

**November 8, 2024**

**HEADLINE**

**Election of President Trump likely to shake up trade, labor policies.**

- The Fed's Federal Open Market Committee cuts rates a quarter-point.
- Real imports of goods rise by the most since November 2021 to a record level.
- Overall trucking spot rates barely move as flatbed decline offsets van increases.
- Volume improved significantly y/y for both rail carload and intermodal.

**Overview**

The 2024 election obviously was the biggest news of the week as Donald Trump will return to the White House and presumably will reverse much of the Biden administration agenda, some of which was overturning what President Trump did previously.

In other developments, the Fed reduced the target funds rate a quarter-point. In economic data, the Census Bureau confirmed what already knew based container port traffic: September was a very strong month for imports. Meanwhile, inventories were a bit tighter in the wholesale sector, and Canada is enduring a port strike that already has lasted longer than the one in the U.S. last month.

**The 2024 election**

President Trump won the presidential election outright on Tuesday, avoiding the days or even weeks of uncertainty that many expected. Trump will also have the backing of a Republican Senate, which will be key in ensuring approval of cabinet nominations and judicial appointments.

Still uncertain is the makeup of the House as counting continues in some hotly contested races. As of Friday, the Republicans were fewer than 10 seats away from retaining a majority, but many of the unsettled races are in traditionally strong areas for Democrats. The outcome will make a huge difference in the fate of Trump's legislative agenda.

A split Congress would hamper the Trump administration in some of its most aggressive plans, but even without that backing the executive branch has considerable latitude in setting trade policy and in implementing or reversing regulations.

Efforts to overturn regulations could take time as the Biden administration was careful to finalize most of its key regulatory changes related to the environ-

ment and labor policy early enough that Congress cannot use the Congressional Review Act to overturn them. If the Republicans do retain the House, they would have other tools at their disposal – through the appropriations process, for example – to negate regulations for all practical purposes. If not, reversing Biden environmental and labor regulations will require starting from scratch with new proposals.

The analysis below identifies some key areas that could impact the economy in general and the freight market in particular, but we acknowledge that the specifics are fuzzy as the Trump team's promises varied over the course of the campaign. Moreover, this is hardly an exhaustive list of potential impacts.

**Tariffs and trade**

Perhaps the most consistent vow from candidate Trump was an across-the-board tariff on all imports and a sharply higher tariff on imports from China. Less clear is the intention regarding imports from North American trading partners Mexico and Canada, which are covered under the United States-Mexico-Canada Agreement (USMCA) that was ne-

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**Key Takeaways**

- Trump presidency likely will bring freight disruption.
- The Fed reduces interest rates a quarter point.
- Goods imports surge in September to a record.
- Nonresidential construction was basically flat m/m.
- Mortgage rates rise for a sixth straight week.
- Diesel prices fall in the latest week.
- Truck spot rates barely move overall.
- Rail carloads and intermodal see strong week.
- Friday was the fifth day for the BC port strike.

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gotiated during Trump's first administration as a replacement for NAFTA. On the campaign trail, Trump floated a severe tariff on vehicle imports from Mexico, an action that could blow up USMCA.

The goal of big increases in tariffs clearly is to supercharge the reshoring of manufacturing production, but the unintended consequences – especially in the near and medium term – could be quite challenging as manufacturers scramble to adjust. Broadly speaking, those outcomes seem almost certainly inflationary in the near term as producers either pass along the costs of tariffs or endure higher supply chain cost and labor costs. Moreover, likely retaliatory tariffs on U.S. exports could undercut the net gain achieved by boosting domestic production.

One consequence for the freight market seems to be almost a given: A major pull-forward of imports ahead of the tariff implementation date. Even if tariffs do not materialize – at least not to the scope promised by the Trump campaign – the mere possibility of those tariffs taking effect will be disruptive.

### Energy and the environment

As certain as just about anything is a move to expand opportunities for domestic oil and natural gas production. Given that current crude prices do not seem to be incentivizing much additional production today, it's unclear how much producers will avail themselves of newfound opportunities in the short run. However, having expanded drilling and extraction options could serve as a hedge against upside pressure due to geopolitical events.

In addition to obvious potential for downward pressure on diesel prices, expanded pipeline demand would create new opportunities for construction.

Meanwhile, the Biden administration was especially aggressive in promoting electric vehicles (EVs) to address greenhouse gases and climate change. This is an area that might seem complicated by the close relationship between Trump and Tesla chief Elon Musk, but at a minimum we could expect to see a pullback on the timeline for commercial EV implementation if not a reversal of the policy.

One Environmental Protection Agency regulation that seems less likely to be reversed is the nitrogen oxides (NOx) reduction rule for medium- and heavy-duty diesel-powered vehicles that is slated to take

effect in 2027. For starters, it would take almost until the implementation date to reverse the NOx rule through normal rulemaking procedures. More important, though, is the certain and strong opposition the Trump EPA would face from truck and engine manufacturers that have already invested huge sums in engineering and development to comply with the 2027 rules.

### Labor policy

The most inevitable actions of all are reversal of Biden administration actions to promote labor unions and to discourage independent contractors over employees. As noted above, some Biden policies will require wholly new rulemaking proceedings, but the Trump administration certainly will take some faster actions through guidance where possible.

Some regulations ultimately on the eventual chopping block are regulations concerning when use of independent contractors is appropriate and the joint employer rule from the National Labor Relations Board.

Another measure that probably is less likely is a reversal of the rule expanding eligibility for overtime compensation. Although the business community would embrace such a measure, it would be highly unpopular among workers enjoying the benefits of the Biden administration regulation.

### Immigration

Restrictive immigration policies were a hallmark of the Trump campaign, so they will be high on the agenda, and surely sooner rather than later. Some sort of crackdown on undocumented residents and potential tightening of eligibility for legal immigration would seem to be the low-hanging fruit. More aggressive plans to end birthright citizenship and even reverse naturalization certainly are in play, but those will be taller orders and presumably impossible if the Republicans do not retain the House.

The direct impact on freight transportation from immigration changes is unclear, but follow-on impacts certainly are easy to game out. With labor participation already challenged by the aging of the Baby Boom generation and other factors, a greatly tighter immigration policy could risk major labor constraints. This is especially risky in combination with a trade stance designed to boost domestic manufacturing. The risks, therefore, would be labor crunches and

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escalating wages in various industries. The tariff and immigration policies individually might be inflationary and could be doubly so in conjunction.

Trucking/rail regulation

The Federal Motor Carrier Safety Administration (FMCSA) has not engaged in much rulemaking during the Biden administration, so there isn't much to reverse. More likely is a halt to some ongoing regulatory proceedings that are only in their infancy

Chief among these proceedings as it affects the freight market is speed limiters. Even the Biden FMCSA had not planned to issue a proposed rule until next May. The agency had an ongoing early-stage proceeding on speed limiters four years ago. Although the first Trump administration did not withdraw that effort formally, it did shelve it. Therefore, action on speed limiters would seem to be, at a minimum, a low priority.

Other FMCSA efforts that likely are dead are plans for rulemakings on increased transparency for carriers in broker agreements with shippers and on changes to safety fitness procedures.

As for potential new regulations, several are certainly possible, including loosening of hours-of-service restrictions and expansion of interstate driving opportunities for younger drivers. Some House Republicans have introduced bills in the past couple of years to essentially eliminate FMCSA regulations, but those proposals probably are too extreme even for an anti-regulation administration.

Within rail, one regulation that could be a target is the Federal Railroad Administration's final rule in April that generally requires two-person crews in railroad operations. As with most of the rules discussed in this analysis, the Trump administration would need to either start over with a new rulemaking or, if the Republicans have full control of Congress, use legislative workarounds.

Federal funds rate

The Federal Reserve's Federal Open Market Committee (FOMC) this cut its target range for the federal funds by a quarter point to 4.5% to 4.75%. The committee said that recent indicators suggest that economic activity continues to expand at a solid pace.

"Since earlier in the year, labor market conditions have generally eased, and the unemployment rate has moved up but remains low," the FOMC said in announcing the rate cut.

U.S. international trade in goods

Imports of goods adjusted for inflation jumped 4.1% m/m, seasonally adjusted, in September to its highest level ever, topping the previous record set in March 2022. The monthly increase was the strongest since November 2021.

Foods, feeds, and beverages led the m/m gain at 7.6%, although it is the smallest category of imports except for other goods. The biggest impact in absolute dollar value were consumer goods, up 5.9%, and capital goods, up 3.2%.

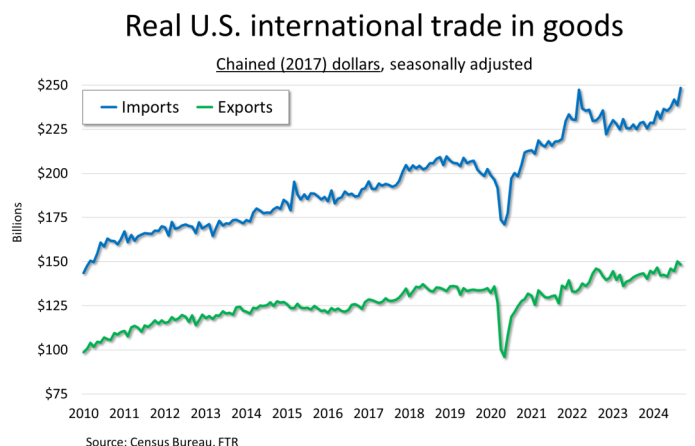
On a y/y basis, real goods imports were up 8.7%, which is the strongest comparison since May 2022. All major commodity groups but automotive are higher y/y, but the biggest gains were for the two categories that also account for the most imports in absolute terms. Capital goods were up 19.7% y/y while capital goods were up 10.3%.

More granular data shows that the surge in capital goods imports is due mostly to computers and secondarily to semiconductors. For 2024 through September, current-dollar imports of computers are up 34.9%. Imports of semiconductors are up 11.3%.

The surge in consumer goods is due mostly to pharmaceuticals, which are up 18.8% y/y for 2024 through September in current dollars.

Real goods exports declined 1.2% m/m in September. Automotive and foods, feeds, and beverages

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saw gains, but exports of consumer goods fell 6.5% while exports of capital goods decreased 3.6%.

On a y/y basis, real goods exports were up 3.8%. Automotive and consumer goods were down 8.5% and 3.2%, respectively. Foods, feeds, and beverages and capital goods were up 10.0% and 7.3%.

**Wholesale inventories and sales**

A decrease in wholesale inventories and an increase in sales brought the sector’s inventories-to-sales ratio in September down to its lowest level in seven months. Moreover, the ratio has not been lower than September’s 1.34 in a year.

Sales for merchant wholesalers increased 0.3% m/m, seasonally adjusted, led by a 0.4% increase in durable goods. Inventories declined 0.2% as durable goods inventories fell 0.5% while nondurable goods inventories increased 0.3%.

Metals led the gain in durable goods sales at a 2.9% increase followed by other durables at 1.2%. Offsetting most of those gains, however, were computer equipment, down 2.4% m/m, and furniture, down 2.7%.

The main strength in nondurables was farm products, which jumped 4.4%, followed by chemicals and drugs. The only two major nondurables commodities to see sales declines were petroleum and alcohol.

Wholesale inventories-to-sales ratio



Source: Census Bureau, FTR

**Construction spending**

The value of U.S. construction put in place was little changed in September as total construction and nonresidential construction both ticked up just 0.1%

m/m, seasonally adjusted. Total construction was up 4.6% while nonresidential construction was up 4.9%.

Manufacturing remained the dominant sector for nonresidential construction, although construction put in place declined 0.3% m/m when adjusted for the Producer Price Index for nonresidential building construction. However, real manufacturing construction was up 19.1% y/y, far exceeding the comparisons for other sectors. The closest was power generation at a 5.1% increase y/y.

**Mortgage rates**

Mortgage rates rose for the sixth straight week to their highest level since mid-July. The average rate on a 30-year fixed-rate mortgage was 6.72% in the latest week, according to Freddie Mac. The organization had been expressing an expectation of easing rates despite the recent increases, but it did not address the outlook in its latest statement.

**Diesel and petroleum prices**

The national average retail price of on-highway diesel fell 3.7 cents to \$3.536 a gallon during the week ended November 4. The decrease is only the second in seven weeks, but the net increase over that period is just 1 cent.

Technically, average prices did not fall in all regions because in New England, the average diesel price did not change. In California, the decrease was just a tenth of a cent.

Meanwhile, U.S. crude prices have inched slightly higher in recent trading. On November 7, West Texas Intermediate closed at \$72.36 a barrel, which is the highest price since October 14. However, crude prices were trading much lower on Friday as fears of a disruption from another hurricane subsided.

**Trucking**

Broker-posted spot rates for dry van equipment in the Truckstop system returned to their upward trend during the week ended November 1 (week 44). Refrigerated spot rates also rose, continuing their recent volatility. Refrigerated rates invariably rise during week 44, but dry van rates have been less consistent, especially in recent years.

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Flatbed rates fell as they almost always do during that week of the year and were a drag on the total market rate, which eased marginally. Rates were higher y/y for all three equipment types, but only barely so for flatbed.

The total market rate was more than 1% above the same 2023 week but close to 6% below the five-year average. Spot rates excluding a calculated fuel surcharge were nearly 11% higher y/y and were up y/y for all equipment types.

The current week (week 45) typically looks much like last week as broker-posted refrigerated spot rates always rise and flatbed rates always fall.

For more on week 44 spot metrics for truck freight, visit <https://freight.frintel.com/spotmarketinsights>.

**Rail/Intermodal**

For the week ending November 2, total rail traffic was up 5.9% y/y, with growth in both carload traffic, up 1.8%, and intermodal traffic, up 9.9%, according to data from the American Association of Railroads.

Carloads last week saw their fifth best week of the year and grew y/y for both U.S. and Mexican rail carriers at increases of 1.9% and 20.3%, respectively. Canadian carloads, however, fell 0.8%, mostly due to another weak performance of metallic ores and minerals, down 10.5% for Canadian carriers.

Looking across North America, eight of the 10 AAR commodity groups grew y/y last week, with the largest gains being “other”, up 11.9%; petroleum products, up 10.8%; and grain up 8.0%. The week also saw substantial growth of nonmetallic mineral traffic,

up 6.9%. The growth of this segment follows four weeks of substantial y/y declines, on top of an already poor year. These gains were primarily due to growth on the CSX network. Despite broad-based gains elsewhere, coal and metallic ores & minerals fell, down 11.0% and 2.6%, respectively.

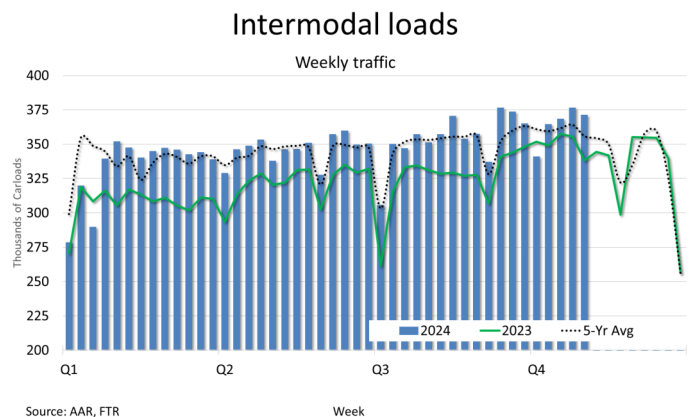
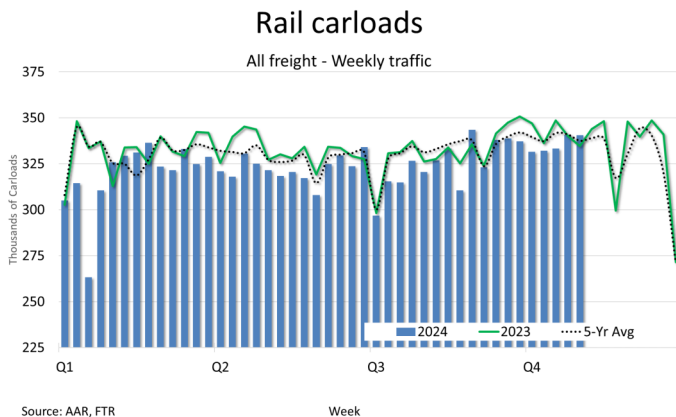
Intermodal traffic also grew significantly y/y due mostly to BNSF and CSX, although the underlying reasons were different. BNSF traffic fell w/w but posted strong y/y growth due to weak traffic in the same 2023 week. CSX levels, however, rose w/w, likely due to continued recovery from the U.S. East and Gulf Coast port strikes.

For the year to date (YTD), carload traffic is down 2.8% with five of the 10 AAR carload groups posting y/y growth, up from four in the prior week. These commodities are petroleum products, up 7.2%; grain, up 4.7%; chemicals, up 3.5%; farm products (excl. grain), up 2.8%; and most recently “other”, up 0.1%. Intermodal traffic continues to outperform the carload space, and is currently up 7.7% YTD

**Canadian port strikes**

November 8, marks day five of the Canadian port strike in British Columbia, most notably affecting the ports of Vancouver and Prince Rupert. This strike comes on top of a separate partial strike already occurring at Canada’s Port of Montreal.

Goods affected by the West Coast strike are broad ranging with just grain shipments being spared due to Canada’s labor code. So far this week, negotiations have not been occurring and Canada’s labor board has not stepped in. The ILWU and Maritime Employers Association, however, have agreed to return to the bargaining table on November 9.





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