Transportation & Logistics Update

Industry Specialty Team | April 2024

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Key Macroeconomic Trends

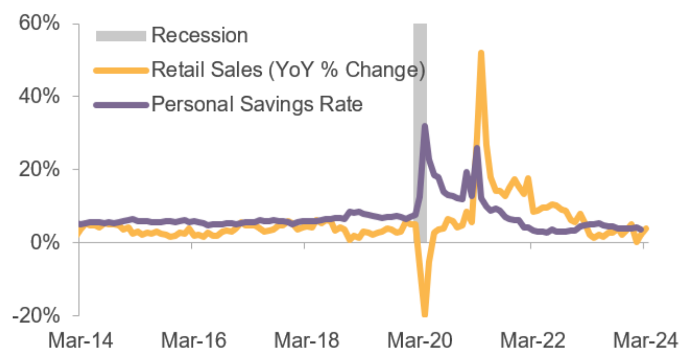
- **Consumer Spending:** Despite concerns of a possible recession and high inflation, consumer spending grew in 2023. While service spending has been the main contributor, consumers continue to spend on goods. The 2023 holiday season was strong as retail sales increased 3.6% year-over-year in the 4Q 2023. Momentum has carried over into 2024 with total sales up 2.1% in the first quarter. Consumers continue to spend on high-ticket items such as motor vehicles and parts, which are some of the largest YTD contributors to the increase in overall consumer goods spending. While wage increases have been a driver for increased spending, consumers have also shown a willingness to tap into personal savings as saving rates declined to 3.6% in February.

- **Inventory Levels:** Total inventories have returned to pre-pandemic levels, but retail inventories have been leaner. One of the most notable business impacts of the COVID-19 pandemic was the shift in inventory management. After companies felt the negative effects of supply chain disruptions, many sought to establish operations closer to their end customers and reduce excess inventories. At the same time, shippers are increasingly outsourcing logistics needs to experienced freight management companies with the ability to navigate supply chain complexities. Despite recent supply chain disruptions (i.e., Baltimore bridge collapse, Red Sea attacks, etc.), retailers are expected to continue inventory stockpiling, aligning with expectations of increased demand.

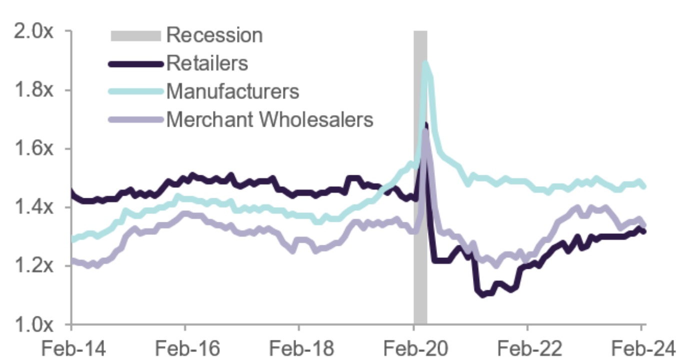
- **U.S. Manufacturing:** The ISM Manufacturing index expanded in March 2024 for the first time in 17 months. Despite headwinds in manufacturing employment and rising raw material prices, the production and new order segments of the index rebounded and led to positive readings (above 50). One of the nine industries that reported growth is transportation equipment manufacturing, as carriers appear to be gearing up for the anticipated freight market turnaround.

- **Freight Demand:** The seasonally-adjusted Cass Freight Shipments Index, a measure of the number of freight shipments across North America, declined 2.3% month-over-month ("MoM") and 3.6% year-over-year ("YoY") in March. While freight demand remains relatively soft, underlying metrics point to favorable considerations. The 3.6% year-over-year decline was the lowest YoY decline since April 2023. Additionally, the Chinese New Year started relatively late in 2024 (February 10 – 17), reducing the number of import hauls in early March. Overall underlying volumes showed improvement in 1Q 2024 as the shipments component of the index rose ~2% from 4Q 2023 (seasonally adjusted).

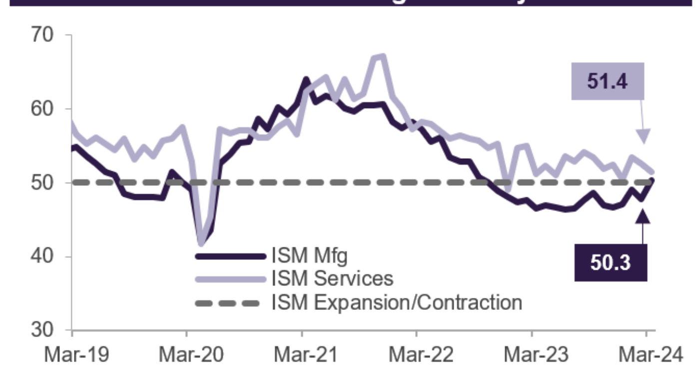
Consumer Spending Resilient



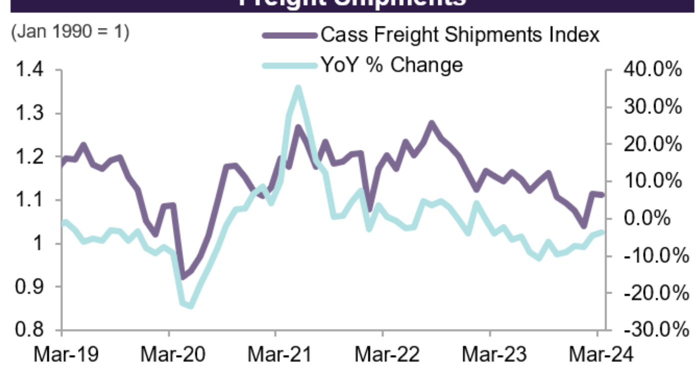
Inventory Levels Normalizing



U.S. Manufacturing Recovery



Freight Shipments



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Data updated as of 4/15/2024
Sources: *Bloomberg, Wall Street Journal, Capital IQ, Federal Reserve Economic Data, Census Bureau, Descartes Datamyne, Department of Transportation, American Trucking Associations, Company Reports, Cass Information Systems, FTR Transportation, FreightWaves, Institute for Supply Management, U.S. Census Bureau, Journal of Commerce, ACT Research, Woodwell Climate, Loadstar*

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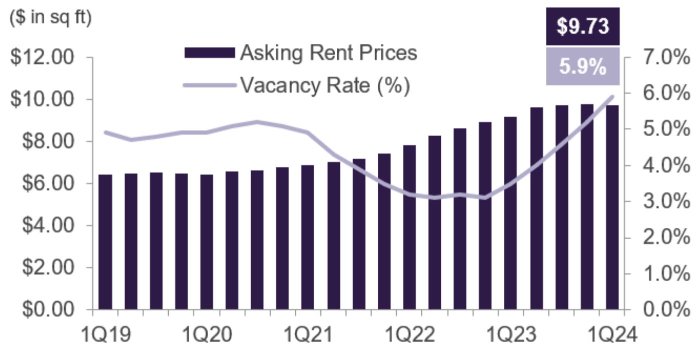
Key Themes in Transportation & Logistics

- **Industrial Storage:** Vacancy rates rose above 5% in 4Q 2023, for the first time since 4Q 2020 and continued increasing in 1Q 2024. The increase in vacancy rates is in part due to the influx of construction deliveries, which increased 14.8% year-over-year in 2023 and reached a new high as 171.8 million sq ft were delivered. After reaching a record of $9.79 / sq ft in 2023, asking rate prices decreased modestly to $9.73 / sq ft in 1Q 2024, and are expected to continue to moderate this year. Reshoring / nearshoring trends and continued growth in e-commerce are driving an uptick in demand for new industrial space as tenants pursue such opportunities.

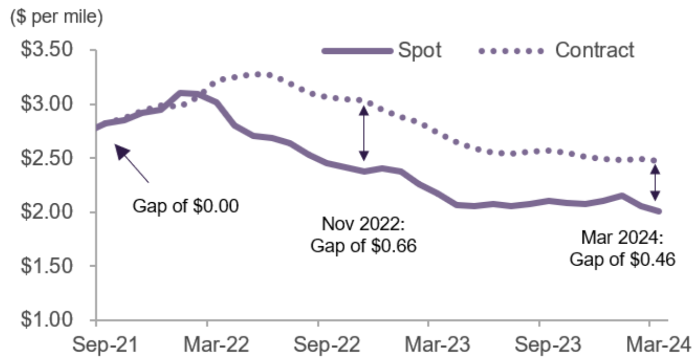
- **Truckload Market Cycle:** Domestic markets are now over 20 months into the current “freight recession”. As seen with prior downturns, the gap between spot and contract rates grew as spot rates declined rapidly. The gap was widest in November 2022 at $0.66, approximately one year following a very strong freight environment. A large influx of trucking capacity came online when pricing was elevated in 2021. While the added competition drove pricing down, demand could not maintain its record-level pace. As the gap in contract and spot rates continues to narrow, shipping costs are approaching more normalized levels.

- **Demand for Trucking Equipment:** Net orders for Class 8 trucks increased 22% YoY in 1Q 2024, and the average for the quarter was 8.8% above the 5-year average of 23,325 units. Operators continue to order new equipment despite prolonged weakness in the freight markets and current overcapacity concerns. In the current period of lower shipping prices and elevated operating costs, smaller operators continue to exit while large carriers continue to build fleets for future opportunities. While not indicative of a sharp turnaround, carriers are investing in their fleets as infrastructure programs and manufacturing reshoring/nearshoring trends are changing the landscape and creating new freight needs.

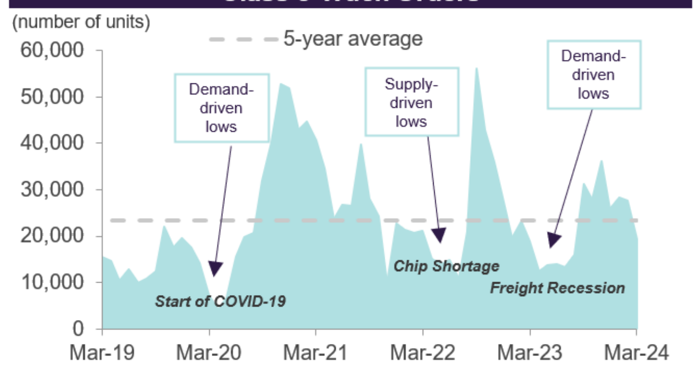
Industrial Real Estate Market



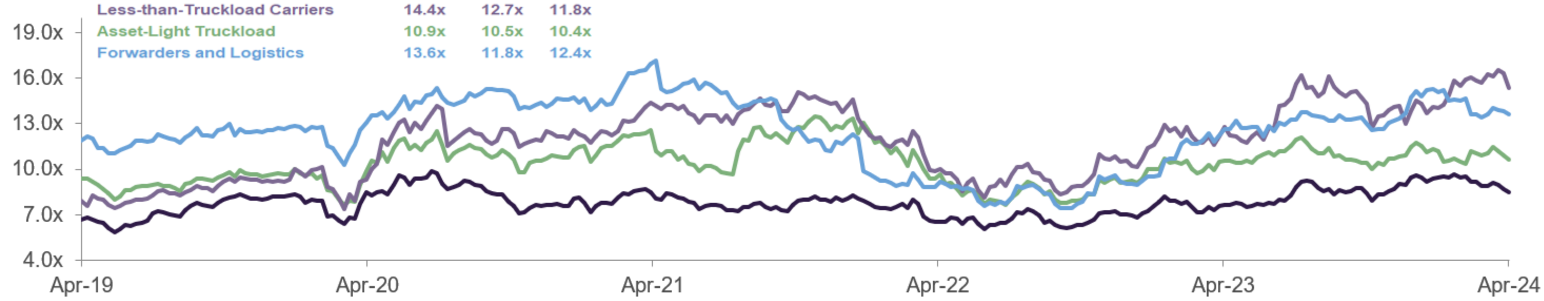
Dry Van Contract vs Spot Rates



Class 8 Truck Orders



Transportation & Logistics EV / NTM EBITDA



Average	1-Yr	3-Yr	5-Yr
Asset-Based Truckload	8.6x	7.8x	7.8x
Less-than-Truckload Carriers	14.4x	12.7x	11.8x
Asset-Light Truckload	10.9x	10.5x	10.4x
Forwarders and Logistics	13.6x	11.8x	12.4x

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Asset-based Truckload: JBHT – J.B. Hunt / KNX – Knight-Swift Transportation Holdings Inc. / WERN – Werner Enterprises, Inc. / HTLD – Heartland Express, Inc. / MRTN – Marten Transport Ltd / CVLG –Covenant Logistics Group / SNDR – Schneider National
Less-than-Truckload Carriers: SAIA- SAIA, Inc. / ARCB- Arkansas Best / ODFL- Old Dominion Freight Line, Inc. / XPO – XPO, Inc. / TSX: TFII – TFI International Inc.
Asset-Light Transport: LSTR – Landstar Systems, Inc. / FWRD – Forward Air Corp. / HUBG – Hub Group / GXO – GXO Logistics, Inc. / ULH – Universal Logistics Holdings, Inc.
Forwarders and Logistics: CHRW – C.H. Robinson Worldwide, Inc. / EXPD – Expeditors International of Washington, Inc. / RXO – RXO, Inc. / SWX: KNIN – Kuehne + Nagel International AG

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U.S. Maritime Transportation Updates

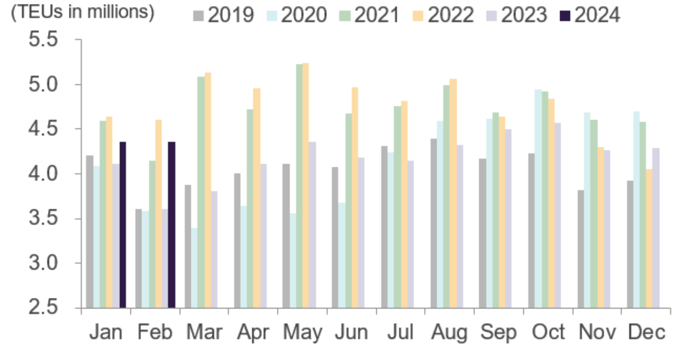
- **Container Volumes:** U.S. container port volumes have surprised to the upside in the first two months of 2024 - Los Angeles (+35% YoY), Long Beach (+21%), Houston (+12%), Oakland (+9%) and Savannah (+8%) had the largest increases in total twenty-foot equivalent units ("TEUs") amongst the major U.S. ports. Inventory restocking and increased trade from Asia have been significant drivers. Ocean carriers have since launched services in trans-Pacific and north-south routes that are new or were previously suspended amid low rates. U.S. consumer spending and Asian exports to North America are expected to remain strong in the second half of 2024.

- **Ocean Container Shipping Prices:** The World Container Index ("WCI") finished the first quarter slightly below $3,000 per forty-foot equivalent units ("FEU"). While down from the peak in January 2024, shipping rates are still double the average 2023 rates. Benchmark rates from Asia to the U.S. increased even more than the WCI Composite as demand has been stronger for those lanes. Global trade expansion along with Red Sea disruptions and the Panama Canal drought have led to a sharp increase in ocean shipping prices.

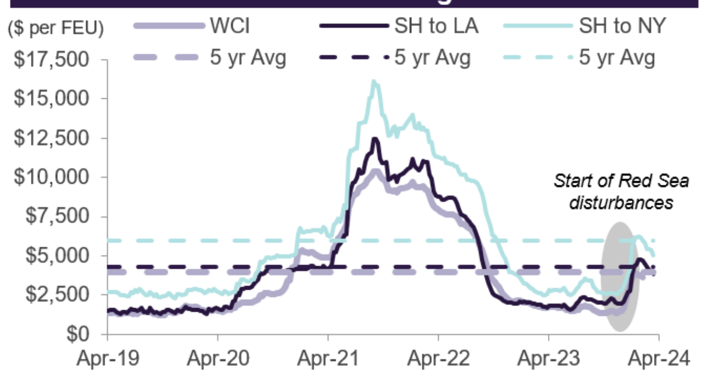
- **Disruptions at Major Trade Waterways:** The Red Sea attacks have caused ocean carriers to divert their routes and container shipments are now taking 10-14 days longer on average. After a prolonged drought, water levels at the Panama Canal are expected to rise and vessel crossings should return to normal levels in the coming months. It is estimated that canal transits are currently at ~60% of where they were in 2022, while product tankers and container ships are near ~90% of normal activity.

- **Labor Contract Negotiations:** The current labor contract between East Coast port representatives and the East Coast dock workers union, International Longshoremen's Association ("ILA") is set to expire in September. Negotiations have been on hold for months, causing concerns of potential work stoppages at covered ports when the contract expires. Retailers may consider pulling forward their peak season freight to avoid potential issues in October, or some traffic may shift to the West Coast if negotiations deteriorate.

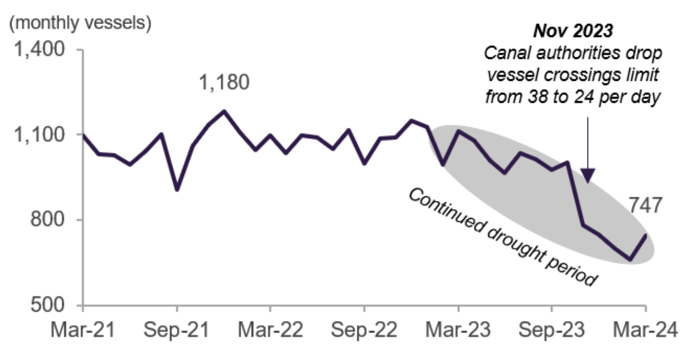
Port Volumes at Major North American Gateways[1]



Benchmark Ocean Freight Rates



Vessels Crossing the Panama Canal



Baltimore Bridge Collapse

- On March 26th, a containership crashed into the Francis Scott Key Bridge causing it to collapse. The bridge was located at the waterway entrance of the Port of Baltimore, and the collapse has caused temporary disruptions to cargo shipments.
- Port of Baltimore is the 12th largest container port in the U.S. and largest U.S. port for roll-on roll-off cargo ("ro-ro"), which includes autos, trucks, farm equipment and construction machinery.
- The majority of the container freight originally destined for Baltimore prior to the port's closure has been diverted to terminals at Norfolk and New York-New Jersey.
- The Port of Baltimore is preparing for limited reopening by the end of April and a full reopening to vessel traffic by the end of May. The 35-foot channel opening in April will allow some roll-on/roll-off vessels to resume calls at Baltimore.

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(1) Container ports included: Los Angeles, Long Beach, New York/New Jersey, Savannah, Vancouver, Seattle/Tacoma, Oakland, Virginia, Houston, Charleston, Prince Rupert, Jacksonville, Baltimore