New year, same stagnant demand: Q1 TD Cowen/AFS Freight Index

Parcel carriers get creative to claim revenue, truckload rates stay level and LTL pricing strength may start to waver

ATLANTA (Jan.14, 2025) – AFS Logistics and TD Cowen announce the first quarter (Q1) 2025 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 shows the effect of continued surplus capacity across modes, with LTL pricing finally showing signs of softening and truckload rates remaining stuck at the floor despite some signs of upward momentum. In parcel, carrier pricing actions continue to push against the headwinds of a low-demand environment and prop up rates with varying degrees of success.

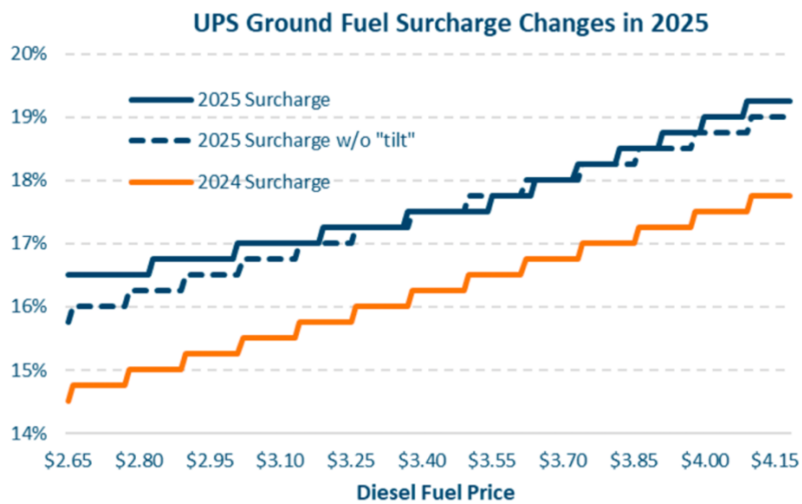
"The current macroeconomic outlook has some positive signs for carriers, but in the near term the same forces that shaped freight markets in 2024 are primed to continue in the quarter ahead," says Andy Dyer, CEO, AFS. "There's no demand-side spark that will shift the freight cycle from what we've had the past couple of years and despite a growing number of carriers exiting the market, the supply-side correction has not reached the magnitude required to offset sluggish demand."

Truckload: Some signs of recovery, but rates to stay depressed for another quarter
Truckload demand remains flat, but some positive cues are emerging, including rising spot rates and higher tender rejection rates, indicating that carriers are being more selective about what loads they accept. But the upward momentum in the spot market has not made its way to contract rates, and the market remains in a state of overcapacity. Truckload linehaul cost per shipment fell year-over-year (YoY) for the eighth straight quarter and reached its lowest point in that period, 11.6% above pre-pandemic levels. Based on current market conditions and seasonal factors, the truckload rate per mile index is projected to stay flat in Q1 2025, coming in at 5.1% above the January 2018 baseline – the same level as the previous quarter and a 0.2% YoY increase.

Parcel: Carrier pricing adjustments yield mixed results
Pricing changes proved effective tools for carriers during peak season, with the newly introduced "blanket" demand surcharge pushing the ground parcel average accessorial charge per package 16.4% higher in Q4 compared to Q3. Continued adjustments to fuel surcharge tables also paid off for carriers in Q4, as average net fuel cost for ground parcel rose 4.7% quarter-over-quarter (QoQ), despite on-highway

diesel prices falling 4.6%. Express parcel saw a similar disconnect, with the U.S. Gulf Coast jet fuel price falling 8.8% QoQ, but only a 2.7% decrease for the carrier fuel surcharge.

UPS announced yet another fuel surcharge increase in December, their eighth in 2024. But rather than a uniform increase across fuel price intervals, this adjustment includes a "tilt" to the fee curve, so that the fuel surcharge rises faster as diesel prices increase and falls at a slower rate when fuel prices drop.



But despite a steady stream of pricing changes, the underlying market reality is one of low demand, intense competition and persistent discounting activity. In Q4 2024, the express parcel rate per package index fell on a QoQ and YoY basis to 0.5% above the January 2018 baseline. And while Q1 2025 is projected to see a seasonal bump on the strength of carriers' general rate increase (GRI), the 4.1% projection represents a YoY decline – the product of a full year of aggressive discounting.

Carriers saw more success in ground, with the rate per package index seeing a QoQ and YoY increase to 24.4% in Q4 2024. With the 2025 carrier GRIs in effect, upward pressure is projected to continue in Q1 2025, with the index reaching 28.2%. However, the consequences of heavy discounting over the past year are present in ground, too, as that Q1 2025 projection is a slight YoY decrease and 2% shy of the record high two years earlier.

"A major question facing the parcel market this year is the longevity of this discounting activity. It's been defined by exceptional strength and staying power, but how long can that continue?" says Mingshu Bates, Chief Analytics Officer and President of Parcel, AFS. "Carriers are continuing to communicate an emphasis on revenue quality, which would indicate tighter pricing control as the year progresses and continued pricing changes throughout the year."

LTL: Rates steady, but some indication carrier pricing discipline may start to crack

Unlike the malaise of sustained low rates in truckload, LTL pricing has remained elevated since Q3 2023, with the Yellow Freight bankruptcy serving as the capacity crunch necessary to give rates a boost. Carriers have managed to keep rates high ever since, but recent data shows signs of that discipline weakening. In Q4 2024, LTL cost per shipment dropped 1.3% QoQ – significantly more than the 0.3% decline in weight per shipment over the same period. Evidence of slipping carrier pricing discipline can be seen when examining the main driver of that drop – the fuel surcharge. Counter to the careful fuel surcharge retention and expansion in parcel, the average fuel surcharge from major LTL carriers fell 3.4% compared to Q3 2024 and the actual net fuel surcharge per shipment fell by even more – decreasing by 5.5% QoQ. While the Q1 LTL rate per pound index is projected to show a positive YoY trend for the fifth straight quarter, the rate of increase continues to taper off, with the 62.4% Q1 2025 projection just 0.4% higher YoY and a 0.2% QoQ decline.

"LTL pricing has been resilient, and a major factor is the increased sophistication of carriers and their ability to price freight in a way that is closely tied to the true cost to move it," says Aaron LaGanke, Vice President, Freight Services, AFS. "But there are opportunities for shippers, especially as low demand persists and carriers seek out 'attractive' freight they can move efficiently. FedEx spinning off its freight business could also shake things up, as shippers who have historically benefitted from bundling parcel and LTL spend to qualify for higher discounts may entertain other options."

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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