EASE

QUARTERLY MARKET UPDATE

FILE:	QUARTERLY MARKET UPDATE
QUARTER:	FOUR
YEAR:	2023

HOW WE GOT HERE

Thank you for joining us for the EASE Quarterly Market Update, Q4 2023 edition. Our last update highlighted several aspects of the current market cycle, such as:

- the net loss of operating authorities.
- year-over-year (YoY) decline in spot and contract rates.
- the uncertainty that lies ahead.

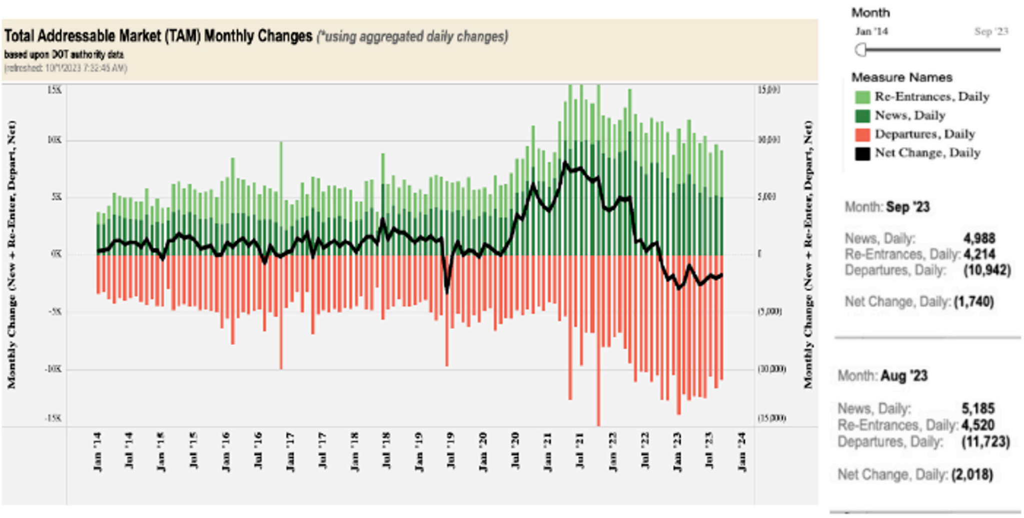
SHIPPER PERSPECTIVE: YEAR OVER YEAR % DIFFERENCE

Source: DAT Freight & Analytics © 2023

We can now say with confidence that the market hit its floor in terms of spot rates sometime in Q3, declining approximately 15% YoY. The YoY spot and contract rate change chart (above) now shows both lines, representing both rate types, intersecting and working in unison, which indicates that several factors are holding the market back from a drastic shift from “soft” to “tight.”

To start, we must highlight what’s happening on the supply side of the industry. We are still seeing a record number of operating authority revocations. In fact, the industry is losing more carriers than it’s gaining every month, as it has for the past 4+ quarters. Despite losing carriers, driver availability remains extremely elevated to near record levels. Class 8 truck purchases have been surging for the past 18 months, which contradicts the historical correlation of equipment orders and spot rates. Low rates should dictate lower order levels, but elevated fleet purchasing into an over-saturated market will put downward pressure on spot rates longer.

FOR-HIRE INTERSTATE CAPACITY MOVEMENT

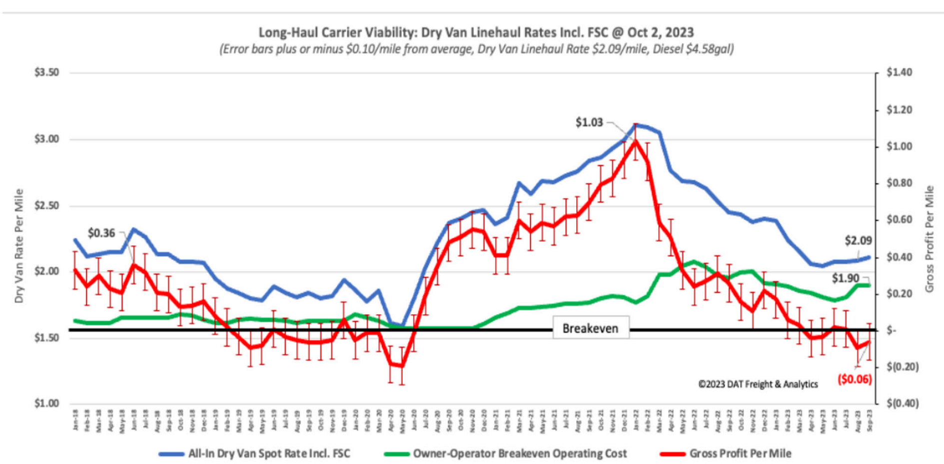


- FMCSA data shows the long-haul interstate sector lost ~800 fewer carriers in Sept compared to Aug.
- Lost 124k carriers since Oct '22 but gained 122k over the same timeframe.
- Net loss is 2k in 12 months
- For context, the for-hire sector doubled from June '20 to Aug '23
- 48% of those joined between June '20 and the end of '21

Source: DAT Freight & Analytics, FMCSA © 2023

Other factors to consider are operating costs and fuel prices. Principal Analyst at DAT Freight and Analytics, Dean Croke, provides data that suggests dry van owner-operators were operating at a net loss of 6 cents per mile at the end of September. Operating costs have increased for carriers by 9 cents in the last 3 months, driven by a 20% elevation in fuel costs. Certainly, that kind of gap is not sustainable for extended periods of time. Fortunately, we have seen fuel costs level off, which has bought carriers more time. Now that we understand how the market got here, we can understand what led to big players like Yellow and Convoy exiting the market. Anyone providing supply to the market is susceptible to failure if they do not adjust to volatile market conditions. Establishing relationships and securing contractual agreements is key to surviving this difficult time.

LONG-HAUL OWNER- OPERATOR VIABILITY



- Long-Haul carrier profitability improved in Sept from an estimated ~$0.09/mi in Aug to -$0.06/mi at the end of Sept
- IC carries were making over $1.00/mi gross profit at the peak of the capacity crunch in late '21
- At $1.90/mi, long-haul spot market carriers (IC's) are barely getting by and not generating sufficient gross profit to cover major downtime.
- Small carrier spot market operating costs are up $0.09/mi in the last 3 months while rates have been relatively flat.
- Current costs assumes diesel at $4.58/gal national ave., dry van rates at $2.09/mi incl. FSC and wages at $60k

Source: DAT Freight & Analytics, FMCSA © 2023

WHERE ARE WE NOW?

CURRENT MARKET CONDITION HIGHLIGHTS & WHAT TO EXPECT IN Q4 2024.

Pacific Northwest

- Outbound Pacific Northwest (NorCal through Washington) is starting to show signs of heating up and will continue to be tighter than normal through the end of the year. Fresh apples and potatoes are also being shipped, adding to the demand in the region. Growers in the area are reporting an expected 20% YoY increase in apple production by the end of the season.

Midwest Hunting Season

- Wisconsin and Minnesota are particularly impacted by deer hunting season during November and December. Many drivers will take time off the week of Thanksgiving and after to hunt, leading to a decrease in carrier capacity. This not only impacts those two states, but the states around them. Lead time and relationships will be key to managing capacity in these regions.

Peak Holiday Season – It's here!

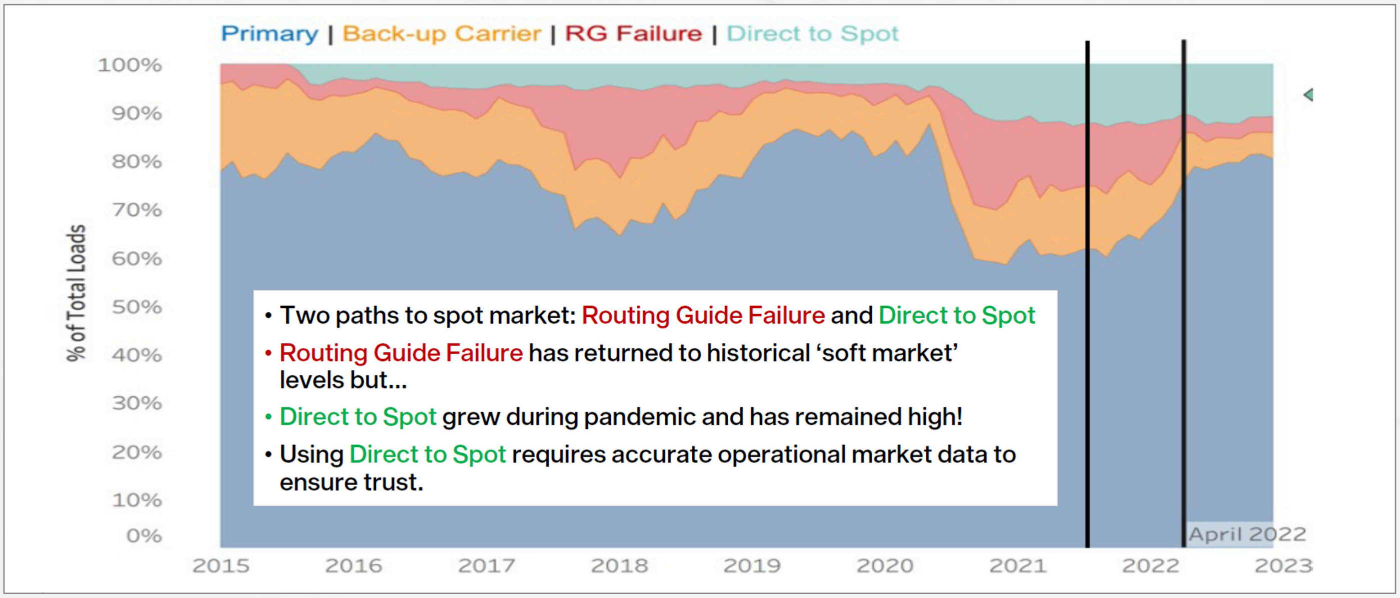
- Many transactional carriers use the holiday season to keep their trucks moving, hoping to capitalize on peak season rates before they shut business down for a couple of weeks in January.
- Considering the market's wealth of capacity, rates will likely remain stable compared to those of pre-COVID times, unless there are outside factors such as increased fuel costs or inclement weather to affect capacity.
- Any major winter weather events will certainly disrupt the status-quo, causing a brief period of diminished capacity and elevated rates.
- While the market is most vulnerable during peak holiday season, carriers are likely to inflate rates due to the increase in demand

LOOKING AHEAD

Where does that leave us for 2024? Since pre-COVID times, we've seen a drastic shift in the overall freight mix in the country. Shippers' trust in routing guides and contractual agreements has waned as market volatility has increased. During it peak in 2021, shippers were allocating nearly 22% of their freight spend on the spot market, over double the ~10% average pre-COVID. Currently we're seeing about 15% of freight hitting the spot market. Considering this deflationary market will not last forever, it's a critical time for shippers to decide their freight mix for 2024.

Need help determining your 2024 freight mix? We're here to make it EASEy!
Use your customer-specific email address or CLICK HERE to schedule a time to talk!

CURRENT RESEARCH AT MIT WITH CHR TMC



Source: DAT Freight & Analytics © 2023

Experts predict we will hit an inflection point sometime between Q1 and Q2 of 2024. What do we mean by inflection point (see above graph Shipper Perspective: Year Over Year % Difference)? At that time, we will see a YoY increase in spot rates, followed by an increase in contract rates about 3-4 months later, marking the start of a new inflationary market cycle. In other words, we will move from a soft market to a tight market. We all need to pay close attention to fuel costs, operating authority revocations, and other geopolitical factors that could affect the US economy in the coming months. Should fuel costs increase while market rates follow their seasonal expectations, what happens next could be devastating. As mentioned above, increased operating costs are not sustainable and will cause an exodus of carriers from the market, pushing us into a recession. On the other hand, if fuel costs soften and rates follow seasonal expectations, we will see a return to a happy medium where shippers still have the upper hand, but carriers' profits have increased. For now, we need to remain focused on the task at hand, which is making smart business decisions and strengthening partnerships to set ourselves up for success in 2024. With all the recent major events in the market (Yellow, Convoy, UAW strike) barely making a dent, we can assume a safe landing through the end of 2023.

The information in this report is analyzed from multiple sources including but not limited to ACT Research, DAT Freight & Analytics, Journal of Commerce, FMCSA, and FTR Transportation Intelligence.