

JULY
2024

STATE OF THE INDUSTRY

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Voluntary cuts, higher prices

June 21, 2024 | 9 a.m.

Overview

The freight market continues to battle overcapacity, but there are signs that capacity will exit faster in 2024 than it did in 2023. With that said, the more niche markets are likely to burn off capacity more slowly than the general dry van freight market.

The macroeconomic environment got good news on the inflation front as the Consumer Price Index remained stable in May. Even so, Federal Reserve officials believe there will be only one 25-basis-point rate cut in 2024. The higher interest rates are limiting big-ticket purchases, but once the Federal Open Market Committee cuts rates for the first time, it could create an environment in which demand picks up, especially in housing and big-ticket purchases.

Domestic oil production rose throughout May, even after upward revisions to the previous month's data. Domestic oil production matched the U.S. Energy Information Administration's full-year production forecast, but forecasts suggest a new all-time high in production won't be set until August.

OPEC+ announced that its members agreed to extend production cuts into 2025 in an effort to keep global oil prices elevated. Additionally, eight of the OPEC+ members announced voluntary cuts that will start in the fourth quarter, slightly later than markets anticipated. The result was a fairly sharp sell-off, but oil prices have since recovered to the highest level in over two months.

The Gulf Coast have seen the freight markets become more challenging as capacity has tightened, with rejection rates in Houston eclipsing 8%, while volumes in the region are growing faster than those at the national level.

Fleet counts (six-month change)

Total for-hire fleets	300,027 (+8.8%)
Total private fleets	158,865 (+1.2%)
For-hire oil field specialization	20,190 (+1.4%)
Private fleet oil field specialization	8,256 (-1%)

Tractor counts (six-month change)

Total for-hire tractors	1,810,000 (+2.3%)
Total private tractors	766,799 (+0.6%)
For-hire oil field specialization	326,544 (-1%)
Private fleet oil field specialization	53,747 (+1%)

Active daily rig count (y/y change)

Permian Basin	276 (-15.6%)
Gulf Coast Basin	67 (-21.2%)
Anadarko Basin	45 (-8.2%)
Total	626 (-15.5%)

Crude oil prices per barrel (y/y change)

WTI crude	\$82.34 (+18.42%)
Brent crude	\$85.88 (+15.69%)
Brent WTI Spread	\$2.46 (-36.43%)

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Flatbed safety is exacting but essential

Given the open nature of flatbed trailers, it is arguably more important for flatbed drivers to follow best safety practices than for drivers in any other mode. This is compounded by the fact that flatbed drivers are uniquely responsible for ensuring that their loads are properly secured and, if necessary, covered by tarps. Otherwise, cargo can shift or even fall in transit, harming not only drivers and their equipment but also fellow motorists.

Thus, drivers should first choose high-quality straps, chains and binders that are designed to withstand the weight and type of cargo being transported. When loading, drivers must be careful to confirm that cargo is distributed evenly across the deck to maintain stability and to prevent excessive stress on specific areas of the flatbed. If applicable, drivers should employ edge or corner protectors to protect straps from sharp edges as well as sensitive cargo from damage caused by undistributed downward force.

Flatbeds also serve a vital role for the domestic oil and gas industry, in part because safety can be compromised by the (often) time-sensitive nature of such deliveries. As such, it is critical that the pre-trip inspection be fully carried out, not only with regard to the vehicle and trailer but also to the rigging equipment used, checking for frays or other signs of excessive wear.

Finally, special attention should be paid to the surroundings when the flatbed is not in use, particularly during loading and unloading. Trucks should be parked on a surface that is as flat as possible, taking care that the truck is not only level from front to back but also untroubled by side grades. To be sure, side grades need special attention when the truck is in motion, such that a heavy object does not suddenly shift forward into the cab or backward into any traffic. When dealing with hazardous materials, drivers should be aware of potential obstacles during loading and unloading that could impede an evacuation route.

Truck capacity outlook

The trucking capacity outlook is showing signs that capacity is exiting the market, which is needed to firm up pricing, but at a relatively slow rate. The back half of the year is traditionally a period when capacity tightens across modes. But with all the added capacity throughout the year, the usual tightening was muted throughout the fourth quarter of 2023.

The interesting growth areas haven't necessarily been in carriers or tractors but in the number of trailers added over the past few years. When the market reacted to the COVID-19 pandemic, semiconductor shortages prevented new truck order backlogs from being worked through. This led to fleets investing elsewhere, namely in trailer counts, which was one of the first areas addressed when the increased rates were sustained throughout the back half of 2020 and early '21.

With rates falling rapidly, the growth in capacity will likely return to levels closer to 2019 until some of the capacity added over the past year is removed from the market.

Total Fleets, Tractors and Trailers				Percent Change since February 2022		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	498,170	2,780,000	4,298,588	5.75%	1.83%	14.34%
Feb-22	471,102	2,730,000	3,759,410			
Total For-Hire Fleets, Tractors and Trailers				Percent Change since February 2022		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	300,027	1,810,000	3,022,330	8.76%	2.26%	1.00%
Feb-22	275,856	1,770,000	2,992,449			
Total Private Fleets, Tractors and Trailers				Percent Change since February 2022		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Jul-22	158,865	766,799	1,147,612	1.20%	0.63%	49.63%
Feb-22	156,979	761,967	766,961			

Source: Federal Motor Carrier Safety Administration monthly census data.

Since February 2022, the total number of fleets, which is filtered to those that report having at least one tractor and 20,000 or more annual miles per tractor on their MCS150 forms, has increased by 5.75%. Carriers have to report the data only once every two years, so the growth over the past two years is evident from the rise in July’s numbers compared to February’s. The average fleet size (number of tractors divided by fleet count) declined from 5.8 to 5.5, which indicates that growth is stemming from smaller carriers entering the market.

Growth in carrier and tractor counts is emerging from for-hire carriers, which is expected as the number of owner-operators has increased dramatically over the past two years. Overall, the number of carriers has jumped by 8.8% since February, but the number of tractors has increased by only 2.3%. This signals that owner-operators are the largest group to experience growth between February and July 2022.

While the for-hire side of the trucking industry is experiencing gains in carriers and tractors, private fleets are where most of the growth in trailer counts is originating. Between February and July 2022, private fleet trailer counts increased by 49%. Again, it is important to note that carriers have to report this number only biennially, so it really shows the growth over the past two years.

The for-hire market may see some consolidation — and bankruptcies — over the next six to 12 months, but it may not actually show up in the data, with carriers having to report only once every two years and new carriers always entering the market. As the freight market softens, the difference is that drivers will return to the umbrella of large enterprise carriers and thus may actually be double counted at some point in the future.

Total Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	28,446	380,291	1,074,897	0.7%	-0.5%	0.9%
6 months ago	28,260	382,131	1,065,222			
Total For-Hire Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	20,190	326,544	923,705	1.4%	-0.7%	1.2%
6 months ago	19,906	328,902	912,408			
Total Private Fleets, Trucks and Trailers with oilfield or liquid/gas specialization				6 month % Change		
Time Period	Carriers	Tractors	Trailers	% Carriers	% Tractors	% Trailers
Feb-22	8,256	53,747	151,192	-1.2%	1.0%	-1.1%
6 months ago	8,354	53,229	152,814			

Source: FMCSA monthly census data.

The capacity landscape for carriers with oil and gas exposure was relatively unchanged from six months ago as their numbers have increased across the board. The largest rise is in the for-hire market, where the number of carriers has risen by 1.4%.

Even with additional carriers in the market, the number of available tractors has declined by nearly 1%, indicating a couple of things: Smaller carriers are entering the market, and larger carriers with exposure to oil and gas are thinning out their fleets.

While the number of tractors has declined in the past six months, for-hire carriers have added trailer capacity to their fleets, increasing the number of available trailers by 1.2% in the six-month span.

Private fleets haven't experienced the same fate, as there were 98 fewer private carriers operating in the oil and gas space over the past six months. Those continuing to operate have added to their fleets, however, as the number of available tractors has increased by 1%.

Total Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California			
Time Period	Carriers	Tractors	Trailers
Jul-22	993	15,858	11,629
Total For-Hire Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California			
Time Period	Carriers	Tractors	Trailers
Jul-22	549	3,651	5,262
Total Private Fleets, Tractors and Trailers with oilfield or liquid/gas specialization in California			
Time Period	Carriers	Tractors	Trailers
Jul-22	395	11,799	5,967

Source: FMCSA monthly census data.

Nearly 1,000 carriers based in California were operating in oil field services or liquid/gas specialization as of last July. The vast majority, in both the overall trucking industry and the oil and gas industry, were for-hire carriers. More than 55% of the fleets in California that operate in the space are for-hire carriers, whereas private fleets make up just under 40% of carriers.

Private fleets do make up the vast majority of tractors in California. Of the 15,858 total tractors that operate in the oil and gas industry, 11,799 are from private fleets, which is roughly 75%. For-hire fleets have an average of 6.65 tractors, compared to private fleets with nearly 300 tractors in operation.

The difference in trailers is less dramatic as for-hire fleets have 45% of the trailers in California. But it is important to note that this data only includes owned trailers and not those that carriers have leased.

Ultimately, the capacity outlook appears quite different than it did at the beginning of 2022. The extreme growth over the past two years has passed its peak and is slowly starting to correct itself. However, having to report counts to the FMCSA only once every two years may mean the data does not show the capacity exiting the market as quickly as it actually does.

National economic outlook

The U.S. economy continues to grow at a healthy rate considering the pace at which the Federal Reserve increased interest rates throughout 2022 and 2023. The Federal Open Market Committee decided in June to hold the federal funds rate stable for the seventh consecutive meeting, dating back to September 2023.

The most recent meeting was one of the more interesting ones because outside of announcing where the target range for the fed funds rate would sit, the quarterly “dot plot” was released. That is a plot of FOMC participants’ expectations of where the target range will be not only in the long term, but also in the short term.

Compared to the first quarter, the dot plot highlights that the median forecast for 2024 is just a single 25-basis-point cut while in the first quarter the median projection was 75 basis points of interest rate cuts (three cuts).

What else was interesting from the dot plot was that four FOMC participants don’t expect an interest rate cut throughout the rest of 2024. Additionally in 2025, median expectations for the fed funds rate are to be about 100 basis points lower than where they currently are.

Overall, based on challenging inflation data in the months prior, it wasn’t a surprise to see the FOMC decide to hold interest rates stable. One of the things that Fed officials are looking to do with interest rates is to slow demand, which in turn will slow inflation, while maintaining maximum employment.

While the Federal Reserve’s goal is for inflation to hit a long-term target of 2%, there are signs that inflation is coming under control. The rate at which inflation is heading to the target is the concern for Fed officials at present, hence why they have been reluctant to change interest rates before data suggests inflation is approaching the 2% target.

For consumers, May’s inflation report should have been a welcome sight. The Consumer Price Index showed that prices remained unchanged in May, the first month in over a year in which there wasn’t a month-over-month increase. The 12-month running total for CPI came in at 3.3%. Analysts were expecting a 0.1% m/m increase and the 12-month total to come in at 3.4%.

Core inflation, which is the CPI excluding the more volatile food and energy prices, increased by 0.2% m/m and is up 3.4% y/y. These increases were better than expectations by 0.1 for both the m/m and y/y increases, matching the headline figures.

The unchanged headline number and rising core inflation highlight the impacts that energy and food prices have on inflation metrics. Energy prices in May fell by 2%, the largest monthly decrease in over seven months. Despite the increase overall, energy prices were still 3.7% higher than they were this time last year. The main driver of the deflation in May was gasoline prices, which fell by 3.6% m/m in May but were 2.2% higher y/y. The decline was the second-largest decrease in the past seven months, slightly smaller than the 4% m/m decline in November.

Food prices remain surprisingly stable for a commodity that has a reputation for being extremely volatile. Food prices increased by 0.1% m/m in May, rising 2.1% over the past 12 months. Food-at-home prices were flat in May after declining 0.2 m/m in April. Food-away-from-home prices increased by

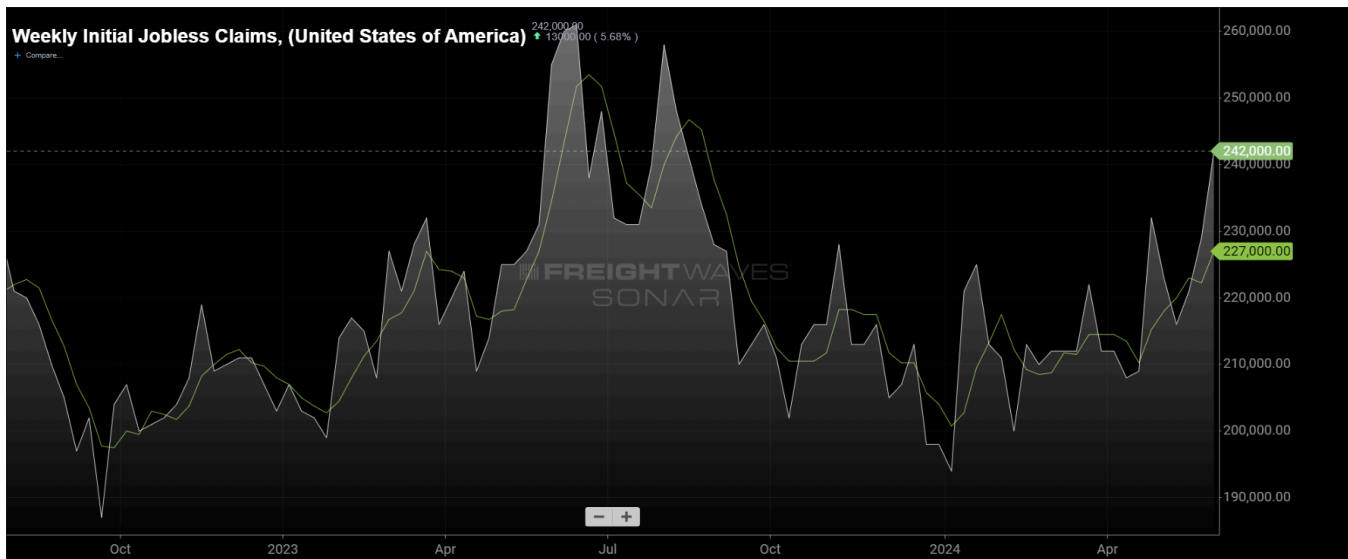
0.4% m/m, the largest monthly increase since January, rising faster than the 0.3% m/m increases experienced the past two months. Food-away-from-home prices have increased by 4% over the past year.

Shelter prices have received the lion's share of attention, especially over the past six months, as shelter prices represent over one-third of the headline CPI and over 90% of core inflation. Shelter prices increased by 0.4% m/m, the fourth consecutive monthly increase of 0.4%. Over the past year, shelter prices have increased by 5.4%.

Another positive sign in May is that retail sales outpaced the rate of inflation once again. After April's retail sales figure was revised lower, showing a 0.2% decline m/m instead of remaining stable in the initial print, May's figures showed a return to growth, albeit extremely small. Retail sales in May increased by 0.1% m/m and were 2.3% higher y/y. The growth in May was weaker than expected as economists were expecting retail sales growth of 0.2% m/m. Removing motor vehicle and gasoline sales, retail sales matched the headline figure, rising 0.1% m/m, but were 2.6% higher y/y.

Gasoline sales were the largest drag on overall sales, falling 2.2% m/m, but since retail sales data isn't adjusted for inflation, much of this drag can be attributed to the price declines cited above. Furniture sales as well as building ma

Labor market



SONAR: Weekly Initial Jobless Claims (white) and 4-week moving average of initial jobless claims (green).

Initial jobless claims did jump from the prior week, but there has been limited cause for concern. For the week ending June 8, the most recent week for which data is available, initial jobless claims were 13,000 higher week over week at 242,000. The four-week moving average continues to inch higher, now at the highest level since the week ending Sept. 9, 2023.

In recent weeks, continuing claims had leveled off, at least that was until the most recent report. For the week ending June 1, the most recent week for which data is available, continuing claims

increased by 30,000 from the previous week and were 76,000 higher than they were the same period last year.

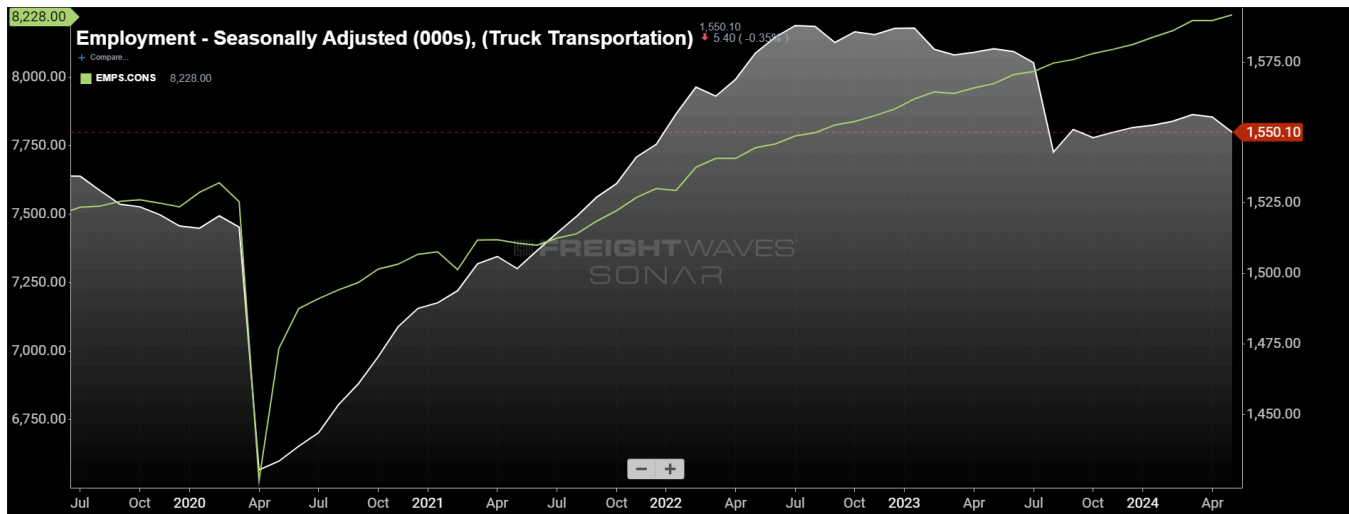


Chart: FreightWaves SONAR. Truck transportation payrolls (white, right axis) and construction payrolls (green, left axis).

On the employment front, the headline numbers from May’s job report were quite strong. Nonfarm payrolls increased by 272,000 in May, surpassing analysts’ expectations of 190,000 added jobs during the month. The unemployment rate did inch higher, reaching 4% once again, the highest level since January 2022.

Growth in the labor market continues to be driven by health care, government, and leisure and hospitality, which accounted for over half of the 272,000 jobs added in May. The health care sector added 68,300 jobs during May, the government sector added 43,000, and leisure and hospitality added 42,000.

Another interesting phenomenon within the labor market is the bifurcation of part-time and full-time employment. Over the past year, the number of full-time workers has fallen by 1.2 million to 133,264,000. At the same time, the number of part-time workers has increased by 1.5 million to 28,004,000. The number of multiple job holders has increased by 629,000 over the past year, now 5.2% of the total employed. The good news is that the percentage of multiple job holders is historically in line with the long-term average.

With the changes in full-time employment and growth in part-time, it signals that many are taking any job in order to sustain any level of income. Additionally, this could be one of the reasons why there hasn’t been a significant increase in initial jobless claims.

The transportation sector added 10,600 jobs in May, but the truck transportation segment saw a reduction of 5,400 jobs in the month, falling to November 2023 levels.

The oil and gas sector experienced an increase in the number of payrolls in May. The sector saw the number of payrolls rise by 1,000, erasing all of April’s decrease. Total oil and gas sector payrolls are currently 119,900, up 2,200 over the past year.

The construction industry is rapidly expanding payrolls after another month of fairly strong growth. The construction industry added 21,000 individuals to payrolls in May, accelerating from April's growth. Total employment in the industry was 8,228,000 in May, up 251,000 from the same period last year.

Job openings continue to slide, rapidly approaching the 8 million mark after the sizable drop in April. Openings in April fell by 296,000, to 8,059,000, nearly two million openings fewer than the same month last year.

The construction industry experienced a slight decrease in the number of job openings in April. In April, the number of job openings in the industry decreased by 8,000 m/m. The construction industry had 338,000 openings in April, down 25,000 from April 2023.

Openings in the trade, transportation and utilities sector — which includes oil and gas as well as transportation — finally saw an uptick in openings in April. Openings in April came in at 1,054,000, an increase of 15,000 from the previous month. The rise in the number of openings was driven by an increase in retail trade, which saw openings increase by 21,000 m/m.

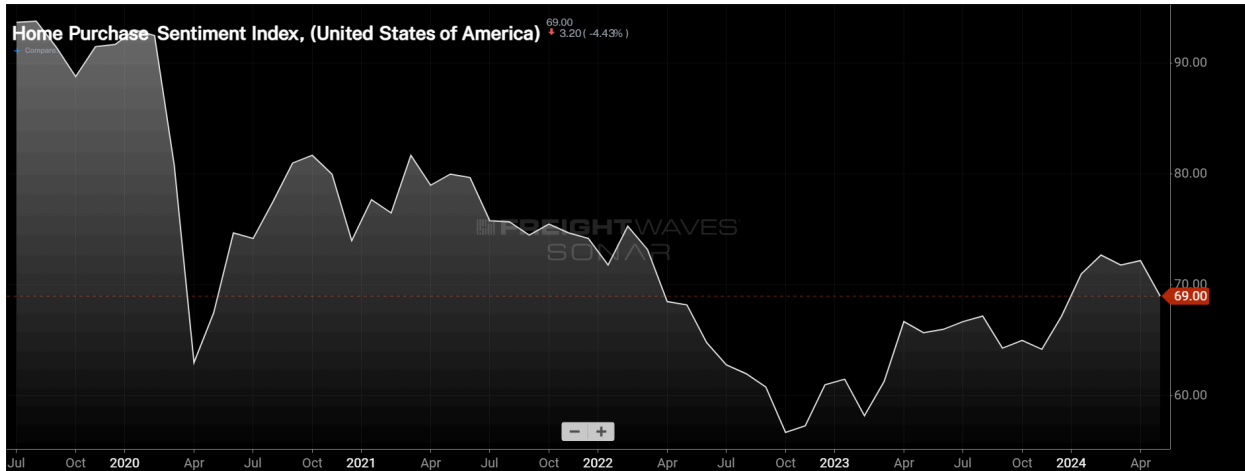
The quit rate, which is the number of resignations during the month as a percentage of total unemployment, remained stable at 2.2% in April. The quit rate for the trade, transportation and utilities sector was also unchanged at 2.3%. The quit rate for the construction section was increased by 0.5% in April to 2.4%.

Housing and construction

With the likelihood of interest rate cuts being pushed later into the year, the housing market remains challenged overall. However, even with higher interest rates, mortgage applications continue to roll in. According to the Mortgage Bankers Association's Weekly Mortgage Application Survey for the week ending June 7, mortgage applications increased by 15.6%.

The sentiment around a potential interest rate cut coming in the late stages of 2024 has allowed mortgage rates to slide slightly, a welcome sight for consumers. According to Freddie Mac, the average 30-year fixed-rate mortgage was 6.95% during the week ending June 13.

With mortgage rates sliding and demand increasing, it would be reasonable to believe that sentiment around purchasing a home improved in May. That wasn't actually the case, according to the Fannie Mae Home Purchase Sentiment Index (HPSI). The HPSI fell by 2.5 points m/m to 69.4, which is still well above the lows experienced in 2022 but is the lowest level of the year to date.



SONAR: Fannie Mae Home Purchase Sentiment Index.

Doug Duncan, Fannie Mae's senior vice president and chief economist, in the June 7 release of the HPSI stated that "consumer sentiment toward housing declined from its recent plateau, as an increasing share of consumers struggle to find the positives in the current housing market."

In the HPSI survey, 86% of respondents said they believe it is a bad time to purchase a home. This is the highest percentage of respondents who feel that way dating back to the beginning of the HPSI in 2010. The cause for this could be a combination of a few things: Many believed mortgage rates would be lower, but they have largely hovered around 7% or more much of the past year. Secondly, higher interest rates typically cause asset prices to decline, but in housing that hasn't been the case because there is limited supply entering the market.

What is interesting about the HPSI is the belief around mortgage rate trends over the next 12 months. Thirty-one percent of respondents believe mortgage rates will increase, while 25% believe they will decline. If the FOMC were to cut interest rates at the end of the year, that would likely create more optimism surrounding the housing market, allowing consumers to feel more confident in their ability to purchase a home with a lower mortgage rate. What would be challenged, however, would be how home prices change once the Fed signals it is ready to cut rates.

Existing home sales, which dominate the housing market, continued to slow in April. According to the National Association of Realtors (NAR), existing home sales dropped by 1.9% m/m in April and were down by the same amount y/y. While sales were down, unsold inventory increased, rising 9% m/m and 16.3% y/y. The total supply sits at 3.5 months, better than the three months experienced in April 2023, according to NAR.

Across the various regions tracked by NAR, existing home sales only increased in the West region on a y/y basis, but all four regions were lower m/m.

Additionally, the increase in home prices highlights why the housing market has been challenged. The average existing home sale price reached \$407,600 in April, an increase of 5.7% y/y.

April was a tough month for construction spending, which suffered its second consecutive monthly decline after a revision to March's figure. Total construction spending fell by 0.1% m/m in April to a

seasonally adjusted annual rate (SAAR) of \$2.099 trillion from \$2.1 trillion in March. Even with the slight slowdown, total construction spending in April was 10% higher than it was during the same time last year.



SONAR: Total construction spending (white), residential construction spending (purple) and nonresidential construction spending (green).

Residential construction spending, after being challenged in March, experienced growth, albeit relatively small growth. Residential construction spending increased by 0.1% m/m in April to a SAAR of \$902,292,000. March's residential construction spending figure was revised higher, climbing back above the \$900 billion mark, creating the slower growth m/m in April. Residential construction spending growth isn't as pronounced as overall construction spending, but it was still 8.1% higher than it was during the same period last year.

Nonresidential construction spending suffered a monthly decline for the second consecutive month following the revisions to March's data. Nonresidential construction spending fell by 0.3% m/m to a SAAR of \$1.197 trillion. Even with the small slowdown, nonresidential construction spending is 11.5% higher than it was in April 2023. The manufacturing sector is the largest contributor to nonresidential construction spending with a SAAR of \$228.4 billion, which was an increase of 0.9% m/m and 17.3% y/y.

Oil market

For a market that has experienced a lot of consolidation over the past few years, many believed that deals were set to slow, with the most desirable companies already being purchased. That was until the end of May when ConocoPhillips announced that it was a buyer, agreeing to acquire Marathon Oil for \$17.1 billion. The deal provides [ConocoPhillips with over 2 billions in resources](#) added to the company's current profile in the Lower 48.

ConocoPhillips has been a serial acquirer over the past few years. The company has shelled out over \$18 billion in two other large acquisitions since the beginning of the COVID-19 pandemic. The deal with Marathon Oil marks the largest deal, but the other two included the Permian Basin assets of Royal Dutch Shell for \$9.5 billion and another Permian play in the acquisition of Concho Resources for \$9.7 billion.

Elsewhere, OPEC+ members agreed to extend all production cuts into 2025 in an effort to keep oil prices elevated. The group also voiced concerns about a potential global surplus if there was no action as countries like the U.S. continue to see production increase.

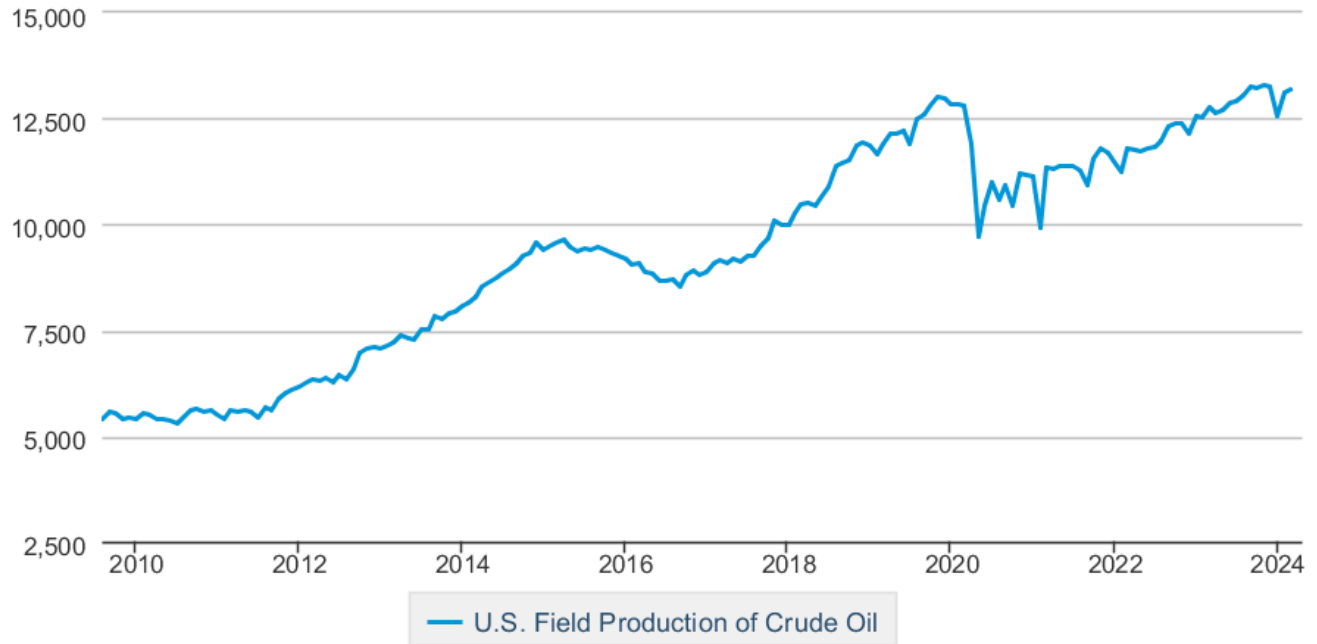
Additionally, eight of the members announced that voluntary cuts of 2.2 million barrels per day would continue into 2025, but the cuts in some cases are set to be fairly short-lived. For example, Saudi Arabia, the world's largest exporter of crude oil, announced a million-barrel-per-day voluntary cut, but those levels will only last for the first quarter of 2025 and then taper off in the middle parts of the year.

In May, gross domestic oil production rose to 13.2 million barrels per day (bpd) from April's 13.15 million bpd, increasing 50,000 bpd m/m. Production figures from previous months continued to be revised, as April's data was pulled up from an initial reading of 13.13 million bpd.

In a prior print of its Short-Term Energy Outlook, the U.S. Energy Information Administration (EIA) forecast that domestic crude oil production would fall by 40,000 bpd m/m to 13.09 million bpd in May. While the EIA's forecast missed the mark by over 10,000 bpd in May, the upside surprise brought the monthly production up to match the EIA's full-year forecast of 13.2 bpd.

U.S. Field Production of Crude Oil

Thousand Barrels per Day



Data source: U.S. Energy Information Administration

Even with domestic production surprising to the upside, the EIA continues to predict that December's all-time-high domestic crude oil production will be surpassed in August 2025. The EIA continues to expect full-year production in 2024 to be 2% higher than it was the prior year, followed by a 4% increase in 2025. For June, the EIA projects that crude oil production will fall by 30,000 bpd m/m to 13.17 million bpd.

The Baker Hughes active rig count is thought to signal future demand for drilling as well as inputs into the oil industry. The count for the U.S. as a whole totaled 590 rotary rigs as of June 14. This latest count marks a brutal decline of 14.1% y/y, continuing a series of y/y losses not sustained since April 2021.

Breaking that down into basins, Enverus, a leading SaaS company focused on the energy market, releases daily active rig counts.

Basin	Daily Active Rig Count	1-mo. Change	M/M Percent Change	1-yr. Change	Y/Y Percent Change
Anadarko Basin	45	-5	-10.0%	-4	-8.2%
Appalachia	36	1	2.9%	-12	-25.0%
DJ Basin	9	-1	-10%	-9	-50.0%
Gulf Coast Basin	67	0	0.0%	-18	-21.2%
Permian Basin	276	-12	-4.2%	-51	-15.6%
Williston Basin	35	0	0%	0	0%
San Joaquin Basin	4	1	33%	2	100%
Other	154	14	10.0%	-23	-13.0%
Total	626	-2	-0.3%	-115	-15.5%

Source: Enverus daily active rig count as of June 20.

The declines in the Permian Basin are interesting as the area is the primary focus of the M&A activity in the space. With regard to the deal between ConocoPhillips and Marathon Oil, while the Permian assets were an area of focus, ConocoPhillips also cited the assets in the Bakken Formation as an area of opportunity that the company was seeking. With growth in overall rig counts being driven outside of the Permian Basin, this seems like a trend that will continue as companies try to find new areas of opportunity.

Crude prices find positive momentum, back above \$80 per barrel

After a tough start to June, oil prices have climbed back above \$80 per barrel. The start of the month was challenging for oil prices stemming from domestic inventory builds. The growth in inventory during the last week in May was the largest increase in the month. The Biden administration added 339,000 barrels to the Strategic Petroleum Reserve, the smallest increase of 2024. Goldman Sachs released its forecast for Brent Crude prices, coming in at \$86 per barrel. The investment bank forecast is based on strong consumer demand in the summer months, which would likely create a deficit in Q3.

The International Energy Agency, which is characteristically bearish on future demand, continues to trim its forecasts for demand. The IEA cut its forecast for oil demand this year by another 100,000 bpd to 960,000. The IEA does expect to see some growth in demand in 2025 but cites lackluster economic growth and growth in electric vehicles. In its latest Monthly Oil Market Report, OPEC — which naturally takes a bullish view on demand — left its 2024 outlook unchanged at 2.2 million bpd.

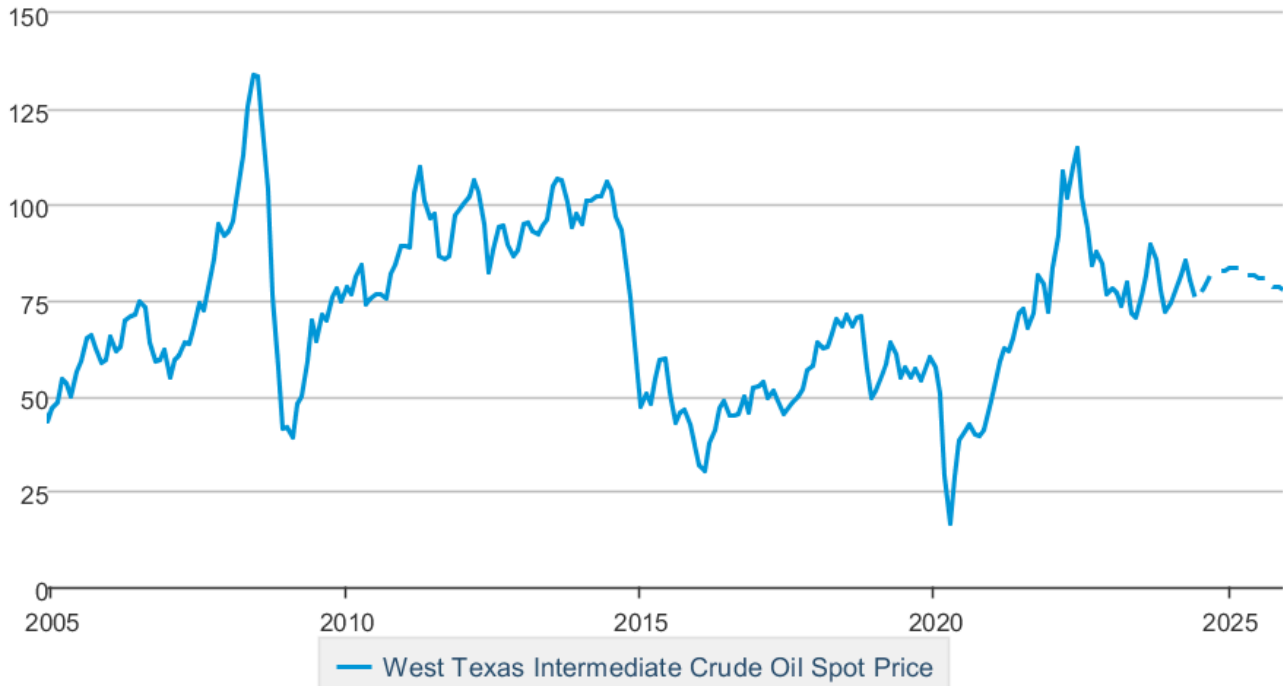
Even holding the outlook unchanged, OPEC’s report highlights that countries that are members of the Organization for Economic Cooperation and Development (OECD) were the area of weakness to start the year, particularly the U.S. and Japan. Should demand in the OECD countries pick up steam in the second half of the year, economic growth will exceed current forecasts. The report also expects demand in the non-OECD countries to be led by China, where demand is expected to rise by 2.1 million bpd year over year in the second half of the year.

For now, prices of West Texas Intermediate crude (WTI) — a domestic benchmark — are down about \$5/bbl from early April’s high of \$86.91/bbl, which is better than being down \$10/bbl in the previous month’s report. Following the market sell-off earlier in June that sent both Brent and WTI prices tumbling 8% in a week, the market recovered, eclipsing May’s high. At present, WTI sits at over \$82 per barrel, over 18% higher than it was at the same time last year.

According to EIA projections, WTI will sit below \$80 a barrel through the summer, before rising with the voluntary OPEC+ cuts.

West Texas Intermediate Crude Oil Spot Price

dollars per barrel

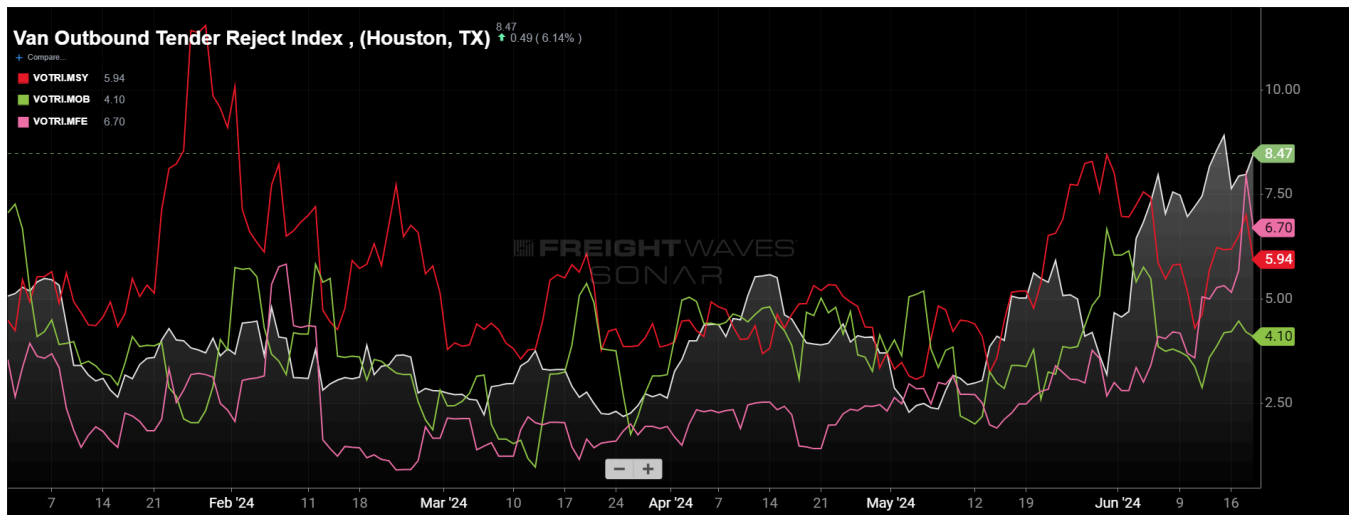


Data source: U.S. Energy Information Administration

The EIA's latest Short-Term Energy Outlook, published in early June, became slightly more bearish on near-term WTI prices. In May's Short-Term Energy Outlook, the EIA highlighted the pressure on prices that was present, especially with the delay of the voluntary cuts by OPEC+ as June's forecast price for WTI was \$75 a barrel.

With the timing of the voluntary cuts by OPEC+ being pushed into the fourth quarter, compared to the third quarter when many thought the cuts would start, the EIA now expects crude oil prices, both Brent and WTI, to rise until the first quarter of 2025 before starting to decline in April 2025.

What else we're watching



SONAR: Dry Van Outbound Tender Reject Index: Houston (white), McAllen, Texas (pink), Mobile, Alabama (green), and New Orleans (red).

The Gulf Coast freight market is seeing signs of capacity tightening in ways that haven't been felt since early 2022. The Dry Van Outbound Tender Reject Index, a measure of relative capacity based on the percentage at which carriers reject shippers' requests for capacity, has been on the rise for much of the year in the markets pivotal for the oil and gas industry.

Houston, arguably one of the most important markets to the overall economy, has seen dry van tender rejection rates increase to nearly 9%, a level that is typically inflationary for rates. Earlier this year, dry van tender rejection rates in this market were below 2.5%. The increase has created a more challenging freight market in securing capacity.

Additionally, the warm waters in the Gulf of Mexico set the stage for a fairly active hurricane season, which will create additional disruptions, at least in the short term, in the Gulf Coast markets.

Outside of Houston, which is by far the largest market in terms of outbound volume in the Gulf Coast region, the Mobile, Alabama, market has experienced one of the strongest increases in outbound demand across the country in the past year. Dry van volumes out of the Mobile market have increased nearly 100% in the past year, compared to the overall market, which is up 14%, and Houston, which is up 18% y/y.

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