

July 2025

Q3 2025



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Q3 2025 Market Update



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KEY MARKET INDICATORS

Q3/Q4 Freight Market Hinges on Consumer Demand and Tariff Fallout

Freight markets in Q2 were shaped by shifting trade policy, including a brief influx of Chinese imports following tariff reductions. This led to a surge of port activity and rapid inventory buildup. With warehouses now full, **the pace of consumer demand will dictate how quickly these inventories deplete** and when restocking-driven freight demand returns.

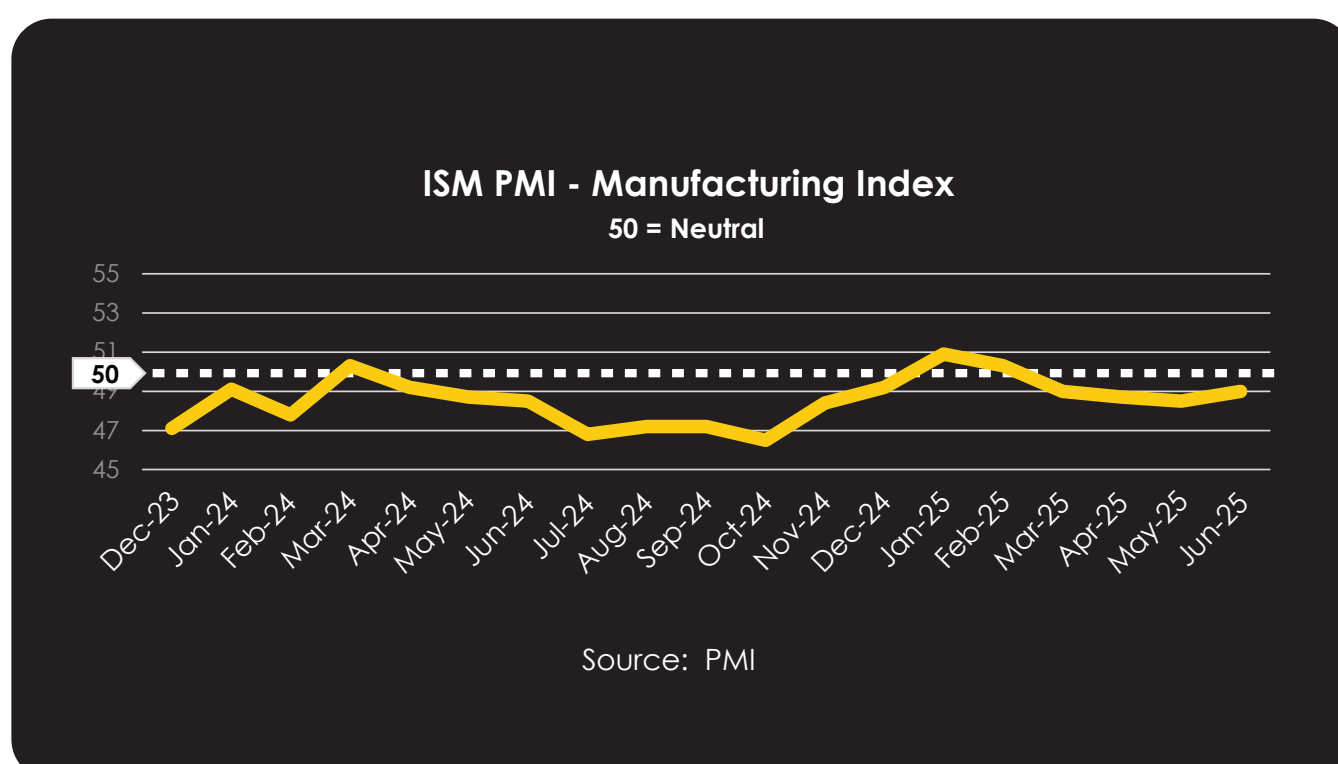
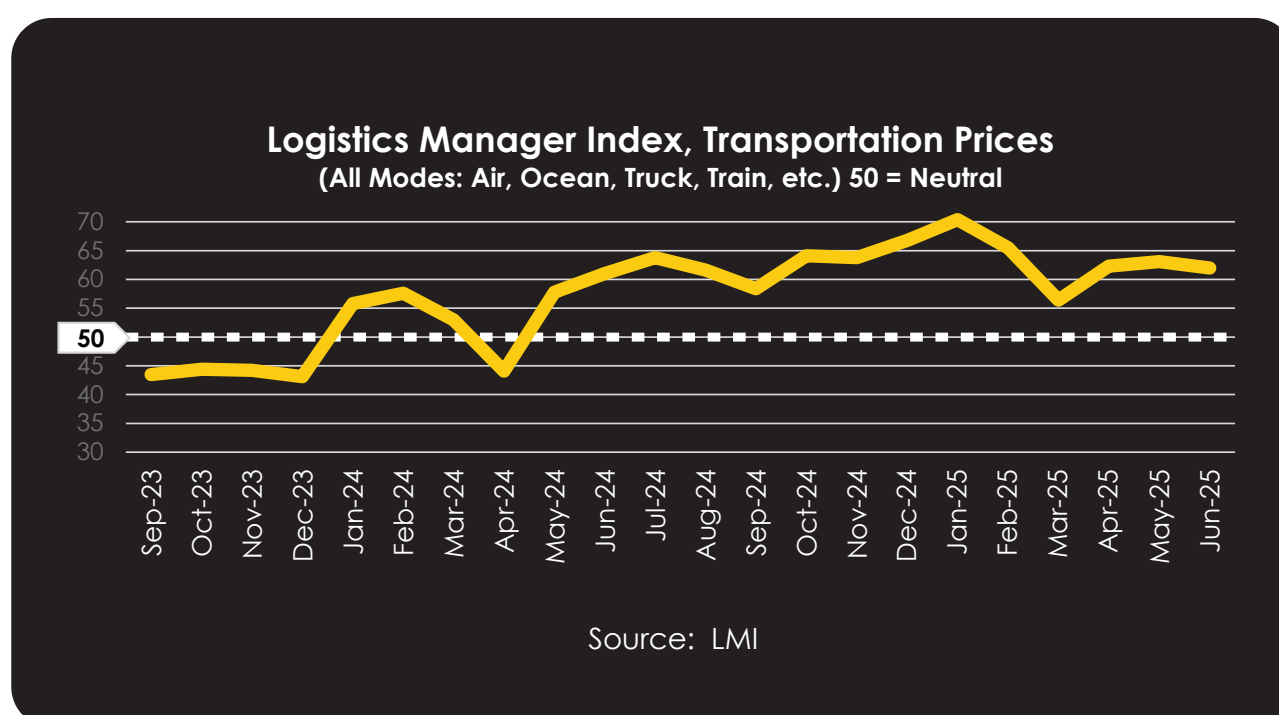
Intermodal has gained share from long-haul truckload, as shippers favor deferred, lower-cost options for non-urgent freight. Looking ahead, truckload spot rates could rise if economic activity rebounds, but **persistent inflationary pressure from tariffs may suppress consumer spending**, prolonging sluggish demand.

The freight market is operating with reduced capacity compared to previous years due to carriers exiting the market. This has created **conditions for increased rate volatility, including regional surges**.

Geopolitical instability, particularly in the Middle East, adds further uncertainty. Any disruption in the Strait of Hormuz could spike oil and diesel prices, impacting carrier operating costs and potentially tightening capacity further.

Q2 Transportation Rates Up and Predicted to Rise While US Manufacturing Faces a Slight Contraction

The Logistics Manager Index (LMI) - Transportation Prices, showed strong readings of price increases. Since the metric covers all modes, **the temporary jump in ocean rates is a key driver of transportation price increases as trucking rates experienced stable seasonal shifts**. LMI survey respondents expect freight rates across all modes to increase over the next 12 months.



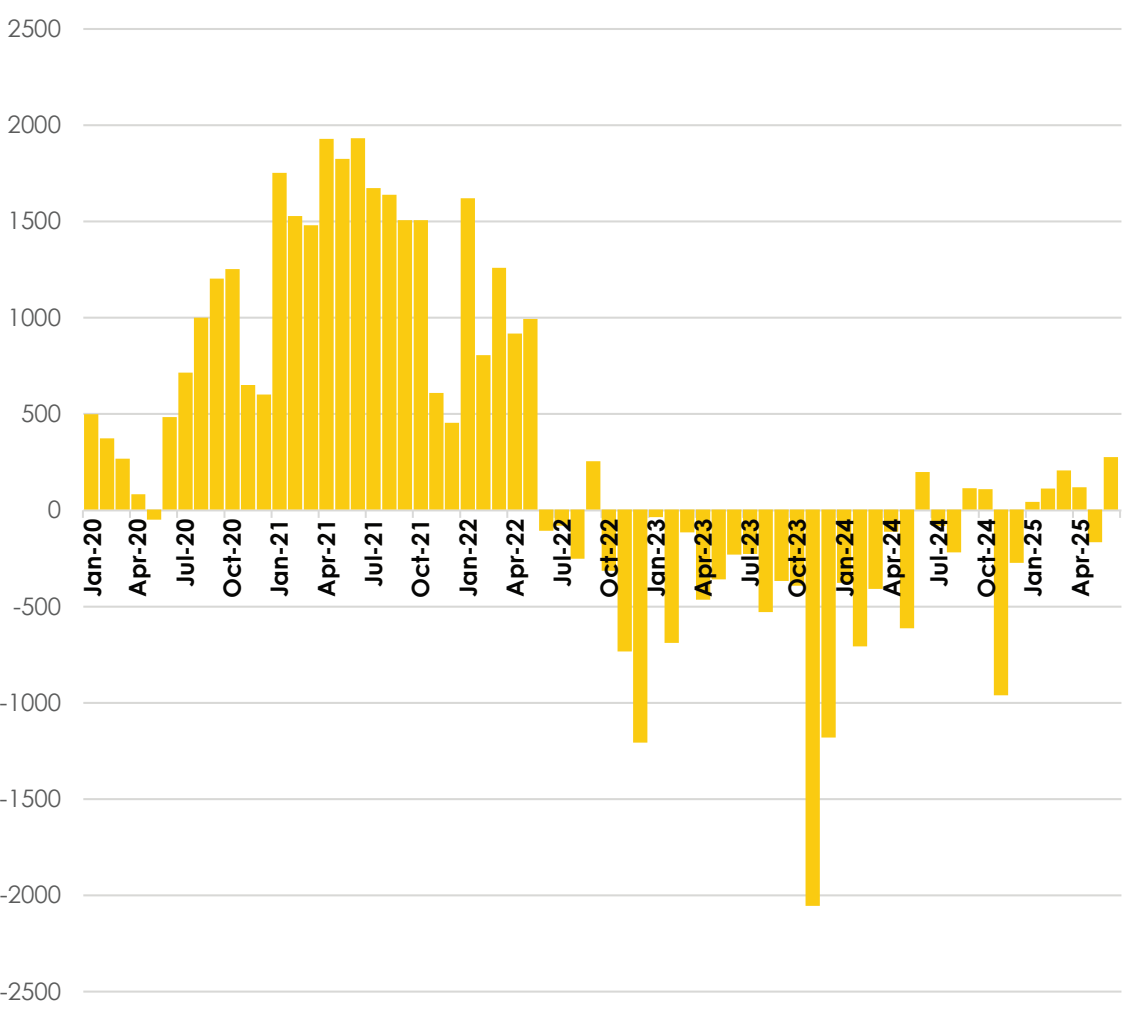
US manufacturing returned to its long-term trend of contraction in Q2, according to the Purchasing Manager's Index (PMI). Q1 saw two readings of expansion, but **March through June results return to a cooling manufacturing sector**. June's reading of 49 (where 50 is neutral) suggests the contraction is minor, and the US could see future upside if consumer spending and demand increases in Q3 & Q4.



US TRUCKING MARKET



NET CHANGES IN TRUCKING AUTHORITIES, USA
SONAR CDNCA.USA



Source: FreightWaves Sonar July 3, 2025

Over the past several years, a growing number of trucking companies in North America secured the necessary authorities to enter the market, contributing to an increase in industry capacity. However, similarly to the market shift in 2022, many of those companies exited, leading to a reduction in capacity.

Then, as the market flipped in 2022, many of those companies closed and capacity decreased.

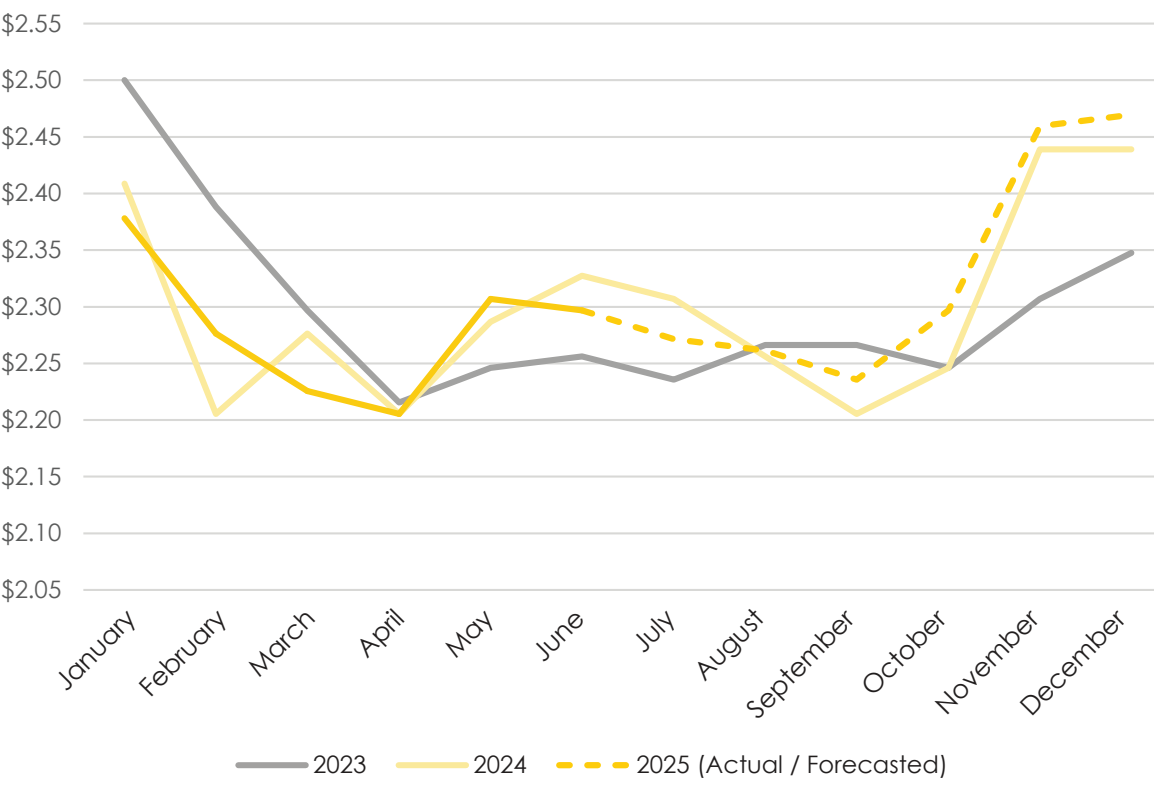
Since mid-2024, supply and demand in the trucking market have been moving toward equilibrium. Freight demand has continued to decline, and although capacity is leaving the market, it's doing so at a slower pace.

Q2 2025's numbers show the market continuing in an equilibrium state, with slightly positive net change in 5 out of the past 6 months of 2025.

Overall capacity seems to be more closely aligning with demand as tender rejection rates have trended up to historical averages of balanced markets. If there is a shock in demand, the capacity may be unable to cover large growth without higher rates to bring in more capacity.

Rates Forecasted to Average Near Prior-Year Levels, but with Increased Volatility

TRAFFIX US RPM 2025 Forecast
(with 2 year prior)
Historicals from SONAR NTI.USA



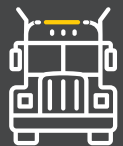
Source: FreightWaves Sonar July 3, 2025

- ✓ A key factor influencing Q3 and Q4 freight rates will be the speed at which proactively imported inventory (brought in ahead of anticipated tariffs) is drawn down by consumer demand and needs replenishment.
- ✓ Freight volumes are down year-over-year as construction, ecommerce, and durable goods spending remains muted. Since the surge in imported inventory is not immediately needed on shelves, intermodal has been handling a larger share of long-haul freight. Long haul freight volume was down ~23% YoY in Q2, compared to Intermodal being roughly flat to last year.
- ✓ Capacity is sitting closer to equilibrium with demand, so expect increased volatility in rates around holidays and regional shortages, including temporary jumps in rates of 15% or more for cities and states facing swings in outbound volume.
- ✓ Diesel fuel rates could be impacted significantly by geopolitical events in the Middle East, especially with a potential blockade of the Strait of Hormuz.
- ✓ The updated freight rate forecast anticipates average rates remaining near 2024 levels, with increased volatility, a modest year-over-year rise in Q4, and localized fluctuations of ±10% or more.



TRAFFIX FORECASTS

Insights and Predictions by Mode



Dry-van: Volatility and rejection rates are at the highest point in two years. Consumer demand and oil prices will be key drivers of rate averages, but regional jumps should be expected.



LTL: LTL market remains soft, with some volatility expected from the July NMFC change. Rates should be neutral or decline slightly YoY, depending on overall economic demand and consumer spending through Q4.



Flatbed: Construction remains soft, although there is potential for price increases if manufacturing rebounds. Expect seasonal decreases in late summer and usual regional shifts heading into winter.



Temperature Controlled: Demand will continue through produce season, with California tightening in Q3. Southern US rates should decline end of Q3. October will begin demand for "protect from freeze" heading into peak season.



Intermodal: Intermodal has seen strong demand from the pull-forward of inventory due to trade policy change. Capacity nationwide remains strong, although rates over the next 6 months may depend on consumer demand and continuation of imports.



Drayage: Import volumes driving swings in demand for drayage. Delays and volatility based on port and tariff changes. Rates will likely decline somewhat if imports drop.



Canada-US Cross-Border: Overall demand and rates are expected to remain stable on the low side. Expect some volatility from the berry market, and construction season in full swing through Q3. Otherwise, nothing is anticipated to drive up rates above seasonal swings.



US-Mexico Cross-Border: Produce season winds down in September, with rates to follow until Q4 peak sees seasonal increases again. Capacity could tighten based on English language rule enforcement for drivers, including B-1 visa drivers.



Warehousing: Inventory levels are high, but bonded and non-bonded space is still available as trade talks are in a temporary reprieve. Over the next few months, the direction of tariffs could cause another wave of imports and/or potentially constrain bonded warehouse capacity.





7 Leading Indicators to Watch in Q3

- 1 Trade policy
- 2 Consumer spending
- 3 Global geopolitical events, especially in the Middle East
- 4 Interest rates
- 5 US GDP
- 6 Inflation rates
- 7 Manufacturing activity (PMI)

Freight Rates Expected to Remain Near 2024 Averages Through Q4, with Increased Volatility

- ✓ Tariff-driven inventory surges filled warehouses in Q2; restocking timing depends on consumer demand.
- ✓ Spot rates expected to hover near 2024 averages, with increased volatility around holidays and regional disruptions.
- ✓ Intermodal gaining share over long-haul truckload for deferred, lower-cost freight.
- ✓ Truckload capacity remains tight, especially among small fleets—limiting flexibility if demand rebounds.
- ✓ English language rule enforcement has the potential to further tighten capacity.
- ✓ Consumer demand will shape whether rates increase or remain soft.
- ✓ Geopolitical risks in the Middle East, including the Strait of Hormuz, may trigger diesel price volatility.
- ✓ Manufacturing remains soft but stable; PMI suggests potential rebound if demand improves.

TRAFFIX RECOMMENDATIONS:

- 🎯 **Build Resilience into Every Plan:** With ongoing volatility in trade, fuel, and geopolitics, flexibility is essential. Develop layered contingency plans across procurement, carriers, and modes. Keep plans current with market data and align teams and vendors so pivots can happen quickly.
- 🎯 **Prioritize Flex Capacity and Regional Coverage:** Stable national rates mask sharp regional swings of $\pm 10\%$. Now is the time to secure dependable partners who can flex in tight markets, especially near ports, in produce zones, and on reefer lanes. Make sure your backups are executable.
- 🎯 **Diversify Your Network Strategy:** Import surges disrupted networks in Q2. Reassess your distribution footprint, port reliance, and long-haul strategy. Regional warehousing, nearshoring, and transloading can offer quick wins. Diversification isn't just long-term planning; it's a short-term edge.