FNBO
TRANSPORTATION UPDATE

ECONOMIC UPDATE Q2 2024

In Q2 of 2024, real GDP growth was 3.0%, which was above the 2.1% estimate and double the Q1 2024 figure. The acceleration reflected increases in private inventory investment and consumer spending and was offset by continued declines in residential investment, according to the Bureau of Economic Analysis (BEA). The increase in GDP results indicate that trucking volumes should increase given consumer spending and additional inventory investment. This information coincides with reports of an early peak season as businesses look to import goods prior to expiration of East and Gulf ports labor contracts.

Real Gross Domestic Product

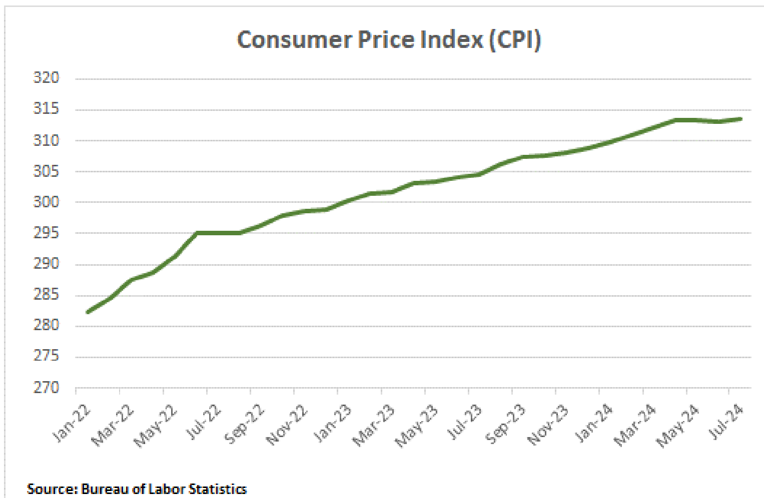
Quarterly Percent Change from Preceding Period

	Q2 2024	Q1 2024	Q4 2023
Nominal GDP	5.5%	4.5%	5.1%
Real GDP	3.0%	1.4%	3.4%
Personal consumption expenditures	2.9%	1.5%	3.3%
Goods	3.0%	-2.3%	3.0%
Durable goods	4.9%	-4.5%	3.2%
Nondurable goods	2.0%	-1.1%	2.9%
Services	2.9%	3.3%	3.4%
Gross private domestic investment	7.5%	4.4%	0.7%
Government Spending	2.7%	1.8%	4.6%

Source: U.S. Bureau of Economic Analysis

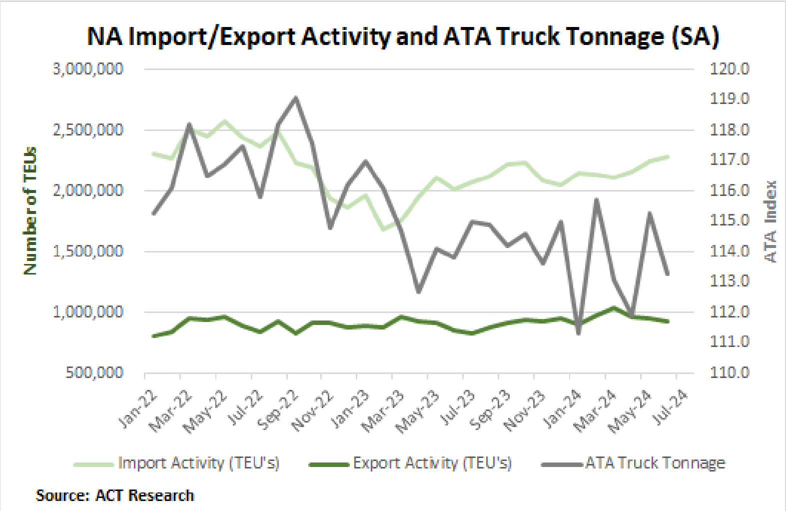
Real disposable personal income, as portrayed in the chart, continued to grow. The 1% year over year increase was driven by growth in compensation and personal transfers. Personal savings rates continued to decline at 3.3%, down 32% year over year, per the BEA. Total consumer debt was up 1% compared to last quarter and up 7% 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. There is a growing bifurcation of the economy with low income/net worth individuals experiencing stress from food and rent inflation. Overall consumer net worth rose as high income/net worth individuals benefitted from higher real estate prices and solid stock market returns.

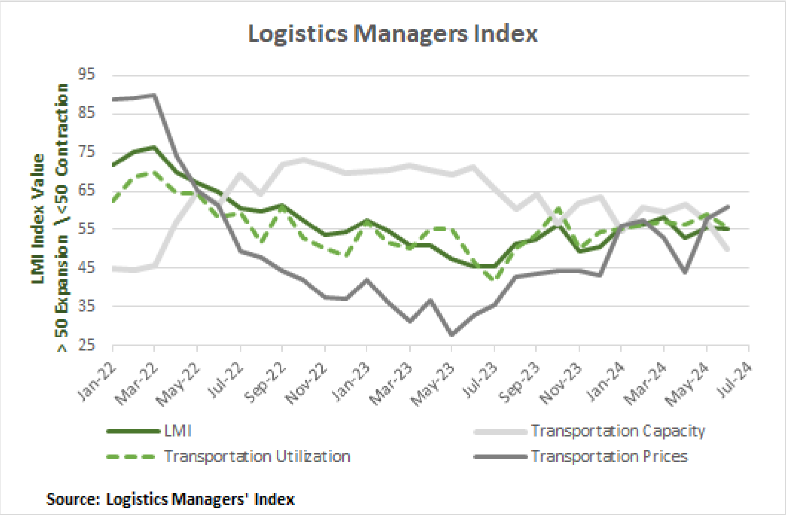
Inflation, measured by the Consumer Price Index, averaged 3.2% in Q2 but has been decreasing each month. It was at 2.9% for July, slightly lower than economists' expectations. The index for all items excluding food and shelter was 3.2% for July—the lowest since April 2021, per the U.S. Bureau of Labor Statistics.

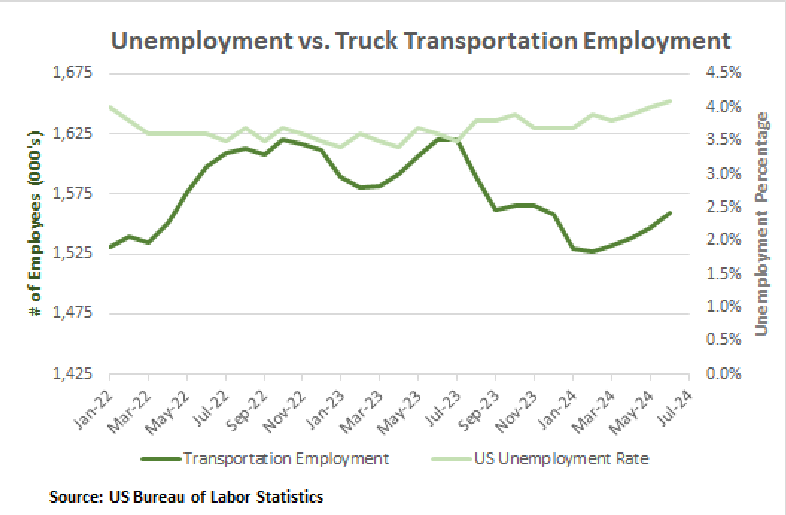


Employment levels dropped with unemployment surpassing 4% in Q2. Per the Federal Reserve Beige Book, there are reports of decreasing employment in manufacturing due to slowdowns in orders, lower turnover in employment, and businesses being selective on who to hire and whether to backfill positions.

FREIGHT DEMAND





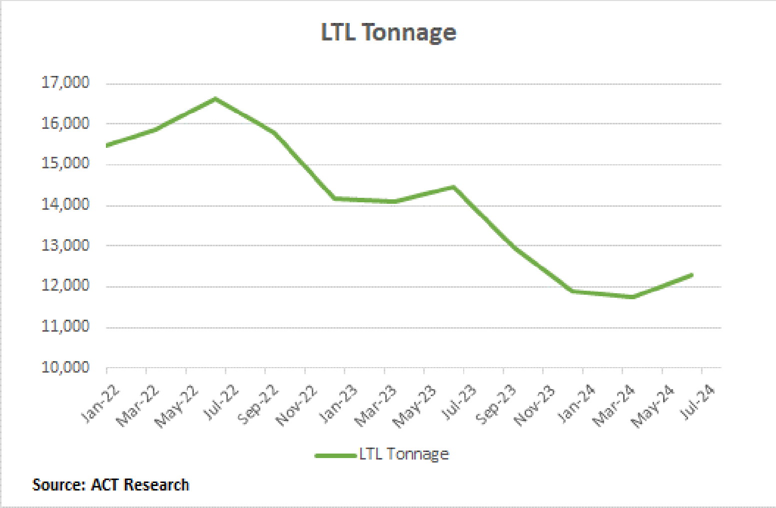


Trucking demand was flat in Q2, averaging 113.6 compared to Q1 at 113.4 and Q2 2023 at 113.5. ATA Chief Economist Bob Costello reported that truck tonnage is slowly going in the right direction. On the spot market side, per DAT, posting of loads as of Q2 were relatively flat. ACT Research expects volumes to grow moving capacity closer to full utilization. Import volumes were up 3% in Q2 and 13% year over year. Many in the industry are calling this an early peak season due to concerns over contract negotiations at the East and Gulf ports. Export container volumes showed improvement, increasing 4.8% in Q2 and up 5.5% over last year. Some of the increase in exports could be importers hedging against potential higher tariffs next year.

The Logistics Managers Index (LMI) highlights the inverse correlation between transportation capacity and prices with readings above 50 representing expansion in the industry. In Q2, the LMI averaged 54.6, versus 56.8 in Q1, due to increased transportation prices and neutral capacity at 50.

Truck employment, in the bottom-left chart, was up slightly over Q1 at 1.2% and down 3.6% from last year. Specialized and general freight reported the largest increases during the quarter. Unemployment climbed above 4% in Q2, coming in at 4.3% for July.

LTL Tonnage increased in Q2, however, ACT expects actual tonnage decreased and will have better figures in a couple months, which will mark a year since Yellow's exit. In addition, much of the LTL freight moved to non-publicly traded carriers, which is not shown in the data below, and a portion of the LTL volume was consolidated into TL loads, per ACT Research.



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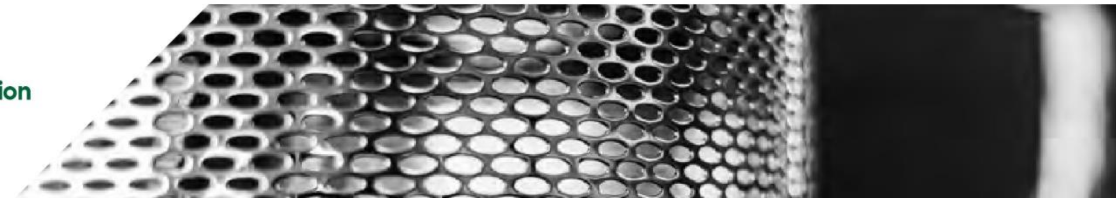


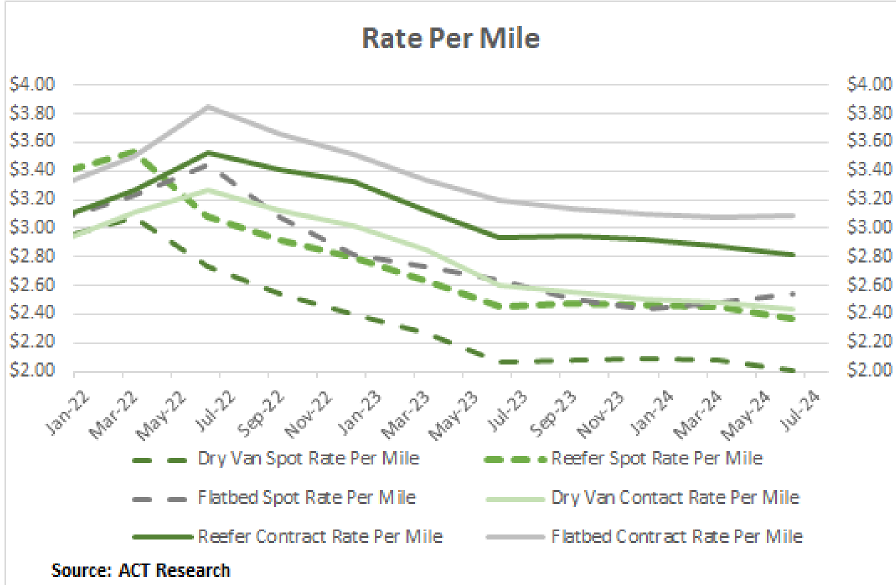
TRUCK RATES

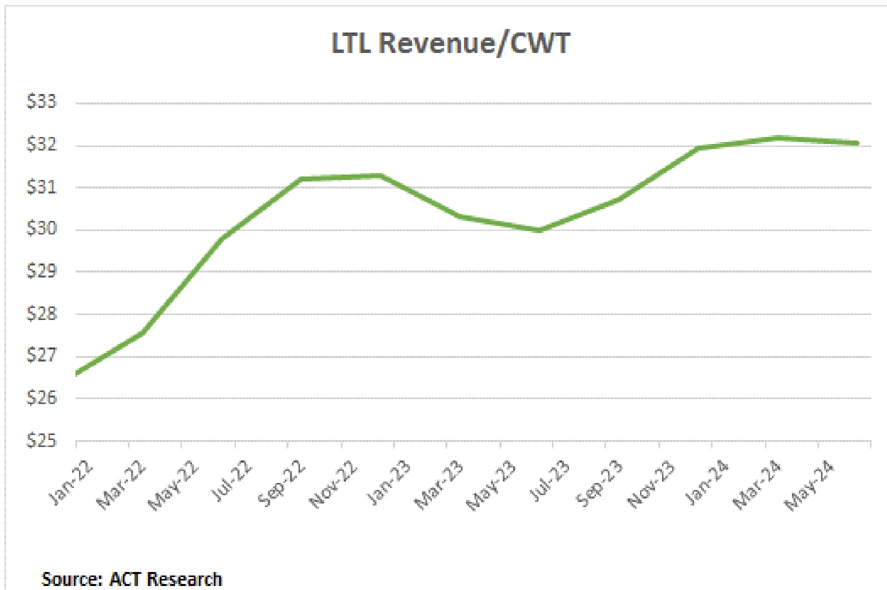
Shown on the right are contract and spot rates for dry van, reefer and flatbed. For Q2, dry van and reefer rates were down while flatbed rates increased. Dry van contract rates were down 1.6%, and reefer contract rates decreased 2%. Compared to Q2 of 2023, dry van dropped 6%, with reefer down 4%. Flatbed was up slightly quarter over quarter but down 3% compared to Q2 2023. ACT Research is estimating decreases across all categories for the remainder of 2024 with dry van down 6%, reefer down 3% and flatbed down 2%.

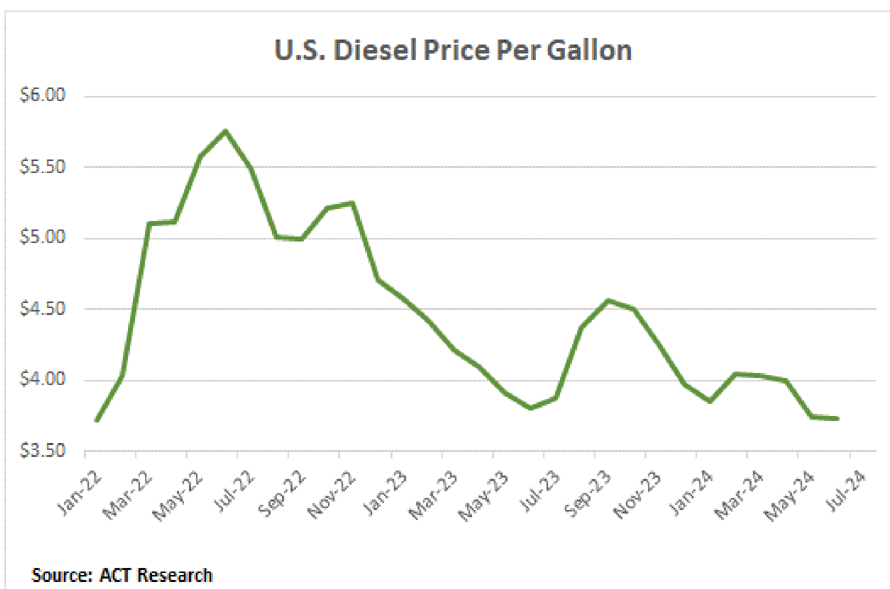
Spot rates for Q2 were similar, with dry van and reefer rates down 3%, and flatbed rates up 2%. Load to truck ratios continue to be below average levels. However, July saw increased activity following tropical storm Beryl.

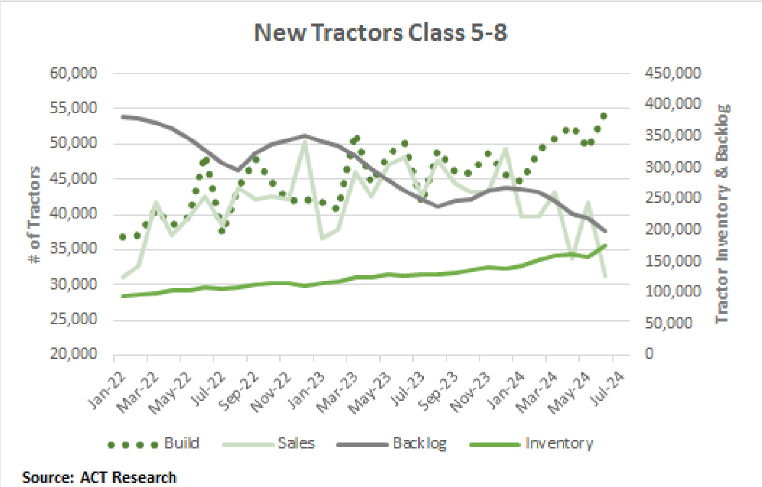
LTL rates were flat in Q2 but up more than 7% over Q2 2023. Per ACT Research, given that the overcapacity in the truckload segment is leveling off, it is expected that LTL rates will see a decrease from earlier double-digit increases.

Diesel prices were down 4% in Q2 and down 3% compared to Q2 2023, with an average price of $3.82. The U.S. Energy Information Administration expects oil prices to rise based on falling global inventories and OPEC production cuts. However, conflict between Israel and Iran could drive oil prices higher than initially forecasted.

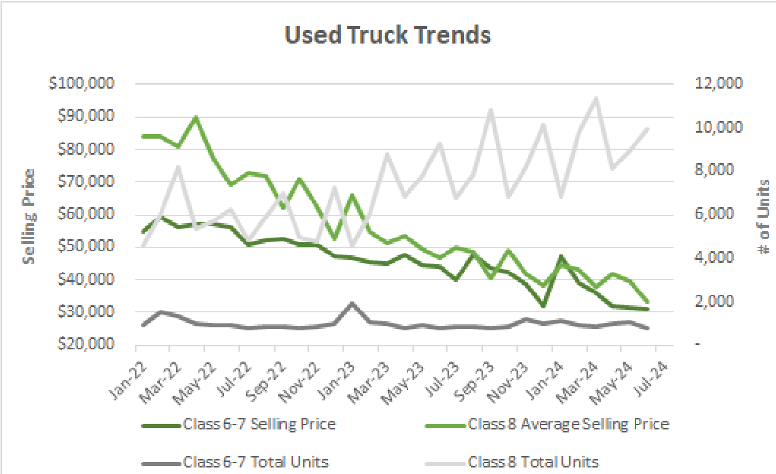




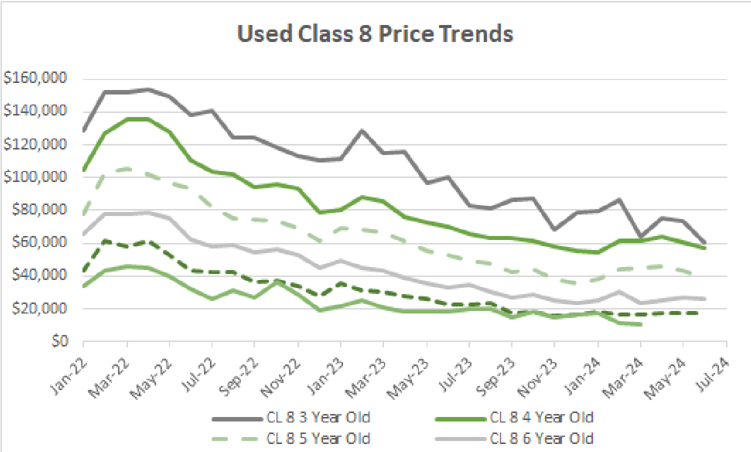




Source: ACT Research



Source: ACT Research



Source: ACT Research

TRACTOR TRENDS

The backlog for 5-8 class trucks was down 17% compared to last quarter and down 23% compared to last year. Backlog is down seasonally as this is the lower order point, and higher build levels are keeping the backlog low. Build levels continued to increase despite forecasts of lower production levels. This resulted in increased inventories that are up 8% over Q1. Part of the inventory increase is related to supply chain issues for medium duty truck bodies, according to ACT Research.

Cancellations averaged 10% of backlog for Q2, which is up from 1% in Q1 of 2024. Class 8 cancellations made up the largest share, rising more than 800% from Q1 2023 compared to class 5-7, which was up only 3%.

Used class 6-7 units were down slightly in Q2, reporting an 23% decrease in prices over last quarter and down 31% year over year. Part of the decrease is due to increased unit age and mileage. Class 8 units were down 3% in Q2, with an 8% decrease in price compared to last quarter and down 23% from last year. Mileage and age of units were both up, which contributed to the price decreases.

Used values of class 8 trucks reported mixed results in Q2. On average, prices are down 4% with three- and eight-year-old trucks reporting the largest decrease at 9% and 18% respectively. Year over year values are down an average 29%. Exports of used trucks continue to rise and are expected to exceed 20,000 units for 2024.

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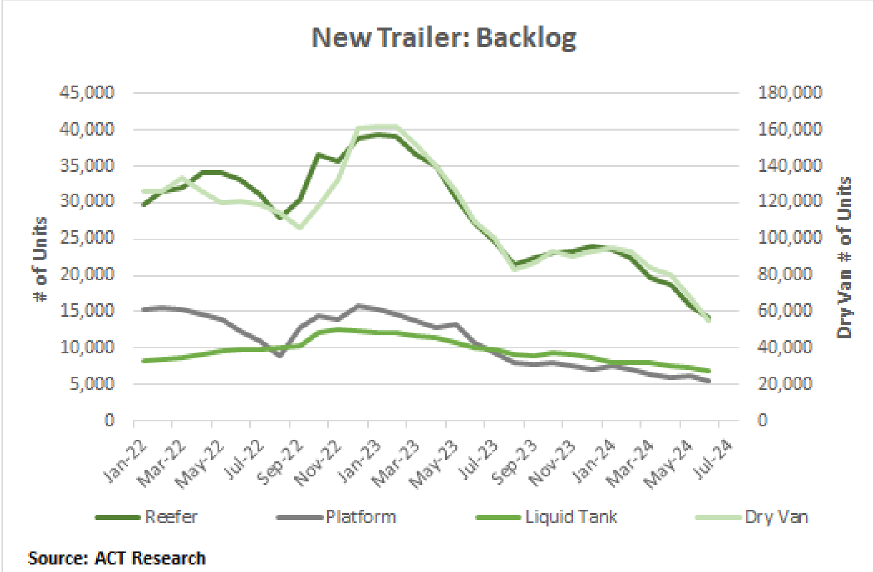
TRAILER TRENDS

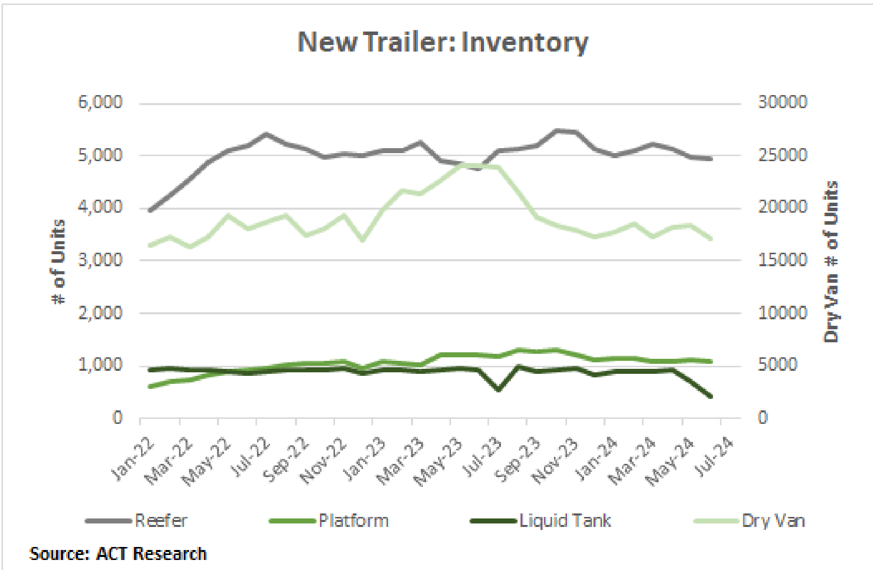
Trailer backlogs were down 22% in Q2 and down 61% year over year. Dry van and reefer trailers reported the largest backlog decrease. The decline was the result of build levels outpacing orders as the continued freight recession deferred replacement of units. Cancellations as a percentage of backlog was flat over last quarter at 2.2%, per ACT Research.

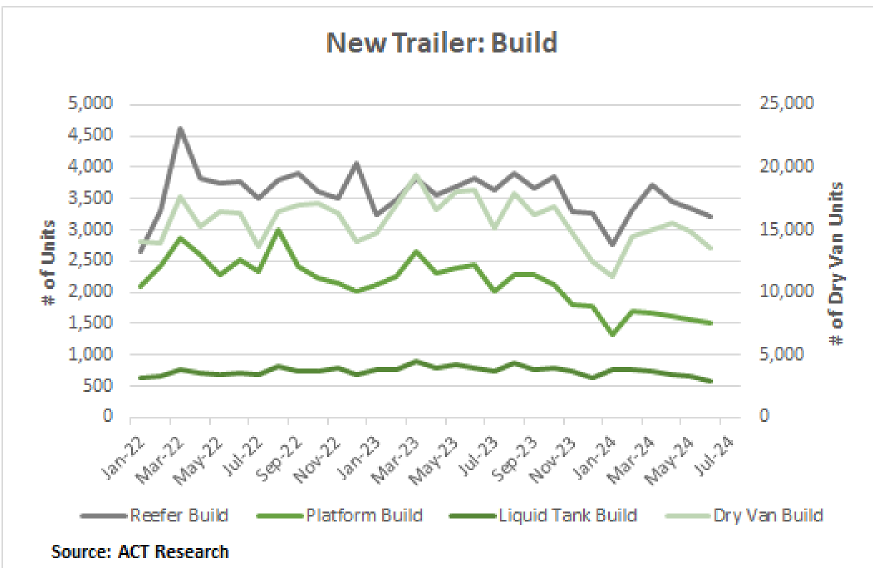
Inventory numbers decreased 5% compared to Q1 and 21% compared to Q2 of 2023, according to ACT Research. Dry van inventory was flat, with reefer inventory down 2%, platform down 3% and liquid down 24%.

New trailer builds were up 5% quarter over quarter but down 17% year over year. Build rates continued to drop in response to decreased trailer demand. Through June, 144,000 units were built compared to 206,000 during the same time period in 2023. Per ACT Research, build levels are anticipated to drop below 1,000 units per day in Q3 and Q4, which is a revision of the previous forecast of 1,100 units per day.

Manufacturers stated that 2024 orders continue to be slow. Compounding the issue is a pending EPA mandate, landing in 2027, that may result in carriers focusing their maintenance cap-ex on trucks rather than trailers. In addition, some manufacturers have reported discussing that slowing build rates may lead to extended days around the holidays as they look to adjust to continued weakness in demand.







INTEREST RATE OUTLOOK

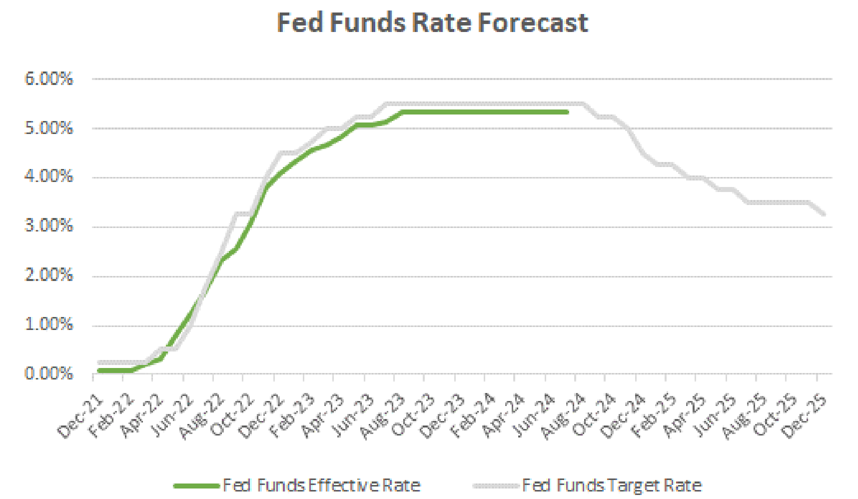
The Fed Funds target rate futures shifted recently after a weak jobs report and inflation dropping below 3%. As a result, we have reverted to a forecast more similar to those issued at the start of the year that calls for a full percent rate cut by year's end. The current forecast also calls for a full percentage rate cut in 2025, which is illustrated in the chart to the right. While a rate cut in September seems imminent, there will still be another inflation report released prior to the next Fed meeting.

Per the release from the Federal Reserve's July 2024 meeting, economic growth continued with lower job gains and a slight increase in unemployment. The Fed commented that it is still committed to reducing inflation to 2% but is carefully weighing all risks.

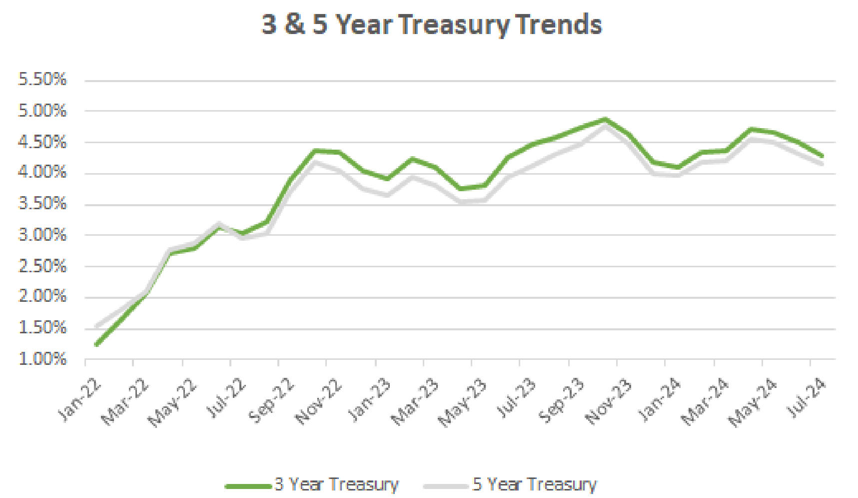
The central bank has maintained its position on reducing its holding of securities, otherwise referred to as quantitative tightening. Redemptions of treasury securities will continue at $25 billion, which was reduced from $60 billion in the May meeting.

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 have continued to decline, with the recent dip being driven by expectations of future rate cuts. We expect the average rate for equipment debt to decrease based on the forecast of future rate cuts.

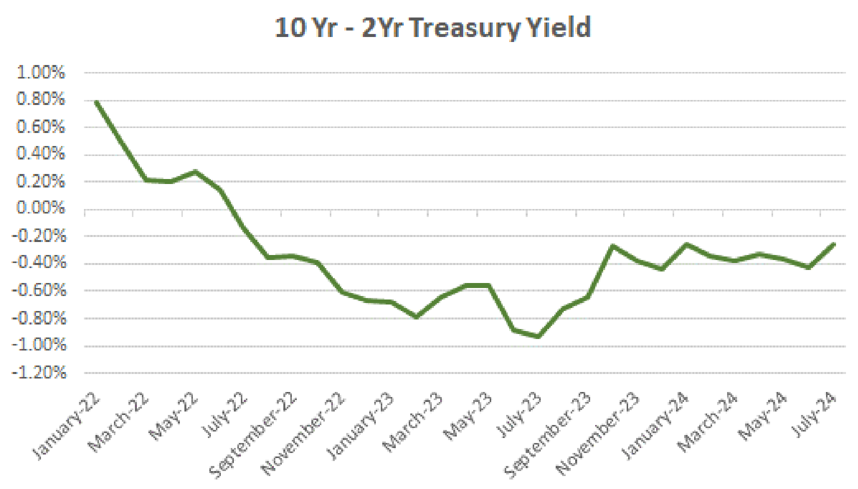
The last chart is the 10-2 year yield spread for Treasuries. Any value above 0% indicates it is more costly to borrow money for a longer term than a shorter term. The upward trend of the curve illustrates that the gap between short-term and long-term borrowing is narrowing. An inverted yield curve has historically preceded recessions in the United States.



Source Bloomberg Financial



Source: Federal Reserve Bank of St. Louis



Source: Federal Reserve Bank of St. Louis

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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