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FedEx Freight trims trucking network as LTL shipments drop 18%

Shipment volumes at FedEx Freight dropped faster than at other major LTL carriers, but from a commanding height of more than 100,000 shipments per day. Photo credit: Nicola_K_photos / Shutterstock.com.

William B. Cassidy, Senior Editor | Jun 21, 2023, 2:23 PM EDT

FedEx Freight, the largest US trucking company, is getting a bit smaller, cutting costs and assets as it adapts to a softer US economy and weaker less-than-truckload (LTL) freight market.

The company is on schedule to close 29 terminals out of approximately 400 LTL terminals by August, company executives told Wall Street analysts Tuesday. FedEx Freight also cut $330 million in operating expenses in its most recent fiscal quarter that ended May 31, the company said.

Operations at some of those 29 terminals will be consolidated into larger facilities.

"Consolidation will improve service levels, while lowering our cost to serve," Raj Subramaniam, FedEx president and CEO, told analysts during the quarterly earnings call. A slightly smaller network will also better match the company's 18% drop in LTL shipments per day in the just-ended quarter.

The company first announced the terminal closures in May, according to the Memphis Commercial Appeal.

Subramaniam, CFO Mike Lenz and other FedEx executives said they expect that the worst of the freight recession is over, but don't expect a quick recovery in freight demand. FedEx's overall approach to a potential "reset" will be "prudent," Subramaniam said, with continued focus on reduced spending.

"We will continue to look to optimize facilities" at FedEx Freight, Lenz said during the earnings call. "The 29 facilities were smaller ones that weren't the most efficient, so as we lean into what could be a demand recovery, that volume could be accommodated within the larger facilities."

The consolidation at FedEx Freight is part of an ongoing reshaping of the US LTL market under the pressure of slower economic growth, a freight recession and inflated inventories.

The shortfall in shipment volume reported by FedEx Freight is the largest reported in recent months by an LTL carrier, in terms of percentage. However, FedEx Freight also handles nearly twice the daily volume of its largest competitor, Old Dominion Freight Line (ODFL), according to earnings reports from the companies.

FedEx Freight handled 92,986 LTL shipments per day in its most recent quarter, the second quarter since the height of the recession in 2020 that shipments per day dropped below 100,000. In the calendar second quarter, ODFL handled 47,155 shipments per day, a 9.6% year-over-year decrease.

Both economy and priority LTL shipments declined from a year ago, according to data released by FedEx. Economy shipments dropped for the fifth straight quarter, but priority LTL shipments rose slightly from the previous quarter.

The year-on-year drop in shipments in the quarter pulled revenue down 18% to $2.3 billion at FedEx Freight. For its full fiscal year ended May 31, it increased its operating revenue 1% to $9.6 billion. That compares with a 21% increase in revenue to $9.5 billion in the 2021 fiscal year.

The consolidation at FedEx Freight comes during a period of flux within the LTL trucking sector, with an overall drop in shipment volume and demand sometimes masking differences among motor carriers.

ODFL reported an 11.4% reduction in shipments in May, while Yellow, the third-largest LTL operator, saw volume fall 13.8% year over year. At ABF Freight System, however, dynamic pricing contributed to a 2% year-over-year gain in shipments and tonnage in May.

XPO Logistics, the fourth-largest LTL carrier, reported a 1.8% increase in shipments in May, although tonnage dropped 2.3%, thanks to a 4% reduction in weight per shipment.

Pricing still 'disciplined'

Falling volumes are putting pressure on FedEx Freight's profit margins, but not as much pressure on LTL pricing. "The team is focused on maintaining pricing discipline," Subramaniam said.

The US producer price index (PPI) for long-distance LTL trucking in April was down 11.1% from its peak in June 2022. That all-inclusive measure of selling costs includes fuel surcharges and other accessorial fees, however. The average US retail diesel price — the basis for motor carrier fuel surcharges — is 34% lower this week than a year ago. The drop in the PPI doesn't necessarily reflect base rates.

Interviews with shippers and carriers indicate LTL "pricing discipline" remains largely intact, with less downward pressure on contract than among truckload carriers. That stability is largely attributed to the much more consolidated nature of the LTL sector, and limits on LTL capacity.

In addition to pruning its terminal network, FedEx Freight is limiting hiring after "another round" of furloughs "to match staffing with volume levels," Subramaniam said.

The contraction at FedEx Freight is running parallel to a larger consolidation throughout the international transportation company, as FedEx Express and FedEx Ground networks are streamlined and integrated. The company's operating cost savings reached $2 billion in the quarter.

The end goal is a more efficient and nimbler network and to be better prepared for demand growth when it eventually returns, Subramaniam said.

"I think the reset is probably complete and e-commerce is going to grow," he said. But forecasting "is very difficult, given the dynamic circumstances we are seeing," particularly in inventory restocking and destocking.

"At the end of the day, we are focused on the things we can control," Subramaniam said.

Contact William B. Cassidy at bill.cassidy@spglobal.com and follow him on Twitter: @willbassidy.