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Supply chain quarterly update
Q2 2025



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Table of contents

- 1 Executive summary
- 2 Mixed signals in supply chain resiliency amid trade challenges
- 3 Key news events from the quarter
- 4 In the spotlight: supply chain resiliency in the wake of disruptions

1 Executive summary

The urgent need for supply chain resiliency takes center stage amid shifting geopolitical dynamics and economic challenges. Many industry leaders are increasingly wary of the economic landscape, with a substantial portion anticipating a high likelihood of a US recession due to tariff policies and ongoing supply chain challenges. However, the recent ratification of a six-year labor contract in US ports, featuring a significant 62% wage increase, reflects a positive step toward stabilizing labor relations. This development underscores the delicate balance between automation and job security, suggesting that proactive measures are being taken to enhance workforce stability in a challenging environment.

The Purchasing Managers' Index (PMI) has dipped to 48.5 in May 2025, signaling a continued contraction in the manufacturing sector. The uncertainty surrounding tariffs has prompted approximately 30% of manufacturers to increase their inventory levels, while others are considering reshoring and dual sourcing strategies to mitigate potential risks. Additionally, there was a surge in flatbed trucking rates, which rose by 4.5% year-over-year in May 2025, potentially driven by stockpiling activities amid fluctuating tariffs.

Recent discussions with COOs and supply chain leaders from Fortune 500 companies highlighted the significance of enhancing supply chain resiliency, particularly considering the recent tariffs and economic scenario. Currently, organizations are focused on establishing processes (e.g., tariff war rooms, analytics-based scenario analysis) to evaluate tariff impacts and prioritize immediate actions. However, to stay ahead, they must expand the scope and deploy analytics at scale, enabled by robust data platforms. Embracing advanced analytical techniques will enable organizations to uncover hidden patterns and trends within their supply chains, ultimately building resilient supply chains capable of thriving amid disruptions.

2 Mixed signals in supply chain resiliency amid trade challenges

On the positive front:

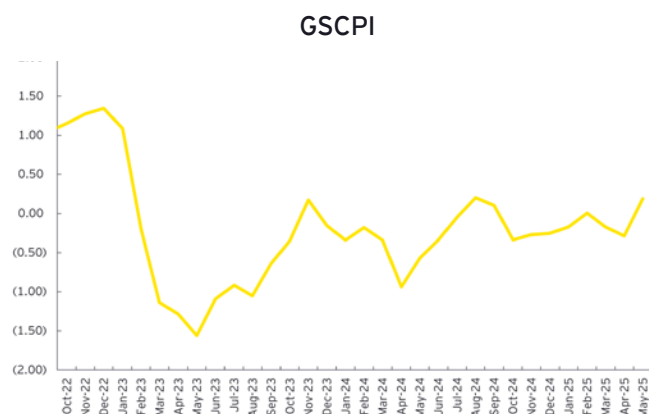
- **Blank sailing:** For the week starting June 6, 2025 sailing reliability is expected to improve, with 92% of weekly departures to proceed on time.
- **Rail network fluidity:** Terminal dwell times improved, enhancing efficiency across Class I railroads.
- **Labor productivity:** US labor productivity rose by 1.5% year-over-year in Q1 2025.

However, a few indicators suggest strain on the economy:

- **Global Supply Chain Pressure Index (GSCPI):** The GSCPI rose to 0.19 in May 2025, indicating increased stress in global supply chains

GSCPI:

An aggregate of indicators like transportation costs and PMI to assess the strain on supply chains and its correlation with inflation.



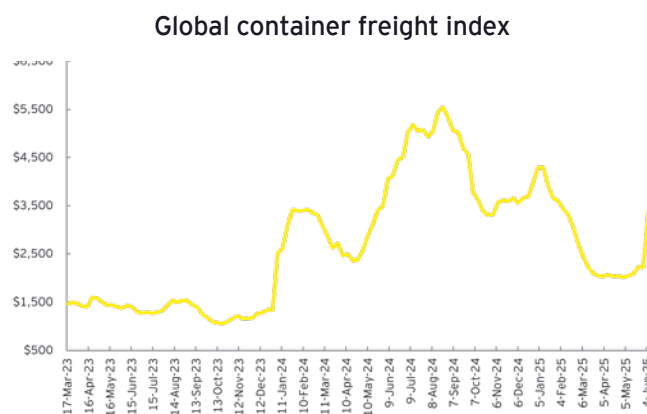
Source: "Global Supply Chain Pressure Index (GSCPI)," Federal Reserve Bank of New York, accessed April 2025.

Trend: The GSCPI rose to 0.19 in May 2025, up from -0.29 in April 2025, indicating above-average stress levels. This marks the second positive reading in 2025 and the highest level since August 2024, when the index reached 0.20.

- **PMI:** US manufacturing PMI dropped to 48.5 in May 2025, reflecting continued manufacturing contraction.
- **Freight rates:** In May 2025, flatbed rates increased by 4.5% year-over-year, while dry van and reefer rates declined.
- **Global container freight index:** In June 2025, container freight spot rates surged, driven by renewed tariff concerns on trans-Pacific routes

Global container freight index:

The global container freight index is a benchmark of the average shipping costs for containerized freight across global trade routes.



Source: "Freightos - Global Container Freight Index," Freightos Baltic Index, accessed May 2025.

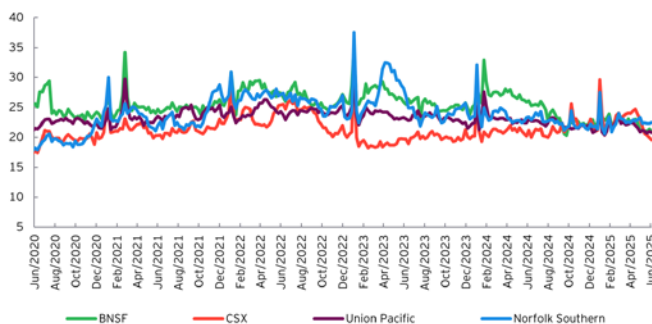
Trend: In June 2025, container freight spot rates surged, driven by renewed tariff concerns on trans-Pacific routes, general rate increases (GRIs) and vessel rerouting. This spike followed a steady decline throughout Q1 2025.



Rail network fluidity:

Average terminal dwell time indicates the duration for which a container remains at a terminal, affecting supply chain flow and transportation costs.

Average terminal dwell time: four major US carloads



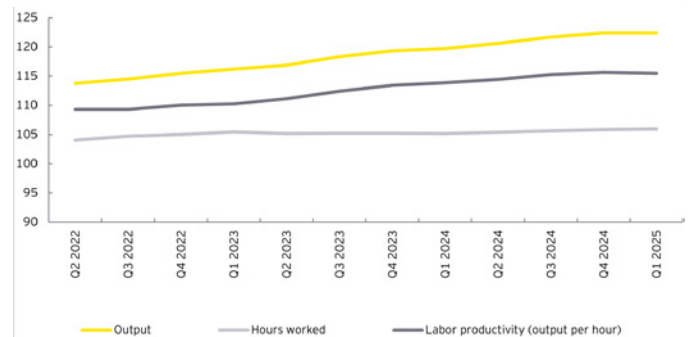
Source: "Rail service data," U.S. Surface Transportation Board, accessed April 2025.

Trend: While BNSF, CSX and Union Pacific terminal dwell times decreased, and Norfolk Southern experienced a slight increase in the terminal dwell time. The overall terminal dwell times across Class I railroads improved as service recovery continues, indicating improved fluidity and efficiency in railcar handling across major US Class I railroads.

Labor productivity:

This indicator quantifies the amount of goods and services produced per hour of labor, serving as a key metric for evaluating worker efficiency and sectoral productivity gains.

Labor productivity (output per hour)

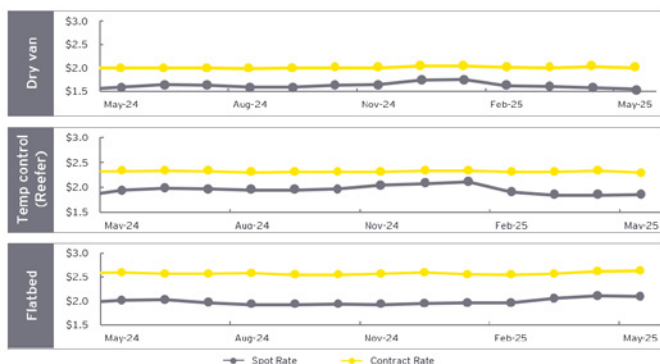


Source: "Labor productivity, by quarter," U.S. Bureau of Labor Statistics, accessed 2025.

Trend: Labor productivity in the US increased ~1.4% year-over-year in Q1 2025, indicating an upward trend, reflecting steady improvements in efficiency and output per hour work.

Freight rates

This chart represents the comparison between national average (\$/mile, ex-fuel) dry van, reefer and flatbed contract rates and spot rates over time.



Source: "FTR Transportation Intelligence," Arrive Logistics, www.arrivelogistics.com/market-insights/, accessed April 30, 2025.

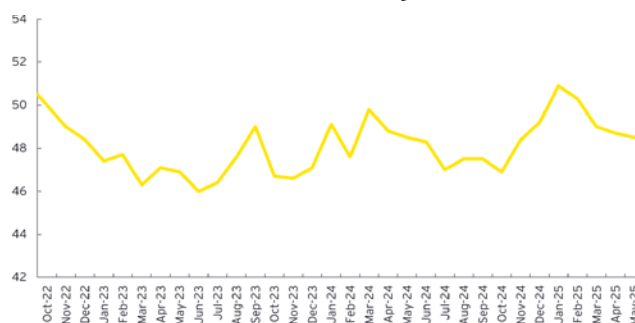
Trend: In May 2025, dry van spot linehaul rates continued to slide, settling near their seasonal floor, with a y-o-y decrease of 3.1%. Reefer rates stabilized heading into peak season. The strong early-season flatbed rate growth has leveled off and is holding steady in May 2025 with 4.5% year-over-year increase.

Read more: "Tariffs squeeze US manufacturing in April, lift input prices," [Reuters](#), "Tariff uncertainty sparks manufacturing anxiety, especially among small firms," [Manufacturing Dive](#), "US manufacturing stable, price pressures surge ahead of tariffs storm," [Reuters](#), "Insights from ISM's 2025 Business Outlook survey," Institute for Supply Management.

PMI:

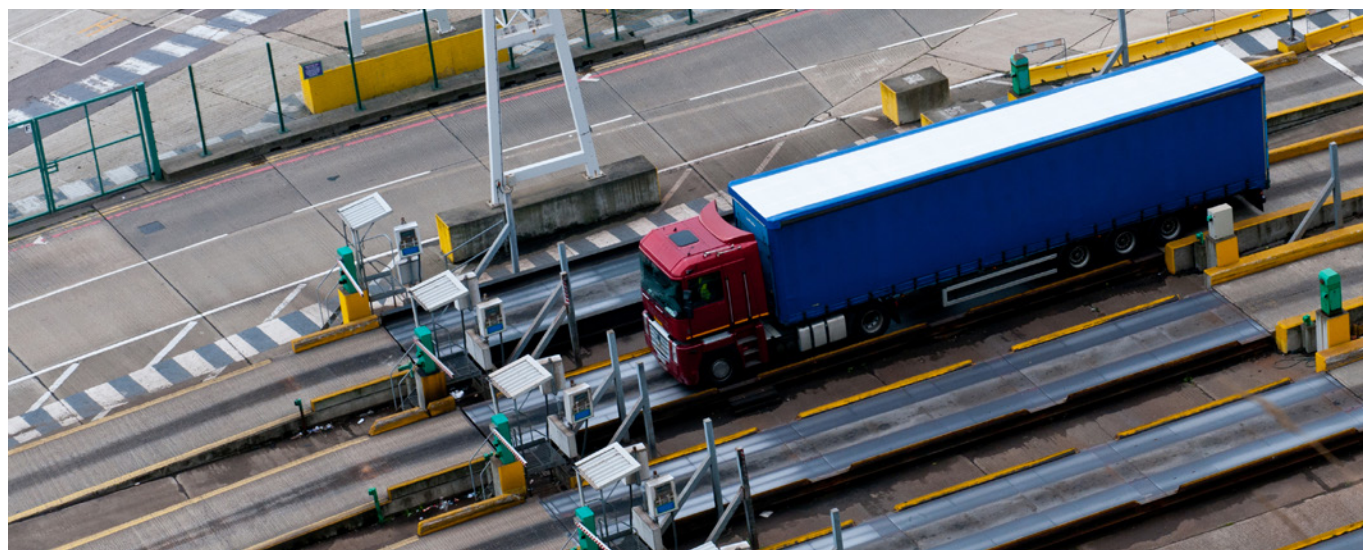
Manufacturing PMI gauges the health of the manufacturing sector based on new orders, inventory levels, production, supplier deliveries and employment environment.

US manufacturing PMI



Source: "US ISM Manufacturing PMI," Trading Economics, <https://tradingeconomics.com/united-states/business-confidence>, accessed April 2025.

Trend: The US manufacturing sector showed brief signs of revival in early 2025 with the ISM Manufacturing PMI rising to 50.9 in January 2025, but this recovery proved short-lived as the index fell back below the critical 50-point threshold to 49 in March 2025, 48.7 in April 2025 and 48.5 in May 2025.



3 Key news events from the quarter



Ratification of the new labor contract will create a more stable environment in US ports

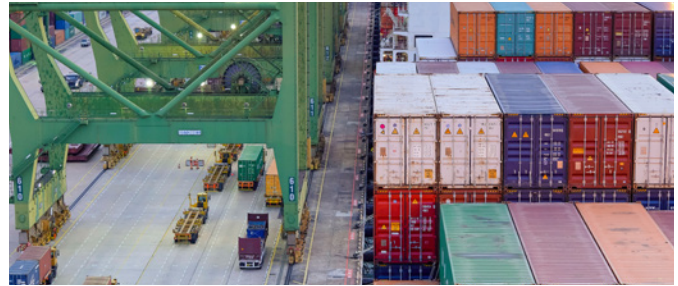
What is happening? The International Longshoremen's Association (ILA) and the United States Maritime Alliance (USMX) have successfully ratified a new six-year labor contract valid until September 30, 2030. This agreement, overwhelmingly supported by ILA members (99% approval), includes a substantial 62% wage increase and enhanced benefits, positioning dockworkers among the highest-paid blue-collar workers in the US.

The contract addresses critical issues such as job security amid rising automation, mandating that USMX consult with ILA before implementing new technologies. This resolution followed a significant three-day strike in October 2024, which disrupted operations across major ports and highlighted the vulnerabilities within the supply chain, particularly affecting agricultural and automotive sectors.

What could be the potential impact and organizational response? The ratification of this contract is poised to create a more stable labor environment, which is crucial for the smooth operation of ports that handle approximately 70% of US exports and over 56% of containerized imports. This cautious approach to automation may encourage organizations to explore innovative technologies that enhance efficiency without fully displacing the workforce. Additionally, the significant wage increase may prompt employers to reevaluate their operational costs and pricing strategies.

As the maritime industry evolves, ongoing dialogues between labor unions and management will be essential to balance technological efficiency with worker protections, ensuring sustainable growth in the sector.

Read more: "ILA, USMX sign 6-year labor contract," [Supply Chain Dive](#), "US East and Gulf Coast dockworkers ratify new six-year contract," [Reuters](#), "ILA members overwhelmingly approve new contract covering East, Gulf coast ports," [Freight Waves](#), "East Coast/Gulf Ports Employers, Union Dockworkers Sign Contract," [CalChamber](#).



US manufacturing contracts amid tariff uncertainty

What is happening? US manufacturing contracted further in May dropping to a five-month low of 48.5 from 48.7 in April, likely with businesses favoring a wait-and-see approach vis-à-vis trade policies (read the article by EY-Parthenon Chief Economist, Gregory Daco). [Link](#).

The uncertainty surrounding tariff policies has resulted in manufacturers front-loading imports to mitigate tariff impacts. As per the survey conducted by the Institute for Supply Management (ISM), 30% of manufacturers are intentionally holding higher inventory than usual, while 38% of respondents have been increasing their safety stock amid evolving tariff policies.

What could be the potential impact and organizational response? If the earlier announced tariffs continue, then the manufacturers dependent on imported intermediate goods, especially those from China, may face cost surges and supply chain disruptions. Although there is a 90-day pause and both US and China have temporarily reduced their tariffs, organizations are still evaluating the need to shift toward more resilient and diversified supply chains. As a strategic response, businesses are signaling an interest in reshoring manufacturing activity domestically or relocating to less affected countries, as well as adopting dual-sourcing models to mitigate geopolitical risk and tariff challenges.

However, sudden domestic reshoring will strain current labor markets and infrastructure, requiring investment in automation, digital capabilities and workforce development. To mitigate these risks, business would have to prioritize scenario planning, flexible procurement strategies and close coordination between operations and policy teams.

Read more: "Tariffs, seasonal demand drive flatbed trucking rate increases," [Supply Chain Dive](#), "Tariffs create frenzy in cross-border trucking," [Supply Chain Dive](#),



Increased flatbed rates from seasonal demand and tariff fluctuations prompt companies to reevaluate logistics strategies

What is happening? Recent developments in the cross-border trucking sector have been significantly influenced by tariff fluctuations and seasonal demand. In March 2025, the White House announced a temporary suspension of tariffs on imports compliant with the United States-Mexico-Canada Agreement (USMCA), leading to increased shipment volumes as shippers rushed to capitalize on the pause. However, this surge has resulted in longer wait times at border crossings, creating logistical challenges for trucking companies. Additionally, flatbed trucking rates have reached their highest levels since January 2023, with year-over-year flatbed spot rates increasing 8.1% from \$1.97 in April 2024 to \$2.15 in April 2025, driven by stockpiling activities from steel and lumber shippers amid tariff uncertainties. This combination of factors has created a complex landscape for the trucking

industry, necessitating strategic adjustments from all stakeholders involved. **What could be the potential impact and organizational response?** The ongoing tariff situation and rising flatbed rates are likely to have profound implications for supply chain operations. Companies may need to reevaluate their logistics strategies, focusing on compliance with USMCA to avoid potential tariff costs. The increase in trucking rates, coupled with reduced carrier availability, could lead to higher transportation costs, prompting organizations to consider alternative sourcing strategies or inventory management practices. Additionally, maintaining open communication with customers will be crucial to manage expectations during these unpredictable times. As the industry adapts to these challenges, organizations must prioritize flexibility and responsiveness to navigate the evolving landscape effectively.

Read more: "Tariffs, seasonal demand drive flatbed trucking rate increases," [Supply Chain Dive](#), "Tariffs create frenzy in cross-border trucking," [Supply Chain Dive](#),

4 In spotlight: supply chain resiliency in the wake of disruptions

During recent discussions with chief operating officers (COOs) and supply chain leaders from Fortune 500 companies at various forums, including roundtables and dinners, a prevailing theme has emerged: the urgent need for supply chain resiliency. Many operations and supply chain leaders believe there is a high chance of a recession in the US this year, driven by recent geopolitical events, including trade-tariff-related developments.

However, it is crucial to understand that the need for supply chain resiliency goes beyond the immediate effects of tariffs. One must take a step back and consider broader dimensions that contribute to supply chain vulnerabilities, such as:

- 1. Geopolitical dynamics:** Tariffs are merely one facet of a larger geopolitical landscape that influences global trade. The interplay of international relations, trade agreements and regulatory changes can create a complex environment for supply chain operations. Only a handful of companies map their suppliers beyond Tier 1. Today, over 75% of global supply chains have experienced disruption due to trade wars, sanctions or regional conflicts.
- 2. Weather-related disruptions:** Climate change poses a significant threat to supply chains, and extreme weather events can disrupt logistics, damage infrastructure and impact production capabilities. Climate disruption to global supply chains could lead to \$25 trillion¹ in net losses by 2050. In the last decade alone, the number of billion-dollar weather disasters globally has more than tripled. In 2023, the US alone experienced \$28 billion in weather and climate disasters.²
- 3. Health-related disruptions:** Until 2020, pandemics were considered black swan events. But in just the past 15 years, the world has witnessed H1N1, Ebola, Zika and COVID-19 – each successively more disruptive. Public health risks have moved from the periphery to the core of supply chain planning.
- 4. Economic risks:** Since the 1990s, the average lifespan of products across industries has dropped significantly – with some sectors, like consumer electronics and fast fashion, seeing cycles as short as six to 12 months. This relentless compression of economic lifecycles is forcing supply chains to operate at breakneck speed, with agility

now a survival skill, not a competitive advantage.

With regards to tariffs, it is crucial to adopt a comprehensive approach to supply chain strategy. Organizations can implement a 3+1-pronged strategy, dividing their efforts into three horizons:

■ Horizon 1: tariff reengineering

This involves exploring foreign trade zones (FTZs) and enhancing customs and tariff management. By understanding and navigating tariff implications, organizations can mitigate their impact on operations.

■ Horizon 2: supply cost visibility and mitigation

Achieving supply chain visibility and implementing effective cost mitigation strategies, including contract management, can help organizations manage direct increases to their costs and more effectively validate supplier price increase requests.

■ Horizon 3: reimagining supply chain networks

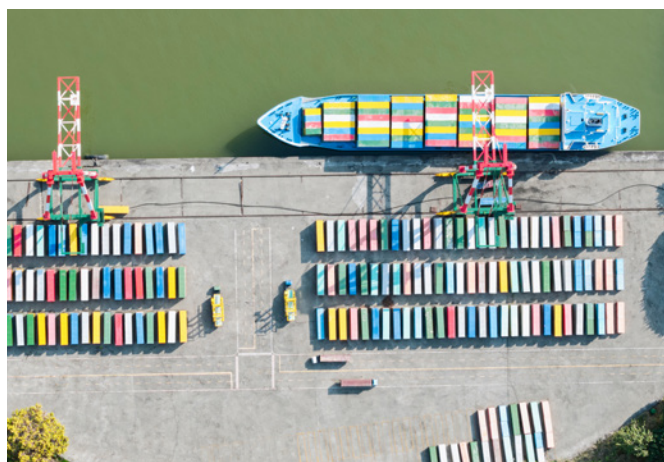
This horizon focuses on global network realignment, including domestic capacity expansion, supplier diversification, joint ventures and local partnerships. Strategic portfolio measures, such as evaluating make vs. buy decisions and pursuing asset-light strategies, are also critical.

■ Commercial strategy:

Organizations should promote products that are unaffected by tariffs, invest in offerings less susceptible to trade fluctuations and explore new markets while selectively exiting unsustainable ones.

Sources:

1. "Global supply chains amplify economic costs of future extreme heat risk," [Nature](#),
2. "U.S. billion-dollar weather disasters set an all-time record in 2023," [Yale Climate Connection](#).



Refer to exhibit below:

Operations and supply chain led approach			
1. Tariff re-engineering	2. Supplier diversification	3. Reimagining the supply chain network	4. Commercial strategy
<ul style="list-style-type: none"> ■ Customs and tariff management ■ Exploration of FTZs 	<ul style="list-style-type: none"> ■ Supply chain cost visibility and margin impact assessment ■ Supplier price validation (e.g., spend analytics, BOM, contacts) ■ Cost mitigation (e.g., contract., logistics, capacity, collaboration) 	<ul style="list-style-type: none"> ■ Global network realignment (e.g., domestic capacity) ■ Supplier diversification ■ Joint ventures and local partnerships ■ Strategic portfolio measures (e.g., make vs. buy, asset-light, exits) 	<ul style="list-style-type: none"> ■ Promoting products that are unaffected by tariffs ■ Invest in products less susceptible to trade fluctuations ■ Expand into new markets ■ Selectively exit unsustainable markets

As organizations strive to navigate the complexities of modern supply chains, it is essential to focus on developing robust data capabilities that support informed decision-making. As highlighted above, analytics and AI-based simulations can provide valuable insights by:

- 1. Graph-based similarity analysis:** This can help pinpoint viable alternative suppliers and facilitate strategic resource reallocation.
- 2. Scenario analysis:** Organizations can identify supply chain reroutes and estimate real-time margin impacts, along with cost pass-through options.
- 3. Bayesian networks:** These can capture probable relationships among tariffs, supplier costs and logistics times, enabling data-driven decision-making.
- 4. Agent-based modeling:** This approach simulates the behavior of individual agents, allowing organizations to evaluate the impact of tariff changes on suppliers, manufacturers and distributors.

Organizations are today implementing internal processes (e.g., establishing tariff war rooms) to assess the impact of tariffs and evaluate and prioritize near-term actions. By connecting bills of material with spend data, companies are gaining deeper insights into cost structures and the level of granularity crucial for data-driven decisions that can significantly impact the bottom line.

To stay ahead, companies must expand the scope and deploy analytics at scale enabled by robust data platforms. Embracing advanced analytical techniques, such as predictive modeling and machine learning, will enable organizations to uncover hidden patterns and trends within their supply chains. This proactive approach will help address potential disruptions and optimize supply chain strategies.





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