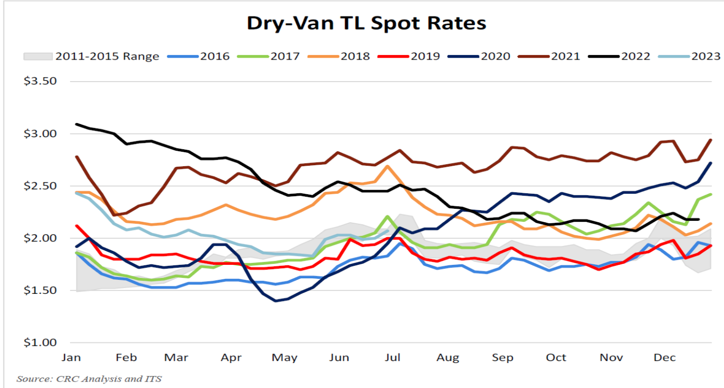
GROUND MARKET UPDATE

July 2023

CURRENT STATE

In an industry analyst's podcast, a large food shipper commented on recent trucking and intermodal trends. This shipper saw significant year-over-year savings in his most recent bid, including double-digit savings on intermodal and TL rates and even more significant reductions with brokers. **But since this bid took effect, this shipper noted some isolated incidents of carriers returning, saying rates are unsustainably low**. At the same time, this shipper is seeing some early pockets of tightness in the market right, primarily on produce shipments. So, he feels like we are at the market bottom with some initial green shoots. That said, there is still a widespread between contract and spot rates, so this shipper thinks that contract rates could be down again modestly in 2024. Given the lag in pricing, this shipper sees an even greater likelihood that intermodal rates are down again. He is also seeing IMCs get increasingly aggressive with rates to try and win new volumes. Meanwhile, **this shipper is looking for ways to reduce his Dedicated exposure to get overall freight spending down**. Finally, our contact's inventories continue to improve sequentially but are still above targeted levels. So, he thinks we are close to a trough on volumes, but he doesn't see a catalyst for the market to turn in the second half of this year as he thinks volumes could stay at trough levels for longer this time around than prior cycles.

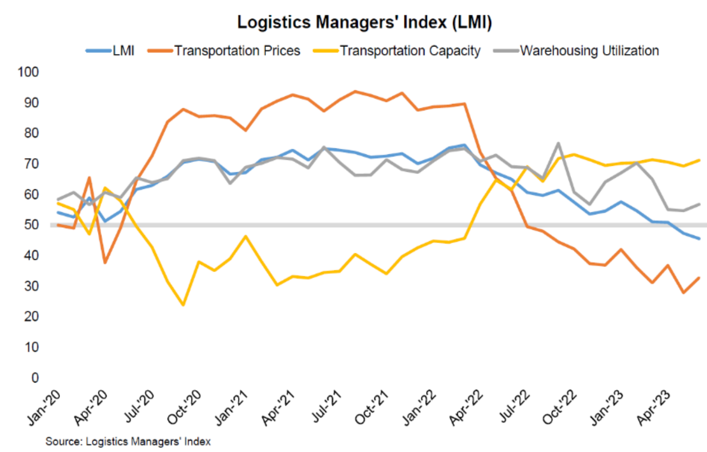


Dry-van TL spot rates (incl fuel) through mid-July are down 18% year over year **but up slightly versus May and June**. Rates are now near 2017 levels. While rates appear at/below break-even profitability, our work indicates trucks willing to run to cover cash flow.

MARKET FORECAST

U.S. rail carload and intermodal volumes are down for the week ending June 17, reports AAR… Rail carloads, at 228,988, eked out a 0.6% annual increase, topping the week ending July 3, 219,289, and trailing the week ending May 27, 235,507. Intermodal containers and trailers, at 242,152 units, fell 11.2% annually, topping the week ending July 3 at 220,312 and trailing the week ending May 27 at 245,691.

The cost of trucking hit a record high last year, passing $2/mile for the first time… Marginal costs ballooned 21.3% last year over 2021 to $2.251 per mile, surpassing the $2 per mile mark for the first time in the history of ATRI's operational cost report. Trucking's cost per mile has jumped 34% since 2021, and 2022's mark is 61 cents higher per mile than 2020. Costs per hour in 2022 totaled $90.78, the highest in the report's history. While inflation was a key driver of trucking costs last year, ATRI Research Associate Alex Leslie said it was not the primary driver. "On an annual basis, consumer inflation was 6.5%, producer inflation was 6.4%, and core inflation was about 6%. Setting fuel aside, which was a huge contributor to inflation but was itself closely tied to domestic and geopolitical issues, the cost of trucking rose at about twice that rate, by 12%," he said. "In several cost centers – which rose at an even greater rate – other factors discussed in the report likely played a bigger role, such as parts availability and supply chain impediments, the atypical truck market/demand, and the competitive labor environment.".



The June 2023 reading of the Logistics Manager's Index (LMI) reached a new all-time low at 45.6, and for the second time in a row, the Logistics Managers' Index registers as contracting. This is the fourth consecutive month the index has reached a new all-time low (above 50 indicates expansion, below 50 indicates contraction). Transportation capacity, warehouse utilization, and transportation prices all increased month over month.

INDUSTRY INSIGHT

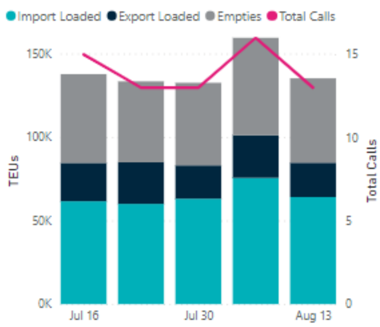
The Port of Long Beach currently has 5 container vessels at berth. Average at anchor is 0 days.

WAVE
Weekly Advance Volume Estimate

Port of LONG BEACH
THE PORT OF CHOICE

PROJECTED WEEKLY VOLUME (TEUS)

Week	Date	Import Loaded	Export Loaded	Empties
29	07/16/2023	61,613	22,986	53,141
30	07/23/2023	60,037	24,932	48,452
31	07/30/2023	63,133	19,984	49,442
32	08/06/2023	75,617	25,534	58,342
33	08/13/2023	64,116	20,584	50,542



PROJECTED VESSEL CALLS

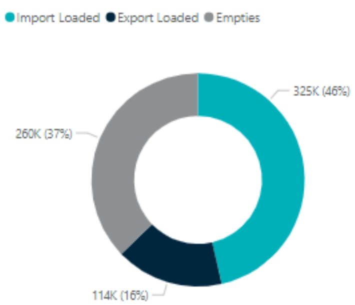
Week	Date	Blank Sailings	Extra Loaders	Planned Calls
29	07/16/2023	2	1	16
30	07/23/2023	2	0	15
31	07/30/2023	1	0	14
32	08/06/2023	0	0	16
33	08/13/2023	1	0	14

ESTIMATED CONTAINER MOVE TYPES (TEUS)

Week	Date	Import Local	Import On-Dock	Import Off-Dock	Export Local	Export On-Dock	Export Off-Dock
29	07/16/2023	48,576	16,522	3,673	18,513	6,297	1,400
30	07/23/2023	47,053	16,004	3,558	17,932	6,099	1,356
31	07/30/2023	46,749	15,901	3,535	17,816	6,060	1,347
32	08/06/2023	56,248	19,132	4,253	21,436	7,291	1,621
33	08/13/2023	47,695	16,223	3,606	18,177	6,183	1,374

ESTIMATED EXPORT AND EMPTY RETURNS (TEUS)

Week	Date	Export Loaded	Export Empty
29	07/16/2023	22,986	50,950
30	07/23/2023	24,932	45,050
31	07/30/2023	19,984	47,251
32	08/06/2023	25,534	54,951
33	08/13/2023	20,584	48,351



AVERAGE TERMINAL GATE TURN-TIME (MINUTES)

Terminal	Day Shift	Night Shift
Pier A	46	28
Pier C	22	28
Pier E (LBCT)	40	42
Pier G (ITS)	68	72
Pier J (PCT)	62	70
Pier T (TTI)	55	42

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

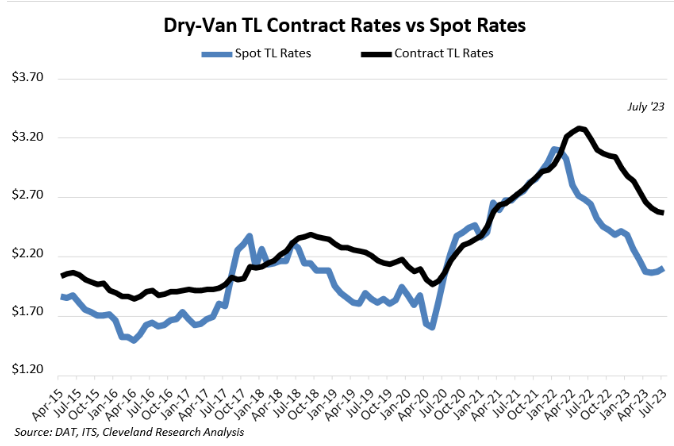
Revised 7/10/2023

Dry Van Report: Freight volume growth follows the population shift to the South. Truckload carriers have been experiencing considerable growth in freight volumes in the Southeast and Southwest since the pandemic began in early 2020, and it is likely being sustained based on recent data from the U.S. Census Bureau. The Northeast, traditionally a GDP powerhouse, now contributes less to the national GDP than six fast-growing states in the South, Florida, Georgia, North Carolina, South Carolina, Tennessee, and Texas. The population migration during the pandemic helped steer about $100 billion in new income to the Southeast in 2020 and 2021 alone, while the Northeast lost about $60 billion, based on an analysis of recently published Internal Revenue Service data. The Southeast has accounted for more than two-thirds of all job growth in the U.S. since early 2020, almost doubling its pre-pandemic share.

Some retailers are concluding that free shipping comes at too great a cost. Macy's, Saks Fifth Avenue, Neiman Marcus, and Abercrombie & Fitch are among the merchants that have raised the bar for spending for consumers to get orders shipped free as companies look to shore up their profit margins on online sales and pass a portion of rising delivery costs onto customers. The average minimum-order threshold for retailers to offer free shipping rose to $64 this year from $52 in 2019, based on a sample set of 48 retailers, according to retail technology provider Narvar. Free shipping "was out of control," said Satish Jindel, president of ShipMatrix, which analyzes parcel-shipping data. "It wasn't going to last, and finally, the party is over."

INDUSTRY INSIGHT

Contract rates move slightly lower into early July, given weaker organic demand trends, more available capacity, and lower fuel prices, while Spot TL rates move higher. Our work indicates brokers lower contract rates faster than asset-based carriers (down 20-30% vs assets down 5-10%). Overall, TL pricing will likely decline 10-15% in 2023.



Logistics Companies Slashed Payrolls Last Month in Faltering Shipping Market. Package carriers, warehouse operators, and other logistics companies are slashing payrolls as demand for shipping goods wanes while the U.S. economy pivots toward spending on services. Freight and parcel carriers cut more than 14,000 jobs from May to June, according to preliminary figures released by the Bureau of Labor Statistics Friday. The drop marks the latest in a series of declines that follow a sharp surge in hiring during the pandemic when strong e-commerce growth triggered a rush to expand supply chains from shipping docks to distribution centers. Trucking employment, which jumped by 180,000 jobs during the pandemic, also edged slightly and has been flat since March.

Freight rates continue to fall, but have they found the floor? "We do start to appear to have rates finding a floor. So, in other words, this deflationary cycle we've been seeing take place over the past year seems to be drawing to a close," said Jason Miller, supply chain professor at the Eli Broad College of Business at Michigan State and veteran transportation economist. "The two sectors, in particular, are the general freight long-distance less than truckload sector, where essentially the May producer price index is unchanged from April. And also, then the specialized freight sector. So that will be your long-distance flatbed, refrigerated, auto haulers, chemical haulers, where, again, we're starting to see evidence that producer price indices capturing the revenue they're obtaining essentially per load, has effectively been flat in May from April."

The shipments component of the Cass Freight Index® rose 1.9% month over month in June but fell 0.8% month over month in seasonally adjusted (SA) terms and fell 5.6% year over year. While it was a softer-than-normal seasonal increase from May, it was nonetheless an increase. Freight markets continue to work through a downcycle, featuring its first y/y decline 17 months ago. The past three down cycles have ranged from 21 to 28 months. Declining retail sales trends and ongoing destocking remain the primary headwinds to freight volumes. Still, dynamics are shifting as real incomes improve, and the worst destock is in the rearview. With normal seasonality, this index would rise slightly month over month in July and decline about 3% yearly.