Soft demand mutes parcel rate increases, cools LTL and keeps truckload rates flat: Q1 TD Cowen/AFS Freight Index

Latest index shows effect of lingering macroeconomic headwinds as carriers seek to squeeze the most out of limited demand

ATLANTA (Jan. 17, 2024) – AFS Logistics, an industry-leading third-party logistics (3PL) provider, and TD Cowen announce the first quarter (Q1) 2024 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 expects LTL rates to remain relatively flat with subtle fluctuations and truckload rates to continue hovering near the floor established in Q2 of last year. For parcel, the index anticipates seasonal growth consistent with established patterns, but at more muted levels than previous years as lower overall demand clashes with the general rate increase (GRI) and other carrier pricing actions.

"While the Federal Reserve is expected to cut interest rates later this year, the near-term economic outlook continues trends established in the second half of last year," says Tom Nightingale, CEO of AFS. "Carriers are taking action to scrape out extra revenue, particularly in parcel, but the underlying reality of soft demand puts a damper on any upward pricing momentum."

Parcel: Carriers pull levers to raise revenue, compete for limited volumes

Carriers typically communicate fuel surcharge increases with annual GRI announcements late in the year, but this latest round of fuel surcharge increases came separately. December 2023 saw UPS initiate an increase, FedEx follow suit, and then UPS implement another – all before the end of the month. When the dust settled, both carriers had introduced a 1% increase in express, while in ground, FedEx bumped up fuel by 1% and UPS increased it by 1.25%. Discrepancies also emerged between the two carriers' demand surcharges, and are significant enough to affect how shippers allocate volumes. The UPS surcharge is 75% higher than FedEx for additional handling and twice as much as the FedEx fee for oversize/large packages.

"The GRI, fuel surcharge increases and demand surcharges provide a view of carriers trying to address seemingly conflicting challenges – the need to boost revenue in the face of higher labor costs, while operating in a softer market that requires more aggressive pricing to compete for demand," says Micheal

McDonagh, President of Parcel for AFS. "The reality of limited volume continues to shine through in the data, driving expectations for a more limited-than-usual bump to rates in Q1 as carrier discounting diminishes the impact of the GRI."

Q1 2024 projections for ground parcel have rates at 28.9% above the January 2018 baseline, a 3.7% increase quarter-over-quarter (QoQ) powered by the GRI and fuel surcharge increases, but down 1.6% year-over-year (YoY). Data from Q4 2023 shows the result of holiday shipping patterns, with higher accessorial charges, average zone and fuel driving a modest increase of 0.7% in ground parcel rates from the previous quarter. With FedEx and UPS in a competitive pursuit of volume, discounting rose by a percentage point in Q4 2023, helping offset upward pressure on rates from other factors.

In express parcel, the index is projected to reach 1.8% above the January 2018 baseline in Q1 2024, representing a 1.6% QoQ increase – more moderate compared to the same time in previous years – and a 2.2% YoY decrease. The continued "price war" as carriers compete for volume is anticipated to stymie the ultimate effect of the GRI and fuel surcharge increases on rates. Looking back at Q4 2023, express parcel rates declined 2.2% from Q3 2023 levels, the result of increased discounting and a shift away from premium services to less expensive offerings like two-day and three-day service.

LTL: Rates flatten as Yellow volumes settle into new homes

The index projects LTL rates to be 58.9% above the January 2018 baseline in Q1 2024, representing a small 0.7% decline from Q4 2023, but up 0.8% YoY, keeping rates at the escalated levels established since Q2 2022 and upheld partly due to the Yellow collapse in Q3 of 2023. The consolidation in capacity is expected to dull some of the downward pressure on rates that would normally be expected without a resurgence in demand, leading to the continued pattern of subtle fluctuations in LTL rate per pound.

"The LTL market is in a bit of a stasis, as continued soft demand tests just how tight Yellow's exit left capacity," says Kevin Day, President of LTL for AFS. "While it won't bring immediate changes, the auction of former Yellow terminals to other carriers is a major development. XPO and Estes in particular emerged as top acquirers, and those acquisitions should boost carrier network efficiency and overall capacity in the long run."

Truckload: Rates keep bouncing along the bottom

The truckload rate per mile index is projected to be 4.6% above the January 2018 baseline in Q1 2024, down 0.2% QoQ and 2.9% YoY. While truckload rate per mile has exhibited consistency since establishing a floor in Q2 2023, average linehaul cost per shipment has declined in step with miles per shipment. Short-haul shipments – defined as less than 500 miles – grew from 79.8% of all shipments in Q2 2023 to 84.9% in Q4 2023. Despite the continued decline in Q4 2023, cost per shipment still sits 16% higher than pre-pandemic levels.

"With pandemic-era inventory imbalances no longer subjecting businesses to the 'tyranny of the urgent,' shippers can be more strategic and optimize networks with more efficient moves," says Andy Dyer, President of Transportation Management for AFS. "Will truckload rates finally rebound in 2024? We do not expect that to happen in Q1, but easing inflation and widely speculated interest rate cuts indicate macroeconomic conditions could support upward momentum later in the year."

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 visibility to over $39 billion of annual transportation spend 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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