

OCTOBER
2024

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Production up, prices down

September 25, 2024 | 9 a.m.

Overview

The freight market is continuing to see capacity exit the market, but it hasn't been sufficient to create any significant disruptions to the market. Volume remains strong, and as capacity bleeds out of the market, competition for the capacity that remains will intensify.

From an industrial point of view, the first interest rate cut in over four years is a welcome sight. Now the question for the rest of the year is, will there be another 50-basis-point cut or two 25-basis-point cuts? In 2025, that question changes from the direction of interest rates to how capital is deployed and whether that stimulates the demand side of the industrial economy that has largely lagged behind the consumer side.

Despite still-elevated interest rates, domestic oil production again set a new high in August. Expectations are for domestic oil production to continue to rise throughout 2025.

Crude oil prices came under pressure in September, largely due to weakness in China. As a result, OPEC+ is extending its production cuts through at least the end of November in an effort to buoy prices.

The Libyan oil market remains under pressure as oil production is still halted at several oil fields. Crude exports from the country were cut 60% in the past month.

A possible strike by the International Longshoremen's Association will have an impact on Gulf Coast port activity. The duration of the strike will determine the magnitude of the impacts.

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	277 (-3.5%)
Gulf Coast Basin	66 (-5.7%)
Anadarko Basin	47 (Unch.)
Total	625 (-7.3%)

Crude oil prices per barrel (y/y change)

WTI crude	\$69.83 (-25.48%)
Brent crude	\$73.04 (-22.67%)
Brent-WTI Spread	3.21 (-9.27%)

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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.

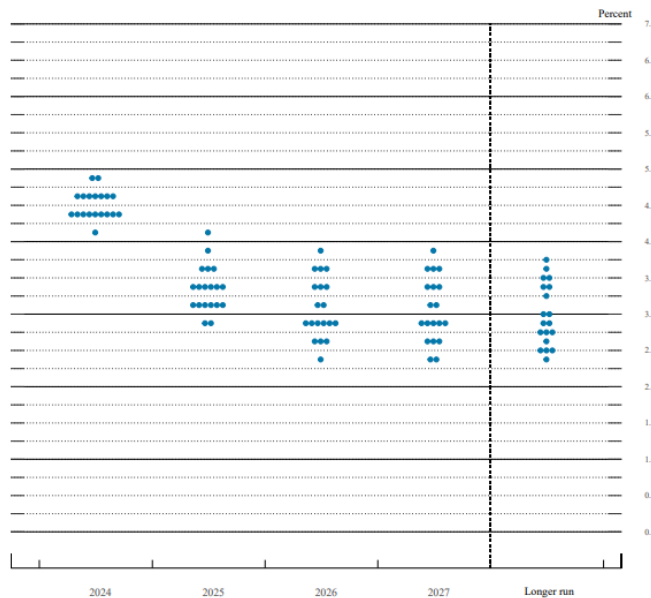
The difference in trailers is less dramatic as for-hire fleets have 45% of the trailers in California. But it is important to note that this data only includes owned trailers and not those that carriers have leased.

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

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%.

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



With September's meeting comes the quarterly dot plot of FOMC participants' expectations for the midpoint target of the federal funds rate.

Based on the current data that the FOMC is using to determine the best course of action, many believe another cut is coming this year.

In the dot plot, just two FOMC participants expect the target range to remain at 4.75%-5% through the end of the year. Nine of the 19 expect that the target range will be reduced by another 50 bps, whether that is two 25-bps cuts at the next two meetings or a single 50-bps cut at one of the two remaining meetings.

Nearly all of the participants expect that by the end of 2025, the target range for the federal funds rate will be under 4%.

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.

Labor market

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%.

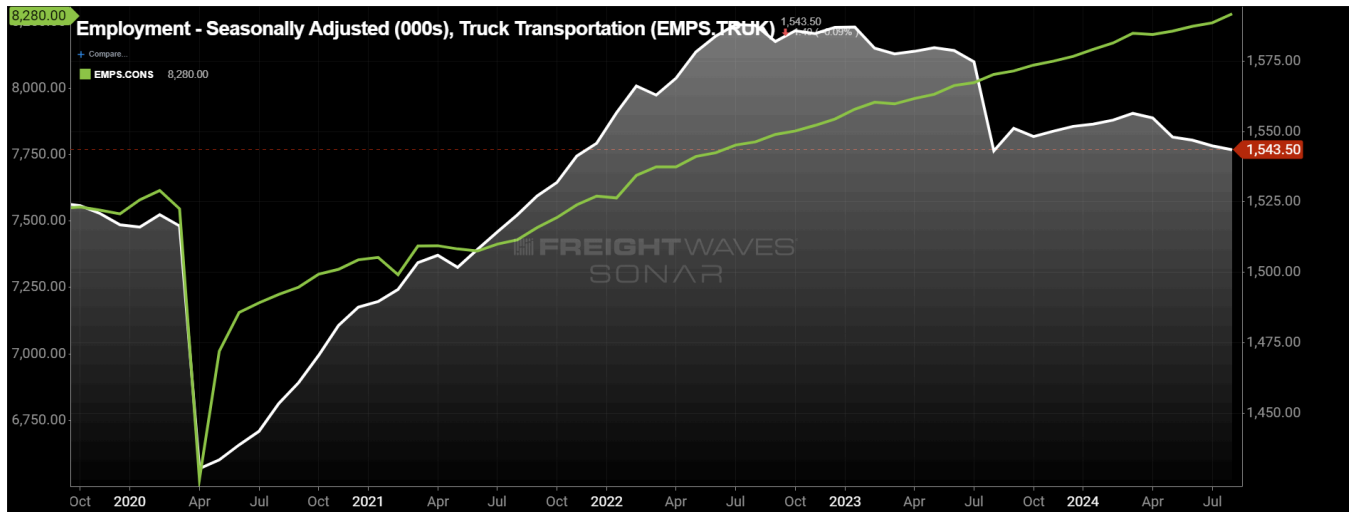


Chart: FreightWaves SONAR. Truck transportation payrolls (white, right axis) and construction payrolls (green, left axis).

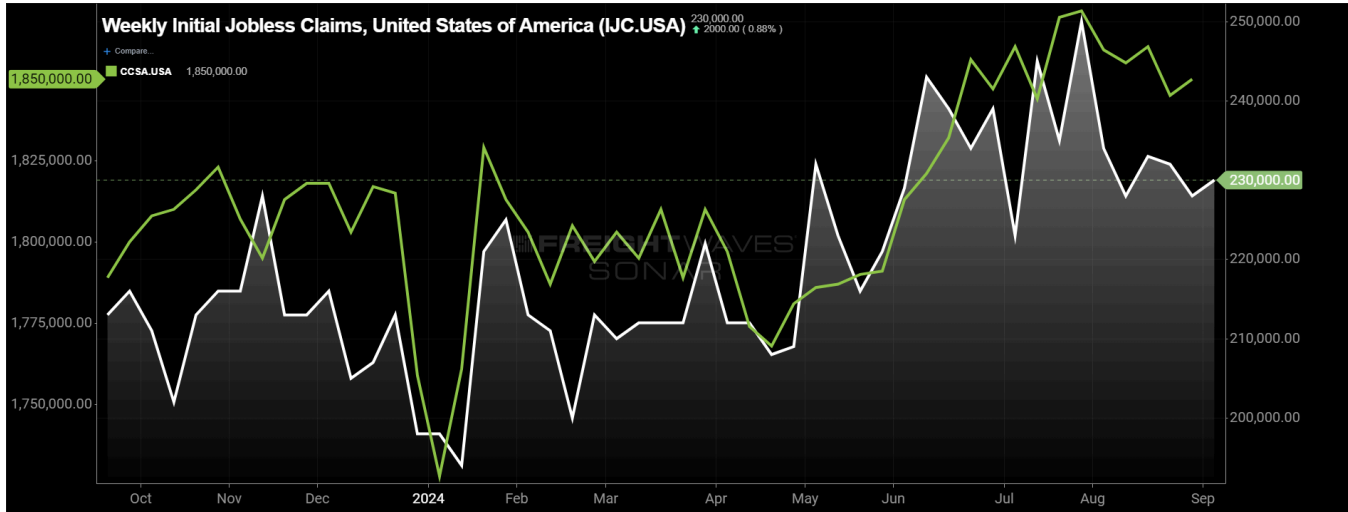
The construction sector of the economy experienced growth, adding 34,000 jobs during the month. Much of that growth was driven by specialty trade contractors, which saw payrolls grow by 14,800.

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.

Payrolls in the oil and gas sector were down in August, falling by 1,400 m/m. Total oil and gas sector payrolls are currently 118,400, up 1,000 over the past year.

While the employment reports have been underwhelming, there haven't been any red flags in recent initial jobless claims reports.



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

Initial jobless claims, for the week ending Sept. 7, the most recent week for which data is available, came in as expected, rising by 2,000 to 230,000. The four-week moving average rose by 500 to 230,750. Initial jobless claims were up just 1.3% from the same week last year.

Continuing claims keep inching higher despite no sudden surge in initial jobless claims in recent weeks. For the week ending Aug. 31, continuing claims totaled 1,850,000, up 5,000 from the week prior. Continuing claims rose by 40,000, 2.2%, from the same week a year prior.

While initial jobless claims aren't showing any glaring red flags the Job Openings and Labor Turnover Survey has certainly caught the attention of many.

Job openings fell significantly in July. Total openings fell by 237,000 during the month to 7,673,000. Even more eye opening was the revision to June's job openings figure. The initial report was a decline of 46,000 m/m in June, but the revision showed a 320,000 m/m decline in the month. At present, there are 1,132,000 fewer openings than there were this time last year.

The construction industry continues to trim the number of job openings, reducing the number by 51,000 m/m in July. The construction industry totaled 248,000 openings in July, down 103,000 compared to the same month last year.

Openings in the trade, transportation and utilities sector — which includes oil and gas as well as transportation — fell by 157,000 in July. Openings in July totaled 1,028,000, down 438,000 from July 2023.

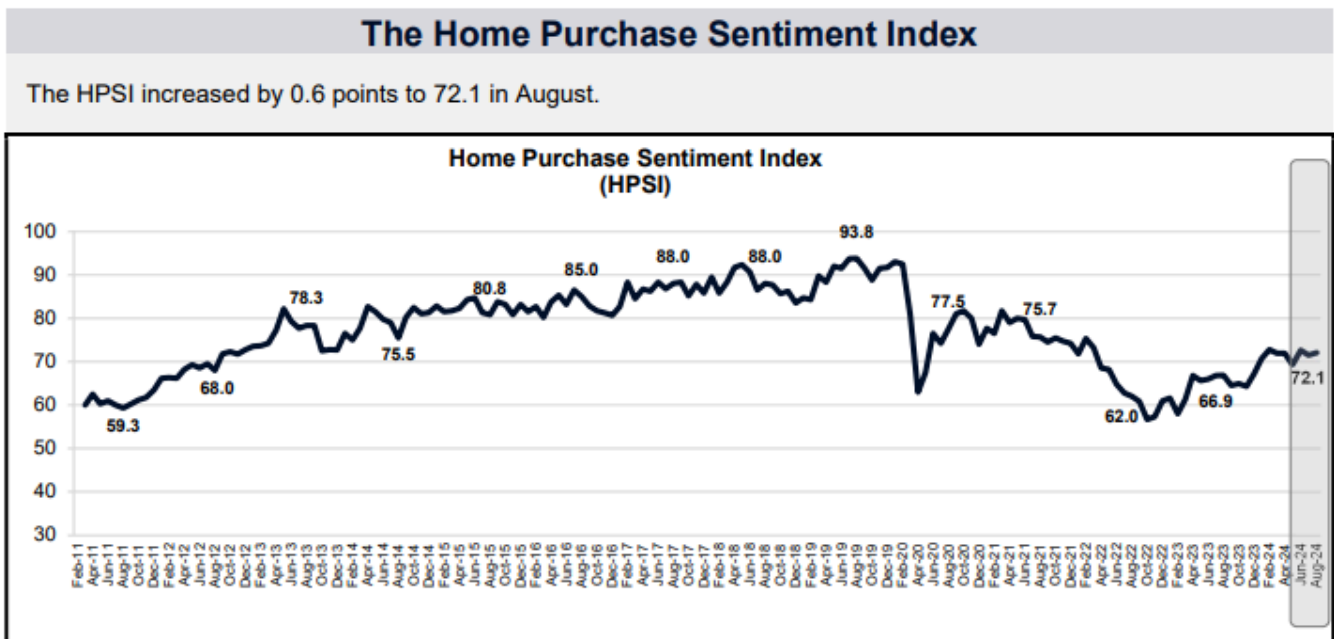
The quit rate, which is the number of resignations during the month as a percentage of total unemployment, increased by 0.1 percentage points in July to 2.1%, after June's quit rate was revised down by 0.1 percentage points. The quit rate for the trade, transportation and utilities sector fell by 0.1 percentage points to 2.3%. The quit rate for the construction sector rose by 0.2 percentage points to 1.6%.

Housing and construction

The expectations of lower interest rates on the horizon have allowed banks to start moving mortgage rates slightly lower. The average 30-year fixed rate mortgage has fallen below 7%, a welcome sight for consumers who have been waiting to purchase a home. According to the Mortgage Bankers Association’s Weekly Mortgage Application Survey for the week ending Sept. 13, mortgage applications increased by 14.2% from the prior week. “Application activity was up significantly last week, as market expectations of a rate cut from the Fed pulled mortgage rates lower,” said Joel Kan, the Mortgage Bankers Association’s vice president and deputy chief economist.

The decline in mortgage rates has been driven by the belief that the Federal Reserve is set to cut the target range for the federal funds rate. In reality, mortgage rates have been pushed lower since the beginning of May, a welcome improvement for consumers. According to Freddie Mac, the average 30-year fixed rate mortgage is 6.2% for the week ending Sept. 12. The 30-year mortgage rate is nearly a full percentage point below where it was a year ago.

With lower mortgage rates, sentiment surrounding home purchases has improved. The Fannie Mae Home Purchase Sentiment Index (HPSI) rose by 0.6 points m/m to 72.1. The HPSI is still trying to erase the decline in sentiment from July, but even so, the HPSI was 5.2 points higher than it was last year.



Mark Palim, Fannie Mae vice president and deputy chief economist, said in the Sept. 9 release, “Despite significantly greater optimism that mortgage rates and home prices will move in a more favorable direction for potential homebuyers, most consumers remain apprehensive about the housing market and continue to point to the lack of affordability and supply as the chief reasons for their pessimism.”

Despite the increased optimism, 83% of survey respondents believe it is a bad time to purchase a home, up 1 percentage point from the previous month.

With the Federal Reserve deciding to cut interest rates, it is interesting that 37% of respondents expect that housing prices will increase over the next year. Additionally, 25% of respondents expect housing prices to decline, up from 21% in July's release. Traditionally, when interest rates fall, asset prices rise. Factor in that the housing market is still challenged from the supply side of the market, and that creates further upward pressure on prices, adding to consumers' concerns about affordability.

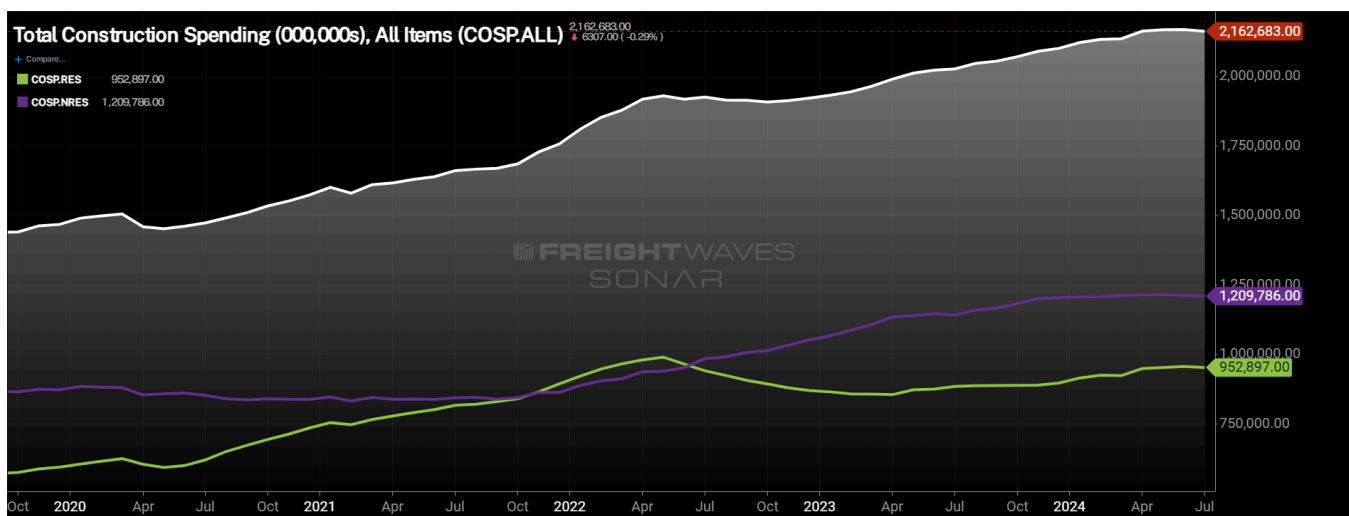
The positive sign in the HPSI is that consumers are starting to believe that mortgage rates will go down. Thirty-nine percent of respondents said they expect mortgage rates to decline over the next 12 months, compared with 26% who expect mortgage rates to increase.

Existing home sales, which make up the lion's share of the housing market, rebounded slightly in July. Existing home sales rose 1.3% m/m in July according to the National Association of Realtors. Even with the increase, existing home sales were still down 2.5% y/y during July. Inventory of unsold homes increased by 0.8% m/m to 1,330,000 homes, or four months of supply.

Existing home sales rose across three of the four regions, with the Midwest being the only one that remained stable during the month. On an annual basis, existing home sales rose in the Northeast and West but were lower in the Midwest and South.

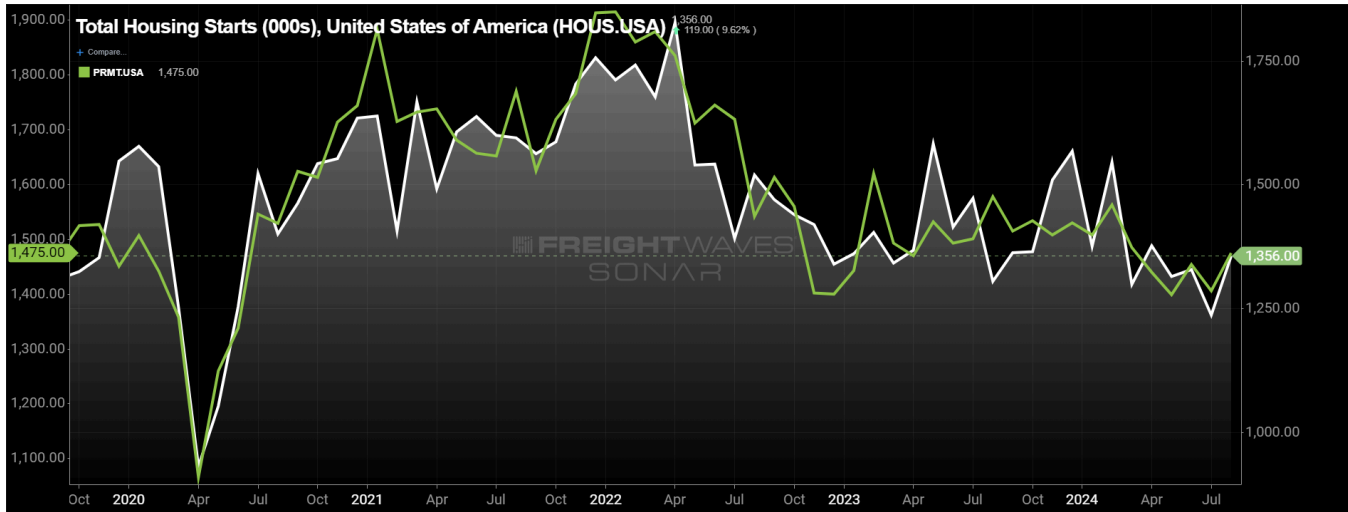
Existing home sale prices continued to rise, up to \$422,600, now up 4.2% higher year over year.

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.

Oil market

The oil market, and more specifically OPEC+, has been focused on soft global demand, driven primarily by the lack of demand in China. The softening demand globally has caused prices to retreat from levels experienced in March and April. October was supposed to be when OPEC+ countries began reducing their voluntary production cuts, but the soft global demand and falling prices as a result have pushed that timeline further out.

OPEC+ countries were expected to increase production by 180,000 barrels per day (bpd) during the month, about 3% of total production.

The conflict in Libya between rival governments continues to drag on after production at several oil fields in the country was halted at the end of August. Exports of crude oil from the North African country have been cut by 60% during the month to 400,000 bpd.

At the next full meeting among OPEC+ officials, slated for Dec. 1, if demand is still suffering despite stimulus measures in China, there could be a decision that the increases in production won't happen until sometime in 2025.

While the market overseas continues to face challenges, domestic oil production is again reaching new highs. In August, gross domestic oil production rose to 13.39 million bpd from July's 13.34 million, a 50,000-bpd increase. Production figures from prior months continue to face revisions as July's data was pulled slightly higher from an initial reading of 13.33 million bpd.

In a prior print of its Short-Term Energy Outlook, the U.S. Energy Information Administration (EIA) forecast was for domestic crude oil production to remain stable in August at 13.33 million bpd. The EIA had been forecasting for domestic crude oil production not to reach the levels it did in August until October, so production is gaining some momentum into the autumn and winter months.

Crude Oil Production



eia Data source: U.S. Energy Information Administration

Factoring in August’s data as well as revisions to prior months’ data, domestic crude oil production has now set an all-time high in terms of production in back-to-back months. Both July’s and August’s production figures eclipsed the previous all-time high of 13.31 million bpd set in December 2023. With the new high now set, the EIA continues to forecast growth throughout 2025. In the most recent Short-Term Energy Outlook, the EIA said it expects production to grow m/m every month from September through December 2025, with the exception of February, and reach a new high of 13.92 million bpd by December 2025.

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 588 rotary rigs as of Sept. 20. The latest count did show there was an increase in rigs over the past month, rising by three. Additionally, compared to this time last year, the gap narrowed slightly, down 6.7% year over year at present, compared to over 7% in the previous month’s report.

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	47	-2	-4.1%	0	0.0%
Appalachia	32	-1	-3.0%	-9	-22.0%
DJ Basin	8	-4	-33%	-5	-38.5%
Gulf Coast Basin	66	2	3.1%	-4	-5.7%
Permian Basin	277	2	0.7%	-10	-3.5%
Williston Basin	33	-4	-11%	-3	-8%
Other	162	3	1.9%	-18	-10.0%
Total	625	-4	-0.6%	-49	-7.3%

Source: Enverus daily active rig count as of Sept. 24.

A positive sign for domestic oil production has been the slight recovery in the Permian. Over the past month, the number of active rigs in the region increased by 0.7% m/m and is just 3.5% lower than it was this time last year, compared to 9.5% lower y/y last month.

The Federal Reserve Bank of Dallas' third-quarter Energy Survey echoed the growth in crude oil production. The oil production index increased by 6.6 points quarter over quarter to 7.9.

Crude prices bounce on threat of production halts in Libya

Oil prices remained volatile during September, but the volatility really stemmed from the downside risks in the market. Global crude oil prices retreated throughout the month, especially on the heels of soft demand out of China and concerns about a slowing global economy. These slowdowns that resulted in OPEC+ not increasing production starting in October are largely to blame for the downward moves through September.

The back half of September was far better for oil prices than the first half of the month, but both Brent crude and WTI crude prices were lower in September.

U.S. crude inventory drawdowns have become the norm the past few months. Crude inventories only expanded once during the month, adding fewer than 1 million barrels in the first week of the month. For the week ending Sept. 20, the most recent week reported, the EIA reported crude inventories down 4.5 million barrels, an acceleration from the previous week when inventories were brought down by 1.6 million barrels. The EIA stated that U.S. commercial crude stocks currently sit at 413 million barrels, about 5% below the five-year average for the time of year. Total supply in crude oil stocks continues to represent roughly 20 days of supply based on current U.S. consumption.

The International Energy Agency's oil market report for September saw global oil demand increase by 800,000 bpd in the first half of the year, the slowest global growth since 2020. China's consumption was down 280,000 bpd year over year in July, highlighting that the slowing growth is being driven by the world's second-largest economy.

The bearish undertones in the IEA's forecast for global oil demand growth are coming to the forefront. The IEA expects global oil demand to grow by 900,000 bpd in 2024, compared to 2.1 million bpd in 2023. The agency also expects demand in 2025 to be subdued compared to 2023, growing by 950,000 bpd in 2025.

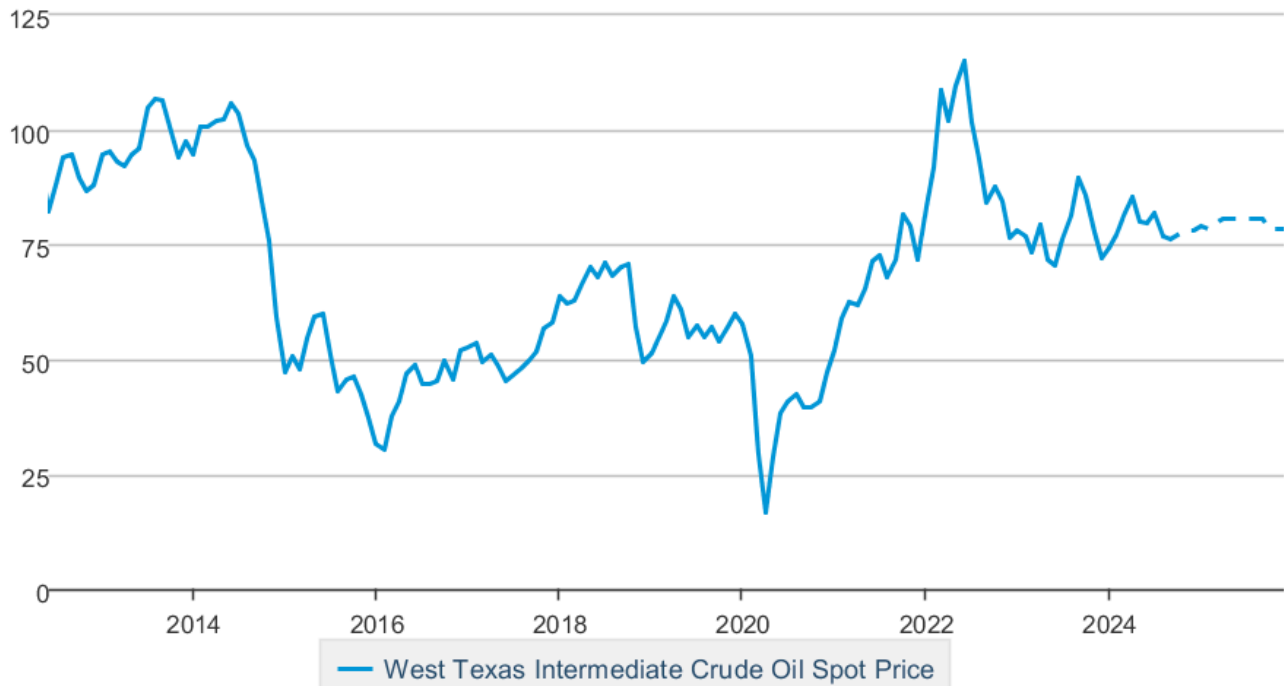
OPEC+, on the other hand, remains remarkably bullish despite one of the largest consumers of crude oil undergoing economic stress. The cartel did revise its 2024 forecast slightly lower in September but still expects global crude oil demand to grow by 2 million bpd, more than 600,000 bpd greater than the long-term average.

For now, prices of WTI — a domestic benchmark — are down \$3.80 per barrel from the beginning of September at \$69. Over the past month, WTI prices have declined by 6.21% and are down 25.56% y/y.

According to EIA projections, crude oil prices, both Brent and WTI, will be higher in the back half of 2024 despite short-term pressure.

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 (STEO), published in early September, captured some of the downward pressure on crude oil prices but not the full extent. The STEO forecasts WTI crude spot prices to close out September at \$77 per barrel, a greater than 10% premium from where WTI is currently trading. Expectations are for WTI crude prices to move higher through the first half of 2025, peaking at \$80.50 per barrel in April, then give back some of the gains in the back half of the year.

What else we're watching

Weekly Stocks



eia Data source: U.S. Energy Information Administration

Recent weeks haven't been kind to crude stocks in Cushing, Oklahoma. Stocks are back down to levels not seen in over a year. Earlier this year, Cushing stocks were over 35 million barrels, which is well below where they were in 2015-2018 and 2019-2022, but weren't at alarmingly low levels. Drawdowns in inventories really started in June, and they have continued through the summer months. For the week ending Sept. 20, the most recent week for which data is available, Cushing stocks were at 22.8 million barrels, 5.4 million barrels lower month over month. Since the beginning of June, Cushing stocks are down 35.5%.

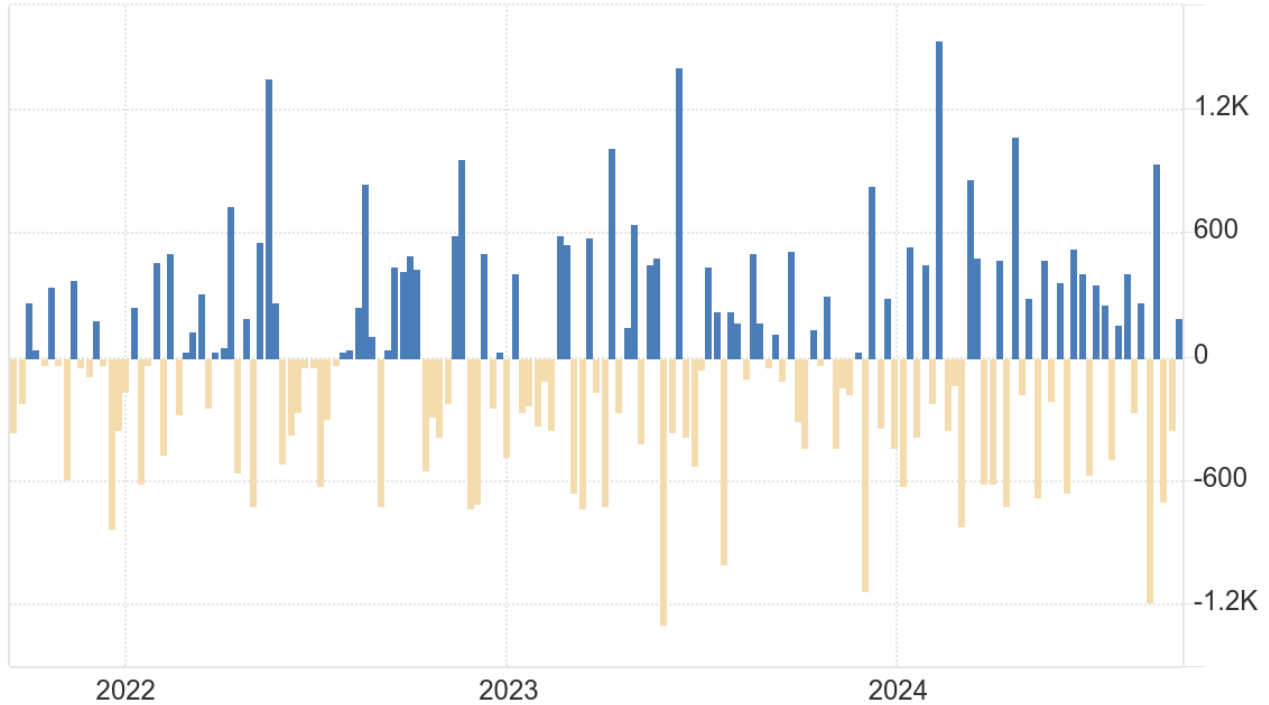
Based on the assumptions of U.S. consumption being roughly 20 million barrels per day, the days of inventory in Cushing stands at just 1.14, down from 1.41 days in last month's report.

Now, is the drawdown concerning?

Yes and no. Cushing stock this time last year was slightly lower than it currently is at 21.96 million barrels, or 1.1 days of supply. So inventories in Cushing are slightly higher year over year, but it is still

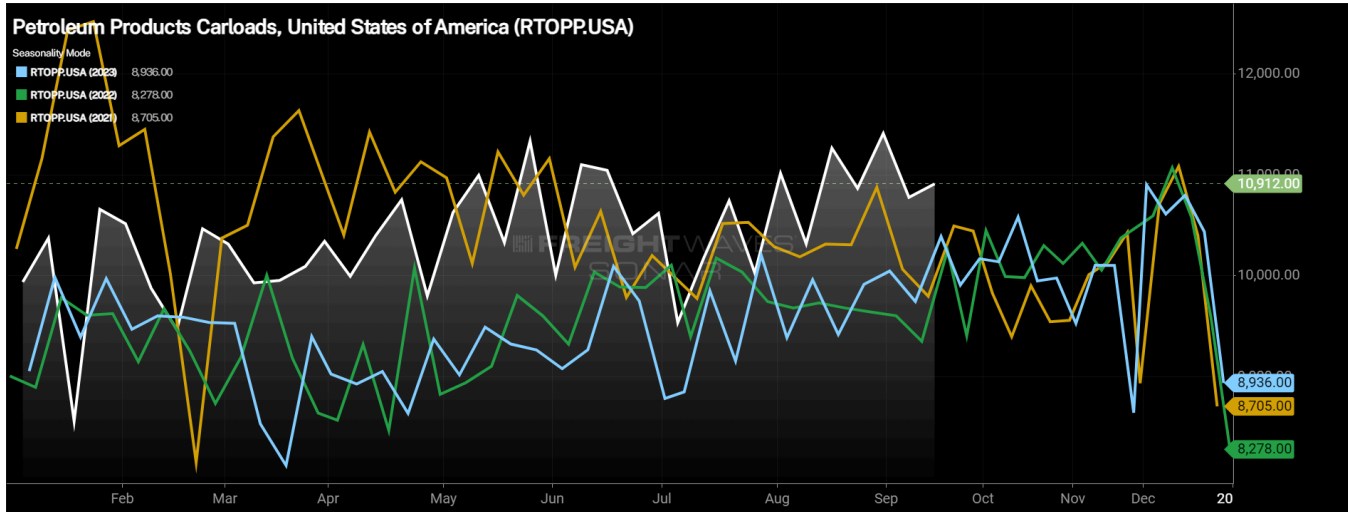
concerning as stocks are approaching the operational lows. Twenty million barrels is a level of Cushing stocks that would likely not be usable for the production of various distillates.

US Heating Oil Stocks - Thousand Barrels



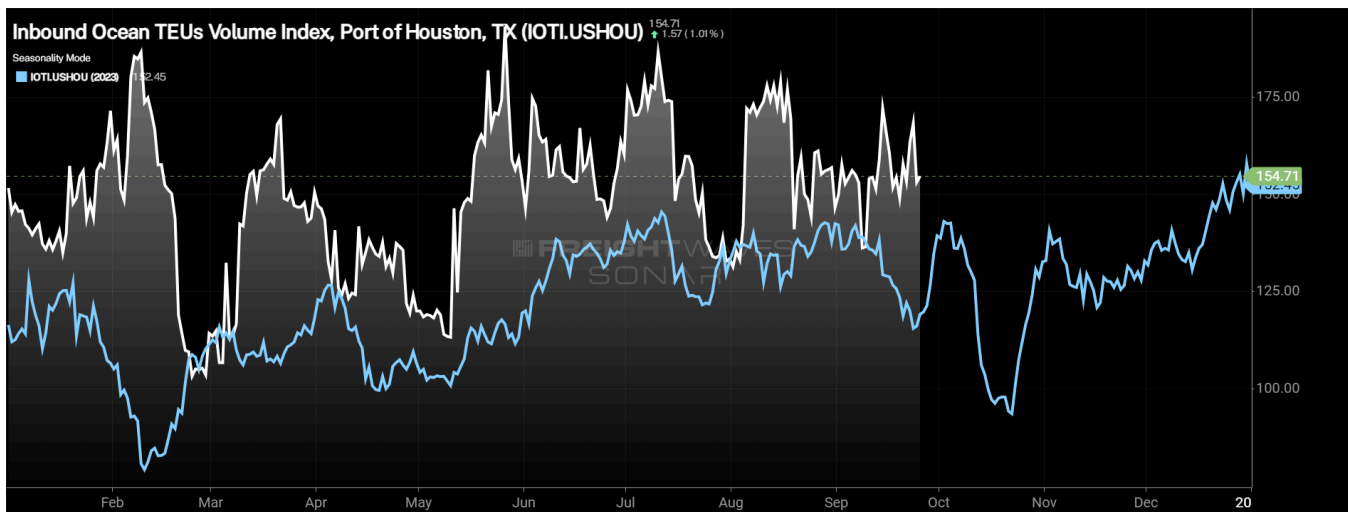
Source: tradingeconomics.com | U.S. Energy Information Administration

As colder months are on the horizon, demand for home heating oil will intensify, and in recent weeks, drawdowns in heating oil stocks indicate people are gearing up for winter. Heating oil stocks in the week ending Sept. 20, the most recent week for which data is available, unexpectedly rose, increasing by 191,000 barrels. It was the first increase in four weeks and just the second in over a month. Since the beginning of August, there were four weeks during which heating oil stocks increased and four weeks when stocks decreased, but the decreases were far more significant. Since the beginning of August, the heating oil stocks have seen a net reduction of 700,000 barrels.



FreightWaves SONAR: Petroleum Product Carloads. 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

Stronger domestic oil production has generated stronger demand for petroleum product carloads. Since the Fourth of July holiday, petroleum product carloads have been growing, setting a new year-to-date high at the beginning of September. In the most recent week for which data is available, the week ending Sept. 14, petroleum product carloads were down 3.2% month over month but up 5% y/y.



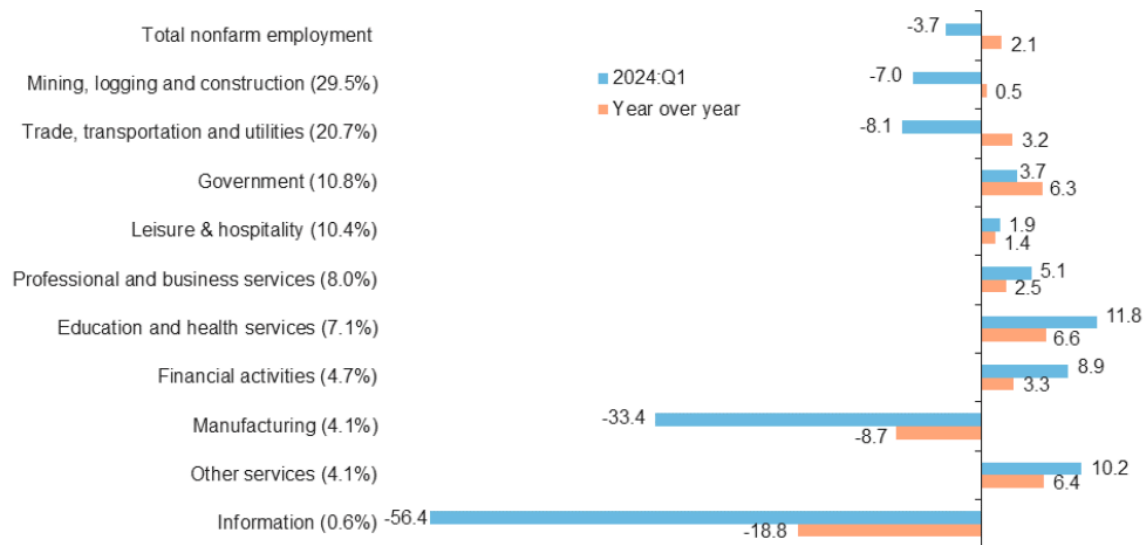
FreightWaves SONAR: Inbound Ocean TEU Index to the Port of Houston. 2024 (white) and 2023 (blue)

A strike by the International Longshoremen’s Association seems likely at the beginning of October, so both importers and exporters utilizing the Port of Houston and other ports along the Gulf and East coasts will be in a precarious position. President Joe Biden has stated that he would not intervene in a strike.

Sea-Intelligence released estimates that a one-day strike would take about six days to clear across all of the ports along the Gulf and East coasts. But a longer strike, one or two weeks, would create backlogs that stretch more than a month.

The challenge that comes in is that TEUs on the way from overseas to the Port of Houston are still elevated compared with this time last year. At present, TEU volumes are up nearly 30% compared to this time in 2023, highlighting that if the potential strike isn't resolved in a timely manner, the impact of sheer volume will put constraints on supply chains as dockworkers clear shipments.

Chart 3
Midland–Odessa employment growth by sector



NOTE: The chart shows the seasonally adjusted, annualized percent change in payroll jobs by sector. Numbers in parentheses represent the share of total employment and may not sum to 100 due to rounding.
SOURCE: Bureau of Labor Statistics; author's calculations.

Federal Reserve Bank of Dallas

The early stages of 2024 presented challenges to employment in the Permian Basin. Mining, logging and construction, which represent nearly 30% of jobs in the region, experienced a 7% slowdown in the first quarter and only a 0.5% increase year over year.

Now the unemployment rate in the Permian fell in the first quarter of the year, with the unemployment rate in both Odessa and Midland below the Texas unemployment rate.

A positive development in the Permian that is likely a boost for the economy overall is the fact that real wages are growing faster in the area than at a national level. In the first quarter, average hourly earnings grew by 1.4% year over year in the Permian, compared to 0.6% y/y growth nationally.

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