Research @ Citi Podcast Episode 78: Global Supply Chains' Shocks & Shifts

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Transcript

Elise Badoy (00:00)

Welcome to the Research @ Citi podcast. I'm your host, Elise Badoy, Head of UK, Europe, Middle East and Africa Equity Research at Citi. I'm delighted to be joined today by Kaseedit Choonnawat, APAC Transportation analyst based in Bangkok and recording from New York; and Ari Rosa, who's the Transportation and Logistics analyst at Citi. I'm recording from London, and today we're discussing how supply chains are evolving in the face of geopolitics, tariffs, fuel costs, and technological change.

So, there's been significant evolution in the global and regional supply chains over the past several years. How has this impacted your sector?

I think I'll start with Ari for that one.

Ariel Rosa (00:45)

Well hello Elise, and it's wonderful to be with you. Thank you for inviting us to join. Supply chains have been a fascinating place to be observing over the last couple of years, and there's all sorts of reasons for that.

Of course, the pandemic was a global phenomenon. None of us had really experienced anything like it in our lifetimes, and what we really saw was how important supply chains are to the economy, right? And to the global flow of goods. I think it's one of those things that everyone takes for granted until something goes wrong. And in this case, we had massive disruptions on a scale that we really had never experienced before.

And so, it was fascinating to see both how quickly companies were able to respond and what the follow-on implications of that were for the broader economy and how a lot of our companies then reacted — and in some cases thrived, and in some cases suffered or struggled over the ensuing years.

And so what we had was there was — at least in the U.S. — a huge buildup of resources. A lot of governments engaged in significant stimulus packages. There was also a significant shift in spending from services to goods in the U.S. because a lot of people were sitting at home ordering things. And so there was a huge surge in demand.

There was also a significant increase in capacity or in transportation supply during that time. And so, for instance, the statistic that I always like to throw out to people is we went from 600,000 registered trucking companies in the United States to over 900,000, and so we had really a 50% increase in the number of registered trucking companies in the United States in a very short period of time. That was necessary to accommodate the surge in demand that happened. We saw spikes in transportation rates across the board, and it was across different modes as well, right? So, it was more expensive to move things by rail, by truck, by ship. And transportation companies really were thriving in the period 2021, 2022, into early 2023.

And then what we saw was the economy reopened, there was a pullback in demand, and spending shifted back toward services, away from goods. People who had been at home and perhaps ordered a Peloton or who had renovated their kitchen all of a sudden decided, "Hey, you know, we don't need to spend quite as much money on at-home exercise equipment or on getting a new TV because we just bought one last year."

And so there was this pullback in freight demand, and that negatively impacted our sector. And that happened at the same time that we had something of a slowdown in the industrial economy, and we were still stuck with too much capacity.

So really the story in transportation from a U.S. perspective has been digesting that excess capacity and really rationalizing that excess capacity over the last couple of years. So that was painful. We've been through about a three-year freight recession. And what's really happened more recently is we've just started to emerge from that.

There's been this resurgence in demand. You can see that across a number of metrics. So for instance, the ISM manufacturing index, which had been under 50 for quite a long time, now has bumped above 50. And so that's a positive indication on the demand front. But more importantly, on the supply front, you've started to see that capacity start to drift down. And so this is kind of the natural part of transportation cycles, and I'm sure we can dig into this a little bit later in the podcast.

In the U.S., at least, there have been a lot of sector-specific and government-driven initiatives that have contracted freight capacity within the United States, specifically targeting — and again, not to get overly political, but there's been a lot of efforts from the Trump administration targeting trucking companies that rely heavily on immigrant labor, in some cases immigrant drivers of questionable legal status. And so that has also resulted in a contraction of freight capacity. So now it looks like after a three-year-long freight recession, we're really starting to emerge from that, and that's had positive implications across our sector.

Elise Badoy (04:36)

Thanks Ari, for this overview, and especially for the U.S. focus here. Perhaps Kaseedit wants to add a few things about the global evolution or international evolution.

Kaseedit Choonnawat (04:49)

Thank you, Elise. Through thick and thin, global container demand — which I see as a proxy to Adam Smith's theory of absolute advantage — growing at roughly 3% CAGR over the past decade. Asia to U.S. has grown faster than Asia to Europe, which I read as invisible hands driving to suffice the consumers' preferences. Intra-Asia, Middle East and South Asia volume has grown faster than the world's average. And interestingly, after all these changes in tariffs and COVID experiences, China shares — which I view as the world's largest exporter or close to — as a percentage of U.S. imports, which is the world's largest consumer of imports, have been declining from the high of over 20% in 2017 to roughly 10% or below as of 2025. Southeast Asia has been gaining shares. China container export actually continues to set a record high.

Piecing these all together, what this means is that supply chains continue to find the most optimal ways to reach the end consumers at the most optimal risk-adjusted cost. So, complications of moving components around, as well as multiple manufacturing bases being added, translate to the same goods getting handled multiple times before arriving to the shore of final consumers. All else equal, these add volume to freight transport businesses.

Elise Badoy (06:31)

And so obviously, that would be a rapid-fire question, but looking back at the last few years, what would you say, each, are the most important changes in the industry since the pandemic? Really rapid-fire: just a few key points before we move on in the podcast.

Ariel Rosa (06:46)

There's really two things that I think have been important. One is companies have had to get a lot leaner and have had to think a lot more in a much more disciplined fashion about their resources. UPS and FedEx, for instance, have engaged in significant cost-cutting efforts, really targeting resource rationalization. And that's been sensible, and it's been painful for a period of time, but we're now starting to see the benefits of that.

And then the other big impact has been some of these efforts from the Trump administration to contract freight supply and freight capacity. And that really has resulted in significant changes in the trucking industry, where we've seen the removal of potentially hundreds of thousands of drivers. You're seeing truckload spot rates tracking up 30% year over year — in some weeks, it's in excess of 30%. So, it's just this massive increase in freight transportation rates. I mentioned that we've been in this freight recession, now you're starting to see that impact ripple across our sector, and that has implications downstream for rails and for other modes of transportation as well.

Elise Badoy (07:50)

Thanks. Kaseedit?

Kaseedit Choonnawat (07:52)

On the end-demand side, when we first came out of the pandemic, we have seen surge in consumption for services, i.e. premiumization of leisure travel, pickup in business class, load factors, or consumers demanding larger hotel rooms in exchange for lower purchase of larger-ticket items. We thought that it could be temporary, yet it has been five years, and that trend seems to be structural, at least in the near term.

Suppliers would have to rethink how to best serve the changes in consumers' demand. On the supply side, China historically seems to be the lowest-cost producer, which arguably should continue to be the case, right? But what has changed is the risk profile needs to be diversified, i.e. changes in import tariffs by the end consumers, i.e. the U.S. markets, as well as how border controls have been handled during the pandemic. There's no right or wrong, but it has got some implications on resiliencies of the supply chain.

Elise Badoy (09:14)

And so obviously we want to talk about recent news and the Iran war, spiking fuel prices, U.S. tariffs. Obviously more recently, we've seen major disruptions to supply chains, and, I think the world has discovered, even the concept of supply chain at large. Can you walk us through the most recent one? We went over the pandemic, but obviously let's look at the Iran war, spiking fuel prices, U.S. tariffs. How has this altered trade dynamics? Maybe we start with Ari?

Ariel Rosa (09:45)

Sure. I'll let Kaseedit speak more to fuel prices, because for a lot of our companies, fuel is really a pass-through. And so you've seen some impact there and if we were to get into the weeds on it, I could talk about that.

But I almost would prefer to talk about tariffs, because I think tariffs have been fascinating. And we've now been living with tariffs for a little over a year since quote-unquote Liberation Day, and Trump imposing a lot of these tariffs. And obviously, the threat has been hanging out there for some time.

What we've seen is our companies have been pretty remarkable in their ability to adapt to tariffs. And so, for instance, one of the things that you saw was FedEx and UPS, one of their most profitable trade lanes — really their most important trade lane, and I would say globally this is true — is the China to U.S. trade lane. And for instance, in the U.S., the Port of Los Angeles and Long Beach is the biggest port in North America. And there are a lot of goods that flowed in there.

And you saw this kind of boom-bust cycle where a lot of companies moved goods in ahead of tariffs being in place, and then you saw something of a slowdown in international trade flows. But what's been fascinating is you've really had this shift in trade dynamics. And so, whereas that China-to-U.S. trade lane maybe has come under some pressure, what you've heard from companies like FedEx and UPS is they've seen double-digit year-over-year growth in India-to-U.S., Vietnam-to-U.S., Thailand-to-U.S. And so really, companies have been incredibly creative in finding alternatives, finding workarounds, can keep supply chains moving and still comply with some of these tariffs that have been put in place.

And what continues to be fascinating for us is that the tariff regime continues to evolve, right? The Supreme Court recently struck down some of the Trump tariffs. You've seen our companies respond in certain ways. And so it continues to be a dynamic market but what the companies have really shown is that supply chains remain resilient, and companies remain creative in finding solutions to keep supply chains moving.

Kaseedit Choonnawat (11:56)

Thanks, Ari. On my side, I would like to break down discussions into two parts, add on tariffs, and then Middle East and conflict. So, on tariffs, when it first broke out in early April last year, my first thought was that equilibrium should prevail. And by equilibrium, it means that the U.S. consumers, Trump should be thinking at the rates where end-U.S. consumers can absorb it. Because at the end of the day, that's how I think he would look to maximize the U.S. taxpayers' benefit. Right? That's the assumption. And it has been the case, we have tariff truce and tariffs at the end continue to stabilize, whereby it can be absorbed by U.S. consumers as reflected in those single-digit CPI.

On the Iran and Middle Eastern conflicts front, as a starting point, consumption of goods conceptually can be stored, unlike consumption of services, which are chronologically less substitutable. And we see air freight rates as the key beneficiary to Middle Eastern conflict from the supply-disruption standpoint. And why that is the case is, if you think about the geographical location of the Middle East, whereby we have three key carriers — Emirates, Qatar and Etihad — together they are 13% of global air cargo volume, which capacity has been on and off, on and off, on and off. Not their fault, though.

Well, air freight rates have spiked roughly at 30% compared to the mid-February result, just from a supply constraint perspective. And in the water, unlike air freight, container is not a major trade of the Hormuz Strait, which is much more on the energy shipping market. Nonetheless, potential resumption of Suez Canal passage that effectively removed roughly 7% of global supply since the end of 2023 is being pushed out, as we know publicly that the Houthis is related to Iran support. Demand should be less affected across the sea and air in the near term until potential stagflation bite down the line if the conflicts drag on.

And lastly, on fuel, fuel is 30% of airlines’ cost, roughly, similar to container lines. So, the refined products, whether it's jet fuel or bunker, have doubled since February. So effectively, both liners and airlines have to increase their unit revenue by 30%. I would argue that for air freight and container, they should find it much easier to pass on given freight’s low-single-digits proportion of total final goods. So as long as the conflict does not drag on for too long that we start to see a stagflation, I think the freight should actually benefit from the disruption.

Elise Badoy (15:26)

And so, Kaseedit, perhaps I could address this question: When you look at the global demand, are you saying that perhaps container trade could be stronger than the headlines suggest?

Kaseedit Choonnawat (15:37)

We usually think of the U.S. as the end-demand driver, which is roughly 30%, and Europe being 25%, which is also a part of the supply chain into the U.S. as well, looking at who is the largest destinations of European exporters to the U.S. There are other areas beyond the U.S. — Africa, Middle East, India, intra-Asia — where rising income has transferred into a rising propensity to consume imported goods. A proxy that is being very vivid is ICTSI Philippines, which continue to see container volume growth throughout the year, despite sometimes during a soft economic environment. So that was a long answer to say that the strength is real, it's resilient at low single digits, and not all strength is driven by U.S. markets.

Elise Badoy (16:32)

You've both mentioned a form of adaptation, and we've seen supply-chain diversification. Perhaps also a concept like reshoring — for example, local to local trading. Are these structural shifts genuinely, or more of a short-term workaround? And perhaps you want to both address the future of supply chains and the type of innovations you're seeing as well?

Kaseedit Choonnawat (17:04)

Perhaps I can start there, right? If we think about value of an asset, it's a function of free cash flow, growth, and risk So, supply-chain managers would continue to take this into consideration. i.e. seeking for the highest Sharpe ratio. So economic and technological disruption is having a very direct impact on transport, shipping and port, simply because the supply chain has shifted from being viewed as mainly focused on cost-efficiency function to being treated as a source of competitive advantage and operational risk.

But therefore, resiliencies, operational flexibilities, scale with technology and sustainability should drive ROIC winner over the long term, rather than just purely on costs focus. And in terms of supply-chain diversification, I believe that it's not short term, simply because the end demand has grown outside of the U.S. as well. So local market has grown in China, local market has grown in India, local market has grown in LATAM. So, from a CFO or procurement or factory manager's perspective, investments in the past that were focused on producing goods at the cheapest cost and sent to end consumers in U.S. and Europe have now been diversified into that local market as well, therefore reducing the risk and improving the ROIC of their investment.

Ariel Rosa (18:40)

Yeah, thank you, Kaseedit. So I would agree or just echo a lot of the comments that Kaseedit made, which is our companies have been remarkably resilient. I think diversification of supply chains absolutely continues to be a theme. I think one of the lessons from the pandemic has been you really do need that resiliency built in — I think in some cases, a redundancy.

And at the same time, one of the things that we've really been struck by is how adaptable a lot of our companies are. The resources that our companies own, for the most part, can be transported, can be moved around, right? And so I mentioned there's been this reduction in China-to-U.S. transit. And yet what we've seen is a lot of those trade lanes have shifted, and frankly, very quickly. And some of that is because those assets — whether it's planes or trucks — can be moved around as needed.

Talking about the future of supply chains, one of the things that we haven't really even touched on: Technology has just become an incredibly important narrative here. I heard someone say once, "All companies are tech companies these days." And so we've seen our companies — even companies that people think of as kind of old-world companies, maybe a little bit more sluggish — railroads have been incredibly creative in in terms of adopting technology, predictive analytics, using forecasting to anticipate workforce needs, forecasting economic cycles and other things.

And as we think about the future, we recently visited with some of our larger-cap companies. They're talking about how they're incorporating robotics and automation into warehouse operations. They're talking about, again, big data, predictive analytics, all of these things that they're really leveraging at scale. And our companies have this global presence and collect millions and millions of data points — you know, you look at a UPS or a FedEx, they move a very large share of global GDP every day. And so they collect tremendous amounts of data off of that, and really leveraging that data.

I think the future is leveraging that data to be smarter about how they manage their supply chains, smarter about how they utilize their resources. And really, in real time, we're already seeing that payoff in terms of efficiencies and, frankly, the margins that accompany that. That's not invariably true, there obviously will be winners and losers. But what we found is it always strikes me how resilient, how adaptive a lot of our companies will be. And leveraging technology, I think it's an exciting next decade ahead that I'm sure will not lack for both surprises, but also a lot of positive innovation.

Elise Badoy (21:20)

Ari and Kaseedit, thank you for joining me today on this podcast. This episode of Research @ Citi was recorded on Wednesday, May 6, 2026. I'm your host, Elise Badoy. Join us next time as we discuss the outlook for gold with Head of Commodities Research, Max Layton.

Disclaimer (21:39)