PROLOGIS Research

State of Supply Chain Risks in 2024:

What's in store for the East Coast of the U.S.?

Lehigh Valley West 21, Breinigsville, Pennsylvania

If we learned anything from the past few years, it's that diversified and resilient supply chains are critical for effective and efficient logistics operations. Prologis Research, which has a solid track record of supply chain predictions, looked at disruptions at West Coast ports and identified risks for the East Coast supply chain in 2024.

Three key takeaways:

1. **Geopolitical, climate and labor dynamics continue to be risks,** as we predicted in 2021. Recent inventory destocking efforts may have overshot and increased exposure to supply chain disruptions.
2. **West Coast ports regained market share** (also predicted), with volumes rebounding as two temporary factors faded: uncertainty related to the International Longshore and Warehouse Union (ILWU) negotiation and a negative inventory bullwhip effect. Going into 2024, disruption in the Suez and Panama Canals favors West Coast ports.
3. **East Coast ports will lose 1% to 2% market share** from the maritime workers' negotiation and Suez/Panama Canal disruptions. This more muted shift (compared with West Coast ports in early 2023) is because 1) East Coast ports have a higher long-term growth rate relative to the West Coast; 2) inventories need to be restocked; and 3) the economic outlook has improved.

1. Supply chains remain exposed to risks from geopolitical, climate and labor dynamics.

A focus on efficiency amid higher costs of capital and economic uncertainty led to a 5% decline in real combined wholesale and retail inventories in 2023. At the same time, real retail goods sales outperformed, growing 3.3%. As of December, the inventories-to-sales ratio was down 2.2% from the same period in 2019 compared to a peak of 3% above in early 2023,[i] indicating that inventories may have over-corrected in some cases. This could increase exposure to shipping delays and rising transportation costs created by current and future supply chain disruptions.

In the short term, we expect restocking signals, such as strong import volumes, healthy new orders activity, and increasing transportation and warehouse capacity utilization in early 2024.

In the long term, we maintain our prediction for increased risks for global supply chains. Three examples are playing out in early 2024:

I. **Geopolitical.** Attacks in the Rea Sea pushed 40% of ship traffic[ii] that would have used the Suez Canal around Cape Horn instead, adding more than a week to travel times. While this has the largest effect on the Asia-Europe route, there are also implications for Asia-U.S. East Coast shipments.

II. **Climate.** In 2023, there was approximately $98B total cost of damages from major natural disasters[iii] in the U.S. alone.[iv] Drought conditions have restricted Panama Canal traffic to 24 vessels per day, down from the typical 40, adding time and cost to Asia and East Coast transit. The total number of transits through the Panama Canal declined 22% in November compared to October.[v]

III. **Labor.** The International Longshoreman's Association contract expires in September 2024. The ILA has branches and affiliates in nearly all major East and South Coast ports through the U.S. and Canada. On-going negotiations created an unpredictable environment and elevated the potential for labor-related disruptions. Additionally, work stoppages have been on the rise since 2020, alongside very low unemployment and higher-than-typical inflation.[vi]

2. West Coast ports will regain market share as volumes return.

Resolution of the ILWU labor negotiation (a contract that will be in place until 2028), coupled with moving past the inventory bullwhip effect caused by the pandemic,

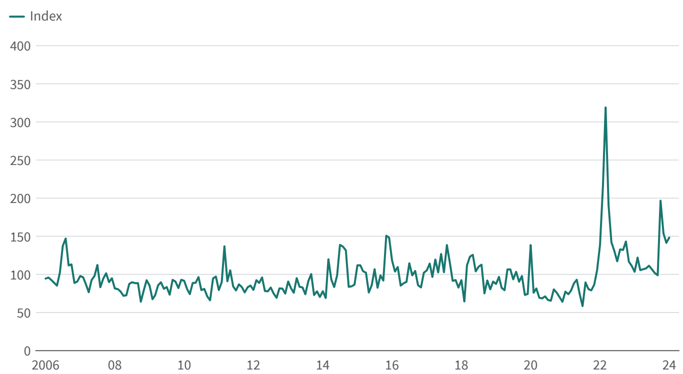
Exhibit 1

I/S RATIOS, EXCLUDING AUTO
Ratio

Source: U.S. Census Bureau

Exhibit 2

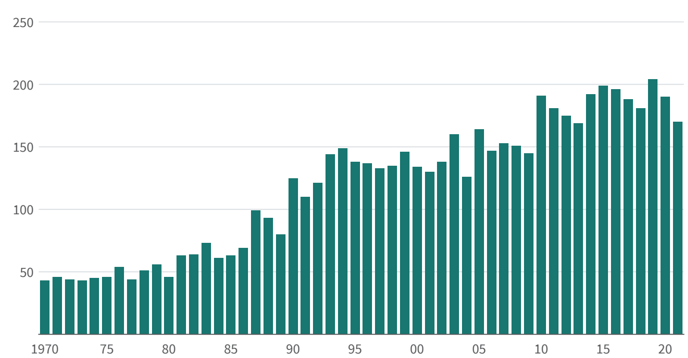
GEOPOLITICAL RISK INDEX
Index



Source: Caldara, Dario, and Matteo Iacoviello (2021), "Measuring Geopolitical Risk," working paper, Board of Governors of the Federal Reserve Board, November 2021".

Exhibit 3

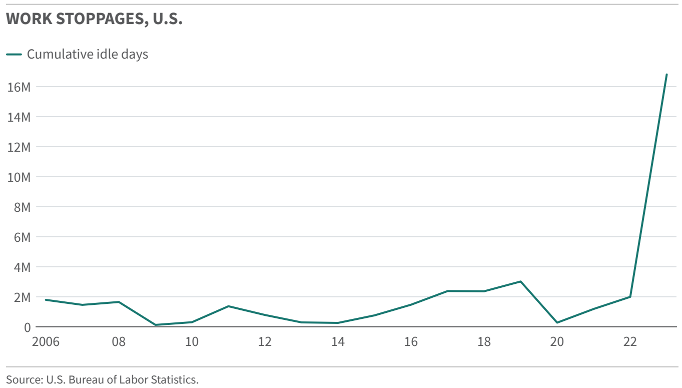
NATURAL CATASTROPHIES, GLOBAL
count



Source: Swiss Re Institute

Exhibit 4

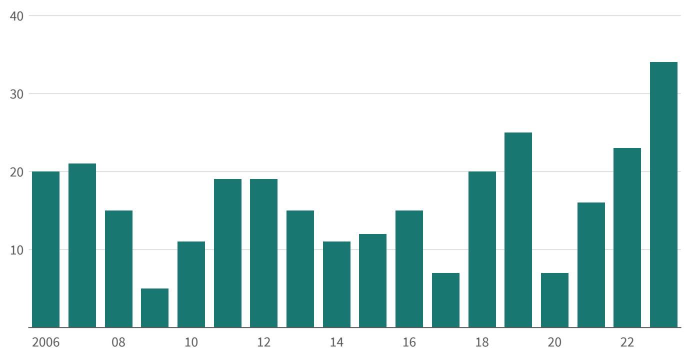
WORK STOPPAGES, U.S.
Cumulative idle days, M



Source: U.S. Bureau of Labor Statistics.

Exhibit 5

WORK STOPPAGES, U.S.
# of stoppages w/1000+ workers



Source: U.S. Bureau of Labor Statistics.

allowed West Coast ports—particularly the Los Angeles/ Long Beach complex—to regain market share quickly in late 2023 and early 2024.[vii]

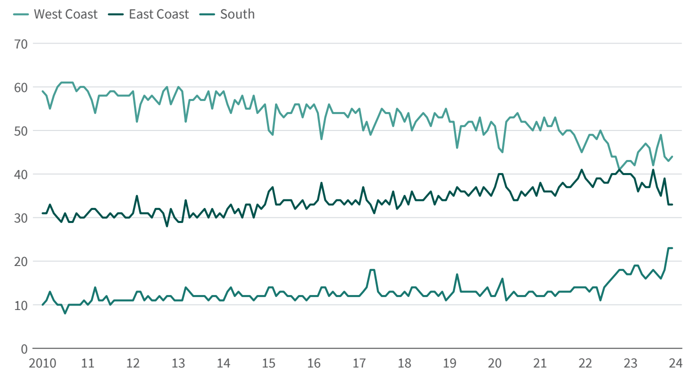
3. East Coast ports will lose less market share in 2024 compared to the West Coast in 2023.

At the height of West Coast volatility, market share contracted by 9 percentage points, from 50% to 41% (35% to 27% just in LA/LB). We expect East Coast ports may only lose another 1-2 percentage points in share on top of the 38% to 33% drop already posted between September and December 2023. Three forces are behind this more muted shift:

I. **Structural tailwind versus temporary headwind.** East Coast ports gained an average 1% of market share annually between the completion of the expanded Panama Canal in 2016 and 2022, before ILWU negotiations impacted the West Coast. The

Exhibit 6

MARKET SHARE OF TEU IMPORT BY COAST
%



Source: U.S. Port Authorities

ability to traverse the canal with the largest ships, get closer to end consumers and diversify ports of entry represented a structural tailwind to East Coast import volumes. Today, this route faces temporary headwinds, which will likely produce a temporary shift in import TEU market share to West Coast ports to avoid potential labor disruptions and mitigate the risks of traversing the Suez and Panama Canals.

II. **Restocking versus destocking.** In late 2022 and early 2023, some retailers and wholesalers were overstocked after ordering extra inventory during the pandemic boom in retail goods sales, a product of the bullwhip effect. With inventory-to-sales ratios below pre-pandemic levels in December 2023, we expect more restocking activity than destocking, which should lift import flows across ports.

III. **Improved economic outlook.** Similarly, the consensus economist view on 2023 was an inevitable impending recession and higher-for-longer interest rates. In contrast, the consensus as of January 2024 is for growth in line with long-term averages and declining interest rates.[viii] Historically, bearish expectations produce a 2% decline on inventories ahead of evidence of falling sales. Therefore, a shift in expectations should lift new orders and inventories.

Conclusion

Disruptions will persist and evolve. Ultimately, evidence continues to underscore the importance of resilient inventories, diversified sourcing and flexible decentralized distribution networks. Companies that can handle the inevitable challenges in supply chains and ultimately deliver for consumers will be positioned for success in an uncertain world.

Endnotes

I. U.S. Census Bureau.
II. IMF PortWatch.
III. Note: Major disasters cost $1B in damage.
IV. NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2021).
V. Panama Canal Authority (ACP).
VI. U.S. Bureau of Labor Statistics.
VII. Various U.S. Port Authorities.
VIII. Consensus Economics.

About Prologis Research

Prologis' Research department studies fundamental and investment trends and Prologis' customers' needs to assist in identifying opportunities and avoiding risk across four continents. The team contributes to investment decisions and long-term strategic initiatives, in addition to publishing white papers and other research reports. Prologis publishes research on the market dynamics impacting Prologis' customers' businesses, including global supply chain issues and developments in the logistics and real estate industries. Prologis' dedicated research team works collaboratively with all company departments to help guide Prologis' market entry, expansion, acquisition and development strategies.

About Prologis

Prologis, Inc. is the global leader in logistics real estate with a focus on high-barrier, high-growth markets. At December 31, 2023, the company owned or had investments in, on a wholly owned basis or through co-investment ventures, properties and development projects expected to total approximately 1.2 billion square feet (115 million square meters) in 19 countries. Prologis leases modern logistics facilities to a diverse base of approximately 6,700 customers principally across two major categories: business-to-business and retail/online fulfillment.

Prologis
Pier 1, Bay 1
San Francisco, CA 94111
United States
+1 415 394 9000
www.prologis.com

PROLOGIS®