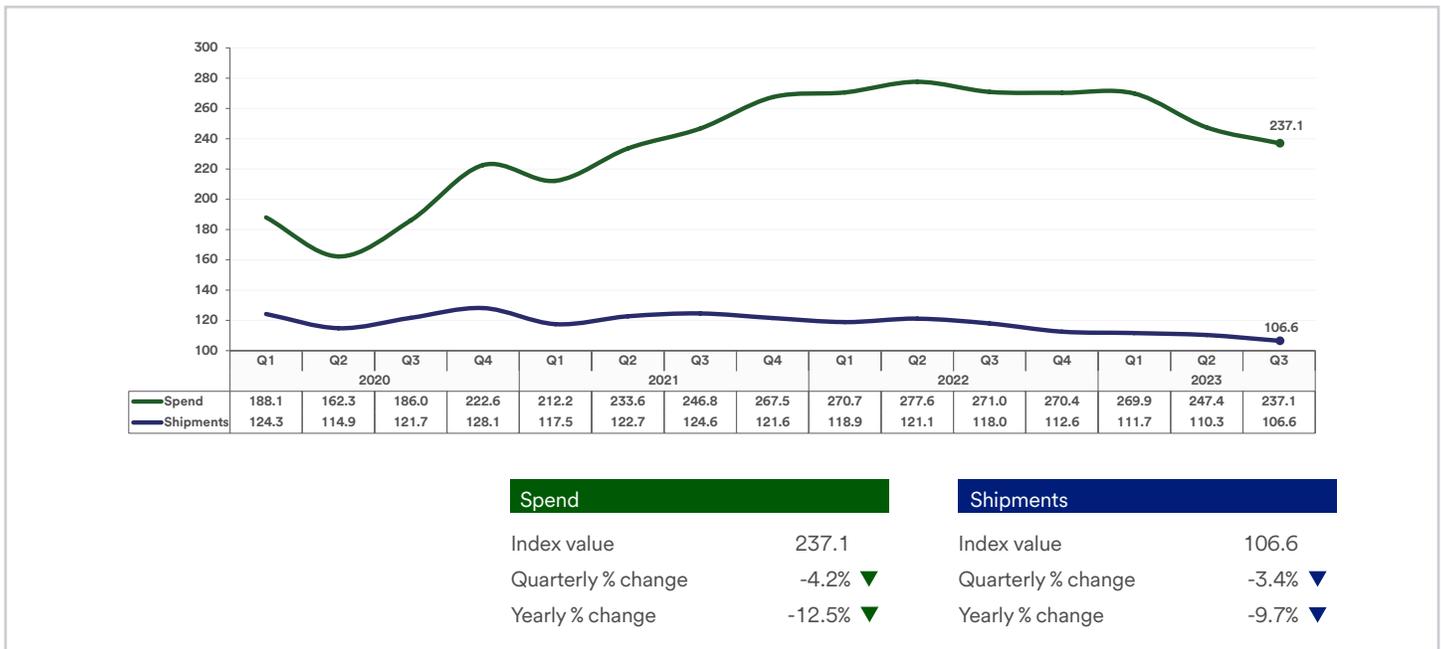




Q3 2023 national freight market overview



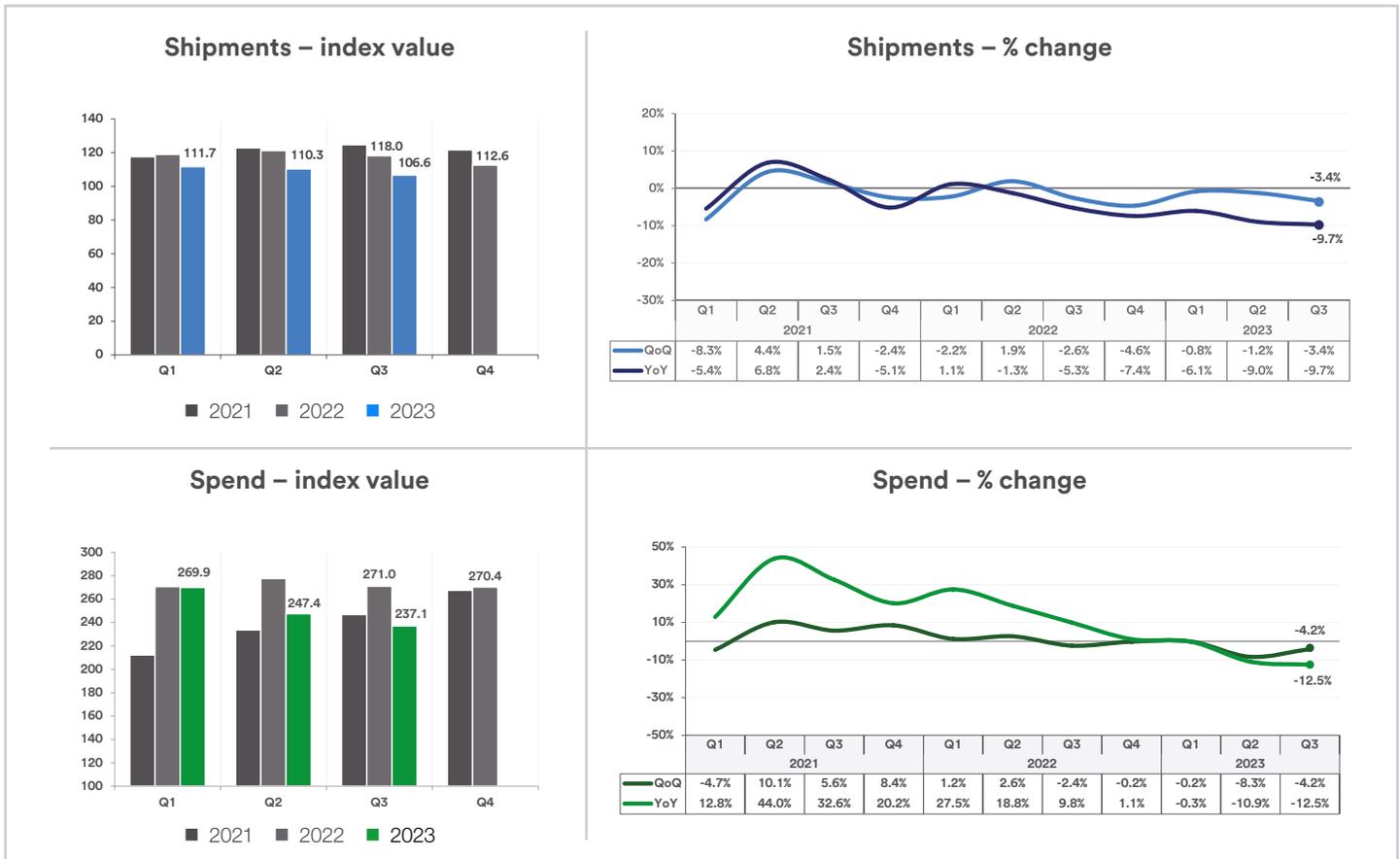
The national truck freight market remained very challenging for motor carriers in the third quarter as both shipments and spending contracted from the second quarter and a year earlier. While the overall economy continues to grow, the truck freight economy is still impacted by many factors, including consumer spending on experiences over tangible goods,¹ a softer housing market, and factory output falling from a year earlier. Based on data published by the Bureau of Economic Analysis, personal consumption of goods contracted from a year earlier during the quarter, yet, households spent more on experiences, (after accounting for price increases) like air travel.

In addition, excess household savings that were built up during 2020 and 2021 are evaporating.² Continued retailer inventory reduction also had an adverse effect on freight volumes during the quarter. Reducing inventory, while necessary to balance product availability with consumer demand, negatively impacts freight levels.

Another headwind on freight volumes is the housing market. As interest rates have risen from near 0% during the first quarter of 2022 to more than 6% currently, mortgage rates have increased as well. Data from Freddie Mac shows the average 30-year fixed mortgage went from less than 3% in early 2021 to nearly 7% in Q3.

Additionally, new home construction appears to have fallen 5% or more in the third quarter compared with the second quarter, based on early housing starts data from the Census Bureau. When housing slows, it also reduces consumption of items needed to fill a home (e.g., furniture and appliances), all of which reduces truck freight. As shipment volumes contract, available capacity increases, which typically results in falling freight rates. The combination of declining rates and shipments leads to less shipper spend, which is what happened in the third quarter.

For the third consecutive quarter, the national shipments and spend indexes all declined quarterly, and year-over-year.



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

The truck freight market continued to decline in the third quarter as the U.S. Bank National Shipments Index contracted 3.4% from the second quarter. National shipments have fallen for five straight quarters. Compared with the same quarter in 2022, the shipments index was off 9.7%. This was the sixth straight year-over-year decrease and the largest over that period. In fact, it was the largest year-over-year drop since a 12.5% drop during the second quarter 2020 when the pandemic hit.³

The combination of shrinking volumes and falling freight rates due to weak demand, resulted in shippers spending less on truck freight. The U.S. Bank National Spend Index contracted 4.2% from the second quarter. Like the shipments index, this was the fifth straight quarterly decline. Compared with a year earlier, spending was off 12.5%.

While shippers have benefited from lower spend, motor carriers have not. Evidence is mounting that fleets are exiting the marketplace, which could impact industry supply and demand balance in the quarters ahead.

The combination of shrinking volumes and falling freight rates due to overcapacity, resulted in shippers spending less on truck freight in Q3.

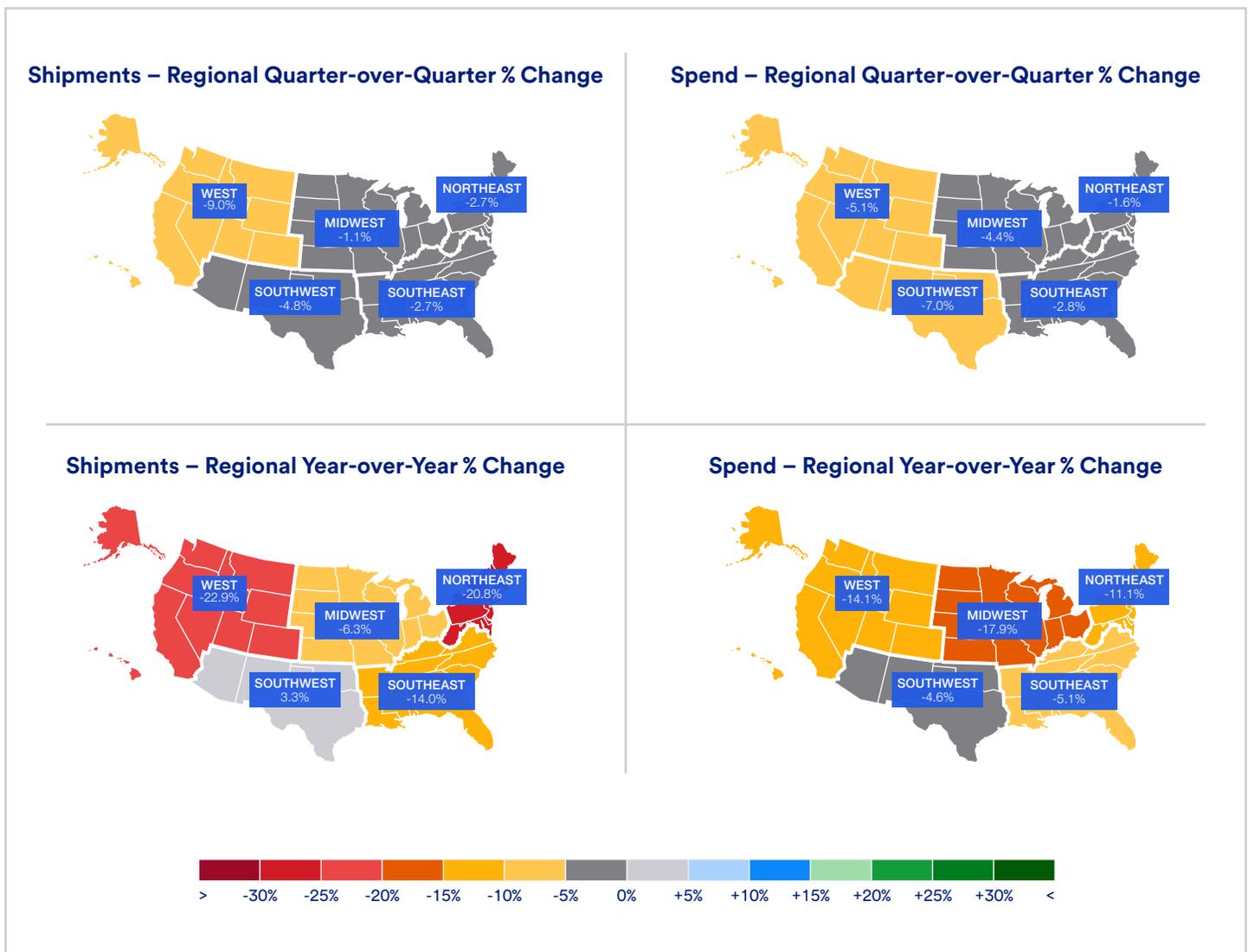
Regional shipments and spending — quarter-over-quarter, year-over-year

All regions posted sequential declines in shipments during the third quarter. The last time all regions recorded quarterly decreases was Q1 2021. This shows that the factors influencing the broader freight marketplace are permeating all of the regions as well. However, the scope of the reductions was not consistent during the quarter, with the West region recording the largest quarterly drop of 9.0%, while the Midwest had the smallest decline of 1.1%.

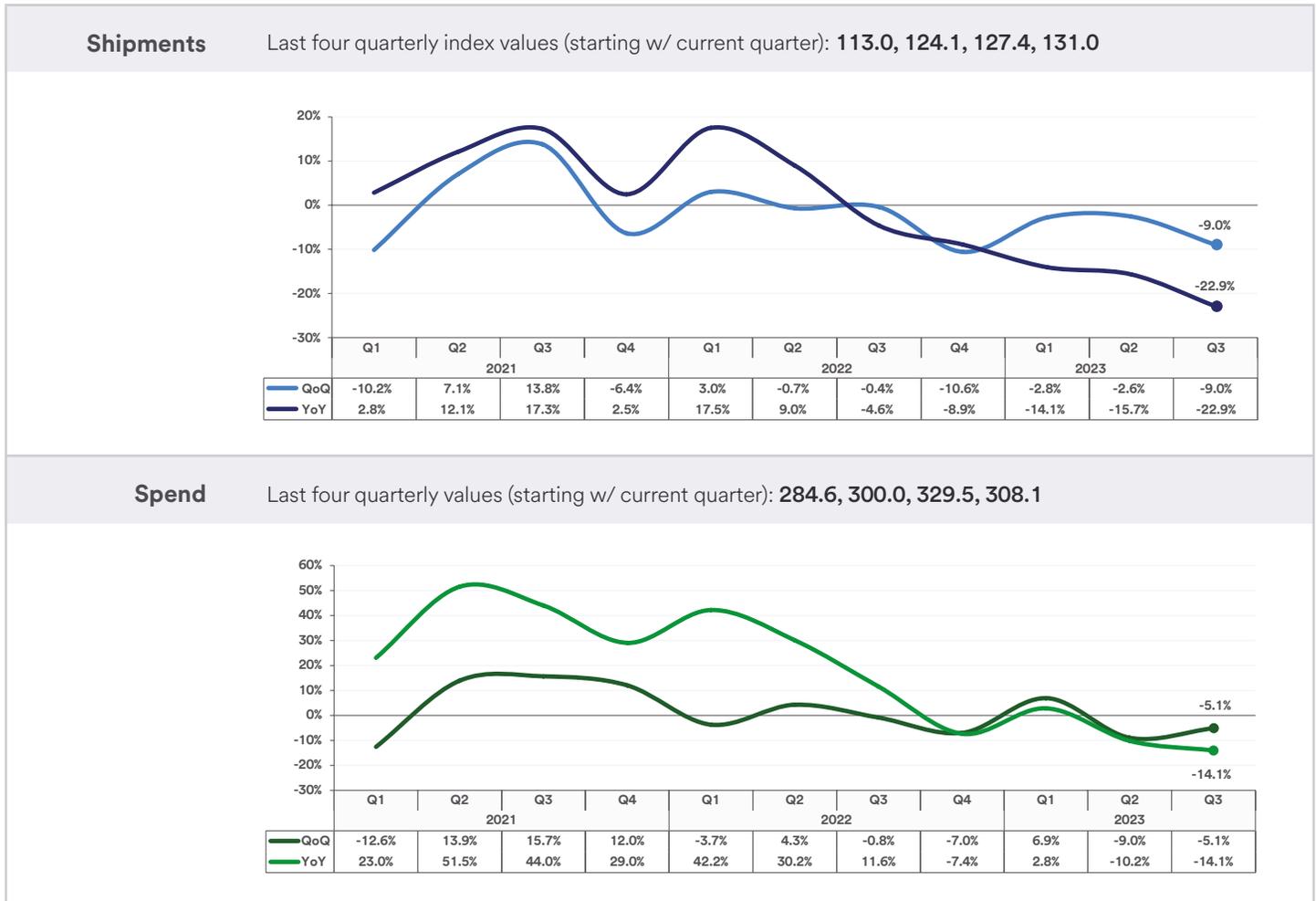
Compared with a year earlier, all regions recorded lower shipment volumes, except for the Southwest region, where volumes were up 3.3%. The largest year-over-year drop was in the West, at 22.9%. All regions saw declines in spend by shippers, both sequentially and compared with the third quarter of 2022. This is an indication that the industry had additional capacity. Even in the Southwest region, where spend had increased year-over-year for 11 consecutive quarters, transportation outlays fell.

It is likely that truck capacity gravitated to that region, as it had the best freight market. But the combination of less freight in the quarter and more trucks, reduced freight rates and thus spending by shippers in the Southwest. The largest sequential decrease in spending was in the Southwest at 7.0%; the largest year-over-year decline was in the Midwest at 17.9%.

All of the regions but the Southwest saw QoQ and YoY drops in shipments, with two regions experiencing declines of more than 20% in the third quarter.



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



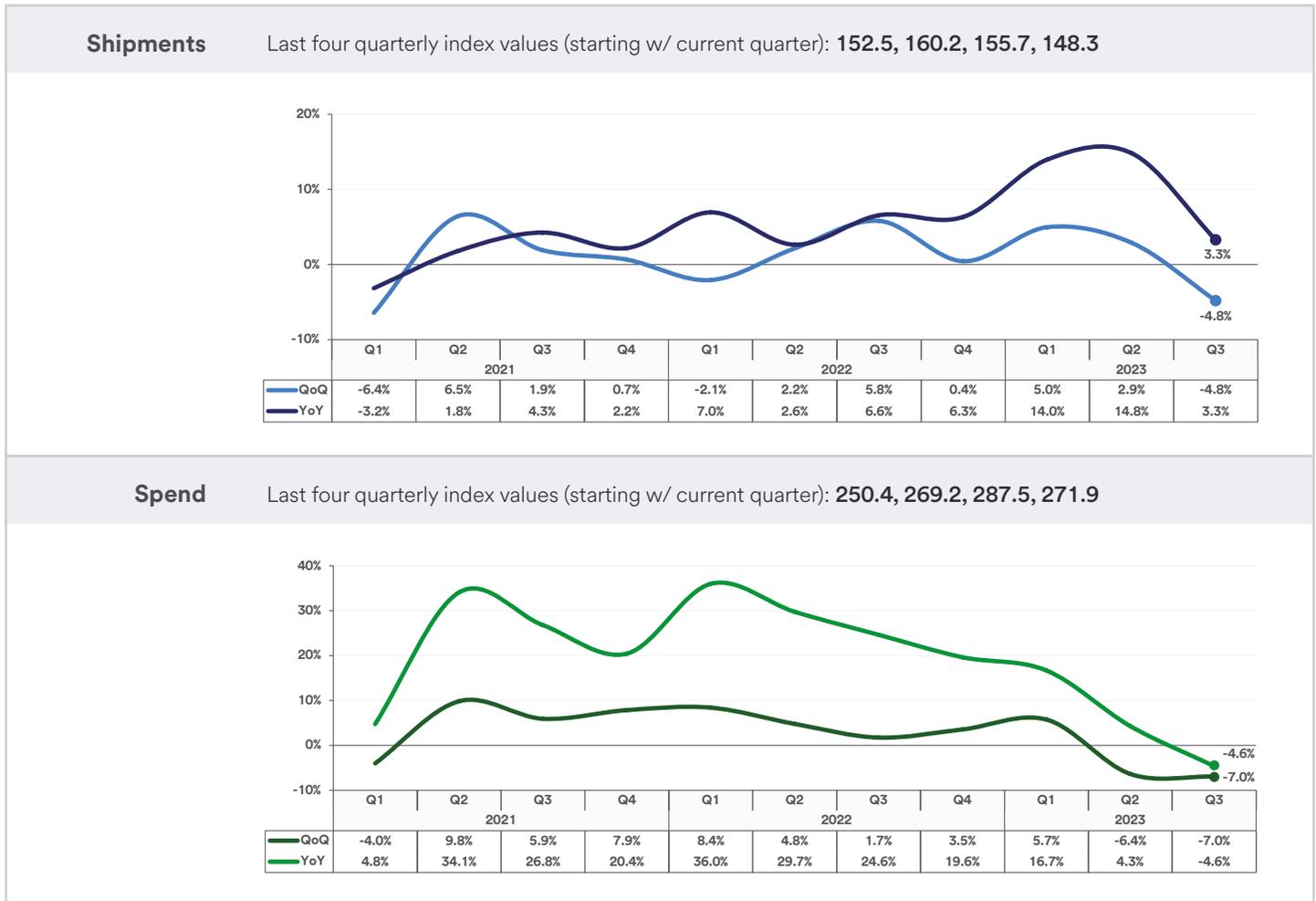
Freight woes continued in the West region during the third quarter as the U.S. Bank West Regional Shipments Index contracted 9% from the second quarter. This was the sixth straight sequential drop. Compared with a year earlier, shipments were down 22.9%.

Many factors are negatively impacting freight on the West Coast, including soft import volumes. Mexico has supplanted China as the United States' largest trading partner, which is helping truck freight volumes on the Mexican border, meaning lower import volumes arriving at the West Coast seaports. West Coast import volumes during the third quarter were down at least 10% from a year earlier.⁴

Housing starts in the West are outperforming other regions, but it wasn't enough to significantly raise freight volumes during the quarter. Early data from the Census Bureau shows that housing starts in the west increased between 2% and 3% from the second quarter, while being down around 5% from a year earlier.⁵ The U.S. Bank West Regional Spend Index slowed 5.1% compared with the second quarter and was off 14.1% from a year earlier.

With more trade arriving from Mexico and slower housing activity in Q3, shipment and spend levels declined more in the West than the other four regions.

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



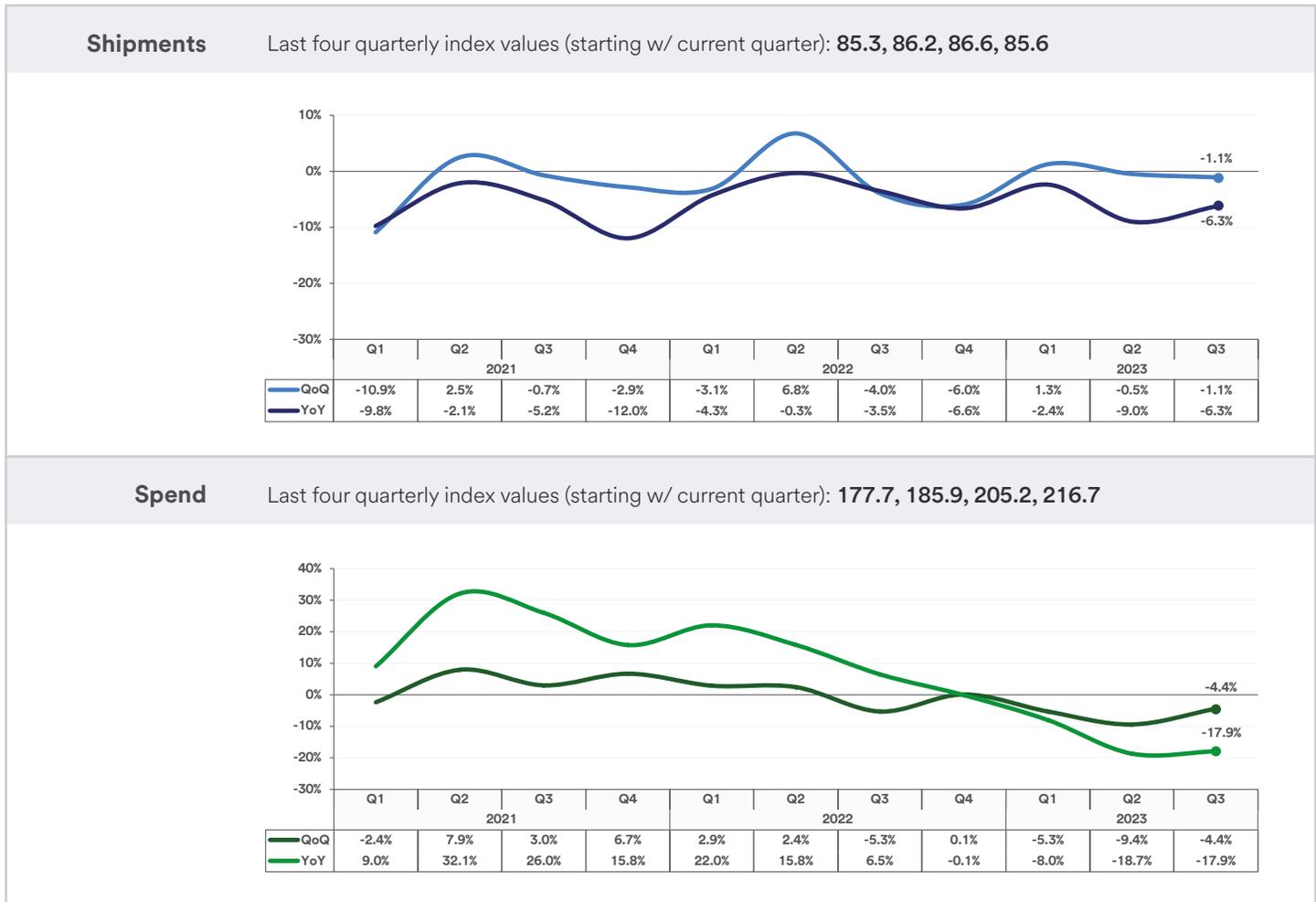
The Southwest region finally saw a drop from the previous quarter. Specifically, the U.S. Bank Southwest Regional Shipments Index declined 4.8% during the third quarter. Compared with a year earlier, truck freight was up 3.3%, which was the only year-over-year improvement among all the regions.

Several factors likely caused a decline in freight during the quarter, including a large drop of at least 5% in home building compared with the second quarter.⁵ Additionally, cross-border truck transportation, a big source of freight for this region, slowed during the third quarter. According to data by the Bureau of Transportation Statistics,⁷ inbound trucks from Mexico into the U.S. in this region appear to have fallen around 3% compared with the second quarter. Inbound freight, as measured by truck entries from Mexico, increased from a year earlier by about one percent.⁸

Meanwhile, the U.S. Bank Southwest Regional Spend Index fell 7% sequentially, after a 6.4% drop the previous quarter. Why has spending fallen more than volumes in the past two quarters? First, it is likely more truck capacity came to the region as volumes were the best among all the regions. This would lead to over-capacity and rate drops. Second, diesel fuel prices fell from both the second quarter and a year earlier in the region,⁹ lowering the total spend as well.

Despite slowing in the third quarter compared to Q2, cross-border trade with Mexico was still significant enough for the Southwest to see a 3.3% increase in shipments versus a year ago.

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



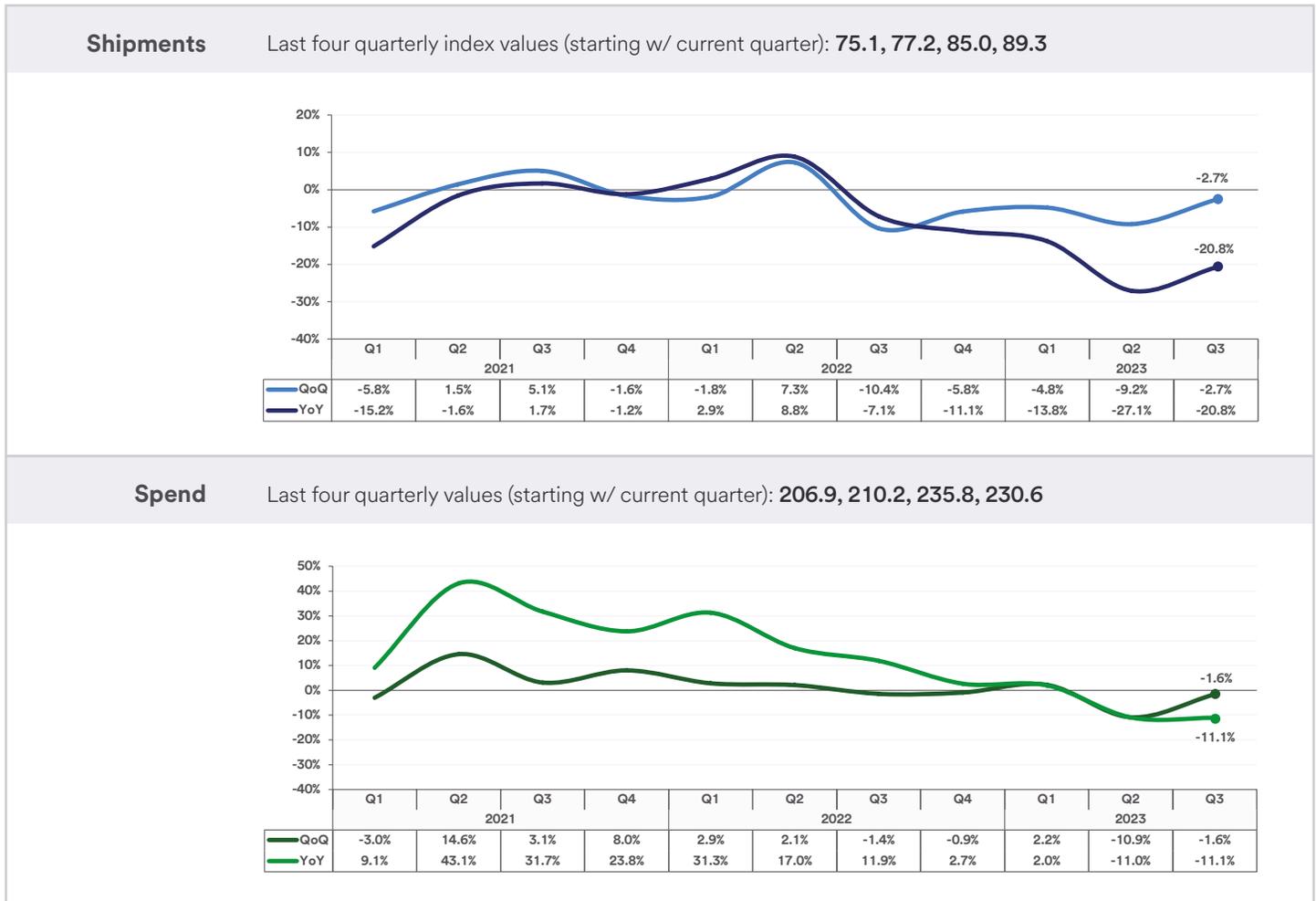
The U.S. Bank Midwest Regional Shipments Index contracted 1.1% sequentially during the third quarter after falling 0.5% during the second quarter. Compared with a year earlier, shipments in the Midwest were off 6.3%. Both declines in Midwest shipments were the smallest of all five regions.

This region has seen depressed freight volumes the last couple of years, in part due to soft manufacturing and housing activity. During the third quarter, for example, housing starts in the region plunged more than 15% from the second quarter and around 9% from a year earlier.¹⁰ Meanwhile, according to the Federal Reserve’s Beige Book, manufacturing activity fell in July and early August, which also hurt truck freight volumes.¹¹

The U.S. Bank Midwest Regional Spend Index contracted 4.4% compared with the second quarter. Compared with a year earlier, spending was down 17.9% for shippers. Like all the regions, drops in spending were the result of lower freight rates as well as declines in fuel surcharges. Diesel fuel prices in the region were down more than 23% from the third quarter in 2022.¹²

Slowdowns in manufacturing and housing continue to drive freight rates downward in the Midwest, which saw the largest year-over-year decline in spend among the five regions.

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



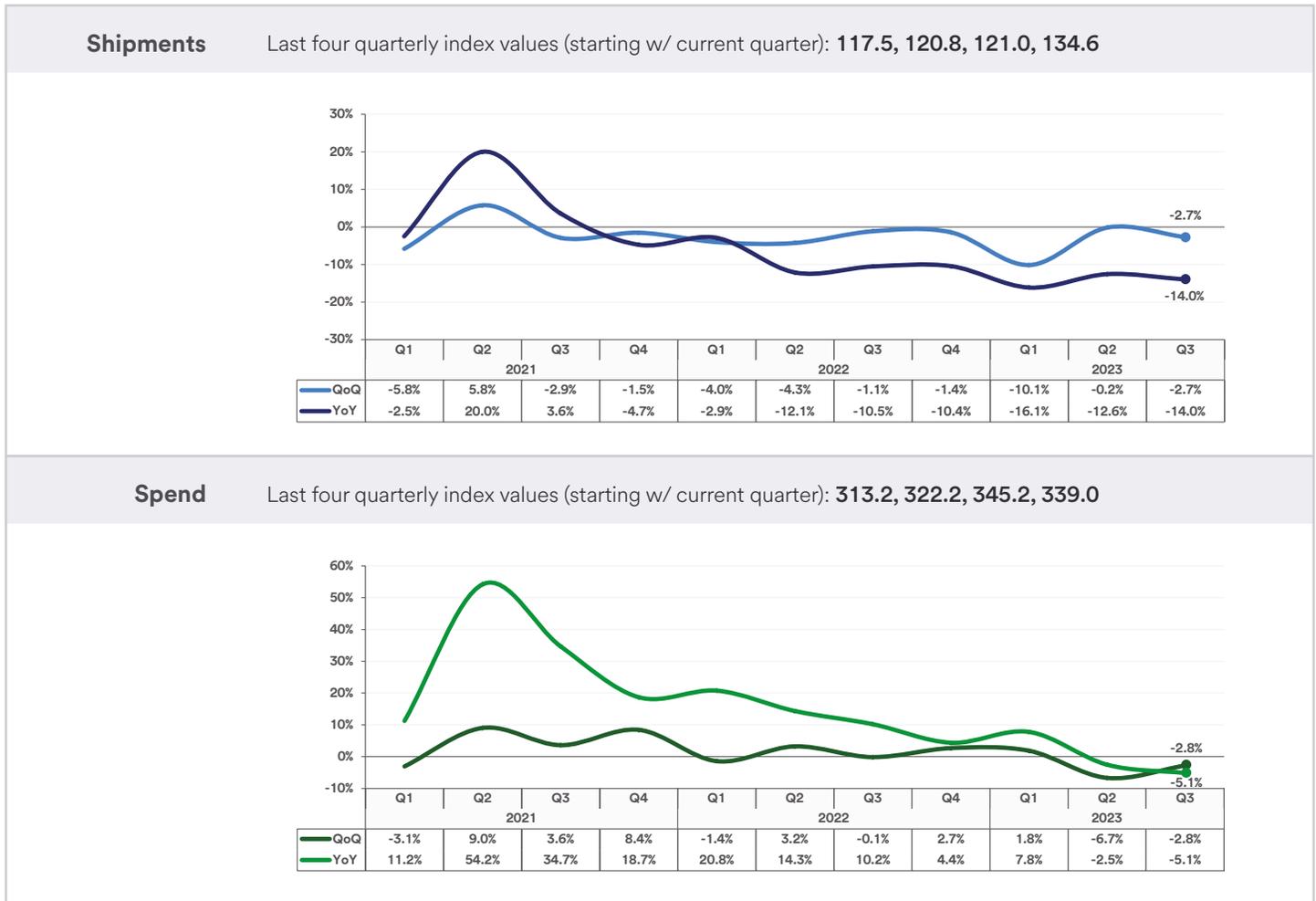
During the third quarter, the U.S. Bank Northeast Regional Shipment Index eased 2.7% over the second quarter. Compared with a year earlier, shipments fell 20.8%. Housing starts in the region are very soft. Based on preliminary data from the Census Bureau, construction starts in the Northeast were off more than 15% from the second quarter.¹³

Higher mortgage rates undoubtedly are impacting the housing market, as well as low housing inventory, in the Northeast. Additionally, in the Federal Reserve’s latest Beige Book, covering the first half of the quarter, the New York regional bank reported that factory output fell, while department stores noted soft sales.¹⁴

The U.S. Bank Northeast Regional Spend Index slowed just 1.6% compared with the previous quarter, the smallest drop of the five regions and considerably smaller than the 10.9% decline in Q2. Capacity remains out of balance in the region; lower freight rates coupled with declines in diesel prices in the New England region resulted in an 11.1% decrease in spending from a year earlier.^{15,16}

This was fourth consecutive quarter with double-digit drops in Northeast shipments, and the second straight where the declines were more than 20% versus the same quarter a year ago.

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



The U.S. Bank Southeast Regional Shipment Index contracted again during the third quarter. The latest decrease was 2.7% compared with the second quarter. Shipments in the region also decreased 14% compared with the third quarter of 2022. Fewer homes being built in the region is certainly one source of freight weakness. But modest to soft consumer spending is another headwind. For example, spending on durable goods, defined as products with a useable life of at least three years, was softer during at least the first half of the quarter.¹⁷

Spending on truck freight services contracted 2.8% during the third quarter. Diesel prices in the region, according to the Energy Information Administration, were fairly flat from the second quarter.¹⁸ This is an indication that freight rates likely stabilized in the region, since spending fell roughly the same amount as shipments. The U.S. Bank Southeast Regional Spend Index was down 5.1% from a year earlier, which was the second straight year-over-year decline.

With diesel prices in the region comparatively flat in Q3, the Southeast saw the second-smallest drops of the five regions in quarterly and yearly spend.

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 of a full-service, federally regulated financial institution. 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.

25 years of experience

\$46 billion in global freight payments annually

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.

About U.S. Bank

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¹Experiences include things like travel, concerts, sporting events, movie theaters

²San Francisco Regional Fed Bank/Summary of Current Economic Conditions

³The lowest YoY drop after Q2-2020 was -7.3% in Q3-2020 and -10.9% in Q2-2023.

⁴National Retail Federation

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

⁶The U.S. Census Bureau and the U.S. Department of Housing and Urban Development

⁷U.S. Department of Transportation Bureau of Transportation Statistics

⁸U.S. Department of Transportation Bureau of Transportation Statistics

⁹U.S. Energy Information Administration/Gasoline and Diesel Fuel Update

¹⁰The U.S. Census Bureau and the U.S. Department of Housing and Urban Development

¹¹Chicago Regional Fed Bank Region/Summary of Current Economic Conditions

¹²U.S. Energy Information Administration/Gasoline and Diesel Fuel Update

¹³The U.S. Census Bureau and the U.S. Department of Housing and Urban Development

¹⁴New York Regional Fed Bank/Summary of Current Economic Conditions

¹⁵U.S. Energy Information Administration/Gasoline and Diesel Fuel Update

¹⁶Lower fuel prices lead to decreasing fuel surcharges, which reduces spending by shippers on truck freight transportation services

¹⁷Richmond Regional Fed Bank/Summary of Current Economic Conditions

¹⁸U.S. Energy Information Administration/Gasoline and Diesel Fuel Update