



Transportation & Logistics Industry Update

3Q23 Executive Summary

The transportation and logistics industry saw container shipping freight rates fall in 3Q23 toward levels that resembled those of 2019, while artificial intelligence/machine learning (AI/ML) technologies continued to offer increased visibility into supply chains and the last-mile delivery sector continues to revolutionize as the robust growth of e-commerce remains steady. Trends such as market consolidation and a surge in logistics rents were also prominent in the industry during the quarter.

Despite the global economy showing unexpected strength in 1H23, persistently high inflation and substantial downside economic risks lead to a more subdued outlook for the rest of the year and into 2024, with the OECD's Interim Economic Outlook forecasting modest global growth of 3.0% in 2023 and 2.7% in 2024.¹

Globally, headline inflation, which refers to prices such as food and energy, is gradually easing, though it remains above central bank targets in many countries and necessitates ongoing monetary policy restraint, primarily owing to elevated core inflation driven by the services sector and tight labor markets.²

Within the 3PL market specifically, the Asia Pacific region is expected to register the fastest growth due to a thriving e-commerce industry, and the growth of manufacturing sectors, which are boosting the need for efficient and adaptable supply chain solutions.³

Key Macro & Technological Trends

- Revised **U.S. gasoline consumption forecasts** for 2023 and 2024 reflect the impact of changing demographics. Despite population growth, consumption of gas has been decreasing for a variety of reasons, such as a growing population of retirees, which results in less travel and the continued adoption of hybrid and electric vehicles in the US.⁴
- A **slowdown in new industrial supply** is expected in 2024 and 2025, while long-term demand drivers, including the reshoring of manufacturing, large semiconductor and EV facilities, and the shift in just-in-case inventory management will continue to fuel the sector, creating competition for industrial space, particularly in areas supporting semiconductor and EV projects.⁵

- Although **spot rates** in early September 2023 saw a slight **upward tick**, by the end of the month rates were trending downward again.⁶
- In the **container shipping industry**, 3Q23 resembled 2019 conditions, marked by revenue and profit declines, leading to **consolidation and diversification** among major players. Companies are diversifying their businesses into various logistics segments, potentially altering their approach to investing in container fleets. Ports, especially in the United States, are preparing for a shifting future by upgrading infrastructure to accommodate increased cargo demand ushered in during the pandemic. This includes modernizing docks, deepening channels, and enhancing rail yards.⁷
- The **evolution of the last-mile delivery sector, driven by e-commerce growth**, highlights key trends such as same-day delivery, urban warehouses, robotics, drones and autonomous vehicles. Sustainable delivery options are also gaining prominence.⁸
- In supply chain management, **digital twins powered by artificial intelligence are playing an increasingly significant role in providing enhanced visibility**, enabling transportation and infrastructure optimization, and streamlining inventory management.⁹

Taking a Deeper Look into the Global Logistics Sector



The **global freight forwarding market** is projected to reach \$413 billion in 2027, a CAGR of 1.6% (2022-2027).¹⁰ The market continues to be negatively affected by the ripple effects of normalization in consumer behavior, as well as the global economic and manufacturing slowdown; data from Ti Insight indicates the global freight forwarding market will contract by 3.9% in 2023.¹¹



IATA forecasts **air cargo** demand growth (YoY) to contract by 4.1% in 2023. Weaker air cargo demand is the result of continued high inventory levels, along with the increase in capacity, which in turn is driving down rates. Overall, the market has steadied, and 2H23 is expected to resemble first-half conditions, except for a minor upturn in 4Q23. With capacity on the rise but demand growth weak, air cargo rates are expected to keep decreasing.¹²



Carriers reduced **ocean cargo capacity** to prevent further decreases to rates as recessionary concerns drove down global demand. By the end of 2023, newbuild capacity (around 2.5 million TEUs) will be added to the market, with a 25.2% Y-o-Y increase in capacity of newbuild vessels from Asia and North America. However, the increase in effective capacity will be offset by a ~4.4 million decrease in weekly effective capacity from blank sailings.¹³



Evolution of Last-Mile Delivery

The rapid growth of e-commerce within the transportation and logistics industry has revolutionized the final leg of the supply chain, also known as the last-mile delivery phase, which involves transporting products from distribution centers to consumers. With the growth of e-commerce, speedy delivery and convenience have become increasingly important for consumers, and expectations have shifted to **same-day and on-demand delivery**.¹⁴

To help keep pace with evolving consumer expectations, companies within the transportation and logistics industry are leveraging new technologies such as **robotics, drones and autonomous vehicles** that are transforming last-mile delivery by enhancing efficiency, speed and cost-effectiveness. **Micro-fulfillment centers (MFCs) are also revolutionizing last-mile delivery by strategically locating fulfillment centers in cities** to address traditional delivery challenges.¹⁵

Importance of ESG Frameworks in the Industry

Decarbonization efforts have become a core focus as more shipping companies are adding methanol-capable ships to their fleet. Consulting firm DNV estimates the number of methanol-fuelled vessels to exceed 200 by 2028, up from 30 this year.¹⁶

To help achieve the net zero target, regulators are formulating policies and frameworks; the state of California announced several regulations requiring 50% of vehicles purchased in a fleet to be zero emissions beginning in 2024, and eventually increasing to 100% by 2027.¹⁷

The European Commission also adopted the European Sustainability Reporting Standards to standardize ESG reporting for companies falling under the scope of the Corporate Sustainability Reporting Directive.¹⁸

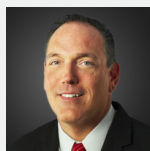
Summary

Overall, the transportation and logistics industry experienced several trends that will undoubtedly continue to have an effect on the sector, including the increased visibility into supply chains from the development of digital twins and the evolution of the last-mile delivery sector, as well as the adoption of new AI/ML technologies. As we look ahead to the final months of 2023, the industry should expect to see more companies shift focus to their last-mile delivery operations as trucking and logistics companies strive to keep pace with rapidly increasing consumer expectations.

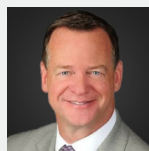


Endnotes

- ¹ “Confronting inflation and low growth,” OECD Economic Outlook Interim Report (September 2023), [Link](#).
- ² “Confronting inflation and low growth,” OECD Economic Outlook Interim Report (September 2023), [Link](#); “Positive growth continues, albeit fragile, and with persistent inflation posing a key risk,” OECD (September 19, 2023), [Link](#).
- ³ “Global Third-party Logistics Market Size To Worth USD 2,247.95 Billion by 2031 | CAGR of 8.3%”, Spherical (September 2023), [Link](#).
- ⁴ “Short-Term Energy Outlook,” EIA (November 7, 2023), [Link](#).
- ⁵ “Industrial Transactions Still Muted as Bid-Ask Gap Holds Firm,” CommercialEdge (September 2023), [Link](#).
- ⁶ “Trendlines,” DAT Freight & Analytics (November 2023), [Link](#).
- ⁷ “Ocean Freight Rate Tracker,” Ti (September 2023), [Link](#).
- ⁸ “Top 6 Trends In Last Mile Delivery,” Navata (July 2023), [Link](#).
- ⁹ “How Leveraging Digital Twins and AI in Supply Chain Benefit Businesses?,” Appventurez (October 9, 2023), [Link](#).
- ¹⁰ “World freight forwarding market to shrink 3.9% in 2023,” PortCalls (August 13, 2023), [Link](#).
- ¹¹ “World freight forwarding market to shrink 3.9% in 2023,” PortCalls (August 13, 2023), [Link](#).
- ¹² “2023 Q3 Global Freight Transportation and Logistics Trends,” UPS (August 2023), [Link](#).
- ¹³ “2023 Q3 Global Freight Transportation and Logistics Trends,” UPS (August 2023), [Link](#).
- ¹⁴ “Top 6 Trends In Last Mile Delivery,” Navata (July 2023), [Link](#).
- ¹⁵ “Top 6 Trends In Last Mile Delivery,” Navata (July 2023), [Link](#).
- ¹⁶ “California’s Zero-Emissions Rule Triggers a Run on Diesel Rigs,” The Wall Street Journal (September 20, 2023), [Link](#).
- ¹⁷ “OCI Global doubles capacity as shipping industry seeks green methanol,” Reuters (September 14, 2023), [Link](#).
- ¹⁸ “EU Adopts First Set of European Sustainability Reporting Standards — Critical Considerations for Companies in Scope of CSRD,” Sidley (August 30, 2023), [Link](#).

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