FTR | State of Freight INSIGHTS

Weekly Transportation Update

Market Updates for Transportation Professionals

February 14, 2025

HEADLINE

Manufacturing output falls in January due mostly to automotive.

- President Trump imposes tariffs on steel and aluminum, plans wide-ranging reciprocal tariffs.
- Vehicles lead a broad-based decline in retail sales in January.
- Trucking spot rates decline for all equipment types.
- Rail traffic rises y/y as continued intermodal strength offset weakness in carload.

Overview

Economic indicators mostly were negative this week. Industrial production rose but only because of a jump in utilities output because of a surge in heating demand due to cold weather. Retail sales fell sharply, led by the main sector that had boosted sales in the fourth quarter of last year. One positive for freight, however, was leaner inventories.

As has been the case for nearly a month, news out of Washington largely overshadowed economic data in the latest week as President Trump imposed higher tariffs on imports of steel and aluminum and initiated a plan to impose or increase tariffs to reciprocate for trade barriers in specific countries.

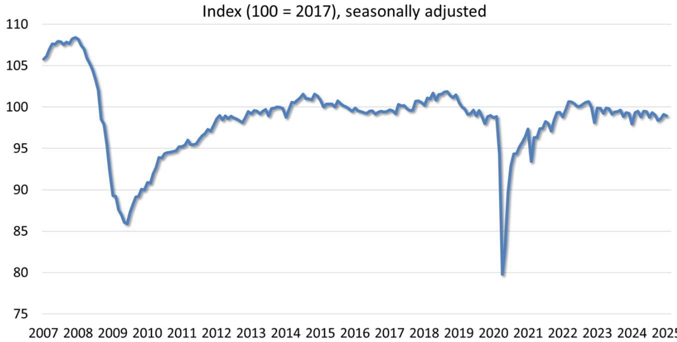
Industrial production and manufacturing

Industrial production (IP) moved up 0.5% m/m, seasonally adjusted, in January but even that fairly modest increase is deceptively strong because both mining and manufacturing saw declines.

The increase in IP resulted from a 7.2% jump in seasonally adjusted utilities output as cold weather led to a surge in heating demand. IP was up 2% y/y, which is the strongest prior-year comparison since October 2022.

Manufacturing output

Index (100 = 2017), seasonally adjusted



Source: Federal Reserve, FTR

Manufacturing production declined 0.1% m/m but was up 1.0% y/y as severe winter weather in January 2024 had resulted in a sharp drop in output. A sharp drop (5.2%) in motor vehicles and parts production was the principal factor in the m/m decrease in manufacturing output. Excluding automotive, manufacturing production increased 0.2%.

Manufacturing benefitted from a somewhat artificial increase in aerospace and miscellaneous transportation equipment production, however. As Boeing continued to return to full production after last fall's strike, output for aerospace and miscellaneous transportation equipment rose 6.0% m/m in January after a 6.8% jump in December. The Federal Reserve said that gains in aircraft and parts production accounted for 0.2-percentage point of the growth in total IP.

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Key Takeaways

- Manufacturing output eases due mostly to autos.
- Aluminum and steel imports hit with 25% tariffs.
- Trump orders plan for reciprocal tariffs globally.
- Retail sales fall sharply in January.
- Inventories were notably leaner in December.
- Consumer prices rise by the most in two years.
- Producer prices were basically stable in January.
- The LTL PPI rises sharply in January.
- Residential boosts total construction spending.
- Mortgage rates ease for a fourth straight week.
- Diesel prices barely move once again.
- Spot rates decline for all truck equipment types.
- Intermodal traffic strength offset carload weakness.
- House bill would incentivize railcar replacement.

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The durable manufacturing index was unchanged m/m due to the offsetting moves in motor vehicles and aircraft. The nondurable index declined 0.3%.

Tariffs on steel, aluminum and more

While broad-based tariffs on imports from Mexico and Canada are still on hold, this week saw several notable actions on the tariff front, including some that will affect certain imports from those nations.

President Trump on Monday ordered the imposition of 25% tariffs on imports of steel and aluminum, effective March 12. Moreover, the tariffs will be uniform as Trump is eliminating exemptions previously granted to certain nations – Argentina, Australia, Brazil, Canada, Japan, Mexico, South Korea, the European Union, Ukraine, and the U.K.

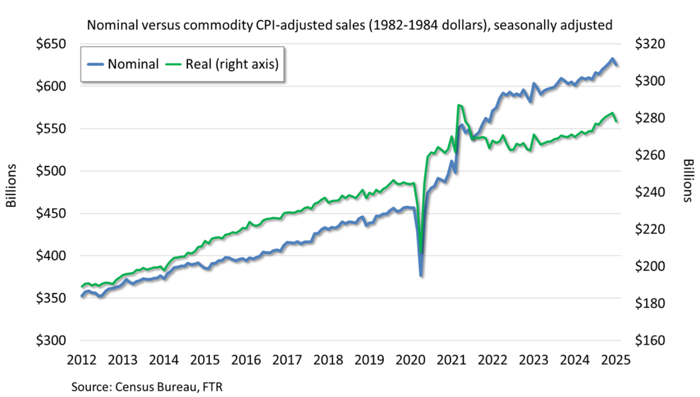
Then on Thursday, Trump ordered the development of a plan to counter non-reciprocal trade arrangements with other countries. The intent is to go beyond just matching tariff levels on specific commodities to also address other practices that the administration deems as protectionist, such as doing-business restrictions on U.S. firms and subsidies for other nations' domestic businesses.

Retail and food service sales

Motor vehicle and parts sales had been among the largest positives for overall retail and food service sales in recent months, but they were the largest drag on retail in January.

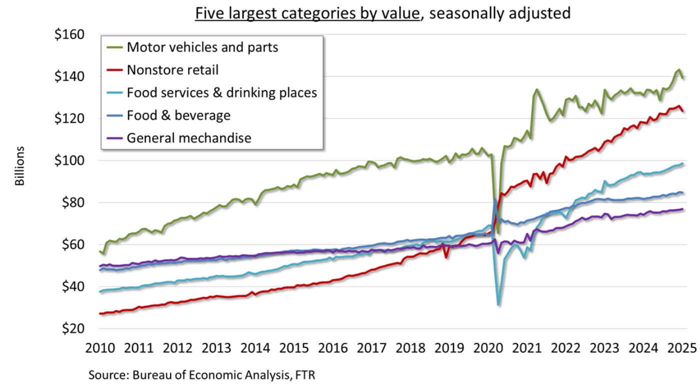
Retail and food service sales fell 0.9% m/m, seasonally adjusted, for the largest drop since March 2023. Vehicle and parts sales – the largest retail category in dollar volume – fell 2.8% on a seasonally adjusted basis after rising by a total of 7% in September through December. Total retail and food service sales were up 4.2% y/y.

Retail trade sales



Weather might have contributed to weaker automotive sales in January, but another possibility is that sales late last year were inflated by consumers' worries that impending tariffs might result in higher prices for autos and light trucks.

Retail sales by major category



Although the automotive sector accounted for more than half the drop in overall retail sales, the rest of the retail sector was weak as well. Nonstore retail – the second largest category in dollar value – fell 1.9% m/m, seasonally adjusted. The only broad categories to see m/m increases were food services and drinking places, gasoline stations, general merchandise stores, and miscellaneous store retailers.

Often, when retail sales fall, gasoline station sales are a significant factor due to falling gasoline prices. With gasoline stations seeing the largest increase of any category (tied with food services at +0.9%), the decrease in total retail sales clearly is even more significant in real terms, especially in terms of retail trade sales, which exclude food services.

Total retail trade sales fell 1.2% m/m, seasonally adjusted, in January, but the decline was even steeper when adjusted by price inflation for commodities during the month. Real retail trade sales dropped 1.6% m/m – the largest decrease since May 2022.

One positive in the latest figures is that sales for all but two retail categories – department stores and sporting goods and related stores – were up y/y in January, although the increase for electronics and appliance stores was marginal.

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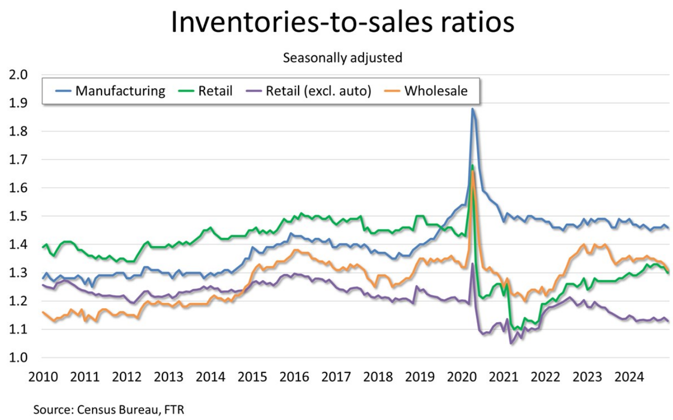
Inventories

Inventories relative to sales in December declined for all three broad supply chain categories – wholesale, retail, and manufacturing – resulting in the lowest inventories-to-sales ratio for total businesses since the same ratio in September 2023. The total business ratio has not been lower than December's 1.35 since the 1.32 ratio June 2022.



As discussed previously in our weekly update, motor vehicle and parts inventories fell sharply in December, dropping 1.1% m/m and resulting in an inventories-to-sales ratio of 1.30, down from 1.32. Excluding the automotive sector, the retail ratio dipped to 1.13, which generally is in line with readings over the past year or so.

The wholesale inventories-to-sales ratio also fell, declining to 1.31 – the lowest level since June 2022. Leaner inventories were the result of a sharper-than-usual decrease in inventories and a larger-than-usual increase in sales. The manufacturing ratio returned to the 1.46 level recorded in August through October before rising to 1.47 in November.

Consumer Price Index

Consumer prices in January saw the strongest growth m/m in two years as the 12-month change ticked up to its highest level since May.

The Consumer Price Index (CPI) for all items rose 0.5% m/m, seasonally adjusted, which matches the increase in August 2023 and is the largest gain since the 0.6% increase in January 2023. The 12-month change in the unadjusted index was a 3.0% increase, up from 2.9% in December.

Some of the major contributors to higher prices were shelter and energy, the latter of which added 1.1% m/m to the 2.4% jump in December.

Excluding the volatile food and energy sectors, the CPI rose 0.4% m/m. That increase is strongest since February 2023, although it is matched by the increases in several months since then, including January through March of last year. The 12-month change in the CPI less food and energy was 3.3%, up from 3.2% in December but matching the y/y comparison in September through November.

Producer Price Index

The increase in producer prices was not as strong in January as it had been in December and the 12-month change was steady at 3.5%, which is the highest level since February 2023. The Producer Price Index (PPI) increased 0.4% m/m, seasonally adjusted and was down from 0.5% in December.

Excluding food, energy, and trade services, the PPI rose 0.3% m/m in January. The 12-month change in the unadjusted index was 3.4%, the lowest since the same comparison in September.

One of the contributors to higher producer prices was truck transportation of freight, which rose 1.3% m/m in January after a 2.0% gain in December. The y/y comparison for the truck transportation of freight PPI was the strongest since January 2023 at 3.1%.

LTL saw the sharpest gain by far of trucking segments, soaring 5.7% m/m for the strongest increase since March 2022. The LTL PPI was up 6.2% y/y, which is the strongest comparison since July.

The PPI for general freight truckload did not rise by much in January, but it benefitted from a sizable re-

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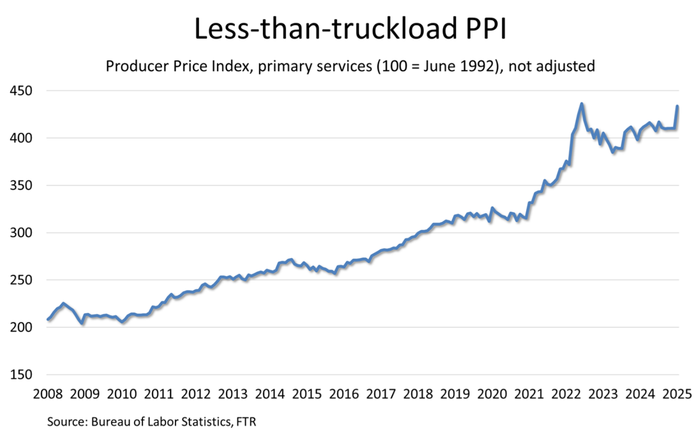

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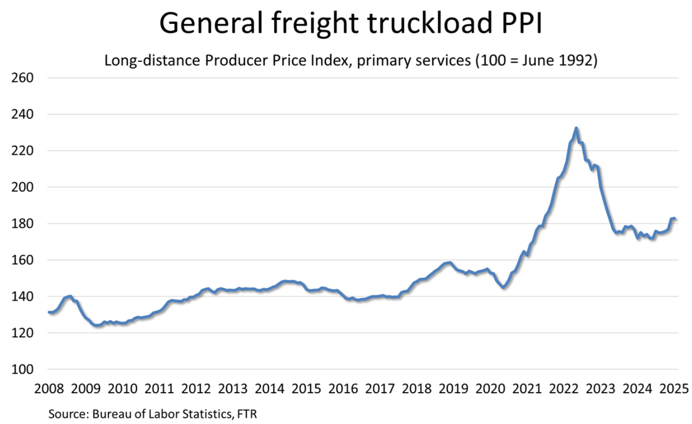
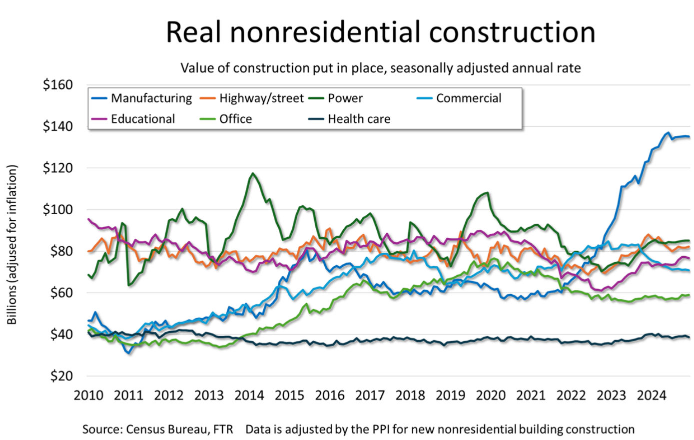


vision of the initial December estimate. The truckload PPI increased 0.3% m/m in January after rising 3.2% in December. As with LTL, the m/m increase was the strongest since March 2022. The truckload PPI in January was up 6.4% y/y, which is the strongest comparison since September 2022.

Construction spending

Total construction spending increased 0.5% m/m, seasonally adjusted, in December. Residential construction spending rose 1.5% while nonresidential construction spending dipped 0.2%. Nonresidential categories seeing the greatest strength m/m were office buildings, up 0.9%, and highways and streets, up 0.7%.

Manufacturing construction, which ticked up a tenth of a percent, is still by far the largest category of nonresidential construction in terms of value of construction put in place. Adjusted for pricing for nonresidential building construction, manufacturing facility construction has basically flattened out after peaking last June.



Average inflation-adjusted spending on manufacturing construction last year was more than 20% above the 2023 level, which was up 44% from 2022. Average inflation-adjusted spending in 2024 was 120% higher than it was in 2021.

Mortgage rates

Mortgage rates declined for a fourth straight week, although the decrease in the latest week was just two-hundredths of a percentage point. The average rate on a 30-year fixed-rate mortgage was 6.87%, according to Freddie Mac. Recent mortgage rate stability is a plus for potential buyers, reflected in stronger buying demand than a year ago, it said.

Diesel and petroleum prices

The national average retail price of on-highway diesel ticked up a half-cent to $3.665 a gallon during the week ended February 10, a week after inching up just a tenth of a cent. Diesel prices have risen in nine of the past 12 weeks with a net increase of just over 17 cents a gallon.

Meanwhile, crude prices are still relatively stable. After declining late last week to its lowest level of the year, West Texas Intermediate rose nearly $3 a barrel over the following three trading sessions before declining about $2 in succeeding trading sessions.

Trucking

Broker-posted spot market rates in the Truckstop system decreased week over week for all equipment types during the week ended February 7 (week 5).

Dry van spot rates were at their lowest level since mid-November, and refrigerated spot rates fell to their lowest level since April. Flatbed rates were more stable. Aside from the prior week, flatbed spot rates were the highest since late October.

The total market broker-posted spot rate, which declined 2 cents in the latest week, has fallen in five of the last six weeks and is down 2.5% y/y. During the current week (week 6), refrigerated spot rates almost always fall while dry van and flatbed spot rates have been less consistent.

For more on week 5 spot metrics for truck freight, visit https://freight.ftrintel.com/spotmarketinsights.

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Rail/Intermodal

Total rail traffic this week grew 0.4% y/y across North America as a 5.3% increase in intermodal volume more than offset a 4.7% drop in carloads.

On the carload side, nine of the 20 AAR commodity groups posted y/y gains. However, of the commodities that did grow, most were either in low-volume commodities or saw slight y/y gains. Among those with the greatest y/y growth were “other commodities”, up 11.1%; grain mill products, up 3.5%; and non-metallic minerals, up 3.4%.

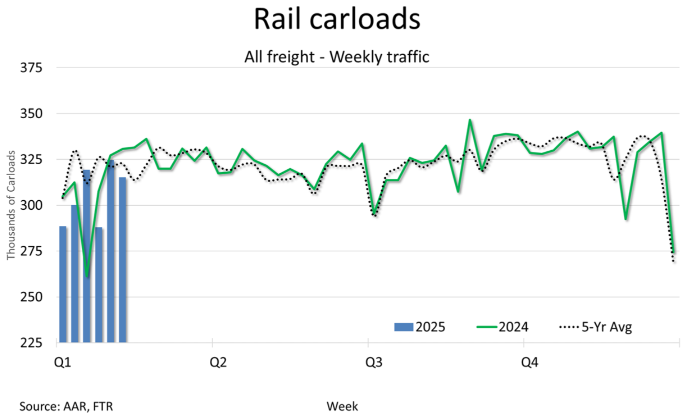
Some of the greatest declines this week involved metals, such as metallic ores, down 26.6% and metals products, down 11.3%. Another driver of the y/y declines last week was agriculture products, with farm products excluding grain, down 16.8% and grain down 6.8%. Mexican railroads saw the greatest y/y decline at 18.9%, followed by Canada, down 11.5%. U.S. traffic was relatively flat, down 0.7%.

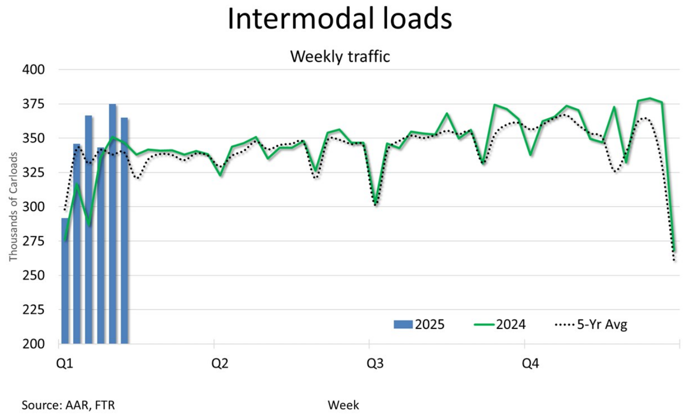
Y/Y gains in intermodal traffic moderated but remain positive. This is a pattern that held true across most of the Class Is, although CPKC and Norfolk Southern saw increasing levels of y/y growth. Intermodal growth continues to be driven by the western carriers, BNSF and Union Pacific, as well as CPKC, which last week posted growth of 5.8% y/y. The other major carriers saw either no growth or declines in traffic y/y.

Rail legislation

The Freight RAILCAR Act of 2025 (H.R. 1200) was introduced into the U.S. House this week. The bill, which has bipartisan co-sponsorship, was originally introduced in 2020 and has been introduced several times since.

If enacted, H.R. 1200 would authorize a 10% tax credit for the replacement or modification of older railcars with newer, higher capacity ones. The legislation is backed by the Railway Supply Institute (RSI) and the Rail Security Alliance (RSA).





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