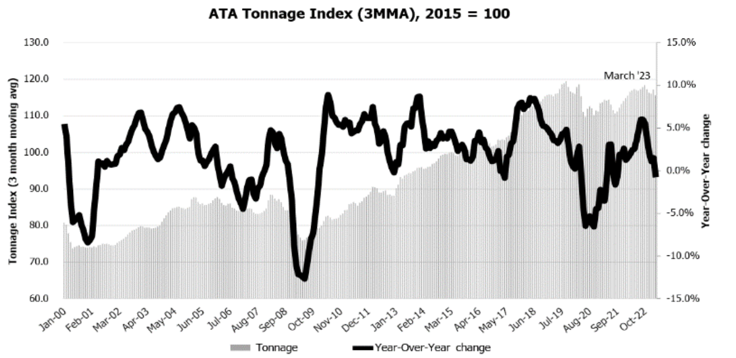
GROUND MARKET UPDATE

June 2023

CURRENT STATE

A large food products shipper was interviewed on a Wall Street Analysts podcast and had the following to say regarding recent freight trends. Over the last three months, this shipper has seen demand soften, and volumes inflect negative year over year. As a result, this shipper sees persistently high inventory levels and plans to keep destocking throughout the rest of this year. Meanwhile, they continue to see ample trucking capacity and low single-digit tender rejections. They also completed a full TL/intermodal bid in Q4 last year, and his TL contract rates declined mid-teens year over year while intermodal rates fell mid-single digits. This shipper normally rebids some of his TL freight each March but chose not to this year after his successful Q4 bid, which brought rates near 2019 levels. As they prepare for their next bid, they will closely watch TL spot rates post-Fourth of July and into peak season this fall. Their expectation for the Q4 2023 bid, as of right now, is another mid to high-single-digit reduction in TL contract rates. On the other hand, they expect their intermodal rates to be slightly lower (low- to mid-single digits) than their TL rates as they plan to stick with incumbent intermodal providers. Finally, this shipper discussed a recent ocean bid where they initially budgeted for their rates to fall 40% year over year but secured closer to a 60%-70% reduction.

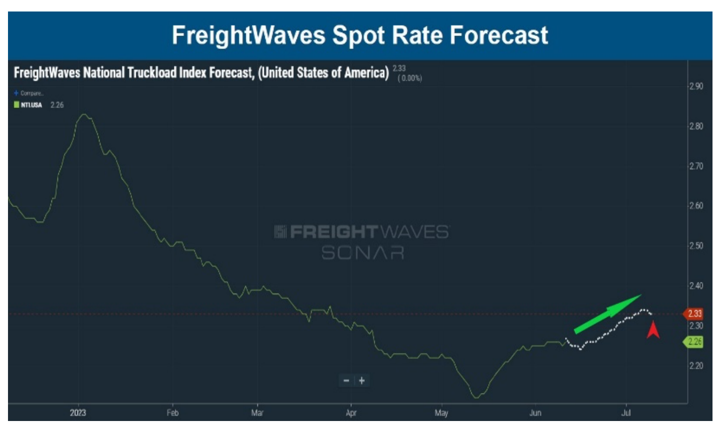


On a sequential basis, the Q1 2023 Stephens TL Rate Index decreased by 3.9% from Q4 2022, underperforming the historical average sequential decrease of 3.5%. Despite the market potentially bottoming in March/early April, we expect the rate per loaded mile to underperform normal seasonal patterns sequentially and see accelerating rates of decline on a year-over-year basis in Q2 2023 as significant negative contract rate revisions, in terms of magnitude and volume, more fully take effect in the Q2.

MARKET FORECAST

Trucking Industry Forecast for 2023. The freight cycle remains clearly weak, but there are encouraging rays of light at the end of the tunnel. We think freight market supply and demand dynamics are tightly intertwined, with the two main explanations for the recent improvement in spot trends in April on the demand side: imports are recovering, and produce season is beginning. But in a market with loosening capacity, these factors may not matter for rates, like last year. The medium-term demand outlook is as encouraging as we've seen over a year. Still, the supply tends to matter more for rates, statistically speaking. Capacity is starting to contract as fleet profitability is hit hard by lower rates.

U.S. truckload market 'bouncing' along pricing bottom. After plummeting for over a year, a base to the U.S. truckload spot market is emerging. However, its exact contours are hard to trace. Spot dry van refrigerated and flatbed rates rose weekly in late May, but that doesn't mean the spot market has reached an inflection point. "May will be pivotal for shippers, brokers, and carriers," Ken Adamo, chief of analytics at DAT Freight & Analytics, said last week. "We expect to see the effects of seasonality on freight volumes and rates," he said. "The question is how sustainable those effects will be."



INDUSTRY INSIGHT

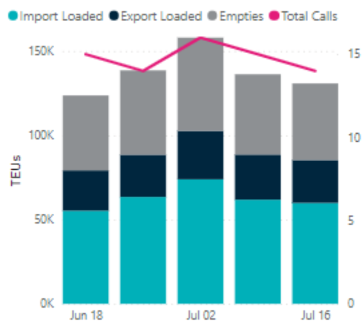
The Port of Long Beach currently has 6 container vessels at berth. Average at anchor is 0 days.

WAVE
Weekly Advance Volume Estimate

Port of LONG BEACH THE PORT OF CHOICE

PROJECTED WEEKLY VOLUME (TEUS)

Week	Date	Import Loaded	Export Loaded	Empties
25	06/18/2023	55,292	23,934	44,446
26	06/25/2023	63,433	25,084	50,045
27	07/02/2023	73,917	28,734	55,348
28	07/09/2023	61,824	26,784	47,643
29	07/16/2023	59,909	25,434	45,450



PROJECTED VESSEL CALLS

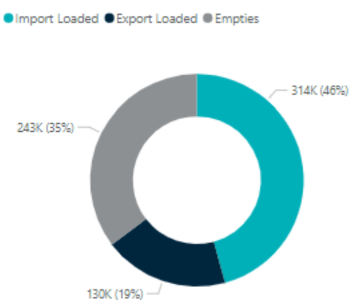
Week	Date	Blank Sailings	Extra Loaders	Planned Calls
25	06/18/2023	0	1	14
26	06/25/2023	4	0	18
27	07/02/2023	1	0	17
28	07/09/2023	1	0	16
29	07/16/2023	0	0	14

ESTIMATED CONTAINER MOVE TYPES (TEUS)

Week	Date	Import Local	Import On-Dock	Import Off-Dock	Export Local	Export On-Dock	Export Off-Dock
25	06/18/2023	43,615	14,835	3,298	16,622	5,654	1,257
26	06/25/2023	48,866	16,621	3,695	18,623	6,334	1,408
27	07/02/2023	55,721	18,953	4,213	21,235	7,223	1,606
28	07/09/2023	48,051	16,344	3,633	18,312	6,229	1,385
29	07/16/2023	46,126	15,689	3,488	17,579	5,979	1,329

ESTIMATED EXPORT AND EMPTY RETURNS (TEUS)

Week	Date	Export Loaded	Export Empty
25	06/18/2023	23,934	42,250
26	06/25/2023	25,084	46,650
27	07/02/2023	28,734	53,150
28	07/09/2023	26,784	44,250
29	07/16/2023	25,434	43,250



AVERAGE TERMINAL GATE TURN-TIME (MINUTES)

Terminal	Day Shift	Night Shift
Pier A	34	21
Pier C	24	22
Pier E (LBCT)	41	45
Pier G (ITS)	98	104
Pier J (PCT)	46	84
Pier T (TTI)	58	62

Average turn-times vary by terminals, and based on terminals' data from the previous week

Revised 6/12/2023

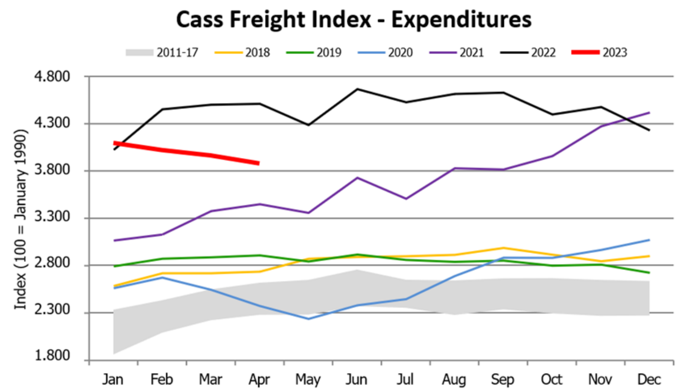
Large US truckload carriers reined in capacity in Q1.

Capacity is exiting the U.S. truckload market, albeit slowly, with a group of the largest U.S. truckload carriers reducing their truck numbers by 5% from last year's fourth quarter to the first quarter of 2023, according to the latest quarterly Journal of Commerce Truckload Capacity Index (TCI). All the carriers included in the TCI, released Wednesday, decreased their tractor counts from the fourth to the first quarter, pulling the index reading down from 91.2% to 86.6%. On a year-over-year basis, the TCI dropped 2.2 percentage points below an 88.8% reading in the first quarter of 2022.
The Q1 contraction, while steeper than seen in recent quarters, is still not big enough to make a significant dent in overall truckload capacity or reverse truckload pricing trends that favor shippers. The declines signal that large truckload carriers adapt to a soft market by reining in and redirecting capacity. That will place them in a better position when stronger truckload demand returns.

Where Is the U.S. Economy Headed? Follow the Money… What to watch for. Over the past 30 years, recessions have closely tracked banks' willingness to lend out the cash they collect from depositors. According to the Fed's senior loan officer opinion survey, bankers are charging higher interest rates on loans to consumers and corporations and for commercial real estate. They are also demanding that borrowers post more collateral.

INDUSTRY INSIGHT

Implied price/mix was down approximately 12% year over year and down 1% month over month. Seasonally adjusted rates appear to be down 3% month over month. We expect average domestic rates to be lower year over year, but compared to other years, we are in the second highest expenditures year on record.



Source: Cass Information Systems

Laredo remains the nation's No. 1 gateway for international trade.
For the second straight month, Laredo, Texas, retained the No. 1 spot among the nation's 450 international gateways for trade. During March, Laredo recorded a 12% year-over-year increase in total commerce to $28.6 billion, according to the latest U.S. Census Bureau data analyzed by WorldCity. Chicago O'Hare International Airport ranked No. 2 and reported $26.4 billion in trade. In comparison, John F. Kennedy International Airport in New York was No. 3 with $23.4 billion. The Port of Los Angeles, which held the No. 1 spot for most of 2022, fell to No. 4 in March, accounting for $22.1 billion in trade. Mexico also ranked as the United States' top trading partner for the fourth consecutive month in March, with total trade increasing 4.5% y/y to $72 billion. Auto parts ($2.3 billion), passenger vehicles ($1.1 billion), and heavy-duty trucks ($1.1 billion) were the top three imports from Mexico to the U.S. through Laredo.

Truckload Demand Continues to Drift Sideways. Some recent truckload demand indexes align to paint a gloomy picture for truckload carriers looking for a rebound in freight demand this year. So far, many of the publicly traded trucking companies reported that they didn't see the usual seasonal bounce in freight volumes in March that they expected, according to Prof. Jason Miller at Michigan State University (MSU). The MSU for-hire trucking ton-mile index (TTMI) saw a seasonally adjusted decline of 0.7% m/m in March and was down 2.7% from March 2022 (the high-water mark in the index's history). According to Miller, "TTMI shows no signs yet that we will be exiting this freight recession soon, though hopefully, we won't go back to the even lower levels that we saw in December 2022. Carriers should expect aggregate demand for trucking to be 2.0% to 3.0% below levels this time in 2022 until we reach the back half of the year when comps become easier."

Long-haul journey to near-zero… Diesel remains the gold standard today regarding availability, infrastructure, and range. In contrast, battery-electric and hydrogen fuel cells are the gold standard for zero emissions. However, as fleets know, the long-haul battery-electric range isn't there yet. In contrast, the technology and infrastructure for hydrogen fuel cell, which is ideal for long-haul applications, isn't yet built out or mature enough to meet the needs of the trucking industry sector.