Logistics & Supply Chain Update

Industry Consulting Team | Q1 2023

Economic & Freight Data Sending Mixed Signals

- **Consumer spending grew 1.8% y/y in January – the strongest growth in 2 years,** as consumers bucked earlier trends spending on both goods and services. In the same period, retail sales grew 3% y/y reinforcing the stronger spending picture. Seasonal patterns likely distorted some of the figures, but it's undeniable that consumers (2/3rds of GDP) remain willing to spend with a strong jobs market and still above average savings.

- **The U.S. Bureau of Labor Statistics (BLS) reported 517K non-farm jobs were added in January, and another 311K in February**. Importantly, for the inflation outlook, the internals of the two reports reflected less wage growth than expected as the labor force participation rate increased slightly, which helped slow the pace of average hourly earnings.

- However, other data appears less sanguine. **Existing home sales continued a streak of 12 consecutive months of contraction** associated with higher mortgage rates. Yet, single-family housing supply remains very tight relative to rising household formation among millennials, which should help support housing demand longer term.

- **The ISM Manufacturing index contracted (below 50) for 4 straight months through February**. Durable Goods orders (ex-Defense) have declined 2 out of the last 3 months, with January's m/m report down 5.1% - the largest decline since April of 2020. Furniture, appliances, and carpet have been hit particularly hard (down 15% y/y in January) as housing slows. On the positive side, shipping costs and supply constraints have eased, which may help manufacturers offset higher capital costs associated with rising interest rates.

- Freight conditions mirror the mixed economic picture. **Cass Freight shipments were 4.3% higher** in January against soft comparisons a year ago. Conversely, container import volumes continue to normalize to 2019 levels with February imports declining 25% y/y. Truckload (TL) conditions are stabilizing in the early part of 2023, as TL operators are picking up market share from rail and LTL (less-than-truckload) as capacity and pricing conditions in TL are increasingly more competitive against other modes.

- The latest Logistics Managers Index (LMI) report in February cited that **warehouse capacity moved into "expansion territory for the first time in 30 months of contraction".** The LMI report projected that warehouse capacity could increase in coming months helping to improve the overall inflation picture "as supply chains will become more efficient, and the costs of holding and moving goods will decrease".

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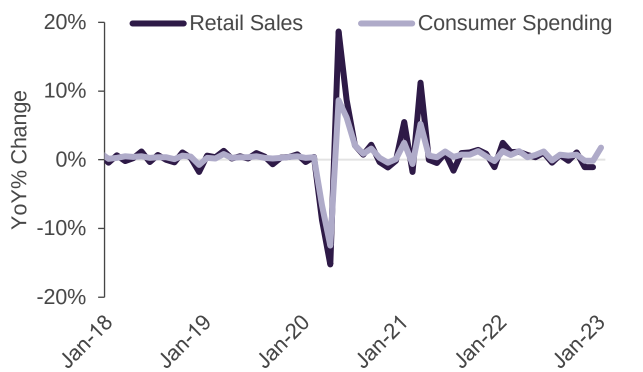
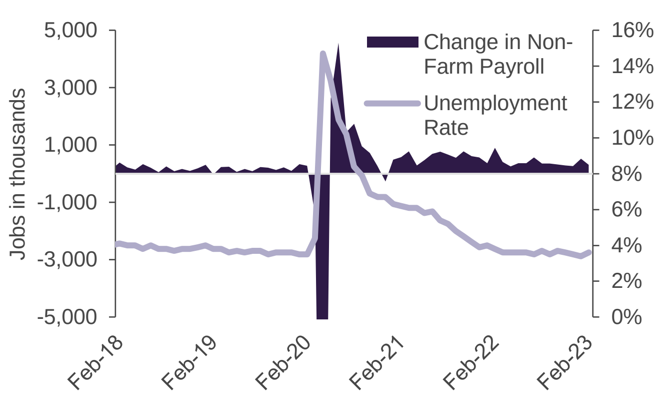
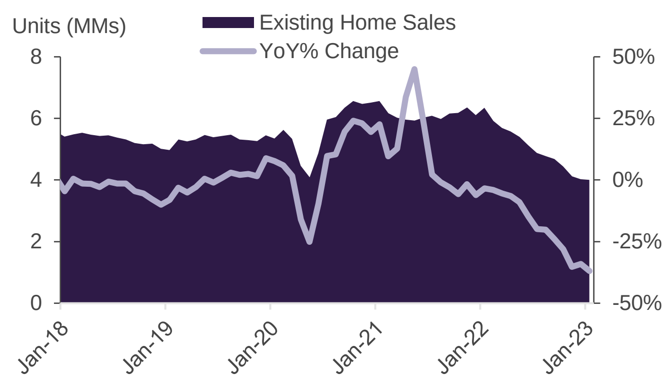
Consumer Spending Resilient



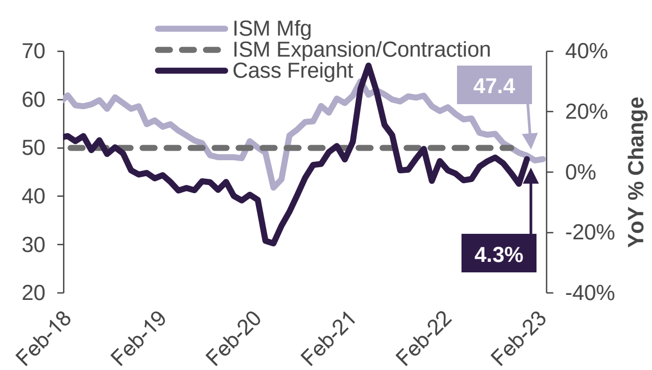
Tight Labor Market



Existing Home Sales Decline



Manufacturing Contracting



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2023 Key Themes Across Logistics & Supply Chain:

- **Labor demand in trucking and warehousing less tight:** trucking and warehousing companies added 23,000 jobs per month on average across 2022. However, conditions have started easing with the sector shedding 42,000 jobs since October of last year. Trucking companies report relatively better driver availability as some owner-operators turn back to company fleets after spot rates corrected last year. However, the higher average age of drivers and tightening fuel and equipment standards may limit capacity growth going forward.

- **Equipment availability improving:** chip shortages and ongoing supply chain disruptions since the pandemic began creating large backlogs for equipment. While manufacturers have opened 2023 order books, backlogs are still elevated, and final assembly is still impacted by rolling bottlenecks.

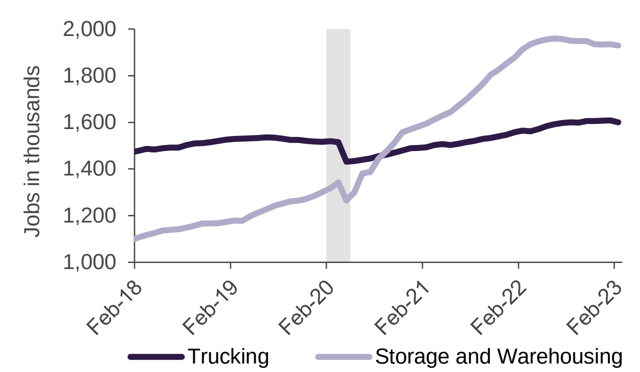
- **Port congestion eases:** East/Gulf coast ports likely to retain market share gains while West Coast ports struggle to resolve a contract with dock workers. Ship queues on both coasts have been alleviated and temporary overflow yards are being shutdown as import volumes normalize. China's reopening and expectations for a normal peak season in 2023 could help stabilize volumes in the second half of the year. However, China's share of imports to the U.S. has contracted and could be impacted further as U.S. importers continue to diversify supply chains amidst ongoing geopolitical tensions.

- **Rail-to-truck conversions increase:** rail traffic decreased 4.1% y/y in 2022 as average train velocity across all Class I's slowed by ~2% y/y and dwell times deteriorated 3%. Congestion increased as the average number of railcars increased 3% - a result of precision railroading that produces longer unit trains and drives lower operating ratios at the expense of less flexibility. Railroads may pivot to a more customer-centric focus in 2023 in order to regain lost market share to other transportation modes.

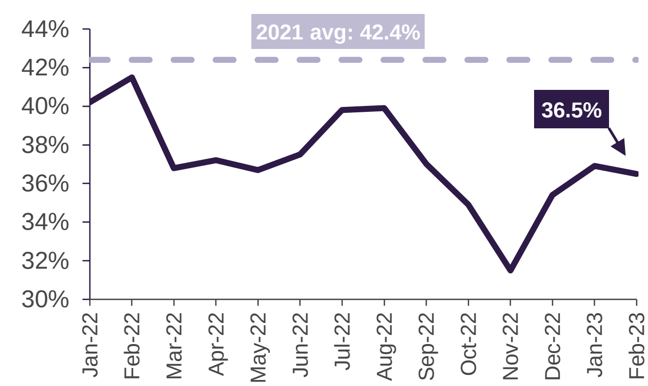
- **Growth opportunities persist for third-party logistics companies (3PLs):** while 3PL grew at 3.7% CAGR (2003-2022), 70% of the market still insources logistics activities. 3PLs are providing more integrated tech solutions and more predictability and visibility across supply chains. E-commerce as a percent of retail sales continues to grow, albeit more in line with pre-pandemic averages. 3PLs are looking to help integrate more omni-channel fulfillment services with increased warehousing and last mile plays.

- **Warehouse availability still tight**: vacancy rates are 140bps below pre-pandemic levels. Port-proximate industrial markets are among the tightest in the country with vacancy rates below 2%. E-commerce growth alongside aged/obsolete warehouse supply will drive demand for more modern storage solutions that require less labor and energy inputs, and will add logistic efficiencies such as higher ceilings, more dock doors, trailer parking and rail connectivity.

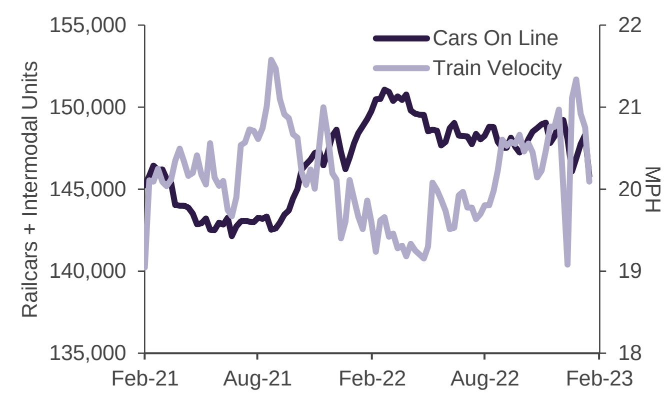
Trucking & Warehouse Jobs



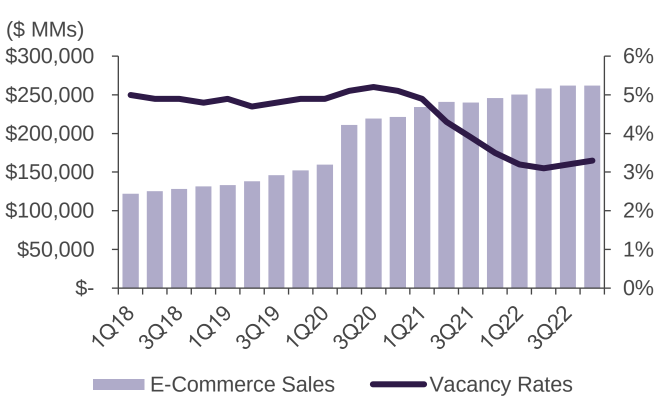
China's Share of U.S. Container Imports



Class I Rail Performance



Vacancy Rates vs. E-commerce Growth



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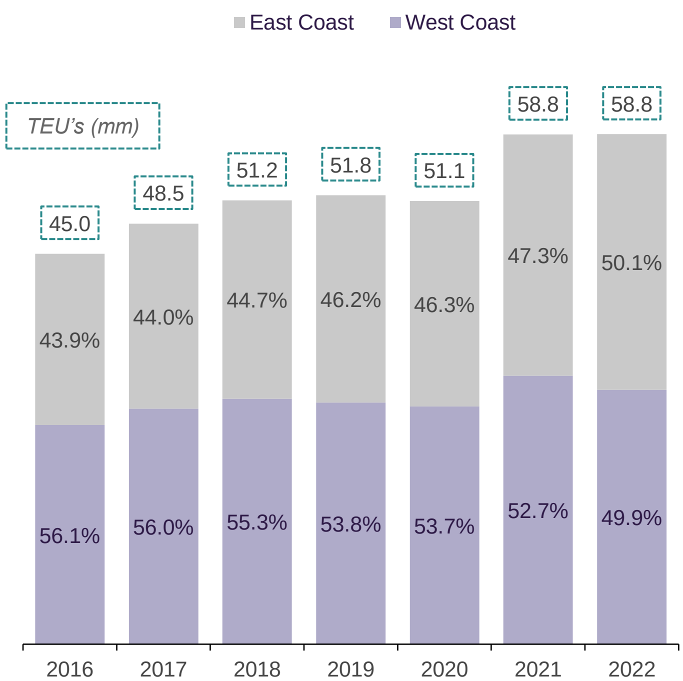
North American Port Update

- Major East and Gulf Coast ports achieved record container volume in 2022 against ongoing labor negotiations on the West Coast, and supply chain shifts that are benefiting East and Gulf Coast ports.
- However, U.S. port container volumes are expected to normalize over the course of 2023 as consumers rebalance spending from goods to services. China's share of imports to the U.S. decreased from 41.5% to 36.5% over the last year. While China is likely to regain some momentum from "reopening", a secular shift may be underway as companies look to build more resilient supply chains against rising geo-political risks.

Container Volumes at Major U.S. Gateways

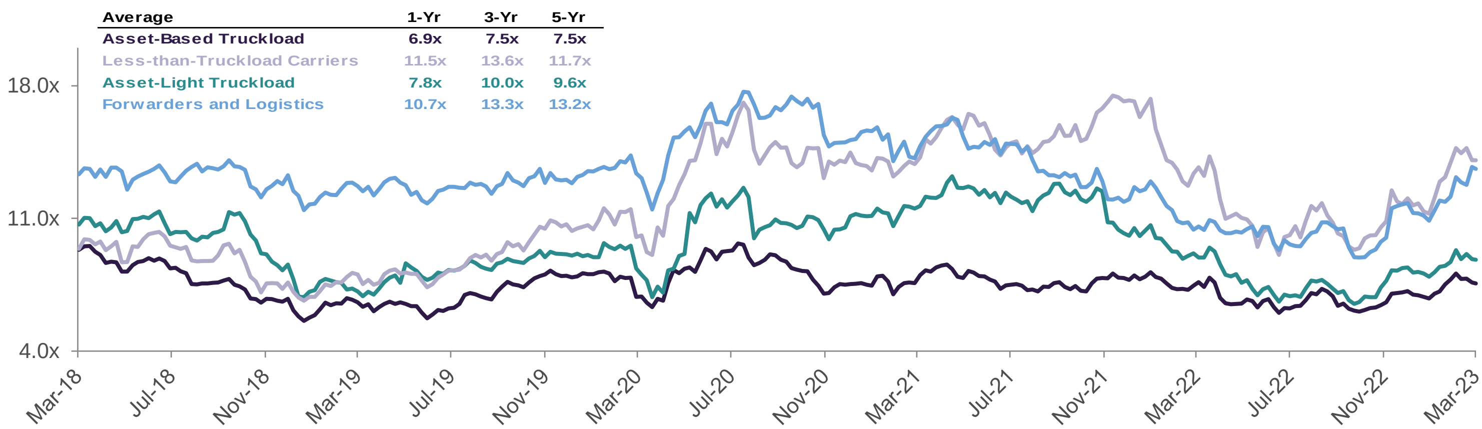


Note: Graph includes Port Everglades and Port of Miami

	2021 Total TEUs (000s)	2021 YoY % Δ	2022 Total TEUs (000s)	2022 YoY % Δ
East Coast Ports:	FY		FY	
New York / New Jersey	8,986	18.5%	9,684	7.8%
Savannah	5,613	19.9%	5,892	5.0%
Virginia	3,523	25.2%	3,703	5.1%
Houston	3,453	15.5%	3,971	15.0%
Charleston	2,751	19.1%	2,792	1.5%
Jacksonville*	1,161	6.3%	1,101	(5.2%)
Total East Coast	**25,487**	**17.6%**	**27,143**	**6.5%**
West Coast Ports:	FY		FY	
Los Angeles	10,678	15.9%	9,911	(7.2%)
Long Beach	9,384	15.7%	9,134	(2.7%)
Vancouver	3,679	6.1%	3,557	(3.3%)
Seattle / Tacoma	3,736	12.5%	3,384	(9.4%)
Oakland	2,448	(0.5%)	2,337	(4.5%)
Prince Rupert	1,058	(7.3%)	1,036	(2.1%)
Total West Coast	**29,925**	**11.8%**	**29,359**	**(1.9%)**

** Data through October 2022*

Public Company Transportation & Logistics EV/EBITDA Multiples



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Sources: Bloomberg, Wall Street Journal, Capital IQ, Federal Reserve Economic Data, Census Bureau, Descartes Datamyne, Department of Transportation, American Trucking Associations, Company Reports, Cass Information Systems, FTR Transportation, FreightWaves, Institute for Supply Management, U.S. Census Bureau, Journal of Commerce