SUPPLY CHAIN connect

By AVERY LARKIN

U.S. Logistics Sector Expands at a Slower Pace in August

Latest Logistics Manager's Index points to slower overall growth plus rising transportation prices, inventory costs and warehouse expenses.

As we head into the fourth quarter, transportation capacity is contracting, warehouse utilization is dropping and transportation costs are going up. These are some of the key findings from the latest Logistics Manager's Index (LMI), which reveals a national logistics sector that's expanding in some areas and contracting in others.

A survey of director-level and above supply chain executives, the LMI measures logistics industry activity based on eight different components: inventory levels, inventory costs, warehousing capacity, transportation utilization, warehousing utilization, warehousing prices, transportation capacity and transportation prices.

"Essentially, this month's report paints a picture of logistics costs that seem to be rapidly increasing no matter what the underlying situation is," Analyst Zac Rogers, Ph.D., points out in the report. "The major difference between August and readings from earlier this summer is that expansion in inventories has slowed, but logistics cost expansion remains high."

Key Report Findings

Researchers at Arizona State University, Colorado State University, Rutgers University, the University of Nevada, Reno and Florida Atlantic University use a diffusion index to calculate the number. The August LMI came in at 66.6, down by 2.2 from July's reading of 68.9 and 4.4 points lower than the recent four-year peak of 71.1 recorded in June. A reading above 50 signals expansion; below 50 signals contraction.

At the current 66.6 reading, logistics activity is still growing, but just at a slower pace than it did in June and July. Here are some of the other key August trends tracked on the LMI:

- Despite the slowdown in inventory levels, expansion in inventory costs were up (+1.6) to 78.6, which is their second-fastest rate of expansion in 12 months.
- Inventory cost expansion is now outstripping the growth rate in inventory levels by 25.8 points, which is nearly double the average delta of 13.1 points between these two metrics.
- Warehousing capacity moved up (+7.2) into expansion at 53.5 and warehousing prices continue to expand at 75.0, "which represents a very robust rate of growth," Rogers points out.
- Transportation capacity is contracting at 40.0, but at a slower rate (+11.6) than July's 28.4 (the second-lowest reading ever for any LMI metric).
- Transportation price expansion is up (+3.1) to 90.0, making it four out of the last five months that this metric has expanded at 90.0 or above, "which is quite rare for a scale that only goes up to 100.0," Rogers adds.

Drilling down on inventory, transportation and warehousing costs, which run on a 0-300 scale (with 150 being breakeven level), average cost expansion from January 2024 to March 2025 was 193.8. Rogers says aggregate costs rose after the start of the conflict between the U.S. and Iran in late-February, and that aggregate logistics costs from March to August averaged 241.9.

"Generally, aggregate costs exceeding 240.0 have led to increased levels of supply-driven inflation," Rogers explains, noting that the San Francisco Federal Reserve's breakout of the sources of inflation points to increased supply-driven inflation (outstripping inflation from demand) in July. These higher costs are putting significant pressure on supply chains and end consumers, who are particularly concerned about issues like the price of gas, future business conditions and inflation.

What's Coming Next?

Essentially, Rogers says inventories have continually gotten more expensive on a relative basis over the last year and a half. This has increased the cost load throughout supply chains and seems to be impacting consumers (consumer spending dropped 0.6% in July). "Beyond the slowdown in spending, it seems that the composition of that spending has shifted as well with some cheaper goods showing growth, and more expensive items slowing down," Rogers notes.

Looking ahead, survey respondents also predicted movement in the overall LMI and individual metrics 12 months from now. The overall index prediction came in at 69.6 in August, down slightly (−0.9) from July's future prediction of 70.5 and only a point lower than June's future prediction of 70.6, according to Rogers, who says this "marks a notable run of consistency in predictions."