LTL and Truckload Monthly Market Update: July 2022

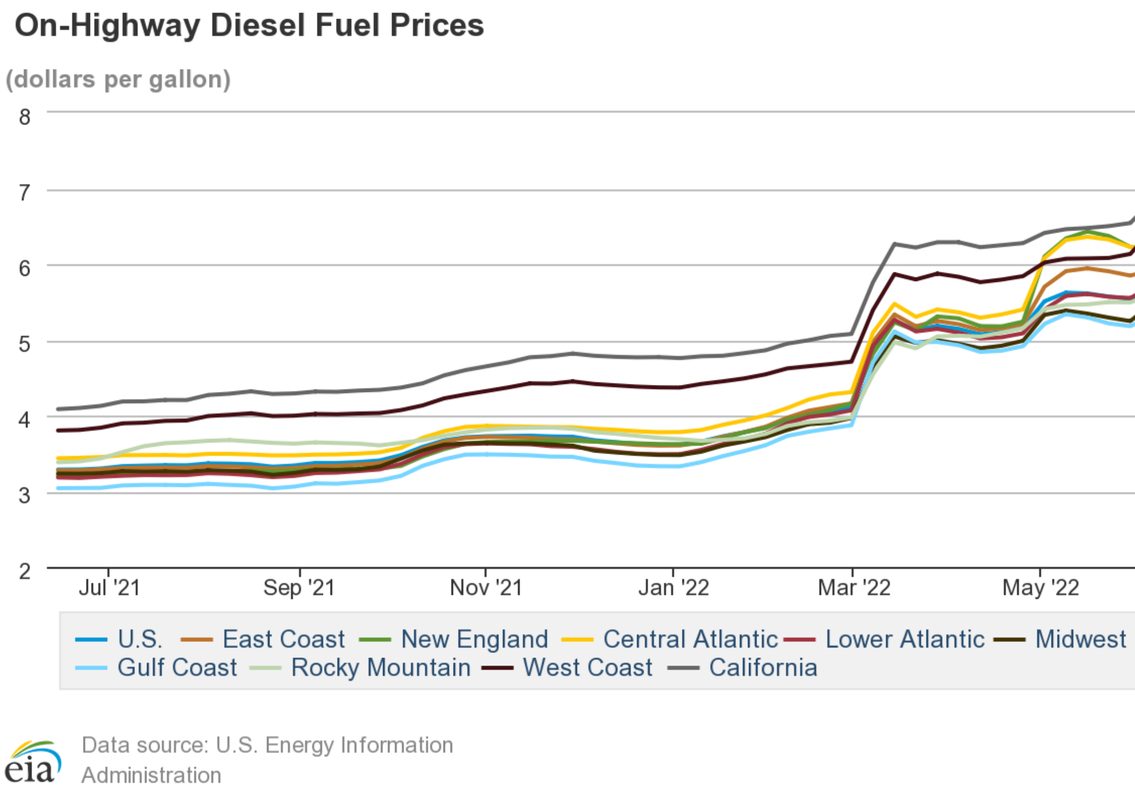
While some signs point to a possible economic slowdown, relatively tight capacity and high fixed costs will likely keep LTL rates high and rising for the foreseeable future.

Meanwhile, national Truckload shows signs of stabilization.

LTL Update:

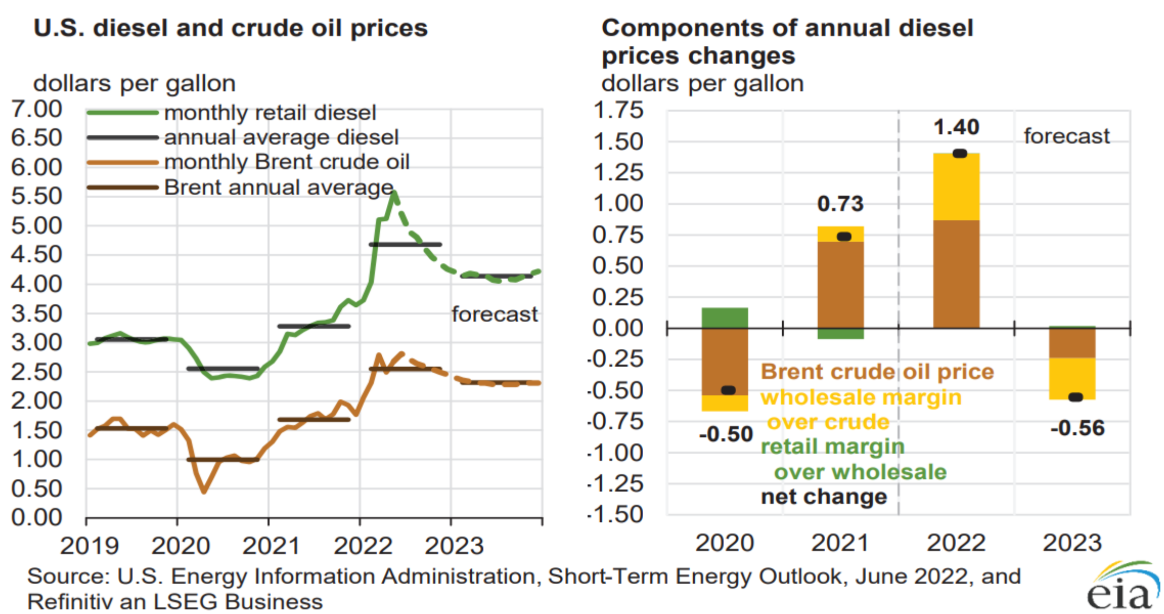
Diesel prices remain high

Average prices for diesel fuel remain at record high levels in June as the busy summer shipping season continues. Prices on the west coast and especially in California (where prices neared $7/gallon) lead the way, with the Central Atlantic and New England regions also seeing high prices.



Source: [EIA]

There may be some relief in sight, however, as the EIA predicts that diesel prices will start to decline in Q3 2022 and remain lower in 2023 (though remaining above 2021 levels).



Source: [EIA Short-Term Energy Outlook Report]

Retail sales decline in May

The commerce department reports that retail sales declined 0.3% in May as inflation and high fuel prices squeezed consumers. Continuing softening in the retail sector could negatively affect LTL carriers as the mode is heavily involved in the retail supply chain. (Source: CNBC)

News from around the industry

FedEx Freight rides high FSC to strong quarter
Driven in part by high fuel surcharge rates, FedEx Freight reported operating income of more than double YOY. Though daily tonnage was down 5%, revenue increased 23.3%, and the carrier finished the quarter with an operating ratio of 78. (Source: FreightWaves)

UK firm plans entry into US LTL market
UK base carrier Pall-Ex announced that it will expand operations into the US through a network of franchises. If successful, the venture would be the first major new LTL provider to enter the market in decades. Questions remain if Pall-Ex's rate per pallet pricing structure will translate to the US market or if the carrier will adopt the more typical rate base/discount/minimum charge pricing structure. (Source: JOC.com)

LTL Market Outlook

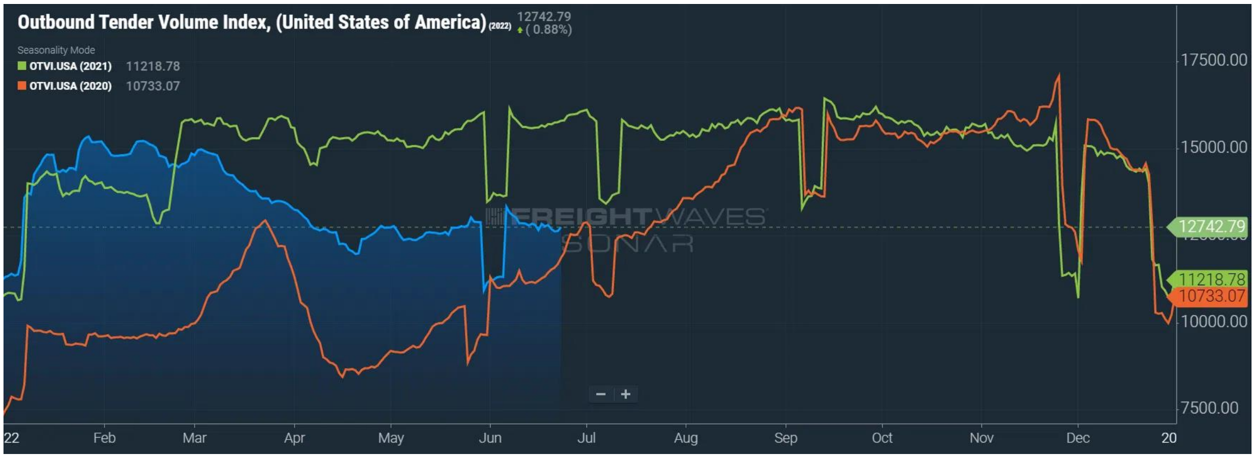
Most LTL is priced on pricing agreements with annual terms, making the pricing environment more stable and less likely to show the effects of short-term fluctuations in shipment volume. While some signs point to a possible economic slowdown, relatively tight capacity and high fixed costs will likely keep LTL rates high and rising for the foreseeable future.

Truckload Update:

Tender volume stabile:

- Outbound tender volumes continue to remain well below YoY levels but are up from pre-pandemic levels

SONAR Ticker: Outbound Tender Volume Index (OTVI), Seasonality View

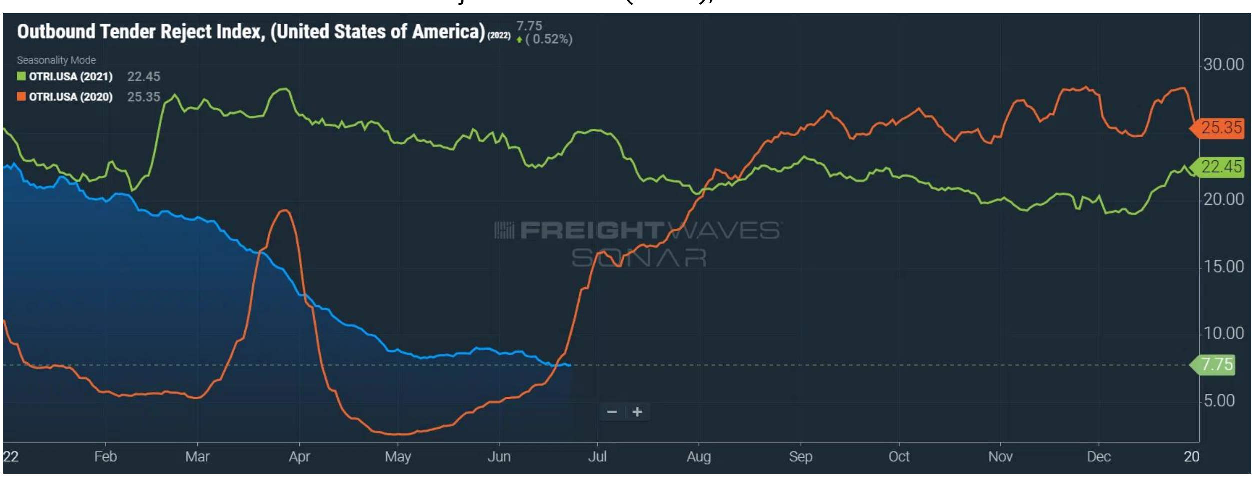


Source FreightWaves

Tender rejections continue to fall:

- Tender Rejection rates continue to fall, though they are leveling off. This indicates carriers are accepting their contract tenders, hence less freight is hitting the softening spot market

SONAR Ticker: Outbound Tender Rejection Index (OTRI), YoY View

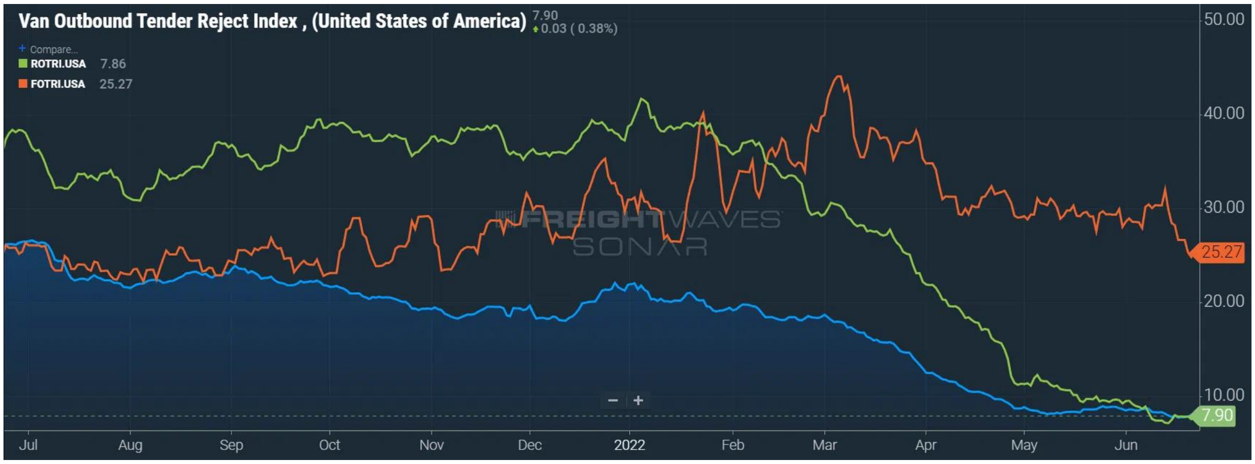


Source FreightWaves

National Truckload showing signs of stabilization:

- Van rejection rates are stable and now sub 8%
- Reefer rejection rates have dropped down to the same levels despite seasonality. At this time of year, they typically rise due to produce season
- Flatbeds have eased a bit but are still fairly volatile at just over 25%. The easing house market is slowly lowering rejection rates in this mode.

SONAR Ticker: Van Outbound Tender Rejection Index (VOTRI), 7 Day Average

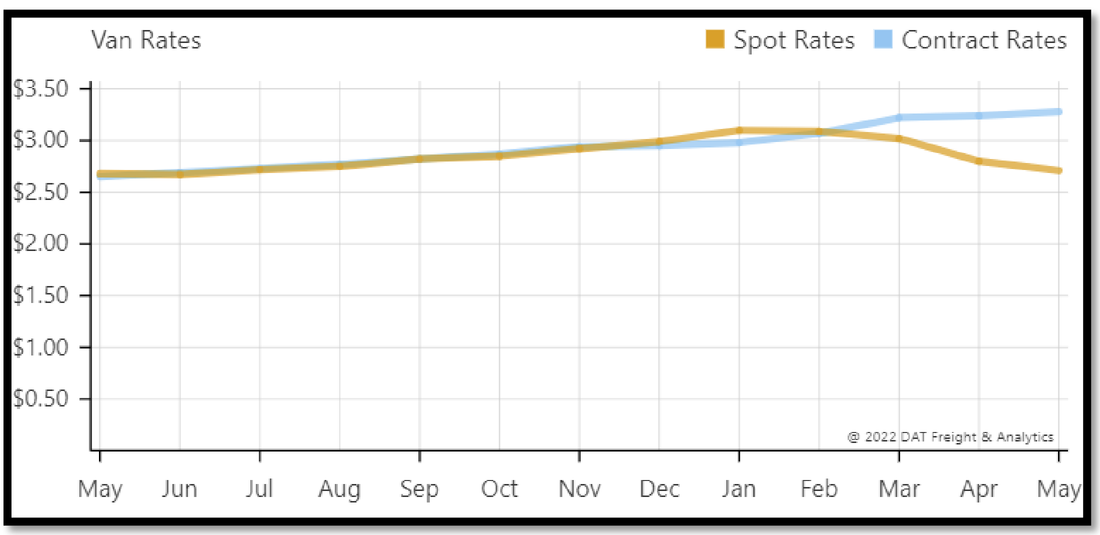


Source FreightWaves

Rates by mode:

Van spot rates continue to drop

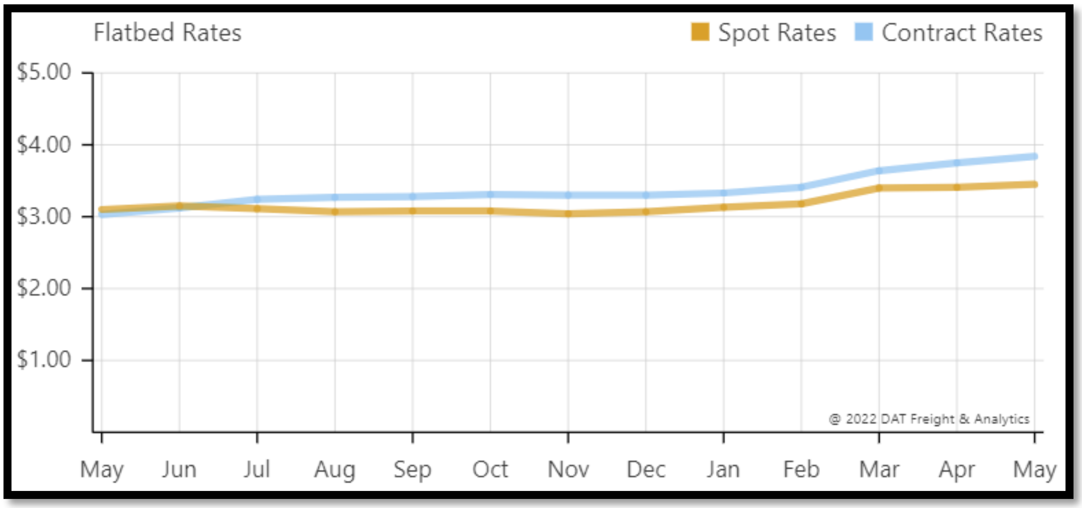
- In May 2022: Van contract rates (all in) @ $3.28 per mile
  - Spot rates were at $2.71 ~ 17% lower than contract
  - As of June 27th, spot rates for June are coming in at $2.68



Source DAT

Flatbed rates: Flatbed market is holding steady

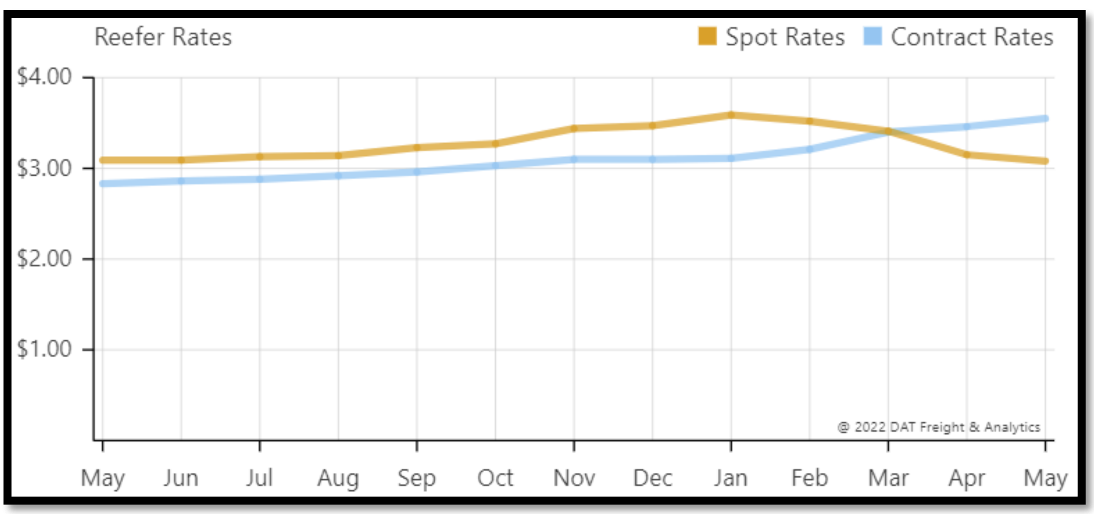
- In May 2022: Flatbed contract rates (all in) @ $3.84 per mile
    - Spot rates were at $3.45 ~ 10% lower than contract
    - As of June 27th, spot rates for June are coming in at $3.46
- Flatbed market holding steady while its “in season”



Source DAT

Reefer Rates: Contract rates rise above spot rates

- In May 2022: Reefer contract rates (all in) @ $3.55 per mile
    - Spot rates were at $3.08 ~ 13% lower than contract
    - As of June 27th, spot rates for June are coming in at $3.03



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Market outlook & things to watch for TL:

Many things are happening in the trucking industry right now. A great article to help dive into some more of the details is “Soaring inflation and crashing rates are sparking trucking’s ‘Great Purge.’”

To sum up, as the economy continues to soften and carriers are accepting "normal levels" on the newly negotiated (and all time high) contract rates, there is less activity on the spot market. This primarily affects the smaller fleets. We must also remember that 89% of active trucking company authorities in the US operate ten trucks or less, so the vast majority of fleets rely heavily (if not solely) on the spot market.

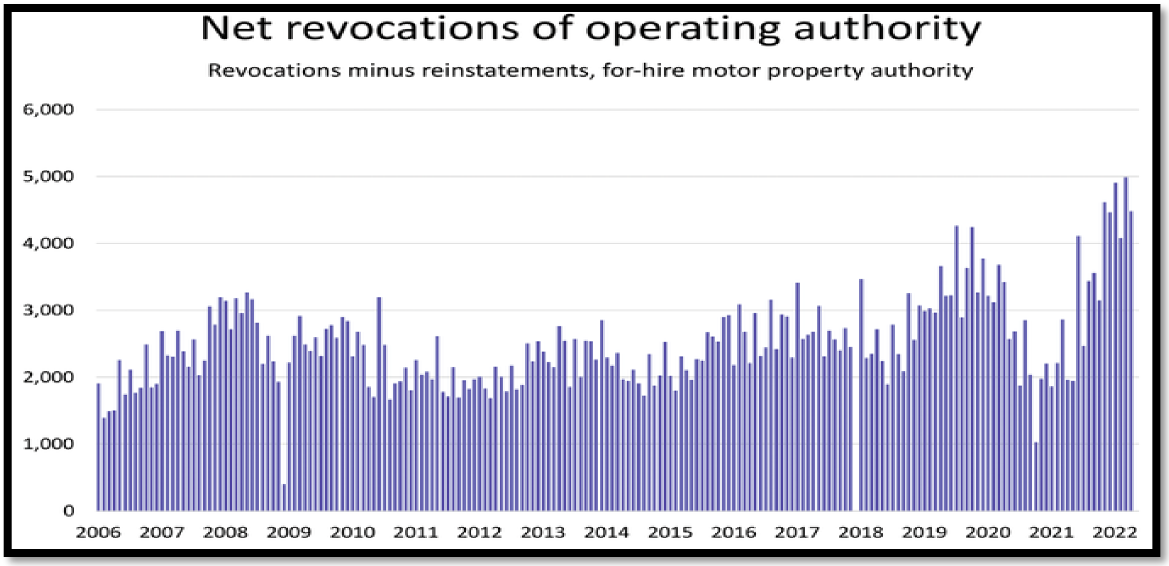
However, carrier operating costs continue to rise, aside from diesel which is at an all-time high, as we all know. Here is a comparison of variable operating costs compared to just three years ago:

Item	2019 Cost Per Mile	2022 Cost Per Mile	Increase
Insurance	$0.07	$0.09	$0.02
Maintenance	$0.20	$0.26	$0.06
Equipment	$0.15	$0.23	$0.08
Driver Wages	$0.47	$0.62	$0.15
Variable cost	$0.89	$1.20	**$0.31**

This is leading to one of three things with owner/operators and drivers for small fleets:

1. They are exiting the markets because they cannot remain profitable with dropping spot rates
2. They are going to drive for larger fleets where they are not responsible for the operating costs
3. Many continue to simply retire. A long-time issue within our industry is the average age of drivers, which is 48 in 2022 for commercial truck drivers

Currently, we are seeing more trucking companies’ authority being revoked than ever before:



Source Truckinginfo

If these diverging conditions persist, there is potential for a rebound in conditions as soon as the end of the year. The longer-term impact of inflation on the economy will also be a significant driving force.

Rates are a function of supply and demand, as we all know. It will be interesting to watch what happens if both continue to drop as we head into 2H 2022.

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