
- After the pandemic, consumers have shown an eagerness to spend on services despite elevated costs.

Business Inventory / Sales Ratios



- Total business inventories have returned to pre-pandemic levels.
- Concerns of port delays related to the ILA strike along with expectations of a solid holiday season have led to retailers stockpiling inventories early into peak season.
- Slower U.S. manufacturing activity has led to reduced raw material orders and production. This has trickled down to merchant wholesalers, who rely on domestic products to resell to retailers.

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Data updated as of 10/22/2024
Sources: *Bloomberg, Wall Street Journal, Capital IQ, Federal Reserve Economic Data, Census Bureau, Bureau of Economic Analysis, Descartes Datamyne, Department of Transportation, American Trucking Associations, Company Reports, Cass Information Systems, FTR Transportation, FreightWaves, Institute for Supply Management, U.S. Census Bureau, Journal of Commerce, ACT Research, Associated Press, Truckstop.com, Cushman & Wakefield, Drewry World Container Index, Port Websites, ILA Union, Reuters*

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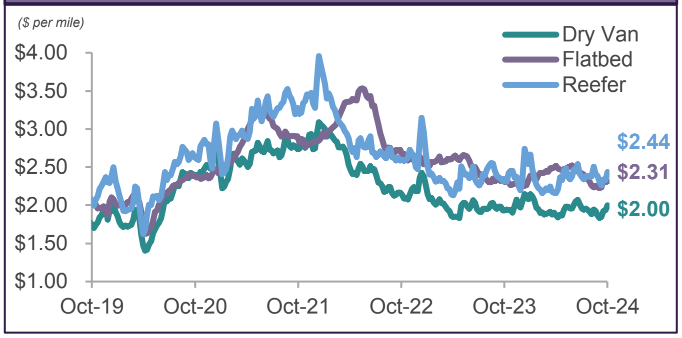
Key Trends in Transportation & Logistics

- **Trucking:** Freight markets are slowly rebalancing following the swings in recent years. In the truckload market, the supply-demand imbalance has persisted despite tightening capacity. Shipping rates remain compressed as more capacity needs to exit relative to the number of truck loadings being posted. Average truckload spot rates continue to closely track last year's prices through early October. The Cass Freight Shipments Index has increased for two consecutive months as demand for goods is growing steadily. While retail sectors have warranted solid freight demand, softness in manufacturing and nondurable goods has limited opportunities for carriers. The Cass Freight Expenditures Index, which tracks the total amount spent on freight, declined 6.6% in September year-over-year. Lower truck rates, declining fuel prices and the efficiencies of other shipping modes, like rail, have decreased overall freight spend.

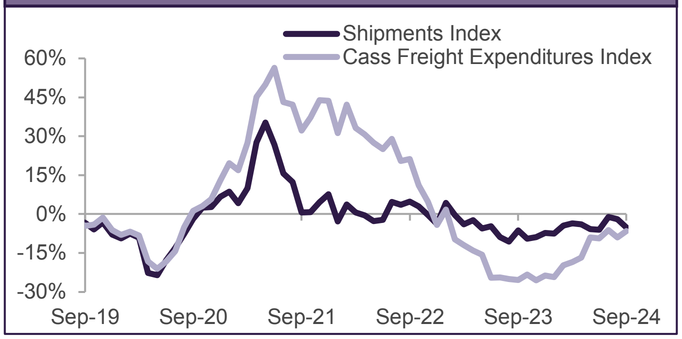
- **Transportation Equipment:** Preliminary Class 8 net orders came in above trend and seasonally elevated expectations in September, as the OEMs open their order books to next year's orders. North America Class 8 net orders were 37,100 units in September, almost double compared to the prior month and up 0.3% year-over-year. Strong demand for new trucks could suggest that carriers have a more favorable view of the market going into next year. Additionally, new truck sales are expected to accelerate ahead of the new EPA rules taking effect for model years 2027 through 2032. Finalized in March 2024, the new rules require 30% of heavy-heavy-duty trucks to be zero-emission by 2032.

- **Warehousing:** Record levels of warehousing space were built during the pandemic largely due to low interest rates and robust demand for physical goods. As a result, industrial real estate deliveries soared over the last two years. National vacancy rates are increasing at the slowest pace since late 2022, but are now above 6%, while net absorption of industrial space moderated in 3Q 2024 compared to the previous quarter. At the same time, the construction pipeline is at the lowest levels since 2018 as occupiers look to fill the excess supply available. The market for build-to-suit or preleased industrial space remains strong, while speculative development has slowed in response to uncertainty around supply chain dynamics. For similar reasons, port-proximate real estate demand has slowed as retailers are reverting to just-in-time inventory strategies.

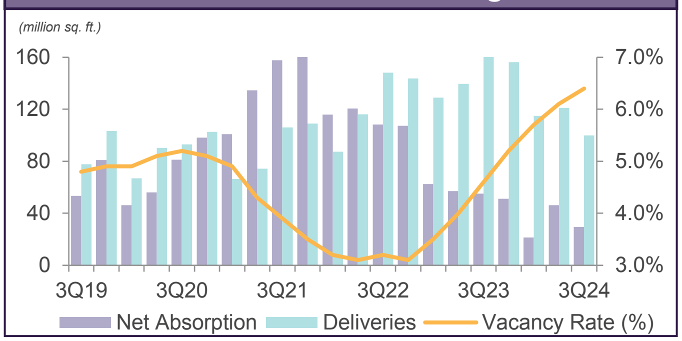
Truckload Spot Prices



Cass Freight: Year-Over-Year Change

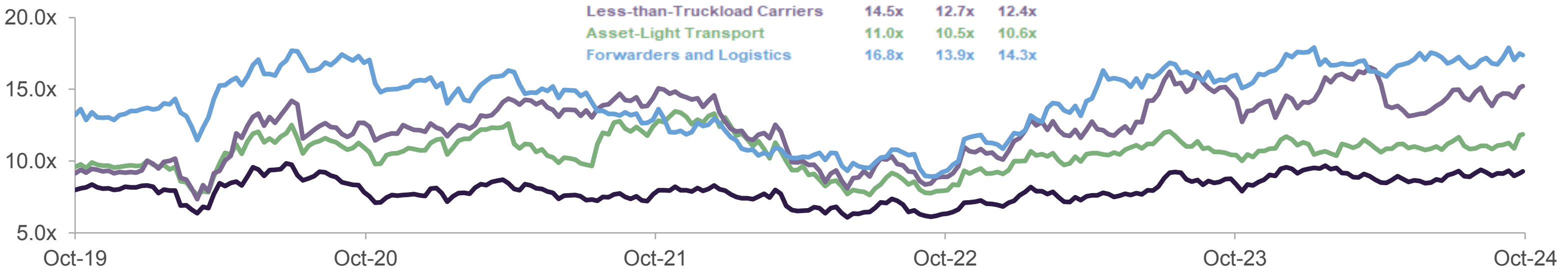


Industrial Warehousing



Transportation & Logistics EV / NTM EBITDA

Average	1-Yr	3-Yr	5-Yr
Asset-Based Truckload	9.0x	8.0x	8.0x
Less-than-Truckload Carriers	14.5x	12.7x	12.4x
Asset-Light Transport	11.0x	10.5x	10.6x
Forwarders and Logistics	16.8x	13.9x	14.3x



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Asset-based Truckload: *JBHT – J.B. Hunt / KNX – Knight-Swift Transportation Holdings Inc. / WERN – Werner Enterprises, Inc. / HTLD – Heartland Express / MRTN – Marten Transport Ltd / CVLG –Covenant Logistics Group / SNDR – Schneider National*
Less-than-Truckload Carriers: *SAIA- SAIA, Inc. / ARCB- Arkansas Best / ODFL- Old Dominion Freight Line / XPO – XPO, Inc. / TSX: TFII – TFI International*
Asset-Light Transport: *LSTR – Landstar Systems / FWRD – Forward Air Corp. / HUBG – Hub Group / GXO – GXO Logistics / ULH – Universal Logistics Holdings*
Forwarders & Logistics: *CHRW – C.H. Robinson Worldwide / EXPD – Expeditors International of Washington / RXO – RXO, Inc. / SWX: KNIN – Kuehne + Nagel International*

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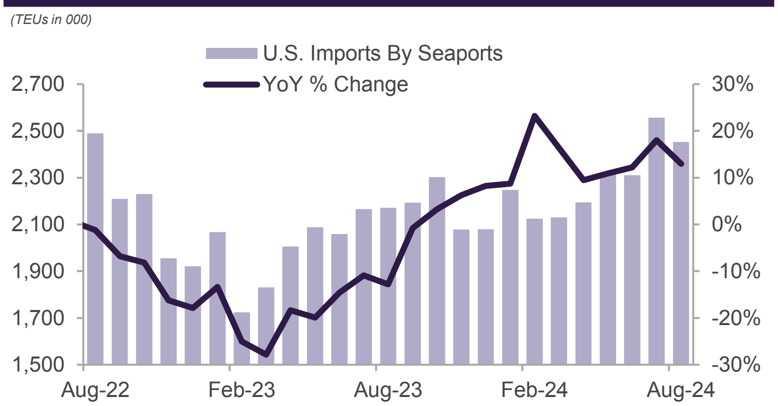
Cargo Seaports & Maritime Industry Updates

- Year-to-date through August, U.S. import volumes through seaports have increased double-digits compared to the prior year.
- Shifts in United States' import partners continue with Mexico surpassing China as the top import partner, and growing imports from India and parts of Southeast Asia.
- The International Longshoremen's Association ("ILA") and the U.S. Maritime Alliance ("USMX") contract expiration at the end of September forced shippers to reevaluate where cargo should be sent in case of disruptions or work stoppages. This was a key factor that drove early peak season trade activity across most major U.S. cargo seaports and some of the market share moving back to the West Coast ports.
- There was a spike in benchmark ocean shipping rates during 1H 2024 as capacity tightened primarily due to geopolitical conflicts, diversions caused by the Red Sea attacks, and increased trade activity. Since July, ocean freight rates have returned to levels closer to 5-year historical averages.

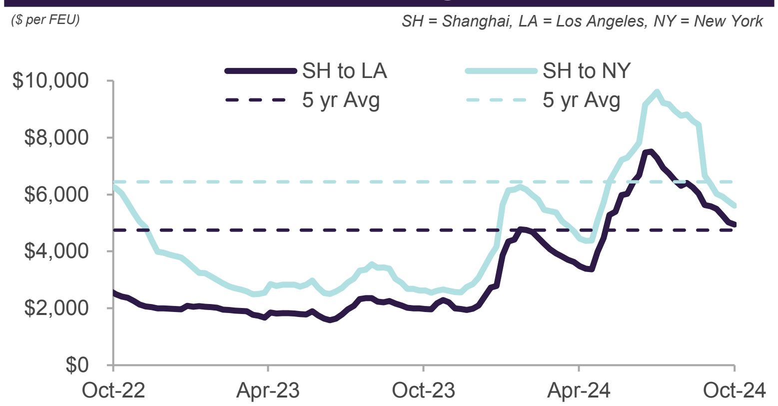
ILA-USMX Master Contract

- The ILA-USMX labor agreement expired on September 30, 2024. The ILA represents 85,000 maritime workers on the Atlantic and Gulf Coasts, Great Lakes, major U.S. rivers, Puerto Rico, Eastern Canada, and The Bahamas. The USMX represents container carriers, marine terminal operators, and port associations that employ longshoremen across the East and Gulf Coasts.
- On October 1, 2024, ILA workers began a labor strike that impacted 36 ports across the U.S. East and Gulf Coasts following the expiration of the ILA-USMX master contract. On October 3, 2024, the strike was suspended with the ILA agreeing to a contract extension with the USMX until January 15, 2025, as negotiations continue.
- The tentative agreement allows for a 62% wage increase over the course of a 6-year contract. There still are key points of contention around the automation and semi-automation of port operations.

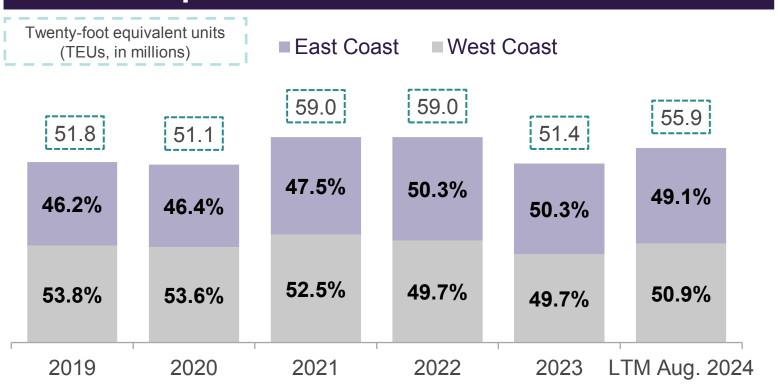
Container Import Volumes



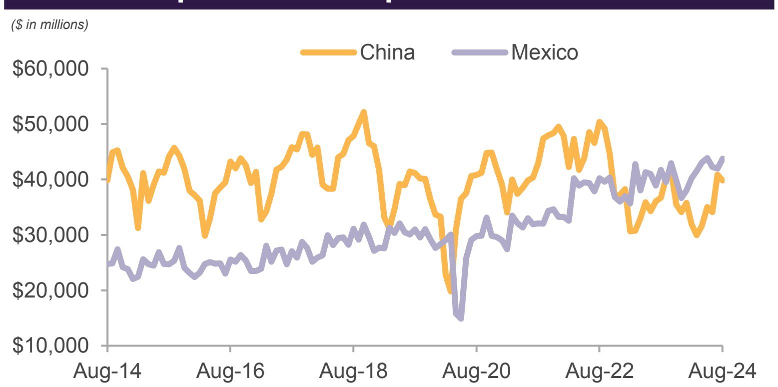
Ocean Shipping Prices



Seaports Volume & Market Share(1)



Imports from Top Trade Partners



(1) Container ports included: Los Angeles, Long Beach, New York/New Jersey, Savannah, Vancouver, Seattle/Tacoma, Oakland, Virginia, Houston, Charleston, Prince Rupert, Jacksonville, Baltimore