

OCTOBER FREIGHT MARKET UPDATE

November 2022



CONVOY

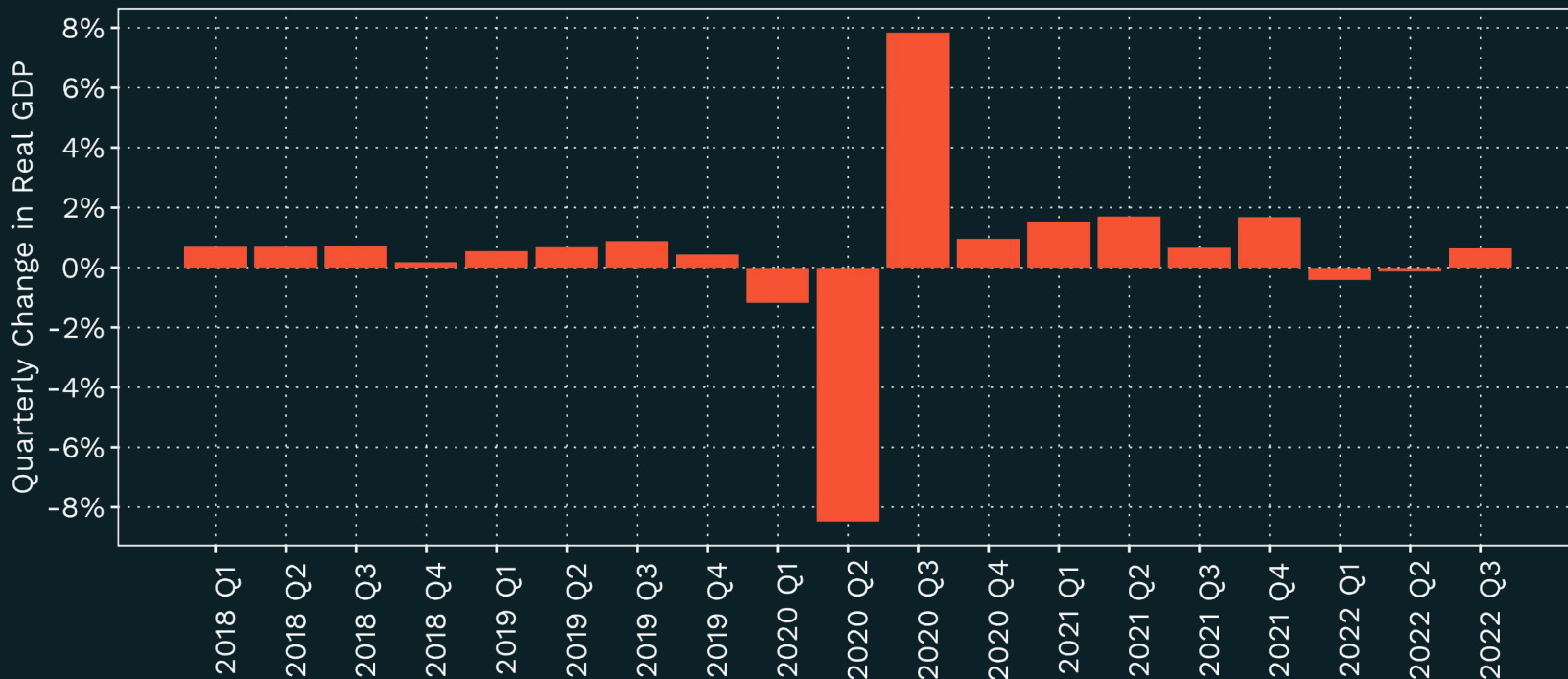
A holiday humbug begins taking shape early in Q4

- **On-going voracious consumer spending helped drive third quarter growth in GDP.** However, the mix shift in purchases towards services, combined with fluctuating consumer preferences for goods is resulting in record inventory backlogs for retailers and merchant wholesalers.
- Successive interest rate hikes rapidly depressed home buying and building. Simultaneously, slowing automotive manufacturing and plateauing of oil rig deployment is resulting in lower overall demand outside the retail sector.
- Market softening persists with the lowest observed tender rejection rates of this freight cycle alongside some of the largest spot-contract spread. **While some capacity is leaving the market, the early signs point towards lower holiday demand and a continued soft market into Q1.**

Freight Demand

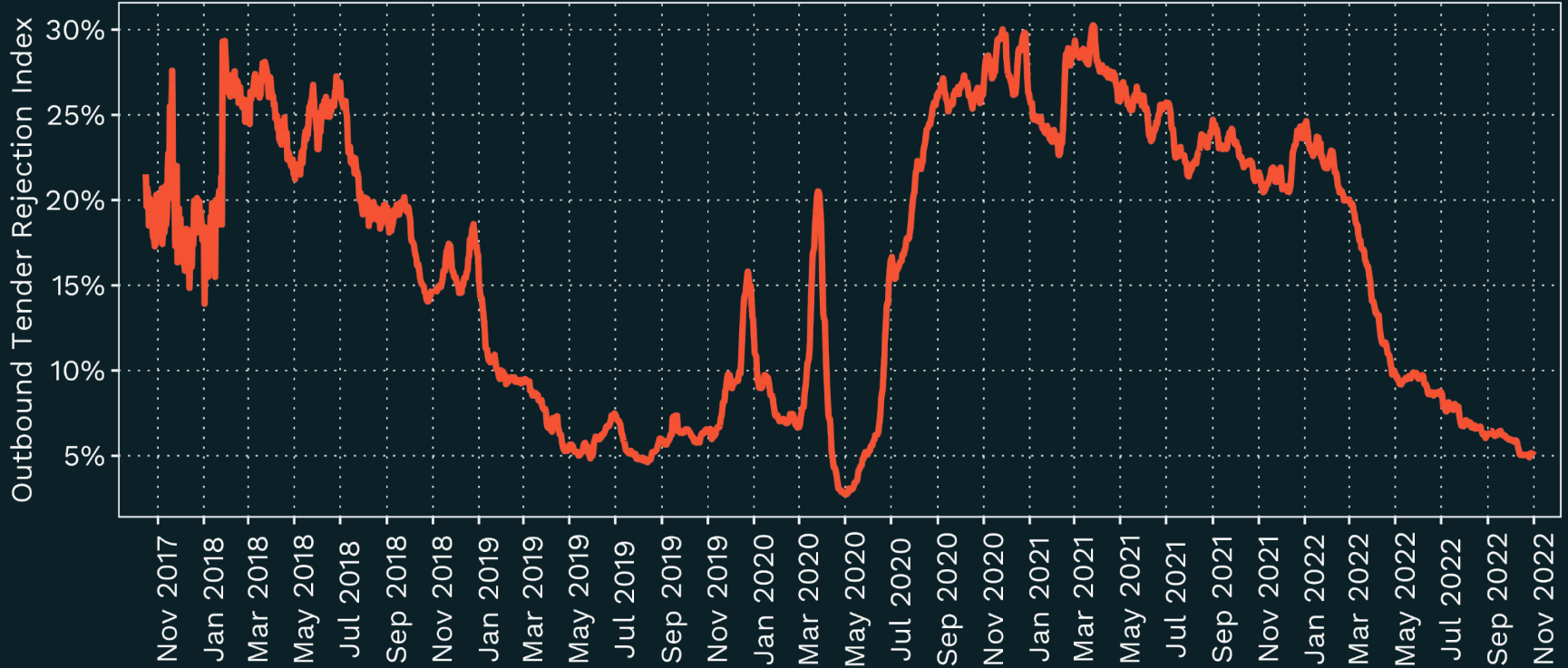
Retail | Food & Beverage | Industrials

Real GDP increased at an annual rate of 2.6% in Q3



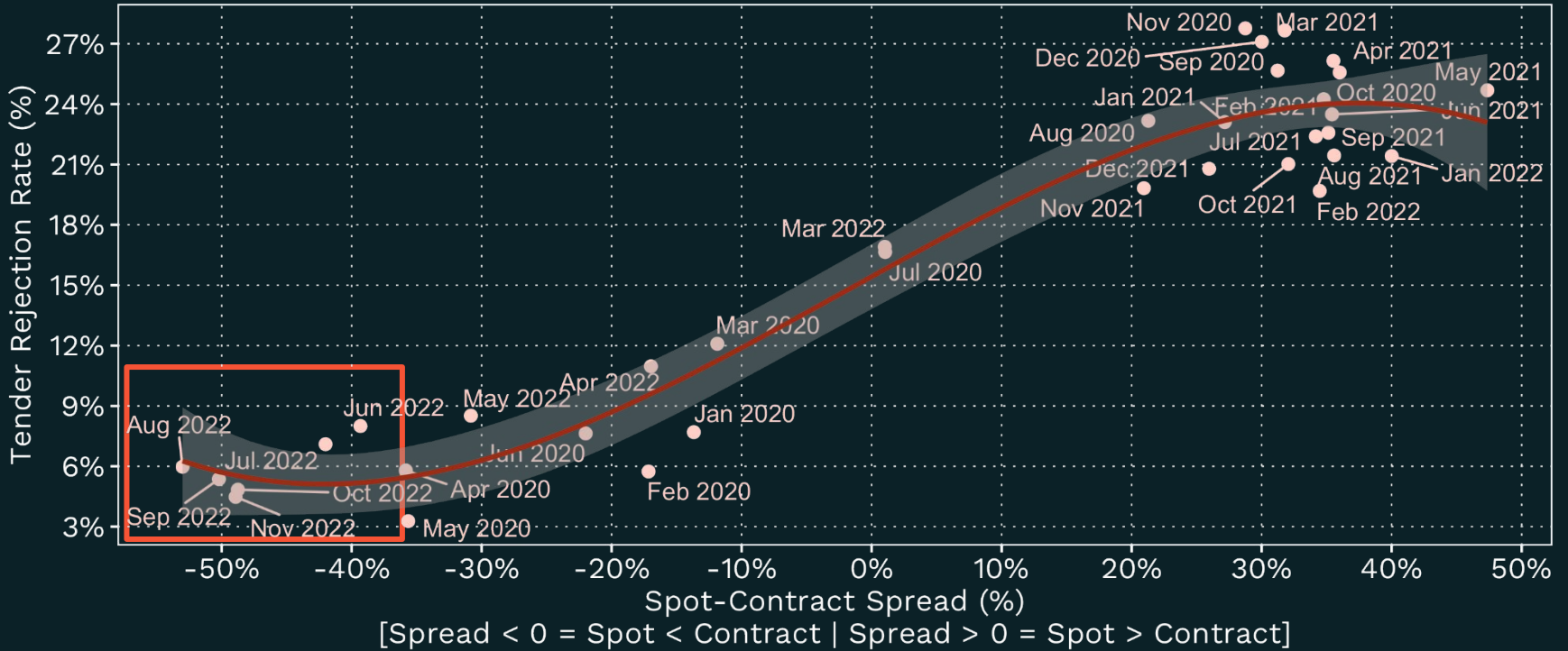
Source: U.S Bureau of Economic Analysis, Real Gross Domestic Product. (Updated October 28, 2022.)

Tender rejection rates slipped to 5% in October



Source: FreightWaves. (Updated November 4, 2022.)

Pricing spread and rejection bottomed out in Fall

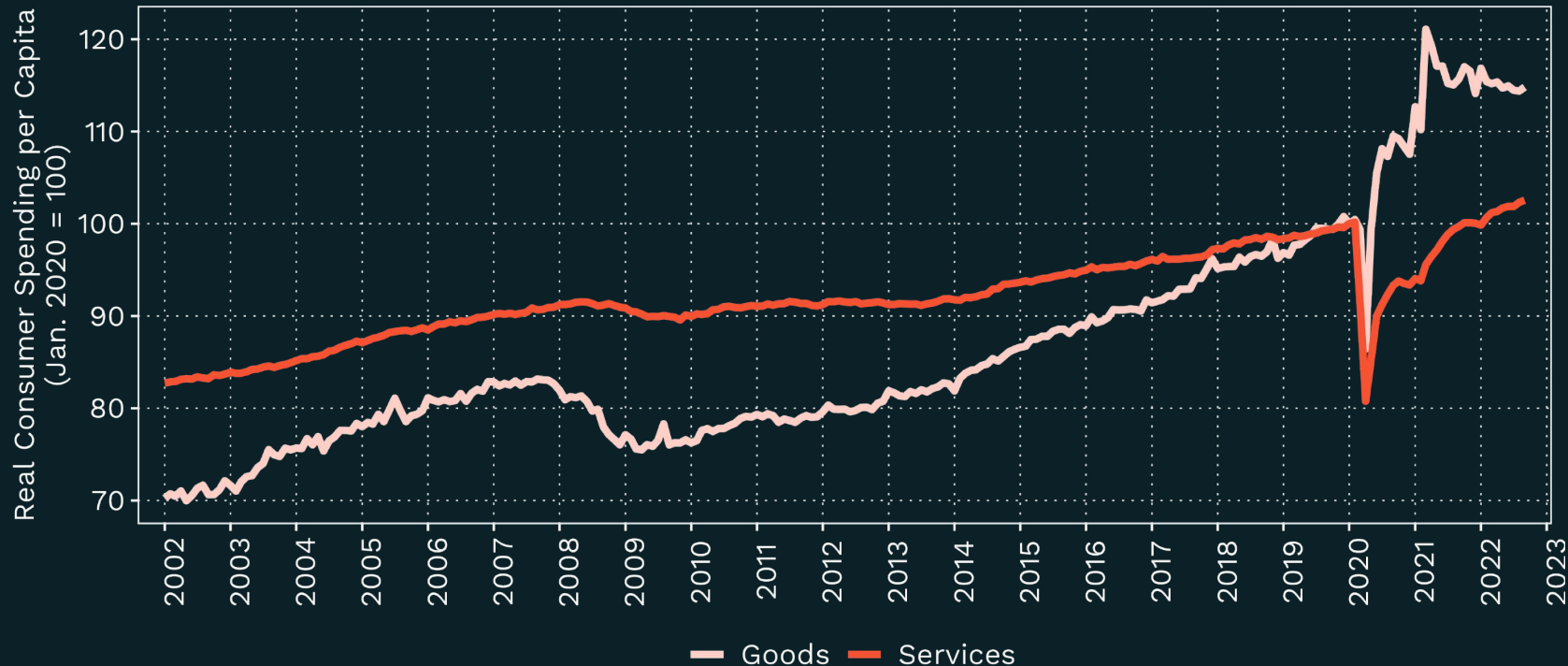


Notes: Pre-2020 data points not labeled.

Source: Convoy analysis of data from FTR, DAT and FreightWaves. (Updated November 4, 2022.)

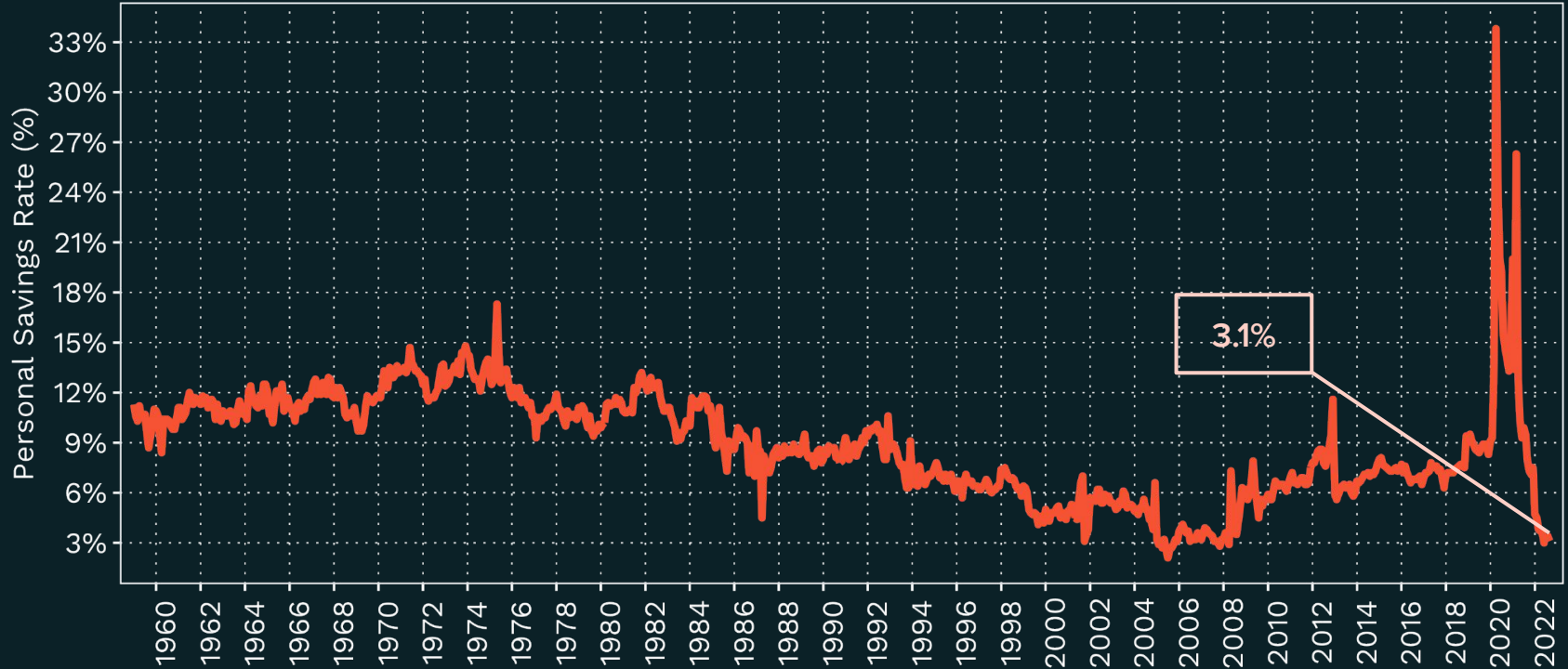
Consumer Retail

Real consumer spending remains elevated



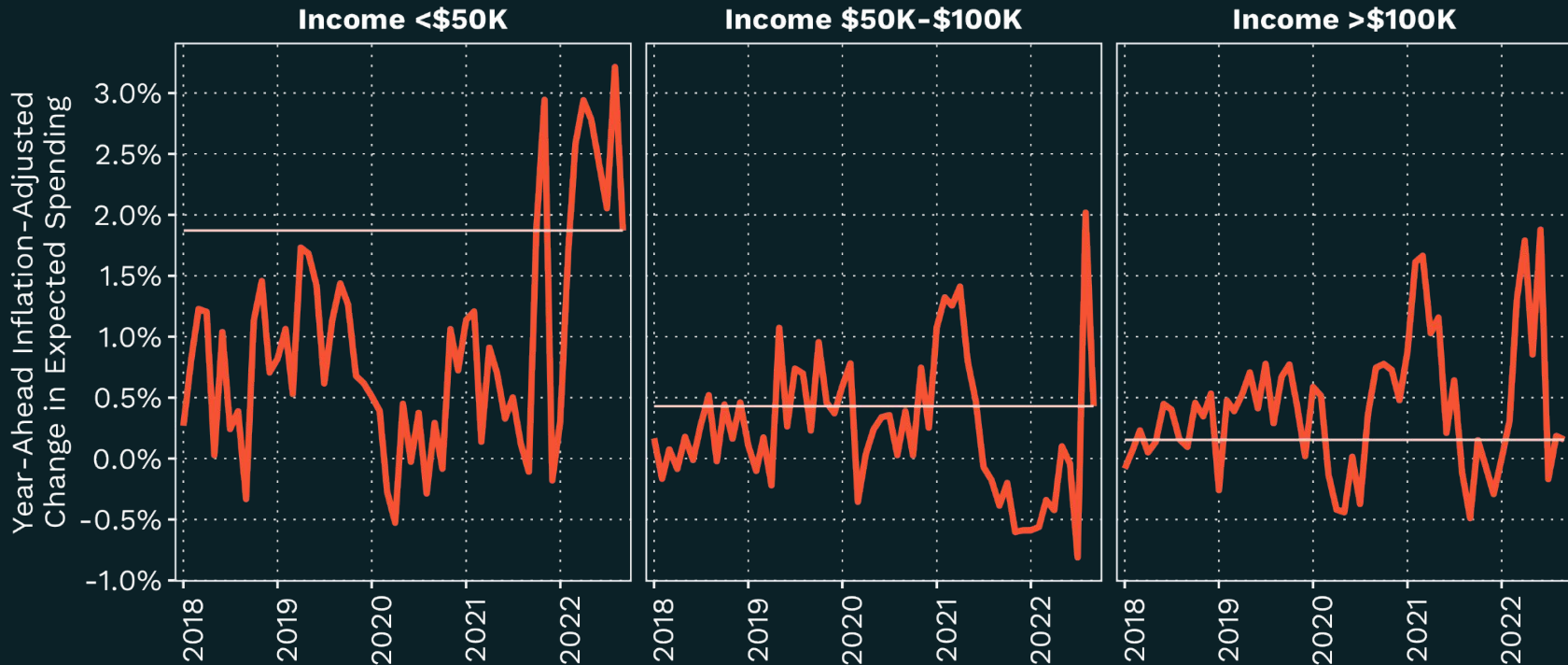
Source: Bureau of Economic Analysis, National Income and Product Accounts. (Updated November 2, 2022.)

Personal savings rate fell even further in October



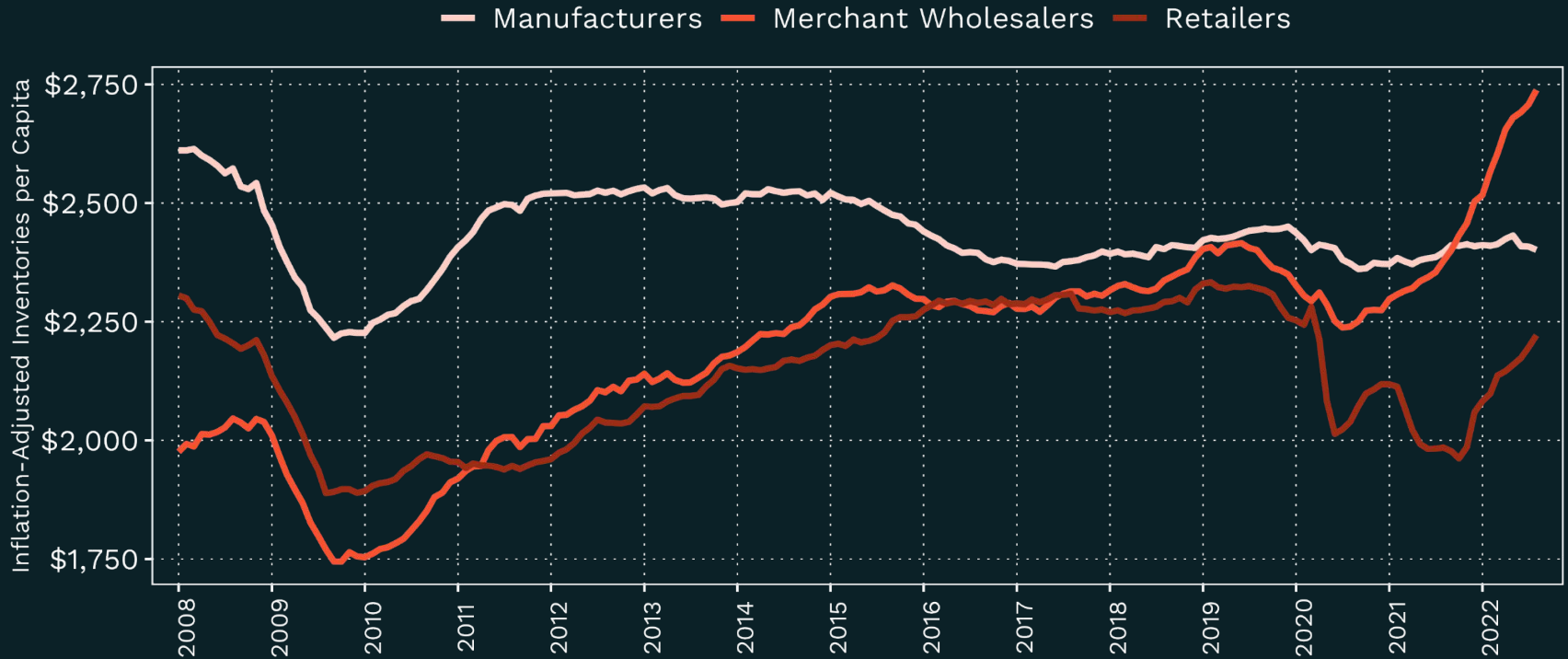
Source: Bureau of Economic Analysis, National Income and Product Accounts. (Updated November 2, 2022.)

Expected spending reduces for all income groups



Source: Federal Reserve Bank of New York, Consumer Expectations Survey. (Updated October 28, 2022.)

Inventories set yet another new record



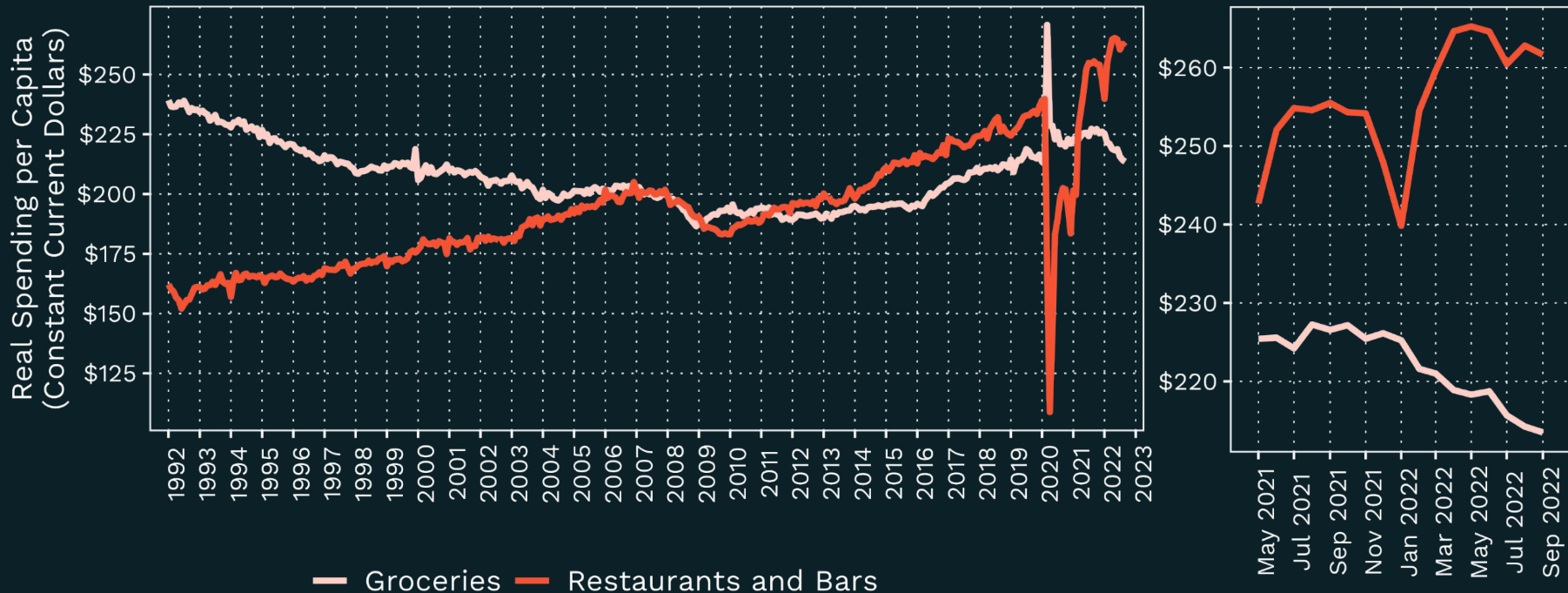
Source: U.S. Census Bureau, Manufacturing and Trade Inventories and Sales Report. (Updated October 28, 2022.)

Key points for the consumer retail outlook

- Consumers continue spending at record levels as service purchases reach another new high.
- Expectations on future spending decreased, in part due to (likely unsustainable) historically low savings rates.
- Despite elevated spending, inventory backlogs for retailers and merchant wholesalers set another record.

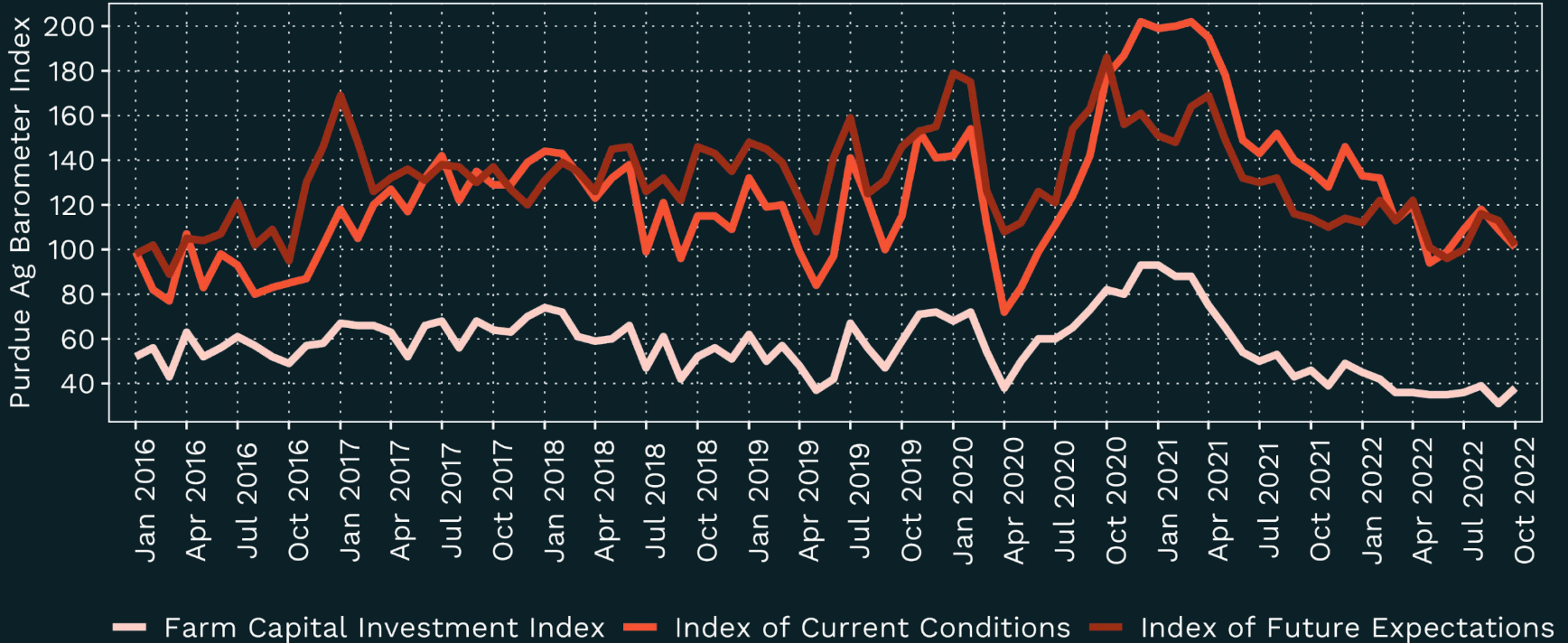
Food + Beverage

Consumers headed out at a slightly slower pace



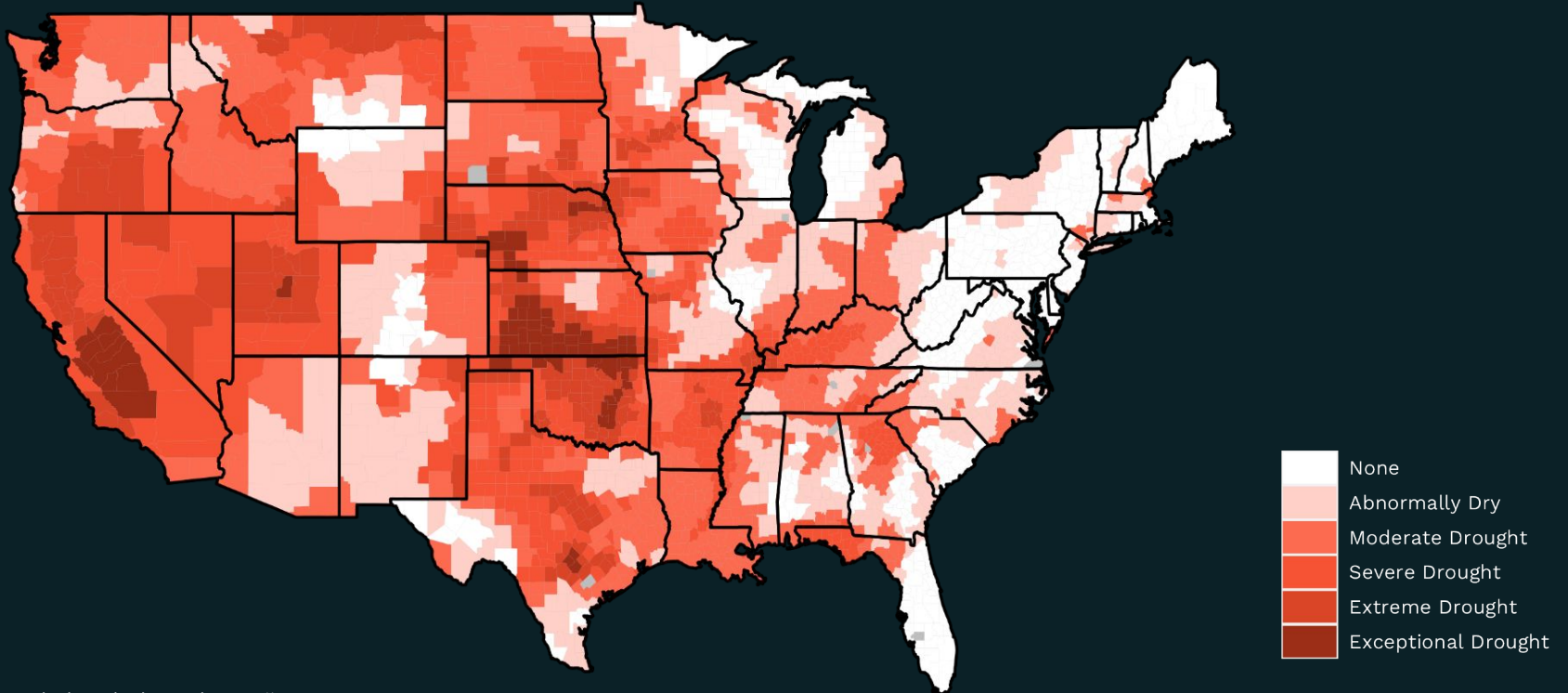
Source: Convoy analysis of U.S. Census Bureau data. (Updated November 9, 2022.)

Interest rate concerns dampen farmer sentiment



Source: Purdue University, Center for Commercial Agriculture. (Updated November 2, 2022.)

Moderate or greater drought covers 63% of country



Notes: Excludes Alaska and Hawaii.

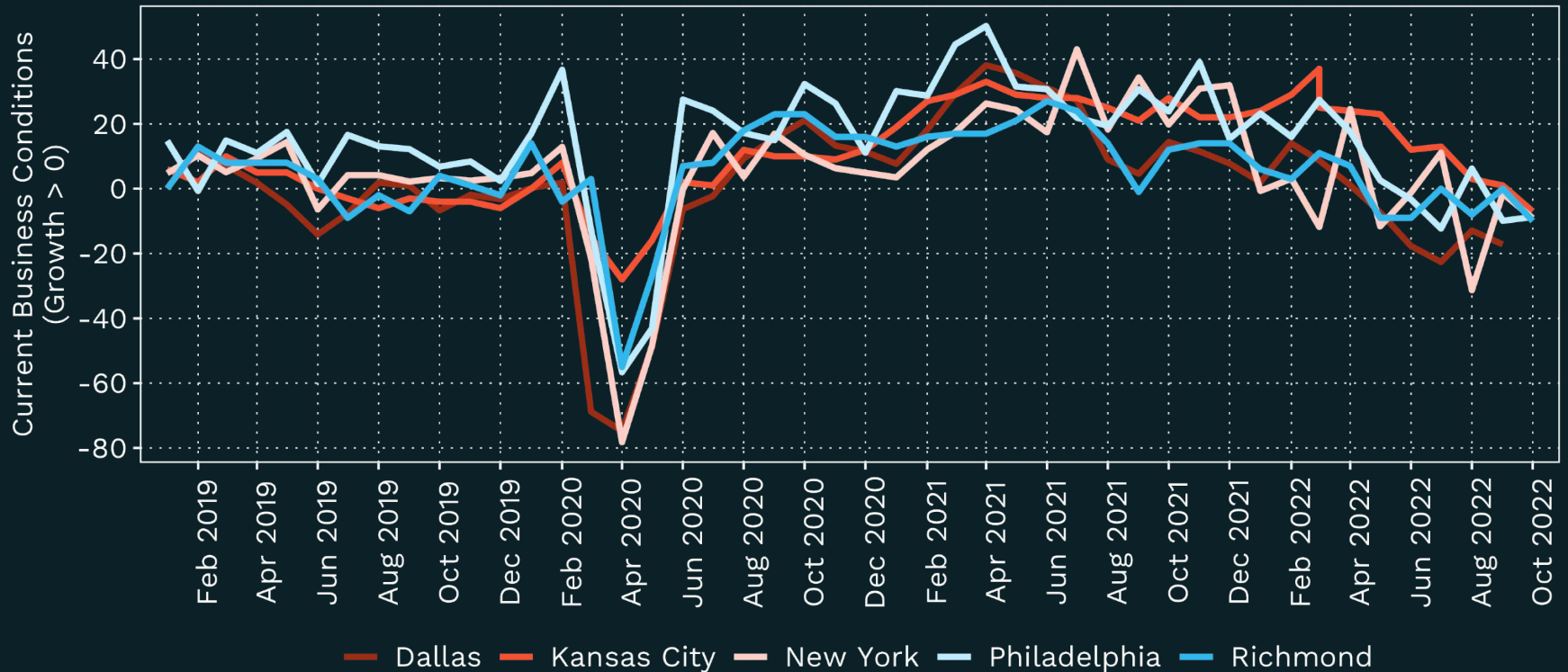
Source: University of Delaware, Drought Monitor. (Updated November 4, 2022.)

Key points for the food + bev outlook

- Restaurants and bar spending shows slight softening, although still near historic levels as consumers continue reducing grocery purchases.
- Interest rate increases lowering current and future expectations on agricultural business environment.
- The unusually dry Fall left two-thirds of the country in moderate or worse drought conditions, putting pressures on late season and winter crop production.

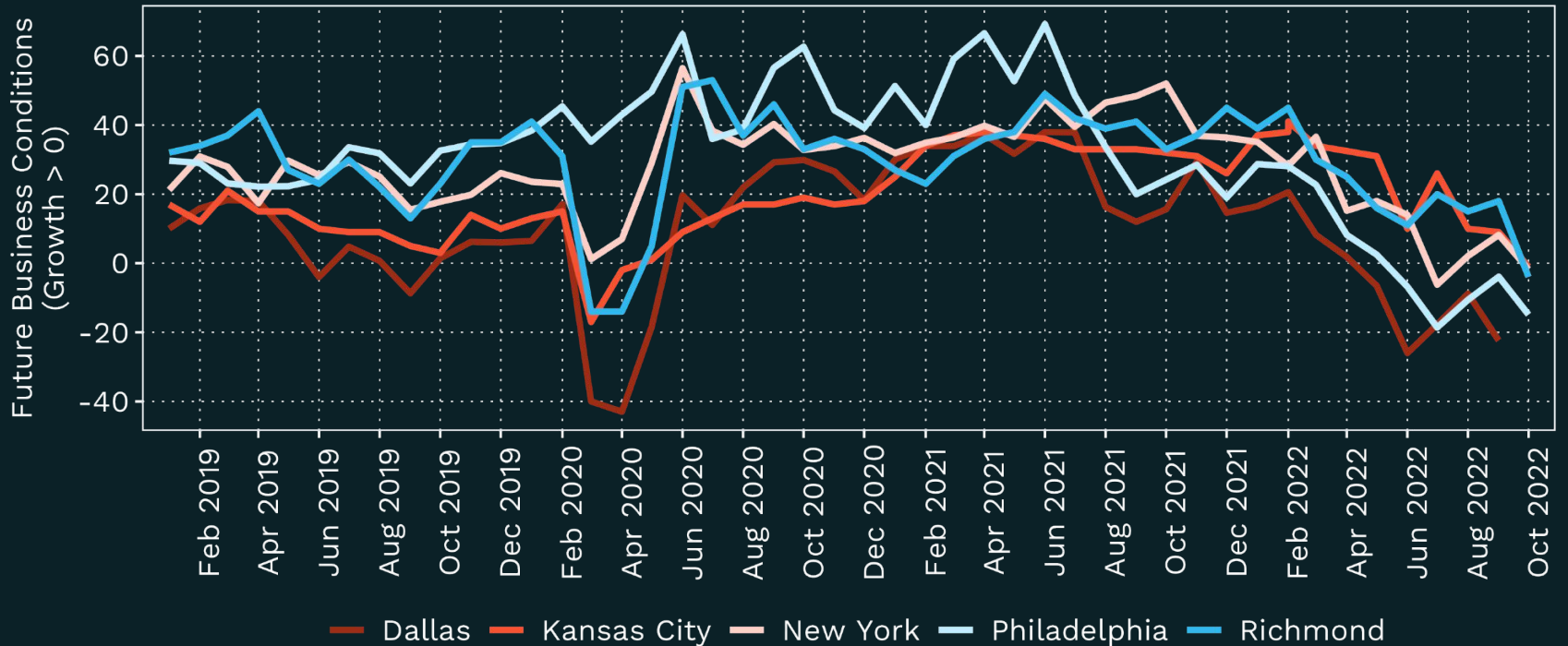
Industrials

Pessimism even more pervasive in business conditions



Source: Manufacturing Outlook Surveys, Federal Reserve Banks of Dallas, Kansas City, New York, Philadelphia and Richmond. (Updated October 28, 2022.)

Uniformly negative expectations on 6-12 month growth



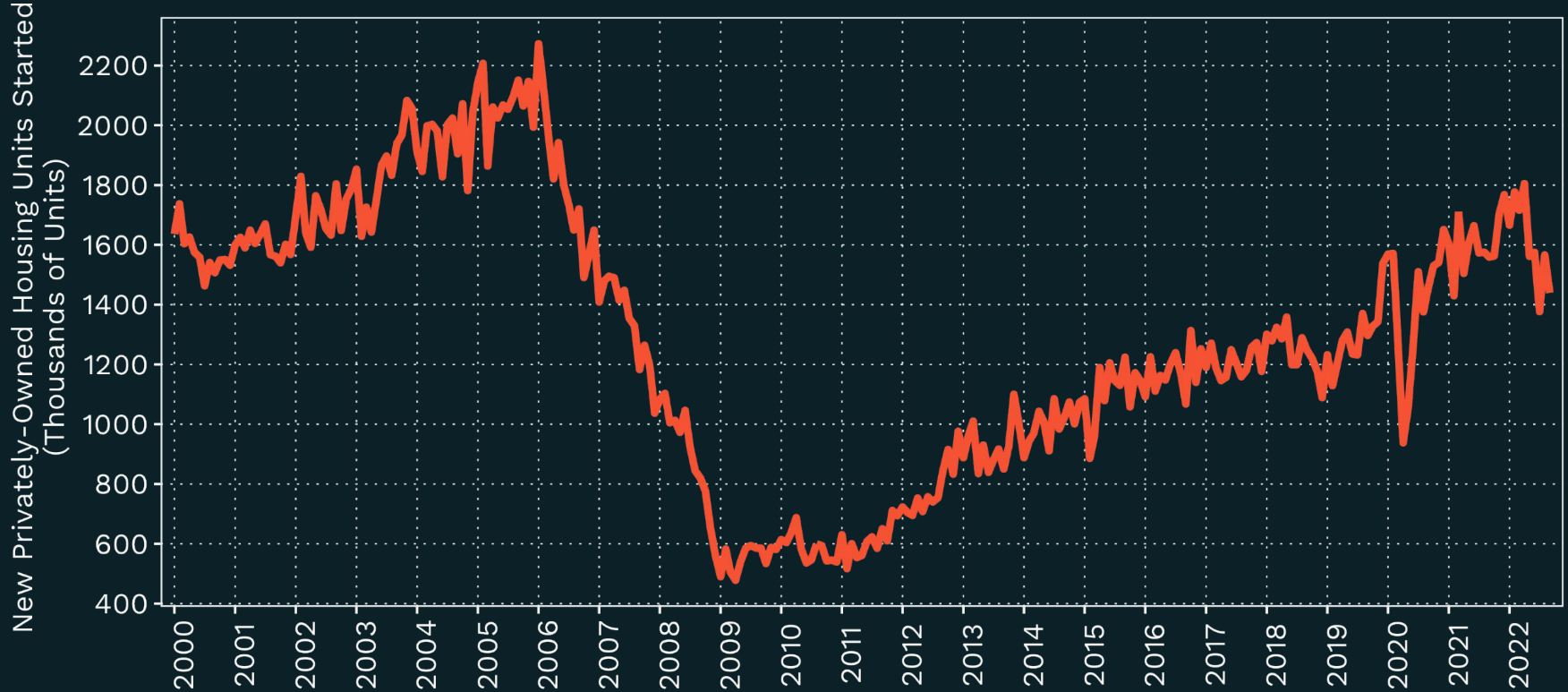
Source: Manufacturing Outlook Surveys, Federal Reserve Banks of Dallas, Kansas City, New York, Philadelphia and Richmond. (Updated October 28, 2022.)

Mortgage rates surpass 7% for the first time since '02



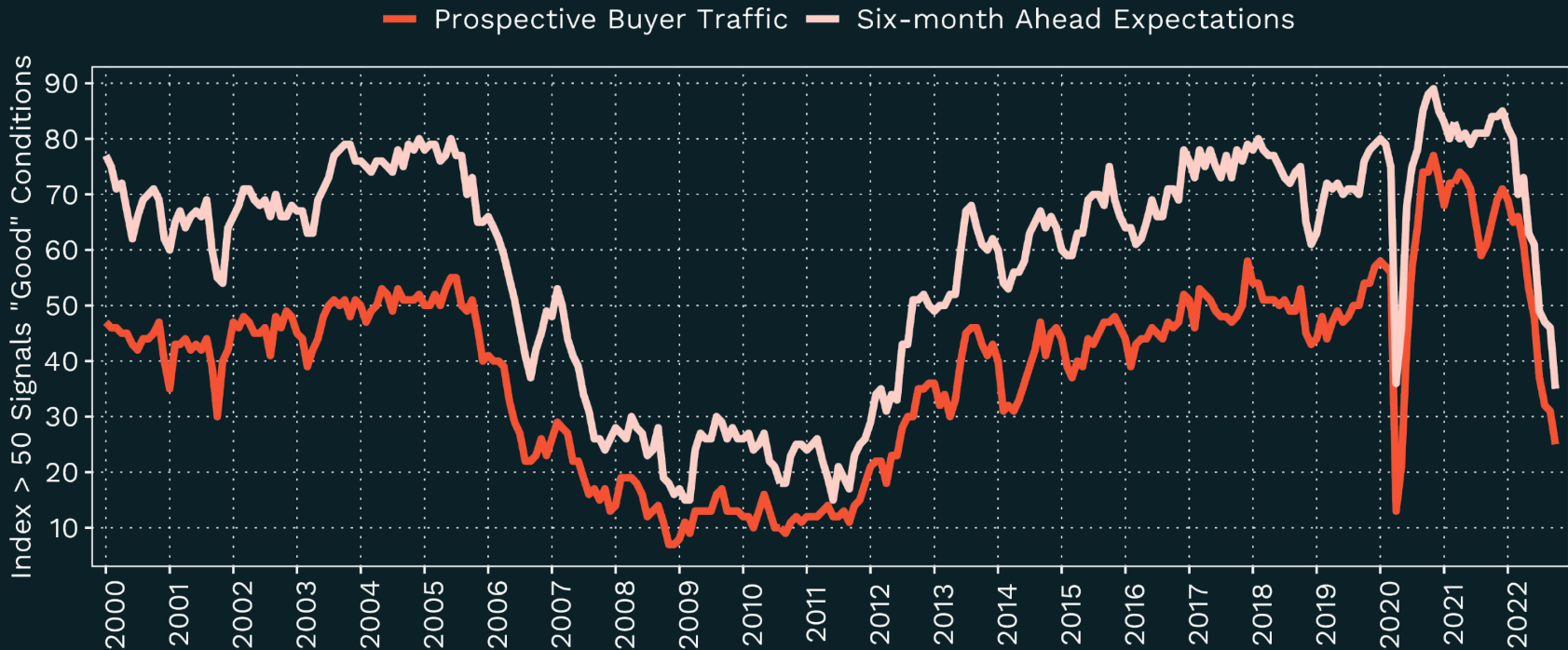
Source: Federal Bank of St. Louis; Freddie Mac, 30-Year Fixed Mortgage Rate Average (Updated October 28, 2022.)

Housing starts fell by 8.1% from previous month



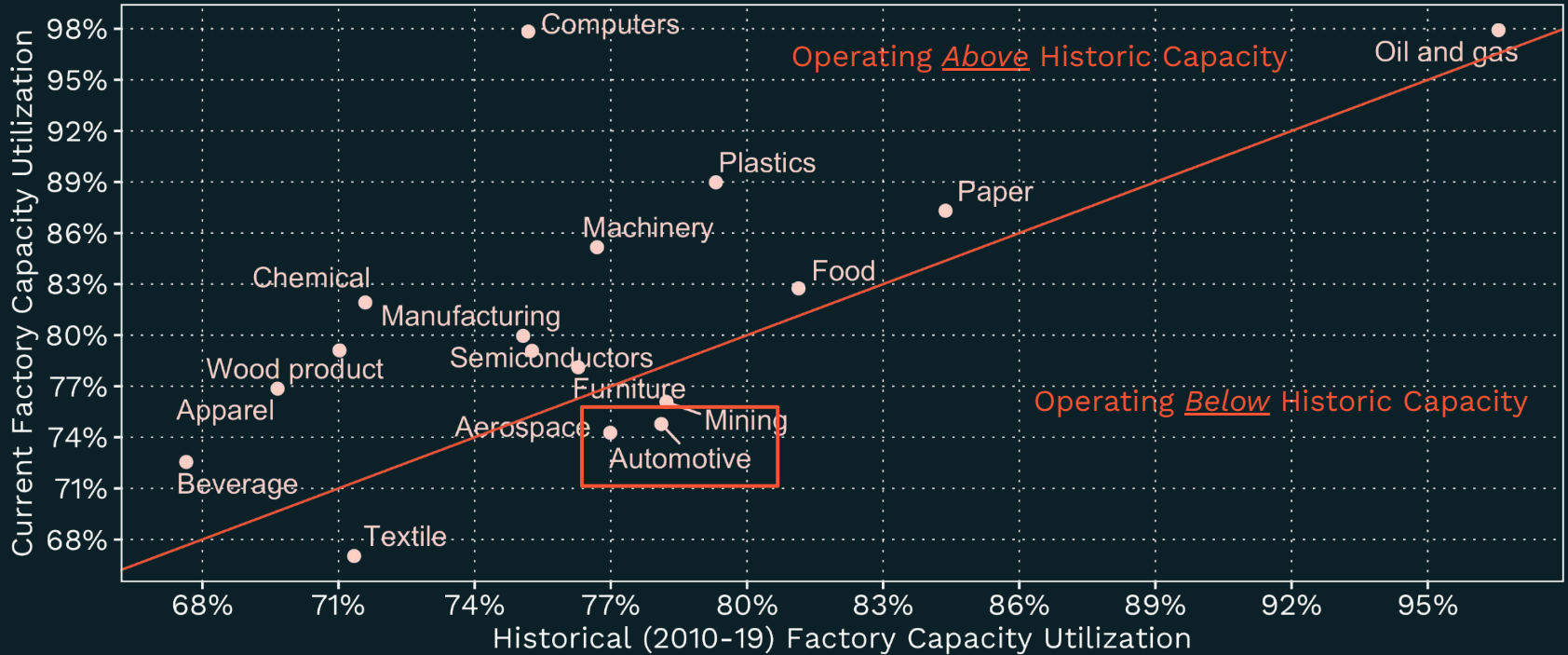
Source: U.S. Census Bureau, U.S. Department of Housing and Urban Development (Updated November 4, 2022.)

Rate hikes further reduce prospective buyer traffic



Source: National Association of Home Builders/Wells Fargo Home Builder Index. (Updated November 4, 2022.)

Automotive capacity stalled below historic levels



Source: Convoy analysis of Federal Reserve Board, Industrial Production and Capacity Utilization. (Updated October 28, 2022.)

Active oil rig plateauing despite elevated demand



Source: Baker-Hughes. (Updated November 8, 2022.)

Key points for the industrials outlook

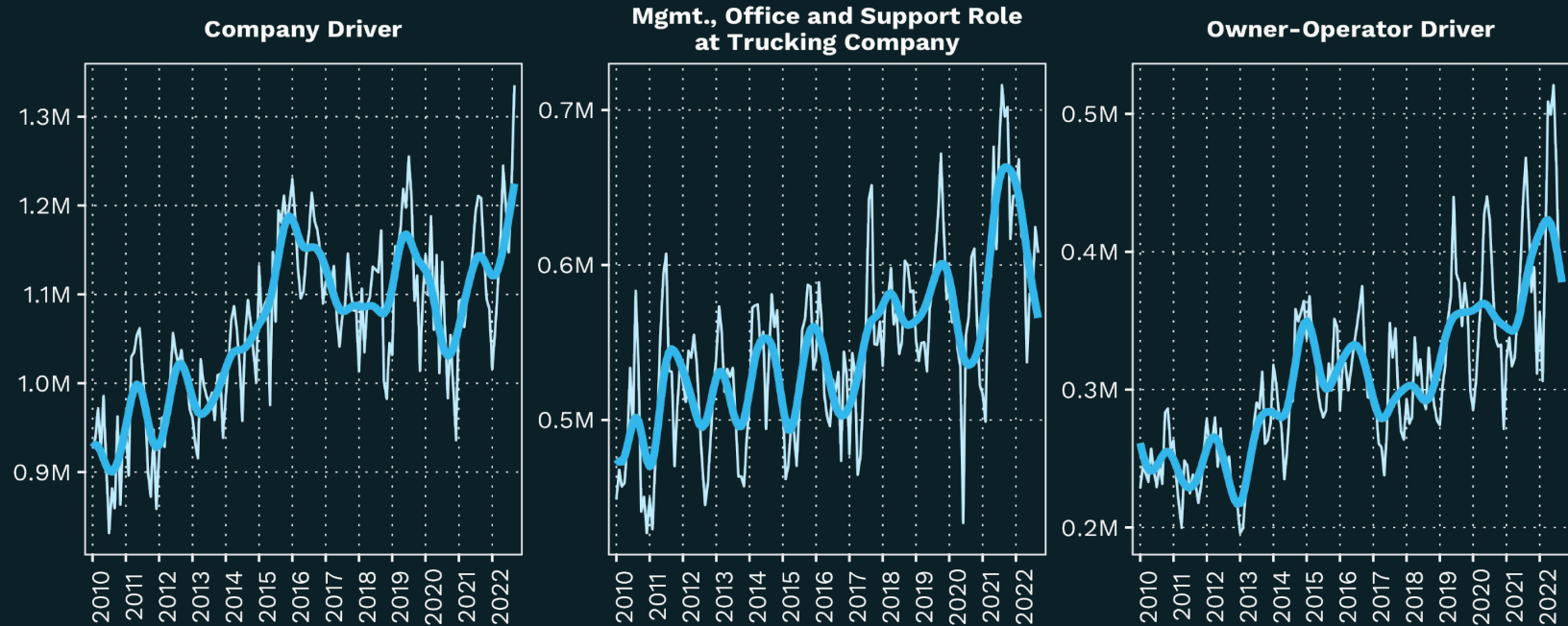
- Current and future business perceptions are predominantly negative and generally continuing a downward trend.
- Two decade high mortgage rates depressing interest in housing and rapidly slowing new construction.
- Lagging automotive manufacturing compared with historic levels and slowing deployment of new active rigs for oil production suggest limited demand through end-of-year.

Freight Supply

Labor | Equipment | Fuel

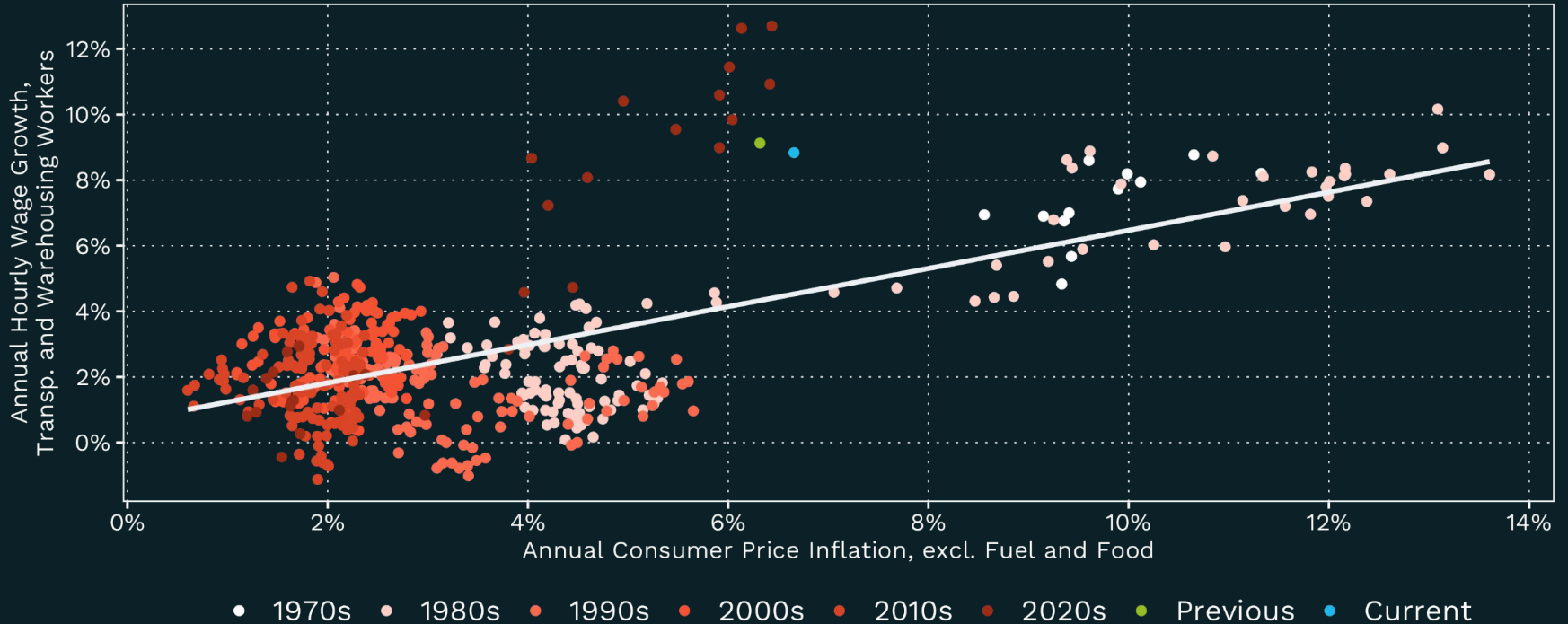
Labor

Company driver and owner-operator trends diverge



Source: Convoy analysis of U.S. Census Bureau, Current Population Survey, 2010-2021, made available by the University of Minnesota, IPUMS-CPS. (Updated November 4, 2022.)

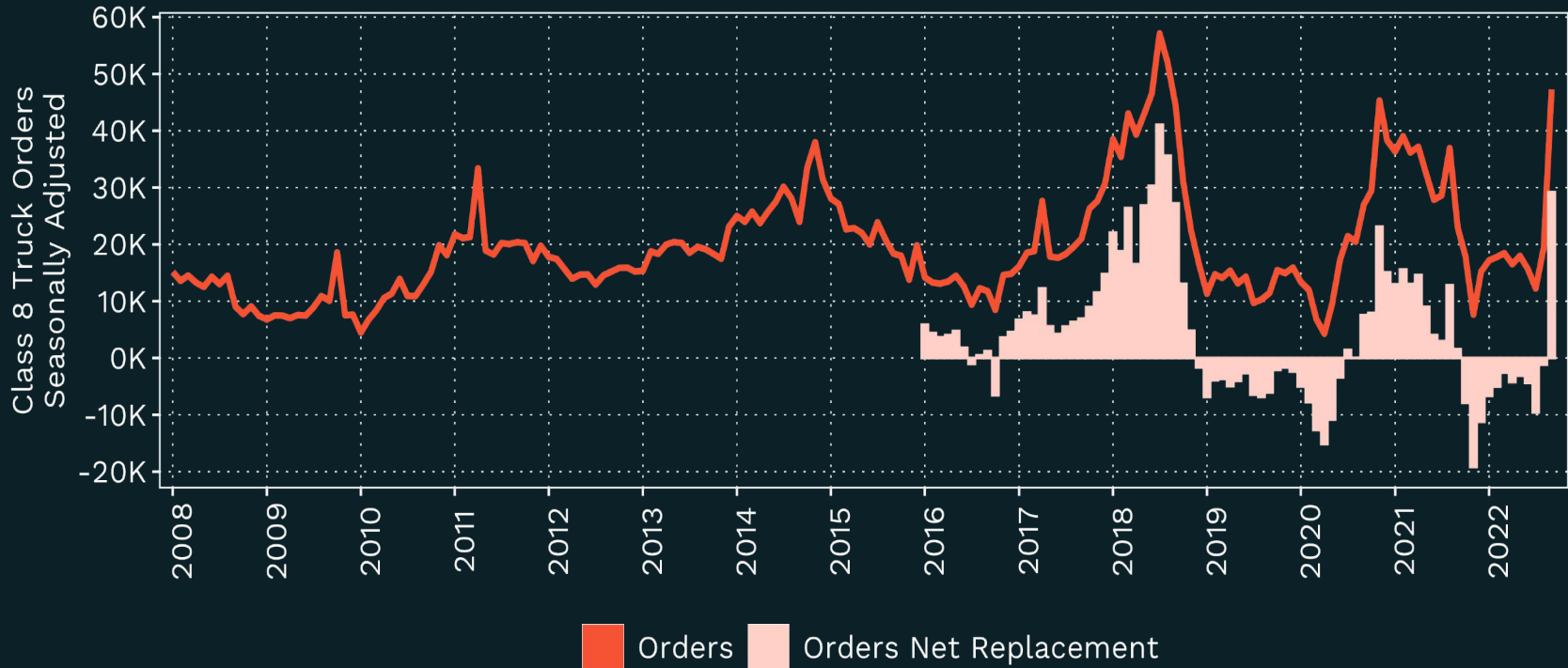
Inflation continues outpacing hourly wage growth



Source: Convoy analysis of Bureau of Labor Statistics, Current Employment Statistics, and Consumer Price Index, 1973-2021. (Updated November 4, 2022.)

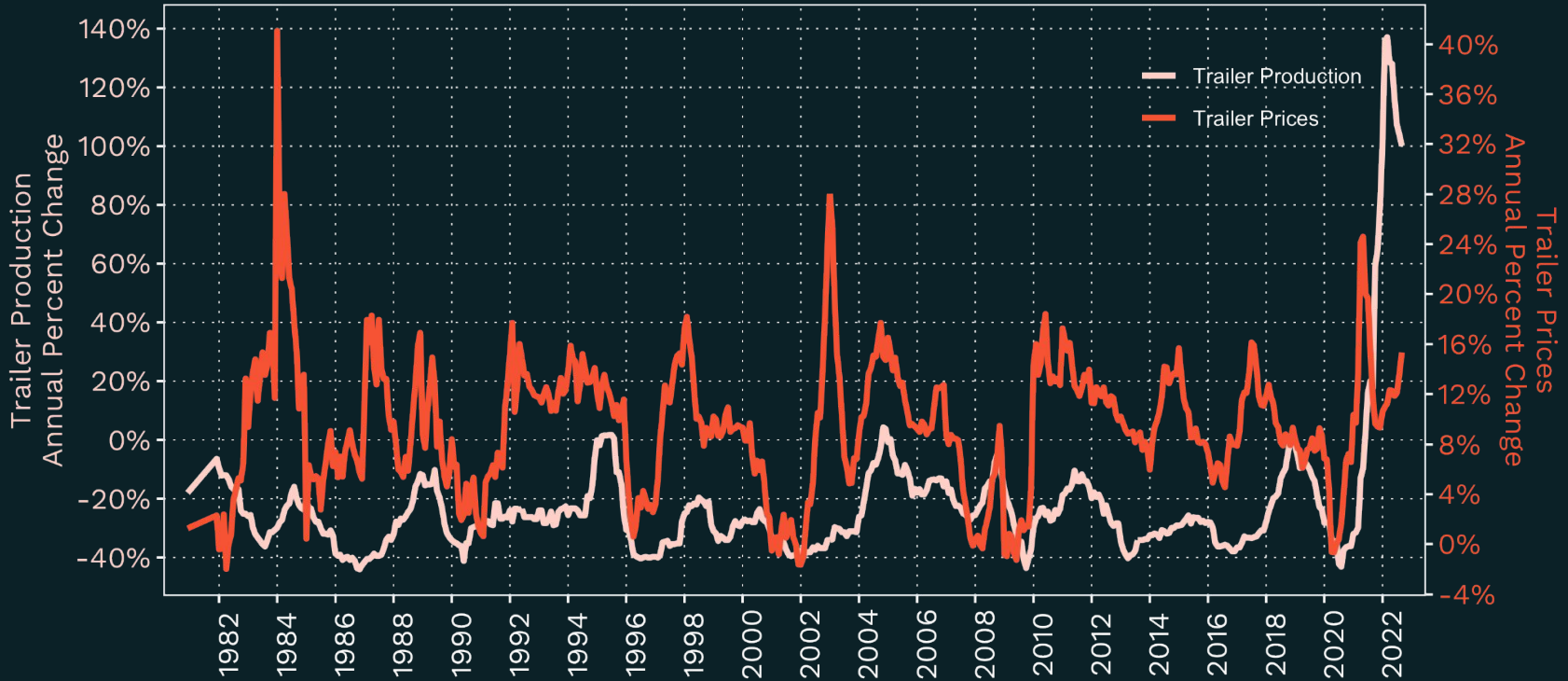
Equipment

Orders net replacement jumped by 30K in Sept



Source: ACT Research, FTR. (Updated November 8, 2022.)

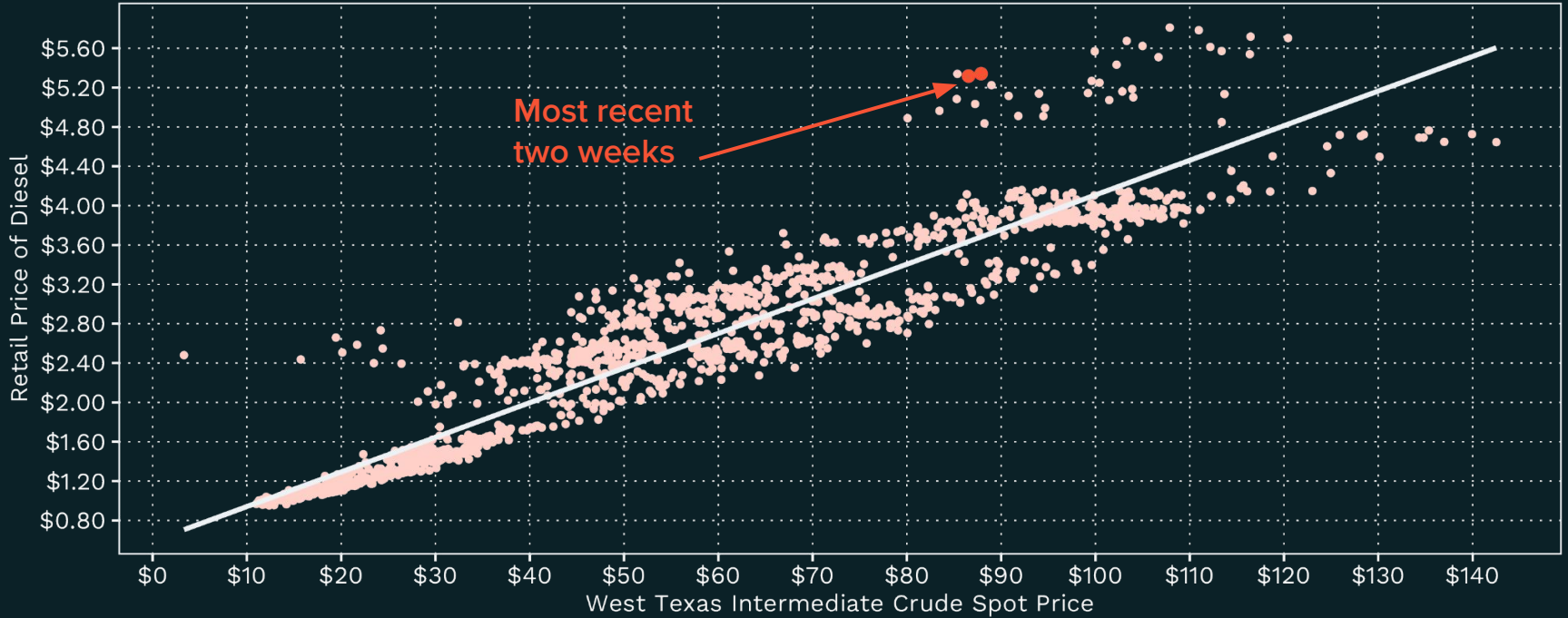
Trailer prices rising while record production eases up



Source: Federal Reserve Board, Bureau of Labor Statistics. (Updated November 4, 2022.)

Fuel

Diesel prices remain well above \$5 per gallon



Source: U.S. Energy Information Agency. (Updated November 4, 2022.)

Key points for the supply outlook

- Asset carriers now employing record number of drivers while owner-operators down 25% from summer peak, suggesting driver movement away from self-employment.
- Tractor orders soared in September leading to highest net replacement levels since 2018.
- Trailer production substantially ramped up compared with previous year manufacturing constraints, however prices continue escalating due to inflationary pressures.



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.



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