JULY
2024

STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

Signs of life starting to shine through

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Overview

The truckload market is showing signs of life during the perceived summer shipping season. Volumes and rejection rates have trended higher as the market is becoming more balanced. Spot rates are still relatively low but have come off the bottom discovered in early May.

Intermodal volumes continue to grow as domestic volume have started to break out, lagging behind international intermodal's breakout earlier this year. As container availability on the ocean becomes challenged, ocean carriers will be hesitant to send containers inland, thus challenging international intermodal volume. Pricing remains under pressure as rates are near the bottom.

The ocean market is coming alive as demand continues to increase, and spot rates are rapidly approaching $10,000 per container once again. Risks to the supply side of the market are present as new builds will be entering the market later in the year, but at present, container availability is one of the largest challenges impacting the maritime market.

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

Macro indicators	(y/y change)
May industrial prod. change	+0.9% (+0.4%)
May retail sales change	+0.1% (+2.3%)
May U.S. Class 8 orders	18,900 (+37%)
May U.S. trailer orders	7,100 (-46%)

Truckload indicators	(y/y change)
Tender rejection rate	5.16% (+181 bps)
Average dry van spot rate[1]	$2.28/mi (+2.2%)
LAX to DAL spot rate[2]	$2.03/mi (-1.5%)
CHI to ATL spot rate	$2.23/mi (+1.4%)

Tender volumes	(y/y change)
Atlanta	415.97 (-1.9%)
Dallas	449.81 (+20.07%)
Los Angeles	335.61 (+34.81%)
Chicago	207.05 (+6.8%)

Tender rejections	(y/y change)
Atlanta	6.97% (+400 bps)
Dallas	5.16% (-89 bps)
Los Angeles	6.37% (+238 bps)
Chicago	2.4% (+57 bps)

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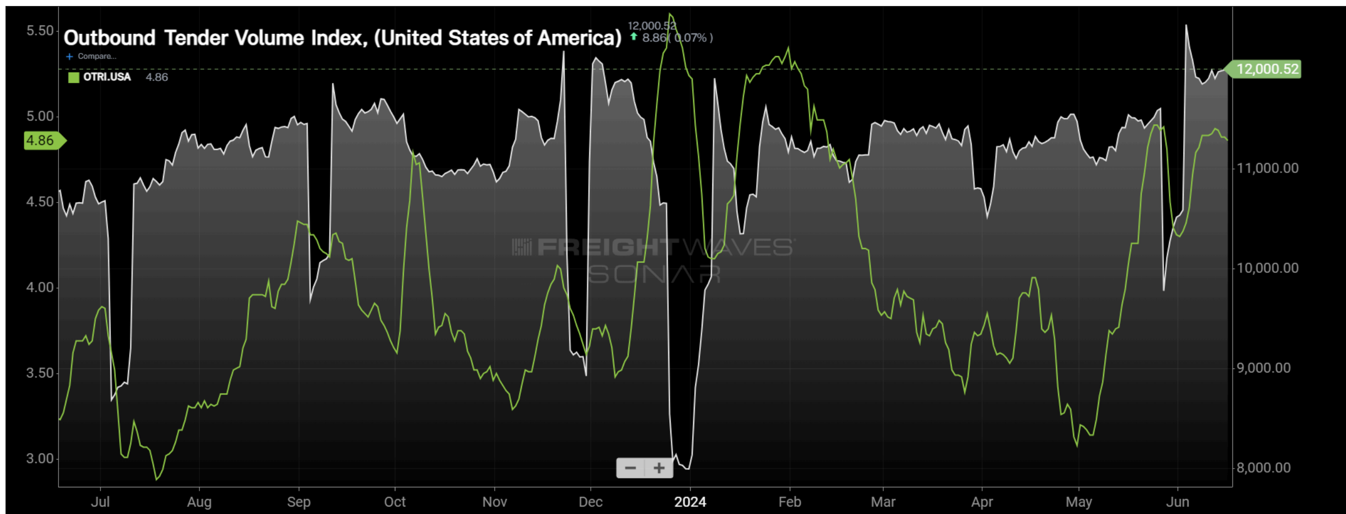
[1] FreightWaves National Truckload Index
[2] FreightWaves TRAC spot rate

Truckload markets

The truckload market remains in a state of overcapacity, but there are signs that the market is moving closer to a semblance of balance. Tender rejection rates have remained elevated since International Roadcheck and Memorial Day and are starting at a higher baseline than they were leading into the Fourth of July holiday last year. Additionally, volumes are at the highest level they have been in the past year, driven by stronger imports early in the year, and will likely benefit in the back half of the year from uncertainty in the maritime market.



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

The freight market has shaken off any slowdown post-Memorial Day as volume levels through mid-June have started to climb, which they tend to do every year. The Outbound Tender Volume Index increased by 4.52% month over month. If the seasonal pattern holds, OTVI should continue to increase through the Fourth of July holiday. At present, OTVI is 11.25% higher than it was this time last year, as wide a gap with year-ago levels as it has seen..

The growth in volume has been primarily driven by the dry van market. Dry van volumes have increased by over 4% in the past month, while reefer volumes have increased by just 0.42% m/m. Reefer volumes have retreated off the recent highs, though produce season continues to have an impact on the market. That impact appears more in rejection rates than it does in volume, however.

Not only has the volume growth been driven by the dry van market, but volume growth across the country has been impressive. Over the past month, 87 of the 135 freight markets within SONAR have experienced volume growth, including most of the major markets, like Ontario, California, where volumes have increased by over 16% in the past month. While that market tends to be fed by imports, elsewhere, in Harrisburg, Pennsylvania, volume levels have also grown by double digits, highlighting the fact that it isn't just a few markets driving the growth, but it is widespread across the country.

While the growth in tender volumes is impressive, it doesn't necessarily paint the entire picture of the freight market. OTVI is a measure of shippers' requests for capacity, and if tenders have to be retendered, it can create an artificial boost to OTVI as a whole.

How is the potential double counting prevented? By only looking at accepted volume levels.

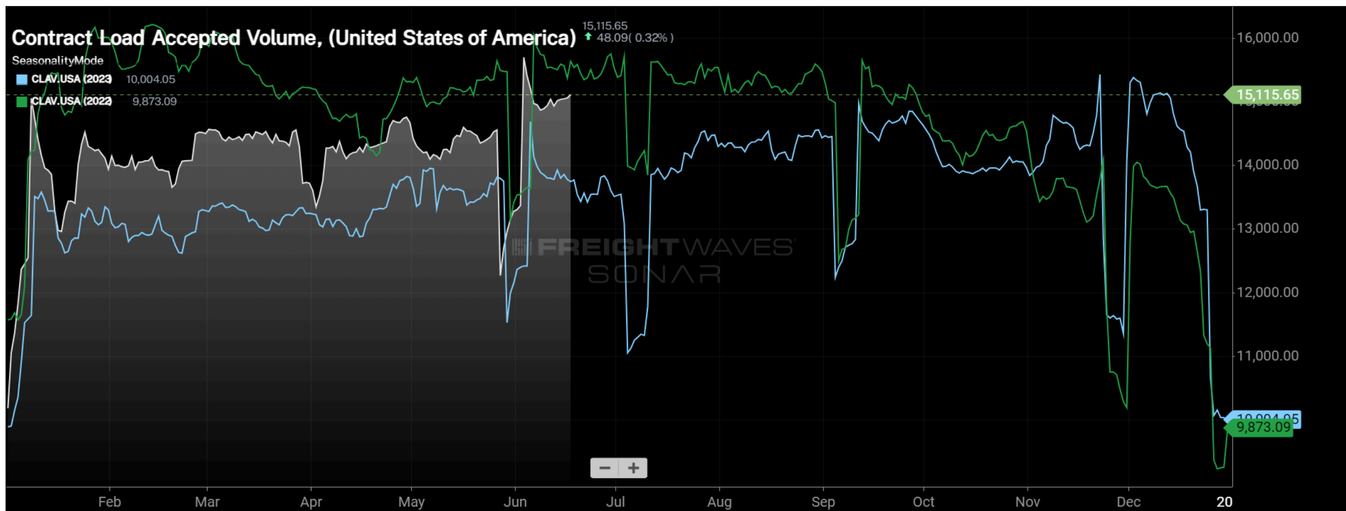


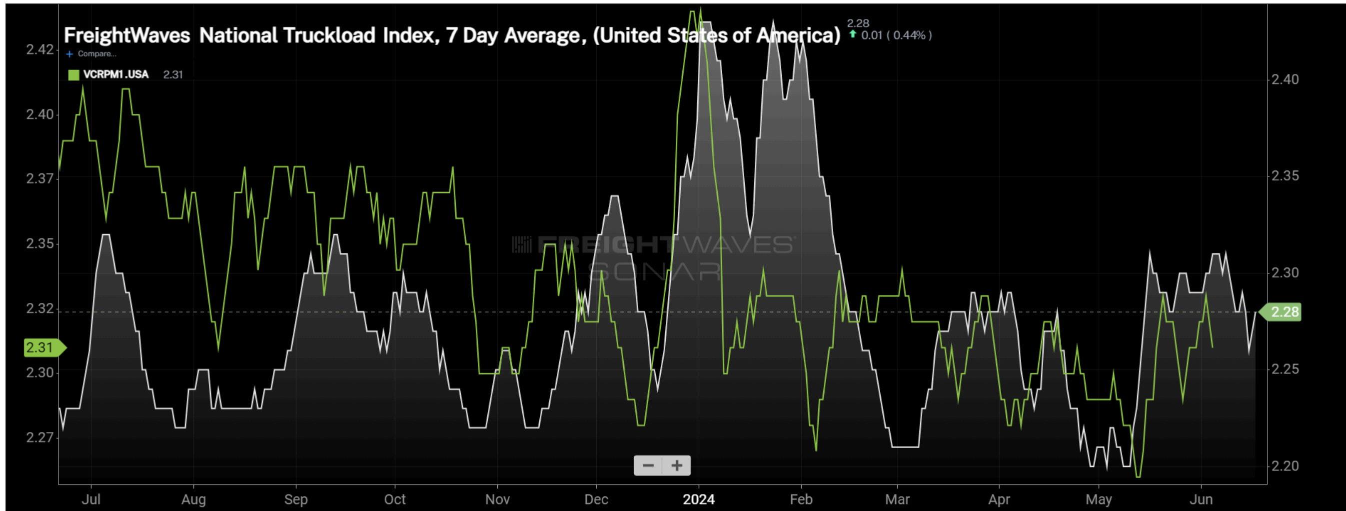
Chart: FreightWaves SONAR. Contract Load Accepted Volume: 2024 (white), 2023 (green) and 2022 (blue).

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 11.63% year over year. The growth in demand stems from two areas: a reduction in inventory and a pull-forward of demand or reaction to a deteriorating service.

Tender rejection rates, a measure of relative capacity in the market, have again hit the 5% mark in a nonholiday period, a sign that the freight market is heading into a more balanced state. The Outbound Tender Reject Index has increased by 51 basis points over the past month. Given the timing of International Roadcheck, the increase in rejection rates has been a welcome sight for transportation service providers. It creates a higher baseline for rejection rates heading into the Fourth of July holiday.

Tender rejection rates are now tracking roughly in line with where they were in 2019, also a remarkably soft freight market. If that trend continues, especially if demand continues to show signs of strength in the back half of the year, it creates a more unstable capacity situation. In 2019, by the holidays tender rejection rates almost hit 15%. In comparison, tender rejection rates around the holidays in 2022 and 2023 failed to reach 7%. So as capacity continued to exit the market in 2019, it was setting up 2020 as a more challenging year in terms of securing capacity. Then entered COVID-19 and the entire freight market went into a frenzy that lasted over two years. If something similar happens in the back half of this year, the market will be much more fragile and outside disruptions will have greater impacts on capacity availability as carriers will have more options in the market.

International Roadcheck creates needed boost to spot rates



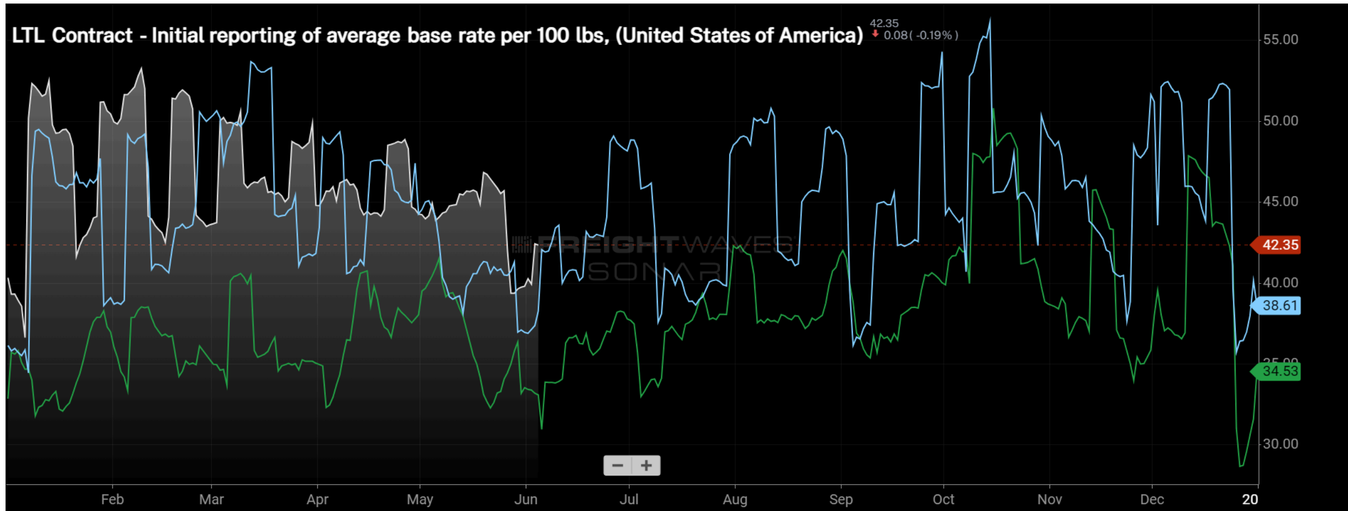
Source: FreightWaves SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

The spot market has experienced rate deterioration slightly after plateauing following both International Roadcheck and Memorial Day. The FreightWaves National Truckload Index — a seven-day moving average of national dry van spot rates that is inclusive of fuel — has fallen by a penny since the beginning of the month, but it is still 8 cents per mile higher than it was at the beginning of May.

At present, the NTI stands at $2.28 per mile, 4 cents per mile higher than it was at this time last year. With rejection rates eclipsing 5% a couple of weeks ahead of the Fourth of July holiday, there will be upward movement in spot rates as the holiday approaches. This will provide a boost to carriers, which already have extremely thin margins and balance sheet challenges. What it could also do is give carriers a taste of hope that the market tides are changing and keep capacity in the market for longer.

While spot rates remain somewhat volatile and continue bouncing off the bottom, longer-term contract rates are flattening out. The initially reported dry van contract rate, which excludes fuel, currently sits at $2.31 per mile, 3 cents per mile higher than it was this time last month, but a holiday boost is creating this increase. The initially reported van contract rate is 12 cents per mile, or 4.9%, lower than it was this time last year. Contract rates have largely been in a tight range since the beginning of the year as longer-term contracts are coming back into favor. Additionally, the aggressive rate reductions experienced in the back half of 2022 and 2023 are largely in the rearview mirror, and a prioritization on service has come to the forefront of shippers' minds.

LTL contract rates falling back in line with last year



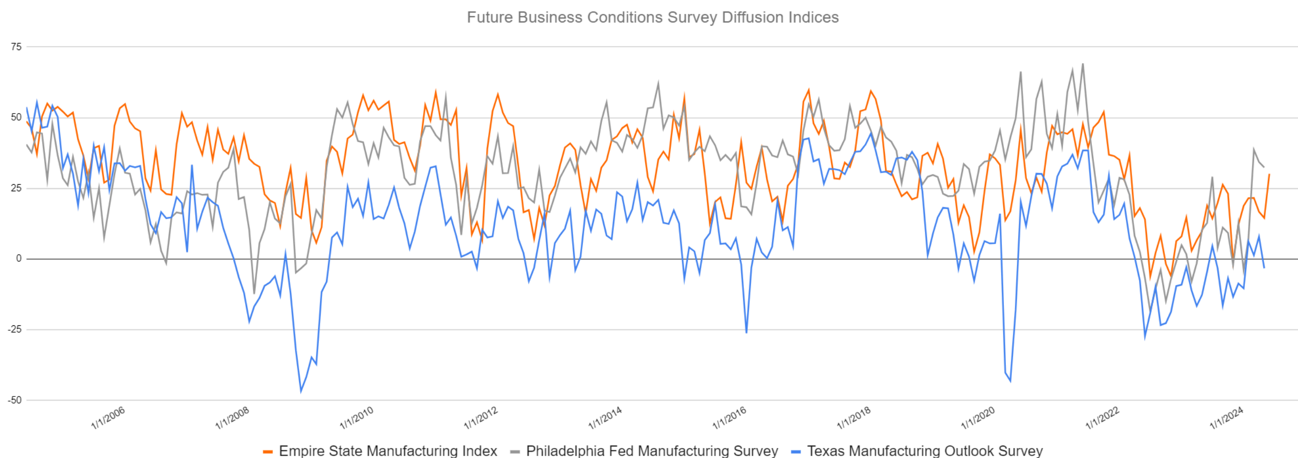
Source: FreightWaves SONAR. Initially reported LTL contract rate per hundredweight: 2024 (white), 2023 (blue) and 2022 (green).

As the industrial segment of the economy is in contraction, according to the Institute for Supply Management's Purchasing Managers' Index for manufacturing, less-than-truckload pricing is starting to lose some momentum. The average LTL contract has fallen by $2.59 per hundredweight over the past month. Now sitting at $42.35 per hundredweight, it is still 10.6% more expensive to ship via LTL than it was last year. One thing to pay attention to as the third quarter gets underway is that there doesn't appear to be a catalyst like a major LTL player shuttering operations, thus what will cause LTL pricing to find momentum through the back half of the year?

Macroeconomic conditions

The manufacturing sector of the economy continues to battle challenges that keep it from growing consistently. ISM's Purchasing Managers' Index for manufacturing remained in contraction for the second consecutive month and for the 18th time of the past 19 months. Overall manufacturing PMI was down 0.5 points month over month to 48.7.

A headwind for the manufacturing sector remains limited new orders. The New Orders component not only remained in contraction in May, but fell fairly significantly from the prior month. The New Orders Index fell by 3.7 points m/m in May to 45.4, the lowest level in a year. The New Orders component of the PMI has been in contraction for 20 of the past 24 months after being in expansionary territory from June 2020 through May 2022.



June's Empire State Manufacturing Index saw the current Business Conditions Index improve significantly, rising by 9.6 points month over month as the index moved closer to equilibrium at minus 6. A positive sign is that although the index remains in contraction, the Shipments Index returned to expansion territory, rising 4.5 points month over month to just 3.3.

After seeing optimism fade in May, it was back in force in June. The forward-looking General Business Conditions Index increased by 15.6 points month over month, after declining in both April and May. The index currently sits at 30.1, the highest level since March 2022 as firms have become increasingly confident that the next six months will be better.

The outlook in Philadelphia followed a similar pattern to the Empire State survey in May. The current General Business Activity Index within the Manufacturing Business Outlook Survey, conducted by the Federal Reserve Bank of Philadelphia, fell by 11 points month over month to 4.5. The decline was driven by decreases in new orders, which fell 20.9 points month over month to minus 7.9, and in shipments, which fell 20.3 points month over month to minus 1.2. The forward-looking General Business Activity Index, despite losing 1.9 points month over month, was staunchly positive at 32.4.

The Federal Reserve Bank of Dallas releases the Texas Manufacturing Outlook Survey during the final week of the month, but the mood of Texas business firms in May turned sour, similar to both Philadelphia and New York. The survey's Future General Business Activity Index fell 11.2 points month over month to minus 3.3, well below its average of 12.3. Conditions will improve over the next six months, according to 21.6% of survey respondents, but 24.9% of firms expect them to worsen.

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

Growth in the labor market continues to be driven by health care, government, and leisure and hospitality, which accounted for over half of the 272,000 jobs added in May. The health care sector added 68,300 jobs during May, the government sector added 43,000, and leisure and hospitality added 42,000. The transportation sector added 10,600 jobs in May, but the truck transportation segment saw a reduction of 5,400 jobs in the month, falling to November 2023 levels.

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

Maritime: Spot rates continue to reach new heights

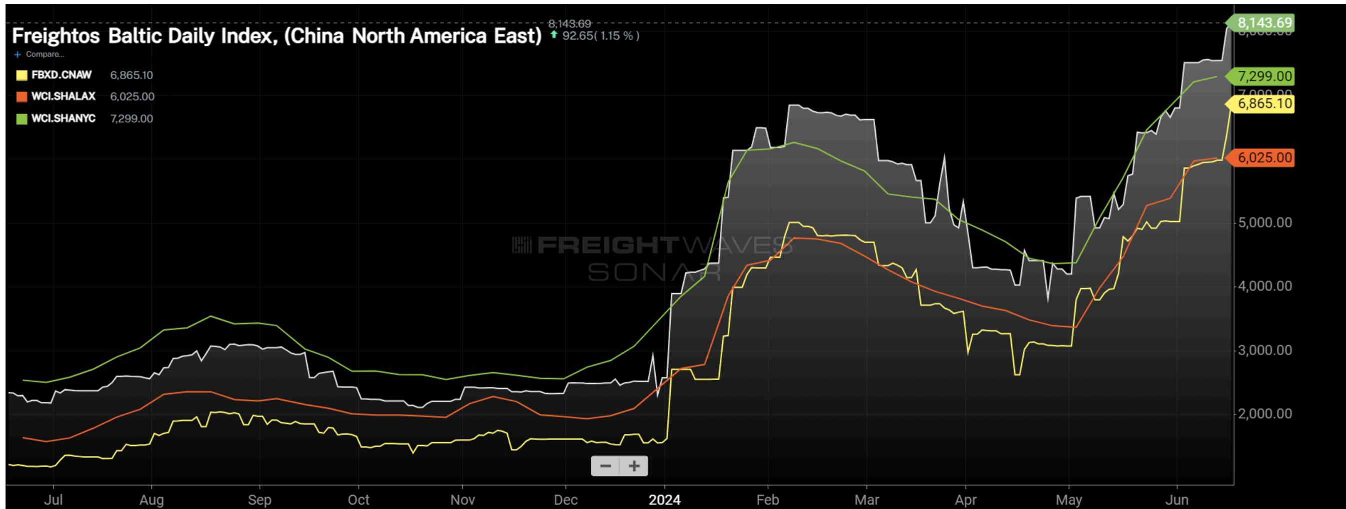
The maritime market has become quite the challenge for importers as ocean spot rates are rapidly approaching $10,000 per container once again. Container availability has become quite the challenge as ocean carriers have reduced total available capacity on the ocean, while also combating longer transit times from Southeast Asia to Europe to navigate the Cape of Good Hope rather than the Red Sea.

Executives at the ninth-largest containership line in the world, during their first quarter earnings call, stated that there are still plenty of supply-side risks, most notably surrounding deliveries of new vessels. The pandemic boom boosted containership line balance sheets with levels of cash never experienced before. What did ocean carriers do with that cash? They ordered more containership vessels, hence the supply-side risks as shipbuilders will be pushing to complete the orders in the second half of this year and ocean carriers have little to no option but to take delivery.

Now the same executives did highlight that demand in the current environment will likely be enough to outweigh the new capacity coming online.

The question will be, if tariff risks arise in the back half of the year, container availability remains under pressure and service continues to deteriorate, does that create a pull-forward of 2025 freight into 2024 as importers have to act earlier and earlier?

One thing is certain at present: Pricing power is firmly in the hands of the ocean carriers as container spot rates have surged to the highest levels of the year, eclipsing the highs around the Lunar New Year. The rate of the month-over-month increases has slowed from last month, but the year-over-year increases continue to grow into the summer shipping season.

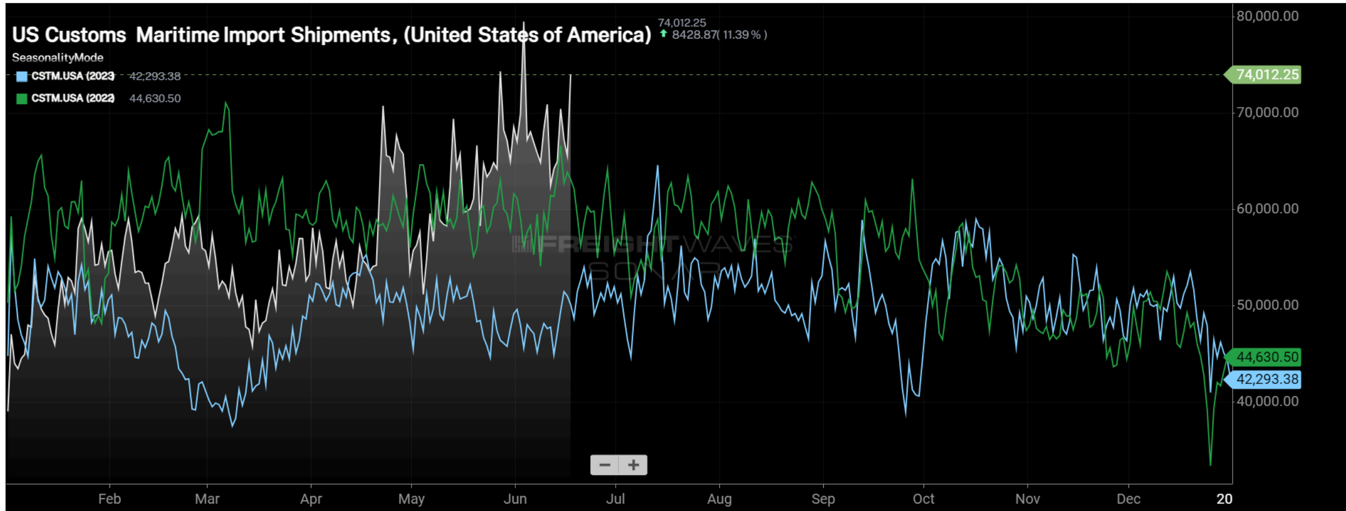


Source: FreightWaves SONAR. Container spot rates, YTD view: Drewry World Container Indexes: Shanghai to Los Angeles (orange), Shanghai to New York (green). Freightos Baltic Daily Index: China to North American West Coast (yellow) and China to North American East Coast (white).

The Freightos Baltic Daily Index from China to the North American West Coast has risen by 39.5% over the past month to $6,865.10 per 40-foot equivalent unit. With the month-over-month increase, the spot rate along this lane is 469.3% higher than it was a year ago. From China to the North American East Coast, the monthly increase wasn't as aggressive. It rose 26.7% month over month to $8,143.69 per FEU, up 247.7% compared to this time last year.

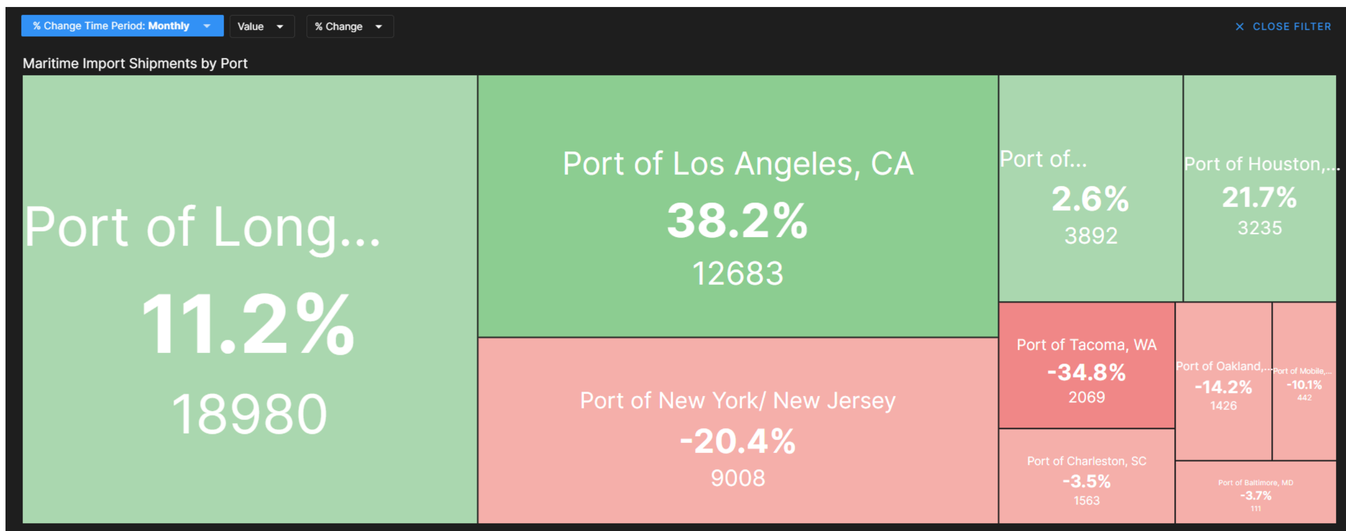
The Drewry World Container Index followed suit as trans-Pacific rates have soared over the past month. The WCI from Shanghai to New York registered an increase of 27.7% month over month to $7,299 per FEU, up 145.3% compared to this time last year. The WCI from Shanghai to Los Angeles currently stands at $6,025 per FEU, up 34.6% month over month and 217.8% year over year.

These rate increases, should they hold through the summer shipping months, will be quite impactful to importers as the higher spot rates will set the table for the next round of contract negotiations.



Source: FreightWaves SONAR. U.S. Customs Maritime Import Shipments, both containerized and noncontainerized: 2024 (white), 2023 (blue) and 2022 (green).

U.S. imports continue to set new year-to-date highs as volume on the ocean has sustained itself after the Lunar New Year. As the calendar now turns to the start of peak season on the ocean, it is likely that U.S. maritime import shipments will remain robust, compared with both 2022 and 2023 in the back half of the year. Over the past month, U.S. maritime import shipment volumes have grown by 2.9%. Import shipments are now well above year-ago levels, at present up 29.2%, but they are also 17% higher than 2022 levels.

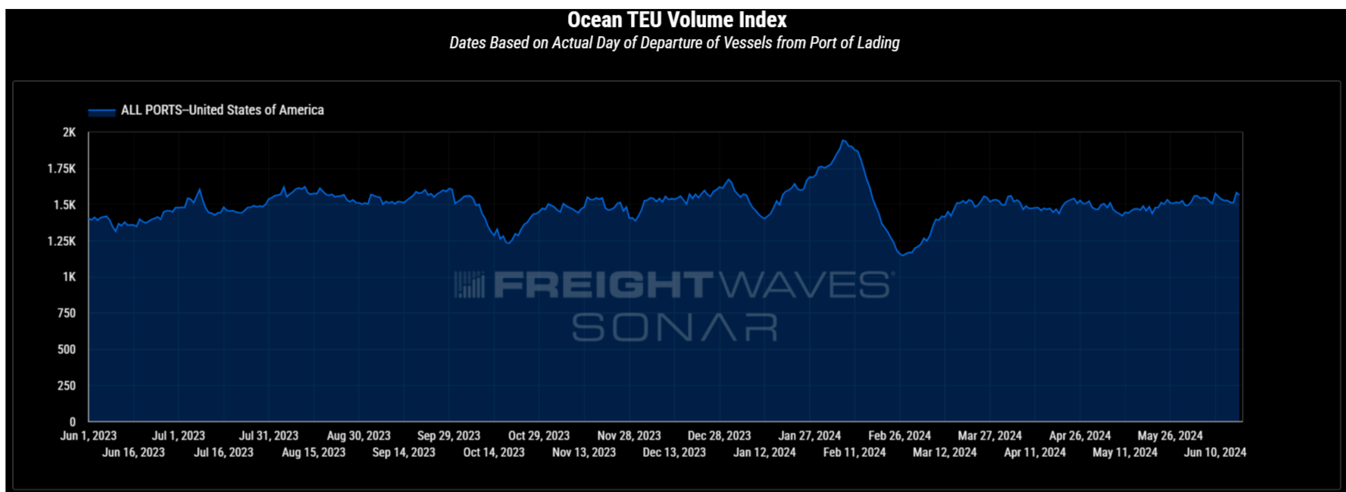


Source: FreightWaves SONAR. Maritime Import Shipments by Port — Tree Map.

Growth continues to be the theme across the largest ports in the U.S. as the two largest ports by maritime import shipments saw double-digit growth m/m. Though the process by which U.S. Customs officials clear shipments at ports can create noise, maritime import shipments at the Port of Long Beach, California, are 11.2% higher m/m. At the Port of Los Angeles, imports are up 38.2%.

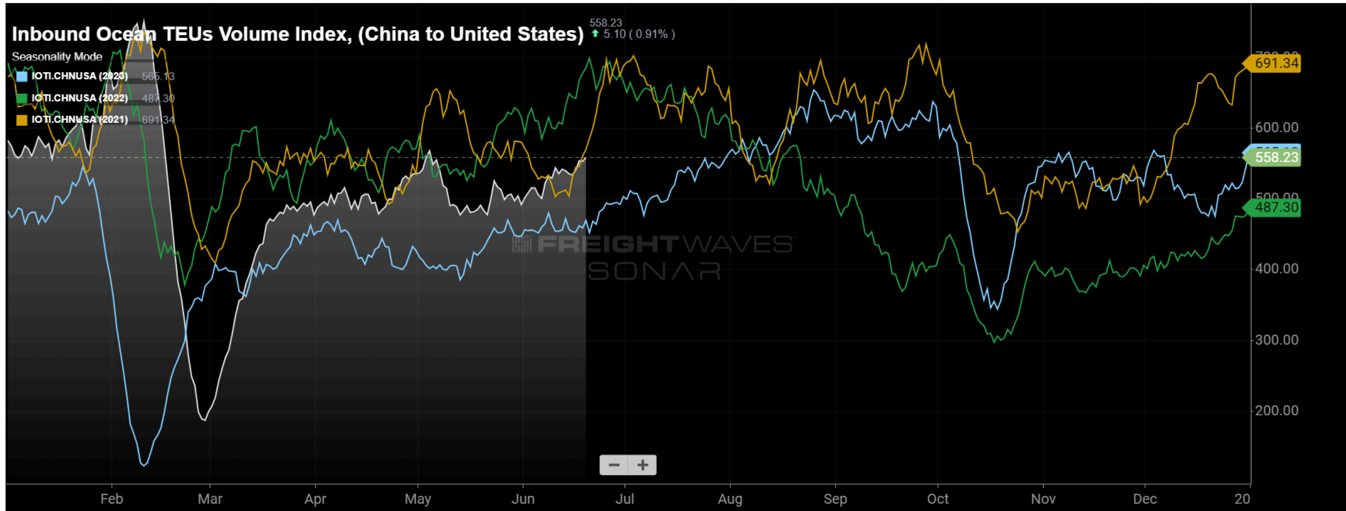
The Port of Savannah, Georgia, experienced a recovery in import shipments over the past month, growing by 2.6% month over month. The port has handled 23.5% more imports than it did this time last year, showing that the growth in imports is widespread across the country and not isolated to the West Coast.

With that said, the Port of New York/New Jersey has experienced volumes challenges over the past month. Ocean TEU volumes headed to the Port of New York/New Jersey saw a fairly sizable dip during the early parts of May, which is likely why volumes at the port are being challenged currently. That will probably reverse course over the next six weeks as inbound ocean TEU volumes for the Port of New York/New Jersey reached YTD highs in early June.



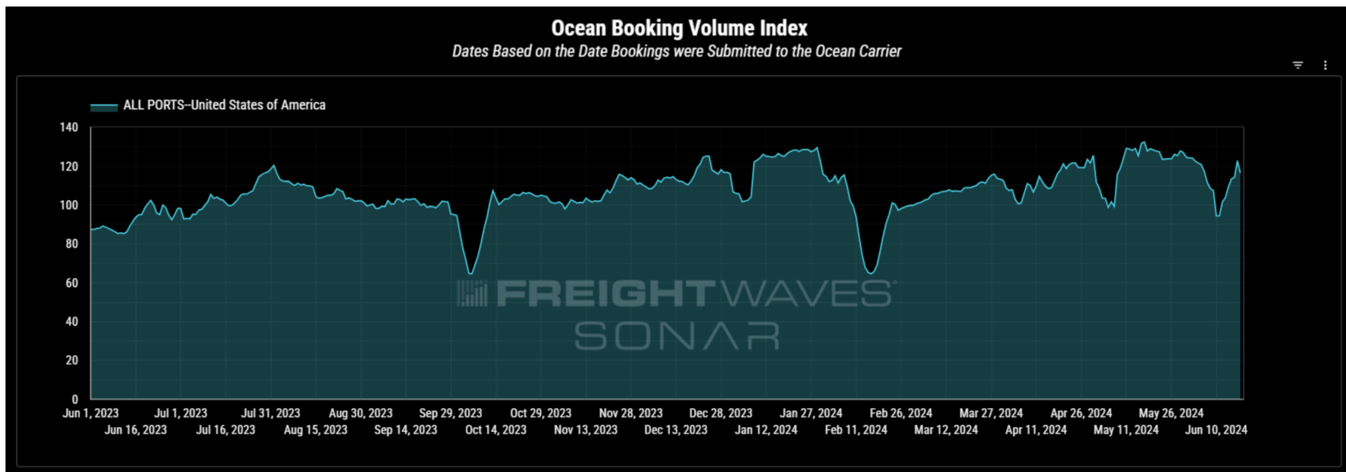
Source: FreightWaves Container Atlas. Ocean TEU Volume Index — all global ports to all U.S. ports.

The Ocean TEU Volume Index, gauging container trade from all global ports to all U.S. ports as TEUs leave origin ports, has steadily increased during the past month. Over the past month, inbound ocean TEU volumes are up 7.4%. Compared to this time last year, inbound ocean TEU volumes have grown by 14.2%. The growth over the past month and year has been impressive, but if it continues in a similar fashion to the way it did last year, it sets up for strong import levels until Golden Week.



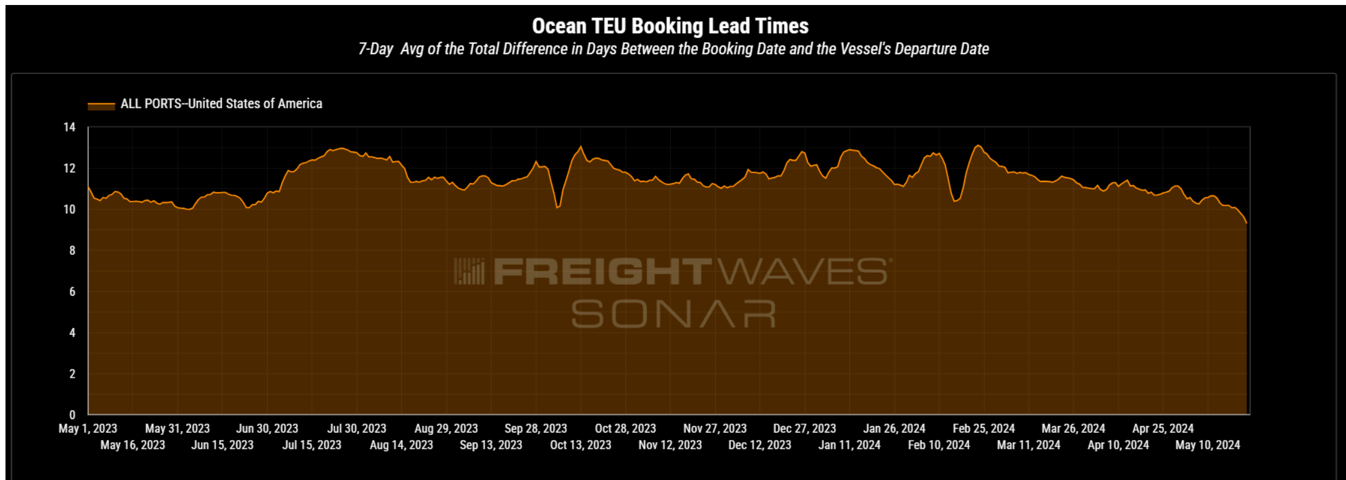
Source: FreightWaves SONAR. Inbound Ocean TEU Volume Index — China to U.S.: 2024 (white), 2023 (light blue), 2022 (green) and 2021 (yellow).

The Inbound Ocean TEUs Volume Index from China to the U.S. (IOTI.CHNUSA) echoes the trends in the overall market: Volumes have continued to grow since the back half of May, currently 13.7% higher m/m. Ocean TEU volumes from China to the U.S. have grown by 18.9% over the past year.



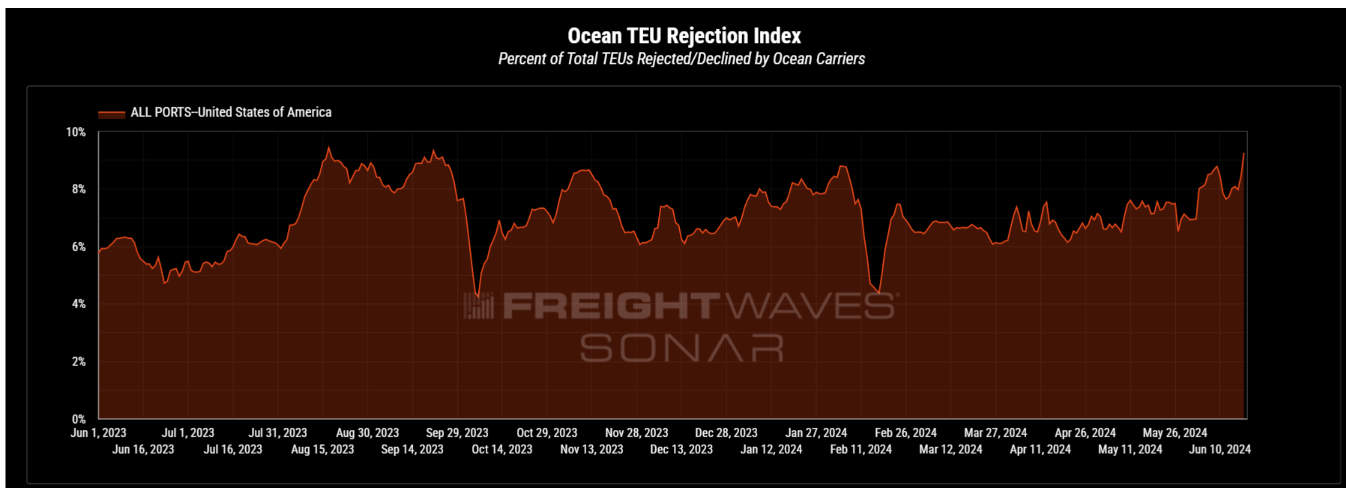
Source: FreightWaves Container Atlas. Ocean Booking Volume Index — all global ports to all U.S. ports.

The past month has presented a challenge for ocean booking volumes, which have dropped by 8.9% month over month. The decline isn't something to be too concerned about, at least not yet, as the metric is based on when bookings are submitted to ocean carriers. If shipments are being submitted closer to the day of transit, it can help deflate the number of bookings. This is likely the cause as Ocean TEU Booking Lead Times have been declining for quite some time, dropping by more than 25% in the past month.



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

Ocean TEU Booking Lead Times are 14% shorter than they were this time last year. Lead times will continue to come under pressure, especially the later we get into the peak season. If ocean carriers are able to keep upward pressure on spot rates for the foreseeable future, carriers will be more likely to book space on their vessels in order to maximize revenue.



Source: FreightWaves 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 June 18, the Index stands at 9.26%, an increase of 212 basis points over the past month. The increase signals that ocean carriers are being more selective in the freight they take, but it is also an attempt to keep spot rates inflated as long as possible against market dynamics.

Compared to this time last year, the Ocean TEU Rejection Index is 386 bps higher, signaling that the market is slightly tighter than last year's. This isn't necessarily being driven by a surge in demand, but rather by a combination of healthy demand and the fact that total TEU Vessel Capacity has declined significantly.

Rail intermodal: Pricing challenges, but volumes remain healthy

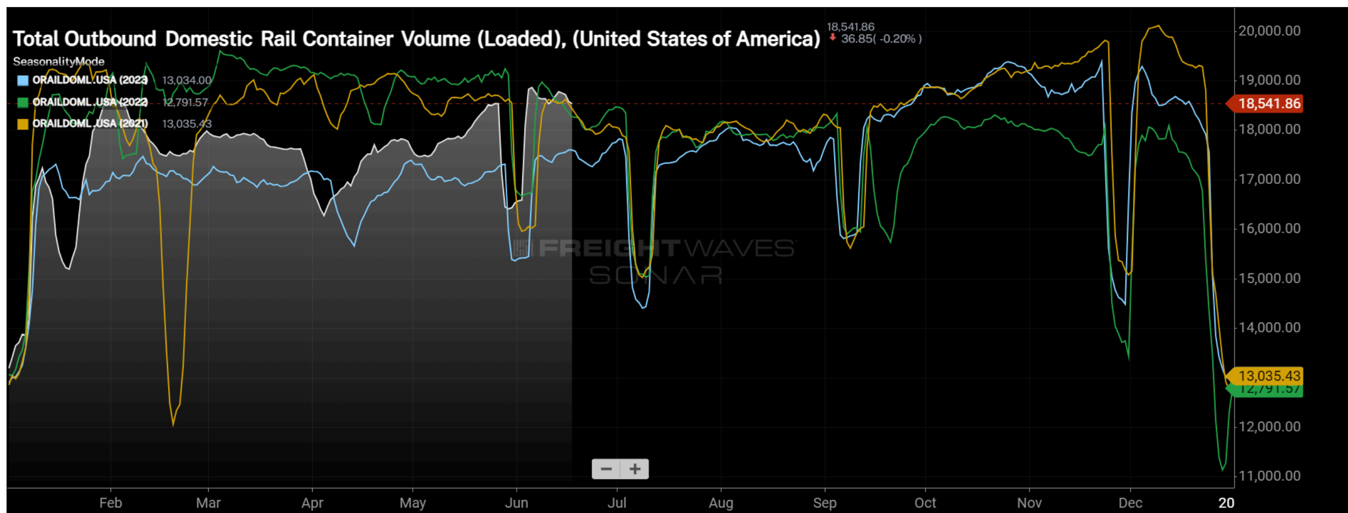


Chart: FreightWaves SONAR. Loaded domestic intermodal container volumes for 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

For most of this year, total intermodal volume has been strong. Most of the growth has been concentrated in the international intermodal segment, which primarily consists of 40-foot oceangoing containers. In recent weeks, that appears to be changing, with domestic intermodal volume also breaking out.

Data published each Wednesday by the Association of American Railroads (AAR) shows that containerized intermodal volume originated by the U.S. railroads increased 10.1% year over year in the past four weeks. AAR data conflates international intermodal volume and domestic containerized intermodal volume, which should be considered separate segments, and also conflates loaded and empty containers.

Overall intermodal volumes continue to trend higher, now sitting just off the year-to-date highs and widening the gap with year-ago levels. Total intermodal volume has grown by 14.5% over the past year, driven by loaded volumes and nonrevenue empty volumes. Over the past month, total loaded intermodal volumes have increased by 0.4% and are 11.9% higher year over year. Empty volumes are up 6% in the past month and 25.8% year over year.

Domestic intermodal volumes, while slower to react than the international market, are now experiencing healthy levels of growth. Loaded domestic intermodal volumes are 6.5% higher than they were this time last year and have grown by 1.5% over the past month. After falling month over month in May, domestic empty intermodal volumes grew by 1.6% m/m, outpacing loaded volume growth, and are 10.5% higher y/y.

Loaded domestic intermodal volume growth continues to be driven by the higher imports, particularly at the West Coast ports. Loaded domestic intermodal volume out of the Southern California hub of Los Angeles has grown by 6.2% over the past month and is 13.1% higher y/y. While inland movements slowed over the past month, loaded domestic intermodal volumes out of Chicago are 5.7% higher y/y.

The breakout in international intermodal volume is starting to slow as loaded volumes retreated over the past month. Loaded international intermodal volumes have declined by 1.1% m/m, the second report in a row in which loaded international volumes are lower m/m. Even with the monthly decline, loaded international intermodal volumes are 20.6% higher than they were this time last year. Empty international volumes have increased by 9.2% m/m and 38.7% y/y. The empty containers continue to flow into West Coast port markets with inbound empty containers into Los Angeles up 59% y/y and into Seattle up 125% y/y.

Intermodal contract rates are suggesting contract rates may have bottomed

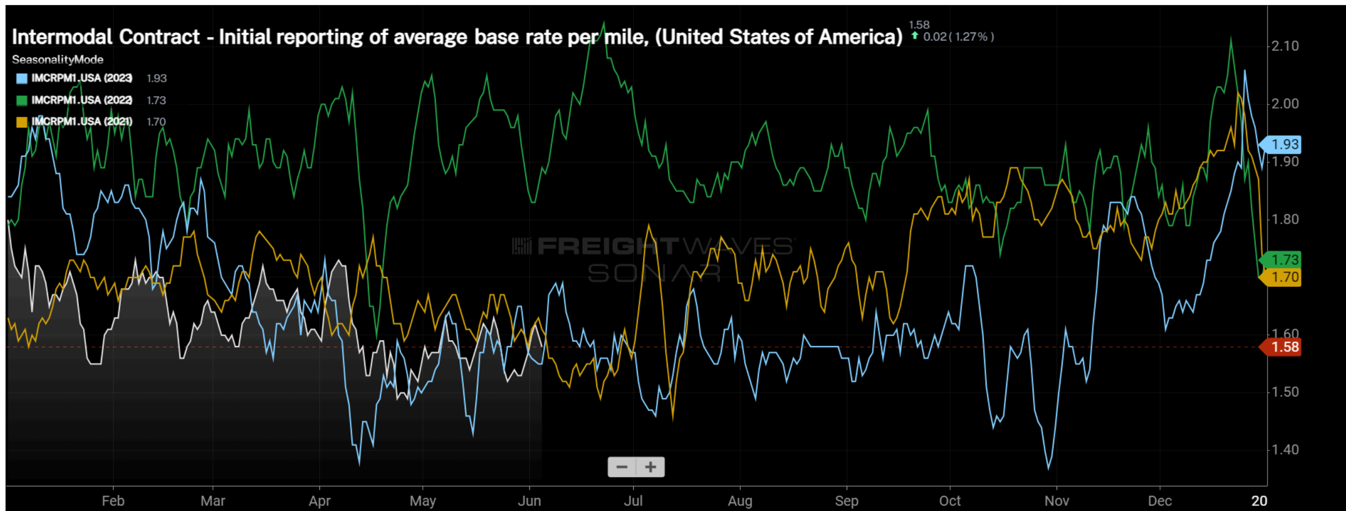


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

Average domestic intermodal contract rates in SONAR, excluding fuel surcharges, are roughly in line with last year's level in the second quarter after being down 7% year over year in the first quarter. Rates are now lapping last year's depressed rates, which had already been re-priced in the current period of loose capacity. That may suggest that intermodal contract rates have bottomed.

The average domestic intermodal contract rate, excluding fuel surcharge (shown above as the IMCRPM1.USA dataset) is 1.9% above year-ago levels. At present, IMCRPM1 sits at $1.58 per mile, 1 cent higher than it was a month ago.

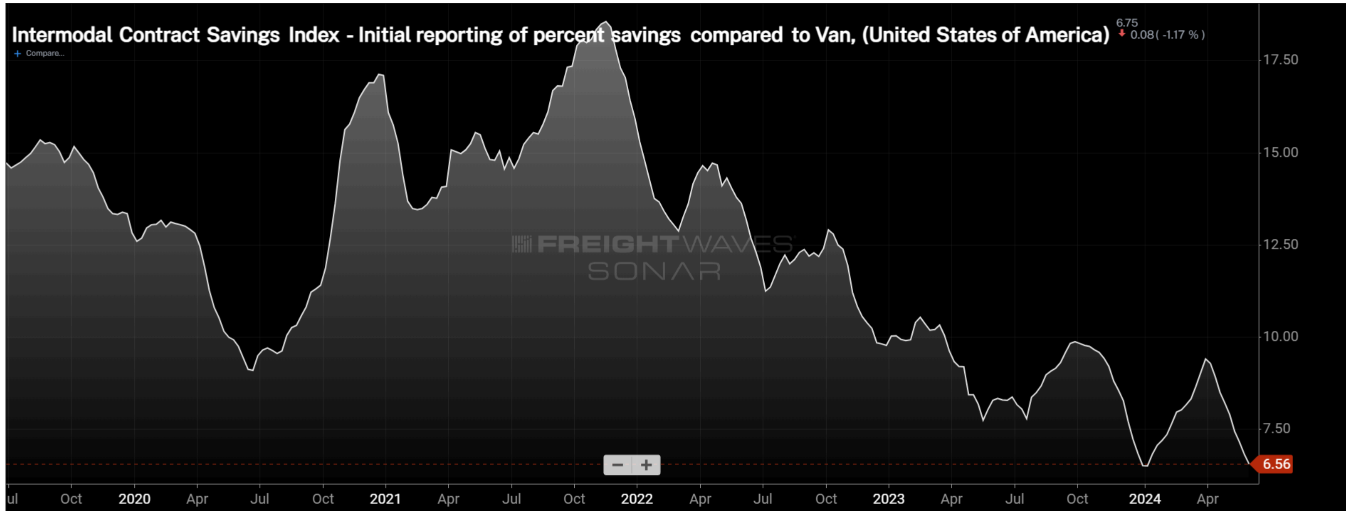


Chart: FreightWaves SONAR. Intermodal Contract Savings Index.

The challenge that the intermodal market currently faces is that the discount it presents relative to truckload is back near historic lows. The Intermodal Contract Savings Index, which is the percent difference between the initially reported dry van contract rate excluding fuel and the initially reported intermodal contract rate excluding fuel, stands at 6.56%, more than a full percentage point lower than it was this time last month. With that said, if the truckload market shows signs of tightening in the back half of the year, it could create an environment where the discount rate moves back toward its historical average and intermodal's value proposition really stands out.

The intermodal spot rate data in SONAR (53-foot containers door to door including fuel) also suggests that intermodal capacity remains plentiful. While not much intermodal volume moves on the spot market, weekly spot rates sometimes move sharply week to week as carriers look to protect capacity for contractual shippers. In the most recent week, the average domestic intermodal spot rate (an average of 100 lanes) to move 53-foot containers door to door is just $1.45 a mile including fuel, a 14.3% decline from the same week a year prior.

Among the densest intermodal lanes across the country, the vast majority are lower on both a monthly and yearly basis. Intermodal spot rates connecting Dallas and Los Angeles are the only two rates that have increased significantly over the past month. The all-in intermodal spot rate from Los Angeles to Dallas increased by 21.6% m/m to $1.72 per mile. From Dallas to Los Angeles, the intermodal spot rate increased by 7.2% over the past month but remains just 73 cents per mile.

On a y/y basis, only the backhaul lane of Chicago to Linden, New Jersey, has experienced an increase in intermodal spot rates. The intermodal spot rate from Chicago to Linden has declined by 1.8% m/m but is 4% higher than it was this time last year, currently sitting at $2.14 per mile.

Intermodal spot rates remain depressed

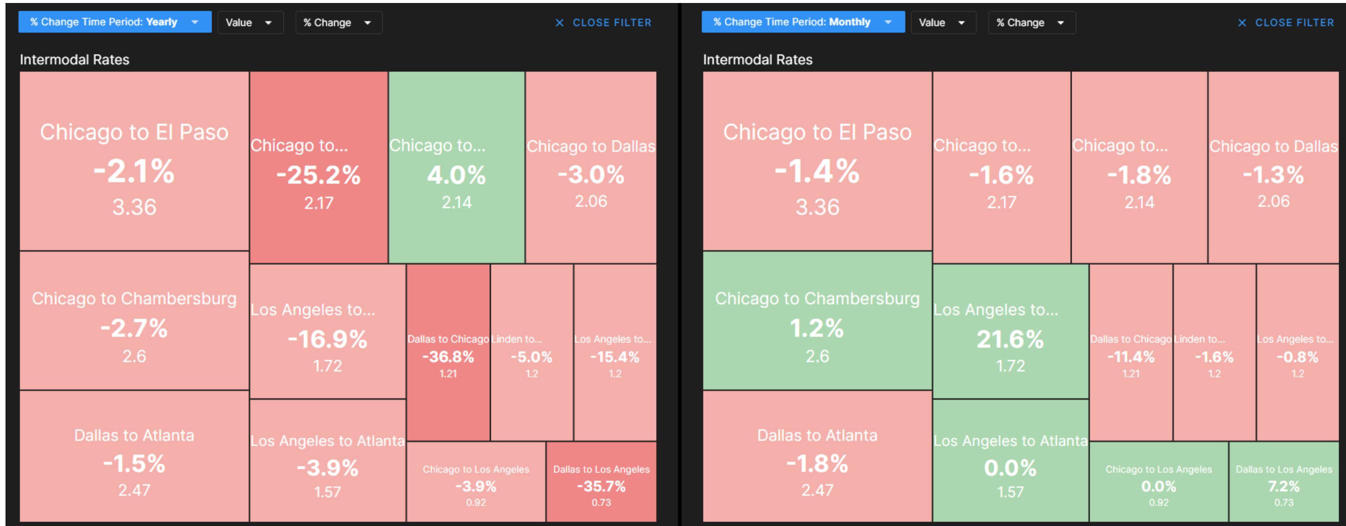


Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

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 continues to trend higher, now above 2%, at 2.06%. Intermodal rejection rates in Los Angeles jumped to 3.76% as increased volatility has hit the market.

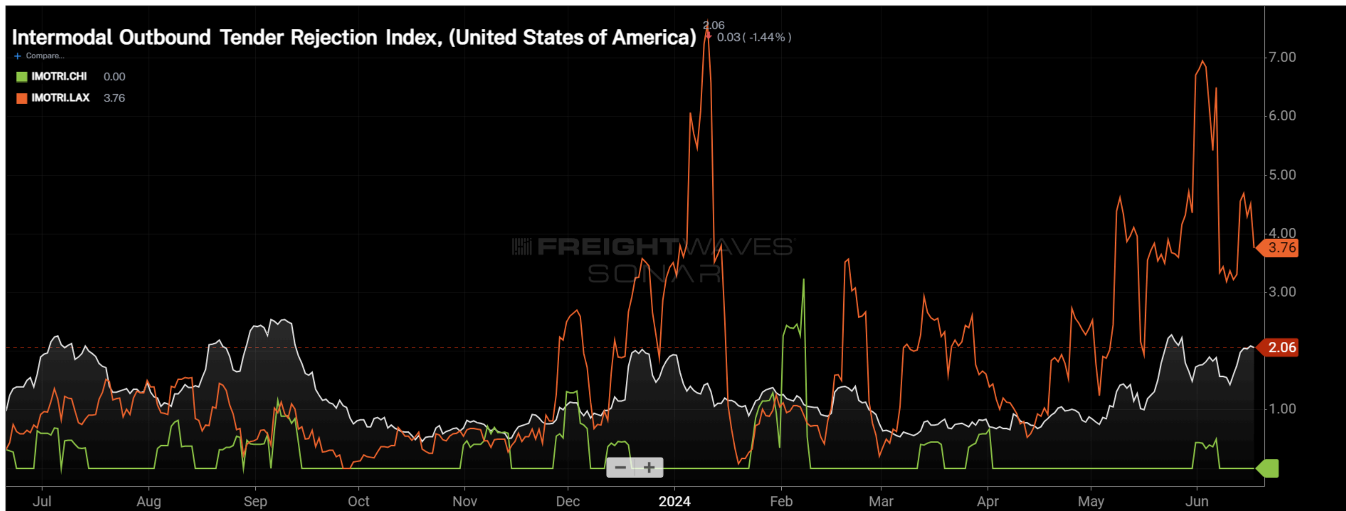


Chart: FreightWaves SONAR. Domestic intermodal outbound tender rejection rates for national (white), Los Angeles (orange) and Chicago (green) loads.

What else we're watching

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

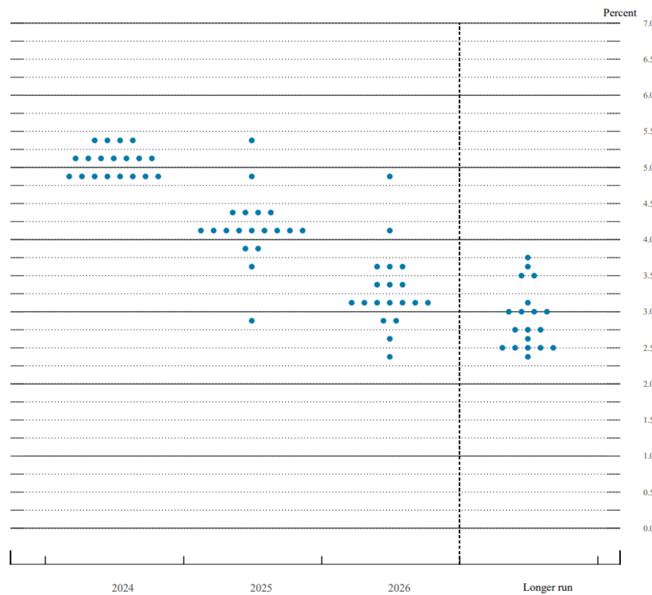


Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

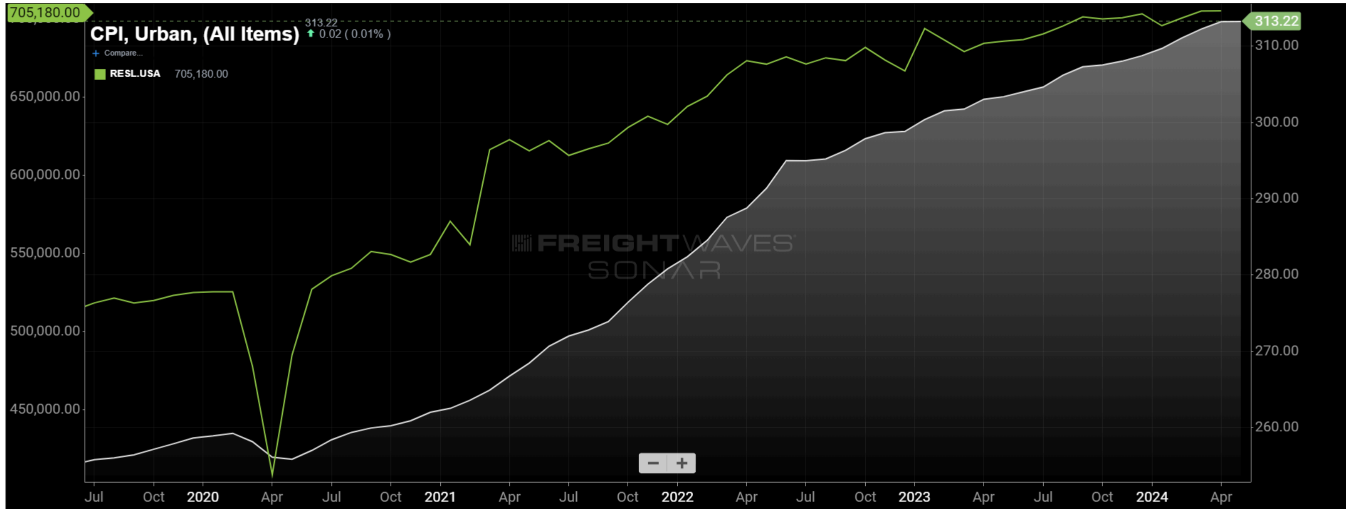
The most recent meeting was one of the more interesting ones because outside of announcing where the target range for the fed funds rate would sit, the quarterly "dot plot" was released. That is a plot of FOMC participants' expectations of where the target range will be not only in the long term, but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

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

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

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

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



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

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

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

Food prices remain surprisingly stable for a commodity that has a reputation for being extremely volatile. Food prices increased by 0.1% m/m in May, rising 2.1% over the past 12 months. Food-at-home prices were flat in May after declining 0.2 m/m in April. Food-away-from-home prices increased by 0.4% m/m, the largest monthly increase since January, rising faster than the 0.3% m/m increases experienced the past two months. Food-away-from-home prices have increased by 4% over the past year.

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

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

economists were expecting retail sales growth of 0.2% m/m. Removing motor vehicle and gasoline sales, retail sales matched the headline figure, rising 0.1% m/m, but were 2.6% higher y/y.

Gasoline sales were the largest drag on overall sales, falling 2.2% m/m, but since retail sales data isn't adjusted for inflation, much of this drag can be attributed to the price declines cited above. Furniture sales as well as building material sales also showed signs of weakness in May, dropping 1.1% m/m and 0.8% m/m, respectively.

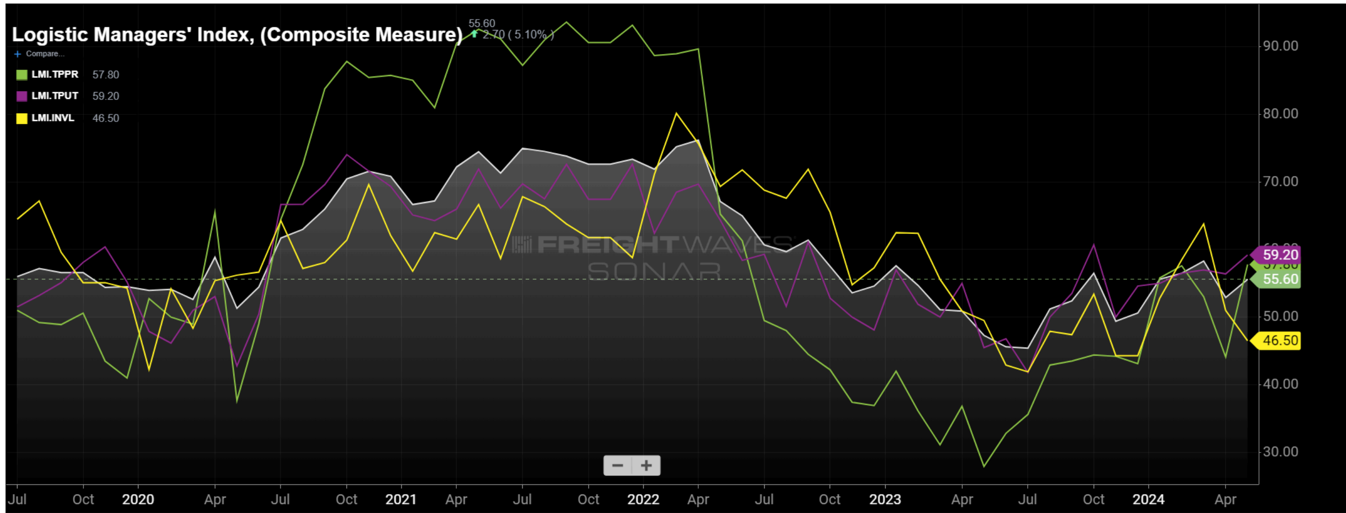
So while sales are slowing, especially in larger-ticket items, the expectations might be for growth in services, and while that was true for much of the year, it has become challenging as of late. Food services and drinking places spending (i.e., bar and restaurant spending) fell by 0.4% m/m in May, though it was still 3.8% y/y. While the retail sales data from the Census Bureau doesn't highlight other services like airlines, entertainment and such, credit card data highlights that these services are slowing too. Bank of America's most recent credit card report for the week ending June 8, entertainment spending was down 12.7% y/y and airline spending was down 3% y/y.

April was a tough month for construction spending, which suffered its second consecutive monthly decline after a revision to March's figure. Total construction spending fell by 0.1% m/m in April to a seasonally adjusted annual rate (SAAR) of $2.099 trillion from $2.1 trillion in March. Even with the slight slowdown, total construction spending in April was 10% higher than it was during the same time last year.

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

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

construction spending with a SAAR of $228.4 billion, which was an increase of 0.9% m/m and 17.3% y/y.



Source: FreightWaves SONAR. Logistics Managers' Index (white), inventory levels (yellow), transportation prices (green) and transportation utilization (purple).

The Logistics Managers' Index remained in expansionary territory in May, growing from April's levels. In May, the LMI rose by 2.7 points month over month to 55.6. What drove the growth in May was from the significant change in transportation prices. The Transportation Price component increased by 13.7 points m/m to 57.8, the highest level since June 2022. Inventory levels fell back into contraction in May, falling 4.5 points m/m to 46.5. The contraction in inventory levels stemmed largely from upstream firms, which could be a bullish sign for future ordering.

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