Trucking industry downshifts as it searches for a smoother road ahead.

Winter 2023

Freight Transportation

Global economic headwinds and cautious consumer spending have created volatility in the freight transportation industry in 2023. Rising inflation and fuel rates have pushed freight rates up moderately heading into the end of the year. The instability of companies in the industry has caused some concern, such as the announcement of less-than-truckload (LTL) giant Yellow ceasing operations this past summer. However, strong GDP growth, resilient consumer spending, healthy job creation, and near-record-low unemployment provide reasons for optimism. The post-pandemic landscape has normalized from widespread economic and supply disruption but still provides broad opportunities for the industry.

Occupier View

Trends

- Driver demand remains a top priority for many companies
- The market for last-mile delivery and cargo transport is closely following consumer spending

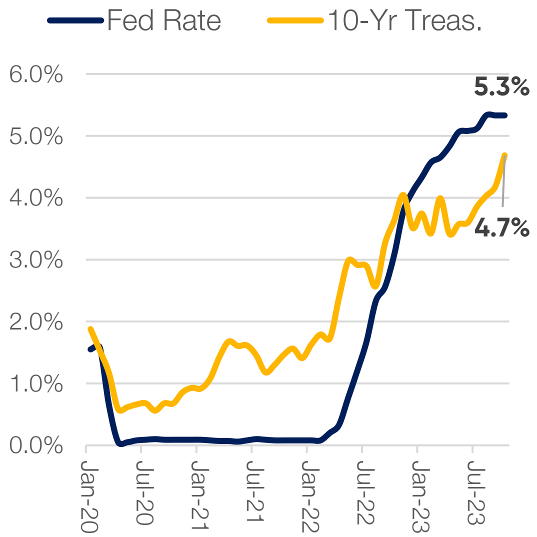
Look Ahead

- Keeping up with technology change will require more investment and training
- Safety will remain a top priority as labor-related challenges in the trucking industry remain

Economy

Volatility of Economic Indicators are Normalizing

Fed Effect Rate v 10-Yr Treasury (Oct. 2023)



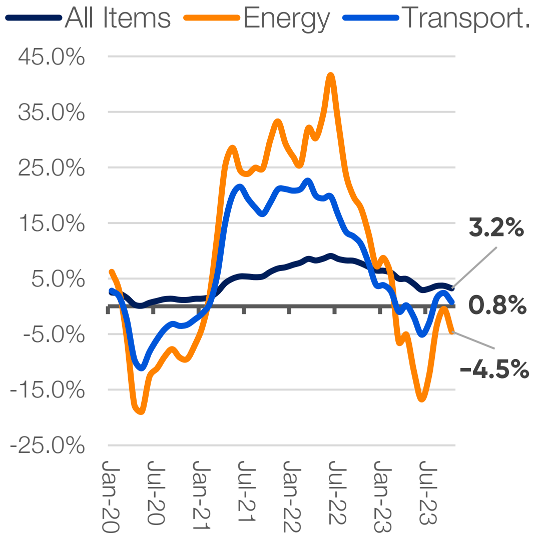
5.25-5.50%

The Fed has increased rates 11 times since the start of 2022

Trending

Source: Board of Governors of the Federal Reserve System; Federal Reserve Bank of St. Louis.

Consumer Price Index (All Items, Energy, & Transport) (Oct. 2023)



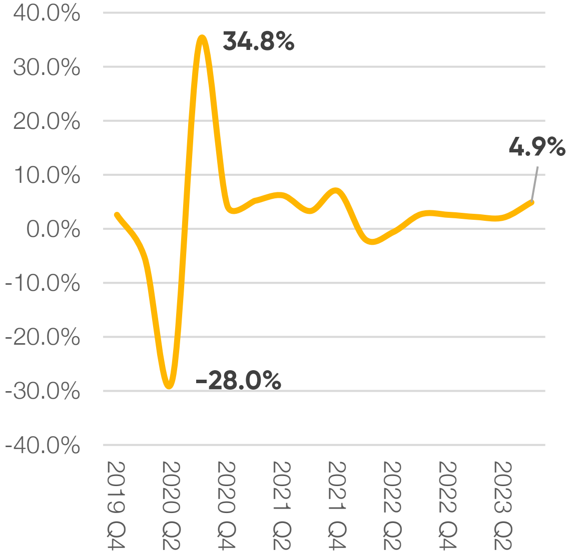
-4.5%

Energy CPI (inflation) has fallen sharply since June 2022

Trending

Source: U.S. Bureau of Labor Statistics

Gross Domestic Product (3rd Qtr. 2023)



4.9%

GDP for the third quarter increased an impressive 4.9 percent since the end of the third quarter

Trending

Source: U.S. Bureau of Economic Analysis, Real GDP, Seas
Note Q3 2023 data is the advanced estimate

Forecasts for a looming recession have never materialized, but economic volatility has caused plenty of disruptions. Analysts now predict a soft landing for the economy in the next 12 months, buoyed by early projections of a 4.9 percent growth of GDP in the third quarter of 2023.

Fed Funds Rate/10-Year Treasury

The Fed has raised rates 11 times since March 2022, including four 75 bps increases. Rates are expected to level off moving into 2024. The yield on a 10-year treasury note briefly passed five percent for the first time since 2007.

CPI (All Categories)

Inflation retreated in late 2022 and early 2023 but has ticked higher in the past several months. The CPI all items index increased by 3.2 for the 12 months ending in October, remaining slightly elevated from historic averages.

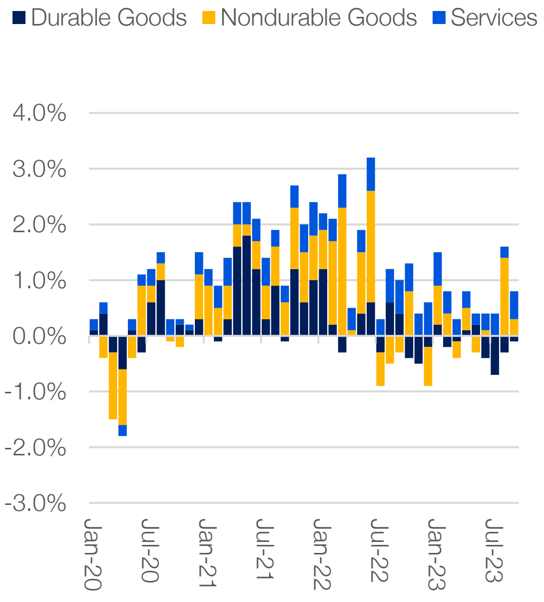
Gross Domestic Product

Real GDP increased at an annual rate of 4.9 percent in the third quarter of 2023, based on the “advanced” estimate. The increase was driven by both consumer and government spending.

Consumers

Durable Goods Spending Drops as Overall Spending Slows

PCE Index
(Month-over-Month change)
(Sept. 2023)



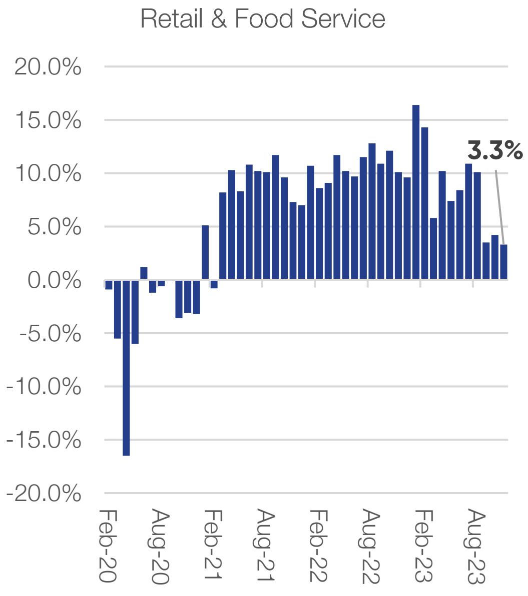
4

No. of consecutive months durable goods have been decreasing

Trending

Source: Bureau of Economic Analysis

Payment Card Transactions
(Month-over-Month change)
(Oct. 2023)



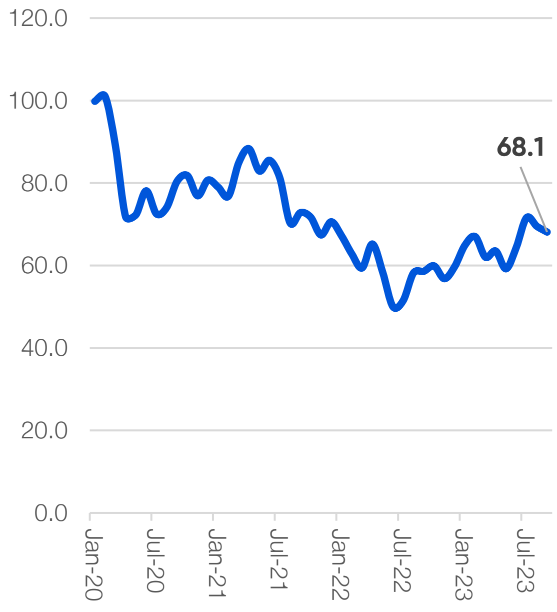
23

No. of consecutive months payment card transactions increased from the previous month

Trending

Source: Bureau of Economic Analysis,

Consumer Sentiment Index
(All Categories: Sep. 2023)



83.5

Consumer Sentiment average since the year 2000, the average since the start of the pandemic is 69.9

Trending

Source: Surveys of Consumers, University of Michigan,: Consumer Sentiment

The Commerce Department reported that retail spending slipped in October, following six consecutive months of gains, however, early reports of holiday spending have exceeded forecasts. Nevertheless, consumer sentiment is still cautious as the close of 2023 nears.

Personal Consumption Index

The Personal Consumption Expenditure (PCE) index is a measure of prices paid for goods and services. Durable goods such as appliances and furniture have slipped in the last several quarters.

Payment Card Transactions

Retail and food service transactions by payment card have been increasing since a precipitous drop in 2020, but the increases have been noticeably slower in recent months.

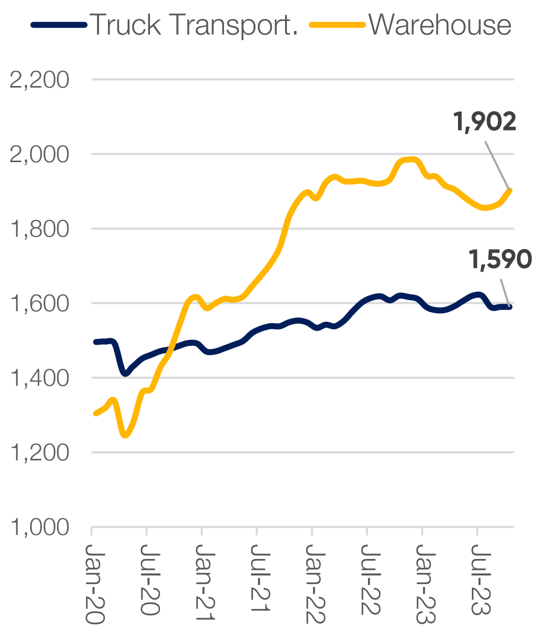
Consumer Sentiment Index

While consumer sentiment has been generally improving, it remains below historic averages. As consumer spending moderates, consumer sentiment will likely be slow to dramatically improve.

Transport

Jobs Added While Fuel Prices Provide Transportation Relief

Job Creation (1,000s)
(Truck & Warehousing: Sept 2023)



691,000

Jobs added since the start of 2020 in the truck drivers and warehouse sectors

Trending

Source: Bureau of Transportation Statistics-Current Employment Statistics

Truck Tonnage Index
(Sept 2023)

116.1

Truck tonnage index for the month before the start of the pandemic is near the September 2023 index

Trending

Source: TMAS Data, Office of highway Policy Information, FHWA

Diesel Sale Prices
(Dollars Per Gallon: Nov. 2023)

-25.8%

Diesel prices are well-below the peak in the summer of 2022

Trending

Source: U.S. Energy Information Administration

Finding qualified drivers and workers within the freight transportation industry has tempered growth. A general slowdown has been softened by the easing of fuel prices over the past several quarters.

Job Creation

Truck and warehouse jobs have leveled the past year as demand returned to normalized levels after the initial dramatic increase following the start of the pandemic. Driver demand remains high.

Truck Tonnage Index

The truck tonnage index measures the gross tonnage of freight transported by motor carriers. The index has generally been slipping since it peaked in October 2022.

Diesel Sale Prices

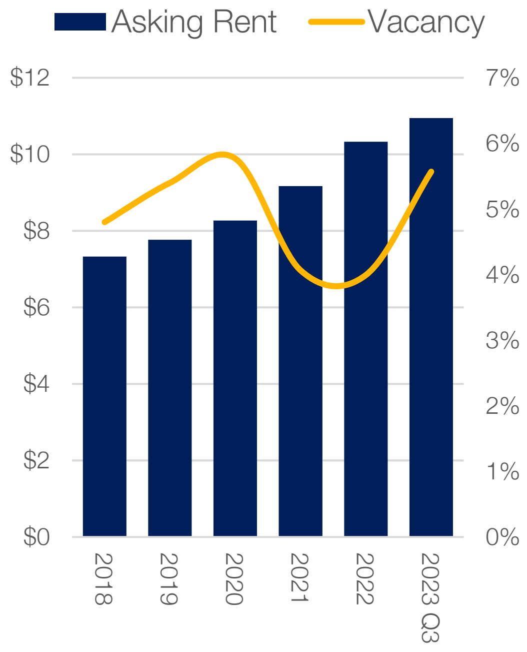
The price for a gallon of diesel fuel consistently increased since the pandemic until it peaked at nearly $6.00 per gallon in June 2022. Since that time, prices have dropped around $1.50 per gallon.

Real Estate

Industrial Real Estate Market Downshifts

Historic demand for warehouse space has lessened, providing a brief window for occupiers who have been operating in an extremely challenging environment for the past several years. Historic levels of new supply will be delivered over the next six months.

Lease Rates & Vacancy (Warehouse/Distribution)



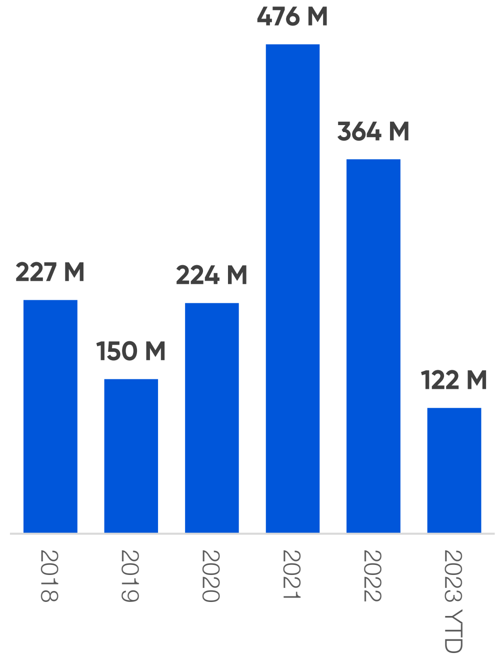
40.9%

Lease rate increase since the start of the pandemic

Trending

Source: CoStar, Cresa

Net Absorption (Warehouse/Distribution)



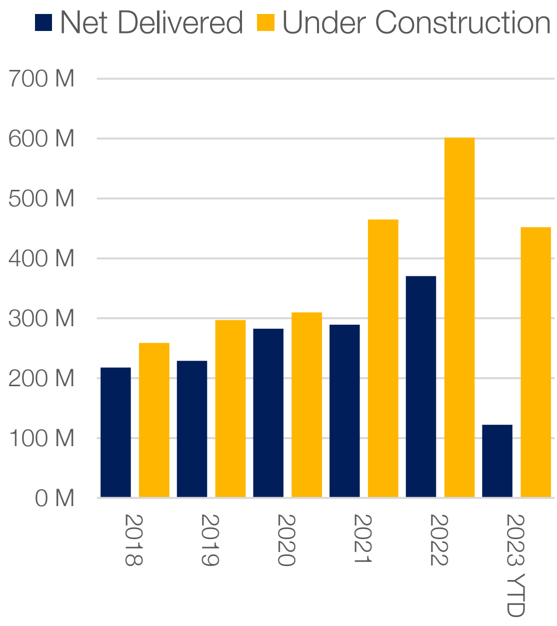
840 Million

Positive net absorption in 2021 and 2022, both record highs

Trending

Source: CoStar, Cresa

New Construction Warehouse/Distribution)



75%

Warehouse/distribution space under construction level compared to 2022 high

Trending

Source: CoStar, Cresa

Lease Rates/Vacancy

The average asking rate for warehouse space has increased by more than $3.00 per square foot since the start of the pandemic. Meanwhile, vacancy has drifted higher to 5.6 percent with new supply delivering.

Net Absorption

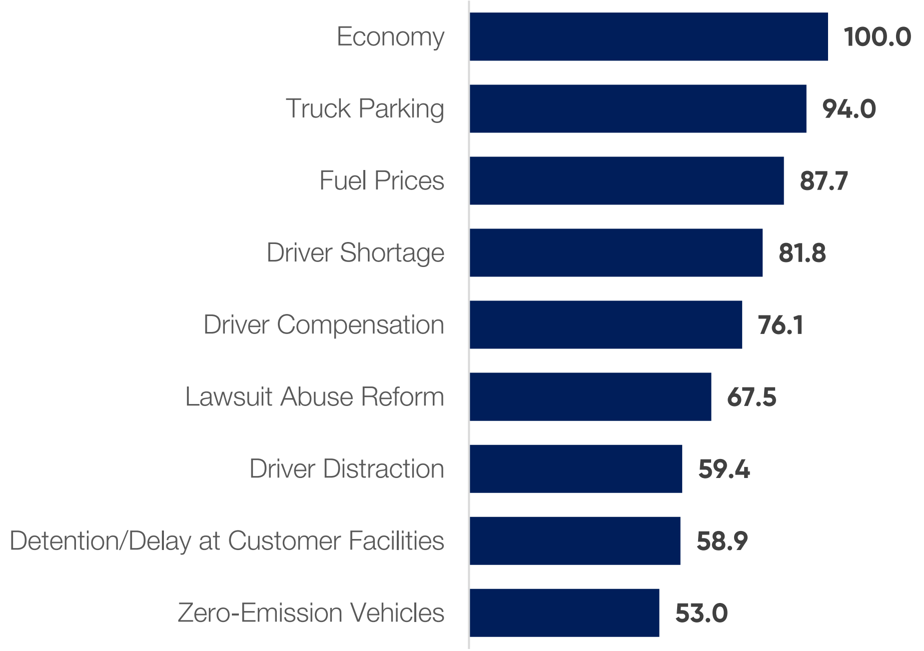
Absorption for 2023 is on track to be near pre-pandemic levels, following two years of historic gains. A robust pipeline will keep absorption elevated moving forward.

Construction

New construction starts have slowed by high levels of new supply, rising interest rates, and increasing labor and material costs. While the pipeline remains robust, fewer construction starts are predicted to start in 2024 as the industrial market waits to better understand demand and overall economic conditions.

What's Next?

Trucking Industry Concern Index



Source: American Transportation Research Institute, 2023 report

The American Transportation Research Initiative: Critical Issues in the Trucking Industry report conducts a yearly survey to understand issues that impact the industry. The economy remains a top concern with consumers remaining cautious. Truck parking has increased in importance from last year as safety issues and lack of options for drivers continue to make parking an important concern. Recent government regulations have placed increased pressure on zero-emission vehicles being put into service causing concern for players within the industry to prepare for this potential shift.

Looking Ahead

The freight transportation industry is approaching a crossroads after several years of disruption begins to settle and a new approach to global shipping – in the form of electric vehicles, artificial intelligence, and advanced technology like robotics – begins to come into focus. Companies that embrace change and prepare for future disruption while maintaining customer relationships and safety will be poised to take advantage of the opportunities. In the near term, the declining price of fuel will likely be short-lived, presenting a large upside risk due to inflationary pressures. From a longer view, the overall economic recovery is expected to be a relatively soft landing, with consumer demand for 2024 remaining generally optimistic. The freight transportation industry is considered "the canary in the coal mine" for economic health, with indicators pointing to a mostly favorable outlook, but with the rollercoaster ride of the past several years, companies will be cautiously optimistic as the economic landscape grows increasingly complex.

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