FREIGHTWAVES SONAR

March
2024

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Economic Outlook

The U.S. economy is slowing from the stronger-than-expected close to 2023, but there are economic indicators that have been resilient. Consumers continue to show they are willing to spend money, but inflation is creating a drag in certain spending categories. The labor market remains relatively healthy, though the unemployment rate jumped unexpectedly in February and the last job openings report saw a fairly sizable decrease.

Initial jobless claims have been fairly stable throughout the early months of 2023. For the week ending March 9, the most recent week for which data is available, initial jobless claims fell by 1,000, to 209,000, 9% lower than they were this time last year. Even with the layoff announcements of 2023 and 2024, initial jobless claims have hovered around 200,000 per week since the early months of 2022. These levels are similar to pre-pandemic levels.

Continuing jobless claims remain elevated compared to 2022 levels. For the week ending March 2, the most recent week for which data is available, continued claims increased by 17,000, to 1,811,000. Like the initial jobless claims, continued claims have been fairly stable throughout the past year.

Why the stability in jobless claims despite a high number of high-profile layoff announcements?

Hiring trends have remained strong, though openings are dwindling. In February, the total number of payrolls increased by 275,000, well in excess of the 198,000 new jobs that analysts were expecting. With that said, the jobs report, like many government reports, is subject to revision, and the December and January revisions saw sizable reductions.

Health care hiring has continued at a feverish pace, adding 66,700 jobs during February. The hiring trends also hit the hospitality space, with food services and drinking places, better known as bars and restaurants, seeing payrolls increase by 41,600 in February.

The increases in the latter highlight the bifurcation in layoffs and where hiring is taking place. Most of the layoff announcements have occurred in white-collar jobs, especially in the tech industry, and the additional hiring at bars and restaurants highlights that individuals are in need of a job to generate some level of income.

The unemployment rate saw an unexpected and fairly sizable increase of 20 basis points, up to 3.9%. The unemployment rate is up 30 basis points from where it was this time last year. What is interesting is the business cycles and monetary cycles have become disconnected. The Federal Reserve has undergone a period of rapid quantitative tightening, raising interest rates by over 500 basis points in 12 Federal Open Market Committee meetings from March 2022 through July 2023. A normal reaction to this tightening schedule would be a rapid

increase in unemployment, but that hasn't been the case as interest rates are more than double pre-pandemic levels and the unemployment rate is up just 30 bps.

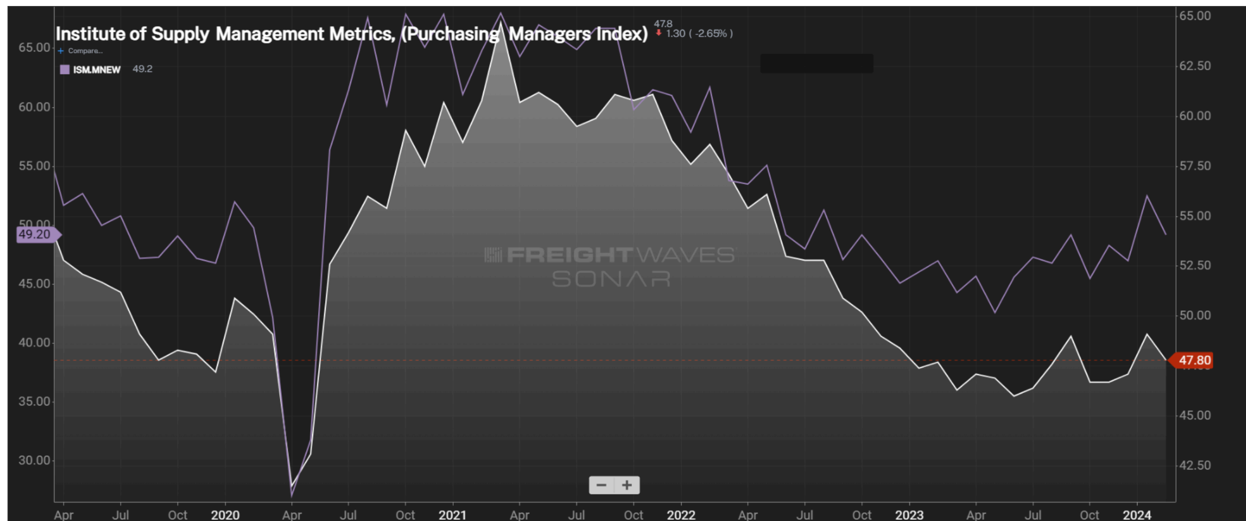
The number of job openings continued to decline in January. The number of job openings in January fell by 26,000, to 8,863,000. With the continued drop, there were 1.44 openings per unemployed individual in January. The challenge goes back to where hiring is taking place versus the sectors that those individuals are looking to work in.

Manufacturing

The manufacturing sector stopped its slowdown after declines in three of the past five months. Industrial production fell by 0.1% month over month, pausing the accelerating slowdown that started in December. After monthly declines of 0.3% and 0.5% in December and January, respectively, the increase in production is a welcome sight. Even with the increase m/m, industrial production was still 0.2% lower than it was during February 2023.

Consumer goods production experienced a sizable drop in February, falling 1.4% m/m. Consumer goods production is down 1.5% year over year.

The Institute for Supply Management's Manufacturing Purchasing Managers' Index (PMI) highlighted challenges that the manufacturing sector continues to face. The PMI came in at 47.8% in February. This is a slowdown from January's reading of 49.1%, an indication that the manufacturing sector is still under pressure.



New orders retreated into contraction territory once again, falling to 49.2% after expanding in January, an indication of persistent headwinds for future demand. While new orders contracted during the month, backlogs continued to contract though production was also in contraction during February. The Backlog of Orders Index came in at 46.3%.

The Customers' Inventories Index remained in the "too low" category in February. 19.4% of respondents reported inventory levels that were too low, down from January's release in which 22.9% reported inventory levels that were too low.

Within the PMI, one of the largest sectors — Transportation Equipment — experienced growth in February. This aligns with the expectations that the worst of the freight recession is in the rearview mirror and that a recovery is on the horizon. A respondent to the PMI from the Transportation Equipment sector stated, "The first quarter will be slower due to some customer order changes, but we are expecting the rest of 2024 to be strong. We may increase our growth projections."

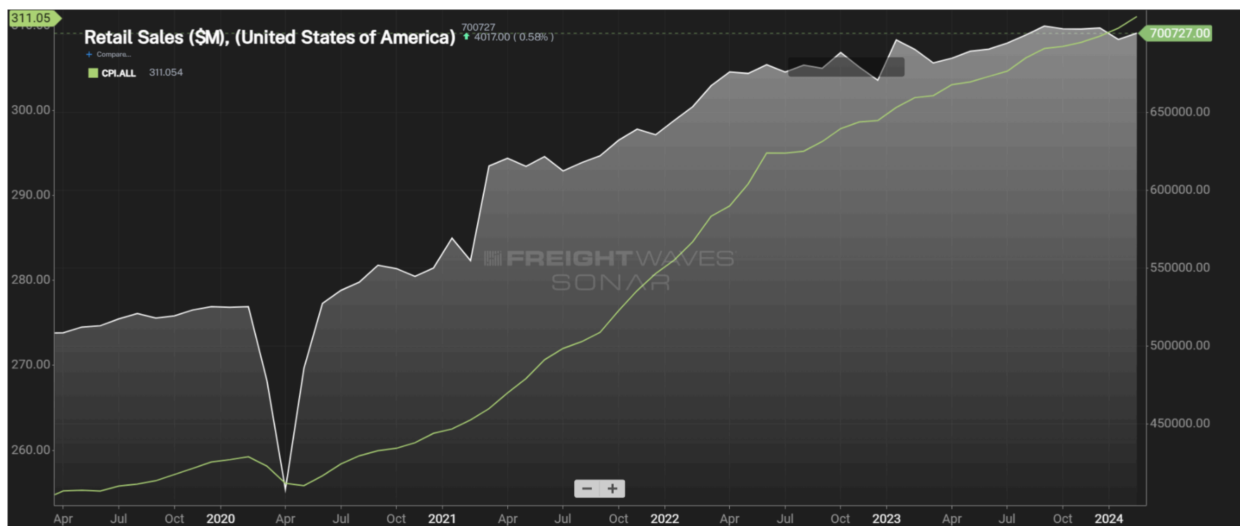
Consumer Conditions and Retail

American consumers continue to face elevated levels of inflation, above the Federal Reserve's long-term target of 2%, but in recent months prices have been rising faster m/m after a sharp slowdown in price increases.

The Consumer Price Index, one of the widely used gauges for inflation, though not the Federal Reserve's preferred method of measuring inflation, continued to increase in February. The CPI rose by 0.4% m/m in February. The increase was in line with what analysts were expecting, but it was the largest m/m increase in the CPI since September. The 12-month running total for the CPI came in at 3.2%, up from 3.1% in January.

Core inflation, which is the CPI but minus food and energy prices due to the volatile nature of pricing, matched the overall index, rising 0.4% m/m. Core inflation was up 3.8% y/y. Both metrics were higher than what analysts were expecting.

Energy prices were a primary driver of the increase in the headline CPI figure, rising 2.3% m/m, the largest monthly increase since August. Shelter prices continue to be a thorn in the side of core inflation, rising by 0.4% m/m in February, up 5.7% y/y.



Consumer spending bounced back from the slowdown in January but fell short of expectations. Total retail sales increased by 0.6% m/m in February, outpacing the increase in pricing. Total retail sales were up 1.5% y/y and when adjusted for inflation are negative on a y/y basis, indicating some level of pullback by consumers.

Discretionary spending continues to be impacted by slowing spending trends, with apparel, furniture and nonstore retailer sales all dropping m/m. Furniture sales dipped by 1.1% m/m in February, down over 10% y/y. Clothing stores were down 0.5% m/m, and nonstore retailers saw sales slip by 0.1% m/m.

Consumers have turned to credit as a way to fund their purchasing behaviors, with outstanding revolving credit continuing to rise. Total outstanding revolving credit increased by 0.6% m/m in January, totaling $1.328 trillion.

Housing and Construction

After softness in housing arrived in January, likely aided by winter weather that swept the nation, housing, especially housing starts and permits, was a bright spot in February. Total

housing starts increased by 10.7% m/m in February to a seasonally adjusted annual rate (SAAR) of 1,572,000. The increase in overall housing starts brings the SAAR to the third-highest level of the past year, just short of May and December. Total housing starts in February were up 5.9% y/y.

The increases in housing starts were widespread as both single-family and multifamily starts were higher m/m.

Single-family housing starts rose by 11.6% m/m in February, up more than 35% from February of last year. With the increase in single-family starts in February, the SAAR reached the highest level in the past year, a positive for future demand. Multifamily housing starts were up 8.6% m/m but are still down 35.9% compared to the same period last year.

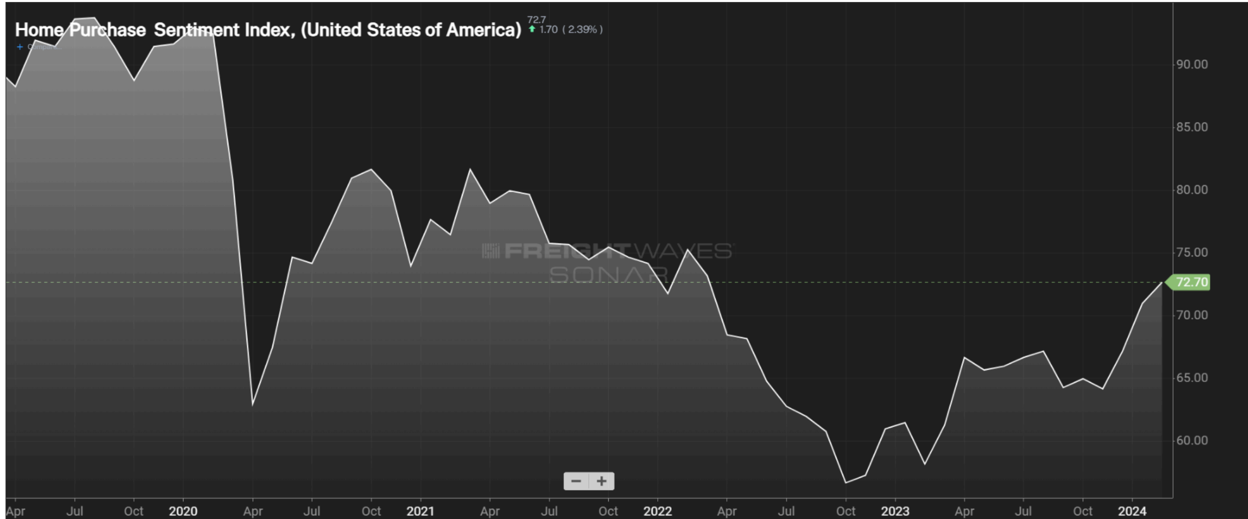
The growth in housing starts stemmed solely from two regions: the South and Midwest. Total housing starts in the Midwest increased by 50.7% m/m, inflecting positivly y/y, now up 8% y/y. Single-family starts in the Midwest were up 40.2% m/m in February and over 80% y/y. In the South, total housing starts increased by 15.7% m/m.

Housing starts in the Northeast and the West fell by 10.3% m/m and 7.9% m/m, respectively. The declines in the West were driven by declines in single-family starts, which were down 15.4% m/m. In the Northeast, it was quite the opposite. Single-family starts rose 16.4% m/m.

In addition to housing starts, permits saw a healthy increase in February, rising 1.9% m/m and 2.4% y/y. Permit levels are just shy of the highest level of the past year. Single-family permits rose by 1% and are 29.5% higher than in February last year.

With inflation still higher than the Fed's target of 2%, the likelihood of interest rate cuts continues to be pushed later in the year, which could also mean fewer cuts in 2024 than many expected. Even with that potential risk, housing had a decent start in March. According to the Mortgage Bankers Association's Weekly Mortgage Application Survey for the week ending March 8, mortgage applications increased by 7.1%.

Another driver of housing has been the reversal in mortgage rates in March. According to Freddie Mac, the average 30-year fixed rate mortgage is 6.74%, down 20 basis points from the beginning of the month and just 14 bps higher than it was during the same period last year.



Despite increases in mortgage rates throughout February, Fannie Mae's Home Purchase Sentiment Index (HPSI) rose another 2.1 points m/m to 72.8. The increase was slower than that of the previous two months but brought the overall index to the highest level since March 2022.

Doug Duncan, Fannie Mae's senior vice president and chief economist, in the March 7 release of the HPSI stated, "If their [consumers'] expectations come true and rates move closer to the 6-percent mark by the end of 2024, as we currently expect, then it's likely that consumer sentiment on both sides of the transaction will improve, perhaps leading to a further thawing of the housing market."

The stronger sentiment aligns with the recent increases in existing home sales. The National Association of Realtors reported a 3.1% m/m increase in existing home sales in January. Existing home sales were still off 1.7% from last year, but the increase is a positive overall despite the high interest rate environment.

Freight Market Overview

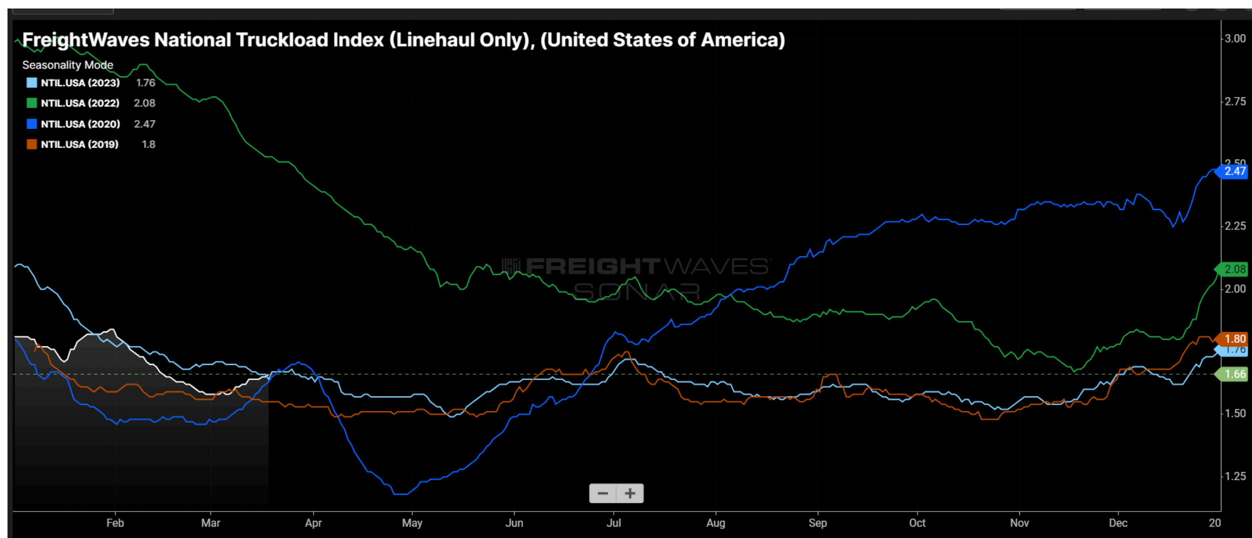
National Summary

February proved to be the correction period for the domestic truckload market as both spot and rejection rates spent most of the month in free fall. Falling demand was not the driving factor as capacity was recovering from winter weather that disrupted shipping networks for a

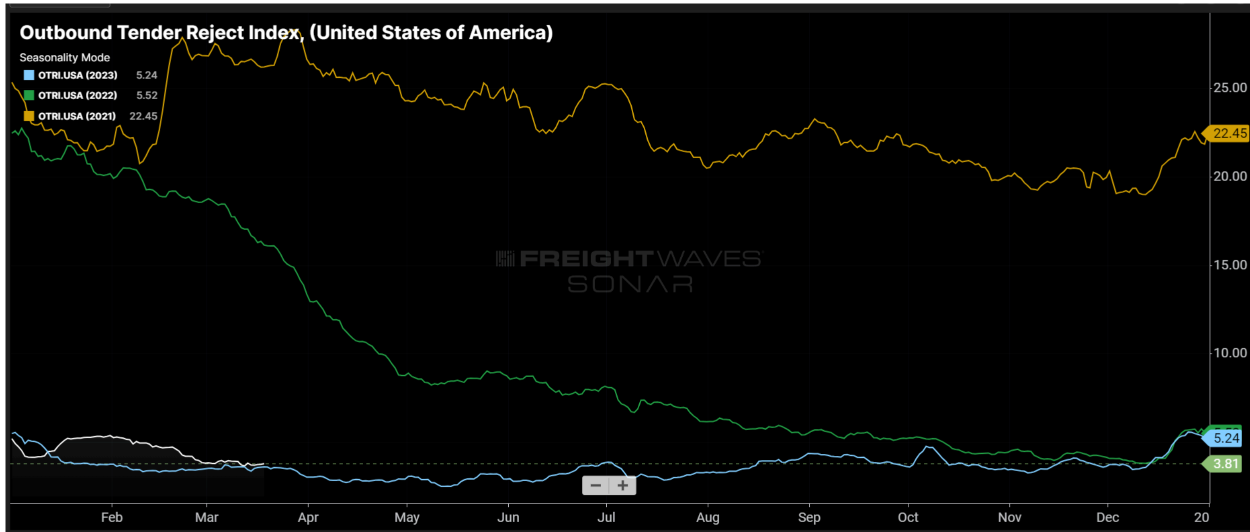
few weeks in January and kept spot and rejection rates unusually high. Capacity remains in a strong state of correction, according to Federal Motor Carrier Safety Administration operating authority data, but so far it has not materialized into any sustained tightness. Lunar New Year hit the imports, causing shippers to order at levels not seen since the pandemic era leading into China's biggest holiday of the year when production shutters. The implications are that demand is expected to be solid for the first few months of the year, which could mean the market hits equilibrium faster.

Trucking

Truckload dry van spot rates fell through the entirety of February before slowly ticking higher through the first half of March. The declining spot rates were probably more of a correction to the normal after an overheated January. The spot market tends to be somewhat emotional and overreactive as well due to the nature of its participants.

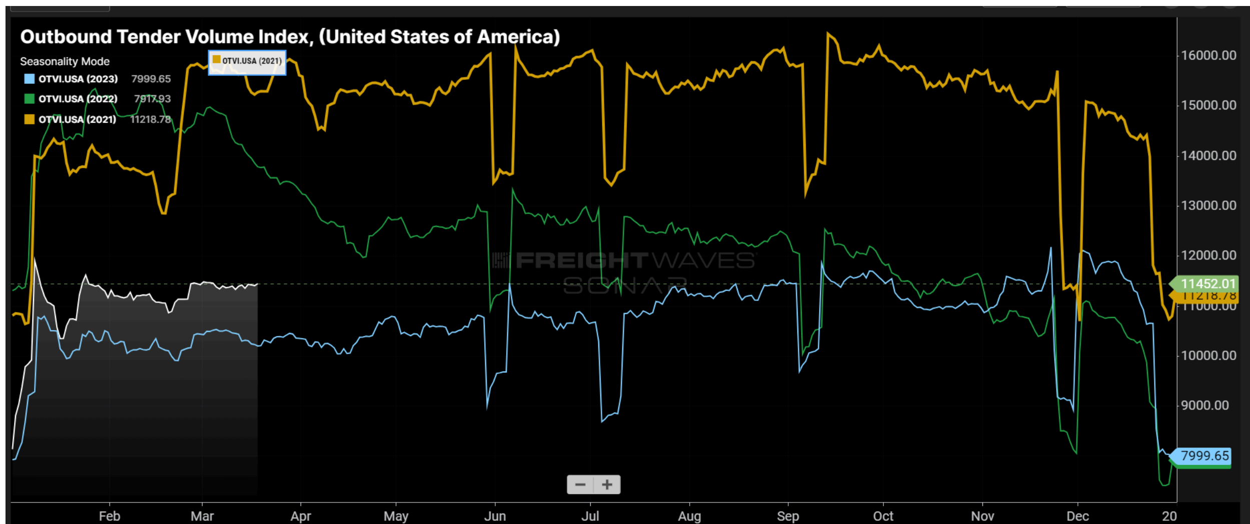


By mid-March, rates excluding total estimated fuel costs (NTIL) were nearly even with where they were in the same period of 2023. The direction of the NTIL is more important than the absolute value, however, and the two markets appear to be moving in opposite directions. Spot rates have proved to be an insufficient view of measuring total market conditions in the sense that mixing of various lanes and lengths of haul can significantly influence the behavior of the aggregate measures.



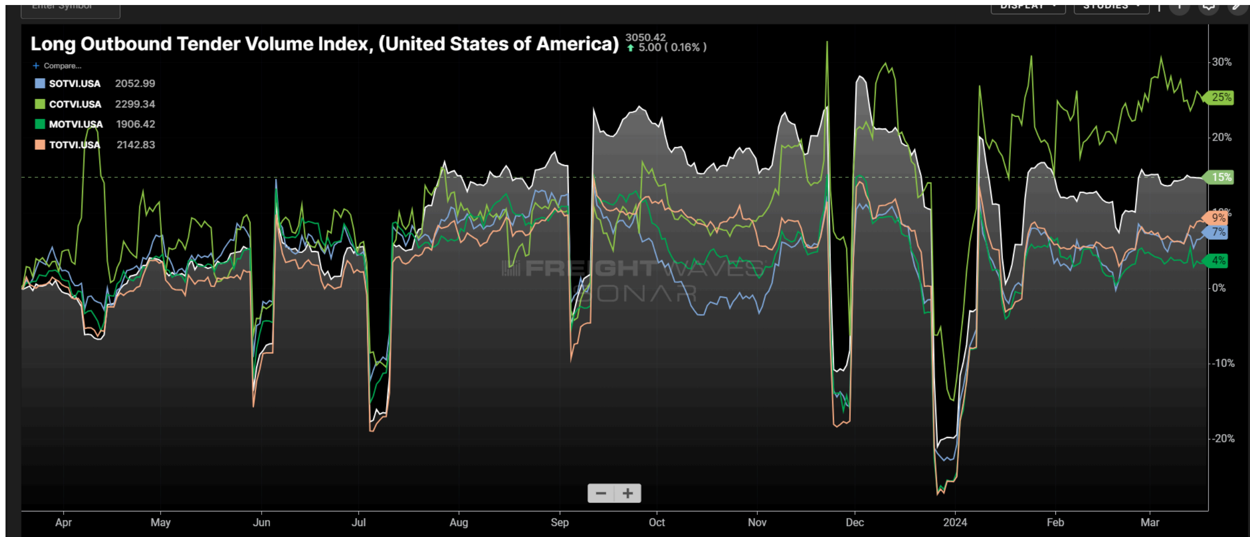
National rejection rates (OTRI) are still showing the market to be in a depressed or oversupplied state. Similar to spot rates, the OTRI fell throughout February after the unseasonal upward push in January but did not increase in March. The disparate behavior could be linked to either the emotional nature of the spot market or mixing as mentioned.

The positive takeaway for transportation service providers is that the value seems to have found a floor slightly above where it was most of last year and did not plummet below the 3% threshold.

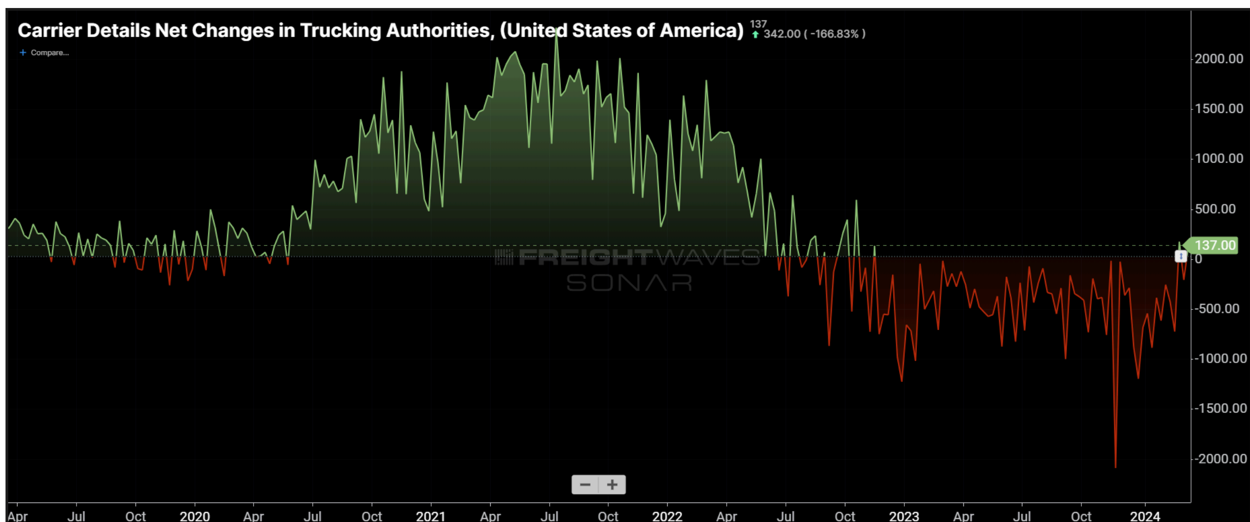


Demand remained relatively strong, as the Outbound Tender Volume Index (OTVI) outperformed the previous February by nearly 10%. As with the other indices, the direction is more important than the value while the market remains in a state of overcapacity. Demand

has been steadily increasing since January 2023, indicating that the economy is still relatively resilient and shippers have inventories in a comfortable state.



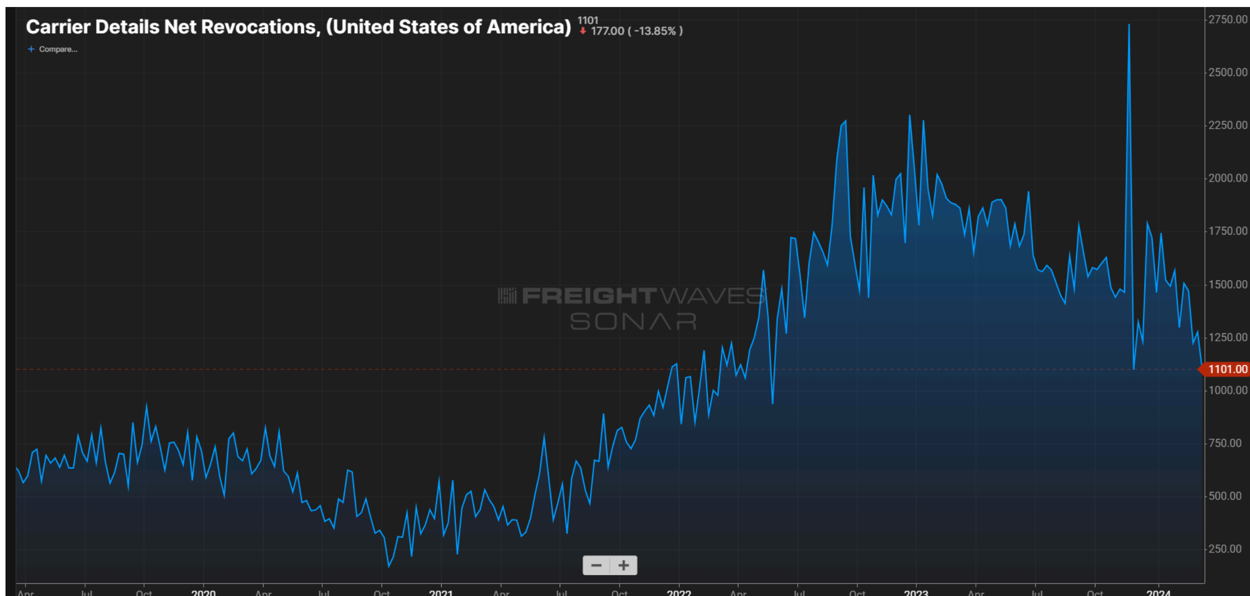
Demand growth has been polarized this winter as long-haul (greater than 800 miles) and local (less than 100 miles) load volumes have grown the most at 15% and 25%, respectively. Regional demand has also been up, but much less so than the other two. Long-haul freight demand is associated with replenishment or middle-mile freight, while local moves are tied to high upstream and far downstream demand. Elevated levels of each of these supports longer-term resilience in the coming months.



The most concerning trend from a transportation service provider perspective that materialized in early March was the shift in direction of operating authorities. Active operating

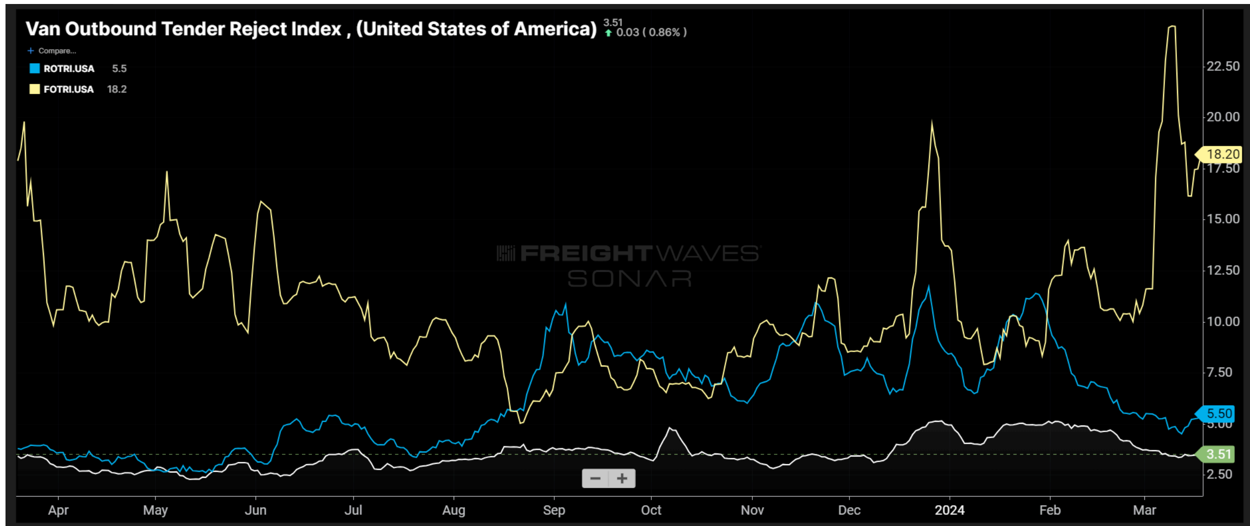
authorities issued by the FMCSA for motor carriers of property were in free fall until the last week of February before flattening through the first few weeks of March. Net authorities still dropped during this period, but the sharp directional shift may mean there is a pause on sharp numbers of exits.

Authorities are not a pure measure of capacity but are helpful in understanding the directional trends in capacity growth or deterioration. Authorities have hit “floors” intermittently during the course of this cycle but have resumed downward trends within a few weeks. Most signs point to this being unsustainable, but this may simply be more indicative of getting to the bottom of the weaker operators who entered within the past three years.

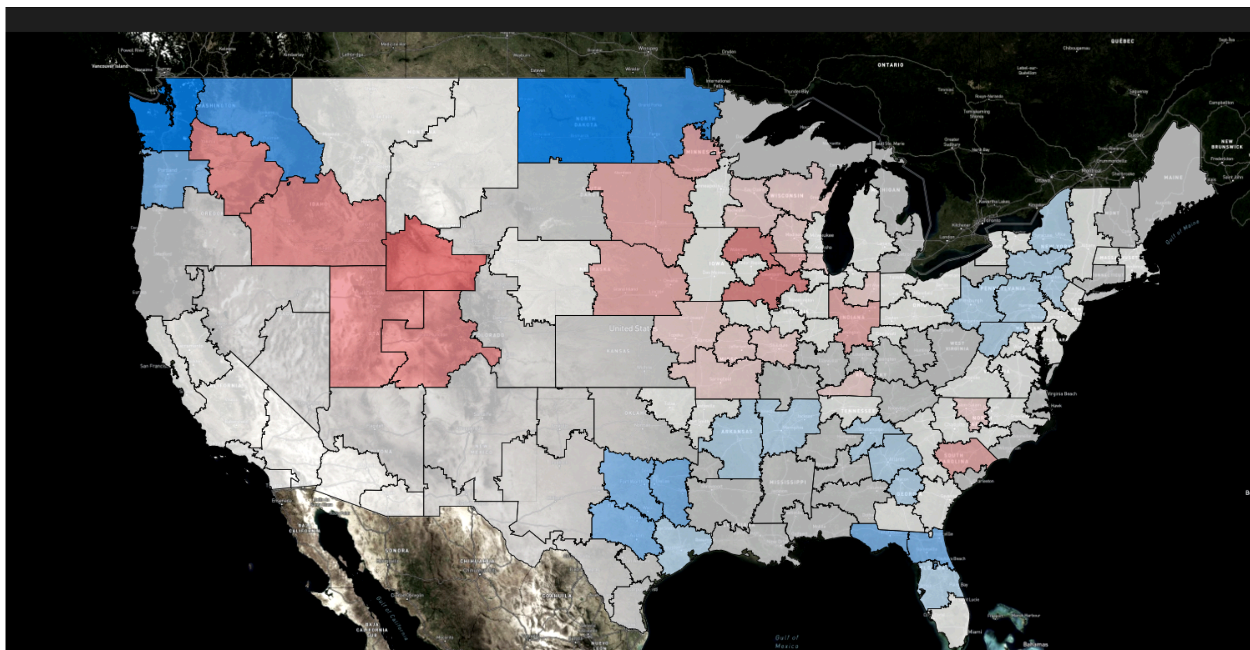


Looking into the details of the operating authorities, 61% of the exits since September have come from operators with less than three years of activity, with 26% coming from carriers with more than five years.

Regardless, if this trend persists, it could mean an extension of a softer transportation sourcing environment. For shippers, it is a positive sign that this year’s bids may still have a shot at making it to the next implementation before conditions shift.



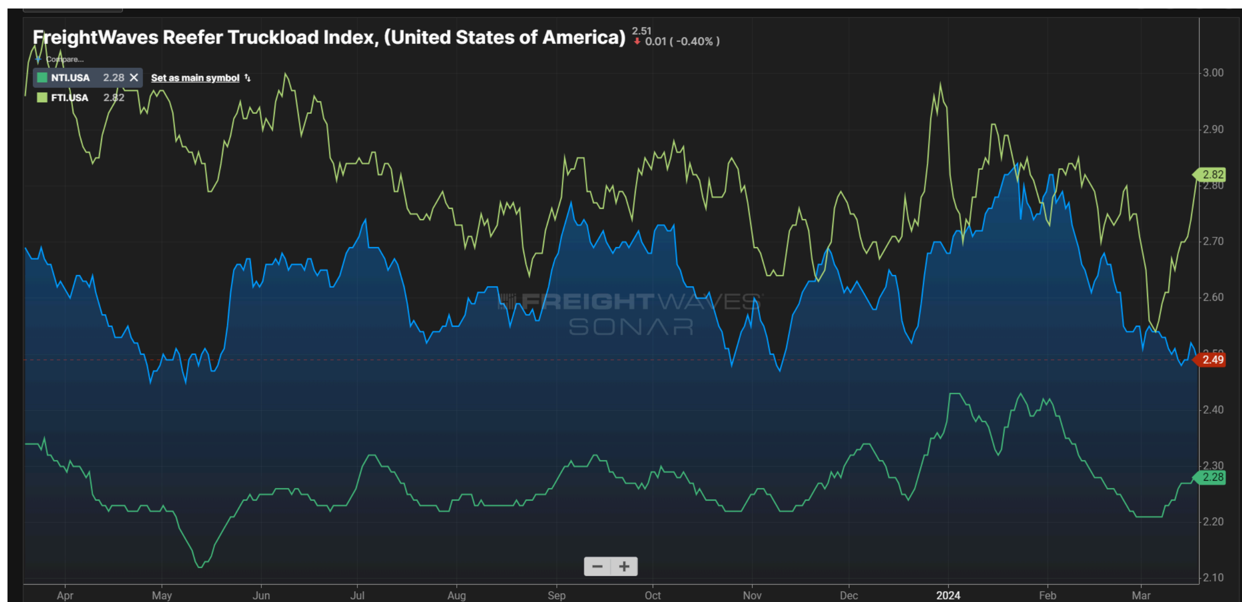
Refrigerated rejection rates (ROTRI) fell dramatically after January, dropping to 4.5% after peaking around 12% during the winter weather event. Reefer rejections did start to pick up in mid-March but are the closest they have been to dry van since last summer.



Monthly change in refrigerated rejection rates by market. Red — strong decrease; Blue — strong increase

Protect-from-freeze season only lasted a month due to warmer-than-average conditions across the Eastern half of the country, keeping reefer capacity readily available. Rejection rates across the Southern tier of the U.S. were responsible for most of the uptick in March, while the mountain and Midwest regions showed the strongest monthly declines.

Produce season is on the horizon for the West Coast, which is a looming concern thanks to a wetter-than-average rainy season in California. Timing will be crucial in determining how disruptive the harvests are to transportation markets — somewhat akin to the 2017 season.



Flatbed rejection rates took off along with spot rates to start the flatbed season in earnest in March. Flatbed spot rates did decline early, but that was largely due to mixing issues, with longer lengths of haul becoming disproportionately large compared to shorter moves. Rejection rates support a relatively strong start to flatbed season when construction projects tend to take off.

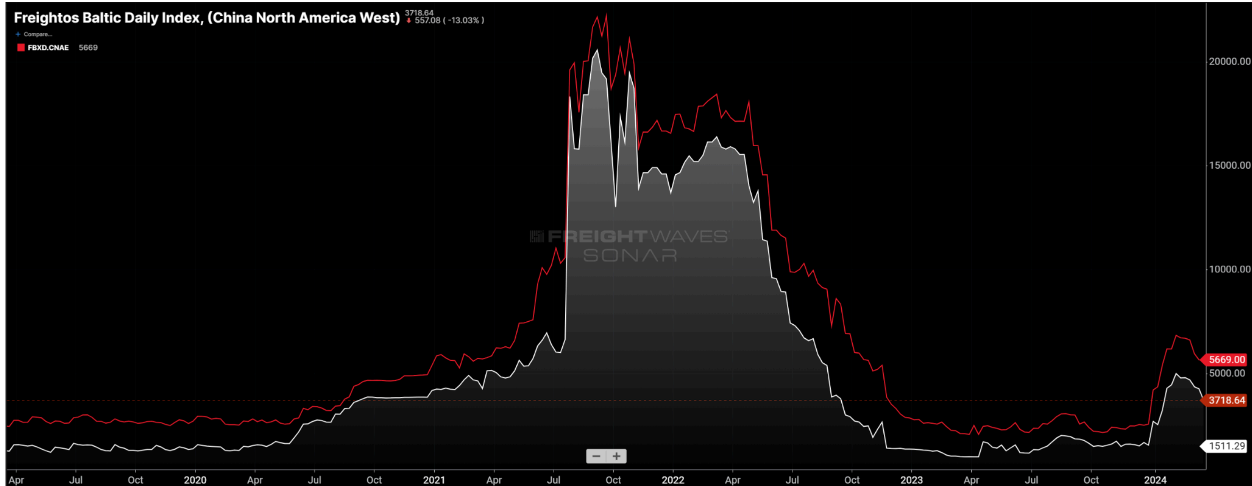
The flatbed sector suffers from a more fragmented nature compared to reefer and van as well as less capacity growth during the pandemic due to the sectors it services being hampered by supply chain and demand problems.

Maritime

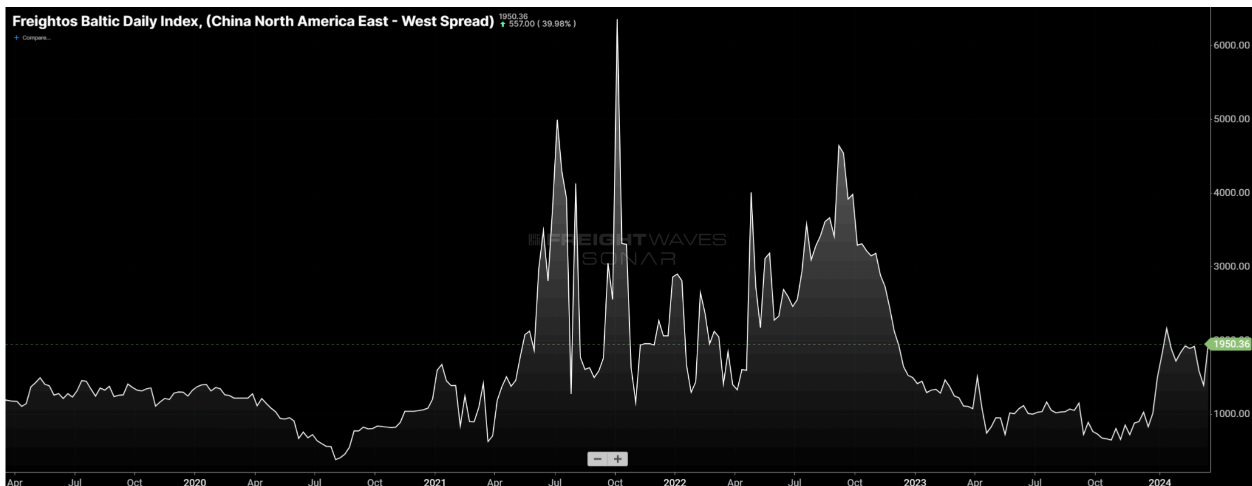
Against a backdrop of the three major maritime issues — Red Sea/Panama Canal/International Longshoremen's Association — import volumes have been strong this

year, particularly at the west coast ports. Executives at container ship line Hapag-Lloyd attribute that to low inventory levels that need replenishment. The forward-looking Inbound Ocean TEU Volume Index in SONAR suggests that imports should continue at levels that exceed last year's volume in the coming weeks. Differences in the timing of Chinese New Year makes year-over-year comparisons difficult, but in the two-week period from March 3 to March 18 (after CNY both this year and last), import bookings at the point of origin were up 6% y/y.

The Red Sea attacks have resulted in maritime spot rates that, while nowhere near the pandemic highs, are well above 2023 and pre-pandemic levels. Those "healthy" rates are keeping container ships deployed at high levels. According to Flexport, 88% of ocean capacity was deployed in March, and that number is expected to rise to 98% in April. The container ship lines have started publishing sailing schedules that assume that going around the Cape of Good Hope (and traveling at somewhat higher speeds to make up a little time) is the new normal, and those new schedules were solidified by the recent casualties.



There does not seem to be any major relief in sight for the low water conditions at the Panama Canal. While the volume of vessels transiting the canal is expected to rise from 24 in mid-March to 27 at the end of March, 36 vessels per day is considered normal and weather forecasts call for water levels to recede from an already-low level.



The issues of the hour are all impacting imports at the East Coast ports. So, it is unsurprising that the spot rate spread between the longer route from China to the U.S. East Coast versus the shorter route from China to the U.S. West Coast has widened. The spread in Freightos spot rates can be seen via the FBXD.PANA ticker in SONAR and is now at $1,950 per container, the highest since late 2022. That spread could increase further as the ILA contract expiration (Sept. 30) approaches. (We note that local chapters are supposed to have their issues resolved by May 17, so that's when we may hear more.) If there is a strike or lockout, container ships can't just be diverted to a West Coast or Canadian port — unionized longshoremen at competing ports won't unload those vessels, and even if they would, there really isn't the

capacity to do that anyway. The greater spread and the disruptive events should lead to market share growth for the West Coast ports and continued growth in rail intermodal volume, which benefits more from imports through the West Coast ports than imports through the east coast ports. (See intermodal section below.)

Air

The air cargo market has started the year on an apparent tear thanks to strong e-commerce volumes out of Asia and extended transits for ocean freight being rerouted around the Red Sea conflict zone, but whether the growth is sustainable or a product of low comparisons to last year remains to be seen.

Airfreight demand was up about 12% to 15% annually for the first two months of the year, normally a slower period that follows the fourth-quarter peak season and the short spike for Chinese New Year, taking the composite estimates of various data providers. Growth was positively impacted by the extra leap year day in February, so take away a point for a true comparison.

Solid growth momentum is continuing into March, with price reporting agencies showing volumes up about 4% to 7% year over year. Load factors have improved to about 60%, according to Xeneta.

Improved volume performance is reflected in the continued March rise in average global cargo spot rates, narrowing the price gap to within 15% to 20% of last year's level. Although prices are still lower than a year ago, when a 16-month downturn was still in full swing, they remain nearly 30% above pre-COVID levels.

One caveat to all the good news is that comps are easier against 2023, when the airfreight downturn was in full swing and Chinese New Year was earlier.

The big drivers for airfreight are e-commerce out of China and Hong Kong and mode shift related to vessel rerouting to avoid the dangerous Red Sea shortcut.

In February, the South Asia-to-Europe market led the month-over-month growth in spot rates, as the Red Sea disruption caused demand to rise 18%. Increased sea-air moves have boosted air volumes out of Dubai, Bangkok and Colombo, Sri Lanka, for several weeks.

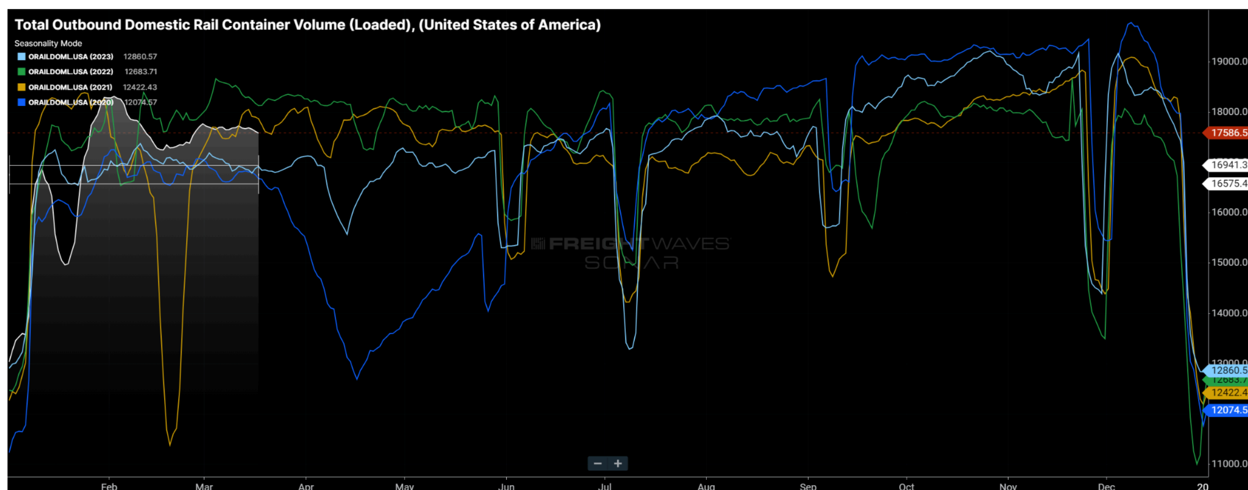
Some say that the ocean disruptions have not led to widespread or long-lasting surges in demand. Rates on the China-to-North America lane increased about 25% in the second half of January to about $6 per kilogram and have since fallen back to $4, while rates from China to Europe have receded to about $3 per kilogram after rising to $3.60, which suggests the Red Sea impact is not a huge factor.

The trans-Atlantic is an outlier, with demand down 4% in February from the prior year.

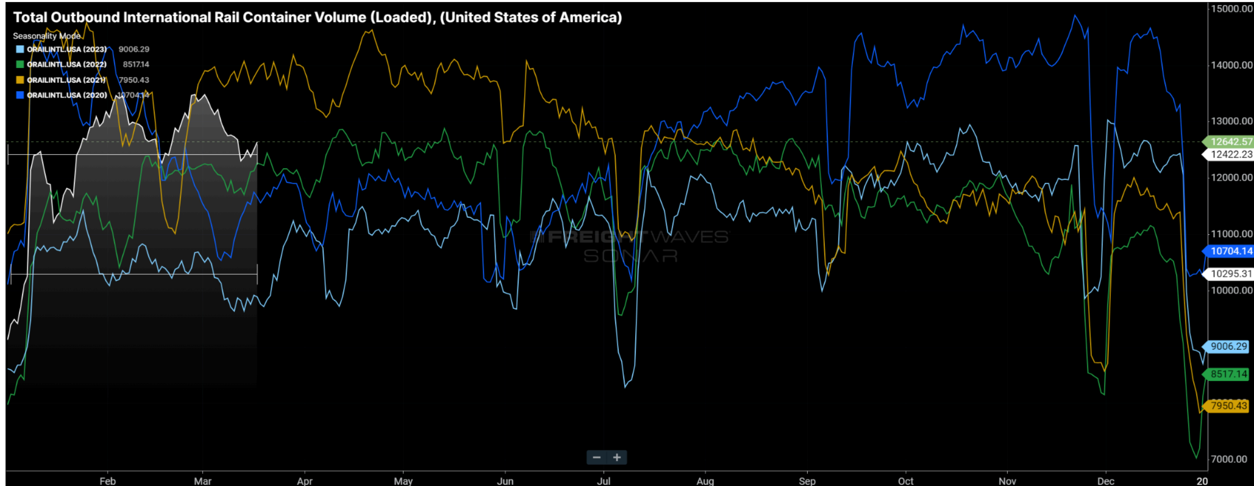
One variable that could undermine revenue growth for airlines and logistics providers is ongoing influx of cargo capacity, primarily from passenger airlines adding flights to their networks. Available space is currently 9% to 14% higher than a year ago, according to various estimates, with international capacity likely several points above the aggregate total.

Air cargo demand could cool a bit as international trade heads into the slow summer season, but leading indicators suggest the sector can continue its recovery as the year progresses. We've seen projections for air cargo in 2024 to grow anywhere from 3% to 10%, with much hinging on many uncertain economic variables.

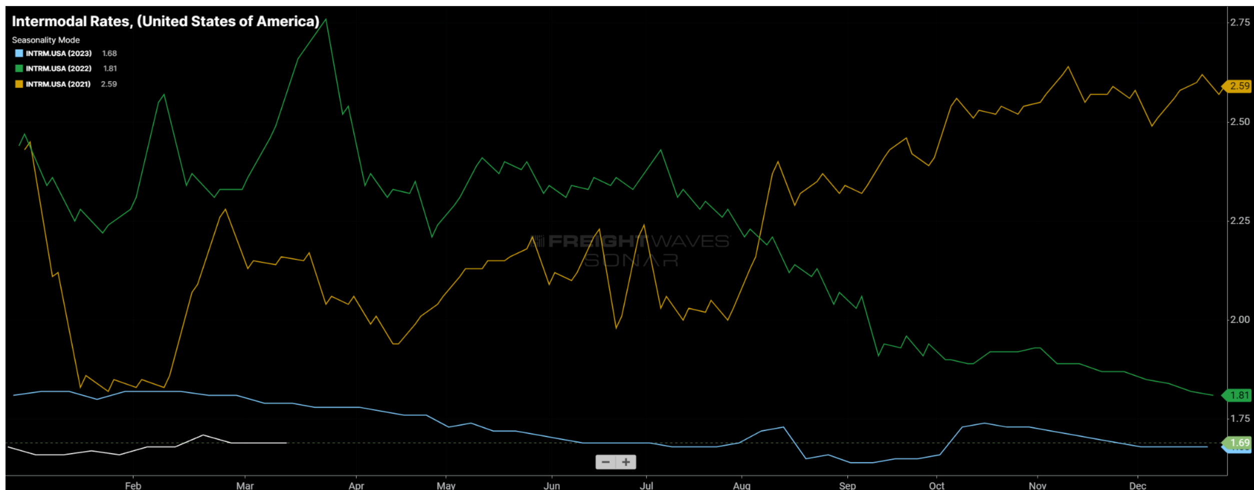
Intermodal/Rail



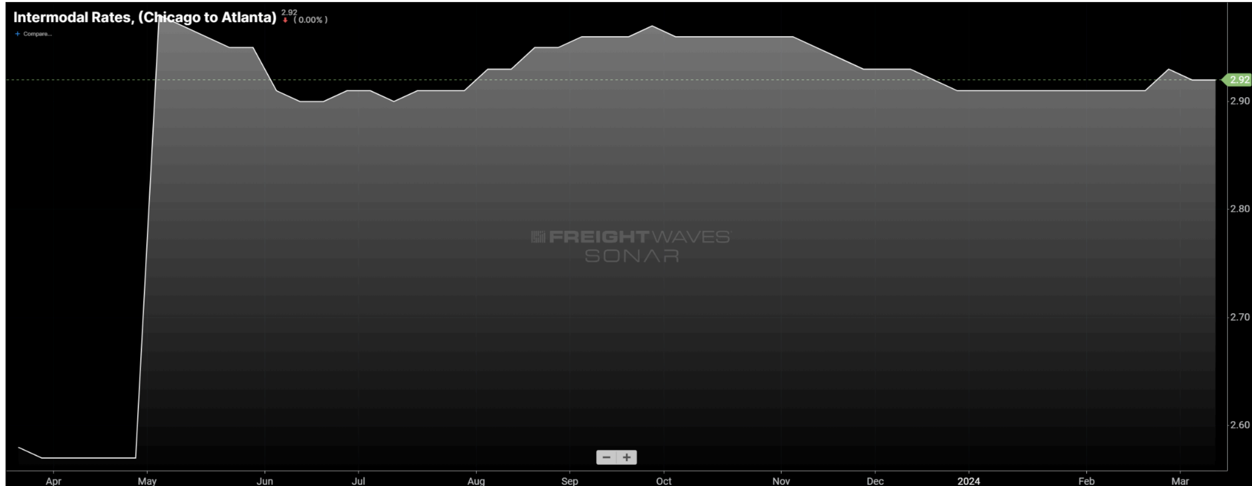
Data published by the Association of American Railroads (AAR) shows containerized intermodal volume up a healthy 10.8% y/y since Jan. 1 and up 13.3% y/y the past four weeks. The AAR data only tells part of that story, whereas SONAR data breaks down the data to reveal how that growth is being driven primarily by international intermodal containers. SONAR data shows that loaded international intermodal volume is up 20% y/y since Jan. 1, whereas loaded domestic intermodal volume is up a more modest 2% for the same time period. That divergence suggests that the volume growth this year is not doing as much to tighten up domestic container availability as the AAR data might suggest at first glance. Also, because the container ship lines are generally willing to send containers inland intact, the stronger international intermodal volume suggests that plenty of oceangoing (40-foot) containers are available.



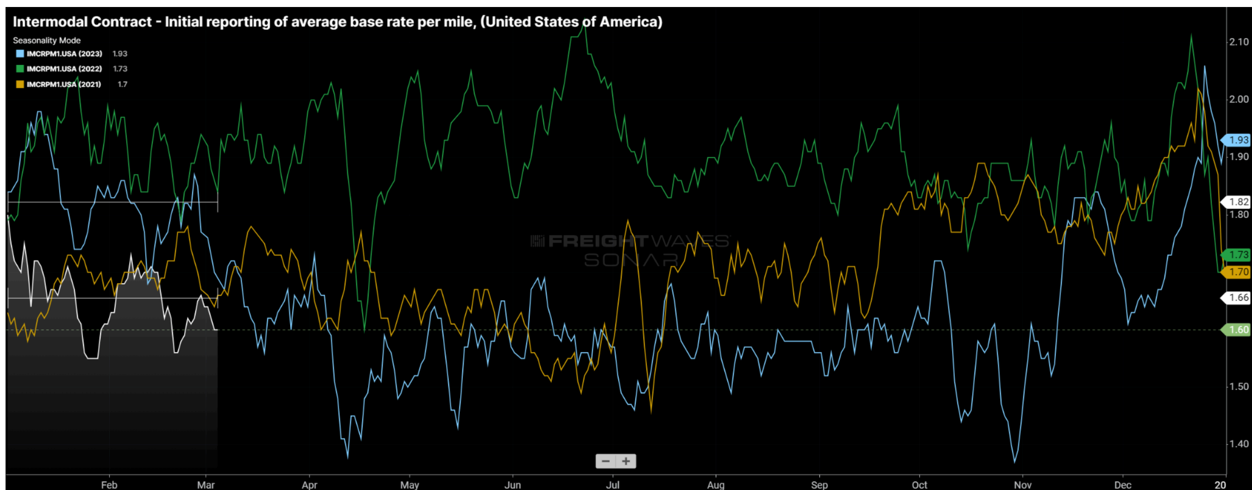
The national average intermodal spot rate contained in SONAR, which is an average of the intermodal spot rate in 100 lanes, suggests that carriers are generally not concerned with securing capacity for contractual shippers. The average door-to-door intermodal spot rate to move 53-foot containers is just $1.69 a mile currently, down from $1.79 at this time last year.



The Chicago-to-Atlanta lane is a notable exception where the current intermodal spot rate is $2.92 a mile, including fuel surcharges, up from $2.58 one year ago. The current intermodal spot rate in the lane suggests that carriers are not encouraging spot intermodal volume — the lower dry van truckload rates shown in Market Dashboard for the Chicago-to-Atlanta lane are $2.83 a mile for contract and $2.44 for spot.



Average domestic intermodal contract rates, excluding fuel surcharges (shown below via the IMCRPM1.USA data set), continue to show steep declines year over year and on a two-year stack, although the year-ago comps get easier as the year progresses. Year to date, domestic intermodal contract rates are down 8.8% y/y and are 13.1% below 2022 levels. Meanwhile, those same rates are currently roughly in line with 2021 levels.



Shippers can use those changes as rough average benchmarks as they make their way through the current bid season, which began last fall. Intermodal carriers concede there is y/y rate pressure in the first half of this year but also argue that price is a lagging indicator and volume should be considered a forward-looking indicator for rates. Based on that, there is reason to expect intermodal pricing to at least stabilize if the growth in domestic intermodal volume (discussed at the beginning of this section) continues or accelerates.

Outlook

There are no signs of a strong shift in market conditions at this point. The trucking market is crawling along a floor but still appears to have seen the toughest part of the cycle. Transportation service providers are now in a waiting game, while shippers need to remain vigilant. April is typically a slower month, and the market appears to be only slightly responsive to the typical March seasonality. May will house the next see-where-we-are mile marker for the market as summer shipping kicks off and Memorial Day provides the first major holiday. The outlook until then is for more of the same for dry van, with the flatbed market being the one to watch for the most volatility and refrigeration still being exposed to a potentially disruptive harvest period.