



THE EUROPEAN ROAD FREIGHT RATE DEVELOPMENT BENCHMARK



upply

Q2 2021

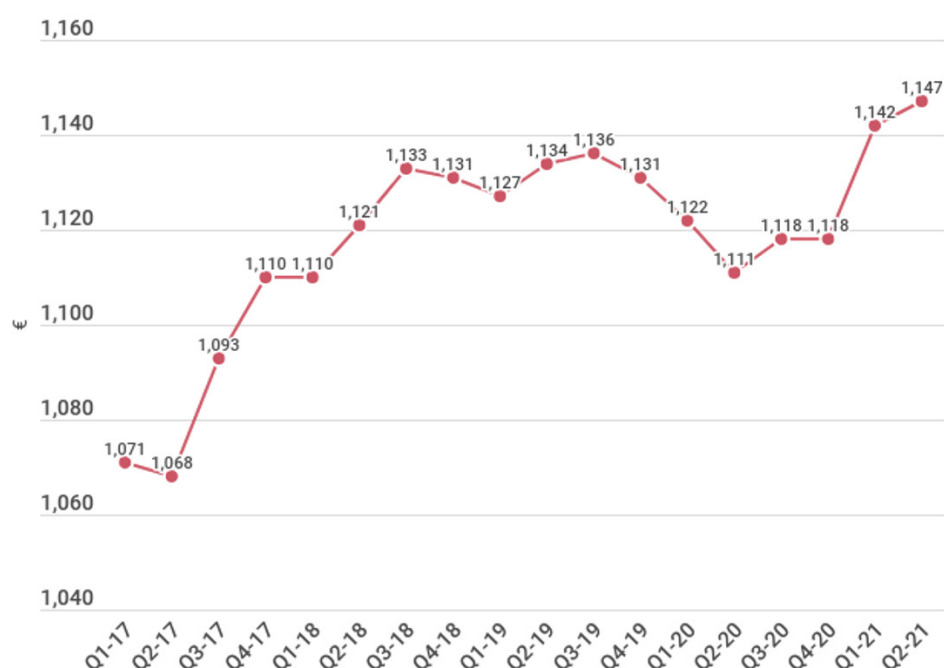
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The European Road Freight Rate Benchmark

The Ti & Upplly European Road Freight Benchmark rate was €1,147 in Q2-2021. This represents a 3.2% increase year-on-year or 0.4% quarter-over-quarter.

Ti & Upplly European Road Freight Benchmark – Average European Road Freight Rates, Q2-2021



Levels of economic activity have improved in the second quarter and this is leading to positive development in demand levels. In its Summer Forecast, the European Commission upgraded its GDP forecast for the EU to 4.8% from 4.2% in the Spring. Nevertheless, the spread of Covid-19 and health restrictions are hampering the recovery. In particular, retail trade volumes have fluctuated in line with public health restrictions, which is leading to unevenness and unpredictability in trade patterns.

UK rates remain elevated due to Brexit. The imposition of trade barriers has added administrative burdens which are being priced in on UK export lanes. Furthermore, supply is constrained, in part due to hauliers continuing to avoid cross-channel routes.

The shortage of drivers has also become critical in some supply chains. According to the latest study by the IRU, the number of unfilled positions for truck drivers is projected to grow to 17% in 2021, up from 7% in 2020.

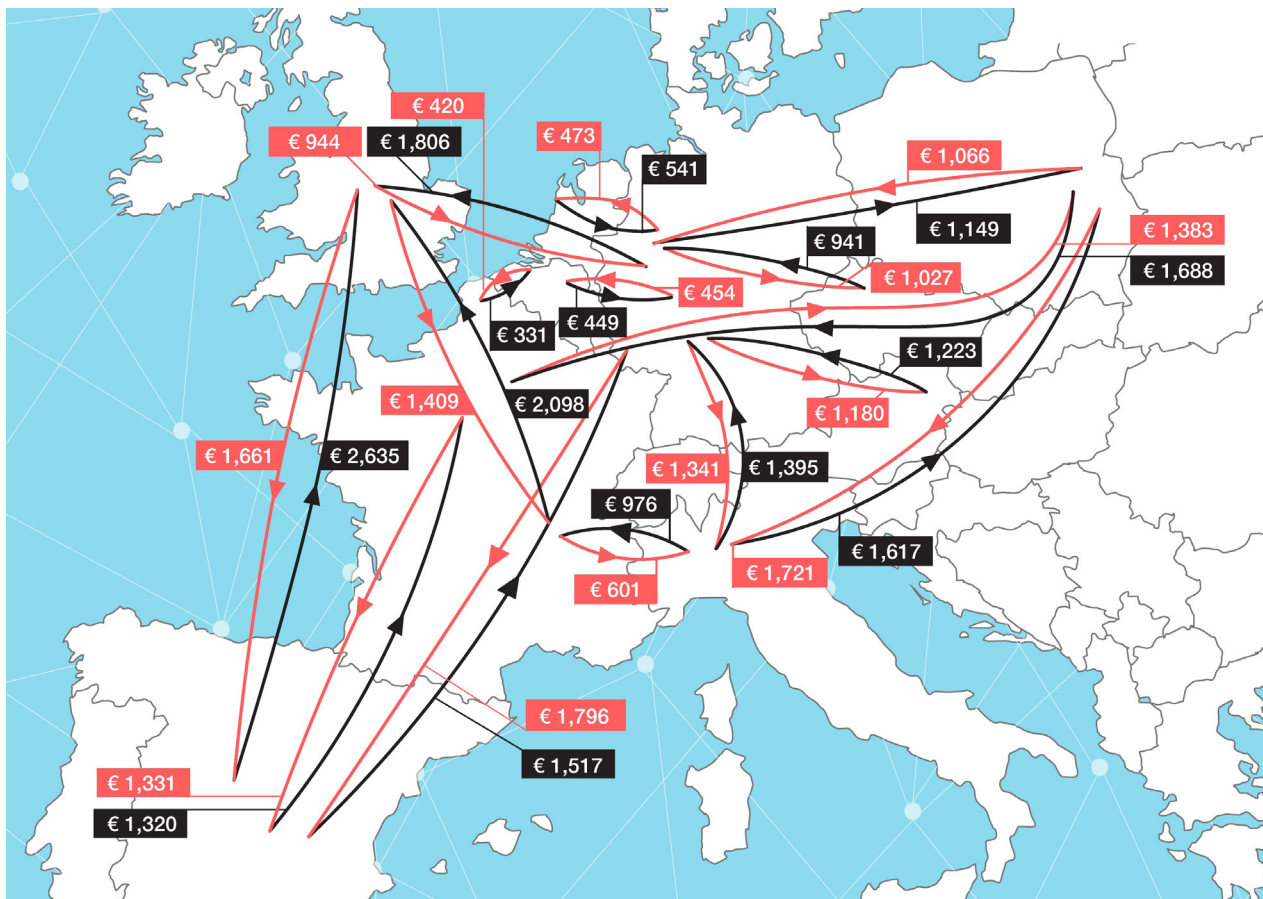
This is an issue which is affecting many European markets currently and leading to upwards pressure on rates. As a result of the pandemic, it appears many drivers left the profession, and this has led to transport companies struggling to fulfil orders in some places. This has pushed

pricing power in the hauliers' direction somewhat. Furthermore, new registrations of trucks fell sharply during the pandemic, which leaves a weak overall capacity picture.

Whilst this has been a key factor in supply, the reorientation of fleets appears to be helping alleviate supply shortages in Western Europe. With demand recovering, Eastern European drivers are increasingly returning to Western markets, bolstering supply.

Costs for hauliers appear to be on the rise. Diesel prices for Q2-2021 were 10.7% higher year-on-year or 5.3% higher quarter-on-quarter. This marks a substantial turnaround and is leading to upwards pressure on prices.

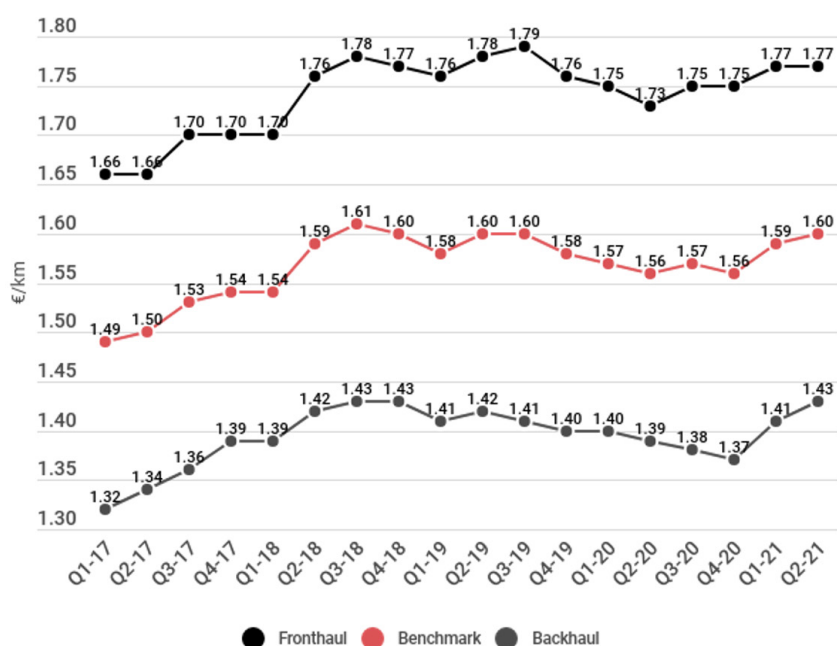
Ti-Upply European Road Freight Rate Benchmark Map Q2-2021



Market Efficiency

The European benchmark rate was €1.60/km in Q2-2021, up 0.9% quarter-on-quarter or 2.8% year-on-year. This is above Euro area annual inflation rates for the same period (from Eurostat - April: 1.6%, May: 2.0%, June: 1.9%).

Market Efficiency – Benchmark, Fronthaul and Backhaul €/km Rates



Market efficiency, based on the difference between fronthaul and backhaul pricing, improved in Q2-2021. Fronthaul rates, defined as the average of all higher priced routes in lane pairs, grew by 0.4% compared to the previous quarter, to €1.77/km. However, backhaul rates increased faster, by 1.4% to €1.43/km. This led to a difference in average prices of €0.34/km, a little below the long run average of €0.35/km.

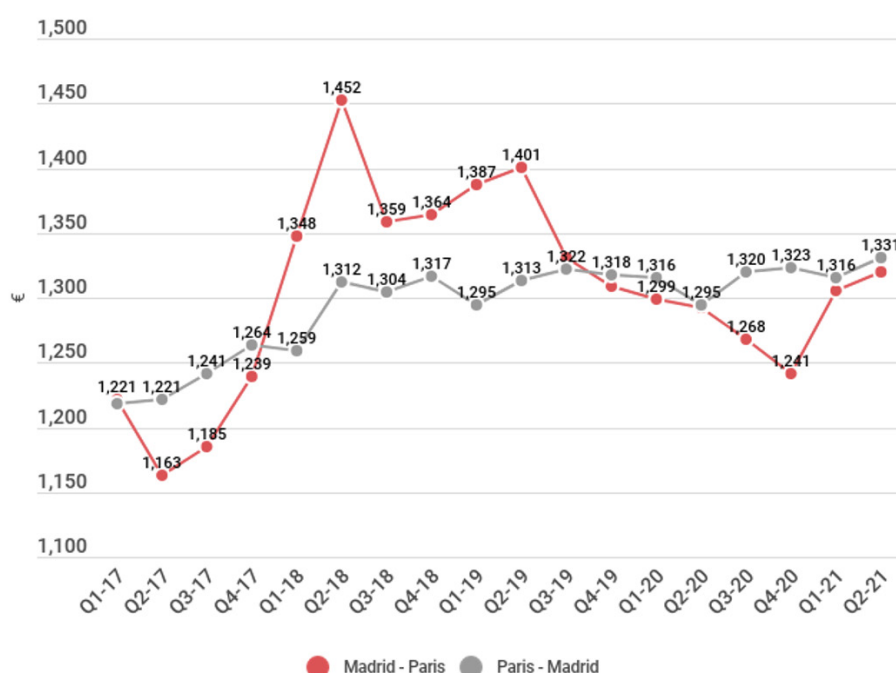
The disparity exists largely due to lop-sided demand patterns across trade lanes. Demand volatility led to a sharper increase in the disparity over 2020, but with patterns slowly normalising, the disparity has returned closer to the long run trend. Furthermore, UK outbound rate increases were part of the reason for the closing of the gap, as discussed on page [10](#).

Rate Development on Major Lanes

France-Spain

Rates from Paris-Madrid increased by 2.8% year-on-year, or 1.1% quarter-on-quarter. On the Madrid-Paris lane, rates were up 2.2% year-on-year and 1.1% quarter-on-quarter.

Madrid-Paris Road Freight Rates



The recovery in manufacturing, and in particular, automotive volumes, is a key driver on this lane. Production levels in both countries were decimated as a result of the pandemic, leading to a significant drop in freight volumes. However, in Spain, monthly automotive exports have surpassed pre-pandemic levels, which has aided transport demand.

Meanwhile, agricultural trade is also significant on these routes. Volumes were less subdued by the pandemic, but so far this year trade appears to be solid if unspectacular. For example, Spanish exports to France of fruit and vegetable produce from January-April of the year are down 2% year-on-year.

Capacity also appears to have recovered reasonably well, keeping a lid on growth rates. According to data from Spanish Transport Association, FENADISMER, 4,200 new carriers have entered the road transport market in the last year and a half as a result of deregulation of the transport sector due to a supreme court ruling reducing barriers to entry. Spanish hauliers account for approximately 80% of the volumes transported on this lane.

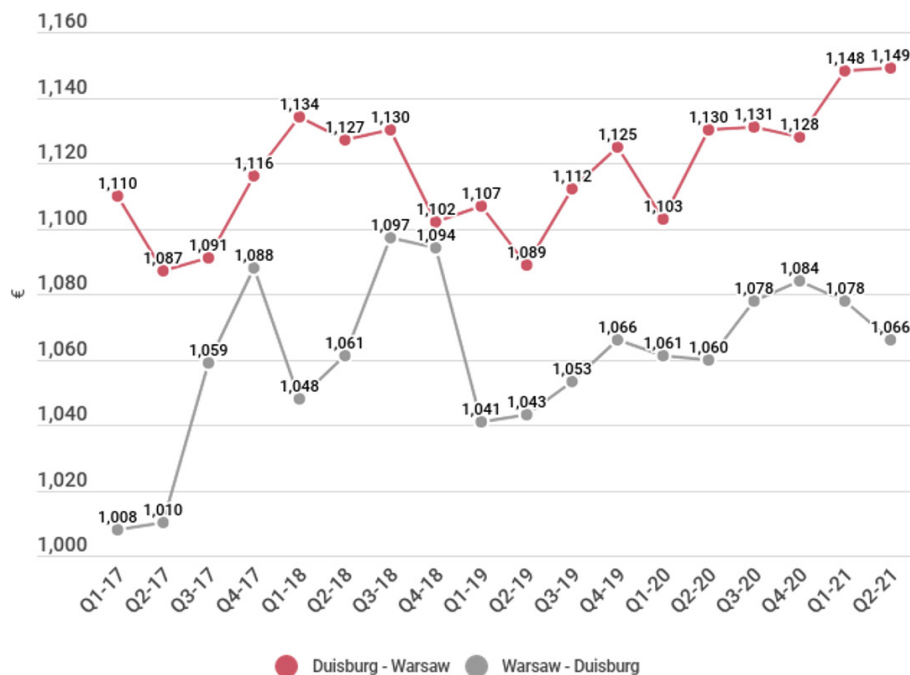
Poland-Germany

Rates on these lanes are up from Q2-2020, but only marginally (to Warsaw +1.7%, to Duisburg +0.5%). Initially border controls led to longer transit times, whilst the supply of trucks on this lane dropped due to hauliers' concerns they might be effected by Covid restrictions at the border. Recent softness in rates on this lane should be seen in this context.

In Q2, German manufacturing production slowed month-on-month in both April and May according to OECD data. The global chip shortage led to a fifth consecutive month of output decline in the auto sector, according to the industry association, VDA. Weaker production appears to have resulted in softer import demand for Polish intermediate goods. Rates fell 1.1% quarter-over-quarter on the Warsaw-Duisburg lane.

Duisburg-Warsaw rates continued to increase compared to Q1, but only by 0.1%. The manufacturing slowdown appears to have weakened demand growth. Poland extended its lockdown into Q2, although rules were relaxed in May. This has led to a volatile demand picture, with growth towards the end of the quarter.

Warsaw-Duisburg Road Freight Rates





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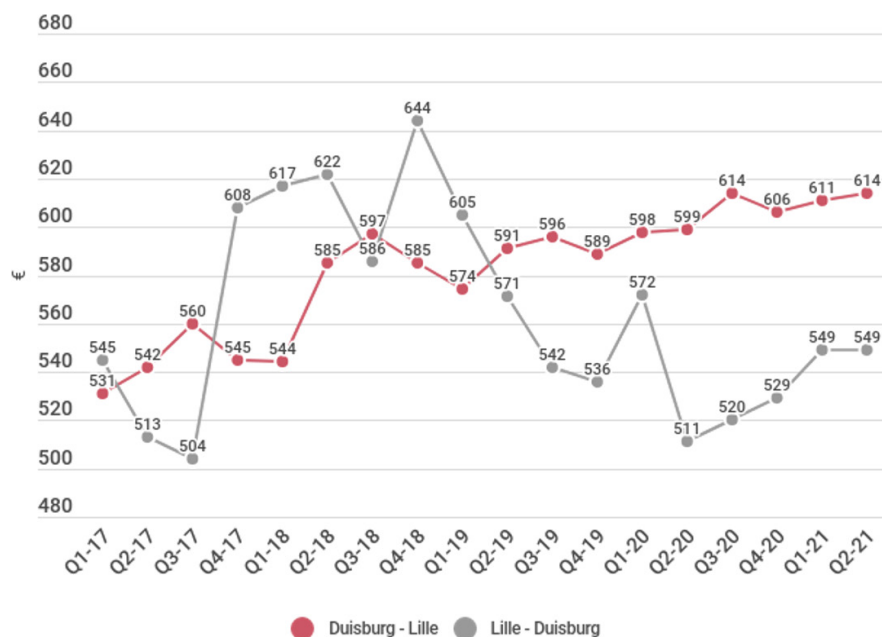
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Germany-France

German import rates for Lille-Duisburg fell 0.1% from the quarter before but are up considerably from Q2-2020 (+7.4%). The lane is crucial for the manufacturing sector, but this quarter has seen a mixed picture. French intermediate goods manufacturers are seeing a fast rise in new work, according to IHS Markit's June PMI report. However, in Germany, shortages of key products and higher supplier lead times appear to be hampering production. Overall, demand appears to be much higher than last year, but quarter-to-quarter developments are uncertain.

Meanwhile, rates from Duisburg to Lille grew 0.5% quarter-over-quarter, or 2.4% year-on-year. The European Commission recently increased its GDP forecast for France to 6.0% for 2021, ahead of the Eurozone figure of 4.8%. This sharp recovery is leading to stronger demand for German finished products. In particular, this accelerated due to France's rapid re-opening towards the end of the quarter. Household consumption expenditure on goods in France increased by 10.4% in volume in May compared to the previous month, with particularly strong growth in manufactured goods (+26%).

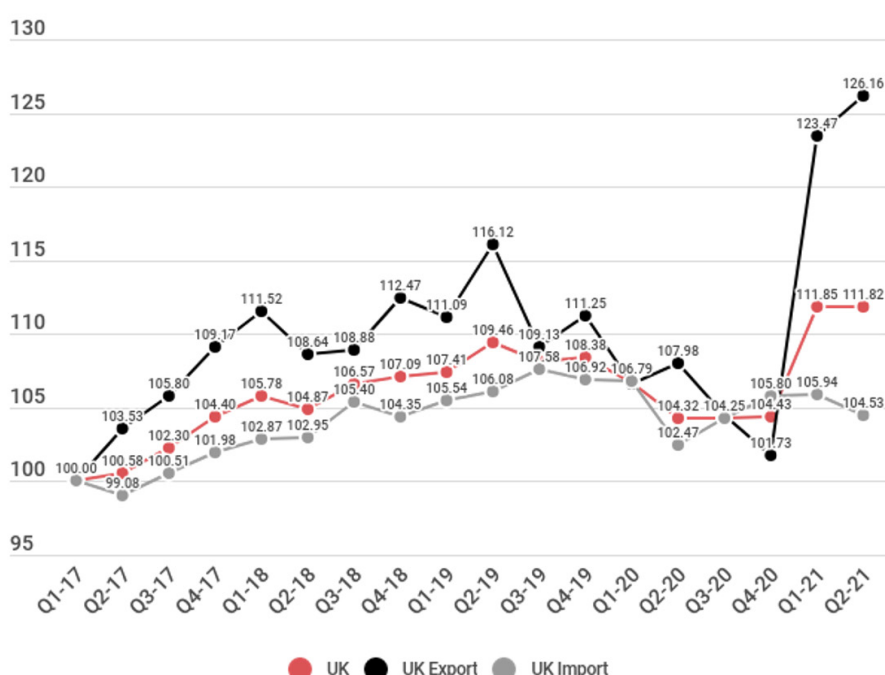
Duisburg-Lille Road Freight Rates



Brexit's Impact on UK Rates

UK freight rates soared in Q1 after the transition period for leaving the EU ended on December 31. Although, disruption around Brexit was widely expected in the initial stages, the longer-term effects were and are still less certain. However, road freight rate data for Q2 shows international UK rates remain high. Indexed figures show rates on UK routes were 7.2% higher year-on-year in Q2. This represented no change from rates in Q1.

UK Indexed Rates (Q1-2017 = 100)



Overall, trade activity with the EU still appears weak. Data from the ONS shows a clear divergence in the UK's post-Covid trade recovery with EU and non-EU partners. Over the first four months, ONS data shows EU trade remains 27.3% below pre-pandemic levels, whilst non-EU trade is down by just 12.7%. This appears to show the direct influence of Brexit on reducing UK-EU trade.

But even with a lack of demand, carriers have not reduced rates. Instead, the new trade barriers appear to have made UK lanes more difficult to navigate. According to research from DDC FPO, the new rules will create an additional 400m customs declarations resulting in £13bn a year in paperwork costs.

Customs procedures on goods entering the EU from the UK have been in place since January 1, but the UK has continually delayed the implementation of full checks on UK imports. Accordingly, hauliers appear to be pricing this on UK outbound rates only. Outbound rates grew 16.8% year-on-year and were up 2.2% quarter-on-quarter. Meanwhile inbound rates were up just 2.0%

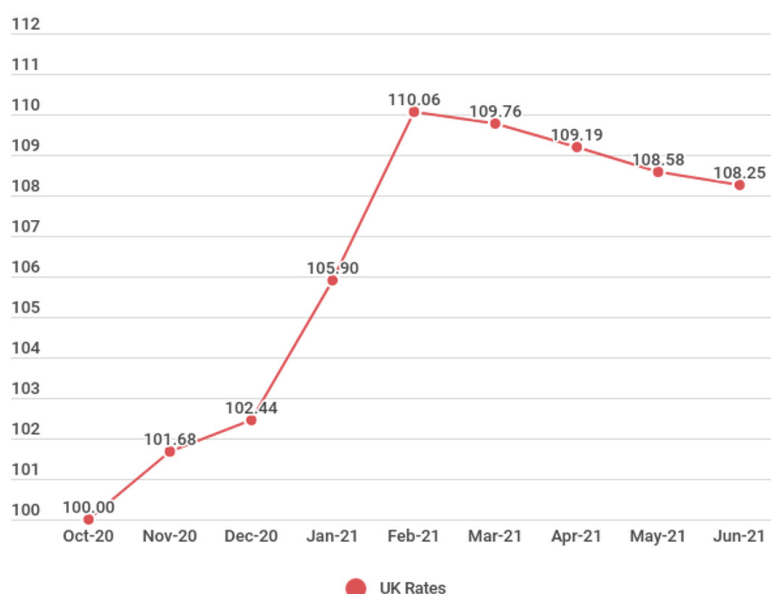
year-on-year and were down 0.8% quarter-on-quarter. This lopsided rate dynamic is also related to the imbalance of trade. Due to the UK importing more goods from the EU than it exports, rates have been on average over 30% higher for inbound lanes, priced at around €1.95/km. This is comfortably above the long run European benchmark rate of €1.57/km. As relatively expensive lanes, it appears hauliers are wary of increasing rates on these lanes further and thus outbound rates have increased to compensate.

Issues aside from new border procedures appear to be influencing rates too. As a result of the pandemic, 15,000 EU HGV drivers based in the UK left between March and June 2020, leaving the total number at 25,000. This only recovered to 28,000 by the end of the year. New immigration rules mean transport companies cannot recruit EU nationals either, meaning there is little prospect of boosting numbers in the short term. Severe shortages in driver numbers are beginning to threaten the integrity of domestic supply chains. The lack of available capacity also appears to be causing issues in international routes too.

Furthermore, from April 6, hauliers arriving in the UK and staying for more than 2 days have to take Covid-19 tests. Similar border issues have been seen elsewhere, but the situation in the UK is perhaps more difficult given high levels of the Delta variant. Overall, this also appears to be leading to hauliers avoiding UK routes amid fears of being stuck abroad.

On a monthly basis, it appears rates may be slowing from February highs. It looks conceivable that rates will slow towards the end of the year as traders get more comfortable with the new trading arrangements. However, the UK driver shortage crisis only appears to be getting worse, particularly given the pickup in economic activity due to the easing of lockdowns. Furthermore, as the UK implements the most stringent form of border checks from 2022, inbound rates could track a similar pattern to outbound rates, thus keeping UK transport costs at high levels for the near term.

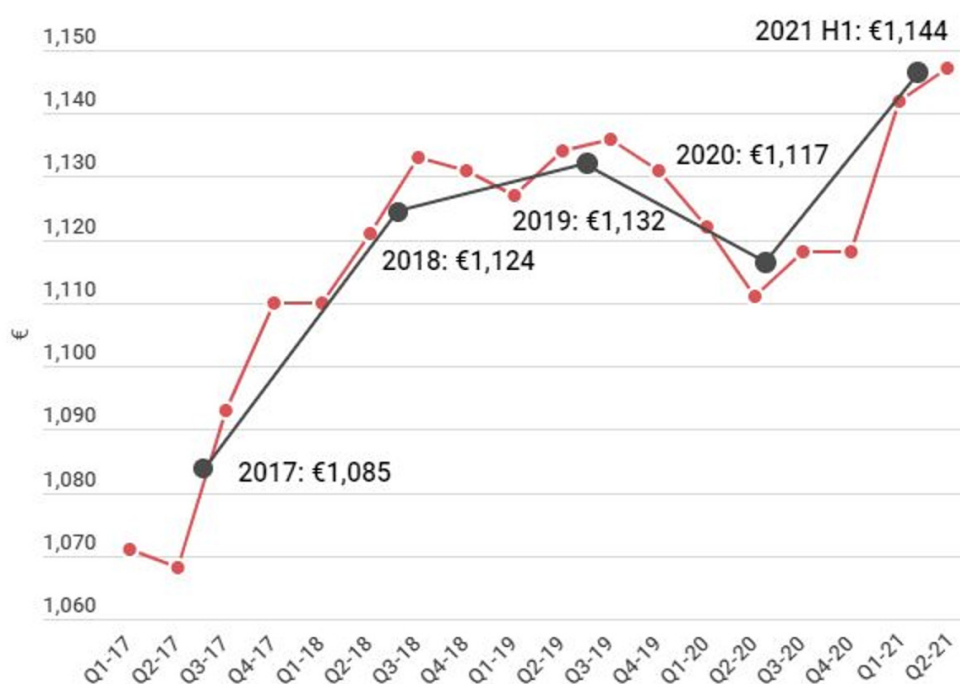
UK Monthly Indexed Rates (Oct-20 = 100)



Mid-Year Trends Check

At the start of the year, Ti & Upply considered the factors that would be crucial in shaping European rate trends over 2021. Most factors pointed to a likely rise in freight rates this year, which has been born out in the data. In H1, the benchmark rate was €1,144 (€1.60/km), 2.4% higher than the 2020 average. Rates are also 2.5% higher than the H1 2020 benchmark of €1,116.

European H1 and Historical Rate Comparison



At the mid-point of the year, how have the previously identified trends developed?

Covid Recovery. Economic activity is continuing to pick up from the lows seen during Spring of 2020. The European Commission recently raised expectations for GDP growth from 4.2% to 4.8%. However, the spread of new waves and increasing prevalence of the Delta variant has led to further lockdowns and public health restrictions. This means demand is returning, but remains somewhat volatile, leading to upwards pressure on rates.

Sectoral Changes. Automotive volumes are recovering, although the global shortage of semiconductors is slowing production volumes. Wider manufacturing has recovered to close to pre-Covid-19 levels but is not yet pushing into effective growth territory. Retail is recovering too, although new lockdown impositions have led to lumpy levels of demand.

Brexit has led to inevitable trade barriers between the UK and EU. As discussed on page [10](#), this has led to an increase in rates over the first half of the year.

Supply Shortage. This issue was pronounced pre-pandemic, but its effects have accelerated in some areas. In the early stages of the first Covid-19 wave, lower demand levels led to many drivers leaving the profession. As demand has returned, the supply shortage has become even more acute. Various measures have been introduced in an attempt to alleviate the issue. For instance, in Spain, a deregulation of the sector has led to more trucks on the road. Meanwhile in the UK, driving hour restrictions have been relaxed. However, due to the exodus of EU national drivers and the imposition of tougher immigration restrictions, shortages in the UK appear particularly challenging.

Diesel Prices in Europe are 3.2% higher year-on-year in H1, or up 8.2% compared with 2020 overall. As a key cost component of European road freight, this increase is continuing to put upwards pressure on prices.

Mobility Package. Anecdotally, the mobility package appears to be leading to higher costs, particularly for Eastern European transport companies. This is related to requirements that truck drivers must return home every three to four weeks. The tangible effect on rates is unclear, but it is certainly not creating downward pressure on prices. Changes implemented in February 2022 could have a more substantial effect.

Looking forward to the second half of 2021, continued improvements in the economy look set to improve freight demand. The roll-out of vaccinations is proving successful in preventing deaths in the elderly and vulnerable and as a result, governments appear more willing to open up their economies.

Broadly, supply chain disruption looks likely to have a significant influence in freight rates over the second half of the year. A global shortage in transport equipment, such as containers and pallets, is resulting in higher lead times and higher prices. A shortage in key products, from timber to semiconductors, is resulting in production slowdowns. As mentioned above, driver shortages continue to constrain capacity. These issues mean rates look set to remain at high levels in the second half of 2020, over €1.60/km, but perhaps closer to this level than €1.70/km.

European Road Freight market sizing data now available via the Global Supply Chain intelligence database (GSCi):

- Post Covid-19 2020-2025 5-year ahead forecasts
- 2020 market sizes and growth rates
- 2021 market projections
- Market sizing by region, country and split by international and domestic
- Top 20 market share
- Weekly road freight data for 36 international European Road Freight lanes
- Ti survey and interview findings on road freight trends
- Market maps for the new digital landscape

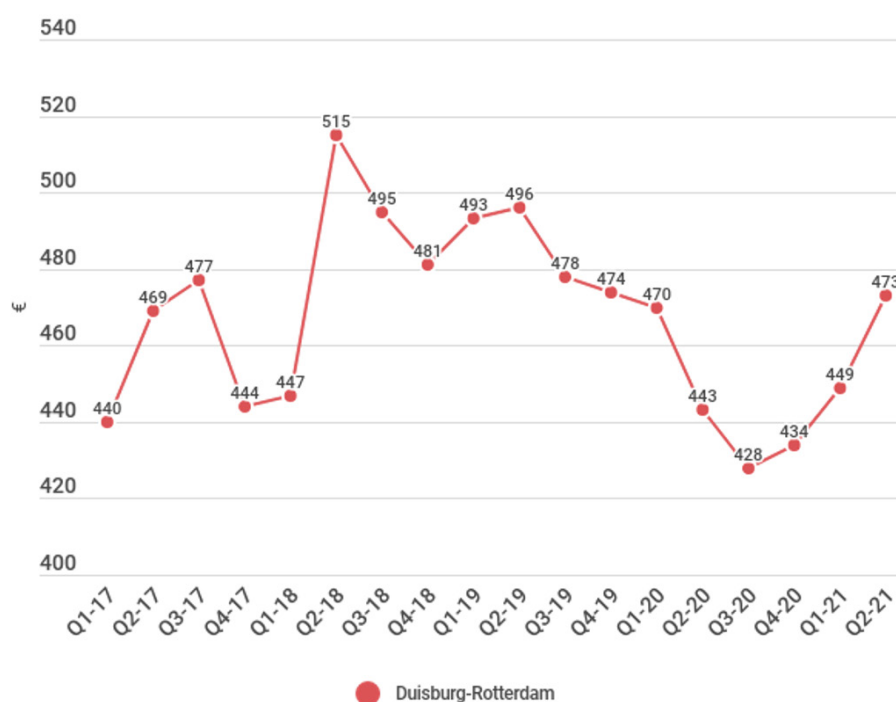
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Significant Price Change

The largest quarterly price change in Q2-2021 was seen on Duisburg-Rotterdam, where rates rose 5.3% compared to Q1 levels.

Duisburg-Rotterdam Road Freight Rates



Rates on this lane have continued to recover following a sharp drop in Q2-2020. Due to factory shutdowns in Germany, manufacturing exports to the rest of the world plummeted, leading to a sharp drop in demand on this trade lane. However, rates are now 6.8% higher year-on-year. This has coincided with a strong increase in exports. According to Destatis, German exports in May were just 0.3% lower than pre-pandemic levels.

Q2 saw an acceleration in the growth in rates. This could be attributable to the congestion seen at Northern European ports. Rotterdam, Antwerp and Hamburg have all notably witnessed congestion issues over the past quarter. This has led to trucks waiting longer in and around ports in order to pick up shipments. Transport companies appear to be pricing this into rates for lanes to and from ports.

Notably, Dutch transport workers achieved pay increases of 6.75% as a result of their strikes in April 2021. This could support further price rises in future.

Lane to Watch

Duisburg-Milan rates grew 2.8% quarter-on-quarter and 6.8% year-on-year.

Duisburg-Milan Road Freight Rates



This lane is heavily influenced by the supply of foreign hauliers. According to Eurostat data, Polish hauliers account for over 50% of freight tonne-kilometres carried on this lane.

Following the initial stages of the pandemic, where hauliers looked to remain close to home to avoid border restrictions, Eastern European fleets are making their way back westward. However, initial implementation of the mobility package has meant hauliers must return every three to four weeks, which appears to be disrupting Eastern carrier models. According to a survey from DWF and the UK Road Haulage Association, 36% of hauliers were looking to establish new international bases with a view to drivers completing shorter legs of international journeys. As a result of the changes, legs which do not connect the haulier with their operational base, such as Duisburg-Milan, have become more challenging.

The unwinding of restrictions and subsequent higher demand levels ought to bring about significant lower cost capacity, which would ordinarily lead to a rate decline. However, changes brought about by the mobility package may make the revival in demand a more significant growth driver.

Methodology

The rates are the result of Upply's own econometric and statistical modelling, which is based on the analysis of more than 350 million prices. Upply provides Truck Load (LTL & FTL) weekly rates estimations based on observed transactions for each major European trade lanes, associated with a confidence index. These rates are computed from Upply's key partners and users data.

To complete the analysis presented here, Ti selected a representative sample of the largest European road freight corridors by volume. Ti then used the median rates provided by Upply on each corridor, averaging weekly rates over each quarter. Ti's team of senior analysts provide additional insight into the drivers and trends behind price movements with support from Upply. Note that data is subject to re-statements and that new lane samples can be chosen from one quarter to the next.



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Upply is a digital marketplace which directly connects trusted road carriers, freight forwarders and shippers throughout France and simplifies transportation operations. Upply also provides freight price transparency (incl. past data and future trends estimations) to manage market volatility with its unique Compare & Analyze solution.

To implement its unique solution, Upply employs data scientists, logistics and IT professionals, and digital experts. Launched in 2018, the company is based in Paris.

For further information, please contact Upply's Customer Care at +33 (9)77 40 20 19 or email **service.client@upply.com**. Press contact: Gwendydd Beaumont, Communication Manager or email **gwendydd.beaumont@upply.com**

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