



# Transportation & Logistics Industry Update

4Q23 Executive Summary

In the fourth quarter of 2023 geopolitical instability in the Middle East caused shipment delays for the transportation and logistics industry, while M&A volume was depressed due to macroeconomic factors and cautious credit markets. Generative artificial intelligence (GenAI) continues to play a pivotal role within the sector, and there is a growing emphasis on ESG frameworks as well, showcasing an important shift in the sector towards sustainability and environmental responsibility.

By 2025, moderating cost pressures should result in a gradual easing of consumer price inflation towards central bank targets for most economies.<sup>1</sup> In OECD countries, the expected trend is for consumer price inflation to decrease from 7.0% in 2023 to 5.2% in 2024 and further to 3.8% in 2025.<sup>2</sup>

The growth of the global economy continues to rely significantly on rapidly expanding Asian economies, primarily India, China and Indonesia.<sup>3</sup>

## Key Macro & Technological Trends

- Oil prices are projected to rise in early 2024, as OPEC+ production cuts would lead to global inventory withdrawals. Tensions around the critical Red Sea shipping channel and other developments in the Middle East can put further upward pressure on prices and disrupt global trade flows.<sup>4</sup>
- Although the trucking sector is exhibiting volatility with declining spot rates, improved prospects are expected in 2024, driven by a surge in demand and an influx of new entrants leading to excessive capacity.<sup>5</sup>
- Weak global economic growth and high inflation have contributed to weakened demand and retail inventory build-up in the container market, resulting in declining freight rates and surplus vessel capacity.<sup>6</sup>

- The logistics industry faced reduced deal volumes amid economic uncertainties in 4Q23 but anticipates strategic M&A to achieve scale, synergies and cost savings, driven by the need to enhance volumes through access to new customers and sectors amidst margin pressure.<sup>7</sup>
- Changing consumer expectations along with technological advancements have prompted e-commerce logistics to evolve for speed, sustainability, omnichannel integration and drone advancements, spurring rapid growth in quick commerce with ultra-fast deliveries within an hour.<sup>8</sup>
- Generative AI is set to transform the logistics industry through optimized supply chain operations, improved route planning and dynamic pricing strategies, enabling companies to be proactive in their decision-making process with real-time insights on ways to mitigate disruptions.<sup>9</sup>

### Taking a deeper look into the sector:



The subsector of **digital freight forwarding** is expected to grow exponentially in the near future to reach ~\$34 billion by 2032, with a CAGR of 24.4%.<sup>10</sup>



For 2024, the **air freight market** growth is forecast at a modest 0.2% rate amid increased capacity, reduced rates and weak demand.<sup>11</sup>



The **sea freight forwarding market** has been facing disruptions that resulted in ocean freight prices surging in the second half of December 2023 due to Red Sea shipping diversions caused by Houthi militants, prompting logistics managers to explore alternative routes.

When BIMCO released its forecast in November 2023, it projected the market would grow modestly in late 2023 and 3-4% in 2024 and 2025, impacted by delays and high order book ratios.<sup>12</sup>

### Sea Freight Disruptions

Since November 2023, there have been over two dozen attacks by the Houthi group on commercial shipping vessels crossing the Red Sea to reach the Suez Canal. These attacks have compelled container carriers to reroute their ocean containers away from the Suez Canal, which has resulted in delays and increased freight rates.<sup>13</sup> Following an attack on a Maersk vessel, major ocean freight carriers, including Maersk and CMA CGM, have diverted their vessels away from the Red Sea, to sail instead around Africa.<sup>14</sup>

As a result of these diversions, companies are seeing longer transit times for their goods, while ports are starting to experience an increase in congestion as the effects of route diversion are felt globally.<sup>15</sup> At the time of this writing, the Port of Cape Town in South Africa is experiencing delays up to 10 days.<sup>16</sup>

## Importance of ESG Frameworks in the Industry

Global logistics is undergoing a transformative shift towards sustainability and environmental responsibility. On a global scale, green logistics is gaining importance. In December 2023, the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP28) was held to discuss sustainability efforts between global policymakers.<sup>17</sup>

The United States and Canada collaborated in the Rail Decarbonization Task Force, emphasizing the importance of zero-emission locomotives and a net-zero climate model by 2025.<sup>18</sup>

The upcoming implementation of the EU Emissions Trading System in 2024 further underscores the industry's dedication to environmental responsibility, particularly in monitoring and reporting emissions within the European Economic Area.<sup>19</sup>

## Rise of GenAI

Generative AI has the potential to significantly transform the global supply chain by automating repetitive tasks, empowering predictive and proactive operational models, and providing valuable real-time insights. This technology offers logistics companies the opportunity to enhance efficiency, reduce costs and improve customer satisfaction by enabling a shift from reactive to forward-looking decision-making.

As GenAI advances, it paves the way for a more agile, responsive and intelligent supply chain ecosystem. However, ethical, regulatory and cybersecurity considerations are paramount, especially as generative AI systems process vast amounts of sensitive information. Robust cybersecurity measures are imperative to safeguard the security and integrity of the entire supply chain ecosystem.<sup>20</sup>

Overall in 4Q23, the transportation and logistics industry experienced several challenges that will continue to shape the sector, such as economic headwinds, rising interest rates and geopolitical instability. In spite of these challenges, T&L companies have continued to embrace sustainability and innovation, including increased adoption of IoT, robotics, warehouse automation and fleet electrification. Digital twins and generative AI emerged as key technologies in 2023, revolutionizing supply chain management.

The transportation industry is poised for significant change in the new year: Companies will need to maintain a strong focus on sustainability and innovation while they navigate through ongoing economic uncertainties and geopolitical complexities as cutting-edge technologies and dynamic regulatory landscapes continue to reshape day-to-day business operations.



## Endnotes

- <sup>1</sup> [“Economic outlook: A mild slowdown in 2024 and slightly improved growth in 2025,”](#) OECD (November 2023).
- <sup>2</sup> Ibid.
- <sup>3</sup> [“Restoring Growth: OECD Economic Outlook,”](#) OECD (November 2023).
- <sup>4</sup> [“Short-term Energy Outlook,”](#) EIA (January 2024).
- <sup>5</sup> Todd Maiden, [“Transportation capacity up again in December, prices fall faster,”](#) FreightWaves (January 2024).
- <sup>6</sup> [“Ocean Freight Rate Tracker 2023 Q3,”](#) TI Insight.
- <sup>7</sup> Fraser Paget, [“Trends Shaping 2024: Evolution of the Transport and Logistics Industry,”](#) BDO UK (December 2023).
- <sup>8</sup> [“5 ways AI will transform logistics in 2024,”](#) Times of India (December 2023).
- <sup>9</sup> Krishnakali Sengupta, [“How can generative AI drive logistics transformation?”](#) Maersk (January 2024).
- <sup>10</sup> [“Digital Freight Forwarding Market Size Is Surpassing USD 33.7 Billion by 2032, Growing a Projected 24.4% CAGR,”](#) GlobeNewswire (January 2023).
- <sup>11</sup> Viki Keckarovska, [“Global Freight Forwarding Market,”](#) Transport Intelligence (November 2023).
- <sup>12</sup> Ibid; [“Container Shipping Market Overview & Outlook Q4 2023,”](#) Bimco (November 2023).
- <sup>13</sup> John Davison and Phil Stewart, [“Red Sea attacks force rerouting of vessels, disrupting supply chains,”](#) Reuters (December 2023).
- <sup>14</sup> Judah Levine, [“Red Sea and Suez Canal Shipping News & Updates,”](#) Freightos (January 2024).
- <sup>15</sup> Ibid; [“Container Shipping Market Overview & Outlook Q4 2023,”](#) Bimco (November 2023).
- <sup>16</sup> [“South Africa Port Congestion,”](#) GoComet (January 2024).
- <sup>17</sup> [“Alibaba Businesses Share Green Initiatives at COP28,”](#) Yahoo Finance (December 2023).
- <sup>18</sup> Joanna Marsh, [“US, Canada to form task force to get locomotive emissions to net zero,”](#) FreightWaves (December 2023).
- <sup>19</sup> [“EU ETS Directive & Implementation effective as of 1 January, 2024,”](#) Maersk (December 2023).
- <sup>20</sup> [“How can generative AI drive logistics transformation,”](#) Maersk (January 2024).

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