Ready, set, go:
How to start preparing now for the market turn

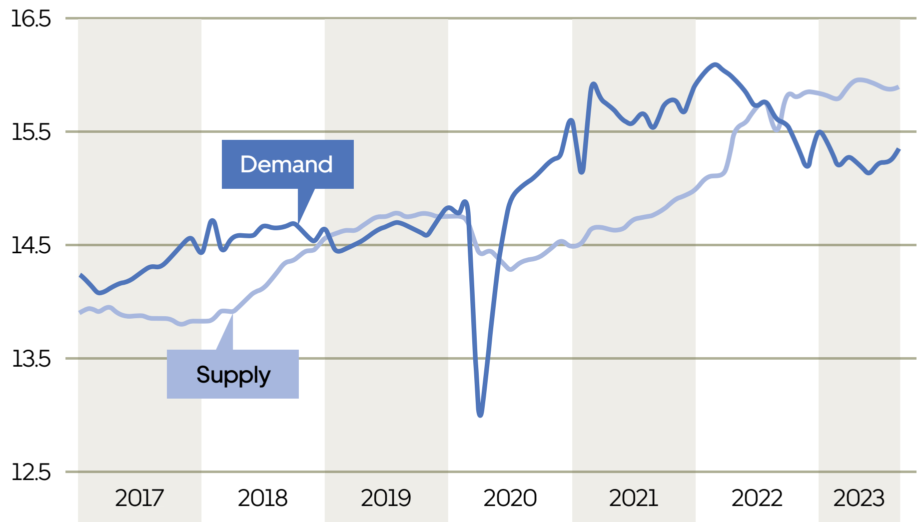
How Uber Freight is helping companies build more stability and resilience into their logistics operations.

Uber Freight | Logistics MANAGEMENT

The transportation market has experienced some significant ebbs and flows over the last few years. In 2020 and 2021, shipping volumes jumped by 10% across the board as the world dealt with the impacts of a global pandemic, lockdowns and supply chain shortages. Consumer spending surged, manufacturing activity increased, and import volumes spiked. Carriers that had laid off employees at the onset of the pandemic had a difficult time replacing those drivers during a persistent labor shortage.

Uber Freight's truckload demand and supply

Millions of dry van loads per month



When 2022 dawned and COVID began to wane, shipping volumes began returning to more normal levels. Much of the supply that was sidelined in 2020 and 2021 suddenly came online, triggering a softening in freight markets. As consumer demand for products decreased and inventories rose, shippers went from being very "understocked" to dealing with inventory gluts within a span of just a few months.

While these corrections were happening, carriers continued hiring drivers, adding new employees, and investing in equipment. Fast-forward to today and we're now seeing a historical difference between supply and demand, which means that the market is in a heightened state of oversupply and the most oversupplied it's been.

"Adjusted for inflation, truckload spot rates are now at the lowest they've been in a decade and the market remains oversupplied," says Mazen Danaf, staff applied scientist and economist at Uber Freight. "Many carriers were anticipating this supply correction to take place in the second half of 2023, but we have not seen it as scale yet."

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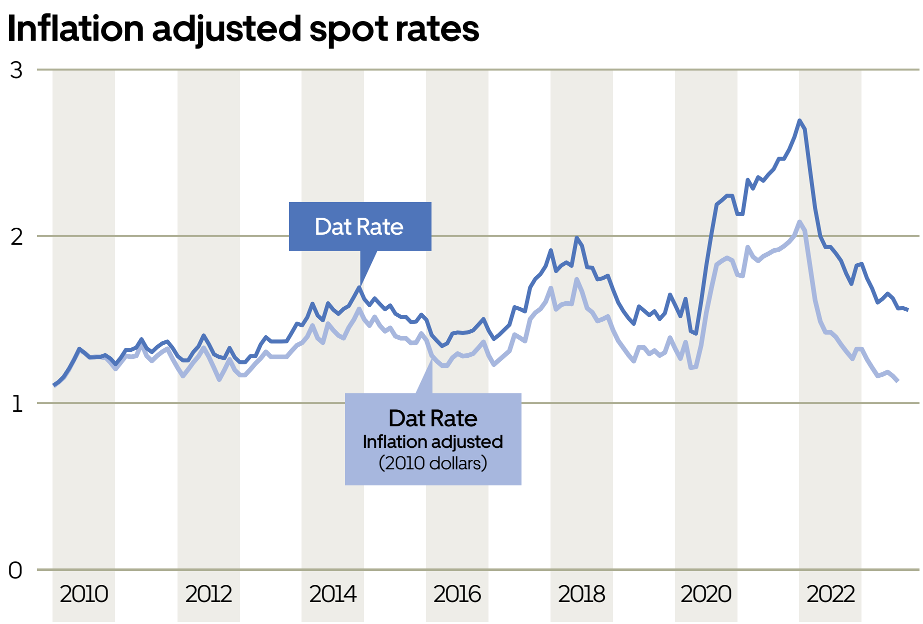
Where we are now

According to Uber Freight's most recent Fright Market Update, the goods economy is showing some signs of recovery. Data from Q3 and Q4 2023 indicated an increase in wholesalers' sales, consumer spending on goods, and imports.

The market remains oversupplied, with supply exceeding demand by a significant margin. "There are no signs of a quick rebound in demand yet," says Danaf, who adds that one potential sign of a demand recovery is the continued "de-stocking" of inventories. "That's a slow, gradual process that isn't going to drive demand up overnight."



The trucking industry shed 27,000 jobs in the last year, mostly because of Yellow's bankruptcy. (Trucking) Employment now is 2% below its peak. Long-distance truckload employment also saw three consecutive declines in June/July/August and was 1.1% below its peak. In addition, more than 90,000 carriers have had their authorities revoked in the last 12 months, resulting in a net decline of 20,000 in the carrier population.

Looking further out, Danaf expects a capacity reduction to happen at some point in the next few months, whereby more carriers will exit the market, and others will reduce both their headcount and slow down ordering of new equipment. "We have early indicators of that happening," he explains. "Looking specifically at long-distance truckload employment, it is decreasing month-over-month, and we expect this trend to continue."

Preparing for the unknown

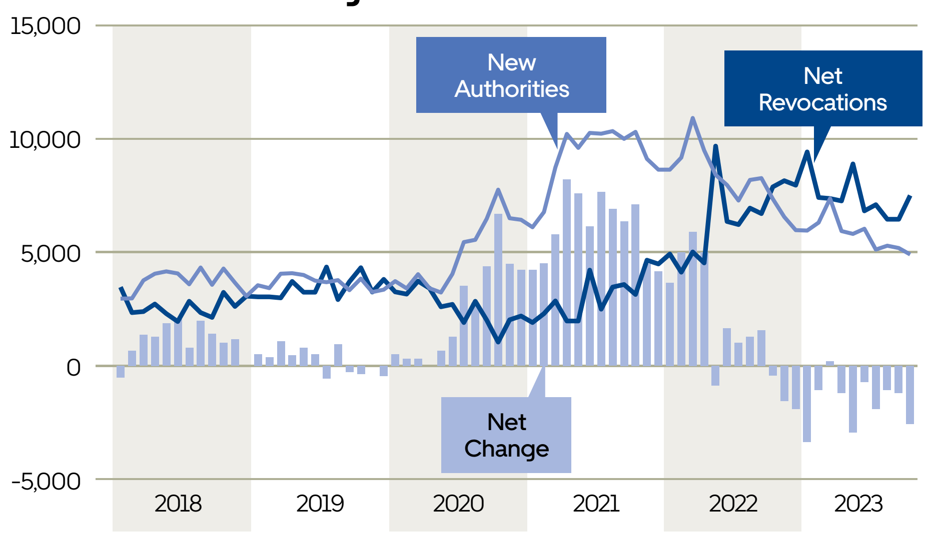
The pace of change is accelerating, uncertainty is a given, and unpredictable events have become commonplace in the business world, where supply chains serve as the critical conduits between suppliers, manufacturers, and end consumers. Transportation literally keeps the wheels turning in those supply chains, allowing organizations to move goods from the point of production to the point of consumption.

Smart companies are keeping a finger on the pulse of the transportation industry as it continues to shift. Danaf cautions against following any "single forecast" and sees spot trucking rates as a good measure of what may happen over the next 4-6 months. "Spot rates are an early indicator of what's going to happen in the broader contract market and in other modes, including intermodal and less-than-truckload (LTL)," says Danaf.

Based on various external forecasts, Danaf says all of them are projecting an increase in spot rates at some point in 2024, with the lowest estimate being 5% (year-over-year increase) and the highest coming in around 30%. With all industry forecasts pointing to an increase in spot rates—and with spot rates being a leading indicator of other rate increases across other modes—now is the time for shippers to begin preparing for the market shift.

Contract rates usually lag spot rates by a few months. Therefore, shippers might not feel that contracted costs are rising right away as spot rates begin to rise. In fact, contract rates might be flat or slightly negative year over year in 2024. However, shippers might start to see some routing guide failure driven by more tender rejections, and they should have contingency plans for that.

FMCSA new trucking authorities and revocations



Source: FTR/FMCSA

Preparing for the next shift

Knowing that the freight market is overdue for a shift in 2024, Bob Daymon, head of TM client services at Uber Freight, is advocating for a single-platform approach that finds companies storing all their shipment information in a single transportation management system (TMS). "From there, we can work with shippers on a strategy to mitigate risk in an inflationary market, primarily focused around understanding their portfolio of a broker / asset-based carrier mix."

Shippers should also take advantage of tools like partnership, transparent, and index pricing, as well as work with their carriers to mitigate any sudden freight rate increases that may surface over the next few months. "There's a complete list of pricing mechanisms that can be deployed through our platform," says Daymon.

Early action is also important for companies, some of which may wait until it's too late to take proactive measures to address the anticipated market rebound. It's important note that efficiencies are most critical during tight markets, when capacity is not as abundant. Right now, these might not seem important to shippers, but when the market turns, they'll want to better be prepared and already optimized.

"You don't want to be the last person getting on board with these mitigation strategies right as the market is inflating," Daymon cautions. A better approach is to use a set of diagnostics to understand when the market is starting to inflate and understand certain criteria once it's met. Then, start having pricing-related conversations with your carriers.

Now is also the time to roll out any transportation optimization strategies, including both route consolidation and the building of more efficient routes. Using a platform like Uber Freight, shippers can easily collaborate with one another to cumulatively optimize their transportation operations. For example, if a shipper is going to Atlanta and another one is returning to Chicago from Atlanta, Uber Freight can pair those shippers up and then talk to carriers about discounted pricing opportunities.

"We're able to keep their trucks moving via those continuous moves that involve multiple shippers," says Daymon. This type of collaboration also helps reduce the number of empty trucks on the road and the amount of greenhouse gas emissions emitted by the transportation sector.

If a shipper is using LTL, Uber Freight's programs can bundle smaller shipments from multiple different shippers into full truckloads, again saving the shipper money, reducing empty miles, and supporting a more sustainable transportation approach. For example, one partial truckload can be rounded out by placing five pallets of LTL freight on the truck.

With its technology-forward strategies, Uber Freight helps shippers make the most out of existing assets, optimize their transportation networks, save money, and operate more efficiently. These "wins" are important in any type of freight market, but they're especially crucial when the winds begin to change in favor of the carriers –something that's expected to happen over the coming months.

Making your move now, not later

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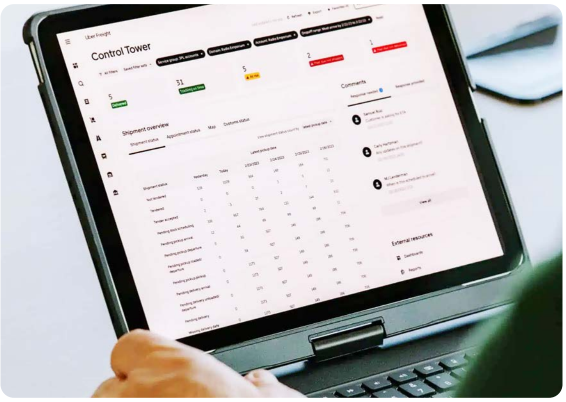
No one can predict exactly when the market is going to turn, but history tells us that the pivot isn't too far off. Like all market sectors, transportation fluctuates based on what's happening in the broader economy.

Inflation, rising interest rates, higher business costs, and geopolitical issues all play a role in consumer and business spending—both of which can determine freight volumes. If these issues get resolved—inflation comes down, interest rates peak, geopolitical issues recede., etc.—then the U.S. economy may experience higher growth in 2024.



Shippers that pay attention to what's happening in the spot market, stay updated on related market trends, and work with partners like Uber Freight to connect with carriers that will be best positioned for success in any market conditions. And don't wait until it's too late to do anything about it, Daymon cautions.

"It's about thinking through this and having a strategy at your fingertips for when the market does turn—and especially since no one really knows when that is going to happen," says Daymon. "The longer you wait to implement a defined strategy and align with a reliable partner that can insulate some of that market shock, the harder it's going to be to deploy that strategy." This is critical because such strategies take an average of 12 weeks to implement, which means they can't be switched on at the drop of a hat if you suddenly realize the market rebound has begun.

As you plan for 2024, be sure to factor in the freight rate increases that are expected to surface at some point during the year. Assess your current network, talk to your carriers, and find creative ways to drive the anticipated cost increases out of that network. Uber Freight provides the real-time quote transparency, convenience, and visibility that companies need to be able to save time and money in any market conditions.

For more information visit uberfreight.com