MARKET ADVISORY

Transportation Market Q4 2023

EXECUTIVE SUMMARY

- UPS and Teamsters agreed to a new contract, narrowly avoiding a strike. FedEx announced a 5.9% GRI for 2024 and UPS quickly followed suit. This increase is lower than many expected and lower than what UPS likely wanted while absorbing higher labor costs.
- The LTL market has tightened, meaning less capacity and higher rates, following the bankruptcy of Yellow in August. However, carriers are seeking to win new business and grow market share. Coupled with declining manufacturing production, this will likely contribute to falling LTL rates in 2024.
- The dry van market may have found its bottom, having finally ticked back up a couple of cents per mile, but is still down nearly 50% since January 2022; Shippers should still expect to see strong savings on any rate negotiations or sourcing events.
- After an increase in rates through the first part of peak season, the trans-Pacific ocean freight market has begun to decrease and is expected to remain soft throughout the rest of 2023 and into 2024 as the market contends with excess capacity.

SMALL PARCEL

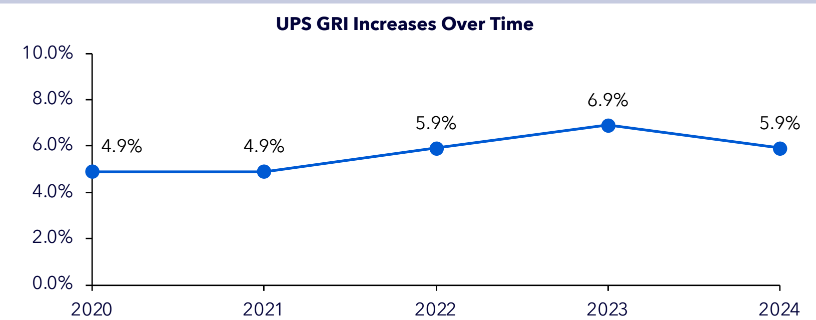
Current Environment

- Teamsters ratified the new UPS labor contract on August 22nd, avoiding a potentially devastating strike.
- FedEx announced a 5.9% freight rate increase for 2024 which UPS immediately matched. Insight Sourcing has saved several clients over $1M by renegotiating rates after the signing of the UPS Teamsters contract.
- The FedEx 5.9% increase indicates that FedEx is ready and willing to win on price against UPS.
- Many UPS shippers that had moved volume over to FedEx will likely be going back to UPS now the contract negotiations are finalized.
- FedEx and UPS are prioritizing shippers with ideal shipment characteristics and are reducing surcharge discounts for bigger, bulkier shippers.

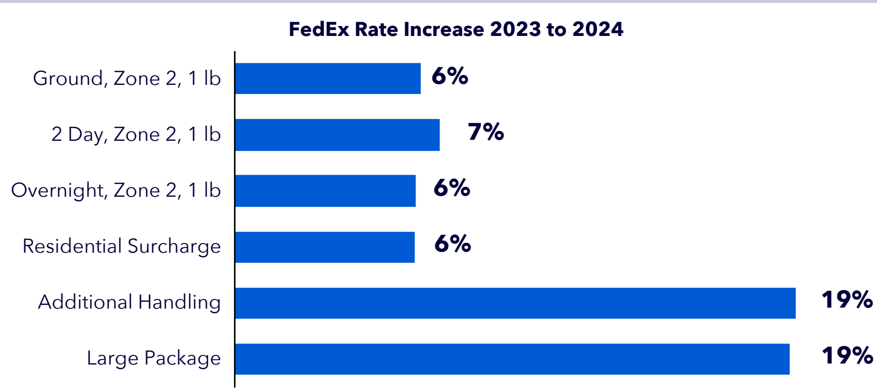
Future Projections

- Shipment volumes have come down to pre-pandemic levels due to lower demand and consumers going back to purchasing at brick-and-mortar stores.
- With the threat of a UPS strike behind us, shippers should be looking to renegotiate key terms of their contracts, especially if they signed their last contract when FedEX and UPS held all the pricing leverage.
- UPS appears more willing to negotiate on rates in order to shore up customers.
- Expect FedEx and UPS to compete aggressively on price over the next 12 months due to lower shipping volumes.
- Insight Sourcing advises that shippers take advantage of current buying power by competitively bidding or, at a minimum, negotiating rates.
- Insight Sourcing continues to recommend looking at regional carriers and DHL to drive savings and reduce the risk of a sole carrier strategy.

UPS RATE INCREASES



FEDEX RATE INCREASES



Sources: Freightwaves, Sifted; Parcel Industry; Refund Retriever; Unishippers; Chainalytics; FedEx; Reuters

LESS THAN TRUCKLOAD (LTL)

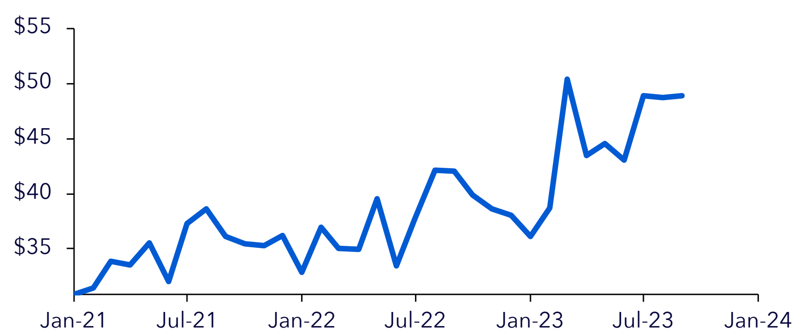
Current Environment

- YRC declared bankruptcy on Aug 7 2023 and many LTL shippers had already shifted significant shipment volume to backup carriers prior to bankruptcy.
- With reduced volume in the first half of the year, YRC's volume was able to be absorbed by other carriers without impacting the market.
- With reduced capacity during the busy season, there has been a slight uptick in the average LTL base rate, which could hold until the end of 2023.
- With tighter capacity, some LTL carriers have been selective about the freight they ship and Insight Sourcing has seen a decreased participation rate in recent RFPs.
- LTL relies heavily on manufacturing, and the ISM Production Manufacturing Index (PMI) remains below 50%, indicating that there has been a slowing of manufacturing production and thus continued lower volumes in LTL.

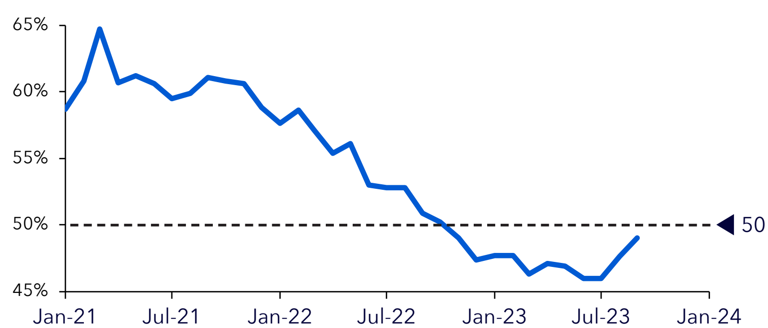
Future Projections

- We anticipate there will be increased capacity along with economic pressure post-holiday season. These two elements could be key drivers of downward pricing pressure for contract rates in 2024.
- Shippers should consider regional and micro-regional carriers in addition to national carriers, as they can provide strong service at a competitive price and are an option to disperse previous volume with YRC.
- National carriers (namely Estes and ODFL) and regional carriers alike will see the YRC bankruptcy as an opportunity to grow their businesses and will be aggressive in acquiring YRC's assets.
- Additionally, the carriers will begin to price freight more competitively in order to win a share of YRC's historical volume with LTL shippers.

AVG. REPORTED LTL CONTRACT BASE RATE ($) PER 100 LBS



ISM PRODUCT MANUFACTURING INDEX



Sources: Institute for Supply Management; FreightWaves SONAR, Uber Freight

DRY VAN TRUCKLOAD

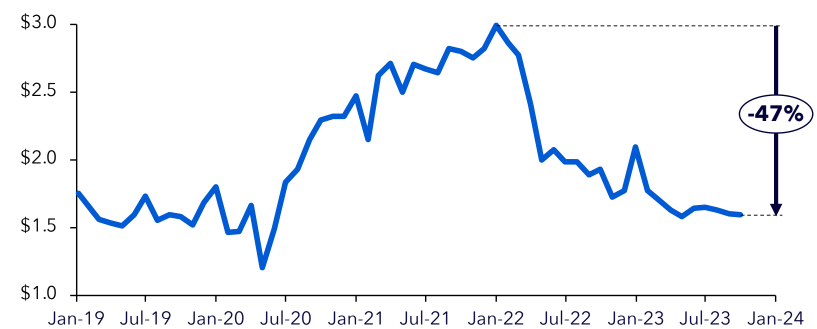
Current Environment

- Dry van linehaul rates have dropped nearly 50% from %3.00 per mile in January 2022 to $1.59 per mile in October 2023.
- The Outbound Tender Rejection rate, which is a measure of how often a carrier turns down a shipment for which they have been awarded, has fallen to a love of 3.6%, which is even lower than the pre-pandemic average of 7%..
- Trucking volumes have trended downwards in 2023 as consumer spending continues to shift from goods to services, falling 2.8% from January 2023.
- Fuel prices have gone up slightly the last quarter but are signficantly lower than a year ago.
- Insight Sourcing has completed multiple truckload projects in the current shipping environment and have seen savings in excess of 15%.

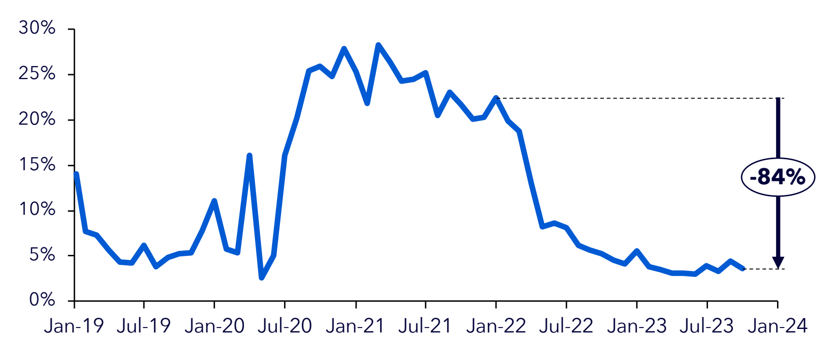
Future Projections

- With tender rejection rates at an extreme low and outbound volume down, shippers should expect much more leverage with their carrier base in rate negotiations.
- Insight Sourcing recommends carriers shift to a 7 MPG escalator to reduce fuel surcharge costs, as trucks have become more fuel efficient.
- With the potential for a slowdown in the economy, Insight Sourcing expects freight rates to stay lower for the foreseeable future.
- After the typical busy season of August to October, we expect there will be some capacity opening up, which will stabilize rates going into 2024.
- Despite the 2023 market constraints, Insight Sourcing has driven savings by soliciting rates from non-incumbent and smaller incumbent carriers by both implementing the new carrier rates and by utilizing those rates to negotiate with the larger incumbents.

LINEHAUL WITHOUT FUEL (2019 – 2023)



OUTBOUND TENDER REJECTIONS (2019 – 2023)



Sources: Freightwaves SONAR

FLATBED TRUCKLOAD

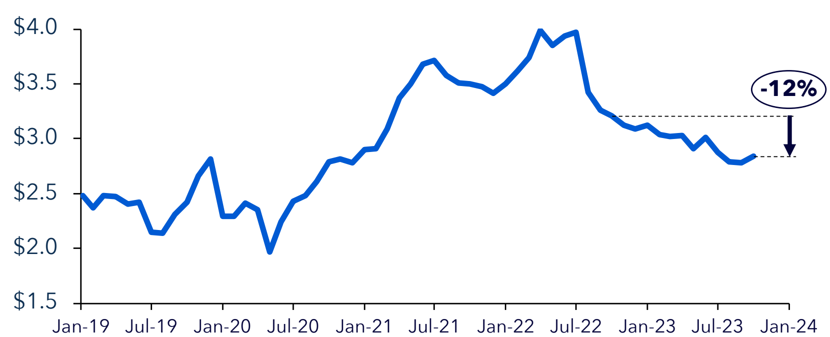
Current Environment

- Flatbed prices are now well below where they were a year ago after dropping 12% in the last 12 months, but have remained relatively flat for the past few months.
- Part of this is due to seasonal demand dropping, as the typical busy construction season has ended, and some is due to an overall slowing of the economy.
- Outbound Tender Rejections, which is a measure of how often a carrier turns down a shipment which they have been awarded, has fallen to a two year low of ~7.5%
- Flatbed load to truck ratio, which is the number of loads available to the number of trucks available, is at the lowest it has been since 2020. Current ratio is reporting at under 7%, but has historically been as high as 97%.

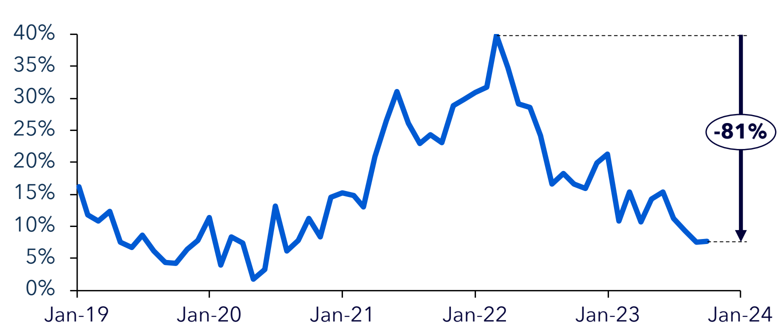
Future Projections

- Insight Sourcing expects flatbed rates to remain depressed throughout 2023.
- Manufacturing makes up a large portion of flatbed shipments, and manufacturing indices have trended lower in recent months.
- Building markets are expecting a slow 2023 which is also a key segment for flatbed shipping.
- The summer 2023 busy season was subdued with rates remaining stable throughout the summer, largely due to overall market conditions.
- Due to declining rates and expected further declining demand, shippers should consider a sourcing event end of 2023 / first half of 2024 if they are not already doing so.

FLATBED RATE ($ PER MILE) YOY (2021 – 2023)



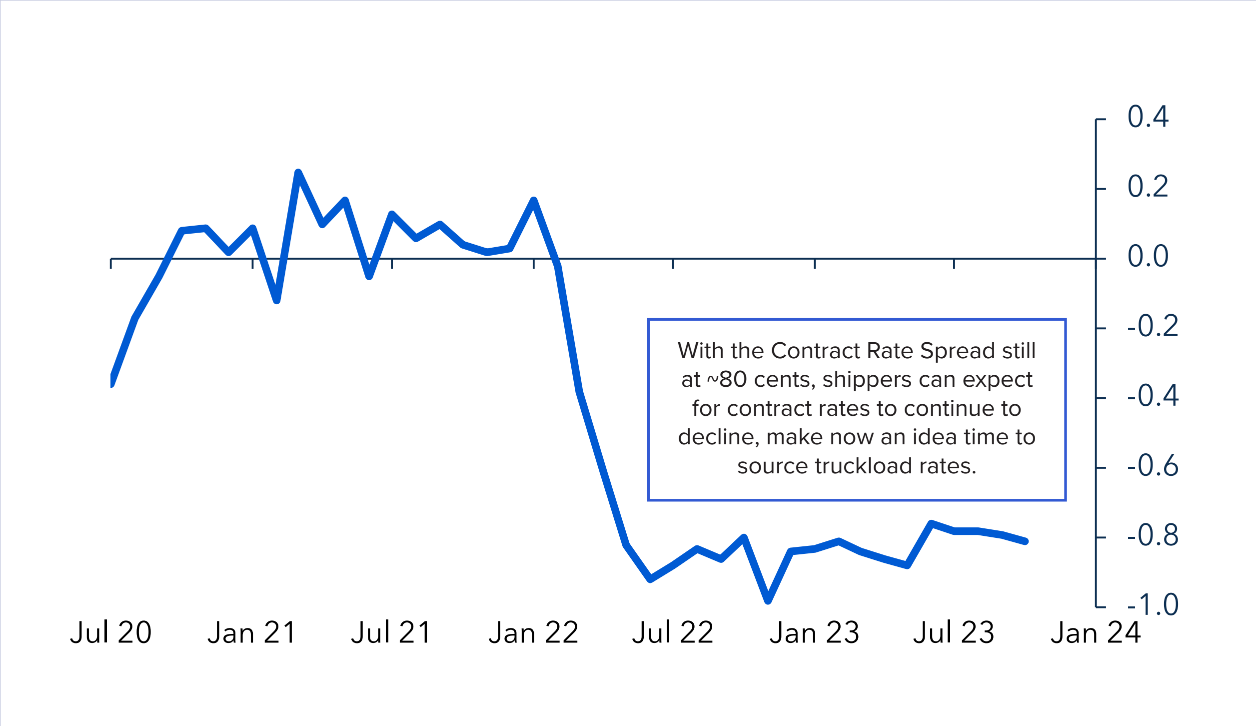
OUTBOUND TENDER REJECTIONS YOY COMPARISON (2021 – 2023)



Sources: Freightwaves SONAR

TRUCKLOAD — SPOT VS. CONTRACT

RATES INDEX – SPOT (LINEHAUL) TO CONTRACT RATE SPREAD



Sources: Freightwaves SONAR

What It Shows and What It Means

- The RATES index shows the difference between spot and contract rates. When the index is a positive value, capacity is tight with upward pressure on contract rates, but when the index is a negative value, there is downward pressure on contract rates.
- The index crossed from positive to negative in mid-February and has declined significantly since.
- Declining Truckload rates are not just a spot market phenomenon – it extends to contract rates as well.

OCEAN FREIGHT

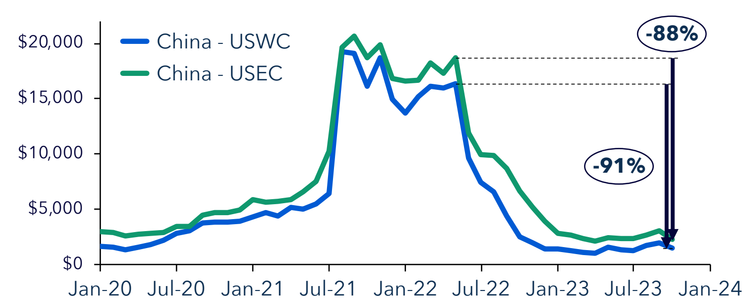
Current Environment

- After significant decreases in trans-Pacific spot rates mid-to-late 2022, rates have remained relatively flat since the start of 2023, nearing pre-COVID levels.
- After several months of gradual rate increases throughout peak season, spot rates have begun to fall over the past month, with rates from Asia to the USWC and USEC down 16% and 13% respectively.
- Trans-Pacific carriers continue to increase blank sailing rates in an effort to slow rate declines. 317k TEU of capacity has already been announced for October, equating to ~14% of total trans-Pacific capacity.
- U.S. import volumes saw a gradual increase over the course of the first half of the year and through the start of peak season, but volumes are expected to slow going forward as U.S. consumer demand decreases.

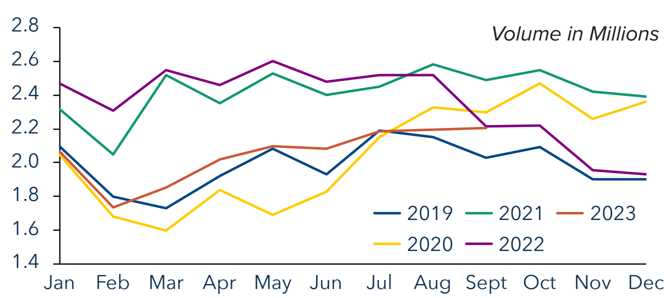
Future Projections

- Peak season volumes remained extremely tempered relative to typical years due to continued excess inventories, leading to expectations of continued rate softness through the remainder of the year.
- Capacity is scheduled to increase as much as 25% to the U.S. West Coast and 35% to the East Coast in the coming months, creating a significant threat of overcapacity and further downward pressure on rates.
- Low water levels in the Panama Canal will limit container volume throughput and bring risk of upward pressure on East Coast rates.
- Shippers should begin preparations to negotiate annual contract rates in Q1-Q2 of 2024 to take advantage of an over-supplied market and expected soft contract rates.

FREIGHTOS OCEAN SPOT RATE INDEX



US CONTAINER IMPORT VOLUME (TEUS, 2019 – 2023)



Sources: American Shipper; JOC.com; Freightos Baltic Daily Index China-USWC and China-USEC, WSJ, Pacific Merchant Shipping Association, Descartes, DHL

RECENT SOURCING RESULTS

TRUCKLOAD

$300M manufacturer of foodservice products

- Company had long-term entrenched 3PL partner with a high service record.
- Conducted competitive RFP to test incumbent and take advantage of market dynamics.
- Incumbent 3PL reduced pricing significantly due to competitive pressure.

21% SAVINGS

LTL

$900M global manufacturer of saw chains, accessories, and parts

- Introduced new carriers through a competitive RFP while also establishing standard tariff, FAK, fuel, and accessorials.
- Drove savings and transit time improvement by shifting intra-regional routes from national carriers to niche regional carriers.
- Collaborated with shipping facilities to consistently allocate shipments to least-cost carrier.

16% SAVINGS

AIR & OCEAN

$8B provider of software, hardware, and services for financial services and retail industries

- Shifted the strategy from monthly pricing updates with no competitive pressure to a competitive RFP while locking in 3-month rates.
- Resulted in strong savings by putting the primary incumbent under competitive pressure for the first time in 2 years.
- Reallocated spend to take advantage of strengths in freight forwarders' networks.

26% SAVINGS

SMALL PARCEL

$200M manufacturer and distributor of instruments and controls

- Shifted from a dual sourced strategy with FedEx and UPS splitting the volume to a strategy of one primary domestic carrier and one international partner.
- Negotiated lower rates with domestic incumbent by negotiating stronger discounts on highest spend service types.
- Introduced international provider with stronger service and significantly lower cost.

44% SAVINGS

ABOUT
INSIGHT SOURCING

Insight Sourcing is home to the largest team of dedicated sourcing experts in North America exclusively focused on procurement optimization and Procurement Value Creation™.

Our unique blend of procurement specialization, market leading Category Centers of Excellence, and proprietary digital accelerator, Insight TechAssist, has helped countless corporations and Private Equity firms develop tailored strategies to drive results.

To learn more, visit **www.insightsourcing.com**

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