FNBO
TRANSPORTATION UPDATE

ECONOMIC UPDATE Q1 2024

In Q1 of 2024, real GDP growth was 1.6%, which was below the 2.4% estimate and down more than 50% from Q4 2023. The deceleration reflected lower consumer and government spending. Residential investment and imported goods reported an increase compared to last quarter, according to the Bureau of Economic Analysis (BEA). The Q1 deceleration results indicate that trucking volumes should hold at their current levels, however, there is uncertainty around the economy's ability to drive freight demand to help stabilize the trucking market.

REAL GROSS DOMESTIC PRODUCT

Quarterly Percent Change from Preceding Period

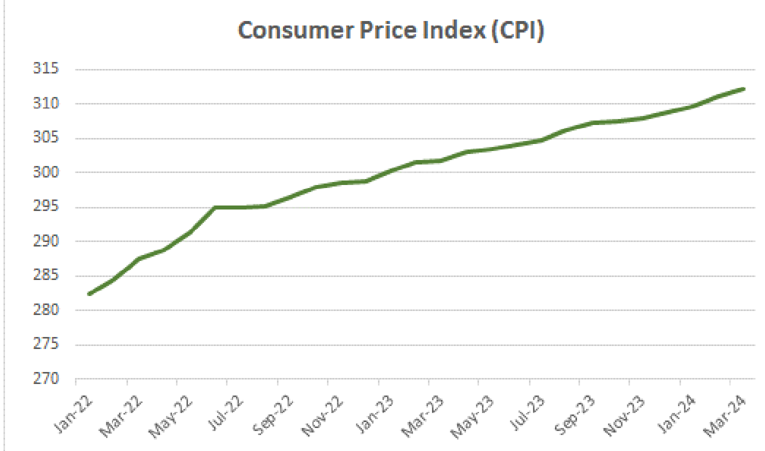
	Q1 2024	Q4 2023	Q3 2023
Nominal GDP	4.8%	5.1%	8.3%
Real GDP	1.6%	3.4%	4.9%
Personal consumption expenditures	2.5%	3.3%	3.1%
Goods	-0.4%	3.0%	4.9%
Durable goods	-1.2%	3.2%	6.7%
Nondurable goods	0.0%	2.9%	3.9%
Services	4.0%	3.4%	2.2%
Gross private domestic investment	3.2%	0.7%	10.0%
Government Spending	1.2%	4.6%	5.8%

Source: U.S. Bureau of Economic Analysis

Real disposable personal income, as portrayed in the chart, was up slightly in Q1 as increased compensation levels and personal transfer receipts were tempered by personal taxes. Personal savings rates decreased 8% in Q1, or 24% year over year, finishing at 3.6%, per the BEA. Total consumer debt was up 2% this quarter and up 9% year over year, according to the Board of Governors of the Federal Reserve System. This shows consumers are utilizing more leverage as growth of consumer debt outpaced personal income. This would support theories by some economists that consumers are tapped out and spending levels may decline during 2024 due to macroeconomic factors. Also supporting this theory, credit card and consumer delinquency rates increased 40% and 30% respectively from Q4 2022 to 2.7% in Q1 2024.

Source: Bureau of Labor Statistics

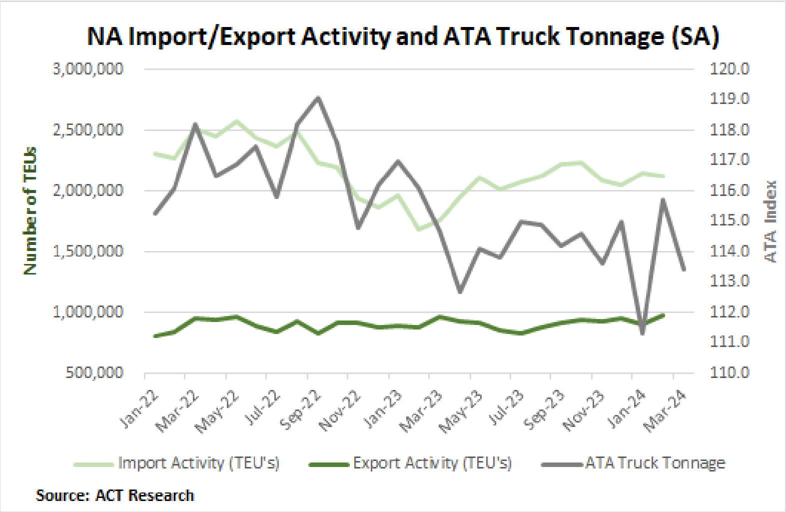
Inflation, measured by the Consumer Price Index, grew 3.5% in Q1 compared to 3.4% in Q4. Inflation exceeded economists' expectations of 3.4% mainly due to energy prices. The index for all items excluding food and shelter decreased quarter over quarter from 3.9% to 3.8% due to lower vehicle prices and medical care products, such as drugs and equipment, per the U.S. Bureau of Labor Statistics.



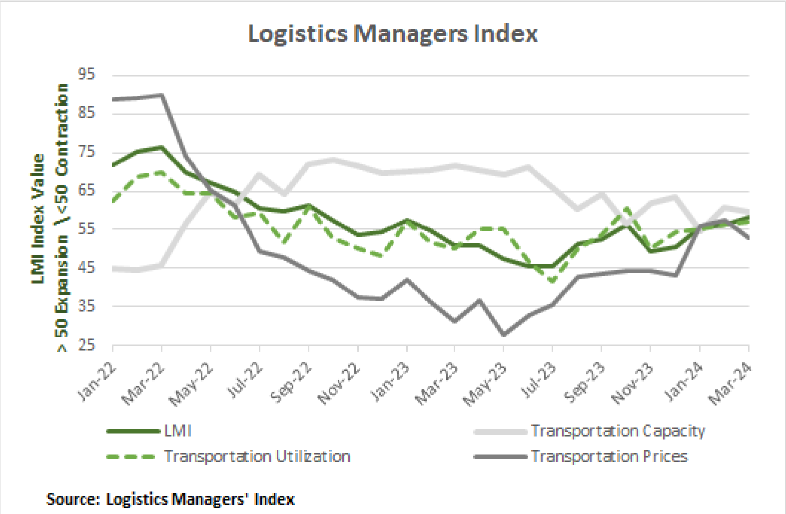
Source: Bureau of Labor Statistics

Employment levels remain stable with slowing job growth and slightly higher unemployment. Per the Federal Reserve Beige Book, there are reports of a larger applicant market, except for skilled trades and less wage pressure.

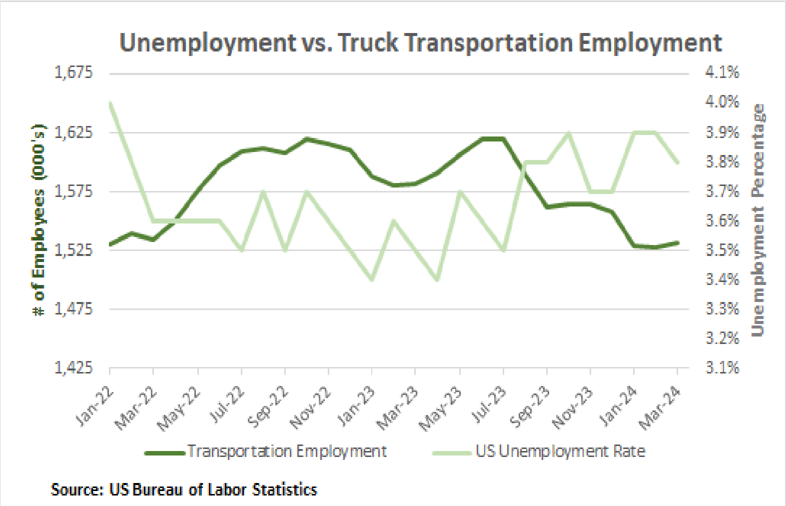
FREIGHT DEMAND



Source: ACT Research



Source: Logistics Managers' Index



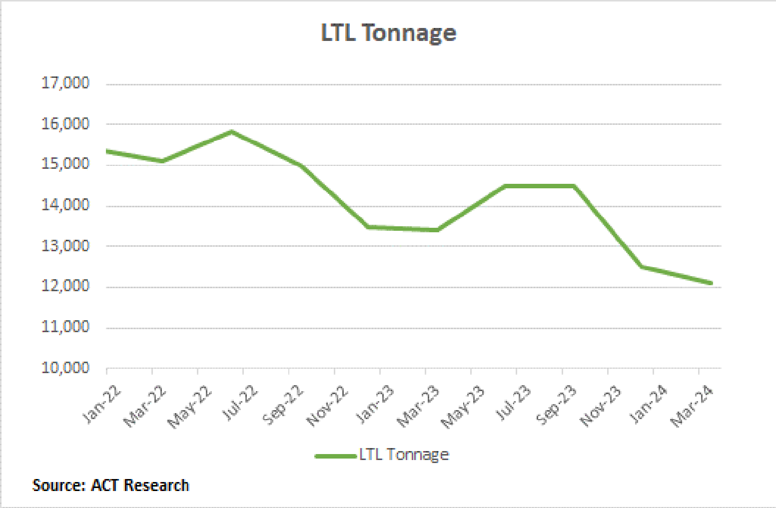
Source: US Bureau of Labor Statistics

Trucking demand decreased in Q1, averaging 113.5, down from 114.4 last quarter and 115.9 in Q1 2023. ATA Chief Economist Bob Costello reported that truck tonnage decreased due to the continued freight recession. On the spot market side, per DAT, posting of loads as of Q1 were up 13% compared to last quarter with April figures supporting a continued trend. ACT Research expects volumes to grow driven by goods, inventory restocking and increased industrial production. Import volumes were up 10% in January and 26% in February driven by goods consumption and inventory restocking. However, part of the increase was due to the later Lunar New Year, which was expected to decrease volumes for March. Export container volumes showed improvement in February partially due to the extra operating day in the leap year. Export volumes did increase 1.6% in 2023 after four years of declines.

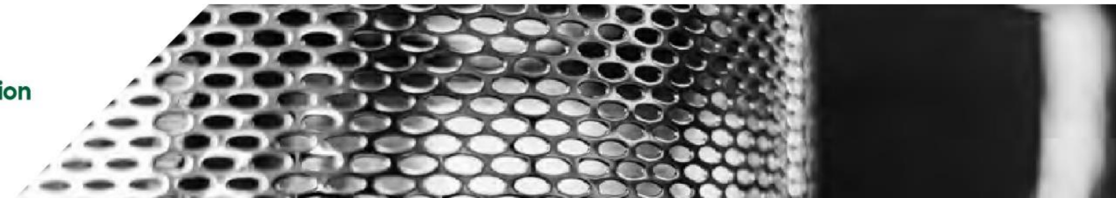
The Logistics Managers Index (LMI) highlights the inverse correlation between transportation capacity and prices with readings above 50 representing expansion in the industry. In Q1, the LMI averaged 57, versus 52 in Q4, due to increased transportation prices and utilization.

Truck employment, in the bottom-left chart, was down 3%. Employment levels declined as entrants exited the space, especially in general freight local and specialized freight.

LTL Tonnage decreased in Q1, however, this data is skewed as much of Yellow's freight moved to non-publicly traded carriers, which is not shown in the data below. In addition, a portion of the LTL volume was consolidated into TL loads, per ACT Research.



Source: ACT Research



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TRUCK RATES

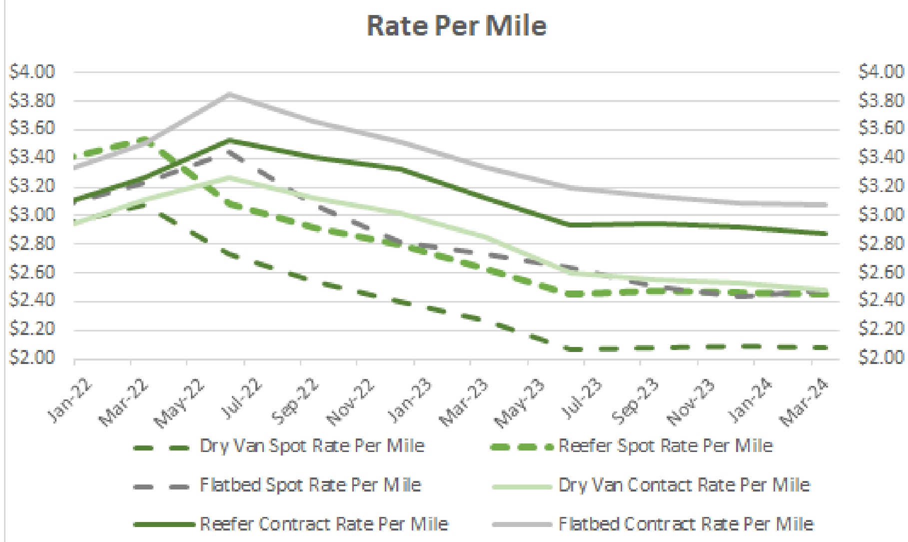
Shown on the right are contract and spot rates for dry van, reefer and flatbed. For Q1, all rates were down slightly with flatbed at -0.65%, dry van at -1.20% and reefer at -1.71%. When netting fuel rates, reefer rates were flat with dry van showing a 0.50% increase and flatbed up 1.6%.

Spot rates were down around half a percent for dry van and reefer with flatbed increasing 2% in Q1. When netting fuel, flatbed reported a 5% increase with reefer rates up 2.6% and dry van rising 1.9%.

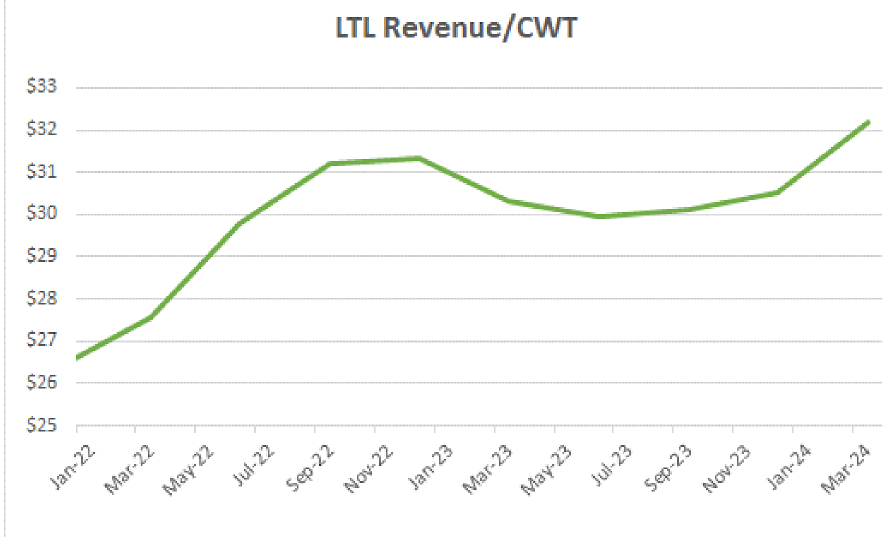
ACT Research is forecasting an increase in rates during Q2 based on slowing fleet growth, economic trends exceeding expectations and DAT spot equipment posts declining 29% year over year.

LTL rates were up slightly in Q1 with rates up .7% and up 6% when compared to Q1 2023. When netting fuel that improvement increases to .87% over last quarter and 8.4% over the prior year. Per ACT Research, LTL pricing power remains strong since Yellow's exit. Rates are expected to keep increasing as LTL fleets continue to expand and acquire new terminals.

Diesel prices were down 6% in Q1 and down 9.7% compared to Q1 2023 with an average price of $3.97. The U.S. Energy Information Administration expects prices to rise based on OPEC extending its voluntary production cuts and global consumption exceeding supply.



Source: ACT Research



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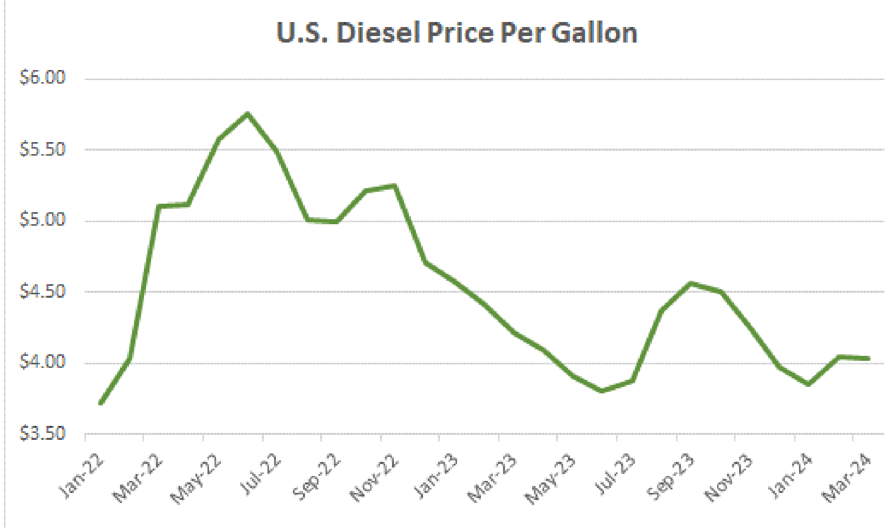

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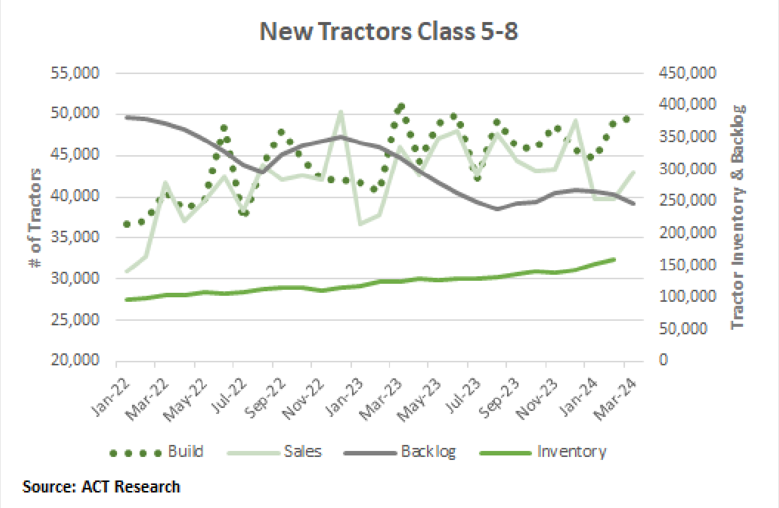

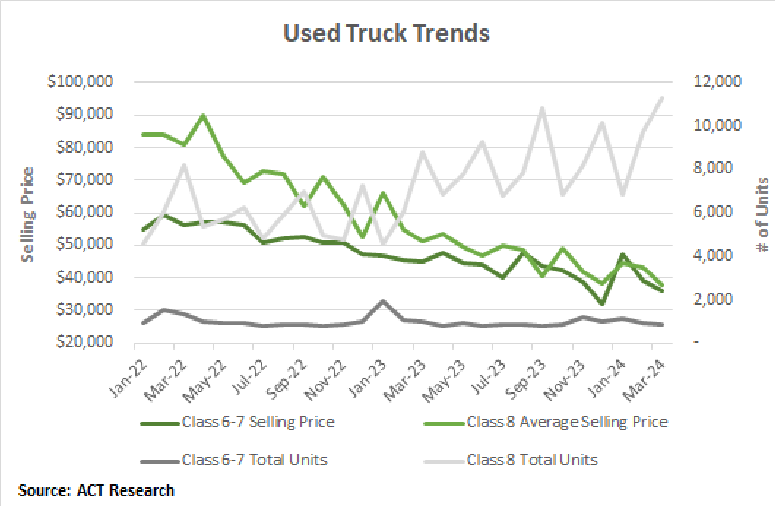

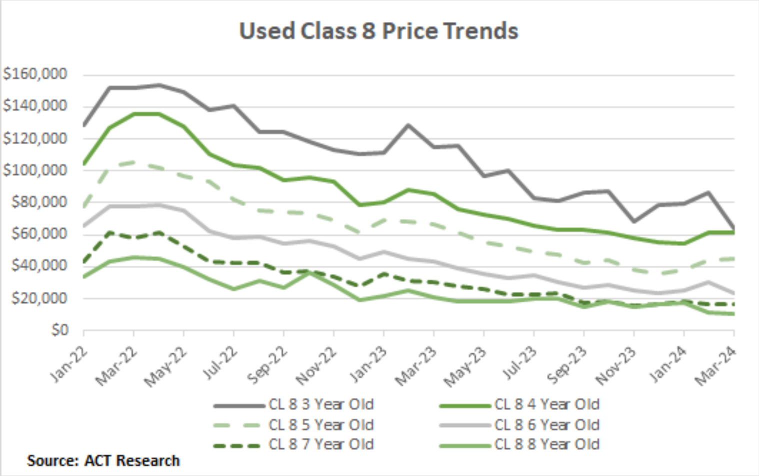

TRACTOR TRENDS

The backlog decreased 1% in Q1 with all truck classes reporting lower levels. Backlog was down 22% year over year as demand for new trucks adjusted to the current freight demand. Build levels helped reduce backlog as production increased 2% over last quarter and 7% over Q1 2023. This resulted in increased inventories as sales were down 10% from last quarter. Part of the inventory increase is related to supply chain issues for medium duty truck bodies, according to ACT Research.

Cancellations were up 28% over last quarter, averaging 1.4% of backlog. Class 8 cancellations made up the larger share, rising 37% from Q4 2023 compared to class 5-7, which was up only 17%.

Used class 6-7 units were down 8%, reporting an 8% increase in prices over last quarter but were down 11% compared to last year despite the units having lower mileage and age. Class 8 units were up 11% and up 44% year over year. Prices decreased 3% with slightly lower age and flat mileage. Year over year prices were down 28%.

Used values of class 8 trucks reported mixed results in Q1. Trucks four to seven years old reported single digit increases with three- and eight-year-old trucks reporting decreases of 2% and 19% respectively. Exports continued to be strong, up 39% year over year, however, ACT Research reported that export growth is slowing.

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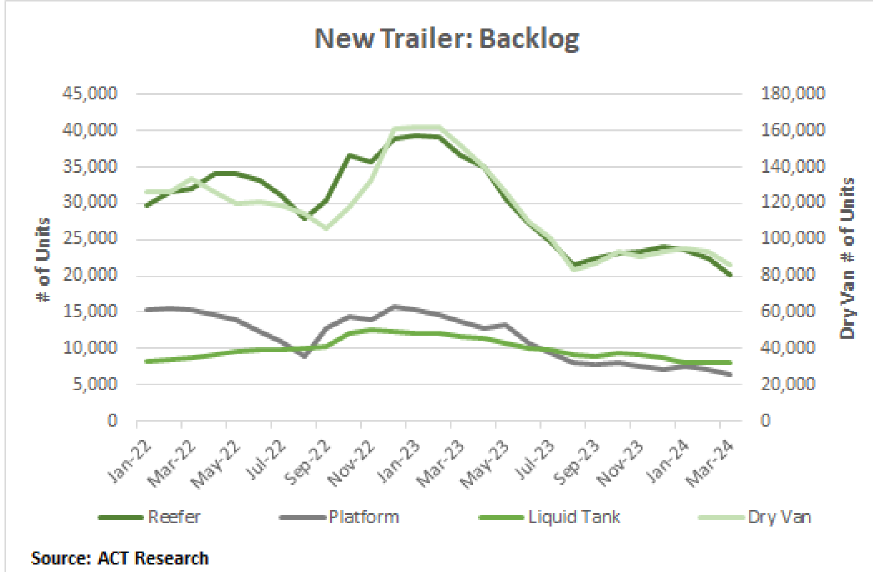
TRAILER TRENDS

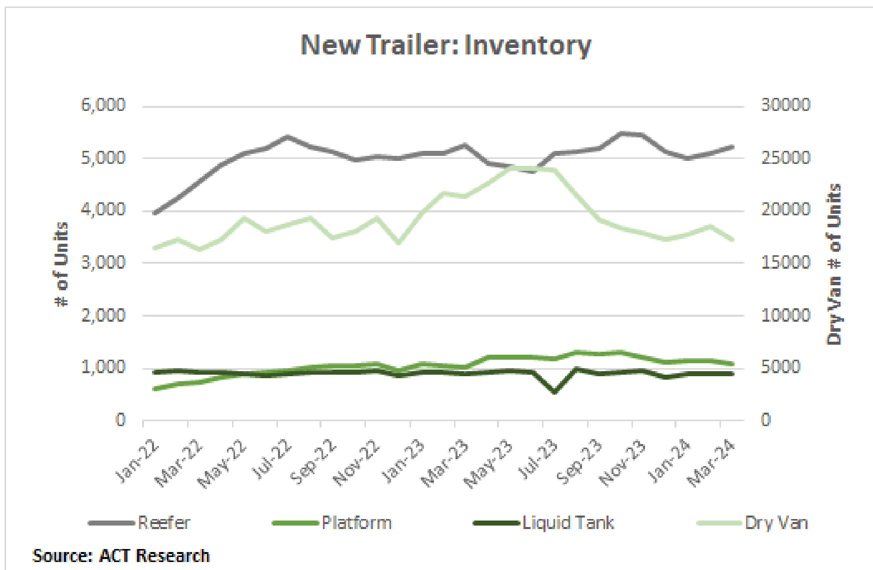
Trailer backlogs were down 3% in Q1 and down 41% year over year. All four categories of trailers reported decreased backlogs because the freight recession resulted in deferred replacement of units. Cancellations as a percentage of backlog increased from 1.3% in Q4 to 2.2% Q1 2024, per ACT Research.

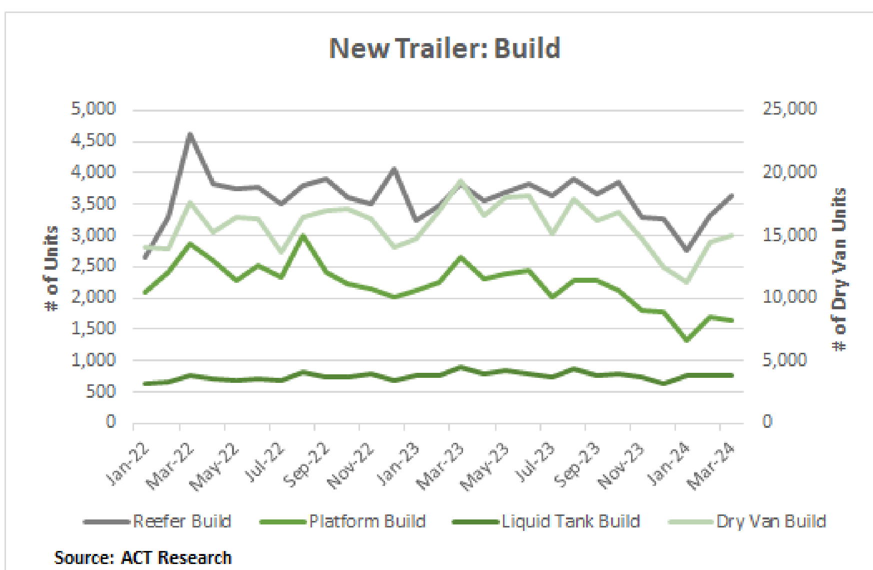
Inventory numbers decreased 1% compared to Q4 and 10% compared to Q1 of 2023, according to ACT Research. Dry van and liquid tank inventories were down slightly at less than 1% with reefer and platform inventories down approximately 5%.

New trailer builds declined 7% quarter over quarter and 18% year over year. Build rates continue to drop in response to decreased trailer demand. ACT reported that build levels per day averaged 1,504 units for 2023. In 2024, build levels per day averaged 1,100 after a slow month in January due to weather-related impacts. ACT is still forecasting build rates to remain at 1,100 per day throughout 2024.

Manufacturers stated that 2024 orders continue to be slow as capacity exceeds demand. Manufacturers are also working to rebalance dealer stock. In a survey of OEMs, it appears this process is still in its early phases. Per ACT Research, some OEMs communicated concern that increasing backlog levels may lead to supply chain constraints due to lower build levels, potentially impacting their ability to ramp up production.







INTEREST RATE OUTLOOK

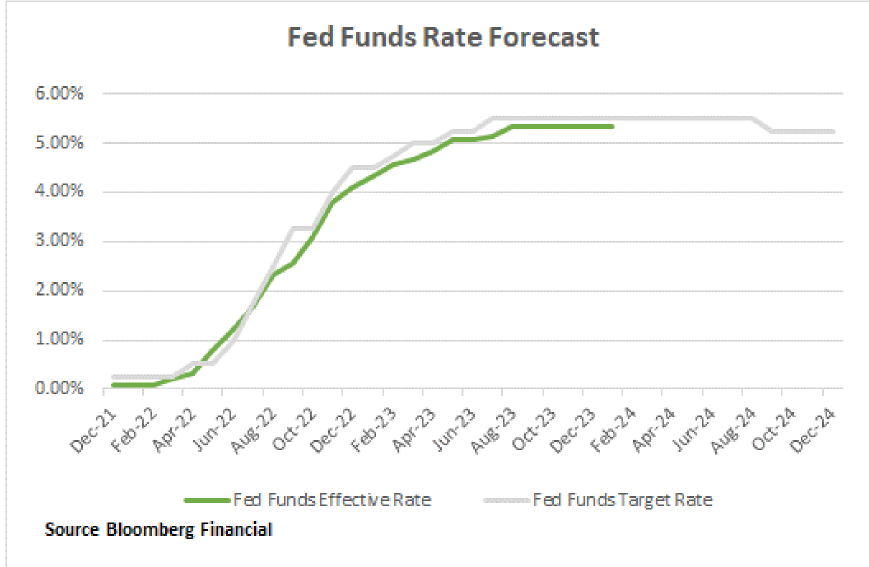
The Fed Funds target rate has recently increased indicating high for longer after persistent inflation levels led to "hawkish" comments from the Federal Reserve. Last quarter the market was predicting a full percentage interest rate cut whereas the current forecast is calling for rate cuts in September and December, which is illustrated in the chart to the right.

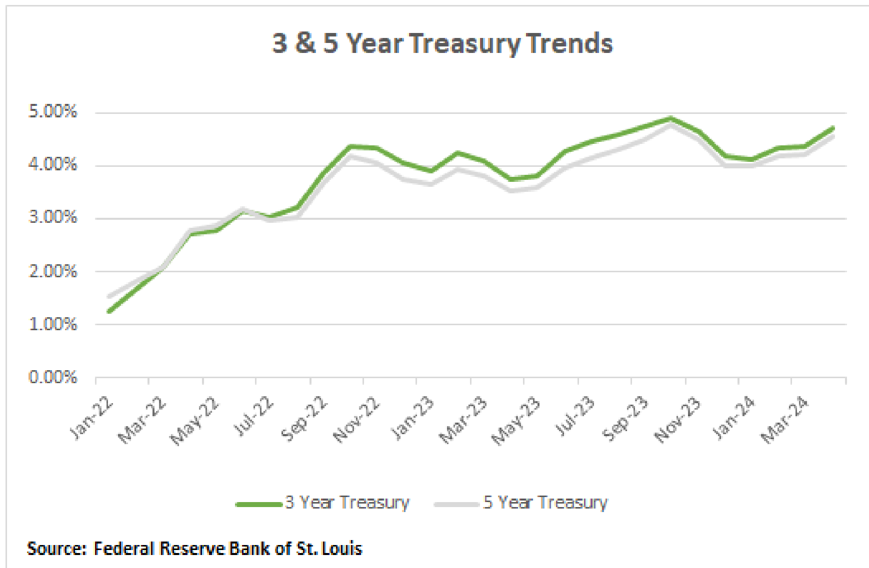
Per the release from the Federal Reserve's April 2024 meeting, economic growth is decelerating but remains positive and unemployment remains low, while inflation continues to be elevated. The Fed commented that it will need to have greater confidence that inflation is coming down toward the 2% target before reducing rates.

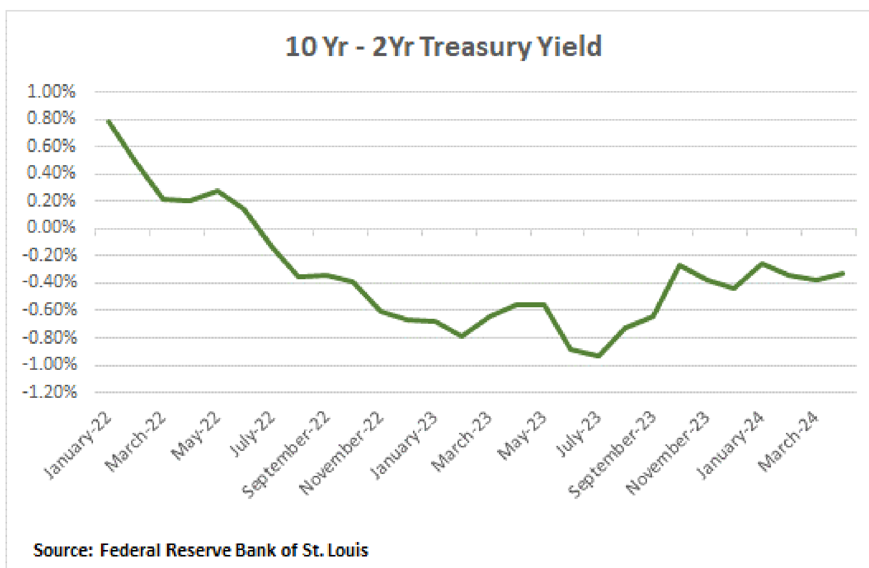
The central bank did change its position on reducing its holding of securities, otherwise referred to as quantitative tightening. Redemptions of treasury securities will reduce from $60 billion to $25 billion. This is the first change in the balance sheet plan since January of 2023. This reduction may provide some relief to the credit markets.

The second chart shows the three- and five-year Treasury yields. Treasuries are a commonly used index for fixed rate loans. On average the three- and five-year yield, driven by prior expectations of rate reductions, slightly decreased in Q1. However, yields rebounded on a monthly basis from January through April thereby increasing loan rates on equipment.

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 -0.3% for Q1 and up slightly from -0.4% for Q4 2023. The gap between short- and long-term compressed during the quarter before expanding in April.







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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