# U.S. Bank Freight Payment Index<sup>™</sup>



#### Q4 2018 National Freight Market Overview



In a sign that the economic expansion is not ending soon, the U.S. Bank National Shipment and Spend Indexes picked up pace during the final quarter of 2018. Based on the U.S. Bank Indexes, as well as other data, real gross domestic product is poised to register above trend growth during the fourth quarter. However, the indexes also support the indication that trucking, as well as the broader economy, could witness decelerating growth rates in the quarters ahead.

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than normal volumes at West Coast ports. With employment and wages increasing, 2018 holiday sales were on pace for strong growth, albeit not quite as good as in 2017.

Also helping shipments last quarter were better than normal container volumes into West Coast ports. This was likely a pull forward of imports from China as tariffs on many goods were expected to rise from 10% to 25% on January 1, 2019. While the tariff hike was postponed in early December to March 2, many shippers had already imported products last quarter to avoid paying the higher rate, thus boosting truck freight volumes, especially in the West region.

The National Spend Index gain during the quarter indicates that capacity remains constrained even if it is not quite as tight as earlier in the year. It is likely that additional capacity has come on line in recent months, but not enough to reduce higher spending on trucking services as year-over-year comparisons indicate negligible differences.

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# National Shipments and Spend — Quarter-over-Quarter, Year-over-Year

The U.S. Bank National Shipment and Spend Indexes both increased from the third to fourth quarters, with the latter surging 7.2% to a record high. While both indexes rose from the previous quarter, the year-over-year comparisons are negligible because of a robust final quarter in 2017, where the indexes reached their peak for that year.

The National Shipment Index rose 1.7% from the third quarter, although the increase was preceded by a sharp 5.2% decline during the July through September period. Compared with a year earlier, the index was off 1.1%, the second straight drop of the same magnitude. For all of 2018, the index was up 4.3%¹ due to robust gains during the first half of the year. As a comparison, the shipment index grew 7.7%² in 2017.

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The National Spend Index jumped 7.2% last quarter, which was the largest sequential gain during 2018. Compared with a year earlier, the index was up a solid 8.2%, although this was the smallest year-over-year gain in six quarters, because of solid performance in the second half of 2017. For 2018, the spend index increased a strong 17%,<sup>3</sup> which was the largest annual increase since 2011.

The fourth-quarter numbers highlight a couple of trends in the trucking industry and the broader economy. First, the nice rebound from the third quarter shows that the current economic cycle is not at risk of ending soon. Second, it highlights that the rate of economic expansion is moderating and we can expect that trend to continue in 2019.

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# Regional Shipments and Spend — Quarter-over-Quarter, Year-over-Year

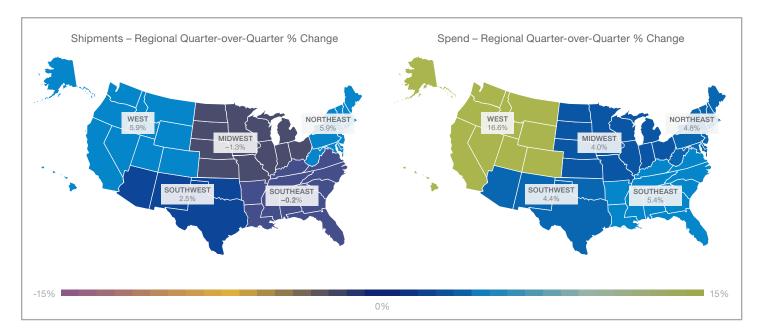
One of the strengths of the U.S. Bank Freight Payment Index is that the data is also regional, and fourth-quarter shipments data was certainly mixed by region. Specifically, fourth-quarter shipments saw three gains, with robust sequential gains in the West and Northeast, but declines in the Midwest and Southeast as well. Despite slowing performance in two regions for shipments, spend indexes were up for all regions from the previous quarter and by similar magnitudes, except in the West, where spending jumped significantly due to strength in West Coast port volumes.

The West and Northeast both registered 5.9% increases in shipments from the third quarter, which was the best of all the regions. The Midwest registered the slowest quarter, as shipments contracted 1.3% in addition to a 6.4% drop during the third quarter. Compared with the same period in 2017, results were also mixed by region, with the Northeast and West registering gains but the remainder of the regions seeing contractions.

The same factor that led to the strength in the West likely caused some of the weakness in the Midwest – trade uncertainty with China.

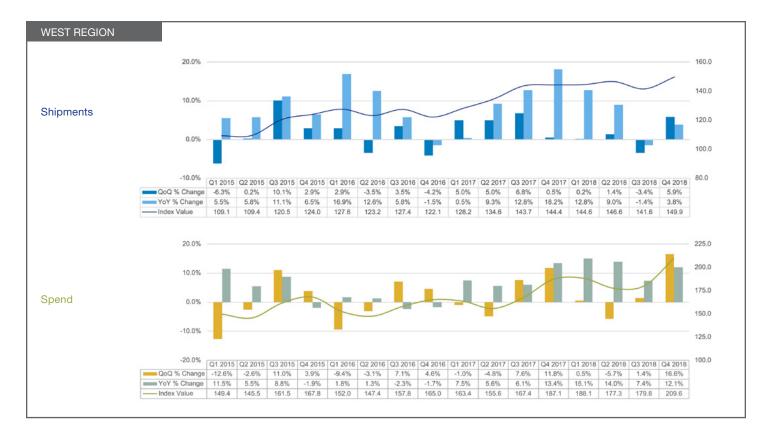
Although tariff rate increases were delayed to March 2, 2019, in early December, many shippers that import goods from China accelerated imports before the tariff rate on many Chinese products was expected to rise January 1. Likewise, exports to China remained muted last quarter, one of the factors hurting Midwest volumes.

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Considering both shipments and spend, as well as sequential and year-over-year changes, the West region had the best fourth quarter among all five regions, as both metrics saw gains over the third quarter and the fourth quarter in 2017.

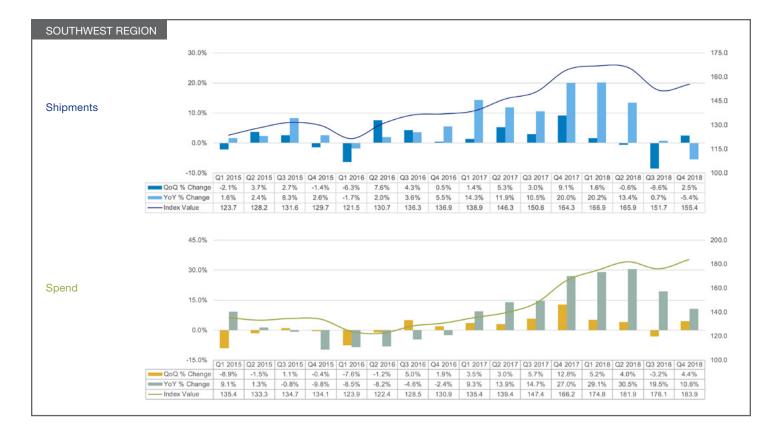
Specifically, the shipment index jumped 5.9% from the third quarter in 2018, which was the largest sequential increase in five quarters. Compared with the same period in 2017, shipments increased 3.8%. Strong West Coast port volumes, especially early in the quarter, helped propel truck freight in this region. For 2018, shipments were up 5.8%<sup>4</sup> over 2017 levels.

With more freight in the region, capacity tightened, leading to strong spending. In fact, the spend index jumped 16.6% from the third quarter, the largest quarterly increase since 2014. For the year, spending increased 12.1% over 2017.

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After contracting 9.1% during the second and third quarters, the Southwest Shipment Index rose 2.5% during the final quarter of 2018. Nevertheless, on year-over-year comparisons, the index contracted 5.4% from the final quarter in 2017, which was only the second year-over-year decline in the history of the index and the largest over that period. But for the year, volumes were up 6.6% over 2017.

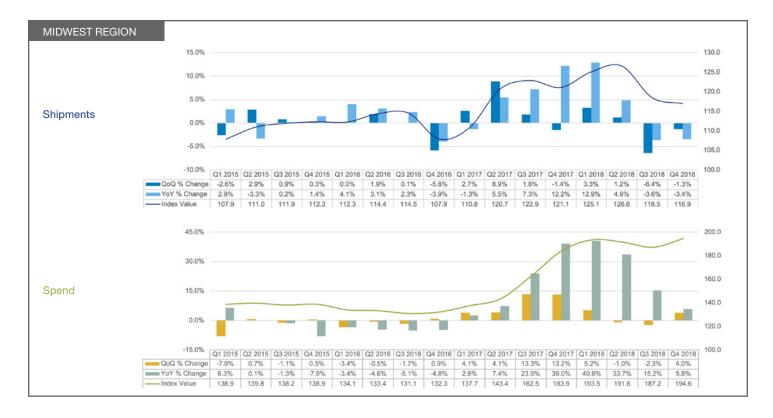
Despite the 2.5% gain last quarter, the shipment index was still off 6.9% from a high during the first quarter. One of the factors hurting Southwest freight volumes is disappointing construction numbers. Housing starts, while growing, remain below expectations.

The spend index rose 4.4% from the third quarter, the largest quarterly gain since the first quarter. Compared with a year earlier, spending was up 10.6%. For the year, the spend index surged 21.8%<sup>7</sup> over 2017 levels.

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After falling 6.4% during the third quarter, the Midwest Shipment Index contracted 1.3% during the final quarter of 2018. Additionally, shipments were down 3.4% in the region compared with a year earlier, which was the second straight year-over-year decline. For the year, shipments increased 2.5% in the Midwest, which was the smallest annual gain of the five regions.

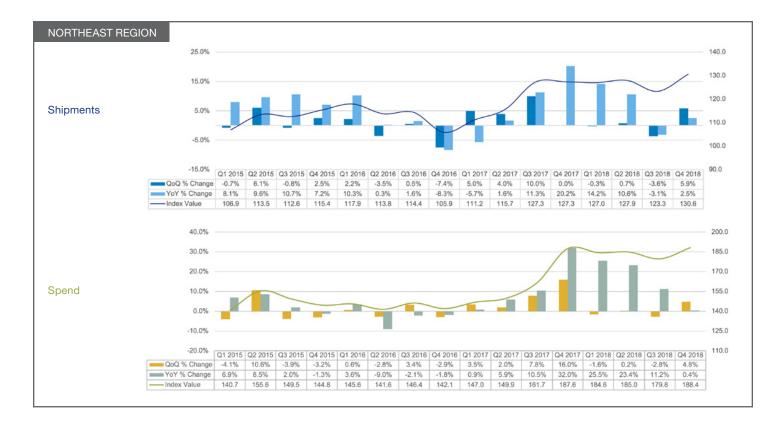
Even though shipments moderated in the third quarter, the spend index rose 4% during the fourth quarter for this region, the first sequential increase in three quarters. Compared with a year earlier, spending was up 5.8%, although that was the smallest year-over-year increase in six quarters. In 2018, spending on trucking services was up 22.2% over 2017 in this region, which was the largest annual gain of the five regions.

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In a bit of a surprise, Northeast regional shipments surged 5.9% in the fourth quarter, which was the largest sequential increase since the third quarter in 2017. As a result, the index reached a new high. After declining 3.1% in the third quarter on a year-over-year basis, the shipment index grew 2.5% during the fourth quarter. For 2018 overall, shipments in the Northeast were up 5.7% over 2017 levels.

The spend index for this region jumped 4.8% in the last quarter, which was the largest quarterly gain in 2018, to a record high. Compared with the final quarter in 2017, spending was up just 0.4%<sup>10</sup> on a year-over-year comparison. But for the year, the spend index rose 14.2%,<sup>11</sup> beating 2017's annual increase of 12.2%.<sup>12</sup>

Solid holiday spending helped propel volumes in this region during the fourth quarter, as it is a region with a large population and thus a significant amount of truck freight.

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Northeast regional shipments surged 5.9% in the fourth quarter, which was the largest sequential increase since the third quarter in 2017.



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Along with the Midwest, the Southeast saw a decline in shipments during the fourth quarter, although it was down only 0.2% from the third quarter. Over the last two quarters, truck shipments contracted a total of 4.3%. Compared with the final quarter in 2017, truck volumes fell 1.4%, the first year-over-year decline in two years.

Despite a contraction in shipments last quarter, the regional spend index rose 5.4% from the third quarter and increased 9.4% from a year earlier. In 2018, this metric increased 14.6%<sup>13</sup> over 2017 levels, highlighting the tight capacity in the Southeast during the year.

While the last quarter has been somewhat restrained for truck freight in the Southeast, eventually there will be a freight bump associated with hurricane rebuilding efforts. It usually takes months before insurance money becomes available for a full-scale rebuilding effort, which boosts truck shipments.

In 2018, the spend index increased 14.6% over 2017 levels, highlighting the tight capacity in the Southeast during the year.



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#### About the Index

The U.S. Bank Freight Payment Index is a quarterly publication representing freight shipping volumes and spend on national and regional levels. The U.S. Bank Freight Payment Index source data is based on the actual transaction payment date, contains our highest-volume domestic freight modes of truckload and less-than-truckload, and is both seasonally and calendar adjusted. The first-quarter 2010 base point is 100. The chain-based index point for each subsequent quarter represents that quarter's volume in relation to the immediately preceding quarter.

For more than 20 years, organizations have turned to U.S. Bank Freight Payment for the service, reliability and security that only a bank can provide. The pioneer in electronic freight payment, U.S. Bank Freight Payment processes more than \$27.6 billion in global freight payments annually for our corporate and federal government clients. Through a comprehensive online solution, organizations can streamline and automate their freight audit and payment processes and obtain the business intelligence needed to maintain a competitive supply chain.

#### **About Bob Costello**

Bob Costello is the chief economist and senior vice president for the American Trucking Associations (ATA), the national trade association for the trucking industry. As chief economist, he manages all of ATA's collection, analysis and dissemination of trucking economic information. This includes monthly trucking economic data, motor carrier financial and operating data, an annual freight transportation forecast, driver wage studies, weekly diesel fuel price and economic reports, and a yearly trucking almanac. Bob also conducts economic analyses of proposed regulations and legislation affecting the trucking industry.

Bob is often cited in the news media as an expert on trucking economics, including The Wall Street Journal, Businessweek, CNBC, FOX Business Channel and National Public Radio.

In March 2010, the U.S. Secretary of Transportation appointed Bob to the Advisory Council on Transportation Statistics (ACTS), which advises the Department's Bureau of Transportation Statistics (BTS).

Bob currently serves on the American Transportation Research Institute's Research Advisory Committee. He is a member of the National Association for Business Economics and has served on several research and project panels for the Transportation Research Board, which is part of the National Academies. He is also a member of the Industrial Economists Group at Harvard University.

20+ years of experience

\$27.6 billion in global freight payments annually



# About U.S. Bank (usbank.com)

Minneapolis-based U.S. Bancorp (NYSE: USB), with \$465 billion in assets as of September 30, 2018, is the parent company of U.S. Bank National Association, the fifth-largest commercial bank in the United States. The Company operates 3,029 banking offices in 25 states and 4,703 ATMs and provides a comprehensive line of banking, investment, mortgage, trust and payment services products to consumers, businesses and institutions.

#### For more information:

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- 1. Percent change calculated using sum of shipment index values for 2017 and sum of shipment values for 2018
- 2. Percent change calculated using sum of shipment index values for 2016 and sum of shipment values for 2017
- 3. Percent change calculated using sum of spend index values for 2017 and sum of spend values for 2018
- 4. Percent change calculated using sum of shipment index values for 2017 and sum of shipment values for 2018
- 5. Percent change calculated using sum of shipment index values for 2017 and sum of shipment values for 2018
- 6. Percent change calculated using Q1 2018 shipment index value and Q4 2018 shipment index value
- 7. Percent change calculated using sum of spend index values for 2017 and sum of spend values for 2018
- 8. Percent change calculated using sum of shipment index values for 2017 and sum of shipment values for 2018
- 9. Percent change calculated using sum of shipment index values for 2017 and sum of shipment values for 2018
- 10. Percent change calculated using sum of shipment index values for 2017 and sum of shipment values for 2018
- 11. Percent change calculated using sum of spend index values for 2017 and sum of shipment values for 2018
- 12. Percent change calculated using sum of spend index values for 2016 and sum of shipment values for 2017
- $13. \ \ Percent \ change \ calculated \ using \ sum \ of \ spend \ index \ values \ for \ 2017 \ and \ sum \ of \ shipment \ values \ for \ 2018$

