Surprising LTL strength, falling truckload rates and parcel GRI impacts: Q1 Cowen/AFS Freight Index

Latest index shows effects of macroeconomic conditions, carrier pricing strategies on transportation costs across modes

ATLANTA (Jan. 17, 2023) – AFS Logistics (afs.net), an industry-leading third-party logistics (3PL) provider, and Cowen Research today released the Cowen/AFS Freight Index for Q1 2023, a snapshot with predictive pricing across multiple sectors in the freight industry. The latest release of the index reveals surprising less-than-truckload (LTL) strength, indicates a continued downward trend in truckload and illustrates the power of parcel general rate increases (GRIs) and surcharges to prop up express rates and drive ground to record highs in the quarter ahead.

"Predictions for truckload and parcel fall in line with conventional wisdom, as truckload is typically sensitive to macroeconomic headwinds and record GRIs join year-round demand surcharges to drive higher parcel costs, particularly in ground," says Tom Nightingale, CEO, AFS Logistics. "But what the index says about LTL may surprise some. Unlike truckload, LTL is expected to exhibit strength in the face of economic headwinds, supported by higher accessorial charges and GRIs, even as market conditions trend more favorably for shippers.

"Seven interest rate hikes since March of last year and continued inflation have taken a significant bite out of economic demand," continues Nightingale. "While the index does not show a uniform decline across all modes, looking deeper shows the effects of macroeconomic conditions playing out, with carriers competing for more limited demand while searching for ways to claw back revenue."

Key implications for truckload

A continued decline in the truckload rate per mile index is projected to erase almost all of the gains accumulated since Q2 2021. Compared to the record-high 25.8% figure of just a year ago, the index is projected to be 11.2% in Q1 2023 – an 11.6% year-over-year (YoY) decline. Inflation-driven cost increases, relatively high fuel costs and shipper pricing power are expected to threaten truckload carrier profitability in 2023. Data from Q4 2022 indicated a falling cost per shipment, aided in part by a higher percentage of short-haul shipments, with miles per shipment declining 2.5% quarter-over-quarter (QoQ).

Key implications for LTL

While macroeconomic headwinds and flat weight per shipment often point to loosening LTL capacity and falling rates, the data indicates continued strength, with rates heading higher. In Q1 2023, the LTL rate per pound index is projected to reach a new high of 66.5% above the January 2018 baseline – a 1.1% QoQ increase and 20.4% YoY increase. Looking at the previous quarter's results provides insight on factors that can prop up rates. While weight per shipment stayed flat in Q4 2022, a 4.9% increase in accessorial charges per shipment and a greater percentage of shipments rated class 85 or higher powered a 1.3% increase in cost per shipment over the previous quarter. Further upward pressure on rates for Q1 2023 comes from LTL GRIs, which range from 4.9% to 7.9% and took effect January 2023, and relatively high fuel surcharges.

"While current market conditions are more favorable to shippers looking to renegotiate after extended rate hikes, capitalizing on that and actually finding relief is no guarantee," says Kevin Day, president, LTL, AFS Logistics. "The nature of the LTL market means shippers must enlist the help of an advocate and proactively seek out those opportunities, considering the prevalence of individualized pricing and the need for shippers big and small to stay vigilant in monitoring freight costs."

Key implications for ground and express parcel

The record GRIs announced at the end of 2022 are now in effect, resulting in minimal list rate differentials between FedEx and UPS across services. Both carriers also announced similar changes to an extensive list of surcharges, including levying surcharges for deliveries to remote areas and applying peak demand surcharges on a year-round basis, rather than just during the extended holiday season.

"Carriers are continuing to use accessorial charges and GRIs as effective tools to capture revenue, but that success doesn't make them immune to macroeconomic conditions," says Micheal McDonagh, president, parcel, AFS Logistics. "Shippers had ample volume during the COVID era which created capacity issues. Carriers now find themselves in an environment with softening volume and need to change their strategy to grow it."

The ground parcel index for Q4 2022 shows the strength of higher effective accessorial charges. Despite a quarterly decline in average billed weight per package, an 8% increase in average accessorial charge per package drove overall quarterly growth in the cost per package. In Q1 2023, the rate per package index projects a record high of 34.9% above the January 2018 baseline, compared to 27.7% the previous quarter. This anticipated growth is fueled by continued accessorial charges, fuel surcharges that will remain moderately high and record-high GRIs, which are typically 'stickier,' or more resistant to the impact of shipper negotiation and discounting, in ground than express parcel.

The express parcel rate per package index is expected to increase in Q1 2023 to 2.7% above the January 2018 baseline, up 1% QoQ and 5.9% YoY. This comes after a higher-than-expected cost per package in Q4 2022, attributed to a drastic increase in average billed weight per package of 12.5% in October 2022, which, together with a 1.1% QoQ increase in the average zone, lifted the entire quarter.

About the Cowen/AFS Freight Index

The Cowen/AFS Freight Index launched in October 2021, offering a unique perspective of the transportation market through its dataset and forward-looking view. The 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 and was named a 2022 Top 100 3PL by a respected logistics publication. To learn more, visit www.afs.net.

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