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# 2022 Q3 Market update & outlook

September 2022

# Market update & outlook

## Executive summary – 2022 Q3

### Macro economy

- Consumer spending stagnating
- Early signs of weakening in manufacturing
- Trucking employment strong

### U.S. – less-than-truckload

- Capacity availability increasing
- On-time service KPIs improves
- Record Low Operating Ratios

### Europe

- Very tight capacity in 2022Q2
- Ukrainian drivers leaving Europe
- Selective carrier base amidst strong pricing

### U.S. – truckload

- Spot and contract rates falling
- Route guide performance improving
- Class 8 trucks entering market

### U.S. – bulk

- Specialized equipment shortages persist
- Slight drop in spot rates, contract rates hold
- Lower driver turnover

### Mexico

- Laredo Load-to-Truck at 3.5 vs 100 in 2022Q1
- 15-35% Rate increases YoY
- Significant near-shoring activity

### U.S. – intermodal

- Drayage capacity improves
- Rail speeds at 4-year lows
- Congestion improving at terminals

### International

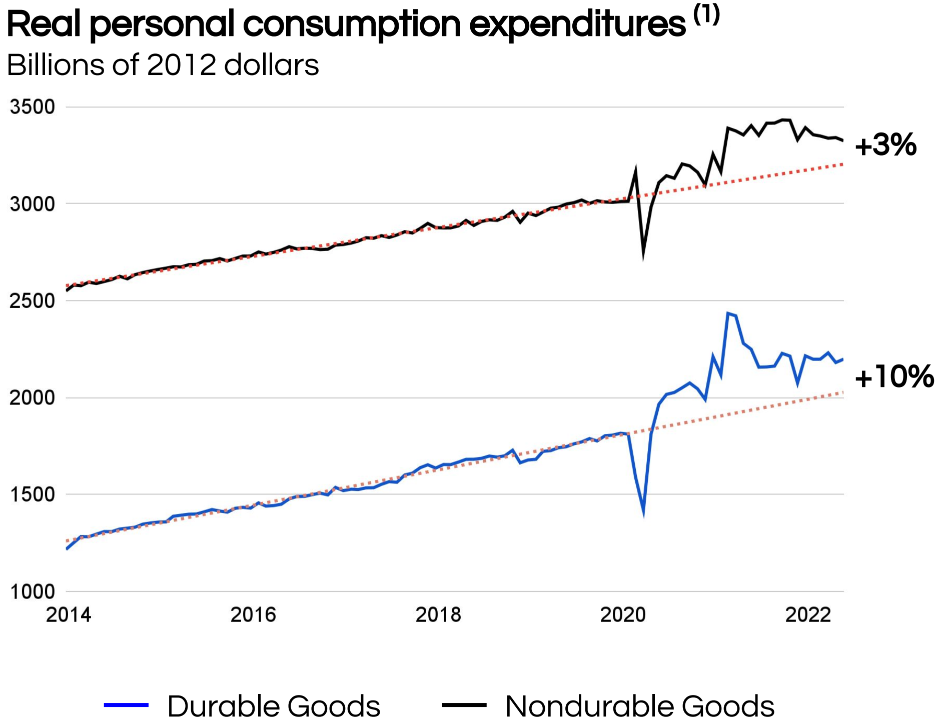
- China lockdowns driving use of alternate ports
- West Coast vessel queue lowest since 2021
- West Coast dwell increased 76% YoY
- Major shift to East Coast ports

### Canada

- Softening capacity after a very tight 2021
- ELD mandates starting 2023
- Multi-decade high inflation

# Macro Economic Update

# Consumer spending stagnating and reversing back to its long-term trend




[1] US Bureau of Economic Analysis

- Real spending on durable and nondurable goods are still above their long-term trends.
- However, starting to trend down following lower personal savings and plummeting consumer sentiment.
- The personal saving rate was 5% in July, its lowest level since 2009.



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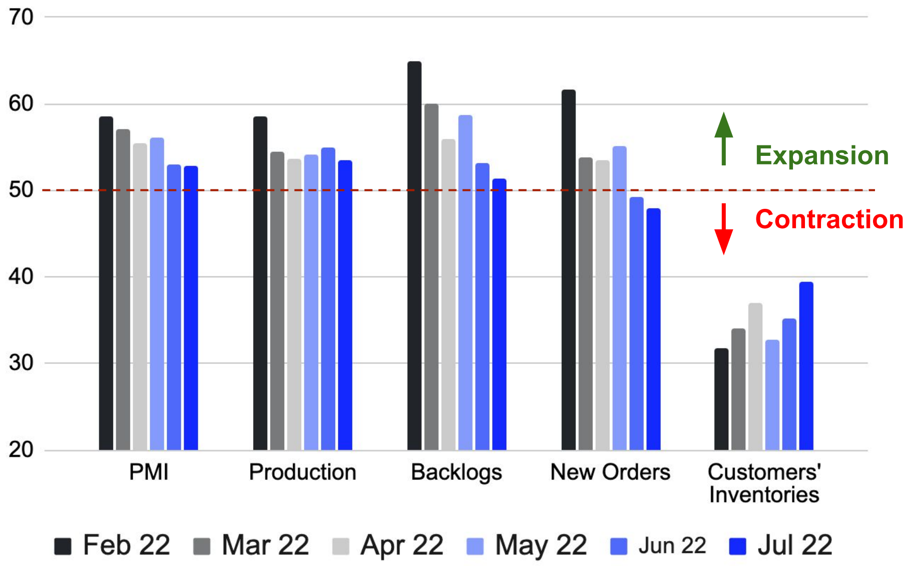
# Manufacturing had a strong year, but started to show signs of weakness

## ISM Manufacturing PMI [1]

Values above 50 imply expansion and below 50 imply contraction

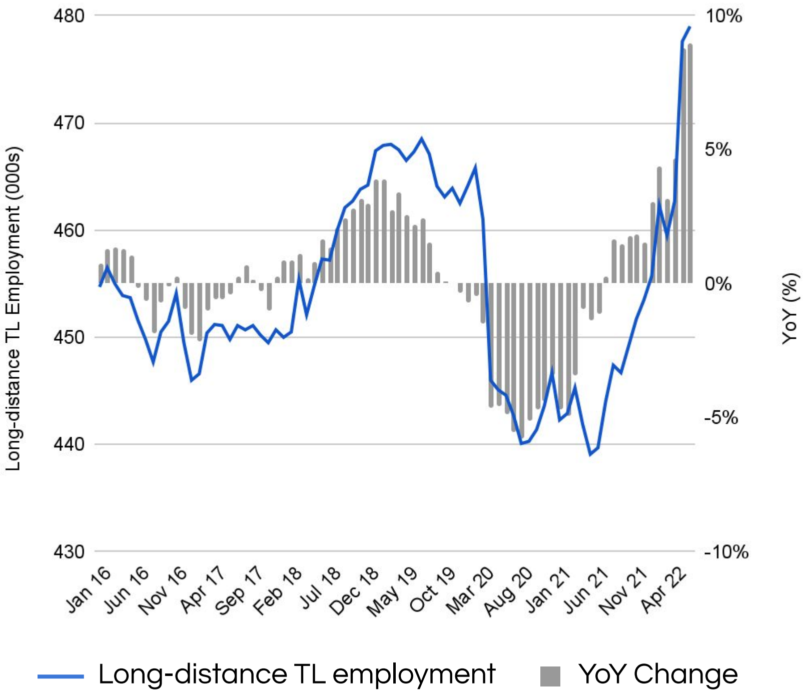



[1] Institute for Supply Management; [2] Federal Reserve

- Manufacturing continued to decelerate as new orders contracted for the second month in a row (48), and order backlogs dropped.
- This indicates that manufacturing demand might have already peaked, and started to decline.
- Despite this recent deceleration, manufacturing output in July was still 3.2% higher than a year earlier.[2]

# Supply continues to expand as the market adds more trucks and drivers

## Long-distance trucking employment [1]

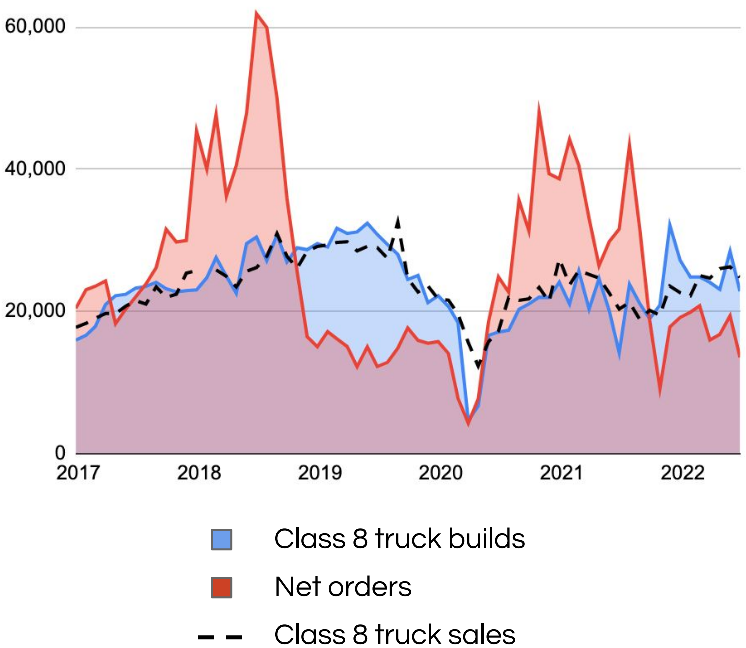



[1] Bureau of Labor Statistics, , [2] FTR Intel

- Long-distance truckload employment added 1.4K jobs in June after a record increase of 14.9K jobs in May.
- Employment is now 9% higher than a year ago.
- Many of these are O/Os enrolling with larger carriers as company drivers.
- However, as of July, the number of new motor carrier authorities granted still exceeded the number of net revocations,[2] indicating that new capacity is still entering the market.

# Supply chain constraints starting to ease, and trucks are hitting the market

## Class 8 truck orders, builds, and sales [1]




(1) ACT Research

- Supply chain constraints are starting to ease: Class 8 truck production in the first 7 months of 2022 was 17% higher than a year earlier.
- However, net truck orders were 50% lower, as the softening spot market discouraged carriers from committing to more equipment.
- Truck order backlogs decreased by 28% since their peak in Sep'21.
- While carriers had to wait for more than 12 months to receive their trucks in 2022, lead time decreased to 8-9 months in June-July.



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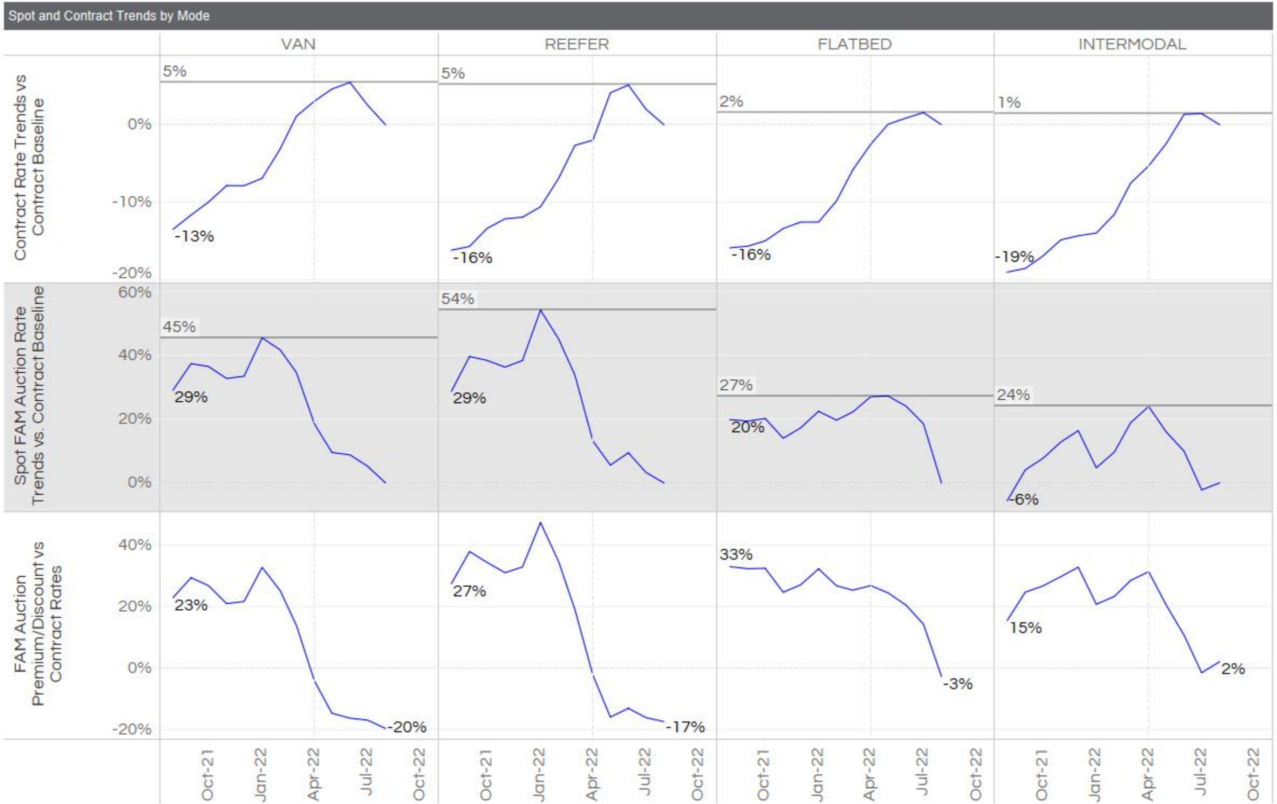
# U.S. Full Truckload

# Network trends

August 2021 To August 2022




## Rate trends

- Contract Trends and Spot FAM Auctions showing falling prices in 2022Q3
- Contract Rates down 5% from Q2 Van/Temp
- Van/Temp FAM Spot Auction Rates down 45%/54%
- Discounts in FAM at -20% and -17% for Van/Temp modes for August



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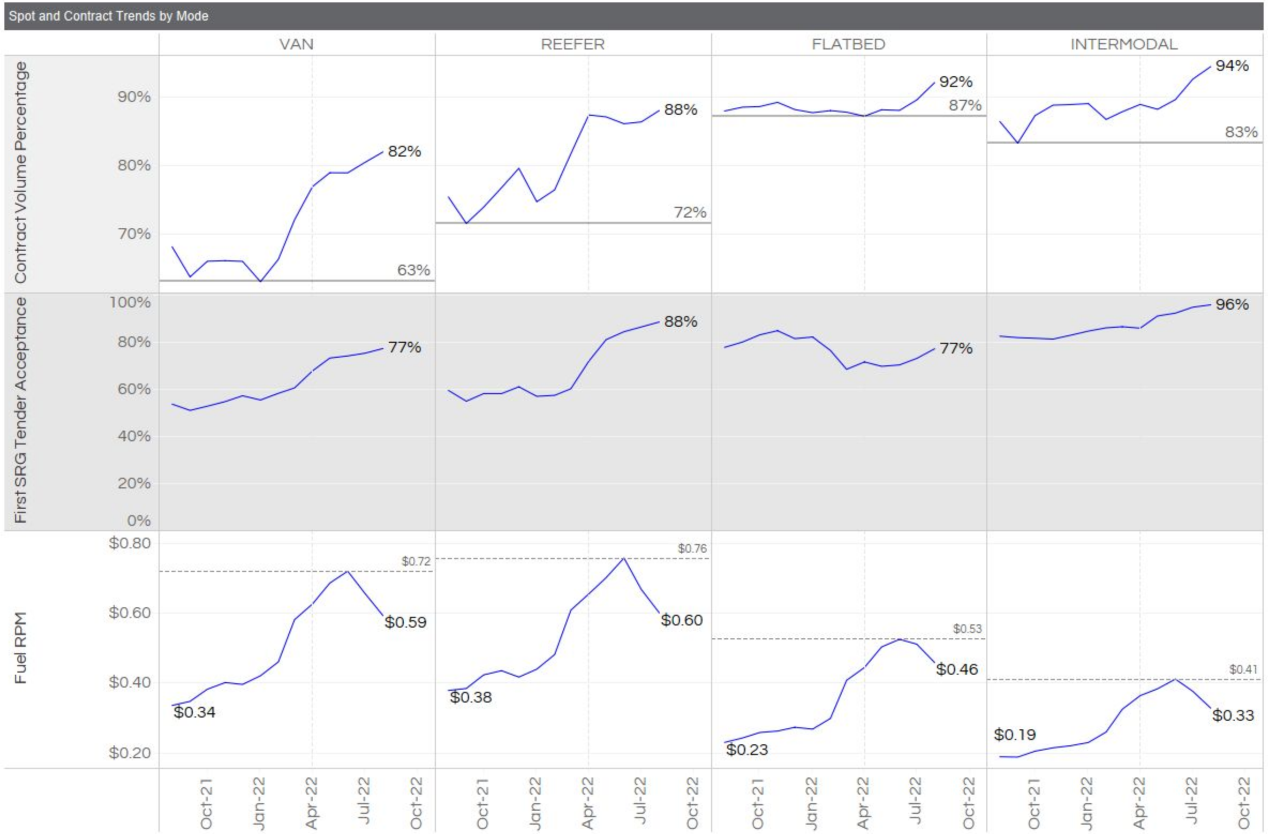
# Network trends

August 2021 To August 2022




## Route guides

- Contract enabled volumes showing significant improvement YoY for Van/Temp/IM/Flatbed
- Improved First Tender Accept Ratios in Dry/Temp/IM. Flatbed highly cyclical.

## Fuel

- Fuel costs trending down off May-2022 peaks



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# Carrier sentiment

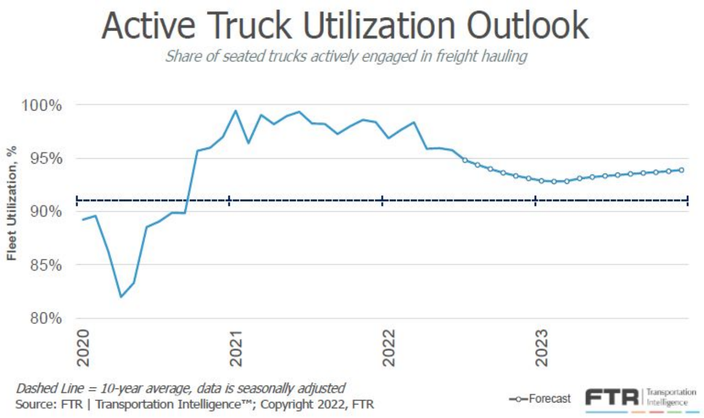
FTR forecasted active truck utilization (seated trucks, engaged in hauling freight) is weaker than in the prior outlook and bottoms out under 93% early in 2023 before starting to recover

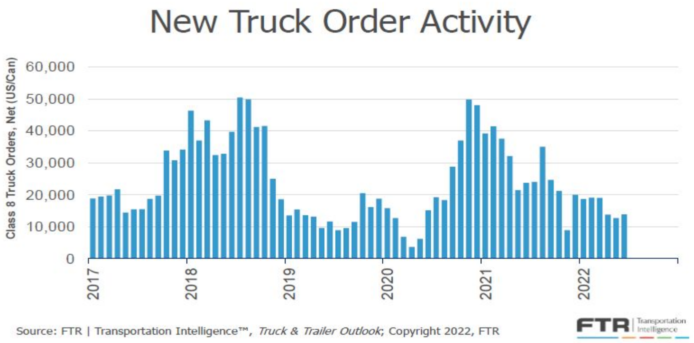
Class 8 production has increased by 20+% per day as manufacturing began to see supply chain constraints ease

- US Retail sales increased to their highest level in the past six months but still remained well below prior-year levels
- Trailer orders increased 32% month over month
- Average wait time for new truck fell from 10 months to 7 months

Carriers are now bidding on more volume than in the previous 18 months while searching for opportunities and ways to get and retain drivers and improve operating ratio

- Home time for drivers continues to be a priority while balancing productivity
- For-hire trucking added greater than 4000 jobs in June
- Smaller owner operators canceling agreements and turning in trucks due to high trade in value



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# Cost and capacity pressures easing

Executive summary: supply loosening while demand levels off leading to easing of cost pressures

## Rates ⬇

- Contracts continue to drop through RFP process
- Spot rates have, in pockets, stabilized
- Continued pressure in incumbent carrier pricing as shippers look for cost savings
- Fuel has retreated thus releasing some cost pressure
- First tender accept has significantly improved into the 88% range as demand as retreats
- Insurance cost, in the US, continues to rise resulting in significant impact to carriers (mostly niche and regional carriers)

## Supply ⬆

- New class 8 orders increasing
- Orders likely to subdue through rest of summer
- Used Class 8 pricing are starting to moderate
- Trailer orders increased month over month. Orders starting for 2023
- Drivers still a bottle neck around recruiting, training, onboarding
- Lead time for new trucks has decreased as supply chains catch back up
- Supply of truck components increasing but still impacting new builds

## Demand ⬌

- Demand cooling but remains still above 2020 average
- Realignment of industry level demand creating significant imbalances across national flows
- Housing starts have fallen sharply although above 2019 average
- ISM PMI index to 53.0, which is lowest since June 2020
- RFP's continue to be pulled forward in effort to capture savings and introduce new carriers
- Shippers still largely staying with 1 year terms on RFP's but open to pre-negotiation and different terms with core partners

## Labor ⬆

- Trucking jobs gained in June/July
- Largest gain is in the general freight truckload segment which parcel and local experienced a slight decrease although still well ahead of pre-pandemic levels
- Employment, for the overall economy, continues to grow at a consistent rate
- Independent contractors with 1-5 trucks closing doors and turning in trucks due to high trade value
- Shift continues in long-haul drive base to short haul more desirable work for the drivers

## Policy ?

- AB5 impact in California and potential for other states to follow suit
- Supreme Court declines to hear negligence lawsuits where brokers would be held liable
- Policy change at FMCSA for first time positive hair follicle testing
- Cullum Owings Large Truck Safe Operating Speed Act which would introduce speed limiters (65 mph) continues to linger in Senate



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# Contingencies for uncertainty

Planning and reacting to your network is **key**

**Performance measurements**

- Conduct frequent, detailed route guide performance assessments
- Work collaboratively with carriers to create trip wires to drive agility into the routing guide
- Continuously monitor critical KPI's
  - Primary Tender Accept by carrier, lane, endpoints and business units
  - Spot inflation by carrier and lane
  - On-time metrics for pickup or delivery
- Take advantage of current spot market on lanes with poor primary service

**Increased carrier compliance, accountability and remediation**

- Continuously set KPI expectations with core providers
- Identify root cause of service failures and Primary Tender Acceptance tracking
- Embark on creating smoother, more predictable flows through better collaboration with vendors or customers where possible

**Reduce tactical procurement cycle time**

- Develop efficient market rate collection/implementation processes to correct failures
- Cultivate partnerships and reward key partners
- New bid strategies – gap bids to capture potential savings and new carriers, performance
- Challenge out-of-market rates
- Start process as soon as possible to source seasonal/peak capacity planning and set realistic expectations with partners

**Focus on relationships with strategic carriers**

- Support the driver base by minimizing time at the dock, trailer turns,
- Provide amenities such as parking and restrooms, communicate to employees the importance to the drive base
- Tender with as much notification as possible
- Support productivity and reduction of empty miles
- Honor key partner commitments

# Voice of the Carrier (VOC) - 2022 Q3

## Market insights

- Spot rates have dropped sharply, with contracts rates lagging the sharp drop but savings are occurring
- First tender acceptance continues to rise
- Percentage of award turn-backs have followed the downward trend in contract. Returning to early 2020 levels
  - Pockets of carriers still being selective to protect the operating efficiencies that were gained during market tightness

## Carrier reactions

- Carriers still very sensitive to quality of shipper
  - This includes on-site amenities, efficiency of loading & unloading, general treatment, etc.
- Equipment cost pressures easing as supply chain loosens up but still at an all-time high
- Subset of carriers increasingly pushing for accessorial changes included updated fuel schedules and trailer utilization

## Procurement (shipper)

- RFP results continue late Q2 trend of favoring shippers
  - Carrier participation is trending upward. Receiving an average of 45 bids per lane
- Speed to market remains a pressure point. Shippers want to capture savings and carriers want to lock volume into their networks
- Work to secure a broader carrier base and secure new capacity providers. Want to extend relations ahead of market changes
- Customers continue to evaluate low volume strategy via spot or a real time model with a single sourced provider



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# U.S. Intermodal

# Key factors impacting supply

### Dray Capacity

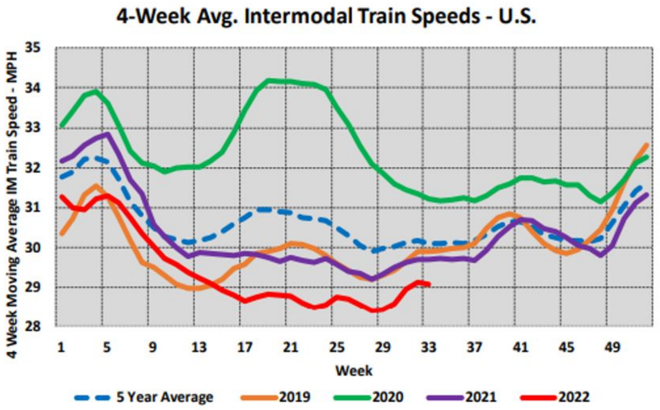
- Dray capacity availability has improved in most metro areas.  There has even been availability for some of what had been the harder to serve volume such as the long regional drays.
- AB5: The final implementation of AB5 in California has not had an adverse impact on available capacity to this point.  Many of the drayage companies had already adjusted their business models to account for it.

### Railroads/Equipment

- The railroads all continue to hire staff to handle the demand they face across their networks.  They have started to add train starts on some higher volume lanes.
- Intermodal providers have continued to add containers at a rapid rate.  The added capacity is expected to exceed 40K units.
- The average equipment street dwell time continues to be elevated across the intermodal network.  This is having a negative impact on equipment utilization and it is negatively impacting the ability for the intermodal providers to fully realize a growth in volume from the added capacity.
- In most years, peak season allocations and surcharges start to be rolled out in the third quarter.  That has not happened as of the middle of August and most providers will likely hold off on doing anything this year until at least the second half of September.
- The metro areas where providers are having the most difficult time supplying equipment include: Charlotte, Memphis, south Texas, Mexico.

### Rail Service

- Intermodal train speeds continue to trend below the 5-year average.  That said, the network fluidity continues to improve as does congestion at the rail terminals.  As of the middle of August, there is not any lane metering in place for any of the railroads.



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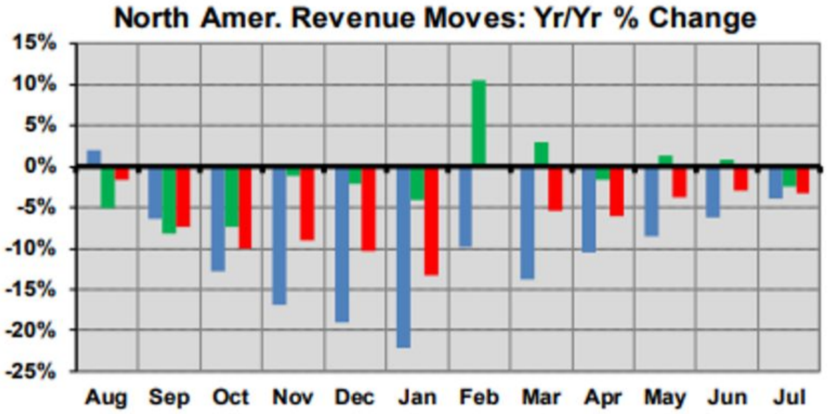
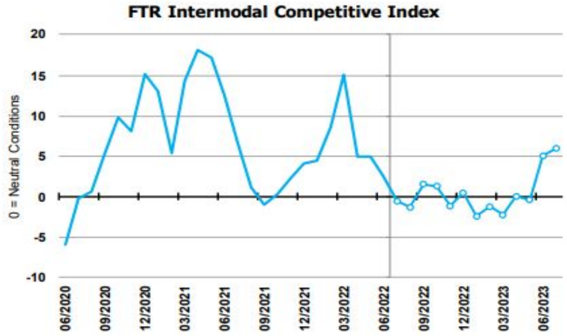
# Key factors impacting demand

- With the exception of February, which was due to the impact of weather events in February 2021, total intermodal volume has been down year over year in each of the last 12 months.
- Over-the-road capacity has been more readily available over the last few months. Over-the-road spot rates and tender rejection rates have dropped significantly. Shippers locked up contract capacity during bid season. Volume has shifted back to over-the-road, especially where shippers need the faster transit time.
- Imports have remained strong across all ports. There has been a shift of volume from the West Coast ports to the east coast ports. This has a negative impact on the cross-country intermodal volume.
- As the demand for international boxes eases, the equipment providers are more willing to allow boxes to go direct to customers at inland locations. This is reducing the demand for transloading and it will negatively impact the demand for domestic intermodal.
- As 20' and 40' equipment increases at inland locations there will be more availability for westbound loads. That said, there is still hesitancy to shift volume back to the small boxes due to the risk of congestion at the railroad terminals and ports. The situation has improved overall in Oakland and Portland, while challenges still exist with many of the equipment providers for the LA and Seattle markets.
- Although diesel fuel prices have started to ease, the elevated costs for over the road providers along with the drop in spot rates could lead over-the-road capacity to exit the industry.
- Longer-term supply issues for over-the-road will drive volume to intermodal.

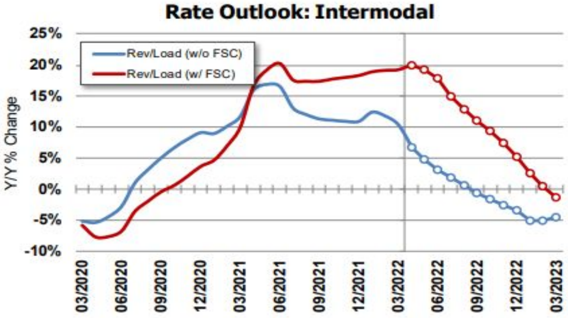



Sources: IANA ETSO, GTC Analysis; Copyright GTC 2022

# Current pricing impact, outlook and recommendations




Source: FTR; Copyright 2021




Source: FTR; Copyright 2022

**Intermodal Competitive**

Intermodal's competitiveness is expected to be neutral until the middle of next year as falling diesel prices and poor rail service combine to dent overall competitiveness.

*The Intermodal Competitive Index provides an indication of Domestic Intermodal's competitive stance versus over-the-road truck.*

**Intermodal Rate Outlook**

The pace of intermodal rate declines accelerated a bit in the latest month, but largely remained on the same trajectory as prior months. The expectation remains that rate increases will be flat by the fourth quarter and turn negative early in 2023.

- **Overall:** Intermodal providers have continued to pass along cost increases from vendors as well as the cost increase tied to higher diesel fuel prices.
- **Railroads:** Similar to over-the-road, the railroads have followed suit and they have made significant reductions to their spot rates, especially on backhaul lanes. That said, also similar to over-the-road, contract rates have held on events that were previously completed. For new renewals and RFPs, they have still been taking rate increases, ranging from 3% into equipment deficit markets and up to 12% into surplus markets.
- **Dray Carriers:** There was an uptick in rate increases late in 2021 and the first quarter of 2022. This has moderated as the carriers experience an increase in fuel revenue as well as the softening market.
- **Recommendation:** We saw a trend in the first half of the year of customers looking to lock up capacity through renewal events. This resulted in lower tender rejection rates and an overall improvement in freight coverage. While it is tempting to chase the current spot market there is still enough uncertainty in the industry to result in a continued recommendation to lock up capacity with incumbent providers.

# Industry observations

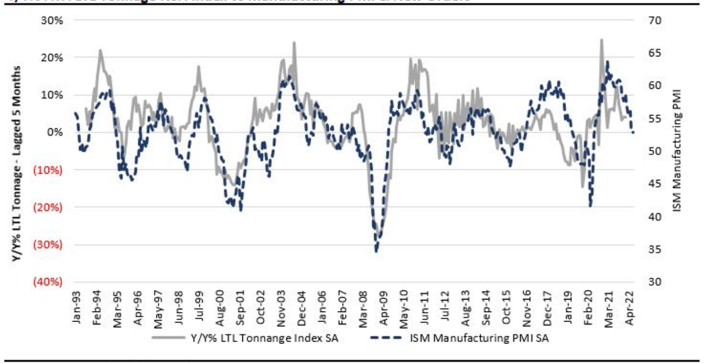
- **Overview:** Intermodal volumes each declined slightly in the latest month and are now just about equal sizes in terms of absolute volumes.
- **Domestic container:** Containers have been the bright spot for domestic intermodal traffic, but not enough to offset the weakness created by the trailer side of the business.
- **Service:** Service levels remain at weak levels, well below historical averages. Service also appears to not be ready to improve at any point in the near term.
- **Intermodal outlook-FTR:** The outlook for intermodal came down again this month as volumes appear capped near present levels for the foreseeable future.
- **Trucking data:** Trucking capacity is starting to flow back from owner-operators to larger trucking firms, as lower rates and high diesel prices push truck drivers back toward being company drivers.
- **Spotlight:** Peak season doubts. The veracity of the coming peak season is in doubt as volumes hold below last year's levels and service shows no sign of improving.
- **Drayage Demand Index:** Reports from the field indicate that capacity has become more plentiful. Drivers have come back to drayage as conditions have softened elsewhere.
- **Ports:** Substantial volume diversions from the West Coast to the East and Gulf Coasts are causing congestion to build in the East.
- **Intermodal in-depth forecast:** Lackluster performance in July resulted in reductions in our near-term forecast across the board.

**Source: Intermodal in Depth August 2022 Issue; FTR August 2022 Intermodal Report*

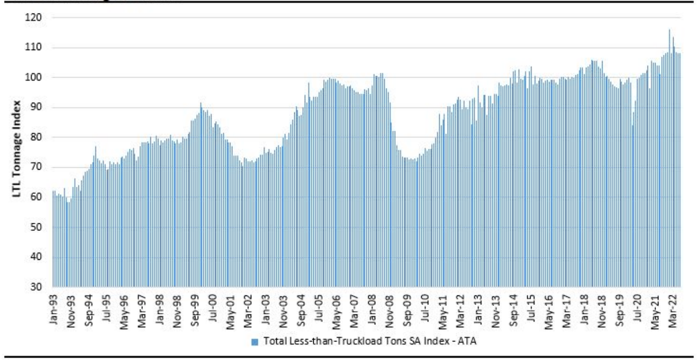
# U.S. Less-Than-Truckload

# Key factors impacting demand

2022 demand shows signs of continued slowing of tonnage




Sources: ATA, ISM, Bloomberg, Baird estimates




Sources: ATA, Bloomberg, Baird estimates

- Institute for Supply Chain Management (ISM) and Purchasing Managers' Index (PMI) are good indicators of LTL freight volumes
  - A reading above 50 indicates manufacturing economy is expanding
  - July PMI continues decline at 52.3, but remains over 50
  - The historical correlation between U.S. manufacturing PMI and LTL tonnage suggests industry volume growth may further slow in 2H22
- Tonnage and Shipment Count
  - Most carriers continue to operate near capacity, but showing signs of available capacity
  - 2Q22 shipment count is down 2.7% and tonnage is down 5.6% vs 2Q21
  - Industry LTL tonnage as measured by the ATA's industry proxy peaked in January ~10% above the prior 2018 cycle high before moderating in recent months



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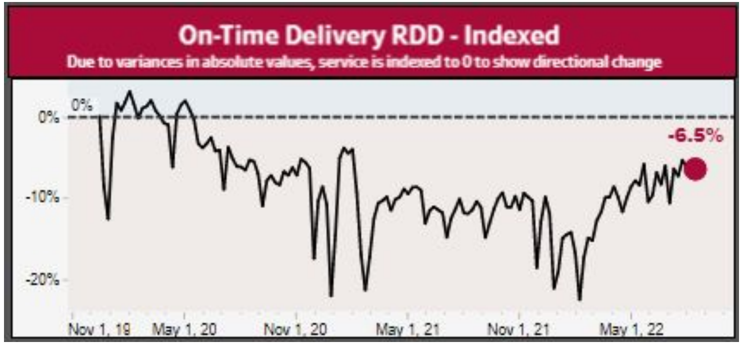
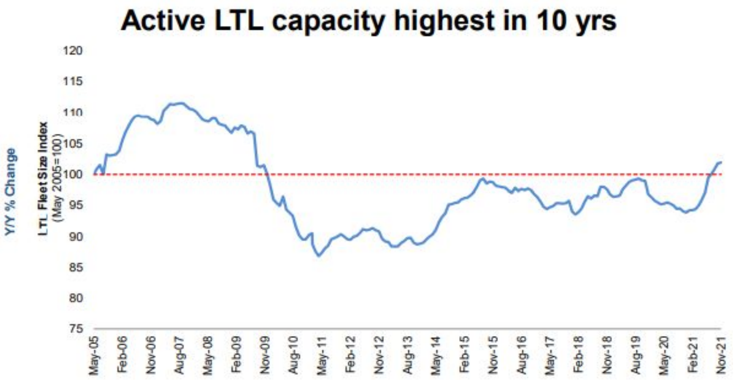
# Key factors impacting supply

Signs of additional capacity with on time delivery leveling




*Source: Stephens & Stifel*

**Easing carrier challenges**

- Significant improvement to on time service beginning in March and continuing through the year
- On-time service is still below historic, pre-Covid, levels, but leveling off at a "new normal"
- Efforts to increase capacity over past ~18 months have now come to fruition

**Persistent carrier challenges**

- Costs continue to rise at a high rate
- Hiring qualified drivers continues to be a challenge
- Significant investment in new tractors, trailers and real estate

**Carrier actions to capacity constraints**

- Offsetting increasing costs with automation improvements and reducing controlled costs coupled with historic price increases
- Investment back into their network to build additional capacity and provide a better product
- Strategically expanding current terminals and/or adding additional terminals to either broaden service territory or increase terminal density within current territory
- Fleet sizes are growing as tractor and trailer orders are delivered
- Continued focus to hire qualified drivers
- Removing capacity for freight that doesn't fit well within their network



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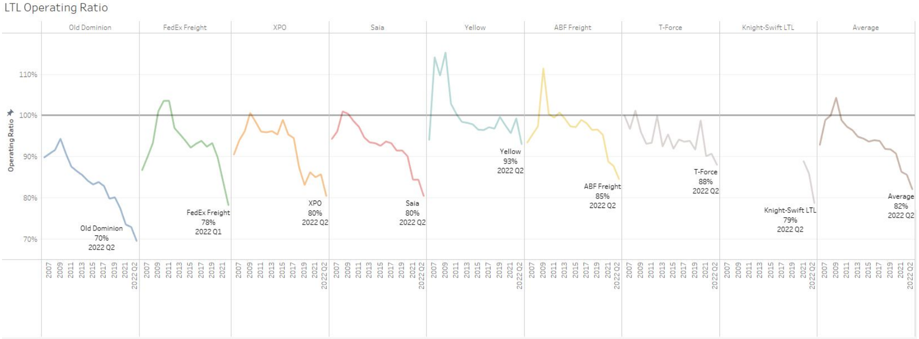
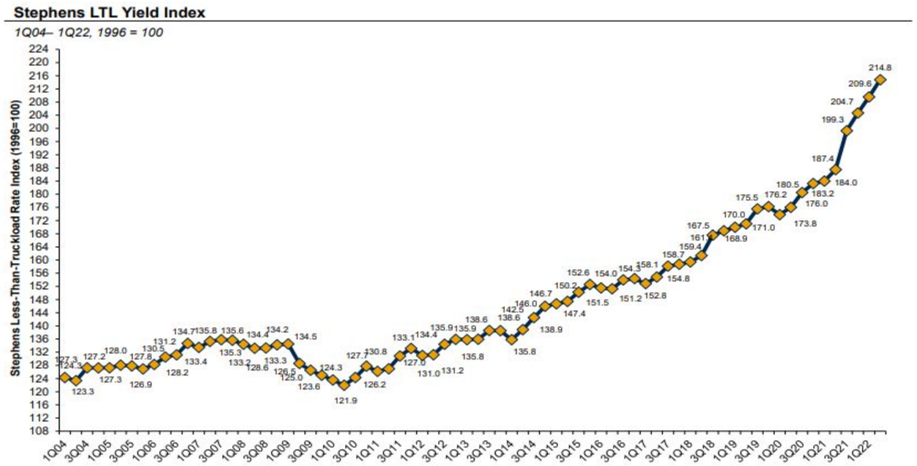
# Current pricing impact

## Record operating ratio




**Operating Ratios (OR)**

- Carrier's OR is dependent upon several key factors including:
  - Utilization (trailer, dock, driver, P&D and linehaul operations)
  - Accurate costing (freight profile, density–PCF, lanes, locations, etc.)
  - Pricing discipline (review regularly, price accurately)
  - Operational execution (efficiently operate network)
- Carrier's focus areas:
  - Strict pricing discipline
  - Improve pricing on poorly operating business (identified from costing information)
  - Improve operational efficiencies based off data and operations feedback
  - Focus on achieving the "perfect shipment"
- Observations:
  - All carriers reported record low OR's in Q2
  - ODFL reached an industry low OR of 69.5%
  - Operational efficiencies remain a primary objective
  - Pricing discipline across the industry remains strong
- Yields (rev / cwt excluding fsc) improved 14.6% y/y in the 2Q22

*YRCW/YELL reports one number beginning in 2020. For purposes of reporting kept separate and applied same number for each YRCW operating company
* Historically UPS Freight (T Force) LTL OR was reported within Supply Chain numbers. 2020 OR was isolated to just LTL division resulting in an increase in OR from historical numbers.
*Knight-Swift is defined as AAA Cooper beginning 7/6/2021 and Midwest Motor Express beginning 12/6/2021.



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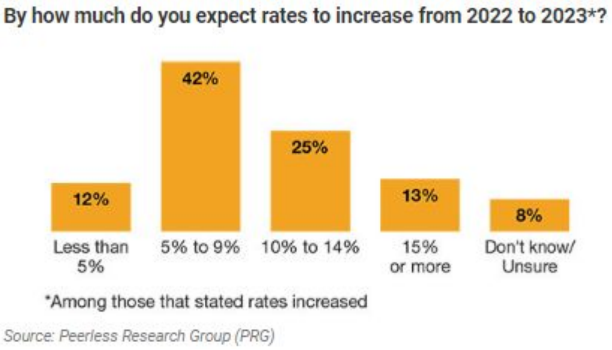
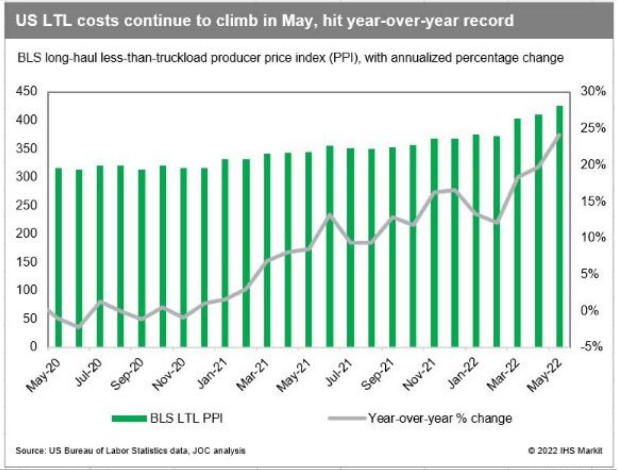
# 2022 rate outlook and contingencies




**Contractual renewals**

- 67% of participants in a PRG survey expect 2023 LTL rates increases to be in the 5% - 14% range
- Expect pricing discipline to remain in place despite softening of TL spot market
- Expect 2H22/23 contractual renewals to be in 5% - 10% range
    - 65% of recent contract renewals are within 5% - 10% range which is down 120 BPS from earlier in the year
    - Expect similar trend to continue through remainder of year and into next year
    - Majority of "price corrections" were made in 2021 and 1H2022
    - Focus on removing poorly operating business from networks or re-pricing at a significant increase (hard to handle freight, driver / trailer turnover delays, etc.)
    - Focus on large increases on certain segments of business in order to reduce the overall impact to the majority of business
- Focus on improving accessorial margin by removing historic waived fees (notify & appointment, reweigh & inspection), and continuing to strategically increase other impactful accessorials

**Shipper contingencies**

- Introduce flexibility within operations and introduce 1 – 3 impactful initiatives to streamline LTL shipping
- Improve carrier automation and driver and equipment utilization
- Improve Bill of Lading quality and digitization of information sent to carrier
- Focus on improving key factors that contribute to carrier's OR
- Adjust route guide to minimize impact of increases to align with carriers changing networks (give carriers freight that works well in their network to improve pricing and service)



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# Industry observations

What we are observing from the market?

**Service and capacity**

- Carrier service levels are showing signs of incremental improvement over next 3 – 6 months
- Heightened focus on technology to more efficiently operate terminals and automate with customers to reduce errors and labor expenditures
- Focus from carriers to receive accurate Bill of Lading data electronically from customers in order to streamline their processes

**Carrier updates**

- Carriers continue to open new terminals primarily to build density within existing service territory, and continue to add dock doors within existing terminals
- Landair went out of business in July (regional northeast carrier)
- Pitt Ohio expands to NY through acquiring assets of Teal's Express
- XPO Logistics announced that RXO will be the name of the spin-off of its brokerage platform, and XPO will be a stand-alone LTL company
- Knight-Swift is in the process of unifying technology and processes between AAA Cooper and MME to improve upon synergies
- Saia plans to open 10 – 15 terminals in 2022
- Yellow solidifies framework to become "One Yellow" and go to market as a super-regional carrier
  - All 4 operating companies are under one operating systems
  - Pricing alignment has begun in order to unify pricing across all operating companies
- NMFTA Agrees to Assume Administration of Digital LTL Council

*Source: Stephens & Stifel*

# U.S. Bulk

# Key factors impacting supply

Diesel prices have fallen since rising to a record in June. NAP has fallen .54 but still $1+ a gallon higher since the surge in early Mar.

Delays in tractor and specialized trailer equipment orders have eased with less supply chain constraints

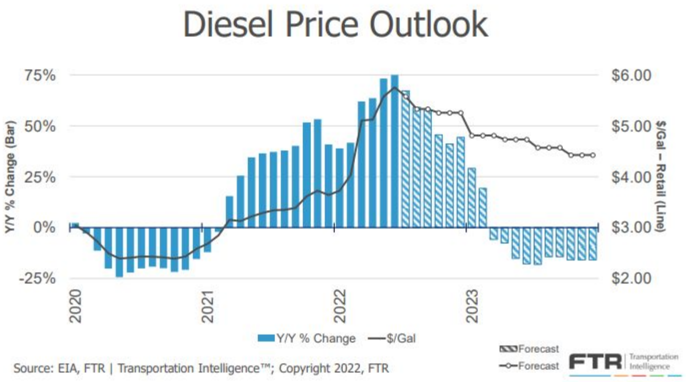
Raw material inventory issues continue to backlog shipments, to include delays and reschedules

Operational expense increases occurring due to continued inflationary pressures that includes elevated fuel prices

# Current impact

**Overall market conditions:**

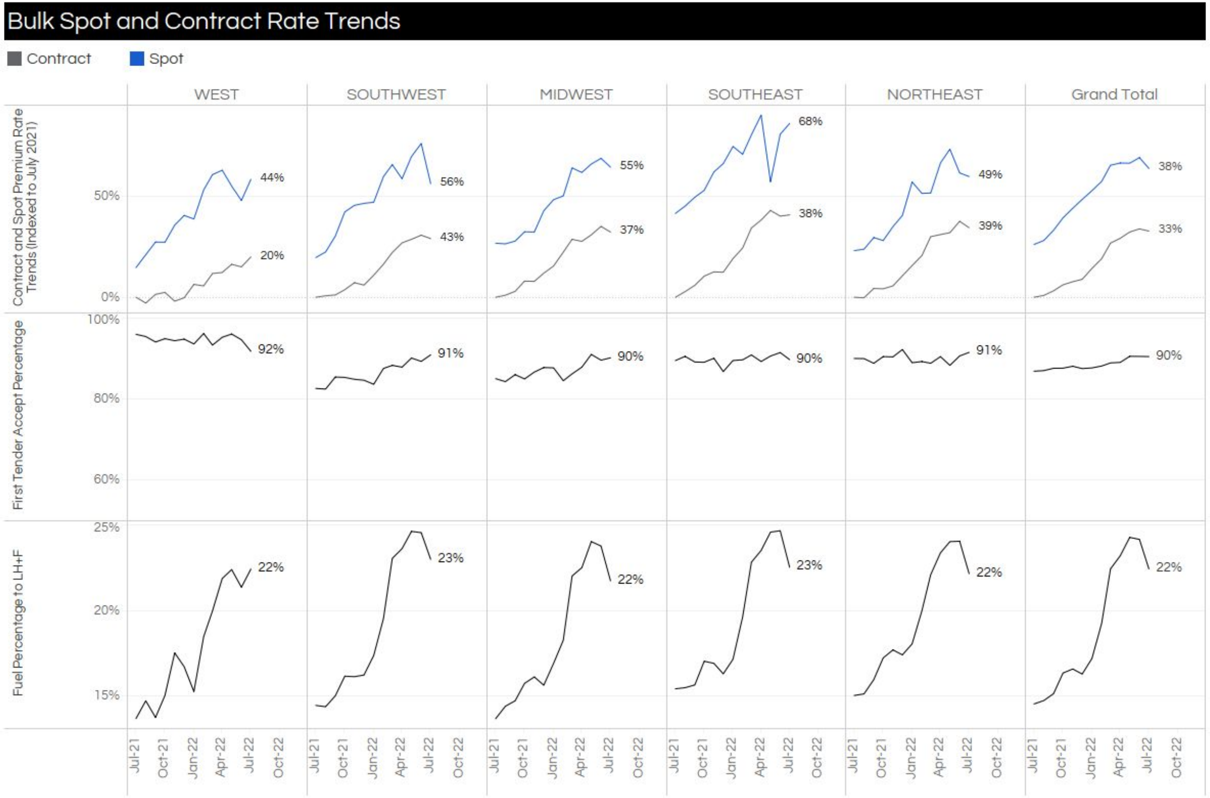
- Primary Tender Acceptance has begun to improve late in the 2nd quarter but still a bit below normal standard of 90%
- Demand although slightly lower in certain segments, continue to exceed supply in the 2nd qtr. with expectations that demand will wane over the rest of 2022 and for 2023
- Only 300+ open bulk orders in August (June was >600) including future orders in the Transplace network.
- Very high demand for specialized products including compressed gas (CO2 + Hydrogen) with shortages and transportation resources at a premium.
- Carriers are starting to take on strategic business to benefit network reducing empty miles
- Rates for normal shipments have remained flat or at contracted rates with expectations to stay at current levels. Spot rates have dropped slightly with uptick in capacity




**Significant YOY call-outs in the following areas:**

- Average lead time needed for coverage is at 11 days (down from 14 in 2021-early 2022)
- Fuel prices still higher than rates prior to March but down from the highs in Q2. Barring a weather event or supply chain issues pricing will continue to fall with rates at or below $3.00 in 2023
- Lower percentages of driver turnover overall (+ driver jobs added in 2nd qtr. 2022)
- Empty miles still high overall with 25-30% as an average with 10 carriers surveyed in the network so inefficiencies still a concern
- Inflationary pressures continue to be major call-out for bulk carriers to include wages, maintenance costs, fuel + equipment purchases

# Bulk truck rate trends




*Source – Transplace TM*

- Inflationary pressures weaken
- Spot premiums above contract still exist as other OTR markets are experiencing greater weakness (Van, Temp)
- Strong first tender performance
- Fuel as a percent of linehaul off 2022 peaks



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# Bulk truck forecast

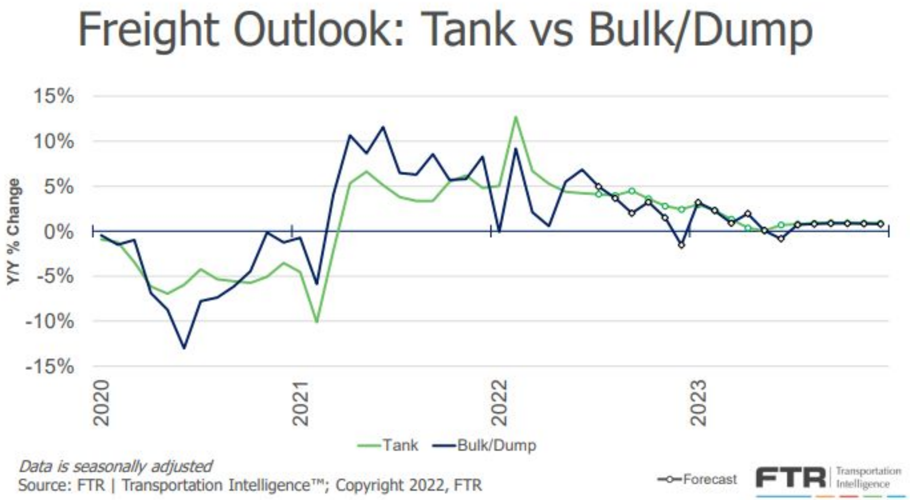
Increase of 4.9% growth vs previous 4.5% forecast. Stronger outlook for fuels, chemicals and food grade products, <building materials

1.1% change forecasted in 2023

Inflation including higher fuel costs although decreasing will continue to drive lower volumes overall late 2022 and in 2023

Issues with raw materials causing delays of product movements. Backlog still a challenge today

Rail car loadings remain positive in 2022



# Market update and outlook

- Bulk tank truck market conditions expected to remain elevated for rest of 2022-23 with easing expected in early 2023.
- Raw material availability at plants, manufacturers continues to be a problem, backlogs continue with some signs of easing in Q2.
- Fuel prices have stopped their acceleration from June's high but still elevated since March, so fuel continues to weigh with bulk carriers especially in a mode that is very owner-operator dependent with higher percentages of empty miles.
- Carrier operational expenses continue to be elevated with rising costs and inflationary measures.
- Flipping freight terms, significant increase in shipper evaluations of *delivered pricing models* from vendors due to inability to provide transportation of key raw material resources timely for production.
- Specialized bulk shipping including gases (Hydrogen, $CO_2$), will continue to be challenged in 2022 and beyond due to both product shortages and capacity with most of that product delivered by supplier fleets. (i.e., Messer, Air Cargo).
- Equipment ordering still at a backlog (reduced from 10 months to 7 overall) both new and used. A new basic MC407 SS trailer can take up to a year once ordered to receive. Customizations are taking longer to receive.
- Broker usage for capacity will continue to remain an option for the remainder of 2022 with demand still elevated based on shipping location/destination and lead time.
- Some bulk truck carriers are beginning to purchase zero emission trucks in 2022 with means to accelerate overall strategy for electrification of fleets and as a positive benefit for customers, communities, employees, and stakeholders.



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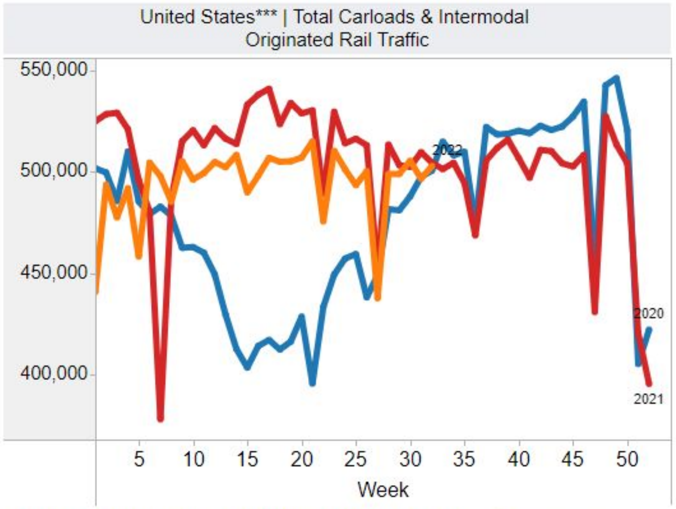
# AAR chemical rail volumes

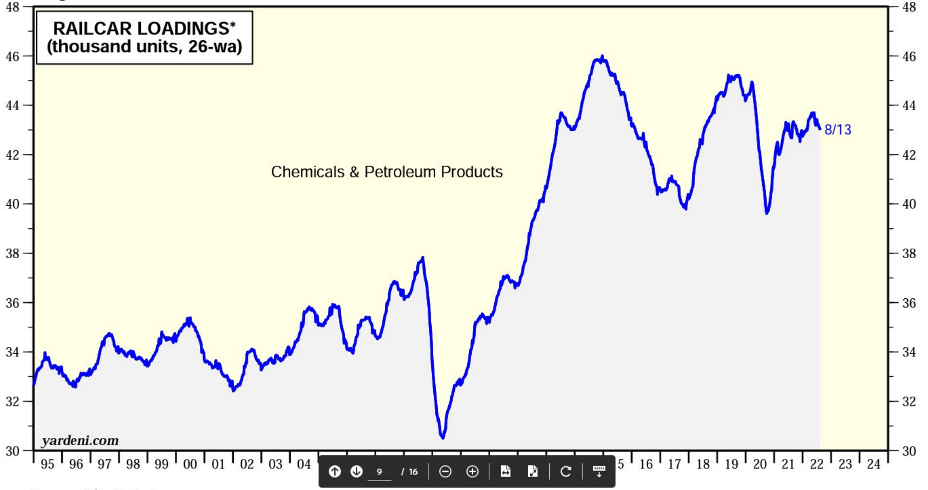



* Canadian traffic includes the U.S. operations of Canadian railroads.
** Mexican traffic includes the U.S. operations of Mexican railroads.
*** United States traffic excludes the U.S. operations of Canadian and Mexican railroads.

ASSOCIATION OF AMERICAN RAILROADS

## Carloads

Figure 12.




Source: Atlantic Systems.

- Carload volumes remain steady in 2022 with minimal rail issues resulting in bulk truck campaigns. Slight decrease in demand has resulted in Q2 with some capacity easing but still elevated overall.
- Chemical and petroleum railcar loadings continue to be strong in 2022.



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# Preferred shipper program

“Preferred shipper” status should be a top priority for shippers

1. **Plan ahead.** Tender loads in advance when possible, so carriers can plan accordingly. Leverage optimization software solutions for short-term freight forecasts.

2. **Be flexible.** Allow for flexible appointment times and accept trucks during “off” hours like evenings and weekends. This allows carriers to better utilize their trucks and pick up loads at less busy times.

3. **Make drivers welcome.** Be friendly and respectful to drivers and make them comfortable with a spacious break room and clean restrooms. Some bigger companies even provide shower facilities.

4. **Get trucks loaded/unloaded quickly.** Provide easy access for drivers to a loading rack that is easy to get in and out. Detailed instructions for unloading including equipment (hoses, pumps etc.,) Don’t keep drivers waiting. Load in advance, if possible, to prevent back-ups. It is also helpful to offer loading options – i.e., live load as well as drop-and-hook programs.

5. **Good communication.** Communicate changes in a timely manner, so carriers can adjust staffing and scheduling. It’s also important to be informed about carrier compliance and regulatory expectations (i.e., CSA, Hours of Service, ELD mandate). Preferred shippers host regular carrier conferences and solicit feedback by conducting surveys to learn what they can do better.


# Europe

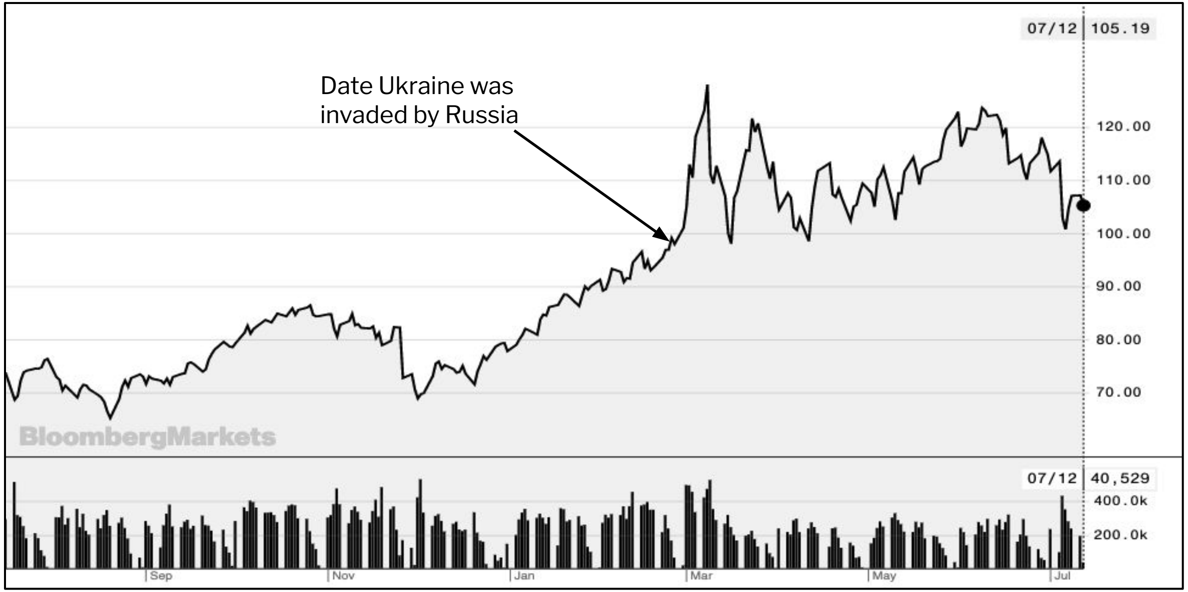
# Factors affecting supply

Key points around capacity, pricing and driver shortages

- Q2 was very capacity constrained with carriers imposing high surcharges for additional capacity above contracted volumes.
- Fuel prices have been volatile during the quarter, with oil prices varying up to 23%.
- The driver market is increasingly challenging, exacerbated by many Ukrainian drivers leaving their cabs to return to defend their country. Carriers with eastern European drivers are having to increase pay rates by 10%+ with drivers also demanding better working conditions. This is leading to rate increases from these carriers.
- The waiting time for new trucks is up to 12 months, prompting a buoyant secondhand market for trucks. Some leasing companies are opting to not extend leases due to the values they can obtain on the secondhand market.
- Fleets are running older vehicles leading to reduced reliability and increased maintenance costs.
- Carriers remain selective on who they serve, with a reluctance to take on new business as they search for stability.
- Pricing: There is a continued upward trend in prices as driver costs increase and new truck scarcity remains. However, some price increases are flattening, and some lane rates are showing decline. (See European Rate Trends Graphs.)

# Factors affecting supply – oil price

Brent Crude (ICE) by Bloomberg




Goldman Sachs has revised its H2 2022 / H1 2023 forecast up by $10 to $135/barrel

- The oil price has been volatile during the quarter varying from **$100 to $123 per barrel**
- The price peaked at **$123 per barrel** in early June
- **Quarterly increase:** Between Apr '22 - June '22 the oil price has **remained at $105 per barrel.**
- **YoY :** June 2021 to June 2022, the oil price has **risen 40%**
- Diesel prices across Europe have risen by **c40% - 60% per litre over the past 12 months**



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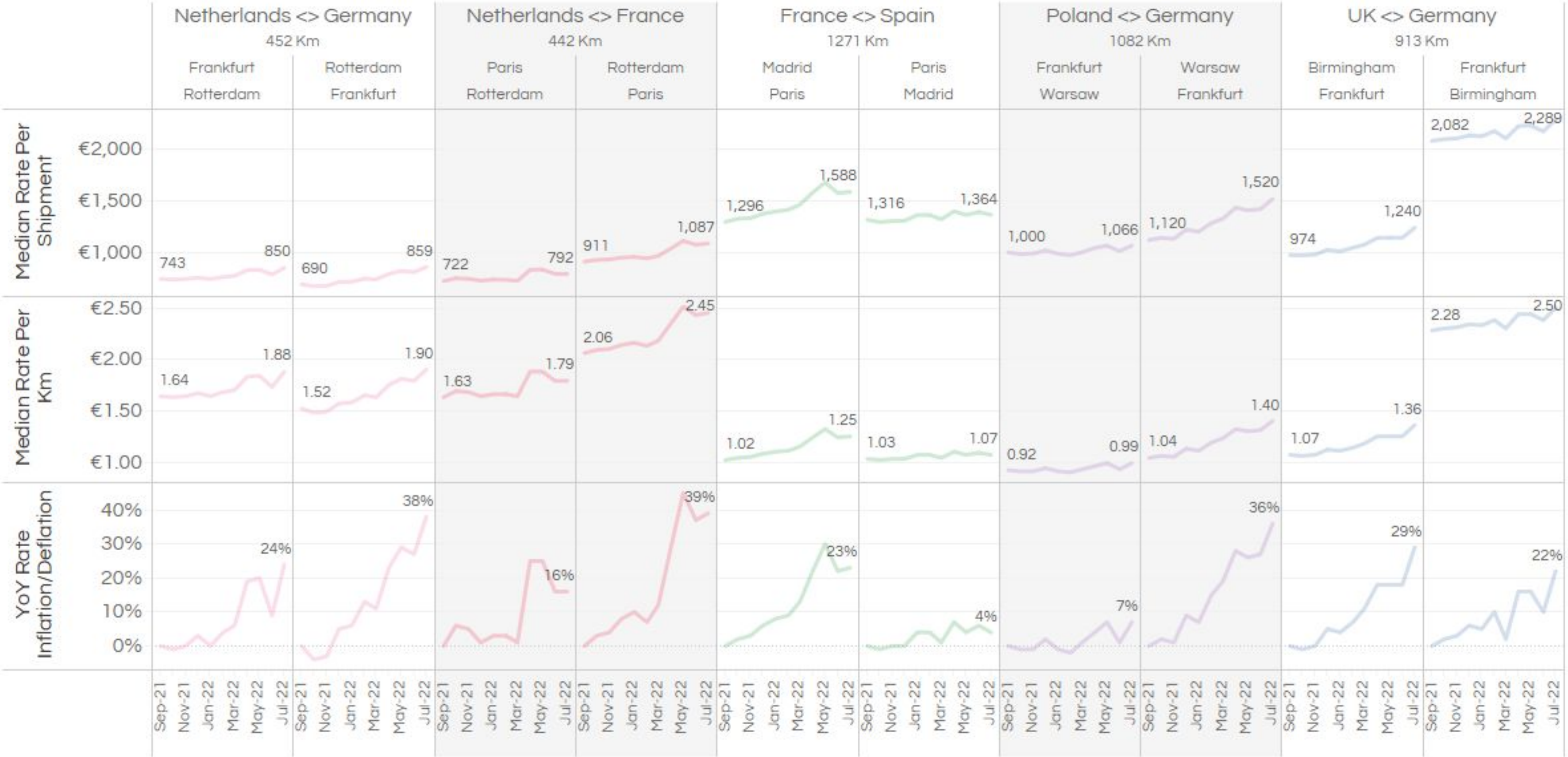
# Transplace European Rate Trends
July 2021 to July 2022






Source: UPPLY.com

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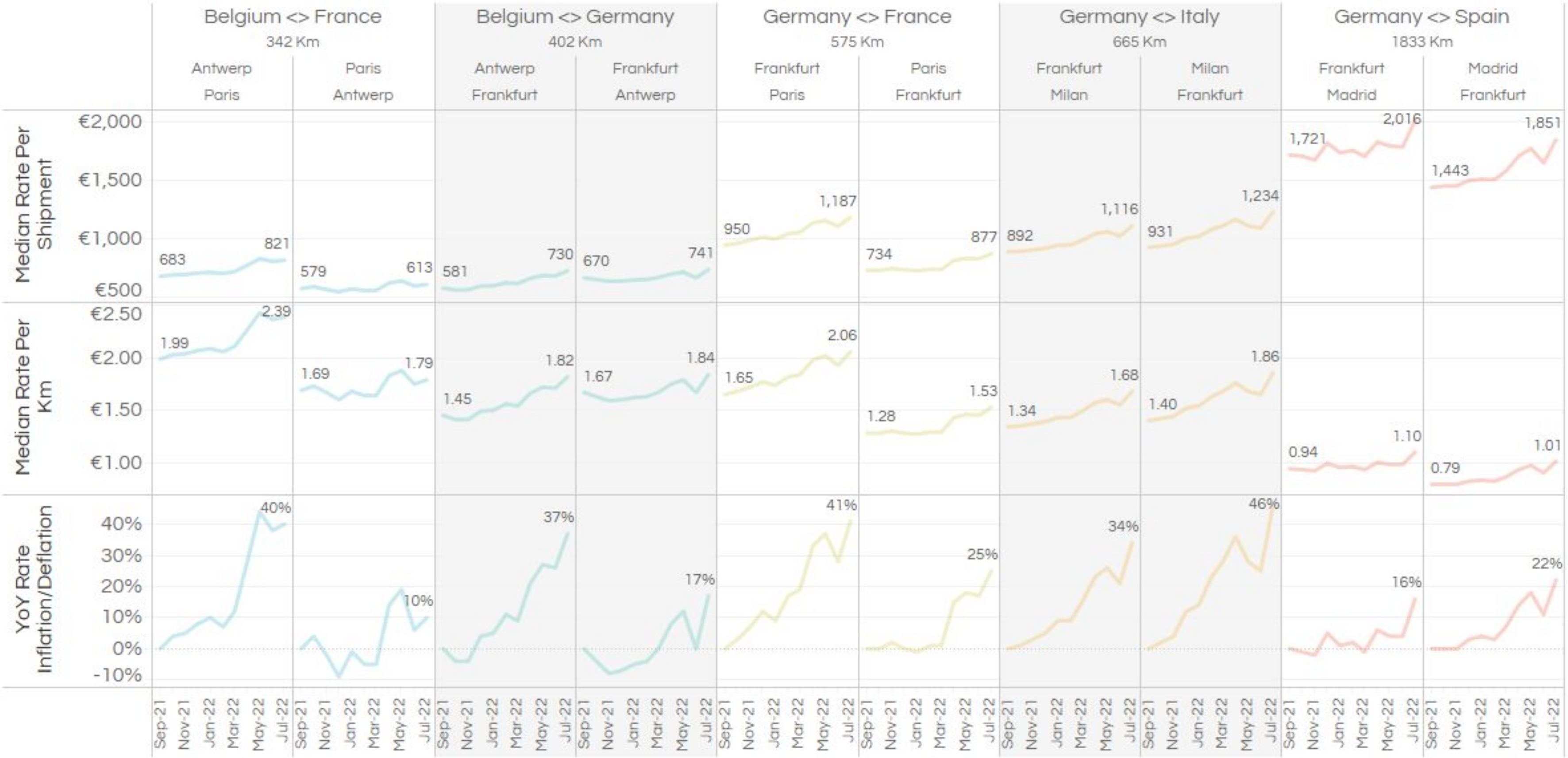
Transplace European Rate Trends
July 2021 to July 2022






Source: UPPLY.com

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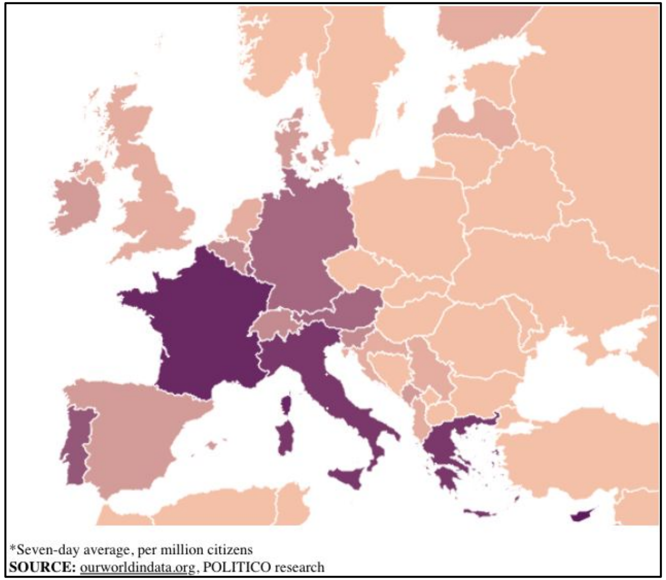
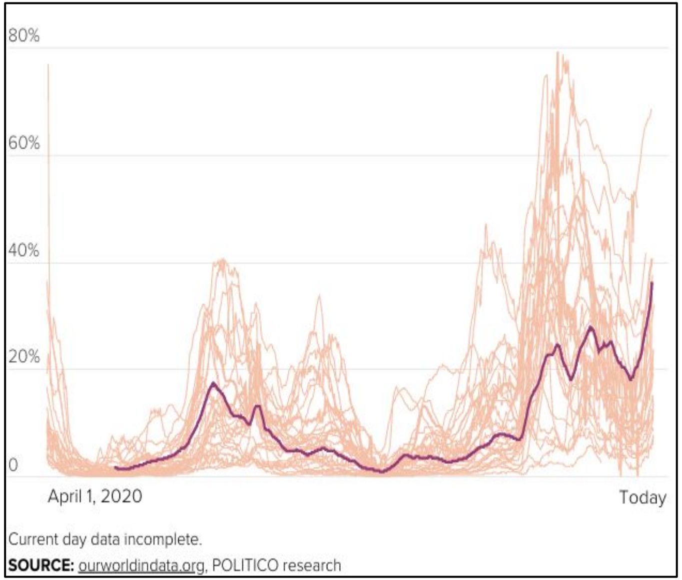
# COVID-19 – Europe update

7-day average of new C19 confirmed cases
(as of July 12th 2022)



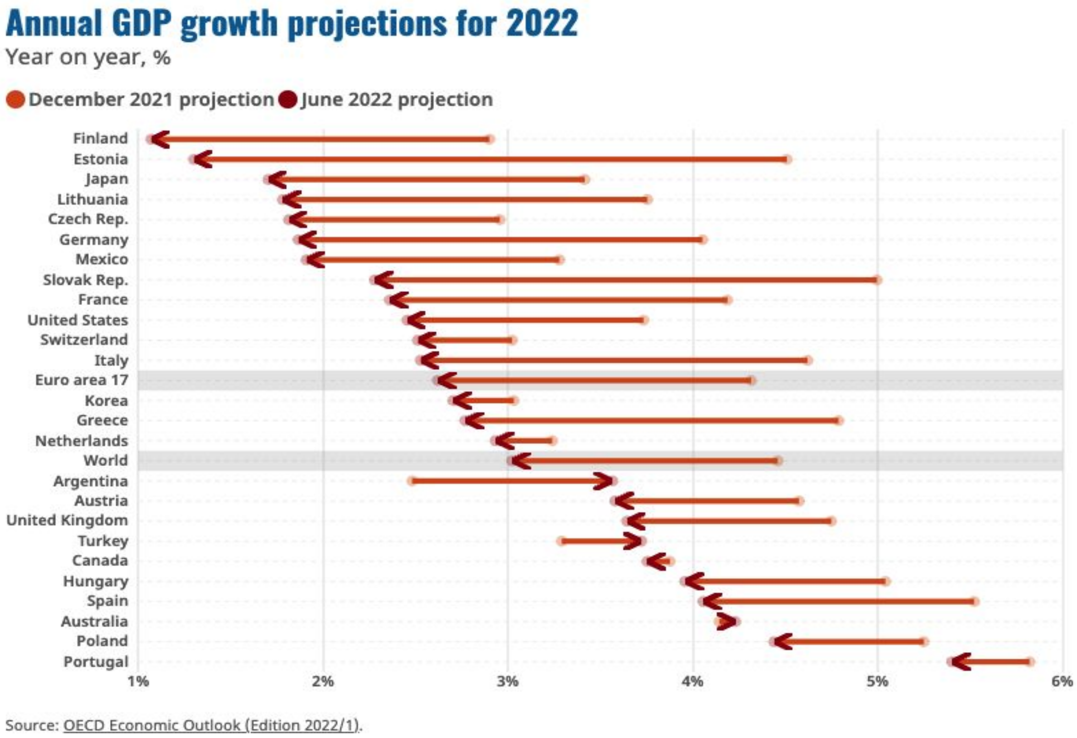

Positive Covid19 test rates – EU and UK
(as of July 12th 2022)




- Covid cases over the quarter have generally been on the increase, with some countries considering the return of restrictions.
- France, Italy and Greece have seen the highest spike in cases.

# Factors affecting demand

The Russia – Ukraine conflict has dramatically reduced growth, intensified inflation and created a cost-of-living crisis

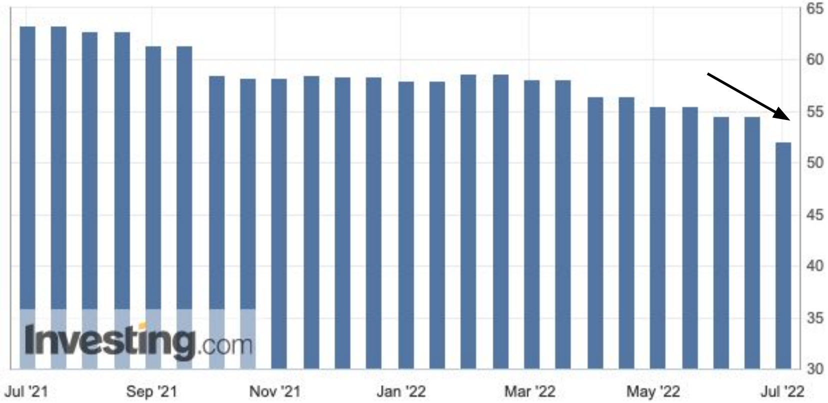



- The OECD has revised the 2022 Euro area growth forecast back from 4.3% to 2.6%.
- Inflation for the Euro Area is expected to be 8.6% in June, up from 8.1% in May 2022.
- 2022 inflation projections have doubled and even tripled in many EU countries between December 2021 and June 2022, with most countries projecting between 5% and 10% this year.
- Experts warn of stagflation, which occurs when persistent inflation is combined with stagnant demand and high unemployment.

# Key factors impacting demand

- The unemployment rate in the Euro Area fell to a record low of 6.6% in May of 2022, down from 6.8% in February 2022.
- The Purchasing Managers Index (PMI) for the Euro Area in Q2 2022 decreased from 56.5 in early April to 52.1 in early July. The level is heading towards 50, the point at which contraction starts in the manufacturing sector.
- The European Central bank has increased interest rates by 0.5% (the forecast was 0.25%). The UK has increased interest rates consecutively 5 times by 0.25% to 1.25%.

**Purchasing Managers Index: past 12 months**




Source: investing.com

# Outlook

- Inflation is rampant and the European Central Bank has increased interest rates by 50 basis points as a result.
- Carrier capacity looks to be returning slowly, rate increases show some flattening on certain lanes, and the front end of the supply chain (PMI and carrier rate exports), indicate the start of an economic slowdown.
- Uncertainty around oil prices will cause ongoing fuel surcharge volatility until the war ends and the issue of Russian oil supplies is resolved.
- As the economy slows, the transport market still faces major structural issues in terms of driver age profile, declining driver numbers, truck shortages and fuel price volatility.
- These structural issues are compounded by increased levels of legislation pushing costs up, such as the EU Mobility Package and the newly announced Emission Trading Scheme (ETS II) for commercial vehicles.
  - A separate ETS for commercial vehicles will be launched by the EC on 1 January 2024, a year earlier than planned.
  - Also from 2024, all emissions from shipping on intra-European routes and 50% of emissions from extra-EU routes will be subject to the ETS.
- The prospect of a reduction or even termination of gas supplies from Russia would seriously impact the German chemical sector and the associated supply chains.
- As the cost-of-living crisis hits Europe, there is increased union activity and potential for industrial action – German dockers staged a 48-hour strike in July.
- Barge users in northern Europe are facing substantial surcharges as water levels drop amid increasing temperatures, while delays remain a major issue.

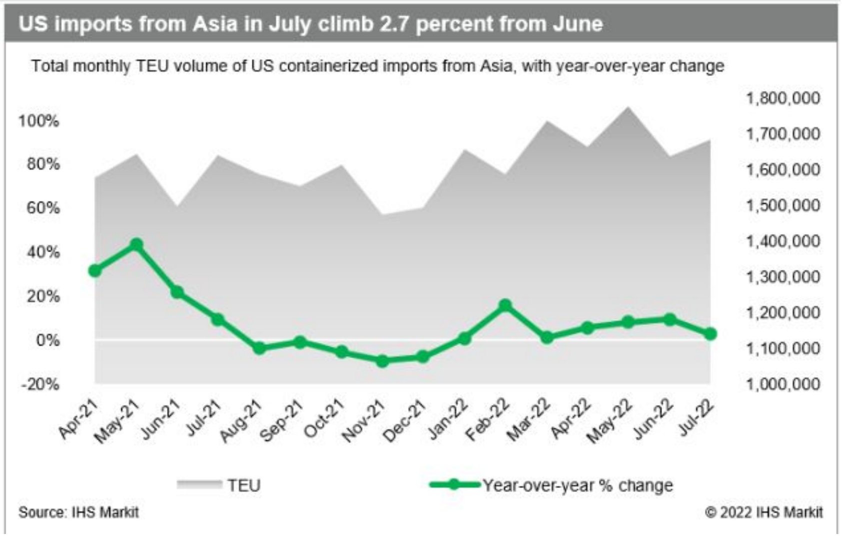
# Recommendations

- **Maximize market intelligence** – the economic slowdown is starting to impact the transport market and pricing / capacity. Timing of RFPs will be critical and agree any new rates on short term contracts.
- **Continue to forge strategic relationships with carriers** – they will look for stability in a declining market.
- **Look for non-price related benefits –** challenge customer MOQs, extend lead times, avoid LTL / Groupage to reduce costs.
- **Use data driven decision making** within the transportation network – market conditions are changing rapidly and unpredictably.
- **Create contingency plans** for the potential supply chain disruptions such as industrial action, plant shutdowns and driver shortages.

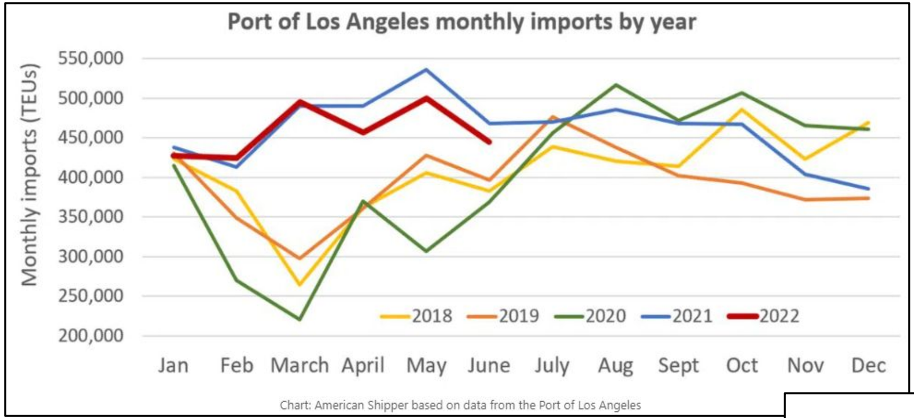
# International

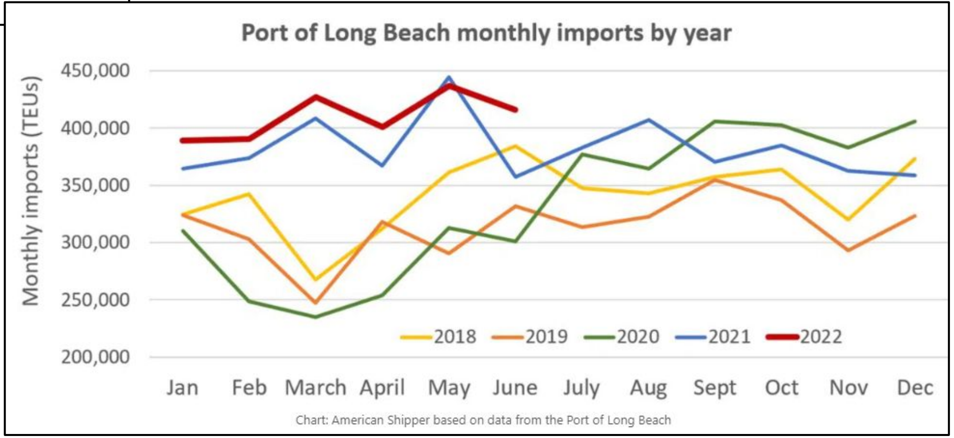
# COVID-19 global supply chain impacts

- China's zero-COVID policy: China continues with more localized lockdowns based on positive test results. Shippers are creatively using alternative port gateways when micro or regional quarantines occur however general concern on long-term viability of policy continues.
- China's exports in July increased 18% compared to July 202.
- Vessel queues have shifted in the US. As of mid-July, 64% of vessels were waiting for berths in ports in the gulf and east coasts. Savannah currently has the largest ship queue in North America.
- Vessel queue for ports of Los Angeles & Long Beach are at their lowest level since Q4 2021 however container dwell times are increasing.
- The total number of import containers dwelling at the port of Los Angeles has increased 76% since January 2022.
- The world's biggest container lines are projected to post 2022 profits 73% above 2021 based on new forecasts. 2022 net income will likely reach $256b based on 11 largest carriers monitored by Blue Alpha Capital.



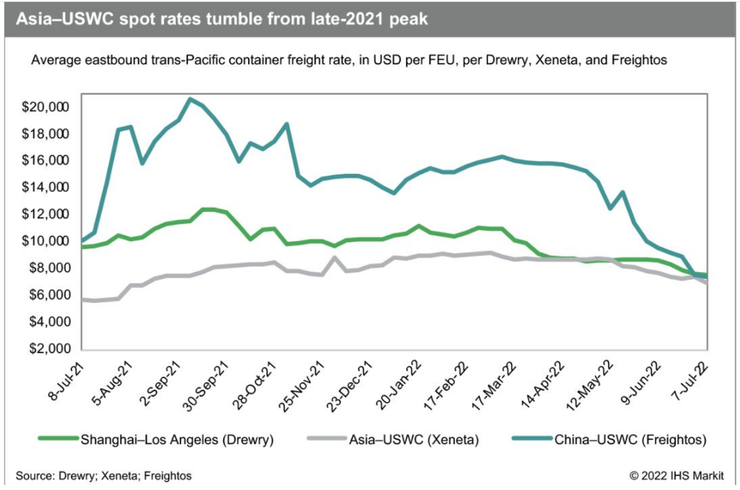
# Los Angeles & Long Beach import volumes

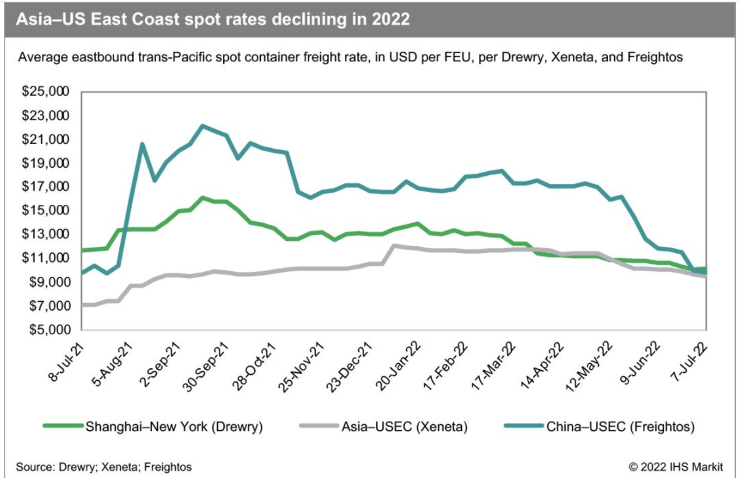


# Transpacific spot pricing & volumes

- Importers are finally seeing rate relief on the TPEB trade although rates remain well above pre-COVID levels.
- Decline in container spot rates is accelerating. Retailers are in no rush to ship orders due to overflowing US warehouses.
- Rates have decreased below long-term contract pricing negotiated in March / April for the 2022-2023 import contract season. Shippers and carriers are actively negotiating contract rate reductions.
- Premium surcharges to obtain a confirmed booking have disappeared and some vessels are sailing at 80% capacity.
- Nationwide vacancy rate for warehousing and distribution facilities 3.7% in Q2.
- Global Port Tracker (GPT), published monthly by the National Retail Federation and Hackett Associates forecasts imports through November will be slightly above or below the same months prior year.
- US East Coast and Gulf Coast ports continue to see record import volumes as shippers avoid congestion on the West Coast.
- Overall a great deal of uncertainty on whether there will be strong peak import season for August – November or importers advanced shipments during the spring and early summer to reduce risk caused by berthing delays and port congestion.
- Global effective container ship capacity is still dramatically reduced due to lengthy transit times, vessel schedule reliability, port congestion, and inland transportation delays and bottlenecks. Drewry estimates a reduction of 15% in effective container ship capacity in 2022 vs 17% in 2021.



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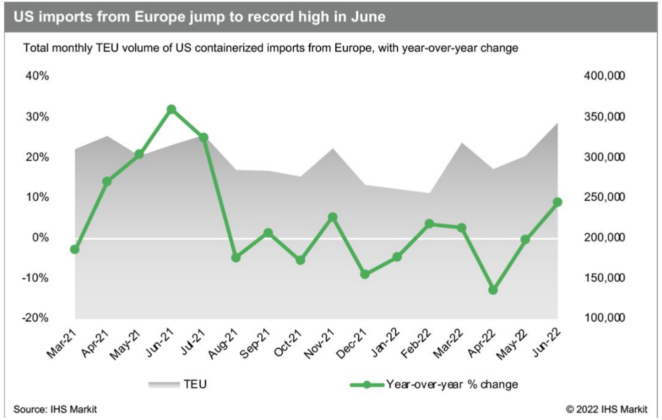
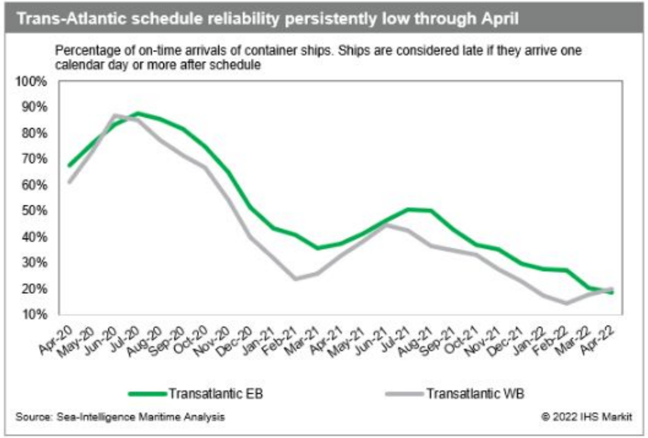
# Trans-Atlantic trade

- Congestion in North Europe port hubs is at critical levels. Terminals are full, empty equipment can be difficult to obtain and trans-atlantic carrier schedules are very low performing, driver shortages and the EU inland network for rail and barge service is severely disrupted.
- Capacity has increased 12%  on the trade due to carriers chasing high rate levels.
- Carriers are reacting by adjusting vessel schedules further and introducing congestion surcharges. Schedule reliability for the first four months of 2022 has averaged at 17.4% compared with 28.% prior year.
- Record low schedule reliability is expected to continue on the trade for the remainder of 2022.
- Several EU countries are impacted by labor negotiations and work actions. Unions are asserting that they have not benefited from the record profits that ocean carriers and ports have received.
    - German dockworkers and port employers have reached an agreement on wage increases as of 25 August.
    - In Felixstowe, UK dockworkers have been on an ongoing strike since 21 Aug scheduled to end 28 Aug
- German exports fell 0.5% in May, its first trade deficit in three decades.
- Eurozone inflation rose at a record 8.6% pace in June.
- Largest commodity from North Europe is foodstuffs, 410,930 TEUs; followed by machinery and mechanical products, 228,521 TEUs.



# Trade updates

- **China Section 301 tariff relief:** President Biden is considering pausing China section 301 tariffs on consumer goods such as clothing and school supplies. Conversely there is a consideration of raising duties on strategic items such as industrial machinery and transportation equipment. Additionally, the administration may establish a new framework to allow importers to request tariff waivers.
- **Bureau of Industry & Security focus on export compliance:** The Bureau of Industry and Security will act immediately to secure "significantly higher penalties" and make other changes designed to further enhance its export enforcement measures and promote export compliance efforts by companies. Matthew Axelrod, assistant secretary of Commerce for export enforcement, said in a recent memo to staff members of the BIS Office of Export Enforcement that these changes are designed to "send a powerful message: implement effective compliance programs on the front end or risk penalties on the back end that will hurt both your reputation and your bottom line, either through stiff monetary penalties, or the potential denial of export privileges, or both." BIS is also ending its use of "no admit, no deny" settlements where companies or individuals resolve the allegations against them but do not admit their conduct.
- **ILA Charleston terminal dispute:** The ILA representing the east coast longshore workers at Charleston's newest marine terminal, the Hugh K. Leatherman terminal, have requested President Biden not intervene in the 16-month labor dispute. Recently Federal Maritime Commissioner Louis Sola stated the unused terminal capacity is much needed due to increasing import volumes and backlogs on the East Coast. The ILA responded that the situation is being negotiated through the National Labor Relations Board and it not within the FMC's jurisdiction.

# Other news of interest

- **Ilwu contract negotiations:** The ILWU and PMA continue to meet and negotiate. Although progress has been made on negotiated health benefits package there appears to be contentiousness in discussion occurring over maintenance and repair work at T5 in Seattle between the ILWU and International Association of Machinists & Aerospace Workers (IAM). No slowdowns or other labor actions have occurred to date at west coast ports.
- **Us demurrage & detention (D&D):** U.S. ports occupy the top five positions having the most expensive Demurrage and Detention charges in a ranking of 60 global ports. New York is the most expensive, followed by Long Beach, Los Angeles, Oakland and Savannah. A 2022 report by Container xChange ranked the ports, carriers and regions on D&D charges. COSCO currently has the lowest charges while HMM's are the highest. In May, US D&D charges were $2692 per container, compared to $549 in the EU, $482 in India, and $453 in China.
- **California Ab5:** Since the US Supreme Court refused to review an appellate court decision and allowed AB5 to become state law, it's anything but clear what the effects for independent contractors and the drayage industry will be. Consensus is that the law will restrict trucking capacity in the state but most likely there will be delays on the rule's implementation and actual enforcement. California's labor commissioner did tweet 7/12/22 that if drivers believe they are misclassified, they can file a wage claim with the state.

# OSRA 22

- The Ocean Shipping Reform Act of 2022 (OSRA-22) was signed into law 6/16/22. This is the first major shipping reform in more than two decades.
- In summary, this bill revises requirements governing ocean shipping to increase the authority of the Federal Maritime Commission (FMC) to promote the growth and development of U.S. exports through an ocean transportation system that is competitive, efficient, and economical. For example, the bill requires the FMC to (1) investigate complaints about detention and demurrage charges (i.e., late fees) charged by common ocean carriers, (2) determine whether those charges are reasonable, and (3) order refunds for unreasonable charges.
- The legislation prohibits common ocean carriers, marine terminal operators, or ocean transportation intermediaries from unreasonably refusing cargo space when available or resorting to other unfair or unjustly discriminatory methods.
- One of the major highlights is that the bill prohibits inconsistent assessment of charges and charging for detention and demurrage without the required information. Ocean carriers and marine terminal operators are required to audit and certify demurrage and detention charges and comply with FMC guidelines for reasonable behavior.
    - The FMC is mandated to draw up new rules regarding demurrage and detention fees and is required to do so no more than 45 days from the bill's signing, with a new rule mandated within one year.
- Many ocean carriers are already reacting by changing demurrage and detention billing practices to manage themselves versus having port terminals collect previously.
- The legislation allows the FMC six months to create a new rule barring ocean carriers from refusing to deal or negotiate vessel space for exporters and small shippers and to determine when it's unreasonable for carriers not to provide service to exporters.

# Mexico Truckload

# Mexico current situation

### Inflation index

- Mexico inflation has reached another peak at 8.15% in July, now this being the new record in the last 21 years according to INEGI*.
- According to Banxico*, it's expected annual inflation to reach its highest level in Q2-2022. Subsequently it would decrease for the remainder of the year and throughout of 2023.
- Inflation in transportation sector has increased 5.7% Jan-Jul; in addition to the 9.9% increased that the industry faced in 2021 for a total of 15.6%.
- The average exchange rate of July closed at $20.53 MXN/USD.

### Diesel impact

- National avg. price for liter of diesel in MX reached $23.46 MXN in July, according to CRE*. This represents an increase of 7.79% compared to the same month last year.

### Drivers' shortage is set to increase in 2022

- According to IRU*, over 2.6 million driver jobs were unfilled in 2021 worldwide. Mexico closed the year with 8.6% of drivers' deficit, which it represents 54,000 unfilled positions. It's expected close the year with 11% of drivers' deficit.
- In 2022, minimum wage for Mexican drivers increased 22% compared to 2021; which means an accumulated increase in the last 3 years of 64.8%. Biggest challenge for Mexican Carriers B1 companies.

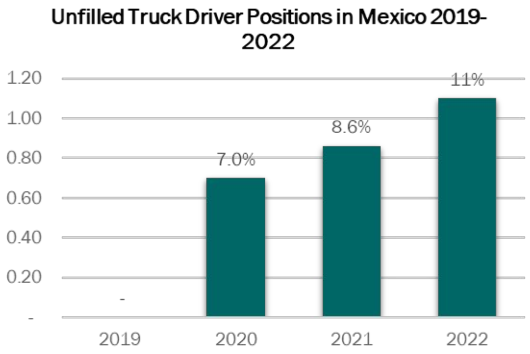
### Carta Porte update

- As of august 22, SAT announced the sixth extension to the implementation of Complemento Carta Porte. The new due date is December 31st, 2022.

**IPC - Transporte 2022**

| | Interanual | Acum. desde Enero |
|---|---|---|
| Julio 2022 | 7,4% | 5,7% |
| Junio 2022 | 6,9% | 5,0% |
| Mayo 2022 | 6,6% | 4,2% |
| Abril 2022 | 6,7% | 3,8% |
| Marzo 2022 | 6,3% | 2,9% |
| Febrero 2022 | 6,3% | 1,3% |
| Enero 2022 | 7,6% | 0,4% |
| Diciembre 2021 | 9,9% | 9,9% |
| Noviembre 2021 | 9,5% | 8,7% |
| Octubre 2021 | 7,3% | 8,4% |
| Septiembre 2021 | 7,0% | 8,1% |
| Agosto 2021 | 7,0% | 8,1% |
| Julio 2021 | 7,2% | 8,2% |

https://datosmacro.expansion.com




**National Institute of Statistics and Geography of Mexico (INEGI)*
**Bank of Mexico (Banxico)*
** International Road Transport Union (IRU)*



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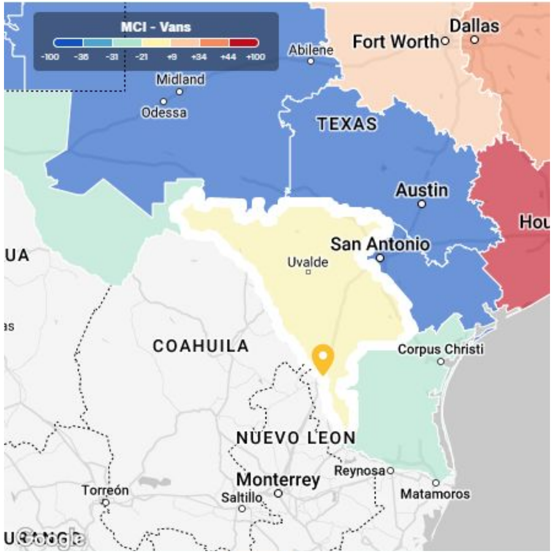
# Market conditions

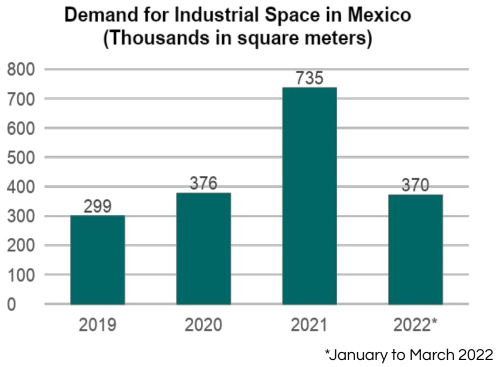
- A softening in northbound demand and a slight increase in southbound freight has been registered over the last couple of months among Mexican shippers.
- Transportation companies continue to be selective with their customers; carriers prefer to work with partners that minimize detentions, plan in advance, have agile payment processes, and are flexible in their shipping processes.
- According to DAT Market Condition Index Laredo's market shows a neutral market capacity for the first time in several months. In Q1 2022, the market had 100 loads per truck. The current average load-to-truck ratio of August is 3.5 loads per truck.
- For the first time in the past year and a half, rates out of Laredo, TX are slightly going down for US portions. We estimate 8-10% less and Mexican portions 2-4%.
- Northbound rates in Mexico continue to be high compared to pre-pandemic levels; however, they have softened compared to 2021 and Q1 2022.
- Overall rate increases in Mexican portions for exports, imports and domestic shipments have increased from 15-35% during the past 12 months.

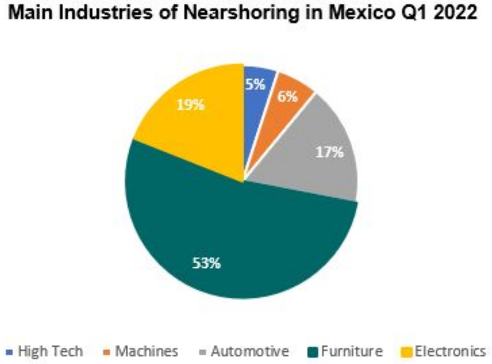


# Nearshoring in Mexico

- As nearshoring continues to bring companies into Mexico more demand of trucks for exports will maintain or increase prices on the Mexican portion with higher demand for export trucks.
- According to real estate company CBRE Group, Mexico closed Q2 with a demand of 370,000 $m^2$ for industrial spaces. This represents more than 50% of the total demand in 2021, and almost the total quantity recorded in 2020.
- From the total demand for industrial spaces in 2021, the main markets were the following cities:
  - Monterrey, NL (45%)
  - Ramos Arizpe, CU (20%)
  - Juarez, CI (17%)
  - Tijuana, BC (8%)
  - Guanajuato, GJ (4%)
  - Aguascalientes, AG (2%)


- In 2021, 50% of companies' reshoring operations to Mexico concentrated in the Automotive sector; however, in Q1 of 2022 this industry decreased to 17% while the furniture manufacturing sector ranked first place with a 53%, followed by electronics with 19%.
- For the last 4 years, Chinese companies have had the 50% of nearshoring business in Mexico; this number increased to 65% for Q1 of 2022, followed by Germany (23%), and Sweden (12.07%).
- According to CBRE, it's expecting nearshoring operations in Mexico to reach an annual increase of 8% for the next 3 years, mainly in the northern part of the country.



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# Outlook and recommendations

## Outlook

- Mexico trucking market for exporters and domestic freight is still a carrier market. We expect the market to soften during the next 6-9 months but could pick up any time with new shippers settling in.
- Carriers continue to be selective with customers, prioritizing shipper of choice best practices such as agile processes for loading, unloading, and border crossing.
- It might be a good time to renegotiate potential rate reductions with incumbent carriers for the upcoming 6-9 months.

## Recommendations for Mexico exporters

- Continue working on implementing efficient processes for Carta Porte implementation to avoid shipment rejections from carriers and the risk of paying fines for error or omissions in its requirements. Plan to help owner operators and small trucking companies that don’t have the capabilities to create and transmit Carta Porte information.
- Improve driver shipping and unloading times as well as border crossing times. Carriers looking for faster shippers to allocate equipment.
- Continue having open communication and 1:1 negotiations with your incumbents' carriers and logistics partners to prioritize service.
- Be ready to budget your transportation spend according to the current inflation rates; overall transportation and operations costs are increasing rapidly in Mexico.

# Canada

# Canada: highlights

- It is interesting the changes that one quarter will bear on an industry. The tail-end of Q2 and now continuing into Q3 has seen a significant shift or transition within the Canadian economy and thus freight industry. Canadian economic growth is beginning to cool. This threat of a downturn has put the carrier community in a position of having to navigate continually increasing costs against the real possibility of declining volumes and heightened competitive pressures.

- The Canadian markets (domestic and cross-border) certainly bore significant rate increases through the first part of '22, however changing economic conditions that emerged in early June have stopped this momentum, shifting the go-forward outlook.
  - The surge in inflation, rising interest rates and a scarcity of workers have narrowed growth opportunities as concerns about the economic outlook grow. Projected Canadian Real GDP over the next three quarters are 2.3% / 1.1% & 1.2%.
  - The level of CPI inflation within Canada continues at a multi-decade high. The year-over-year CPI fell to 7.6% in July, falling from 8.1% in June. This dip in July solely driven by lower fuel prices as other goods pushed higher.
  - Fuel costs across North America jumped significantly through Q2 '22, however from late June prices have fallen significantly. Average Canadian diesel fuel prices in Q2 '22 were 35% higher than Q1, however have fallen back such that year-over year, at mid-August fuel is 46% higher than one year earlier. World oil prices are forecast to fall slightly to $ 90 per barrel (current close of $ 97), thus remaining high by historical measures.
  - Canadian domestic ELD's: Provincial Transportation officials are continuing to prepare for the enforcement of the ELD mandate starting in January 2023. As most Canadian carriers run cross-border, most Canadian tractors were equipped with ELD's back in 2017 when the US mandated ELD's. Accordingly, the stricter enforcement of ELD's within Canada is not expected to have any impact on rates.
  - Cross-border restrictions are extended until at least September 30: The Canadian government announced the extension of its border restrictions, including the mandatory vaccination requirements at all land border crossings for all travellers, including truck drivers.



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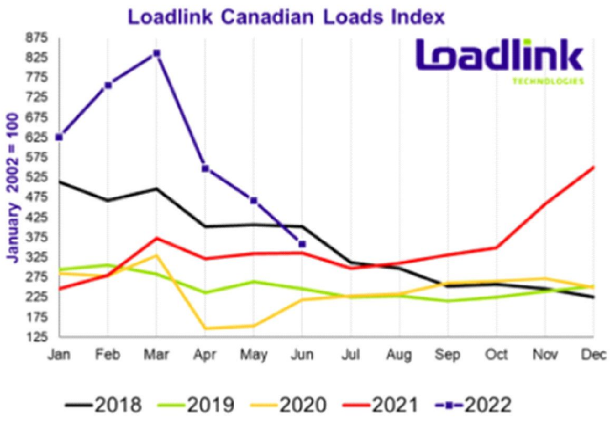
# Canada: key factors impacting supply

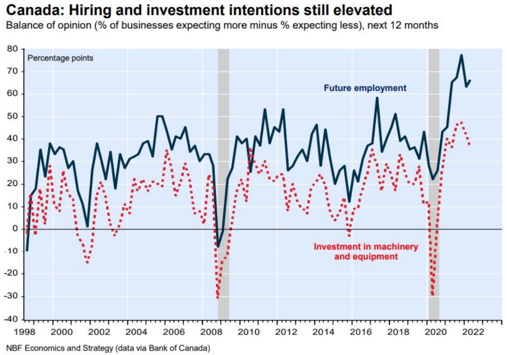
- As the historically strongest fall shipping season lies ahead, the balance in the Canadian market has shifted with capacity now growing and demand beginning to soften in many sectors.
    - The pandemic mandates, public health concerns and border issues appear mostly to be in the past. The cross-border balance between capacity and load volume has returned to a more sustainable position. Rate levels, while certainly higher than 2019 levels (+15%+), are in the process of returning to manageable levels.
    - The east to west lanes have benefited from a lack of damaging events (weather related closures and rail strikes) through Q2, the result being that rate stability returned to this market.
- June's data from Loadlink indicates that after record volume through the later part of 2021 and on into Q1 '22, load volumes are beginning to normalize. As well, capacity has grown for the 3rd straight month, a dramatic shift from the capacity strains of the past two years.

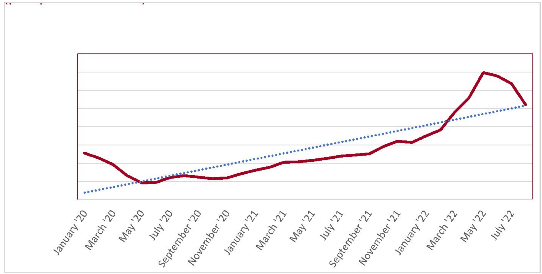



- Recent truck-to-load ratios have essentially flipped from Q1. Loadlink's recent figure for June was 2.53 available trucks for every load. This is a significant shift from January's figure of 0.93 but comparable to June 21's ratio of 2.68.
- Note: Load Link is the most popular load board within Canada. The results shown are heavily influenced by spot market moves.

# Canada: key factors impacting demand

- The combined impact of elevated inflation and higher interest rates, has began to cause a marked slowing in overall spending activity across Canada.
- July's Bank of Canada Business Outlook Survey reveals business optimism has ticked lower, but remains elevated. GDP growth is expected to moderate, reflecting a return to more normal post-pandemic demand conditions. Firms surveyed continue to report supply chain bottlenecks and labour shortages as their largest challenges.
- Canadian unemployment at 4.9% is at half-century lows. Pushed in part by the large number of the 55 to 64 age cohort leaving the workforce, this development has accentuated the labour scarcity in recent months. This tightness in the labour market has expected wage growth projections to run slightly higher at 5.8%.
- Driven primarily by a softening in demand attributable to record inflation levels and a general threat of a recession, North American diesel fuel prices peaked at the end of June and have continued to decline through mid-August '22. Since the beginning of 2022, Canadian fuel prices increased $ 0.743 or 60.3%. This compares to a very similar increase in the US DOE measure of $ 2.168 or 60.0%. (since the end of Q2, fuel prices have dropped 18.0% in Canada and 13.7% nationally in the US).
- Through Q2, the Canadian dollar has weakened against the US, falling from 80 cents to closer to 77 cents. The Canadian dollar is currently (mid August) trading at 76.98 cents ($ 1.2991). Economists see the Canadian dollar strengthening against the US dollar forecasting a $0.79 - $0.81 Canadian dollar through Q3 and Q4 '22.



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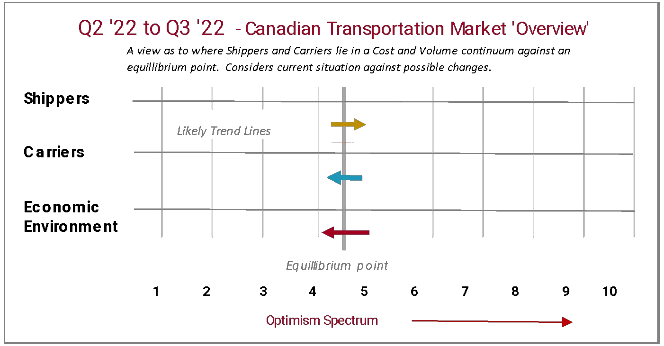
# Canada: current impact

- At the midway point of Q3, the Canadian freight market is moving through a transitionary period marked by softening volumes and increased capacity, the result being a notable 'correction' in market rates.
- A more recent shift is that carriers have become much more committed to participating in RFPs. Some carriers continue to decline, the most often cited reasons – network at close to capacity and shipper does not fit their preferred profile.
- The sizable rate increases in market rates exhibited in Q1 '22 continued into Q2, however, a correction that began in mid June has continued through July and early August. (see separate column on the following table) .
  - o Cumulative impact of the increasing rates in the first half of '22 is particularly evident on the cross-border market (both directions) where year-over-year increases exceed 50% - especially on short-haul lanes (less than 600 miles).
  - o The Toronto – Montreal corridor is an interesting study. On this high volume / highly competitive lane, rates have effectively not increased in a number of years. Market conditions through the pandemic facilitated carriers pushing rates on this corridor significantly higher…and to date they appear to be sticking, if not moving higher.

- Against this backdrop of slowing volume which will likely continue through the traditional strong 4th quarter, there is a growing equilibrium between shippers and carriers. The key questions moving forward are:
  - o Are the majority of carriers at a point of locking into contracted rates, as margins on spot market pricing have sufficiently been reduced?
  - o How will carriers balance the continued upward cost pressures (wages, equipment replacement and profitability) against increased competitive forces and the need to maintain network sustainable volume?



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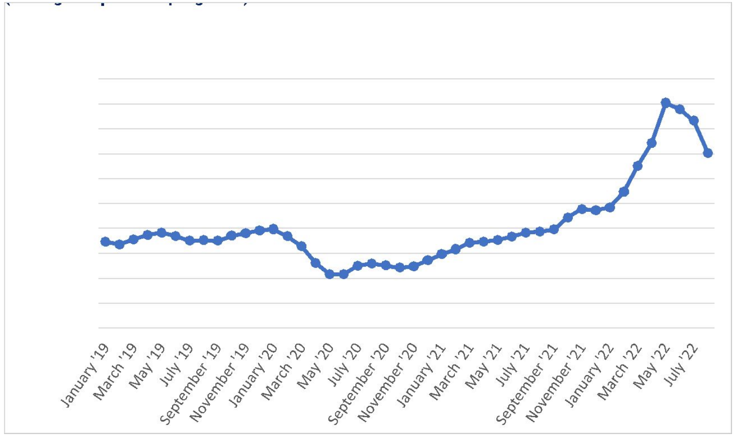
# Canada: current impact

- Results of benchmarking Q2 '22 Canadian Dry Van spot rates on key geographic markets outbound from Toronto & Montreal is outlined below. To highlight the change in recent market dynamics, an additional column highlighting the change in key market rates from the Q2 '22 average to July has been added.
- Fuel continues to have a significant impact on comparative costs, both on year-over-year and quarter-to-quarter total costs. Accordingly, the cost of fuel has been removed from the following table. Given the recent trends in linehaul rates below, increases in fuel costs (up 35% QoQ and 83% YoY) have compounded the impact which all-in rates have had in most Canadian domestic and cross-border markets.

| *Change in Base Linehaul* * removes impact of fuel | Quarter to Quarter Change Q1 '22 to Q2 '22 | July '22 Market Adjustment (to Q2 '22) | Year to Year Change Q2 '21 to Q2 '22 |
|---|---|---|---|
| **Between Toronto & Montreal :** | | | |
| TOR TO MTL | up 34.7 % | up 10.3 % | up 67.9 % |
| MTL to TOR | up 10.0 % | up 2.1 % | up 18.5 % |
| **To Western Canada (OTR) :** | | | |
| Ex TOR | up 1.7 % | down 6.9 % | up 20.5 % |
| Ex MTL | down 4.4 % | down 4.1 % | down 0.3 % |
| **To Atlantic Canada (OTR) :** | | | |
| Ex TOR | up 5.2 % | up 1.5 % | up 5.4 % |
| Ex MTL | up 23.5 % | down 1.4 % | up 39.0 % |
| **Southbound Cross-border - Short** | up 17.1 % | down 12.8 % | up 69.1 % |
| **Southbound Cross-border - Long** | up 2.2 % | down 3.9 % | up 25.6 % |
| **Northbound Cross-border - Short** | up 18.0 % | down 6.2 % | up 48.4 % |
| **Northbound Cross-border - Long** | up 19.0 % | down 9.2 % | up 54.1 % |

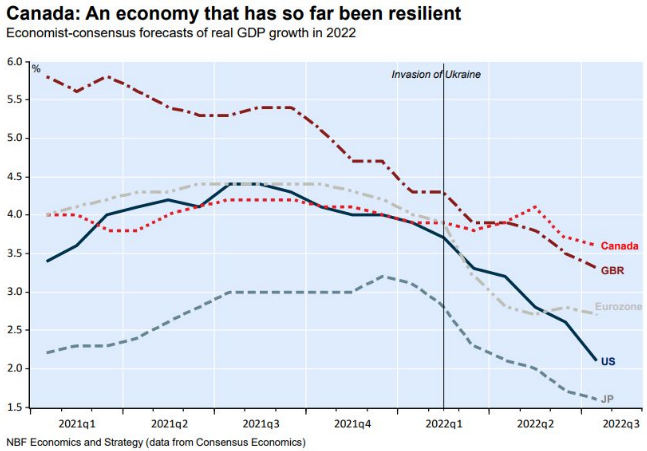
Source: Transcore LinkLogistics posted rate index material

Canadian fuel costs steadily increased from July '20, with significant increases occurring since January '22. In early July, North American, and particularly Canadian fuel costs began to fall and have continued to fall through mid-August.



# Canada: outlook and recommendations

- The Canadian economy has shown much more resilience than other G7 nations since Russia's invasion of Ukraine.
  - Q2's projected Canadian annual average real GDP growth was 4.5%, forecasted to fall-off through the back half of 2022 and into early 2023 (Q3 – 2.3% / Q4 - 1.1% and Q1'23 – 1.2%).
  - After spiking at 8.1% in June, July's CPI rose by 7.6% in July. Canada's price growth problems are not fully in the rear-view mirror as two of BoC's core inflation measures continued to rise in July.
  - The Canadian economy is showing signs of cooling. The expectation is that sales growth will slightly dip over the next 6 months and return to more normal demand conditions.
  - Tight labour markets (unemployment rate of 4.9% in Q2) have businesses expecting wages to continue to rise The BoC survey reported expected wage growth at 5.8% .




- In late June, driven by expanding industry capacity, increasing inflation and forecasts of slowing demand, the Canadian market dynamics appeared to change course in a matter of a few weeks :
  - Spot-market rates declined and carriers began committing to longer term contracted rates.
  - Carriers became much more active in participating in RFP's and looking for new opportunities.
  - Incumbent carriers rate increases became more reasonable and are more actively pursuing negotiated positions on accessorials.

# Canada: outlook and recommendations

- This leads to the following strategies …
  - As the tide has turned, many carriers are respectful of the coming year and what the economy and freight volumes may present as we move closer to 2023. Additional capacity appears to be available, both within the truckload and LTL markets. In this environment we are seeing varied responses in carriers' RFP submissions.
  - Current economic and industry conditions are favourable for issuing full network RFP's or even segmented mini-bids. All bids should include multiple-rounds as carriers have recently exhibited a tendency to 'fine-tune' their rates.
  - It is incumbent upon shippers to be willing to negotiate all aspects of the freight 'package' … terms of fuel programs, accessorials and other contractual arrangements, and most importantly understand the trade-offs that all elements of freight cost play.
  - Given a renewed focus on transportation budgets, shippers should be open to engaging both national carriers as well as strong regional carriers (LTL & TL). A creative, yet effective routing guide can yield savings without adding an undue burden on carrier management.
  - Shippers need to remain close to their primary carriers in communicating swings in volume and ensuring a regular cadence to scheduled pick-ups. It may not be the most opportune time to switch-up <u>all</u> carriers within a network or a region. If possible, new carriers should be introduced on a manageable scale on selected lanes. Additionally, ensure that all carriers on the routing guide are tendered freight on a regular basis.

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