A Q3 REVIEW OF THE TRUCKING ECONOMY & HOW IT WILL SHAPE Q4
The trucking industry is cyclical. This means that in logistics, you can count on history to repeat itself. That makes understanding where the market has been essential to predicting where the market is going.

In this report, you’ll find trucking-related economic data and analysis, based on the previous quarter, that will provide a macroeconomic view on the state of the market.

Key Takeaways from Q3:

Loadsmart’s spot rate index hit its lowest point of 2022.

Rates in September were ~40% softer YTD. Due to bearish consumption and typical market cycle lengths, we expect an inflationary freight market to come back in late Q3’23 or Q4’23.

Excess capacity absorbed any and all disruption thrown its way.

The market acted as a sponge. There were minimal to no lasting impacts stemming from July 4th, Labor Day, a potential rail strike, Hurricane Ian, and more.

Contract rates are slowly catching up to the spot market

According to Loadsmart’s indices, this spread hit the historical high of $0.85 cents in July but now sits at $0.50 cents (Oct/22). We expect this to be exaggerated further over the next two quarters as many shippers reset their contract networks.
Rejections, Contract Rates, and Cost Savings

In July, shippers were in the driver’s seat. National rejections (measured by Sonar’s OTRI) sat at ~6.3%, which was the lowest point in over 2 years. If you wanted to move freight on the spot market, it should have been easy to find capacity and push rates as much as 10-15% below even in the current market conditions.

According to DAT’s National DRV spot & contract indices, contract rates had begun their descent: from June > July, National DRV contract rates were down 4 cents, and in August, they went down 14 cents. Contract rates dropped much faster than spot rates, which only have dropped 4 cents from July > August.

As such, it was a month for shippers to recognize cost savings as the market softened and this didn’t necessarily mean re-bidding their network. Learn more about how Loadsmart’s Reliable Contract Solution would have helped – click here to read more.

Freight & Economics Update

Diesel prices declined 5% MoM in July. Using Loadsmart data, we display the average share of fuel surcharge levied on a carrier’s base rate: 11% pre-pandemic, 6% during covid restrictions, and a historical high of 17% after the Russian-Ukraine war began.
Spot Rates declined MoM and contract rates began a decline we expect to continue over the coming 4-6 months.

North American transborder freight was up 28.3% in May YoY. Trucks were responsible for 59% of these transborder flows, moving US$82 bn in the same month, a 15.7% rise YoY.

The top traded commodities were:

- **Computers and Parts** $15 bn
- **Electrical Machinery** $12 bn
- **Vehicles and Parts** $11 bn
Retailers’ inventory-to-sales ratio was 1.21 in June. This means the inventory surplus was enough to cover for additional 1.21 months of sales. In August, the ratio reached its highest level since Feb/21, when it was at 1.24. The increase in inventory-to-sales ratio was brought on by consumption slowdown, especially in discretionary items.

Department stores and home goods had the highest YTD increases in the ratio (36% and 32%, respectively). Additional supply chain disruptions (i.e. port congestion) also contributed to this rise. With more inventory in stock, retailers have less of a need for additional freight.

The August jobs report showed that trucking employment remained solid with a growth rate of 4.6%, 0.7 p.p above the overall nonfarm rate. For the warehousing sector, payrolls continued to increase above the overall rate too but at a slower pace. The sector’s YoY rate was 7.0%, down 3.5 p.p. from the April ‘22 peak. The slowdown in hirings reflects e-commerce retailers’ decisions to delay new warehouse openings and forgo plans of building more plants.
During the pandemic, online retailers expanded their network of distribution facilities, shrinking the length of hauls. The number of jobs for warehouse staff, as a result, and local-haul drivers grew far more than the nonfarm payroll. This phenomenon is known as the “Amazon Effect.”

This trend, however, came to an end when the economy re-opened. Since then, a few things we have noticed:

- There has been consecutive declines in the hirings for warehousing
- The job growth in long-haul trucking has overcome short-haul since May/22.

By looking at Loadsmart data, we note that the average length of trips quoted had increased sharply at the end of last year and remained at similar levels until now.
Labor Day, a narrowly avoided nation-wide rail strike, and Hurricane Ian all paved the way for a chaotic September. However, excess capacity easily absorbed most of the disruption that came its way.

### Volumes & Rates

Our **volume index** remained stable throughout the month of September (~0% change MoM). We see this stabilization as a positive sign in light of the volume declines of the past few months, suggesting that volumes could be starting to rebound as we enter retail season.

Our **price index** declined 3% MoM, reaching a yearly low in late September. During the first three weeks of the month, our index remained stable and at a level similar to August (~300 points), but in the fourth week it dropped to under 290 points.

The rate of decline has certainly become milder over the past three quarters (our price index dropped 15% QoQ in the 1Q, 11% in 2Q, and 9% in the 3Q). Due to the low expectations for peak season disruption, Loadsmart expects minimal to no rate declines in Q4.

See YoY comparisons for our rate and volume indices, respectively.
SEPTEMBER 2022

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Freight & Economics

Hurricane Ian took the trucking industry by storm. Our analysis shows that regions under warnings had a carrier supply decline of 20% WoW. Freight demand stayed roughly constant during the same period, which indicates that shippers had difficulties finding drivers willing to inbound into these areas.
SEPTMBER 2022

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Contract vs Spot Spreads

In the last four consecutive months average spread in rates between the two markets fell around 50% (July to October)

Spot rates dropped successively throughout the year. Contract followed the lead for most months but had a flatter decline compared to spot until July, when the average spread between the two hit $0.85 cents.

Since July, contract rates have started to catch up and the spread is currently at $0.50 cents. We expect an intersection of these rates in Q1 / Q2 2023 which will help push the freight market closer to an inflationary environment.
What to look out for as we approach the end of the year:

Diesel prices are the only remaining wild card that could materially impact the timing & depth of the floor in spot rates. Assuming no drastic declines in diesel to occur, we expect rates to hold steady in Q4 for the first time all year.

Contract rates have been coming down steadily since July 2022, and we expect this to continue at least through Q1'23. With the 5th interest rate hike since March pending, we’re expecting to see the beginnings of deflationary consumption levels.

Lastly, RFP Season is upon us! Loadsmart’s current freight market outlook projects that we’ll remain in a deflationary market through Q3 ‘23 and we’re currently approaching the floor for the spot market rate environment.

To be prepared for the ever-changing market, shippers can optimize their operations by managing shipment requirements, discovering rates for spot and contracts - from Loadsmart and other providers in their network using our ShipperGuide solution.

Learn more about ShipperGuide today.
Loadsmart pairs advanced technologies with deep-seated industry expertise to fuel growth, simplify operational complexity, and bolster efficiency for carriers and shippers alike. Transforming the future of freight, Loadsmart leverages artificial intelligence, machine learning and strategic partnerships to automate how freight is priced, booked and shipped.

Shippers move more with less by integrating their Transportation Management System (TMS) with Loadsmart Link to access instantly bookable guaranteed capacity with one dynamic rate. These vital TMS integrations allow rates, tenders, tracking and invoicing to flow automatically between Loadsmart and shippers, delivering unmatched visibility to the shipments.

As a one-stop-shop logistics solution for dynamic freight, Loadsmart offers mode optimization services, identifying opportunities to secure the most favorable mode in real-time.