

EVANS TRANSPORTATION MARKET UPDATE

The transportation industry, much like the weather, rarely stands still. It experiences periods of calm and periods of volatility, sometimes shifting with the force of a hurricane. We have witnessed this firsthand with events like Hurricane Katrina in 2005, the 2008 financial crisis, Hurricane Sandy in 2012, the West Coast port congestion of 2015, Hurricane Harvey and the ELD mandate in 2017, and, of course, the COVID-19 pandemic. These disruptions highlighted the vulnerability of supply chains and their connections to the global economy.

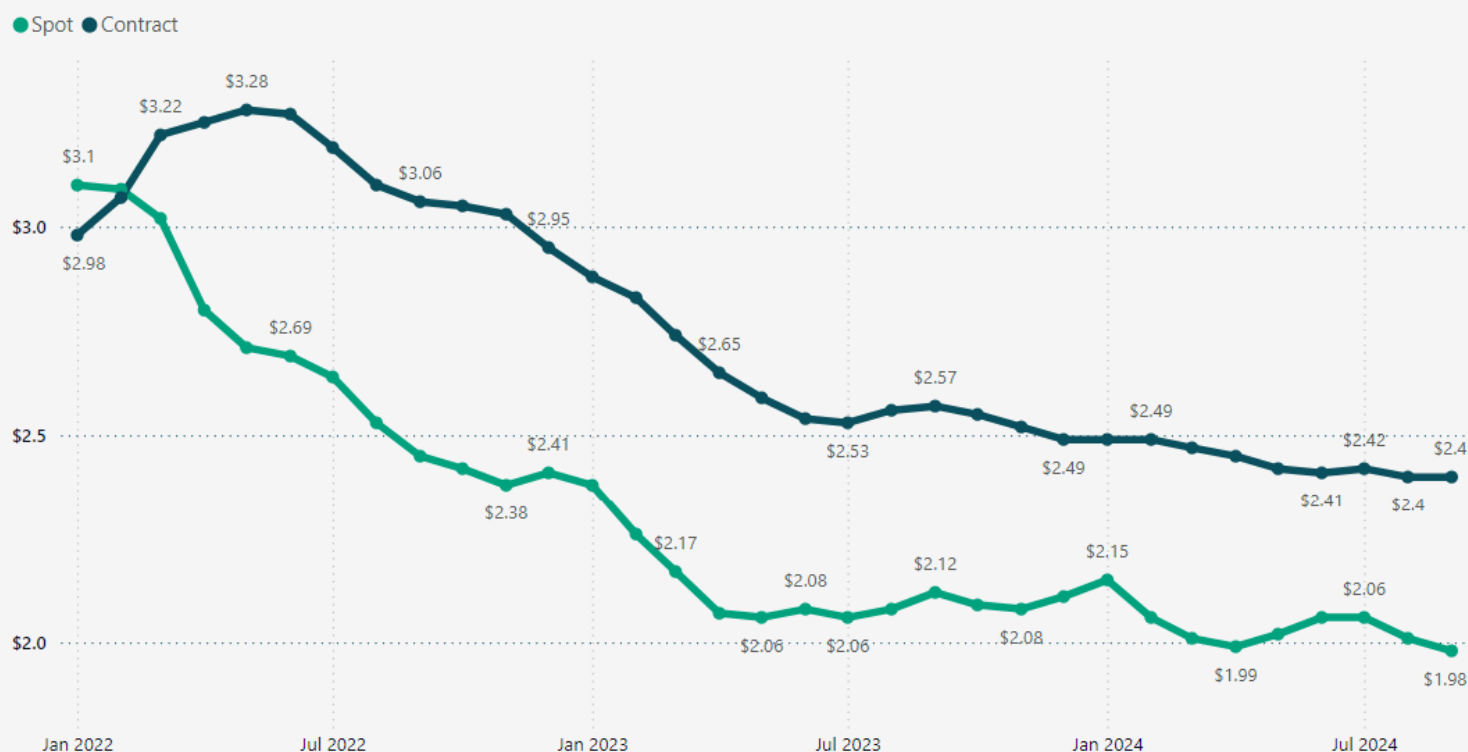
Currently, the transportation market appears to be in a phase of relative stability, a steady correction following the turbulent pandemic years. However, history suggests that this calm may be brief. The question on everyone's mind is: What will be the next major disruption that will shake up the industry? Will it be a destructive hurricane season, the ongoing port strikes, escalating tensions in the Middle East, or perhaps an unforeseen event?

This quarter, Evans Transportation provides an in-depth analysis of the current transportation market, examining the subtle shifts and underlying trends that could foreshadow the next significant disruption. We will explore the latest developments in truckload, LTL, international shipping, and parcel markets, equipping you with the knowledge and insights to navigate the calm before the storm and prepare for what lies ahead.

TRUCKLOAD MARKET

The truckload market is dynamic and constantly adapts to changes in demand, capacity, and economic conditions. Recent data indicates a market in flux, with some signs pointing to tightening conditions while others suggest continued softness.

DAT DRY VAN AVERAGE CPM



Source: DAT

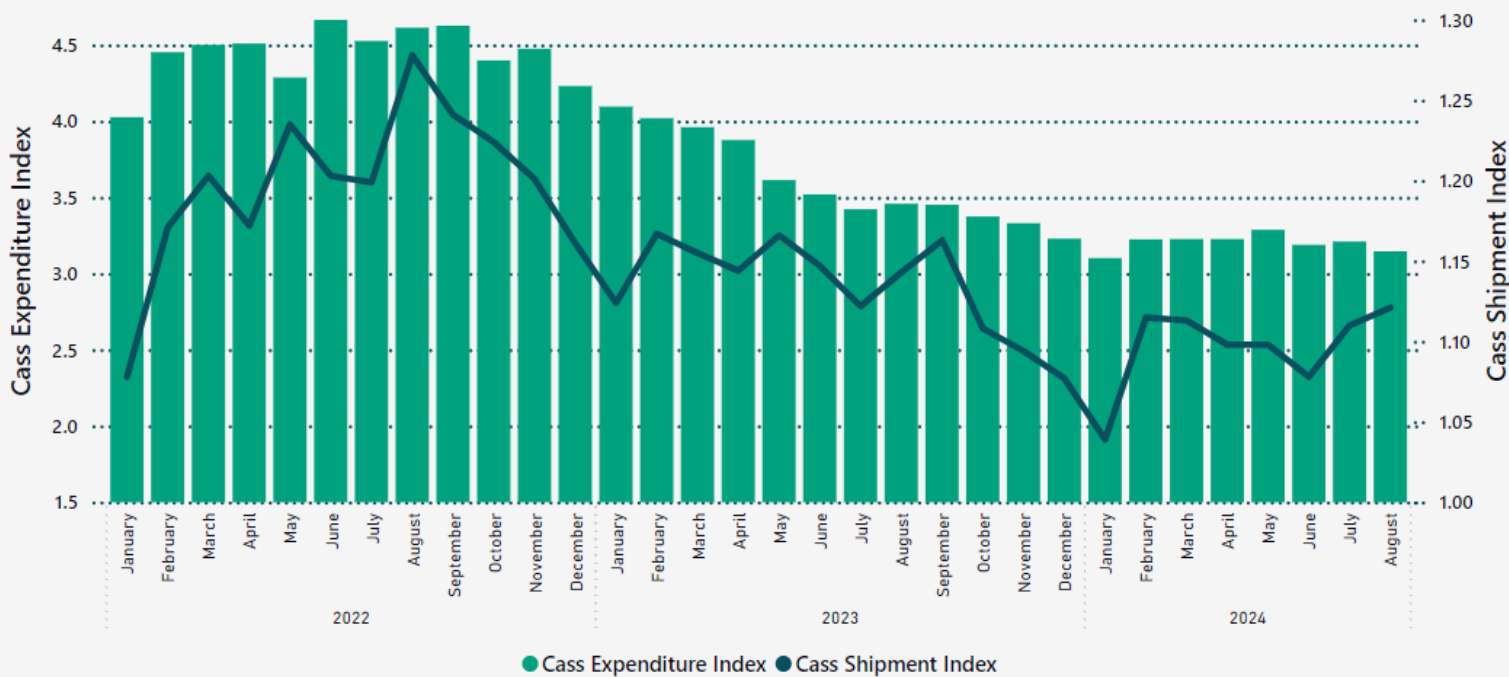
DAT Dry Van Spot Rates dipped below \$2 per mile in September, reaching \$1.98—the second time this has occurred in recent years. This downward trend, continuing from August (\$2.01) and July (\$2.06), reflects ongoing pressure on spot market pricing. However, despite this overall softness, certain key regions like Allentown, Charlotte,

and Atlanta are experiencing tightening spot markets due to increased demand. The flatbed sector, often an indicator of construction and manufacturing activity, also experienced a decline in rates, reaching \$2.39 in September, the lowest in years. This may reflect ongoing uncertainty in infrastructure spending, data center construction, and new home creation.

The Cass Freight Index for Shipments showed a modest month-over-month increase of 1.0% in August but remained down 1.9% year-over-year. This suggests a slow recovery in demand but continued weakness compared to the same time last year. A key factor contributing to this soft demand is the slowdown in manufacturing, apparent in the buildup of unsold inventory, reducing the need for transportation services. Additionally, the growth of private fleets is impacting the truckload market. Shippers increasingly utilize in-house transportation, attempting to manage costs and enhance service, which in turn reduces their reliance on for-hire carriers.

Within the truckload sector, the flatbed market is susceptible to fluctuations in construction, manufacturing, and infrastructure projects. The recent dip in spot rates may indicate a slowdown in these areas. However, government infrastructure spending, the continued construction of data centers, and potential growth in new home creation could strengthen the flatbed market in the future. Businesses reliant on flatbed transportation must monitor these trends and adjust their strategies accordingly.

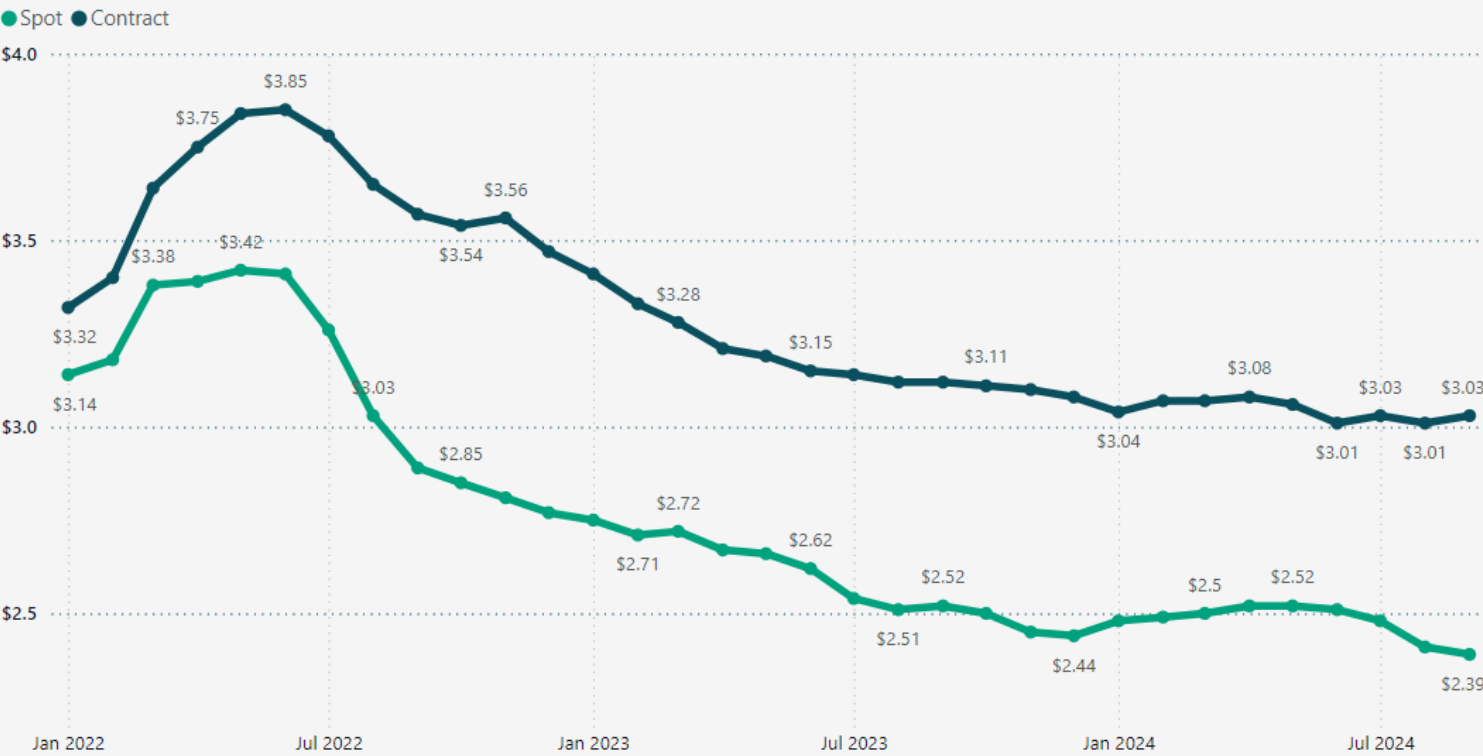
CASS EXPENDITURE INDEX VS SHIPMENT INDEX



Source: Cass



DAT FLATBED CPM



Source: DAT



While the near-term outlook for the truckload market remains uncertain, particularly with the upcoming US election season, a potential post-election recovery is anticipated in 2025-2026. The ongoing expansion of private fleets and the potential for external disruptions like Hurricanes and the East Coast port strikes could further influence market dynamics in the coming months.

LESS THAN TRUCKLOAD (LTL) MARKET

The LTL sector continues to demonstrate resilience and adaptability in the face of rising costs and evolving shipping patterns. The collapse of Yellow Corp. has significantly reshaped the landscape, presenting challenges and opportunities as carriers compete for market

share and increased service offerings. This dynamic is unfolding against the backdrop of a consolidating market, with the overall number of carriers decreasing due to acquisitions and mergers. This trend pushes the LTL market to align more closely with the parcel industry.

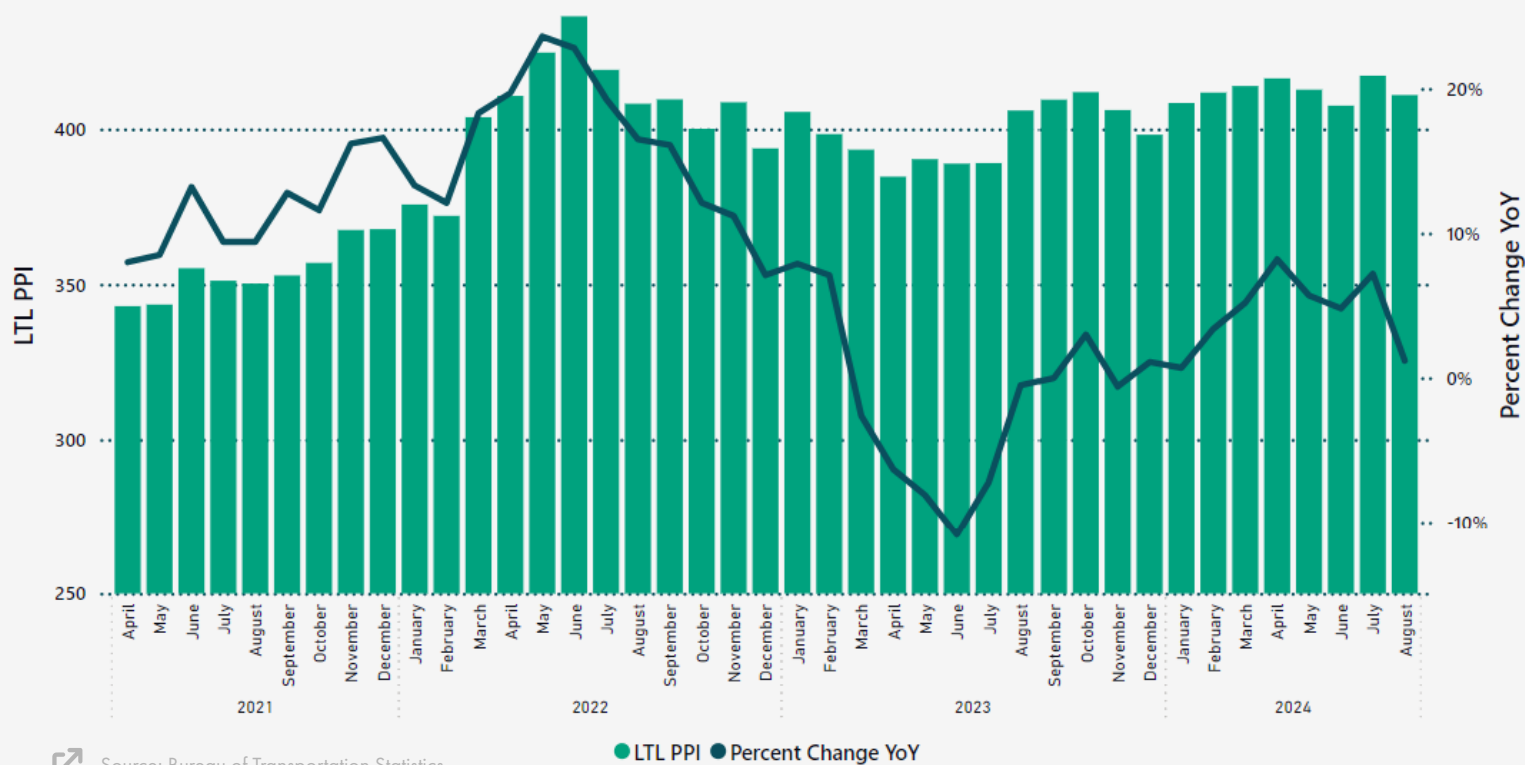
Despite this consolidation, competition remains intense. Existing players are fortifying their positions, while new entrants are emerging, seeking to establish their presence. This competitive environment is driving innovation and service enhancements, ultimately benefiting shippers with more choices and greater flexibility.

The August LTL Producer Price Index (PPI) data indicates a slight softening in pricing, with a reading of 410.982. This represents a decrease from the peak of 417.206, but it still shows a 1.2% year-over-year increase. This suggests that while pricing pressures persist, the growth rate is slowing.

Following Yellow's exit, LTL carriers are focusing on enhancing their next-day delivery services to fill the gap and meet the growing demand for faster shipping options. Pitt Ohio, for instance, has expanded its next-day lanes and significantly increased its business in New York. Several carriers including AAA Cooper Transportation, Knight-Swift, XPO, Estes Express Lines, and Saia are reopening terminals acquired from Yellow, strategically expanding their networks and increasing capacity in critical regions.



LTL PPI COMPARED TO PERCENT CHANGE YOY



Knight-Swift's acquisition of Dependable Highway Express (DHE) further strengthens its LTL presence in California, Arizona, and Nevada. The company remains open to future acquisitions to expand its network, particularly in the Northeast and Southwest. Saia is also aggressively expanding its network with plans to open 18 to 21 new terminals in 2024, supported by a \$1 billion capital expenditure plan. Similarly, Estes Express Lines is significantly expanding its terminal network, aiming to increase its door count by over 12% in 2024. Recognizing the growing importance of cross-border trade, XPO is expanding its services in Mexico by increasing its cross-border service centers and expanding its Mexican terminal network.

Several factors are driving the demand for LTL services, including the trend towards shorter, more frequent shipments, increased consumer expectations for faster delivery, and modal

optimizations. While some carriers like XPO and Old Dominion reported weaker volumes in August, Saia reported an 8.2% increase in tonnage. This suggests some volatility in the LTL market, with carriers facing tougher year-over-year comparisons. Reflecting the ongoing pressure from higher costs, including wages and operational expenses, ArcBest is implementing a 5.9% general rate increase.

The LTL market is poised for continued growth and transformation. The expansion of existing carriers, the formation of new services, and the ongoing integration of technology are shaping the future of LTL transportation. Shippers can expect more service options, increased competition, and a continued focus on efficiency and speed. As the lines between LTL and other modes continue to blur, shippers should stay informed about the evolving landscape and leverage the opportunities presented by this dynamic market.

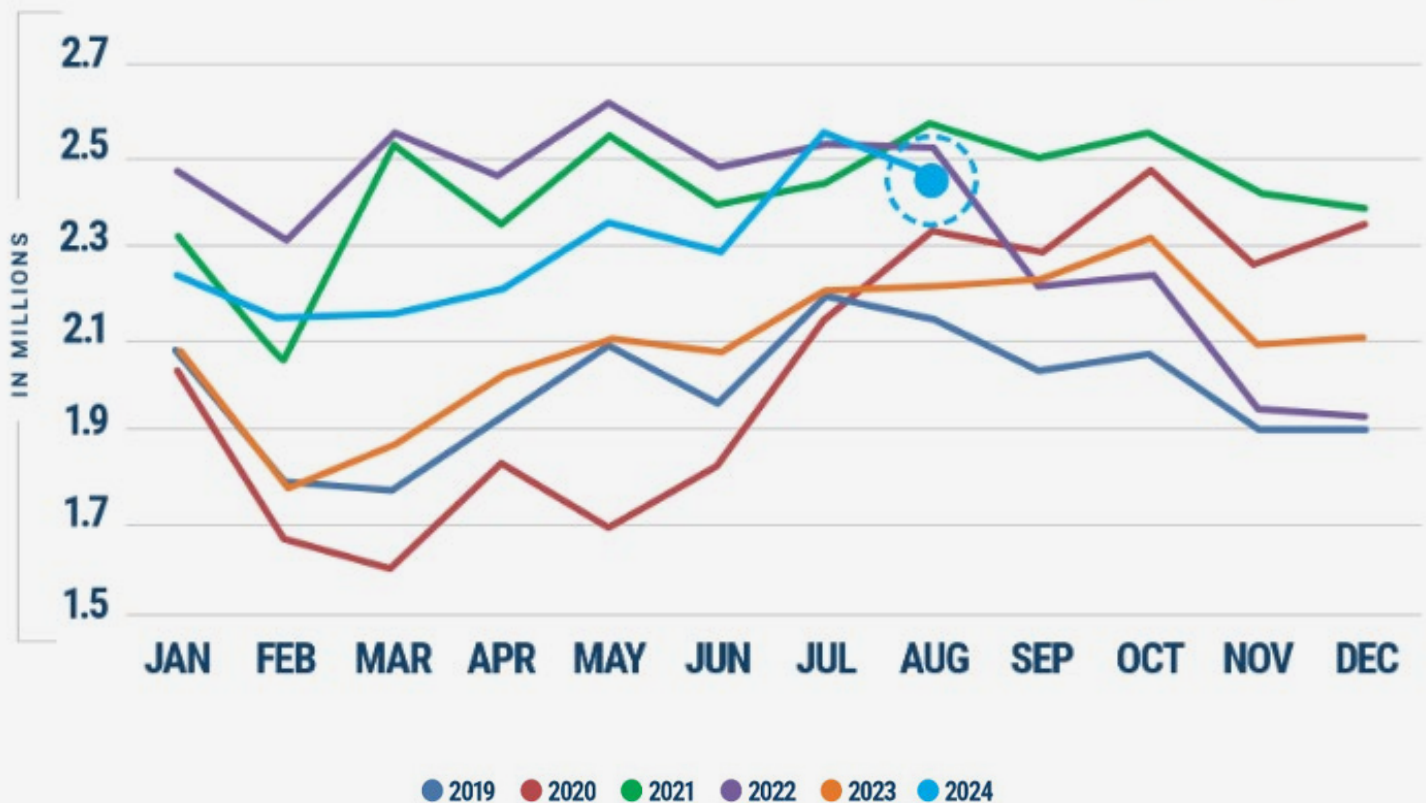


INTERNATIONAL SHIPPING

The international shipping segment is currently facing significant disruption, primarily due to the strike by the International Longshoremen's Association (ILA), which commenced on October 1st. The ILA made a temporary deal to suspend the strike until early next year. This labor disruption has halted operations at essential ports along the East and Gulf Coasts, threatening to impact US imports and exports severely. While a temporary truce has been

reached and the immediate threat of disruption has subsided, the possibility of the strike resuming when the deal expires on January 15th is great. This potential resurgence of labor action could reignite disruptions to international shipping, creating uncertainty and challenges for businesses reliant on the smooth flow of goods through East and Gulf Coast ports.

2019-2023 CONTAINER IMPORT VOLUME (TEU)



Source: Descartes

Although a temporary pause in the strike has brought some relief, the underlying tension in the negotiations between the ILA and the US Maritime Alliance persists. While the two sides have reached a tentative agreement on a 61.5% wage increase over six years, a key sticking point remains: the contentious issue of automation in the ports.

This unresolved issue casts a shadow over the temporary truce, as the potential for the strike to reignite remains a real possibility. The economic consequences of a prolonged work stoppage are significant, with estimates from JP Morgan suggesting a daily cost of \$5 million to the US economy.

Should the negotiations falter and the strike resume, businesses could face significant delays, shortages, and price increases for a wide range of products, impacting everything from essential goods like food and medicine to critical manufacturing components.

Adding to the complexity, US container import volumes have increased, further straining the system. According to Descartes, August volumes reached 2,479,284 TEUs, while July saw an even higher volume of 2,556,180 TEUs—the highest in two years. This import surge underscores the delicate balance between supply and demand in the international shipping sector and how easily it can be disrupted.



In anticipation of potential turbulence, many shippers had already begun diverting cargo to West Coast ports, leading to a surge in volumes at Los Angeles and Long Beach ports. For example, the Port of Los Angeles handled 960,597 TEUs in August 2024, its busiest non-pandemic month ever. This preemptive shift highlights the connection between the global supply chain and the need for flexibility and adaptability against unexpected events.

While the strike dominated the headlines, DSV's acquisition of DB Schenker is another significant development in the international shipping sector. This deal creates a logistics giant, combining DSV's extensive network with DB Schenker's strong European and Asian presence. The acquisition is

expected to enhance efficiency and expand service offerings for shippers. However, it does raise questions about potential consolidation and its impact on competition in international shipping.

On a more positive note, the Panama Canal has overcome the challenges of last year's drought. Water levels have returned to normal, allowing the canal to increase daily transit slots and alleviate congestion.

The international shipping landscape remains dynamic and unpredictable. The ILA port strike is a vivid reminder of the volatile nature of the global supply chain due to significant disruptions. Shippers and carriers must remain alert, adapt to changing circumstances, and explore strategies to mitigate risks and maintain the flow of goods in this turbulent environment.

PARCEL MARKET

The parcel carrier market is experiencing significant change, driven by changing consumer expectations, rising costs, and increased competition.

UPS had its most significant stock decline in 25 years, dropping 12% due to missed profit estimates and a slow turnaround. While the company increased US package volume for the first time in over two years, this growth was driven by smaller and less profitable packages. UPS is experiencing higher labor costs from a new union contract and a shift to more economical shipping options by customers. In response to the changes, UPS has revised its 2024 revenue guidance and restarted a \$1 billion annual share buyback program. The company also announced the acquisition of Mexican delivery company Estafeta, a strategic move to benefit from Mexico's growing role in global trade and the shift to nearshoring.

FedEx and UPS face increased competition from Amazon, Walmart, and smaller regional carriers in the B2C delivery market. The growth of e-commerce has altered parcel deliveries toward shorter distances, slower service, and cost-effective options. Regional carriers and private fleets, like those operated by Amazon and Walmart, are challenging the dominance of FedEx and UPS. The growing influence of private fleets and regional carriers is poised to reshape the parcel delivery landscape, potentially surpassing FedEx and UPS in combined parcel volume by 2026.



Several other developments are also impacting the parcel carrier market space. Pitney Bowes's e-commerce logistics unit is shutting down after years of struggling to achieve profitability. This closure reflects the challenges experienced by some players in the increasingly competitive e-commerce logistics landscape. Pitney Bowes cited macroeconomic headwinds and industry pressures as contributing factors to the unit's financial difficulties.

In anticipation of the upcoming holiday season, Amazon and UPS have announced rate hikes to cover increased peak season costs. Amazon's holiday peak fulfillment fee will apply to several services from October 15th to January 14th, while UPS surcharges will be in effect from September 29th, with higher fees between November 24th and December 28th. Similarly, FedEx and DHL Express have established

demand-based surcharges for the fall peak season, citing tight capacity and increased costs as core factors. Looking ahead to 2025, FedEx will implement a 5.9% average rate increase for US deliveries, exports, and imports. While UPS has not yet officially announced their General Rate Increase (GRI), it is anticipated to align closely with FedEx's adjustments. These rate adjustments reflect parcel carriers' ongoing pressures to manage costs and maintain profitability in a dynamic market.

The parcel carrier market is becoming increasingly complex and competitive. Shippers must be aware of the changing landscape and adapt their strategies accordingly. Factors to consider include rate increases, surcharges, service options, potential disruptions caused by labor disputes, and other external factors.



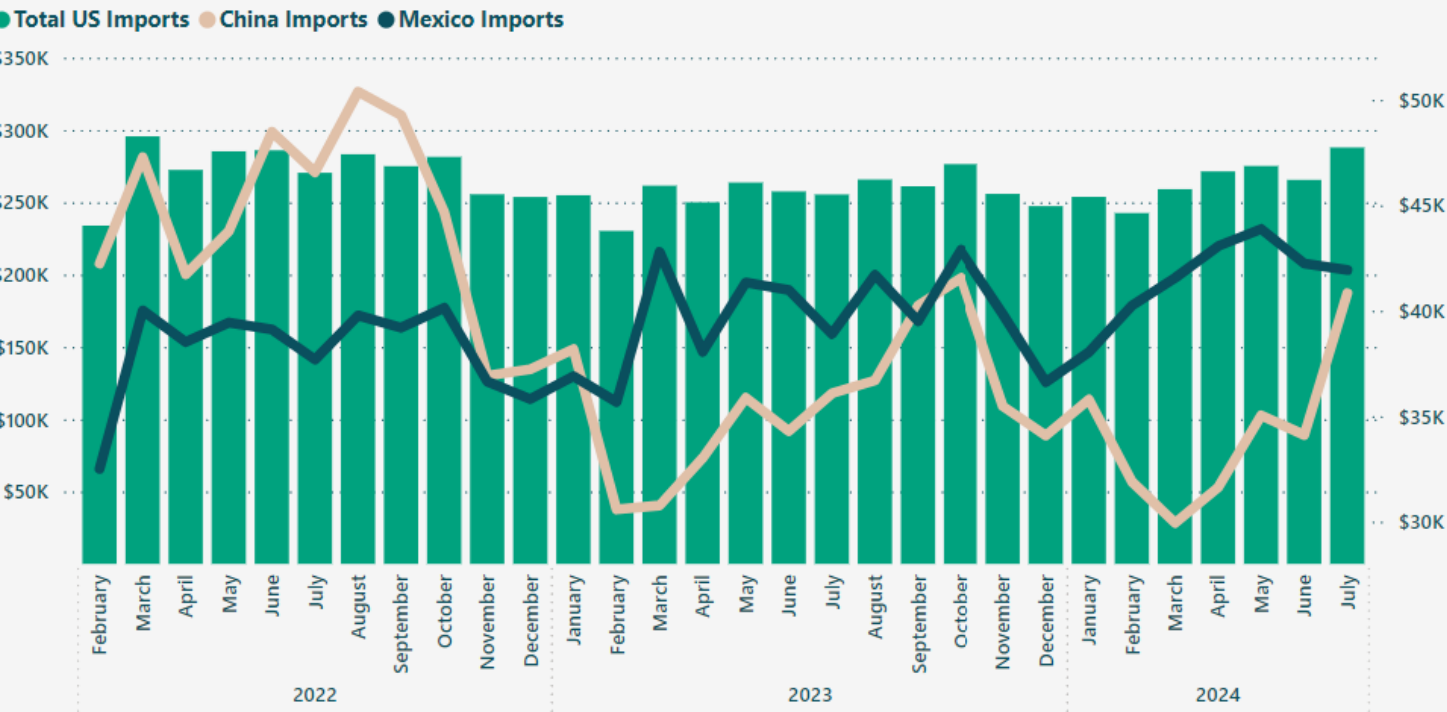
MEXICO CROSS-BORDER

The Mexican transportation market is experiencing growth and challenges as it works through the impacts of new regulations, infrastructure developments, and economic trends. One significant challenge is California's electric truck mandate which may impact Mexican transporters who operate in the state.

Starting in January 2025, fleet owners must replace internal combustion trucks with electric vehicles once the engine reaches its lifespan. The high costs of electric trucks and the lack of sufficient charging infrastructure in Mexico pose significant hurdles to compliance.



US MEXICO TRADE IN MILLIONS OF US DOLLARS



Source: US Census Bureau

On a positive note, the Isthmus of Tehuantepec Railway has completed its first freight movement, marking a new path in Mexico’s \$2.8 billion corridor project. This project focuses on improved transportation efficiency and increased trade between the Atlantic and Pacific oceans. Other advances include Texas EV startup Canoo securing an order for electric delivery vans and the Korea International Trade Association opening a new office in Dallas, signaling strengthening economic ties between Texas and Mexico.

A \$44 million project to expand the Pharr-Reynosa bridge is also underway, intending to double its capacity and improve US-Mexico trade flow. This expansion of the Pharr-Reynosa bridge will make it the Rio Grande Valley’s largest cargo crossing,

boosting regional trade and creating jobs. The bridge currently handles over 65% of US-imported Mexican produce, with \$47 billion in total trade in 2023.

Another improvement in the border crossing is that Cargado has launched the first invite-only load board dedicated to cross-border freight among Mexico, the US, and Canada. This platform streamlines the process of connecting shippers with carriers, improving efficiency and transparency in the cross-border market.

This ongoing investment in infrastructure and the increasing integration of North American supply chains point towards a bright future for the Mexican transportation sector. As nearshoring and regionalization trends continue, Mexico is well-positioned to play an even more significant role in facilitating trade and driving economic growth.

INDUSTRY PRESSURES & TRENDS

The transportation industry is traversing a complex and evolving landscape. It encounters many pressures that threaten to disrupt operations and impact financial stability, from cybersecurity threats and increased cargo

theft to economic uncertainty and regulatory changes. Businesses must remain vigilant and adaptable to endure these challenges and to maintain a steady course.

Cybersecurity threats are becoming increasingly complex, targeting businesses of all sizes. In 2023, the transportation industry experienced 101 reported incidents, an overwhelming 181% increase in data breaches compared to the previous year. This alarming trend emphasizes the urgent need for strong cybersecurity measures to protect sensitive data and prevent costly disruptions. The transportation and shipping industries are particularly vulnerable, accounting for 53% and 45% of global ransomware detections according to cybersecurity firm Trellix.

Cargo theft is another rising concern, with thieves becoming bolder and more strategic in their approach. In 2023, according to CargoNet, cargo theft incidents surged by 57% compared to the previous year, with over 1,100 reported thefts and an average loss exceeding half a million dollars per occurrence. This worrying trend has continued into 2024, with a 10% increase in the first quarter alone. Thieves are utilizing technology, hacking into supply chain systems, and falsifying shipping documents to redirect cargo. High-value items like electronics, food and beverage products, and automobiles are desirable commodities. Warehouses, truck stops, and retail parking lots are common sites for these thefts. California, Texas, and Florida remain the top three states on which criminals focus.



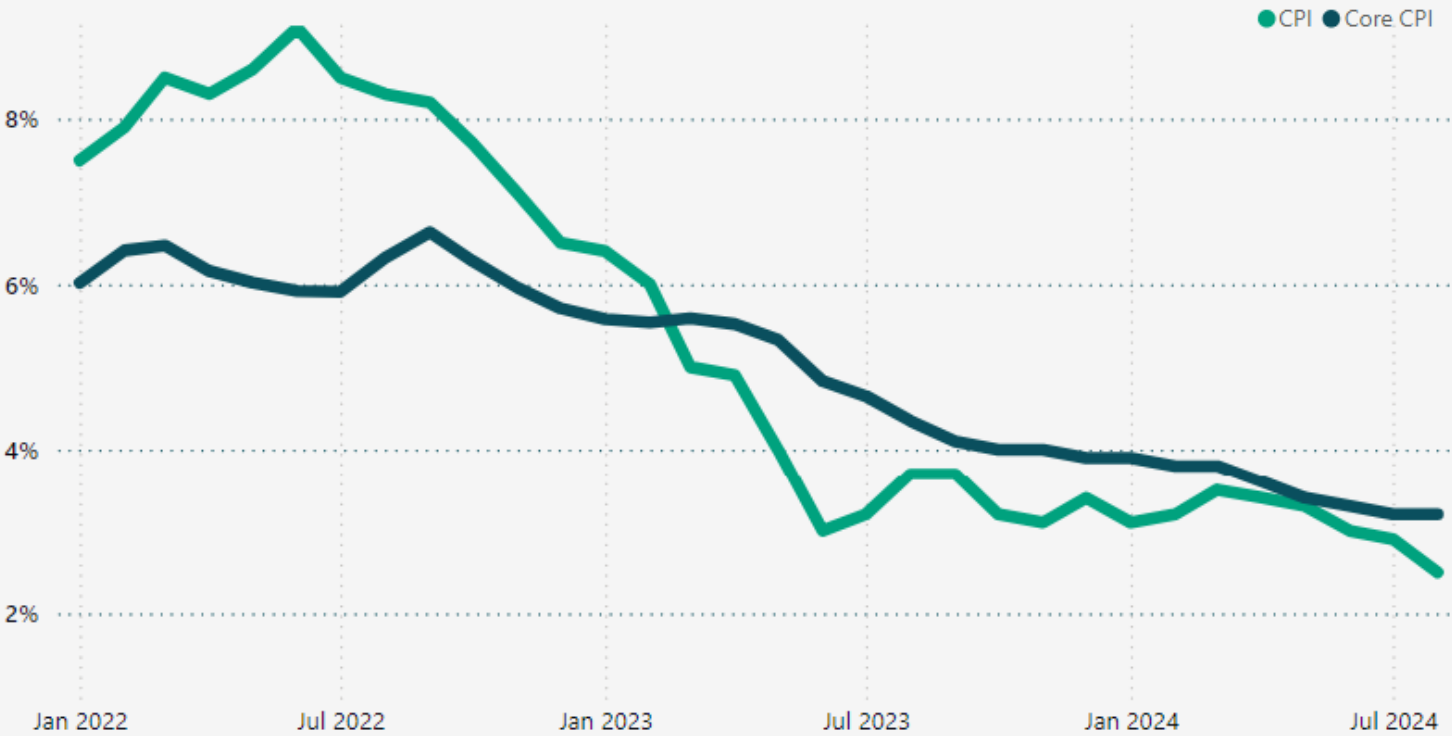
The financial impact of cargo theft is astonishing, with total losses in 2023 reaching \$694,327,811. Beyond the direct economic losses, businesses are experiencing reputational damage, increased insurance costs, and the expense of replacing stolen equipment.

Economic uncertainty continues to cast a shadow over the industry as the inflation rates (CPI) fell to 2.5%, and core CPI, excluding energy and housing, remained steady at 3.2%. While the Federal Reserve had its first reduction since the early COVID-19 era with an interest rate cut of 50 basis points, the impact on business borrowing and investment remains to be seen. The Fed’s new federal funds rate target is 4.75%-5%, influencing various consumer loans and credit products.

Further cuts are projected, with another 50 basis points expected by the end of 2024. However, businesses with fixed debt may see little short-term benefit from these rate cuts, potentially delaying new investments.

The manufacturing sector is also facing headwinds, with the Manufacturing PMI® indicating contraction for the sixth consecutive month, remaining at a reading of 47.2. The New Orders Index remains in contraction territory at 46.1, and while the Production Index is approaching expansion at 49.8, the Employment Index has dropped to 43.9. These mixed signals suggest a slow and uneven recovery for the manufacturing sector which could impact freight demand going into next year.

NATIONAL INFLATION RANGE



Regulatory changes are also adding to the complexity. The FMCSA is taking steps to combat registration fraud and improve identity verification processes in the trucking industry. The agency is tightening regulations on physical business addresses to prevent fraud from using P.O. boxes. It is implementing a new system that includes identity verification using driver's licenses and real-time location checks. The FMCSA plans to audit all existing motor carriers and brokers to remove bad actors from its database. By mid-2025, the agency anticipates a fully operational, modernized registration and fraud prevention system.

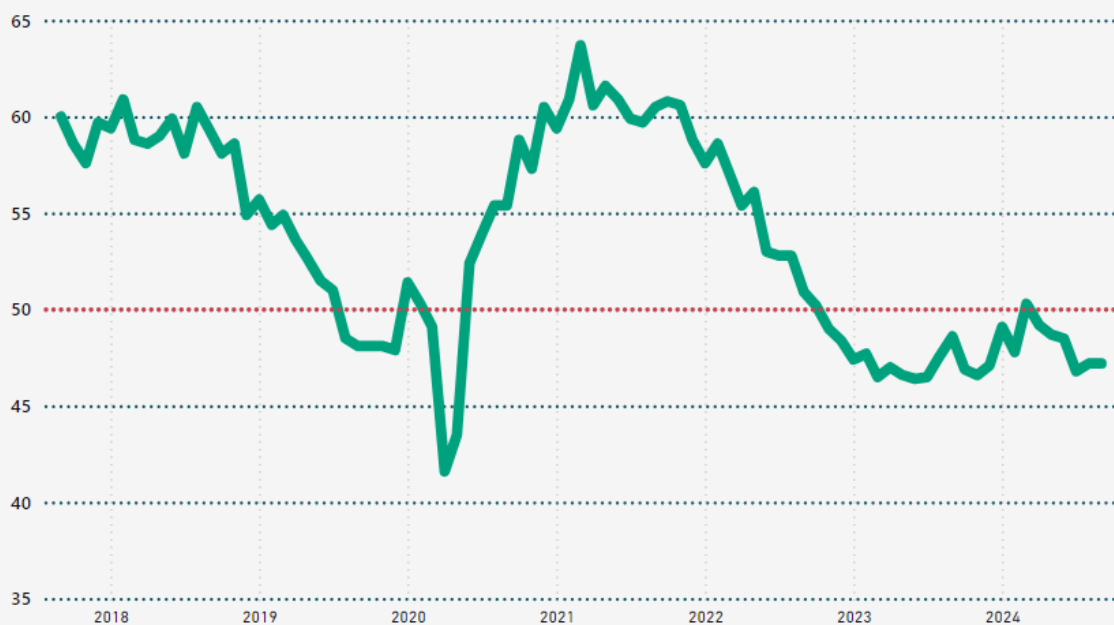
In addition to these efforts, the transportation industry is preparing for significant [changes to the National Motor Freight Classification \(NMFC\) system 2025](#).

These changes, overseen by the Freight Classification Development Council (FCDC), will impact how LTL freight is classified and priced. The updates include an expansion of the density scale, new item descriptions, reclassifications, and rule amendments. These changes are driven by industry trends, regulatory requirements,

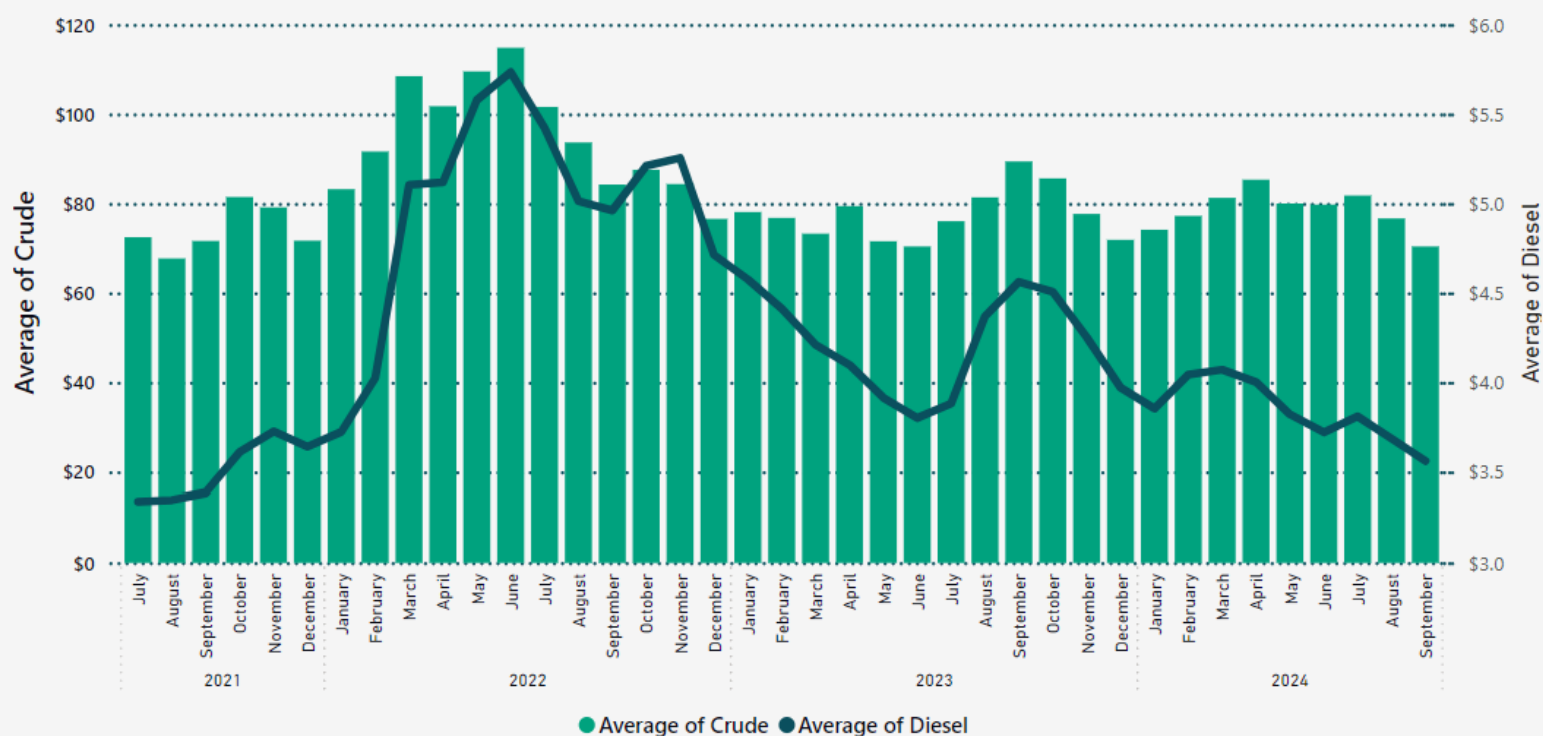
and the need for more accurate and fair pricing structures. Shippers should proactively review their freight classifications and leverage technology like [dimensionalizers](#) to ensure precise measurements and avoid potential penalties.

Natural disasters continue to pose a threat to supply chain stability. Hurricane Helene has claimed over 200 lives across the Southeast, with North Carolina and Georgia being the most brutally hit. Asheville, NC experienced severe flooding resulting in 30 deaths in Buncombe County and widespread power outages. At one point, 2 million customers were without power. The storm's impact on infrastructure and transportation networks will likely be felt for an extended period, potentially causing delays and disruptions. Just as residents are beginning to grasp the full impact of Helene, Hurricane Milton is barreling towards western Florida and is projected to reach a Category 5 storm, threatening further devastation and disruption to supply chains in the region.

ISM PMI INDEX



ISM PMI INDEX



Source: Energy Information Administration

Geopolitical tensions are also adding to the uncertainty in the global landscape. The escalating conflict between Iran and Israel, with missile strikes and heightened military activity, has the potential to significantly disrupt trade routes and impact energy prices with far-reaching consequences for the transportation industry. Any disruption to oil flow from the Middle East, a major global supplier, could trigger a sharp increase in crude oil prices. This, in turn, would lead to higher diesel fuel costs, directly impacting the expenses of trucking companies and potentially leading to increased freight rates for shippers. Furthermore,

heightened regional tensions could increase security measures and insurance premiums for vessels steering through critical waterways, adding another layer of complexity and cost to international shipping.

In this challenging environment, businesses must prioritize risk mitigation and develop strategies to maneuver through these uncertainties. Investing in cybersecurity, implementing robust cargo security measures, closely monitoring economic indicators, and staying informed about regulatory changes are crucial steps in building resilience and ensuring business continuity.





CLOSING THOUGHTS: PREPAREDNESS IS KEY

The transportation industry is in a state of constant evolution, shaped by a complex interplay of factors. While the current market may seem relatively calm, the potential for disruption is always present. Whether it is a natural disaster, a labor dispute, a cyberattack, or an unexpected geopolitical event, the next “event” could be just around the corner.

In this environment of uncertainty, preparedness is key. Shippers and carriers alike need to stay informed about market trends, assess their vulnerabilities, and develop strategies to mitigate risks. By staying agile

and adaptable, businesses can adjust to the challenges and capitalize on the opportunities that lie ahead.

At Evans Transportation, we are committed to providing our customers with the insights and support they need to thrive in this dynamic industry. Our team of experts is here to help you navigate the complexities of the transportation landscape and ensure that your supply chain remains resilient and efficient. Contact us to learn how we can help you optimize your transportation strategies and experience the #EX firsthand.