

FedEx Freight realigns in rapidly changing US LTL market



The LTL market is showing more signs of extended softness as freight settles a year after Yellow's collapse. Photo credit: Around the World Photos / Shutterstock.com

William B. Cassidy, Senior Editor | Sep 20, 2024, 2:01 PM EDT

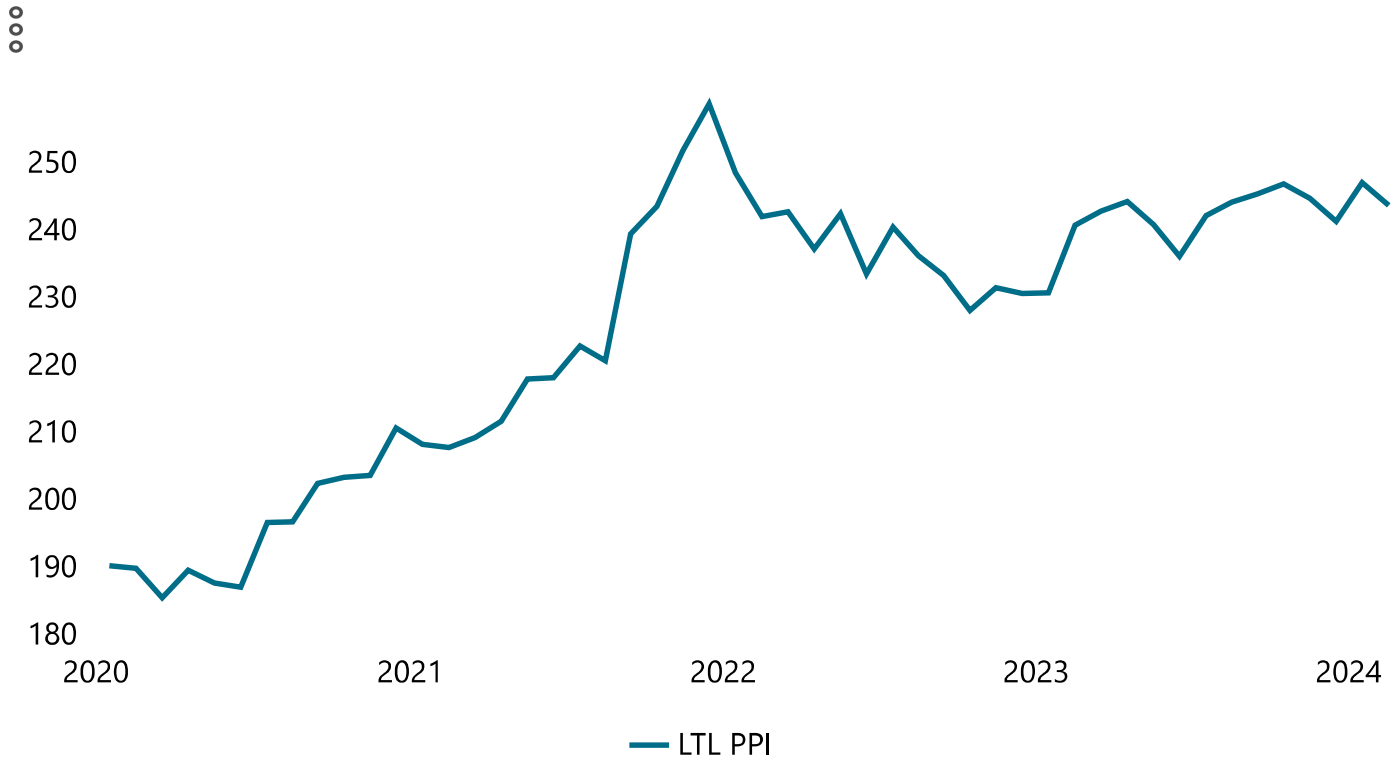
Less-than-truckload (LTL) carrier FedEx Freight is reconfiguring its network, closing terminals in some markets while planning expansion in others. The FedEx subsidiary and largest US trucking company by annual revenue closed seven terminals during its fiscal quarter that ended Aug. 31 after shutting down 29 terminals in the previous 12 months.

More adjustments are likely as FedEx reacts to changes in the LTL market and considers whether to spin off its profitable trucking arm to focus on air and ground packages. The company told the *Journal of Commerce* it plans to add more than 200 LTL doors in strategic markets by the end of its fiscal year next May.

“As we shared last quarter, we are conducting an assessment of the role of FedEx Freight in our portfolio structure,” Raj Subramaniam, president and CEO, said during FedEx’s fiscal first-quarter earnings call Thursday. “The assessment is well underway and on track to be completed by the end of the calendar year.”

US LTL annualized pricing gains narrow to 1.2% in August

US long-haul less-than-truckload producer price index based on selling prices



Source: US Bureau of Labor Statistics data, JOC analysis

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FedEx Freight is shutting down terminals as other LTL providers expand their networks. Estes Express Lines, XPO, Saia and Knight-Swift Transportation Holdings have all reopened facilities purchased from Yellow in the past year.

But FedEx Freight still has about 360 facilities, according to its latest annual report, and the company says the closures are part of a realignment, not a retreat.

“As the LTL industry evolves, we continue to adapt our freight network to meet forecasted demand and make adjustments that align with the evolving needs of the

business,” the company told the *Journal of Commerce*. “We remain committed to expanding where the volume is and is forecasted to grow.”

“We are looking always for dock-door expansion in the right markets,” Brie Carere, executive vice president and chief customer officer at FedEx, said during the earnings call. “Where we make closures, they simply just are not the right place from a growth perspective.”

Drop in daily shipments

FedEx Freight’s most recent network changes are the latest sign of a correction in an LTL market that had been distorted for a year by the aftermath of the collapse of Yellow.

The failure of the then third-largest LTL provider in July 2023 sent waves of freight and facilities into the market, pushing up LTL rates by high single digit percentages, starting in August 2023. That artificial boom is subsiding, revealing a more tepid market.

FedEx Freight’s revenue dropped 2.4% year over year to \$2.3 billion in its fiscal first quarter, while its operating profit fell 9% to \$439 million. Nearly half that decline was due to one fewer operating day in the quarter compared with the same period last year, FedEx said.

The LTL provider’s total shipments per day dropped to 92,008 shipments for the quarter, down 2.8% year over year and 15% from the same three-month period in 2022.

That’s still well above the number of shipments handled by the next-largest carriers by revenue, Old Dominion Freight Line (ODFL) and XPO.

In the quarter that ended June 30, ODFL and XPO moved 48,444 and 53,519 shipments per day, respectively. Both carriers also reported a drop in daily shipments for August in mid-third-quarter financial updates released earlier this month.

In its earnings presentation, FedEx Freight said its daily shipment count fell 2% in July and 7% in August from the same months last year.

Fading Yellow distortion

Shipment counts this August are being compared with counts that were swelled by an influx of freight from former Yellow customers last August.

FedEx attributed the volume decline to a “challenging US industrial economy” and the transfer of heavier freight to truckload carriers. Dwindling shipment counts also

confirm that with Yellow firmly in the rear-view mirror, there's little new LTL freight to be found.

That will eventually have an impact on LTL rates, although FedEx Freight and other carriers say LTL pricing remains “disciplined,” with carriers sticking to their pricing gains.

But the latest long-distance LTL producer price index (PPI) from the US Bureau of Labor Statistics shows year-over-year pricing gains slowing, rising only 1.2% from one year ago in August. That's another sign of dissipating distortion.

FedEx Freight does expect a positive turn in LTL demand, but not until the first half of calendar year 2025.

“Obviously, there's a tough freight environment right now,” Carere said. “We expect LTL shipments to inflect positive later in the fiscal year.”

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