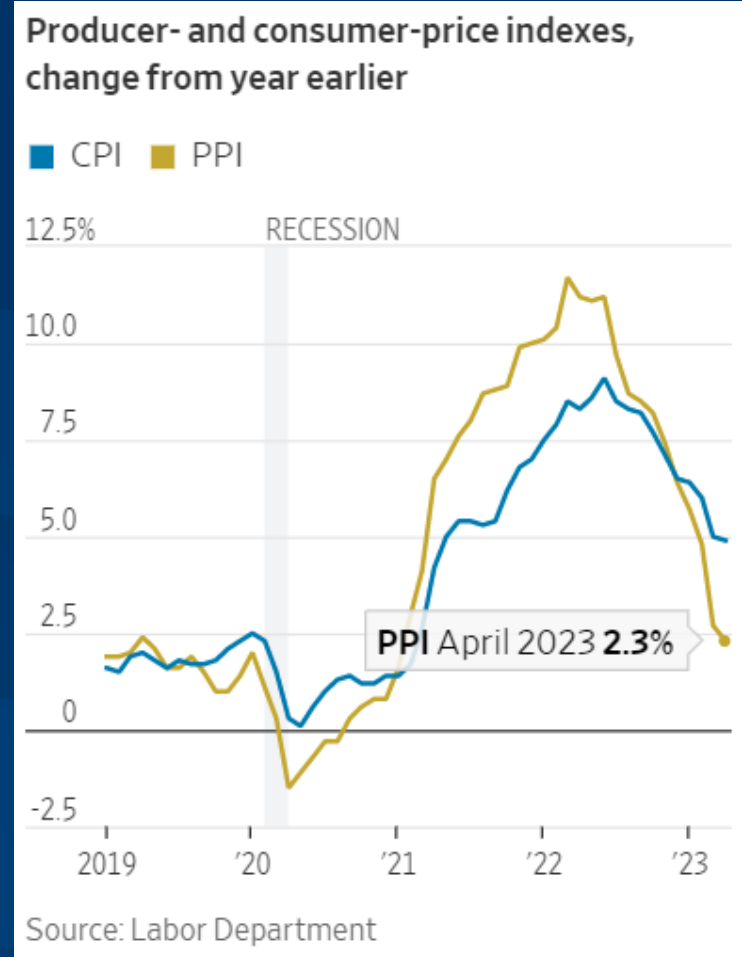
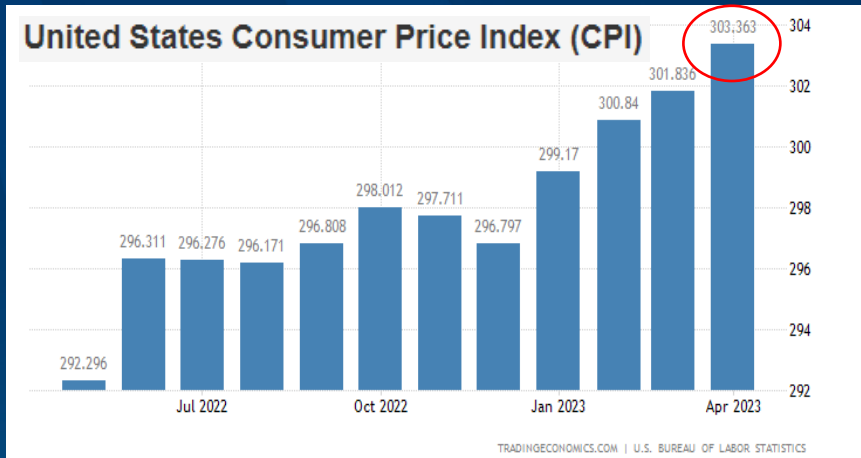




# Industry Update Report

May 2023

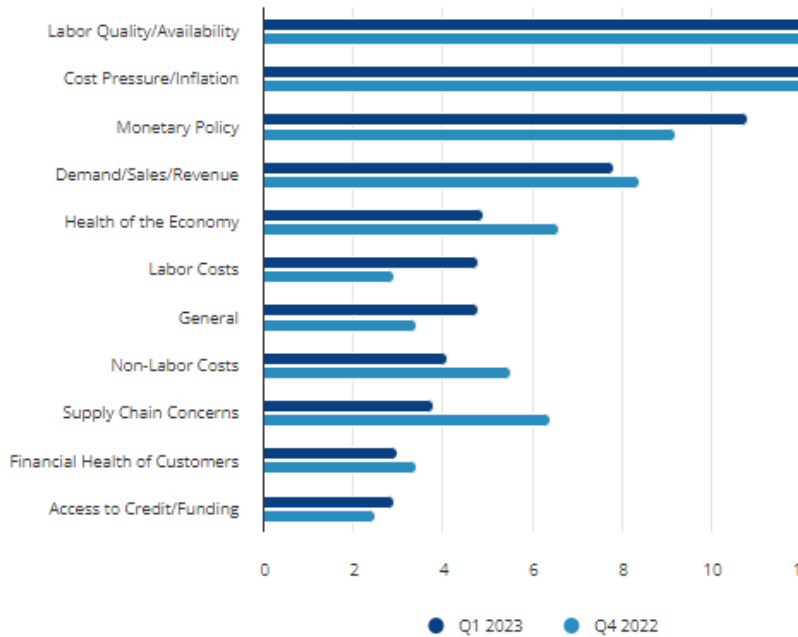
# Inflation vs. demand



- CPI 4.9% vs. Apr 2022; PPI 2.3% vs. Apr 2022 (*Labor Dept*)
- Inflation rate decreases a **math problem**; indexes remain elevated
- US 2023 Q1 GDP up 1.1% over Q1 2022; down from 2.6% Q4 2022 (*BEA.gov*)
- US Purchasing Managers Index 54.5 for May 2023; above 50 indicates expanding economy (*S&P Global*)
- US disposable personal income up 0.4% vs. Apr 2022 (*BEA.gov*)
- US personal savings rate 4.8% Q1 2023 vs. 3.2% Q3 2022 (*BEA.gov*)
- Unemployment rate fell to 3.4%, lowest since 1969 (*Labor Dept.*)
- U.S. existing home sales in April down 23% vs. 2022 (*Natl Assoc Realtors*)

## Firms' Most Pressing Concerns

Share of Total Mentions



Note: Percentages do not sum to 100 because only the top ten topics (and ties) are shown. Results from December 2, 2022) are shown for comparison. A topic without a Q4 frequency of mentions is one that is not mentioned in Q4.  
 Source: Duke University, FRB Richmond and FRB Atlanta, The CFO Survey

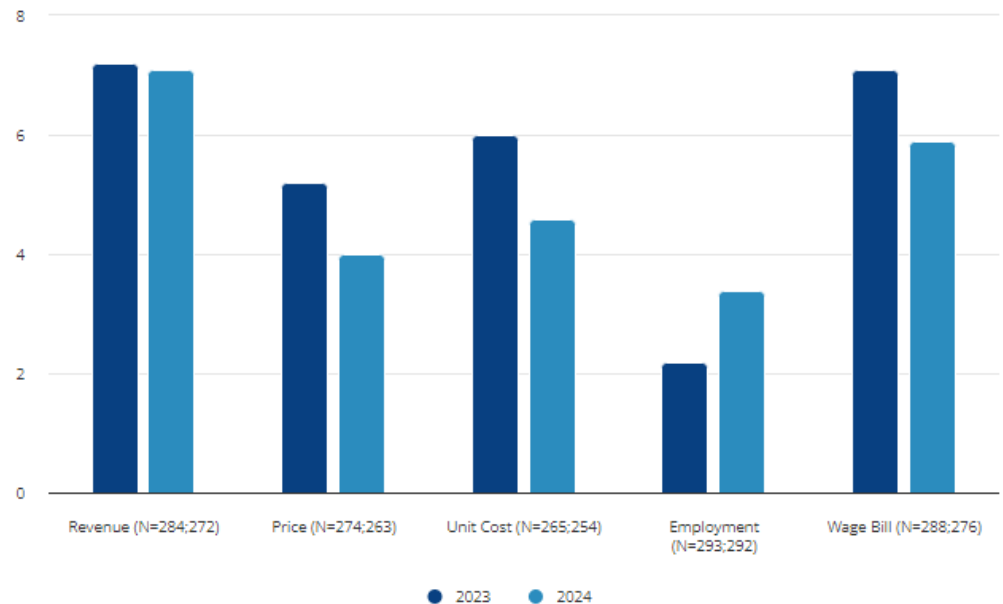
## The CFO Survey

a partnership of



## CFOs' Growth Expectations for Their Own Firms

Expected Year-Over-Year Percentage Change for Calendar Years 2023 and 2024



Note: Revenue, Price, and Unit Cost are weighted by sales revenue. Employment and Wage Bill are weighted by employment. These data are also winsorized at 2.5% and 97.5% to remove the potential influence of extreme values.

Source: Duke University, FRB Richmond and FRB Atlanta, The CFO Survey - Q1 2023 (February 27 - March 10, 2023)



# LTL Carrier 2023 Q1 Report Cards

## Old Dominion Freight Lines (ODFL) Q1

- LTL rev. \$1.44B down 3.7% vs. Q1 2022
- Rev / hundredweight \$30.71; up 9.2% y/y
- Tonnage / day down 11.9% y/y
- Shipments / day down 9.6% y/y
- Weight / shipment down 2.5% y/y
- 73.4% operating ratio

## ABF Freight Q1

- LTL Rev. \$697.8M, down 1.1% vs. Q1 2022
- Rev / hundredweight \$41.99; down 3.9% y/y
- LTL weight / shipment down 4.8% y/y
- Tonnage / day up 2.7% y/y
- Shipments / day up 7.9% y/y
- 92.3% operating ratio

## TFI Freight Q1

- LTL represents 46% of company rev. (*excluding fuel surcharge*)
- Q1 LTL rev. \$690.9M, down 17.3% y/y
- Combined US & Can LTL rev. (*excl. fuel surcharge*) down 17% y/y
- Shipment count down 20% in US, 9% in Canada y/y
- 95.7% operating ratio

## XPO Q1

- LTL rev. \$1.12B up 1.2% vs. Q1 2022
- Rev. / hundredweight \$25.99; up 2.4% y/y
- Shipments / day up 1.5% y/y
- Tonnage / day down 1.8% y/y
- Weight / shipment down 3.3% y/y
- 89.6% operating ratio

## SAIA Q1

- Q1 rev. \$661M, even y/y
- Rev. per shipment up 6.0%
- LTL rev. per hundredweight (*excl. fuel*) up 5.0% y/y
- LTL shipments / day decreased 7.0% y/y
- LTL tonnage / day decreased 6.0% y/y
- 85.0% operating ratio

## YELLOW Corp Q1

- Q1 operating rev. \$1.59M, down 8.0% y/y
- Rev. / hundredweight (*excl. fuel*) up 2.8% y/y
- Tonnage / day down 12.0% y/y
- Shipments / day down 13.0% y/y
- Weight / shipment up 1.57% y/y
- Operating ratio 100.8%

## Quick Facts

- TFI Intl acquired Canadian LTL carrier Siemens Transportation Group (STG) and U.S.-based LTL provider Hot Line Freight Systems.
  - STG, based in Saskatoon, operations are LTL, smaller portion of truckload and flatbed, generating \$111 million in rev. through 15 terminals — 11 in Canada and 4 in U.S.
  - Hot Line, based in Wisconsin, a specialized LTL provider, operates 14 terminals generating \$30 million in rev.
- Roadrunner expanding LTL operations with new facilities in Chicago, Southern California and Philadelphia – Kansas City and Portland next
- FedEx Freight to close 29 service locations in the U.S. as part of ongoing cost cutting measures
- ArcBest dynamic pricing maximizes network for transactional shipments as ship counts and sizes recede, albeit with a lower yield.
- UPS and Teamsters Union national negotiations underway
- Yellow re-opening contract with Teamsters set to expire in 2024; plans to consolidate eastern US LTL companies to create one carrier.
  - Teamsters' negotiations would also include ABF Freight, TForce Freight, and Yellow companies
- Class 8 truck orders were 11,600 in Apr; down from avg. of 40,000 in Sep through Dec 2022 (*FTR Truck OEMs NA*)
- EPA's new greenhouse gas standards for heavy trucks begins in model year 2028; mandates move away from liquid fuel
  - Daimler NA expands on Class 8 Freightliner *eCascadia* battery-electric truck
    - Will produce the eM2 medium-duty model fall 2023; range of 180 miles for Class 6, 250 miles for Class 7
- Andrew Boyle, ATA first vice chair, testified before Senate Environment and Public Works Committee on future of clean vehicles (*Apr 19<sup>th</sup>*)
  - “The power and infrastructure are not available it’s not even a consideration for trucking.”
    - Clean diesel truck spends 15 mins fueling; range of 1,200 miles
    - Long haul battery electric trucks can take up to 10 hrs. to charge; with a range of 150 – 330 miles
  - Each battery for heavy duty truck weights 8,000 lbs; require at least 2 to operate
  - Class 8 diesel truck \$180-200K; battery electric truck \$480K
    - 95% of trucking companies are small businesses operating ten trucks or fewer

## Overview

- Shippers paid \$2.25 / mile avg. spot Truckload in April, down from \$3.01 in April 2022
  - TL demand 1.5% lower than Mar 2022, supply 6.5% higher vs. 2022 *JOC.com US Truckload Spot Rate Index*
  - Scheduling Standards Consortium (SSC) - appointment scheduling protocol, built on API, to maximize effectiveness between shippers and carriers in truckload market.
- Knight-Swift, nation largest TL carrier, Q1 consolidated rev. \$1.64B., down 10.4% vs. Q1 2022
  - “It’s been 20 years since we’ve seen such a prolonged deficit of imports on the West Coast,” *(CEO Dave Jackson)*
    - Loaded inbound containers to major U.S. ports were down roughly 30% year over year (y/y) in Q1
  - Q1 Operating ratio 88.7%
- Knight-Swift announced (Mar 23) it will acquire fellow top-10 TL carrier U.S. Xpress for \$808M.
  - Deal to close Q2 – Q3; Knight-Swift total enterprise to exceed \$10B in annual revenues
  - Follows acquisition of LTL carriers AAA Cooper Transportation for \$1.35B and Midwest Motor Express for \$150M
  - “This transaction will not slow down the geographic expansion of our LTL network initiatives” *(CEO Dave Jackson)*
- Werner Enterprises Q1 rev. \$832.7M, up 9% vs. Q1 2022
  - Despite spot freight rates declining nearly 40% year over year, dedicated and logistics revenues minimized spot exposure to limit decline in revenue per mile to 3%
- Trucking company failures rising
  - Smaller carriers that rely on the spot market face substantial challenges; parity between revenues and costs, tighter bank lending standards with higher interest rates

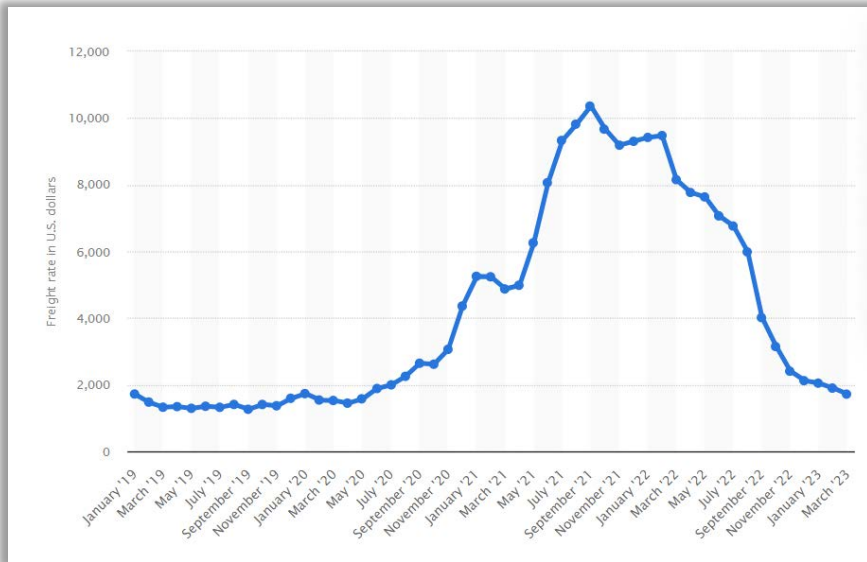


# UPS Parcel

## Overview

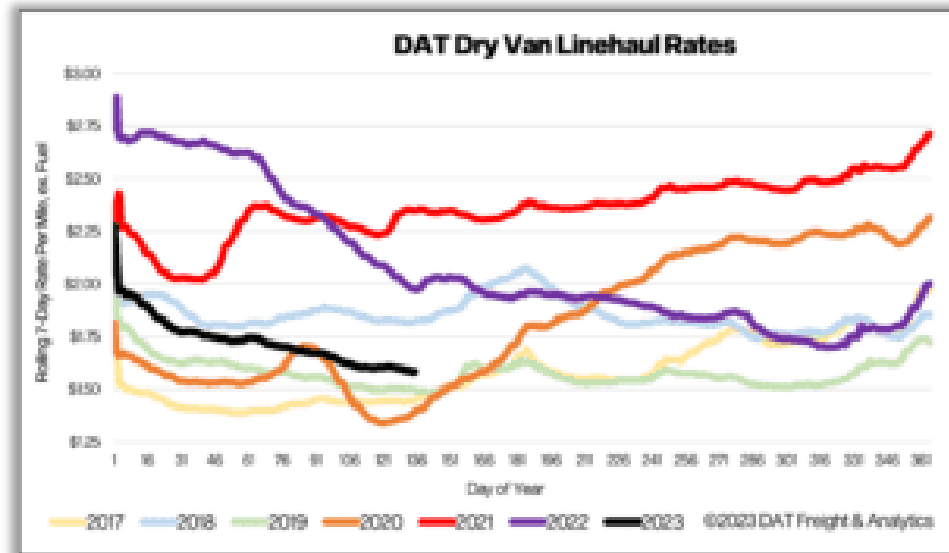
- Consolidated revenue reported \$22.9 billion, down 6% from the same period a year ago.
  - Consolidated operating profit was \$2.5 billion, down 21.8% compared to the first quarter of 2022
- CEO Carol Tomé said company expects volumes to remain under pressure given current macroconditions.
- Domestic reported \$14.98 billion in rev., 0.007% vs. Q1 2022
  - Operating profit fell to \$1.48B down 12.9%
  - Average daily volume fell by 5.4%.
- International revenue fell to \$4.54B down 6.7% from Q1 2022
  - Operating profit declined to \$806M down 32.8% vs. Q1 2022
  - Average daily volume dropped 6.2% year over year.
- Supply Chain Solutions rev. down 22% via weakness in international rates and volumes
- UPS and FedEx to pass off increases – 6.9% GRI announced in December.
  - Higher than normal increase in weaker environment to combat inflationary pressures.
- UPS shippers setting up pricing with FedEx over fears of a possible strike.
  - Expectation is that FedEx wont take on “new” customers during a strike, will also restrict volumes received with current customers.

## INTERNATIONAL



- Container prices back to pre-Pandemic levels.
- Demand down – shippers sitting on too much inventory from previous panic buying patterns from beginning of 2022.

## TRUCKLOAD



- VAN - Load to Truck Ratios (LTRs) down 45% YOY
- VAN - Spot Rates down 26% YOY
- 2021 to 2022 – lack of capacity as shippers shifted more to FTL (transloading containers, rail line metering lanes)
- Backlogs at ports and rail lines are gone in 2023.



## RAIL / INTERMODAL

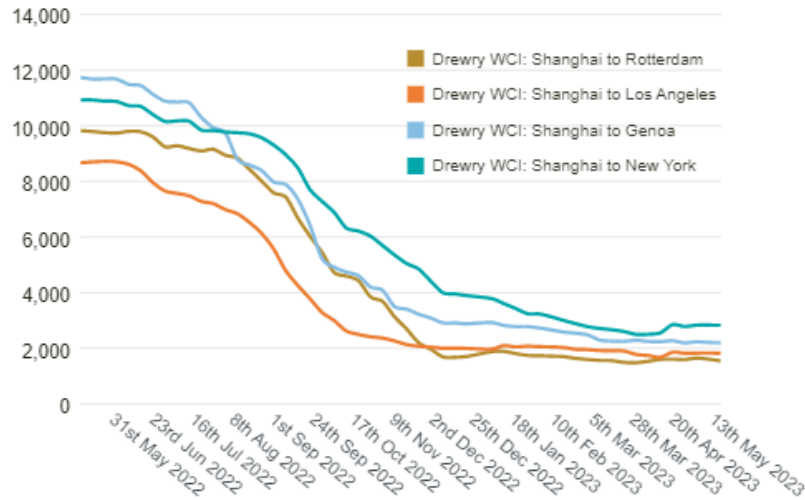
- Total First Quarter Volume down 8.6% - seven quarter of annual declines and second largest decline over that period.
  - “Intermodal Quarterly” – issued by the Intermodal Association of North America (IANA)
- Sluggish start result of lower levels of domestic output and international imports.
- Intermodal network seeing improvements with terminal velocity, chassis supply, drayage availability and rail network fluidity.



## LESS THAN TRUCKLOAD (LTL)

- Shipment counts remain down but from all-time highs.
- LTL Carriers experiencing higher number of RFQ requests as shippers hearing about softening and looking for rate reductions.
- Carriers remain price disciplined and continue to pass off annual increase in the low to mid-single ranges.
- Continued focus on dynamic rating to help increase volumes in need lanes or slower times of the month.
- All eyes on upcoming union contract negotiations with Yellow, TForce and ABF.
  - Carriers prepping for potential stoppages and putting together actions plans.

Drewry WCI: Trade Routes from Shanghai (US\$/40ft)



- China Q1 2023 GDP 4.5%
- China Apr Consumer Prices up 0.1%
- Producer Prices down (3.6%) y/y
- China Apr Purchasing Manager Index 49.2, contracting
- MSCI China index up 1.8% in 2023; S&P 500 index up 7.7%
- NY / NJ total imports down (27%) vs. Apr 2022
- Drayage NY / NJ spot rates lower – container to distribution center in Allentown, Pa. \$1,400 vs. \$2,500 in 2022
- Hapag-Lloyd Q1 rev. down (33%), EBIT down (61%), volume down (5%)
- Retail sales in April up 1.6% vs. 2022 (*US Census Bureau*)
- We expect (consumer) spending will see modest gains through the course of the year (*NRF Chief Economist J. Kleinhenz*)
- Amazon Q1 up 9% in rev.; up 11% gain in North American sales.
- Container shipping industry order book now 28% current fleet
- Drewry estimates 2.5M TEUs delivered in 2023, 3.9M in 2024.
- Supply exceeding demand to widen

Route	04-May-23	11-May-23	18-May-23	Weekly change (%)	Annual change (%)
Composite Index	\$1,763	\$1,741	\$1,720	-1% ▼	-78% ▼
Shanghai - Rotterdam	\$1,645	\$1,605	\$1,542	-4% ▼	-84% ▼
Rotterdam - Shanghai	\$594	\$593	\$594	0%	-58% ▼
Shanghai - Genoa	\$2,232	\$2,207	\$2,196	0%	-81% ▼
Shanghai - Los Angeles	\$1,825	\$1,827	\$1,823	0%	-79% ▼
Los Angeles - Shanghai	\$1,017	\$1,017	\$1,029	1% ▲	-19% ▼
Shanghai - New York	\$2,829	\$2,831	\$2,825	0%	-74% ▼
New York - Rotterdam	\$924	\$889	\$839	-6% ▼	-29% ▼
Rotterdam - New York	\$4,783	\$4,530	\$4,434	-2% ▼	-38% ▼



# Freight Inflation

- Monthly measure of aggregate US freight deliveries
- Includes all modes of transit
  - Full Truckload represents about 50%+ of data.
  - LTL, Parcel, and Rail other top modes of index.
- Shipment Index and Expenditure indexes both falling by over 2%
- Inferred Freight Rates only down -11.9% y/y in April

	April 2023	Year-over-year change	2-year stacked change	Month-to-month change	Month-to-month change (SA*)
Cass Freight Index - Shipments	1.144	-2.4%	-2.9%	-1.0%	-1.3%
Cass Freight Index - Expenditures	3.877	-14.0%	12.3%	-2.1%	-4.0%
Cass Inferred Freight Rates	3.389	-11.9%	NA	-1.2%	-2.7%
Truckload Linehaul Index	146.6	-9.6%	3.2%	-0.6%	--



# Trends by Equipment Type

## Trendlines

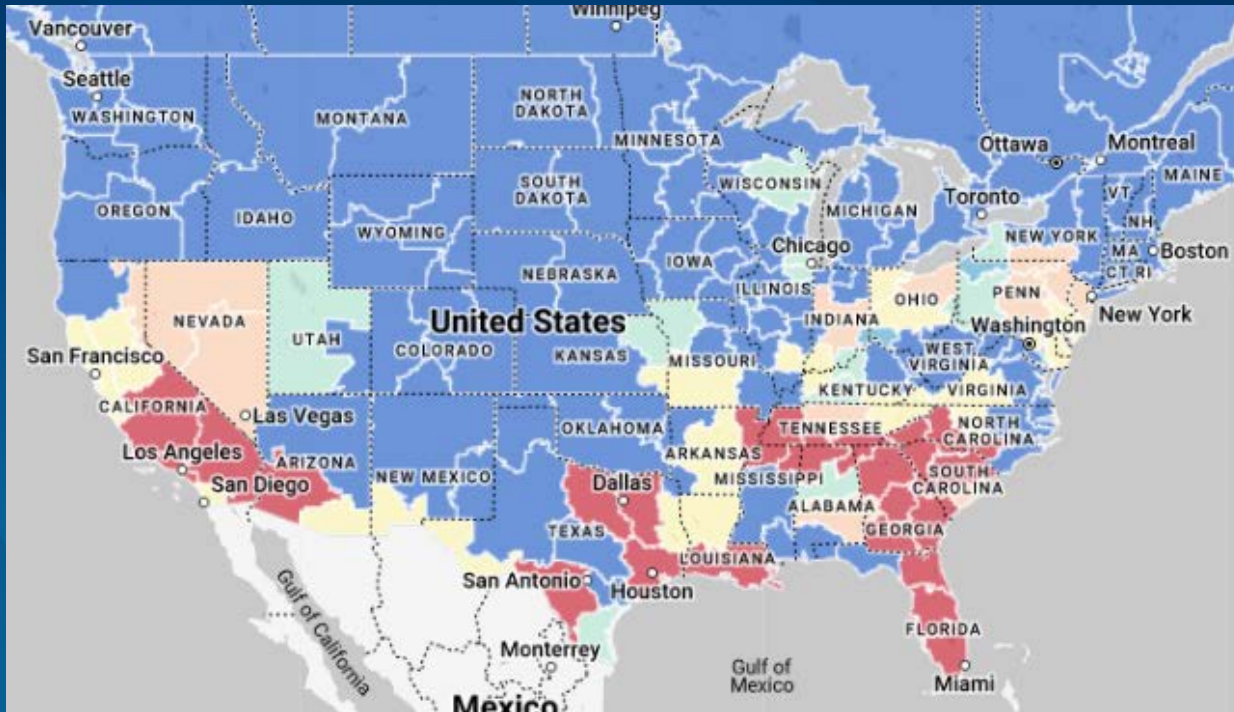
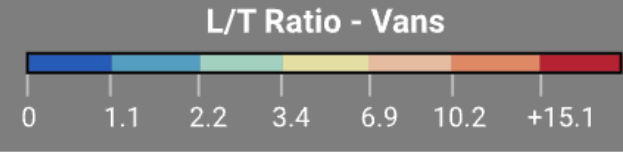
Powered by **DATA IQ**

INDUSTRY TRENDS	WEEK MAY 08 - MAY 14 VS. MAY 01 - MAY 07	MONTH APR 2023 VS. MAR 2023	YEAR APR 2023 VS. APR 2022
Spot Load Posts	-2.8%	-21.2%	-65.8%
Spot Truck Posts	-2.9%	-9.1%	-1.0%
Van Load-To-Truck	+6.6%	-7.4%	-44.5%
Van Spot Rates	-0.3%	-4.5%	-25.9%
Flatbed Load-To-Truck	-8.0%	-21.6%	-81.2%
Flatbed Spot Rates	-0.3%	-1.6%	-21.1%
Reefer Load-To-Truck	-1.2%	-11.2%	-57.1%
Reefer Spot Rates	-1.4%	-3.9%	-23.5%

# Load to Truck Heat Map 2023

**DATA** Market Conditions

May 18, 2023



Less Capacity in the south caused by:

- **DOT Blitz Week May 14<sup>th</sup> to 20<sup>th</sup>** – drivers often take time off to avoid potential fines.
- **Produce Season** - unofficial start date of April 19<sup>th</sup> - higher demand of reefer trailers.



# KDL Recommendations

## Be a “Shipper of Choice”

- Reduce times to load and unload a carrier.
- Mindful of pick-up caps, any near-term capacity constraints
- Shippers pledge to utilize an electronic bill of lading based on industry standards.
- Provide advanced notice on pickups
- Prevent small, single shipment pickups – consolidate onto carriers already scheduled to come in.
- Provide accurate handling dimensions, weights, descriptions, package types, counts and service requirements on BOL.
- Carriers honor handling unit dims and weights, allow appropriate (maybe 5%) tolerance for corrections.

## Input costs flow through to consumer

- Evaluate customer freight policies; Do you offer free freight based on order size?
  - Adjust minimum order quantities, add surcharges if min quantities are not met
- Small LTL shipments, single shipment pick up, remote location - could experience disproportionate impact with FUEL impact of transport charge
  - Look for opportunities to hold/consolidate orders
- Is freight being accounted for and charged back on NON-free freight orders?
- Evaluate data to measure how freight affects customer profitability (CPA)

## Capture every dollar

- Input costs that CANNOT flow through are accommodated through process improvement/change
  - Is the best cost carrier chosen?
  - Typically added transit = lesser cost, is this acceptable to customer?
  - Is the appropriate DC fulfilling the order?
  - Eliminate unexpected charges
    - determine required delivery services, ensure proper classification and confirm weights



# Holistic Freight & Logistical Strategy

At KDL, rate savings, audit & pay, and TMS are just the starting point. In fact, for most, these prerequisite services account for no more than 25% of our contribution to their bottom line. Our holistic approach stands on three additional disciplines – strategic consulting, data analysis, and user experience. These custom disciplines work in concert with the basic services to drive improvement across your supply chain and maximize corporate profitability.

