FNBO TRANSPORTATION UPDATE

ECONOMIC UPDATE Q3 2023

In Q3 of 2023, the economy reported strong growth as consumer spending, inventories, exports, residential investment and government spending all increased. Consumer spending grew due to prescription drugs, vehicles, recreational goods, housing, utilities and health care. Residential investment was the primary driver behind gross private domestic spending, and defense spending was the main contributor to government spending as a result of global conflicts, according to the U.S. Bureau of Economic Analysis. The data shows that despite the Fed's attempts to cool the economy, a strong consumer is still driving growth. There is mixed opinion on how long the consumer will be able to sustain the contribution of growth.

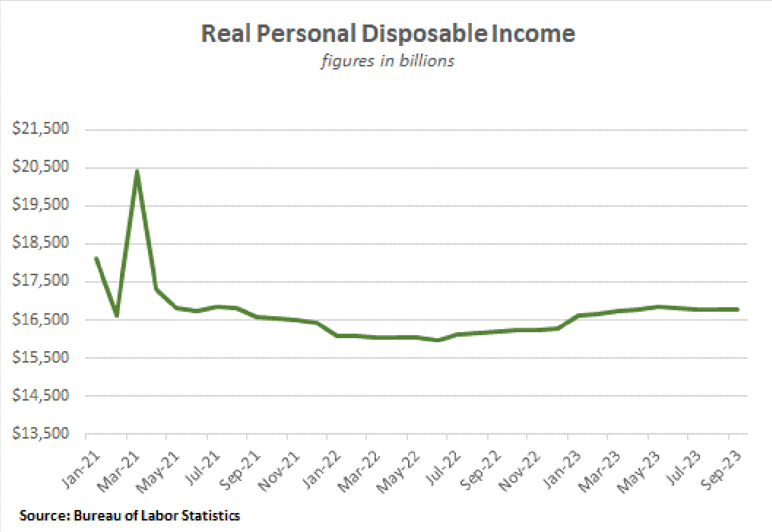
REAL GROSS DOMESTIC PRODUCT

Quarterly Percent Change from Preceding Period

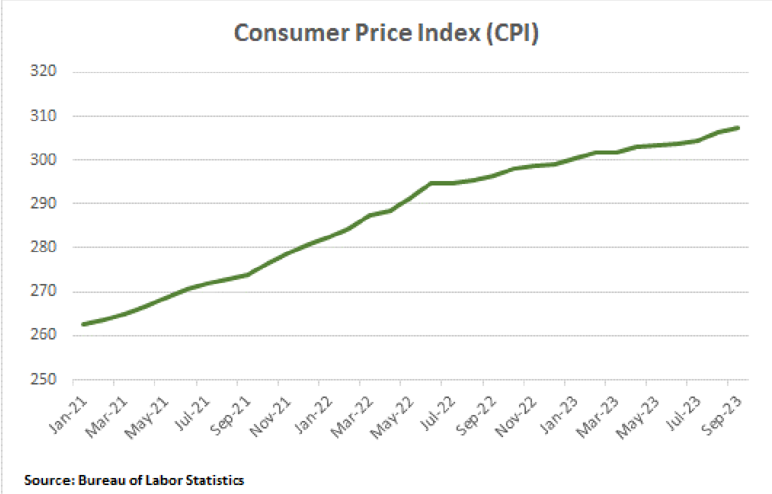
	Q3 2023	Q2 2023	Q1 2023
Nominal GDP	8.5%	3.8%	6.1%
Real GDP	4.9%	2.1%	2.2%
Personal consumption expenditures	4.0%	0.8%	3.8%
Goods	4.8%	0.5%	-0.3%
Durable goods	7.6%	-0.3%	-0.9%
Nondurable goods	3.3%	0.9%	0.0%
Services	3.6%	1.0%	3.2%
Gross private domestic investment	8.4%	5.2%	-10.6%
Government Spending	4.6%	3.3%	4.8%

Source: U.S. Bureau of Economic Analysis

Real disposable personal income, as shown on the right, decreased 0.25% on average quarter over quarter from $16.8 billion to $16.7 billion due to the increased cost of goods and services outpacing income growth. Personal savings rates were down 34% quarter over quarter, averaging 3.8% of personal income in Q3 vs. 5.1% in Q2, per the Bureau of Economic Analysis. Total consumer debt was up 1.7% for Q3 and up 11% year over year, according to the Board of Governors of the Federal Reserve System. This shows consumers are relying on more on debt as many believe the saved stimulus cash ran out amidst higher prices.

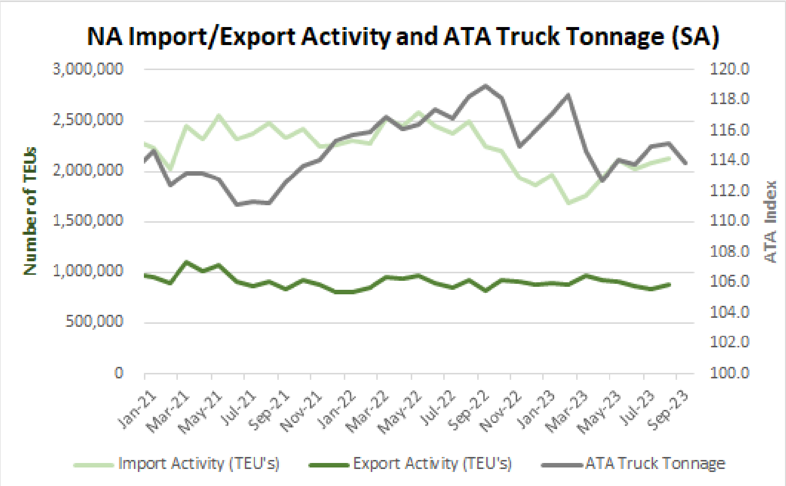


Inflation, measured by the Consumer Price Index (CPI), continued to decrease on a quarterly average basis from 4.06% in Q2 to 3.6% in Q3. However, for August and September the index increased, driven by energy and shelter costs, per the U.S. Bureau of Labor Statistics. The index for all items excluding food and shelter was up quarter over quarter, per the U.S. Bureau of Labor Statistics.



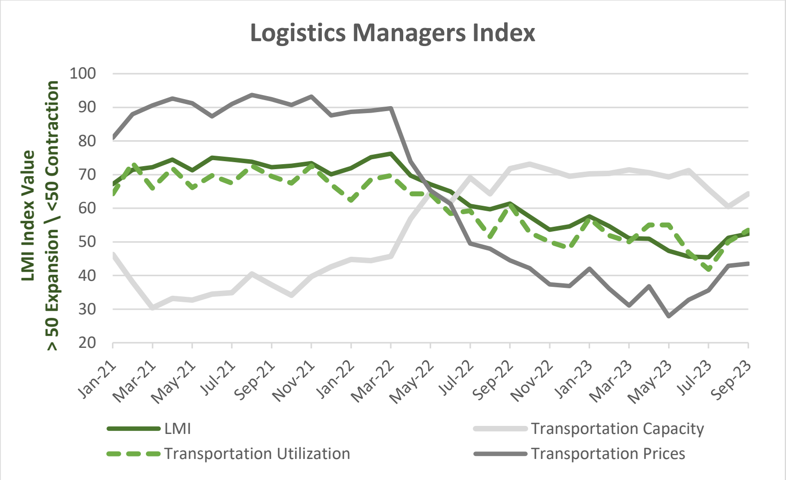
Demand for labor has stayed strong although there has been a recent cooling in the pace of hiring. Reports say wage pressures appear to be subsiding with the current hirings, per the Federal Reserve's Beige Book.

FREIGHT DEMAND



Source: ACT Research

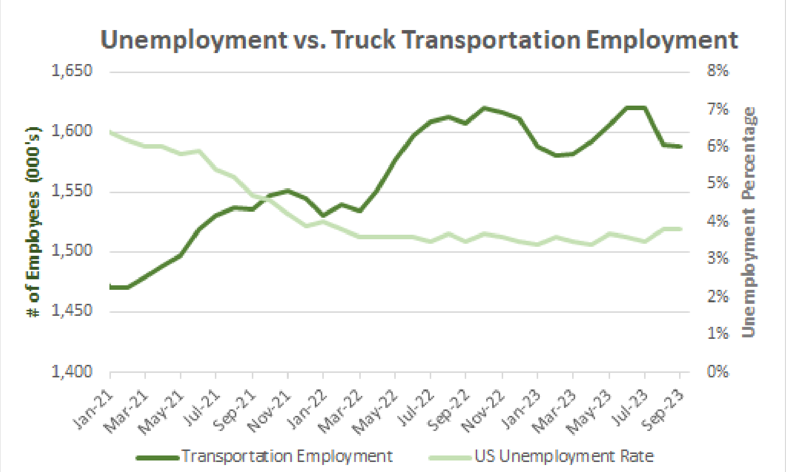
Trucking demand was flat quarter over quarter with ATA Tonnage averaging 114. In September, year over year seasonally adjusted tonnage was down 4.1%. ATA Chief Economist Bob Costello says he thinks tonnage has likely hit bottom, but the outlook remains volatile. On the spot market side, per DAT, posting of loads as of September were down 43% year over year and 12% month over month. Import activity showed improvement but was still down 14% August over August due to declining U.S. retail sales and destocking. ACT Research expects improvement through October given the seasonal demand for goods. Export container volumes improved 4.7% month over month in August but were still down year over year. Given the recent strengthening of the U.S. dollar, export volumes may continue to decline, giving up some of the recent gain.



Source: Logistics Managers' Index

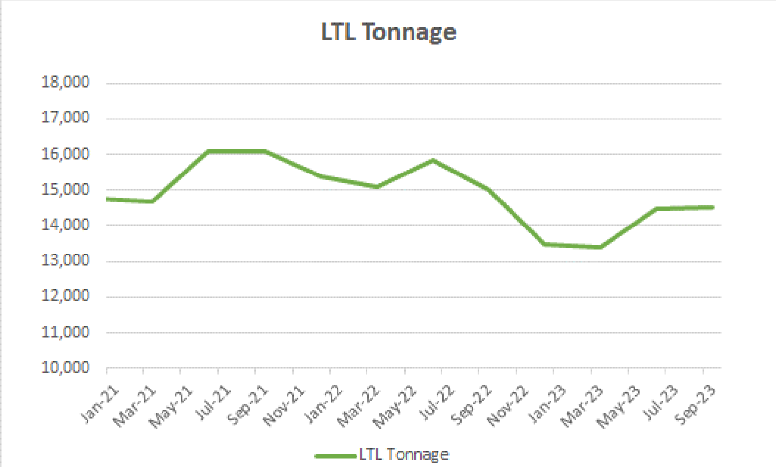
The Logistics Managers Index (LMI) highlights the inverse correlation between transportation capacity and prices with readings above 50 representing expansion in the industry. After seven months of declines in the index, August and September reported expansion. Lower warehouse capacity and increasing warehouse prices were key drivers in the index expansion.

Truck employment, in the bottom-left chart, is down from Q1 due to decreases in long distance LTL employment, per the U.S. Bureau of Labor Statistics, which can be attributed to the shutdown of Yellow Freight. The national unemployment rate was up slightly at 3.80% for September.



Source: US Bureau of Labor Statistics

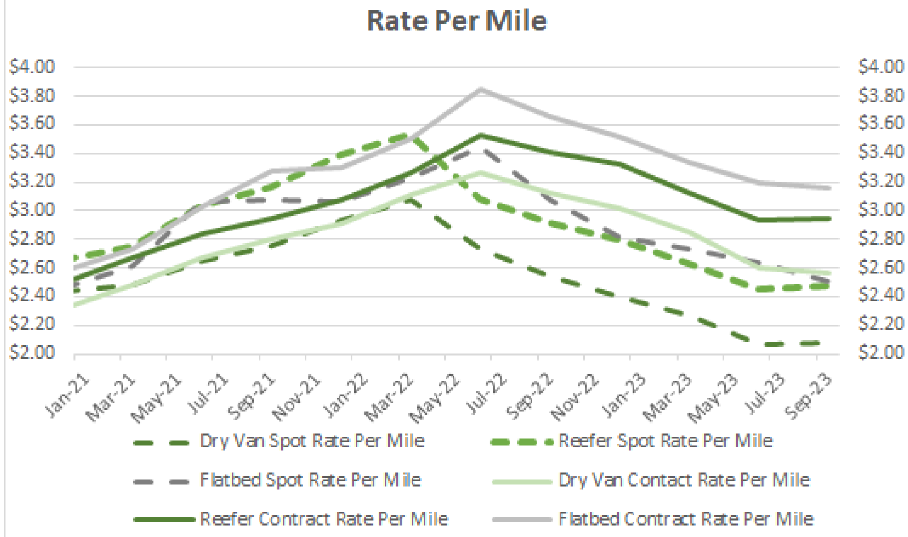
LTL Tonnage remains relatively flat with the market trying to assess where the Yellow Freight ended up, per ACT Research.



Source: ACT Research

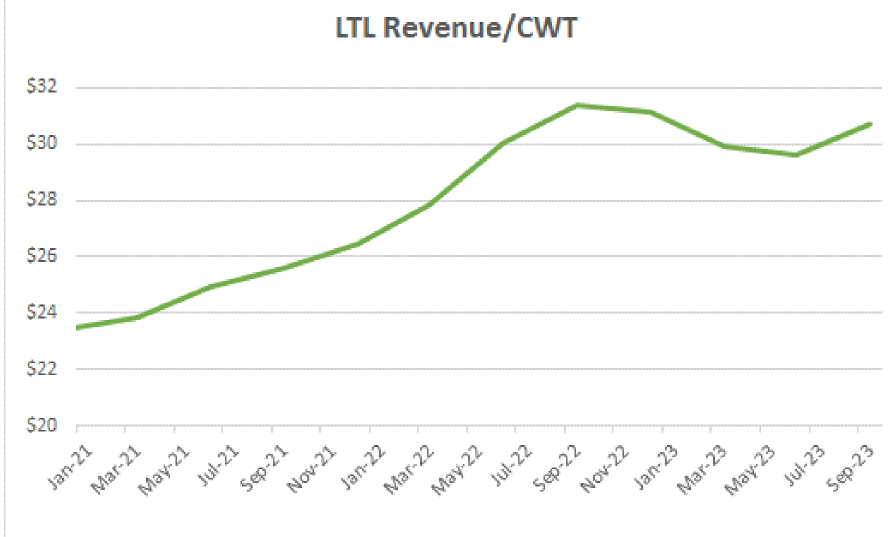
TRUCK RATES

Shown on the right are contract and spot rates for dry van, reefer and flatbed. For Q3, contract rates were pulled lower due to spot rate pressures. Dry van and flatbed contract rates were down approximately 1% and were down 4% when netting fuel. Reefer rates went up slightly for Q3 but down almost 2% when netting fuel.



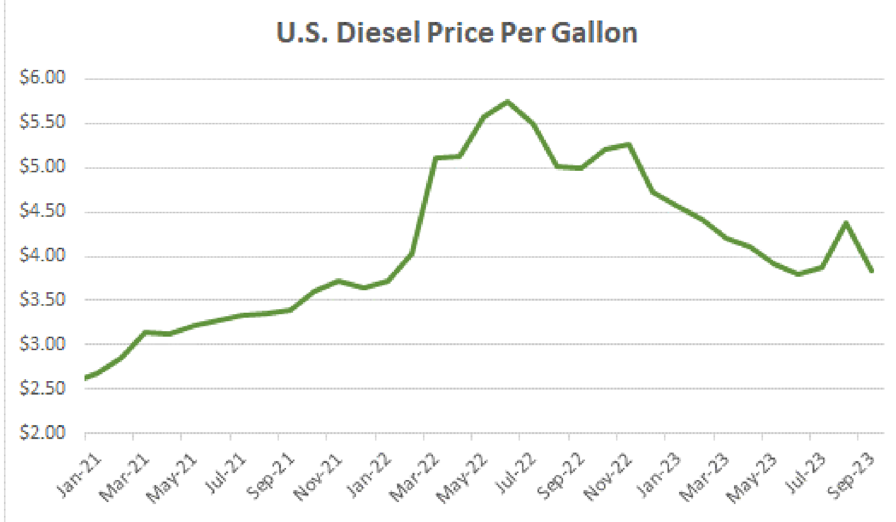
Source: ACT Research

Dry van and reefer spot rates were up approximately 1% quarter over quarter due to higher fuel costs as the figures net of fuel both showed a decrease of around 2%. Flatbed was down 5% before adjusting for fuel and 10% when netting for fuel.



Source: ACT Research

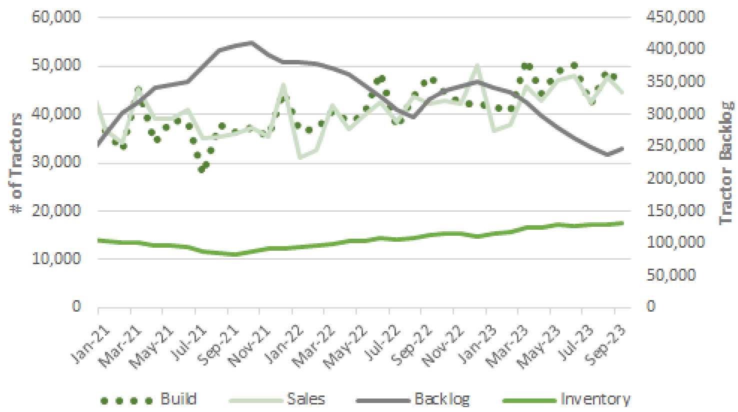
LTL costs were up 4%, as shown on the right, when netting fuel rates were up 10%. This increase offsets losses in Q2 as capacity has left the market with Yellow's closure. Per ACT, LTL rates will be volatile in coming quarters as the volume from Yellow gets redistributed and weighed against the softness in the truckload market.



Source: ACT Research

Diesel prices were up 2% on average from Q2 to Q3 primarily due to large price increases in August. Year over year diesel prices were down 22% compared to Q3 2022. The outlook for the rest of 2024 will be volatile based on recent global events. Currently oil prices are expected to rise after Saudi Arabia extended its voluntary cuts through the end of the year. In addition, some OPEC countries are operating below the agreed upon level, per the U.S. Energy Information Administration.

New Tractors Class 5-8

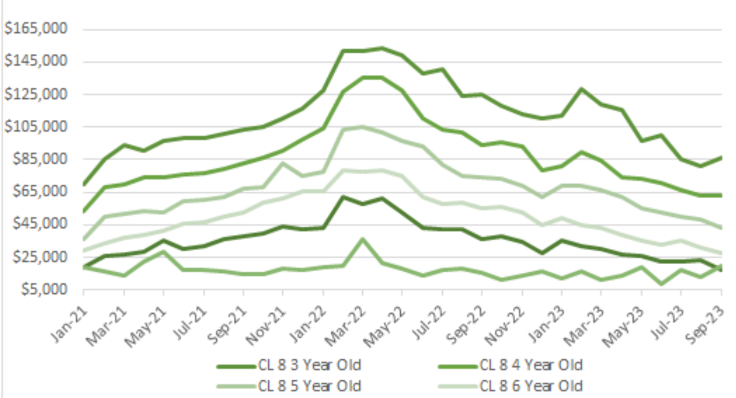


Source: ACT Research

Used Truck Trends

Source: ACT Research

Used Class 8 Price Trends



Source: ACT Research

TRACTOR TRENDS

Orders for 2024 kicked off in September with mixed results. There continues to be strong demand for medium trucks, but heavy duty demand is lower with a softer trucking market. Backlog was down 10% quarter over quarter and 21% year over year with class 8 accounting for most of the decrease. Build levels on average were down 1% quarter over quarter and up 6% year over year. Cancellations continued to be minimal at approximately 1% for medium and heavy duty units, per ACT Research. Sales continue to follow build levels as there is little stock inventory being allocated.

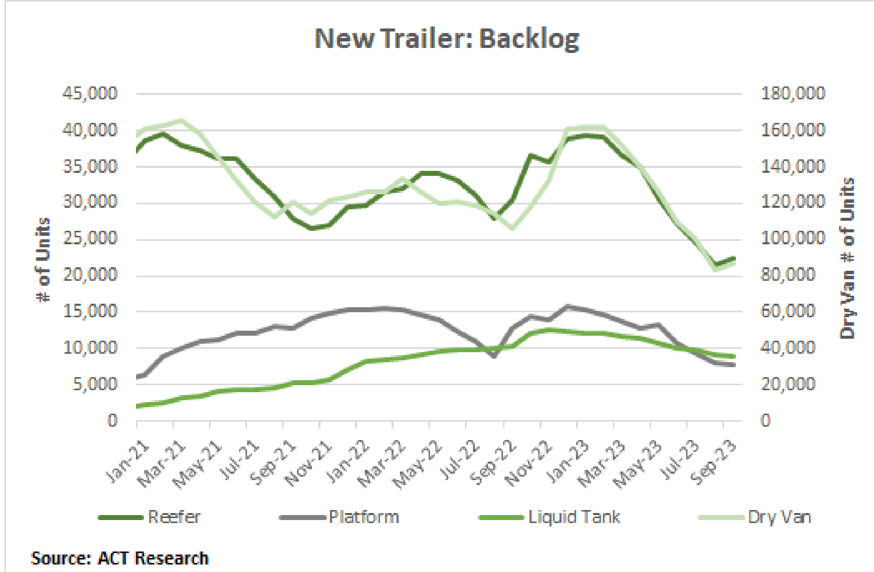
Used class 6-7 units were up 3% in the third quarter with prices down 4% despite 2% less mileage and 7% less age. Class 8 units were up 10% with prices down 7% as the average age and mileage of units increased. Helping to temper the decrease in prices was an 83% increase in exports year over year. Government data shows 9,902 trucks were exported through August, per ACT Research.

Used values of class 8 trucks decreased an average of 13% across all ages. Three-year-old trucks had the largest decrease at 19% with 8-year-old trucks reporting a 1% decrease. Year over year, values were down an average of 40% due to lower demand for used units as fewer new operators entered the market.

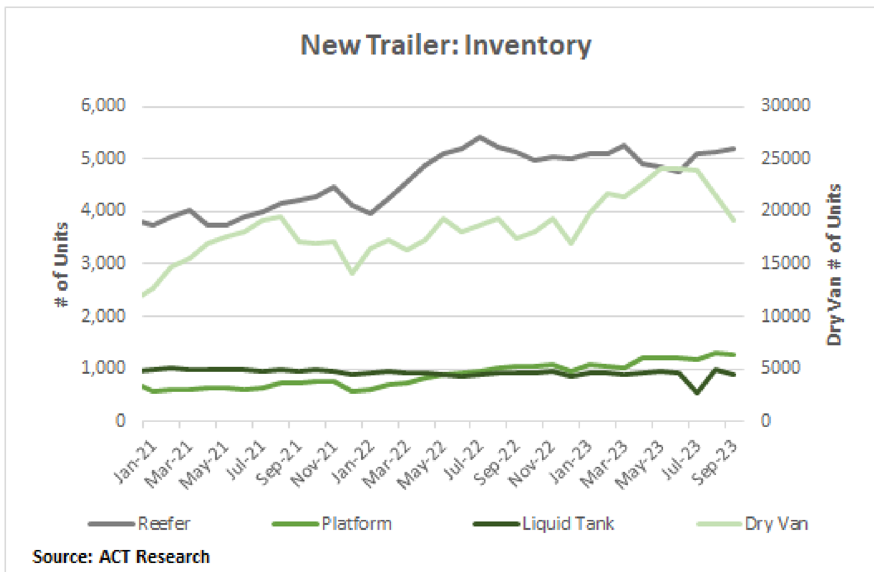
fnbo Transportation Banking

TRAILER TRENDS

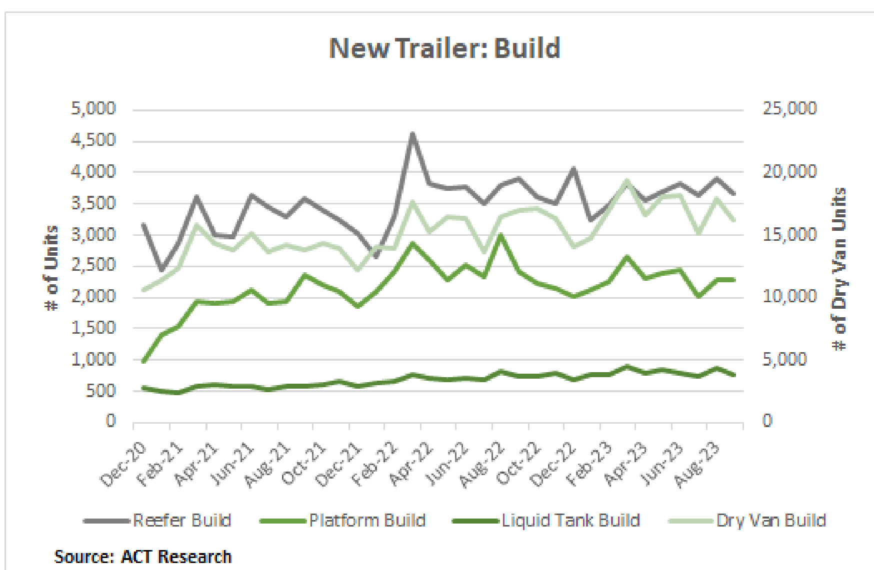
Trailer backlogs were down 25% in Q3 compared to Q2 as order boards for 2024 opened up. However, backlog was down year over year by 20% due to lower demand given the tumultuous trucking market. Dry vans, reefers and platform experienced the greatest decline in backlog between 25% and 31%. Liquid backlog had the lowest decrease at 13%. According to ACT Research, cancellations were up from Q3 of 2022 from 0.6% to 2.5% at Q3 of 2023. Cancellations were down from 3.25% at Q2.



Inventory numbers were down 5% quarter over quarter and up 12% year over year for Q3, according to ACT Research. Dry van and liquid inventories decreased at 9% and 13% respectively. Reefer reported an increase in inventories of 6% with platform up 4%.



New trailer builds were down 5% quarter over quarter but up 2% year over year. Per ACT Research, OEMs reported smaller, less impactful disruptions. All categories except for reefer trailers reported lower build levels from last quarter. ACT reported that build plans remain unchanged for the remainder of 2023, but it has lowered the build plan for Q1 2024 by 6%.



Per ACT Research, conversations with industry stakeholders revealed that while general business conditions and demand is worse, orders show that interest for new trailers remains.

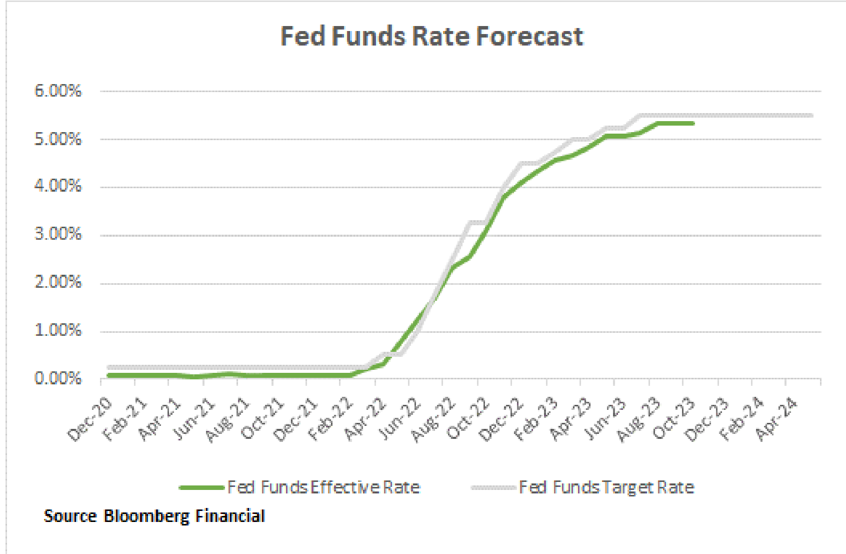
INTEREST RATE OUTLOOK

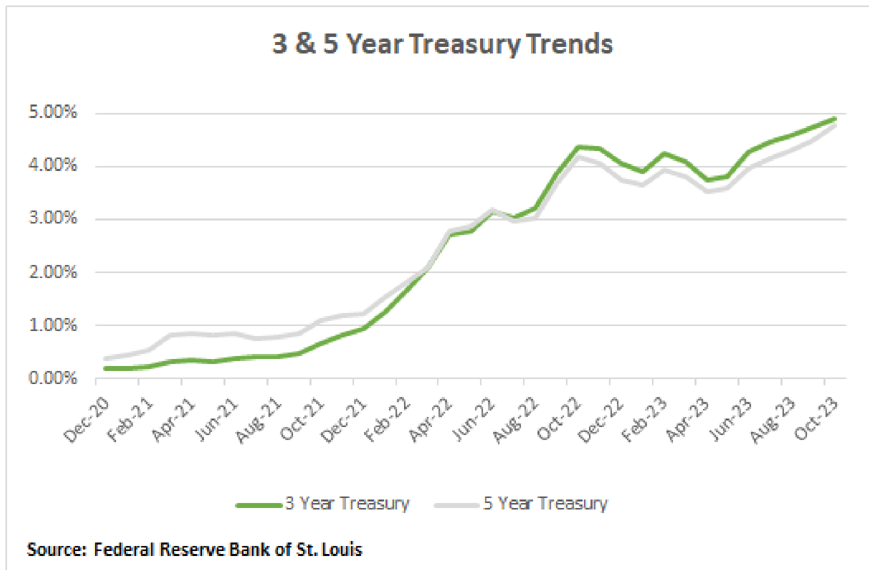
There is mounting evidence that monetary policy is cooling the economy. The Fed only increased rates once in Q3 with a 25-bps increase to a target of 5.50%. Year over year the Fed target increased from 3.25% to 5.50%.

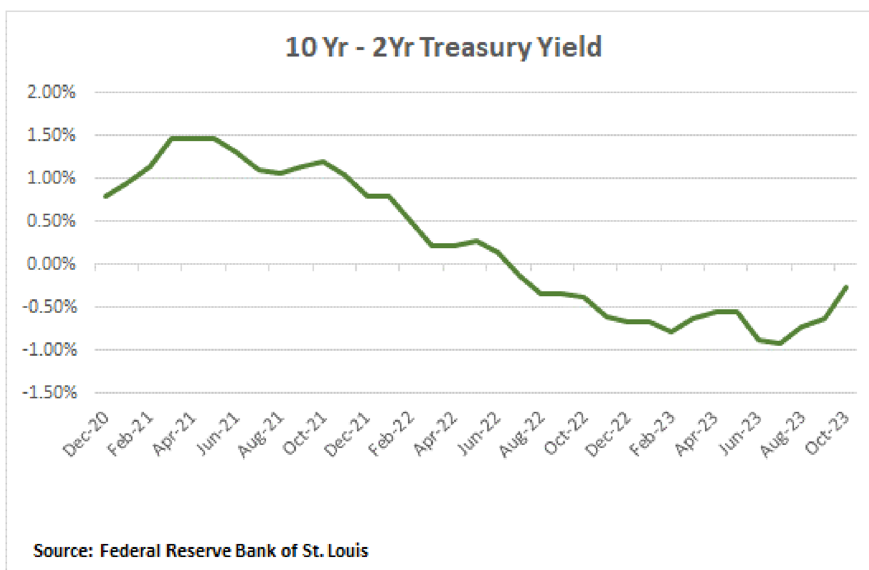
While the central bank's comments indicate a continued commitment to achieving 2% inflation, it did state that it is prepared to adjust its stance if risks emerge, including international developments. As such, the market is now anticipating rates will remain flat through May of 2024 with uncertainty beyond that point. The central bank is expected to continue to reduce its holding of securities, otherwise referred to quantitative tightening, by reducing its holding of Treasury securities and agency debt, which is unchanged since July 2023.

The second chart shows the three- and five-year Treasury yields. Treasuries are a commonly used index for fixed rate loans. Treasury yields increased during Q3 as the forecast for rate reductions was pushed out further into 2024.

The last chart is the 10-2 year yield spread for Treasuries. Any value above 0% indicates it is more costly to borrow money for a longer term than a shorter term. Currently the yield curve is inverted averaging -0.8% for Q3, compared to -0.7% for Q2. This indicates the gap between short- and long-term borrowing rates is growing. However, the yield curve re-steepened in September and October. An uninversion of the yield curve happened prior to the last four recessions.







Connect with the Expert, Aaron Martens

Aaron Martens is the Vice President of Transportation Banking for FNBO. In this role, Aaron supports closely held and family-owned businesses with comprehensive banking services. Aaron has been with the bank for over 15 years, with the majority of his experience in commercial banking. Aaron received a BSBA from the University of Nebraska Lincoln and an MBA from the University of Nebraska Omaha.

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