Q3 TD Cowen/AFS Freight Index: How stagnant demand plays out across truckload, parcel and LTL

Data indicates a favorable market for shippers, highlighted by intense price competition among parcel carriers and the sixth-straight quarter of truckload rates hovering at the floor

ATLANTA (July 16, 2024) – AFS Logistics, an industry-leading third-party logistics (3PL) provider, and TD Cowen announce the third quarter (Q3) 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 shows the uneven effects of continued demand and capacity imbalances playing out across multiple transportation modes. While LTL carriers are holding the line with pricing discipline, parcel rates are showing the effects of aggressive discounting and excess truckload capacity continues to suppress a pricing recovery.

“The current state of freight markets empowers shippers to wield pricing power and re-evaluate how to best make use of logistics networks,” says Tom Nightingale, CEO of AFS. “Carriers, on the other hand, continue to step up the sophistication and nuanced defenses of their revenue streams, with subtle and frequent ancillary price increases.”

Truckload: Still waiting for a rate recovery

The truckload rate per mile index established a floor in Q2 2023 of 4.3% above the January 2018 baseline, and Q3 2024 is expected to be the sixth straight quarter with rates bouncing along that bottom. The index projects rate per mile to drop slightly to 4.7% in Q3 2024, a 0.3% decline from the 5.0% mark of the previous quarter. In Q2 2024, average linehaul cost per shipment also declined, down 2.7% quarter-over-quarter (QoQ), as the share of short-haul shipments remained relatively flat. For additional context, although Q2 linehaul cost per shipment was down 14% year-over-year (YoY), it was still 11% higher than pre-pandemic levels.

“With truckload seemingly stuck at the bottom for over a year, speculation is rampant as the market looks for any sign of a recovery finally materializing,” says Andy Dyer, President of Transportation Management for AFS. “Recent increases on the spot market do provide a limited upward push, but with contract rates still slightly decreasing and no clear macroeconomic catalyst to spark increased demand, we’re projecting rates to keep hovering where they’ve been since Q2 of last year.”

Parcel: Major discounting overpowers accessorial changes

Parcel carriers find themselves in a contradictory cycle – frequently hiking surcharges to squeeze additional revenue from limited demand, but simultaneously deploying heavy discounting to compete for those modest volumes. Repeated increases to fuel surcharges even as fuel prices are falling have resulted in a growing divergence between surcharges and the actual price of fuel. The ground fuel surcharge would be 5.5% lower if FedEx and UPS allowed the ground fuel surcharge to purely follow market dynamics based on the EIA on-highway diesel price. However, major discounts spurred by the low-demand environment blunt the effect of the surcharge hikes.

“The ‘competitive but rational’ language used by carriers to describe the market did not signal cooling discounting activity, as the pursuit of volume drove liberal discounting in both express and ground parcel,” says Micheal McDonagh, President of Parcel for AFS. “Carriers are also applying discounts to pursue the highest-profit customers. Small- to medium-size shippers are seeing exceptional discounts that might typically be reserved for much larger customers.”

Discounting played a major role in the ground parcel rate per package index declining from 28.8% to 26.8% in Q2 2024, and that trend is expected to continue in Q3, dropping to 25.7%. Cost per package also decreased in Q2 2024, driven by an average discount increase of 0.9% QoQ and a 5% reduction in net accessorial charges per package – not an indication of carrier leniency, but further evidence of carriers’ aggressive discounting.

The express parcel index is also expected to fall, from 4.7% in Q2 2024 to 2.8% in Q3 2024. This projection is in line with seasonal trends and an expectation for heavy discounting behavior to continue in Q3. In Q2 2024, the average discount in express parcel increased 0.7% QoQ, though the cost per package actually increased marginally compared to Q1, driven by weight, service mix and fuel surcharge changes.

LTL: Carrier discipline keeps rates elevated, though cost per shipment continues to fall

Declining weight per shipment and a lower average fuel surcharge drove a 2.6% QoQ decline in LTL cost per shipment in Q2 2024, though rate per pound showed modest QoQ growth – a testament to carrier discipline and graduated pricing structures that make lighter shipments more expensive. Looking ahead to Q3, the LTL rate per pound index is projected to reach 63.2% - a slight 0.3% QoQ increase as market conditions remain steady and carriers maintain discipline.

"Looking at shippers' efforts to capitalize on cost saving opportunities in today's freight market provides a rationale for the decreasing weight per shipment we see in LTL," says Dean Jones, President of LTL for AFS. "Two examples show how inbound and outbound flows at both ends of the weight spectrum push this overall trend – seeking relief from the punitive charges of parcel carriers pushes lighter freight into LTL networks, while pursuing the efficiency of consolidated, multi-stop truckload pushes heavier freight away from LTL carriers."

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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