MONTHLY MARKET UPDATE:

What the Data Is Telling Us About the Freight Market

Tuesday | September 18, 2018
2:00PM ET
Today’s Agenda

- Hurricane Florence and impact to market
- Manufacturing activity and survey performance
- Trucking employment trends
- Regional trends
About Our Presenters

Craig Fuller, CEO and Managing Director, FreightWaves
Craig is the CEO and Founder of FreightWaves, the largest provider of news, content, and analytics for the freight market. The company is also the founder of Blockchain in Transport Alliance (BiTA), a consortium of technology enterprises, manufacturers, carriers, and logistics technology organizations committed to implementing blockchain technology in transportation. Prior to founding FreightWaves, he was the founder and CEO of TransCard, a fleet payment processor that was sold to US Bank. He also has been deep in the industry, having founded and managed the largest provider of on-demand trucking services in North America, the Xpress Direct division of US Xpress Enterprises.

Ibrahiim Bayaan, Chief Economist, FreightWaves
Ibrahiim Bayaan is a business economist with a wealth of experience in the transportation sector. Prior to joining FreightWaves, Ibrahiim headed up economic analysis at UPS beginning in 2010. In this capacity, he played a key role in revamping international, domestic, and regional forecasting procedures, developing statistical models explaining macroeconomic activity and the effects on transportation patterns. Ibrahiim was also responsible for disseminating the economic outlook both inside and outside of UPS, delivering key insights on the economy and the effects on the transportation industry.
WHO WE ARE

FreightWaves is building a world-class community in freight that uses data and technology to understand, analyze, react, forecast, and de-risk the market.
BEHIND THE SCENES

11 Market Reporters
2 Economists
5 PhDs

2.7x More time on site than any other freight related site
12.5M Monthly impressions
1.5 Monthly page views
THE IMPORTANCE OF DATA + TRIBAL KNOWLEDGE
Florence’s path

Historic tracks for hurricanes within 65 miles of Tropical Storm Florence’s current location

Key Highlights

- Hurricane Florence took an unusual path, hitting the coast instead of turning.
- The unusual path posed challenges for hurricane forecasting centers.
Florence Precipitation

Key Highlights

- Record rainfall was reported in the area over the four days
- North Myrtle Beach experience twice the amount of rainfall for a typical September over the four days
- Could take 4-7 more days for flood waters to recede
Florence vs Matthew

Flooding in some areas may exceed that of Hurricane Matthew, which hit the region in 2016

Rivers are expected to continue rising over the next week

Cleanup efforts may take several months before the area returns to normal
North Carolina Agriculture

Key Highlights

- North Carolina is the 2nd largest producer of hogs in the U.S. behind Iowa.
- Southeast corner of NC the highest concentration of hog farms in the state where the most precipitation occurred.
- Lean hog futures contracts (HEZ18) have gained 15% since August 30th.
Trucks in market: Raleigh, NC

Key Highlights

- TRUK measures the number of trucks active in a market in relation to the first week of April 2018.
- Raleigh, NC trucking activity dropped 30% in a 2 day stretch.

(SONAR: TRUK.RDU)
Trucks in market: Atlanta, GA

Key Highlights

- Atlanta market increased truck activity as Florence pushed trucks out of the Carolinas.

(SONAR: TRUK.RDU)
Outbound Tender Rejections: Charlotte, NC to Atlanta, GA

Key Highlights

- Tender rejection indices measure the rate at which contracted load tenders are rejected. Higher rates of rejection indicate lower capacity.

- Shippers attempt to get freight out of Charlotte and into Atlanta.

(SONAR: OTRI.CLTATL)
Top Freight Markets in the U.S.

- Atlanta is the top outbound market in the U.S. 4.5% currently.
- Ontario, CA (LA) - 4.03%
- Joliet, IL (Chicago) - 3.33%
- Harrisburg, PA - 3.33%
- Houston - 2.51%
- Dallas - 2.47%

(SONAR: OTRI.CLTATL)
Outbound Tender Market Share: Charlotte, NC

Key Highlights

- Tender market share is a relational index that indicates % of total load volume in the U.S.
- Charlotte, NC OTMS increased to 1.87% from 1.69% in 2 days.
- Increased outbound load volume in response to Carolina landfall forecast

(SONAR: OTMS.CLT)
Inbound Tender Market Share: Atlanta, GA

Key Highlights

- Tender market share is a relational index that indicates % of total load volume in the U.S.
- Inbound volume increases to Atlanta as shippers and carriers reposition.

(SONAR: OTMS.CLT)
Headhaul Index measures the likelihood of getting a load out of a market. The higher the value (darker blue) indicates more outbound than inbound vs. lower value (light blue) indicates more in than out.

Charlotte market has increased inbound load requests over the past few days.

(SONAR: HAUL.CLT)
Headhaul Index: Charlotte, NC and Raleigh, NC

Key Highlights

- Raleigh and Charlotte both experiencing decreasing HAUL values as inbound exceeds outbound at an increasing rate.

(SONAR: Haul.CLT, Haul.RDU)
Hurricane Florence Impacts

- Estimated damages ~ 15-20 billion (2017 Hurricane Harvey ~ $125 billion)
- Disruptions to local manufacturing, housing, retail spending behavior
- Much of this is made up in subsequent months
- Rebuilding activity also gives a boost to construction activity
Current Economic Situation

US Gross Domestic Product

- Q/Q Growth
- Y/Y Growth
Positives for 3Q growth

- Business investment still strong
- Inventory building should pick up
- Consumer spending still solid

Weaknesses in 3Q

- International trade deficit widening
- Housing activity still weak
- Potential hurricane impacts
84% of the products that are transported across the U.S. are commodities that have futures traded against them.
Retail spending has improved in each of the last seven months and is now 6.5% higher than at this point last year.

- Broad-based health in retail, though housing weakness is dragging down some industries.
- Consumer fundamentals are generally strong, and confidence remains elevated.
- Signs pointing to a strong peak holiday season for retail.

(SONAR: RESL.USA)
Industrial Output

Industrial production growth is nearing 5% Y/Y in the 3rd quarter.

Mining and oil drilling activity have boosted the overall manufacturing numbers.

Manufacturing has also been improving, topping 3% Y/Y growth for the first time in over 6 years.

Even within manufacturing, much of the strength is connected to industries supporting the oil industry.

Key Highlights

(SONAR: IPROG.USA, IPROG.MFTG)
Survey Data

Key Highlights

- Manufacturing ISM readings hit a 14-year high in August.
- Readings above 50 signal expansion in the sector, readings above 55 typically signal healthy growth.
- Forward looking components of the ISM data suggest manufacturing will be strong going forward.
ISM Components

- Order backlogs measures the amount of orders that have yet to be filled by manufacturers.
- Supplier deliveries measures the amount of time it takes for manufacturers to receive supply deliveries.
- Elevated readings in order backlogs and supplier deliveries suggests bottlenecks in the production process.
Diesel prices have stabilized along with oil.

Current prices are high enough to sustain investment into the mining and oil sector.

Saudi Arabia has announced intentions to restrict supply to push prices higher.

Strong domestic US production should keep oil and fuel prices in check going forward.

(SONAR: DOE.USA)
Housing data continues to be weak into the 3rd quarter

Both existing and new home sales declined again at the start of the quarter

Housing starts were essentially flat after a big decline in the previous month

Shortages of developed lots have curtailed building and contributed to low inventory

(SONAR: HOUS.USA)
Auto Production declines in the U.S.

Key Highlights

- Auto production is a measure of the output of finished light vehicles in the U.S.
Trade Performance

- The trade deficit has widened in each of the past two months
- Goods exports have performed poorly recently, declining in June and July
- Imports continue to rise in the economy
- Tariff-related fluctuations are partly to blame, though the strength of the US dollar is also starting to affect performance

Key Highlights

(SONAR: GOEX.USA)
Freight Rates

Rate inflation in long-distance trucking slipped in August after record highs in July.

Local rates increased, but growth remains lower than long-distance.

Year-over-year inflation is likely to moderate going forward as comparisons get more difficult.

Other modes of freight have begun to experience rising rates as well.

Hurricane activity in September likely pushed rates up higher temporarily.

Key Highlights (SONAR PPI.LDTL)
Trucking Hires

Key Highlights

- Trucking hires have continued to climb over the past year.
- Year-over-year growth in trucking employment is now 2% higher than at this point last year.
- Rest of the economy is growing about 1.6%, but other goods sectors are outpacing trucking hires.

(SONAR: EMPS.TRUK)
Trucking Employment

Total ~ 1.48 million

Source: Bureau of Labor Statistics
Trucking Hires

Key Highlights

- Recently, hiring within trucking has been concentrated in long-distance freight.
- Local freight hiring had also been generally positive, but has flatlined over the past few months.
- Points to expanding capacity in long-distance for-hire market.

Source: Bureau of Labor Statistics
Market Outlook

Depending on total hurricane impact, economic data will be noisy over the next couple of months: industrial production, retail, housing numbers are likely to be affected.

Freight demand looks generally solid, though exports and housing are areas of weakness.

Trucking capacity appears to be expanding slowly, but will continue to be tight in upcoming months.
Next Steps

● Join us for our next monthly Market Update Webinar in October - date to be announced soon.

● All screens presented in today’s presentation were created in FreightWaves’ SONAR Market Dashboard. For more details on how to access SONAR:
  ○ Contact Michael Vincent at mvincent@freightwaves.com

● For more market and economic-focused insights like today’s content, join us for MarketWaves18 in Grapevine, TX, on November 12–13.
  ○ Register at www.freightwaves.com/marketwaves18
Q & A