FREIGHTWAVES SONAR

MONTHLY MARKET UPDATE

July
2024

Table of Contents

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Economic Outlook

Inflation data continues to show that it is making progress to the Federal Reserve's long-term target of 2%, but Fed Chairman Jerome Powell made it clear that inflation doesn't have to be at 2% for interest rates to start being cut. Positive inflation data for the third consecutive month has brought a cut in September into play.

Expectations are that, provided inflation data continues to trend positively, the Fed will cut the target range for the federal funds rate by 25 basis points at the September meeting of the Federal Open Market Committee.

Powell, recently speaking at the Economic Club of Washington, stated that the three recent inflation data releases "somewhat add confidence" that there is progress to the 2% target. Additionally, the chairman stated that there are hesitations in both cutting rates too fast and leaving rates too high for too long. The former brings inflation risks back on the table after progress has been made, whereas the latter brings slowing economic growth while also creating some level of risk to the labor market, which has seen the unemployment rate slowly move higher.

On the employment front, the headline numbers for June's jobs report continued to beat analysts' expectations as nonfarm payrolls increased by 206,000 in the month. This eclipsed expectations of 200,000 added jobs during the month but was a slowdown from May's revised numbers.

As has been a trend throughout 2024, the initial nonfarm payroll figures have been revised lower in almost every month. In May, the initial figures showed payrolls increased by 272,000, but upon revision the total was actually 218,000, a nearly 20% downward revision. In April, nonfarm payrolls were revised lower by 10,000 from the initial report of 175,000.

The unemployment rate ticked up another 10 basis points to 4.1%, the highest it has been since November 2021. The bright spot is that most unemployed individuals are finding work fairly quickly as the less reported U-1 unemployment rate — the percent of the civilian labor force unemployed 15 weeks or longer — currently stands at 1.5%, the highest it has been since February 2022 and in line with where it was pre-pandemic.

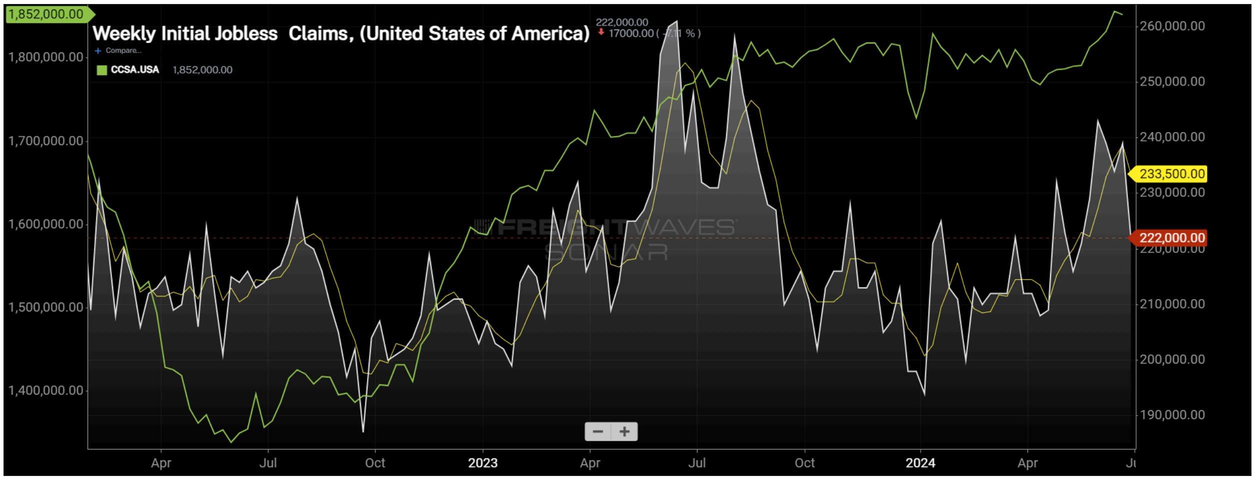
The hiring growth continues to be driven primarily by health care and government hiring. The health care industry added 48,600 jobs during June and more than 750,000 over the past year. Government hiring remained robust, adding 70,000 jobs in June, with over 600,000 jobs added in the past year.

The construction industry, which has been challenged by the higher interest rate environment, experienced fairly robust hiring in June. The construction industry added

27,000 jobs during June, with the job growth occurring across all the subsegments of the broader construction industry.

Retail hiring slowed in June but not everywhere. Overall retail trade saw a reduction of 8,500 jobs during June, but general merchandise stores added 5,200 jobs during the month.

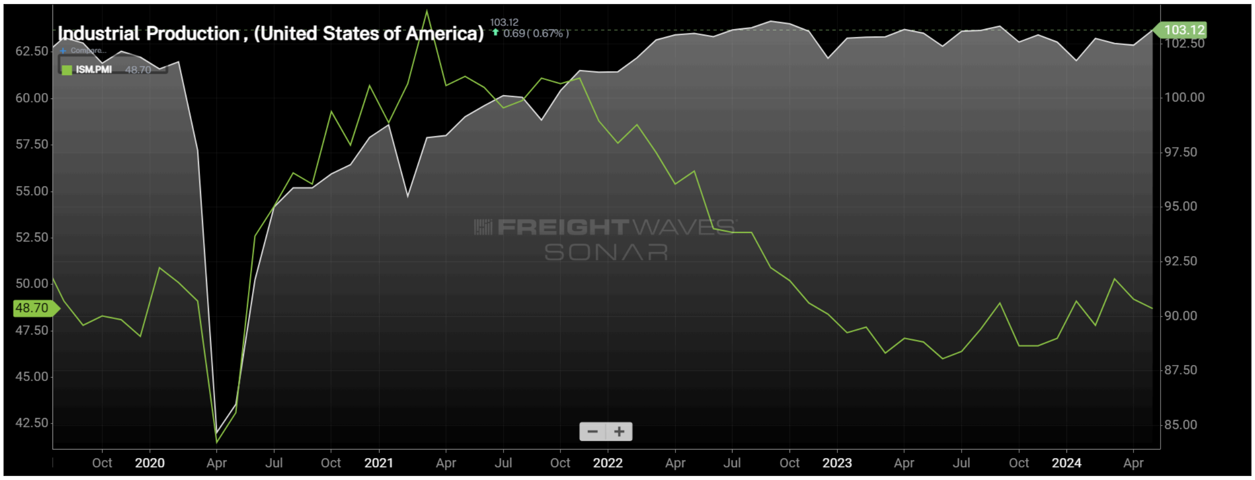
A positive sign in the labor market, despite the downward revisions to hiring trends, is that initial jobless claims have reversed course and started to trend lower.



Initial jobless claims, for the week ending July 6, the most recent week for which data is available, fell by 17,000 week over week to 222,000. The four-week moving average fell by 5,250 from the prior week to 233,500, highlighting that initial jobless claims have crept lower at an extremely slow pace. Compared to the same week a year prior, initial jobless claims were 10,000 lower than in 2023.

Continuing claims remain relatively stable. Continuing claims fell by 4,000 in the week ending June 29, the most recent week for which data is available, to 1,852,000. The four-week moving average did increase by almost 10,000, to 1,840,250. Continuing claims were up by 82,000 compared to the same week a year prior.

Manufacturing



June was another month in which the manufacturing sector was under pressure. The Institute for Supply Management's Manufacturing Purchasing Managers Index remained in contraction for the third month in a row, coming in at 48.5. The reading was slightly lower than in May's 48.7, indicating there was a slight slowdown in the manufacturing sector from the month prior.

New orders continue to be a headwind for the sector as they remained in contraction in June once again. The New Orders component of the index crept slightly closer to the 50 mark, which indicates that new orders are coming closer into balance. In June, the New Orders component increased by 3.9 points m/m to 49.3.

Backlogs continue to dwindle even as production slowed during June. The Backlog of Orders component fell by 0.7 points m/m to 41.7 while the Production Index entered contraction territory, falling 1.7 points m/m to 48.5.

The Customers' Inventories component remained below 50 for the fourth consecutive month, as inventory levels are still "too low." That said, with the contraction for the fourth consecutive month, customer inventories are nearing the "just about right" territory, which would create a headwind for future demand. 67.5% of respondents reported that inventory levels were "about right" in June, up from 66.9% in the month prior.

The Customers' Inventories component remains below 50, indicating that respondents believe inventory levels are still too low. Customers' Inventories did move closer to 50 during May, rising 0.5 points m/m to 48.3%. Of the respondents, 18.3% reported that inventory levels were too low, down from the 20.1% in April. Two-thirds of respondents believe that their customers' inventory levels are about right, which likely explains why new orders have slowed in recent months.

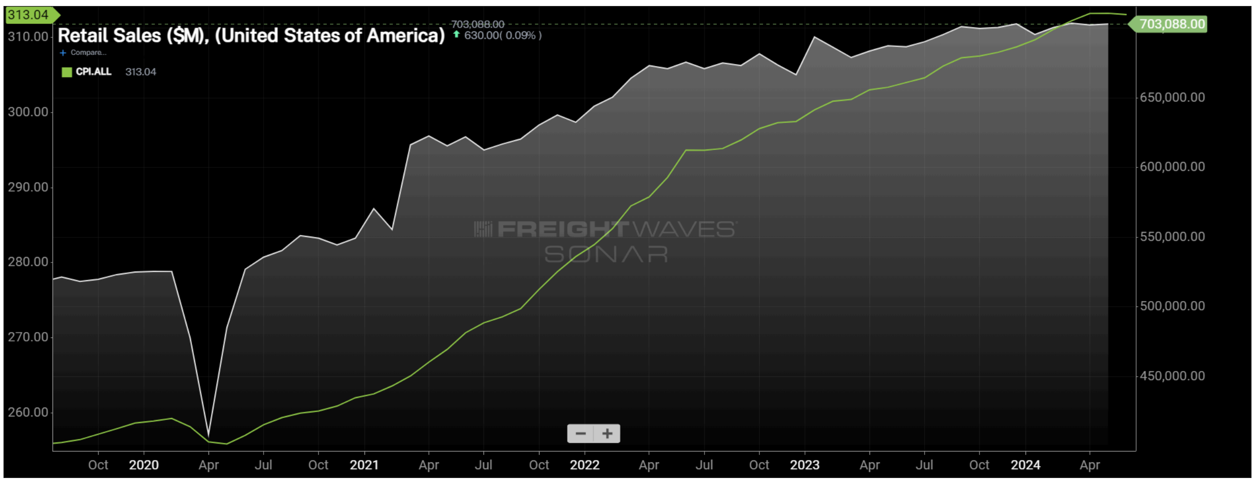
Though the PMI remains in contraction, industrial production is finding some positive momentum after a relatively slow first quarter. Industrial production increased by 0.6% m/m in June, on the heels of the 0.9% m/m increase in May. With the fairly strong increases in each of the past two months, industrial production is up 1.6% y/y.

Industrial production of consumer goods continued to grow throughout the second quarter. Industrial production of consumer goods increased by 1% m/m in June after two consecutive 0.7% m/m increases in the months prior. Industrial production of consumer goods is 2.8% higher than it was in June 2023, the largest increase across the major market groups.

Manufacturing continued to grow but at a slower pace than in May. Manufacturing increased by 0.4% m/m in June after rising by 1% m/m in May. Manufacturing is up 1.1% y/y as the sector is slowly starting to recover.

Consumer Conditions & Retail

A month of deflationary data is the story from June, at least based on the headline inflation numbers. This marks the third consecutive month in which consumer-side inflation has been better than expectations and is leading to the increased optimism around interest rates cuts in the coming months.



The Consumer Price Index fell by 0.1% m/m, marking the first month in which prices entered deflationary territory since October 2020. The 12-month running total for the CPI came in at 3%, the lowest level since July 2023. Analysts were expecting consumer prices to rise by 0.1% m/m and 3.1% y/y.

Core inflation, which is the CPI excluding the more volatile food and energy prices, remained in inflationary territory, rising by 0.1% m/m. The 12-month running total for core CPI is 3.3% higher than it was this time last year. Both metrics also bested analysts' expectations for June's inflation numbers.

With core CPI rising and headline CPI entering deflationary territory, it means there were significant price changes in either food or energy. Energy prices have been far more volatile than food prices in recent months, causing nearly all of the deflation in June. Energy prices fell by 2% for the second consecutive month and were just 1% higher y/y. Gasoline prices experienced the largest drop, falling 3.8% m/m in June, and were 2.5% lower y/y.

Food prices, on the other hand, increased slightly, rising 0.2% m/m and 2.2% y/y. Food-at-home prices haven't come under as much inflation pressure as food-away-from home. Food-at-home prices increased by 0.1% m/m in June and were just 1.1% higher y/y. Food-away-from-home prices increased by 0.4% m/m for the second consecutive month, accelerating from the 0.3% m/m increases experienced in March and April. Food-away-from-home prices are 4.1% higher y/y, highlighting that consumers are still under inflationary pressures in their day-to-day lives but that it isn't as widespread as it was for the past two years.

Shelter prices continue to rise, jumping by 0.2% m/m in June, up 5.2% y/y. Shelter prices represent a majority of core inflation, so the increases in shelter prices continue to have substantial impacts on the core CPI.

Vehicle prices continue to drop. New vehicle prices fell by 0.2% m/m, the fifth consecutive month in which new vehicle prices have fallen. Even with the five consecutive monthly declines, new vehicle prices are only 0.9% lower than they were in June 2023. Used vehicle prices, on the other hand, are under immense pressure. Used car and truck prices fell by 1.5% m/m in June, the fourth decline of greater than 1% m/m in the past six months. Used car and truck prices are 10.1% lower than they were this time last year as consumer demand has slowed for larger-ticket items.

One thing that remains consistent is the American consumer's ability and willingness to continue to spend. Retail sales data for June came in ahead of expectations, especially when excluding autos and gasoline spending. Headline retail sales were flat m/m in June while analysts were expecting retail sales to decline by 0.3% m/m. Retail sales excluding autos and gas station spending increased by 0.8% m/m, compared to expectations of a 0.2% m/m increase. Total retail sales are 2.3% higher than they were this time last year but haven't been able to outpace inflation, at least not yet. Retail sales excluding autos and gas stations were 3.8% higher y/y.

Motor vehicle sales and gas station sales were drags on overall retail sales. Motor vehicle and parts dealers sales were down 2% m/m in June and 2.2% y/y. Gas station sales were down 3% m/m and 0.4% y/y. As retail sales aren't adjusted for inflation, a portion of these declines stems from the lower prices mentioned above.

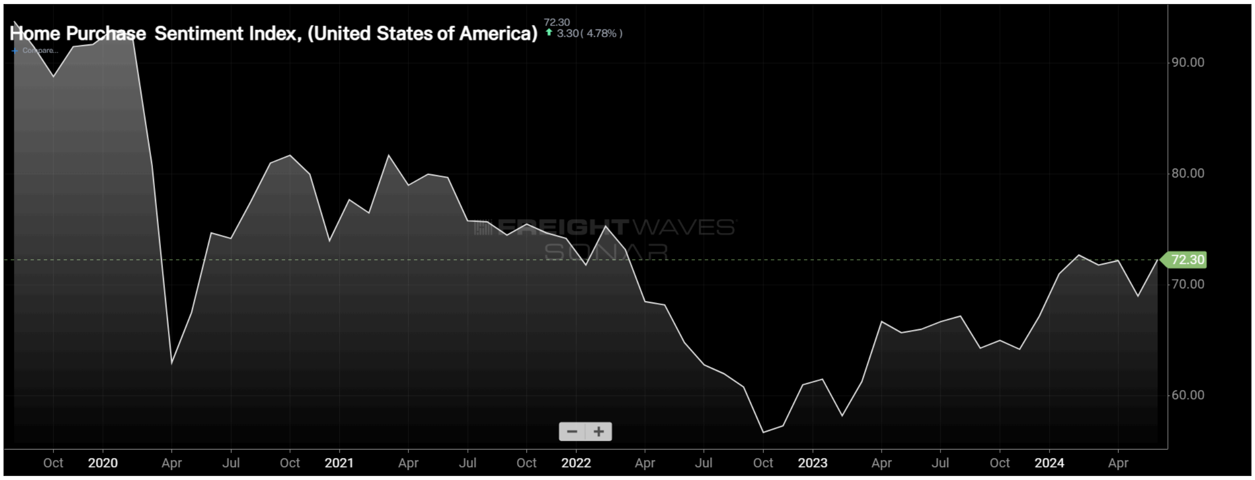
The biggest winners in June were nonstore retailer sales, which increased by 1.9% m/m. The growth in those sales is evident when compared to this time last year as nonstore retailer sales were 8.9% higher y/y. The growth will likely continue into July's data as Amazon's Prime Day event July 16-17 and reactions from competitors are likely to fuel growth in e-commerce sales.

Housing & Construction

Positive inflation data and commentary from Fed officials is helping boost confidence in the housing market despite the higher interest rate environment. According to the Mortgage Bankers Association's Weekly Mortgage Application Survey for the week ending July 5, mortgage applications fell by 0.2% w/w. Mortgage Bankers Association Vice President and Deputy Chief Economist Joel Kan stated in the latest release that "The recent uptick in mortgage rates has slowed demand."

Mortgage rates overall have stayed around 7% for the past two months. Until interest rate cuts actually come to fruition, mortgage rates will likely stay around these levels as banks maintain the margin around 2.5% above the effective federal funds rate. According to Freddie Mac, the average 30-year fixed rate mortgage was 6.89% for the week ending July 11, just 7 basis points lower y/y.

With increased conversations around lower interest rates, sentiment around purchasing homes is improving. The Fannie Mae Home Purchase Sentiment Index (HPSI) increased by 3.2 points m/m to 72.6, the highest level in over two years. The HPSI is 6.6 points higher than it was this time last year.



Mark Palim, Fannie Mae's vice president and deputy chief economist, said in the July 8 release, "Affordability concerns remain the primary driver of consumer housing sentiment, even as the topline findings from our monthly survey showed a modest uptick in optimism on both homebuying and home-selling conditions."

In the HPSI survey, 81% of respondents believe it is a bad time to purchase a home, which is down 5% from May's survey. The 81% of respondents is largely in line with the longer-term trend, but it will be interesting to see how this shifts as mortgage rates decline, though they will likely remain higher than pre-pandemic levels.

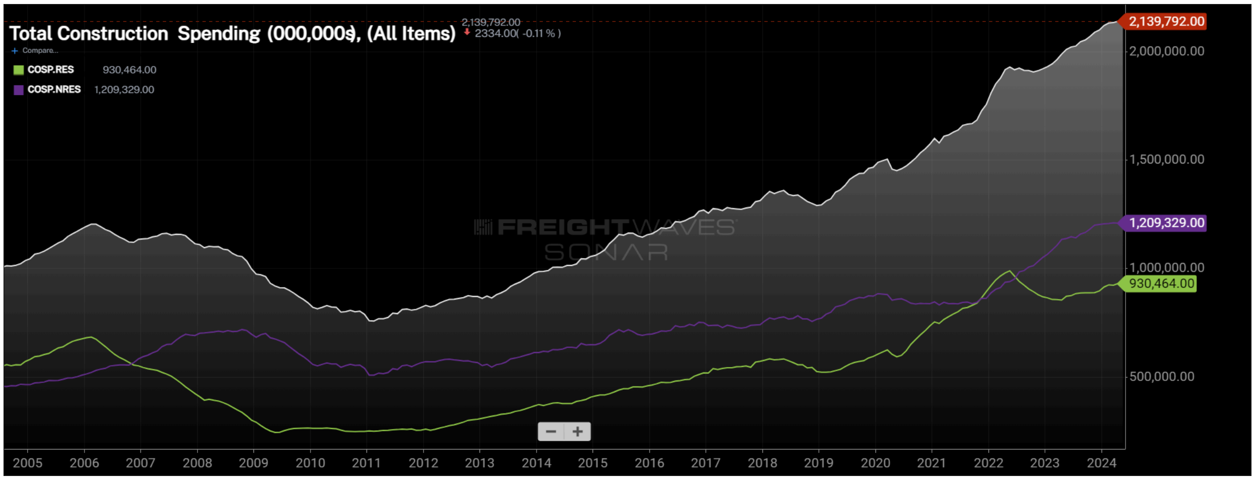
An increasing percentage of individuals believe home prices will increase over the next 12 months. 45% of respondents expect that home prices will increase over the next 12 months, while just 17% expect prices to decrease. Despite conversations about interest rate cuts, only 24% of respondents expect that mortgage rates will decline over the next 12 months and 33% expect rates to rise over the next year. Traditionally, when interest rates decline, asset prices will increase, but given the perception of housing supply in the market, sentiment shows that many expect house prices to continue to appreciate in the face of the belief that mortgage rates will rise (which seems unlikely given the comments from the Fed chair.)

Existing homes sales make up the vast majority of homes sales in the housing market, and they have continued to decline in recent months. After declining by 1.9% m/m in April, existing home sales dropped by 0.7% m/m in May, according to the National Association of Realtors. Compared to the year prior, existing home sales were 2.8% lower in May. The slowdown in sales is allowing inventory to grow as unsold existing home inventory increased by 6.7% m/m and total supply sits at 3.7 months, up from 3.5 months in April.

Sales in the South came under pressure in May, while they remained stable in the Northeast, Midwest and West.

Existing home sale prices continued to set new records, rising to $419,300 in May, up 5.8% from the year prior.

May's construction spending figures highlight the challenges the industry is facing in the higher interest rate environment. Total construction spending fell another 0.1% m/m in May, matching April's initially reported decline. The seasonally adjusted annual rate (SAAR) for total construction spending totaled $2.14 trillion, down from $2.142 trillion in April. With the slowdown felt the past couple of months, the gap with year-ago levels continues to narrow, now up 6.4%, compared to the 10% y/y increase in April.



Residential construction spending fell once again in May after rising during April. Residential construction spending decreased by 0.2% m/m in May to a SAAR of $930,464,000. April's residential construction spending figure was revised higher by nearly $30 million, thus the downward movement in May's figure. Residential construction spending growth is higher than overall construction spending, now 6.6% higher than it was this time last year.

Nonresidential construction spending matched the decline of total construction spending after April's figures were revised higher. Nonresidential construction spending fell by 0.1% m/m to a SAAR of $1.209 trillion. Similar to total construction spending and residential spending, despite the decline m/m in nonresidential construction spending, it was 6.2% higher y/y. The manufacturing sector is the largest contributor to nonresidential construction spending, with a SAAR of $234.1 billion, an increase of 1.3% m/m and 20.3% y/y.

After a difficult May, housing starts experienced an uptick in June, but it was boosted entirely by multifamily housing starts. Total housing starts increased by 3% m/m in June to a SAAR of 1,353,000. Even with the monthly increase, total housing starts were down 4.4% y/y in June. The monthly metrics for single-family housing starts were underwhelming, falling 2.2% m/m in June. The SAAR for single-family housing starts sits at 980,000, the lowest of the year and the lowest it has been since October 2023. Even with the decline and falling below the 1 million mark once again, single-family housing starts are 5.4% higher than they were in June 2023.

Multifamily housing starts had a nice recovery in June, to reach the second-highest level of 2024. Multifamily housing starts increased by 22% m/m in June to a SAAR of 360,000. Even with the increase, multifamily housing starts are off by 23.4% y/y.

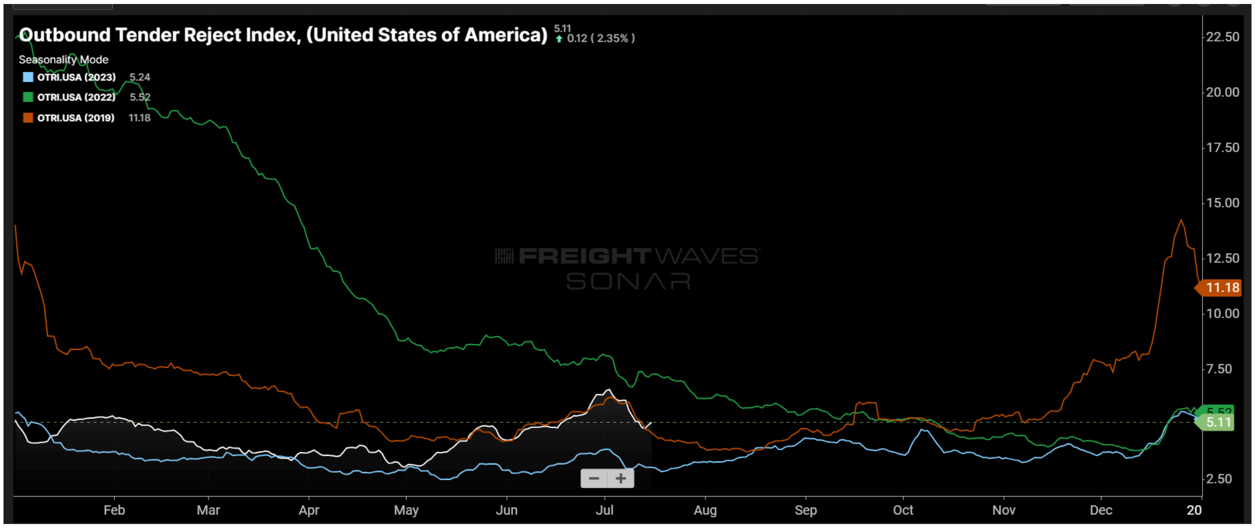
Freight Market Overview

National Summary

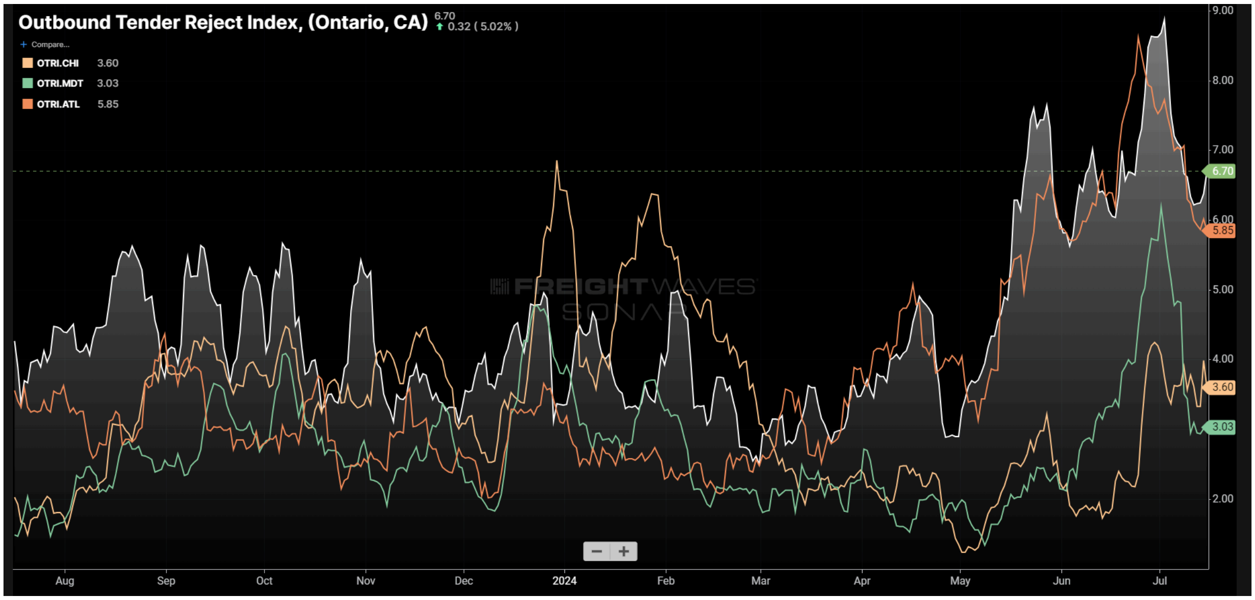
June was possibly the best month for freight in nearly two years from a service provider perspective.. Tender volumes hit their highest monthly values since August 2022, and rejection rates breached 6% for the first time since the same month. While neither of these values broke any records, both are signs of a healthier freight market. Intermodal demand was also robust on a resurgent domestic container market. International container shipments remained strong but faltered slightly as trade imbalances produced shortages abroad. Maritime demand remained strong heading into its traditional peak season, leaving many to wonder if this is an early iteration. The Red Sea continues to be an issue, and maritime spot rates grew throughout the month to hit another round of multiyear highs. The overall narrative of oversupply has not changed for domestic trucking, but the bottom appears to be definitively in the rearview mirror.

Trucking

Tender rejections have been the best indicator of freight market conditions over the past few years, giving a much more precise view of capacity availability compared to spot rates or tender volumes.



With national rejection rates topping 6.5% on July 2, which was higher than their Christmas levels in 2023, the market appears to be heading toward a tighter state. The level of tightening is still a mystery, but capacity appears to be leaving in droves after what has been the longest freight recession in the modern era.



Rejection rates did not increase evenly across the U.S. The Atlanta and Ontario, California, markets experienced some of the nation's most significant increases in tender rejections when combined with their relative size. Atlanta and Ontario were the top two outbound markets in the U.S., representing roughly 7.5% of total national outbound tender volumes (including rejections) in the month. Both market rejection rates neared 9% in front of the Fourth of July.

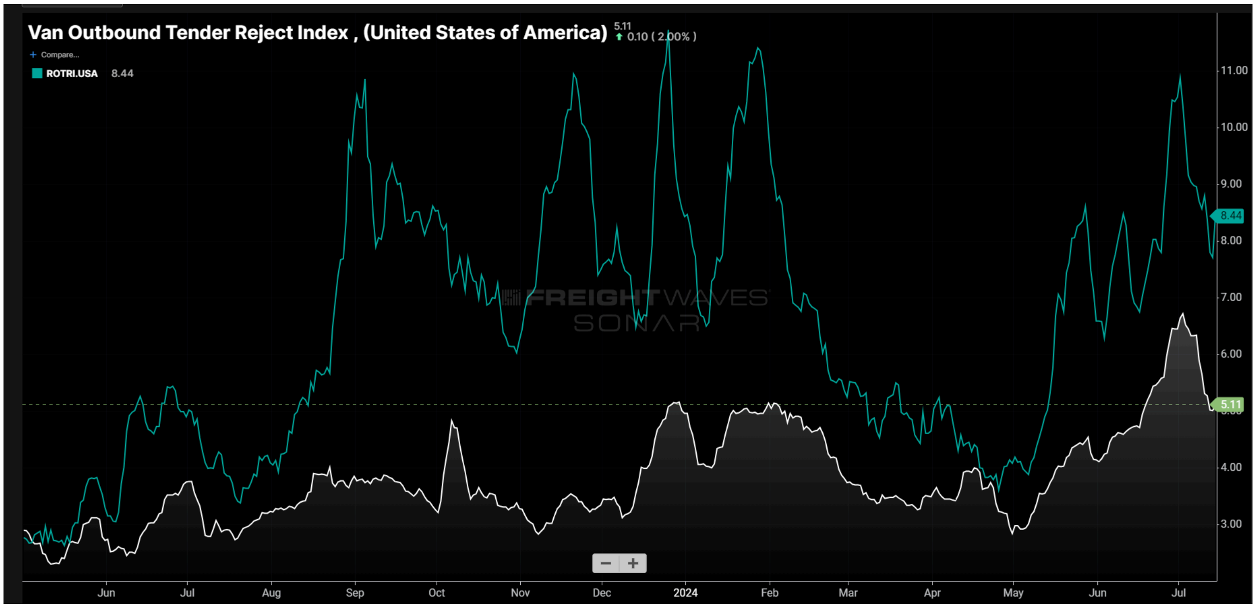
Rejection rates increased for the Midwestern hub of Chicago but only just cleared 4%, which suggests that capacity remained relatively easy to find around the summer peak. Chicago rejection rates were higher in January (6%), when the cold snap froze the central U.S. Rejection rates in Harrisburg, Pennsylvania, topped 6% in the Northeast, which is interesting considering this region's propensity for being well supplied compared to Chicago.

The regional disparity in tightness can be explained by the growing imbalance of freight flow in the country. Imports entering through the Southern California ports are being moved into the Midwest and Northeast for staging in the consumer centers. This leaves the West in a truck deficit while pushing equipment into the warehousing districts in Chicago and eastern Pennsylvania.

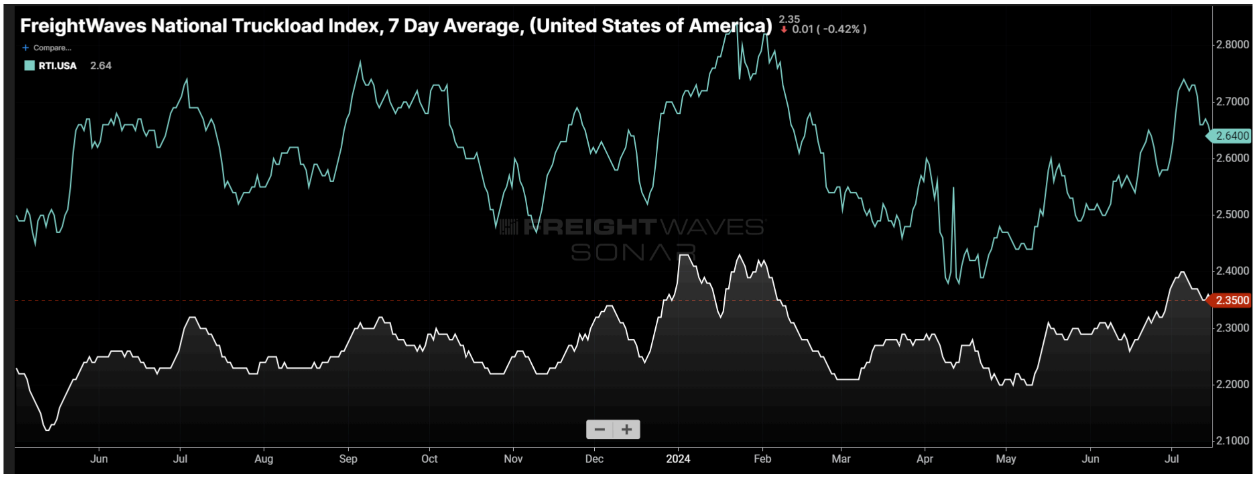
The Atlanta market suffered from carriers having to focus more on getting their equipment positioned out West, where rates and miles produce more profitable moves.

The imbalance in freight flow appeared in the spot market, where rates from Los Angeles to Chicago have increased 24% since April. The return trip's rates are down 8% over the same stretch.

Refrigerated Market



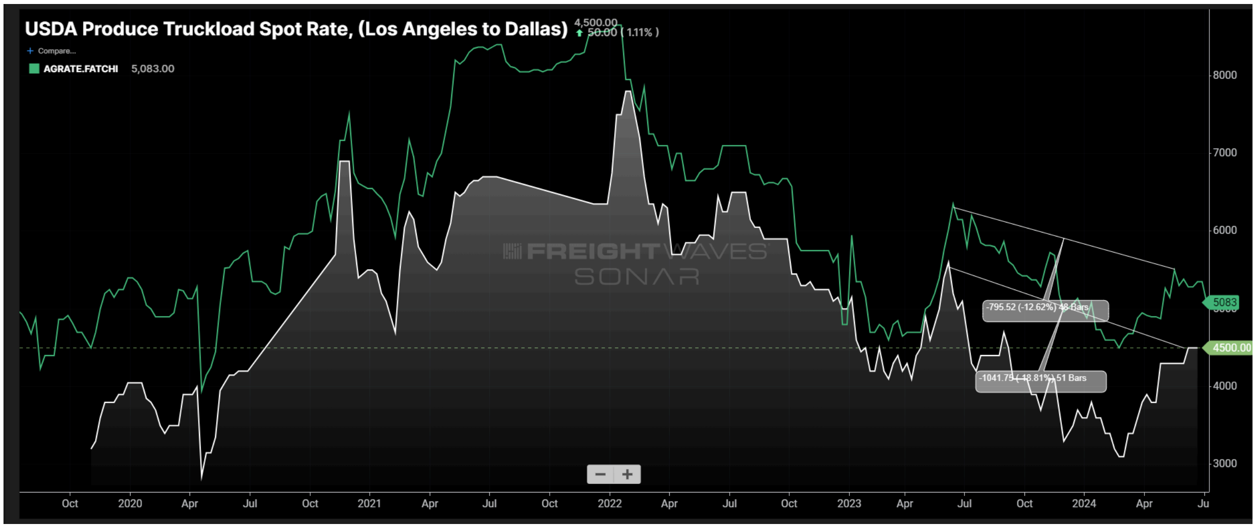
National refrigerated rejection rates (ROTRI) increased to nearly 11% around the end of June but failed to eclipse the peak levels hit last fall and winter. The ROTRI did significantly exceed the previous year's values through June, indicating this sector is on a similar trajectory as the dry van freight market. The nuance is in the fact that the refrigerated market appears to be less sensitive to disruption than it was over the winter, while van is showing a consistent increase in vulnerability.



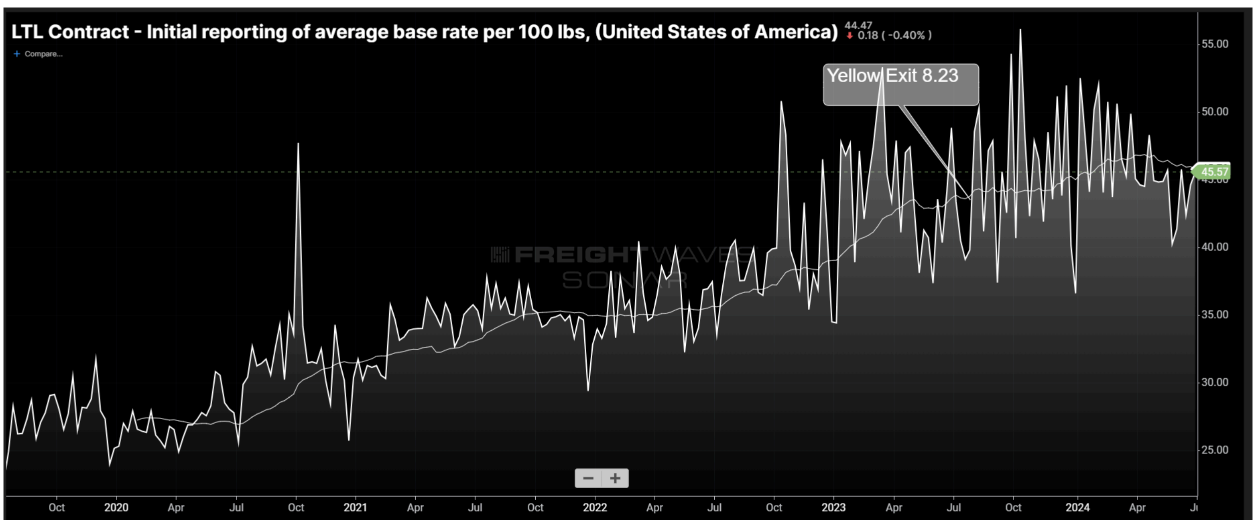
The national spot rate indices show trends similar to the tender rejection rates save for the fact that spot rates for dry van loads did not exceed Christmas 2023 levels. It should be considered that aggregated rate trends have been less insightful when used as historic or seasonal comparisons. Cost inflation and change in mix of short- and long-haul freight can produce false signals.

The spot market has also become overweight with pure utilization freight where carriers are just trying to reposition their equipment. The longer the freight recession has persisted, the more below-cost freight gets moved on the spot market. While this is not a new development, the scale of this shift is unprecedented.

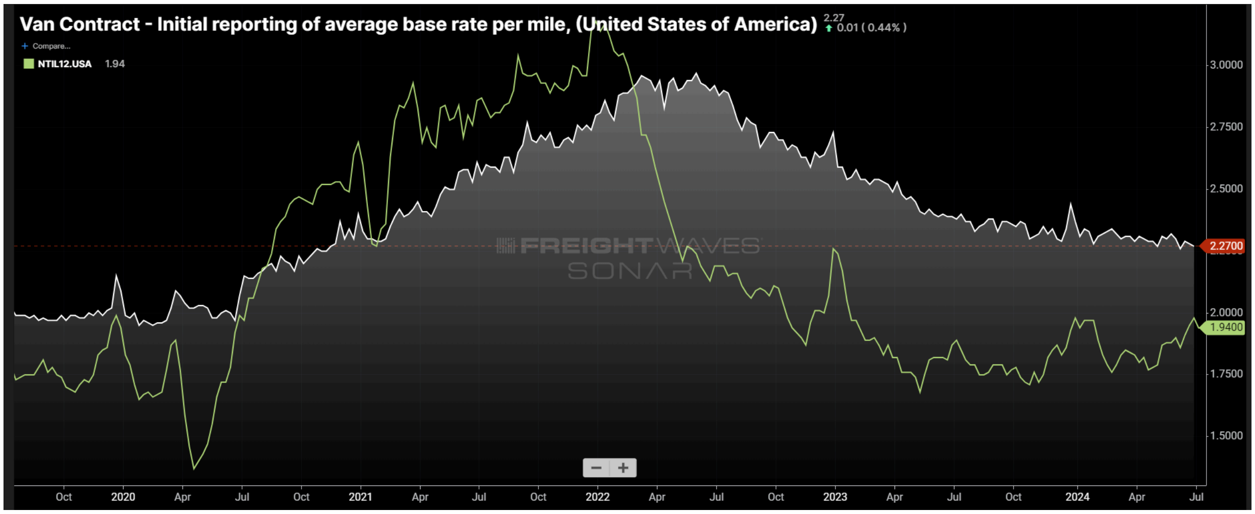
Reefer rejections and spot rates do paint a similar picture in the sense that the temperature-controlled market may have jumped too soon, before enough capacity left the space. Rates increased last fall and remained elevated long enough to put upward pressure on contract rates, possibly encouraging some operators to hold on longer. Rejection and spot rates fell near two-year lows in April before slowly crawling back.



A weaker California produce season has contributed to the reefer market softness. Spot rates for produce loads coming out of Southern and Northern California never surpassed 2023 levels. Abundant winter rains appear to have limited the yields for lettuce crops and therefore limited demand.



The LTL market appears to have passed through the Yellow exit phase, with the average base rate per CWT falling for the first time since April of last year. The LCWT1 index takes a running average of invoices of LTL shipments. It is noisy but can be used for identifying long-term trends. This index is still lagged in the sense that most LTL is handled under long-term pricing (contract) agreements. Prices will negotiate lower or higher before they show up in the invoiced data. It appears that the injection of disruption produced by the exit of the nation's third-largest provider is waning, with shippers regaining some leverage. LTL carriers may have missed the worst of the freight recession, however, as the trucking market may shift before prices see the strongest downward pressure.

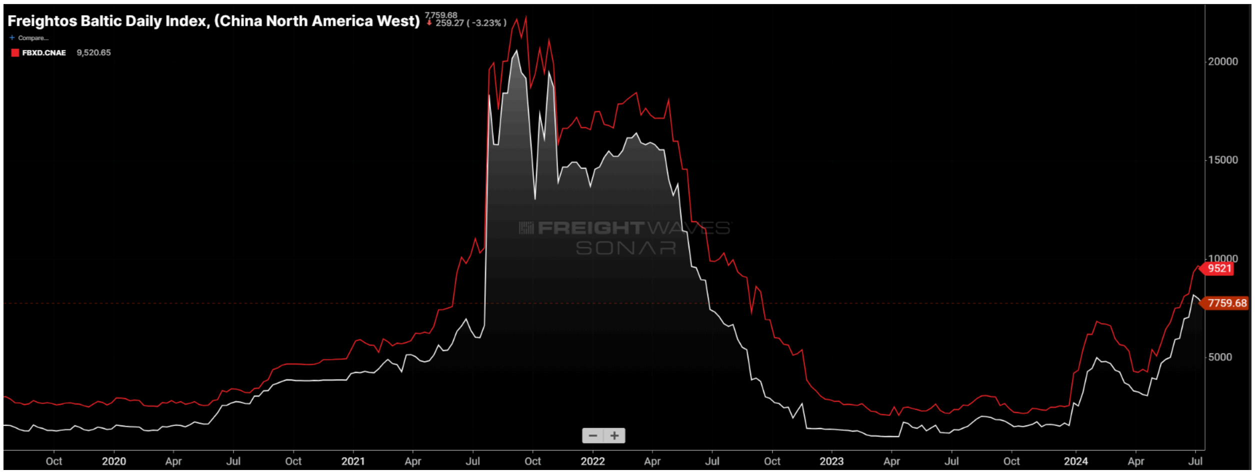


Contract rates for dry van freight continue to level while spot rates are trending higher, exclusive of seasonal pressure. The spread between the two is still historically wide, but it has shrunk to its smallest gap since 2022. There are already examples in which spot rates are jumping over contract. For Ontario to Denver, an example of an extreme headhaul lane where there is much more demand for capacity from origin to destination than the reverse trip, spot rates were 9% above the average contract rate by mid-July.

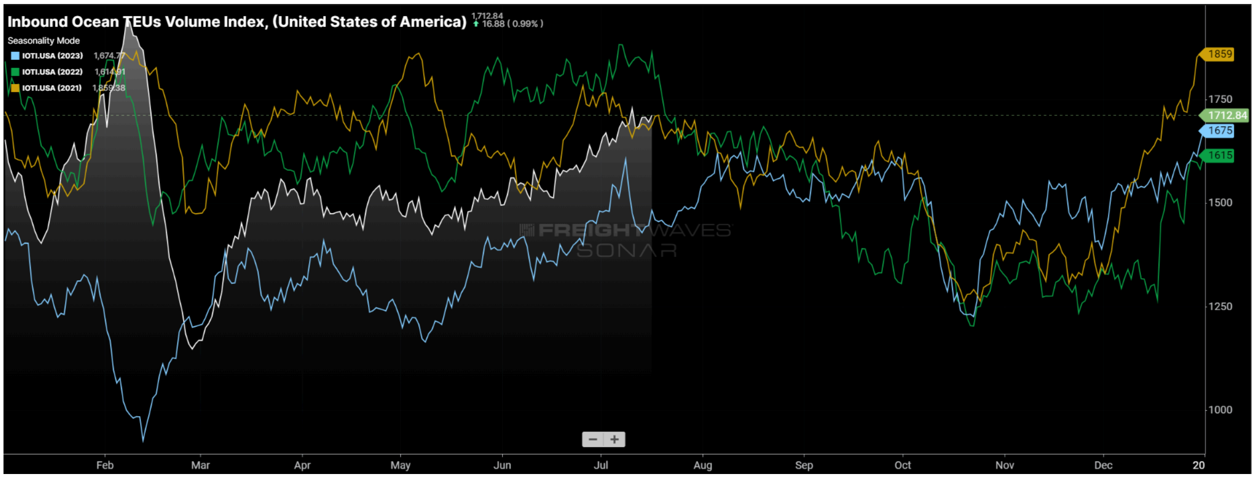
While this has occurred a few times briefly over the past year, the spot rate trend suggests this occurrence has much more sustainability, with rejection rates remaining above the national average. These are the types of lanes where shippers will see the earliest signs of a market shift with deteriorating service.

Maritime

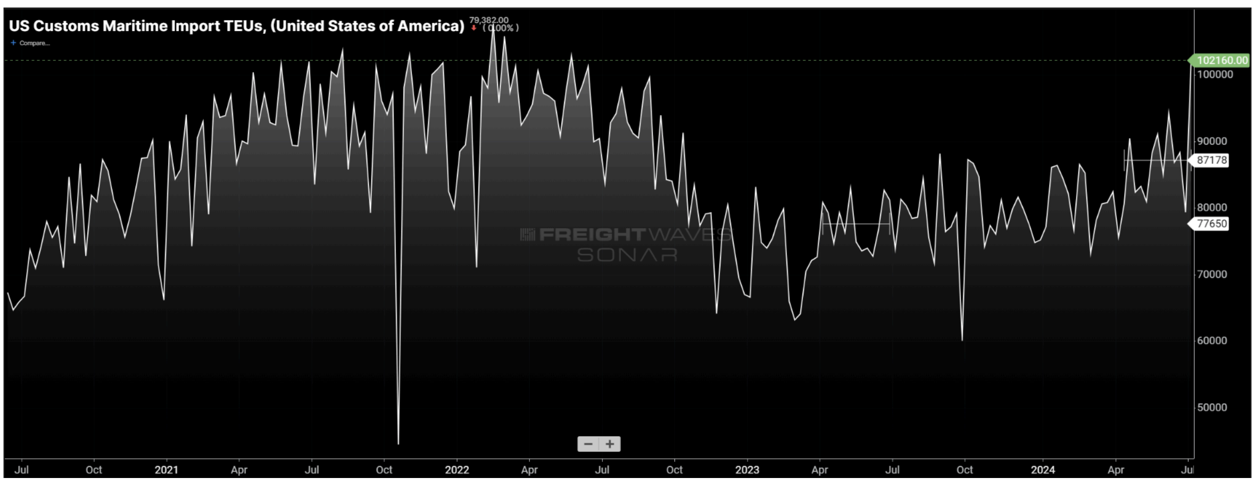
Ocean spot rates continue to surge in the transcontinental eastbound lanes and are at their approximate highest levels since mid-2022. The Freightos spot rate in the China to U.S. East Coast lane of about $9,500 per unit is at its highest since June 2022, and the spot rate in the China to U.S. West Coast lane of $7,760 is only slightly off its recent high. The cost to move containers on the ocean from Asia to the U.S. East Coast has risen faster than the cost to move containers from Asia to the U.S. West Coast. The resulting spread between the two has expanded to $1,761 per unit, up from just over $1,000 at this time last year. Rising ocean rates are being driven by numerous factors constraining capacity, including lingering impacts from the Red Sea attacks, delays at ports and a shortage of international ocean containers.



In addition, ocean demand for U.S. imports continues to be strong relative to last year. Ocean bookings, a forward-looking demand indicator, shows that booking volume has averaged 13.5% higher than last year's level since May 1. Whether that demand remains robust throughout the year remains an open question. Some industry participants believe the industry is experiencing a pull-forward of the fall peak season combined with a period of inventory restocking, while others expect another surge later in the year related to the potential imposition of additional tariffs in 2025.

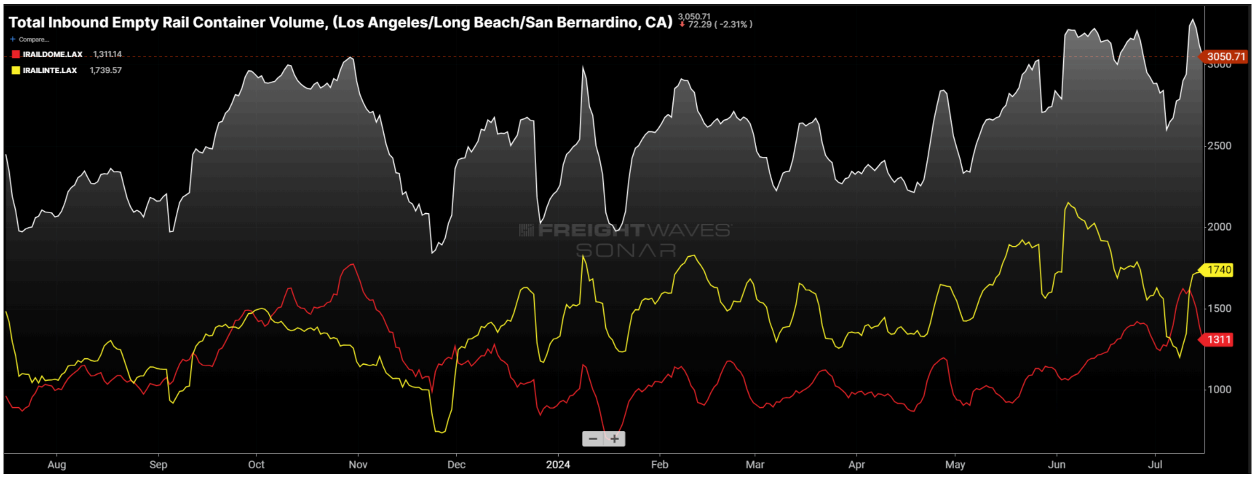


The volume of twenty-foot equivalent units clearing U.S. Customs has also been tracking above 2023 levels this year. In the second quarter, imported TEU volume increased 12.3% year over year. Second-quarter data shows that containerized imports at the Port of Long Beach, California, were up 27%, while imports at the adjacent Port of LA were up 3%. Taken together, the LA port complex was up 14.7% y/y in Q2. That gain in port market share is having a positive impact on rail intermodal volume.



The relative scarcity of ocean containers can be monitored in SONAR via the volume of empty intermodal containers being repositioned back to the west coast ports from inland points. The idea is that a greater portion of imported goods is being transloaded from international containers to domestic containers in order to get international containers back in headhaul ocean markets (e.g., China to the U.S.) quickly.

In recent weeks, total inbound LA empty container volume has been as high as 3,300 containers per day versus lows near 2,000 containers per day at this time last year. The volume of empty international containers heading back to the port started surging in May and early June followed by a pickup in empty domestic intermodal containers heading back to the port, which surged in late June and July.



Air

A disconnect is arising between actual demand for cross-border air cargo service through the first half of 2024 and forecasts for the full year, raising questions about whether the current surge will strengthen during the traditional busy season starting in mid-September or lose energy.

Although the e-commerce fervor powering the air cargo market shows no signs of cooling, that doesn't mean other market drivers won't. Many shippers are pulling forward fall orders to minimize the chance of late-arriving inventory associated with longer ocean transit times and port congestion due to detours around the dangerous Red Sea, and the threat of a dockworker strike at U.S. East Coast ports this fall. Global consumer demand is relatively lukewarm, so it's possible that pre-buying is cannibalizing future growth rather than suggesting elevated trade activity.

Also, absolute demand is not as strong as the numbers suggest. Growth this year is off a low base in the first half of 2023, when cargo volumes were down 10% from the same 2022 period because wholesalers and retailers were cautious about ordering as they drew down inventory. The market's recovery in last year's fourth quarter means growth gains will be harder to achieve in the final quarter, potentially resulting in slower y/y growth from today's elevated levels.

Nonetheless, tight capacity and steady price increases on main trade corridors are pressuring businesses to lock in transport deals for the upcoming peak shipping season.

Airfreight volumes in June increased 13% year over year while shipping supply only increased 3%. It was the seventh consecutive month of double-digit growth in the chargeable weight carried by airlines, underscoring the pronounced recovery from an 18-month downturn. Capacity utilization increased 4 points to 59%. Cargo volumes are continuing to hold up so far this month, rising 12% year over year.

With ocean prices climbing much faster than airfreight, the difference in cost between the modes is narrowing and making air cargo a more attractive transportation option for businesses. Analysis by Rotate, a data-driven air cargo consultancy based in the Netherlands, shows that airfreight rates are now only six times higher than ocean – the smallest gap since the third quarter of 2022 – compared to 12 to 15 times higher under normal conditions.

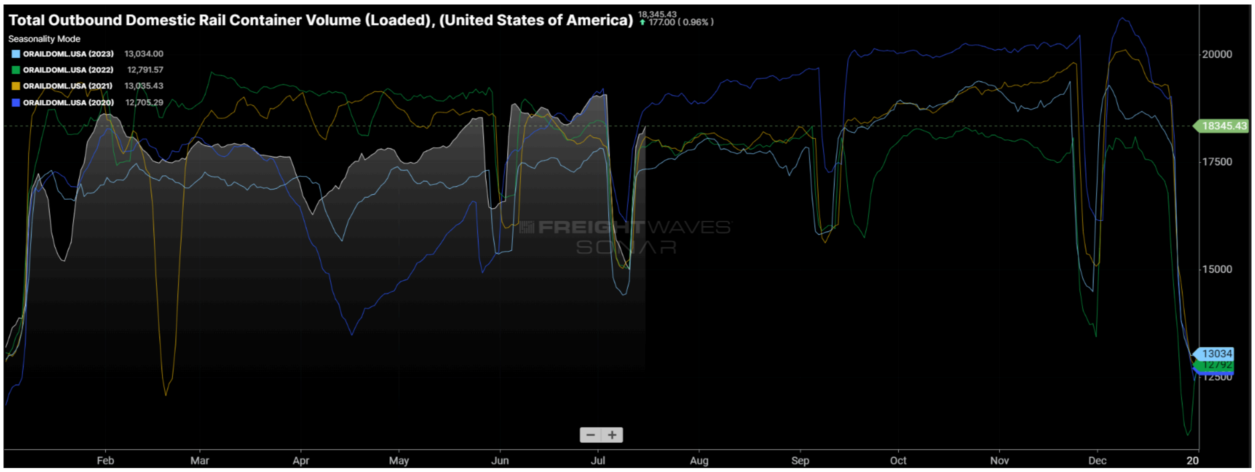
Average global airfreight rates for immediate shipping have significantly increased during the past two months. The cost of airfreight is 13% higher than it was a year ago, according to the TAC Index. Rates out of China are well above normal off-season levels at about $5.60 per kilogram to North America and $3.38 per kilogram to Europe, according to Freightos. The shipping cost from Middle East airports to Europe has increased 10% in the past week, perhaps an indication that worsening ocean disruptions could be pushing additional volumes to air.

Despite the surprising first-half resurgence of air cargo demand, the International Air Transport Association forecasts that full-year cargo revenues for airlines will decrease because an influx of lower-deck capacity associated with growth in passenger travel is outpacing volumes and putting downward pressure on yields.

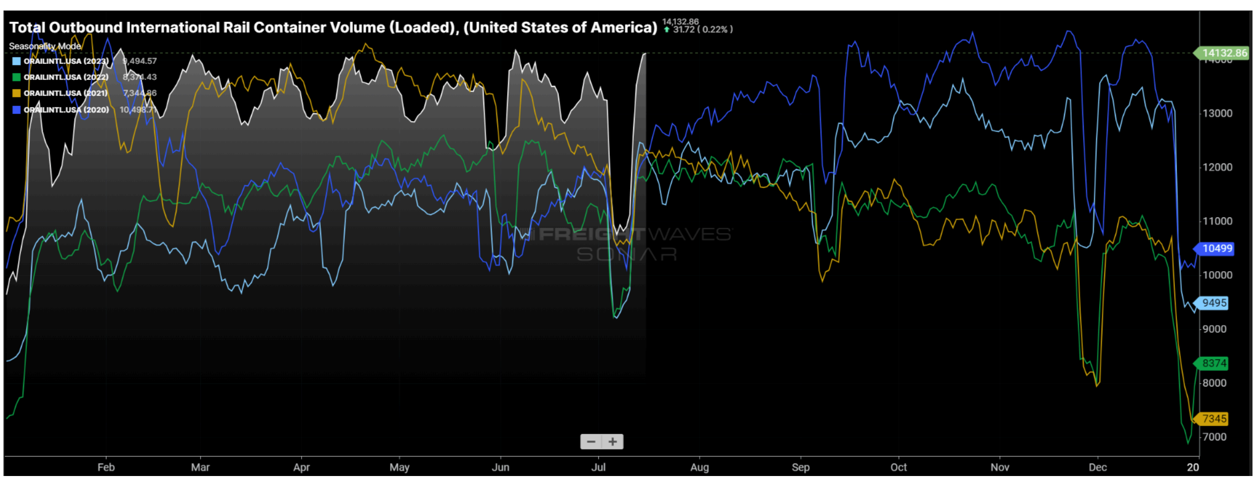
The airline group last month predicted airfreight traffic will increase 5% in 2024 (up from its prior estimate of 4.5%) while capacity will grow 8.6%. The supply-demand imbalance, which reflects a move back to pre-pandemic patterns, is expected to reduce average shipping prices by 17.5% from the prior year. The outlook essentially assumes there will be little, if any, growth in the second half of the year – a scenario that is difficult for some to envision under the current circumstances.

Intermodal/Rail

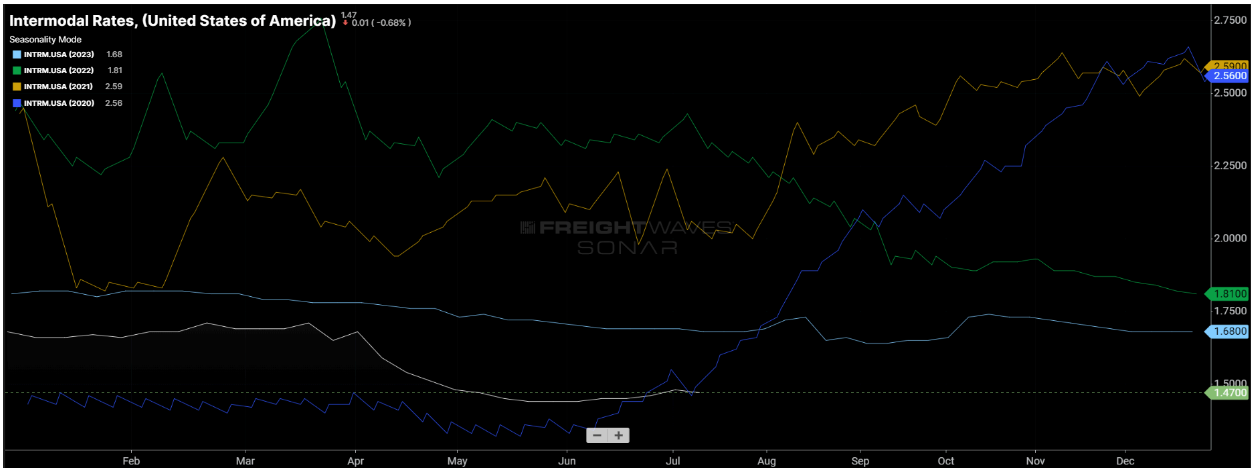
Domestic intermodal volume started to pick up steam midway through the second quarter, and that strength has continued through mid-July. For all of the second quarter, loaded containerized domestic intermodal volume increased 5% year over year, and it was up 6.7% y/y for the 40 days ending July 14. That was something of a departure from the first- and early second-quarter trend, when the bulk of intermodal volume growth was concentrated in the international segment and domestic intermodal volume increased only in the low single digits. Two things changed: (1) overall freight demand improved from the first quarter to the second, and (2) there was more transloading activity at the west coast ports as container ship lines worked to preserve international containers amid newfound scarcity.



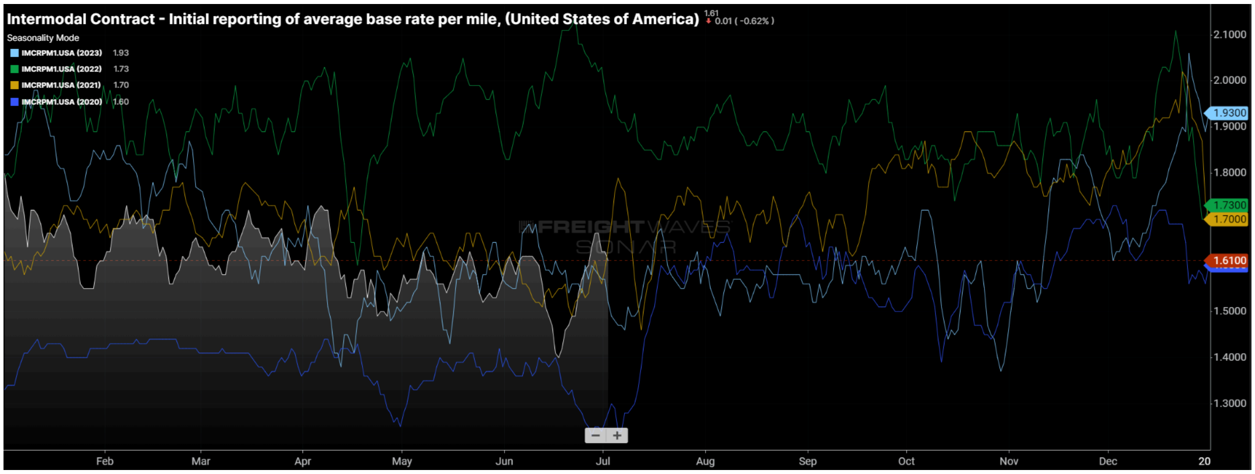
One might expect a falloff in loaded international intermodal volume (i.e., primarily 20- and 40-foot containers) if more imports were transloaded from international containers into domestic containers, but SONAR data doesn't show that in any meaningful way yet. Loaded international intermodal volume continues to track well above recent years' July volumes, up more than 15% y/y in the past week. In addition to continued strong import volume, which may be related to an early peak ocean shipping season, the west coast ports' gains in market share are also contributing to international intermodal volume.



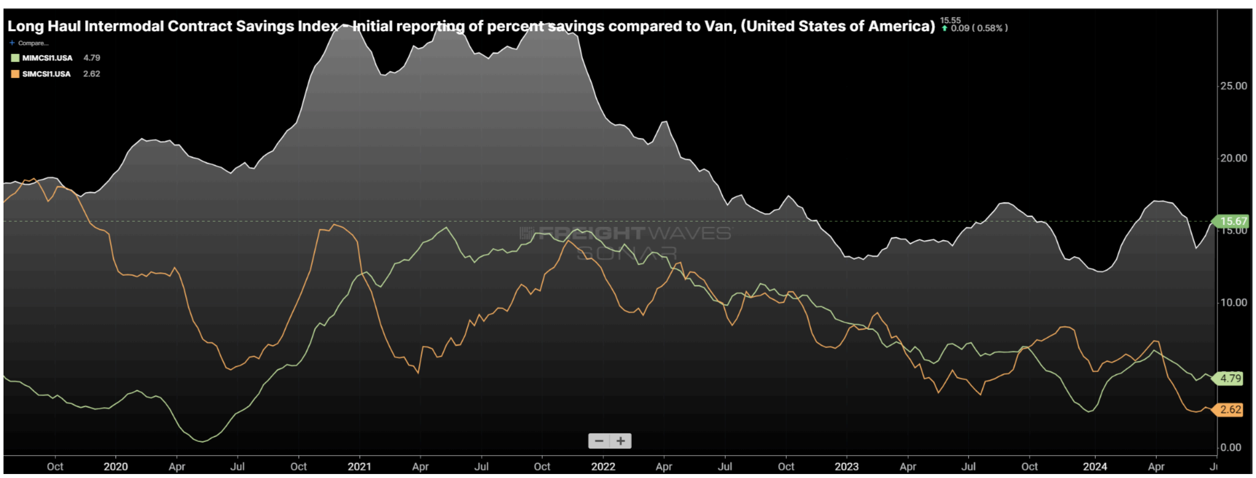
Despite strong intermodal volume, intermodal spot rates to move 53-foot containers door to door remain depressed with an average rate across 100 lanes of $1.47 per mile, including fuel. Intermodal spot rates can be thought of as quotes since a limited volume of containers moves on the spot market. Nevertheless, the still-low intermodal rates in the lane suggest that sufficient intermodal capacity exists. As a result, carriers are not yet concerned with having enough containers or other resources to serve the demand of their contractual customers. Recall that during its first-quarter earnings call, J.B. Hunt management said that it could handle at least 20% more intermodal volume given available resources. SONAR shows that industrywide domestic intermodal volume, at its pre-Fourth of July holiday peak, was just under 10% above where it was at the time that J.B. Hunt's management made that comment in mid-April.



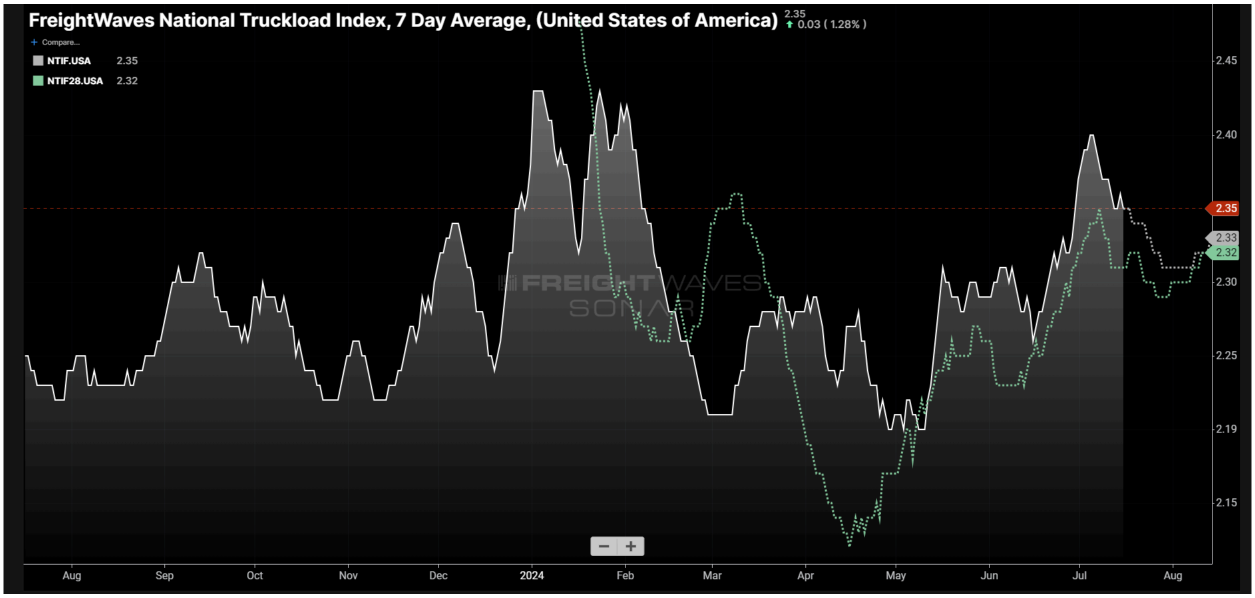
The past two intermodal bid cycles have resulted in contractual rates decreases, on average. Now, intermodal contractual rates, in aggregate, appear to be roughly in line with 2021 levels and are no longer showing steep year-over-year decreases as rates lap mid-2023 softness. Intermodal carriers often talk about volume as being a leading indicator for pricing, and that may be true going forward, particularly for bids conducted early next year, particularly if this year's fall peak season is a strong one.



The relative savings that shippers can achieve by using rail intermodal instead of truckload varies widely by length of haul. The SONAR Intermodal Savings indexes compare rates on loads with identical five-digit ZIP code origins and destinations that were processed the same week. In the analysis, fuel surcharges are included for both modes. It shows that savings is an adequate 15.7% on hauls exceeding 1,200 miles while savings is less than 5%, on average, for short and medium lengths of haul. That has led some shippers away from using rail intermodal and suggests that intermodal volume could rise further if the truckload market tightens, which would increase international's relative attractiveness.



Outlook



The rest of July will probably follow the seasonal pattern of slow reduction of demand and some easing of capacity. The FreightWaves spot rate forecast (NTIF) has been missing to the low end since April but has been relatively accurate directionally. Daily estimates are revising higher and show rates getting another injection of upward pressure in August. There does not appear to be any slowing of imports that have been feeding the freight market for the past few months, and the economy is still not slowing significantly, making this forecast very feasible. Labor Day was the tightest holiday period during the pandemic era, thanks in large part to a strong maritime market. The market is trending towards being tighter, and with the added pressure from imports, everyone should be ready for the most challenging sourcing environment since early 2022.