

## FedEx Freight keeping LTL gains from Yellow as market settles



*Former Yellow customers are largely sticking with FedEx Freight, the carrier said Tuesday, as the US less-than-truckload market calms. Photo credit: 5m3Photos / Shutterstock.com.*

**William B. Cassidy, Senior Editor | Dec 20, 2023, 1:21 PM EST**

FedEx is keeping much of the trucking volume it gained from bankrupt competitor Yellow, boosting its daily less-than-truckload (LTL) shipments at FedEx Freight by 4.6% in its fiscal second quarter ending Nov. 30 compared with the prior three-month period.

The largest US trucking company by revenue, FedEx Freight added 4,366 shipments to its daily count in the most recent quarter, bringing its total to 99,001 priority and economy shipments a day, FedEx said Tuesday. Sequentially, revenue climbed 3% in the quarter to \$2.4 billion at the parcel carrier's LTL freight division.

Year over year, however, FedEx Freight saw both its daily bill count and revenue drop, with volume falling 5.1% and revenue slipping 3.8% from the same period a year ago — reminders that the distortion caused by the shutdown of Yellow masks an otherwise muted LTL freight market.

“Market conditions remained soft, with demand lower than we anticipated,” Brie Carere, executive vice president and chief customer officer at FedEx, said during an earnings call with analysts Tuesday. That softer market came during what are typically trucking’s strongest months — September, October and November.

FedEx’s latest earnings indicate the shakeout that followed Yellow’s collapse is slowing.

“New customers that came over as a result of the Yellow shutdown are enjoying a better value proposition, and we have retained a majority of this volume,” Carere said.

“If you look at the volume we took during the summer, we really like what we got,” she said.

In the month or two after Yellow shut down, FedEx Freight picked up about 5,000 shipments a day, not all at once, but in waves, as freight bounced among carriers. That’s nearly 10% of the 49,050 daily shipments Yellow handled in 2022, and likely a greater share of the volume Yellow hauled in the first seven months of 2023. The daily bill count at Yellow’s four operating subsidiaries reportedly had dropped substantially by the time their terminals closed July 30.

“We were actually quite surprised that we found some really high-yielding customers,” Carere said. Many of those customers came to FedEx after other LTL carriers looking to grab Yellow’s business failed to meet service and price expectations.

## Closing year-over-year gap

There are signs that the US LTL sector is pulling out of the slump it entered in 2022. FedEx Freight volumes, while still lower year over year, are improving on a monthly sequential basis. In June, the carrier’s shipments were down 16% year over year, but by November were only down 4%.

Likewise, the annualized gap in the carrier’s quarterly LTL volumes is narrowing. Average daily shipments at FedEx Freight have been down for seven straight fiscal quarters, but the year-over-year gap shrank from 17.6% in the three months ending May 31 to 5.1% in the latest period.

As the largest carrier by revenue and volume — with \$9.6 billion in revenue in its last fiscal year — FedEx Freight is a bellwether for the LTL sector. If current trends hold, FedEx Freight could reach an equilibrium in year-over-year volume in the first half of 2024 — the second half of its fiscal year ending May 31.

But industrial weakness is holding back freight demand. FedEx as a whole has seen “demand weaken primarily because of a slowdown of industrial production across the world,” Raj Subramaniam, president and CEO, said during the earnings call. That slowdown is seen in lower weights per shipment.

“Weights are not where they need to be,” Subramaniam said. “Shipment volume was decent, but it’s really the weight that we’re looking at and weight per shipment is still down dramatically.”

FedEx Freight’s quarterly weight per shipment was down 5.6% year over year in the last three months, but only 0.9% from the period covering June through August. That’s a symptom of the weakness seen in the S&P Global US manufacturing PMI, which dropped 0.6 percentage points in November to 49.4.

What’s not weak is the bottom line of FedEx Freight and other LTL providers. Operating profit at FedEx Freight in the last three months rose 10.6% year over year to \$487 million. The division’s operating margin was 20.6%, giving it an operating ratio of 79.4 — one of the best in the LTL industry.

FedEx Freight’s revenue per shipment rose 1% year over year in the most recent quarter, while revenue per hundredweight, including fuel surcharges, was up 7%.

FedEx Freight did cut costs on a year-over-year basis. Total operating costs dropped 7%, led by a 21.8% drop in fuel costs and a 12.8% decline in purchased transportation. FedEx Freight also shut down 29 terminals in August just as a wave of displaced shipments from Yellow hit its docks.

Those savings account for part of the profit improvement, but pricing also rose. LTL pricing remains “rational,” Carere said. The fall of Yellow sparked a surge in LTL pricing that sent the US producer price index for long-distance LTL up 5.9% from August through October, data from the US Census Bureau showed.

“We are seeing, yes, a very disciplined freight market and I will say, I think we're leading in disciplined freight,” Carere said.

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