

SUPPLY CHAIN MARKET PULSE

August 2024

KEY TRENDS AND CHALLENGES IN THE SUPPLY CHAIN

1

TRANSPORTATION DISRUPTIONS

- North American Labor Unions supporting supply chains are in the news again:
 - **Rail:** The Canadian Industrial Relations Board (CIRB) has ruled that Canadian railroads can strike beginning August 22. This is a significant conduit for ocean trade coming into the US Midwest from Canadian ports.
 - **Ports:** East/Gulf coast port worker union (ILA) has stated that members will not work past the Sept 30 contract under the current agreement.
- Ocean shipping out of Asia may deteriorate further in the coming weeks following an explosion aboard a vessel that closed the Chinese export hub of Ningbo.

2

IMPENDING TARIFFS AND REGULATION

- New USA Tariffs are moving into effect over the next few months:
 - **Steel & Aluminum Products** will see a 0-7.5% to 25% increase in August 2024.
 - **EV Batteries** of 25% for Lithium-Ion China based produced batteries will go into effect in August 2024.
- UFLPA (Uyghur Forced Labor Prevention Act) has published a third update to prevent importation of goods manufactured with Forced Labor in China. Has increased from 20 entities to 68 entities as of July 2024.

3

NEW EU LEGISLATION ON CARBON

- **CO2 tolling** is being implemented across European markets: Sweden is introducing a CO2 component to its tolls starting January 2025, initially for vehicles over 12 tonnes and later for all vehicles by March 2027. Denmark and the Netherlands will follow with similar measures in 2025 and 2026, respectively.
- Additionally, 16 EU countries have been urged to implement the Eurovignette directive, which could lead to changes in tolls there soon. Separately, Slovenia, Belgium, and Hungary are increasing toll fees due to inflation or other adjustments, impacting freight rates.

NEW ALIXPARTNERS' PUBLICATION

2024 HOME DELIVERY SURVEY



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

Summary Findings

Our 2024 survey revealed that despite weak overall retail demand, online shopping continues its growth. With that growth comes a set expectation for on-time delivery that not all shippers can meet. As Retailers have seen their costs of shipping rise, they are facing pressure to 'thread the needle' by providing a competitive service at an acceptable cost.

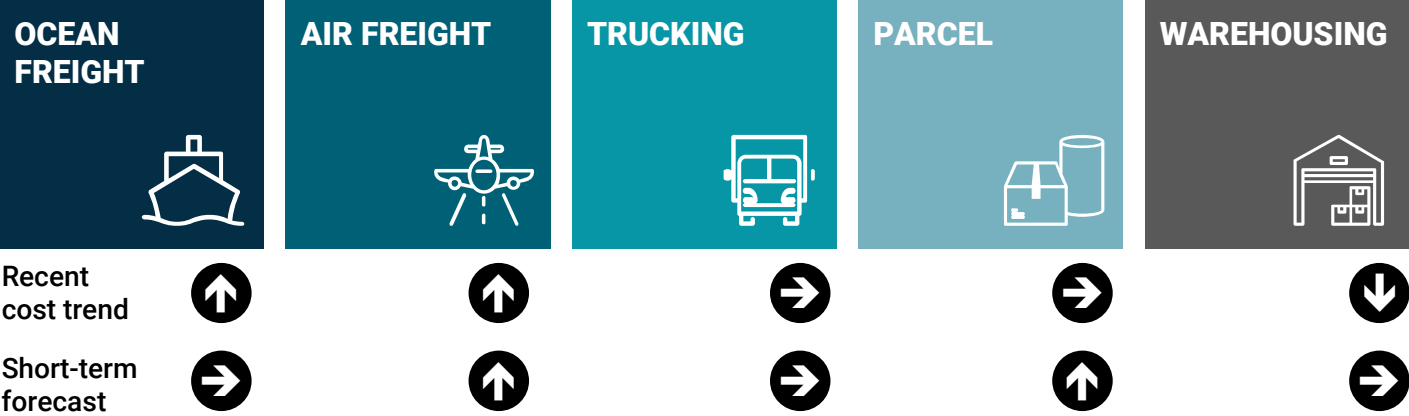
About the Survey

Since 2012, AlixPartners has facilitated a Home Delivery Survey which has tracked key trends, notably consumer expectation from online shopping and its implications for shipping.

Surveying shoppers and executives in the U.S., we have critical information for a wide range of businesses, from the products consumers are buying to how they perceive delivery services. Additionally, as delivery demands change the economy, they will influence the services shippers invest in and impact their bottom lines.

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 US, but elevated in EU



WHAT IS MOST IMPORTANT TO KNOW?

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

- Ocean rates remain elevated due to market disruptions in 1H of 2024, over supply of capacity is still prevailing in most markets. Asia – North America pricing is falling off of peak, while Asia – Europe routings continue escalating trend

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

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

- Companies are actively diverting volume ahead of a potential Canadian rail strike prior to August 22nd, impacting import and industrial rail volumes in North America
- 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

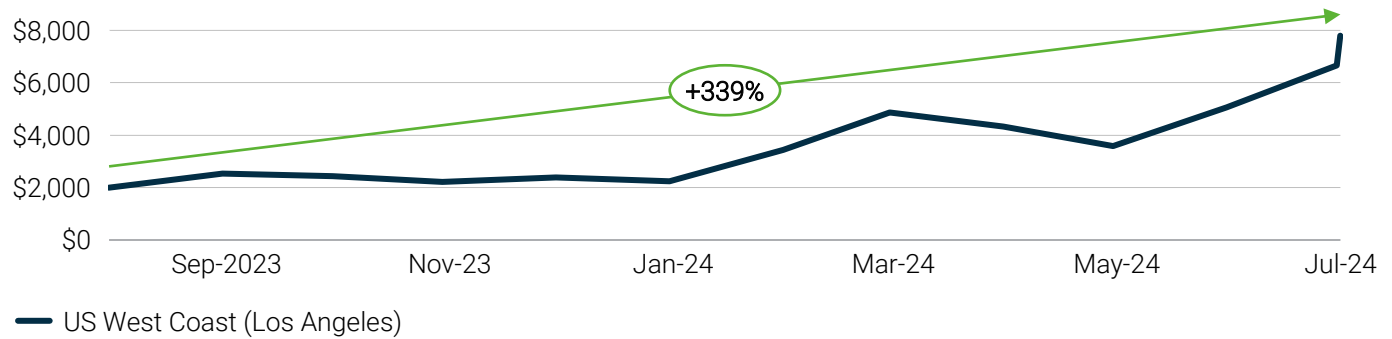
- Review and use this time as an opportunity to reset the strategic distribution network.
- Align where the organization needs to be physically, and from a capability standpoint to take advantage of the next growth period

Source: AlixPartners analysis

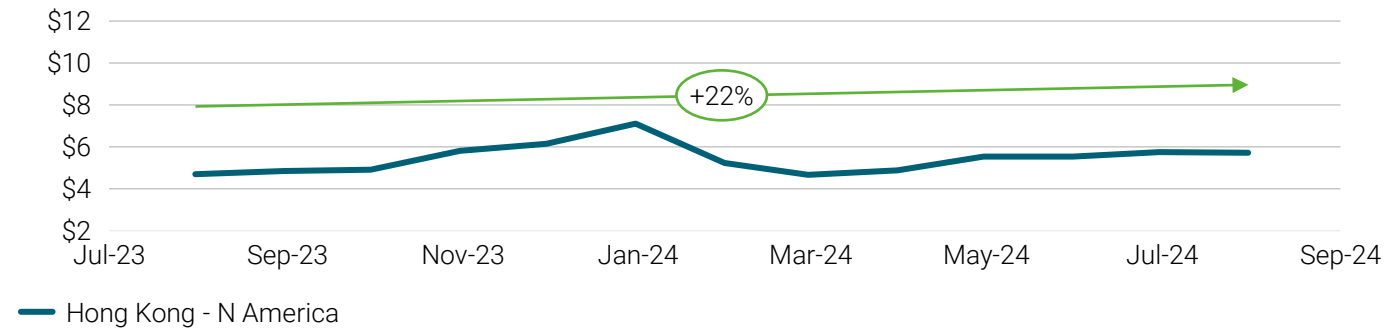
FREIGHT TRENDS

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

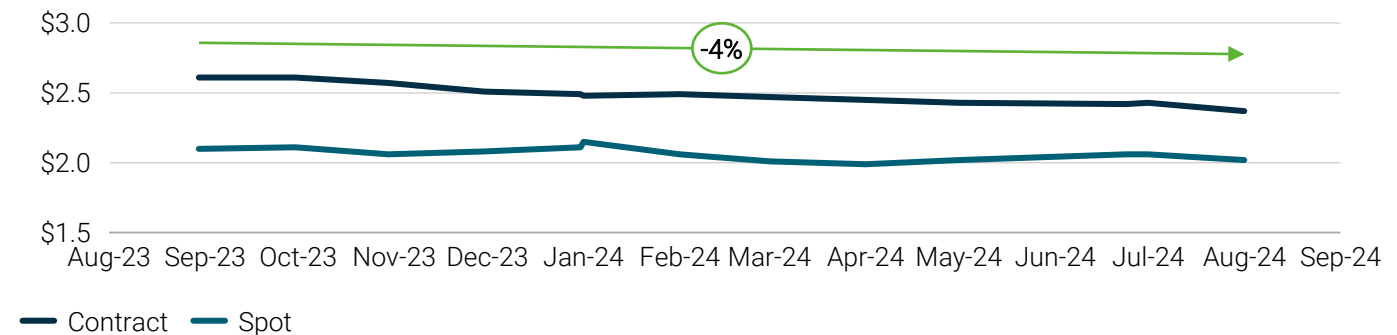
OCEAN FREIGHT – SHANGHAI TO U.S. – (\$/40FT)



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



TRUCKING: DRY VAN – (\$/MILE)



KEY TRENDS AND FACTS



KEY DRIVERS CAUSING RATE CHANGES ARE:

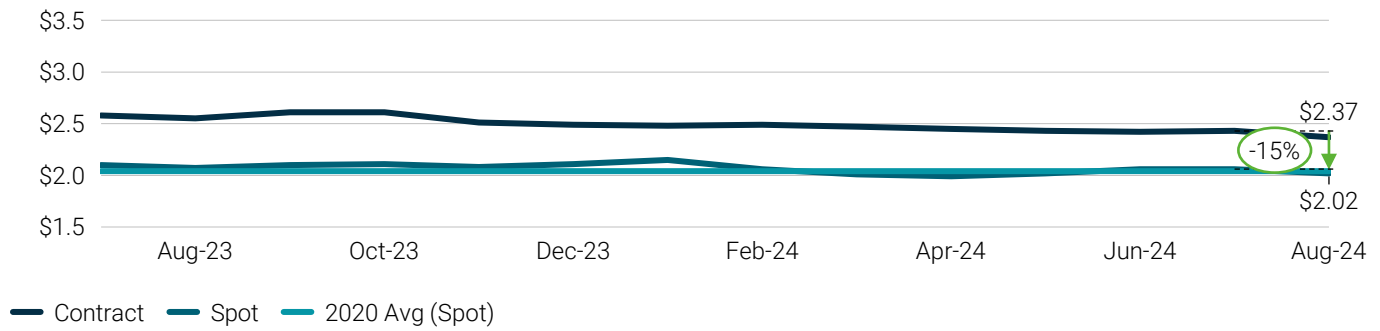
- Ocean freight is seeing Port congestion, container shortage and an early peak season are all driving up spot prices
- Air demand remains elevated, driven by the cargo diversion from the Red Sea Crisis and E-com growth from the likes of Temu, Shein, and other international e-commerce sellers
- TL rates 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

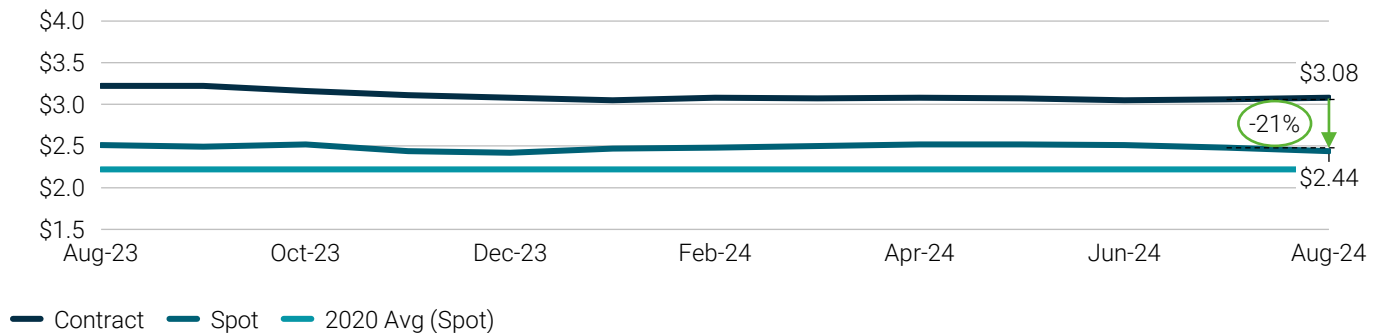
TRUCKING FREIGHT

Truckload carriers negotiate contract rate increases of up to 8% amidst a potential market turn around

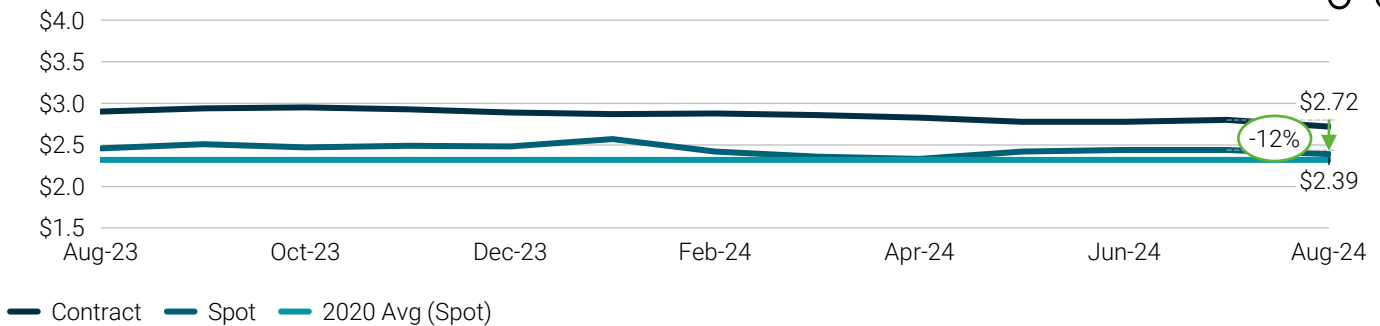
DRY VAN – U.S. DOMESTIC FREIGHT RATES, INCL. FUEL (UNIT:\$ PER MILE)



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



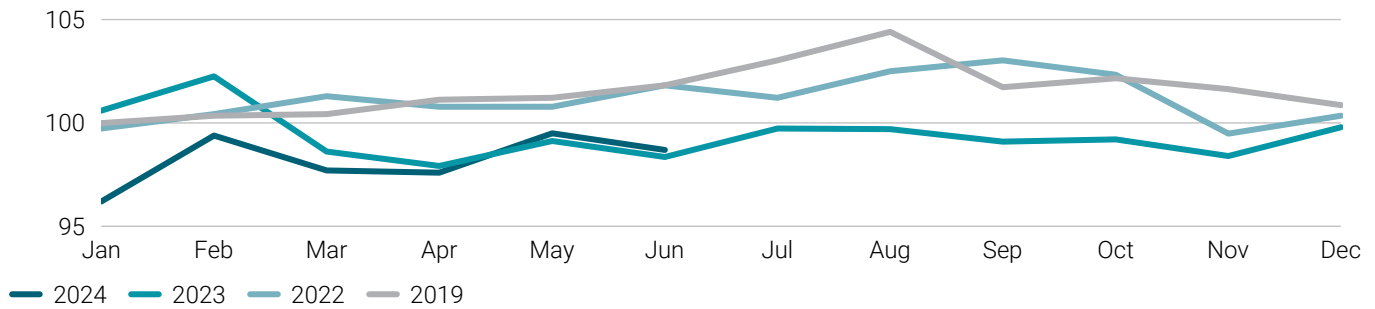
- As cost pressures continue, CH Robinson announced it is selling its European surface transportation business ([CH Robinson](#)).
- Several truckload carriers including Schneider, XPO, and ArBest negotiated contract rate increases of up to 8% in from last year ([Fleet Owner](#)).
- Schneider experienced an increase in network revenue per truck of 3% in Q2, further supporting the potential market turn ([Trucking Dive](#)).

Source: DAT, WSJ, Freight Waves, AlixPartners analysis

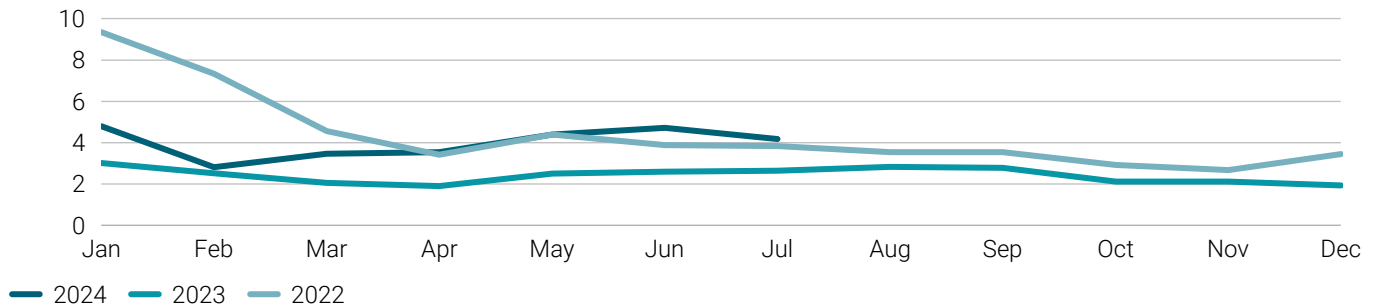
TRUCKING FREIGHT

Truckload carriers remain cautiously optimistic as demand continues to fluctuate and load-to-truck ratio decreases by 11%

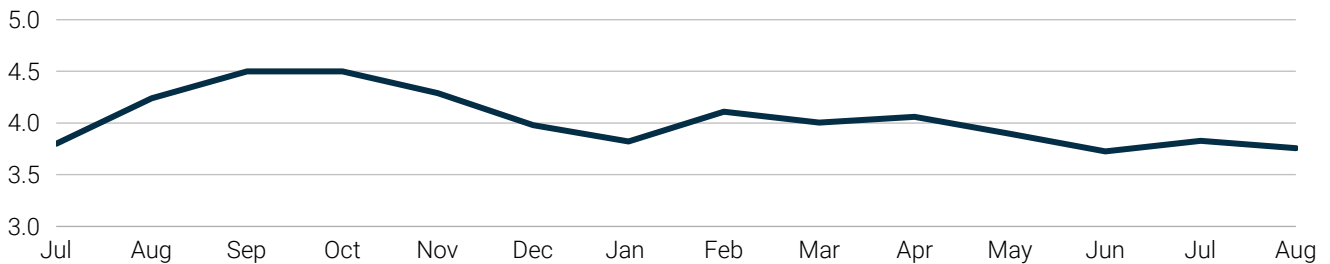
TRUCK DEMAND – TONNAGE, YEAR OVER YEAR, INDEX (100) - JAN 2019



VAN LOAD-TO-TRUCK RATIO – YEAR OVER YEAR



DIESEL – \$ PER GALLON



KEY TRENDS AND FACTS



- Truckload freight market continues to face uncertainty as to when a recovery will occur ([Fleet Owner](#)).
- Carriers remain cautiously optimistic that the 'bottom' of the trough has been reached. However, consumer spending and interest rates may have a strong impact on the truckload market's recovery ([CCJ](#)).
- Additional factors currently signaling a potential turnaround including increasing demand and excess capacity shrinking ([Freight Waves](#)).

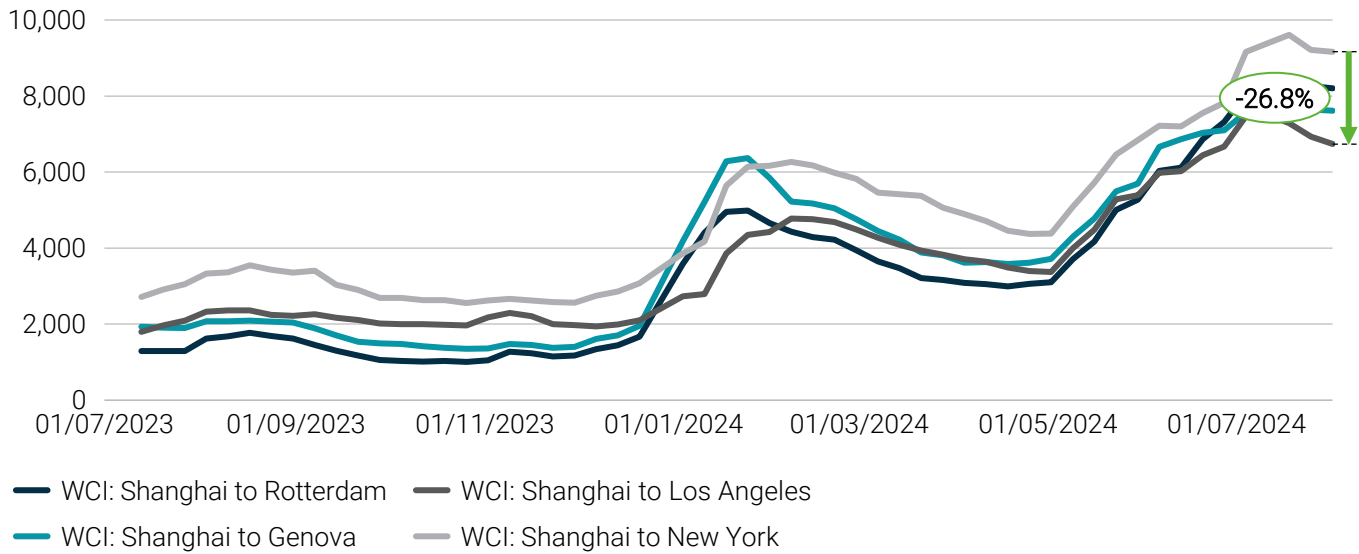
Source: DAT, FRED, Bloomberg, AlixPartners analysis

OCEAN FREIGHT

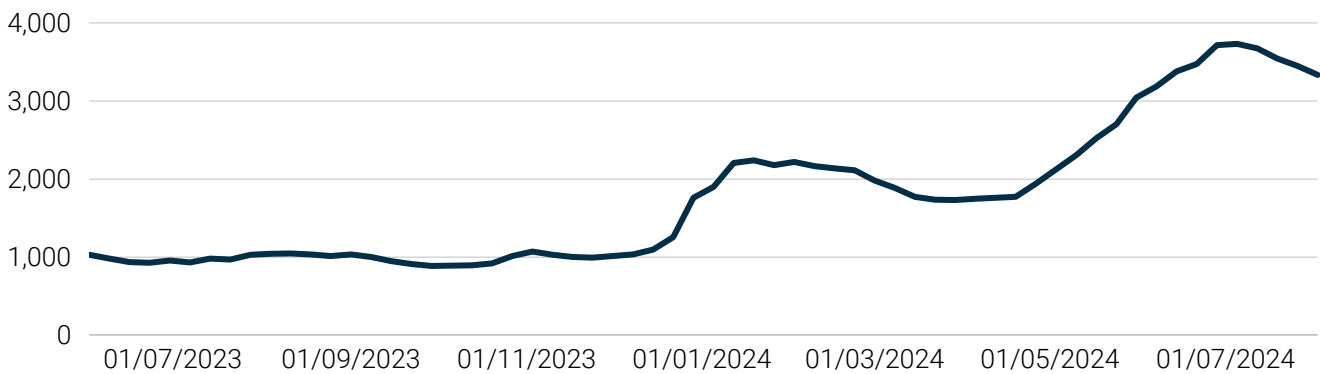
Ocean rates from Asia are slightly declining in recent weeks, but U.S. import volumes are expected to surge due to stalled labor negotiations at East and Gulf Coast ports

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



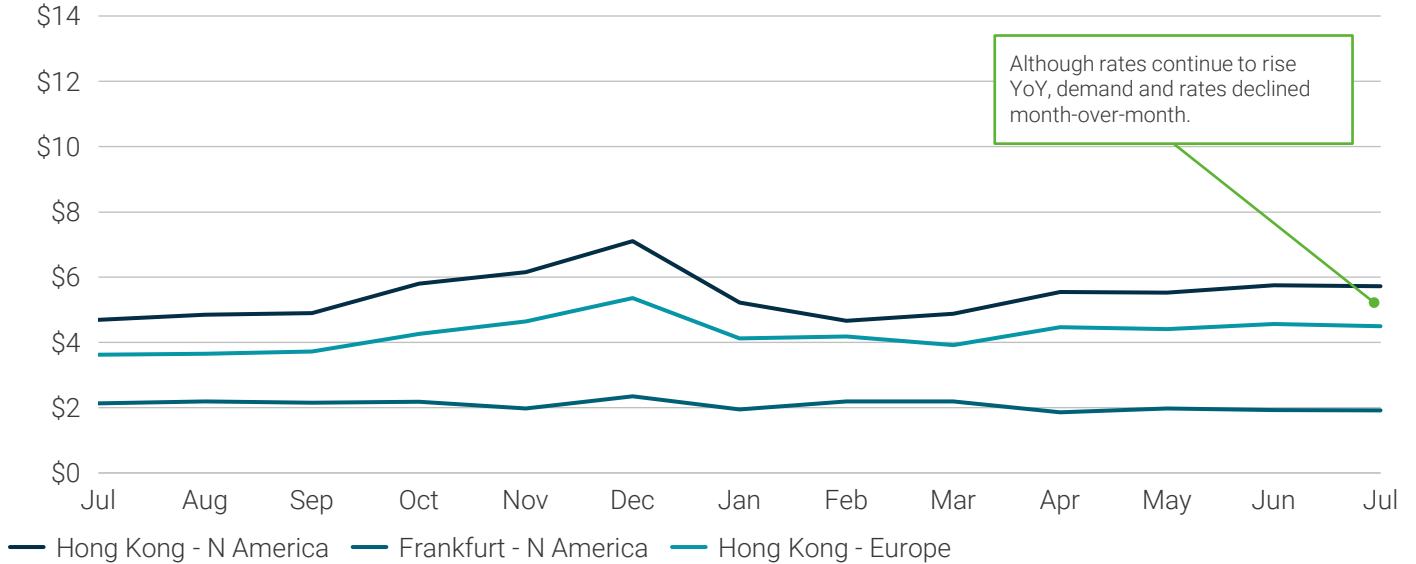
- The spot rate differential between Asia-U.S. West and East coasts is at its widest in nearly two years due to increased capacity to the West Coast and concerns over East Coast labor contract expirations ([Journal of Commerce](#))
- U.S. imports are expected to experience a "near-record surge" in August due to retailers fast-forwarding shipments to avoid potential disruptions from stalled labor negotiations at East and Gulf Coast ports, with the Global Port Tracker forecasting a 19.2% year-over-year increase in August imports ([Journal of Commerce](#))

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

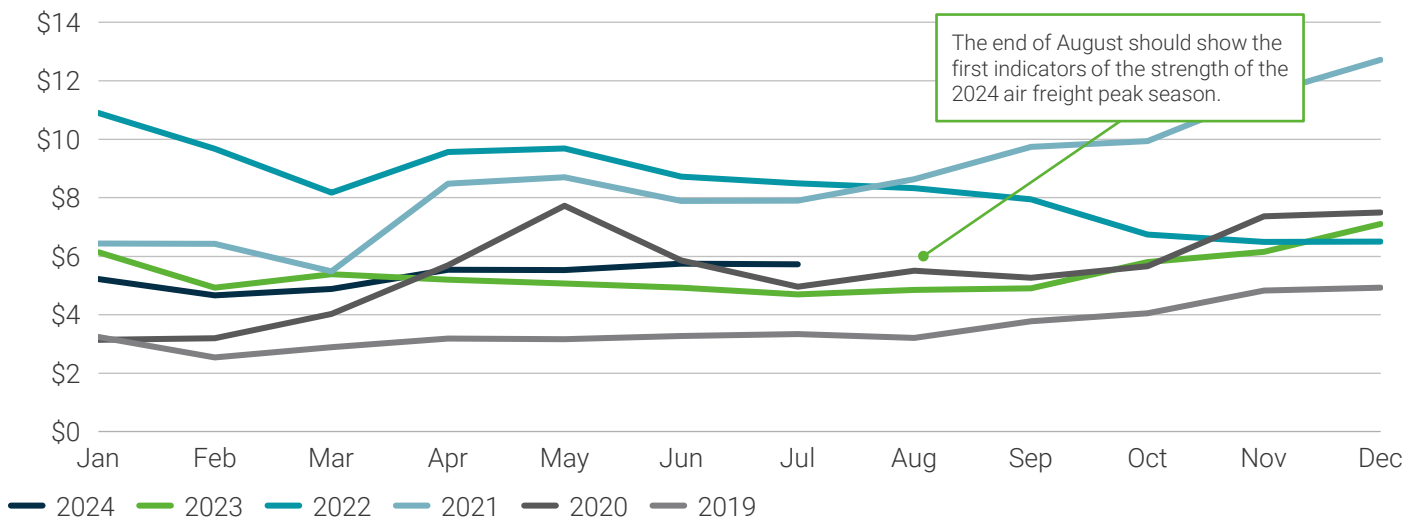
AIR FREIGHT

Global air freight spot rate increased to \$2.66/kg, a 20% 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



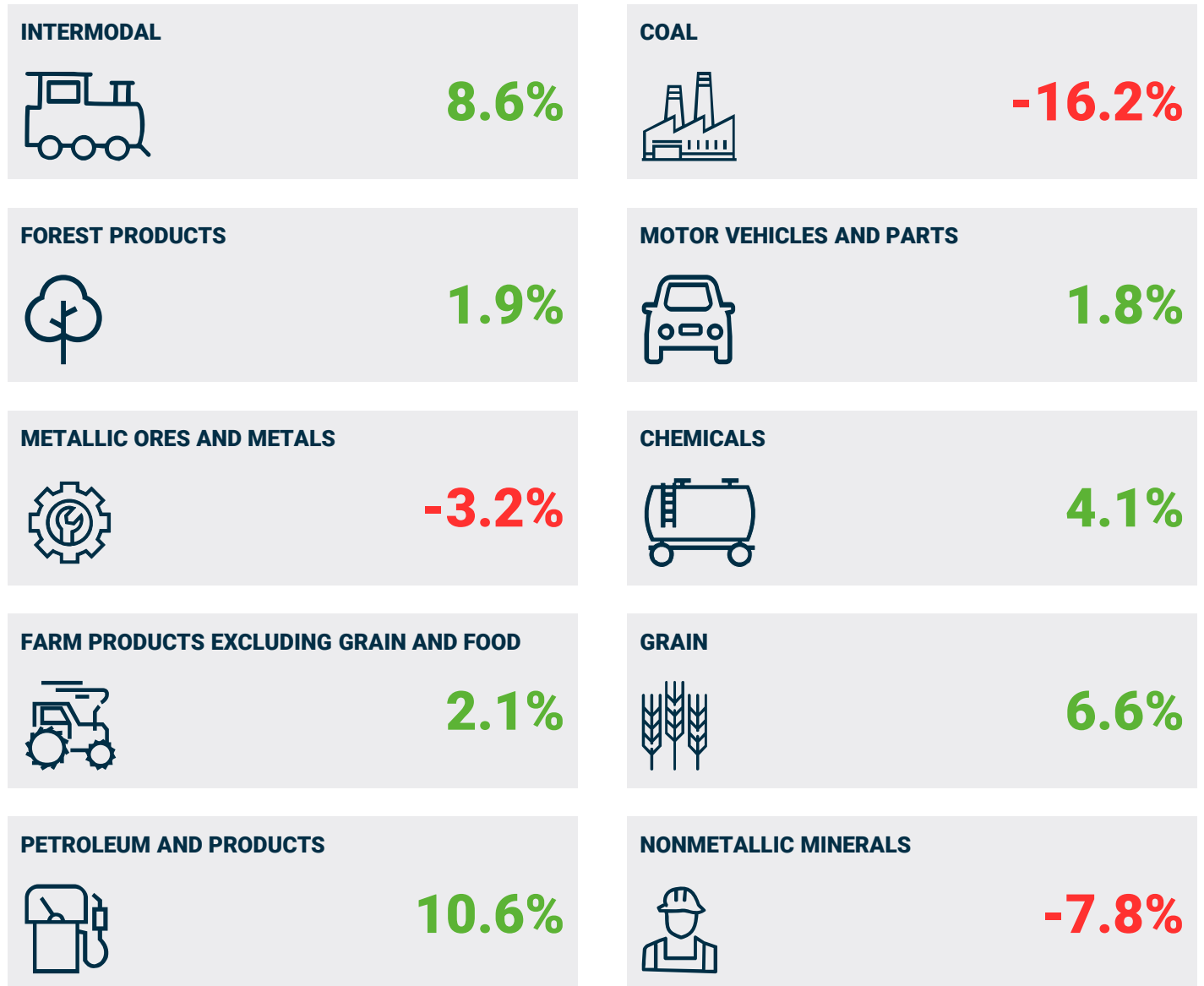
- **Global air freight demand** and rates continue to **rise YoY**, driven by **e-commerce demand**, and continuing mode-switching due to the impact of the **Red Sea crisis** on ocean freight.
- Increase in global rates continues to be driven by the Middle East/Central Asia – Europe and Southeast Asia – Europe and N. America corridors.
- Rates on the **backhauls** to these routes have **declined YoY** due to ample capacity.
- The **CrowdStrike/Microsoft outage** only caused a **temporary spike** in spot rates for that week.

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

RAIL FREIGHT

Total U.S. rail traffic is up 2.4% YTD versus 2023. Carloads declined 4.1% and intermodal traffic increased 8.6% YTD

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



KEY TRENDS AND FACTS



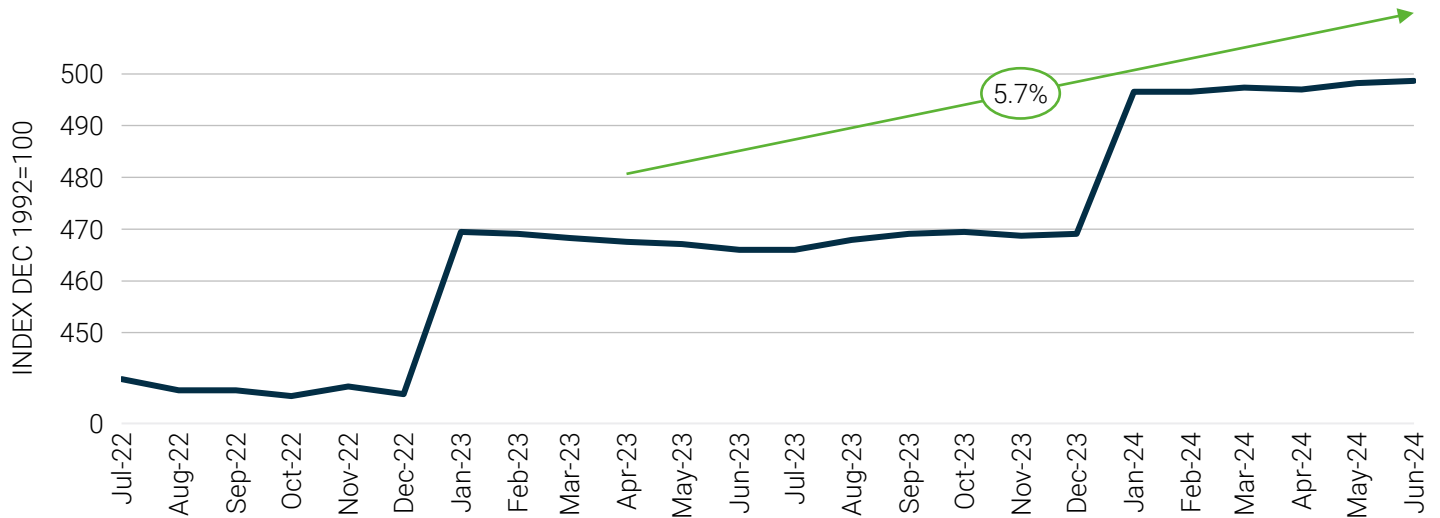
- The Canadian Industrial Relations Board (CIRB) has ruled that Canadian railroads, CN and CPKC, **can strike beginning August 22**. This comes as the Teamsters Canada Rail Conference (TCRC) union and rail companies have been unable to reach agreements at the bargaining table on topics of wages, safety, and labor availability. A strike or work stoppage would result in a phased and progressive shutdown of the Canadian network in the days prior to August 22, so that only limited train movements within yards could occur beginning August 22. A strike would cause widespread disruption headed into the Fall peak shipping period.
- Intermodal shippers in the US saved 25.5% under annual contracts in the second quarter compared with long-haul trucking, according to the latest *Journal of Commerce* Intermodal Savings Index (ISI), unchanged year over year and down just three-tenths of a point from the first quarter.

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

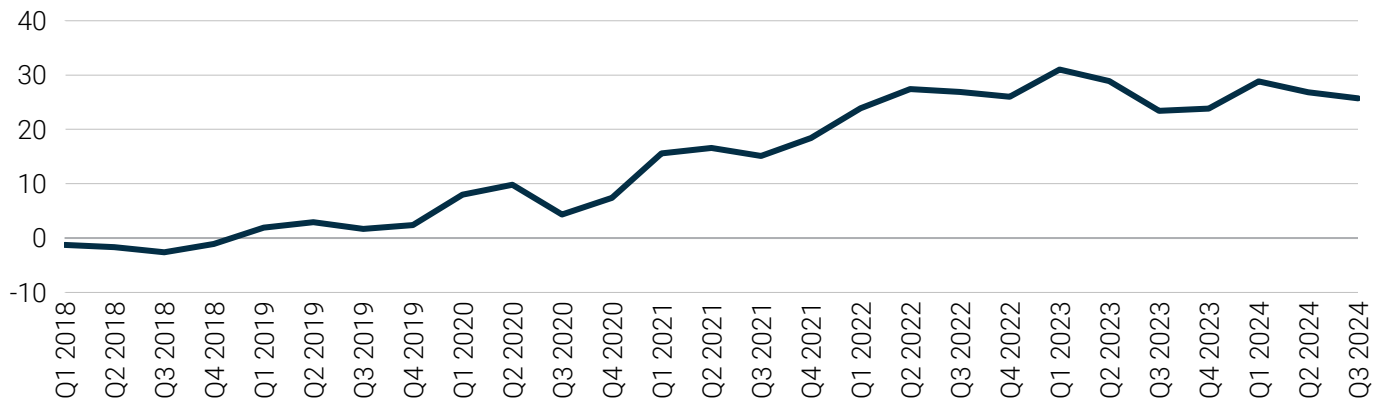
The parcel market remains competitive with carriers increasing surcharges to boost revenue but simultaneously offering heavy discounts to compete for limited demand

PRODUCER PRICE INDEX: STANDARD COURIER SERVICES INDEX¹



- 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 \frac{466}{100} = \23.3

TD COWEN/AFS GROUND PARCEL FREIGHT INDEX VERSUS ITS JANUARY 2018 BASELINE



KEY TRENDS AND FACTS



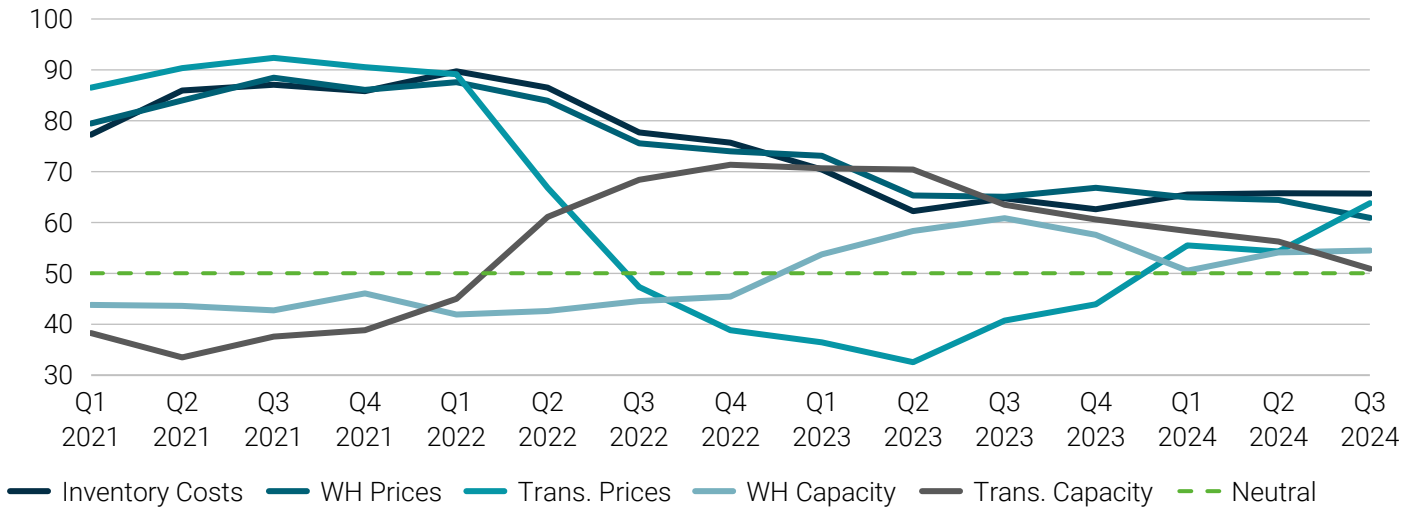
- According to the [Q3 TD Cowen/AFS Freight Index](#), UPS and FedEx Carriers are heavily discounting to attract volume, with significant discounts being offered even to small- and medium-sized shippers, which are typically reserved for larger customers:
 - Despite falling fuel prices, carriers have increased fuel surcharges; if surcharges followed market dynamics, they would be 5.5% lower
 - The ground parcel rate per package index fell from 28.8% to 26.8% in Q2 2024
 - The express parcel index is expected to fall from 4.7% in Q2 2024 to 2.8% in Q3 2024, aligning with seasonal trends and ongoing discounting
- Pitney Bowes announced the closure of its e-commerce logistics unit as the market has been challenging due to overcapacity and aggressive discounting by major players like UPS and FedEx, making it difficult for smaller players to compete.

Sources: ¹Federal Reserve Economic Data (FRED); [Q3 TD Cowen/AFS Freight Index](#); Garland, M. (2024, Aug 09). Pitney Bowes' e-commerce logistics unit shutting down <https://www.supplychaindive.com/news/pitney-bowes-e-commerce-logistics-unit-shutter-bankruptcy/723815/>

WAREHOUSING TRENDS

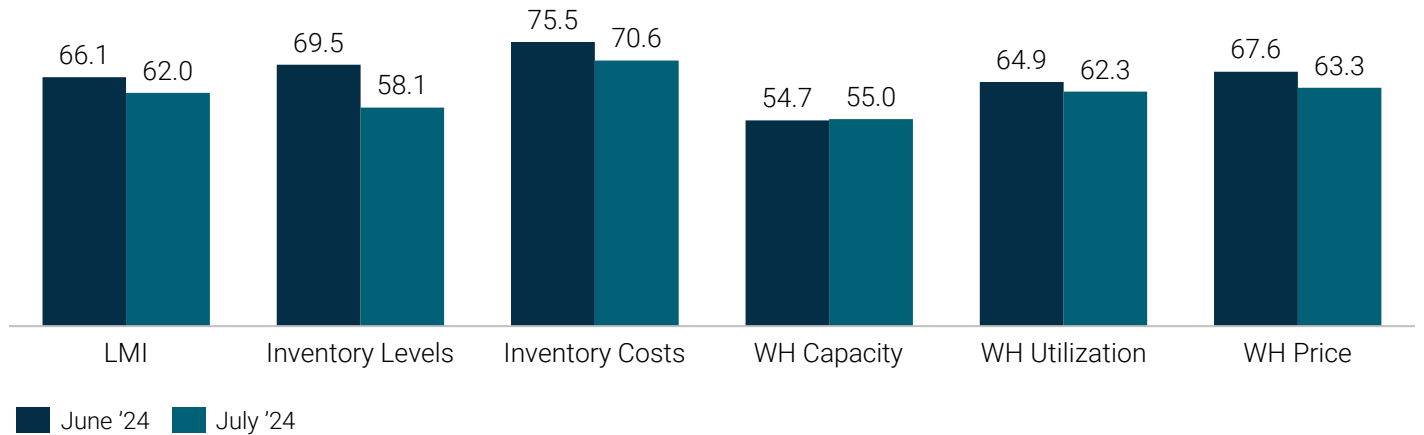
Logistics Manager's Index rises to 56.5 in July, with greatest increase in warehouse utilization and transportation utilization

FLUCTUATION OF LMI INDICES



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

LMI SURVEY – NEXT 12-MONTH PREDICTION



KEY TRENDS AND FACTS



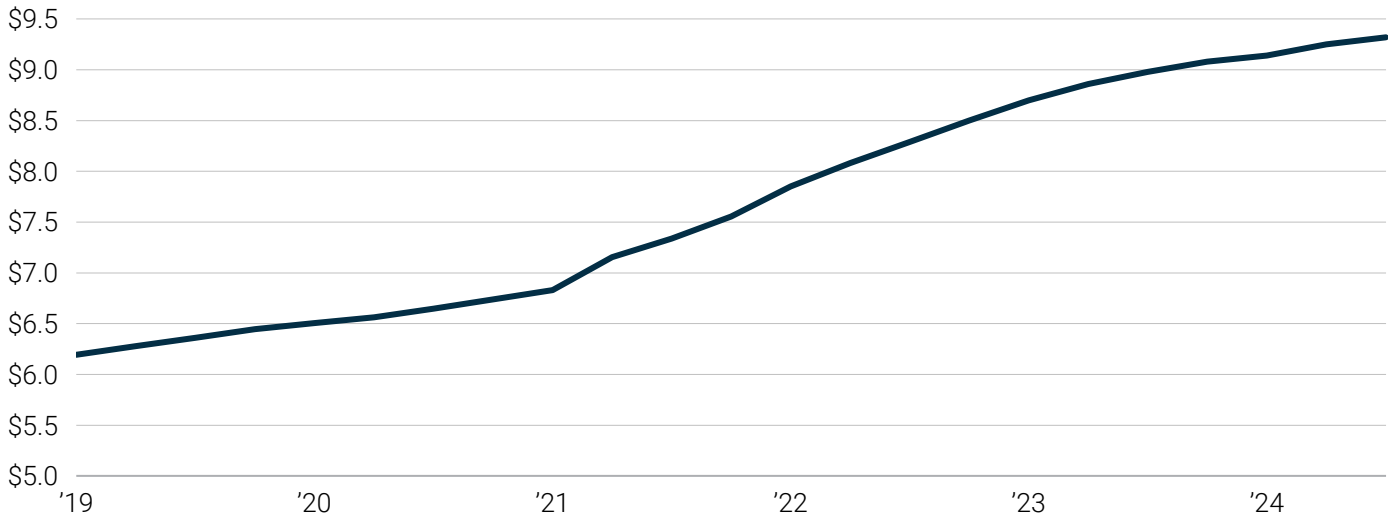
- [Overall Logistics Managers' Index](#) increase slightly in July to 56.5, up (2.2) from June's reading of 55.3, with largest shifts in warehouse utilization (+10%) and transportation utilization (+6%) month-over-month
- [Amazon moves up Black Friday inventory deadline](#) so sellers will need to have inventory in fulfillment centers by October 19 – one week earlier than last year
- [Lineage raised \\$4.4 billion](#) (57 million shares) in its initial public offering; demand for cold storage continues to be strong

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

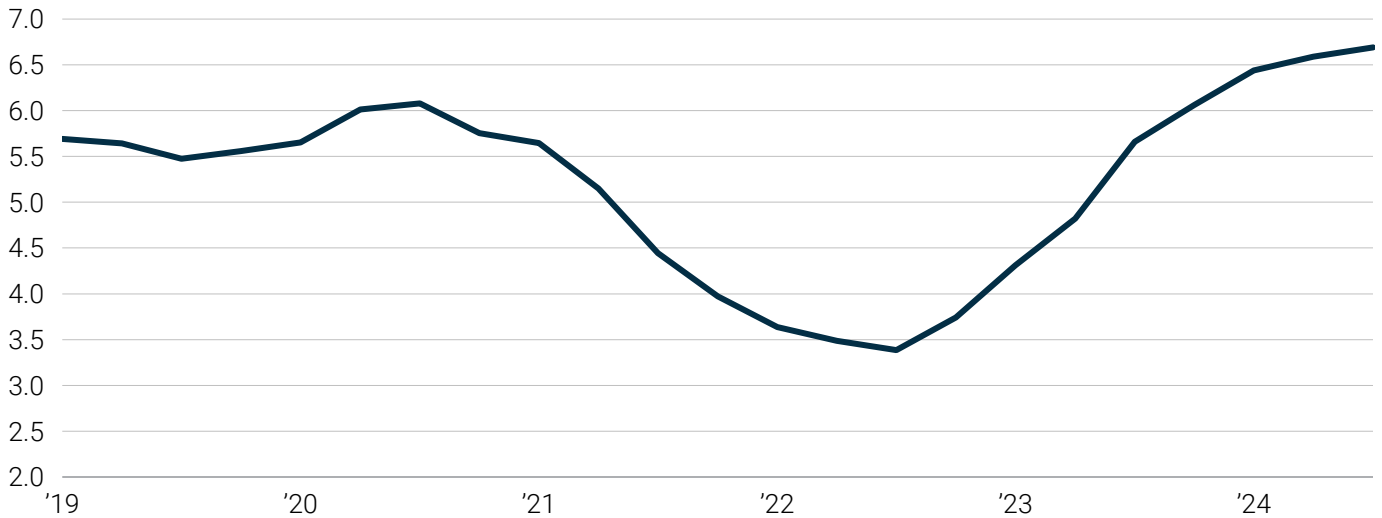
WAREHOUSING TRENDS

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



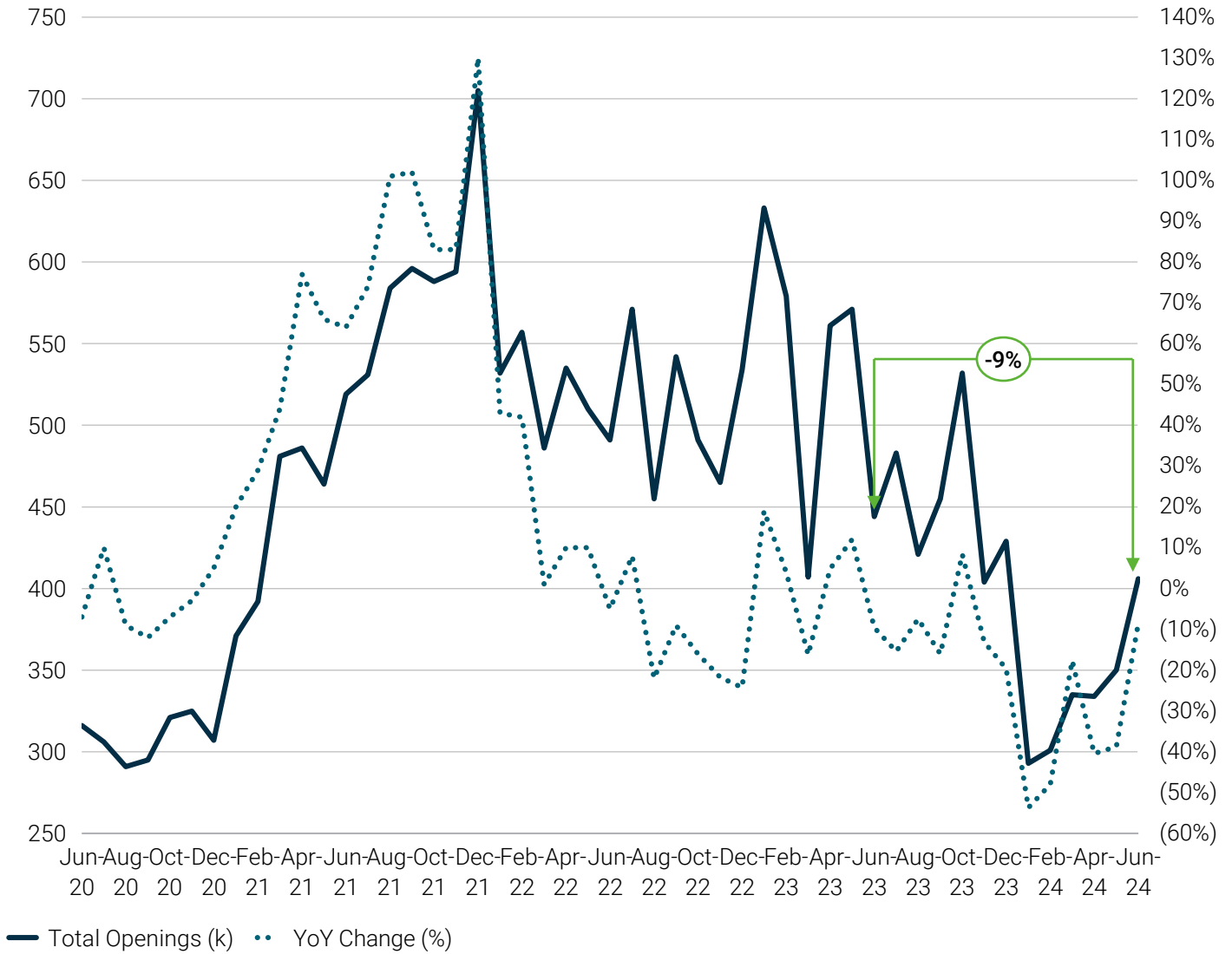
- Quarterly vacancy increased 1.5% from Q2 2024 to Q3, likely a result of falling inventory levels and continued reluctance to commit to leasing warehouse space
- Retailers, like CVS, continue to prioritize making inventories leaner; this trend, along with manufacturing stagnation, is driving relatively little change in warehouse vacancy and rent

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

LABOR

Logistics job openings in June were estimated to be down 3% YOY but were up ~16% from the month prior

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



KEY TRENDS AND FACTS







- BLS estimated that there were ~ **405,000 job projected openings** in the warehousing, transportation, and utilities sector in June; up ~16% from the prior month but down 9% YOY
- [Employers report a reduction in attrition](#), likely impacted by macroeconomic factors including upcoming elections and economic conditions; employee engagement should remain a focus for ongoing retention improvements

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)			
	2018 (\$B)	LTM MAY 2024 (\$B)	CHANGE (%)	 CHINA	 VIETNAM	 INDIA	 MEXICO
				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

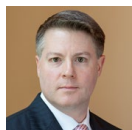
Key nearshoring trends:

- 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



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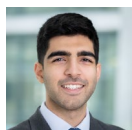
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Vikas Chandra
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Karan Ranger
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Justin Stacy
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Vahid Nokhbeh
Consultant

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