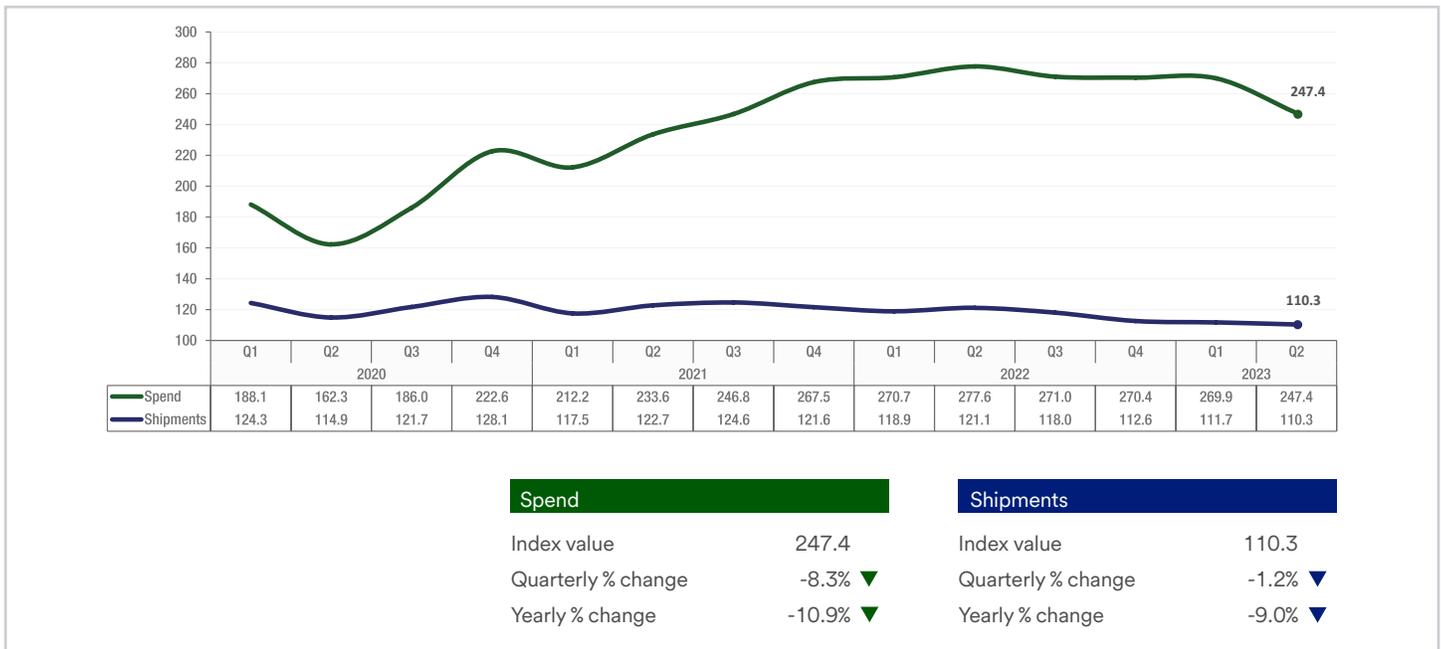




Q2 2023 national freight market overview



The trucking freight challenges continued during the second quarter of the year, affecting both shipments and spending. However, spend reduced significantly more than shipment volumes during the quarter. In total, the U.S. Bank second quarter data highlights a challenged marketplace.

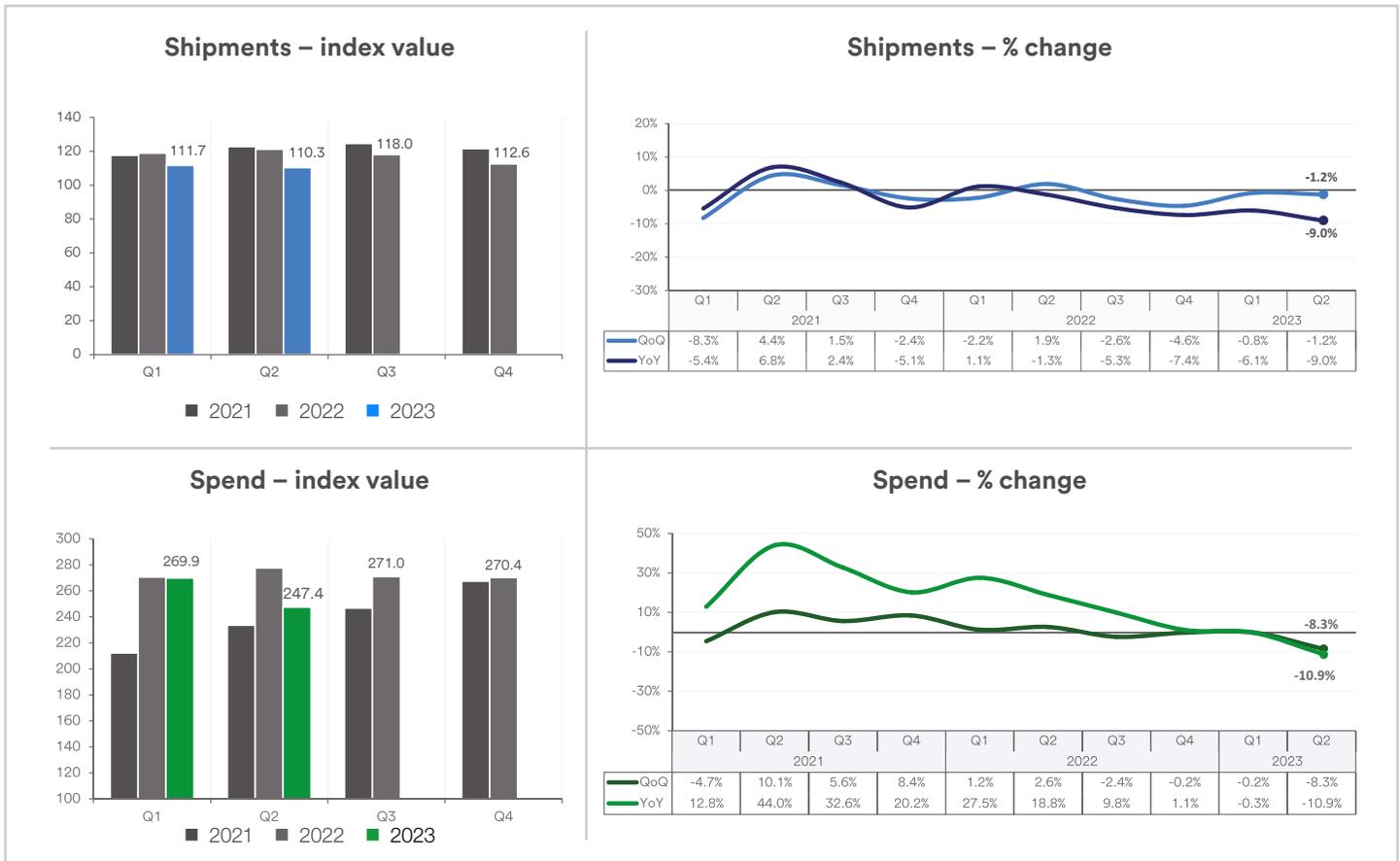
In line with the broader economy, which has battled multiple headwinds of late, freight shipment volumes have also contracted for about a year. A few broader trends are resulting in the soft truck freight market, with the largest being that consumers continue to spend more on services, versus goods. Service transactions require less capacity than goods.

Based on preliminary data reported by the Bureau of Economic Analysis (BEA), personal outlays for all goods during the second quarter were up approximately 2.1% from a year earlier.¹ While personal spending was up, it did not keep pace with inflation, implying actual volumes of goods buying was down. Conversely, similar data from BEA shows that outlays on travel (e.g., air transportation, hotels) were up between 15% and 20% over the same period.²

Manufacturing activity was also down during the second quarter, based on preliminary data from the Federal Reserve.³ Housing starts, another significant contributor to truck freight, despite a strong May, was down during the second quarter from a year earlier.

Another recent trend that's been a headwind for truck shipments is that shippers are now consolidating freight, by waiting on full trailers, and thus reducing their overall shipment numbers. In light of all of these factors, truck freight continues to underperform relative to the broader economy.

For the first time in the history of the U.S. Bank Freight Payment Index, Q2 2023 was the second consecutive quarter with quarterly and yearly declines in shipments and spending.



National shipments and spending — quarter-over-quarter, year-over-year

For the fourth straight quarter, the U.S. Bank National Shipments Index contracted compared with the previous period. Specifically, shipments fell 1.2% compared with the first quarter of 2023 and is down a total of 9% over the last four quarters.⁴ Compared with a year earlier, the index was down 9%, which was the largest year-over-year contraction since the second quarter of 2020.

Another trend that is reducing truck freight volumes is weaker international trade, reflected in cargo coming into seaports. Early second quarter data from the Census Bureau shows that the value of imported goods was off in the 7.5% to 10% range from a year earlier, while exports of goods were down between 6% to 8.5% during the same period.⁵

While the continued soft shipment volumes are not beneficial for shippers or carriers, the U.S. Bank National Spend Index is mixed. The notable 8.3% drop from the first quarter, the largest sequential decrease in three years, is indicative of a challenging marketplace for carriers. Conversely, the decrease in spend, especially compared with the smaller drop in volumes, represents savings for shippers.

After six consecutive quarters of all-time high spending volumes, the U.S. Bank National Spend Index now stands at its lowest level since Q3 2021, which was still a relatively robust quarter. Compared with a year earlier, spending was off 10.9% in part due to the lower shipment volumes, but also because there is more truck capacity available in the marketplace than there are loads to haul. This trend had been true in the spot market for a few quarters, but recently moved into the contract freight market as well.

After six consecutive quarters of historically high levels of spend nationally, the 8.3% decline in Q3 brings spending back to the still relatively strong levels of mid 2021.

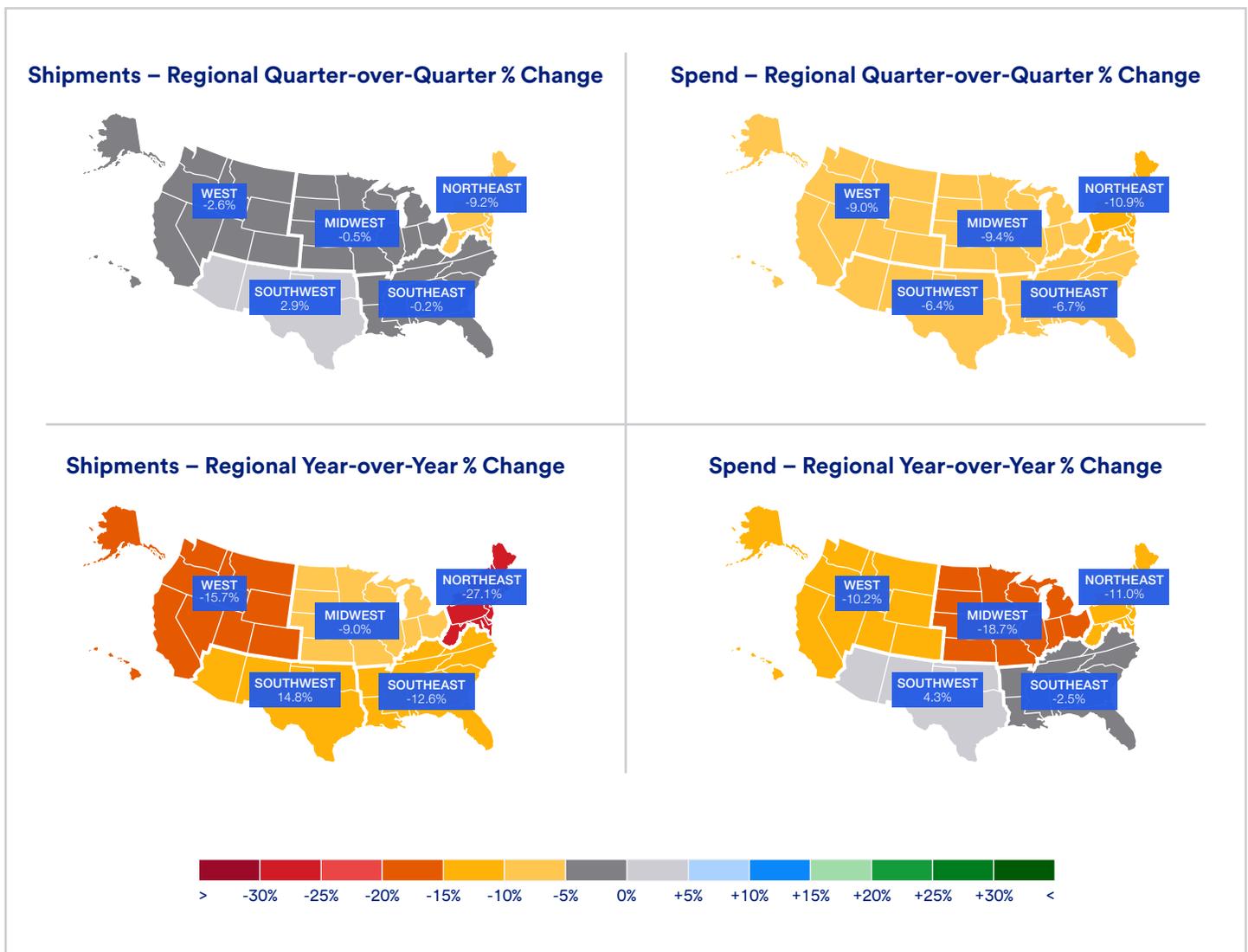
Regional shipments and spending — quarter-over-quarter, year-over-year

Shipment volumes were somewhat mixed during the second quarter from a regional perspective compared to Q1. Spending however, was universally down as truck capacity loosened everywhere during the last three months. Shipments in the Northeast dropped 9.2% during the second quarter but rose sequentially for the fifth consecutive quarter in the Southwest, gaining another 2.9%. The other three regions witnessed declines in shipments compared with the first quarter of the year.

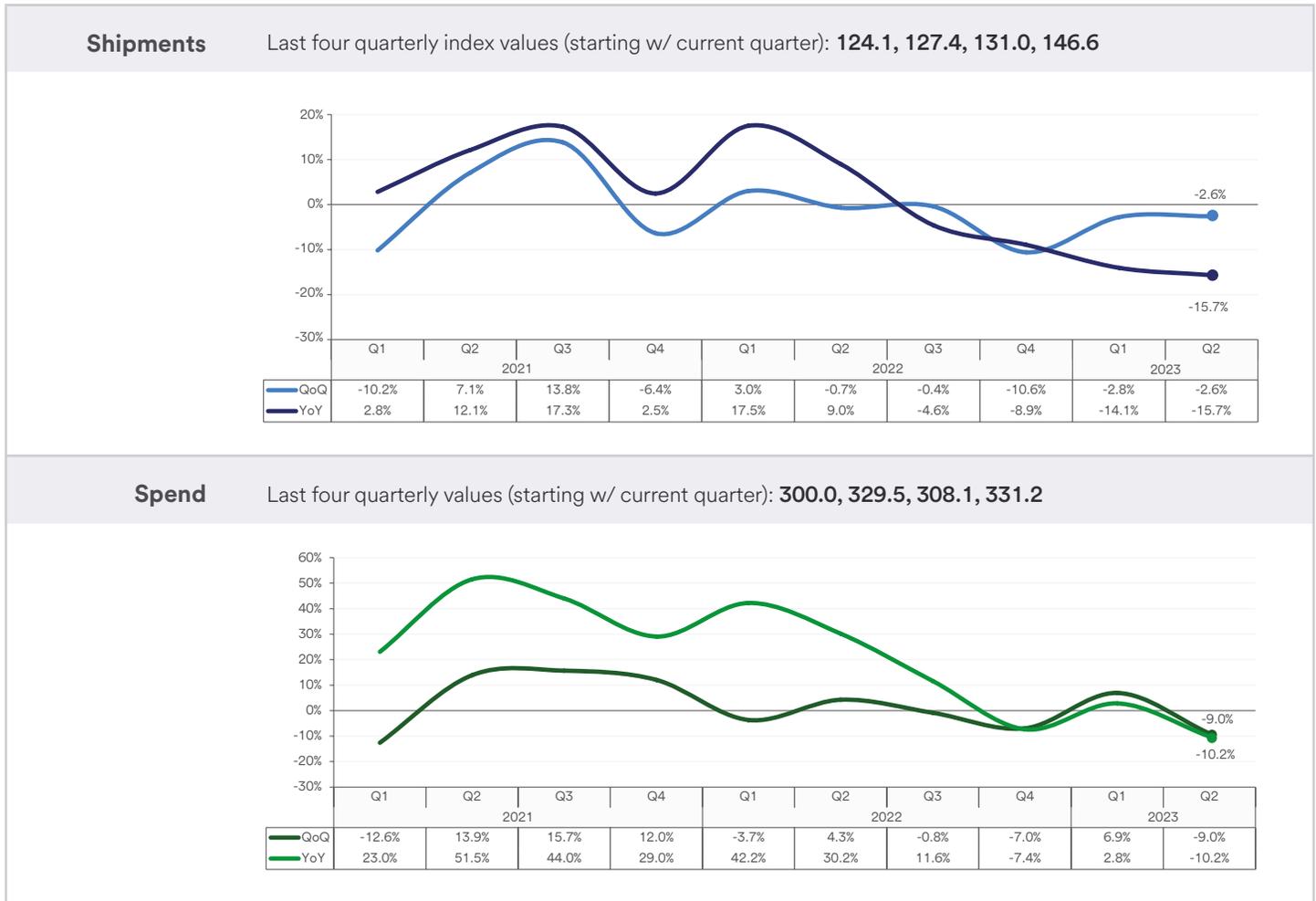
From a year earlier, only the Southwest region saw a gain in shipment volumes, and it was significant (14.8%), highlighting continued robust cross-border truck traffic with Mexico. All the other regions recorded declines from a year earlier, ranging from a -9.0% slide in the Midwest to a huge -27.1% drop in the Northeast.

As mentioned, spending fell in all regions compared with the first quarter, ranging from -6.4% in the Southwest to -10.9% in the Northeast. This trend of all regions falling sequentially points to overcapacity in the industry. From the second quarter in 2022, only the Southwest region (4.3%) saw an increase in spend. All other regions experienced declines in spend during the same period, ranging from -2.5% in the Southeast to -18.7% in the Midwest.

While the Southwest region continues to outperform the other four in shipment volumes, the Southeast may have been the biggest surprise in Q2 2023 with the smallest quarterly drop and second smallest yearly decline in shipments.



West regional shipments and spending — quarter-over-quarter, year-over-year



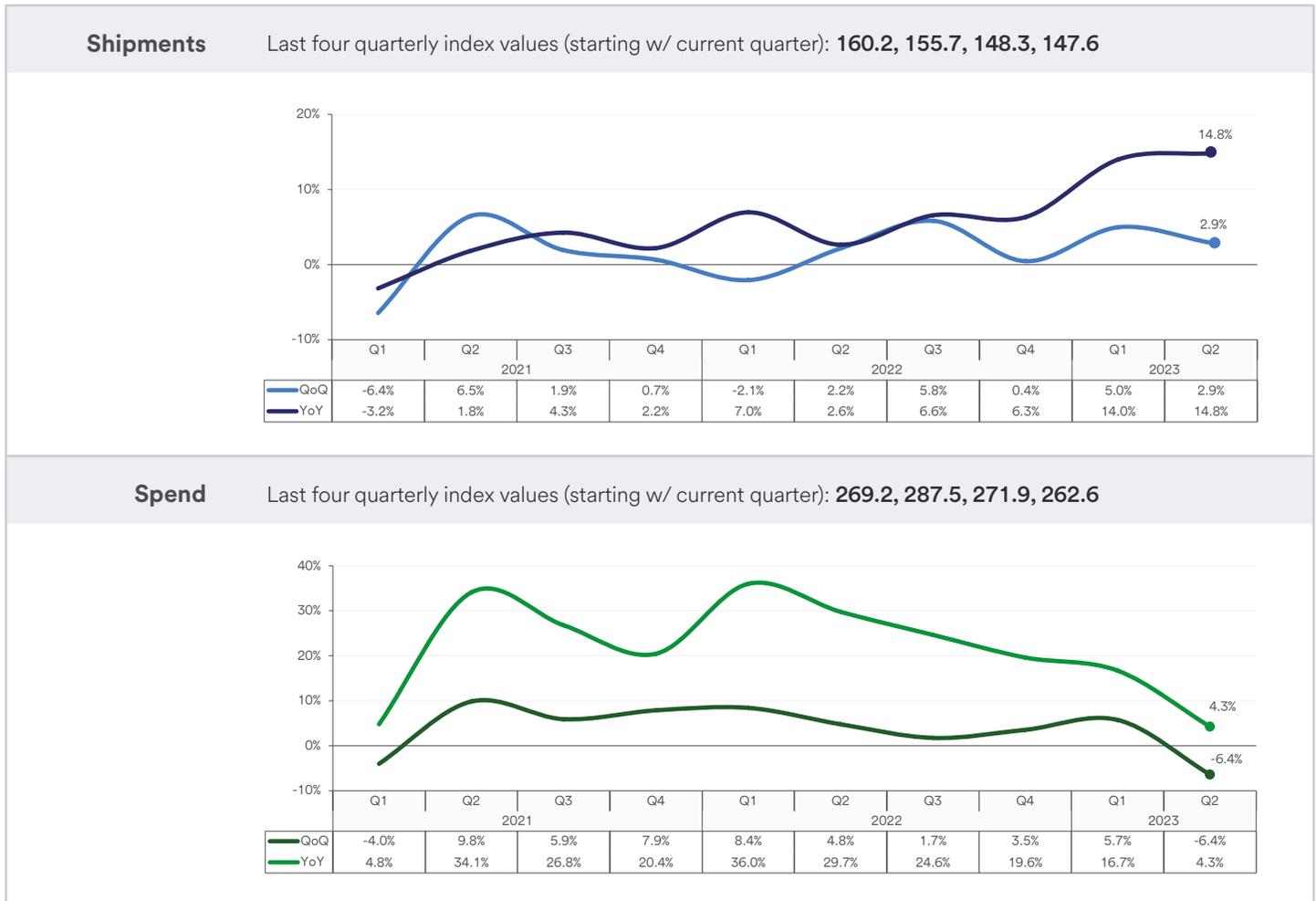
The West region witnessed another tough quarter with shipments and spending falling both sequentially and from a year earlier. Continued softness in trade generally, and even more pronounced in the West Coast ports, is one reason why volumes continue to be soft. For example, most ports on the West Coast saw volumes down from a year earlier in the 15% to 20% range during the quarter.⁶ In addition, housing permits were down more than 15% during the quarter compared with a year earlier.⁷

When decreasing port volumes and housing starts are coupled with less household spending on goods and lower manufacturing activity, it isn't surprising that the U.S. Bank West Regional Shipments Index contracted another 2.6% sequentially in Q2, the region's lowest level in three years. Compared with a year earlier, the shipments index fell 15.7%.

The combination of falling volumes, lower freight rates, and West Coast diesel prices declining⁸ resulted in the U.S. Bank West Regional Spend Index contracting 9% from the first quarter, and 10.2% from a year earlier.

With slower activity across its coastal seaports, the West region was one of only two to experience double-digit declines in yearly shipments and spend in the second quarter.

Southwest regional shipments and spending — quarter-over-quarter, year-over-year



The Southwest region continued to outperform the other regions during the second quarter. For example, it was the only region to see rising shipment volumes (2.9%) compared to the first quarter. Compared with a year earlier, the U.S. Bank Southwest Regional Shipment Index was up 14.8%, the best year-over-year reading since early 2018.

What’s behind the region’s performance? In part, truck-transported trade with Mexico. Based on preliminary data from the Bureau of Transportation Statistics, inbound trucks from Mexico to the U.S. were up 2.6% over the first quarter of 2023 and increased about 5% from the same period last year.⁹

However, spend in the region contracted sequentially in the second quarter of 2023. Lower diesel fuel prices, leads to lower fuel surcharges which can lead to lower shipping costs. Based on data from the U.S. Energy Information Administration, diesel fuel prices in this region averaged nearly \$0.50 per gallon less than during the first quarter, or roughly an 11% decline.¹⁰ Another reason for lower spending could be that truck capacity is moving to the region, as it is the only area with rising freight volumes. As more carriers add capacity in the Southwest, it could lead to a reduction in freight rates and thus lower spending.

Despite its continued strong performance compared to the other four regions, Q2 2023 marked the first quarter in a year where the Southwest region posted a decline in any of the Index’s four measures.

Midwest regional shipments and spending — quarter-over-quarter, year-over-year



After a 1.3% gain in shipment volumes during the first quarter, the U.S. Bank Midwest Regional Shipments Index slipped 0.5% sequentially in the second quarter. However, compared with a year earlier, Midwest shipments dropped 9%, the largest year-over-year drop since the final quarter of 2021.

Softer manufacturing volumes continue to depress freight in Midwest region, especially in the Northern states. Conversely, housing starts in the Midwest outperformed other regions during the quarter, according to preliminary data from the Census Bureau.¹¹ Another bright spot for truck freight in the region is cross-border shipments with Canada. Using data from the Bureau of Transportation, inbound truck freight from Canada was up roughly 4% from the first quarter and 3% from a year earlier.¹²

The combination of downward rate pressures, lower shipments, and declines in diesel prices led to 9.4% drop in the U.S. Bank Midwest Regional Spend Index in Q2. The index was 18.7% less than a year earlier, the largest decrease since the depths of the pandemic during the second quarter in 2020.

Even with slowdowns in manufacturing output, quarterly and year-over-year shipment volumes in the Midwest region declined modestly compared to the other regions.

Northeast regional shipments and spending — quarter-over-quarter, year-over-year



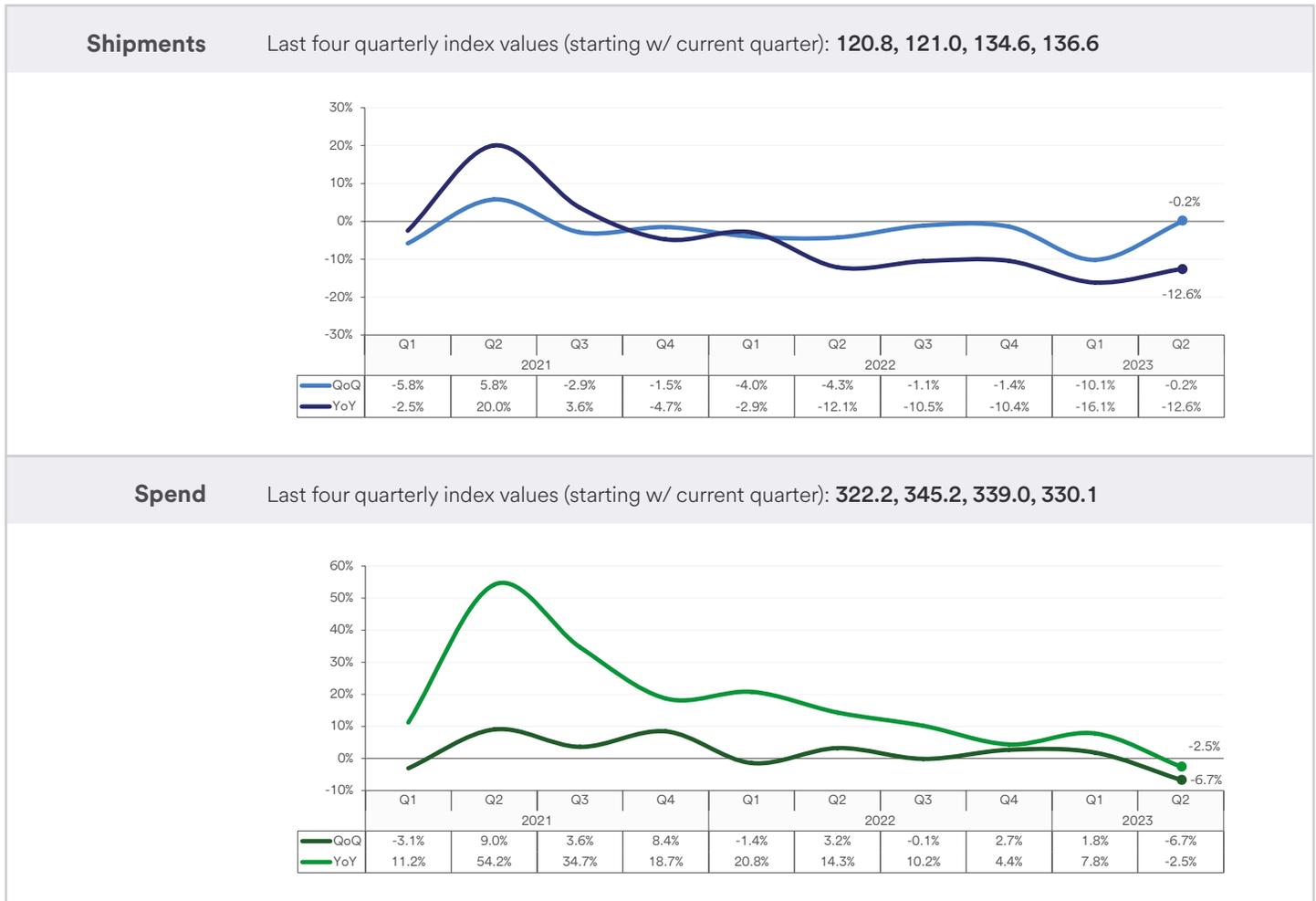
Truck freight shipments in the Northeast continued lower in the second quarter as the U.S. Bank Northeast Regional Shipments Index dropped another 9.2%. Compared with a year earlier, the index was off 27.1%, which is the largest year-over-year drop in the Freight Payment Index’s history.¹³ Not even during the initial stages of the pandemic in 2020 did the index fall quite that much on a yearly basis.

Freight in the region is off for a few reasons, including much lower housing starts. According to data from the U.S. Census Bureau, Northeast housing starts in April and May combined were off 20% from the first quarter and down nearly 15% from a year earlier.¹⁴ A major factor affecting this region is the change in household consumption, since this region is a major population area. As mentioned earlier, preliminary data for personal outlays on goods during the second quarter were up approximately 2.5% from a year earlier, much lower than spending on travel (e.g., air transportation, hotels), which was up between 15% and 20% over the same period.¹⁵

The U.S. Bank Northeast Regional Spend Index fell 10.9% during Q2, the most on a sequential basis out of all five regions. Much of the drop was likely due to the large decline in volumes, but rate pricing softness and lower diesel fuel costs in this region also combined to push the index lower. Compared with a year ago, the index contracted 11%, the first year-over-year drop since Q3 2020.

Q2 2023 was a challenging quarter for the Northeast region, which saw double digit declines in three of the four Index measures, including an historic 27.1% decline in shipments compared to the first quarter of 2022.

Southeast regional shipments and spending — quarter-over-quarter, year-over-year



Following a 10.1% first quarter sequential drop in shipments in 2023, the U.S. Bank Southeast Regional Shipment Index contracted just 0.2% during the second quarter. Among the four regions that saw declines in shipments, this was the smallest. Compared with a year earlier, shipments were off 12.6%, highlighting a tough freight market in this region.

In the most recent Federal Reserve Beige Book, which covered the first half of the second quarter, the Atlanta Bank region report said, “Retail sales softened.” In the same report, the Richmond Bank reported that consumer spending on goods in the region “declined.”¹⁶ Compared with the second quarter in 2022, volumes in Southeast were off 12.6%.

While shipments fell just 0.2% sequentially, the U.S. Bank National Spend Index in the second quarter contracted 6.7% versus the first quarter. This was likely due to pricing easing from excess truck capacity. Spend in the Southeast region was down 2.5% year-over-year from 2022.

Of the four regions that posted quarterly declines in shipments in the second quarter of 2023, the 0.2% drop in the Southeast was the smallest.

About the index

The U.S. Bank Freight Payment Index is a quarterly publication representing freight shipping and spend volumes on national and regional levels. The U.S. Bank Freight Payment Index source data is based on the actual transaction payment date, contains our highest-volume domestic freight modes of truckload and less-than-truckload, and is both seasonally and calendar adjusted. The first-quarter 2010 base point is 100. The chain-based index point for each subsequent quarter represents that quarter's volume in relation to the immediately preceding quarter.

For 25 years, organizations have turned to U.S. Bank Freight Payment for the service, reliability and security that only a bank can provide. The pioneer in electronic freight payment, U.S. Bank Freight Payment processes more than \$46 billion in freight payments annually for our corporate and federal government clients. Through a comprehensive online solution, organizations can streamline and automate their freight audit and payment processes and obtain the business intelligence needed to maintain a competitive supply chain.

About Bob Costello

Bob Costello is the chief economist & senior vice president of International Trade Policy and Cross-Border Operations for the American Trucking Associations (ATA), the national trade association for the trucking industry. As Chief Economist, he manages ATA's collection, analysis and dissemination of trucking economic information. This includes several monthly trucking economic indicators, motor carrier financial and operating data, an annual freight transportation forecast, driver wage studies, weekly diesel fuel price and economic reports, and a yearly trucking almanac.

Bob also conducts economic analyses of proposed regulations and legislation affecting the trucking industry and heads up ATA's International Trade Policy and Cross Border Operations Department. In this capacity, he works on issues related USMCA, tariffs, customs, and immigration. He is often cited in the news media as an expert on trucking economics and serves on the 45-member Advisory Committee on Supply Chain Competitiveness to provide the Secretary of Commerce with detailed advice on the elements of a comprehensive national freight infrastructure and freight policy.

He is on the Board of Directors for the Border Trade Alliance and is also a member of the National Association for Business Economics and a member of the Industrial Economists Group at Harvard University. Prior to joining ATA in 1997, Bob was an economist with Joel Popkin & Company in Washington D.C., an economic consulting firm that specializes in the analysis of wages, inflation, and economic trends.

25 years of experience

\$46 billion in global freight payments annually

About U.S. Bank

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U.S. Bancorp, with approximately 77,000 employees and \$681 billion in assets as of June 30, 2023, is the parent company of U.S. Bank National Association. The Minneapolis-based company serves millions of customers locally, nationally and globally through a diversified mix of businesses: Consumer and Business Banking; Payment Services; Corporate & Commercial Banking; and Wealth Management and Investment Services. Union Bank, consisting primarily of retail banking branches on the West Coast, joined U.S. Bancorp in 2022. U.S. Bancorp has been recognized for its approach to digital innovation, social responsibility, and customer service, including being named one of the 2023 World's Most Ethical Companies. Learn more at usbank.com/about.

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¹Bureau of Economic Analysis/Personal Income

²Bureau of Economic Analysis/Personal Income

³Federal Reserve/Industrial Production and Capacity Utilization

⁴Q3-2022 + Q4-2022 + Q1-2023 + Q2-2023 shipment Index changes

⁵The U.S. Census Bureau and the U.S. Department of Housing and Urban Development

⁶Port of Los Angeles Shipping Volumes Fell 22% Year-on-Year/Supply Chain Brain

⁷The U.S. Census Bureau and the U.S. Department of Housing and Urban Development

⁸U.S. Energy Information Administration/Gasoline and Diesel Fuel Update

⁹U.S. Department of Transportation Bureau of Transportation Statistics

¹⁰U.S. Energy Information Administration/Gasoline and Diesel Fuel Update

¹¹The U.S. Census Bureau/New Residential Construction

¹²U.S. Department of Transportation Bureau of Transportation Statistics

¹³Data from 2010 to present

¹⁴The U.S. Census Bureau and the U.S. Department of Housing and Urban Development

¹⁵Bureau of Economic Analysis/Personal Income

¹⁶Atlanta Regional Fed Bank/Summary of Current Economic Conditions