loadsmart

QUARTERLY FREIGHT DATA REPORT Q3 2023

A Q3 REVIEW OF KEY FREIGHT & ECONOMIC INDICATORS & HOW IT WILL SHAPE OUR THINKING FOR THE REST OF 2023

The trucking industry is cyclical. This means that in logistics you can count on history to repeat itself. That makes understanding where the market has been essential to predicting where the market is going.

In this report, you'll find trucking-related economic data and analysis, based on the previous quarter, that will provide a macroeconomic view on the state of the market with insights into how to prepare for the upcoming quarter. For each month you will find key factors that had an impact on our trucking economy, as well as volume and rate data for the most recent month.

Key Takeaways from Q3:

We saw a rise in the Conference Board's Consumer Confidence Index

The rebound in consumer confidence suggests the odds of a soft landing have been raised, at least from consumers' perspective.

Transportation & Warehousing was the worst performing sector among the service sectors

Transportation and warehousing had the largest revenue decline among all services sectors in 1Q2023, with its real revenue falling 7.8% QoQ.

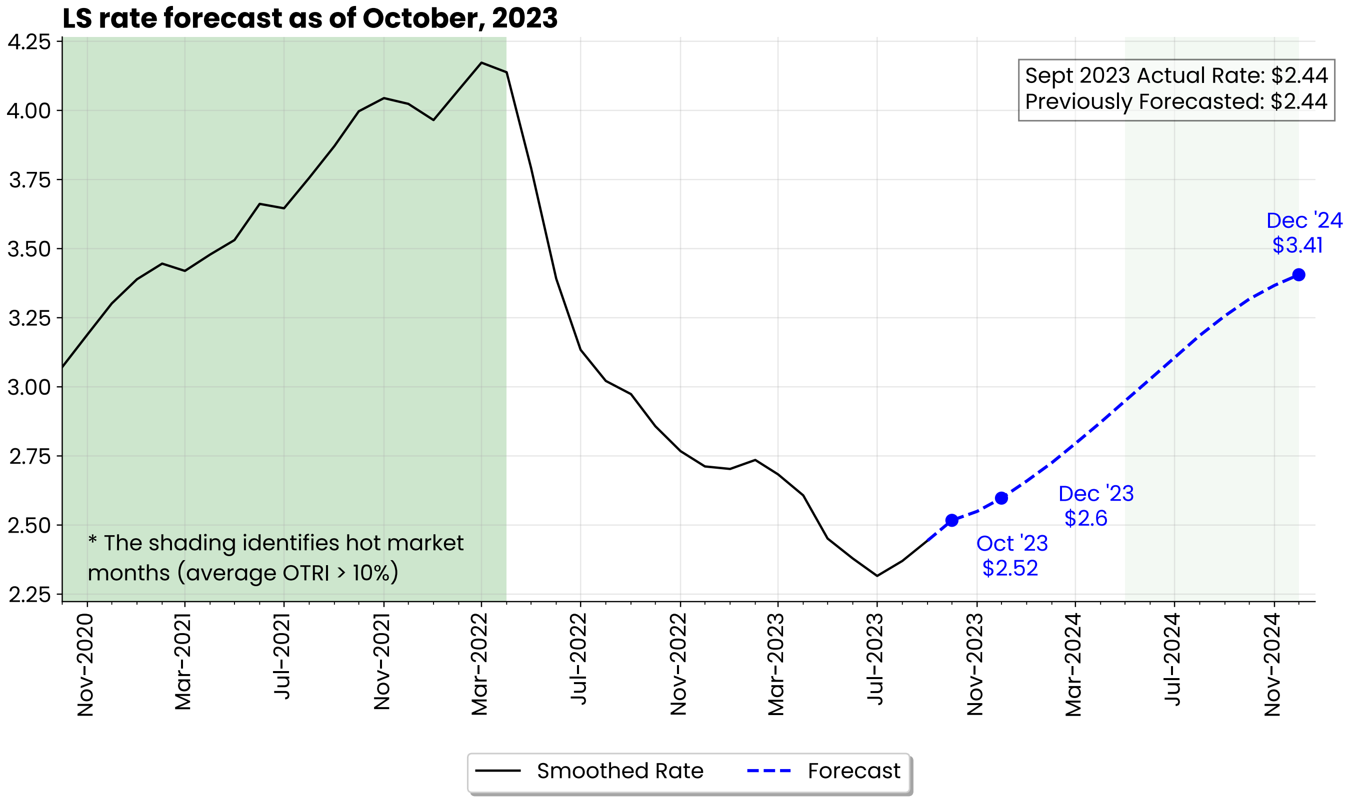
Hiring announcements have been mostly muted this year compared to previous years

This highlights retailers' uncertainty about the state of the economy over the next few months.

Loadsmart's 2023 Truckload Market Outlook:

As of October 2023, our model predicted that rates would rise from $2.37 to $2.44 in September. Our prediction was right on the nose. By the end of 2023, our forecast calls for prices to rise to $2.6 and continue upward through 2024.

Since June, when we began publishing Loadsmart's long-term spot rate forecasts, we have adjusted our December 2023 (from $2.56 to $2.6) and December 2024 (from $3.28 to $3.41) predictions due to the mid-year spike in rates, which exceeded our expectations by a few cents in most months, and, most importantly, due to revisions in fuel price expectations.

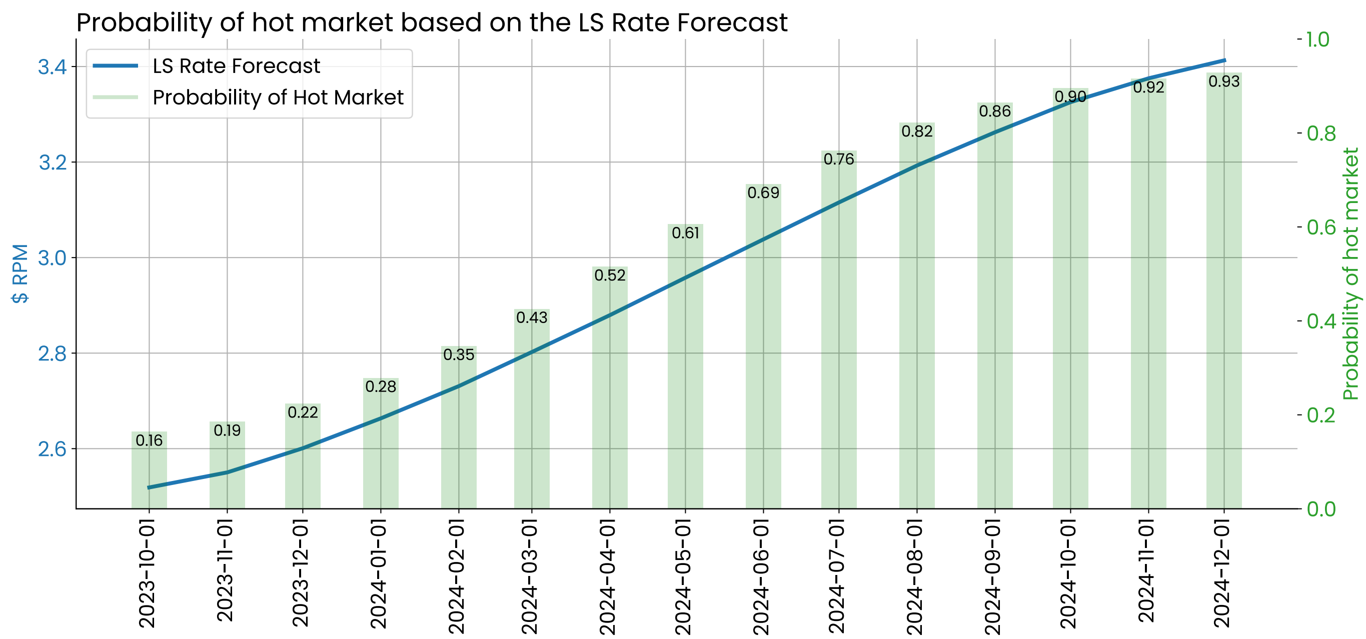


Note: Rates are a 3-month smoothed moving average. The shading indicates hot market months (OTRI > 10%) for past prices and for given future prices, where we will likely be in a hot market rather than a "cold" one.
Source: Loadsmart and Sonar.

Loadsmart's 2023 Truckload Market Outlook:

The strong correlation between our prices and Sonar's OTRI allows us to estimate when capacity is likely to become tight (defined as OTRIs above 10%).

- In the figure below, we display the probability of being a hot market based on the carrier rate we forecast every month till the end of 2024.
- When LS rates rise above $2.9, the probability that we are in a hot market is higher than the probability that we are not in a hot market.
- **Based on these estimates, we are not likely to see a hot market until April 2024.**

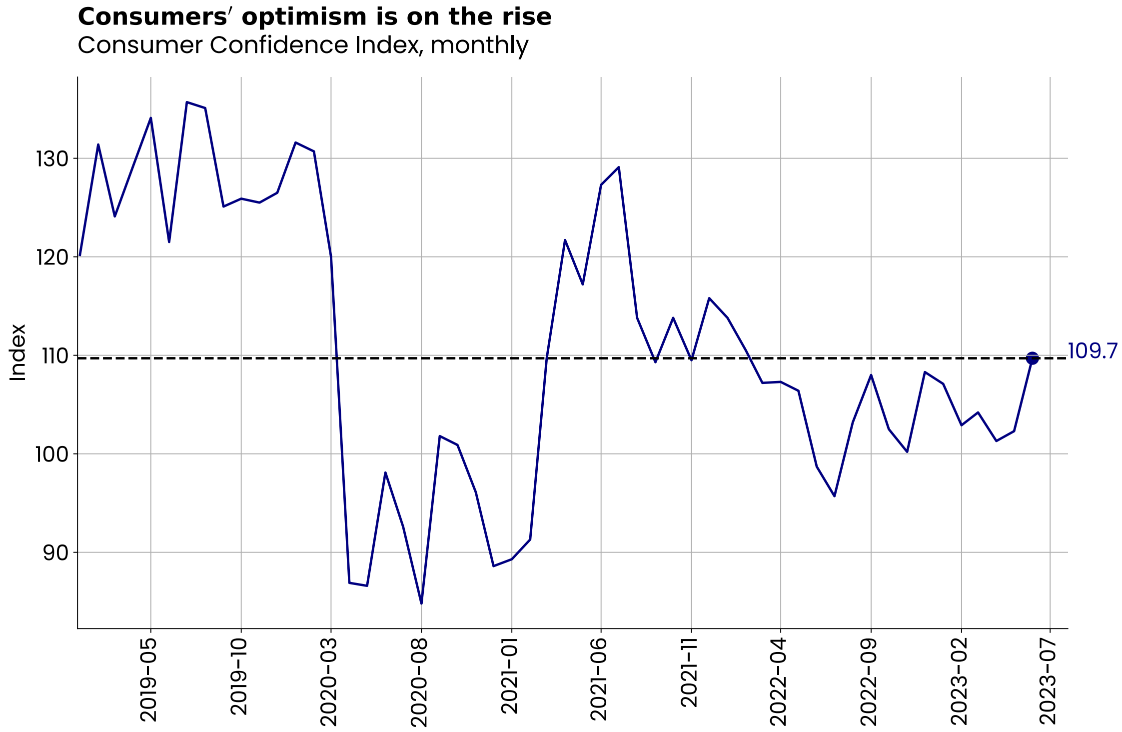


Note: The probabilities were estimated by our team.
Source: Loadsmart and Sonar.

July 2023

Our price index decreased by 2.9% MoM in July. The price spike associated with the 4th of July holiday brought the index back to January 2023 levels. However the index later pulled back and remained stable.

Consumers' recession fears seem to be fading



Source: The Conference Board.

In July, the Conference Board's Consumer Confidence Index rose back to levels seen in early 2022 when consumption was still growing above 5% year-over-year.

The rise in the index reflects consumers' optimism about current macroeconomic conditions (the labor market, business conditions, and household income), which might be stemming from recent positive news: inflation is easing, the labor market remains strong and the debt ceiling crisis is over.

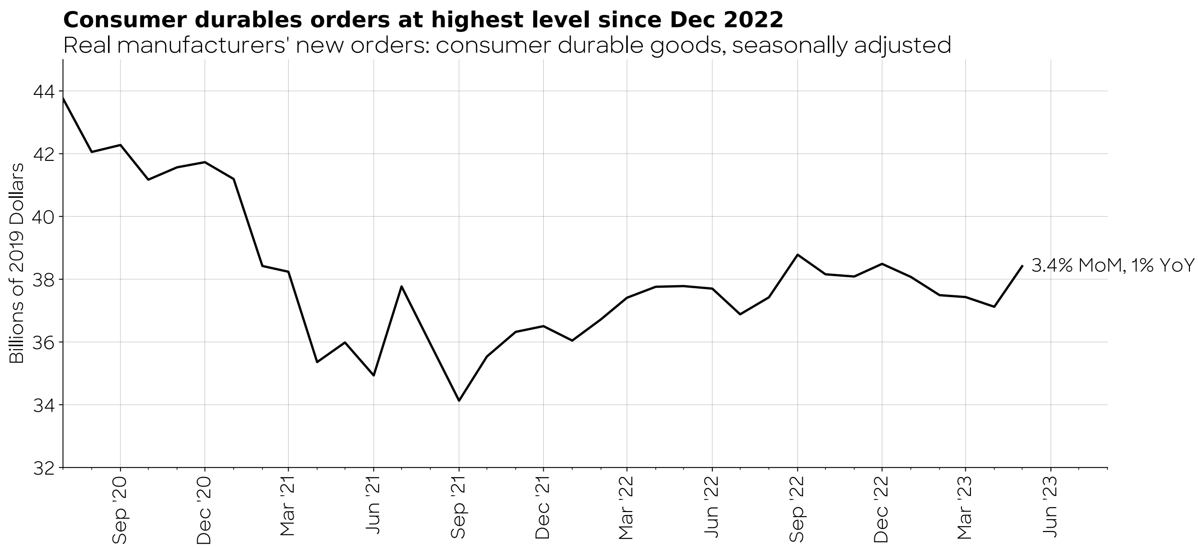
In the current context of economic uncertainty, the rebound in consumer confidence suggests the odds of a soft landing have been raised, at least from consumers' perspective.

July 2023

Our price index decreased by 2.9% MoM in July. The price spike associated with the 4th of July holiday brought the index back to January 2023 levels. However the index later pulled back and remained stable.

Factory orders are showing strength, although it is limited to a few sectors

May industrial activity results also showed signs of resilience. Real consumer durables orders rose 3.4% MoM - shown in the figure below.



Source: U.S. Census Bureau.

This strength in the factory orders data is mainly driven by motor vehicles, the only sector that has seen consistent order growth throughout the year. The auto industry is one of the few that is still suffering from the effects of pent-up demand due to production shortages during the pandemic.

Household appliance manufacturing orders grew 4% MoM, after consecutive declines since February, and furniture & related products remained stable.

The Manufacturing ISM Report on Business for June also showed an increase of 7% in the New Orders Index, even though the Production index in the month has declined.

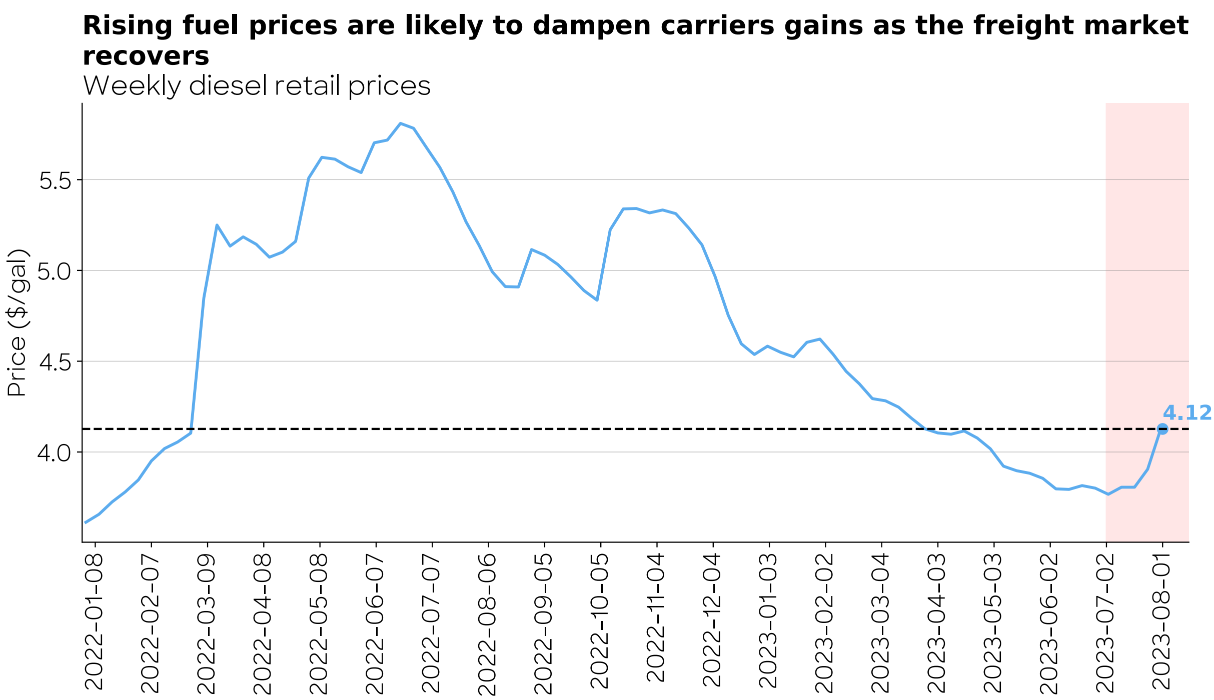
In our view, industrial activity associated with durables will remain stagnant, with outputs below 2020 levels until consumer spending responds to an easing of inflation.

August 2023

Our volume index decreased by 3.3% MoM in August, but Sonar's OTVI rose ~3% over the same period. Loadsmart has yet to see the reported increase in freight demand, either in quotes or allocated volumes.

Soaring Fuel Prices

Diesel prices rose 9.5% in July - back to April levels, as shown in the figure below.



Source: EIA.

According to our estimates, part of our rate price upturn in the past week (July 28- Aug 5), shown above, was due to the increase in fuel surcharges. Our all-in carrier RPM rose 4% WoW, but our line-haul rates show an increase of 2% only.

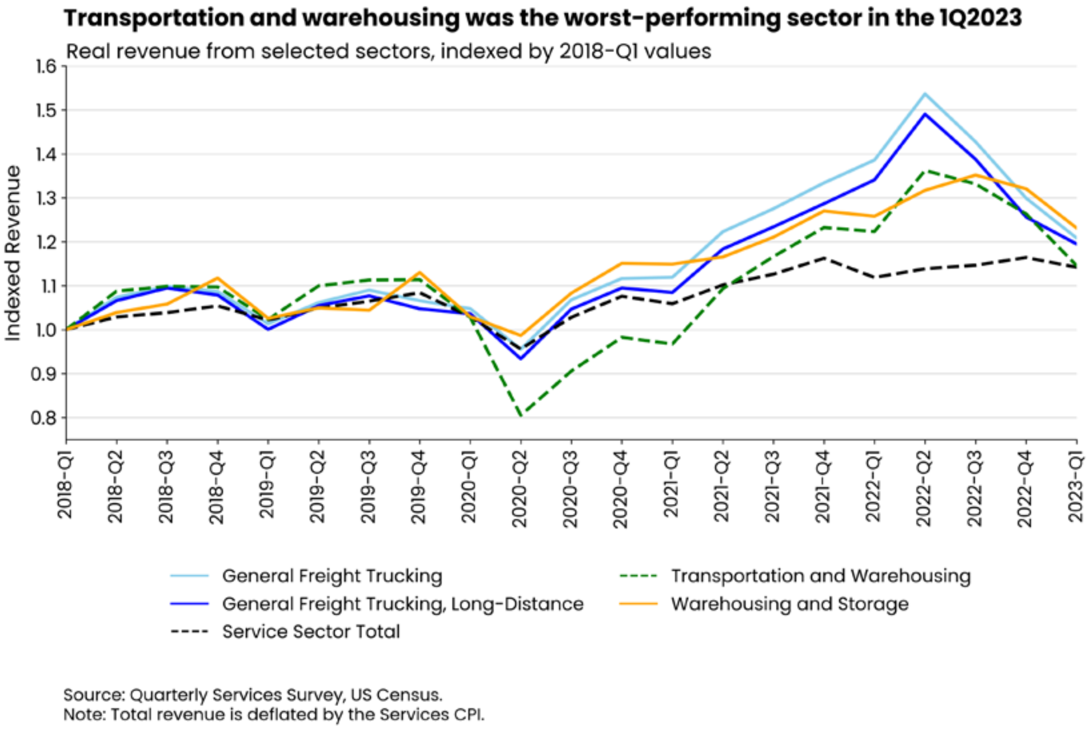
We expect fuel pump prices to continue to hike in the next months, which would further damage spot market profitability for smaller carriers. EIA's forecast at the time indicated that diesel prices would average $3.76 in July and $3.58 in August. Now that we have the opportunity to review, actual diesel prices averaged $3.88 in July, and a very unexpected increase to $4.37 in August.

August 2023

Our volume index decreased by 3.3% MoM in August, but Sonar's OTVI rose ~3% over the same period. Loadsmart has yet to see the reported increase in freight demand, either in quotes or allocated volumes.

Freight Sector Revenues

According to the US Quarterly Services Survey, transportation and warehousing had the largest revenue decline among all services sectors in Q1 2023, with its real revenue falling 7.8% QoQ.



Warehousing appears to be the main driver of this large decline, as its real revenue alone fell 11%, while the general and long-haul trucking categories fell 1.2% and 3%, respectively.

The real revenue of the whole services sector decreased by 0.6% QoQ (figure above). The first quarter of the year is typically characterized by a seasonal decline in revenue. However, for the trucking categories, this is the third consecutive decline in revenue and may be related to the decline in freight rates that also began in Q2 2022.

We do not expect revenue growth in the next report due to the continued decline in freight rates in Q2 2023, but we're optimistic that this could begin to switch positive by the end of 2023.

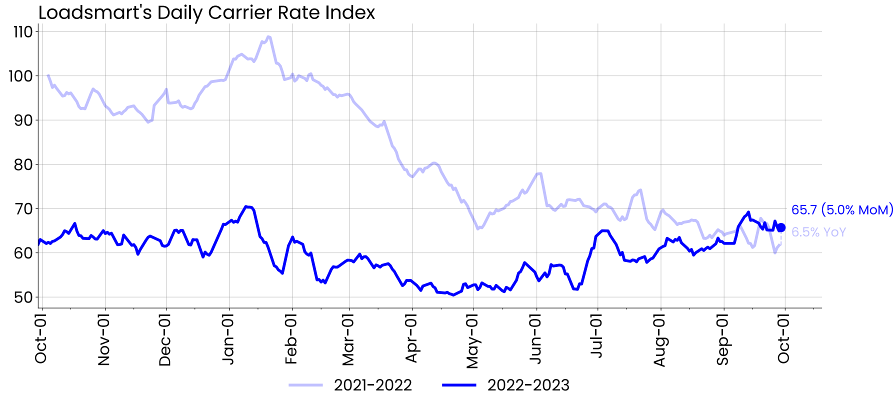
September 2023

Rates were sluggish at the start due to the Labor Day holiday, but jumped after the second week of the month and continued throughout September at a new level.

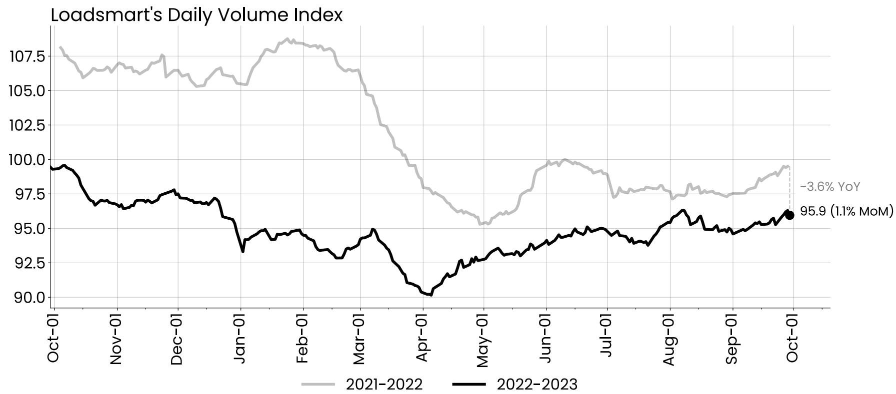
Full Truckload Market Update:

Starting this report, our indices will change. The volume index has been adjusted to reflect market fluctuations rather than internal volume shifts within our company, and with this change in the volume index, we took the opportunity to rescale our price index using a simpler scale where prices are indexed to the start date of our pricing series (October 1, 2021).

Rates: Our Price Index increased by 4.1% MoM in September. Rates were sluggish at the start due to the Labor Day holiday, but jumped after the second week of the month and continued throughout September at a new level. For the first time in the year, we had a YoY increase in the index.



Volumes: Our Volume Index rose 1.1% MoM in September, slightly outperforming Sonar's OTVI, which was flat for the month. The index has already rebounded about 6% from its April low and we expect this trend to continue as we enter the peak season.



Source: Loadsmart.

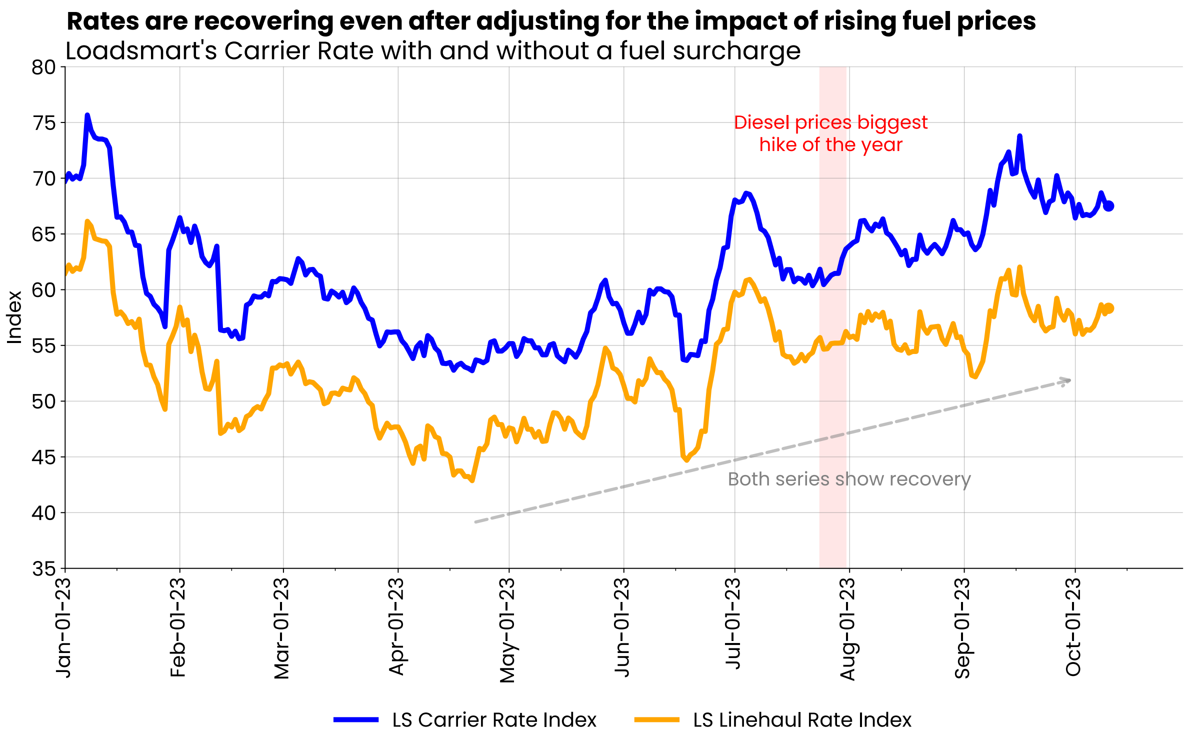
September 2023

Rates were sluggish at the start due to the Labor Day holiday, but jumped after the second week of the month and continued throughout September at a new level.

Diesel prices and freight rate recovery

There has been much speculation as to whether the spot rate recovery was simply a pass-through of a diesel price increase to rates. Our data, displayed in the figure below, contradict this hypothesis.

- Our rate recovery began in June, about two months before there was a significant surge in fuel prices (diesel prices started an uptrend in July).
- In addition, both linehaul-only and all-in rates have recovered so far. The recovery of the former has indeed slowed due to the increase in fuel prices, but the upward trend continues.



Source: Loadsmart.

We believe that linehaul-only rates should continue to rise over the long term, even with further fuel price increases, as truck capacity continues to shrink.

According to EIA projections, diesel prices are expected to peak in November 2023 and decline thereafter due to rising oil inventories.

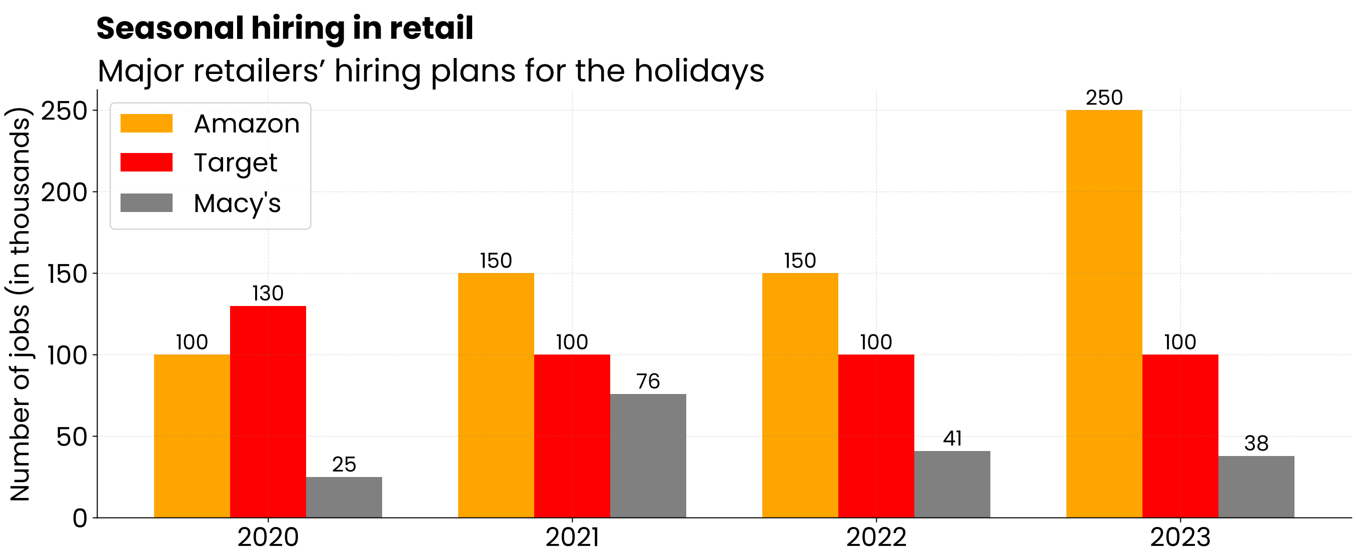
September 2023

Rates were sluggish at the start due to the Labor Day holiday, but jumped after the second week of the month and continued throughout September at a new level.

Seasonal hiring announcements

So far, only three major retailers - Amazon, Target, and Macy's - have released their holiday hiring plans. The numbers show how expectations for consumer spending are largely divergent. Of the three, Amazon is the only one increasing its numbers from 150k jobs last year to 250k this year. For Target and Macy's, the hiring plans are about the same as they were in 2022, in the figure below.

Hiring announcements have been mostly muted this year compared to previous years. This may be due to retailers' uncertainty about the state of the economy over the next few months. On one hand, tighter credit availability and the end of the student loan moratorium are expected to weigh on consumer spending in Q4 2023; and on the other hand, compared to last year, we have entered the fourth quarter in a better environment with the fall in inflation rates and real income growth.



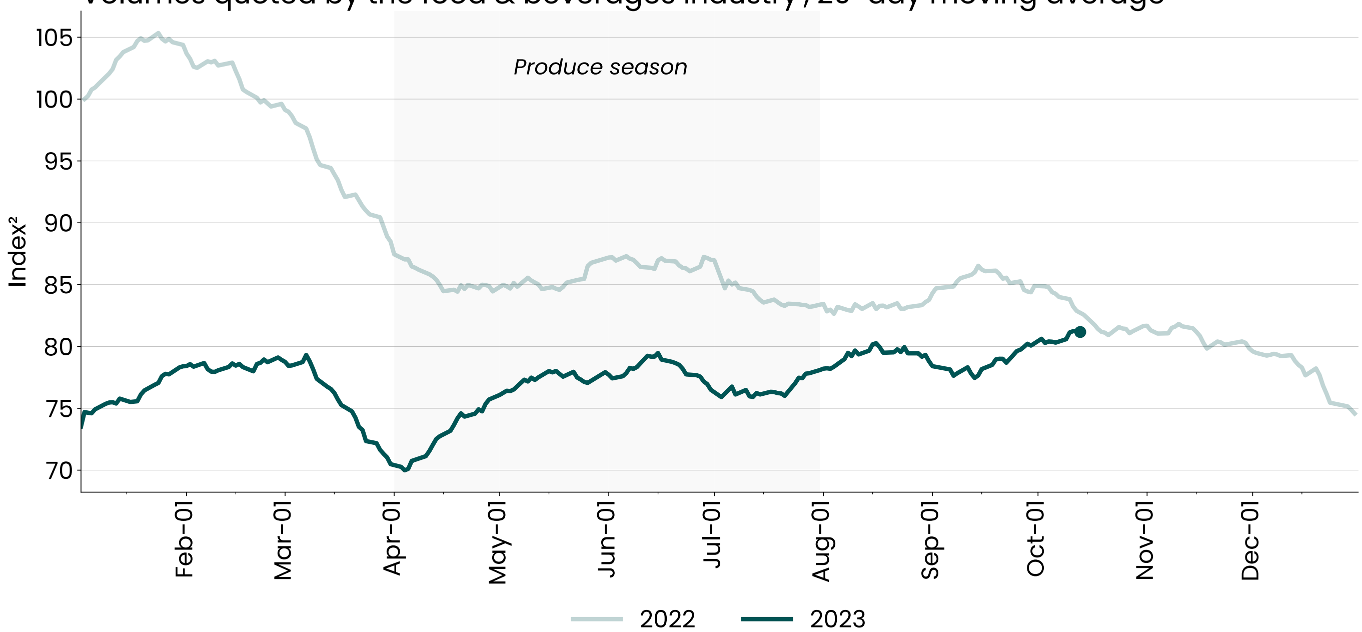
Source: Challenger, Gray & Christmas.

An inside look into your industry: Food & Beverage

Since our volume index has changed, we also decided to change our industry indices so they would keep the same methodology. From now on, we will measure an industry's quoting volume according to the quoting activity of a select group of the top 10 shippers within that industry. This helps us to ensure that large fluctuations in our indices from quarter to quarter are correlated with actual economic activity and not simply the result of new customers being added to our database.

Food & Bev freight demand grew 1%QoQ in the 3Q2023

Volumes quoted by the food & beverages industry[1], 20-day moving average



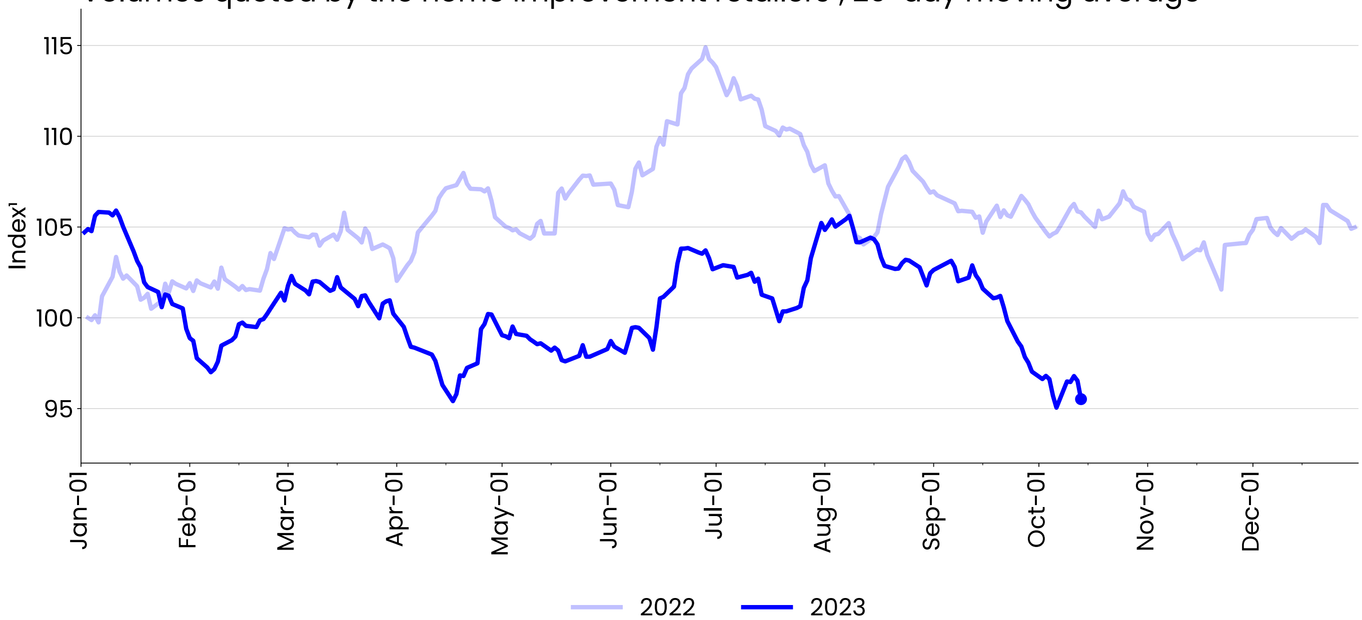
Our quoted volumes related to the Food & Beverage sector grew 1% QoQ during the Q3 2023. The new index revealed that this sector's volumes (figure above) and the total volumes (Figure Total Volumes) behave in a remarkably similar way, the explanation for this being that:

- A large share of our top shippers are in Food & Beverage;
- This business has been one of the hardest hit by the supply chain post-covid normalization process we have been through over the past two years - once there were no more logistical disruptions, the top shippers that make up our index began to face higher market competition, which slowed their shipped volumes through 2022 and 2023.

An inside look into your industry: Home Improvement Stores

Home improvement freight demand grew 3%QoQ in the 3Q2023

Volumes quoted by the home improvement retailers[2], 20-day moving average

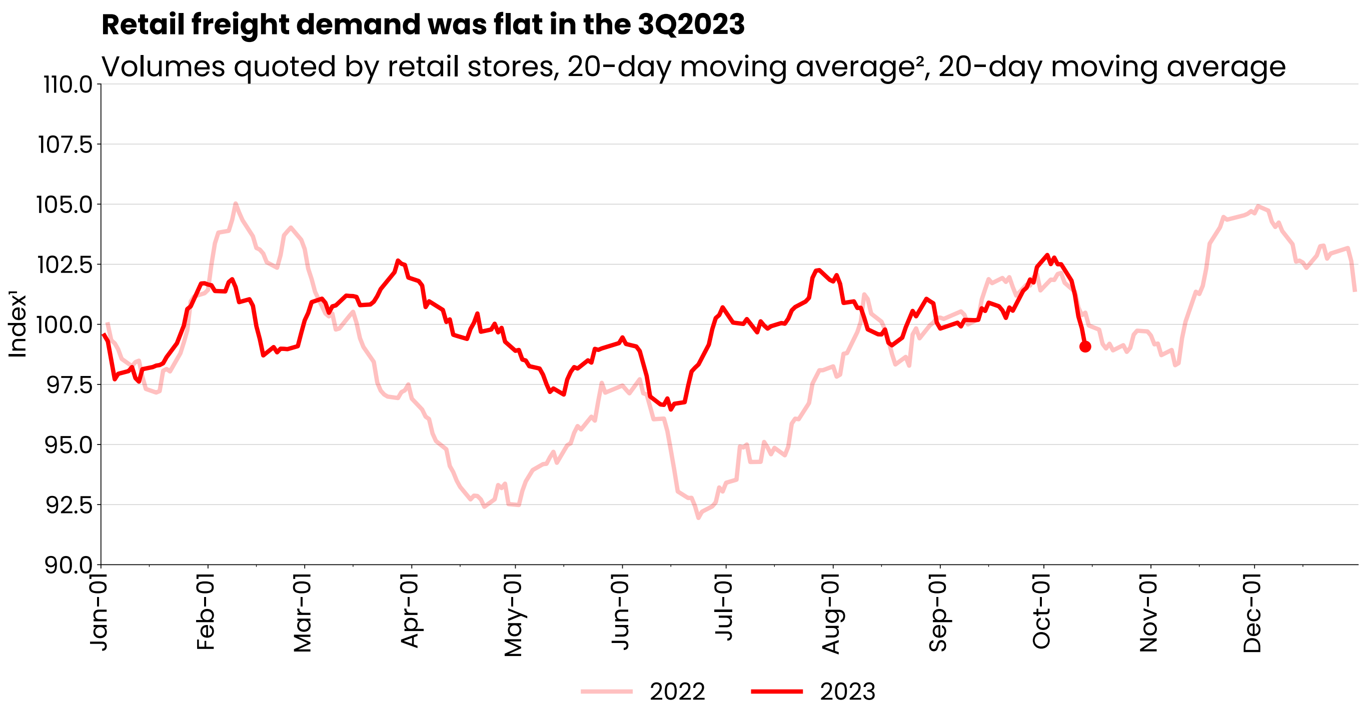


1. Indexed to first working day of the 2022 - Jan 3, 2022 volume = 100.
2. Refers to stores that sell home improvement items such as appliances, furniture, home decor, etc.
Note: Weekends are excluded.
Source: Loadsmart.

Volumes quoted by the home improvement sector increased by 3% QoQ. The increase in 3Q was expected given the sector's strong seasonal component. Home upgrades are often made during the warmer months, and as we moved from spring to summer, demand in this sector was likely to increase, driving up our volumes as well.

The seasonal component is also likely to play a role in Q4, reducing demand for home improvement. A scenario of further interest rate hikes and a slowdown in the housing market, which currently seems a possibility, could be a headwind for the sector and hamper volume growth in the next quarter and beyond.

An inside look into your industry: Retail



1. Indexed to first working day of the 2022 - Jan 3, 2022 volume = 100.
Note: Weekends are excluded.
Source: Loadsmart.

Retail quoted volumes were flat QoQ. On a year-over-year basis, we had a stronger 3Q than in the prior year. Real retail sales have been negative on a year-over-year basis for the whole of the year, but surprisingly, quoted volumes have not experienced a comparable decline so far. Volumes are currently at similar levels to last year.

This is because July and August were strong months for retailers, with back-to-school shopping helping to push sales up from the year's low in June. However, we do not expect this year's holiday season to be stronger than the previous one. Based on last year's pattern, our retail volumes should pick up in November. However, unlike last year, tighter credit availability and the end of the student loan moratorium are expected to weigh on consumer spending in the Q4 2023, impacting department store sales in the period.

We Are Loadsmart

Loadsmart pairs advanced technologies with deep-seated industry expertise to fuel growth, simplify operational complexity, and bolster efficiency for carriers and shippers alike. Transforming the future of freight, Loadsmart leverages artificial intelligence, machine learning and strategic partnerships to automate how freight is priced, booked and shipped.

Whether through digital brokerage, freight procurement tools, dock scheduling software, truck management software, managed transportation services, freight and network optimization or custom solutions, our shippers and carriers move more with less.

As a one-stop-shop logistics solution, learn more about how Loadsmart is reinventing the future of freight operations.

Learn more