Q1-2023
Quarterly Index Report

SUPPLY CHAIN STABILITY INDEX

ascm

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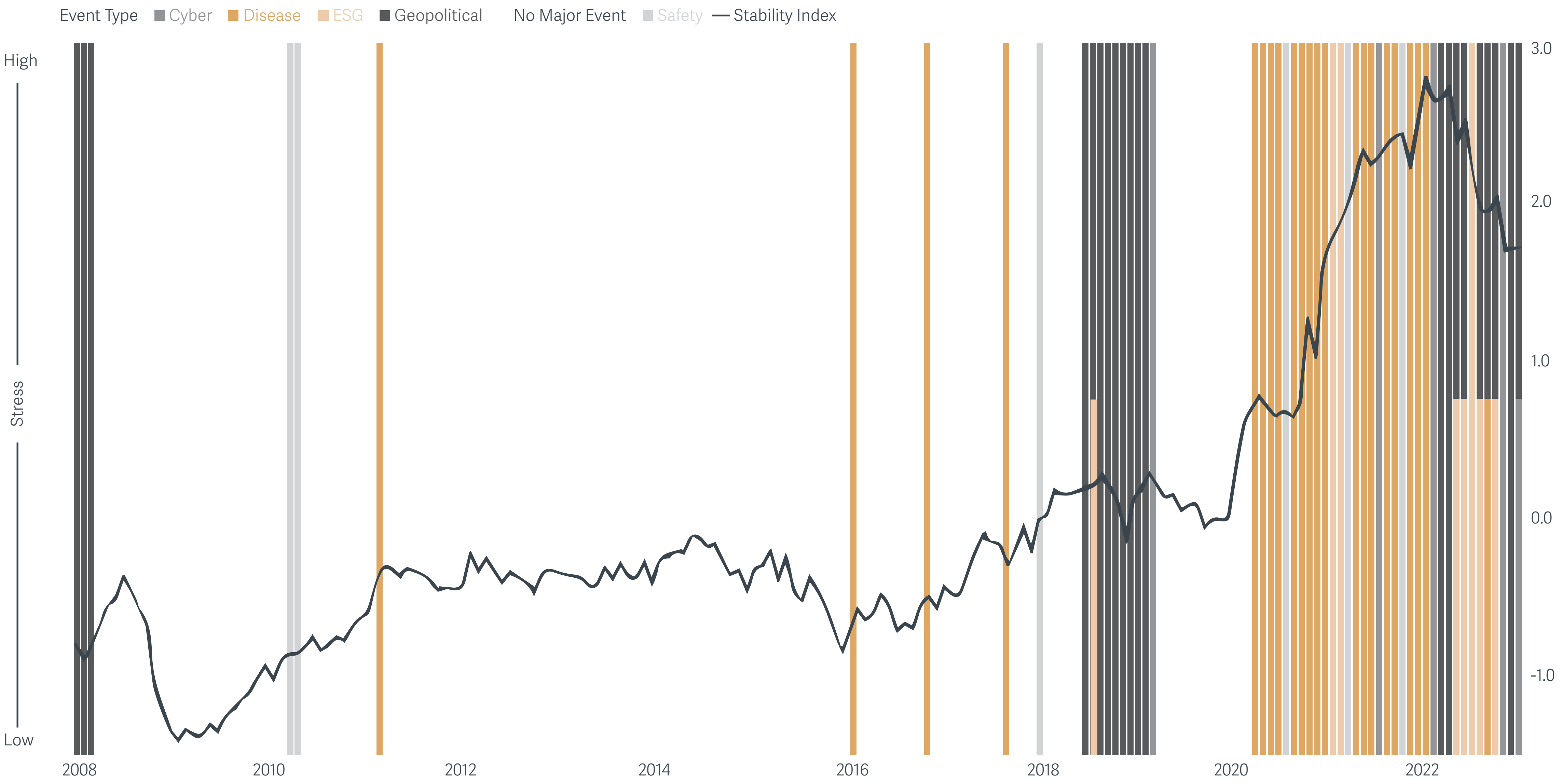
ABOUT THE INDEX

The KPMG Supply Chain Stability Index, in association with the Association for Supply Chain Management (ASCM), is designed to help supply chain professionals understand the stability of supply chain operations in the U.S. It also serves as a helpful barometer for the greater global supply chain community.

Summary

The overall market continues to resolve toward a prepandemic norm. However, there are some noteworthy differences — in particular, reshoring and nearshoring effects on ocean and air freight. Concurrently, transportation labor needs are shifting from seaports to land ports as U.S. supply chains reduce reliance on China in favor of regional trade partners.

While job opening rates are down, inflation is gradually pushing unemployment upwards and recent government acts could ultimately boost domestic manufacturing jobs. In the meantime, manufacturers and retailers are working to balance inventory with demand while striving for more viable margins, risk-avoidance, and sustainable resilience.


Event Type
Cyber
Disease
ESG
Geopolitical
No Major Event
Safety
Stability Index
High
Stress
Low
3.0
2.0
1.0
0.0
-1.0
2008
2010
2012
2014
2016
2018
2020
2022

INSIGHTS

Three primary factors are contributing to supply chain variability and challenging industry professionals. Addressing each relies on the critical competencies of best-in-class supply chain, superior risk mitigation, and network strategy to ensure the right balance between customer service and affordable inventory levels.

Sourcing

As many supply chain organizations seek to boost resilience by diversifying their networks, reliance on China has dropped; Mexico and Canada are maximizing this opportunity.

Labor

The transportation and distribution sectors are experiencing a significant shift, as more employees are required at land ports and for road transfers, rather than at seaports and for intermodal transfers.

Inventory

Inventory levels continue to rise, as manufacturers who relied on just-in-case inventory management practices are revisiting just-in-time strategies to find a better balance between service level and risk.

MARKET APPLICATION: SOURCING

Significantly less international freight reflects changes in demand and supply chain globalization.

Supply chains shift away from Asia

Companies are diversifying their supply networks to combat geopolitical and other disruptive ramifications. On average, ocean freight prices in the Stability Index decreased by 10% during the period. And with the resurgence of the China Plus One strategy, the U.S. continues to reduce its reliance on China. Inbound container freight from Asia dropped 27% in the quarter, while inbound air freight from Asia dropped 50%.[1]

Mexico and Canada benefit from increased U.S. demand

One of the biggest recipients of the China Plus One strategy is Mexico, particularly for U.S. domestic demand. Mexico overtook China by 15% in U.S. import volume during the first quarter of 2023 while Canada overtook it by 5%. This shift of trade volume to U.S. neighboring countries is the first occurrence in over 20 years. The import volume gap between U.S. and Mexico and U.S. and China shrank to 32% during the first three years of the U.S. trade war with China and to 8% during the first year of Russia's invasion of Ukraine.[2]

Overall U.S. outbound freight and domestic transportation drop

Outbound ocean and air freights from the U.S. also decreased, but to a lesser degree. Outbound ocean shipments to Europe and Asia dropped 26% and 6%, respectively.[3] Outbound air freight to Europe grew 5%, but air freight to Asia dropped 15%.[4]

General ground transportation rates experienced similar effects, with truckload rates decreasing 13% and intermodal rates decreasing 12%.[5]

MARKET APPLICATION: LABOR

Although the labor market is showing an overall positive trend, some industries still are in dire need of supply chain talent. Plus, the movement of reshoring activities, driven by geopolitical concerns and government mandates, may contribute to the stress.

Logistics and distribution talent market remains volatile

Transportation and distribution job openings remain relatively volatile, with large and frequent swings throughout the past three quarters that are double the magnitude and frequency of those that occurred prepandemic. Most recently, the unemployment rate in this sector bottomed out at 3.7% in October 2022 and has slowly increased since then to 5%.[6]

There is also a noteworthy change in where transportation and distribution employees are needed. A shift in volumes from intermodal transfers at large seaports to road transfers at land ports at border crossings means networks will likely need more truck drivers and fewer incoming customs and port laborers.

Manufacturing labor market is loosening

The manufacturing labor market has continued to loosen. Job openings decreased 11% in the last quarter, continuing a 12-month downward trend that has dropped 30% since the second quarter of 2022. This number is still 42% higher than pre-pandemic levels. Unemployment in the sector reached its lowest level in 14 years this past December but has risen slightly since.[7]

Reshoring and government mandates should increase domestic jobs

The reshoring trend driven by geopolitical concerns with Asia, especially China and Taiwan, and government mandates such as the CHIPS & Science Act and Inflation Act, will drive more job openings.

MARKET APPLICATION: INVENTORY

Unfilled manufacturing orders grew by 8%, which indicates a return to a pre-pandemic range for manufacturing schedule adherence.[8] The wholesale inventory-to-shipment ratio is also near pre-pandemic levels, while the retail ratio is progressing in the same direction.

Manufacturers re-evaluate inventory

Manufacturers are working to achieve inventory efficiency by balancing consumer expectations with inventory affordability. Many companies are still using buffer inventory to create resilience against volatile customer demand, with the inventory-to-shipment ratio increasing to twice the pre-pandemic level. While just-in-case inventory has been the de facto practice to hedge against recent volatility, certain industries are revisiting just-in-time strategies to prepare for potential upcoming inflationary impacts on demand.

Retailers purge inventory to balance supply and demand

Retailers are still suffering from some degree of the bullwhip effect and are responding to volatile consumer demand by addressing the inventory glut. This can be seen in the gradual build of inventory since May 2021. Their strategies typically include a mix of delaying and canceling orders while increasing promotions and markdowns on existing stock. The resulting hit to profit margins is spurring cost-cutting initiatives, such as downsizing the workforce and closing locations. The auto segment tempered the build to adjust inventory levels.

[1] Freightos Baltic Index (FBX), May 2023
[2] U.S Census Bureau, International Trade Statistics, May 2023
[3] Freightos Baltic Index (FBX), May 2023
[4] KPMG LLP, KPMG Supply Chain Stability Index, May 2023
[5] KPMG LLP, KPMG Supply Chain Stability Index, May 2023
[6] KPMG LLP, KPMG Supply Chain Stability Index, May 2023
[7] KPMG LLP, KPMG Supply Chain Stability Index, May 2023
[8] KPMG LLP, KPMG Supply Chain Stability Index, May 2023

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ASCM is built on a foundation of world-class APICS education, certifications and career resources, which encompass award-winning workforce development, relevant content, groundbreaking global standards and a diverse community of professionals who are driven to create a better world through supply chain.

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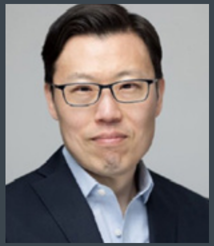

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