

SUPPLY CHAIN MARKET PULSE

December 2024

KEY TRENDS AND CHALLENGES IN THE SUPPLY CHAIN

1

NORMALIZATION FROM DISRUPTIONS

- Asia-US ocean rates continued to decline in November, representing a muted, and early, peak season for import ahead of holidays.
- East Coast USA importers and ports are pulling forward demand in anticipation of another labor action. The ILA (Gulf & East Coast USA port labor union) may take another labor action in January if a new agreement is not ratified.
- Asia-EMEA is experiencing slight rate increases due to:
 1. continued constrained supply with the Suez Canal being underutilized; and
 2. Equipment shortage.

2

U.S. ELECTION'S IMPACT

- Incoming U.S. administration is widely anticipated to implement trade barriers, including higher tariffs. As a result, many shippers are bracing for an increase in material cost and are actively building inventory to minimize exposure.
- Carriers may see the pull forward of volume impact 2025 1H volumes. An early Chinese New Year at the end of January emphasizes this.
- Supply Chains may continue to diversify away from China to other manufacturing hubs in Southeast Asia, South Asia, and nearshoring in LATAM or lower cost locations in N. Africa and E. Europe.

3

DOMESTIC LOGISTICS COST TREND UP!

- US trucking rates saw a small gain in recent months, reflecting a more optimistic outlook amongst logistics managers, though a full recovery may not occur till 2025. US-Mexico trucking experienced stronger demand, driven by on-going near-shoring efforts and x-border imports ahead of the new administration taking in office.
- US warehousing price and capacity continues to experience a slight near-term uptick due to inventory pull-forward and repositioning.
- European trucking indexes are rising due to inflationary pressures and lack of capacity, despite weak short-term demand.

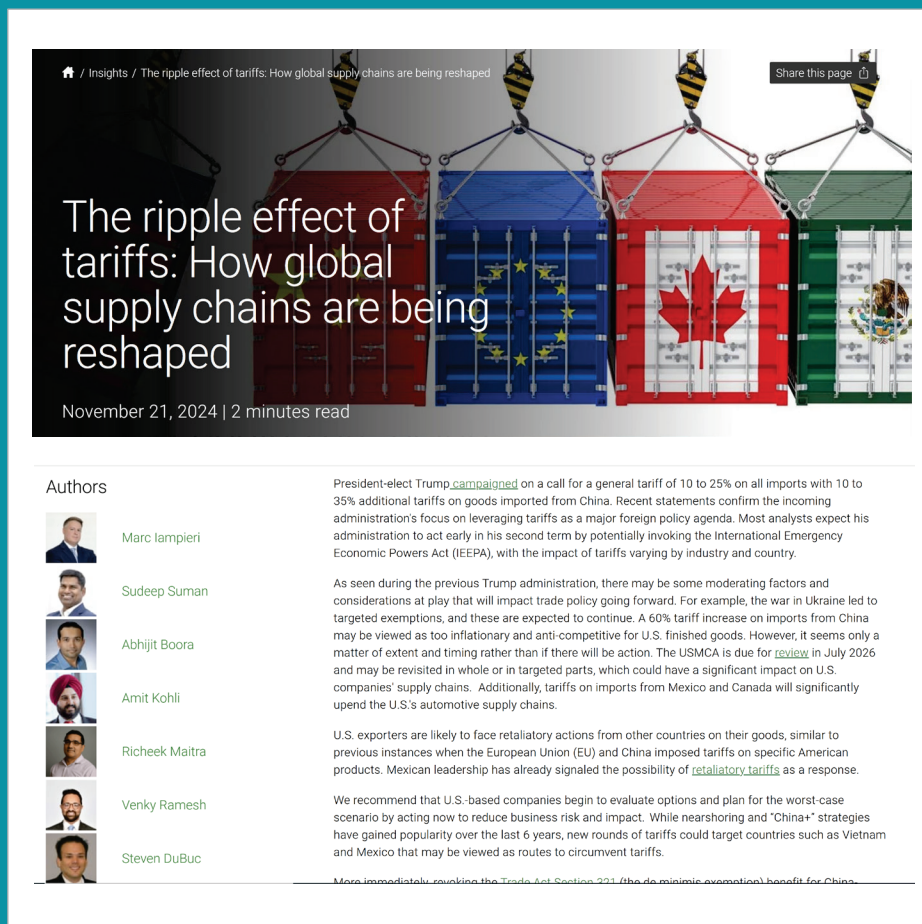
ALIXPARTNERS RECENT PUBLICATION explores the topic of adapting to evolving Supply chain dynamics, nearshoring trends and strategies for success

Summary Findings

Tariffs between major economies like the U.S. and China are forcing companies to rethink and reshape global supply chains to mitigate costs and risks. Businesses are diversifying suppliers, relocating manufacturing, and investing in technology to enhance supply chain resilience and flexibility.

Duty Engineering: Companies should reconfigure pricing and supply chain structures to reduce tariffs, using strategies like first sale methods, low-tariff regions, free trade zones, and available subsidies.

Strategic Sourcing: Realigning supply chains with a cost-driven approach, including shifting supply sources and manufacturing sites based on tariff impacts and logistics, with a longer execution timeline.



The screenshot shows a webpage with a dark background and a central image of four shipping containers (red, blue, red, green) with national flags (USA, EU, Canada, Mexico) on them. The article title is 'The ripple effect of tariffs: How global supply chains are being reshaped' and it is dated 'November 21, 2024 | 2 minutes read'. Below the title is an 'Authors' section with seven authors listed: Marc Lampieri, Sudeep Suman, Abhijit Boora, Amit Kohli, Richeek Maitra, Venky Ramesh, and Steven DuBuc. The main text of the article is partially visible, discussing President-elect Trump's campaign call for a general tariff of 10 to 25% on all imports and the impact of tariffs on U.S. supply chains.

DOWNLOAD THE FULL REPORT [HERE](#)

TRADE, TARIFFS AND REGULATIONS/RECENT ANNOUNCEMENTS

1

TARIFFS ON MEXICO AND CANADA



The incoming administration has announced 25% tariffs on all imports from Mexico and Canada, citing border-related issues such as immigration and drug trafficking. These tariffs, combined with the potential renegotiation of the USMCA, could undermine the nearshoring advantages of Mexico-based supply chains.

2

CHINA ADDITIONAL TARIFFS



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 that will have 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

TARIFF POWERS AND ESCALATION DYNAMICS



Under the National Emergencies Act, the President can invoke tariffs by issuing a proclamation, publishing it in the Federal Register, and notifying Congress. Overriding this authority would require a joint resolution passed by Congress and signed by the President, which is unlikely due to Republican control in both chambers.

4

UFLPA

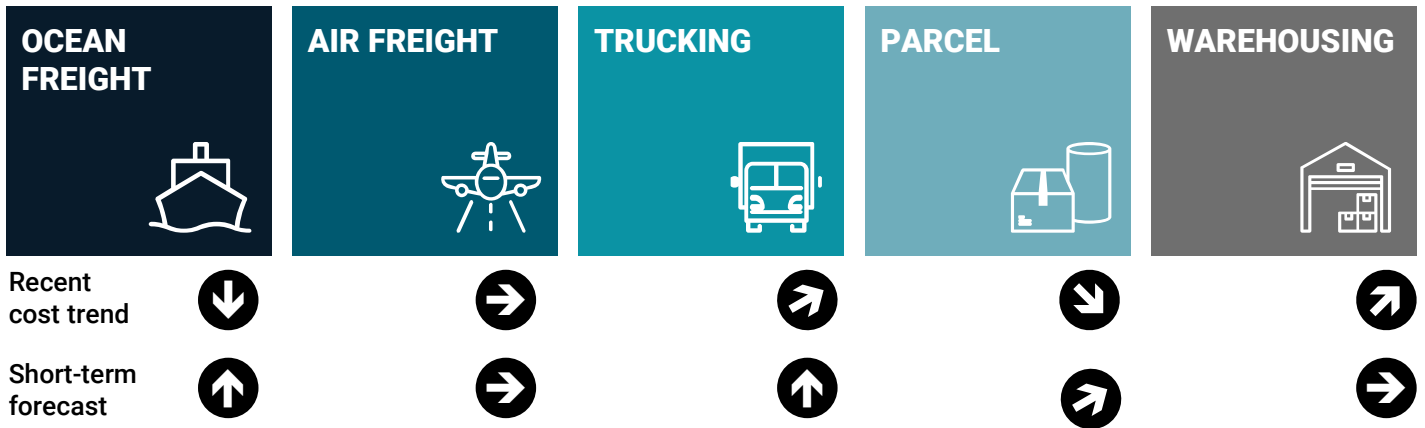


The Forced Labor Enforcement Task Force (FLETF) published a third update to the Uyghur Forced Labor Prevention Act (UFLPA) Strategy to Prevent the Importation of Goods Mined, Produced, or Manufactured with Forced Labor in China; USTR increased the 20 entities named in the 2022 Strategy to 68 entities as of July 2024. The FLETF new high-priority sectors include aluminum, polyvinyl chloride (PVC), and seafood, in addition to the original priority sectors apparel, cotton and cotton products, silica-based products including polysilicon, and tomatoes and downstream products

U.S. tariff and trade policy is expected to get an overhaul in a new Trump administration. There is much intelligent speculation as to what is coming, but official policy is expected starting 2025

FREIGHT COSTS

The freight markets 'peak season' has subsided; however tariff and other disruption events are pulling forward volumes. Costs are normalizing in the US, elevated in EU



WHAT IS MOST IMPORTANT TO KNOW?

International Transportation prices are volatile. Pricing varies based on the market and relevant Macroeconomic events.

- Ocean rates continues to drop but remain elevated compared to a year ago. Recent U.S. Election result is prompting many importers to build up inventory, leading to a short-term rise in shipping volume and may impact rates
- Air rates declined slightly but remained elevated compared to a year ago.

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. 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 and new trade regulations

- The North American East and Gulf coast port union ILA may still resume their port strike in Jan 2025 if remaining items are not resolved
- Future sourcing strategy may need to include an accelerated plan to shift away from China

WHAT ACTIONS CAN WE TAKE?

Strategically review the network & proactively plan with agility in mind

- 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

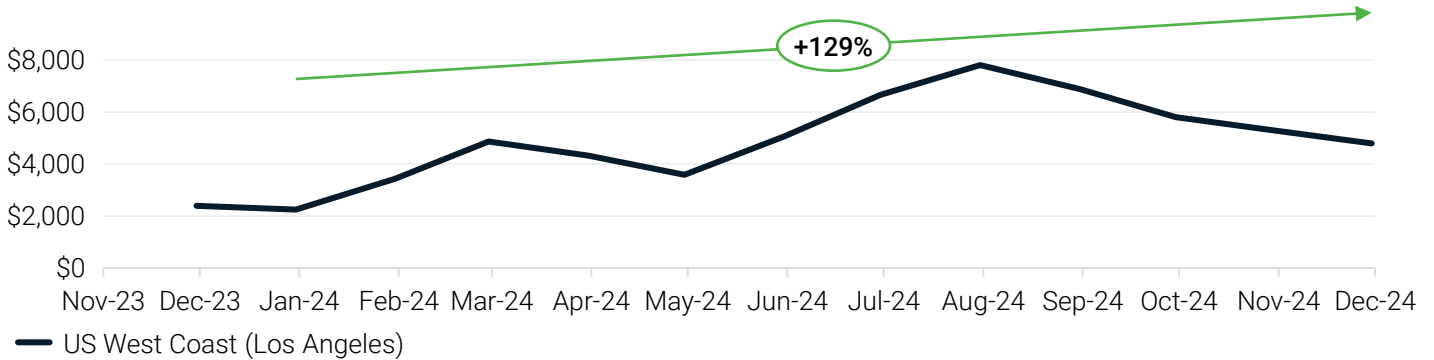
Review tariff impacts and corresponding inbound freight plans

- Review impacts and create mitigation strategies, both short and mid term to optimize for trade implications
- AlixPartners Global Trade Optimizer (GTO) [Link to tool Details](#), can help accelerate these analyses on tariff and inbound freight impacts. We see this being extremely useful in this type of environment.

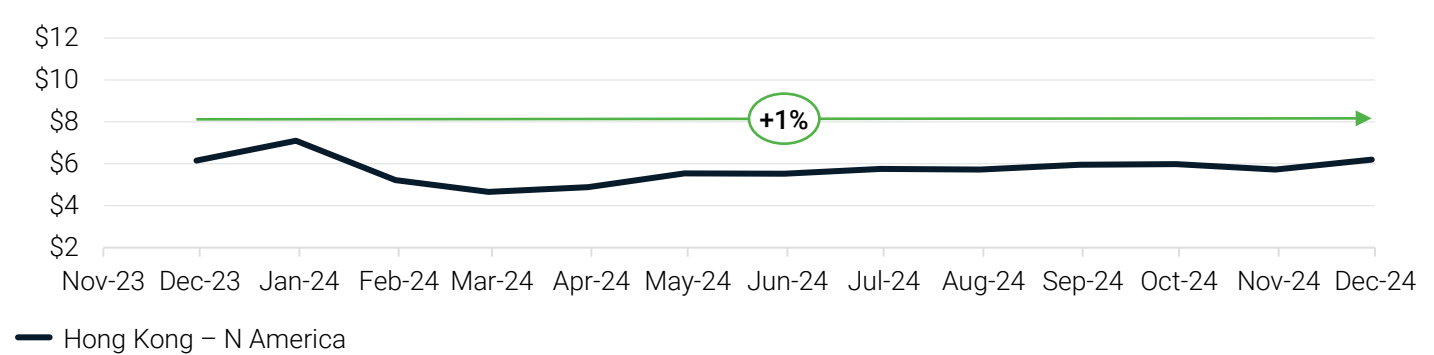
FREIGHT TRENDS

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

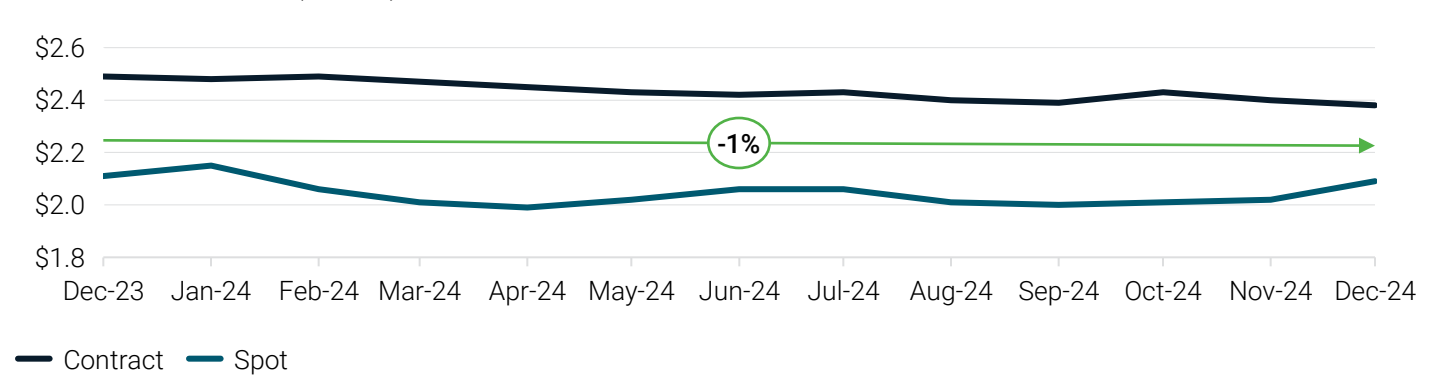
OCEAN FREIGHT – SHANGHAI TO U.S. – (\$/40FT)



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



TRUCKING: DRY VAN – (\$/MILE)



KEY TRENDS AND FACTS



KEY DRIVERS CAUSING RATE CHANGES ARE:

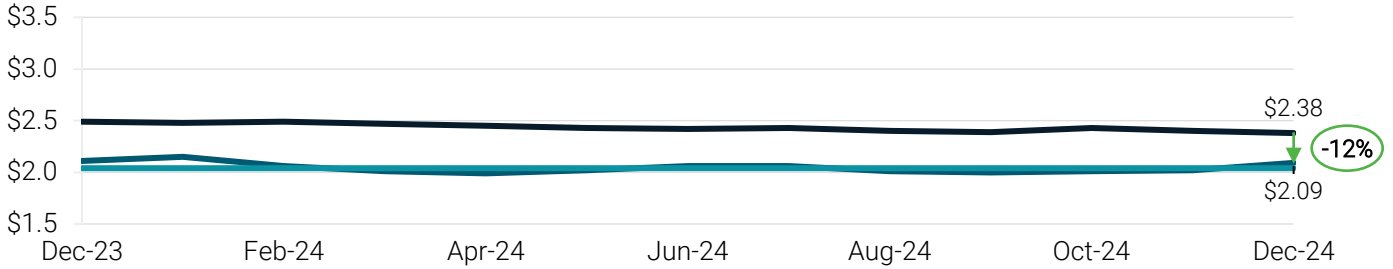
- Ocean spot rates continue to move dramatically as regional capacity constraints drive large swings in spot prices
- Air demand remains elevated, driven by the cargo diversion from the Red Sea Crisis and E-com growth from the likes of Temu, Shein, and other international e-commerce sellers
- Full truckload spot rates are increasing with seasonal retail demand increases but are not expected to experience an overall recovery until 2025

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

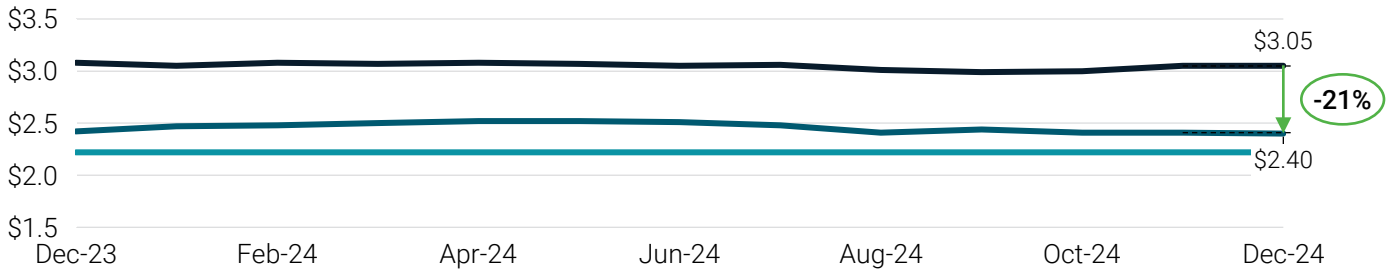
TRUCKING FREIGHT

Truckload pricing experiences a small uptick with seasonal demand increases, but a more significant, sustained increase will be needed for a market recovery

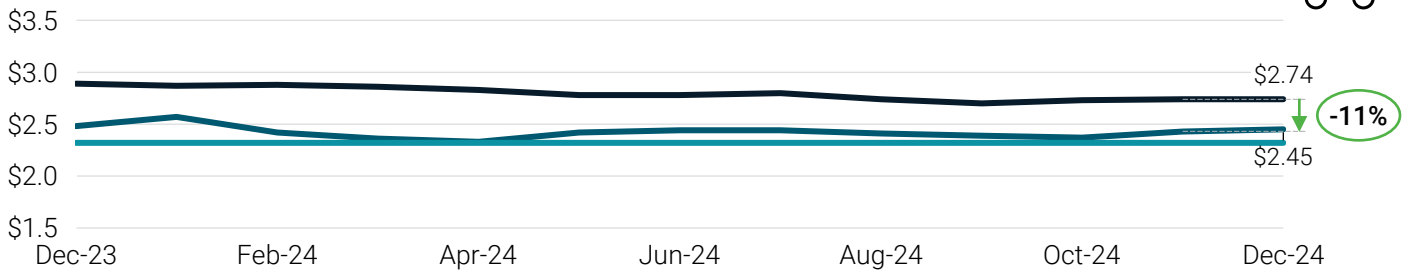
DRY VAN – U.S. DOMESTIC FREIGHT RATES, INCL. FUEL (UNIT:\$ PER MILE)



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



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



— Contract — Spot — 2020 Avg (Spot)

KEY TRENDS AND FACTS



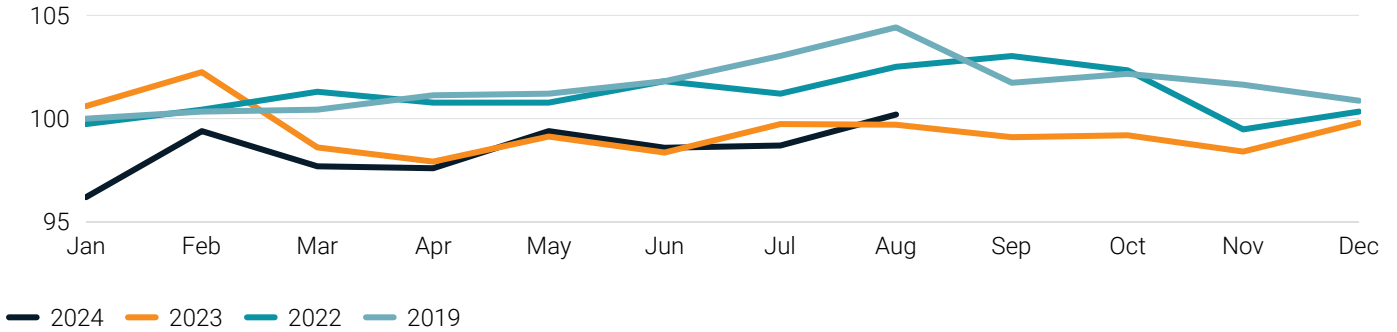
- Logistics executives expect the truckload recession to continue into 2025 ([JoC S&P](#)).
- Small carriers are still operating at a loss even as the holidays near and spot rates are expected to increase ([DAT](#)).
- The Federal Motor Carrier Safety Administration (FMCSA) has proposed a new rule that would allow trucking companies to review rates paid by shippers to brokers. The potential impact is still uncertain ([JoC S&P](#)).

Source: DAT, WSJ, Freight Waves, AlixPartners analysis

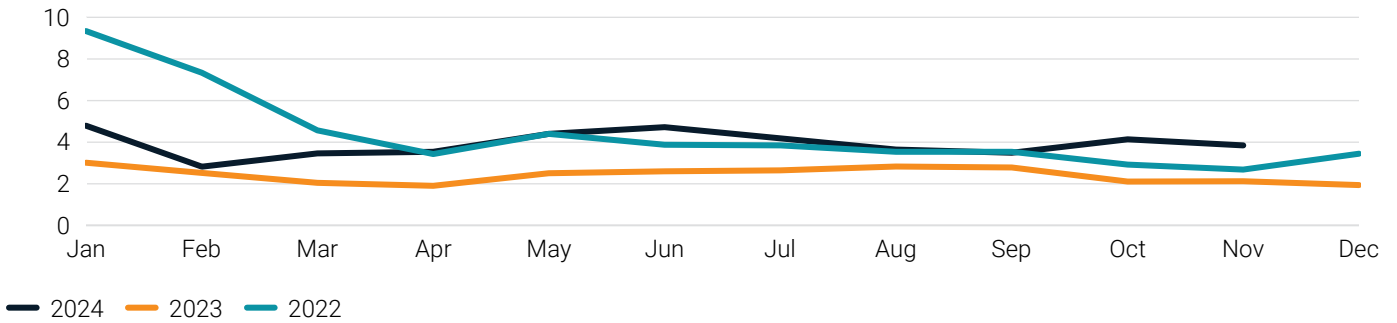
TRUCKING FREIGHT

Truckload carriers remain cautiously optimistic as demand continues to increase and diesel prices continue to fall

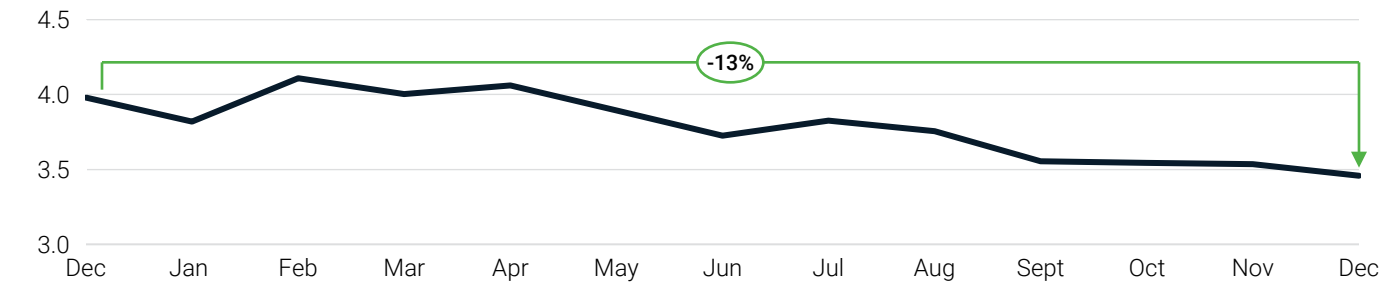
TRUCK DEMAND – TONNAGE, YEAR OVER YEAR, INDEX (100)=JAN 2019



VAN LOAD-TO-TRUCK RATIO – YEAR OVER YEAR



DIESEL – \$ PER GALLON



KEY TRENDS AND FACTS



- US trucking companies increased hiring in November, though employment of drivers is still down from last year amidst soft demand ([JoC S&P](#)).
- Schneider International and Kenan Advantage Group have announced acquisitions ([Freight Waves](#), [JoC S&P](#)).
- Diesel benchmark pricing has continued to dropped to a 3-year low on lower global demand ([EIA](#)).

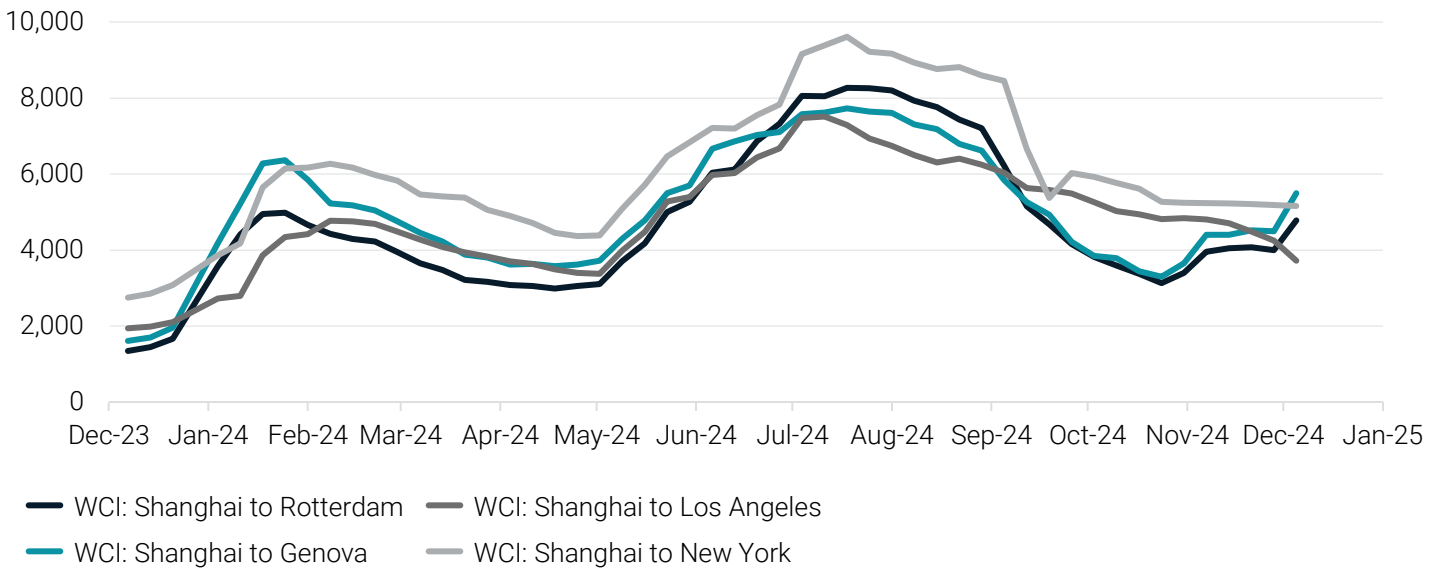
Source: DAT, Freight Waves, FRED, Bloomberg, AlixPartners analysis

OCEAN FREIGHT

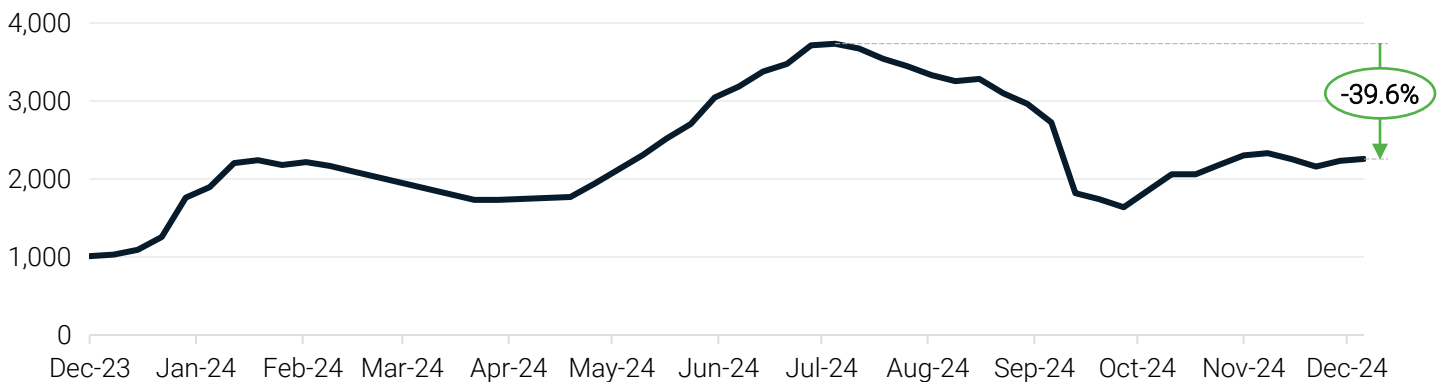
Ocean rates from Asia to US decline as peak season passes; Asia to EU bound shipments continue to spike on capacity constraints

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



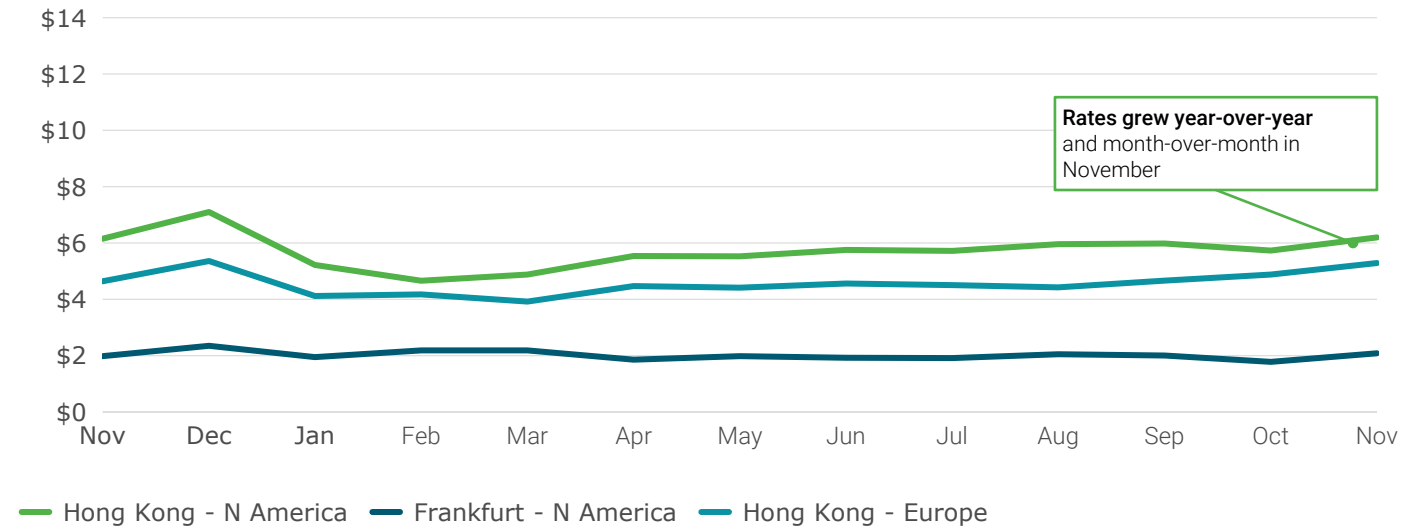
- Global ocean volume topped pandemic record in Q3 (47M TEUs), highlighting the rebound in overall demand ([JOC](#))
- Some US importers are cautiously frontloading demand to mitigate the ILA strike threat, compensate for the earlier Lunar New Year, and avoid anticipated Chinese tariff. Meanwhile, the Asia-USWC container rates continue to normalize ([JOC](#))
- Port congestion in Europe and China is causing a shortage of container, resulting in a rapid spike in ocean rates ([Linerlytica](#))
- Ocean carriers took harder line with ILA in contract negotiation as January strike date nears ([JOC](#))

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

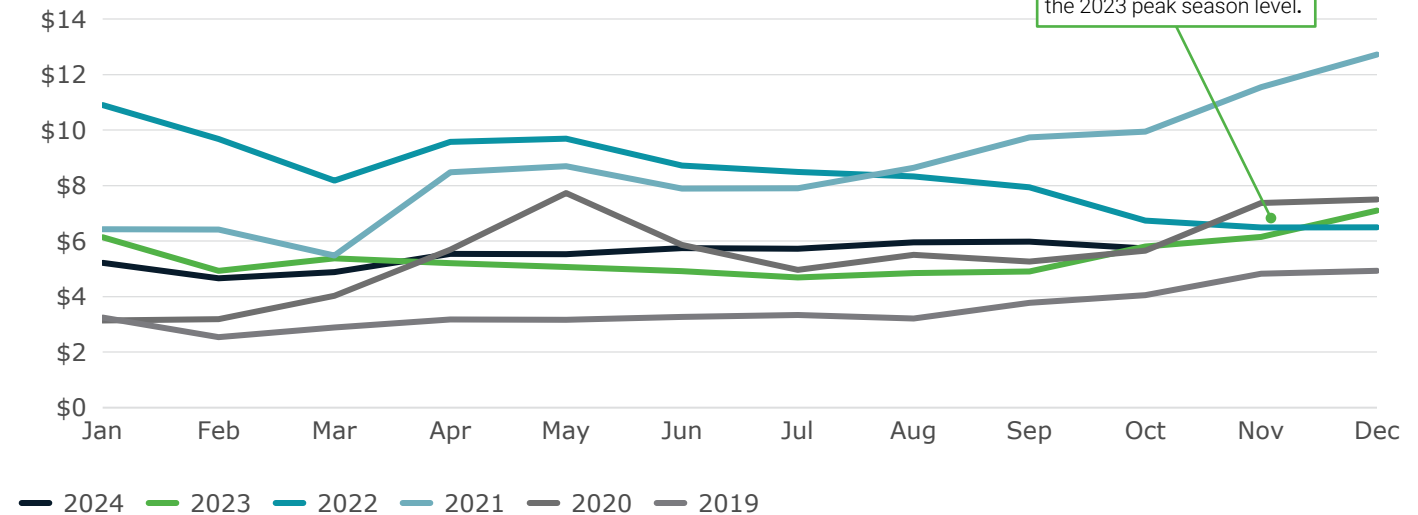
AIR FREIGHT

Global air freight average spot rate increased to \$2.90/kg, a 22% increase year-over-year, marking nine 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



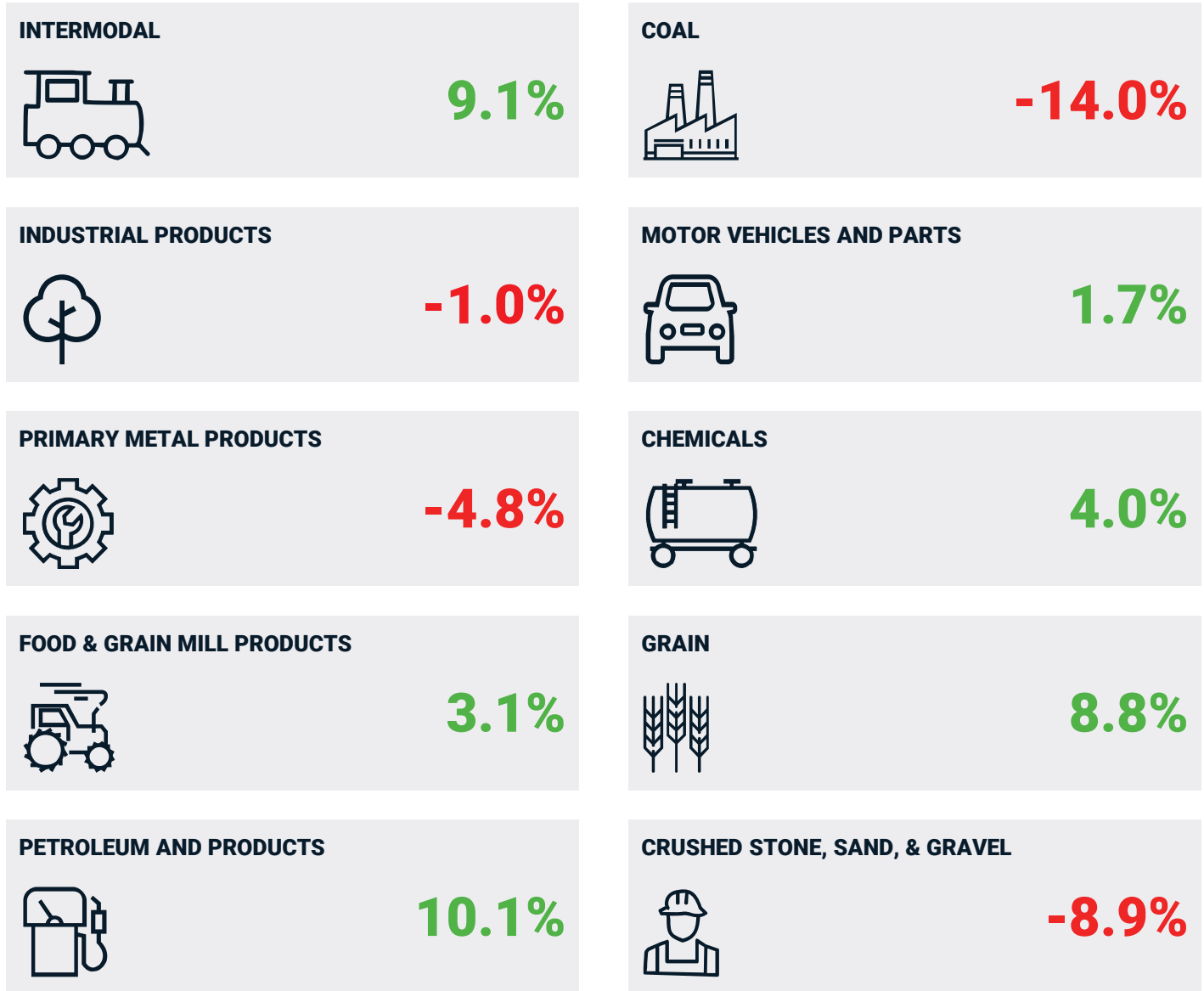
- Global air freight demand and rates rose YoY, driven by e-commerce demand, and mode-switching due to the impact of the Red Sea crisis on ocean freight.
- Despite high demand, the industry avoided extreme peak season rates, maintaining a balanced market.
- The industry demonstrated maturity by managing resources better and avoiding the chaotic peak seen in 2023.
- Europe to N. America and its backhaul saw 11% and 10% increases in volume, partially due to the short port strike on the East Coast

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

RAIL FREIGHT

Total US rail traffic excluding coal & grain is up 5.9% YTD versus 2023. Carloads declined 3.1% and intermodal traffic increased 9.1% YTD

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



Source: Association of American Railroads

KEY TRENDS AND FACTS



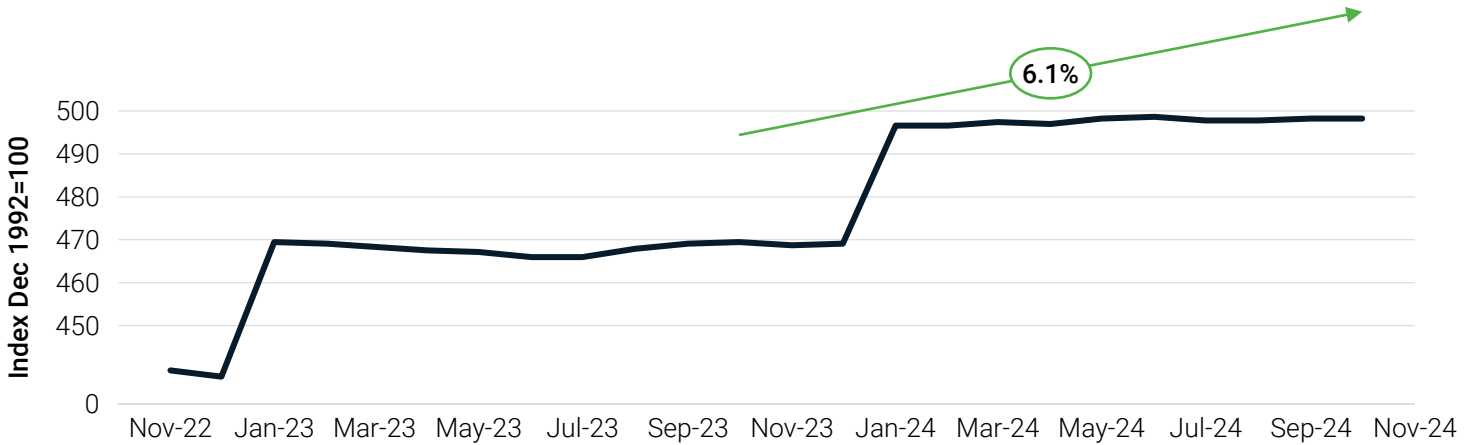
- Intermodal rail volumes surged in November given consumer-driven demand and strong port activity – setting record rail container volumes for 3 of the top 5 weeks in U.S. history. Some of the higher port activity being seen that is driving intermodal rail volumes as imports are being brought forward in anticipation of potential tariff increases under the new administration.
- Rail carload volumes for the 'Big 3' – Coal, Grain, & Chemicals – are on different trajectories. These three categories account of half of total U.S. rail carloads. Coal carloads are down sharply this year. Higher coal exports this year have not been enough to counteract lower domestic coal demand. Grain has recovered from a dismal 2023, but overall is still lower than other recent years. Chemical carloads are at record highs that are expected to continue given chemical manufacturing activity plans showing steady expansion into 2025.

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

USA PARCEL

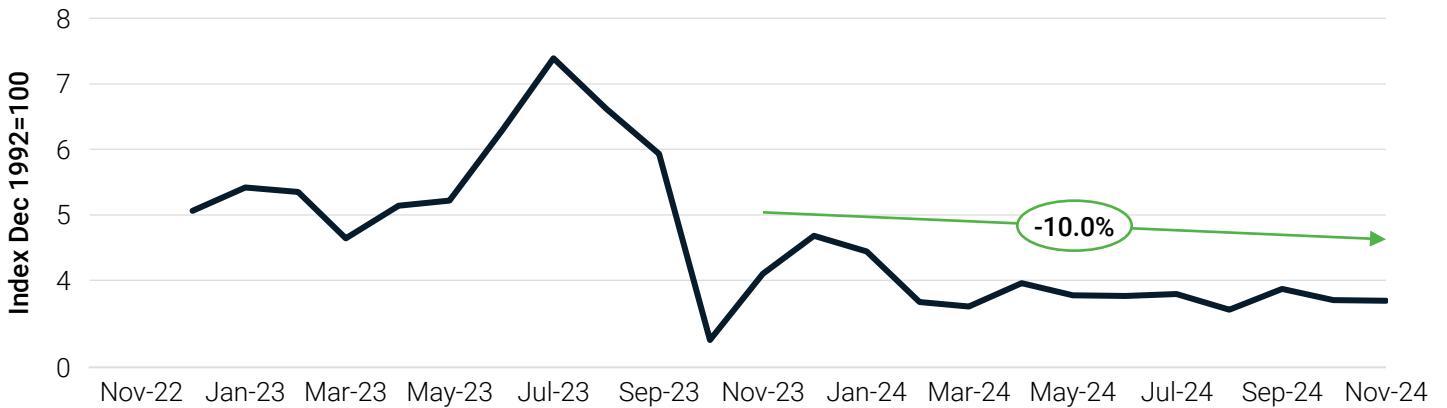
The parcel delivery industry is performing better than 2023 going into the holiday peak season

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 $5 \times 498/100 = \$24.9$

MEDIAN DAYS FROM PACKAGE ORDER TO DELIVERY



Source: M. Garland, [Supply Chain Dive](#)

KEY TRENDS AND FACTS



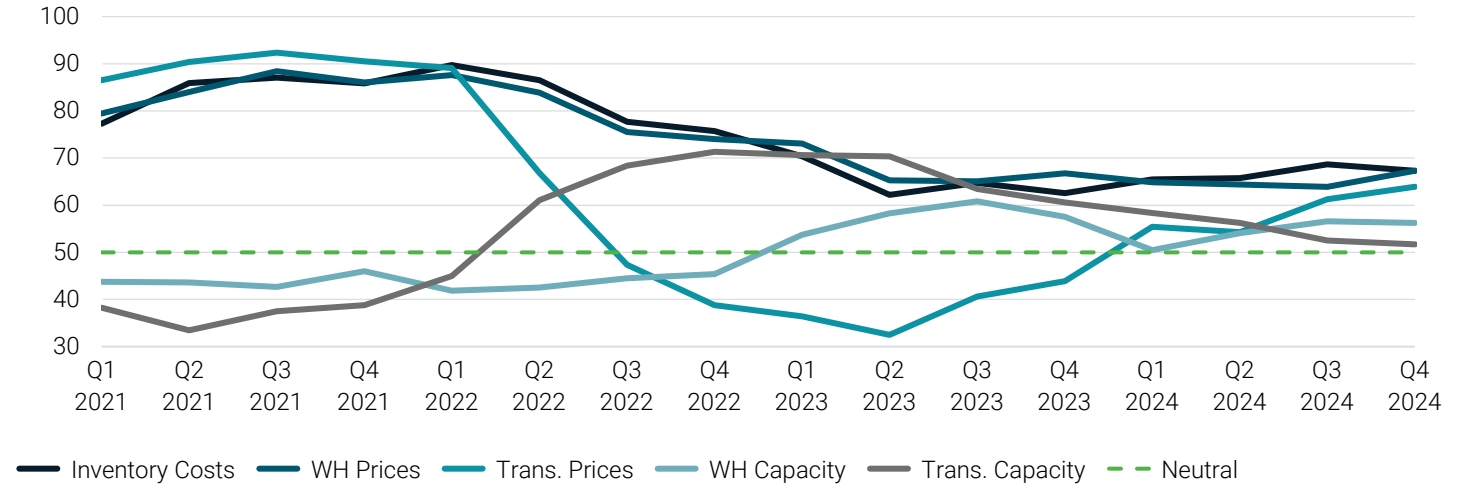
- Parcel time to delivery is currently 10% faster than 2023, at 3.7 days, down from 4.1 days.
- USPS is working closely with Amazon to handle the surge in local delivery while still servicing regular routes, after falling short of performance targets in 2023.
- USPS plans to have Amazon bypass USPS hubs directly to ZIP level delivery, keep Amazon delivery separate from standard routes, and run early morning delivery operations to increase capacity.

Sources: Federal Reserve Economic Data ([FRED](#)); [Yahoo! Finance](#); Supply Chain Dive, "[USPS plans 2025 rate hikes, including big Parcel Select increase](#)", and "[Amazon delivery tweaks among USPS' peak season preparations](#)";

WAREHOUSING TRENDS

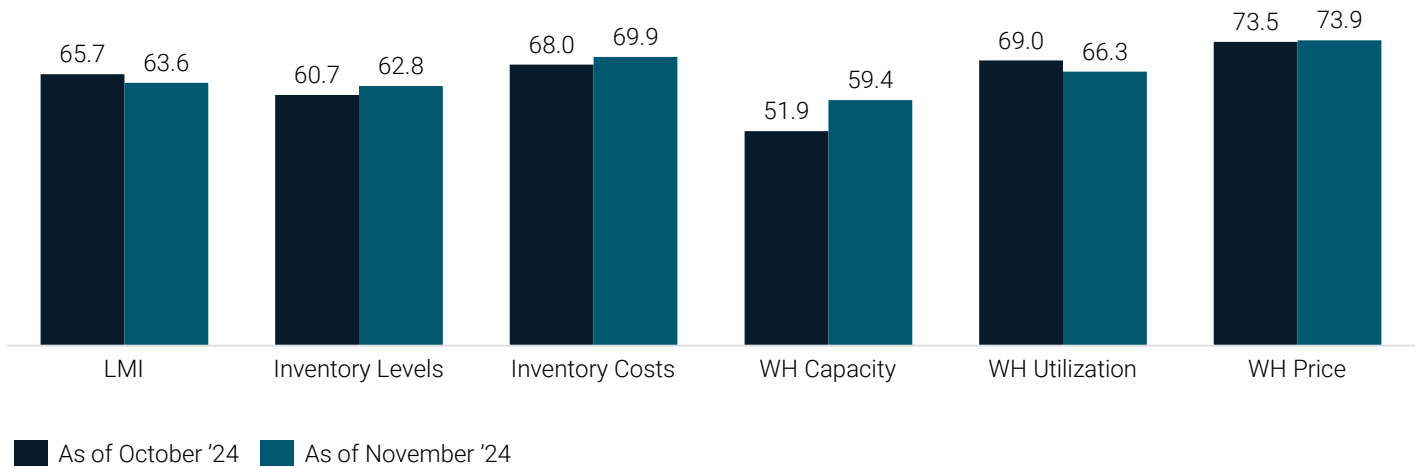
Logistics Manager's Index in November decreased to 58.4 (-0.5) from October, with greatest change in inventory levels and warehouse utilization

FLUCTUATION OF LMI INDICES



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

LMI SURVEY – NEXT 12-MONTH PREDICTION



KEY TRENDS AND FACTS

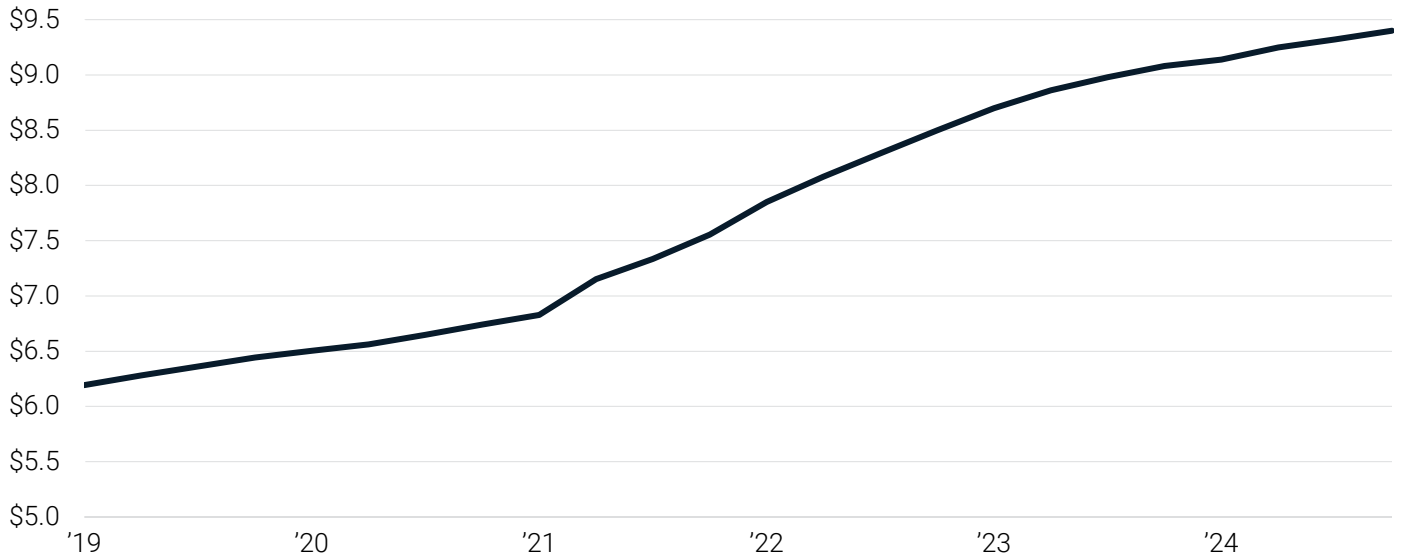
- Overall Logistics Managers' Index decreased in November, down (-0.5) from Octobers' reading of 58.9, with largest shift in inventory levels (-3.3) and warehouse utilization (-4.0) month-over-month.
- Lower inventory levels and increased costs indicate supply chains are becoming leaner while positioning products closer to consumers for faster delivery (LMI); this trend is not anticipated to hold as tariff concerns drive increased inventory purchasing (WSJ).
- Retailers see earlier holiday shopping rates and accommodate a shorter timeframe between Black Friday and Christmas, likely driving lower inventory levels and warehouse utilization seen in November (Supply Chain Dive).

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

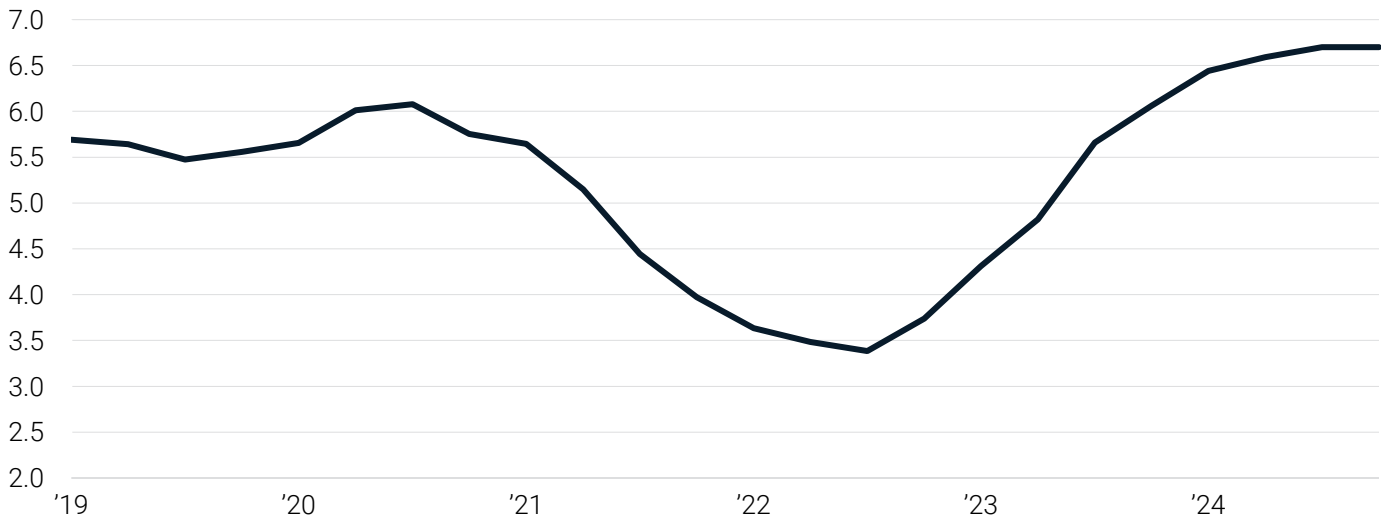
WAREHOUSING TRENDS

National rent per sq. ft. rising gradually as vacancy remains high, likely linked to retailers building inventory going into year-end

NATIONAL AVERAGE MARKET – RENT/SQ FT (\$)



NATIONAL AVERAGE VACANCY RATE – (%)



KEY TRENDS AND FACTS



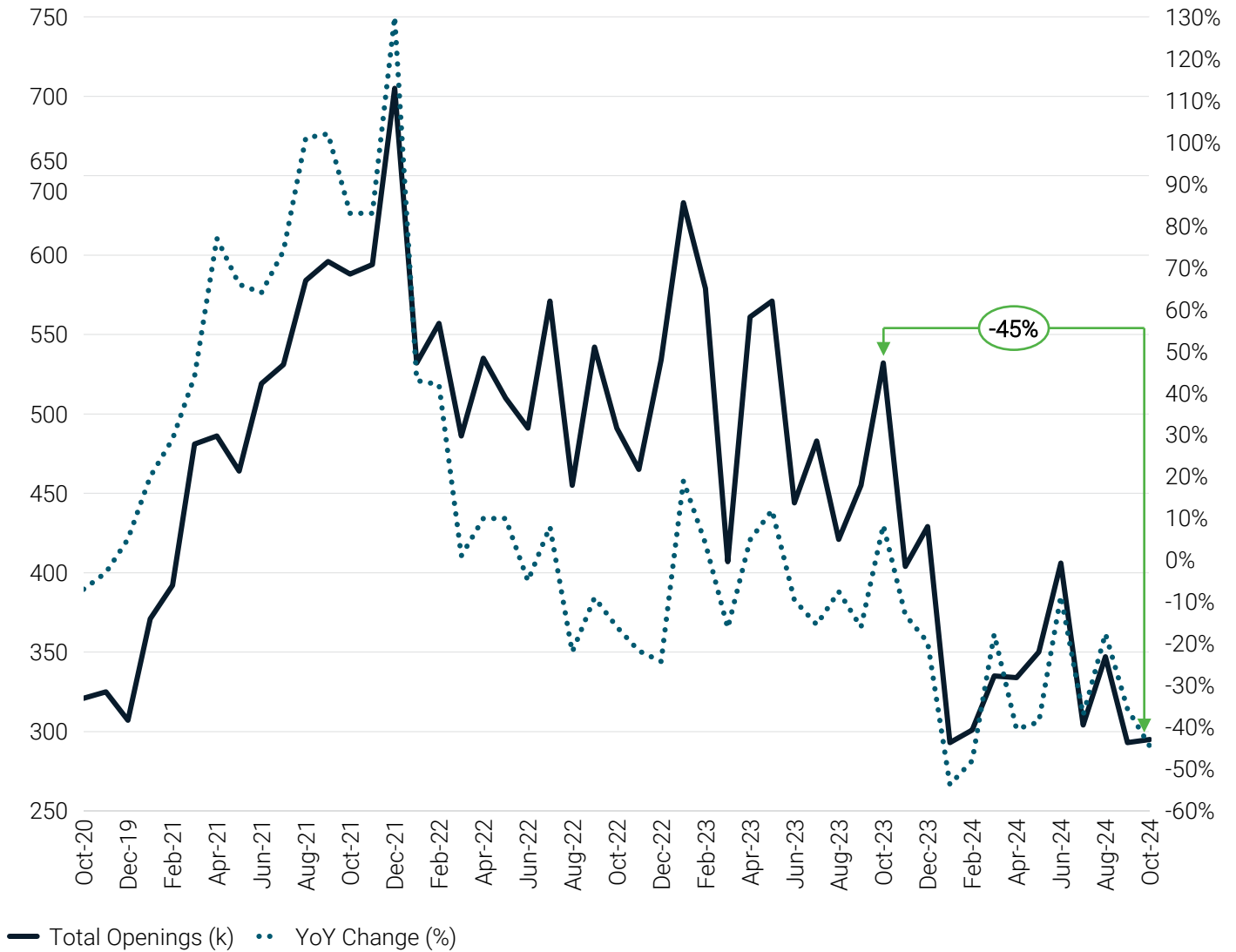
- Quarterly rent increased ~0.85% quarter-over-quarter to an average of \$9.40 per square foot, likely a result of retail inventory build-up at the start of the quarter heading into the holiday season.
- Prologis expects the warehouse leasing downturn to extend into mid-2025 due to rising vacancies but forecasts long-term improvement as new warehouse starts hit a seven-year low and California's capacity restrictions push rents higher ([Freight Waves](#)).
- Meanwhile, third-party logistics providers (3PLs) grew bulk warehouse leasing by 9% year-over-year, driven by retailer demand for flexible, cost-effective solutions and established facilities in key markets ([Supply Chain Dive](#)).

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

LABOR

Logistics job openings in October were estimated to be down 45% YOY and down 1% 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 **~295K projected job openings** in the warehousing, transportation, and utilities sector in September; down 1% from the prior month and down 45% YOY.
- Amazon’s new 3-million-square-foot warehouse in Shreveport, LA, integrates advanced robotics and AI at every stage of fulfillment, while employing 1,400 workers (eventually 2,500) to manage robots and handle complex tasks. The facility highlights how automation enhances efficiency but still relies on human roles for nuanced operations like item picking and handling exceptions ([WSJ](#)).

Source: U.S. Bureau of Labor Statistics Job Openings, AlixPartners analysis, Wall Street Journal

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 U.S. IMPORTS			COUNTRY WISE CHANGES (2018 V LTM JULY 2024)			
				CHINA	VIETNAM	INDIA	MEXICO
	2018 (\$B)	LTM JUL 2024 (\$B)	CHANGE (%)	CHG. %	CHG. %	CHG. %	CHG. %
Apparel & Textiles	\$116	\$110	(5%) ▼	(32%) ▼	20% ▲	20% ▲	(1%) ▼
Automotive & Transportation Parts	\$340	\$436	28% ▲	(8%) ▼	187% ▲	(1%) ▼	46% ▲
Chemicals & Allied Industries	\$233	\$351	51% ▲	22% ▲	160% ▲	78% ▲	62% ▲
Computer & Electronics	\$363	\$462	27% ▲	(23%) ▼	264% ▲	727% ▲	37% ▲
Food & Beverage	\$151	\$218	44% ▲	(10%) ▼	17% ▲	16% ▲	72% ▲
Footwear, Headgear & Others	\$32	\$32	1% ▲	(28%) ▼	41% ▲	(2%) ▼	70% ▲
Furniture	\$67	\$66	0% ▼	(46%) ▼	145% ▲	42% ▲	21% ▲
Leather Goods	\$15	\$14	(5%) ▼	(60%) ▼	25% ▲	27% ▲	19% ▲
Mechanical & Electricals	\$379	\$495	31% ▲	(34%) ▼	779% ▲	95% ▲	55% ▲
Metals, Parts and Products	\$139	\$159	14% ▲	(13%) ▼	111% ▲	63% ▲	36% ▲
Misc. Goods & Manf. Products	\$476	\$559	17% ▲	(4%) ▼	205% ▲	11% ▲	29% ▲
Plastics & Rubber products	\$86	\$105	22% ▲	(6%) ▼	321% ▲	94% ▲	55% ▲
Special Classification Provision	\$85	\$103	20% ▲	75% ▲	1141% ▲	86% ▲	38% ▲
Temporary Legislation	\$18	\$24	32% ▲	39% ▲	244% ▲	59% ▲	7% ▲
Wood & Pulp Products	\$47	\$52	9% ▲	(34%) ▼	284% ▲	138% ▲	60% ▲
Total	\$2548	\$3187	25%	(22%)	162%	58%	44%

LTM Sept 2024 U.S. Imports (\$B)

\$424

\$134

\$87

\$496

Key nearshoring trends:

- Over the past six years (2018 to Last Twelve Months ending September 2024), overall imports into the US increased by 25%. However, imports from China decreased by 22% from \$543B to \$424B
- **Vietnam, Mexico, and India** have been the biggest gainers
 - Vietnam has seen 162% increase to reach \$134B; All categories have grown in imports from Vietnam
 - Imports from Mexico increased by 44% to \$496B (which is now more than China); Food & Beverage have seen biggest increase in Mexico
 - Imports from India have seen a consistent growth across industries, overall increase of 58% in imports into US to \$87B



Mexico is now the biggest vendor base for US based corporation; Vietnam and India have seen the fastest growth since 2018

ALIXPARTNERS SUPPLY CHAIN EXPERTS – REACH OUT TO LEARN MORE



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Joe Cubellis
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Erik Mattson
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Sven Vogeles
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Mark Scales
Director



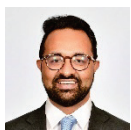
Kai Kang
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Rahul Sakhamuri
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Andrew Kerr
Sr Vice President



Venky Ramesh
Sr Vice President



Katherine Arnold
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Charlie de Montfort
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Miriam Wood
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Vice President



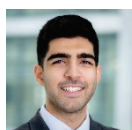
Ryan Nelis
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Vikas Chandra
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Alexis Parisi
Vice President



Karan Ranger
Vice President



Justin Stacy
Vice President



Vahid Nokhbeh
Consultant

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