MARCH
2025

STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

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Succumbing to seasonal pressures

February 21, 2025 | 9 a.m. EDT

Overview

The transportation market was able to avoid falling victim to seasonal pressure in January, but the market has been far less kind in February.

The truckload market has experienced a significant slowdown in tender volumes, but it is likely a result of multiple factors including higher inventory levels, uncertainty around tariffs and general seasonal fluctuations. Tender rejection rates have held up better than expected given the decline in volume, showing that the market has in fact bled off a significant amount of capacity over the past two years.

The intermodal market is facing a seasonal slowdown as well but has been able to hang on to annual gains. Intermodal pricing remains fairly stable, but it is interesting to see carriers are more optimistic about pricing in headhaul lanes than in backhaul lanes.

The maritime market is past the Lunar New Year peak and facing the challenges that follow the holiday. Ocean spot rates are declining, now down year over year, which is a function of lower demand levels after the holiday, but also capacity coming on line, which will continue throughout the year.

The macroeconomic picture is arguably as cloudy as it has been in quite some time, but that is largely due to uncertainty around policy decisions with the new administration. The labor market has remained fairly strong, though the jobs report was underwhelming in January. Consumers took January off as retail sales fell short of expectations, and data shows that inflation is still present in day-to-day life.

Macro indicators	(y/y change)
Jan. industrial prod. change	+0.5% (+2%)
Jan. retail sales change	-0.9% (+4.2%)
Jan. U.S. Class 8 orders	33,300 (-5%)
Jan. U.S. trailer orders	21,300 (+51%)

Truckload indicators	(y/y change)
Tender rejection rate	5.6% (+96 bps)
Average dry van spot rate[1]	$2.28/mi (+0.9%)
LAX to DAL spot rate[2]	$2.16/mi (+5.37%)
CHI to ATL spot rate	$2.50/mi (-6.02%)

Tender volumes	(y/y change)
Atlanta	337.37 (-10.8%)
Dallas	305.74 (-10.2%)
Los Angeles	244.81 (-2.5%)
Chicago	178.99 (-18.2%)

Tender rejections	(y/y change)
Atlanta	3.78% (+113 bps)
Dallas	5.38% (+293 bps)
Los Angeles	2.11% (-151 bps)
Chicago	6.28% (+219 bps)

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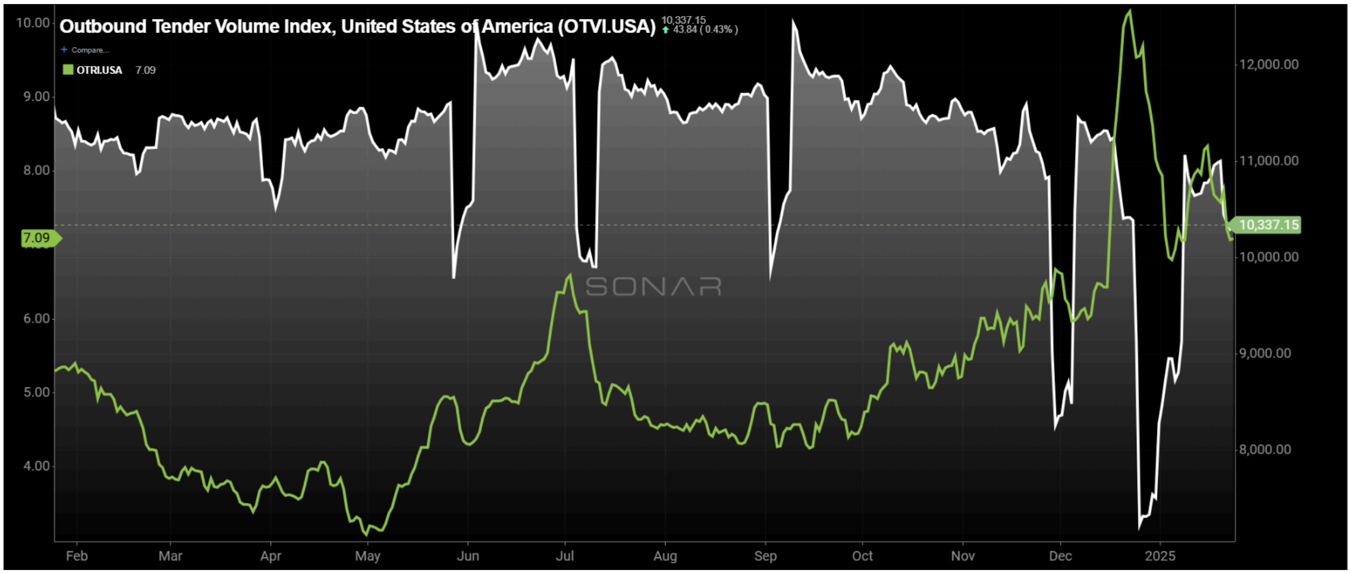
[1] FreightWaves National Truckload Index
[2] FreightWaves TRAC spot rate

Truckload markets

The truckload market is facing seasonal depression as February wears on. The market continues to combat challenges, but capacity has exited the market and rejection rates are elevated compared to where they were last year. If truckload volumes find some level of positive momentum heading into the spring and summer months, it will show that the market is more exposed to the upside than it has been in the prior two years.



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

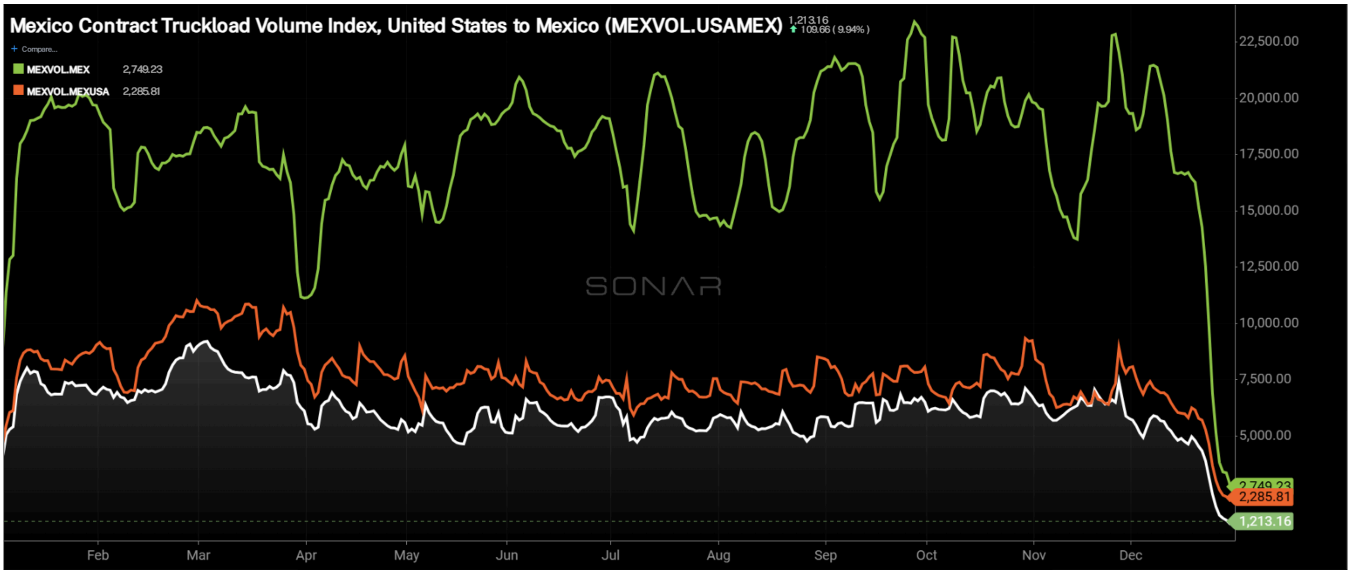
Truckload volumes are facing seasonal pressures after holding up fairly well throughout much of January, despite winter weather impacting much of the country during the month. February has been a more challenging month as tender volumes have suffered a fairly significant slowdown throughout the month. The Outbound Tender Volume Index has fallen by 8.1% over the past month, with significant slowdowns hitting the market right at the beginning of February and around Presidents Day. Tender volumes are down 8.8% year over year, highlighting that it isn't just seasonal weakness, but that the market as a whole is underperforming. Much of that underperformance can be attributed to the intermodal market continuing to take share.

The reefer market had been experiencing a breakout, with tender volumes remaining strong through the beginning of the year, but then the calendar turned to February. February has been extremely challenging for the reefer market as the Reefer Outbound Tender Volume Index has fallen by 18.6% over the past month, marking one of the largest monthly declines post-COVID. Reefer volumes had been overperforming year-ago levels for much of the past two months, but with the dramatic decline over the past month, reefer volumes are now down 9.5% y/y and are 7.2% below 2023 levels.

The dry van market is also experiencing a fairly dramatic slowdown in February, though it hasn't been as severe as the reefer market's decline. The Van Outbound Tender Volume Index is down 7.1%

m/m and is 10.6% below year-ago levels, which puts the market in an interesting place heading into the spring months.

Seeing the decline in truckload volumes across all modes during February isn't out of the norm, but the rate of the decline this year is rather interesting. With slumping retail sales, tariff threats and inventory building, both downstream and upstream, it is likely a combination of multiple small cuts leading to a sizable drop in volumes.



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

Mexico volume data suggests a significant drop in both northbound and southbound movements, while intra-Mexico movements have been extremely volatile the past couple of months. Mexico truckload volumes are reported on a significant lag, so the data is just now revealing the impacts of the holiday season, but leading into the holiday season, contract volumes were sliding. With all three of the Mexico contract volume metrics down by double digits due to the holidays, the recovery will be far more interesting, especially as the threat of tariffs starts to appear in the data.

Chart: SONAR. Contract Load Accepted Volume: 2025 (white), 2024 (green) and 2023 (pink).

Contract Load Accepted Volume is an index that measures accepted load volumes moving under contractual agreements; it is similar to OTVI but without the rejected tenders. At present, CLAV is down 7.53% m/m, so a less severe decline than OTVI, due in part to lower tender rejection rates. Compared to this time last year, CLAV is down 9.39%, showing that there is still fairly significant weakness coming from the demand side of the truckload market.

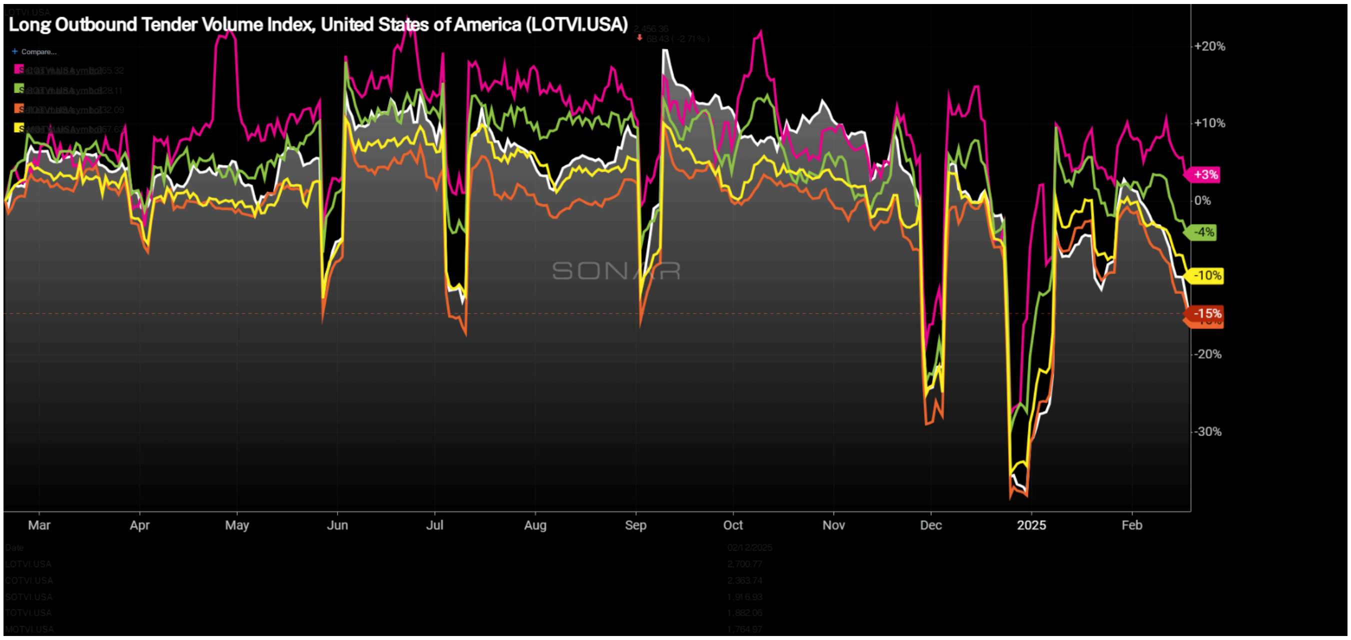


Chart: SONAR. Relative view of tender volumes by mileage band: 800-plus miles (white), 450-800 miles (orange), 250-450 miles (yellow), 100-250 miles (green) and less than 100 miles (pink).

Across the mileage band, the declines in volume are evident at every level. The local length of haul is the only part of the mileage band that has seen volumes grow over the past year, currently up 3% y/y. Long-haul volumes, or loads moving farther than 800 miles, are the highest across the mileage band, but long-haul volumes are down 15% over the past year.

With the demand side of the market suffering in February, the capacity side is actually holding up fairly well through the month. The market is clearly in a tighter state than it was this time last year and even with demand declining, tender rejection rates are falling in a more seasonal pattern, declining slightly during the month. The Outbound Tender Reject Index currently sits at 5.6%, down 198 basis points over the past month, but is 96 bps higher than it was this time last year.

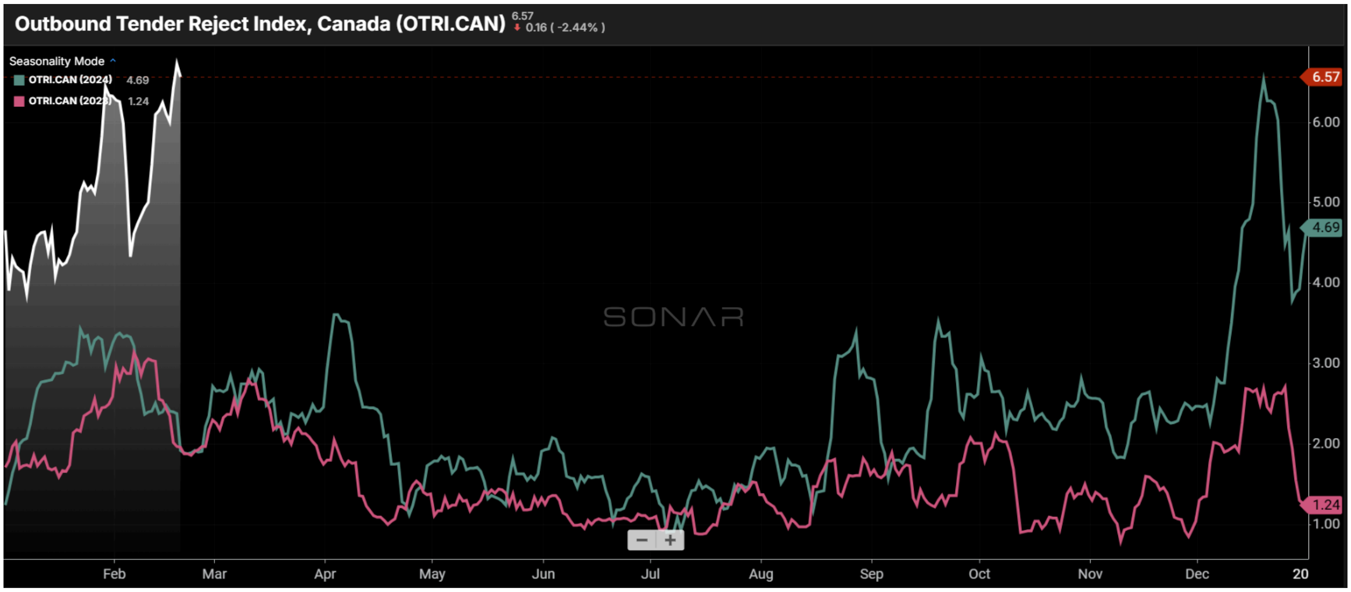
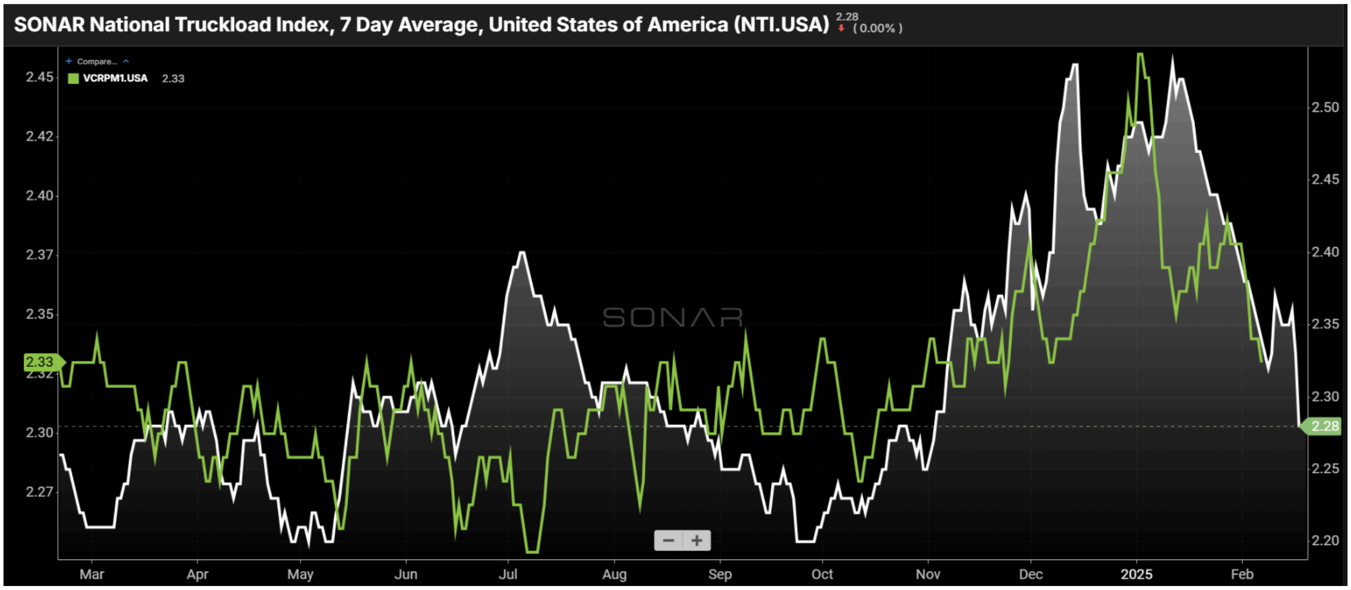


Chart: SONAR. Outbound Tender Reject Index for Canada: 2025 (white), 2024 (green) and 2023 (pink).

The threat of tariffs on Canada was enough to push tender rejection rates on loads originating in Canada significantly higher than they have been at any point in the past two years, except for the 2024 holidays. Over the past month, tender rejection rates in Canada have increased by 221 bps to 6.57%. Compared to this time last year, tender rejection rates in Canada are 468 bps higher.

Spot rates and contract rates follow seasonal trends

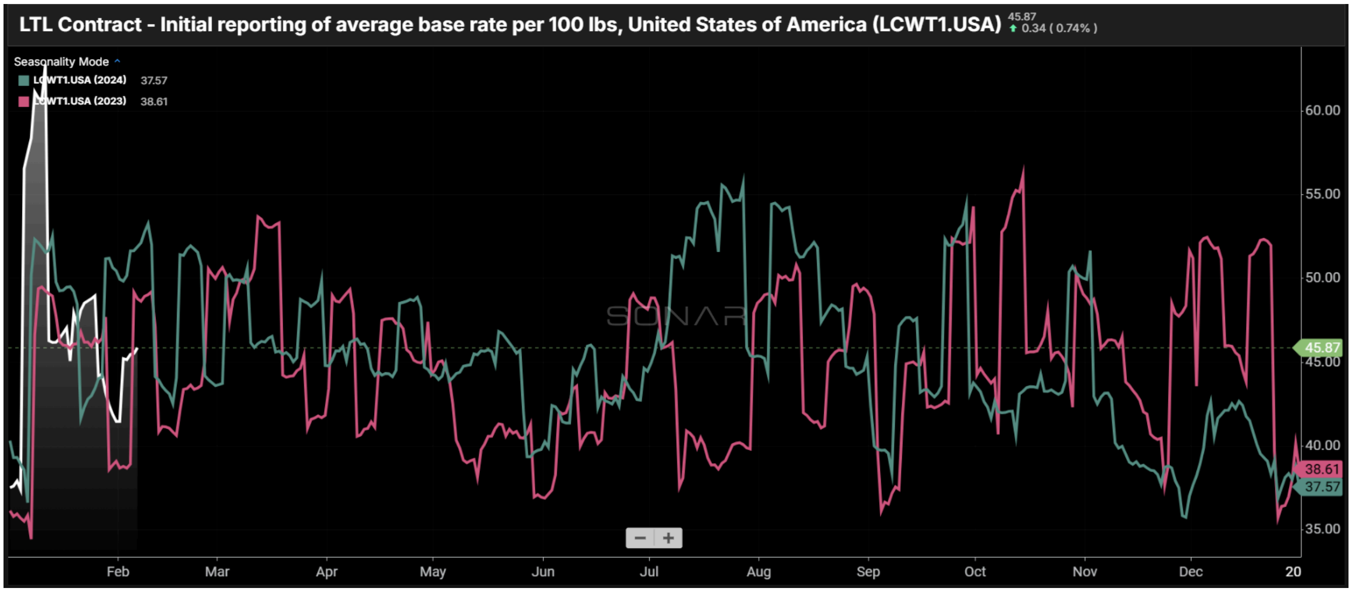


Source: SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

Spot rates are returning to a seasonal pattern after a short-term boost to start the month. The rapid decline after the blip at the beginning of the month was more of a return to the longer-term trend than a sign of something changing dramatically in the market. The SONAR National Truckload Index – a seven-day moving average of national dry van spot rates that is inclusive of fuel – is down 19 cents over the past month to $2.28, but that is a similar decline to what was experienced last February. The NTI is 2 cents per mile higher y/y, which is to be expected given there is still inflation present and capacity has continued to exit the market consistently throughout the year.

Contract rates are moving lower following the boost around the holidays, returning to the high end of the range where they have spent the rest of the year. Over the past month, the initially reported dry van contract rate per mile, excluding fuel, has moved lower by 8 cents to $2.33. Compared to this time last year, contract rates are still up 3 cents per mile.

LTL GRIs fail to hold in early stages of 2025



Source: SONAR. Initially reported LTL contract rate per hundredweight: 2025 (white), 2024 (green) and 2023 (pink).

The less-than-truckload market is seeing pricing power continue to deteriorate as prices slide during the early part of the year. The initially reported LTL contract rate per hundredweight is down over 20% the past month, but most of that is due to comps in early January being quite strong. The initially reported LTL contract rate is down 8% compared to this time last year, showing that there is pressure on LTL carrier pricing dynamics. The question becomes: Do LTL carriers stay disciplined in pricing, or do pressures mount throughout the year in an effort to grow volumes?

Macroeconomic conditions

It took quite some time, but the manufacturing sector of the economy experienced some positive signs in January. The easing of monetary restrictions tends to help boost demand for the industrial side of the economy, but there is a lagging effect, so the three interest rate cuts at the end of 2024 likely weren't a driver of positivity. In fact, if the FOMC is more restrictive than initially presumed, it will likely be a continued headwind for the industrial economy, though with tariffs in place, there is likely to be a push for U.S. manufacturing.

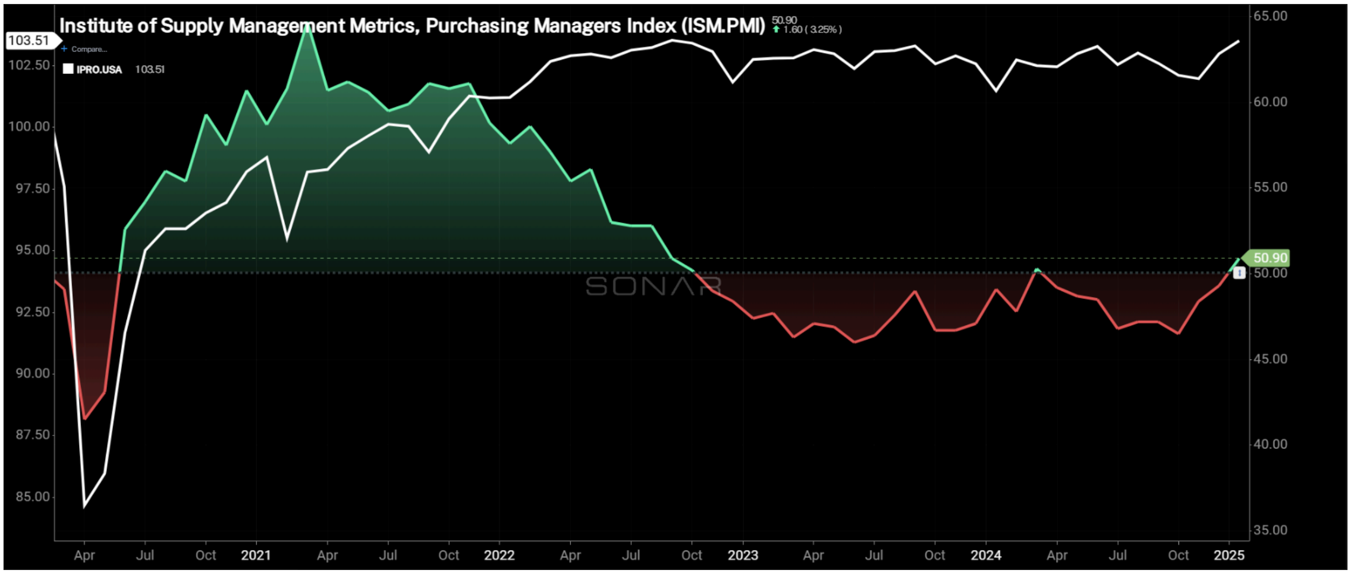


Chart: SONAR. Institute for Supply Management's Purchasing Managers' Index (baseline, right axis) and Industrial Production (white, left axis)

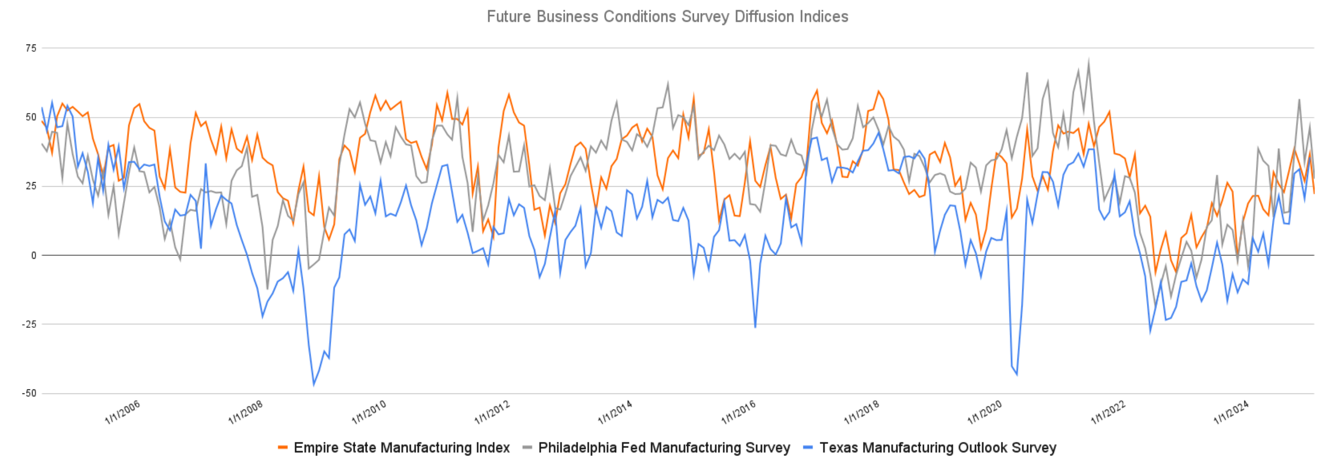
After 26 consecutive months of contraction, the Institute for Supply Management's Manufacturing Purchasing Managers' Index returned to expansion territory. The PMI increased by 1.7 points month over month to 50.9, after the December figure was revised 0.1 points lower with seasonal adjustments. The return to expansion is a positive sign, not only for the manufacturing sector, but for the overall economy, as it marks the 57th consecutive month the economy has expanded. For reference, the general belief is that a manufacturing PMI above 42.3 indicates expansion in the overall economy.

New orders continued to be a bright spot, expanding faster than they did in December. The New Orders Index increased by 3 points m/m to 55.1, marking the third consecutive month new orders have been in expansion territory. Only 20% of respondents stated they had lower new order levels, down from 24.1% in December, while 26.3% reported higher new order levels, up from 21% in December.

Manufacturing inventory levels remained in contraction. The Inventories Index fell by 2.5 points m/m to 45.9, marking the fifth consecutive month that inventories have been in contraction. Just 12.2% of respondents reported that inventory levels were higher, down from 14.4% in December, though the percentage of respondents reporting lower inventory levels was roughly the same m/m at 20.4%.

While the ISM PMI showed the industrial side of the economy, industrial production revealed similar sentiment. Overall industrial production grew for the second consecutive month, rising 0.5% m/m in January. Industrial production was up 2% compared to January 2024.

Manufacturing suffered a slight decline in production in January, falling 0.1% m/m, but was still 1% higher y/y. The strength in industrial production stemmed from final products, which increased by 1.1% m/m and was up 0.7% y/y. Business equipment was the main driver of this growth, as production increased by 2.1% m/m in January, marking the third consecutive increase and an acceleration in production.



Manufacturing activity turned positive in February, which is a positive sign for a sector that has been battling challenging conditions for more than two years. The Empire State Manufacturing Survey, conducted by the Federal Reserve Bank of New York, showed that the current General Business Conditions Index rose by 18.3 points m/m to 5.7. New orders and shipments followed the way of the overall index, rising by double digits and entering positive territory. The New Orders Index rose by 20 points m/m to 11.4, and the Shipments Index rose by 15.9 points m/m to 14.2.

While there was a slowdown in January that led to optimism about the next six months, the increased activity in February is leading to a less optimistic outlook for the next six months. The forward-looking General Business Conditions Index fell by 14.5 points m/m to 22.2. It's the largest monthly decrease in the forward-looking index since November 2023.

After a positive start to the year, some of the positivity has started to fade in Philadelphia. The Manufacturing Business Outlook Survey conducted by the Federal Reserve Bank of Philadelphia showed the current General Business Activity Index decreased by 26.2 points m/m to 18.1. The forward-looking General Business Activity Index was also lower, falling by 18.5 points m/m to 27.8. Firms in the area are less optimistic about new orders and shipments as the forward-looking indexes fell significantly in February.

Manufacturing conditions in Texas improved in January, following trends similar to those of surveys conducted by the other regional Federal Reserve banks. The current General Business Activity Index of the Federal Reserve Bank of Dallas' Texas Manufacturing Outlook increased by 9.6 points to positive 14.1. Looking ahead, optimism returned as the forward-looking General Business Activity Index rose by 14.9 points m/m to 35.5, marking the eighth consecutive month in which firms are optimistic about the upcoming six months.

The labor market has remained pretty strong, though the January jobs report left a little to be desired. Total nonfarm payrolls increased by 143,000 in January, short of analysts' expectations for 175,000 added jobs during the month. The unemployment rate fell to 4%, which remains historically low, an indication that the labor market is fairly stable. Additionally, the U-6, a measure of the unemployed plus people marginally attached to the labor force and people employed part time for economic reasons as a percent of the labor force, was stable at 7.5%. The 7.5% measure is also historically low compared to where it has been for much of the past 20 years.

The three industries that have carried job growth higher throughout the past year continued the momentum in January. Most of the job growth stemmed from retail, government and health care. The growth in retail is a slight shift from leisure and hospitality but still highlights that hiring is occurring in areas that differ from where the vast majority of major layoff announcements have occurred.

Retail payrolls expanded by 34,300 during January, though the growth compared to last year was far more tepid, as retail payrolls have grown by just 0.3% y/y. General merchandise retailers were the primary source of growth within the sector, adding 31,200 jobs. Of that 31,200 jobs, nearly 28,000 were added at warehouse clubs, supercenters and other general merchandise retailers (i.e., Costco, Walmart, Target and Sam's Club).

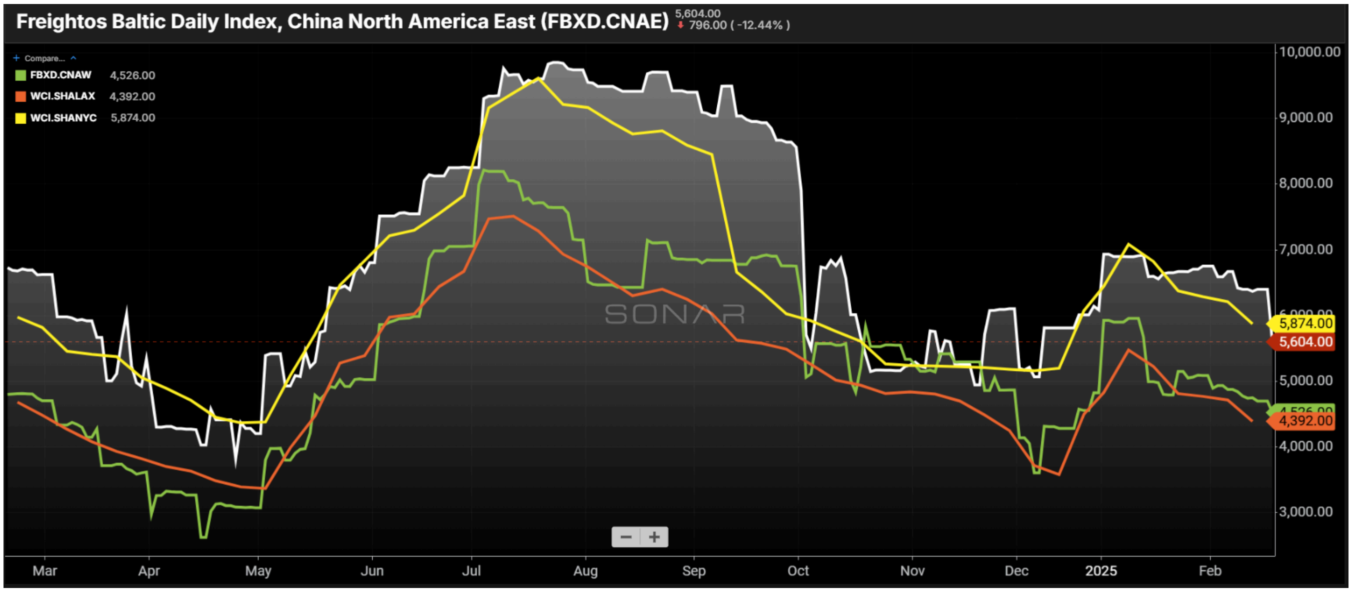
Health care payrolls expanded by 43,700 during January, slightly lower than December's initial report but still impressive growth compared to the rest of the sectors. Health care payrolls have increased by 3.8% over the past year, far outpacing the overall labor market's growth in payrolls (1.3% y/y).

Government payrolls expanded by 32,000 in January, though the vast majority of the growth was at the local level. Local government payrolls expanded by 21,000, with education adding 10,800. What will be interesting to see for its impact on government payrolls is the Trump administration's focus on shrinking government departments, but that will likely take months to play out, especially for those who proceeded with the voluntary resignation, which has faced legal challenges since its announcement.

Both manufacturing and construction payrolls expanded in January, but the increases were fairly small relative to the number of jobs in the industries. Manufacturing payrolls expanded by 3,000 in January, up just 0.02% m/m, and construction payrolls expanded by 4,000, up 0.05% m/m.

Maritime: Post-Lunar New Year slowdown

The Lunar New Year arrived as expected on the ocean market, and the results were quite strong, especially at the ports of Los Angeles and Long Beach. With the Lunar New Year in the rearview mirror, the questions turn to how strong demand will be following the holiday and what the impacts of tariffs are on ocean demand. Ocean spot rates from China to North America are showing signs that demand is slowing, but capacity is also increasing on the ocean, so there is some downward movement in ocean spot rates.

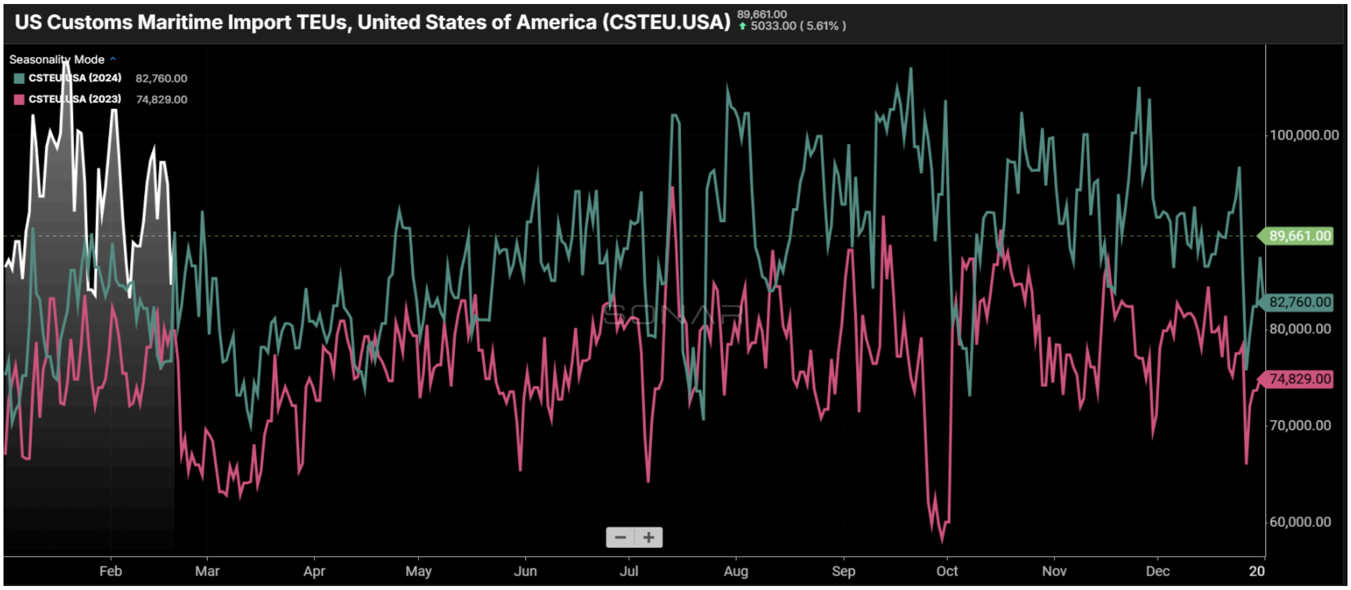


Source: SONAR. Container spot rates, YTD view: Drewry World Container Indexes: Shanghai to Los Angeles (orange), Shanghai to New York (green). Freightos Baltic Daily Index: China to North American West Coast (yellow) and China to North American East Coast (white).

Ocean spot rates continue to retreat from their elevated levels from last year and are actually accelerating their downward trend over the past month. The four major indexes from China to both North American coasts have declined, not only on a monthly basis, but now year over year after the Lunar New Year.

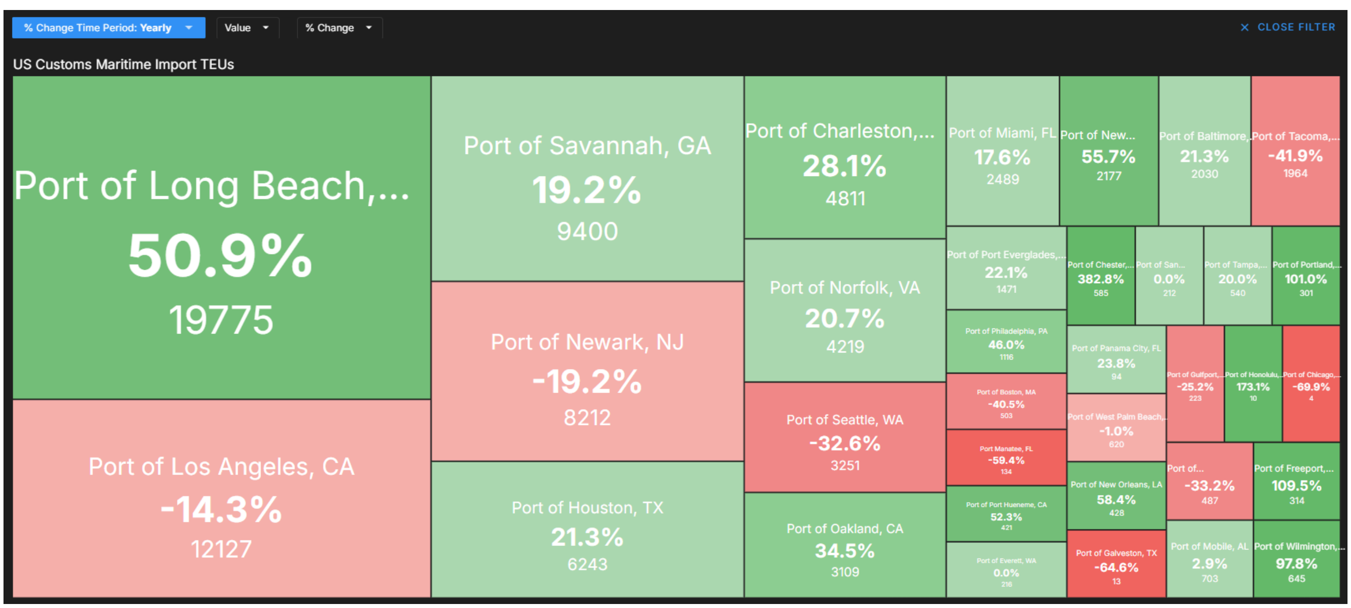
The Freightos Baltic Daily Index from China to the North American West Coast suffered the smallest decline of the four indexes, falling 5.6% m/m to $4,526 per 40-foot equivalent unit. With the decline over the past month, the rate is now 5.9% lower than it was this time last year. From China to the North America East Coast, spot rates decreased by 25.7% m/m to $5,604 per FEU, down 16.2% y/y. The declines suggest demand is dwindling to some degree, but the ocean carriers are set to add capacity during the year.

The Drewry World Container Index showed significant monthly decreases, also turning negative year over year. The WCI from Shanghai to Los Angeles decreased by 16% m/m to $4,392 per FEU, down 7.9% y/y. The WCI from Shanghai to New York experienced a smaller decrease, falling 13.9% m/m to $5,874 per FEU, down 6.3% y/y.



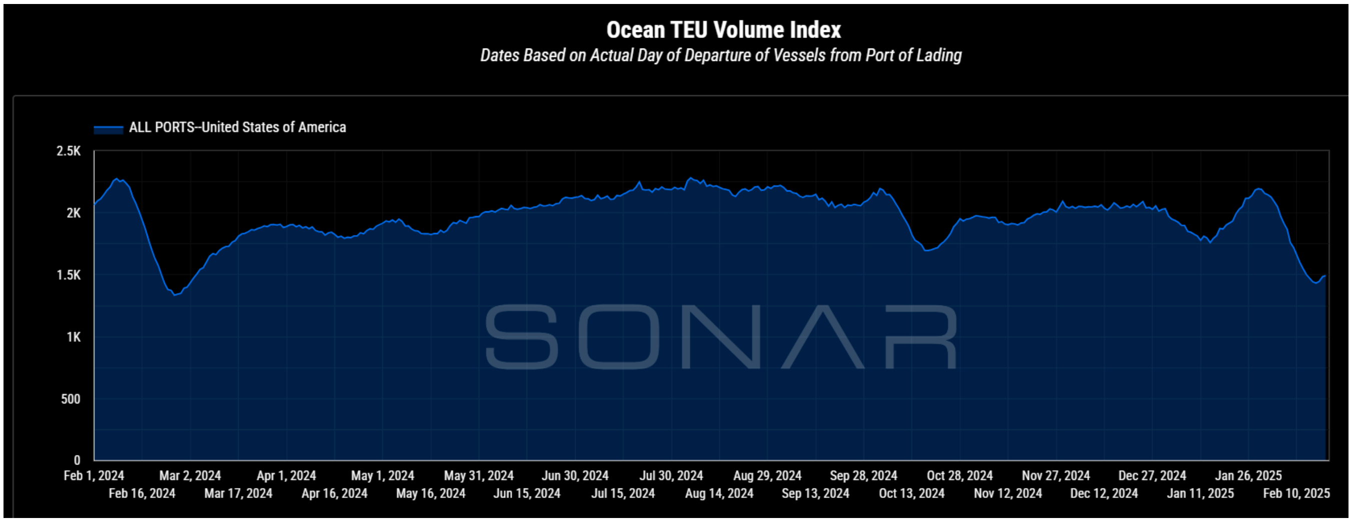
Source: SONAR. U.S. Customs Maritime Import TEUs: 2025 (white), 2024 (green) and 2023 (pink).

The early stages of 2025 have been positive for TEUs coming through U.S. ports, benefiting from the Lunar New Year pull forward as well as reactions to potential tariffs. Compared with this time last month, there are 16.7% fewer TEUs that have cleared the U.S. ports, but some of that is due to volatility in the data. Compared to this time last year, TEUs clearing U.S. ports are up 11.57%.



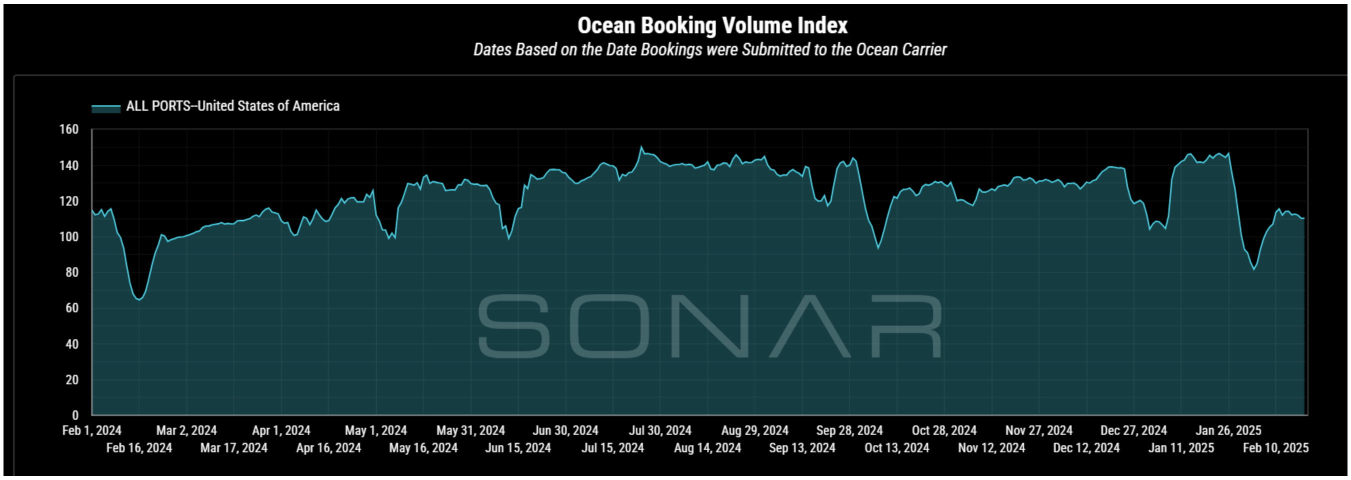
Source: FreightWaves SONAR. Maritime Import Shipments by Port — Tree Map.

Across the vast majority of ports nationwide, TEU volumes are well above where they were this time last year. Even those that appear to be lower at the moment are a result of the volatility due to the way customs officials clear TEUs. The biggest ports in the country are largely higher y/y, adding on to the record figures in January.



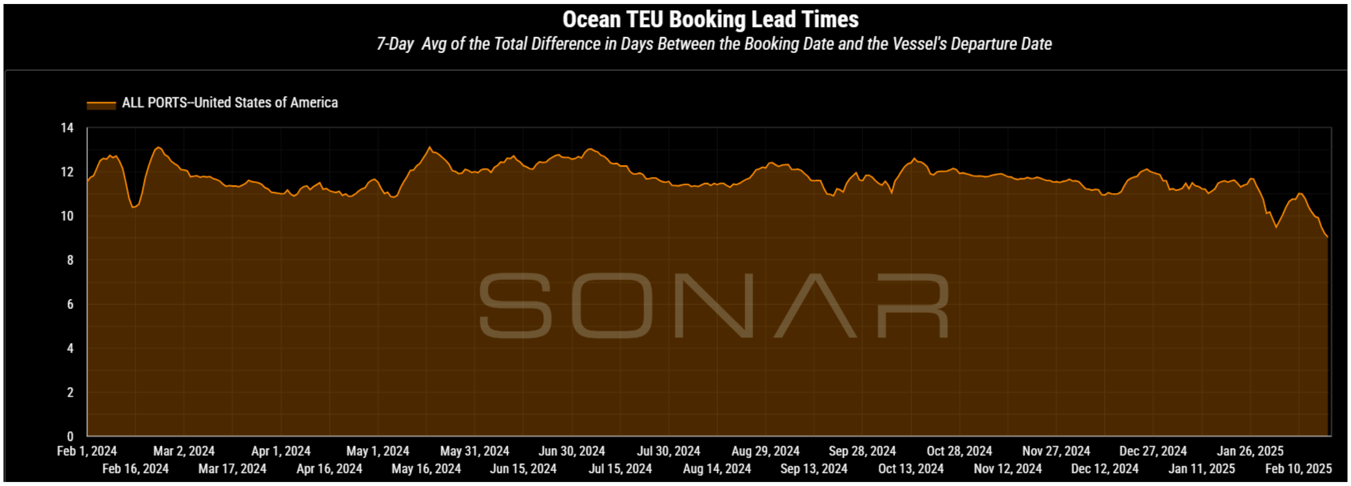
Source: SONAR Container Atlas. Ocean TEU Volume Index — all global ports to all U.S. ports.

The Ocean TEU Volume Index, a gauge of container trade from all global ports to all U.S. ports as TEUs leave origin ports, is off the Lunar New Year peak and starting to recover, though that will take time. Over the past month, the Ocean TEU Volume Index inbound to all U.S. ports fell by 21.6%, but the decline is due to the comps with the pre-Lunar New Year pull-ahead. The earlier Lunar New Year, while it boosted TEU volumes y/y in January, is also now the reason TEU volumes are down 12.1% y/y.



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

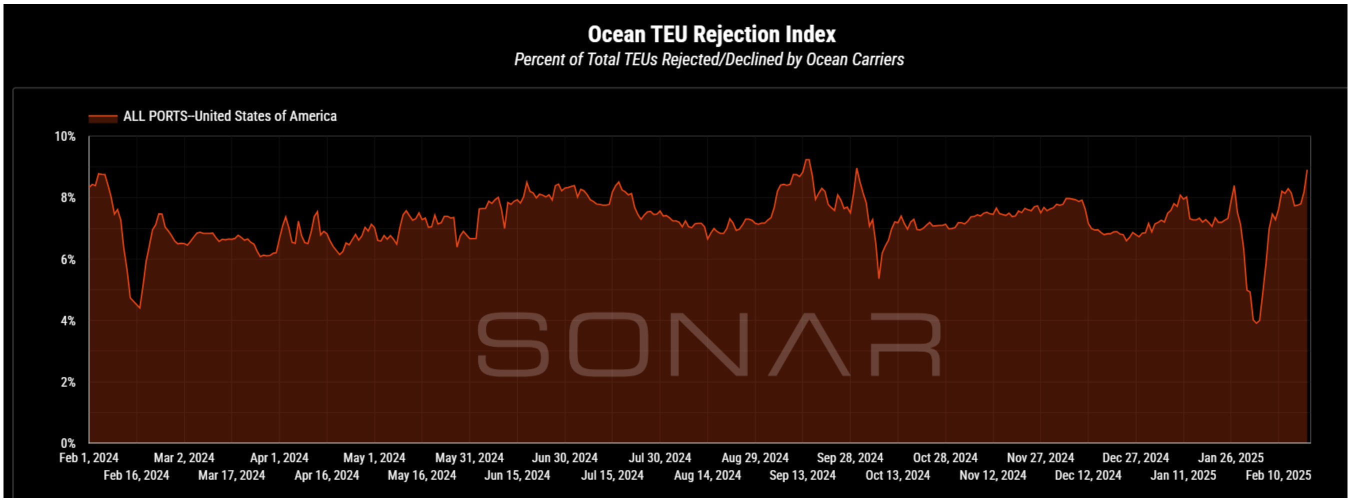
Further upstream, bookings are showing there is a recovery coming as the Lunar New Year impacts disappear, but it may not be as steady up and to the right as the recovery was last year. The Ocean Booking Volume Index is down 22.8% over the past month, greater than the decline in TEU volumes, but that isn't out of the ordinary based on when the two metrics are reported (booking date versus vessel departure date). Compared to this time last year, bookings are up 44.3%, but that is due to Lunar New Year's arrival two weeks earlier than last year, yielding easier comps at the moment.



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

Ocean TEU Booking Lead Times are shorter than they have been at any point in the past year. Shorter lead times can be taken a couple of ways, but the most likely explanation in this instance is the sense of urgency has deteriorated and there is plenty of available capacity on vessels, so bookings can occur closer to a vessel's departure date. Over the past month and year, booking lead times have been cut by more than two days.

Ocean carriers are trying to create an increased sense of urgency as ocean rejection rates are rising, but the impacts have clearly not impacted the market.



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 adjust capacity in an effort to hold rates elevated, though that is not having the desired effect. Over the past month, ocean TEU rejection rates have increased by 173 bps to 8.92%, 300 bps higher than at this time last year.

Rail intermodal: Volume growth stalls, pricing stagnant

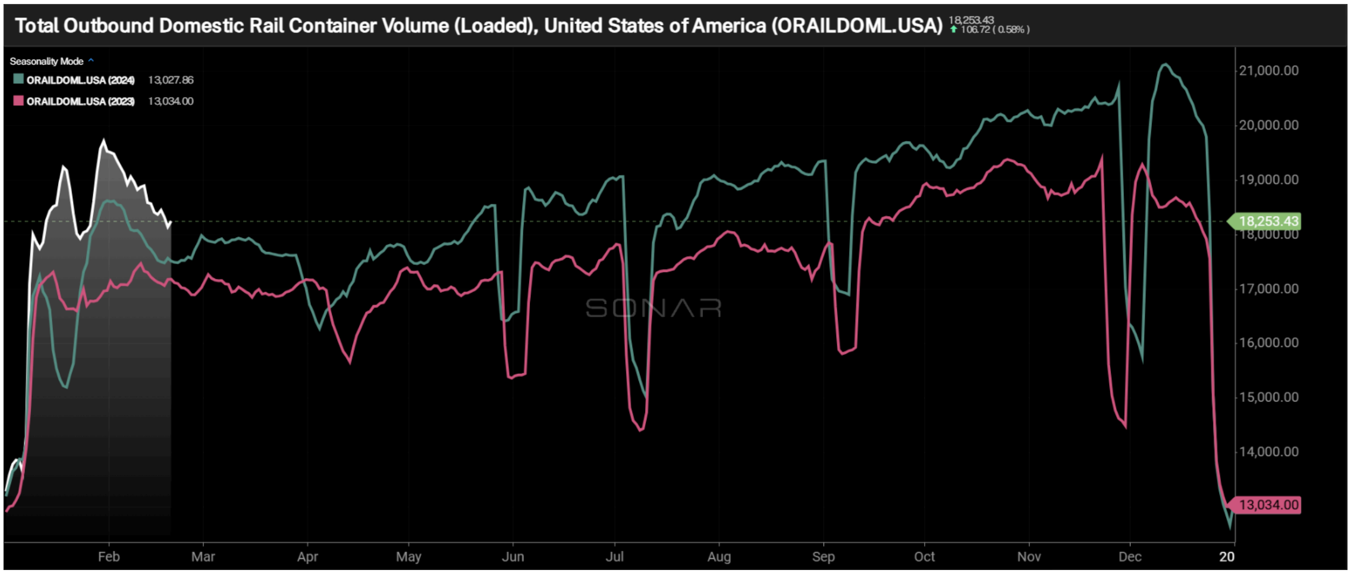
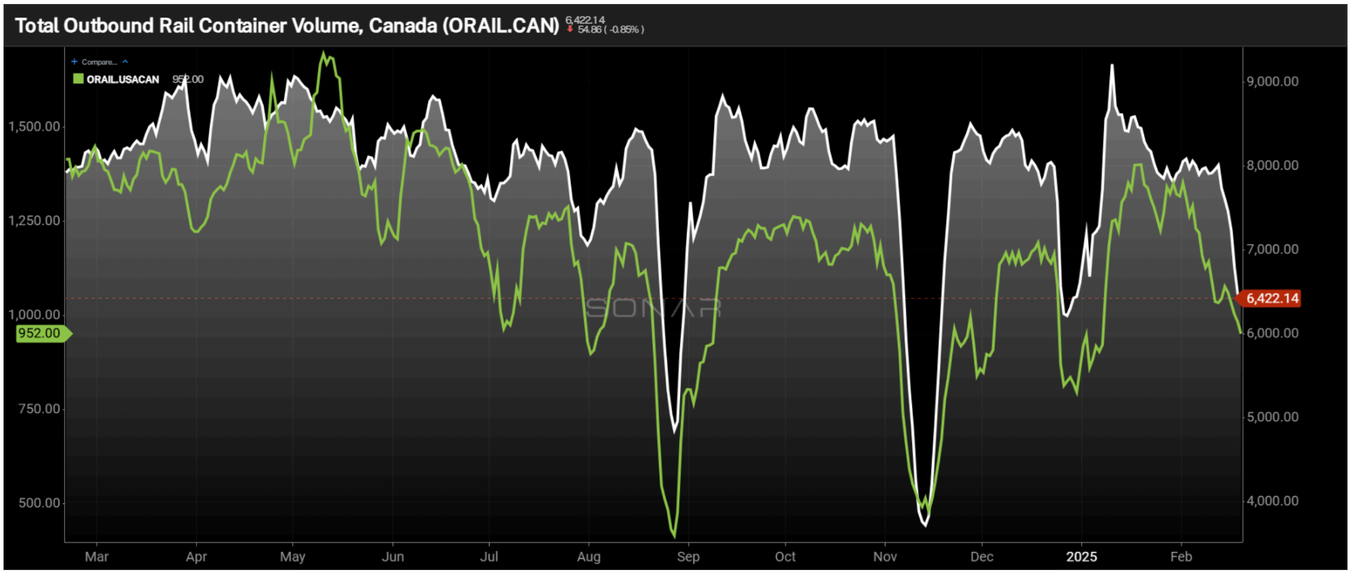


Chart: SONAR. Loaded domestic intermodal container volumes for 2025 (white), 2024 (green) and 2023 (pink).

Seasonal trends are present in the intermodal market, but intermodal has continued to take share from the truckload market. What will be interesting to see is if there is any degradation in intermodal service, or if the lack of time sensitivity in the freight market makes intermodal an attractive mode of transportation, allowing the sector to continue to take share from the truckload market. Total intermodal volumes finally took a breather that many thought would occur at the beginning of the year, falling by 6.4% over the past month. Even with that decline, intermodal volumes are up 3% y/y.

What is surprising about what has happened during the first two months of the year is that the domestic intermodal market has held up far better than the international side of the market. Both sides of the market have witnessed volume declines over the past month, but the domestic declines are less severe. Total domestic intermodal volumes are down 3.4% m/m, though they are still up 4.3% y/y. Loaded domestic intermodal volumes are down 3.1% over the past month but are also up 4.3% y/y. Empty domestic intermodal volumes dropped more significantly than loaded volumes, falling by 4.6% over the past month, but are up 6.6% compared to this time last year.

The international side of the intermodal market was the clear outperformer, especially in the middle months of 2024, but since then it has lagged behind the domestic market. Over the past month, total international intermodal volumes have dropped by 9.9%. Despite the drop, total international intermodal volumes are 1.4% higher than they were this time last year. Total loaded international intermodal volumes have fallen 6.2% in the past month and turned negative year over year with the drop, now down 2.9% y/y. Empty international intermodal volumes have suffered the largest decline over the past month, falling by 18.7%, but are still 6.2% higher y/y.



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

The threat of tariffs has weighed on intermodal volumes originating in Canada as well as northbound volumes from the U.S. to Canada. Total intermodal volumes originating in Canada are down 22.5% over the past month and 18.9% y/y. The decline is likely due to tariff threats, which created an increased sense of urgency to move goods into the U.S. that intermodal service can't compete with. What is interesting, though, is that intermodal volumes from the U.S. to Canada have suffered an even more significant decline. Over the past month, those volumes have fallen 29.3%, and they are down 32.7% y/y.

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

Grain carloads in Canada are tracking below the past two years after overperforming during the final quarter of 2024. Over the past month, total grain carloads originating in Canada are down 12.4%, continuing to retreat from the peak. Compared to this time last year, grain carloads in Canada are down 13.5%.

Intermodal contract rates continue to trend sideways

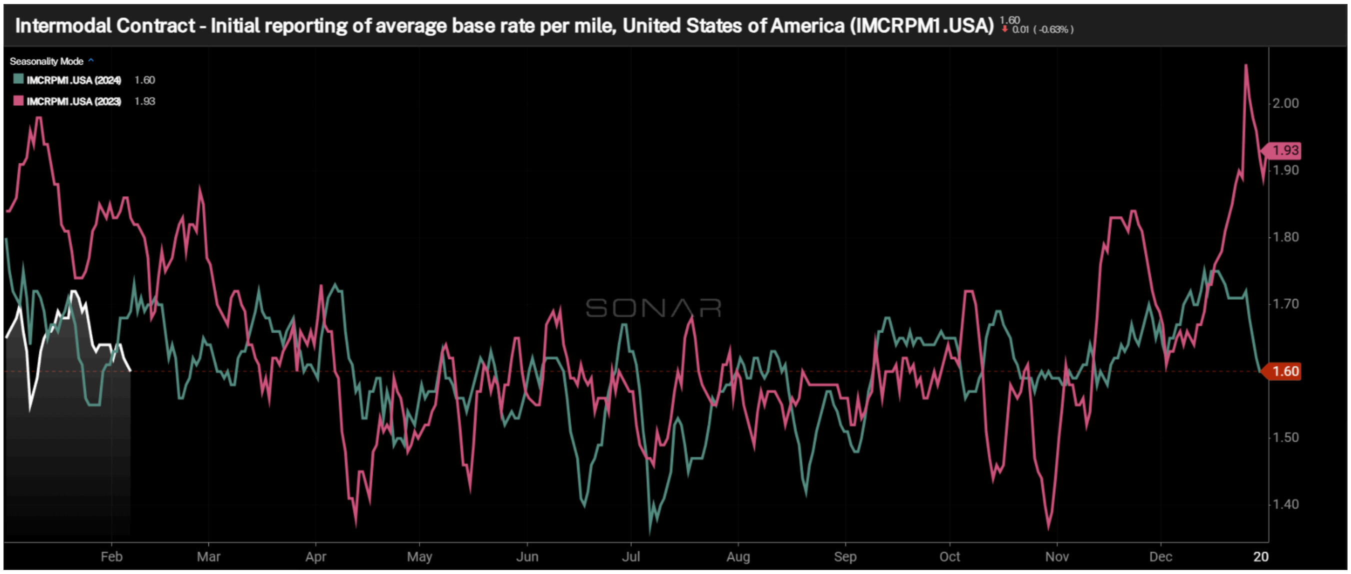


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2025 (white), 2024 (green) and 2023 (pink).

Intermodal pricing in 2024 was fairly stagnant, staying in a tight range throughout the year before moving slightly higher at the end of the year. After peaking, intermodal contract rates have been moving lower during the early parts of 2025. At the moment, the initially reported intermodal contract rate is down 6 cents per mile over the past month to $1.60. The initially reported rate is 9 cents per mile lower than it was this time last year.

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 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 consisting of both headhaul and backhaul lanes, is down 4.5% compared to this time last year. Conversely, the Transcon rate, which consists of five headhaul lanes out of Los Angeles, is up 2.1% y/y. The increase in the Transcon rate is consistent with guidance provided by domestic intermodal carriers.

On the other side of the equation, intermodal spot rates suggest there really isn't a need for carriers to protect contracted capacity. The national intermodal spot rate has fallen to its lowest level since the first week in September and is 14% lower than it was this time last year. Intermodal spot rates across the densest intermodal lanes are largely lower over the past month, with only four lanes seeing rates increasing m/m, including the Los Angeles-to-Chicago lane that increased 3.2%. Even with the declines m/m, more than half of the densest lanes have intermodal spot rates higher than they were this time last year.

Intermodal spot rates down m/m, holding on to y/y gains

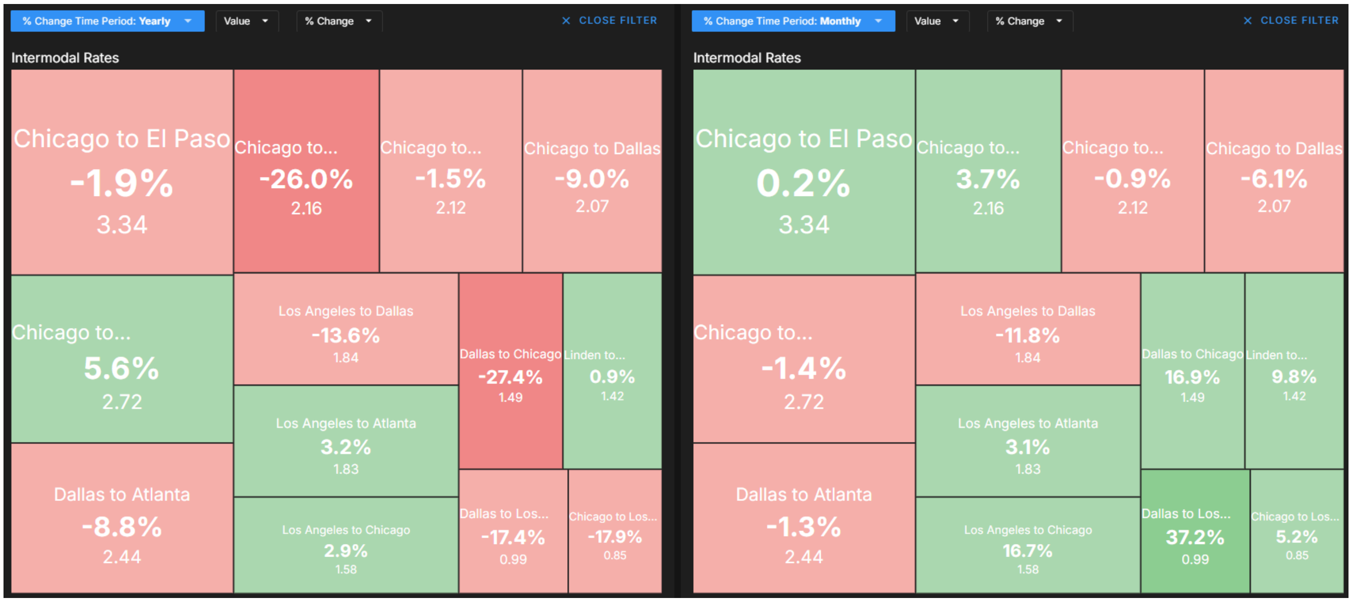


Chart: SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m changes.

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. Intermodal tender rejection rates have fallen by 95 bps over the past month to 1.49%, though that is 12 bps higher than they were this time last year.

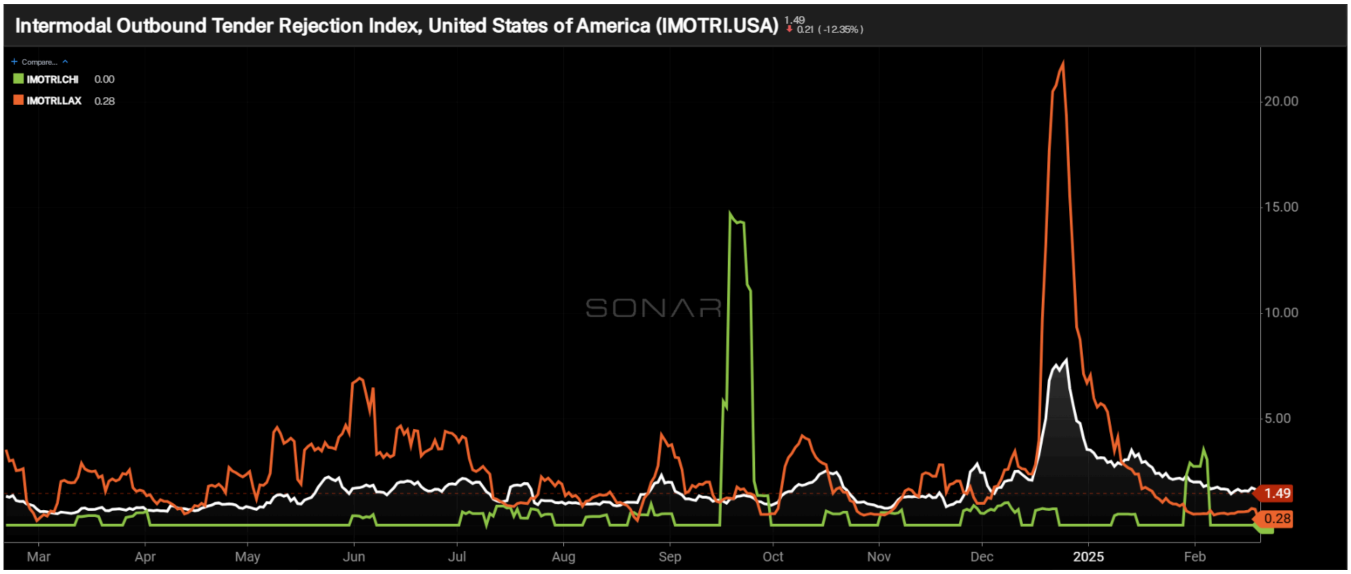


Chart: SONAR. Domestic intermodal outbound tender rejection rates for national (white), Los Angeles (orange) and Chicago (green) loads.

What else we're watching

It was no surprise that the Federal Open Market Committee held the target range for the federal funds rate steady at its Jan. 28-29 meeting. Not only was the meeting the first of the year, it was also the first where a new group of four presidents from the regional Fed banks voted on policy.

The pause in monetary policy was expected for a few reasons. First, the interest rate cuts at the end of 2024 were fairly aggressive, cutting the target range for the federal funds rate by 100 basis points over the course of three meetings. Second, recent labor market and inflation data showed that there isn't a significant deterioration in market conditions.

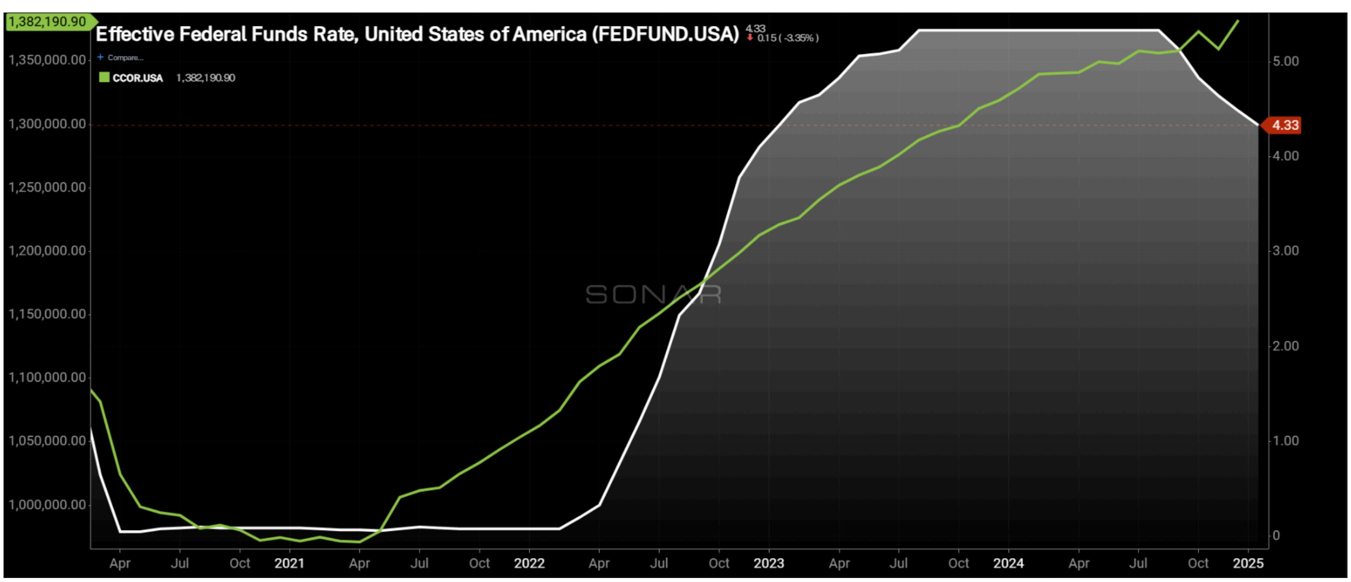


Chart: SONAR. Effective Federal Funds Rates (white, right axis) and Total Outstanding Revolving Credit (green, left axis).

In its statement at the conclusion of the meeting, the FOMC said it is "strongly committed to supporting maximum employment and returning inflation to its 2 percent objective."

In the semiannual monetary report to the Congress, the chairman of the Federal Reserve, Jerome Powell, said, "With our policy stance now significantly less restrictive than it had been and the economy remaining strong, we do not need to be in a hurry to adjust our policy stance."

Taken together, these two statements highlight that the FOMC is likely to sit back and wait for either a reduction in inflation or challenges to the labor market before it makes its next policy decision. In fact, at the prior meeting, the expectations were for the target range to be reduced by just 50 bps during the year. At present, traders are pushing expectations for the next potential rate cut to occur in October.

One of the more interesting dynamics that will play out throughout the year is the Trump administration's stance on tariffs and what monetary policy has to do. The administration has already shown that tariffs are on the table for just about everything. President Donald Trump has stated in a post on Truth Social that interest rates should be lower to go hand in hand with tariffs.

The Fed is supposed to be an apolitical government entity, but it will be interesting to see if the administration tries to strong-arm the Fed into acting faster than it normally would.

Consumer conditions were challenged in January. Not only was inflation again prevalent, but retail sales fell significantly during the month. The retail sales figures were likely impacted to some extent by winter weather, especially in the Southern half of the country, but even so, it is a sign that there are still headwinds for the consumer.

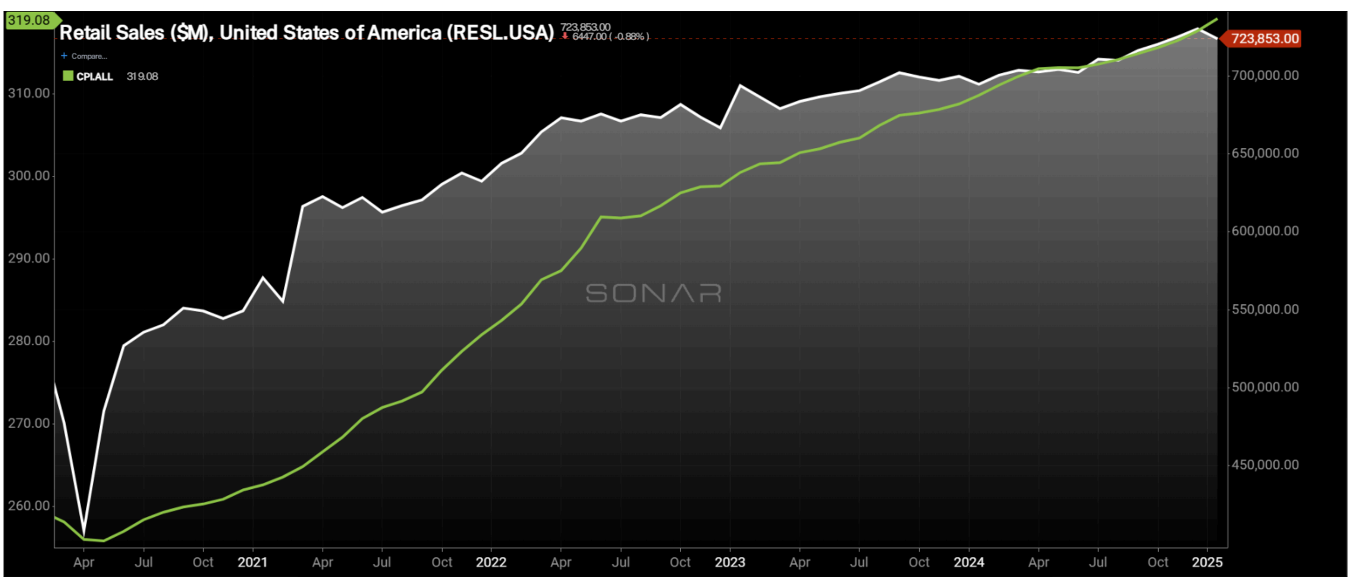


Chart: SONAR. Total retail sales (white, right axis) and Consumer Price Index (green, left axis).

The Consumer Price Index increased by 0.5% in January, accelerating from the upwardly revised 0.4% increase in December. The increase in January marks the largest increase in the past year and highlights that inflation has been accelerating each of the past three months. The 12-month running total for the headline CPI was 3%. Both the monthly increase and 12-month total missed analysts' expectations for a 0.3% m/m increase and 2.9% annual total increase.

The challenge that consumers continue to face is that the 12-month running total for the CPI has accelerated. After touching 2.4% in September, it has been on the rise since, now reaching 3% – still well above the 2% target. The CPI, especially the headline CPI, is far from the FOMC's preferred method of measuring inflation, but it does highlight that consumers are indeed facing rising prices.

Energy prices were a contributing factor to the overall price increases in January, rising by 1.1% m/m. Overall energy prices were up 1% y/y. Gasoline prices increased by 1.8% m/m in January but were still slightly lower y/y, down 0.2%. If there is a positive sign, it is likely that energy prices didn't rise as fast as they could have given that there was likely increased demand due to the lower temperatures.

Food prices have been a hot topic in recent weeks, especially surrounding the avian flu and the impacts that has had on egg prices. Overall food prices increased by 0.4% m/m in January, the fastest increase in over six months. Food prices are 2.5% higher than they were this time last year. Food-at-home prices increased by 0.5% m/m, the fastest increase in over six months, though prices are still up just 1.9% y/y. Food-away-from-home price increases slowed in January, rising by 0.2% m/m, down from the 0.3% m/m increases in November and December. Egg prices were the hot topic and rightfully so: Egg prices increased by 13.8% m/m and were a resounding 53% higher than they were this time last year.

Core inflation, which is the CPI excluding food and energy prices due to their volatile nature, is proving to be sticky, thanks in large part to shelter prices. Core CPI increased by 0.4% m/m, higher than the 0.3% analysts were expecting. The 12-month running total for core CPI came in at 3.3%, also higher than analysts' expectations of 3.1%. The core CPI figure is closer to what the FOMC will look to in terms of inflation but isn't identical.

The main contributor to core inflation is shelter prices, which continue to rise. In January, shelter prices increased by 0.4% m/m. Shelter prices have increased by 4.4% over the past year, eclipsing the average wage increase over the past year, which is just 4.1%.

While inflation continues to impact consumers, consumer spending really hasn't slowed, at least until January. Total retail sales dropped pretty significantly in January, falling by 0.9% m/m, the largest monthly decline since March 2023. Analysts were expecting retail sales to slide by just 0.2% m/m. Despite the month-over-month slowdown, total retail sales were still 4.8% higher than last January. It is worth noting that retail sales aren't adjusted for inflation, thus the actual growth y/y in real retail sales is less impressive than the headline figure.

Motor vehicle and parts sales were one of the biggest drags on overall retail sales, dropping by 2.8% m/m. Despite the decline m/m, compared to this time last year, motor vehicle sales are up 6.8%. After removing auto sales, total retail sales fell by 0.4% m/m but were just 3.7% higher y/y.

The only two areas that experienced meaningful growth in spending were gasoline station sales and food service and drinking places, aka bars and restaurants. Both increases in sales were likely due in part to inflation as gasoline station sales increased by 0.9% m/m and were 2% higher y/y, and bar and restaurant sales were up 0.9% m/m and 5.4% y/y.

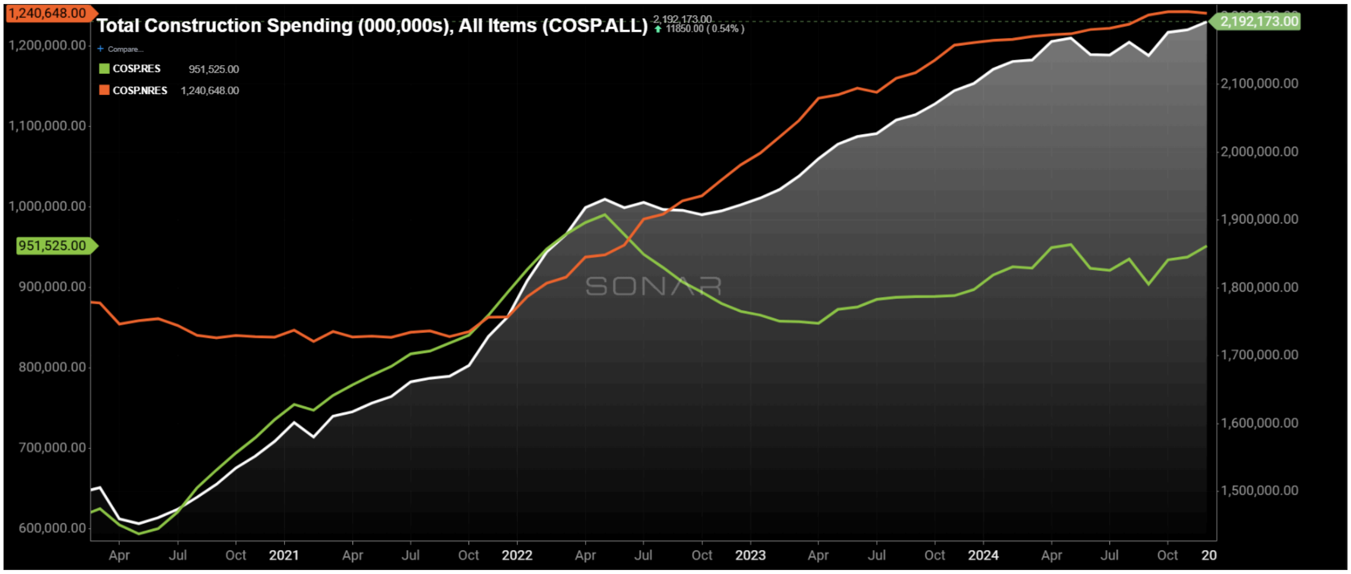
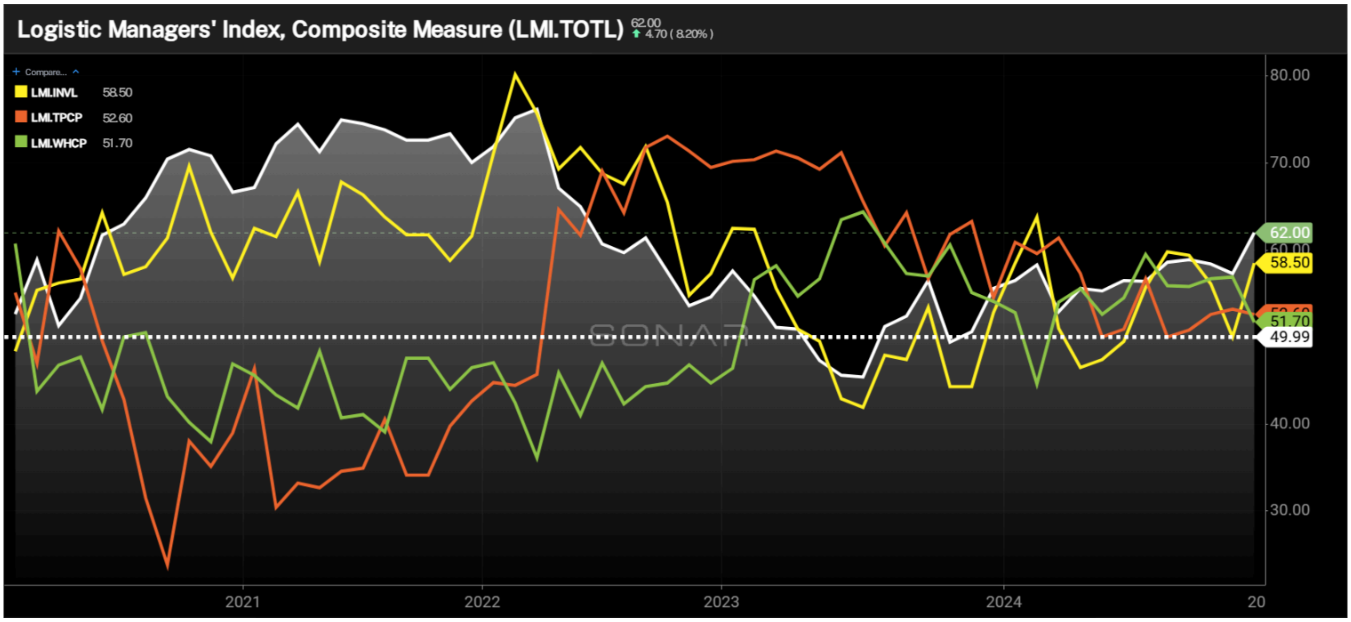


Chart: SONAR. Total construction spending (white, right axis), total nonresidential construction spending (orange, left axis) and total residential construction spending (green, left axis).

With strong existing home sales in December, construction spending also increased during the month, driven by residential spending. Total construction spending increased by 0.5% m/m and 4.3% y/y in December to a seasonally adjusted annual rate (SAAR) of $2.193 trillion.

The growth in construction spending was impressive, no doubt, especially in a traditionally softer month for spending, all thanks to residential construction spending. Residential construction spending increased by 1.5% m/m to a SAAR of $951.5 billion. Residential construction spending was up 6.1% y/y in December.

Nonresidential construction spending has continued to slow in recent months, but it is being driven primarily by smaller subsegments of spending. Total nonresidential construction spending fell by 0.1% m/m in December to a SAAR of $1.24 trillion. Nonresidential construction spending was still 3% higher than December 2023. The largest subsegment of nonresidential construction spending, manufacturing, increased in December, rising by 0.1% m/m and 11.4% y/y to a SAAR of $237.2 billion – roughly 20% of total nonresidential construction spending.

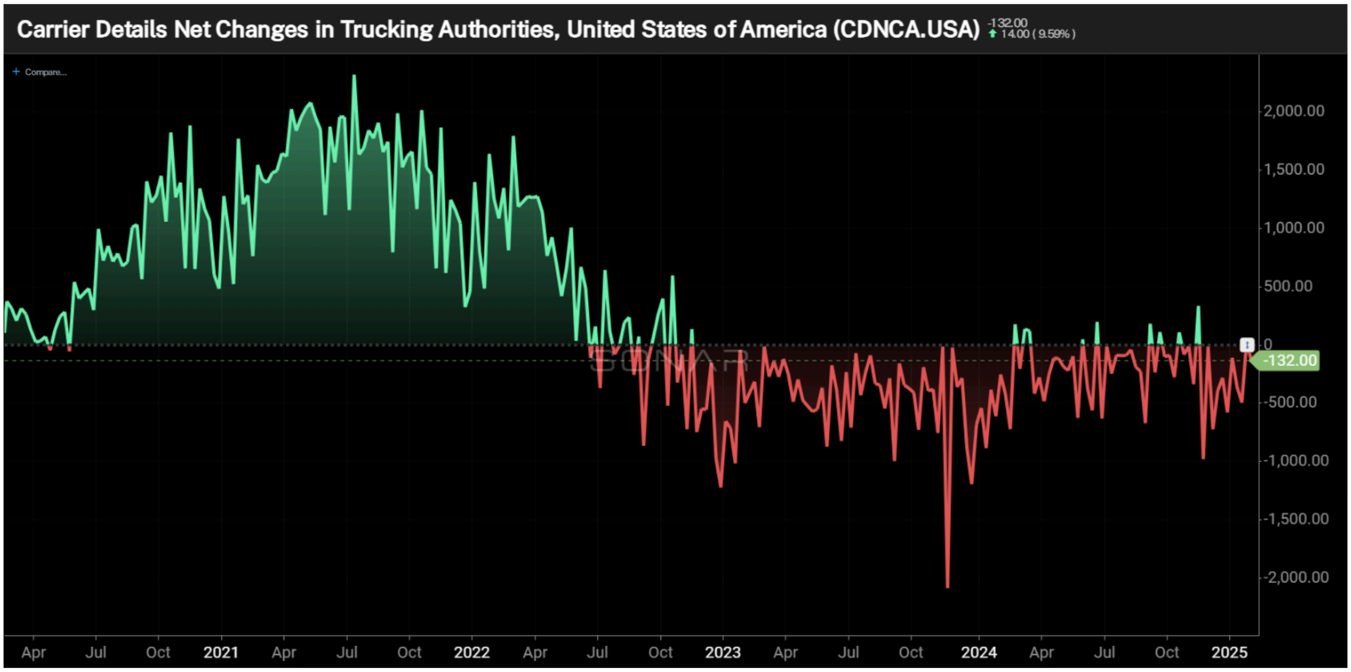


Source: SONAR. Logistics Managers' Index (white), inventory levels (yellow), warehousing capacity (green) and transportation capacity (orange).

The logistics industry remains firmly in expansion territory as the Logistics Managers' Index is still above 50. The rate of growth accelerated in January as the LMI rose by 4.7 points m/m to 62, the highest level since June 2022.

The most interesting topic within the LMI this month was the direction inventory levels are headed because it shows that both upstream and downstream firms are growing inventory levels at a fairly rapid clip. Overall inventory levels increased by 8.5 points m/m to 58.5. In December, downstream firms, which are primarily retailers, reduced their inventories significantly, as is to be expected during the holiday season, while upstream firms were trying to grow inventory levels. As the calendar turned to January, downstream inventory wasn't flowing out the doors as quickly as it did in December, leading to a significant increase in downstream inventory: up 22.2 points m/m to 56.1. Upstream firms continued to bring in inventory, with the index coming in at 60.5 in January.

The increased inventory levels are weighing on warehousing metrics. The warehousing capacity component of the LMI fell by 5.2 points m/m to 51.7. What is interesting is that smaller firms, those with fewer than 1,000 employees, saw breakeven warehousing capacity in January at 50, but warehousing prices increased at a faster rate than large firms, those with more than 1,000 employees. Small-firm warehousing prices came in at 75 compared to 70.9 for the large firms.



Source: SONAR. Carrier Details Net Changes in Trucking Authorities

Truckload capacity continues to bleed out of the market on a weekly basis as evident by the Carrier Details Net Changes in Trucking Authorities. In nearly every week since October 2022, there has been a net decline in the number of trucking authorities. With demand facing challenges to start the year, it is likely that carriers will continue to exit the market during the first half of 2025. If there is a demand-side increase, it could slow the rate of decline, but it will take sustained strong demand levels to see capacity added back in a meaningful way.

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