

Post Covid-19 Forecasts: Global Contract Logistics Growth 2020-2024



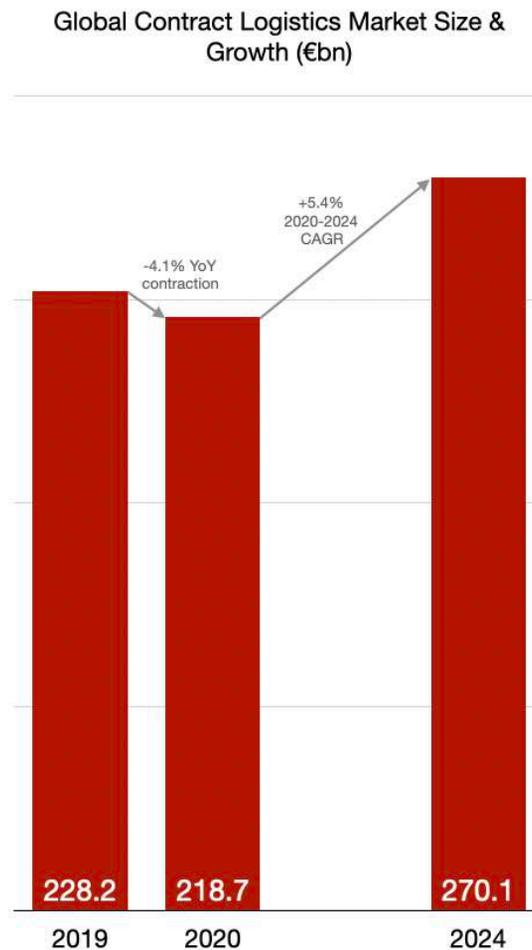
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The global contract logistics market is expected to grow at a real compound annual growth rate (CAGR) of 5.4% between 2020-2024. The forecast paints a positive picture of a market set to grow impressively over the period, but it should be noted that 2020 will be a painful year for contract logistics providers, with a contraction of 4.1% expected.



Underpinning the contract logistics markets forecast is a relatively healthy outlook for the global economy, according to IMF data. While real GDP growth is expected to be down 4.4% in 2020, the expectation is that 2021 will see something of a bounce back with a 5.2% expansion anticipated. While the IMF expects GDP growth to be more subdued in the following years to 2024, the forecasts highlight the diminishing impact of the COVID-19 pandemic on global economic prospects.

The pace and timing of the wider economic recovery is important for contract logistics providers. Manufacturing shutdowns, the closure of non-essential retail and stay-at-home orders across Europe, North America and Asia Pacific greatly hindered key contract logistics sectors during 2020. Together, the three regions account for more than 90% of the global contract logistics markets. The picture in the regions has improved as the year has progressed, however.

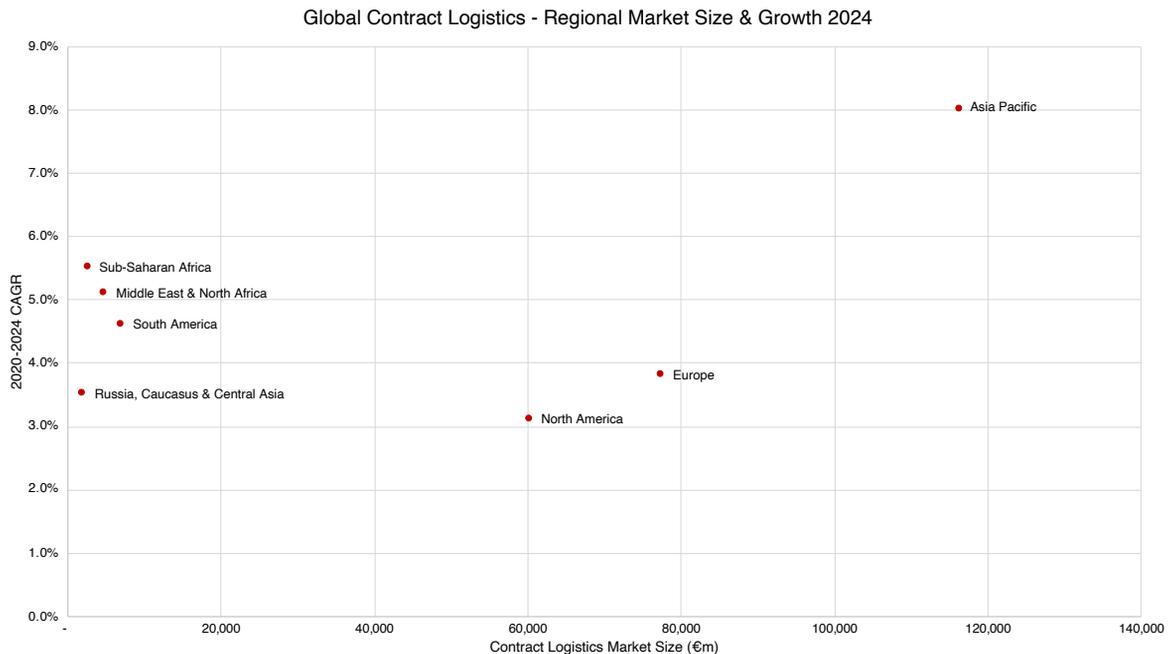
After factory shutdowns during the initial phases of the pandemic, the gradual reopening of production has gained momentum. By October, the Global Manufacturing PMI had reached a 29-month high, according to IHS Markit. The forecasted growth is also supported by Baker McKenzie and Oxford Economics as both predict global manufacturing output will rebound in 2021, estimating manufacturing output will increase by 6% compared to 2019.

Contract logistics prospects are further buoyed over the forecast period by improving prospects in

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the retail sector after a tumultuous 2020. Store closures, inventory shortages and the rapid expansion of online sales in many markets heavily impacted by the COVID-19 pandemic look set to fundamentally change the retail landscape globally. Retail analysts expect sales to rebound between 5.7% to 9.6% in 2021 as consumer confidence is rebuilt, but the nature of this growth will raise questions for contract logistics providers which must grapple with an accelerated shift to e-commerce and an uncertain future of high streets, particularly across Europe and in North America.



Asia Pacific

The Asia Pacific contract logistics market is set to expand at a 2020-2024 CAGR of 8.0%, giving it the fastest expansion rate of any region globally.

IMF data shows the region's real GDP growth will be -2.6% in 2020, a markedly kinder contraction than both Europe (-7.2%) and North America (-4.9%) are expected to see. The region's economic performance is boosted by several positive growth rates. China, the largest economy the region and second largest in the world, is predicted to see its GDP rise over 2020 by 1.9%. Several countries in the region are to see this, including Bangladesh (+3.8%) and Vietnam (+1.6%). The solid economic prospects are underpinned by the region's manufacturing sector which has become deeply intertwined with global value chains as well as an increasingly large and wealthy middle class. It should be remembered, however, that the size and diversity of the region means that different countries will experience the post-Covid world differently.

There are already positive signs. Though shutdowns prompted by Covid-19 meant huge disruption during the opening months of 2020, the IHS Markit Asia Sector PMI found manufacturing output rose towards the end of 2020 with logistics-intensive sectors including the chemical, automotive, high-tech and consumer goods all recording scores above 50 in Q3 2020. The momentum is expected to continue as demand returns and economies recover. The outlook for the Chinese manufacturing sector, which resumed operations earlier than many other countries in the region, is expected to be more rapid, supporting its higher growth rate. The region's retail market is also set to grow positively over the forecast period. Forrester expects online retail sales in Asia Pacific to

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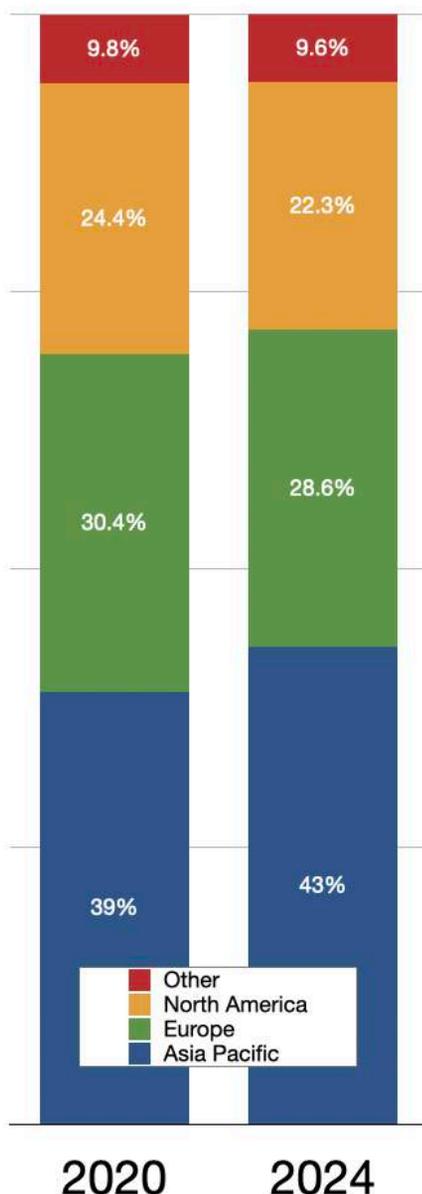
grow by over 60% from 2019 to 2024 as the Covid-19 pandemic accelerates retail’s transition online. This should trigger growing demand for warehousing, fulfilment and supply chain management services in the region.

Growth rates in the region’s emerging markets are set to remain higher than those experienced by its developed markets. Countries such as China, India and Indonesia are forecast to see significantly higher growth rates than South Korea and Japan, both of which weathered Covid-19 outbreaks well, but have wider economic challenges to overcome.

Europe

The contract logistics market in Europe is forecast to grow at a real CAGR of 3.8% for the 2020-2024 period. The region’s contract logistics providers faced challenging conditions in 2020 with Europe one of the markets most severely hit by the Covid-19 pandemic. The European contract logistics market is set to end the year 5.9% smaller than at the end of 2019.

Global Contract Logistics - Market Share by Region 2020 & 2024



Economic prospects in the region are mixed, with positive signs matched with an emphasis on a longer and slower recovery than is expected in other regions. The European Commission’s (EC) Autumn 2020 Economic Forecast expects an interrupted and incomplete economic recovery. The EC projects that the euro area economy will contract by 7.8% in 2020 before growing 4.2% in 2021 and 3.0% in 2022. Output in the region does not look set to return to pre-Covid levels until 2022.

Though the pandemic has severely impacted many industries, such as automotive, it also saw some prosper, for example, e-commerce and high tech. The automotive industry is a significant part of contract logistics operations in Europe and has been a large driving force of its growth in the past. Whilst there has been a recovery in sales and production in the latter half of 2020, the ACEA forecasts a 25% drop in EU car sales in 2020. ACEA Director-General Eric-Mark Huitema commented “purchase incentives and scrappage schemes are urgently required throughout the EU”, to help create demand in the next few years as well as to limit the damage on production and employment levels. The longer-term shift towards electrification in the automotive sector also creates uncertainty around prospects over the coming years – the supply chains which support vehicle manufacturing will need to change fundamentally against the backdrop of falling sales and low economic growth. This will be a challenging environment for Europe’s vehicle manufacturers and the logistics providers which support them.

Europe’s retail market has seen mixed fortunes in 2020. The early stages of the pandemic led to shutdowns of many high street retailers and in the first six months of 2020, total retail trade volumes were down 3.5% against the same period a year earlier, according to the OECD. The effects were felt across the sector,

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but certain segments – notably food and consumer essentials – saw significant upswings in demand. Meanwhile, a shift in consumer behaviour in the region has seen a rapid acceleration in online sales which are set to rise around 13% during the year.

Over the forecast period, weak economic fundamentals remain a threat. Whilst the 2020-2024 CAGR shows contract logistics as a growth market over the next four years, the market will encounter obstacles if the economy struggles to build momentum after the initial rebound. Other downside risks remain too, including the exit of the UK from the European Union on 1st January 2021, a process around which significant uncertainty remains.

North America

North America's contract logistics market is forecast to expand at a CAGR of 3.1% over the 2020-2024 period. However, the region will see its contract logistics market shrink 3.7% in 2020. The North American economy has been hard hit by the pandemic and at the end of 2020, it is still suffering. Its GDP forecast for 2020 looks gloomy at -4.9%, however, like all regions it is forecast to rebound in 2021, although over the forecast period growth will return pre-pandemic levels of around 1.9% in 2024. The US is the by far largest contract logistics market in the region with an 87% share. Under the Biden Administration, the economy is likely to gain from monetary and fiscal stimulus. This should revive the economy enough to increase consumer confidence and spending. A less disruptive trade policy is also expected to benefit the North America region.

Manufacturing in the US and Canada successfully bounced back after a huge slump in mid-2020. The US' PMI slipped to 36.1 in April but reached 53.4 in October, whilst Canada's fell to 33.0 but exceeded 2019 levels and reached 56.0 over the same period. Mexico's progress, however, has stumbled. IHS Markit reported in October 2020, "goods producers forecast lower production volumes in the coming 12 months". Business closures, unemployment and a decline in new orders look to be considerable factors. Despite this, the region has seen improvements in some industries like automotive. The sharp but rapid shock the pandemic had on automotive production has meant it was able to start up again quickly. Whilst the industry has remained resilient during this time, further economic issues such as a recession could weaken it. However other sectors, such as aerospace, are still under pressure and look set to remain so for some time.

Full Global Contract Logistics market sizing data now available through the Global Supply Chain intelligence database (GSCi).

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