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- Trucking Update
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Shippers Update

October 2021

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Next State of Freight Webinar: More challenges in transportation
Thursday, October 14th, 2021 @ 11am Eastern - Register at: ftrintel.com/webinars

Shippers
October 2021

COMMENTARY (pg 10):

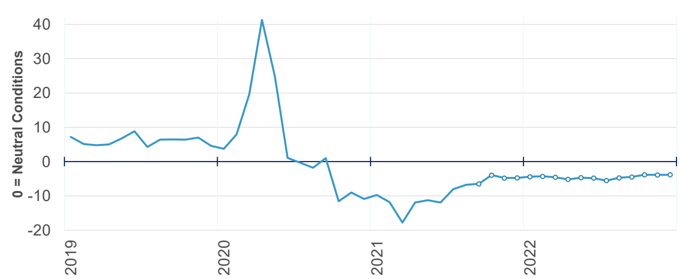
Another shot in the arm for small carriers?

A vaccine mandate could add fuel to the ongoing market shift.

Shippers' market conditions are not improving much, but at least they are not getting worse.

FTR Shippers Conditions Index

SCI is a broad measure of shippers conditions – volumes, rates, fuel, etc.



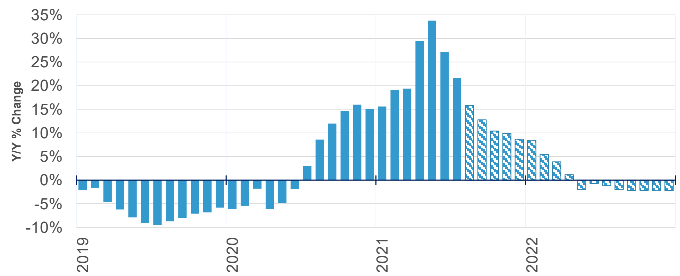
Positive = Favorable to shippers / Negative = Unfavorable for shippers
Source: FTR | Transportation Intelligence™; Copyright 2021, FTR
Forecast

A slight loosening of capacity utilization and marginally lower fuel costs were mostly responsible for a minor improvement in the Shippers Conditions Index.

The SCI in August was -6.8, slightly better than the -8.1 reading in July.

See page 2 for more on overall market conditions...

Truckload Rates Outlook



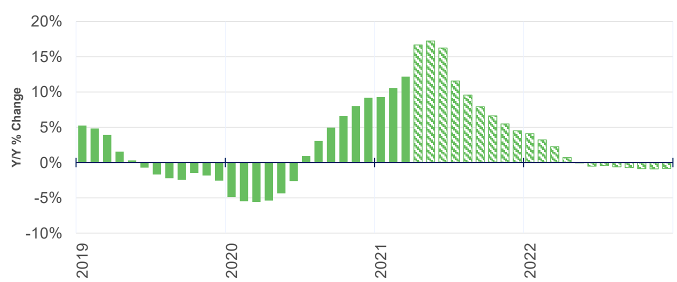
Rate excludes Fuel Surcharge / Revenue per Loaded Mile, data is seasonally adjusted
Source: FTR | Transportation Intelligence™; Copyright 2021, FTR
Forecast

Total truckload rates are still trending at about 18% higher for full year 2021. The forecast for 2022 is marginally stronger than last month at just above flat.

The 2021 LTL rate outlook is stronger at a gain of 16.6%. The 2022 forecast remains down about 2%.

See page 3 for more on the trucking outlook...

Intermodal Rates Outlook



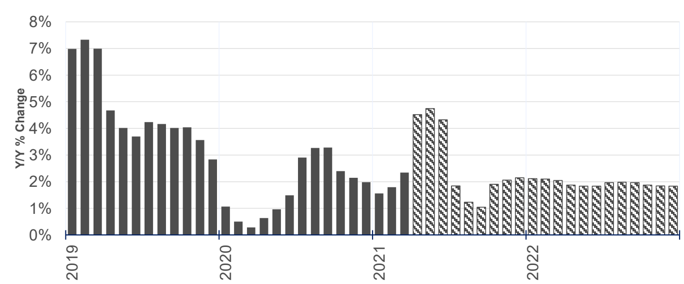
Rate excludes Fuel Surcharge, estimated rate includes rail linehaul and drayage move
Source: FTR | Transportation Intelligence™; Copyright 2021, FTR
Forecast

Intermodal rates are projected to remain on roughly the same course they were on last month. A slow decline in the rate of year-over-year increase is expected into the first part of 2022.

A host of factors could cause the decline to come faster.

See page 5 for more on the intermodal outlook...

Rail Carload Rates Outlook



Rate excludes Fuel Surcharge, Revenue per Tonmile
Source: FTR | Transportation Intelligence™; Copyright 2021, FTR
Forecast

The outlook for rail rate increases is little changed from last month, but the risk here is for rates to increase more than expected.

Rail inflation has been higher than expected as costs for labor, steel, and other materials rise.

See page 6 for more on the carload outlook...

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Freight Indicators & Shippers Outlook

- Market conditions are slightly better.
- Freight volume remains mostly stable.
- Diesel prices are rising again.

The **Shippers Conditions Index** continues to improve gradually as the -6.8 reading in August was the "best" for shippers since September 2020. The index's base of 0 represents neutral market conditions. Only two index components – freight volume and fuel – were marginally positive, and the fuel component is bound to be negative in September and perhaps beyond. Market conditions for shippers are technically getting better, but the relief is so incremental as to be of little value.

Spot volume in **trucking** remains very strong, and dry van at the end of September posted its second highest level of load postings ever. FTR's forecast of truck loadings is a gain of 5.8% y/y in 2021 and 4.2% in 2022.

The **intermodal** volume outlook continues to weaken as rail carriers throttle the amount of volume they are willing to put on their networks and terminals.

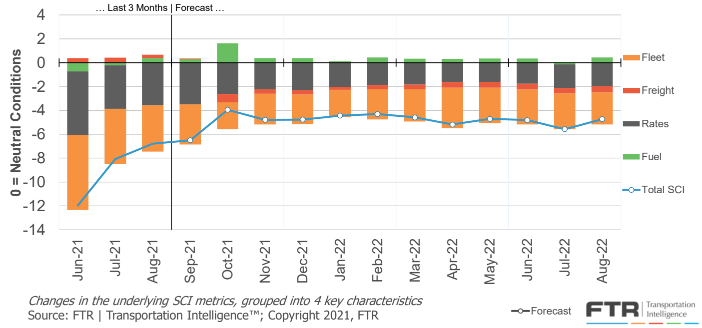
The outlook for **rail carload** volume has moved slightly lower, but most of the volume lost in 2021 will roll into 2022. The reduction came mostly in automotive, which should see continued upward pressure next year as automakers strive to replenish retail inventories to the extent the semiconductor situation allows.

Diesel prices are moving sharply higher. During the week ended October 4, the national average price of diesel rose 7.1 cents – the sharpest increase since March – to $3.477 a gallon, which is the highest price since December 2014. Prices are up more than 15 cents in the past six weeks. Meanwhile, crude prices have been moving higher and are trading close to $80 a barrel.

See pages 3-4 for more analysis on trucking conditions…
See page 5 for more on intermodal conditions…
See page 6 for more on carload conditions...

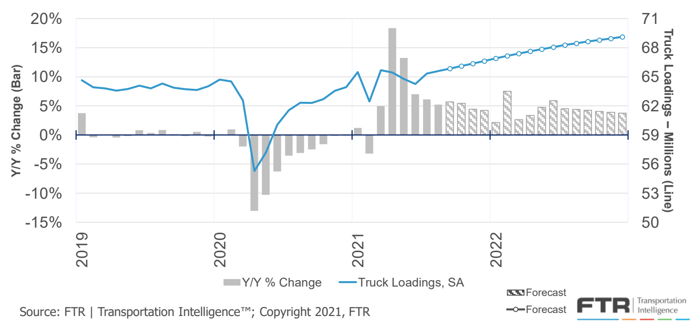
Shippers Conditions Index

Key Elements of Shippers Conditions



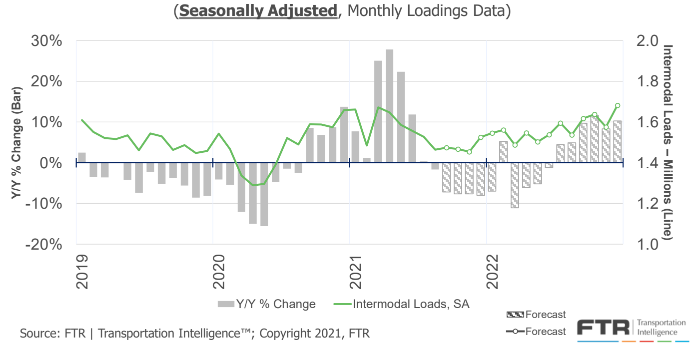
Trucking Outlook: United States

(**Seasonally Adjusted**, Monthly Loadings Data)

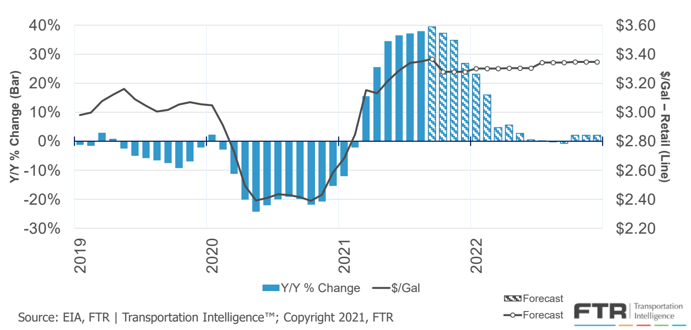


Intermodal Outlook: North America

(**Seasonally Adjusted**, Monthly Loadings Data)

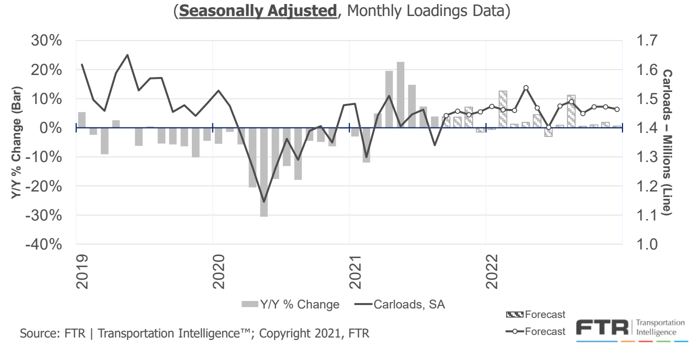


Diesel Price Outlook



Rail Carload Outlook: North America

(**Seasonally Adjusted**, Monthly Loadings Data)



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Trucking Indicators & Outlook

- Driver hiring activity is strongest of the pandemic.
- Active truck utilization remains nearly maxed out.
- Truckload rates have yet to show signs of easing.

Driver hiring activity in August was the strongest of the pandemic so far based on the number of pre-employment queries conducted in the drug and alcohol clearinghouse. The trend might indicate stronger payroll employment in September, although queries and payroll jobs have not been perfectly correlated. Payroll employment in trucking is still down 1.7% since February 2020, but the ongoing surge in newly authorized carriers – most of which are not captured in payroll job data – likely understates total capacity. FTR has identified more than 185,000 drivers associated with carriers authorized from July 2020 through September 2021 and still holding authority.

A marginally weaker freight outlook for the rest of the year also means a marginally weaker forecast for **active truck utilization**, but it is not significant. Somewhat more significant is a slightly stronger outlook for utilization than previously forecast for the second half of 2022.

FTR expects active utilization to remain above 97% through late 2022, but the forecast risks are mostly to the downside due to our conservative forecast for the restoration of driver capacity and productivity.

The near-term **truckload rate outlook** is unusually stable at about 18% higher y/y in 2021, excluding fuel surcharges. Spot rates are trending at nearly 28% higher y/y while contract is stable at about 13% higher.

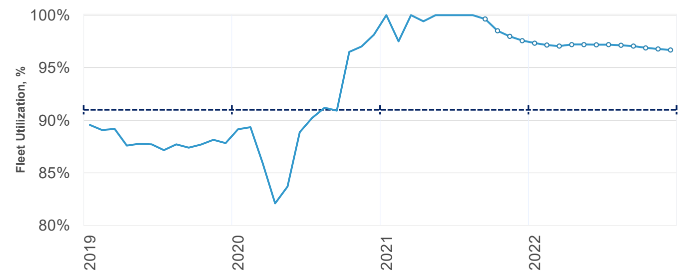
FTR's rate forecast for 2022 is now higher than 2021 for the first time, although only by 0.3%. The prior forecast was just barely below flat.

The outlook for LTL rates in 2021 is stronger at +16.6%, which is more than a point stronger than the prior forecast. The forecasted decline in 2022 is slightly larger at 1.8%.

See page 4 for more charts and graphs on truck rates…

Active Truck Utilization Outlook

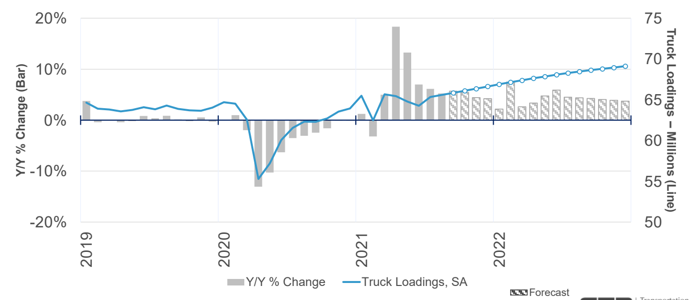
Share of seated trucks actively engaged in freight hauling



Dashed Line = 10-year average, data is seasonally adjusted
Source: FTR | Transportation Intelligence™; Copyright 2021, FTR
Forecast

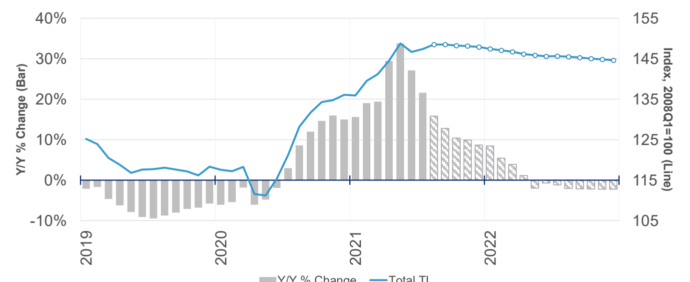
U.S. Truckload Outlook

(Monthly Loadings Data, Seasonally Adjusted)



Source: FTR | Transportation Intelligence™; Copyright 2021, FTR
Forecast
Forecast

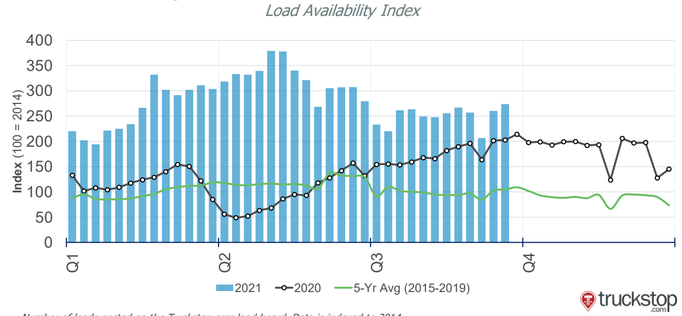
Rate Outlook: Total TL



Rate excludes Fuel Surcharge / Revenue per Loaded Mile, data is seasonally adjusted
Source: FTR | Transportation Intelligence™; Copyright 2021, FTR
Forecast
Forecast

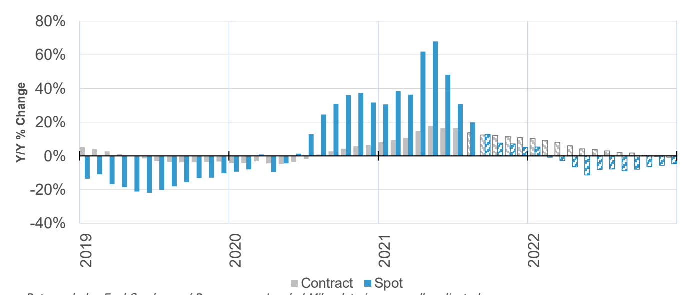
Spot Market: Total Loads

Load Availability Index



Number of loads posted on the Truckstop.com load board. Data is indexed to 2014.
Weekly Data. Source: Truckstop.com, FTR | Transportation Intelligence™; Copyright 2021, FTR

Truckload Rates: Spot vs Contract



Rate excludes Fuel Surcharge / Revenue per Loaded Mile, data is seasonally adjusted
Source: FTR | Transportation Intelligence™; Copyright 2021, FTR
Forecast

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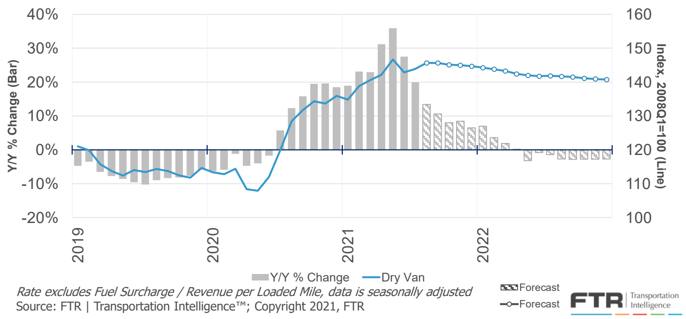
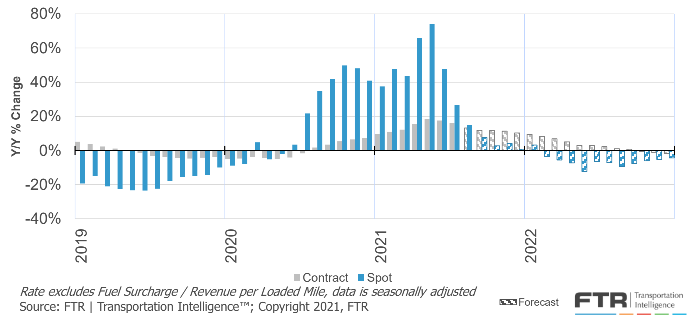
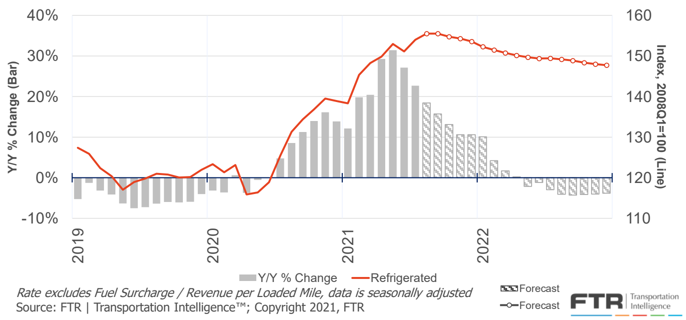
Rate Outlook: Dry Van



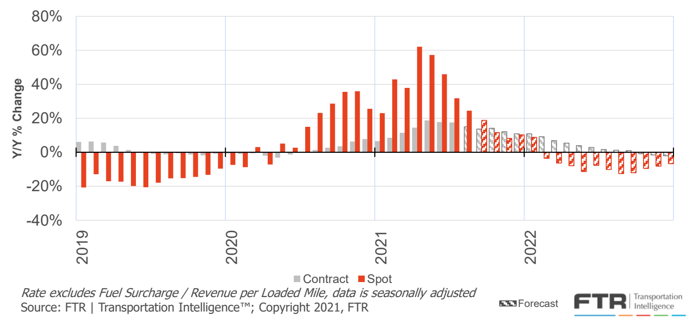
Dry Van Rates: Spot vs Contract



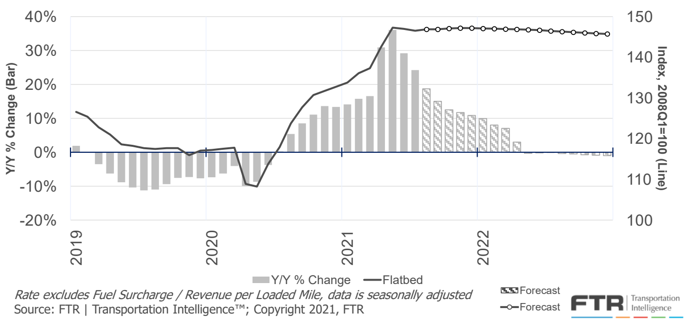
Rate Outlook: Refrigerated Van



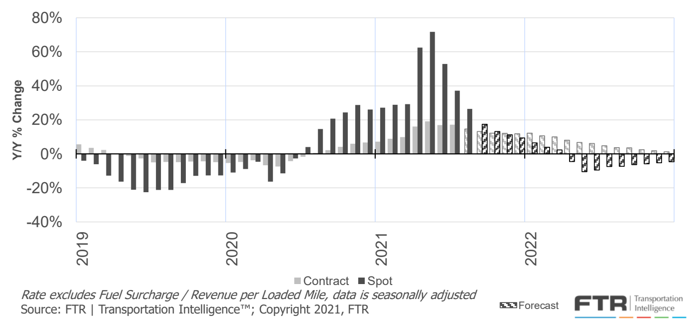
Refrigerated Rates: Spot vs Contract



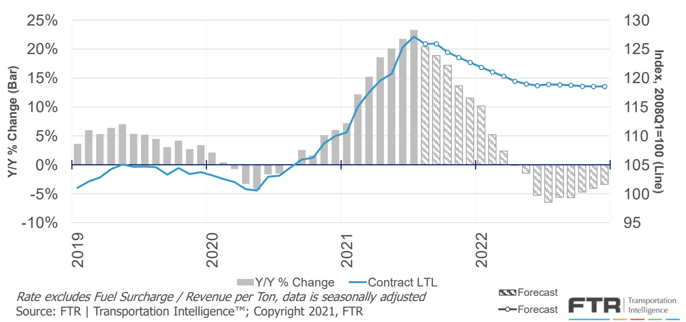
Rate Outlook: Flatbed



Flatbed Rates: Spot vs Contract



Rate Outlook: Contract LTL



Total Truckload Rates Overview

Y/Y % Change	Jul-21	Aug-21	Sep-21	2021	2022
F = Forecast		F	F	F	F
Total Truck (Spot + Contract)	**21.6%**	**15.8%**	**12.8%**	**18.1%**	**0.3%**
Spot Truck Rates	30.8%	19.9%	12.8%	27.7%	-5.6%
Contract Truck Rates	16.4%	13.7%	12.4%	12.8%	3.9%
Dry Van	19.9%	13.4%	10.6%	18.1%	-0.6%
Refrigerated	22.7%	18.4%	15.7%	18.9%	-1.0%
Flatbed	24.3%	18.7%	15.1%	19.2%	1.9%
Contract LTL	23.3%	20.4%	18.9%	16.6%	-1.8%

TL Rates are seasonally adjusted base linehaul, $/mi excluding fuel surcharge

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Intermodal Indicators & Outlook

- The intermodal outlook continues to weaken as rail carriers throttle the amount of volume they are willing to put on their networks and terminals.
- Velocity and other service level metrics remain challenged with velocity holding at or below its five-year average level.

The **intermodal loadings outlook** is constrained by how much volume carriers are willing to add to their networks. Railroads have, since this summer, taken steps to limit how much intermodal traffic moves across their lines and terminals.

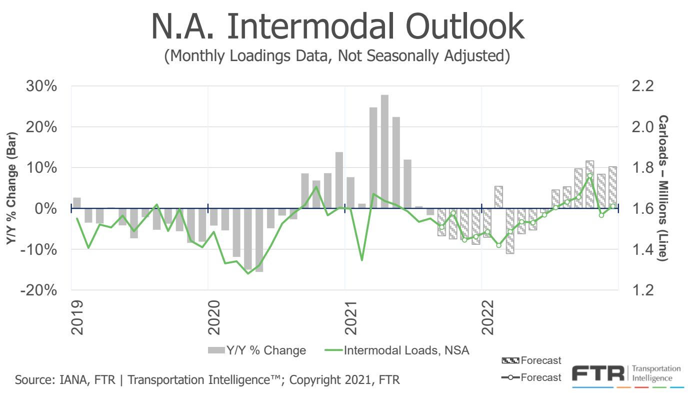
This throttling of volumes essentially caps how much traffic can move over the carriers' networks. A fresh round of domestic service curtailments from the U.S. west coast to inland terminals in Chicago, Kansas City, and Memphis were announced within the last month.

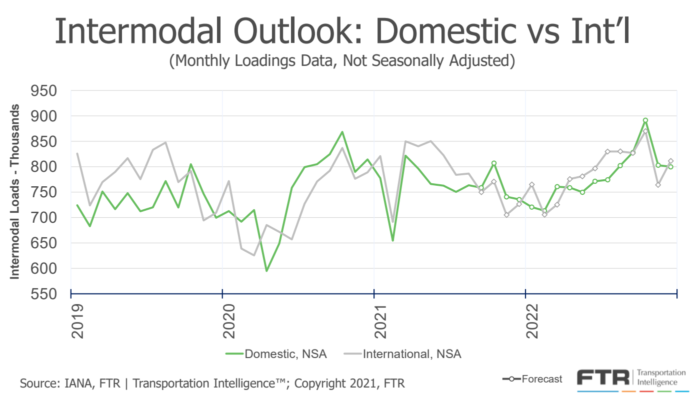
These limitations continue to limit the upside to the outlook while also potentially extending the period of time the sector runs at present levels as port congestion continues to run at high levels across every port complex.

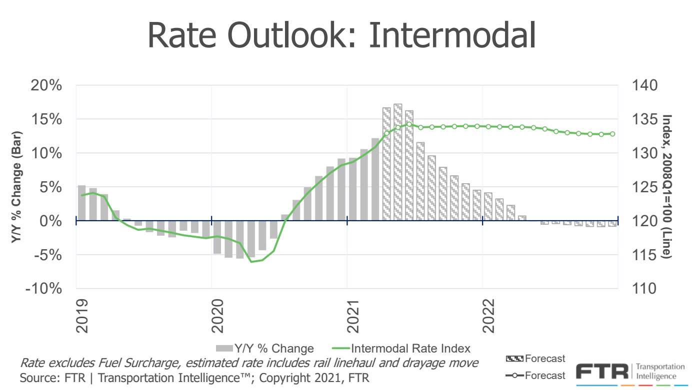
The **service and congestion woes** faced by intermodal shippers are expected to last at least through the end of the year and could well last longer than that.

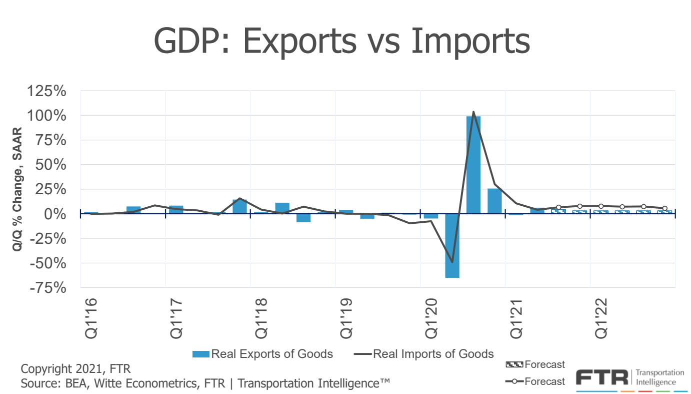
Velocity for intermodal has ticked up a bit in the latest week, but the improvement is nothing more than what would typically be expected seasonally. Train speed continues to run below its five-year average level.

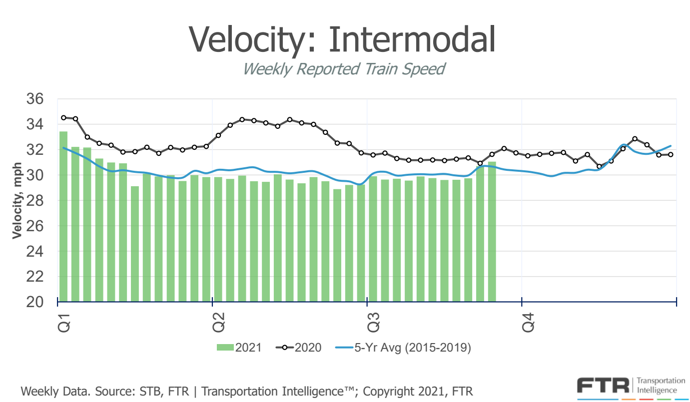
Railroads should get a little bit of a breather to improve service over the next few months as the recovery of lines flooded or blocked by Hurricane Ida is essentially complete and wildfires in the west have reduced dramatically in recent weeks. The improved conditions will fall within a fairly short window, however, because within two months the winter season will be upon us. Winter traditionally is the most difficult season for carriers to deliver consistent service performance.











Additional information and insights into the intermodal market are available in our Intermodal Dash *service*

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Carload Indicators & Outlook

- The outlook for carload stepped down a little bit in the last month, but most of the lost volumes in 2021 will be recaptured in 2022.
- Rate expectations are likely conservative given where rail inflation appears to have run for much of the year.

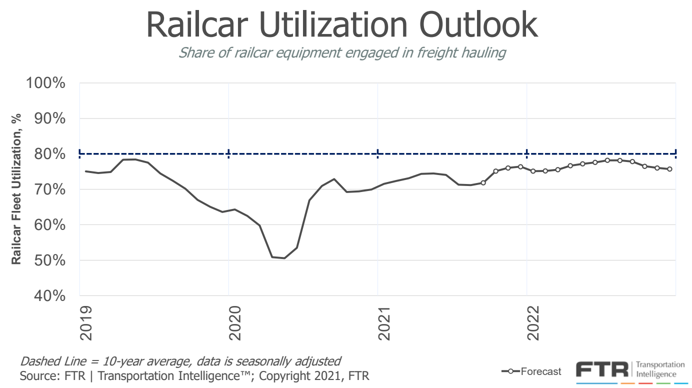
The expectations for **railcar utilization** are little changed in the latest month. It remains expected to approach its historical long-run average by the middle of next year. There is the possibility that recent support for domestic coal traffic could allow overall utilization to hit that level more quickly than forecast.

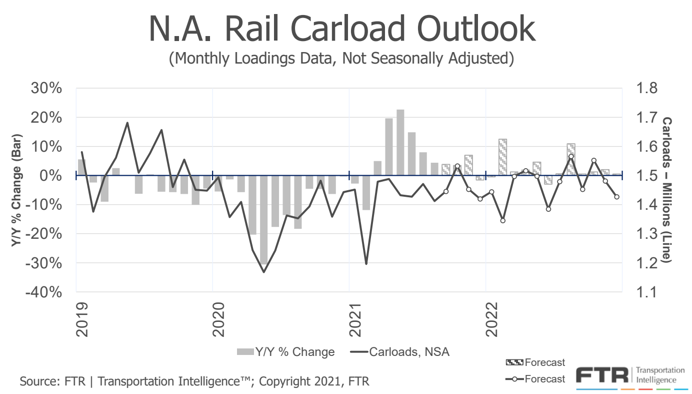
The reduction in 2021 **carload volume** expectations was largely the result of weaker production expectations in the automotive category. The sector has been plagued by semiconductor and other part shortages that has limited output. Given low inventories and pent-up consumer demand, it is expected that volumes will increase significantly when the parts are acquired. But the expectation for when that occurs has been steadily moved out and is now early next year.

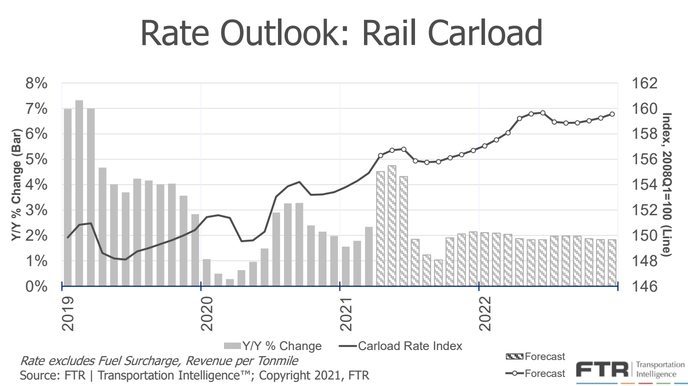
The outlook for **carload rates** is essentially unchanged from last month, but there could be significant upside from where the metric resides. Costs for everything from labor to steel to fuel to lumber have increased more than expected this year. Carriers have been steadfast in their philosophy of pricing ahead of rail inflation, and that would imply rate increases higher than presently forecast.

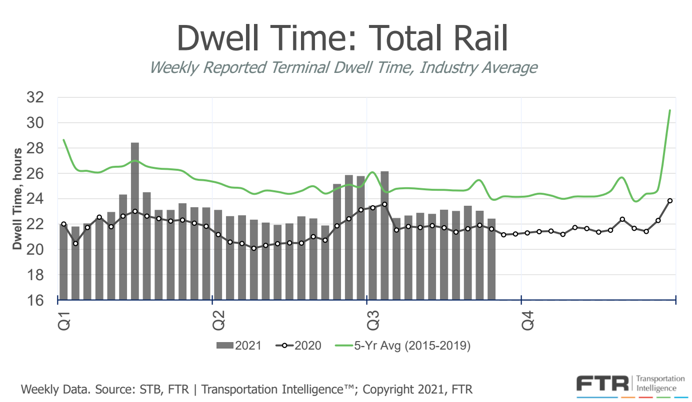
Rail service remains a challenge for many shippers, but carload shippers are generally faring better than their intermodal counterparts. Regulators are poised to take a bigger hand in ensuring the industry has the data it needs to make informed judgments about service, and they have expressed a willingness to get involved if they feel carriers are not delivering a basic level of service to all shippers.

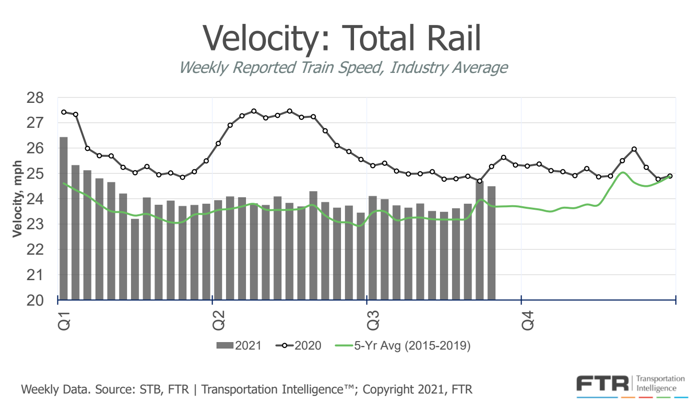
Recent comments from Surface Transportation Board commissioners at industry conferences show a belief that service has suffered because of carrier prioritization of shareholders, which could set the stage for battles ahead.











Additional information and insights into the carload market are available in our Rail Update *service*

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Summary

The economy is expanding at a robust pace but is starting to transition toward trend growth. The spread of the Delta variant has dampened some business activity and hurt employment growth in Q3. Despite some headwinds, the economy is still expanding at a healthy pace. COVID infections started to retreat in September, and more than 56% of Americans are fully vaccinated. The effect of the pandemic on the economy seems to be fading more with each wave that comes along. Shortages of semiconductors and other manufacturing inputs are restraining production and fueling inflation. We expect progress, although it may linger well into 2022.

Economic Outlook Overview

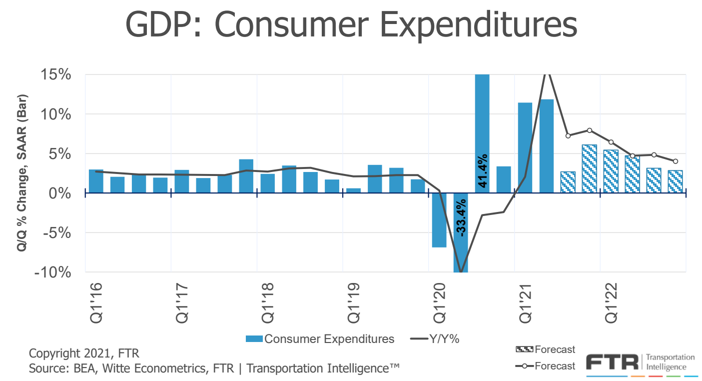
Q/Q % Change, SAAR	Q2'21	Q3'21F	2021F	2022F
Real Gross Domestic Product (GDP)	6.6%	4.8%	5.9%	4.7%
Industrial Production (IP)	6.2%	8.0%	6.1%	4.5%
Goods Transportation Sector (GTS)	4.8%	3.0%	11.6%	6.0%

F = Forecast

Source: Witte Econometrics, FTR; Copyright 2021, FTR

Consumer

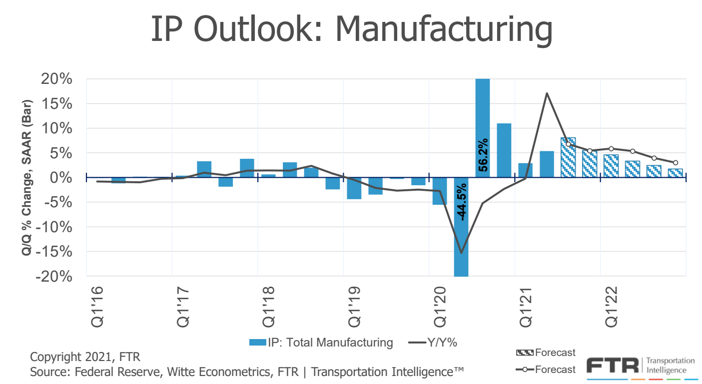
Retail sales surprised on the upside in August, rising 0.7% and up 15.1% from a year earlier. There was a large downward revision to July's number, where sales fell 1.8%. Total sales excluding motor vehicles and parts were up 1.8% in August and 0.8% excluding autos and gasoline. Motor vehicle and parts sales fell 3.6% for the month. Most other sectors saw advances. Food and beverage establishments sales were unchanged, hurt by COVID fears. The report indicates a stronger consumer sector than thought a month earlier when sales declined sharply. The consumer remains healthy, although spending is shifting to services rather than goods.



Manufacturing

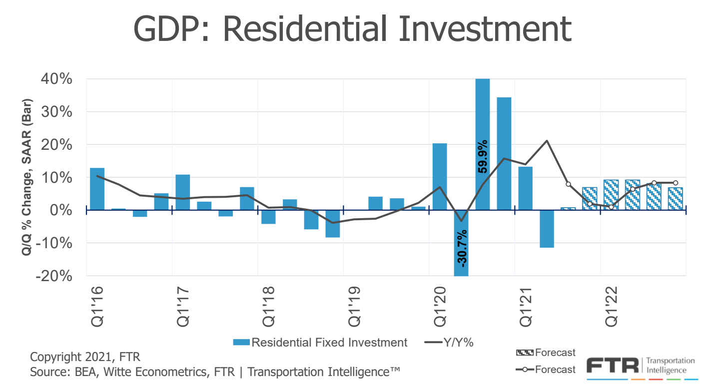
The ISM manufacturing index increased 1.2 points in September to a strong reading of 61.1. However, the improvement did not come in areas most directly associated with transportation. The new orders component was unchanged at a robust 66.7, and production eased six -tenths of a point to 59.4.

U.S. industrial production increased 0.4% in August, but the impact of Hurricane Ida shaved 0.3 of a percentage point off of total production. Manufacturing increased by 0.2%, but the hurricane closed plants for petroleum-based products. Supply chain problems continue to limit output.



Residential Construction

U.S. housing starts increased 3.9% in August to a seasonally adjusted annual pace of 1.615 million units. All the August strength came from the multi-family sector. Single-family starts fell 2.8% to a 1.076 million rate. The multi-family sector saw a 21.6% jump to 530,000. Future building looks more promising as permits rose 6.0% to a 1.728 million annual pace. Single-family permits increased 0.6% to 1.054 million, while the multi-family sector saw a 19.7% increase to 632,000. Single-family starts have been flat recently due to a lack of labor and high prices. Job growth coupled with slower price gains and very low mortgage rates should support continued construction.



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Monthly Business & Economic Highlights

August's Economic Environment:

The mixed bag view of the economy re-emerges as Delta curtails some activity. Manufacturing held up, but payroll was weak.

	May	Jun	Jul	Aug	Impact	Y/Y Chg.	Comments
INDUSTRIAL PRODUCTION							
Total Industrial Production	0.6%	0.5%	0.8%	0.4%	▲	5.9%	Auto production held up surprisingly well following July's jump. Supply chains have not eased and production output continues to be impacted to some degree.
Total Manufacturing	1.0%	-0.2%	1.6%	0.1%	▲	6.2%	
Automobile and Light Duty Motor Vehicle Production	6.3%	-6.4%	14.8%	-0.7%	●	-11.3%	
BUSINESS INDICATORS							
Unemployment Rate	5.8%	5.9%	5.4%	5.2%	▲	-320 bp	The surge in coronavirus infections seems to have had a dampening effect on employment and services. Construction activity is being held up by strong demand for residential.
Job Creation (Payroll Employment)	614k	962k	1,053k	235k	●	6,041k	
ISM Manufacturing Index	61.2	60.6	59.5	59.9	▲	390 bp	
CONSUMER INDICATORS							
Consumer Confidence (Conference Board)	120.0	128.9	125.1	113.8	●	27.5 pts	Housing activity is running at a strong clip but is no longer surging. Retail improved in August, but not enough to make up for July's decline. Consumer sentiment has cooled.
Housing Starts	5.3%	4.0%	-6.2%	3.9%	▲	17.4%	
Retail Sales	-1.4%	0.9%	-1.8%	0.7%	▲	15.1%	
Consumer Price Index	0.6%	0.9%	0.5%	0.3%	●	5.2%	
OIL AND FUEL							
National Avg. Diesel/Gal.	$3.217	$3.287	$3.339	$3.350	▼	37.9%	While already elevated, diesel and crude pricing have continued to increase during September.
W. Texas Int. Crude Oil ($Bbl.)	$65.17	$71.38	$72.49	$67.73	●	60.0%	

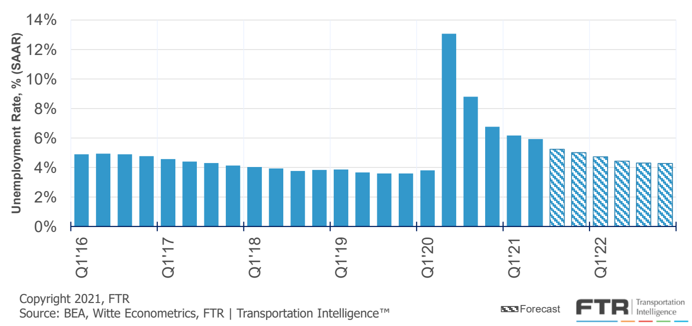
Impacts: ▲ = Positive / ▼ = Negative / ● = Neutral

Source: Federal Reserve, BLS, ISM, Conference Board, Census Bureau, EIA, FTR | Transportation Intelligence™; Copyright 2021, FTR

Employment

Payroll employment growth was sharply weaker in August at 235,000 jobs, seasonally adjusted. However, gains for July were revised up to 1.053 million. The number of unemployed edged down to 8.4 million after a large decrease in July. The unemployment rate fell to 5.2%. Both are greatly improved from the contraction but well above the 5.7 million and 3.2% rate before the pandemic began. The main August weakness was in hospitality/leisure, which was unchanged. Manufacturing added 37,000 and business services added 74,000. The report suggests that COVID-19 is still hurting the economy, but there is still a strong demand for workers.

Unemployment Rate Outlook



Forecast Risks

The economy is expanding at a robust pace and has good momentum, but a rise in COVID infections has slowed services activity and hurt employment growth. However, infection rates have retreated and vaccination numbers are increasing. Some analysts speculate that COVID could fade and have only a modest effect on activity within a year. That would likely have an upside risk for economic growth. The supply chain problems persist, constraining production and boosting inflation. Part of the problem is a tight labor market. The pandemic may have impacted labor in a fundamental fashion that could restrain production and hurt overall economic growth for years.

See page 9 for detailed economic outlook...

Economic Outlook Probabilities

GDP Forecast Confidence Levels

	Next 4 Quarters GDP Range	Next 4 Quarters Probability	Following 2 Years GDP Range	Following 2 Years Probability
Faster Growth	> 7%	20%	> 3%	25%
Base Forecast	**5.0%**	**55%**	**2.5%**	**45%**
Slower Growth	< 3%	25%	< 2%	30%

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TABLE: U.S. Economic Outlook

U.S. Economic & Industrial Outlook

Forecasts of key economic data

	2021				2022				Annual			
	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	2020	2021	2022	2023
F = Forecast			F	F	F	F	F	F		F	F	F
Gross Domestic Product (SAAR)												
Real GDP	**6.3%**	**6.6%**	**4.8%**	**5.9%**	**5.0%**	**4.3%**	**3.2%**	**2.5%**	**-3.4%**	**5.9%**	**4.7%**	**2.6%**
Consumer Expenditures	11.4%	11.9%	2.7%	6.1%	5.4%	4.7%	3.1%	2.9%	-3.8%	8.2%	5.0%	2.9%
Residential Fixed Investment	13.3%	-11.5%	0.7%	6.9%	9.2%	9.2%	8.1%	6.9%	6.8%	10.8%	6.0%	5.9%
Change-Business Inventories	-88.3	-169.4	-82.9	-29.9	0.1	30.1	63.3	63.6	-42.3	-92.6	39.3	64.4
Real Exports of Goods	-1.4%	6.2%	4.5%	3.1%	3.1%	3.1%	3.1%	3.1%	-10.2%	7.6%	3.4%	3.1%
Real Imports of Goods	10.6%	4.1%	6.7%	7.9%	7.8%	7.3%	7.4%	5.7%	-5.6%	14.8%	7.2%	5.6%
Goods Transportation Sector	10.0%	4.8%	3.0%	8.1%	6.6%	6.0%	5.9%	4.3%	-3.1%	11.6%	6.0%	4.4%
CPI Index	3.7%	8.4%	6.0%	4.7%	4.3%	3.8%	3.6%	3.5%	1.2%	4.4%	4.6%	3.5%
Housing Starts - Millions (SAAR)	1.60	1.59	1.62	1.65	1.64	1.63	1.61	1.60	1.40	1.61	1.62	1.58
% Change (SAAR)	6.1%	-3.2%	10.2%	5.7%	-1.4%	-3.4%	-5.0%	-2.8%	8.1%	15.6%	0.2%	-2.3%
Auto Sales - Millions (SAAR)	16.8	16.9	15.0	16.3	16.5	16.6	16.6	16.6	14.5	16.2	16.6	16.7
3 Month T-Bill Rate, %	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.2%	0.4%	0.4%	0.1%	0.2%	0.5%
Moody AAA Bonds, %	2.7%	2.9%	2.7%	3.0%	3.1%	3.2%	3.3%	3.3%	2.5%	2.8%	3.2%	3.5%
Unemployment Rate, %	6.2%	5.9%	5.2%	5.0%	4.7%	4.4%	4.3%	4.3%	8.1%	5.6%	4.4%	4.2%
Federal Surplus, $ (SAAR)	-$4,089	-$3,341	-$2,599	-$2,081	-$1,992	-$1,899	-$1,871	-$1,884	-$3,110	-$3,027	-$1,911	-$1,885

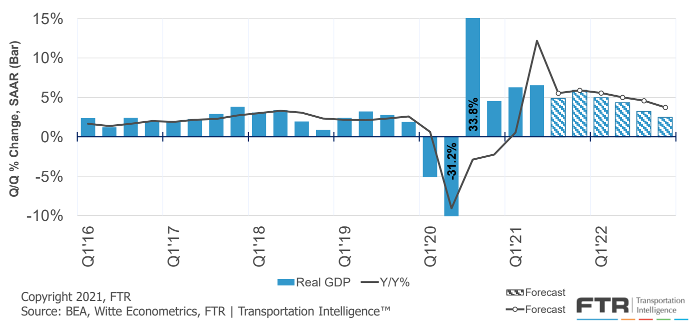
	2021				2022				Annual			
	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	2020	2021	2022	2023
F = Forecast			F	F	F	F	F	F		F	F	F
Industrial Production (SAAR)												
Total IP	**4.0%**	**6.2%**	**8.0%**	**5.1%**	**4.3%**	**3.5%**	**2.5%**	**1.7%**	**-7.2%**	**6.1%**	**4.5%**	**1.6%**
Manufacturing, Total	2.9%	5.4%	8.1%	5.5%	4.6%	3.3%	2.4%	1.7%	-6.4%	6.9%	4.5%	1.6%
Manufacturing, Non-Durables	-1.1%	12.3%	3.2%	4.9%	3.9%	2.7%	1.9%	1.2%	-4.4%	4.6%	3.8%	1.2%
Manufacturing, Durables	6.7%	-0.6%	12.6%	6.0%	5.2%	3.9%	2.9%	2.1%	-8.2%	9.0%	5.1%	2.0%
Mining	7.3%	22.7%	3.6%	6.9%	6.3%	4.6%	3.3%	2.6%	-14.2%	3.1%	6.1%	2.3%
Utilities	8.7%	0.6%	14.6%	1.2%	0.1%	3.9%	2.2%	0.8%	-3.4%	4.2%	3.1%	1.5%

Q/Q % Change, SAAR // F = Forecast

SAAR is Seasonally Adjusted Annual Rates or Seasonally Adjusted Quarter to Quarter Changes at Annual Rates.

Source: Witte Econometrics, Federal Reserve, BEA, FTR | Transportation Intelligence™; Copyright 2021, FTR

Real GDP Outlook



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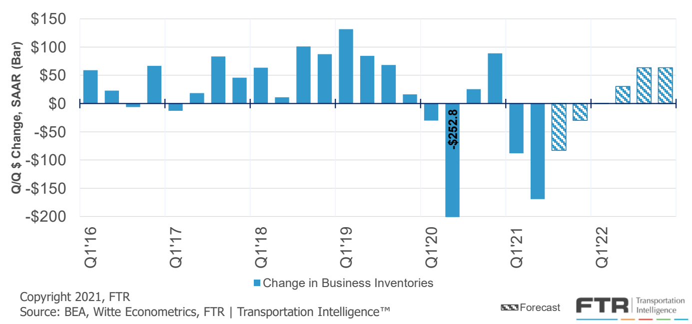
Source: BEA, Witte Econometrics, FTR | Transportation Intelligence™

GDP: Business Inventories



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Another shot in the arm for small carriers?

A vaccine mandate could add fuel to the ongoing market shift.

The Biden administration sparked controversy in September when it announced that it planned to require all employers with 100 or more employees to ensure that their workforce is fully vaccinated against coronavirus (COVID) or that workers who remain unvaccinated produce a negative test result on at least a weekly basis. The Occupational Safety and Health Administration plans to issue an emergency temporary standard (ETS) soon.

Complaints from the business community and others were quick and strong, but nowhere has the proposal generated as much opposition as it has in the trucking industry. American Trucking Associations said that the proposal threatened to cause further supply chain disruptions.

ATA hinted that its biggest concern was that the requirement would be based on company size: “If these mandates are designed to protect Americans, then why the discriminatory 100-employee threshold, picking winners and losers for both employees and employers?”

The Truckload Carriers Association echoed the general concern over disruptions, adding a related issue that ATA did not emphasize: The logistics of vaccinating huge numbers of truck drivers who work all over the country.

Although TCA argued that the plan would lead to a “massive exodus of drivers,” it was silent on the discrimination issue raised by ATA. However, the potential market distortion is clearly a major issue. Few industries have market participants ranging from a single worker to tens of thousands.

As we have discussed frequently over the past year, large carriers already are struggling to replace drivers who are striking out on their own. Even if the Biden administration’s plan never takes effect – and that certainly is possible as numerous entities are set to challenge it – the mere discussion of the issue could support a further shift in trucking capacity. Many drivers might not wait to see whether the mandate survives a court challenge.

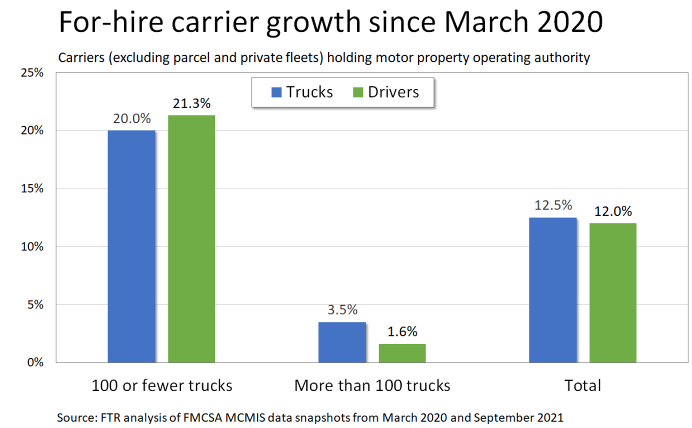
The proposed vaccine mandate represents one more factor that could push more capacity away from larger truckload carriers to the spot market and to transactions between intermediaries and small trucking operations. Strong spot market conditions, maturing digital platforms, and the financial flexibility afforded by massive stimulus have already fueled that transition. Meanwhile, the Supreme Court soon could weigh in on an issue that has the potential to encourage further transformation.

A major shift already occurring

We have discussed often the surge in new carriers since the economy began recovering from last year’s lockdowns. Carriers authorized by the Federal Motor Carrier Safety Administration (FMCSA) since July 2020 and still holding authority as of the end of September represent about 185,000 drivers.

We have not previously discussed the net effect of this surge in the makeup of the industry. Obviously, not all carriers survive. Moreover, large carriers can continue adding drivers even as they are losing them to entrepreneurship.

One way to assess changes is to compare a snapshot of trucking capacity among carriers in operation today to one immediately prior to the



An FTR analysis of data snapshots from March 2020 and September 2021 indicates a much larger increase in capacity among smaller carriers than larger ones. This analysis probably overestimates the number of trucks and drivers added because carriers are required to update their profiles only once every two years. However, the relative change among the fleet size splits is likely close to the actual given the unprecedented surge in new carriers since the summer of 2020.

(Continued on page 11)

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pandemic. This exercise suffers from some limitations, including the fact that carriers are required to update profile data only once every two years. For example, our analysis implies an increase in capacity since the pandemic that is larger than would seem likely, and that is probably related to how many carriers had not yet reported their capacity gains during 2018 and 2019 as of March 2020. Even so, this comparison provides some useful insights into how the market is changing.

Between March 2020 and September 2021, the number of trucking companies surged by about 39%. Not surprisingly, that growth came among the smallest operations. In just 18 months, the number of one-truck operations holding authority jumped by 52%. The number of for-hire carriers with two to five trucks rose by 29%.

In terms of market share, though, the number of carriers is far less important than the amount of capacity operated. Including all for-hire carriers, those with more than 100 trucks in March 2020 had represented fewer than 1% of carriers but about 55% of the drivers. In September 2021, carriers with 100 or more trucks represented 52% of drivers.

Including all for-hire carriers arguably distorts a true picture, however. The major parcel operations – UPS, FedEx, and Amazon – account for a big share of trucks and drivers, and they have seen substantial growth during the pandemic. Those operations also arguably are not as much a source of driver capacity as they are competitors for it.

If we exclude the major parcel operations, carriers with more than 100 trucks in March 2020 accounted for more than 47% of drivers. By September 2021, that share had fallen to about 43%.

The shifts in market share are notable but perhaps not as dramatic as the differences in fleet and driver force growth between large and small carriers. Carriers with 100 or fewer trucks saw gains of 20% in trucks and 21% in drivers between March 2020 and September 2021.

All carriers with more than 100 trucks saw a 5.4% increase in trucks and a 7.1% gain in drivers. However, the parcel carriers added 11% to their truck fleets and nearly 23% to their driver counts. If we exclude parcel, increases for larger carriers shrink to just a 3.5% increase in trucks and a 1.6% gain in drivers.

With smaller carriers already outpacing larger ones, larger carriers understandably are worried that a vaccine mandate for employees of companies with a certain number of employees will make it harder to recruit and retain drivers.

The Supreme Court factor

Another worry for carriers of all sizes is the ongoing challenge to the leased owner-operator model in trucking. California's AB 5 law has been the largest single threat in this regard, although court rulings have blocked its application to motor carriers since the law took effect in January 2020.

The U.S. Supreme Court soon will decide whether to review a decision by the U.S. Court of Appeals for the Ninth Circuit upholding California's authority to bar trucking companies from using drivers who are independent contractors. Numerous trucking-related organizations have already filed briefs supporting the California Trucking Association's petition for review. A decision regarding whether to review the ruling could come in a matter of weeks.

Many observers expect the Supreme Court to hear the case as the Ninth Circuit decision flatly contradicts a 2016 ruling by the U.S. Court of Appeals for the First Circuit. However, there are no guarantees. In fact, on October 4, the court declined to hear a similar case related to California's worker classification rules, although there are some potentially significant differences in the two cases.

Moreover, it is not certain that even if the Supreme Court reviews the AB 5 decision it will side with CTA and its supporters. While a Supreme Court decision would affect only a couple of states directly, it presumably would either encourage or prevent other states from following California's lead.

As we discussed in August, the sizable shift in capacity to very small carriers does set the stage for rapid market cooling if those operations start returning to the relative security of leasing their trucks and driving services to larger carriers. The very flexibility that the trucking industry seeks to preserve – the ability to hire independent contractor drivers – might ease trucking conditions in the near term. On the other hand, loss of that flexibility likely would accelerate what seems to be an ongoing shift of capacity from legacy truckload carriers to smaller carriers and their intermediary partners.

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General Terms

Annualized rate
A rate of return for a given period that is less than 1 year, but it is computed as if the rate were for a full year.

Average Length-of-Haul
Total tonmiles divided by total tons.

Basis Points
A unit that is equal to 1/100 of 1%. If something increased from 2.2% to 2.8%, it increased 60 basis points.

Goods Transportation Sector
Components of GDP that are critical in demand for goods and thereby induce demand for transportation services.

M/M
Month over month. The difference in percentage or units when compared to the previous month.

New Truck Lead Time
The Backlog of Class 8 truck orders divided by the Build for a given month. Gives an indication of the average length of time in months for a fleet to take delivery of a new truck order.

Rail Carloads
Rail carloads is the seasonally adjusted number of carloadings originated in the United States plus loads that come to U.S. destinations from Mexico and Canada. Data in this report excludes intermodal loadings.

Rail Shippers Conditions Index (RCI)
A measure of market conditions that influence the rail shippers freight transport environment. This index tracks the changes representing five major conditions in the U.S. carload freight market. The conditions are: freight demand, freight rates, fleet capacity, carload service, and fuel price. The individual metrics are combined into a single index that tracks the conditions that influence the rail shippers freight transport environment. A positive score represents good, optimistic conditions; a negative score represents bad, pessimistic conditions.

Railcar Utilization Rate
This metric calculates the percentage of the total population of railcars that is required to move the N.A. rail freight. In general, a figure above 90% indicates a tight market where the majority of the railcar population is at work. A figure below 80% indicates a weak market where a significant portion of the population is idle or underutilized.

SAAR
Seasonally Adjusted Annualized Rate

Shippers Conditions Index (SCI)
This index tracks the changes representing four major conditions in the U.S. full-load freight market. The major conditions are: freight demand, freight rates, fleet capacity, and fuel price. The individual metrics are combined into a single index that tracks the market conditions that influence the shippers freight transport environment. A positive score represents good, optimistic conditions; a negative score represents bad, pessimistic conditions.

STCC
Standard Transportation Commodity Code (Similar to the SIC/ NAICS Codes with a few added categories designed for transportation movements)

TEU
Twenty Foot Equivalent Unit. Used for reported port container statistics.

Ton
Tonnage. Ton Originated by specific mode (i.e. one ton of coal shipped by rail and then by water would be shown as two tons of coal). This is Domestic Traffic Only. Export movements are included only as far as the border or to a port in which it will be directly exported. The same is true for Imports. An import is counted once it reaches the border or a port.

Tonmile
One ton moved one mile = one tonmile.

Truck Driver Pressure Index
The index tracks carriers' need for additional drivers based on trends in the business cycle, demographics, and regulations. Business cycles create natural shortages (and surpluses) that stem from typical economic activity. Demographic changes in any given year are small and only add up after a significant time span. Regulations vary across the industry and are difficult to predict due to changing priorities and uncertain response.

The index baseline is zero, representing balance in the driver hiring environment. Positive readings suggest greater pressure on rates and utilization; negative readings suggest less pressure.

Truck Loadings
Truck loadings is the estimated number of truck loads originated in the United States plus truck loads that come to U.S. destinations from Mexico and Canada. It is tons divided by the average tons per load.

Truck Utilization Rate - "Active"
This metric calculates the percentage of the population of active trucks that is required to move the U.S. truck freight. In general, a figure above 95% indicates a tight market where the majority of the truck population is at work. A figure below 90% indicates a weak market where a significant portion of the truck population is idle.

Truck Utilization Rate - "Total"
This metric calculates the percentage of the total population of trucks that is required to move U.S. truck freight. In general, a figure above 90% indicates a tight market, a figure below 85% indicates a weak market.

Trucking Conditions Index (TCI)
This index tracks the changes representing four major conditions in the U.S. full-load truck market. The major conditions are: freight demand, freight rates, fleet capacity, and fuel price. The individual metrics are combined into a single index that tracks the market conditions that influence fleet behavior. A positive score represents good, optimistic conditions; a negative score represents bad, pessimistic conditions.

Y/Y
Year over year. The difference in percentage or units when compared to the same month, quarter, or time period of the previous year.

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Trailer Types

Dry Van
An enclosed, rectangular, box trailer that carries general freight.

Refrigerated (Reefer) Van
A refrigerated and insulated van used to transport temperature-sensitive freight.

Flatbed (Platform)
A flat surfaced, open, trailer with no enclosure or doors.

Specialized (Specialty)
There is a wide assortment of specialized trailers that are highly engineered for specific purposes (i.e. auto hauler, livestock, lowbed, oversized, etc.)

Tank (Tanker)
A trailer with an enclosed, sealed, cylinder-shaped tank used to carry liquid or dry bulk freight.

Bulk/Dump
This is a combined group of Dump trailers and Straight Trucks. A Dump trailer has an open-top box (bucket) used for hauling dirt, rocks or gravel. Discharge can be from end, bottom, or side. Straight Trucks have the trailing equipment permanently mounted to the chassis. The largest segment are Dump Trucks that haul stone and aggregates.

Railcar Types

Box Cars
An enclosed car which has doors. It is used for general service and for lading which must be protected from the weather.

Covered Hoppers
A hopper car with a permanent roof and bottom openings for unloading. Used for carrying cement, grain, or other bulk commodities.

Flat Cars
An open car without sides, ends or top, used principally for hauling lumber, stone, heavy machinery, TOFC/COFC equipment, etc.

Gondolas
A car without a top covering which has straight sides and ends, the floor or bottom of which is approximately level. Used for bulk freight.

Open-Top Hoppers
Cars having sides and ends but no roof with a sloping floor which will discharge its load by gravity through the hopper doors.

Tank Cars
A car which consists of a tank for carrying liquids such as oil, molasses, vinegar, acids, compressed gasses and granular solids.

Freight Rates

Dry Van
Revenue per Loaded Mile. Spot/contract rates for Dry Van activity both with and w/o Fuel Surcharge (FSC).

Indexed to 1Q2008.

Refrigerated (Reefer) Van
Temperature-Controlled (TC). Revenue per Loaded Mile. Spot/contract rates for Refrigerated activity both with and w/o Fuel Surcharge (FSC).

Indexed to 1Q2008.

Flatbed (Platform)
Revenue per Loaded Mile. Spot/contract rates for Flatbed activity both with and w/o Fuel Surcharge (FSC).

Indexed to 1Q2008.

Specialized
Revenue per Loaded Mile. Spot/contract rates for Specialized equipment both with and w/o Fuel Surcharge (FSC).

Indexed to 1Q2008. Note: Includes numerous types of trailer freight, but generally excludes tank trailers.

Less-Than-Truckload (LTL)
Revenue per hundredweight. Contract rates for LTL moves. These are parcel, pallet, or less than full truckload moves by LTL carriers.

Indexed to 1Q2008.

Intermodal
Revenue per Load. An estimate of pricing trajectory that is calculated based on the underlying cost pressures from dry van truckload and rail line-haul. Shown both with fuel surcharges (FSC) included and net of FSC.

Indexed to 1Q2008.

Rail Carload
An estimate of U.S. Class I rail pricing power that is calculated from data reported to the STB. It measures revenue per tonmile and is shown both with fuel surcharges (FSC) included and net of FSC. It is impacted by both actual railroad rates and by changes in the mix of commodities moved.

Indexed to 1Q2008.

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AAR Carload Commodity Definitions

Chemicals
Industrial chemicals, plastic resins, fertilizer, ethanol, hazardous materials, etc.

Coal
Coal. Includes anthracite, bituminous, and lignite coal.

Coke
Petroleum coke, coke produced from coal, and coal or coke briquettes

Crushed Stone, Sand & Gravel
Crushed or broken stone, sand, aggregate, gravel

Farm Products Excluding Grain
Primarily fresh fruits and vegetables. Includes all farm products except grains and soybeans.

Food Products
Canned goods, meat and animal products, sugar, beverages, seed and vegetable oils, etc.

Grain
Primarily corn, wheat, and soybeans but also includes oats, barley, rye, sorghum, etc.

Grain Mill Products
Soybean meal, corn syrup, animal feed, flour, corn starch, milled rice, distiller's dried grains (DDG), etc.

Iron and Steel Scrap
Iron and steel (i.e. ferrous) scrap

Lumber & Wood Products
Lumber and dimension stock, plywood, etc.; does not include furniture

Metallic Ores
Overwhelmingly iron ore, but some aluminum ore, copper ore, etc.

Motor Vehicles & Parts
Finished vehicles, parts, auto and truck bodies, etc.

Nonmetallic Minerals
Phosphate rock, rock salt, crude sulphur, clay, etc.

Petroleum & Petroleum Products
Crude petroleum and products of petroleum refining such as liquefied gases, jet fuel, fuel oil, lubricating oils, asphalt tars, etc.

Primary Forest Products
Wood raw materials such as pulpwood and wood chips

Primary Metal Products
Primarily iron and steel products; some aluminum, copper, etc. Includes galvanized, and fabricated metal products, except ordnance materials, machinery, and transportation equipment.

Pulp & Paper Products
Paperboard, pulpboard, fiberboard, printing paper, pulp, newsprint, boxes, industrial paper, etc.

Stone, Clay & Glass Products
Ground nonmetallic minerals or earths, cement, lime, gypsum products, glass products, bricks and other clay products, abrasives, etc.

Waste & Scrap
Non-ferrous scrap metal, scrap paper, construction debris, ashes, etc.

All Other Carloads
Commodities not included in any of the above categories, excluding intermodal traffic

AAR Carload Summary Traffic Groups

Agricultural Products
Grain; Farm Products; Grain Mill Products; Food Products

Automotive
Motor Vehicles & Parts

Chemicals
Chemicals; Petroleum & Petroleum Products

Coal
Coal

Forest Products
Primary Forest Products; Lumber & Wood Products; Pulp & Paper Products

Metallic Ores & Metals
Metallic Ores; Coke; Primary Metal Products; Iron & Steel Scrap

Non-Metallic Minerals and Products
Crushed Stone, Sand & Gravel; Non-Metallic Minerals; Stone, Clay & Glass Products

All Other
Waste & Non-Ferrous Scrap; All Other Carloads

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Rail Intermodal

Revenue Moves
Rail Intermodal Loadings of Units Originated. Intermodal is defined as a movement of a container or trailer via more than one mode of transportation (i.e. rail + truck or ship + rail or ship + truck). This data tracks intermodal movements that involve the rail mode. Such movements may involve the movement of International and Domestic Containers as well as Trailers via rail.

Intermodal
Counts intermodal rail revenue movements, defined as any movement of a container or trailer, whether loaded or empty, that generates revenue for the railroad. Empty movements of rail-owned containers and trailers typically do not generate rail revenue and therefore are not captured in the data.

A revenue movement typically encompasses the entire journey from when the container or trailer is placed on the rail at the originating intermodal terminal to where it is removed from the railcar at the terminating intermodal terminal and may involve movement over more than one railroad.

Long-haul movements passing through rail gateways, such as Chicago, that involve highway transfer between terminals will generally be counted as two separate movements unless traveling on a through bill of lading.

Intermodal Competitive Index (ICI)
This index tracks the changes representing five major conditions in the U.S. rail intermodal market. The major conditions are: freight demand, freight rates, truck capacity, rail service, and fuel price. The individual metrics are combined into a single index that measures the competitive posture of domestic intermodal vs. OTR Truck.

A positive score represents favorable conditions for intermodal to compete with truck; a negative score represents reductions in intermodal's ability to gain additional market share from truck.

Intermodal Market Segments
These figures track the movement of equipment, not freight. Domestic freight being moved in 20', 40', or 45' containers will be counted as INTERNATIONAL. International cargo transloaded into Domestic Containers or trailers is counted as DOMESTIC.

- **International**

  Includes movements of Containers of the following lengths only: 20', 40', and 45'.

- **Domestic**

  Includes movements of Trailers and all other Containers not included in International movements. Trailers of the following lengths: 20', 28', 40', 45', 48', 53'+. Containers of the following lengths: 48', 53'+. Reported movements of 28' containers are converted to 28' trailers, as all 28' containers are reportedly permanently mounted on chassis and moving as trailers.

Long-Haul Market Share
Average Length of Haul 550 miles or longer. Designated by Commodity at the 3-Digit STCC level.

Intermodal Territories

Sources

Association of American Railroads (AAR)
Weekly Rail Traffic Report

Bureau of Labor Statistics (BLS)
Employment, Consumer Prices, Producer Prices

Federal Reserve
Industrial Production Statistics

FTR
Freight-cast Transportation Model

Intermodal Association of North America (IANA)
ETSO Database

Port Reports
Monthly Container Volumes

Rail Reports
Weekly Market Metrics

Surface Transportation Board
Public Use Waybill, Rail Reporting Metrics

Truck/Trailer OEMs
Monthly Market Indicators

Truckstop.com
Weekly Spot Market Indicators

U.S. Census Bureau
Economic Census, USA Trade, Monthly Indicators

U.S. Department of Commerce
Industrial Reports; Commodity Flow Surveys, Monthly Indicators

Wards Automotive
RS-3S (Truck Retail Sales), FS-3 (Truck Factory Sales)

Witte Econometrics
U.S. Econometric Forecasting Model

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