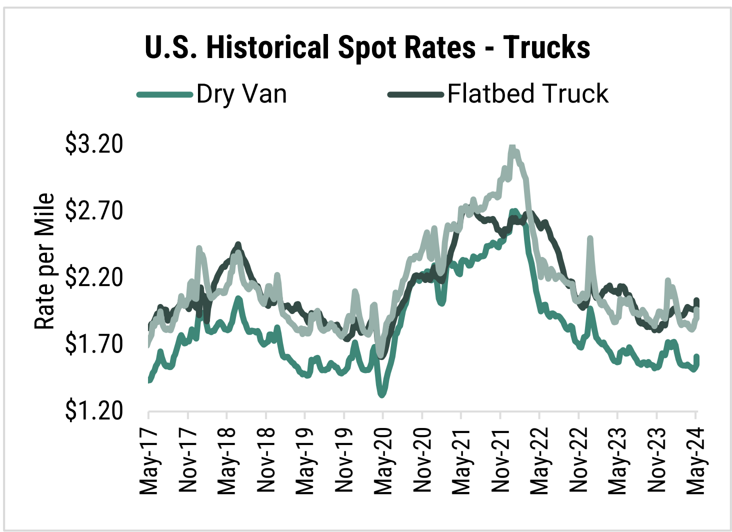
Distribution & Logistics Industry

Domestic Trucking Spotlight
October 2024

Shippers win in trucking…but for how long?

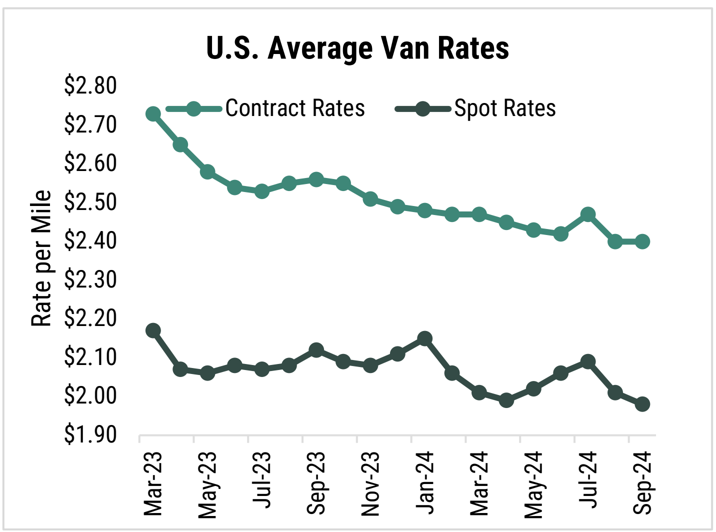
After weathering sharp increases in freight rates during COVID, rates that declined significantly in 2024 are starting to moderate or trend upwards

Spot rates through May 2024 were at near historical lows – ILA strike may impact that trend



Source: Bureau of Transportation Statistics, July 2024

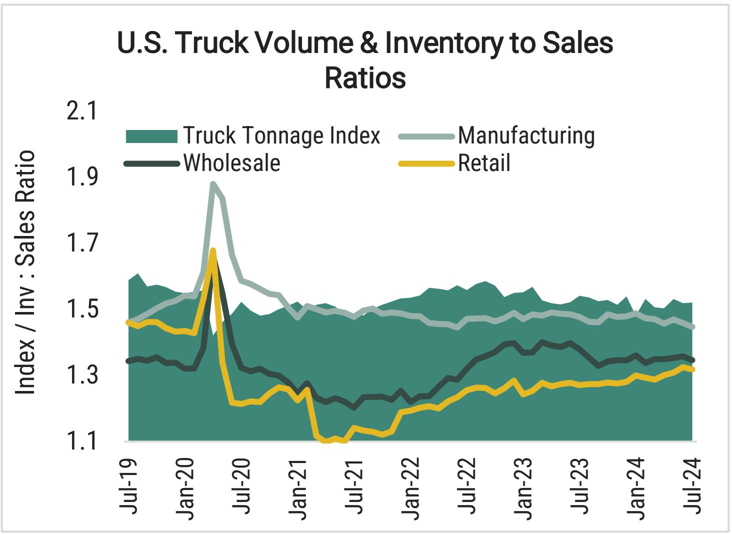
The spread between contract and spot rates is growing in 2024 which may signal future rate increases



Source: DAT

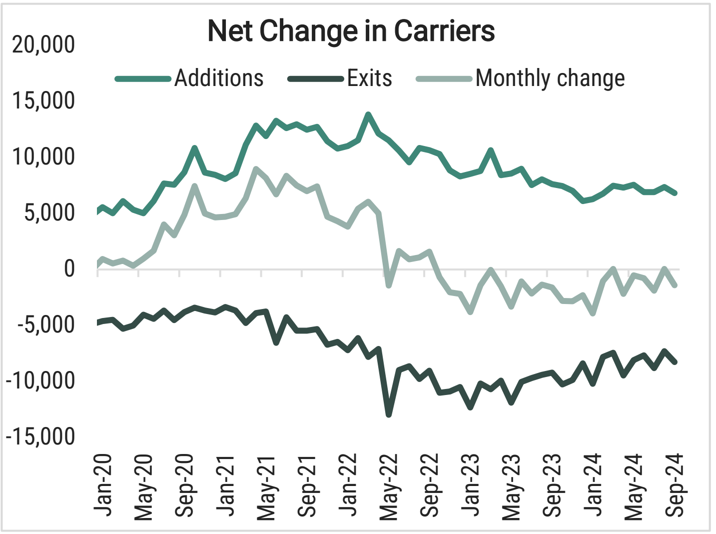
A rebound in trucking volume is yet to materialize in 2024 as supply continues to exceed demand

Trucking volume has been in decline since mid-2022 and retail inventory is well below pre-COVID levels



Source: Bureau of Transportation Statistics, ATA, U.S. Census Bureau

Low demand and other disruptions have spurred exits but capacity appears to be stabilizing



Source: FMCSA

Key industry dynamics

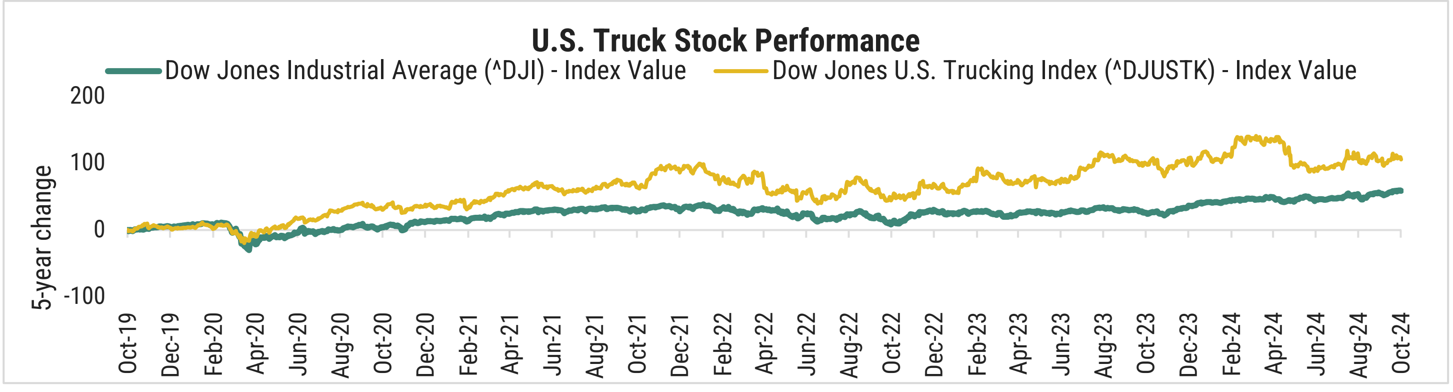
The current freight cycle shifts power back to shippers, but this is temporary, and is closely tied to improvements in the U.S. Economy

Demand for freight services is likely to remain flat for the next 4-6 months.

- Businesses have cleared their COVID inventory buildup and are managing inventory cautiously in anticipation of sustained softness in consumer spending.
- Interest rate relief may not come as quickly as hoped and impacts on capacity will lag. Housing, construction and manufacturing output will likely remain muted in the short to medium term.
- Disruptions in the Suez and Panama Canals are not expected to end soon, prolonging the slowdown in international shipping and its impact on domestic trucking.
- While the threat of East and Gulf Coast port strikes is gone, international events may disrupt shipping and the already challenged trucking industry with over 88,000 carriers and 8,000 brokers shuttering operations in 2024.

The current overcapacity will diminish as more carriers right-size operations amid the sustained slowdown.

- Given the challenges noted in the industry, the remaining players have absorbed demand without a spike in rates.
- But prolonged low demand and already thin margins are ushering in a more significant supply correction:
  - Trucking stocks are significantly down YTD, with carriers such as Werner seeing Q2 operating margins drop by as much as 58% YOY.
  - Carriers are reorganizing to improve profitability, as seen with CH Robinson's decision to exit Europe.



Source: CapIQ. The Dow Jones U.S. Trucking Index typically includes JB Hunt, Knight-Swift, Old Dominion, XPO Logistics, Schneider, Werner and Saia

Industry disruptions create opportunities and challenges for shippers and truckers alike

- **Brokers**. Digital brokers play an increasingly prominent role, bringing new capabilities relative to traditional brokerage models. Benefits include improved transportation efficiencies, pricing visibility and access to data.
- **Regulatory and Environmental Pressures**. More stringent emissions regulations force carriers to adopt operational changes and spending on fuel saving technologies to support fuel efficiency.
- **Industry Consolidations**. Continued consolidations, though at a slower pace, increase competitive dynamics and help rebalance supply and demand as smaller, more vulnerable carriers face exit risk.
- **Ecommerce**. Ecommerce growth decreases demand for larger store shipments and increases the need for smaller shipments, shifting volume from FTL trucking to TL consolidation and LTL.

Shippers should hit the gas to seize on market opportunities

Ankura estimates there to be a limited, 6–8-month window for shippers to capitalize on current market favorability. Shippers should act quickly to establish a plan for a mix of contract and spot rates. Key actions:

- **Strategic Planning**. Develop a freight allocations approach guiding the use of contract vs. spot rates.
- **Rates**. Stay on top of market fluctuations. Establish processes for regular rate benchmarking.
- **Carriers**. Build strong relationships with core carriers, while also diversifying the carrier base and mix to avoid overreliance on specific carriers.
- **Technology**. Leverage technology and consider the role of the broker to bridge technology gaps.
- **Contracts**. Review contracts regularly as market and business needs evolve. Negotiate volume flexibility and previously-negotiated spot rates based on evolving market conditions.
- **Risk Management**. Build hedging strategies and contingencies for periods of low capacity and rate volatility.

Ankura can help

Ankura's Performance Improvement Team has a proven track record of executing strategic plans to achieve sustainable performance improvement and targeted operating results aimed at maximizing EBITDA, cash flow, and ultimately shareholder value.

Our expertise extends to optimizing distribution and logistics. We work alongside clients to reduce costs and improve efficiency by streamlining inbound and outbound logistics. Our team's hands-on experience ensures cost-effective solutions for transportation modes, shipping rates, and on-time delivery.

Ankura leverages its vast internal resources to assemble the perfect team for each client's unique challenges, guaranteeing optimal outcomes for complex problems.

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