October 2025

Monthly Freight Market Update

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Quick Hits

- Philadelphia Fed surged 23.5 points while Richmond collapsed 10 points—a 40-point spread that's genuinely spooky. But regional divergence isn't a ghost; it's sector-specific reality playing out.
- Import demand stopped crashing and started climbing in September. Too early to call it recovery, but the patient is sitting up.
- Rejection rates and Load-to-Truck Ratios stay elevated despite weak volumes. Capacity is peanut brittle—looks fine on the surface but shatters at the first real pressure.
- National spot linehaul at $1.66 runs 9% below break-even. Pure spot carriers lose money before the first wheel turns—every load is trick, no treat.
- Hurricane season threw multiple Category 4+ storms at the Atlantic. Every single one got stiff-armed outside our freight corridors. November's the last roll of the dice before winter takes over.
- Households allocate bigger budget shares to services over goods. Stock market rallies drive concert tickets and vacation bookings, not container loads.

The Landscape

The Setup: Different Starting Lines, Same Finish

Manufacturing in September tells another chaotic story with **Philadelphia Fed surging 23.5 points to +23.2—its strongest reading since January**. It woke up from its second nap this year. **Richmond Fed collapsed 10 points to -17.0**. A 40-point spread between regions is a spooky number, but more indicative of unequal impact and response from tariffs. And maybe a twinge of seasonality.

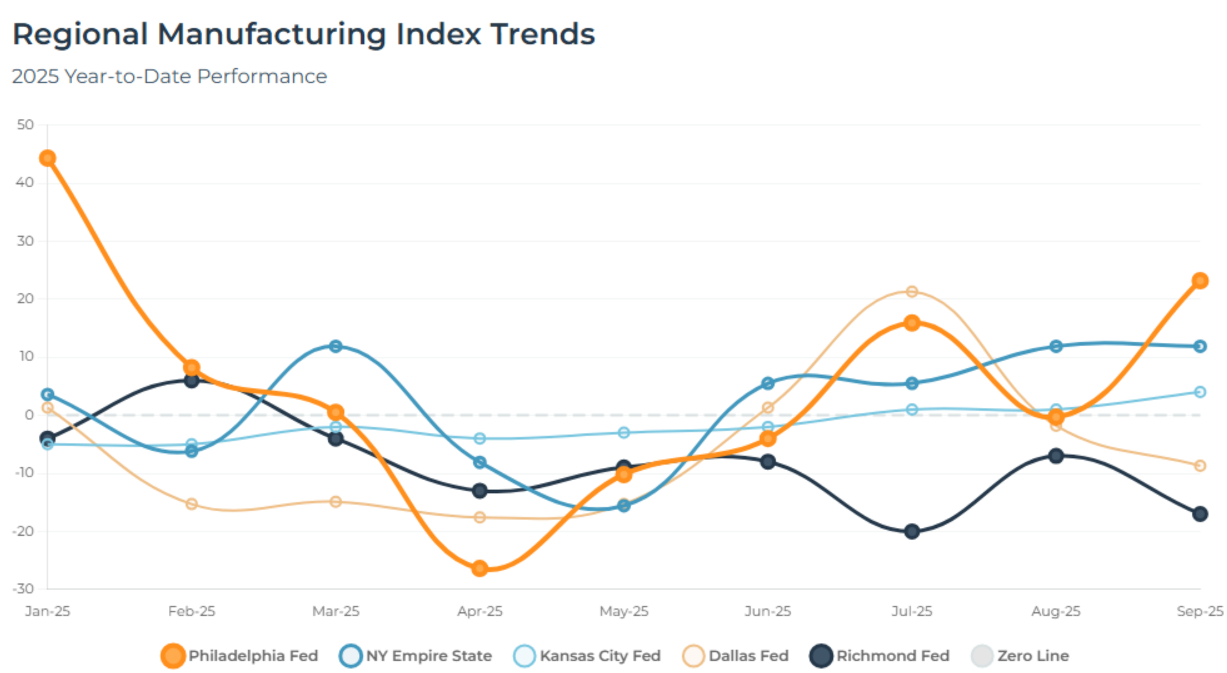
Think of it like runners on a staggered track. They're all running toward the same finish line, but they start at different points. Some regions—Philadelphia, New York—are already moving. Others—Richmond, Dallas—are still finding their footing. The question for freight markets isn't whether demand recovers, but which lanes tighten first, and whether capacity can respond when they do.

Right now, capacity can't respond. Not quickly, anyway. And several new variables suggest the response will be even slower than historical patterns predict.

The Great Divide

The national **ISM Manufacturing PMI registered 47.2 in September—its seventh consecutive month of contraction.** On the surface, this looks like continued weakness across the board.

But regional Fed surveys perk up a bit. Philadelphia Fed exploded to +23.2, up from -0.3 in August—a 23.5-point surge, and 9 month high. New York Empire State held steady at +11.9. Kansas City improved to +4.0. The Mid-Atlantic and Midwest are showing sustained strength.



Meanwhile, **Richmond plunged to -17.0 from -7.0. Dallas fell to -8.7 from -1.8**, with production slowing dramatically from 15.3 to just 5.2. The Southeast and Texas are experiencing real deterioration.

This 40.2-point spread between Philadelphia and Richmond marks the most extreme regional divergence of 2025. Some regions are catching early momentum while others struggle with sector-specific headwinds.

September 2025 Current Readings

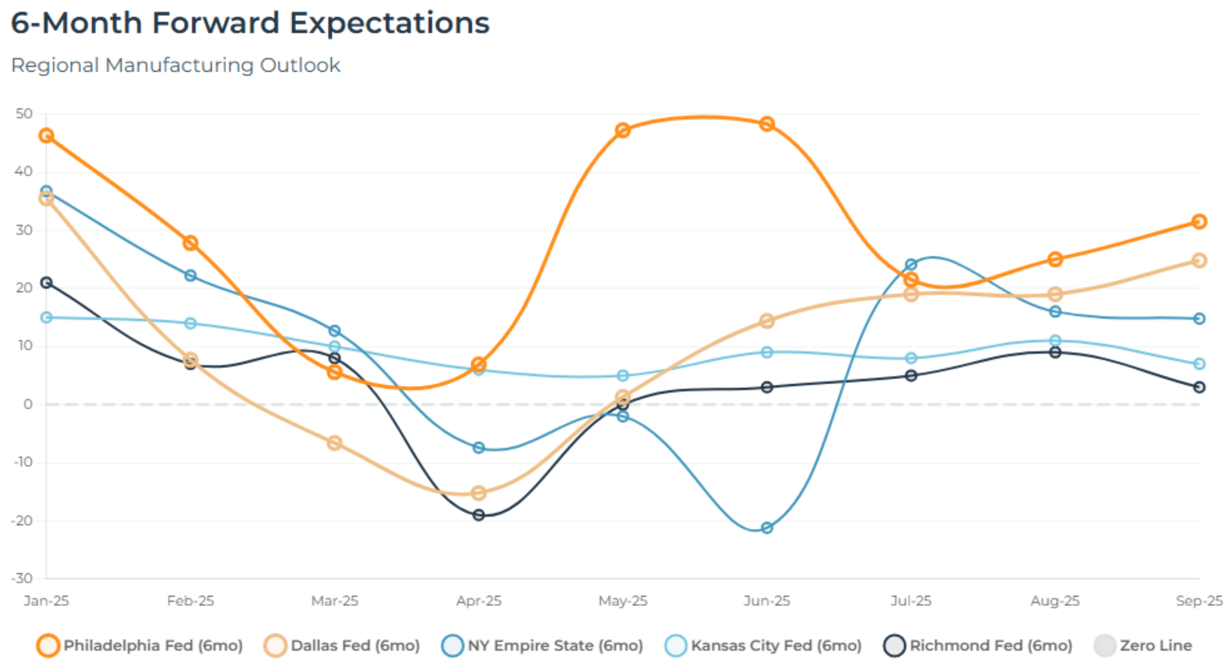
Regional Survey	September Reading	Monthly Change	Status
Philadelphia Fed	**+23.2**	**+23.5**	**Highest since January 2025**
New York Empire State	**+11.9**	**+6.4**	Sustained expansion
Kansas City Fed	**+4.0**	**+3.0**	Activity edged higher
Dallas Fed	**-8.7**	**-6.9**	Production slowed significantly
Richmond Fed	**-17.0**	**-10.0**	All components declined
ISM Manufacturing PMI	**47.2**	**-0.4**	7th consecutive contraction

Forward Expectations: From Chaos to Cautious Optimism

The six-month forward expectations tell a story that current readings alone can't capture—extreme uncertainty unfolding in real time.

Early 2025 forward expectations were remarkably optimistic. Philadelphia Fed's six-month outlook stood at +46.3 in January, with Dallas at +35.5 and New York at +36.7. Then came the tariff announcements.

Between January and April, forward expectations collapsed: The eternal optimist in Philadelphia dropped 39 points to +6.9, Dallas fell 51 points to -15.2, New York declined 44 points to -7.4, and Richmond tumbled 40 points to -19. This was not gradual deterioration—it was a cliff dive. Capital expenditure plans froze. Hiring intentions evaporated. The charts show what genuine policy uncertainty looks like: wild, unsynchronized swings as businesses scrambled to understand new realities.



Recovery and September's Bifurcation

By May-June, the tariff deadline extensions made for better footing . Forward expectations began recovering as businesses adapted. Philadelphia's outlook surged back to +47.2 by May. Dallas climbed from -15.2 to +14.4 by June. July-August brought consolidation—expectations remained positive but moderated.

September shows renewed divergence, but different from the tariff chaos. This is regional splitting based on sector-specific conditions:

- **Philadelphia Fed**: +31.5 (up from +25.0) — Mid-Atlantic sees strengthening ahead
- **Dallas Fed**: +24.8 — **Despite current -8.7, expects significant recovery**
- **Kansas City Fed**: +7.0 — Modest but positive outlook
- **Richmond Fed**: +3.0 — Barely positive despite deep current contraction

Even manufacturers experiencing severe current weakness maintain positive forward expectations. They're not extrapolating current pain into the future—they're positioning for a policy environment significantly more favorable than 2025.

2026 Policy Tailwinds Create Real Incentives

The "One Big Beautiful Bill" passed in 2025 fundamentally improves the economics of domestic manufacturing investment starting in 2026:

Capital Investment Acceleration:

- **Permanent 100% bonus depreciation** allows manufacturers to immediately expense machinery, robotics, and equipment rather than waiting years for tax benefits
- **100% first-year deduction for qualified production property** accelerates depreciation on new manufacturing facilities through 2030
- **Enhanced semiconductor credit** increases to 35% for 2026, supporting high-tech manufacturing expansion

Operating Cost Relief:

- **Permanent R&D expensing** improves cash flow for innovation spending
- **Business interest expense on EBITDA basis** benefits leveraged manufacturers with larger interest deductions
- **Permanent 20% pass-through deduction** prevents tax increases for the majority of U.S. manufacturers operating as pass-throughs

These aren't abstract policy changes—they're concrete financial incentives that make domestic capital expenditure significantly more attractive in 2026 than it was in 2025. A manufacturer considering $10 million in new equipment can now deduct the entire amount immediately rather than over 5-7 years. A company expanding production facilities gets first-year depreciation benefits that weren't available months ago.

What This Means for Freight

Forward expectations translate into real activity. When manufacturers plan capital expenditures, they order equipment. When they expand facilities, they ship materials and machinery. When they ramp production with new equipment, they generate sustained freight volumes.

The Conference Board's Leading Economic Index declined 0.5% in August, yet they're not forecasting recession, expecting 1.6% GDP growth in 2025. Combined with 2026's improved policy environment, the foundation exists for manufacturing recovery—not a boom, but sustainable improvement as tax incentives unlock capital investment decisions that have been frozen by uncertainty.

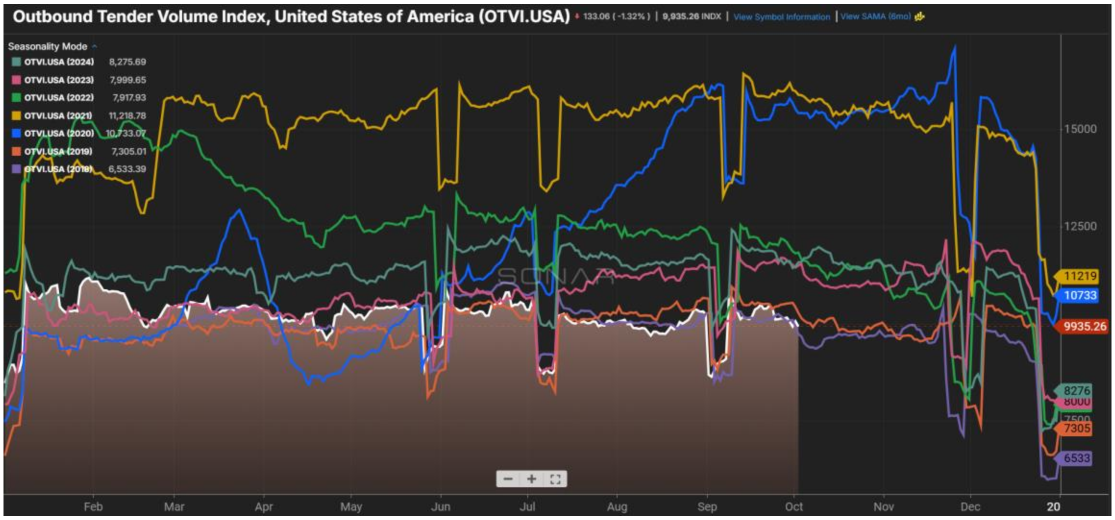
Manufacturing isn't booming, but it's no longer in crisis mode. The wild swings of early 2025 have given way to differentiated regional conditions and a policy environment that materially improves the outlook for domestic production—exactly the "staggered track" setup where recovery arrives unevenly across geographies and sectors, but with tailwinds that didn't exist six months ago.

O’er The Road

Demand Indicators

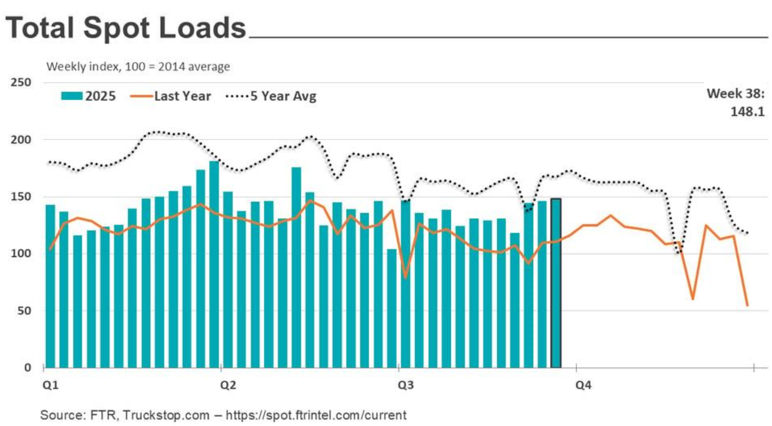
SONAR

A muddy lakebed makes for current outbound tender volumes as history extends to 2018, almost a decade ago, to find parallel. 6-month outlooks may be more positive, but this is the time of year things unwind a bit before the major holidays with little evidence that will not happen again in 2025.



FTR | Freight Intelligence

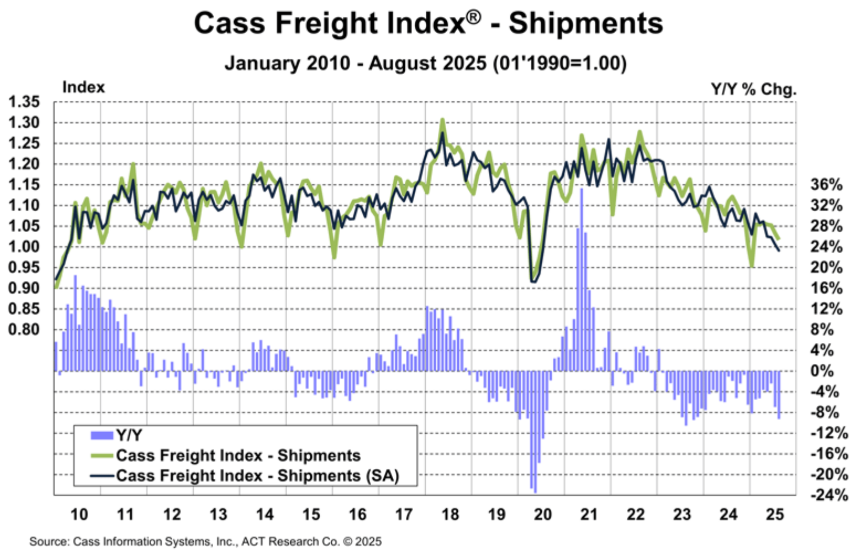
Flatbed did a lot of the heavy lifting for the biggest weekly gains last month (along with a very low 2024 base), making for 30% jumps in spot activity YoY. It is still under the 5-year average but corroborates an increase in spot volumes although aggregates are at a sour level.



Source: FTR | Freight Intelligence

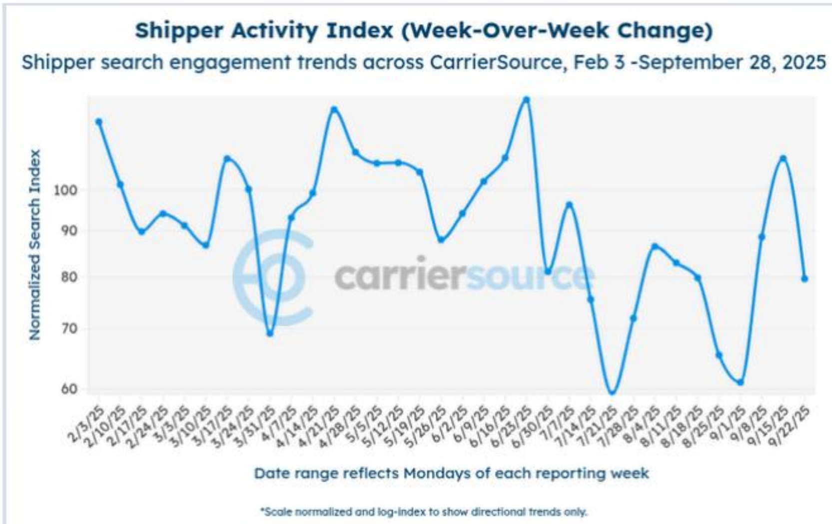
CASS

Hopefully, these other modes help translate into a positive reading in the next month-over-month reading from CASS as the August index fell 9.3% y/y. They (CASS) *did* note this drop was primarily driven by LTL as truckload freight was actually up y/y.



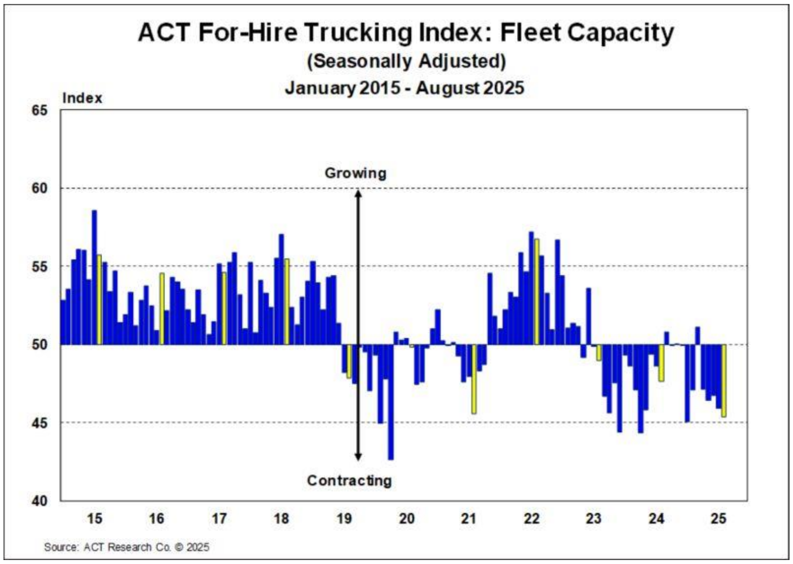
CarrierSource

CarrierSources Shipper Activity Index sprang back to life mid-month, only to recede at the Q3 finish line, offering more evidence of the import wave making it onto the roads.



Supply: The Constrained Response

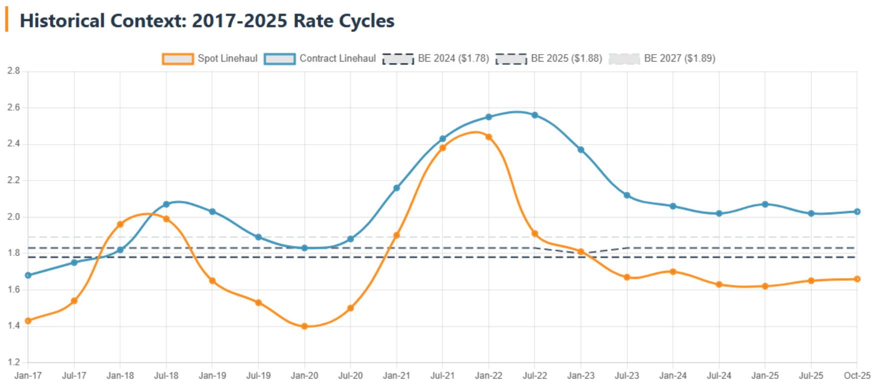
ACT Research's For-Hire Trucking Index registered **45.4 in August—contracting for three straight years**. The index tracks industry confidence and capacity expectations. Readings below 50 indicate contraction; above 50 signals expansion. The current 45.4 reading reflects persistent pessimism about demand and capacity utilization—fleets are not positioning for growth because they see no reason to expand into current rate conditions.



Source: ACT Research Co

Total trucking employment stands at approximately 1,523,000, with OTR long-haul at 505,000 drivers from the latest quarterly data. Current spot linehaul rates averaged **$1.66 per mile in September 2025**, running **9.3% below our estimated break-even of $1.83/mile.**

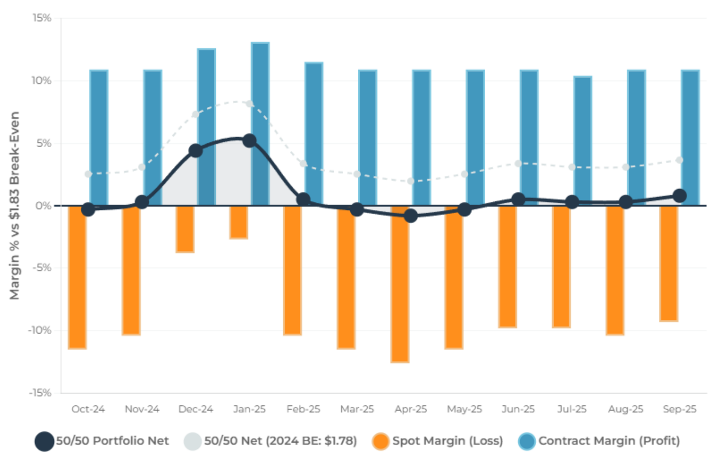
We arrive at this break-even rate using the ATRI's 2024 figure and a 3% annual cost increase (in-line with the last few years of inflation). Bay and Bay Transportation's CEO Sam Anderson noted they (Bay and Bay) have come in at 5% each of the last three years at a recent FTR Conference.



Source data: DAT and ATRI

The average spot load loses money before the first wheel turns. Economic gravity doesn't negotiate—either rates rise to meet costs, or capacity exits until scarcity forces rates up. We are watching both happen simultaneously.

Think of carrier portfolios like a financial diversification strategy. Spot-only exposure at $1.66 means falling 9% below break-even—hitting the ground hard. But most larger carriers deploy a parachute: 40-60% contract freight at $2.03 linehaul, which operates 11% above break-even.



Source data: DAT and ATRI

A carrier running 50/50 contract/spot floats near breakeven overall: half their book loses 9%, half gains 11%, netting near zero. This portfolio effect explains industry survival through extended weakness—**the contract base cushions the spot freefall.** January 2025 marked the only month with meaningful profitability when spot rates briefly touched $1.78. By April, spot rates collapsed to $1.60, pushing portfolios to their floor. Since then, gradual improvement to $1.66 has lifted portfolios back to slight profitability.

Pure spot operators? They have already hit the ground.

The Triple-Locked Gate

Historical freight cycles followed predictable patterns: demand improves, rates rise, capacity responds within 6-9 months. Picture a gate that swings open when opportunity knocks. But this gate now has three locks that must all turn simultaneously:

Lock #1 - Labor Scarcity: The secular trends continue. Average driver age climbs, younger demographics avoid OTR trucking, and the training pipeline stays insufficient. Recent FMCSA restrictions on non-domiciled CDLs add friction—like jamming a key that used to turn smoothly.

Lock #2 - Capital Starvation: Banks tightened lending, equipment requires larger down payments, interest rates remain elevated. Working capital is constrained through expensive factoring and stretched payment terms. Insurance costs keep escalating due to nuclear verdicts and fraud. Even if you have drivers lined up, you can't afford the trucks.

Lock #3 - Profitability Requirements: Carriers can't expand below break-even. Large fleets won't grow without sustained rate improvement. Small fleets can't afford growth even if they wanted to. The OTR segment runs on used equipment and creative cash flow—they can survive longer than spreadsheets suggest, but they can't grow.

Result: Even when demand firms and spot rates start rising, the triple-locked gate opens slower and only partway. Capacity response arrives weaker and later than previous cycles.

The CDL Factor: Running Uphill with Ankle Weights

Remember that staggered track we discussed—regions starting recovery at different points? Now imagine all those runners have ankle weights slowing them down. That's what the September 2025 FMCSA rule does to capacity response.

Approximately 200,000 current non-domiciled CDL holders face renewal over 24 months, with drastically tightened eligibility. We don't know exactly how many will exit—some will qualify under new visa categories; others will convert to standard CDLs. Will this mean the industry loses everyone? No. What we outline is the headwinds this causes, not only to the ability to ramp up supply, but timing horizons needed given them.

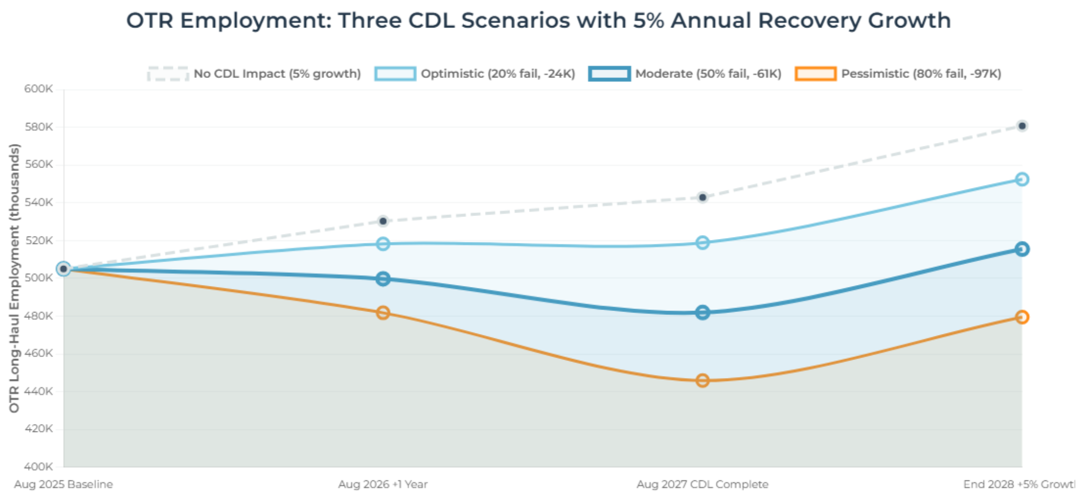
Three Paths Forward - Different Ankle Weights:

Think of these as different weight classes of resistance:

Light Weights (Optimistic): Only 24K drivers lost (-5% of OTR base). Normal hiring during recovery easily compensates. The ankle weights slow the sprint slightly—supply response extends from 6-9 months to 9-12 months. By late 2028, the industry has more drivers than today. Manageable inconvenience.

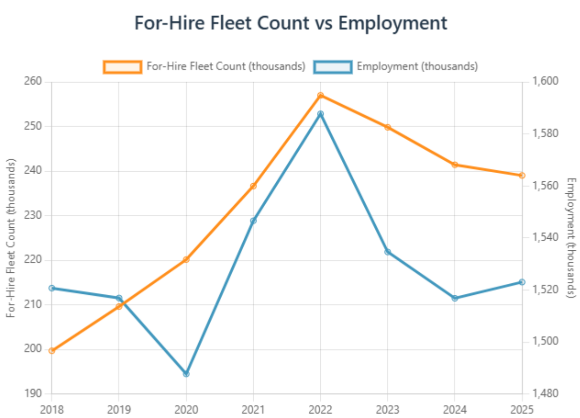
Medium Weights (Moderate): 61K drivers lost (-12% of OTR base). Now the weights matter. Through mid-2027, capacity actually shrinks below today's levels even as demand recovers—the industry is running uphill while losing muscle mass. Eventually normal hiring overcomes the deficit, but supply response stretches to 12-18 months. Carriers spend two years just getting back to the starting line before they can add meaningful capacity.

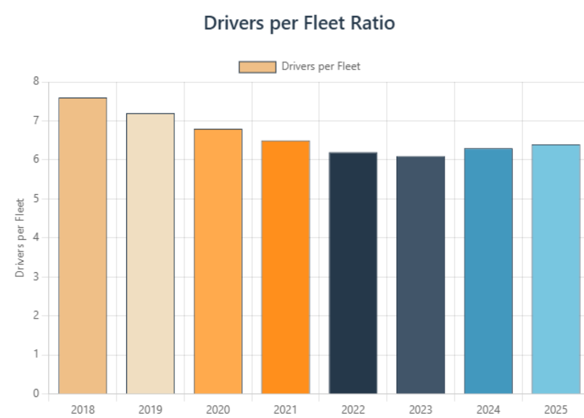
Heavy Weights (Pessimistic): 97K drivers lost (-19% of OTR base). The ankle weights are dumbbells. Even with aggressive hiring through 2028, capacity remains below current levels. Supply response lag extends to 18+ months—the industry spends years fighting to maintain what it has rather than growing to meet new demand.



The Muscle Mass Metaphor: Losing capacity during a downturn is like losing muscle mass during illness. Even when you recover, you can't immediately perform at previous levels—you must rebuild first. The moderate scenario means carriers hire through 2027 just replacing lost capacity, delaying when they can add net new trucks to serve demand growth.

Geographic concentration amplifies this. California and Texas—critical freight corridors—host disproportionate shares of small operators (average 8.2 employees per establishment). These fragmented players can't quickly scale, creating regional bottlenecks that ripple through national networks.



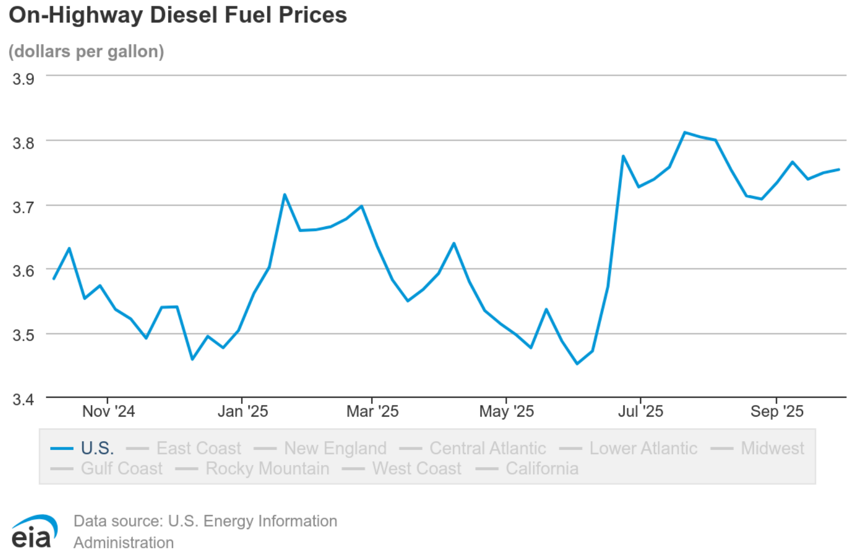


Bottom Line: The CDL factor won't create a 2021-style crisis alone, but it transforms the typical 9 month supply response into a longer one, potentially double. The moderate scenario creates meaningful pricing pressure when demand recovers, without preventing eventual market equilibrium. Capacity will catch up—it'll just take much longer than historical patterns suggest.

Fuel

Diesel ranged from $3.50 to $3.78 over six months—an 8% swing. You'd expect spot and contract rates to dance along with it. They didn't. They barely budged.

The correlation reveals the truth: fuel shows essentially **zero relationship with linehaul rates** but strong correlation (+0.69) with contract all-in rates that include fuel surcharges. Translation: fuel surcharge mechanisms work as designed, but base linehaul rates reflect pure supply-demand dynamics.



Source: EIA Weekly U.S. Diesel Data

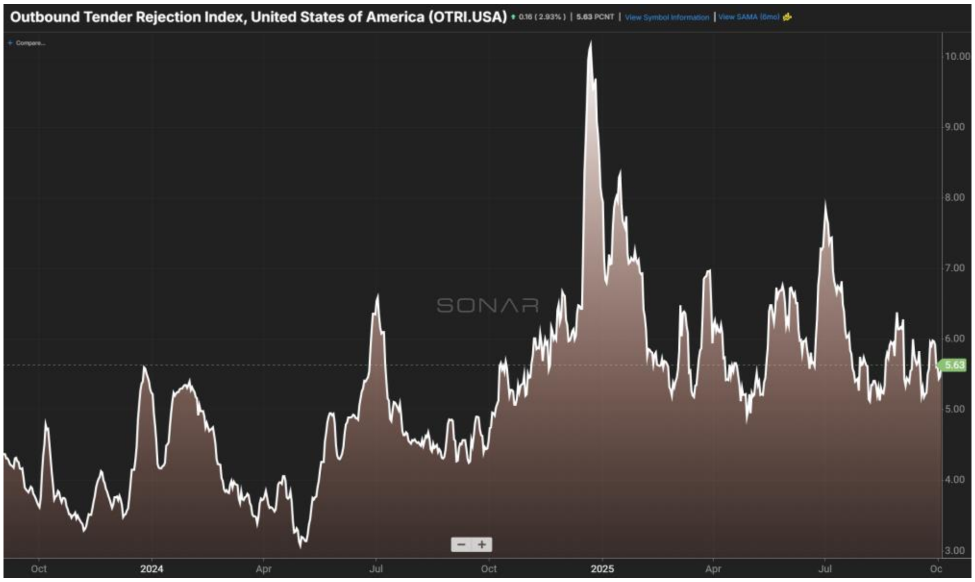
February through April told the painful story: fuel rose while spot linehaul *fell* $0.18. Demand was so weak that even fuel cost increases couldn't support rates. When fuel dropped 5¢ in April, carriers could only reduce rates by 2¢—they had already scraped bottom.

Since July, diesel stabilized in a tight $3.74-$3.78 band (1% range vs Q2's 8% volatility), removing fuel as a variable. Now spot linehaul flat at $1.64-$1.66 reflects **pure demand conditions** stripped of energy market noise.

Rejections and Pressures

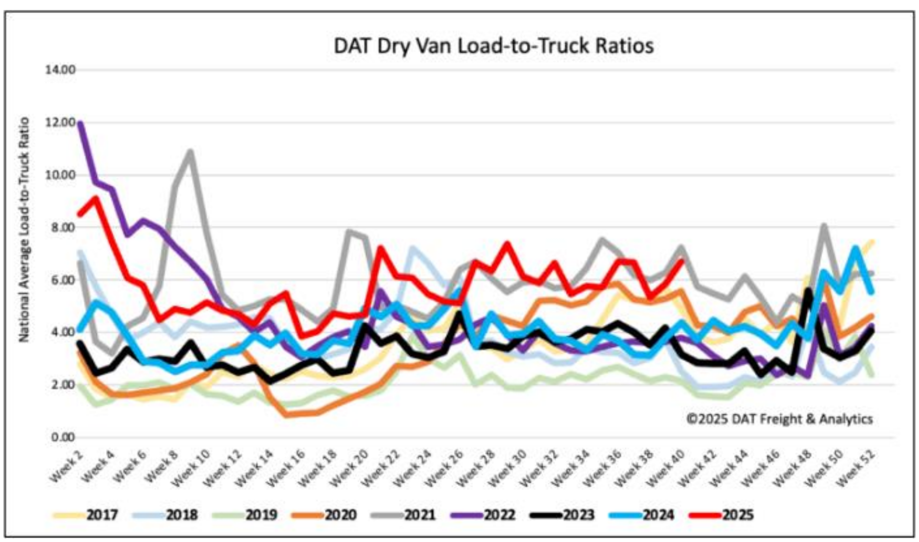
While volumes typically "take a break" through Q4, rejections get roaring again. No matter the overall levels, the same problem persists each year as inventory arrives in advance of the holidays, then successive pushes to beat deadlines ensue.

There is no better example of the logic we've laid out, flat employment to 2018-19, same or lower volumes, but a whole lot more decision makers positioning that capacity around. These rejection figures need to double and sustain over a quarter to start talking that bull (market).



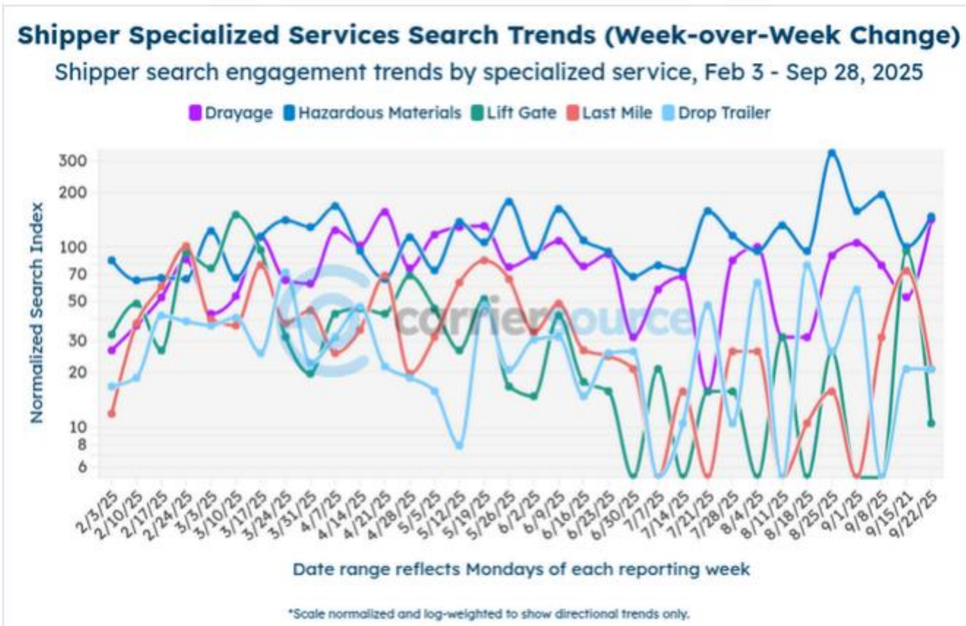
Source: FreightWaves SONAR

Load-To-Truck Ratios are still humming near 5-year highs, having done so since CVSA Week in Mid-May. There's good chance they exceed these elevated levels in Q4.



Source: DAT

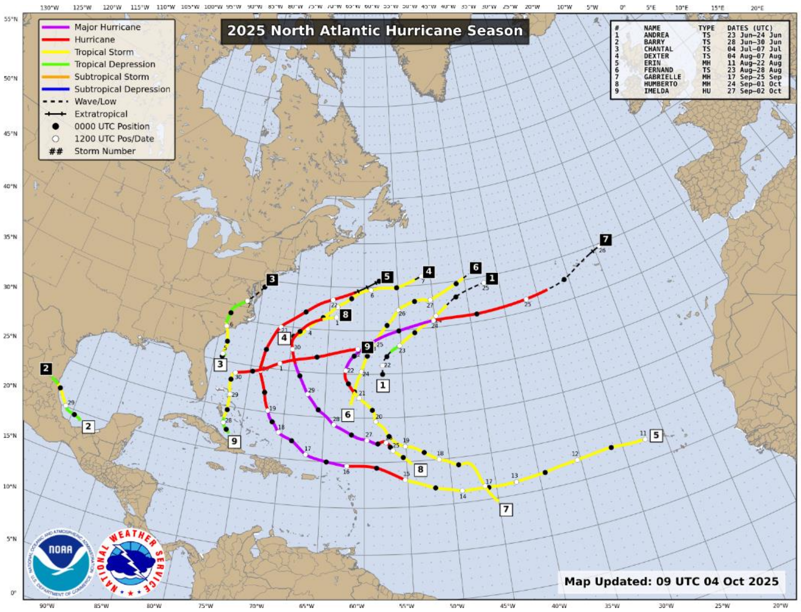
Hazardous materials interest remains high, if not strongest since the start of the Carrier Source index while drop trailer and lift gate services bobble about. More evidence of bifurcation in sectoral and regional differences from the industrial side versus retail and trade.



Source: CarrierSource

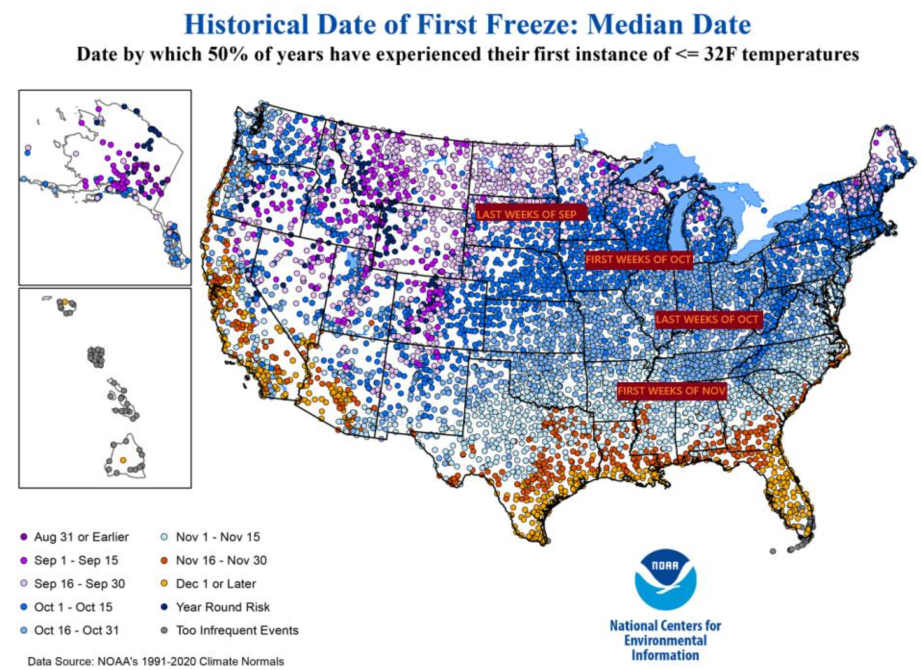
Weather

Hurricane season's clean slate matters for Q4 freight reliability—no port closures, no regional disruptions that could have tightened spot markets temporarily.



Source: NOAA

But the attention now shifts to winter weather challenges. As temperatures drop through October-November, protect-from-freeze service requirements will further constrain reefer supply, already the tightest equipment segment.



Source: NOAA

Rates

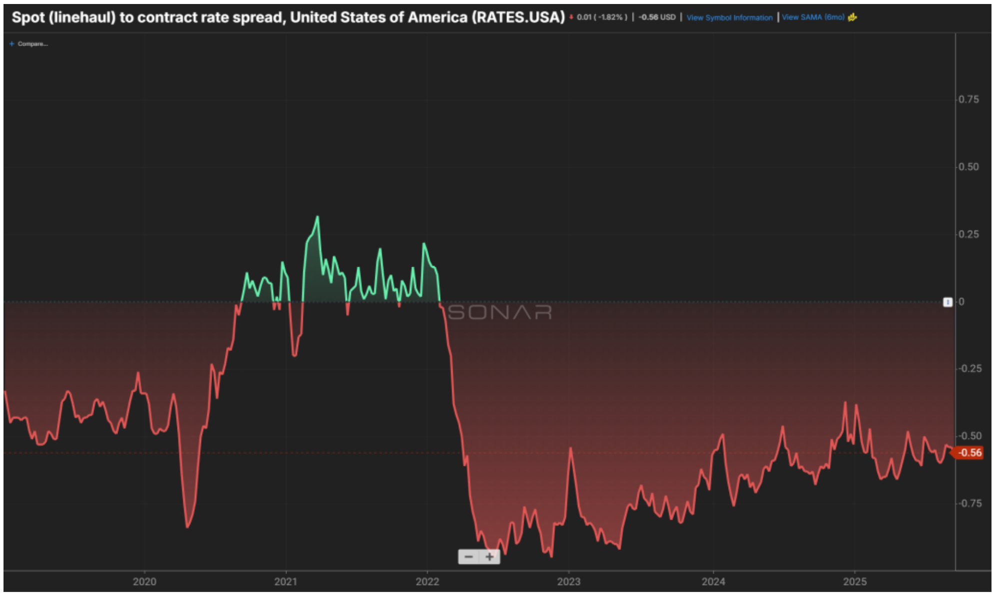
Walking the Trampoline

DAT contract linehaul rates have flatlined since July at $2.02-$2.03—not because the market found equilibrium, but because it's walking on a trampoline floor. September volatility nudged spot linehaul 2¢ higher to **$1.66, now 4% above September 2024**.

When a market with declining capacity shows sharp reactions to minor demand pulses, it's telegraphing exhausted buffer capacity. Every step on the trampoline creates bounce—with walks quickly turning into jumps at seasonal pressure points.

The spread between contract all-in ($2.42) and spot all-in ($2.05) has widened to **$0.37—well above the normal $0.20-$0.30 range** during balanced markets. This signals enough slack remains to keep contracts anchored for now. But that trampoline floor provides resistance—the further you push down, the harder the rebound.

SONAR's spot-to-contract linehaul spread shows spot running 56¢ *below* contract—the discount has narrowed considerably from the football field gap two years ago, closing toward pre-pandemic equilibrium levels.



Source: SONAR

The Road Ahead: Three Lanes, Same Destination

Think of the next 18 months as three possible highway lanes—all heading toward higher rates, but traveling at different speeds:

Spot Market Impact

SCENARIO	2026 LINEHAUL	CHANGE	% CHANGE	2026 ALL-IN	CHANGE	% CHANGE
Conservative	$1.77	+$0.07	+4.1%	$2.16	+$0.07	+3.3%
Moderate	$1.87	+$0.17	+10.0%	$2.26	+$0.17	+8.1%
Aggressive	$2.04	+$0.34	+20.0%	$2.43	+$0.34	+16.3%

Contract Market Impact

SCENARIO	2026 LINEHAUL	CHANGE	% CHANGE	2026 ALL-IN	CHANGE	% CHANGE
Conservative	$2.09	+$0.04	+2.0%	$2.48	+$0.04	+1.6%
Moderate	$2.13	+$0.08	+3.9%	$2.52	+$0.08	+3.3%
Aggressive	$2.20	+$0.15	+7.3%	$2.59	+$0.15	+6.1%

Right Lane - Conservative (Slow & Steady): Demand finds a floor but doesn't accelerate. Manufacturing stabilizes, PMI crosses 50 by mid-2026, GDP putters along at 1.5-2.0%. The CDL impact is minimal (most drivers find renewal paths), so capacity responds on a normal 9-12 month lag.

Where rates go: Spot linehaul grinds **+10% to $1.83** by early 2027—just reaching breakeven. Contract linehaul follows at **+4% to $2.11**. Think of it as climbing out of a hole—you reach ground level but you're not standing on a hill yet. For budgeting: expect spot up ~4% and contracts up ~2% year-over-year.

Middle Lane - Moderate (Normal Recovery): This is the lane we're betting on. Manufacturing recovers at a healthy clip, PMI reaches 52-54 by late 2026, GDP hums at 2.5-3.0%. The CDL impact is real (moderate driver losses), extending capacity response to 15-18 months—about 50% of the 2017-2018 recovery pace.

Where rates go: Spot linehaul climbs **+20% to $1.99** by early 2027. Contract linehaul follows at **+8% to $2.19**. The spread compresses from today's $0.37 to a normal $0.20. This feels like a balanced market with sustainable carrier profitability—not frothy, just functional. Spring 2026 bid season brings meaningful but manageable increases. For budgeting: expect spot up ~10% and contracts up ~4% year-over-year.

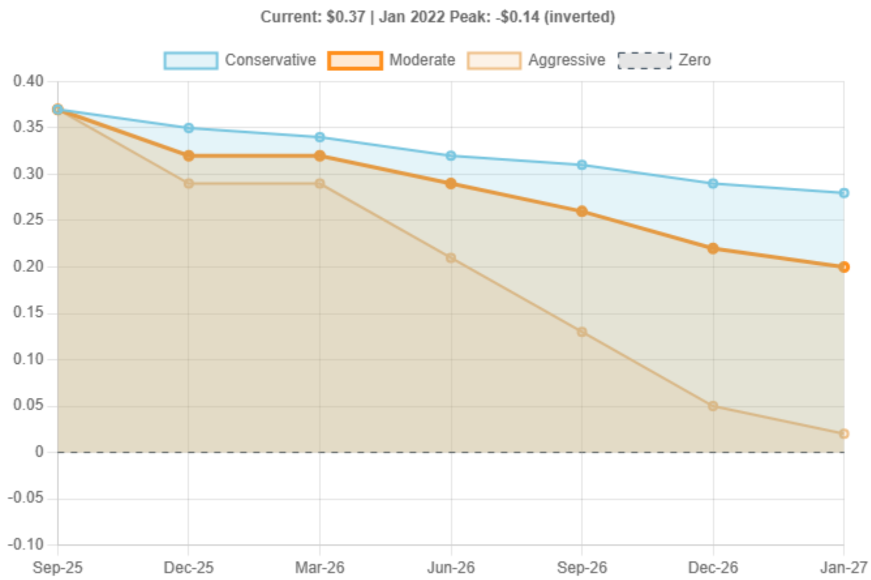
Left Lane - Aggressive (Full Throttle): Multiple favorable factors converge—strong manufacturing acceleration, GDP above 3.5%, policy tailwinds, pent-up demand releasing. Collides with worst-case CDL impact (severe driver losses), stretching capacity response to 18-24 months. This mirrors the full 2017-2018 playbook.

Where rates go: Spot linehaul surges **+39% to $2.31** by early 2027. Contract linehaul reaches **+15% to $2.33**—spot and contract nearly converge. Shippers with annual contracts paying $2.72/mile all-in watch spot run at $2.70/mile all-in (near parity). Those without adequate contracted capacity face significant exposure. For budgeting: expect spot up ~20% and contracts up ~7% year-over-year.

The Key Insight Across All Lanes:

Regardless which lane we travel, one pattern holds: **capacity can't keep pace with demand recovery** the way it did in previous cycles. The triple-locked gate (labor, capital, profitability) plus the CDL ankle weights mean supply response arrives 6+ months later than historical patterns.

Spread Compression: Contract All-In minus Spot All-In



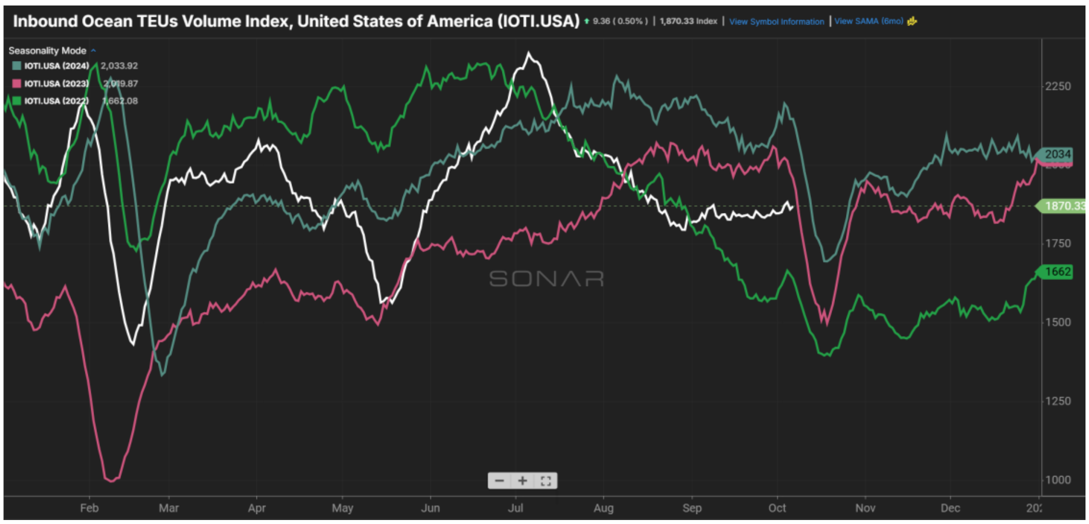
That lag—not the absolute rate levels—is what creates pricing pressure. Even modest demand improvement in the Conservative scenario pushes rates up because capacity can't quickly fill the gap. The question isn't whether rates rise, but how fast demand accelerates relative to how slowly supply can respond.

We're betting on the Middle Lane—normal recovery colliding with abnormal supply constraints. But the beauty of lanes is you can change them. We'll watch manufacturing forward expectations, rejection rate trajectories, and contract renewal patterns to see which lane the market actually chooses.

The Off Ramp

Oceanside

Looking just at the levels of import TEU demand alone doesn't juice the senses. The index is flat to Q4 2023 and pre-Liberation Day. The silver lining resides in the stabilization over the past month (if not inching at an incline).

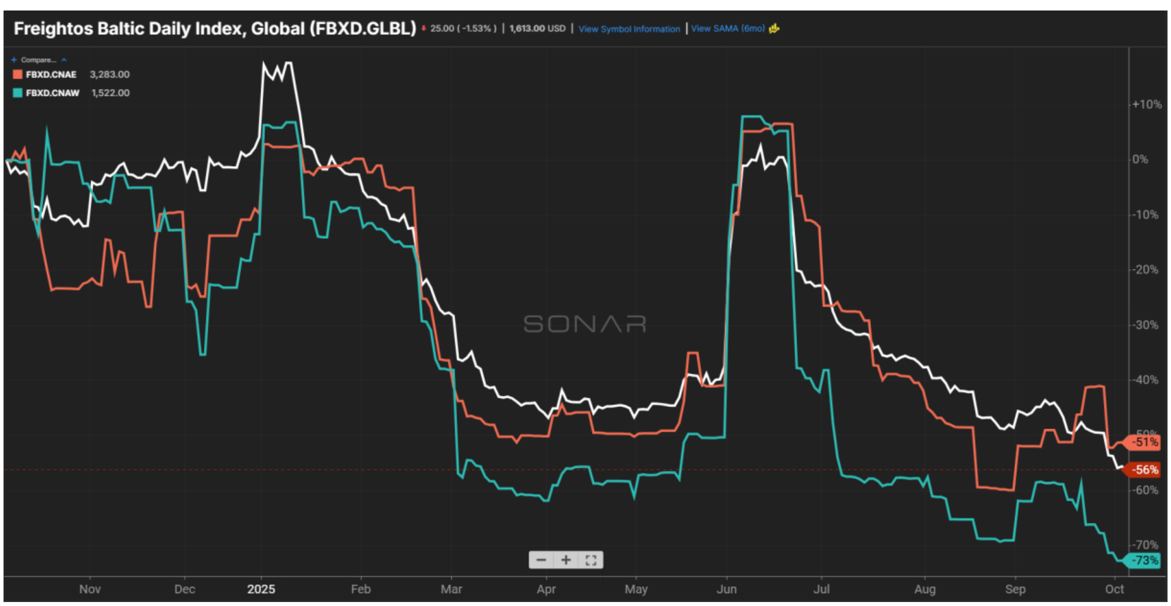


Source: SONAR

All of the top 5 ocean importers, except for India, have all rebounded after the mid-August trade extension. Less gloom and another reminder of how difficult it will be to dissociate from long standing relationships – especially when substitutes are rare or do not exist.

Source: SONAR

The year-on-year declines in ocean container rates help on the margins for budgets, as rates to the West Coast are now down 73% from this time last year. East Coast rates are down 50% and correlate more with moves in the national TEU volume indices, having stabilized then increased throughout last month.

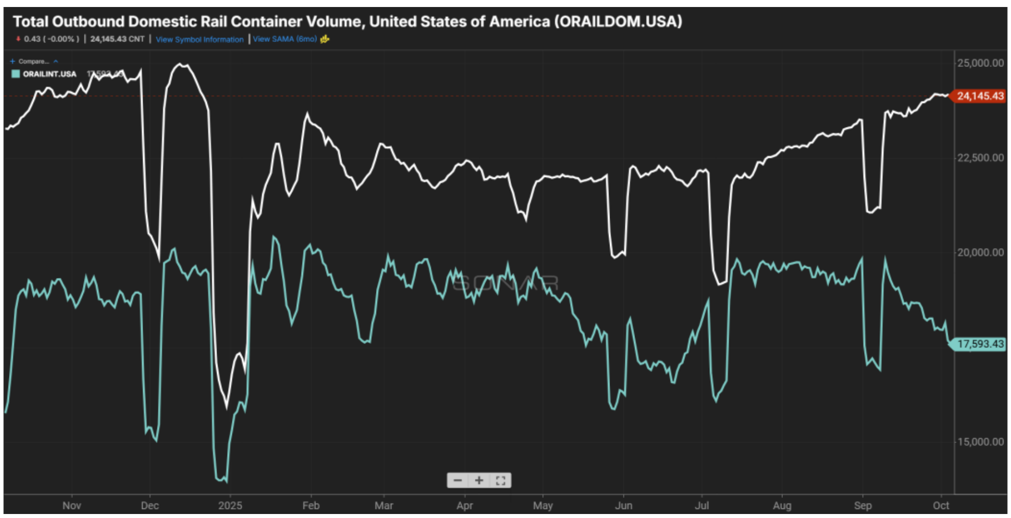


Source: Freightos Baltic | SONAR

Growing oversupply and reorientation around vessel domiciles have more play on global rates and to the West. Indication for 2026 interest is weeks away.

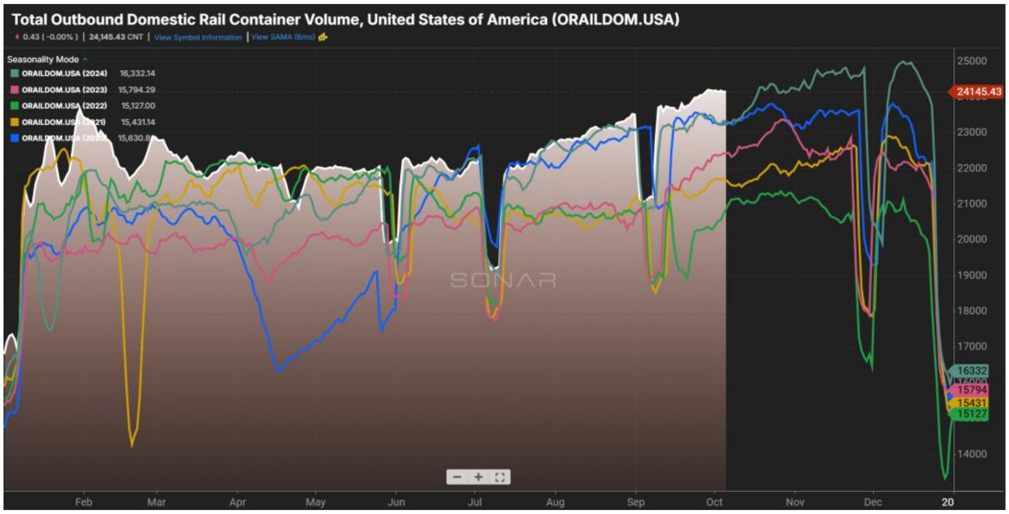
Riding the Rails

Total loaded rail volumes, counting both the domestic 53' boxes and the 20 | 40' types together, looks like they are finally losing steam. Separate the two, and it's clear that it is now the international boxes bringing down the overall number. This Summer we noted the opposite as the import wave came aboard. Now the tide is back out.



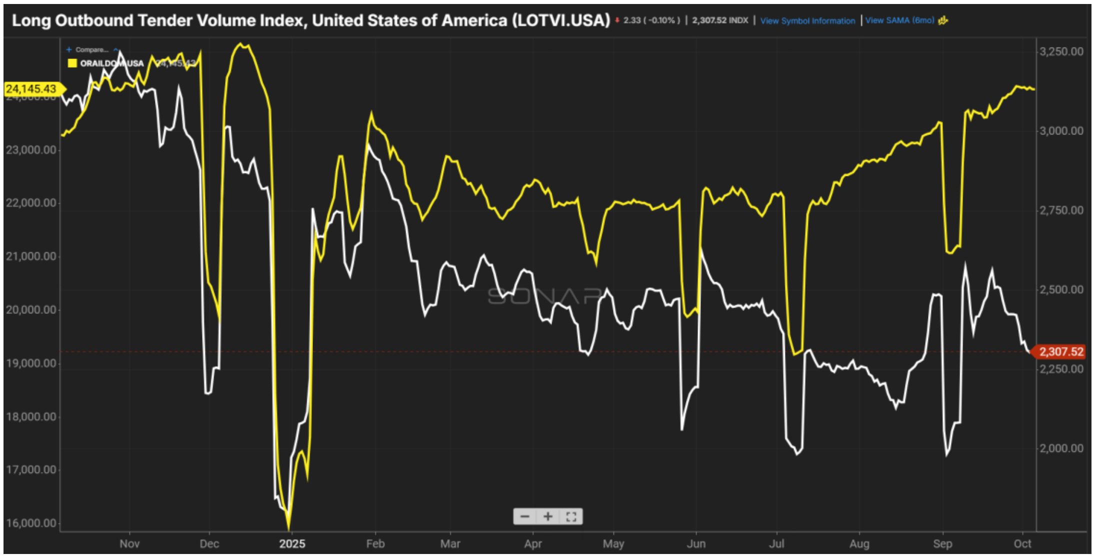
Source: SONAR – Outbound Loaded Rail Volume (Domestic – White and International -Teal)

Domestic rail, on the other hand is making the best of the situation, and had itself a month. Pace is well above multi-year highs.



Source: SONAR – Outbound Loaded Domestic Rail Container Volume (5 year seasonality)

These volume gains corroborate the desire to keep costs low, moving longer haul shipments to the service instead of the alternative.



Source: SONAR – Outbound Loaded Domestic Rail Container Volume vs Long Haul (800+ mi) Tender Volumes

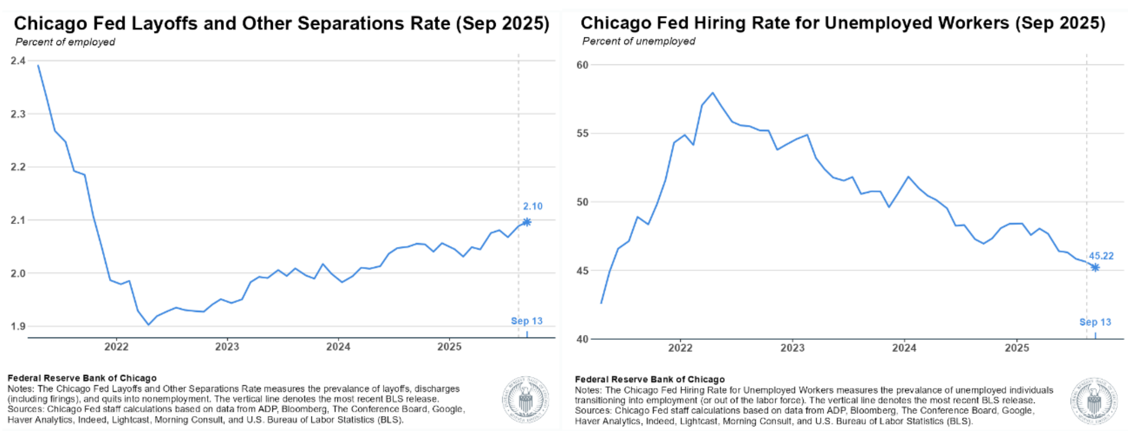
The other side of this coin lies latant demand for trucking, which is what brings the volatility in Q4 as deadlines and delays and all else push the need for expediency over cost when working the lowest number of business days around the row of holidays ahead.

Economic Indicators

Labor: The Low-Hire, Low-Fire Equilibrium

The unemployment rate climbed to 4.3% in September, but the real story lives in two Chicago Fed charts that capture the labor market's unusual stasis.

The **hiring rate for unemployed workers has collapsed to 45.2%—matching 2020** pandemic lows and the lowest reading since the series began in 2019. Meanwhile, the **layoffs and separations rate has crept up to 2.10%—elevated compared to 2022**-23's sub-2.0% levels, but nowhere near recessionary territory.



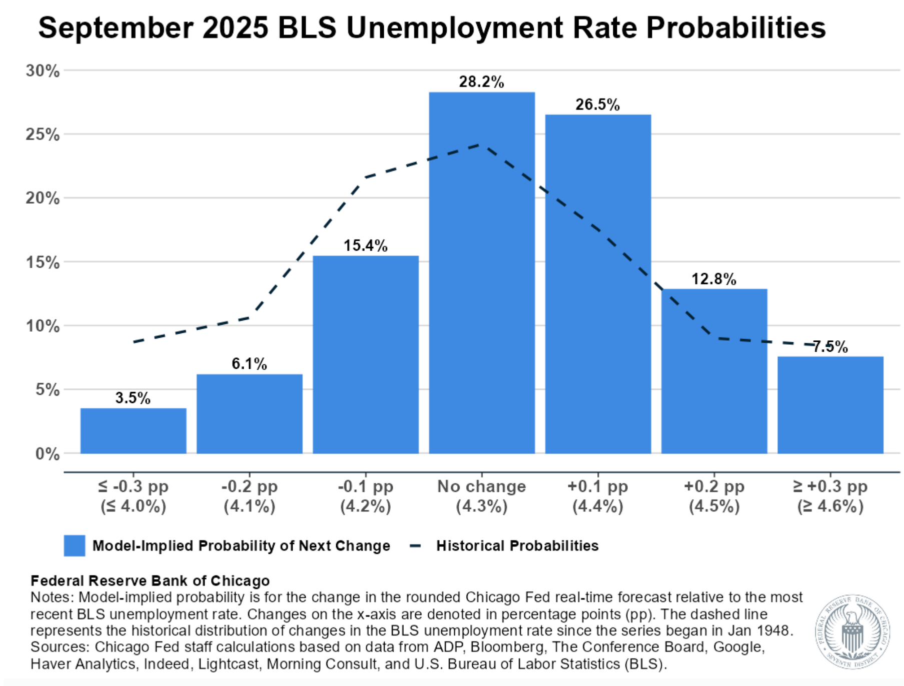
Source: Federal Reserve Bank of Chicago

Consumer confidence mirrors this cautious equilibrium—like drivers checking the fuel gauge every few miles on an unfamiliar route. Current financial situations register 'adequate,' but six-month outlooks improved in August, suggesting people expect better conditions ahead even while running on economic fumes today.

This creates a peculiar dynamic: companies aren't hiring aggressively, but they're not firing either. Call it the "low-hire, low-fire" equilibrium—businesses hedging uncertainty rather than responding to fundamental weakness. It's as if employers are standing still at a crossroads, waiting for clearer signals before committing to either direction.

Monthly job growth reflects this caution: 20-40K additions have become the new normal. The labor market isn't collapsing, but it's not expanding with any conviction either.

The **Chicago Fed model** suggests the unemployment rate most likely stays flat at 4.3% through year-end, with a 54.7% combined probability of either no change or minimal movement (±0.1pp). Historical patterns (the dashed line) show greater volatility, but today's labor market moves like molasses—slow, sticky, and resistant to dramatic shifts in either direction.



Source: Federal Reserve Bank of Chicago

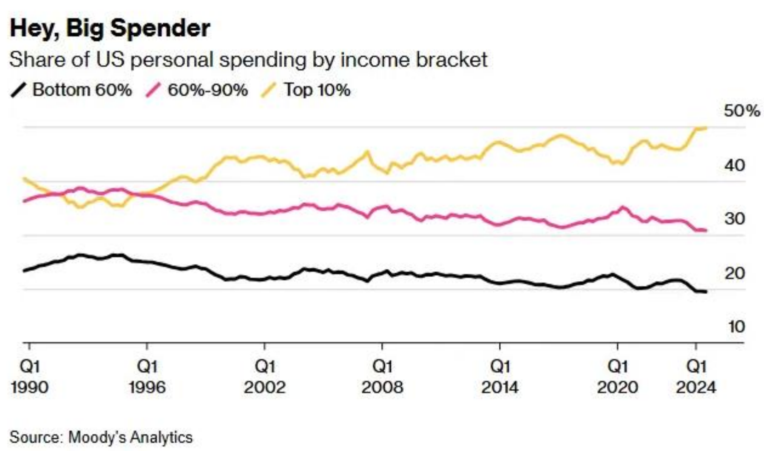
For freight markets, this matters because paychecks remain the gatekeepers of consumption, which drives 70% of GDP. A labor market stuck in neutral means consumer spending lacks the accelerant needed to boost goods demand meaningfully.

Consumer Spending

Spending: Where the Money Actually Goes

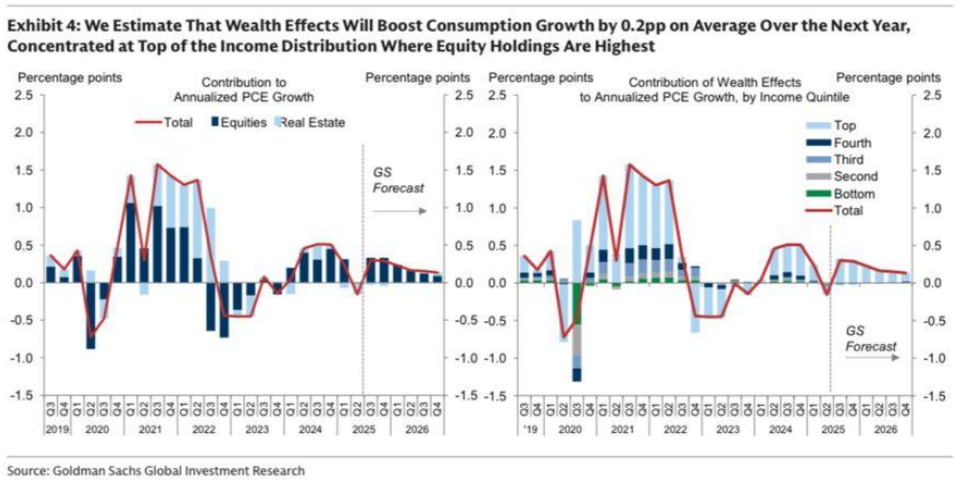
The spending divide explains why freight volumes stay muted despite stable employment. Households are shifting budget allocation away from physical goods toward services and experiences—a trend that has been building for three decades but accelerated post-pandemic.

Share of personal spending by income bracket shows the top 10% now command nearly 50% of all spending, up from ~38% in 1990. The bottom 60% has compressed from ~35% to ~30%. This concentration matters because **wealth effects** drive consumption patterns differently across income tiers.



Source: Wall Street Journal | Moodys

Goldman Sachs data shows wealth effects—the boost to spending when asset values rise—are concentrated heavily at the top of the income distribution where equity holdings dominate. These households don't buy more containers of widgets when their portfolios rise; they book cruises, remodel kitchens, and hire lawyers. More on services, not goods.

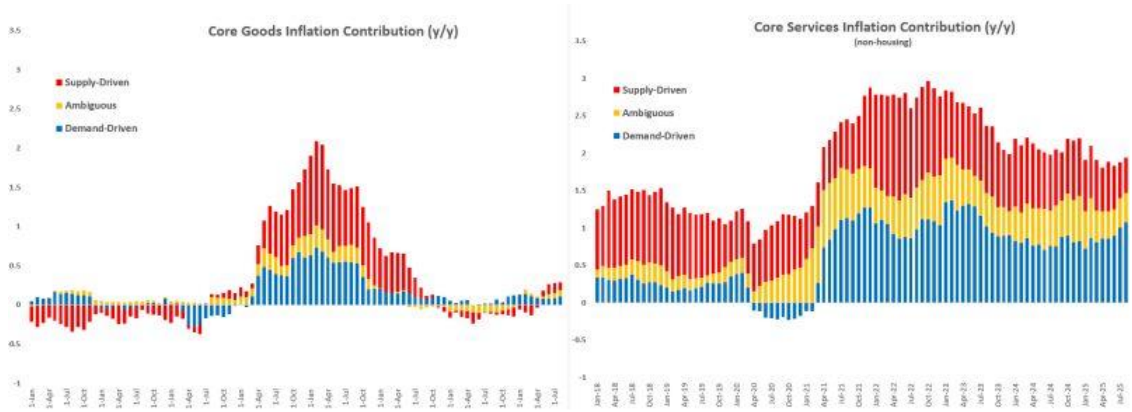


Source: Goldman Sachs

Meanwhile, the goods vs. services inflation split tells the freight story clearly. **Core goods inflation** (left chart) has essentially flatlined near zero after the 2021-22 surge.

Historically, goods are deflationary. Housing at 1% price growth, Service at 2%, and Goods -1% is the old way to hit target. Tariffs turn this mechanic back positive to combine with any other sticky measures. There's just no easy way for these all to depress to 2% or under.

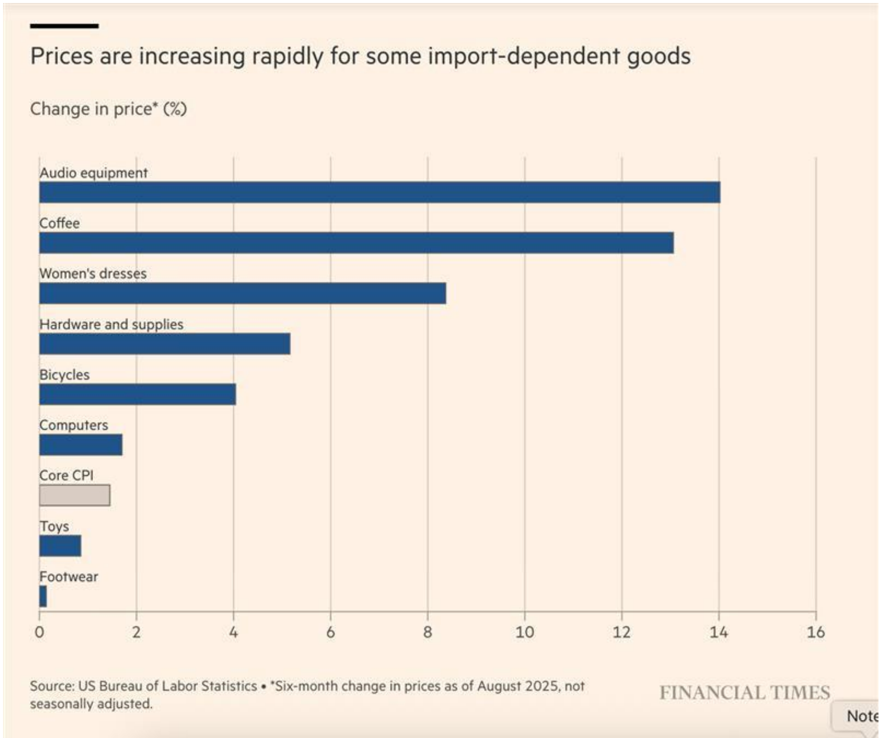
Core services inflation (right chart, ex-housing) remains elevated at 2.0%+ year-over-year, driven predominantly by supply-side pressures (red bars) rather than demand-side forces (blue bars).



Source: Federal Reserve Bank of San Francisco

Translation: Consumers are spending more on haircuts, healthcare, and dining out—none of which move in containers or trailers. The categories seeing rapid price increases are predominantly **import-dependent goods**: audio equipment (+14% over 6 months), coffee (+10%), women's dresses (+8%). But these represent narrower slices of consumption than through COVID.

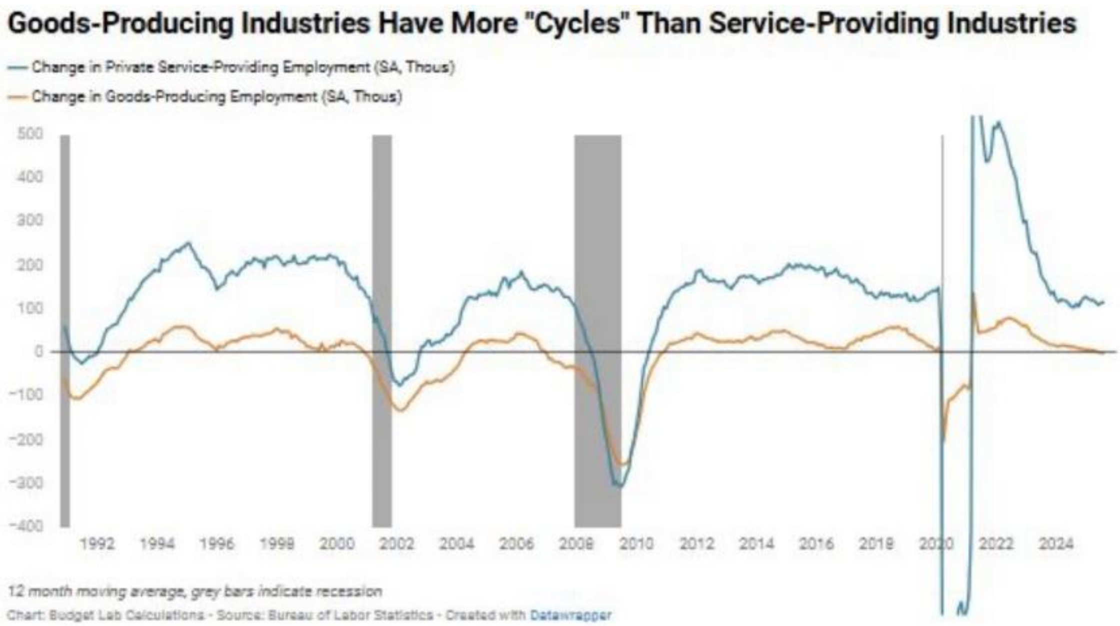
There *is* goods inflation. It is impacting the overall numbers from easing to preference, but they have far less weight to throw around this time.



Source: The Financial Times

The goods vs. services employment cycles chart reveals a surprising pattern. Service-providing employment (blue line) swings dramatically through economic cycles—massive amplitude changes, especially visible in the 2020 pandemic collapse and recovery. Goods-producing employment (orange line) shows remarkably stable, muted fluctuations around zero—much less volatile than conventional wisdom suggests.

Right now, both sit near neutral after the pandemic whipsaw, but the historical pattern matters for freight: goods-producing employment's stability means manufacturing job counts **do not** signal dramatic output swings the way service employment volatility might suggest about that sector's health.



Source: The Budget Lab

For freight: households are allocating more budget share to services, leaving less for the durable goods that fill containers and trailers. And many of those goods cost more. This creates muted volume growth even as consumer confidence inches higher. People expect better conditions in six months but aren't opening wallets for physical products today.

The Final Grade

September brought tentative stabilization, but momentum remains elusive.

Manufacturing's regional divergence—Philadelphia surging while Richmond collapses—reveals a market searching for footing on uneven terrain. Some regions are catching early momentum; others struggle with sector-specific headwinds. For freight, this means recovery won't arrive uniformly. Capacity will respond fastest where demand tightens first, but the triple-locked gate (labor scarcity, capital constraints, profitability requirements) plus the CDL ankle weights mean supply can't pivot quickly anywhere.

The labor market's "low-hire, low-fire" stance reinforces this inertia. Trucking capacity won't expand quickly even if freight demand accelerates, because the broader economy is hiring in slow motion. Meanwhile, consumer spending patterns favor services over goods—money flowing toward experiences rather than physical products that need transportation.

Ocean freight rates hit multi-year lows while domestic trucking rates test their floors. It's a market with deals everywhere but limited buying conviction. Importers are cautious, manufacturers are regionally divided, and shippers are waiting for clearer demand signals before committing to higher contract rates.

The Q4 Setup:

Spot rates will likely meander between "steady enough" (conservative scenario) and "cautiously optimistic" (moderate scenario), bounded by demand expected to stay weaker than both 2023 and 2024 levels. Contract rates will hold their floor until enough shippers experience service failures to justify bidding higher—a threshold we have not crossed yet, but one that gets closer with each rejection spike.

Rail volumes may sustain recent gains if domestic freight holds and imports stabilize, but the container pipeline feeding intermodal will weaken as front-loaded inventory works through the system. Regional lanes feeding consumption hubs could see modest spot rate improvement, but broad-based rate recovery remains unlikely in 2025.

Crafted by Beau King and Henry Byers | KCH Transportation