

FREIGHT FALLING

As we head into fall, the question on many shippers' minds is whether freight continues on a downward trajectory or is ready for rising rates. Like seasonal changes, we can almost guarantee that the freight industry will have similar cycles. Currently, the weather is ready for falling temperatures; however, the freight market is not ready for its shift.

In many cultures, fall is the season for harvest and abundance. It is seen as a time of reaping what you have worked hard for during the other three seasons. Individuals must put hard work and time into sowing fields to produce a bountiful harvest. A successful harvest helps tide them over through the winter.

The same holds true in the world of freight. We are not in the harvesting time but in the time for sowing and tending to the seeds. In relation to the freight cycle, we are currently at the bottom of the down-cycle. Many have their eyes and focus on the pending up-cycle. In the context of a shipper, if you are not working on building a strong relationship and having a shipper-of-choice mindset, you are not laying the foundations for when the industry tightens. The same thing goes for supply chain companies. Building solid relationships with your customers is important to have a strong foundation when a change hits the market.

At Evans, we pride ourselves on building relationships that last throughout all seasons. We are here to help our customers through times of abundance and times of difficulty. It is essential that we are our customers' and carriers' strategic partner. Resources such as our ongoing quarterly article, Shipper of Choice paper, or news articles on PO Conversion are vital in helping our clients make better business decisions.

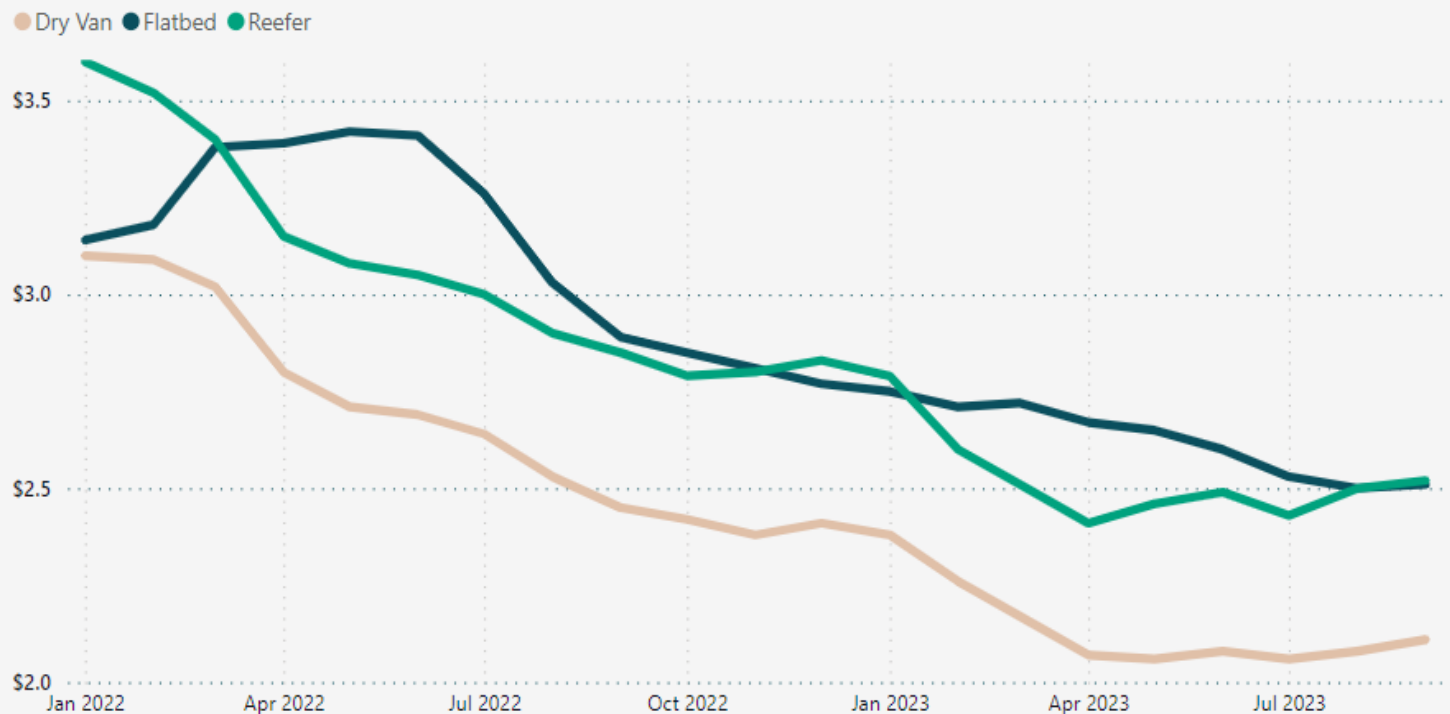
TRUCKLOAD

During the third quarter, truckload rates found what some consider the bottom of the current cycle. Many heard echoes of Tom Petty's "Free Falling" throughout the year's first half. The truckload rate fell so fast and so hard that it caused many carriers, especially smaller ones, to change paths due to unprofitability.

For most of the third quarter, truckload Load-to-Truck ratios and rates remained flat. There was little variability outside of the July 4th and Labor Day holidays. This stabilization at lower rates led to a realignment of the carrier distribution. During the COVID-19 pandemic, we saw a record number of new carriers take advantage of booming markets.

With the rates hanging around the break even or losing range, many owner/operators moved back to larger carriers or even exited the industry altogether. According to the Bureau of Labor Statistics, August saw 36,700 positions leave the industry. That is the second-highest reported number of exits in the last decade.

DAT AVERAGE CPM SPOT

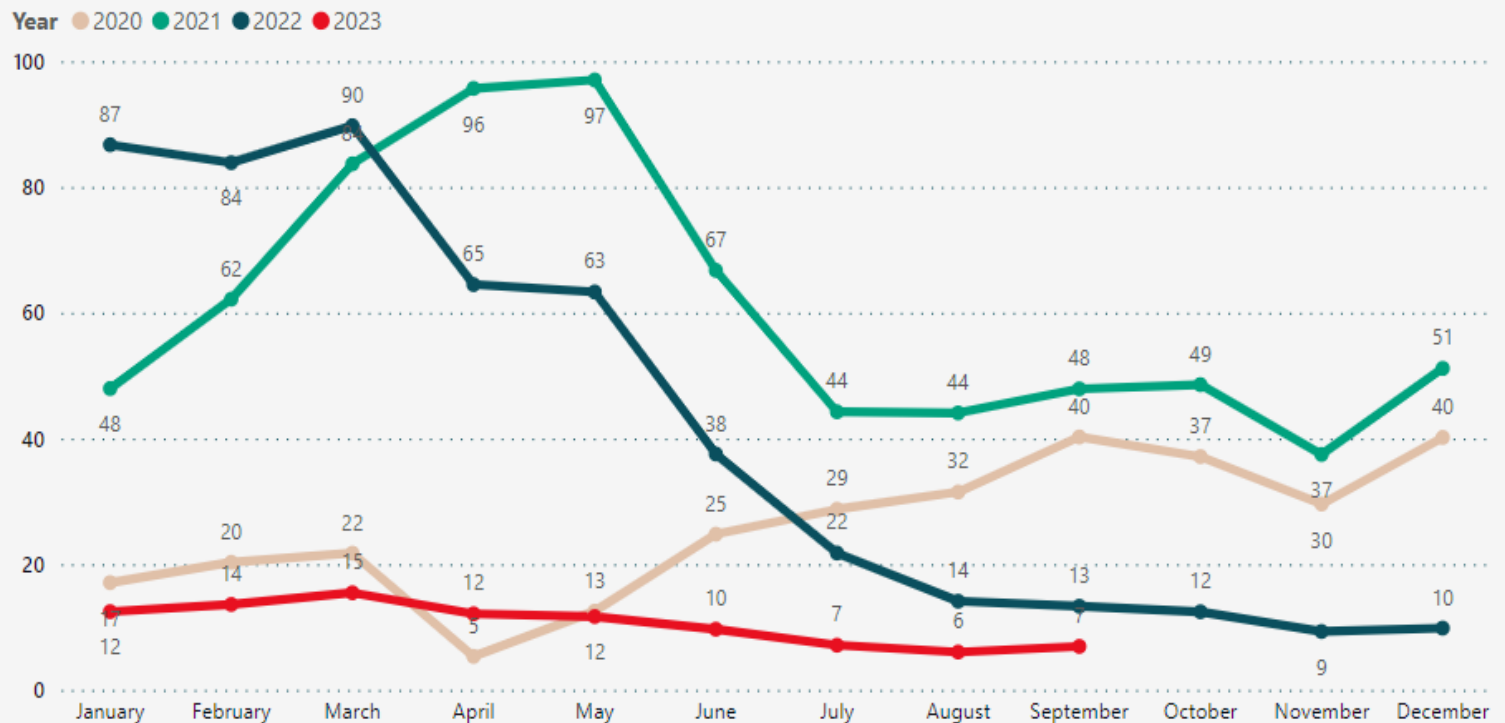


It is tough to gauge the actual distribution's appearance since the truckload market has a much larger pool than other modes. Typically, the market can see the utilization once it has already impacted the market. During Labor Day week, we saw some of the first signs that freight volumes and available capacity are in a balanced market.

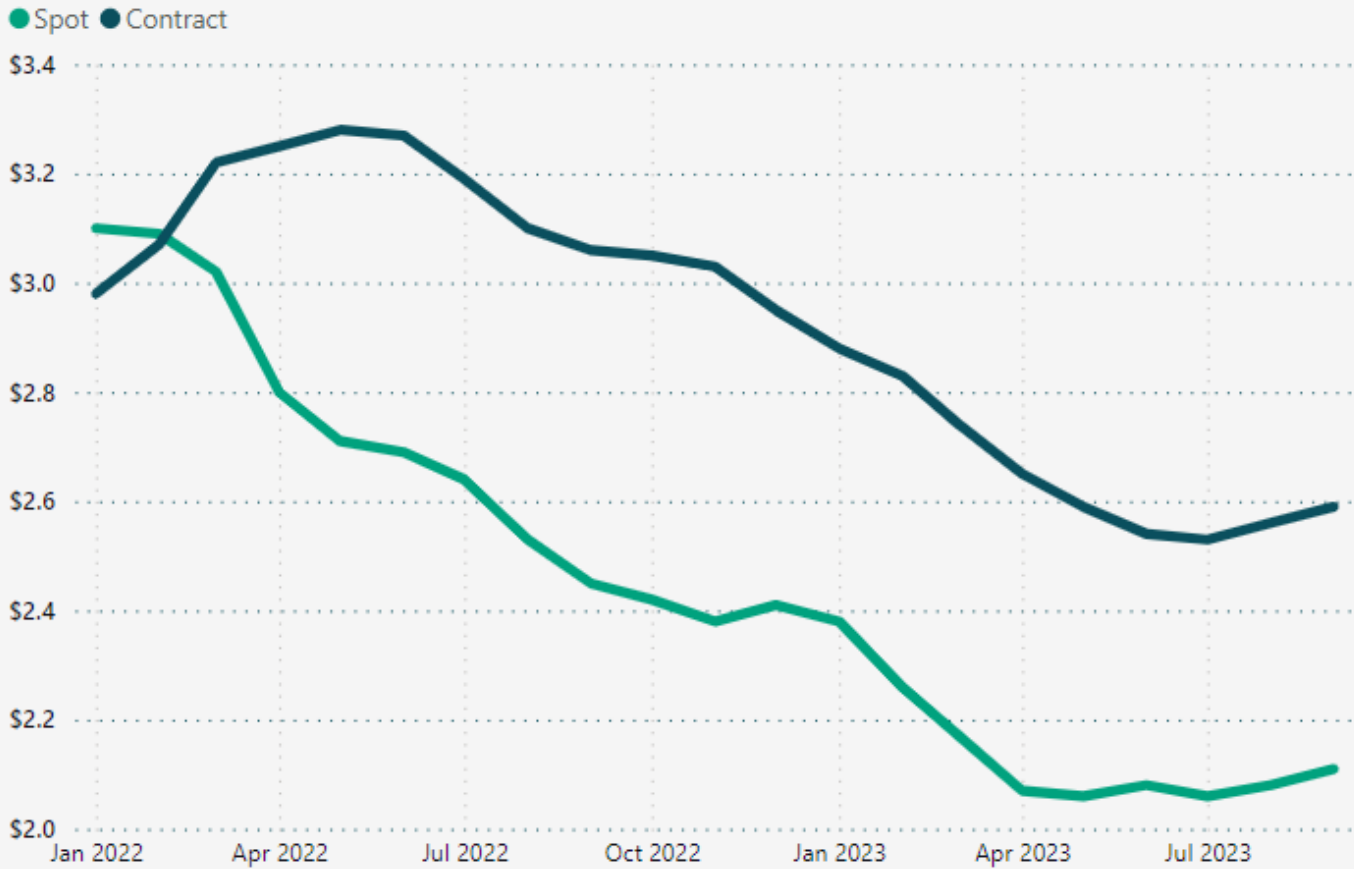
While it is nice to see the potential for equilibrium, we will eventually see the changing of the season. Many involved in the transportation industry have a consensus that the up-cycle may be further delayed well into next year. It will likely be sometime in the Q2 potential Q3 range. In the short term, we could see a muted peak season. It should be nothing comparable to what we were used to seeing pre-COVID.

The current state of truckload by segment is a two story tale. The flatbed landscape has continued a downward drop in demand. The load-to-truck ratio is at its lowest point in four years. The spot market has seen little to no improvement in cost per mile, going all the way back to the beginning of 2022. The two industries that impact flatbed demand the most are housing and construction. There will likely be some improvement this fall as the weather improves. However, the core demand should peak next spring when more infrastructure bill money hits the market. The only future challenge is if the housing interest rates continue to remain high. New homes being built will continue to remain low, leading to less demand for flatbeds to support the inbound materials.

DAT FLATBET TO LOAD TRUCK RATIO



DAT DRY VAN AVERAGE CPM



Source: DAT

On the other hand, dry van and reefer demand has seen a slow incline, as well as cost per mile. It may not be the record levels we saw during the pandemic, but the trends are shifting more positively. One of the more telling signs of a balance was in the refrigerated market during Labor Day weekend. FreightWaves tender rejections for reefer equipment have been steadily below the 4% mark. During Labor Day weekend, the rejection rates jumped over 10%. This is a sign that the market is inching closer to a balanced state.

As we enter the fourth quarter, it is the season for truckload RFPs. With a full year of a soft

market under most of the industry, the question comes to mind: where will carriers draw the line in the sand? Could we see contract rates climb now that pressure is building? Will the reactions cause the spread to fall between the contract and the spot market?

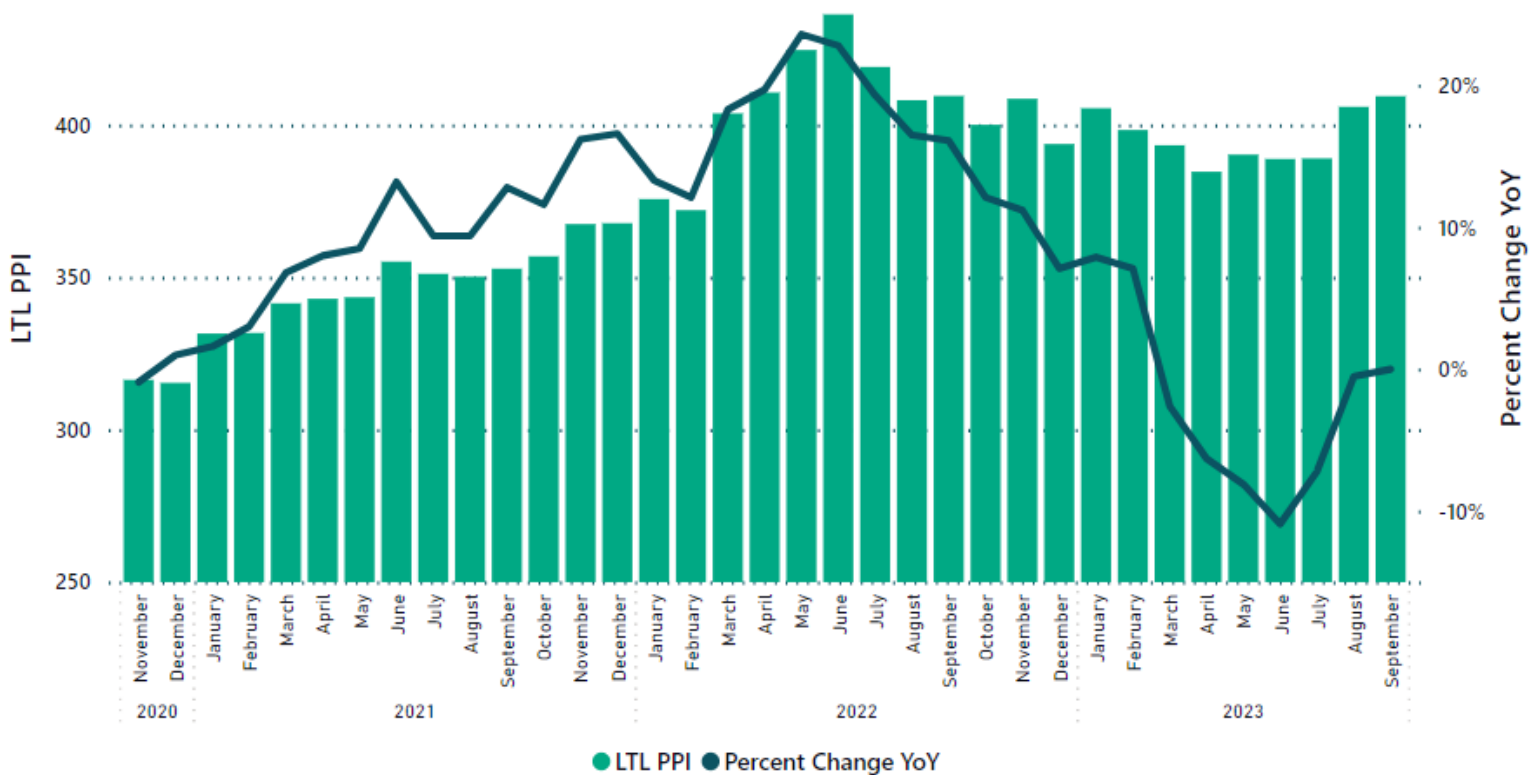
Currently, no entity with a crystal ball can project the market's flipping from being in favor of the shipper to the carrier. Cass data shows that the last three freight down-cycles endured between 21 and 28 months. We are sitting on the 21st month now. It is crucial for shippers to build their relationships now and prepare for the eventual shift. It likely will not be in the final quarter of this year, but it will be essential to prepare for the next tough season.

LESS THAN TRUCKLOAD

The most volatile mode this past quarter was Less-Than-Truckload. There were indications that the LTL market could start to follow the downward trend of the truckload market. LTL carriers were reporting dropping tonnage, which was causing hits to their revenue. The LTL industry

saw a shift around the time of COVID to push for higher operating ratios. With 20 carriers making up 85% of the marketplace, there is less competition, allowing many carriers to weather the down-cycle and remain profitable.

LTL PPI COMPARED TO PERCENT CHANGE YOY



Source: US Bureau of Labor Statistics

The challenge was how long they could maintain the new model before other carriers started to chip away at their profits to regain volume. It was getting close to that time, but everything changed when rumors of Yellow's collapse hit the news. Yellow is no stranger to rumors of bankruptcy. They have had scares going back over a decade. This time, it had more teeth, and the actual fall happened quickly. The Yellow bankruptcy is the largest in trucking history.

When the official news came out that Yellow would file bankruptcy in July, it became a mad dash to pull as much freight from Yellow as fast as possible. Before their demise, Yellow was the third largest LTL carrier in the industry. They handled nearly 50,000 shipments per day. The rest of the industry had to absorb their volumes almost overnight. Some larger carriers have reported 3,000-5,000 more daily shipments in their networks.

While this is welcome news to many carriers, it is important now more than ever for the LTL carriers to stick to their newer models of keeping a solid operating ratio and focusing on the type of freight that fits their business model.

The challenge for many shippers that used Yellow was their pricing structure. Historically, Yellow had lower

rates and took freight that other carriers would not. Cost-sensitive shippers used Yellow more than others. With the changes in the market, shippers will have increased costs when shifting towards new carriers. Customers who leveraged Yellow for most of their freight could see their freight costs increase as much as 20%.

That does not mean shippers that did not use Yellow are safe. As the carrier's networks continue to maximize, it could lead to greater increases in rates. That has been evident in the LTL PPI levels over the past few months. LTL PPI is an index that compares the average price for LTL. While fuel increases have some impact on the increases, the major market shocks from the Yellow collapse will only further agitate the freight costs.

Market challenges like the current LTL situation make clear the importance of partnering with a market specialist like Evans. When you have a carrier profile specifically designed with your freight in mind, you are not as exposed to the general rate increases as most shippers.



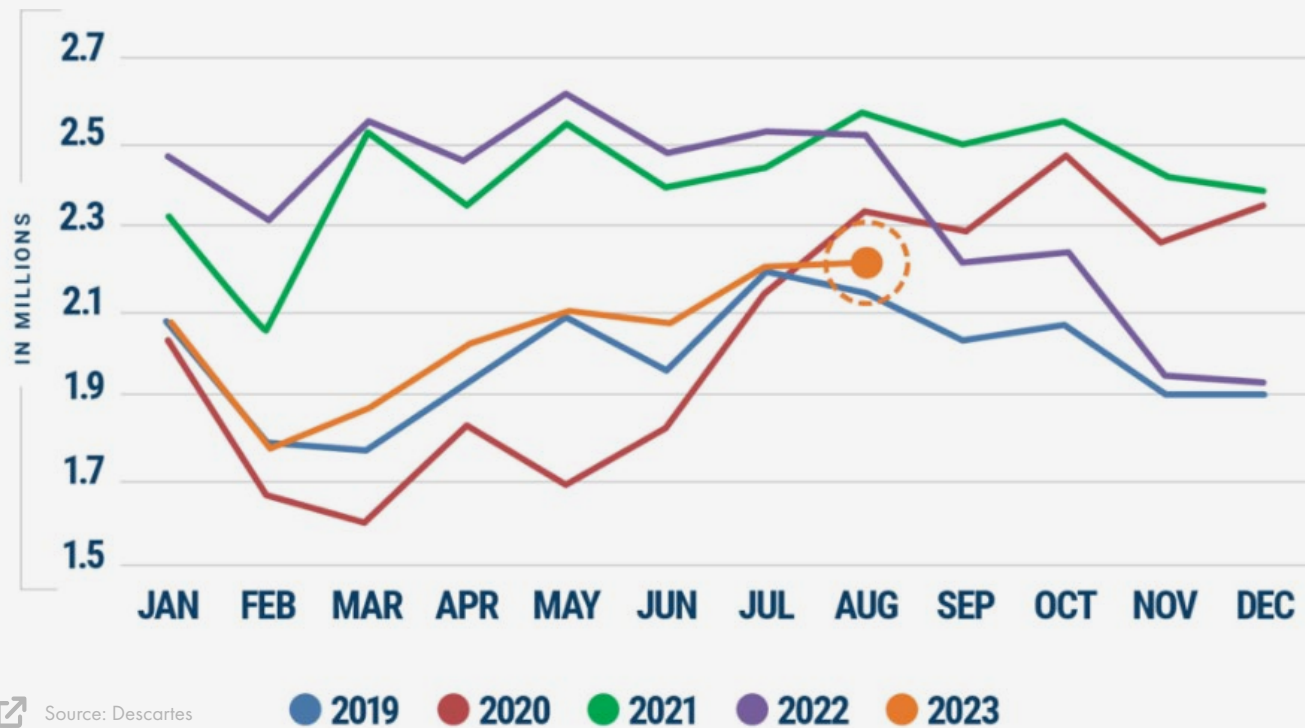


INTERNATIONAL

On the international side of the equation, we are no longer seeing falling rates like we did last year. The expected cost per container has remained relatively steady over the course of this year.

This holiday peak is expected to have a muted seasonal impact compared to a typical year. This is due to current inventory levels and less consumer demand with rising interest rates.

2019-2023 CONTAINER IMPORT VOLUME (TEU)



Source: Descartes

However, July and August numbers reflect a different story. On top of the July increase in container TEUs (twenty-foot equivalent), August saw a 0.4% month-over-month increase. This is still down over 13% in comparison to August of last year; however, it is 2.5% above the levels in August of 2019. Many figures track this year's container statistics to that of 2018 and 2019 levels.

A positive change that happened in recent months was the West Coast union employees and ports coming to an agreement. Due to the length of time it took to sign the contract, they should not expect the volumes to return overnight. That being said, they have already seen some positive movement in volumes. Other factors affecting the return in volumes are a changing population and the growing regulations on carriers in California.

An area of international trade that has not impacted container volumes yet is the challenges around the Panama Canal. During the long, drawn out West

Coast negotiations, many carriers diverted their volumes through the Panama Canal and toward the eastern ports. In recent months, Panama has had record droughts that impact the number of ships that can pass per day. While container ships have their spot in the line well in advance, over 200 ships are waiting to pass. If the issue persists, it could cause further challenges for all ships crossing the continent.

A growing trend that is showing no signs of stopping is nearshoring. The country that has been the biggest benefactor of nearshoring is Mexico. According to Bank of America's recent release, Mexico passed China as the number one importer, a fact that dates back to 2003. As demand grows south of the border, the need will shift from ships to cross-border carriers and rail solutions.

While there are plenty of signs that the international movement of goods is improving, we are not entirely in the clear yet. Plenty of realigning must take place before we understand what the new landscape will look like.

PARCEL

Over the past few months, parcel was almost as volatile as LTL. UPS was on the verge of the largest strike in US history, causing many shippers to scramble for alternative parcel solutions.

Lucky for everyone, UPS and the Teamster Union came to a deal before the July 31st deadline. Signing the agreement did not leave UPS unscathed.

FedEx reported that it picked up more clients during the negotiation period and grew wallet share from existing clients. According to FedEx, average volumes increased to around 400,000 per day. Once the tensions subside, UPS will take some of their business back. This scenario caused many shippers to understand the importance of a diverse portfolio.

Other headlines during the third quarter came from both companies announcing their annual general rate increases. FedEx was the first to release its annual changes on August 29th. There were some questions about UPS staying true to matching rates or if they would have to have greater increases to pay for the new contract. In true fashion, UPS matched the 5.9% increase by FedEx. It is a reprieve from the 6.9% increase last year but still matched the second highest increase on record.

One of the more essential changes coming out of the 2024 GRIs is the change in “peak” surcharges. Naming conventions are being changed to “demand” surcharges and overhauling the structure.

When it comes to parcel GRIs, just because the increase shows 5.9% that does not mean that it will have that exact impact on the parcel spend. The name points out that it is a “general” increase. Most shippers see impacts to their spending exceeding the announced number. In some circumstances, shippers see an increase well above ten or even fifteen percent.

The changes are not easy to follow, and that is on purpose. If you feel uneasy or want to know more about the impact on your parcel spend, contact your Evans representative. They can direct you to the Evans Parcel Solutions team. They can help you better understand the complexity of the parcel environment.

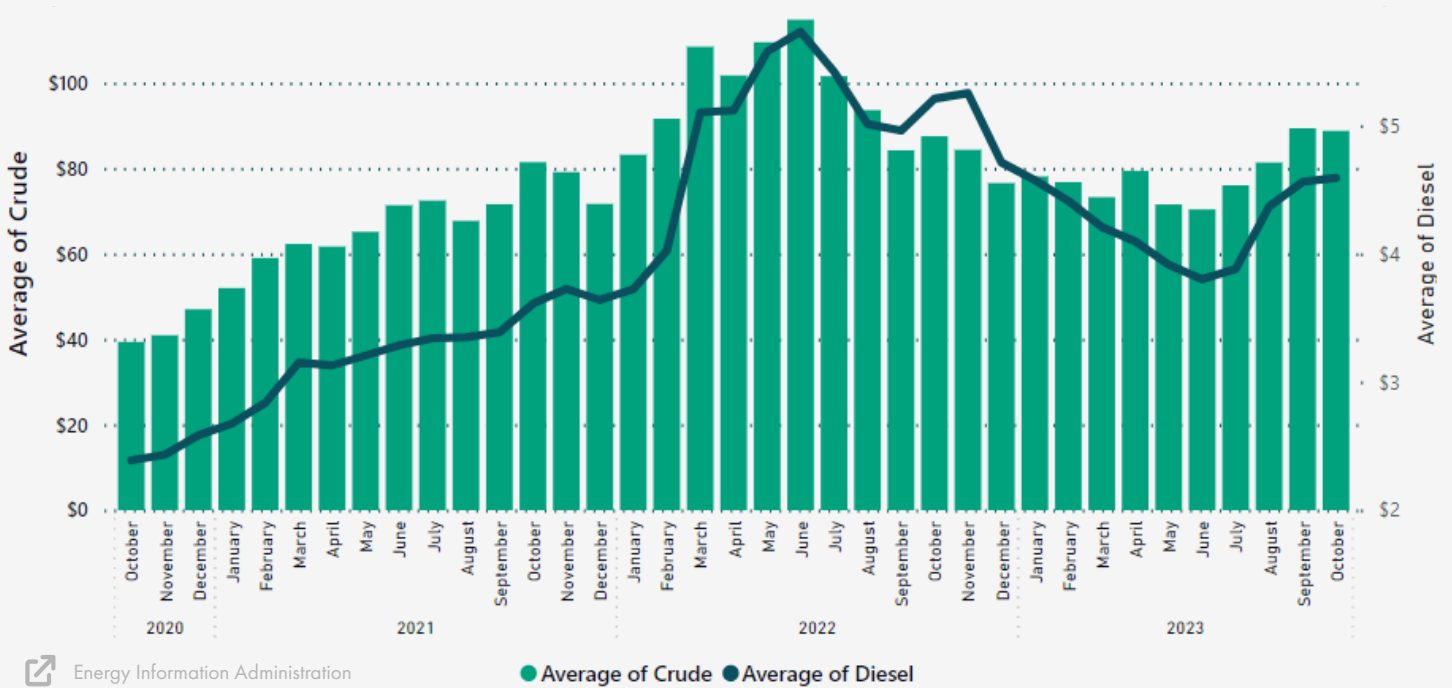


INDUSTRY TRENDS AND PRESSURES

A key component of freight that cannot go unnoticed is fuel costs. In recent months, Saudi Arabia and Russia have decided to pull back on their production. One of the core reasons for the adjustment is due to the drop in demand from China. Combining the cuts with the US's depleted reserves, the demand for crude oil has spiked. September cost per barrel has been well

above the \$90 mark. Many forecasts expect the price to exceed \$100 in the near future. However, coming into October, crude rates fell \$10 overnight to the mid to low eighty-dollar mark. Just a few days later, war broke out between Israel and Hamas, causing rates to increase again. The continued volatility around fuel will make it challenging for both shippers and carriers.

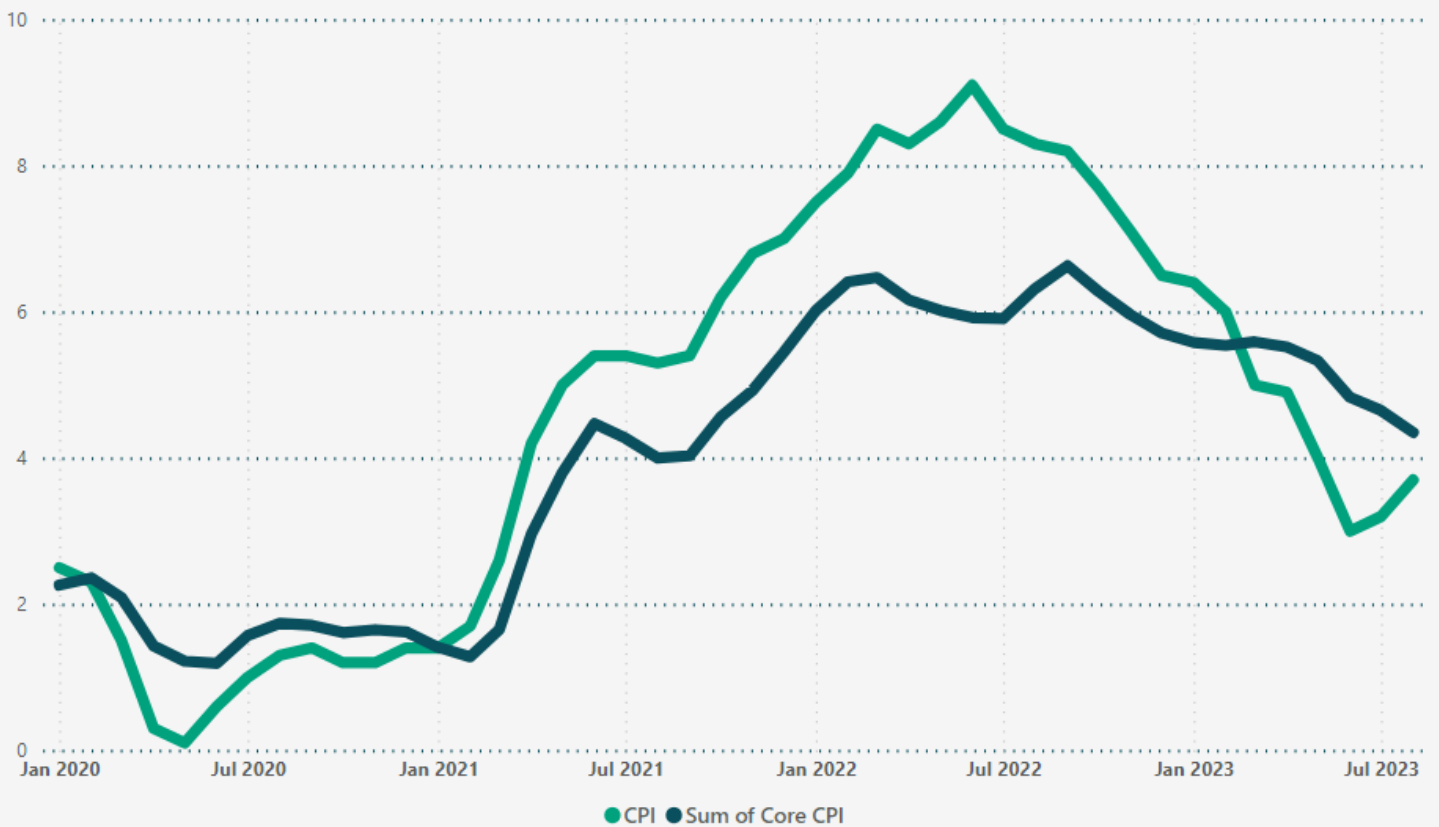
CRUDE PER BARREL AND AVERAGE DIESEL




Another challenge with the growing demand for fuels is around the US refinery output. Since COVID, refineries have been running near 100% capacity. Pre-COVID refineries did not run as hard as they do now. Many refineries are foregoing typical maintenance shutdowns so

as not to interrupt the flow of byproducts. This is also putting undue stress on an aged population of refineries. So far this year, unplanned outages are up 53%. Not only does this raise concern about the availability of fuels, but it also causes increased costs at the pump.

NATIONAL INFLATION RATE



 Bureau of Labor Statistics

Fuel is also a key component when looking at inflation. The Fed's use the Consumer Pricing Index (CPI) to gauge the current market strength and increase or decrease interest rates. Fuel is a major factor in the calculation of CPI. It has such a great influence on the figures that it caused an increase in the CPI index the past two months. That was the first increase since June of last year. That is why we also have core inflation that excludes fuel and food. While it helps the Fed's understand the market, it directly reflects the growing costs for the everyday American.

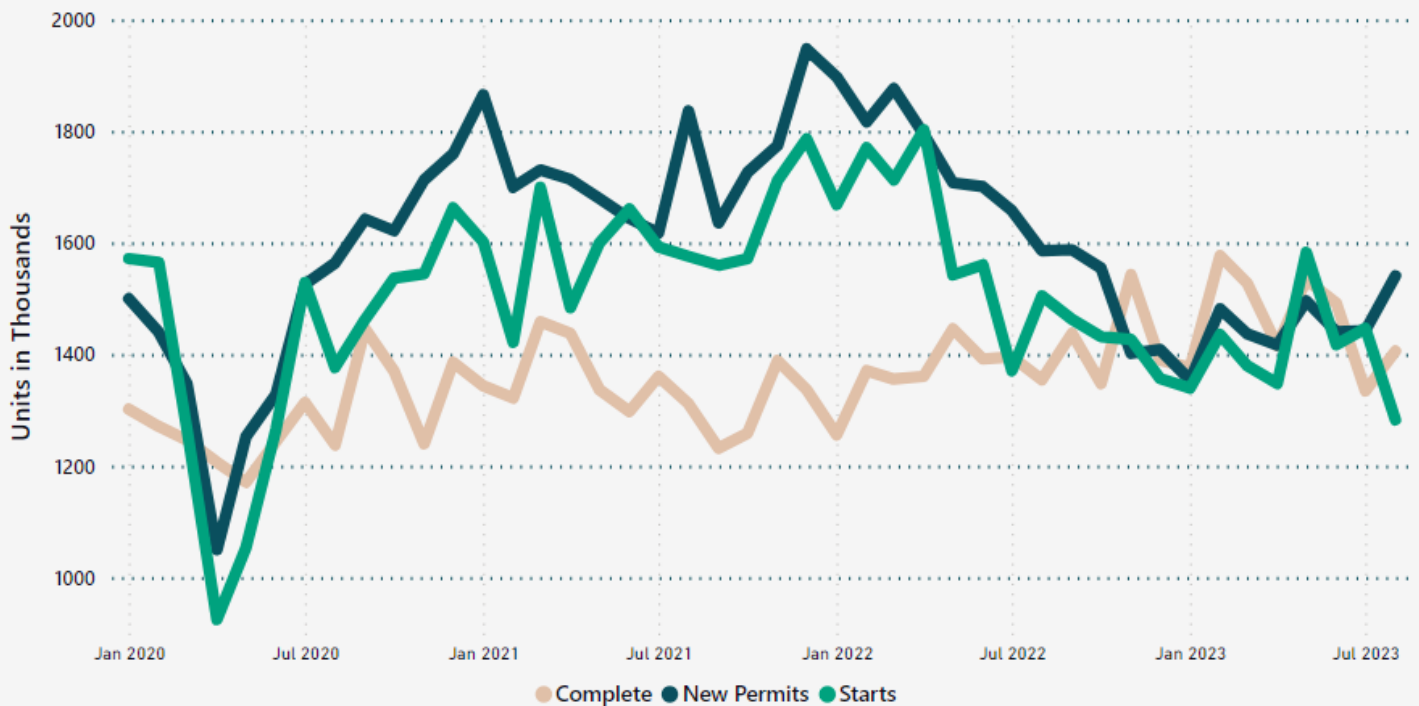
With growing interest rates come challenges of their own. Many individuals are finding it harder to purchase

or build a new home. For many households, the idea of using the equity built in one's home to buy a new home is challenging due to the additional interest costs. According to Redfin, August canceled home purchases have increased to levels not seen in over a year. These pressures are not only showing up in the housing market but in corporations as well. As of July, S&P reported corporate bankruptcies in 2023 surpassing all bankruptcies last year. With interest rates remaining high or increasing even further in the future, it will become even harder for companies to keep up with payments.

Emissions continue to be a hot topic for many in the industry. No matter your stance, this is an issue that will not fade away. The answer to green vehicles has been almost 100% electric for the normal consumer. For the transportation sector in its current state, electric vehicles will be limited by the technology available. There is a fit for local shipments, but once you approach the long-haul sector, it is not a viable solution. That is why companies like Nikola are switching gears towards hydrogen fuel cell vehicles. The infrastructure is similar to the current gas system; however, the only output is water vapor.

Regarding emissions, California last month passed a first-of-its-kind law to track businesses' carbon footprint. By the year 2026, businesses in California must have a method to track their emissions and report them to the state. Eventually, they will have to release the tracking data to other companies. While some massive companies track these figures at some level, it will be difficult for companies to find the resources and spend the money to capture this information. In the transportation industry, tracking data on a granular level has always been a challenge. With California passing these regulations, other states could follow suit.

RESIDENTIAL CONSTRUCTION





FINAL THOUGHTS

The four seasons are a cycle that you can always count on. As we head into fall, different industries set their clocks to start new tasks. It may be time to harvest, release an RFP, or create strategic plans for the next year. Transportation has a similar cycle of ups and downs. The challenge is that the cycles are not as predictable as the changing of the seasons.

The unpredictable nature of the transportation market makes it challenging for anyone involved. Without the

proper partnerships, building relationships, optimizing networks, saving money, and preventing bottlenecks can be almost impossible. Our focus at Evans is to be our client's strategic partner in all aspects of their supply chain. Have you leveraged the #EX? Reach out to your Evans contact today to learn more about becoming a valued client of Evans.