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STATE OF THE INDUSTRY

REPORT

SUPPLY CHAIN | DEDICATED TRANSPORTATION | FLEET MANAGEMENT SOLUTIONS

Winter weather: The short-term catalyst

January 23, 2023 | 2 p.m. EDT

Overview

As winter weather swept across the country in the mid-January, the impacts were felt across all modes of domestic transportation. In the truckload market, rejection rates arguably had a bigger reaction to the weather than to the holiday season, which caused a short-term uptick in spot rates. The more sensitive the market has become to outside influences, the more likely a market shift is to occur in 2024.

The intermodal market remains challenged, especially from a pricing perspective. Volume levels have continued to grow over the past few months, but the start of January has been softer as volumes are down year over year (y/y). The impacts are likely weather-related. The savings that intermodal provides compared to truckload is at an all-time low, keeping pressure on intermodal pricing, evident in one of the largest intermodal marketing company's fourth-quarter earnings call.

The maritime market still faces pressures from geopolitical events in the Red Sea. The impacts of the conflict won't likely affect the flow of goods from Asia to North America, but it is having a large impact on rates as ocean carriers are having to move capacity from these trade lanes to Asia-to-Europe lanes due to longer transit times.

The macroeconomic picture continues to show a resilient consumer that isn't concerned about a whole lot. Initial jobless claims have kept trending lower, retail sales are outpacing inflation and interest rates have likely peaked. All of these indicate that the soft landing may be in order, with rate cuts on the horizon.

Macro indicators	(y/y change)
Dec. industrial prod. change	+0.1% (+1%)
Dec. retail sales change	+0.6% (+5.6%)
Dec. U.S. Class 8 orders	26,620 (-6%)
Dec. U.S. trailer orders	24,300 (-58%)

Truckload indicators	(y/y change)
Tender rejection rate	5.25% (+141 bps)
Average dry van spot rate[1]	$2.42/mi (-5.8%)
LAX to DAL spot rate[2]	$2.13/mi (-6.2%)
CHI to ATL spot rate	$2.85/mi (-7.8%)

Tender volumes	(y/y change)
Atlanta	389.79 (-1.05%)
Dallas	360.49 (+5.54%)
Los Angeles	256.51 (-2.33%)
Chicago	218.8 (+12.96%)

Tender rejections	(y/y change)
Atlanta	2.56% (+58 bps)
Dallas	3.43% (+147 bps)
Los Angeles	3.34% (+100 bps)
Chicago	5.44% (+231 bps)

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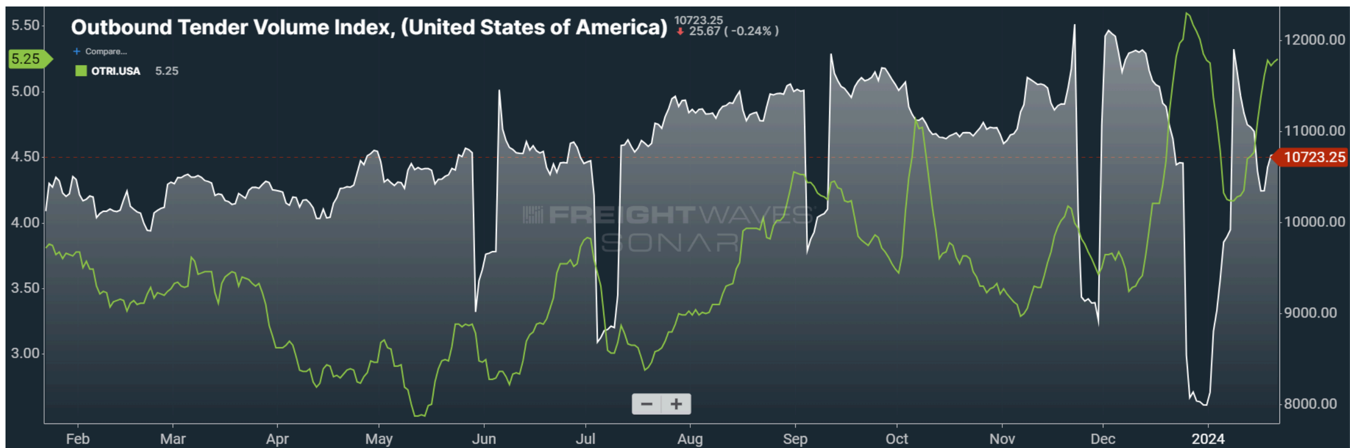
[1] FreightWaves National Truckload Index
[2] FreightWaves TRAC spot rate

Truckload markets

Freight volumes were predictably muted during the final week of December. Demand roared back to life at the beginning of the new year, however, as the flow of accepted volumes briefly eclipsed even the boom years of 2021 and 2022 — the latter of which saw an unseasonably active Q1 before heralding the current downturn and recovery. Even so, tender rejection rates continued to be unpromising, only rising on a yearly basis halfway through January.



Source: FreightWaves SONAR. Outbound Tender Volume Index (white, right axis) and Outbound Tender Reject Index (green, left axis).

With the aforementioned exceptions of 2021 and 2022, January is typically a quiet month for freight demand as shippers recover from holiday operations. As “just-in-time” inventory strategies continue to regain their pre-pandemic prominence, there is little expectation for tender volumes surprising to the upside this quarter. Still, the Outbound Tender Volume Index (OTVI) is 5.86% y/y.

There is still potential for markets to tighten in the absence of rising freight demand: January 2024 is marked to be far colder than many recent years, causing unforeseen congestion and delays. As carriers weigh their personal scales of risk versus reward, tender rejections are rising accordingly, following a pattern similar to the cold wave of February 2021. Depending on the urgency of contingent freight, shippers could elect to raise rates or could delay their shipments until later in the quarter. If so, OTVI might experience more dramatic rises and falls as the season unfolds. For the time being, however, OTVI is up a slim 0.62% month over month (m/m).

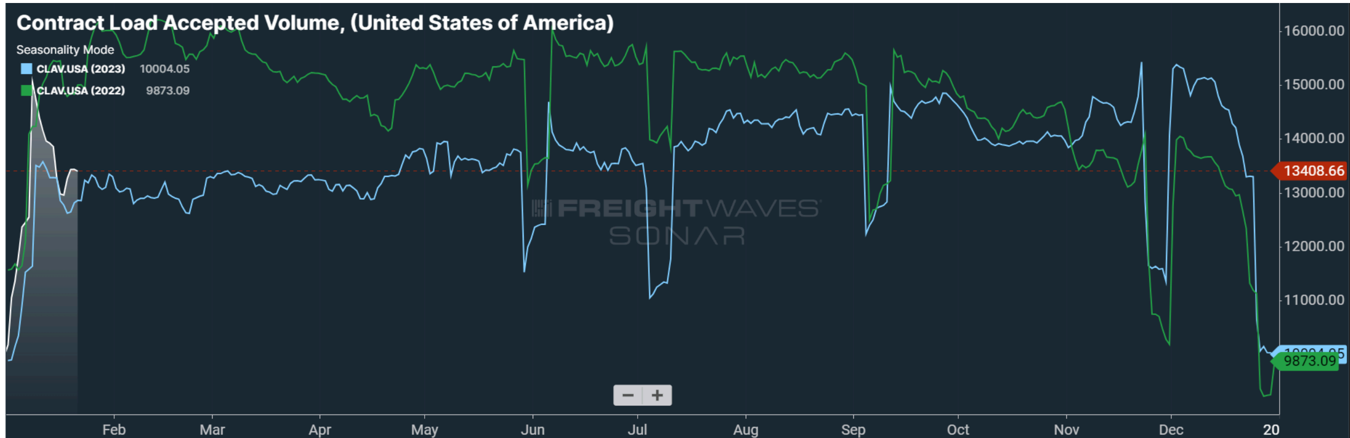
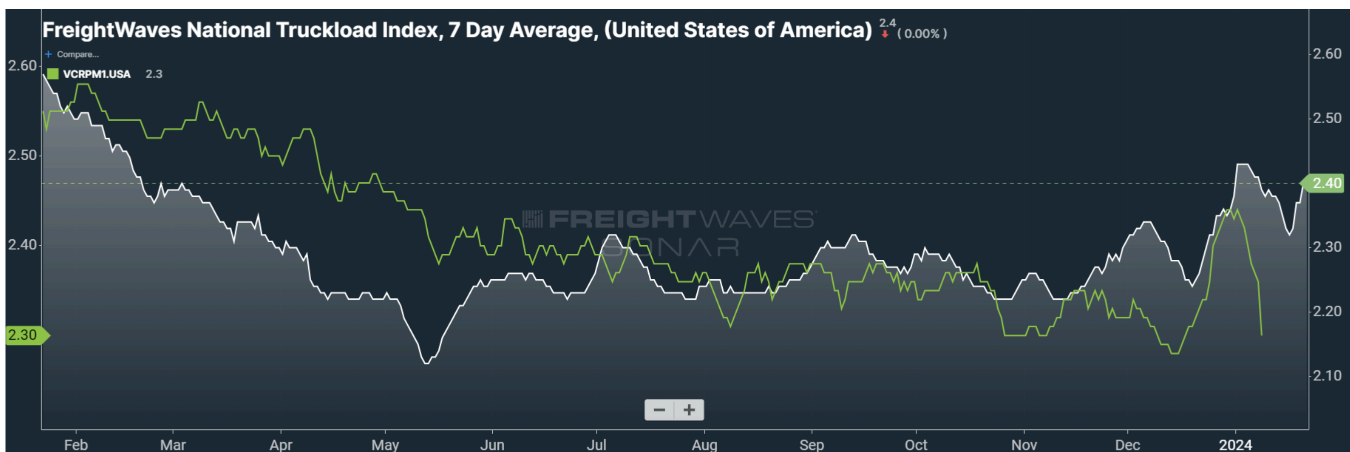


Chart: FreightWaves SONAR. Contract Load Accepted Volume: 2024 (white), 2023 (green) and 2022 (blue).

Since OTVI accounts for both accepted and rejected tenders, it doesn't necessarily display true freight volume levels because of the inclusion of rejected tenders.

Contract Load Accepted Volume is an index that measures accepted load volumes moving under contractual agreements; in short, it is similar to OTVI but without the rejected tenders. At present, accepted tenders are up 4.9% y/y. This narrowing y/y difference implies that actual freight flow is recovering from this cycle's bottom.

Spot rates show early signs of rebalancing



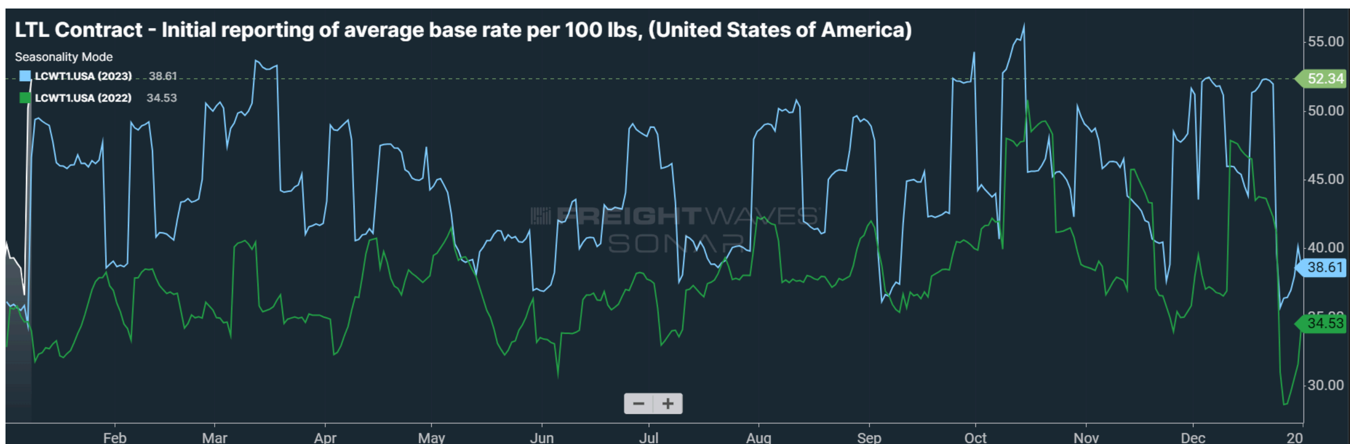
Source: FreightWaves SONAR. National Truckload Index (white, right axis) and initially reported dry van contract rates (green, left axis).

Spot rates' holiday bump arrived later and weaker than in previous years, but rates have since followed an unusual upward trend in the back half of January. While the bulk of these recent gains appear to be from the aforementioned cold-weather bump, there are promising signs that excess capacity — which has lingered in the downturn far longer than in previous cycles — is finally exiting the marketplace to an appreciable extent. If this trend continues, the last impediment toward rate normalization will be removed.

Until then, the National Truckload Index (NTI) — a seven-day moving average of national dry van spot rates that is inclusive of fuel — is down 7% y/y at $2.40 per mile.

Contract rates, which are exclusive of fuel and other accessorials, are falling from their holiday highs with no reversal in sight. Unlike spot rates' potential for near-term growth, the pricing power behind contract rates still lies within the shipper's firm grasp. The ongoing bid season will come to a close around late February, at which point contract rates will likely have seen their last great decline of the cycle. At present, contract rates have fallen 11% y/y to $2.30 per mile.

LTL carriers start 2024 with a bang



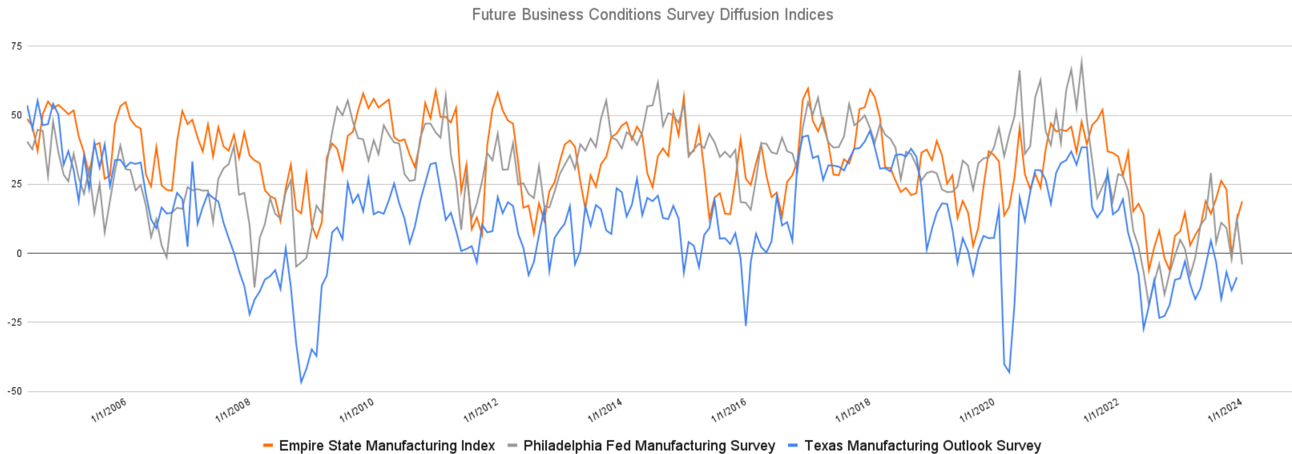
Source: FreightWaves SONAR. Initially reported LTL contract rate per hundredweight: 2024 (white), 2023 (green) and 2022 (blue).

Although many major LTL carriers have reported soft tonnages to end 2023, the dissolution of a national less-than-truckload carrier continues to be a tailwind for those remaining in the industry. Some carriers have moved to fill this void by going on a spending spree of terminal acquisitions and network expansions, while others have elected to remain selective about their freight. In any case, rates have spiked to their highest level since early December.

At the time of writing, the average LTL contract rate has risen $6.34 per hundredweight over the past month. Now sitting at $52.34 per hundredweight, shipping via LTL is 12% more expensive than it was a year ago.

Macroeconomic conditions

Business conditions for manufacturing firms decayed markedly in January, with respondents citing a sharp drop-off in customer demand for the month's woes. Perhaps most concerning, however, was the quickening rate of price inflation for inputs, which began to overtake that of prices received for finished products. If it continues, this trend could signal a reversal of the softening that has taken place in supply-side inflation, which would eventually trickle down and refuel consumer price inflation.



After a brutal December, January proved an even more dismal month for manufacturers in New York. In the most recent Empire State Manufacturing Survey, the Current Business Conditions Index plummeted 29.2 points m/m to minus 43.7. Combined with December's 23.6-point decline, the latest reading marks both the largest two-month drop in the index's history as well as its lowest-ever reading, excepting the early stages of the pandemic in 2020. The discontent among survey respondents was spread across several categories, with the New Orders Index tumbling 38.1 points m/m to minus 49.4.

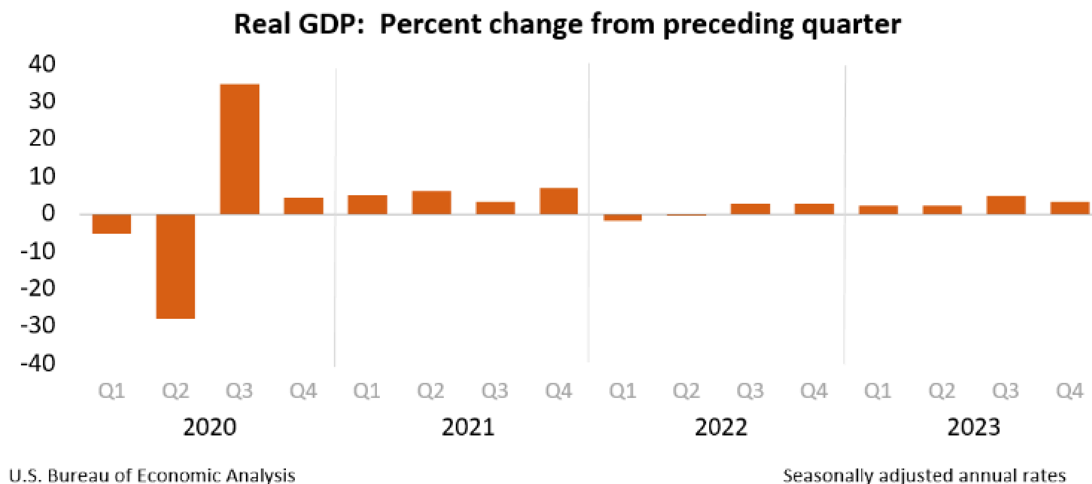
Most alarming for the trucking industry, however, was that the freight-intensive Shipments Index bled 24.9 points m/m to minus 31.3. The scant silver lining here is that surveyed firms expect conditions to stabilize at improved levels in six months' time, as the forward-looking General Business Conditions Index rose a comparatively slim 6.7 points m/m to 18.8, while the Future Shipments Index gained 8.8 points m/m to 24.6. The outlook for capital expenditures also reached its most optimistic level since April 2023, implying that manufacturers are set to proceed with any planned investments.

Like their counterparts in New York, Philadelphia firms saw conditions worsen in January. Yet manufacturers in Philadelphia saw a slower rate of contraction than in December, since the current General Business Activity Index within the Manufacturing Business Outlook Survey, conducted by the Federal Reserve Bank of Philadelphia, ticked up 2.2 points m/m to minus 10.6. Unlike survey respondents in New York, Philadelphia firms braced for a sustained decline in business conditions over the next six months, as the forward-looking General Business Activity Index fell 16.6 points m/m to minus 4, signaling a shift to a contractionary forecast.

The Federal Reserve Bank of Dallas releases the Texas Manufacturing Outlook Survey during the final week of the month, but the mood of Texas business firms in December was similar to their Philadelphia counterparts' January outlook. The survey's Future General Business Activity Index gained 4.7 points m/m but remained firmly within contractionary territory at minus 8.7. This latest reading is considerably below the series' all-time average of 12.5. Only 13.3% of survey respondents believe that conditions will improve over the next six months, against the 22% of firms that expect them to worsen.

The December jobs report revealed a labor market that was much hotter than consensus expectations, casting doubt on the possibility of near-term interest rate cuts from the Federal Reserve. A total of 216,000 nonfarm positions were added in December, far above both the consensus forecast of 175,000 and even the high-end estimates of 190,000. Still, the month secured easy comps against October and November, both months for which initial payroll readings were revised substantially lower. The transportation sector suffered a loss of 22,600 positions, almost entirely due to the 32,300 jobs lost among couriers and messengers (a category including parcel delivery services).

Confusion mounts, however, when turning to the report's Household Survey, which tracks the number of newly employed persons rather than newly created positions. According to December's Household Survey, the number of employed workers tumbled by 683,000 — the largest monthly drop since April 2020, a month in which the global economy grappled with unprecedented lockdowns. That December was a weak month for job growth is not surprising in itself, since the month consistently ranks as the second-most popular month for job cuts. But the question that remains unanswered is how the Fed will interpret this report at its next meeting in late January, and whether it will walk back some of its previously dovish messaging.



Fourth-quarter GDP numbers showed that the U.S. economy grew by more than analysts were expecting. Real GDP grew at an annual rate of 3.3% in Q4, down slightly from the 4.9% annual rate the economy grew in Q3 but well above the 2% growth analysts were expecting.

With strong economic growth along with inflation still above the Federal Reserve's long-term target, the possibility of interest rate cuts in the near term seems slim. The market has priced in the possibility of three rate cuts throughout 2024.

Interest rate cuts, if they were to happen throughout the year, would be a positive for freight demand overall. Lower interest rates drop the costs of capital, allowing businesses to make increased investments and consumers to make big-ticket purchases, like houses, fueling the economy for continued growth.

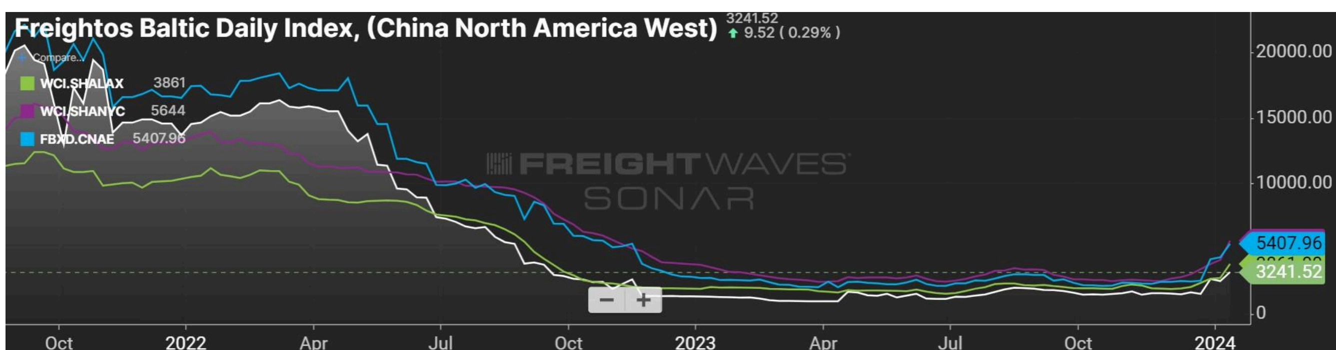
Maritime: While data stays strong, conflicts risk upending paradigms

Maritime data remains solid for the time being, but a handful of international conflicts have the potential to upend trade in 2024. The Israel-Hamas war has sparked attacks by Houthi rebels on vessels in the Red Sea. These strikes have catalyzed a strategic rerouting of shipping lanes, significantly impacting global trade routes and freight rates. This redirection of maritime traffic has led to an appreciable increase in spot rates on a number of key routes, including from China to either U.S. coast.

Separately, there's also potential for Venezuela to invade Guyana, which would impact a new and promising source of crude exports. More obviously, a possible Chinese invasion of Taiwan could trigger a catastrophic economic war between China and the U.S.

North Korea, increasingly aligned with Russia, poses another risk. While a North Korean attack on South Korea and/or Japan is considered unlikely, it remains a recognized threat. North Korea's history of missile tests over Japan and recent statements from its leader, Kim Jong Un, about subjugating South Korea (through nuclear war if necessary), underscore this risk. Any conflict in this region would significantly impact ocean shipping, as South Korea and Japan are major exporters to the U.S., and together, they account for 40% of the world's shipbuilding production. Most of the remaining capacity is in China.

Seasonally speaking, right now the maritime sector is bracing for the customary lull in activity associated with the Chinese New Year, set to begin on Feb. 10. Historically, this period has seen a sharp but temporary dip in freight movement from China to the United States, and that's sure to happen again this year. But it's worth noting that the Inbound Ocean TEU Volume Index from China to the U.S. is showing real sturdiness, standing at the highest level at this point in the year that it's ever been. This resilience is perhaps the best kind of deterrent for something like a Chinese invasion of Taiwan.



Source: FreightWaves SONAR — Container spot rates, YTD view: Freightos Baltic Daily Index: China to North America West Coast (white), China to North America East Coast (blue) and Drewry World Container Indexes: Shanghai to New York (purple) and Shanghai to Los Angeles (green).

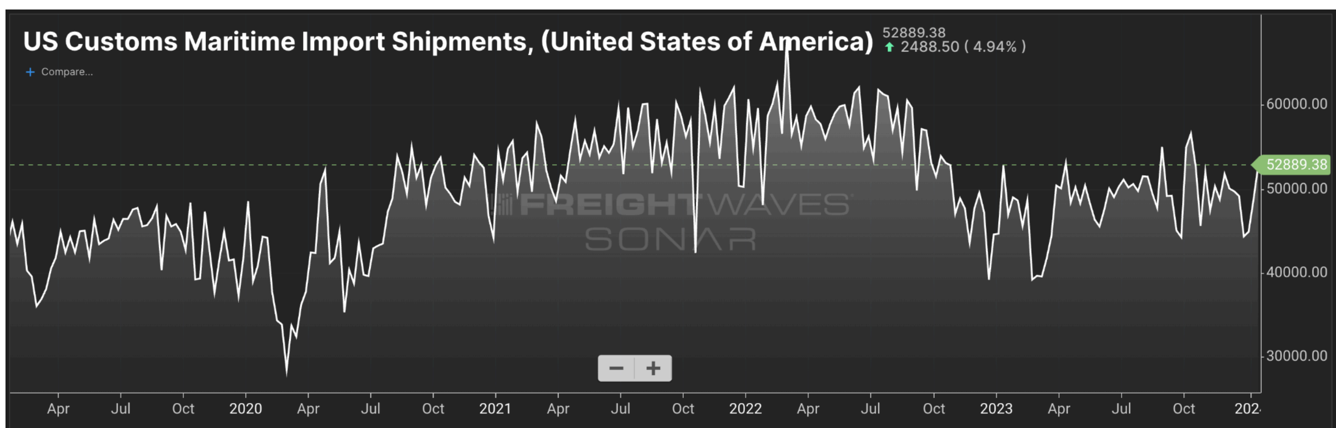
As noted above, the Houthi attacks have instigated a shift in containership routing, leading to increases in container spot rates. The Freightos and Drewry indexes tracking rates between China

and the East and West coasts have shown sharp rises, despite the U.S. being much more isolated from impacts than, for example, Europe.

The Shanghai to New York City route (WCI.SHANYC) and the Shanghai to Los Angeles route (WCI.SHALAX) have witnessed m/m increases of 83.6% and 83.86%, respectively. This surge is mirrored in rates from all of China to the West Coast (FBXD.CNAW), which is experiencing a 91.22% rise, and the East Coast (FBXD.CNAE), which is seeing an even steeper hike: 113.86%.

Year-over-year data further illustrates the extent of these changes, with the WCI.SHANYC route climbing by 74.14% and the WCI.SHALAX lane by 86.34%. The FBXD.CNAW rate shows an increase of 145.47% y/y, while the FBXD.CNAE rate grew by 106.03%.

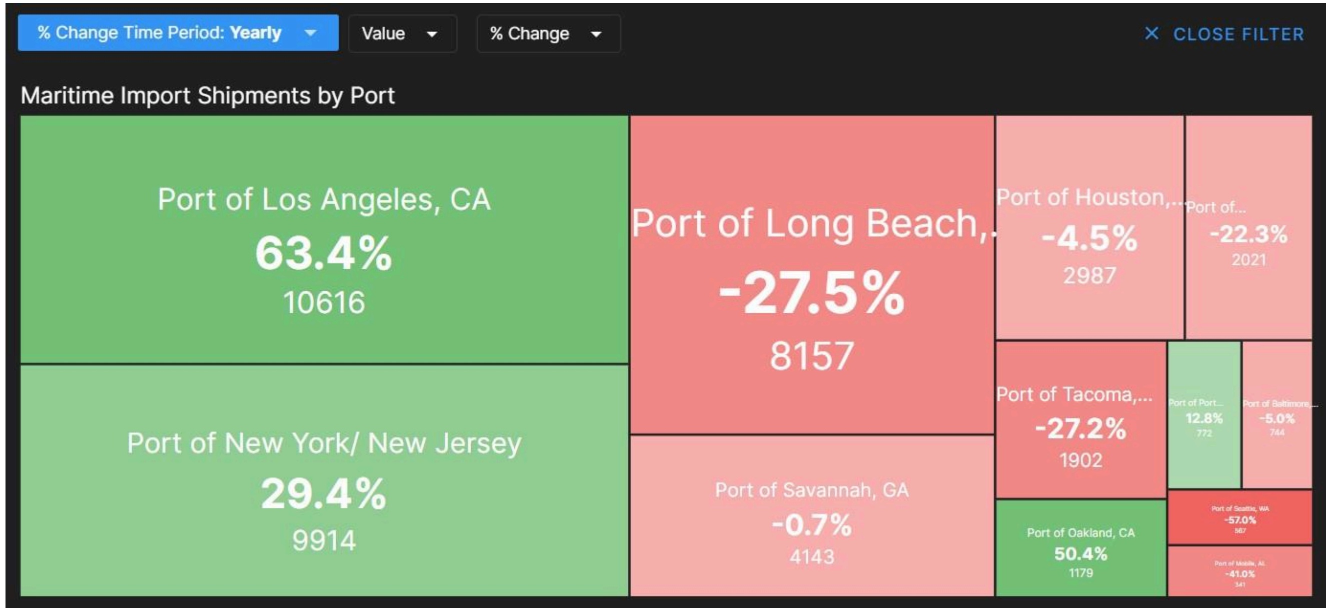
These escalations in spot rates are a direct reflection of the logistical challenges and increased operational costs stemming from longer and more complex shipping routes. As vessels divert from their usual paths to circumvent the troubled Red Sea area, the resulting extended journey times and heightened demand for alternative routes are exerting upward pressure on shipping rates. And Chinese New Year is just around the corner.



Source: FreightWaves SONAR — U.S. Customs Maritime Import Shipments, both containerized and noncontainerized, five-year view.

In January, the U.S. maritime import shipment volumes, as measured by the CSTM.USA ticker, displayed a marginal m/m decline of 1.21% from December 2023. This minor contraction reflects the ebb and flow typically seen in trade volumes, which can be influenced by a myriad of factors.

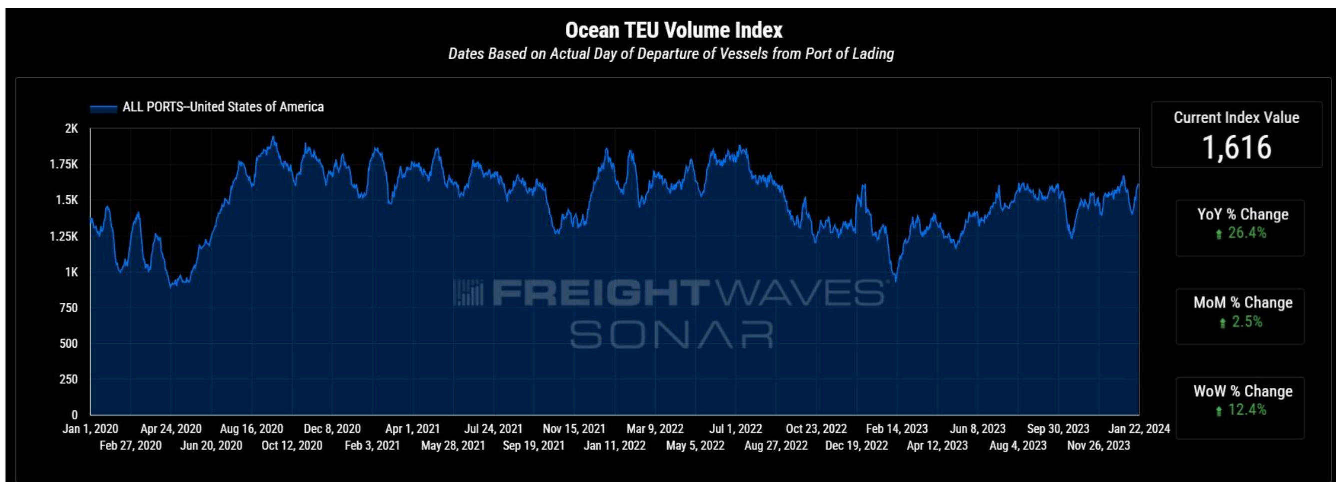
However, the y/y comparison reveals a more encouraging narrative. Compared to January 2023, there has been a notable increase of about 5% in import shipment volumes. This annual growth suggests a steady strengthening of trade activity, pointing to a resilient maritime import sector.



Source: FreightWaves SONAR. Maritime Import Shipments by Port — Tree Map.

The Port of Los Angeles leads with an impressive y/y increase of 63.4% in maritime imports, underscoring its expanding role in global trade amid evolving shipping patterns. In stark contrast, its neighboring Port of Long Beach faces a significant downturn, with a 27.5% reduction in shipments.

The Port of New York/New Jersey, a pivotal East Coast hub, continues to grow, marking a 29.4% increase and reinforcing its status as a critical gateway for maritime imports. Further afield, the Port of Oakland's substantial growth of 50.4% may reflect its increasing prominence and attractiveness as a trade hub, potentially benefiting from redistributed routes and enhanced operational capabilities. Conversely, the Port of Houston declined 4.5% and the Port of Tacoma is down 27.2%.

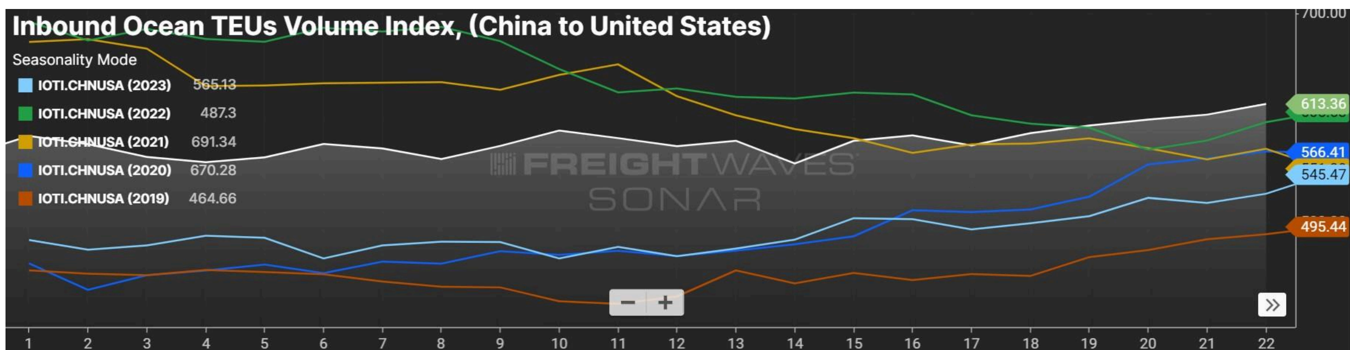


Source: FreightWaves Container Atlas. Ocean TEU Volume Index — all global ports to all U.S. ports.

The Ocean TEU Volume Index, reflective of the container trade from global ports to those in the U.S., presents a compelling picture of the maritime industry's health and trajectory. With the index value at 1,616, the y/y increase stands at an impressive 26.4%.

On a m/m basis, the index has also experienced a 2.5% increase. Although this rise is less pronounced than the yearly growth rate, it nonetheless signals sustained upward momentum in container trade volume as we approach the Chinese New Year. This consistent climb indicates that despite the ongoing challenges and uncertainties that may disrupt global trade, including geopolitical tensions and supply chain complexities, the demand for maritime transportation of goods remains strong.

The index's growth over the past year also suggests that the push toward nearshoring has not yet diminished the role of maritime trade in the global supply chain. Instead, the data shows the enduring position of ocean freight as a linchpin in international commerce, with U.S. ports continuing to be vital conduits for an array of imported goods.

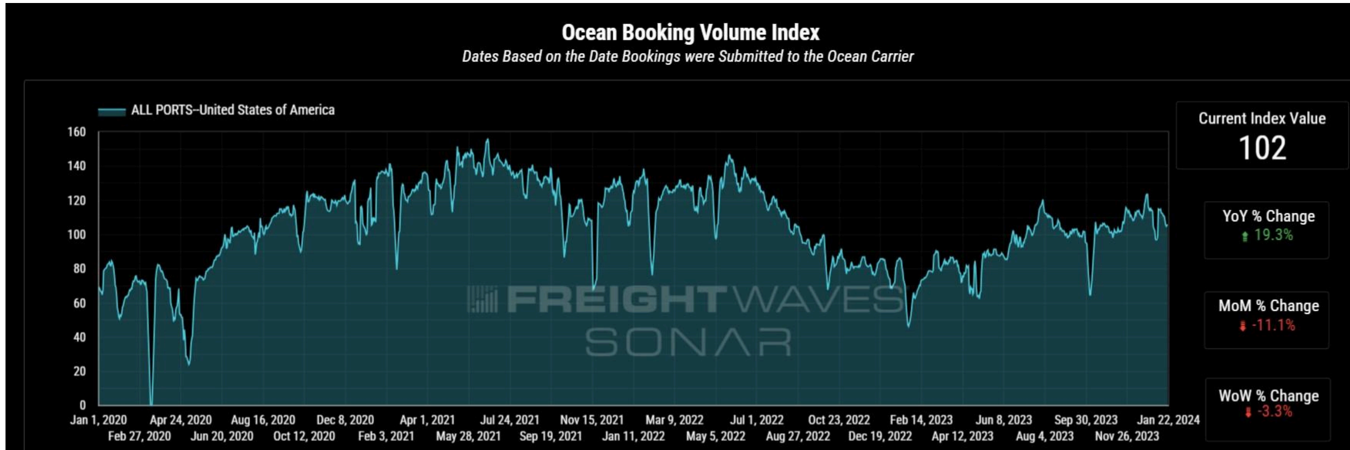


Source: FreightWaves SONAR, Inbound Ocean TEU Volume Index — China to U.S.: 2024 (white), 2023 (light blue), 2022 (green), 2021 (yellow), 2020 (darker blue) and 2019 (orange).

The Inbound Ocean TEU Volume Index (IOTI) from China to the U.S. shows significant growth at the outset of 2024, reaching the highest levels for this point in the year over the past five years. The index's m/m increase of 26.79% from December 2023 is particularly notable, representing a robust start to the year and possibly indicating a surge in post-holiday restocking or a proactive response to anticipated demand.

The y/y growth stands at 16.34%, which continues to underscore the enduring importance and resilience of the trans-Pacific trade corridor. Despite evolving supply chain strategies and the diversification of sourcing, the linkage between China and the U.S. remains vigorous, highlighting its crucial role in the economies of both nations.

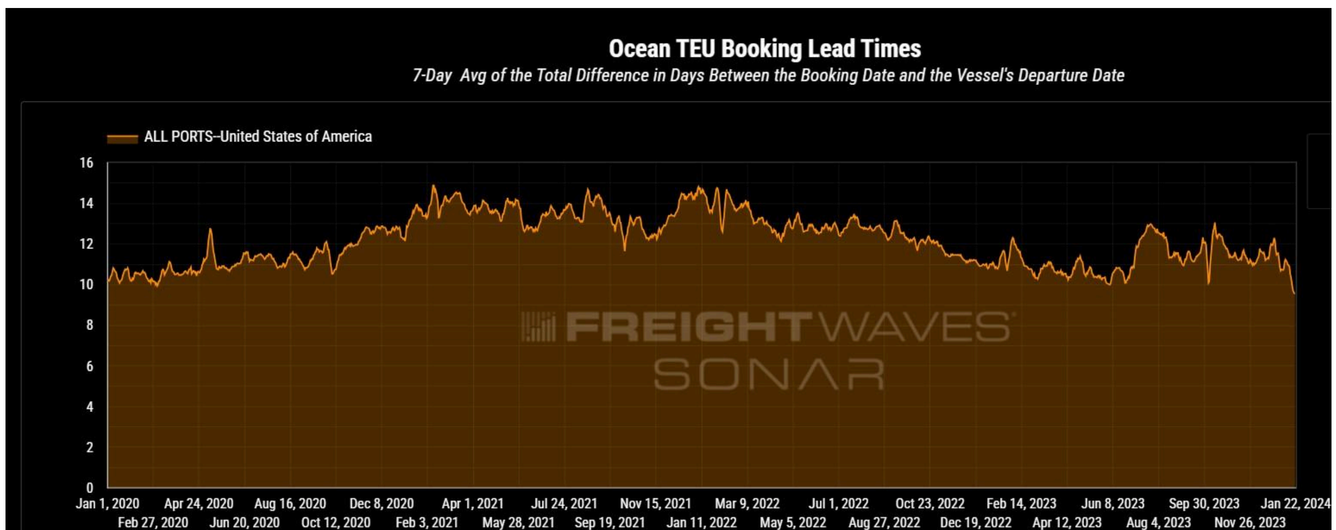
Looking back over the past five years, the index has grown by 24.69% since January 2019, reflecting long-term growth in the volume of ocean freight bookings. This consistent upward trajectory, despite various global challenges, demonstrates fundamental strength.



Source: FreightWaves Container Atlas. Ocean Booking Volume Index — all global ports to all U.S. ports.

The Ocean Booking Volume Index, which tracks the number of bookings to ocean carriers, presents a mixed view of the maritime industry's recent activity. The current index value stands at 102, with a notable y/y increase of 19.3%, which signifies robust and sustained growth in booking volumes, reinforcing the sector's long-term growth trajectory.

However, the index has experienced an 11.1% m/m decrease, indicating a potential slowdown in maritime bookings. We already know that's coming with Chinese New Year on the horizon (starting Feb. 10).

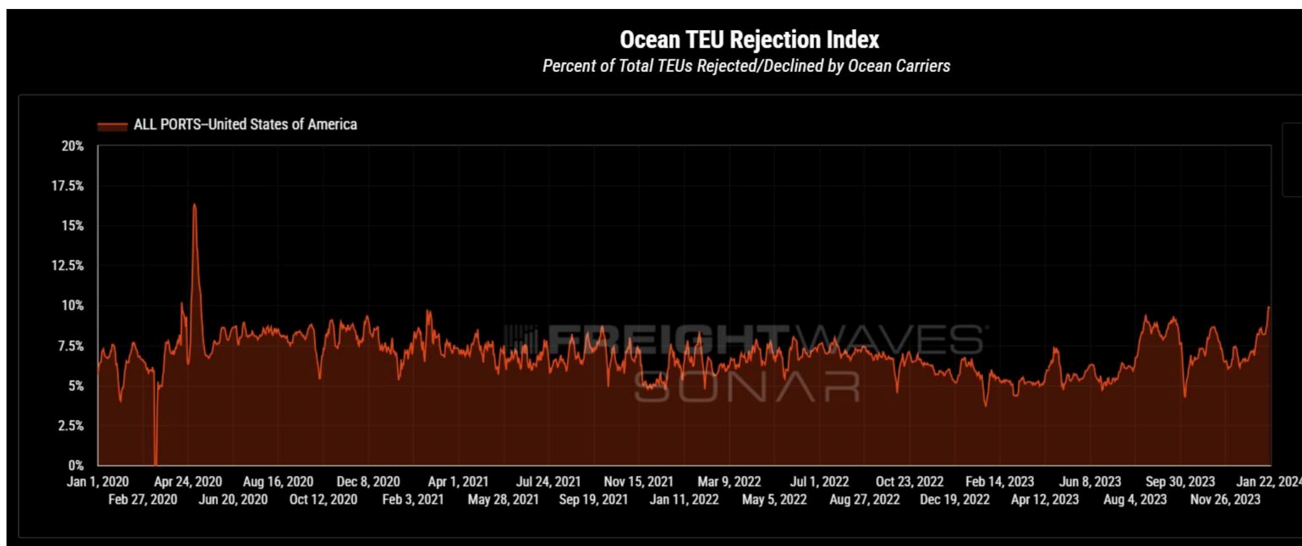


Source: FreightWaves Container Atlas. TEU booking lead times — all global ports to all U.S. ports.

The Ocean TEU Booking Lead Times Index provides insights into the efficiency of the maritime shipping process from booking to vessel departure. As of Jan. 1, the lead time stood at 11.25 days, which reflects a marginally slower process compared to the beginning of the previous year, with a lead time of 11.03 days. The latest reading is also slightly higher than the 10.98 days logged in early December 2023.

The slight fluctuations in lead times observed through the latter part of 2023 likely just reflect the seasonal adjustments or temporary shifts in carrier operations. However, the fact that lead times have not increased substantially despite growing volumes suggests that the maritime industry is successfully adapting to handle the rising demand.

It's useful to monitor this index, as it can serve as an early indicator of changes in market dynamics or operational efficiency. The data reassures stakeholders that the industry is maintaining a steady pace in processing bookings, even as it handles more volume.



Source: FreightWaves Container Atlas. Ocean TEU Rejection Index — all global ports to all U.S. ports.

The Ocean TEU Rejection Index, which tracks the refusal of containerized freight bookings by ocean carriers, provides a snapshot of the supply-demand balance. As of Jan. 1, the index stands at 6.87%, representing a marginal uptick from the 6.14% seen in December 2023, and also a slight increase from the 6.74% observed at the beginning of the previous year.

The increase in the rejection rate as we entered 2024 could be indicative of various factors, including heightened demand for shipping capacity or constrained carrier availability. However, the relative stability of the index over the past year suggests that the maritime transport sector has been managing the balance between supply and demand effectively.

The observed stability in the Ocean TEU Rejection Index is a welcome sign for shippers and carriers alike, as it suggests predictability and reliability in the availability of shipping services. As the index is sensitive to a multitude of factors, including economic trends and seasonal variations, ongoing monitoring will be crucial for stakeholders to navigate the market effectively.

Rail intermodal: Starting on a sour note

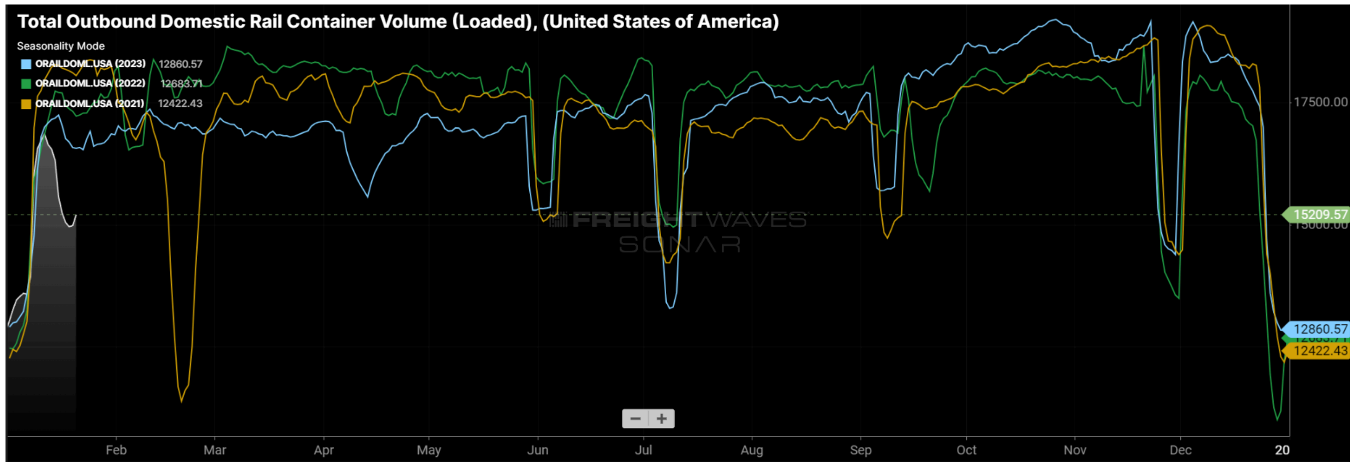


Chart: FreightWaves SONAR. Loaded domestic intermodal container volumes for 2024 (white), 2023 (blue), 2022 (green) and 2021 (yellow).

The intermodal market is starting off 2024 on a sour note as volume levels have suffered through the middle of January. Winter weather that swept across the country, impacting several major railroad hubs, has caused intermodal volumes to suffer to start the year. The drop, while not as severe as the drop in February 2021 when cold weather impacted the power grid in Texas, has shown similar characteristics, highlighting the impacts that weather can have on domestic supply chains.

The holiday season creates a dramatic drop in intermodal volumes, similar to the truckload market, but the recovery to start 2024 was muted in comparison. Adding the weather impacts across the country, total intermodal volumes, which are both international and domestic and loaded and empty, have fallen by 11.2% over the past month. Total intermodal volumes are 2.2% lower than they were this time last year.

Loaded domestic intermodal container volumes have really suffered over the past year. Some of the decline in the domestic intermodal market can be attributed to the fact that the discount that it provides compared to truckload has been historically low. Loaded domestic intermodal volumes across the country are down 8.3% y/y. The decline over the past month is even more aggressive as loaded domestic intermodal volumes are 12.8% lower.

The international side of the market has fared better than the domestic market, at least when it comes to loaded container volumes. Over the past month, loaded international intermodal container volumes have dropped by 5.2%. Even with the drop over the past month, loaded international intermodal volumes are 8.3% higher than they were this time last year.

Like the loaded volumes, domestic is down over the past year while international volumes have grown. Empty domestic intermodal container volumes are down 21.9% over the past year and 27% m/m. Empty international intermodal container volumes are 14% lower than they were this time last month but are 9.7% higher y/y.

Laredo recovers, El Paso lags

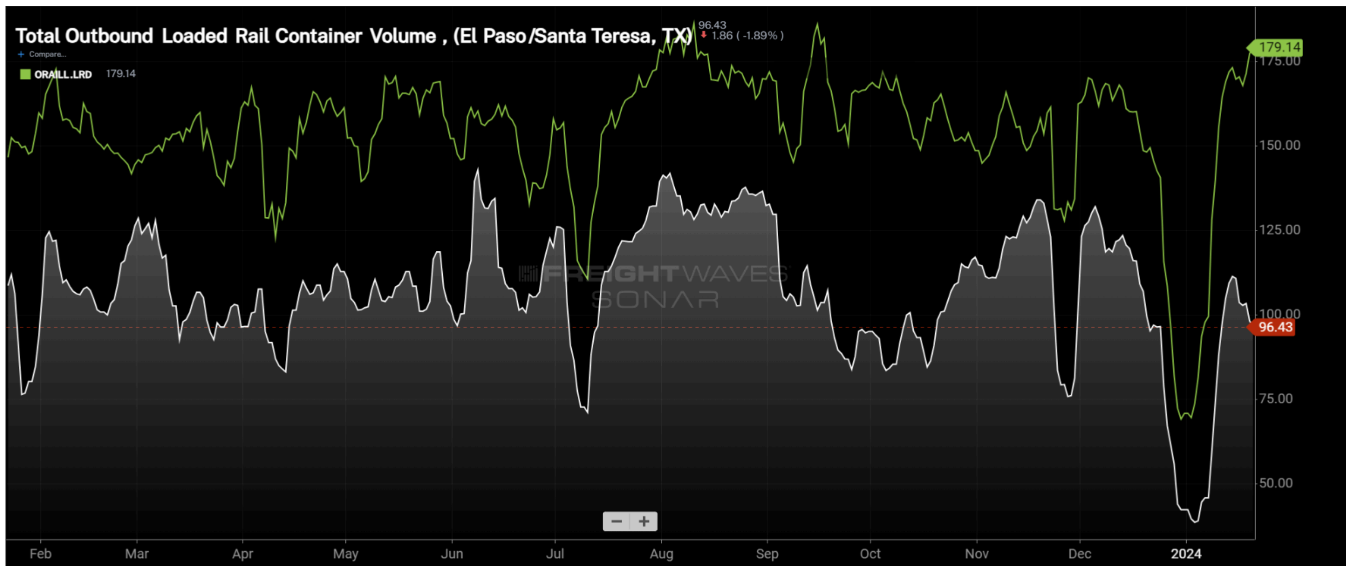


Chart: FreightWaves SONAR. Loaded intermodal container volumes out of El Paso, Texas, (white) and Laredo, Texas (green).

Freight railroad operations have resumed at three bridges connecting Texas and Mexico: two in El Paso and one in Eagle Pass. The resumption of operations has allowed for growth in loaded volumes out of the Laredo market, while El Paso is following similar trends to what is happening at the national level.

Over the past month, loaded intermodal volumes out of El Paso have fallen by 3.3%, while in Laredo, loaded intermodal volumes are up 20.8%.

Intermodal contract rates remain under pressure

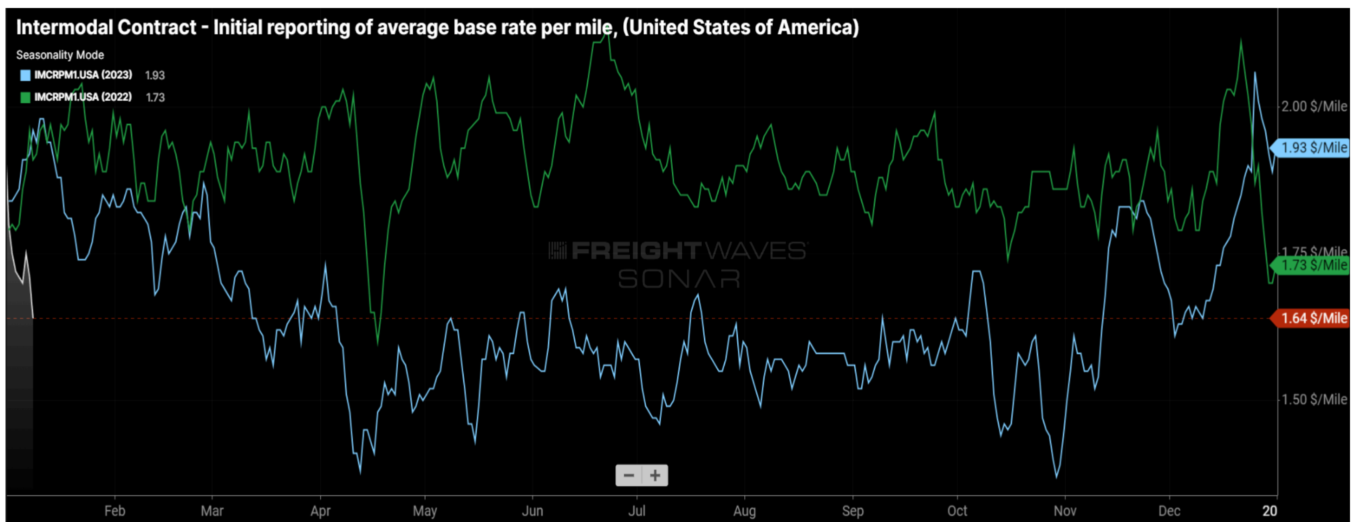


Chart: FreightWaves SONAR. Intermodal contract rates on a sample of domestic intermodal lanes in 2024 (white), 2023 (blue) and 2022 (green).

Intermodal contract pricing is likely to remain under pressure throughout 2024. Over the past month, the initially reported intermodal contract rate, which excludes fuel, has fallen by just 2 cents per mile to $1.64 per mile. Intermodal contract rates are down 16% y/y to start 2024. The declines in intermodal contracts were highlighted by one of the largest intermodal marketing companies that released fourth-quarter earnings reporting revenue per load was down 13% y/y.

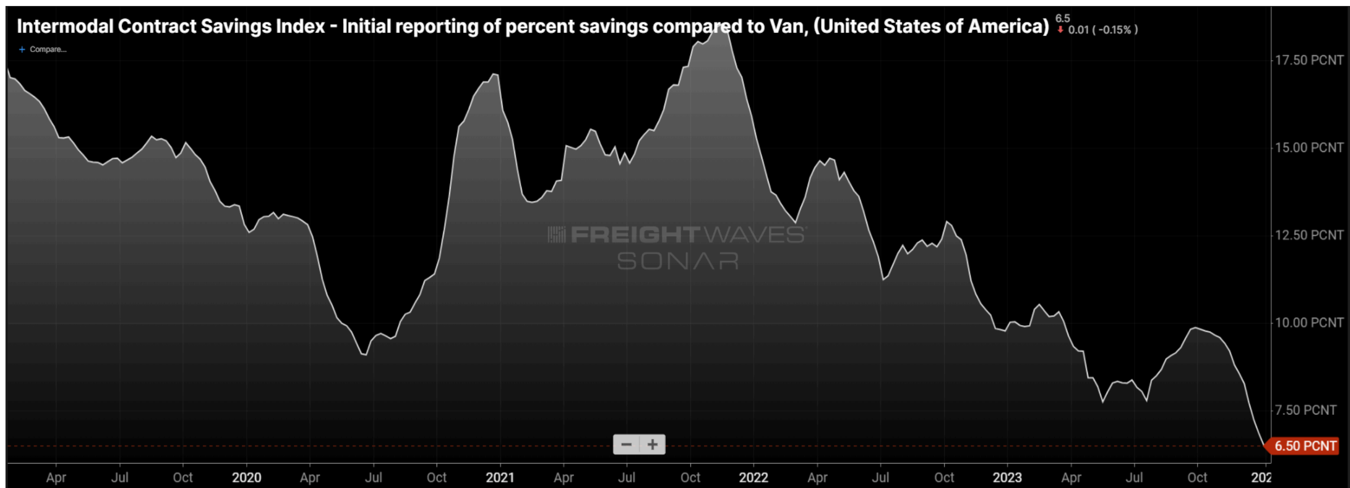


Chart: FreightWaves SONAR. Intermodal Contract Savings Index.

Why is there downward pressure on intermodal contract rates heading into 2024?

The Intermodal Contract Savings Index, the percentage savings the initially reported intermodal contract rate presents when compared to the initially reported dry van contract rate, is now at the lowest level it has been at any point in the past five years. Currently sitting at 6.5%, the savings rate has been roughly cut in half, eroding much of the value proposition that intermodal has presented in the past. So, this doesn't only create pricing pressure on the rails, it also creates a potential headwind for volumes.

While the vast majority of volume in the intermodal market runs under contract, comparing current intermodal spot rates in the densest lanes to year-ago levels is a way to gauge relative tightness in the market. We believe intermodal spot rates are still useful for assessing whether the Class I railroads are protecting capacity for contractual shippers, which happens when equipment or capacity on trains becomes scarce.

The national door-to-door intermodal spot rate has taken another step lower to start the new year. Currently the national intermodal spot rate, which includes fuel, sits at $1.66 per mile, 2 cents per mile lower than it was last month. Over the past year, the national intermodal spot rate has dropped by 16 cents per mile.

Given the current environment, unless there is a substantial uptick in demand, it seems unlikely that intermodal rates, spot or contract, will see any meaningful move higher.

As the national intermodal spot rate has fallen, spot rates across the vast majority of the densest intermodal lanes have fallen over the past month. The only major intermodal lane in which there was

a meaningful increase in the spot rate was along the Dallas to Los Angeles lane, which increased 13.2% m/m to $1.31 per mile, all-in. The Chicago to El Paso lane remains higher than it was last year, up 14% y/y, but is starting to decline, falling by 1.2% over the past month to $3.22 per mile.

Intermodal spot rates continue to drop on some of the densest lanes

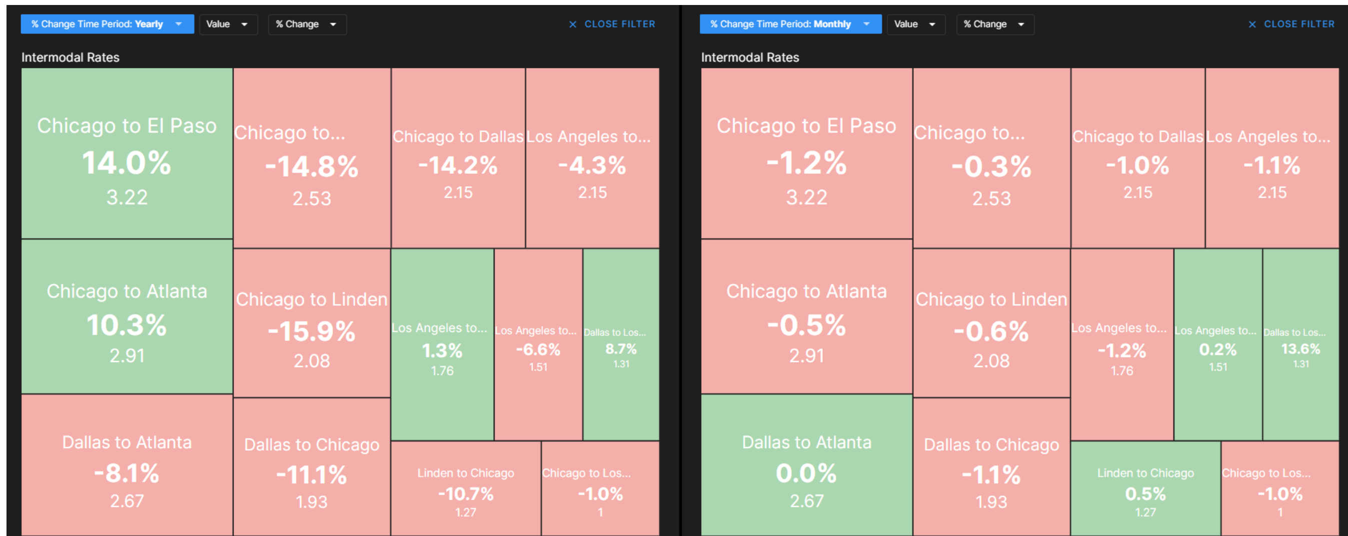


Chart: FreightWaves SONAR. Intermodal spot rates to move 53-foot containers door to door, including fuel surcharges and their respective y/y (left) and m/m (right) changes.

Intermodal tender rejections offer a way to gauge service disruptions as carriers often operate on "auto-accept," especially when contract rates are competitive with spot rates. The current national intermodal rejection rate stands at 1.07%, while it is 0.17% in Los Angeles and nonexistent in Chicago. Intermodal rejection rates this low signal that there are very few, if any, disruptions across networks.

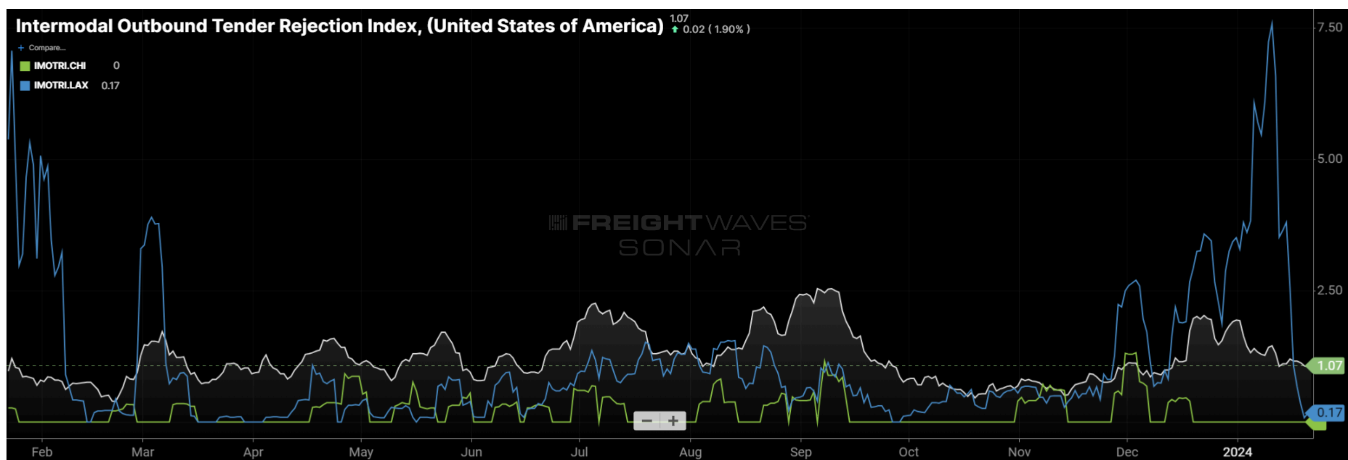
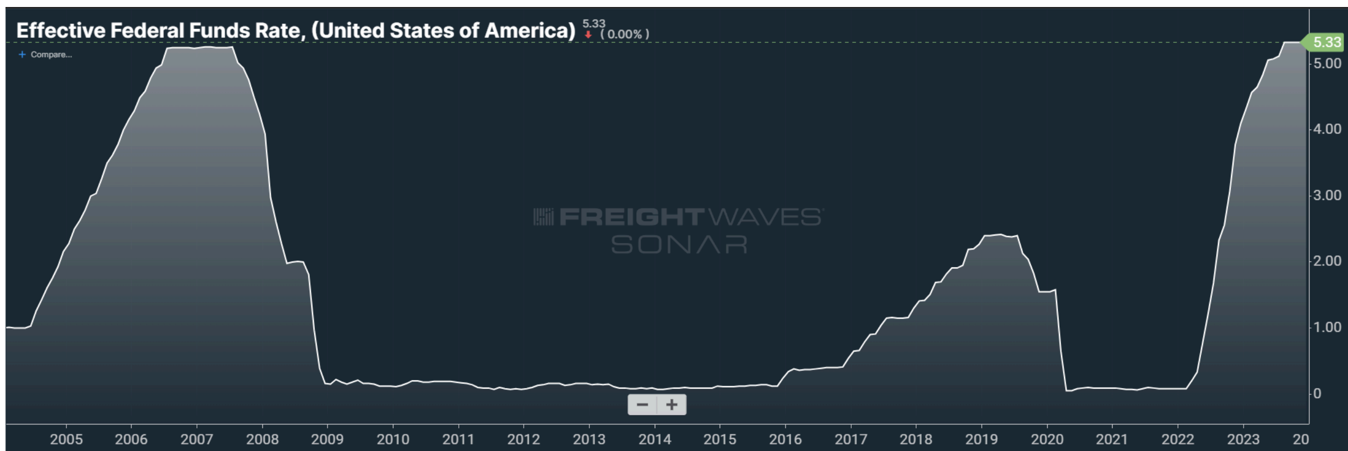


Chart: FreightWaves SONAR. Domestic intermodal tender rejection rates for national (white), outbound Los Angeles (blue) and Chicago (green) loads.

What else we're watching

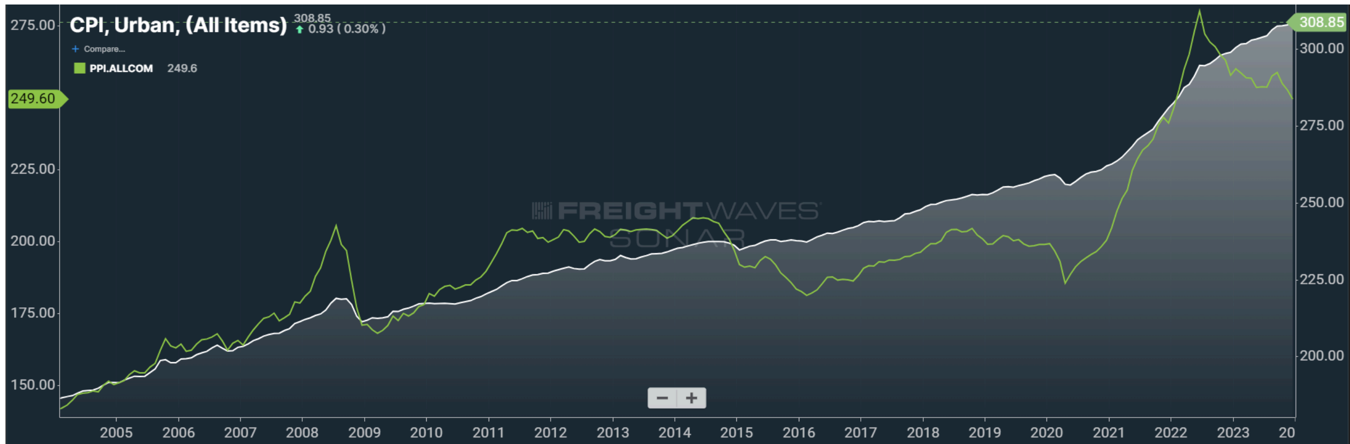
In comments made after the Federal Open Market Committee's mid-December meeting, Fed officials signaled that they were amenable to considering a quick pace for interest rate cuts in 2024. Yet while some analysts believed that rate cuts could begin as soon as March, the Fed has all but pushed back against such a timeline. Christopher Waller, a member of the Federal Reserve's board of governors, recently stated his belief that current monetary policy "is set properly" and that he sees "no reason to move as quickly or cut as rapidly as in the past." Even so, many analysts continue to expect an aggressive pivot to quantitative easing after a sudden drop in the Fed's reverse repo facility, spiking the Secured Overnight Financing Rate dramatically in early December.



Source: FreightWaves SONAR. Effective federal funds rate.

Other signals from the broader economy are unhelpful in defogging the crystal ball tracking the Fed's policy direction. Inflation data from December 2023 is likely to induce hawkishness over dovishness, though not unambiguously. The December print of the Consumer Price Index saw the headline index come in slightly hotter than expected, rising 0.3% m/m and 3.4% y/y against consensus forecasts of 0.2% m/m and 3.2% y/y gains. On the other hand, the core CPI — which excludes goods with volatile pricing like food and energy — posted a gain of less than 4% y/y for the first time since May 2021. And while energy prices (down 2% y/y) continued to tumble from previous highs, food prices (up 2.7% y/y) rose steadily, a trend particularly acute in prices for food away from home (up 5.2% y/y).

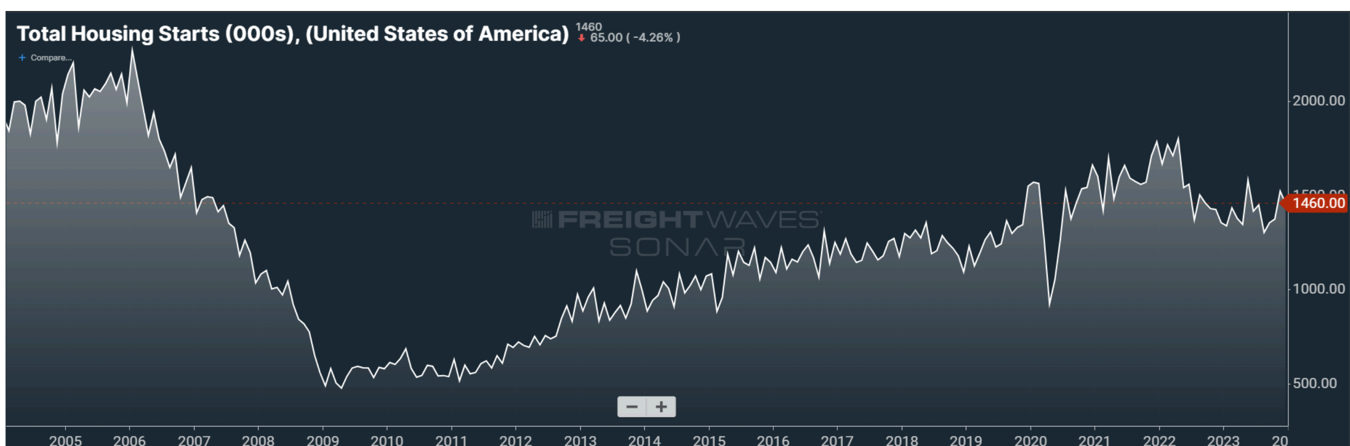
Concerning the Fed's potential reaction, however, perhaps the single most important factor is "supercore" inflation, or core services less housing. Throughout the current tightening cycle, the Fed has consistently named supercore inflation as its most valued metric for tracking its progress in taming inflation. In December, supercore inflation spiraled 0.4% m/m and 4.1% y/y. Per analysis from the Institute for Supply Management, economic activity in the services sector expanded for the 12th consecutive month in December, with half of the surveyed industries noting signs of a nascent recovery.



Source: FreightWaves SONAR. Consumer Price Index (white, right axis) versus Producer Price Index (green, left axis).

Adding to the confusion, supply-side inflation proved softer than anticipated in December. Against consensus forecasts of a 0.1% m/m rise, the headline Producer Price Index — which tracks inflationary pressures faced by producers across a number of industries — actually fell 0.1% m/m. Yet half of this decline was attributable to diesel fuel, prices of which plummeted 12.4% m/m. Still, the core PPI reading was far cooler than expected, as it tumbled to its lowest y/y gain since December 2020.

Mortgage rates have come down from October's two-decade peak of 7.79%, though at 6.6%, the average rate on a 30-year fixed mortgage is far above 2018's pre-pandemic high of 4.94%. With falling but still elevated mortgage rates, demand for housing is accordingly unstable. According to data from the National Association of Realtors, 2023 saw the lowest number of existing home sales on record — eclipsing even the dismal times of 2008's housing collapse. At the same time, per S&P's CoreLogic Case-Shiller U.S. National Home Price Index, October 2023 posted an all-time high reading of housing prices, marking a 4.8% y/y gain and a 10.8% gain over October 2020.

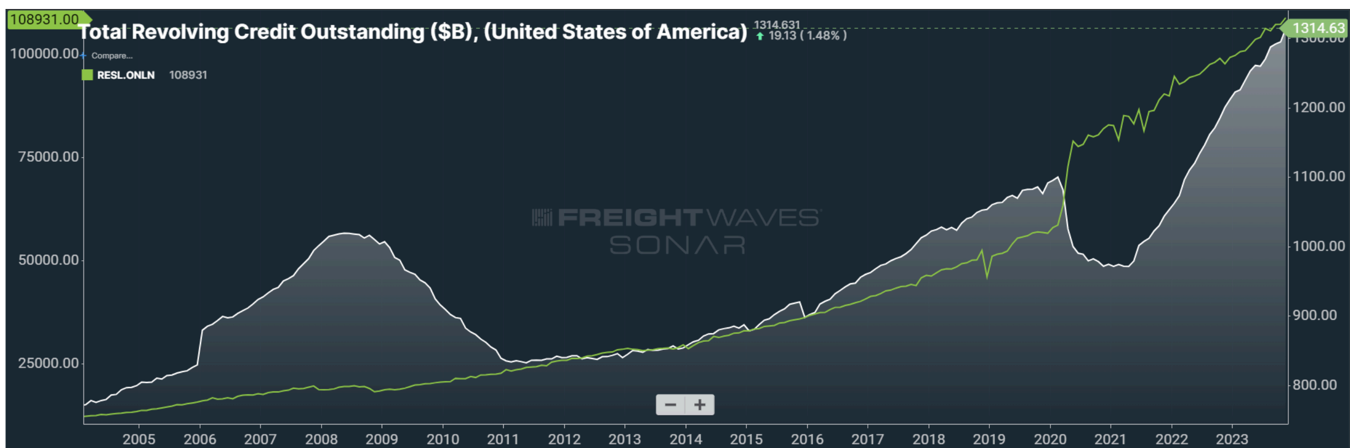


Source: FreightWaves SONAR. Total U.S. housing starts (in thousands).

Despite the above headwinds for the housing market, the simple fact remains that housing availability is still eclipsed by demand. Of course, the imbalance of supply and demand is partially caused by current market dynamics, as homeowners are reluctant to sell their houses (presumably

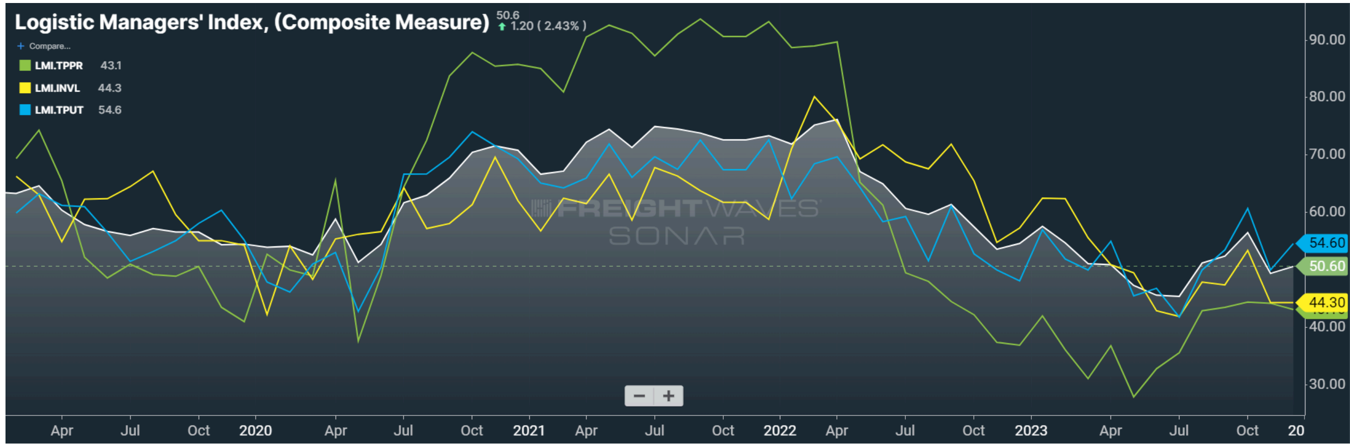
with a low mortgage rate) and purchase a new one at both higher prices and rates. So, for those homebuyers whose demand is relatively inelastic, the primary alternative is new construction. After a surprising surge in November, housing starts were expected to decline significantly in December. And while December housing starts did tumble 4.3% m/m, it was a much better performance than the consensus forecast of an 8.7% m/m decline.

It should come as little surprise that consumers' credit card usage spiked in the month that hosts Black Friday and Cyber Monday — not to mention their weeklong extensions, which have become standard practice among many retailers. On the other hand, November saw a sizable addition to the total amount of revolving credit (which includes credit card debt). In November 2023, revolving credit ballooned by $19.1 billion at an annual rate of 17.7% to a new all-time high of $1.31 trillion. When compared to October's annual pace of 2.7%, it is clear that consumers fully embraced the holiday spending season in November.



Source: FreightWaves SONAR. Total revolving credit outstanding, in billion USD (white, right axis), versus online retail sales, in million USD (green, left axis).

Total card spending data from Bank of America showed that consumer spending during the holidays was solid, up 0.1% m/m and 0.2% y/y in December. That said, spending was oriented more toward services than freight-intensive goods. Among the goods categories, general merchandise (up 0.2% m/m) and online retail (up 0.1% m/m) were the only ones to see growth over November. Spending on clothing (down 2% m/m) and furniture (down 4.9% m/m) as well as at department and home improvement stores (both down 0.9% m/m) showed notable, if not unsurprising, weakness.



Source: FreightWaves SONAR. Logistics Managers' Index (white), inventory levels (yellow), transportation prices (green) and transportation utilization (blue).

Finally, the December release of the Logistics Managers' Index (LMI) saw the headline index claw its way back into expansion after November's brief dip interrupted a three-month period of growth. In December, the LMI rose 1.2 points m/m to 50.6, with significant gains witnessed in utilization of both transportation (up 4.6 points m/m to 54.6) and warehousing (up 7.4 points m/m to 60.2). Shippers' inventories continued to dwindle in the month, albeit at a rate unchanged from November. Meanwhile, transportation prices (down 1.1 points m/m to 43.1) contracted at a faster rate, helped largely by lower fuel surcharges brought about by declines in the cost of diesel.

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