Cowen/AFS Freight Index Key Takeaways

NO CRYSTAL BALL REQUIRED: RELEVANT, DATA-DRIVEN INSIGHTS

Surprising LTL strength, falling truckload rates and propped up parcel charges. How much negotiating power can shippers expect as market conditions trend more favorably in their direction and what's driving less-than-truckload (LTL) to record-highs despite economic headwinds? The latest release of the Cowen/AFS Freight Index puts the data of more than $11 billion in transportation transactions to work to shed light on what's happening and what's ahead for Q1:2023.

TRUCKLOAD

11.2%

The truckload rate-per-mile index will continue its decline and is projected to be 11.2% in Q1:2023, an 11.6% year-over-year (YoY) decline compared to the record-high 25.8% figure of just a year ago.

4.2%

Truckload linehaul cost per shipment showed a quarter-over-quarter (QoQ) decline of 4.2% in Q4:2022. Average miles per shipment also declined 2.5% QoQ.

As a result of macroeconomic conditions such as the likelihood of further interest rate hikes, the truckload rate per mile index is expected to decline in Q1:2023, erasing almost all the gains accumulated over the last two years and signaling a tough 2023 for carrier profitability. Data from Q4:2022 indicated a falling cost per shipment, aided in part by a higher percentage of short-haul shipments.

LTL

66.5%

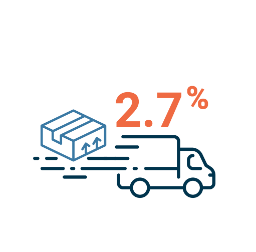
The LTL rate per pound index is projected to reach a new high of 66.5% above the January 2018 baseline – a 1.1% QoQ increase and 20.4% YoY increase.

1.3%

LTL experienced a 1.3% increase in cost per shipment over the previous quarter, powered by a 4.9% increase in average accessorial charges per shipment and a greater percentage of shipments rated class 85 or higher.

While macroeconomic headwinds and flat weight per shipment would traditionally point to loosening LTL capacity and falling rates, the data indicates a counterintuitive strength in rates. Further upward pressure on rates for Q1:2023 comes from LTL GRIs that took effect January 2023, which range from 4.9% to 7.9%, and relatively high fuel surcharges. The nature of the LTL market means shippers must take it upon themselves or work with an expert to seek out opportunities to renegotiate after extended rate hikes, considering the prevalence of individualized pricing and the need for shippers big and small to stay vigilant in monitoring freight costs.

EXPRESS PARCEL

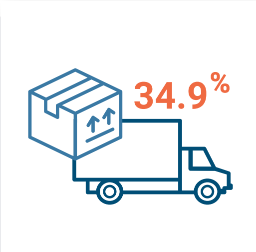


The express parcel rate per package index is expected to increase in Q1:2023 to 2.7% above the January 2018 baseline, up 1% QoQ and 5.9% YoY.

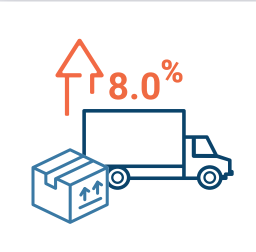
Express parcel cost per package saw a higher-than-expected increase of 3.2% QoQ in Q4:2022.

While FedEx and UPS both announced record-high GRIs of 6.9% for 2023, a more shipper-friendly pricing environment is expected in Q1:2023 due to macroeconomic conditions. The higher-than-expected cost per package in Q4:2022 is attributable to a drastic increase in average billed weight per package of 12.5% in October 2022, which, together with a 1.1% QoQ increase in the average zone, lifted the entire quarter.

GROUND PARCEL



In Q1 2023, the rate per package index projects a record high of 34.9% above the January 2018 baseline, compared to 27.7% the previous quarter.



An 8% increase in average accessorial charge per package drove overall quarterly growth in the cost per package, despite a quarterly seasonal decline in average billed weight per package.

Anticipated growth in Q1:2023 is rooted in continued accessorial charges, fuel surcharges that will remain moderately high and record-high GRIs, which are typically 'stickier,' or more resistant to the impact of shipper negotiation and discounting, in ground than express parcel. The ground parcel index for Q4:2022 shows the strength of higher effective accessorial charges.

PARCEL GRIs: MINIMAL DIFFERENTIALS BETWEEN FEDEX AND UPS

The record GRIs that FedEx and UPS announced in Q4:2022 are now in effect, resulting in minimal list rate differentials between the two carriers across services. Both carriers also announced changes to an extensive list of surcharges, including levying surcharges for deliveries to remote areas and applying peak demand surcharges on a year-round basis, rather than just during the extended holiday season. Carriers are continuing to use accessorial charges and GRIs as effective tools to capture revenue, but that success doesn't make them immune to macroeconomic conditions. Shippers should see some pricing relief as carriers make concessions in an effort to buy volume, and neither carrier has announced fuel surcharge adjustments thus far.

DOMESTIC LIST RATE COMPARISON (FEDEX OVER UPS)							
Service	**Zone 2**	**Zone 3**	**Zone 4**	**Zone 5**	**Zone 6**	**Zone 7**	**Zone 8**
1 Day Early AM	0.3%	0.0%	0.0%	0.2%	0.2%	0.4%	0.2%
1 Day AM	0.5%	0.6%	0.3%	0.5%	0.5%	0.7%	0.5%
1 Day PM	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
2 Day AM	2.3%	3.0%	3.2%	3.6%	1.9%	0.7%	0.7%
2 Day	0.0%	0.1%	0.5%	0.0%	0.2%	0.5%	0.6%
3 Day	30.2%	25.9%	25.8%	18.1%	9.9%	9.8%	13.8%
Ground	0.3%	0.3%	0.2%	0.2%	0.1%	0.1%	0.1%

Want more insights? Access the full Cowen/AFS Freight Index at afs.net. Or, contact AFS for insights on new, strategic ways your organization can achieve a more agile, data-driven logistics network.

afs.net | 877.242.3383 | moreinfo@afs.net | in f

AFS™