Uber Freight

2023 Q1 Market update & outlook

February 2023

Market update & outlook
Executive summary – 2023 Q1

Macro Economy
- Weaker consumer spending
- Contraction in manufacturing economy
- Trucking employment strong

US – Less-than-truckload
- Demand decreased by ~7%
- Price has softened, but carriers are still price disciplined
- On time performance improved to close to pre-Covid levels

Europe
- Continued easing of transport capacity in Q4
- Spot rates approaching or below contract in certain markets
- High inflation remains and is more widespread
- Low growth forecast for 2023

Warehousing
- Facility labor is stabilizing to pre-pandemic norms
- Warehouse capacity is opening up, but reduced
- Inventory supplies are starting to stabilize, but organizations are being smart about how much they are carrying

US – Truckload
- Continued contract rate contraction
- RFP levels at all time high
- Carrier failures stabilizing from last quarter

US – Bulk
- Lower spot rate premiums
- Improved first tender acceptance
- Extended lead times for equipment purchases continue

Mexico
- Carriers seeking long-term contracted rates and volume
- Nearshoring efforts expected to counter softening capacity environment
- Carta Porte grace period extended to July 31, 2023

US – Intermodal
- Intermodal capacity is plentiful across most metro areas
- Rail service levels have improved and velocity is near the long term average
- Spot and contract rates have fallen over the last two quarters

Ocean & Air
- Rates on most major trade lanes have returned to pre-pandemic levels
- Importers continue to divert cargo to USEC and Gulf due to no ILWU contract
- Vessel schedule reliability improving

Canada
- Economic factors slowing rate inflation
- Market and pricing stabilizing
- Stricter ELD enforcement

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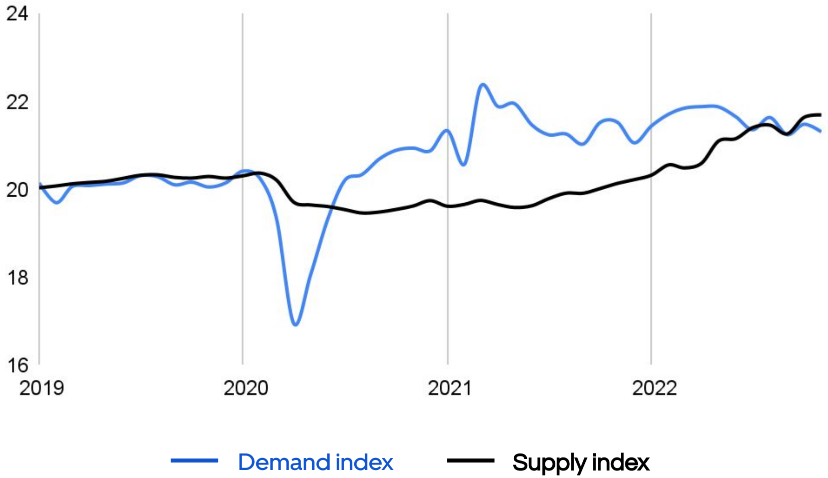
Macro economic update

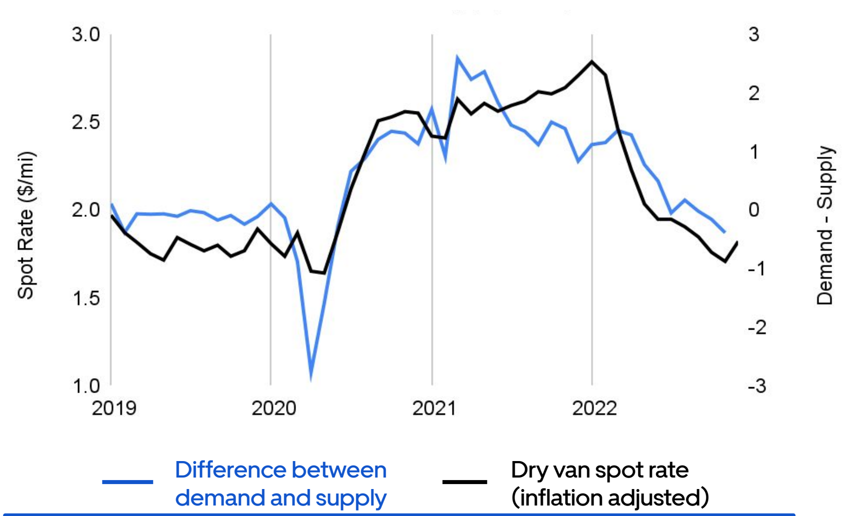
Truckload supply continued to outpace demand

Uber Freight's composite supply and demand indices
Millions of dry van loads per month (seasonally adjusted)



Our composite US supply and demand indices show that supply continued to expand in November, as carriers added new drivers and trucks. Meanwhile, demand contracted, mostly due to plunging imports and lower consumer spending. In November, demand was 1% lower year-over-year (Y/Y), while supply was 8% higher.

Difference between demand and supply vs. spot rates [1]



The difference between these supply and demand indices is highly correlated with the average dry van spot rate. Therefore, as the gap between supply and demand continues to grow, we believe that December's increase in spot rates will be short-lived. This increase in linehaul rates was driven mostly by seasonality, severe weather, and plunging diesel prices.

[1] DAT, UF calculations

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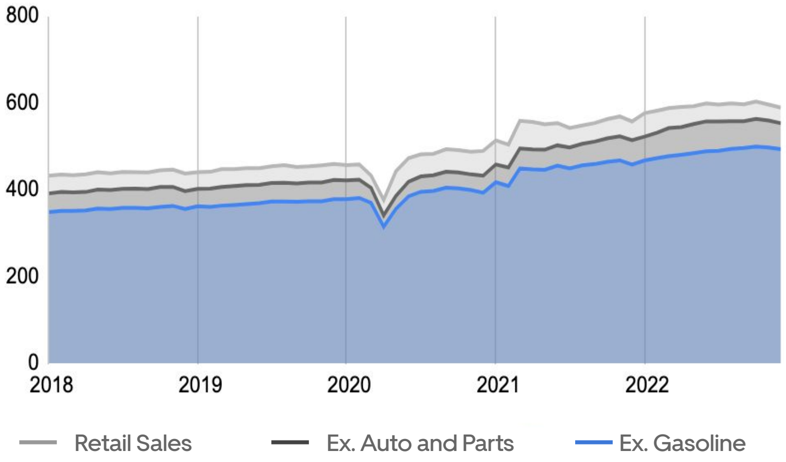
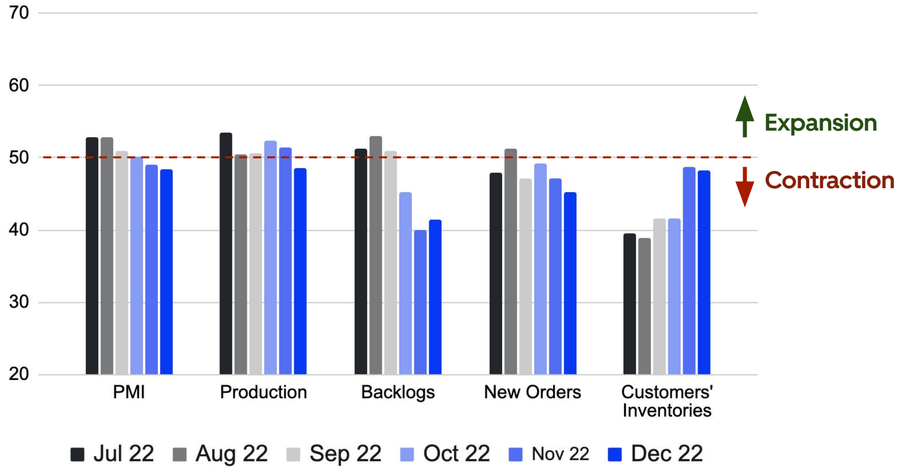
Freight demand: from a spot market recession to a broad-based volume recession

Retail Sales (Billions of Dollars) [(1)]
Seasonally Adjusted



Retail sales surged in December in line with normal seasonality. However, on a seasonally adjusted basis, they fell for the second consecutive month. Although part of this decline was driven by lower sales at gasoline stations and motor vehicles and parts dealers, decreases were observed across the board.

ISM Manufacturing PMI [(2)]
Values above 50 imply expansion and below 50 imply contraction



Manufacturing continued to contract in December after a strong year. The ISM PMI fell to 48.4, after recording 49.0 in November. The indices of backlogs and new orders also pointed to contraction, indicating weaker future demand. On the positive side, raw material prices continued to decrease, as the ISM prices index fell below 50 for the third month in a row.

[(1)] US Census Bureau; [(2)] Institute for Supply Management

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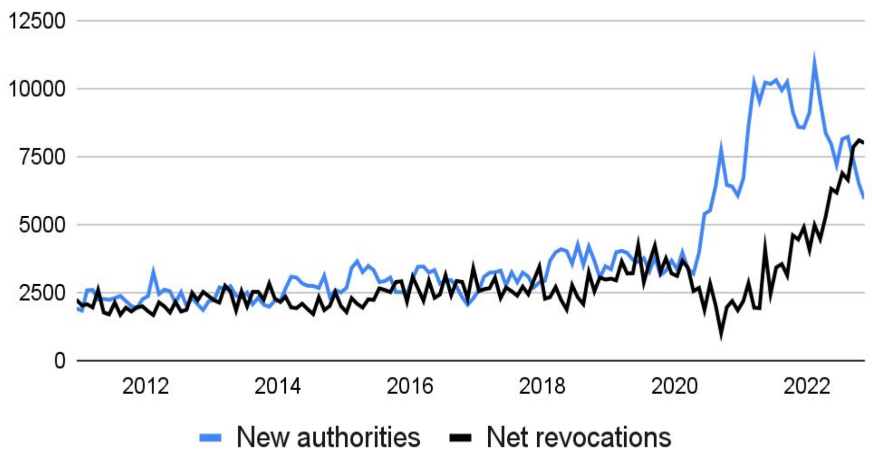
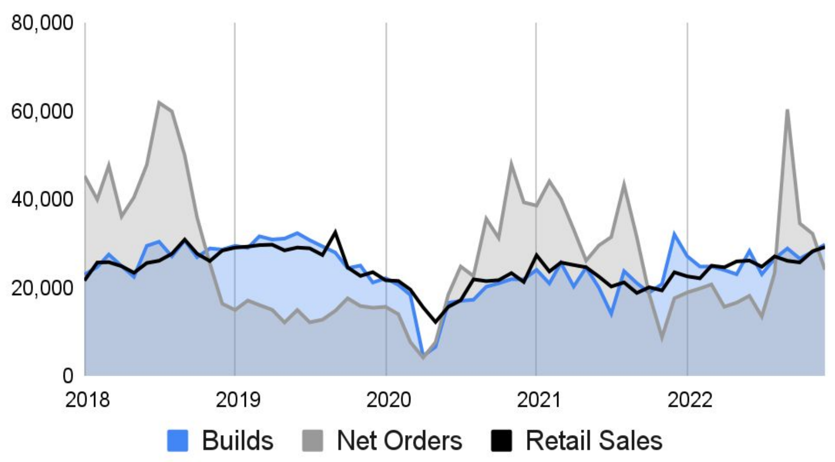
Long-tail capacity continues to exit the market, while large carriers expand their fleets

FMCSA New Trucking Authorities and Revocations [1]



Trucking employment remained flat in December after adding only 2.1K jobs. However, long-tail capacity is exiting the market due to rising operational costs and low spot rates. According to FMCSA, the number of net authority revocations exceeded the number of newly granted authorities for the third month in a row.

Truck builds, orders and sales [2]



Class 8 truck net orders fell to 24.1K units in December after spiking in the previous 3 months. As supply chain constraints continued to resolve, production increased by 6% to 29.8K units. Despite the recent spike in orders, the truck order lead time dropped to 7.2 months, in line with historical levels.

 [1] FMCSA, FTR Analysis [2] ACT Research.

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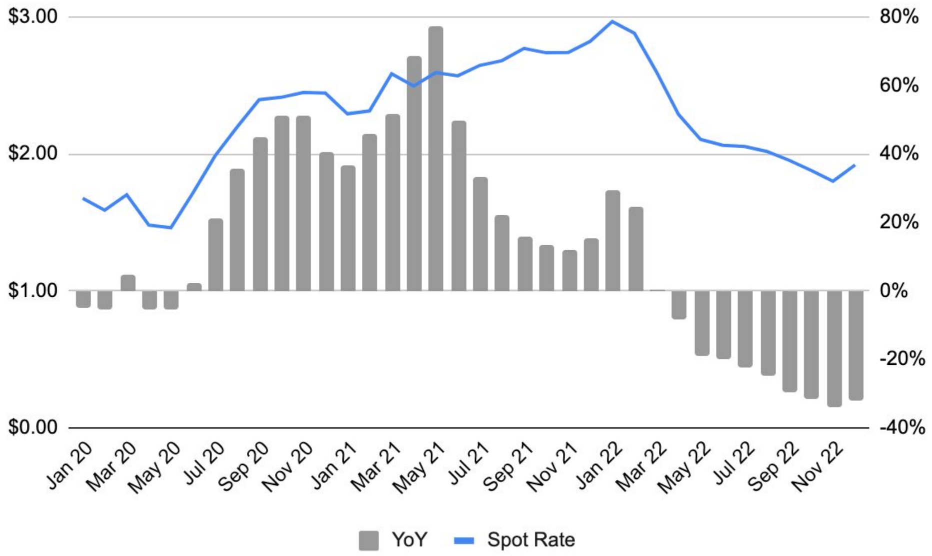
Despite the recent seasonal surge in spot rates, we expect the soft market to persist throughout the first half of 2023, ahead of potential tightening in H2.

Dry Van Spot Rate per Mile (Excl. Fuel) [1]



[1] DAT, UF analysis

Demand outlook:

- Freight demand continued to contract across the board: retail sales, manufacturing output, and imports all decreased in Q4.
- The demand outlook looks more pessimistic, as consumers tap into their COVID savings and new manufacturing orders plummet.

Supply outlook:

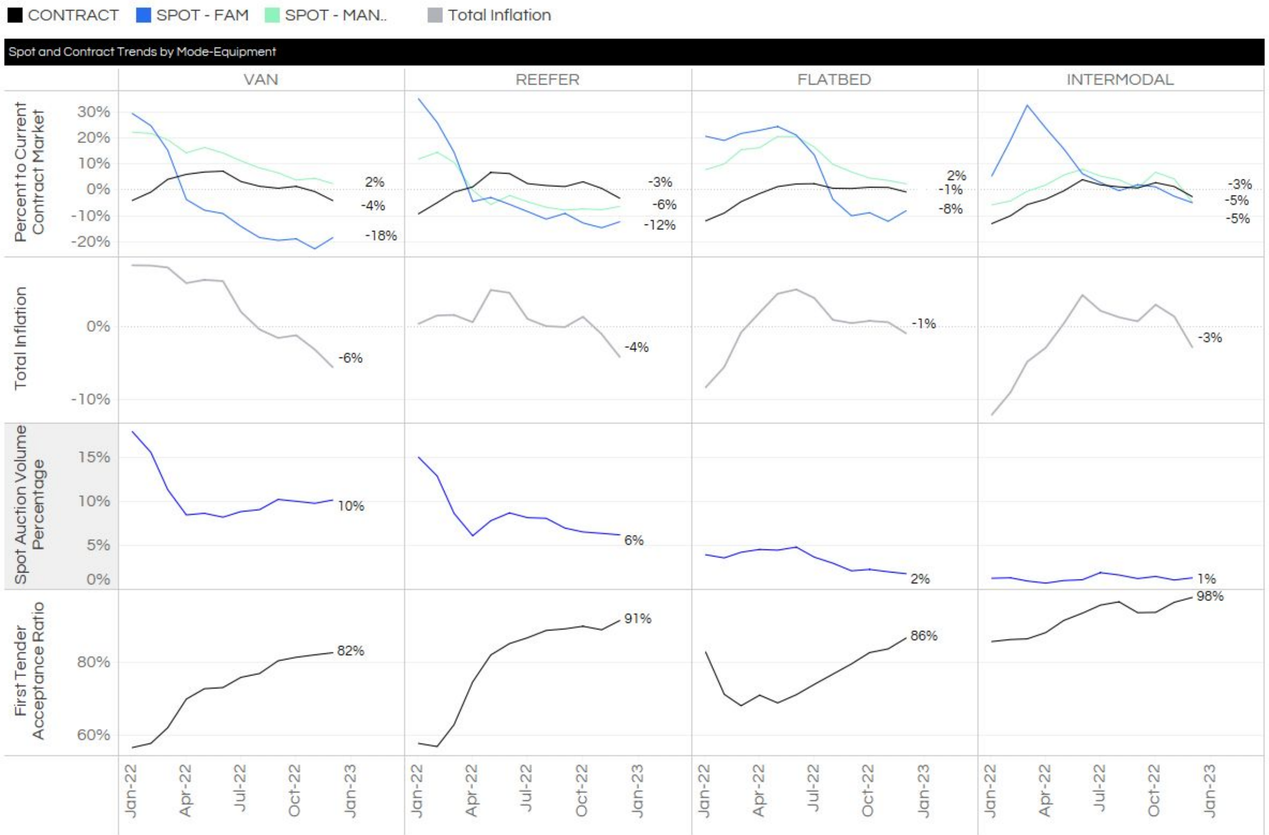
- The supply correction is starting to happen, as long-tail capacity is exiting the market at a faster pace. However, carriers are still ordering new trucks to replace their run-down fleets.

Rate outlook:

- While we expect demand to fall further in H1, we also expect supply to contract further. The expected reduction in trucking employment will be the first clear signal of market reversal.

US Full truckload

Rates and route guide performance



Spot rates increased slightly in December.

A sizable gap between spot and contract rates persists, but is down from historical highs.

Auction volumes stabilize.

First Tender Acceptance (FTA) performance continues to improve across all modes

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Uber Freight 4PL - rate and route guide trends

Seasonal tightening in December, but continuous improvement in route guide performance

Rate and Route Guide Market Trends - Month Over Month

	VAN		REEFER		FLATBED		INTERMODAL	
	November 2022	December 2022	November 2022	December 2022	November 2022	December 2022	November 2022	December 2022
Linehaul + Fuel Rate Change		-2.6%		-3.1%		-1.5%		-5.1%
First Tender Accept Ratio	82.7%	83.2%	88.7%	91.3%	83.5%	86.5%	96.9%	98.0%
Change in First Tender Accept Ratio		0.4%		2.5%		3.0%		1.1%
Spot Auction Volume Percentage	9.3%	9.7%	6.4%	6.2%	2.0%	1.8%	1.0%	1.4%
Change in Spot Volume Percentage		0.5%		-0.2%		-0.2%		0.4%

Rate and Route Guide Market Trends - Year Over Year

	VAN		REEFER		FLATBED		INTERMODAL	
	December 2021	December 2022	December 2021	December 2022	December 2021	December 2022	December 2021	December 2022
Linehaul + Fuel Rate Change		-6.8%		-1.1%		8.3%		7.6%
First Tender Accept Ratio	56.7%	83.2%	59.5%	91.3%	81.4%	86.5%	79.5%	98.0%
Change in First Tender Accept Ratio		26.5%		31.7%		5.1%		18.5%
Spot Auction Volume Percentage	16.6%	9.7%	13.1%	6.2%	3.4%	1.8%	1.5%	1.4%
Change in Spot Volume Percentage		-6.9%		-6.9%		-1.6%		-0.1%

Monthly comparisons

- Minor minor in spot auction volumes in December

- First Tender Accept Ratio continues to improve across all modes.

Annual comparisons

Spot Volumes much lower Y/Y.

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Carrier sentiment

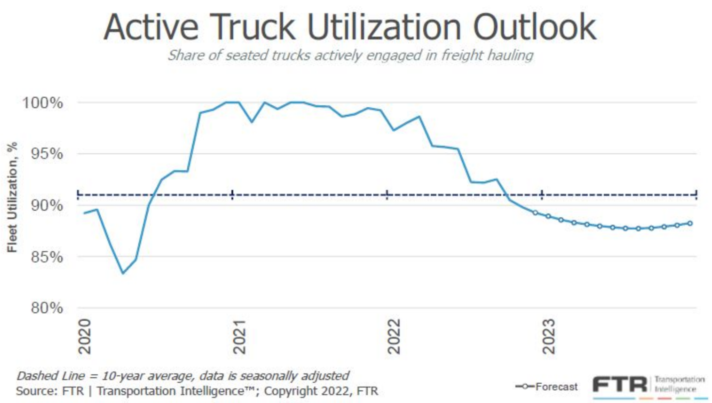
FTR forecasted active truck utilization (seated trucks, engaged in hauling freight) is weaker than in the prior outlook and bottoms out under 88% early in 2023 before gradually recovering in Q32023.

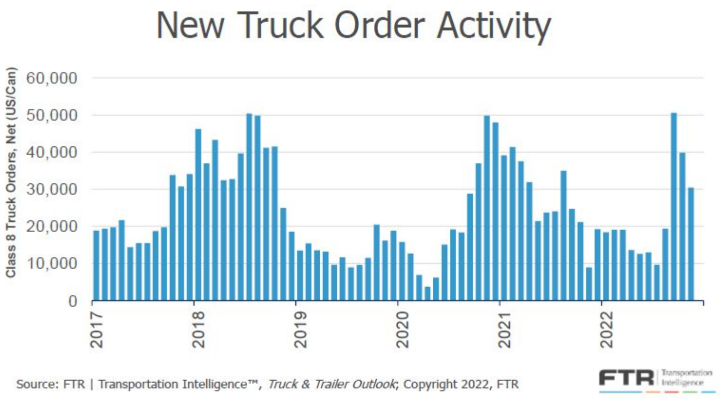
Class 8 production was the lowest since July but down only 4% month over month.

- Retail sales decline sharply in December after a downward revision to November estimate.
- Trailer orders maintain strong indicators.
- US trailer orders eased nearly 12% after large jump when OEMs opened 2023 build slots.

Carriers are now bidding on more volume than in the previous 18 months while searching for opportunities and ways to recruit and retain drivers to improve operating ratio.

- Home time for drivers continues to be a priority while balancing productivity.
- Carrier authority revocations eased from spike but bare watching through the first half of the year.





Cost and capacity pressures continued easing

Executive summary: supply ample while demand levels off leading to easing of cost pressures

Rates ↓

- Contracts continue to drop through RFP process
- Spot rates have mostly stabilized
- Continued pressure in incumbent carrier pricing as shippers look for cost savings
- First Tender Accept continues upward trend
- Diesel prices rise by most in last 3 months

Supply ↑

- Class 8 net orders down vs October but up from depressed levels in Nov '21
- Class 8 production is slowing
- Used Class 8 are stable and flat for the second straight month
- Trailer net orders ease after recent sharp gains

Demand ↓

- Inventories were largely stable in November
- Manufacturing output drops by the most in nearly two years
- Housing starts and permits continue to decline
- RFP's continue to be pulled forward in an effort to capture savings and introduce new carriers

Labor ↑

- Trucking job growth has slowed
- Driver shortage continues to ease in 2022 but expectation is that relief is temporary in the long term
- Jobless benefit claims remain relatively low while there has been broad layoffs in tech sector, signaling a retreat from aggressive hiring in 2020
- Truckers' positive drug tests up 18% in 2022. Rate of increase doubled over previous year

Policy ?

- Electronically broadcast their identity to roadside enforcement
- Safer Highways and Increased Performance for Interstate Trucking (SHIP IT) Act
- Cullum Owings Large Truck Safe Operating Speed Act which would introduce speed limiters (65 mph) continues to linger in Senate
- Rulemaking by National Highway Traffic Safety Admin concerning automatic emergency braking and the mandate for all new trucks

US Intermodal

Key factors impacting supply

Dray capacity

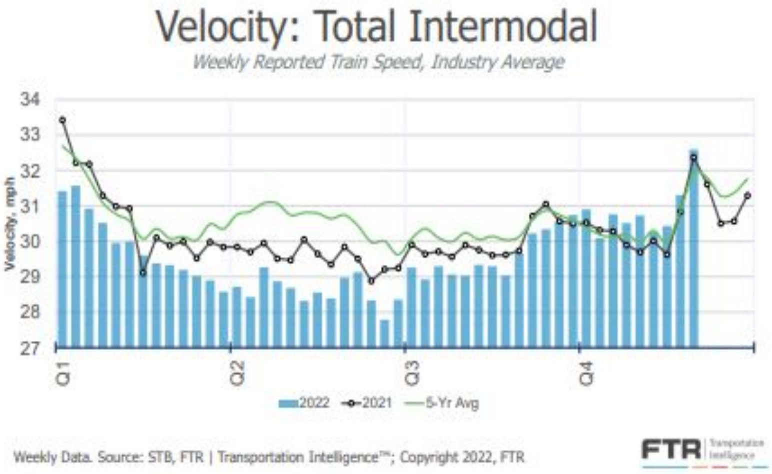
- Dray capacity is plentiful across most metro areas.
- AB5: There still has not been a significant impact from the implementation of the AB5 legislation.
- CARB: Has impacted dray capacity in California by about 10%-15% for some carriers.

Railroads/equipment

- Labor update: We were able to move beyond the risk of labor issues in the fourth quarter.
- Intermodal providers have added roughly 40K units since COVID. Capacity is plentiful across most metro areas.

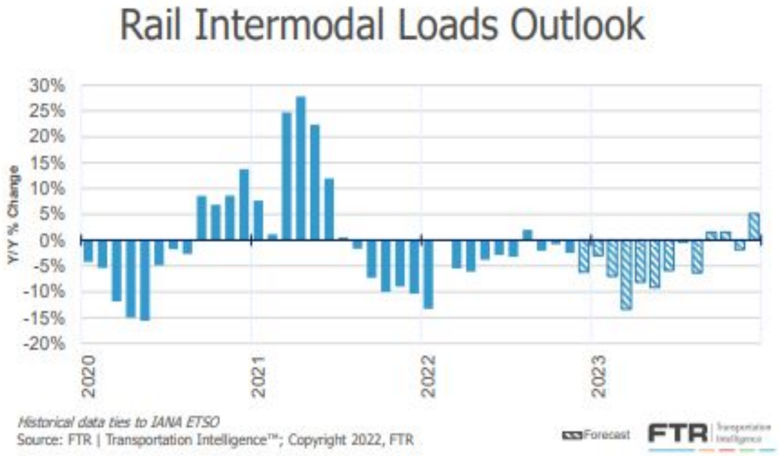
Service update

- The railroad networks and terminals are generally free of congestion and intermodal service is now running close to the 5-year average.



Key factors impacting demand

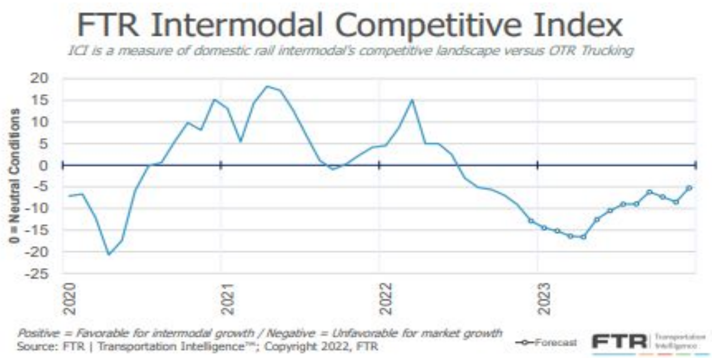
- Other than a slight Y/Y increase in August of 2022, intermodal volume has been down 16 out of the last 17 months. Volume is projected to continue to be down for much of 2023.
- Over-the-road capacity continues to be plentiful overall. Over-the-road spot rates and tender rejection rates continue to be extremely low. Shippers locked up contract capacity during the last bid season. Volume has shifted back to over-the-road, especially where shippers need the faster transit time.
- Import volume has dropped off, especially off the West Coast. The East Coast and Gulf Coast import volume remains stronger. This has a negative impact on intermodal demand.
- 40' container capacity has improved inland and congestion has improved at the West Coast rail terminals and ports. As a result of this, shippers that previously utilized these containers have started to shift back to them.
- Diesel fuel prices have come down from their 2022 highs but they are still elevated at around $4.50 per gallon as of the middle of January. The higher cost will put pressure on over-the-road capacity.
- Longer-term supply issues for over-the-road capacity will drive volume to intermodal.



Intermodal volumes are expected to be down significantly in the first three quarters of 2023, before an increase on a year-over-year basis occurs during the fourth quarter.

There are several factors contributing to this result.

Current pricing impact, outlook and recommendations



The Intermodal Competitive Index is little changed this month, as the positive volume momentum from the lack of a work stoppage does not change the overall trajectory of intermodal's competitiveness with truckload into 2023. Intermodal should improve as the year goes on in 2023, after a sharply negative start to the year.

Intermodal pricing will still come under significant pressure in the early part of 2023, as weaker volumes and a more competitive truck market pressure pricing over the majority of the year before it ticks up in the final quarter. Even so, there will only be modest gains in the low single digits by the end of 2023.

- **Spot rates:** Have fallen to levels that in some cases we have not seen since 2019.
- **Contract rates:** The results are still mixed, as they vary by specific customer opportunities as well as by lane. Here are factors that are taken into consideration:
  - Lane-based pricing tied to surplus and deficit markets for equipment.
  - Dray utilization: Long regional drays and long live loads/unloads are still not as attractive to providers as driver utilization remains a focus.
  - Equipment costs. Dwell time is still being taken into consideration.
  - Fuel. The DOE is still elevated. Higher costs and the differential between what providers pay vendors versus what they receive from shippers is being taken into consideration in final line haul rates.
- **Overall:** Contract rate changes are ranging from held rates to 10% rate reductions.

Industry observations

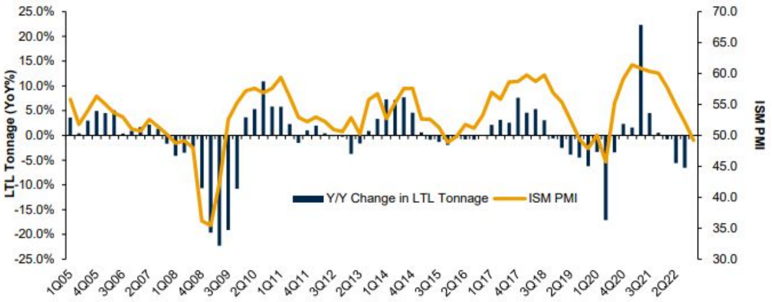
- Only minor changes to the intermodal outlook this month. It is likely to take until 2024 for a return to strong YoY growth rates. Volumes will remain under pressure in December and through most of 2023, as intermodal's weakening competitive landscape relative to truck and changing import patterns will limit the ability of volumes to increase meaningfully.
- Lower diesel prices and weakening active truck utilization make truckload alternatives more attractive and competitive with intermodal. This is especially true with rail service levels holding at or near their historical averages.
- Also holding back intermodal volume expectations for 2023 is the continuing shift in volumes away from the West Coast to ports on the East and Gulf Coast. While it is true that the overall import picture is weakening, it is also true that a larger share of the remaining volume is going to non -West Coast ports. This is likely to continue until shippers have certainty about the labor situation on the West Coast. Shippers do not want to risk their cargo being stuck on shuttered docks if a work stoppage occurs.
- Canada will be largely spared from the weakness that will be apparent in US loadings in the next year, which could change the mix of intermodal volume moving on North American railroads. Canadian intermodal volumes are expected to increase 2% in 2023 compared with this year's weak volumes. The growth comes from a combination of new intermodal gateways opening on the eastern side of the country and an expectation that Prince Rupert and Vancouver will continue to add to their market share.
- The shift toward Canada and away, particularly, from the US West Coast could shift the balance of power between domestic and international intermodal moving on the North American rail network. Canada lacks the transloading infrastructure that is abundant for shippers moving cargo through the Southern California gateway, which means more cargo will move as intact international rather than international cargo that is transloaded into domestic equipment.
- Mexican volumes are anticipated to maintain their double-digit percentage growth rate posted in 2022 through 2023, but the magnitude of absolute volume pales in comparison to the US and Canada.

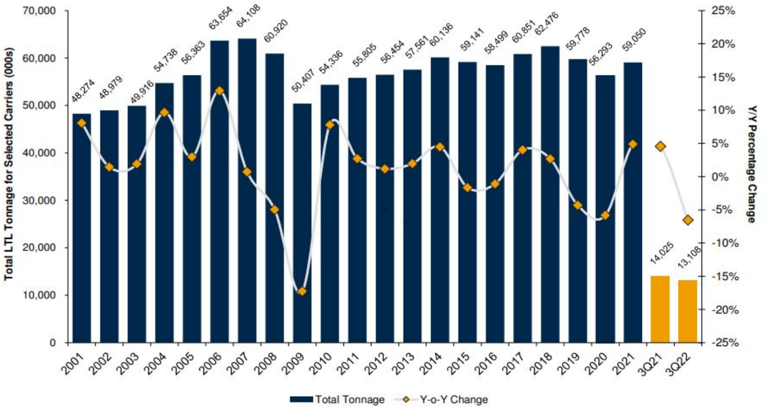
*Source: IFTR January 2023 Intermodal Report

US Less-than-truckload

Key factors impacting demand

Tonnage and shipment count continue to decline





Source: Baird & Stephen

- **Institute for Supply Chain Management (ISM) and Purchasing Managers' Index (PMI) are good indicators of LTL freight volumes**
  - A reading above 50 indicates manufacturing economy is expanding
  - December PMI reported at 48.2
  - The historical correlation between US manufacturing PMI and LTL tonnage suggests continued industry volume declination

- **Tonnage and shipment count**
  - Q3 shipment count and tonnage was down approximately 7% with Q4 estimates to be slightly worse
  - Most carriers are experiencing available capacity within their networks due to reduced tonnage and shipment count and outcome of adding additional capacity in 2022
  - Average weight per shipment has declined slightly

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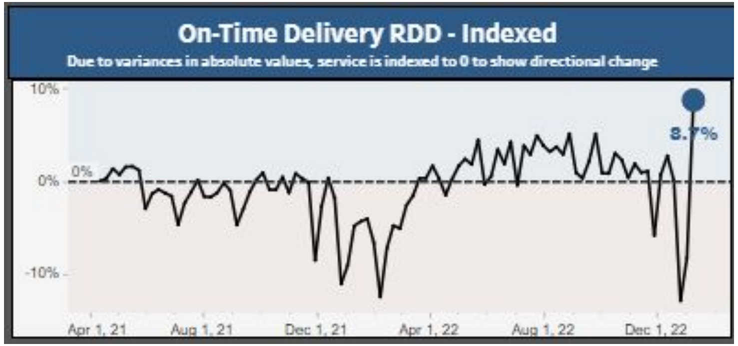
Key factors impacting supply

Available capacity and service levels stabilizing



Improving on time service levels

- Significant improvement to on-time service beginning in March and continuing throughout the year.
- On-time service levels are beginning to compare to pre-COVID levels with signs of ongoing improvement.
- Efforts to improve overall service levels have come into fruition.

Carrier costs continue to rise

- A large private regional carrier costs increased in the below areas which are indicative of the market:
  - Maintenance Cost Per Mile is up 10.56%
  - Cost of new forklifts are up $6,000 vs. previous year
  - Cost of new sleeper cabs are up $20,000 per truck vs. previous year
  - Cost of new P&D units are up $7,000 per truck vs. previous year
  - 53' trailers are up $10,000 vs. previous year
  - Wages increased 9.5% vs. previous year
  - Benefits increased 13% vs. previous year
  - Insurance costs will increase approximately 20% in 2023

Carrier actions in transitioning market conditions

- Focus on KPI's and not reducing service due to cost-cutting measures
- Offsetting increasing costs with automation improvements and reducing controlled costs coupled with historic price increases

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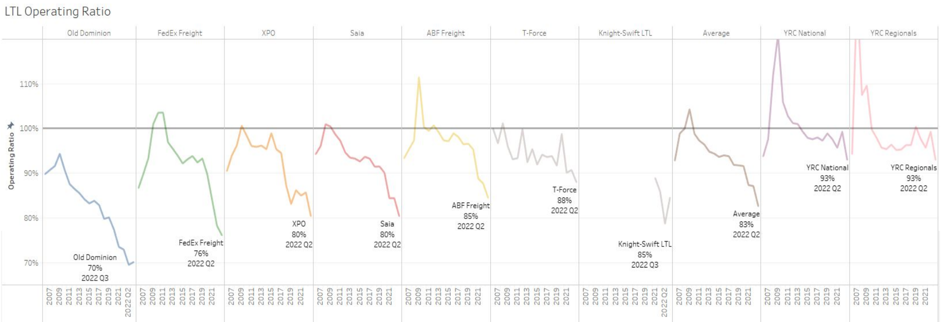
Current pricing impact

Despite slowing tonnage operating ratios remain strong



Note: Includes ARCB, FDX, ODFL, SAIA, YELL and XPO
Source: KeyBanc Capital Markets Inc., Company filings

Operating ratios (OR)

- Carrier's OR is dependent upon several key factors, including:
  - Utilization (trailer, dock, driver, P&D and line haul operations).
  - Accurate costing (freight profile, density–PCF, lanes, locations, etc.).
  - Pricing discipline (review regularly, price accurately).
  - Operational execution (efficiently operate network).
- Carrier's focus areas:
  - Strict pricing discipline.
  - Improve pricing on poorly operating business.
  - Focus on maximizing increase while maintaining / growing market share.
  - Improve operational efficiencies based on data and operations feedback.
  - Focus on achieving the "perfect shipment."
- Observations:
  - Q3 OR's deteriorated vs Q2.
  - Expectation that OR SSS.
  - Operational efficiencies remain a primary objective.
  - Pricing discipline across the industry remains strong despite slowing tonnage.
- Yields (rev / cwt excluding fsc) improved 14.6% YoY in the 2Q22.
- Per-shipment profitability significantly improved from historical levels in 2020 with meaningful improvement beginning in Q1 2021 and continuing.

*YRCW/YELL reports one number beginning in 2020. For purposes of reporting kept separate and applied same number for each YRCW operating company
* Historically UPS Freight (T Force) LTL OR was reported within Supply Chain numbers. 2020 OR was isolated to just LTL division resulting in an increase in OR from historical numbers.
*Knight-Swift is defined as AAA Cooper beginning 7/6/2021 and Midwest Motor Express beginning 12/6/2021.

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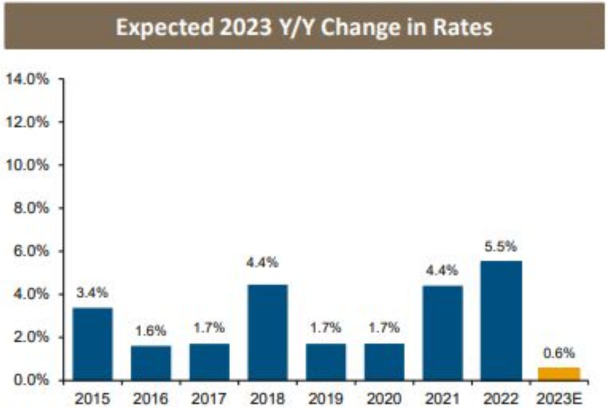
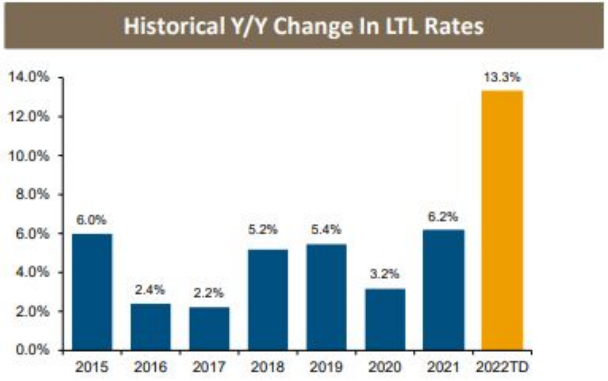
2023 rate outlook





Source: Stephens

Stephens 2023 Shipper Survey Rate Expectations

- Shippers are expecting a very low increase in 2023 after taking large increases in 2022.
- Actual increases are consistently higher than shipper expectations.
- Historical patterns predict that it is strongly likely shippers will experience higher increases then their expectations.

Contractual renewals

- LTL carriers continue to be price disciplined despite softening demand.
- Contractual renewals started to decrease in mid 4Q2022.
- Expect contractual renewal increases to be in the 3% - 5% range through at least June 2023
- Carriers are challenged to find the balance of a reasonable market increase to help offset their increasing cost while maintaining market share.

Pricing outlook

- Due to softening demand, carriers are pricing new business more aggressively to gain market share.
- Carriers are pricing existing business more aggressively for lanes and locations they are currently not managing that fit well into their network.
- Carriers continue to focus on accessorial revenue to offset concessions made on line haul pricing.

Industry observations

What we are observing from the market

Service and capacity

- Carrier service levels have stabilized and show signs of continued improvement.
- Heightened focus on technology to more efficiently operate terminals and automate with customers to reduce errors and labor expenditures.
- Focus from carriers to receive accurate Bill of Lading data electronically from customers in order to streamline their processes.

Carrier updates

- Due to softening demand many carriers have slowed their driver hiring practices.
- FedEx Freight announced driver furloughs beginning in December.
- FedEx Freight & ODFL announced new pricing programs to rate based off of the shipments weight & dimensions instead of the freight classification system.
- The NMFTA announced an initiative to overhaul their freight classification system to align more to a density based classification system.
- Digital LTL Council rolled out the new standard for an LTL eBOL which has a goal for members to have implemented by July 2023.

US Bulk

Overview

Capacity costs

Capacity has generally improved. Overall demand has softened (particularly in the Gulf). NE and MW remain strong,

Equipment

Delays in tractor and trailer production continue but lead times improving. Parts remain in short supply, and costs high.

Drivers

Hiring and turnover have improved. Some carriers now have a waiting list of applicants.

Operational expenses

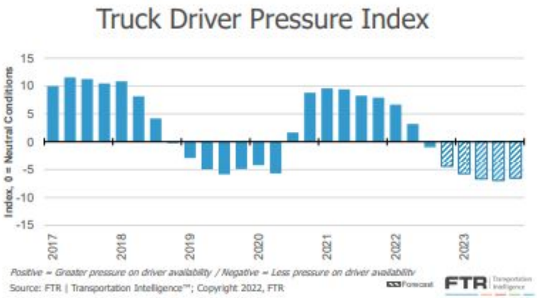
Operational expenses remain high due to inflationary pressures in multiple areas, including wages, fuel, and equipment.

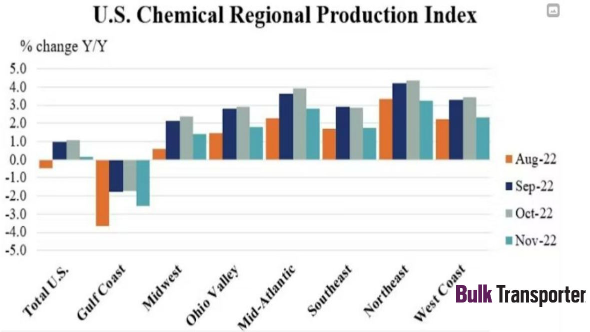
Current conditions

- Tender acceptance improved in Q4, with December hitting 95%
    - Primary factor on declines is lack of equipment, not drivers
- Spot volume continues to improve, dropping from 17.9% in Q3 to 15.6% for Q4
- Contracted linehaul rates increased by 3% in Q4, while spot rates fell by 3%
- Capacity is softening overall – particularly in the Gulf (-2.5% YoY)
    - Northeast (+3.2%YoY) and Mid-Atlantic (+2.8%) are the tightest areas

Specific call-outs:

- Driver capacity has improved
    - Some carriers report pauses in hiring / driver waitlists
- With softening capacity, carriers are reporting lower utilization / loaded miles
- Slight improvement on lead times for equipment purchases, but on the maintenance side, parts are still still tight





U.S. Chemical Production Regional Index, Percentage Change
(Seasonally adjusted, 3-month moving average)

	Nov 22/ Oct 22	Nov 22/ Nov 21	Key products
Gulf Coast	-0.6%	-2.5%	petrochemicals, inorganics, plastics resins, and synthetic rubber
Midwest	-0.2%	1.4%	agricultural chemicals, plastics, and paints
Ohio Valley	-0.4%	1.8%	organic chemicals, plastics and synthetic materials, and specialties
Mid-Atlantic	-0.2%	2.8%	consumer products
Southeast	-0.4%	1.7%	inorganic chemicals, fibers, and consumer products
Northeast	-0.2%	3.2%	consumer products and specialty chemicals
West Coast	-0.2%	2.3%	basic chemicals, agricultural chemicals, and consumer products
U.S. Total	**-0.4%**	**0.1%**	

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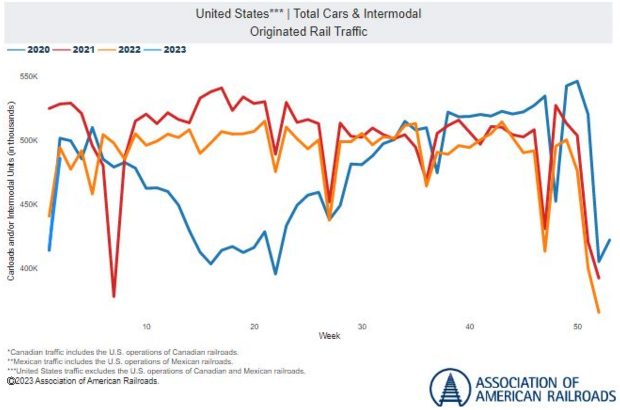
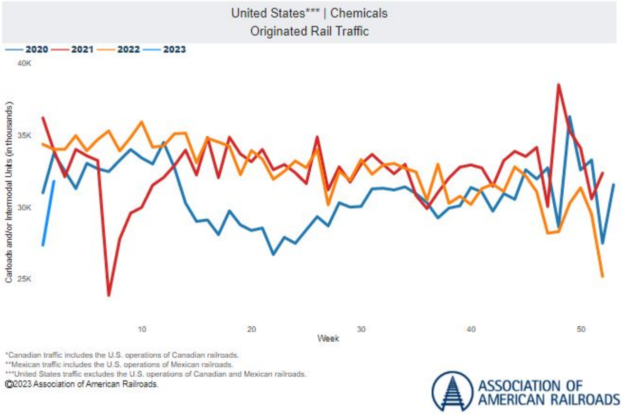
Rail volumes





U.S. Rail Traffic[1]

Week 52, 2022 – Ended December 31, 2022

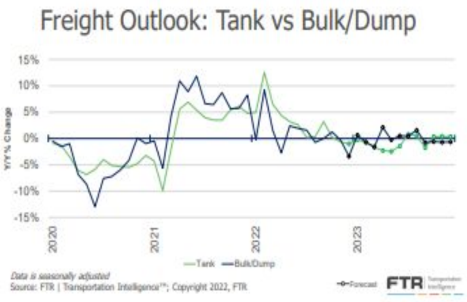
	This Week		Year-To-Date		
	Cars	vs 2021	Cumulative	Avg/wk[2]	vs 2021
Total Carloads	**179,992**	**-12.5%**	**11,976,283**	**230,313**	**-0.3%**
Chemicals	25,174	-22.2%	1,693,989	32,577	0.0%
Coal	52,863	-10.7%	3,418,208	65,735	2.7%
Farm Products excl. Grain, and Food	13,210	-12.0%	846,711	16,283	2.8%
Forest Products	7,299	-21.7%	497,096	9,560	-4.2%
Grain	18,383	-6.7%	1,157,073	22,251	-4.2%
Metallic Ores and Metals	18,584	-14.9%	1,087,168	20,907	-6.6%
Motor Vehicles and Parts	9,418	5.2%	692,244	13,312	3.8%
Nonmetallic Minerals	19,853	-14.1%	1,618,657	31,128	3.7%
Petroleum and Petroleum Products	8,278	-8.0%	500,771	9,630	-7.6%
Other	6,930	-5.7%	464,366	8,930	-8.2%
Total Intermodal Units	**185,561**	**-0.5%**	**13,452,480**	**258,702**	**-4.9%**
Total Traffic	**365,553**	**-6.8%**	**25,428,763**	**489,015**	**-2.8%**

[1] Excludes U.S. operations of Canadian Pacific, CN and GMXT.
[2] Average per week figures may not sum to totals as a result of independent rounding.

- Carload volume was flat vs. 2021 while intermodal volume is down 4.9%
  Improved OTR capacity lessens intermodal demand
- Chemical demand was flat for the year, but down over 20% during Q4
- Some chemical shippers may revisit rail vs. truck option based on softened demand

Market summary and outlook

- **2023 showing signs of stabilization**
  - Generally flat volume projections YoY
  - Carriers report that they are able to cover more short lead time loads Y/Y
- **Diesel outlook is generally favorable**
  - National average dropped from $5.75 in June to $4.71 in December
  - January has been in the $4.55 range, with slight decreases forecast for 2023
- **Little change in supply chain issues expected over next few months**
  - Truck orders have dropped slightly, but still robust
  - Equipment limitations are a bigger constraint than the ability to find drivers
- **Carrier operational expenses continue to be elevated**
  - Used equipment prices still extremely high
  - Driver wage increases have slowed, but are elevated from prior years
    - Seeing more stability / less turnover
  - More empty miles impacting bottom line
- **Linehaul rates look to be stable, but increased accessorial costs**
  - Rate reduction opportunities on favorable lanes
  - Upward pressure on accessorials – particularly tank wash and detention

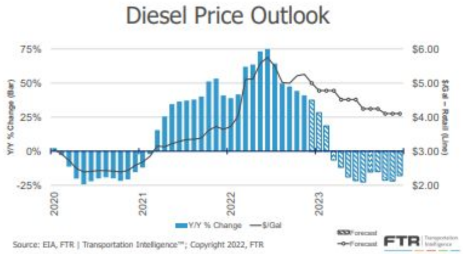


Truck Loadings Summary

Annual Growth Rate

Segment	2020	2021	2022 (Forecast)	2023 (Forecast)	2024 (Forecast)
Dry Van	-4.6%	5.6%	1.7%	1.3%	2.1%
Refrigerated	0.1%	3.0%	0.3%	1.7%	3.1%
Flatbed	-5.2%	3.6%	3.4%	-1.5%	0.9%
Specialized	-2.0%	5.6%	4.0%	2.1%	2.2%
Tank	-4.4%	2.3%	2.9%	-0.7%	0.5%
Bulk/Dump	-4.8%	5.8%	0.8%	0.0%	1.0%
Total	**-4.0%**	**4.9%**	**2.1%**	**0.6%**	**1.6%**

Source: FTR | Transportation Intelligence™; Copyright 2022, FTR



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Europe

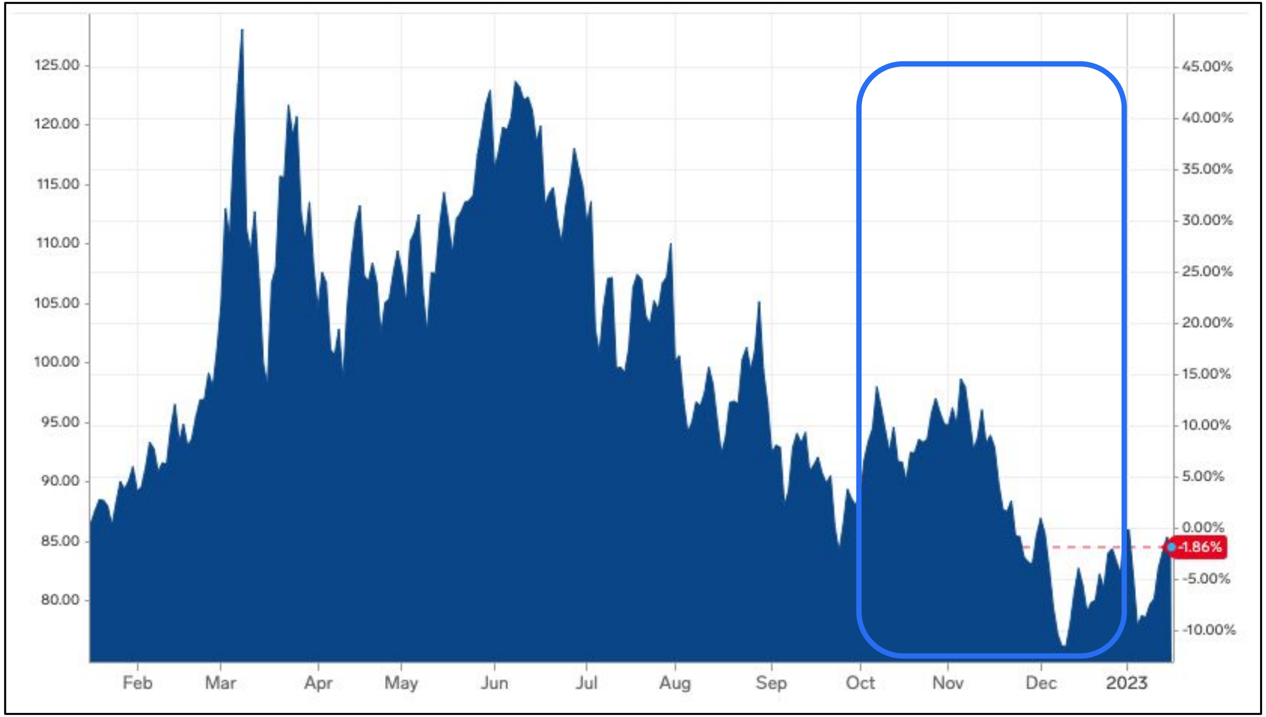
Factor affecting supply

Key points around capacity, pricing and driver shortages

- Q4 continued to show an easing of transport capacity, particularly in the FTL market. The LTL market is still tight, with providers continuing to ship some LTL as FTL, as they did during the capacity crunch post pandemic.
- Some markets saw the spot rate index fall below the contract rate index for the first time since April 2020, signalling real volume decline.
- The driver shortage continues to worsen – the number of open truck driver positions in Europe increased on average by 6000 per quarter during 2022.
- The hike in energy prices has seen rail and intermodal operators push for energy surcharges. For example, in France, the cost of electricity to SNCF has increased from €56/MWh to €473/MWh.
- Companies continue to have higher inventories due to a rapid softening of demand, so warehouse space is very limited. There is evidence of e-commerce companies such as Amazon reducing the pressure by giving up some warehouse capacity in preparation for a downturn.
- There is evidence that some smaller transport companies are starting to have financial difficulties, some of which are being acquired by larger businesses that see the opportunity to leverage rates on the acquired book of business.
- Fuel prices have been volatile during the quarter, but ended up at a similar level at the end of the quarter.
- Spain has renewed the 20c cut in fuel duty for hauliers.
- Road toll costs are incurring their annual increase with some countries heavily penalising older trucks. In Germany, some vehicles, even up to Euro 5 are incurring a 40% increase in toll costs.

Factor affecting supply - oil price

Brent Crude $/barrel



- The oil price has been volatile during the quarter varying from $98 to $76 per barrel
- The price was it's highest in early November
- Quarterly decrease: Between Oct '22 - Dec '22 the oil price decreased by $2/barrel (-2%)
- Y/Y : Jan 2022 to Dec 2022, the oil price has remained the same at $82/barrel
- Diesel prices across Europe have risen by c20% per litre over the past 12 months

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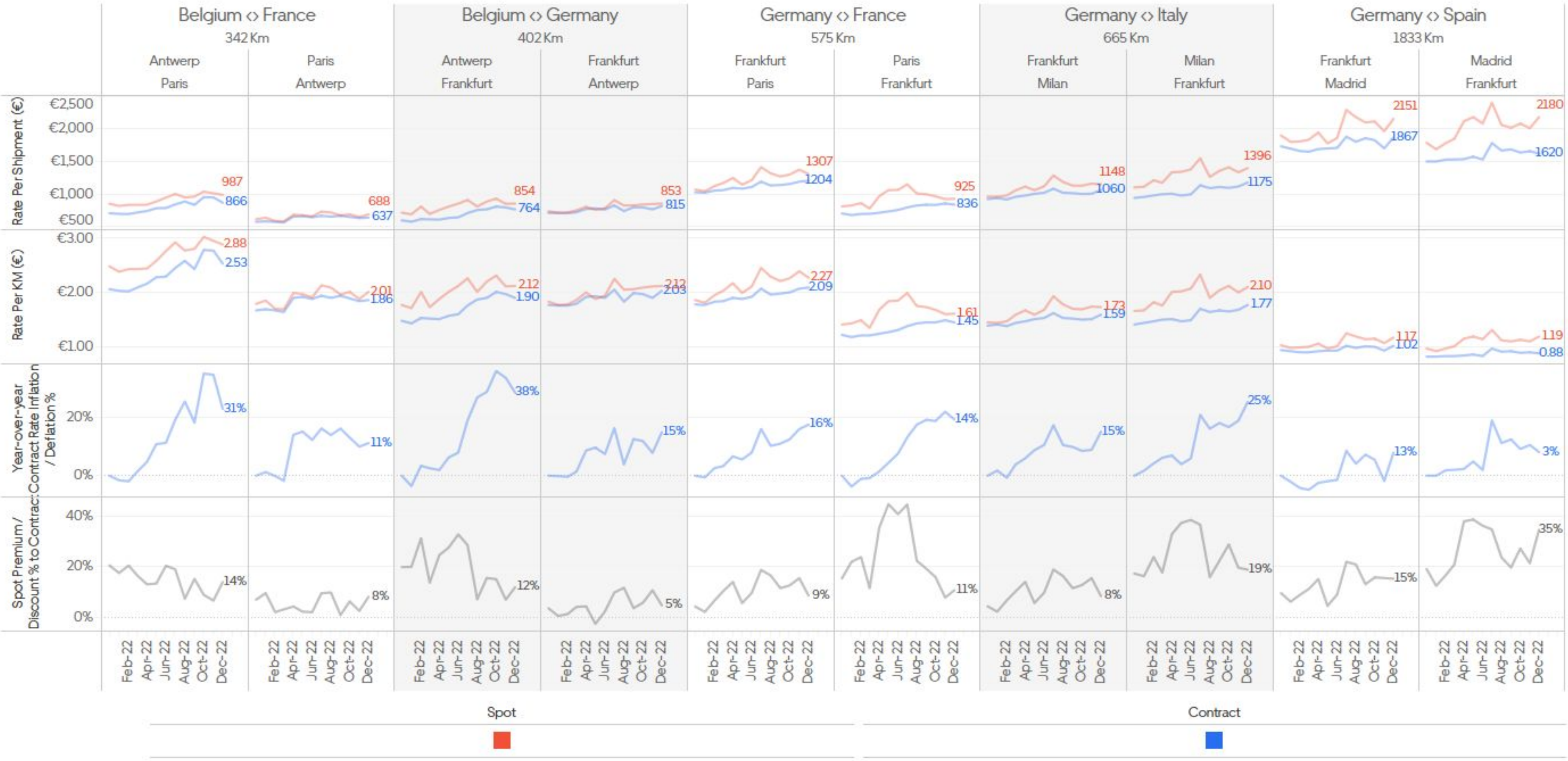
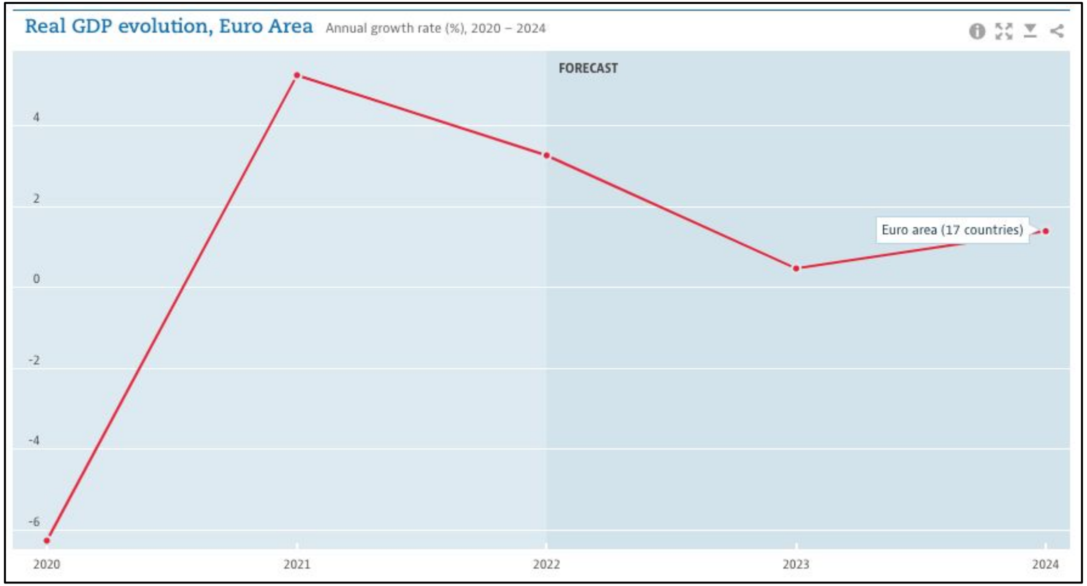
Uber Freight European Rate Trends
December 2021 to December 2022



Uber Freight European Rate Trends
December 2021 to December 2022

Factor affecting demand

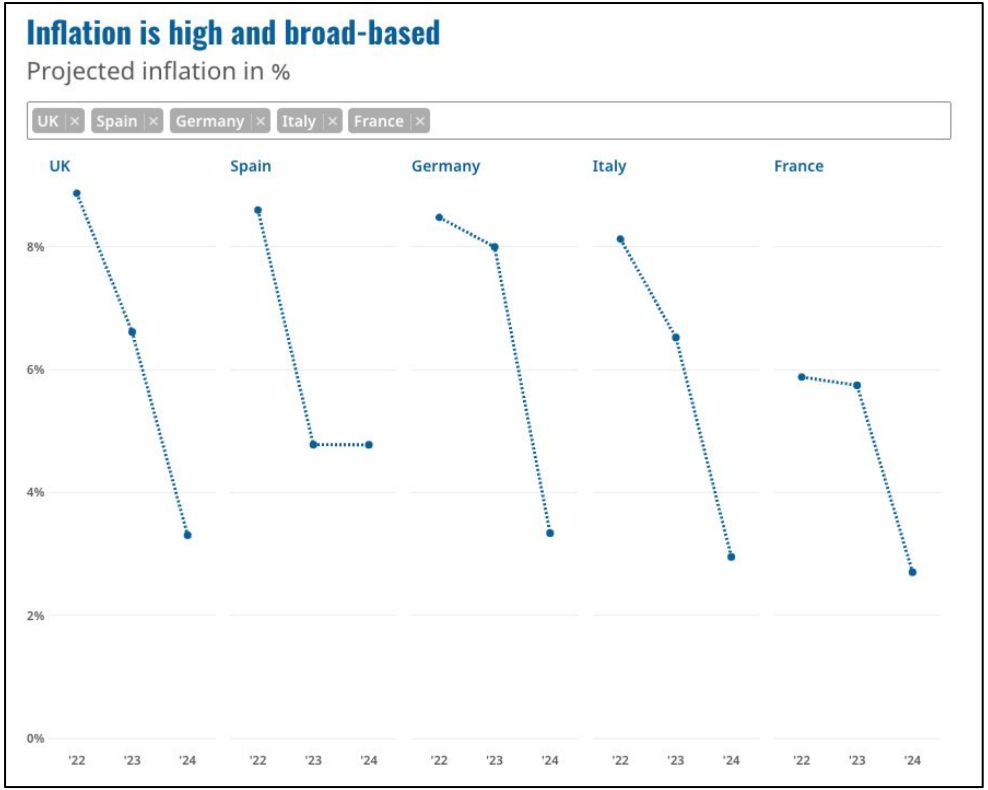
The European economy is facing significant challenges



- Held back by high energy and food prices, weak confidence, continuing supply bottlenecks and the initial impact of tighter monetary policy, annual growth in the Euro Area in 2023 is projected to be 0.5%, after 3.3% in 2022.
- High inflation is widespread across Europe and across a wider set of products and services.
- Energy supply shortages could push prices even higher.
- Interest rate increases have increased financial vulnerabilities for companies and their employees.
- Declining confidence is restraining demand.

Factor affecting demand

Inflation is projected to fall following the tightening of monetary policy



- Inflationary pressure is broader based across goods and services.
- Labour cost growth is now rising in most major economies, particularly in central and eastern Europe, and labour markets remain tight.
- However, real wages are declining suppressing demand.
- International freight shipping costs were a factor in the rise of inflation, but these have declined sharply in the last quarter.
- The European Central bank increased interest rates by 0.5% in December 2022, and expects to raise them further.

Key factors impacting demand

- The unemployment rate in the Euro Area remained at a record low of 6.5% in November 2022, down from 7.0% in November 2021.
- The Purchasing Managers Index (PMI) for the Euro Area in Q4 2022 decreased from 48.4 in early Oct to 47.1 in mid December. The level is is still below 50, the point at which contraction starts in the manufacturing sector.
- In the fourth quarter as a whole, business activity was worse than the previous three-month timeframe, with the average quarterly PMI indicating the sharpest economic slide since 2013 excluding periods impacted by pandemic lockdowns.
- S&P Global chief business economist Chris Williamson said the December PMI signals a "strong possibility of recession" in the Eurozone. But he added that the survey hints that any potential decline will be "milder" than previously thought a few months ago.

Purchasing Managers Index: past 12 months

Outlook

- Inflation appears to have peaked, and is forecast to fall in 2023. The Euro Area is expected to have low growth and avoid recession in 2023.
- Carrier capacity is returning as volumes decline, but some larger carriers are still pushing for annual rate increases of 5-10% due to higher costs.
- Road hauliers using intermodal could suffer rail usage cost increases of 15-20% if energy prices remain high.
- The level of procurement activity will be high during Q1/Q2 as shippers re-evaluate their carrier and cost base due to market changes.
- A rapid turnaround for a new EU enabling law will see some elements of the state aid rules for rail, inland waterways and multimodal transport relaxed from 19 January.
- A new law that is being enforced from the beginning of 2023 means that German companies will now face fines of up to 2% of their global turnover if they fail to provide a comprehensive account of the environmental, social, and governance (ESG) frameworks in place in their supply chains.
- France is facing a period of significant industrial action as President Macron aims to implement unpopular pension reforms.
- Deutsche Bahn has announced that it will sell DB Schenker (estimated value $25Bn), probably via private equity or IPO. The sale has been scheduled for Q3/Q4 2023 due to the current market conditions.
- New hazardous good regulations come into force on 1 January 2023. New road (ADR), rail (RID), sea (IMDG) and air (ICAO Technical Instructions) regulations replace the old editions. One of the biggest changes in the ADR road regulations means that many more consignors/shippers and freight forwarders will come into scope of the Dangerous Goods Safety Adviser (DGSA) legislation.

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Recommendations

- Review the evolution of costs across the network in 2022 and strategically re-procure – the market is softening and nervousness will impact carriers' desire to secure capacity.
- Continue to look for strategic relationships and contractual terms whereby market rates can be aligned during the term.
- Review mode costs – energy surcharges on rail/intermodal and BAF surcharges on short sea are changing the cost dynamic across modes.
- Challenge career rate increase requests – consider open book calculations and cost increase justifications as inflation eases.
- Understand carrier solvency – reduce the risk of carrier partner failure.
- Carefully track the spot vs contract market – spot prices are adjusting rapidly with evidence of rates falling below contract in certain geographies.
- Monitor minimum order quantities – buyers are looking to reduce order size which can increase the cost to serve.

Ocean & air

Global supply chain impacts

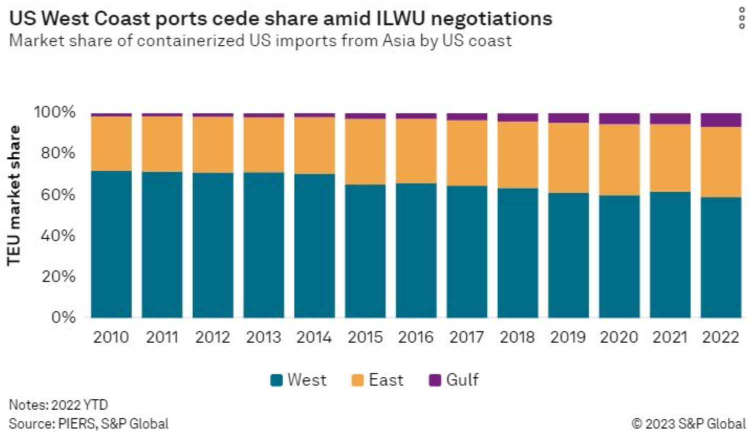
- Supply chain costs continue to decline as rates retreat and volumes decrease. Strong period of normalization.

- US West Coast ports continue to lose volume to gulf and East Coast ports due to unresolved ILWU labor contract.
  - Asia import cargo via USWC decreased >20% in November compared to PY.
  - ILWU is not focused on negotiations with ocean carriers until the National Labor Relations Board rules on a jurisdictional dispute between the ILWU and the International Association of Machinists and Aerospace Workers in Seattle. The dispute is over 25 jobs.

- The Port of New York and New Jersey became the busiest US port by container volume at the end of 2022.

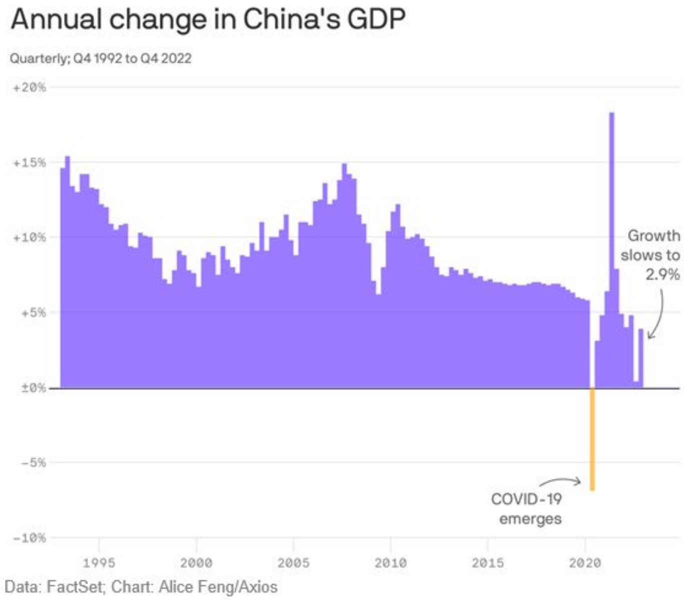
- A new California regulation, the clean-fleet rule, came into effect January 1st, 2023 that bans drayage trucks with model-year engines 2009 or older calling Los Angeles and Long Beach marine terminals. Approximately 4,000 drayage trucks (~16% of registered drayage fleet) are removed from capacity. Actual impact is considered muted at this time due to large decline in import volumes for these ports.

- Vessel schedule reliability continues to improve. Global vessel schedule reliability in November 2022 increased to 56.6%.



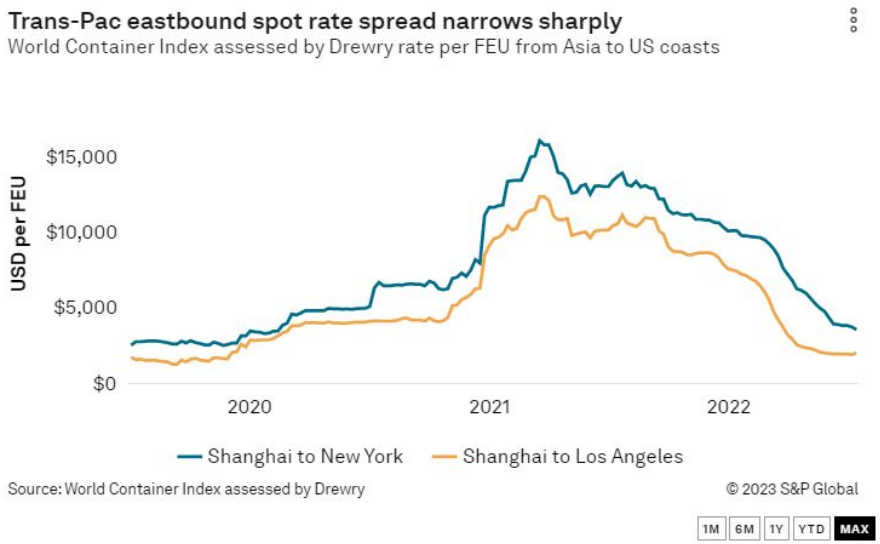
China imports

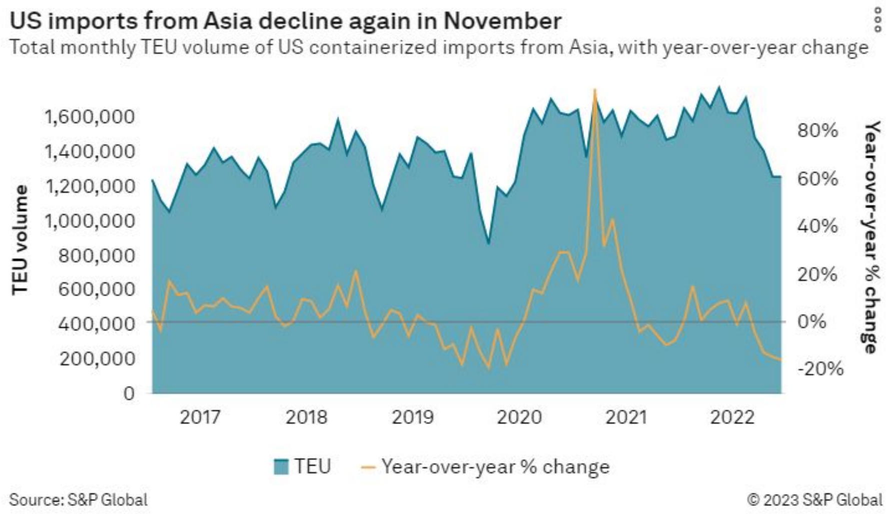
- Importers continue to pursue a “China-plus-one” sourcing strategy of less reliance due to ongoing manufacturing disruptions.
- China’s economy posted it’s second-slowest year of economic growth since 1976.



Transpacific trade

- Differential between spot rates to USEC & USWC via TPEB has decreased by 36% since December 1, 2022
- Consideration that spot rates to USWC have bottomed out while USEC is still reducing
- COVID in China is not expected to result in any widespread crisis leading to ongoing goods shortages or port congestion
- Decline in freight volumes is expected to peak in H1 2023
- Data shows that non-alliance capacity on TPEB is declining from greater than 40% at peak market towards 25% as profitability levels normalize
- Carriers have a huge cash cushion to ride out the normalization of the trade cycle currently





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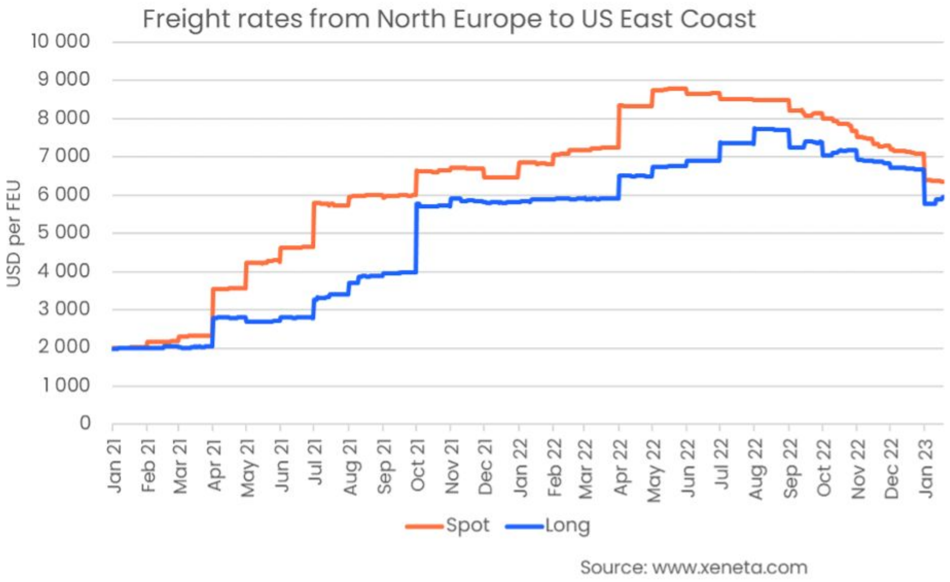
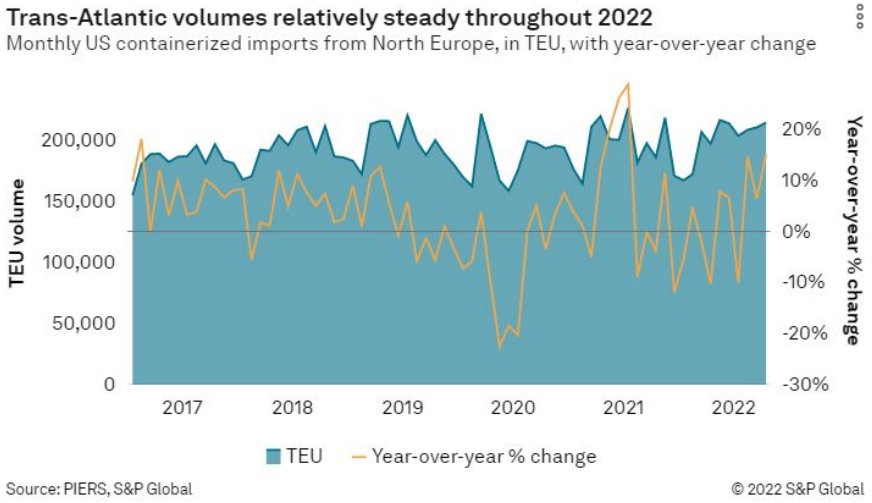
Transatlantic trade

- Trans-Atlantic rates have remained stubbornly high however rates are now starting to decrease due to new capacity in the trade, falling demand and ease in congestion both at USEC and EU ports.
- The 2M Alliance of Maersk & Mediterranean Shipping Company is adding 3 vessels to Trans-Atlantic service in Q1.





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Top 10 container lines

- Ocean carrier unit costs have increased 40%.
- Carriers have competing focuses currently which is different than in past market disruption scenarios.
- 2023 Carrier Alliances will likely change with new groupings deployed in spring 2024
- Trigger point will be 2M: Maersk and MSC. MSC has a vessel order book 40% greater than size of their current fleet
- In 2024 MSC will reach a size to operate independently and have a competitive network without the need of an alliance. Very strategic position.
- Maersk's network will be much smaller and will look for new partners.

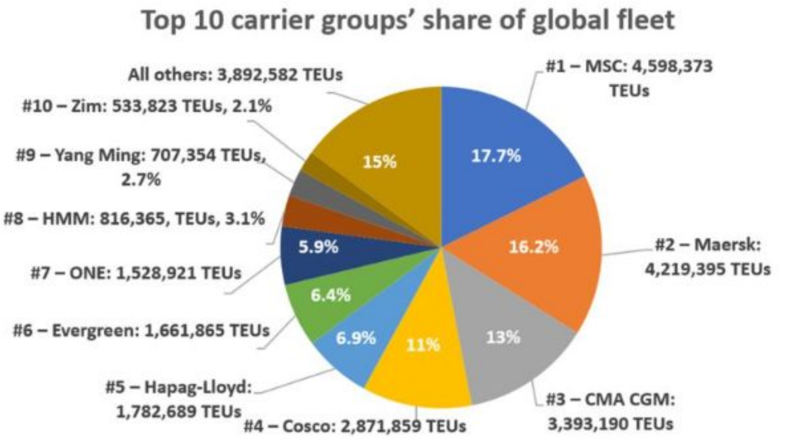
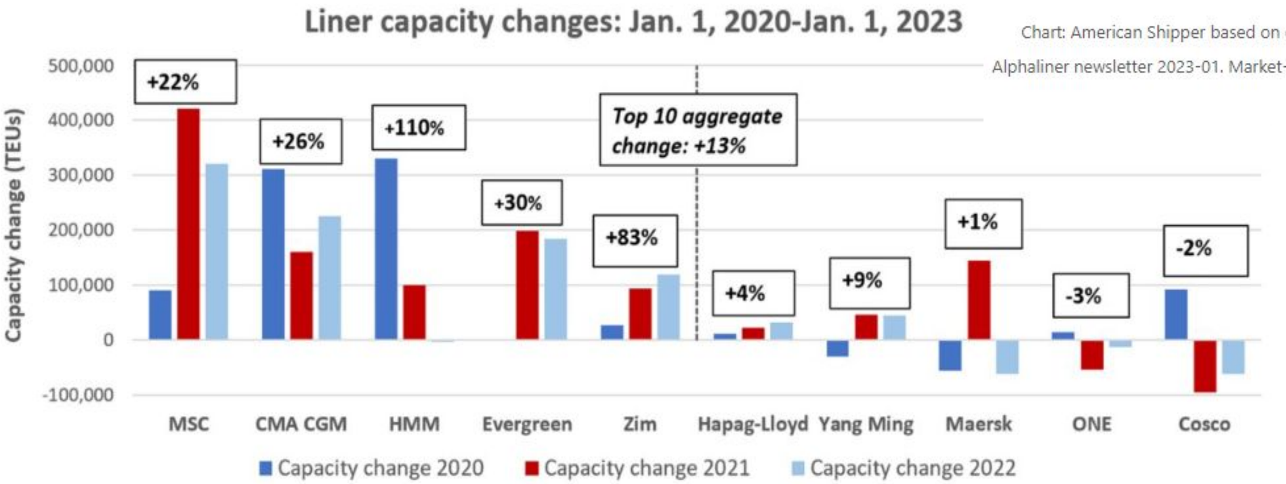


Chart: American Shipper based on data from Alphaliner. Data sources: Liner operating capacities: Alphaliner newsletter 2023-01. Market-share percentages based on total fleet count from Alphaliner Top 100, Jan. 5.



Percentages refer to operating fleet TEU change in Jan. 1, 2023 vs. Jan. 1, 2020. (Chart: American Shipper based on data from Alphaliner. Data sources: Jan. 1, 2022 and 2023 capacities: Alphaliner newsletter 2023-01. Jan. 1, 2021 capacity: Alphaliner newsletter 2022-01. Jan. 1, 2020 capacity: Alphaliner newsletter 2020-52.)

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Trade updates

- **Legal Challenge to Section 301 tariffs:** Oral arguments are set to begin February 7th in the US Court of International Trade challenging that Section 301 tariffs List 3 and List 4A were imposed in violation of the authority of the Office of the US Trade Representative (USTR) provided under the Trade Act of 1974 and in violation of the Administrative Procedures Act (APA). The focus of the trial will be on whether the USTR complied with its procedural burden under the APA in the tariffs.

- **US CBP and Manufacturer Identification Codes (MID):** US Customs is moving forward with an effort to replace the MID with a global business identifier intended to provide better information on foreign business entities, supply chain roles, and related data. The Global Business Identifier concept will improve the ability of CBP and partner government agencies to pinpoint high-risk shipments, facilitate legitimate trade, create a common identifier between government and industry and improve data quality.

Ocean shipping reform act (OSRA) 22 - updates

Federal Maritime Commission (FMC) is reviewing the following topics:

- Demurrage free time in ocean service contracts
  - FMC is concerned about free time granted in service contracts that contributed to lengthy dwelling of containers in terminals in 2021 & 2022
  - Systemic cargo flow is not a consideration during free time negotiations in private contract.
  - FMC Commissioner Bentzel is recommending that container lines cannot offer more free time than the port terminal allows
  - Some ports are instituting sustained import dwell fees to incentivize movement of containers off marine terminals

- Detention and demurrage billing
  - FMC is proposing a new rule permitting vessel operating common carriers (VOCCs), non-vessel-operating common carriers (NVOCCs) and marine terminal operators (MTOs) to issue invoices for demurrage or detention *ONLY* to parties with which they have a contractual relationship.

Mexico Truckload

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Mexico economic outlook

Inflation index

- Mexico's inflation closed at 7.82% in 2022, the highest closing rate in 22 years.
- Inflation in 2023 is estimated to be at 5.10% according to Banxico's forecast

Exchange rate

- The Mexican peso had its best yearly performance since 2019 and was one of the top-performing emerging market currencies in 2022.
- The average exchange rate for 2022 closed at $20.12 MXN/USD.
- The exchange rate continues to downtrend as seen in last year´s last quarter.
- During the first half of Jan 2023, it is averaging at $19.24 MXN/USD.
- Banxico's Dec 2022 survey estimates the exchange rate to range from $19.25 to $22 MXN/USD in 2023.

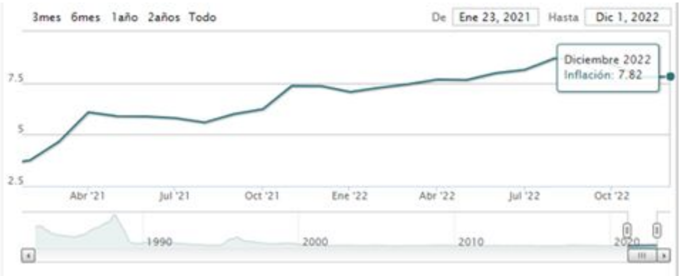
Diesel impact

- National avg. price per liter of diesel in MX reached $23.73 MXN in November 2022, this is an increase of 9% compared to the same month a year prior.

Economic 2023 forecast for Mexico:

- Inflation will continue its downward trend but will remain above 4% throughout the year.
- Interest rates will remain high.
- The Mexican government will continue to invest on private sector tax audits
- The expected slowdown in the United States will weigh heavily on Mexico, given the strong trade and investment links between the two countries.

Mexico Inflation 2022



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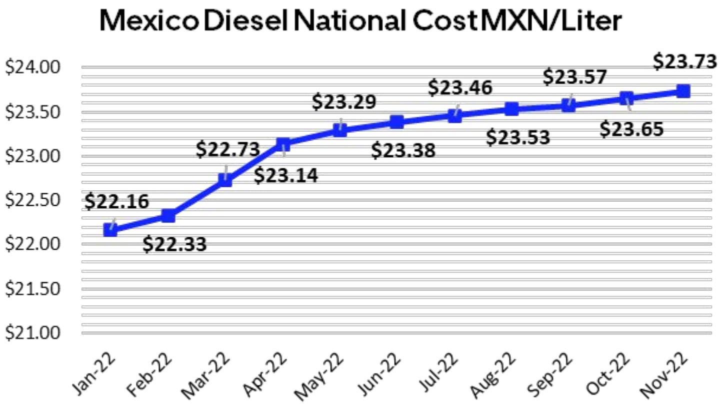

Mexico current situation

Nearshoring

- As companies look for alternatives to reduce supply chain risks, nearshoring continues to gain strength.
- According to data from the Mexican Association of Private Industrial Parks, 25 new industrial parks are expected to open during 2023, this represents an investment of 25 billion dollars and an opportunity of 35 billion dollars in new exports for Mexico. More than 400 companies are expected to open business in the country this year.
- Cities with the most significant investment include: Monterrey, Ciudad Juarez, Saltillo, Reynosa, and Chihuahua.

Transportation costs and capacity

- For cross-border business between Mexico and the US, carriers continue to receive backlogged truck orders from 2020-2021. No foreseen equipment purchase in the next 2Q's.
- Unlike 2021, US equipment availability in Mexico for direct shipments is starting to increase.
- Rates for US legs continue to deflate slower than in previous months; however, we anticipate a rebound with new shippers installing their manufacturing plants in Mexico as well as produce season coming.
- Cross-border Mexican portions remain higher than pre-pandemic levels, slightly lower than last year but Mexican carriers eventually will not be able to keep up with new production lines coming to Mexico increasing transportation costs.
- For Mexican domestic shipments, overall inflation rates, diesel costs and driver shortage continue to impact operational costs for Mexican carriers receiving 2-digit increases on contracted rates.
- In 2022, the cost of new equipment increased 33% compared to 2021. Insurance costs also increased a 10%, and supplies such as oils, tires and spare parts had an 8% inflation.

Main MEX States Exporters to USA Million dollars

INEGI: Jan to Sep 2022

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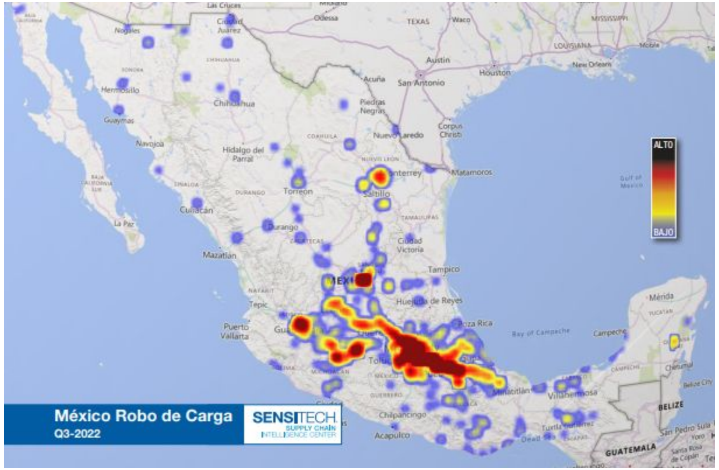
Transportation challenges

Road security

- A total of 10,805 theft incidents were reported for Q3 2022. The central region of Mexico represents the hottest area of cargo theft.
- The states with the most incidents are Estado de Mexico (37%), Puebla (14%), and. Guanajuato (10%).
- Due to security concerns, rates in Mexico for domestic and Cross Border regions are sensible to extra charges.



Bill of Lading Complement – Carta Porte

- On December 27th 2022, Mexican Tax Authorities published the Miscellaneous Tax Resolution for 2023, which addresses the specific terms and provisions for the issuance and use of the Complementary Bill of Lading:
  - Grace period extended to July 31st, 2023.
  - Starting August 1st, 2023, the complementary Bill of Lading will be obligatory for any foreign trade operation.
  - Logistics brokers will not be required to issue a complementary bill of lading as the nature if their business is to facilitate the transportation of services.
  - Dedicated fleet providers rules were included; both the carrier and the customer or contracting party must issue the corresponding Carta Porte complements for each trip carried out.

Outlook and recommendations

Outlook

- Both Mexican and US carriers seek long-term negotiations with shippers, unlike pandemic season where short-term commitments and spot freight were prioritized.
- The opening of new manufacturing companies in the country due to nearshoring is anticipated to affect the market imbalance between northbound and southbound shipments. Mexican portions might face an inflation again as demand for exports increases.
- Carriers open to run wider state destinations, not only “long miles” lanes.
- End-to-end visibility will be a top priority this year as shippers look for tools to mitigate supply chain risks and disruptions.

Recommendations for Mexico exporters

- Continue working on implementing efficient processes for Carta Porte implementation to avoid shipment rejections from carriers and the risk of paying fines for errors or omissions in its requirements.
- Be open to diversifying and considering alternative options to move your cargo as transloading, intermodal and ocean services.
- Analyze alternative ports of entry to the US that can fit your network as Laredo is getting congested.
- It is a good time to negotiate annual rates. Contract market.

Canada

Canada highlights

- Overall economic output and employment in Canada has more than fully rebounded from the pandemic-induced recession of 2020. Through 2022, Canada's economy has been operating above potential, meaning demand has exceeded supply. More recently, economic momentum has been flagging amid rising interest rates, slower global growth and tumbling housing markets.
- At best, Canada is set for what the economist are calling a 'slowcession' (not technically a recession) as the emerging signs of weakness will grind economic growth essentially to a halt.
- The Canadian markets through 2022 (domestic and cross-border) are certainly a tale of two-halves. The first six months saw significant rate surges as capacity tightened, however changing economic as well as carrier conditions emerged mid-year to shift such that supply exceeded demand and rates began to correct and fall.
  - In December, the Bank of Canada raised its policy rate for the 7th time through 2022, now at 4.25% - the highest rate since 2008.
  - Although remaining stronger than expected at this point, the Canadian economy is beginning to weaken , with many economists projecting a notable slowdown. Inflation concerns and the impact of rising interest rates have narrowed growth opportunities. Projected Canadian Real GDP over the next three quarters are 0.4% / 0.2% & (0.2%) … a downgrade from previous projections.
  - Canada's inflation rate dipped in December to 6.3%. Annual inflation reached a high of 8.1% this past summer and has slowly been declining through the past months.
  - <u>Average</u> Canadian diesel fuel prices through Q4 '22 were 10% <u>higher</u> than Q3, and 56% <u>higher</u> YoY. World oil prices continue to be volatile, recently rising to close to just over $80 per barrel.
  - The Government of Canada removed all COVID entry restrictions for anyone entering Canada effective October 1, 2022. Proof of Covid vaccination remains as of mid January a requirement for all non-US citizens to enter the United States.
  - Canadian domestic ELD's: The long-awaited mandating of certified Electronic Logging Device (ELD's) within Canada, came into force January 1, 2023. A review of each provinces enforcement policy indicates that all provinces, with the exception of Quebec, have begun enforcement on all <u>federally</u> (extra-provincial) regulated carriers. Quebec has delayed enforcement to 'worse case' June 1, 2023.

Canada: key factors impacting supply

- Carrier capacity within the Canadian markets, including cross-border remains generally stable with adequate capacity as demand / activity remains stronger than expected.
  - Cross border activity and rates is the interesting market to monitor, especially given what may become diverging economic situations between the US and Canada, as well as the continuing impact of a weaker Canadian dollar.
  - Rate levels across most markets, while certainly remaining sizably higher than one year ago (some in excess of 40% higher), are more predictable as carriers are adhering to more recently contracted rates and spot rates have settled.
  - The east to west lanes continue to show stability. With no events (weather or strike related) impacting rail service. Many shippers are taking advantage of the economics and continuing to shift higher volumes onto the rail, LTL and full load.
- The Q4 data from Loadlink indicates that load volume has up-ticked through the 4th quarter. Truck capacity appears to have levelled-out and is in a much better position than was evident in the second half of '21 and first months of '22.

- Truck-to-load ratios have declined through Q4 '22, indicating a stronger than anticipated freight flow. Loadlink's most recent figure for December was 2.13 available trucks for every load. This figure represents a notable drop from November's figure of 2.86.
- In perspective, December's ratio highlights a significant shift from the December 2021 truck-to load figure of 1.21, the point where the capacity crunch was beginning to take hold.
- Note: Load Link (following slides) is the most popular load board within Canada. The results shown are primarily influenced by spot market moves.

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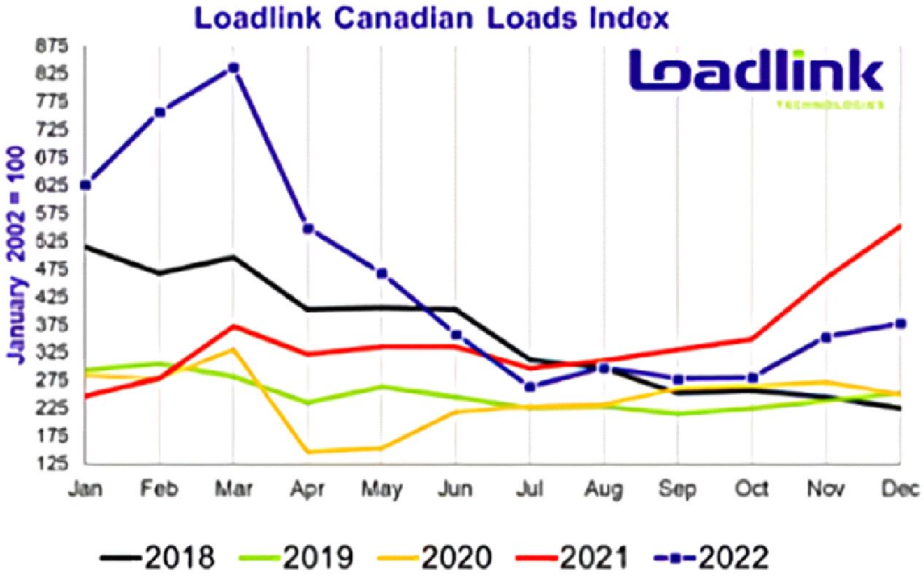
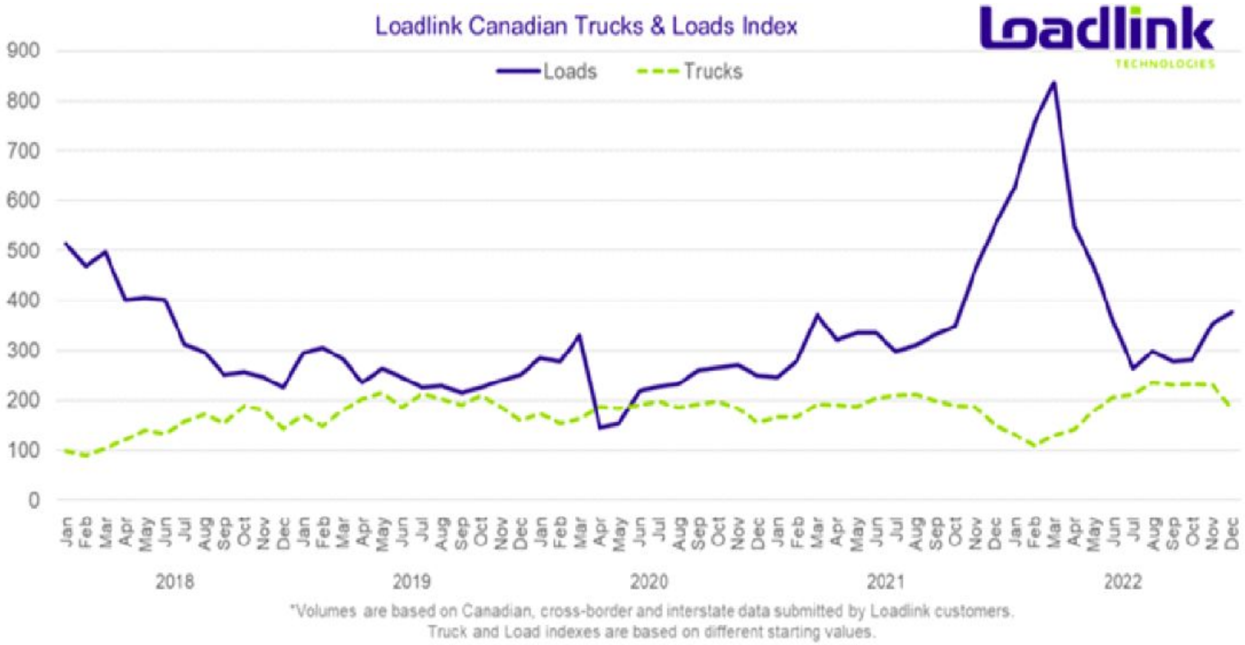
Canada: key factors impacting supply



Canada: key factors impacting supply

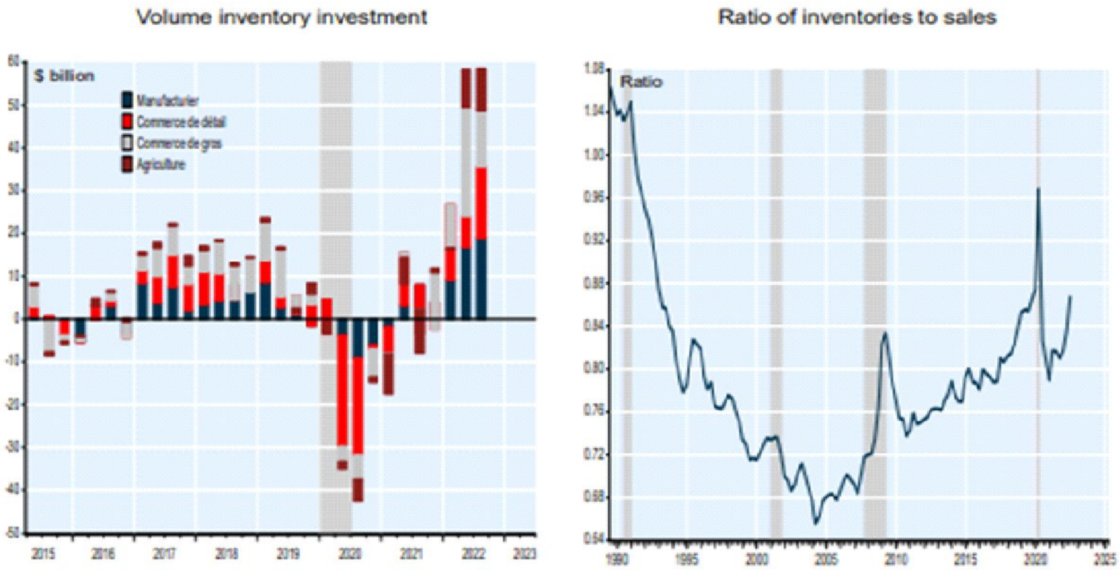


Canada: key factors impacting supply

- Driven by the combined impact of elevated inflation and higher interest rates, signs of weakness have begun to show. GDP growth is expected to slow considerably through the next three (3) quarters.
- Canada's economy was simulated by sizable inventory investment during Q2 and Q3, which had languished through the pandemic. With inventory-to-sales- ratios returning to pre-pandemic levels, inventory build will surely moderate moving forward.
- Bank of Canada's Fourth Quarter Business Outlook Survey indicates that business sentiment has deteriorated as rising interest rates are dampening sales expectations and companies plans to invest. Although most firms expect Canada to be in a recession within the next 12 months, the majority believe that the downturn will be mild.
- Fuel prices were quite volatile across North America through 2022. This was more pronounced through Q4, especially within Canada. Since the production cut announced by OPEC+ in early October, Canadian diesel prices are currently 26% higher than at the end of September. In comparison, the US National DOE measure is currently 5% lower. Canadian fuel costs spiked higher and have remained at significantly higher levels then in the US. Historically, these measures usually move in sync.
- Various macroeconomic factors have caused the US dollar to strengthen against all global currencies as the US dollar is the safe haven destination amid heightened geopolitical risks. The Canadian dollar is currently (mid January) trading at 74.59 cents ($ 1.3406). Economists continue to see the Canadian dollar trading in this same range of $0.72 to $0.73 against the US dollar through the first half of 2023.

Canada: key factors impacting supply

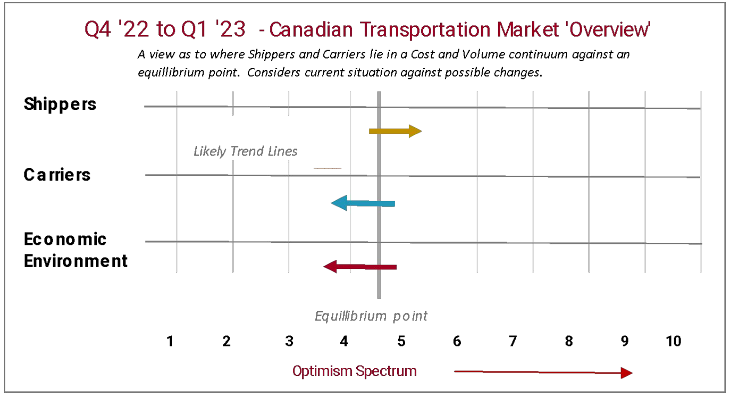
Canada: Inventory rebuilding is over



NBF Economics and Strategy (data via Datastream)

Canada: current impact

- Very early in the new year, the Canadian economy rolls along in a better state than most economists had forecast, and in a better position than other G7 nations. Recession talk is reaching a feverish pitch in both Canada and the US and when one looks at the underlying metrics, there is evidence that the Canadian economy will slow as we move further into 2023.
- Through the back-half of '22, rates in most markets corrected for the rate 'surge' evident in the first-half of '22. This has been most evident in the cross-border activity which has seen rate levels fall as additional capacity opened-up and volumes, especially northbound, dropped-off.
  - Even with the Q3/Q4 market correction, rate levels across all markets remain higher than a year ago. This softening of rates appears to be continuing into Q1 '23. See table & graphs next page.
  - Rate levels on the high volume / highly competitive Toronto – Montreal corridor continue to be of interest. Market conditions through the pandemic facilitated carriers pushing rates on this corridor significantly higher. It is interesting that rate level have continued to climb. There are some pointing to the Jan 1 '23 ELD mandate that suggests that operationally, rates will need to remain at higher levels under the stricter hours of service regulations.
- In this environment of slowing volume and already softening rate levels, there is an increased awareness as to how the carrier community will respond.
  - To what extent can carriers pass along the cost pressures they face to shippers in the current market ?
  - Shippers will need to balance service levels and unproven carriers against the potential for rate savings. Anecdotally, many shippers are pursuing this balancing approach.
  - The environment is ripe for increased carrier 'churn' and possibly some carrier capacity fall-out or consolidation.



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Canada: current impact

- Results of benchmarking Q4 ‘22 Canadian Dry Van <u>spot</u> rates on key geographic markets outbound from Toronto and Montreal is outlined below. Interesting to observe what has occurred on the cross-border markets.
  - Impact of the surge in rates resulting from the capacity crunch from late ‘21 through to mid June ‘22
  - Will the on-going market correction continue and at what point will rates level-off and at what rate premium over historical rates ?
- The price of diesel fuel across North America, especially within Canada, has been quite volatile through 2022 (up 10% QoQ, but up <u>56%</u> YoY) . Accordingly, the cost of fuel has been <u>removed</u> from the following table and charts.

Change in Base Linehaul ** removes impact of fuel*	Quarter to Quarter Change Q3 '22 to Q4 '22	Year to Year Change Q4 '21 to Q4 '22
Between Toronto & Montreal :		
TOR TO MTL	down 22.1 %	up 45.4%
MTL to TOR	up 5.4 %	up 38.1 %
To Western Canada (OTR) :		
Ex TOR	down 5.4 %	up 10.0 %
Ex MTL	down 1.4 %	up 0.2 %
To Atlantic Canada (OTR) :		
Ex TOR	up 0.2 %	up 11.7 %
Ex MTL	down 18.8 %	down 8.2 %
Southbound Cross-border - Short	down 5.9 %	up 15.0 %
Southbound Cross-border - Long	down 15.7 %	down 2.2 %
Northbound Cross-border - Short	down 7.5 %	up 30.3 %
Northbound Cross-border - Long	down 17.5 %	up 25.7 %

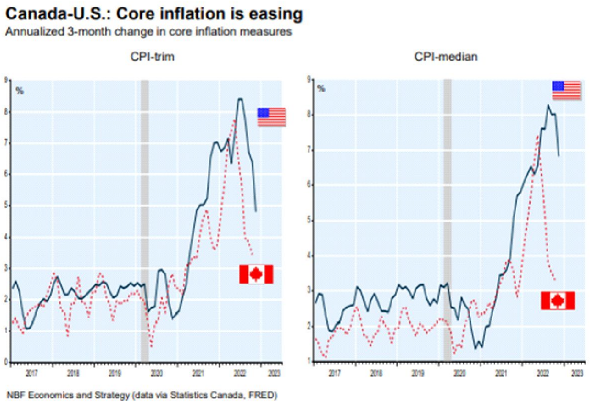
Source: Transcore LinkLogistics posted rate index material

Canada: outlook and recommendations

- The Canadian economy has performed stronger than expected through 2022, however, a host of metrics and most importantly, business and consumer expectations are that the economy will soften.
  - The forecasted Canadian annual average real GDP growth has been downgraded through the next couple of quarters.

	Q2 '22 Actual	Q3 '22 Actual	Q4 '22 Forecast	Q1 '23 Forecast	Q2 '23 Forecast	Q2 '23 Forecast
Real GDP Growth	3.2%	2.9	0.4	0.2	(0.2)	0.1

An amalgam of GDP projections from various Canadian banks. All banks are projecting negative growth in Q2 '23, some into Q3 '23.



  - Canada's December unemployment rate fell slightly to 5.0%, a signal that the Canadian labour market remains tight. As demand softens a growing number of companies characterize labour shortages as less intense
  - Canada's annual inflation rate slowed to 6.3% in December, primarily driven by lower energy costs. Inflationary pressures are much less acute than they were earlier in the year (see chart). It is anticipated that the strong December labour report increases the likelihood that the Bank of Canada will again raise interest rates at its next meeting on January 25.

- As 2023 begins, the Canadian carrier community faces a number of challenges, but believe that the projected downturn can be weathered. Accordingly, the Canadian market dynamics continue in a guarded state :
  - Carriers have become much more active in participating in RFP's while pursuing new opportunities.
  - Continuing to see varying responses in carrier's RFP submissions. Incumbent carriers do not want to erode achieved rate increases, while new carriers are being aggressive in pursuing new opportunities.
  - Spot rates continue to soften across most geographic markets and carriers are committing to longer term contracted rates.

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Canada: outlook and recommendations

- Moving into the early part of 2023 the following transportation related strategies continue to be relevant.
  - Conditions remain favourable for issuing full network RFP's or even segmented mini-bids. All bids should include multiple-rounds as carriers are cognizant of competitive factors and exhibit a growing trend to 'fine-tune' their final rate submissions. In fact, incumbent carriers are seeking an opportunity for final rate negotiation before assignments are made.
  - The volatility in the price of fuel over the past year, especially since Russia's invasion of Ukraine, has reinforced the importance of a well conceived and managed fuel program. In today's market, fuel can represent upwards of 25 to 30% of a shipper's total freight spend.
    - Truckload programs should be mileage-based, not percentage based.
    - Should consider programs that update or refresh the fuel price mechanism as often as possible and to use diesel price measures that are familiar and accepted within the industry, including using ones specific to the region the freight is moving in.
  - Accessorials are not all equal. Shippers should know their accessorial spend by type and understand the sensitivity of charges that can be negotiated with carriers.
  - Given the focus on transportation budgets, there appears to be a growing trend to increase the number of carriers used in one's network, both national as well as strong regional carriers.
    - Can better tailor regions and lanes to the strengths of the carriers, both in terms of service and cost.
    - Ensures capacity due to carrier overlap.
    - A creative, yet effective routing guide can yield savings without adding an undue burden on carrier management.
    - Important to ensure that all carriers on the routing guide are tendered freight on a regular basis in alignment to the spirit of the initial carrier assignment.

Warehousing update

Key factors impacting warehousing

Labor

Warehouse labor has seen a steady increase over the past 5 years, while 2022 was relatively flat.

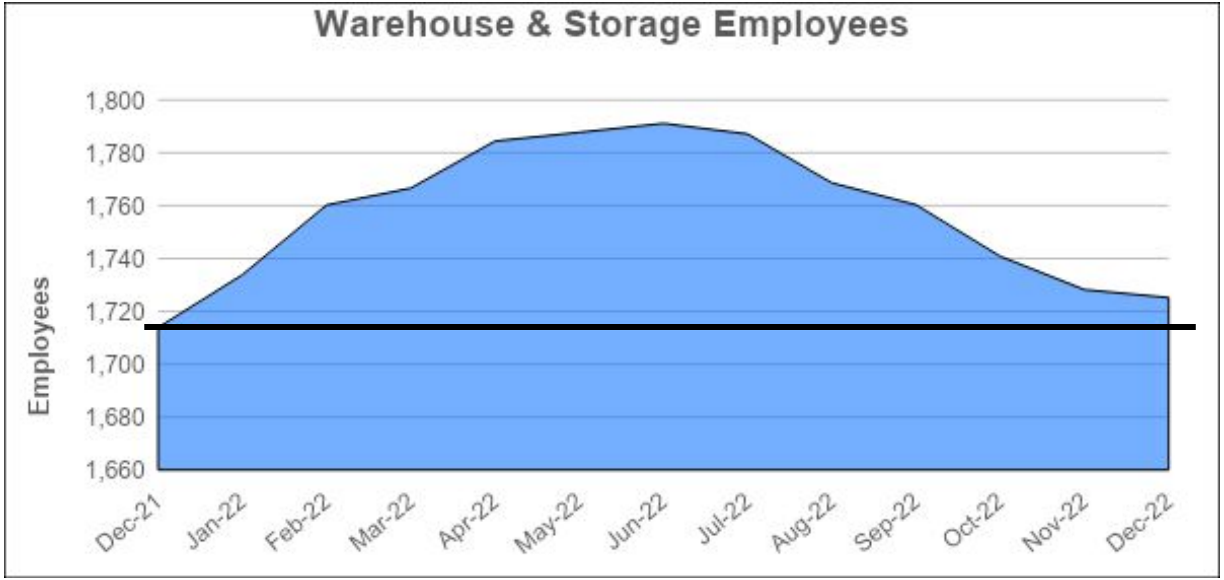
Inventory

Inventory is stabilizing after the pandemic/post-pandemic bullwhip effects.

Space

Real estate showing mild decline in asking rents and increasing availability of new space.

US Bureau of labor statistics



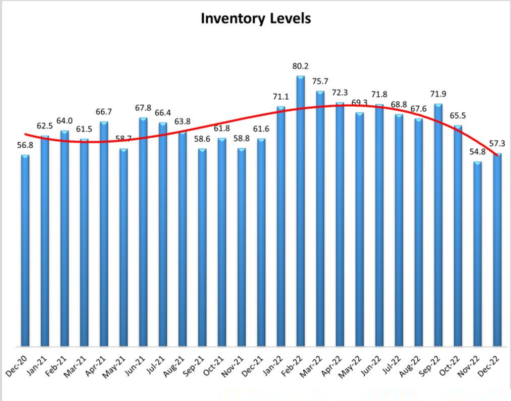
Period	Workers
Jul-22	1,787,100
Aug-22	1,768,600
Sep-22	1,760,300
Oct-22	1,740,800
Nov-22	1,728,200
Dec-22	1,725,200

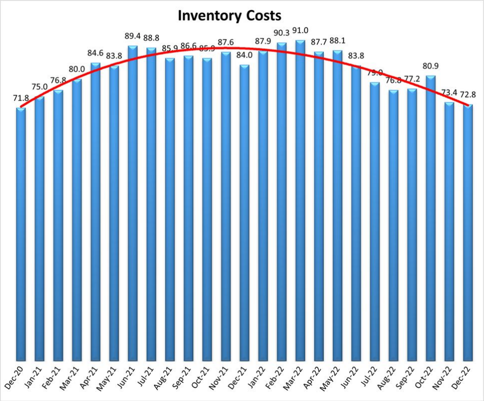
BLS
BUREAU OF LABOR STATISTICS
U.S. DEPARTMENT OF LABOR

Labor Summary

- Decrease from Nov. 2022 to Dec. 2022 of 3,000 employees
- Increase from Dec. 2021 to Dec. 2022 of 11,300 employees

Inventory levels



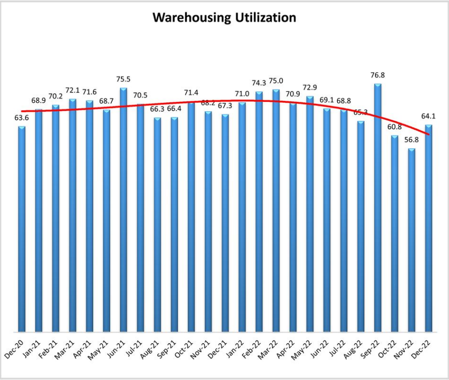


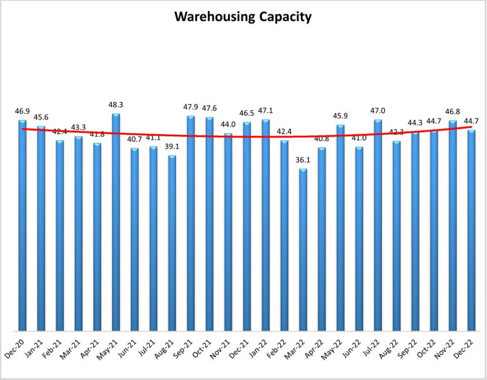
LOGISTICS MANAGERS' INDEX

Inventory Level Summary

- Retail inventory levels as reported by US Census Bureau peaked mid-year, but still down overall in comparison to previous years
- Logistics managers diffusion index survey projects inventories are still on the rise, but at decreasing rates
- Inventory right-sizing activities projected to bring some industries up (IE: retail) closer to historic levels, while other industries (IE: manufacturing) back down as nearshoring initiatives and supply chain stabilization bring safety-stocks down

Space availability and utilization





LOGISTICS MANAGERS' INDEX

Inventory Cost Summary

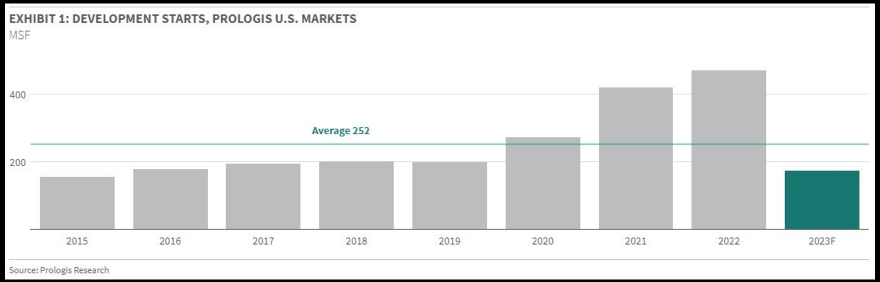
- Overall asking rents have tapered off in the most recent quarter matching the new availability of space, early indications of costs leveling off, not projecting any major decreases
- Facility capacities and utilization is still tight, but improving
- Shippers reporting cold-chain is still tight without signs of relief
- Our warehouse design team is seeing more frequent use of denser storage strategies in current footprints

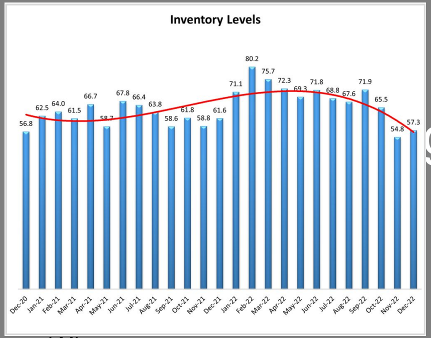
Supply and demand factors

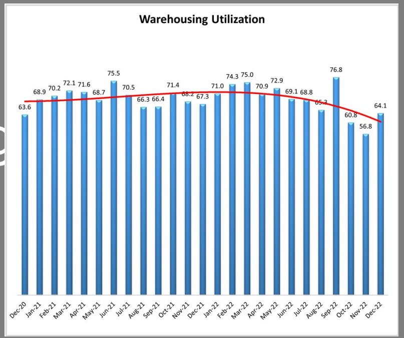
- Prologis forecasting significant drop in development activity
- DOL reported warehouse jobs growth flat in 2022, with 3% downward trend in 2H
- Cushman Wakefield reporting 70% of the markets with reduced asking rents in Q4 22
- MHE vendors reporting lead times reducing, but still looking at 12-24 month backlogs on long-lead time products (AGV's)
- Conference Board survey reports CEO's are projecting short-recession, focusing on core talent retention and preparation for growth in 2H +

Forecasts and recommendations

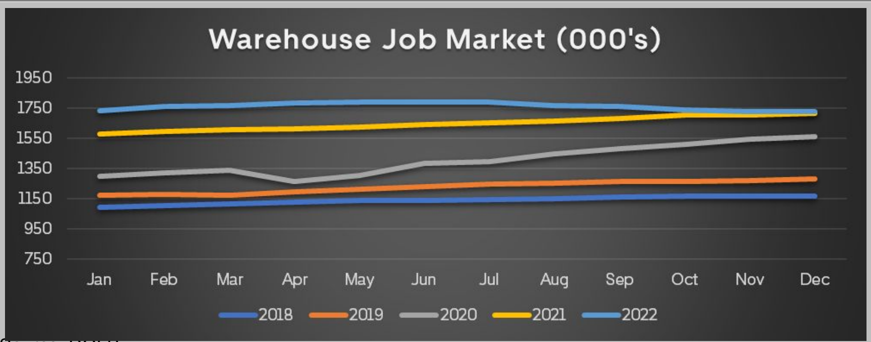
- Space options will be coming back on-line, right size inventory and look for longer term, agile, storage strategies to enable growth beyond 2023
- Slowing demand, tighter inventory positions, and stabilizing labor will enable supply-chain leaders to focus on more proactive initiatives
- Are we in the right locations?
- Are we prepared for an economic rebound?
- How can we best enable throughput and connect flow through our network?
- With labor and space leveling off, but no substantial decreases, 3PL savings will come from productivity collaborations not negotiations







Source: LMI



Source: DOLS

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