AlixPartners

SUPPLY CHAIN MARKET PULSE

March 2024

KEY TRENDS AND CHALLENGES IN THE SUPPLY CHAIN

1 DEMAND/SUPPLY IMBALANCE

- A surplus of transportation capacity continues to keep pricing down for customers
- Persistently low prices and weak demand has created risk of solvency for transportation providers. The longer these market conditions remain may result in incremental capacity being removed from the market, driving prices up
- Shippers should remain mindful of these risks, pursuing diversified, flexible, and resilient logistics strategies

2 SHIFT IN TRADE FLOWS

- Geopolitics and changing cost positions are shifting trade strategies across the globe. Nearshoring has been, and remains a topic of conversation and has been accelerated by the pandemic
- While Trans-Pacific trade routes remain critical due to the ongoing significance of Asian economies, trade routes to Mexico and Central America could gain prominence, bolstered by their geographical proximity and expanding manufacturing sectors
- The effects on supply chain efficiency and costs depend on industry specifics, readiness of nearshore countries, and Asia to EU trade diversion from the Red Sea to passage around the Cape of Good Hope

3 SUPPLY CHAIN DISRUPTIONS

- Attacks on container vessels in the Red sea have caused ship diversion, vessel delays, equipment shortages, and rates to be doubled on the Asia-EU & Asia-NA trade lanes. This has impacted pricing in the short term, but may normalize as we move into Q2 2024
- Supply chain practitioners are beginning to look out at potential disruptions for 2024 with the North American East Coast port contract renewal due in October 2024

AlixPartners

NEW PUBLICATION: 2024 CONTAINER SHIPPING OUTLOOK APPETITE FOR DISRUPTION

AlixPartners' annual perspective on the Container Shipping industry highlights key aspects for stakeholders across the value chain

The financial health of carriers

Major liners had a solid 2023 despite revenue setbacks. The container shipping industry continues to outperform historical levels. However, the recent trends suggest worsening margins with headwinds inbound.

View on risk of overcapacity

Container lines are rerouting sailings and repositioning assets to cope with disruptions in the Red Sea and Suez Canal. The persistent oversupply of container ships, which has depressed freight rates since 2022, has largely disappeared, albeit temporarily.

Future trends for 2024

The future of global trade routes is uncertain, with potential reshuffling. Carriers differentiate through service, network, and tech. Schedule reliability varies but aims for improvement. Achieving net-zero emissions involves cleaner fuels and sustainable practices.

Disruptions to watch out for

Most carriers, while financially secure and strategically flexible, are ready to navigate choppy seas, leveraging volatility to their advantage.

DOWNLOAD THE FULL REPORT HERE

FREIGHT COSTS

The freight market has seen geopolitical shocks begin to normalize. Pricing remains pressured from an environment of weak demand and excess supply

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

WHAT IS MOST IMPORTANT TO KNOW?

International transportation providers have realized a spike in pricing which is now normalized from attacks on commercial shipping in the Red sea

- Ocean & Air Freight prices are trending back to normalization after increases caused by Red Sea disruptions

Parcel costs are coming down after a period of inflation across 2021-2023

- Parcel carriers are becoming more aggressive on pricing in an attempt to win business. This provides an opportunity for shippers to renegotiate their contracts

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 spot market rates have likely bottomed, fluctuation will be part of the new norm

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

WHAT ACTIONS CAN WE TAKE?

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

- 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

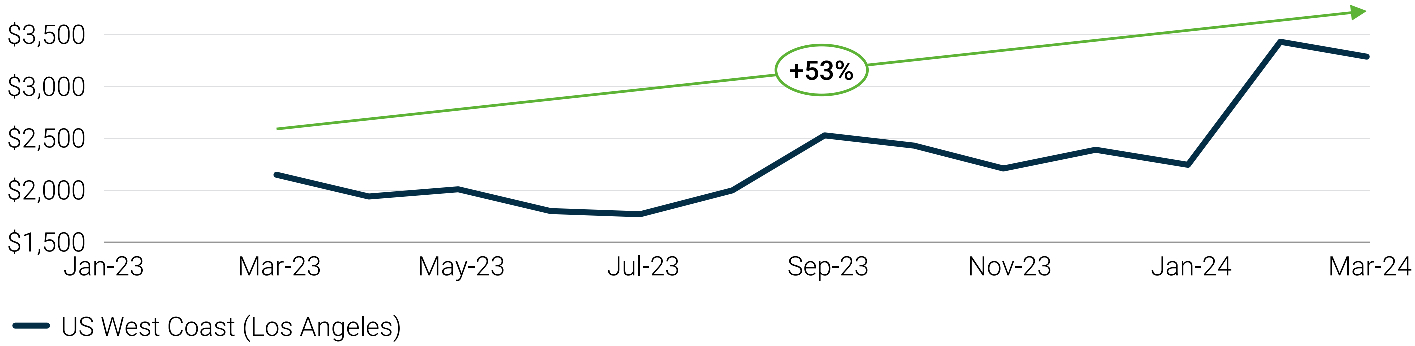
- Review and use this time as an opportunity to reset the strategic distribution network
- Align where the organization needs to be physically, and from a capability standpoint to take advantage of the next growth period

Source: AlixPartners analysis

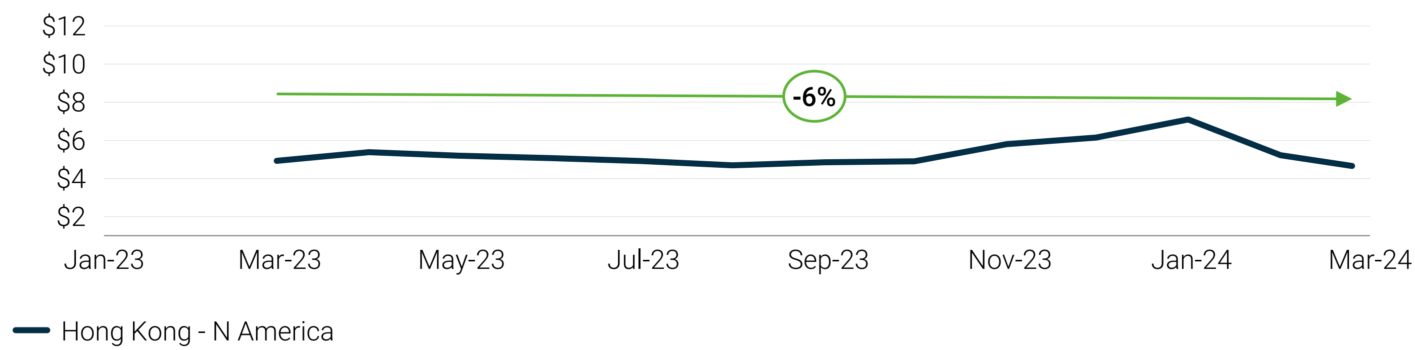
FREIGHT TRENDS

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

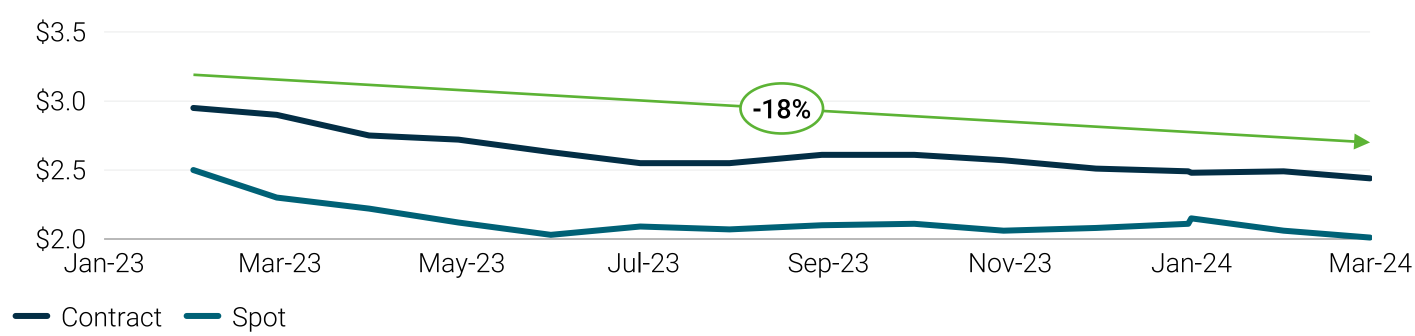
OCEAN FREIGHT – SHANGHAI TO U.S. – ($/40FT)



INTERNATIONAL AIR FREIGHT – ($/KG)



TRUCKING: DRY VAN – ($/MILE)



KEY TRENDS AND FACTS

KEY DRIVERS CAUSING RATE CHANGES ARE:

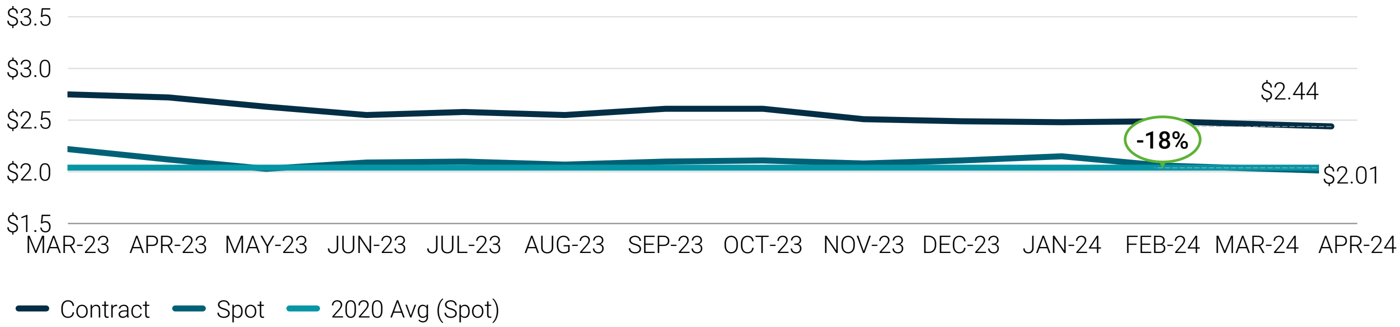
- Ocean and air market rates have plateaued and are now retreating in cost as a resulting from the Red Sea disruption, this may normalize over the next quarter
- Recent spot rate increase in ocean does not appear to be sustainable and may be transitory
- TL rates remain low as shippers refrain from building inventory, prolonging the road to recover

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

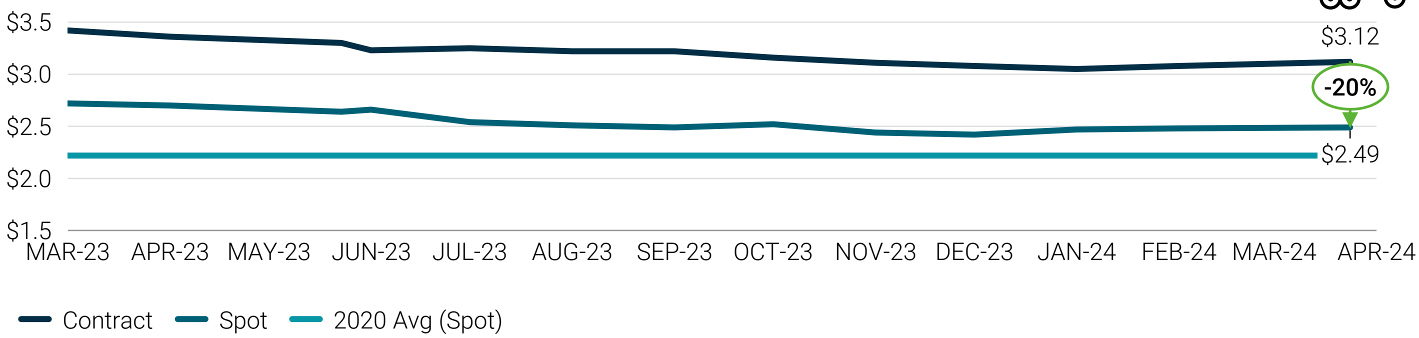
TRUCKING FREIGHT

Carriers signal little confidence in near-term recovery as van and reefer rates continue to decline; flatbed rates experience small improvement as spring approaches

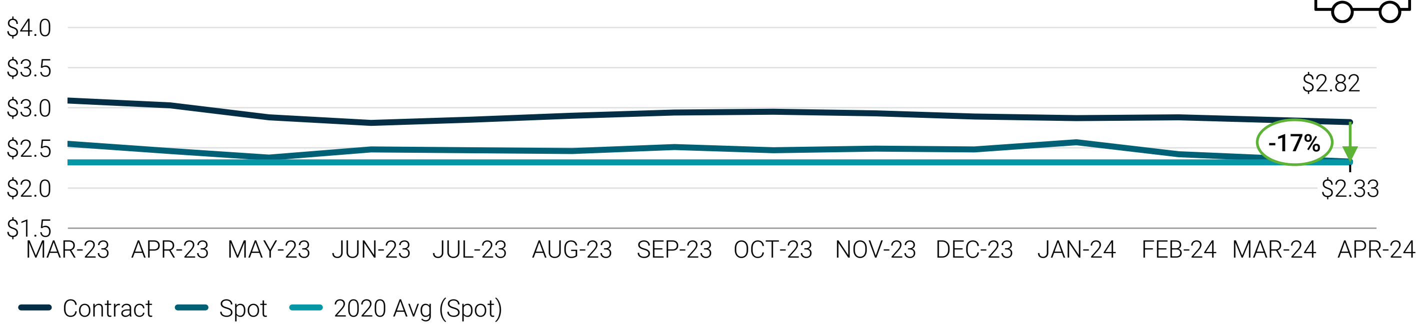
DRY VAN – U.S. DOMESTIC FREIGHT RATES, INCL. FUEL (UNIT:$ PER MILE)



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

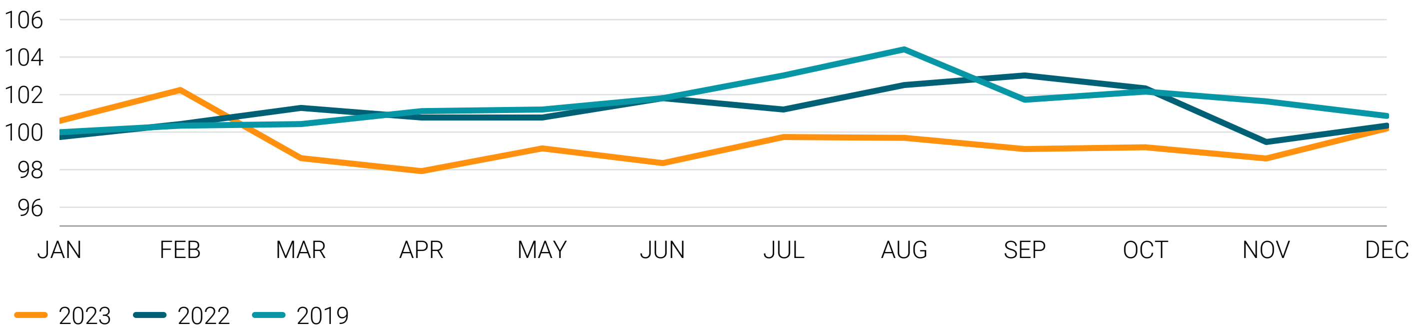
- **Flatbed rates saw a small uptick in February; volumes surged early March** as large retailers and garden centers replenish inventories (DAT).
- Unlike flatbed rates, **van and reefer rates declined form January to February**; dry van spot rates dipped below the 2020 average.
- Carriers including Knight-Swift and Werner are experiencing increased pricing pressure from shippers during annual contract negotiations, leading to a longer than usual bid season (S&P JOC Article, Freight Waves).

Source: DAT, WSJ, Freight Waves, AlixPartners analysis

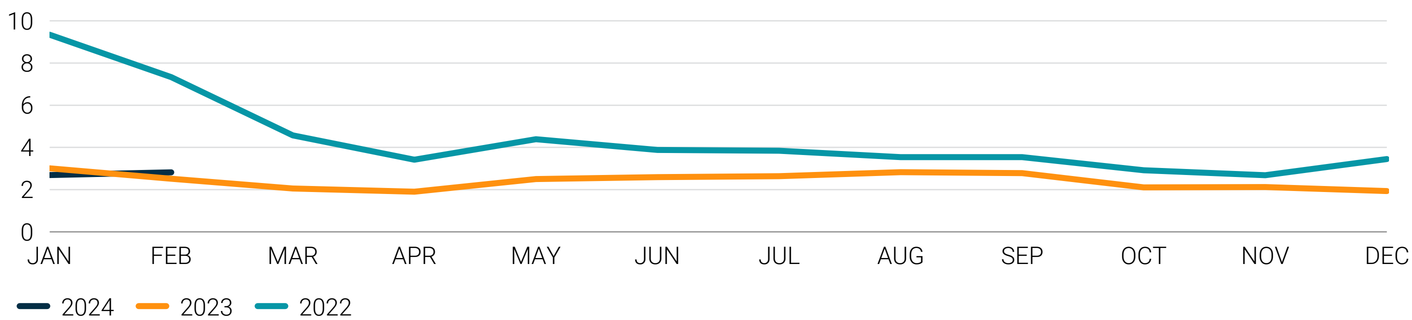
TRUCKING FREIGHT

Truckload volumes remain low as soft seasonality and dampened demand prevents recovery

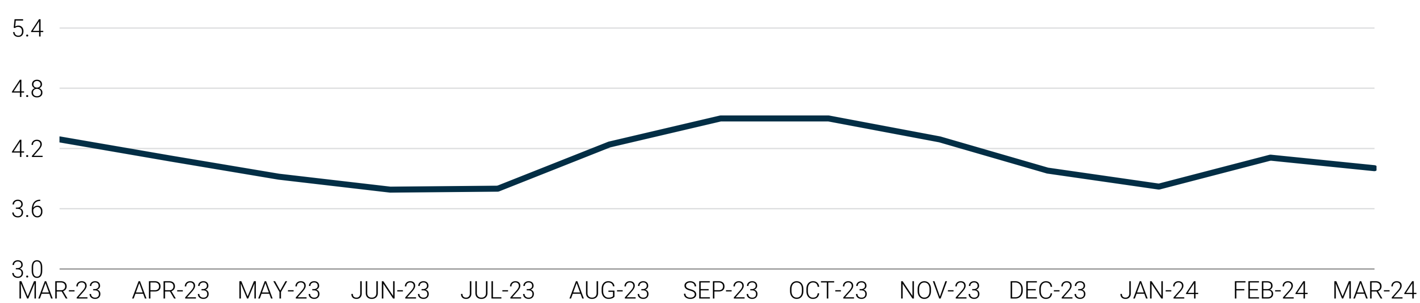
TRUCK DEMAND – TONNAGE, YEAR OVER YEAR, INDEX (100) = JAN 2019



VAN LOAD-TO-TRUCK RATIO – YEAR OVER YEAR



DIESEL – $ PER GALLON



KEY TRENDS AND FACTS

- **TL volumes decreased 4.5% YoY in February**, marketing the smallest YoY decline in 10 months (Freight Waves).
- **TL firms including Schneider, J.B. Hunt, and Werner are reducing CapEx spend in 2024** compared to 2023 which saw increased investment in preparation for a potential market upturn (Trucking Dive).
- **The Modernizing Operations for Vehicles in Emergencies (MOVE) Act** was introduced last month and could waive truck weight limits for emergency-related shipments (Freight Waves).

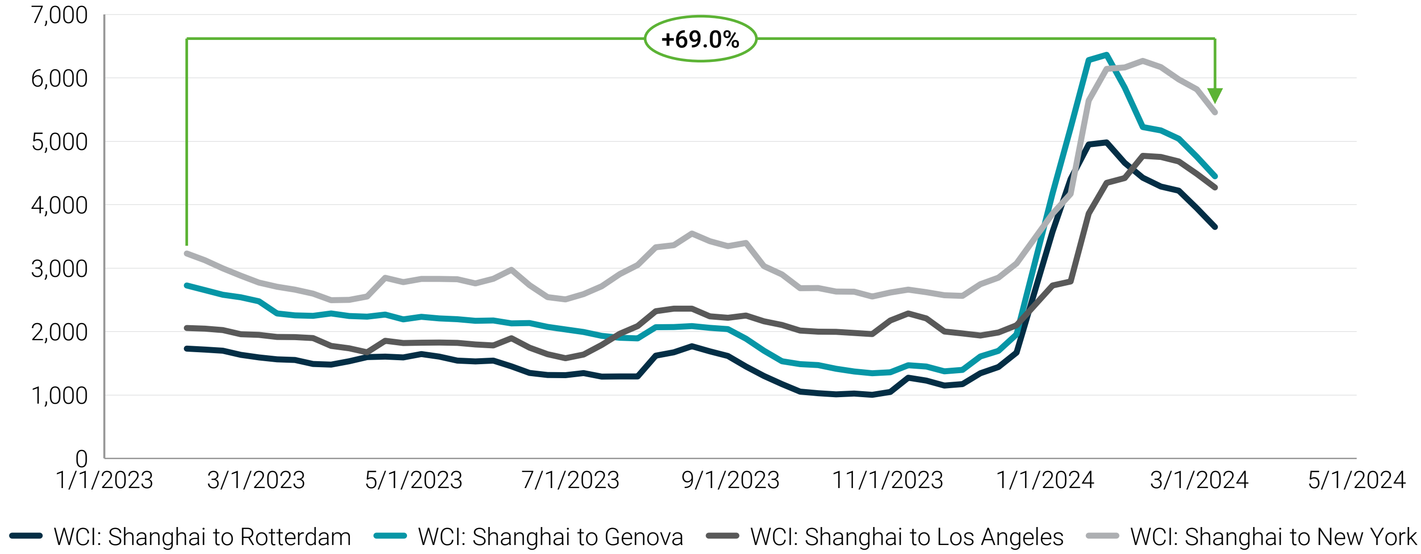
Source: DAT, FRED, Bloomberg, AlixPartners analysis

OCEAN FREIGHT

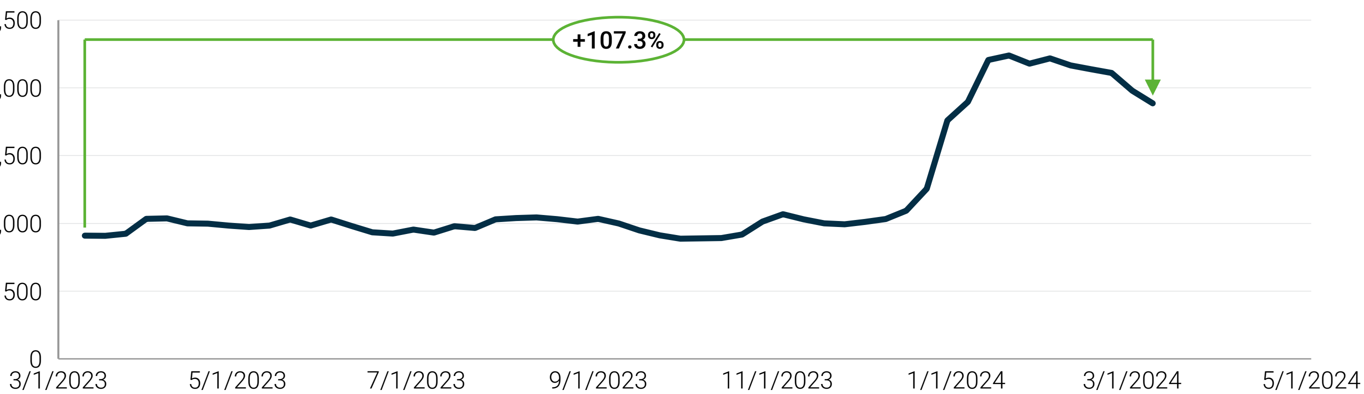
Ocean rates are normalizing as the initial disruptions caused by the Red Sea crisis and Chinese New Year subsides

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

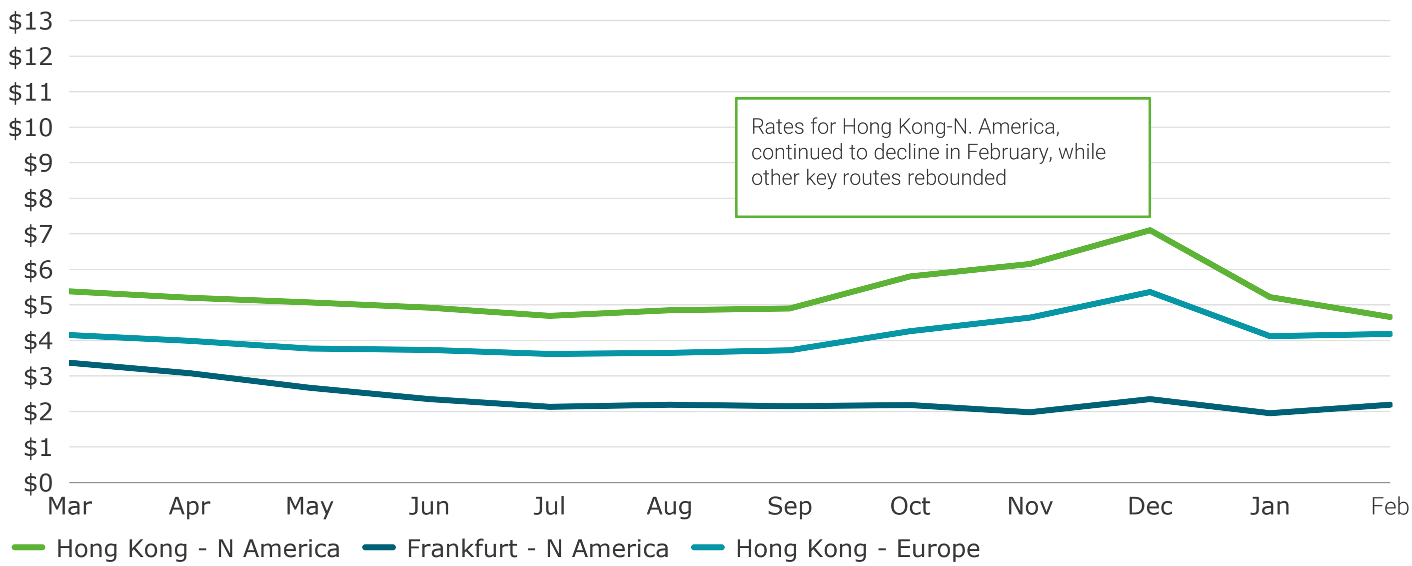
- West coast port volumes continue their strong performance with 4 straight months of YoY volume growth, putting upward pressure on pricing (Freightwaves)
- The rise in spot prices due to the Red Sea crisis appears to be transitory, with sport rates starting to normalize after the initial disruptions
- Overall transit times from China to Europe are up 39% since mid-October, limiting the downside potential of the current fall in rates that is occurring(Freightwaves)

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

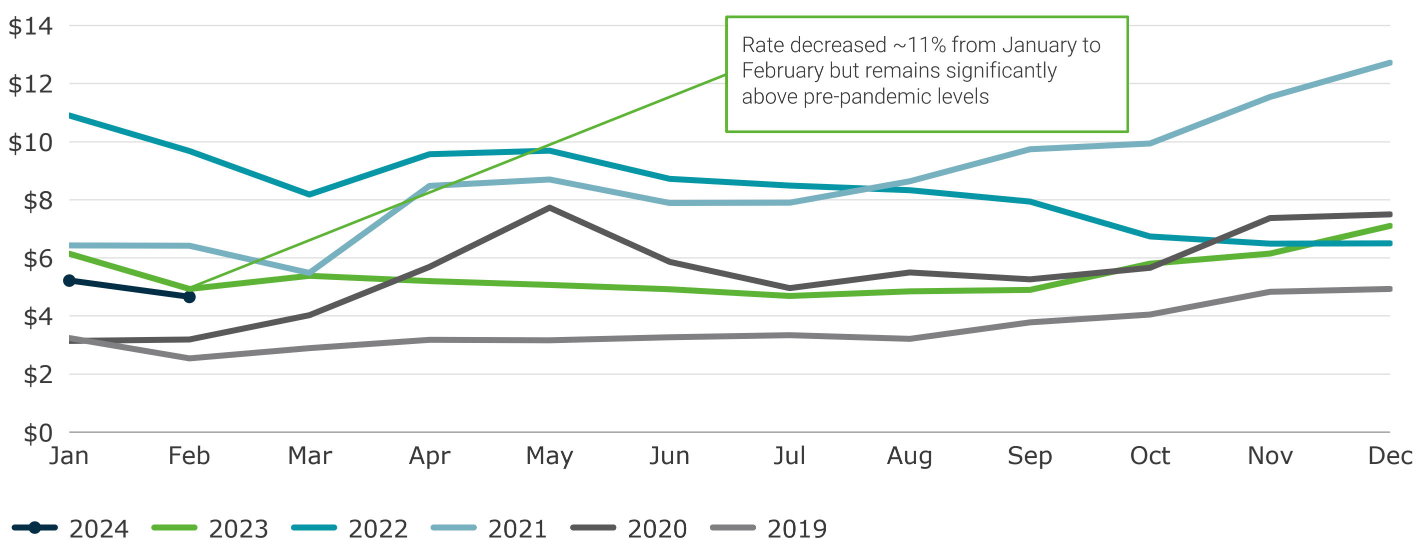
AIR FREIGHT

Air cargo rates increased 2% over January, but remain 14% below 2023 levels

KEY INTERNATIONAL ROUTES (UNIT:$ PER KG)



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



KEY TRENDS AND FACTS

- **Air cargo rates are down 14% YoY, but increased unusually by 2% over January**, a time when rates typically fall after year end demand peaks (Air Cargo News).
- Demand and rate increases in February were likely due to **e-commerce demand and spillover from ocean volume** mode shifting to avoid the Red Sea.
- **Outbound spot rates increased significantly from India (81%), Bangladesh (40%), and Sri Lanka (55%)** over January levels, driven by demand for apparel products (AJOT).

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

RAIL FREIGHT

Total US rail traffic in February was up 1.8% YTD versus 2023. Carloads declined 4.6% and intermodal traffic increased 7.9% YTD

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

INTERMODAL	7.9%
COAL	-12.0%
FOREST PRODUCTS	-0.2%
MOTOR VEHICLES AND PARTS	1.9%
METALLIC ORES & METALS	-11.9%
CHEMICALS	3.9%
FARM PRODUCTS EXCLUDING GRAIN AND FOOD	-0.8%
GRAIN	-4.9%
PETROLEUM AND PRODUCTS	4.7%
NONMETALLIC MINERALS	-11.9%

Source: Association of American Railroads

KEY TRENDS AND FACTS

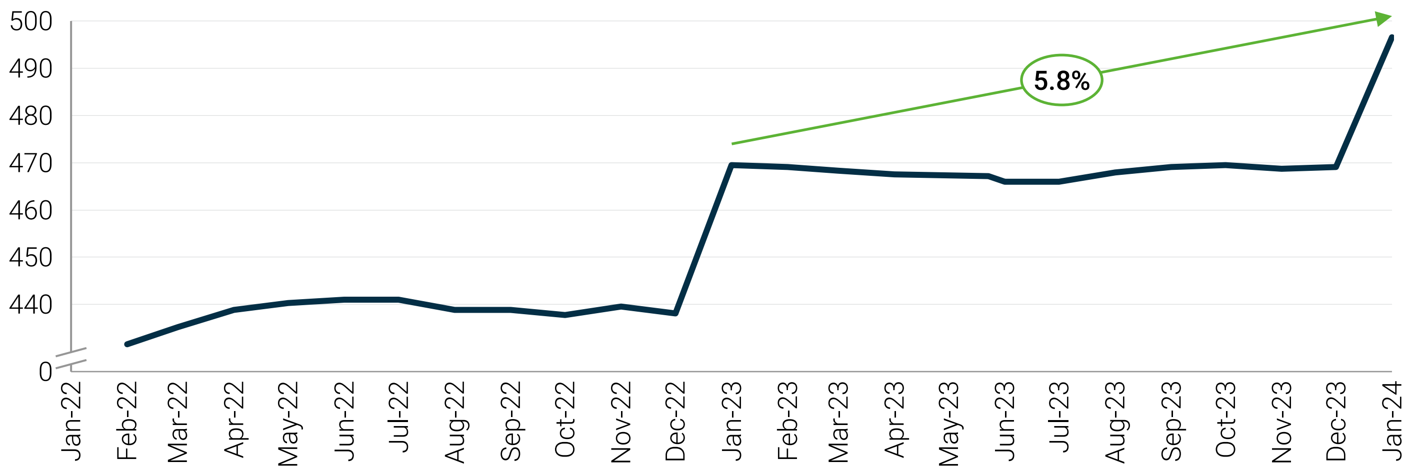
- "In February, US rail traffic recovered from disruptions caused by severe winter weather in January. However, a closer look at February's rail traffic date shows elements that inspire optimism and elements that call for caution. Intermodal volumes have consistently grown over the past 6 months signaling increased confidence among consumers & retailers. At the same time, carloads of industrial products remain below levels from last spring and summer, reflecting ongoing challenges in the industrial sector." (Association of American Railroads)
- BNSF Railway made cuts of approximately 8% of its management workforce following comments by parent Berkshire Hathaway around the railroad's 14% earning decline in 2023 being 'deeper than expected'. Other railroads are taking similar actions, with Norfolk Southern announcing it would eliminate 7% of its management through a voluntary severance program, and Union Pacific previous reducing its management workforce by nearly 5% in November.

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

USA PARCEL

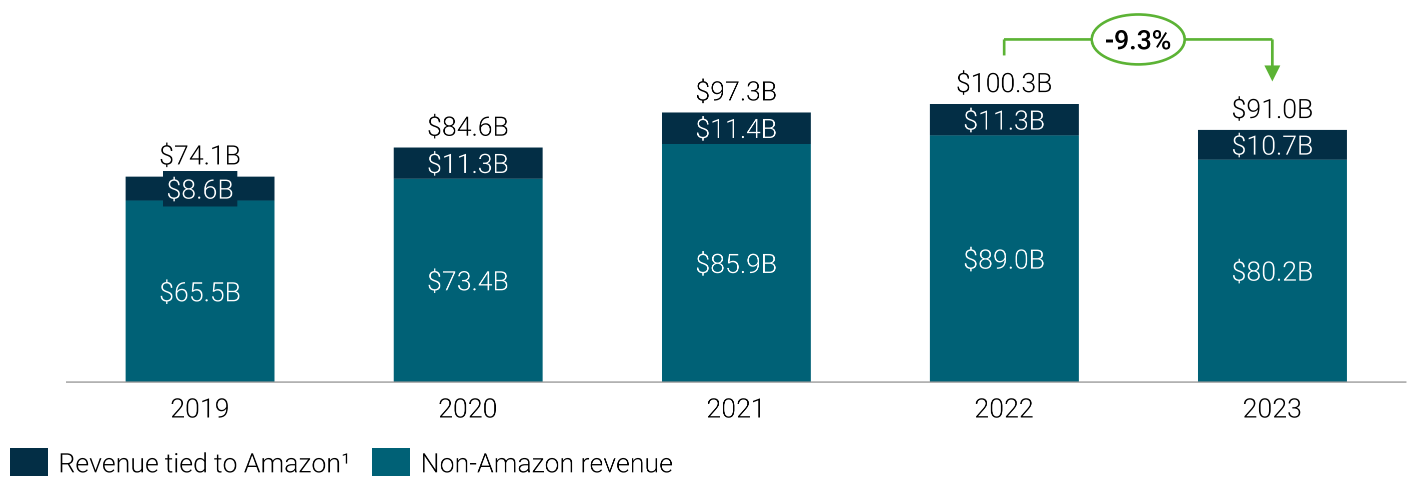
Shippers are advised to leverage UPS and FedEx's new focus on profit-driven partnerships as large parcel carriers focus on customer profitability

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

UPS' REVENUE SHARPLY DECLINED IN 2023 FOR THE FIRST TIME SINCE 2019



1. Amazon aggressively expanded its logistics infrastructure during the COVID-19 pandemic as demand surged and capacity was limited at carriers such as UPS

KEY TRENDS AND FACTS

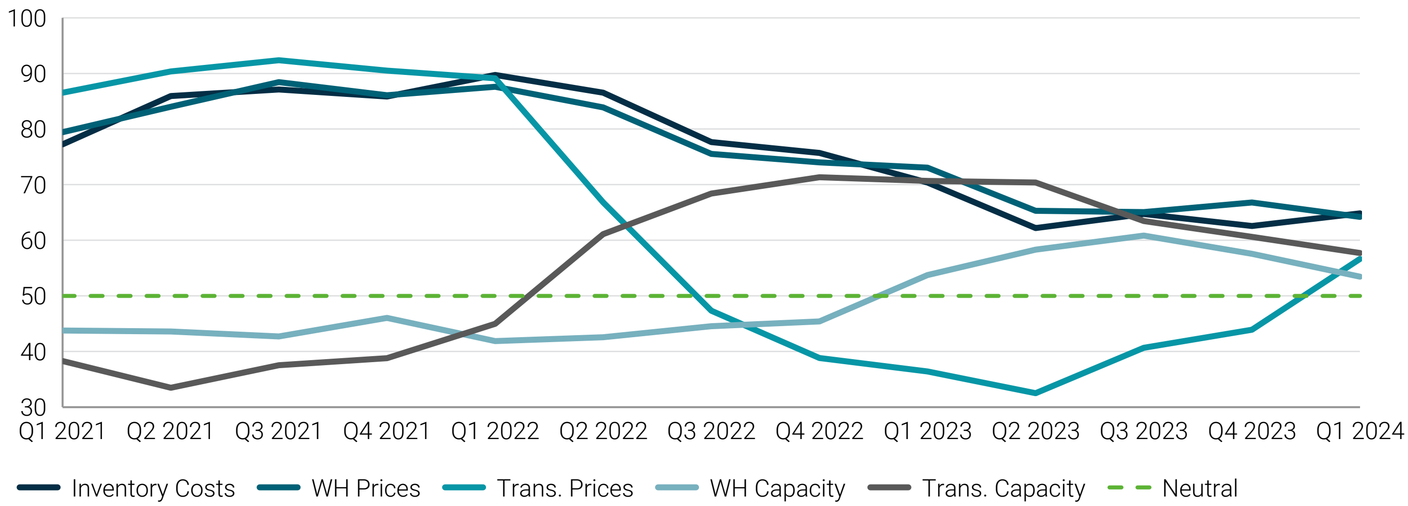
- UPS reported a decrease in revenue from Amazon in 2023, marking the lowest since 2019, reflecting a strategic move away from dependency on its largest customer:
  - Revenue Trends: Despite a decline in Amazon-related revenue, the percentage of UPS' total revenue from Amazon actually increased due to an even sharper decline in non-Amazon business
  - Strategic Reduction: This revenue shift aligns with UPS' strategy to diversify its customer base, moving towards more profitable sectors like small- and medium-sized businesses and healthcare
- Following similar suit, FedEx may improve profitability by reducing or ending its daytime air network, particularly the low-margin business with the U.S. Postal Service

Sources: 1. Federal Reserve Economic Data (FRED); Solomon, M. (2024, Jan 30). How FedEx could win by losing its Postal Service business. https://www.freightwaves.com/news/how-fedex-could-win-by-losing-its-postal-service-business / ; Garland, M. (2024, Feb24). UPS revenue tied to Amazon fell over 5% in 2023. https://www.supplychaindive.com/news/ups-amazon-revenue-business-2023/708409/

WAREHOUSING TRENDS

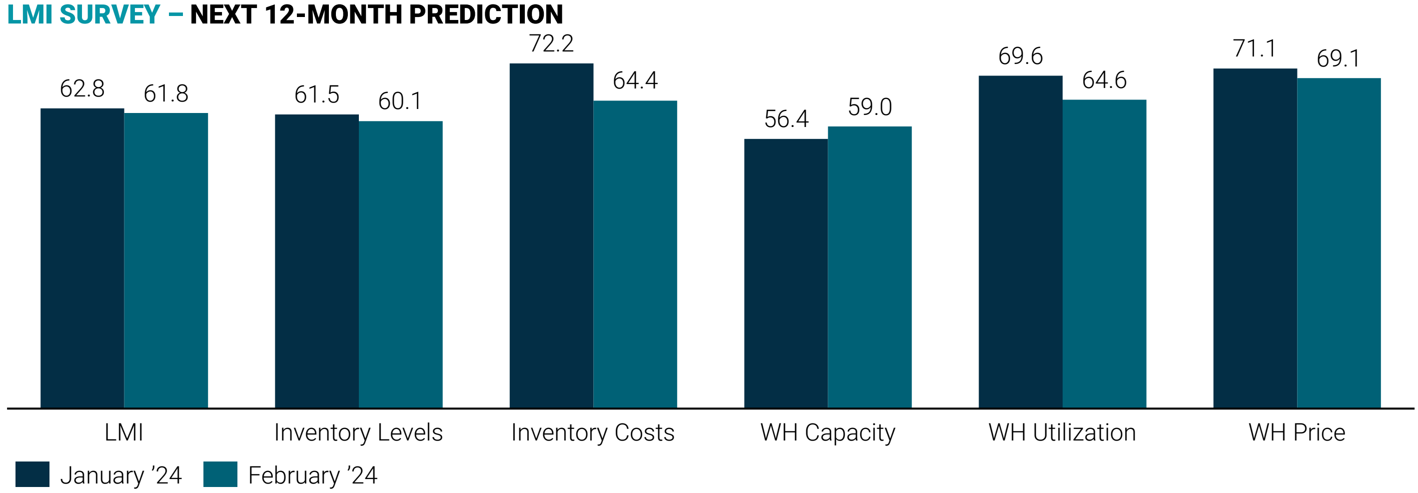
Transportation price levels continue to increase in February which is driven by a buildup of inventories at manufacturing and wholesale levels

FLUCTUATION OF LMI INDICES



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

LMI SURVEY – NEXT 12-MONTH PREDICTION



KEY TRENDS AND FACTS

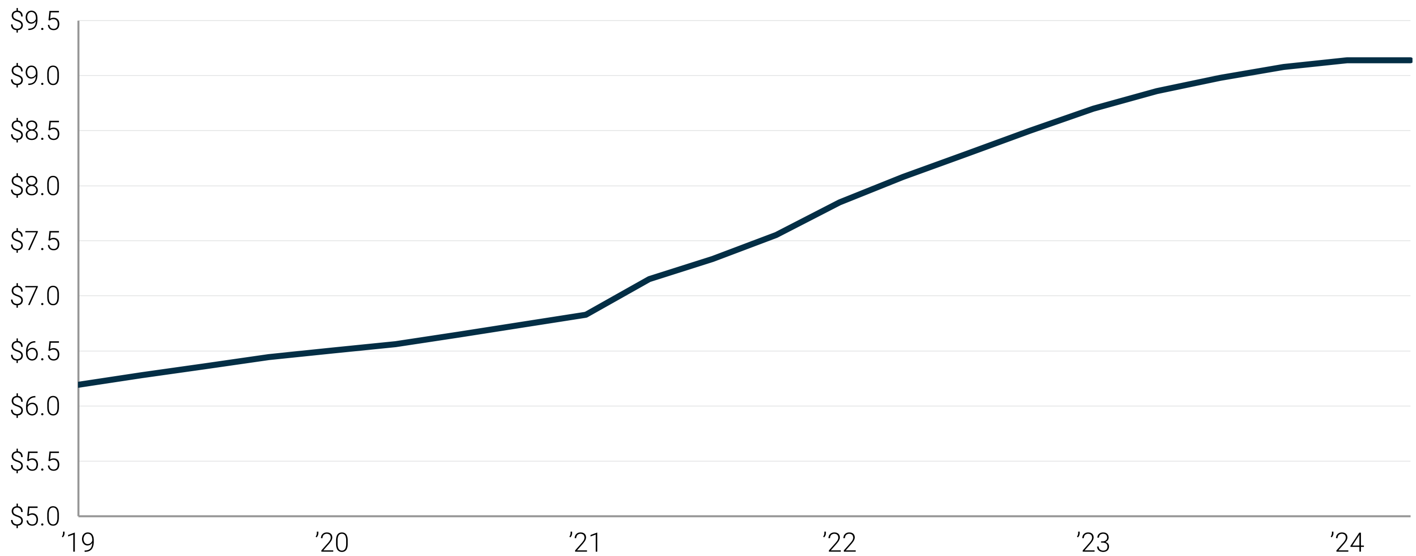
- Overall Logistics Managers' **Index reached 56.5 in February, up (+0.9) from January's reading of 55.6**, and every metric in the LMI continued to read in expansion territory
- Transportation price growth was driven by the first two weeks of the month, primarily tied to spot rates charged for backlog of freight due to January winter storms. Growth also due to the inclusion of ocean shipping in the LMI index, where rates increased due to the Red Sea conflict, Panama Canal conditions, and Lunar New Year
- In February, the Census Bureau released the December manufacturing and trade industry's Business Inventory to Sales (TBIS) metric at 1.35 (15% decline from November), meaning that companies are averaging just over one and a third month's worth of sales on hand

Source: Logistics Managers' Index, FreightWaves, The Census Bureau, AlixPartners analysis

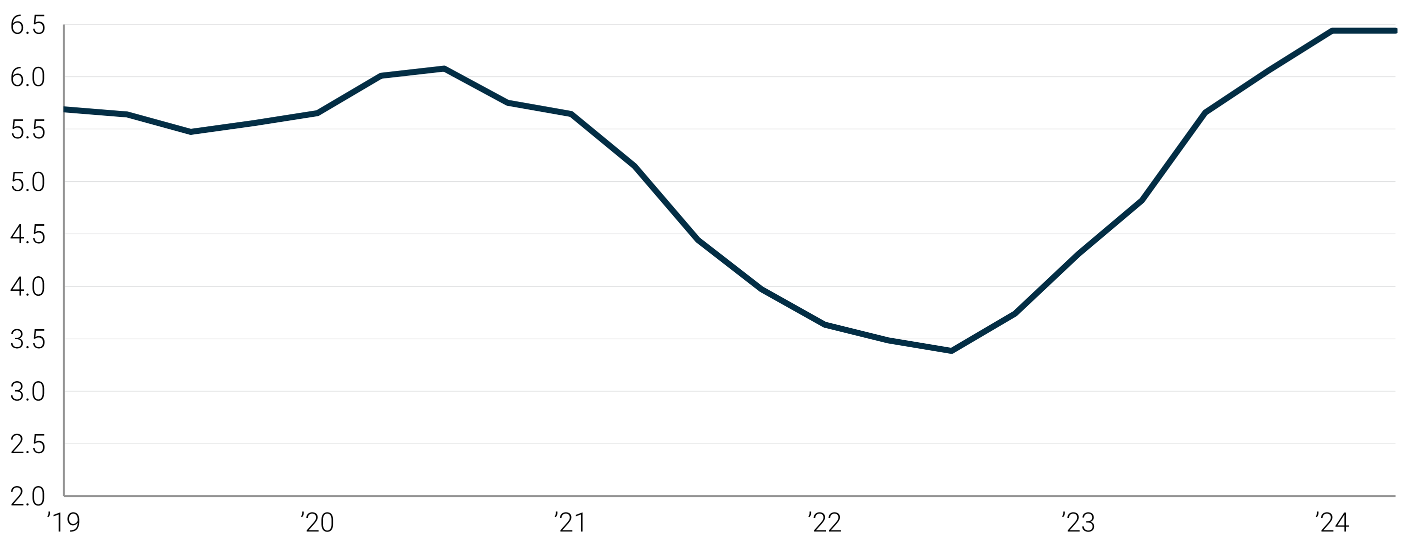
WAREHOUSING TRENDS

National warehousing rates and vacancy appear to be starting to level off amid continued demand reduction and recessionary fears

NATIONAL AVERAGE MARKET RENT / SQ FT ($)



NATIONAL AVERAGE VACANCY RATE (%)



KEY TRENDS AND FACTS

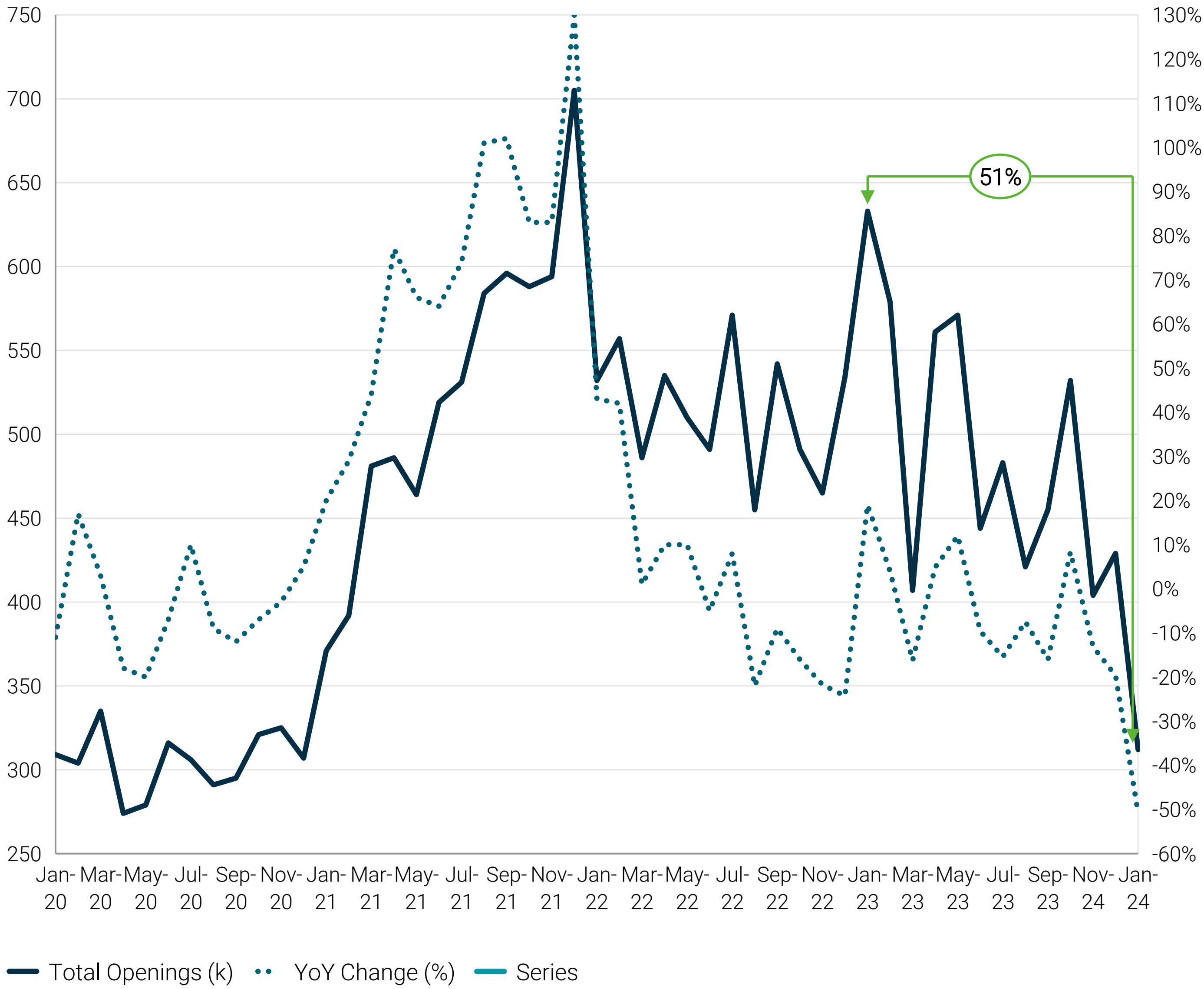
- **Quarterly rate increase appears to have slowed to 0.7% in Q1 2024** vs 2.4% over the same period a year earlier, as companies from e-commerce retailers to third-party logistics providers are leasing less new warehouse space amid weak freight demand, high interest rates and shifting consumer spending.
- Rent growth expected to be modest and follow inflation in light of new construction slowing and demand cooling
- Warehouse sublease listings are growing as companies continue to draw down inventory levels and consolidate into newer buildings with more automation and less labor required

Source: AlixPartners & Mohr Partners, Wall Street Journal, Supply Chain Dives, AlixPartners analysis

LABOR

Logistics job openings were down 51% YOY as transportation; warehousing employers continue to cut jobs while transportation employment levels are relatively stable

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



KEY TRENDS AND FACTS

- **BLS estimated that there were 312k job projected openings** in the warehousing, transportation, and utilities sector in January; down 27% from the prior month and down 51% YOY
- UPS to continue to cut jobs as demand slows and AI is leveraged to shift volume from more labor-intensive package sorting facilities to automated hubs; other carriers facing similar challenges
- Some hypothesize that likely Federal Reserve cuts to interest rates will spur a future increase in blue collar jobs

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

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)

	TOTAL US IMPORTS			COUNTRY WISE CHANGES (2018 V LTM SEPTEMBER 2023)			
				CHINA	VIETNAM	INDIA	MEXICO
COMMODITY	2018 ($B)	LTM SEP 2023 ($B)	CHANGE (%)	CHG. %	CHG. %	CHG. %	CHG. %
Apparel & Textiles	$116	114	(2%)	(33%)	20%	18%	5%
Automotive & Transportation Parts	$340	404	19%	(8%)	161%	(2%)	33%
Chemicals & Allied Industries	$233	330	41%	14%	114%	60%	64%
Computer & Electronics	$363	443	22%	(23%)	209%	496%	34%
Food & Beverage	$151	209	38%	(23%)	2%	11%	63%
Footwear, Headgear & Others	$32	34	6%	(24%)	40%	23%	67%
Furniture	$67	64	(3%)	(47%)	107%	49%	25%
Leather Goods	$15	15	(1%)	(58%)	25%	29%	45%
Mechanical & Electricals	$379	445	17%	(28%)	402%	89%	30%
Metals, Parts and Products	$139	166	20%	(17%)	71%	84%	49%
Misc. Goods & Manf. Products	$476	582	22%	0%	187%	24%	33%
Plastics & Rubber products	$86	102	18%	(10%)	228%	85%	50%
Special classification provisions	$85	102	20%	51%	570%	76%	23%
Temporary legislation	$18	23	28%	26%	172%	45%	11%
Wood & Pulp Products	$47	52	10%	(35%)	201%	119%	52%
Total	**$2548**	**$3086**	**21%**	**(21%)**	**115%**	**51%**	**36%**
LTM Sep 2023 U.S. imports ($B)				**$428**	**$110**	**$83**	**$467**

Key nearshoring trends:

- Over the past 5 years (2018 to Last Twelve Months ending Sep 2023), overall imports into the US increased by 21%. However, imports from China decreased by 21% from $543B to $428B

Vietnam, Mexico, and India have been the biggest gainers

- Vietnam has seen 115% increase to reach $110B; Mechanical and electricals are flourishing the most in this region
- Imports from Mexico increased by 36% to $467B (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 51% in imports into US to $83B

Apparel, textiles and furniture industries have been most impacted. Apparel imports shifted majorly to Bangladesh, Pakistan and Cambodia

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

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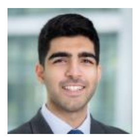

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