



INSIGHT  
SOURCING GROUP



## ISG Logistics COE – June 2020 Category POVs



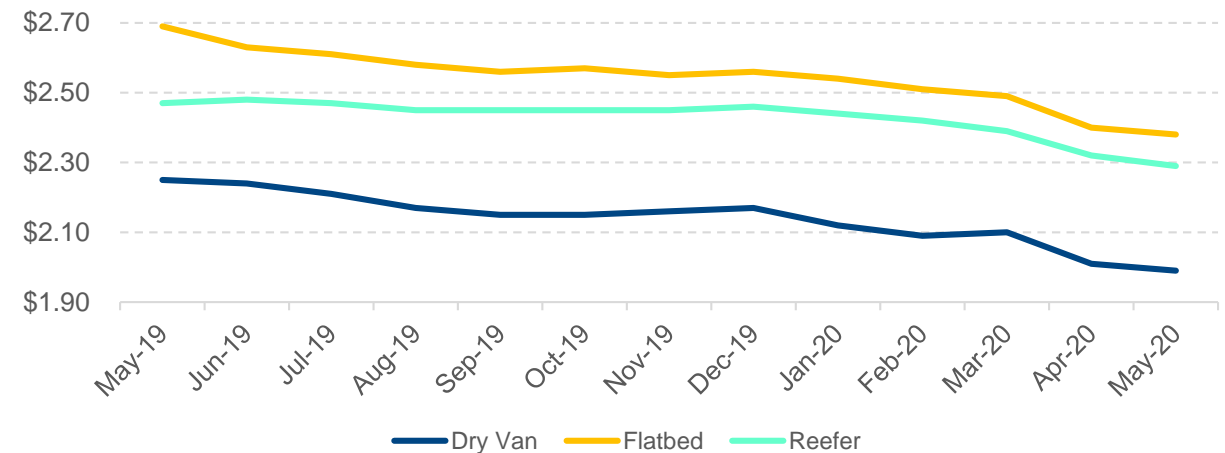
## Short Term News & Trends

- Freight demand in May increased relative to the prior two months, but it still trails pre-COVID levels. Today's truckload activity in the US is still more than 30% lower than it was in February.
- US trucking is becoming more short-haul-oriented, as COVID and the recession have shifted freight away from longer-haul, one-way truck lanes. The number of local trips under 100 miles have doubled in Q2
- FMCSA canceled Hours of Service (HOS) exemption for food, fuel and raw materials retailers and producers, citing that these industries no longer qualify for emergency relief. Some carriers were likely benefitting from the leeway on HOS for the past few months

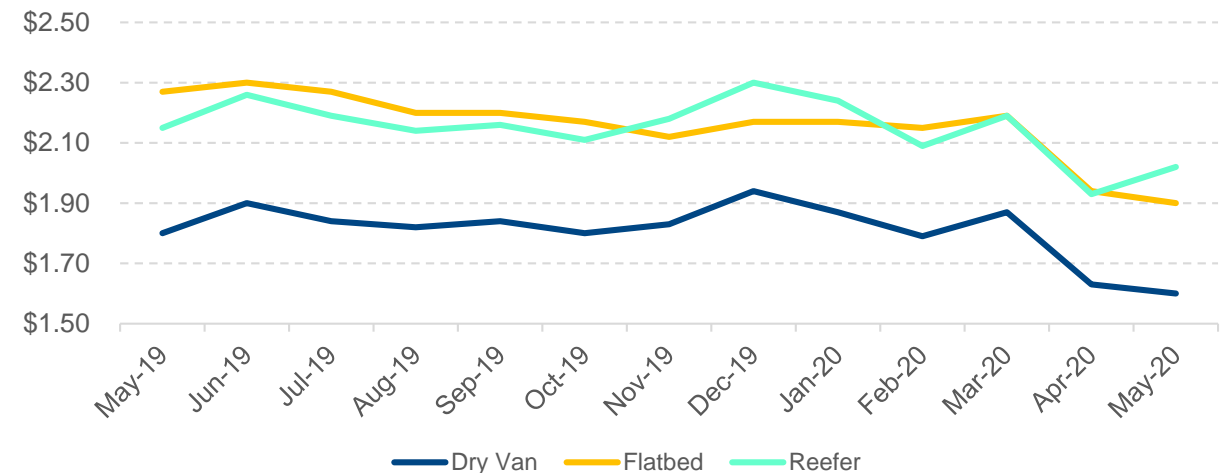
## Future Projections and Recommended Next Steps

- The near 30% drop in freight volumes in Q2 is now entering a slow recovery, following the gradual reopening of the broader US economy
- Shippers who have not sourced their freight in the past twelve months should be advised that current market conditions are favorable, as rates are projected to gradually rebound in the next few months
- Other shippers are recommended to revisit recent award scenarios and consider consolidating volume with strategic suppliers. Decisions made on cost previously can be revisited with high performing incumbents who may be able to offer more competitive rates in the current market.
- ISG recent sourcing events have shown 8-15% savings

### DAT Contract Rates



### DAT Spot Rates





# Less Than Truckload (LTL)

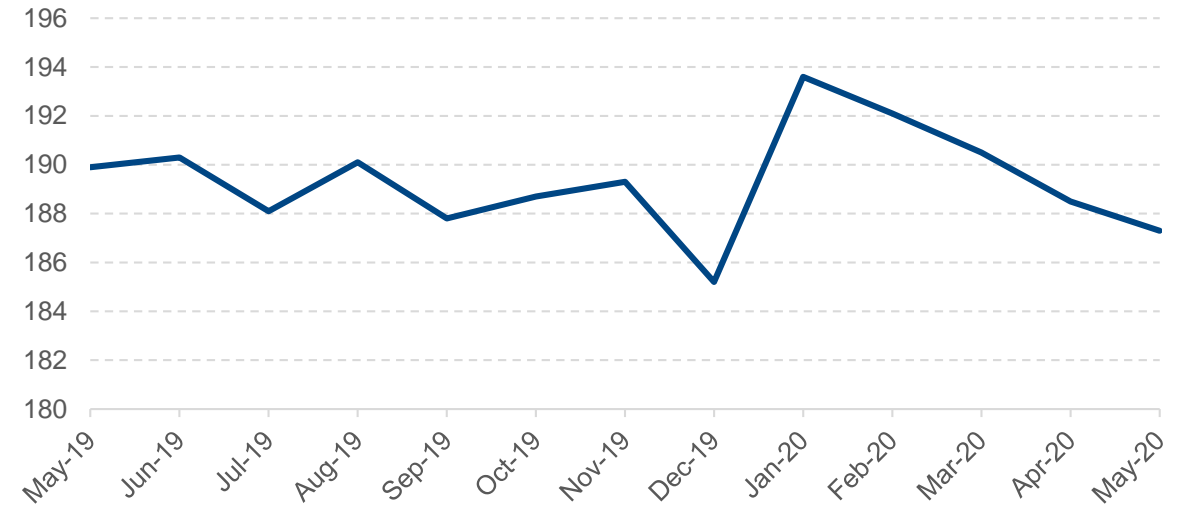
## Current Environment

- COVID-19 impacted LTL volumes beginning late March. Carriers report tonnage and shipment count are down, but average weight per shipment is starting to increase slightly; capacity is expected to tighten throughout June
- ISM Purchasing Managers Index has been under 50 (May = 43.1) since March, but has improved slightly from April (41.5), the second-lowest level since April 2009
- LTL Carriers are reporting shipment volume has decreased 10-30% causing large drops in utilization resulting in many carriers issuing furloughs
- There has been an increase in the number of shippers placing their LTL freight out for bid recently and carriers are seeing slightly lower annual rate increases

## Future Projection and Recommended Next Steps

- While the absolute metrics favor shippers due to prolonged volume droughts, momentum continues to see carriers steadily regaining pricing power, creating a closing window of strong opportunity to source new rates
- Shippers with contracted rates over 12 months old are advised that market conditions should continue to bode well for strategic sourcing and supplier rationalization potentially until 2021.
- Shippers should watch for financial warning signs (increasing operating ratios) that could cause unexpected business interruptions or bankruptcies (e.g. YRC Worldwide)
- ISG recent sourcing events have shown savings of 10-20%+

## FRED: Producer Price Index LTL



## DHL Supply Chain Pricing Power Index





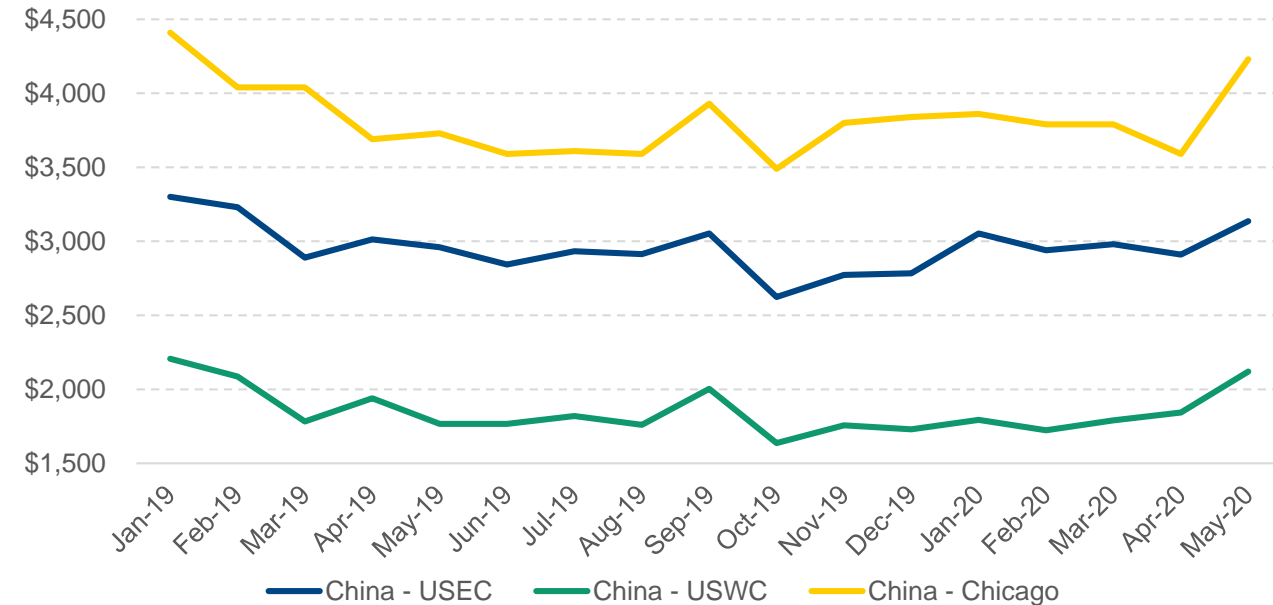
## Current Environment

- **Blank Sailings:** After a record-high number of blank sailings through May, carriers have significantly reduced the number of blank sailings in Q3 (26 of a scheduled 735 US-bound sailings). This, along with a recent spike in demand, suggests shippers are beginning to recuperate from COVID-19.
- **Spot Rates:** Freightos Baltic Index Global Container Freight Index rates are up 25% YoY, driven by a moderate increase in Asia-USEC (8%) and more significant increases in Asia-USWC (49%) and Asia-N Europe (23%).
- **Fuel Prices:** After a short spike at the beginning of the year, VLSFO bunker prices have dropped 55% since a spike at the very beginning of the year, leading to lower BAF values for Q2 and Q3.
- **Weak Peak Season:** US ports have seen a 5.5% decline in YoY US containerized imports due to dampened demand. Ports expect a slight increase in imports in Q3 as shippers prepare for the holiday season, though initial indications are that it will be a weak peak season compared to most years.

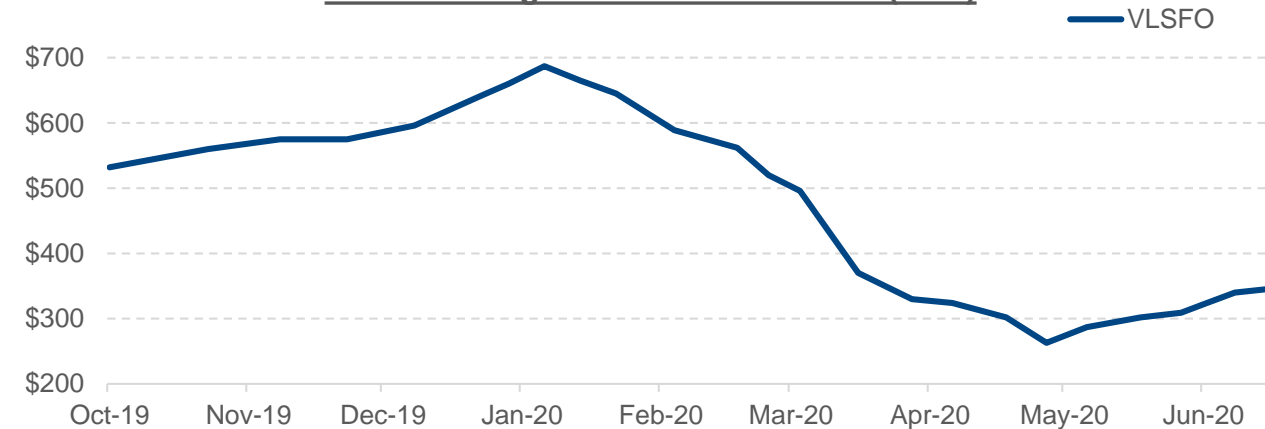
## Future Projection and Recommended Next Steps

- ISG recommends contracting freight rates through Spring 2021 to prevent exposure to spot rate fluctuations due to unpredictable demand
- Ensure that you have visibility into your quarterly bunker rates and how they are calculated, as most shippers should see a significant decrease in bunker prices for Q3 (\$100+ per container)
- During the recent ocean contracting season, ISG's sourcing events showed savings of 4-8%+

### Drewry Rates from China (USD)



### Global Average VLSFO Bunker Price (USD)



# Small Parcel Shipping



## Current Environment

- FedEx and UPS passed General Rate Increases (GRIs) at the beginning of 2020 that average out to 4.9%
- Both carriers have recently increased accessorial charges as well as the frequency with which these charges occur. Standard GRI caps do not protect our clients from these changes.
- Due to the COVID-19 shipping environment, residential shipments have increased significantly, while commercial B2B shipments have decreased
- FedEx and UPS are pushing back regarding lower rates for residential shipments because of higher volume for these services
- To account for the change in demand from COVID, UPS and FedEx implemented “peak surcharges” in May/June until further notice, which apply anytime a client’s weekly volume exceeds their February average by 10% (UPS) or 20% (FedEx):
  - UPS – \$0.30 increase for both Ground Resi and SurePost shipments
  - FedEx – \$0.30 increase for Ground Resi and \$0.40 for SmartPost
- FedEx and UPS continue competitive with one another, perhaps even more so given the recent disruption Amazon represents for the marketplace (in particular to FedEx).

## 2020 Carrier General Rate & Accessorial Increases

Contract Variable	FedEx Rate	UPS Rate	FedEx 2020 Increase	UPS 2020 Increase
Ground Minimum	\$8.23	\$8.23	4.8%	4.8%
Next Day Service Minimum	\$30.31	\$30.62	3.9%	3.9%
2 Day Minimum	\$19.11	\$19.30	4.9%	3.5%
Ground Commercial Delivery Area Surcharge	\$2.95	\$2.95	9.3%	3.5%
Ground Residential Surcharge	\$4.00	\$4.00	9.6%	5.3%
Large Package Surcharge (Commercial)	\$100	\$100	11.1%	5.3%
Additional Handling Weight	\$24 (Threshold lowered from 70 lbs. to 50 lbs.)	\$24 (Threshold lowered from 70 lbs. to 50 lbs.)	20%	4.3%
Additional Handling Dimensions	\$15	\$15	11.1%	5.3%



INSIGHT  
SOURCING GROUP