Yellow bankruptcy fallout, parcel discounting and flat truckload rates: Q4 TD Cowen/AFS Freight Index

Data reveals extent of LTL upswing following Yellow Freight collapse, the effect of parcel carriers competing for softening demand and depressed truckload rates

ATLANTA (Oct. 17, 2023) – AFS Logistics, an industry-leading third-party logistics (3PL) provider, and TD Cowen announce the fourth quarter (Q4) 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 expects LTL rates to rise for the second straight quarter and truckload rates to remain near the floor established in Q2. For parcel, the index anticipates a year-over-year (YoY) decline in ground parcel rates for the second straight quarter and growth in express parcel rates consistent with established seasonal trends.

"UPS-Teamsters negotiations and the Yellow collapse kept logistics managers on their toes this summer assessing risk and managing contingency plans," says Tom Nightingale, CEO of AFS. "Yet even as irregular shocks pressure certain transportation markets, we still see the effects of soft demand and the current macroeconomic climate empowering shippers to find relief."

Key implications for LTL

Early in Q3 2023, many analysts expected that the collapse of the nation's third-largest LTL carrier would send a supply-side shock to pricing. The Q3 index data validates that expectation, with the LTL rate per pound index growing 2.2% quarter-over-quarter (QoQ) following the Yellow collapse in August. Two-thirds of that lift came from the increase in average linehaul charge, which can be attributed to two main factors:

- Carriers exercising restraint on pricing in anticipation of Yellow's demise
- Freight moving from Yellow, a lower-cost carrier, to carriers with higher average pricing

Aside from Yellow capacity leaving the market, the fuel surcharge is a major factor shaping LTL costs, particularly in September, which saw a nearly 20% rise in carrier fuel surcharges compared to Q2, contributing to the bulk of the 9% increase for the quarter overall. Looking ahead to Q4 2023, the LTL rate per pound is expected to grow for the second consecutive quarter, reaching 59.3% above the January 2018 baseline – up slightly compared to Q3 2023 but declining by 3.2% YoY.

"The market has enough capacity to absorb the Yellow volumes, but there's friction as that process plays out that affects more than just former Yellow shippers," says Kevin Day, President of LTL for AFS. "These challenges can include service issues as some carriers deal with more freight than they're accustomed to handling or pricing actions designed to push certain types of 'undesirable' freight away as carriers look to optimize their networks with the most profitable, best-fit freight."

Key implications for parcel

In Q3 2023, ground parcel rates experienced their first YoY decline since 2019, as carriers used more aggressive discounting as a lever to secure volume in a softening market. The average discount per package increased by one percentage point in Q3 2023, the largest increase year to date. Looking ahead to Q4, the index projects a quarterly increase of 1.5%, driven by expectations for a more muted peak season than previous years and associated demand surcharges from FedEx and UPS. The index projects Q4 2023 to be the second straight quarter with ground parcel rates lower than the same point a year prior, down 0.7% YoY.

In express parcel, higher discounting and falling billed weight drove a 2.3% QoQ decline in Q3 2023. Average discount per package grew 0.8 of a percentage point and average billed weight dropped 4%, which were more than enough to offset a 14.6% increase in fuel surcharge and power the net decline in rates on a quarterly basis. For Q4 2023, the index projects an increase of 1.7% QoQ and 2.5% YoY, which maintains a pace of growth from Q3 to Q4 consistent with the past two years.

"After strict pricing discipline by carriers over the past two years, negotiating power is swinging back to shippers," says Micheal McDonagh, President of Parcel for AFS. "Faced with falling demand, carriers are pursuing volume from competitors and the higher discounts we're observing indicates the importance of negotiation strategy in this environment."

Parcel GRIs – Second highest in history

As predicted in the Q3 release of the index in July, UPS and the Teamsters union avoided the disruption of a work stoppage. However, the new labor agreement carries a major cost increase for UPS, estimated to be $30 billion over the next five years. Just over a month later, FedEx took the lead announcing a 5.9% general rate increase (GRI) – less than last year's 6.9%, but still tied for the second highest on record, and UPS announced a 5.9% increase of their own shortly after. Looking longer term reveals the relentless effect of annual GRIs, with the compounded impact resulting in list rates 45.2% higher in 2024 compared to 2018.

Key implications for truckload

Data in Q3 2023 validated the prediction from last quarter's index that truckload rates had found a floor and would begin bumping along the bottom. The rate per mile index rose from 4.3% above the January 2018 baseline in Q2 to 4.4% in Q3. For Q4, the index projects truckload freight to continue this trend, remaining relatively flat with modest, sequential improvement to 4.6% above the January 2018 baseline, which fits expectations for a muted peak season. A quarterly increase in short-haul shipments played a key role in pushing overall truckload cost per shipment lower in Q3, likely the result of shippers' efforts to optimize logistics networks and inventories.

"While we do not expect a notable uptick in truckload for the remainder of the year and into 2024, rates seem to have found a floor and linehaul costs still stand 26% above pre-pandemic levels," says Andy Dyer, President of Transportation Management for AFS. "With truckload transportation so sensitive to macroeconomic forces, charting a course ahead requires balancing a range of conflicting factors. On one hand, U.S. GDP growth indicates economic resilience, but headwinds like continued inflation, conflict in the Middle East, the resumption of student loan payments and the threat of a government shutdown cloud the road ahead."

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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