

Leading in structural volatility

Supply Chain Navigator | 2025 H2 briefing

Kearney Foresight
Supply Chain Institute

Photo by Kevin Peschke
Kearney, Chicago

KEARNEY

KEARNEY FORESIGHT **Supply Chain Institute**

The Supply Chain Institute, part of the Kearney Foresight network, generates strategic insights to help global business leaders integrate fragmented operational efforts and transform their supply chains. As an authority on supply chain thinking and practices, we regularly conduct comprehensive studies and competitions on critical operations topics to help our clients achieve immediate impact and lasting advantage.

Leading in structural volatility

Volatility is no longer a disruptor; it's the default setting. Over the next six months, CEOs and COOs can expect to navigate cost pressures, fractured trade flows, and rising geopolitical tensions not as outliers, but as integral to the operating environment itself.

According to Kearney's outlook, **global supply chain costs are projected to outpace inflation by up to 7 percent by Q4 2025.**

Meanwhile, risk models—both internal and algorithmic—are struggling to track the real picture. Why? Because volatility has shifted from episodic to structural. This changes the rules of strategic control.

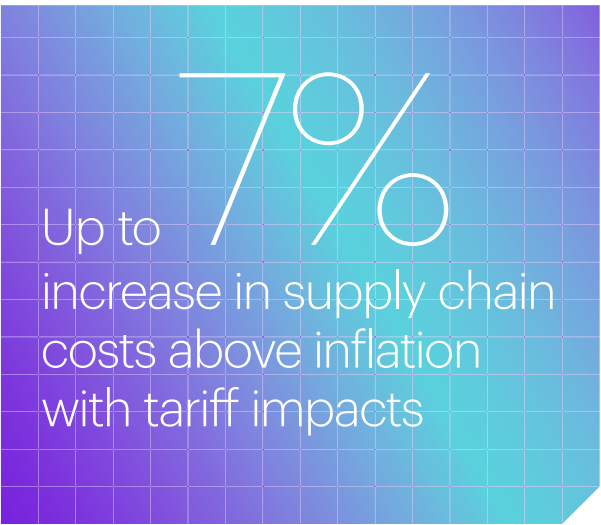
The next frontier in **supply chain leadership isn't just resilience; it's about absorption.** Success no longer depends on predicting the future with perfect clarity, but on being ready to respond to any future. That means designing operating models that treat persistent disruption as a core design input, not an exception to plan around.

**According to
Kearney's outlook,
global supply
chain costs are
projected to
outpace inflation
by up to 7 percent
by Q4 2025.**

Table of contents

Costs are rising and are more unpredictable	3
The risk landscape is reshaping	5
Three capabilities can turn volatility into control	7
Appendix: Deep-dive—fundamentals, sentiment, risk, and resilience	10

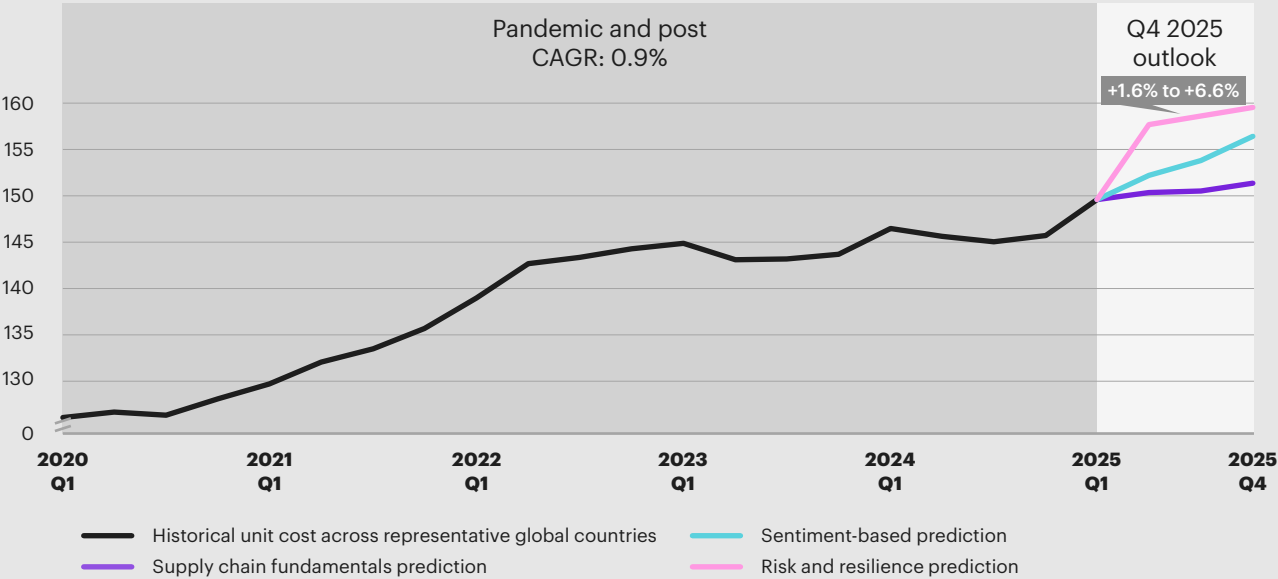
Costs are rising and are more unpredictable



Supply chain costs are projected to rise up to 7 percent compared to just 2 percent in the previous year. When looking purely at economic factors, supply chain costs are expected to rise about 2 percent above inflation. When accounting for tariffs, sentiment, and other risk-based factors, that increase could reach 4 to 7 percent above inflation. Risk and sentiment models show distinct divergence from fundamentals, suggesting disruption-led cost inflation is now a structural feature.

Figure 1
Global supply chain costs are expected to increase 4–7% above inflation by year end

Global Unit Cost Index: historical trend and outlook (incremental to inflation)



Source: Kearney Supply Chain Institute analysis, leveraging data from OECD, Oxford Economics, WTO, UN Comtrade, PMI, LMI, CapIQ, Drewry, and the World Bank, for five major trading partners (China, India, US, Germany, and Mexico).

The risk landscape is reshaping

30+

data sets and indicators analyzed

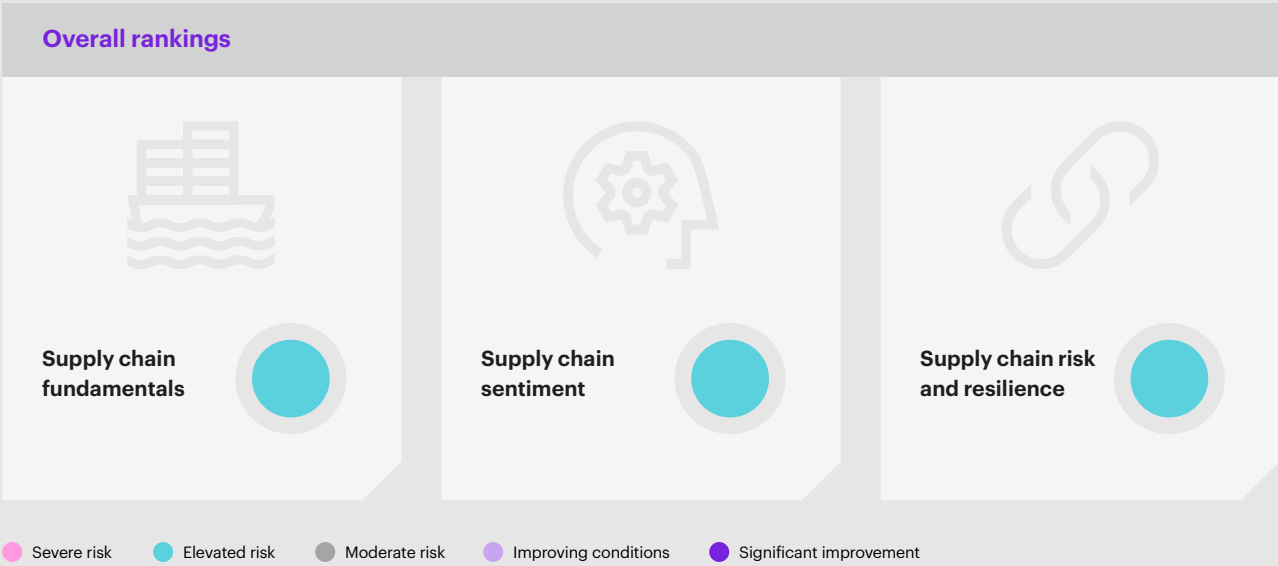
Despite a temporary easing of trade tensions and declining logistics costs, leaders are still navigating weak global demand, rising inventories, and mounting labor cost pressures, demanding tighter cost controls and proactive wage strategies to stabilize margins.

The latest supply chain sentiment indicates a period of cautious optimism amid persistent challenges, with companies actively managing costs and inventory levels to balance between current economic pressures and future growth potential.

Despite monetary easing in some regions, elevated applied tariffs and macroeconomic pressure continue to challenge cost stability.



The Supply Chain Navigator risk landscape



Where is the volatility?

Two indicators emerge as the most potent sources of volatility:

- Applied tariff rates**
With a historic one-year change of +30 percent, applied tariffs surge across major markets, signaling a tougher trade environment and pushing supply chain costs upward. Projections are conditional due to pending tariff announcements in the second half of the year.
- Economic risk**
Macroeconomic risks stay elevated, with fragile labor markets and muted demand recovery sustaining uncertainty across economies.

Where is the stability?

Stability emerges across these indicators:

- Commodity prices**
Energy, natural gas, and crude oil prices have dropped but volatility driven by geopolitical tension and demand fluctuation remains.
- Container rates**
Container shipping rates continue to decline amid tariff wars despite recent increases, driven by reduced capacity and trade uncertainty.
- Sentiment in manufacturing activity**
While manufacturing sentiment rises slightly, the pessimistic outlooks of business expectations and consumer outlook remain persistent.

Interested in a different indicator?
Refer to the appendix for a detailed breakdown of **sentiment by indicator**.

Three capabilities can turn volatility into control

In a [recent Kearney survey](#), 73 percent of COOs report having a supply chain strategy, but only half review it quarterly or plan more than a year ahead. Even fewer have addressed end-to-end transformation levers in the past year, despite the major market shifts from geopolitics to inflation. The gap between intent and action remains wide.

In a world where volatility is the norm, leaders who shift from reactive to strategic and build for disruption solve problems faster and stay focused on growth. **Here are three moves leading operations executives are making:**

“We’ve arrived at a place where resilience is the floor, not the ceiling. Supply chains that thrive won’t be those that resist disruption best, but those designed to expect it.”

Rupal Deshmukh, Partner, Kearney Supply Chain Institute

1. Build systems that plan, pivot, and perform under pressure

Volatility is no longer an occasional disruption; it is the operating environment. The most effective supply chains today are not just built to withstand shocks. They are designed to anticipate, absorb, and adapt in real time.

Leading companies like Cisco have turned scenario planning into a core capability, not a crisis response. They integrate supply chain, finance, operations, IT, and product teams into a shared decision framework. Using real-time data and digital twins, they simulate geopolitical events, demand shifts, and supply shocks, then trigger prebuilt playbooks with clear financial guardrails. Scenario teams meet regularly, not just in emergencies, to stay aligned and ready.

That same forward-looking mindset is now shaping supply network design. Most companies have already invested in resilience, but rising costs are exposing its limits. In a [recent HSBC survey](#), 51 percent of executives named cost escalation as their top supply chain concern. The next frontier is designing for agility—restructuring footprints, enabling nearshoring, and embedding the digital tools that allow networks to flex in real time.

Action: Make adaptability a supply chain design principle. Build out scenario planning as an enterprise-wide capability, and pair it with multi-node, tech-enabled networks that adjust quickly when disruption strikes.

2. Design for AI-led business reengineering, not just AI-enabled tasks

AI is no longer just accelerating decisions. It is reshaping who makes them, how they are made, and at what scale.

With [CEOs like Ford's projecting](#) that AI could replace up to 50 percent of white-collar roles, the question is not whether AI will transform supply chain decision-making, but how leaders will design for that shift.

Leading companies are moving beyond isolated use cases and asking bigger questions. What should core business processes like supply, commercial, or innovation look like in an AI-native environment? This shift from functional experimentation to enterprise reengineering is where meaningful transformation and competitive advantage take root.

Walmart, for example, is putting [AI directly in the hands](#) of 1.5 million store associates, enabling frontline decisions that once required layers of escalation.

Action: Build for AI-led operating models. Invest in system architecture, decision governance, and workforce design so that AI not only assists your team but also helps create a faster, more intelligent supply chain.

3. Compete as ecosystems, not enterprises

The era of individual optimization is over. Today's competition happens across **end-to-end ecosystems** spanning suppliers, platforms, partners, and even customers. The companies building advantage are those forming **high-trust, high-speed networks** that share data, capacity, and innovation. Strategic alliances offer a glimpse into this future. For example, the manufacturer of building materials and construction systems, Knauf, is partnering with Blue Yonder to implement an AI- and ML-driven demand planning solution. [Knauf's goal is to leverage Blue Yonder](#) to fulfill customer demand on time and in full 95 percent of the time, reinforcing its role as a reliable partner.

Action: Build connective tissue across your ecosystem, focusing on the most vulnerable and most strategic areas.

These three moves share one trait: they are proactive by design. In a world that won't slow down, control belongs to those who build for disruption from the ground up.

Conclusion

With supply chain costs projected to rise up to 7 percent above inflation by Q4 2025, the pressure to rethink operations is no longer optional. The supply chains that lead won't just resist disruption—they'll be built to absorb it, protect margins, and stay ahead of structural volatility.

Appendix: Deep-dive— fundamentals, sentiment, risk, and resilience















Supply chain fundamentals






Overall rank

 Under pressure

Fundamentals signal emerging pressures, urging strategic review.

Logistics costs and container rates decline driven by trade war uncertainty but weakened global and manufacturing GDP demand and cost control measures. Rising inventory levels hint at supply-sales volatility, while labor cost pressures from inflation and policy shifts require wage management strategies.

		Historical one-quarter change	Historical one-year change	Insights
Plan	Global GDP	 -5%	 +4%	— Global GDP growth is projected to slow to 2.3% in 2025, with a 40% probability of entering a recessionary phase due to escalating trade tensions and uncertainty.
	Global inventory levels	 +7%	 -10%	— Global inventory levels are rising in 2025, with modest growth in US sectors, driven by buildup ahead of tariffs and weak customer demand.
Source	Commodity prices	 -9%	 -11%	— Despite the overall drop in energy prices, natural gas and crude oil display significant volatility driven by geopolitical tensions and demand fluctuations.
Make	Mfg. GDP	 -11%	 +4%	— Manufacturing GDP shrank for a fourth consecutive month in June, driven by weak demand, falling orders, and US trade uncertainty.
	Mfg. labor cost index	 +3%	 +2%	— Labor costs are rising due to increased inflation, unionization, and policy changes.
Deliver	Container rates	 -13%	 -12%	— Container shipping rates dropped sharply in June amid tariff wars driven by pre-tariff demand, excess transpacific capacity, and trade uncertainty.
	Truckload rates	 0%	 -1%	— Global truckload rates show overall stabilization with regional variations influenced by nearshoring, export cycles, and seasonal surges.

 Cost/output at risk  Cost/output deteriorating  No impact  Cost/output improving  Cost/output drastically improving

Sources: Global inventory levels: Cap IQ; commodity prices: World Bank – Overall Index; manufacturing GDP: Oxford Economics – China, India, United States, Germany, Mexico; manufacturing cost index: Oxford Economics – India, Mexico, United States; container rates: Drewry World Container Index; truckload rates: United States: CASS Dry Van Truckload Linehaul Index; Germany: Dry Van Truckload Index; Mexico: US Fred Portal, China: National Statistics Portal; Kearney analysis

Supply chain sentiment

Overall rank

Continued pessimism

Supply chain sentiment reflects rising concerns across all dimensions.

While manufacturing and consumer sentiment rises slightly, the pessimistic outlooks of business expectations remain persistent, and sharp increases in inventory cost sentiment signal growing pressures. Fixed investment weakens, highlighting cost volatility and uncertainty, pushing leaders to prioritize resilience.

		Historical one-quarter change	Historical one-year change	Outlook sentiment
Consumer and business opinion	Expected business performance	0%	0%	Continued pessimism
	Consumer economic outlook	0%	0%	Slight increase expected
	Inventory cost sentiment	+7%	+7%	Increase expected
	Transportation cost sentiment	+8%	+27%	Increase expected
	Manufacturing activity sentiment	+4%	0%	Slight increase expected
Investment	Fixed investment	-4%	+2%	Slight decrease expected

Pessimistic Slight pessimism Neutral sentiment Slight optimism Optimistic

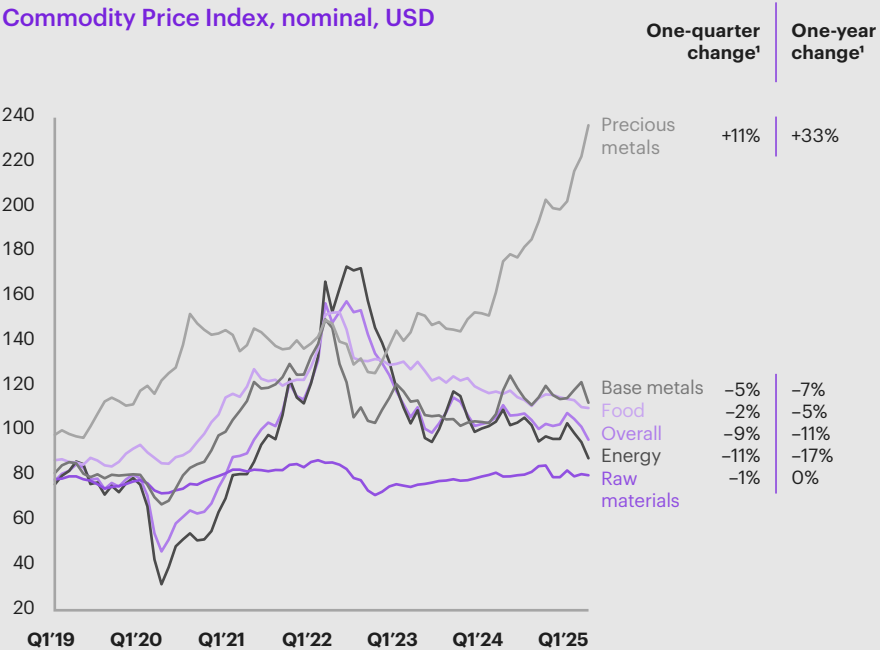
Sources: Expected business performance: OECD Business Confidence Index – Global Index; consumer economic outlook: OECD Consumer Confidence Index – Global Index; inventory costs: US Logistics Manager – United States; transportation costs: US Logistics Manager – United States; manufacturing activity: Purchasing Managers’ Index – United States, China, Germany, India; fixed investment: Oxford Economics – China, Germany, India, Mexico, United States; Kearney analysis

Source insights

Global inflation is showing signs of moderation though pressures remain uneven across categories:

- **Energy:** Oil and natural gas prices are falling due to economic slowdown from tariffs lowering consumption.
- **Precious metals:** Gold and silver prices are buoyed by central bank purchases and versatile demand but may face volatility due to geopolitical tensions.

Commodity Price Index, nominal, USD



¹ One-year change calculated as difference between current and last year. One-quarter change calculated as difference between average of respective months in a quarter.

² Timber, cotton, and rubber
Sources: World Bank commodity price data; Kearney analysis

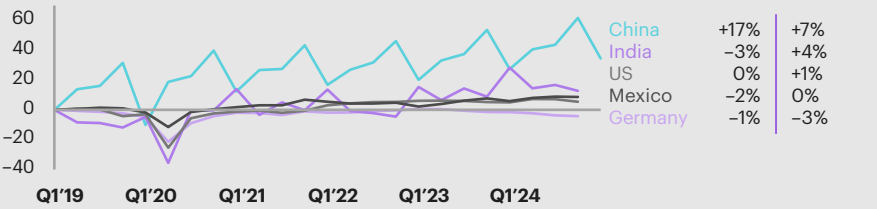
Make insights

India and China continued to lead global manufacturing GDP growth in early 2025, while the United States, Germany, and Mexico saw stagnant to contracting output.

However, **sentiment paints a more cautious picture**. PMI readings show persistent contraction in major economies despite stable GDP, driven by tariff risks, policy uncertainty, and cost pressures. India remains the most optimistic, though recent auto sector softness has tempered expectations. Overall, global sentiment lags actual performance, signaling fragility in the recovery outlook.

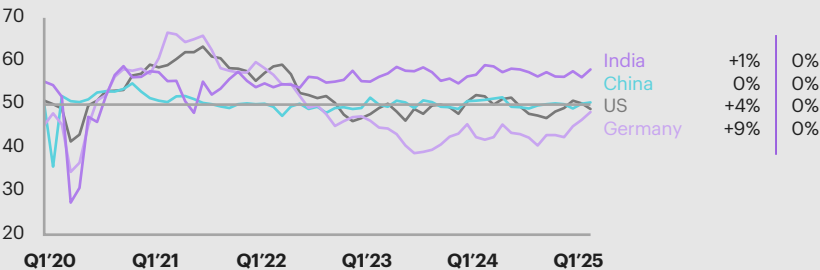
¹ One-year change calculated as difference between current and last year. One-quarter change calculated as difference between average of respective months in a quarter.
Sources: China National Bureau of Statistics, central bank (India, Mexico), Bureau of Economic Analysis, Federal Statistics Office, Purchasing Managers' Index; Kearney analysis

GDP, manufacturing, real, USD, % change anchored to Q1 2019



Manufacturing sentiment – Purchasing Managers' Index

Index > 50 = sentiment that manufacturing economic activity will increase
Index < 50 = sentiment that manufacturing economic activity will decrease



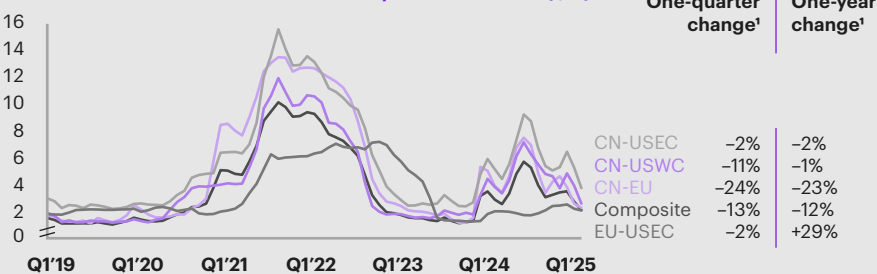
Deliver insights

Global container rates are declining across most lanes due to weaker global demand, excess shipping capacity, and easing port congestion. Trade disruptions and tariff uncertainty are also delaying shipments and softening rates.

Despite the drop, **transportation sentiment remains high**, signaling expectations of cost pressures ahead. Companies are adjusting routes and inventory strategies to manage ongoing volatility.

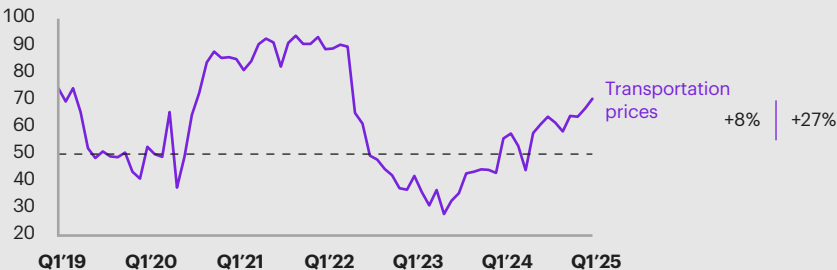
¹ One-year change calculated as difference between current and last year. One-quarter change calculated as difference between average of respective months in a quarter.
Sources: Drewry World Container Index, Logistics Managers' Index - survey of logistics managers across various industries, US only; Kearney analysis

Ocean container rates, 40-foot equivalent, USD (\$K)



Transportation sentiment – US Logistics Managers' Index

Index > 50 = sentiment that transportation costs will increase
Index < 50 = sentiment that transportation costs will decrease



Supply chain risk and resilience

Overall rank

Elevated risk

Supply chain risks are rising, driven by potentially higher tariffs, growing geopolitical friction, and persistent economic uncertainty. Despite monetary easing in some regions, elevated applied tariffs and macroeconomic pressure continue to challenge cost stability. Organizations should stay alert to shifting trade dynamics and structural risk factors shaping 2025's outlook.

Key driving unit cost predictors	Historical one-quarter change	Historical one-year change	Insights
Applied tariff rates	N/A	+30%	— Applied and potential tariffs surge across major markets, signaling a tougher trade environment and pushing supply chain costs upward.
Economic risk (EPRE)	N/A	0%	— Macroeconomic risks stay elevated, signaling persistent challenges related to energy costs, shortages, and border delays.
Geopolitical risk index	+8%	0%	— Geopolitical risks rise significantly in recent quarter, driven by multipolarity, de-risking efforts, and escalating diplomatic tensions across the major economies.
Critical minerals export ¹	-4%	-4%	— Critical mineral trade flows show slight decline amid tightened restrictions, increased tariffs, and shifting trade dependencies, reflecting broader geopolitical competition and changing domestic demand patterns.
Critical minerals import ¹	0%	0%	

Severe risk Elevated risk Moderate risk Improving conditions Significant improvement

¹ Export/import figures reflect trade between the five focus countries (China, Germany, India, Mexico, United States) and all global partners, not exclusively within the focus group.

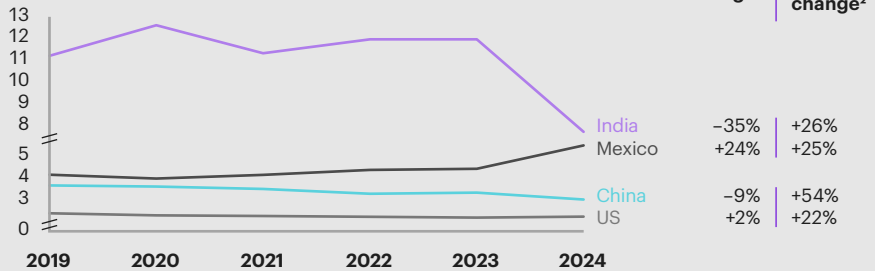
Sources: Central bank rates: Oxford Economics; unemployment rates: Oxford Economics; Geopolitical Risk Index (Average): <https://www.matteoiacoviello.com/gpr.htm>; critical minerals export and import: UN ComTrade; data taken for China, Germany, India, Mexico, United States across all global risk indicators; Kearney analysis

Risk insights

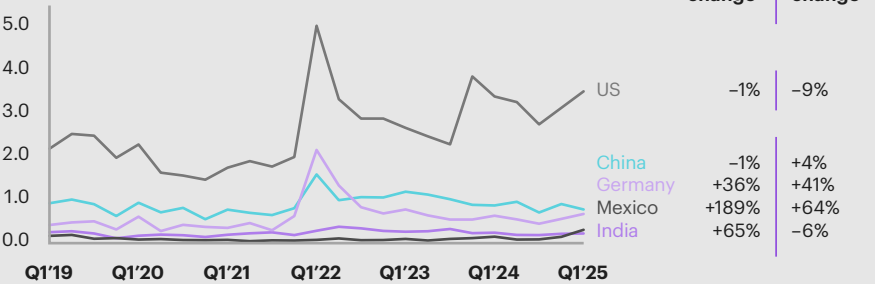
Tariff and geopolitical risks are intensifying in 2025, with projected tariff increases signaling a heavier cost burden on cross-border trade for businesses and consumers worldwide. While a recent truce between the United States and China has temporarily softened immediate geopolitical tensions, the underlying risk environment remains elevated.

These shifts are prompting companies to reevaluate sourcing strategies and resilience planning.

Applied tariff rate, MFN statutory duty



Geopolitical Risk Index (GPRC) as of April 2025



¹ One-year change calculated as difference between current and last year. One-quarter change calculated as difference between average of respective months in a quarter.

² One-year change calculated as difference between current and next forecasted year.

Sources: Oxford Economics, Federal Reserve System, <https://www.matteoiacoviello.com/gpr.html>; Kearney analysis

Authors



Rupal Deshmukh
Partner, Supply Chain and Strategic Operations
rupal.deshmukh@kearney.com



Suketu Gandhi
Global Lead, Supply Chain and Strategic Operations
suketu.gandhi@kearney.com



Gillis Jonk
VP, Strategy and M&A
gillis.jonk@kearney.com

Since 1926, Kearney has been a leading management consulting firm and trusted partner to three-quarters of the Fortune Global 500 and governments around the world. With a presence across more than 40 countries, our people make us who we are. We work impact first, tackling your toughest challenges with original thinking and a commitment to making change happen together. By your side, we deliver—value, results, impact.

kearney.com