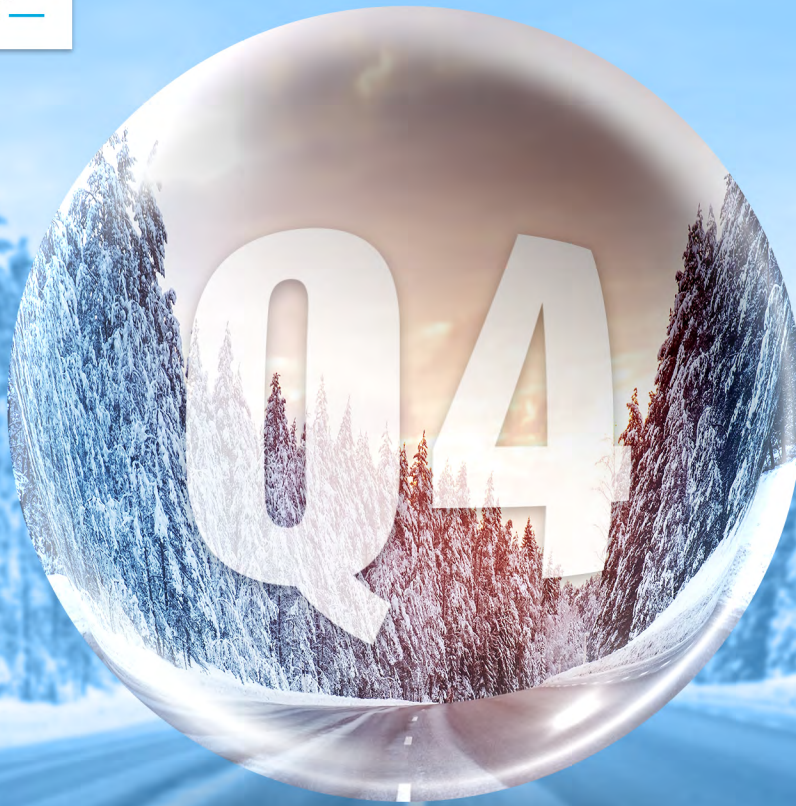


# 2025 U.S. ECONOMIC UPDATE

A special report by  
**Avery Vise of FTR Transportation Intelligence**

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Intelligence



FTR (Freight Transportation Research) is the industry's leading provider of transportation intelligence, delivering unbiased, data-driven forecasts and market insights to help manufacturers, shippers, carriers, and industry stakeholders make informed decisions. With over 40 years of expertise, FTR's proprietary Freightcast forecasting methodology leverages economic and industry data to provide a clear, third-party perspective on freight demand, commercial vehicle production, and supply chain logistics.

## Avery Vise

Avery Vise has closely studied the transportation industry for nearly 40 years as an editor, analyst, and researcher, including more than 25 years dedicated specifically to the trucking industry. Currently, he is vice president of trucking for FTR Transportation Intelligence, which specializes in forecasting and data analysis in freight transportation. He serves as FTR's chief analyst for trucking-related market data and insights concerning freight demand, capacity, rates, and regulatory impacts. Vise is the principal author of FTR's monthly Trucking Update report and contributes to the firm's Shippers Update and Truck and Trailer Outlook services. He leads the weekly Spot Market Insights analysis, hosts the weekly Trucking Market Update podcast, and is a primary contributor to FTR's Weekly Transportation Update publication.

Another major focus is tracking trucking fleets' driver and truck capacity and leading client projects to size markets for specific types of trucking operations. Vise also conducts regular webinars for clients and is a frequent speaker at conferences. Prior to joining FTR in 2017, Avery was principal of his own transportation consulting and market research practice. Previously, he served as head of trucking market research and analysis for a media organization and as chief editor of a trucking industry magazine. Vise started his career at McGraw-Hill as an editor covering the commercial aviation industry before shifting his focus to the trucking industry in 1998.



# Economic Outlook

As was the case when we reviewed the situation three months ago, tariffs have so far generated more debate and fear than measurable impact on the U.S. economy. The most noticeable effects remain sharp swings in imports and vehicle purchases, as companies and consumers try to avoid price hikes.

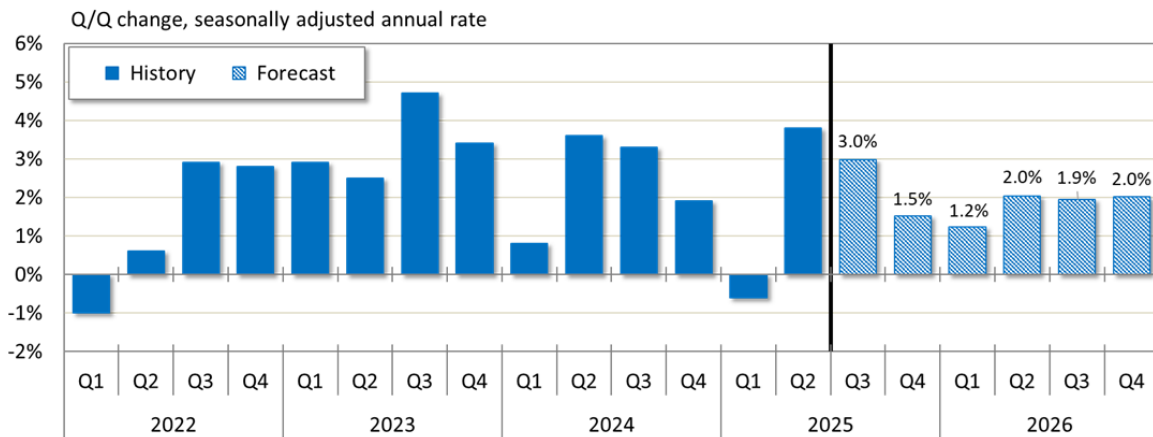
However, some concerning developments do appear linked to tariffs, such as continued price inflation and, likely, the recent slowdown in job growth as businesses navigate high uncertainty. One reason tariffs have not had a greater effect on the economy so far is that many of the so-called “reciprocal” tariffs—those varying by country—did not take effect (at least not above 10%) until August, as we discussed in the Q3 U.S. Economic Update. Until then, the most significant tariffs were the volatile rates on imports from China and those on autos, auto parts, steel, and aluminum.

Whether President Trump had the authority to impose the reciprocal tariffs and those on Mexico, Canada, and China—on the grounds of fentanyl trafficking and immigration—is now before the U.S. Supreme Court, which could rule as early as November. That decision will not affect the tariffs on autos, auto parts, steel, aluminum, or the recently announced tariffs on heavy-duty trucks, as those tariffs are imposed under federal statutes granting the president clear authority to impose them for national security reasons.

At first glance, real (inflation-adjusted) Gross Domestic Product (GDP) data implies a booming economy in the second quarter—but details matter. Because imports count as a negative in the GDP calculation, the plunging goods imports in the Q2 greatly bolstered GDP. That’s also why Q1 saw an annualized decline of 0.6% despite strong investment.

How big of a deal were imports in Q2? The drop in imports alone represented 5% GDP growth in Q2. Real GDP in Q2 was 3.8%, meaning all other aspects of the economy netted out to a hit of 1.2 percentage points. Consumer spending was positive, heavily skewed toward services, especially health care.

# Real Gross Domestic Product



Source: Bureau of Economic Analysis, Forecast by FTR and Witte Econometrics

*The swings in goods imports related to tariff avoidance and payback have skewed economic data this year and likely will continue to do so into early 2026. However, even with underlying factors slowing economic growth, we do not envision anything that looks like a recession.*

Based on our expectations and available data regarding weak exports, FTR expects Q3 data to show that real GDP growth remained fairly strong, though we forecast a slowdown in growth. Recovering imports will weigh on GDP, and the effects of slower job growth, along with elevated inflation, continue to weigh on consumers and the supply chain. However, we are not forecasting an economic recession or anything remotely close to it. Economic growth likely will slow, but we do not expect it to go negative.

The effect of all of this on freight is complicated. For starters, GDP data is dollar-denominated, so changes in goods consumption often bear little relation to the impact on freight. We will discuss that point in more depth later. Moreover, services account for much more economic activity than goods do. The big swings in goods imports this year have been due to commodities that are very expensive but contribute little to freight. A major distortion remains gold imports, as we discussed in the Q2 U.S. Economic Update.

## The Downshifting Labor Market

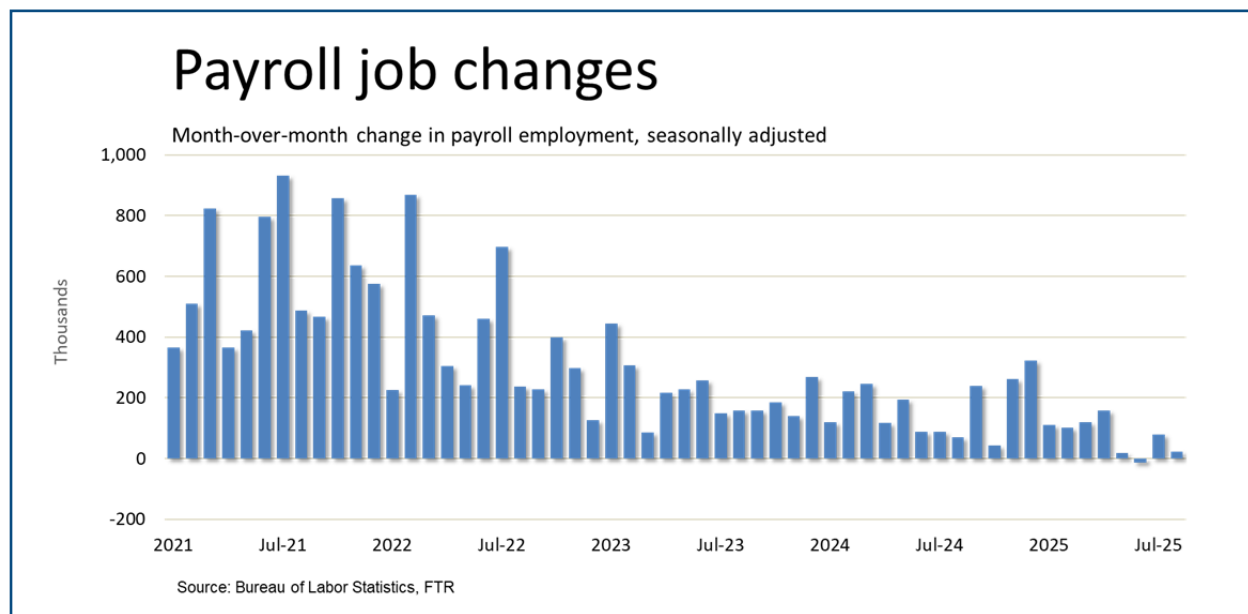
The most significant change in economic indicators over the past three months undoubtedly concerns the labor market. As of early July, U.S. payroll job growth appeared solid. The Bureau of Labor Statistics (BLS) had just reported seasonally adjusted growth of 147,000 jobs, essentially matching May's growth and only slightly below April's gain.

However, the August employment report showed a marked slowdown in July job growth, and the larger concern was the severe downward revision in prior estimates for May and June, bringing them to the lowest levels since recovery from the pandemic lockdowns in 2020. The revision was so large it led to the dismissal of the BLS commissioner.

The labor market weakness deepened further. Preliminary estimates for August—the latest data available due to the federal government shutdown—show seasonally adjusted growth of just 22,000 payroll jobs. That figure is even weaker than it appears because two sectors

of the economy—private education & health services and leisure & hospitality—together added 74,000 jobs, so the rest of the economy shed 52,000. Additionally, BLS revised its June estimate to a loss of 13,000 jobs, which is only the fourth month-over-month decrease since 2010. Two of the others were April and May 2020.

A preliminary benchmark revision of employment estimates based on more comprehensive data from the Quarterly Census of Employment and Wages suggests the baseline for this weak growth may be lower as of the end of Q1.



*Our view of the strength of the labor market changed dramatically in August and weakened further with the Employment Situation Report issued in September. Slowing job growth could lead to reduced consumer spending and other economic softness.*

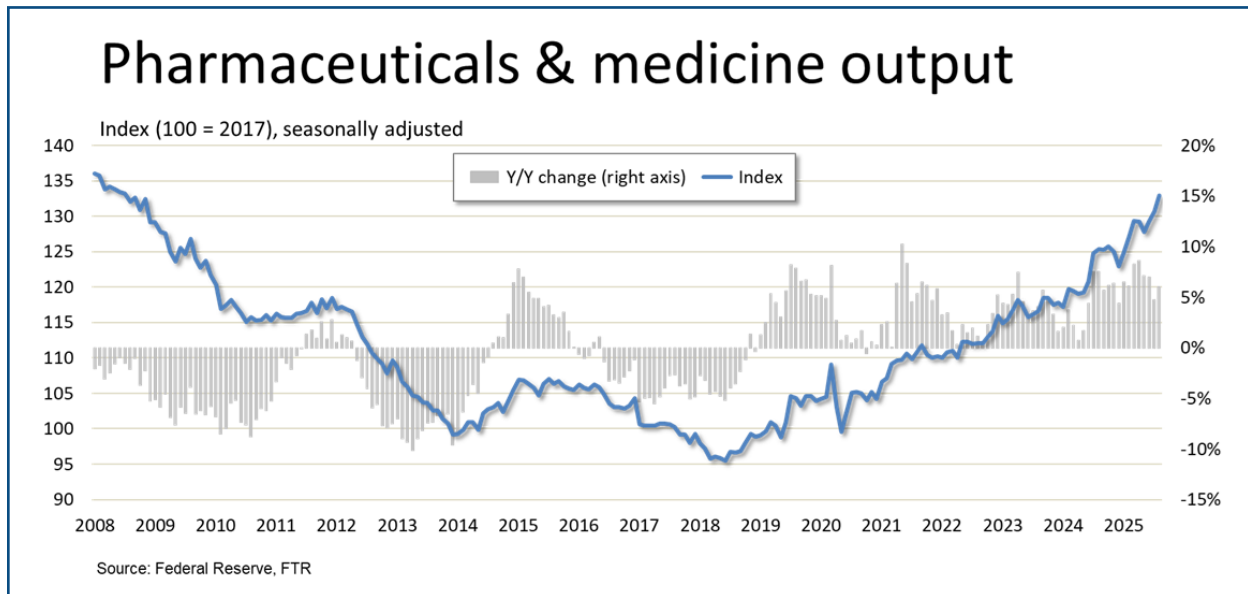
One upside of sorts is that the suddenly weaker employment situation has—at least temporarily—changed the monetary policy stance at the Federal Reserve, which has a dual mandate to curb inflation and promote job growth. The Fed lowered the target federal funds rate by a quarter-point in September and signaled that it was leaning toward two more such cuts this year. Fed Chairman Jerome Powell has warned, however, that the Fed cannot just ignore upcoming inflation data, so nothing is guaranteed.

## A ‘Chips and Pills’ Economy?

A fascinating development over the past couple of years is how much the strength (such as it is) in the principal sectors of the U.S. economy—industrial production and consumer spending—is driven by two broad groups of commodities: Computers and pharmaceuticals. We have touched on this issue in previous reports, but the resilience of strength in both sectors has become impossible to ignore.

Manufacturing overall has improved significantly in 2025, though it is hardly booming. Much of the strength has been concentrated in transportation equipment—motor vehicles, parts, and aerospace. These and other “heavy” sectors like primary and fabricated metal products account for a big share of economic activity, but for the most part, they are lacking sustained growth. In fact, most manufacturing sectors are volatile at best, with output in many still below pre-pandemic levels.

One clear exception is production of computer and electronic products, which has grown steadily since 2023 and is running between 6% and 7% higher year over year. By comparison, overall manufacturing output is up less than 1% year over year in most months. Government incentives coming out of the pandemic and an artificial intelligence (AI)-driven surge in data center construction contribute to this growth.



*Aside from some month-to-month “noise” and volatility around the early pandemic period, pharmaceuticals and medicine production has been on a steady run-up since 2018. This commodity group is greatly outperforming the rest of the chemicals sector.*

Just as impressive as the strength in computer-related manufacturing output is production of pharmaceuticals and medicine, which is also running around 7% higher year over year in 2025. Moreover, that category is driving overall strength in chemicals, which we once thought of as a bellwether for manufacturing output generally.

Not surprisingly, these trajectories in manufacturing output mirror consumer demand as both computers and related products and pharmaceuticals/medicine are mostly outpacing spending for other types of durable and nondurable goods, respectively, although vehicle buying to avoid tariff-related price hikes also has been the dominant driver this year.

Inflation-adjusted spending on durable goods is up 5.4% through August versus the same 2024 period. That’s basically the situation with real spending on motor vehicles and parts, which is up 5.5%, though it has been highly volatile month to month. Real spending on “information processing equipment”—a catch-all category that includes various types of computers and even software—is up 7.6%.

Real spending on nondurable goods is up 3.4% year over year through August. Spending on pharmaceuticals and medicine is up 6.4%.

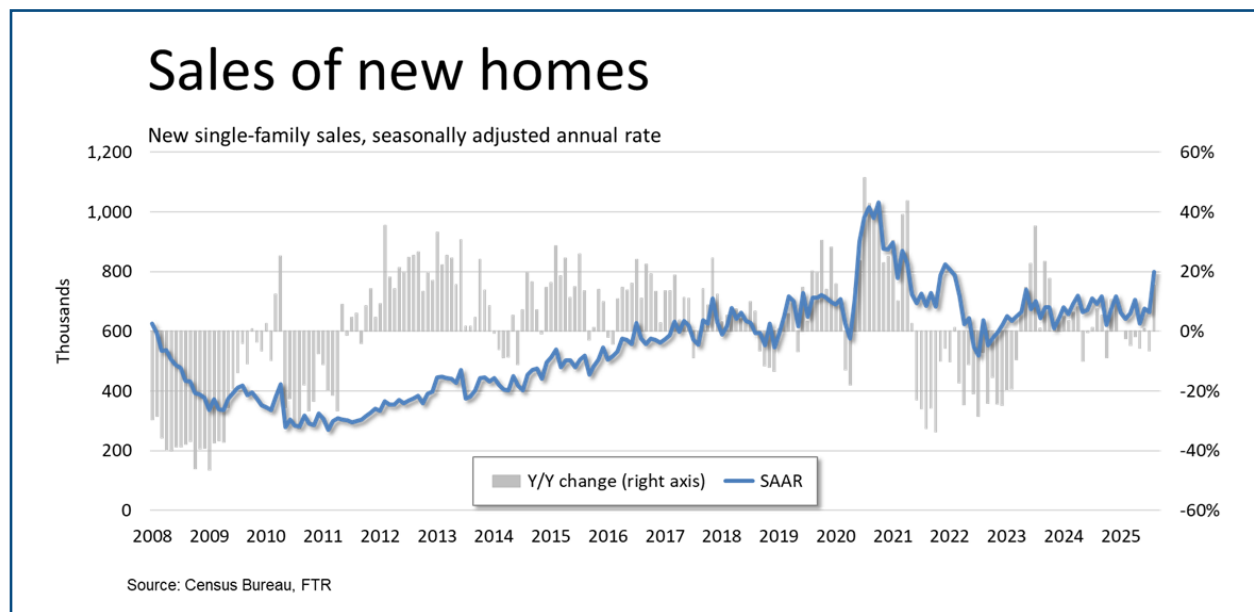
## An Emerging Housing Recovery?

As of August, some of the key housing indicators were showing no signs of recovery, but one certainly did.

Sales of new single-family homes in August surged 20.5% month over month, seasonally adjusted—the largest single-month gain since August 2022. Sales were up 15.4% year over year, which is the strongest comparison since October 2023. The annualized rate of 800,000 new homes sold is the strongest since January 2022.

Supercharged sales took a big bite out of the inflated inventory of new homes for sale. The 490,000 homes for sale are the fewest since December, and the inventory was up just 4.0% year over year—the smallest comparison since the end of 2023. The inventory of homes at the current sales rate plunged to 7.4 months in August from 9 months in July.

We generally would expect the Fed's decision to lower the federal funds rate to flow into lower mortgage rates, but so far that's not happening—at least not consistently. Mortgage rates are still well above 6% on a 30-year fixed-rate mortgage, so it is unclear whether the recent strength in sales of new homes will be sustained or will spread to existing homes and residential construction.



*Residential construction has yet to show signs of life, and sales of existing homes have done nothing more than stabilize. Based on preliminary estimates, though, sales of new single-family homes surged in August as buyers finally took advantage of ample supply of newly-built homes.*

## A Seismic Shift in Trucking Capacity?

Aside from some commentary on LTL-specific dynamics, this report focuses on macroeconomic trends, perhaps with some speculation as to the potential effects on truck freight. However, recent regulatory and enforcement developments specific to the trucking industry are too significant to ignore as they could fundamentally change market conditions.

The changes flow from President Trump's April 28 executive order directing that violations of the English language proficiency (ELP) requirement become out-of-service (OOS) violations and ordering an audit of non-domiciled commercial drivers licenses (CDLs), which are issued to foreign nationals.

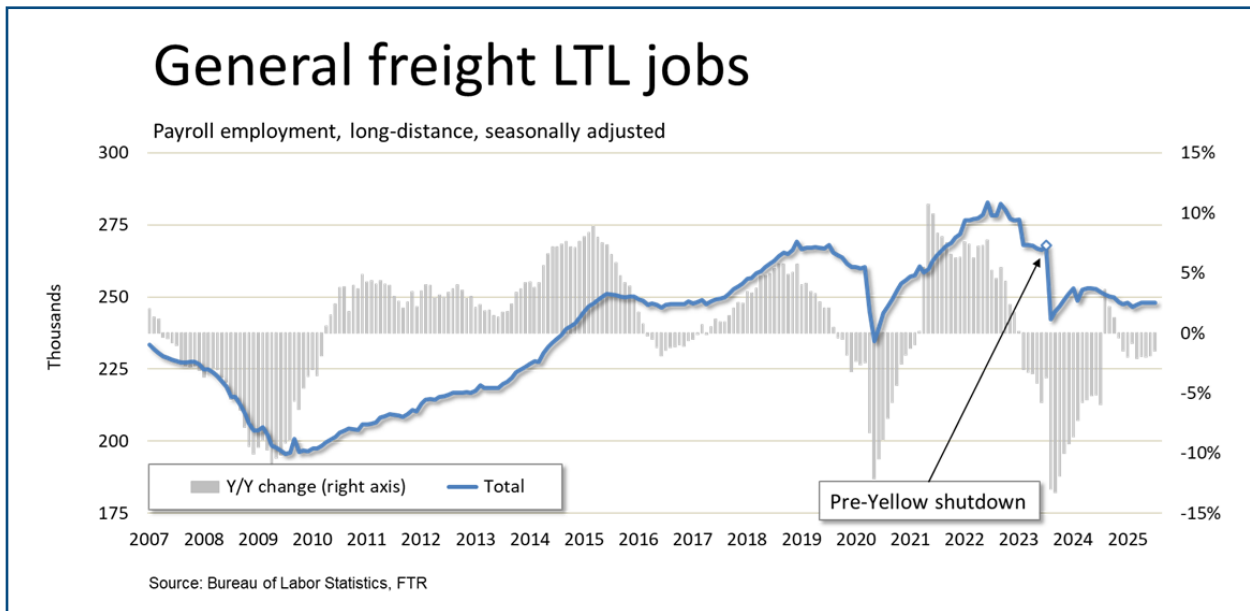
Violations of the ELP requirement became OOS violations on June 25, though a major loophole is exclusion of drivers operating in the Mexican commercial border zones. The consequence of that exception is that only about 28% of drivers cited for ELP violations are being placed OOS. The current run rate would result in about 20,000 drivers being placed OOS each year over inadequate English language skills, according to FTR's analysis.

A Federal Motor Carrier Safety Administration (FMCSA) emergency rule issued in late September with immediate effect promises to be a much bigger deal. The rule tightens the parameters for issuing and renewing non-domiciled CDLs dramatically. FMCSA estimates that the rule will remove 194,000 non-domiciled CDL holders from the market over the next two years, and some observers believe the agency's figure might be too low.

The effect of this exodus of capacity is not clear because we do not know how many are truly active, how many are involved in over-the-road freight transportation, etc. Moreover, the overlap with drivers lost due to ELP violations is likely significant. Regardless, the cumulative crackdown on foreign drivers will almost certainly affect driver capacity notably. Although the LTL sector is unlikely to see much direct effect, the consequential tightening of the truckload sector and even capacity for smaller private fleets could have a meaningful indirect impact.

# LTL Industry Dynamics

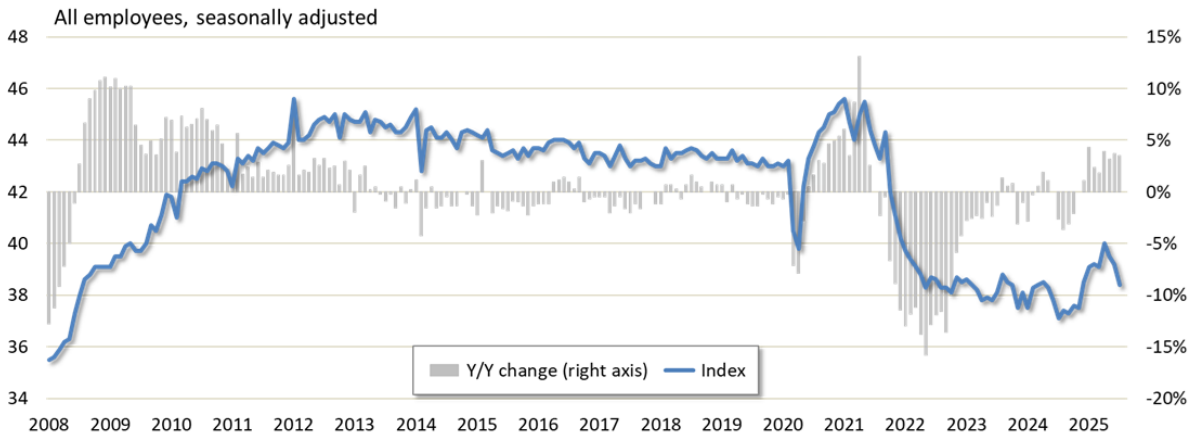
For the most part, the stress in key LTL labor metrics seen in Q1 and early Q2 continued to ease through the rest of Q2 and the beginning of Q3. However, one dynamic that did not change was employment levels. Payroll employment in LTL remains essentially flat in 2025 through July—the most recent data available due to the government shutdown—as carriers likely tried to wait out tariffs and other impacts to see where things were going in the medium term. Payroll employment was down 1.5% year over year.



Payroll jobs in LTL are holding steady as carriers try to keep headcount stable in the face of an uncertain freight environment. Seasonally adjusted employment in July was a mere 700 jobs higher than it was in December 2024.

The stabilization following the Q1 and early Q2 stress is evident in weekly LTL hours worked. With basically no change in employment levels this year, this trend appears in both total LTL hours worked and average hours per employee. The result is basically the same: After a somewhat choppy run-up from late December through April, workload has fallen sharply. Average weekly hours worked in July were at the lowest level since November. Total hours worked were the lowest since December.

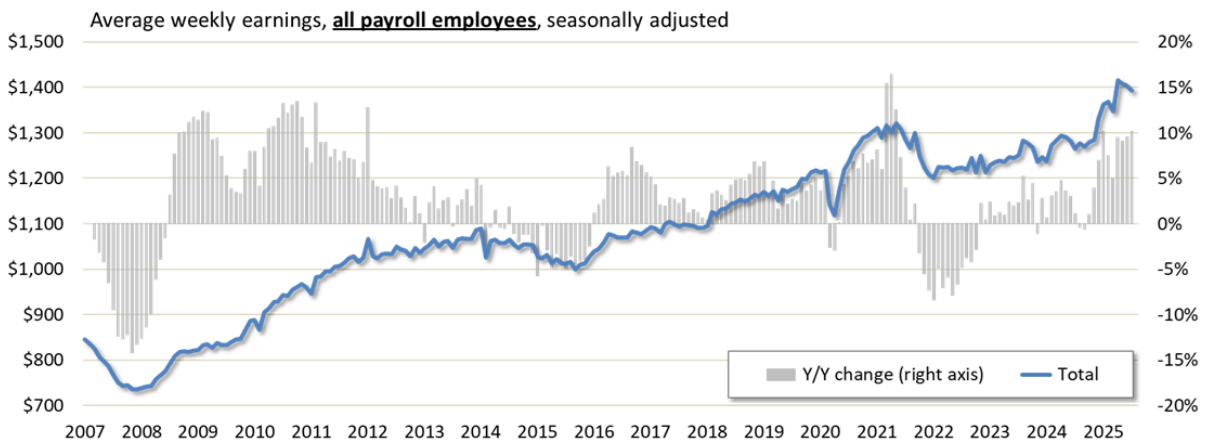
## Average weekly LTL hours worked



LTL employees' average workload rose early this year as activity rose but payrolls did not. Since April, payrolls are still flat, but activity has fallen.

As we noted in the Q3 update, LTL average weekly employee earnings hit a record level in April with a record 5.1% month-over-month jump from March. Wages have declined since then but not at an overly brisk pace. Moreover, employee earnings in July were 10.2% higher than they were a year earlier, though that is largely due to a sizable drop in July 2024. This year-over-year delta is far larger than the average weekly hours worked, which were up 3.5%.

## General freight LTL wages



LTL employee wages have eased since April but not to the same degree that working hours have.



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