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EARNINGS

FedEx Earnings Reflect Labor Shortage, Supply-Chain Woes

Delivery giant reports lower quarterly profit, cuts outlook as tight labor market adds $450 million to spending

The company said costs have risen in part because it has increased wages to attract workers.

PHOTO: DAVID PAUL MORRIS/BLOOMBERG NEWS

By Paul Ziobro

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FedEx Corp. FDX **-8.01%** ▼ cut its financial outlook as labor shortages caused expenses to soar in the latest quarter and shipping demand unexpectedly slowed due to supply-chain disruptions.

The delivery giant on Tuesday posted an 11% drop in profit for the quarter ended Aug. 31 as the tight labor market added $450 million to costs, including increased overtime, higher wages to attract workers and extra spending on transportation.

“The impact of constrained labor markets remains the biggest issue facing our business,” FedEx Chief Operating Officer Raj Subramaniam said.

He said that a sorting hub in Portland, Ore., had 65% of the workers needed to handle the normal number of packages that go through that location. To try to catch up, FedEx is diverting 25% of the volume bound for that hub to other locations, adding trucking routes and hiring more third-party transportation companies.

Across FedEx, about 600,000 packages a day are being rerouted, Mr. Subramaniam said.

FedEx is raising wages and paying premiums for weekend shifts to try to attract more workers. It also is adding more than a dozen automated sorting facilities and expanding other sites to address bottlenecks in its network.

The company said that, meantime, problems across the supply chain—from factories starving for parts to congested ports and rail yards—have dented demand for shipping packages. Online sales are taking a hit, too, it said, as more consumers shop in store or pick up their online orders themselves.

The average daily volume for both FedEx's Ground and Express shipments fell slightly in the latest quarter. Some customers have complained this year of slow or delayed shipments, and the company said in June it would ramp up its capital spending to add capacity.

FedEx is now forecasting per-share earnings before certain accounting adjustments of between $18.25 and $19.50 for the fiscal year that started in June, down from a prior forecast of $18.90 to $19.90 issued in July.

FedEx shares declined more than 4% in after-hours trading on Tuesday.

The company has struggled due to the tight labor market, which has made it harder to hire workers to sort packages. Across its divisions, salaries and employee benefit expenses in the latest quarter rose 13%, including 27% in its Ground division. Meanwhile, growth in shipping volumes, which surged during the pandemic and ensuing boom in e-commerce, has slowed significantly.

FedEx is trying to offset some of the financial challenges with higher shipping rates. The company on Monday said that it would raise its rates an average of 5.9% early next year, the highest annual increase it or United Parcel Services Inc. has implemented in eight years. The higher-than-normal increase comes as FedEx and UPS both have strong pricing power due to high demand for their services and lagging additions to shipping capacity.

For its August-ended fiscal first quarter, FedEx posted income of $1.1 billion, or $4.09 a share, compared with $1.25 billion, or $4.72 a share, a year earlier. Excluding some restructuring and integration expenses, per-share earnings were $4.37 in the period.

Revenue rose 14% to $22 billion.

Analysts recently polled by FactSet expected the company to post per-share earnings of $4.88 on $21.9 billion in revenue.

The pandemic touched off an upheaval in the shipping industry, as initial lockdowns in March 2020 led to a sharp rise in shipping volumes as homebound consumers shopped online.

Both FedEx and UPS instituted new fees on packages to offset costs and also raised rates on customers as they found themselves with newfound pricing power. As UPS cut ties with some customers to focus on more profitable business, FedEx picked up some business, as it was making a new push into delivering more e-commerce packages.

Its service levels have taken a hit. On-time performance was 86.4% for FedEx in August, according to ShipMatrix Inc., a software provider that analyzes shipping data, compared with 95.3% at UPS and 97.1% at the U.S. Postal Service.

Clean Eatz Kitchen Inc., which ships ready-to-eat frozen meals, in recent weeks moved all its business to UPS, saying delays with FedEx caused thousands of dollars worth of shipments to be spoiled some weeks.

“It killed us,” Mr. Nista said. “We were losing customers left and right.”

Since the switch to UPS, Mr. Nista said that on-time delivery rates are in the high 90s.

A FedEx spokeswoman said that the company works with all customers to address concerns and that the loss of one customer “is not indicative of a broader trend.”

She added: “In fact, the trend is that FedEx is continuing to grow, and there are many other examples of customers moving to FedEx.”

The challenges at FedEx come weeks before the busiest time of the year for the parcel industry, as shipping volumes typically rise ahead of Christmas.

Already, merchants and retailers are facing another tight year for shipping capacity. ShipMatrix estimates that shipping demand in the U.S. will exceed available capacity by 4.7 million parcels a day in November and December. That is less than a 7.3 million shortfall last year, but still means that millions of packages could arrive after Christmas unless consumers shop early.

FedEx is aiming to hire around 90,000 workers to help with the holiday shipping rush, about the number it added the previous year.

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