April
2024

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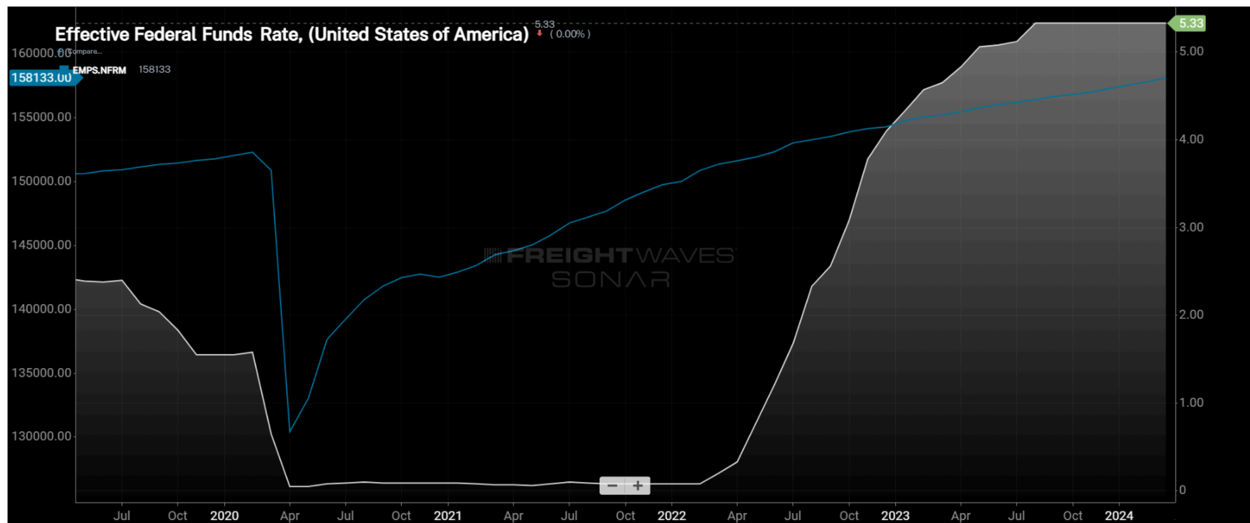
Economic Outlook

The U.S. economy continues to be on strong footing as the labor market – at least the headline number – is resilient and consumers continue to spend. The elephant in the room is inflation trends after two hotter-than-expected readings for the Consumer Price Index.

At the most recent Federal Open Market Committee meeting, Federal Reserve officials opted to hold the federal funds target range, the overnight borrowing rate for banks, unchanged for the fifth consecutive time. The current federal funds range sits at 5.25% to 5.5%.

Analysts across the country have been expecting three cuts to the federal funds rate throughout 2024, and eyes now turn to the April 30-May 1 meeting for the next possibility. But given the challenging inflation data, the likelihood of a rate cut at the next meeting has dwindled. The next possibility for an interest rate cut would then be at the June 11-12 meeting.

Many still believe that three interest rate cuts this year are possible, but the later in the year they are pushed, the less likely they become.



SONAR: Effective Federal Funds Rate (white, right axis) and total nonfarm payrolls (blue, left axis)

The Federal Reserve's goal in adjusting interest rates is to combat inflation while maintaining maximum employment. The labor market has remained resilient, as the jobs report has bested analysts' expectations every month since October 2023.

In March, the jobs report showed headline job growth of 303,000 from February, well ahead of analysts' expectations of 200,000. The increase in payrolls caused the unemployment rate to

inch lower, dropping to 3.8% in March from 3.9%. This happened even as the labor force participation rate edged up slightly.

Looking under the hood highlights how the labor market may not be as resilient as it appears, given where hiring trends have been the strongest. In March, 23% of the increase in nonfarm payrolls originated from government hiring. Government payrolls rose by 71,000 in March, with much of the increase at the local government level.

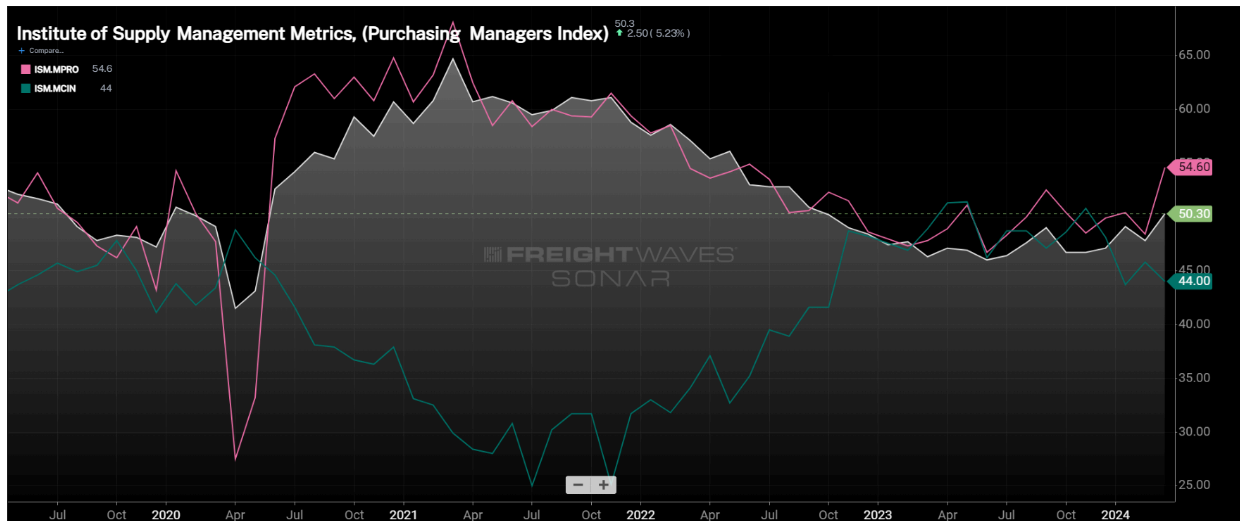
Leisure and hospitality was again responsible for a large portion of the increase in nonfarm payrolls, adding 49,000 jobs during March. Restaurant and bar hiring accounted for 28,300 of the added leisure and hospitality payrolls.

Combining leisure and hospitality with government hiring, the two sectors accounted for nearly 40% of the added payrolls in March. Health care was also an area of growth, adding 72,300 jobs in March. Nearly two-thirds of hiring in March stemmed from these three sectors: health care, hospitality and government.
Retail shops also spent March beefing up their workforce, specifically those in general merchandise. General merchandise retailers added 20,100 jobs in March, with department stores adding 7,700 of the jobs and warehouse clubs and supercenters adding the other 12,400.

One of the reasons for the growth in these sectors has been the expansion of the part-time workforce. The number of individuals working part time for noneconomic reasons grew by 572,000 in March. At the same time, the number of wage and salary workers, better known as full-time workers, for nonagricultural private industries fell by 164,000.

Manufacturing

The manufacturing sector continues to regain prominence after losing luster throughout the pandemic. Industrial production bounced back in March, rising 0.4% m/m. That matches the m/m increase in February. Industrial production was flat y/y during the month, but positive trends are appearing in the major market groups. Consumer goods production increased by 1.2% m/m, though it was still down 0.4% y/y. Manufacturing was up 0.5% m/m and 0.8% y/y, highlighting the start of the recovery in manufacturing.



SONAR: Institute for Supply Management: Manufacturing Purchasing Managers' Index (white), Production Index (pink) and Customers' Inventories (green)

The Institute for Supply Management's Manufacturing Purchasing Managers' Index (PMI) came in at 50.3% in March, up from 47.8% in February. This strong growth is a signal that there is momentum behind the manufacturing sector. Over a long period of time, a reading above 42.5% indicates that the overall economy is growing, so the strong reading in March is a positive sign. The reading was the highest of the past 12 months and 2.8 percentage points higher than the 12-month average.

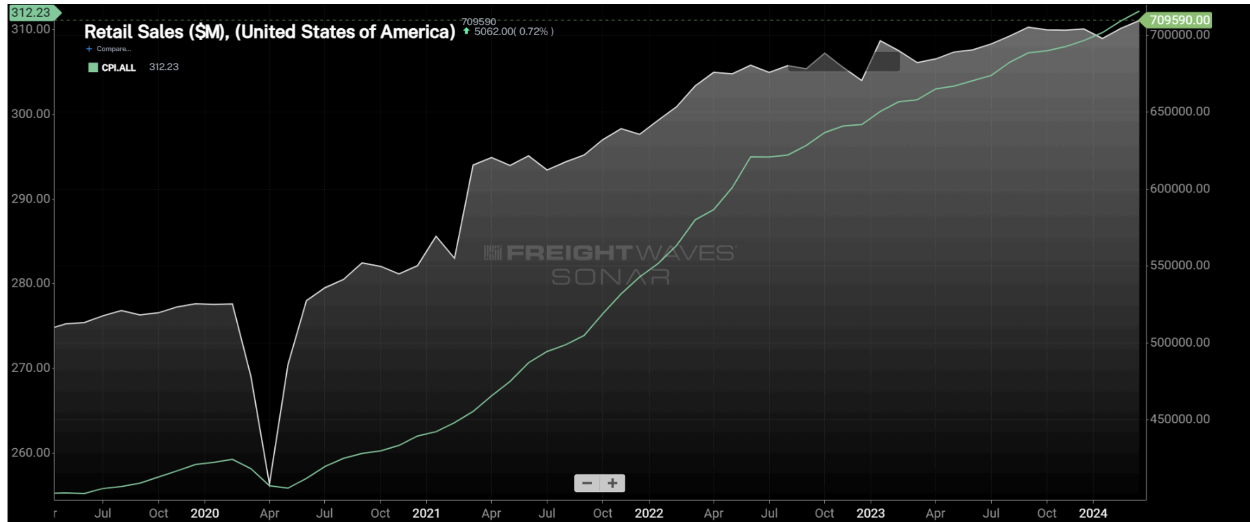
New orders recovered in March, entering expansionary territory once again with an increase of 2.2 percentage points month over month to 51.4%. This growth is a positive sign for the freight environment in the coming months. That is especially true as backlogs continue to contract, coming in at 46.3% and matching February's reading. Slightly over 26% of respondents reported higher new orders, a number that has been steadily increasing since December's reading of 15.5%.

Not only did new orders grow, but production ramped up in March, crossing back into expansion territory. The Production Index came in at 54.6% in March, up 6.2 points m/m and over 4 points higher than it was in January, the last time production was in expansionary territory. Over a quarter of respondents reported higher production levels during March compared to the prior month.

An area that continues to be important for future manufacturing is that customers' inventory levels remain lean. In March, 20.9% of respondents reported that customers' inventories were "too low" compared to just 8.9% who report customer inventories that are "too high."

Consumer Conditions & Retail

Despite the persistent inflation pressures, consumers have shown they still have the propensity to spend. It aligns with the old adage: Never doubt the American consumer's ability to spend money.



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

March's retail sales surprised to the upside, which was needed after a hotter-than-expected inflation report. Retail sales increased by 0.7% m/m in March, surpassing analysts' expectations of a 0.3% m/m increase. The increase was a slowdown from the increase in February, when retail sales grew by 0.9% m/m, but that was likely skewed due to severe winter weather that impacted spending in January. Retail sales were 4% higher than they were this time last year. The growth is even more impressive when excluding motor vehicles and gasoline stations. Retail sales excluding motor vehicles, parts and gasoline stations were up 4.9% y/y.

The strength in retail sales in March stemmed primarily from growth in nonstore retail, which increased 2.7% m/m and is 11.3% higher year over year, and miscellaneous store retailers, which increased by 2.1% m/m and 6.1% y/y.

Furniture spending continues to be a drag on overall spending. Sales were down 0.3% m/m but are down over 6% from March 2023.

With the hiring trends at bars and restaurants, there should be a level of spending to support the hiring practices, and that is happening. Food services and drinking place sales were up 0.4% m/m and 6.5% y/y.

The growth in retail sales cannot be attributed only to higher prices, as it could be in previous months. Retail sales as reported by the U.S. Census Bureau are not adjusted for inflation. Thus, when inflation metrics are high, retail sales can be artificially inflated. That wasn't the case in March.

The Consumer Price Index, one of the most widely used measures of inflation, came in at 0.4% month over month, matching the increase from February as well as being the second-largest increase over the past year. The increase wasn't enough to wipe out all the gains in retail sales, which is a positive overall.

What is concerning is that over the past two months, the 12-month running total for the CPI has been increasing, breaking the monthslong downtrend. The 12-month running total for the CPI currently sits at 3.5%, still above the Federal Reserve's long-term target of 2%. The Federal Reserve prefers the Personal Consumption Expenditures index (PCE), but the reversal in trend lines for the CPI is concerning nonetheless.

The increase isn't just the headline number. Core CPI, which is the CPI excluding the more volatile food and energy prices, has broken the downtrend as well. Core CPI increased by 0.4% m/m, matching the headline increase. Over the past 12 months, core CPI has increased by 3.8%, above the headline number, driven largely by increases in shelter prices.

Speaking of shelter prices, which make up the vast majority of the core CPI component, they increased by 0.4% m/m and are 5.7% higher y/y. Shelter prices lag other components of CPI naturally, but the increases are still an area to watch as consumers seek relief from higher prices.

One bright spot in the CPI report was limited price increases in food. Overall food prices increased by just 0.1% m/m. Over the past year, food prices have increased by 2.2%, well below the headline CPI number. Food-at-home prices were flat in March and just 1.2% higher than they were in March 2023. Food-away-from-home prices jumped by 0.3% m/m and are 4.2% higher y/y.

Energy prices continue to live up to their volatile reputation after rising 1.1% m/m in March, following the 2.3% m/m increase in February that was preceded by four months of lower prices. Energy prices were up 2.1% y/y in March. Gas prices were not immune to the increases, rising 1.7% m/m, and are now up 1.3% y/y.

Housing and Construction

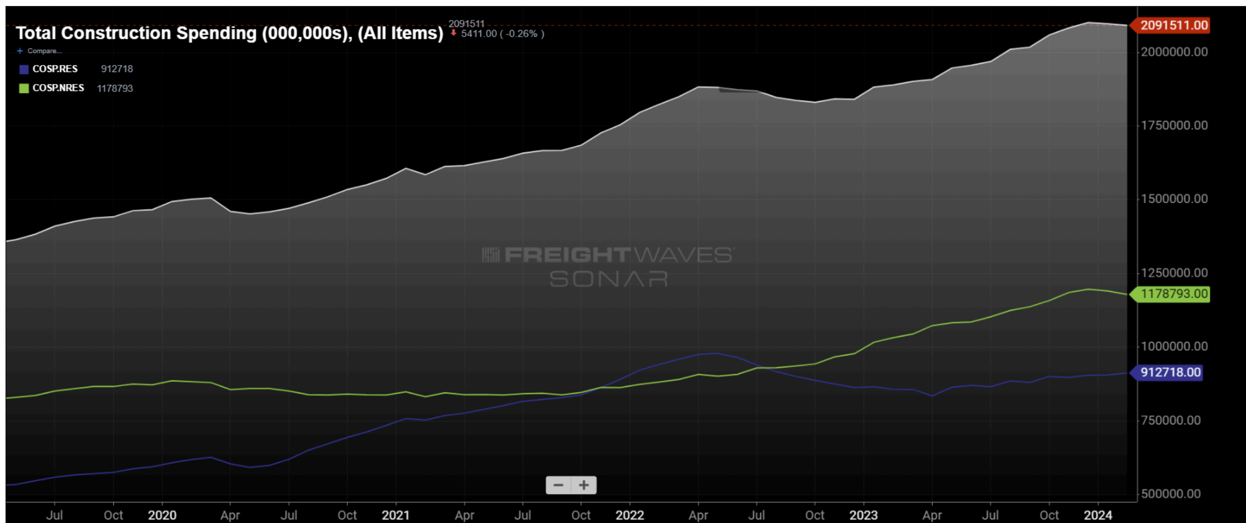
After a strong February, housing starts plummeted in March. Housing starts dropped by 14.% m/m to a seasonally adjusted annual rate of 1,321,000, the lowest level since August 2023. Total housing starts were down 4.3% y/y in March, but much of the decline, especially y/y, is due to softness in multifamily.

Single-family housing starts dropped by 12.4% m/m in March, but February was the highest seasonally adjusted annual rate of the past 12 months, so the drop is something to monitor but not to be concerned with at the moment. That is because even with the decline m/m, single-family housing starts are up 21.2% y/y.

The more concerning trend has been the decline in multifamily housing starts. Multifamily housing starts dropped by 20.8% m/m in March and 43.7% y/y. The declines during the month brought the seasonally adjusted annual rate to just 290,000, the lowest level in over a year.

The West was the only region that experienced an uptick in housing starts, rising 7.1% m/m and 48.1% y/y. The largest region in the country, the South, saw housing starts drop by 17.8% m/m and 11% y/y.

Despite the higher interest rate environment, construction spending remains elevated compared to the prior year. In February, which is the latest data surrounding construction spending, total spending fell 0.3% m/m, but despite this monthly decline, total construction spending was 10.7% higher than it was in February 2023.



SONAR: Total construction spending (white), residential construction spending (blue) and nonresidential construction spending (green)

Residential construction spending kept the total construction spending decline from being more severe. Residential construction spending increased by 0.7% m/m to a seasonally adjusted annual rate of $912.7 billion. Residential construction spending was 6.5% higher than it was the previous year. The increase in residential construction spending was solely due to increased spending on new single-family homes. New single-family home construction

spending was up 1.4% m/m and 17.2% y/y. This increased investment is needed as supply in the housing market is challenged and demand remains resilient despite higher mortgage rates.

Nonresidential construction spending had a challenging month as spending was down 1% m/m. Even with the decline, nonresidential construction spending was 14.2% higher than it was the previous year. These gains are impressive given the increases in interest rates over the past year. The seasonally adjusted annual rate for nonresidential construction spending totaled $1.2 trillion in February.

Among the categories of nonresidential construction spending, only transportation spending experienced an increase m/m. Transportation construction spending increased by 0.7% m/m and is 6.6% higher y/y.

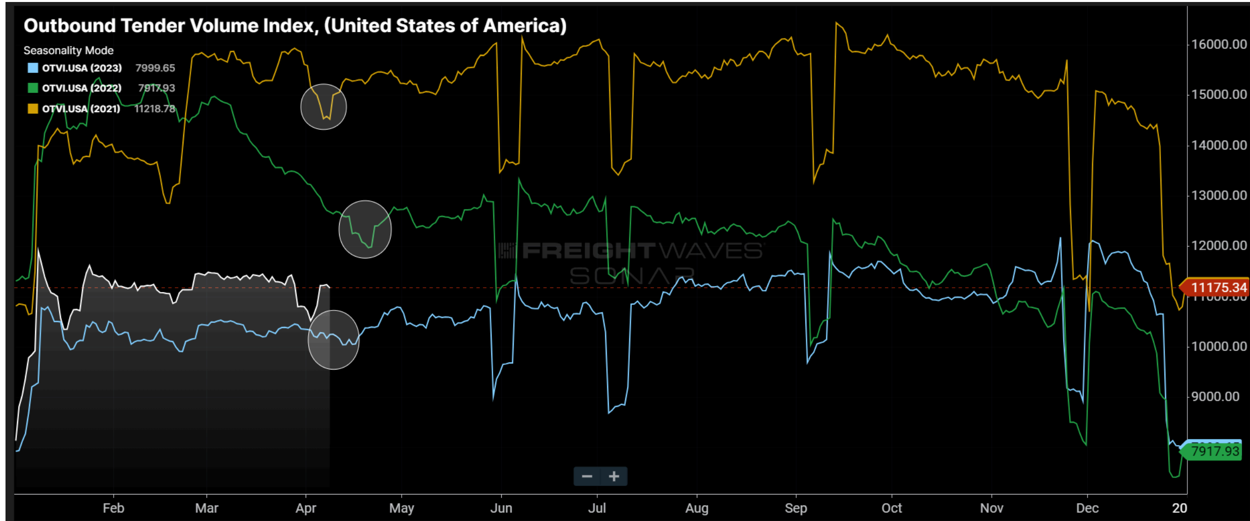
Freight Market Overview

National Summary

March was a relatively uneventful month for the freight market, which remains in a state of severe oversupply. The capacity glut effectively covers up any inefficiencies created by shifting or changing demand patterns. There was not a strong expectation for any disruptive events, but the last month of a quarter and warmer weather can bring some level of early year tightening. The Francis Scott Key Bridge collapse in the Baltimore area was the biggest story for domestic transportation, but the volume of freight impacted was relatively low and isolated to the region. The port handles the largest volume of automotive imports in the U.S., largely from Europe, but supply chains adapted without significant disruption.

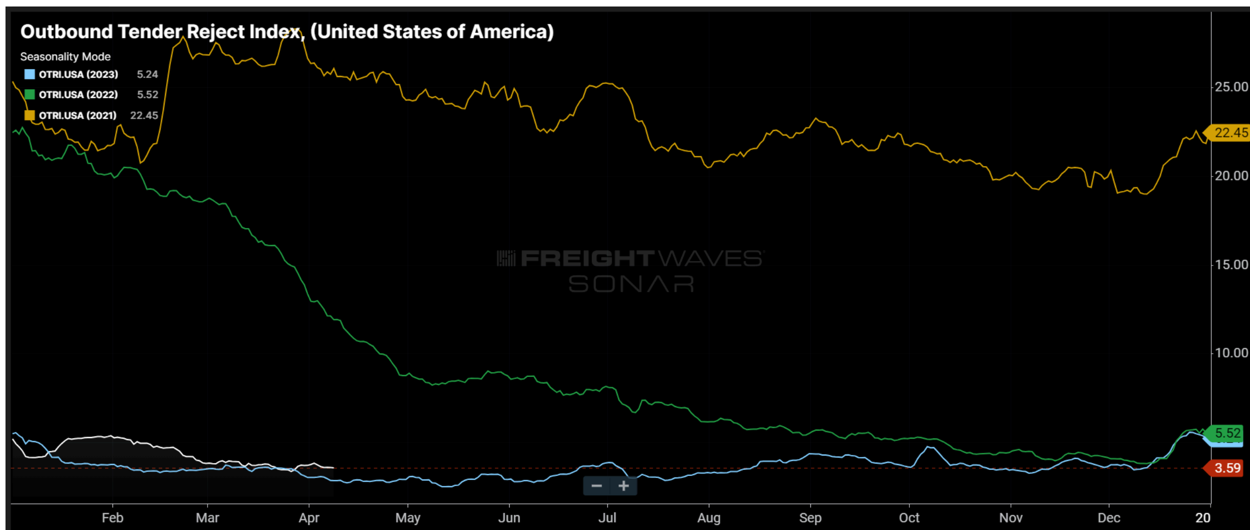
Trucking

Freight demand was consistent outside of the seasonal dip created by the Easter holiday period. Easter is not a major disruption for the national freight market, but it does typically manifest in about a 3%-5% dip in the national Outbound Tender Volume Index (OTVI).



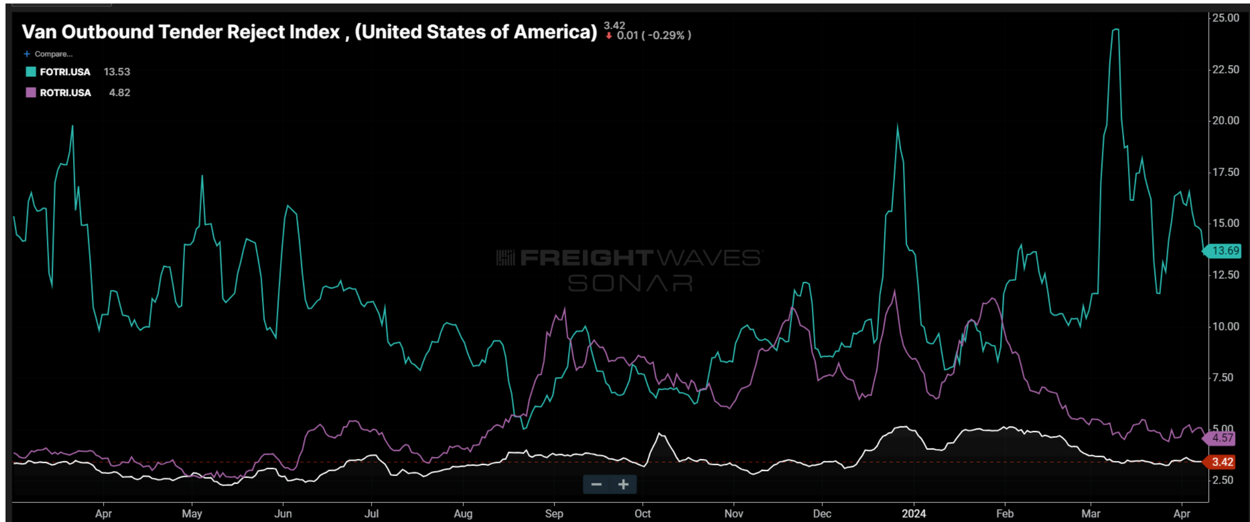
Interestingly, there was little evidence of this in 2023 when demand was close to its floor. Inventory burn-off was the main theme for companies this time last year, which may have reduced shipping needs to essential levels only.

Freight demand continued to outperform 2023 levels throughout March by an average of about 9.5%. Removing the context of the COVID era, this is a significant growth figure and would be a headlining number if not for capacity's abundance.



National tender rejection rates continue to crawl along the floor, hovering around 3.5% for most of the month. By mid-April, rejection rates were higher than the previous year by

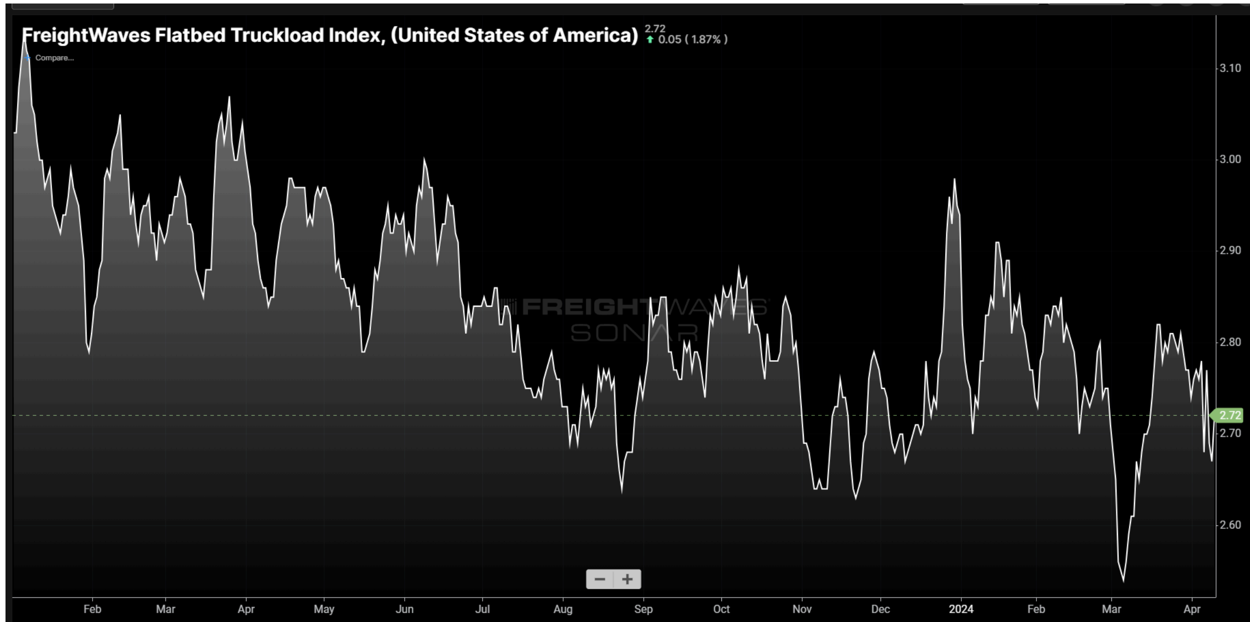
approximately 70 bps and were directionally flatter. The OTRI was falling at this point in 2023 before hitting a bottom in early May.



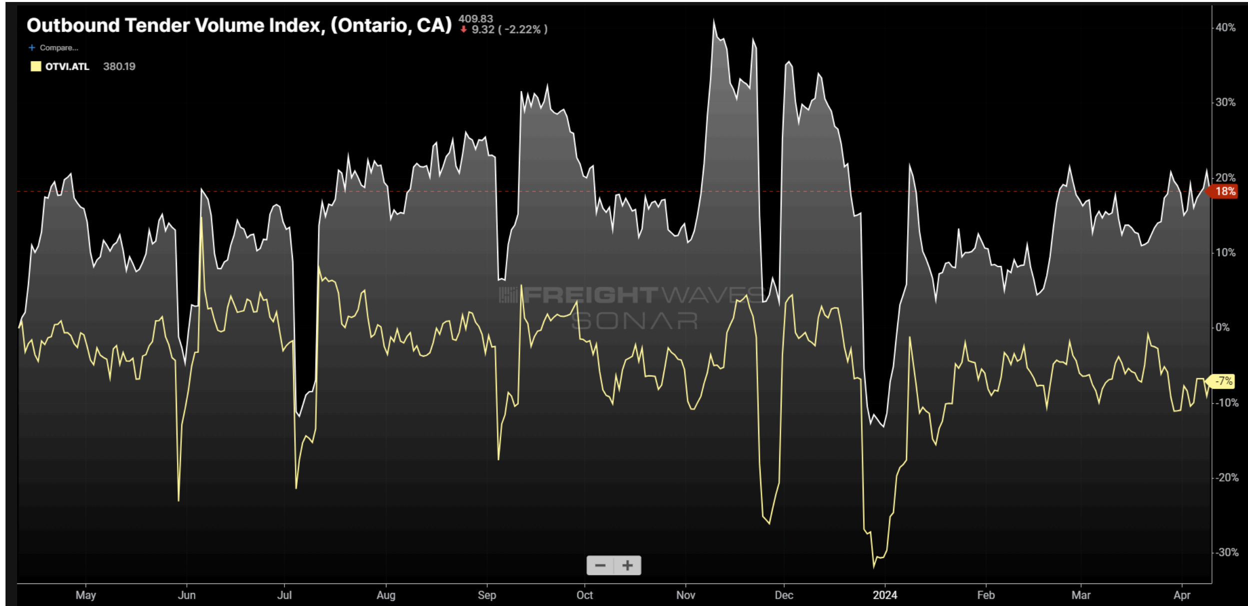
Reefer rejection rates being slightly higher than last year are the main reason the national figure is up year over year. The refrigerated sector appears to be in a state of remission after a strong Q4 2023 and January. The cold plunge that hit the country around the Martin Luther King Jr. holiday proved to be intense but short-lived. Higher-than-average temperatures shortened the protect-from-freeze season in the Eastern half of the U.S.

There were no significant disruptions to the refrigerated space in March and early April from produce runs outside of some slight activity from Florida and Southern California as the first

domestic strawberry harvests hit. Some lettuce activity had begun for the Central Valley, but rates were underperforming 2023 levels into early April.

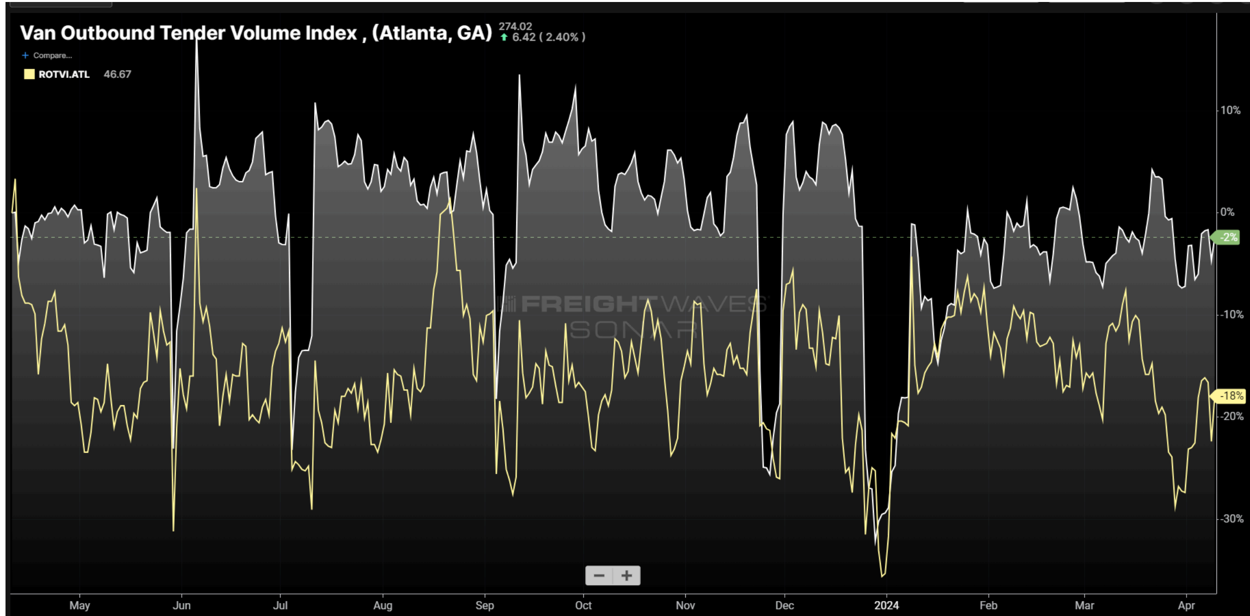


Flatbed rejection rates did spike in March and their growth rate accelerated. While overall rejection rates were not higher for flatbed, their direction was very different. Flatbed spot rates did move higher in March but did not jump significantly. Some of the reasons for this lie in the weakness of looking at aggregated rates in the rate-per-mile format. Mixing of longer lengths of haul can give the appearance of reducing rates. This is largely what happened the first week of the month to the Flatbed Trucking Index (FTI) when rates appeared to plummet. Removing this influence, the flatbed market is on a trajectory for slightly tightening. Rejection rates may be a better indicator at this point as construction season gets going in the Northern tier.

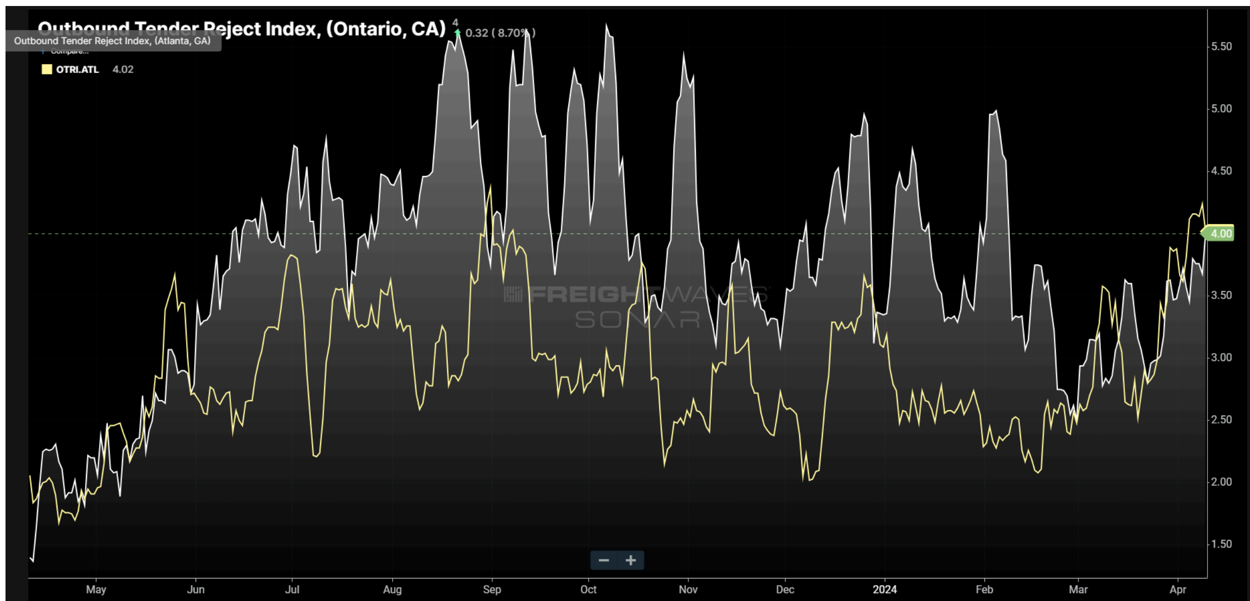


A continuing trend to watch with some level of nuance is the growth of Ontario, California, outbound demand and the deterioration of the Atlanta market. These are the nation's two largest outbound markets, and they are moving in opposite directions.

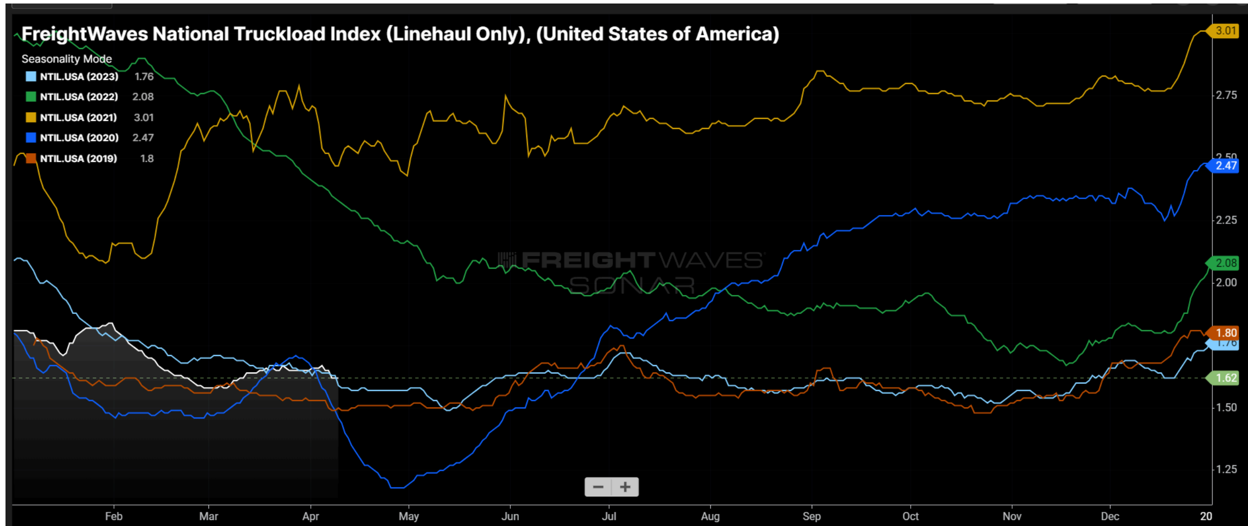
Increasing import demand tends to be the driving force behind freight volume out of Southern California. A surge of goods from China hit the West Coast in March and may be responsible for the strong annual increase.



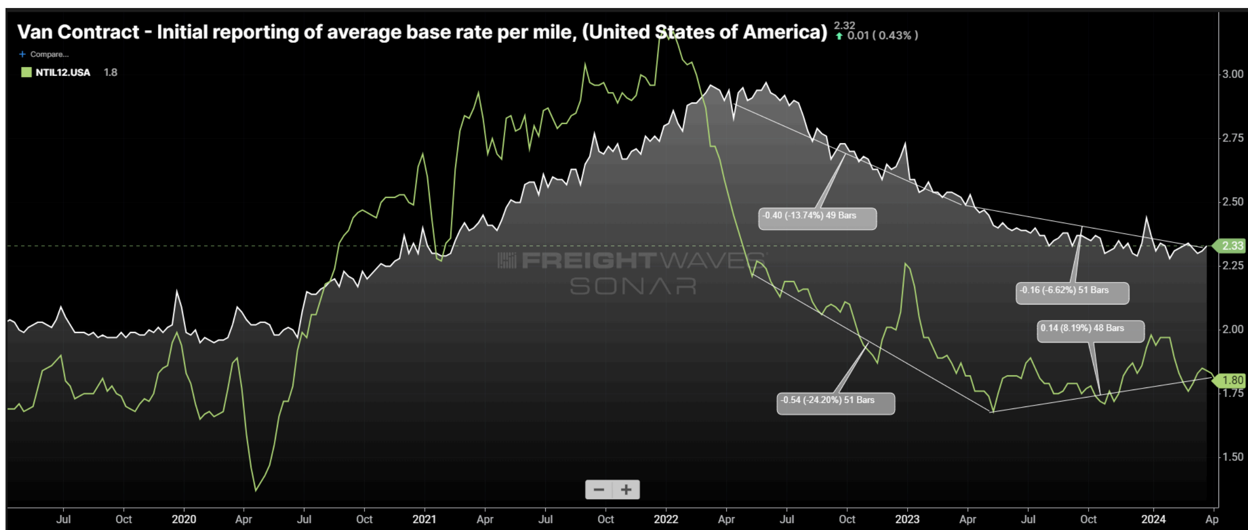
Atlanta's deterioration is more closely tied but not isolated to the drop in reefer demand. The ROTVI for the market has averaged nearly 15% lower in March this year versus last. If West Coast freight demand continues to grab demand share from the East, it will make the third and fourth quarters potentially more challenging for carriers to manage and certainly a trend to watch.



For now, it is a nonissue as rejection rates are under 5% in both markets, though Atlanta outbound rejections hit their highest levels since last September in early April. Spot rates had not increased meaningfully out of either market as of early April.

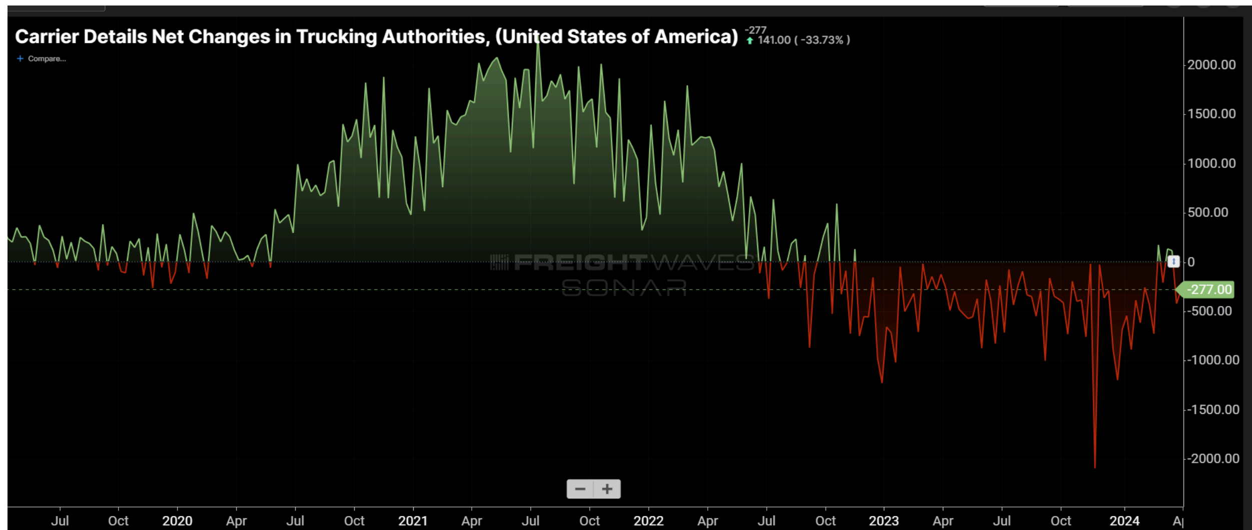


Nationally, spot rates remain flat versus last year, which is historically low. The positive take for transportation service providers is that rates are not falling below previously established thresholds even though strong downward pricing pressures are still present. The market has not hit equilibrium, but carriers appear to have hit the point where they refuse to drive over taking less money for the work.



Looking at contract rates by comparison, they are still slowly falling but have decelerated significantly over the past seven months. The spread between spot and contract remains

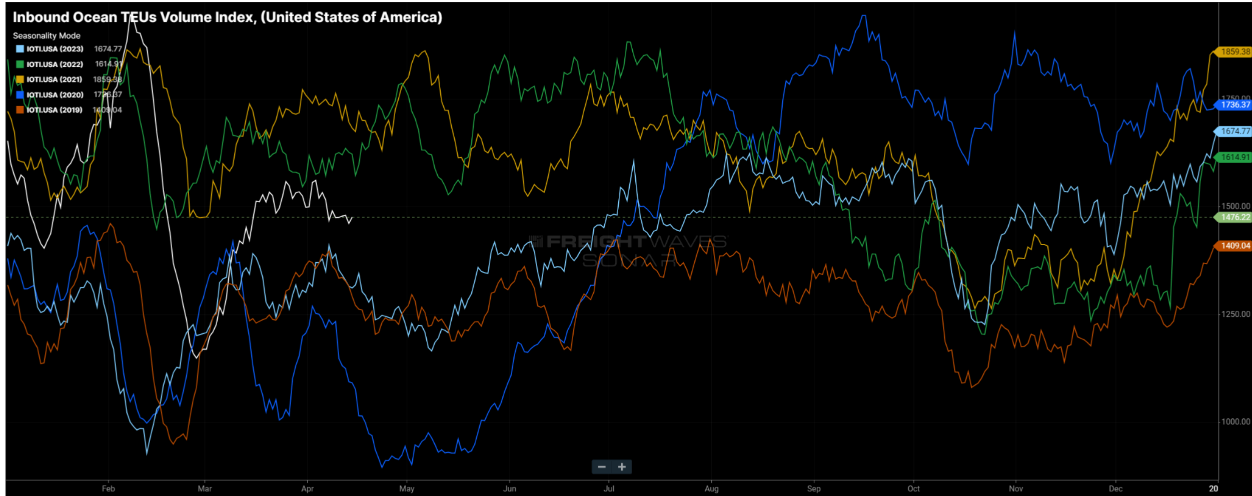
historically large, with spot well below contract. Apply the rate of decay forward to the contract trend and it suggests rates could move higher by the end of the year. Spot rates are already trending higher versus the fall.



Carrier active operating authorities continue to show active contraction in capacity with more exits than entrants, but they did slow in March. Some slowing is seasonally expected, but it did appear to break the trend more strongly than seemed probable for a few weeks. This does not really change the expectation for the market to turn at some point in the next year, but it is enough to cause us to take pause about how quickly that may occur.

Maritime

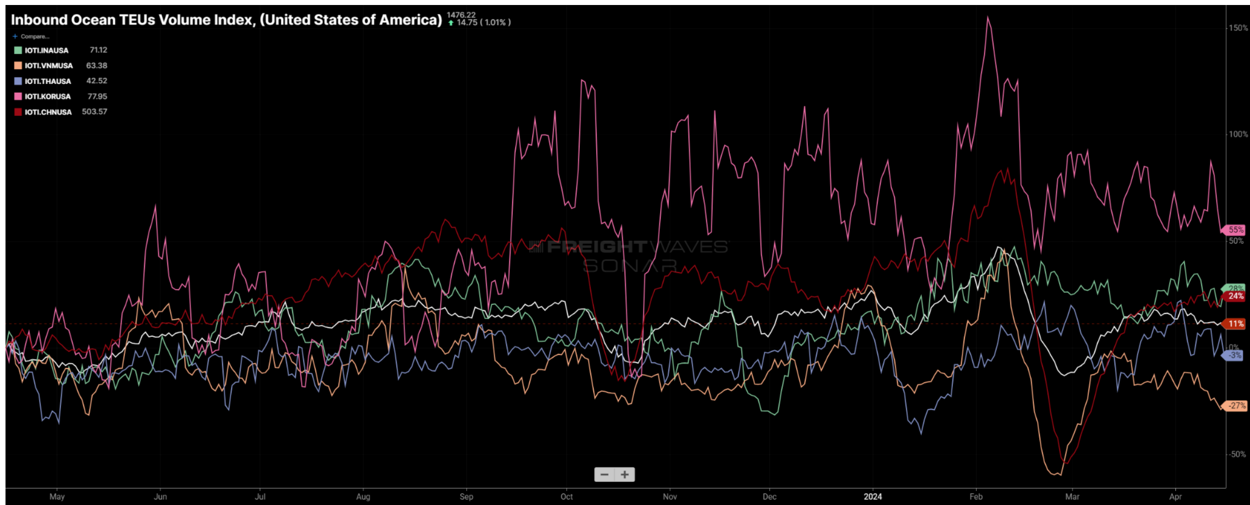
Easier comps versus a beleaguered H1 start in 2023 provide some guidance to double-digit import TEU growth in Q1 of 2024. Otherwise, bookings and daily TEUs destined for the United States returning from the Lunar New Year have held 10%-12% above 2023 on the back of sound economic footing. Bookings have slowed through the annual lulls of award implementations April-May yet remain sturdy. Tests of the durability of this trend arrive after Memorial Day, when those easier comps sharply erode through the balance of the year.



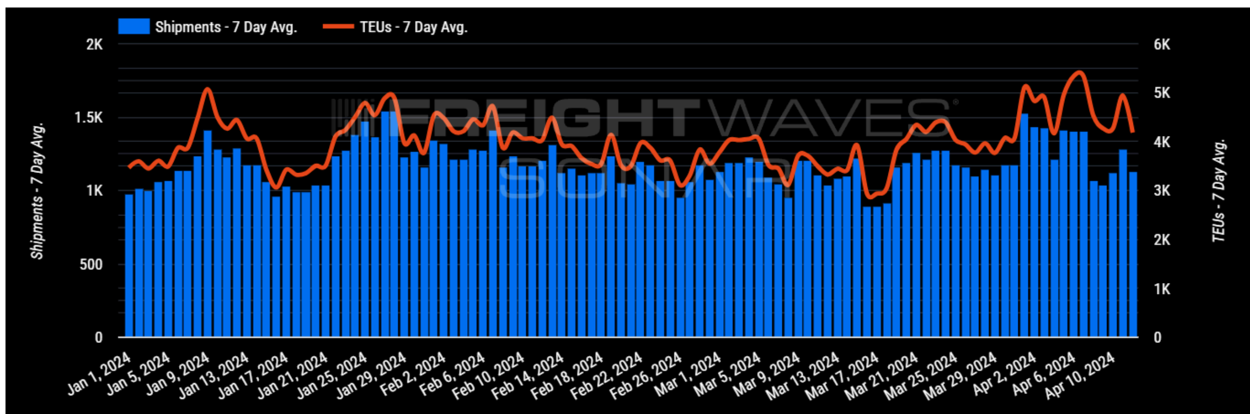
Where China sits around this gradual recovery is a bit different than during the pandemic period, when 40%-plus of U.S. ocean imports were derived from China. That contribution has ebbed back to a third of the mix, yet it hasn't come at a direct loss, with TEU imports from China improving to 20% or better y/y thus far. Recent news of m/m drops into the U.S. since January, as well as total exports falling 7.5% by value from February to March, could offer some hesitancy in outlook, but most is clouded by Chinese New Year falling 19 days later than in '23, commingled with lowered input prices, TEU volumes and spot freight rates returning back into orbit from January.

More clear is budding strength with South Korea and India rising much faster through the end of last year. 2024-25 contracts going live in the month ahead will further prove changes in composition. These gains are material, pushing South Korea to 5% of the total, double that

of a few years ago. Nonetheless, all top Southeast Asian partners combined are still about half the weight of their northern neighbor. And not all are winners, as Vietnam continues to decline from the 2021 period.

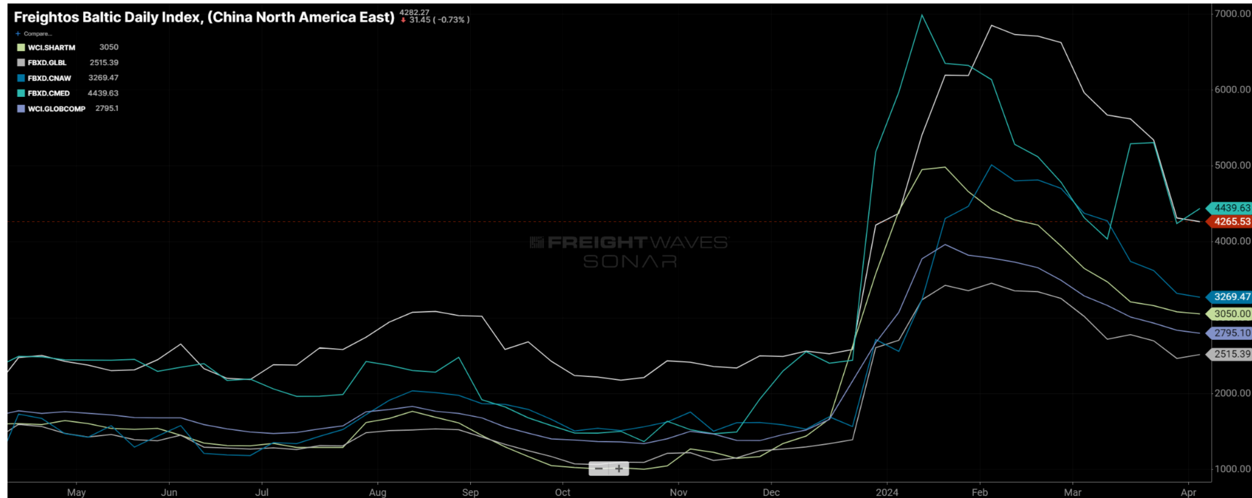


Downstream of this rise, South Korea, among other top export partners utilizing the Port of Baltimore will have to diffuse the 2.3% of TEUs normally destined there following the bridge collapse. The nearby Port of Norfolk, Virginia, has shown as a key landing area with ties already among South Korea, China, Taiwan and Vietnam. In the weeks following the collision, the Port of Norfolk has increased its share of TEUs by 1% in absolute terms, moving closer to 6% now.



Although these containers will flexibly spread across the U.S., the event is yet another element for supply chains to maneuver around. Adding to it are ever-heightened geopolitical risks as Iran directly launched attacks on Israel in the same evening — April 13 — that state

actors openly boarded the MSC vessel Aries outside the Strait of Hormuz, pushing the radii of risk in the Middle East out further.



Spot rates across East-West lanes have fallen precipitously since February with further guidance downward as longer routings normalize to avoid the Red Sea or squeeze through Panama. The realities for contracts are much different, however, as the backdrop consists of overcapacity against current volumes. Although spot rates have ballooned like a meme stock, and still show 70%-90% higher than last year, contract rates will likely settle flat to low double digits higher for '24-25 versus the previous term. The battle has never been about making up the difference. It's about the chasm that can keep pressure on contracts to stay off the floors made early last year.

Air

Air cargo demand has grown by double digits for four consecutive months, while rates have risen steadily since late February, powered by Red Sea shipping diversions and continued growth in bookings by Chinese e-commerce platforms.

The biggest action is happening on trade lanes out of the Middle East and Southeast Asia to Europe and the United States. Capacity is also tight moving out of China. The strength of those lanes is pumping up the global average as growth softened at the start of April in other regions. A year ago, freight rates had sunk more than 40% year over year, as the pandemic wave lost steam. The year-over-year gap in rates has been nearly erased, with the global shipping price (about $2.55 per kilogram) only a few points below 2023 and 40% above pre-COVID levels. A month ago, rates were 15% lower than this time last year.

The full impact of the Houthi rebel threat against commercial shipping in the Red Sea is now clear after four months of vessel reroutings around Africa. The longer voyages have forced carriers to shift capacity to the main China corridors to Europe and North America, and

vessels are out of normal rotation. There is a lag in getting containers back to Asia. The bottom line is that vessel schedule reliability on the Asia-to-North Europe lane hit a low of 34% in February, according to Sea-Intelligence. When supply chains are that unpredictable, businesses are going to put some products on aircraft.

Ports in India have been among the hardest hit. In recent weeks there has been a big surge in air rates out of the Middle East and South Asia. During March, the average spot rate for Middle East/South Asia to Europe climbed 46% month over month to $2.82 per kilogram. The rate was up 71% year over year.

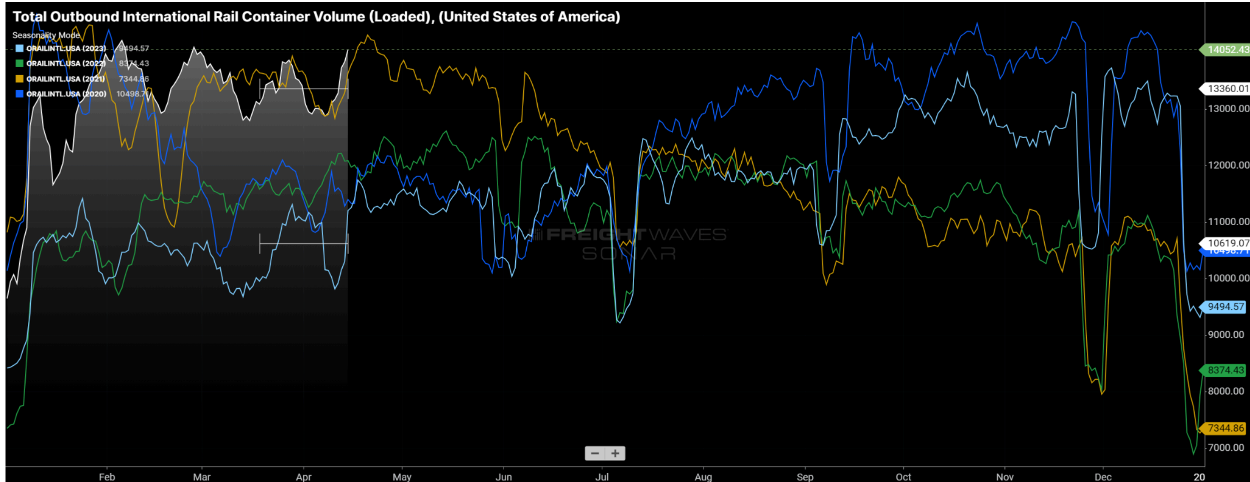
Figures for India and Bangladesh are even more dramatic. Export rates from India are up 160% to more than $4 a kilogram, and Bangladesh-Europe spot rates have soared 179% year over year to about $4.60 per kilogram.

We're finally seeing signs of a pickup in manufacturing, which is a good leading indicator for airfreight. Most categories are still relatively flat to below par, except for e-commerce.

Despite the tighter market, shippers are showing a preference for short-term capacity commitments over long-term contracts as we head into the slower summer season and more passenger belly capacity pours into the market.

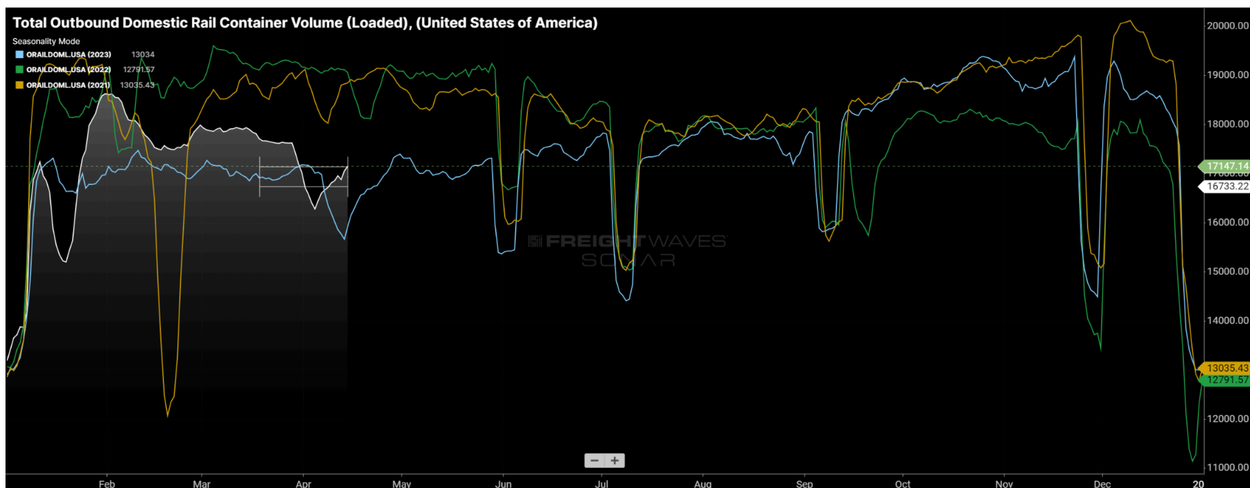
Intermodal/rail

Overall U.S. containerized intermodal volume (RTOIC.USA) continues to track well above year-ago levels, primarily driven by the international segment (a sum of 40-, 20- and 45-foot containers). In the four-week period ending April 6, containerized intermodal volume was 13.8% higher year over year, according to the Association of American Railroads (AAR).



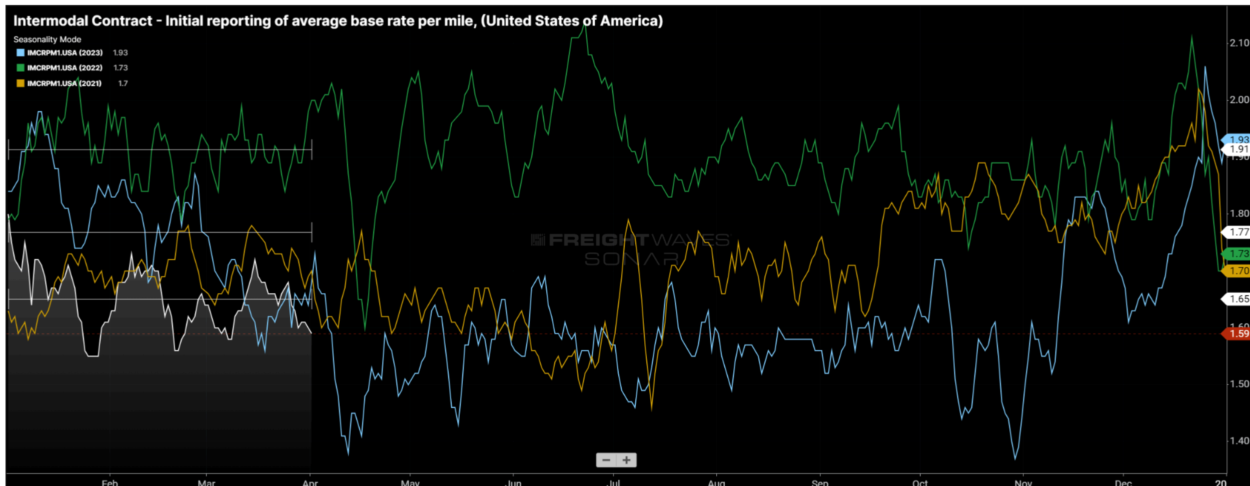
SONAR provides additional detail by breaking the AAR volume down into international and domestic segments, as well as loaded and empty segments. Over a similar time period, loaded international intermodal volume increased 25% year over year, while domestic intermodal volume was up just over 2%, year over year.

That matters for analysts looking to trade the shares of the public domestic intermodal companies (e.g., J.B. Hunt and Hub Group), and it also matters for shippers — a 2% increase in domestic intermodal volume is likely not enough to tighten up the market and suggests there are still domestic intermodal containers that can come out of storage to provide capacity. The higher year-over-year growth in the international segment is both a function of strong import volume this year as retailers replenish inventories and a result of containership lines' willingness to send oceangoing containers to inland locations. That suggests that plenty of oceangoing containers are available in the global marketplace.



The intermodal spot rate data in SONAR (53-foot containers door to door including fuel) also suggests that intermodal capacity remains plentiful. While not much intermodal volume moves on the spot market, weekly spot rates sometimes move sharply week to week as carriers, at times, 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 $1.59 a mile, including fuel. For comparison, in last year's loose intermodal market, the range was $1.64-$1.82.

In some lanes, carriers have cut intermodal spot rates seemingly in response to depressed dry van truckload spot rates. The Chicago-to-Atlanta lane is a good example. Market Dashboard shows a dry van rate in the lane of $2.39 a mile, and the intermodal spot rate declined to $2.18 a mile in April from $2.90 in March. (All rates include fuel.)



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Intermodal contract rates in the first quarter were 6.7% below rates in last year's first quarter. But, rates are now roughly in line with year-ago levels since comparisons got easier starting in mid-March (blue line above). While we do not see evidence of tightness, the market looseness in the past year has now been priced into contract rates, which are typically one year in duration.

Outlook

The coming months do not appear to be likely candidates for a meaningful shift in market conditions. May is typically a strong month for seasonal demand increases, but with capacity still elevated, it does not seem like it will produce much if any disruption. That said, there are increasing isolated areas of temporarily rising rejections and spot rates that keep showing up. Network imbalances will be on the rise as the market approaches supply and demand equilibrium. Shippers will need to increase their vigilance at this point as sourcing conditions will not improve further outside of an economic downturn, which of course presents other problems.