THE EUROPEAN **ROAD FREIGHT RATE** DEVELOPMENT **BENCHMARK**

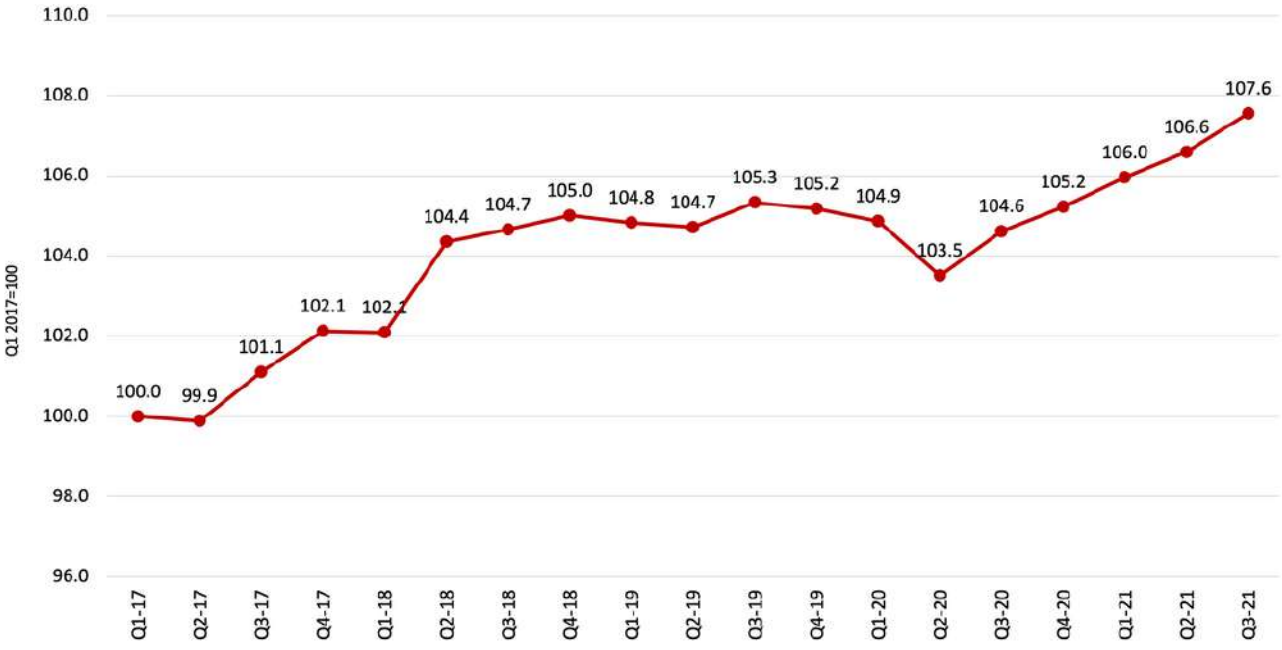
Q3 2021

Contents

Ti/Upply Q3 2021 European Road Freight Rate Benchmark

The Ti & Upply European Road Freight Benchmark hit an all-time high of 107.6 in Q3 2021 as a mix of robust economic growth, global supply chain bottlenecks, rising costs and scarce capacity supported development. The Benchmark rose 0.9% over Q2 2021 and continues a steady upwards rise to a level 2.9% above the mark recorded in Q3 2020.

Ti & Upply European Road Freight Benchmark – European Road Freight Rates Index, Q3-2021



The upwards rate development seen in Q3 2021 marks the fifth consecutive quarter in which the European Benchmark has risen. It also marks a 4% rise in benchmark rates when compared with Q2 2020 when the worst of disruption from the Covid-19 pandemic was felt. The subsequent development in rates has tracked the region-wide reopening and highlights the role of road freight in supporting wider economic growth. The upwards trajectory to the end of Q3 2021 also reflects a period in which congestion, bottleneck, capacity issues and rising costs have created a potent mix of pressures within the European logistics market.

As retail and manufacturing sectors across Europe have seen demand rise steeply up to the end of Q3 2021, challenges and disruptions have also emerged, and headwinds have gathered. The shortage of semiconductors is suppressing manufacturing activity, particularly in Europe's automotive sector with production schedules reduced at major OEMs including Renault, BMW and Mercedes across Germany, France and Spain, for example.

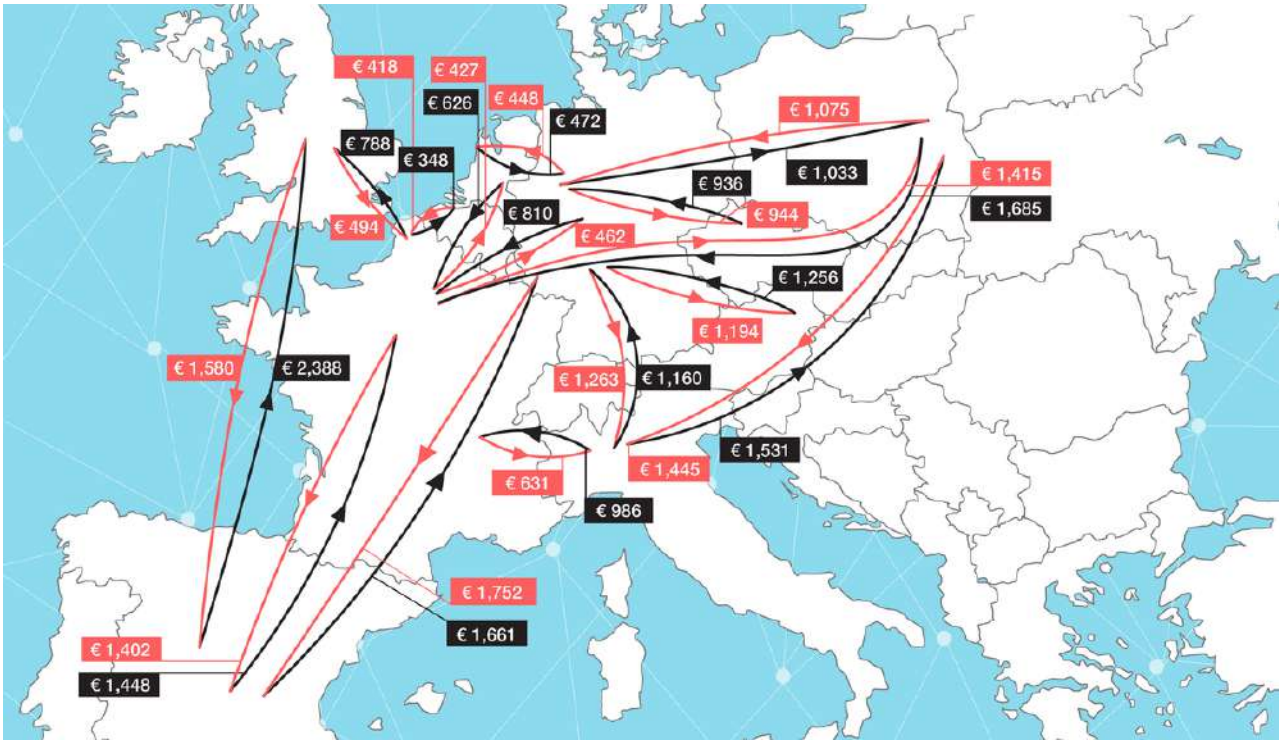
Capacity shortages have increasingly become a feature of Europe's road freight market in Q3 2021 as well, especially in the UK where a shortage of qualified HGV drivers has led to empty supermarket shelves and severe congestions at the port of Felixstowe, amongst other challenges. Driver shortages are not limited to the UK, of course. FENADISMER, the Spanish Transport Association, stated that 20% of carriers were unable to secure qualified drivers in Q3. According to IRU driver shortage survey results 2020 [1], in Spain, truck driver shortages could reach 10.2% in 2021, meaning more than 20,000 truck driver jobs would be unfilled. The number of drivers 'missing' from the German market is around 65,000 and in France, it is estimated that there is a shortage of 40,000 to 50,000 drivers. Across Europe, professional federations are trying to tackle the issue through promotional actions for the sector. They are also working with their governments to try to remove the main obstacles and attract young people in particular. In Spain, for example, the international road transport association ASTIC is asking and has been asking for grants to offer financial support for young people to cover the costs of the training and attaining a driving licence. Another important demand has been heard in Spain: from 1 January 2021, the minimum age to enter the truck driver profession was lowered from 21 to 18 years old.

[1] With the support of its members and companies from the road transport industry, IRU has been conducting annual online surveys since October 2018, to estimate the size of the driver shortage. The 2020 IRU driver shortage survey was shared via IRU members to their member road transport companies. There were 777 answers, collected between October 2020 and January 2021.

Costs are also rising in the European road freight market. As demand rises across economies reopening after pandemic lockdowns, prices are rising and inflation is set to take hold. For carriers across Europe, the price of diesel is being closely watched. Diesel price in Germany ended Q3 2021 some 38.5% per litre higher than the comparable period a year earlier, while the UK (+26.6%), Spain (+25.2%), France (+23.5%) and Italy (+20.6%) also saw markedly higher prices.

Heading into Q4 2021 and with European road freight's peak season in full swing, economic activity appears robust enough to support elevated rates in the short-term. However, the headwinds are beginning to bite. Across major European economies, manufacturing PMIs remain in expansionary territory, but growth is slowing as bottlenecks, supply shortages and capacity challenges constrain growth.

Ti-Upply European Road Freight Rate Benchmark Map Q3 2021

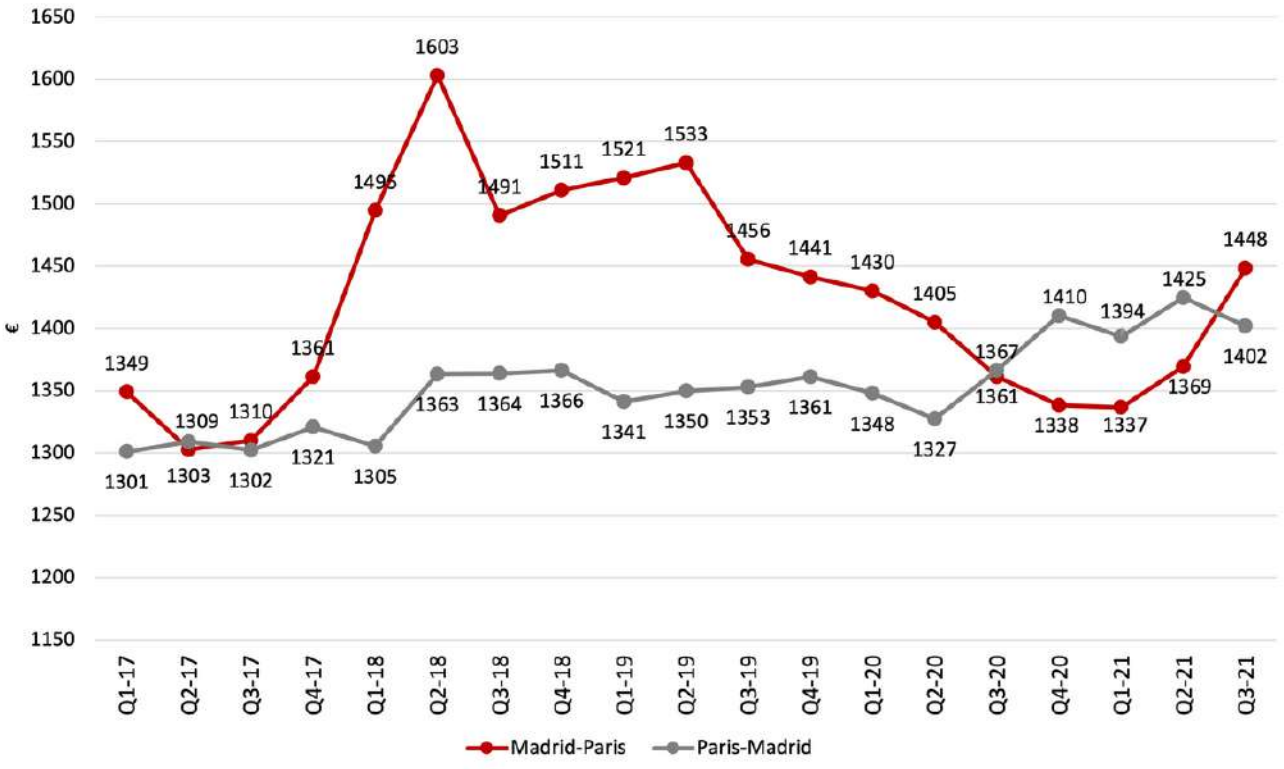


Rate Development on Major Lanes

France - Spain

Rates between Paris and Madrid took divergent paths in Q3 2021 as an uplift on routes to Paris was matched with a fall in rates in the opposite direction. Year-on-year, rates from Madrid to Paris have risen 6.4%, thus exceeding the levels seen in the opposite direction for the first time in a year.

Madrid-Paris Road Freight Rates



The Spanish manufacturing sector slowed during the quarter with the country's PMI down to 58.1 in September from 59.5 a month earlier. While still in expansionary territory, the pace of growth is slowing, due to gathering headwinds, particularly in the automotive sector which plays an important role in rate development on the lane.

Supply constraints are putting heavy downward pressure on Europe's automotive sector and over Q3 led to partial production suspensions in Spain. Renault, for example, extended a reduction in operations at three Spanish assembly plants from September at least until the end of the year, citing the shortage in semiconductor availability as a key determinant. In France, Luc Chatel, head of automotive sector body PFA, said semiconductor shortages had created a "long-term crisis" and were likely to last at least into 2022.

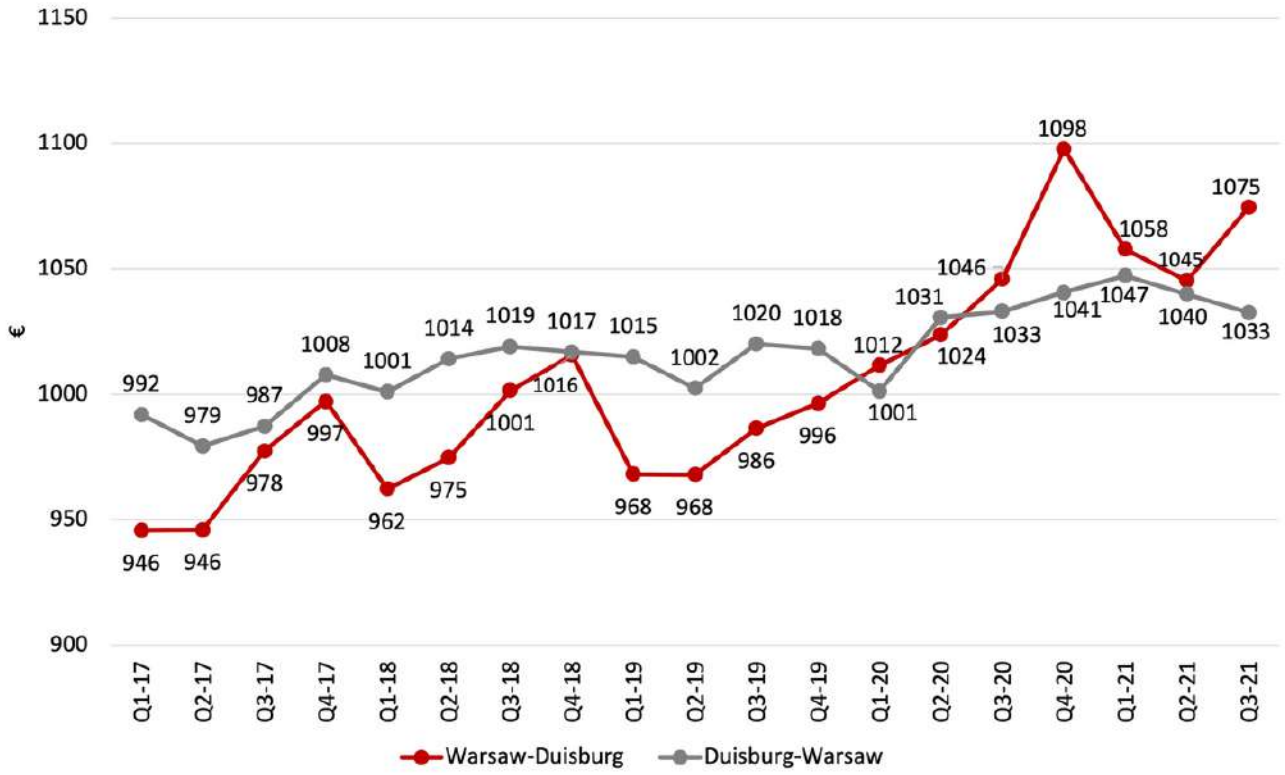
Cost factors have also impacted rates in the Spanish market. FENADISMER, the Spanish Transport Association, reported a 30% rise in diesel prices in 2021 and warned that road freight activity would become unsustainable if such conditions persist. The Association also stated carriers were as yet unable to fully pass on cost increases, while around 20% of carriers were experiencing difficulties finding qualified drivers.

Demand in France provided an upwards lift to rates, however, supported by a buoyant domestic economy. Retail sales in the quarter were strong, rising 2.8% month-on-month in September to closing in on pre-pandemic levels. Food sales grew over the same period, pushing up demand for agricultural produce and providing support from important commodity groups on the cross-border lane.

Poland - Germany

Rates on the Warsaw-Duisburg lane have been volatile in recent quarters as both the German and Polish economies sparked into post-lockdown life. Rates into Duisburg have been particularly subject to fluctuating demand in Germany's manufacturing sector, itself subject to a challenging mix of forces. Rates here rose 2.8% quarter-on-quarter and were 2.7% higher year-on-year.

Warsaw-Duisburg Road Freight Rates



At 58.4, Germany's PMI remained in expansionary territory as Q3 drew to a close in September, but the reading was the lowest in eight months. This came as the German automotive sector was forced to reduce activity and amend longer-term production schedules as supply bottlenecks forced the hands of OEMs. BMW began the quarter announcing an expectation of production problems throughout the second half of 2021, with Daimler also reducing production at three German plants.

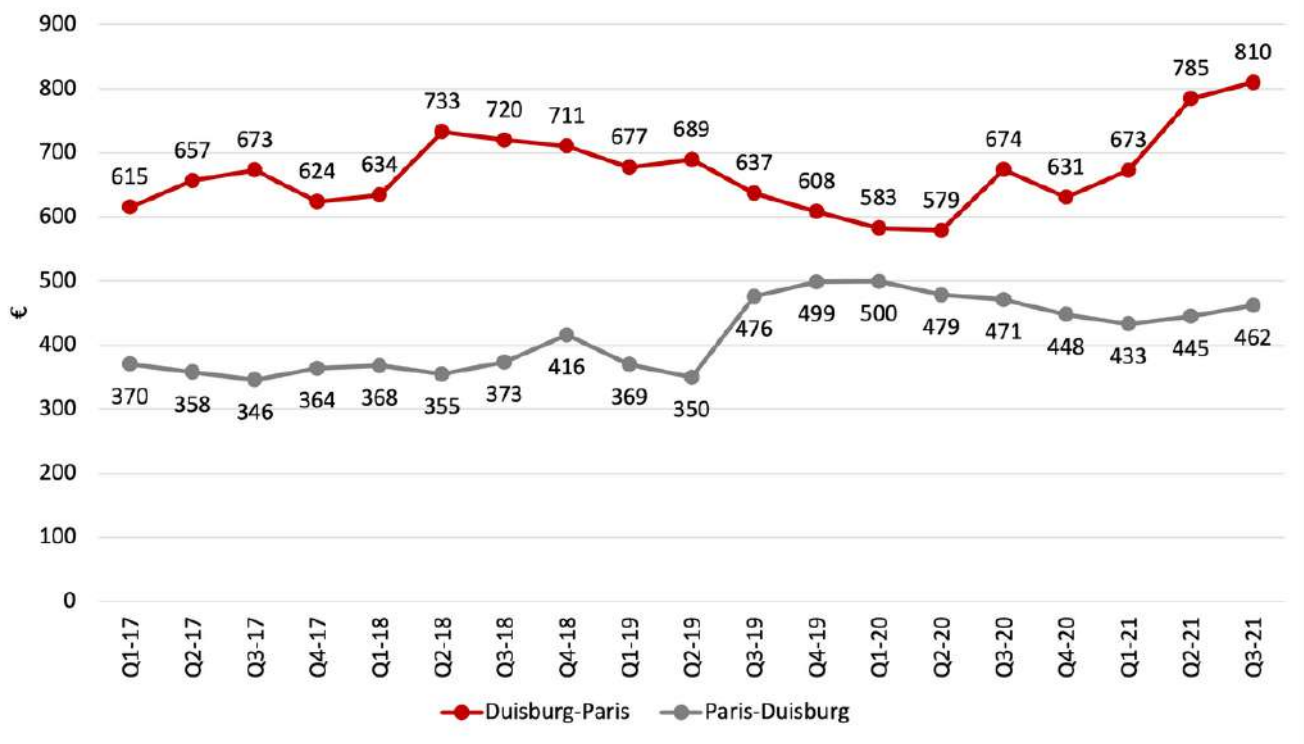
However, strong external demand for German-made goods in the wider manufacturing sector, as well as robust private demand in Germany are supporting high production levels. And it is this demand that continues to provide upwards pressure on rates into Duisburg from Warsaw as manufacturers look to secure capacity to meet production schedules and fill some of the 65,000 HGV driver vacancies in Germany.

Poland's supply of finished goods to the German manufacturing sector was also high during the quarter. Backlogs and supply chain bottlenecks saw Poland's PMI fall to 53.4 in September, but inventory levels reduced as external demand for finished goods supported demand for transportation.

Germany - France

The rise in rates year-on-year between Duisburg and Paris are amongst the fastest seen across the basket of lanes that make up the European Road Freight Development Benchmark, sitting some 20.2% higher in Q3 than the rates recorded at the end of the same three-month period a year earlier. On the reverse lane, rates have fallen over the same period by 1.9%, demonstrating the demand in France for German imports.

Duisburg-Paris Road Freight Rates



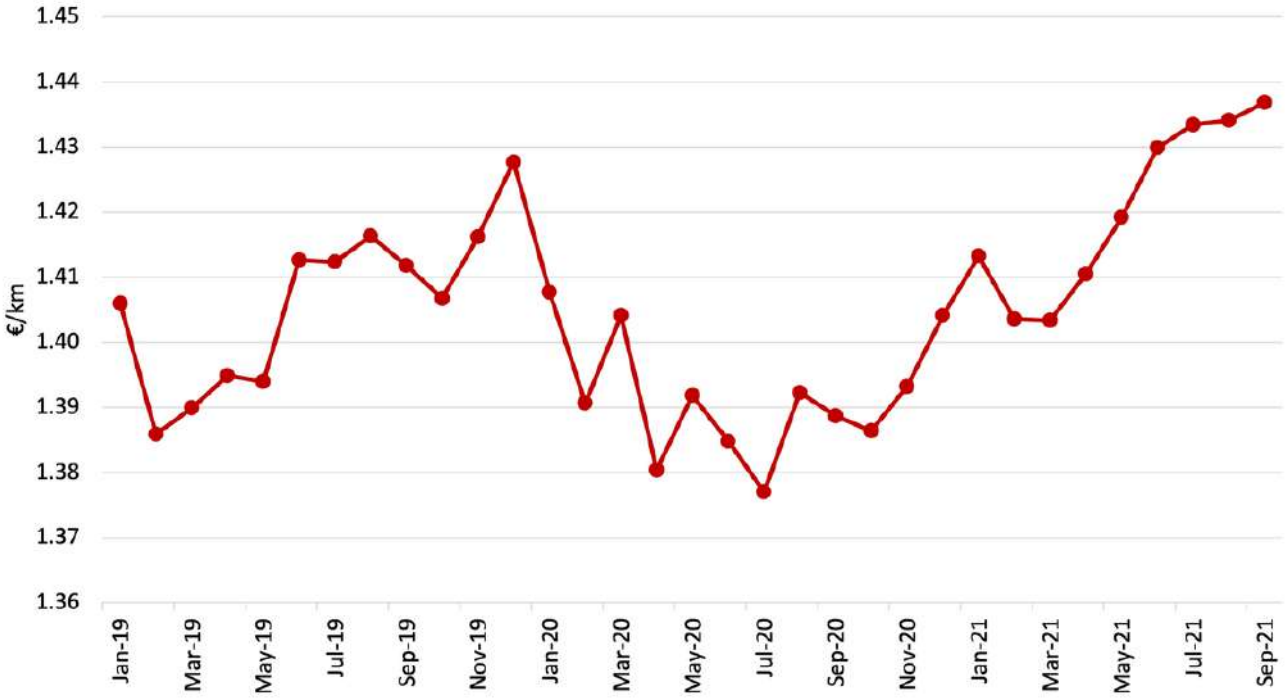
Rates into Paris from Duisburg have risen steadily since Q2 2020 and now stand at record highs. The reopening of the French economy following the pandemic is a key driver in this growth, with a return of manufacturing activity as well as in retail and the wider economy helping support rate development.

There are headwinds despite the growth. While French manufacturing activity continues to grow, the pace of expansions is slowing as the sector deals with many of the supply chain bottlenecks seen across Europe. New orders have wound down suggesting demand in the French manufacturing sector for imported components is weakening but continues to support rate development. Consumer spending is also healthy in a post-lockdown France, with retail sales growth helping to push wider economic development forwards.

Rate Development in the French Domestic Market

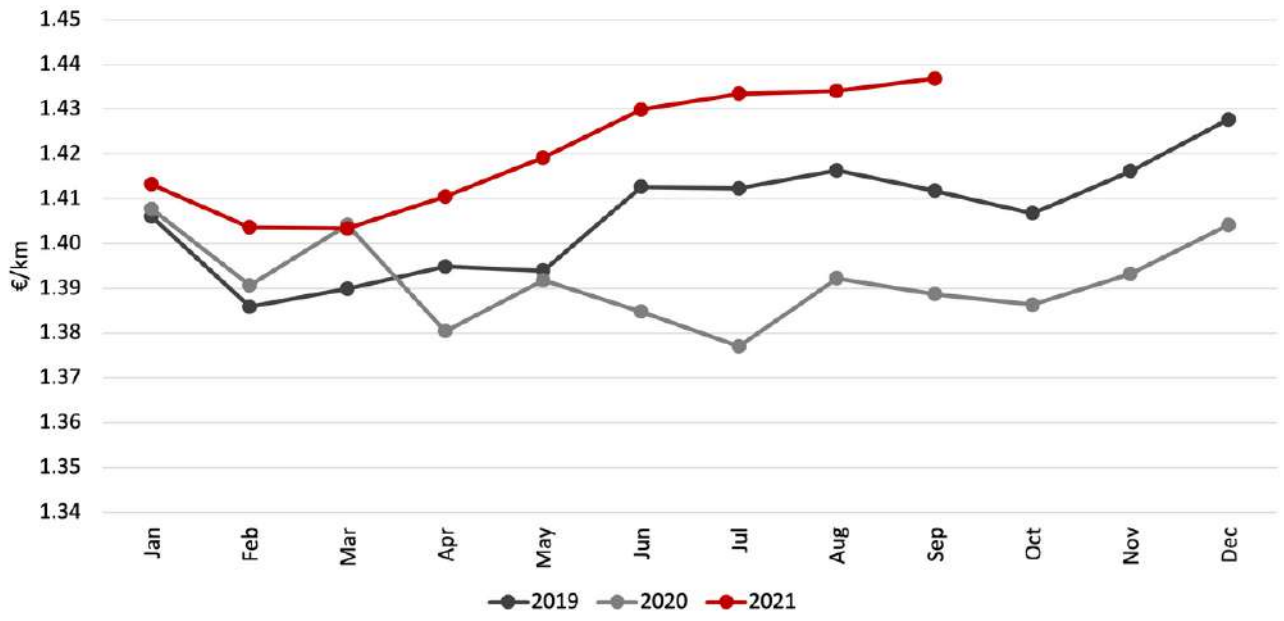
Rates in the domestic French market have developed strongly so far in 2021. Rates have risen at an increasing pace over the first three-quarters year-on-year, up 0.4% in Q1, 2.5% in Q2 and finally 3.5% in Q3.

Upply Freight Index – France Domestic Road Freight Rates



Source: Upply Freight Index (UFI)

France Domestic Rates €/km – Yearly Comparison



The rise in rates has come as economic activity has ramped up following the easing of pandemic-related restrictions. Momentum has been strong in the French economy and the Banque de France expects it to return to pre-pandemic levels before the end of 2021.

Domestic demand is playing a key role in the French market. Retail sales have been healthy over Q3 with an increase in e-commerce and greater activity in the hospitality sector supporting an increase in demand for road freight. Alongside this, manufacturing activity remains at elevated levels, with the country's PMI at 55 in September, although the pace of expansion is slowing.

In Q3 2021, it has been these higher levels of demand that have sustained rates, particularly as the domestic market in France faces growing headwinds. Estimates from the French Road Transport Association, FNTR, puts HGV driver shortages in France at 40,000 - 50,000, in addition to a shortage of general staff in the logistics sector, including forklift drivers. The FNTR, citing data from the French National Institute of Statistics and Economic Studies (INSEE), states in its latest economic barometer that, during in Q3 2021, 60% of carriers are experiencing recruitment difficulties – a figure similar to the pre-pandemic level and well above the long-term average of 36%.

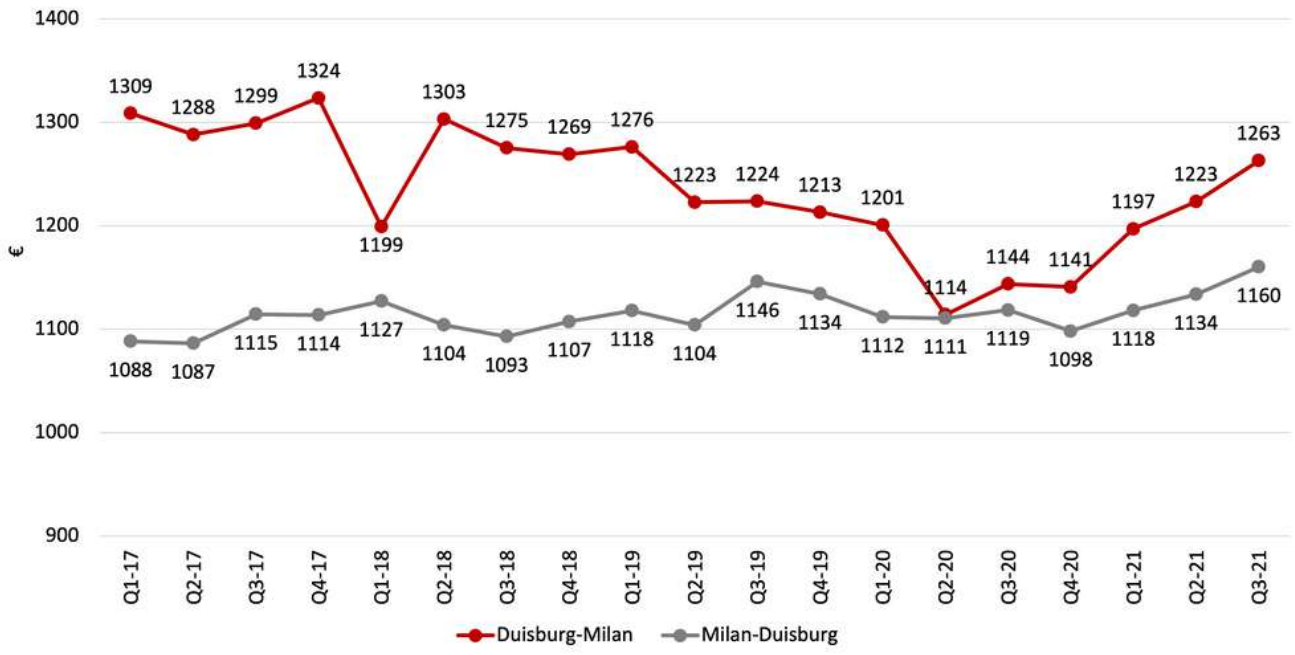
Costs in the French road freight sector are also rising, particularly fuel costs. Between September 2020 and September 2021, data from the French National Road Committee (CNR) shows a 6.1% rise in costs. The rise is driven in large part higher diesel prices, which the CNR data shows are up some 28.2% over the period, while inflation in other cost components is just 1% on average. How sustainable the higher rates in the French market might prove appears in large part dependant on demand, but also the development of these costs.

Significant Price Change

Germany - Italy

Q3 2021 saw a marked rise on the Duisburg to Milan lane, with rates 10.4% higher than the same period a year earlier. A more moderate rise has developed over the same period in the opposite direction where rates are now 3.7% higher.

Milan-Duisburg Road Freight Rates



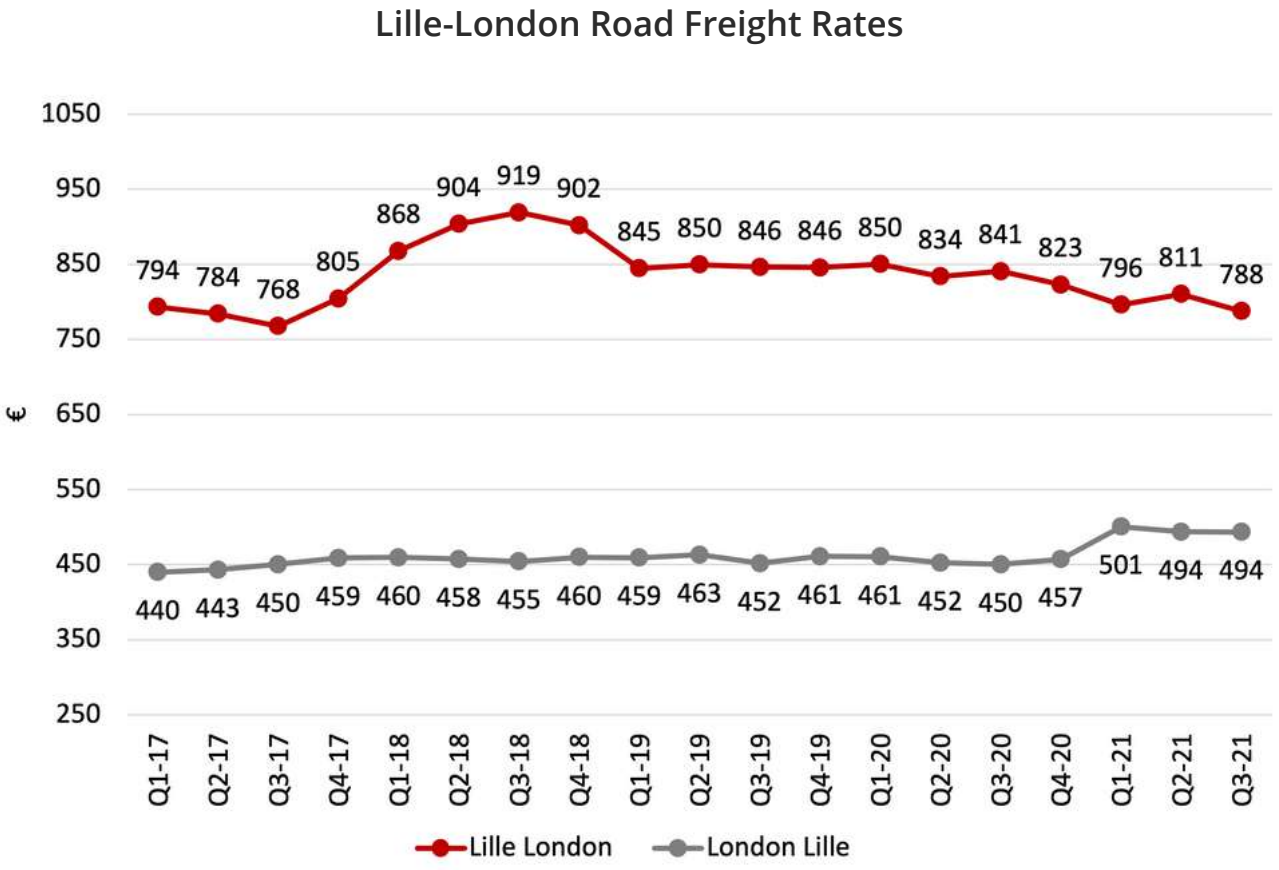
Italy's manufacturing sector is experiencing rapid growth in 2021 as it sees both production levels and new orders expand at a robust pace. External demand is particularly important in this mix, with new orders from international markets, including Germany, "rising steeply" in September, according to IHS Markit. As such rates between Milan and Duisburg have risen steadily on both front- and back-haul lanes.

Italian imports have rebounded following the Covid-19 pandemic as economic activity has returned. Demand is healthy across the country's private sector, with sustained demand throughout Q3 from manufacturing, services, construction all supporting greater import demand. Germany is Italy's largest import partner, accounting for around 16% of all imports, with manufactured, intermediate and consumer goods the major product categories.

Lane to Watch

Lille - London

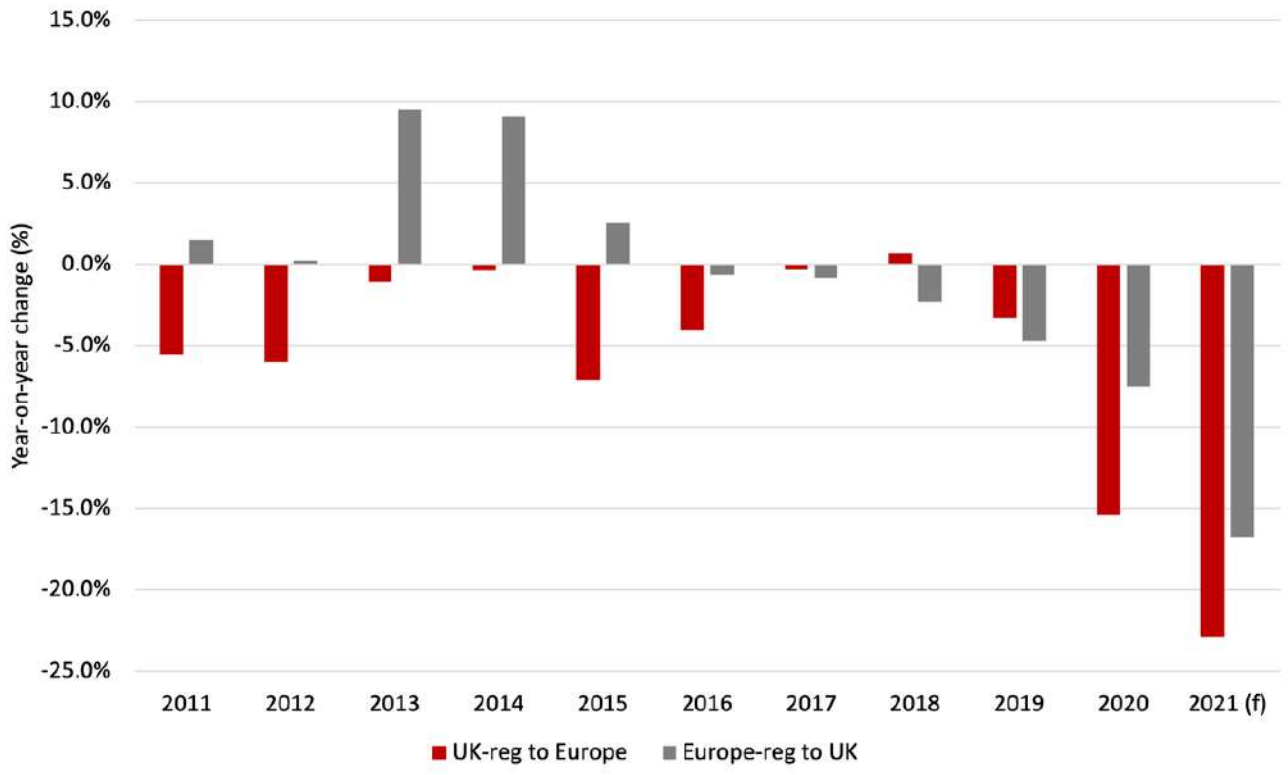
Throughout 2021, road freight lanes into and out of the UK have experienced a changing supply-demand picture resulting from a mix of factors including Brexit, driver shortages, global supply chain bottlenecks and the reopening of economies on both sides of the channel. These factors appear to be shifting the structure of cross-channel trade in Europe, and the changes are borne out in the development of rates on Lille-London lanes.



Rates have steadily declined on UK-inbound lanes. This has corresponded with a marked fall in cross-channel traffic, as is shown by data from the UK's Office of National Statistics.

Ti forecasts indicate road freight movements from the EU into the UK are likely to fall more than 15% in year-on-year 2021, with the number of French-registered trucks declining 11.6% over the same period. In Q3 2021, rates from Lille to London declined 6.3% when compared to the same three months in 2020.

Annual development of UK Inbound and Outbound HGV movement (YoY %)



Rates on UK export lanes to Lille have increased, up 9.6% in Q3 2021 year-on-year. However, the data reveals the majority of this rise occurred during the months immediately after Brexit and has since persisted. Ti's forecasts show UK truck movement into the EU could fall by more than 20% year-on-year in 2021. Data from the Wall Street Journal shows that by the end of Q2 2021, UK exports to France fell some 29.9% from the level seen in Q1 2019. With road freight volumes markedly down over this period, the rise in rates on the UK outbound lane appears to be driven by the extra costs of border compliance and potential delays in border crossings post-Brexit, as well as the pricing in of a potentially empty return journey.

Looking ahead, the long-awaited implementation of border controls on EU to GB bound freight is set to be implemented on the 1st of January 2022. Consequently, volumes on this lane are expected to increase up to the end of 2021 as importers stock up prior to potential disruption, providing upward pressure on rates towards the end of Q4. After the 1st of January change in customs arrangements, there is a further expectation of a period of disruption to imports, which may also put upward pressure on rates.

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.

Ti is one of the world's leading providers of expert research and analysis dedicated to the global logistics industry. Utilising the expertise of professionals with many years of experience in the mail, express and logistics industries, Transport Intelligence has developed a range of market leading web-based products, reports, profiles and services used by many of the world's leading logistics suppliers, consultancies, banks and users of logistics services.ti-insight.com.

For further information or to request a demo of GSCi - please contact Michael Clover: +44 (0)1666 519907 or email mclover@ti-insight.com.

ti-insight.com

Upply is a digital platform that provides a freight price benchmarking tool and brings transparency on road, sea and air freight rates (including past data and future trend estimates) to manage market volatility. 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.

upply.com

IRU is the world road transport organisation. We represent the entire industry – bus, coach, truck and taxi, and drive the sustainable mobility of people and goods across the planet.

As the voice of more than 3.5 million companies operating mobility and logistics services in over 100 countries, we lead solutions to help the world move better. IRU's work supports trade, economic growth, jobs, safety, the environment and communities.

At the heart of IRU are millions of journeys across the planet every day: people and goods moving to where they need to be, in buses, coaches, taxis or trucks, for all, or even just a small part, of their journey.

Find out more about IRU's work and how you can join us in shaping road transport.
iru.org/membership