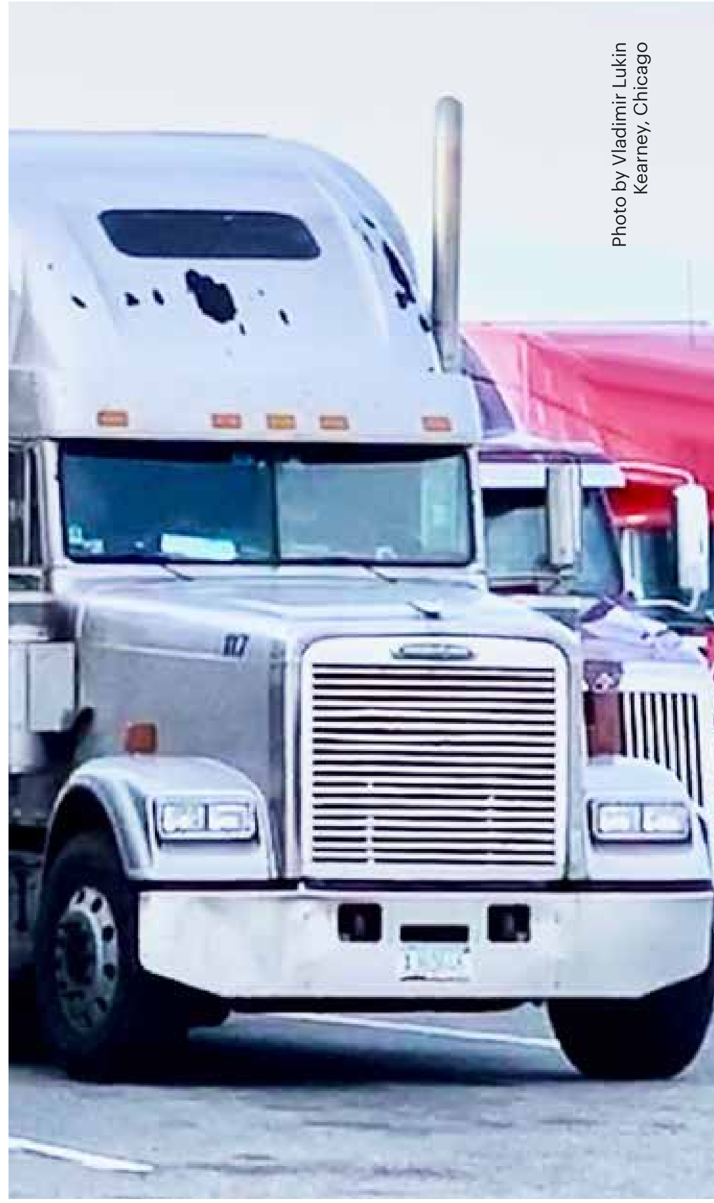


Photo by Vladimir Lukin
Kearney, Chicago

Top takeaways

State of Logistics

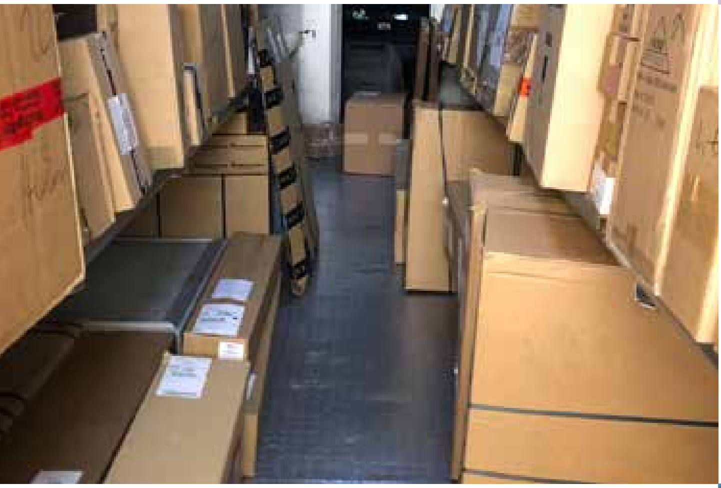
CSCMP'S ANNUAL
STATE OF LOGISTICS REPORT®

AUTHORED BY KEARNEY

PENSKE
Rental | Leasing | Logistics

Macroeconomics: uneven effects from a pandemic-induced recession

Although economic forecasts vary, the latest International Monetary Fund projections show that US GDP will decline by almost 6 percent in 2020, before rebounding +5 percent in 2021. Demand in some sectors, such as heavy industry and hospitality, has cratered, while other sectors, such as groceries and e-commerce, have surged.



Parcel and last mile: accelerating growth

Booming e-commerce and increasingly demanding consumers are fueling record-breaking growth in parcel and last-mile delivery. Shippers and 3PLs are struggling to efficiently meet rapidly changing consumer delivery demands. Successful companies seek to control costs by segmenting their offerings by product and customer base.

Motor carriers: market balance tipping toward shippers

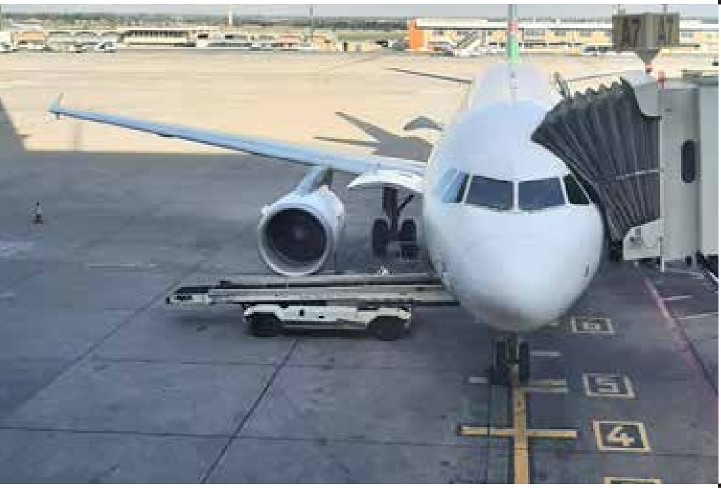
After years of scarce capacity and increasing rates, carriers struggled in 2019; bankruptcy risk is exacerbated by COVID-19. Shippers must focus on risk management and logistics resilience as their logistics providers seek to improve waning profitability by increasing asset utilization, cutting internal costs, or diversifying revenue mix.

Rail: profits despite volume declines

Amid declining volumes, major railroads achieved 2019 profitability through short-term actions such as precision scheduled railroading (PSR)–style network optimization. Railroads also cut costs in response to the pandemic. But these traditional levers are approaching their limits; the industry needs technological change, and a new growth model.

Ocean: surprisingly disciplined, though still perilous

Rarely known for pricing discipline, ocean carriers did well in 2019, and then blanked record numbers of sailings to reduce capacity early in the pandemic. Their solvency requires income, and near-term demand will remain low. We can expect some combination of government bailouts, bankruptcies, and consolidation, leading to tighter capacity and higher rates when demand recovers.

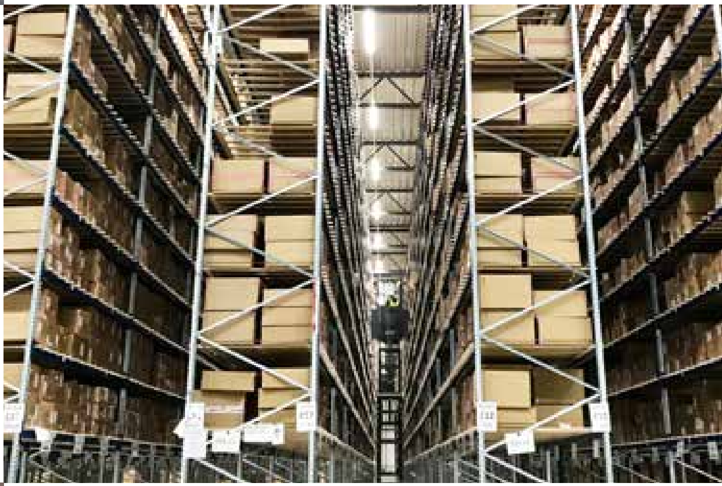


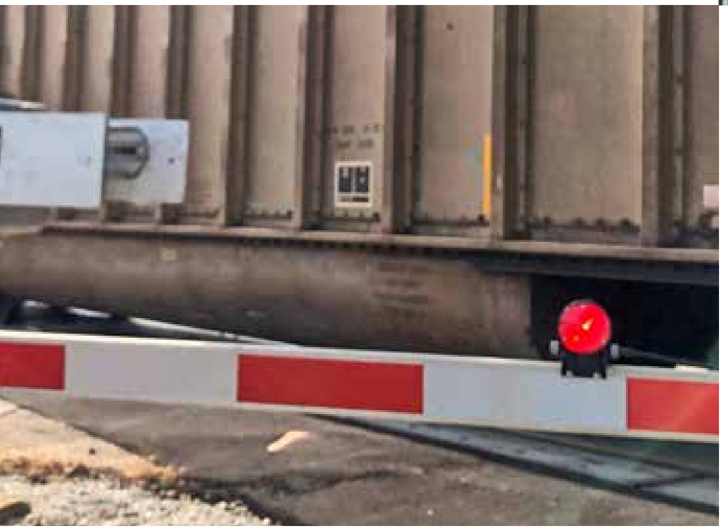
Air: temporarily grounded

No logistics sector is more affected by the COVID-19 pandemic than air freight. Cancellations of passenger flights, which carry 48 percent of air cargo, have decimated capacity. Demand, which was already weak, has fallen precipitously. However, a more upbeat longer-term outlook is fueled by consumer demands for quick e-commerce deliveries, plus shipper demands for more flexible, resilient supply chains.

Warehousing: strong, stable growth

In 2019, the supply of warehouse space grew, but demand grew equally fast. Trends in e-commerce, inventory on hand, and reshoring will increase warehousing demand, but likely more for automated urban warehouses compatible with shared-use networks. While COVID-19 disruptions will be short-lived, the pandemic has highlighted the central role warehousing plays in enabling supply chain resiliency.





Freight forwarding: meeting the digital challenge

Most forwarders grew revenues in 2019; those with footprints in manufacturing hubs like Southeast Asia and Eastern Europe experienced healthier growth in operating incomes. Challenged by tech-savvy new entrants, freight forwarders have taken a prioritized, opportunistic, sometimes inorganic but always customer-centric approach to digitization.

3PL: assets, digitization, and collaboration

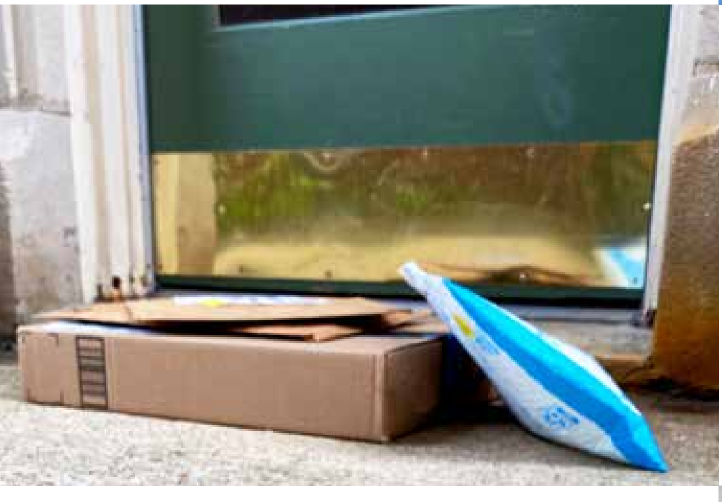
With advancing technology increasing shippers' insourcing options, third-party logistics is pressed to innovate. Early COVID-19 demand disruptions shook the sector but 3PLs successfully collaborated. Shippers reported that their 3PLs had a "we're in this together" attitude rather than invoking force majeure.

Pipeline: sudden overcapacity

Domestic pipeline capacity caught up to and exceeded demand in 2019. As the pandemic slows production, overcapacity will push down tariffs. The result, combined with potential energy transition and changing capital structures, will further reduce investor appetites and squeeze the pipeline industry, now and in the future.

5G: mainstay of a digitized world

5G means faster connectivity and, eventually, improved network performance. It will enable ultra-reliable implementations of large sensor networks, automated operations, and real-time tracking across the logistics value chain to meet increasing customer demands for more transparency, greater speed, and lower cost.



Retail: the challenge of consumer expectations

Consumers are becoming not only ever-more demanding but also more channel-agnostic. Retailers' logistical challenges stem from consumers' desire to buy more online with flexible pickup/delivery options and free returns. The retailers who succeed will manage costs through technology investments, predictive analytics, and partnerships with 3PLs or other retailers.

Automotive: driving strategic change

At 3–5 percent of a vehicle's cost, inbound and outbound logistics represent a strategic lever that automakers can use to reduce cost and improve resilience. Amid falling demand, potential reshoring, and growing consumer preferences for larger vehicles, automakers are looking at restructuring distribution networks and building partnerships to secure capacity.