

Straws in the wind

Supply chain quarterly update
Q1 2025



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Welcome to the next issue of “Straws in the wind” – our supply chain quarterly update. Here, we’ll bring you the latest themes and news from the past quarter, keeping you informed on the evolving supply chain landscape.

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1 Executive summary

The supply chain landscape has demonstrated resilience and adaptability in the face of ongoing challenges, as evidenced by Global Supply Chain Pressure Index (January level: -0.31%, followed by -0.07% in February 2025), which is significantly lower compared to peak observed in 2021-22, suggesting a continued easing or stabilization of supply chain pressures. This trend combined with the US Manufacturing Purchasing Managers Index (PMI) entering the expansion phase in the month of January (with the reading of 50.9 in January, followed by 50.3 in February) provides a cautiously optimistic outlook for the supply chain sector.

Other strategic developments in this space in the past quarter included a notable 9% increase in third-party logistics (3PLs) warehouse leasing activities, signaling a shift toward a more adaptable inventory management approach by companies to navigate labor disruptions, extreme weather and geopolitical uncertainties effectively. Meanwhile, the trucking industry has shown signs of resurgence, with spot trucking rates indicating a potential recovery from a two-year freight recession. This uptick, along with forecasted increases in both spot and contract rates, points toward a tightening market that may influence shipping costs and carrier contract strategies in the near future.

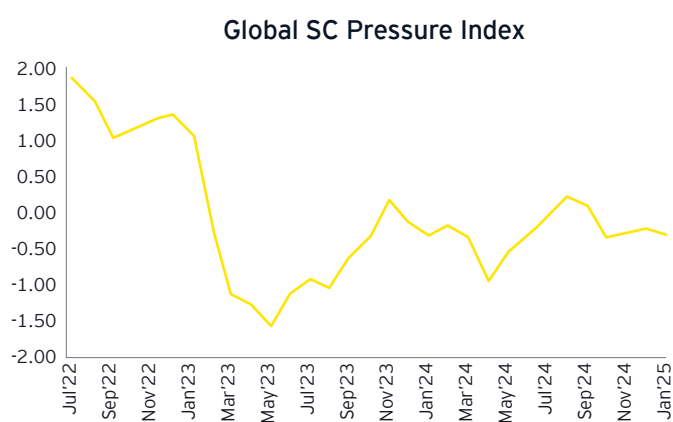
On the policy front, the developments related to proposed trade tariffs by the US government necessitate strategic shifts in sourcing and production network. Organizations are proactively adjusting to these changes, aiming to mitigate any potential impact on supply chains and maintain operational efficiency.

2 Chapter 1: Key supply chain macro indicators

These indicators influence the supply chain landscape, providing insights into trade health and aiding in optimizing operational efficiency.

Global supply chain pressure index

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

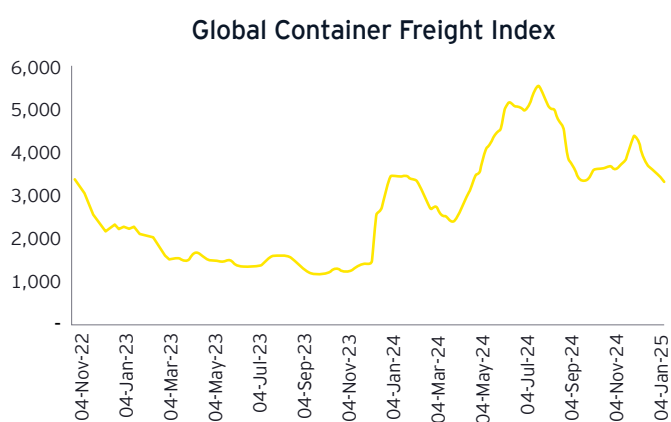


Source: Federal Reserve Bank of New York: January 2024

Trend: The GSCPI's marginal decrease to -0.31 in January 2025 from -0.22 in December 2024 very subtly underscores ongoing improvements in supply chain landscape.

Global container freight index

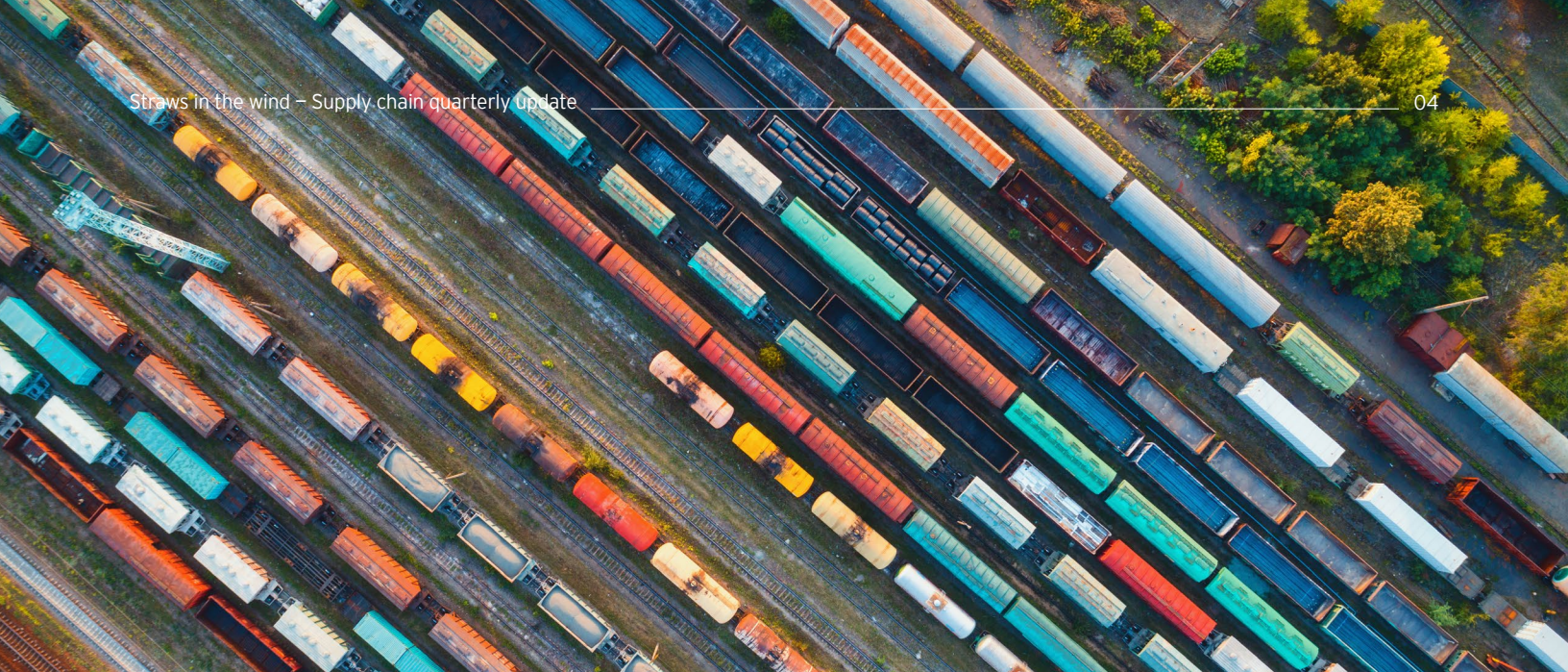
The Global Container Freight Index is a benchmark of the average shipping costs for containerized freight across global trade routes.



Source: "Drewry - World Container Index", Drewry website, January 2024

Trend: Transpacific freight rates have reported a decline in February 2025 after a steady increase until early January that was triggered by the looming possibility of ILA strikes in January 2025. Although, this trend is expected to rebound in anticipation of the new US administration's anticipated tariff hikes.

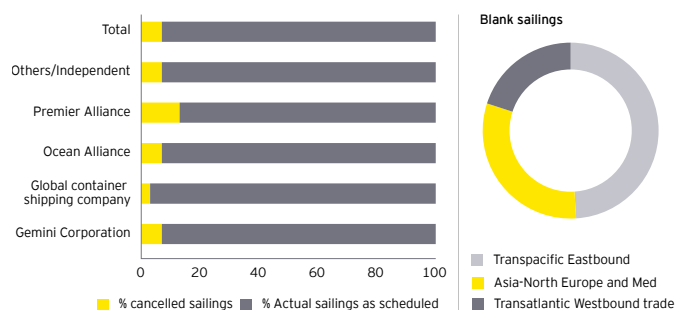




Blank sailing

Blank sailings, or canceled voyages, are used as real-time indicators of international trade health, affecting shipping space, container availability and freight costs.

% canceled vs. % scheduled sailings by alliance (week 08 to 12)



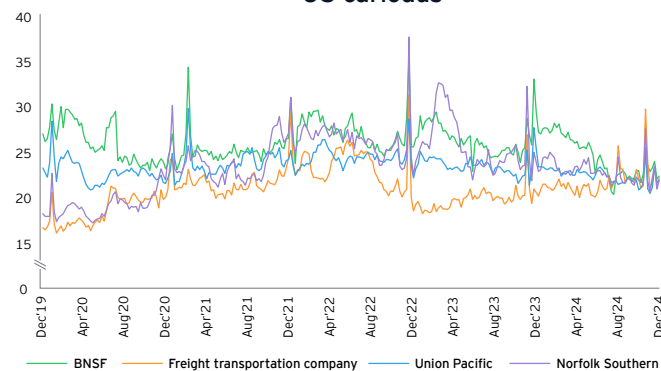
Source: "Cancelled Sailings Tracker – 3," January 2025

Trend: A forecasted 12% decline in blank sailings from January 25 to February 25 suggests increased capacity and space, potentially leading to lower rates on unaffected routes.

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

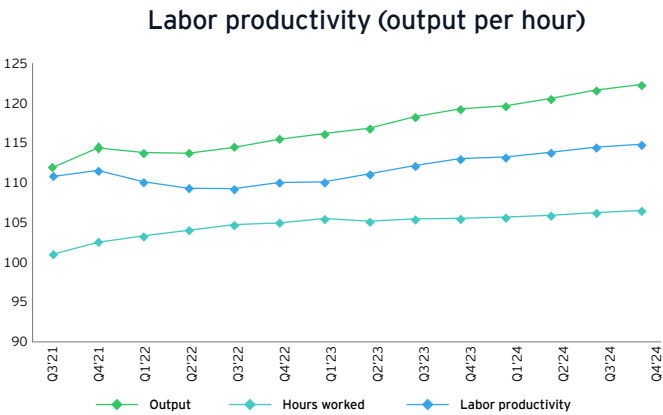


Source: "West Coast ports say ready to handle peak season bump after front-loading surge," December 2024

Trend: As compared to January 2024, a year-over-year 5% decrease was witnessed in the dwell time in January 2025, indicating potential improvements in inefficiencies or congestion in the rail network.

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.

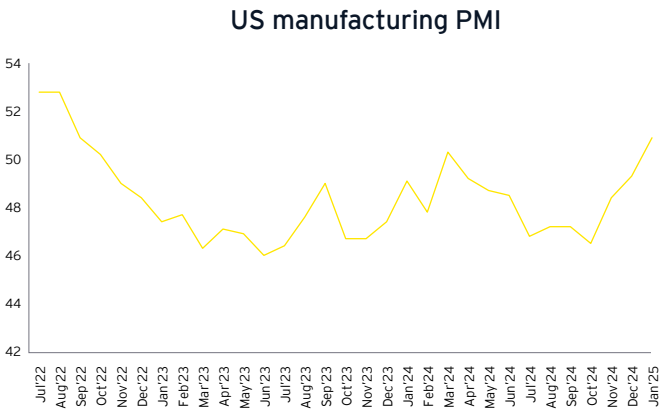


Source: <https://www.eia.gov/petroleum/gasdiesel/> "U.S. Bureau of Labor Statistics," *ThirdQuarter 2024*

Trend: Labor productivity in the US increased 1.6% YoY in Q4'2024, indicating an upward trend, reflecting steady improvements in efficiency and output per hour work.

Purchasing managers' index

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



Source: "Institute for Supply Management," January 2025

Trend: In January 2025, the US PMI continued to report improvement, to reach the expansions stage with a PMI score of 50.9.



3 Chapter 2: Key news events from the quarter

Potential trade tariffs from the new US administration may escalate trade tensions and impact supply chains, prompting organizations to adjust sourcing and production strategies.



3PLs expanding warehouse leasing and transforming supply chains

What is happening? In the current market, third-party logistics providers (3PLs) are expanding their warehouse leasing activities in response to the increasing demand from retailers for more adaptable inventory management solutions. By the Q3 of 2024, 3PLs witnessed a 9% rise in warehouse leasing from the previous year. The strategic positioning of 3PLs in key locations (e.g., California's Inland Empire and Pennsylvania's I-78/81 corridor) has made them particularly more attractive to companies aiming to strengthen their supply chains in the face of labor issues, extreme weather and geopolitical tensions.

What could be the potential impact and organizational response? The shift toward 3PLs managing warehousing is reshaping the supply chain landscape, driven by the need for companies to adapt to labor disruptions, extreme weather patterns and geopolitical uncertainty. These factors have led many companies to diversify their import locations, enhancing inventory flexibility and resilience.

By November 2024, 3PLs accounted for 41% of bulk leasing activity in seaport markets, reflecting their growing influence. The adoption of 3PL warehousing allows companies to transition supply chain costs from capital to operational expenses, thereby increasing capital flexibility. Additionally, it enables companies to concentrate on core business competencies that drive revenue, rather than logistics complexities. This trend has not only fostered a more robust supply chain but has also propelled 3PLs to a dominant market share of 34.1% by the third quarter of 2024. This signals a significant power shift, positioning 3PLs as key players in guiding companies through uncertainties and revamping supply chain strategies toward specialized logistics partnerships.

Read more: "3PLs ramp up leasing activity as outsourcing interest grows," Supply Chain Dive, November 2024; "3PLs claim growing share of large industrial leases," The SC Xchange, November 2024; "Three Trends Driving Resurgent 3PL Industrial Demand This Year," CBRE, November 2024.



Trucking rates surge amid market changes and economic pressures

What is happening? In January 2025, spot trucking rates reported an increase (NTIL rose to \$1.92/mile in January as compared to \$1.67/mile in October 2024), thereby narrowing the gap with contract rates. It's forecasted that spot rates are projected to increase between 7% and 19% in 2025 compared to their 2024 averages, while contract rates might increase by 3.5%. This uptick is viewed as a potential indicator of recovery from a two-year freight recession. The rate trends suggest a positive shift for carriers, with market dynamics undergoing fundamental changes.

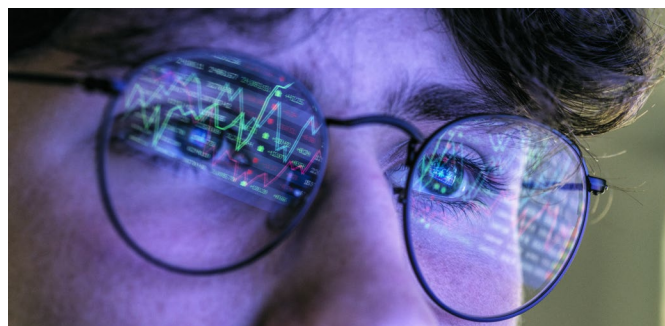
What could be the potential impact and organizational response? A rise in both spot and contract trucking rates suggests a tightening market that could lead to increased shipping costs. Future hikes will depend on economic conditions and capacity attrition where companies may revise carrier contracts to account for inflation and geopolitical concerns. Organizations are vigilantly tracking these developments to adapt their strategies in anticipation of the 2025 bid season.¹



Proposed trade tariffs necessitate measures to ensure supply chain stability

What is happening? US President Donald Trump announced 25% trade tariffs on Canada and Mexico and additional 20% tariff on China. Earlier this year, Canada had announced 25% levies on number of US imports, while Mexico announced its plan to impose retaliatory tariffs. However, the US agreed to pause tariffs on both Mexico and Canada for 30 days as both the countries agreed to enhance border enforcement efforts, in response to US government's demand to crack down on immigration and drug smuggling.

What could be the potential impact and organizational response? Companies in the industrial manufacturing and agriculture sectors are expected to experience the most impact, followed by technology and health care sectors. To address this, organizations are proactively adjusting their supply chain strategy and redesigning networks. While some are reducing their reliance on sourcing from China, others are looking to optimize their production footprint. For more in-depth insight, [read more](#).



US economic outlook, February 2025

The US economy carried solid momentum at the start of the year, but increased uncertainty surrounding trade, fiscal and regulatory policy is casting a shadow over the outlook. President Trump's recent tariff announcements confirm the administration's intent to rapidly adopt a more protectionist stance. The 25% tariffs on imports from Mexico and Canada have been temporarily suspended, but an incremental 10% tariff on China has been implemented, and 25% steel and aluminum tariffs are due to be implemented in early March while reciprocal tariffs are under discussion. Beyond the inflationary impulse and negative growth impacts from higher tariffs, heightened policy uncertainty could lead to financial market volatility as well as businesses and consumers increasingly adopting a wait-and-see approach.

Read more: "US Economic Outlook: Shadow of a doubt" EY Parthenon, February 2025

4 Chapter 3: Potential trade tariffs may reshape supply chain dynamics

Businesses are focusing on network redesign, inventory buildup and strategic sourcing to adapt to shifting supply chain dynamics

How network redesigning, building up inventory and strategic sourcing are of vital importance against the backdrop of potential trade tariffs and global supply chain fluctuations and shifts.

Network redesigning is pivotal in harmonizing global supply dynamics, ensuring robustness and securing a competitive edge through streamlined logistics and adaptive distribution strategies. Similarly, building up inventory and strategic sourcing are crucial for short-term and long-term plans to mitigate the impact of tariffs and ensure preparedness for future trade disruptions.

How is the current landscape evolving?

Network re-designing

In an environment where trade tariffs may make markets unpredictable, it is more important for businesses to reassess their distribution networks. Moreover, companies need to focus on re-adjusting their supply chain architectures, taking into account inventory levels, manufacturing capabilities and prevailing cost structures, along with ensuring collaboration among cross-functional teams.

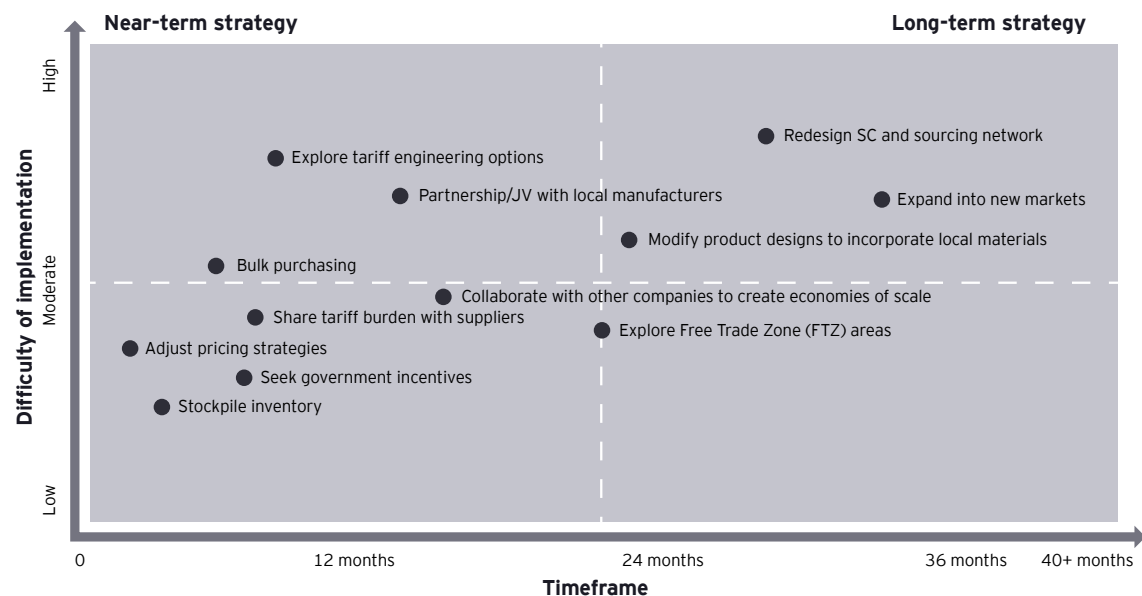
Building up inventory

To face potential tariff-related challenges, some organizations are looking to proactively increase their inventory as a short-term strategic measure to avoid the immediate impact of tariffs, coupled with potential renegotiating with suppliers to share the tariff burden.

Strategic sourcing shift

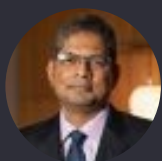
Strategically diversifying suppliers, especially for critical raw material and components, is another lever being adopted by companies to reduce their dependence on any single country or region, thereby ensuring supply continuity in the event of such disruptions.

Select measures to manage tariff in the short and long term



US apparel manufacturer addressing tariff concerns with sourcing innovation

Two major US apparel firms are adjusting their sourcing strategies in response to possible tariff challenges from the new US administration. These companies are proactively decreasing their reliance on China for materials and goods, preparing for tariff hikes by diversifying their import sources. They aim to reduce imports from China by 40%-45% within the next year.



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