FTR | State of Freight INSIGHTS

Weekly Transportation Update

Market Updates for Transportation Professionals

May 3, 2024

HEADLINE

U.S. economy adds 175,000 payroll jobs in April.

- The unemployment rate ticks up to 3.9%; labor participation holds steady.
- Trucking payroll employment barely changes in April as the carrier base declines.
- Van spot rates are mixed in the latest week as flatbed rates fall.
- Teamsters Canada authorizes a rail strike; STB finalizes a reciprocal switching rule.

Overview

Job growth slowed notably in April but was still solid, potentially indicating a firm economy but not one that will continue to drive consumer inflation. Wall Street certainly welcomed the employment data as all key indices rose sharply on Friday.

In the industrial sector, one closely watched indicator weakened in April, but it had not been especially strong in March anyway.

Within freight transportation, the big news was in rail due to a potential strike in Canada and a significant new Surface Transportation Board regulation intended to improve rail service.

Employment situation

The U.S. added 175,000 payroll jobs m/m, seasonally adjusted, in April, according to preliminary data from the Bureau of Labor Statistics. BLS also revised earlier estimates of February and March employment downward by a net of 22,000 jobs. Job growth remains solid, but the April gain was the smallest since October.

The unemployment rate ticked up to 3.9%, matching February for the highest rate since January 2022. The rate is still low relative to history; the average during the period of 2015 through 2019 was 4.4%. The labor participation rate held at 62.7%.

April's job gains were heavily focused in two sectors – private education and health services (up 95,000) and trade, transportation, and utilities (up 52,000). Most other sectors saw gains of less than 10,000 jobs. Three saw losses – information (down 8,000); professional and business services (down 4,000); and mining and logging (down 3,000).

Trade and transportation/warehousing both contributed to the gains in that broad sector. Retail and wholesale trade employment rose by more than 30,000 jobs while transportation and warehousing jobs were up by nearly 22,000.

Couriers and messengers – less formally, parcel and local delivery – and warehousing and storage contributed equally with increases of 7,600 jobs. Both also saw upward adjustments of prior months' data. Trucking was one of only two negative contrib-

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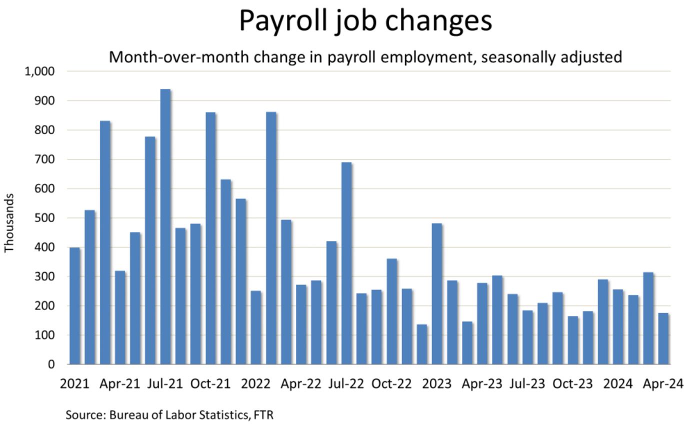

Key Takeaways

- The U.S. adds 175,000 payroll jobs in April.
- The unemployment rate ticks up to
- ISM's manufacturing index returns to contraction.
- Mortgage rates continue to edge higher.
- Diesel prices fall modestly in the latest week.
- Trucking jobs basically hold steady.
- The for-hire carrier population declines in April.
- Truck spot rates are mixed in the latest week.
- Teamsters Canada authorizes rail strike.
- STB finalizes reciprocal switching rule.
- STB's chairman to retire May 10.

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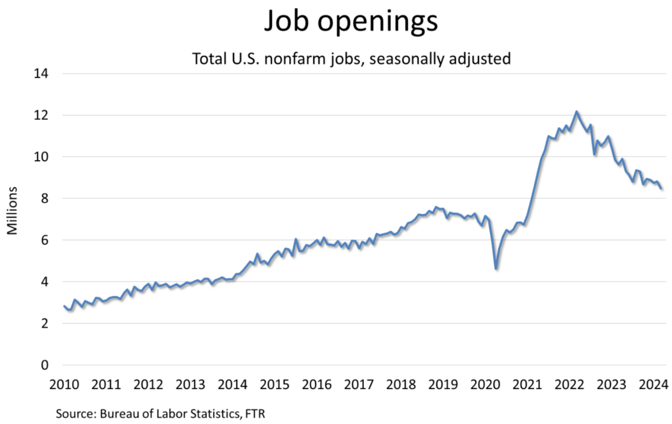
utors within transportation and warehousing, but the decrease was marginal. (*For discussion of trucking payroll jobs, see the Trucking section below*.)

Job openings

Unfilled job positions at the end of March were at their lowest level in more than three years. Job openings fell 3.7% m/m, seasonally adjusted, to 8.5 million – the lowest level since February 2021.



Job openings are down nearly 12% y/y, although they are still nearly 22% higher than they were during the pre-pandemic month of February 2020.

Openings are only about 900,000 higher than in they were at the pre-pandemic peak in November 2018. Given the aging of the Baby Boom generation, job openings plausibly are close to where they would have been anyway absent the pandemic.

ISM manufacturing index

After just one month in expansion territory – barely – the Institute for Supply Management's manufacturing index slipped back into contraction. The index declined to 49.2% in April from 50.3% in March. The production component fell 3.3 points to 51.3% while new orders declined 2.3 points to 49.1%.

Aside from the modest weaking of new orders, another concern for future freight related to manufacturing is that backlogs are the weakest component of the index, although they softened only a bit in April.

Pricing was the strongest component of the ISM index in April – both in the index level and the m/m increase during the month.

Mortgage rates

Mortgage rates increased for the fifth straight week. The average rate on a 30-year fixed-rate mortgage ticked up to 7.22% in the latest week, according to Freddie Mac. It noted that the housing market is in a critical period given the large number of homes that typically are bought during the spring.

Diesel and petroleum prices

The national average retail price of diesel fell 4.5 cents to $3.947 a gallon during the week ended April 29. Prices were down in all regions. On average, diesel prices nationwide are about 7 cents below the same week last year.

Crude prices also are moderating a bit. Just a few weeks ago, West Texas Intermediate was trading consistently between $85 and $87 a barrel. Prices have eased recently, however, and WTI has closed below $80 a barrel during the three most recent trading sessions.

Trucking

For-hire trucking employment basically held steady in April after a notable gain in March. Trucking shed 300 jobs m/m, seasonally adjusted, following a downward revision of prior months' estimates by a net of 800 jobs. The m/m decrease – while tiny – was the first since October.

Trucking has recovered 14,700 jobs, seasonally adjusted, since the exit of 31,600 jobs in August due mostly to Yellow Corporation's failure. Payroll employment is down 1.3% , or 20,660 jobs, y/y but up by 2.5%, or 37,300 jobs, since the pre-pandemic month of February 2020.

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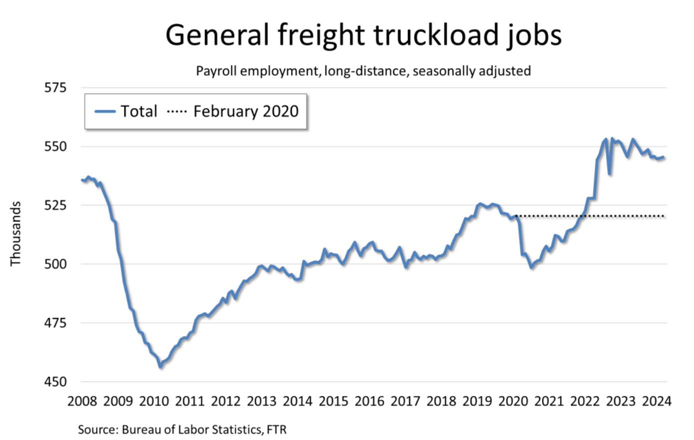

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More granular data available only through March shows that general freight truckload – the principal segment where excess capacity has been a worry for carriers – has increased employment on a seasonally adjusted basis slightly over the past couple of months.

General freight truckload employment in March was still 4.8% higher than in February 2020 and down only 1.4%, or 7,700 jobs since May 2023.

LTL in March recovered about half the jobs it shed in February. The sector has recovered a net of just 4,600 jobs, seasonally adjusted, since employment plunged by 27,200 jobs in August.

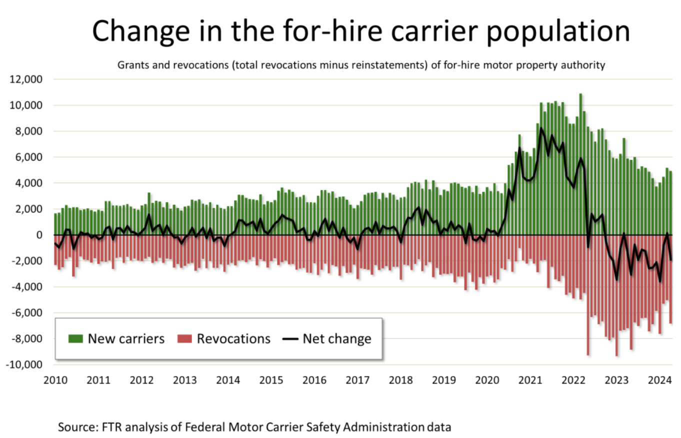
New carriers and revocations

A month after the trucking industry saw a miniscule increase in the carrier population, the net decline in for-hire carriers resumed in April, according to FTR's analysis of Federal Motor Carrier Safety Administration data.

The number of newly authorized trucking firms declined by about 250 to 4,936 in April while the number of revocations of authority net of reinstatements rose by about 1,800 to 6,830 for a net decrease in the carrier population of just under 1,900.

One factor in the higher number of revocations during April is the fact that the month had five Mondays. FMCSA processes far more revocations on Mondays than it does on other days of the week.

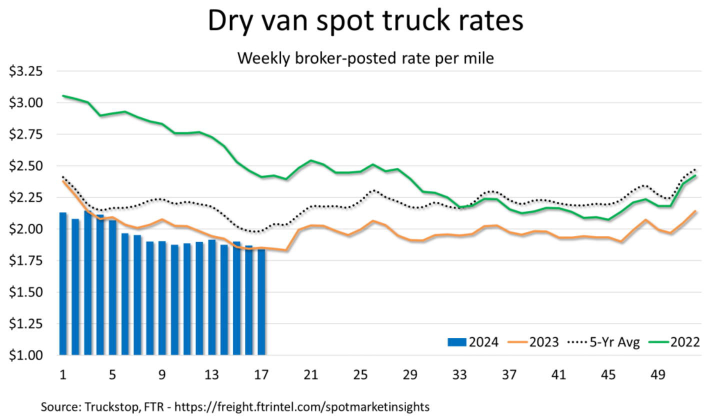
The for-hire carrier population has declined in 17 of 19 months, still well short of the streak during the Great Recession. The population fell in 28 of 30 weeks between October 2007 and March 2010.



Despite the steady decline in the carrier base at levels never seen before 2022, the trucking industry still has about 92,000 more active for-hire trucking firms than it did before July 2020 when the surge in new entry began.

Spot metrics

The total broker-posted rate in the Truckstop system declined by the most in 11 weeks during the week ended April 26 (week 17) as flatbed spot rates dropped and dry van and refrigerated rates moved in oppositive directions.



Dry van spot rates fell to their lowest level in nearly a year while refrigerated spot rates posted their sharpest gain since mid-January. Both moves were in keeping with seasonal expectations. Flatbed spot rates fell by the most in a week since early February.

The spot market is only a couple of weeks away from a near-certain spike in rates due to the Commercial Vehicle Safety Alliance's International Roadcheck inspection event, which will sideline significant driver capacity for three days – May 14-16.

For more on week 17 spot metrics for truck freight, visit https://freight.ftrintel.com/spotmarketinsights.

Rail/Intermodal

Workers at CN and CPKC overwhelmingly voted in favor of a strike due to managements' refusal to accept what their union considers to be safety-critical rest provisions. If an agreement is not reached between the two Canadian railroads and the Teamsters Canada Rail Conference, a worker stoppage could begin as soon as May 22.

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A strike at both Canadian Class Is could have huge impacts on the system. So far in 2024, Canadian railroads have carried nearly 25% of all North American rail traffic, including about 32% of grain, about 50% of petroleum and about 29% of chemicals.

Reciprocal switching rule

The Surface Transportation Board unanimously voted in favor of a reciprocal switching rule that applies to certain shippers whose facilities are only served by one Class I railroad. The rule, which the board adopted on April 30, is available at https://www.stb.gov/proceedings-actions/decisions.

The rule will allow captive shippers to petition the STB for a reciprocal switching agreement in an effort to mitigate poor service levels from the incumbent Class I. In announcing the rule, STB said it considers the rule to be a significant step toward encouraging Class 1 railroads to improve and maintain higher service levels by allowing a competing line to offer better service.

Under the rule, STB will rely on objective performance standards that address reliability in time of arrival, consistency in transit time, and reliability in providing first-mile and last-mile service. However, the board also will consider certain affirmative defenses and the practicability of an agreement.

STB will require all Class I railroads to submit certain service data, which will be generalized and publicly accessible, on an ongoing and standardized basis. Railroads will also be required to provide individualized, machine-readable service data to a customer upon a written request from that customer.

Oberman retirement

In a move likely related to the board's final rule on reciprocal switching, STB Chairman Martin Oberman announced that he is retiring on May 10.

Oberman's term on the board technically ended at the end of last year, but he has continued as chairman under a holdover arrangement that could have left him in place as chairman for up to a year.

Given his advocacy for rail service improvement, Oberman likely stayed on just long enough to ensure approval of the reciprocal switching rule. He issued a lengthy statement this week on the ways in which he sees the new rule as breaking new ground.

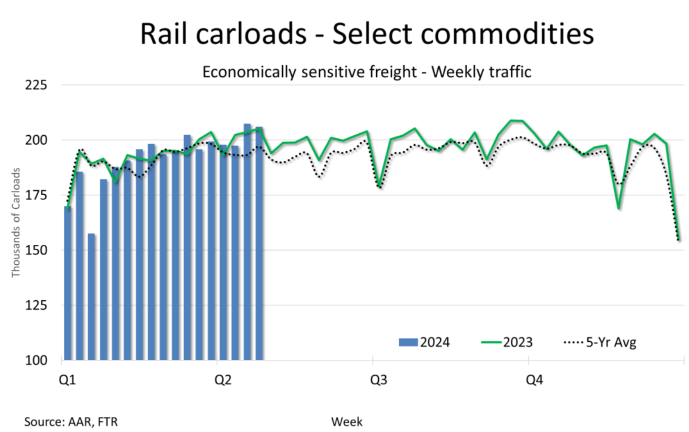
Railcar orders and deliveries

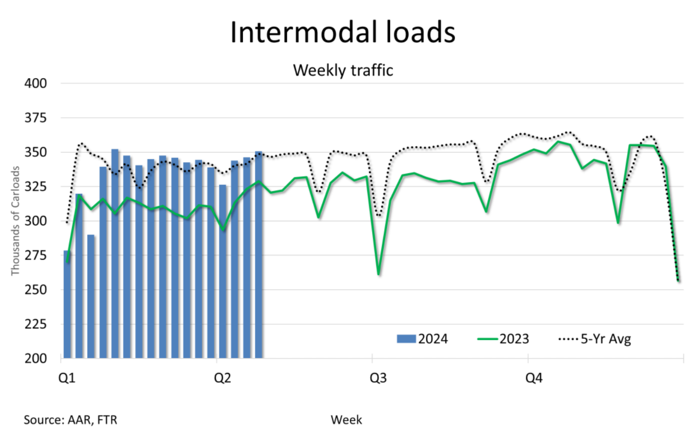
The Railway Supply Institute's American Railway Car Institute Committee (ARCI) this week released railcar data for the first quarter. The ARCI report shows orders down 30.2% y/y, deliveries down 2.0% and backlog down 17.2%.

Rail traffic

North American carload volumes were down 5.3% y/y for week 17, marking the 13th week of y/y declines in 2024, according to data from the Association of American Railroads. The commodities experiencing the greatest y/y declines include coal, metallic ores & metals, and grain.

Year to date, rail traffic is up 2.0% y/y, driven by intermodal, which is up 8.4%. Carload traffic is down 3.9%. Carload's decline is mostly due to coal, which is down 16.6%, although most commodities are negative versus 2023. Only petroleum products, chemicals, and motor vehicles are up y/y for the YTD.





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Written and Published by:

FTR
1720 N. Kinser Pike
Bloomington, IN 47404
Phone: (888) 988-1699
Fax: (877) 222-9060
International: (812) 988-1699
Email: ftr@ftrintel.com
Website: www.FTRintel.com