Truckload finds a floor, possible bankruptcy threatens to firm up LTL sector and parcel braces for strike threat: Q3 TD Cowen/AFS Freight Index

Index expects first positive QoQ truckload trend since Q1 2022, while potential Yellow collapse casts uncertainty over sagging LTL market and prolonged Teamsters-UPS negotiations threaten disruption for parcel

ATLANTA (July 12, 2023) – AFS Logistics, an industry-leading third-party logistics (3PL) provider, and TD Cowen announce the third quarter (Q3) 2023 release of the TD Cowen/AFS Freight Index, a snapshot with predictive pricing for truckload, less-than-truckload (LTL) and parcel transportation markets. The latest release of the index projects the first quarter-over-quarter (QoQ) increase for truckload rates since Q1 2022, while competition among carriers for falling volumes is expected to drive continued declines in LTL and parcel rates in Q3.

"The COVID era made unanticipated shocks a near constant for logistics operations, and further risks lie ahead. The parcel market is reckoning with just how costly and chaotic a strike could be, while the potential bankruptcy of the nation's third-largest LTL carrier could throw a supply-side shock in an otherwise soft market," says Tom Nightingale, CEO of AFS. "But as the risk of turmoil generates headlines, market conditions still favor shippers, even with truckload finally sending signals of price resilience."

Key implications for truckload

While truckload linehaul cost per shipment continued its deterioration in Q2 2023, the pace of its decrease slowed, and in Q3 2023, the index projects the first QoQ increase since Q1 2022, with the truckload index going up from 6.4% in Q2 2023 to 6.6% in Q3 2023. The Q3 2023 projection represents a year-over-year (YoY) decline of 8.9%, but the truckload index remains elevated compared to pre-pandemic levels, significantly higher than the Q1 2020 number of 2.0% above the index's January 2018 baseline.

"Just as the truckload market exhibited sensitivity to declining macroeconomic forces over the course of the last year, the index is now projected to increase slightly on the heels of stronger-than-expected U.S. GDP growth, receding inflation and a reprieve, at least temporarily, from interest rate hikes," says Andy Dyer, President of Transportation Management for AFS. "Although speculation points to additional interest rate hikes later this year with inflation still double the 2% target, the truckload index is unlikely to fall any lower than Q2 2023 levels, indicating that the market may have finally found its floor."

Key implications for LTL

The LTL index shows the effect of falling fuel prices and softening demand, showing the first negative YoY trend since 2020, declining to 53.2% in Q2 2023, down from 58.4% the year prior and 57.3% the previous quarter. Lower fuel surcharges resulted in an actual fuel cost per shipment that was down 14.0% compared to Q1 2023. Alongside dampened fuel charges, the average length of haul per shipment declined 1.3% QoQ, exerting additional downward pressure on the cost per shipment. Looking ahead to Q3, the LTL rate per pound index projects a decline of 1.3% QoQ and 7.0% YoY to 51.3% above the January 2018 baseline. While lower than the index's Q4 2022 peak of 64.4%, LTL, like truckload, remains significantly higher than pre-pandemic levels.

"Sluggish demand pushes carriers to drop rates, but the move by FedEx to close 29 locations is indicative of the broader trend of LTL carriers removing excess capacity and cost to mitigate the extent of the decline," says Kevin Day, President of LTL for AFS. "A major threat to the current favorable trend for shippers is a potential Yellow bankruptcy. That's a wild card that could present an extraordinary opportunity for LTL carriers to push up rates in a way that's inconsistent with current data."

Possible parcel strike: Different stakes than 1997

While stagnation and rancor at the negotiating table shrouds the parcel industry in uncertainty, UPS, the Teamsters and the current Democratic administration all have a vested interest in avoiding a strike. In 1997, UPS managed to retain the vast majority of its volume following a 15-day shutdown, but in today's parcel market characterized by greater overall capacity and more carriers, a strike presents a greater risk that UPS could permanently lose volume – a long-term threat to Teamsters workers, too. In the near term though, shippers face high costs and limited options to shift volumes away from UPS in the event of a strike, as deadlines set by FedEx and regional carriers for shippers to secure capacity have long since passed.

"We have not seen significant shifts away from UPS despite concerns of a strike, signaling confidence in a timely resolution and the value shippers place on established discounts. In some cases, reallocating volumes to another carrier at this stage could move shippers to lower discount tiers and add significant additional cost," says Micheal McDonagh, President of Parcel for AFS. "Carriers are not incentivized to activate additional capacity to serve as a temporary, stop-gap measure to accommodate temporary shocks. Scaling up networks with additional capacity requires long-term commitments from shippers.

"In the event a strike does happen, practically speaking, the market simply cannot soak up the 20 million parcels UPS handles each day and a significant backlog of packages would accumulate," continues McDonagh. "Shippers desperate to avoid clogging their own warehouse space and the needs of certain high-value categories like healthcare and pharmaceuticals would fuel intense competition for any additional capacity to move priority volumes."

Key implications for express and ground parcel

Express parcel rates dropped 1.9% QoQ in Q2 2023, as the price of jet fuel fell significantly, and with it, corresponding fuel surcharges. The express fuel surcharge dropped 20.7% QoQ, representing a YoY decline of 35.7% from the record highs of Q2 2022. The average discount for base transportation charges also increased by 0.5%, and average accessorial charges dropped by 3.5%, joining with fuel to reduce the cost per package. Looking ahead to Q3 2023, the express parcel index is expected to decrease to 0.9% above the January 2018 baseline, down from 2.5% in Q2. In part, this is attributed to the seasonal variation in billed weight, though recent activity also signals more aggressive discounting by UPS and FedEx, as both carriers have noted double digit YoY volume reductions for air services in earnings releases.

For ground parcel, the net effective fuel surcharge paid by shippers decreased 8.7% QoQ in Q2 2023, which drove down rates 2.2% QoQ. The average discount increased by 1.2% for base transportation and average accessorial charges decreased by 0.7%. Given continued demand shortfalls, the trend of more aggressive discounting and looser pricing discipline on the part of carriers is expected to continue in Q3 2023, with the much-anticipated deceleration of ground parcel rates finally arriving. The index is projected to fall to 26.3% above the January 2018 baseline in Q3 2023, down 1.3% QoQ and marking the first YoY decline in ground parcel since 2019.

About the TD Cowen/AFS Freight Index

The TD Cowen/AFS Freight Index launched in October 2021, offering a unique perspective on the transportation market through its dataset and forward-looking view. Expected rate levels are derived from the data associated with $11 billion of annual transportation spend by AFS customers across all modes and includes actual net charges that factor in accessorials such as fuel surcharges. Past performance and machine learning produce predictions for the remainder of the quarter, set against a baseline of 2018 rates for each mode.

About AFS Logistics

AFS Logistics helps more than 1,800 companies across more than 35 countries drive sustained savings and operational improvements, while turning their logistics operations into competitive, customer-centric differentiators. As a non-asset based and non-asset biased 3PL, AFS provides a range of logistics services, featuring freight and parcel audit, parcel cost management, LTL cost management and transportation management, which includes freight brokerage and freight forwarding. Founded in 1982 and employing a team of more than 380 logistics teammates in eight major locations across the U.S. and Canada, AFS is regularly part of the Inc. 5000 list of fastest growing companies. To learn more, visit www.afs.net.

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