

A blue Uber Freight truck is parked in a lot, with its front and side visible. The truck is a large commercial vehicle with multiple axles and tires. The background shows a concrete ground and a building with blue siding.

# 2023 Economic Outlook

Mazen Danaf | [mdanaf@uberfreight.com](mailto:mdanaf@uberfreight.com)

**Uber Freight**

February 2023

# 2022 Recap

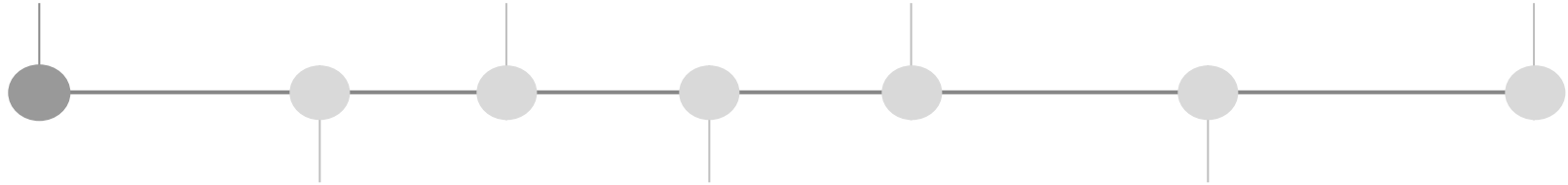
# Year recap: key events that shaped the US (and freight) economy

Jan - Feb: Omicron capacity crunch, hot demand, and high inflation.

May: first signs of inventory glut.

Jul - Sep: trucking employment surge, imports dropped sharply.

Dec: first increase in trucking rates, but weaker than usual peak-season, due to the inventory glut.



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Jun: weak produce season, diesel prices reached an all-time high.

Oct - Nov: ISM PMI below 50 for the first time in 2 years, signs of inflation relief.

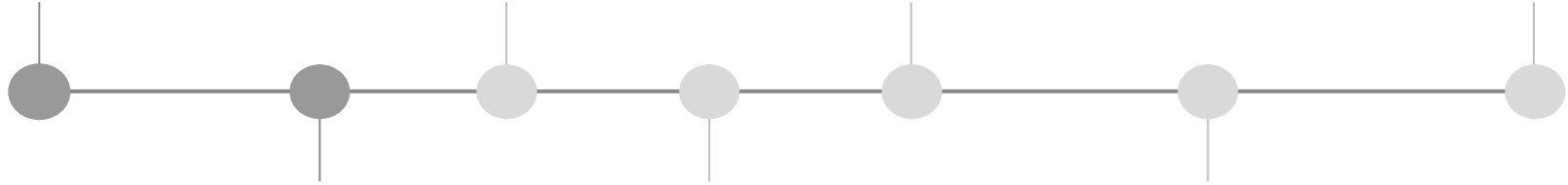
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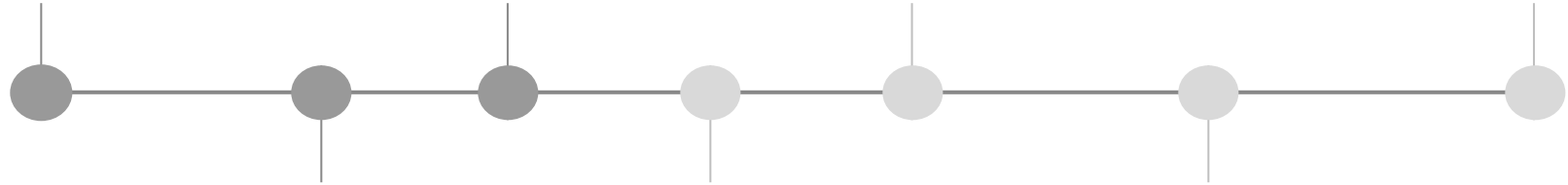
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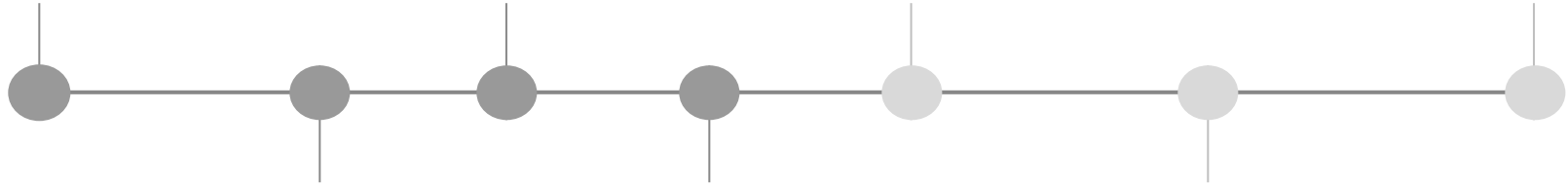
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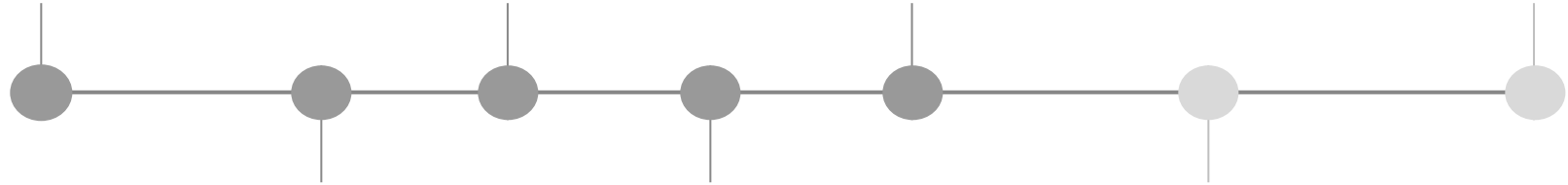
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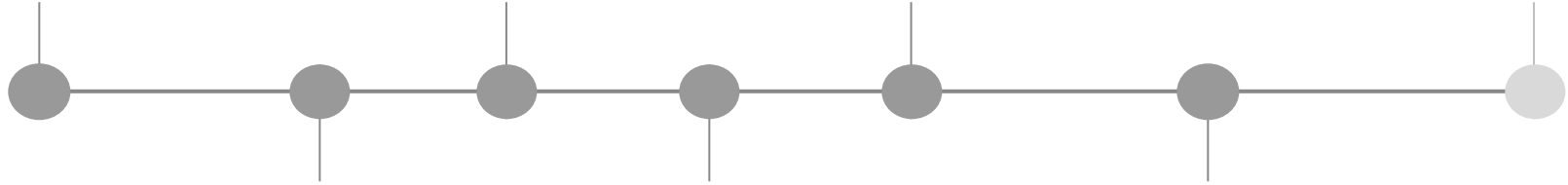
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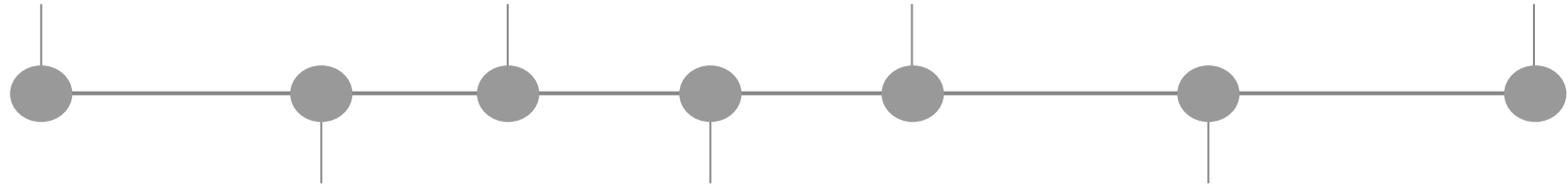
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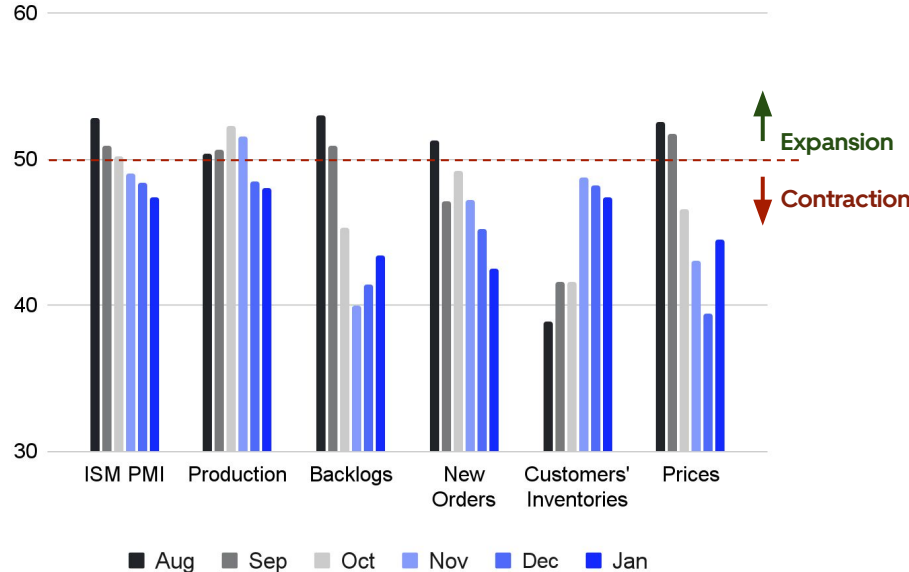
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**Where we are now?**

# Manufacturing is contracting, new orders point to weaker demand

## ISM Manufacturing PMI <sup>(1)</sup>

Values above 50 imply expansion and below 50 imply contraction

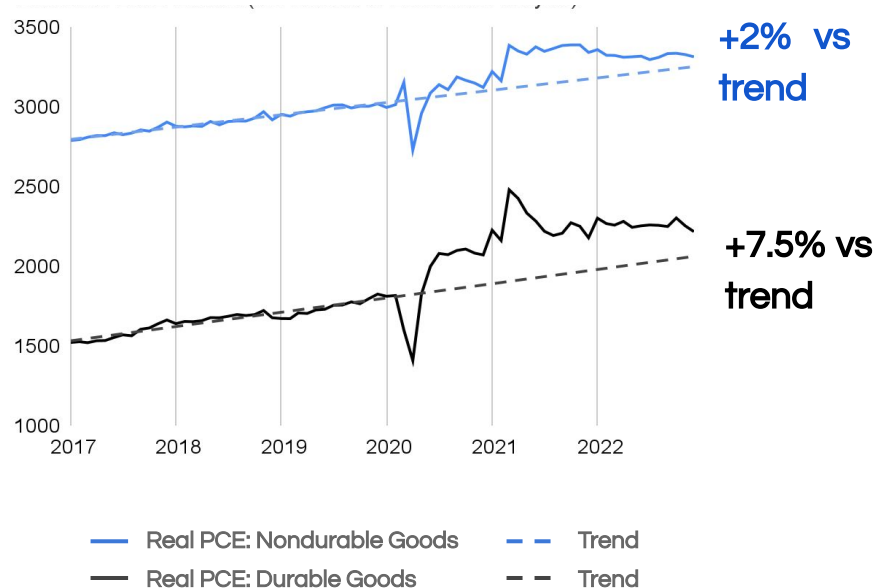


- ❑ Manufacturing continues to contract across the board, as the ISM PMI and the ISM Production Index is below the expansion threshold (50.0).
- ❑ Rising customers' inventories and weaker backlogs / new orders indicate that future demand will be even softer.
- ❑ The bright spot in this report is the Prices Index, which indicates disinflation in raw materials for the fourth month in a row.
- ❑ Manufacturing output in the US turned negative Y/Y in December, according to the Federal Reserve. <sup>(2)</sup>

# Consumer spending is normalizing back to its long-term trend

## Real spending on goods <sup>(1)</sup>

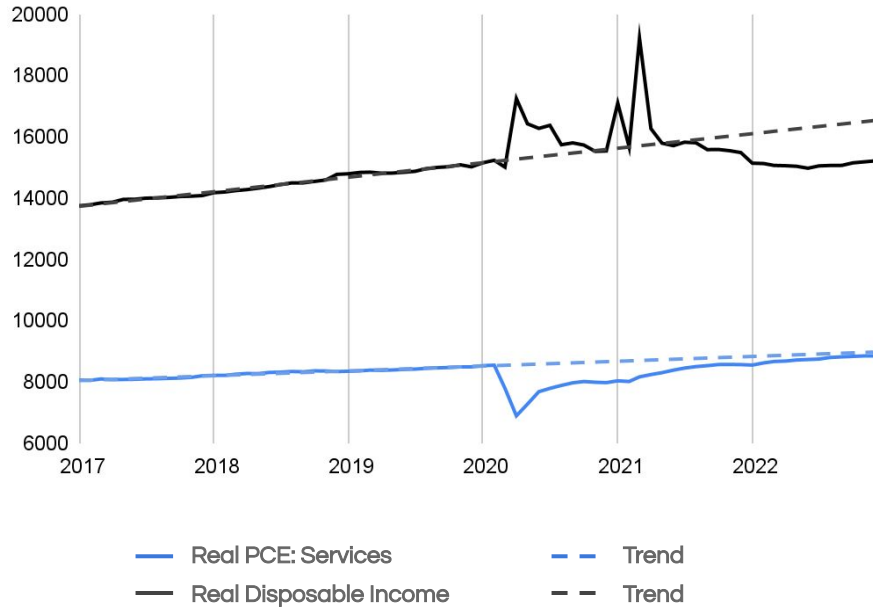
Billions of 2012 USD (adjusted for inflation)



- ❑ Real personal consumption expenditures dropped sharply in November and December, especially on durable goods.
- ❑ Spending is still higher than the long-term trend despite being flat Y/Y.
- ❑ Spending on durable goods is usually more sensitive to economic downturns.
- ❑ But demand still faces headwinds...

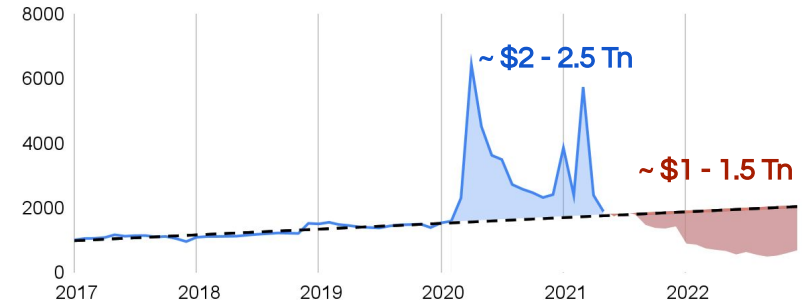
# Spending on services has almost recovered, but income hasn't

*Real Spending on Services and Real Disposable Income <sup>(1)</sup>*  
Billions of 2012 USD (adjusted for inflation)



- ❑ Real disposable income fell by more than 6% in 2022, and is 8% below trend.
- ❑ Meanwhile, spending on services has fully recovered as the economy reopened.
- ❑ Consumers only saved 2.9% of their income in Q4 (compared to 7-8% pre-COVID).

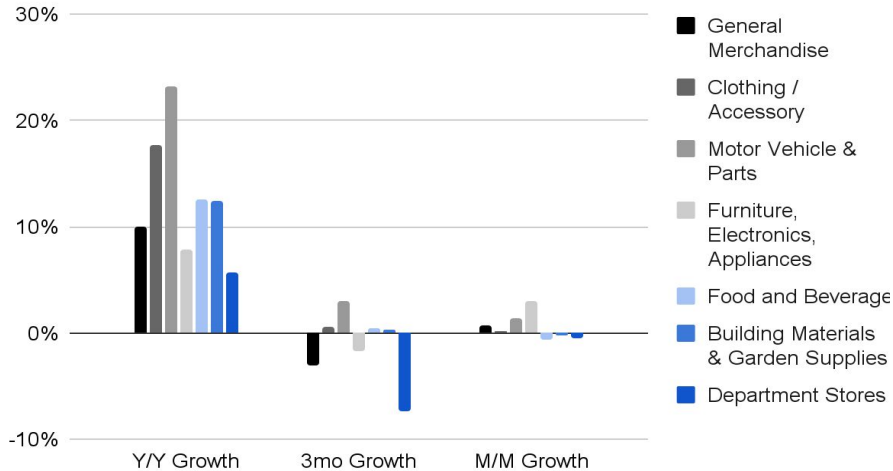
Personal Savings (\$Billions)



<sup>(1)</sup> US Bureau of Economic Analysis

# Retailers are controlling their inventories

***Change in retail inventories from preceding periods <sup>(2)</sup>***  
***Seasonally adjusted***

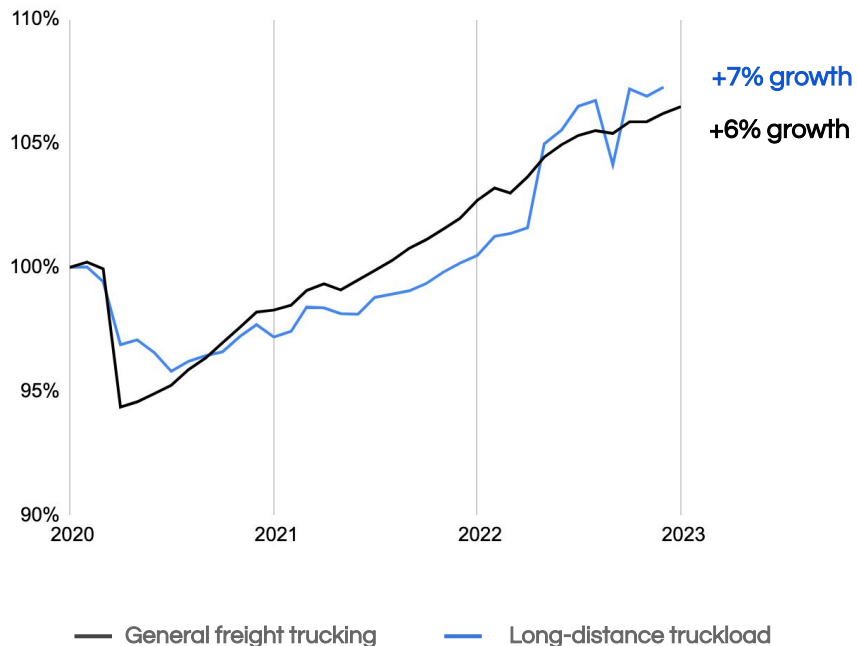


- ❑ After a year of aggressive growth, retailers have been controlling their inventories.
- ❑ Inventory levels have fallen in H2'2022 across various sectors, except motor vehicles and parts, where pent-up demand continues to drive restocking.
- ❑ This indicates that in the short-term, bloated inventories might become less of an issue for freight demand.
- ❑ However, demand continues to face other headwinds, such as lower retail and manufacturing sales.

# Demand is only half the story - focus on freight supply

## *For-hire trucking employment <sup>(1)</sup>*

*Growth relative to January 2020, seasonally adjusted*



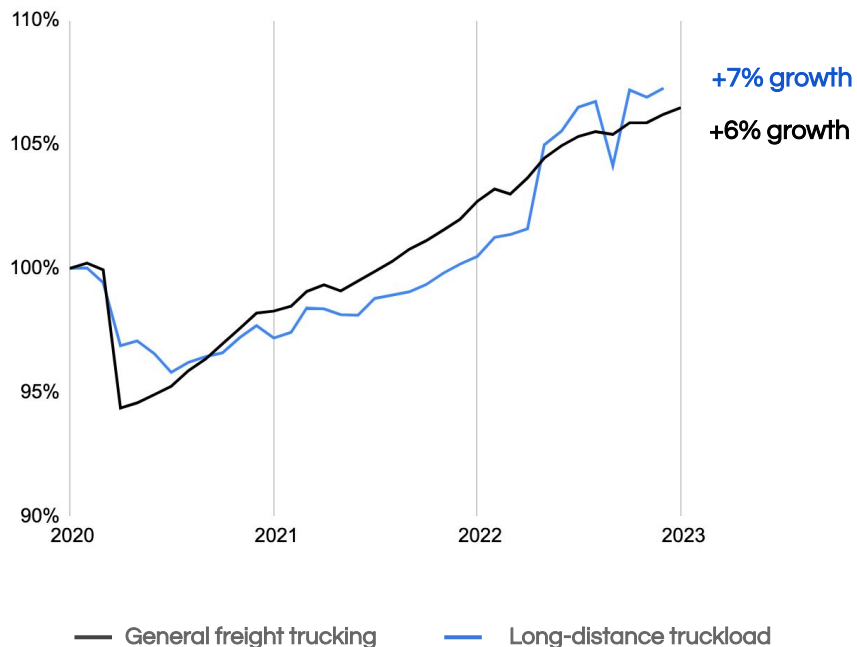
- ❑ For-hire trucking added 4K jobs in January, after adding 64K jobs in 2022 **(+4.2% Y/Y)**.
- ❑ Employment in the long-distance truckload sector, which is highly correlated with spot rates, 37K jobs in 2022 **(+7.1% Y/Y)**

<sup>(1)</sup> US Bureau of Labor Statistics

# Demand is only half the story - focus on supply

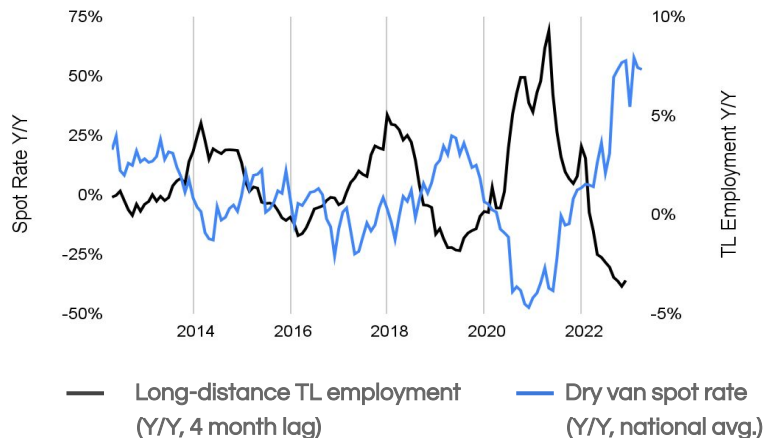
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## Why does this matter?

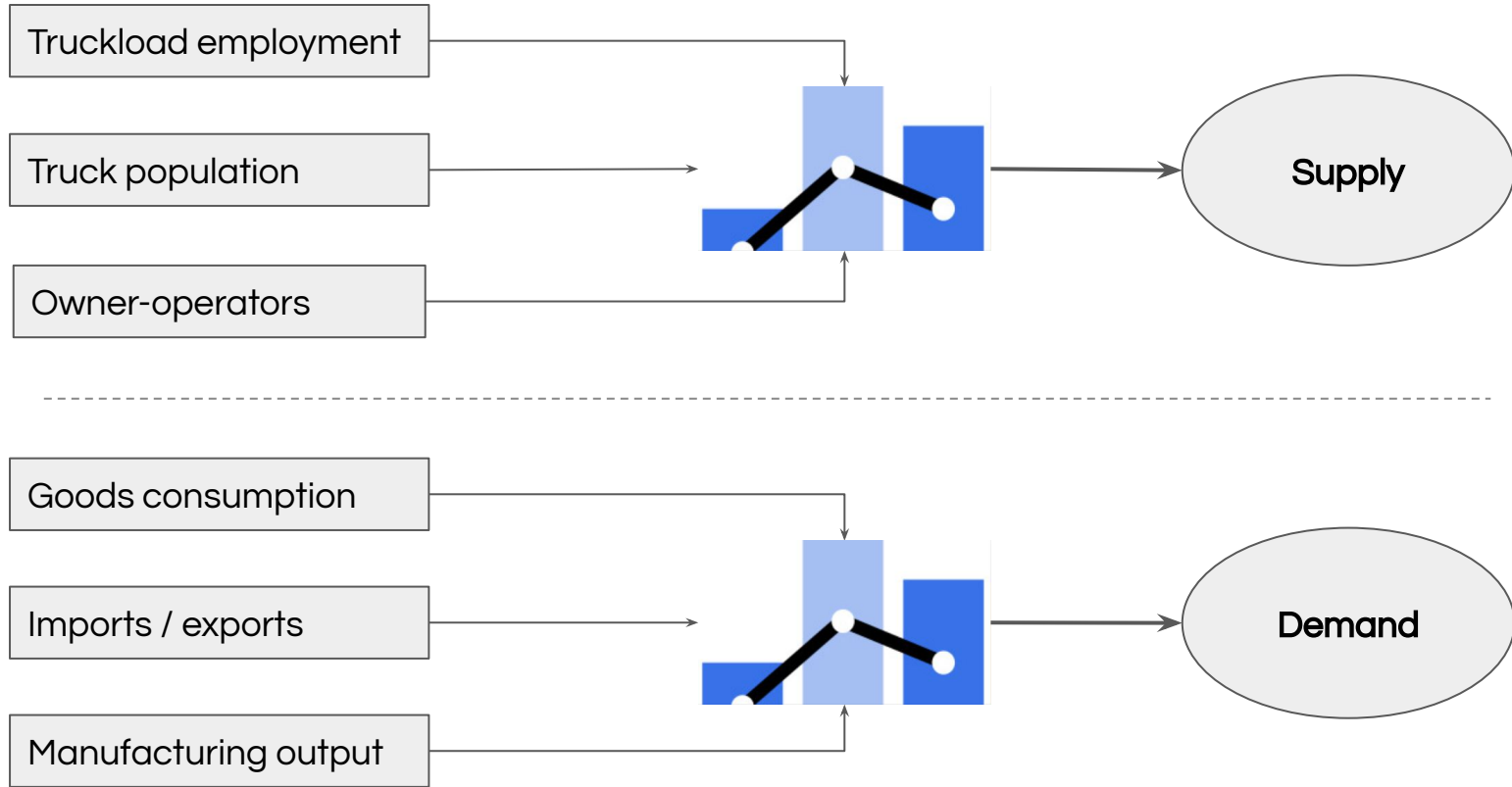


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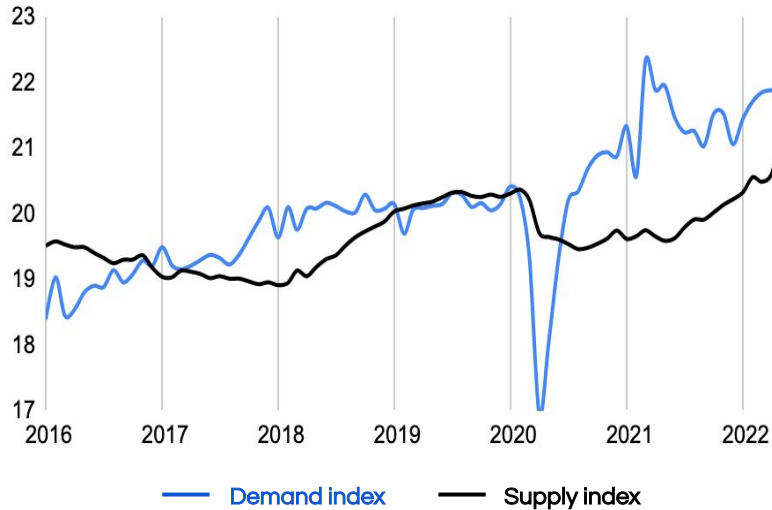
Putting it together

# We used a statistical / econometric model to put it all together

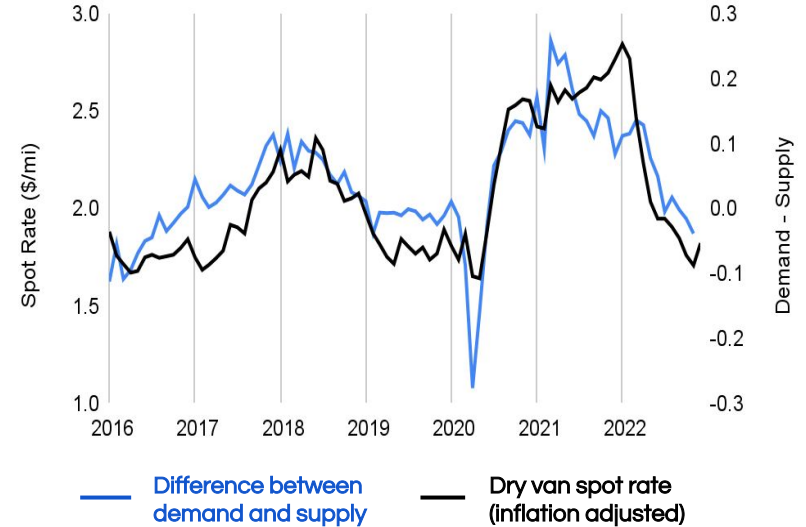


## Uber Freight's composite supply & demand indices

Millions of dry van loads (seasonally adjusted)



## Difference between demand and supply vs. Truckload spot rates <sup>(1)</sup>



- ❑ After a year of recovery, supply continues to outpace demand, as carriers added new drivers and trucks.
- ❑ Demand is falling across the board: manufacturing, imports, and spending on goods were all weaker.
- ❑ December's surge in spot rates was short-lived: it was driven by seasonality, severe weather, and diesel prices - not structural changes in supply and demand.

# Looking ahead

- ❑ Demand is weak heading into 2023 across all components: consumer spending, imports, and manufacturing.
- ❑ A supply correction might be underway, which might drive the inflationary phase of the cycle.
  - ❑ **Economic cycles do not necessarily overlap with freight cycles.**
- ❑ Keep an eye on contract rates.
  - ❑ **The shrinking gap between spot / contract rates might drive more tender rejections, and more volume into the spot market.**



Uber Freight