AlixPartners

SUPPLY CHAIN MARKET PULSE

October 2024

KEY TRENDS AND CHALLENGES IN THE SUPPLY CHAIN

1 TRANSPORTATION DISRUPTIONS

- On October 1st, The East Coast USA port labor union (ILA) went on strike, bringing operations at across 36 ports to a halt
- The strike lasted for three days before a tentative agreement was reached. Dock workers had returned to their post and resumed operation.
- However, Maritime employers and the ILA still have several major items to align on. Both parties need to come to an agreement by January 15th, 2024, or there may be future labor actions

2 INTL FREIGHT RATE CHANGE

- In July 2024, the Forced Labor Enforcement Task Force (FLETF) updated the Uyghur Forced Labor Prevention Act (UFLPA), increasing the entity list from 20 to 68 companies. The Department of Homeland Security (DHS) added the first steel and aspartame companies from China, further restricting imports associated with forced labor.

3 DOMESTIC LOGISTICS TREND

- Domestic trucking demand saw a slight uptick in the past month, raising hopes for an upward rate trend in 2025
- Two factors contributed to the recent increase:
  1. Reconstruction efforts following Hurricane Helene
  2. East Coast Port Strike, which prompted cargo volume shift to the West coast

THE EAST COAST PORT STRIKE IS OVER! LOOKING AHEAD, WHAT IS NEXT? SMOOTH SAILING OR MORE STORMY SEAS?

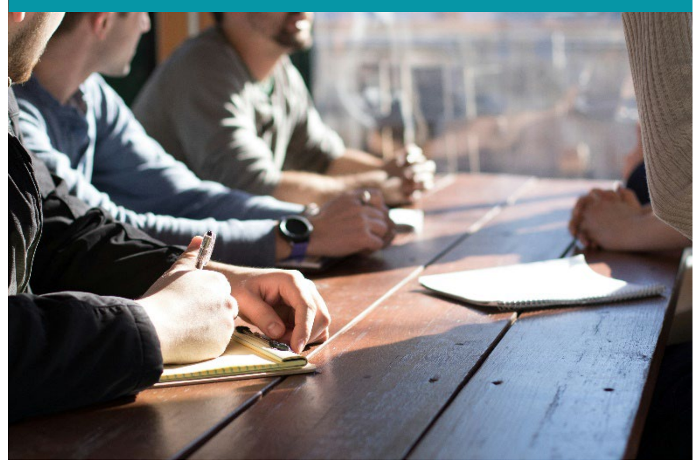
WHAT HAPPENED

On October 1st, 45,000 dock workers from the International Longshoremen's Association (ILA) went on strike at 36 ports across the U.S., marking the first strike of its kind since 1977. Despite numerous discussions between the United States Maritime Alliance (USMX) and the ILA, the two parties were unable to reach an agreement, with wage increases and the extent of automation at the core of the dispute.

On October 3rd, the White House issued an official statement, urging foreign-owned shipping carriers to share their record profits with dock workers as part of a fair resolution.

By October 4th, USMX proposed a 62% wage increase spread over six years, a proposal that the ILA accepted, bringing an end to the strike—at least for now.

WHAT ARE THE IMPACTS

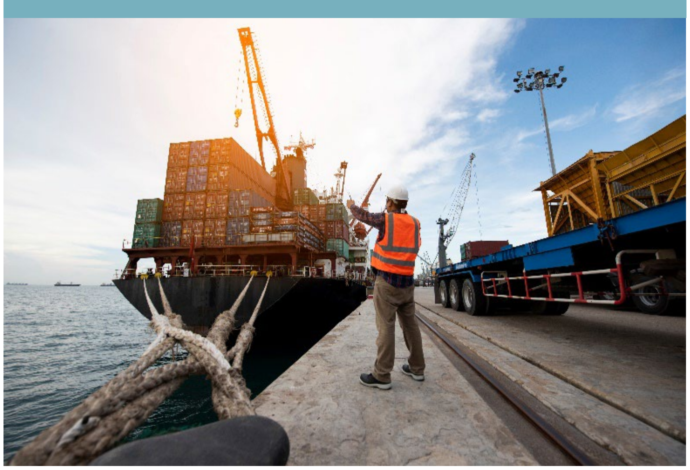


During the strike, approximately 60 vessels were forced to anchor and wait, experiencing delays of 3+ days. As ports work to clear the backlog, more vessels are expected to face delays, with disruptions impacting shipments originating from Europe, Asia, and Latin America.

The tentative agreement has initiated a 90-day period, set to expire on January 15th, 2025, by which both parties must finalize a full agreement. Key unresolved issues include automation, royalties, work rules, and job jurisdiction.

With the Chinese New Year falling on January 29th, 2025, the typical seasonality would normally result in significant volumes of cargo being shipped from China to the U.S. starting in late December and continuing through January. This raises concerns about further supply chain disruptions if the remaining negotiations are not resolved before the holiday shipping surge.

WHAT DOES THIS MEAN FOR SHIPPERS



Shippers should continue to proactively prepare for potential supply chain disruptions from another possible strike in January 2025. To mitigate the impact, they should take the following actions:

ID alternative trade lanes: Explore other routes to keep goods moving if some ports remain impacted.

Develop a freight prioritization process: Determine which shipments are critical and need to be expedited in case of delays.

Build up inventory: Stockpile essential goods to cushion against potential interruptions.

Strengthen relationships with transportation partners: Cultivate trust and strong partnerships to ensure flexibility and better support during disruptions

Source: Journal of Commerce, AlixPartners analysis

TRADE, TARIFFS AND REGULATIONS/RECENT ANNOUNCEMENTS

1
STEEL & ALUMINIUM PRODUCTS

USTR Announced on September 13 that the tariff rate on certain steel and aluminum products under China Section 301 will increase from 0–7.5% to 25% on September 27, 2024. Steel is a vital sector for the American economy, and American companies are leading the future of clean steel

2
THE USTR

Also announced new tariffs into the following sectors: certain battery parts, electric vehicles, facemasks, (lithium-ion vehicle batteries), medical gloves, natural graphite, other critical minerals, permanent magnets, semiconductors, ship-to-shore cranes, solar cells, (steel and aluminum products), syringes and needles. The total trade for products subject to tariff increases is estimated to be $18 billion. On the other hand, tariff reductions are being offered for certain types of machinery and solar manufacturing equipment.

3
EV BATTERIES

The U.S. Trade Representative announced a series of new tariffs on Lithium-Ion based EV batteries from China. These batteries are typically used in EV vehicles, golf carts, other portable/chargeable consumer products etc. Batteries for passenger vehicles will see tariff increases starting September 27, while tariff increases for batteries for other type of EVs will start in 2026.

4
UFLPA

The Forced Labor Enforcement Task Force (FLETF) published an update to the Uyghur Forced Labor Prevention Act (UFLPA) in July 2024, expanding the entity list from 20 to 68 companies. Recently, DHS added the first steel and aspartame companies from China to this list, further restricting imports tied to forced labor. New sectors under scrutiny include aluminum, PVC, seafood, and silica-based products, alongside existing priorities like apparel, cotton, and polysilicon.

Source: Journal of Commerce, AlixPartners analysis

FREIGHT COSTS

The freight market has seen early peak season push volumes from Asia to North America and Europe driving up pricing. This is normalizing in the U.S., but elevated in EU

	OCEAN FREIGHT	AIR FREIGHT	TRUCKING	PARCEL	WAREHOUSING
Recent cost trend	↓	↑	↗	→	→
Short-term forecast	↓	↑	↑	↑	→

WHAT IS MOST IMPORTANT TO KNOW?

International Transportation prices have become volatile. Vary based on the market.

- Ocean rates peaked in July but remain elevated compared to a year ago. There have been a variety of other actions driving volatility, including the East Coast Port Strike. However, an oversupply of capacity is still prevailing in most markets. Asia – North America and Asia – Europe pricing are both falling off of their peak

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 a rise in ground parcel delivery costs as U.S. parcel revenue sees the first decline in 7 years. Significant peak season surcharges are in effect this year in an effort to offset these declines

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

- To further optimize, companies have been focusing on optimizing a changed Supply Chain network as a result of constant waves of disruptions

Shippers need to stay vigilant for additional disruption due Transportation Union contract negotiation

- The North American East and Gulf Coast port union ILA has ended their 3-day strike but may resume in Jan 2025 if the remaining items are not resolved

WHAT ACTIONS CAN WE TAKE?

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
- Build trust with carriers will pay dividend in the long run and help navigate through disruptions

Take advantage of this opportunity of lower rates to develop an agile network

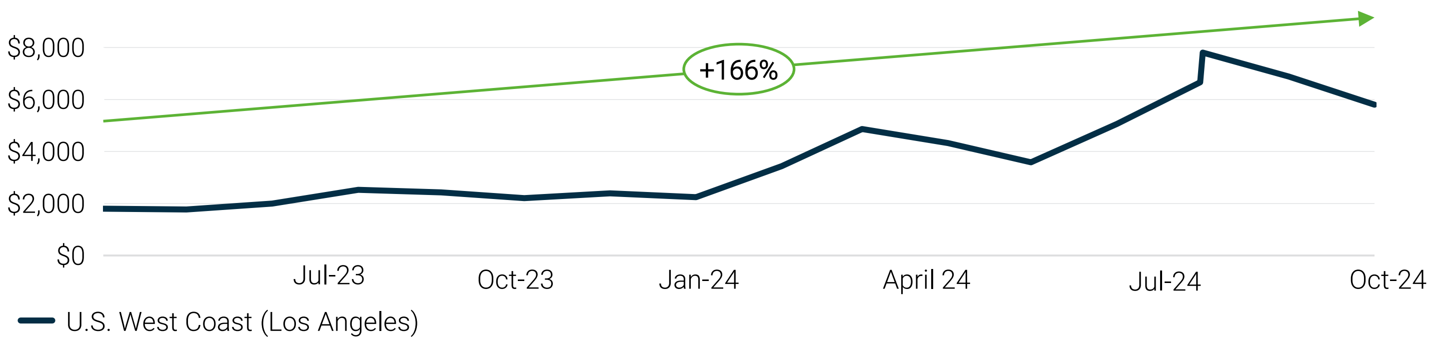
- RFPs are not the only answer; shippers should renegotiate rates with incumbents for faster results and begin to strengthen their supplier community with deeper relationships

Source: AlixPartners analysis

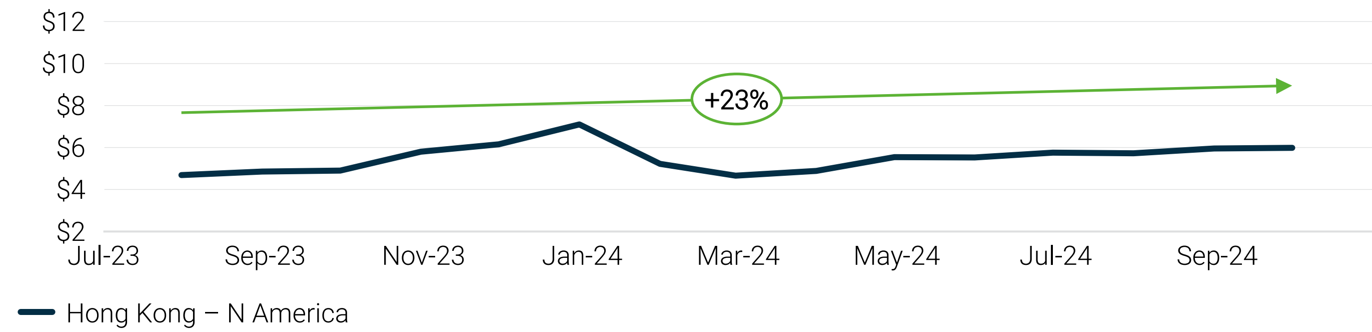
FREIGHT TRENDS

Ocean freight rate appears to have peaked while air rate made small gains. Domestic trucking remains depressed due to supply/demand imbalance

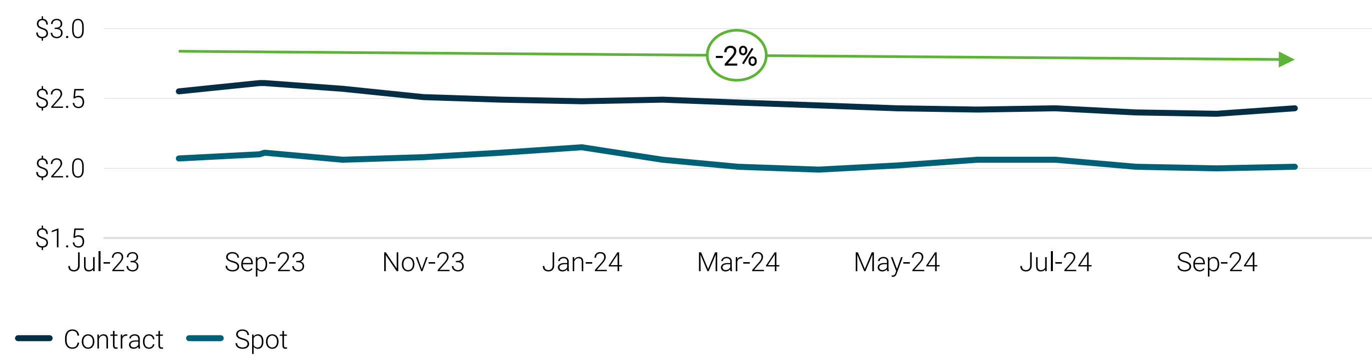
OCEAN FREIGHT – SHANGHAI TO U.S. – ($/40FT)



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



TRUCKING: DRY VAN – ($/MILE)



KEY TRENDS AND FACTS

KEY DRIVERS CAUSING RATE CHANGES ARE:

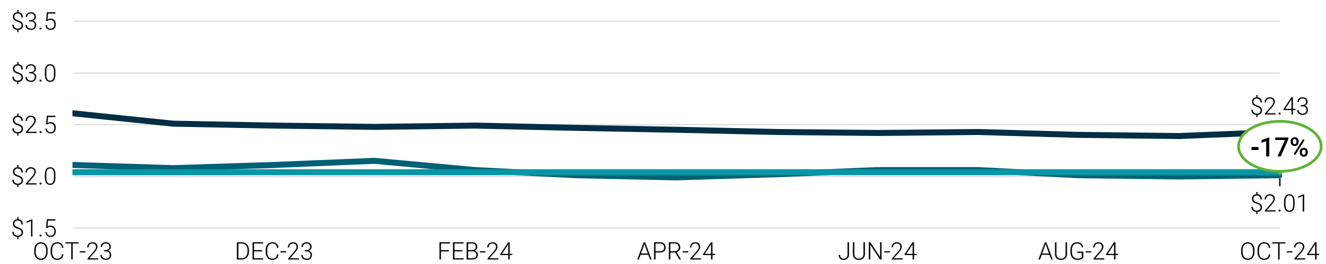
- Ocean spot rates seemed to be peaked in July and the rates are declining MoM since then
- Air demand remains elevated, driven by the cargo diversion from the Red Sea Crisis and E-com growth from the likes of Temu, Shein, and other international e-commerce sellers
- TL contract and spot rates continue trending downward slowly even as volumes experience a slow increase from U.S. retail sales

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

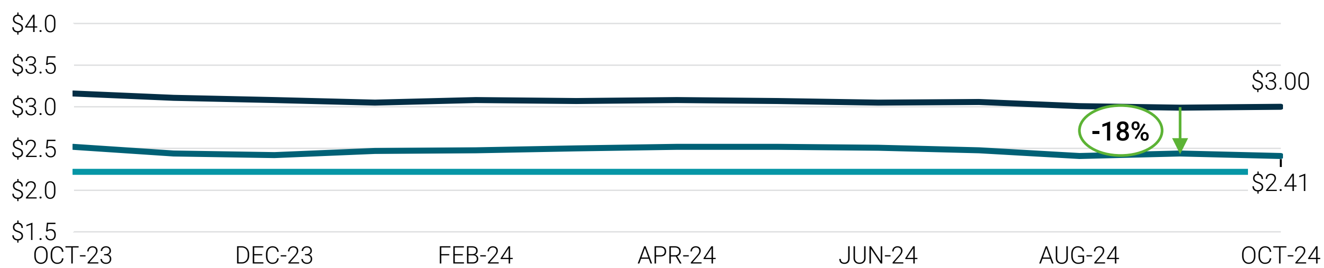
TRUCKING FREIGHT

Trucking rates remain relatively flat as truckload volumes increase in response to port strikes and Hurricane Helene

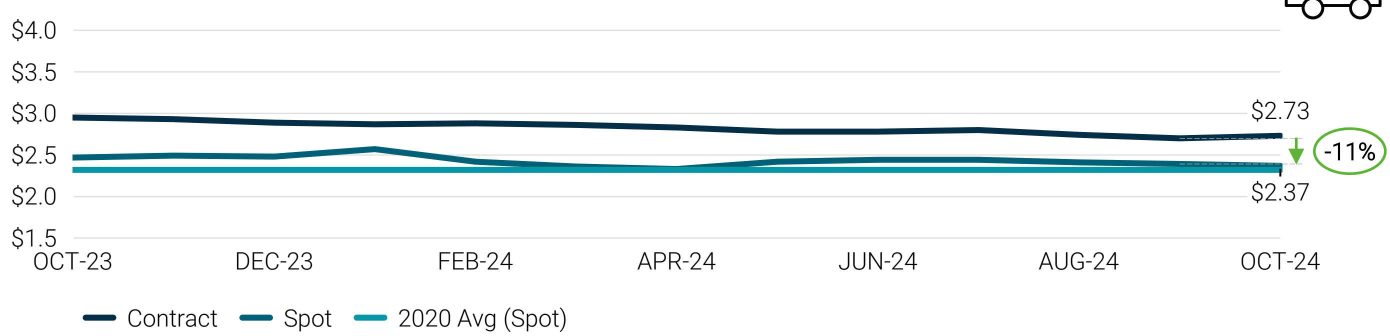
DRY VAN – U.S. DOMESTIC FREIGHT RATES, INCL. FUEL (UNIT:$ PER MILE)



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

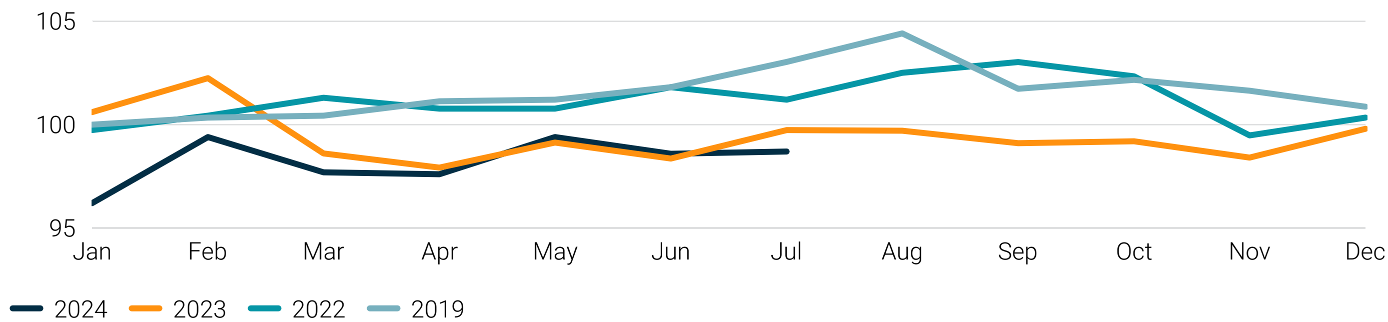
- Increases in U.S. retail trade and food service sales as well as retail and e-commerce sales have resulted in a slow increase in U.S. truckload volumes. However, this has not yet had an impact on truckload rates (JoC)
- Hurricane Helene reconstruction efforts have caused a surge in load post volumes and are expected to increase spot market demand for several more weeks (JoC). The strike by the International Longshoremen's Associated (ILA) union also contributed to a jump in load posts (DAT)

Source: DAT, WSJ, Freight Waves, AlixPartners analysis

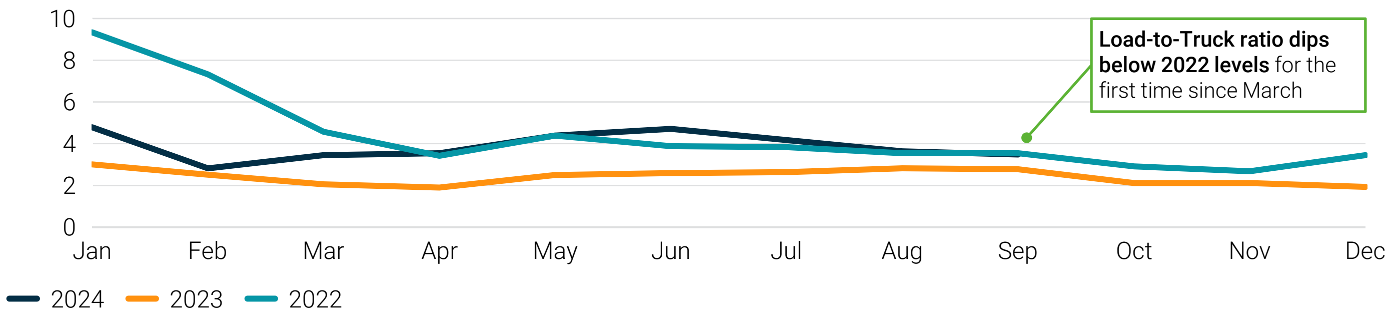
TRUCKING FREIGHT

Truckload carriers remain cautiously optimistic as demand continues to fluctuate and load-to-truck ratio decreases by 4% MoM

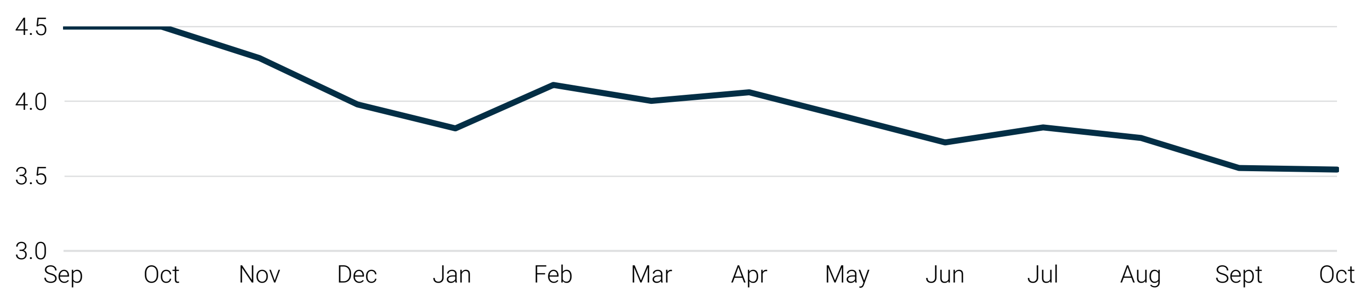
TRUCK DEMAND – TONNAGE, YEAR OVER YEAR, INDEX (100)=JAN 2019



VAN LOAD-TO-TRUCK RATIO – YEAR OVER YEAR



DIESEL – $ PER GALLON



KEY TRENDS AND FACTS

- Trucking firm exits have slowed but still outweighed new entrants in Q3 (Trucking Dive)
- Diesel benchmark pricing has increased, though lagging the oil market which is seeing greater surge amidst unrest in the Mideast (Freight Waves)
- Carrier expect to see an increase in contract truckload rates in 2025 after two years of decline (JoC)

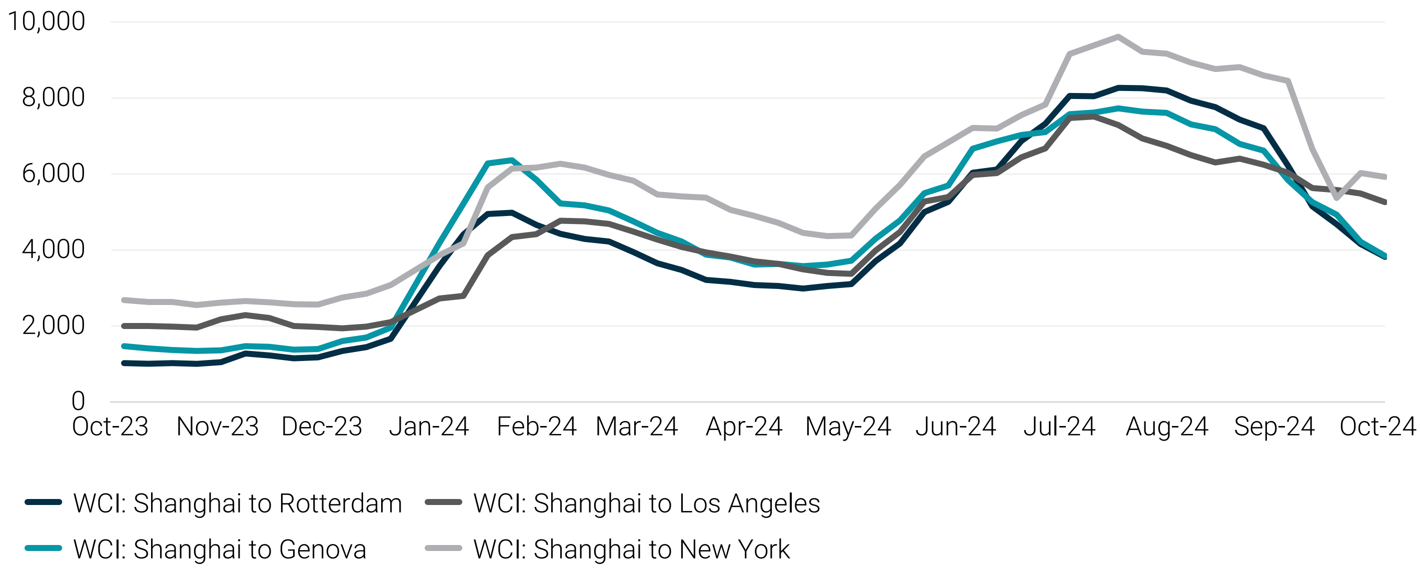
Source: DAT, Freight Waves, FRED, Bloomberg, AlixPartners analysis

OCEAN FREIGHT

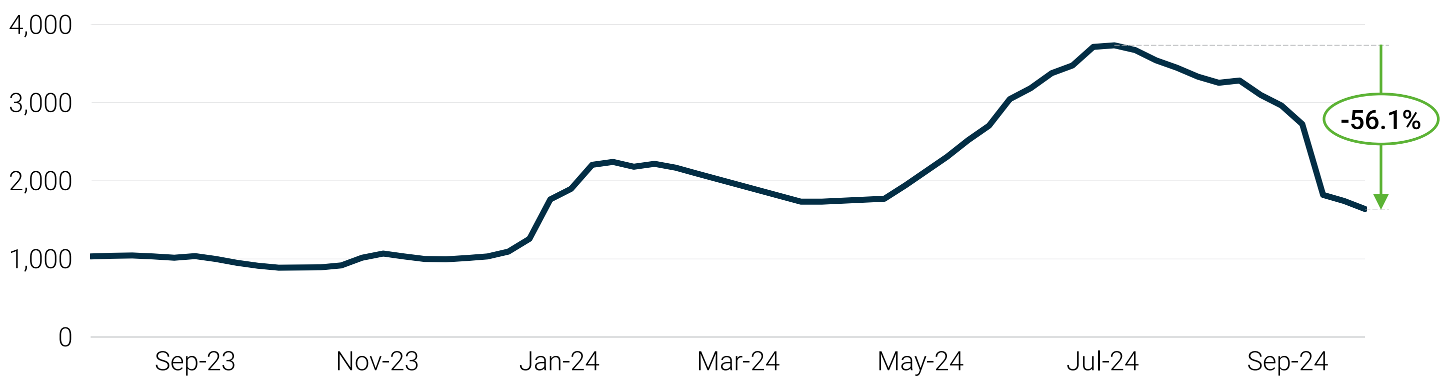
Ocean rates from Asia continue to decline; Port strike ended in east and gulf coast as ILA, USMX reached tentative agreement and contract extension till Jan 2025

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

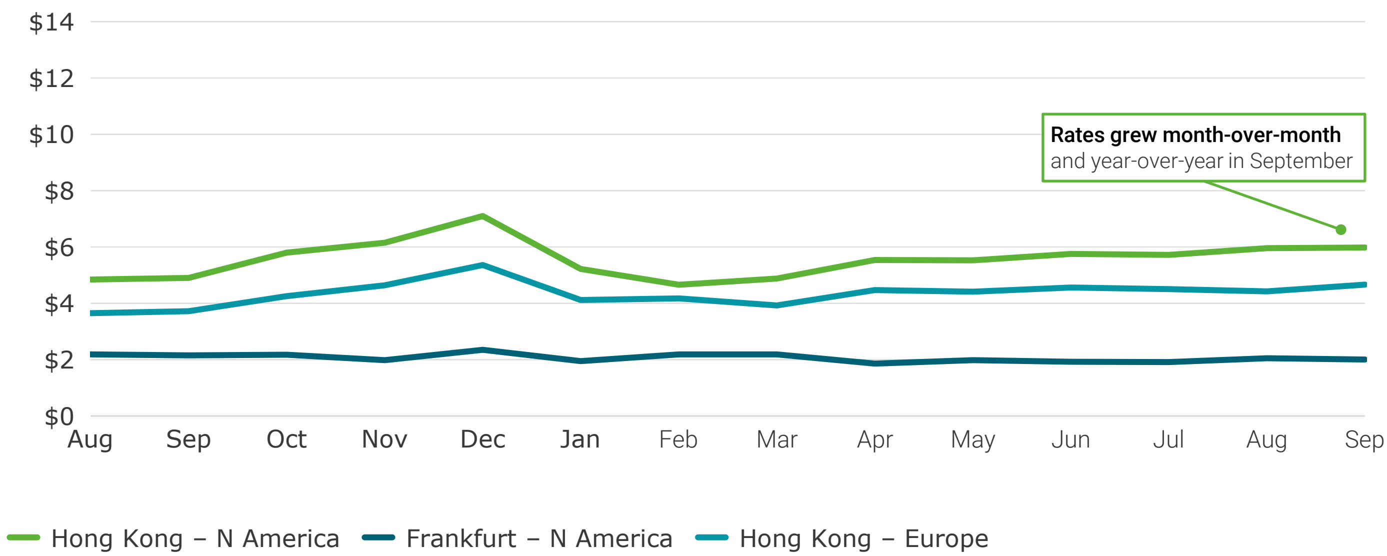
- Although the spot rates continue to decline, major carriers have already announced emergency operations surcharges such as Port Disruption Surcharge which could impact rates in future; there has yet been no word from major shipping lines as to their plans for lifting these surcharges
- Gap between Asia-U.S. West Coast and East Coast rates eased out in mid-September as retailers began to conclude their peak season imports
- SCFI has come down by approximately 60% from the June peak but is still significantly above last year

Source: Drewry Ocean report, TI Insights, Freightwaves, SCFI, AlixPartners analysis

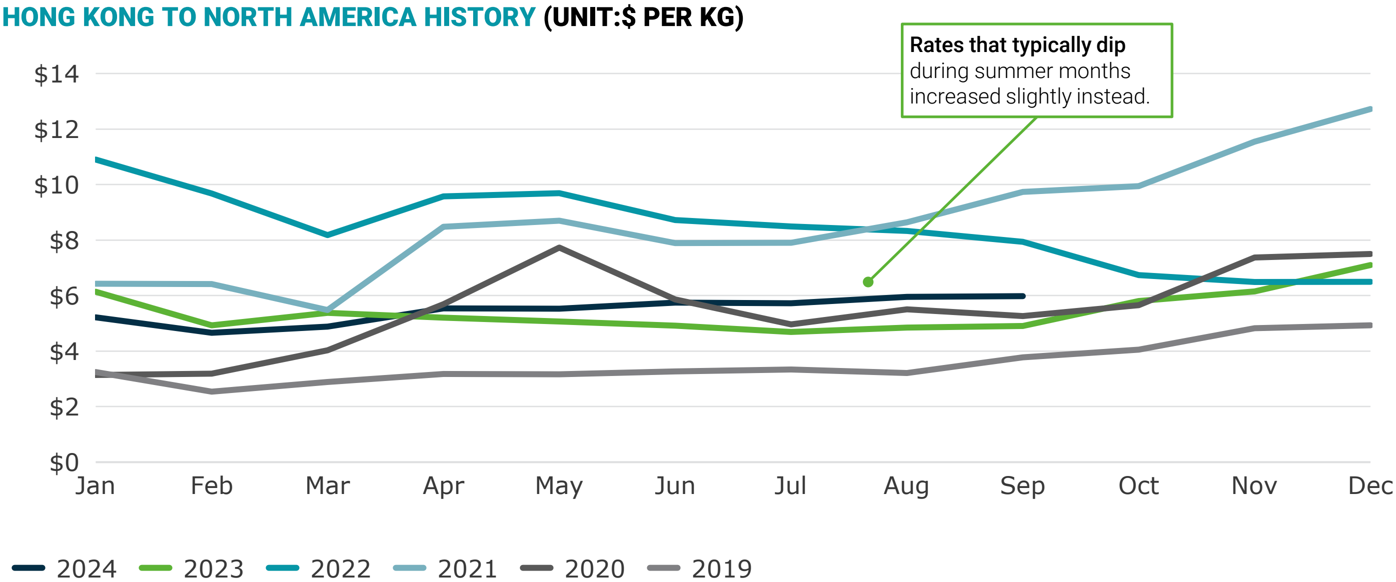
AIR FREIGHT

Global air freight average spot rate increased to $2.71/kg, a 26% increase year-over-year, marking seven consecutive months of YoY rate increases

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 continue to **rise YoY,** driven by **e-commerce demand,** and continuing mode-switching due to the impact of the **Red Sea crisis** on ocean freight
- Volumes were also boosted by a rush in advance of **China's Golden Week** holiday's (1st week of October)
- **Backhaul lane rates** from Europe to SE Asia and N. America to NE Asia **grew 11% and 6% MoM**
- **Asia to N. America and Europe** rates increased MoM, with double digit YoY growth

Source: Baltic Exchange Air Freight Index - TAC database, Air Cargo News, American Journal of Transportation, AlixPartners analysis

RAIL FREIGHT

Total U.S. rail traffic excluding coal & grain is up 3.3% YTD versus 2023. Carloads declined 0.5% and intermodal traffic increased 9.5% YTD

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

Commodity	YTD Change	Commodity	YTD Change
INTERMODAL	9.5%	COAL	-14.6%
INDUSTRIAL PRODUCTS	-0.9%	MOTOR VEHICLES AND PARTS	2.0%
PRIMARY METAL PRODUCTS	-4.2%	CHEMICALS	4.2%
FOOD & GRAIN MILL PRODUCTS	2.6%	GRAIN	10.2%
PETROLEUM AND PRODUCTS	10.4%	CRUSHED STONE, SAND, & GRAVEL	-9.8%

Source: Association of American Railroads

KEY TRENDS AND FACTS

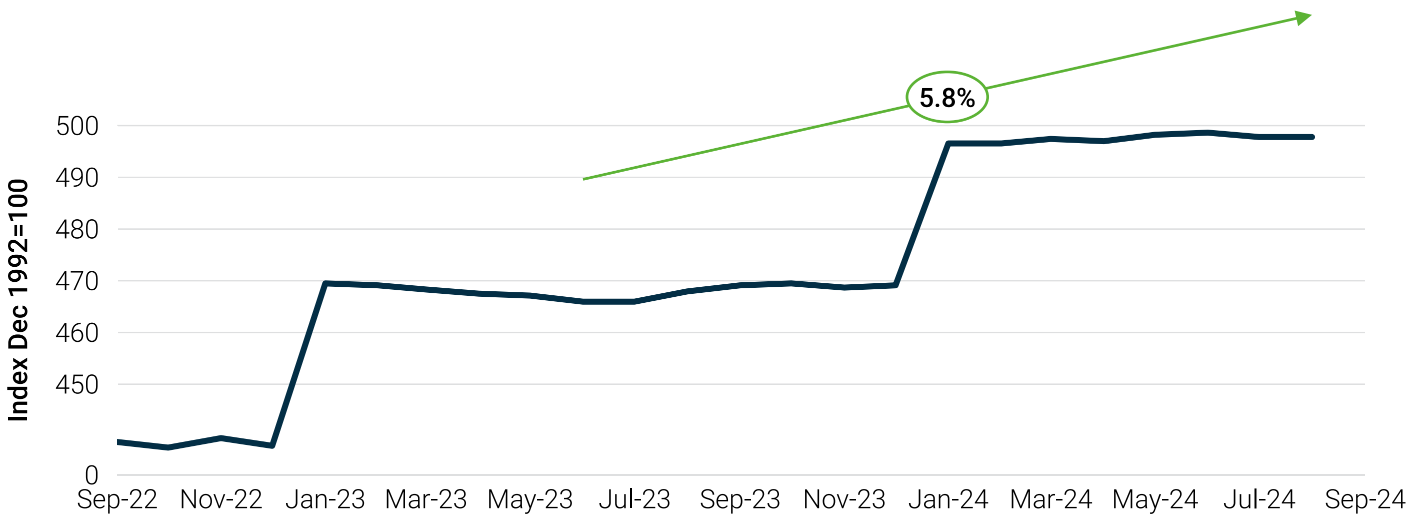
- The AAR's Fright Rail Index (FRI) rose by 0.4% in September compared to August and 7.3% YOY, indicating steady growth in rail activity. Strong consumer spending is supporting strong intermodal volumes. Manufacturing continues to be hit with stagnation driven by rising costs and potential supply chain disruptions. Uncertainty remains about sustained growth given hurricane recovery efforts and recent port strikes.
- BNSF Railway has hired Ed Harris, a proponent of precision scheduled railroading and considered by many to be a 'disciple of the late Hunter Harrison.' While the railroad has said it is not rolling out the PSR model for its operations, there have been comments by parent Berkshire Hathaway during their recent annual meeting. They commented that there is room for BNSF to be more efficient and to have higher margins – specifically calling out that when other railroads implement PSR they deliver certain performance metrics that BNSF should consider as well.

Note: Carloads are traffic classified into 20 major commodity categories. Rail intermodal units are shipping containers and truck trailers moved on railcars
Source: AAR

US PARCEL

Major U.S. parcel carriers have announced 2024 peak surcharge; FedEx announced 5.9% annual rate increase for 2025 as the industry navigates a softer demand environment

PRODUCER PRICE INDEX – STANDARD COURIER SERVICES INDEX[1]



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*466/100=$23.3

2024 PEAK SEASON SURCHARGES FOR MAJOR CARRIERS

CARRIER	SURCHARGE TYPE	EFFECTIVE DATE
FedEx	$1.00-$2.00 for express services, $0.30-$0.55 for ground residential	10/28/24 - 1/19/25
UPS	$0.25-$2.00	10/27/24 - 1/18/25
USPS	4.9%-6.4% average increase	10/6/24 - 1/19/25
OnTrac	$0.75 per residential package	10/26/24 - 1/18/25
GLS US	$1.50 per residential parcel	10/28/24 - 1/19/25

KEY TRENDS AND FACTS

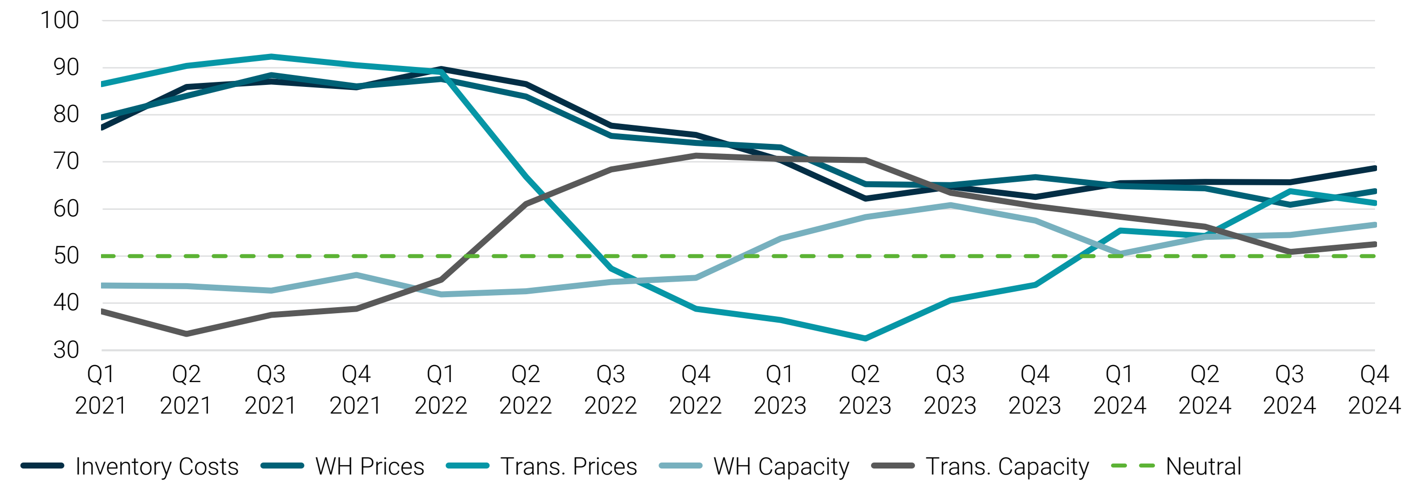
- FedEx's 5.9% average rate hike is effective from January 6, 2025 impacting all services:
  - Significant increases for residential deliveries, two-day air shipments, and packages requiring additional handling
  - Actual impact may exceed 12%-18% for some shippers when factoring in surcharges and fees, necessitating strategic shipping adjustments
  - Despite the increases, Shippers are advised to negotiate rates rather than accepting initial offers, given the current softer demand environment
- Amid weaker-than-expected demand — Parcel carriers are looking to extract more revenue from added fees and surcharges such as peak surcharge and fuel surcharge for shippers

Sources: 1. Federal Reserve Economic Data (FRED; Garland, M. (2024, Sep 16). FedEx unveils 5.9% rate increase, surcharge hikes for 2025; https://www.supplychaindive.com/news/fedex-2025-ground-express-freight-rate-increase/727087/ ; Garland, M. (2024, Sep 20). FedEx confident shippers will accept pricier holiday fees; https://www.supplychaindive.com/news/fedex-earnings-q1-peak-fuel-surcharges/727405/

WAREHOUSING TRENDS

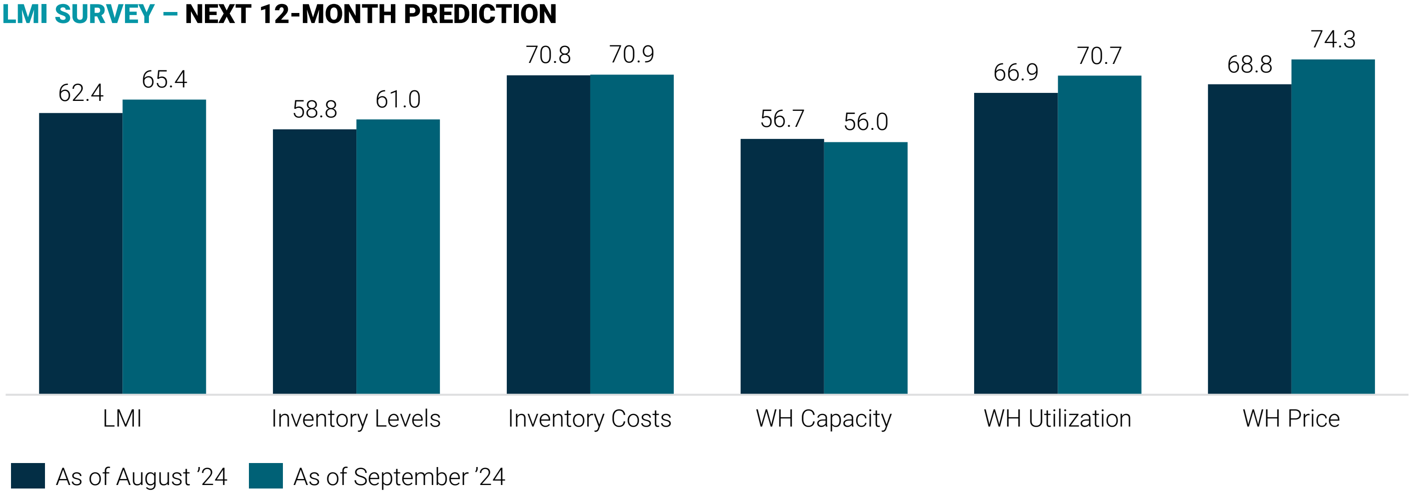
Logistics Manager's Index in September was above that of August at 58.6, with greatest change in transportation capacity

FLUCTUATION OF LMI INDICES



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

LMI SURVEY – NEXT 12-MONTH PREDICTION



KEY TRENDS AND FACTS

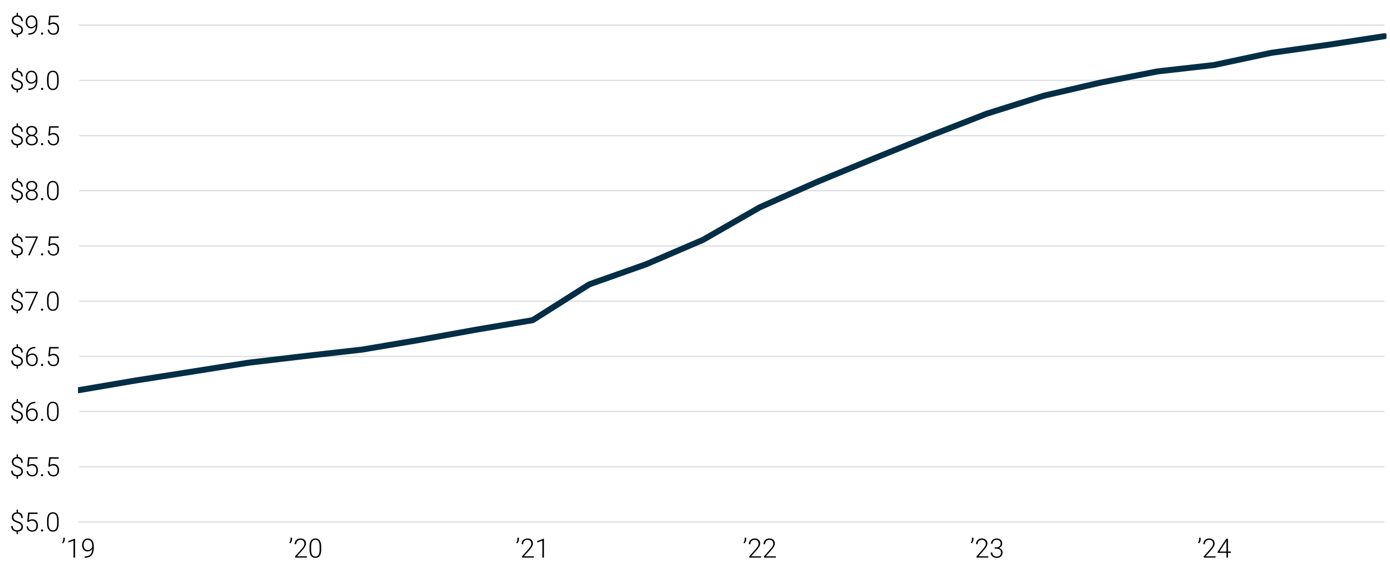
- Overall Logistics Managers' Index **increased in September to 58.6, up (+2.3) from August's reading of 56.4,** with largest shift in transportation capacity (-6.7) month-over-month
- **Inventory Levels increased (+4.1) to 59.8,** driven by downstream retailers restocking after months of contraction, signaling healthier supply chains as we approach Q4 (Freight Waves)
- **Transportation prices are surging,** with prices for retailers much higher than upstream, reflecting renewed retail supply chain activity for the peak season. (Supply Chain Dive)

Source: Logistics Managers' Index, Freight Waves, Supply Chain Dive, AlixPartners analysis

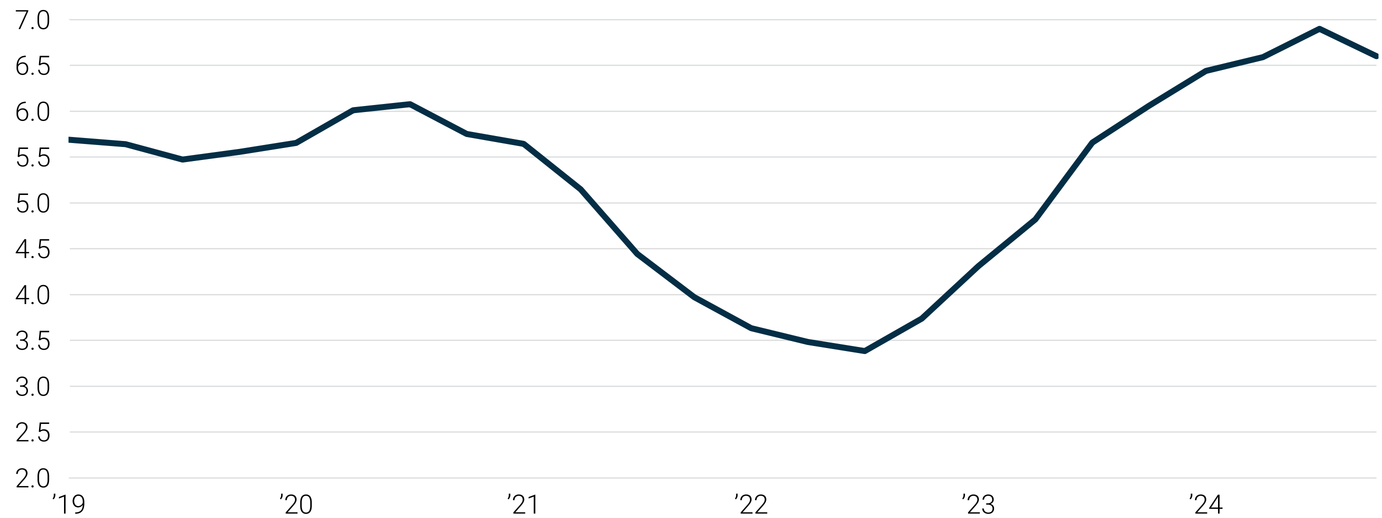
WAREHOUSING TRENDS

National rent per sq. ft. on the rise with vacancy slowly declining from last quarter, likely due to retailers building inventory in advance of year-end holidays

NATIONAL AVERAGE MARKET – RENT/SQ FT ($)



NATIONAL AVERAGE VACANCY RATE – (%)



KEY TRENDS AND FACTS

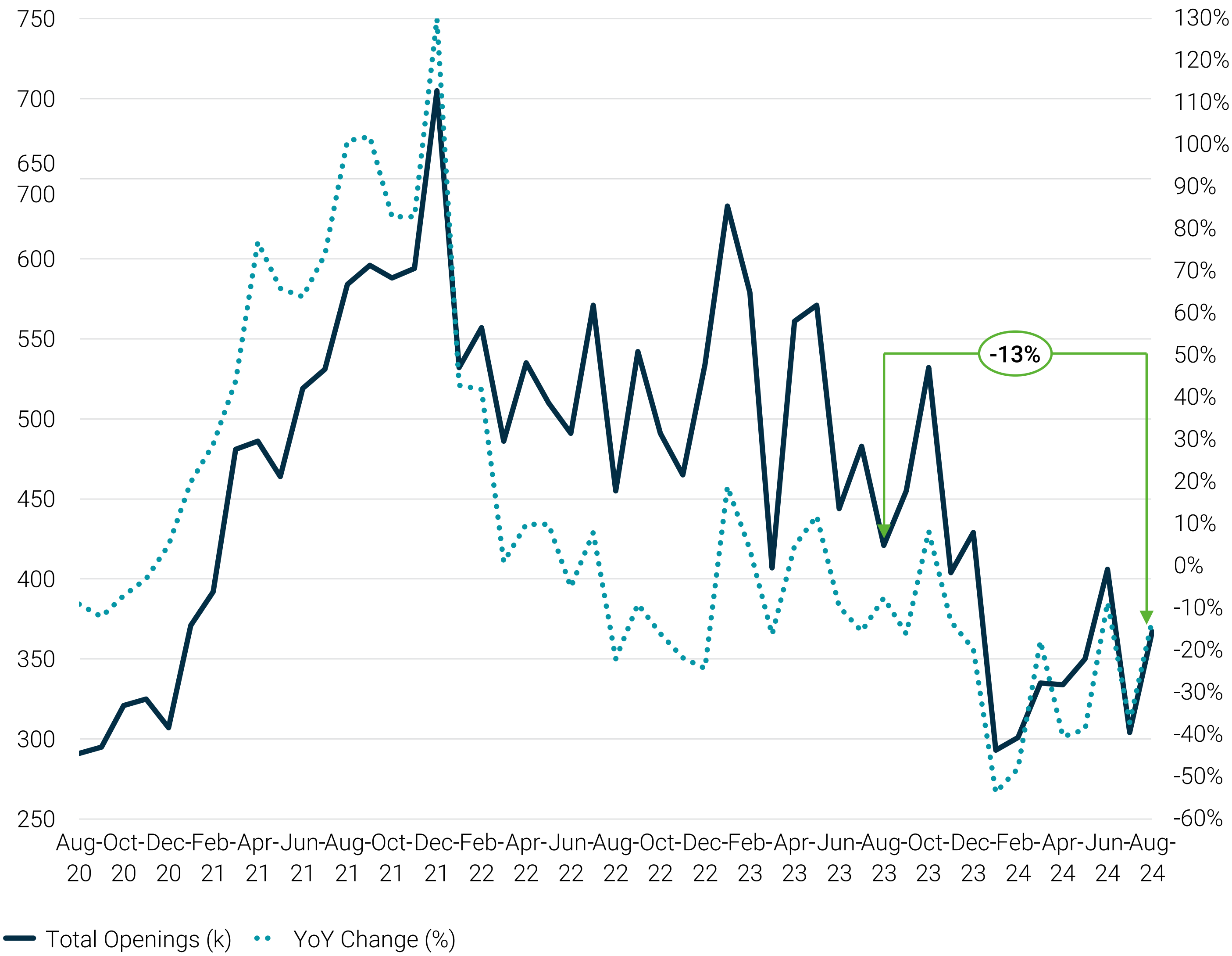
- **Quarterly rent increased ~3.5% year-over-year to an average of $9.40 per square foot,** likely a result of rising inventory levels as retailers prepare for the end of the year
- While vacancy declined from Q3 (6.9%) to Q4 (6.4%), vacancy has increased ~0.7% YoY; real-estate developers have **pulled back on warehouse construction** this quarter (WSJ)

Source: AlixPartners & Mohr Partners, Wall Street Journal, AlixPartners analysis

LABOR

Logistics job openings in August were estimated to be down 13% YOY and were up 21% from the month prior

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



KEY TRENDS AND FACTS

- BLS estimated that there were **~367K job projected openings** in the warehousing, transportation, and utilities sector in August; up 21% from the prior month and down 13% YOY
- **Amazon is investing ~$2 billion into its delivery services program this year,** which will result in average national pay for drivers delivering amazon parcels to reach nearly $22/hour, or a 7% increase from last year (WSJ)
- Job cuts continue across the logistics industry, though major retailers like Amazon intend to increase staffing heading into peak holiday season

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)

				COUNTRY WISE CHANGES (2018 V LTM JULY 2024)			
	TOTAL U.S. IMPORTS			**CHINA**	**VIETNAM**	**INDIA**	**MEXICO**
CATEGORIES	**2018 ($B)**	**LTM JUL 2024 ($B)**	**CHANGE (%)**	**CHG. %**	**CHG. %**	**CHG. %**	**CHG. %**
Apparel & Textiles	$116	$109	(5%)	(33%)	18%	19%	0%
Automotive & Transportation Parts	$340	$437	28%	(9%)	162%	(1%)	45%
Chemicals & Allied Industries	$233	$344	47%	17%	150%	78%	63%
Computer & Electronics	$363	$453	25%	(24%)	248%	720%	37%
Food & Beverage	$151	$215	42%	(13%)	11%	16%	70%
Footwear, Headgear & Others	$32	$32	(1%)	(28%)	38%	(2%)	70%
Furniture	$67	$66	(1%)	(46%)	135%	44%	23%
Leather Goods	$15	$14	(6%)	(60%)	21%	27%	26%
Mechanical & Electricals	$379	$480	27%	(34%)	708%	96%	43%
Metals, Parts and Products	$139	$157	13%	(15%)	100%	66%	38%
Misc. Goods & Manf. Products	$476	$565	19%	(4%)	192%	15%	33%
Plastics & Rubber products	$86	$104	21%	(7%)	305%	92%	55%
Special classification provisions	$85	$102	20%	70%	1124%	82%	37%
Temporary legislation	$18	$24	31%	38%	218%	57%	8%
Wood & Pulp Products	$47	$51	8%	(35%)	272%	141%	62%
Total	**$2548**	**$3153**	**24%**	**(23%)**	**14%**	**59%**	**42%**
		LTM July 2024 U.S. Imports ($B)		**$420**	**$127**	**$87**	**$490**

Key nearshoring trends:

- Over the past six years (2018 to Last Twelve Months ending July 2024), overall imports into the U.S. increased by 24%. However, imports from China decreased by 23% from $543B to $420B
- **Vietnam, Mexico, and India** have been the biggest gainers
  - Vietnam has seen 149% increase to reach $127B; All categories have grown in imports from Vietnam
  - Imports from Mexico increased by 42% to $490B (which is now more than China); Footwear, Headgear & Others and Food & Beverage have seen biggest increase in Mexico
  - Imports from India have seen a consistent growth across industries, overall increase of 59% in imports into U.S. to $87B

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

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Sudeep Suman
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Managing Director

Joe Cubellis
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Erik Mattson
Director

Sven Vogele
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

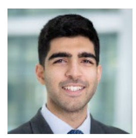
Miriam Wood
Sr Vice President

Leo Pozes
Vice President

Ryan Nelis
Vice President

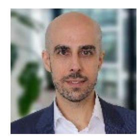
Vikas Chandra
Vice President

Alexis Parisi
Vice President



Karan Ranger
Vice President

Justin Stacy
Vice President



Vahid Nokhbeh
Consultant

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