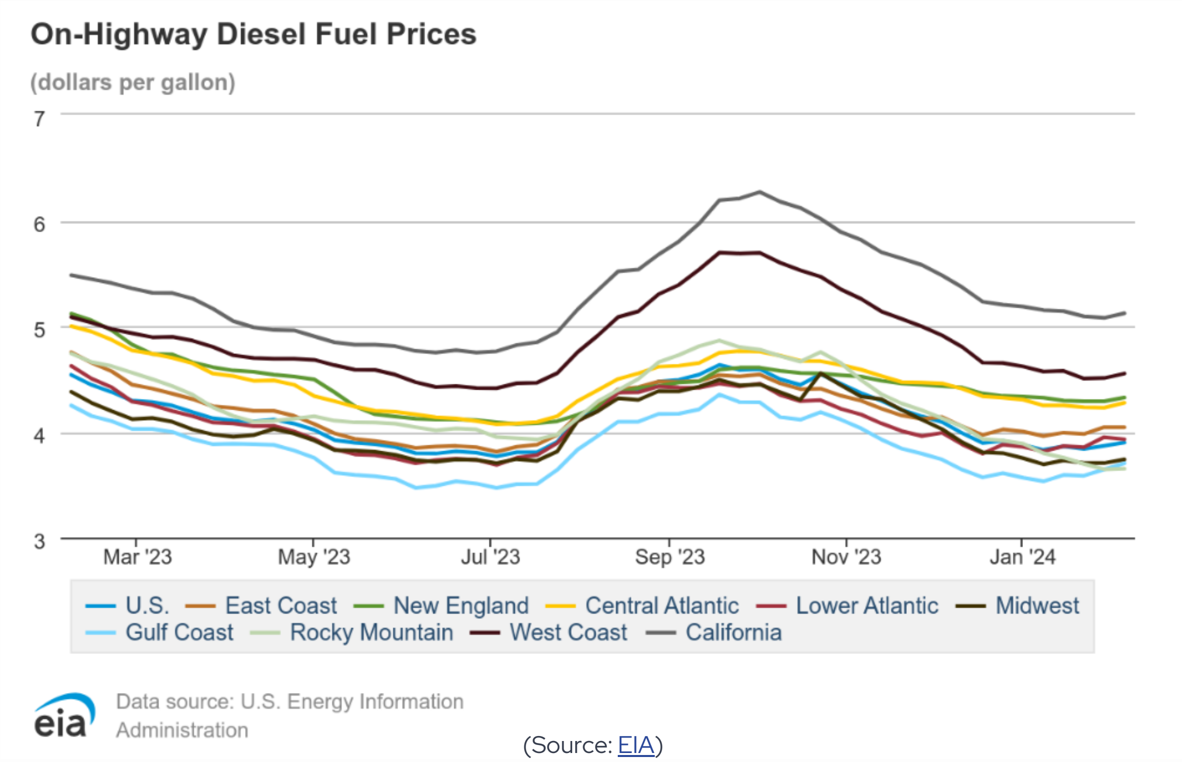
TL & LTL MONTHLY MARKET UPDATE

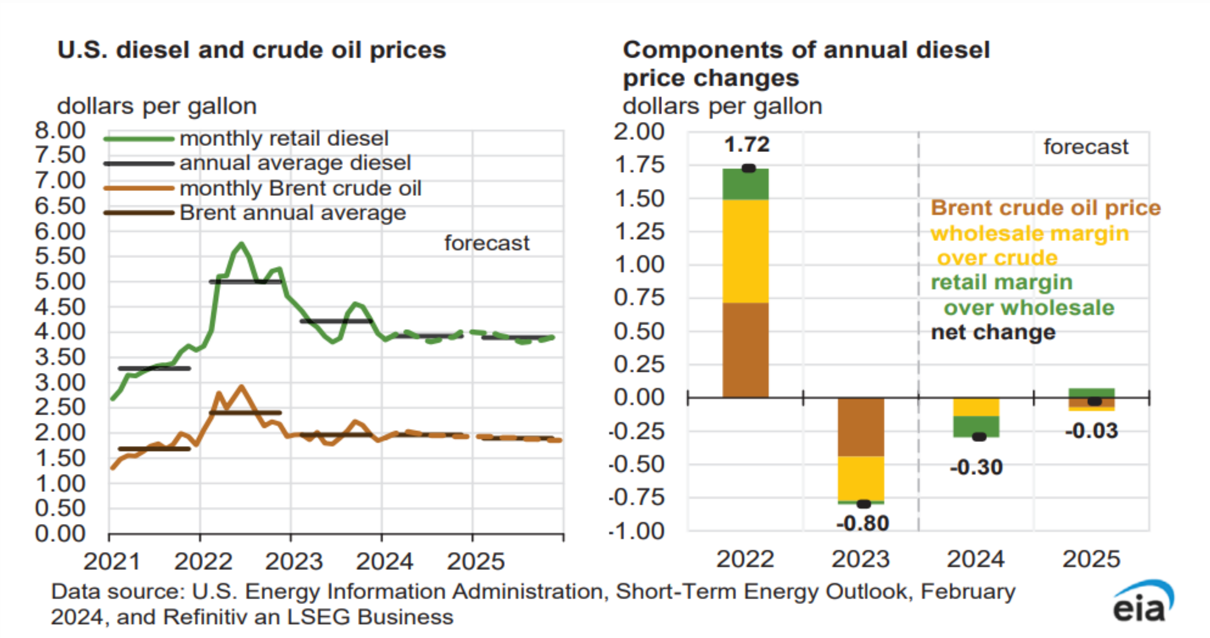
FEBRUARY 2024

Diesel prices began to rise in January, greater growth on the horizon

On-Highway Diesel prices appear to be entering a growth phase. US-wide diesel prices are up $0.032 from the final reporting week of January 2024 and continued in early February. A similar trend exists across all major markets, and some industry insiders, according to Reuters, point to a sharp incline in fuel costs in 2024. These rising prices will lead to more volatility across fuel surcharges, creating more opportunities for over- or under-billing among carriers. Still, overall volatility is expected to be minimal, depending on how the events of the Red Sea evolve in the coming months..



(Source: EIA)

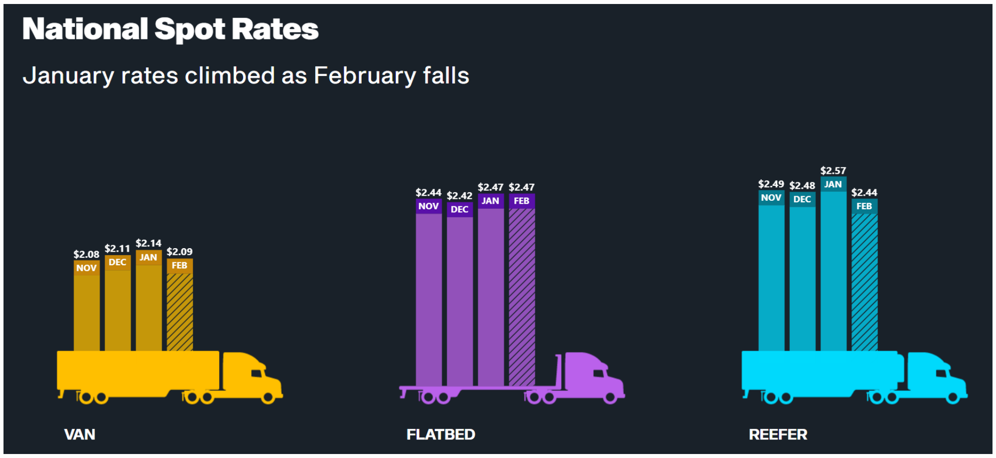


(Source: EIA)

February spot rates show rebuke of initial projections

Rates for van, flatbed, and reefer in January appeared to recover slightly, following some variability in Q3 2023. However, spot rates are forecast to remain at or below January levels through February. Specifically, van rates are projected to fall by a nickel while reefer rates decline by $0.12.

The rate variability may closely relate to weather changes associated with the Arctic blasts of late January and atmospheric river phenomena of early February. Still, capacity remains in question as equipment worries grow in response to extended global container transit time due to the world's major canal troubles of 2024.

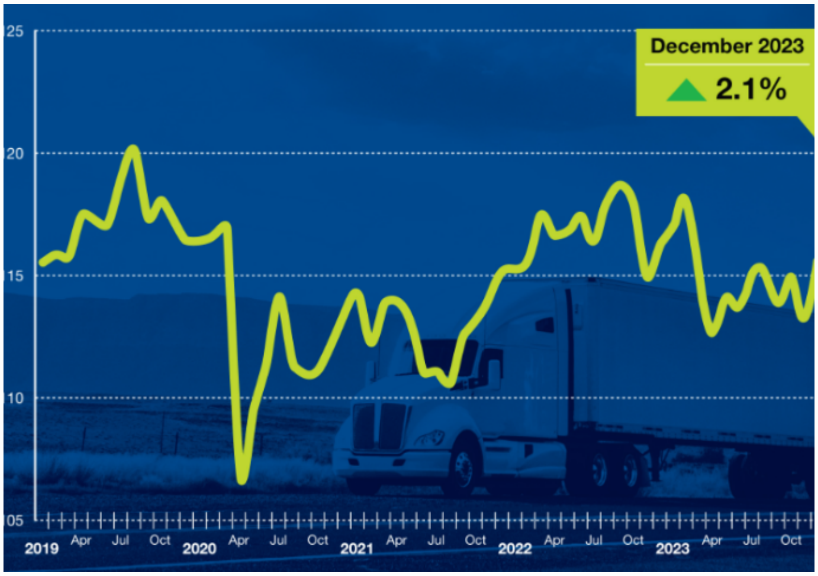


(Source: [DAT](DAT))

Truck Tonnage Index shows a slight recovery, caution remains

The American Trucking Association's advanced seasonally adjusted For-Hire Truck Tonnage Index increased 2.1% in December after falling 1.4% in November. The 2.1% increase for December puts demand in line with January 2023 and 2022. Still, the current reading solidified 2023 as the worst year since 2019.

If the market is genuinely resetting, as some experts have surmised, we'll likely see gains in the index throughout the remainder of Q1 and well into Q2. Global disruptions could further push the index higher, too.



(Source: ATA)

News from around the industry

UPS Looks to Sell Off Coyote, Make Job Cuts

Coyote Logistics, the truckload brokerage arm of UPS, is experiencing trouble as we move further into 2024. UPS is considering selling the business, and the industry giant plans to cut 12,000 full- and part-time management and contract jobs throughout the year. The news is surprising as we're only nine years past UPS' acquisition of Coyote, but as demands changed in 2023, it's struggled to survive.

The volatility in the market has pushed UPS to shore up its endeavors and look to alternatives. The possible sale also is a reminder of when UPS sold UPS Freight, its LTL arm, to TFI International Inc. While UPS has successfully diverted volumes from Coyote into other networks, it’s imperative for all shippers using Coyote to have a backup plan should the enterprise experience a Yellow- or Convoy-grade showdown or stop. (Source: FreightWaves)

Red Sea Disruptions Lead to Equipment Shortages in the States

The effects of attacks on commercial vessels in the Red Sea may seem to have little impact on US trade. However, news reports indicate that the risk is moving closer to home. Carriers have been forced to reroute ships around the Horn of Africa, adding weeks to the typical global cycle of a single ship.

European retailers are further indicating possible delays in the launch of spring merchandise lines. Some media outlets, including CNBC, reported container rates surpassing $10,000 per 40-foot container in mid-January. The disruptions are inevitable and coming for US manufacturers; even though it may seem far-fetched now, manufacturers sourcing raw materials or components from Asia could be impacted. The most notable would be those receiving imports from Asia to the East Coast. But again, it’s a double-edged sword.

West Coast importers looking to receive trans-Atlantic freight could be faced with the challenges arising from the delays at the Panama Canal. It’s a problem almost everywhere, excluding trans-Pacific freight headed to the West Coast and trans-Atlantic freight headed to the East Coast.

NRF has also said that rail dwell times are increasing as shippers look to leverage transcontinental rail as an alternative to the issues, leveraging trans-Pacific transportation where possible. The added costs aren’t regaled to transit time but total emissions in the value chain and backups that could arise from other compounding factors. Regardless, all retailers should be mindful of both intermodal rates and port congestion deriving from this newfound disruption. (Sources: Supply Chain Dive & CNBC)

Spot & contract rates move toward convergence

The spread between spot and contract rates among dry van truckloads appears to be tightening. The values are the most balanced, read “closer in value,” than they’ve been since last Halloween, but as the values switch places, capacity grows more problematic to find.

Such variability means the market may be moving toward a position where carriers gain bargaining power in negotiations again.

Shippers may need to consider new mini-bids or short-term dedicated solutions to find capacity. The data also compares to the ongoing van outbound tender rejection rate index (VOTRI). The combined insight shows that shippers must be cautious and prepare for a tightening of capacity. (Source: FreightWaves)

Market outlook

The predictions from our January report on the LTL market will take longer to come to fruition. LTL carriers are budgeting for record levels of capital expenditures, particularly in their real estate. The Yellow real estate is proving to be more expensive to procure and overhaul than expected. Initial reports indicate that they plan to offset these increases in the short to medium term with continued rate increases.

At the same time, we've seen major closures occur, and now, with the uncertainty over Coyote, time may rewrite the story. Major LTL providers have added more lanes and dock doors, and some companies have implemented new technologies designed to leverage available capacity better. These advancements are easing the capacity crunch but at an increased cost, which will be passed to shippers.

In contrast, the truckload market seems to be moving to favor carriers and transportation suppliers, i.e., trucking companies. But there's an even more significant side to the story.

The Logistics Managers' Index (LMI) has been expanding for five of the past six months. The index rests on a scale with a gridlock, stale market measure of 50. Rates over 50 indicate growth, but those under 50 show contraction. The index shows that transportation capacity is growing (54.5) but is 8.8 points lower than the December level. Similarly, transportation prices have jumped 12.7 points to 55.8.

The essence of the index is the continued above-50 rate for the primary metrics in the index. Further, inventory levels are 52.8, and inventory costs are 66.8. Together, the metrics point toward a looming end to the Freight Recession. However, there's still much to be discerned as to whether the industry insiders at FreightWaves will proclaim a full stop to the events and horrors of the past year's market. (Source: FreightWaves)

Of course, the instability caused by geopolitical change, potential weather influences, new regulations in core states, e.g., California, and even the 2024 election cycles could influence buying habits and lead to a sudden strain on capacity.

Some constraints may also come to light as the Lunar New Year leads to added delays in southeast Asia through the end of February. If the worst, a sudden uptick in consumer demand, should occur, there will be an immediate uptick in rates and a drawdown on available assets. Shippers should take heed now and implement partnerships that will provide a protective effect regardless of what the market has in store.

We will be here for you no matter what the future holds for LTL and Truckload.

As always, you can contact your IL2000 Client Services team if you have any questions.

Sources: Reuters, EIA, DAT, ATA, FreightWaves, Supply Chain Dive, CNBC