FNBO TRANSPORTATION UPDATE

ECONOMIC UPDATE Q4 2023

In Q4 of 2023, the economy continued growing, albeit at a slower rate due primarily to lower levels of private investments and government spending. Key contributors to the GDP growth were computer software, pharmaceutical products, food services, health care and increased government wages, per the Bureau of Economic Analysis (BEA). The 3.3% growth in Q4 exceeded economists' projections of 2%, creating more uncertainty amongst economists regarding near term economic activity. The Q4 results would indicate that trucking volumes should continue to grow into Q1 2024, helping to restabilize the freight market.

REAL GROSS DOMESTIC PRODUCT

Quarterly Percent Change from Preceding Period

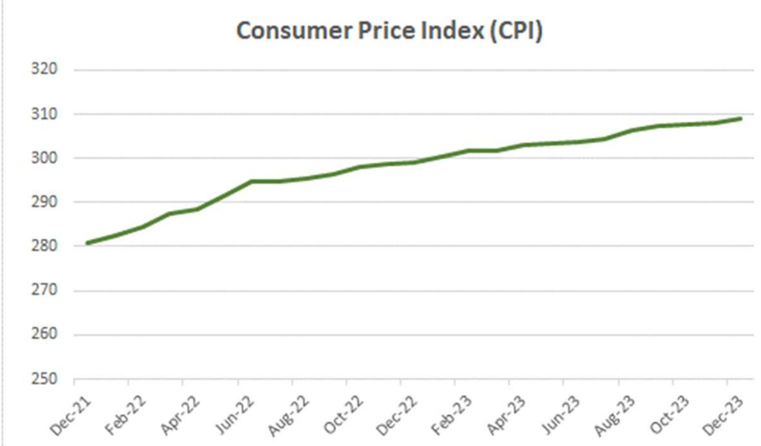
	Q4 2023	Q3 2023	Q2 2023
Nominal GDP	4.8%	8.3%	3.8%
Real GDP	3.3%	4.9%	2.1%
Personal consumption expenditures	2.8%	3.1%	0.8%
Goods	3.8%	4.9%	0.5%
Durable goods	4.6%	6.7%	-0.3%
Nondurable goods	3.4%	3.9%	0.9%
Services	2.4%	2.2%	1.0%
Gross private domestic investment	2.1%	10.0%	5.2%
Government Spending	3.3%	5.8%	3.3%

Source: U.S. Bureau of Economic Analysis

Real disposable personal income, shown at right, was relatively flat due to compensation and personal interest income keeping pace with inflation. Wage increases were largest in government and goods-producing industries. Personal savings rates dropped 6% in Q4 but were still up 23% compared to Q4 of 2023, per the BEA. Total consumer debt was up 1.9% for Q4 and up 10% year over year, according to the Board of Governors of the Federal Reserve System. This shows consumers are assuming more debt as growth of consumer debt outpaced personal income. This would support theories by some economists that consumers are tapped out and spending levels will be reduced during 2024 due to macroeconomic factors.

Source: Bureau of Labor Statistics

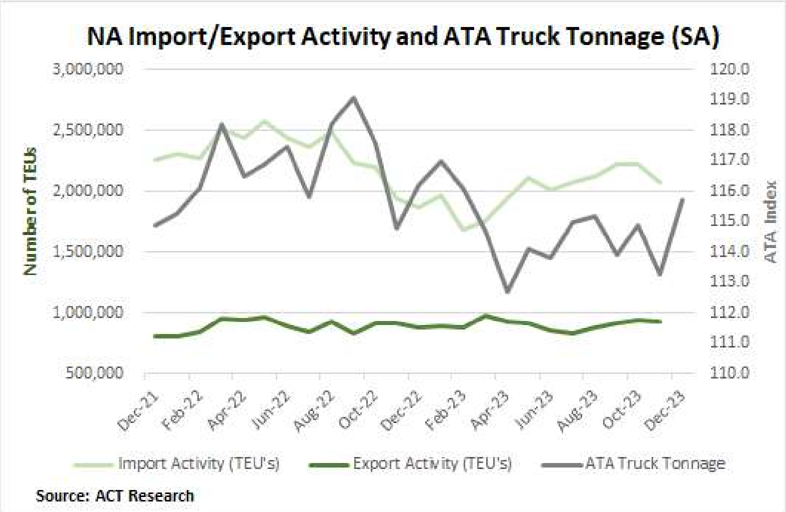
Inflation, measured by the Consumer Price Index, grew at a slower rate, increasing 3.6% in Q3 compared to 3.2% in Q4. Energy was a big contributor, down 4% in Q4, as gasoline was down 11%, offset by higher electricity and gas prices. Used cars, housing and medical services reported the strongest growth. The index for all items excluding food and shelter was flat quarter over quarter, per the U.S. Bureau of Labor Statistics.



Source: Bureau of Labor Statistics

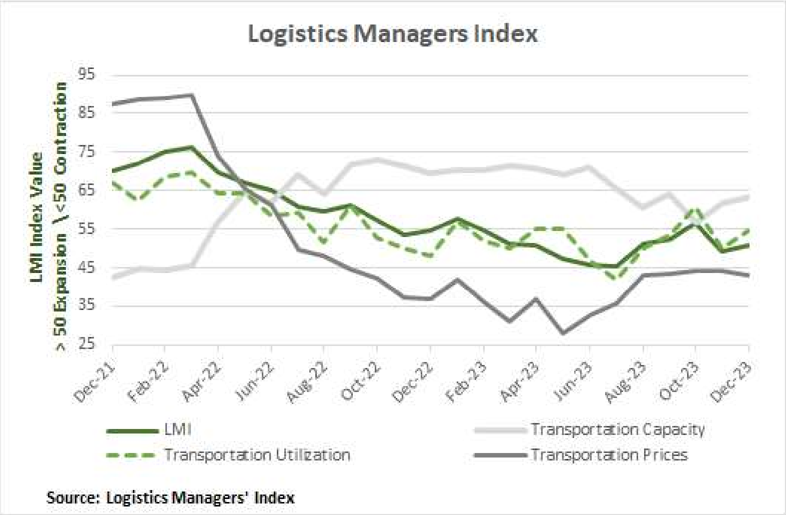
Employment levels remained strong, helping to maintain and drive consumer spending. According to the Federal Reserve Beige Book, there are reports of a larger applicant market, except for skilled trades and less wage pressure. Layoffs continue through attrition or termination of low performers.

FREIGHT DEMAND



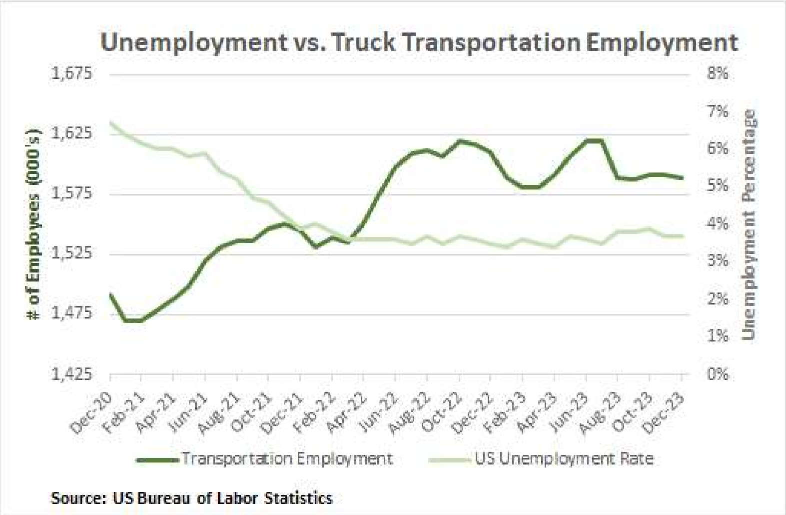
Source: ACT Research

Trucking demand has been flat, averaging 114.7 for Q3 and Q4, however, December numbers were up 2.6% from the low in April of 2023. Per ATA Chief Economist Bob Costello, truck tonnage decreased 1.7% from 2022 levels as the trucking industry remains in a freight recession. On the spot market side, per DAT, posting of loads as of December were down 53% year over year, dropping below even 2019 levels. Import activity in Q4 was flat before decreasing in November, which was due to seasonal import activity. ACT Research expects a gradual recovery through stabilizing retail activity and the end of inventory destocking. Export container volumes showed signs of improvement with month over month growth from February through October with a small dip in November. However, due to the strengthening dollar year over year through November, export volumes are down 14%.



Source: Logistics Managers' Index

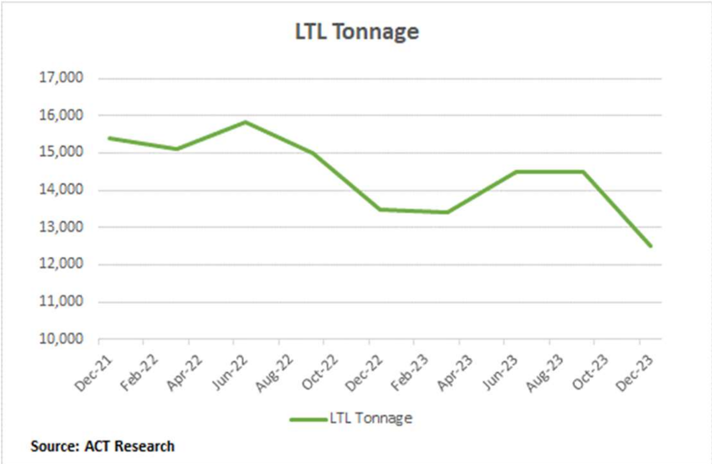
The Logistics Managers Index (LMI) highlights the inverse correlation between transportation capacity and prices with readings above 50 representing expansion in the industry. In Q4, the LMI averaged 52 versus 49 the previous quarter. Increased utilization and slower price contraction were the primary drivers of the index this quarter.



Source: US Bureau of Labor Statistics

Truck employment, in the bottom-left chart, was down slightly in Q4, per the U.S. Bureau of Labor Statistics. Employment levels were lower as entrants exited the space and because of the Yellow Freight bankruptcy. The national unemployment rate dropped to 3.70% for December.

LTL Tonnage decreased in Q4 as a portion of Yellow's freight moved to other channels, according to ACT Research.



Source: ACT Research

TRUCK RATES

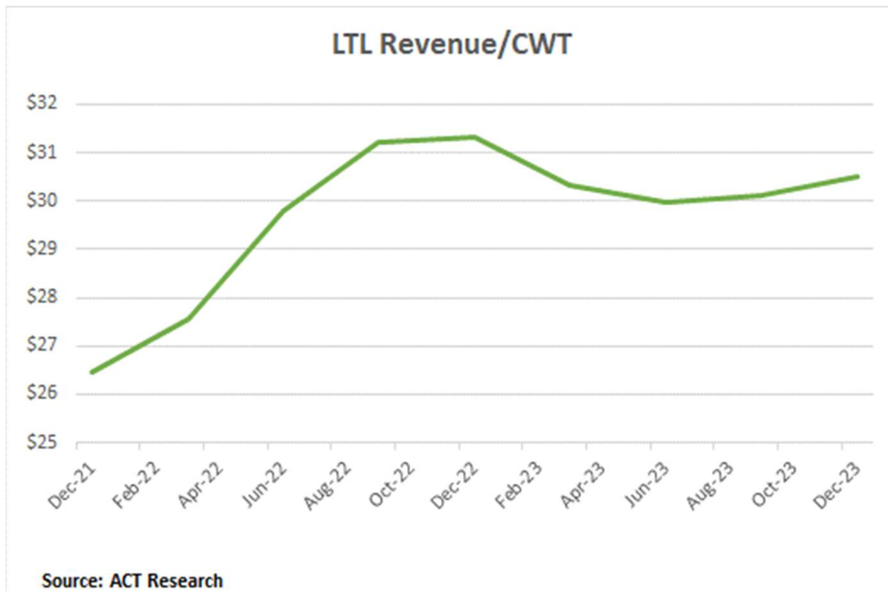
Shown on the right are contract and spot rates for dry van, reefer and flatbed. For Q4, contract rates were around 1% lower across all segments with flatbed down 1.6%.

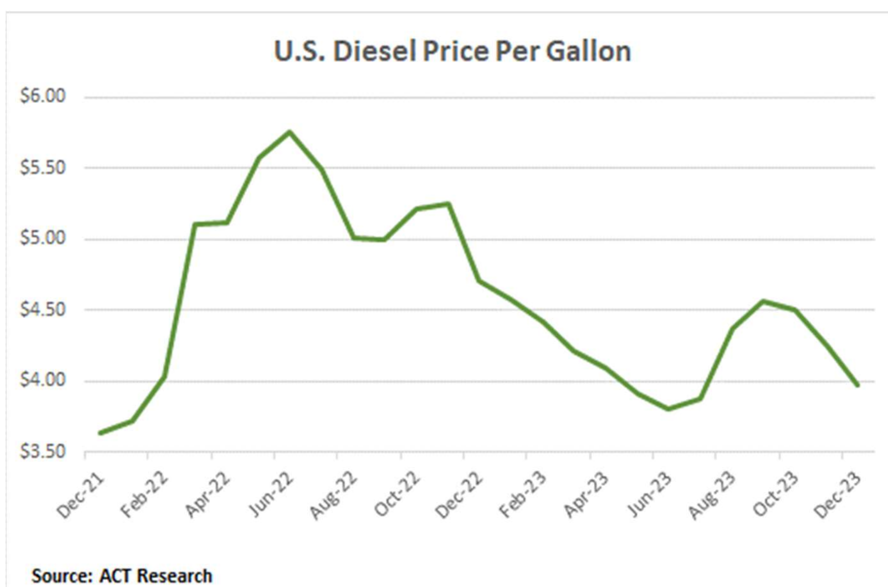
Flatbed spot rates were down 3% in Q4 with reefer rates down 1% and dry van spot rates up slightly less than 1%.

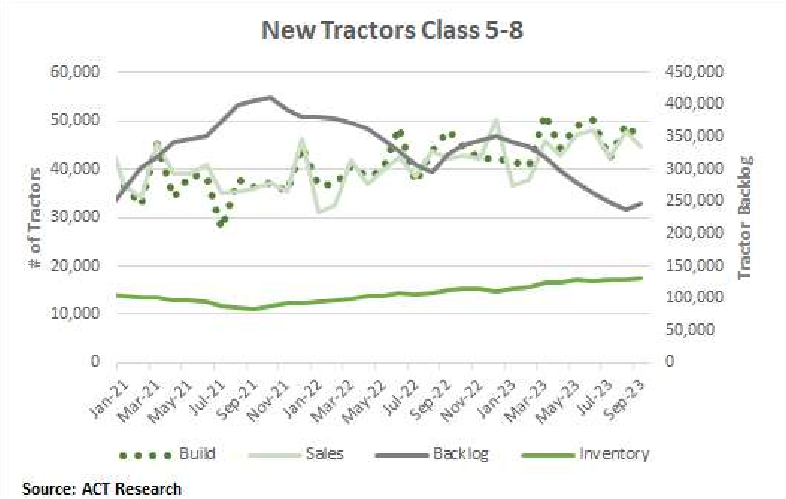
Rates stabilized in Q4 due to seasonal demand, however, ACT Research shows rates are expected to fall as the holiday momentum subsides. The soft spot rate market continues to put pressure on contract rates. The rate market is forecasted to continue through Q2 2024, based on current market expectations.

LTL costs were flat in Q4, up 1% and 1.6% when netting fuel. Per ACT Research, LTL rates increased as weight per shipment decreased. It is expected that rate increases for LTL freight will continue to be limited by excess capacity in the truckload market.

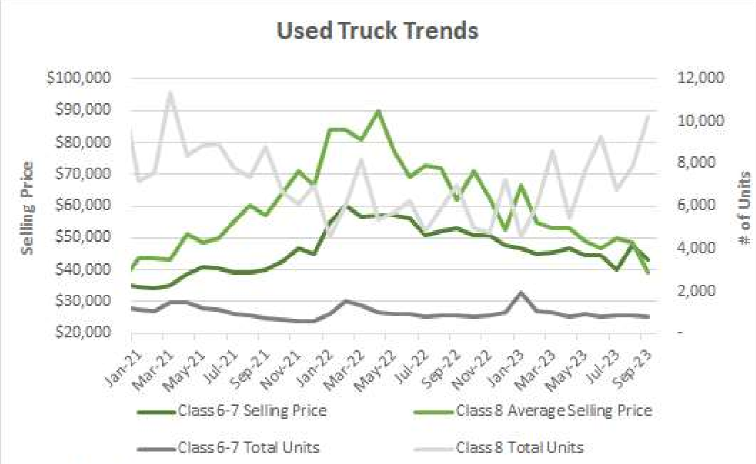
Diesel prices were flat on average during Q4, averaging $4.24. Year over year diesel prices were down 16% compared to Q4 2022. Prices are forecasted to decrease in 2024 due to increased refinery capacity increasing inventories. Also contributing to lower prices is higher anticipated production from the Middle East, specifically Kuwait, helping to ease price pressures, according to the U.S. Energy Information Administration.







Source: ACT Research



Source: ACT Research

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TRACTOR TRENDS

The backlog grew 11% in Q4 as a result of the order board opening in September, but compared to Q4 2022, backlog is down 21%. This is attributable to lower class 8 orders with the backlog for medium duty down just 8%. Build levels were up 4%, with Class 8 down 3% and Class 5-7 up 15%. Build levels were impacted by the UAW strike, according to ACT Research.

Cancellations were down from 1.4% of backlog in Q3 to 1% of backlog in Q4. Inventory numbers were up 8% in Q4 and 24% year over year with medium duty units making up a large share of the increase.

Used class 6-7 units were up 20% in the fourth quarter with prices down 13%, partially due to higher age and mileage on the units. Class 8 units were flat quarter over quarter with a 7% decrease in price, 3% lower mileage and 3% increased age. Helping to temper the decrease in prices was a 97% increase in exports year over year. Government data shows 16,500 trucks were exported for 2023, per ACT Research.

Used values of class 8 trucks decreased an average of 13% across all ages. Six- and seven-year-old trucks experienced the largest decrease at 17% and 21% respectively. Year over year, values were down an average of 41% due to lower demand for used units.

fnbo Transportation Banking

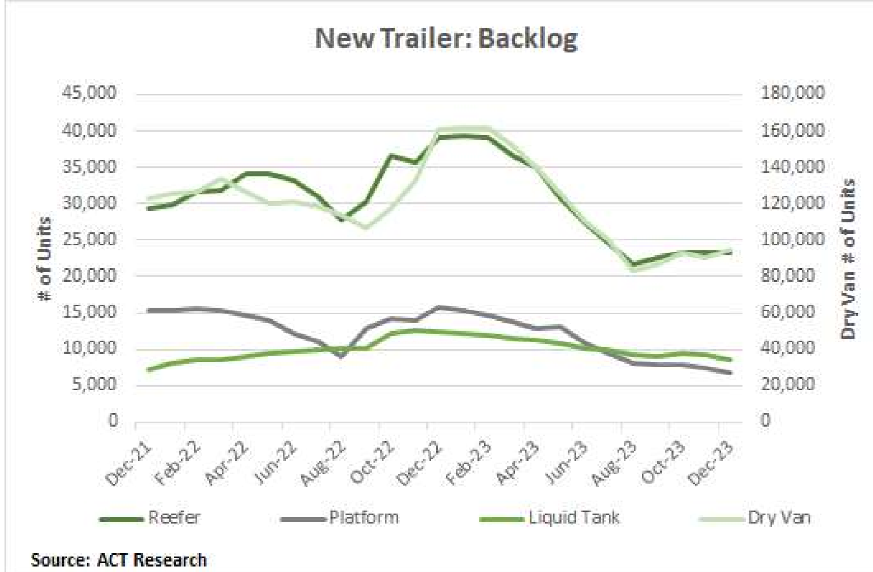
TRAILER TRENDS

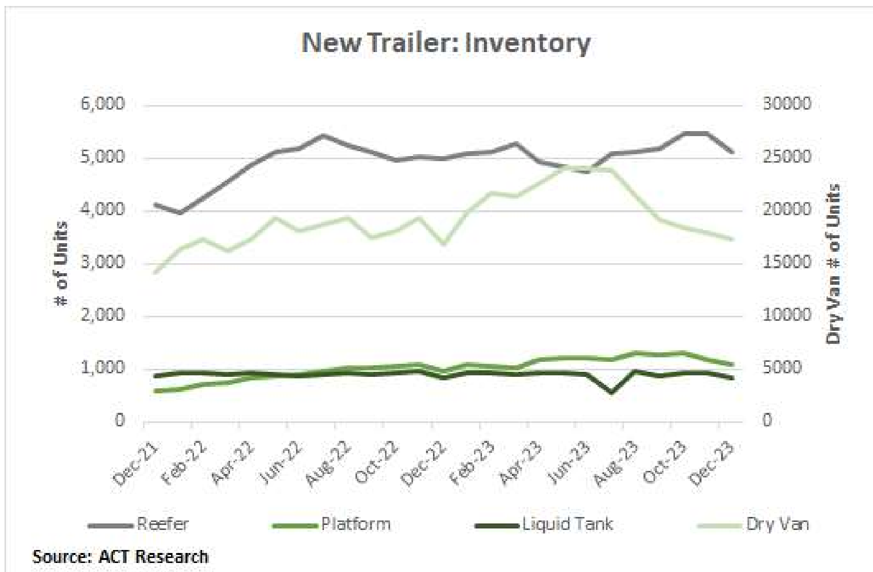
Trailer backlogs were relatively unchanged from Q3 but were down 33% from Q4 2022. Dry van and liquid were up 3% over last quarter with platform down 12%. Reefer showed marginal growth at 1%. According to ACT Research, cancellations as a percentage of backlog decreased from 2.5% to 1.3% in Q4. However, liquid tank cancellations increased from 1.6% in Q3 to 4% in Q4. The spike in cancellations is likely due to lower oil prices.

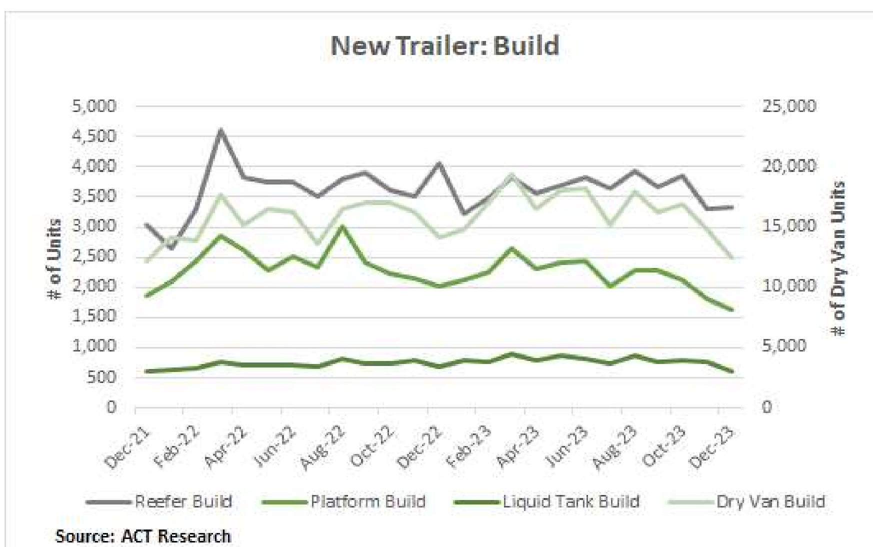
Inventory numbers were down 11% when compared to Q3 and up 2% when compared to Q4 of 2022, according to ACT Research. Dry van inventories were down 17% with platform down 12%. Liquid tank inventories were up 12% with reefer up 1.5%.

New trailer builds were down 10% quarter over quarter and 7% year over year. Per ACT Research, OEMs reported that supply chains have normalized in regard to disruptions. ACT reported that build levels per day averaged 1,504 units for 2023, however, lower build rates of 1,100 are forecasted for the first half of 2024.

For 2024, manufacturers stated that orders are slow. Many carriers are taking a wait and see approach rather than committing to new orders, per ACT Research.







INTEREST RATE OUTLOOK

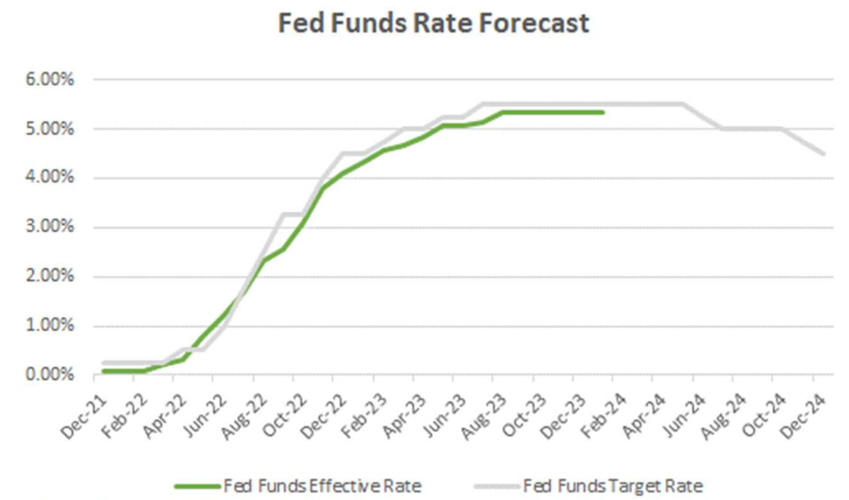
The Fed Funds target rate remained unchanged for Q4 at 5.50% after increasing a full percentage during 2023. Shown at the right is what the market is predicting for cuts beginning in June with an expected 1% reduction in the target rate by end of 2024. The expectations for rate cuts have been mixed in 2024 after a stronger than expected jobs report and inflation figures.

Per the release from the Federal Reserve's January 2024 meeting, the committee will need to have greater confidence that inflation is continuing to move toward 2% before cutting rates. The Fed also commented that it will continue to monitor labor market conditions, inflation pressures, and financial and international developments when considering any adjustments to its monetary policy.

The central bank is expected to continue to reduce its holding of securities, otherwise referred to as quantitative tightening, by reducing its holding of Treasury securities and agency debt, which is unchanged from January of 2023.

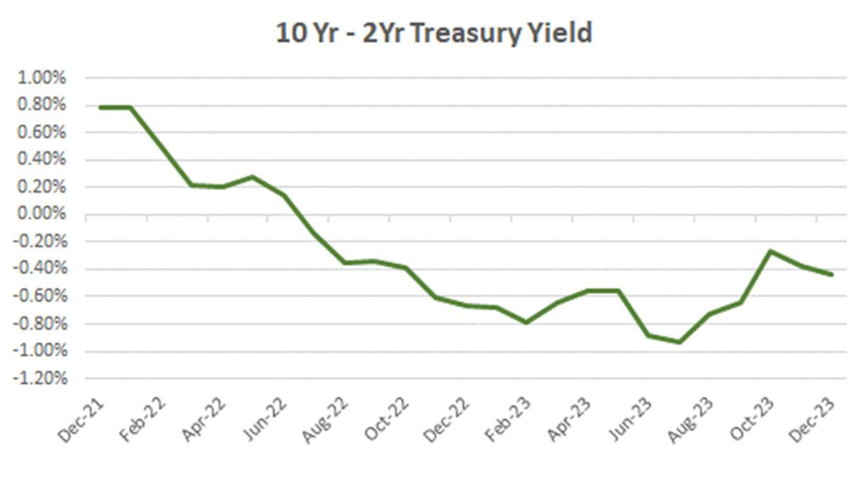
The second chart shows the three- and five-year Treasury yields. Treasuries are a commonly used index for fixed rate loans. On average the three-year yield decreased half a percent in Q4 with the five-year yield increasing 2.5%. However, both indexes showed a 40 bps drop in the month of December with additional decreases expected for January.

The last chart is the 10-2 year yield spread for Treasuries. Any value above 0% indicates it is more costly to borrow money for a longer term than a shorter term. Currently the yield curve is inverted averaging -0.4% for Q4, compared to -0.8% for Q3. This indicates the gap between short- and long-term borrowing rates compressed in Q4. An uninversion of the yield curve happened prior to the last four recessions.



Source Bloomberg Financial

Source: Federal Reserve Bank of St. Louis



Source: Federal Reserve Bank of St. Louis

Connect with the Expert, Aaron Martens

Aaron Martens is the Vice President of Transportation Banking for FNBO. In this role, Aaron supports closely held and family-owned businesses with comprehensive banking services. Aaron has been with the bank for over 15 years, with the majority of his experience in commercial banking. Aaron received a BSBA from the University of Nebraska Lincoln and an MBA from the University of Nebraska Omaha.

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