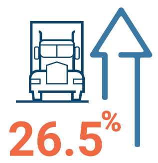
Cowen/AFS Freight Index Key Takeaways

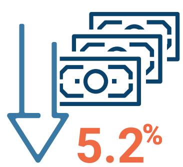
NO CRYSTAL BALL REQUIRED: RELEVANT, DATA-DRIVEN INSIGHTS

Skyrocketing fuel surcharges. Record-high inflation. Seasonal trends. What does it all mean for the future of transportation costs? To find answers, we teamed up with Cowen, an award-winning diversified financial services firm. Our comprehensive, forward-looking quarterly freight index is based on data from more than $11 billion in transportation transactions. In Q3, the index predicts moderate-to-declining quarter-over-quarter growth rates across modes, as continued high fuel surcharges and seasonal factors prop up transportation costs against the downward pressure of softening demand.

TRUCKLOAD



Truckload rate-per-mile growth will begin to flatten in Q3, with a slight quarter-over-quarter increase projected, from 24.1% in Q2 to 26.5% in Q3:2022.

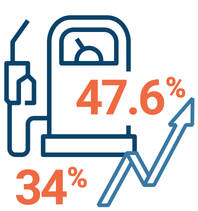


Linehaul cost per shipment declined 5.2% in Q2, but it still increased 14.5% year-over-year.

Price and distance remained strongly correlated in Q2:2022, and the overall miles per shipment decreased by 6.7% compared to the previous quarter, likely due to inventory build-up and loosening port congestion. With truckload demand softening, linehaul cost per shipment reversed the upward trend established since mid-2020. But while spot rates are dropping, contract rates set a year ago are still high, forcing shippers to balance fulfilling their contractual obligations with carriers and the short-term savings opportunities available on the spot market.

LTL

The LTL rate-per-pound index is expected to remain high in Q3, slightly dropping from an all-time high of 54.8% in Q2 to 54.0% in Q3:2022 compared to the January 2018 baseline.

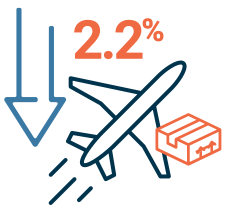


Among major LTL carriers, the **average fuel surcharge increased from 34% in Q1:2022 to 47.6% in Q2.**

Fuel is once again a major driver of cost-per-shipment growth as the Q2:2022 index actualized even higher than predicted. In addition to fuel, higher-than-normal accessorial increases, such as excessive length charges, drove higher costs as carriers priced to avoid moving undesirable freight. To address exposure to high costs, shippers are likely to deploy mitigation efforts like holding freight and consolidating shipments.

EXPRESS PARCEL

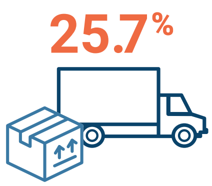
Fuel surcharges more than tripled on a year-over-year basis, far outpacing the 125% increase of the USGC Kerosene-type Jet Fuel rates on which they are based.



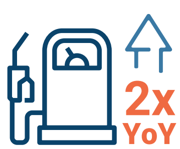
The express parcel index is expected to **decline from a historic high of 5.1% in Q2, to 2.2% in Q3:2022** compared to the January 2018 baseline.

On a QoQ basis, express parcel rates grew 7.9% from Q1:2022, driven by fuel surcharge increases, weight, service mix and the continued impact of the 2022 general rate increase (GRI). The USGC Kerosene-type Jet Fuel rates increased 125% year-over-year, but the fuel surcharges more than tripled, with UPS growing from 6.9% in Q2 2021 to 22.3% in Q2 2022 and FedEx rising from 7.1% to 22.5% in the same period.

GROUND PARCEL



The ground parcel index is expected to remain high in Q3, although slightly declining from an all-time high of 27.7% in Q2, to 25.7% in Q3:2022 compared to the January 2018 baseline.



Fuel surcharges in ground parcel more than doubled year-over-year, far outpacing the 69% increase in on-highway diesel fuel rates on which they are based.

Ground parcel rates showed a continued increase since January 2022 due to higher fuel surcharges, higher average billed weight and good GRI retention. Also known as GRI "stickiness," retention refers to how much of a GRI increase the carrier actually captures from shippers, since the realized level can be less than the listed GRI due to pre-established caps in contracts and other negotiation.

OTHER KEY TAKEAWAYS

While demand is softening and capacity begins to loosen, carriers are using fuel surcharges and other accessorials as effective tools to expand revenue. Inflation is also a double-edged sword, reaching a 40-year high of 9.1%, pushing prices up while limiting demand as purchasing power shrinks. Another factor influencing pricing trends for the remainder of the year is the holiday rush, with manufacturers and distributors beginning preparation in Q3 and peak holiday retail season ahead in Q4.

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.

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