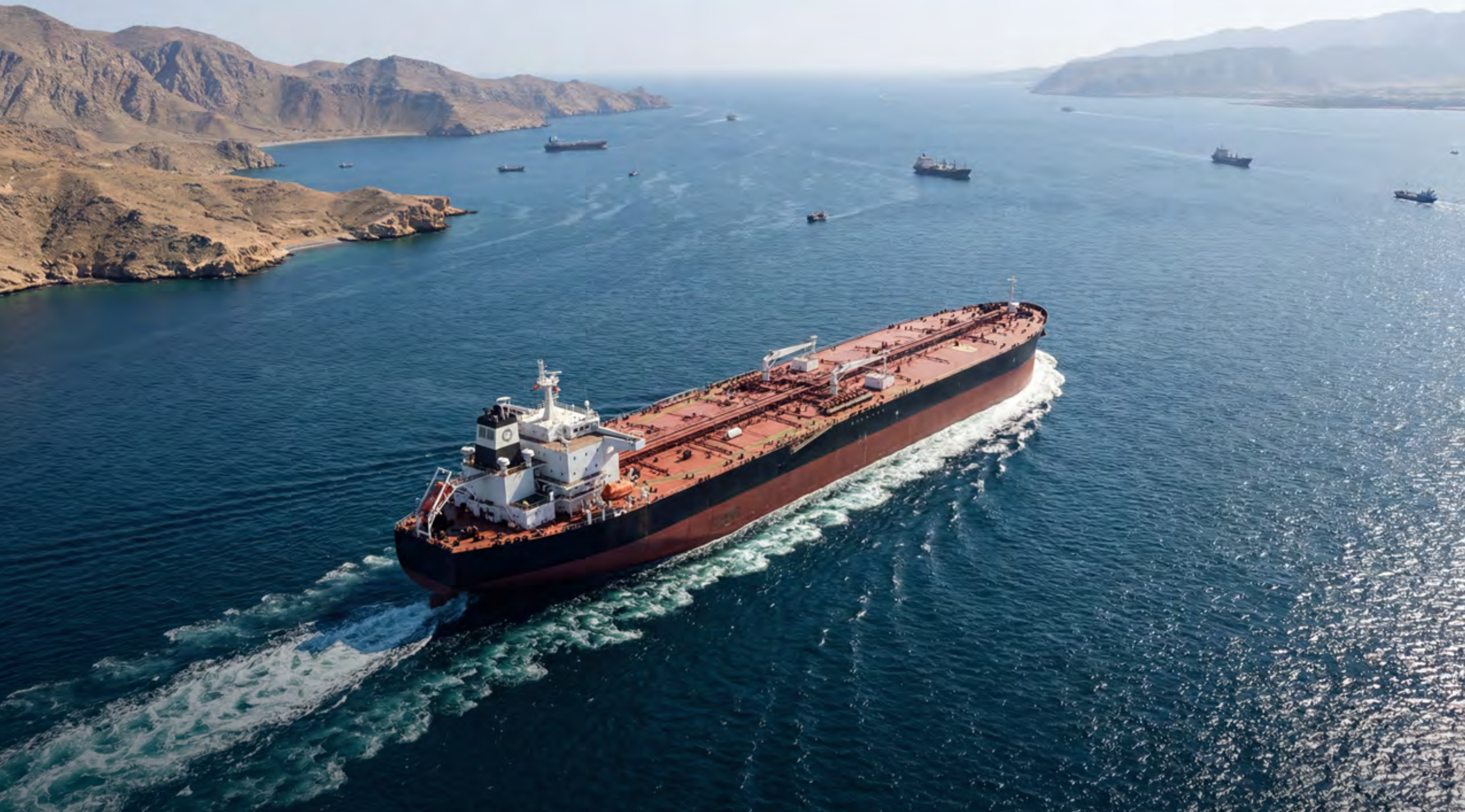


LogicSource®

ESCALATION IN THE MIDDLE EAST:

IMMEDIATE SUPPLY CHAIN DISRUPTIONS AND INDIRECT SPEND EXPOSURE

Produced by the LogicSource Indirect Category Leaders in our Center of Excellence
This report leverages insights from 200+ indirect category experts and $200B+ in pricing data to provide actionable strategies for optimizing procurement, mitigating risks, and addressing the impacts of a volatile market.

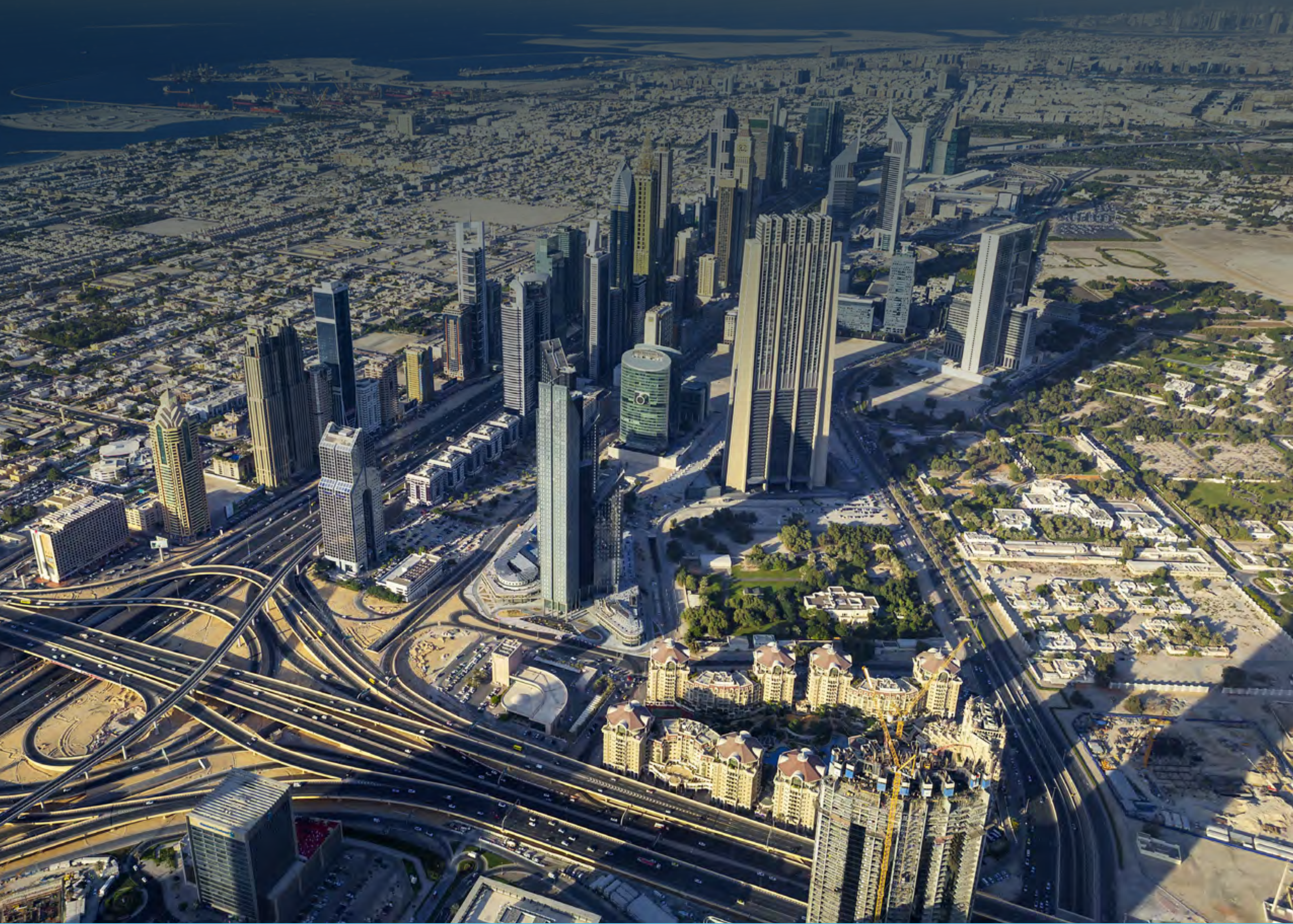
Learn more at **logicsource.com**

OVERVIEW

Over the past 60 days, geopolitical tensions in the Middle East have shifted from market uncertainty to sustained, structural disruption — with measurable consequences across global energy markets, logistics networks, and corporate cost structures.

Oil prices have stabilized at elevated levels, shipping and freight costs have risen sharply, and inflation is beginning to broaden beyond energy into goods and services. What began as short-term price volatility is now translating into persistent cost pressure across indirect spend categories.

This report, produced by LogicSource's 200+ indirect category experts, drawing on $200B+ in pricing data, outlines what has changed, what to expect over the next 3–6 months, and the procurement strategies organizations should act on now.



RECENT DEVELOPMENTS AND EMERGING COST IMPLICATIONS

Over the past 60 days, geopolitical tensions in the Middle East have shifted from market uncertainty to sustained disruption, creating measurable effects across global energy markets, logistics networks, and corporate cost structures.

Key developments include:

- Ongoing disruption in the Strait of Hormuz, reducing transit volumes and increasing shipping risk
- Oil prices stabilizing at elevated levels (~$100–$120+/barrel) after initial volatility
- Sharp increases in freight, insurance, and energy-related costs
- Rising shipment delays and lead time volatility, as rerouting and capacity constraints strain global supply chains
- Early signs of inflation broadening beyond energy into goods and services

As a result, the operating environment has changed from short-term volatility to structural cost pressure, with broader and more persistent consequences for corporations

LogicSource.

ENERGY MARKET UPDATE

While the early price swings were driven by uncertainty, current pricing remains elevated due to reduced effective supply, constrained logistics capacity, and limited ability to rebalance quickly.

What's New

Oil Price Levels

Initial price increases (~15%–20%) have transitioned into sustained elevated pricing, with oil holding near $100–$120+/barrel

Transit & Disruption Risk

+ The Strait of Hormuz, which typically accounts for ~20% of global oil flows, is seeing lower transit volumes and heightened disruption risk
+ Even without a full closure, disruptions are tightening effective global supply, reducing market flexibility

Shipping & Logistics Costs

+ War risk insurance premiums and tanker rates have increased substantially, at times, multiples of pre-conflict levels
+ Delivered energy costs are rising due to logistics bottlenecks, not only commodity prices

What This Means

With structural constraints now in the driver's seat, here's how to read the market going forward:

- Oil markets are operating with limited spare capacity and tighter supply buffers
- Near-term downside scenarios (e.g., $65–$70 oil) are less likely, even if tensions stabilize
- Prices are becoming less reactive to day-to-day geopolitical headlines and more anchored by structural supply constraints
- Elevated energy pricing is being reinforced by transportation and logistics costs, not just upstream production factors

With downside scenarios increasingly unlikely in the near term, planning assumptions anchored to pre-conflict price levels should be revisited. The structural nature of these constraints means relief is unlikely to come quickly.

MACROECONOMIC IMPACT: INFLATION BROADENING

The Key Shift

Inflation is increasingly moving beyond an energy-driven spike and becoming more broad-based across the economy. Energy remains the primary driver, but cost pressure is now spreading into transportation, materials, and services – suggesting a shift toward more persistent inflation dynamics.

Inflation is now at 3.3% (vs. 2.8% pre-conflict).

- Expected to reach 3.6% by the end of Q2 2026 and 4.2% for the full year of 2026

Energy remains the primary driver:

- Oil prices: +40%–100% at peak vs. pre-conflict levels
- U.S. gasoline: +30%–50% since early 2026
- Jet fuel: +70%–100%+ in key markets

Second-order effects include:

- **Ocean and tanker rates:** multiples of pre-crisis levels on key lanes and, specifically, Strait of Hormuz tanker Spot Rates 800% higher vs. pre-conflict
- **Air freight:** double-digit increases driven by fuel and capacity constraints
- **Petrochemical-linked inputs (plastics, resins):** mid- to high-single digit increases as manufacturers reduce operating capacity to 60% - 70% (80% threshold is typically considered economically viable)
- **Polyethylene:** price increases of +$0.30/lb (April) + $0.20/lb (May) announced

Inflation is transitioning from a visible, short-term shock driven by energy volatility to a more embedded, durable cost pressure across the economy. What initially appeared as isolated fuel and freight increases is now spreading across multiple spend categories, gradually working its way into supplier pricing, contract renewals, and ongoing cost structures.

IMPACT ON INDIRECT SPEND CATEGORIES

Rising energy costs, freight disruption, and supplier cost pass-through are now translating into broader pressure across indirect spend. While categories with direct fuel exposure are most affected, second-order impacts are increasingly visible in facilities, materials, packaging, travel, and outsourced services.

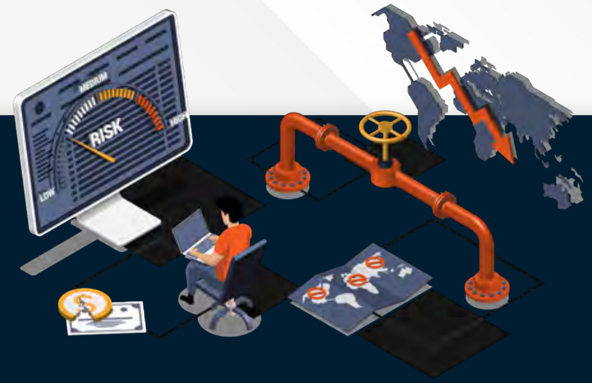
Category	Impact Level	Key Drivers	Primary Risks
Logistics & Freight	Severe	• Rerouting • Capacity constraints • Higher fuel costs • War-risk premiums	• Spot market rate volatility • Expedited and air freight are becoming materially more expensive as companies look to offset shipment delays
Facilities & Utilities	Materializing	Elevated energy prices flowing into electricity, natural gas, and site operating expenses	• Multi-site organizations are especially exposed • Budget pressure increasing over next 1–2 quarters as utility rates and energy contracts reset
MRO, Office Supplies, Packaging & Inputs	Accelerating	Supplier price pressure on: • Petrochemical-linked materials • Plastics • Resins • Adhesives • Chemicals	“Inflation creep” — suppliers citing commodity or energy pressure to justify increases that may exceed true cost exposure
Corporate Travel & Fleet	Elevated Volatility	Rising jet fuel, gasoline, and diesel prices	Budget volatility across airline pricing, rental cars, mileage reimbursement, and fleet operating costs — especially for high-travel or distributed operations
Outsourced Services	Early-Stage	Fuel and labor-related cost pressure across: • Waste management • Field services • Facilities maintenance • Security • Food service • Logistics support	Because many costs are embedded in supplier rates or escalation clauses, the impact may appear gradually through renewals, surcharges, or off-cycle price increase requests

WHAT TO EXPECT OVER THE NEXT 3–6 MONTHS

The most likely near-term outlook is a prolonged period of elevated but manageable cost pressure, with energy prices remaining high and inflation continuing to broaden gradually. However, there is meaningful upside risk if geopolitical conditions deteriorate further — potentially driving sharper cost increases and an economic slowdown.

Base Case
(Most Likely):

- Oil remains elevated in the ~$90–$110/ barrel
- Inflation trends upward toward ~3.5%–4.0%, driven by second-order effects (freight, materials, supplier pricing)
- Cost pressure broadens across categories, but remains largely manageable through procurement and pricing initiatives



Upside Risk
(Escalation Scenario):

- Oil prices increase to $120+, especially given that about 20% of global oil supply flows through the Strait of Hormuz
- Additional shipping disruptions and capacity constraints drive further increases in freight and insurance
- Inflation accelerates toward ~4.5%+, increasing risk of demand slowdown and margin compression

PROCUREMENT STRATEGIES

As cost pressures shift from short-term volatility to structural increases, procurement must move from reactive cost management to proactive cost containment and resilience building. While the focus will remain on savings, we must also prioritize mitigating inflation impact, improving cost visibility, and strengthening supply chain flexibility.

1

MOVE FROM COST CONTROL TO COST CONTAINMENT

+ Accept that some inflation is unavoidable in an environment where energy prices are up 40%–100%+ at peak
+ Prioritize strategies that minimize, delay, and offset cost increases across categories

2

INCREASE SCRUTINY ON SUPPLIER PASS-THROUGHS

+ Require:
  - Index-based justification tied to commodities (e.g., fuel, resin, freight indices)
  - Detailed cost breakdowns to validate true exposure
+ Challenge broad "energy surcharge" increases, especially as second-order inflation spreads across categories

3 REDUCE EXPOSURE TO SPOT MARKETS

+ Where possible, lock in:
  - Freight capacity, as spot rates can be multiples of contracted rates during disruption
  - Energy contracts to reduce volatility
+ Minimize reliance on expedited shipping, where costs are rising sharply due to fuel and capacity constraints

4 OPTIMIZE NETWORK & DEMAND

+ Re-evaluate:
  - Distribution networks (location, routing, regionalization)
  - Shipment modes (shift from air/expedite to ground/ocean where feasible)
  - Inventory strategies (increase buffers to avoid costly expedites)

5 ACCELERATE STRUCTURAL COST INITIATIVES

+ Drive supplier consolidation to improve leverage and pricing control
+ Explore nearshoring/regionalization to reduce freight exposure and lead time risk
+ Pursue product and material redesign, particularly where petrochemical-linked inputs (plastics, resins) face double-digit pressure

CONCLUSION

The past 60 days confirm that this is not a short-term pricing event — it is a structural cost shift across the global economy.

- Energy disruption has evolved into a broad-based cost inflation cycle
- Indirect spend categories are experiencing real and accelerating impact
- Procurement must now operate as a margin defense function, in addition to a savings function

Organizations that act early to control pass-through, stabilize supply chains, and redesign cost structures will be best positioned to navigate the geopolitical environment.

ABOUT LOGICSOURCE

The innovative leader in procurement services and technology, LogicSource is purpose-built to drive profit improvement, mitigate risk, and ensure supply chain continuity through better buying. LogicSource focuses exclusively on the sourcing and procurement of indirect goods and services, which typically represent 20% of an organization's revenue and the area of greatest spending inefficiency.

These include complex categories like marketing, packaging, corporate services, facilities, information technology, distribution and logistics, and more, for which organizations often lack the capacity, focus, and scale to achieve best-in-class buying. Unlike traditional advice-based consultants, LogicSource is a purpose-built buying utility with assets that are configurable to their clients' needs and ready to deploy.

By combining decades of sourcing and procurement expertise, superior market intelligence, cross-portfolio spending leverage, and their OneMarket® Source-to-Pay technology, LogicSource executes customized solutions that deliver immediate savings and sustainable value. For more information, visit **logicsource.com**.

ABOUT THE AUTHORS

This report was produced by the LogicSource Indirect Category Leaders and Center of Excellence, which leverages decades of expertise and data to help organizations navigate global trade challenges and optimize their procurement strategies. With a dedicated team of 200+ indirect category experts and access to $200B+ in indirect pricing data, LogicSource equips our clients with the insights and tools needed to make informed decisions, mitigate risk, and drive sustainable value.

For more information or to discover how LogicSource can help your organization achieve best-in-class buying, visit **logicsource.com**.

LogicSource®