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Logistics Outlook Seen Mixed

Trying to figure out how the rest of the logistics industry will fare in the future is hard, and predications are made all the more difficult when looking closely at the numbers, but one thing is clear: Industrial real estate continues to thrive.

Mixed signals about the economy are everywhere. It is not unreasonable that the public is concerned about the direction it is heading, especially under the current national leadership which encourages the conclusion we are following a destiny that is not of our choosing.

The IRE services firm of Marcus & Millichap issued its mid-year analysis of the industrial field, seeing continuing strength in the teeth of a tumultuous economy with a questionable future.

"Industrial sales activity is surpassing norms, a standout among property types," the company's research analysts explain.

They also note that the Federal Reserve's combined 500-basis-point lift in the overnight lending rate since March of last year has constrained deal making across most property types, which was largely apparent during the first six months of 2023.

"The industrial sector, however, was the only major commercial real estate segment to note a trailing 12-month transaction velocity stronger than its long-term average this June. Moving forward, the sector's historically strong metrics and capital infusions available from recently-passed federal statutes, should continue to buoy investor interest."

The IRE vacancy rate of 4.0% in the U.S. industrial sector was at least 30 basis points below every other major commercial real estate segment in March, M&M reveals

"A resilient labor market is also propping up wages, buoying retail sales, and fueling needs for warehousing capacity and distribution resources," the analysts say.

Companies are slated to absorb a net of 330 million square feet of industrial space this year to support their operations, a volume 52% higher than the long-term mean, according to M&M.

"Expansions by large industrial users will aid demand for business-to-business services, also driving leasing activity for available space near these companies' new operations," they observe," "This overall dynamic will keep national vacancy well-below any reading prior to 2021, despite a second consecutive year of record-level construction in 2023."

While both supply and demand are above normal levels, some of the drivers of space use are moderating this year, the company warns. The three-month average imports and exports measurement fell by $2.6 and $2.2 billion in May.

(Continued on the next page)

This softening cut the growth in retailer inventories to one-third of the rate registered from last August. Warehousing demand is easing from 2022's peak as a result, positioning industrial vacancy to bump up near-term, M&M reports.

“Looking to 2024, a slowdown in deliveries is anticipated, helping cap further rises in this metric,” the analysts say.

M&M notes that less than 80 million square feet was underway in June with completion dates slated for beyond this year, compared to volumes over 400 million square feet in both 2022 and 2023.

“The ease in new supply should steer expanding industrial tenants to available facilities, limiting upward pressure on the national vacancy rate longer-term,” the researchers predict.

Workforce Housing Is Key

The analysts stress that metropolitan areas capable of attracting IRE investments have certain characteristics in common, and the most important of these is their willingness and ability of workers to live in the areas where they work.

“Metros amenable to the creation of workforce housing are attracting expanding tenants, as well as investors seeking acquisitions in growing economies,” they point out. “Metro-level, and even submarket-specific housing dynamics, which are often key to worker satisfaction, could play a larger role in influencing companies' production expansion plans moving forward.”

The Charlotte, NC, and Las Vegas, markets expected to register historic multifamily growth in 2023, had some of the only year-over-year jumps in industrial transaction velocity among major metros in the first quarter.

“With slowing overall U.S. migration also easing freight utilization in some areas, investors may key-in on local demographics, aiding interest for last-mile warehouses in metros with standout growth trends like Orlando and Dallas-Fort Worth,” the M&M analysts contend.

“A rush to warehouses and distribution assets is also occurring around some of the nation's strongest shipment hubs, shoring up deal flow in Los Angeles and Chicago, where total throughput volumes remain higher than in 2019.”

3PLs Thriving, Armstrong Says

The leading logistics industry consulting firm of Armstrong & Associates forecasts a soft landing at a new level for third-party logistics providers.

Armstrong notes that.2022 was a very good growth year for domestic 3PLs. “Driving growth in 2022 was the continued burgeoning inventories built up from the Covid 19 supply chain disruptions and 3PLs being able to efficiently decrease purchased transportation costs to carriers while staving off significant price concessions to shippers.”

Based on providers’ reported 2022 financial results, Armstrong estimates that U.S. 3PL market net revenues (gross revenues less purchased transportation) grew 24% to $148.1 billion. adding that overall gross revenues rose 18.3%, bringing the total U.S. 3PL market to $405.5 billion in 2022.

While year-over-year growth was significantly less than the 48.1% gross revenue growth registered in 2021, 2022 at 18.3% was the fourth best growth year on record since Armstrong began developing its 3PL market estimates in 1995.

According to the data the firm has developed over nearly three decades, 2000 registered the second-best year-over-year growth at 22.9%, and 2010 was the third best at 19%.

The non-asset-based Domestic Transportation Management segment (DTM) led all other 3PL segments in 2022, enjoyed net revenue growth of 33.8% to $26.4 billion while overall gross revenue increased a healthy 14.4% to $159 billion.

The asset-heavy Dedicated Contract Carriage segment had the second largest year-over-year net revenue growth of 27.4% to $29.2 billion in 2022. Gross revenue rose 27.7% to $29.5 billion. DCCs benefited from shippers wanting to lock in capacity, better driver recruiting through wage increases and, and having ample capital to invest in equipment.

In addition, 3PLs with freight brokerages – which could handle “overflow” business from DCC operations as dedicated or spot truckload capacity – also tended to do well, Armstrong pointed out.

Covid Drives Up EEOC Charges

It turns out that an enormous increase in complaints filed with the Equal Employment Opportunity Commission in frecent years was largely caused by an influx of cases involving religious objections to forced Covid 19 vaccinations that were required by employers, sometimes under government pressure.

In Fiscal Year 2022, the EEOC saw the number of charges leap by more than 10,000 over the prior year, note attorneys Andrew Scroggins and James Nasiri of the Seyfarth Shaw law firm.

Workers filed a total of 73,485 charges with the commission last year, an increase of approximately 12,000 charges as compared to FY 2021. In FY 2021, workers filed 2,111 charges alleging religious discrimination, but in FY 2022 the EEOC recorded a whopping 13,814 religion-based charges.

“This uptick appears to be almost entirely attributable to the Covid 19 pandemic: a striking rise of over 600% in religious discrimination claims, with many filed by applicants and employees seeking religious exemptions to companies’ Covid 19 vaccine mandates.”

To file a federal anti-discrimination lawsuit, an employee is required to initially file a charge with the EEOC as a first essential step, the lawyers say.

“The EEOC’s charge data can provide an interesting perspective on the status of the employment discrimination space. Indeed, EEOC charges are a direct reflection of employees’ views about how they are being treated in the workplace.” Scroggins and Nasiri point out.

“While vaccine mandates are not as common now as during the height of the pandemic, the EEOC’s FY 2022 charge data suggests that employers may be grappling with the ramifications for some time to come, as EEOC investigations continue and some charges take on a second life in courthouses around the country.”

Recession Seen For This Year

An economic recession looms for the third to fourth quarters of this year, according to the most recent monthly data reported by The Conference Board’s Leading Economic Index.

Those LEI numbers ,which were reported for June, are what has sparked the dire forecast, observes Justyna Zabinska-La Monica, the TCB’s senior manager, Business Cycle Indicator.

“Taken together, June’s data suggests economic activity will continue to decelerate in the months ahead. We forecast that the US economy is likely to be in recession from Q3 2023 to Q1 2024.”

The main causes are elevated prices, tighter monetary policy, harder-to-get credit and reduced government spending are poised to dampen economic growth further, she explains.

The TCB’s Coincident Economic Index (CEI) for the United States remained unchanged in June 2023 at 110.0 (after rising by 0.2% in May. The board says the CEI is now up 0.6% over the six-month period between December 2022 and June 2023, which is down from the 1.1% growth that it recorded over the previous six months.

The board’s 3D’s rule is considered a rule of thumb for interpreting the duration, depth and diffusion and has registered downward movement in the LEI.

Duration refers to how long-lasting a decline in the index is, and depth denotes how large the decline is. Duration and depth are measured by the rate of change of the index over the last six months. Diffusion is a measure of how widespread the decline turns out to be, the board points out.

Zabinska-La Monica explains that the 3D’s rule provides signals of impending recessions when two measurable circumstances take place.

One of these was said to occur when the diffusion index fell below the threshold of 50. The second happens when, simultaneously, the decline in the index over the most recent six months dropped below the threshold of -4.2%.

Manufacturing Down in June

The Institute for Supply Management Purchasing Managers Index (PMI) reading in June points to a faster rate of contraction in the manufacturing sector in the United States.

“Demand remains weak, production is slowing due to lack of work, and suppliers have capacity. There are signs of more employment reduction actions in the near term", according to Timothy Fiore, chairman of the ISM.

The ISM PMI fell to 46 in June 2023, from 46.9 in May and below forecasts of 47. The reading pointed to a faster rate of contraction in the manufacturing sector since May 2020, with companies who were managing outputs report those numbers down as softness continues and optimism about the second half of 2023 weakening.

In June, the report found that declines were seen in the measurement categories of new orders (45.6 vs 42.6), production (46.7 vs 51.1), employment (48.1 vs 51.4), inventories (44 vs 45.8) and backlog of orders (38.7 vs 37.5).

Also, price pressures eased (41.8 vs 44.2) and the supplier deliveries index increased to 45.7 from 43.5, a sign manufacturing lead times improved again, the organization reported.

On the other hand, the customers’ inventories index dropped into ‘too low’ territory (46.2 vs 51.4), which ISM said is considered to be a positive sign predicting higher future production.

The Manufacturing ISM Report on Business is based on data compiled from purchasing and supply executives nationwide. A PMI reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally declining.

For each of the indicators measured (new orders, backlog of orders, new export orders, imports, production, supplier deliveries, inventories, customers' inventories, employment and prices), the ISM report also shows the percentage reporting for each response.

OSHA Warns of Heat Dangers

As part of an ongoing White House initiative to make sure everyone in the federal government pulls together to support the impression that President Biden is awake and in charge, OSHA recently re-announced its already existing heat standard.

This happened at the end of July when President Biden took the opportunity make Americans recognize that it is hot in summer due to global warming and he was unleashing the awesome powers of the federal government against the sun.

Leaving aside comparisons of Biden to King Canute (invariably unfair because that unhappy monarch has been mistakenly maligned in the retelling of his story), employers should be aware that OSHA is preparing to issue a new heat-related regulation in a rulemaking proceeding it launched in 2021.

In the agency’s ongoing campaign to support unionization of Amazon, OSHA has gone out of its way to back the organizers’ depiction the management of the ecommerce behemoth as seeking to injure and sicken its workers, in spite of largely successful efforts in recent years to improve its safety record.

Warehouse operators should remain aware that the agency launched a National Emphasis Program this year targeting the industry for intensive inspections.

If you manage a nonunion operation, you would do well to study and apply OSHA’s specific recommendations regarding the prevention of heat illness and where you will learn, along with some genuinely helpful advice, that “environmental heat is produced by warm or hot surroundings.”

In all seriousness, if you follow the agency’s guidelines you will not only go a long way to avoiding OSHA violations when the inspectors show up, but you also will be ensuring that your warehouse workforce is protected from the very real threat of heat illness in your facilities.

ALAN Organizes Hawaii Relief

As fires on Maui and Big Island of Hawaii continued to burn, the American Logistics Aid Network (ALAN) announced that it was gearing up to provide both long- and short-term support – and it called on members of the logistics community to be on long-term alert for expanding opportunities to do more of the same.

Effective immediately, the organization has expanded its Disaster Micro-Site to include key details about the fires and their related logistics needs.

ALAN reported that on Aug. 9 the organization received its first request for logistics assistance, which involved the moving of communications equipment to support shelter facilities near Lahaina.

"We are heartbroken and devastated for the residents of both islands, especially those who have lost a loved one, a home or – in the case of Lahaina – most of their hometown," said ALAN Executive Director Kathy Fulton. "Today we are officially channeling that heartbreak into action."

Fulton pointed out that much of the need for logistics assistance lies in the future. "Although the need for our supply chain assistance for post-fire relief efforts in Hawaii hasn't been extensive yet, the operative word is yet, because as Hawaii's Lieutenant Governor said, the full impact of the fires won't be known for weeks or months."

As those assessments are made, she said ALAN undoubtedly be receiving more requests, including many that could come in several weeks or months down the road.

Fulton said that's why she hopes other members of the logistics community will visit the Web page additions to ALAN's Disaster Micro-Site often to view the latest lists of requests. Members of the industry are also encouraged to consider making a pre-offer of any space, services and equipment they would be willing to donate to assist with the ongoing and future fire relief efforts.

Fulton also echoed a request from many members of the non-profit relief community: Please don't self-deploy to Maui or Big Island – and refrain from participating in product collection drives.

"Although the intention behind these efforts is good, they often create more challenges than they solve, including getting in the way of rescue efforts. So please don't add to an already difficult situation," she stressed.

"If you truly wish to help, send funds. Cash donations allow non-profits to buy what they need, when and where they need it, and that will help survivors faster."

Fueled, in part by the Pacific Ocean's Hurricane Dora, which has created strong offshore winds, the fires on Maui have claimed 56 lives and destroyed more than 271 structures, many of which were in the historic town of Lahaina, according to the most recent reports.

"This devastating disaster is a good example of just how unpredictable hurricanes and their impacts can be," said Fulton.

"However I hope that – like other recent disasters we've been working on – it will also serve as an example of just how generous the logistics community can be, because the donated transportation, warehousing, shipping supplies, forklifts and logistics expertise we provide can truly be game-changers and make a considerable difference for disaster survivors."

Founded in 2005 in the wake of Hurricane Katrina, ALAN is organized as an industrywide organization that provides free logistics assistance to disaster relief organizations before, during and after catastrophic events.

It does this by bringing the expertise and resources of the logistics industry together with compassionate organizations so that help can arrive sooner, and each relief dollar can be maximized.