# WHAT DOES THE CURRENT AND FORECASTED FREIGHT ECONOMY MEAN FOR SHIPPERS?

The current supply-demand imbalance provides pricing leverage, but how long will it last?

Gather a group of experts together on any topic and it's tough to find complete agreement. But almost any economist who weighs in on the freight economy expresses similar sentiments: The market is flat. Overcapacity is still an issue. Rates are low.

Freight in 2024 is at a standstill, but virtually everyone agrees this will change soon. The only question is when? Some think the second quarter, others are hedging their bets for the fourth. But most everyone expects it will see movement soon and start climbing.

When that happens, what will it mean for shippers and their carrier counterparts? Who will be the winners and losers? What steps can shippers take now to prepare for the inevitable upswing? That's what we explore in the State of the Freight Economy, presented by Werner®.

In developing this report, we spoke to trucking's leading economic experts, industry associations, consultants and financial experts, including executives at Werner, ranked 13th in the *Commercial Carrier Journal* Top 250 Carriers in the nation.


## TOO MANY TRUCKS CHASING TOO LITTLE FREIGHT

Before we can get to a full-blown freight recovery, the market needs to work through capacity challenges, experts say.

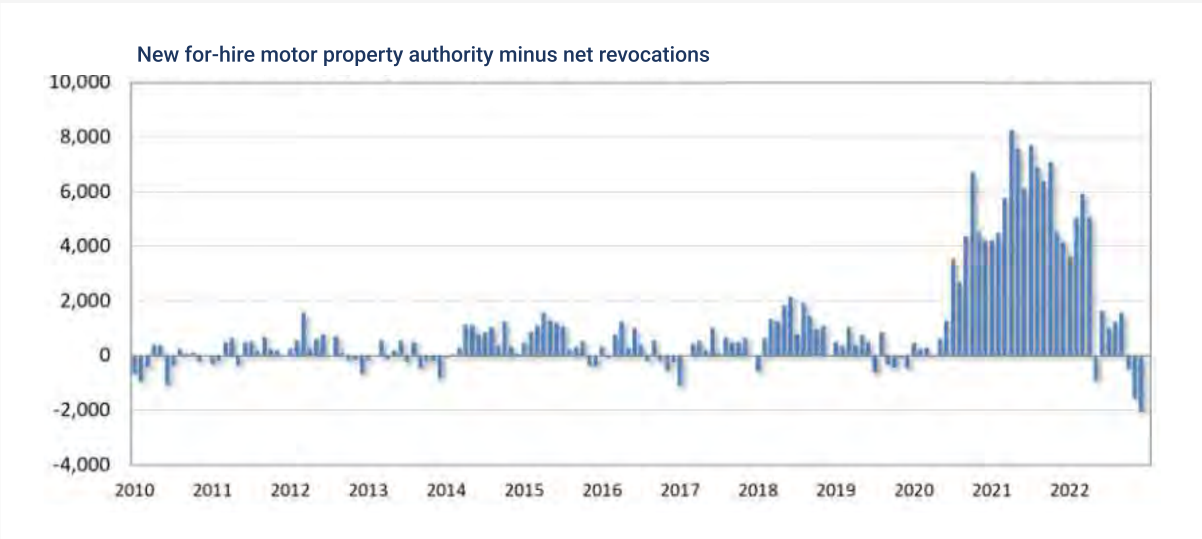
"We still have more capacity in the market than we need," says Avery Vise, vice president of trucking at FTR Intelligence, which monitors the trucking market. Capacity increased significantly during the pandemic as consumers used excess cash from government stimulus to buy in-home goods, flooding the market with freight and causing spot rates to skyrocket. Thousands of new trucking entrants jumped in to capitalize on the situation.

Now, consumers are moving their spending away from goods hauled by trucks and toward travel and services. The drag on consumer goods will continue somewhat into 2024, with possibly a recovery near Q4, says Ken Vieth, who oversees commercial vehicle analysis and forecasting at ACT Research.

Sometimes, a robust manufacturing sector can offset slow consumer spending and improve the outlook for trucking, but not this time. Vieth says there is a general flatness in manufacturing right now, which will continue through most of 2024.

At the same time, interest rate-dependent freight – such as that tied to home building and the automotive sector – has also suffered, further deteriorating the freight picture, Clarendon Capital's John Larkin said during a *Logistics Management webcast* in January.

## Net Change in Carrier Population




*While the net number of carriers is down, they are down from record highs, FTR's Avery Vise told attendees at a February freight outlook webinar. "We still have something on the order of 85,000-90,000 more for-hire trucking operations than we did before the pandemic," he says, with most of those having one to two trucks.*

The ongoing capacity challenges have contributed to nearly 88,000 trucking companies closing their doors in 2023, according to CarrierOK, a data analytics and risk firm. At the same time, fewer new entrants are coming in, says Chris Neil, SVP of Pricing/Strategic Planning at Werner. "The industry is facing ongoing attrition, with a significant number of carriers going out of business in early February and a continuous trend of negative net deactivations, indicating more exits than entries in the market," he says.

But even the large number of carrier failures and slowdown in new entrants has not been enough to bring equilibrium to the freight market.

Vieth says freight rates will stay low until capacity comes down further. Larkin concurs, saying truckload rates will "remain flat to modestly up reflective of inflation in 2024."

## WHERE IS FREIGHT HEADED?

Some economists were startled by reports showing consumer spending tracked down in January by .08 percent, more than the .02 percent many expected. But with longer-term visibility into customer orders from his role as a freight broker, Robert Khachatryan, founder and CEO of Freight Right Global Logistics, says he wasn't surprised. He could see that in his shipping orders.

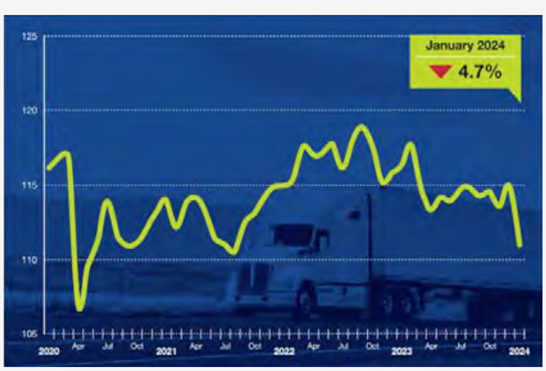
"I see the market as very, very slow in the near term, and from my position, we see things ahead of time; we have visibility two or three months ahead with customer orders," Khachatryan says.

He does not predict an uptick until later in 2024, although he sees things begin to stabilize once we get into Q2 with customers who are importers of truck tires and parts seeing an uptick then. "Definitely, we are optimistic," Khachatryan continues.

Vise's assessment also states there will be a modest recovery in volume and rates by Q4.

"But it will be fairly tepid," he says. The mild recovery will impact truck utilization, he explains, which measures how many trucks are needed to move the current amount of freight compared to the number of active trucks available.

"Right now, [utilization] is very low, and we don't expect it to be at a 10-year average until 2025," Vise continues. Until utilization improves, carriers won't see rate pressure relief, he says, and shippers will continue to enjoy good pricing power.




## FREIGHT OFF TO A ROCKY START

*Freight volumes dipped in January due to harsh winter weather and sharp drops in retail sales, housing starts and manufacturing, according to the American Trucking Associations' Truck Tonnage Index.*

Source: ATA


## DON'T FORGET THE UNKNOWNS

Not to be discounted are unexpected variables in forecasting. For instance, analysts don't include what they call "black swan" events – unusual situations with potentially severe consequences – in their outlooks. For example, a major hurricane hitting the Gulf Coast can snarl supply chains but result in more freight volume, especially in flatbed, as carriers rush supplies to the impacted zone.
"Unforeseen events are usually not positive, but a hurricane can be stimulative, especially to the flatbed segment," Vise says, as trucks move generators and pallets of supplies to the areas hit.

Then there's the fact the United States is in a presidential election year, which can cause economic volatility regardless of the outcome. "From an economic standpoint, an election year is a plus because the sitting administration does everything it can to juice the economy," Vise says.

Faraway factors can also hit close to home. "There are issues in the Red Sea with attacks on cargo shippers and tankers, and then there are more systemic issues like low water levels in the Panama Canal, which is causing a fairly significant shift in port activity from west to east coast," Vise says. This shift can increase expenses as hauling goods from the West Coast to the major population centers of the East Coast adds fuel and driver hours.

Vieth agrees that traffic problems in the Panama Canal will divert freight.

"The Panama Canal is low, and that is halving the number of ships; we will see a lot more land bridge freight in 2024 and off the West coast with intermodal," he says.

Given the potential impacts of shifting port traffic, carriers must have a robust network that gives their shipper customers flexibility if they want to be responsive. "We've made substantial investments in our terminal network, resulting in 60-plus terminal and drop yard locations designed to maximize productivity and optimize length-of-haul," Werner's Neil says.

"In fact, more than 90% of the U.S. population is within 150 miles of a Werner Dedicated fleet location, terminal or Roadmaster Drivers School," he adds.

Possibly the biggest unknown that will impact freight volumes and the general trucking economy is in the hands of one major entity: the Federal Reserve, says Andrew Balthrop, a research associate specializing in freight and supply chain at the University of Arkansas' Sam M. Walton School of Business.

The Fed is signaling interest rate cuts are likely in 2024, Balthrop says, which would spur the economy. Anything less could stall it.


## WHAT'S A SHIPPER TO DO?

In the challenging freight market of 2024, with low volumes and soft rates, shippers might be tempted to prioritize price above all else. But experts say that could be a mistake.

The current low prices are creating an unhealthy environment, says freight analyst Bart De Muynck. Carriers can't stay afloat and are still leaving the market. Fleets are operating on wafer-thin margins. And shippers get seduced by low prices, potentially sacrificing service and a quality carrier relationship in the process, he says.

"It's bad for everyone now," De Muynck says.

With the flat freight forecast for this year, De Muynck says shippers should focus on building quality carrier relationships now, so they aren't caught flat-footed when the market is hot.

"This should be a year to collaborate with your carrier because it is only a matter of time before the market returns, and shippers who have not prepared themselves for it will scramble. But shippers who have spent this year building good carrier relationships will not struggle to find capacity," he says.

> **"Shippers who have spent this year building good carrier relationships will not struggle to find capacity."**
>
> **Bart De Muynck,** Freight Analyst

## MAKING THE SUPPLY CHAIN WORK BETTER IN A CHALLENGING MARKET

Even during a flat freight environment, carriers should continue trying to create efficiencies and innovations that can be passed on to customers. Some of the efforts Werner is pursuing to reshape freight include:

**A Higher Velocity Supply Chain.**
E-commerce and hybrid offices have increased the need for speed. Eliminating chokepoints and implementing creative last mile solutions shorten delivery times.

**Customer Alignment:**
Werner is hyper-focused on delivering freight on time and undamaged. Customers are at the core and Werner works with the best in every vertical to optimize every aspect of the supply chain.

**Reduced Cost and Driver Retention:**
We know freight won't get there without drivers. The customer may be king, but the drivers are royalty, too, and Werner strives to create a driver-centric workplace.

When capacity inevitably tightens, and freight volumes improve, rates will go up, Vieth says. “By the end of the third quarter, we see traction build on rates,” something shippers will want to prepare for, he says. Planning is key. “This is a good time for shippers to run an RFP [request for proposal] event, lock in the more normalized rates on transportation, and make sure you have good agreements – and good relationships – with your core carriers into the next two to three years,” Evan Armstrong, CEO of consulting firm Armstrong & Associates, told DC Velocity earlier this year.

When the recovery comes, De Muynck says larger carriers such as Werner may find themselves in the strongest position. “Not all capacity is created equal, and carriers with large fleets and systems can guarantee high levels of service,” De Muynck says, adding that smaller fleets’ service and equipment often can’t match that of the big carriers.

While larger carriers may not be able to compete on price with a mom-and-pop outfit with little overhead, the breadth of services offered by a big carrier can’t be duplicated on a smaller scale, he says. “Companies need to have the mindset of not looking for the lowest rate; they instead need a fair rate with the highest level of quality and service,” De Muynck says.

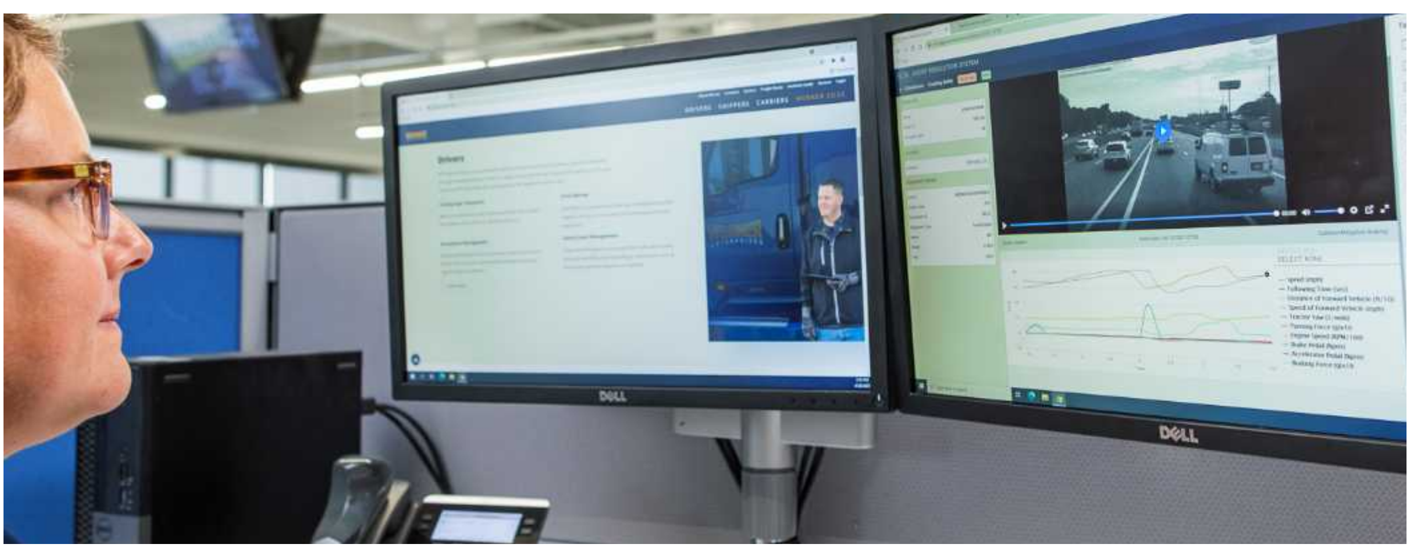
“By focusing solely on price, shippers might risk compromising on service quality, reliability and, ultimately, their supply chain performance,” says Neil.

A poor experience in any one or more of these areas can be far costlier than any initial price point savings.

Shippers should look at the entire picture, says Neil, “such as on-time delivery, cargo safety and customer service, to ensure a more holistic and sustainable approach to freight transportation.”

**“By focusing solely on price, shippers might risk compromising on service quality, reliability, and ultimately their supply chain performance.”**

**Chris Neil**
SVP of Pricing and
Strategic Planning at Werner




## BUILDING A RIGHT SHIPPER-CARRIER RELATIONSHIP

With trucking undergoing a slow recovery, the best shipper-carrier relationships look for ways to realize all possible efficiencies throughout the ecosystem without sacrificing quality. Specifically, shippers should seek carriers who strive for innovation through technology, De Muynck says. “Technology is playing a bigger and bigger role, and shippers need to consider that when building carrier relationships.”

Technology and innovation remain core to Werner’s mission, Eric Downing, EVP and COO, says. For instance, “we are making disciplined investments and transitioning our One-Way business to the Werner EDGE® TMS platform in 2024,” he says. “By consolidating all freight operations through Werner EDGE TMS, we aim to enhance the customer experience and reduce execution costs through improved visibility and optimization across operations.”

As they plan for the coming freight turnaround, shippers should also be confident that their carriers have dependable equipment and safe, professional drivers to ensure their cargo reaches its destination on time and without incident.

“In response to the freight outlook, Werner has adopted strategies to optimize its equipment and professional driver resources,” Downing says. “We’ve prioritized fleet modernization by reducing the average age of our vehicles, ensuring they remain safe, reliable and fuel-efficient.”

The average truck age at Werner is two years, well below the industry average, and a recent move to bring maintenance in-house is designed to improve operational efficiency, Downing explains. All Werner trucks are equipped with the latest technologies, including GPS tracking, collision mitigation, auto manual transmissions, forward-facing cameras and a tablet-based telematics solution that supports a safer and more efficient driver experience.

Shippers should also seek out carriers with a dedication to safety. “In 2023, we were proud to have had a 19-year low in our DOT preventable accident rate due to the hard work of our professional drivers, mechanics and safety associates,” Downing says.

No one knows what the next few months will mean for the freight economy. Shifting consumer sentiment, geopolitical events, and natural disasters can all buffet the freight markets for better or worse. Savvy shippers will keep a sharp eye on the trends, do their due diligence and choose carriers that can stay with them long-term, through this current flat market and into a more robust future.

"At Werner, our goal is to be prepared for success – for ourselves and our shipper customers – no matter what the freight outlook," Downing says. To that end, Werner is focused on cost-saving initiatives, targeting $40 million in identified cost-reduction measures. "Those savings can be reinvested or passed on to our shipper customers in rates and efficiencies," he says.

The challenges in the freight industry will persist for some time, so shippers need to be aware of them and work with carriers who can help them thrive despite them.

> **"At Werner, our goal is to be prepared for success – for ourselves and our shipper customers – no matter what the freight outlook."**
>
> 
>
> **Eric Downing**
> EVP and Chief Operating Officer at Werner

# WHO IS WERNER®?


Werner delivers superior truckload transportation and logistics services to customers across the United States, Mexico and Canada. With 2023 revenues of $3.3 billion, an industry-leading modern truck and trailer fleet, nearly 14,000 talented associates and our innovative Werner EDGE® technology, we are an essential solutions provider for customers who value the integrity of their supply chain and require safe and exceptional on-time service.

Today, Werner is the fourth largest dedicated carrier in the United States, with a fleet of approximately 8,000 trucks and 30,000 trailers transporting cargo throughout the United States, Canada and Mexico.

Werner is fiercely dedicated to supporting its customers and delivering cargo from point A to point B, with customized solutions and exceptional service at its core. The Werner DRIVE℠ (Durable, Results, Innovation, Values, ESG) strategy and framework highlights the company's unwavering commitment to innovations and helps consistently deliver value to all stakeholders, including shippers.

The company will deliver your goods with the same care and precision it has been known for the last nearly seven decades. Because at Werner, experience isn't just a number; it's a promise. That's how Werner delivers beyond expectations.