JANUARY
2025

STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

SONAR

The peak is here

December 20, 2024 | 1 p.m. EDT

Overview

The truckload market is facing the toughest capacity environment it has seen in more than two years. The reaction to the holidays along with the sustained increases in rejection rates signal that the freight recession is likely in the rearview. The demand side of the truckload market remains uncertain heading into 2025, but any significant demand-side shocks will be exacerbated by the capacity situation.

The intermodal market continues to see significant growth in volumes. The market is clearly past its peak, but the volumes are still more than 10% higher than they were this time last year. In 2025, intermodal marketing companies will have to decide whether to try to recoup some yield or if volumes are enough to offset contract rates.

The maritime market is seeing significant demand despite the calendar being in the softest period of the year. Potential tariffs and labor disputes create uncertainty along the ocean, but the market is poised to add capacity throughout the year that will put downward pressure on rates.

The macroeconomy continues to be pulled forward by the consumer. Retail sales continue to surprise to the upside, showing that inflation isn't creating a slowdown in the consumer. On that front, the past two inflation reports signal that inflation isn't just going to fade into the void.

The Federal Open Market Committee announced another 25-basis-point cut in December, marking the third consecutive cut and 100 bps' worth of cuts in 2024. Federal Reserve officials now expect fewer interest rate cuts in 2025 than before, which could hamper demand during the year.

Macro indicators	(y/y change)
Nov. industrial prod. change	-0.1% (-0.9%)
Nov. retail sales change	+0.7% (+3.8%)
Nov. U.S. Class 8 orders	33,500 (-7%)
Nov. U.S. trailer orders	20,800 (-4%)

Truckload indicators	(y/y change)
Tender rejection rate	9.34% (+427 bps)
Average dry van spot rate[1]	$2.43/mi (+8%)
LAX to DAL spot rate[2]	$2.76/mi (+32.1%)
CHI to ATL spot rate	$2.62/mi (-3.7%)

Tender volumes	(y/y change)[3]
Atlanta	356.11 (-10.5%)
Dallas	352.2 (-1.69%)
Los Angeles	285.41 (+3.78%)
Chicago	184.1 (-13.85%)

Tender rejections	(y/y change)
Atlanta	9.36% (+607 bps)
Dallas	8.14% (+496 bps)
Los Angeles	7.69% (+289 bps)
Chicago	10.67% (+648 bps)

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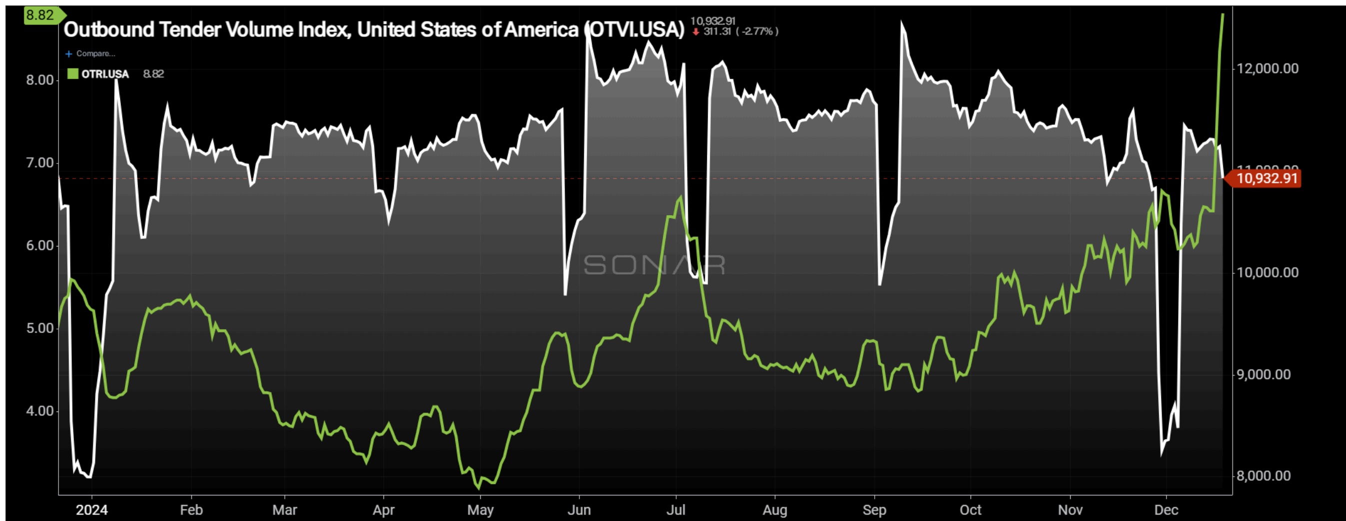
[1] FreightWaves National Truckload Index
[2] FreightWaves TRAC spot rate
[3] Y/Y changes skewed by timing of Thanksgiving holiday

Truckload markets

The truckload market is undergoing a shift in market conditions, but unlike in previous cycles where changes have been driven by demand-side shifts, this shift in the market is more impacted by the changing capacity conditions. For over two years, capacity has been exiting the market, and the signs that enough capacity has left the market to firm it up are starting to appear. The question now is, what happens beyond the first quarter?

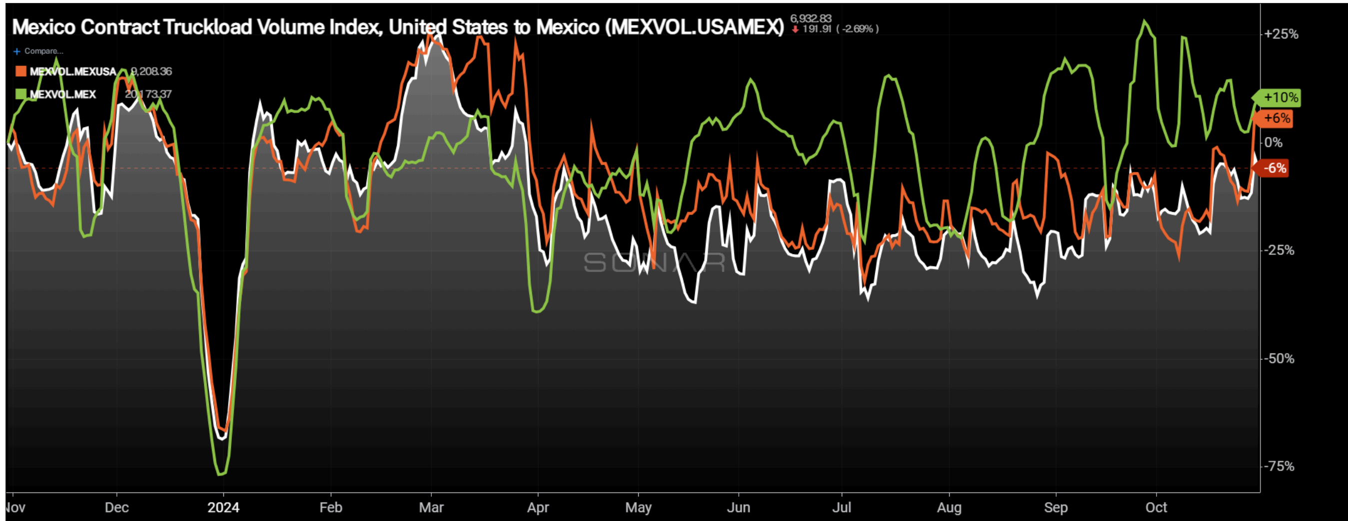


Source: SONAR. Outbound Tender Volume Index (white, right axis) and Outbound Tender Reject Index (green, left axis).

Truckload volumes have really been moving in an unseasonal pattern since Labor Day, falling to the lowest levels of the year outside of the holiday-related dips. The sharp drop-off in volume started a week ahead of the Christmas holiday, and it is fairly normal to see a slowdown in December, but after an underwhelming November, there was some level of hope that volume levels may hold up better in December than they actually have. The Outbound Tender Volume Index (OTVI), a measure of shippers' request for truckload capacity, fell by 5.66% over the past month, the largest monthly decline of the year. For the first time this year, tender volumes are actually negative year over year, currently down 1.21%.

Strong import levels haven't been able to boost truckload volumes, specifically dry van volumes, which are running significantly below year-ago levels. The Van Outbound Tender Volume Index has fallen by 4.79% over the past month and is running 4.34% below year-ago levels. While the van market is experiencing a slowdown, the reefer market continues to experience a breakout moment. Over the past month, the Reefer Outbound Tender Volume Index increased by 6.1%. Compared to this time last year, reefer tender volumes have risen by nearly 15%.

As the calendar turns to 2025, January and February will likely continue to be a challenge from a volume perspective. At the moment, uncertainty seems to be the flavor of the day, but it will be interesting to see if that mindset changes throughout the year.



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

After a lull throughout the middle months of 2024, truckload volumes out of Mexico have been on the rise, while volumes from the U.S. to Mexico continue to fall y/y. Over the past month, southbound volumes have increased by 11.8%, but they are still down over 6% y/y. Northbound volumes have increased by 31.3% over the past month and are up 3.3% y/y. Intra-Mexico volumes are up the most y/y at 3.7%, but the growth over the past month was the slowest, at 5.4%.

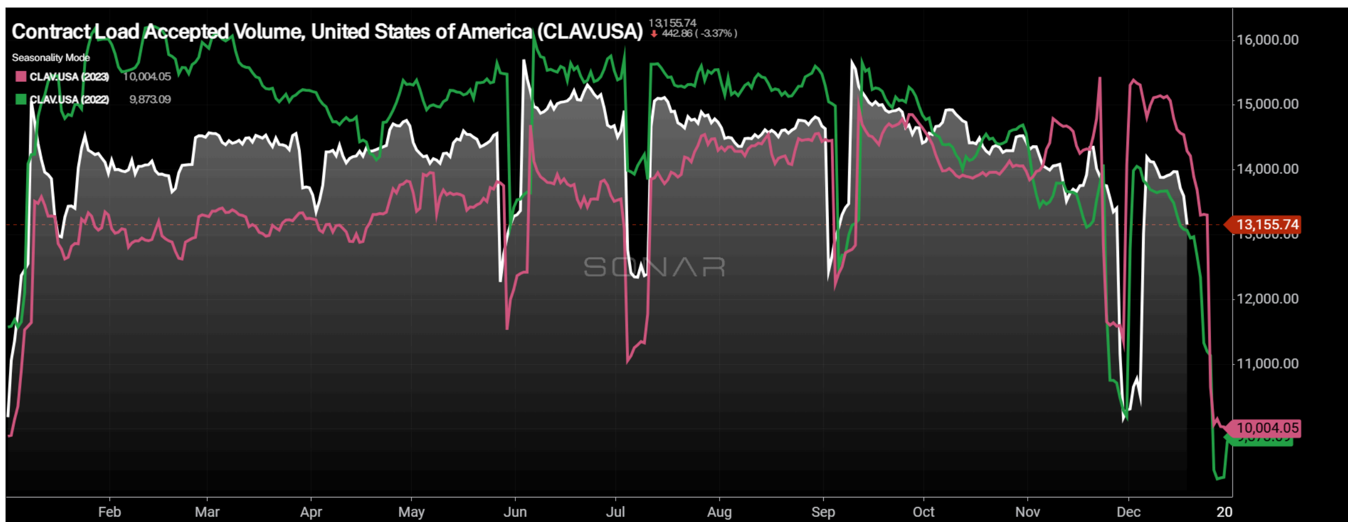


Chart: SONAR. Contract Load Accepted Volume: 2024 (white), 2023 (pink) and 2022 (green).

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 down 5.34% y/y, due to the significant increase in tender rejection rates ahead of the Christmas holiday. Over the past month, accepted contract volumes are down 8.32% m/m.

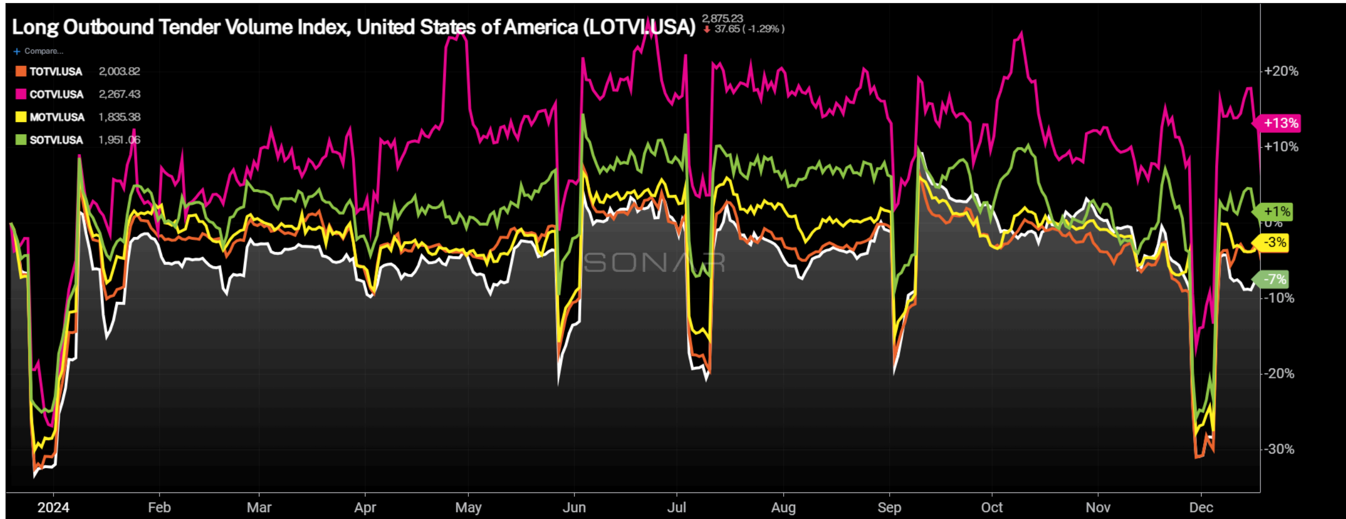


Chart: SONAR. Relative view of tender volumes by mileage band: 800-plus miles (white), 450-800 miles (orange), 250-450 miles (yellow), 100-250 miles (green) and less than 100 miles (pink).

Across the mileage band, volumes have faced headwinds with the exception of the shortest length of haul: local or city loads. The growth in the local length of haul, or loads moving 100 miles or less, has been impressive, running up double digits for much of the year, including into a period when demand should be declining, like it is at other points along the mileage band. The growth is an indication of fulfillment freight being extremely strong, which is being aided by strong import volumes.

On the other hand, strong import volumes aren't having a positive effect on long haul, or loads moving more than 800 miles. In fact, long-haul volumes have experienced the biggest loss this year, currently running down 7%. A significant reason for this, which will be discussed in depth in later sections, is the intermodal market has been able to take and maintain market share, even during periods of the year when intermodal volumes should retreat.

Though volumes are under some pressure, the capacity side of the market is still showing that the market is undergoing a significant shift. Tender rejection rates have been trending higher since late September, including in periods when they traditionally fall, an indication that 2025 will be a tighter market than any point in the past two years. The Outbound Tender Reject Index has risen by 265 basis points over the past month to 8.82%. The tender rejection rate is now at levels not experienced since May 2022. The holidays, especially since both Christmas and New Year's fall on Wednesday, are having an impact on the tender rejection rate, but the responsiveness to the holidays this year is far greater than it was the past two years.

Tender rejection rates will likely fall during the first couple of months of 2025 due to seasonal norms as drivers return to the road following the holidays. Capacity exits will continue into 2025, so while the first few months will likely still resemble a fairly loose environment, March and April will be the months to pay attention to in order to identify the magnitude of the market shift.

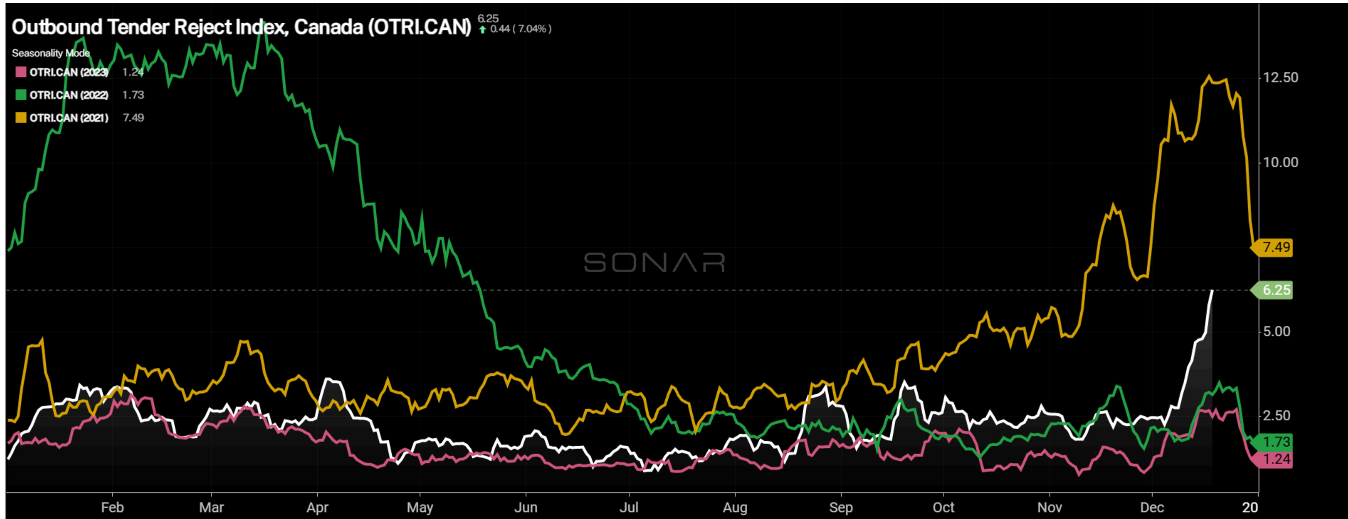
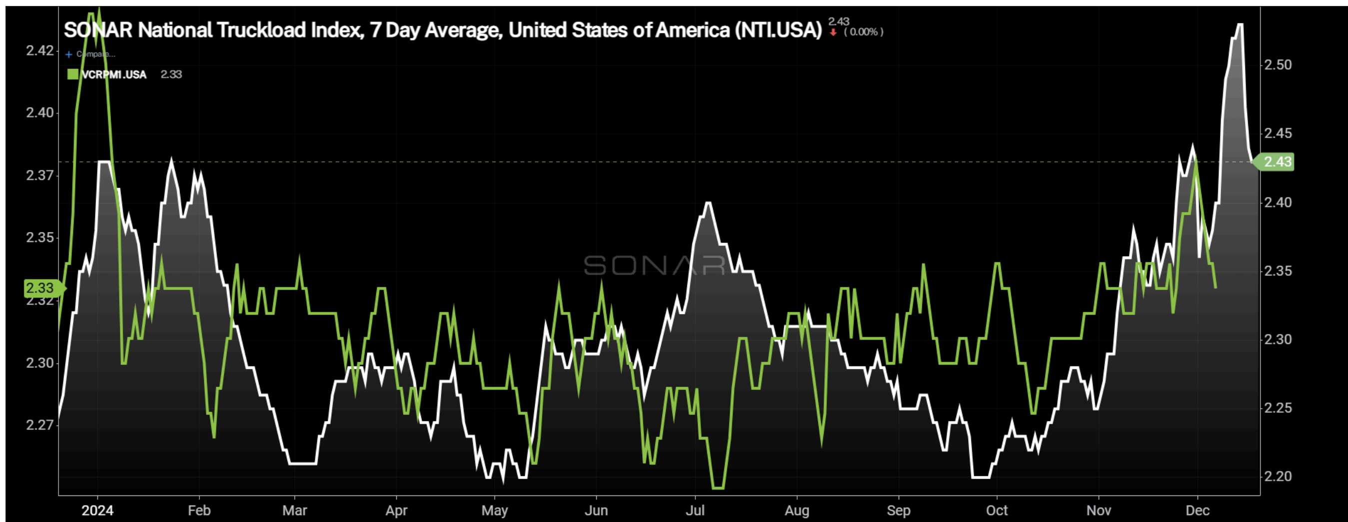


Chart: SONAR. Outbound Tender Reject Index for Canada: 2024 (white), 2023 (pink), 2022 (green) and 2021 (yellow).

The holidays are having a significant impact on capacity in Canada as tender rejection rates are surging. Over the past month, tender rejection rates on loads originating in Canada have more than doubled to 6.23%. The increase is resembling the market in 2021 as opposed to the conditions that have impacted the market for the past two years. Compared to this time last year, rejection rates in Canada are up 379 basis points.

Spot rates surpass last year's holiday levels



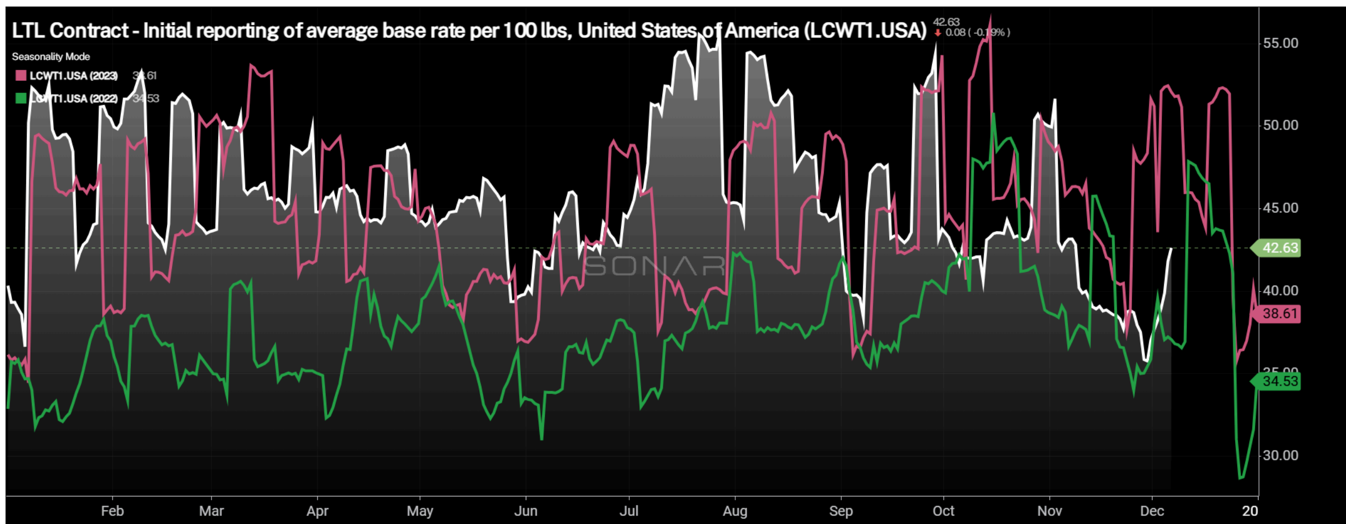
Source: SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

With the rapid increase in rejection rates, spot rates reacted positively to the changing market conditions. The SONAR National Truckload Index – a seven-day moving average of national dry van spot rates that is inclusive of fuel – reached a two-year high during the middle of December. While it has retreated from the recent high, it is still above where it was during the holiday season last year. Over the past month, the NTI has increased by 8 cents per mile to $2.43 and is 19 cents per mile

higher than it was this time last year. Given the calendar, expect that rates will be higher than where they are to start 2025 but will retreat from the highs. The question that remains is, how far will rates retreat when capacity returns to the market in the new year.

Contract rates, which are reported on a 14-day lag, experienced a boost around the Thanksgiving holiday as expected, breaking out of the fairly tight range they have been in all year. Over the past month, the initially reported dry van contract rate per mile, excluding fuel, is unchanged at $2.33. The contract rate reached $2.38 during the Thanksgiving weekend and will likely surpass that during the Christmas and New Year's holidays, given that spot rate movements have been as aggressive as they have been.

LTL market sees pricing power fade



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

The less-than-truckload market has continued to see pricing power deteriorate over the past couple of months even as comps ease. The average LTL contract rate is down 53 cents per hundredweight over the past month, though it has been increasing since the beginning of December. Compared to this time last year, the average LTL contract rate is down $9.45 per hundredweight. In the commentary from the publicly traded LTL carriers, it will be interesting to see if they continue to focus on pricing discipline at the expense of volumes to maintain yield, or if they change their strategies.

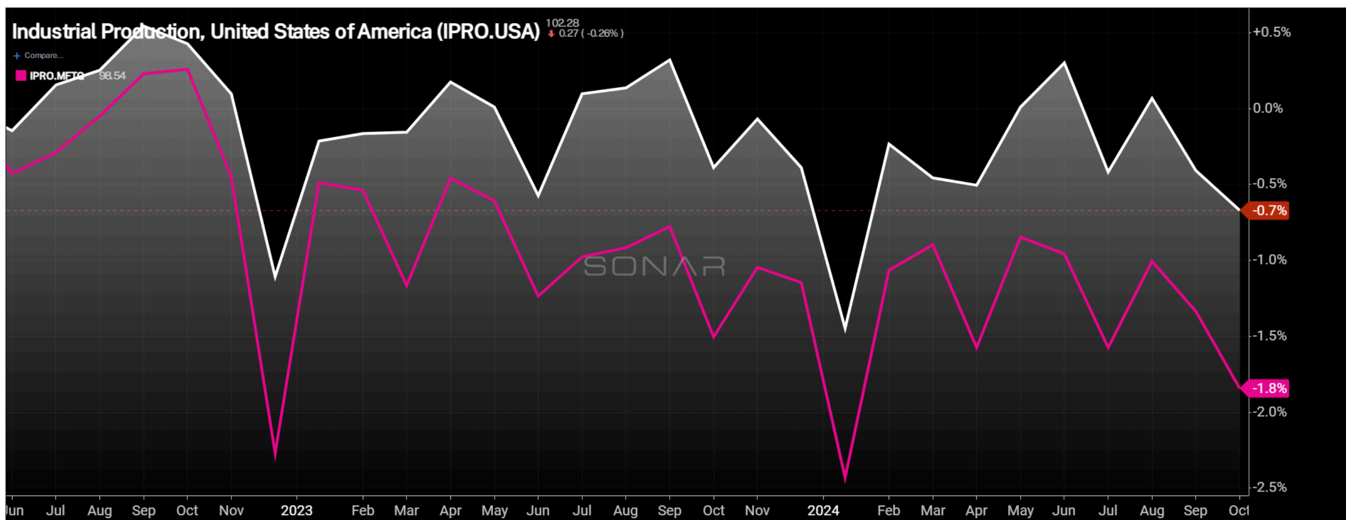
Macroeconomic conditions

The manufacturing sector of the economy remains challenged, dealing with the higher interest rate environment, which stymies demand growth as well as limits investment opportunities.

For the 24th month in the past 25, the manufacturing sector was in contraction in November, according to the Institute for Supply Management's Purchasing Managers' Index. The PMI came in at 48.4 in November, up 1.9 points month over month, showing that the rate of contraction in the manufacturing sector slowed during the month. While the PMI paints a picture of the manufacturing sector, it is important to note that any reading above 42.5 is an indication of overall economic growth.

For the first time in quite some time, the new orders component of the PMI entered expansion territory. The New Orders Index rose by 3.3 points month over month to 50.4, marking the first time new orders have expanded since March. Respondents to the survey highlighted a level of uncertainty about the future surrounding new orders heading into 2025, but a higher percentage of respondents are reporting higher levels of new orders. Twenty-one percent of respondents reported higher new order levels, up 0.6 percentage points from the month prior but 4.3 percentage points higher than it was in August.

Inventory levels remain in contraction as well, but the rate at which inventory levels are contracting has slowed. The inventory component of the PMI increased by 5.5 points m/m to 48.1, marking the third consecutive month in which inventory levels were in contraction. The majority (62.3%) of the respondents report that inventory levels are largely unchanged.

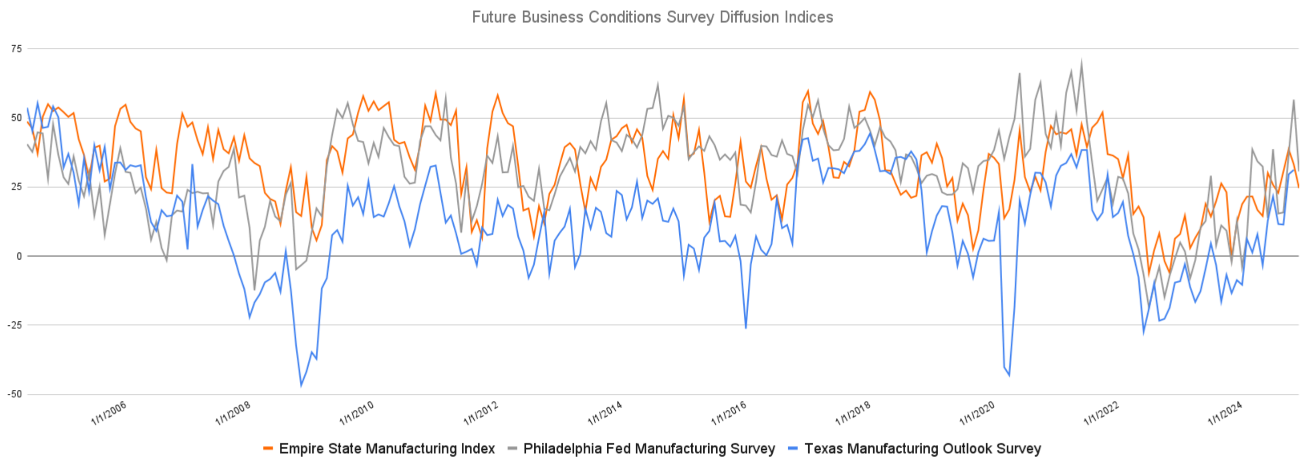


The PMI, while it is survey data, has largely reflected similar sentiment to what is being reported by the Federal Reserve in the form of the industrial production release. For the third consecutive month, industrial production was lower month over month in November. Total industrial production fell by 0.1% m/m in November and was 0.9% lower than it was this time last year.

Business equipment was the primary growth engine for production during November, rising by 1.2% m/m, but that came on the heels of back-to-back months during which production fell by over 3% m/m. Even with the increase in November, production of business equipment was down 6.3% y/y during the month.

Finished consumer goods production was stable in November but remained down 0.6% y/y.

Manufacturing production increased by 0.2% m/m during November, after two consecutive monthly declines. Manufacturing is still down 1% y/y.



Manufacturing conditions were challenged in December in New York. The Empire State Manufacturing Survey, conducted by the Federal Reserve Bank of New York, showed that the current General Business Conditions Index fell by 31 points m/m to 0.2. Current conditions were negative for much of 2024, so it is a positive sign that they are still in positive territory, but the large drop m/m is concerning. New orders and shipments were two areas that were challenged in the December survey, falling by 21.9 points m/m to 6.1 and 23.1 points m/m to 9.4, respectively.

The slowdown in current conditions caused some of the recent optimism to fade. The forward-looking General Business Conditions Index fell by 8.6 points m/m to 24.6, the lowest level since August. Just 41.9% of respondents expect better conditions in the next six months, compared to the 49.6% that expected improving conditions in the November survey. The optimism surrounding new orders has also faded as the forward-looking New Orders Index fell by 9.6 points m/m to 21.8.

Similar sentiment flowed into the Manufacturing Business Outlook Survey conducted by the Federal Reserve Bank of Philadelphia. The current General Business Activity Index retreated further into negative territory, falling by 10.9 points m/m to minus 16.4. Both new orders and shipments entered negative territory, falling by 13.2 points m/m to minus 4.3 and falling 6.4 points m/m to minus 1.9, respectively. The optimism around the next six months is also fading as the forward-looking General Business Activity Index fell by 25.9 points m/m to 30.7. The majority of respondents expect a pickup in new orders and shipments, though both indexes fell in the December survey.

After a boost to production in October, production suffered in November in Texas, Even with a slowdown in production, the current General Business Activity Index of the Federal Reserve Bank of Dallas' Texas Manufacturing Outlook reentered positive territory, rising by 9.1 points m/m to 5.8. As in Philadelphia and New York, firms were more optimistic about the future in Texas, with the forward-looking General Business Activity Index increasing by 1.6 points m/m to 31.2.
For FOMC officials, employment data is one of the indicators along with inflation data that are used to make policies. After a challenging October, the jobs report for November was better than expected. In November, after seasonal adjustments, 227,000 were added to payrolls during the month, better than the 214,000 that analysts were expecting. Even more good news on the jobs front was October's figure was revised higher to 36,000.

Even with the strong report, the unemployment rate inched higher, rising by 10 basis points to 4.2%, which matched analysts' expectations. The evidence of a more challenging labor market for individuals is the impact of the U-6 unemployment rate, which is the rate of total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons. In other words, it is a broader measure of unemployment as it measures those who are also discouraged and holding part-time jobs. The U-6 increased by 10 bps as well to 7.8% and is 80 bps higher than it was this time last year as the labor market has slowed.

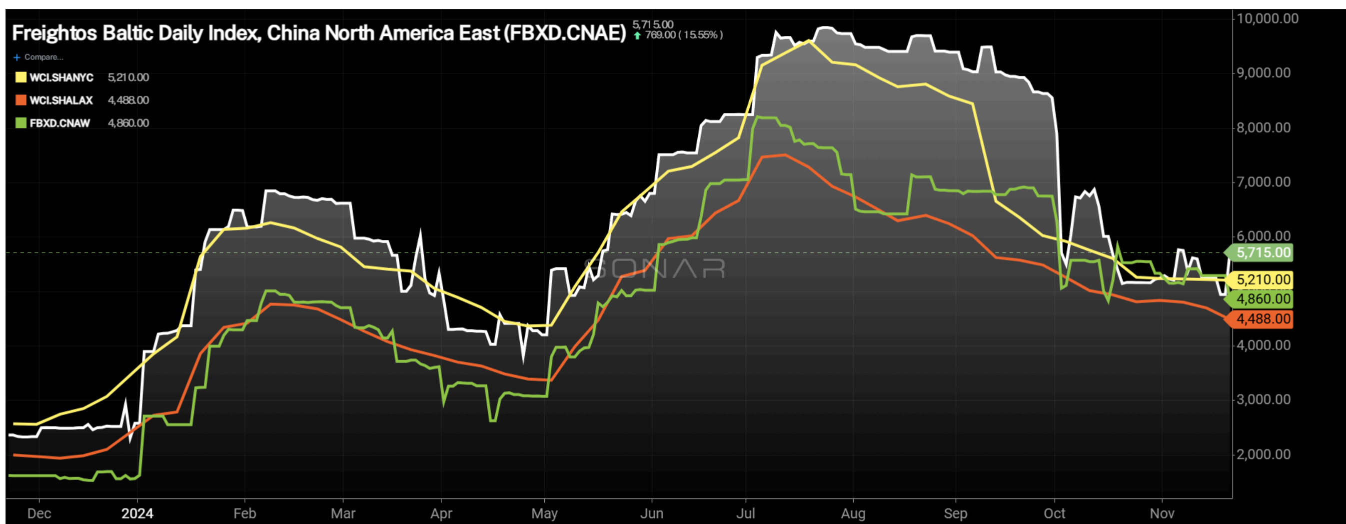
The strength in hiring continued to stem from the same industries: leisure and hospitality, health care, and government.

The health care industry added 54,000 jobs during November, while there were 33,000 government jobs added. The leisure and hospitality sector added 53,000 jobs during November, with 28,900 being added by food services and drinking places, also known as bars and restaurants.

One segment that saw a fairly sizable decline was the retail sector, which on a seasonally adjusted basis lost 28,000 jobs during the month. This is a sector where seasonal adjustments have a large impact, and it was even more evident in November as the nonseasonally adjusted jobs figures showed an increase of 280,500 from the month prior.

Maritime: Peak season waning, volumes off recent highs

The ocean market is facing arguably the most uncertainty across supply chains as the incoming administration has been vocal about pushing tariffs, especially on goods from China. The uncertainty has caused the market to experience an uptick in imports headed for the U.S. January will be an interesting time as there is another potential strike at the East and Gulf Coast ports, which could continue to benefit the West Coast ports, but the potential strike seems like it would be short-lived. The boost in demand is likely what is causing ocean spot rates to be elevated even during a period that is typically the softest time of year.

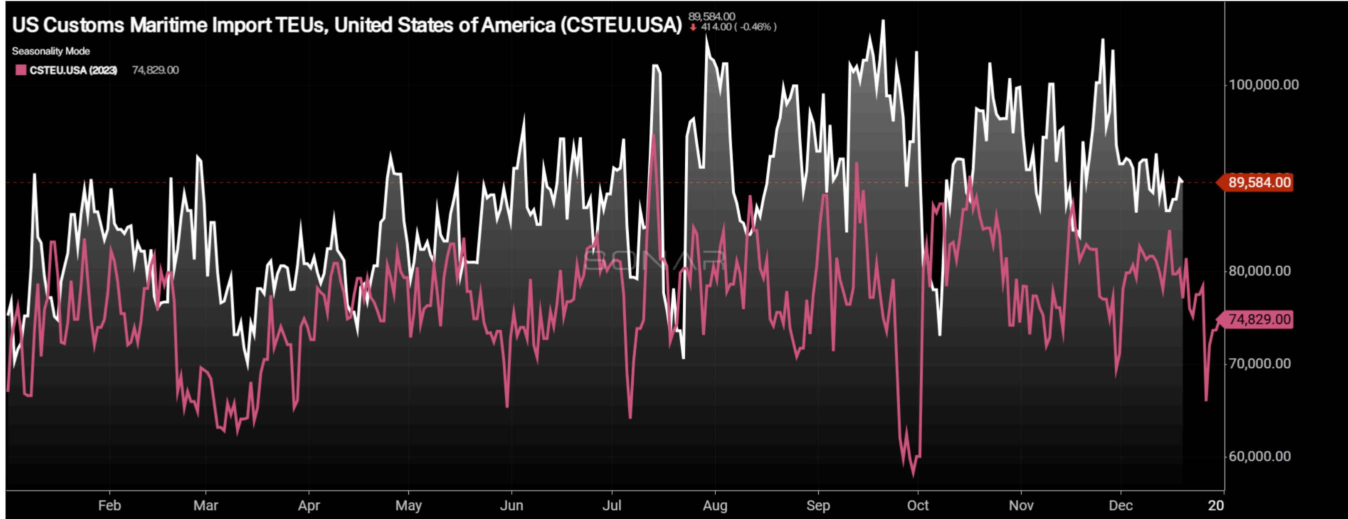


Source: SONAR. Container spot rates, YTD view: Drewry World Container Indexes: Shanghai to Los Angeles (orange), Shanghai to New York (green). Freightos Baltic Daily Index: China to North American West Coast (yellow) and China to North American East Coast (white).

The declines in ocean spot rates that really started in late July have stalled out, likely a result of higher volume levels than ocean carriers expected but also an outcome of ocean carriers manipulating capacity in an effort to keep spot rates higher for longer. Three of the four ocean spot rate indices showed rates increasing over the past month, and all four are still over double what they were this time last year.

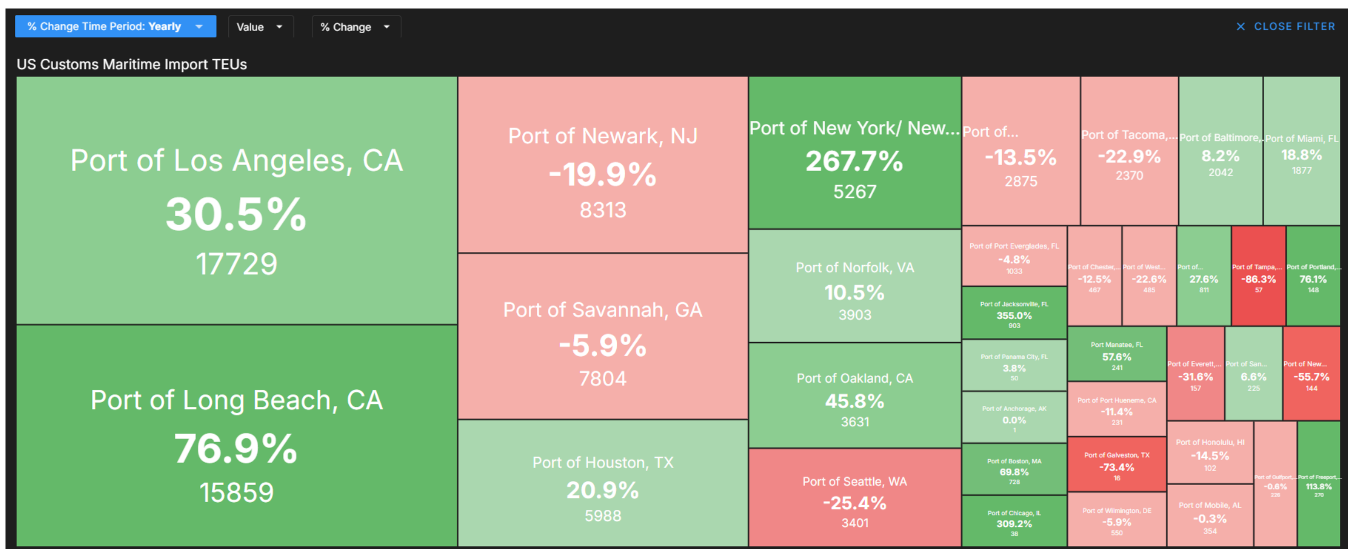
The Freightos Baltic Daily Index from China to the North American West Coast was the only granularity of the four that declined, falling 6.2% m/m to $4,557 per 40-foot equivalent unit. Despite the monthly decline, the rate is still 168.8% higher than it was this time last year. From China to the North America East Coast, spot rates increased by 5.2% m/m to $6,011 per FEU, up 137.7% y/y.

The Drewry World Container Index showed an increase into the West Coast, and the increase on the East Coast rate was even greater than the Freightos increase. The WCI from Shanghai to Los Angeles increased by 0.2% m/m to $4,499 per FEU, up 126.6% y/y. The WCI from Shanghai to New York experienced the largest increase, rising 16.6% m/m to $6,074 per FEU, up 113% y/y.



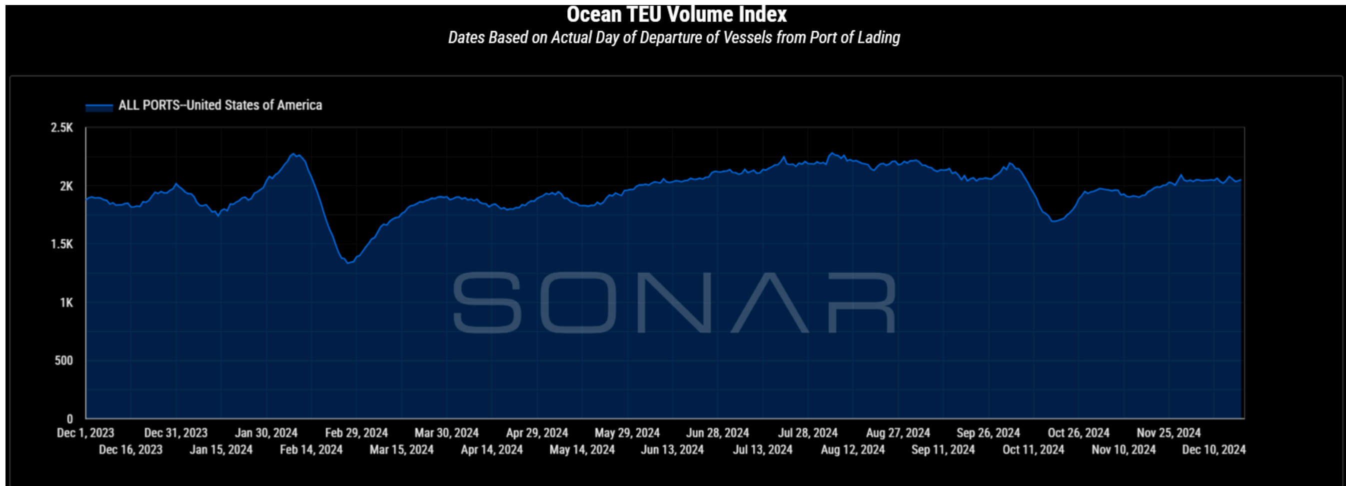
Source: SONAR. U.S. Customs Maritime Import TEUs: 2024 (white) and 2023 (pink).

Peak season on the ocean is a thing of the past, but that doesn't mean the outperformance compared to last year has faded at all. The gap with year-ago levels is arguably wider than it has been throughout much of the year, but throughput at the ports will fade during the holidays. Over the past month, TEUs clearing customs at U.S. ports are down 4.7%. Even with the monthly decline, throughput is up 16.2% y/y, greater than the 12.1% y/y gains experienced in the December report.



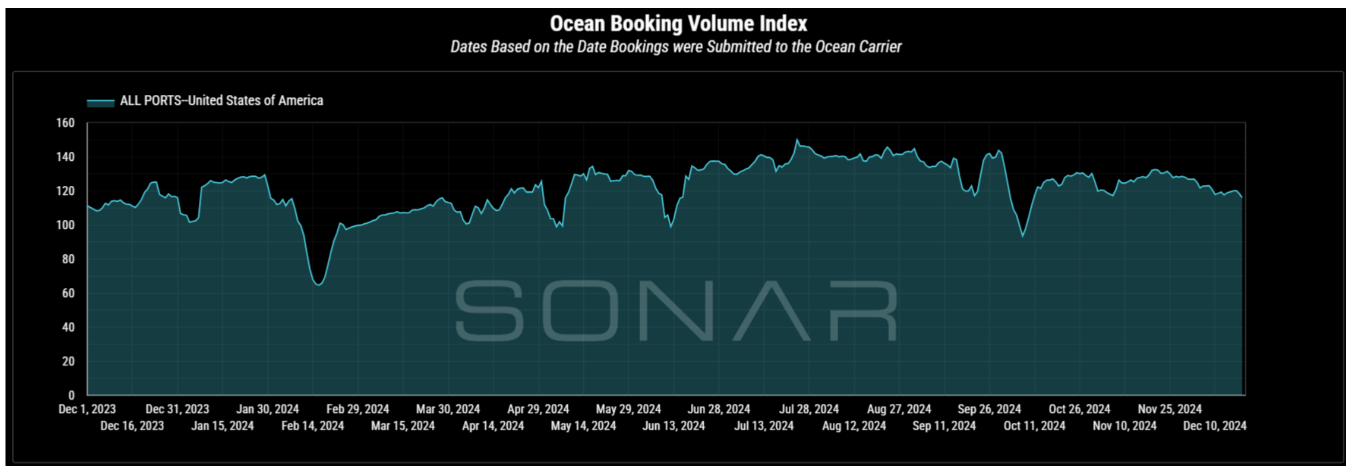
Source: FreightWaves SONAR. Maritime Import Shipments by Port — Tree Map.

The threats of labor disputes at East Coast ports have allowed the West Coast ports to recapture market share that was lost during the COVID-19 pandemic. Both the ports of Los Angeles and Long Beach are reporting significant growth y/y in imports. It isn't just the Southern California ports on the West Coast that are benefiting, but the Port of Oakland has also seen significant growth y/y.



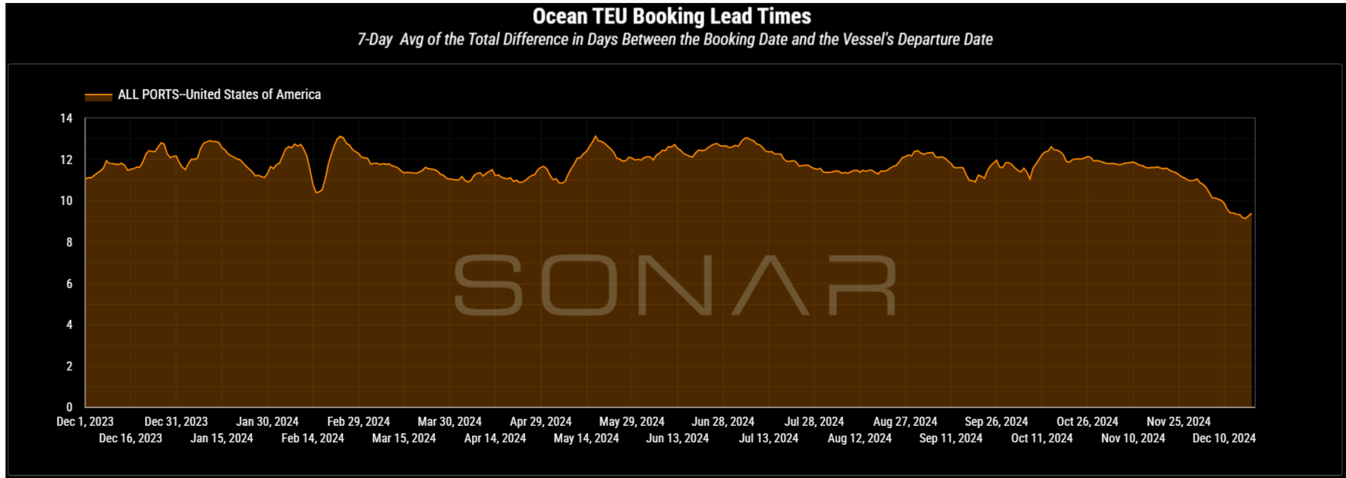
Source: SONAR Container Atlas. Ocean TEU Volume Index — all global ports to all U.S. ports.

The Ocean TEU Volume Index, a gauge of container trade from all global ports to all U.S. ports as TEUs leave origin ports, has continued to recover from the Golden Week holiday. Over the past month, imports headed for the U.S. have increased by 4.2%. The increase is steadier than the increase that came ahead of last year's Lunar New Year, and with the potential labor disruption and an earlier Lunar New Year than last year, it is likely this will continue to rise throughout January. Ocean TEU volumes are still 9.7% higher than they were this time last year, showing that demand on the ocean really hasn't taken a break.



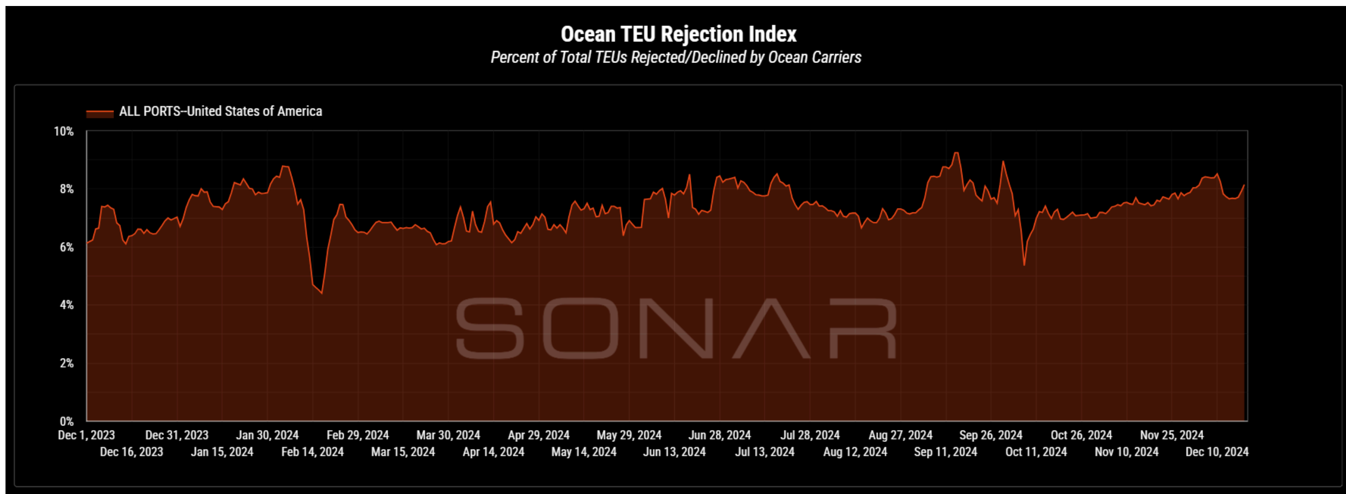
Source: SONAR Container Atlas. Ocean Booking Volume Index — all global ports to all U.S. ports.

Bookings have declined over the past month, but that has been par for the course as shipments have been booked closer to the date of departure than they have in the past. Over the past month, the Ocean Booking Volume Index has declined by 12.2%, but these bookings will likely rise as the departure date for vessels gets closer. Even with the decline over the past month, ocean booking volumes are up 1% y/y.



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, which is likely why booking volumes are declining. Over the past month, the Ocean TEU Booking Lead Time has been reduced by over two days, or 18.8%, shorter than it was this time last month, to 9.4 days. The decrease over the past year is similar to that over the past month, as lead times are more than two days shorter than they were in 2023.



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

The Ocean TEU Rejection Index signals that ocean carriers are trying to do everything in their power to limit capacity in the market to boost rates. Over the past month, the Ocean TEU Rejection Index increased by 70 basis points to 8.15% and is 154 bps higher than it was this time last year. The challenge ocean carriers face heading into 2025 is that capacity will be coming online, roughly 2% added per quarter during the year, which will create challenges for keeping rates higher during the year.

Rail intermodal: Import growth continues to drive intermodal traffic

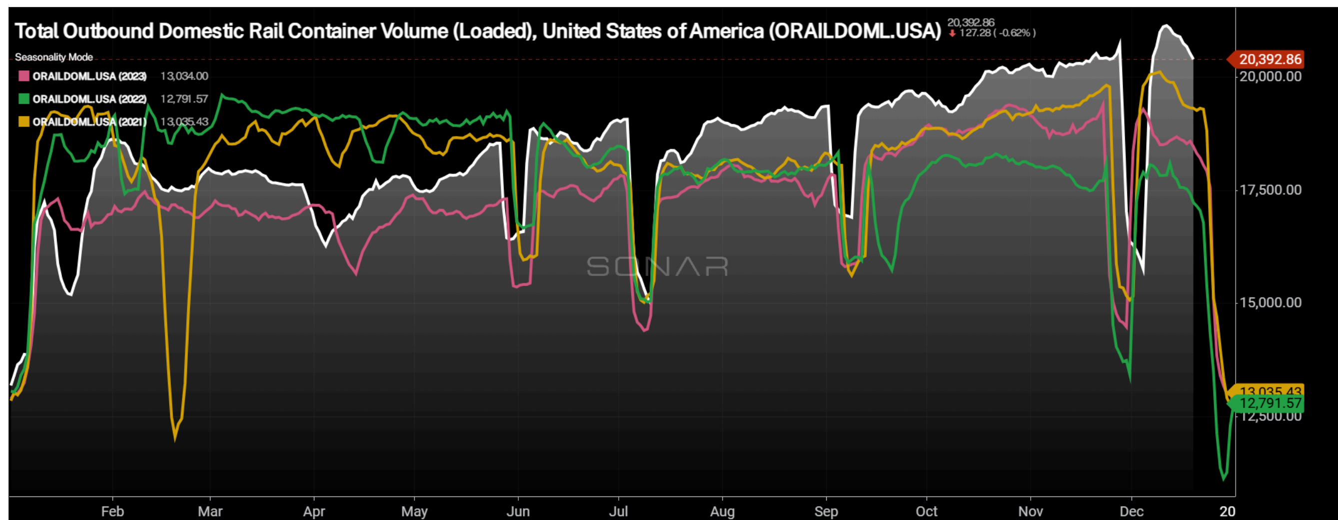
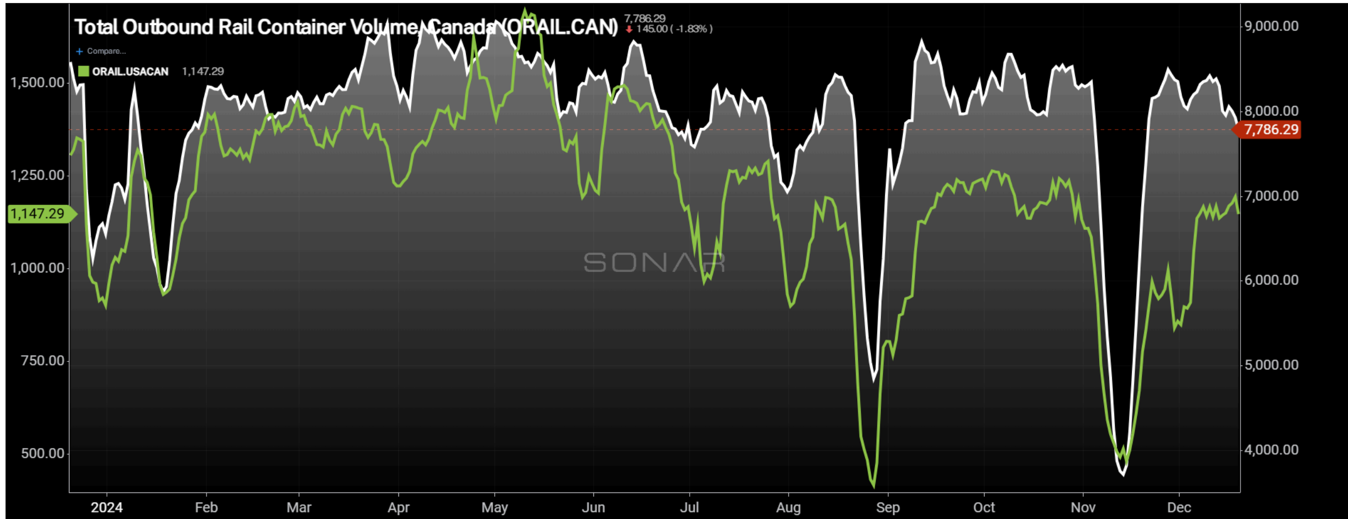


Chart: SONAR. Loaded domestic intermodal container volumes for 2024 (white), 2023 (pink), 2022 (green) and 2021 (yellow).

While the calendar has moved past the typical intermodal peak season, the overall growth in intermodal volumes hasn't slowed down. Volumes are declining after peaking following the Thanksgiving holiday, following a period more similar to 2021 than what was experienced in both 2022 and 2023. For the intermodal market as a whole, a lack of urgency along with a significant amount of freight being pull forward into the final months of 2024 that would have traditionally moved in the early stages of 2025 has created the strongest intermodal market in quite some time. Total intermodal volumes have increased by 1.3% over the past month, even with recent declines off the peak. At present, total intermodal volumes, which include both domestic and international containers as well as loaded and empty containers, are up 12.1% y/y.

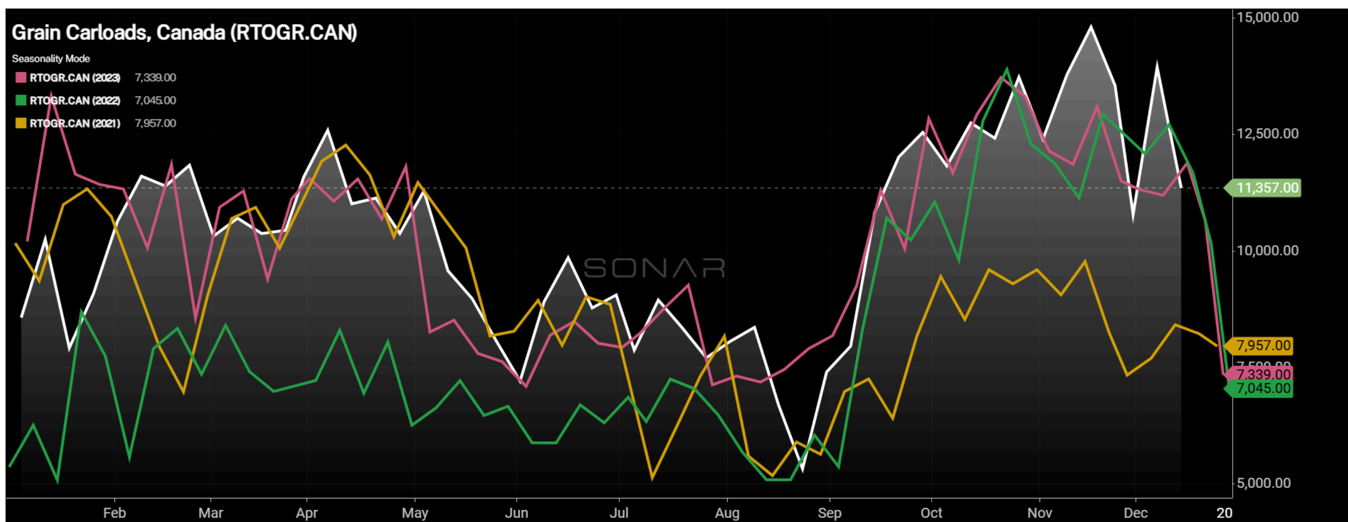
For much of the year, the domestic side of the intermodal market lagged behind the international side of the market, at least until recently. Loaded domestic intermodal container volumes are up 12% y/y, compared to the international loaded volumes, which are up 10.1% y/y. The last month has been more of a challenge for the domestic side of the market as loaded domestic intermodal volumes are down 0.1% m/m, while loaded international intermodal volumes are up 3%. The dynamics in the intermodal market have allowed for the segment to capitalize on the higher import volumes.

Empty container volumes have increased over the past month, but the growth is being driven solely by an increase in empty international volumes. Total empty container volume is up 1.5% m/m, with empty international container volumes up 7.1% and domestic empty volumes down 4.5%.



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

Intermodal container volumes in Canada have come under pressure in recent weeks, not experiencing the same level of growth as what is happening in the U.S. Over the past month, total intermodal volumes originating in Canada have fallen by 1.6% to the lowest level, with the expectation of the work stoppage in November, since early September. Compared to this time last year, total intermodal volumes originating in Canada are down 7.2%. Cross-border movements have grown over the past month but are still down significantly y/y. Intermodal volumes originating in the U.S. with a destination in Canada have increased by 27.6% m/m, partially due to weak comps following the work stoppage, but are down 13.2% y/y.



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

Canadian grain carloads are facing seasonal pressures with recent declines from the peak established in early November. Compared to this time last year, grain carloads are down 4.5%.

Intermodal contract rates continue to trend sideways

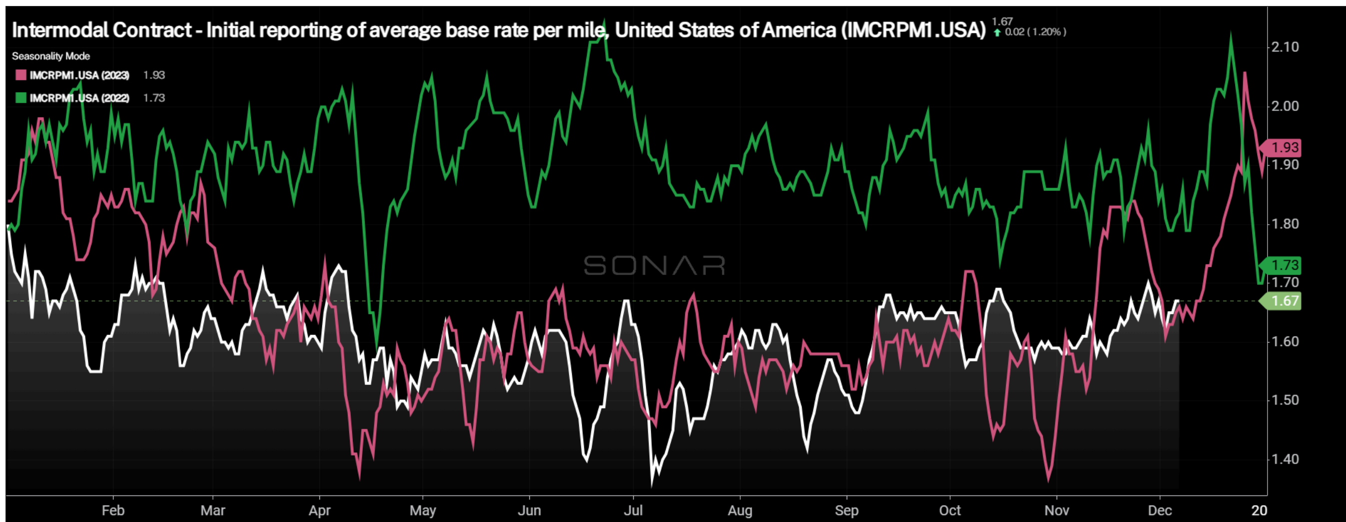


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2024 (white), 2023 (pink) and 2022 (green).

Part of the reason for intermodal outperformance has been that intermodal marketing companies and the railroads have given price concessions while trying to grow volumes. Intermodal contract rates have been in a fairly tight range all year, though they have moved higher after bottoming in early July. Over the past month, the initially reported intermodal contract rate has increased by 3 cents per mile to $1.67, which is near the high of the year. The initially reported intermodal contract rate is 1 cent per mile higher than it was this time last year, but 15 cents per mile below where it was in 2022.

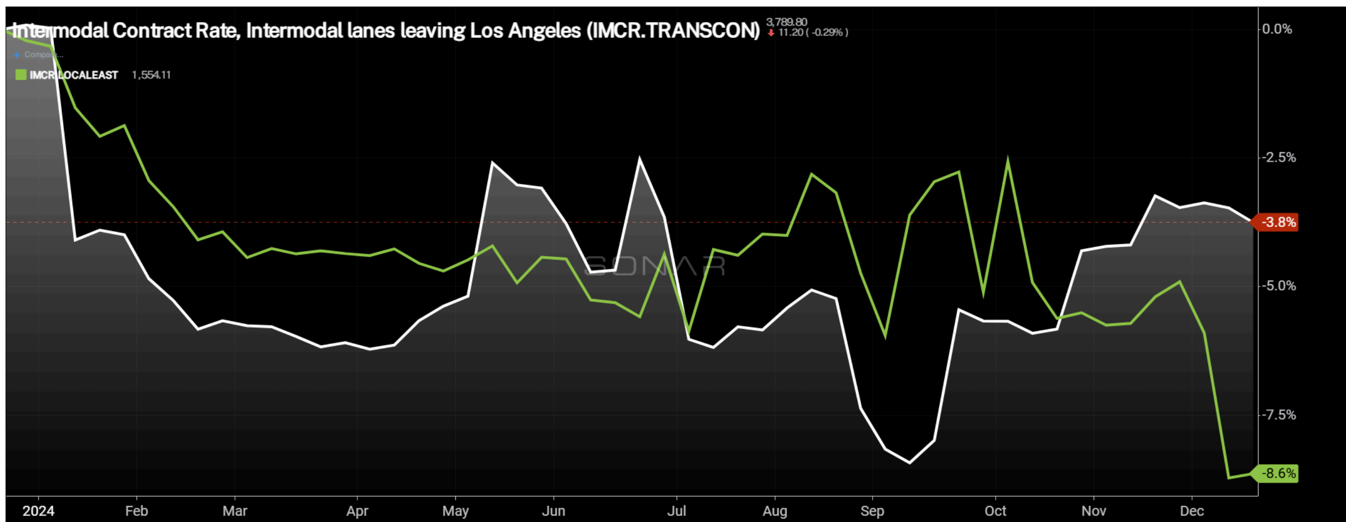


Chart: FreightWaves SONAR. Intermodal contract rates on a relative view: Transcontinental (white) and Local East (green).

The vast majority of intermodal movements happen under contractual agreements, and new intermodal contract rate data shows how different intermodal contract rates move based on geography. The Local East intermodal contract rate, or intermodal contract rates on high-volume

intermodal lanes in the Eastern half of the country, have been far more reactive to market conditions. Over the past year, the Local East intermodal contract rate has declined by 8.6%. Since the lengths of haul in the Local East are more competitive with truckload, the market is more reactive than the transcontinental rates. The transcontinental intermodal contract rate, or the average rate for the densest intermodal lanes leaving Los Angeles, have fallen by 3.8% y/y, highlighting that there is still pressure on rates in an effort to grow volumes.

Intermodal spot rates also show signs of whether intermodal carriers are protecting contracted capacity for shippers, and the early indications in December are that they aren't. Across the majority of the densest intermodal lanes, spot rates are lower over the past month, especially out of Los Angeles and Chicago. This is a sign that intermodal carriers have plenty of capacity to handle current volume levels and are willing to take lower rates to increase utilization.

Intermodal spot rates lower out of Chicago and Los Angeles

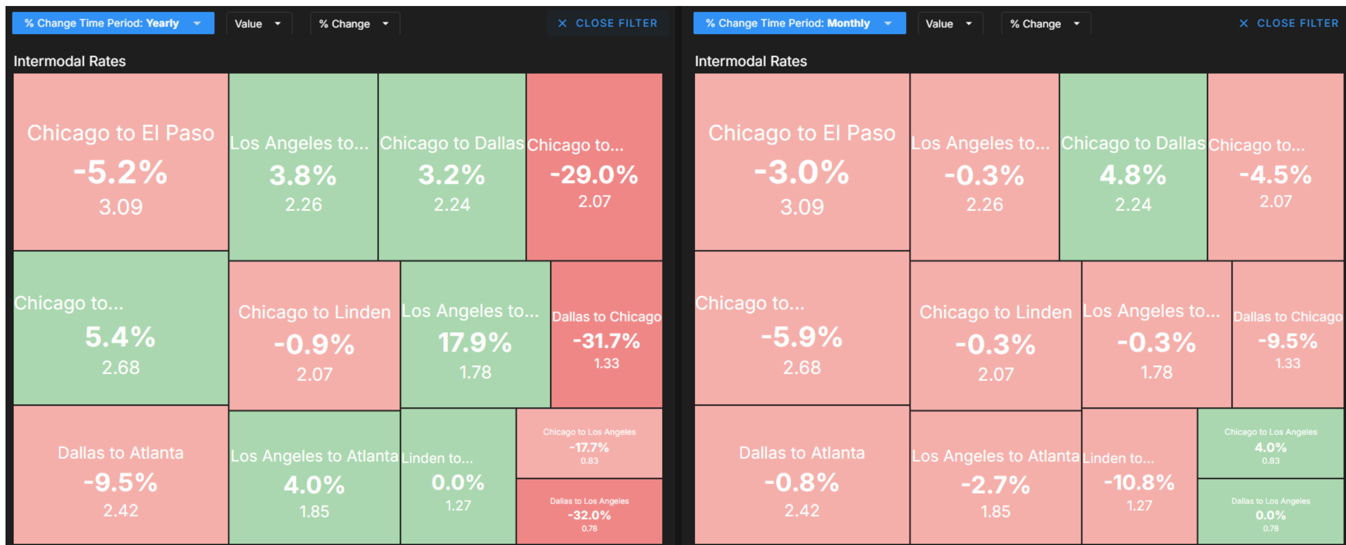


Chart: SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

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 holidays are having a significant impact on intermodal tender rejection rates as the national average has surged by 375 basis points over the past month to 5.04%.

The increase in the rejection rate is being driven by challenges in Southern California, where intermodal tender rejection rates are now above 10% and currently sit at 13.26%, the highest level since early 2020. This will be an important metric to monitor following the holiday season to see if this is a sign of an underlying issue on the West Coast or if it is just an exacerbated holiday impact.

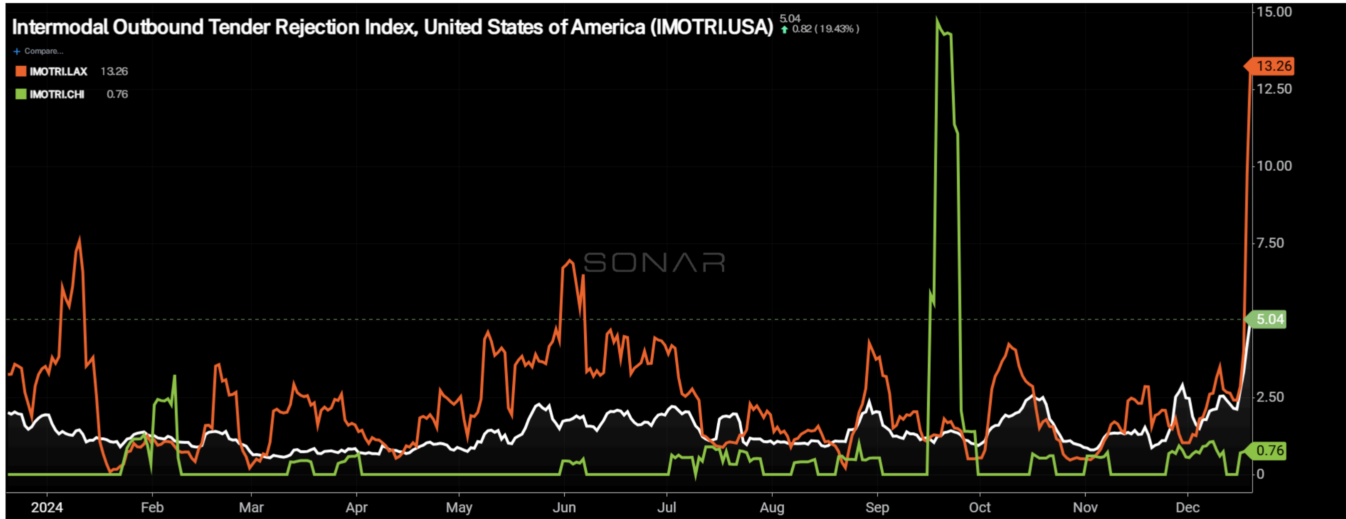
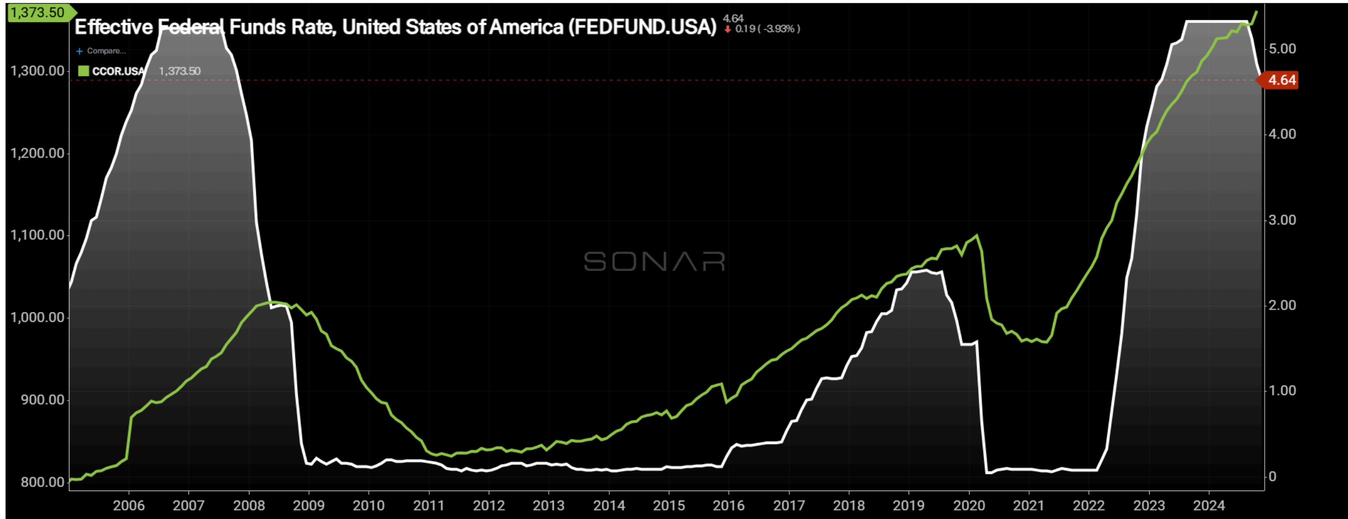


Chart: SONAR. Domestic intermodal outbound tender rejection rates for national (white), Los Angeles (orange) and Chicago (green) loads.

What else we're watching

The Federal Open Market Committee has remained aggressive to close out 2024, with multiple cuts to the federal funds rate, or the overnight borrowing rate for banks. The FOMC has stated at multiple meetings that inflation has been trending in the direction that allows for the fairly aggressive easing of monetary policy. As the calendar is set to change to 2025, the challenge that the FOMC faces is whether it can continue to be aggressive in cuts to the federal funds rate or will have to temper the rate of declines.

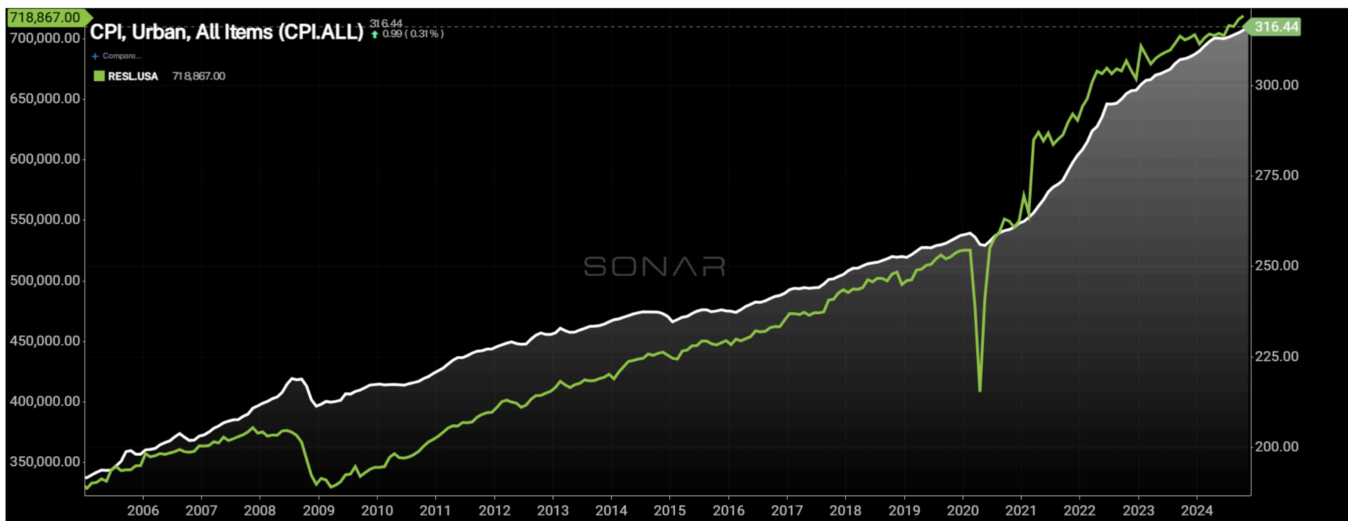
Early expectations are for the FOMC to hold the target range for the federal funds rate unchanged at the Jan. 28-29 meeting. Two factors partially explain the reason for holding steady. First, inflation readings have been in line with expectations, outside of the Producer Price Index, which came in hotter than expected in November, but the progress to the long-term target of 2% has seemingly stalled. Additionally, the effects of interest rate movements, both hikes and cuts, are typically lagging current economic conditions. In other words, Fed officials use past months' data to determine policy decisions, and then the impacts of their decisions take time to flow into the economy. For those reasons, it makes sense for FOMC officials to pause intermittently to determine the impacts of their policy decisions.



Additionally, the uncertainty that the incoming administration brings presents challenges for the FOMC, who is supposed to be void of political influence. With potential tariffs that could be inflationary, it could derail the current direction of interest rates.

The first meeting of the year is also a prime time to pause any policy decisions as new members join the committee and various regional Federal Reserve bank governors exit. This creates a new committee voting on policy decisions, which can cause changes to policy directions.

Rampant inflation has become a talking point of the past as the annual rate of inflation is well down from the 9% experienced in 2022, but that doesn't mean inflation isn't still impacting the overall economy. At the same time, the consumer has been resilient and shown a willingness to spend, even in the face of inflation.



The Consumer Price Index, which is a widely used measure of inflation though it isn't the preferred inflation metric of the FOMC, continued to rise in November. The CPI increased by 0.3% m/m during November, the fastest rate of price increases since April. The 12-month running total for the CPI

accelerated by 0.1 percentage points in November, rising to 2.7%. Both the monthly increase and the 12-month total matched analysts' expectations for inflation. The acceleration in the monthly figure as well as an increase in the 12-month total highlights that inflation is still prevalent, despite moving closer to the long-term target of 2%.

Core inflation, which is the CPI excluding food and energy prices due to their volatility, has flattened out over the past three months. Core inflation matched the headline CPI's increase, rising 0.3% m/m during November, the fourth consecutive month of a 0.3% increase. The 12-month running total for core CPI came in at 3.3%, the third consecutive month in which the 12-month total was 3.3%.

Food prices experienced one of the largest increases of the year, rising by 0.4% m/m in November. The increase matched September's, which was the largest since January. The 12-month running total inflation rate for food prices was 2.4%. The rise in November was almost entirely driven by food-at-home prices, which increased by 0.5% m/m. In comparison, food-away-from-home prices increased by 0.3% m/m. Even with the significant increase on food-at-home prices, they are still up just 1.6% y/y, compared to food-away-from-home prices, which are 3.6% higher.

Energy prices, which have been an area of relief for consumers in recent months, were back on the rise in November. Overall energy prices increased by 0.2% m/m in November, the first monthly increase since April. Despite the increase, energy prices are still down 3.2% y/y. Gasoline prices increased by 0.6% m/m during November but were still down 8.1% y/y.

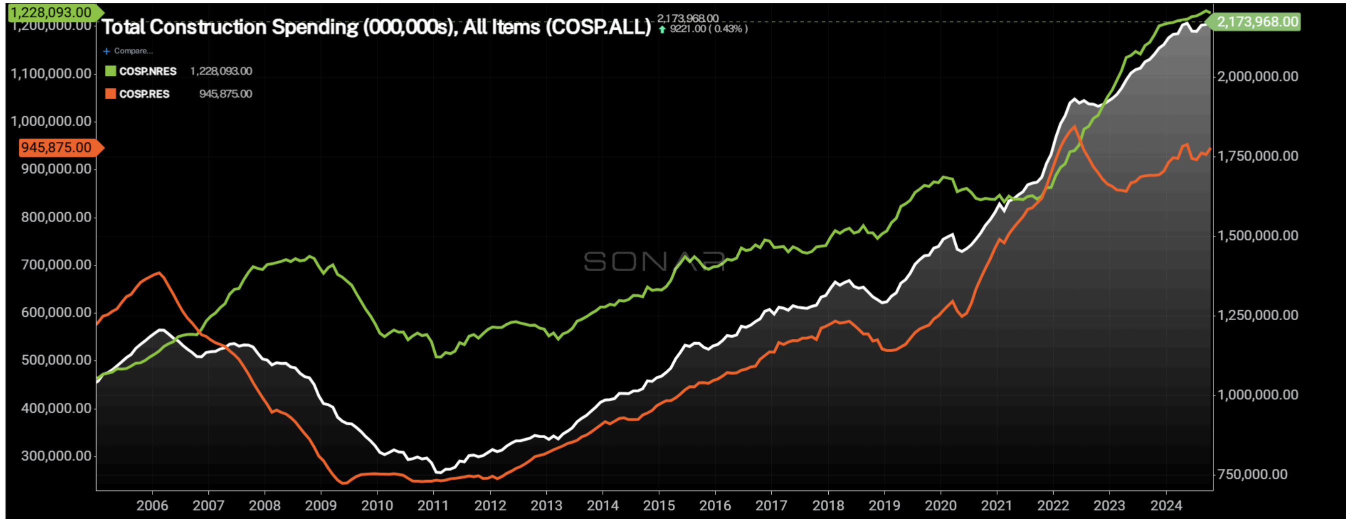
Shelter prices continue to be the main driver of overall inflation, accounting for over one-third of the CPI. Shelter prices increased by 0.3% m/m in November, down from the 0.4% m/m increase in October. Shelter prices are still 4.7% higher than they were this time last year.

With inflation still present in consumers' everyday life, they have shown the ability to continue to spend money despite challenging conditions. Strong retail sales numbers in November highlight that fact. November's retail sales increased by 0.7% m/m, exceeding analysts' expectations of a 0.5% increase for the month. Total retail sales were up 3.8% year over year in November, even with retail holidays like Cyber Monday moving into December this year.

Motor vehicles and parts sales were a significant portion of the growth in retail sales during November, rising 2.6% m/m. Excluding autos and gasoline station sales, retail sales were up 0.2% m/m and 3.9% from where they were this time last year.

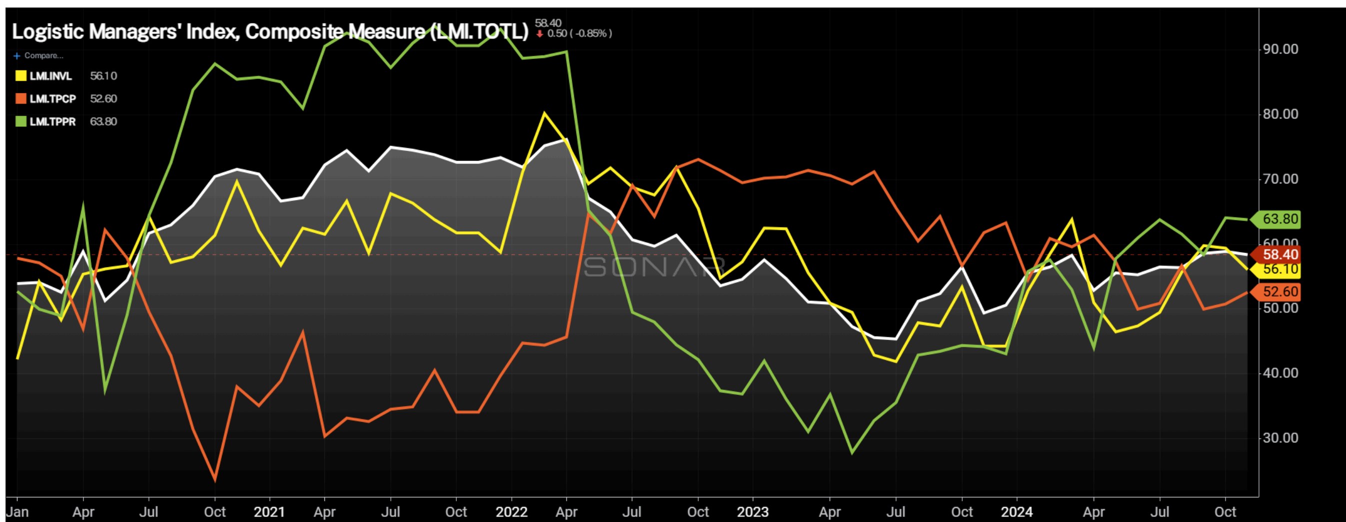
Some positives in the month are that electronics spending as well as home improvement spending were back on the rise. Electronics spending was up 0.3% m/m and is now up 1.2% y/y. Retail sales at building material, garden equipment and supplies dealers were up 0.4% m/m and up 4.1% y/y.

Construction spending continues to accelerate, though the recent months have been more challenging than earlier in the year. Total construction spending grew by 0.4% m/m in October to a seasonally adjusted annual rate (SAAR) of $2.173 trillion. Total construction spending was 5% higher than it was in October 2023.



October's increase in construction spending was driven by the residential side of the sector. Residential construction spending increased by 1.5% m/m in October to a seasonally adjusted annual rate of $945.9 billion. Residential construction spending was 6.4% higher than it was during October 2023.

Nonresidential construction spending took a breather in October, declining by 0.4% m/m to a seasonally adjusted annual rate of $1.228 trillion. Even with the monthly decline, nonresidential construction spending was 3.9% higher y/y. The manufacturing subsegment of nonresidential construction spending fell by 0.1% m/m to a SAAR of $236.1 billion but was up 16.6% y/y. This is a positive sign overall for the U.S. manufacturing sector that there has been significant growth over the course of the past year.

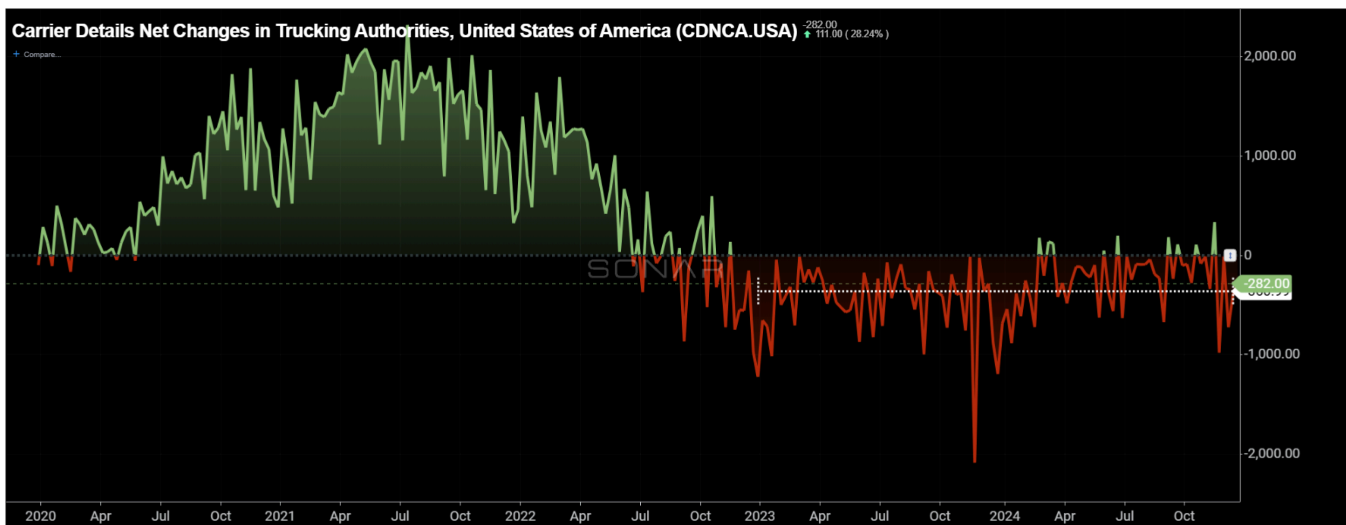


Source: SONAR. Logistics Managers' Index (white), inventory levels (yellow), transportation prices (green) and transportation capacity (orange).

The Logistics' Mangers Index remained firmly in expansion territory in November as the composite index came in at 58.4. The rate of growth slowed slightly during November, as the composite index fell by 0.5 points m/m, but at 58.4, the logistics sector continues to grow.

The growth during the month was fairly widespread. Transportation prices remain in expansion territory at 63.8, down 0.3 points m/m. Transportation capacity continued to expand as well, rising by 1.7 points m/m to 52.6. Inventory levels also grew but at a slower pace than they did in November, falling by 3.3 points m/m to 56.1.

Heading into 2025, expectations are for significant increases in transportation prices at some point within the next 12 months. The predictions for transportation prices in the LMI came in at 80.9, far greater than the 63.8 where transportation prices currently sit.



Source: SONAR. Carrier Details Net Changes in Trucking Authorities

Determining where capacity is exiting the market is challenging, though significant bankruptcies continue to mount in states like California and Illinois. Since the beginning of 2023, more than 300 carriers have exited the market on a weekly basis. Measuring authorities presents its own challenges, as it is not a true measure of capacity. There are nuances in when authorities go inactive, and an authority can represent anything from a single truck to thousands.

What underscores the rapid pace of capacity exiting the market is the contrast with the freight recession of 2019, when the number of carrier authorities experienced net growth for most of the year. Is the market balanced in terms of supply and demand? Probably not. From May 2020 through December 2022, more than 920 authorities entered the market weekly. However, the continued reduction in authorities suggests the market is much closer to equilibrium than it has been in the past two years.

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