Unprecedented parcel discounting, truckload and LTL rates hold steady: Q4 TD Cowen/AFS Freight Index

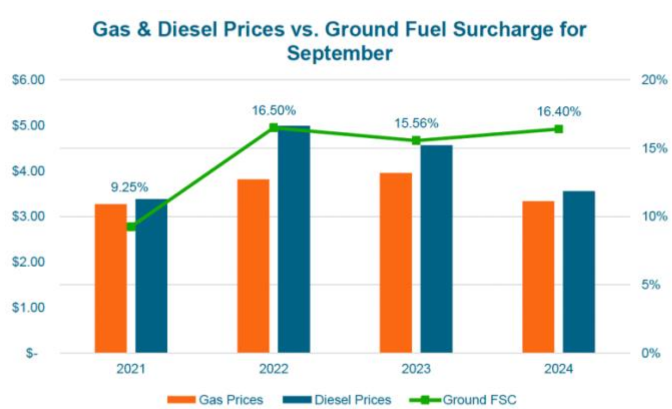
Latest data shows low demand continuing to shape freight markets, forward-looking projections do not expect interest rate cuts to significantly impact freight pricing through the end of the year

ATLANTA (Oct.15, 2024) – AFS Logistics, an industry-leading third-party logistics (3PL) provider, and TD Cowen announce the fourth quarter (Q4) 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 shows the push-pull dynamic of parcel pricing, as carriers implement frequent and creative price hikes to raise revenue, while simultaneously offering exceptionally high discounts to fight for limited volumes. By contrast, truckload and LTL rates continue to follow established trends, remaining relatively flat as macroeconomic changes are not expected to have a major impact until 2025.

“The Fed cutting interest rates is a positive sign for the long-term outlook of truckload and LTL carriers, but our data does not project a material effect on freight pricing in Q4,” says Andy Dyer, CEO, AFS Logistics. “In parcel, the holiday shipping season brings more wrinkles to an already convoluted pricing picture, in which low demand has carriers discounting away the effects of their own pricing changes.”

Parcel: Unprecedented discounting overwhelms incessant price increases

Carriers are continuing the trend of year-round pricing changes, most recently announcing several updates to demand surcharges targeting the 2024 holiday shipping season. The cumulative effect of frequent pricing changes is exemplified by the relationship between the fuel surcharge and actual price of fuel. While gas and diesel prices in September 2024 were nearly the same as 2021 levels, repeated adjustments to fuel surcharge tables by UPS and FedEx have pushed the ground fuel surcharge up 77% compared to 2021.



But persistent low demand has driven discounting to unprecedented levels, with carriers offering heavier discounts to more types of customers and on more line items – including surcharges. The net effect negates the impact of various surcharge increases and pushes down overall parcel shipping costs. Ground parcel data from Q3 2024 shows this dynamic. Carrier adjustments led to a 2.3% rise in the fuel surcharge, but substantial discounting more than offset that increase, resulting in the net fuel surcharge per package actually falling 6.8% quarter-over-quarter (QoQ). Overall, the ground parcel rate per package index fell significantly, down to its lowest level since 2021 – 20.3% above the 2018 baseline – driven by a 2.4% higher average discount and 7.1% decline in average accessorial charge per package compared to the previous quarter. Looking ahead to Q4, competitive pricing pressure will continue to dominate the holiday shipping season, with a notable trend of growing discounts for large customers. The index forecasts a slight quarterly bump to 21.5%, which would represent a 1.8% decline year-over-year (YoY).

Express parcel data tells a similar story, with higher discounts and lower net fuel surcharges adding up to the express parcel rate per package index dropping significantly, from 4.5% in Q2 to 1.6% in Q3. The USGC jet fuel price fell 9.1% QoQ, but well-timed adjustments to carrier surcharge tables resulted in a mere 2% decrease in the carrier fuel surcharge, though when combined with discounting, the net fuel surcharge declined 4.9% in Q3. The index projects a further 0.2% drop in express parcel rate per package in Q4, settling at 1.4% above the 2018 baseline.

Truckload: Rates to stay stuck at the bottom for a seventh straight quarter

The much-anticipated rate cut by the Federal Reserve finally happened last month, but the immediate effect on truckload rates is expected to be minimal. In the near term, truckload freight markets continue to be characterized by low demand and excess capacity. In Q3 2024, linehaul cost per shipment recorded its seventh consecutive quarter with a YoY decline, though the past four quarters indicate it has found a floor, hovering 12-14% above pre-pandemic levels. Looking ahead to Q4 2024, the truckload rate per mile index is expected to stay near the floor established six quarters ago, rising slightly from 4.6% in Q3 to 4.9% above the 2018 baseline in Q4.

LTL: Declining weight per shipment, carrier discipline keeps upward pressure on rates

The LTL freight market in Q3 showed a continuation of established trends, with strict carrier pricing discipline working to maintain yields in a low-demand environment. Weight per shipment continued to decline, down 1.9% QoQ, yet cost per shipment fell just 0.6% QoQ, propped up by a higher average length of haul and a testament to carriers effectively wielding pricing power. Carrier pricing discipline is expected to hold in Q4 2024, with the LTL freight index projected to reach 65.0% above the 2018 baseline, up 0.5% QoQ and 2.2% YoY. That Q4 projection represents the fourth straight quarter with a positive YoY trend, underscoring the sustained upward pressure on LTL rates.

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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