#MARKETREPORT

JANUARY/FEBRUARY 2019

After coming down off the bull market of 2018 when unparalleled economic growth resulted in record-high rates and short capacity, January may have been a disappointment for some. Lower than last year's record success, the manufacturing sector is experiencing a steady 3% growth rate, year-over-year at present. That might sound disheartening, but keep in mind, this is the traditional “slow" time of the freight year and it is still growth. If you’re worried about our economy, take notice of other countries, like Europe, who are seeing a much more drastic decline in economic prosperity with Brexit looming and tariffs of their own to worry about. The truth is, the whole global economy is slowing down.

DAT LOAD BOARD VOLUME

2017	2018
161M	260M

KEY FACTORS DRIVING FREIGHT DEMAND

U.S. import and export performance has braked since the tariff scare. We delayed additional tariffs on China with a March 1st deadline and it is unlikely that a deal will be reached before then. There is a good possibility, in fact, that the additional tariffs will get delayed again with conflicting reports on a solid trade deal between the U.S. and China.

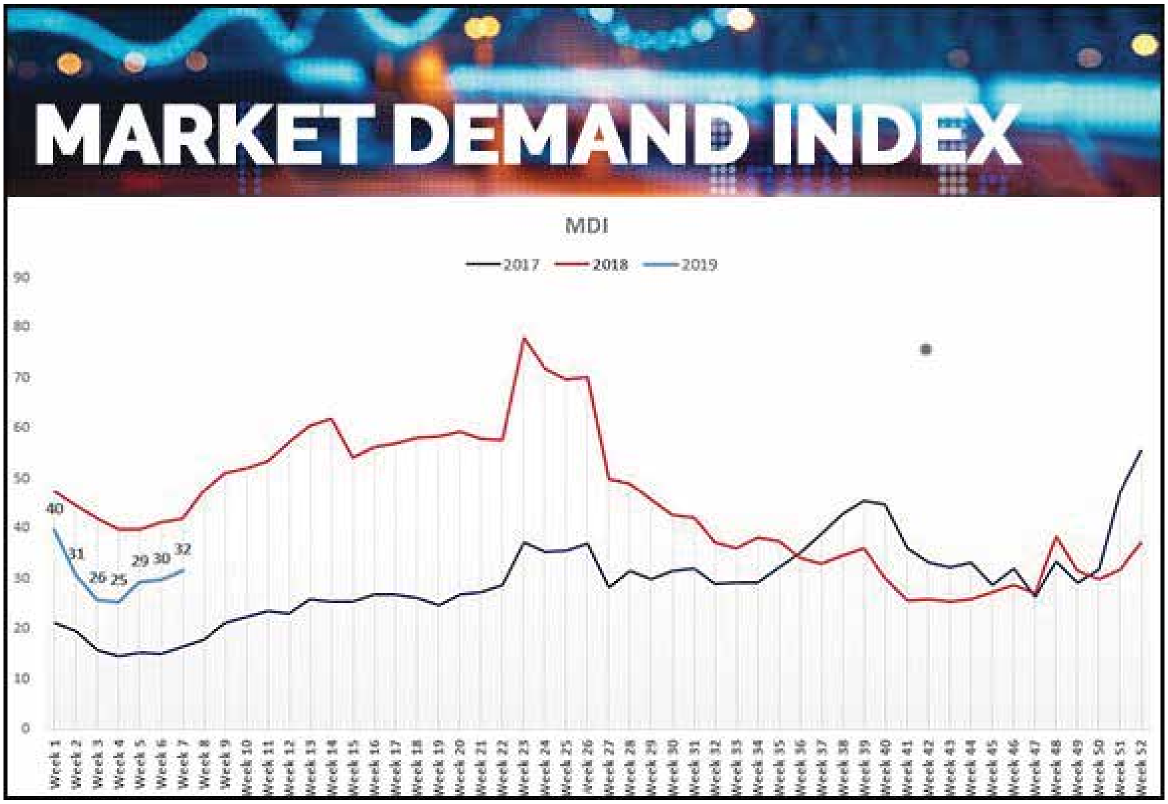
Retail sales, which were originally reported as favorable at the end of 2018 (the release of the final numbers was waylaid due to the government shutdown) showed surprisingly low sales figures in December with declines in every industry except motor vehicles and building materials.

Job growth has picked up over the last few months. Wage growth has picked up above 3% year-over-year. Consumer confidence is still good relative to its recent history.

The government shut down in early January had some effect on the economy, albeit smaller than originally anticipated. Freightwaves economists estimate the negative damage to the economy's growth at .02% resulting from the interruption in commerce. Probably the biggest effects were with consumer confidence, slower retail spending and minimum housing activity. The avoidance of another government shutdown in February was a relief to everyone and gives us hope for an uninterrupted and busy spring season ahead.

FREIGHT VOLUME & CAPACITY

The current Market Demand Index (MDI) chart below portrays an uncanny mirror image of last year's index when reviewing its week by week track, but with less demand overall. Having said that, this year's MDI is still much higher than that of 2017. The national load count chart shows that even though volume is down from 2018, it is slightly above that of 2017.



Above: National Market Demand Index 2017- 2019 Week Over Week

In the first part of January the market saw a 3% decline in overall volume, with capacity up 2%. Influencing factors pointed to slower manufacturing, lower oil production, international trade issues and a down housing market.

This increase in capacity means downward pressure on the carriers, softening demand, and lowering rates. Last week the heaviest volumes were coming out of Southern California, Dallas, Atlanta, Chicago, Pennsylvania, New Jersey and New York. These are areas that carriers want to keep their trucks. National freight volumes are flat so far in February, depicting a more "normal" type of year. Margins are not big right now.

And speaking of rates...

RATES & SPOT MARKET

January experienced a nose dive in spot rates as conditions dropped 22% since the new year began, but again, this is typical market behavior for Q1. Some analysts say we may have seen the bottom of the market already and that there are early signs of a turn around. Overall wait times are slowly climbing which may be an indicator that volume is picking up. Also, slow but telling are rising oil prices which means there is new production in the oil fields. Combined with the traditional spring uptick right around the corner and the normal month-end push, the feeling in the market is optimistic.

TRUCKING EMPLOYMENT

Trucking employment rose for the 9th consecutive month in January. Note: Trucking employment numbers don't show you the whole picture since it doesn't represent independent owner-operators, but instead fleets and fleet driver jobs. Nonetheless, trucking jobs are now 2.9% higher than last year and job opening rates in transportation are elevated but in line with the economy overall.

TENDER REJECTION INDEX

In January, the tender rejection index dropped to an all-time low, which is an indicator of less freight volume and ample capacity, resulting in less options for carriers in this temporary market situation. If you've got contracted rates, you're enjoying good rates right now. The TRI is slowly creeping upward which could be an early indicator of a rebound in the market.

WEATHER

Winter storm Jayden wreaked havoc in the Midwest with several days of sub-zero temperatures, ice-covered roads, snow and high winds whose wrath lasted almost an entire week. Businesses closed and freight movement came to a screaming halt. Even the rail lines, which usually are less-affected by snow and bad weather, were seeing issues, causing workers to use fire on the tracks to create enough heat to keep the rails and switches open. Rates rose 10.1% for flatbeds and 6.5% for reefers which were in high demand

> ***"Shippers continue to find value in 3PLs, or managed transportation providers, which also can include 4PLs. The 2019 Third-Party Logistics Study: State of Logistics Outsourcing Report, produced by Penske Logistics along with Penn State University, Infosys and Korn Ferry, found that 89 percent of shippers and 98 percent of 3PL providers agreed that the use of 3PLs has contributed to improving customer service. Additionally, 73 percent of 3PL users and 91 percent of 3PL providers agreed that 3PLs offer new and innovative ways to improve logistics effectiveness."***
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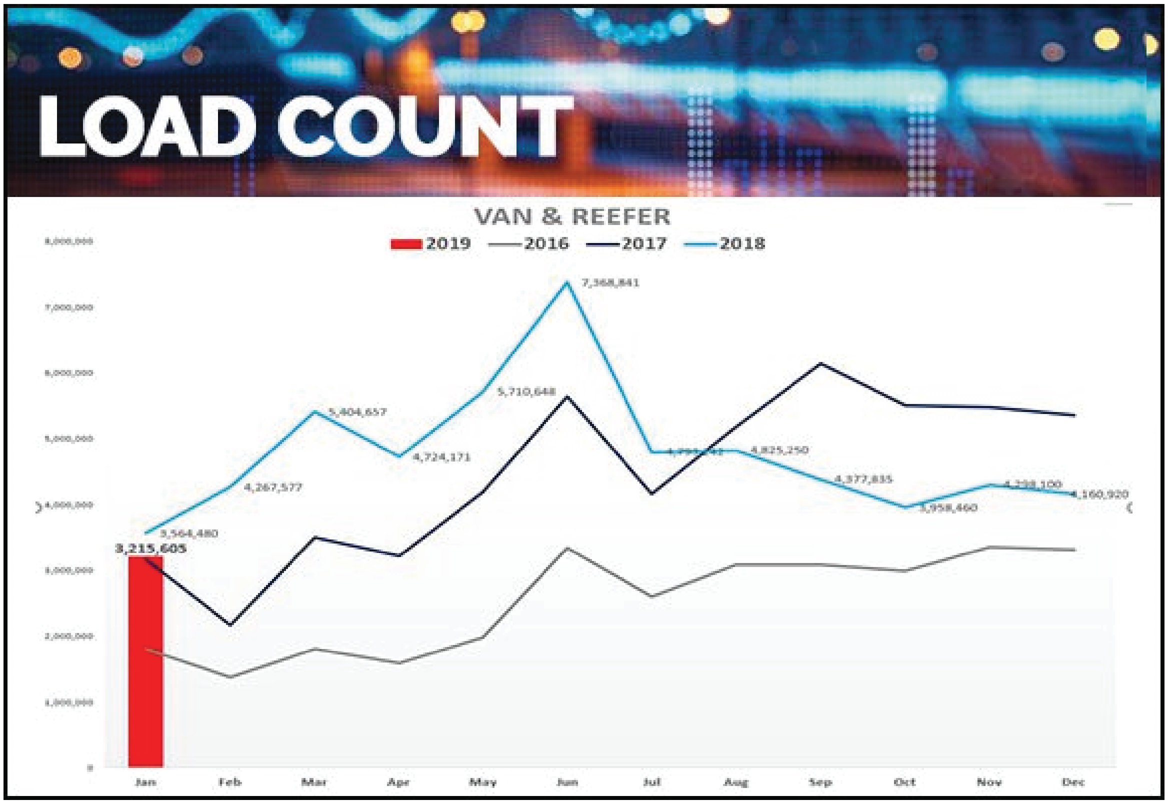
> – Brian Straight, *Freightwaves Newsletter*, February 2019

during the reign of the nasty Polar Vortex. In the weeks post Jayden, we've had addition weather issues with rain and flooding in California, additional snow in the Midwest and some icy conditions in the Southeast, all effecting transportation times.



Above: National Load Counts for Van & Reefer Freight

SUMMARY

The macroeconomic landscape is setting the stage for promising and continued year-over-year growth while moderating consistently. There is less pressure in the supply chain for rates to increase due to the current available capacity and diminished economic growth. Optimism in the market, however, is healthy as we eagerly await the pre-season surge. Hopefully the worst of the disruptive weather is behind us and any chance of week-long disruptions are (cross your fingers) behind us. It's hard to say what new and unforeseen economic conditions may arise in Q2 ... and how they will affect the market. Like any other year in supply chain history, we know the market will continue to experience spikes and downturns in both capacity and freight volume. It's the nature of the biz and keeps us all on our toes!

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