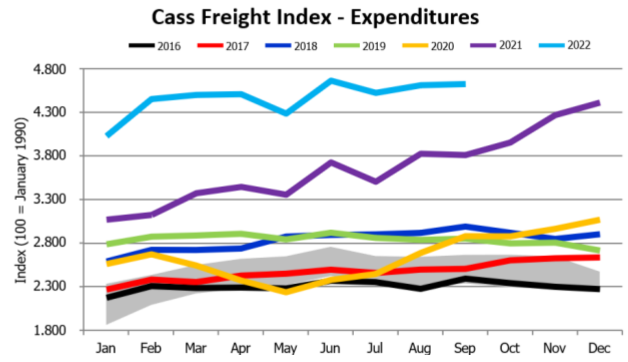
GROUND MARKET UPDATE

October 2022

CURRENT STATE

During a QBR with a large retail shipper, we discussed the "Current State" of domestic ground. Our contact noted that TL capacity continues to loosen, and she is getting more inbound calls from asset-based carriers looking for more freight. This shipper recently completed TL/intermodal bids, and overall rates declined 10%, at the lower end of her expectations of 7%-10%. Within this, intermodal rates held flattish, and over-the-road TL rates declined over 10%. As a result, this shipper will shift about 3% of the impacted business from intermodal to TL. And since incumbent intermodal providers have been unwilling to lower rates, this shipper plans to add new intermodal providers in upcoming bids to help secure lower rates. Meanwhile, on the LTL side, our contact postponed her bid a few months ago since her LTL volumes are down nearly 30% year to date, mainly due to TL consolidation. As she goes to bid with less freight, our contact plans to diversify her LTL carrier base by adding a few more regional carriers to the bid. As a result, our contact now expects her LTL rates to come down a bit next year. Finally, this shipper discussed supply chain congestion and inventory trends. Looking at 2023, this shipper believes her total freight spend will be much lower, with expectations for lower rates, fuel surcharges, and volumes.

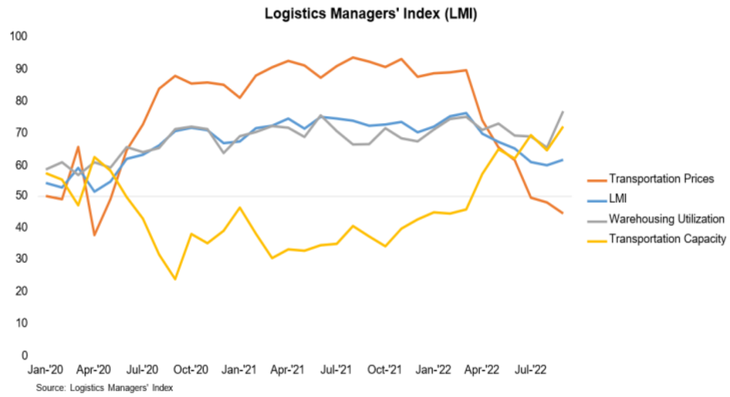


Total freight expenditures in September were +21% year over year, with volumes +5% and implied price/mix +16% year over year. On a month-over-month basis, like-for-like pricing appears to be unchanged as a rise in fuel price and seasonality. While prices likely remain inflationary year over year in 2022 across most modes of transportation (parcel, LTL, rail, airfreight/ocean), we see disinflationary trends and expect deflation in 2023 led by the truckload (TL).

MARKET FORECAST

For-Hire trucking Ton-Mile index analysis. Implication: many folks claim that trucking freight is a leading economic indicator. Though some tend to disagree since trucking activity represents derived demand from manufacturing, mining, wholesaling, retailing, and warehousing, the TTMI data for August makes clear that the U.S. economy is almost assuredly not in a recession. You don't have year-over-year ton-mile increases of 3% during a recession. Also, in 2019, ton-miles declined by ~1% from 2018, which is consistent with an actual freight recession. We are not in one of those (yet).

Trucking gives mixed signals on clues to a possible economic slowdown. Pitt Ohio Executive Vice President and Chief Marketing Officer Geoffrey Muessig said that LTL freight demand softened in the third quarter and LTL demand in 2022 is not quite as strong as it was in 2021. "However, it needs to be noted that LTL carriers experienced red hot demand for their services in 2021," Muessig told analysts. "We're busy, and demand for our LTL service is strong in 2022. Most LTL drivers continue to work overtime weekly since driver availability is still restricted." As for economic expectations in 2023, Muessig said they "are all over the board." He noted that some shippers expect business levels to remain strong, while others are planning for a shallow drop in shipment count. "Very few of our shippers have voiced concern about a steep recession to me," Muessig said.



Transportation prices on the Logistics Manager's Index (LMI) moved further into contraction territory (a reading above 50 indicates expansion, and below 50 indicates contraction), likely led by declines in TL spot market rates. With slowing demand, transportation capacity improved, and the overall index expanded.

U.S. supplier prices increased in September, maintaining inflation pressure. Some economists say the impacts of interest-rate increases can take time to show up in the economy, a dynamic that the Fed should consider when making decisions. For example, wholesale prices of used cars have been dropping in recent months, but that shift isn't yet fully reflected in government figures.

INDUSTRY INSIGHT

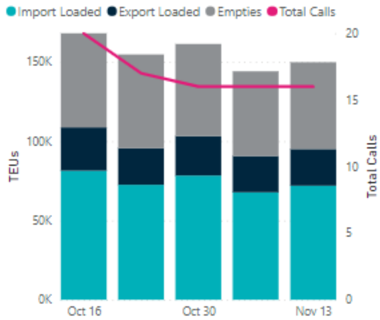
The Port of Long Beach currently has nine container vessels at berth and one container vessel at anchor within 40NM destined for POLB's marine terminals. The average at anchor is one day.

WAVE
Weekly Advance Volume Estimate

Port of LONG BEACH
THE PORT OF CHOICE

PROJECTED WEEKLY VOLUME (TEUS)

Week	Date	Import Loaded	Export Loaded	Empties
43	10/16/2022	81,437	27,337	59,338
44	10/23/2022	72,543	23,037	59,158
45	10/30/2022	78,374	24,830	58,155
46	11/06/2022	67,789	22,880	53,466
47	11/13/2022	71,966	23,130	54,755



PROJECTED VESSEL CALLS

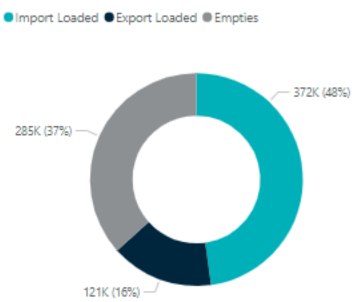
Week	Date	Blank Sailings	Extra Loaders	Planned Calls
43	10/16/2022	2	0	22
44	10/23/2022	1	0	18
45	10/30/2022	1	0	17
46	11/06/2022	0	0	16
47	11/13/2022	1	0	17

ESTIMATED CONTAINER MOVE TYPES (TEUS)

Week	Date	Import Local	Import On-Dock	Import Off-Dock	Export Local	Export On-Dock	Export Off-Dock
43	10/16/2022	59,287	20,166	4,483	22,595	7,685	1,708
44	10/23/2022	54,571	18,561	4,126	20,797	7,074	1,573
45	10/30/2022	56,906	19,356	4,303	21,687	7,376	1,640
46	11/06/2022	50,832	17,290	3,843	19,372	6,589	1,465
47	11/13/2022	52,847	17,975	3,996	20,140	6,850	1,523

ESTIMATED EXPORT AND EMPTY RETURNS (TEUS)

Week	Date	Export Loaded	Export Empty
43	10/16/2022	27,337	56,457
44	10/23/2022	23,037	56,644
45	10/30/2022	24,830	55,324
46	11/06/2022	22,880	50,952
47	11/13/2022	23,130	51,924



AVERAGE TERMINAL GATE TURN-TIME (MINUTES)

Terminal	Day Shift	Night Shift
Pier A	34	20
Pier C	22	22
Pier E (LBCT)	29	31
Pier G (ITS)	64	51
Pier J (PCT)	65	47
Pier T (TTI)	70	57

Average turn-times vary by terminals, and based on terminals' data from the previous week

Revised 10/10/2022

Port leaders to meet amid rapidly changing environment. During the sea change in the industry, the Port Authority of New York and New Jersey overtook the ports of Los Angeles and Long Beach as the nation's busiest. "New York is, you know, now the biggest cargo port in the country," Connor said. "There is some hedging going on by importers who rerouted cargo that probably historically has gone into Southern California or other gateways, and they've rerouted it to East Coast ports. The expansion of the Panama Canal in 2016 is another factor why cargo is picking up on the East Coast. But Southern California has an advantage in terms of its location and many economic and logistics benefits.

Choked-up yards and trailer shortages box in America's truckers. The surge in goods has been driven by the consumer buying binge that started early in the pandemic and left retailers like Walmart Inc. and Target Corp. scrambling to get goods across the Pacific Ocean and into stores. That rush has dissipated as consumer shopping has shifted this year, with more spending on travel and other services, and the shipping volumes have started receding at seaports. But the furniture, apparel, athletic equipment, and other consumer goods rushed into the market are still in distribution pipelines as bottlenecks continue to ripple across the inland landscape. The backups at warehouses and freight yards in the densely packed Chicago region have broken the fragile balance between the flow of goods and the movement of the trucks, containers, and trailers that undergird the freight economy.

INDUSTRY INSIGHT

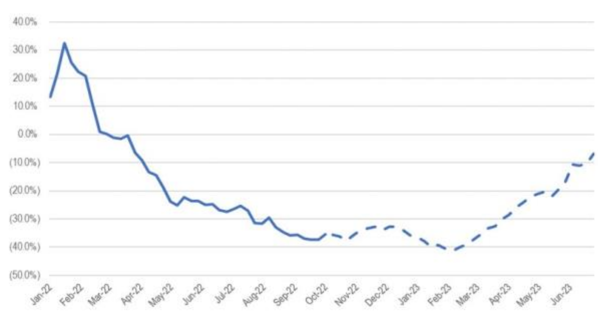
Brokerage solution to California's AB5 rule gets support from Cowen panel. The brokerage model for complying with California's AB5 got another vote as the most viable solution in a research note published by Cowen transportation analyst Jason Seidl. Seidl held a private roundtable discussion with unidentified executives who are likely to be affected by the state's restrictive law on independent contractors and an attorney. After the roundtable, Seidl published his report backing the brokerage model, in which a trucking company transitions to mainly being a brokerage and brokers freight into independent owner-operators. But those independent owner-operators would need to get their authority and insurance if they are now driving under the banner of a company providing those necessities.

Per interviews by a Wall Street analyst, after spot rates fell sharply starting earlier this year, carriers have seen brokers and 3PLs aggressively reduce rates in recent months. As a result, many customers are beginning to come back and ask for lower rates. So far, rates have dropped by around 5% on average. Meanwhile, demand remains poor with a very muted peak season as large retailers still have lots of excess inventory to burn through. Looking out to next year, carriers are concerned about ongoing cost inflation as new truck prices for next year are up 10% (the most significant increase he has ever seen). That said, trucking employment data has started to fall sequentially, hopefully, a sign that capacity is beginning to exit the market. In addition, driver availability is much better now, so many carriers are hoping they will not have to raise driver wages again from here. So, they are planning for rates to fall around 5% next year and overall costs to be up slightly due to higher equipment and maintenance costs. This should be offset by some improved efficiencies next year, but carriers think that margins could be cut in half next year.

Some industry analysts are "Bullish" on domestic full truckload spot rates… They are projecting truckload spot rates to start increasing in a meaningful way in Q2 2023.

The Bull Case on TL – Nearing a Bottom in TL Spot Rates Y/Y

Absolute TL Index vs. Spot Rates



Driver recruitment is strong despite the uncertain economy. "What this means is that capacity is not exiting the market due to failures or bankruptcies, but instead, it's just a relocation of capacity from owner-operators to fleet," Danaf said. "Many of these larger fleets are not operating in the spot market, and they're operating in the contract market, and that's why they do not see any demand reduction. They see the opposite: an increase in demand this year, and that's why they're continuing to hire drivers.".