WAREHOUSE QUOTE

Warehouse Pricing Index

WPI REPORT, Q4 2022

OVERVIEW

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EXECUTIVE INDUSTRY SUMMARY

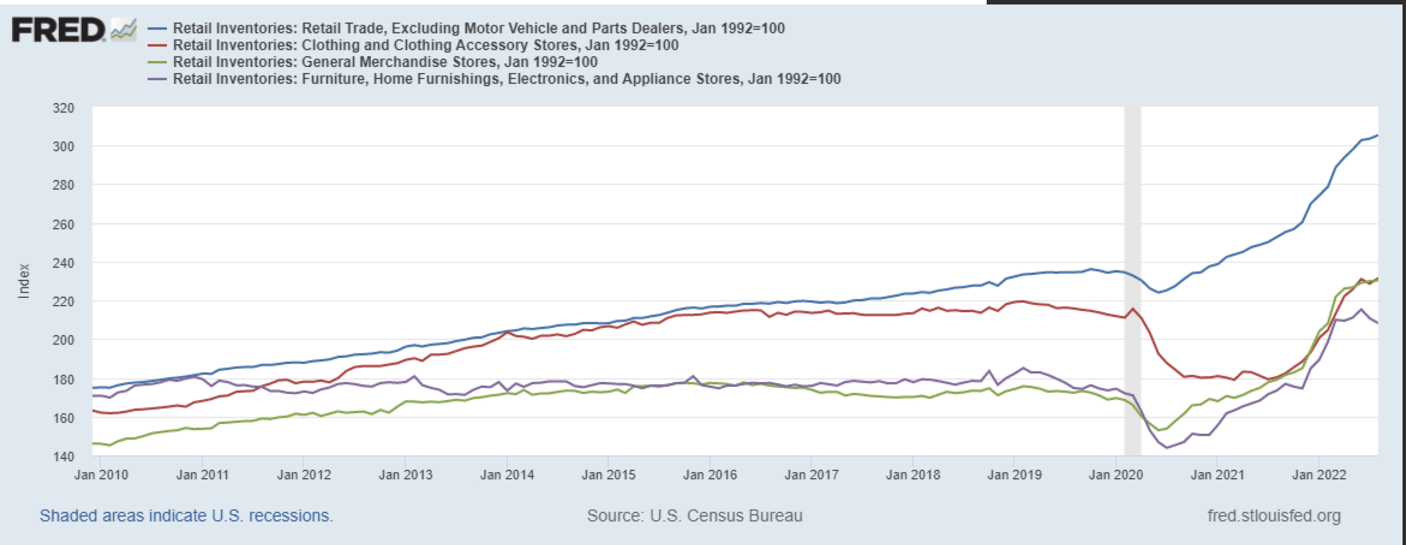
Warehousing Capacity Remains a Premium For Shippers

The United States industrial vacancy rate remains at **3.2 percent**. The West region remains the tightest out of all markets at **2.4 percent** followed by the Northeast at **2.9 percent**. The Midwest and South have slightly higher vacancy rates at **3.4 and 3.5 percent**. Yet, both regional markets have been contracting over the last four quarters.

In the short-term, low industrial real estate vacancy rates will continue to keep third-party warehousing capacity **at a premium**. Mid-term, more industrial real estate will become available in port markets in the first half of 2023. This will provide some relief for both warehouses and shippers.

Q3 2022 data from WarehouseQuote's Warehouse Pricing Index (WPI) shows East Coast port container volumes are elevating warehouse storage rates. The Northeast region saw a **12.0 percent** increase in pricing in Q3 2022 vs. Q2 2022. The West and Southwest markets saw slight pullbacks in pricing, but remained elevated. The Inland Empire vacancy rate remains at 0.6 percent. Los Angeles/Long Beach sits at **1.0 percent** followed by Reno and Las Vegas at **0.8 and 1.4 percent.** Also, many big box retailers continue to struggle with excess inventory.

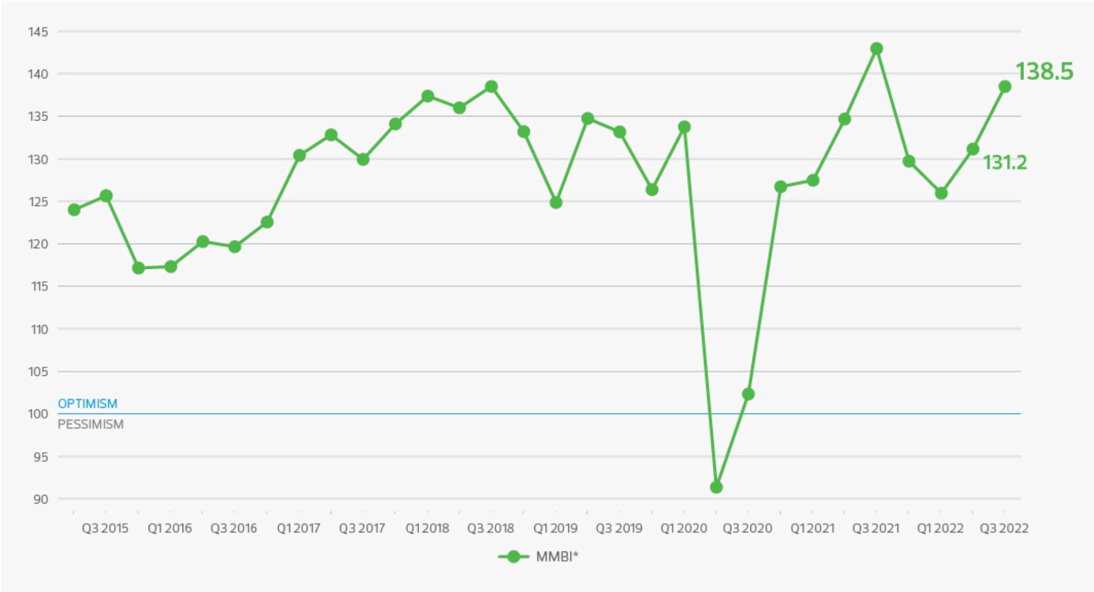
As warehouse capacity remains low, storage pricing has steadily increased across all regions, fueled by consumer pullback



August's Retail Inventories excluding Motor Vehicle and Parts Dealers index reading sits at 305.5, up **+11.3 percent** since January 2022. At the sector level, Retail Inventories for Clothing and Clothing Accessory Stores are up **+15.2 percent** since January 2022. Followed by Retail Inventories for General Merchandise Stores and Furniture and Appliances Stores up **+12.8 percent** and **+4.7 percent** since January 2022, respectively.

RSM US MIDDLE MARKET BUSINESS INDEX

RSM US Middle Market Business Index surges to 138.5 despite elevated inflation.



Source: RSM US LLP

*seasonally adjusted

RSM'S Q3 RSM Middle Market Index increased to **138.5**, up **7.2 points** since the Q2 2022 reading.

ABOUT MMBI

The RSM US Middle Market Business Index provides a leading measure on the performance of businesses that make up the heart and soul of our country's economy. A reading above 100 for the MMBI indicates that the middle market is generally expanding; below 100 indicates that it is generally contracting. The distance from 100 is indicative of the strength of the expansion or contraction.

Of MMBI respondents with inventory, **48 percent** said they are carrying more inventory in Q3 2022, up from **39 percent** in Q2 2022. **55 percent** of those surveyed see their businesses stockpiling more goods over the next six months.

Yet, the logistics strategy deployed from retailers has varied. Some have chosen to provide steep price markdowns while others have implemented pack n' hold strategies.

Mike Adkins, VP of Sales at WarehouseQuote and Steve Raetz, Director of Research and Market Intelligence at C.H Robinson discuss this topic, warehousing capacity, and more in our new podcast series, Supply Chain Unpacked.

But, excess inventory issues still remain. Now, it seems that we may have another issue at hand: **tapered consumer demand.**

According to WarehouseQuote research, we've seen a **33 percent decrease** in outbound warehouse shipments to retailers year-over-year.

"Fewer products are being moved out of warehouses to go into stores. Leading to less warehouse space available for incoming orders." Jordan Brunk, CMO of WarehouseQuote.

In the latest article from CNBC's State of Freight, Lori Ann LaRocco highlights that many retailers are utilizing 53-foot trailers for short-term storage as an alternative to warehousing. Commodities mentioned include tires, furniture, unsorted returns and other less critical items.

This year's retail peak season

It is evident this year's retail peak season may look differently than previous years. More inventory will continue to hit the ports in the coming months.

In the Gulf, the Port of Houston recently announced it was considering an "excessive dwell fee" on containers that stay longer than the free time allowed at the terminal. The port posted historic volumes processed in August (CNBC).

With record-low warehousing capacity, consumer pullback, and more inventory hitting the ports soon, the question still remains - **where will all this inventory go?**

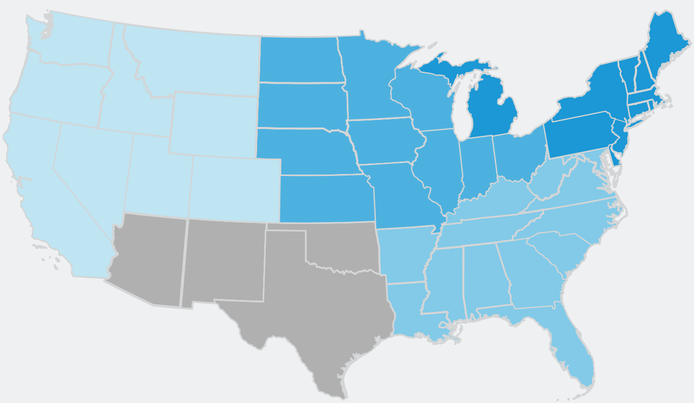
WPI DATA

Data Methodology

The Warehouse Pricing Index (WPI) is powered by service fees across our global network for ambient warehousing services. We've started by defining a baseline in Q1' 2021 and looking at changes in costs relative to the average price of the service (storage, pallet-in, and pallet-out costs) and filtering out the upper and lower 5 percent percentiles. Market insights are obtained through interviews with partners from within our scalable warehouse network.

National Warehouse Pricing Index

The darker shades of blue reflect a higher increase in warehousing rates relative to the average. For example, if Midwest warehousing storage rates averaged $20.00 in Q1' 2021 and $21.00 in Q2' 2022, this would represent a 1.05 index value or 5 percent increase in pricing, respectively.



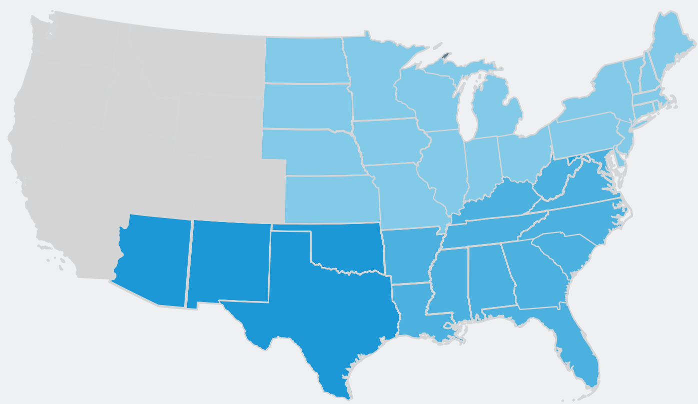
Q3' 2022 VS Q2' 2022

NORTHEAST(+12.0 percent)
MIDWEST (+5.2 percent)
SOUTHEAST (+1.0 percent)
WEST (-7.8 percent)
SOUTHWEST (- 9.7 percent)

The Northeast market saw the highest increase in storage rates at **(+12 percent)** in Q3 2022 vs Q2 2022. The diversion of trade from the West coast to the NY/NJ and Savannah ports has increased warehouse storage pricing.

The Southwest and West regions saw a **(-9.7 and -7.8 percent)** decrease in storage rates in Q3 2022 vs Q2 2022. It's important to note this doesn't indicate warehouse storage is cheaper. Southwest and West region storage rates are still at a premium but have receded, most likely from the diversion of trade.

Midwest region storage rates have increased by **(+5.2 percent)** in Q3 2022 versus Q2 2022. The increase in Midwest storage prices could be indicative of customers retracting from distributed models to mitigate the risk of losing space in coastal markets due to low inventory levels. This was a concern mentioned in the Q3' 2022 WPI report.



Year-over-year, The Southwest market led all regions with **(+21 percent) increase** in storage rates. It appears that port adjacent markets like Phoenix, Reno, and Las Vegas have benefited from the lack of warehousing capacity in Los Angeles/Long Beach and Inland Empire markets.

WarehouseQuote will be closely monitoring fluctuations in warehouse storage rates.

The Midwest, Northeast, and Southeast regions have increased storage rates in-line with inflation readings of the Consumer Price Index of All Items (CPI) at **8.2 percent** change over the last 12 months.

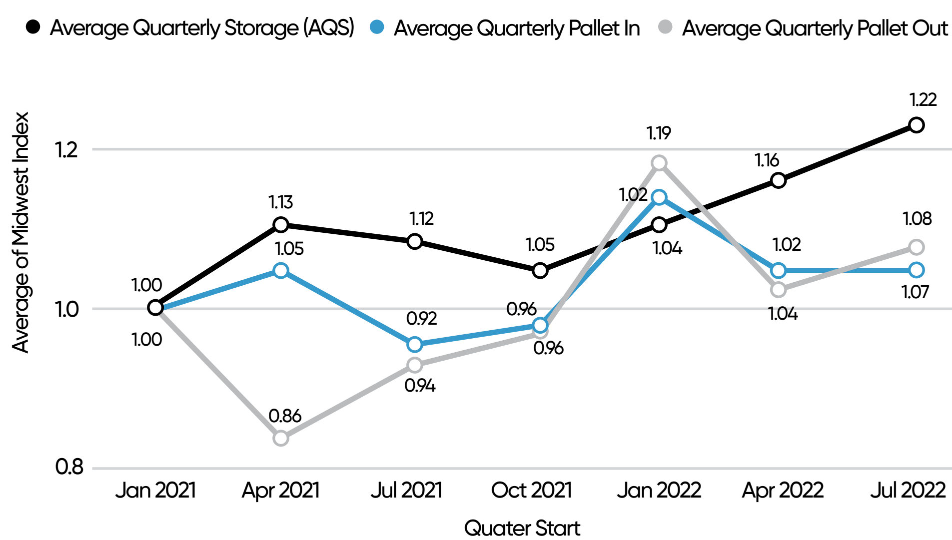
The West Region storage rates remain at premium, increasing at a rate of **(+1.1 percent),** annually.

Q3 2022 VS Q3 2021

SOUTHWEST (+21.5 percent)
SOUTHEAST (+9.5 percent)
MIDWEST (+8.9 percent)
NORTHEAST (+8.0 percent)
WEST (+1.1 percent)

REGIONAL WAREHOUSING
Pricing Index

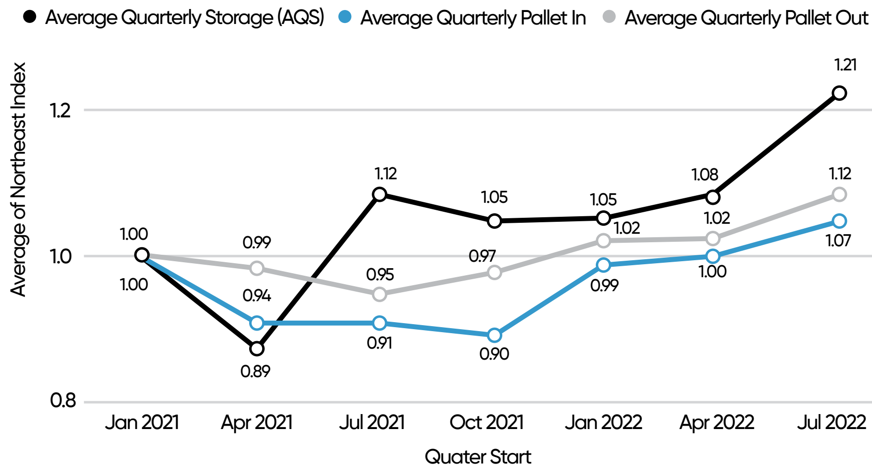
Midwest



+5.2%
increase
in storage rates

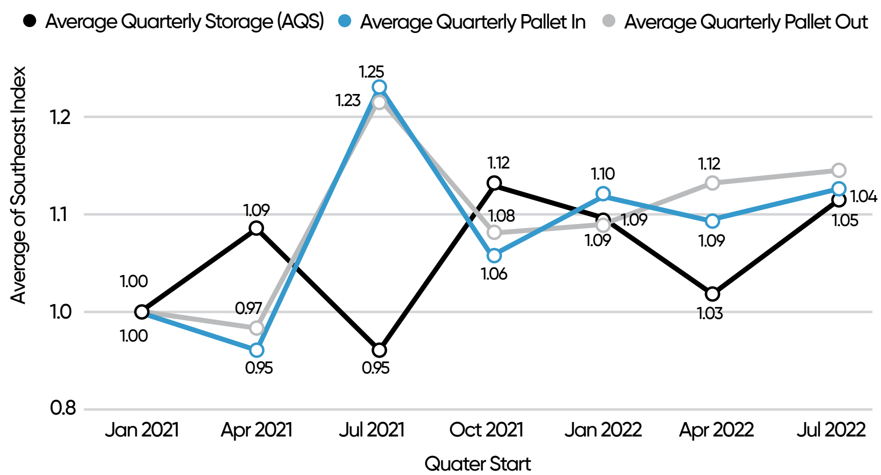
Northeast

+12.0%
increase
in storage rates



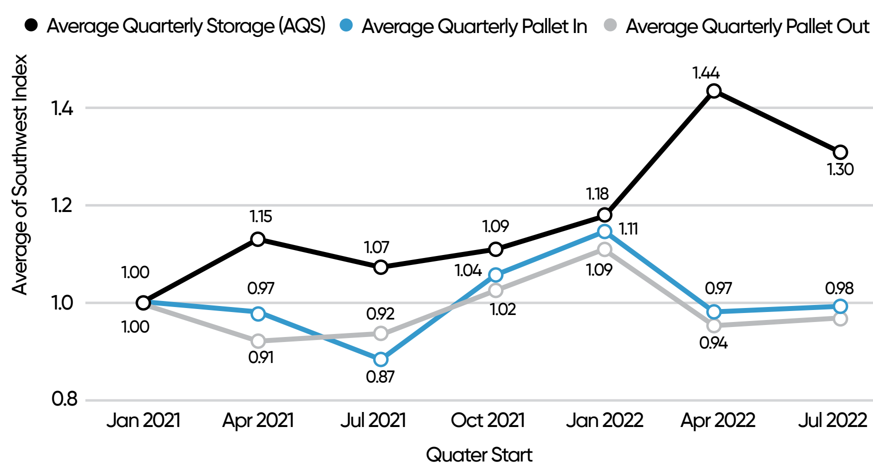
Southeast

+1.0%
increase
in storage rates



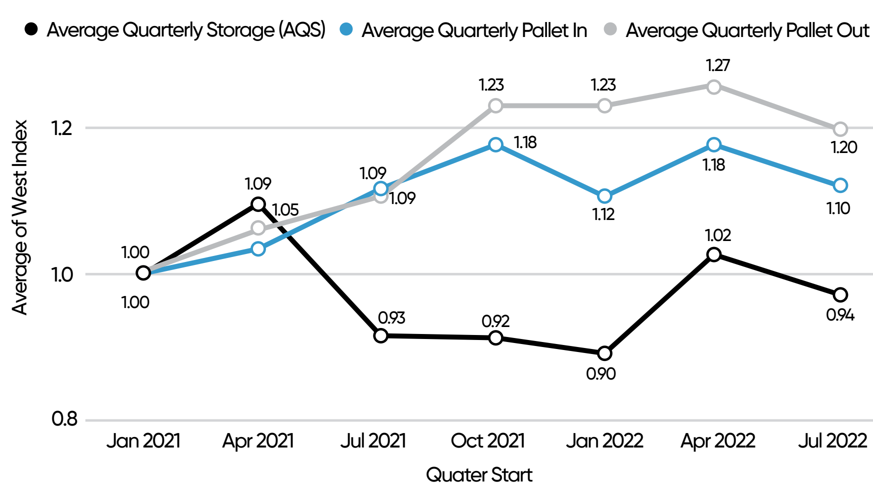
Southwest

-9.7%
decrease
in storage rates



West

-7.8%
decrease
in storage rates



EXCLUSIVE COVERAGE

From Across the North American Supply Chain

C.H. ROBINSON'S VIEW ON THE STATE OF THE TRUCKING MARKET

Steve Raetz - Director of Research and Market Intelligence, C.H. Robinson

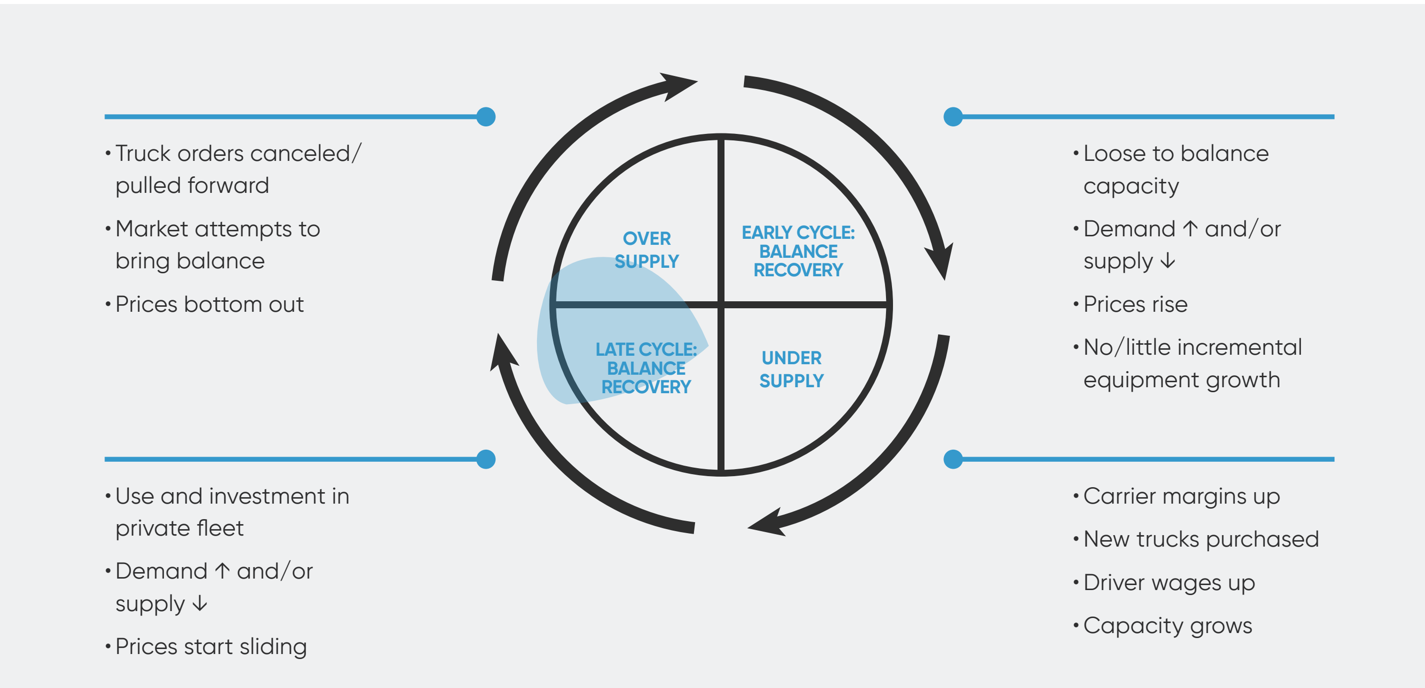


Figure credit: originally narrated by ACT Research with image created by C.H. Robinson

If you're a shipper, you've been questioning the current state of the full truckload and less-than truckload markets. C.H. Robinson, an industry leader in global logistics, weighs in on the state of trucking market in their [October North America Freight Market Insights report.]

"According to C.H. Robinson analysis, today's market is well supplied, but it's not to a point of over supply - yet. Class 8 tractor purchases are forecasted by ACT Research at a net 4% fleet growth for 2022 y/y. This fleet growth with decelerating freight volume growth forecasts will likely net an oversupplied market in mid first half of 2023."

It's a matter of 'when'. The trucking market cycle is inevitable and will continue to go through levels of over and under supply as a result of market forces. Each cycle is unique and presents its own set of challenges. Below, we show a table illustrating the expected forces and new factors to the 2022 experience.

SUPPLY FORCES (SIMPLIFIED)	DEMAND FORCES	2022 UNIQUE INFLUENCES
New truck sales (private and for-hire fleets)	GDP rate	Recession
New trailer and chassis sales	Manufacturing industry	Inbound supply chain disruptions
Trucking labor growth or decline (private and for-hire fleets)	Retail industry	Russia/Ukraine conflict
New trucking firm start-ups or closures	Housing industry	Shifting consumer demand
Used truck pricing and exports	Employment/unemployment	Higher fuel prices
LTL and rail infrastructure investments	Inventory levels and ratios	Inflation and high interest rates

FOR THE MOST RECENT UPDATES FROM C.H. ROBINSON, CHECK OUT THE LATEST NORTH AMERICAN FREIGHT MARKET INSIGHTS

A NORMAL TRUCKING MARKET IS PERPETUAL CHANGE

SUPPLY FORCES (SIMPLIFIED)	DEMAND PATTERN	BUSINESS PROCESS	LOCATION	MODE
Over supplied	High volume	Manual	Origin attributes	Truck contract
Under supplied	Consistency	Digitally enabled	Consignee attributes	Truck spot
Balanced	Volatility	Supply chain integrated	Example: Dwell history	Intermodal
Lightly served		Lead time of tenders		Consolidation
				LTL
				Parcel

A sound strategy will lead to increased supply chain efficiency and resilience for your business. As your business navigates this year's retail peak season and head into 2023, plan for norm - **constant change.**

There are signs that two years of logistics congestion are clearing. Flexport's Ocean Timeliness Indicator shows shipping takes 26% less time than at its peak, while shipping rates are down by 62% from their highs. Shipping volumes appear to be in decline, but considerable uncertainties about the outlook for supply chains remain.

Flexport's View on The State of Supply Chains

Chris Rogers - Supply Chain Economist, Flexport Inc.

Shipping Times Improve, Rates Slump

Ocean Timeliness on TPEB cs. Global Ocean Shipping Rates

Source: Flexport calculations including Shanghai Shipping Exchange data.

As a digital freight forwarder, Flexport has a backstage pass to the state of global supply chains. A key characteristic of supply chains over the past two years has been the congestion caused by elevated demand for logistics services. The elevated demand has come from high consumer spending, particularly in the U.S., which shows little sign of slowing.

The impairment to supply has come from a mixture of COVID-19 related sickness among logistics staff. A variety of ad-hoc challenges, ranging from heavy weather and vessel fires, to labor action and canal blockages, have all played their part.

The situation is finally getting better. The black line in the chart above compares Flexport's Ocean Timeliness Indicator, the time taken from the point a product is ready to depart its origin to the time it leaves its destination port. On Transpacific Eastbound routes that journey has now fallen by 26% from a peak of 113 days set in January 2022.

While consumer demand remains high, warehouses are now full. That would suggest retailers will need less shipping in the coming month. Early data for September suggests U.S.-inbound shipping volumes are down by 8% year over year. The decline in logistics demand can also be seen in ocean shipping rates, shown by the indigo line in the chart above from the Shanghai Shipping Exchange. Rates are now down by 62% from their peak in January 2022.

Looking into 2023, there is no shortage of uncertainties about where the state of logistics will go next: will tighter monetary policy finally cut spending; will retailers clear their warehouses with price discounting; what is the "new normal" for inventory strategies; will new container ships add to the fleet, or replace older capacity and; will environmental policies change liners' behavior?

The keys to success for supply chain operators, as always, include planning for flexibility and paying close attention to data.

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- RSM ECONOMIC RESEARCH
- CNBC

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