RUNNING SIGNAL

Transportation Guide

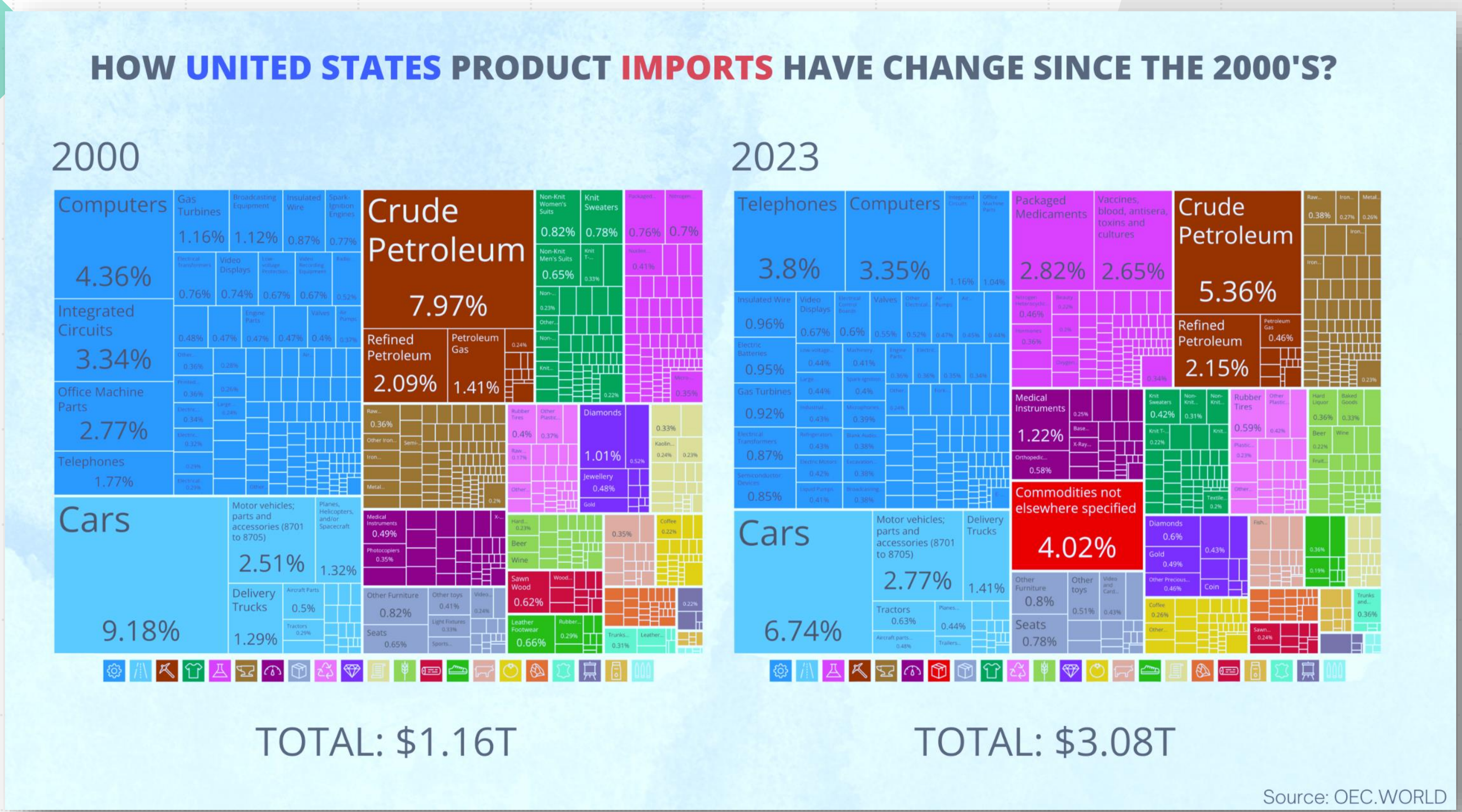
9/20

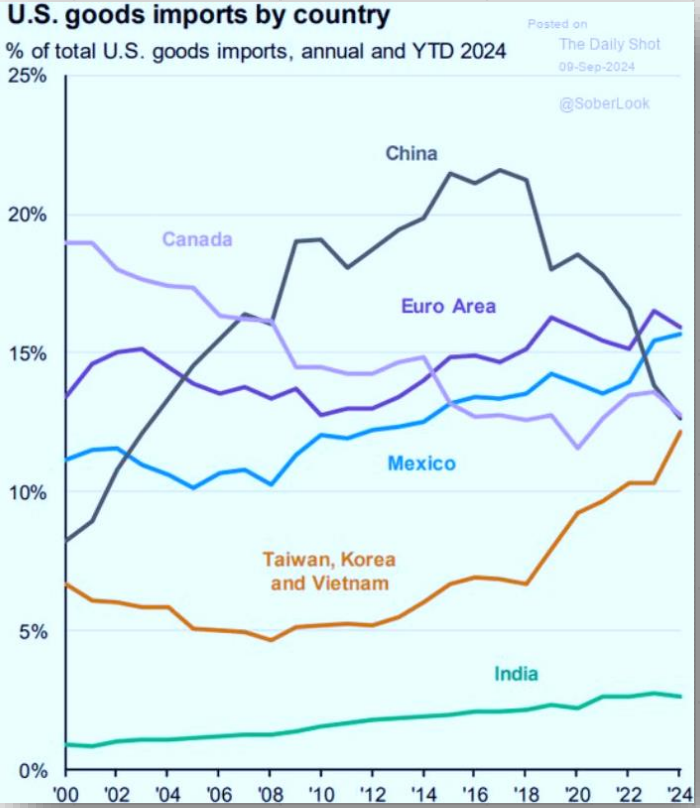
Crafted by Beau King | Newsletter

Sea Change

US Goods imports have risen 265% since the year 2000, predominantly on the back of East Asian trade. US real GDP has grown 59% in the same period. The share of import spend to GDP was ~9% in 2000 and has grown to ~13% in 2023.

Most noticeable shifts are in medical equipment and healthcare, vehicle parts, telephones, and mis. Commodities.



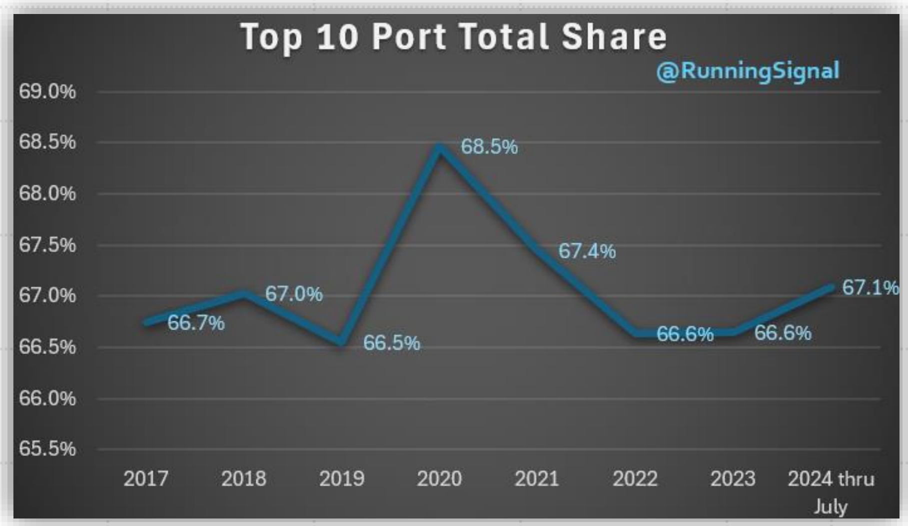


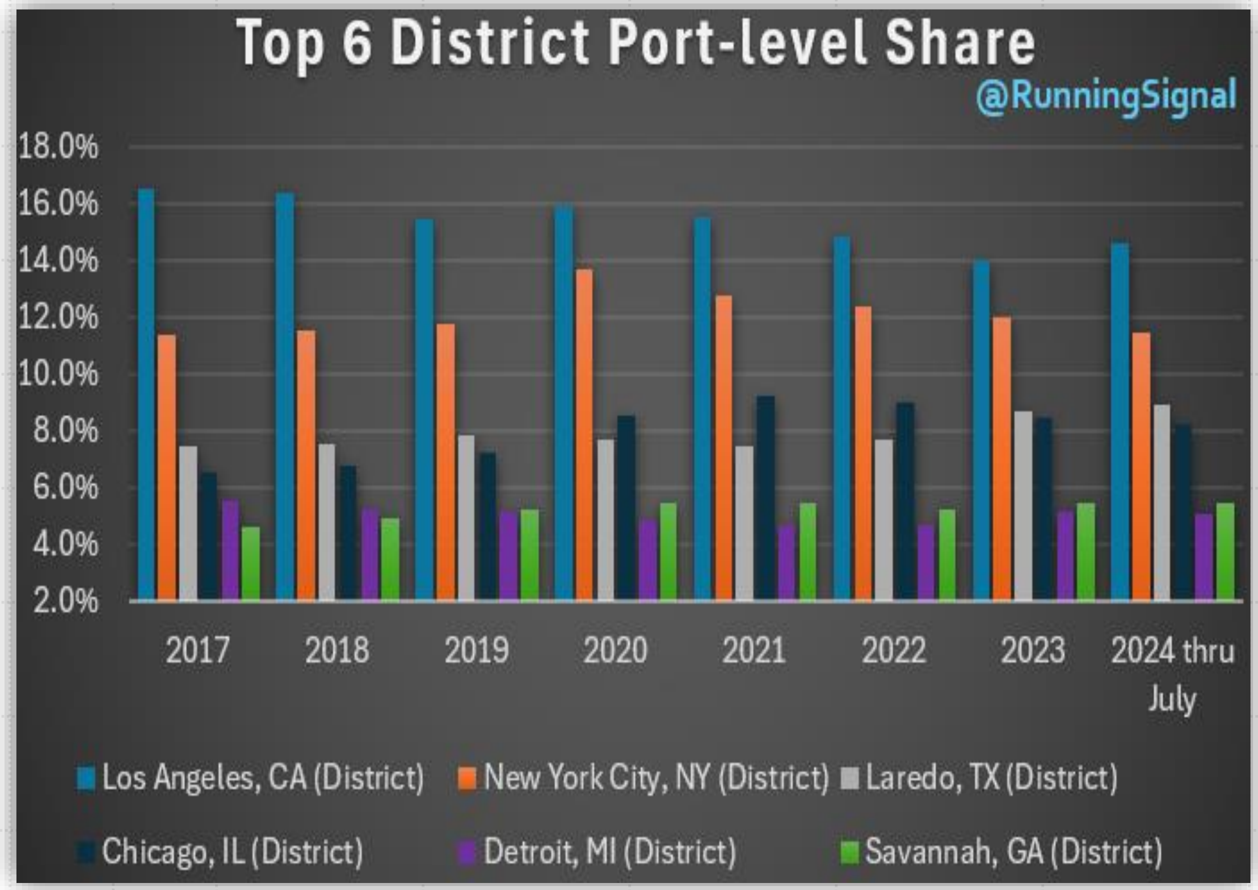
Diversification from China since 2018 is evident, yet it means little to the rewidening US deficit as SE Asian partners and Mexico have filled the gap and then some.

Canada puzzlingly continues to recede. Weakness in trade from the North continues to show in Midwestern manufacturing surveys and output.

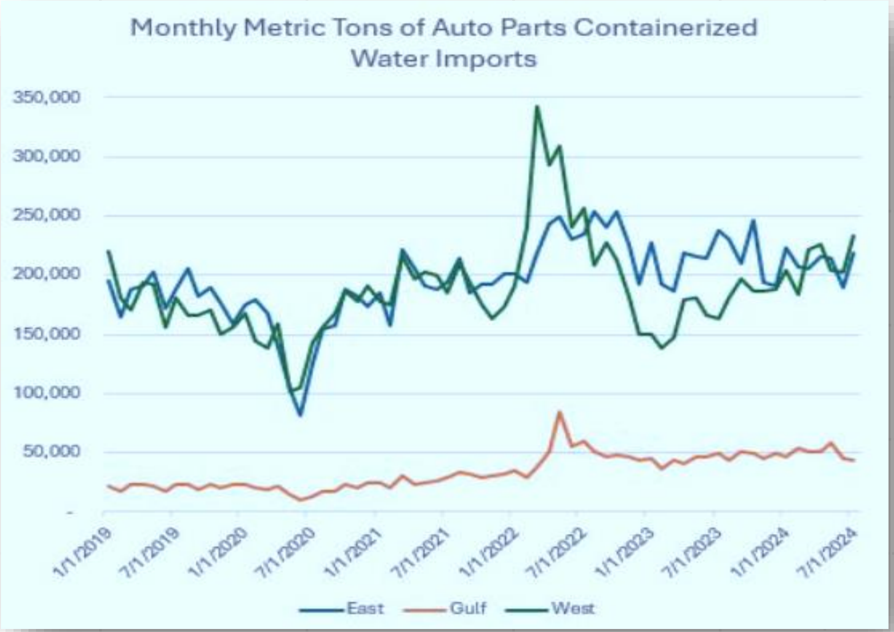
Shares of imports into US districts for the top 6 US districts by year below exhibit changes in entry points whether by land or sea. Provided by Census trade account data.

Growth in Gulf and East maritime arrivals are shown in the bottom right, which increases risks of impacts if the port strike goes through.





The consolidation of imports into the Top 10 entry points climbs as the West Coast reclaims share with the elevated volumes in 2024.



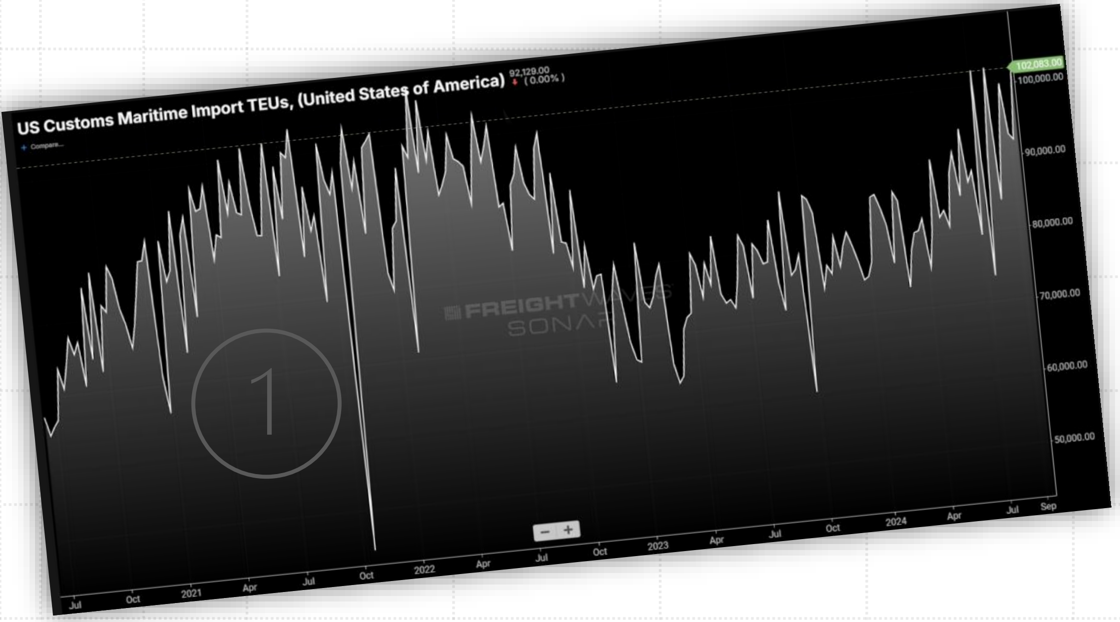
Source: Jason Miller

Crafted by Beau King | Newsletter

Cleared TEUs by US customs have tabled into multi-year highs ahead of the US holiday season.

Conditions couldn't look more different versus the 20-21 period.

The 2024 salmon run is over, however.



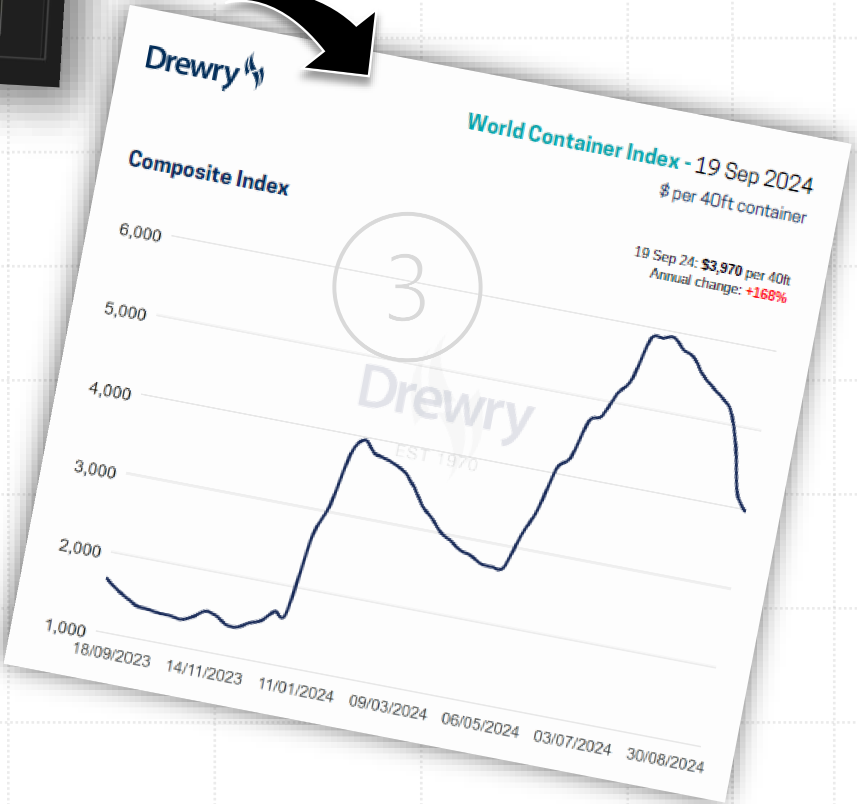
Golden Week begins the first week of October in China.

Orders **leaving** the Far East will nosedive over the next month. It's already showing in #2.

Ocean rates have fallen in anticipation of lower order volumes on the water the next few weeks.

They seem to be on a path to table before 2025 orders blossom in November. I wouldn't expect freefall.

Especially because of the possible strike.

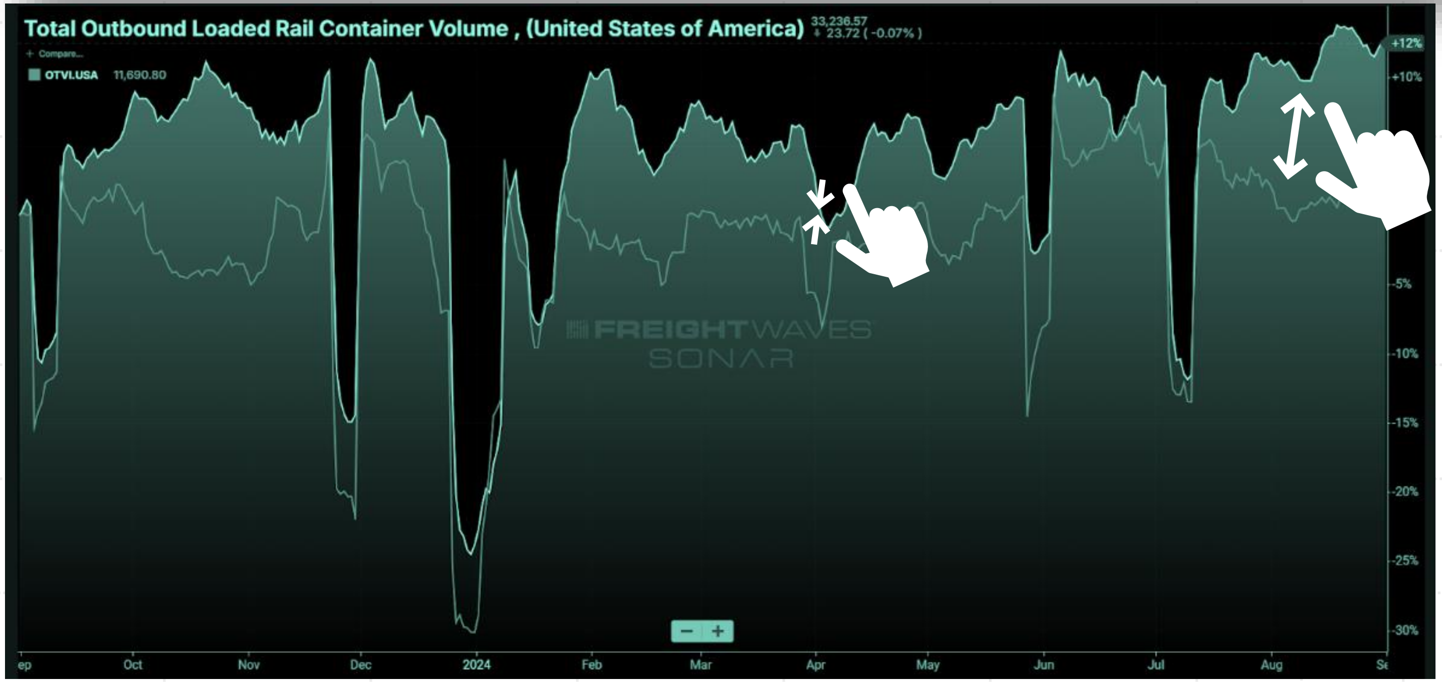


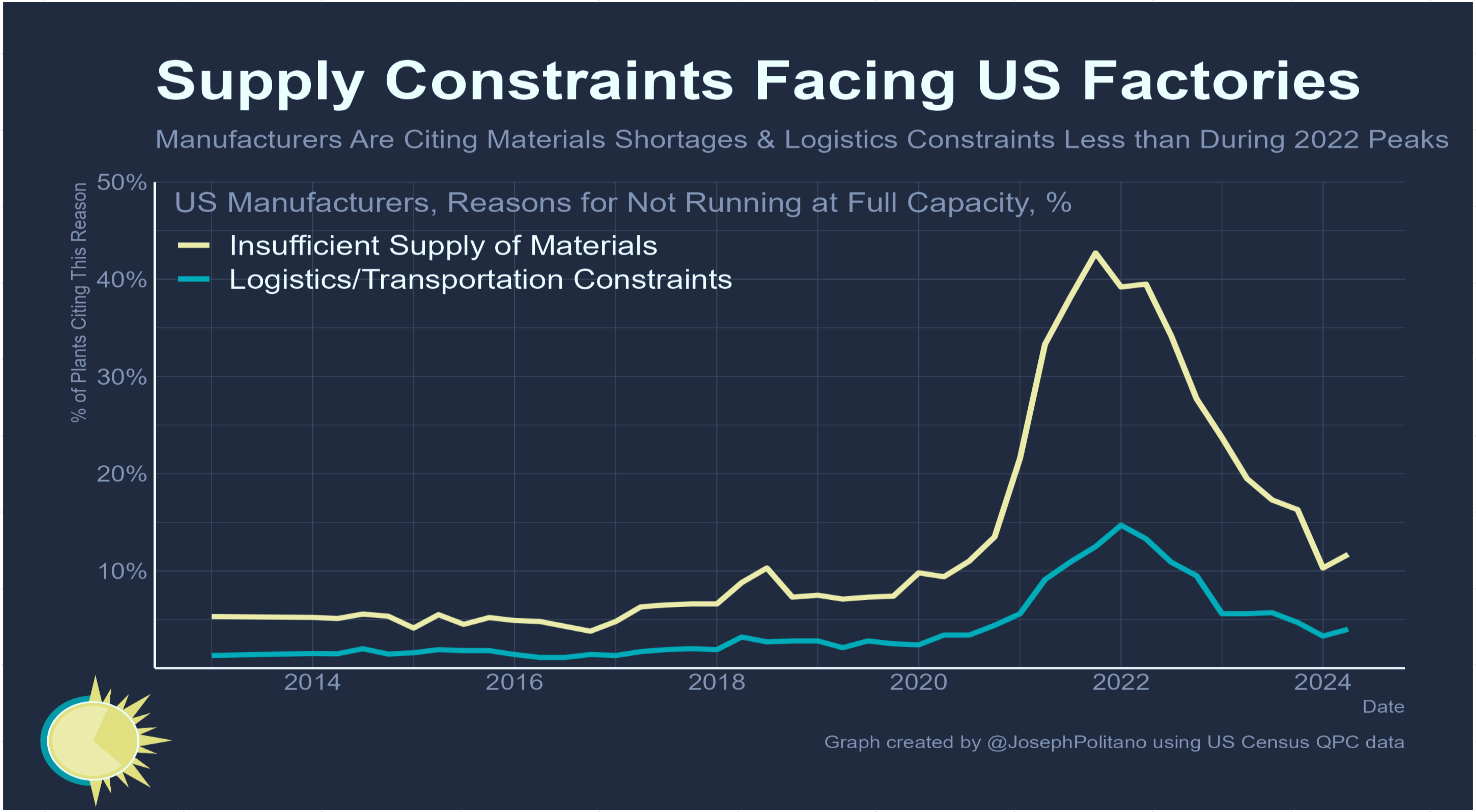
Rejections drift downward

SONAR's Zach Strickland highlights a loss in truckload volume growth while intermodal races ahead.

Peak demand for long haul freight follows heavy container freight flows into the US. When timing is critical or final demand is high, trucks are heavily utilized.

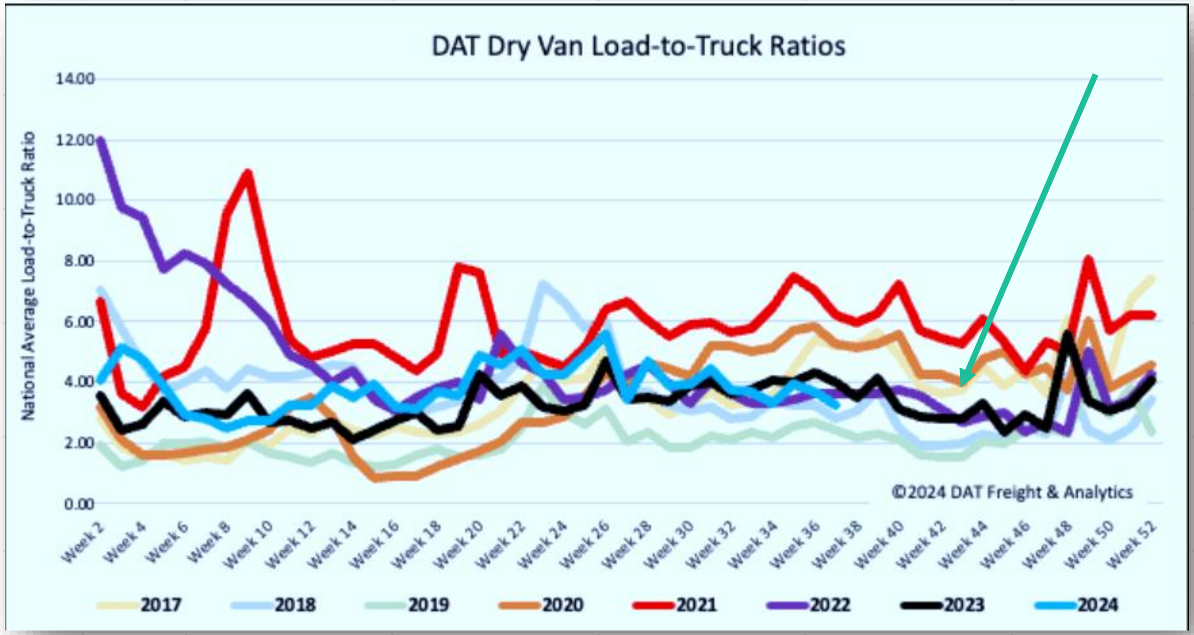
If there's no rush you save with rail. Well, there's no rush right now.

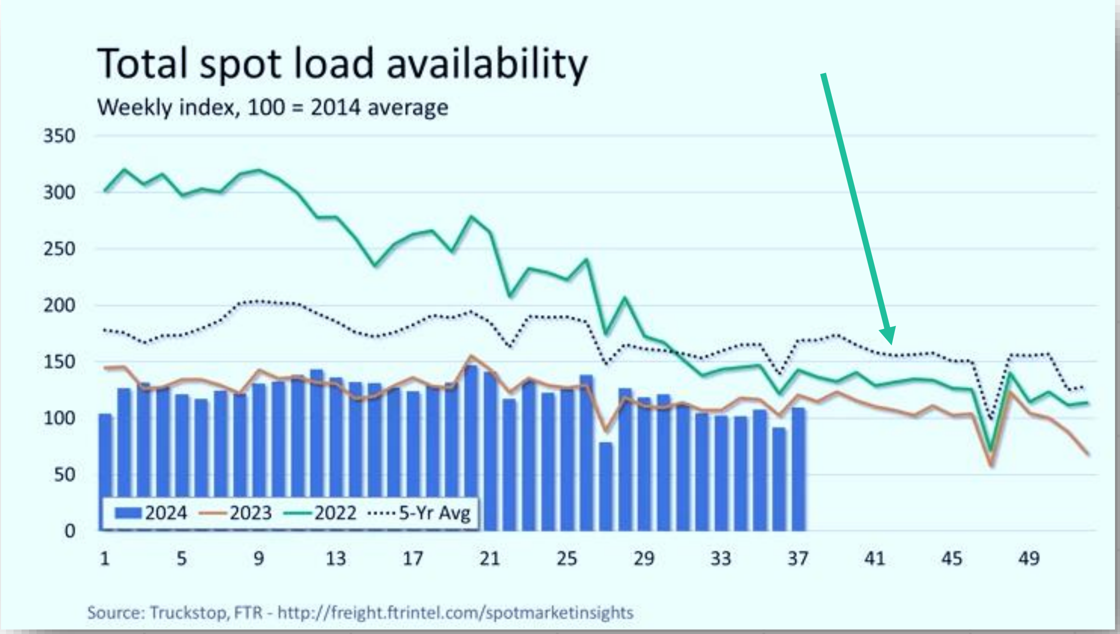



Supply Constraints Facing US Factories
Manufacturers Are Citing Materials Shortages & Logistics Constraints Less than During 2022 Peaks
US Manufacturers, Reasons for Not Running at Full Capacity, %
Insufficient Supply of Materials
Logistics/Transportation Constraints
% of Plants Citing This Reason
50%
40%
30%
20%
10%
2014
2016
2018
2020
2022
2024
Date
Graph created by @JosephPolitano using US Census QPC data

COOLIN' ❄FF

Trucking market pressures have ebbed back below 2023 levels for the month of September. Expect a speed bump to end the quarter next week but prepare for a spoiled pumpkin in October – **strike withstanding**.



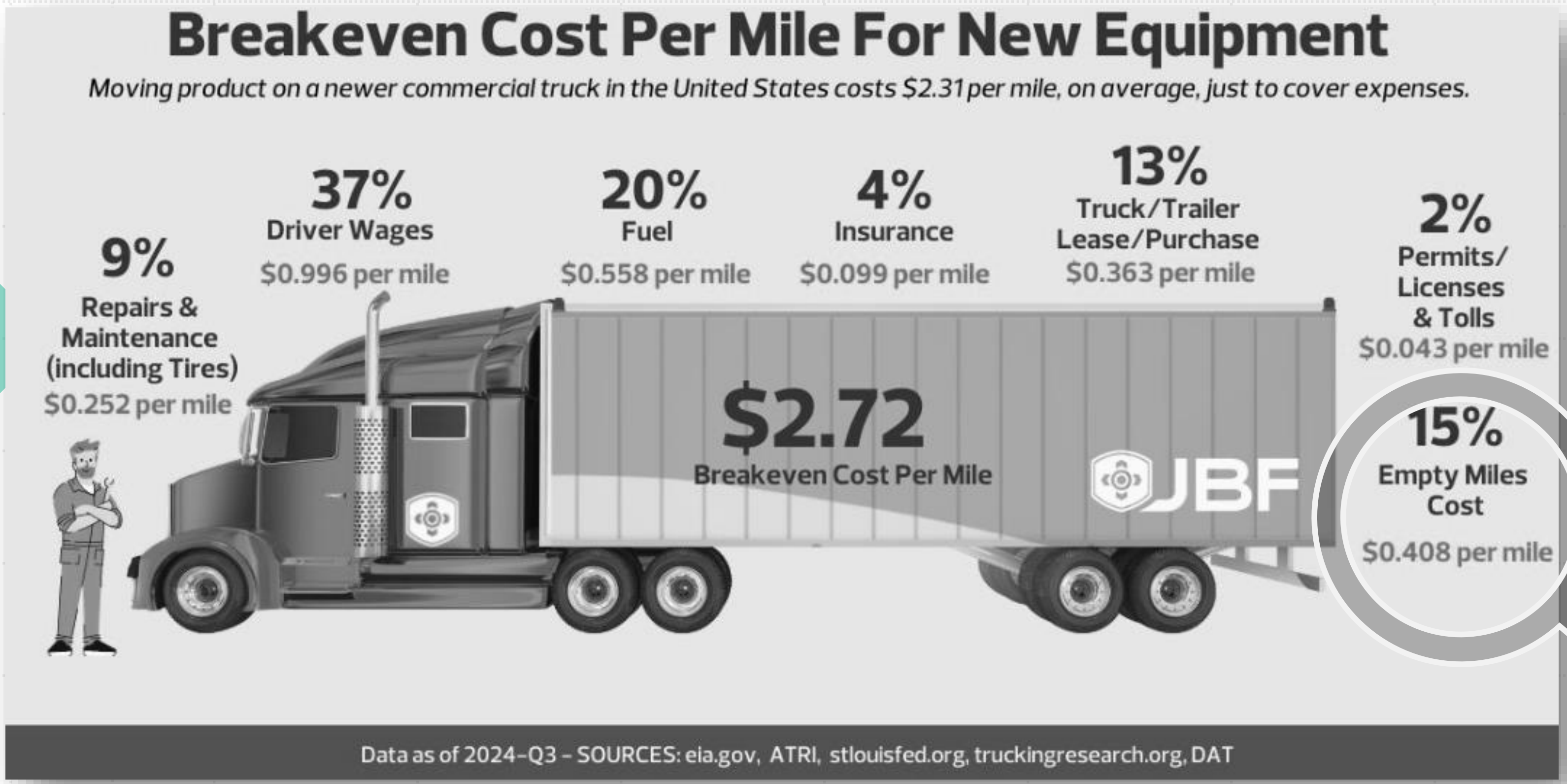


Crafted by Beau King | Newsletter

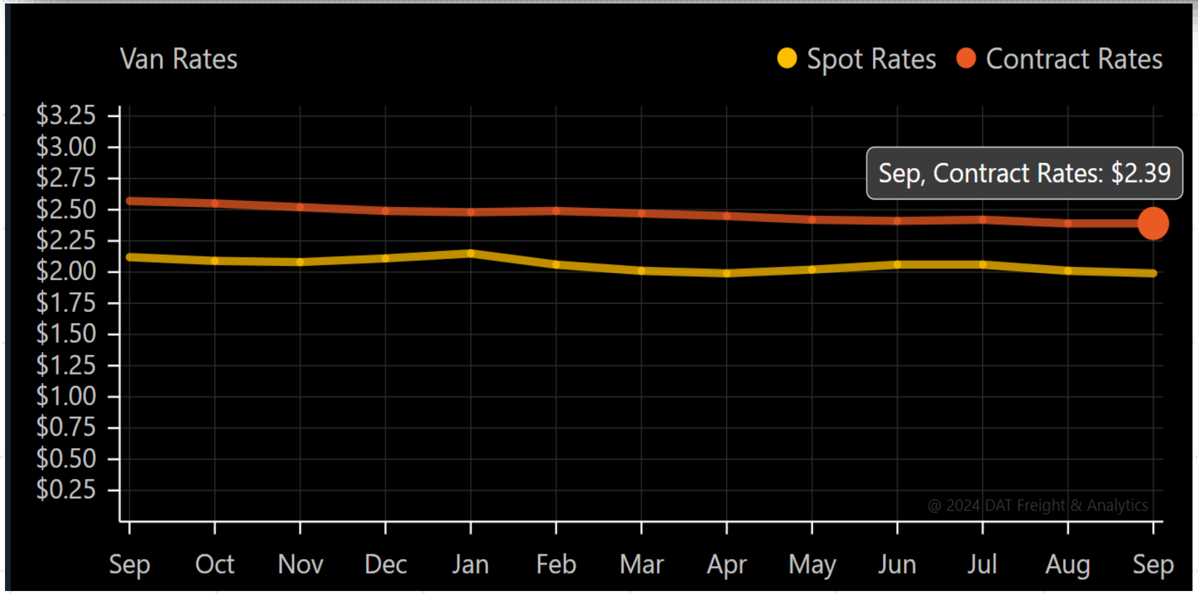
UNDER PRESSURE

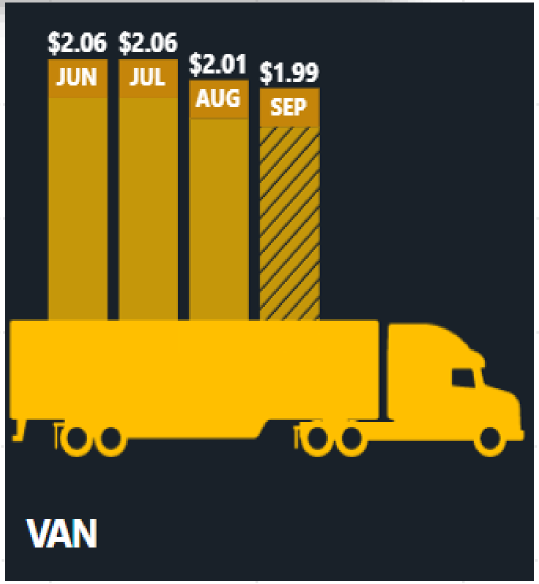
In aggregate, both contract and spot rates push boundaries of profitability, if not solvency for many in the industry.

Contracts inclusive of fuel stand at $2.39/mi while the cost to operate a newer truck is at $2.31. An 8¢ margin. Spot is at a 40¢ loss per mile if using these averages.

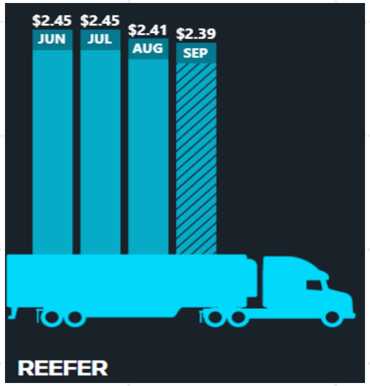


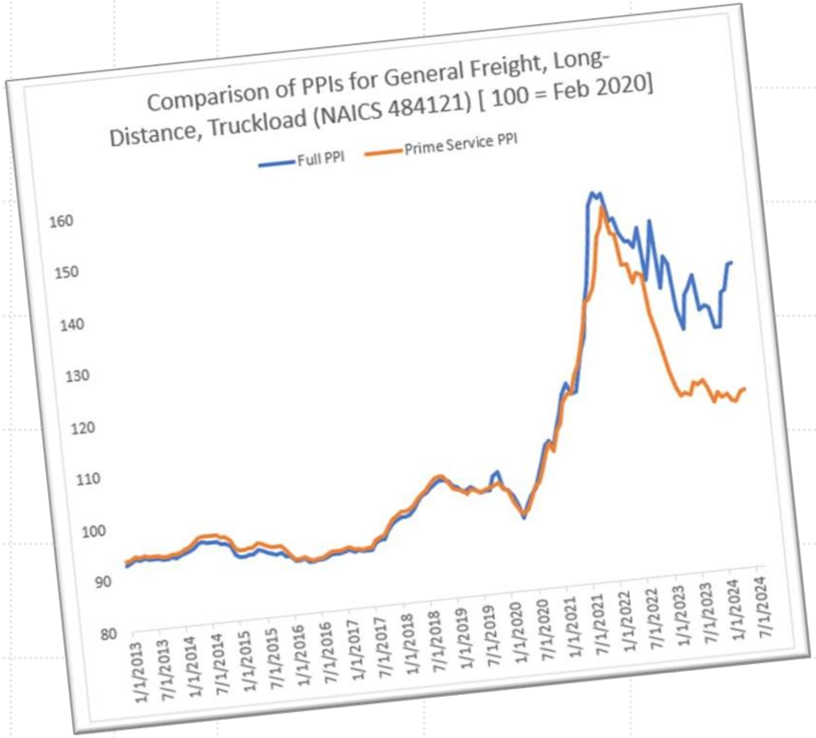
As volume decreases, costs incurred by **empty** miles increases.





DAT Freight & Analytics





Jason Miller provides great insight into the resiliency of capacity through the down cycle. It's also a view into differences between big and little freight ponds.

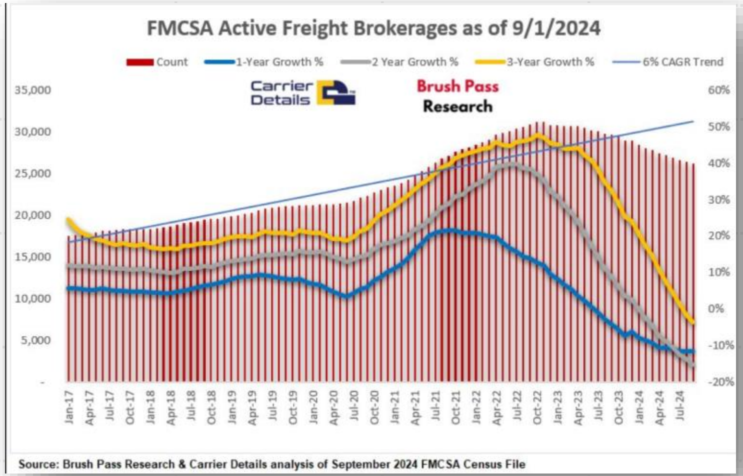
Authorities exploded with a liquid transactional market. Those with size, technology, or clout diversified to better take the brunt and prepare for the next upcycle while those without access, primarily in spot, have seen the opposite side of how liquid it's become.

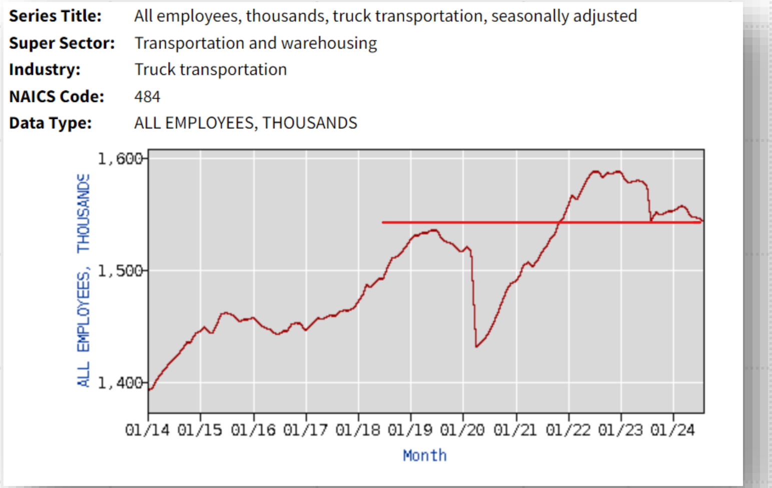
Supply responded well but late to the party and has since suffered gratuitously for two years now.

Capitulations are highest in Sept-Nov as RFP outcomes, tax and tagging deadlines, and home time is prioritized.

Hats off to the grit shown in this industry. Not easy, mainly thankless, but essential.

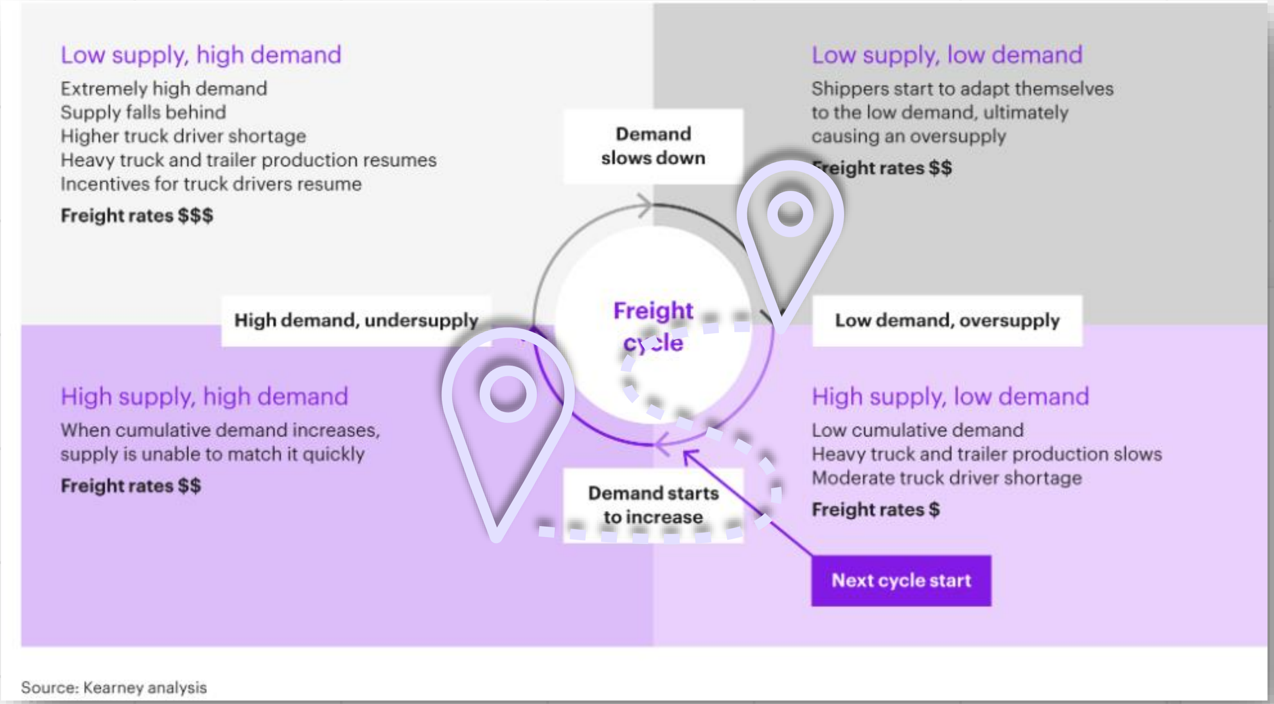
P.S. Brokerages were key in helping many diversify offering



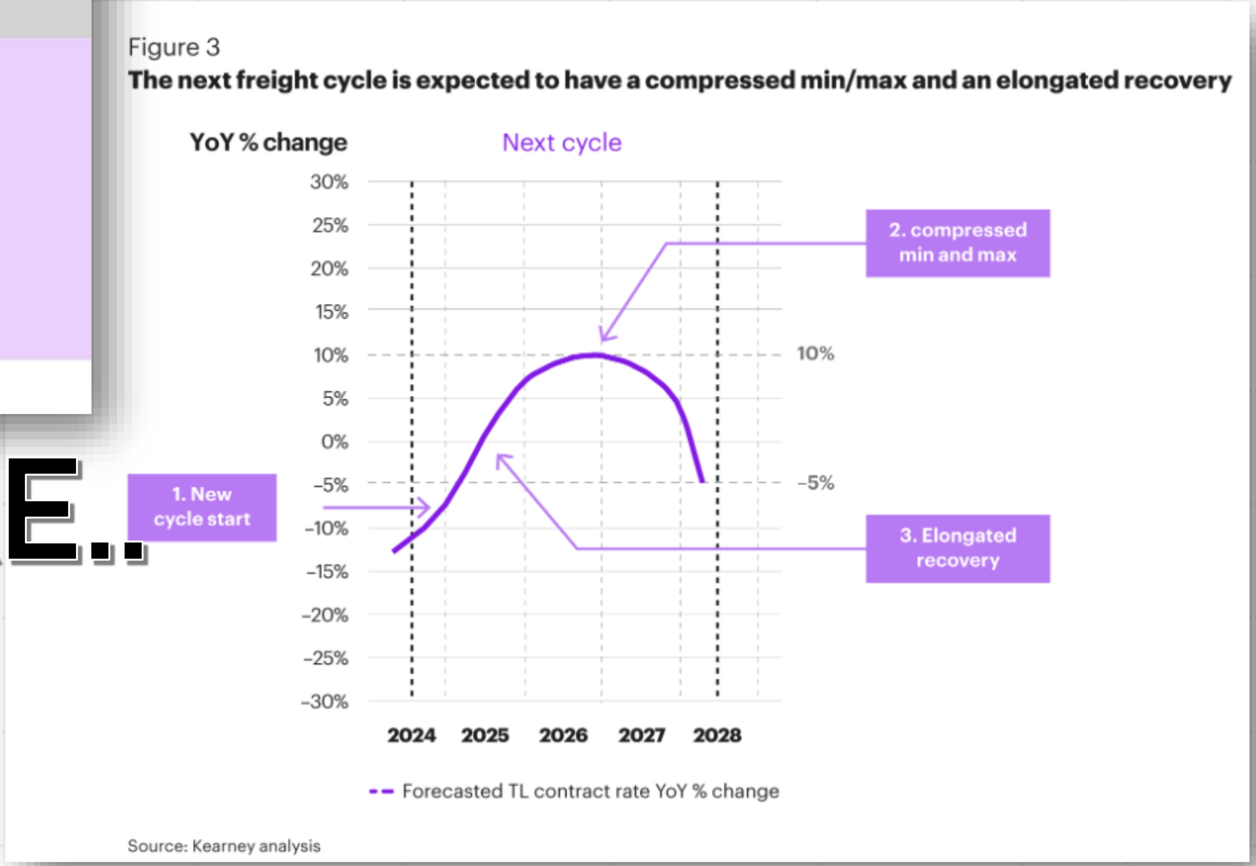


Employee levels have returned to Q4 2021, bordering back to 2019 if it goes further.

KEARNEY



YOU ARE HERE.. KINDA



Source:

Kearney analysis

THE GOODS

As the previous slide shows, Kearney nailed the approximation of the freight cycle's ugly length. Read the source link for more. I spent the Spring believing the good times were beginning to roll. Not that any inflection point was here, but the bubbles were coming up in the pot with the multi year high in L:T and 5% rejection rates.

That soured by late August when economic conditions started entering the jittery territory with labor figures, retail data, revisions, and a confusing political climate. The latter has contributed to an early onboard of seaborn inventory ahead of Biden admin tariffs and threats of a tougher regime with Trump. With either outcome, base case is a resumption of higher container order volume in November – December if interest rate cuts can make their way through with some effect.

In the mid term, this spells caution for a deeper lull the month of October as the tide goes back out for Golden Week. That's if all you-know-what doesn't hit the fan to start October. The possibility will move some to action before end of quarter so dop not sleep on this month's close.

Nonetheless, it is RFP season. The Fed just cut by 50bps. We have tendency to anchor the future to the present. When looking at a bid, from either side, it is worth asking where any deep discounts may reside. There's not much but grizzle left for many. I was getting too optimistic for a bit there, but nothing changes about preparing for mounting challenges between the Red Sea, de minimis exclusion and tariffs while optimism returns to the housing and credit markets over the next 3-6 months. If we can keep away from either boogieman of recession or reacceleration.

True resiliency resides in relationships. There's better time spent finding compliments, ways to integrate, and as always – solve problems together. Show appreciation through business offered for good work done. There's a god bit of uncertainty for us all over the next 1-2 months but I'm not heading for the hills in any direction.

Oh, and pay the damn detention. My grandpa always used to say, "Don't trip over a dollar to save a dime".

Source: Mazen Danaf | @freightecon

Crafted by Beau King | Newsletter