Uber Freight

2023 Q2 Market update & outlook

May 2023

Market update & outlook

Executive summary – 2023 Q1

Macro Economy
- Flat consumer spending
- Contraction in manufacturing economy
- Trucking employment still strong

US – LTL
- Price has softened, but carriers are still price disciplined.
- Carrier service levels have stabilized and show signs of continued improvement.
- On time performance has stabilized

Europe
- Continued easing of transport capacity
- Spot rates continues to decline, spot below contract in certain markets
- GDP Growth in the EU in 2023 is forecast to be 0.8%, increasing to 1.6% in 2024

Warehousing
- Wages continue to set record highs
- Inventory stabilizing after 2020–2022 run-up
- Vacancies up over Q4; still well below historical average

US – Truckload
- Contracts continue to drop through RFP process; spot rates flat through Q1
- First Tender Accept continues upward trend
- Job growth up; couriers & messengers added 6.7K in March

US – Bulk
- Overall utilization remains down
- Volume projections continue to be soft across all equipment types
- Gap between contract and spot rates is decreasing

Mexico
- Interest rates will remain high; estimated 5.1% in 2023
- Cross-border carriers' truck orders remain backlogged from 2021-22
- To reduce supply chain risks, nearshoring continues to gain strength

US – Intermodal
- Intermodal capacity is plentiful across most metro areas
- Rail service levels have improved and velocity is near the long term average
- Spot and contract rates have fallen over the last two quarters

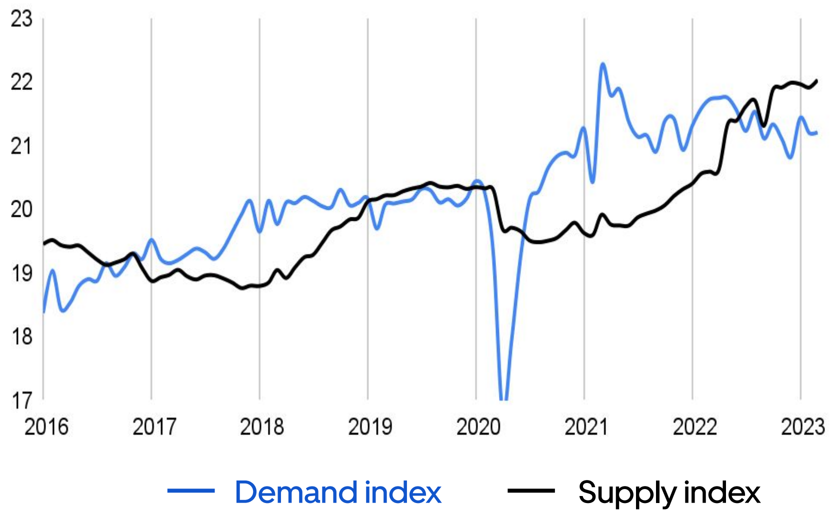
Ocean & Air
- Rates on majority of trade lanes have normalized
- Vessel schedule reliability improves, on-time arrival increased 60.2% →52.5%
- TPEB spot market returns to pre-pandemic lows; unprofitable levels for ocean carriers
- Spot rates from EU to US decrease; still more than twice pre-pandemic rates

Canada
- Economy is expected to grow 0.9% in 2023
- Per capita consumption is below pre-pandemic levels.
- Truck-to-load ratios have declined

Macro economic update

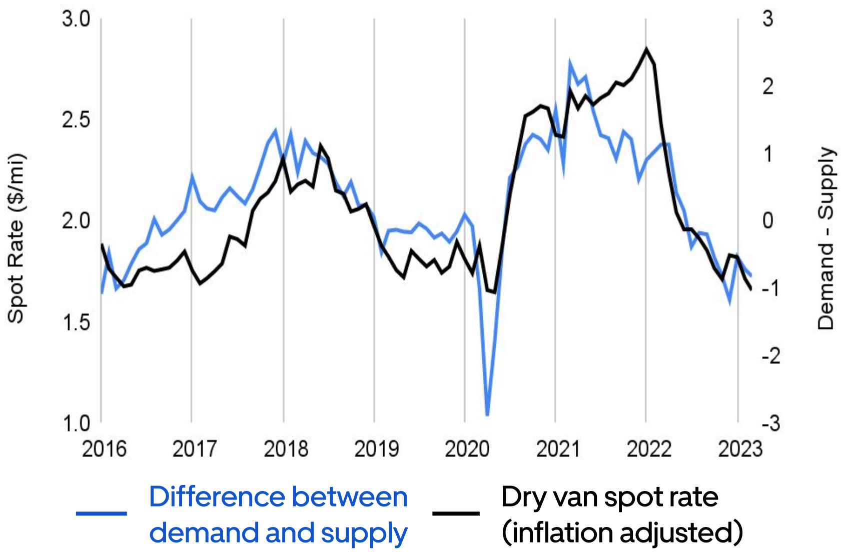
The market remains oversupplied as freight capacity remains resilient and demand falls

Uber Freight's composite supply and demand indexes
Millions of dry van loads per month (seasonally adjusted)



Despite a stronger-than expected January, truckload demand continued its downward trend, and was 1% lower y/y in Q1. Meanwhile, supply was 7% higher as trucking employment remained strong.

Difference between demand and supply vs. spot rates [1]



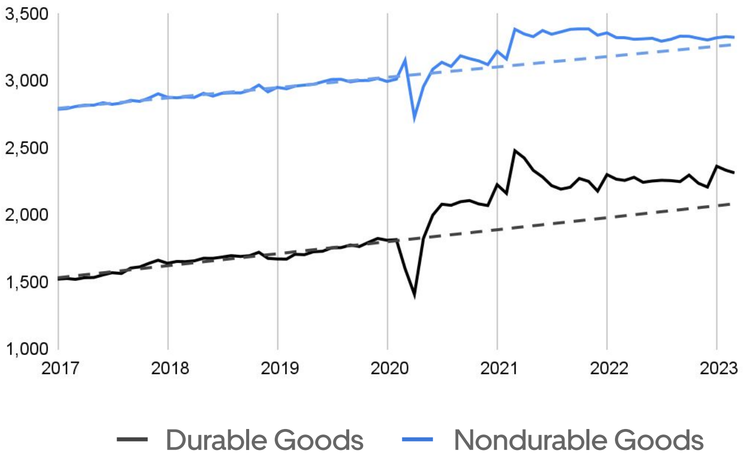
The gap between our supply and demand indexes is highly correlated with spot rates. In April, real dry van spot rates (adjusted for inflation) were the lowest in 10 years.

[1] DAT, UF calculations

The US consumer remains resilient, but the manufacturing sector is struggling

Consumer spending on goods (1)

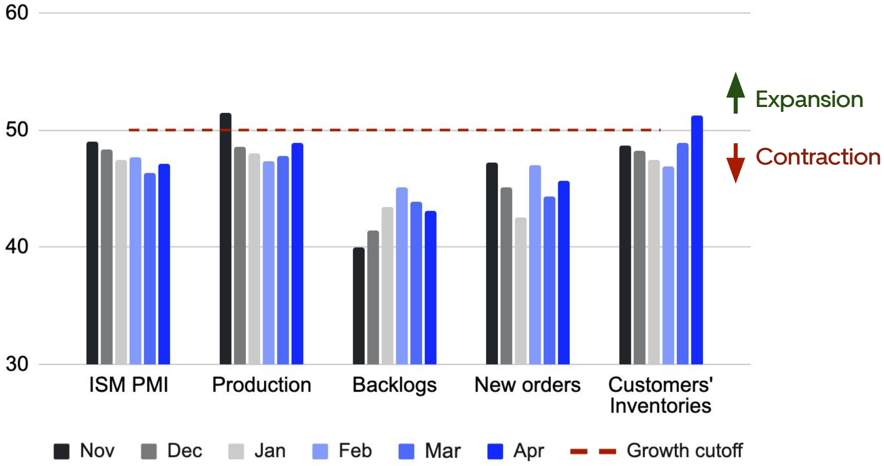
Billions of 2012 USD (adjusted for seasonality and inflation)



Real spending on goods surged by 2.9% in January, but fell in February and March. Revised data from the BEA shows that consumer demand is stronger than previously thought, especially demand for durable goods.

ISM Manufacturing PMI (2)

Values above 50 imply expansion and below 50 imply contraction

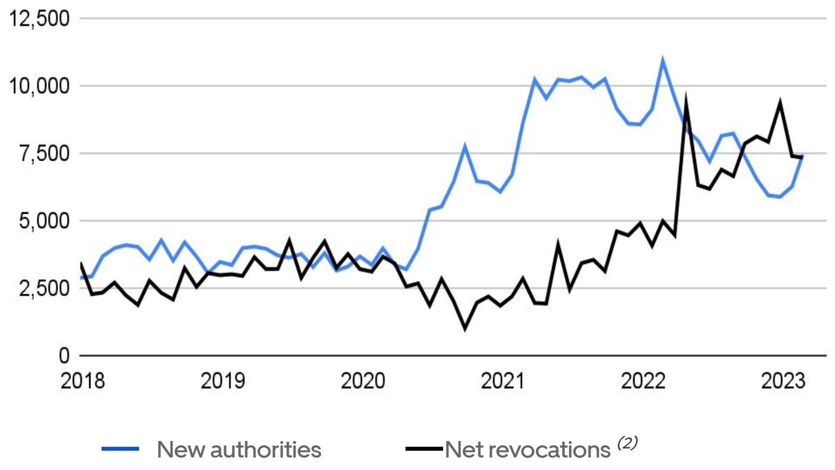


The ISM PMI indicates that the US manufacturing sector has contracted for 6 months in a row. The forward-looking indicators of backlogs and new orders point to more contraction ahead. Manufacturing output was 1.1% lower y/y in March.

(1) US Census Bureau; (2) Institute for Supply Management

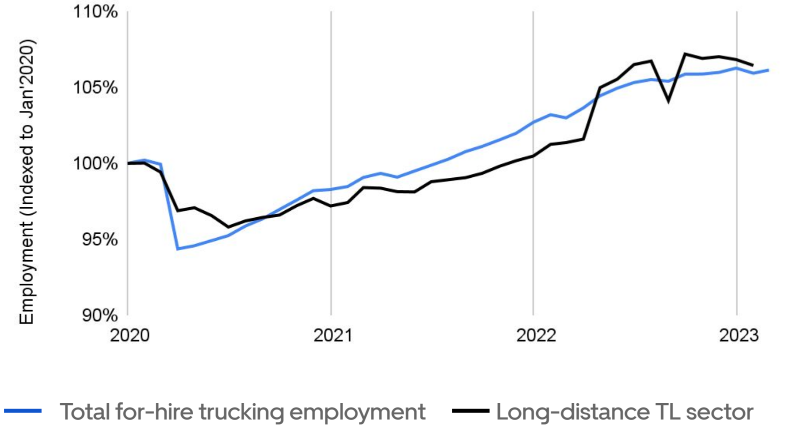
Lower diesel prices provided a much-needed relief to carriers, keeping supply resilient despite stagnant demand

FMCSA new trucking authorities and revocations [1]



Trucking authority revocations exceeded new grants issued by FMCSA for 5 months prior to March. In Q4'22 and Q1'23, the net carrier population decreased by 8,500, the largest decline ever recorded, but still smaller than the net gains seen in the previous 2 years (123K carriers).

For-hire trucking employment [3]
Indexed to Jan 2020

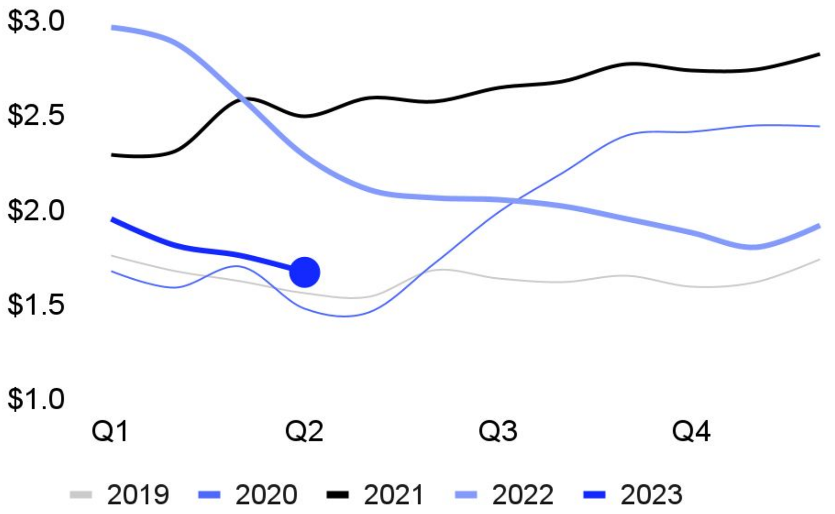


Trucking employment added 2.4K jobs in Q1, and was 3.1% higher y/y. Employment in the long-distance truckload sector, which is highly correlated with spot rates, decreased by 4.3K jobs, but remained 5.4% higher y/y. Growth is expected to be weak in 2023 as demand stagnates.

(1) FMCSA, FTR Analysis (2) US Bureau of Labor Statistics.

Trucking rates fell in Q1 faster than seasonal expectations - produce volumes did not fully materialize due to flooding in the West Coast.

Dry Van Spot Rate per Mile (Excl. Fuel) [(1)]



[(1)] DAT, UF analysis

Demand outlook:

- The ISM PMI indicates continued weakness in the manufacturing sector, and foreshadows lower volumes due to contracting backlogs and new orders.
- Consumer spending on goods had a strong start to the year compared to Q4, despite falling in February and March.

Supply outlook:

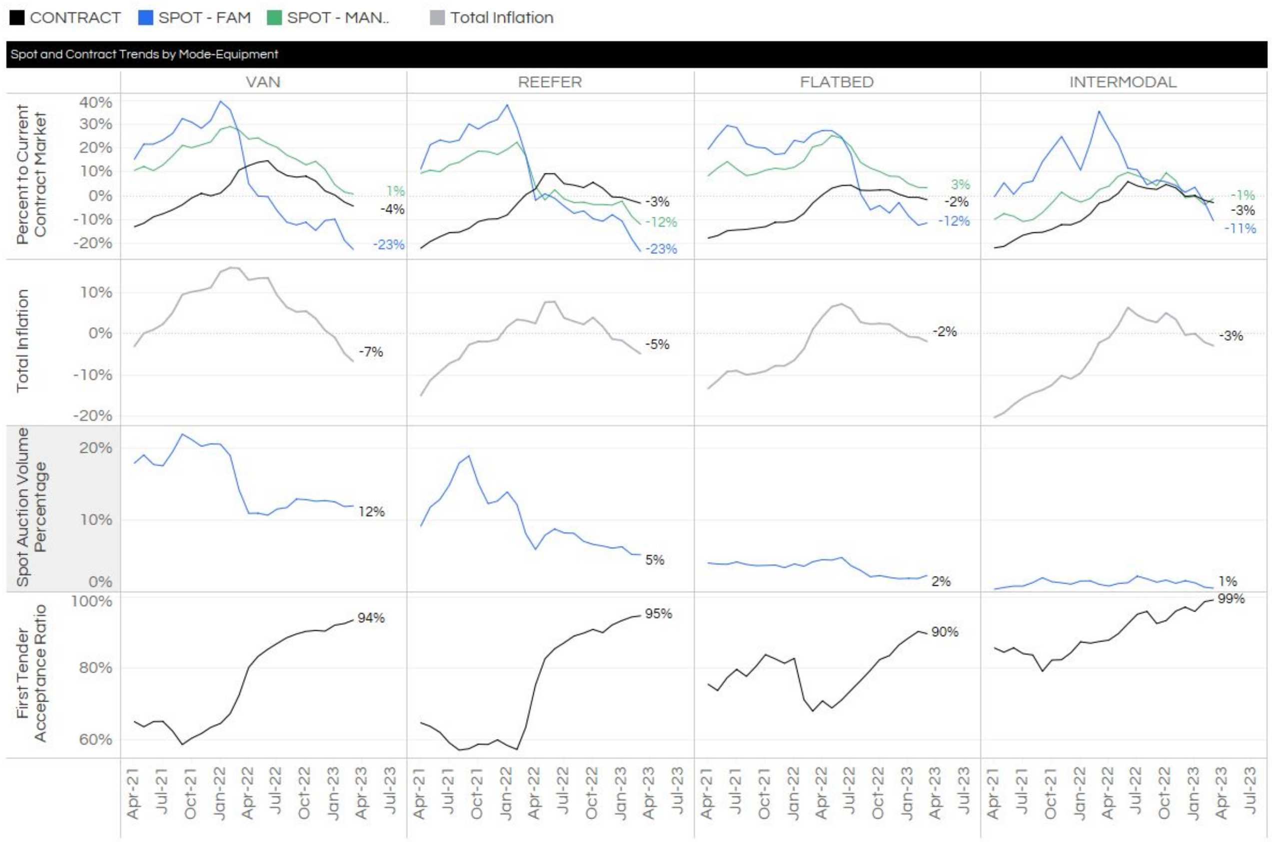
- Driver employment set a new record in March, however, the growth rate has slowed down significantly from last year.
- While the exact amount of capacity is unknown, the net carrier population decreased by 8,500 in Q4'22 and Q1'23, the largest decline of carriers on record.

Rate outlook:

- We expect rates to fall further in May before the summer produce season kicks in. In Q2 and Q3, we expect modest rate increases driven mostly by seasonality, and not major structural changes in demand and supply.

US Full truckload

Rate and route guide performance trends across mode-equipment types



Spot rates show no evidence of a bottom.

Spot rates maintain sizeable discounts from contract rates.

Deflationary rate market
Auction volumes stabilize
First Tender Acceptance (FTA) performance continues to improve across all modes.

Uber Freight 4PL - rate and route guide monthly and annual comps

Route guides maintain high performance

Rate and Route Guide Market Trends - Month Over Month	VAN		REEFER		FLATBED		INTERMODAL	
	February 2023	March 2023	February 2023	March 2023	February 2023	March 2023	February 2023	March 2023
Linehaul + Fuel Rate Change		-1.9%		-1.4%		-1.0%		-1.2%
First Tender Accept Ratio	93.4%	94.3%	94.3%	94.7%	90.6%	90.0%	98.5%	99.0%
Change in First Tender Accept Ratio		0.9%		0.4%		-0.6%		0.5%
Spot Auction Volume Percentage	12.2%	12.3%	5.4%	5.3%	1.9%	2.4%	1.3%	0.8%
Change in Spot Volume Percentage		0.1%		-0.1%		0.4%		-0.6%

Monthly comparisons

- Low spot auction volumes continue into end of Q1.

- First Tender Accept Ratio stays elevated.

Rate and Route Guide Market Trends - Year Over Year	VAN		REEFER		FLATBED		INTERMODAL	
	March 2022	March 2023	March 2022	March 2023	March 2022	March 2023	March 2022	March 2023
Linehaul + Fuel Rate Change		-18.6%		-6.8%		-1.0%		-4.3%
First Tender Accept Ratio	74.6%	94.3%	63.3%	94.7%	71.1%	90.0%	89.3%	99.0%
Change in First Tender Accept Ratio		19.7%		31.4%		18.8%		9.7%
Spot Auction Volume Percentage	15.5%	12.3%	8.8%	5.3%	4.6%	2.4%	1.8%	0.8%
Change in Spot Volume Percentage		-3.2%		-3.4%		-2.2%		-1.0%

Annual comparisons

Significant YoY improvement in First Tender Accept Ratios

Carrier sentiment

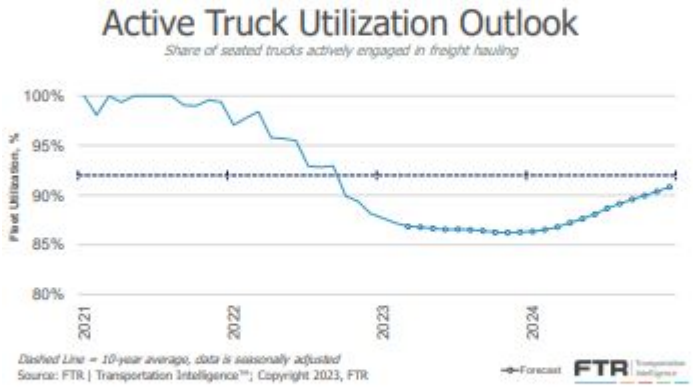
The active truck utilization forecast is modestly stronger and looks to hold at 86% to 87% through early 2024 before starting to strengthen by mid-2024. Utilization remains weak compared to historic figures – the 10-yr average is 92%.

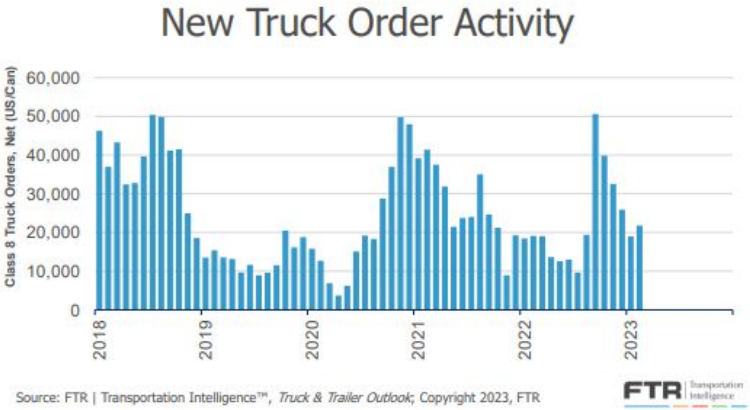
Class 8 production retreated from early 2023 levels.

- Retail sales up 1% from last month and 35% on the year.
- Trailer orders maintain strong indicators.
- US trailer orders jumped 4% from last month, up just 1% on the year.

Carriers bidding activity remains robust with RFP demand spiking year over year, while searching for opportunities and ways to recruit and retain drivers to improve operating ratio.

- Increase in new for-hire carriers from early 2023 low.
- Carrier authority revocations eased from Q1, but remain very high.





Cost and capacity pressures continued easing

Supply abundant while demand levels off leading to easing of cost pressures

Rates ⬇

- Contracts continue to drop through RFP process
- Spot flattens in 2023
- Continued pressure in incumbent carrier pricing as shippers look for cost savings
- First Tender Accept continues upward trend
- Diesel continued to fall in March

Supply ⬆

- Class 8 net new orders up 14 year over year
- Class 8 production is slowing
- Used Class 8 are stable and flat for the second straight month
- Trailer net orders up 1% year over over
- Trailer builds up 19 year over year

Demand ⬇

- Consumer and industrial indicators were lackluster, but housing indicators were strong.
- US manufacturing sector has contracted for 5 months in a row
- Retail and food service sales in March fell 1%
- Inventories relative to sales largely were stable in February throughout the supply chain
- Large # of full network RFP's; Q2 Pipeline tapering down per year over year average

Labor ⬌

- Trucking job growth was up in Q1
- Long distance driver growth remains flat
- Jobless benefit claims remain relatively low while sectors seeing the most job growth were those hit hardest by the pandemic: leisure and hospitality, private education and health services, and government

Policy ?

- Safer Highways and Increased Performance for Interstate Trucking (SHIP IT) Act would dedicate funds to expand truckers' access to parking nationwide
- Proposed EPA reduced emissions regulations
- Rulemaking by National Highway Traffic Safety Admin concerning automatic emergency braking and the mandate for all new trucks

US Intermodal

Key factors impacting intermodal supply

Dray Capacity

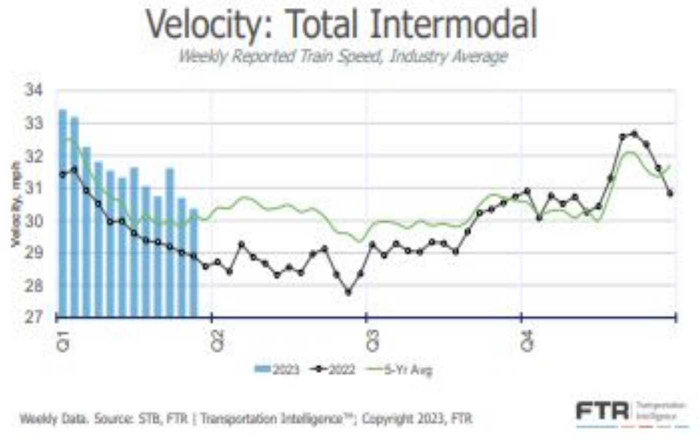
- Dray capacity is plentiful across most metro areas.
- There has been an increase in available capacity for live loads/unloads as well as longer regional drays.

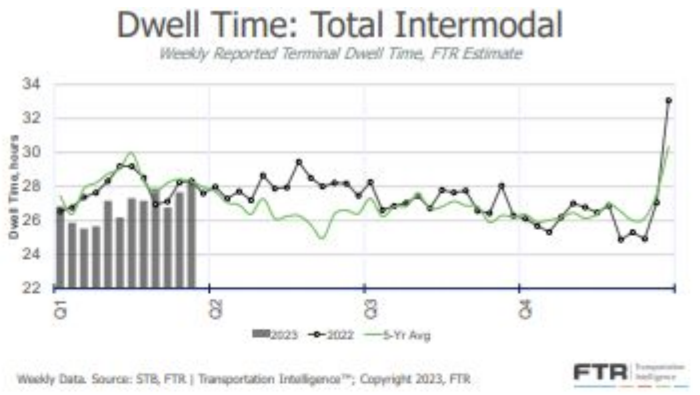
Railroads/Equipment

- Intermodal providers have added roughly 40K units since Covid. Capacity is plentiful across most metro areas.
- The railroads have opened up some new lanes including:
    - CSX:
        - Jacksonville, FL <-> Indianapolis, IN
        - Syracuse, NY <-> Fairburn, GA
    - UP/CSX:
        - Laredo, TX <->Indianapolis, IN, Louisville, KY, Detroit, MI
    - CP/KCS: Via their merger their combined network will connect the Mexico and Canada markets and there will be some added service offerings to domestic US points as well.

Service Update

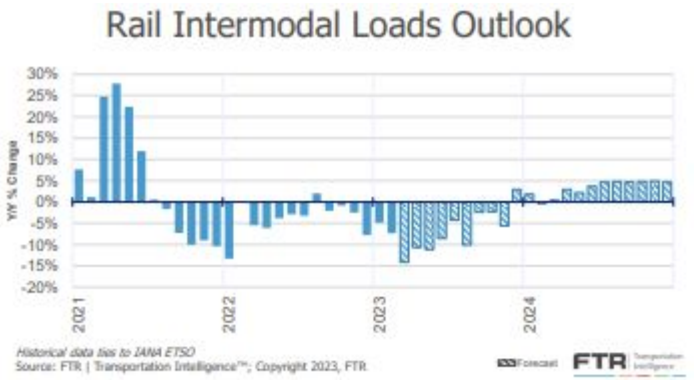
- The railroad networks and terminals are generally free of congestion. Intermodal service is now running above the 5-year average and terminal dwell time is running below the 5-year average.





Key factors impacting intermodal demand

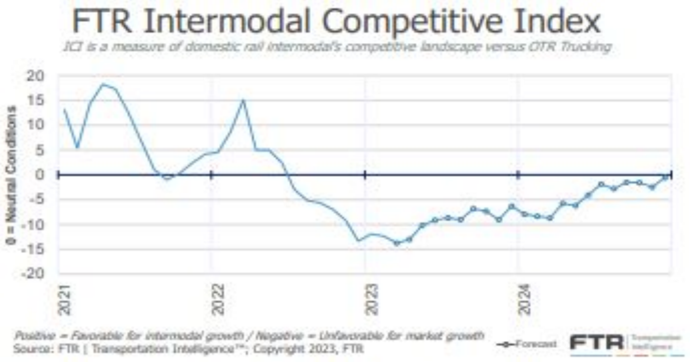
- Other than a slight year over year increase in August of 2022, intermodal volume has been down 19 out of the last 20 months. Volume is projected to continue to be down for much of 2023, before rebounding in 2024 but against a lower 2023 base.
- Over-the-road capacity continues to be plentiful overall. Over-the-road spot rates and tender rejection rates continue to be low, though spot rates are expected to rise in the second half of the year. In some cases, volume has shifted back to over-the-road, especially where shippers need the faster transit time.
- Import volume is still lower, especially off the West Coast. The East Coast and Gulf Coast import volume remains stronger. This has a negative impact on intermodal demand. Imports may rise again after new steamship line rates go into effect on May 1.
- 40' container capacity has improved inland and congestion has improved at the West Coast rail terminals and ports. As a result of this, shippers that previously utilized these containers have started to shift back to them.
- Diesel fuel prices have fallen from their 2022 highs, but are still elevated at around $4.08 per gallon as of the middle of April. The higher cost will put pressure on over the road capacity.
- Longer-term supply issues for over-the-road capacity will drive volume to intermodal.



Intermodal volumes are expected to flip to positive growth in 2024, but those gains are coming off the weak base in 2023.

Absolute volumes remain below the high water mark for 2022 throughout next year.

Current pricing impact, outlook and recommendations



The Intermodal Competitive Index is expected to remain weak through the entirety of next year as active truck utilization is not expected to recover until 2025.

Conditions are expected to improve from present levels but remain modestly negative through the middle of 2024.

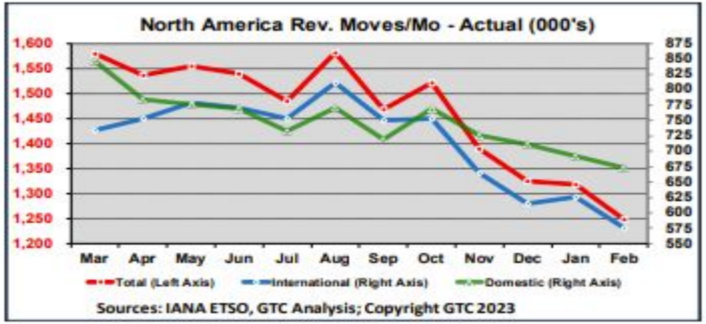
Intermodal rates will remain under pressure until the 2023 peak season when they will return to positive territory.

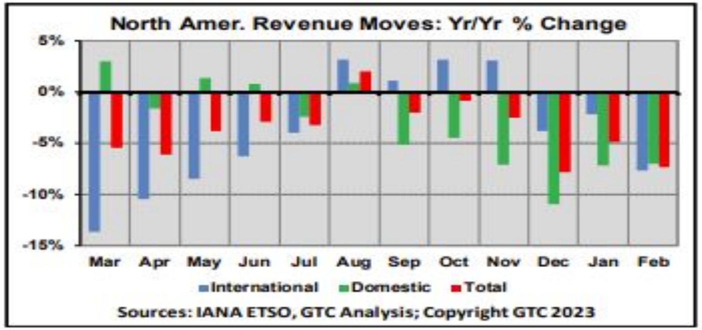
While there will be increasing rate pressure throughout 2024, it will not gain at the same rate it has fallen.

- **Spot Rates:** Have fallen to levels that in some cases we have not seen since 2016.
- **Contract Rates:** The overall average reduction may be 5%-10%, but in some lanes the reductions have exceeded 20% while reductions in other lanes have been more modest at 0%-5%. Some of the variances have been a result of:
  - Lane based pricing tied to surplus and deficit markets for equipment.
  - Dray utilization: Long regional drays and long live loads/unloads are still not as attractive to providers as driver utilization remains a focus.
  - Equipment costs. Dwell time is not as much of a factor as it was last year. Providers are not charging the escalation rates that they were in 2022.
  - Fuel. The DOE is still elevated and the higher costs and the differential between what providers pay their vendors versus what they receive from shippers is being taken into consideration in final linehaul rates.
- **Looking Ahead:** Rate reductions will moderate through the remainder of 2023 and then modest increases are expected for 2024.

Industry observations

- Weakness in intermodal volumes has been equal across the North American continent in 2023.
- Mexico volumes have held up the best on a percentage basis, but they have also had more volatility than other countries in North America, which is typical for Mexico.
- U.S and Canadian volumes are weak and getting weaker in the Lunar New Year lull. Shippers are using more truck competitive ports on the East and Gulf Coasts as an alternative to West Coast ports that are beset by labor issues.
- Those labor issues are likely to keep a lid on West Coast imports, in particular, as tensions ramped up in the last few weeks and showed some signs of flaring up. The dockworkers have been without a contract since July, and there has been little noticeable movement toward an agreement.
- The intermodal volume weakness cannot just be explained by the ongoing labor uncertainty on the West Coast. Canadian volumes have also shown strong weakness in 2023, with volumes averaging 10% on a y/y basis in recent weeks. Volumes are down even more than that compared with the five-year average, even as Canada's economy holds up better than the U.S. economy in some facets.

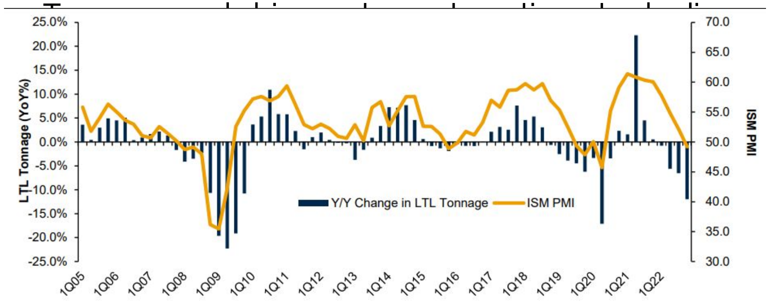




**Source: IFTR April 2023 Intermodal Report , Intermodal In Depth Report March 2023*

US Less-than-truckload

Key factors impacting demand

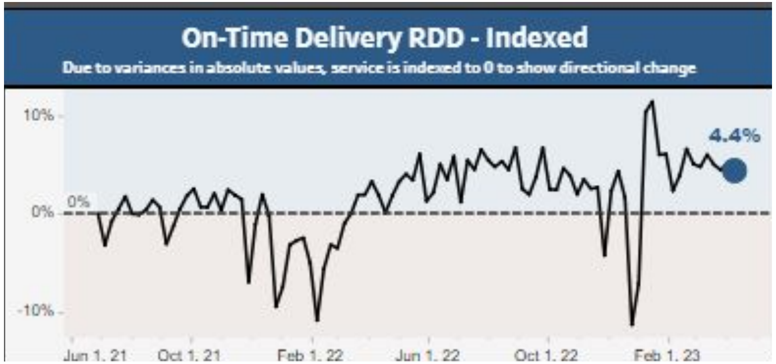


- Institute for Supply Chain Management (ISM) and Purchasing Managers' Index (PMI) are good indicators of LTL freight volumes
  - A reading above 50 indicates manufacturing economy is expanding
  - March PMI reported at 46.3
  - The historical correlation between U.S. manufacturing PMI and LTL tonnage suggests continued industry volume decline

- Tonnage and Shipment Count
  - Most carriers are experiencing available capacity within their networks due to overall reduced tonnage & shipment count and outcome of adding additional capacity in 2022
  - Yellow experienced most significant decline in tonnage with overall Q4 YoY change approximately a 12% reduction
  - Q4 shipment count was down approximately 10%
  - Average weight per shipment has declined slightly and varies by carrier

Source: Stephen, BMO Capital Markets

Key factors impacting supply



Improving on time service levels

- On time performance has stabilized in 2023
- Efforts to improve overall service levels from 2021/22 have come into fruition in 2023

Carrier actions in lower demand market

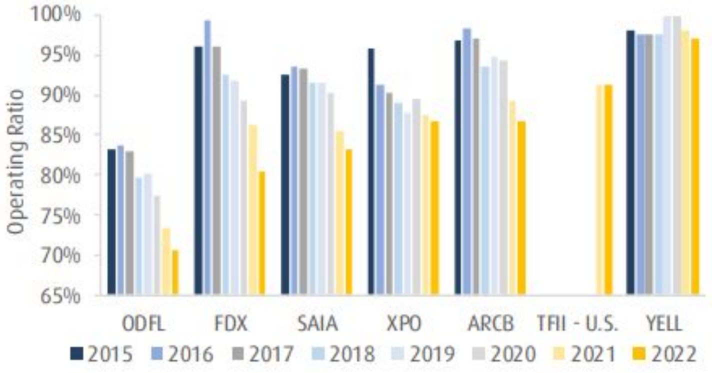
- Focusing on value added service that improve customer loyalty and are more profitable
- Offsetting increasing costs with automation improvements and reducing controlled costs coupled with historic price increases

Capex Investments

- On average, Saia & Old Dominion have invested significantly more into capex as other LTL carriers, 13.6% and 10.9% of annual revenues respectively
- Other carriers capex investment likely focuses on maintenance while Saia & ODFL focuses on investing in growth
- Strong correlation between capex investment and tonnage growth and Operating Ratio improvement

Source: Stephen, BMO Capital Markets

Current pricing impact



Despite slowing tonnage Operating Ratios remain solid

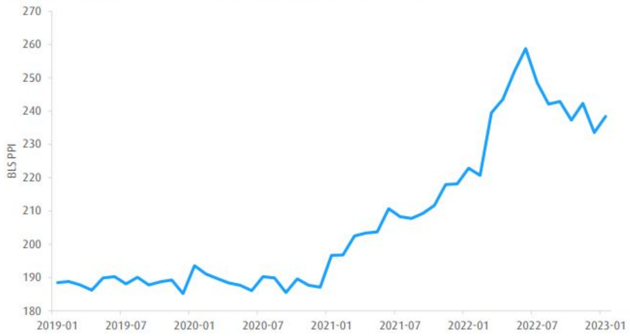
Operating Ratios (OR)

- Carrier's OR is dependent upon several key factors including:
  - Utilization (trailer, dock, driver, P&D and linehaul operations)
  - Accurate costing (freight profile, density–PCF, lanes, locations, etc.)
  - Pricing discipline (review regularly, price accurately)
  - Operational execution (efficiently operate network)
- Carrier's focus areas:
  - Strict pricing discipline
  - Improvement in pricing on poorly operating business
  - Focus on maximizing increase while maintaining / growing market share
  - Improvement in operational efficiencies based off data and operations feedback
  - Focus on achieving the "perfect shipment"
- Observations:
  - 2022 OR's were best overall reports in history
  - 2023 will be tough to match due to market conditions and strong pricing pressure
  - Operational efficiencies remain a primary objective
  - Pricing discipline across the industry remains strong despite slowing tonnage and pricing pressure from shippers
- Yields (rev / cwt excluding fsc) continue to accelerate YoY
- Per shipment profitability significantly improved from historical levels in 2020 with meaningful improvement beginning in Q1 2021 and continuing

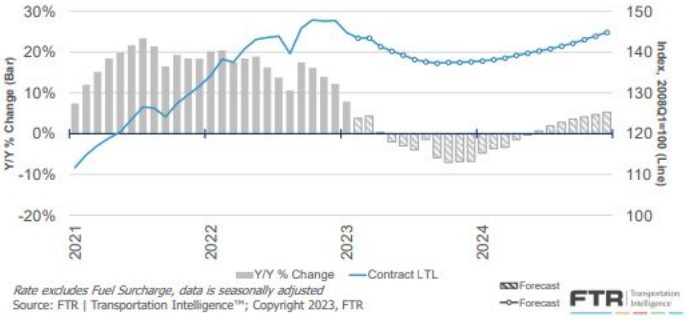
Source: BMO Capital Markets

2023 rate look

Exhibit 13: LTL Prices Were Up 39.5% From September 2020 to June 2022



Source: BLS, BMO Capital Markets



Rate excludes Fuel Surcharge, data is seasonally adjusted
Source: FTR | Transportation Intelligence™; Copyright 2023, FTR

Source: BMO Capital Markets & FTR

Contractual renewals

- Pricing continues to decline slightly from mid 2022 peak and sharp inclines beginning in early 2021
- Contractual renewals are in the 3% - 5% range, but can vary for below reasons:
    - Poor profitability will cause a carrier to hold firm on a higher increase
    - Target to growth your business due to being a good fit into their network will attract lower increases and potential reductions
- Overall, LTL carriers continue to be price discipline despite softening demand and focus on consistent GRI's to cover their increasing cost of doing business
- Expect contractual renewal increases to be in the 3% - 5% range through the end of the year
- Carriers are focusing to find the balance of a reasonable market increase to help offset their increasing cost while maintaining market share

Pricing outlook

- LTL RFP's are generating savings for shippers depending on shippers appetite to utilize new carriers and adjust the carrier mix and route guide
- Shippers need to balance cost, service, and overall carrier connectivity and relationship when making these decisions
- Due to softening demand, carriers are pricing new business more aggressively to gain market share
- Carriers are also pricing existing business more aggressively for lanes & locations they are not currently managing where their network is the need
- Carriers continue to focus on accessorial revenue to offset concessions made on linehaul pricing

Industry observations

Service and capacity

- Carrier service levels have stabilized and show signs of continued improvement.
- Heightened focus on technology to more efficiently operate terminals and automate with customers to reduce errors and labor expenditures.
- Focus from carriers to receive accurate Bill of Lading data electronically from customers in order to streamline their processes.

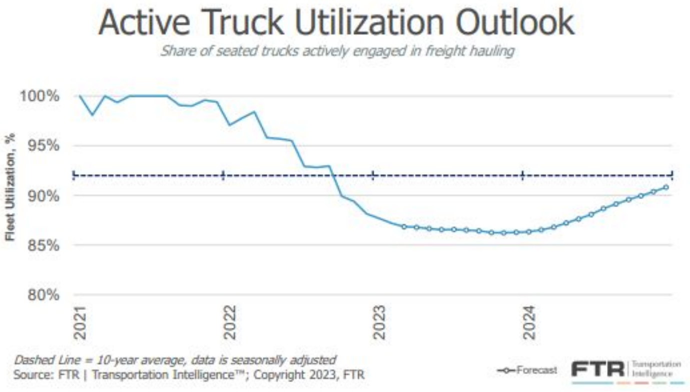
Carrier updates

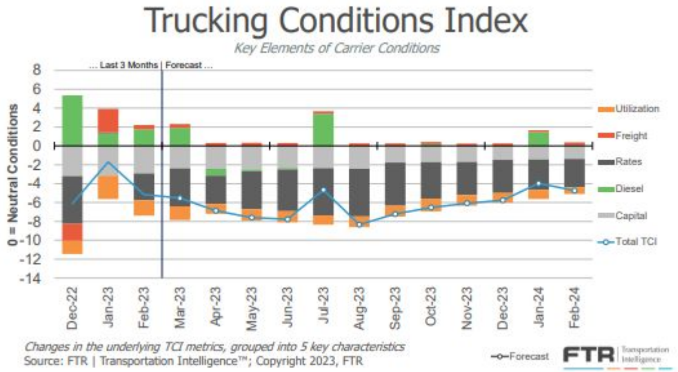
- UPS begins negotiations with the Teamsters on April 17th for its labor contract that expires on July 31st.
- Yellow & the Teamsters are already negotiating and making headlines due to Yellow's need to adjust their restrictive work rules to become more competitive with their non-union peers. Their labor contract expires on March 31, 2024.
- Carriers are focusing on customer retention and retaining / growing market share within their account base.
- Focus from carrier base to embed themselves further into account base in order to justify higher prices.

US Bulk

Key factors impacting supply

- Overall utilization remains down
  - Forecast is flat for remainder of 2023
- Carriers are being selective, trying to maximize utilization
  - Hesitancy to send drivers on longhaul lanes that have limited backhaul opportunities; seeking "safer" regional / shorthaul freight
  - Smaller carriers struggling more to cover fixed costs
- Recruiting efforts are slowing
  - Right-sizing fleets to match lower demand
  - Some drivers are leaving for higher paying jobs in other industries
- Carriers are seeing more RFP activity in past few months
  - Some shippers are conducting their first RFPs in 3 years
  - Carriers trying to maintain 2022 rates levels
- Supply Chain issues persist
  - Lead time for new trucks has improved, but parts & maintenance are the primary concern





Key factors impacting demand

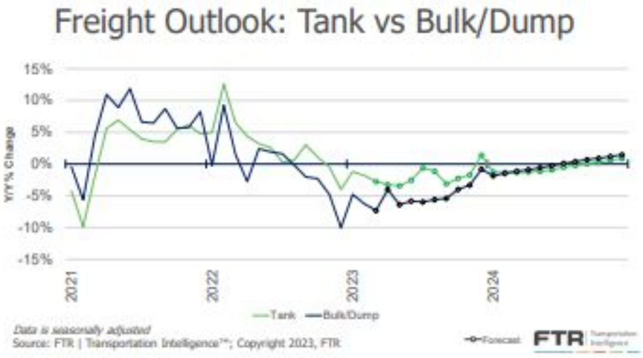
- As soft conditions persist, shippers prioritize private fleet utilization
  - Outside carriers impacted more
  - Dedicated agreements terminated or not renewed
- Volume projections continue to be soft across all equipment types
  - 2023 overall forecast at -1.9% YoY, and -0.5% for 2024
  - Chemical Production Index down YoY – Gulf has largest drop-off
- Lead time for tenders is finding a new equilibrium
  - Carriers can react more quickly to shorter lead times due to soft capacity
  - Shippers testing the new limits (7-14 days last year, down to 2-3 days in some cases)

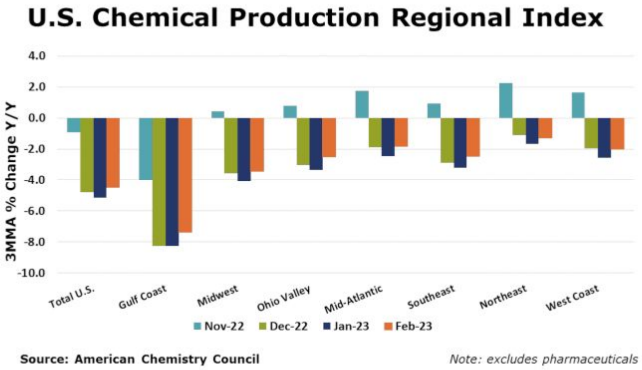
Truck Loadings Summary

Annual Growth Rate

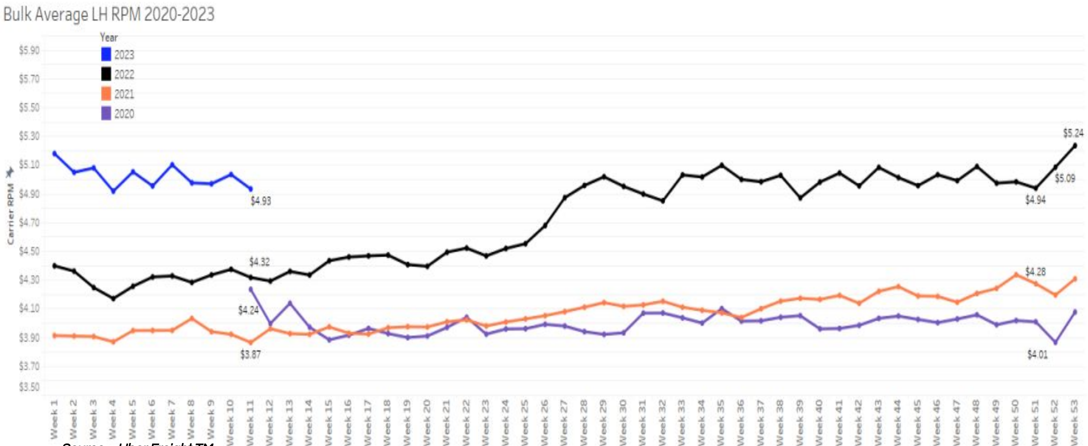
Segment	2021	2022	2023 (Forecast)	2024 (Forecast)	2025 (Forecast)
Dry Van	5.6%	1.2%	-0.3%	0.8%	2.2%
Refrigerated	3.0%	0.1%	1.3%	2.3%	3.8%
Flatbed	3.6%	3.2%	-2.9%	-0.6%	2.4%
Specialized	5.6%	3.6%	0.8%	1.1%	2.5%
Tank	2.3%	2.8%	-1.9%	-0.5%	0.9%
Bulk/Dump	5.8%	-0.6%	-5.0%	-0.1%	1.6%
Total	**4.9%**	**1.5%**	**-1.6%**	**0.4%**	**2.1%**

Source: FTR | Transportation Intelligence™; Copyright 2023, FTR

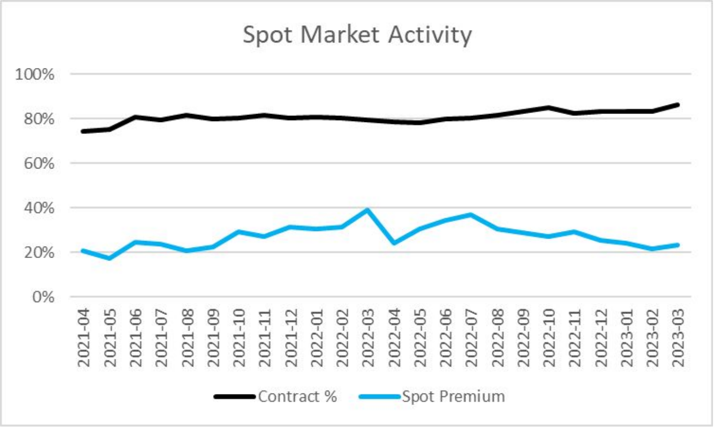




Bulk truck rate trends



Source – Uber Freight TM



- Linehaul rates are still elevated YoY, but trended down in Q1
- Gap between contract and spot rates is decreasing (although the specialized equipment requirements tend to keep bulk spot rates at a premium, even as van spot rates tumble)
  - Q1 2023 showed a spot premium of 23%, down from 33.7% in Q1 2022
- The mix between contract and spot activity also reflects the improved capacity in the market
  - Q1 2023 had 84% of bulk moves covered via a contract rate, while Q1 2022 was 80%.

Europe

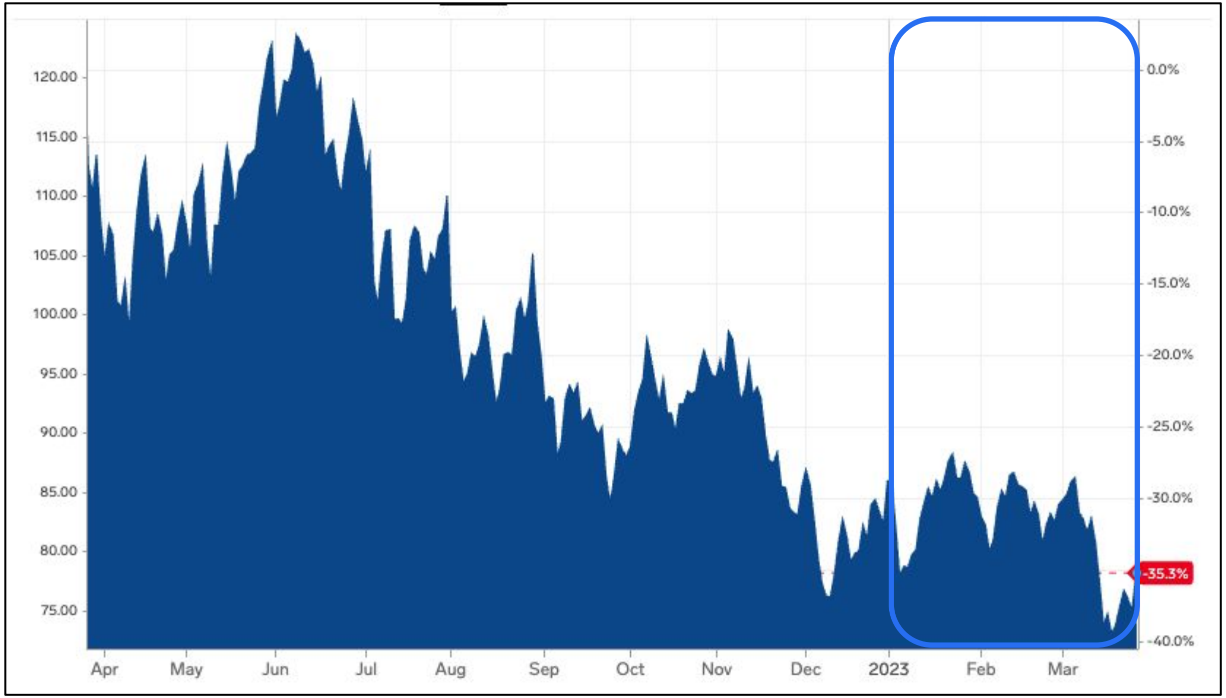
Factor affecting supply

Key points around capacity, pricing and driver shortages

- Q1 continued to show an easing of transport capacity, particularly in the FTL market.
- The premium of spot to contract rates continues to decline with certain markets showing spot rates below contract.
- The driver shortage remains a major structural issue, but the market softening is slightly easing the situation. Carriers continue to look east to employ drivers.
- Fuel prices have eased during the quarter bringing down fuel surcharges by several % points.
- Truck lead times have eased, with tractor units now available in c6 months.
- Industrial action in the form of strikes is becoming more widespread in Europe. France, Germany and the UK are the worst affected, with German hauliers calling for a lift on the Sunday trucking ban in advance on national strike days.
- Major logistics companies are joining the Science Based Targets Initiative (SBTI), as transportation is seen as one of the key sectors in need of emissions reduction.
- 64% of respondents in a survey of over 200 fleet operators in the UK, expect to make lay offs in 2023, citing rising costs.
- CEVA Logistics, ENGIE and SANEF have announced the launch of the European Clean Transport Network Alliance (ECTN Alliance), which envisions building and operating a network of truck terminals with low-carbon energy solutions along Europe's motorways.

Factor affecting supply - oil price

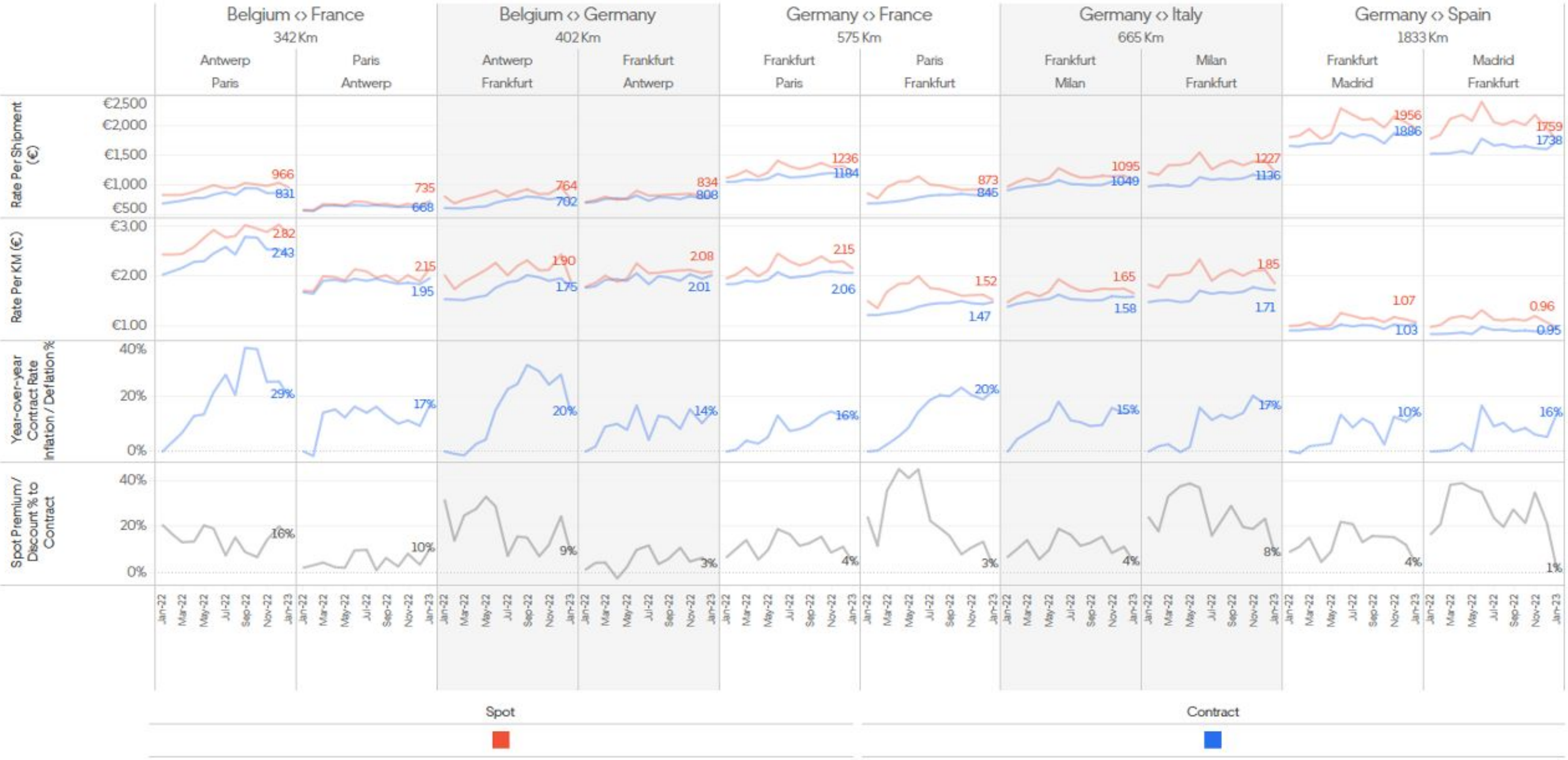
Brent Crude $/barrel



- The oil price has been volatile during the quarter varying from $88 to $72 per barrel
- The price was it's highest in late January
- Quarterly decrease: Between Jan '23 - Mar '23 the oil price decreased by $8 per barrel (-9%)
- YoY: Apr 2022 to Mar 2023, the oil price has dropped significantly from $112 to $78 per barrel

Source: Markets Insider

Uber Freight European Rate Trends
February 2022 to February 2023



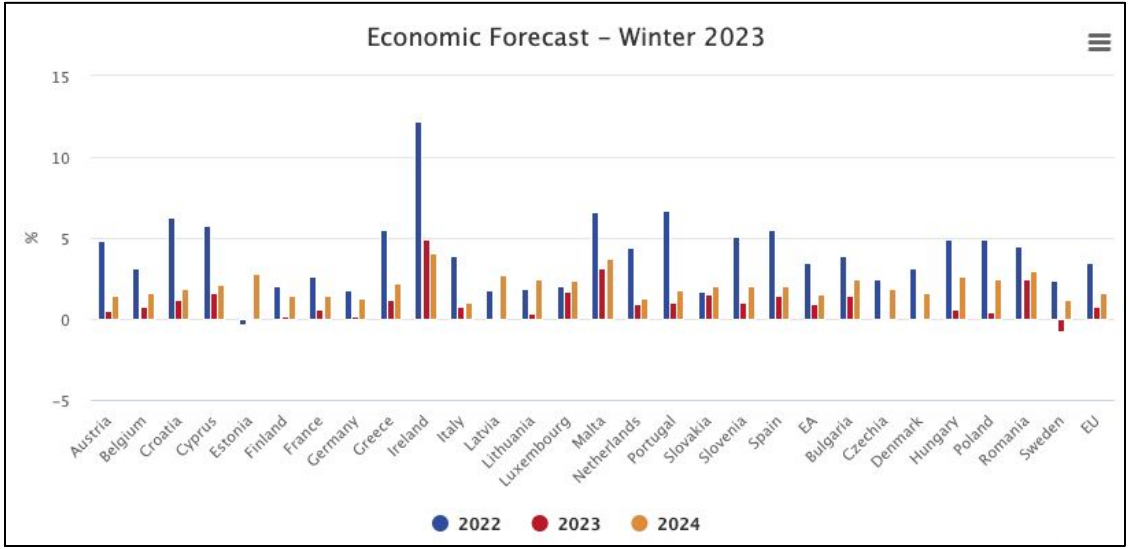
Source: UPPLY.com

Uber Freight European Rate Trends
February 2022 to February 2023

Source: UPPLY.com

Factors affecting demand

The European economy has seen some positive developments but still faces significant challenges

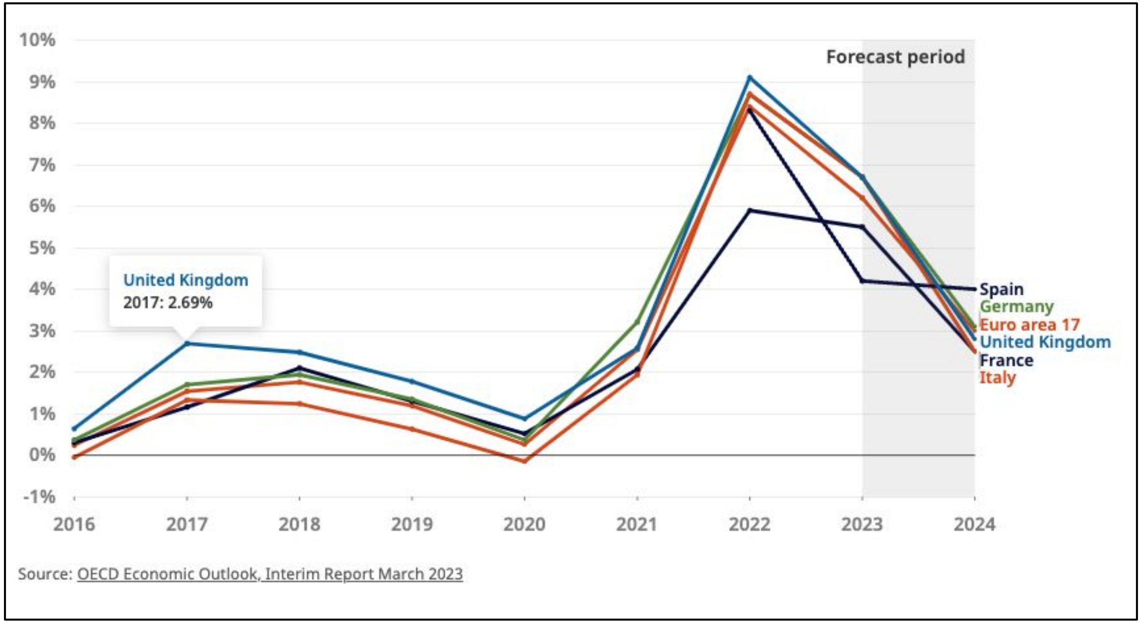


Source: European Commission Winter 2023 Economic Forecast

- GDP Growth in the EU in 2023 is forecast to be 0.8%, increasing to 1.6% in 2024.
- The EU has seen a number of positive developments since Autumn 2022, including lower gas prices, low and stable unemployment and less than expected contraction.
- The EU economy is expected to avoid recession in 2023.
- However, core inflation increased further in January and continues to broaden across the basket, so monetary tightening is expected to continue as is the weakness in consumer demand.

Factors affecting demand

Inflation is projected to fall following the tightening of monetary policy



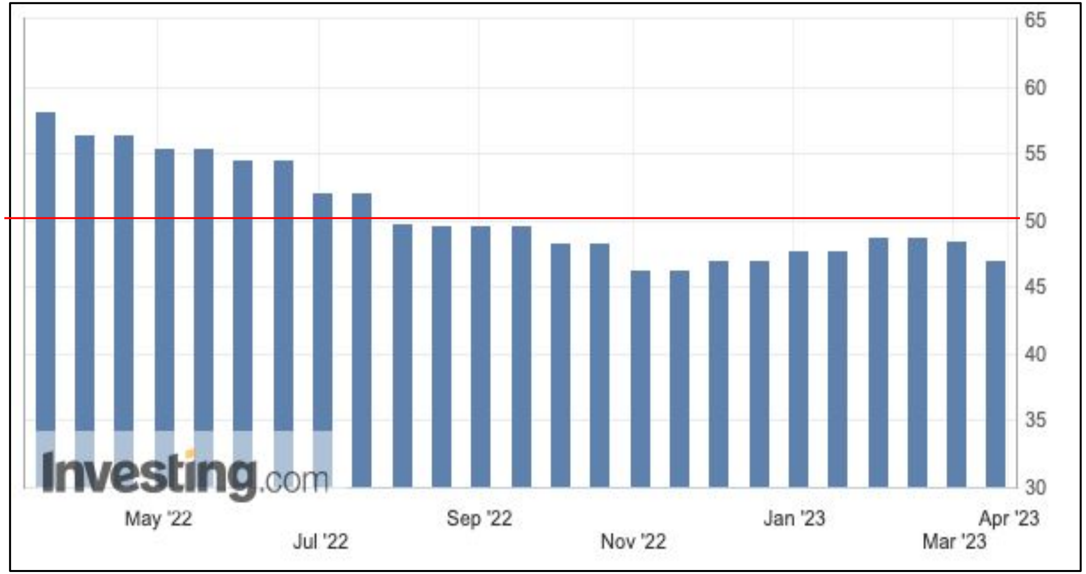
- Inflation in the EU for 2023 is forecast at 6.4%, decreasing to 2.8% in 2024.
- Labour cost growth is continuing to rise in most major economies, particularly in central and eastern Europe, and labour markets remain tight.
- The European Central bank increased interest rates twice in the quarter by 0.5%, in February and March 2023, as it attempts to restrain inflation.
- The decision to push ahead with inflation control measures in March was made despite banking sector fears. The interest rate increase came hours after the Swiss Central Bank stepped in with a €50bn loan facility for Credit Suisse. The intervention was designed to calm fears over the finances of the lender.

Factors affecting demand

The manufacturing PMI remains below 50, with energy intensive manufacturing suffering most

- The unemployment rate in the Euro Area increased slightly to 6.7% in January 2023 from 6.5% in November 2022.
- The Purchasing Managers Index (PMI) for the Euro Area in Q1 2023 increased to 48.8 in February but then fell back to 47.1 at the end of March. The level is is still below 50, the point at which contraction starts in the manufacturing sector.
- High energy usage manufacturing output is struggling to recover whilst non energy intensive manufacturing output is rising. (Source: European Commission)

Purchasing Managers Index Manufacturing: past 12 months



Outlook

- Inflation appears to have peaked, and is forecast to fall in 2023 and further into 2024. The Euro Area is expected to have low growth and avoid recession in 2023.
- Carrier capacity continues to return as volumes decline, with a marked easing in bulk markets.
- The level of procurement activity will be high during Q2 as shippers re-evaluate their carrier and cost base due to market changes.
- France is suffering a period of significant industrial action as President Macron pushes through unpopular pension reforms.
- Germany is also suffering from intermittent national strikes, affecting the rail network and ports.
- Oil prices are forecast to remain stable at around $80 per barrel in 2023, but there is high uncertainty due to the war in Ukraine.
- Retailers are reporting excess levels of inventory as consumer demand is forecast to be weak for the rest of the year.
- Listed companies are starting to prepare for the Corporate Sustainability Reporting Directive (adopted by the European Commision in April 2021), which will require organisations to report on the environmental and social impact of their business from 2024 onwards. This will be required for companies with over 250 employees and €40M turnover from 2025 onwards.
- The European Commission is also pushing ahead with proposal for the Net-Zero Industry Act (NZIA) which will overhaul industry in the EU with a view to achieving the Commission’s 2030 carbon targets. This will be achieved by driving European development of clean technologies, carbon capture / storage, and renewable hydrogen.
- The Mont Blanc Tunnel, a key route into Italy, will be completely closed from September to December 2023 for repair work.

Recommendations

- As the market continues to soften, look to strategically re-procure – there is still much uncertainty re an economic recovery.
- Continue to look for strategic relationships but look outside of the current carrier base for cost advantages.
- When procuring, ensure all operating and service requirements are known to potential new providers to enable a like-for-like rate comparison.
- Challenge career rate increase requests – consider open book calculations and cost increase justifications as inflation eases.
- Understand carrier solvency – reduce the risk of carrier partner failure.
- Carefully track the spot vs contract market – spot prices are adjusting rapidly with evidence of rates falling below contract in certain geographies.
- Monitor minimum order quantities – buyers are looking to reduce order size which can increase the cost to serve.

International

Global supply chain impacts

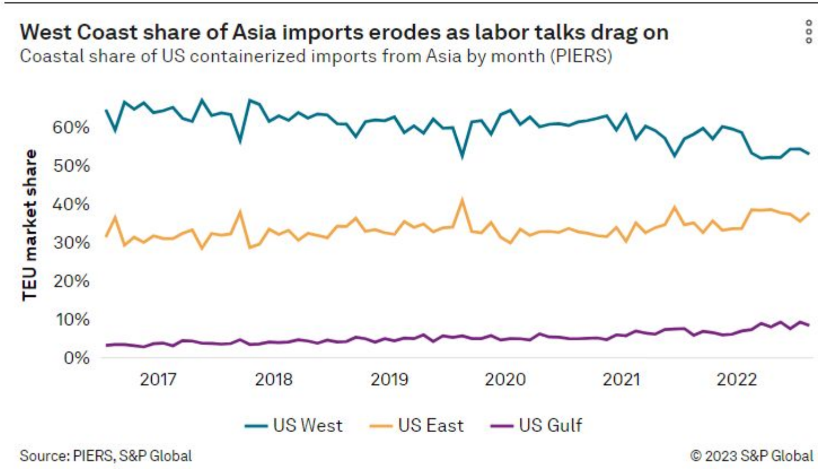
- Rates on majority of trade lanes have normalized with a few exceptions. Container carrier net profitability is estimated to decrease by 80% in 2023 over PY: $43.2B from $220B in 2022. Shippers should expect 55% to 85% reduction in shipping costs compared to PY (Blue Alpha Capital).

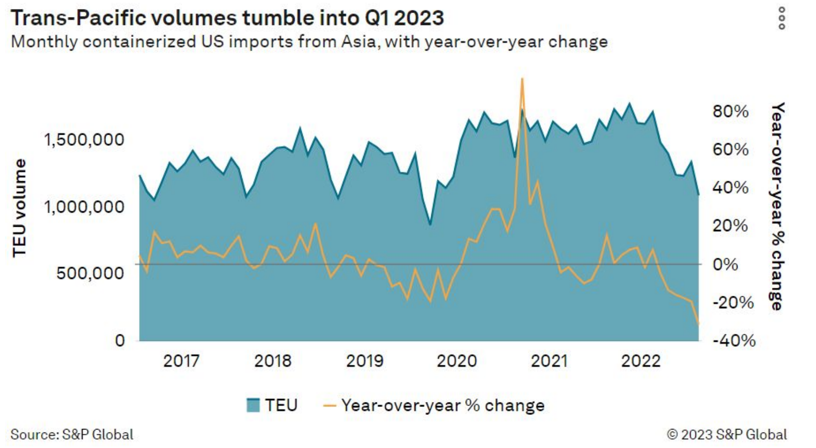
- Carriers are hopeful for an uptick in import volume for 2nd half of the year, driven in part by new product launches for back to school and holidays.

- ILWU labor contract is unresolved and longshoreman are increasing job actions targeting automated marine terminals. Examples include “red-tagging” cargo-handling equipment forcing inspection and shutting down terminals on Good Friday due to lack of “workforce”.

    - The US National Labor Relations Board (NLRB) has ruled that the ~25 machinist jobs at Seattle T-5 marine terminal do not belong to the ILWU. ILWU is planning to appeal the ruling.

- Vessel schedule reliability continues to improve. February 2023 posted best one month increase is schedule reliability in 12 years. Per Sea-Intelligence Maritime Analysis, global on-time arrival increased 60.2% from 52.5% in January.

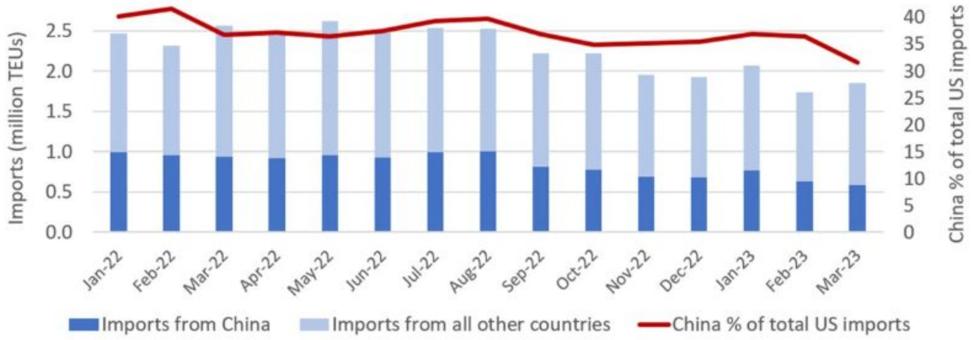




China imports

- Ocean carriers are aggressively blanking sailings from China through the end of April in addition to attempting GRIs.
- US imports from China in February fell 37% YoY.
- Chinese container depots are working at 90% utilization due to glut of empty idle containers.

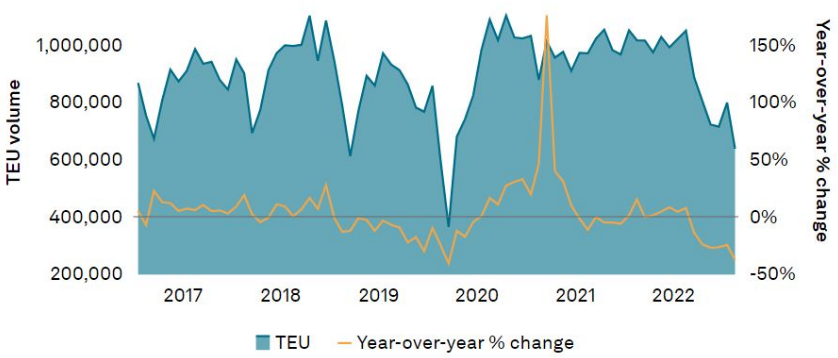
China share of US containerized imports



(Chart: FreightWaves based on data from Descartes Datamyne)

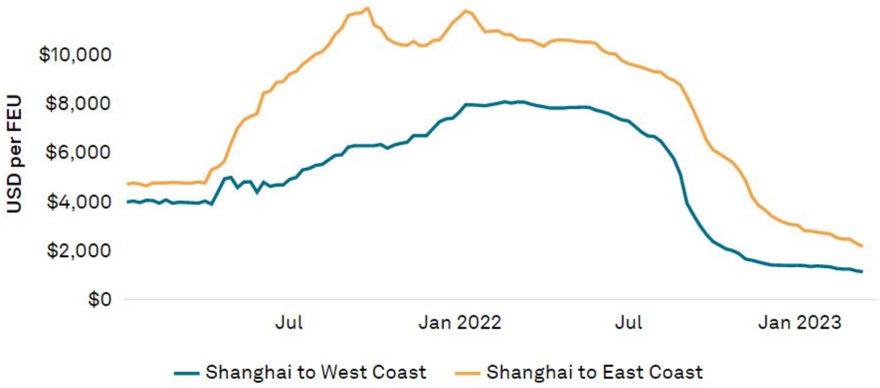
Blank sailings from China signal further fall in shipments to US

Containerized imports from China measured in TEU



Source: PIERS, S&P Global

Spot container rates from Shanghai to the West and East coasts are at two-year lows



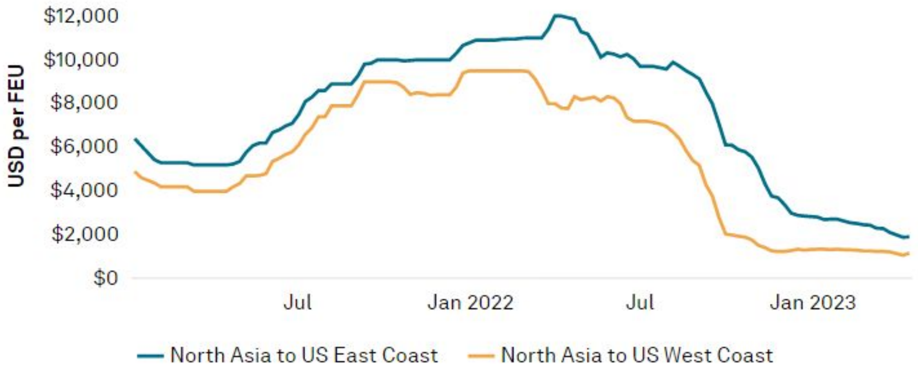
Source: Shanghai Shipping Exchange

Transpacific trade

- Many TPEB service contracts have remained unsigned through end of March as Beneficial Cargo Owners (BCOs) monitor the spot market to match new contract pricing. Large US retailers, by not signing early, have created an overall lag in contract commitments. Mid-April will force finalization for bookings sailing post-May 1st.
- TPEB spot market has returned to pre-pandemic lows and unprofitable levels for ocean carriers
- For first 2 weeks of April, ocean carriers Asia to USWC have been sailing ships > 85% full; carriers are hopeful that a April 15th GRI will stick to get back to breakeven profitability.
- Importers in general are pulling back on ordering due to high inventories, slow retail sales and uncertainty with overall direction of economy. Ordering continues however at moderate levels and lower than prior year.

North Asia to US spot rates down more than 80% year on year

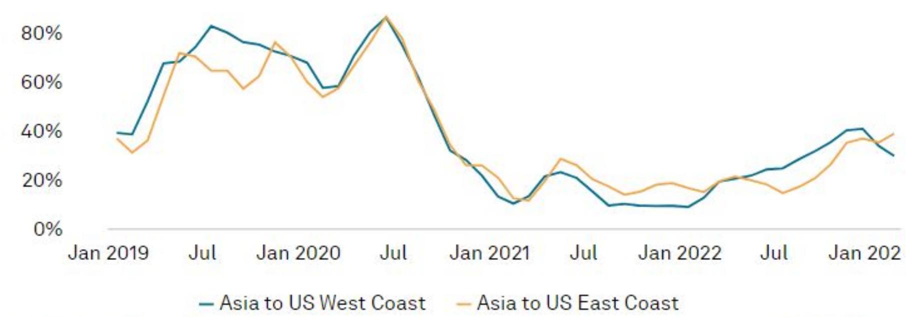
Platts container rate North Asia to US Coasts USD per FEU



Source: Platts, S&P Global

Trans-Pacific reliability to East Coast rises, while West Coast reliability worsens

Percentage of on-time arrivals of container ships. Ships are considered late if they arrive one calendar day or more after schedule



Source: Sea-Intelligence Maritime Analysis

Transatlantic trade

- Spot rates from EU to US have decreased from pandemic highs, however rates are still more than twice pre-pandemic rates. EU imports to US remain strong with building materials continuing to be a top import commodity.
- Below chart shows westbound Rotterdam rate has decreased 32% since peak.
- Analysts estimate that the TAWB rates will eventually fall to pre-pandemic levels however it's a longer trajectory decline than the TPEB. Currently this market provides carriers a higher rate per FEU per mile than other major trades. This will continue to attract additional capacity and drive rates down further.
- Port congestion at major ports in N. America is reduced by 50% and 60% at EU ports.

Spot rate assessment in USD per FEU. Blue line: Rotterdam-New York. Orange line: Shanghai-Los Angeles. (Chart: FreightWaves SONAR)

Carrier Megamax Fleets

Megamax container vessels generally have a capacity of 18,000 – 24,000 TEUs.

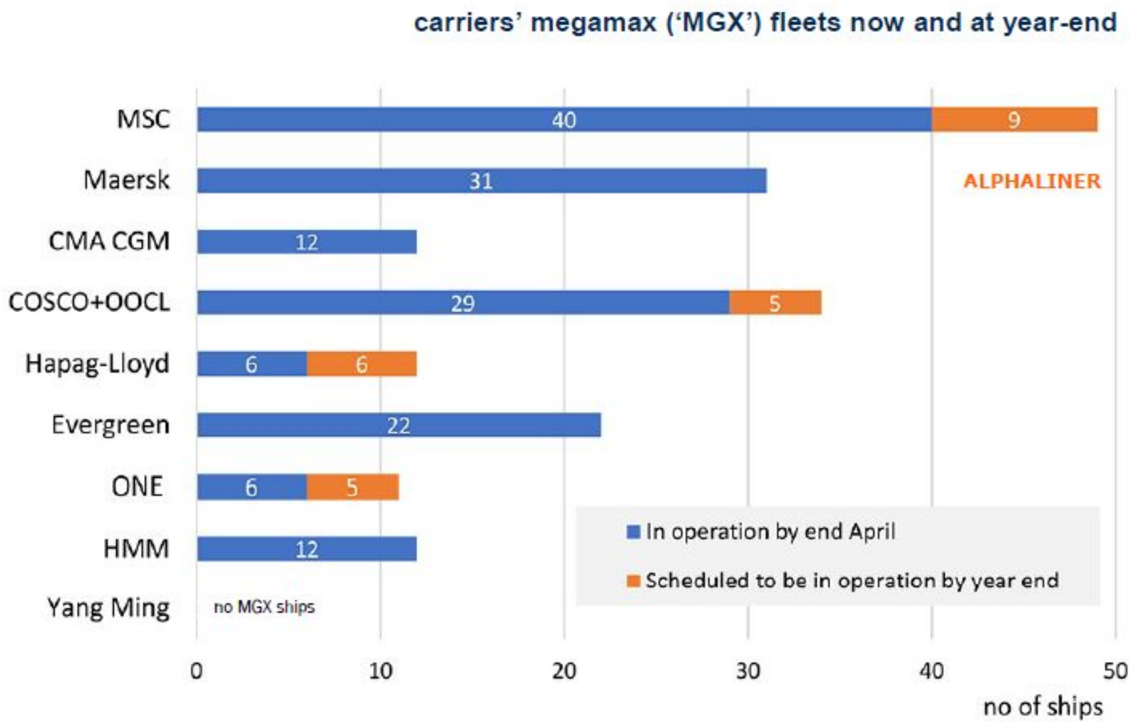
Chart of the week

MSC is already the biggest operator of MGX23 and MGX24 tonnage with 40 ships in service and nine more to come this year.

Only eight carriers (nine if COSCO and OOCL are counted separately) de-ploy this kind of tonnage.

MGX is defined as a ship that measures 24 contain-er bays in length and at least 23 rows across.

Yang Ming is the only alli-ance carrier without MGX.



Trade updates

- **Legal Challenge to Section 301 tariffs:** The Court of International Trade (CIT) released a decision on March 17th that Section 301 tariffs applicable on China import products will remain in place. The case was first filed with the CIT in 2020 and thousands of importers joined the lawsuit challenging that Section 301 tariffs List 3 and List 4A were imposed in violation of the authority of the Office of the US Trade Representative (USTR) provided under the Trade Act of 1974 and in violation of the Administrative Procedures Act (APA). The focus of the trial was whether the USTR complied with its procedural burden under the APA in the tariffs.

  The CIT found that the explanations provided by the USTR were not impermissibly after-the-fact and that the APA did not mandate as robust an explanation of the agency's decision-making process as the trade community argued. The CIT indicated that the USTR need only show that it was aware of the comments and engaged in reasoned decision-making.

  The CIT's decision will be appealed to the Court of Appeals for the Federal Circuit. A decision is not expected until 2024.

Ocean Shipping Reform Act (OSRA) 22 - updates

Federal Maritime Commission (FMC) is reviewing the following topics:

- Demurrage & Detention billing
  - The FMC must finalize rulemaking on how ocean carriers and marine terminal operators bill demurrage and detention by mid-June.
  - In advance of the decision, many ocean container lines announced they stopped charging importers/consignees demurrage fees on days when marine terminals are closed.
- New Legislative considerations:
  - Antitrust Immunity: U.S. Congress is considering legislation to strip ocean carriers of antitrust immunity. If passed, this would have a large impact on the industry's structure, making it harder for carriers to operate in alliances or vessel-sharing agreements. This would likely lead to further industry consolidation and less competition.
  - The Ocean Shipping Reform Technical Act of 2023: Increases transparency of regulatory penalties levied against ocean carriers and marine terminal operators by ordering all sanctions be publicly posted online. Currently cases can be settled confidentially.
  - Creation of a National Seaport Advisory Committee appointed by the FMC to assist the FMC monitor ongoing industry issues.

Mexico Truckload

Mexico economic outlook

Inflation Index

- Mexico's inflation closed at 7.82% in 2022, the highest rate in 22 years.
- Inflation in 2023 is estimated to be at 5.10% according to Banxico's forecast.

Exchange Rate

- The Mexican peso had its best yearly performance since 2017 and was one of the top-performing emerging market currencies in 2022.
- The average exchange rate for 2022 closed at $20.12 MXN/USD.
- The exchange rate continues to downtrend as seen in last year´s last quarter.
- During the first half of Jan 2023, it is averaging $19.24 MXN/USD.
- Banxico's Dec 2022 survey estimates the exchange rate to range from $19.25 to $22 MXN/USD in 2023.

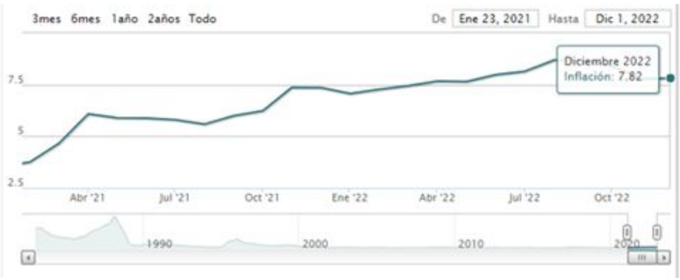
Diesel Impact

- National avg. price per liter of diesel in MX reached $23.73 MXN in November 2022, this is an increase of 9% compared to the same month a year prior.

Economic 2023 forecast for Mexico:

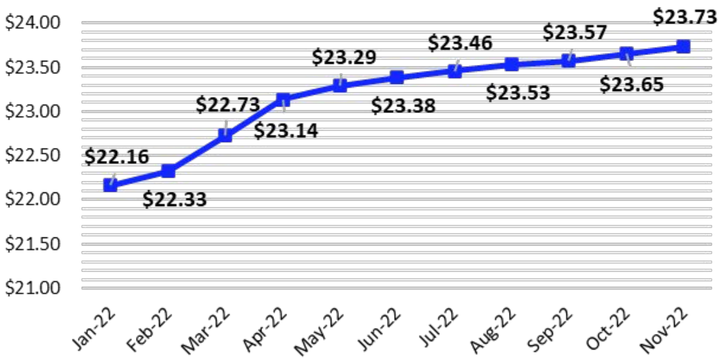
- Inflation will continue its downward trend but will remain above 4% throughout the year.
- Interest rates will remain high.
- The Mexican government will continue to invest in private sector tax audits.
- The expected slowdown in the United States will weigh heavily on Mexico, given the strong trade and investment links between the two countries.

Mexico Inflation 2022



https://www.inegi.org

Mexico Diesel National Cost MXN/Liter



Mexico current situation

Nearshoring

- As companies look for alternatives to reduce supply chain risks, nearshoring continues to grow.
- According to data from the Mexican Association of Private Industrial Parks, 25 new industrial parks are expected to open during 2023, this represents an investment of $25B and a $35B opportunity in new exports for Mexico. More than 400 companies are expected to open business in the country this year.
- Among the cities with the most significant investment stand out; Monterrey, Ciudad Juárez, Saltillo, Reynosa, and Chihuahua.

Transportation Costs and Capacity

- For cross-border business between Mexico and the US, carriers continue to receive backlogged truck orders from 2020-2021. No foreseen equipment purchase over the next 2 quarters.
- Unlike 2021, US equipment availability in Mexico for direct shipments is starting to increase.
- Rates for US legs continue to deflate slower than in previous months; however, we anticipate a rebound with new shippers installing their manufacturing plants in Mexico as well as produce season coming.
- Cross-border Mexican portions remain higher than pre-pandemic levels, slightly lower than last year but Mexican carriers will not be able to keep up with new production lines coming to Mexico increasing transportation costs.
- For Mexican domestic shipments, overall inflation rates, diesel costs and driver shortage continue to impact operational costs for Mexican carriers receiving 2-digit increases on contracted rates.
- In 2022, the cost of new equipment increased 33% compared to 2021. Insurance costs also increased a 10%, and supplies such as oils, tires and spare parts had an 8% inflation.

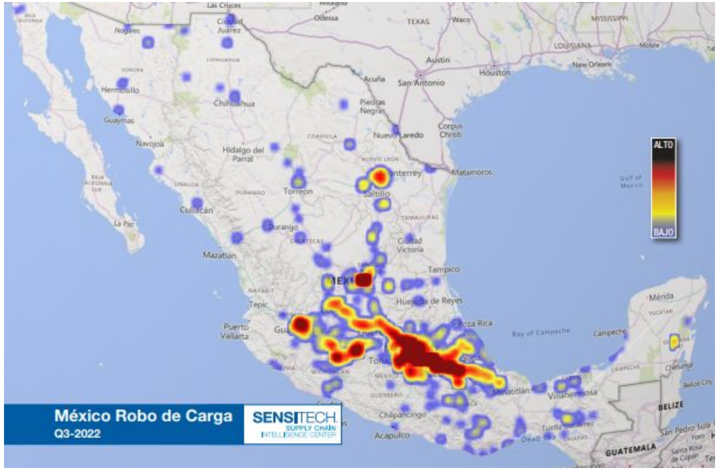
Main MEX States Exporters to USA Million dollars

INEGI: Jan to Sep 2022

Transportation challenges

Road Security

- A total of 10,805 theft incidents were reported for Q3 2022. The central region of Mexico represents the hottest area of cargo theft.
- The states with the most incidents are Estado de Mexico (37%), Puebla (14%), and Guanajuato (10%).
- Due to security concerns, rates in Mexico for domestic and cross-border regions are sensible to extra charges.



Bill of Lading Complement – Carta Porte

- On December 27th 2022, Mexican Tax Authorities published the Miscellaneous Tax Resolution for 2023, which addresses the specific terms and provisions for the issuance and use of the Complementary Bill of Lading:
    - Grace period extended to July 31st, 2023.
    - Starting August 1st, 2023, the complementary Bill of Lading will be obligatory for any foreign trade operation.
    - Logistics brokers will not be required to issue a complementary bill of lading as the nature if their business is to facilitate the transportation of services.
    - Dedicated fleet providers rules were included; both the carrier and the customer or contracting party must issue the corresponding Carta Porte compliments for each trip carried out.

Outlook and recommendations

Outlook

- Both Mexican and USA carriers seek long-term negotiations with shippers, unlike pandemic season where short-term commitments and spot freight were prioritized.
- The opening of new manufacturing companies in the country due to nearshoring is anticipated to affect the market imbalance between northbound and southbound shipments. Mexican portions may face inflation again as demand for exports increases.
- Carriers are open to run wider state destinations, not only “long-mile” lanes.
- End-to-end visibility will be a top priority this year as shippers look for tools to mitigate supply chain risks and disruptions.

Recommendations for Mexico exporters

- Continue working on implementing efficient processes for Carta Porte implementation to avoid shipment rejections from carriers and the risk of paying fines for errors or omissions in its requirements.
- Be open to diversifying and considering alternative options to move your cargo as transloading, intermodal and ocean services.
- Analyze alternative ports of entry to the US that can fit your network since Laredo is becoming congested.
- It is a good time to negotiate annual rates. Contract market is ripe.

Canada

Canada highlights

- The Canadian economy is expected to grow 0.9% in 2023. Though strong fundamentals including robust population growth, a strong labour market and a well-regulated and capitalized financial system puts Canada in a position to weather a global economic slowdown.
- Economists are expecting a recession in the Canadian economy during the second and third quarters of the year.
  - Core inflation is softer than the US yet still higher than the Bank of Canada target range by 0.5%.
  - Consumer confidence negatively impacted by inflation and interest rate increases. Despite that, spending is increasing due to the number of consumers growing at a fast rate. Surging immigration propelled Canada's 2.2% populations growth in 2022, largest increase in 50 years.
  - Pause in monetary tightening in Q1, overnight rate at 4.5%. Rate cuts forecasted during 2023 Q4.
  - Per capita consumption is below pre-pandemic levels.
  - Exports and imports are down 0.9% and 0.8%, respectively, in real or volume terms.
  - Jobless rate steady as population grows at record pace, unemployment rate remains near historic lows. Fear of wage-price spiral and labour shortages easing.
  - Average Canadian diesel fuel prices through Q1 '23 was 16% lower than Q4 '22, and 14% higher YoY. World oil prices continue to be volatile, recently rising to close to just over $82 per barrel.
  - Enforcement of electronic logging devices (ELDs) in place effective January 1st, 2023. Quebec ELD mandate to be enforced effective April 30th, 2023.

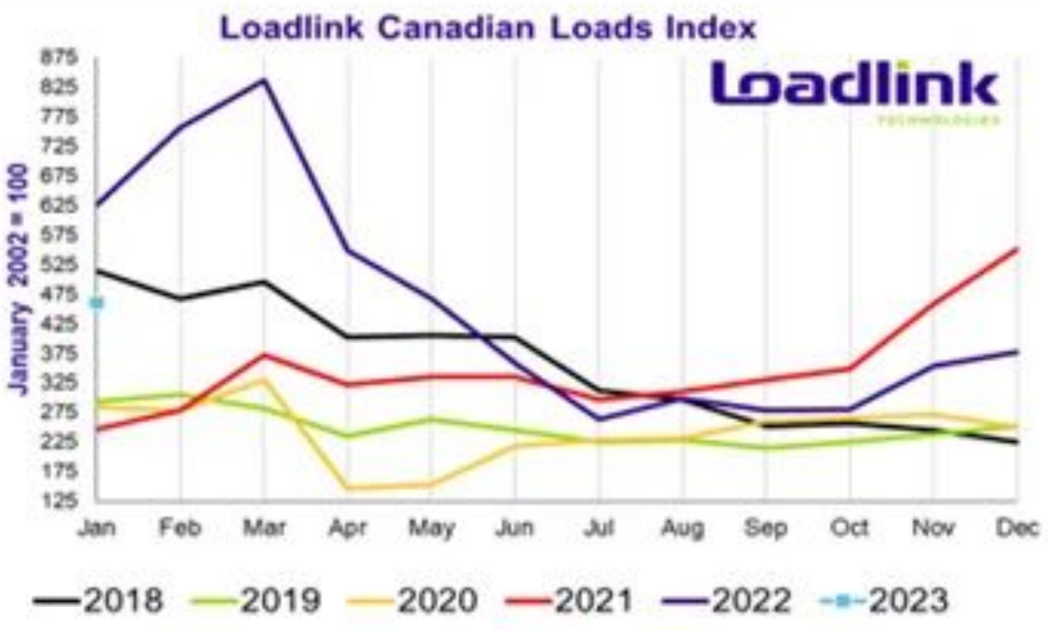
Canada: key factors impacting supply

- Carrier capacity within the Canadian markets, including cross-border remains generally stable with solid and consistent volumes.
    - Cross border activity and rates is the interesting market to monitor, especially given what may become diverging economic situations between the US and Canada, as well as the continuing impact of a weaker Canadian dollar.
    - Rate levels across most markets show weakness than one year ago, are more predictable as carriers are adhering to more recently contracted rates and spot rates have settled.
    - The east to west lanes continues to show stability. With no events (weather or strike related) impacting rail service. Many shippers are taking advantage of the economics and continuing to shift higher volumes onto the rail, LTL and full load.

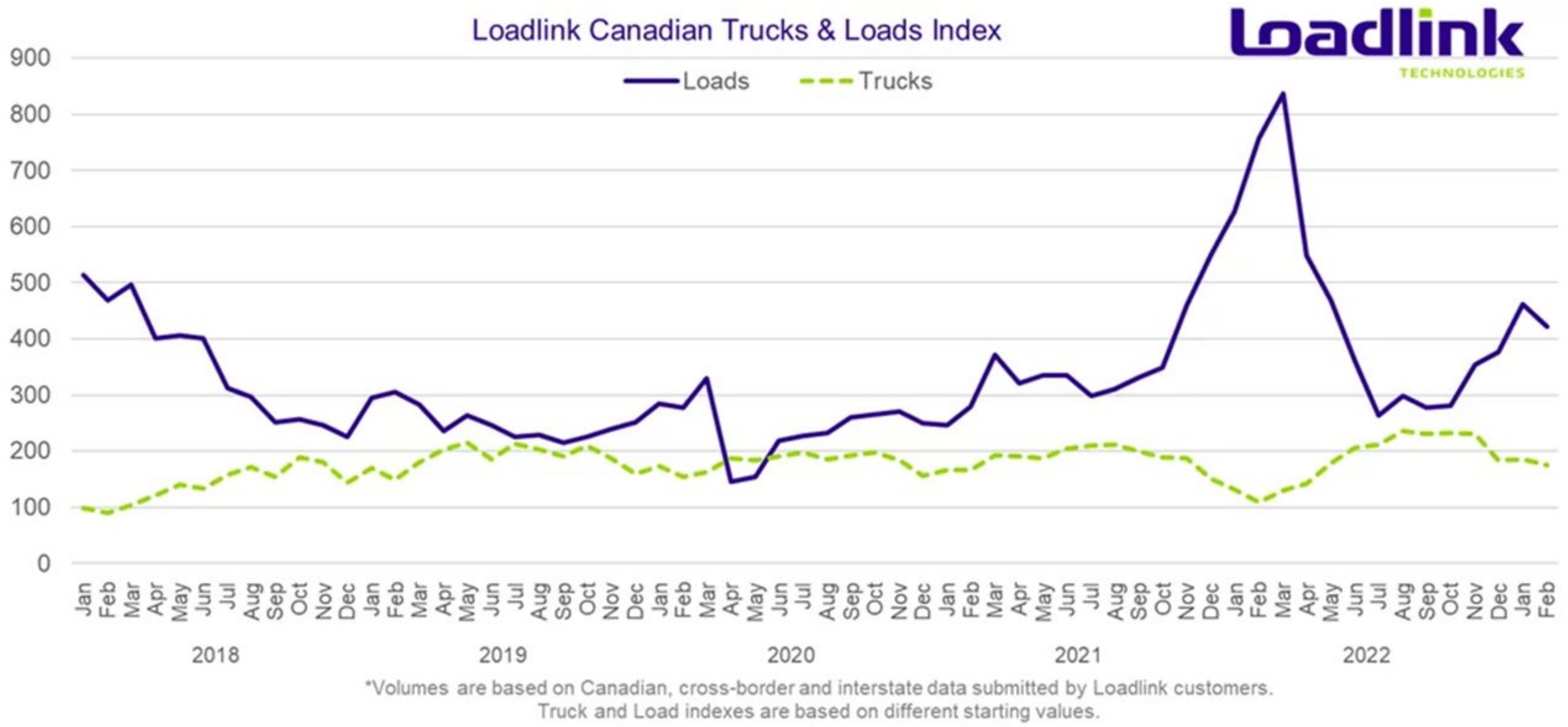
- The January and February data from Loadlink indicates that load volume slightly declined. Truck capacity appears to have levelled-out and is in a much better position than was first months of '22
    - Truck-to-load ratios have declined through Q1 '23, indicating a stronger than anticipated freight flow. Loadlink's most recent figure for February was 1.82 available trucks for every load.
    - In perspective, February's ratio highlights a significant shift from the February 2022 truck-to load figure of 0.63, in the middle of capacity crunch.

      Note: Load Link is the most popular load board within Canada. The results shown are primarily influenced by spot market moves.

Canada: key factors impacting supply



Canada: key factors impacting supply



Canada: key factors impacting demand

- Driven by the combined impact of elevated inflation and higher interest rates, signs of weakness have begun to show. GDP growth is expected to slow considerably through the next three quarters.

- Inventory levels rise in January & February 2023 after a slight dip in December 2022. The stocks of goods held by firms in Canada increased by $1.139B month-over-month.

- Bank of Canada's Fourth Quarter Business Outlook Survey indicates that business sentiment has deteriorated as rising interest rates are dampening sales expectations. The most likely scenario is that the Canadian economy will enter a mild recession over the middle-quarters of 2023.

- Fuel prices continues to be volatile across North America. Another production cut announced by OPEC+ in early April.

- The Canadian dollar is currently trading at 73.09 cents ($1.3682 USD) at the end of Q1 2023. Economists see the Canadian dollar trading in the range of $0.74 to $0.75 against the US dollar through the first half of 2023. Higher oil prices and BoC maintaining monetary policy is driving the Canadian dollar higher.

Canada: current impact

- The global manufacturing outlook has softened and easing supply chain disruptions and lower (albeit still-high) commodity prices are helping to slow inflation. Against that backdrop, the most likely scenario is still that the Canadian economy will enter a mild recession over the middle-quarters of 2023.

- Through the back-half of 2022 and Q1 2023, rates in most markets corrected for the rate 'surge' evident in the first-half of 2022. This has been most evident in the cross-border activity which has seen rate levels fall as additional capacity opened-up and volumes, especially northbound, dropped-off.

- Rate levels on the high volume / highly competitive Toronto – Montreal corridor continue to be of interest. Market conditions through the pandemic and prior to January 1, 2023 Canadian ELD mandate facilitated carriers to push rates on this corridor significantly higher. However, rates started to show some weakness due to soft volume and opened capacity.

- Mechanics labor rates on the rise, but parts shortage appear to be easing, helping to reduce downtime for the equipment. Also, the arrival of long-awaited new trucks should also reduce demand for parts and repairs.

Canada: Outlook

- The Canadian economy has performed stronger than expected through the first quarter of 2023, however, growth will soften over the next three quarters and overall growth is projected to be 0.9% in 2023 and 0.5% in 2024.
- Canada's March unemployment rate remained steady at 5.0%, a signal that the Canadian labour market remains tight.
- Annual inflation projected to fall below 3% by the summer
- Overall business sentiment unchanged quarter over quarter
- Price and capacity pressures easing
- Businesses expect sales growth to slow due to recession worries, impact of high inflation and consumer disposable income
- Concerns about the severity of labour shortages have eased and intentions to raise wages returned to normal levels

Canada: Recommendations

- Conditions remain favorable for issuing full network RFP's or even segmented mini-bids. Carriers have become much more active in participating in RFP's while pursuing new opportunities.
- Spot rates continue to soften across most geographic markets and carriers are committing to longer term contracted rates. Visibility to spot market is a key to understand current market conditions.
- The volatility in the price of fuel over the past year, especially since Russia's invasion of Ukraine, has reinforced the importance of a well-conceived and managed fuel program. (Truckload programs should be mileage-based, not percentage based).
- Accessorial charges are not all equal. Shippers should know their accessorial spend by type and understand the sensitivity of charges that can be negotiated with carriers.
- Understand and monitor carrier solvency in your network.
- Monitor order quantity, as buyers tend to reduce order size which can increase overall cost-to-serve.
- Look to remove cost from your network:
    - Sailing schedule to a specific region.
    - Open up shipping windows from 24 to 48 or 72 hours.
    - Convert LTL shipment to Multi-stop TL.
    - Focus on trailer utilization.

Warehousing update

Key factors impacting warehousing

Labor

Reduced demand for warehouse labor is reducing warehouse jobs, leveling off a steady rise for the previous 5 years. At the same time, Q1 2023 wages hit an all time high as worker availability continues to challenge employers, creating tensions between 3PL's and shippers.

Inventory

Inventory continues to stabilize, which began in Q4 of 2022, after a massive runup from 2020 - 2022. Many shippers are still overstocked on non-core items.

Space

Vacancies up from 3.2% in Q4 2022 to 3.6% in Q1 2023 as new construction is delivered. However, it remains below the historical average of 5.3%, and increasing interest rates with demand shifts have driven new construction down.

Inventory levels

US Census Bureau

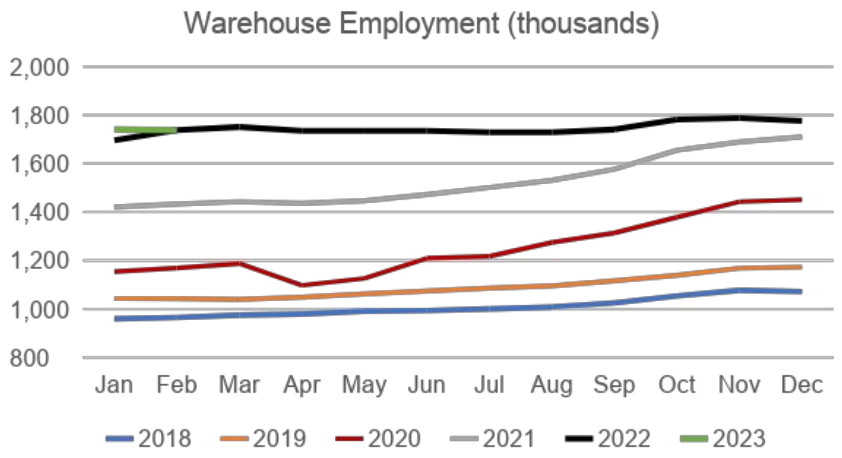
2023 Q1 Inventory:

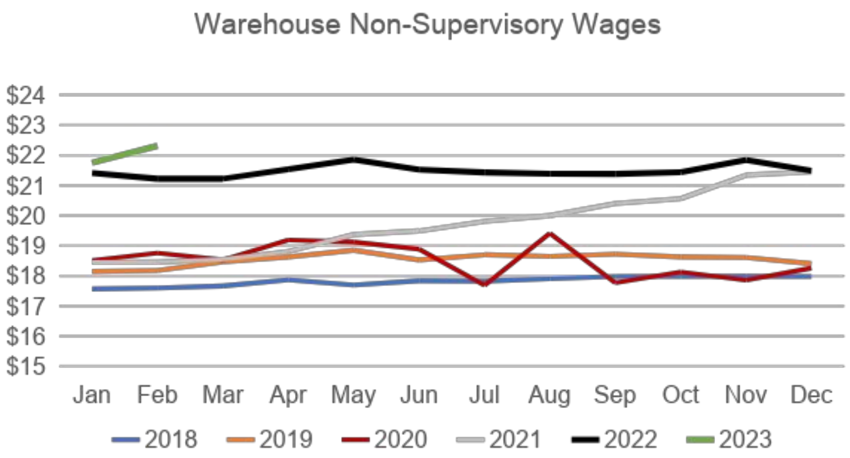
- Retail inventory levels remained flat in Q1 2023, extending the plateau first attained in Q4 2022
- The reopening of the Chinese economy after COVID-19 lockdowns is contributing to the sustained inventory levels, as port traffic bounces off lows experienced in February 2023.
- Although moderating its rate of increase, retail inventories remain at all time highs, nearly 20% higher than the pre-covid all time high in August 2019
- Inventory costs, driven largely in part by warehousing and transportation costs, continue to increase albeit at a slower pace as warehouse and transportation capacity continue to improve.

2023 Q2 and Second Half 2023 Outlook:

- A slowing economy with higher borrowing costs for companies and consumers alike will hinder retail sales through the remainder of the year.
- Planned capital investments in supply chain infrastructure may put additional pressure on operating profits as new capacity projects planned in 2021-2022 come online in 2023.
- Word on the street from warehousing partners indicate an increase in slow and obsolete inventory as high value inventory replenishments planned in 2021-2022 meet moderating sales in 2023.

Warehouse labor trends





Warehouse employment is slightly down in Q1 2023 after shedding 37k jobs since December of 2022. However, even with the slight reduction in warehouse labor in the first part of the year, warehouse employment remains near all time highs after growing by nearly 50% since April of 2020.

Non-supervisory warehouse wages hit a new all-time high of $22.31 in February of 2022, 2.1% higher than the previous all time high in November of 2022.

US Bureau of Labor Statistics

Space availability and utilization

Source: Cushman & Wakefield

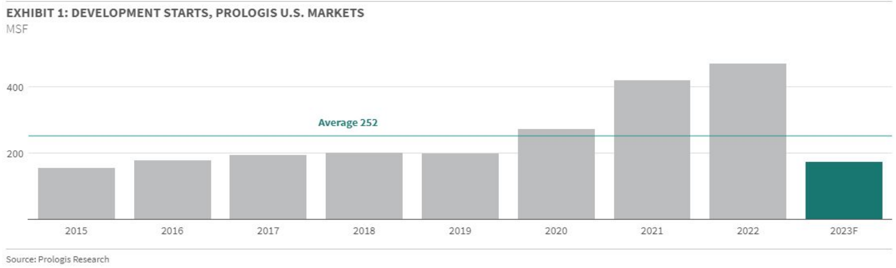
Source: Cushman & Wakefield

Q1 2023 Warehousing Recap

- Overall asking rents continue to taper off in the most recent quarter matching the new availability of space.
- Facility vacancy is steadily rising but remains well below historic averages.
- New construction deliveries are outpacing net absorption at the fastest pace since 2020.
- Shippers reporting cold-chain is still tight without signs of relief.

2023 Q2 and Second Half 2023 Outlook:

- Rate of warehouse capacity growth will continue to increase as additional construction deliveries are made to the market.
- Expect a cooling of rent growth over the next several years
- Rent growth will moderate as demand drops and vacancies increase



Warehousing summary & recommendations

- The Logistics Managers' Index, comprised of warehousing, transportation, and inventory components, came in at 51.1 in March – still expansionary, but the lowest rate of expansion in the previous 6 years.
- Inventory levels remain at record highs in the face of a weakening economy.
- Warehousing vacancies, though well below historic levels, continue to increase as new supply is added to the market.
- Labor rates continue to increase, but moderating demand should allow for a refocus on efficiency to reduce the requirement of new labor.
    - As 2023 reverts to a moderate to down sales environment, use this time to go back to basics:
    - Re-invigorate your S&OP processes to enable a quick reaction to your manufacturing and replenishment plans when confronted with demand fluctuations.
    - Examine and right size inventory service levels to minimize safety stock.
    - Evaluate differentiated inventory strategies, such as a hub and spoke network, can minimize widespread stocking of slow moving/dead stock.
    - Work with suppliers to manage inventory deliveries – set standards & expectations to eliminate unneeded/unordered part deliveries.
    - Develop standard work based on best practices and replicate across your purchasing, warehousing, and logistics departments.

Uber Freight