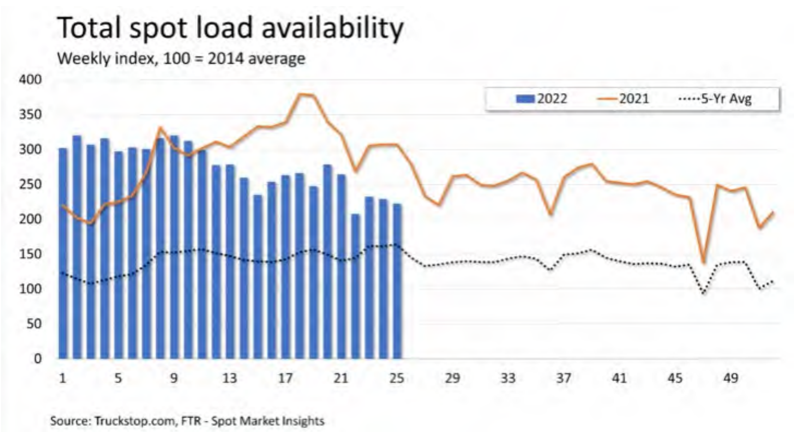
June 2022: Prices Remain High, But Peak May be Near

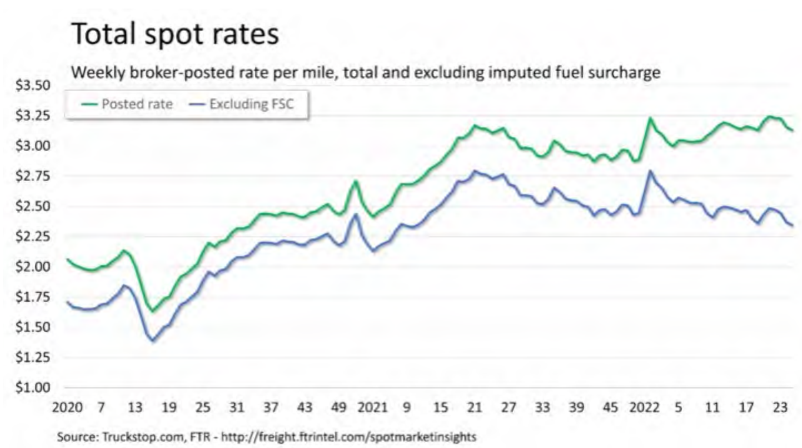
US freight spot rates are declining as contract rates continue to increase, but the peak may be near. Fuel surcharges make up a large part of high spot prices, but as capacity is increasing spot rates are beginning to decline and contract rates are expected to eventually follow this trend. However, ongoing disruptions are expected to keep prices elevated in the short term. Driver availability has improved in 2022 for large truckload carriers and is expected to continue improving. Inflationary pressures and declines in consumer spending and housing construction markets are expected to eventually reduce demand in the trucking market. Fuel prices are set globally and have reached high levels due to pandemic related supply and demand impacts, such as recent lockdowns in China, and the war in Ukraine according to the World Economic Forum. The US has seen large percent increases relative to other countries because US prices were historically lower than the rest of the world. However, US gasoline prices remain lower than most of the globe.



Source: FTR Weekly Report, June 27th, 2022

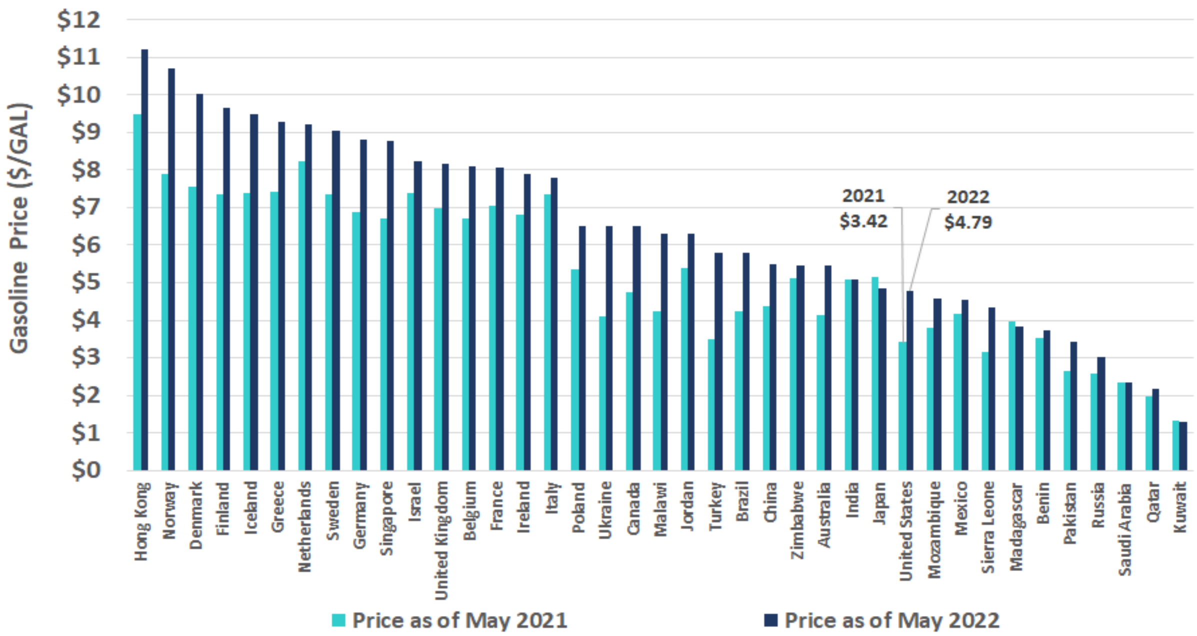
- Since the last update, volumes have declined steadily but are still 36% above the 5-year average as of June 27.
- The Market Demand Index (ratio of loads to trucks from Truckstop.com) has declined to its lowest level since November 2020.
- The 3 largest volume markets (including the Southeast) saw lower volumes week-over-week.
- The truckload market appears to be moving away from an extreme to a strong market.

- Total spot rates remain high, primarily due to the impact from fuel costs.
- Rates were only up 0.2% compared to the same week last year. Excluding fuel surcharges, rates would have actually fallen 15% year-over-year.
- Flatbed rates declined 11.5 cents in the past 2 weeks, but are still 7% higher than 2021. Without the fuel surcharge, rates would be 6% lower.
- Flatbed loads declined 7% everywhere except in the Northeast and overall volume was down 32% compared to last year, but was 34% higher than 5-year average.

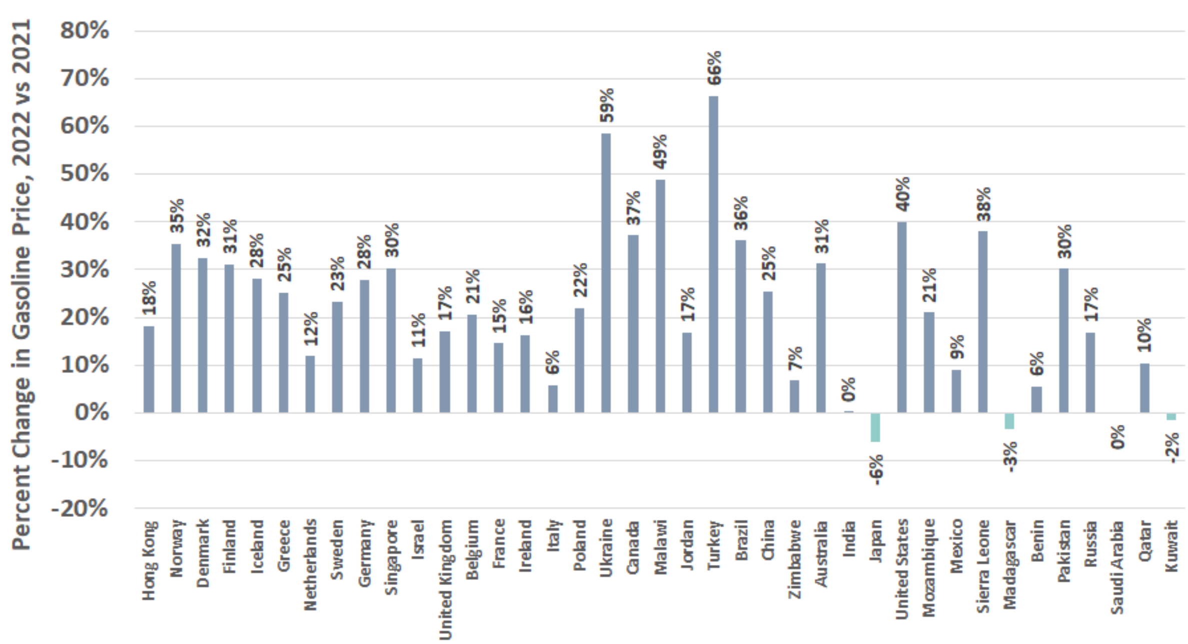


Source: FTR Weekly Report, June 27th, 2022

- Globally, gas prices increased by double digits between May 2021 and May 2022, with the largest increases being seen in the Black Sea region due to the war in Ukraine.
- As the cost of oil is a large share of gasoline price composition in the US, when oil prices go up or down 10%, the price of gas changes by about 7%.
- In Europe, however, gas prices typically change by about 3% for a 10% change in oil prices because the cost of oil is a smaller portion of the overall price of gas; taxes make up the majority in Europe.

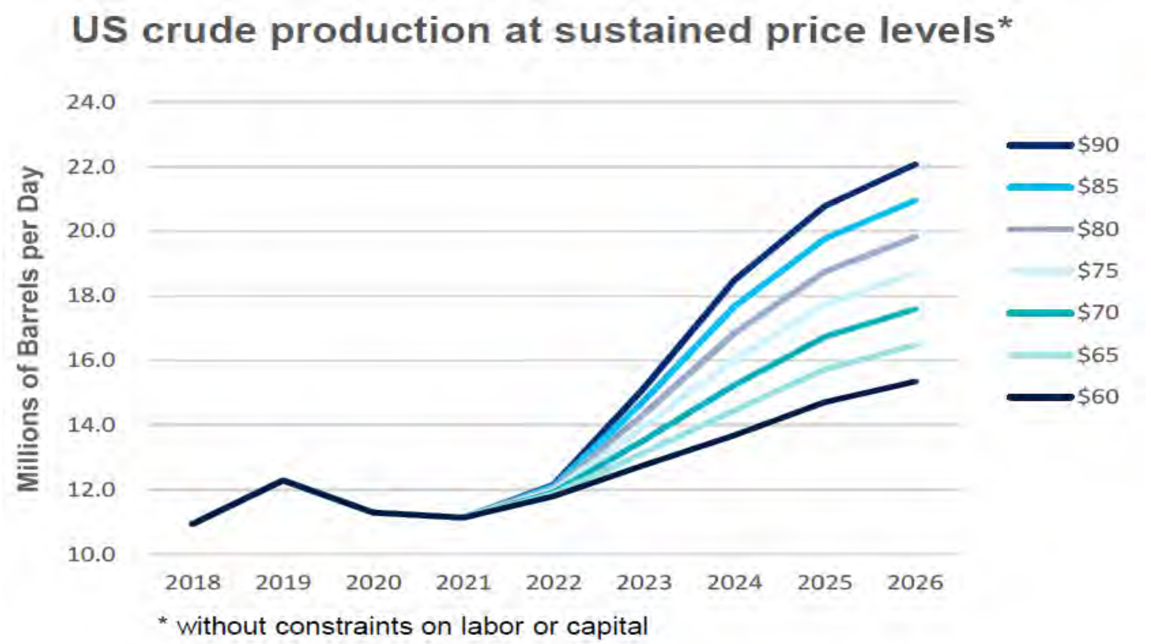


Source: Global Petrol Prices, ENERGYminute



Source: Global Petrol Prices, ENERGYminute

- Several domestic oil production scenarios are shown below at varying prices levels.
- If oil demand were to be sustained at a price of $90 per barrel, analysis finds that the US could produce double its current output within three years.
- Realistically, US consumers have shown little appetite for such prices in the past, and quickly changed behaviors to use less gas, making it unlikely prices could remain high enough, long enough to warrant dramatic increases in production.
- For this reason, oil prices are not expected to skyrocket long-term. There may be moments of abnormally high prices, but market prices do not support sustained high prices under current expectations.



Source: CitiResearch