

NOVEMBER FREIGHT MARKET UPDATE

December 2022



CONVOY

A mixed happy and humbug holiday season

- **Despite perceived economic headwinds, real consumer spending remains elevated as both goods and services experienced saw upticks from previous months.** Spending comes at the continued expense of savings, making it difficult to anticipate how long demand persists.
- Single family home building fell, although multifamily appears to be relatively unchanged. Combined with a return of automotive production to more typical levels, demand is stronger than previously anticipated.
- Excess capacity (with more on the way based on recent Class 8 truck orders) is still present in the market. While rates may increase slightly during December, the ongoing soft market shows limited sign of changing heading into Q1.

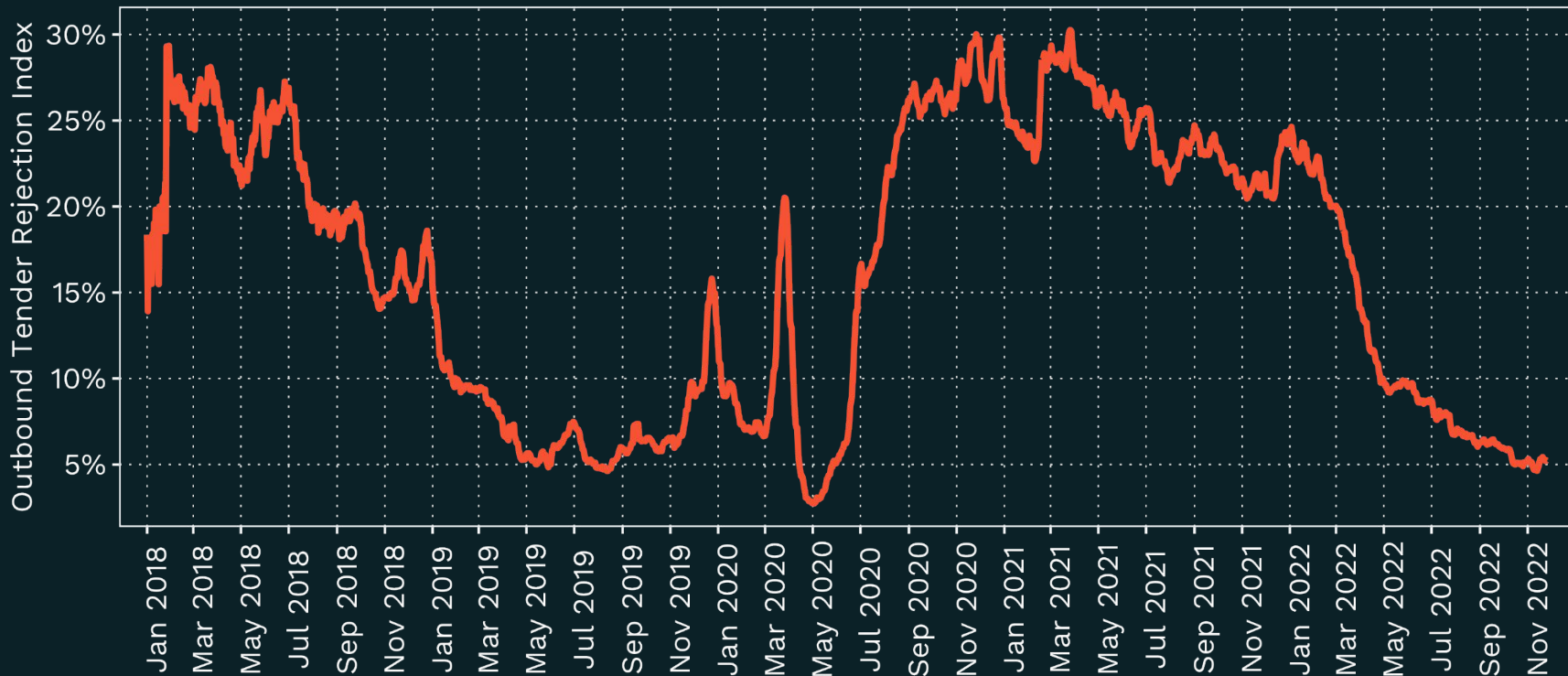
What this means for you beyond Q4

- Expect the gap between contracted rates and spot to narrow in early 2023 as shippers reset contracts. Balancing cost and service necessary for weathering any 2023 volatility becomes critical. Best-in-class shippers are contracting static volumes and exploring more elastic solutions for volatile or lower-volume lanes.
- The expected lull in demand cycle presents an opportunity to improve systems and processes. Leaning into data and insights to identify and address bottlenecks / performance issues now prevents issues during the subsequent freight cycles.
- After a tumultuous past couple of years, shippers get a bit of a mulligan in 2023 for price, cost and capacity. Using this time to modernize supply chains and advance digital adoption allows shippers to enter the future tightening market from a position of strength.

Freight Demand

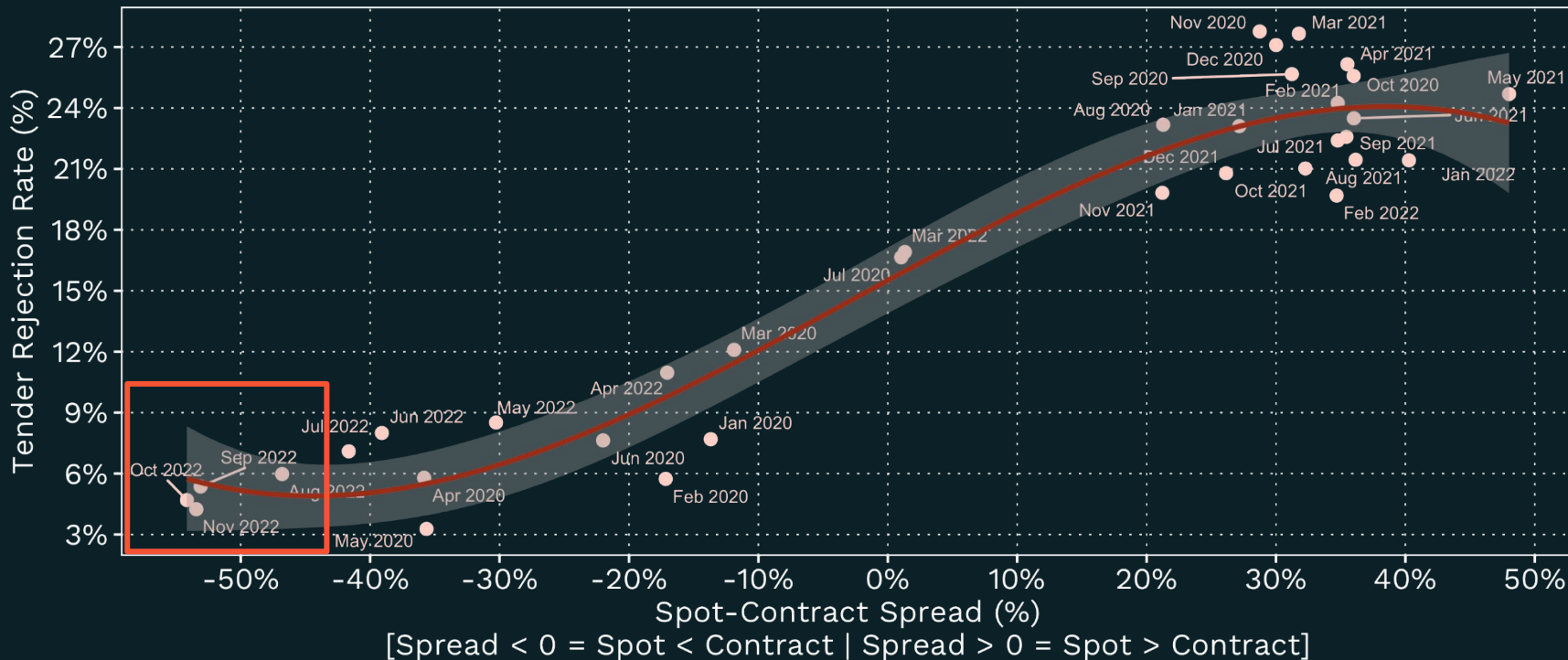
Retail | Food & Beverage | Industrials

Tender rejection rate stabilizing near 5%



Source: FreightWaves. (Updated November 29, 2022.)

Pricing spread and rejection rates near new lows

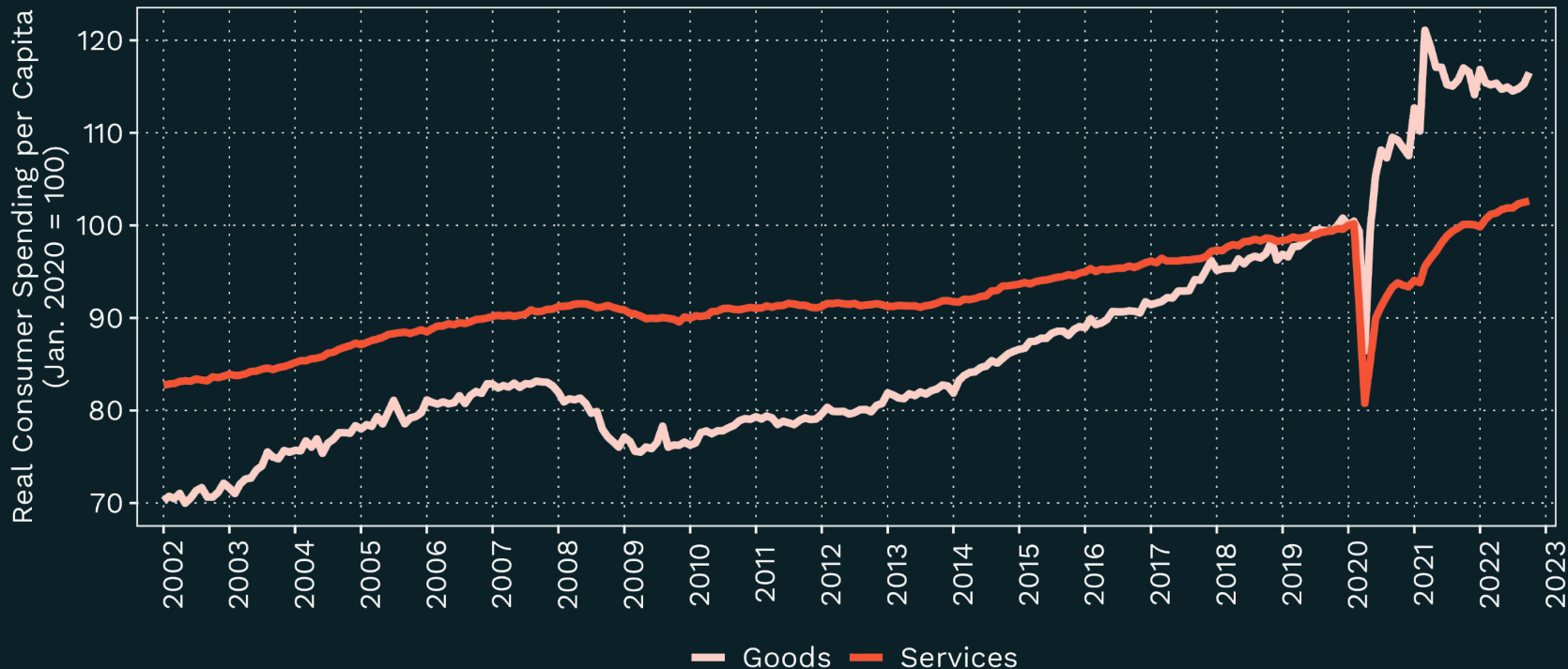


Notes: Pre-2020 data points not labeled.

Source: Convoy analysis of data from FTR, DAT and FreightWaves. (Updated November 30, 2022.)

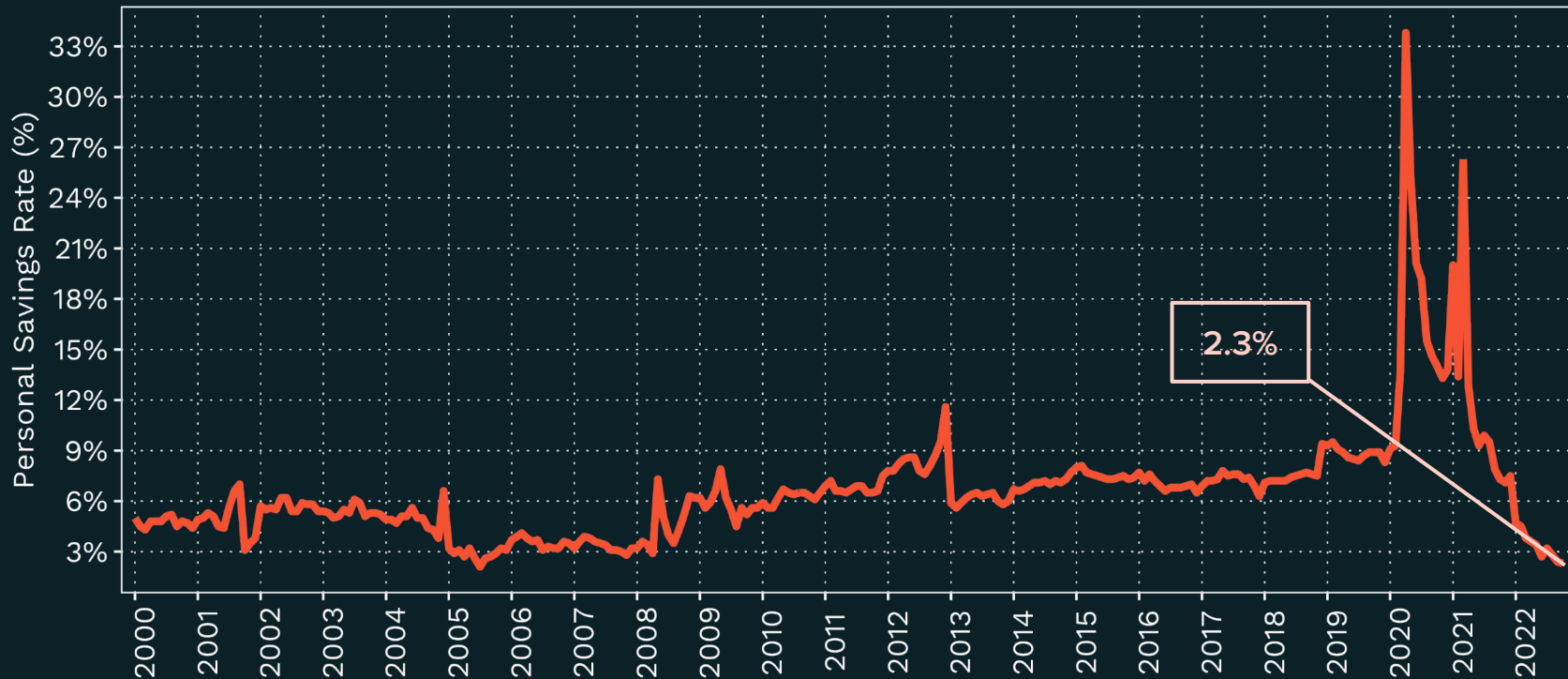
Consumer Retail

Goods and services spending uptick to new high



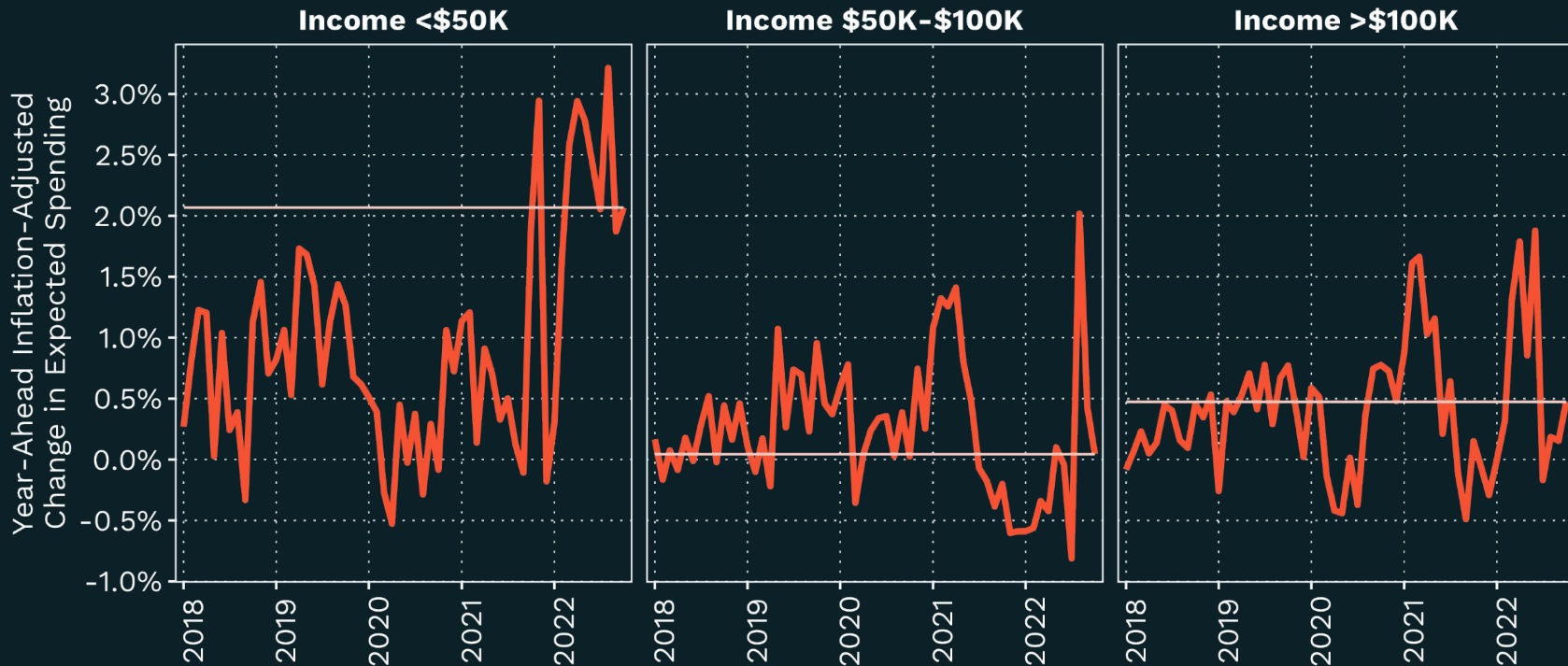
Source: Bureau of Economic Analysis, National Income and Product Accounts. (Updated December 1, 2022.)

Personal savings rate now down to 2.3%



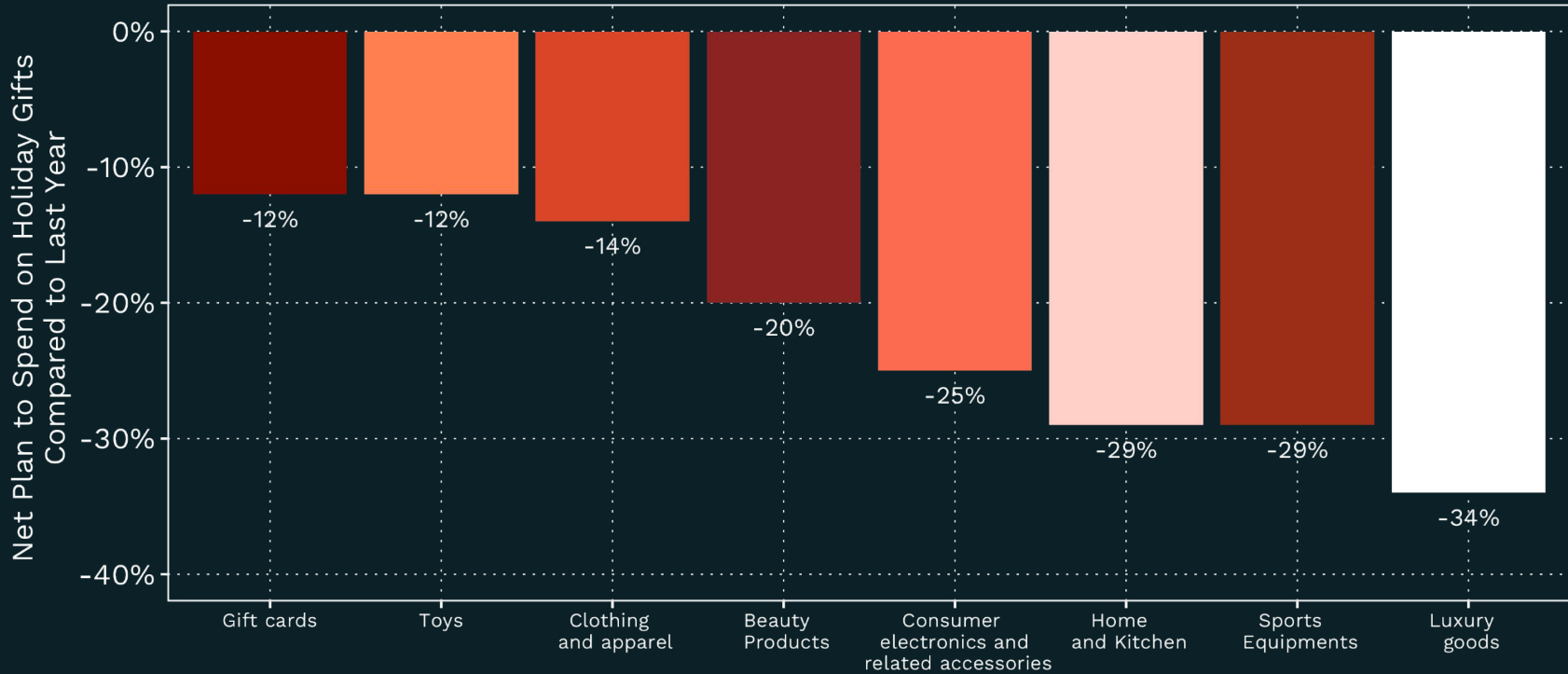
Source: Bureau of Economic Analysis, National Income and Product Accounts. (Updated December 2, 2022.)

Lower-income households expecting higher costs



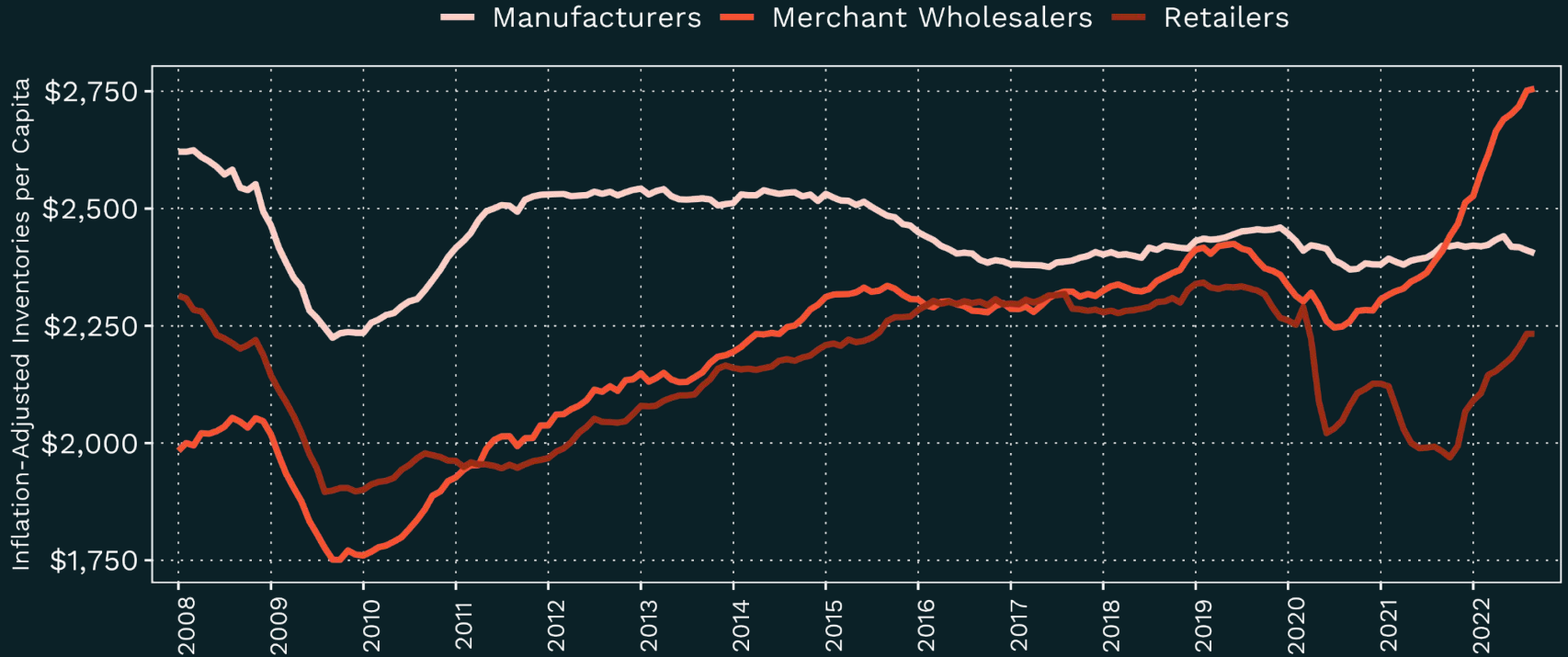
Source: Federal Reserve Bank of New York, Consumer Expectations Survey. (Updated November 30, 2022.)

Consumers less likely to spend on pandemic favorites



Source: Convoy analysis of Bloomberg and Morgan Stanley Research. (Updated December 2, 2022.)

Inventory levels ascend set to yet another record



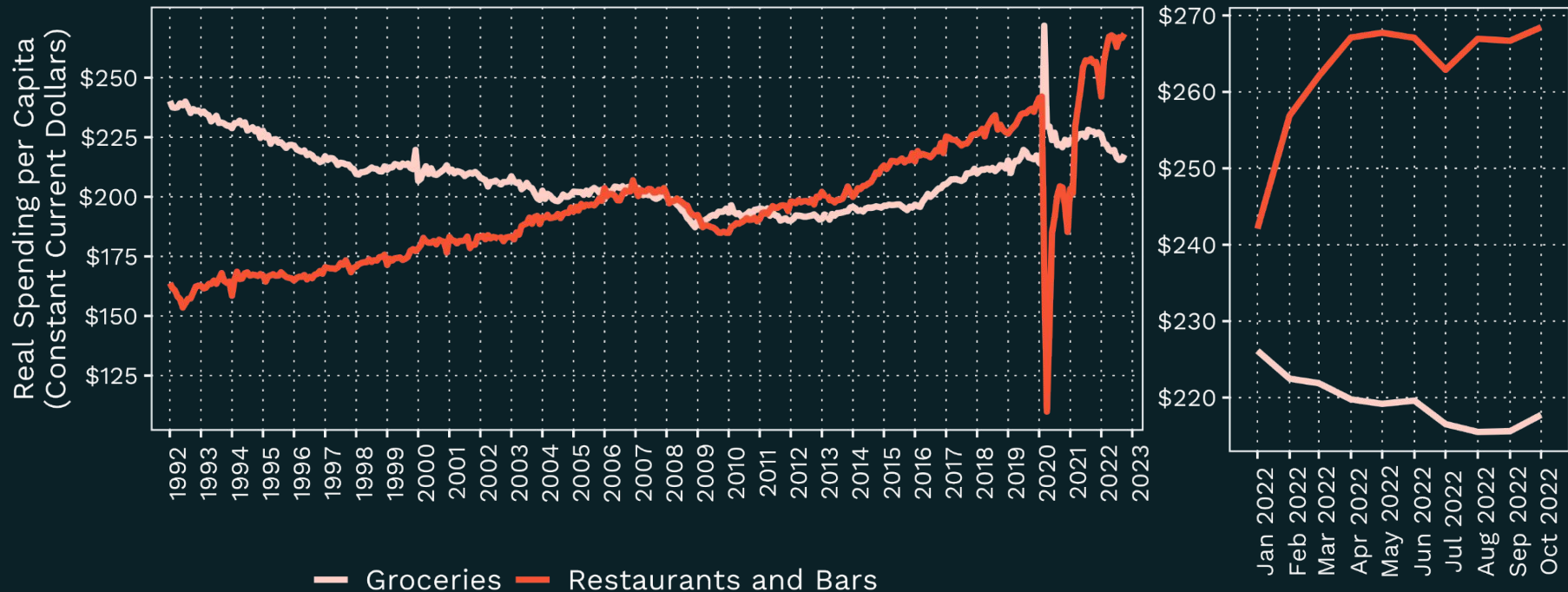
Source: U.S. Census Bureau, Manufacturing and Trade Inventories and Sales Report. (Updated December 6, 2022.)

Key points for the consumer retail outlook

- Record consumer spending persists, though now driven by an increasing amount of goods in addition to services.
- Holiday spending patterns seem to be shifting away from bigger ticket purchases bought during the past two years of the pandemic.
- Inventory backlog growth slowed, though retailers and merchant wholesalers still at combined record highs.

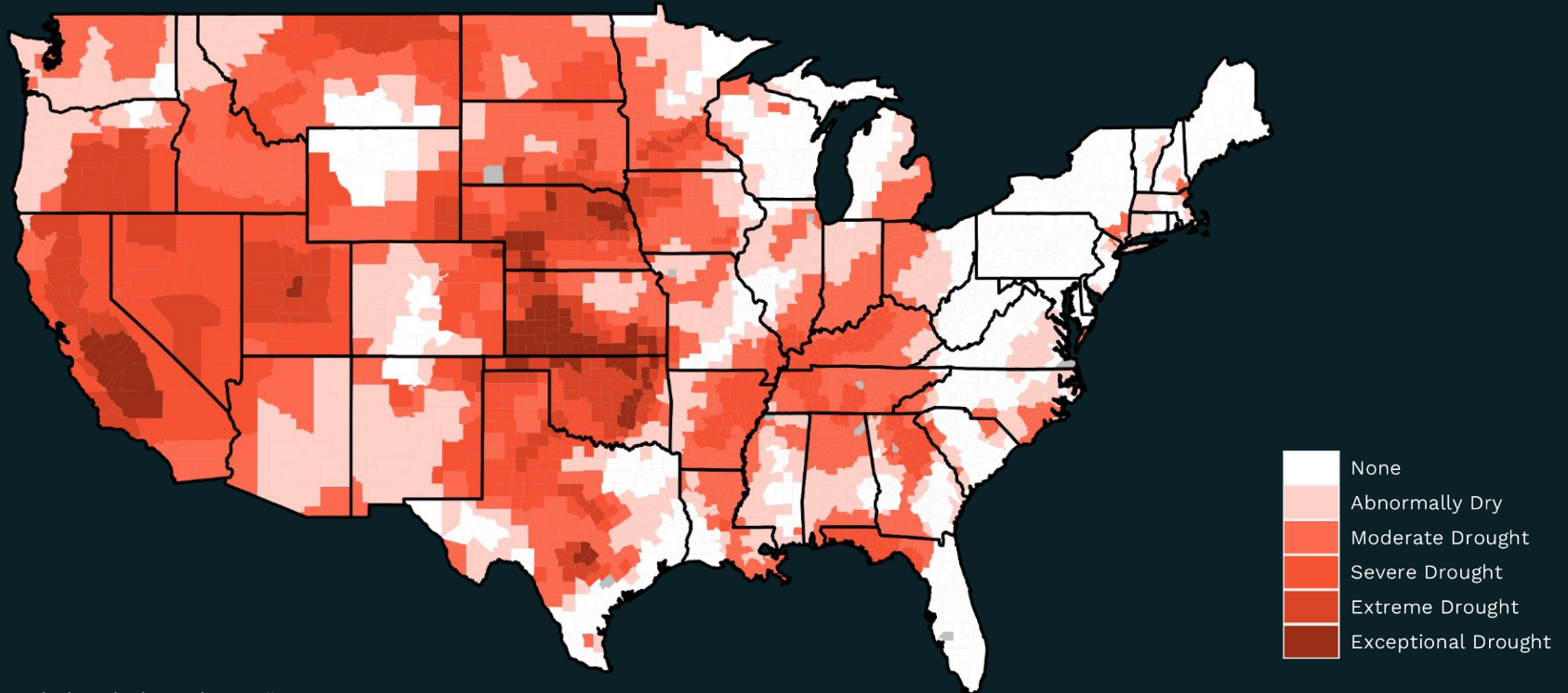
Food + Beverage

Overall food spending ticks back upwards



Source: Convoy analysis of U.S. Census Bureau data. (Updated December 9, 2022.)

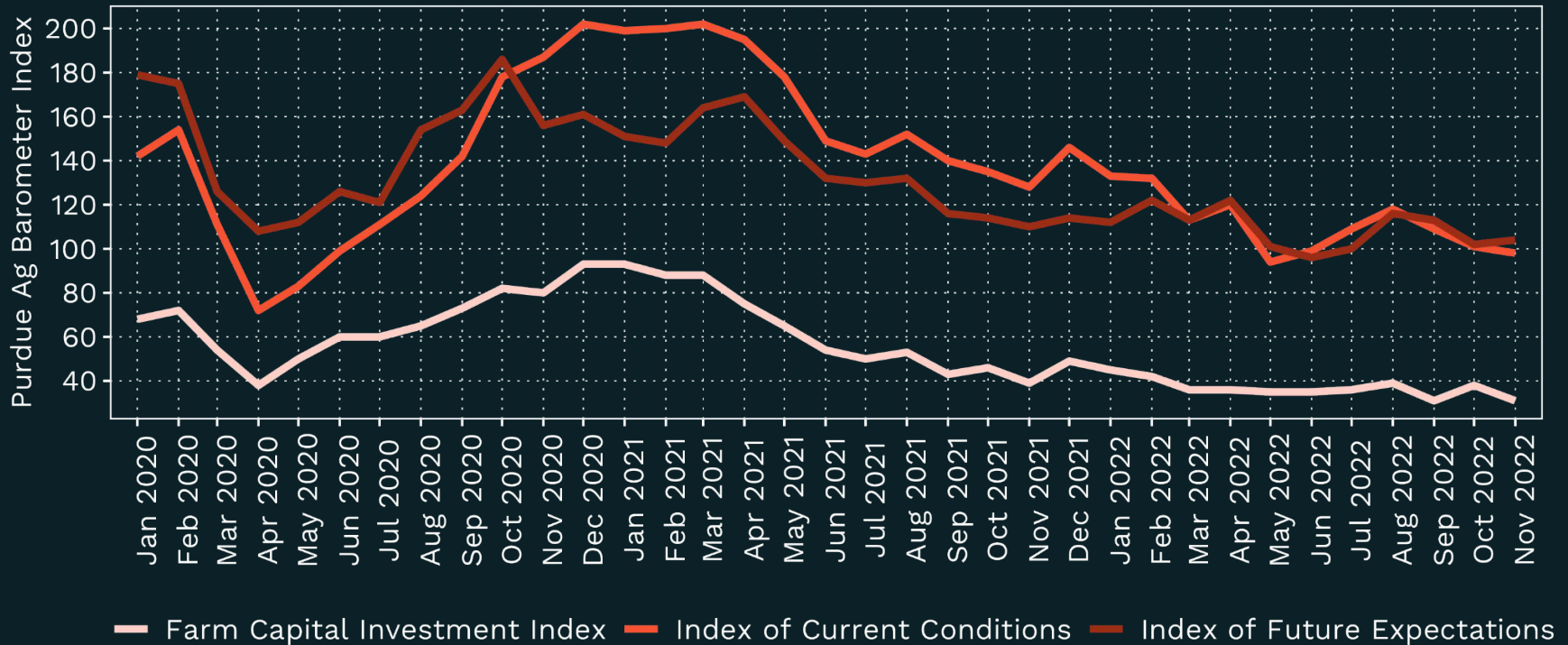
Winter storms alleviating some drought conditions



Notes: Excludes Alaska and Hawaii.

Source: University of Delaware, Drought Monitor. (Updated December 2, 2022.)

Current + future agricultural sentiment trends neutral



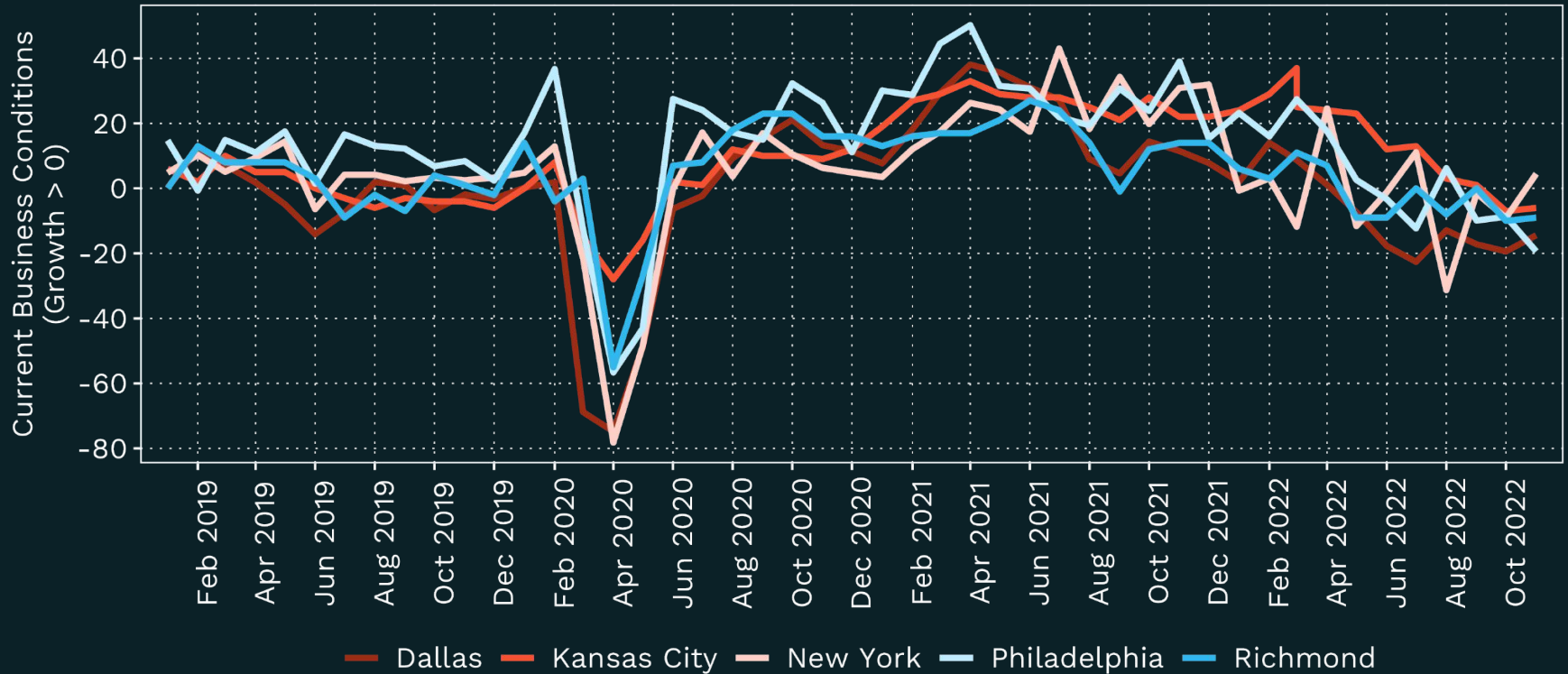
Source: Purdue University, Center for Commercial Agriculture. (Updated December 6, 2022.)

Key points for the food + bev outlook

- Food spending began trending higher as consumers continued dining out while also purchasing more from grocery stores.
- A suite of winter storms began alleviating the historic drought in parts of the Pacific Northwest and pockets of the South.
- Expectations on the agricultural business environment stabilized to neutral as the growing season ends and some of the drought conditions ease.

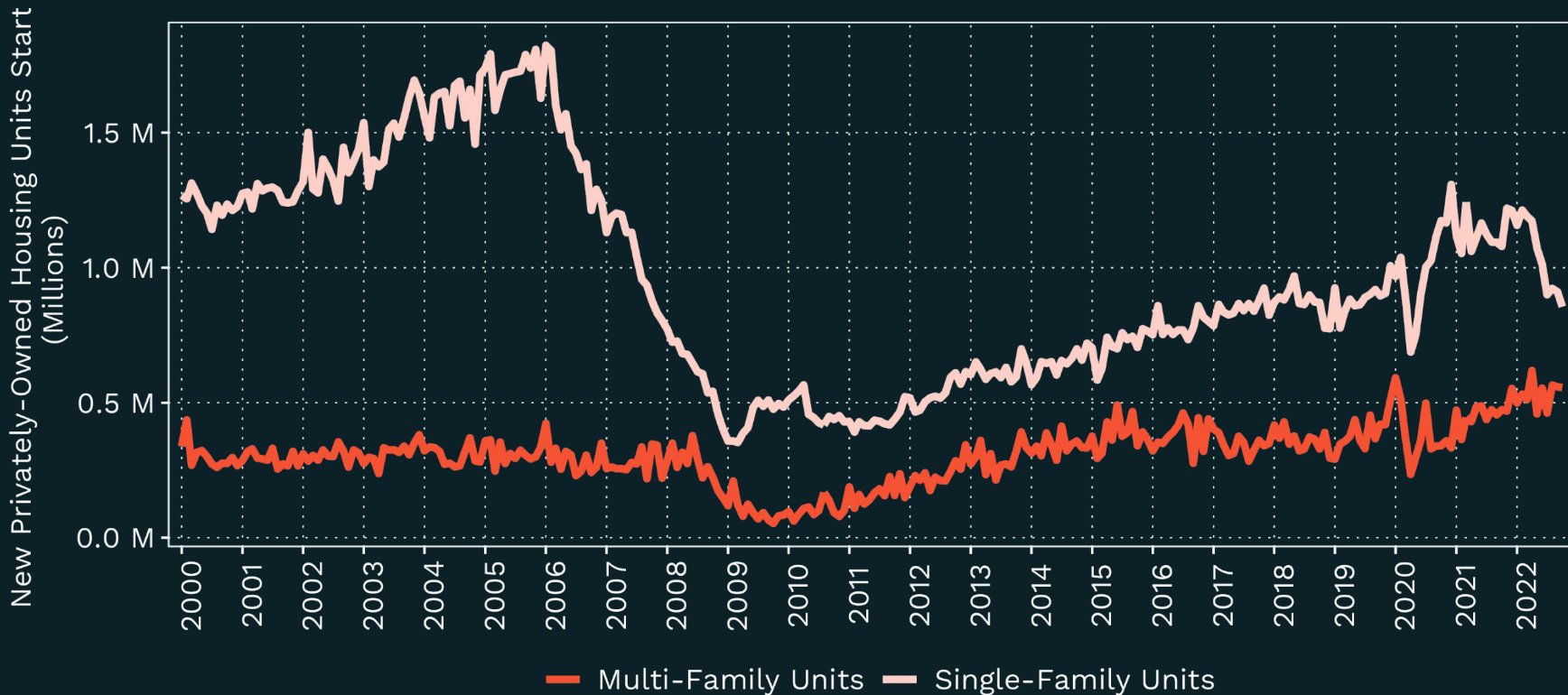
Industrials

Pessimism for growth appears to be moderating



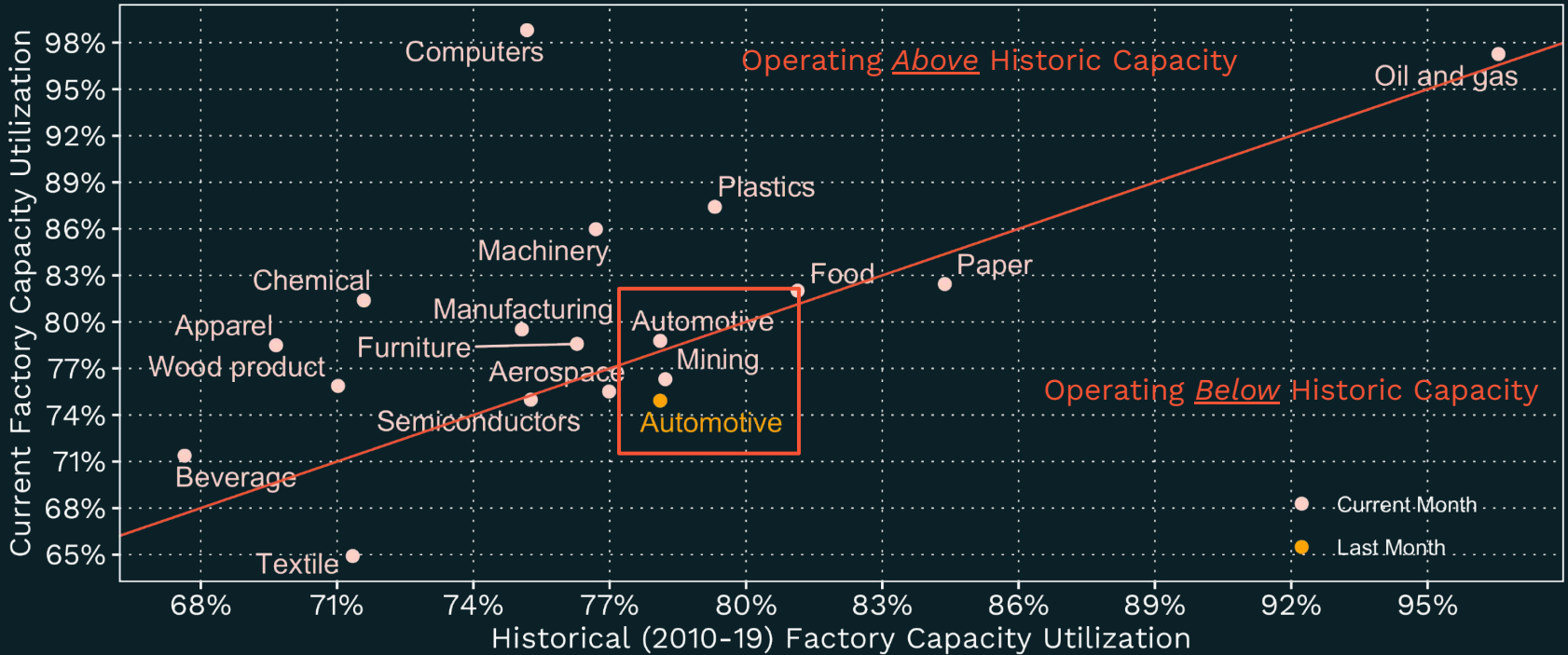
Source: Manufacturing Outlook Surveys, Federal Reserve Banks of Dallas, Kansas City, New York, Philadelphia and Richmond. (Updated December 2, 2022.)

Multifamily housing starts continue holding steady



Source: Federal Bank of St. Louis; Freddie Mac, 30-Year Fixed Mortgage Rate Average (Updated December 8, 2022.)

Automotive capacity rebounds to typical levels



Source: Convoy analysis of Federal Reserve Board, Industrial Production and Capacity Utilization. (Updated December 2, 2022.)

Key points for the industrials outlook

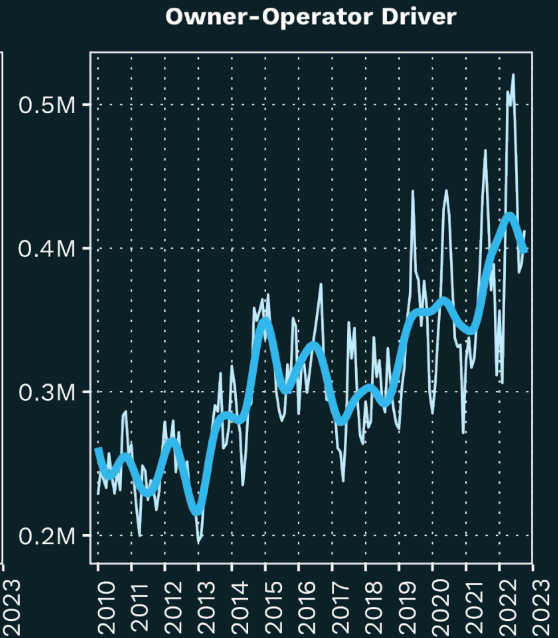
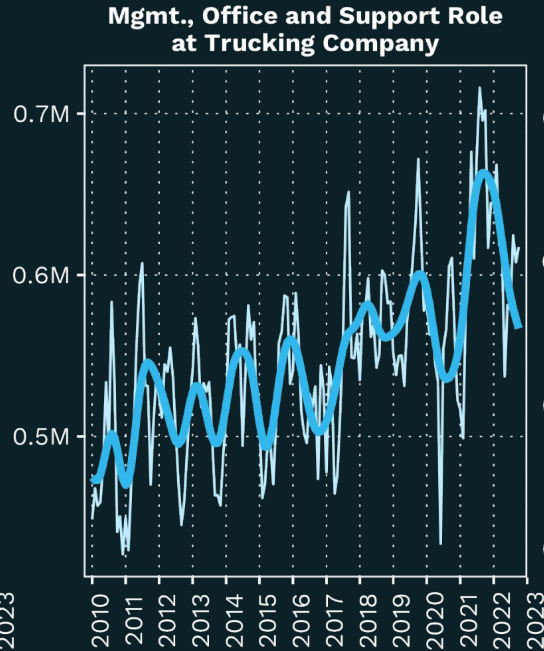
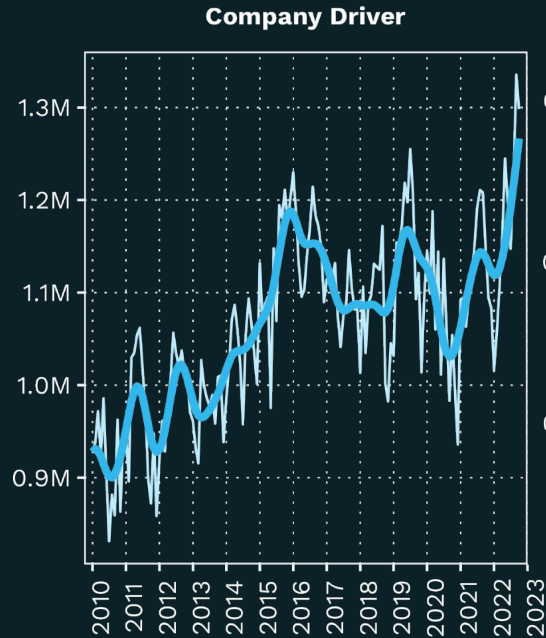
- Pessimism for growth persists, even as mixed economic signals show some signs for opportunism.
- Single-family housing starts plummeted as a result of the recent interest rate hikes, however multifamily starts appear more resilient as of now, pointing towards some continued demand.
- Automotive production rebounded to more typical levels as we approach year-end.

Freight Supply

Labor | Equipment | Fuel

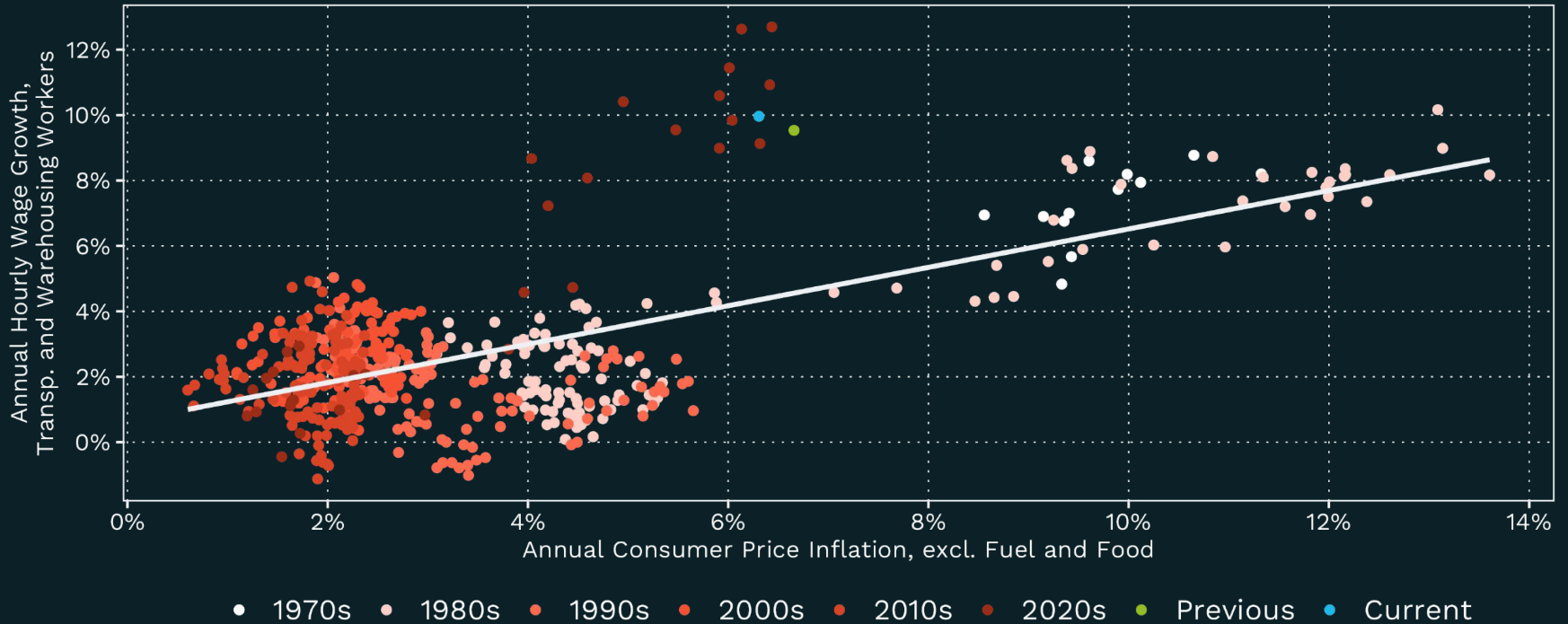
Labor

Overall number of drivers relatively unchanged



Source: Convoy analysis of U.S. Census Bureau, Current Population Survey, 2010-2021, made available by the University of Minnesota, IPUMS-CPS. (Updated December 2, 2022.)

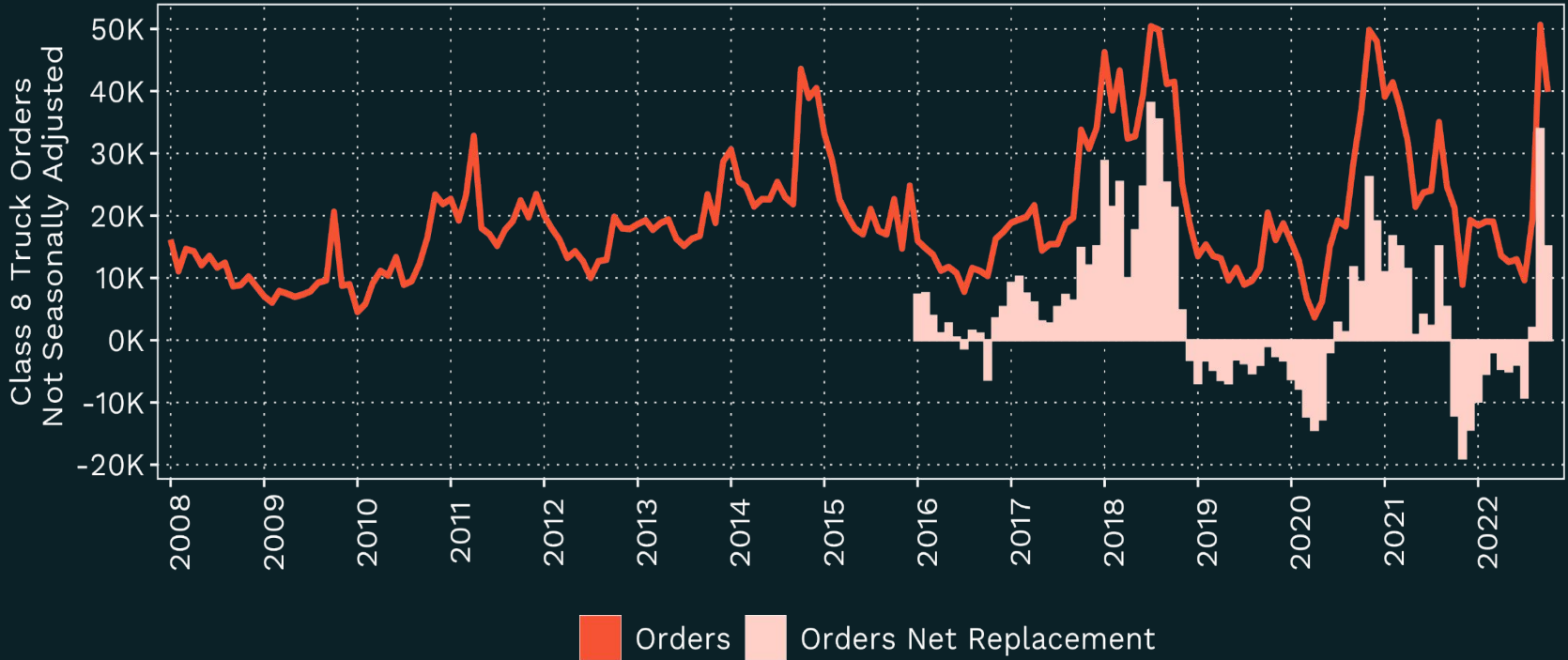
Elevated wage growth continues exceeding inflation



Source: Convoy analysis of Bureau of Labor Statistics, Current Employment Statistics, and Consumer Price Index, 1973-2021. (Updated December 2, 2022.)

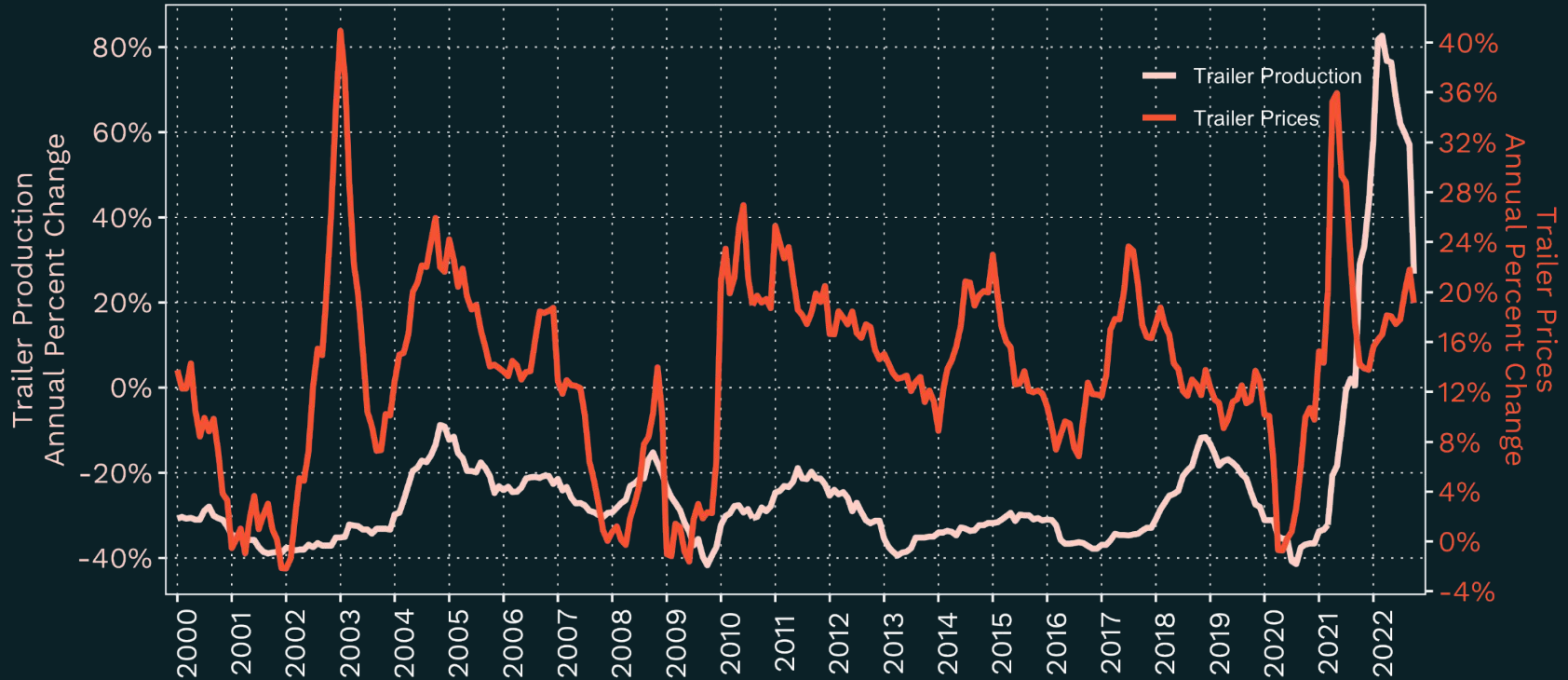
Equipment

Orders net replacement showing strong growth



Source: ACT Research, FTR. (Updated December 9, 2022.)

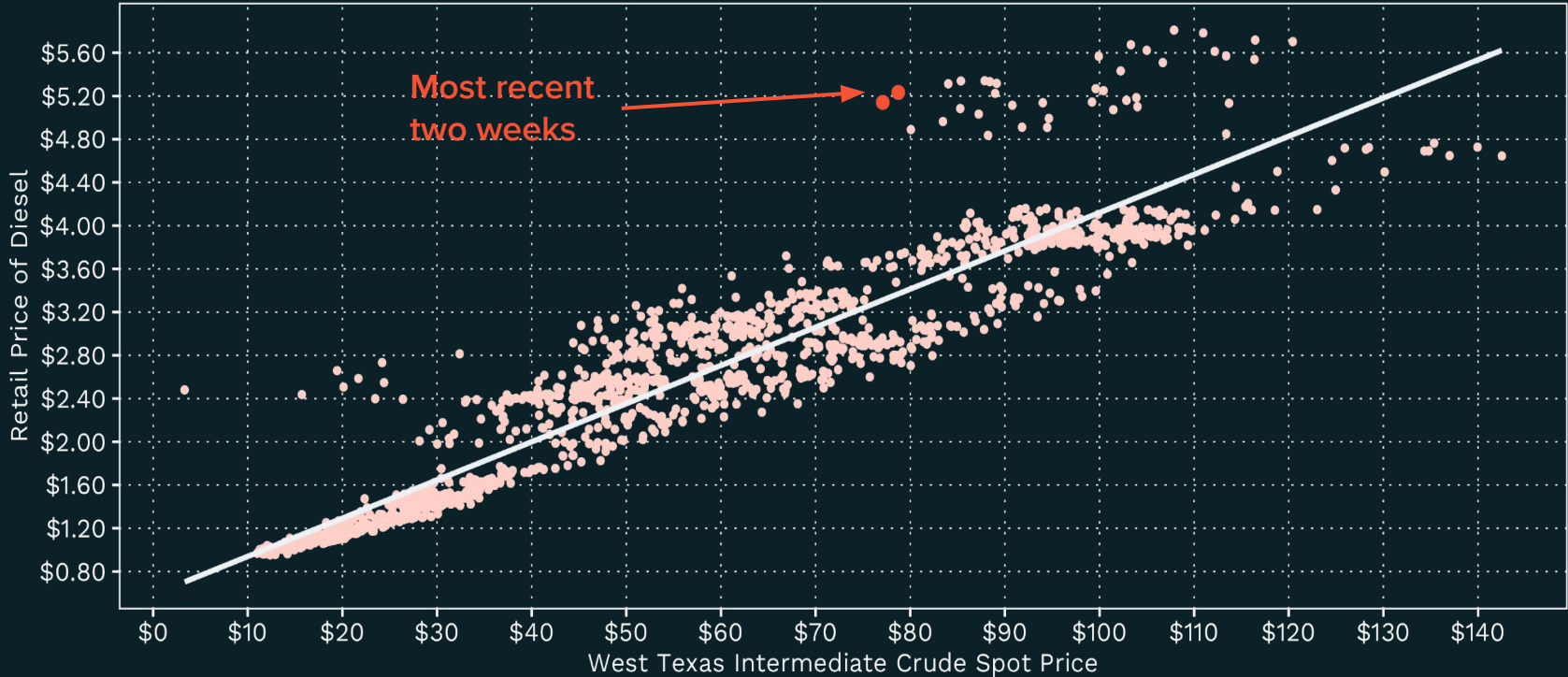
Trailer production and price spikes easing up



Source: Federal Reserve Board, Bureau of Labor Statistics. (Updated December 2, 2022.)

Fuel

Diesel prices remain high despite crude spot declines



Source: U.S. Energy Information Agency. (Updated December 2, 2022.)

Key points for the supply outlook

- Total company and owner-operator driver numbers nearly unchanged since previous month, indicating capacity is not quite leaving the market.
- Class 8 truck orders showed second successive month of strong growth as carriers make up for previous year shortages.
- Despite falling crude prices, diesel costs remain persistently high, creating ongoing stress for carrier profitability.



Chris Walker is a Director of Strategy at Convoy, the nation's most efficient digital freight network. He's previously worked as a consultant helping companies identify how emerging technologies, evolving business models and changing demographics are disrupting industries such as agriculture, supply chains and housing. He holds a Ph.D. and an MBA from the University of Washington.



Dorothy Mensah is a Data Scientist at Convoy. She received a Master's Degree in Applied Economics from Boston College.

Economic Commentary Disclaimer

The material and information ("Content") in these slides is provided for informational purposes only, is general in nature, and does not constitute advice of any kind. Convoy, Inc. does not warrant the accuracy or completeness of the Content. The views and opinions expressed herein are those of the author and do not necessarily reflect the official policy or position of Convoy, Inc. Reference to any third party (including external hyperlinks) does not constitute or imply the endorsement of said third party. Reproduction of the Content may be made only with the written permission from Convoy, Inc.