2023 Q3 Market update & outlook

August 2023
Market update & outlook
Executive summary – 2023 Q2

Macro Economy
- Truckload demand on the rise
- Healthy consumer spending; imports are up
- Contraction continues in manufacturing economy
- Driver employment resilient among large carriers

US – LTL
- LTL tonnage and shipment count reductions expected through E0Y
- Carrier networks shrink from ‘21/’22 highs
- Yellow shutdown expected to increase rates

Ocean & Air
- Transatlantic trade rates normalizing to pre-COVID levels
- US TEU import volume up 6% compared to June ’19
- Global vessel schedule reliability continues to improve

Warehousing
- Wages hit all-time highs
- Inventories continue to stabilize; overstocked on non-care items
- Vacancies up 4.1%; still below 5.3% historical average

US – Truckload
- Spot rates decline across the board
- Robust carrier bidding
- Trucking employment flattens; capacity loosens

US – Bulk
- Overall utilization remains down
- Carriers are seeking regional/short haul freight
- RFP activity on the rise
- Spot market still soft

Mexico
- Top ranked US trading partner Jan-May; imports up 3.5% Y/Y
- 23 GDP projection increased by 3% due to nearshoring
- 53% of Foreign Direct Investment corresponds to manufacturing sector

US – Intermodal
- Dray and rail capacities are plentiful
- Overall volume is down; imports have improved
- Spot rates have fallen to 2016 lows; contract rates experiencing 5-10% reduction

Europe
- Transport capacity easing, particularly among FTL
- Spot rates at parity or below contract
- Signs of price deflation across select manufacturing outputs

US – LTL
- LTL tonnage and shipment count reductions expected through E0Y
- Carrier networks shrink from ‘21/’22 highs
- Yellow shutdown expected to increase rates

Canada
- Manufacturing continues to contract
- Truckload spot expected to be near bottom
- GDP growth expected to slow over next three quarters
Truckload demand has found the bottom, at least temporarily

**Demand Outlook**

Truckload demand rose for three months in a row after bottoming out in March. In Q2, demand was flat Q/Q and up 2.5% Y/Y, while supply was up 0.7% Q/Q and 5.1% Y/Y, as carriers continued to add to their headcount and tractor count. The recent increase in demand was driven by resilient consumer spending and rising imports.

**Supply Outlook**

The difference between our supply and demand indices is highly correlated with spot rates. In the coming months, supply growth should moderate due to weak truck orders and less hiring, especially as carrier contract margins deteriorate. In this scenario, current spot rates should be near their cycle bottom.

---

(1) DAT, UF analysis
The US consumer remains healthy, but the manufacturing sector continues to contract

Real spending on goods rose by 0.2% in the second quarter, and was 1.5% higher Y/Y. This increase was driven by durable goods, where spending rose by 1.7% Q/Q, (+4.7% Y/Y). On the other hand, spending on nondurable goods was only 0.5% higher Y/Y, as low energy prices weighed down on sales (measured in USD).

The manufacturing sector contracted in all 3 months of Q2 according to the ISM PMI, which fell to 46.4. The forward-looking indices of new orders and backlogs also remained in contraction territory. Although manufacturing output rose by 0.5% in Q2 and was only -0.4% lower Y/Y, this strength was almost exclusively driven by auto production.

---

(1) US Bureau of Economic Analysis; (2) Institute for Supply Management; (3) US Federal Reserve
Inventories are trending in the right direction, except for wholesalers’ durable goods

Retail and wholesale inventories

<table>
<thead>
<tr>
<th></th>
<th>June 2023</th>
<th>June 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale: Nondurable Goods</td>
<td>+7.1% Y/Y</td>
<td>-7.0% Y/Y</td>
</tr>
<tr>
<td>Wholesale: Durable Goods</td>
<td>+7.1% Y/Y</td>
<td>-7.0% Y/Y</td>
</tr>
<tr>
<td>Retail: Excl. Auto</td>
<td>+25.5% Y/Y</td>
<td>+0.8% Y/Y</td>
</tr>
<tr>
<td>Retail: Auto &amp; Parts</td>
<td>+25.5% Y/Y</td>
<td>+0.8% Y/Y</td>
</tr>
</tbody>
</table>

Retail inventories remained flat in the last year, except for motor vehicles and parts dealers, where they rose by 25.5%. Similarly, wholesalers’ inventories of nondurable goods fell sharply over the last year, driven by destocking of farm products. However, durable goods inventories rose, and were mostly driven by stocking of automotive and machinery.

Despite the recent surge in auto inventories, they have not yet fully recovered, and remain low relative to pent-up demand. On the other hand, wholesalers’ inventories of durable goods have exceeded their pre-pandemic levels, and are near historical highs. Other retail and nondurable wholesale inventories have returned to their pre-COVID levels relative to sales.

(1) US Census Bureau.
Carrier exits and weak truck orders are setting the stage for an inflationary market

For-hire trucking employment fell by 0.2% in July, and was only 0.5% higher y/y. The long-distance truckload sector also shed 0.3% of employment in June, and was 1.5% higher y/y. Driver productivity continued to deteriorate, as the weekly work hours of long-distance employees fell to 41.2 hrs/week in June, down 1.1 hrs from June 2022, and 2.1 hrs from June 2021.

The North American Class 8 truck production and sales fell by 7% and 2% respectively in Q2. However, they remained 10% and 13% higher Y/Y. Current sales are between 28K and 29K units per month, indicating that the tractor population continues to grow. However, net orders are 11% lower Y/Y, suggesting possible deceleration in the coming months.

(1) US Bureau of Labor Statistics; (2) ACT Research.
Spot rates bottomed out in Q2, but underperformed seasonality. Resilient truckload supply despite the soft market indicates that recovery is not likely in Q3.

**Demand outlook:**
- Manufacturing new orders and backlogs point to more weakness in the coming months.
- Retail and wholesale inventories (excluding auto) are down Y/Y. However, wholesalers’ durable goods inventories remain high relative to sales.

**Supply outlook:**
- Driver employment has been resilient especially among large carriers. However, we expect reductions over the coming months due to weak truck orders, thinner margins, and lower productivity.

**Rate outlook:**
- Spot rates increased slightly in June and July, but underperformed seasonality. Current supply levels point to weakness in the coming months. However, the current levels are not sustainable, because they are significantly below the operating costs, even for large carriers.

---

\[(1)\] DAT, UF analysis; \[(2)\] ATRI with inputs from BLS and EPA
US Full Truckload
US truckload market

- All modes showing strong route guide performance on declining rates for contract and spot loads.

- Slight seasonal drop in first tender accept for FLATBED but still strong Y/Y.

Source: Uber Freight transportation management data
Note: SPOT-FAM denotes delivered loads that were assigned via auction technology, SPOT-MAN represent manually assigned loads.
Carrier sentiment

FTR’s forecast of active truck utilization is weaker in the latest forecast due mostly to the deterioration in the outlook for freight demand. Active utilization looks to hold essentially flat between 87% and 88% through early next year.

Class 8 production recovers in May after posting Q2 loss
- Retail sales of class 8 trucks rose 6% from last month and 17% on the year
- Trailer net orders fall modestly after two drops
- US trailer continue to decline month over month

Carriers bidding activity remains robust with RFP demand spiking year over year, while searching for opportunities to improve rising operating ratio.
- Net new carriers fell by largest # since January
- Carrier authority revocations rose by 23% in May
### Cost and capacity pressures continued easing

Supply abundant while demand levels off leading to easing of cost pressures

### Rates
- Diesel prices have fallen 19 of the last 21 weeks, but over the last week they have risen the most since October 2022 by just under 10 cents a gallon
- Operating metrics for large TL carriers hovering in the low 90’s
- Spot rates have fallen again for all truck equipment types
- Continued pressure in incumbent carrier pricing as shippers look for cost savings
- First Tender Accept continues upward trend

### Supply
- Class 8 net orders edge higher
- Class 8 production is showing signs of recovery from Q2 drop
- Retail sales of used Class 8 trucks improved in June from May, increasing 1.8%
- Digital brokerage closure that did not anticipate the rapid change in the demand for shipping services and failed to reduce overhead in a timely manner

### Demand
- Stagnant consumer spending on goods
- Automotive inventories strongly rose in June
- Retail and food service sales are flat
- Sales of new homes fell in June
- Large # of full network RFP’s; Q2 Pipeline tapering down per Y/Y average

### Labor
- Trucking employment flattens out while capacity further loosens
- Long distance driver growth remains flat
- Jobless benefit claims remain relatively low while sectors seeing the most job growth were those hit hardest by the pandemic: leisure and hospitality, private education, health services, and government

### Policy
- House panel backs ban on speed limiter rule
- Large TL providers apply for FMCSA Training Exemption due to lack of in seat trainers
- House Panel Advances Fiscal 2024 Transportation Bill to fund FMCSA through 2024. This will support the SHIP IT ACT
- Motor Carrier Safety Selection Standard Act of 2023 - proposes to give brokers and third-party logistics providers a "national standard" for due diligence in selecting motor carriers and help shield them from negligent-hiring claims
Key factors impacting intermodal supply

- Dray capacity is plentiful across the intermodal network
- Rail capacity and container availability is plentiful
- Rail utilization has improved
- The railroad networks are generally free of delays and congestion
- The railroads are playing the long game with rates and labor
- The railroads are focused on Mexico and enhanced service offerings:
  - CPKC
  - UP-CN Falcon Premium Service
Key factors impacting intermodal demand

- Intermodal volume has been down 23 of the last 24 months. The forecast doesn’t call for year over year growth until Q2 2024.

- Over the road capacity is plentiful now, though capacity is leaving the industry, and there are some signs of tightening in a few areas.

- Shipper inventory levels are mixed.

- New steamship line rates went into effect on May 1. Import volume has improved and there has been somewhat of a shift back to the west coast since the port labor dispute was resolved. Domestic container capacity has tightened in southern California at least for a few weeks in July.

- The port labor strike in Vancouver may have a short-term impact on import flows to other ports.

- Inland capacity for 40’ containers has improved. Port congestion is no longer a factor.

- Diesel fuel prices have leveled off in the $3.80-$3.90 range.
Current pricing, outlook, recommendation

- Intermodal remains challenged relative to the truckload competition.

- Intermodal Price Pressure Index shows pricing pressure coming back very modestly during the 2023 peak season.

- Once competitive balance is restored next year, pricing power and pressure will increase as 2024 progresses.

- Spot rates have fallen to levels not seen since at least 2016.

- Contract rates: Overall average reduction year to date may be 5%-10%, but in some lanes the reductions have exceeded 20% while in other lanes the reductions have been more modest at 0%-5%.

*Sources: IFTR June 2023 Intermodal Report; Intermodal In Depth June Report
US Less-than-Truckload
Key factors impacting demand
Tonnage and shipment count continue to decline, but Yellow’s exit will shock the market

- 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
  - June PMI declines from previous months
  - The historical correlation between U.S. manufacturing PMI and LTL tonnage suggests continued industry volume declination

- Observations impacting demand
  - Overall LTL tonnage and shipment count is expected to remain at reduced overall levels through the end of the year
  - Yellow ceased operations on July 30th and represented ~9% of LTL market share
  - The LTL market currently has excess capacity at a macro level to absorb Yellow’s volume due to nearly a 10% drop in volume from 2021/22 highs
  - Will take several months for market to adjust and absorb (assuming no unexpected increase in demand)
Key factors impacting supply

Yellow’s shutdown quickly absorbed all excess supply

Exhibits 35-36: Active capacity has leveled off; structural capacity growth remains muted at best

LTL additional capacity
- Carriers networks shrunk since the high’s of 2021/22
- Significant reduction in fleet sizes since Q1 2022
- Most carrier’s number of terminals remain the same, but Yellow represented approximately 19% of total terminals

Carrier’s cost continue to rise (sample cost increases from regional carrier)
- 11+% increase in the purchase price of new Day Cab tractors
- 5.9% increase in the cost of new Sleeper tractors
- 51% increase in the purchase price of 53-foot roll up door trailers
- 5% increase in system-wide driver/dock/maintenance wage increase

Cost of ramping up capacity
- All carriers are in process of quickly ramping up capacity in order to secure Yellow’s volume while maintaining service levels
- Cost to quickly hire to historic levels (not only drivers, but dock workers and office staff as well)
- Network flows will adjust based off of increased volumes to/from certain origin points and in certain lanes. This will create additional linehaul needs (purchased transportation or hiring additional drivers) and potentially additional empty miles
- Most carriers will have this worked out within their networks within 2 – 4 months

Source: American Trucking Associations, Company documents and Stifel estimates
2023 rate outlook

Yellow shutdown – impact to market
- Yellow comprised of 3 regional carriers (Reddaway, Holland and New Penn) and 1 national carrier (YRC) and at time of shutdown were amidst combining into 1 Super Regional Carrier, Yellow
- Overall, Yellow represented the lowest cost national carrier from an OR and Revenue / shipment perspective
- Will result in less competitive pricing offerings from remaining national carriers

Pricing Outlook
- 1H2023 majority of contractual renewals resulted in a 3% - 5% increase
- Expect mid to high single digit increases throughout the remainder of 2023
- Isolated carriers / incidents may occur requesting immediate higher increases due to current market conditions
- Some national carriers are avoiding pursuing new opportunities while others are actively pursuing new opportunities and using this situation to grow customer base

Shipper Contingencies
- Expect service deterioration (pickup delays, pickup embargoes, delivery delays)
- Build flexibility within network to proactively react to market changes (recover with carriers that have capacity, guarantee shipments for delivery, etc)
- Communicate with carrier base (understand areas of under/over capacity, service instability, network changes, etc)
- Implement Uber Freight's Preferred Shipper best practices (network collaboration & optimization, origin optimization, timely freight payment, pricing strategy, carrier collaboration, and packaging improvements)
Industry observations
What we are observing from the market

Carrier updates
● Yellow ceased operations on July 30, 2023 after being in business for 99 years, representing 9% of market share and being the third largest LTL carrier.
● Due to Yellow’s exit from the market carriers are closely monitoring additional volume flowing within their network to ensure profitability & service don’t deteriorate.
● Knight Swift advised they will be actively looking to grow their network via the additional terminals that will be on the market due to Yellow’s shutdown.
● In May, FedEx Freight announced they are closing 29 terminals (most are small terminals that will be absorbed by larger terminals that are nearby).
● UPS, T Force, and ABF all agreed to new term with the Teamsters in advance of their labor contract deadlines.
● XPO announced a new COO, Dave Bates, who was the former SVP of Operations at ODFL.

Additional updates
● The NMFTA announced it has an ongoing initiative to simplify the thousands of NMFC Numbers with an initiative called “Classification Reimagined”. This will remove very specific NMFC #’s and group to like commodities and heavily relying upon a standard 11 class density scale.
● Heightened focus on technology to more efficiently operate terminals and automate with customers to reduce errors and labor expenditures.
Key factors impacting supply

- Overall utilization remains down
  - Forecast flat for remainder of 2023, before tightening through 2024
- Carriers continue to focus on utilization
  - Seeking “safer” regional / short haul freight
  - Seeing more cases of empty miles built into one-way pricing
  - Smaller carriers struggling more to cover fixed costs
- RFP activity starting to increase
  - Some shippers conducting first RFPs in 3 years
  - Carriers looking to optimize their networks through RFP process
- Equipment backlogs easing
  - Trailer production outpacing orders – backlog down 10% Y/Y
  - Continued soft market keeping orders down
    - Interest rates also playing a role
  - Turck order lead time down to 6.8 months, lowest since October 2020
Key factors impacting demand

- Volume projections mixed
  - 2023 Tanker forecast at -0.9% Y/Y, based on weaker outlooks for building materials and food segments
  - Chemical production up 0.9% MoM (per American Chemistry Council)
  - Long term chemical forecasts trending higher

- Lead time for tenders is finding a new equilibrium
  - Carriers can react more quickly to shorter lead times due to soft capacity
  - Shippers testing the new limits (7-14 days last year, down to 2-3 days in some cases)

- Spot activity continues to be soft
  - 27.6% of UF shipments June 2022 vs. 11.0% for June 2023
# Bulk truck rate trends

<table>
<thead>
<tr>
<th>Region</th>
<th>Actual + Fuel/Rate</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>WEST</td>
<td>$1272</td>
<td>$1272</td>
</tr>
<tr>
<td>SOUTHWEST</td>
<td>$10.92</td>
<td>$10.92</td>
</tr>
<tr>
<td>MIDWEST</td>
<td>$10.14</td>
<td>$10.14</td>
</tr>
<tr>
<td>SOUTHEAST</td>
<td>$8.16</td>
<td>$8.16</td>
</tr>
<tr>
<td>NORTHEAST</td>
<td>$11.64</td>
<td>$11.64</td>
</tr>
<tr>
<td>Grand Total</td>
<td>$10.22</td>
<td>$10.22</td>
</tr>
</tbody>
</table>

- Mild softening to flat rates in long and short haul lanes for all regions
- First Tender Acceptance challenged in longer haul markets, but still in significantly higher ranges than prior years
- Fuel aiding cost reduction efforts

Source – Uber Freight TM
Europe
Factors affecting supply

Key points around capacity, pricing, and driver shortages

- Q2 continued to show an easing of transport capacity, particularly in the FTL market.
- Carriers are proactively contacting shippers to request volumes, signaling excess capacity.
- The premium of spot to contract rates continues to decline on some lanes, but increased on others.
- Some markets are showing spot rates at parity or below contract.
- Fuel prices have eased during the quarter by 12.5%, bringing down fuel surcharges by several % points.
- The IRU and the ITF (which jointly represent over 20 million transport operators globally) have announced a 3 point plan to help fix driver shortages – the plan aims to better balance national labour pools.
- The European Union’s Eurostat service recently published 2022 data showing that whilst total road freight in 2022 was at a similar level to 2021 (1920 billion tonne kms), cabotage transport dropped by 8.9%.
- Escalating energy costs have led UK operator DB Cargo to mothball its fleet of 24 electric locomotives, an example of how energy cost increases are holding back electrification opportunities.
- The much-anticipated FuelEU maritime initiative has been adopted by the European Council forcing container vessels to plug into shore power to reduce emissions.
The oil price has been volatile during the quarter varying from $87 to $72 per barrel.

The price was its highest in mid April.

Quarterly decrease: Between Apr '23 - Jun '23 the oil price decreased by $10/barrel (-12.5%).

Y/Y: July 2022 to June 2023, the oil price dropped significantly from $110 to $74 /barrel.
## Uber Freight European Rate Trends
### June 2022 to June 2023

### Rate per Shipment (€)
- **Belgium › France**: 342 Km
  - Antwerp: €882
  - Paris: €749
  - Antwerp: €852
  - Paris: €1,024
- **Belgium › Germany**: 402 Km
  - Antwerp: €690
  - Frankfurt: €975
  - Antwerp: €1,155
  - Frankfurt: €1,155
- **Germany › France**: 575 Km
  - Frankfurt: €1,256
  - Paris: €975
  - Frankfurt: €1,153
  - Paris: €1,106
- **Germany › Italy**: 665 Km
  - Milan: €1,190
  - Frankfurt: €1,081
  - Milan: €1,199
  - Frankfurt: €1,103
- **Germany › Spain**: 3,333 Km
  - Madrid: €1,599
  - Frankfurt: €1,189
  - Madrid: €1,599
  - Frankfurt: €1,189

### Rate per Muk (€)
- **Belgium › France**: 342 Km
  - Antwerp: €2,575
  - Paris: €2,195
  - Antwerp: €2,045
  - Paris: €1,962
- **Belgium › Germany**: 402 Km
  - Antwerp: €2,508
  - Frankfurt: €2,235
  - Antwerp: €2,162
  - Frankfurt: €2,105
- **Germany › France**: 575 Km
  - Frankfurt: €1,256
  - Paris: €975
  - Frankfurt: €1,153
  - Paris: €1,106
- **Germany › Italy**: 665 Km
  - Milan: €1,190
  - Frankfurt: €1,081
  - Milan: €1,199
  - Frankfurt: €1,103
- **Germany › Spain**: 3,333 Km
  - Madrid: €1,599
  - Frankfurt: €1,189
  - Madrid: €1,599
  - Frankfurt: €1,189

### Year-over-year Contract Rate Tfr in % Variation (%)
- **Belgium › France**: 342 Km
  - Antwerp: 18%
  - Paris: 15%
  - Antwerp: 12%
  - Paris: 9%
- **Belgium › Germany**: 402 Km
  - Antwerp: 5%
  - Frankfurt: 5%
  - Antwerp: 4%
  - Frankfurt: 4%
- **Germany › France**: 575 Km
  - Frankfurt: 9%
  - Paris: 20%
  - Frankfurt: 5%
  - Paris: 9%
- **Germany › Italy**: 665 Km
  - Milan: 9%
  - Frankfurt: 22%
  - Milan: 9%
  - Frankfurt: 4%
- **Germany › Spain**: 3,333 Km
  - Madrid: 5%
  - Frankfurt: 4%
  - Madrid: 5%
  - Frankfurt: 15%

### Spot Premium (% Discount % to Contract)
- **Belgium › France**: 342 Km
  - Antwerp: 0%
  - Paris: 4%
  - Antwerp: 4%
  - Paris: 4%
- **Belgium › Germany**: 402 Km
  - Antwerp: 0%
  - Frankfurt: 4%
  - Antwerp: 4%
  - Frankfurt: 4%
- **Germany › France**: 575 Km
  - Frankfurt: 20%
  - Paris: 9%
  - Frankfurt: 9%
  - Paris: 15%
- **Germany › Italy**: 665 Km
  - Milan: 22%
  - Frankfurt: 4%
  - Milan: 4%
  - Frankfurt: 15%
- **Germany › Spain**: 3,333 Km
  - Madrid: 5%
  - Frankfurt: 4%
  - Madrid: 5%
  - Frankfurt: 15%

Source: UPLY.com
The European economy remains fragile with tight labour markets and low growth.

- GDP Growth in the euro area in 2023 is forecast to be 0.9%, increasing to 1.5% in 2024.
- Private consumption will continue to be supported by strong labour markets.
- Higher financing costs and uncertainty are dampening private investment.
- Low unemployment will continue to drive wages upwards H2 2023, with an easing in 2024.
- There are signs of price deflation in some manufacturing inputs, with expectations that this will flow through the supply chain over time.
Inflation is falling in Europe, but central banks continue to increase interest rates to reduce inflation

- The euro area annual inflation rate was 5.5% in June 2023, down from 6.1% in May. A year earlier, the rate was 8.6%.
- European Union annual inflation was 6.4% in June 2023, down from 7.1% in May. A year earlier, the rate was 9.6%.
- UK inflation was 7.3% in June, down from 7.9% in May.
- The European Central bank increased interest rates twice in the quarter by 0.25%, in May and June 2023.
- The UK also increased interest rates twice in the quarter, once by 0.25% and once by 0.5%.
The unemployment rate in the euro area was at a record low of 6.5% in May 2023, down from 6.6% in March 2023.

The number of unemployed declined further to 11.0 million, the lowest level since comparable records began in 1995.

The Purchasing Managers Index (PMI) for the Euro Area in Q2 2023 decreased sharply from 47.3 in April to 44.8 at the end of June. The level remains well below 50, the point at which contraction starts in the manufacturing sector.

The PMI has now stayed below 50 since August 2022.

Key factors impacting demand
The manufacturing PMI remains below 50, with a significant quarterly fall in Q2 2023.

Purchasing Managers Index Manufacturing: past 12 months

[Graph showing Purchasing Managers Index values from August 2022 to June 2023, with a clear decline from 47.3 in April to 44.8 at the end of June.]
Outlook

- Inflation has started to fall, and this is forecast to continue in 2023 and into 2024.
- The 2024 inflation forecast is 3.1% for the EU and 2.8% for the euro area.
- GDP is expected to recover from 1% in 2023 to 1.7% in 2024 in the EU and 1.6% in the euro area.
- Carrier capacity continues to return as volumes decline, but the summer period will remove capacity from the market.
- The level of procurement activity continues to be high – procurement consultancies are reporting savings from RFPs, ranging from 5% to 20%.
- Oil prices are forecast to increase from $72 to $85 per barrel in the next quarter, as China’s stimulus measures are expected to increase the demand for oil.
- The Danish government is implementing a mileage-based road tax on HGVs based on their CO2 emissions on several roads from 1 Jan 2025. It will later expand to cover all public roads by 2030. The tax will be higher for petrol or diesel lorries, with zero-emission trucks paying the lowest tax.
- French road haulage organisation OTE has urged the government to introduce a mandatory ban on drivers loading and unloading. The French government has responded to the proposal by commissioning studies to assess its potential impact and feasibility.
- Czech road tolls will increase by 10-15% from March 2024, which follows a 53% increase in May 2023.
- Carriers have welcomed the EU’s Greening Transport Package which was unveiled in July 2023. Part of the package has draft new rules to implement truck charging stations every 120km throughout the EU.
Recommendations

- Re-procure to gain benefits from a soft market – aim to lock in rates for 12 months.
- Closely monitor minimum order quantities – soft demand can lead to smaller, uneconomic deliveries.
- Ensure depth in the routing guide over the summer period and into the pre Christmas peak to maintain service levels.
- Share peak forecasts with carriers and plan peak period strategies.
- Carefully track the spot vs contract market – spot prices are adjusting rapidly with evidence of rates falling below contract in certain geographies.
- Re-check mode shift opportunities as market rates change.
International
Global supply chain impacts

- Removing COVID impacts to trade, containerized imports continue to track slightly above pre-COVID “normal”. Descartes reported that US TEU import volume in June is up 6% to June 2019 levels.

- The National Retail Federation’s Global Port Tracker projects positive import growth in November 2023 (first Y/Y increase since June 2022).

- Consumer spending patterns and rising interest rates continue to impact Asia export volumes.

- As of mid-June, the number of blank sailings are at the lowest point since the start of the pandemic: < 10%.

- Global vessel schedule reliability continues to improve at 66.8% in May per Sea-Intelligence Maritime Analysis. Maersk was the most reliable carrier 73.5%, Wan Hai 70.9% and MSC 70.4%, HMM least reliable at 52.6%.
US ↔ China trade

- Value of goods exported from China to US fell 24% June Y/Y
- Chinese imports are at the lowest level in 20 years
- US exports to China are increasing
- Trade deficit is shrinking as US companies continue to seek manufacturing diversification outside of China

*De Minimis valued imports ($800 or less) are not included in this data

U.S. trade in goods with China

Share of U.S. imports from China

Data: Census Bureau; Chart: Simran Panwani/Axios
Transpacific trade

- Sea-Intelligence Maritime Analysis estimates a Y/Y increase in Trans-Pacific container fleet capacity, reaching 19.2% by the fourth week of August and 25.2% by September 11. Double-digit supply growth in the global container ship fleet is expected to continue into 2024. The container ship fleet is projected to add another 2.5 million twenty-foot equivalent units (TEUs) of capacity this year and 3.9 million TEUs in 2024.

- Carriers are making changes to schedules, suspending some service strings and slow steaming.

- Vessel Schedule reliability on TPEB continues to improve: 52.6% to USWC and 42.9% to USEC.
Transatlantic trade

- Transatlantic trade rates continue to normalize to pre-COVID levels.
- On the headhaul lane, N Europe to US, volumes have fallen 14% April to May per PIERS data.
### Alphaliner - Top 100: Operated fleets as per 21 July 2023

<table>
<thead>
<tr>
<th>Rnk</th>
<th>Operator</th>
<th>TOTAL</th>
<th>Owned</th>
<th>Chartered</th>
<th>Orderbook</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>TEU</td>
<td>Ships</td>
<td>TEU</td>
<td>Ships</td>
</tr>
<tr>
<td>1</td>
<td>Mediterranean Shg Co</td>
<td>5,161,112</td>
<td>770</td>
<td>2,430,349</td>
<td>473</td>
</tr>
<tr>
<td>2</td>
<td>Maersk</td>
<td>4,139,697</td>
<td>682</td>
<td>2,479,691</td>
<td>336</td>
</tr>
<tr>
<td>3</td>
<td>CMA CGM Group</td>
<td>3,497,750</td>
<td>626</td>
<td>1,692,528</td>
<td>240</td>
</tr>
<tr>
<td>4</td>
<td>COSCO Group</td>
<td>2,933,122</td>
<td>464</td>
<td>1,640,152</td>
<td>179</td>
</tr>
<tr>
<td>5</td>
<td>Hapag-Lloyd</td>
<td>1,859,736</td>
<td>257</td>
<td>1,150,159</td>
<td>123</td>
</tr>
<tr>
<td>6</td>
<td>Evergreen Line</td>
<td>1,873,600</td>
<td>213</td>
<td>952,160</td>
<td>126</td>
</tr>
<tr>
<td>7</td>
<td>ONE (Ocean Network Express)</td>
<td>1,641,847</td>
<td>214</td>
<td>777,294</td>
<td>91</td>
</tr>
<tr>
<td>8</td>
<td>HMM Co Ltd</td>
<td>792,074</td>
<td>72</td>
<td>551,256</td>
<td>37</td>
</tr>
<tr>
<td>9</td>
<td>Yang Ming Marine Transport Corp.</td>
<td>705,614</td>
<td>93</td>
<td>216,346</td>
<td>51</td>
</tr>
<tr>
<td>10</td>
<td>Zim</td>
<td>604,666</td>
<td>138</td>
<td>28,681</td>
<td>8</td>
</tr>
<tr>
<td>11</td>
<td>Wan Hai Lines</td>
<td>448,980</td>
<td>125</td>
<td>419,262</td>
<td>113</td>
</tr>
<tr>
<td>12</td>
<td>PIL (Pacific Int. Line)</td>
<td>297,133</td>
<td>90</td>
<td>194,761</td>
<td>70</td>
</tr>
</tbody>
</table>
Mexico Truckload
**Mexico’s economic outlook**

**Mexico’s Economy:**
- Annual inflation rate eased for a fifth consecutive month to 5.06% in June 2023, the lowest since Aug 2021.
- Unemployment rate was 2.9% in May 2023 from 3.3% in the same period last year.
- National avg. price per liter of diesel in MX reached $23.77 MXN in June 2023, this is an increase of 1.7% compared to the same month a year prior.

**Exchange Rate:**
- The average exchange rate for Q2 2023 closed at $17.72 MXN/USD. The peso has continued to strengthen against the dollar, beating a new record in July, reaching $16.71 MXN/USD.
- Today, it is called the "super peso," and the impact is estimated to be around 15% of carriers' income and still growing.
- Interest rates in Mexico continues between 11-12% annual returns which keep attracting foreign investment, as well as increasing levels of USD remittances sent to Mexico are strengthening the peso vs the dollar.

**Mexico and U.S. Trade:**
- Mexico ranked as the top US trading partner during the first five months of 2023, with a 3.5% increase year over year.
- This same period reflected a 5.3% increase in imports between Mexico and the United States, while exports only 0.8% increase.
- Nuevo Leon state is investing US$1.3B in an integral modernization of highways and Colombia's port of entry, reinforcing its connectivity with Laredo, TX. The Port will grow from to seven toll booths to a total of twelve.
Nearshoring

- Mexico raises GDP growth expectation to more than 3% in 2023 due to nearshoring.
- The impact begins to be perceived mainly in the north of the country.
- To the first quarter of 2023 Mexico registered US $18.6 billion of Foreign Direct Investment. 90% corresponds to reinvestments.
- 53% of Foreign Direct Investment corresponds to the manufacturing sector.
- According to Morgan Stanley, nearshoring can boost the growth of Mexican manufacturing exports to the U.S., from $455 billion today to an estimated $609 billion in the next five years.
- New investment driven by nearshoring could reach about $46 billion in the next five years, helping boost Mexico’s annual GDP growth to around 3% in 2025 to 2027, from an estimated 1.9% in 2022.
- The nearshoring trend has already driven a rerating of Mexican stocks, and strategists see further upside for domestic companies in the next five years.
- Top countries making a new investment in Mexico in Q1 2023: Britain, E.U., Canada, Germany, Spain, Panama, France, Swiss, Argentina, and Chile.
- Top countries making a reinvestment in Mexico in Q1 2023: E.U., Spain, Netherlands, Argentina, Germany, Japan, Britain, Canada, Swiss, Brazil, Hong Kong, and Korea.
- Nearshoring social threats: security, labor competition, overpopulation, high environmental impact, labor cost increases, water and electricity shortages.
**Mexico’s current situation**

**Transportation Cost and Capacity:**
- Persist high US equipment (trailers) availability in Mexico for door-to-door loads.
- Northbound vs. southbound trade balance gap between US and Mexico continues to grow.
- We expect the imbalance to increase to 6 northbound per 1 southbound shipment next year.
- After 15 continuous months, spot rates slightly increased by the close of H1 2023.
- Laredo load/truck ratio had an average of 4.5:1 in June.

**Security:**
- Cargo theft rose 7.5% Y/Y in April according ANERPV*.
- 142 cargo trucks in ANERPV Network were robbed or stolen.
- Mexico states with higher incidents: State of Mexico, Puebla, Guanajuato, Jalisco and Veracruz.
- A criminal organization in the state of Mexico is dedicated to the theft of truck tractors for the clandestine sale of auto parts.

**Carta Porte:**
- Mexico’s tax administration agency (SAT) announced a new extension to January 1st, 2024.

---

*ANERPV: Mexico’s National Association of Vehicle Tracking and Protection*
Outlook and recommendations

- Mexican carriers are starting to request rate increases for rates in USD as result of the “super peso”. Need to closely monitor the exchange rate behavior and if this trend continues, shippers might need to adjust budgets.

- Cargo theft continues to be a challenge. Additional security measures such as security escorts and transit hours restrictions are starting to emerge as conversational topics among carriers and shippers.

- For cross-border, market is shifting again after three years of being a carrier-dominated market. Now, customers are taking advantage of the low rates and direct carriers’ capacity.

- Nuevo Leon’s government is investing $26M USD in Colombia’s port of entry. This port is only 22 KM from Nuevo Laredo and is becoming a great alternative for carriers as border crossing times are significantly less (10 min) than Laredo’s (30-45 mins).

- An estimated 85% of small and medium-size carriers are still struggling to comply with Carta Porte requirements.
Canada
The Canadian economy has had a solid start to 2023, however, expect economic slowdown over the next twelve months as the full impact of the monetary rate hikes take effect. Labor markets have started to show weakness in the second quarter as corporate profits continue to fall.

- Canadian manufacturing sector remains in contraction territory.
- Output and new orders are down.
- Subdued market demand widely reported.
- Supply chain challenges continue to dissipate.
- Labor market weakened in May posting its first contraction in 9-months.
- Retail sales increased 1.1% in April, in volume terms retail sales increased 0.3%, due to population growth coming from immigration. Per capita, retail sales are flat. Canada’s population hit 40 million in Q2 and is growing at a ‘record-setting pace’.
- Corporate profits and investments fell for the third consecutive quarter.
- Policy rate anticipated to rise 25 basis points to 5.0% in July.
Canada: key factors impacting supply

Canada is in a shipper’s market. Second quarter freight volumes are much lower across the board, in comparison to Y/Y and/or to Q1 2023, whilst truck capacity remained high.

- The truckload market continues to soften, though spot rates appear to be nearing a bottom.
- Many new truck drivers and equipment were added during the pandemic to take advantage of demand and high payouts. With much lower freight volume on the market now, capacity is out balance.
- Truck Class 8 orders were soft in June, but production remains elevated. In turn, reducing order backlog and decreasing delivery time for the new equipment.
- Truck parts replacement continues to stabilize.
Canada: key factors impacting supply

Note: Load Link is the most popular load board within Canada. The results shown are primarily influenced by spot market moves.
Truck-to-load ratios have increased through Q2 ’23. Loadlink’s most recent figure for June was 4.01 available trucks for every load. Year-over-year, the truck to load ratio increased by 59 percent to a ratio of 2.53 in June 2022.
Canada: key factors impacting demand

- Driven by higher interest rates and lower consumer consumption, signs of weakness have begun to show. GDP growth is expected to slow considerably through the next three quarters.
- Inventory levels rise in Q1 and remain unchanged through the beginning of Q2.
- Bank of Canada's Fourth Quarter Business Outlook Survey indicates that business continue to anticipate weak sales growth ahead. Consumer discretionary spending and high interest rates are dampening the outlook.
- Fuel prices remain under pressure over lower demand. OPEC holds oil demand view steady despite economic growth warning along with ongoing high inflation, elevated key interest rates and tight labor markets.
- The Canadian dollar is currently trading at 75 cents ($1.33) at the end of 23Q2. Economists see the Canadian dollar trading in the range of $0.73 to $0.75 against the US dollar through the second half of 2023 in through 2024 in light of the recent downturn in global manufacturing momentum.
- Decline in both output and new orders were registered in June due to market demand. The decline was sharper than expected.
Canada: current impact

- High interest rates, high operation cost, low freight volume and near bottoming rates all put pressure on carrier’s operational ratio and survival. This is a perilous time for a lot of carriers. Only efficient, disciplined, experienced and well-funded operations will survive.
- With inventory levels still at high level and ocean shipment volumes near 2019 levels, no sight of market turnaround in the near future.
- Labor disputes (BC port workers, UPS, Yellow) will likely add volatility to the market across the country – and even the continent.
- Fuel prices continue to be volatile across North America. Another production cut announced by OPEC+. 
Canada: outlook

Whilst the Canadian economy started the year strong, modest growth in Q2 with flat growth being projected for Q3. Anticipated contraction for the next two quarters will culminate in a GDP growth of 1.3% in 2023 and 0% growth in 2024. High interest rates and uncertain macroeconomic outlook are driving delayed decisions in expenditures as business sentiment has declined.

- Unemployment rate forecasted to climb in Q3 and Q4 to 5.4% and 5.8%, respectively and to 6.4% in 2024.
- Consumption continues to drop from 3.0% in 2022 to 1.2% in 2023 and 0.7% in 2024.
- Annual inflation projected to be 2.6% for the full year 2023 and 2.2% in 2024.
Canada: recommendations

Time to issue full network RFP’s and secure capacity at current rates for longer contract lengths (24 months +).

- Add additional carriers to the network, especially those that are financially healthy.
- Look to remove cost from your network:
  - Sailing schedule to specific regions
  - Open shipping windows from 24 to 48 or 72-hours
  - Convert LTL shipment to Multi-stop Truckload where possible
  - Focus on trailer utilization
  - Increase minimum order quantity
Warehousing Update
Key factors impacting warehousing

**Labor**
Reduced demand for warehouse labor is reducing warehouse jobs, trending slightly down in 2023 steady rise for the previous 5 years. At the same time, Q2 2023 wages hit an all time high as worker availability continues to challenge employers, creating tensions between 3PL's and shippers.

**Inventory**
Inventory continues to stabilize, which began in Q4 of 2022, after a massive runup from 2020 - 2022. Many shippers are still overstocked on non-core items.

**Space**
Vacancies up from 3.6% in Q1 2023 to 4.1% in Q2 2023 as new construction is delivered. However, it remains below the historical average of 5.3%, and increasing interest rates with demand shifts have driven new construction down.
2023 Q2 inventory:
- Retail inventory levels slightly increased in Q2 2023, reaching new all time highs in May 2023.
- The reopening of the Chinese economy after COVID-19 lockdowns is contributing to the sustained inventory levels, as port traffic bounces off lows experienced in February 2023.
- Although moderating its rate of increase, retail inventories remain at all time highs, 17% higher than the pre-covid all time high in August 2019.
- Inventory costs, driven largely in part by warehousing and transportation costs, continue to increase albeit at a slower pace as warehouse and transportation capacity continue to improve.

2023 Q3/Q4 outlook:
- A slowing economy with higher borrowing costs for companies and consumers alike will hinder retail sales through the remainder of the year.
- Planned capital investments in supply chain infrastructure may put additional pressure on operating profits as new capacity projects planned in 2021-2022 come online in 2023.
- Word of mouth from warehousing partners indicates an increase in slow and obsolete inventory as high value inventory replenishments planned in 2021-2022 meet moderating sales in 2023.
Warehouse labor trends

Warehouse employment is trending down in Q2 2023 after shedding 94k jobs (5%) since December of 2022. However, even with the slight reduction in warehouse labor in the first part of the year, warehouse employment remains near all time highs after growing by nearly 50% since April of 2020.

Non-supervisory warehouse wages hit a new all-time high of $23.08 in May of 2023, 5.6% higher than the 2022 high in May of 2022. Wages have increased by 23% since pre-pandemic levels in February 2020.
Q2 2023 Warehousing recap:

- Overall asking rents continue to taper off in the most recent quarter matching the new availability of space.
- Facility vacancy is steadily rising but remains well below historic averages.
- New construction deliveries are outpacing net absorption at the fastest pace since 2020.
- Shippers reporting cold-chain is still tight without signs of relief.

2023 Q3/Q4 and second half 2023 outlook:

- Rate of warehouse capacity growth will continue to increase as additional construction deliveries are made to the market.
- Expect a cooling of rent growth over the next several years.
- Rent growth will moderate as demand drops and vacancies increase.

Source: Cushman & Wakefield
The Logistics Managers’ Index, comprised of warehousing, transportation, and inventory components, came in at 45.6 in June – an all time low since the inception of the index in June of 2021.

Inventory levels remain at record highs in the face of a weakening economy.

Warehousing vacancies, though well below historic levels, continue to increase as new supply is added to the market.

Labor rates continue to increase, but moderating demand should allow for a refocus on efficiency to reduce the requirement of new labor.

**Warehousing summary**

- Re-invigorate your S&OP processes to enable a quick reaction to your manufacturing and replenishment plans when confronted with demand fluctuations.
- Examine and right size inventory service levels to minimize safety stock.
- Evaluate differentiated inventory strategies, such as a hub and spoke network, can minimize widespread stocking of slow moving/dead stock.
- Work with suppliers to manage inventory deliveries – set standards & expectations to eliminate unneeded/unordered part deliveries.
- Develop standard work based on best practices and replicate across your purchasing, warehousing, and logistics departments.

**Recommendations:**

As 2023 reverts to a moderate to down sales environment, use this time to go back to basics:
Uber Freight