Industry Update

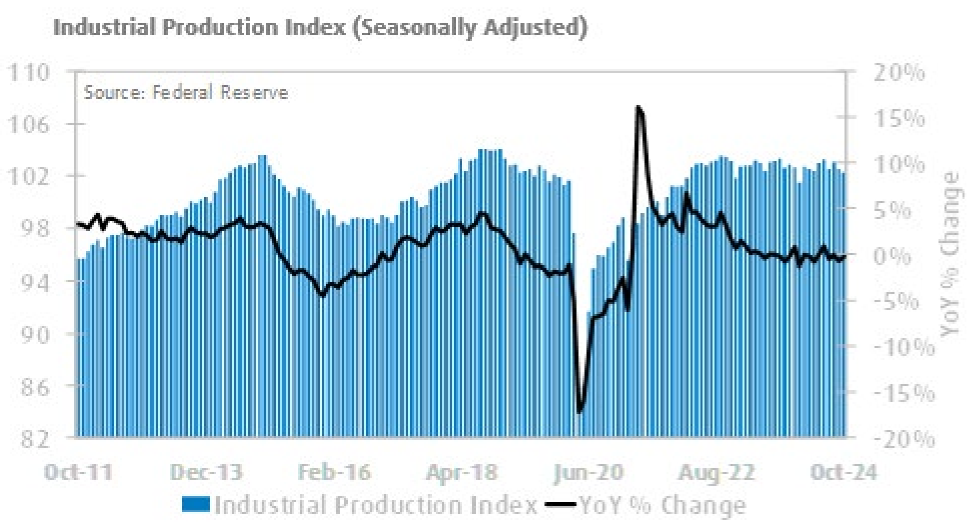
# Truck Transportation

## Key Developments

- Effective November 18th, the driver's licensing agencies of all U.S. states must initiate the process of downgrading to prohibited status the commercial driver's licenses (CDLs) of drivers who are barred from driving under the **Federal Motor Carrier Safety Administration's** drug and alcohol clearinghouse. As of October 1st, nearly 179,000 who have been flagged with a clearinghouse violation since January 2020 were still in prohibited status.
- In a rare moment of agreement, the ATA and OOIDA both applauded President-elect Trump's nomination of former Wisconsin Congressman **Sean Duffy for Secretary of Transportation**. Duffy has a reputation for championing infrastructure funding and other pro-trucking policies.
- **ATRI's 20th annual top industry issues report** revealed that the economy, truck parking, and nuclear verdicts are top-of-mind. The cost of insurance, driver compensation, and the aggressive timeline for a transition to battery-electric commercial vehicles were also primary concerns.
- Be sure to check out the latest perspectives from BMO economists on the U.S. macro outlook (page 8).

## Industry Fundamentals

Donald Trump's re-election, Republican control of Congress, and the end of Chevron deference ensure the relaxing of climate-related federal regulatory directives while canceling any thoughts of a near-term federally mandated transition to zero-emission commercial vehicles. Other issues that touch the trucking industry, including repeal of the century-old Federal Excise Tax on heavy-duty truck sales, tort reform addressing "nuclear verdicts," and AB5-like attacks on the independent contractor model, are likely in focus for the new administration. In the meantime, for-hire carriers continue to grapple with the dual challenges of excess capacity and a sideways freight environment. The over-capacity condition is nudging in a healthy direction, with private fleet expansion long in the tooth and the weakest for-hire carriers still leaving the market. On the demand side, consumer goods spending remains resilient, and with a few Fed cuts in hand and election uncertainty removed, a gradually improving backdrop for trucking should be the setup at the outset of 2025.

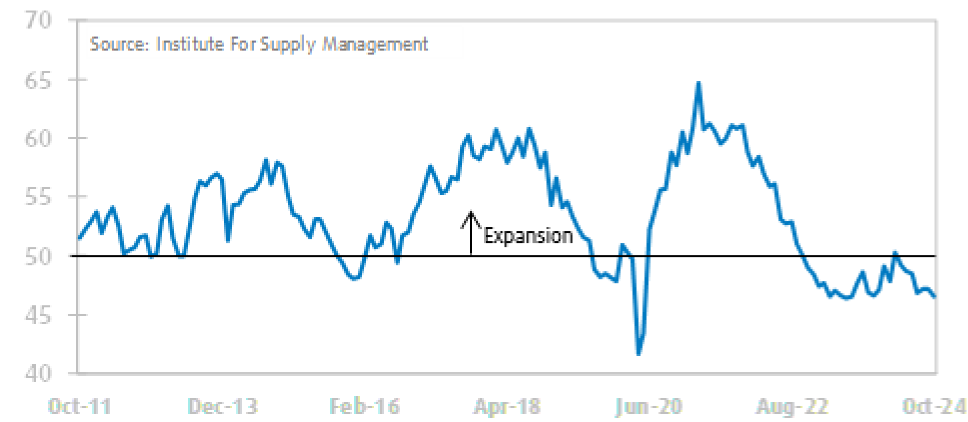



**U.S. Industrial production** fell 0.3% in October, mainly due to hurricanes and labor strikes. Manufacturing output fell 0.5%, marking a second straight monthly decline. Motor vehicles & parts dropped nearly 3.1%, while computer and electronic products increased steadily.

Despite the one-off factors that may have weighed on industrial production last month, looking at the longer-term trend, the index has been unable to gain any momentum for the previous two years. While the overall economy remains resilient, elevated interest rates and a stronger dollar continue to create headwinds for the industrial sector.

## Macroeconomic Indicators

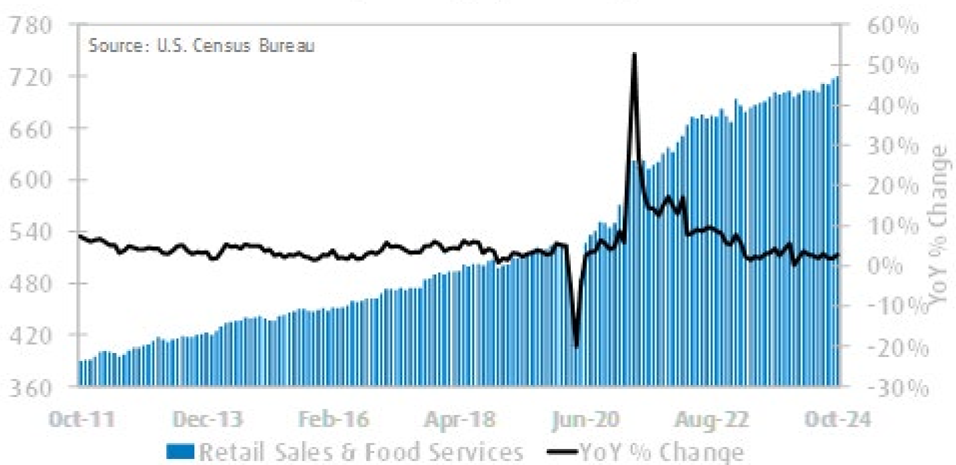
ISM Purchasing Managers Index




The **Purchasing Managers' Index (PMI)** is a sentiment measure of near-term business conditions in the manufacturing sector. That said, the manufacturing sector has contracted in all but one of the past 24 months amid several headwinds, including a strong U.S. dollar and soft demand for durable goods. During October, the PMI fell 0.7 pts to 46.5, the lowest level since the summer of 2023. New orders rose for the second straight month while production fell 3.6 pts. Prices paid jumped 6.5 pts to 54.8, which is not good news for inflation but well below the 92.1-peak hit in 2021.

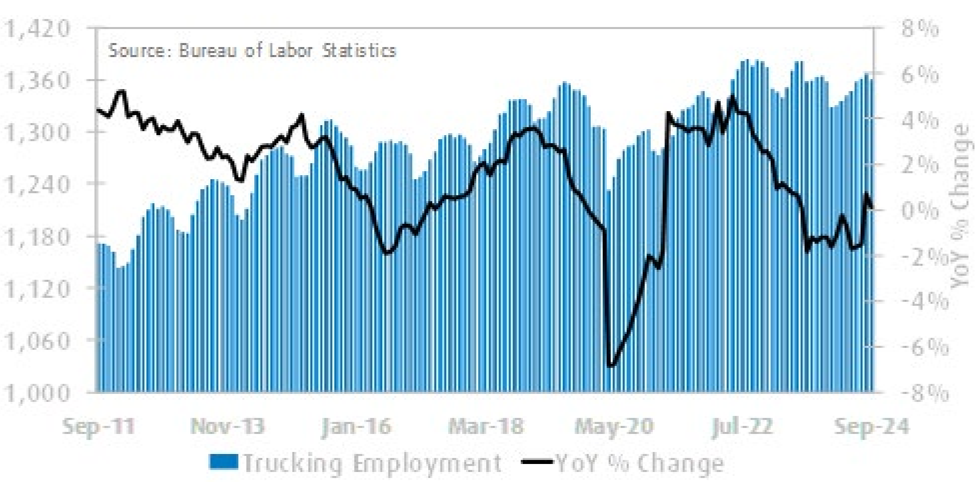
The past relationship between the PMI and GDP suggests that the October PMI corresponds to an annualized GDP growth rate of +1.1%, well below BMO Economists' current estimate of +2.0% annualized for the fourth quarter.

Retail Sales & Food Services (Seasonally Adjusted $Bn)




**U.S. retail sales** jumped by a more-than-expected 0.4% in October after the prior month was revised higher to show a 0.8% gain (prev. +0.4%). Car purchases climbed at the fastest pace in 3 months, which boosted the headline figure. Excluding autos, sales edged up 0.1%. Nonetheless, most of the 13 categories saw increases, with electronics & appliances and online shopping leading the way. Notably, restaurant sales climbed for a seventh consecutive month, suggesting that households are not holding back on discretionary spending.

Truck Transportation Production and Non-Supervisory Employment, Thousands



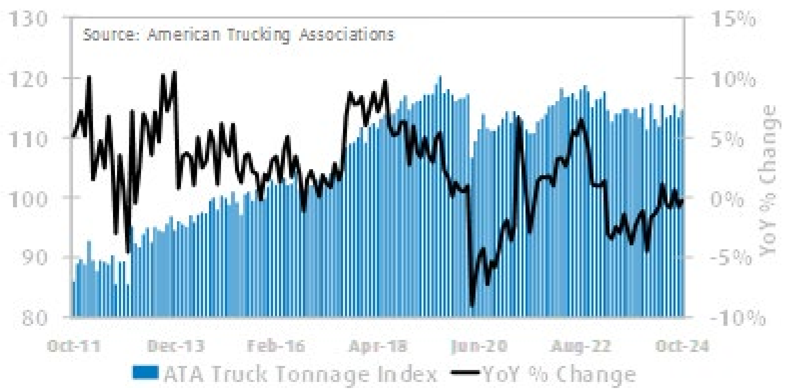

Employment in the truck transportation industry retreated during September after increasing month-over-month for seven months. **Production and non-supervisory employment** (not seasonally adjusted) during September was up 2.4% (~32,200) from a recent low of 1.33 million in January but was flat year-over-year.

Industry employment has not seen meaningful year-over-year growth in more than a year, as a sluggish freight environment has decreased the urgency for larger private and for-hire carriers to add driver capacity.

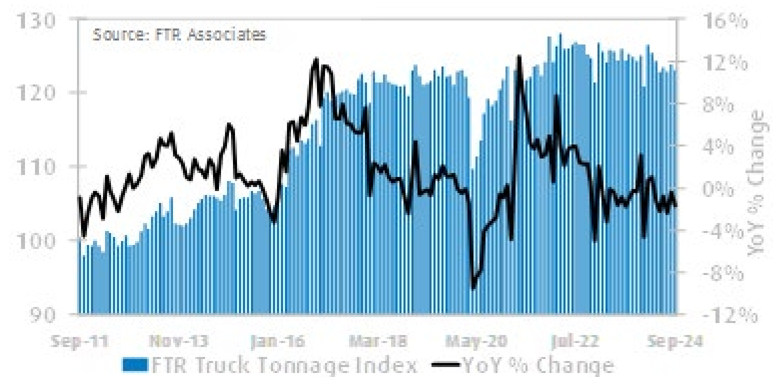
## Freight Indicators

With expectations for the new administration to act urgently on a pro-growth agenda featuring a relaxed regulatory environment, plentiful domestic energy production, trade policies favoring domestically produced goods, and eliminating the threat of higher corporate taxes, the medium-term setup for macro growth and freight volumes remains positive. That said, the near-term freight outlook is fraught with the uncertainties of new tariffs and a possible East Coast port strike in January that would cause unusual volatility. Those wildcards aside, and given that most freight signals remain lackluster, particularly the interest-sensitive construction and industrial sectors, the timing and pace of further Fed easing, which has recently been called into question as progress in the inflation fight has slowed, will be instrumental in determining the strength and sustainability of a near-term turnaround in organic freight growth.

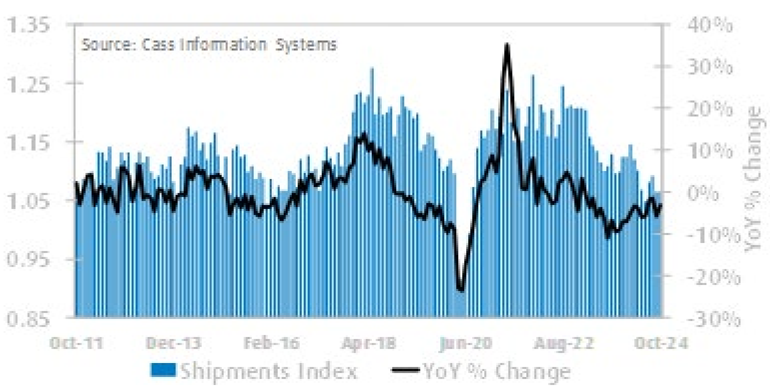
**ATA Truck Tonnage Index (Seasonally Adjusted)**



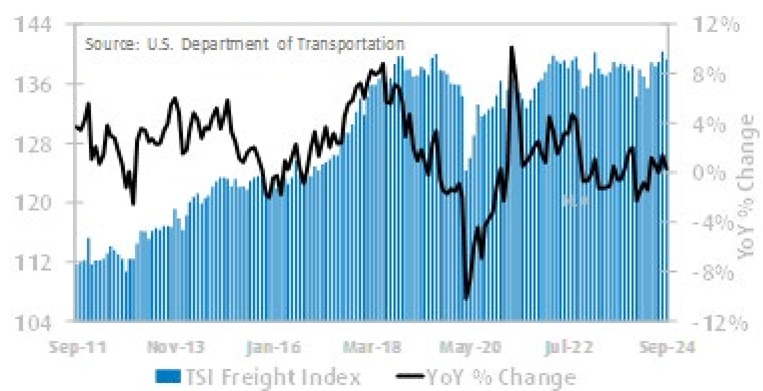

**FTR Heavy Duty Truck Tonnage Index (Seasonally Adjusted)**



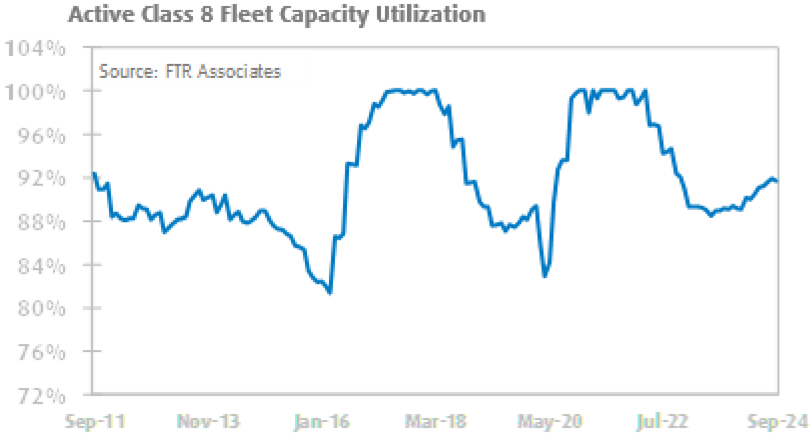

**Cass Freight Index – Shipments (Seasonally Adjusted)**




**Transportation Services Index (Freight)**

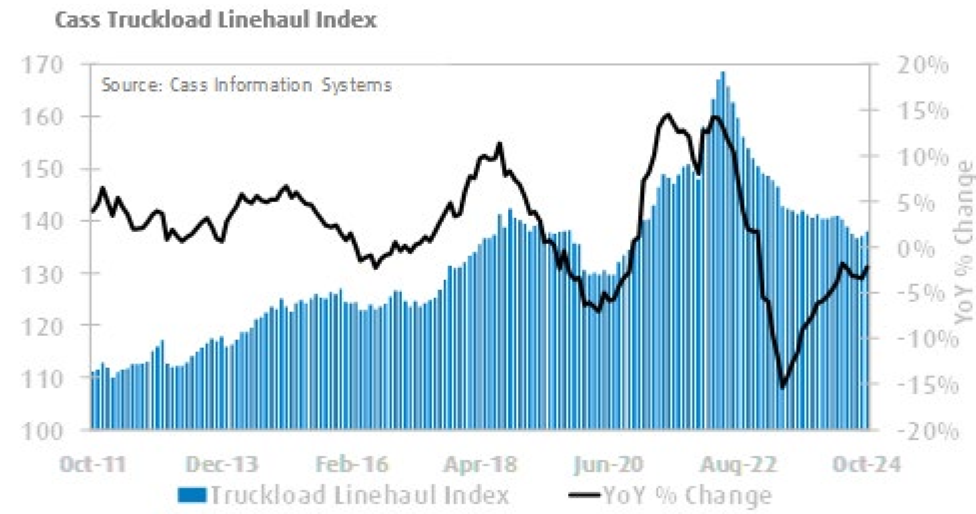



**Active Class 8 Fleet Capacity Utilization**

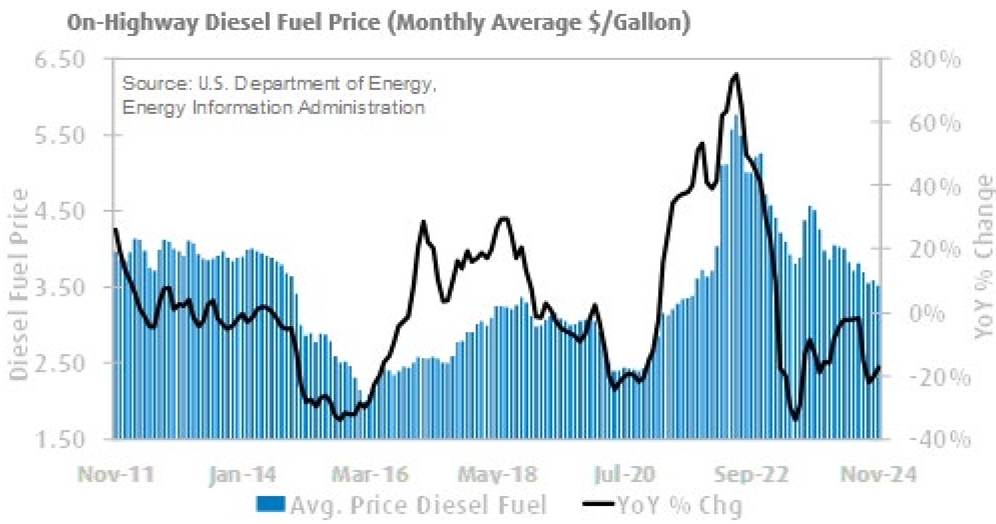



- The **ATA For-Hire Truck Tonnage Index** (primarily contract freight) increased 1.1% (month-over-month) during October but was slightly (-0.3%) lower than a year earlier.
- After drifting lower throughout 2023, the **FTR Truck Tonnage Index** is roughly flat through this year's first three quarters.
- The **Cass Freight Shipment Index** (all modes) has declined year-over-year since the beginning of 2023, although the rate of decline has gradually improved.
- After a rough start during the 1st quarter, the **TSI Freight Index** returned to year-over-year growth during the 2nd and 3rd quarters.
- The **FTR Active Class 8 Capacity Utilization Index** has gradually drifted higher and is essentially in line with the long-term average.

## Revenue And Expense Indicators

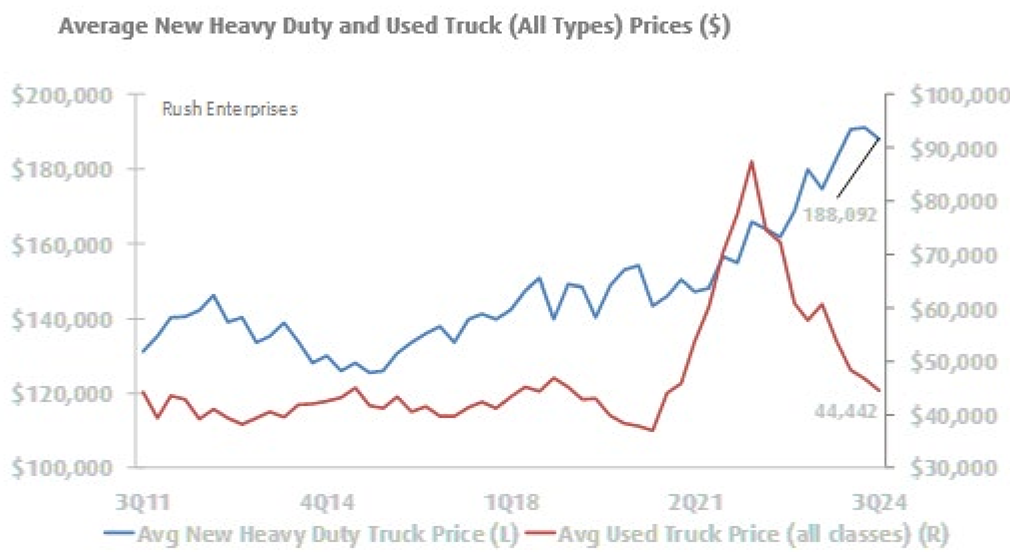



The **Cass Truckload Linehaul Index** reflects a mix of base rate pricing (excluding fuel and other surcharges) in the dry van contract and spot freight markets. Due to the periodic nature of the contract pricing cycle, there is typically a five or six-month lag from when the contract market reflects earlier trends in spot freight pricing. With dry van spot rates relatively flat for over a year, the worst downward pressure on contract rates is also evidently in the rearview. That said, the year-over-year comparisons may not turn positive until next year.




Mirroring a downward trend in crude prices, the national average **Diesel price** of $3.49/gal in mid-November was down 10% year-to-date and 25% from the previous surge in September 2023.

Given record North American crude production and a tepid replenishment of the U.S. strategic petroleum reserve, and despite elevated geopolitical threats, disrupted Suez access, and a cap on OPEC+ production, crude prices have been confined to a relatively narrow two-year range. Similarly, the current BMO outlook for WTI suggests that oil prices will remain relatively stable, with an average of $77 per barrel in 2024 and $77.5 in 2025, essentially flat with an average of $77.6 in 2023.

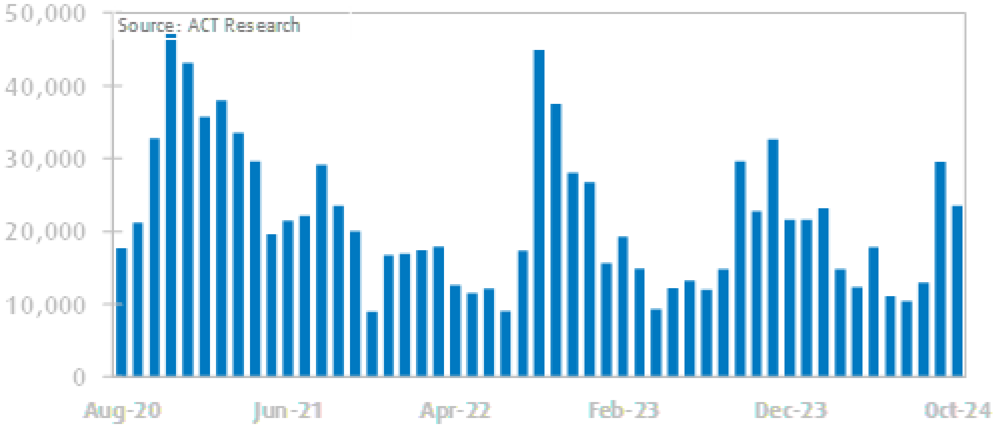



With over-the-road for-hire carriers sitting on the sidelines yet steady demand from large private fleets and vocational buyers (Refuse/Construction), Rush Enterprises' **average price of new heavy-duty trucks** remained high during the 3rd quarter albeit slightly lower than the all-time high during the 2nd quarter. Heavy-duty ASPs decreased by $3,088 (-1.6%) from the 2nd quarter but increased by $13,300 (+7.6%) from the year-earlier quarter.

Used truck pricing continues to search for a bottom while reaching a nearly 4-year low. The **average price of all used trucks** sold by Rush Enterprises during the 3rd quarter decreased 4.7% from the 2nd quarter and nearly 27% from the year-earlier quarter. Rush believes that used prices have returned to historically average depreciation rates, suggesting that a bottom in pricing may be near.

## Truck and Trailer Orders

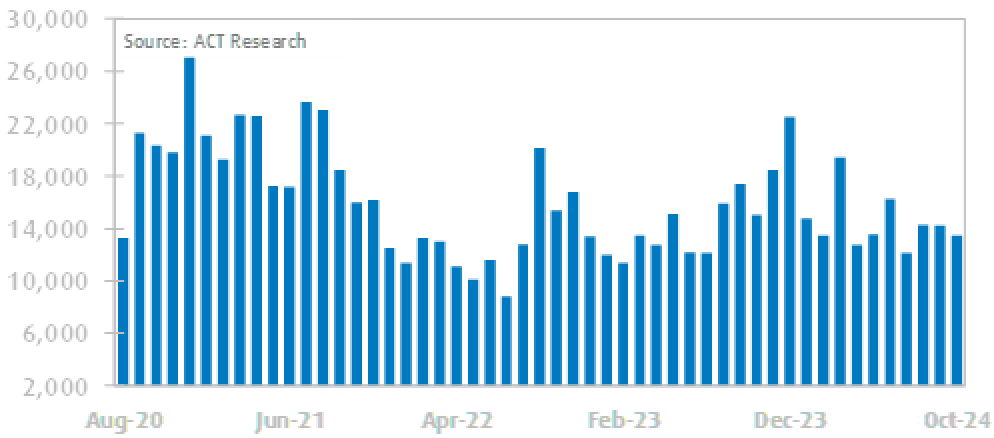
**U.S. Class 8 Net Truck Orders**




While demand for sleeper tractors by over-the-road for-hire carriers remains in a slumber, private fleets and vocational buyers continue to demonstrate a willingness and financial ability to refresh their equipment in front of the upcoming EPA-27 regulations.

Total **U.S. Class 8 net truck orders** during October were up 3% from a year earlier but down 20% from September. Further, since the initial opening in September of build slots for early 2025, class 8 orders across both months combined are up only 1.1% year-over-year. Beneath the headline numbers, however, total class 8 straight-day cab orders during September and October combined are up 46% year-over-year, while sleeper tractors are down 6.2%.

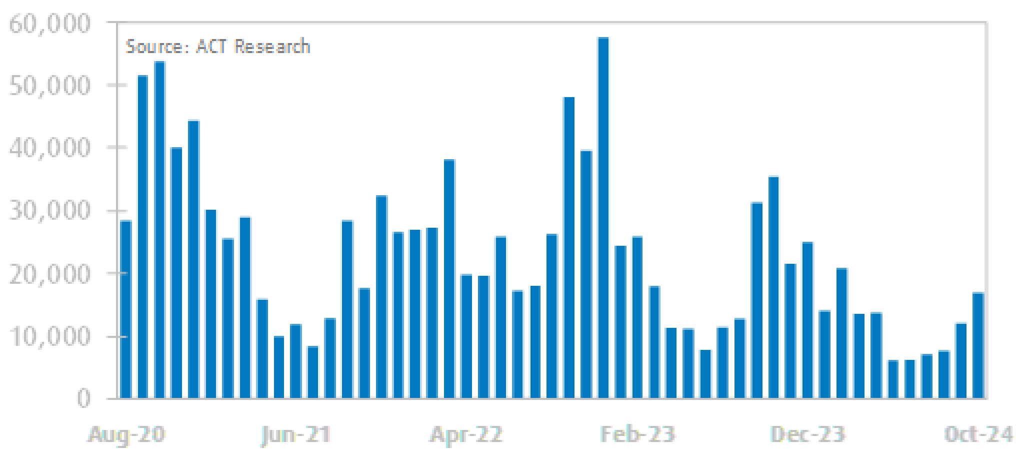
**U.S. Class 5-7 Net Truck Orders**




Since peaking at the end of last year, **medium-duty truck orders** have decelerated to long-run average levels, except for a couple of single-month surges. Fundamentals for typical end-markets continue to be mixed, with vocational and infrastructure providing tailwinds while homebuilding has been underwhelming. Although year-to-date orders through October are up 5%, much of the strength occurred in the early part of the year, followed by monthly year-over-year declines in five of the most recent six months.

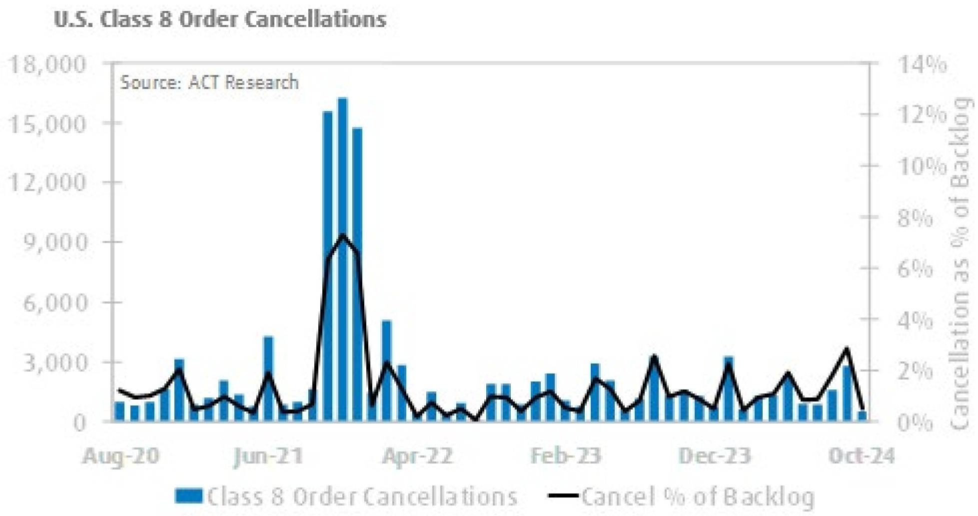
The longer-term view remains stable, featuring the usual support of diverse end markets, a secular trend toward shorter hauls, and the durable tailwinds of e-commerce and last-mile delivery.

**U.S. Net Trailer Orders**



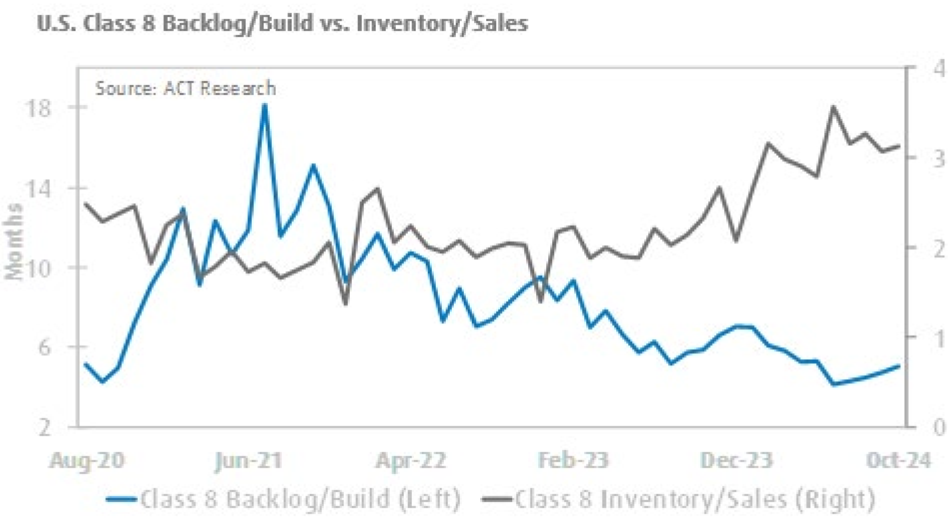

Except for a muted uptrend start to the current order season, **trailer orders** have generally been in a tailspin since peaking at the end of 2022. Given the for-hire profit recession and capex spending in a downturn, demand for trailers will likely be a secondary priority until the latter stages of any class 8 EPA-27 pre-buy by for-hire fleets, expected to gain traction later next year and throughout 2026.

## Other Equipment Indicators



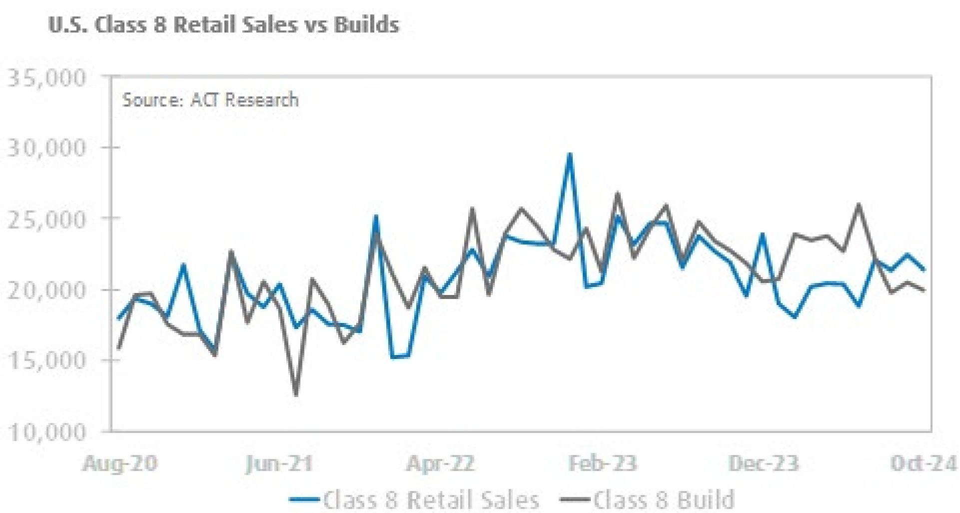

Except for an occasional monthly bump higher most likely due to rescheduling or periodic housecleaning, the year-to-date average **class 8 monthly cancelation rate** (as % of backlog) of 1.4% compares favorably to the pre-pandemic long-run average of 1.8%.

That said, given stress on cash flows in the spot market, sustained pressure on contract rates, and a sluggish freight market, the rate of cancellations should not be expected to remain so far below the long-run average. Still, with several years of limited availability still fresh, the looming prospect of an EPA pre-buy, and barring any unforeseen macro fallout, most fleets should remain reluctant to cancel their current orders.




The start of order season in September and a roughly 20% reduction in builds over the past few months has halted the heavy-duty backlog's long and steady decline. Likewise, the **heavy-duty backlog-to-build** ratio has bounced from a 4-year low of four months in June to five months in October, which is still below the long-run pre-pandemic average of six months.

A recent reversal of an 18-month trend where production consistently outpaced unit sales has relieved some of the upward pressure that drove inventories to a multi-year high. Regardless, the **heavy-duty inventory-to-sales** ratio of more than three months at the end of October remains uncomfortably above the high end of the long-term average range of 2-2 ½ months.

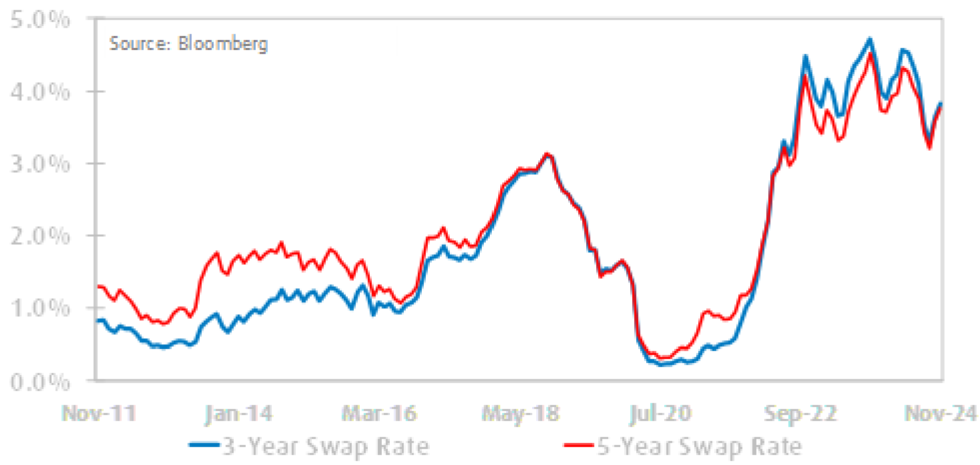



Since reaching a two-year low early this year, monthly **U.S. Class 8 unit sales** have been choppy but predominantly upward trending. That said, fleet types' plans for capacity expansion remain uneven, with weakness from for-hire over-the-road carriers offsetting a resilient appetite among private and vocational fleets.

Robust **Class 8 production** reached a 15-month peak in June and was surprisingly slow to respond to sluggish unit sales and downward trending forecasts. Since then, however, given a multi-year low backlog, production has recently decelerated and has been below unit sales for three months through October.

## Other Business Indicators

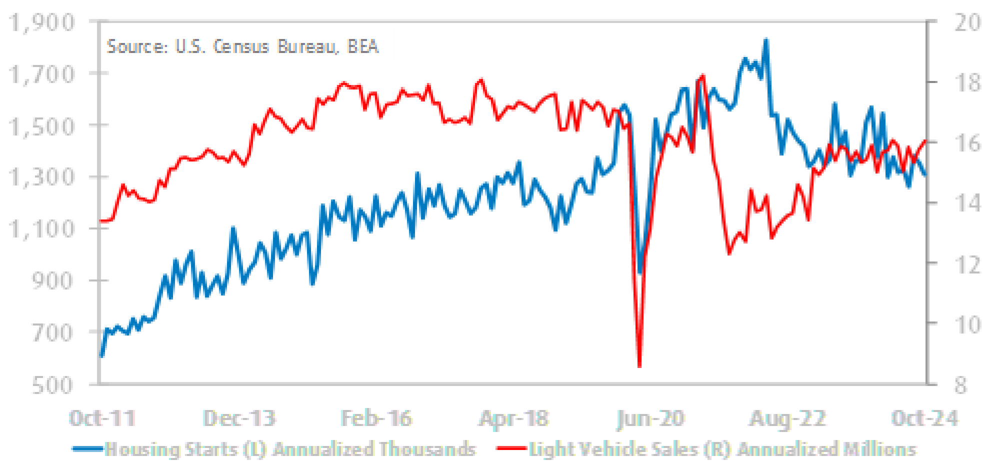
**Interest Rates: 3 & 5 Year Interest Rate Swap Pricing**




**Interest rate swaps** are derivative instruments commonly used by financial institutions to mitigate interest rate risk on a loan portfolio. The pricing of interest rate swaps (swap rates) mirrors expectations of interest rates' future direction.

Following a retreat that started in May and continued through the initial Fed funds cut in September, medium and longer-term rates have since turned higher. The somewhat counterintuitive move reflects several factors, including a "risk-on" re-allocation of institutional money from bonds to equities, concerns over the trajectory of fiscal deficits and debt service, robust employment data, and a nagging sense that the inflation fight may not be close to the end.

**U.S. Housing Starts & Light Vehicle Sales (Seasonally Adjusted)**




The U.S. residential market continues to struggle amid high mortgage rates and low affordability. **Housing starts** fell much more than expected, down 3.1% to 1.3 million annually in October. As of mid-November, BMO economists estimated that 2024 housing starts will decline by 4.2%, followed by a 4.4% increase next year.

**U.S. auto sales** have been locked in a tight range between 15 and 16 million units annually over the past 18 months. The growth outlook for new vehicle sales will remain underwhelming until financing rates move lower. As of mid-November, BMO economists estimate auto sales will increase only slightly from 15.6 million units in 2023 to 15.8 million this year and 16.1 million next year.

**U.S. Business Inventories/Sales (Seasonally Adjusted)**


The **total business Inventories-to-sales ratio** bottomed at an all-time low at the end of 2021 but has since recovered to the pre-pandemic long-term average. A closer look reveals that manufacturing (higher) and general merchandise inventories (lower) have progressed toward normalization. Inventories of motor vehicles and parts have also made progress toward replenishment but are still at the low end of long-term historical norms.

“Voice of the BMO Economics Team”

At the doorstep of a new administration carrying promises of policy changes aimed at immigration, trade, regulation, fiscal spending priorities, and taxes, we thought checking in on the BMO Economics Team's latest perspective on the Fed and the outlook for the U.S. economy would be helpful.

For more: https://economics.bmo.com/en/

**No Virginia, There Isn’t A Santa Pause**
***Michael Gregory, Deputy Chief Economist – November 22nd, 2024***

The money market is currently pricing in near-even odds of a quarter point paring of policy rates by the **FOMC** on **December 18th**. In other words, it’s a **coin flip** whether the Fed takes a pass. For a rate-cut campaign that began only two months ago with a surprise 50 bp action, such a sudden intermission can’t be ruled out. But we reckon the **rate-cut odds are much higher** and still forecast a 25 bp reduction in less than four weeks (unless something untoward unfolds on the data front).

In the wake of the **surprise September move**, the market was pricing in more than 75 bps worth of cuts over the final two meetings of 2024. But after the **strong September employment report**, market expectations had been reined in to just under 50 bps worth of cuts over the next two confabs. The **‘pause odds’ have been mounting** ever since. There are three pieces to the market’s pause puzzle, but we judge they still don’t fit together adequately (hence our continued rate cut call… for now).

First, **inflation is proving to be too stubborn**. For (at least) the past two months, the core and ‘supercore’ inflation readings have been raining (at least) 0.3%s on both the CPI and PCEPI fronts (the latter’s will likely be revealed on November 27). This is a cause for concern. But when the Fed declared back in September that it had “gained greater confidence that inflation is moving sustainably toward 2 percent”, this was not the sort of confidence that would be easily shattered. That said, another month or two of similarly stubborn results could indeed crush confidence, particularly if next year begins as this year did with a flash of annual price hikes from a wide assortment of businesses. Unless November’s CPI (due December 11) is profoundly disappointing, we doubt what’s happening on the inflation front is enough to elicit a pause next month.

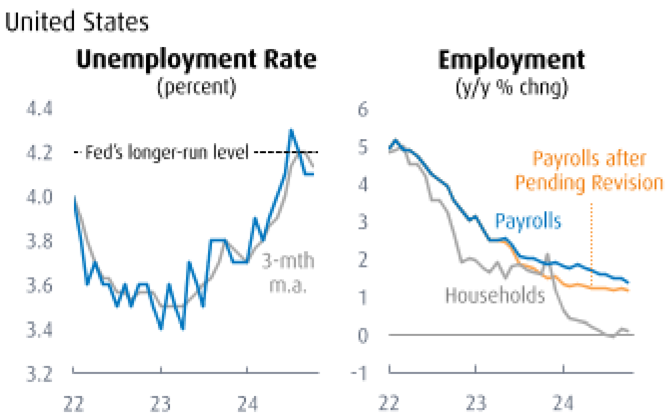
Second, in the wake of the election’s outcome (a Republican trifecta victory), **fiscal and trade policies** could soon be taking net growth-boosting and inflation-fueling turns. If they do, the Fed’s risk management approach would likely lead to policy adjustments. But legislatively, such comprehensive turns do take time. And, in the meantime, the Fed will be conducting monetary policy based on “the implications of incoming information for the economic outlook”. Such information includes “readings on labor market conditions, inflation pressures and inflation expectations, and financial and international developments”. It doesn’t include how potential future fiscal and trade policy changes could impact the outlook. That said, to the extent the market begins to ‘permanently’ price in such potential changes, there could still be some influence on Fed policy via financial conditions. But we’re not there yet.

Third, **economic growth** is proving too resilient. The market’s proof points would include real GDP expanding at a solid 2.8% a.r. in Q3 or 2.7% y/y. It would also include recent job market readings, looking past the negative impact the hurricanes and strikes had on October’s numbers. But this is where we disagree the most with the market. We judge the Fed is perfectly fine with a strong economy and labor market if they have muted inflationary influences. The Fed no longer worries as much as before about the ‘potential’ inflationary consequences of sturdy growth and tight labor markets.

**Fed Policy: No, Virginia, There Isn’t A Santa Pause (Cont.)**

Indeed, in the latest post-FOMC presser, Chair Powell re-asserted that “the labor market is not a source of significant inflationary pressures”. Previously, Powell had proclaimed: “We do not seek or welcome further cooling in labor market conditions.” Simply put, **until inflation’s results and risks convince otherwise, we reckon the Fed is very keen to prevent the unemployment rate from trending above the FOMC’s longer-run level and job growth from trending below zero** (Chart 1).

Chart 1
**Labor Market Slackening and Slowing**




*Sources: BMO Economics, Haver Analytics, BLS*

So, the next employment (due December 6th) and CPI reports are critical for the Fed. The takeaway is that what’s on the ground, in our view, is not yet the stuff of a Fed pause.

**Tariffs: Round 2**
**Trade protectionism likely won’t knock out the U.S. economy but could buckle its knees.**
***Sal Guatieri, Senior Economist – November 22nd, 2024***

Donald Trump’s return to the White House has world leaders anxious about another trade tussle that could make his first round six years ago look like a sparring match. The latest threats (subject to change) include a 10%-to-20% across-the-board tariff increase for all countries and hikes of at least 25% for Mexico and 60% for China. Trump has even talked about doubling and tripling tariffs if he doesn’t get his way. By one estimate (Evercore ISI), the average tariff on U.S. imports could leap from less than 3% today to 17%, which would be the highest since the Depression.

Before delving into the potential consequences for the economy, it’s worth understanding what a tariff is. It’s a **tax on imports**. Like other taxes, it transfers money from consumers and businesses to the government. Tariffs are paid by the importer (usually businesses), remitted to the government, and often transferred to consumers via higher prices. Like most taxes, it can yield both benefits (more revenue for governments to deliver services or reduce other taxes) and drawbacks (less money for consumers and businesses to spend and invest; misallocation of resources). Unlike taxes, however, the President has near-unilateral power to impose tariffs. Although the Constitution grants Congress control over trade, the executive office can override this power if it deems that a country has an unfair trade advantage or its products pose a national security risk. Imposing a blanket tariff on all nations, however, might run into judicial resistance.

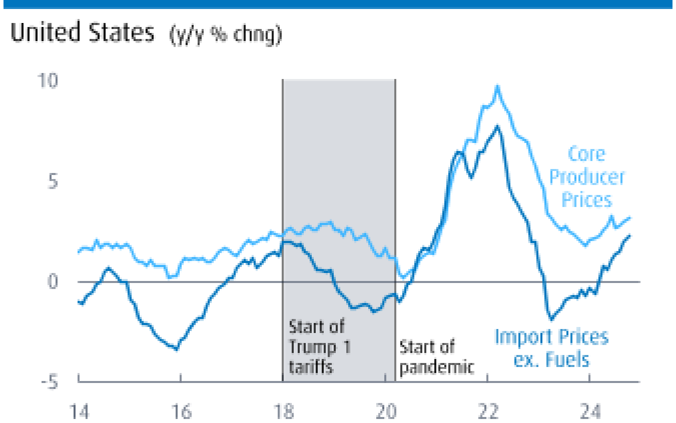
**Tariffs: Round 2 (Cont.)**

Apart from raising revenue and changing a country’s behavior, the main reason for increasing tariffs is to discourage consumers and firms from buying foreign products, thereby protecting domestic manufacturing industries and supporting jobs. But most economists believe tariffs are a poor tool for accomplishing these goals. A tariff may not reduce the trade deficit if it leads to a stronger currency, retaliatory actions, and a loss of competitiveness, all of which weaken exports. Simply put, **tariffs usually cause more harm than good**.

**That harm starts (but doesn’t end) with inflation**. By raising the cost of imported goods, tariffs are inflationary. To what degree, however, depends on several things. Given an 11% share of GDP and estimated similar share for consumer spending, a 10% tariff on all U.S. goods imports could directly raise prices by 1.1%. The tariff would lead to some decline in imports, though likely a small one as domestic producers (already operating near capacity) wouldn’t be able to replace most imported goods. Lower imports, in turn, would cause the dollar to appreciate due to less buying of foreign currencies by domestic firms (or less selling of dollars by foreign firms selling goods, such as oil, denominated in greenbacks). A 5% appreciation, for example, would chop the import price increase further to around 0.5%. (In fact, the dollar has already surged 6% in the past two months partly due to the mere threat of tariffs.) Furthermore, foreign producers could cut prices to protect sales; a 2% reduction, for example, would further shave the increase in import prices to 0.3%. Finally, U.S. retailers might absorb a portion of the tariff increase by trimming costs or shrinking profit margins. These dampening forces, however, could be partly offset by domestic producers raising prices to cover the higher cost of supplies or tariff-protected industries raising prices. The upshot is that **inflation would likely rise, though potentially much less than suggested by the tariff**. The Peterson Institute for International Economics believes a 10% tariff hike could boost U.S. inflation by 0.6 ppts points in 2025. Of course, the larger the increase in tariffs, the bigger the increase in inflation.

Trump’s **first round of tariff increases in 2018-19 likely had minimal effect on inflation** when looking at import and producer prices (Chart 1). This is because the average tariff on imports rose only modestly (by less than a percentage point, as the increases were largely targeted at China and covered a small fraction of U.S. imports) and the trade-weighted dollar appreciated (by 5% in 2018-19). Still, prices did rise sharply on some items, such as washing machines.

Chart 1
**No Tariff-ic Increase in Inflation**




*Sources: BMO Economics, Haver Analytics, Bureau of Labor Statistics*

**Tariffs: Part 2 (Cont.)**

The reason a country trades is to get access to a wider variety of goods at lower cost than could be produced domestically. **Tariffs throw a wrench into this process**. Higher inflation drains purchasing power, especially for lower income earners who spend a large share of their income on consumer goods. It also pushes up interest rates. Retaliatory tariffs, currency appreciation, and reduced competitiveness due to higher-costing supplies constrain exports. Supply disruptions weaken business investment and reduce productivity. The government could try to limit the damage by using the tariff revenue to cut taxes or boost spending, but this risks fueling even more inflation.

Several recent **studies have estimated the economic impact of Trump’s proposed tariffs**. The IMF finds a 10% across-the-board tariff, matched by other countries, could reduce U.S. real GDP by 1.0% through 2026, while the Tax Foundation sees a slightly larger 1.1% hit and the Peterson Institute a slightly smaller 0.9% effect. Of course, the much larger increases proposed for China and Mexico would only magnify the impact. For comparison, the Congressional Budget Office estimated that the 2018-19 tariff increases reduced U.S. GDP by 0.3% after two years. As some consolation, it’s unlikely that every country would counterpunch with a tariff on U.S. goods, especially if their currency weakened and mitigated the impact. Still, the key point is that **tariffs are stagflationary—bad for both growth and inflation**.

**Bottom Line:** We will await details on the timing and scope of Donald Trump’s protectionist agenda, and on the counter responses of trading partners, before revising our outlook for inflation and the economy. It’s safe to say that neither change would be for the better. Hopefully, the tariff threats are mostly a bargaining tool, and won’t fully translate into policy action.


## Inquiries About Financing

**Travis Ward**
**(214) 492-4554**
travis.e.ward@bmo.com

## Industry Research Contact

**Michael Zimm, CFA**
michael.zimm@bmo.com

bmotf.com