

# Cowen/AFS Freight Index

October 2021



# AFS is one of the most experienced 3PLs in the country; leveraging Freight Audit and Payment data enables AFS to unlock unrivaled insights into the overall freight market.



**\$10B**

- AFS has over \$10B in transportation spend across multiple modes flowing into our systems annually creating maximum visibility.



**1,700+**

- The freight data comes from over 1,700 clients of all sizes and industries, representing a comprehensive view of the overall market.



**39 YRS**

- With AFS's deep expertise and 39 years of experience across all transportation modes, we have significant market insights to project future trends and industry patterns.



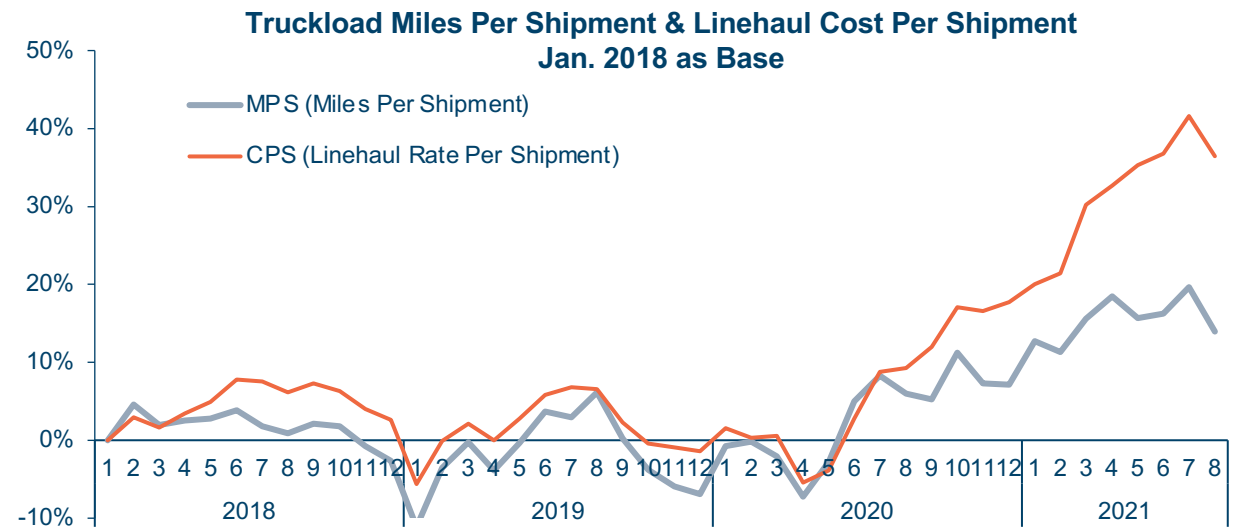
**Truckload  
LTL  
Parcel**

- AFS's team of Data Scientists and Analysts applied Machine Learning algorithms and modeling techniques to examine the historical data for Truckload, LTL and Parcel since 2018.
  - The following rate indices are developed for these modes and quarterly rate predictions are provided using both AFS freight data and macroeconomic variables.

Truckload

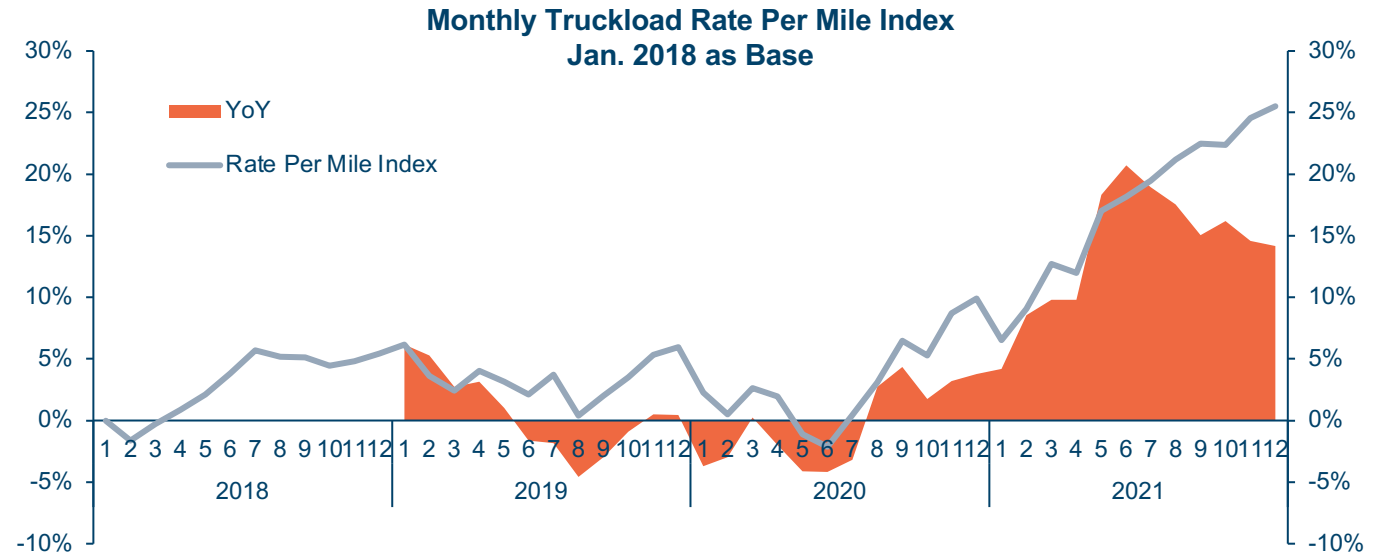
# The pandemic has emboldened Truckload carriers to increase rates drastically; price and distance have become more correlated.

- Historical data proves a close correlation between distance (Miles Per Shipment) and price (Linehaul Cost Per Shipment).
- The market tightness has resulted in a bifurcation of the historical correlation between price and distance beginning in Q2:2021. But starting in Q3, price became more responsive to changes in distance.
- Supply and demand for Truckload capacity creates ever-rising pressure on rates.
  - 2021 YTD data shows an increase of 10.2% YOY volume growth.
- Capacity constraints and supply chain disruptions forced more demand into the spot market resulting in spot market rates becoming more volatile relative to contract rates.



Truckload will continue to see rate increases through the end of 2021; although year-over-year increases are moderating, the Truckload Cowen/AFS Freight Index will reach a new high of 24.2% in Q4:2021.

- The Composite Truckload Rate Per Mile Index (including both contractual and spot Truckload line haul rates) indicates a moderate increase from Jan. 2018 until Q3:2020.
- Starting in Q4:2020, there has been a dramatic increase that continues to date.
  - This is partially driven by increased demand due to the pandemic.
  - The capacity shortage is increasing tightness in the market. While hiring is increasing, relief is not expected to be observed in Q4:2021.
- The Composite Truckload Cowen/AFS Freight Index is expected to increase to 24.2% in Q4:2021 against the Jan. 2018 baseline.



**Composite Truckload Rate Per Mile Freight Index**

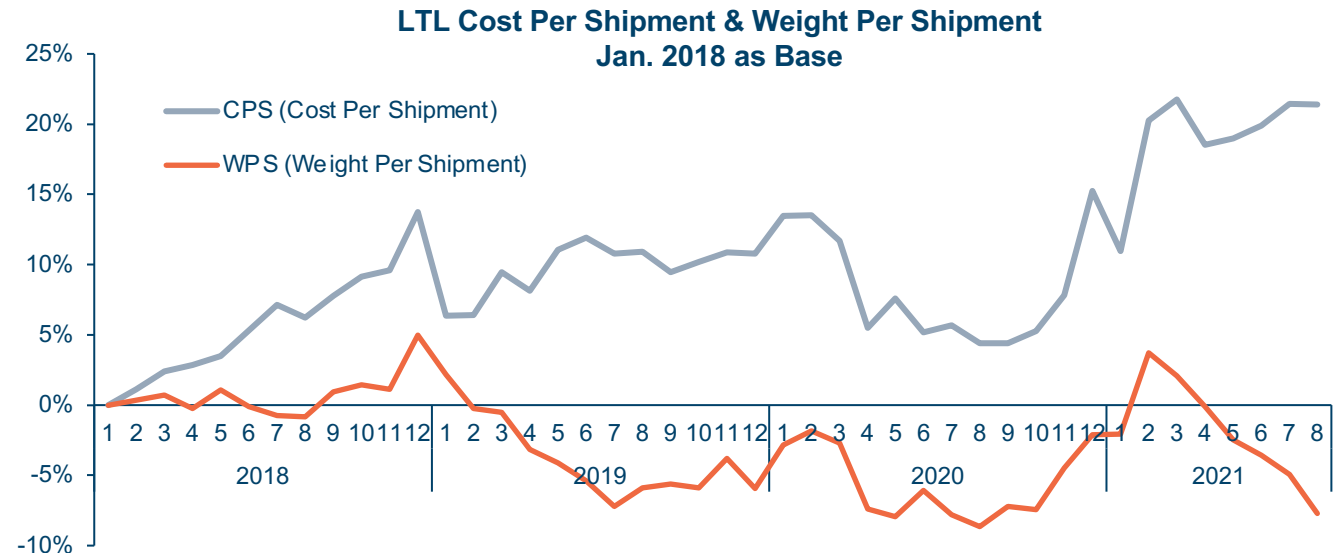
Year	Q1	Q2	Q3	Q4
2018	(0.6%)	2.3%	5.3%	4.9%
2019	4.0%	3.1%	2.0%	4.8%
2020	1.8%	(0.6%)	3.3%	7.8%
2021	9.7%	15.6%	21.0%	24.2%

Jan. 2018 = Base, Q4:2021 forecasted

LTL

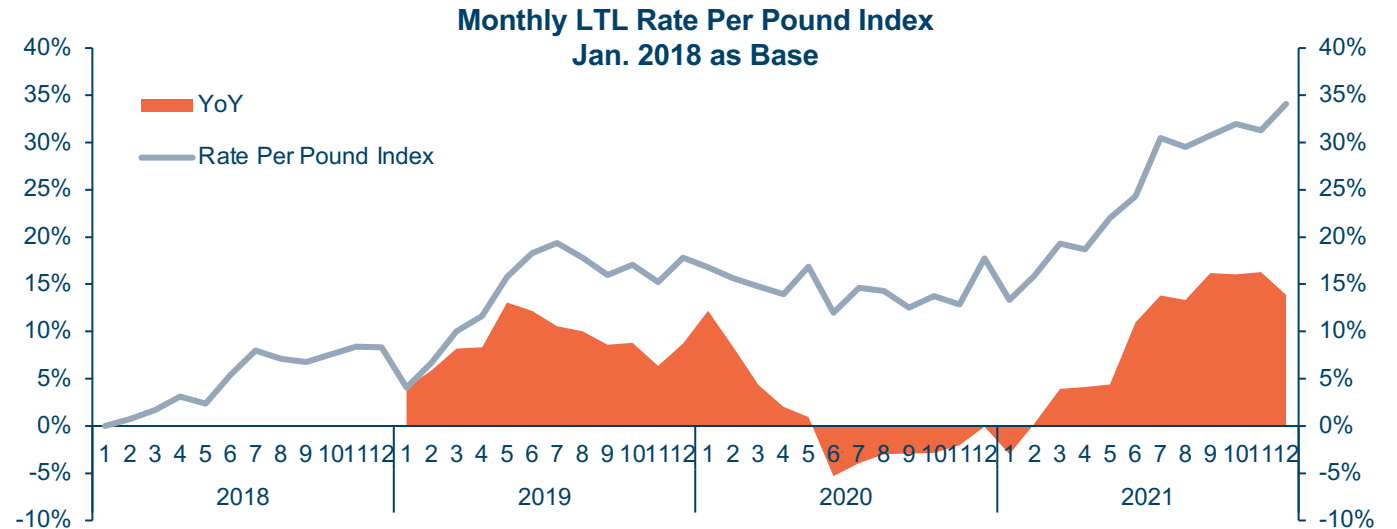
LTL carriers are exerting upward pressure on rates, despite the continued decrease in shipment weight after Q1:2021 which was likely caused by capacity constraints arising from smaller shipments spilling over from Parcel.

- Cost Per Shipment was highly correlated with the total Weight Per Shipment until early Q2:2021.
- Starting March 2021, average Weight Per Shipment has been steadily decreasing, likely due to the increase in eCommerce.
- However, LTL rates will remain high:
  - Continued labor shortage and increased demand point to capacity constraints. Although not as severe as Parcel, the LTL market has significant barriers to entry, resulting in the top 10 carriers controlling 75% of all LTL freight.
  - Service levels deteriorated, up to 7.3%, within 2021.
  - Carrier rate increases:
    - Either through GRI or account specific reviews, carriers are implementing steep rate increases on shippers.
    - Carriers are aggressively implementing punitive surcharges on “undesirable freight”.



# LTL Rate Per Pound is expected to remain high with the LTL Cowen/AFS Freight Index expected to climb to a historic high of 32.3% in Q4:2021.

- The LTL Cowen/AFS Freight Index indicates a flattish, even slightly decreasing trend since mid 2019.
- However, rates have steadily increased in 2021, largely as a result of capacity-driven carrier rate hikes.
- With capacity issues persisting through the holiday season, LTL rates are expected to remain high and will reach a new historic high of 32.3% in Q4:2021.
- With a high concentration of LTL shipments handled by relatively few carriers, the rate pressure is expected to continue in the foreseeable future.



**LTL Rate Per Pound Freight Index**

Year	Q1	Q2	Q3	Q4
2018	0.8%	3.6%	7.3%	8.1%
2019	6.9%	15.2%	17.8%	16.7%
2020	15.7%	14.1%	13.8%	14.6%
2021	16.4%	21.6%	30.2%	<b>32.3%</b>

Jan. 2018 = Base, Q4:2021 forecasted



Parcel

## The General Rate Increases (GRIs) represent significant annual changes to published Parcel rates, but the Parcel carriers have failed to realize the net GRI benefit in their bottom-line.

- Over the last 20 years, FedEx and UPS have created an industry practice of the annual GRI.
- From 2018 until now, FedEx has led the market by announcing their increases ahead of UPS (including the recent announcement for the 2022 GRI).
- From 2019 to 2020, the carriers implemented a cumulative increase in list prices of 10.04%. However, each year, carriers also face mounting pressure from shippers needing deeper discounts to mitigate the impact of the GRI.
  - Ground Parcel does a much better job of retaining the GRI-driven Yield Per Package increase.
  - 2020 Net Rate Per Package increased by 7.4% for Ground, but declined by almost 20% for Express, compared to January 2018.
- Another distinct trend is the increase in Residential Volume over time for both Express and Ground (Fig. 1).
  - Although currently moderating from 2020 levels.
  - Residential now accounts for almost 30% of total shipments in 2021, a 32% change compared to 2018.

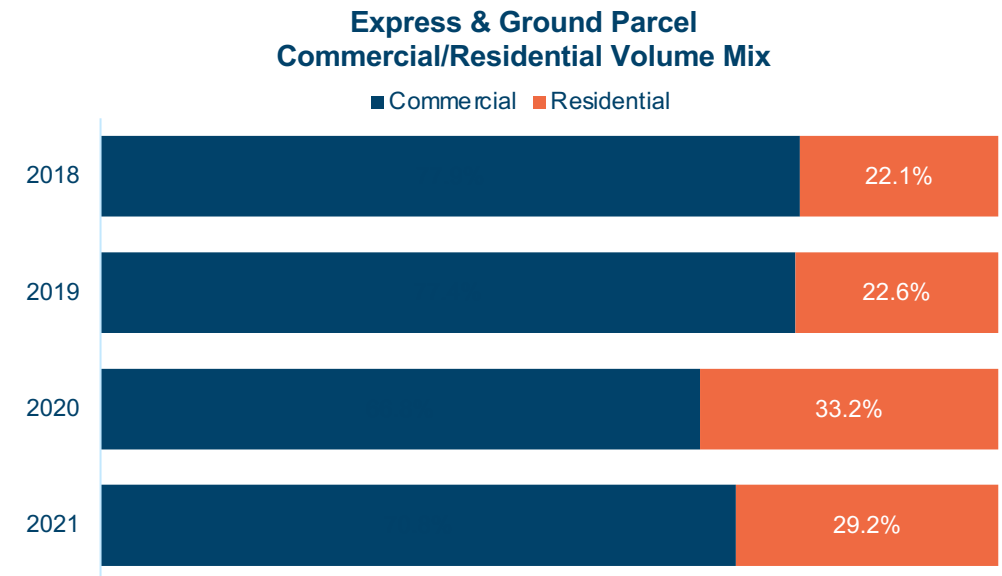
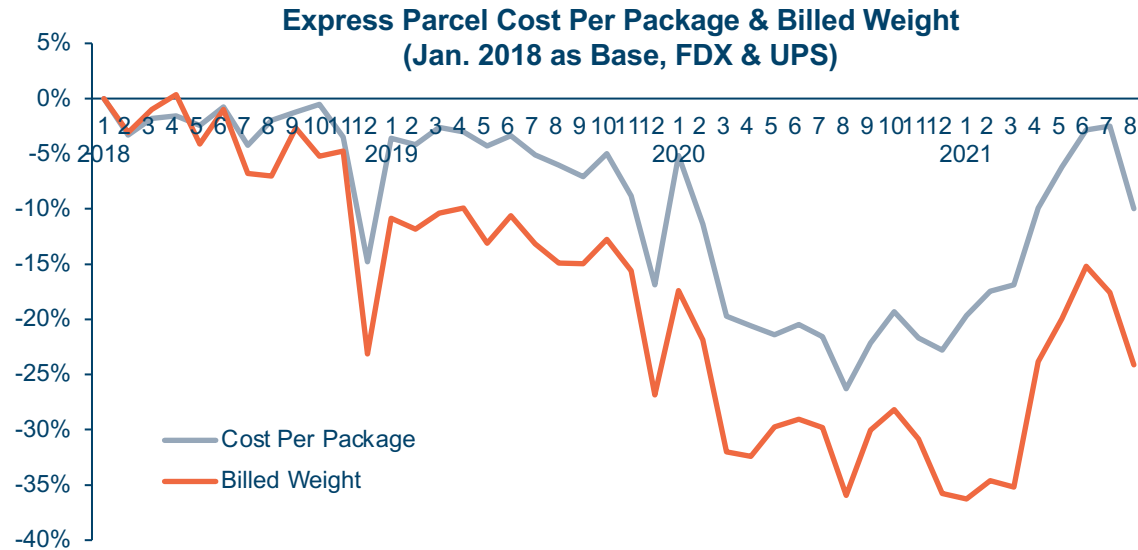


Fig. 1

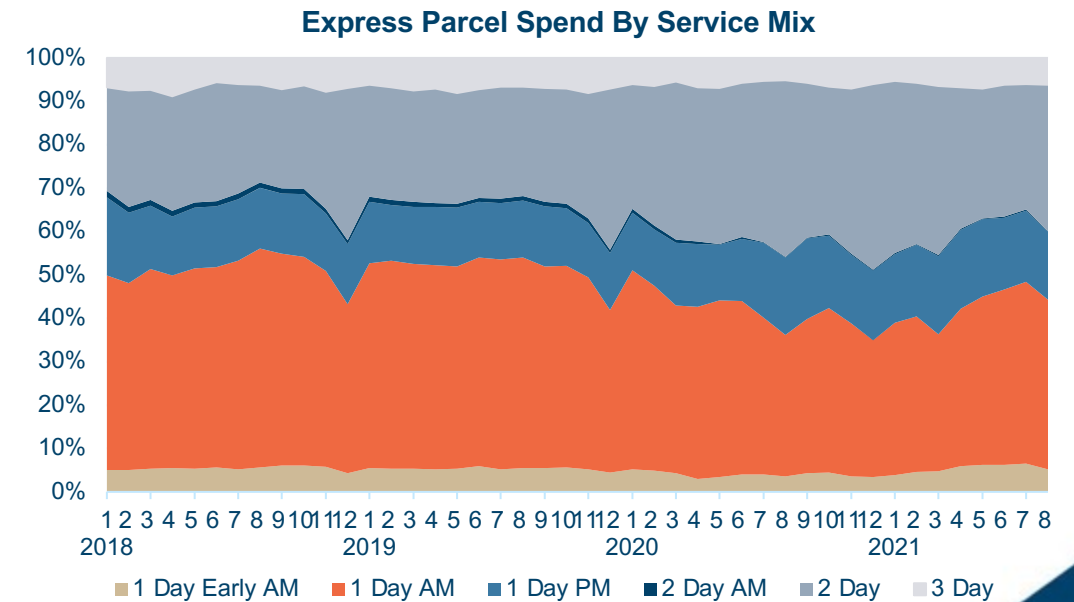
## Express Parcel

# Weight and Service Mix are driving a long-term decrease in the Express Parcel Rate Per Package, but both factors have started to reverse the rate trend in 2021.



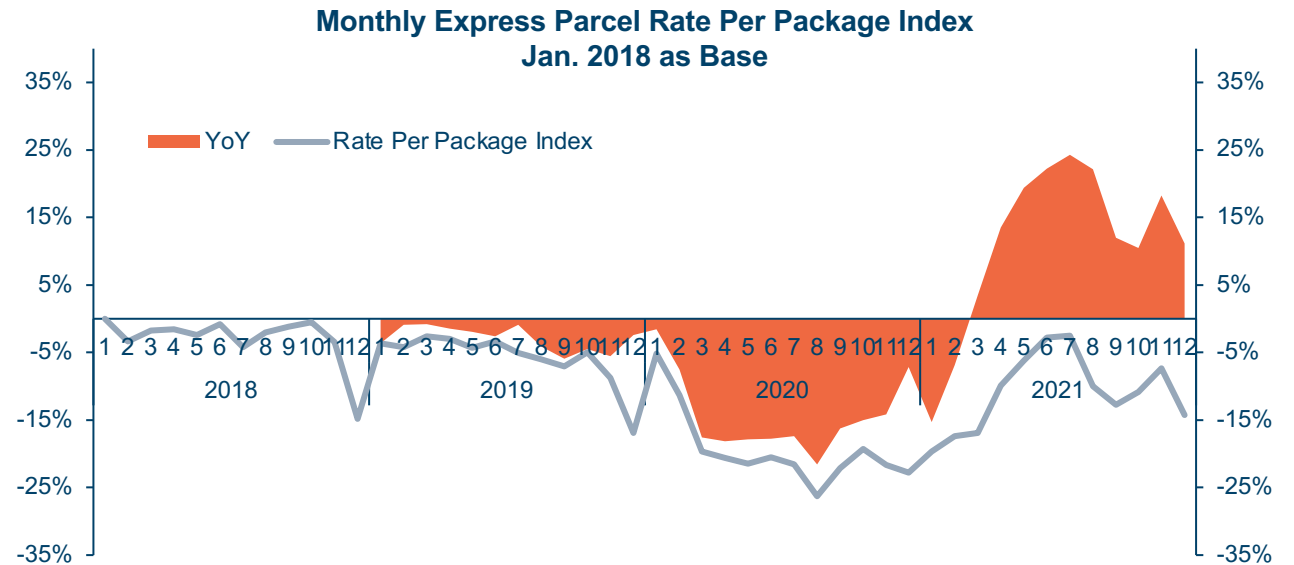
- Rate Per Package tends to increase with each January's GRI.
- Since early 2021, Parcel rates have increased exponentially as the Billed Weight Per Package increased, driven by:
  - The increase in actual weight of the packages.
  - More disciplined carrier pricing policies.
  - Increased usage of premium services.

- Capacity constraints will drive more carrier-friendly pricing policies forcing shippers to seek alternatives.
- Parcel demand remains strong, especially going into peak season in Q4:2021.



The Express Parcel Cowen/AFS Freight Index is expected to be -10.9% in Q4:2021, although this is still well below the Jan. 2018 baseline, it is 10.5% above Q4:2020.

- The Express Parcel Cowen/AFS Freight Index shows a declining trend since 2018.
- The pandemic drove Express Parcel weights down and consequently Rate Per Package fell.
- However, the first half of 2021 brought striking increases in the Express Rate Per Package, resulting in high YOY changes.
- Holiday shipping will result in a seasonal decline of Express Parcel Rates.
- With the announced fuel surcharge increase from FedEx (expect UPS to follow soon) the Q4:2021 Express Parcel Freight Index is forecasted to be -10.9%, a decrease less than normal compared to prior years.



**Express Parcel Rate Per Package Freight Index**

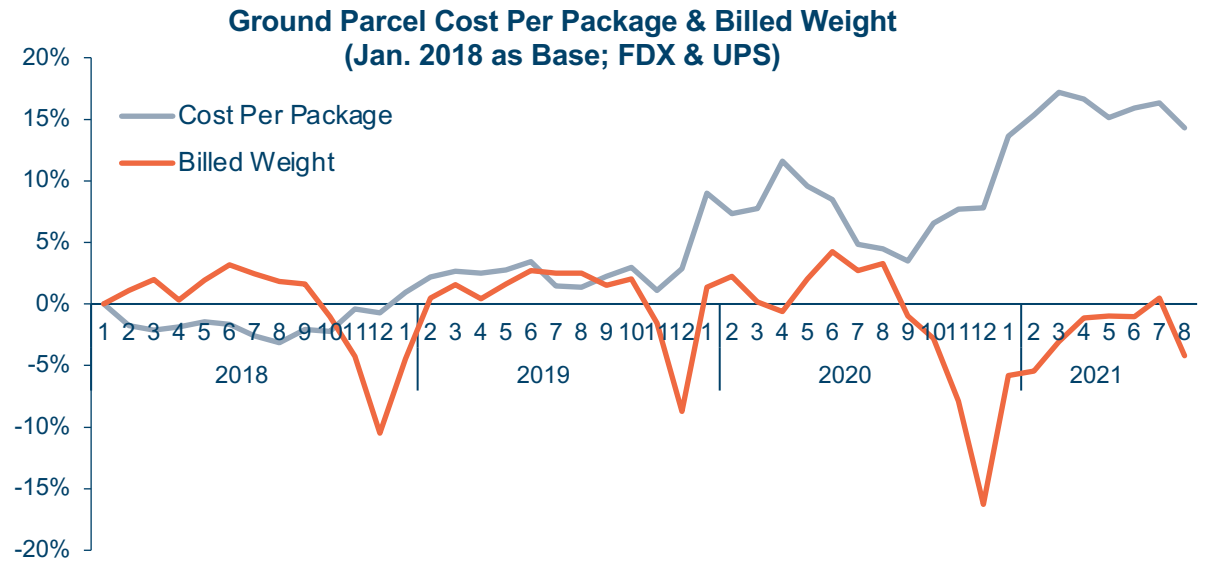
Year	Q1	Q2	Q3	Q4
2018	(1.7%)	(1.6%)	(2.5%)	(6.8%)
2019	(3.5%)	(3.6%)	(6.1%)	(10.7%)
2020	(12.6%)	(20.8%)	(23.4%)	(21.4%)
2021	(18.0%)	(6.4%)	(8.9%)	<b>(10.9%)</b>

*Jan. 2018 = Base, Q4:2021 forecasted*

## Ground Parcel

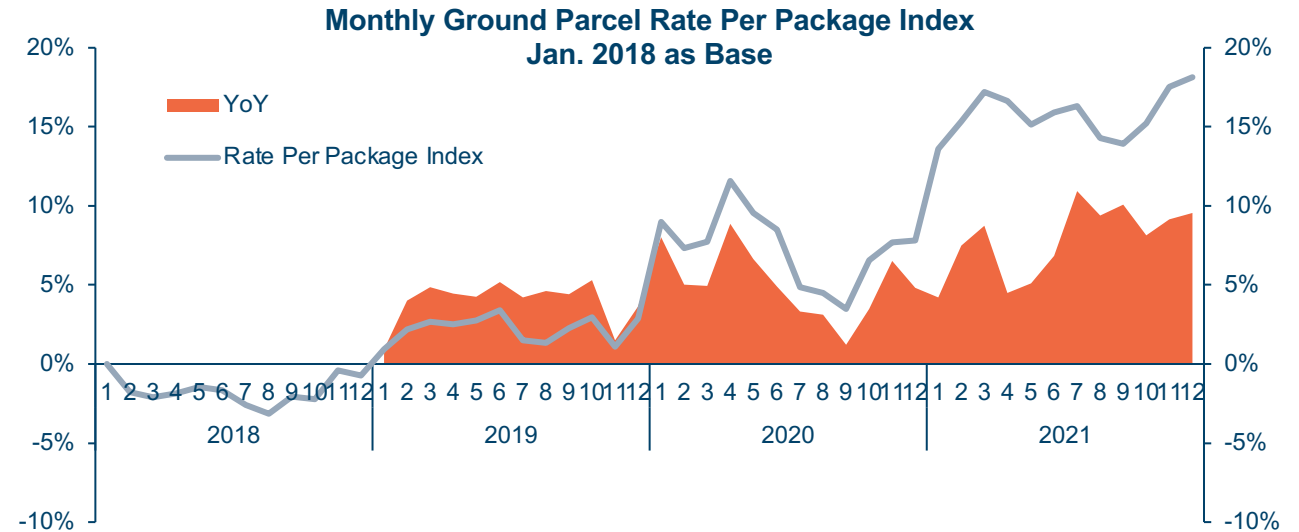
## Ground Parcel Rates are closely correlated with Billed Weight Per Package.

- Ground Parcel has had a more pronounced increase since 2019.
- Similar to Express Parcel, there is a steep drop in the average Billed Weight Per Package with each holiday season. But unlike Express Parcel, Ground Parcel Net Rate Per Package increased over time above Jan. 2018 baseline.
- Billed Weight Per Package leveled off in Q3:2021, creating downward pressure on rates. A slight decline in residential deliveries also helped lower overall Ground Parcel Rate Per Package.



Starting in 2019, the Ground Parcel Cowen/AFS Freight Index continued to increase and is expected to reach an all-time high of 16.9% in Q4:2021.

- Beginning Nov.1, 2021, FedEx will increase the fuel surcharge by 1.75%.
- This early GRI action will effectively increase the net rates by 1.75%, pushing up the Ground Parcel Cowen/AFS Freight Index in Q4:2021.
- Capacity remains a problem, with carriers mandating quotas on daily volume and implementing peak surcharges.



Ground Parcel Rate Per Package Freight Index

Year	Q1	Q2	Q3	Q4
2018	(1.3%)	(1.7%)	(2.6%)	(1.1%)
2019	1.9%	2.9%	1.7%	2.4%
2020	8.0%	9.8%	4.3%	7.4%
2021	15.5%	15.9%	14.8%	<b>16.9%</b>

Jan. 2018 = Base, Q4:2021 forecasted



# Appendix



AFS is one of the most experienced 3PLs in the country, pioneering the space almost 40 years ago, enabling us to save our clients \$178M.

**Founded 1982**      **3** **Core Values**  
• Ethics  
• Engagement  
• Excellence

**7** **Locations with Teammates**      **350+**      **21** **Acquisitions**

**More than**  
**1,700** **in** **35**  
**Clients**      **Countries**

**Average Client Tenure**  
**11.3**  
**Years**

**>300M**  
**Freight Bills Paid Annually**

**\$10B**  
**Freight Audit & Pay**

**Payment in**  
**17**  
**Currencies**

**\$178,000,000**  
**Saved for our Clients Annually**

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AFS Logistics helps more than 1,700 companies across more than 35 countries drive sustained savings, while turning their supply chains into competitive, customer-centric differentiators. The AFS portfolio of services features Audit, Parcel, LTL and Transportation Management, which includes Freight Brokerage, Freight Forwarding and Network Design + Engineering. Employing a team of more than 350 logistics teammates in seven U.S. locations, the company is regularly part of the Inc. 5000 list of fastest growing companies. AFS was founded in 1982 and its corporate headquarters are in Shreveport, Louisiana.

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