

# SUPPLY CHAIN MARKET PULSE

September 2024

## KEY TRENDS AND CHALLENGES IN THE SUPPLY CHAIN

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### TRANSPORTATION DISRUPTIONS

- North American Labor Unions supporting supply chains are in the news again
  - **Rail:** The Canada Industrial Relations Board (CIRB) issued a last-minute order imposing binding arbitration between Canadian rail workers & the two major rail carriers, and no strike/stoppage during this process
  - **Ports:** East/Gulf coast port worker union (ILA) deemed the latest offer inadequate and is moving closer to a strike across 36 ports in the U.S. by Sept 30th

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### INTL FREIGHT RATE CHANGE

- Ocean spot rates seemed to have peaked in July with contract rates likely to peak in Q3'24 due to demand pull forward
- The US West Coast is experiencing a surge in import volume, which likely will cause a temporary uplift in rates
- Air rates for freight out of Asia continue to climb slowly. However, backhaul rate for freight into Asia has decreased due to the trade imbalance

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### DOMESTIC LOGISTICS TREND

- Domestic trucking rates trended slightly downward in the past month. Rates may tilt slightly upward in the coming month as we enter harvest season and long-haul freight season
- The US Warehouse vacancy rate declined in Aug and ended at 6%, ending a two-year trend of ascension.

# NEW ALIXPARTNERS PUBLICATION: Impending container port strike and actions importers can take now to navigate disruption

The ILA is threatening its first multi-coast strike since 1977 at U.S. East and Gulf Coast ports, potentially disrupting 60% of U.S. container volume across 36 ports starting October 1st if a new labor contract is not reached.

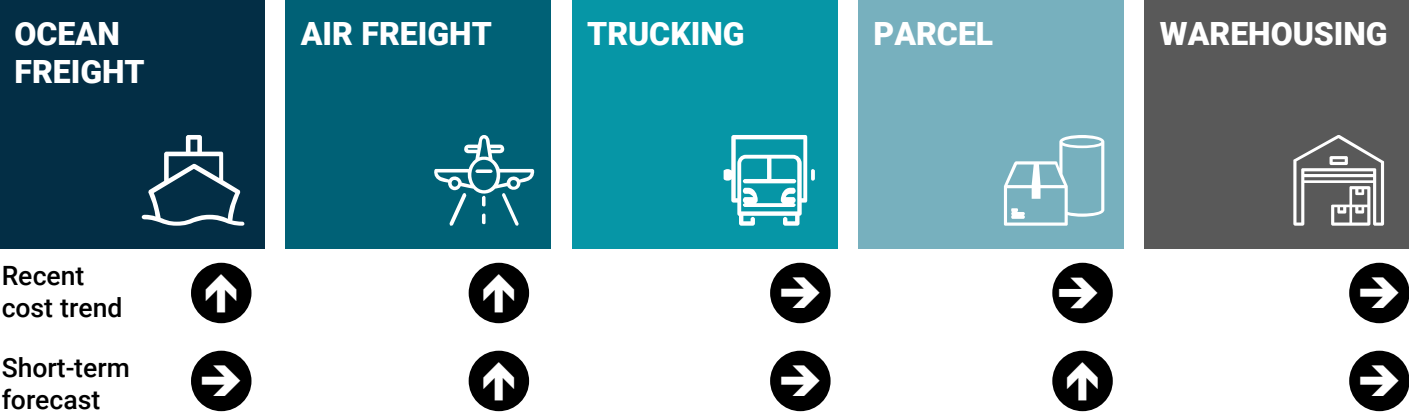
In the event of a port strike, companies importing cargo are expected to bear the brunt of the disruption. It is crucial to implement contingency plans immediately if they are not already in place. Below are tangible recommendations to help shippers minimize their exposure:



Download the full article [here](#)

# 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.



## WHAT IS MOST IMPORTANT TO KNOW?

### International transportation prices have become volatile. Vary based on the market

- Ocean rates may have peaked in July but remain elevated due to market disruptions in 1H of 2024. Over supply of capacity is still prevailing in most markets. Asia – North America and Asia - Europe pricing are both falling off of 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 rise in ground parcel delivery costs as US parcel revenue sees first decline in 7 years. UPS has seen large volume from E Commerce client such as Temu and Shein

### 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

### Shippers may need to divert volume due to Transportation Union contract negotiation

- The North American East and Gulf coast port union ILA has dismissed a wage offer indicated willingness to strike at the end of September.

## WHAT ACTIONS CAN WE TAKE?

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

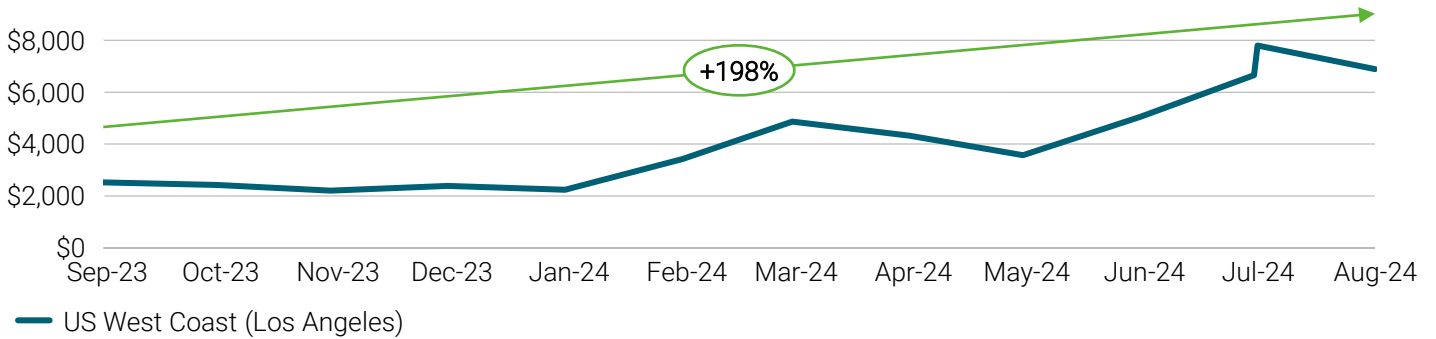
- RFPs are not the only answer; shippers should renegotiate rates with incumbents for faster results and rationalize their truckload supplier community with top performing suppliers
- **Strategically review the network**
- Review and use this time as an opportunity to reset the strategic distribution network.
- Align where the organization needs to be physically, and from a capability standpoint to take advantage of the next growth period
- Build trust with carriers will pay dividend in the long run and help navigate through disruptions

Source: AlixPartners analysis

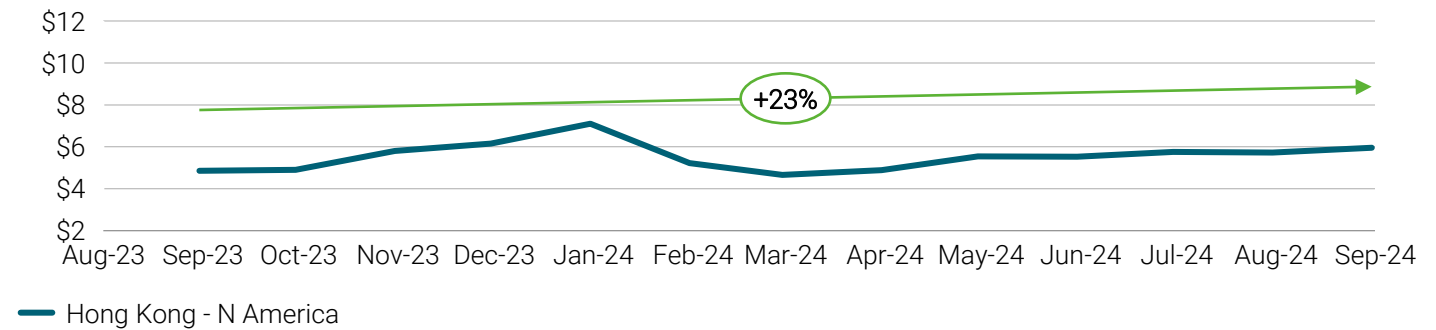
# FREIGHT TRENDS

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

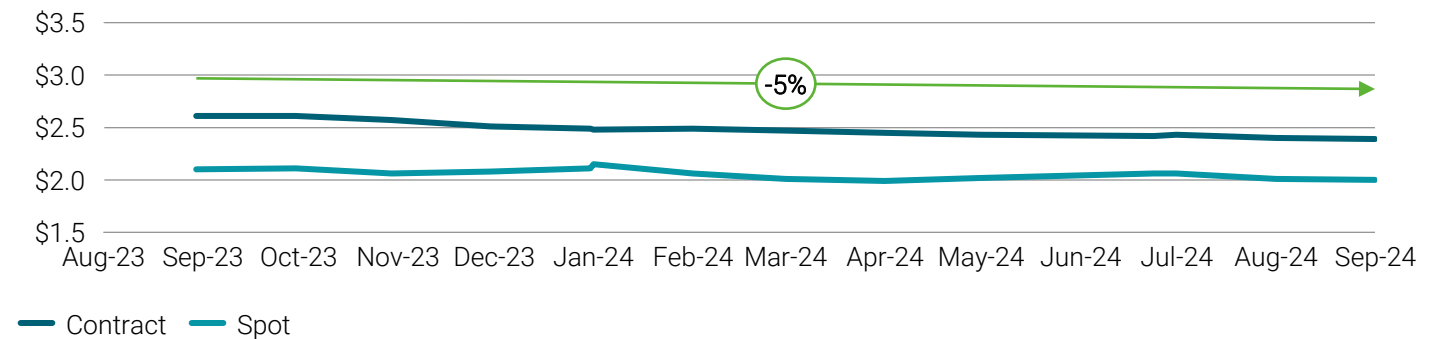
## OCEAN FREIGHT – SHANGHAI TO U.S. – (\$/40FT)



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



## TRUCKING: DRY VAN – (\$/MILE)



### KEY TRENDS AND FACTS



#### KEY DRIVERS CAUSING RATE CHANGES ARE:

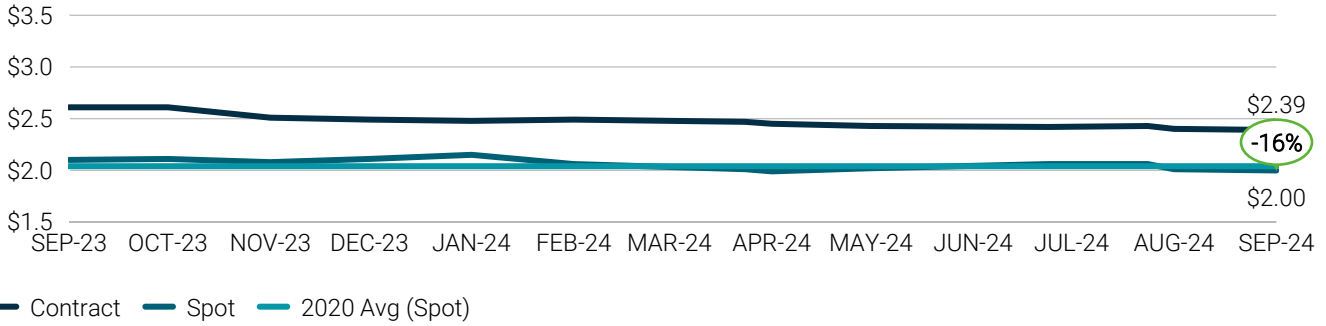
- Ocean spot rates seemed to be peaked in July with contract rates likely to peak in Q3'24 due to demand pull forward
- Air demand remains elevated, driven by the cargo diversion from the Red Sea Crisis and E-com growth from the likes of Temu, Shein, and other international e-commerce sellers
- TL contract and spot rates continue trending downward slowly. The Labor Day holiday was not a strong catalyst with both spot and rejection rates reacted minimally to it

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

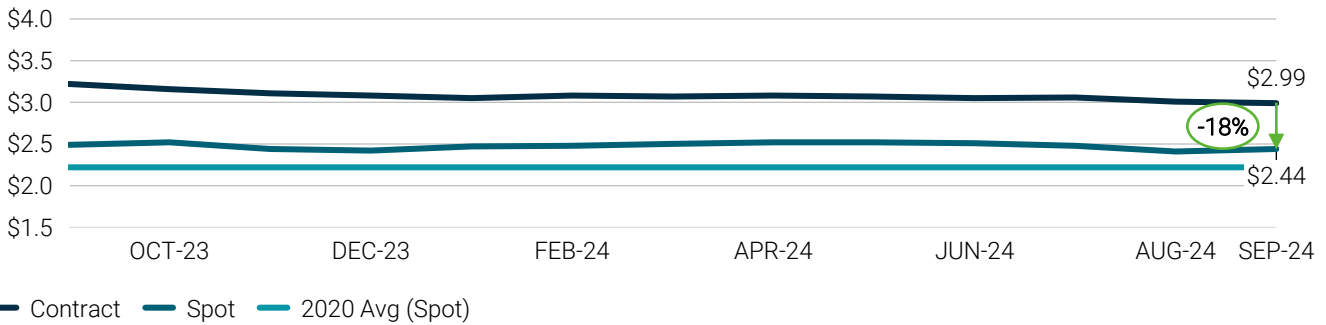
# TRUCKING FREIGHT

Trucking rate stayed relatively flat but may tilt up in the coming months as we enter pre-holiday peak season.

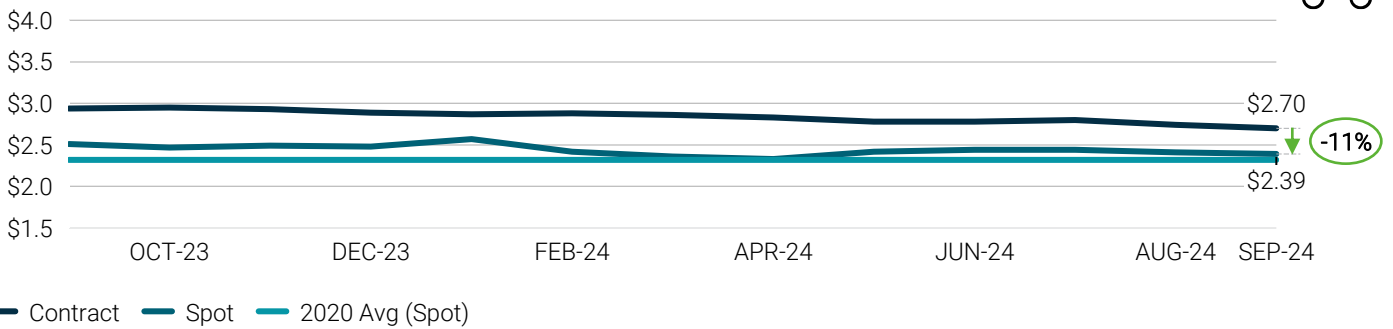
## DRY VAN – U.S. DOMESTIC FREIGHT RATES, INCL. FUEL (UNIT:\$ PER MILE)



## 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



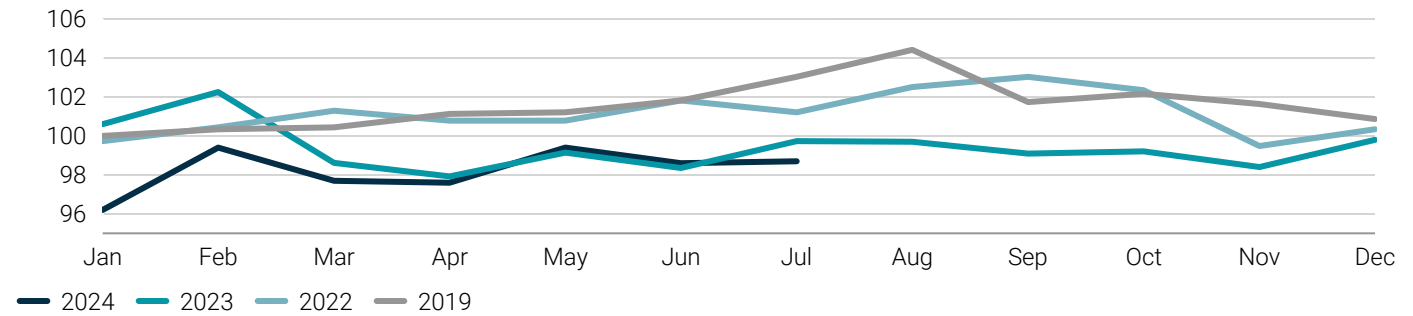
- Trucking rate stayed flat or trended slightly downward in the past month, despite the Labor Day holiday. However, rates could rise slightly upward in the coming month as we enter harvest season and long-haul freight season (containers import). The threat of an ILA strike in the Eastern ports is influencing shippers to order ahead of time and may keep demand elevated out of the West Coast later than usual ([Freight Waves](#))
- Import surge is driving demand for trucks rise in Southern California, driving up prices ([Journal of Commerce](#))

Source: DAT, WSJ, Freight Waves, AlixPartners analysis

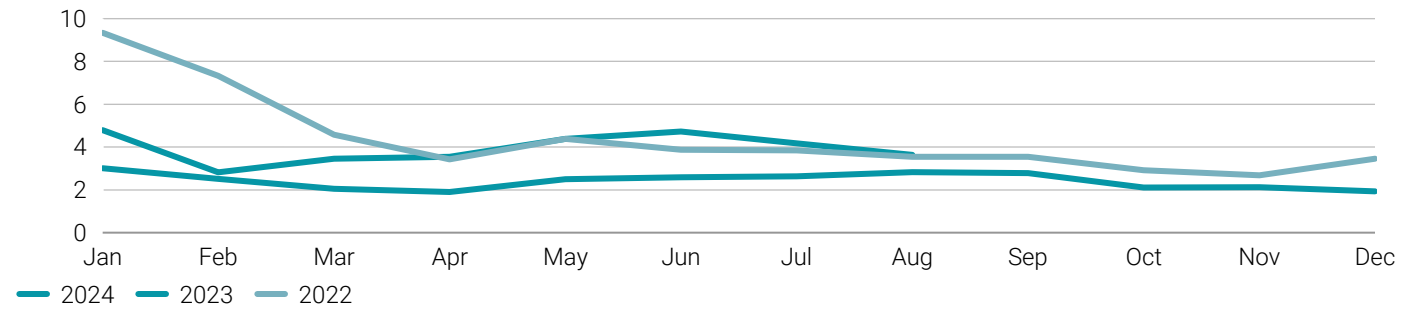
# TRUCKING FREIGHT

Truckload carriers remain cautiously optimistic as demand continues to fluctuate and load-to-truck ratio decreases by 12% MoM.

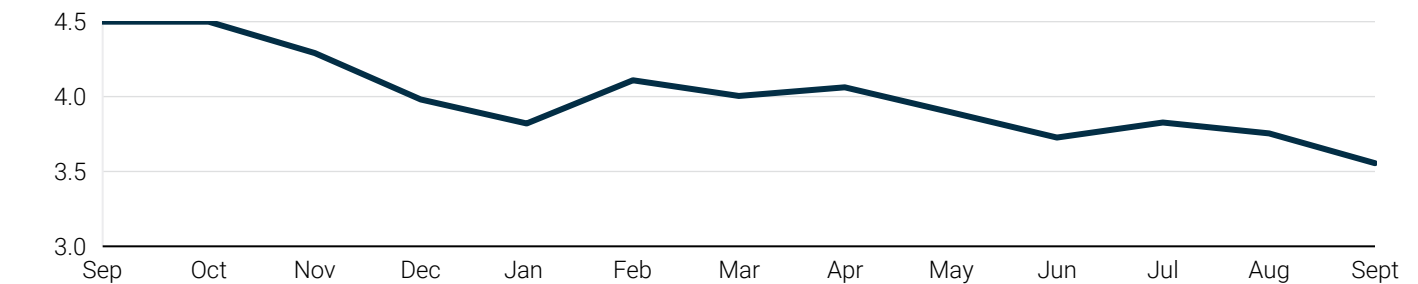
## TRUCK DEMAND – TONNAGE, YEAR OVER YEAR, INDEX (100)=JAN 2019



## VAN LOAD-TO-TRUCK RATIO – YEAR OVER YEAR



## DIESEL – \$ PER GALLON



### KEY TRENDS AND FACTS



- A pair of LTL carriers (XPO & Old Dominion) reported weaker volumes in August ([Freight Waves](#))
- Diesel surcharge benchmark down 9th week in a row amid oil sell-off ([Freight Waves](#))

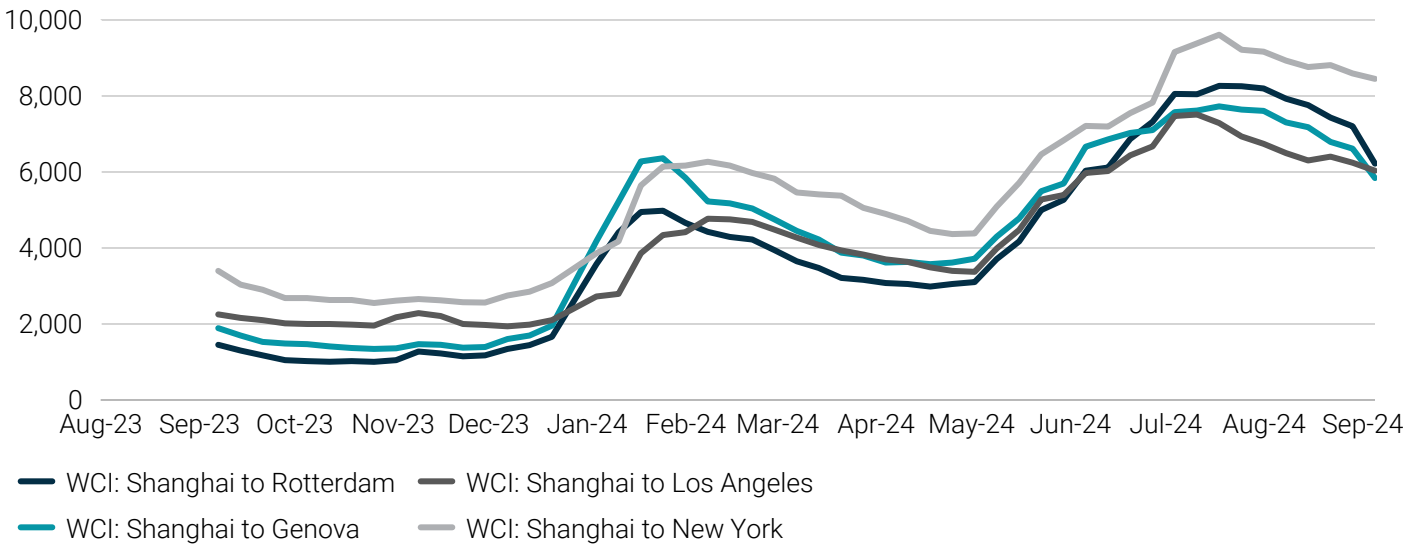
Source: DAT, Freight Waves, FRED, Bloomberg, AlixPartners analysis

# OCEAN FREIGHT

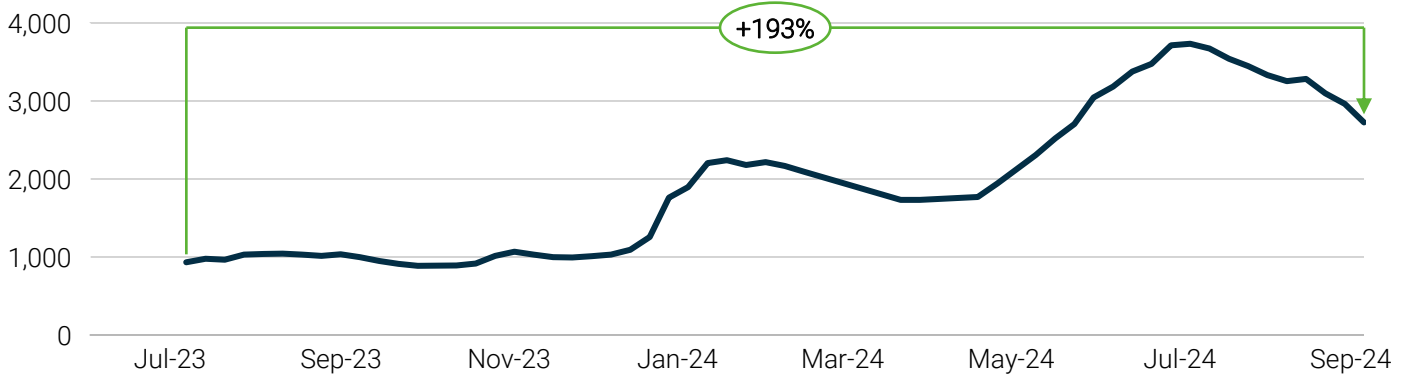
Ocean rates from Asia continue to decline, but U.S. import volumes are expected to surge in September due to the potential labor disruptions at East and Gulf Coast ports.

## 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



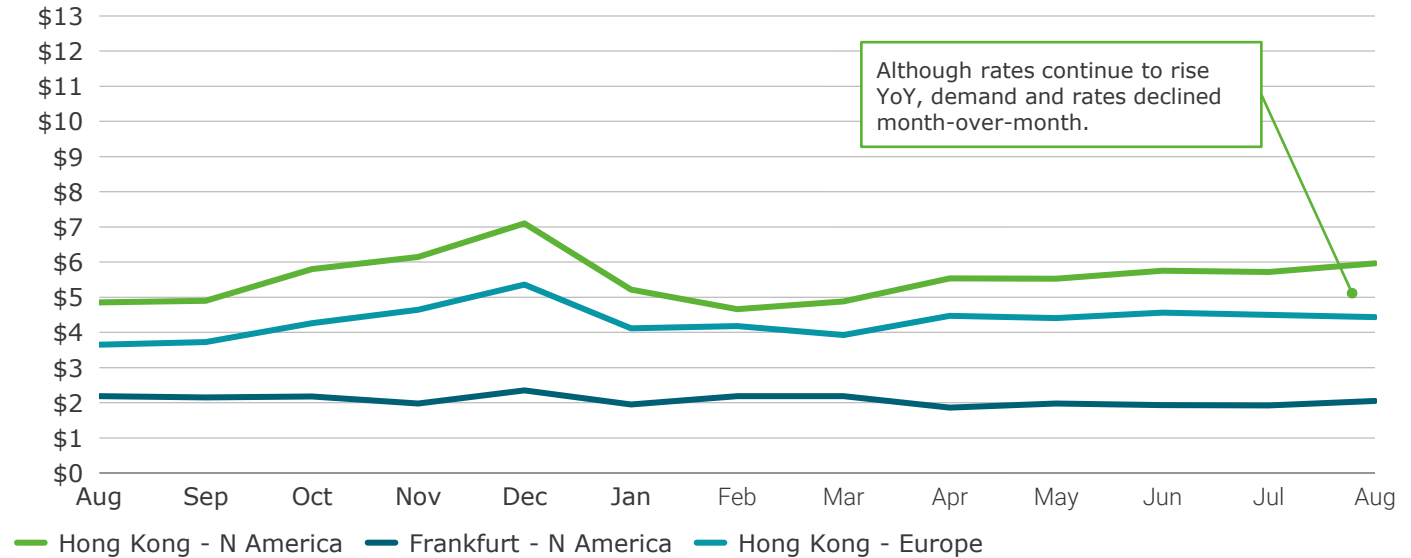
- US retailers have significantly upgraded their import forecast for September due to concerns over potential labor disruptions at East Coast ports; this surge in import volumes is likely to put upward pressure on ocean freight rates, especially for routes to US West Coast ports ([Journal of Commerce](#))
- Gap between Asia-US West Coast and East Coast rates widens highlighting the expected volatility in ocean rates
- SCFI still significantly above last year with +193% YoY

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

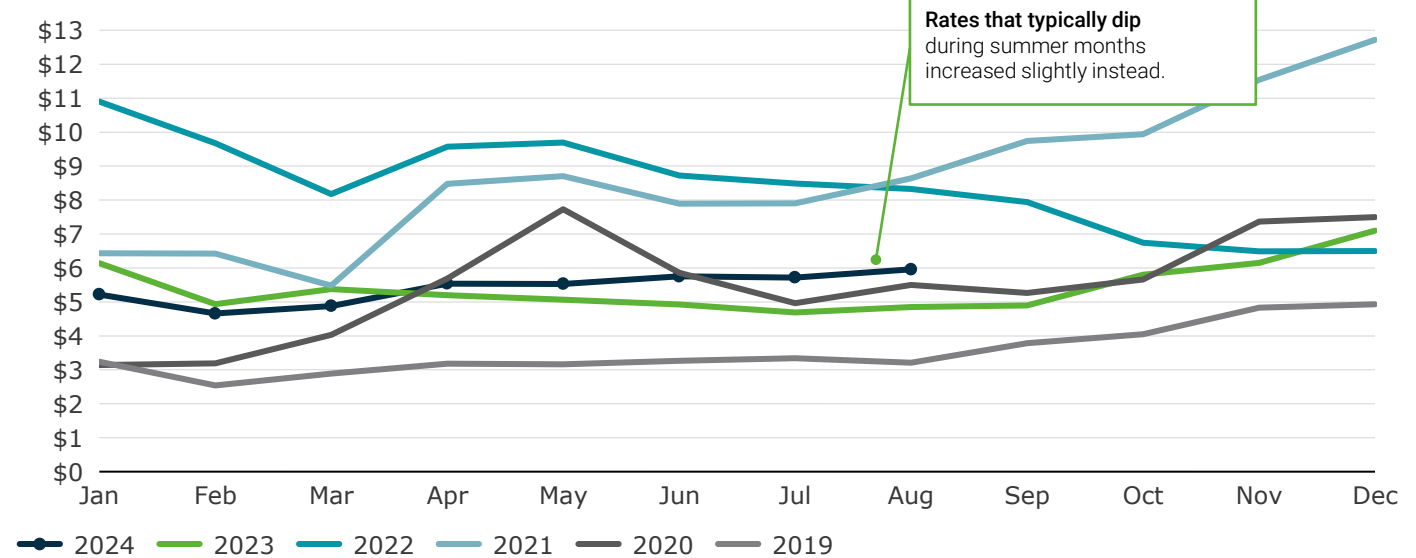
# AIR FREIGHT

Global air freight average spot rate increased to \$2.68/kg, a 24% increase year-over-year, marking six 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.
- Increase in global rates continues to be driven by the Middle East/Central Asia – Europe and Southeast Asia – Europe and N. America corridors.
- Political instability played a role in driving Bangladesh outbound rates higher.
- Rates declined 4% MoM on N. America and Europe to Asia routes due to continuing **backhaul trade imbalance**.

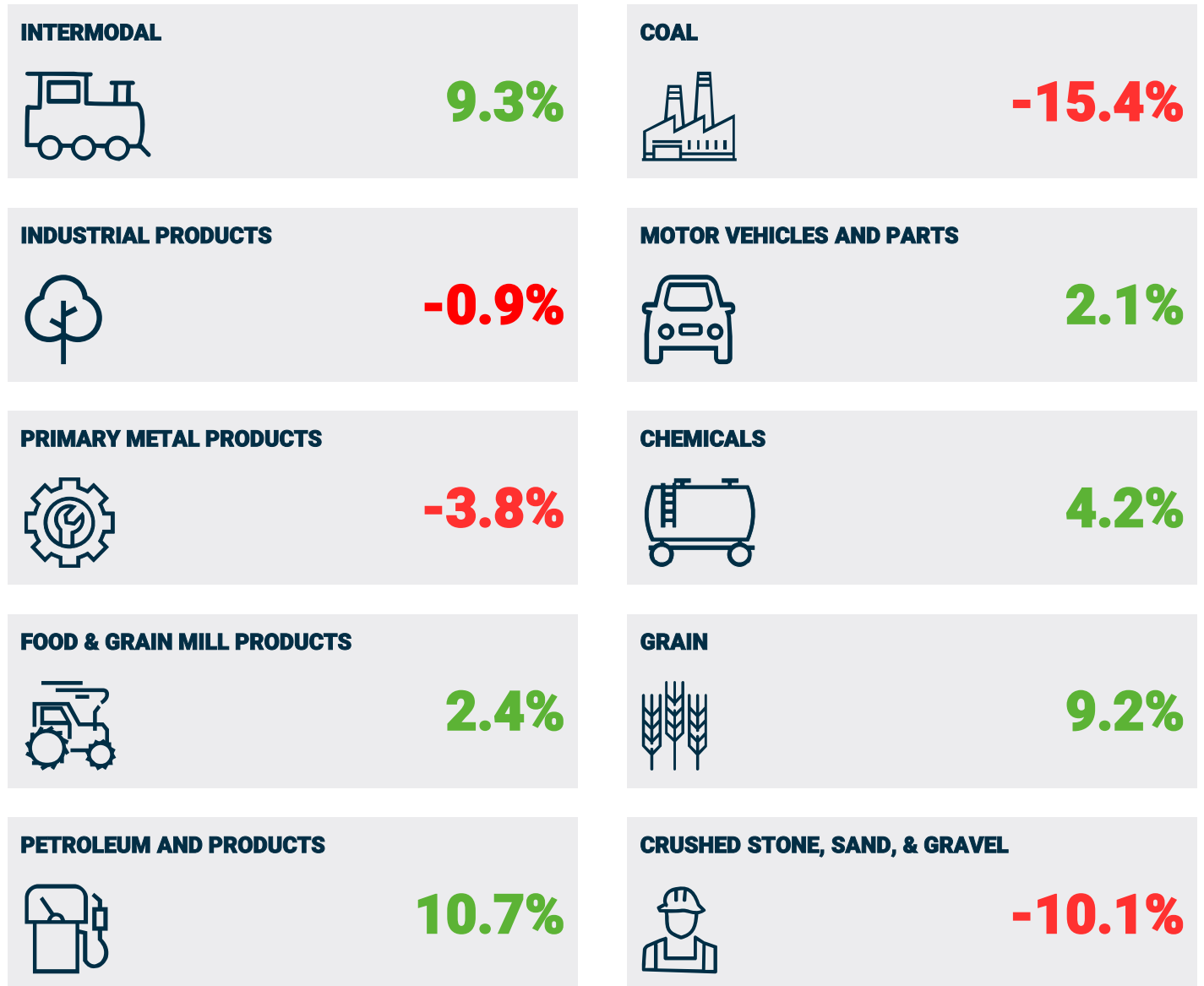
Source: Baltic Exchange Air Freight Index - TAC database, AlixPartners analysis, IATA, American Journal of Transportation, Air Cargo News



# RAIL FREIGHT

Total US rail traffic excluding coal & grain is up 5.9% YTD versus 2023. Carloads declined 3.6% and intermodal traffic increased 9.3% YTD.

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



Source: Association of American Railroads

### KEY TRENDS AND FACTS



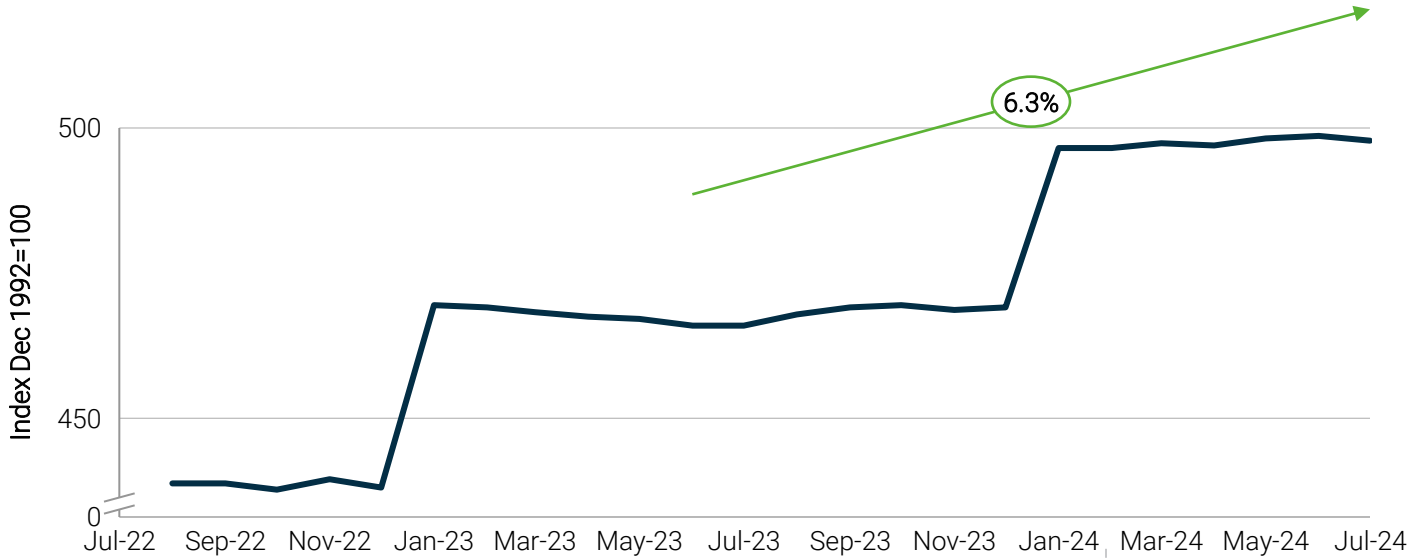
- Following rail lock outs – the Canada Industrial Relations Board (CIRB) issued a last-minute order imposing binding arbitration between Canadian rail workers & the two major rail carriers, CN and CPKC. The CIRB ordered that no rail network stoppage—whether a lockout or strike—can occur during the arbitration process. The Teamsters rail union currently has an appeal in the federal courts, but has agreed to lawfully comply with the CIRB decision.
- Norfolk Southern (NS) has terminated their CEO Alan Shaw and Chief Legal Officer due to an inappropriate relationship. Under his tenure, CEO Alan Shaw faced a proxy battle with activist investor Ancora Holdings as well as the devastating derailment in East Palestine, OH. NS's CFO is now taking the role as CEO.
- In August, total intermodal units per week hit their highest weekly average since May 2021. US Container originations per week also hit their highest weekly average ever for a month. Intermodal volumes are being driven by higher activity at US ports and continued resiliency in consumer spending.

Note: Carloads are traffic classified into 20 major commodity categories. Rail intermodal units are shipping containers and truck trailers moved on railcars  
 Source: AAR, CN, CPKC, Teamsters Canada, Journal of Commerce, Trains.com

# USA PARCEL

The parcel market continues to remain competitive with carriers increasing surcharges to boost revenue but simultaneously offering discounts to compete for limited demand.

## PRODUCER PRICE INDEX – STANDARD COURIER SERVICES INDEX<sup>1</sup>



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 US was \$5 in Dec 1992, today it is about  $5 \times 466 / 100 = \$23.3$

## FUEL SURCHARGE INCREASE ANNOUNCEMENTS DETAILS- FEDEX, UPS

CARRIER	SURCHARGE TYPE	DETAILS	EFFECTIVE DATE
UPS	Fuel Surcharge	0.5% to 0.75% increase for Domestic Ground, SurePost, Air, and International	August 26, 2024
FedEx	Fuel Surcharge	0.75% to 1.25% increase for Domestic Air, Ground, Home Delivery, and International Ground	September 2, 2024

### KEY TRENDS AND FACTS



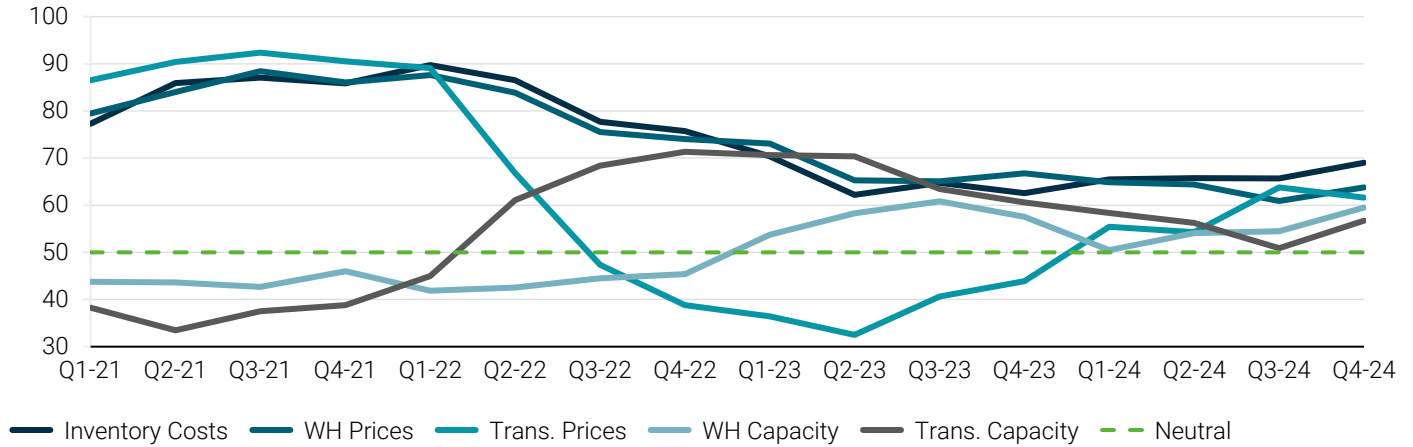
- Both UPS and FedEx have raised their fuel surcharge calculations in recent weeks, with UPS ground and SurePost services now 175 basis points higher than five months ago:
  - However, there has been a growing divergence between surcharges and the actual price of fuel; if they followed diesel prices more closely, but higher fees allow carriers to gain additional revenue despite lower demand, per the index.
- Despite the increases, shippers have been able to negotiate better rates or exemptions due to the current soft demand environment, with carriers more open to offering fuel surcharge discounts.
- Pitney Bowes Global Ecommerce Shutdown Disrupts Carrier Landscape:
  - Shippers with multi-carrier strategies are best positioned to adapt but may struggle to find comparable low rates offered by Pitney Bowes Global Ecommerce.

Sources: 1. Federal Reserve Economic Data (FRED); [Q3 TD Cowen/AFS Freight Index](https://www.supplychaindive.com/news/ups-fedex-fuel-surcharge-fsc-increases-2024/726432/); Garland, M. (2024, Sep 09). UPS, FedEx fuel hikes persist; <https://www.supplychaindive.com/news/ups-fedex-fuel-surcharge-fsc-increases-2024/726432/>; ; Garland, M. (2024, August 21). Pitney Bowes Global Ecommerce's shutdown will shake up carrier mixes; <https://www.supplychaindive.com/news/pitney-bowes-global-ecommerce-delivery-alternative-options/724760/>

# WAREHOUSING TRENDS

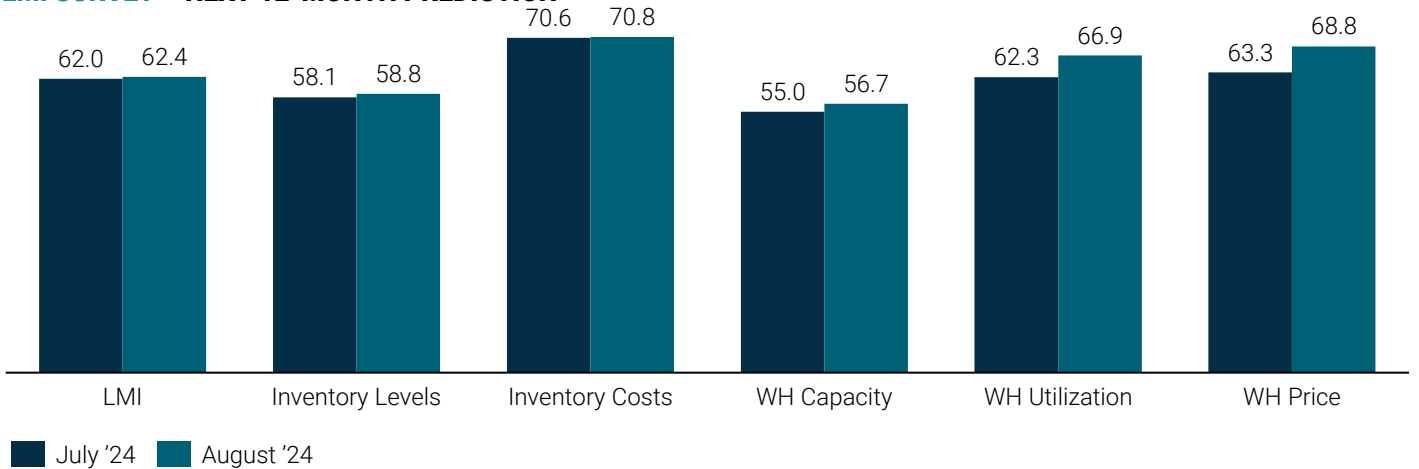
Logistics Manager's Index in August generally consistent with July at 56.4, with greatest increase in inventory levels and transportation capacity.

## FLUCTUATION OF LMI INDICES



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

## LMI SURVEY – NEXT 12-MONTH PREDICTION



### KEY TRENDS AND FACTS



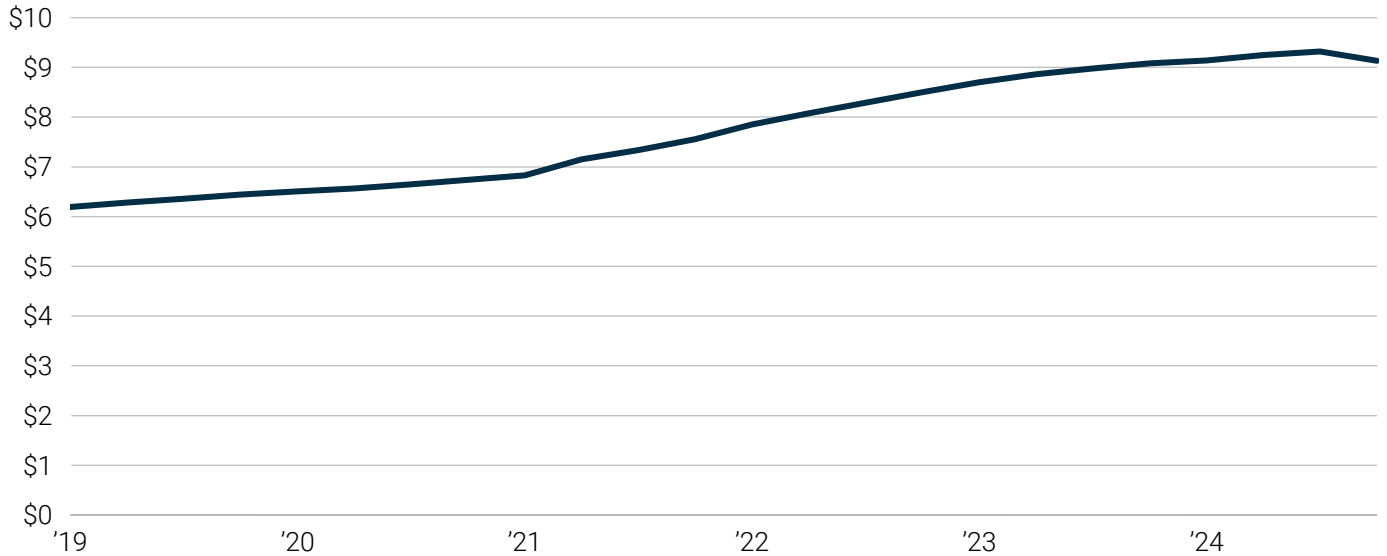
- **Overall Logistics Managers' Index decrease slightly in August to 56.5, down (0.1) from July's reading of 56.5**, with largest shifts in warehouse utilization (+6.1) and transportation capacity (+5.8) month-over-month
- **Walmart announces plans to offer warehousing, fulfillment, delivery and return services** for third-party sellers taking orders from customers outside of Walmart's marketplace
- While **manufacturing levels declined in August**, demand remained weak and has been a driver of increasing volumes of unsold stock being stored in warehouses

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

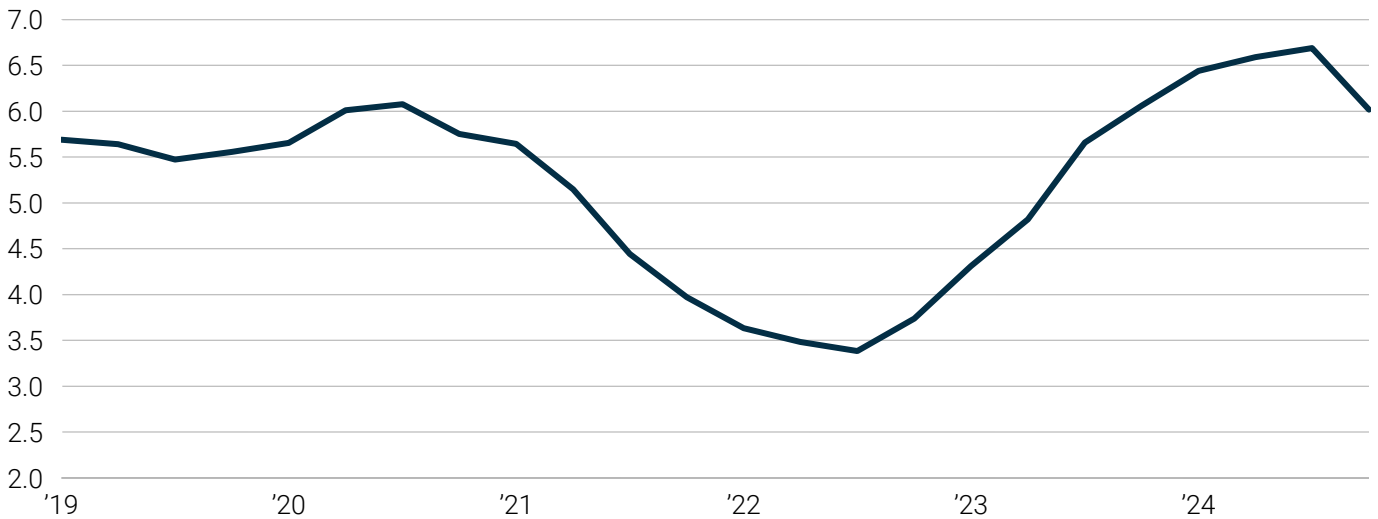
# WAREHOUSING TRENDS

National warehousing vacancy and rent per sq. ft. decreased, 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



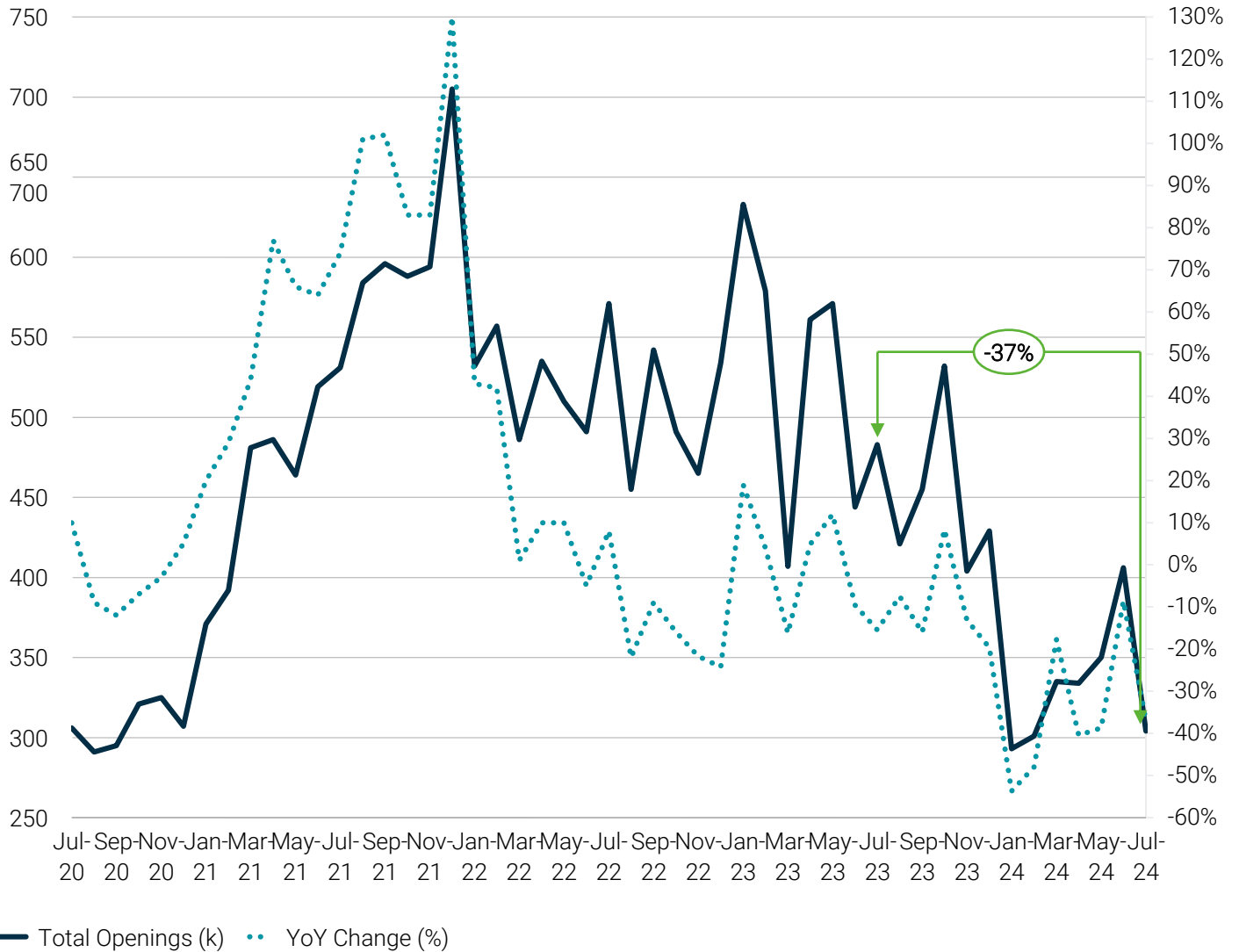
- Quarterly vacancy decreased 0.7% from Q3 2024 to Q4 thus far, likely a result of rising inventory levels as retailers prepare for the end of the year
- Amid the [Sunbelt's manufacturing surge](#), property investors are increasingly focusing on the region, planning a range of developments such as expanding warehousing, residential, and commercial spaces to support the growing industrial activity

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

# LABOR

Logistics job openings in July were estimated to be down 37% YOY and were down 25% from the month prior.

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



### KEY TRENDS AND FACTS







- BLS estimated that there were ~304k job projected openings in the warehousing, transportation, and utilities sector in July; down 25% from the prior month and down 37% YOY
- **Dockworkers' union officials are meeting** to discuss wage demands and prepare for potential strike on October 1<sup>st</sup>; more formal talks are needed to address additional issues for workers

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 US/China relations and tariffs have been pushing trade towards other countries (Vietnam, Mexico, India gained most)

CATEGORIES	TOTAL US IMPORTS			COUNTRY WISE CHANGES (2018 V LTM MARCH 2024)			
	2018 (\$B)	LTM MAR 2024 (\$B)	CHANGE (%)	 CHINA	 VIETNAM	 INDIA	 MEXICO
				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% ▲
<b>Total</b>	<b>\$2548</b>	<b>\$3153</b>	<b>24%</b>	<b>(23%)</b>	<b>149%</b>	<b>59%</b>	<b>42%</b>
<b>LTM July 2024 U.S. Imports (\$B)</b>				<b>\$420</b>	<b>\$127</b>	<b>\$87</b>	<b>\$490</b>

## Key nearshoring trends:

- Over the past 6 years (2018 to Last Twelve Months ending July 2024), overall imports into the US 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 US 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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**Erik Mattson**  
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**Sven Vogeles**  
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**Kai Kang**  
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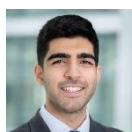
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