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Executive summary 2024

CSCMP'S ANNUAL
STATE OF LOGISTICS REPORT®

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Executive summary

The following is a brief rundown of each of the chapters in this year's *State of Logistics Report*. Those chapters address these themes, and others besides, in somewhat greater detail.

Macroeconomics

The global economy is expected to see just 2.5 percent growth, down from 2.7 percent in 2023. If this projection proves correct, 2024 could mark the close of the slowest half-decade of output growth in 30 years. Higher interest rates, declines in growth, rising unemployment, and persistent inflation will continue to exert a drag on worldwide growth, despite some positive macroeconomic signs from the United States. Growing geopolitical instability further darkens the economic picture, disrupting global supply chains and complicating the investment calculus for companies and governments alike. Global trade is becoming more fragmented, as major nations increasingly separate into commercial blocs. In a closely related development, some of the world's largest economies continue to shift toward more inwardly focused industrial policy.

Air

Air freight demand is predicted to rise by 4.5 percent in 2024 while revenue is expected to decline from $134.7 billion in 2023 to $111 billion in 2024 as international trade stagnates and shippers take advantage of expanding passenger flight capacity. Global air capacity is expected to remain sufficient, especially as passenger traffic—and therefore belly capacity—returns to normal on the routes between Asia and the Americas. In addition, some major ocean carriers are adding air capacity in an effort to continue building out their end-to-end logistics networks.

Parcel/last mile

The parcel market is shaping up to favor shippers over the remainder of 2024, due to falling parcel volume, as well as intensified competition in the carrier market. The decline in volume has affected two of the primary national carriers, United Parcel Service and FedEx, both of which saw their year-over-year parcel volumes decline in 2023, with nontraditional competitors taking larger portions of the parcel volume, including Amazon, which passed UPS for the largest parcel carrier in the US in 2023. Large shippers are continuing to shift away from "single sourcing" in their carrier relationships as they seek a more diversified carrier base and maturing rate-shopping capabilities. This includes experimentation and then a heavier reliance on regional and local carriers, which have long provided lower unit costs, in addition to faster service with their areas of geographic focus. This speed and growing service advantage is becoming more important as customers continue to demand swifter and reliable delivery times.

3PL

The third-party logistics (3PL) sector faces some significant challenges in 2024, such as low freight rates and excess capacity. This could lead to further consolidation among 3PLs, especially smaller players and those reliant on venture capital funding. On the other hand, as the market awaits improving conditions there is an opportunity for larger players to invest in their internal capabilities and for shippers to lock in favorable rates and improved productivity commitments.

Select 3PLs and shippers are increasingly testing different models to participate in the market, with traditionally asset-light 3PLs expanding into asset-heavy spaces, and shippers marketing their internal logistical capabilities externally. This shift is redefining the traditional roles within the industry, and companies seeking to thrive in this evolving ecosystem need to sustain major investments in capabilities and technology.

Freight forwarding

Major forwarders suffered a decline in financial performance in the final quarter of 2023. The forwarding sector is expected to grow at an even slower rate in coming years, but with a longer-term projected 5.5 percent annual growth rate for the period of 2023–2032. The sector has been burdened by weak worldwide demand levels, a continued excess of carrier capacity, an ongoing labor shortage, and heightened geopolitical uncertainty. Forwarders must prioritize establishing and maintaining long-term partnerships with clients to stabilize revenue streams amid market challenges. Offering clear value propositions, including route optimization and supply chain visibility, enhances trust and fosters stronger relationships with customers. Forwarders are exploring strategies to increase efficiency and market reach through scaling up operations, either through strategic partnerships or consolidation.

Water/ports

Waterborne freight suffered from muted demand in 2023 due to recessionary pressures in several economies. Container demand recovered slightly in the second half of the year, driven by economic recovery in the United States, but worldwide demand figures were tepid over the year as a whole. This sluggishness in demand has coincided with a continued excess in capacity—a legacy of aggressive shipbuilding during the pandemic. The combination has created an unpromising supply and demand cycle across the container sub-sector, however pricing remains sensitive to micro-shocks across all sub-sectors. Demand dynamics have overall tended to shift the balance of power in favor of shippers, many of whom are able to capture more attractive offers for longer contract durations, putting additional pressure on carriers. Geopolitical conflicts continue to affect major shipping routes, most notably the Suez Canal.

Motor

The sharp downturn in consumer demand following the pandemic has left carriers with a lingering surplus of capacity, a relative dearth of freight demand, and a plunge in rates. All of this has added up to a year of turmoil in the motor freight sector. More than a thousand freight brokers went out of business in 2023, and even the historically sturdy profitable less-than-truckload (LTL) market felt the effects, with Yellow declaring bankruptcy in August. Until there is an increase in the rebuilding of retail and business inventories, improvement in consumer sentiment and housing market index, and rate cuts by the Fed, we do not expect the balance of power to change and reactivate idle transportation assets. A similar scenario is unfolding for private and dedicated assets acquired during COVID, as technology companies turn focus and AI capabilities to optimize the transportation mix and better utilize assets. The next freight cycle is due; however, uncertainty for inflection will persist until stars align for the above metrics.

Rail

In 2023, the largest (Class I) railroads experienced a challenging financial environment, including rising operating ratios, a 2 percent decline in revenue compared to 2022, and an 11 percent decrease in operating income. These financial reversals have been primarily driven by intermodal volume decreases, service challenges, inflationary pressures, escalated fuel and labor expenses, and a surge in employee headcount. These issues need to be understood against the larger backdrop of persistent structural problems facing the railroad industry. To break out of its stagnation and begin realizing sustained, meaningful growth, the rail sector will need to make substantial investments in technology, as well as significant changes to its operating models.

Warehousing

Over the past year, the warehouse sector has been defined by a pullback from the extreme conditions introduced by the pandemic, but private equity interest and lag caused by prior construction commitments, and long-term contracts during COVID impact the dynamic of vacancy and pricing. The persistent inventory levels are another factor building a floor for vacancy and pricing, but an elongated recession scenario could break that resistance. As companies look for ways to improve capacity in existing space, demand for new warehouse space has cooled, and subleasing has hit a decade high.

Sustainability

The logistics industry has shown resilience in improving sustainability, through innovative business models, technological partnerships, and policy advancements to fund emission-reduction targets. However, most organizations are still not including scope 3 emissions (those coming from throughout a company's entire value chain, including from suppliers and carriers) in their climate pledges, and an uncertain political landscape prevails that may curtail top-down actions on green initiatives. Nonetheless, there is reason to be encouraged by increasingly visible pockets of progress, with companies partnering across the supply chain to enable more sustainable practices.

Network trends

Shippers continue to rewire their distribution networks and supply chains, looking at these systems as a whole and redesigning them to unlock powerful sources of new saving and strategic advantage. This surge in network redesign is a reflection of several factors, including cost consciousness and resilience in the face of uncertainty. Prominent examples of network overhauls include those undertaken by large retailers such as Amazon and Wayfair, which have redrawn their distributional footprints in an effort to minimize expenses throughout their operations. Especially among companies with aggressive growth trajectories, there is a growing trend toward the wholesale reconsideration of what distribution networks are for, and how they should be designed. Executives are remaking these networks not only to squeeze out costs, but also to catalyze growth through greater capacity, agility, and flexibility.

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