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2024

STATE OF THE INDUSTRY

REPORT

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Waiting on the peak

November 25, 2024 | 2 p.m. EDT

Overview

The truckload market continues to show that capacity conditions are more challenging than they have been the past two years, but volume levels have yet to show a peak season related move higher. Spot rates have reacted as expected, setting a higher baseline heading into the final month of the year.

The intermodal market on the other hand hasn't experienced a slowdown in volumes though the traditional peak season would be in the rearview mirror. Growth in domestic intermodal capacity has been able to offset the slowdown in international intermodal volumes as ocean carriers are sending fewer containers inland than they were in recent months.

Despite it being the fourth quarter, volume levels on the ocean remain relatively healthy after recovering from the Golden Week holiday. With the election results bringing some level of certainty, volume levels have reacted around the uncertainty surrounding the extent of potential tariffs, especially on Chinese goods. As more information comes out around potential tariffs, expect stronger reactions in container volumes.

The macroeconomy continues to wait for the industrial sector to wake up, but even so, the consumer continues to pull the economy forward. Retail sales are now outpacing inflation, a sign of fairly robust consumer spending, though debt levels remain at historically elevated levels. With the Federal Open Market Committee cutting the target range for the federal funds rate for the second time in as many meetings, it seems likely that 2025 will receive a boost to capital expenditures, thus helping wake the industrial side of the economy from its slumber.

Macro indicators	(y/y change)
Oct. industrial prod. change	-0.3% (-0.3%)
Oct. retail sales change	+0.4% (+2.8%)
Oct. U.S. Class 8 orders	18,300 (+2%)
Oct. U.S. trailer orders	16,900 (-52%)

Truckload indicators	(y/y change)
Tender rejection rate	6% (+216 bps)
Average dry van spot rate[1]	$2.40/mi (+4.8%)
LAX to DAL spot rate[2]	$2.66/mi (+15.7%)
CHI to ATL spot rate	$2.63/mi +6.9%)

Tender volumes	(y/y change)[3]
Atlanta	349.98 (+14.9%)
Dallas	333.51 (+13%)
Los Angeles	308.98 (+42.2%)
Chicago	206.31 (+27.7%)

Tender rejections	(y/y change)
Atlanta	5.26% (+284 bps)
Dallas	5.22% (+353 bps)
Los Angeles	5.82% (+255 bps)
Chicago	7.45% (+369 bps)

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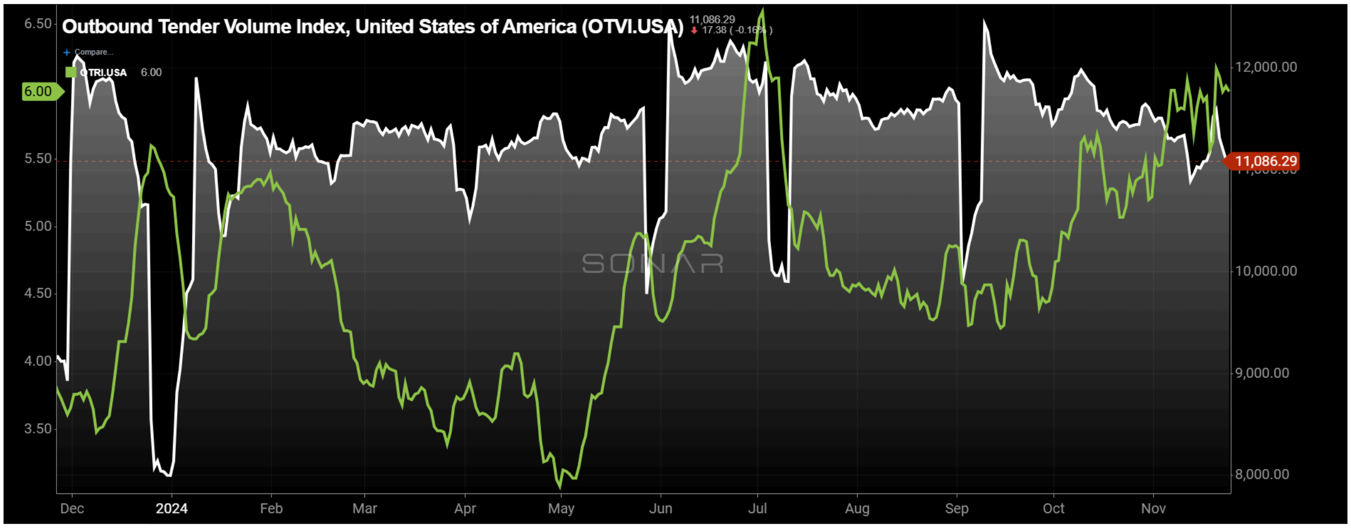
[1] FreightWaves National Truckload Index
[2] FreightWaves TRAC spot rate
[3] Y/Y changes skewed by timing of Thanksgiving holiday

Truckload markets

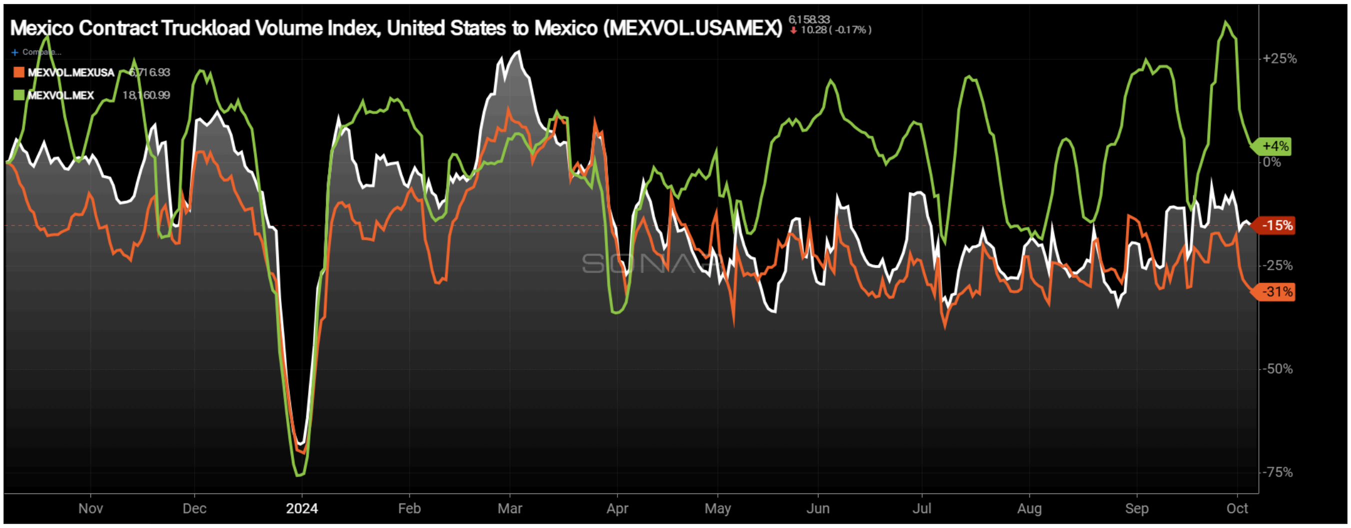
The truckload market has been dealing with challenges from a volume perspective throughout November, but even so, the freight market is likely dealing with the strongest peak season in over two years. Capacity has clearly left the market, creating an environment where the market has become more reactive to outside influences. In October, that outside influence was hurricanes, in November it is the Thanksgiving holiday, which used to kick off the retail peak season, though that has arguably been pulled forward through various promotions, like Amazon's Prime Day event.



Source: SONAR. Outbound Tender Volume Index (white, right axis) and Outbound Tender Reject Index (green, left axis).

Despite the fairly strong import levels, truckload volumes are at the lowest level since early May. Some of the decline could be due to freight moving into warehouses and distribution centers earlier than it has in previous cycles, but also likely due to the fact that the intermodal market has remained quite strong with reliability of service remaining healthy. The Outbound Tender Volume Index (OTVI), a measure of shippers' request for truckload capacity fell by 3.1% over the past month, matching last month's decline. The OTVI at the moment is higher, up over 20%, but that figure is skewed due to easy comps when comparing the impacts of the Thanksgiving holiday.

The declines over the past month have been driven by both the dry van and reefer markets. The Van Outbound Tender Volume Index fell by 4.6% over the past month, marking a fairly significant slowdown. Some of the decline is likely due to the lead into the Thanksgiving holiday. But the fact that van volumes have had two consecutive months of volume decline is something to keep in mind, especially heading into December. It is traditionally one of the softest volume months as the week between Christmas and New Year's is typically taken off. That may be exacerbated this year with the holidays falling on a Wednesday. The Reefer Outbound Tender Volume Index has been grinding higher, but the last month was a challenge as it declines by 4% month over month. Both van and reefer volumes are higher year over year, but it is again driven by easy comps around the Thanksgiving holiday.



Source: SONAR. Mexico Contract Truckload Volume Index, relative view. Northbound (orange), southbound (white) and intra-Mexico (green).

After being sluggish throughout much of the year, there has been some recovery in southbound volumes from the U.S. to Mexico. The contract truckload volume data is reported on a fairly significant lag. But in the last data release, southbound volumes were up 10.2% m/m, though they were still 15.3% lower than they were last year. Northbound volumes from Mexico to the U.S. have been under even more pressure recently, falling 11% over the past week and down over 31% y/y. Intra-Mexico volumes also experienced a fairly sizable decrease over the past month, dropping 14.5%, but they are still 4% higher than they were last year.

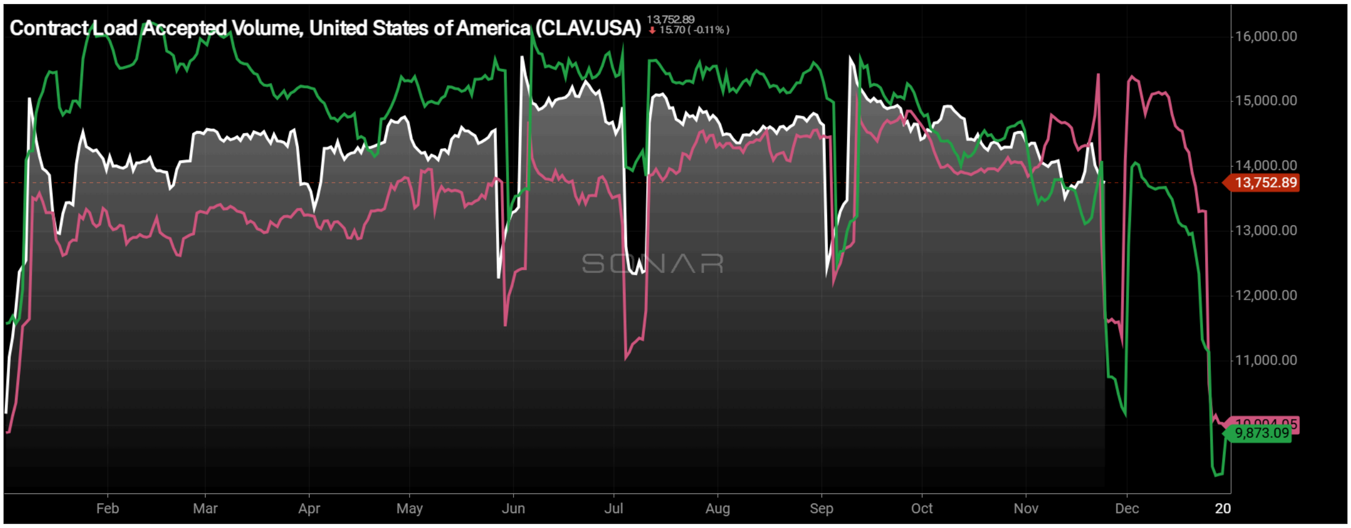


Chart: SONAR. Contract Load Accepted Volume: 2024 (white), 2023 (pink) and 2022 (green).

Contract Load Accepted Volume is an index that measures accepted load volumes moving under contractual agreements; in short, it is similar to OTVI but without the rejected tenders. At present, accepted tenders are up 18.5% year over year. Contracted volumes are down more significantly m/m than the overall OTVI, falling by 3.8%, driven by both the decline in overall tenders, but also the increase in tender rejection rates.

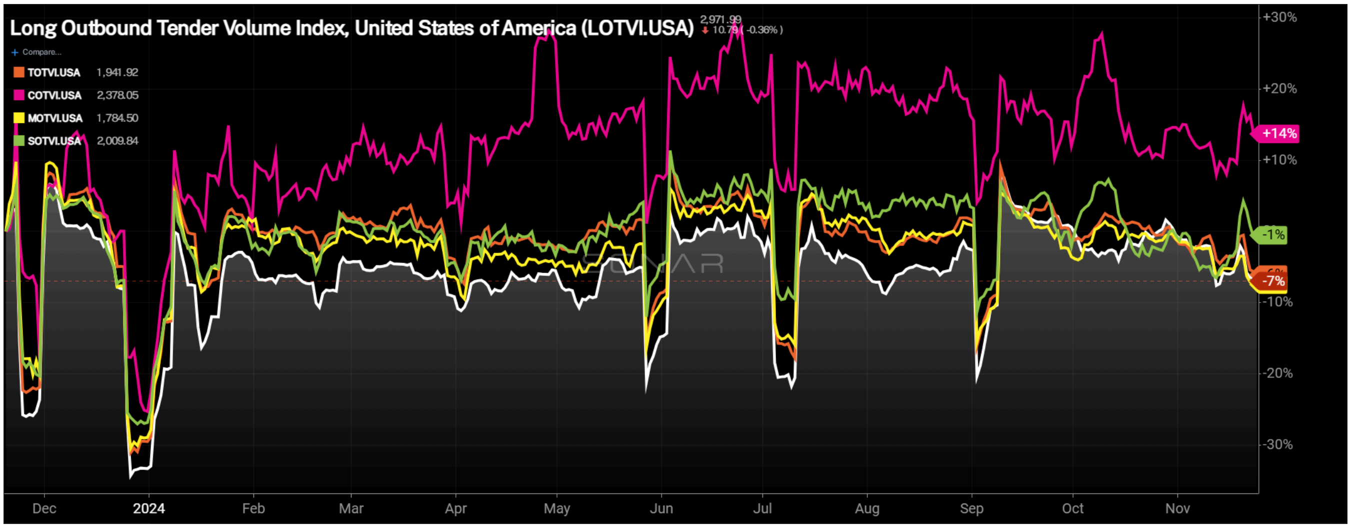


Chart: SONAR. Relative view of tender volumes by mileage band: 800-plus miles (white), 450-800 miles (orange), 250-450 miles (yellow), 100-250 miles (green) and less than 100 miles (pink).

The volume growth over the past year, even when looking prior to the Thanksgiving holiday, has been driven by the growth in the shortest length of haul: city (or local), which is loads moving 100 miles or less. Over the past month, local length of haul volumes have increased by 2.5% and are 14% higher than they were this time last year. On the other end of the spectrum, long-haul volumes, loads moving more than 800 miles, fell by 6.8% over the past month and are down 7% y/y.

While volumes have been challenged, the capacity side of the market is undergoing fairly significant changes. Tender rejection rates have been trending higher since late September, though the rate of increase slowed in November. Over the past month, the Outbound Tender Reject Index, a measure of relative capacity based on the percentage of shippers requests for capacity that are rejected, increased by 75 basis points to 6%. It marks the first time outside of the Fourth of July holiday where tender rejection rates were above 6% since August 2022. Tender rejection rates at 6% still indicate a fairly loose market, but it is far more balanced than it was early in the year. It sets up peak season to be more challenging from a capacity standpoint than it has been in the past two years, when tender rejection rates didn't even eclipse 6% around the Christmas holiday.

The trend in tender rejection rates trends fairly closely with 2019. At that time, the market appeared to be in transition, coming out of the freight recession of late 2018 and much of 2019, setting 2020 up for a more challenging year, even without COVID-19 happening. During the holiday season in 2019, tender rejection rates reached double-digits, which is the threshold to pay attention to in the coming weeks as it will be one half of the equation that determines the market in 2025.

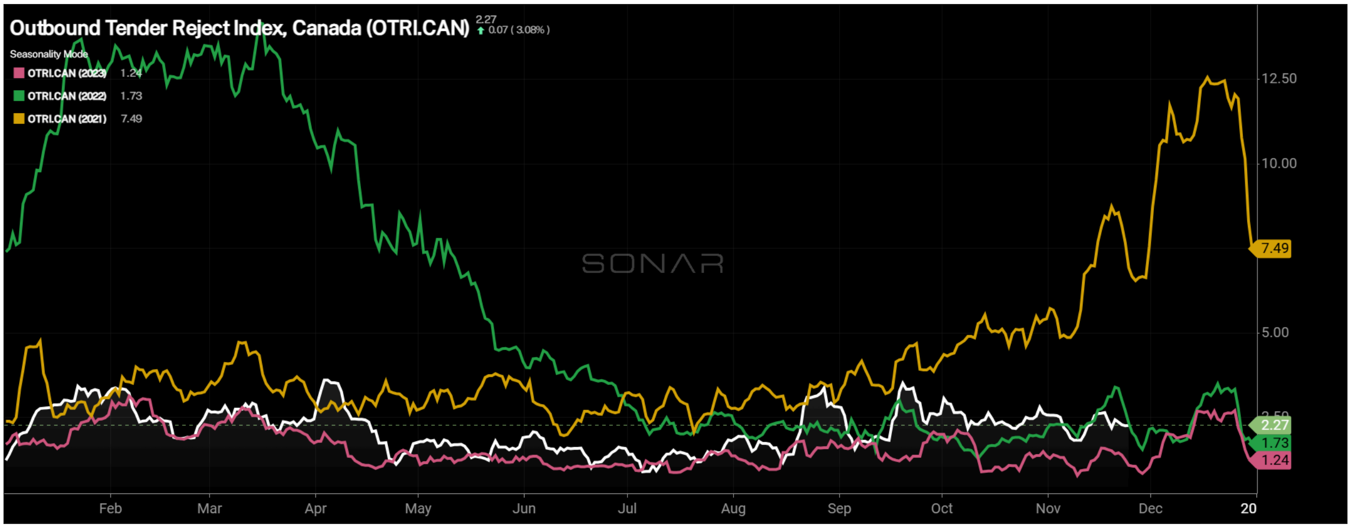
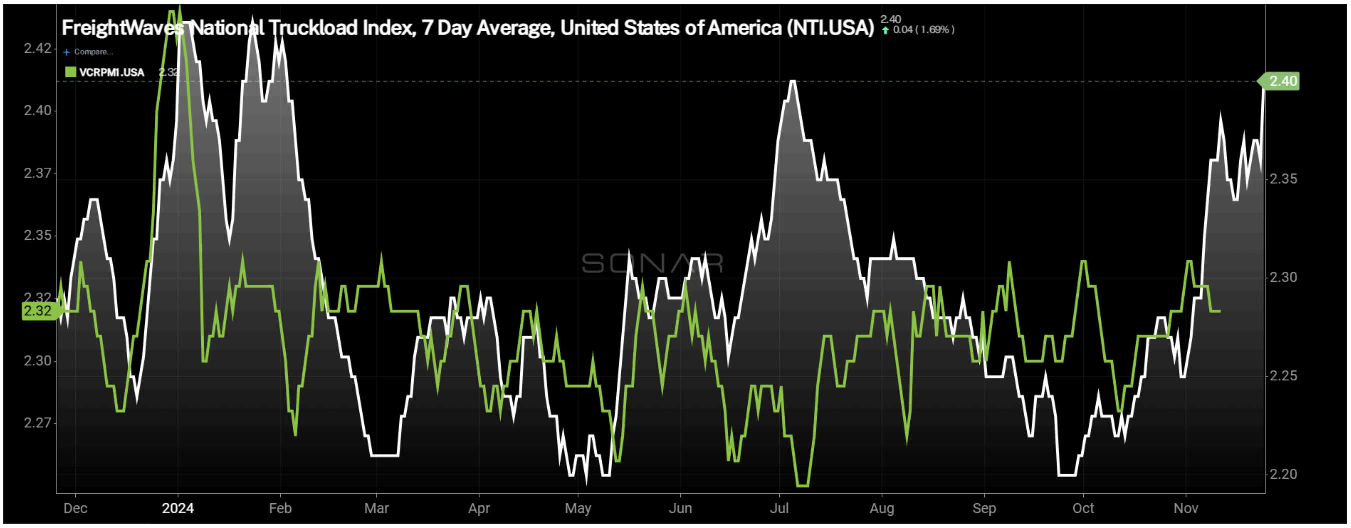


Chart: SONAR. Outbound Tender Reject Index for Canada: 2024 (white), 2023 (pink), 2022 (green) and 2021 (yellow).

Tender rejection rates on load originating in Canada remain remarkably low, indicating that the market is operating largely as expected as loads in Canada are often not rejected based on the way transportation networks are set up. Over the past month, the Outbound Tender Reject Index for loads originating in Canada has fallen by 24 basis points to 2.27%. Even with the declines, tender rejection rates in Canada are up 120 basis points y/y.

Spot rates continue to reach new heights



Source: SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

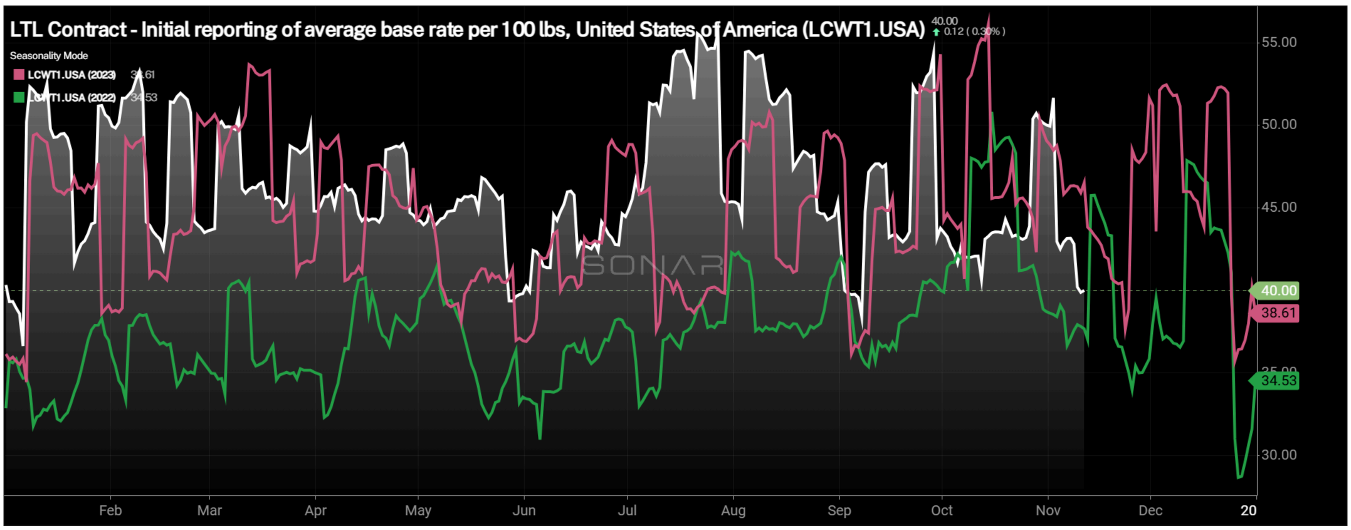
It took the truckload market a second to realize that the market was undergoing some changes, but the market has started to realize that capacity conditions are changing and resulting in higher spot pricing heading into the holiday season. The FreightWaves National Truckload Index — a seven-day moving average of national dry van spot rates that is inclusive of fuel — lagged behind the upward move in tender rejection rates by nearly a week. The NTI started moving higher halfway through

October and has continued to move higher in November. The NTI has increased by 12 cents per mile over the past month, now sitting at $2.40. The NTI is 11 cents per mile higher than it was this time last year, which was being influenced by the Thanksgiving holiday, a sign that spot rates this year will likely reach their highest level in over 18 months.

For much of this year, the underlying spot rate has been moving higher as diesel fuel prices have been deflationary for all-in spot rates. In November, diesel prices haven't changed significantly, though they are still down 16% from where they were this time last year. By removing the impacts of diesel fuel from the spot rate, the underlying rate, or the FreightWaves National Truckload Index (Linehaul only) is up 22 cents per mile y/y, or 13.5%, compared to the NTI which is up 4.8% y/y.

Contract rates have remained remarkably stable throughout much of the year, an indication that from a pricing perspective, the market's next move is likely to be higher. Over the past month, the initially reported dry van contract rate per mile, excluding fuel, increased by 4 cents per mile to $2.32 per mile, remaining in the 9-cent per mile range they have been in throughout the entire year.

LTL market sees pricing power deteriorating



Source: SONAR. Initially reported LTL contract rate per hundredweight: 2024 (white), 2023 (pink) and 2022 (green).

The less-than-truckload market received a boost to pricing power in the third quarter last year with the exodus of a national LTL carrier, but that boost is fading. The average LTL contract rate is down $2.09 per hundredweight and $6.53 lower y/y. The comps in the fourth quarter for the LTL carriers will prove to be challenging as it has taken time for the market to absorb and reprice the freight. The commentary from the publicly traded LTL carriers will be interesting to see if they continue to focus on pricing discipline at the expense of yield to maintain yield, or if they change their strategies.

Macroeconomic conditions

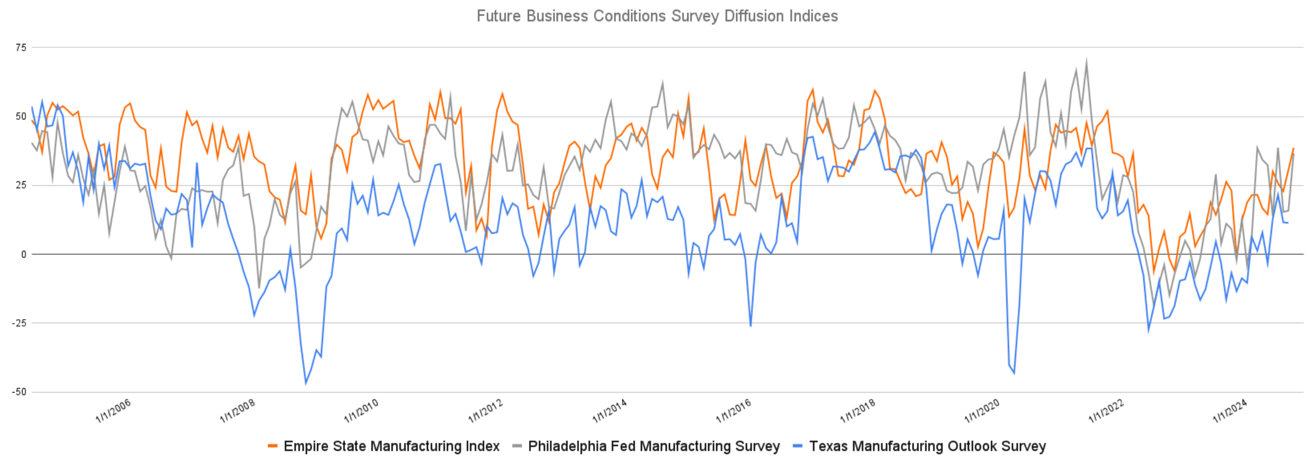
The manufacturing sector continues to contract, highlighting the challenges that the industry has faced the past two years. The higher interest rate environment is without a doubt creating the challenges in the manufacturing sector. Right as the federal funds rate crossed over 3% was when the manufacturing sector really hit the brakes, but the growth had slowed right as interest rates started to increase.

The Institute for Supply Management's manufacturing Purchasing Managers' Index (PMI) has been in contraction 23 of the past 24 months, and October faced a significant headwind. The rate of contraction was the greatest it has been in 2024 in October as the PMI fell by 0.7 points month over month to 46.5, the lowest level of the year. As mentioned previously, the impacts from multiple strikes, as well as two hurricanes impacting the Southeast, likely had some level of impact on the slowdown in manufacturing during the month.

If there is a positive, it is that the New Orders Index contracted at a slower pace than it did in the month prior, increasing by 1 point m/m to 47.1. Still, new orders have been in contraction each of the past seven months. Something to pay attention to now – with the finalizing of results after an election that had created some hesitation in how to move forward – is whether there is a significant uptick in new orders in an effort to front-run potential tariffs.

Inventory levels contracted during the month: both manufacturers' inventories as well as their customers' inventories. Manufacturers' inventory levels have contracted for two months and contracted faster in October than September, falling by 1.3 points m/m to 42.6. Customers' Inventories retreated by 3.2 points m/m to 46.8, placing them back in "too low" territory from the previous month when manufacturers believed their customer inventory levels were "about right."

Industrial production faced continued headwinds in October, falling by 0.3% m/m. This was the second consecutive decrease in production and the third decline in the past four months. The industrial side of the economy was impacted by multiple hurricanes as well as labor disputes. The Federal Reserve, which releases industrial production figures, stated that Hurricane Milton and Hurricane Helene reduced industrial production by 0.1%. With the federal funds rate reducing by 75 bps combined at its last two meetings, it will hopefully open up capital investments in 2025, allowing for the manufacturing sector to find some positive momentum.



October's business conditions appear to just be a blip on the radar, according to the Empire State Manufacturing Index returning to positive territory during November. The General Business Conditions Index within the Empire State Manufacturing Index produced monthly by the New York Federal Reserve regional bank rose by 43.1 points to 31.2. The reading was the highest for the index since late 2021. The Shipments and New Orders indexes also returned to positive territory, rising 35.2 and 38.2 points m/m, respectively.

Though conditions were better in November than in October, some of the optimism for the next six months has faded. The forward-looking General Business Conditions Index fell by 5.5 points m/m to 33.2, which is still fairly optimistic considering it is the second highest reading since April 2022. Just under half of the respondents (49.6%) expect business conditions to improve over the next 6 months. Respondents are positive on shipments and new orders over the next six months as both indexes remain positive and nearly half of the respondents expect higher levels.

The Manufacturing Business Outlook Survey conducted by the Federal Reserve Bank of Philadelphia showed that November was a more challenging month than October as the current General Business Activity turned negative, falling 15.8 points m/m to minus 5.5. New Orders and Shipments remained positive, though both indexes were lower m/m. Even with the slowdown in November, firms are far more optimistic about the next six months. The forward-looking General Business Activity Index experienced another significant increase, rising by 19.9 points m/m to 56.6, the highest level since July 2021. Over 60% of respondents expect higher shipment levels over the next six months, while over 70% expect higher levels of new orders.

Production in Texas rebounded in October, but the general business activity remained in negative territory in Texas. The current General Business Activity Index of the Federal Reserve Bank of Dallas' Texas Manufacturing Outlook rose by 6 points m/m to minus 3. As has been the case across the other regional bank surveys, firms are becoming increasingly optimistic about the future. The forward-looking General Business Activity Index increased by 18.2 points m/m to 29.6. Over 38% of respondents expect conditions to improve over the next six months, a vast improvement from just the 24% that expected improving conditions in September's report.

October was the softest job creation month in quite some time, but numerous factors contributed to this. In October, after seasonal adjustments, just 12,000 jobs were added to nonfarm payrolls, the smallest monthly gain since December 2020. Analysts were expecting job gains to total 100,000 in the month.

Not only was it a soft month, but initially reported figures for both August and September were revised lower by 100,000 total between the two months.

That said, the unemployment rate remained stable at 4.1% during October, matching expectations, which is still historically low.

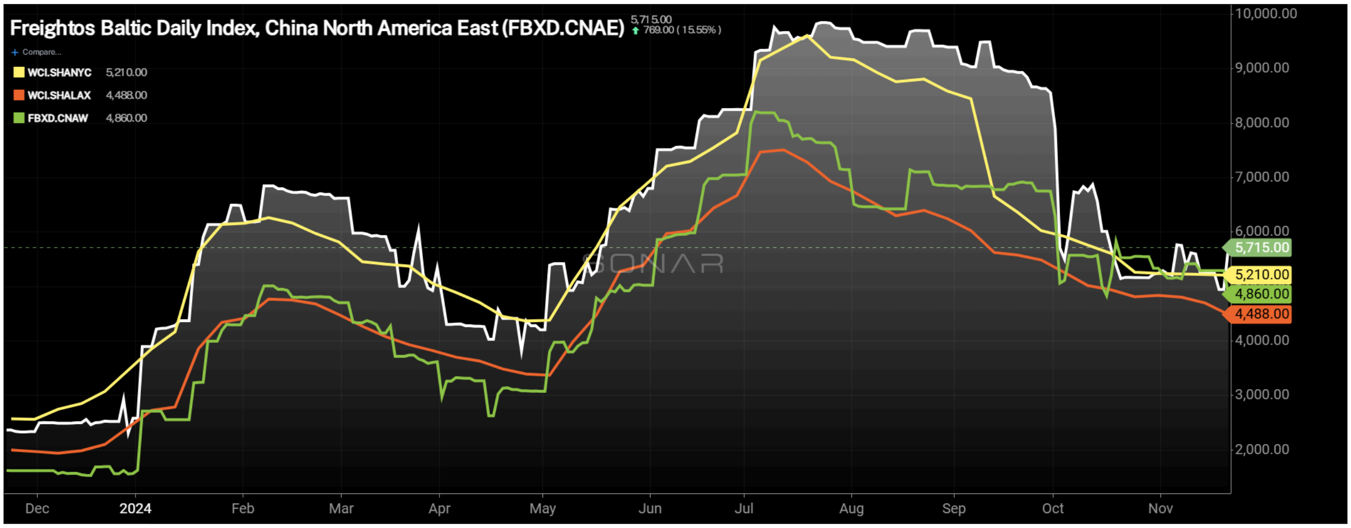
What created the lowest job creation month in more than three years? Two strikes as well as two hurricanes had significant impacts. The machinist strike at Boeing was the largest detractor for job growth. The manufacturing sector of the economy experienced a reduction of 46,000 jobs during the month, but the Bureau of Labor Statistics attributes the 44,000-job reduction in transportation equipment manufacturing to strike activity.

The growth in payrolls continues to be driven primarily by government and health care hiring. The health care sector added 52,300 jobs during October, while there were 40,000 new government jobs created in October, though most of those were at state and local government levels.

The leisure and hospitality sector, which has been a driver of job growth in recent months, saw a reduction of 4,000 jobs during the month.

Maritime: Peak season waning, volumes off recent highs

The ocean market is one that received a shot in the arm, so to speak, with the U.S. election results. Ahead of the election results, many importers were taking a "wait-and-see" approach in how they were handling ordering of goods. But with the results, an increased sense of urgency came due to some uncertainty in the market. The result with the market holding up fairly strong during the traditional softest period of the year, the spot rate declines slowed.

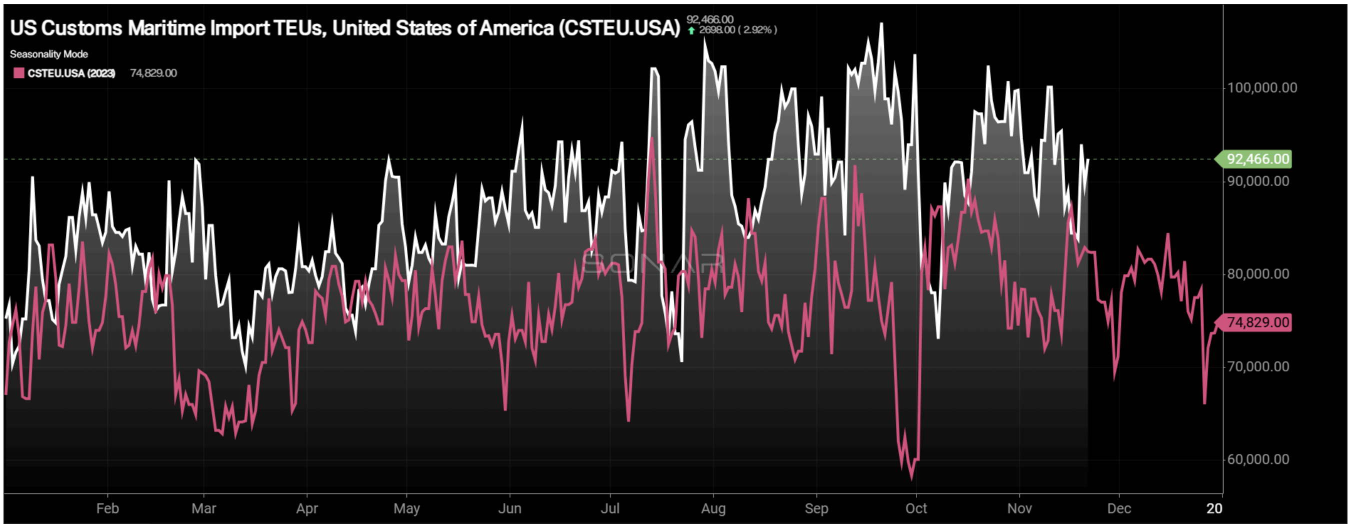


Source: SONAR. Container spot rates, YTD view: Drewry World Container Indexes: Shanghai to Los Angeles (orange), Shanghai to New York (green). Freightos Baltic Daily Index: China to North American West Coast (yellow) and China to North American East Coast (white).

Ocean market spot rates suggest that peak season has passed: Over the past month, ocean rates are down almost 50% from their peak and have largely declined over the past month. For much of the past month, ocean spot rates to the North American east coast were below shipping to the west coast, an indication that demand to the east coast had been suffering, but that has recently reversed course as ocean carriers pushed rates along this trade lane higher.

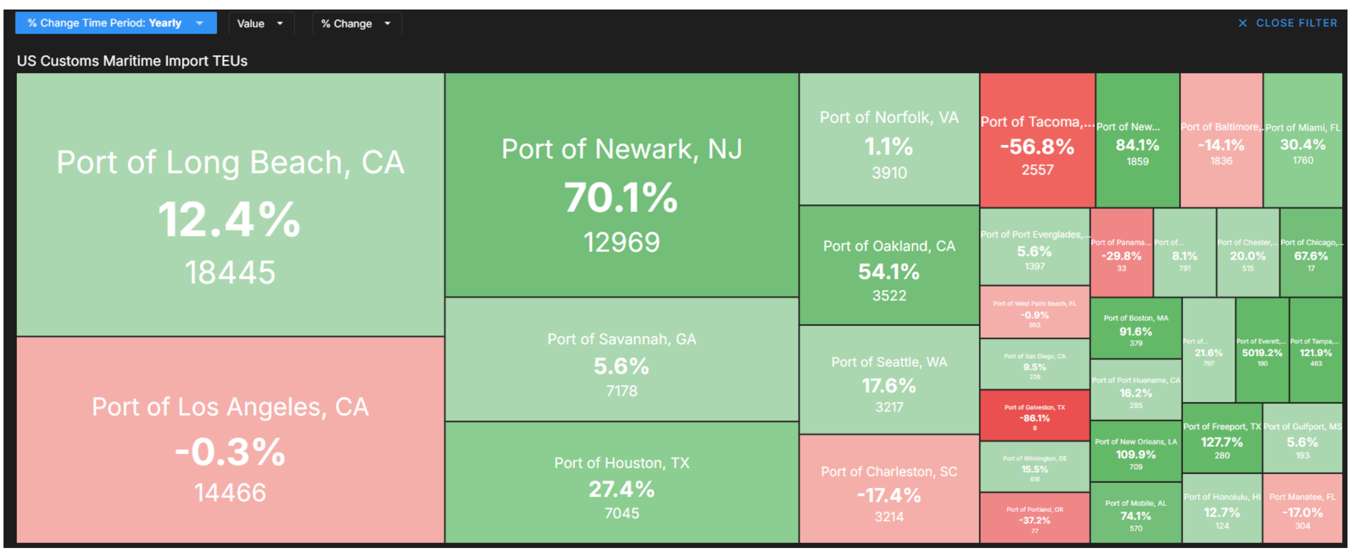
The Freightos Baltic Daily Index from China to the North American West Coast fell by 12.5% in the past month to $4,860 per 40-foot equivalent unit. Despite the month-over-month decrease, spot rates along this lane are 200.5% higher y/y. From China to the North American East Coast, the spot rates actually increased, rising 10.6% to $5,715 per FEU. The spot rate along this lane is 141.7% higher y/y.

The Drewry World Container Index showed a similar trend to the west coast, but east coast rates were also slightly lower. The WCI from Shanghai to New York registered a decrease of 1.1% m/m to $5,210 per FEU, but is still 98.8% higher y/y. The WCI from Shanghai to Los Angeles currently stands at $4,488 per FEU, a decline of 6.8% m/m but 103.3% higher y/y.



Source: SONAR. U.S. Customs Maritime Import TEUs: 2024 (white) and 2023 (pink).

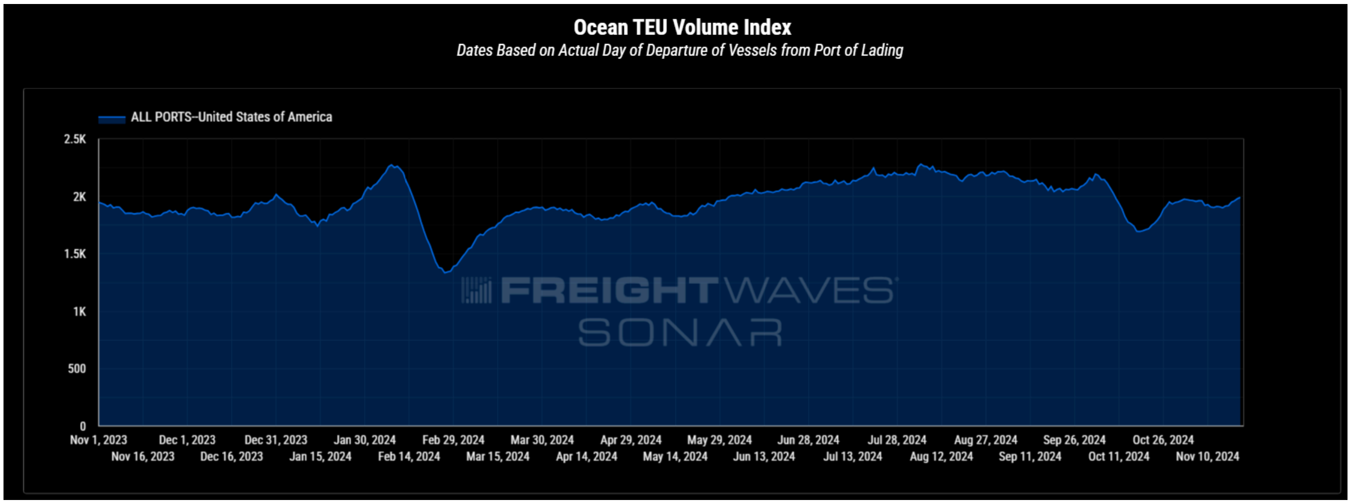
While import levels are clearly past their peak, which is evident when looking at throughput at U.S. ports, import levels are still well above where they were this time last year and are arguably stronger than they were throughout much of the year, with the expectation of peak season in August and September. Overall, TEUs clearing customs at U.S. ports are up 12.13% year over year, but are down 1.7% over the past month as peak season volumes fade.



Source: FreightWaves SONAR. Maritime Import Shipments by Port — Tree Map.

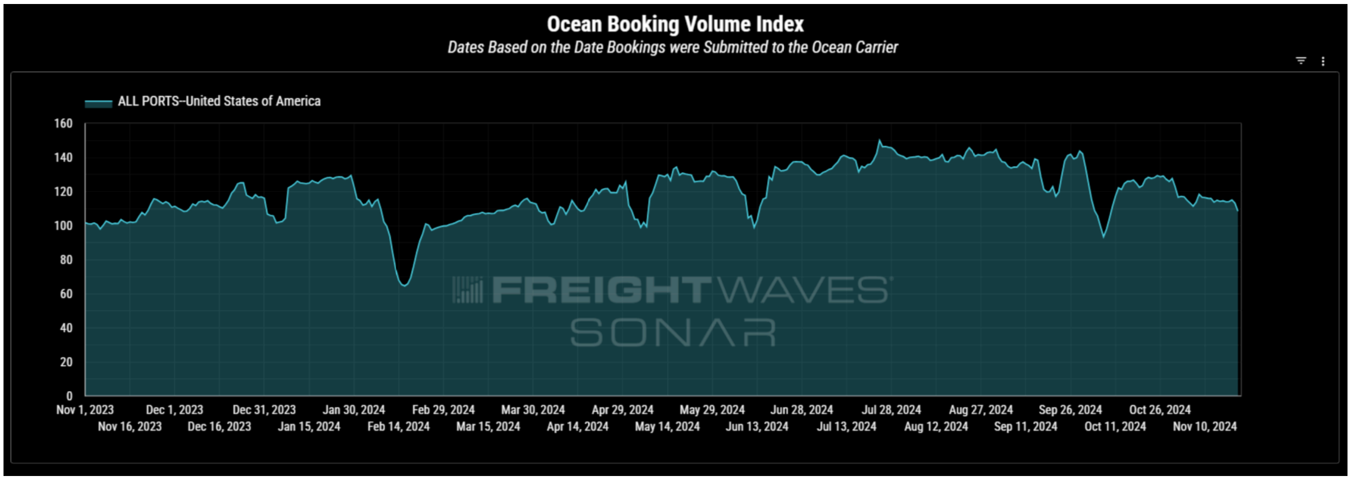
The outperformance in TEU volumes has been extremely widespread, with many of the smaller ports across the country experiencing the largest increases y/y. But the growth hasn't been isolated to the smaller ports as the majority of the largest ports in the country have experienced annual growth as well. The Port of Long Beach has experienced TEU volume increase by 12.4% over the past year, though they are down 4% from last month. Long Beach's neighboring port, the Port of Los Angeles, experienced TEU volumes dip by 13.7% over the past month and are actually down 0.3% y/y, but the way in which customs officials clear shipments can create massive periods of volatility.

For all the talk about the East Coast ports losing market share to the West Coast, it is hard to find that loss at the moment. Across the largest East Coast ports: Newark (the Port of New York and New Jersey), Savannah and Houston all experienced fairly significant growth over the past year, rising 70.1%, 5.6% and 27.4%, respectively. Both the Port of Savannah and the Port of Houston have given up some of the gains over the past month as TEU volumes are down 3.5% and 7.2% m/m, respectively.



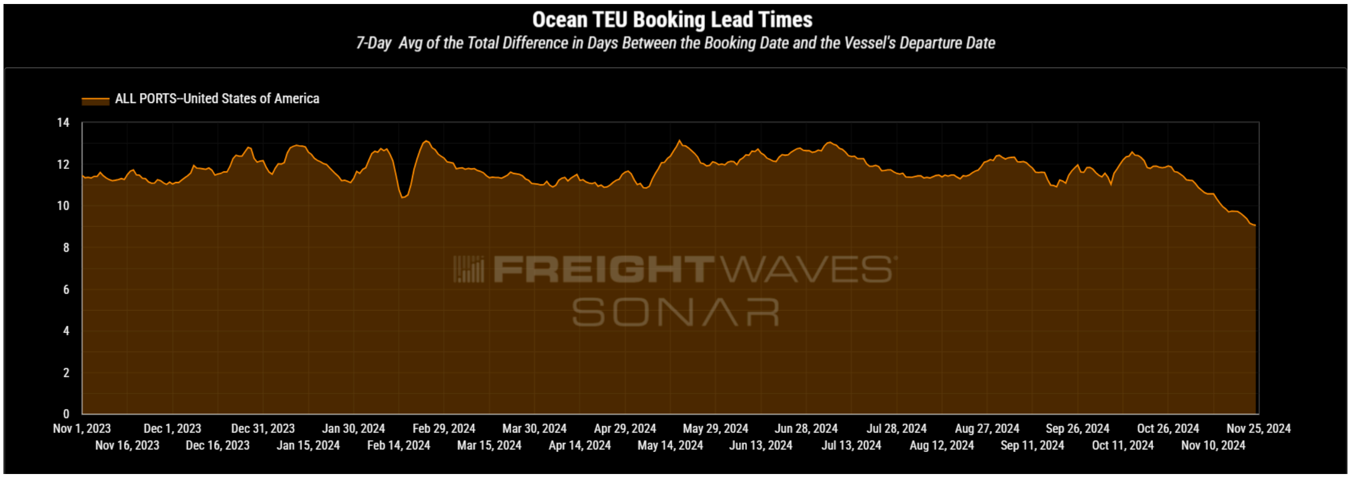
Source: SONAR Container Atlas. Ocean TEU Volume Index — all global ports to all U.S. ports.

The Ocean TEU Volume Index, a gauge of container trade from all global ports to all U.S. ports at TEUs leave origin ports, has shown some signs of recovery from the Golden Week holiday, moving higher in the middle of November. Over the past month, the Ocean TEU Volume Index has increased by over 15% as the index moves higher out of the holiday. Compared to this time last year, TEU volumes are up 8.6% higher y/y. Time will tell if there will be a stronger pull forward of containers ahead of the inauguration to beat any potential tariffs. But even so, demand is still stronger than it was this time last year.



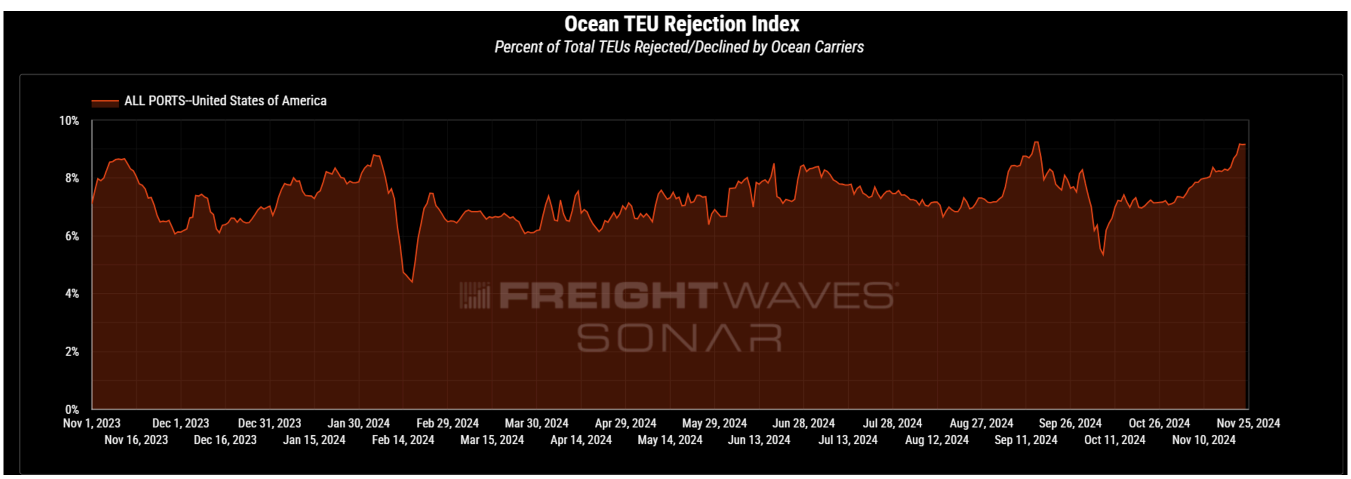
Source: SONAR Container Atlas. Ocean Booking Volume Index — all global ports to all U.S. ports.

Bookings are continuing to decline, but they have been declining throughout the back half of the year, while demand has been fairly robust. The booking levels are subject to being changed, especially if TEUs are being booked closer to the date of shipments leaving the ports overseas. At present, bookings are down 5.3% compared to this time last year.



Source: SONAR Container Atlas. TEU booking lead times — all global ports to all U.S. ports.

Ocean TEU Booking Lead Times continue to get shorter, likely a result of the time of year needing to push shipments out closer to the date of departure as demand forecasts have changed. At present, ocean lead times are 23.3% shorter than they were this time last month. However, shipments leaving overseas at the moment will likely not be on the shelves in time for the holiday season as the average transit time is still 27 days. Although, it is five days shorter heading into the Port of Los Angeles and Long Beach.



Source: SONAR Container Atlas. Ocean TEU Rejection Index — all global ports to all U.S. ports.

The Ocean TEU Rejection Index serves as an indicator of the rate at which ocean carriers decline cargo bookings. As of Nov. 24, the index stands at 9.17%, an increase of 203 basis points over the past month.

Rail intermodal: Import growth continues to drive intermodal traffic

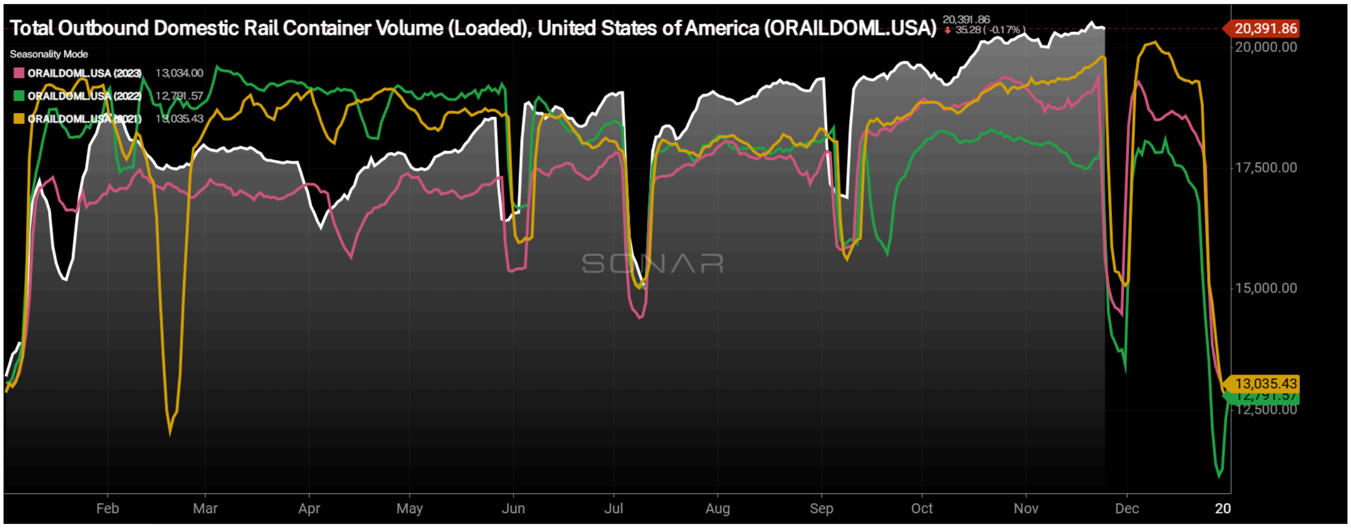


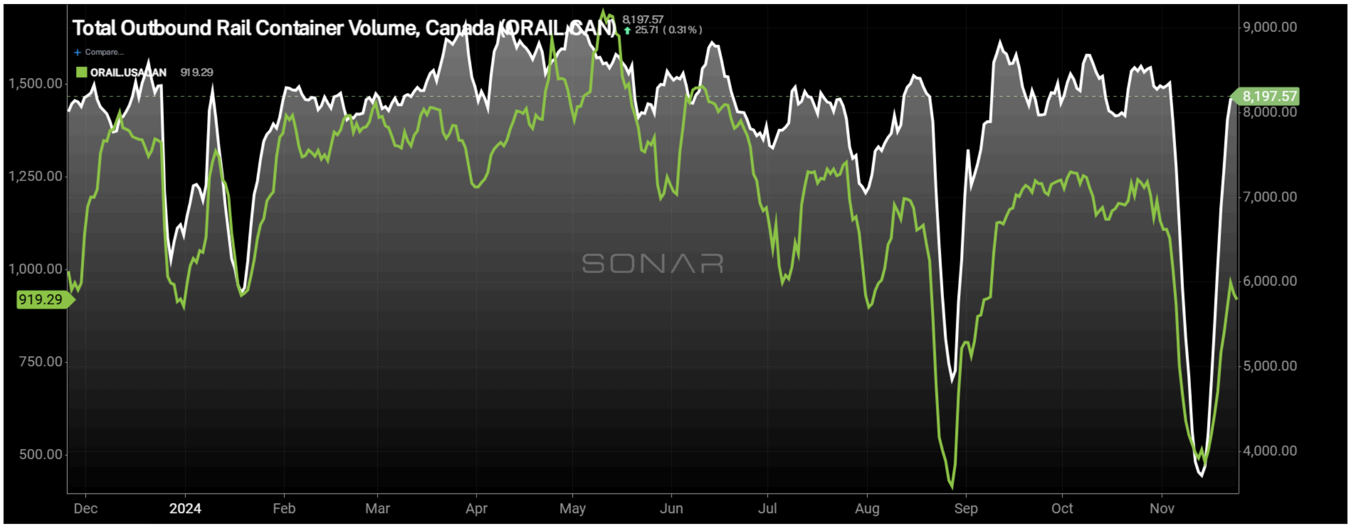
Chart: SONAR. Loaded domestic intermodal container volumes for 2024 (white), 2023 (pink), 2022 (green) and 2021 (yellow).

The calendar has yet to derail intermodal volume growth, showing that the value proposition is holding up rather well later in the year when it traditionally starts to fade. The intermodal market has added capacity and the railroad networks that were broken during COVID-19, which limited the growth, have remained resilient allowing for the intermodal market to capture market share from the truckload market. Overall intermodal volumes, which includes both domestic and international intermodal containers that are both loaded and empty, increased by 0.3% over the past month and are over 36% higher than this time last year. Like with the truckload market, it is more of a factor of the timing of the Thanksgiving holiday creating easier comps. Over the past year, from a week prior to Thanksgiving last year to now, overall intermodal volumes are up 12.4%.

The domestic intermodal market has fared better than the international market, as the value for the ocean carriers sending containers inland has faded in recent months. Loaded domestic intermodal volumes have increased by 1.5% over the past year, which is strong growth especially compared to long-haul truckload volumes, which have declined over the past month. Looking at the week prior to Thanksgiving of last year to remove the impacts of the holiday, loaded domestic intermodal volumes have grown by 7.4%.

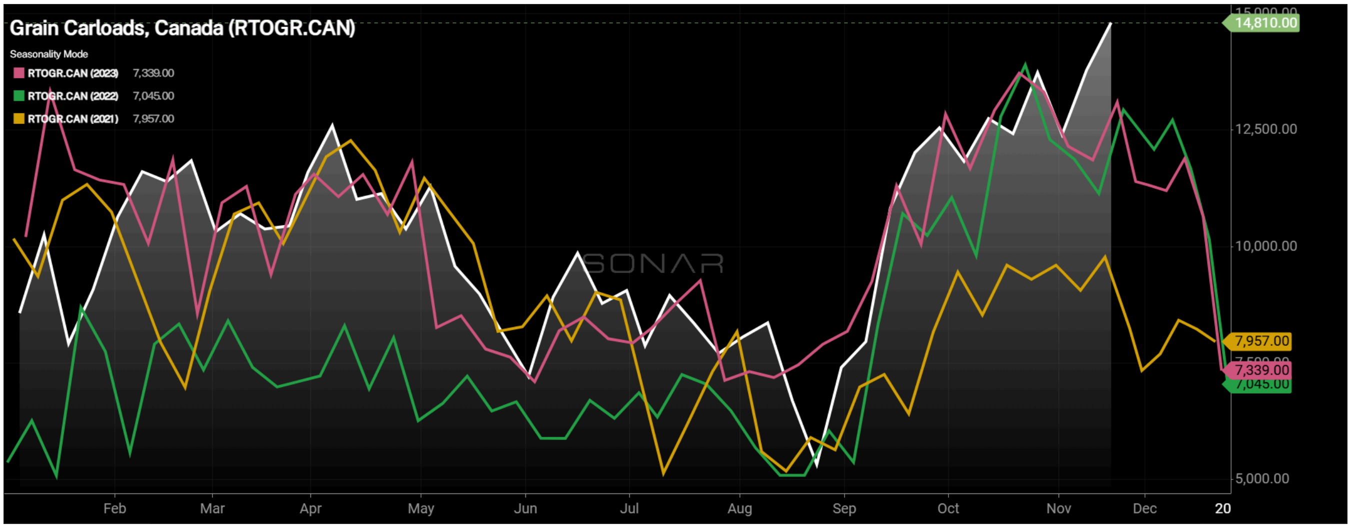
The international intermodal market has been the clear outperformer this year, but the last month has been more of a challenge. Loaded international intermodal container volumes have declined by 1.5% over the past month, a sign that ocean carriers are less willing to send containers inland than they have been throughout much of the year. Even with the decline over the past month, loaded international intermodal volumes are up 14.7% y/y.

Empty container volumes followed similar trends to loaded volumes: domestic empty volumes are higher m/m and international volumes are lower. Empty domestic intermodal volumes have increased by 4.1% over the past month, a sign that containers are being repositioned, but what is interesting is that they are increasing inbound into Chicago as opposed to Los Angeles, up 7.5% m/m compared to down 1% m/m. On the international front, empty container volumes are down 2.1% m/m, likely a factor of fewer containers moving inland. Both domestic and international empty container volumes are up 20% y/y, a sign of the added capacity that both ocean carriers and intermodal marketing companies have added over the past year.



SONAR: Total intermodal container volume: Canada (white, right axis) and U.S. to Canada (green, left axis)

The railroads are arguably more important to transportation networks in Canada due to their network design connecting coast to coast as well as the major metropolitan areas in the country. Over the past month, overall container rail volumes originating in Canada have been under pressure, falling 4.1%. Total intermodal volumes originating in Canada are still 2.3% higher than they were this time last year. Intermodal container volumes originating in the U.S. and destined for Canada are suffering, falling by over 25% in the past month and are down 7.7% y/y.



SONAR: Total Grain Carloads originating in Canada: 2024 (white), 2023 (pink), 2022 (green) and 2021 (yellow).

Canadian grain volumes are reaching new heights, which after the work stoppage earlier in the year that challenged the market, is a positive sign overall. Over the past month, total grain carloads have increased by 16% and are up 13% over the past year

Intermodal contract rates continue to trend sideways

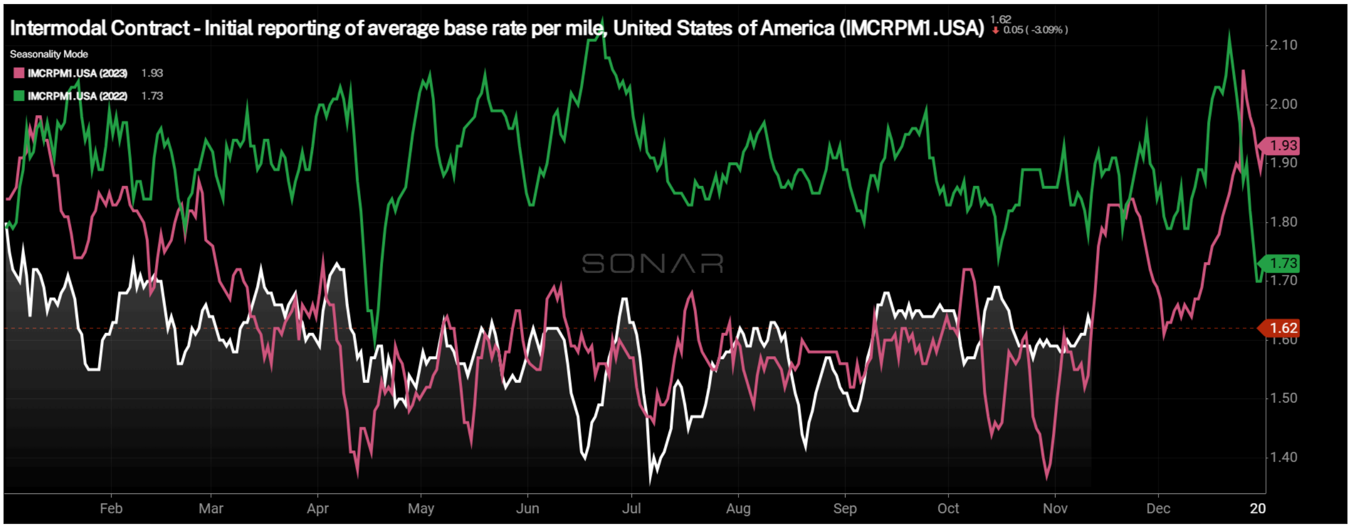


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

Intermodal contract rates experienced a boost at the beginning of October, but after giving back those gains, intermodal container rates have been in line with where they have been throughout much of the year. With the current state of intermodal contracts being off the bottom, it seems increasingly likely that intermodal contract rates will be higher in 2025 than they were in 2024 as intermodal marketing companies have maintained solid service. Over the past month, the initially reported intermodal contract rate has fallen by 3 cents per mile to $1.62, which is in line with where it was this time last year.

Intermodal marketing companies haven't been too focused on protecting their contracted capacity, even in recent months when volumes have increased. This is evident by intermodal spot rates still being depressed. The overwhelming majority of intermodal movements are executed under contracted agreements, but the spot market rates signal if intermodal marketing companies are under any pressure to protect that capacity. In the most recent, the average domestic intermodal spot rate (an average of 100 lanes) to move 53-foot containers door to door is just $1.50 a mile including fuel, down one cent per mile m/m. Intermodal spot rates are down 12.3% from the same week last year.

Even though intermodal spot rates at the national level are largely the same, there have been increases out of various regions of the country. The largest increases have been out of the Los Angeles market, a signal that carriers are indeed protecting their contracted capacity. Along the densest lanes out of Los Angeles: to Chicago and to Dallas, intermodal spot rates are up 30.9% and 24.7% m/m, respectively. The increases over the past month have been enough to turn spot rates out of the market positive y/y.

Intermodal spot rates rebound out of Los Angeles, rates out of Dallas challenged

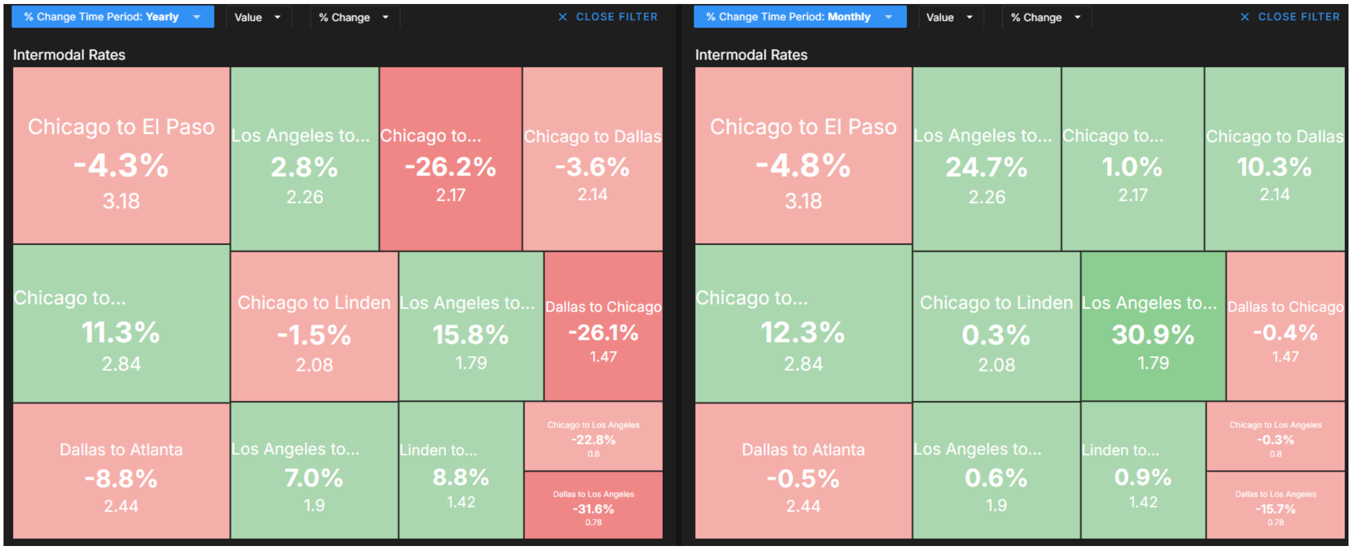


Chart: SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

Intermodal tender rejections offer a way to gauge service disruptions as carriers often operate on "auto-accept," especially when contract rates are competitive with spot rates. The current national intermodal rejection rate remains relatively low at 1.10%, 34 basis points higher than it was this time last year.

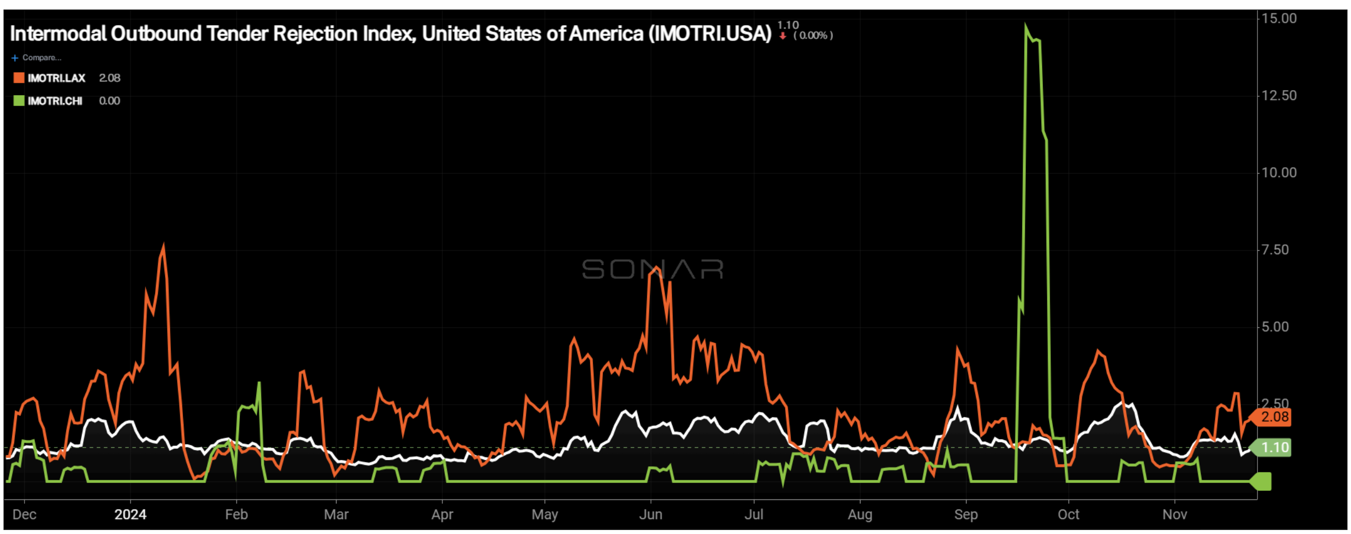
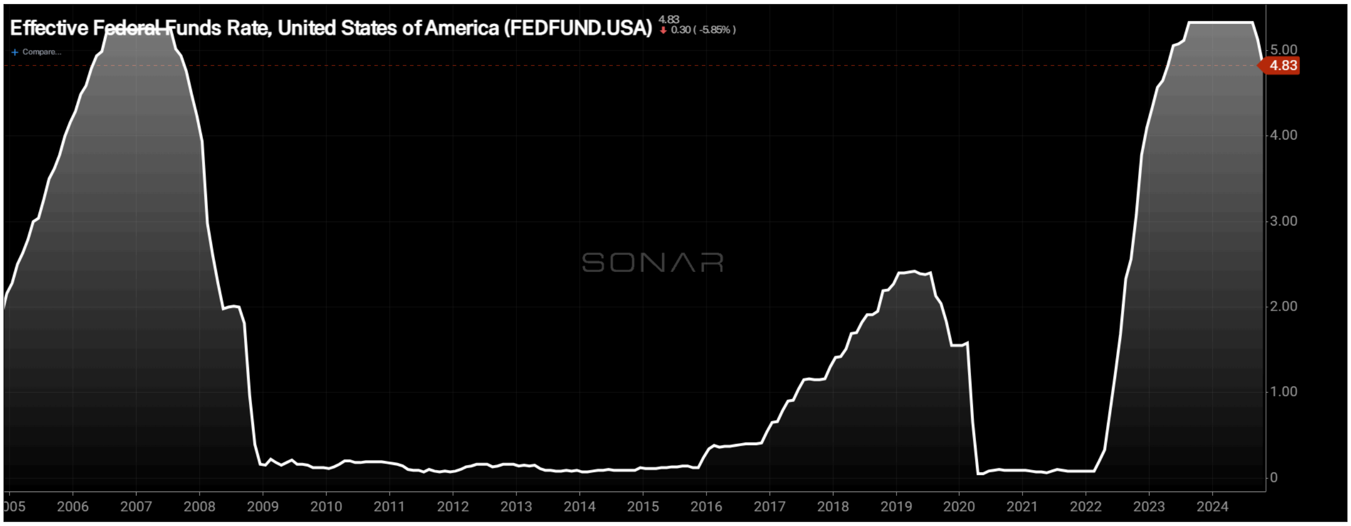


Chart: SONAR. Domestic intermodal outbound tender rejection rates for national (white), Los Angeles (orange) and Chicago (green) loads.

What else we're watching

The easing of monetary policy continued as the Federal Open Market Committee unanimously decided to reduce the federal funds target range by 25 basis points to between 4.5% and 4.75%. In the FOMC's statement, the committee highlighted that while inflation remains elevated relative to its long-term target of 2%, it has made progress over the past year.

The 25-basis-point reduction in the target range sets the FOMC to continue easing monetary policy at its final meeting of the year, Dec. 17-18. The initial belief is that the FOMC will reduce the target range by another 25 bps in December, as the expectations set forth at the September meeting were for an additional 50 bps in reduction by the end of the year.



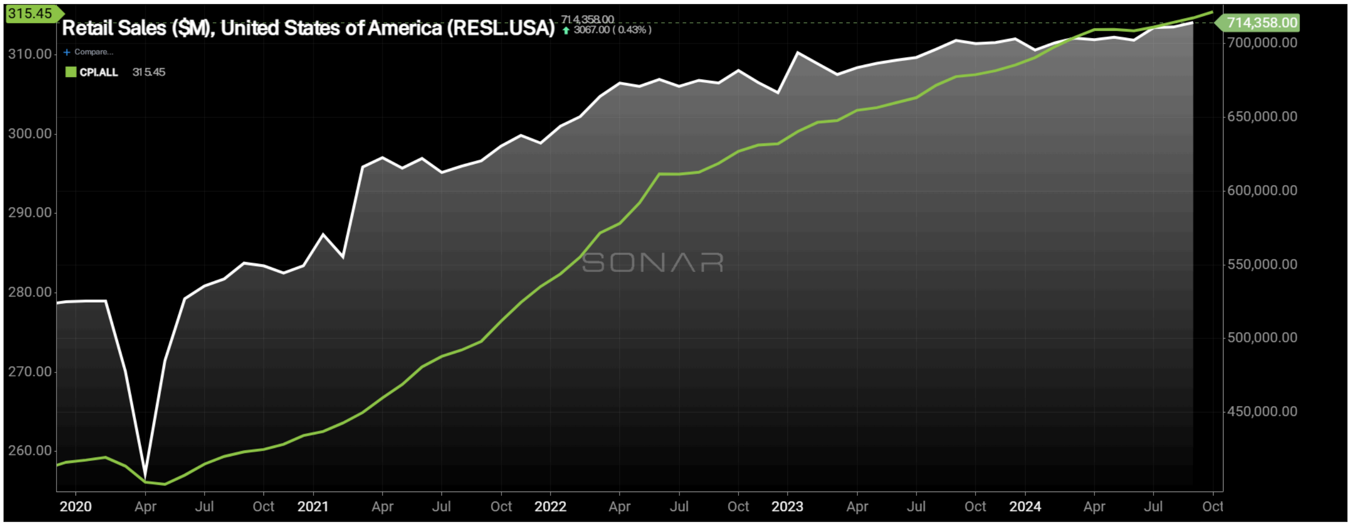
With the election now in the rearview, there are questions about the impacts around potential policies, including the impacts of tariffs. Many economists believe that potential tariff policy could create inflationary pressure. At the same time, President Donald Trump in his first term was hell-bent on having lower interest rates to keep the U.S. competitive in terms of investment, especially when other G7 countries including Japan had interest rates that were near zero or negative in some cases.

This dynamic of potential inflation creates an environment in which the FOMC is going to be in a peculiar position. The Federal Reserve is supposed to be bipartisan and set monetary policy based on data and not political pressures, but if political pressures mount to lower interest rates, it could create an acceleration in inflation, ultimately leading to tighter lending conditions in the future and higher interest rates.

Until that plays out, however, the FOMC has made it clear that as new data becomes available regarding inflation and employment, it will continue to take a targeted approach to adjusting the federal funds rate.

The consumer has been pulling the economy forward as the manufacturing sector has been slowing. Consumer spending hasn't faltered meaningfully despite the elevated inflation levels that impacted the economy for the better part of three years. The positive sign, which has allowed the

FOMC to make its decision to ease monetary policy, is that inflation has come more into alignment with the long-term target of 2%.



While not the FOMC's preferred gauge of inflation, the Consumer Price Index is a widely used measure of inflation. In October, the Consumer Price Index increased by 0.2% for the fourth consecutive month, matching analysts' expectations. The 12-month running total for the CPI came in at 2.6% in October, also matching analysts' expectations. Core inflation, or the CPI excluding the more volatile food and energy prices, increased by 0.3% m/m and 3.3% y/y.

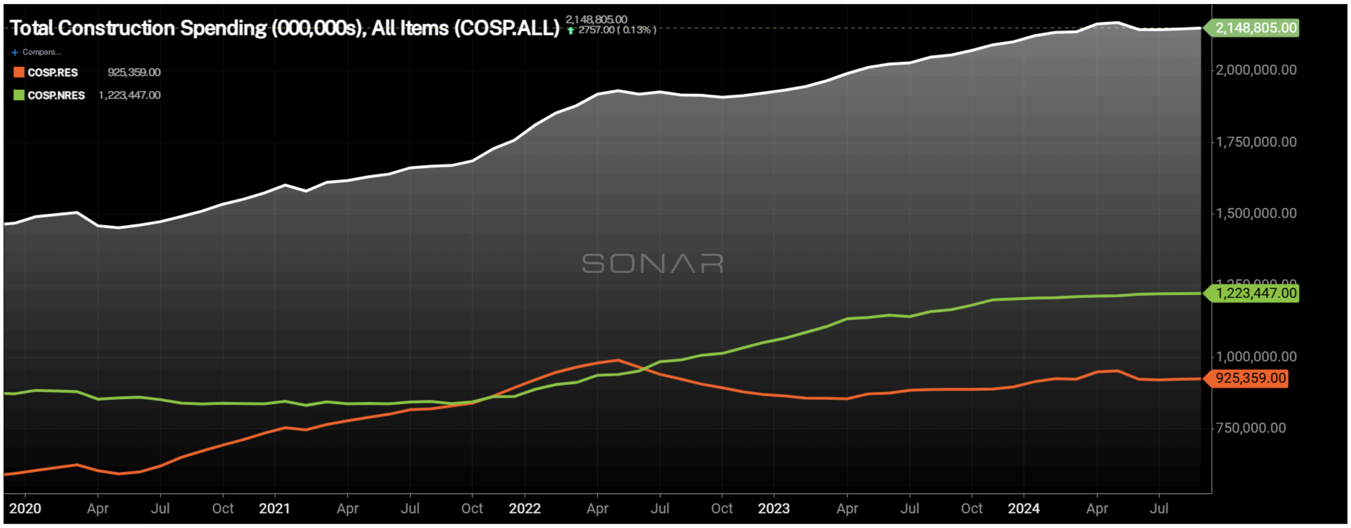
Food prices slowed their increase in October from September, rising 0.2% m/m. Food prices are up 2.1% y/y. Food-at-home price increases fell back in line with what they've been for much of the year, rising 0.1% m/m, compared to the 0.4% m/m increase in September, which is proving to be an anomaly. Food-at-home prices are up just 1.1% compared to this time last year. Food-away-from-home prices have continued to have stable increases, rising by 0.2% m/m. Food-away-from-home prices are up 3.8% y/y.

Energy prices have been a source of deflation throughout the past year. Overall energy prices were unchanged in October, but they were 4.9% lower y/y. Gasoline prices have arguably been the biggest relief for consumers, falling by 1% m/m and over 12% compared to last year.

Shelter prices, one of the biggest components to core inflation, accelerated in October, rising by 0.4% m/m after a 0.2% increase in September. Shelter prices are up 4.9% y/y.

While inflation is approaching the FOMC's target range, consumers have shown that their ability (or willingness) to spend money hasn't slowed. October's retail sales data came in better than expected. Total retail sales increased by 0.4% m/m, better than analysts' expectations of a 0.3% m/m increase. Retail sales were 2.8% higher than they were this time last year, outpacing the rate of inflation, which is a positive sign compared to earlier in the year. Removing gasoline station sales, which are depressed due to the lower gas prices, retail sales are up 3.7% y/y.

Electronics sales were the primary source of strength in October, rising 2.3% m/m. However, electronics sales were down 2.3% y/y. The strength in retail sales was echoed by Bank of America's card spending report that showed the end of October was one of the strongest periods for electronics spending in recent months but the beginning of October was fairly slow.

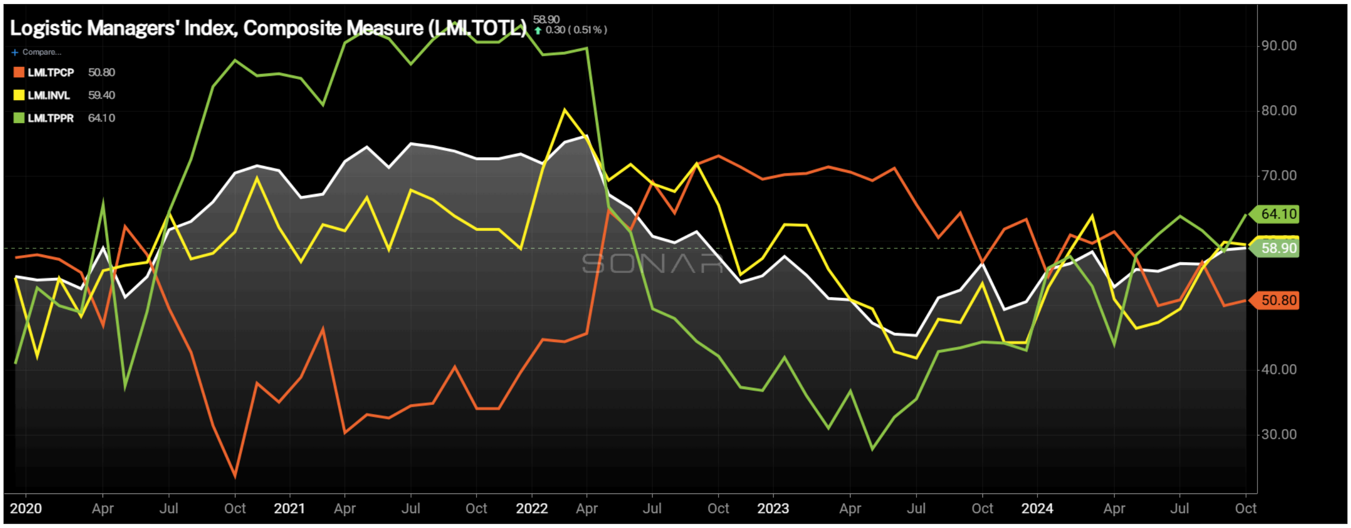


Construction spending rebounded slightly in September after a slight decline in August. Total construction spending rose by 0.1% m/m to a seasonally adjusted annual rate (SAAR) of $2.148 billion. Total construction spending continues to outpace GDP growth, rising 4.6% y/y.

Residential construction spending was able to break its downward slide, rising for the first time in over three months. The residential construction spending SAAR increased by 0.2% m/m in September to $925.4 billion. Residential construction spending was up 4.2% y/y in September.

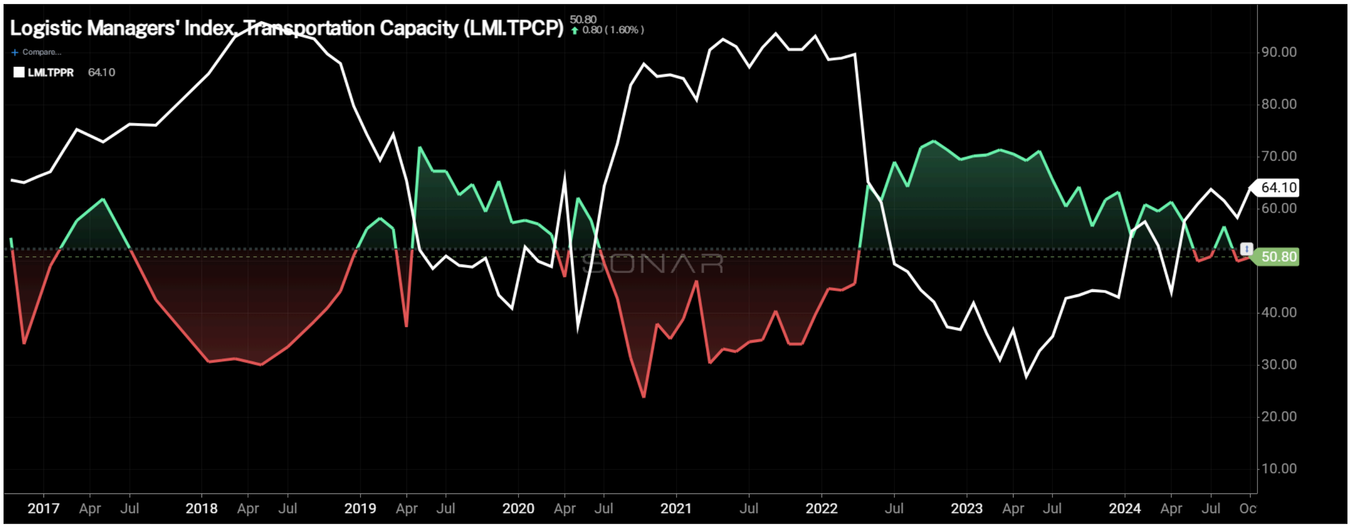
Nonresidential construction spending grew once again, but it was slower than the residential counterpart. The nonresidential construction spending SAAR increased by 0.1% m/m to $1.223 billion. Nonresidential construction spending is 4.9% higher than it was this time last year. Manufacturing, which is the largest segment of nonresidential construction spending, saw spending fall by 0.2% m/m to $235.3 million, but it is 20.5% y/y.

Looking upstream in housing, activity slowed in October, marking the second monthly decline in housing starts even as the FOMC has eased monetary policy. Housing starts fell by 3.1% m/m in October to a SAAR of 1,311,000 and are down 4% y/y. Single-family housing starts fared far worse than multifamily starts, falling 6.9% m/m and down 0.5% y/y, while multifamily housing starts rose 9.8% m/m, but are still down 12.6% y/y.



Source: SONAR. Logistics Managers' Index (white), inventory levels (yellow), transportation prices (green) and transportation capacity (orange).

The Logistics Managers' Index remained firmly in expansion territory in October, continuing to accelerate into the traditional peak season. The overall composite index increased by 0.3 points m/m to 58.9. Inventory levels and transportation prices continued to increase, though transportation capacity also reentered expansion territory during the month. Inventory levels fell by -0.4 points m/m to 59.4, still well in expansionary territory, just expanding at a slower pace while transportation prices increased by 5.7 points m/m to 64.1, signaling a fairly rapid increase in transportation prices.



Source: SONAR. Logistics Managers' Index Transportation capacity (baseline) and transportation capacity (white).

The LMI's transportation capacity and prices highlight how transportation past cycles have played out. From 2017 through early 2019, transportation prices were in expansionary territory while transportation capacity was contracting. In early 2019, transportation capacity entered expansionary territory while transportation prices were in contraction, aligning with the challenging operating conditions in 2019. During the COVID-19 cycle, the changes in the transportation market were much more apparent. During the middle of 2020, transportation prices reached extremely high levels. This was a period in which freight rates continued to set new heights on a seemingly monthly basis. At the same time, transportation capacity was challenging to find, evident not only by tender rejection rates that were in excess of 20%, but also by the transportation capacity index produced by the LMI, which was in contraction territory from mid-2020 through March 2022. The inversion of transportation capacity and transportation prices in mid-2022 aligns with the start of the challenging freight market experienced over the past two years.

At present, transportation prices are rising faster than transportation capacity as a sign that the market is in transition to a tighter state. In October's release of the LMI, the future predictions for transportation prices reached 81, which would be the highest level since April 2022, while transportation capacity predictions came in at 45.7. This is a signal that respondents to the LMI expect a fairly significant shift in market conditions at some point in the next 12 months.

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