Langham
LOGISTICS

RATES ON THE RISE:

UPDATING EXPECTATIONS FOR 2021 AND BEYOND IN LOGISTICS

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What goes down, must come up. Bouncing back from the many disruptions of 2020, the logistics industry is working to make up for lost time. Yet many headwinds are creating a new normal, at least for the first part of 2021. Continued capacity limitations and disrupted supply chains paired with increased shipping demands have rates surging. Every mode of transportation—from the road, railway, ocean, and sky—is combating challenges testing the supply chain in new ways. Understanding the industry's current climate and what lies ahead is the best way to navigate this rough road.

PARCEL

CURRENT CONDITIONS:

Volume is creating major volatility in the small package delivery space. Online consumer spending grew 44% with U.S. merchants in 2020. Amazon alone represented 31.4% of ecommerce sales. The top 100 retailers outside of Amazon grew their ecommerce share by 24.7% from 2019. This double-digit ecommerce growth created demand exceeding capacity by three million daily packages during the peak holiday season. While growth will slow in 2021, ecommerce is expected to expand by another 15% this year. In addition to the ecommerce boom, COVID-19 vaccines increasingly are competing for capacity with parcel carriers.

What to Expect:

- Both UPS and FedEx announced 2021 rate increases averaging 4.9% along with a host of new surcharges. Anticipate mid-year and seasonal rate increases as well.
- USPS's higher rates for 2021 took effect January 24. Since the Postal Service manages much of the parcel overflow, the adjustments likely will drive future rate increases for UPS and FedEx as they combat squeezed margins.
- Carriers will enforce contract volumes more strictly as capacity remains limited. Expect dips in on-time service for non-pharmaceutical shipments.
- Shippers will continue to make decisions around higher prices from FedEx and UPS vs. lower prices with sluggish performance from USPS.

Rate Increase Projection:

5-8%

LESS THAN TRUCKLOAD (LTL)

CURRENT CONDITIONS:

Two major headwinds for LTL in 2021 are lack of drivers and equipment. The year started with a 2,000-plus driver shortage compared to capacity needs. Driver exposure to COVID-19 is compounding the problem and causing regional terminal shutdowns for quarantines and cleaning. LTL also is feeling the effects of the ecommerce explosion. Retailers are holding trailers longer while also requiring more deliveries by appointment. This is causing widespread service problems with LTL customers reporting extended shipment times of one to three days. Shippers are shopping around for better service and carriers are taking advantage of the moves by increasing rates. Capacity is very limited and it will be important that shippers and customers be flexible with their LTL service partners.

What to Expect:

- Look for substantial rate increases. LTL carriers are investing in additional equipment along with alternative equipment like straight trucks and cargo vans to keep up with volume. Driver shortages and wage increases will also be a major factor in higher labor cost.
- Adjust service expectations internally and with customers as LTL shipment times lengthen while capacity remains limited.
- Anticipate rejections on undesirable lanes or bulky freight. When accepted, these freight movements likely will come with costly accessorial charges.
- The YRC, Holland and Reddaway group will be combined together as one carrier named Yellow. It will handle both long haul and regional freight out of one Service Center.
- UPS Freight was acquired by Canadian company TFI International and will rebrand UPS Freight to TForce Freight. It is unknown how this will affect the market.

Rate Increase Projection:

5-11%

TRUCKLOAD

CURRENT CONDITIONS:

Goods orders and shipments have surged past pre-pandemic levels. Carriers usually experiencing significant freight volume declines in January and February largely are running at full capacity. Truckload providers closed out 2020 with about 67,500 less drivers than the year prior. Like LTL, truckload carriers are struggling with equipment utilization due to shipper delays. Dry van carriers generally get a boost in the winter months from available refrigerated trailer capacity. That has been limited this year and will go away sooner than usual as vaccine production ramps up leading right into produce season. Plus, freight volumes will continue to climb in the warmer months as analysts predict 2021 to be a strong year for housing starts. Early indicators show permits increased by 10.4% in January. One of the biggest cost factors hitting carriers this year is insurance increases averaging 20-30%, even for providers with superior safety ratings.

What to Expect:

- Prepare for tight capacity until late summer/early fall near the close of produce season. With most U.S. citizens expected to have access to the COVID-19 vaccine by July, economies may surge upon reopening creating a capacity crunch all the way through the peak holiday season.
- Consider the effects of a delayed bid season. Many shippers are postponing bids knowing that rate increases are coming. This could create price battles for prime lanes.
- Rail, truckload's volume release valve, also is experiencing three- to four-day ramp delays due to volumes. Most rail companies are issuing rate adjustments and accessorial charges making them a less appealing cost alternative to truckload.
- For customers shipping refrigerated and frozen products, the race to deliver COVID-19 vaccines will continue to utilize capacity normally reserved and utilized by non-COVID-19 vaccine products.

Rate Increase Projections:

10-12%

EXPEDITED

CURRENT CONDITIONS:

As LTL and truckload carriers experience volume and service limitations, shippers are turning to expedited carriers to get freight delivered on time. Yet these carriers also are competing for drivers to keep up with demand. Investments in real estate, equipment, and technology are driving up operating costs prompting general rate increases as well as surcharges and new accessorial fees. Excess volumes have carriers paying more to brokerage services for capacity. January spot rates were nearly 25% higher than a year ago. Almost half the country closed out the month with a load-to-truck ratio of more than 5.5 which is highly unusual for this time of year.

What to Expect:

- Anticipate high costs for playing the spot market on overflow or non-contracted lanes.
- Expedited carriers will continue offering on-demand services without the long lead times of other traditional carriers, but they will cost even more.
- Shippers using expedited carriers likely will increase in 2021 with shortening ecommerce delivery times and vaccine distribution prioritization taxing

traditional transportation provider capacity and on-time performance.

Rate Increase Projections:

6-8%

COLD CHAIN TRANSPORTATION

CURRENT CONDITIONS:

Pharmaceuticals will be the headline for cold chain transportation in 2021. Analysts estimate a 10% annual growth rate for pharmaceuticals in cold chain logistics through 2024. COVID-19 vaccine distribution is currently concentrated to a limited group of carriers. That may change as new vaccines enter the market with less strict temperature requirements. With more than 100 million doses expected to drop in just a few months, the influx will have a capacity ripple effect. Non-pharmaceutical cold chain providers will be left to pick up the slack. The year started strong with refrigerated load-to-truck volumes up 54% from 2020. January closed with more than one-third of the country having 12 refrigerated loads for every one truck available. This trend likely will continue right into produce season.

What to Expect:

- Pharmaceutical deliveries will concentrate with a select group of carriers leaving other transportation providers to manage increased consumer volumes for things like groceries and cosmetics.
- In addition to annual volume spikes associated with produce season, cold chain transportation providers will experience increased demands from reopening restaurants and venues largely sidelined in 2020 for the pandemic.
- Cold temperatures across much of the country will tie up climate-controlled equipment to protect shipments from freezing, especially electronics.

Rate Increase Projections:

5-10%

INTERNATIONAL AIR

CURRENT CONDITIONS:

The transportation sector yet to bounce back from the pandemic is air. Decreases in air travel forced companies to ground huge portions of their fleets. First to go were large, less fuel-efficient cargo planes in exchange for smaller jets. Declines in passenger travel further limited shipment space in the belly of those planes. Overall capacity is down more than 25%. Hong Kong-based Cathay Pacific recently implemented 14-day hotel quarantines for pilots and flight crews further limiting available cargo capacity. Other carriers out of Europe are following suit. Lane imbalances on key ocean shipping lanes are sending more freight to the skies. Plus, the short lifespans of COVID-19 vaccines outside of deep freezes makes air transportation ideal for quick distribution.

What to Expect:

- Anticipate little reprieve in air rates until at least the second half of 2021. The first passenger flights to come back will be short, domestic flights which offer little belly capacity for excess cargo.
- International travel that provides more cargo capacity will be slow to return. Priority will stay with ecommerce, vaccines, and personal protective equipment.
- Companies will be slow in reintroducing large freight flights to the skies under short-term rates and while waiting to see how much belly capacity returns over the year.

Rate Increase Projections:

35-50% (Asia to U.S and Europe)

OCEAN CONTAINER

CURRENT CONDITIONS:

Ocean freight rates are at a historic high while schedule reliability is at a new low. Lane imbalances started as China mandated lockdowns at the start of the pandemic in 2020. Those lockdowns have progressed to various countries across the world at different times creating a year of inconsistent outbound and inbound volumes. Many Chinese factories remained open during Lunar New Year further straining container availability. As with all other modes of transportation, ecommerce is driving ocean freight volumes up as well. The Ports of Los Angeles and Long Beach currently are buried under containers with 23% and 26% loaded import increases year over year, respectively. The ports already are considered full with more record volumes ahead. Ships spent an average of 7.3 days anchored at the ports in January, which equates to millions of dollars daily in lost revenue.

What to Expect:

- Lead time calculations will need added flexibility. Container shipping companies will control capacity tightly and adjust quickly making forecasting tough.
- Lack of empty equipment, port congestion, and lane imbalances will keep rates volatile and capacity unreliable through the first half of 2021.
- Look for some relief in Q2 as demand tapers slightly and additional capacity becomes available.

Rate Increase Projections:

50% plus additional premiums

Increasing Rates Does Not Mean Decreasing Opportunities

With rates and capacity so volatile, a third-party logistics provider is a shipper's best friend. Langham Logistics offers:

- Relationships with thousands of high-quality carriers across the country.
- A dedicated fleet for reliable domestic capacity.
- Volume buying power for better rate negotiations.
- Global partnerships with air freight and container shipping companies.
- Multi-purpose warehouse space, including cold storage, kitting, and assembly.
- Back office support ensuring no surcharge or accessorial fee goes unchallenged.
- Business intelligence technology to identify and eliminate shipping inefficiencies.
- Single point of contact to manage and hold accountable all of the partners which a customer utilizes.

When it comes to your supply chain, we've got you covered. Contact our team of supply chain experts for more information.

Langham LOGISTICS

HEADQUARTERS:
5335 West 74th Street
Indianapolis, IN 46268

PLAINFIELD OFFICE:
650 S Perry Rd, Suite 100
Plainfield, IN 46168

ARIZONA OFFICE:
7200 W. Roosevelt St.
Phoenix, AZ 85043

CALIFORNIA OFFICE:
21046 S Figueroa Street
Unit B
Carson, CA 90745

PHONE: 855-214-2844

VISIT OUR WEBSITE: WWW.ELANGHAM.COM