LTL and Truckload Monthly Market Update: June 2022

The market shows sign of stabilization and easing conditions across the domestic transportation market, even if some rates and costs continue to rise.

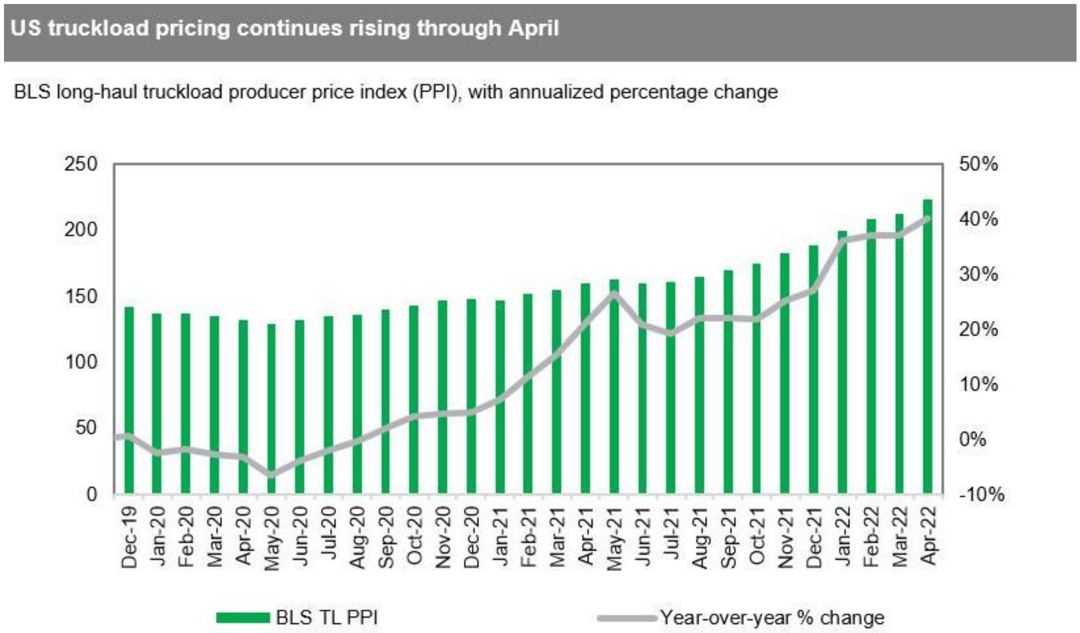
LTL rates push upwards as TL spot rates decline.

LTL Update:

LTL rates push upward

According to the US Bureau of Labor Statistics, LTL rates have continued to rise, even as full truckload spot rates have declined steeply in recent months. The Bureau's producer price index for long-haul trucking was up 5.1% from April to March and up 23.9 YOY in April.

While the level of price increase is unusually high compared to pre-pandemic levels, the pattern is not unexpected as LTL pricing cycles are longer than full truckload and rate trends for LTL tend to lag TL trends by several months. In addition, high fixed costs for LTL will also most likely keep rates high as carriers still enjoy strong freight volumes and can price accordingly.



(Source: JOC)

More carriers report record first quarters

Powered by high volumes and rate increases, LTL carriers SAIA and ArcBest(ABF) reported record profits for Q1:

- Saia reported an operating ratio of 84.4% for Q1 2022, improved from 89.9% for the same quarter in 2021. The carrier also reported plans to open 10 to 15 new terminals this year.
- ArcBest reported a 27% YOY increase in revenue for Q1 of 2022 with an operating ratio of 87.7%
- Source FreightWaves:
  - https://www.freightwaves.com/news/saia-latest-trucking-company-with-record-q1-more-terminal-openings-ahead
  - https://www.freightwaves.com/news/arcbest-sees-record-profitability-in-q1

Other notes from the industry:

- Yellow continues the integration of service networks beginning with the Reddaway footprint.
  - Aiming to operate under one SCAC in early 2023
- Even as rates stay high, carriers report shipment volume and tonnage declines in recent months.

What to watch for LTL

Pressure from labor, fuel, and capital costs and a continued strong freight market will likely continue to drive LTL costs up through June and Q3.

We'll have to wait to see if the slight softening in freight volumes is a short-term phenomenon or a sign of a larger economic slowdown.

While a slowdown may begin to curb LTL rate increases, it is unlikely that rates will drop to pre-2021 levels due to high fixed costs for LTL providers.

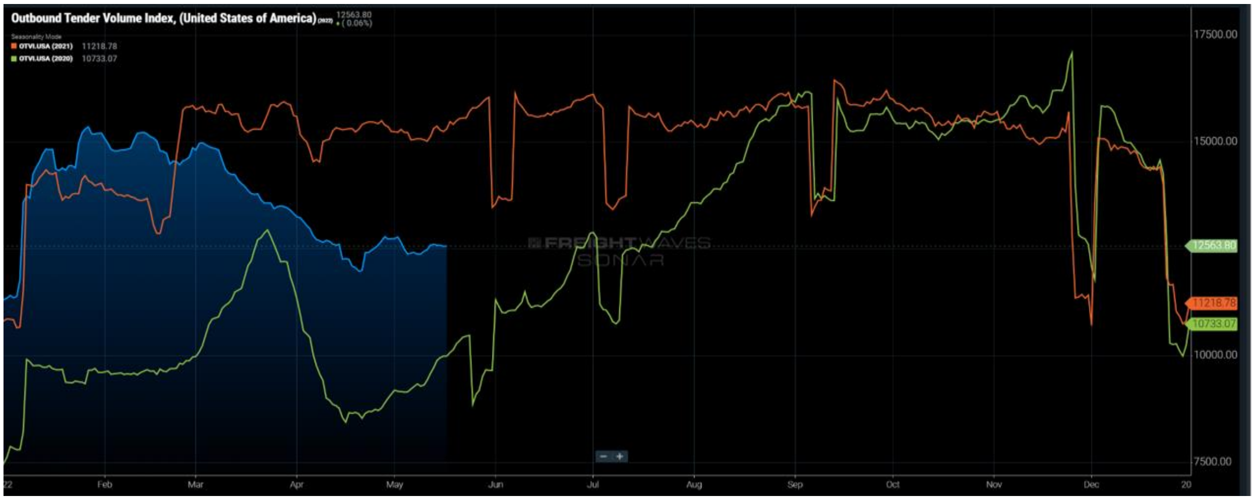
Truckload Update:

June ushers in stabilization and easing conditions across the truckload market, even as carriers' operating costs and diesel prices continue to rise.

Tender volume stabilizing:

- Tender volumes have stabilized in the last 30 days (up to May 14th)
- Freight volumes still ~ 20% higher than pre-pandemic

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

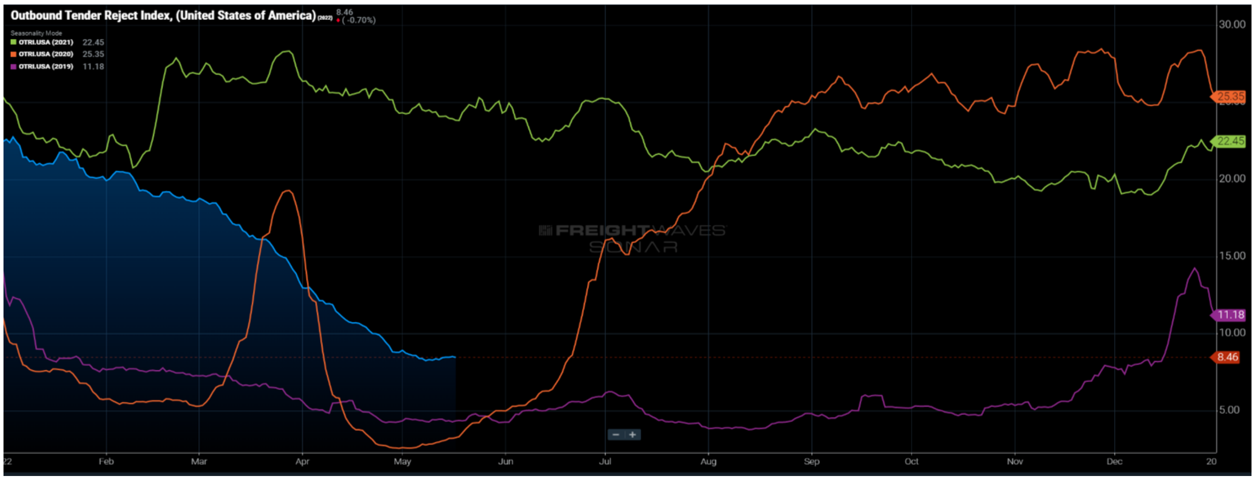


Source FreightWaves

Tender rejection falling:

- Overall tender rejection rates under 10% (8.46% as of May 14th)
    - Tender rejection rates in 2020 & 2021 averaged over 20%
- Contract rates are being accepted, so less volume is hitting the spot market, resulting in a loosening capacity condition

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

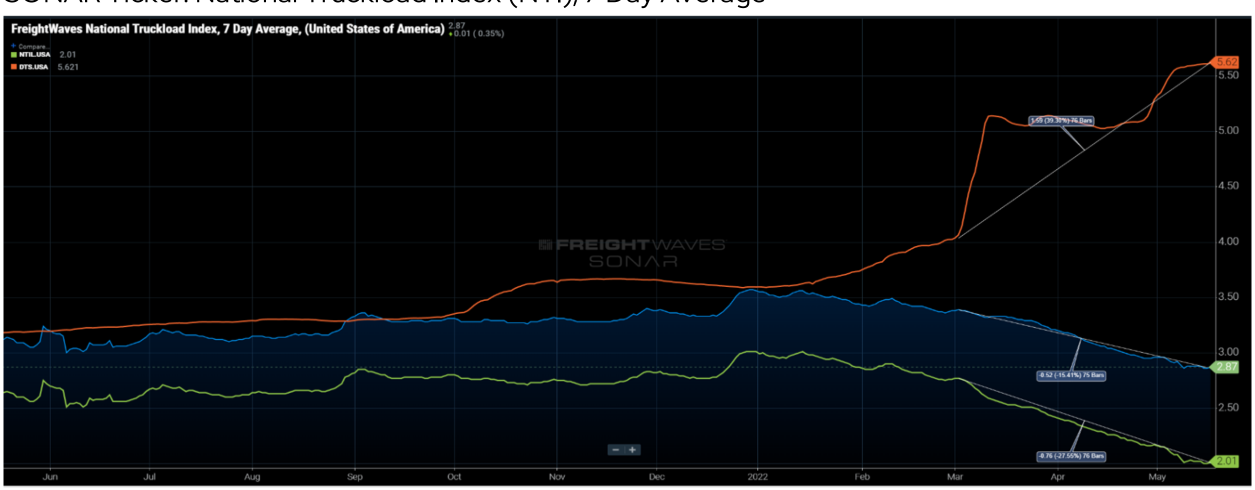


Source FreightWaves

National truckload market dynamics uncertain:

- Spot market conditions are easing (blue line) – down 15% since March 1st
- Carriers' operating costs are still rising – diesel prices, insurance & equipment (including maintenance) costs, driver payrolls
- If these conditions persist, smaller carriers could be forced out of business and/or owner operators prompted to return to larger fleets

SONAR Ticker: National Truckload Index (NTI), 7 Day Average



Source FreightWaves May Market Update

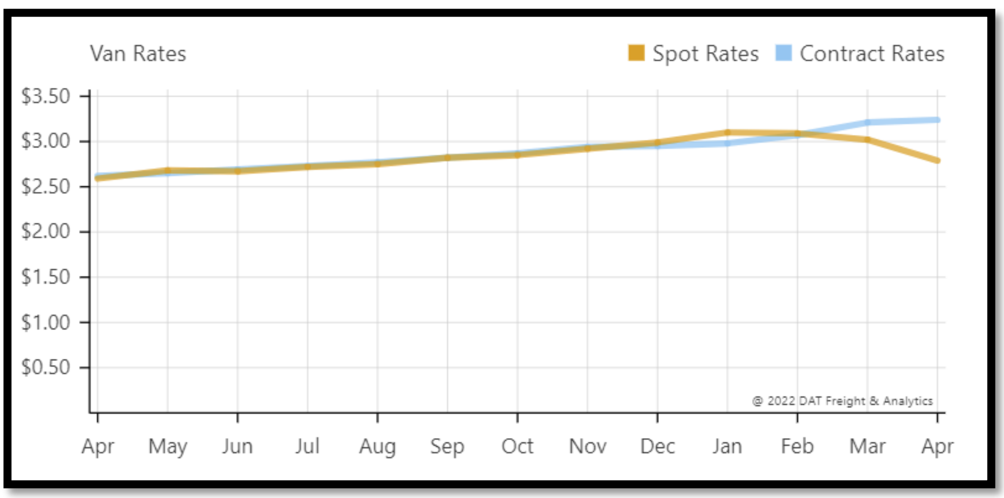
Graph explanation:

- Blue line = NTI (National Trucking Index, which tracks dry van spot rates)
- Green line = NTLI (less fuel)
- Orange Line = DTS (avg national retail diesel price)

Rates by Mode:

Dry van rates: Dry van Month over Month comparisons: costs are total – line haul and fuel

- Contract rates:
  - March '22 was $3.21 per mile
  - April '22 was $3.24
  - Up 0.9%
- Spot rate:
  - March '22 was $3.02 per mile
  - April '22 was $2.79
  - Down 7.9%
  - As of May 25th, dry van spots rates averaging $2.70

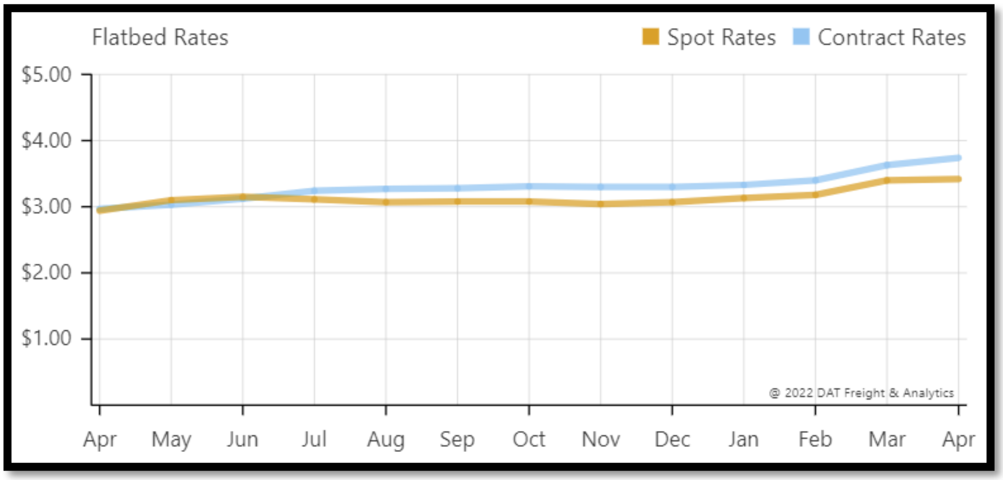


Source DAT

Flatbed rates: Flatbed Month over Month comparisons: costs are total – line haul and fuel

- Contract rates:
  - March '22 was $3.63 per mile
  - April '22 was $3.74
  - Up 3.0%

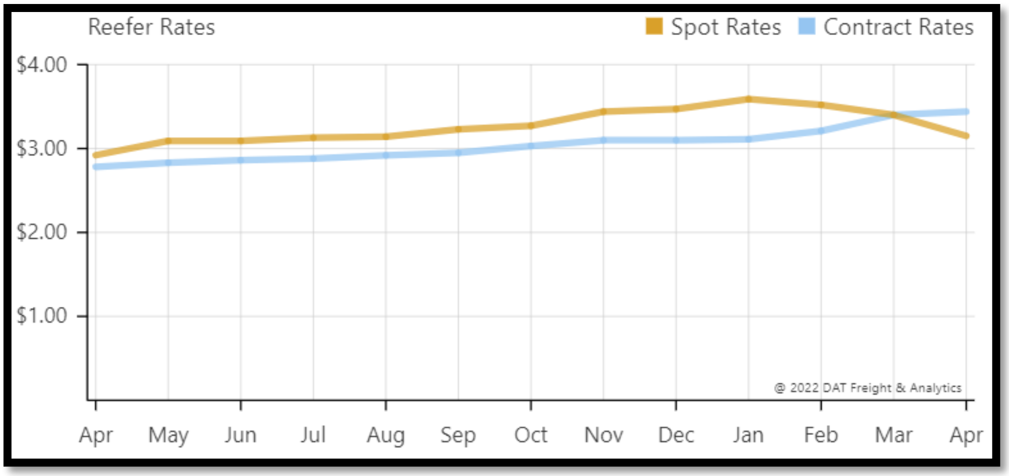
- Spot rate:
  - March '22 was $3.40 per mile
  - April '22 was $3.42
  - Up 0.6%
  - As of May 25th, flatbed spots rates averaging $3.44



Source DAT

Reefer Rates: Reefer Month over Month comparisons: costs are total – line haul and fuel

- Contract rates:
  - March '22 was $3.40 per mile
  - April '22 was $3.44
  - Up 1.2%
- Spot rate:
  - March '22 was $3.40 per mile
  - April '22 was $3.15
  - Down 7.4%
  - As of May 25th, reefer spots rates averaging $3.06



Source DAT

Market outlook & things to watch for TL:

We think it's fair to say many folks, especially on the shipper side, are breathing a sigh of relief as rates ease and capacity conditions loosen. The real question is, how long will this situation last?

We can see from SONAR's OTVI that while volumes are down YoY, they are still higher than pre-pandemic levels. We also know that at this point, carriers are accepting their contract rates, causing a dip in spot volumes and rates.

National Tender Rejection Rate (SONAR's OTRI) is under 10% (8.46%) after averaging over 20% the last two years. This is creating very dynamic conditions for smaller carriers & owner operators – spot rates are falling while their operating costs (fuel, insurance, equipment & maintenance) are all still high and/or increasing. If these conditions persist, there is a lot of speculation that capacity will tighten again as some carriers exit the market or OOs shift to company drivers to mitigate their costs.

Other things to watch out for as we move into summer:

- **China's reopening plans after their COVID-related lockdowns:** As Shanghai and other Chinese ports fully reopen, the backlog of ships and containers has the potential to create an upturn in port volumes here in the US over the next couple of months.
- **Rising COVID #s in the US:** The pandemic could impact production, drivers, warehouse workers, etc. To what extent this will impact transportation & logistics remains to be seen. Most people feel that people will readily take more sick time if they have symptoms rather than "work through it" like many did pre-pandemic.

- **Contract freight remains desirable from both the carrier's and shipper's perspectives with so much uncertainty in the market:** Contract freight helps mitigate the rising fuel costs for carriers, and shippers want to know they have capacity locked in.
- **Flatbed market is more stable than van or reefer right now:** While conditions (and rates) have noticeably eased for dry vans and reefers, flatbeds have remained stable. Flatbed rejections rates remain around 29% (SONAR's FOTRI– as of mid-May). We are "in season" for the Flatbed market right now.

Relationships are long and profitable in this industry, and so a word of caution about getting caught up with aggressive price discussions over the reliability of partners who have stood by you during tough times, especially the last two years. We are all in this together, for the long haul.

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