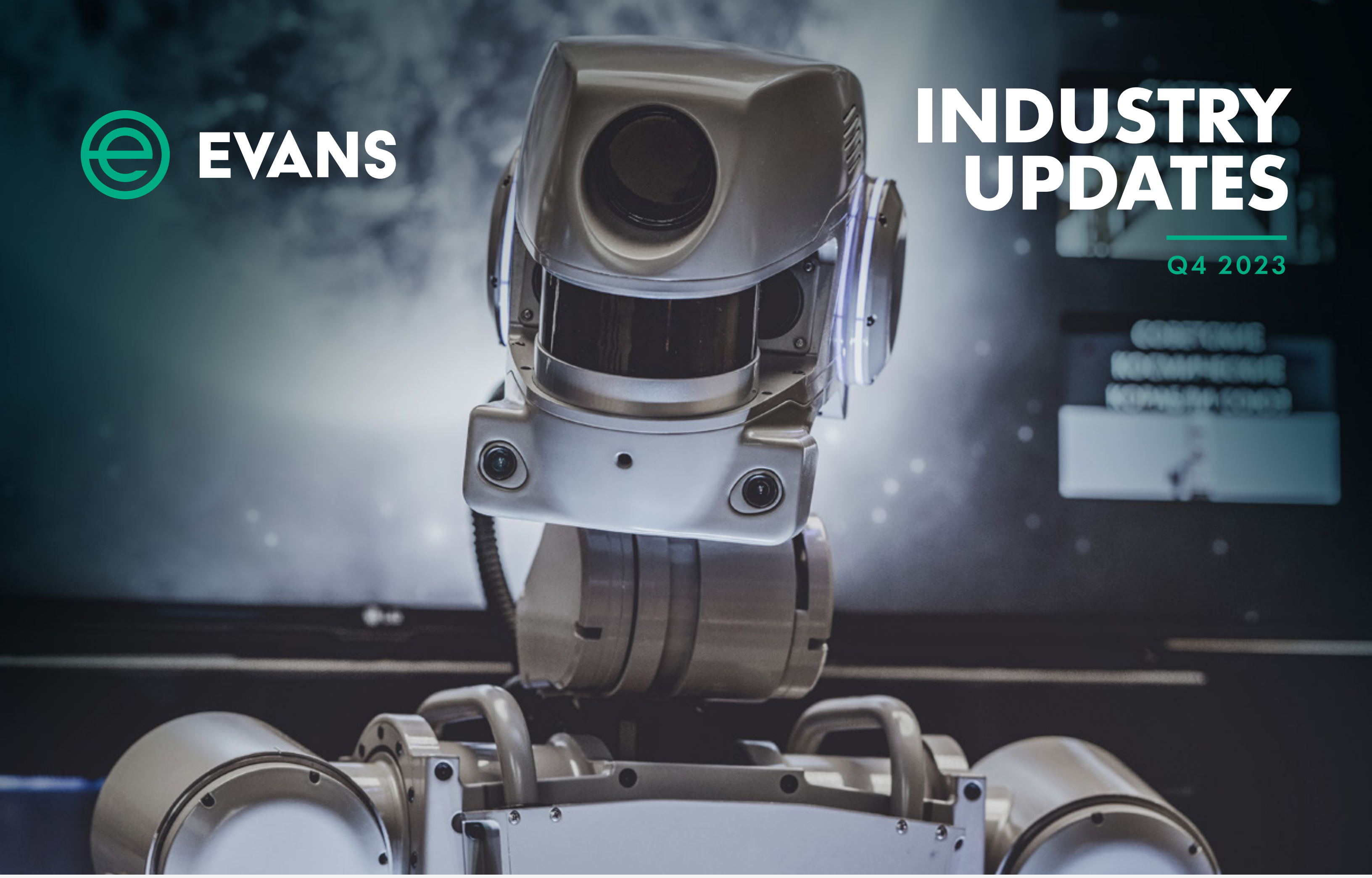
EVANS

INDUSTRY UPDATES

Q4 2023



THE FUTURE IS NOW

In the blockbuster movie series Terminator, the "beginning of the end" was an AI technology called Skynet. There are many concerning similarities between Skynet and the growing AI technologies of this year—be it ChatGPT or a decreased timeline for Artificial General Intelligence (AGI). The concern that AI and other technologies will take away jobs is not a novel consideration.

The invention of the steam engine, the car, the production line, and the computer all caused similar fears. The world has always found a way to create new jobs and careers to fill the void. One critical component that is true for the future of humanity is relationships are crucial. As much as companies try to streamline their processes and services via technology, we will always need relationships.

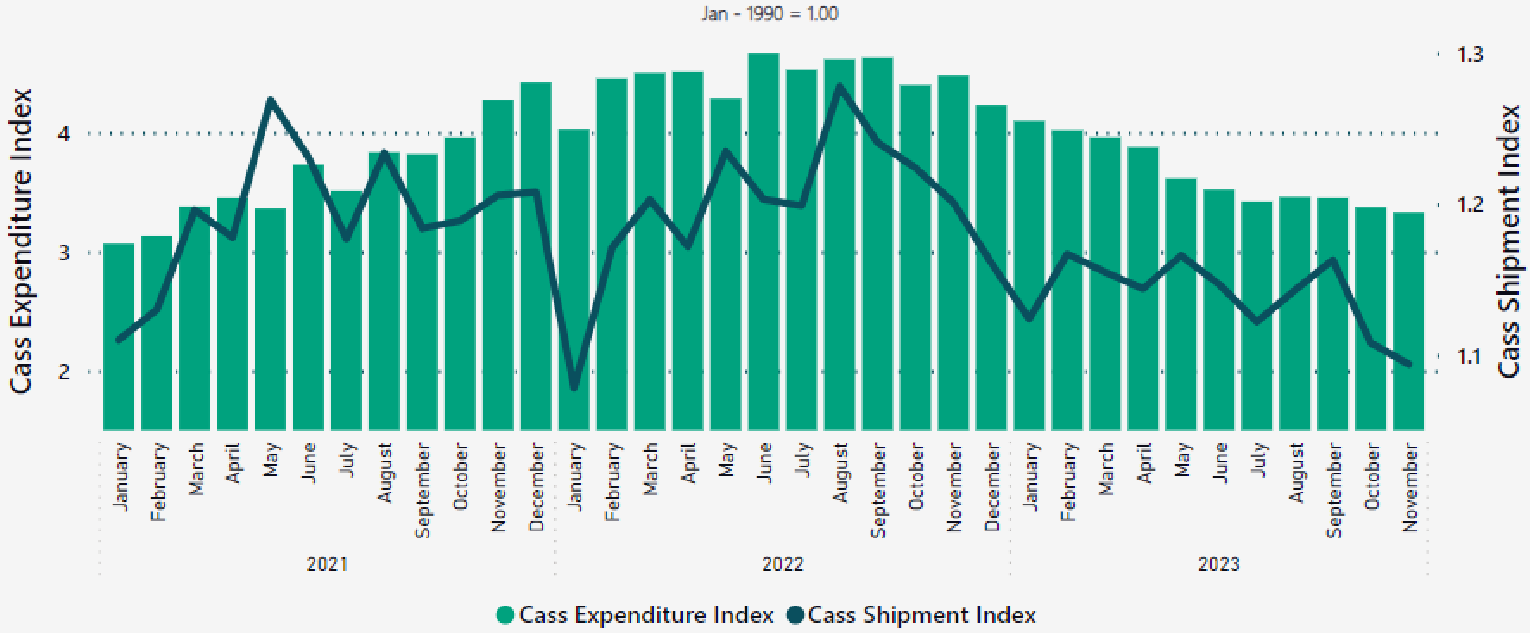
Strong relationships are at the core of who Evans is as a company. We strive to be our customers' first call when presented with a challenge and when great news comes. We see our continued customer education focus as an extension of our relationships. To start getting our latest weekly education highlights, click here to subscribe.

TRUCKLOAD

Plenty of transportation providers wish AI would let them know when the market will change in their favor. Unfortunately, AI technology is not a crystal ball. There are many unknowns that impact the supply and demand of transportation. Weather, strikes, and pandemics are just a few recent unknowns we have experienced in the past five years.

During the final quarter of 2023, the industry saw a lackluster peak season. Retailers were still pushing to get excess inventory off their shelves, while many consumers held back from purchasing big-ticket items such as electronics and jewelry. Another major curveball that started in the third quarter and into the final quarter was the UAW strikes that impacted the "Big Three" car companies and their suppliers. The Cass data shows the shipment count falling in October and again in November. November had the lowest volumes since January of 2022.

CASS EXPENDITURE INDEX VS SHIPMENT INDEX



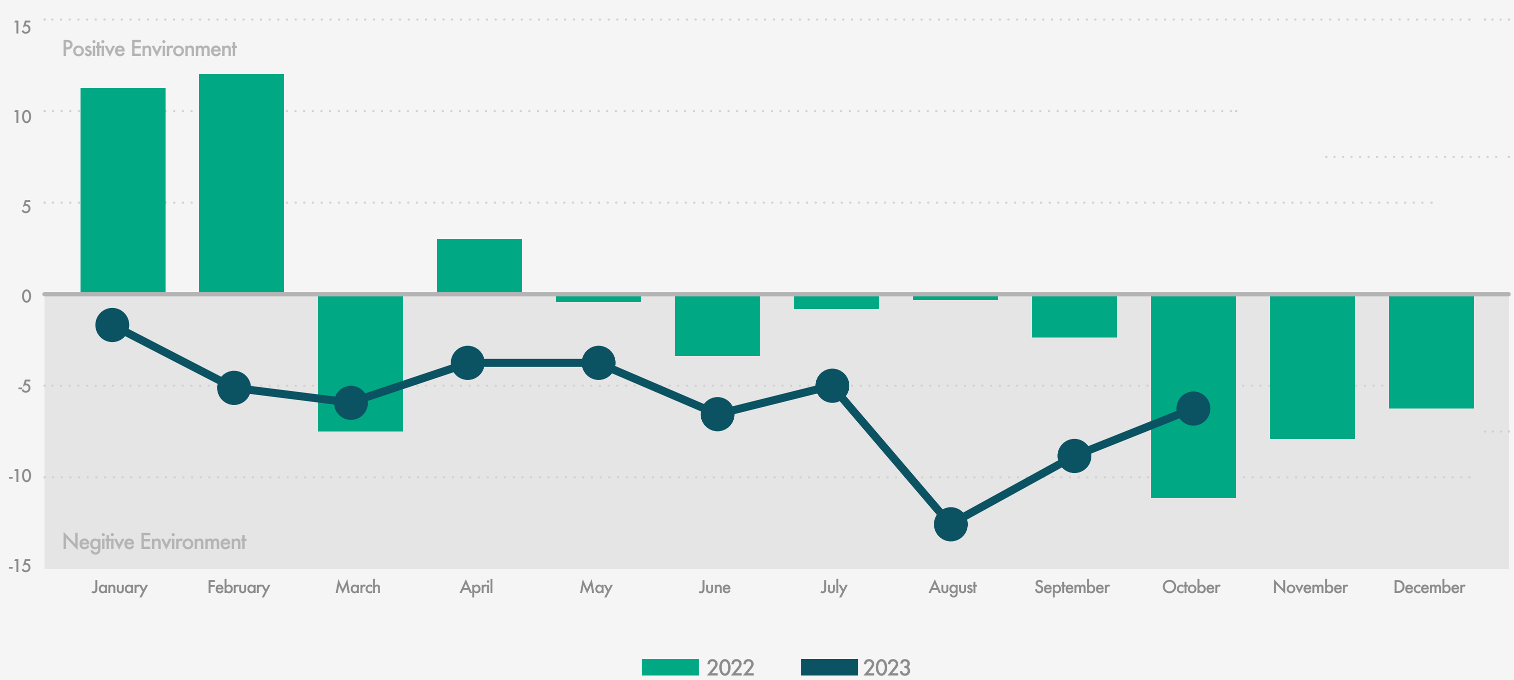
Source: Cass

There is plenty of concern in the transportation community that it cannot continue operating if the market continues to fall. Many carriers are operating at break-even or even losing money. There are signs that the supply and demand have hit bottom. The question is how long the transportation market will remain in the current valley. In a recent conference, American Trucking Association Chief Economist Bob Costell advised that the next market shift will occur due to supply not demand. Many expected supply to exit at a higher pace, but due to lower fuel costs, built-up capital during the pandemic, and the average size of the new entrants, the carriers leaving have not impacted the demand enough to move the needle.

There are signs that the cyclical nature of the fight between capacity and freight demand is shifting.

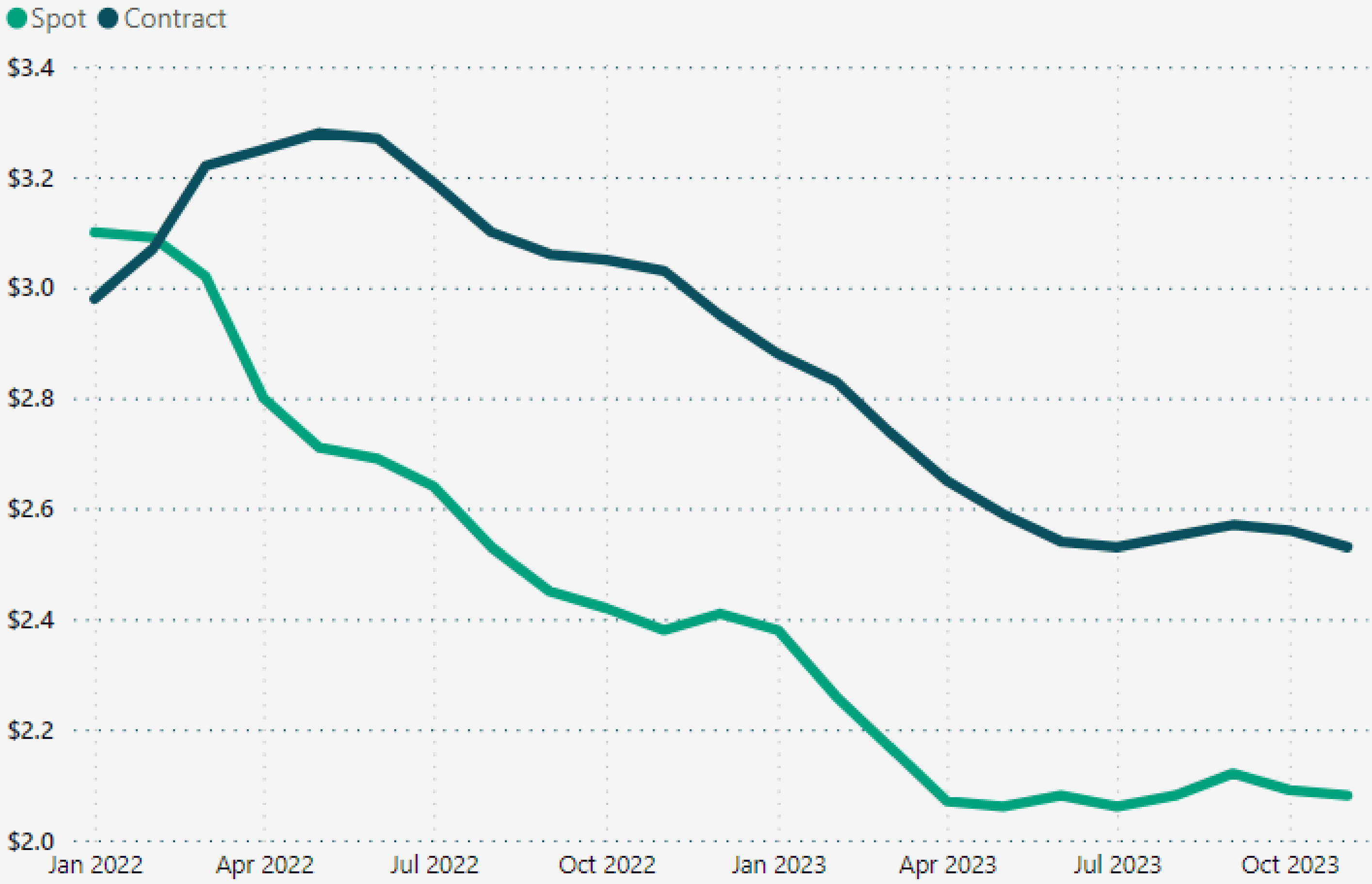
According to ACT Research, the Capacity Index increased by 2.1 points to 47.5. It is still below the 50 mark, which indicates that growing capacity is contracting but at a slower rate. This is also apparent in the Bureau of Labor Statistics's November report. Plenty of industry segments are adding to their headcount, but transportation and warehousing is not one of them. November saw a decline of 5,000 jobs. The overall pool is down 30,000 jobs from its peak in May. The imbalance is not to the point where it impacts the demand, but it is trending in that direction. The shift is also noticeable in the FTR Trucking Conditions Index. It is still in negative territory, but the gap is closing. This index gauges how much pressure there is in the transportation environment. Above zero the market favors the carrier while anything below offers more leverage to the shipper.

FTR TRUCKING CONDITIONS INDEX



Source: FTR

DAT DRY VAN AVERAGE CPM



Source: DAT

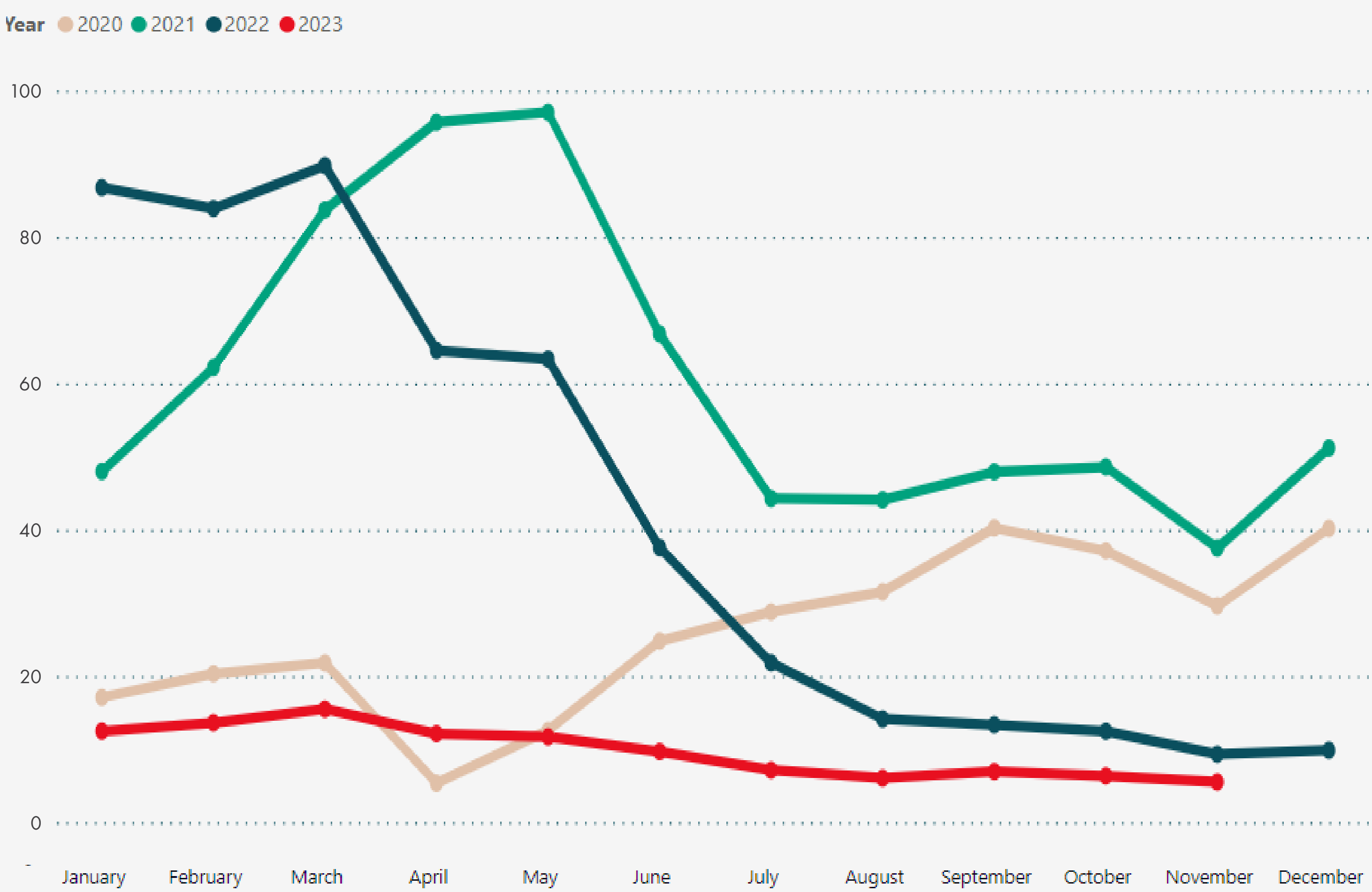
When the shift starts, the gap between the spot and contract market cost per mile will begin to close. The dry van gap between the two has held steady at around 45¢ per mile for the past six months. When the gap starts to close, it will be one of the early signals to the market. With RFP season in full swing, many carriers seek volume to keep their trucks moving. Many of the new rates go live at the start of the year, which could be the first push for the average cost per mile for contractual rates to fall closer to the spot rates. This will be fine for the first few months of the year when freight demand is typically low.

The flatbed and reefer markets have a similar story. Both have load-to-truck ratios at low points not seen since early 2020. For flatbeds, the housing market and Infrastructure Bill have not bolstered the demand as many hoped. It is deep into the heart of winter, and the hopes of a demand shift will not come until the spring construction season starts.

Significant change could come as new carriers are added to routing guides, and shippers have fewer carriers in their network due to the cleansing of suppliers. Once seasonality picks up in late quarter one and early quarter two, we could see an increase in route guide failure. This will be the inflection point that moves the market back in favor of the capacity side. Many analysts agree that the flip will take place sometime around the mid-year mark.

With a potential shift in the supply and demand for capacity, have you leveraged your resources to ensure you are buying according to the market? If you are unsure where you are currently buying and want to take advantage while the market is in your favor, the Evans capacity team is here to help. The team can analyze your data and show you where it can add support for better pricing. Do not wait for the final hour of the shift and miss your opportunity.

DAT FLATBED LOAD TO TRUCK RATIO



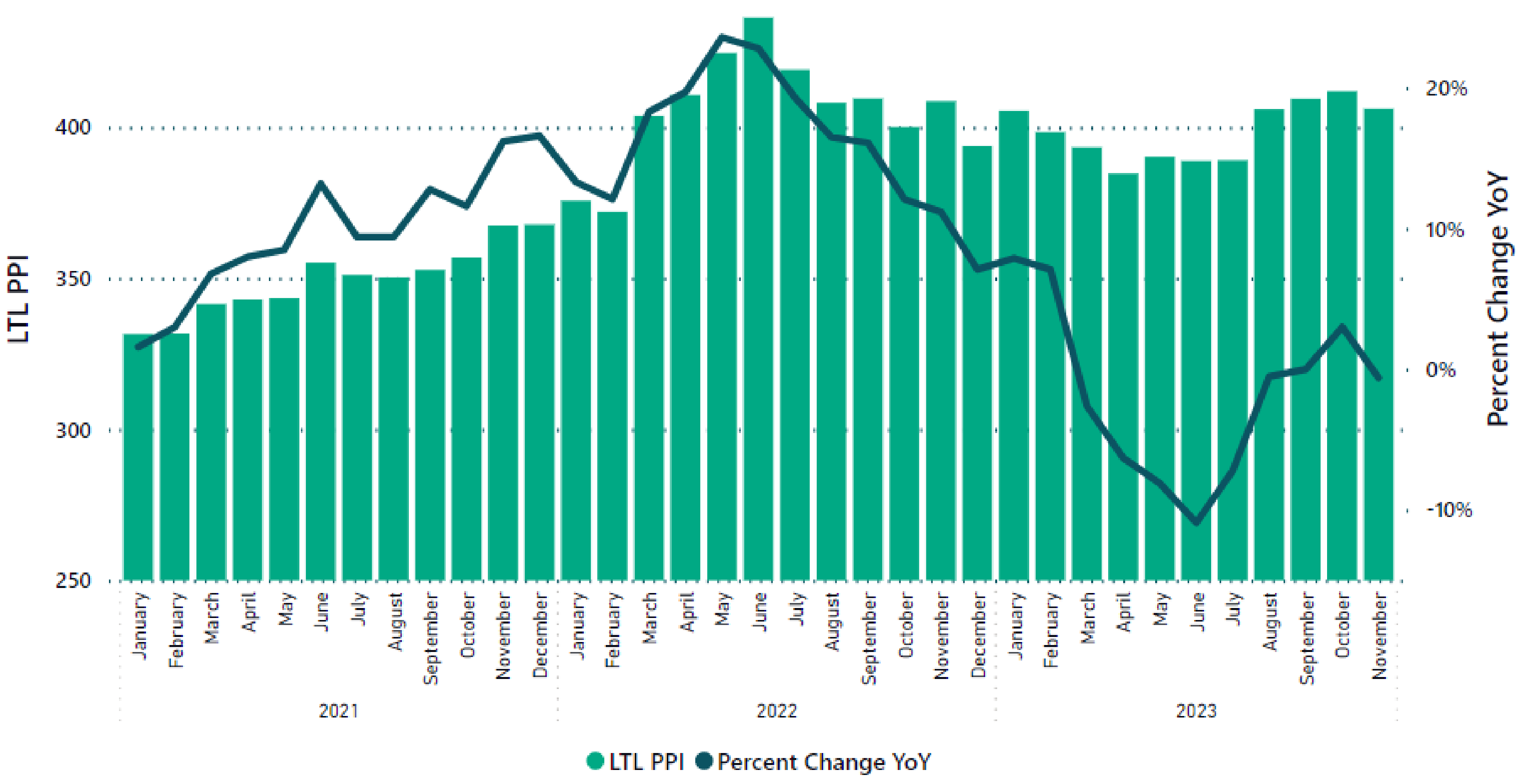
Source: DAT

LESS THAN TRUCKLOAD

In early 2023, if you were to leverage technology to predict the LTL forecast for the year, the current state would not have been its forecast. This year has shown that truckload and LTL are over-the-road solutions for shippers, but the markets do not always react the same. Truckload has been in the shipper's favor this year, while LTL carriers still have most of the power.

The LTL Producer Pricing Index indicates the average price for LTL. The average price started falling in mid 2022, and it hit a valley earlier this year. With LTL capacity opening this year, potential rate reductions were on the horizon; however, in July the news of Yellow bankruptcy sent shockwaves through the LTL sector.

LTL PPI COMPARED TO PERCENT CHANGE YOY

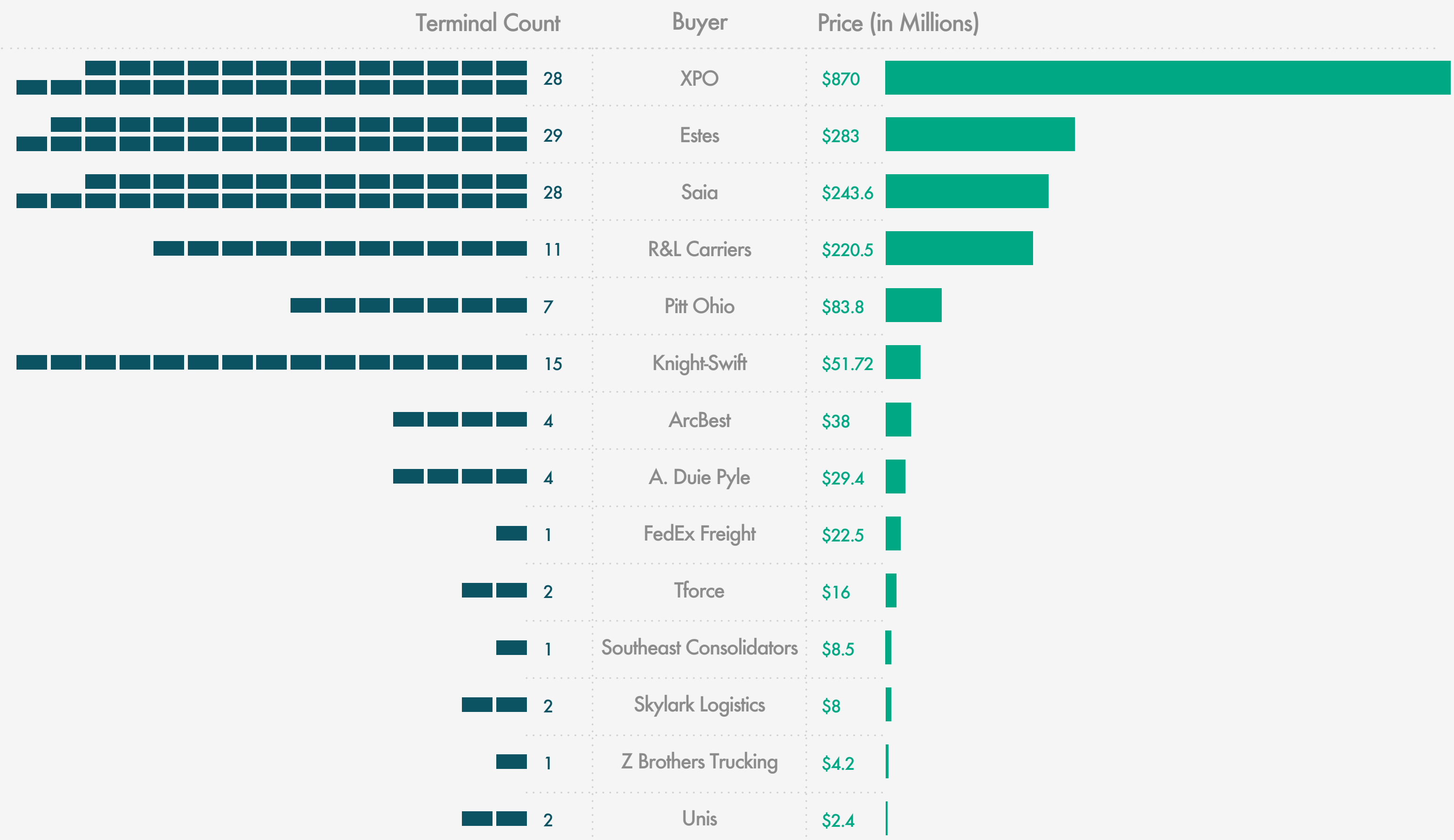


Source: US Bureau of Labor Statistics

Not only was the bankruptcy the largest for any carrier, but Yellow was the third largest LTL carrier, hauling an average of 40,000 daily shipments. That volume had to be dispersed throughout the rest of the LTL carriers. This will leave lasting marks since the top ten LTL carriers comprise at least 75% of the marketplace. The impact was immediate, with LTL PPI figures jumping in August.

Yellow's total debt is $2.59 billion, with the original asset evaluation of $2.15 billion. There are hopes that by auctioning the terminals and assets, they can pay off all their debt and more. So far, it looks like they are correct. The first round of terminal auction sold 130 for $1.9 billion, with XPO leading the pack spending $870 million. Estes acquired the most in the second round, paying $35.35 million of the total $82.89 million sold. There are currently 118 leased and 46 owned locations up for bid. So far, the tractors and trailers have not been auctioned. The courts have approved the auction houses for the process, and the impact is not evident yet. Many locations will rehouse existing terminals, while some will be new markets for the winning bidders.

FIRST ROUND YELLOW AUCTION SALES



Source: Bankruptcy Court Filing

CARRIER	GRI	START
SAIA	7.5%	DEC 4
FEDEX FREIGHT	5.9 - 6.9%	JAN 1
ABF	5.9%	OCT 2
FORWARD AIR	5.9%	FEB 5
TFORCE	4.9%	OCT 2
OLD DOMINION	4.9%	DEC 4

Source: Business Releases

To date, the remaining carriers have been able to take on the additional volumes of Yellow. It took several months for the carriers to balance their network, but at this point most have been able to make the necessary changes. Some even have additional capacity in specific markets. Despite the current balance, many carriers announced general rate increases (GRI) for 2024. Some released earlier than normal to battle the need for capital due to excess strain on their networks. GRIs thus far have been between 4.9% and 7.5% for next year.

With the realignment and once-in-a-lifetime land grab of Yellow assets, 2024 is a pivotal moment for many LTL carriers. This is when LTL carriers can grow and increase their service offerings. It could also cause other carriers to grow in an unhealthy manner and get over-leveraged. Mastio holds an annual survey ranking carriers in value and loyalty. Averitt Express held the number one spot while Old Dominion held the top spot for national carriers. With the major opportunity given to carriers, this list could be significantly different over the next two years.

If you look at the top ten list from Mastio, it is clear that having regional LTL carriers in your network can significantly improve your LTL experience. Work with the Evans LTL team to understand the correct balance between national, regional, and micro-regional carriers. Not only can it bring significant savings to the table, but it can also improve your overall service.

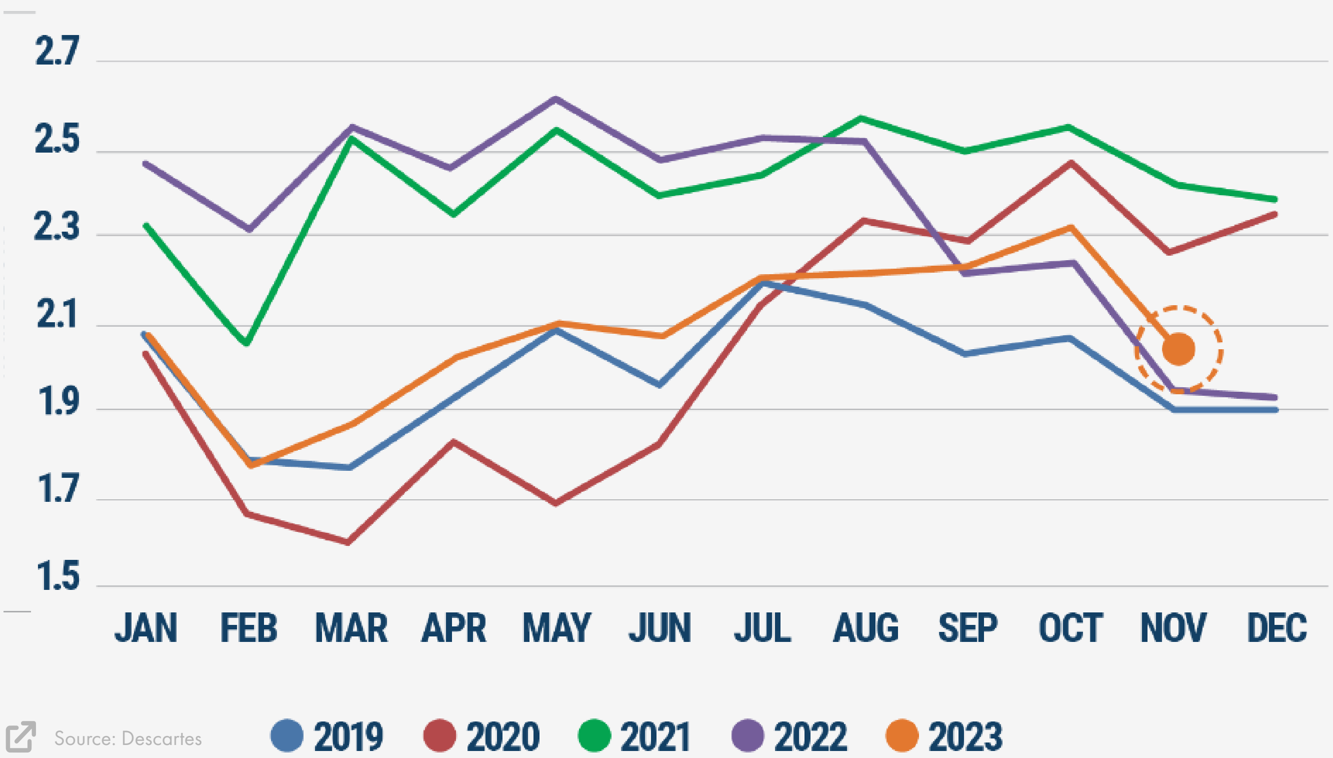
RANK	CARRIER
1	AVERITT EXPRESS
2	DAYLIGHT TRNASPORT
3	OLD DOMINION
4	PENINSULA
5	SOUTHEASTERN FREIGHT LINES
6	DAYTON FREIGHT LINES
7	A. DUIE PYLE
8	PITT OHIO
9	NORTH PARK TRANSPORTATION
10	ESTES

Source: Mastio

INTERNATIONAL

For much of 2023, international shipping has remained calm. During the height of the pandemic, container rates were well over $20,000. Asia to the West Coast container rates have been below $2,000 for most of the year. With the record number of new ships entering international waters this year and next, a market flip did not seem possible for container freight. The number of new ships this year and next is expected to be 2.6 times above an average year; however, in the final hours of 2023, change is occurring.

2019-2023 CONTAINER IMPORT VOLUME (TEU)

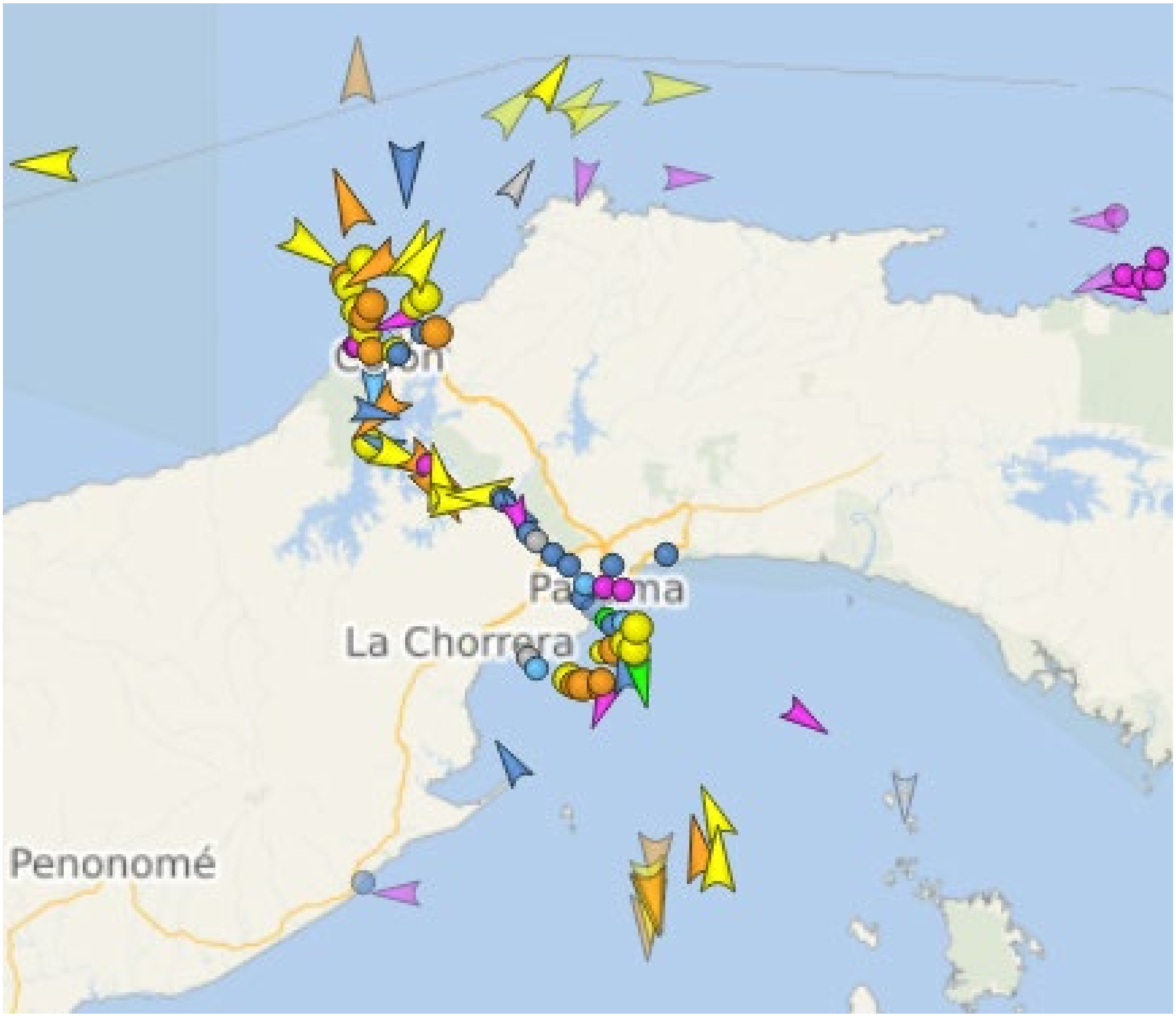


Source: Descartes

A sleeper this year has been the overall import volume to the US. Typical seasonality spikes come in August when retailers are gearing up for the holiday season. Many thought there would be no seasonality when the numbers for August and September were flat. The overall volumes increased by 4.7% in October but fell 9% in November. The muted holiday season many projected was pulled horizontally with a delay in the spike. Retailers were holding firm to monitor their selling of excess inventory and waiting for the final holiday push. The overall volumes have returned to pre-COVID levels.

Another shift that has started to take place in recent months is the shift from the East Coast to the West Coast. The West Coast has historically dominated most container volumes from overseas. However, during the pandemic and pressures of contract negotiations between the unions and the ports, ships started to divert to the East and Gulf ports. The networks were realigned to service the adjusting volumes.

The shift would stay even with a signed contract agreement between the unions and the ports. There was some adjustment but not much. The unforeseen event that would change the course would be a drought in Central America. The Panama Canal plays a pivotal role in ships being able to unload on the other side of the US. A significant drought, however, has hit Panama making it harder for ships to pass because there is insufficient water to operate the channel at full capacity. A typical day for vessels passing through the Panama Canal was around 36 vessels. Currently, about 24 ships a day can pass, with a projection of 20 or fewer in January. To make matters worse, the area is just now entering its dry season. The congestion is getting so bad that one ship paid a record $4 million to make it to the front of the line.



Source: Marine Vessel Traffic

The Panama Canal is not the only canal causing major challenges at the end of the year. The Suez Canal has become a significant point of contention for many shipping lines and nations. The Red Sea and the Suez Canal are major lanes connecting Europe and the rest of the world. With growing tensions between Israel and Hamas, the Iranian-backed Houthis have their sights on commercial shipping vessels. There have been over 100 attacks on different commercial ships. The growing risk has caused many shipping companies like Maersk and Hapag-Lloyd to halt any vessel from crossing. The result is ships crossing via the Cape of Good Hope in southern Africa. This has caused a 25% increase in transit days and container rates as high as $10,000 a container.

So far, we have not seen a major impact on the overall cost of international containers. However, if this pressure continues to be maintained at a minimum, we could see a trickle-down effect on US imports. Those delays and increased costs will go to manufacturing and domestic transportation.

PARCEL

Not to be left out, parcel has seen plenty of challenges this year. Volumes have been rough as retail struggled in the post-pandemic environment. Excess inventory and consumers' behavioral changes to services caused revenue to fall in 2023. Despite the loose nature of parcel this year, there have been noteworthy disturbances.

Spilling over from the third quarter, the UPS strike was averted in late August. The UPS unions signed a five-year deal that impacted over 340,000 employees. In 2023, employees saw a $2.50/hour raise and a $7.50/hour raise by the end of the contract. UPS drivers would make $170,000 annually in salary and benefits.

FedEx saw an increase in packages by 1.5 million a day due to the potential UPS strike. While the shift was short-lived, FedEx claims they have retained 400,000 daily additional packages from UPS. This is evident in each company's latest quarterly earnings. UPS's third-quarter earnings saw an 11% dip in revenue from 2022 Q3 and a 50% drop in operating profits. Their reported volumes were the lowest quarter since pre-2021 both domestically and internationally.

FedEx's fiscal calendar is a bit different. Their second quarter is September through November. FedEx had increased volumes for both Ground and Express compared to the previous quarter due to peak volume, but Express was down compared to last year. FedEx did far better than UPS, but they were still about a percent below target for the quarter. With more volume falling back to UPS, it could be a tough start to the new year.

Not only did UPS lose a footing to FedEx, but both companies also fell short of being the leader in US home delivery parcel volume. Amazon passed FedEx in volume in 2020 and surpassed UPS last year. Amazon used to be both companies' top customer, and now they are trailing the retail giant. Amazon is projected to deliver 5.9 billion packages this year, and UPS will fall short of its volume of 5.3 billion last year. With more growth on the horizon, Amazon could continue to take market share

Even though signs reflect more challenging times ahead, both carriers presented customers with a general rate increase (GRI) of 5.9%. It is one percent below the GRI last year but still high compared to pre-pandemic levels.

A GRI is what is as its name suggests—general. Just because it shows a 5.9% adjustment, accessorial charges, zones, and additional fees can push actual increases well into the double digits.

All hope is not lost when it comes to increases for next year. Due to low volumes, both UPS and FedEx are offering historic discounts. Both have high goals to grow volumes through aggressive discounts and pricing adjustments. If you have not leveraged a partner to evaluate your current parcel, now is the time to work with Evans Parcel Solutions. Contact your primary contact to learn what is needed for a free assessment.

	Air		Ground	
YEAR	UPS	FedEx	UPS	FedEx
2010	6.9%	5.9%	4.9%	4.9%
2011	6.9%	5.9%	5.9%	5.9%
2012	6.9%	5.9%	5.9%	5.9%
2013	6.5%	5.9%	5.9%	5.9%
2014	4.9%	3.0%	4.9%	4.9%
2015	4.9%	4.9%	4.9%	4.9%
2016	5.2%	4.9%	4.9%	4.9%
2017	4.9%	3.9%	4.9%	4.9%
2018	4.9%	4.9%	4.9%	4.9%
2019	4.9%	4.9%	4.9%	4.9%
2020	4.9%	4.9%	4.9%	4.9%
2021	4.9%	4.9%	4.9%	4.9%
2022	5.9%	5.9%	5.9%	5.9%
2023	6.9%	6.9%	6.9%	6.9%
2024	5.9%	5.9%	5.9%	5.9%

Source: Business Releases

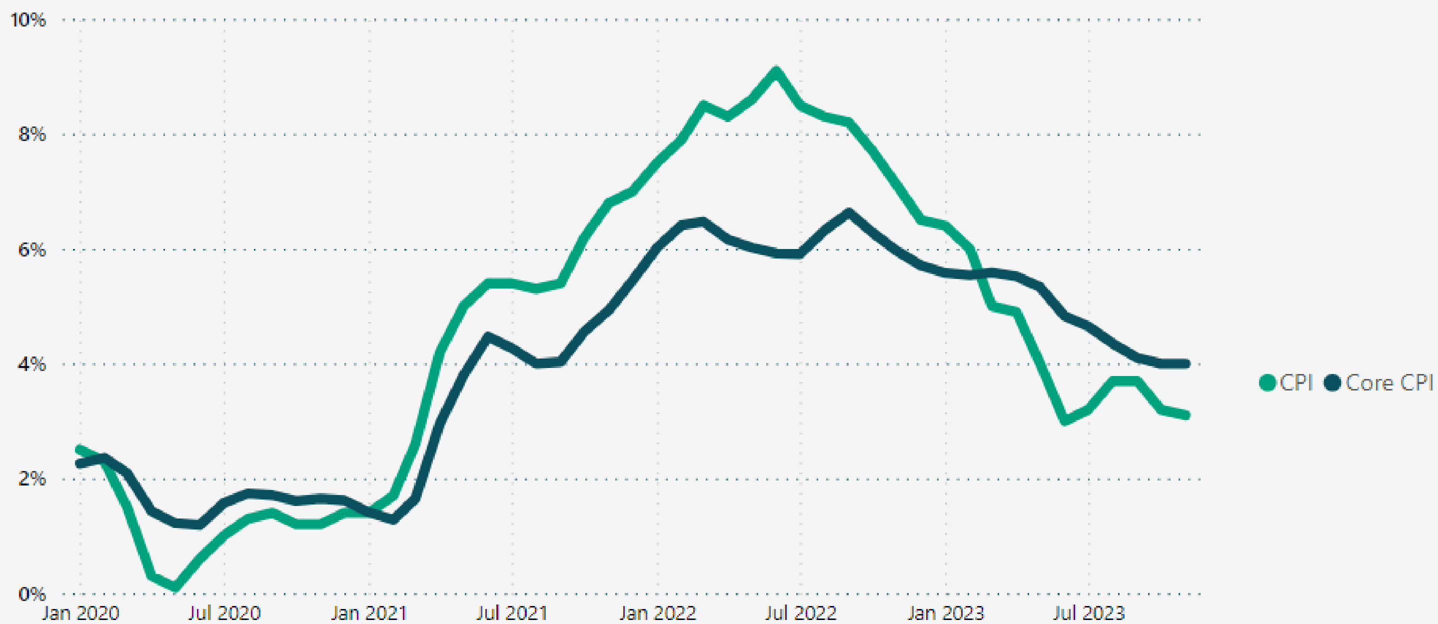
INDUSTRY TRENDS AND PRESSURES

Whether you use the latest and greatest technology or rely on strong relationships, the industry's trends and pressures will impact your operations. Some challenges are noticeable before they happen, while others will sneak up without warning. One of the focal pressures affecting not just transportation but all industries is the overall economic health of the US.

The recession concern has been in the news for over a year. Some analysts think we are in for a significant recession in 2024, while others believe it has been avoided. Going back to March of 2022, the Fed raised interest rates 11 times, the highest rate since the early 1980s. In November, Federal Reserve Chair Jerome Powell announced they would shift away from raising interest rates to lowering them. The first potential adjustment could take place as early as March. At present, Powell thinks there will be three rate cuts in 2024.

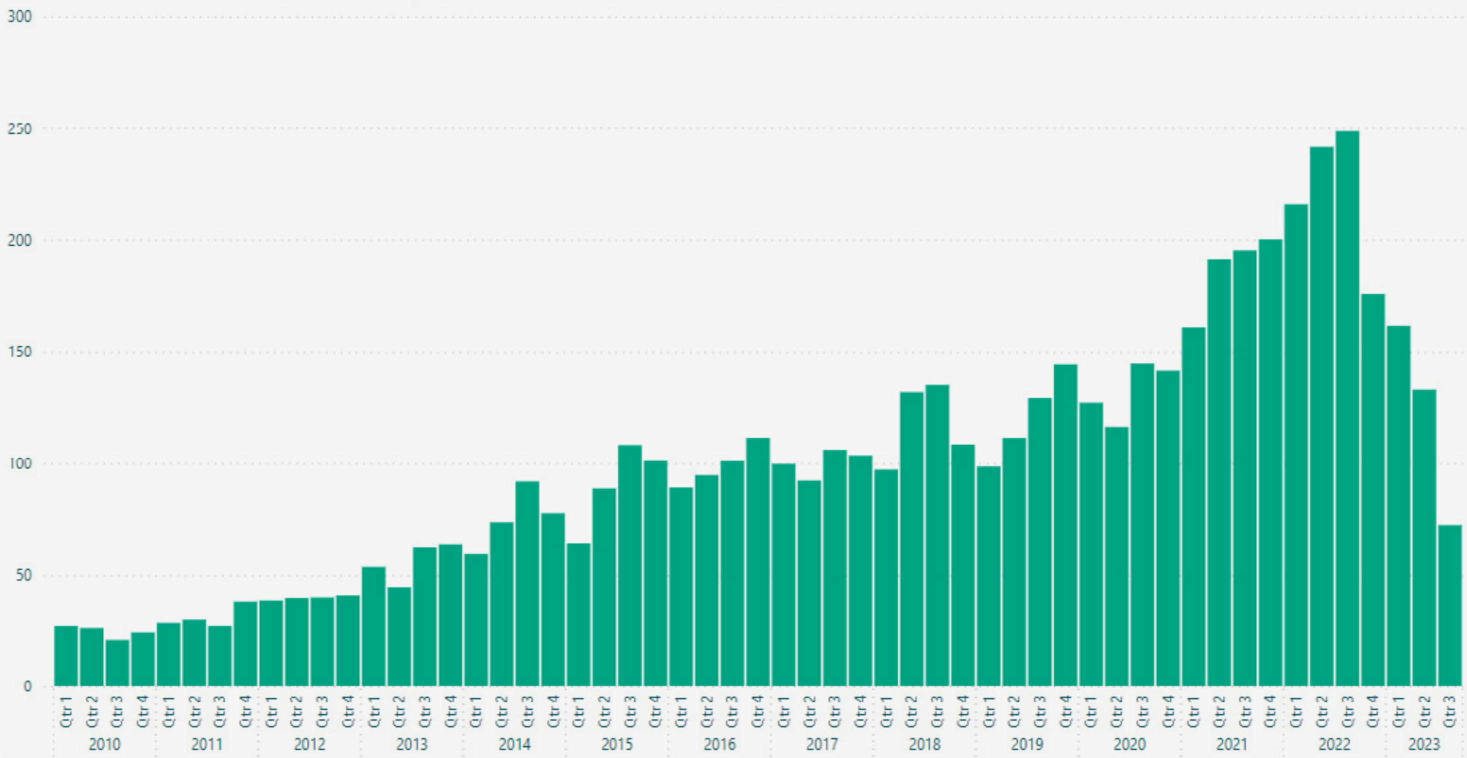
NATIONAL INFLATION RANGE

Source: Bureau of Labor Statistics



Despite the push to start cuts, many economic indicators are not at the Fed's desired level. The inflation rate or Consumer Pricing Index (CPI) is currently 3.1%, and the Core CPI, excluding food and energy, is 4%. The Fed's goal is for CPI to be at or below 2%. Another primary benchmark for the Fed is the unemployment rate, which fell to 3.7% in November. It may sound premature to start the pullback from the rate hikes, but most rate hikes take around a year for the economy to feel the impact.

INDUSTRIAL CONSTRUCTION STARTS IN MILLIONS OF SQUARE FEET



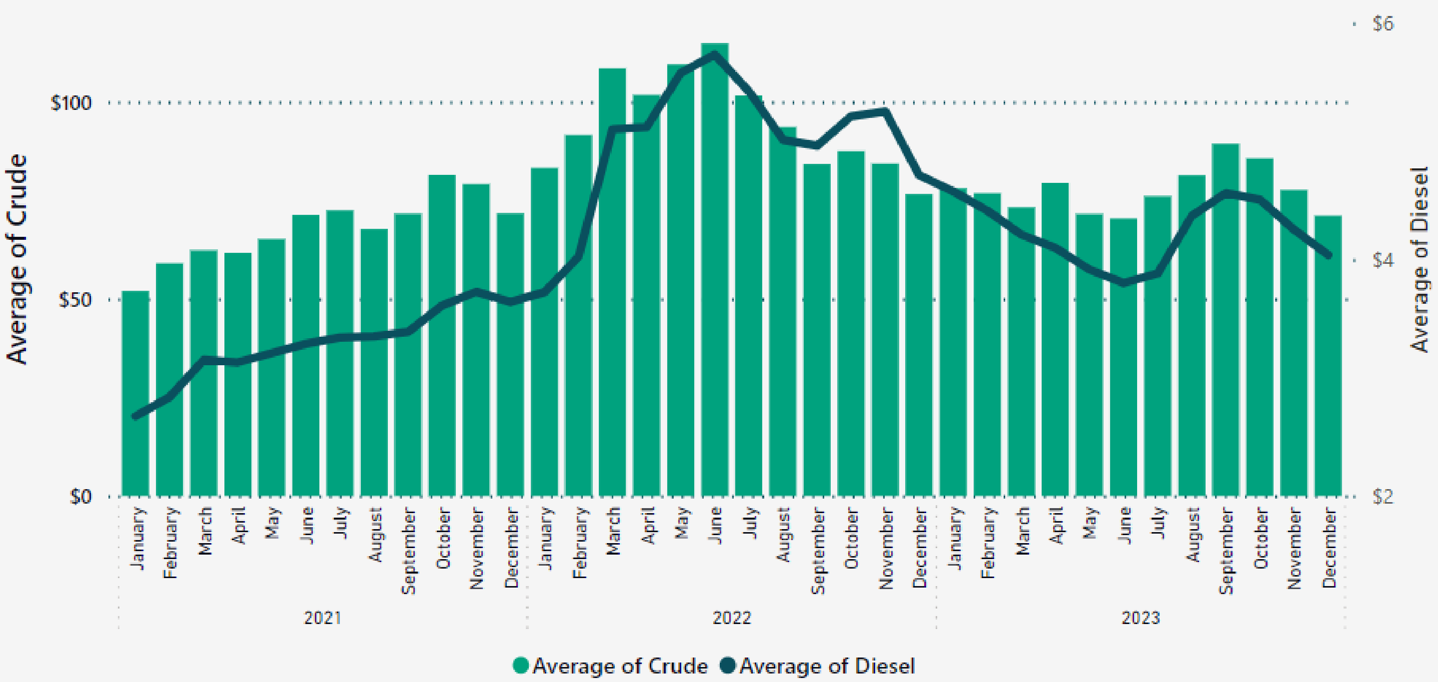
Source: The Wall Street Journal

One of the trends that is concerning for many economists is the amount of debt the consumer is in. The Federal Reserve Bank of Boston recently found that households with an income below $50,000 have used 80-90% of their available credit as of July. When breaking it down by all income brackets, all have increased significantly since 2021. With concerns about bank foundations, a trend of maxed-out credit and bankruptcies could further affect the banking system.

Another sign of a shift comes from the warehousing and commercial real estate sector. Due to high demand during COVID, the number of industrial property construction projects skyrocketed. The peak was in Q3 of 2022. Since then, new construction has plummeted. When comparing the first three quarters of 2023 to 2022, there was a 48% drop. The pullback is due to growing interest rates and falling demand. While there is plenty to be concerned about, the industrial sector has less to worry about than office space, which is at a record vacancy rate of 13.6%. Current projections suggest the levels will reach 17% by 2026.

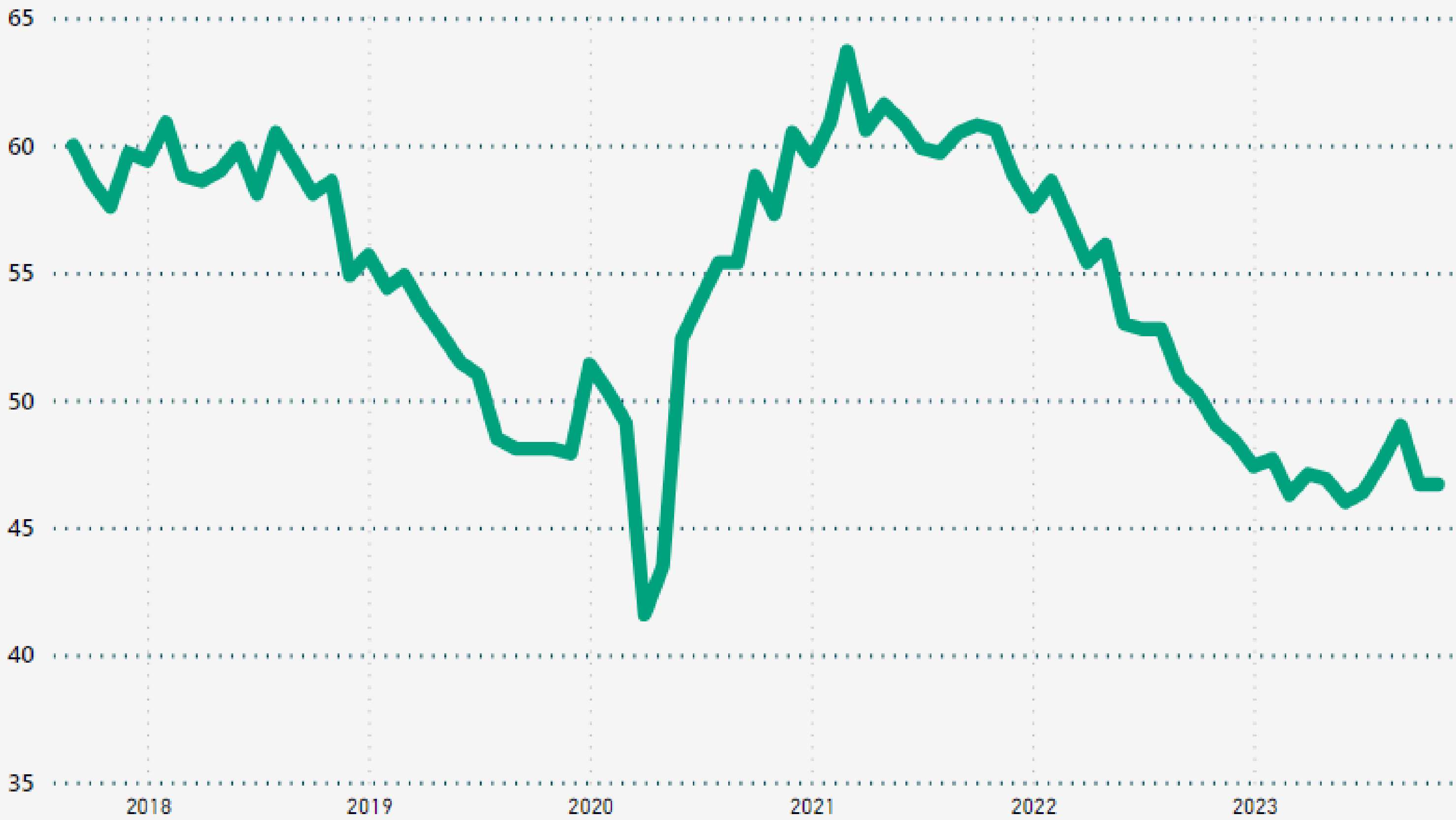
If there is one trend that is not fixed, it is the price of oil and gas. There was a scare at the onset of the war between Israel and Hamas that caused oil prices to approach $100 per barrel and then fall shortly after to under $70 a barrel. OPEC and OPEC+ have announced production cuts to help curb price falls. The US, however, is producing at record levels. The average production was recorded at over 13 million barrels per day. The falling prices have helped keep transportation expenditures low in the last quarter of the year. Plenty of dynamics affect the overall cost of oil and gas making it hard to predict; however, the recent canal challenges have caused higher expenses and longer voyages for ocean tankers. If the reroutes continue for an extended period, they could impact the global cost of oil in 2024.

CRUDE COST PER BARREL AND AVERAGE DIESEL



Source: Energy Information Administration

ISM PMI INDEX



Source: Institute For Supply Management

Manufacturing, an engine of the US economy, has not turned a corner yet. A positive push in September's PMI Index made it look like we would pass the 50 barrier, indicating expansion. However, in October, the Index fell to 46.7 and held course in November. Many in the manufacturing community have pulled back on inbound materials and slowed production due to a drop in demand and concerns over the economy. A positive sign is that the New Orders, the heart of the economy, have increased to 48.5.

FINAL THOUGHTS

For now, technology has not been able to solve all of our supply chain challenges. At this point, AI has no unique ability to predict or manipulate the unpredictable nature of the future. Until AI reaches the level of Skynet, our supply chain will be built on technology and relationships. Until then, we say, "Hasta la vista", 2023.

The unpredictable nature of the transportation market makes it challenging for anyone involved. Building relationships, optimizing networks, saving money, and preventing bottlenecks are impossible without proper partnerships. Our focus at Evans is to be our clients' strategic partner in all aspects of their supply chains. Have you leveraged the #EX? Contact your Evans contact today to learn more about becoming a valued client of Evans.