

“Yes, Virginia, There Will Be a Recovery—The March Back to Equilibrium and Beyond”

A TRUCKING STATE OF THE UNION

Fall 2024

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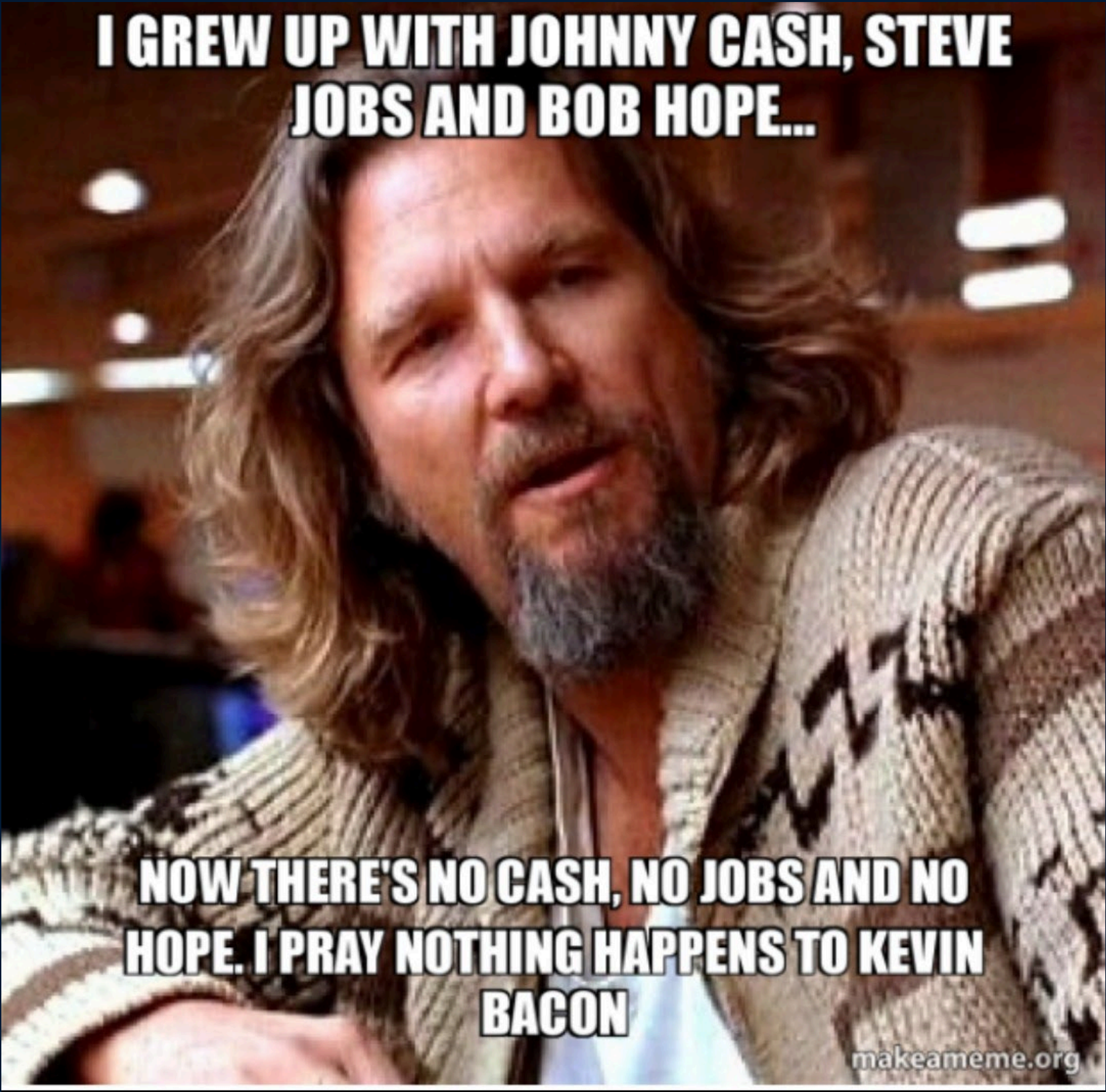
2024 TRANSPORTATION INNOVATION FORUM



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TRUCKING AND LOGISTICS:

Tough Times Indeed!



TRUCKING 'STATE OF THE UNION' AGENDA

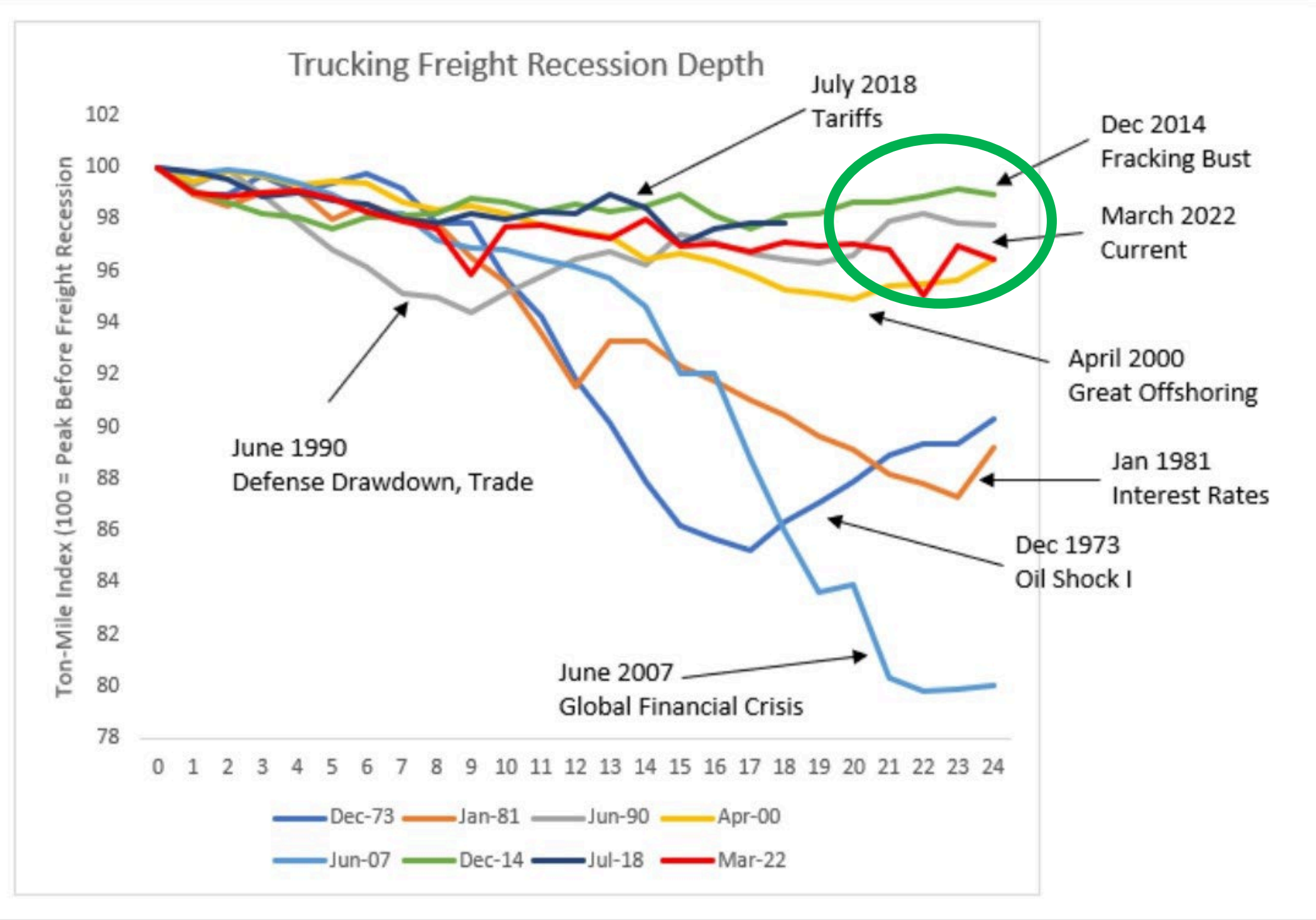


- The State of Freight
- The State of the Consumer
- The State of Demand
- The State of Capacity
- The Right State of Mind

**"It's difficult to make predictions,
especially about the future."**

- Yogi Berra

8 FREIGHT RECESSIONS



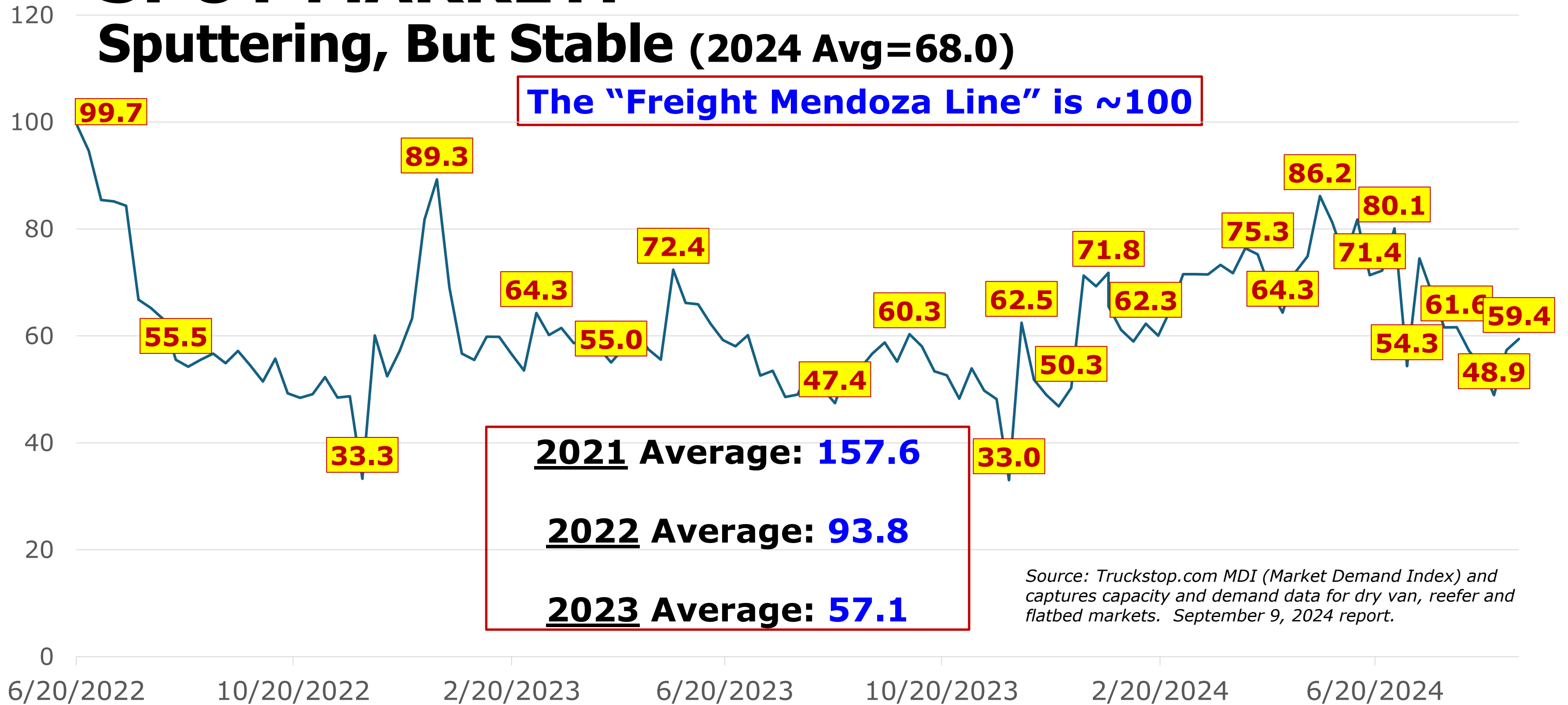
**Current One
 > Modest Volume
 Declines
 (But Nasty Supply Problem!)**

Source: Michigan State University and Professor Jason Miller, who created a proprietary ton-mile index.

SPOT MARKET:

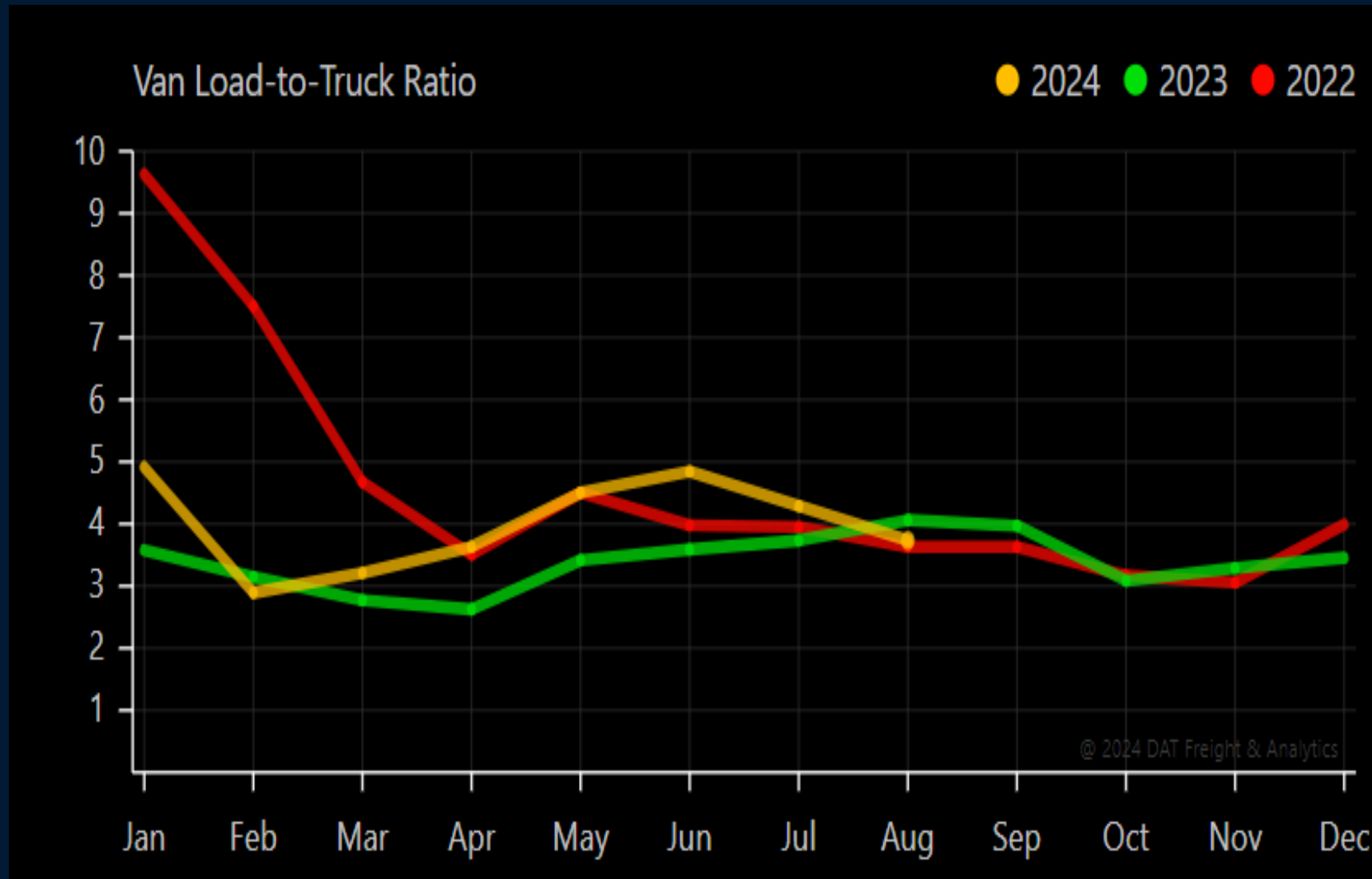
Sputtering, But Stable (2024 Avg=68.0)

The "Freight Mendoza Line" is ~100

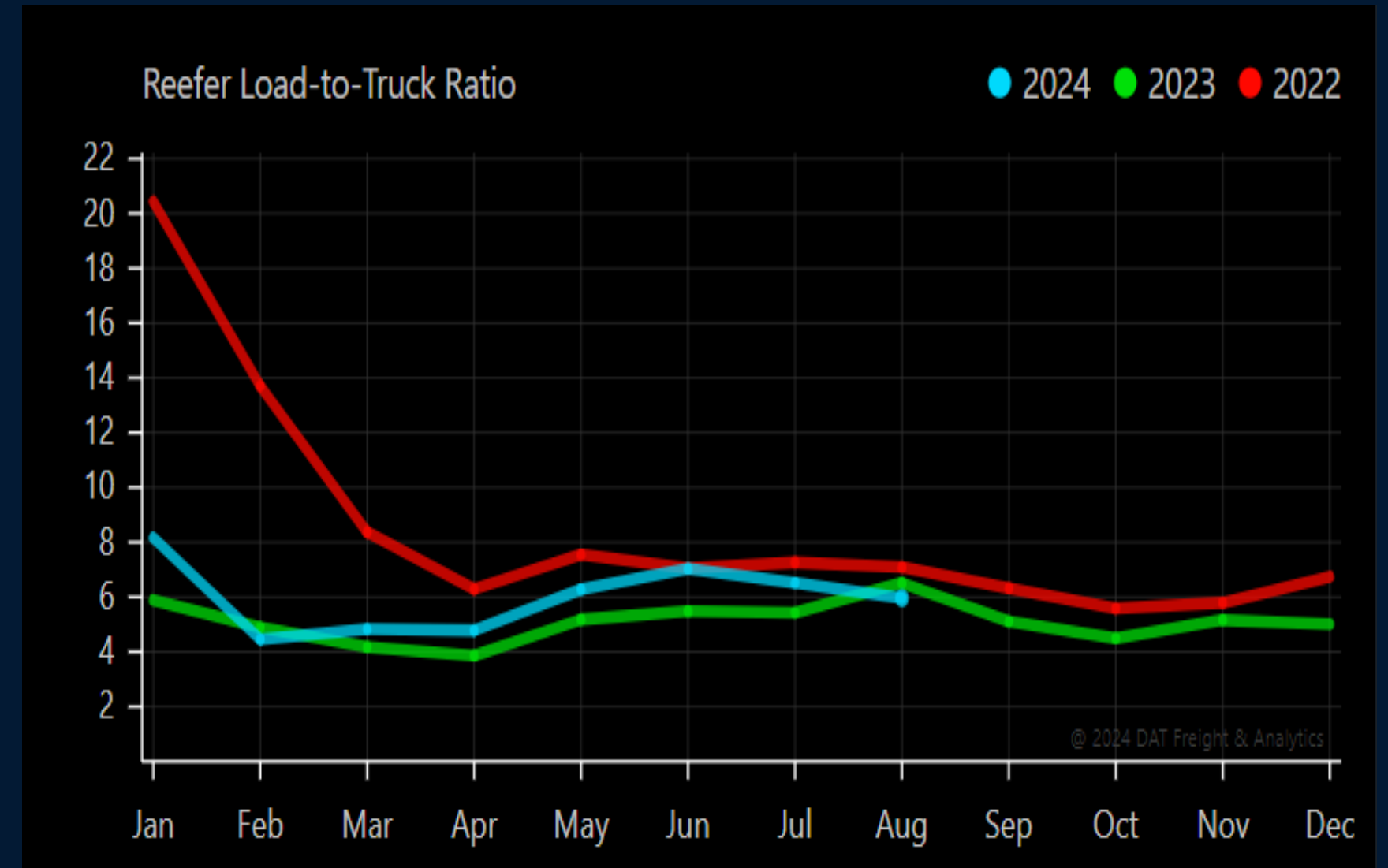


LOAD-TO-TRUCK RATIOS HAVE LOST MOMENTUM

Van Dynamics

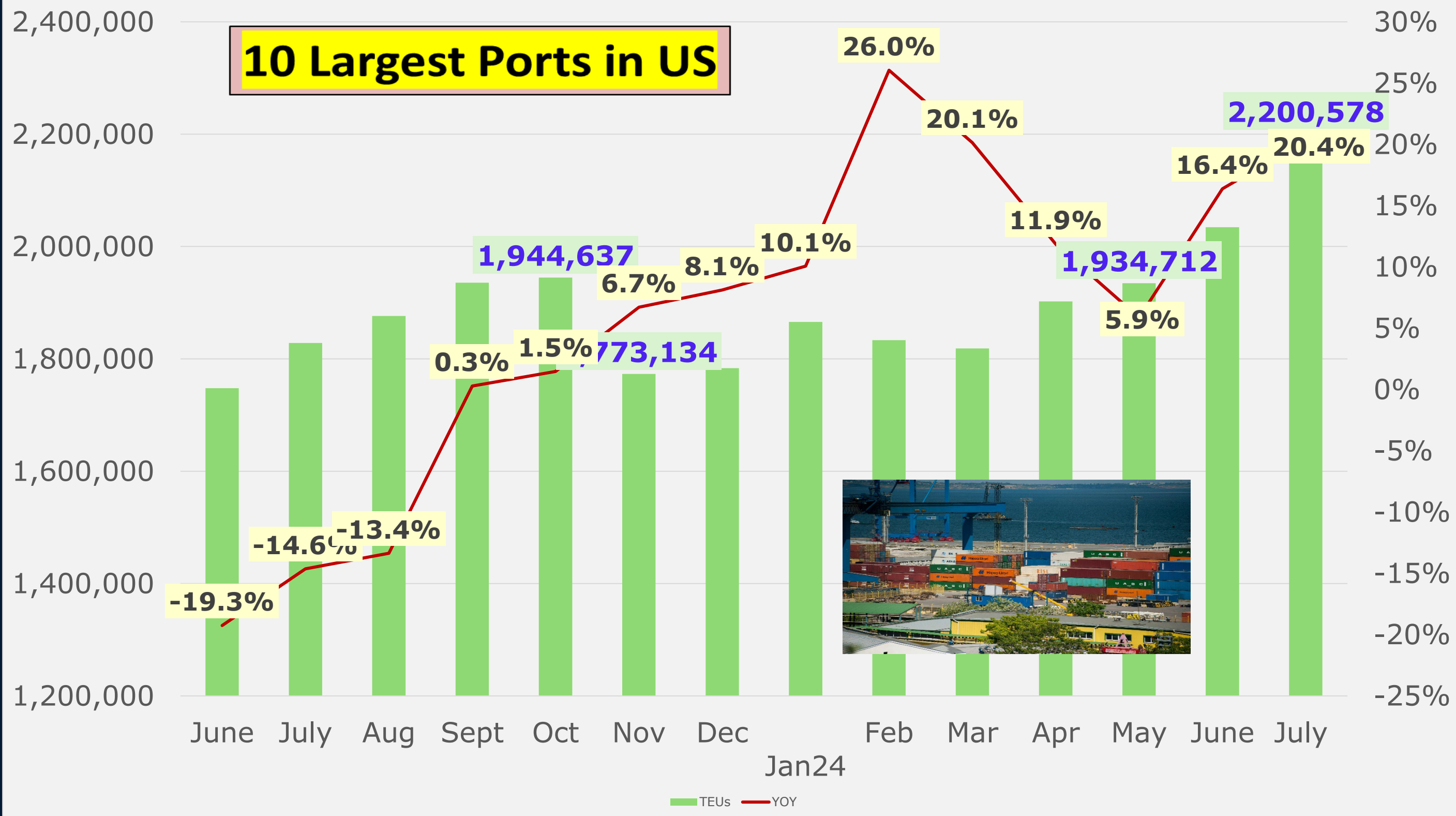


Refrigerated Dynamics



Source: DAT

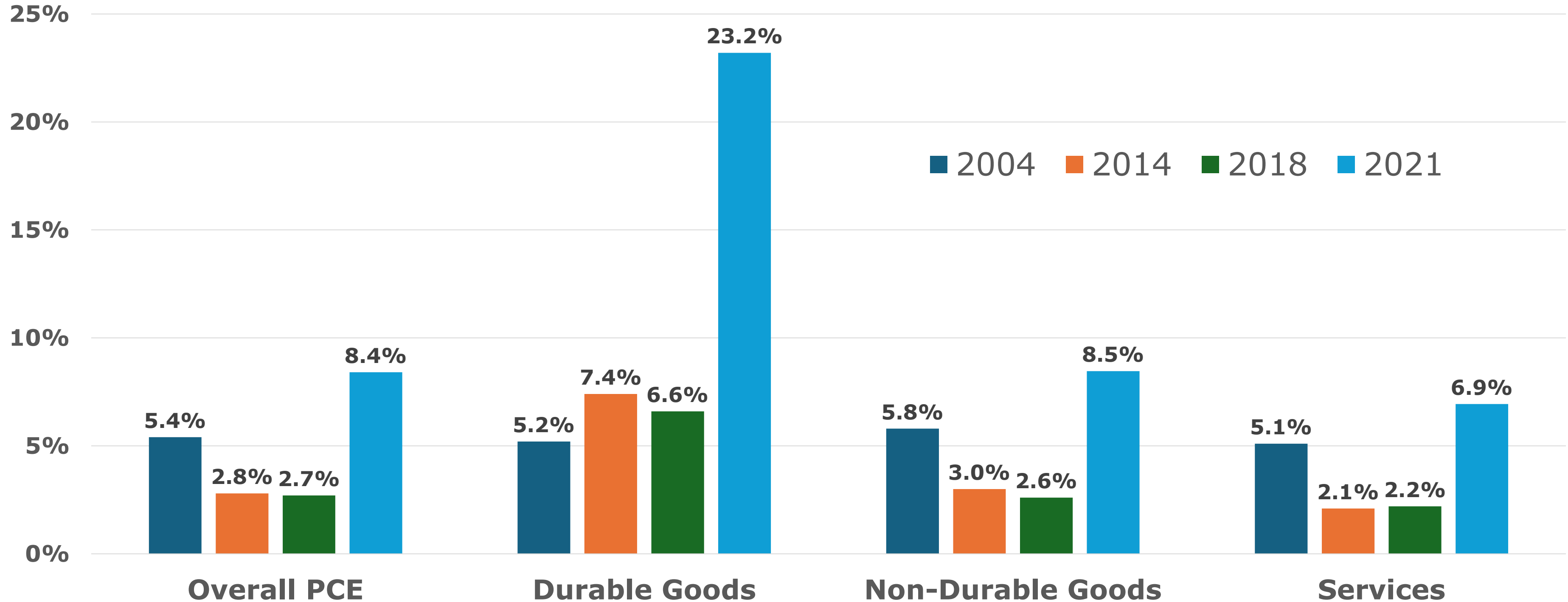
INBOUND PORT VOLUMES Are Growing YOY After 14 Months of Declining Volumes



- BIGGEST GAINERS:**
- Semiconductors
 - Plastic products
 - Household furniture
 - Appliances
 - Various construction materials

Sources: US port websites and the McCown Report. Percentages are year-over-year and are for **loaded inbound containers as measured in TEUs.**

THE CYCLES IN PERSPECTIVE: 2021 Spending (i.e., Freight) Was on Steroids!



Source: BEA Personal Consumption Expenditures report and the St. Louis Federal Reserve. All figures are "real", meaning inflation-adjusted.

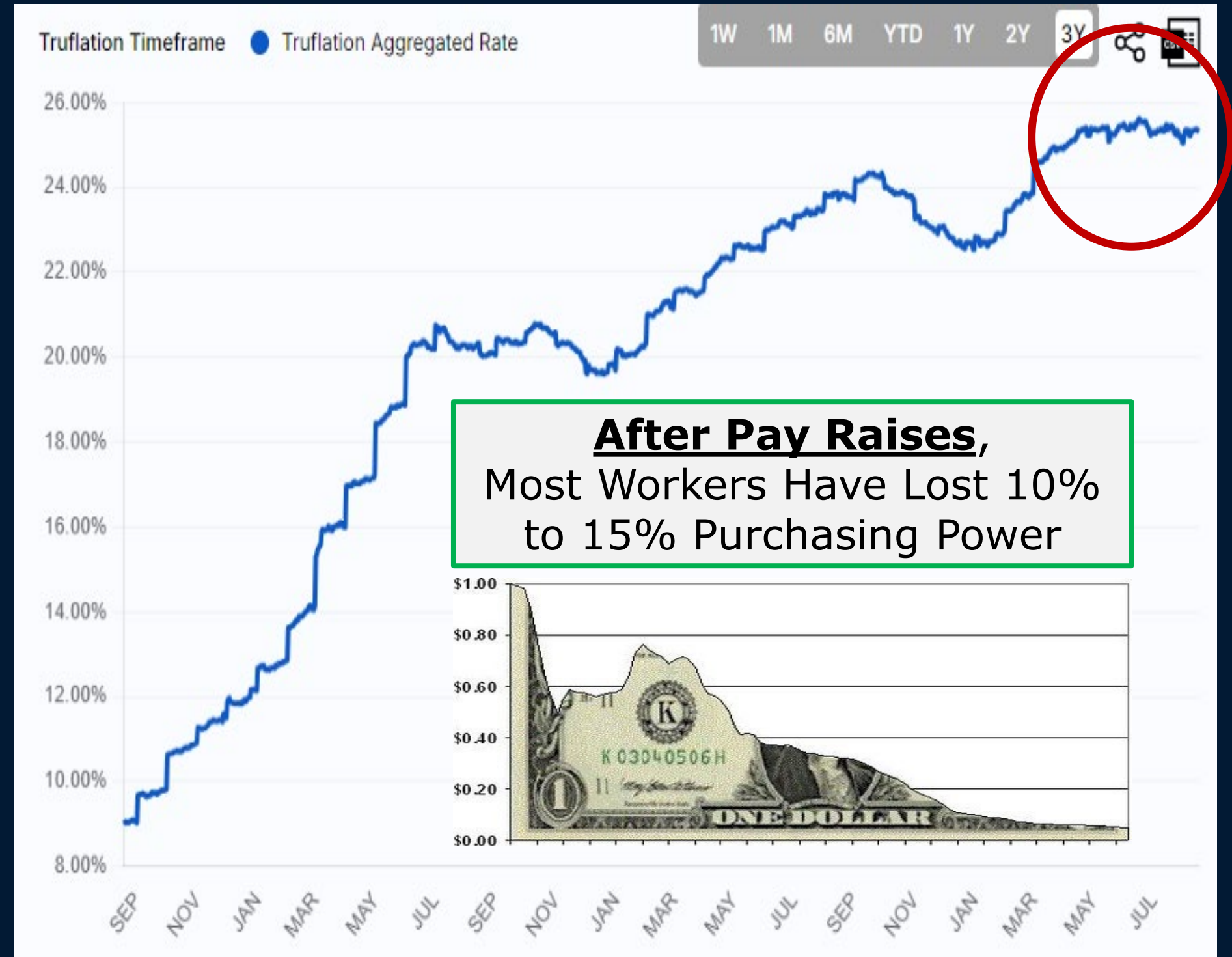


State of the Consumer: Struggling with Lost Purchasing Power

26 Straight Months of Negative
Wage Increases Until 2H'23—Up
10 of the Last 14 Months

Sources: BLS, CPT report, Truflation and RP research.

The Dollar Has Lost ~25% of Its Purchasing Power in 3 Years



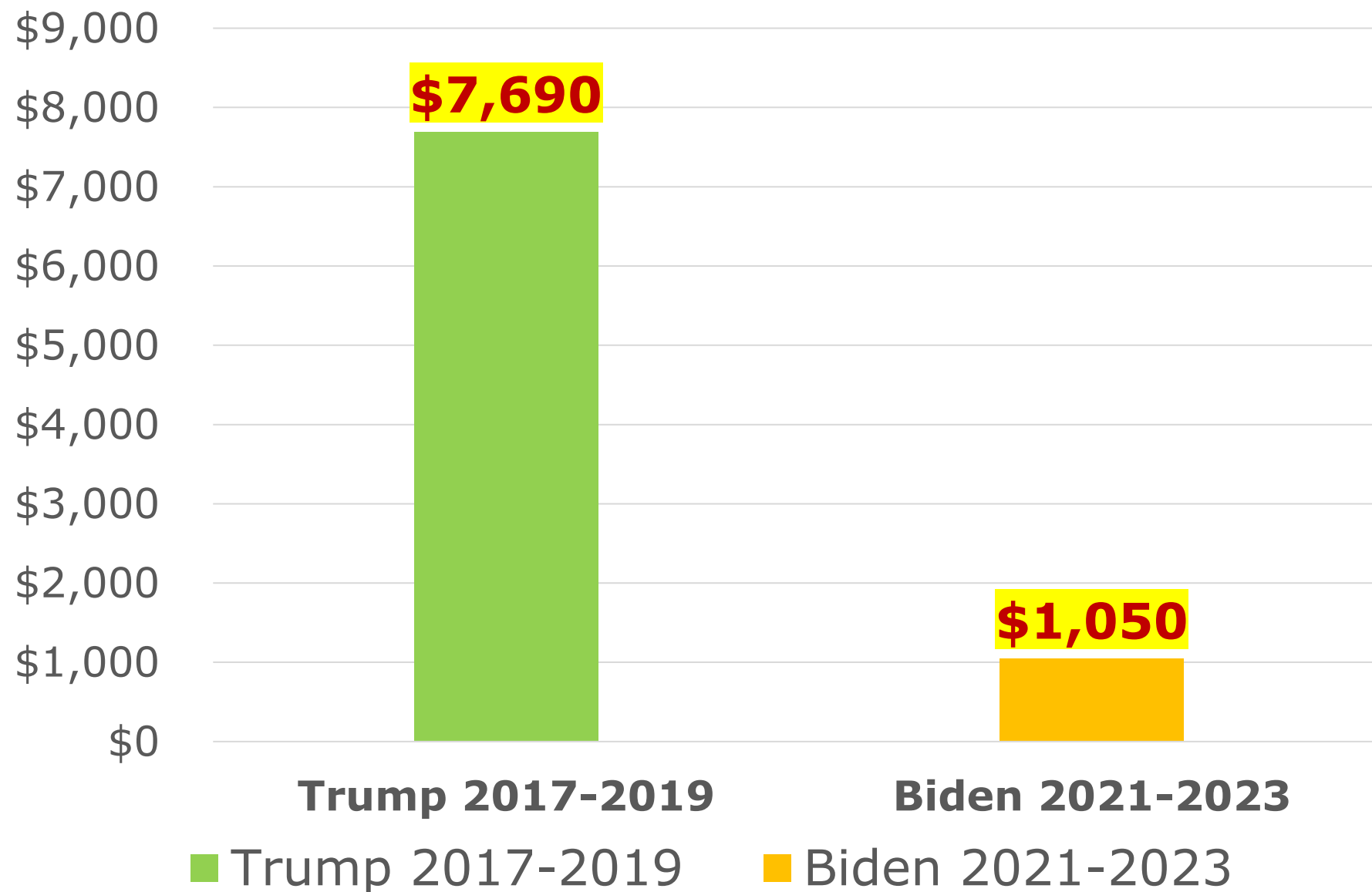
CONSUMERS HAVEN'T HAD MUCH DISPOSABLE INCOME GROWTH

(none in 2021 to mid-2023)

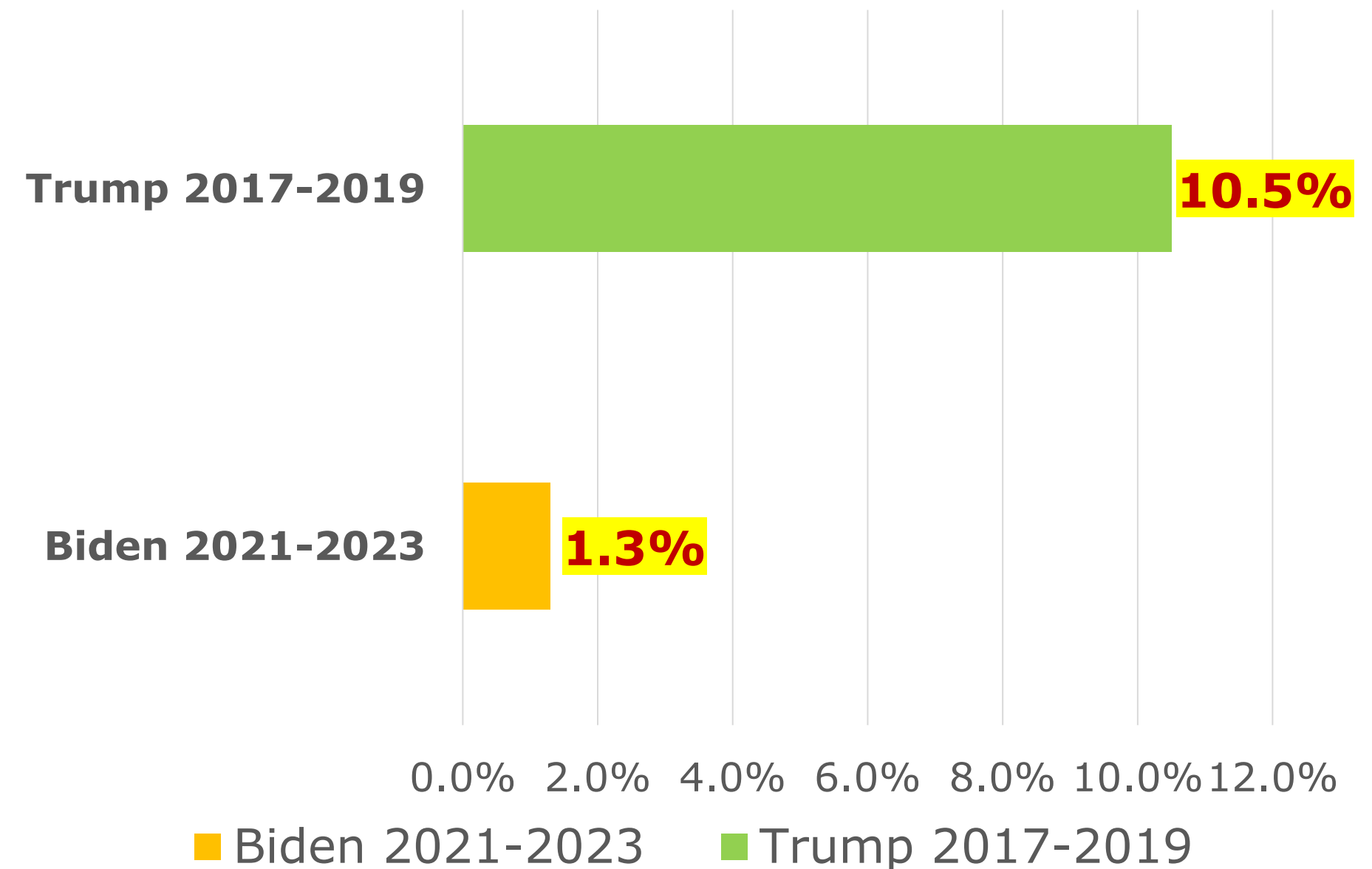
Real Median Household Income Growth

Percentage Growth

Cumulative Change in Real Dollars



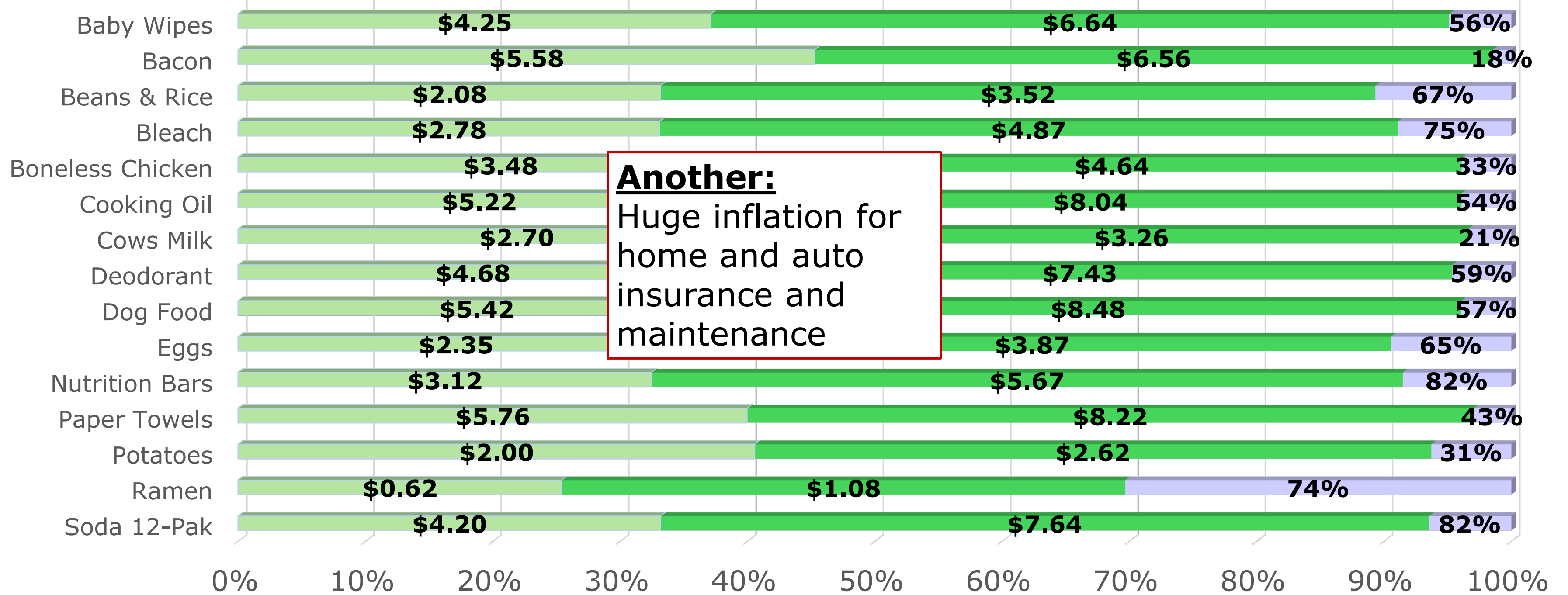
Cumulative



Source: U.S. Census Bureau report on Household Income, dated September 10, 2024. Real means adjusted for inflation. Each covers a 3-year period. The Census report excludes the cost of housing and property taxes.

INFLATION'S HIT TO ORDINARY ITEMS IS ONE REASON CONSUMER SPENDING IS SLUGGISH

Inflation's Impact Since the Pandemic And These are Just a Sampling



Source: NielsonIQ, Reliance Partners research and the US Government CPI report. Price comparisons are February 2024 vs. February 2020.

2020 2024 % Chg



5 ITEMS:
+141% at McDonalds
+57% at Taco Bell
+80% at Chick-fil-A

McDonald's price increases

Menu item	End-of-2019 price	Mid-2024 price	% increase
Medium French Fries	\$1.79	\$4.19	134.1%
McChicken	\$1.29	\$3.89	201.6%
Big Mac	\$3.99	\$7.49	87.7%
10 McNuggets	\$4.49	\$7.58	68.8%
Cheeseburger	\$1.00	\$3.15	215%

Average price increase across these 5 items: 141.4%

2024 source: McDonald's app (Figueroa Street Los Angeles location selected) End of 2019 source

Taco Bell price increases

Menu item	End-of-2019 price	Mid-2024 price	% increase
Beefy 5-Layer Burrito	\$1.69	\$3.69	118.3%
Nachos Bellgrande	\$3.29	\$5.89	79%
Spicy Potato Soft Taco	\$1.00	\$1.19	19%
Cheesy Bean And Rice Burrito	\$1.00	\$1.19	19%
Crunchwrap Supreme	\$3.49	\$5.29	51.6%

Average price increase across these 5 items: 57.4%

2024 source: Taco Bell website (didn't require location to be specified) End of 2019 source

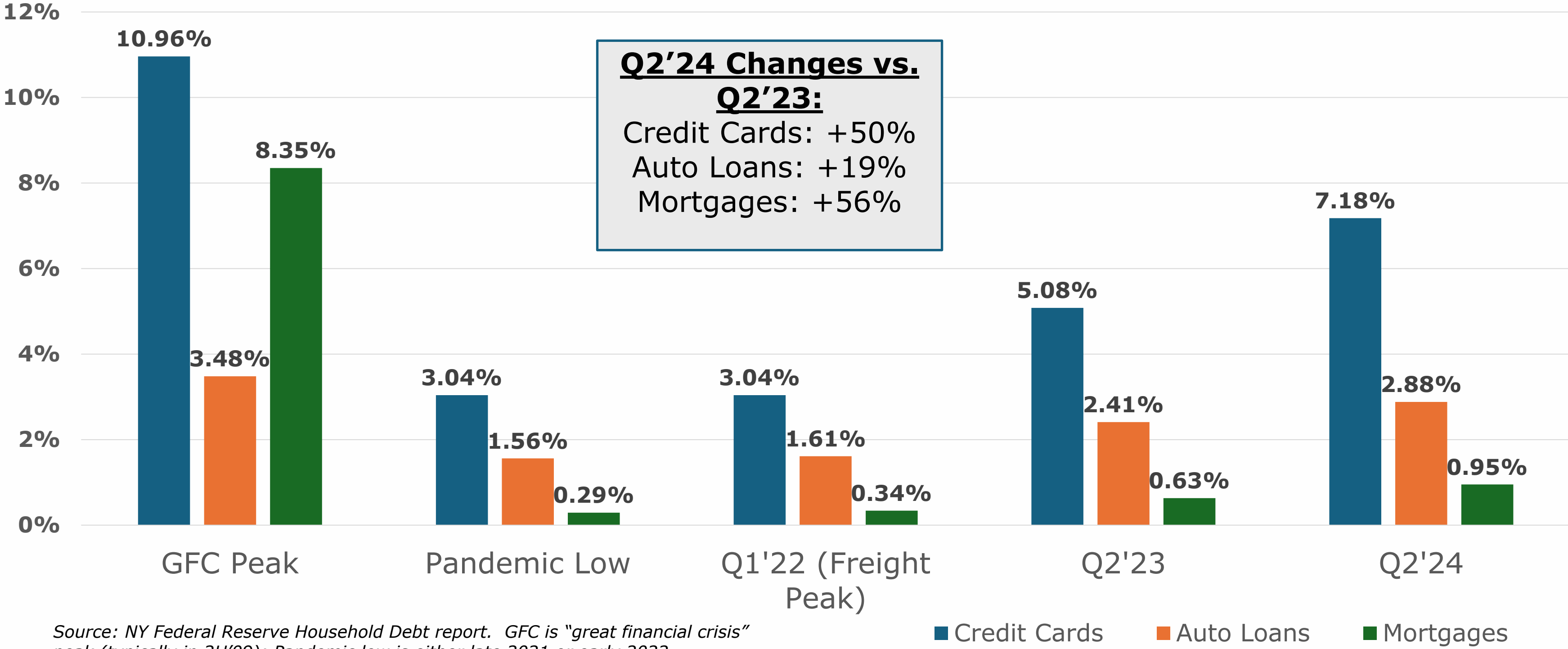
Chick-fil-A price increases

Menu item	End-of-2019 price	Mid-2024 price	% increase
Deluxe Chicken Sandwich	\$3.65	\$6.55	79.5%
8 Chick-fil-A Nuggets	\$3.05	\$5.99	96.4%
4 Chick-n-Strips	\$4.39	\$7.85	78.8%
Medium Waffle Fries	\$1.65	\$2.99	81.2%
Large Milkshake	\$3.15	\$5.19	64.76%

Average price increase across these 5 items: 80.1%

90 DAY DELINQUENCY RATES ARE RISING

As Consumers Grapple With Higher Debt and Lost Purchasing Power



TO PAY BILLS & KEEP A CERTAIN STANDARD OF LIVING SAVINGS HAVE BEEN DRAINED

Personal Savings Rate: Pre and Post-Revisions





THE STATE OF DEMAND: Sluggishness Rules the Day

Will We Have a Recession?

2024 TRANSPORTATION INNOVATION FORUM



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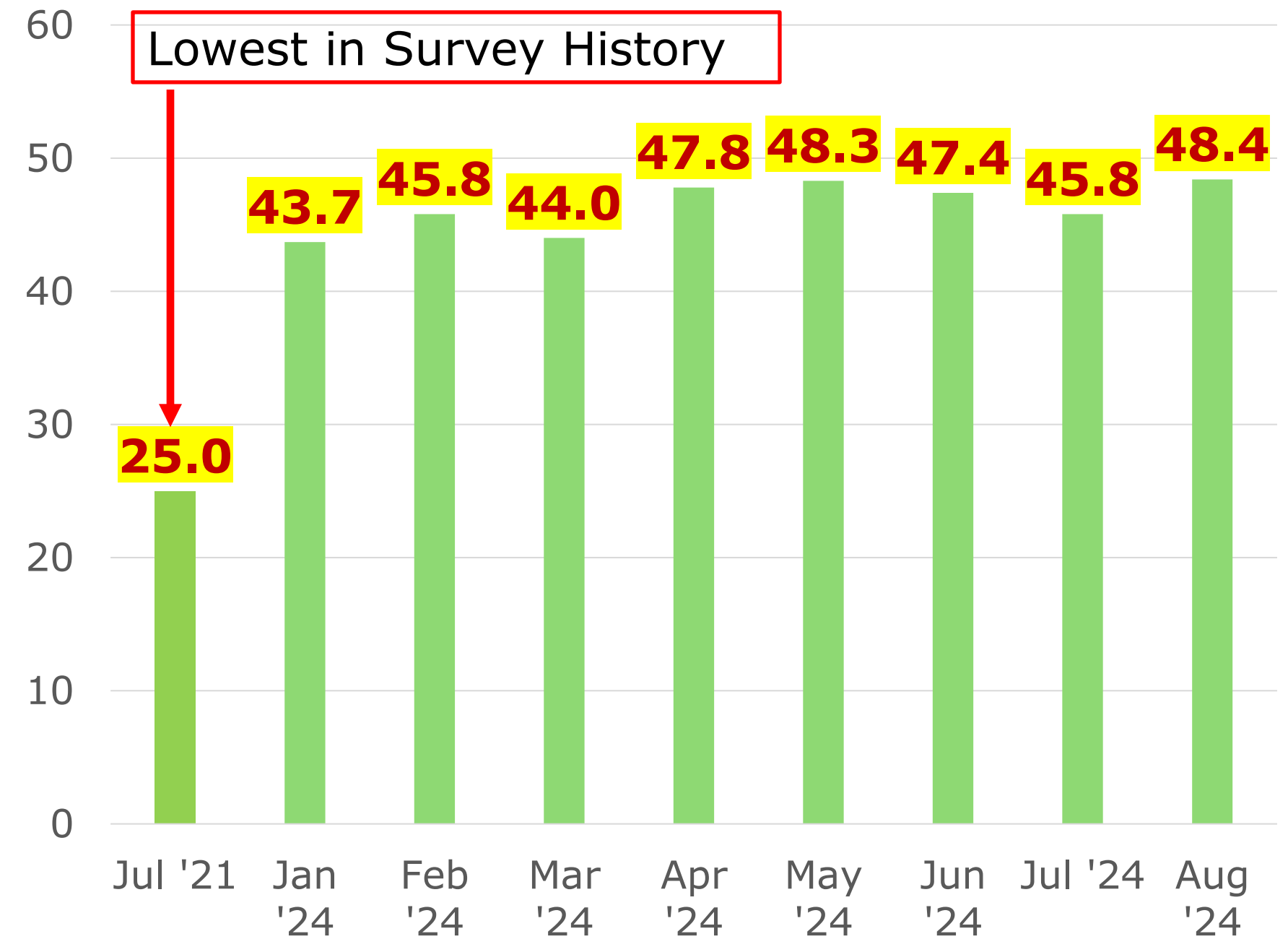
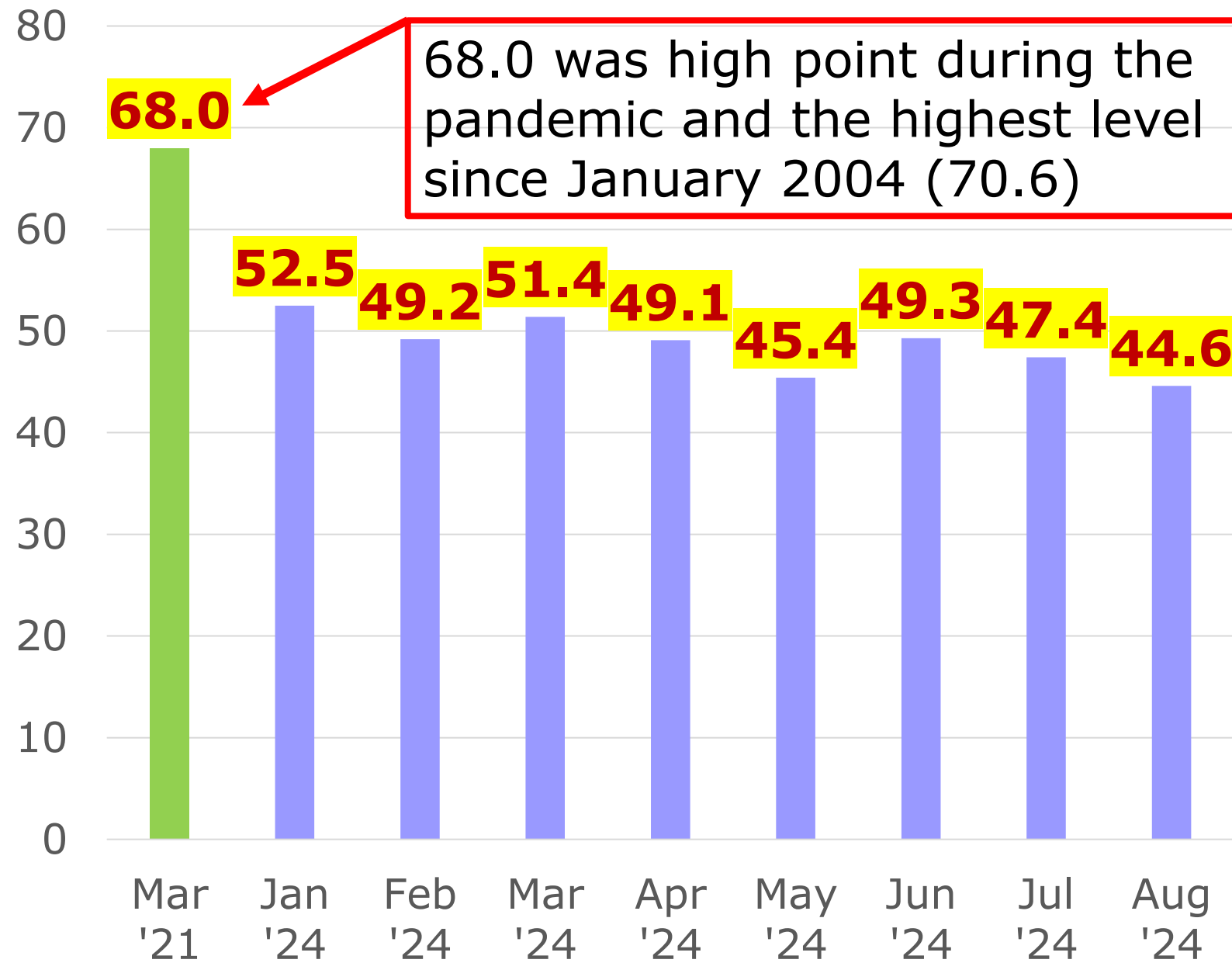


ISM PURCHASING MANAGERS' DATA

Losing Momentum Since Spring

Customers' Inventories-Higher #s Not Good

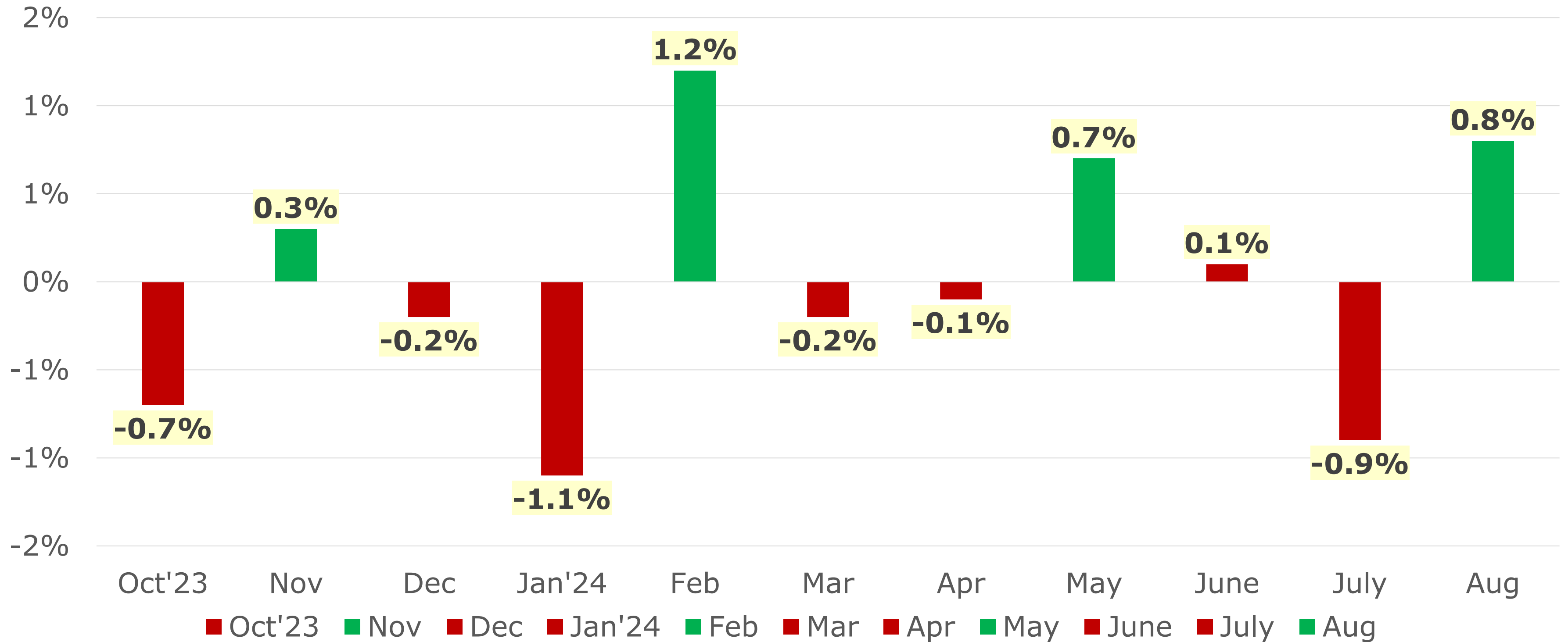
New Orders-Lower #s Not Good



Note: Source and note permission granted by the Institute for Supply Management®, as part of their monthly ISM® and PMI® reports. If applicable, please reference their website: ismworld.org.

INDUSTRIAL PRODUCTION

“The Straw That Stirs the ‘Freight Drink’—Negative 6 of Last 11 Months

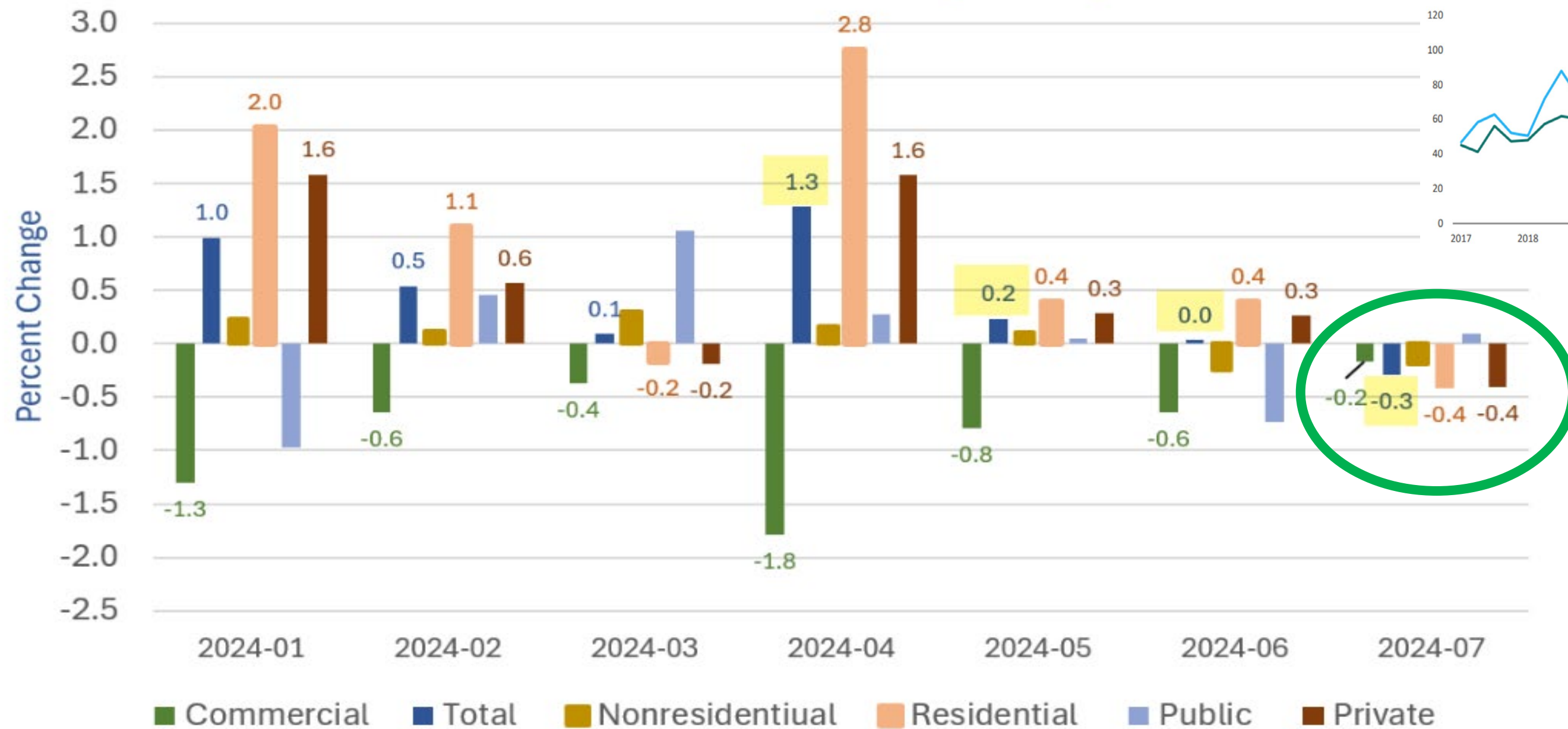


Source: Federal Reserve Board monthly IP report.

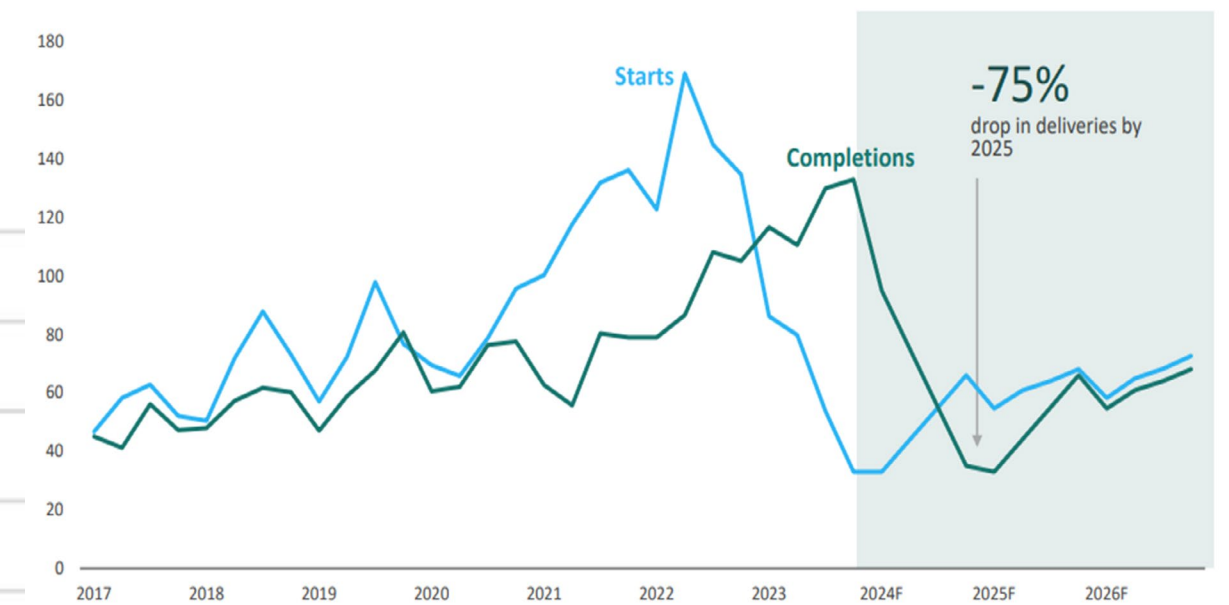
CONSTRUCTION (I.E., FREIGHT CREATION)

Nearly All Segments—Have Turned Negative

Construction Spending
Month-Over-Month Percentage Change



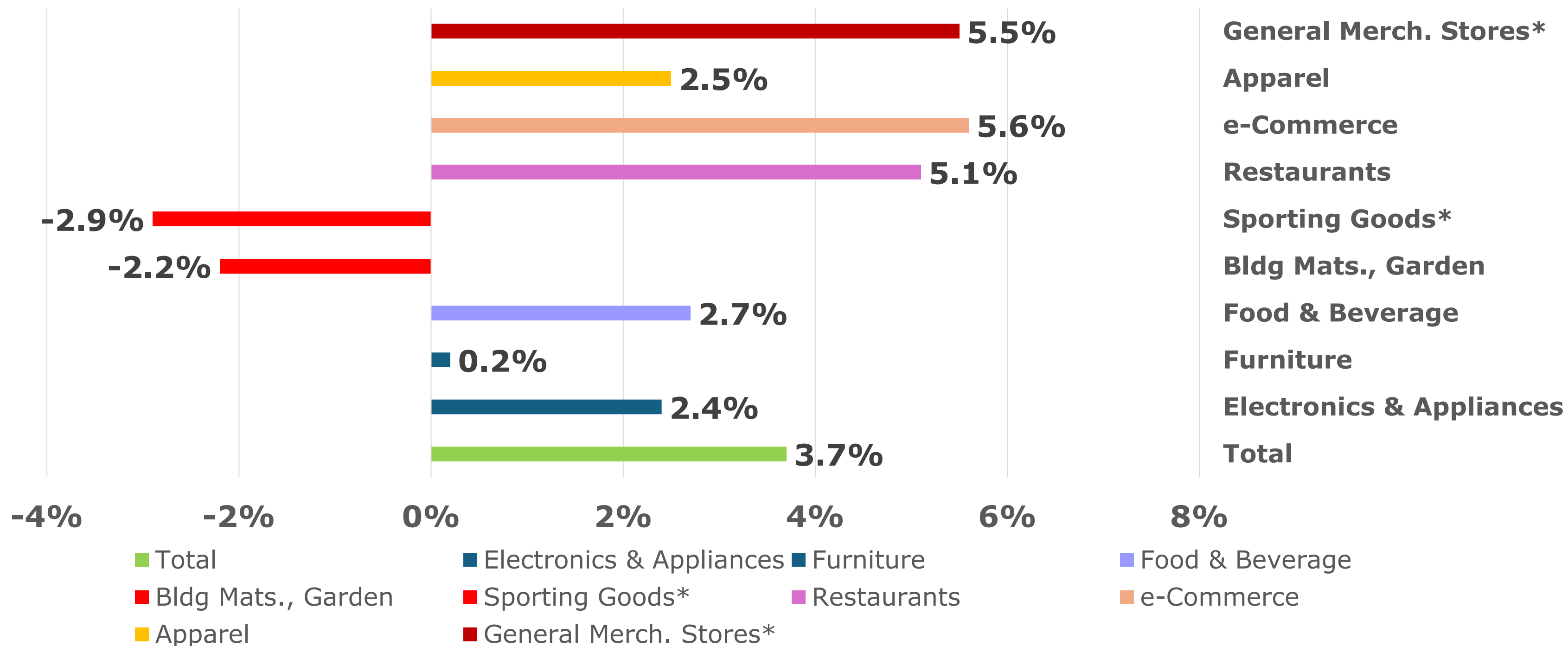
SUPPLY INDICATORS, U.S.
MSF



Source: Census Bureau for data and Mish Talk for the chart.

AUGUST RETAIL SALES

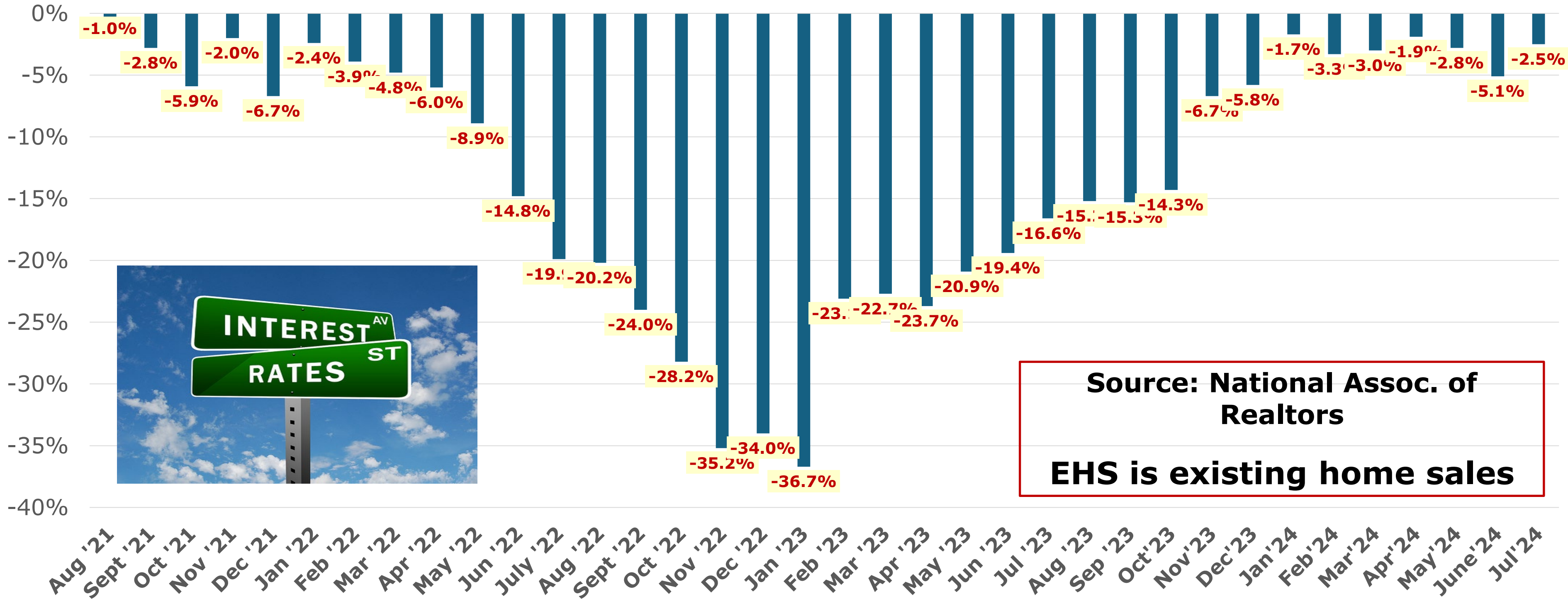
Anything Below ~ +2.5% Had No Real Growth



Source: US Census Bureau September 17, 2024 Advance Retail report. Numbers are NOT seasonally adjusted, nor inflation-adjusted. General merchandise stores excludes department stores, while sporting goods includes hobbies, music and book stores.

HOUSING IS ABOUT TO RECOVER

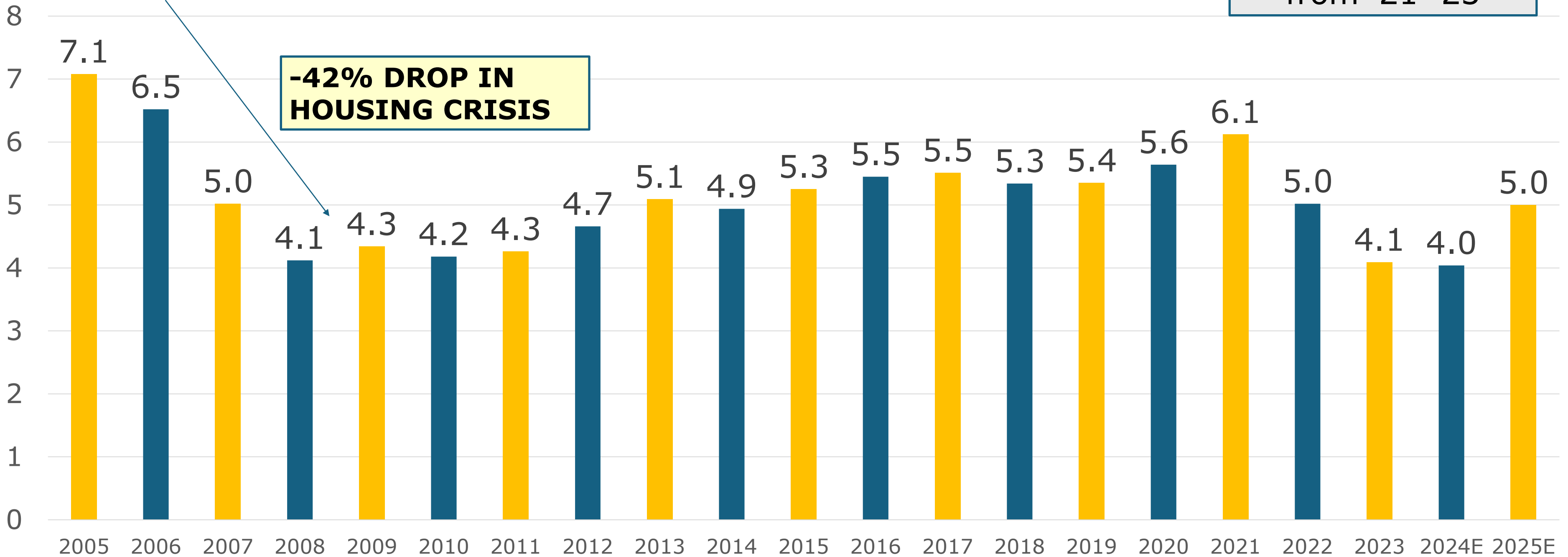
EHS Has Been Negative for 36 Months, but ...



ABOUT TO RECOVER, PART 2: Annual Existing Home Sales (Figs. In Mil)

A 34% decline
from '21-'23

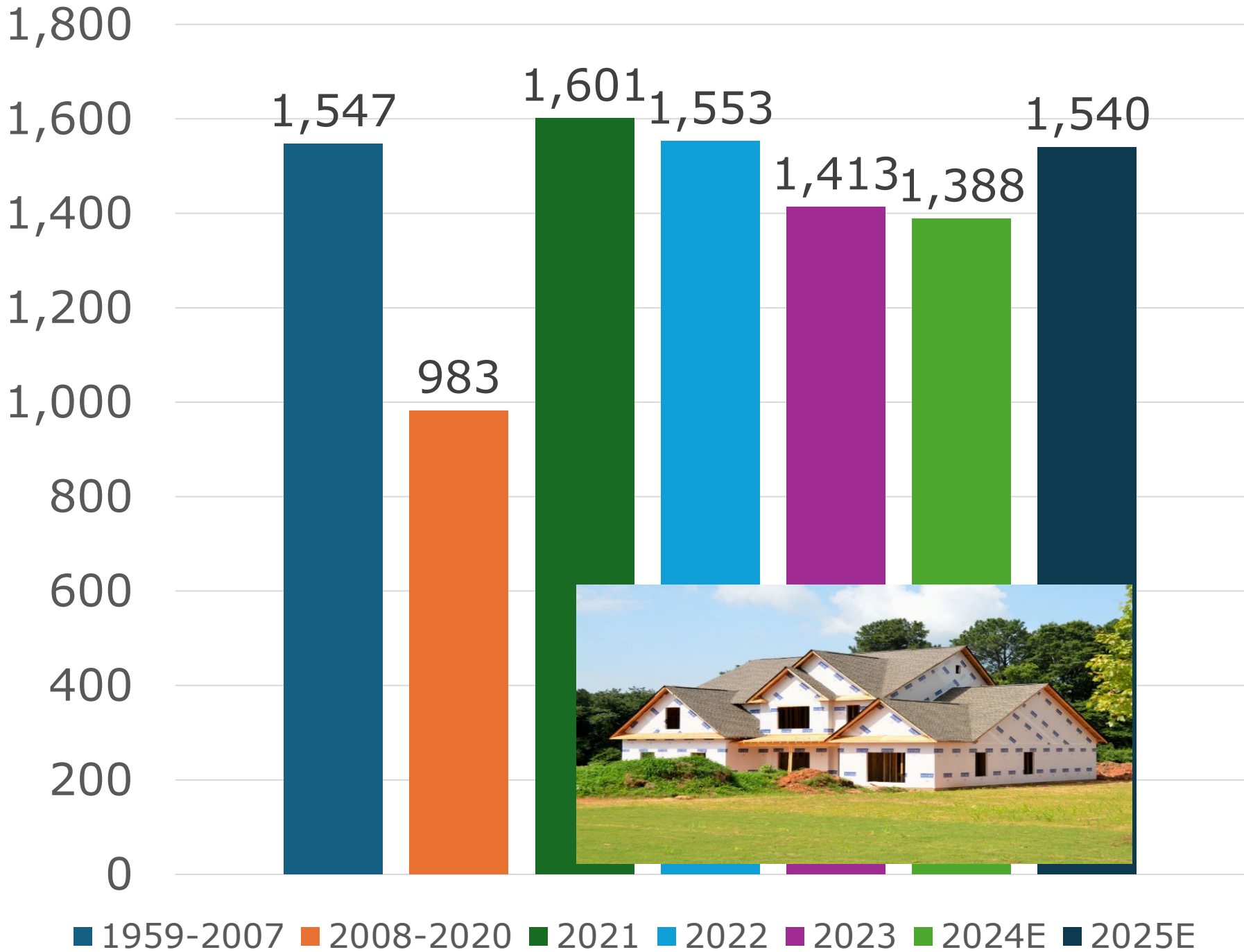
**-42% DROP IN
HOUSING CRISIS**



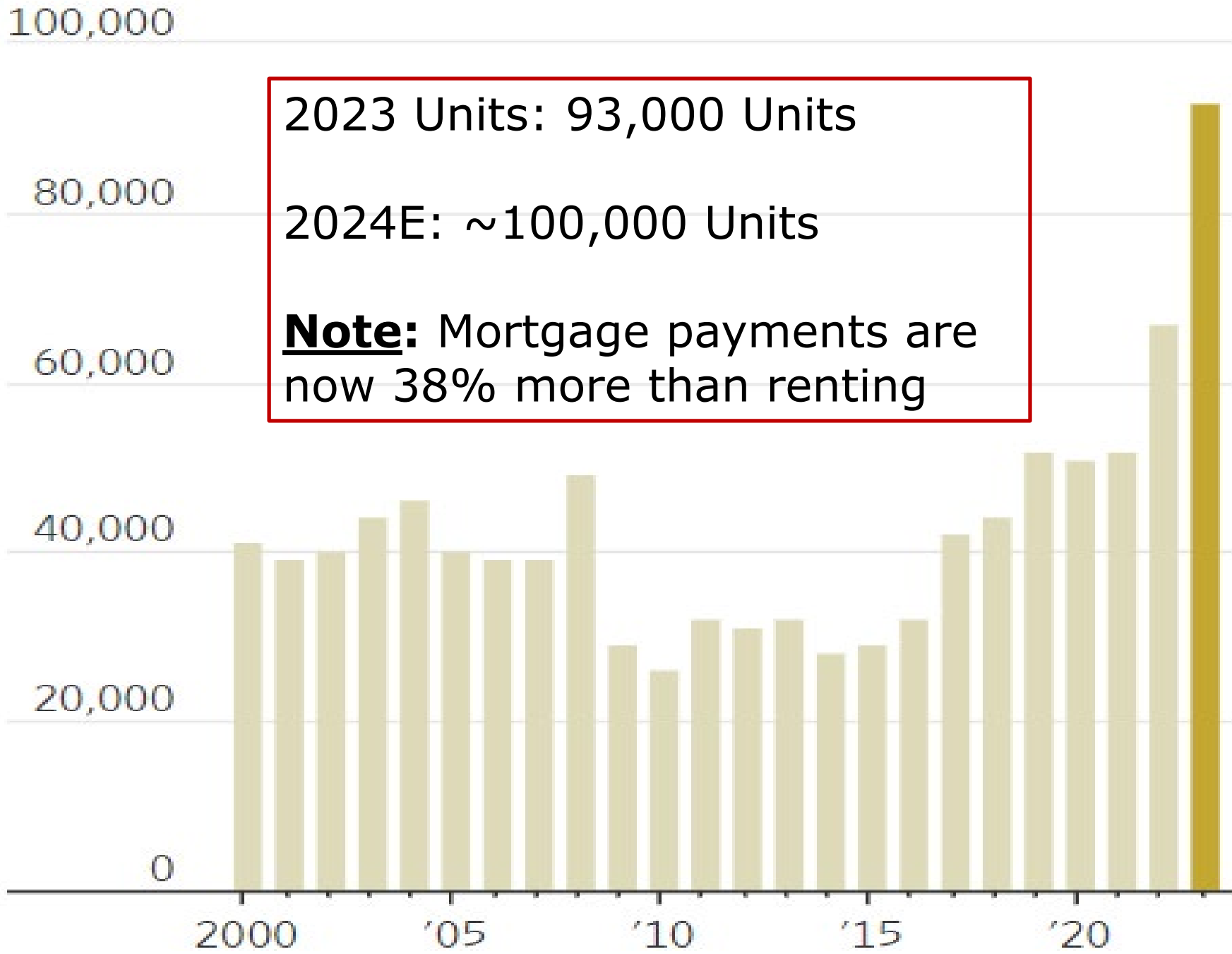
ABOUT TO RECOVER

New Housing Starts (inc. Single Family) Will Grow in 2025

Annual Housing Starts (all types)



New Rental Houses Built Annually

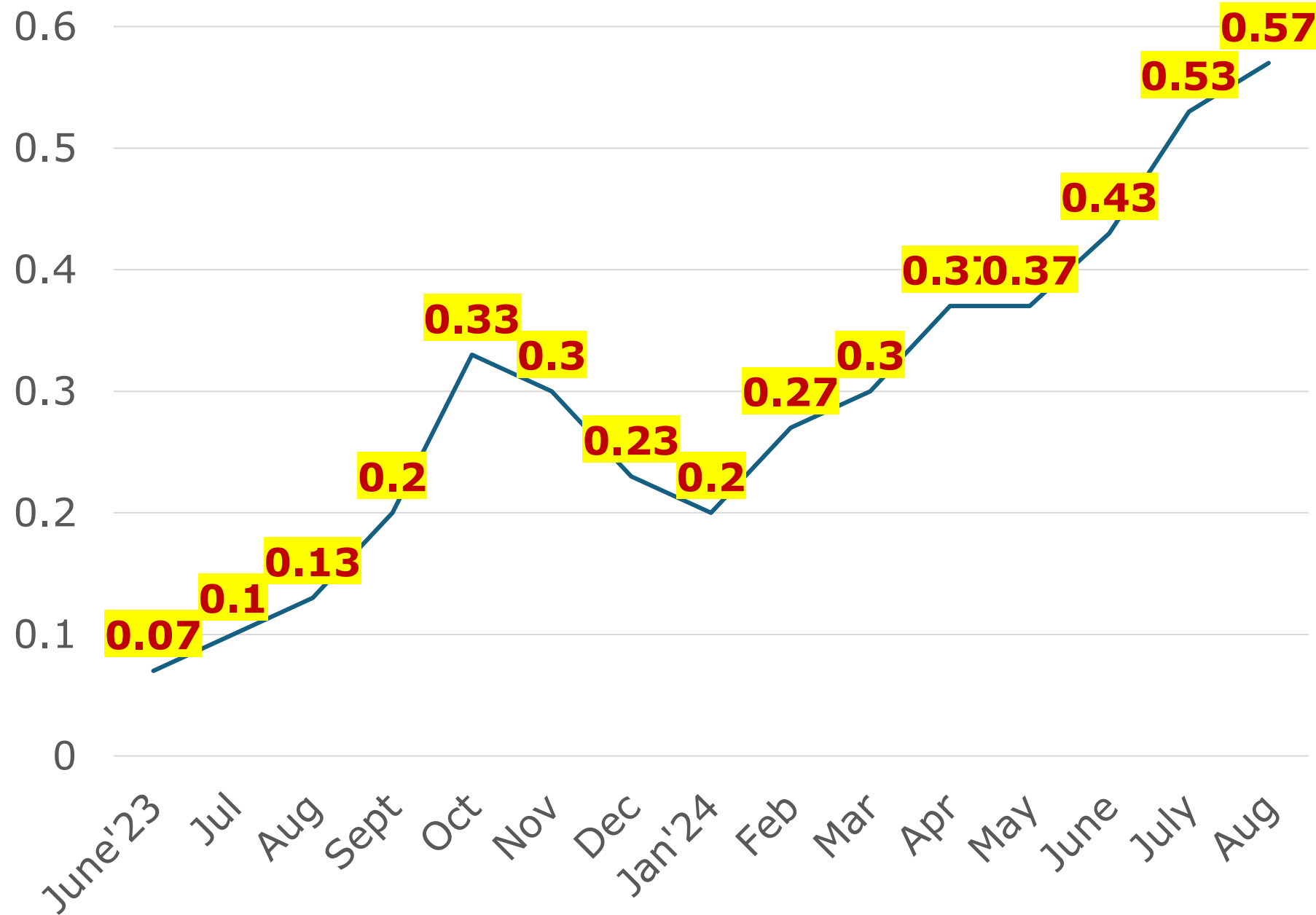


Source: US Census Bureau, John Burnes Research & Consulting and the WSJ.

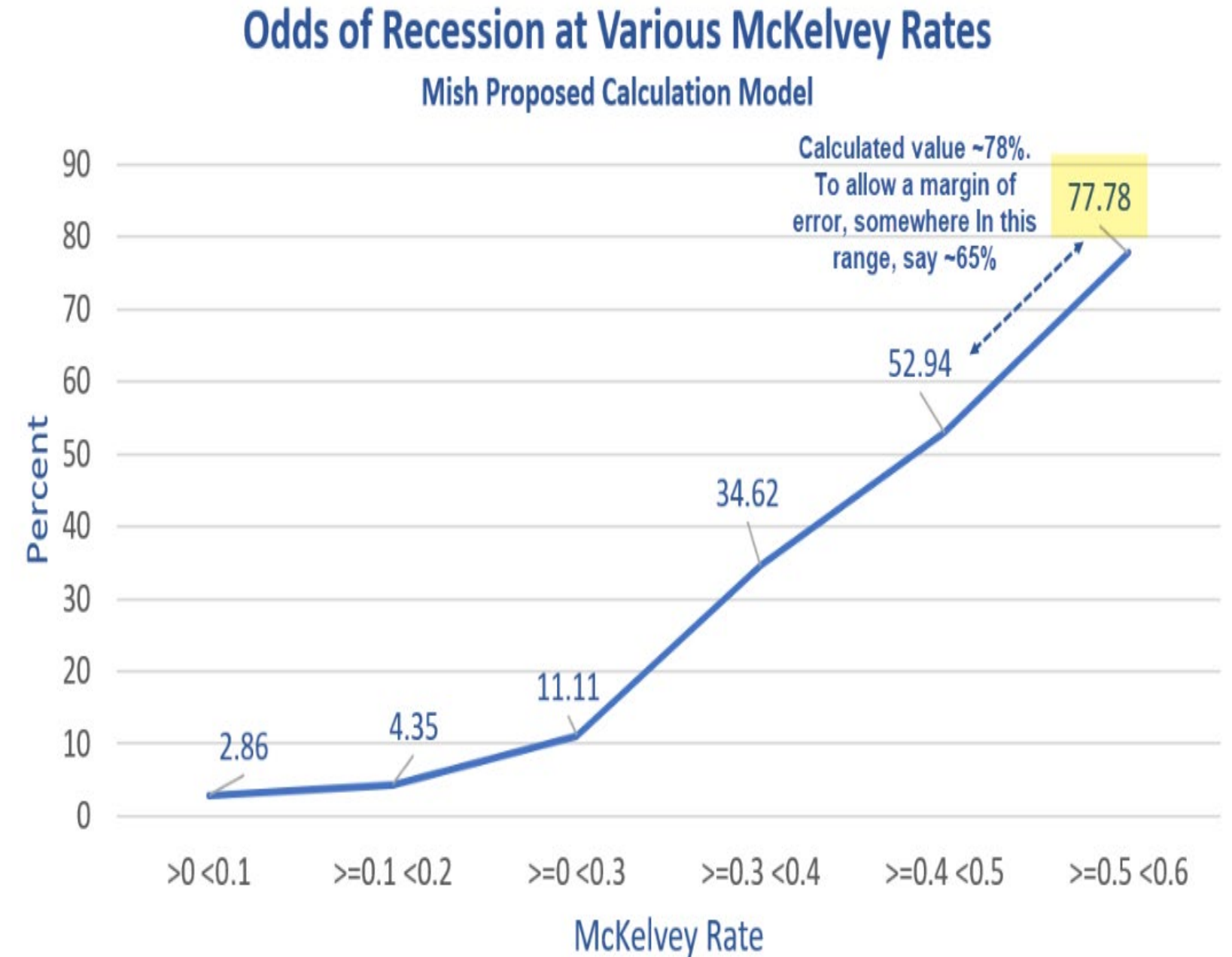
2024-2025 estimates are a compilation of multiple sources to determine a consensus figure.

SO, WILL WE HAVE AN "OFFICIAL RECESSION"?

Sahm/McKelvey Recession Indicator



Mish Talk Recession Odds



Sources: Chart on left is data from the BLS; right chart is from www.MishTalk.com; Economist Ed McKelvey of Goldman Sachs created this and Claudia Sahm, a former Fed official has modified it.

THE STATE OF CAPACITY

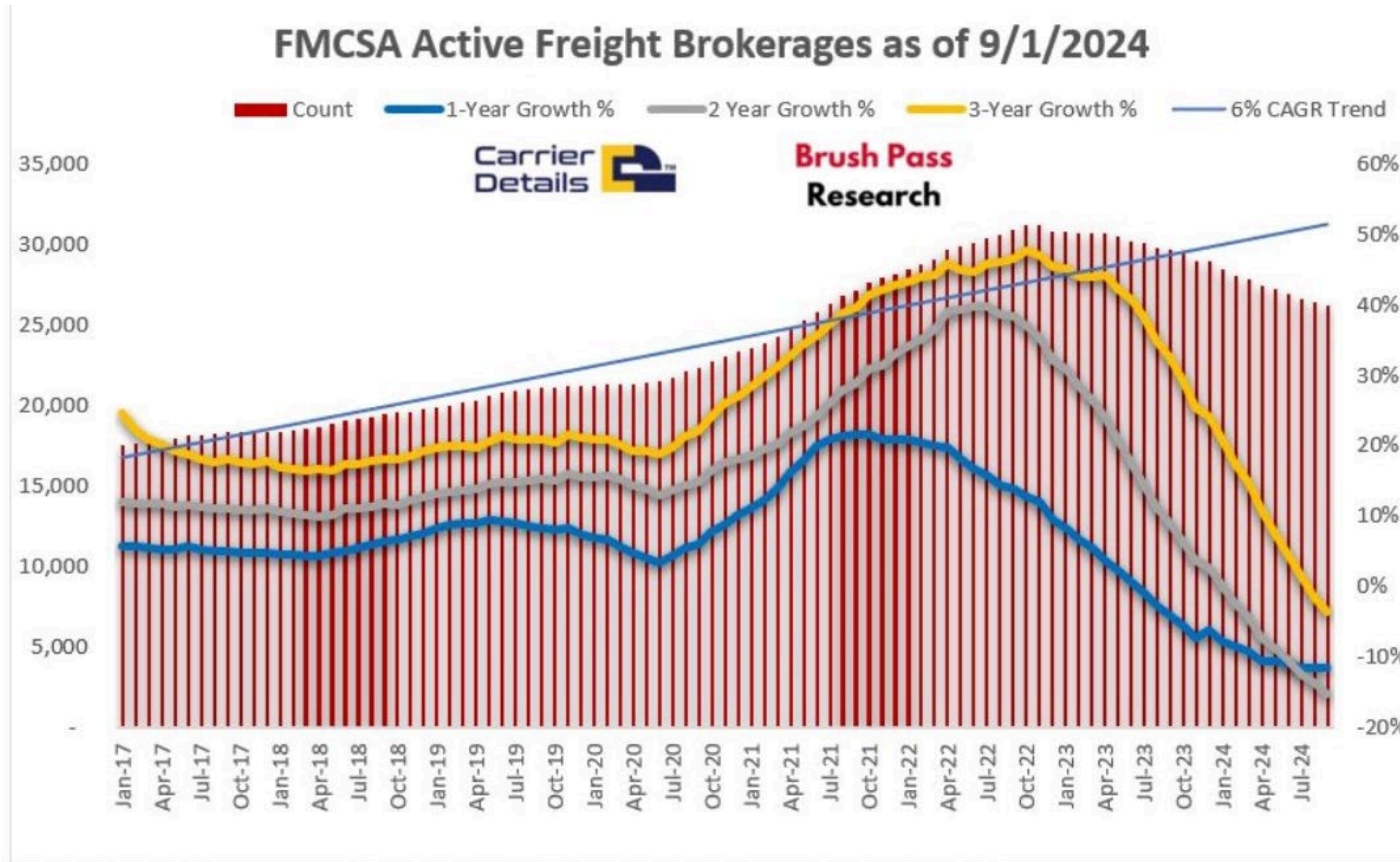
- Freight brokers are contracting
- Equipment bad debt is rising
- Costs per mile have soared
- FMCSA: Since peak, capacity has shrunk 22%
- How much longer before it feels better?

The Cure for
Low Prices
is Low Prices

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FREIGHT BROKERS

Fast Growing Since 2006 - Are Now Shrinking (-188 in August)



Source: Brush Pass Research & Carrier Details analysis of September 2024 FMCSA Census File

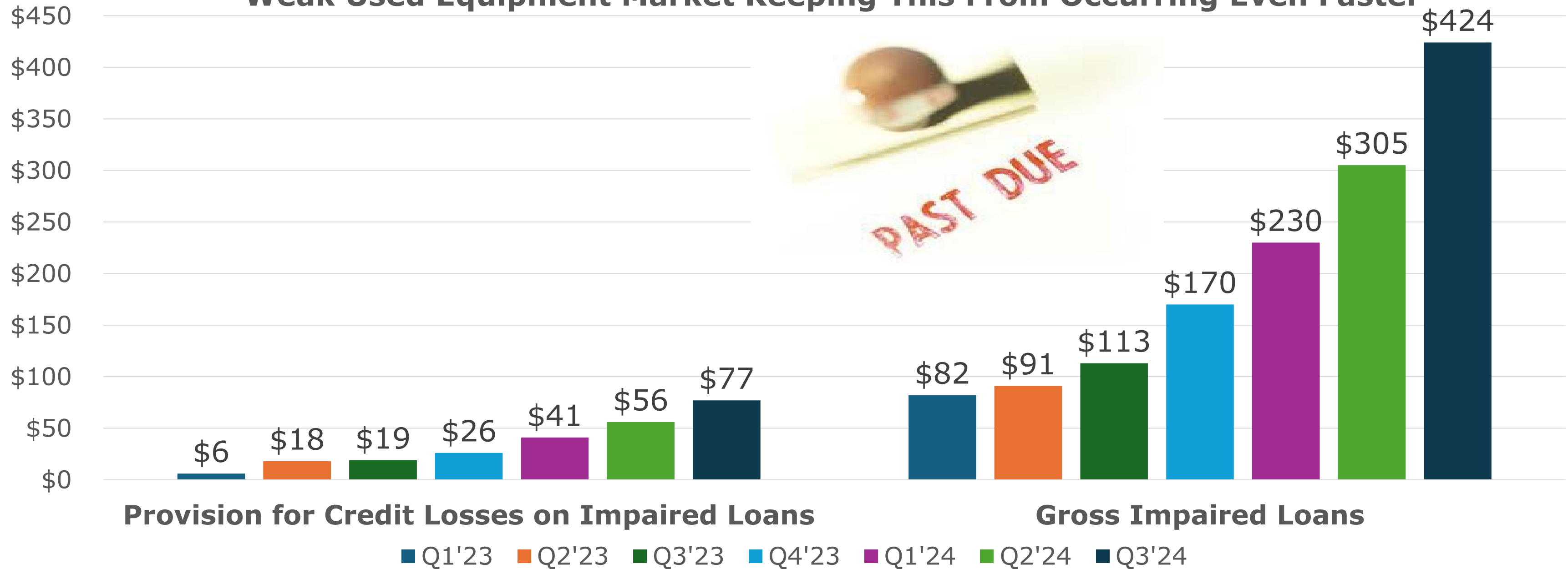
Source: Brush Pass Research and Carrier Details LLC.

- There are ~ 12% fewer brokerages than a year ago, and 7% fewer than Jan '24 at **26,216** today
- At peak there were **31,235** brokerages in November 2022
- Before the pandemic there were **21,229** freight brokers in Jan '20
- From January 2020 to December 2022 **~25,000** new brokerage authorities were granted authority. Only ~**8,100** of those 25K are still active

BMO TRUCKING LOANS

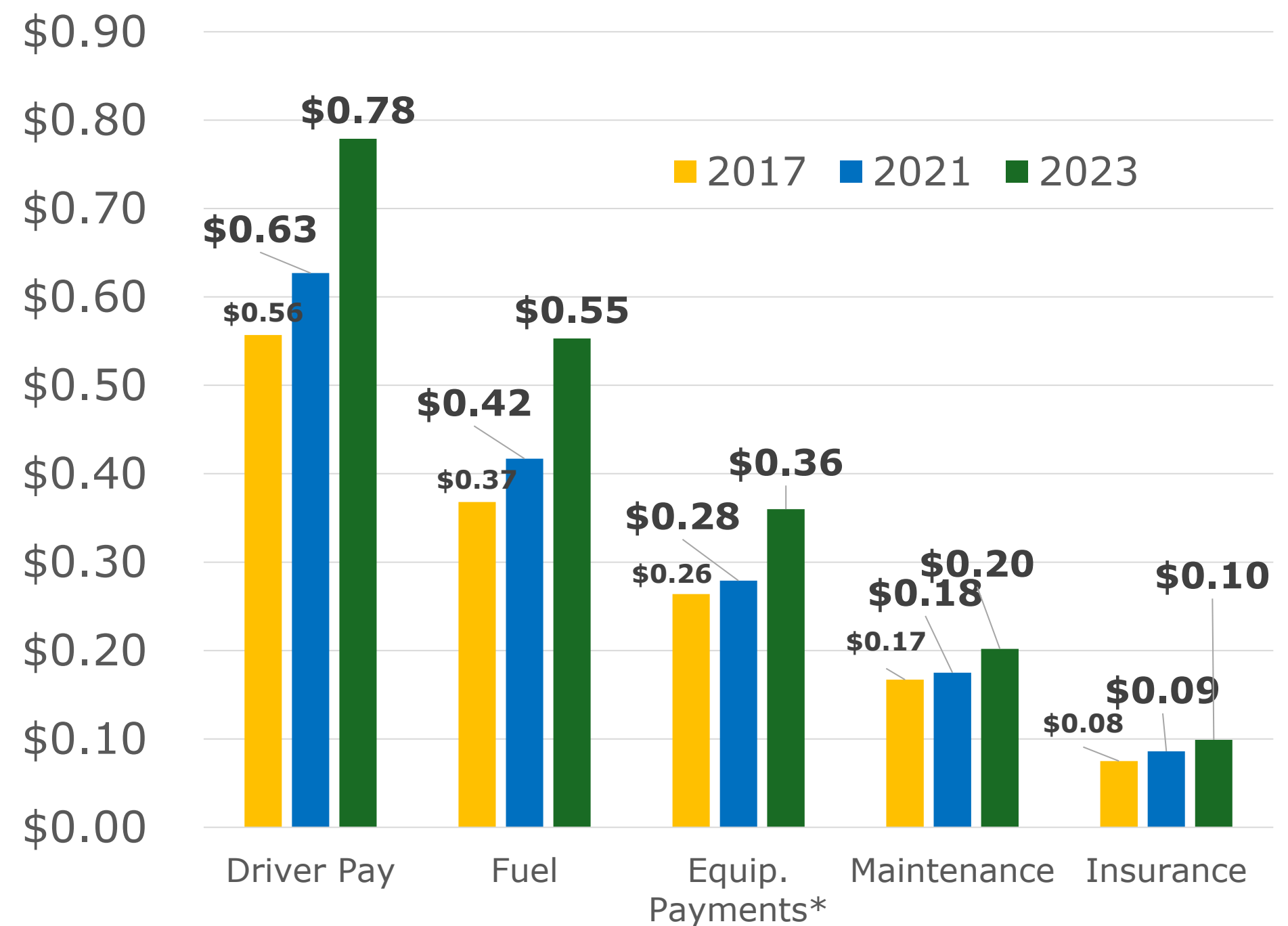
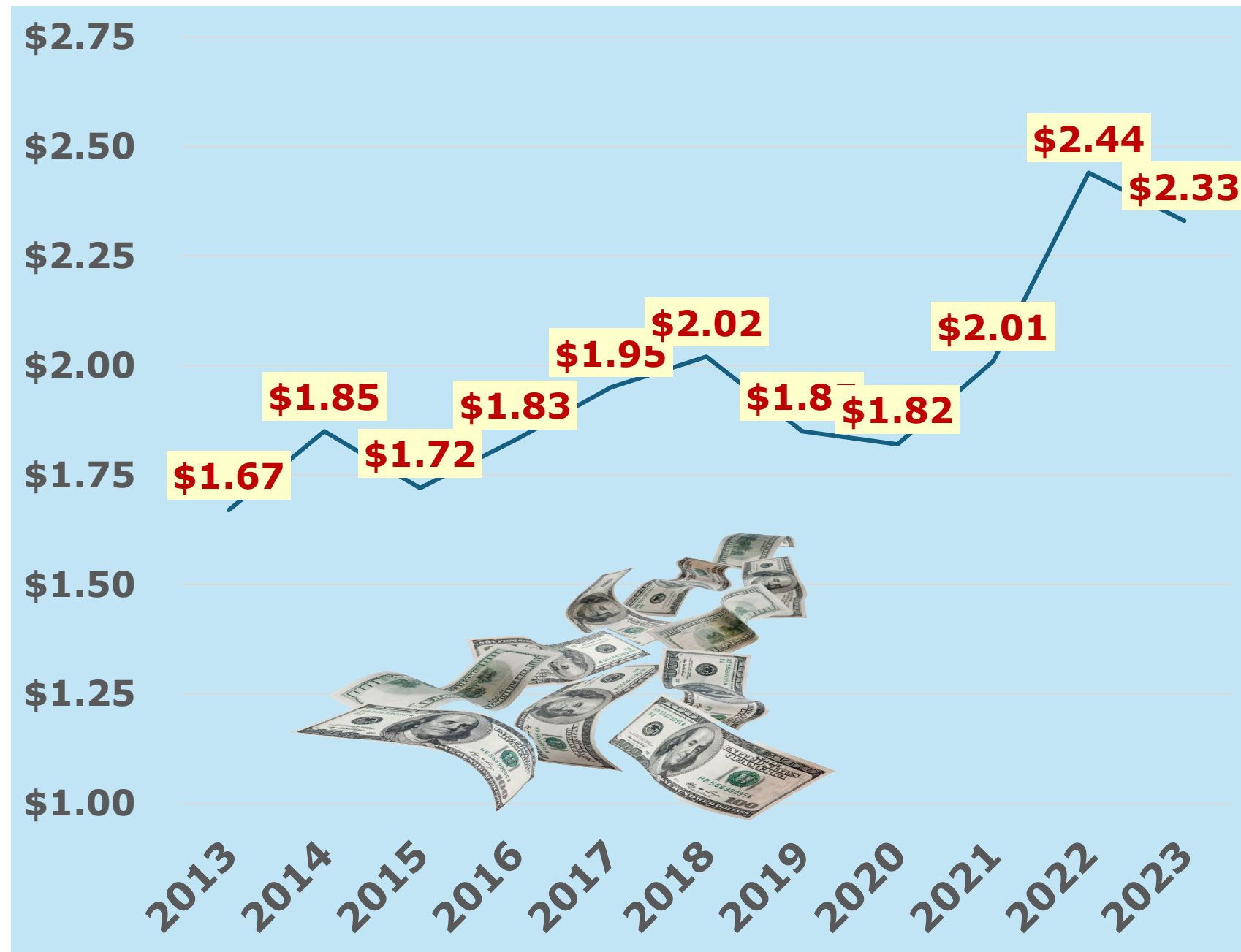
Problems are Escalating—Good for Capacity (\$Mil)

Weak Used Equipment Market Keeping This From Occurring Even Faster



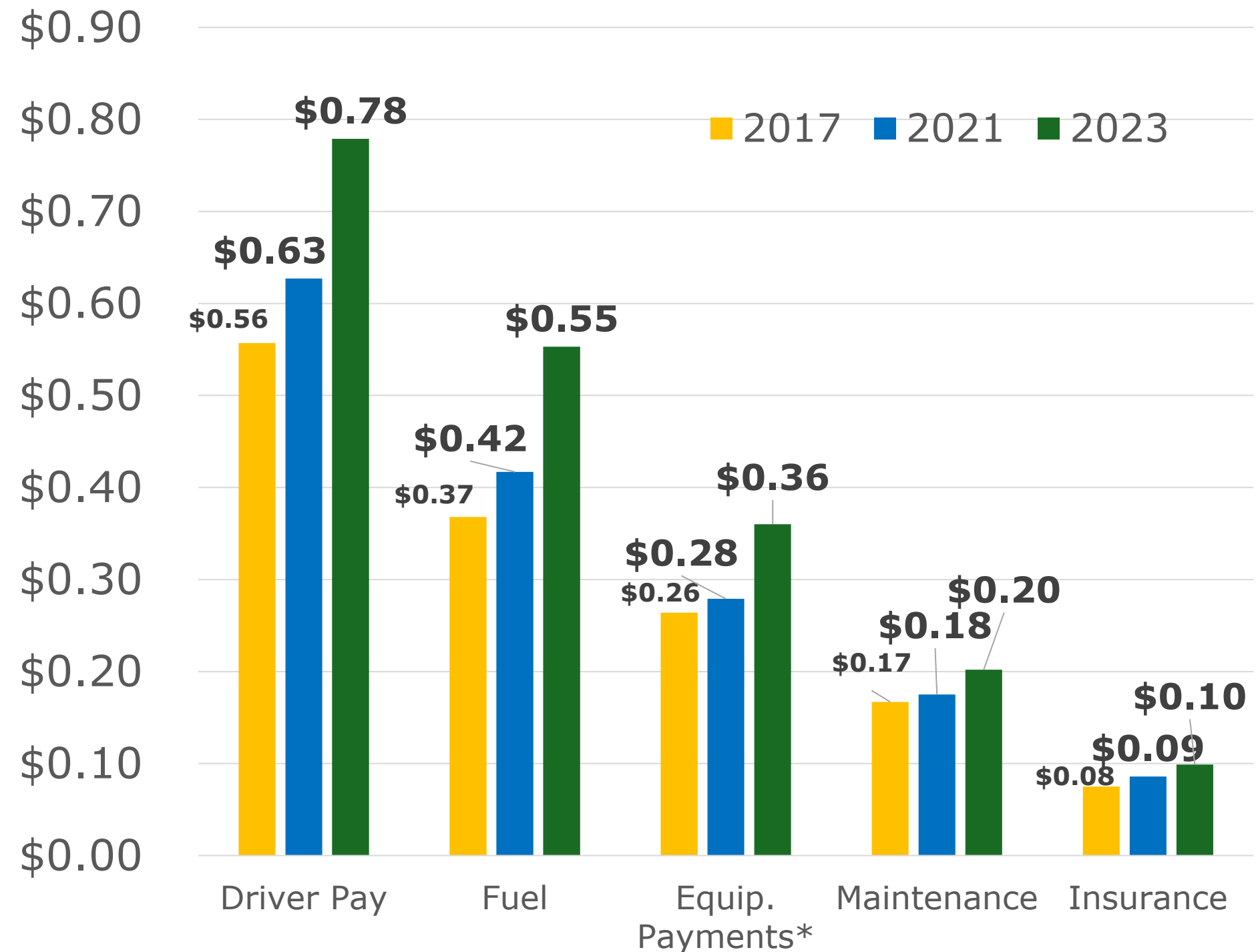
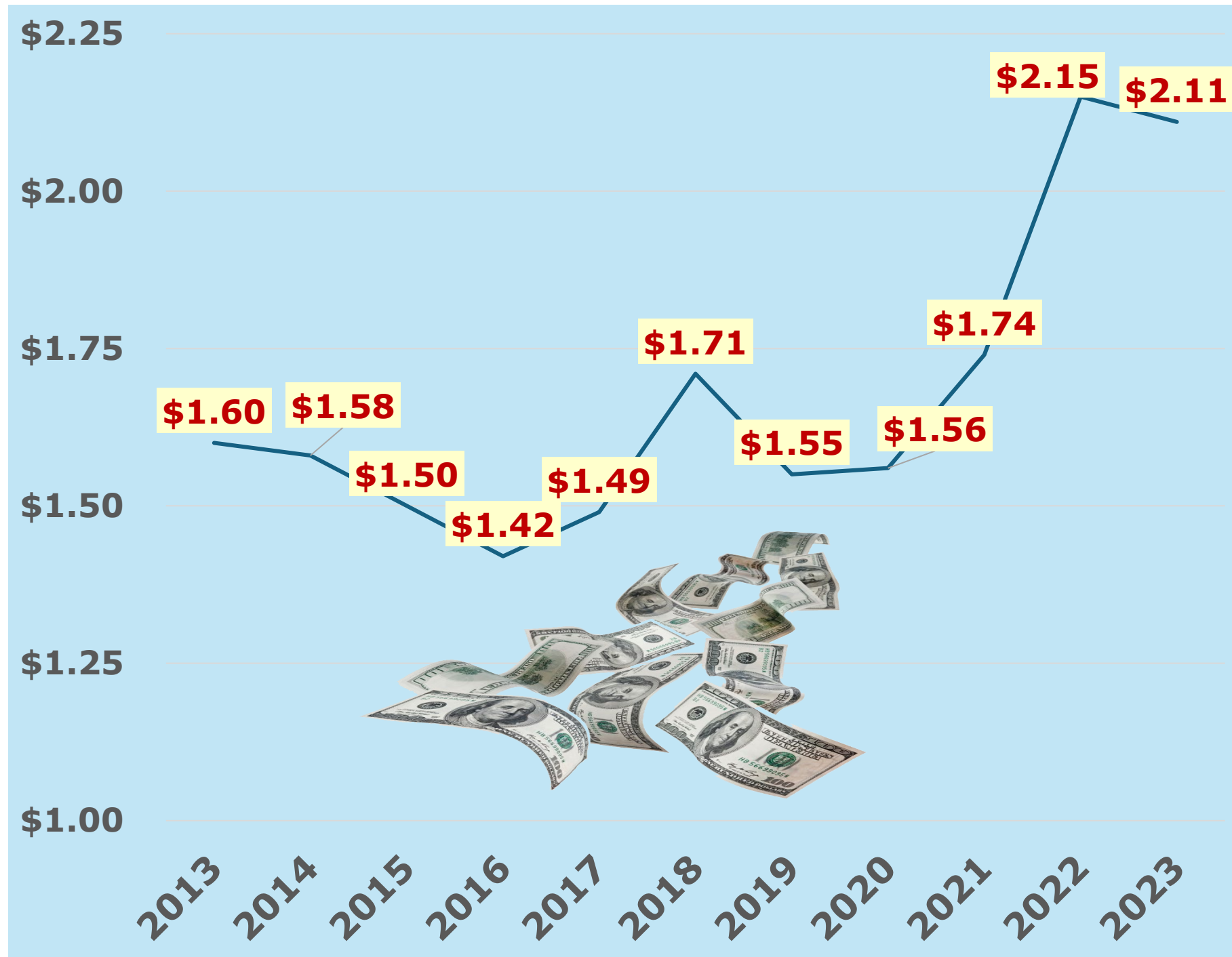
Source: BMO SEC filings. Figures are in millions. FY ends October 31. Allowances are estimates of loans that will become bad debts; provisions are actual charges against income.

SPECIALIZED TL COSTS* per Mile Rose 21.4% in 2022; Up 20% since 2017; 5 Buckets on the Right



Source: ATRI annual "Operational Cost of Trucking" report, June 2024. * Data in left chart is for specialized truckload only, a mix of refrigerated, flatbed, tank, bulk, other and HHG and NOT dry van TL. Right chart figures are cost per mile for the entire study, not just specialized, as itemized cost data for specialized was by fleet size, not in the aggregate.

DRY VAN COSTS* per Mile Up 21.3% Since 2021; Up 42% since 2017; 5 Buckets on the Right

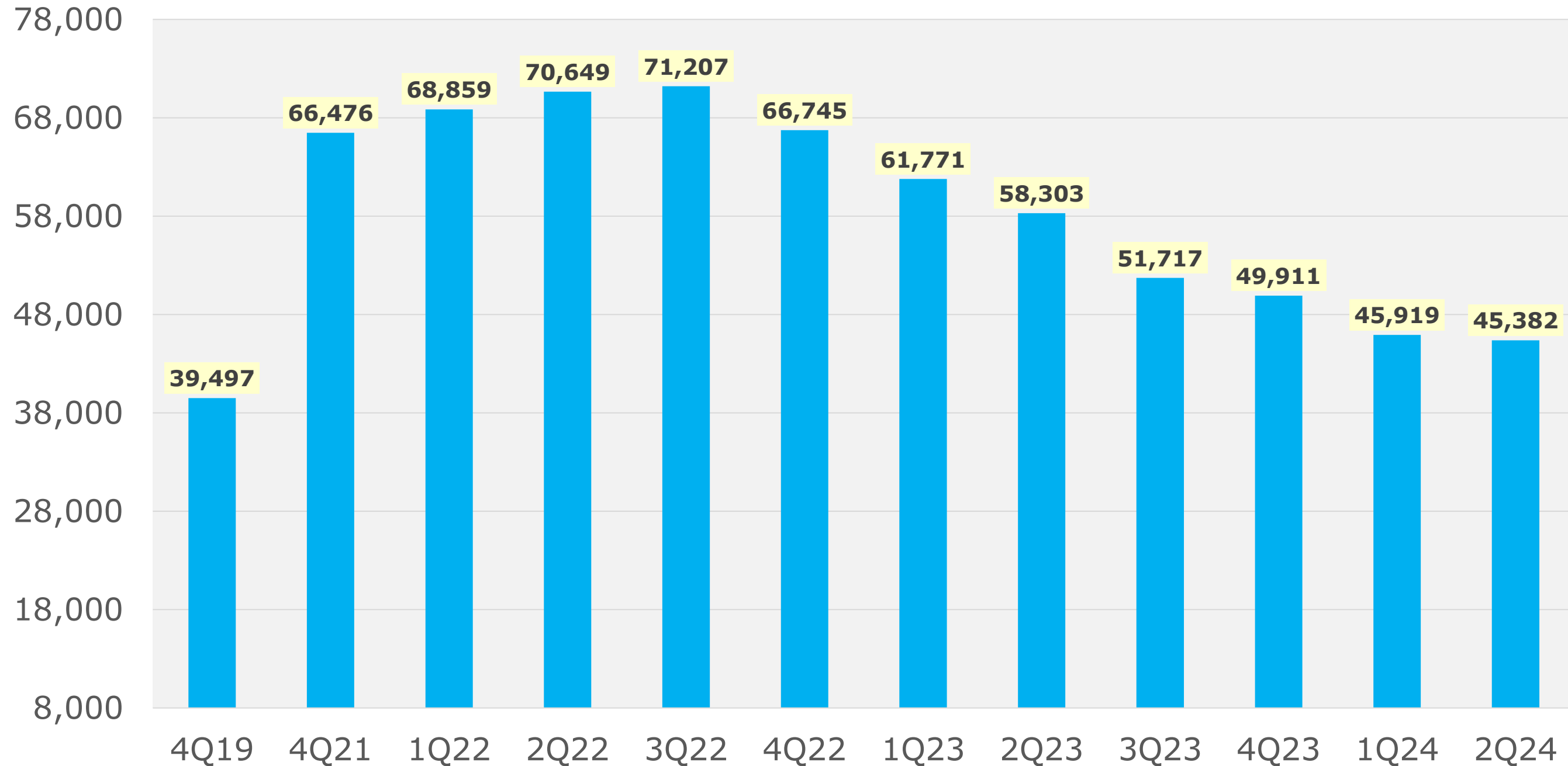


Source: ATRI annual "Operational Cost of Trucking" report, June 2024. **Right chart figures** are cost per mile for the entire study, not just specialized or dry van, as itemized cost data for specialized was by fleet size, not in the aggregate.

LANDSTAR

Approved & Active Carriers Down 36% After 80% Growth (-8% in Q1!)

Landstar: Approved & Active Carriers

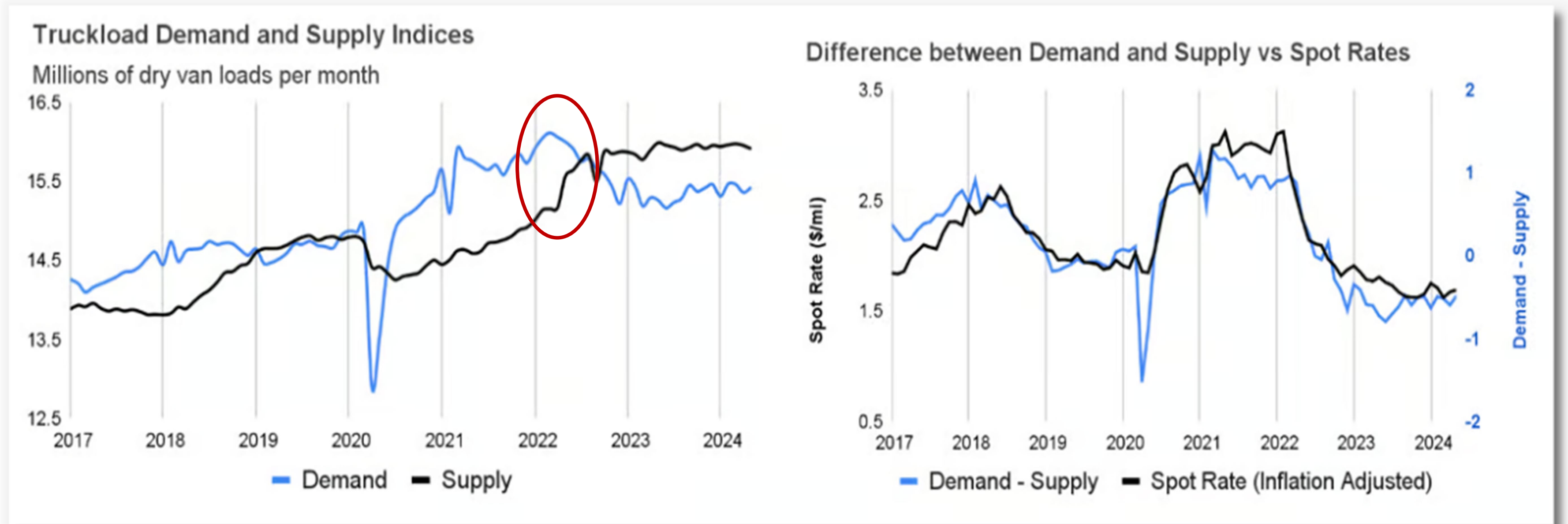


- **Approved:** Meets LSTR's compliance, safety, and fitness requirements in its brokerage division
- **Active:** Must have hauled at least 1 load in the prior 180 days
- The decline does **not** mean all motor carrier declines have ceased operating

Source: Landstar quarterly earnings reports and Reliance Partners commentary.

UBER FREIGHT SUPPLY & DEMAND INDEX

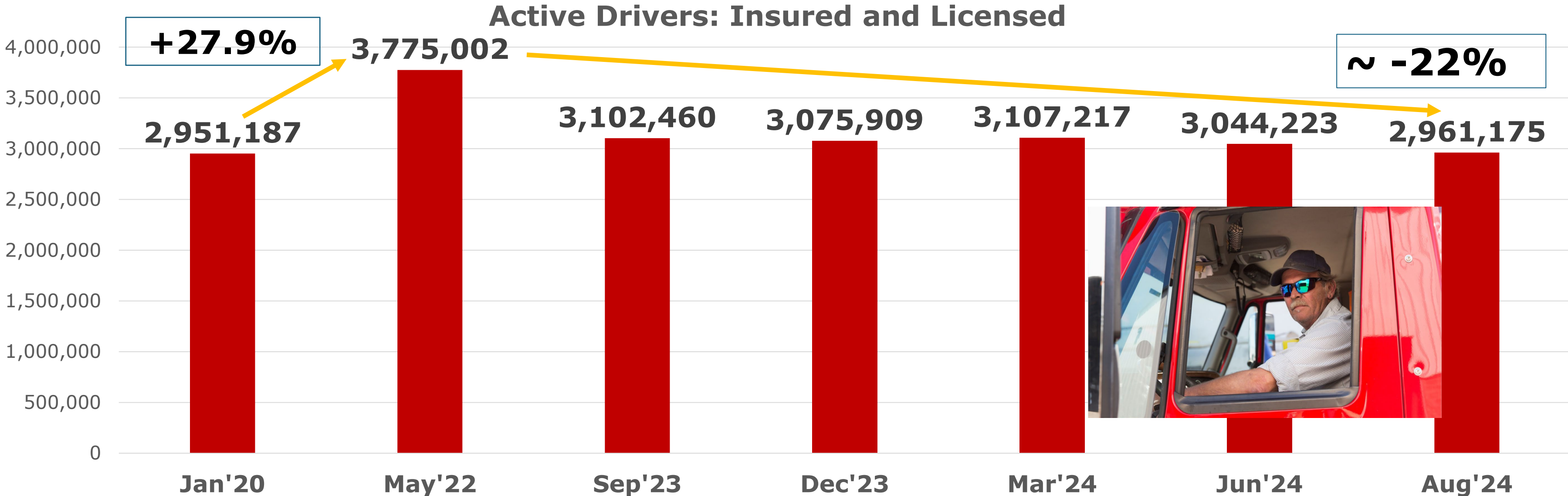
Still an Equilibrium Gap



Source: Uber Freight's monthly market report, late August 2024.

THE CAPACITY PURGE IS REAL

~814,000 Drivers Have Exited Since the Peak



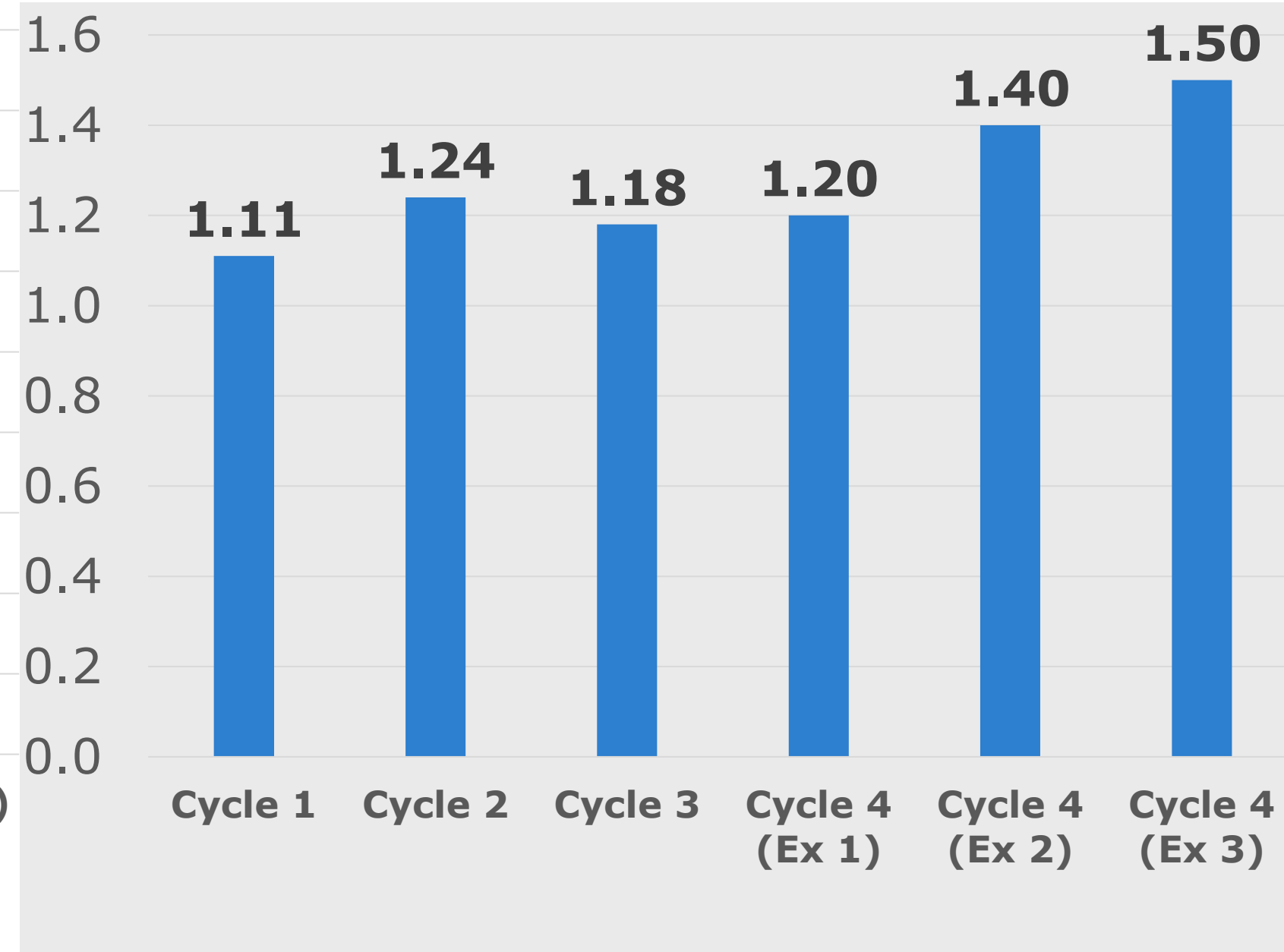
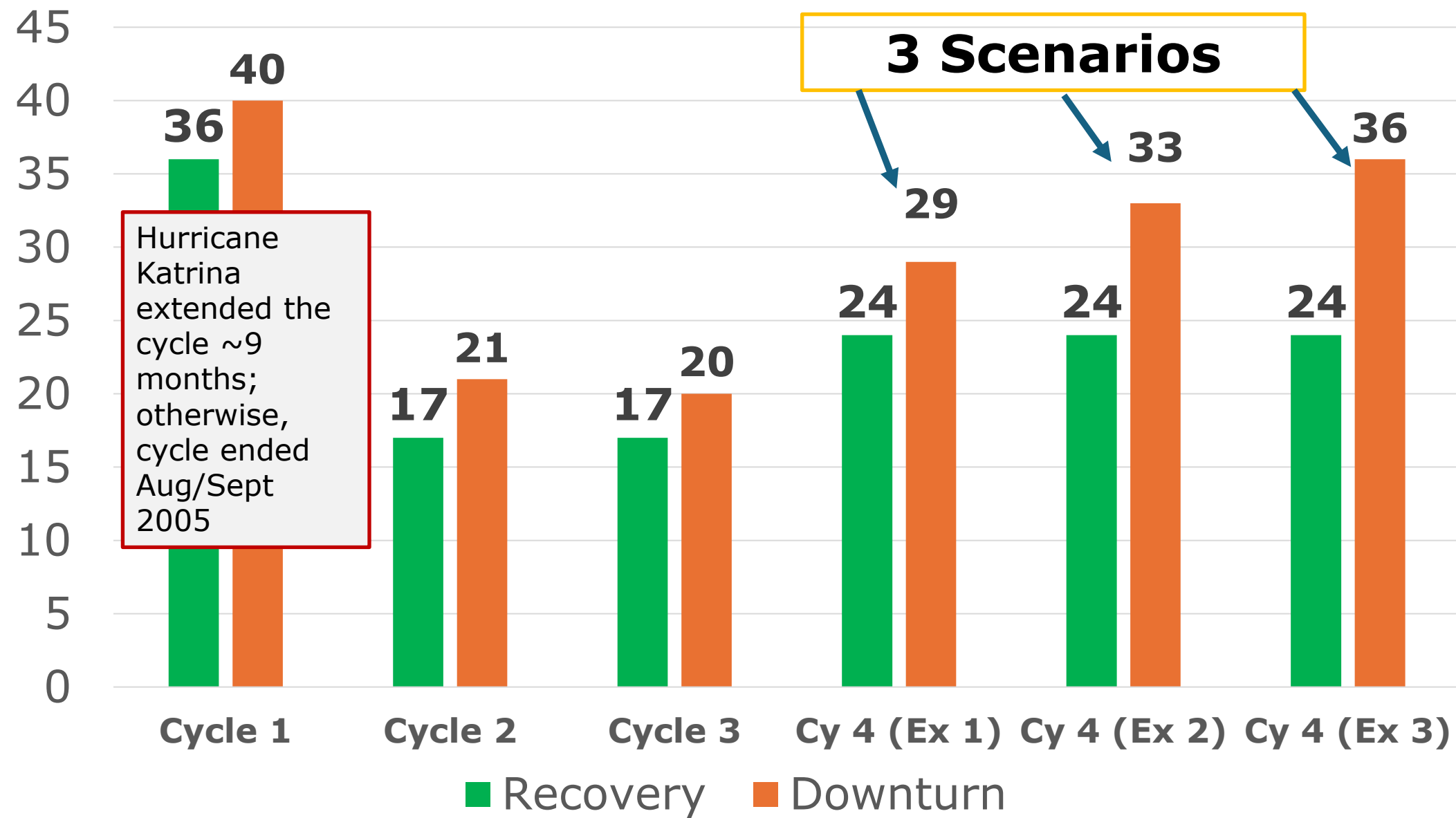
Sources: FMCSA Census data and QualifiedCarriers.com, a division of Highway.

Notes: Active motor carriers **exclude** some categories such as private not-for-hire fleets and vocational fleets. Active means insurance must be current and license fees paid. Motor carriers includes interstate motor carriers inc. truckload, final mile (using Class 7 or 8 equipment), LTL, private fleets with operating authority, etc.

3 PREVIOUS CYCLES: Equilibrium Close & Mar '25 or June '25 at Latest?

Tight Capacity Months (Green) Vs. Correction Months (Red)

Correction Months Ratio Vs. Recovery Months



Cycle 1: Recovery was June 2003-May 2006; Correction was June 2006-Sept 2009.

Cycle 2: Recovery was November 2013-March 2015; Correction was July 2015-April 2017.

Cycle 3: Recovery was June 2017-October 2018; Correction was November 2018- approx. May/June 2020, albeit the Pandemic renders this more of a guesstimate.

Cycle 4: Recovery was July 2020-June 2022; Correction began July 2022 and equilibrium should be attained by end of Q1'25 or in Q2'25.

FACTORS PROLONGING TRUCKING'S PAIN

- Absence of international demand for used US tractors due to DEF (~20K to 35K)
- Covid relief to trucking companies
- Prevalence of brokers have fed into fleet loads that would have gone to larger carriers
- Entrants of next-gen underwriters from 2019-2021 **kept AL insurance rates for 50 trucks artificially low but that is changing as many are falling**
- **Modified loan and lease payments make \$1.80-ish freight more doable** than what most cost structures suggest

OTHER FACTORS BEYOND TRUCKING

- Lost purchasing power will hinder 2025 even as wages have started to recover
- Election uncertainties have caused SOME businesses and consumers to pause or slow spending
- Anticipated interest rate cuts have caused housing market to pause
- But "comps" in **several economic sectors become so easy that many will experience growth, even if "absolute" numbers are unimpressive**

PREPARE TO THRIVE!

**DON'T FORGET:
CHAOS IS NORMAL!**

**DON'T FORGET:
Excess Cargo Coverage, Mexican
Cargo, and Shippers' Interest Policies!**

PREPARE TO THRIVE!

