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Logistics Index Hits All-time Low

Economic forecasters may continue to be divided about whether we are headed towards a recession or just a period of slower growth, but the signals coming from the United States logistics industry definitely are not looking particularly hopeful.

The Logistics Managers Index hit a new all-time low in April, creating concerns about the future of the economy and logistics industry providers, according to the monthly survey of supply chain executives that sponsored by the Council of Supply Chain Management Professionals.

The index that results is a joint project of researchers at Arizona State, Colorado State, Florida Atlantic, Rutgers Universities, and the University of Nevada, Reno.

The LMI score is a combination of eight unique components that make up the logistics industry, including: inventory levels and costs, warehousing capacity, utilization and prices, and transportation capacity, utilization, and prices.

It is calculated using a diffusion index, in which any reading above 50.0 indicates that logistics is expanding while a reading below 50.0 is indicative of a shrinking logistics industry.

The LMI weighed in at a total of 50.9 in April. Although this is only slightly down (-0.2) from March's reading of 51.1, it marks a new nadir in the 6.5-year history of the index, the researchers said.

"This new low is being driven by a dip in inventory levels, which are down (-4.7) to 50.9, suggesting that respondents continue to get closer to properly balancing their supply of goods and working through the glut many of them have been saddled with for the last year," according to the report.

The drop in inventories has led to a significant (-9.9) drop in warehousing utilization which in turn has dropped warehousing prices – particularly for downstream firms – as the metric reads in below 70.0 for the first time since August 2020. This is just after inventory costs dipped below 70.0 in March for the first time in over two years, demonstrating the somewhat lagged nature of warehousing costs.

The researchers noted that U.S. GDP registered only 1.1% growth in the first quarter. This was down from the 2.6% expansion in Q4 of 2022 and came in lower than economic analysts had expected and is linked to lower logistics activity.

"Like what we saw in Q2 of 2022, the largest downward pull came from the reduction of inventories, which took 2.26 percentage points off of expansion," they said." This is consistent with the downward trend that we have observed with inventories throughout 2023."

Inventory levels are down 11.5 points since January (and were down 4.7 points from March) to 50.9 –

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which is right on the verge of contraction, the report observed.

Inventory levels actively contracted in the second half of April (at a rate of 42.6 relative to the 63.3-point expansion in the first half of April). “If this trend continues and we see contraction in May, it would be the first time since February 2020 that inventories have not increased,” the researchers pointed out.

The drop also led to a mild slowdown (-0.9) in the expansion rate of inventory costs, which read in at 66.0 in the index. The researchers said that inventories are moving quickly for consumables, but more slowly for more expensive goods.

March retail sales were down in the U.S., particularly for large items like autos, appliances and furniture that require financing. The decrease in spending on big-ticket items was a contributing factor to the 0.5% month-over-month decline in manufacturing output over the same period.

At the same time, consumers have been willing to absorb higher prices for restaurants, groceries, and home necessities such as diapers and soap and spending on services such as dining at restaurants and bars is up by double digits year-over-year.

“When taken together, it is clear that the overall economy continues to be powered by downstream activity, and that the complications of the bullwhip that started in 2022 continue to echo through the first few months of 2023,” the researchers said.

Despite the fact that the U.S. added 236,000 jobs in April warehousing and storage employment decreased by 12,000, offering new evidence of logistics’ decline.

Warehousing utilization had the biggest change of any metric in the April report, dropping 9.9 points to 55.1 from March.

“Utilization dipped significantly in the second half of April, moving from expansion of 61.1 in the first half of the month to 50.0 and no movement at all in the second half.,” the report noted. “This metric has been volatile as of late.”

This was the fourth month-over-month shift of 8.0 points or higher since August 2022. Warehousing prices are down (-1.1) to 69.8 – the first reading below 70.0 since August 2020. “High storage costs have been a thorn in the side of supply chains and consumers for nearly three years,” the report said.

Transport Overcapacity Persists

Although trucking jobs rose slightly by 3,000, part of that that could be because owner-operators are converting to company driver positions because the amount of available freight has declined, and due to the pressure that has been exerted by legal restrictions on independent contract carriage in states like California, according to the researchers.

Many small fleets that thrived during the Covid pandemic have gone out of business and larger transporters like UPS and Amazon have cut back on driver employment.

The result is it appears we are in a freight recession. Consumer spending on things like services remains high, but bulky goods are not being shipped B2B and trucking capacity is sitting idle.

“Whether or not we have hit bottom on rates is unclear,” the researchers said. “The spread between the spot and contract market reached $0.92 per mile in the last week of April.” However, they are hoping that the cheaper rates will prove to be attractive enough to drive increases in traffic in the near term.”

Respondents were asked to make predictions about movement in the overall LMI and its individual metrics 12 months from now. The future predictions in April continued the recent trend of respondents predicting relatively muted levels of growth across the logistics industry, according to the report.

They also are anticipating that inventory levels will continue to come down over the next year, moderating inventory costs and warehousing prices.

Those polled for the LMI also are not optimistic about transportation prices expanding, but the reading of 48.1 does suggest that respondents are at least expecting transportation markets to stabilize somewhat, something which would be welcome news for carriers.

“The freight market seems likely to remain depressed until the program of interest rates slows down and more confident spending leads to volumes being flowing more freely,” the researchers believe.

FRA Says Long Trains Unsafe

Following a string of high-profile derailments, the Federal Railroad Administration issued a warning that super long trains are dangerous, although the railroad industry strenuously disagrees.

At this point, the FRA has issued two non-binding advisories recommending that the railroads take a number of steps designed to make freight rail operations safe – but none of these recommendations specifically call on the railroads to run shorter trains.

The new advisory stated, "Freight train length has increased in recent years, and while research is ongoing related to operational aspects of long trains, including brake system performance, it is known that the in-train forces longer trains experience are generally stronger and more complex than those in shorter train consists."

The nation's railroads assert that the advisory is unnecessary because longer trains are no more dangerous that shorter ones and say their safety record over the years shows this to be the case.

Longer trains, up to several miles long, were adopted as part of the Precision Scheduled Railroading (PSR) cost-cutting operations model that was adopted over the past six years on most Class 1 railroads.

Railroad unions have charged that excessive train lengths combined with onerous attendance policies have too often left exhausted crews operating this equipment in dangerous circumstances.

Small towns across the country have testified several times before Congress objecting to these super long trains, pointing out that when stopped, they can cut a community in two, which ends up making it impossible for children to get to school and road traffic to pass, including emergency vehicles which cannot reach those who need them.

Four Agencies Targeting AI

Four federal agencies recently issued a joint statement declaring their resolve to act against bias and discrimination arising from the use of automated systems and artificial intelligence.

The Consumer Financial Protection Bureau, Department of Justice's Civil Rights Division, the Equal Employment Opportunity Commission, and the Federal Trade Commission made their intentions known to private enterprises.

The agencies say they will jointly seek to ensure AI does not violate individual rights and regulatory compliance regarding civil rights, equal employment opportunity, fair competition, and consumer protection.

"Employers, healthcare providers and technology developers, among others, should monitor updates to federal, state and foreign regulation of automated systems; and assess their organizations' intentional and inadvertent use of AI to comply with regulations and ensure best practice," warn attorneys from the law firm of McGuireWoods.

The four agencies assert that more public and private organizations are using these automated systems to make "critical decisions that can impact individuals' rights and opportunities, including fair and equal access to a job, housing, credit opportunities, and other goods and services."

They pointed out that "Although many of these tools offer the promise of advancement, their use also has the potential to perpetuate unlawful bias, automate unlawful discrimination, and produce other harmful outcomes."

The agencies explained that automated systems and AI depend upon large data sets to identify patterns, perform tasks, and make predictions. If the underlying data set is unrepresentative, the system could produce biased and discriminatory results.

The lack of transparency in some automated systems may further complicate the issue, making it difficult for users to identify potential bias or discrimination in outcomes, the agencies said.

Work Quotas Are on the Way

Distribution center operators should be aware that more state laws targeting their businesses by restricting the use of work quotas are on the way.

Such laws already exist in New York and California, and one was recently passed in Washington State. The Connecticut legislature is holding hearings on its own such measure.

"Employers with distribution centers in California and New York should ensure their productivity standards comply with these laws," says attorney Kathryn Barry of the Jackson Lewis law firm. "Employers with distribution centers in other states (including Washington) should prepare for the possibility of similar requirements soon."

California and New York's laws apply only to employers with at least 100 employees at a single distribution center or at least 1,000 employees within the state. Non-distribution centers and smaller employers are not covered by those laws.

Covered employers are generally required to provide a written notice of the quota to employees upon hire. That notice must describe any applicable quotas and explain what disciplinary actions might result if an employee does not meet the quota.

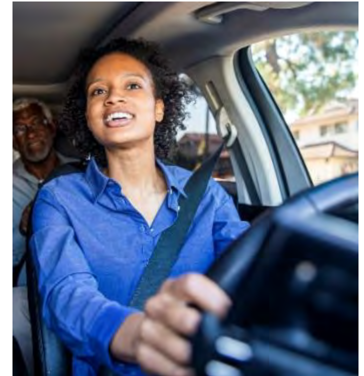
"While this sounds straightforward, many employers use sophisticated algorithms or detailed engineered labor standards to establish workplace productivity requirements – and the laws are unclear as to the level of detail that must be disclosed to the employee," Barry explains.

Employers must disclose more than just the quotas themselves. Under the existing state laws, employees have a right to request their own productivity data and the aggregate productivity data of their coworkers.

Both California and New York offer broad protection to employees who request this data, Barry points out. Under both state laws, there is a rebuttable presumption of unlawful retaliation if an employer takes any adverse action within 90 days of the employee's request.

Court Revives CA Prop 22

There was cheering in November 2020 from proponents when California voters approved Proposition 22, a public referendum that overturned the state's anti-independent contractor law specifically with regard to Uber, Lyft, DoorDash and Instacart drivers, but that joy was short lived.



A state court judge later ruled that the new law violated citizens' constitutional rights under labor law and struck it down. California takes a fairly broad-based approach to public referendums, but state law also dictates that they cannot be used to take away citizens' constitutional rights.

A three-judge panel of the Court of Appeal for the First District recently overturned the lower court decision in a 2-1 vote. But the referendum's supporters didn't start any cheering again – they know that decision surely will be appealed as well.

The referendum had been mounted by the ride share companies whose drivers would benefit from it. They also backed it with a public relations and advertising campaign to the tune of $205 million, estimated to be the largest amount ever spent on a referendum campaign in California.

In addition to allowing those drivers to continue working as independent contractors, the referendum added benefits for them that the companies would pay for, including occupational accident insurance and certain minimum revenue protection.

The proposition also required the companies to develop anti-discrimination and sexual harassment policies; develop training programs for drivers related to driving, traffic, and accident avoidance.

It recognized and required reporting of sexual assault and misconduct; had zero-tolerance policies for driving under the influence of drugs or alcohol; and required driver criminal background checks.

3PLs Leading Big Box Growth

Third-party logistics providers leased more big-box (200,000 square feet or larger) warehouse space in North America last year than any other occupier category, according to a new report issued by the industrial real estate services firm CBRE.

Accounting for 41% of all big-box lease transactions in 2022, 3PLs expanded their footprints and claimed the largest share for the first time since CBRE began tracking the activity in 2012.

CBRE defined 3PLs as companies that typically operate logistics and warehousing operations on a contractual basis, handling that work for multiple clients.

As a result of what it terms as enduring pandemic-era shifts in economic activity, CBRE reported that companies have expanded their reliance on 3PL partners in order to create resilient supply chains and economically address customer needs.

The previous leader in big-box leasing activity – retailers and wholesalers – fell to second place, taking 35.8% of the leasing share. Food and beverage occupiers were a distant third, accounting for 8.7% of leasing activity.

"During the pandemic, companies relied on partnerships with 3PLs to stabilize their operations and accommodate demand," said John Morris, who serves as CBRE's president of Americas industrial and logistics operations.

"The initial thought was that companies would eventually return to self-reliance for their fulfillment needs, but more companies have since realized that 3PLs can play a vital role in their business models, and demand is stronger than ever," he added.

CBRE said that it chose to analyze warehouses of 200,000 square feet and larger because warehouses of that size are used for large-scale national and international product distribution.

Encompassing activity in the United States, Mexico and Canada, the big-box report found that industrial facilities had record-low vacancy rates and unprecedented rent growth in 2022, despite record new construction deliveries.

CBRE stressed that demand was driven primarily by a desire to serve markets with growing populations, modernize space for automation and improve supply chain resilience.

Matching 2021's record low, the 2022 direct vacancy rate was 3.3% at year's end, which the company said supported first-year base rents growth of 23% year-over-year.

With demand for space at a high, and little space available, CBRE pointed out that a record 455 million square feet is currently under construction, of which 25.3% is pre-leased.

"Slower demand at a time of robust construction will result in higher vacancy as time goes on. That will provide relief for occupiers looking for space in a very tight market," Morris explained.

"New construction will moderate this year, particularly with the financing market so tight. This should lead to double-digit rent growth as construction deliveries slows."

CBRE's report examined 25 big-box markets in North America. Four of these markets had recorded vacancies of less than 1% -- Inland Empire (0.1%), Los Angeles County (0.6%), Toronto (0.8%) and Savannah (0.9%).

The top 10 markets identified by CBRE were in order of ranking: Inland Empire, 46.7 million square feet; Dallas-Fort Worth, 34.4 million; Chicago, 33.5 million; Southern N.J./Eastern Pennsylvania, 32.6 million; Atlanta, 27.6 million; Houston, 19.1 million; Northern/Central NJ, 18.8 million; Phoenix, 16.4 million; Indianapolis, 15.2 million; and Columbus, Ohio, 14.9 million.