STATE OF THE INDUSTRY

CURRENT ECONOMIC CONDITIONS

OTA
OHIO TRUCKING ASSOCIATION

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ECONOMIC UPDATE

Microeconomic Conditions

The economic condition of the trucking industry is highly correlated to performance in several key customer industries. Four of the most relevant industries have historically been construction, manufacturing, wholesale trade and retail trade. The following table illustrates both the historical and forecasted growth within the aforementioned industries:

Industry	Current Revenue	Projected 5-Year Annual Growth	Current 5-Year Annual Growth	Prior 5-Year Annual Growth
Construction[1]	2.6 Tr	0.7	-1.3	2.4
Manufacturing[2]	7.0 Tr	1.6	-0.4	0.4
Wholesale Trade[3]	12.3 Tr	2.2	3.3	3.9
Retail Trade[4]	8.1 Tr	3.4	5.2	-0.2

The construction industry has declined over the past five years (-1.3% average annual growth). In prior years, the industry benefitted from historically low interest rates. However, growth over the past few years has been hindered by the COVID-19 pandemic (which resulted in a 6.4% decline in revenue in 2020, alone) and rapidly rising interest rates (which resulted in a 4.2% decline in revenue in 2022, alone). Supply chain disruptions have led to increased costs for the industry, resulting in an average profit margin of just 3.4%. The industry is projected to expand over the next five years, driven by expectations of continued recovery from the COVID-19 pandemic, resolution of supply chain issues and a cooling off on inflation. Growth is expected to come primarily from commercial and infrastructure construction which has been positively impacted by the 2021 Infrastructure Investment and Jobs Act, while residential construction continues to be negatively impacted by high interest rates.

The manufacturing industry has declined over the past five years (-0.4% average annual growth). This decline was most pronounced in 2020 (because of the COVID-19 pandemic) and in 2022 (because of inflationary price increases). Average profit margin is projected to fall to 8.0% in 2023, driven by the increased costs of key manufacturing inputs, such as crude oil and steel. However, the industry is projected to grow over the next five years because of an improvement in general economic conditions and continued technological advancements driving improved efficiency. A declining U.S. dollar is also expected make U.S.-manufactured goods more attractive to international buyers.

The wholesale trade industry has grown over the past five years (3.3% average annual growth), despite pandemic-driven hurdles (which resulted in a 7.8% decline in revenue in 2020, alone). The industry has benefited during this time from demand for goods from the Retail industry, owing largely to greater consumer spending driven by increases in disposable income and confidence in the economy (both pre- and post-pandemic). However, rising inflation and interest rates in 2022 have slowed

[1] IBISWorld. (January 2023). IBISWorld US Industry Report 23.
[2] IBISWorld. (February 2023). IBISWorld US Industry Report 31-33.
[3] IBISWorld. (February 2023). IBISWorld US Industry Report 42.
[4] IBISWorld. (April 2023). IBISWorld US Industry Report 44-45.

the growth once experienced by the industry. The industry is expected to grow over the next five years, but at a lower rate than in previous periods. Many industry players have benefited from rising commodities prices during this time. This growth is expected to cool off as prices stabilize in an improved general economy.

The retail trade industry has grown over the past five years (5.2% average annual growth), despite the challenges of the COVID-19 pandemic. Much of this growth is attributable to increases in per capita disposable income and consumer spending, aided in part by COVID-era stimulus money. The industry is expected to grow over the next five years, but at a slower rate than in previous periods. High inflation has placed downward pressure on consumers' willingness and ability to spend, despite increases in per capita income. Additionally, high competition and e-commerce-enabled price comparisons have limited industry players' abilities to increase profits.

Trucking Sector	Current Revenue	Projected 5-Year Annual Growth	Current 5-Year Annual Growth	Prior 5-Year Annual Growth
Local Freight[5]	91.7 B	0.6	6.6	4.7
Long-Distance Freight[6]	260.3 B	0.9	-0.5	3.5
Local Specialized[7]	61.1 B	1.5	1.8	1.1
Tank & Refrigeration[8]	51.9 B	1.5	-0.5	0.5

The past five years have been a bit of a wild wide for trucking companies. Short-term hurdles resulting from the COVID-19 pandemic quickly rebounded, and many players in the industry experienced some of their most profitable years of operation shortly following April 2020. This rebound was further helped by the introduction of PPP stimulus funds from the federal government. Rising prices of crude oil (and thus diesel fuel) in 2021 enabled trucking companies to capitalize on fuel surcharges, also increasing their revenues. However, the inflationary pressures facing key customer industries have begun to cool the market. All subsectors of the trucking industry are expected to grow over the next five years, but at moderate rates between 0.5%-1.5%. As the costs for drivers and equipment continue to increase, trucking companies will need to continue to raise rates-per-mile. As the general economy cools off, this could place constraints on trucking companies' profit margins.

Macroeconomic Conditions

The United States (U.S.) experienced the longest economic expansion in history—an upswing that lasted 128 months from June 2009 to February 2020. What followed was the shortest economic recession in U.S. history—a decline that only lasted two months from March 2020 to April 2020. That may feel like ancient history at this point. In the past three years, there has actually been a quick recovery from the two-month recession that leveled out to a moderate level of growth in 2021.This was followed by two quarters of negative GDP growth in first half of 2022 that led to slow growth the past 12 months.

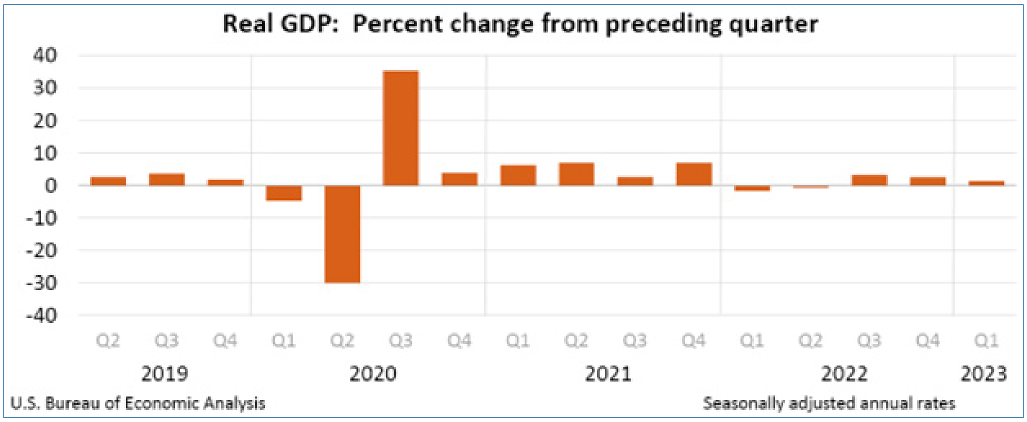
What does this mean for the next year? Is there a recession on the horizon? This section will describe current macroeconomic conditions and, hopefully, provide some context for considering what lies ahead on the economic horizon.

From a macroeconomic perspective, we will focus on four measures of economic performance: (1) Gross Domestic Product, (2) Unemployment Rate, (3) Consumer Sentiment, and (4) Inflation.

[5] IBISWorld. (January 2023). IBISWorld US Industry Report 48411.
[6] IBISWorld. (January 2023). IBISWorld US Industry Report 48412.
[7] IBISWorld. (January 2023). IBISWorld US Industry Report 48422.
[8] IBISWorld. (February 2023). IBISWorld US Industry Report 48423.

Gross Domestic Product

Real gross domestic product (GDP) increased at an annualized rate of 2.0 percent in Q1 2023. That compares the 2.6 percent increase in Q4 2022 and the 3.2 percent increase in Q3 2023. The slowing rate of GDP growth is considered a sign of some weakening of general economic conditions.

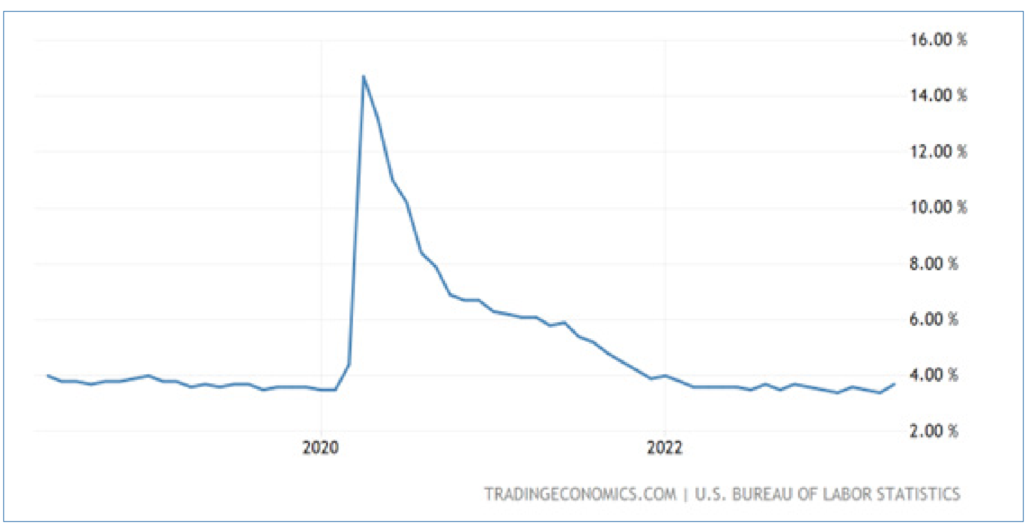


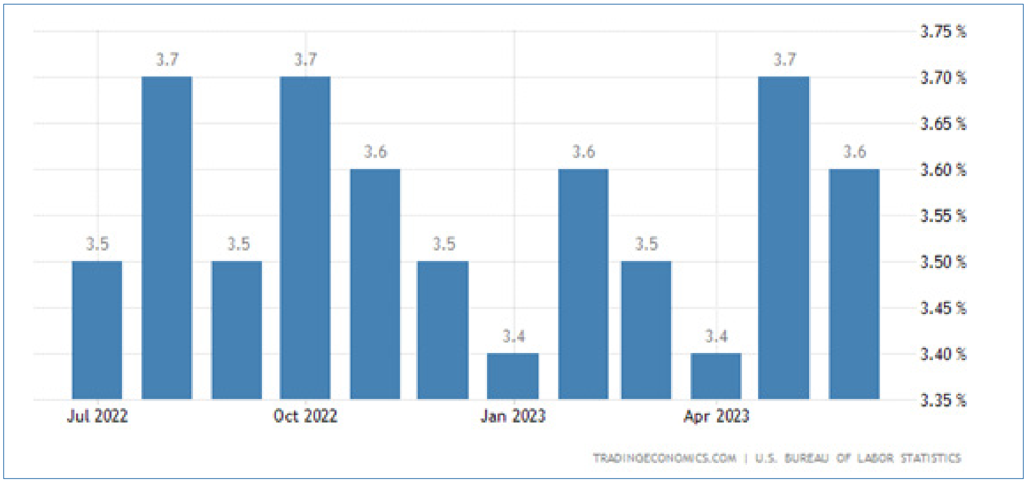
According to the U.S. Department of Commerce's Bureau of Economic Analysis, the increase in the first quarter primarily reflected an increase in consumer spending, which was partly offset by a decrease in inventory investment.

- The increase in consumer spending reflected increases in both goods (led by motor vehicles and parts) and services (led by health care, food services and accommodations and "other" services).
- The decrease in inventory investment primarily reflected decreases in wholesale trade and manufacturing.

Compared to the fourth quarter, the deceleration in real GDP primarily reflected a downturn in inventory investment and a slowdown in business investment. These movements were partly offset by an acceleration in consumer spending, an upturn in exports and a smaller decrease in housing investment.

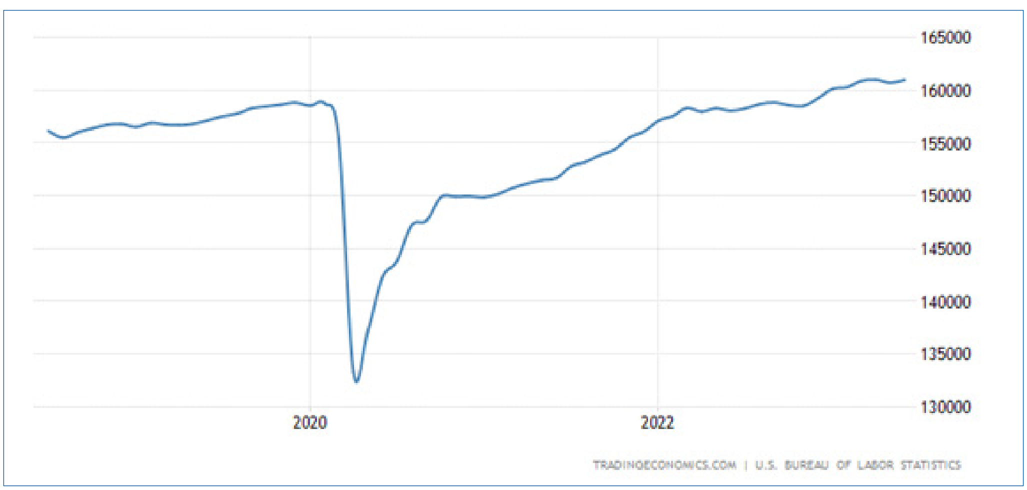
Unemployment Rate





The tables above depict unemployment levels for the preceding five years and 12 months, respectively. In February 2020, prior to the COVID-19 pandemic, unemployment was at a very low rate of 3.5 percent. Immediately following the onset of the pandemic and coinciding recession, unemployment increased dramatically to a pandemic-high of 14.7 percent in April 2020. These levels quickly decreased to 6.9 percent by October 2020 and have continued to steadily decline to 4.6 percent in October 2021. As the table shows, the past 12 months have remained in a tight band of historically low numbers: between 3.4 percent and 3.7 percent. This is the strongest of the economic indicators that we will examine.

United States Employed Persons



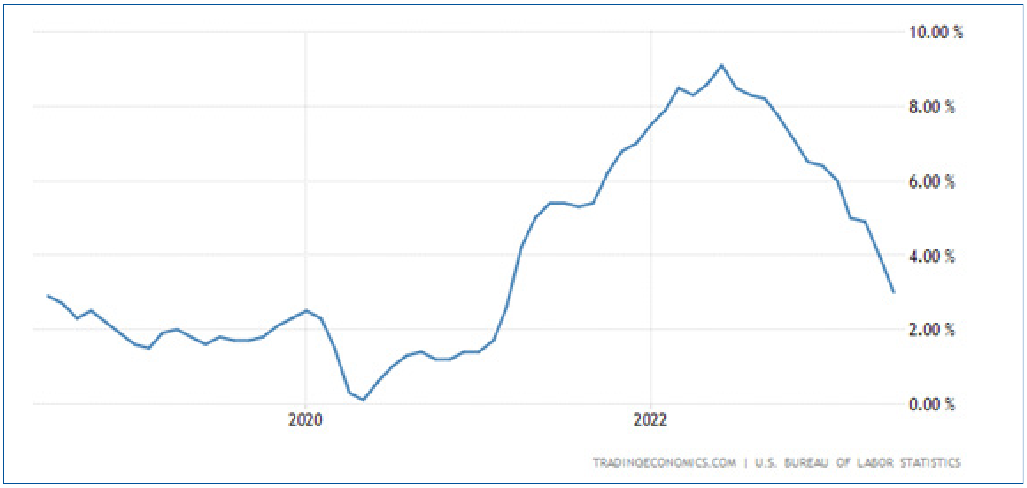
The table above provides perhaps the clearest picture of the overall jobs market. Total U.S. payrolls have now moved above the pre-pandemic levels of 152.5M reported in February 2020. The June 2023 report of United States Employed Persons was 161M. This would appear to underscore the highly publicized worker shortage being experienced by many, if not most, industries within the economy.

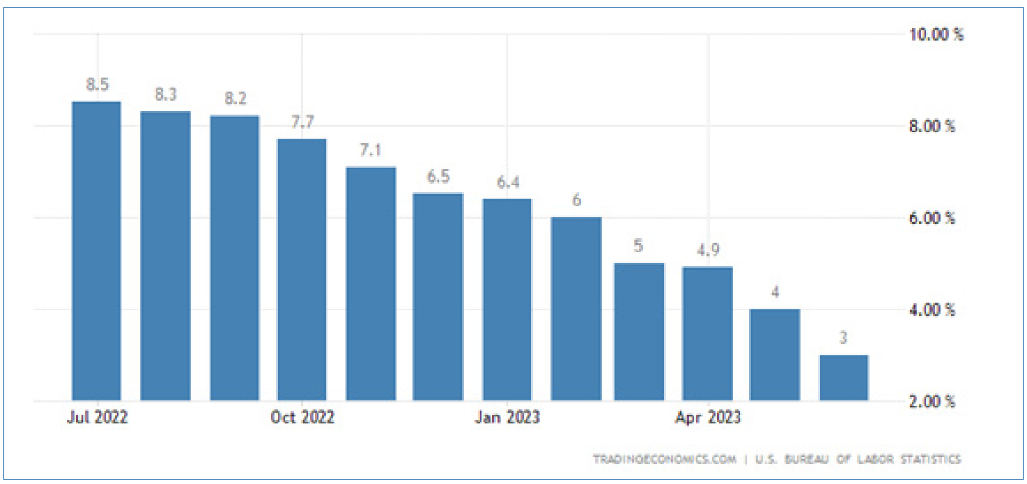
Consumer Sentiment

The tables above depict U.S. consumer sentiment for the five years and 12 months, respectively, through June 2023. The five-year data show high pre-pandemic consumer sentiment of 101.0 in February 2020, which quickly fell to 71.8 in April 2020. Since then, the consumer sentiment has not recovered to anywhere near pre-pandemic levels. The June 2023 level of 64.4 is an improvement over the prior year results, but these levels are still near ones recorded in the 2008 – 2010 Recession. Despite the seemingly endless job openings, the average consumer appears to be less confident than ever in the overall health and sustainability of the U.S. economy. Perhaps the recent high United States Inflation Rate caused this customer sentiment to remain at historically low levels.

Inflation

United States Inflation Rate (Past 5 Years)



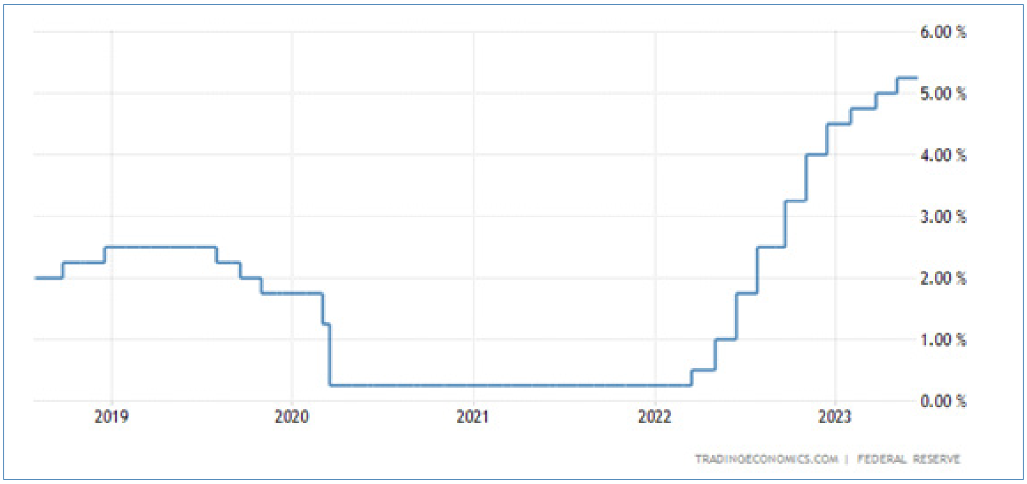


The tables above depict the U.S. inflation rate over the five years and 12 months, respectively, through June 2023. Since the onset of the pandemic, the U.S. inflation rate has been stubbornly high at levels not seen in 40 years. Since the inflation rate is tied to the Consumer Price Index (CPI), this means that consumers are seeing a consistent increase in prices of the "basket of goods" the average consumer typically purchases. Without going into the details of how CPI is calculated, it is worth mentioning that the basket's pricing is heavily weighted toward costs for housing, commodities (such as transportation and medicine) and food, as these typically represent some of the highest levels of the average consumer's spending.

As recently as July 2022, the inflation rate was 8.5 percent, but has been reduced to 3 percent in June 2023 which is less than half of the December 2022 reading of 6.5 percent. Since the inflation rate is now approaching the Federal Reserve Board's Target Rate of 2 percent there can be hope that the interest rate increases are nearing the end, and it may be possible to have a soft landing.

Interest Rates

United States Fed Funds Rate



The Federal Reserve increased rates ten times in a row starting in March 2022 in an attempt to reduce the high inflation rates. There was a pause in June 2023 to the rate increases, but policymakers predicted that they might need to raise rates two more times this year, as inflation, while moderating, remains stubborn.

What Lies Ahead

To recap:

- GDP remains positive for the past twelve months and there has not been a recession in the general economy since the beginning of pandemic in the Spring of 2020. However, there has been a weakening of the GDP numbers over the past three quarters (Q3 2022, Q4 2022 and Q1 2023).
- Unemployment has been a real bright spot for the United States economy in the past 12 months. The unemployment rate has held steady at historically low rates and the number of US Persons Employed is at an all-time high and above the pre-pandemic levels.
- Consumer sentiment remains at a historic low which may be driven by the 40-year high in inflation.
- The United States inflation rate has dropped dramatically in the past twelve months, reaching a low of 3 percent in June 2023 (approaching the Federal Reserve Board's target rate of 2 percent).
- The Fed Funds Rate has risen ten times in the past 16 months from a low near 0 percent to 5.25 percent. This has increased the costs of borrowing for consumers and businesses. This has been a drag on GDP growth especially in industries like home construction.
- Although there has not been a recession in the general economy in 2023 yet, there has been a softening in the trucking economy. The spot market has been hit especially hard. Since trucking is a leading indicator, how is it that trucking is slowing but the general economy has not slowed yet? Is this attributable to spending on services (such as restaurants and travel) that is less dependent on trucking than the goods economy? Or it could be the general economy will catch up to the trucking economy slowdown in the second half of 2023 or in 2024?

Ohio Trucking Association

The Ohio Trucking Association is a 100-year-old full-service trade association operating in Columbus, Ohio. With over 815 total members in the trucking, logistics, warehousing and moving industries, our promise to our members is simple: the Ohio Trucking Association will work to improve operational efficiency, profitability and relevancy for all of Ohio's transportation industry. Advocacy, professional development, networking and cost savings initiatives are the keys to carrying out this promise to our members. No matter what the cause, our industry is stronger when operating as one. We encourage you to explore more about becoming involved with the Ohio Trucking Association at **www.joinota.com**.

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