

A background image showing a busy port or warehouse. In the foreground, a yellow forklift is moving a stack of cardboard boxes. In the middle ground, a yellow semi-truck is parked. In the background, a large container ship is docked at a pier, with a yellow crane lifting a container. An airplane is flying in the sky above the ship.

SUPPLY CHAIN MARKET PULSE

July 2024

KEY TRENDS AND CHALLENGES IN THE SUPPLY CHAIN

1

DEMAND/SUPPLY IMBALANCE

- This has remained a key trend for years in Supply Chains, however, some changes are being seen in short-term time horizons.
- Ocean capacity surplus has reversed in recent months. Demand is up from peak season pull forward, and supply constraints have severely restricted available ocean vessels resulting in higher prices, at least temporarily.
- Shippers are dealing with international service and pricing volatility. Lessons learned during the pandemic swings may have better prepared supply chains.

2

SHIFT IN TRADE FLOWS

- China+1 strategies continue to accelerate for global importers with nearshoring to destination markets continuing to be important
- While Trans-Pacific trade routes remain critical due to the ongoing significance of Asian economies, trade routes to Mexico and Central America are gaining prominence, bolstered by their geographical proximity and expanding manufacturing sectors

3

SUPPLY CHAIN DISRUPTIONS

- **Supply Chain impact remains global.** Recent pricing increases on major trade lanes bear the impact of equipment imbalances in a single region.
- **Labor actions** continue to be in the news. The North American union representing Longshoreman (ILA) indicated that a strike is becoming more likely due to a lack of progress in contract negotiations with maritime employers and stated they will not extend the current contract beyond its expiration on September 30, 2024.

NEW ALIXPARTNERS PUBLICATION

HARNESSING GENERATIVE AI IN SUPPLY CHAIN MANAGEMENT

As Generative AI (GenAI) gains traction in supply chain management, business leaders who want to make the most of this technology will need to distinguish fact from fiction. Many leading companies already use AI to enhance their supply chain capabilities and automate routine tasks. Read our article to learn more about the potential power of GenAI to use vast amounts of unstructured data to reshape supply chain management in a dynamic and shifting landscape.



**DOWNLOAD
THE FULL
REPORT [HERE](#)**

Harnessing GenAI's ability to navigate vast amounts of unstructured data, business can gain a competitive edge in five ways:



1 Securing better pricing and improving quality



2 Identifying new suppliers



3 Detecting early suppliers at risk



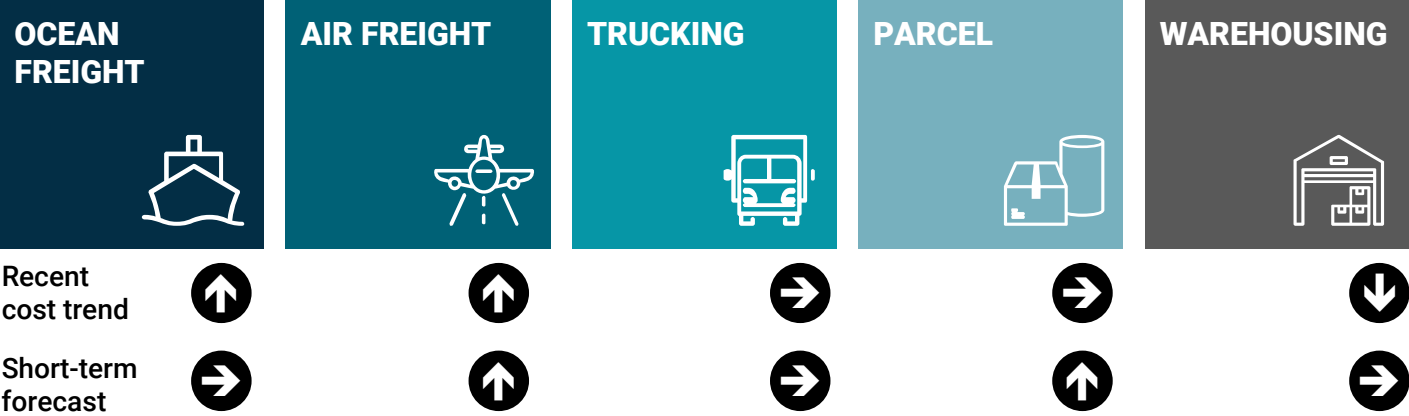
4 Forecasting cash flow risks



5 Managing inbound logistics more efficiently

FREIGHT COSTS

The freight market is beginning to normalize from recent geopolitical shocks. Pricing volatility is returning across some modes due to freight market imbalances



WHAT IS MOST IMPORTANT TO KNOW?

International Transportation prices are ticking upward resulting from limited supply due to the Red Sea crisis, regional congestion in APAC, and managed pricing from carriers

- Ocean rates have risen due to the diversion from the Red Sea and regional congestion. In long term, over supply of capacity is still prevailing in most markets
- Air Freight prices are ticking upwards due to Red Sea diversion and E-commerce growth

Major parcel players are facing revenue declines in a more challenged market

- Parcel carriers have been aggressive on pricing in an attempt to win business; however, shippers should prepare for rise in ground parcel delivery costs as U.S. parcel revenue sees first decline in 7 years

Companies are continuing to look at structural aspects of their supply chains

- To further optimize, companies are shifting from procurement exercises to optimizing a changed Supply Chain network as a result of constant waves of disruptions of different kinds

Although transportation costs have likely bottomed, volatility will remain with prices eventually increasing throughout 2024 and beyond

- Supply Chain resilience is going to be key in 2024
- This environment provides opportunity to optimize core carrier base enhancing service and capacity commitments

WHAT ACTIONS CAN WE TAKE?

Take advantage of every opportunity – freight procurement remains a hot market

- RFPs are not the only answer; shippers should renegotiate rates with incumbents for faster results and rationalize their truckload supplier community with top performing suppliers

Strategically review the network

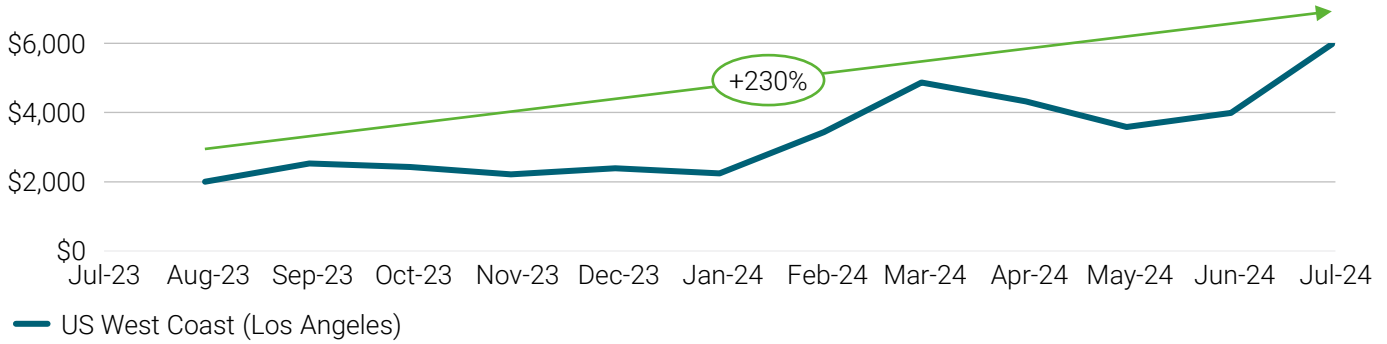
- Review and use this time as an opportunity to reset the strategic distribution network
- Align where the organization needs to be physically, and from a capability standpoint to take advantage of the next growth period

Source: AlixPartners analysis

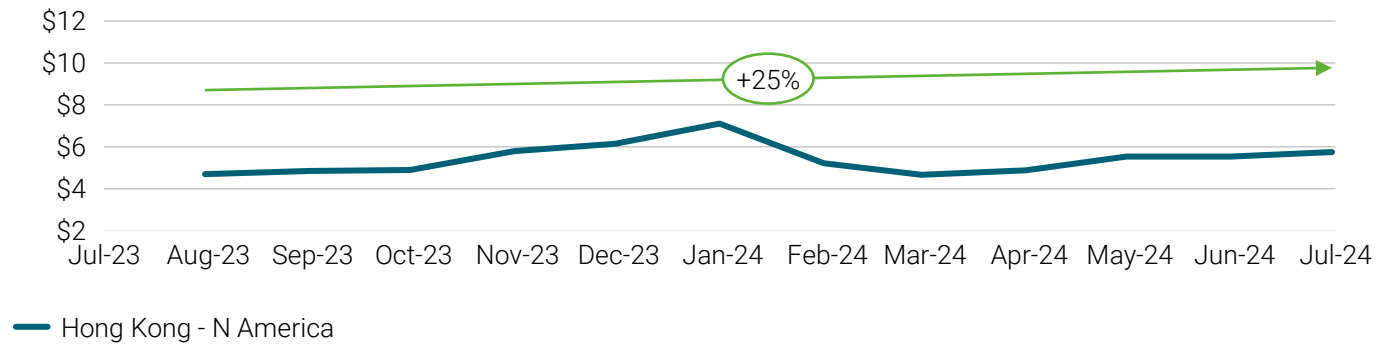
FREIGHT TRENDS

Recent macro-economic events have sent international transportation rates spiking higher. Domestic trucking remains depressed due to supply/demand imbalance

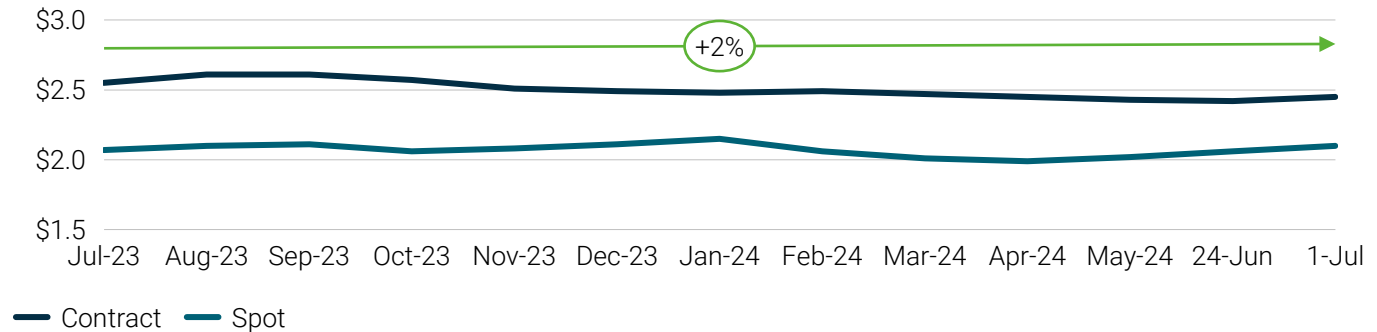
OCEAN FREIGHT – SHANGHAI TO U.S. – (\$/40FT)



AIR FREIGHT – HONG KONG TO U.S. – (\$/KG)



TRUCKING: DRY VAN – (\$/MILE)



KEY TRENDS AND FACTS



KEY DRIVERS CAUSING RATE CHANGES ARE:

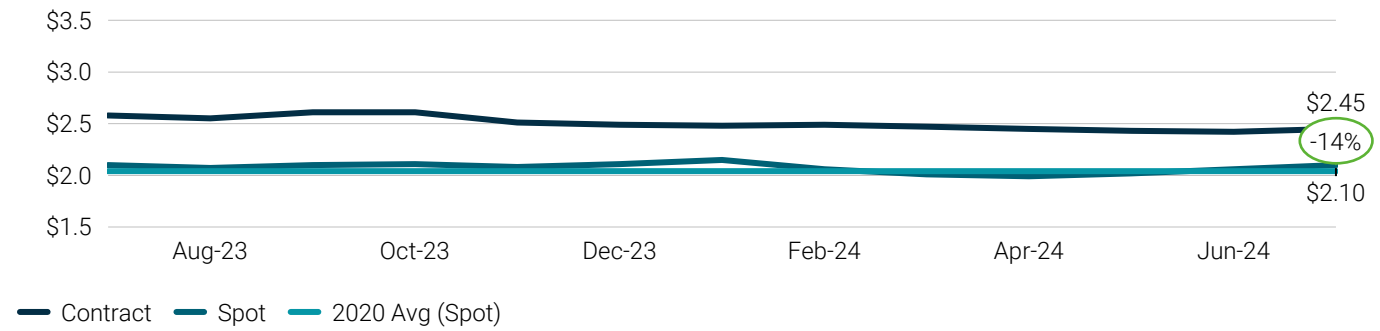
- Ocean freight is seeing Port congestion, container shortage and an early peak season are all driving up spot prices
- Air demand remains elevated, driven by the cargo diversion from the Red Sea crisis and E-commerce growth from the likes of Temu, Shein, and other international e-commerce sellers
- TL rates remain low as shippers refrain from building inventory and carrier exits slow, prolonging the road to recovery

Source: DAT, Drewry, TAC database, Freightwaves, AlixPartners analysis

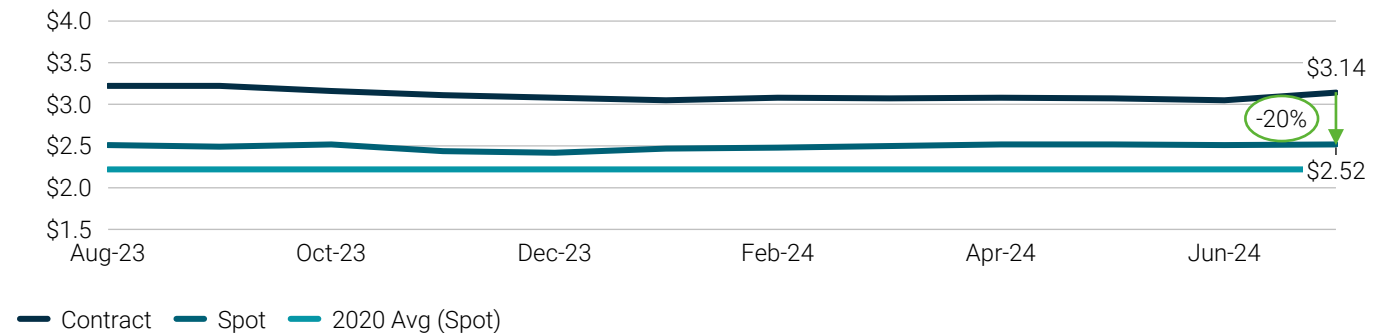
TRUCKING FREIGHT

Truckload rates experience a small uptick but remain below sustainable levels as the market continues to have excess capacity

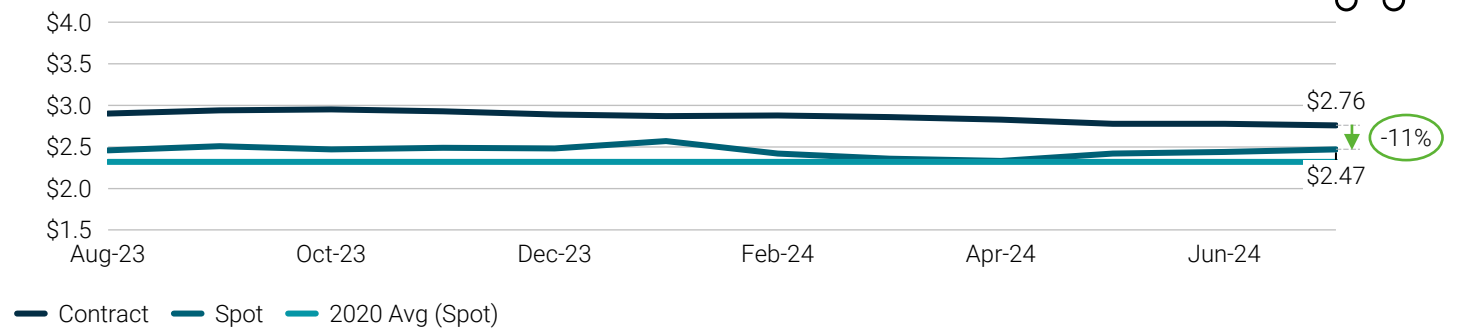
DRY VAN – U.S. DOMESTIC FREIGHT RATES, INCL. FUEL (UNIT:\$ PER MILE)



FLATBED – U.S. DOMESTIC FREIGHT RATES, INCL. FUEL (UNIT:\$ PER MILE)



REEFER – U.S. DOMESTIC FREIGHT RATES, INCL. FUEL (UNIT:\$ PER MILE)



KEY TRENDS AND FACTS



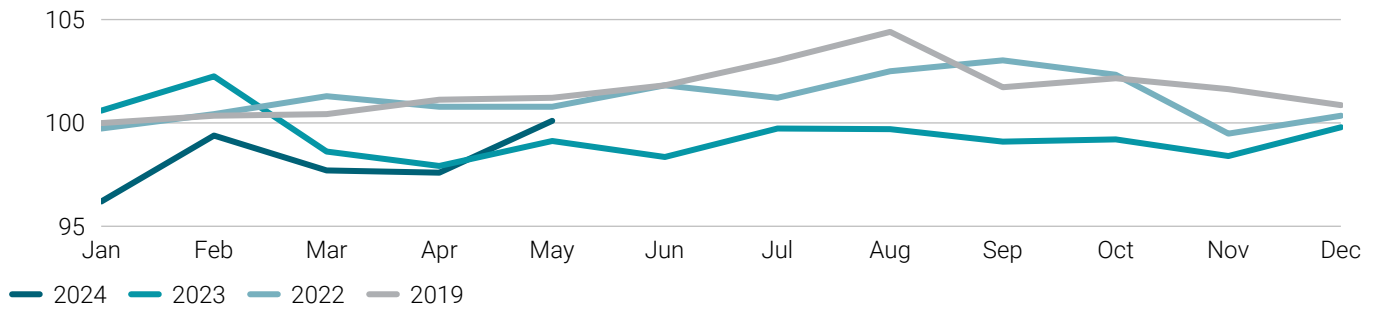
- Spot rates experienced a seasonal uptick leading up to the July 4th holiday. However, reefer contract rates continue to struggle amidst lower produce volumes ([DAT](#)).
- Amidst a troubled market, UPS has decided to sell Coyote Logistics to RXO for ~\$0.8B less than its purchase price in 2015, highlighting the pressures faced by the U.S. brokerage market ([S&P JoC](#), [WSJ](#)).

Source: DAT, WSJ, Freight Waves, AlixPartners analysis

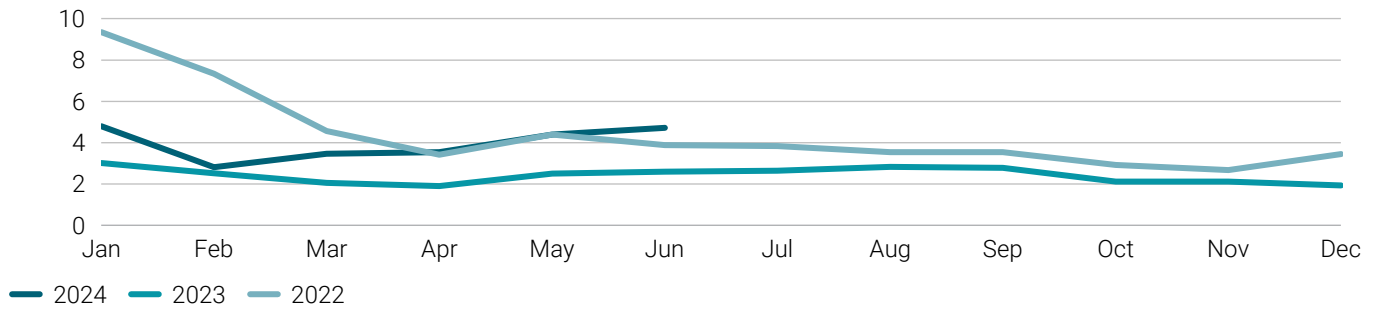
TRUCKING FREIGHT

Dampened demand across several industrial markets continue to signal prolonged recovery

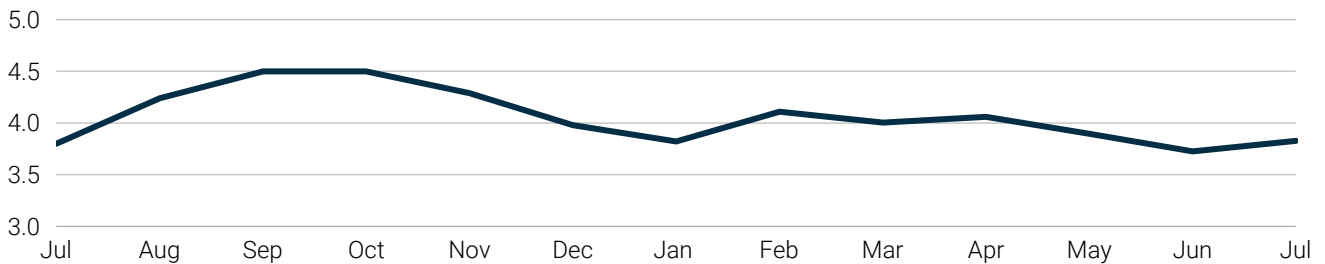
TRUCK DEMAND – TONNAGE, YEAR OVER YEAR, INDEX (100) - JAN 2019



VAN LOAD-TO-TRUCK RATIO – YEAR OVER YEAR



DIESEL – \$ PER GALLON



KEY TRENDS AND FACTS



- Though truck demand appears to be increasing, domestic manufacturing along with farm machinery sales is declining, signaling potential headwinds for the truckload market into Q2 ([S&P JoC](#), [DAT](#)).
- Excess capacity in the market quickly absorbs any increase in volume, leading analysts to predict recovery may extending into 2025 or 2026 ([S&P JoC](#)).

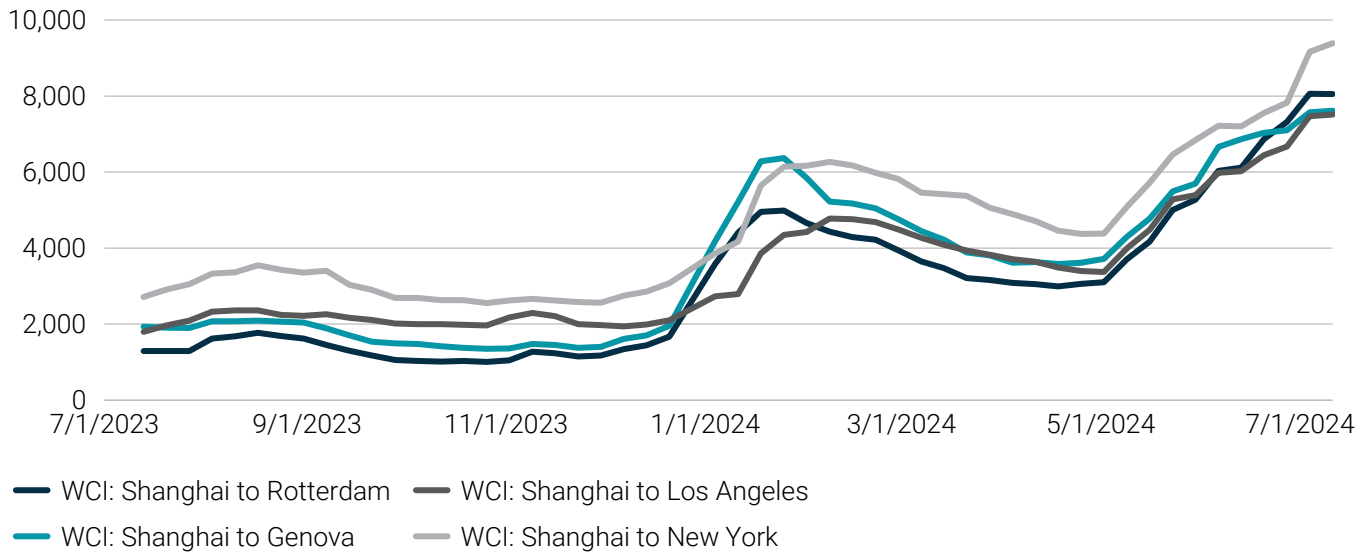
Source: DAT, FRED, Bloomberg, AlixPartners analysis

OCEAN FREIGHT

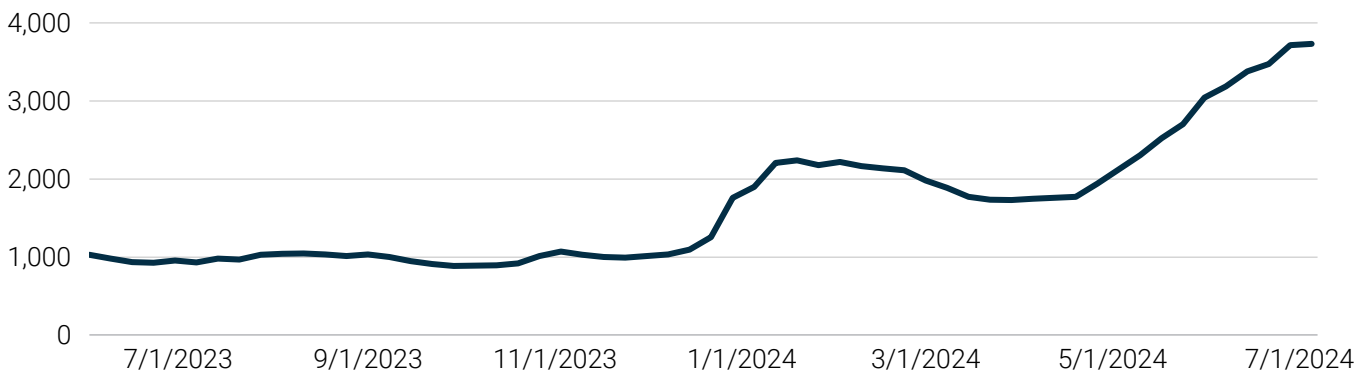
Ocean rates continue to surge in Asia outbound lanes exacerbated by South-East Asia port congestion and looming ILA strike threat.

TRANSPACIFIC: CENTRAL CHINA (SHANGHAI) TO U.S. MONTHLY SHIPPING RATE FOR 40FT CONTAINER EVOLUTION (UNIT: \$)

Drewry: Trade routes from Shanghai (US\$/40ft)



Shanghai container freight index (US\$/20ft)



KEY TRENDS AND FACTS



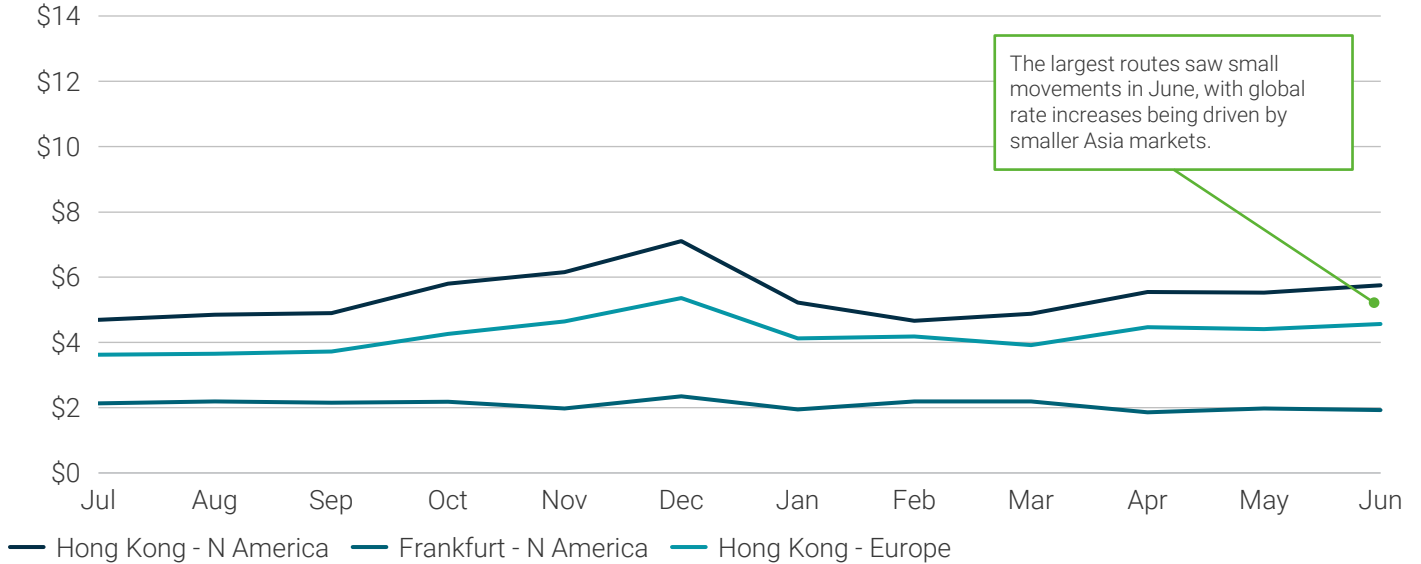
- The spot rates for trans-pacific routes continue to rise due to carriers reducing vessel capacity, with Asia-West Coast capacity down by 15% and Asia-East Coast by 8-10% MoM vs. June 2024 ([Freightwaves](#))
- The International Longshoremen’s Association (ILA) indicated that a strike is becoming more likely due to a lack of progress in contract negotiations with maritime employers and stated they will not extend the current contract beyond its expiration on September 30, 2024 ([Journal of Commerce](#))

Source: Drewry Ocean report, TI Insights, Journal of Commerce, SCFI, AlixPartners analysis

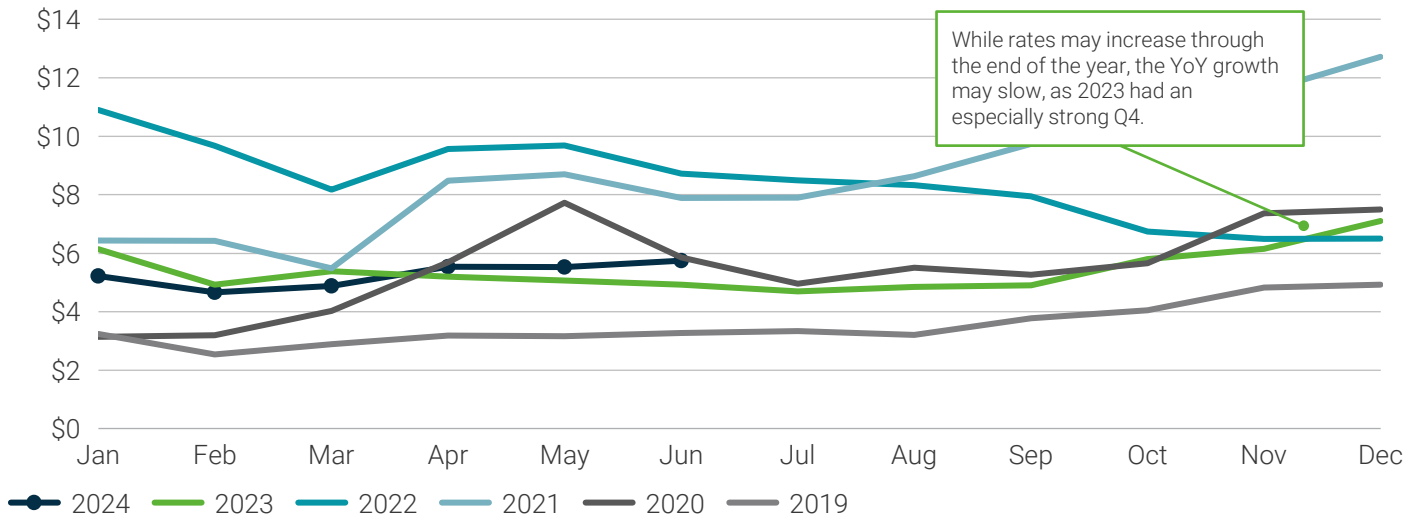
AIR FREIGHT

Global air freight spot rate increased to \$2.62/kg, a 17% increase year-over-year

KEY INTERNATIONAL ROUTES (UNIT:\$ PER KG)



HONG KONG TO NORTH AMERICA HISTORY (UNIT:\$ PER KG)



KEY TRENDS AND FACTS













- **Global air freight demand** and rates remain elevated YoY, driven by Asia – Europe and Asia – N. America e-commerce demand, and continuing mode-switching due to the Red Sea crisis.
- **The short-term trend is becoming a mid-term trend.** If peak season reflects the first half, the air freight industry will see double digit growth in 2024.
- Rate increases this month were driven by a 14% increase in Southeast Asia – US/Europe while China outbound rates slightly declined.
- **Europe – U.S. rates fell** another 4% this month, as summer passenger flights increased capacity.

Source: Baltic Exchange Air Freight Index - TAC database, [Air Cargo News](#), AlixPartners analysis

RAIL FREIGHT

Total U.S. rail traffic is up 2.2% YTD versus 2023. Carloads declined 4.5% and intermodal traffic increased 8.7% YTD

U.S. RAIL VOLUME BY COMMODITY – YEAR-TO-DATE CHANGE VS 2023

INTERMODAL  8.7%	COAL  -17.1%
FOREST PRODUCTS  1.1%	MOTOR VEHICLES AND PARTS  3.8%
METALLIC ORES AND METALS  -3.1%	CHEMICALS  4.3%
FARM PRODUCTS EXCLUDING GRAIN AND FOOD  1.5%	GRAIN  3.6%
PETROLEUM AND PRODUCTS  11.1%	NONMETALLIC MINERALS  -7.7%

KEY TRENDS AND FACTS



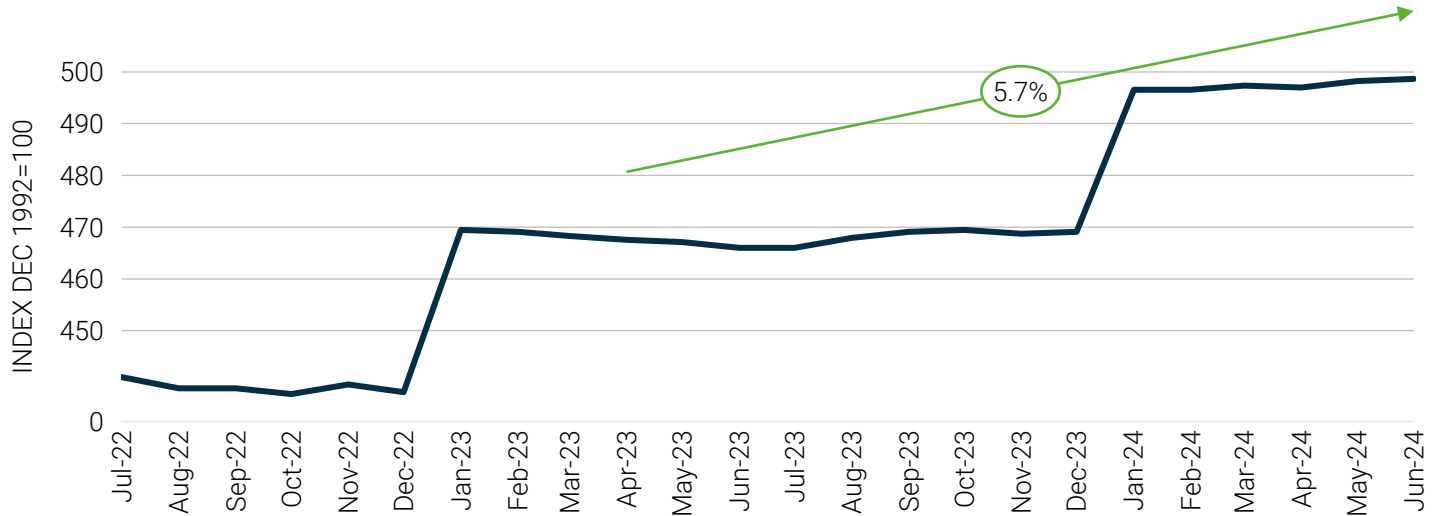
- Rail traffic in June continued to follow trends seen in the first half of 2024. Coal continues to pull down total carloads, but increases in intermodal & motor vehicle reflect resilient consumer spending.
- Canadian railroads, CN and CPKC, remain in limbo awaiting a decision from the Canadian Industrial Relations Board (CIRB) after being unable to reach agreement with the Teamsters Canada Rail Conference (TCRC) union. The CIRB will determine if the union will have the right to strike, but if authorized, a strike would still be unlikely until early to mid August. One of the railroads has also asked the CIRB to extend the cooling-off period for 30 days after the board issues its decision to “help provide stability and predictability” for a potential work stoppage.

Note: Carloads are traffic classified into 20 major commodity categories. Rail intermodal units are shipping containers and truck trailers moved on railcars
 Source: AAR, Freight Waves. Association of American Railroads

USA PARCEL

Amazon Labor Union joins forces with Teamsters signaling a potential shake-up in the Parcel Delivery and Warehousing Industry

PRODUCER PRICE INDEX: STANDARD COURIER SERVICES INDEX¹



1. Measures the average change over time in the selling prices received by domestic producers for their output. For e.g.: If a 1kg package average parcel selling price in U.S. was \$5 in Dec 1992, today it is about $5 \times \frac{466}{100} = \23.3

UNION ALLIANCE BETWEEN AMAZON LABOR UNION AND TEAMSTERS COULD TRANSFORM PARCEL INDUSTRY DYNAMICS

The affiliation between the Amazon Labor Union (ALU) and the Teamsters signals a significant escalation in labor organizing efforts against Amazon, which could have several impacts on the parcel industry:



DECREASED FLEXIBILITY

This may lead to decreased operational flexibility driving incremental cost



DISRUPTION IN OPERATIONS

Union activities, including potential labor actions, could disrupt Amazon's supply chain



INNOVATION AND EFFICIENCY

Amazon might invest more in automation, technology and process improvements

KEY TRENDS AND FACTS



UPS, FedEx and USPS have recently announced rate increases in fuel surcharge and mailing service:

- After 25% increase in Parcel select, the U.S. Postal Service (USPS) recommended new prices to take effect from July 14, 2024 with a 5-cent increase in the price of a First-Class Mail Forever stamp from 68 cents to 73 cents and other adjustments across various mailing services including letters and postcards
- Effective July 15, 2024, UPS is increasing the Ground Domestic & SurePost and Domestic Air Fuel Surcharge Tables 0.5% (50 bps per tier)
- Effective July 1, 2024, FedEx is increasing the International Fuel Surcharge Table 1.0% (100 bps)

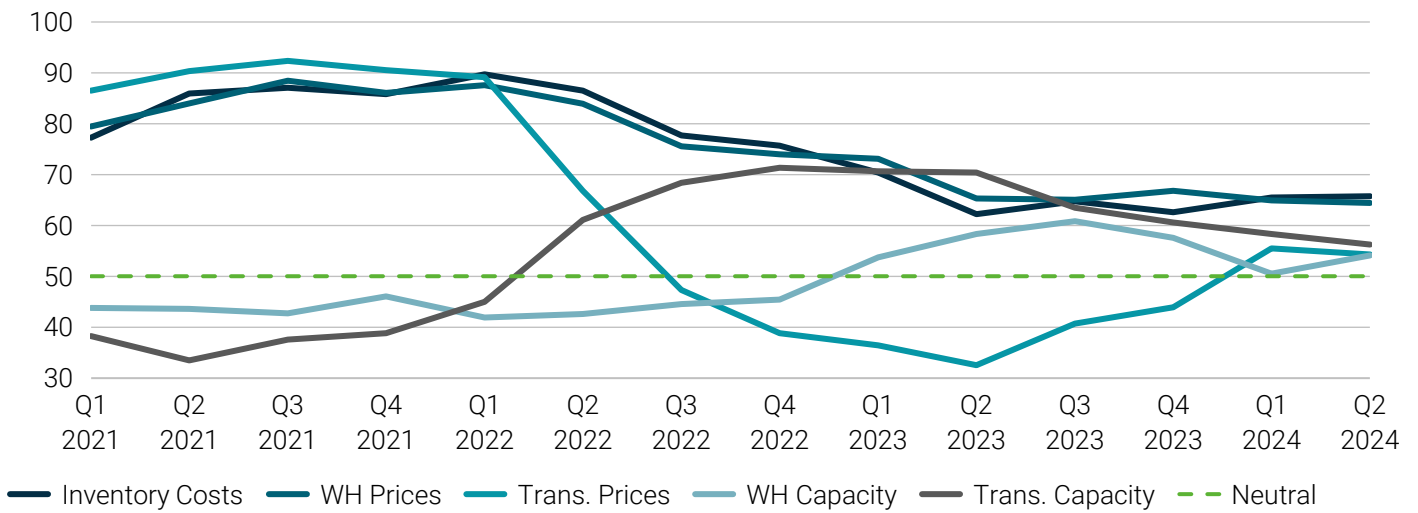
Retailers like Stitch Fix, Duluth Trading Co. and Lovesac are diversifying their parcel delivery providers to lower transportation costs and improve their financial performance.

Sources: 1. Federal Reserve Economic Data (FRED); Scheiber, N. (2024, June 18). How the Teamsters and a Homegrown Union Plan to Take On Amazon <https://www.nytimes.com/2024/06/18/business/economy/amazon-labor-union-teamsters.html>; Garland, M. (2024, June 20). Stitch Fix among rush of retailers adding delivery providers. <https://www.supplychaindive.com/news/stitch-fix-parcel-shipping-carrier-diversification/719390/>; USPS; UPS; FedEx

WAREHOUSING TRENDS

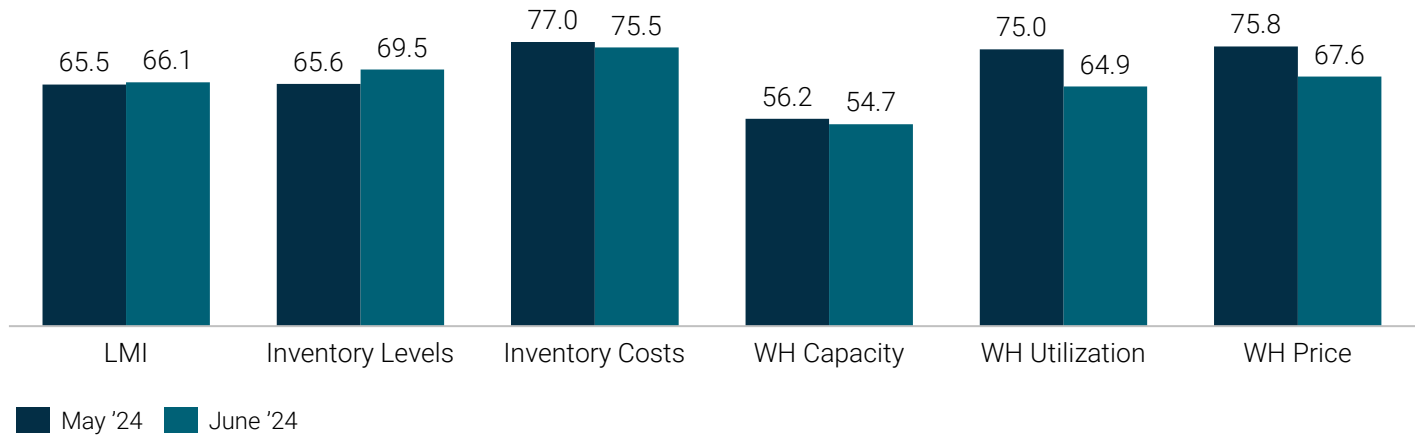
Logistics Managers' Index rises to 55.3 in June, tied to Transportation Prices at highest levels since September 2022 and contracting Inventory Levels

FLUCTUATION OF LMI INDICES



Logistics Manager Index (LMI) Legend: +50 = Increasing -50 = Decreasing

LMI SURVEY – NEXT 12-MONTH PREDICTION



KEY TRENDS AND FACTS



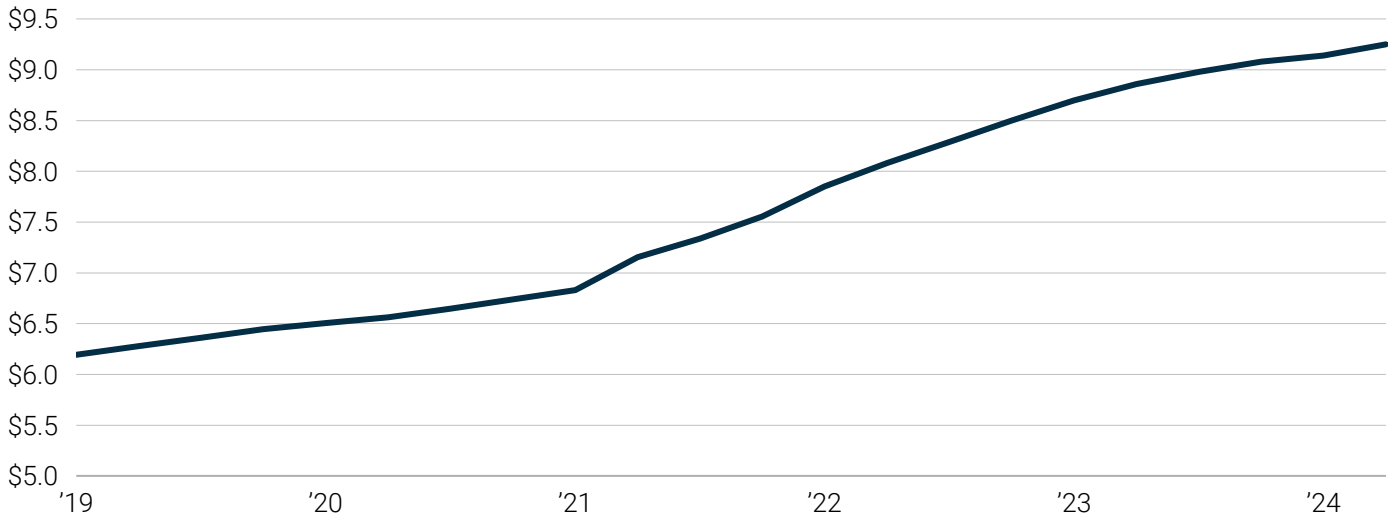
- **Overall Logistics Managers' Index** dipped slightly in May to 55.3, up (-0.3) from May's reading of 55.6, with largest shifts in warehouse utilization (-18%) and transportation capacity (-13%) month-over-month
- Amazon shifts focus from warehouse development to data centers to power their AI infrastructure and cloud business in the face of rising AI demands and needs for the future.
- As the transportation industry continues to feel a squeeze, [US Logistics Solutions is shutting down after filing for bankruptcy](#), a situation others are working to avoid.

Source: Logistics Managers' Index, Wall Street Journal, AlixPartners analysis

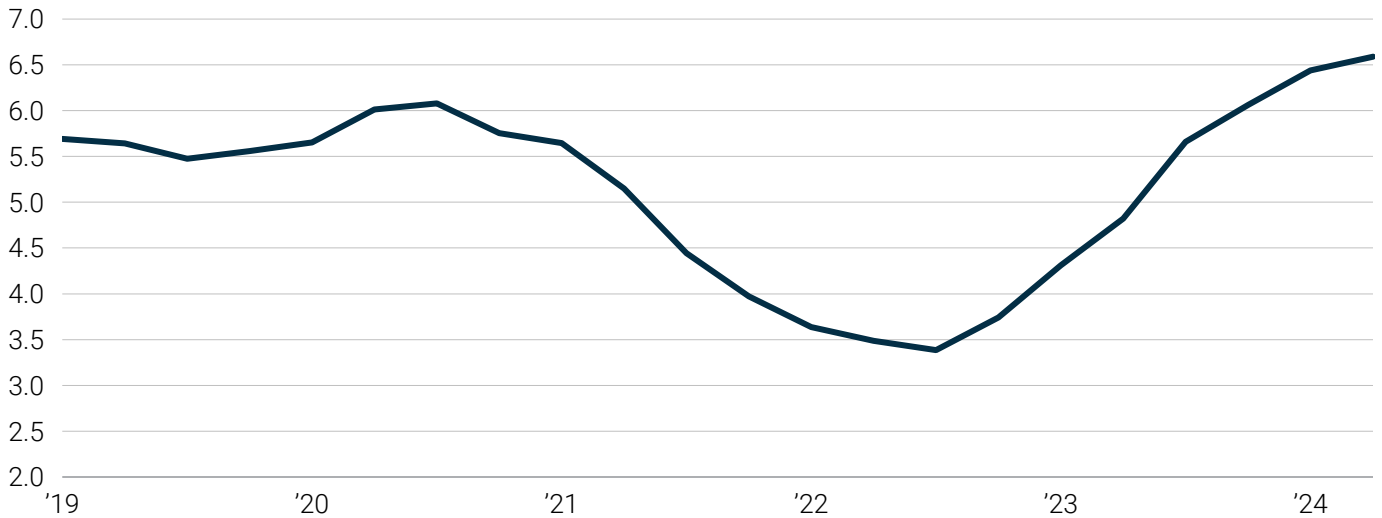
WAREHOUSING TRENDS

National warehousing vacancy and rent per sq. ft. continue to very slightly increase, likely in response to inventories continuing to contract

NATIONAL AVG. MARKET RENT / SQ FT (\$)



NATIONAL AVG. VACANCY RATE (%)



KEY TRENDS AND FACTS



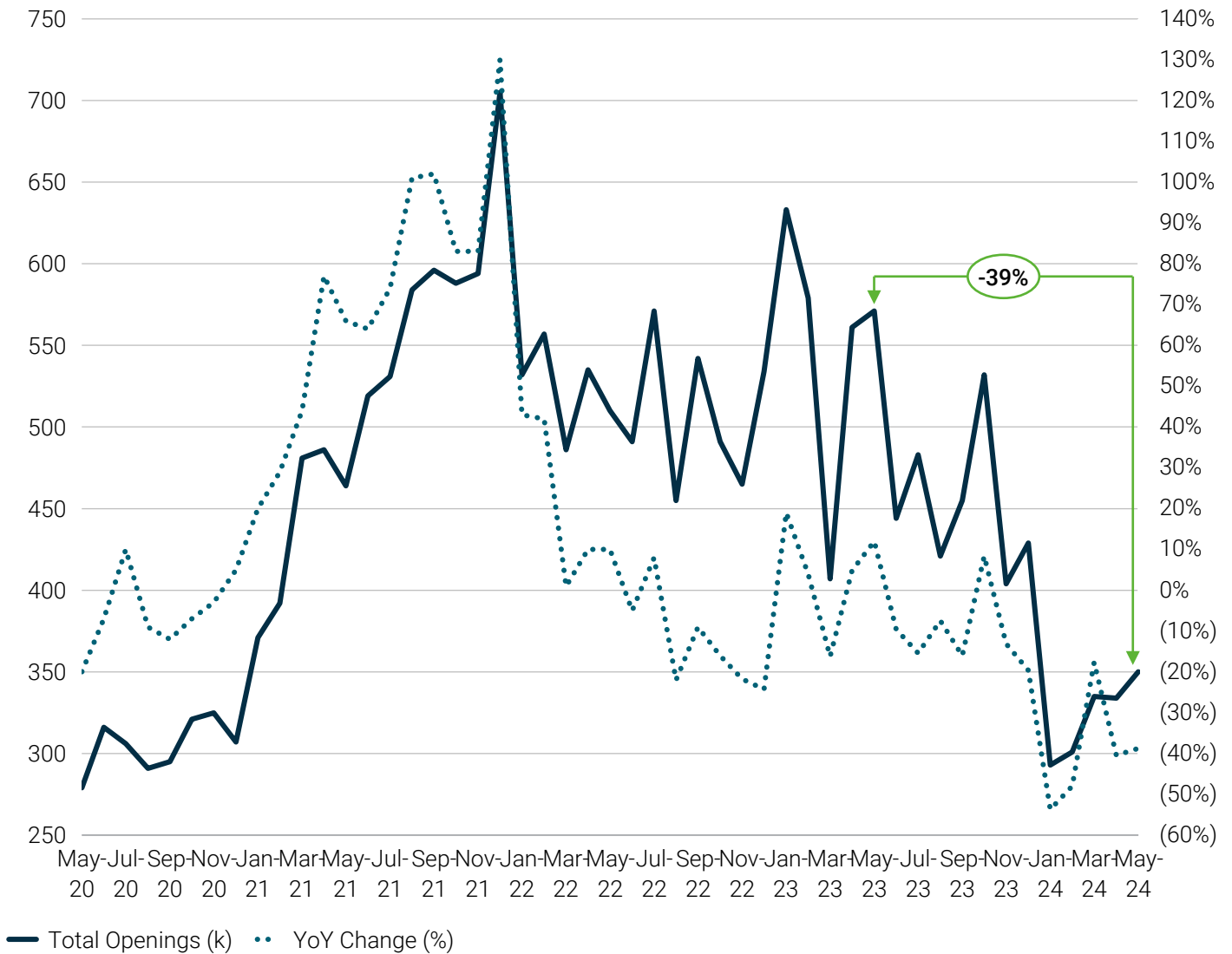
- Quarterly vacancy increased 2.3% from Q1 2024 in Q2, likely a result of falling inventory levels and continued reluctance to commit to leasing warehouse space
- Major players making [changes in approach to supply chain financing](#) serve as a critical example of how companies are taking more conservative approaches to handling Supply Chain expenses

Source: AlixPartners & Mohr Partners, Freight Waves, Supply Chain Dives, AlixPartners analysis


LABOR

Logistics job openings in May were estimated to be down 39% YOY but were up ~5% from the month prior

TOTAL TRANSPORTATION, WAREHOUSING, AND UTILITIES JOB OPENINGS – MAY 2024 (THOUSANDS; SEASONAL ADJ.)



KEY TRENDS AND FACTS



- BLS estimated that there were **350,000 job projected openings** in the warehousing, transportation, and utilities sector in May; up ~5% from the prior month but down 39% YOY
- **As Fedex pursues consolidation of Express and Ground networks, layoffs continue in the U.S. and Europe**
- **Labor wage rates and availability predicted** to be a pinch point for manufacturers heading into the second half of 2024

Source: U.S. Bureau of Labor Statistics Job Openings, AlixPartners analysis, Supply Chain Dive

IMPORT TRENDS

China had been a go-to hub for U.S. manufacturers, but U.S./China relations and tariffs have been pushing trade towards other countries (Vietnam, Mexico, India gained most)

CATEGORIES	TOTAL U.S. IMPORTS			COUNTRY WISE CHANGES (2018 V LTM MAY 2024)			
				CHINA	VIETNAM	INDIA	MEXICO
	2018 (\$B)	LTM MAY 2024 (\$B)	CHANGE (%)	CHG. %	CHG. %	CHG. %	CHG. %
Apparel & Textiles	\$116	\$109	(6%) ▼	(34%) ▼	17% ▲	19% ▲	1% ▲
Automotive & Transportation Parts	\$340	\$436	28% ▲	(11%) ▼	149% ▲	(2%) ▼	44% ▲
Chemicals & Allied Industries	\$233	\$337	45% ▲	11% ▲	141% ▲	73% ▲	64% ▲
Computer & Electronics	\$363	\$448	24% ▲	(24%) ▼	236% ▲	700% ▲	37% ▲
Food & Beverage	\$151	\$213	41% ▲	(17%) ▼	9% ▲	14% ▲	70% ▲
Footwear, Headgear & Others	\$32	\$32	(1%) ▼	(29%) ▼	35% ▲	(2%) ▼	71% ▲
Furniture	\$67	\$65	(2%) ▼	(47%) ▼	127% ▲	45% ▲	24% ▲
Leather Goods	\$15	\$14	(5%) ▼	(60%) ▼	22% ▲	27% ▲	33% ▲
Mechanical & Electricals	\$379	\$465	23% ▲	(33%) ▼	646% ▲	96% ▲	36% ▲
Metals, Parts and Products	\$139	\$157	13% ▲	(17%) ▼	92% ▲	66% ▲	41% ▲
Misc. Goods & Manf. Products	\$476	\$561	18% ▲	(3%) ▼	187% ▲	16% ▲	36% ▲
Plastics & Rubber products	\$86	\$103	20% ▲	(8%) ▼	291% ▲	86% ▲	55% ▲
Special classification provisions	\$85	\$103	20% ▲	63% ▲	993% ▲	85% ▲	32% ▲
Temporary legislation	\$18	\$24	30% ▲	34% ▲	196% ▲	53% ▲	9% ▲
Wood & Pulp Products	\$47	\$51	7% ▲	(36%) ▼	260% ▲	133% ▲	59% ▲
Total	\$2,548	\$3,119	22%	(23%)	140%	57%	41%

LTM May 2024 U.S. imports (\$B)

\$417

\$123

\$86

\$485

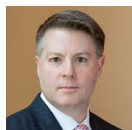
Key nearshoring trends:

- Over the past 6 years (2018 to Last Twelve Months ending May 2024), overall imports into the U.S. increased by 22%. However, imports from China decreased by 23% from \$543B to \$417B
- **Vietnam, Mexico, and India** have been the biggest gainers
 - Vietnam has seen 140% increase to reach \$123B; All categories have grown in imports from Vietnam
 - Imports from Mexico increased by 41% to \$485B (which is now more than China); Footwear, Headgear & Others have seen biggest increase in Mexico
 - Imports from India have seen a consistent growth across industries, overall increase of 57% in imports into U.S. to \$86B



AlixPartners' Global Trade Optimizer (GTO) platform tracks real-time import trends across countries, product categories, importing companies and suppliers to help our clients be proactive with footprint diversification

ALIXPARTNERS SUPPLY CHAIN EXPERTS – REACH OUT TO LEARN MORE



Marc Lampieri
Partner
Managing Director



Sudeep Suman
Partner
Managing Director



Joe Cubellis
Partner



Erik Mattson
Director



Sven Voegele
Director



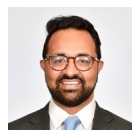
Mark Scales
Director



Kai Kang
Sr Vice President



Andrew Kerr
Sr Vice President



Venky Ramesh
Sr Vice President



Katherine Arnold
Sr Vice President



Charlie de Montfort
Sr Vice President



Miriam Hall
Sr Vice President



Leo Pozes
Vice President



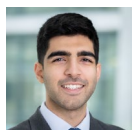
Ryan Nelis
Vice President



Vikas Chandra
Vice President



Alexis Parisi
Vice President



Karan Ranger
Vice President



Justin Stacy
Vice President



Vahid Nokhbeh
Consultant

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