



EUROPEAN ROAD FREIGHT TRANSPORT MARKET FORECASTS FOR 2021 AND 2025

By Ti Research



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The European Road Freight sector has been buffeted since the beginning of the Covid crisis by a succession of supply and demand side shocks. This has created a planning environment in which it has been impossible to balance capacity levels against volumes on a weekly, let alone quarterly, basis.

The factors which have driven instability in the market are comprised of:

- Demand-side shocks including:
 - o Fiscal and political interventions
 - o Supply Chain bottlenecks
 - o Changing consumer spending and saving behaviour
- Logistics (supply-side) challenges including:
 - o Driver shortages
 - o Cost increases
 - o Congestion on roads and at ports

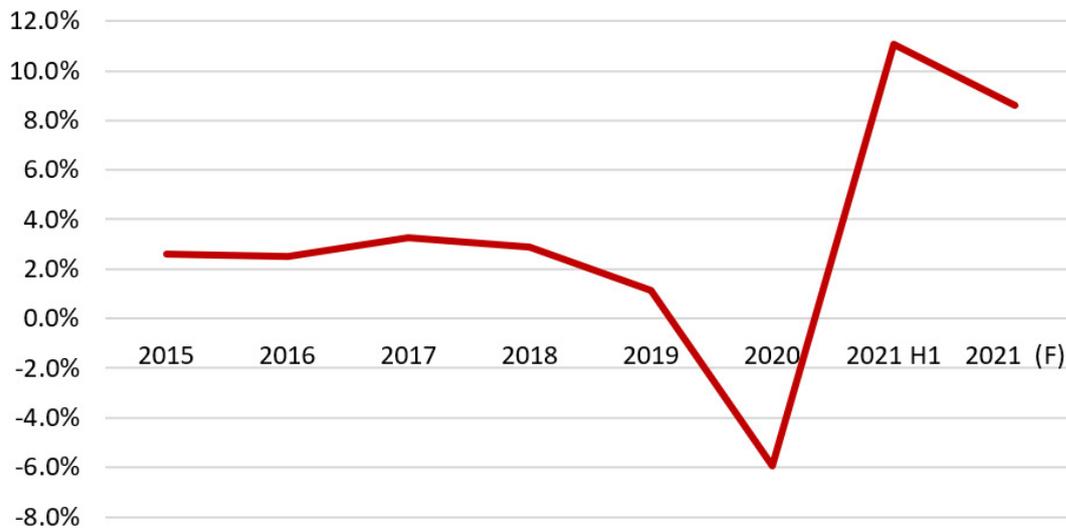
This paper will assess the impact of these factors on market growth and how they are likely to affect development out to 2025 (a more detailed assessment of all the above factors is available through Ti's Global Supply Chain intelligence (GSCi) platform).

EUROPEAN ROAD FREIGHT MARKET GROWTH IN 2021

In the first half of 2021 the market grew by 11.1% year-on-year. Overall growth for 2021 is now projected to stand at 8.6% year-on-year, with the recovery moderating relative to stronger H2 2020. The total 2021 market is expected to be 2.2% larger vs 2019's pre-pandemic peak, at a total of €352.39bn.

Figure 1.1 shows the 'roller coaster' ride experienced by the road freight industry since the onset of the crisis in Q1 2020. Most recently the strong first half of 2021 was driven by 'easy' comparisons against a very weak first half of 2020 throughout which most European economies had instituted lockdown controls of some sort or other. As recovery began in the second half of 2020, so there will be a levelling off of year-on-year growth in 2021.

Figure 1.1 Total European Road Freight Market Real Growth

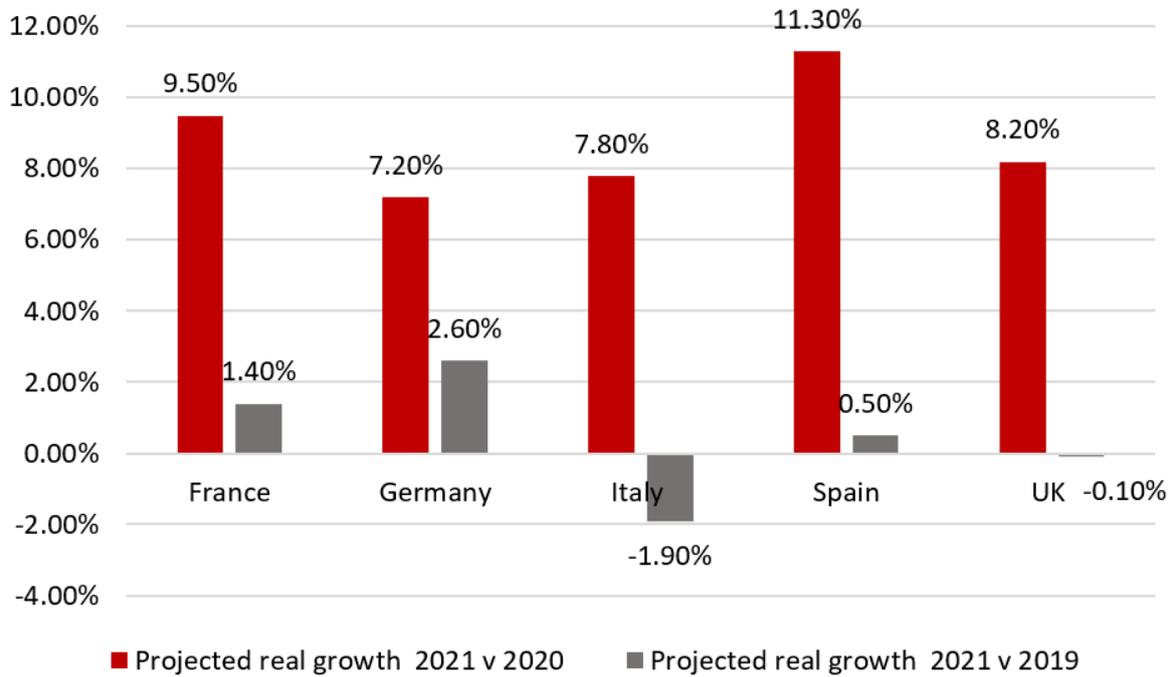


Source: Ti Insight

Figure 1.2 shows the rebound of the main European economies in 2021 compared to 2019 (i.e. pre-pandemic) and 2020. As can be seen, the German road freight industry performed best of the largest markets over the extended two year period, growing by 2.6% (projected figures). Germany's performance is driven largely by trade growth although there have been signs of domestic weakness not least due to issues affecting its important manufacturing sector. Component shortages and supply chain bottlenecks have meant that many automotive manufacturers have been forced to suspend production.

The fact that all of the other large economies experienced such steep drops in market size in 2020 has meant that most are only just recovering to 2019 levels. The disruption to Italy's manufacturing sector due to Covid has meant that the country's road freight sector is still 1.9% below its 2019 size. For the UK, international transport proved a drag on the market due to Brexit issues (growth in intra-European trade has only been a third of that recorded by France and Germany) although its domestic performance has been relatively strong.

Figure 1.2 Real Growth Rates: Major markets



Source: Ti Insight

Looking across Europe as a whole, there is considerable variance in performance as shown in Figure 1.3. It is evident that many of the markets in Eastern Europe have performed well, showing a recovery not only on 2020, but also a development from pre-pandemic 2019 levels.

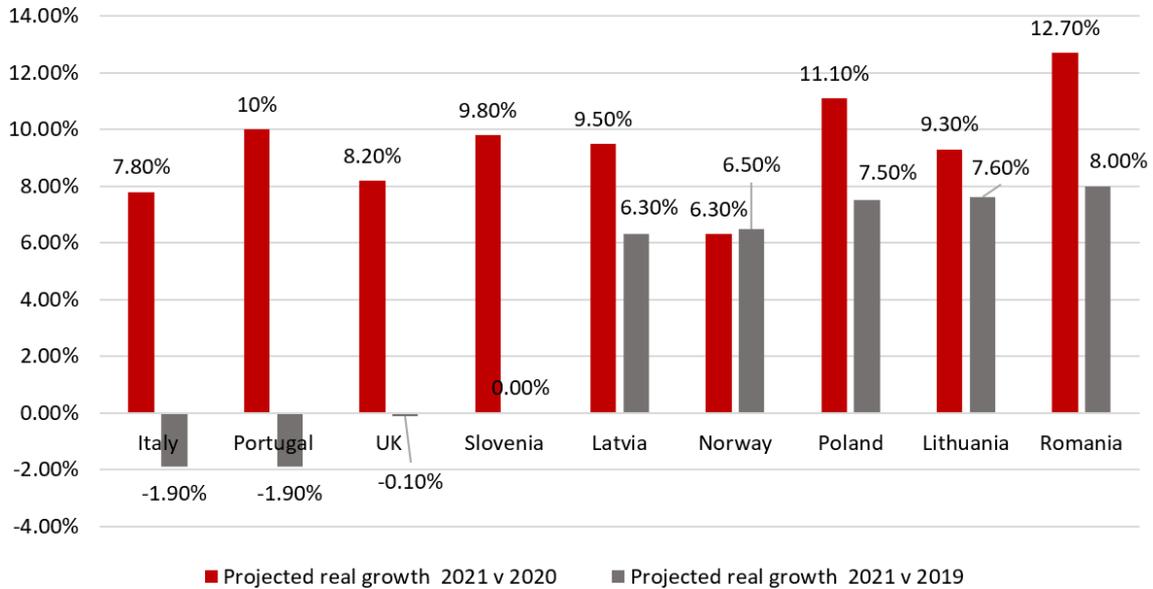
- Romania is forecasted to have the strongest recovery, and along with Lithuania, showed strong growth in both domestic and international markets.
- Norway was one of the only countries not to shrink in 2020, explaining part of its strong performance. It has continued to grow well.
- Portugal has been very weak domestically, with low retail and manufacturing growth.

Global Supply Chain intelligence (GSCi)

- 2020-2025 5-year ahead forecasts
- 2020 market sizes and 2021 H1 growth rates
- 2021 full year projections
- Market sizing by region, country and split by international and domestic and FTL/LTL
- 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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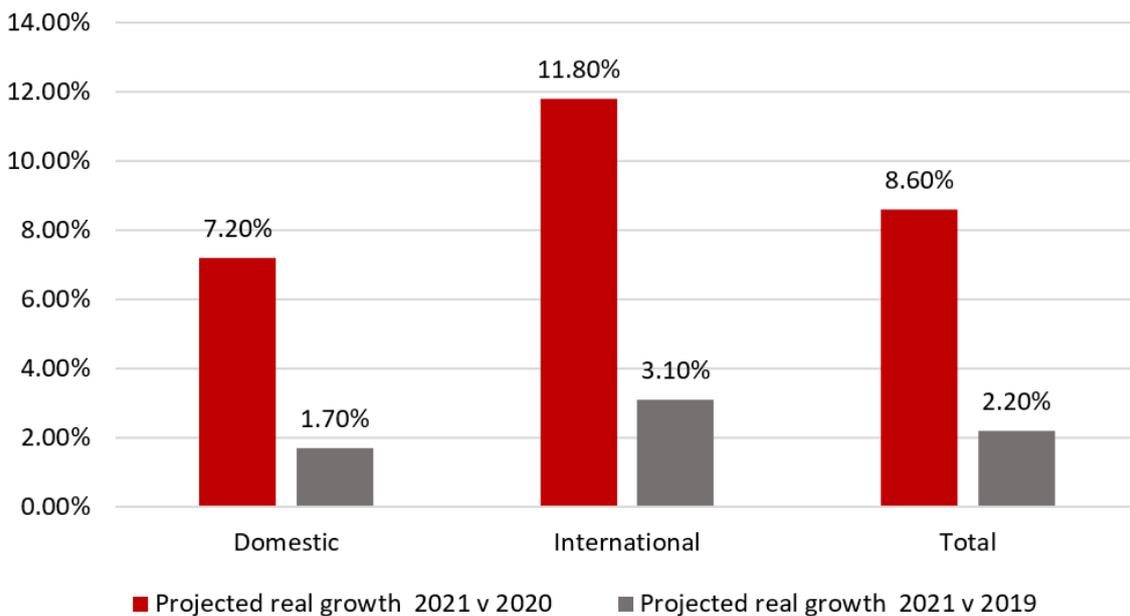
Figure 1.3 Real Growth Rates: Fastest/slowest growing European Markets



Source: Ti Insight

Figure 1.4 shows that the recovery in the international section of the European road freight market has been stronger than domestic. This may be as a result of the retail and e-commerce driven nature of the recovery which has stimulated more cross-border flows of consumer goods. Many industrial sectors (such as construction) are still feeling the effects of the downturn and these flows tend to be more domestic in nature dampening market growth.

Figure 1.4 Real Growth Rates: Domestic and International Markets

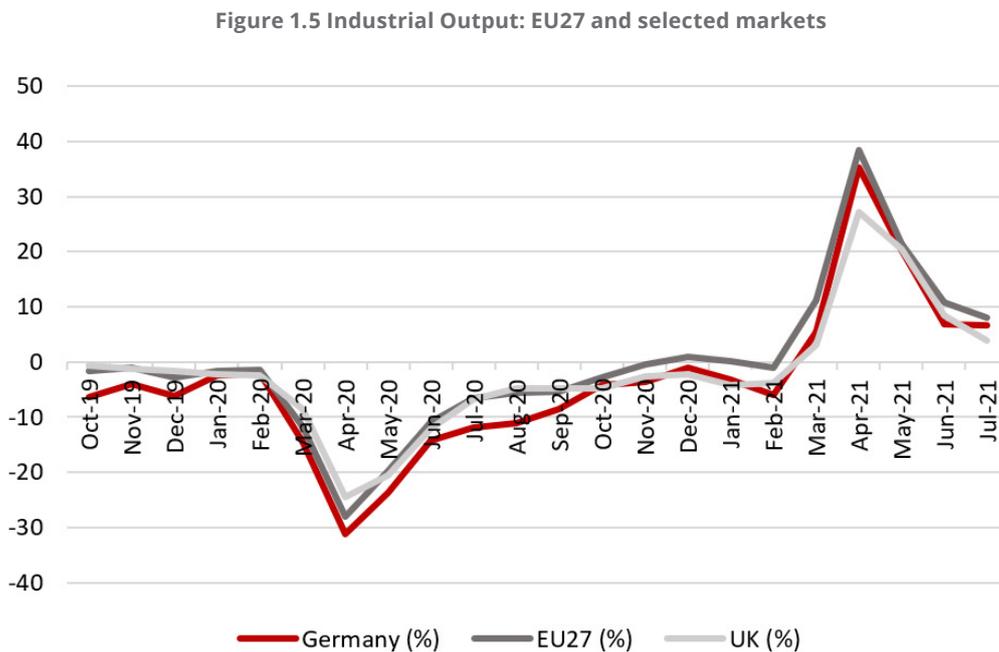


Source: Ti Insight

INFLUENCES ON MARKET DEVELOPMENT

Road freight output is derived from economic growth, moderated by internal supply-side constraints. Whilst it is perhaps easier to measure economic demand, it is more difficult to assess the 'dragging' effect which factors such as lack of capacity, driver shortages and fuel costs have on the market. All these issues will be addressed in the following section.

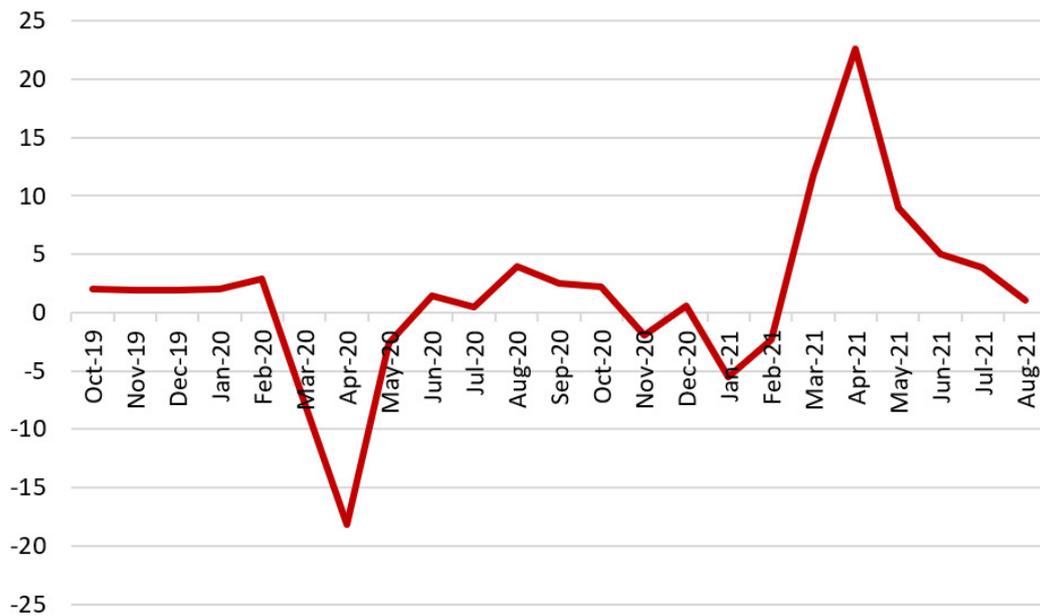
Figure 1.5 shows industrial output in the EU (picking out the leading manufacturing market, Germany) and the UK. The impact of Covid and the government driven lockdowns are very evident, with industrial output bouncing back to a peak in April 2021. Since then, output has fallen back in terms of growth although remaining in positive territory.



Source: Eurostat

Historically, manufacturing output and retail sales (Figure 1.6) have often been closely correlated, and this seems to be the case in 2021. Manufacturing production in many sectors was affected at the outset of the crisis as factories were shutdown (both in Europe and in remote off-shored production facilities in Asia) and these same 'stay at home' policies meant that it was often difficult for consumers to buy goods (with the exception of groceries and on-line shopping).

Figure 1.6 Retail sales volume growth: EU27



Source: Eurostat

Both charts show similar trajectories: troughs in Spring 2020 and peaks in Spring 2021, before growth returned to lower levels. Not least, this hints at the stress that the road freight industry has experienced over this period and the difficulties of managing volatility not least due to driver shortages.

ROAD FREIGHT CHALLENGES

Demand side trends are just one side of the coin. The road freight industry has been beset by a range of well-documented challenges that have impacted upon freight rates and capacity which have the potential to slow the growth of the market. These include:

- Driver shortages
- Rate increases
- Congestion on roads and around ports and airports
- Fuel costs

Such has been the level of volatility in the past two years, it is likely to have had an impact on the landscape of the supply side, driving some operators out of business and forcing others to shift capacity to other sectors. Achieving the latter is challenging as it will often require a change of geographic focus (e.g. from local to regional or international); development of new skills and equipment; new sales efforts as well as necessarily going up against incumbent competition. Agility will be a critical competitive advantage in such unprecedented market conditions and it is certainly not the case that profitability within the sector is ensured, despite headline, macroeconomic growth. Company performance therefore will vary by vertical sector or geography, dependent on macroeconomic trends, political intervention and management competence.

Such pressures have been reflected in the Q3 results of some of the major European road freight operators. DSV's operating margin for its Road division has fallen from 6.0% in Q3 2020 to 5.3% in Q3 2021 with management commenting that 'High activity levels and lack of drivers are impacting the capacity situation and rates are increasing.' Kuehne + Nagel's Q3 operating profit has fallen to 2.3%, down from an average of 3% in the first half of the year although up on the same quarter last year. One reason for this has been the success the company has had in keeping its network utilisation high – it has been benefiting more in terms of profitability and revenues from higher levels of economic activity than it has been losing in terms of margin squeeze.

EUROPEAN ROAD FREIGHT MARKET FORECASTS TO 2025

The strength and pace of post-pandemic economic recovery since Q3 2020 suggests gathering momentum in the European road freight market over the five-year forecast period to 2025, despite the noted headwinds. The total market is forecast to expand at a 4.3% CAGR over the period to 2025, driven by stronger retail sales, notably via online channels, and increased manufacturing and production levels.

The basis of this growth is expected to be broad-based, with expansions in both the domestic and international segments forecast at 5.6% CAGR, with values of €276bn and €126bn respectively.

Retail growth has strengthened markedly in the first half of 2021, particularly as economies have reopened. However, the region-wide pace of e-commerce appears to have increased still further, even when compared to the spikes seen during the initial months of pandemic lockdowns in H1 2020. In Europe's major economies, long-term projects of online retail growth have risen, with the UK (+5.2%), France (5.7%) and Germany (6.1%) all expected to see strong CAGR expansions between 2021 and 2025, according to Statista/e-commerceDB. As discussed above, e-commerce sales data suggests the pandemic has opened online retail channels to new demographics, and this is likely to provide an uplift in growth over the medium-term.

Also influencing the uplift in market growth prospects over the medium-term is the dissipation of supply constraints in manufacturing supply chains. A shortage of semiconductors, as noted above, amongst other supply shortages and congestion issues has curtailed the ability of manufacturers to meet pent-up demand, especially in Europe's automotive sector. While such shortages are expected to provide a moderately long-run drag on production levels in certain sectors, most forecasts suggest the pinch points will become less acute before or during H1 2023. Allied to this, an unwinding of supply chain congestion over the same period should boost manufacturers' ability to more successfully fulfil demand. Returning activity in the industrial and construction sectors will also provide a boost to growth over the five-year forecast period.

There are downside risks to growth over the forecast period. One assumption is the unwinding of supply-side constraints in terms of driver shortages and congestions at key supply chain nodes. The normalisation of demand over the five-year forecast period is expected to alleviate the intensity of such challenges and create a situation in which LSPs can more effectively operate efficiently. A more balanced supply and demand picture in the market is also likely to take the heat out of rates across the region.

ABOUT TI

Ti Insight is a leading logistics and supply chain market research and analysis company providing:

- Supply Chain and Logistics Market Research Reports
- Global Supply Chain Intelligence (GSCi) online knowledge platform
- Consulting and Market Research projects
- Training, Conferences and Webinars.

Ti has acted as advisors to the World Economic Forum, World Bank, UN and European Commission as well as providing expert analysis to the world's leading manufacturers, retailers, banks, consultancies, shipping lines and logistics providers.

Expertise includes:

- Analysis of corporate strategies of leading express, freight forwarding and logistics companies.
- Global usage and perception studies of shipper and logistics provider behaviour.
- Micro-economic analysis of key logistics segments: express, freight forwarding, road freight, contract logistics, warehousing, air cargo, shipping and e-commerce logistics.
- Analysis of supply chain strategies employed in industry vertical sectors: pharmaceutical, fashion, high tech, oil and gas, consumer, chemical, cold chain, automotive and retail.
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