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STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

Stability reigns supreme in August

August 23, 2024 | 10 a.m. EDT

Overview

August has been remarkably stable in the truckload market. Tender rejection rates have basically flatlined around 4.5%, and tender volumes are inching higher after a challenging start to the month. Spot rates are seeing some of the gains experienced since International Roadcheck eroding ahead of Labor Day weekend.

The intermodal market continues to thrive on the back of strong import levels. Domestic and international intermodal volumes continue to show strength on both a monthly and an annual basis. The challenge in the intermodal market remains pricing. Intermodal marketing companies continue to state that they have the capacity to service nearly 20% more volume than they currently are. The result: dropping prices to stay competitive with truckload, but it appears that IMCs aren't willing to push rates much lower than they currently are.

Peak season on the ocean is here, and volumes reflect that demand has been quite strong. What to pay attention to on the ocean is the potential labor dispute between the International Longshoremen's Association and the United States Maritime Alliance. The union's contract is set to expire Sept. 30.

The first interest rate cut since the emergency cuts associated with the COVID-19 pandemic is likely happening in September as inflation data remains positive and the labor market slows. For the industrial side of the economy, interest rates will be a welcome sight. The sector has been under pressure throughout the past two years.

Macro indicators	(y/y change)
July industrial prod. change	-0.6% (-0.2%)
July retail sales change	+1% (+2.7%)
July U.S. Class 8 orders	12,400 (-7%)
July U.S. trailer orders	7,200 (-37%)

Truckload indicators	(y/y change)
Tender rejection rate	4.641% (+37 bps)
Average dry van spot rate[1]	$2.27/mi (+1.3%)
LAX to DAL spot rate[2]	$2.24/mi (+6.2%)
CHI to ATL spot rate	$2.44/mi (-2%)

Tender volumes	(y/y change)
Atlanta	409.61 (-1.62%)
Dallas	349.07 (-1.81%)
Los Angeles	313.69 (+7.47%)
Chicago	211.25 (+12.66%)

Tender rejections	(y/y change)
Atlanta	3.93% (+90 bps)
Dallas	3.88% (+163 bps)
Los Angeles	5.09% (-20 bps)
Chicago	4.48% (+108 bps)

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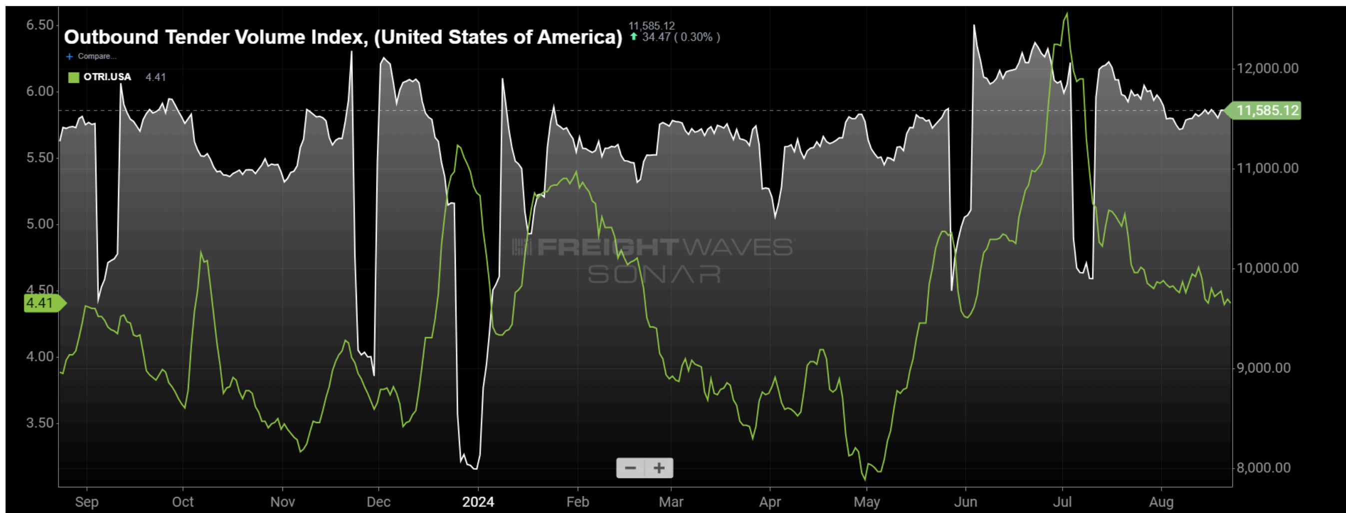
[1] FreightWaves National Truckload Index
[2] FreightWaves TRAC spot rate

Truckload markets

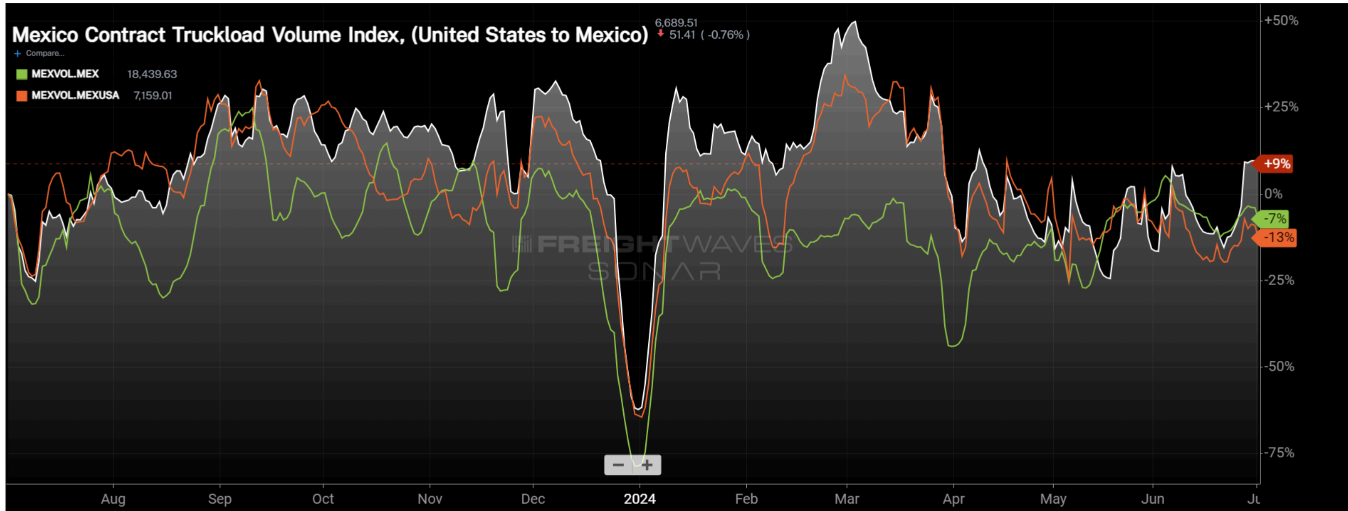
The truckload market has been remarkably stable throughout August as rejection rates have flattened out and volumes are holding on to year-over-year gains. The impacts around Labor Day are going to be one of the most important moves heading into the fourth quarter. If tender rejection rates eclipse the Fourth of July holiday levels, it sets the stage for a more challenging fourth-quarter peak season when it comes to securing capacity as rejection rates would likely eclipse 10%, similar to the levels felt in 2019. If tender rejection rates fall short of the Fourth of July holiday levels, capacity in the fourth quarter will not be as fragile as previously thought, with tender rejection rates falling somewhere between 2023 levels and 2019 levels. The positive sign for the market in the fourth quarter is that increased import levels have been moving into warehouses or via intermodal inland. Eventually those goods will move closer to the end consumer, which will be a driver of stronger demand in the fourth quarter.



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

While volumes have fallen off from the summer highs, they have moved slightly higher since the beginning of August. The Outbound Tender Volume Index (OTVI), a measure of shippers' requests for truckload capacity, is down 1.68% month over month, but after the first week in August, it has grown by 1.6%. Tender volumes are holding on to annual gains, with OTVI up 2.42% year over year as the growth is roughly in line with that of the overall economy.

The declines monthly are across both the dry van and reefer markets, but the growth annually is being driven by the dry van market. The Van Outbound Tender Volume Index has fallen by 1.34% m/m but is up 2.05% y/y. The Reefer Outbound Tender Volume Index is down just 0.6% m/m but is down 0.38% y/y.



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

The Mexico market has become increasingly important as nearshoring has gained momentum after the COVID-19 pandemic exposed weakness in global supply chains. The Mexico Contract Truckload Volume Index is a signal that southbound movements have been the main driver of growth in Mexico truckload activity over the past year. Southbound volumes, which include both loads originating in the U.S. destined for a Mexico border town and loads that originate in Mexico at a cross-border town and destined for further into Mexico, have increased by 9% over the past year. Northbound volumes, which consist of loads originating in Mexico that are destined for the U.S. and loads that originate in Mexico at a non-cross-border town and are destined for a Mexico border town, have fallen by 12% over the past year. Intra-Mexico truckload contract volumes have fallen 7% over the past year. Some of the offset in the differences in northbound and southbound volumes could be a result of input goods being trucked into Mexico and then finished products being moved via rail out of Mexico. The automotive sector is an example of this. Motor vehicle and part rail carloads originating in Mexico are 10% higher than they were this time last year.

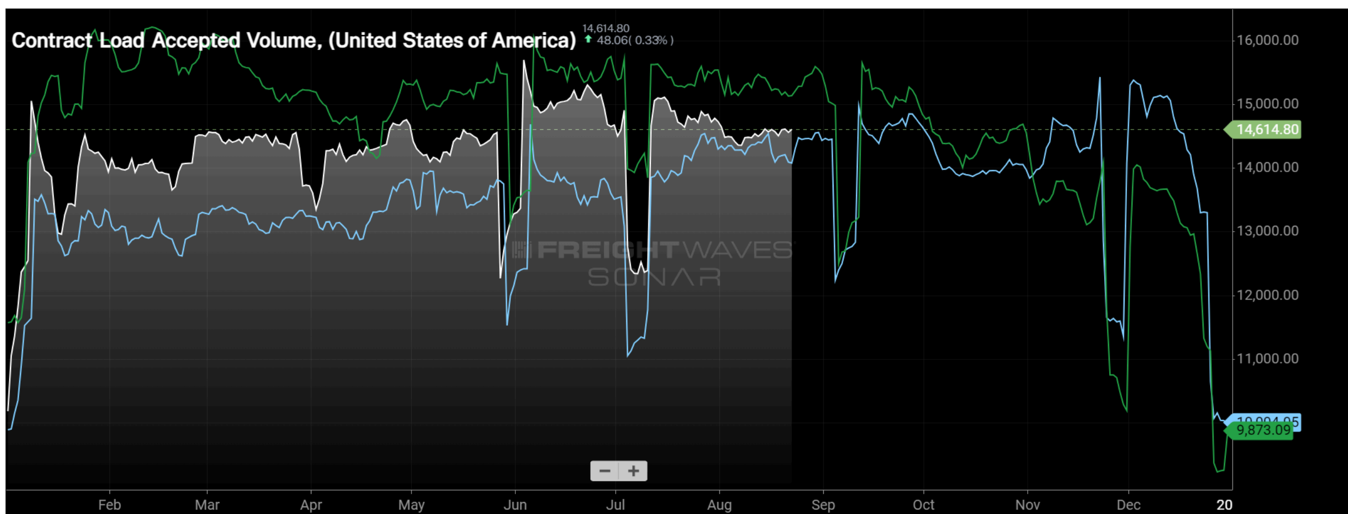


Chart: FreightWaves SONAR. Contract Load Accepted Volume: 2024 (white), 2023 (green) and 2022 (blue).

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 0.92% year over year, an indication that volume growth is slowing as the index has averaged over 7% throughout all of 2024.

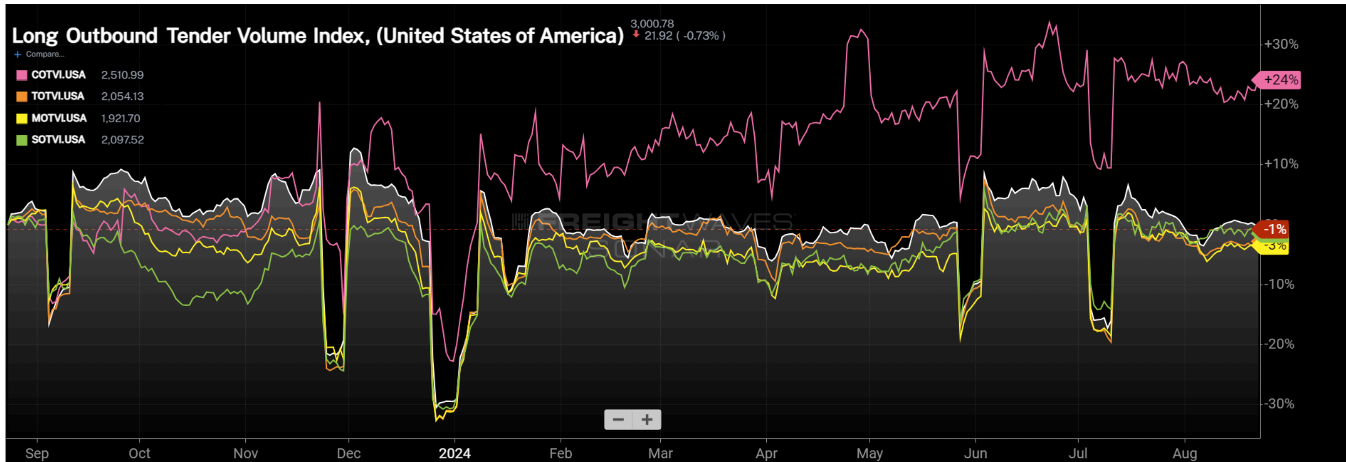


Chart: FreightWaves SONAR. Relative view of tender volumes by mileage band: 800-plus miles (white), 450-800 miles (orange), 250-450 miles (yellow), 100-250 miles (green) and less than 100 miles (pink).

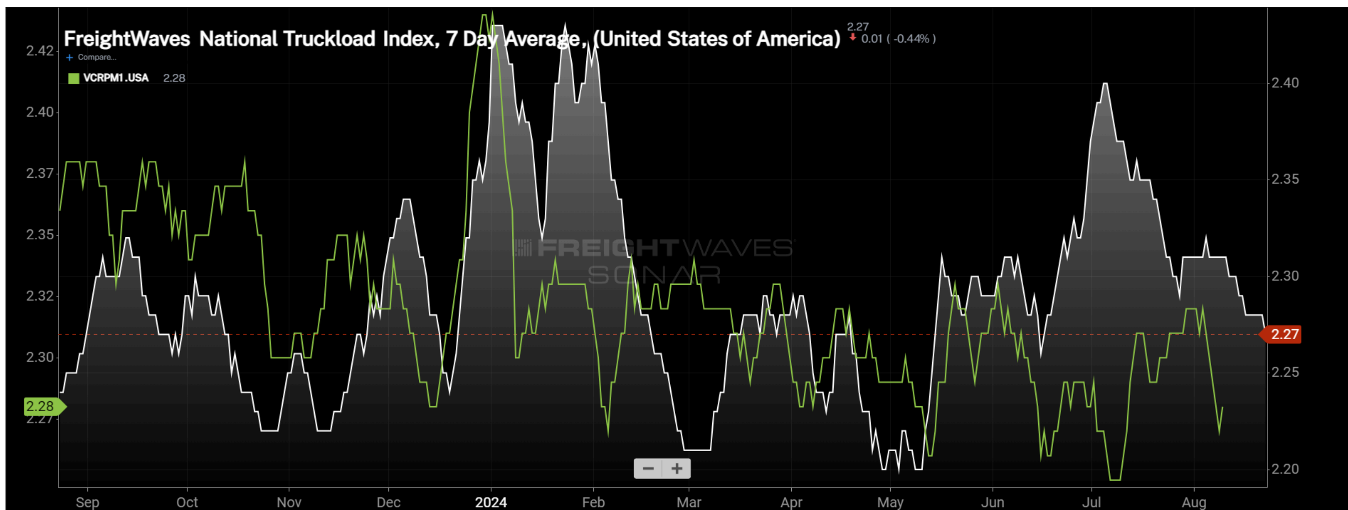
Volume growth across the various lengths of haul continues to vary greatly. The local length of haul, loads moving 100 miles or less, has been the primary driver of growth over the past year, rising 24%. Volumes across all the other mileage bands are actually lower y/y, which is an explanation of why volumes have grown in aggregate, but the growth hasn't necessarily been seen by transportation providers, even as capacity has left the market.

The evidence that capacity has been leaving the market is in the Outbound Tender Reject Index, a measure of relative capacity in the market. The OTRI fell back below the 5% mark in late July, but instead of retreating even lower, it stabilized around the 4.5% mark. At present, OTRI sits at 4.41%, 37 basis points higher than it was this time last year and 15 bps higher than it was in 2019, a year with which current-year trends align relatively well.

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

The truckload market in Canada is far less volatile than it is in the U.S. Most of the truckload moves are shorter lengths of haul as the Canadian economy relies on rail to connect major consumption centers. The result is tender rejection rates in the market that are often below 5%, which in the U.S. market would indicate significant softness in the truckload market. However, if tender rejection rates break above 5% in Canada, it is a signal of significant disruptions seen at the end of 2021 and early 2022. With the Canadian rail lockout, which only lasted a matter of hours as opposed to days, tender rejection rates in the country immediately reacted, more than doubling in less than a week. As fluidity returns to the rail networks, rejection rates will likely retreat to levels experienced throughout much of the summer, under 2%.

Spot rate gains are starting to disappear

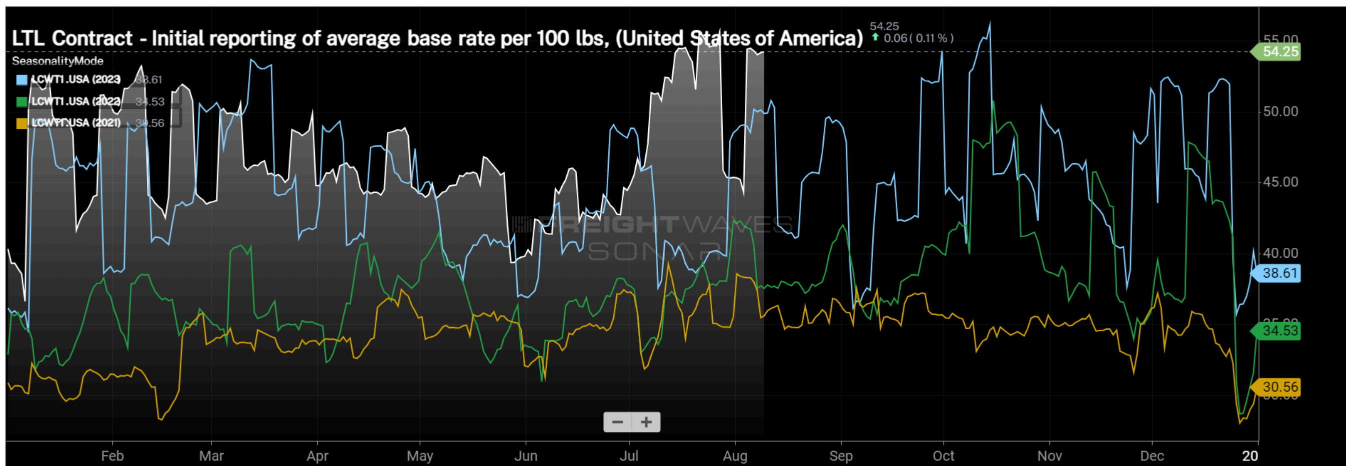


Source: FreightWaves SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

Durable gains that came around the onset of International Roadcheck in mid-May through the early stages of August are starting to disappear. The FreightWaves National Truckload Index — a seven-day moving average of national dry van spot rates that is inclusive of fuel — has fallen by 5 cents per mile over the past month to $2.27. Spot rates are just 3 cents per mile higher than they were this time last year.

Contract rates continue to be volatile but within a fairly tight range. The initially reported dry van contract rate, which excludes fuel, increased by 3 cents per mile to $2.28. Contract rates have been within a 9-cent-per-mile range throughout 2024, an indication that any significant cost savings is in the rearview mirror.

LTL rates hit new highs



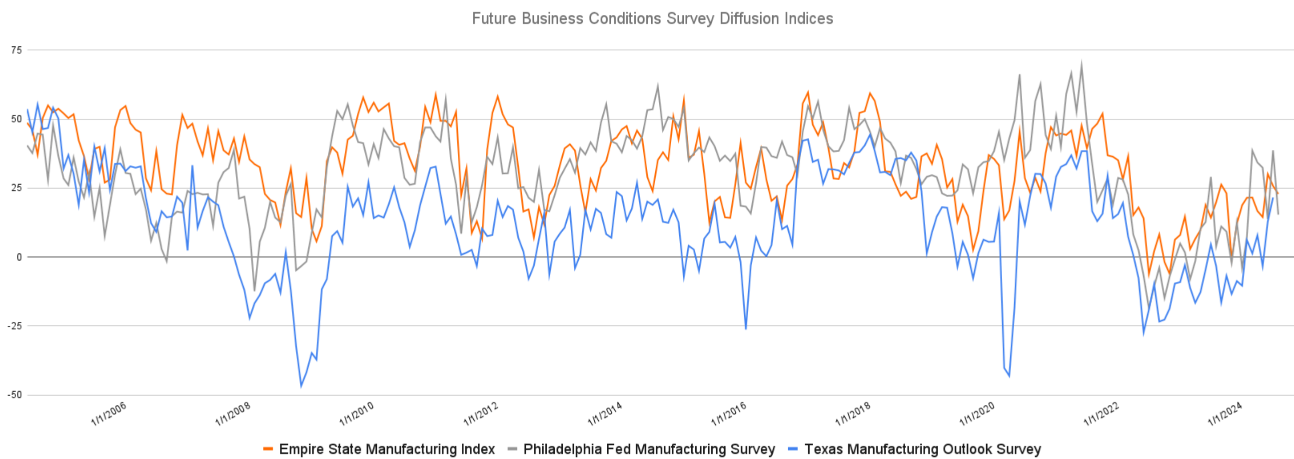
Source: FreightWaves SONAR. Initially reported LTL contract rate per hundredweight: 2024 (white), 2023 (blue) and 2022 (green).

While the industrial side of the economy remains under pressure, less-than-truckload pricing is bucking the trend and seeing upward pressure on pricing. The average LTL contract rose by $2.92 per hundredweight over the past month. Now sitting at $54.25 per hundredweight, it is 8.7% higher than it was this time last year. The fourth quarter will be an interesting one in LTL as it will be the first quarter in which comps take into account the large exit from the LTL space that occurred in 2023.

Macroeconomic conditions

July presented challenges to the industrial side of the economy as Hurricane Beryl added disruption to a sector of the economy that was already contracting. The Institute for Supply Management's Manufacturing Purchasing Managers Index was in contraction once again. The Manufacturing PMI came in at 46.8 in July, down 1.7 points from June. For 20 of the past 21 months, the Manufacturing PMI has been in contraction, marking the longest period of contraction since the onset of the index, surpassing the contraction period during the great financial crisis, though it was far deeper.

New orders contracted for the fourth consecutive month, falling faster than they did in June. The New Orders component of the index fell by 1.9 points m/m during July, to 47.4. The decline in new orders is concerning amid hope for a recovery in the manufacturing sector. There will have to be a shift in the trend, as new orders have been in contraction for 20 of the past 22 months.



August's Empire State Manufacturing Index remained negative, as it has for the entirety of 2024 to date, but the index did move closer to equilibrium. The diffusion index rose by 1.9 points month over month but remained negative at minus 4.7%. Within the survey, respondents highlighted that inventory reduction is continuing. The Inventory Index fell by 4.5 points m/m to minus 10.6 as 28.7% of respondents reported lower inventory levels.

The forward-looking General Business Conditions Index decreased for the second consecutive month, falling by 2.9 points m/m to 22.9%. A greater percentage of respondents expect better business conditions over the next six months: 45.1% in August compared to 40.8% in July. But a greater percentage also expect worse conditions: 22.2% in August compared to 15.1% in July.

Like in New York, business activity in Philadelphia slowed, according to the Manufacturing Business Outlook Survey conducted by the Federal Reserve Bank of Philadelphia. The current General Business Activity Index turned negative in August, falling 20.9 points m/m to minus 7. The future outlook, while still optimistic for the next six months, is less positive than it was in July. The future General Business Activity Index fell by 23.3 points m/m, erasing nearly all of July's increase, to 15.4.

The mood of Texas manufacturing firms worsened in July, but Hurricane Beryl, which impacted the coast of Texas, may be partially to blame. The current General Business Activity Index of the Federal Reserve Bank of Dallas' Texas Manufacturing Outlook Survey fell by 2.4 points m/m to minus 17.5. The index has been negative for 27 consecutive months. While current conditions remain a challenge, firms are slightly more optimistic about the next six months. The survey's Future General Business Activity Index expanded on June's increase, rising 8.7 points m/m in July to 21.6, the highest level since November 2021.

A hot topic in the macroeconomy has been the labor market. The Federal Reserve has been stating that it has two goals when making monetary policy decisions: Maintain maximum employment and limit inflation. With the rapid increases in interest rates throughout 2023, it has taken time for the effects to really impact the overall economy, but from a labor perspective, the market is clearly slowing. Aside from the underwhelming July jobs report, the downward revision to the 2024 benchmark by 818,000 was the largest such revision to the jobs number since 2009.

The evidence of a slowing labor market was present in July as the employment report was severely underwhelming. Nonfarm payrolls in July increased by 114,000, falling short of June's downwardly revised figure of 179,000 and well short of analysts' expectations for 185,000 added during the month. Additionally the unemployment rate increased to 4.3%, the highest level since October 2021.

The increase in the unemployment rate triggered the Sahm Rule, named after former Fed Economist Claudia Sahm. The Sahm Rule is when the three-month moving average in the unemployment rate moves 50 basis points above the 12-month low unemployment rate. This rule has been used as a recession indicator in past economic cycles. Sahm herself stated that just because the rule was triggered, the U.S. economy was not necessarily entering a recession, but she voiced concern that if the Fed were too slow to cut rates, it would lead to even greater odds of the U.S. entering a recession.

Why the uptick in the unemployment rate, especially in the latest report where it jumped 20 bps?

There has been an influx in the number of individuals in the labor force. The labor force increased by 420,000 people during July while the number of unemployed increased by 352,000. The increase can in part be attributed to the increase in foreign-born workers in the labor force. Over the past year, the foreign-born labor force has increased by 1.65 million, while the native-born labor force has decreased by 279,000. Even more eye-opening is that the number of foreign-born workers increased by 1.273 million, while the number of native-born workers has decreased by 1.217 million.

Additionally, the trend in the number of part-time workers, specifically for economic reasons, continued. The total number of part-time workers for economic reasons in nonagricultural industries increased by 353,000 (or 8.5%) month over month. That number is 576,000 higher than it was in July 2023, up 14.7%.

While jobs growth was underwhelming, it continued to stem from just a handful of industries.

Health care sustained its growth, adding 55,000 to payrolls during the month. Both leisure and hospitality and government also experienced increases of 23,000 and 17,000 in the month, respectively.

Retail trade didn't see a significant change, but there was growth in general merchandise retailers, which added 7,100 jobs during July. But 6,300 of those came at supercenters, warehouse clubs and other various general merchandise stores as opposed to department stores.

Construction hiring was a bright spot in July, adding 25,000 to payrolls during the month. Most of the growth stemmed from specialty contractors, which added 18,700 jobs.

Maritime: Peak season is underway, volumes at YTD highs

Peak season is underway as the West Coast ports have been the beneficiary of strong import volumes throughout the summer months. With the labor situation both in Canada and at the East Coast ports, importers have opted for the certainty that the West Coast presents compared to the other various ports. As a result, import levels at the West Coast ports are at or near all-time highs.

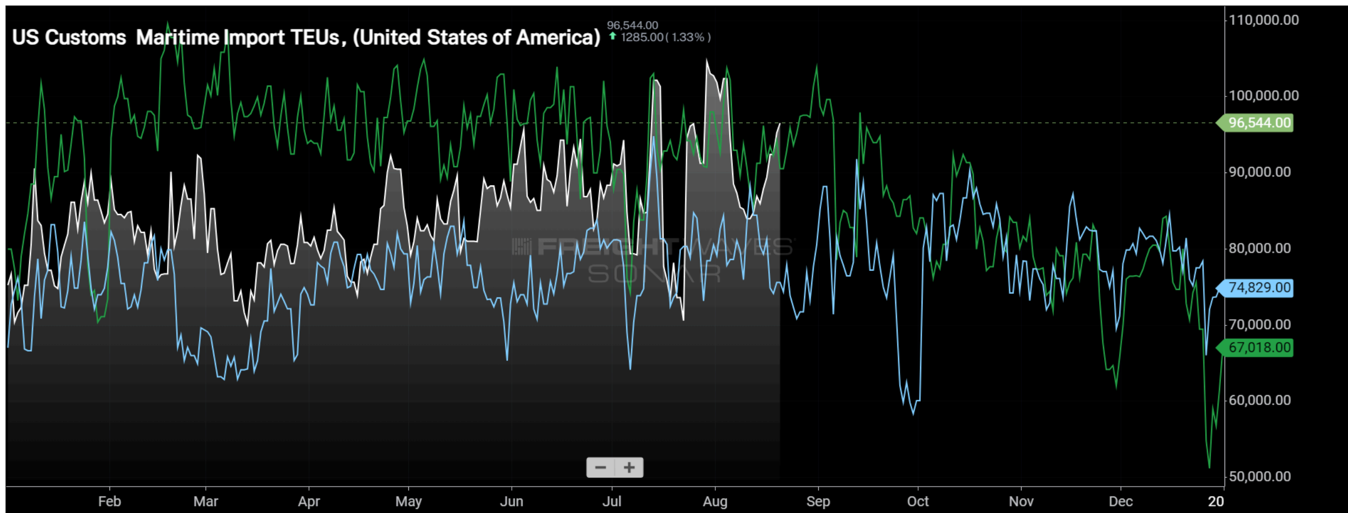
While demand continues to be strong on the ocean as peak season continues, spot rates have started to slip in the densest trade lanes between China and the U.S. Without the COVID-19 pandemic that drove ocean spot rates to upwards of $20,000 per TEU, the latest increases would have been quite jarring to the market.

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 fallen by 7% over the past month to $7,105.19 per 40-foot equivalent unit. Despite the month-over-month decrease, the spot rate along this lane is 248.9% higher than it was a year ago. From China to the North American East Coast, the monthly decline was far less aggressive: It fell by 1.5% month over month to $9,705.03 per FEU, up 221.3% compared to this time last year.

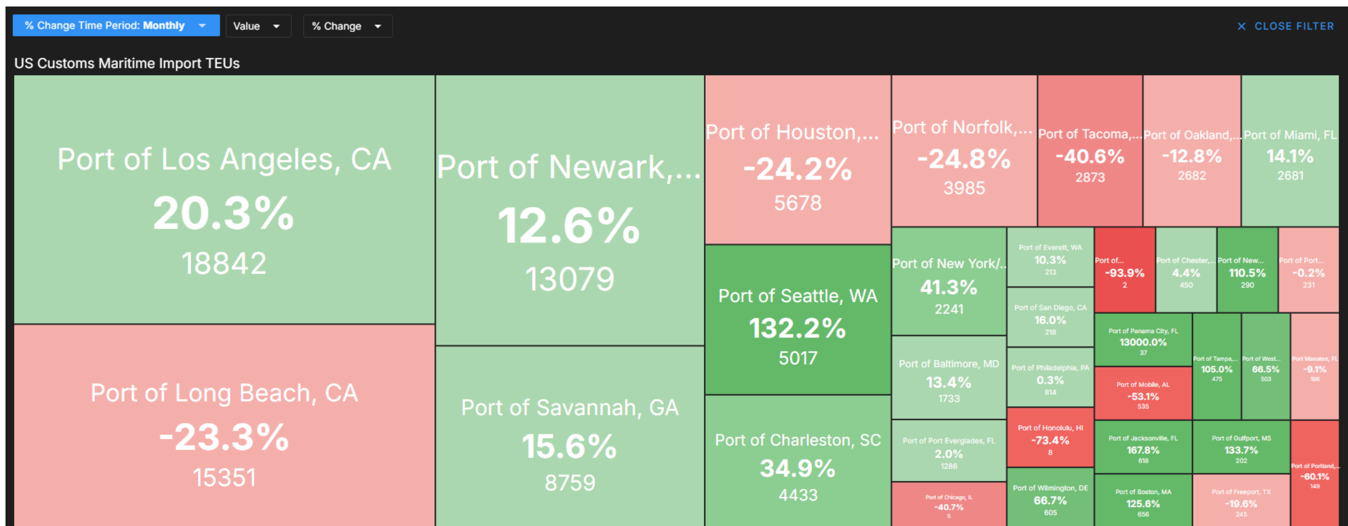
The Drewry World Container Index followed suit as trans-Pacific rates fell, dropping much more significantly than the Freightos spot rates. The WCI from Shanghai to New York registered a decrease of 8.8% month over month to $8,764 per FEU, but it is up 160.6% compared to this time last

year. The WCI from Shanghai to Los Angeles currently stands at $6,303 per FEU, down 13.5% month over month but up 166.9% year over year.



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

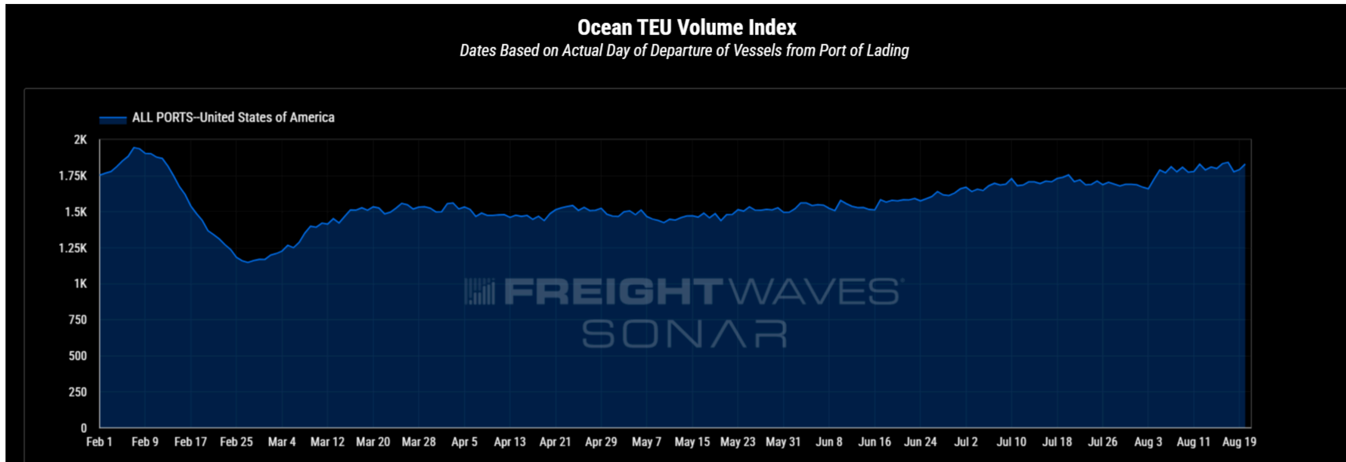
U.S. import levels hit new year-to-date highs to close out July thanks to increased bookings throughout the summer. Import levels have since retreated from the highs but remain above both 2022 and 2023 levels. The way customs officials clear TEUs presents a challenge as the data is quite volatile, but at present, import TEU volumes are 31.1% higher than they were this time last month. Overall TEU volumes through U.S. ports are 27.7% higher than they were this time last year.



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

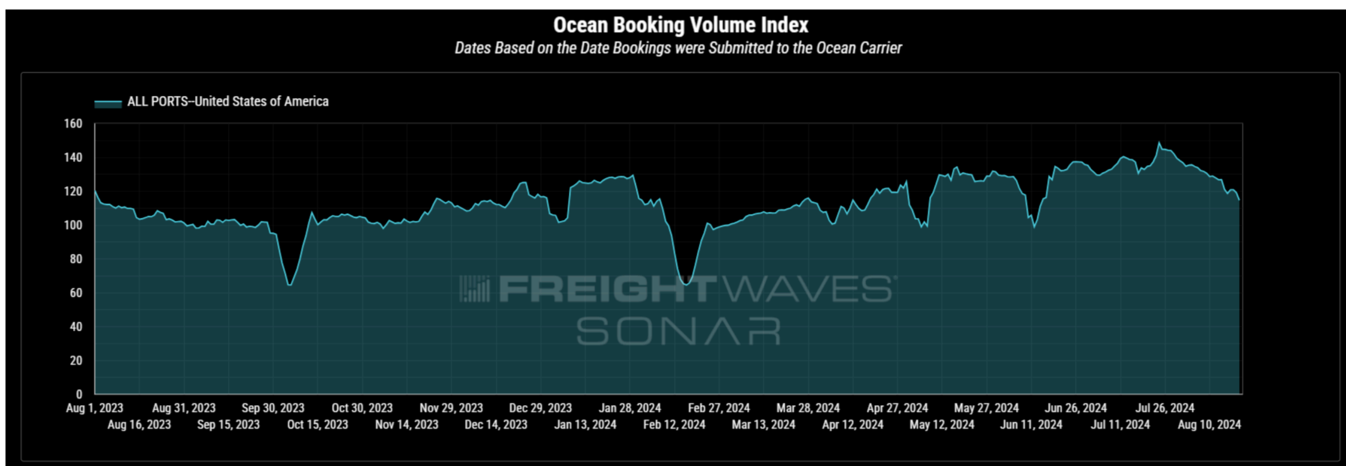
Across the country, both East Coast and West Coast ports have been the beneficiary of strong volumes leaving overseas. As on the national level, the way that customs officials clear shipments creates challenging comps. The Port of Los Angeles, the largest in the country, saw TEU volumes increase by 20.3% m/m and 34% y/y.

What will be interesting over the next month is whether volumes show a significant shift to the West Coast if the discussions with the International Longshoremen's Association and the East and Gulf Coast ports break down and a strike materializes.



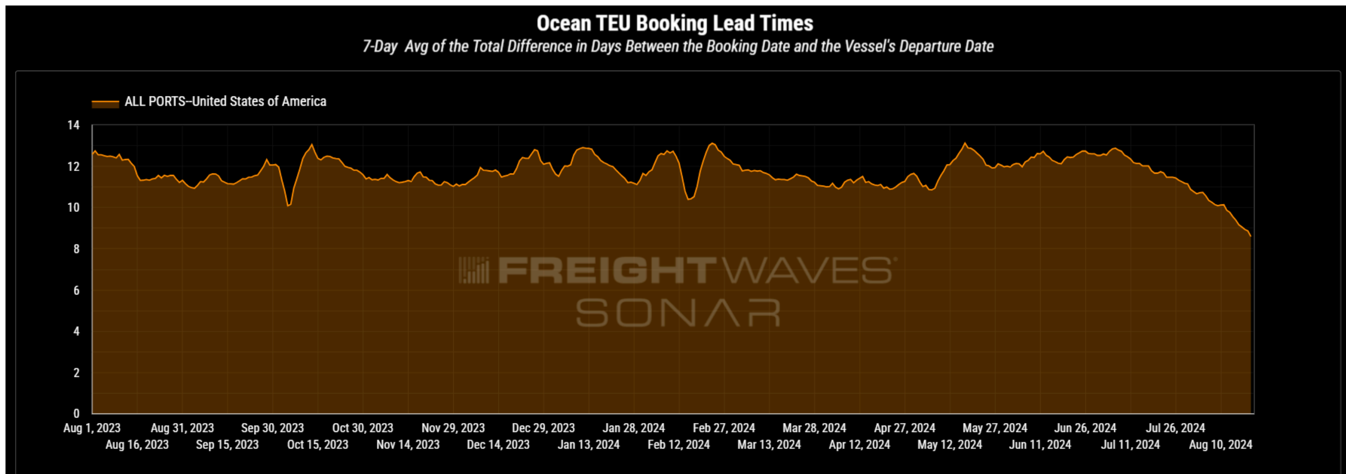
Source: FreightWaves Container Atlas. Ocean TEU Volume Index — all global ports to all U.S. ports.

The Ocean TEU Volume Index, gauging container trade from all global ports to all U.S. ports as TEUs leave origin ports, took another step higher in August. Over the past month, inbound ocean TEU volumes are up 4.3%. Compared to this time last year, inbound ocean TEU volumes have grown by 17.7%. Over the coming months, the election outcome could have a significant impact on TEU volumes. If the possibility of tariffs continues to rise, there could be strength in volumes through the traditional lull in the fourth quarter.



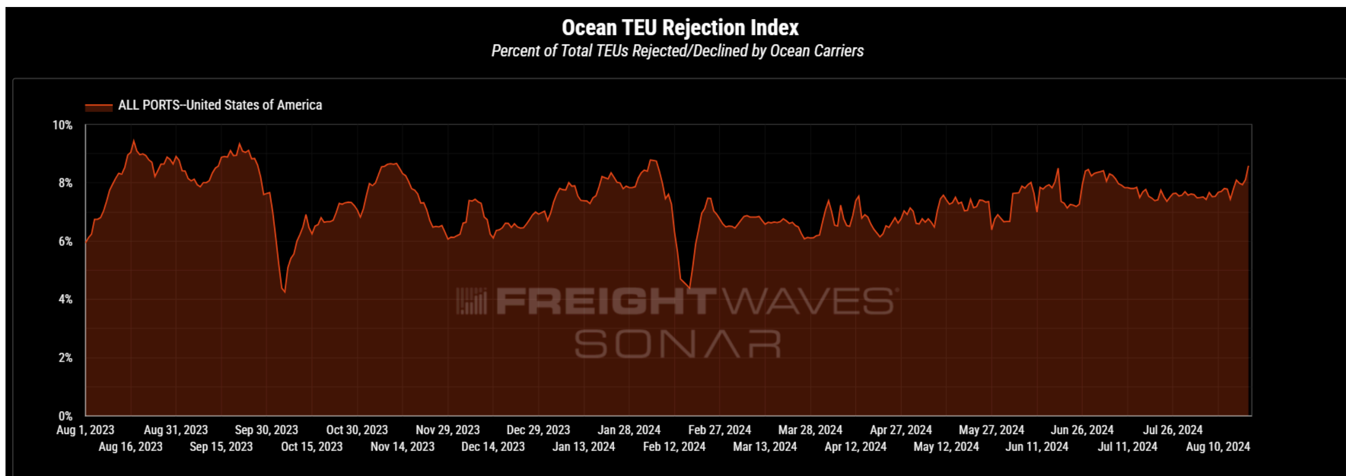
Source: FreightWaves Container Atlas. Ocean Booking Volume Index — all global ports to all U.S. ports.

Ocean booking volumes remained under pressure during the past month, which could be a result of two things: Bookings continue to occur closer to the time of sailing, and shipments are becoming larger. Over the past month, ocean booking volumes have dropped 14.9% m/m. Even with the decline, volumes are 9.3% higher than they were this time last year.



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

Ocean TEU Booking Lead Times continue their decline as it appears that there is plenty of available space on vessels overseas and shippers are confident in their ability to get goods on the container ships. Over the past month, TEU Booking Lead Times are 26% shorter.



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 Aug. 20, the index stands at 8.59%, an increase of 120 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.

Rail intermodal: Strong import levels drive intermodal volume growth

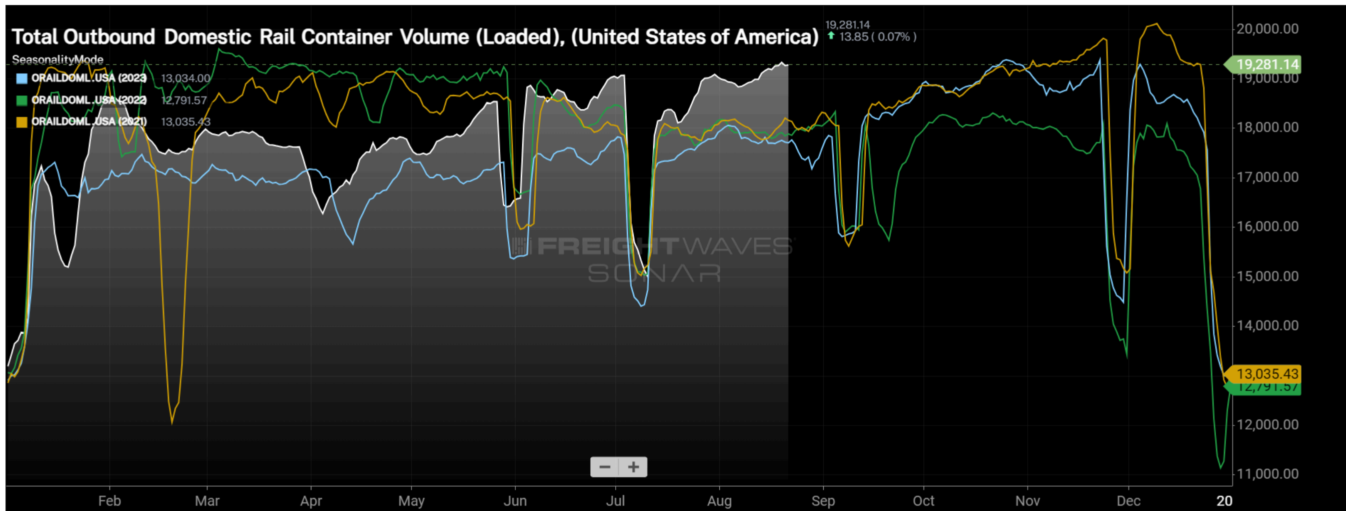


Chart: FreightWaves SONAR. Loaded domestic intermodal container volumes for 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

Continued strength in import levels has resulted in stronger intermodal volumes across the country. Both domestic and international intermodal volumes have increased over the past month as overall intermodal volumes are near 2021 peak season levels. According to the Association of American Railroads, intermodal volumes were 12% higher than they were this time last year. Additionally, intermodal volumes year to date are up 8%, accelerating in the third quarter as quarter-to-date volumes are up 9% y/y, compared to 7% in the second quarter and 8% in the first quarter. Overall intermodal volumes have grown by 5% over the past month.

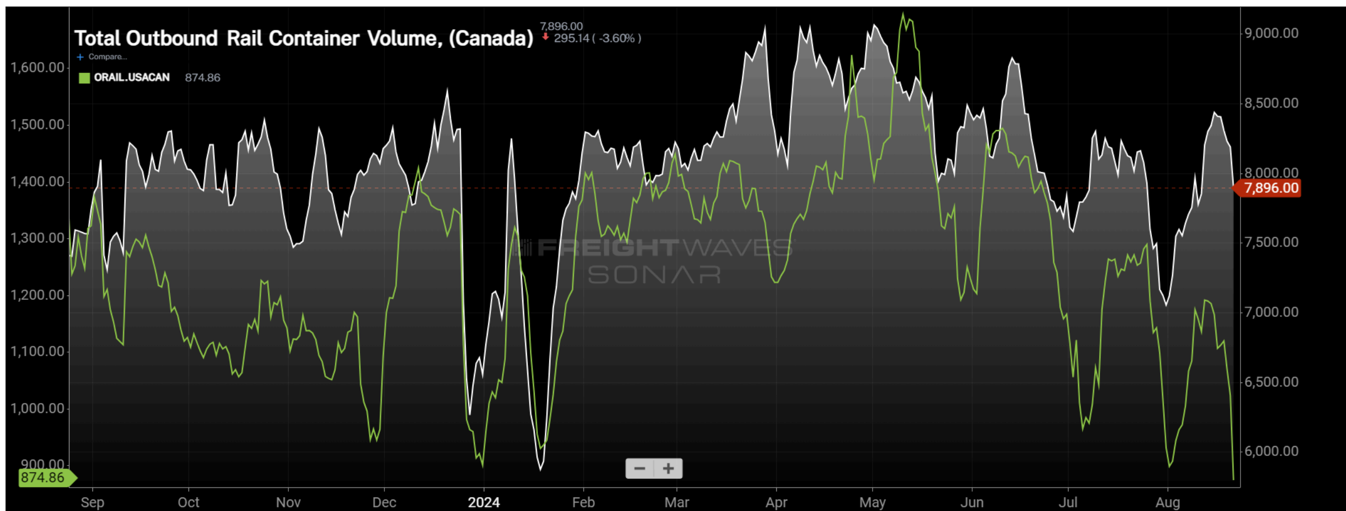
Domestic loaded intermodal volume gains haven't been as robust as those of the overall market, but they are impressive nonetheless. Loaded domestic intermodal volumes are up 3.5% over the past month. Domestic intermodal volumes are the beneficiary of the stronger import volumes as well as the Canadian railroad labor disputes as volumes are diverted from the ports in Canada to the U.S. West Coast ports. Domestic loaded intermodal volumes are 9.1% higher than they were this time last year.

Empty domestic volumes experienced the largest growth over the past month, rising 14.5% m/m. The growth is stemming from intermodal marketing companies repositioning their assets to port markets in order to service where the demand is currently. A prime example is the Chicago to Los Angeles land as domestic empty intermodal container volumes are up 64% over the past month and up 86% y/y. While the growth in that lane is just one example, the trend is happening broadly, as domestic empty volumes are up 21.2% y/y.

The international side of the market has grown faster than the domestic market, especially when looking at loaded volumes. Total loaded international intermodal volumes have increased by 4.5% over the past month. The growth has more of a direct relationship with imports and indicates that container availability overseas isn't in a dire situation, even with the higher demand levels. If container availability overseas becomes a challenge, the number of containers being moved inland will be impacted as containership lines make an effort to get containers back into the headhaul

markets overseas. Total loaded international intermodal volume is up 22% year over year, which highlights that the market is still having its moment in the spotlight.

Empty international intermodal volumes have also increased, which is likely a function of stronger loaded volumes moving inland and then the empty containers returning to the port markets. Over the past month, empty international intermodal volumes have increased by 5.4% and are 44.3% higher y/y.



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

The impacts of the rail worker lockout that only lasted 17 hours were felt almost immediately as the Canadian rail networks came to a halt. Total outbound rail containers originating in Canada dropped over 6% almost overnight in the seven-day moving average. The impacts didn't only impacting Canadian originations, but also U.S. originations destined for Canada. CSX had embargoed all cross-border shipments to and from both CN and CPKC ahead of the lockout. As a result, rail container volumes dropped to the lowest level of the year and will continue to move lower even as the lockout comes to a close as it still takes time for network fluidity to be restored, even if the lockout lasted just a handful of hours..

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

For Canadian grain shippers and farmers, the lockout could not have come at a worse time as the harvest/shipping season is approaching rather quickly. Grain shipping via rail in Canada is very seasonal, typically happening in September before declining into the winter months. In the most recent week, ending Aug. 17, grain carloads originating in Canada reached the lowest level of the year and were 10% lower than they were in the same week a year prior.

Even though the lockout resolved in a matter of hours, the network fluidity component will put pressure on grain shippers and farmers, who don't often have ample storage space.

Intermodal contract rates are suggesting contract rates may have bottomed

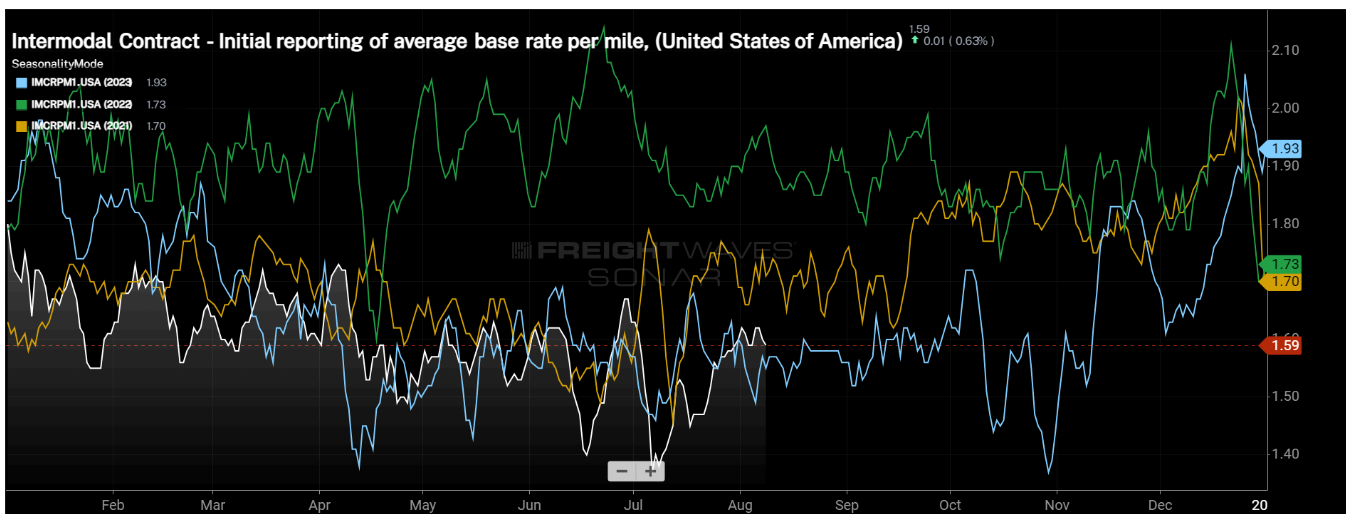


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

Intermodal contract rates have turned positive year over year to kick off August after signaling that that bottom may be in for rate reduction in early July. After bottoming during the first week of July,

the initially reported intermodal contract rate recovered throughout the month, returning to the range where it has spent most of the year. At present, the initially reported intermodal contract rate excluding fuel is 4 cents per mile higher year over year at $1.59. Over the past month, the initially reported intermodal contract rate is 21 cents per mile higher.

Intermodal marketing companies have made it known that they have capacity to service upward of 20% more demand than what is currently moving through intermodal networks. The challenges the IMCs are facing is that while contract rates have largely been in line with 2023 levels for much of the year, the savings that intermodal presents compared to truckload is fairly small.

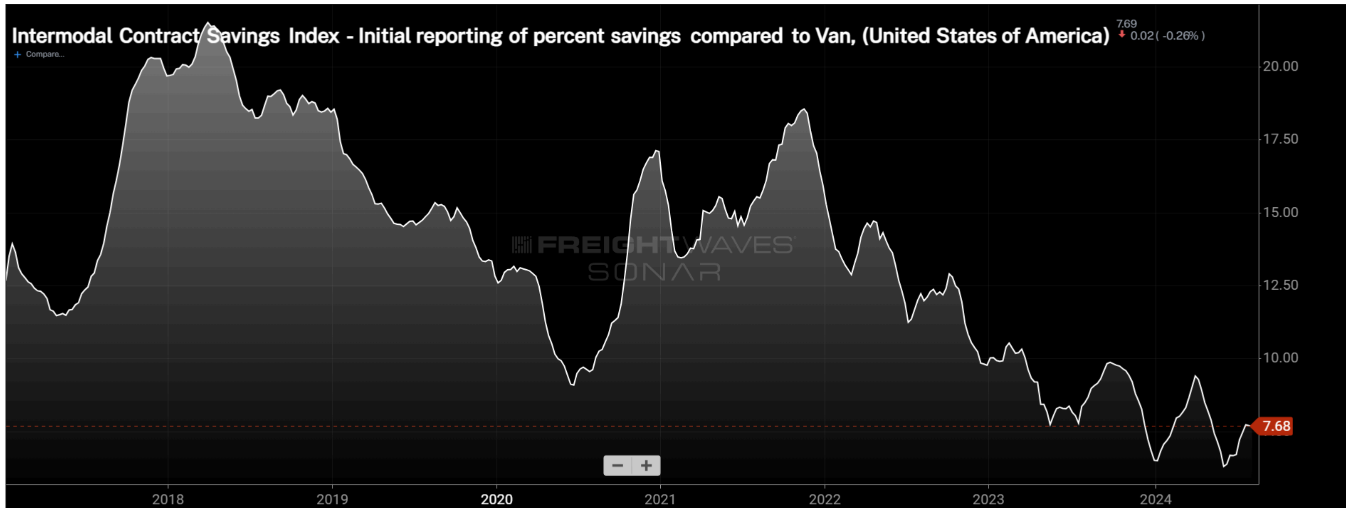


Chart: FreightWaves SONAR. Intermodal Contract Savings Index.

As intermodal contract rates moved higher through July, the savings rate moved off the bottom. Yet it remains historically low (i.e., the premium paid for truckload compared to intermodal is near the smallest it has ever been). The narrow savings index normally would suggest that truckload would be the preferred mode as savings of around 15% would make intermodal competitive, but even at the current levels, intermodal volumes have grown throughout the year.

The intermodal spot rate data in SONAR (53-foot containers door to door, including fuel) 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 $1.47 a mile including fuel, a 10.9% decline from the same week a year prior.

Over the past month, the vast majority of the densest intermodal lanes did see intermodal spot rates move lower, though the declines were fairly small. The Chicago to Linden, New Jersey, lane did experience the most severe intermodal spot rate decline over the past month, dropping 2.1%, to $2.09 per mile.

Outbound Los Angeles was a mixed bag in terms of increases and decreases. The intermodal spot rate from Los Angeles to Atlanta increased by 5.5% m/m to $1.67 per mile. Conversely, the Los Angeles to Chicago and Los Angeles to Dallas lanes experienced decreases of 0.8% m/m and 1% m/m to $1.17 per mile and $1.67 per mile, respectively.

Intermodal spot rates drop on the densest lanes

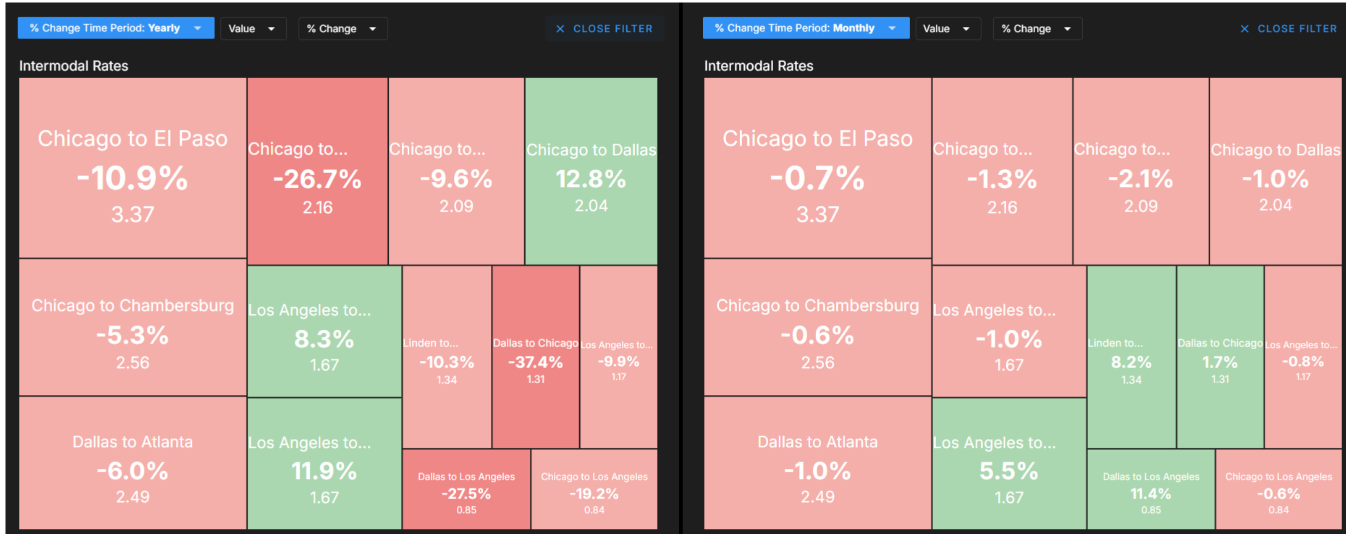


Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

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 has dropped to the lowest level since mid-May to 1.08%. Intermodal tender rejection rates out of Los Angeles and Chicago are both below the national average, signaling that there is very little, if any, network disruption happening in these markets.

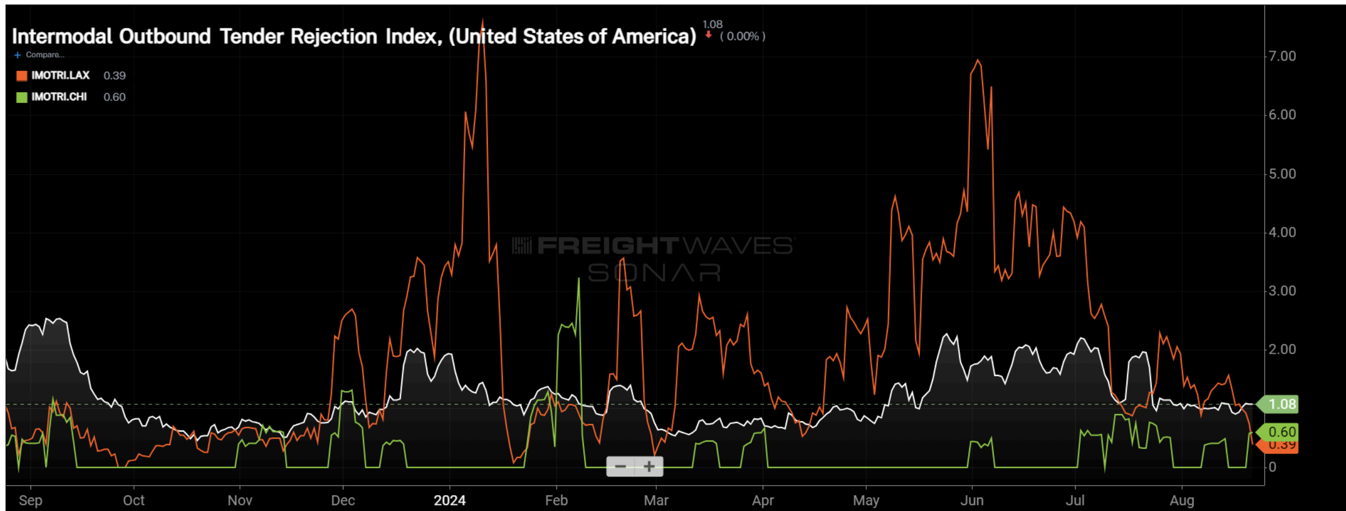
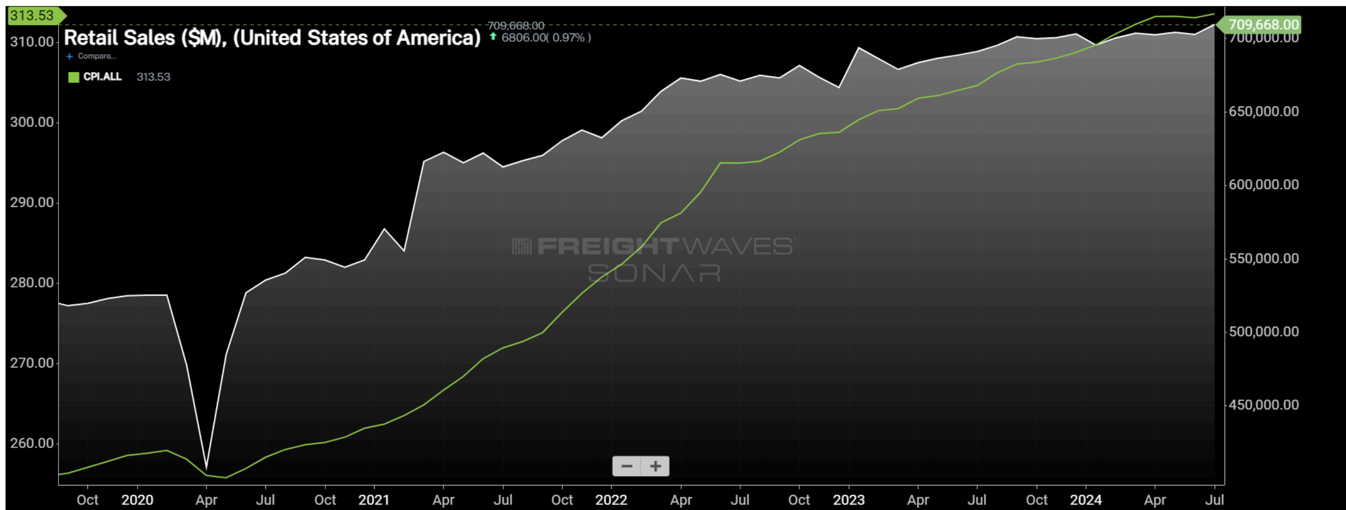


Chart: FreightWaves SONAR. Domestic intermodal outbound tender rejection rates for national (white), Los Angeles (orange) and Chicago (green) loads.

What else we're watching

The trend of positive inflation data continued in July, though prices were in aggregate slightly higher than in June. The increase in prices in July still brought the headline inflation number below 3%, while the core CPI remains slightly above that level. Forecasts are for the core Personal Consumption Expenditures Price Index, the Fed's preferred metric for inflation, to show continued progress toward the long-term goal of 2% inflation.



SONAR: Consumer Price Index (white, right axis) and Retail Sales (green, left axis)

The Consumer Price Index rose 0.2% m/m in July, marking the first monthly increase since April, after prices fell in June and were unchanged in May. The headline figure matched analysts' expectations, a positive sign that inflation as a whole is moving in the right direction. The 12-month running total for the CPI came in at 2.9%, the lowest total since March 2021.

Core inflation, which is the CPI excluding the more volatile food and energy prices, matched the headline number, increasing by 0.2% m/m. The 12-month running total for core CPI is 3.2%.

For the first time this year, energy prices, which had been living up to their volatile reputation, were stable in July. The overall energy price index was unchanged in July but was 1.1% higher than it was during the same period last year. Gasoline prices were also unchanged in the month after two consecutive 3% m/m declines. Gasoline prices remain 2.2% lower than they were in July 2023.

Food prices increased at the same rate as the headline CPI, rising 0.2% m/m, but are up just 2.2% y/y. Food-at-home price increases continue to be fairly small, if there are any increases at all. Food-at-home prices matched June's increase, rising 0.1% m/m, and are up just 1.1% y/y. Food-away-from-home continues to rise, but the increase in July was the smallest monthly increase since February. Food-away-from-home prices increased by 0.2% m/m but are still 4.1% higher than they were this time last year.

The primary driver of core inflation has been the significant increase in shelter prices. Overall, shelter prices increased by 0.4% m/m, up from the 0.2% m/m increase in June, matching the increases from February through May. Shelter prices are 5.1% higher than they were this time last year.

Besides inflation data, another positive sign for the consumer side of the economy is that consumers are continuing to spend. Headline retail sales bested expectations, but in recent months the advanced retail sales release has been revised lower in subsequent releases.

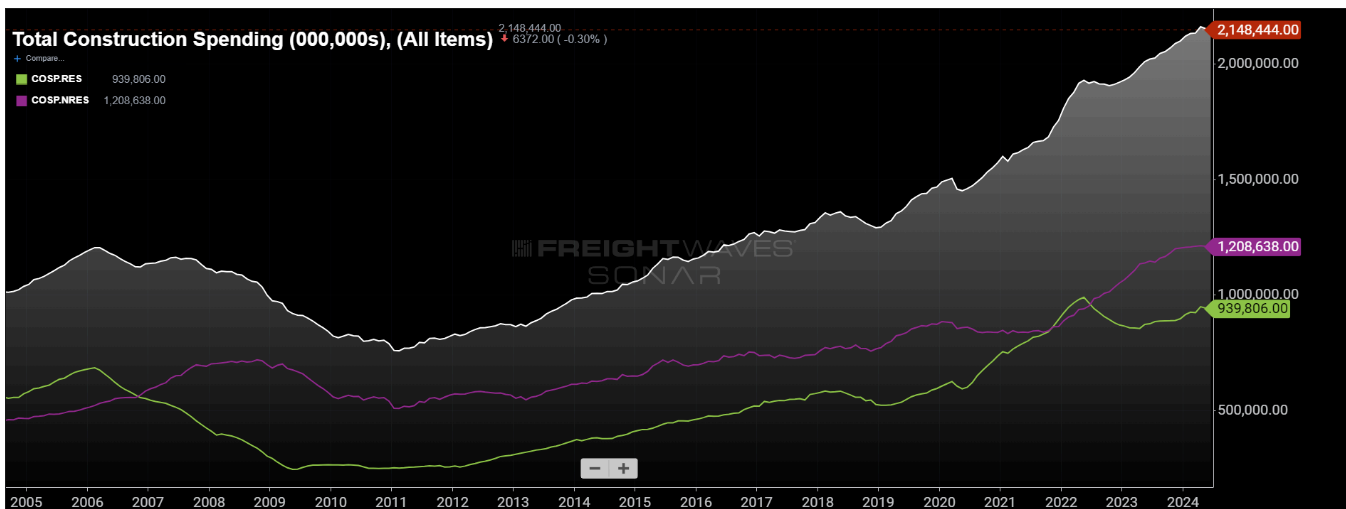
Headline retail sales grew by 1% m/m in July, well ahead of expectations of a 0.3% increase in retail sales during the month. Total retail sales were 2.7% higher y/y in July, falling just short of the CPI reading, so there is still some pressure on real retail sales. When you remove autos (both motor vehicle and gasoline station sales), the increase is less robust, just 0.4% m/m but up 3.4% y/y.

July was a positive month for motor vehicle and parts sales as they increased by 3.6% m/m and 0.8% y/y. This has been a sector that was under pressure, especially in a higher interest rate environment.

General merchandise stores increased sales by 0.5% m/m in July and were 2.7% higher y/y. This increase in consumer spending could explain why this sector of the economy has been hiring. Walmart, the country's largest retailer, reported that second-quarter U.S. comparable sales excluding fuel were up 4.2% in the quarter. The company cited a flight to value for the consumer for the strong sales metrics.

Other retailers aren't faring quite so well. The Home Depot reported that U.S. comparable sales fell by 3.6% in the second quarter, which aligns with the slowdown in home improvement spending as signaled in Bank of America's card spending reports. Retail sales data for building materials and garden equipment and supplies dealers did increase by 0.9% m/m in July but is only 0.4% higher y/y.

June's construction spending report was underwhelming, especially during the period when construction spending tends to gain momentum. Total construction spending fell by 0.3% m/m, accelerating from the 0.1% m/m decline in May. The seasonally adjusted annual rate (SAAR) for total construction spending totaled $2.148 trillion. Even with the slowdown in June, total construction spending was 6.2% higher y/y.



Residential construction spending fell again in June, by 0.4% m/m. The SAAR for residential construction spending came in at $939.8 billion in June. Residential construction spending remains well above last year, 7.3% higher y/y in June.

Nonresidential construction spending fell, but the decline was smaller than the overall drop in construction spending and residential construction spending. Nonresidential construction spending fell by 0.2% m/m to a SAAR of $1.209 trillion. Nonresidential construction spending was 5.3% higher than it was in June 2023. Manufacturing construction spending continued to rise, up 0.1% m/m and 19.1% y/y, to a SAAR of $235.5 billion.

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

The Logistics Managers' Index has been in expansion territory throughout 2024, and the overall index increased once again in July. The overall composite index for the LMI increased by 1.2 points m/m to 56.5. The trend in which transportation capacity exceeded transportation prices continued into July, creating the largest gap between the two since April 2022. Transportation capacity expanded slightly in July, rising 0.9 points m/m to 50.9, while transportation prices increased by 2.9 points m/m to 63.8. Within the LMI, it was highlighted that if this trend continues, it will indicate the end freight recession that has impacted the freight market since 2022.

Another interesting phenomenon within the LMI are the trends in inventory levels. Overall inventory levels remained in contraction at 49.5, which was 2.2 points higher than it was in June. What is interesting is the different inventory management strategies implemented by upstream (i.e., manufacturers and wholesalers) and downstream (i.e., retailers) firms. Upstream firms are growing inventory levels (54.7 in July) as they opt for a just-in-case inventory management style while downstream firms continue to shed inventory (40 in July), opting for more of a just-in-time inventory approach.

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