EUROPEAN ROAD FREIGHT TRANSPORT MARKET FORECASTS: 2021 AND 2026

By Ti Research

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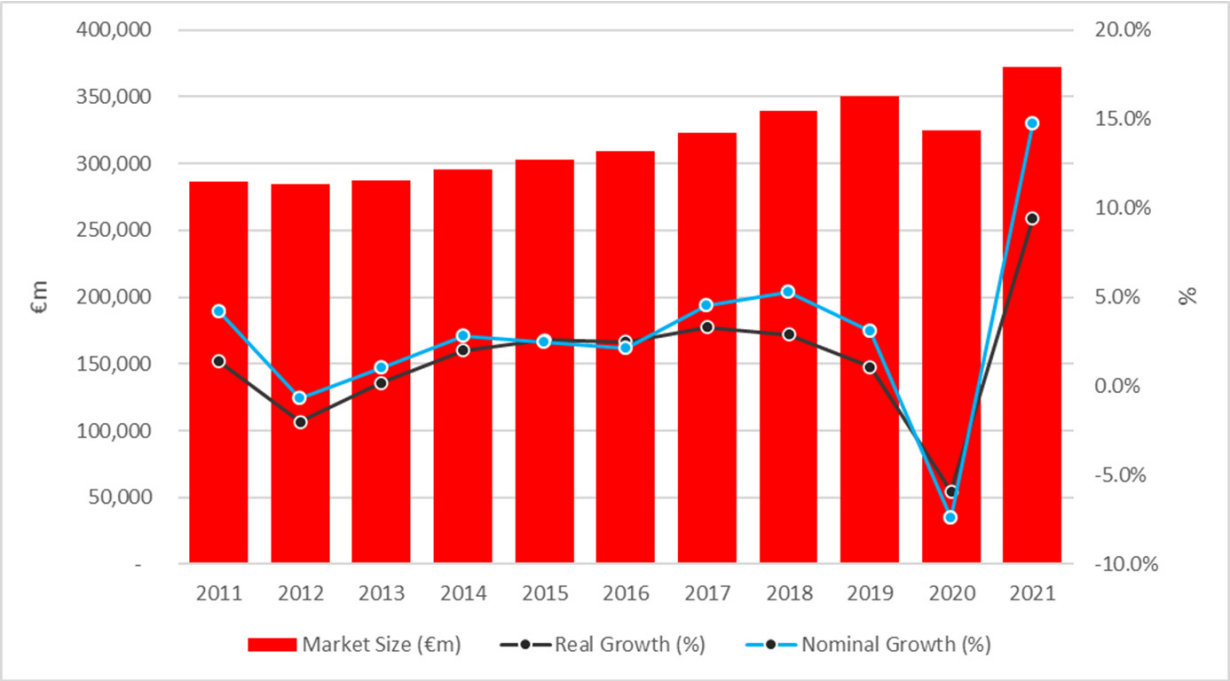
1. EUROPEAN ROAD FREIGHT TRANSPORT MARKET SIZE & GROWTH

1.1. European Road Freight Transport Market Size & Growth 2021

In 2021, the European road freight market was worth €372,350m, up from **€324,461m** in 2020. The market grew 9.4% in real terms in 2021 (14.8% nominally) owing largely to Europe's recovery from the COVID-19 pandemic.

The European Road Freight Transport Market Size and Growth 2011-2026



Source: Ti

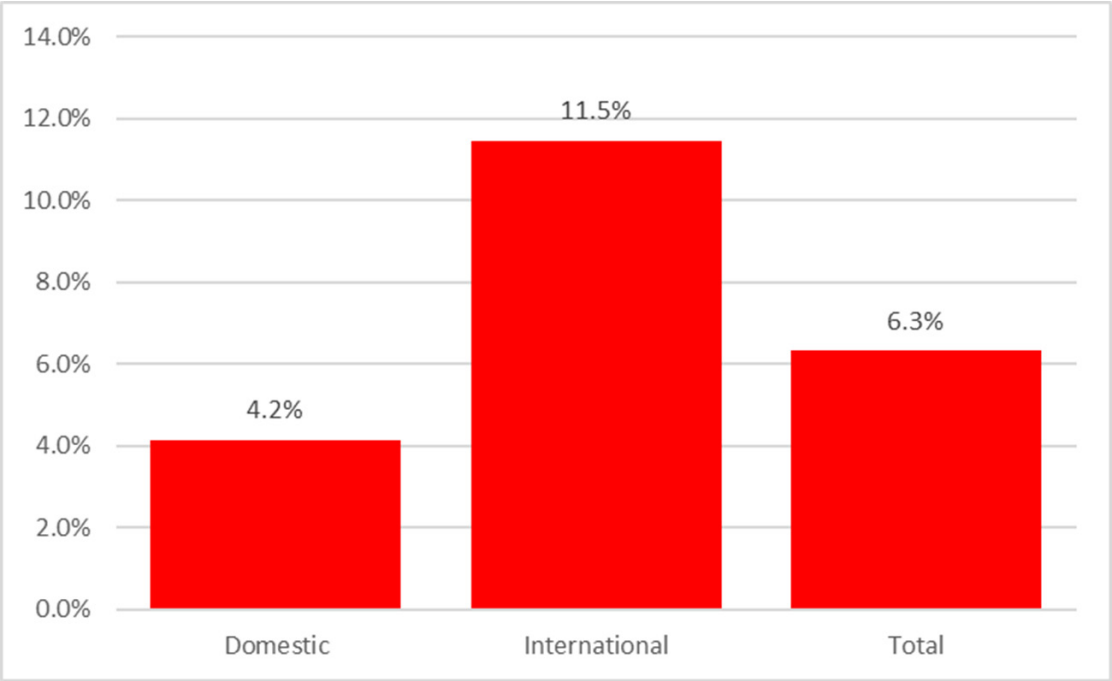
The damage national lockdowns and government-imposed restrictions caused to the European road freight market has been outweighed by the recovery in 2021, when the majority of restrictions were lifted. Volumes have returned from the manufacturing sector, and offline retail activity has resumed, resulting in a significant recovery in the transport of goods by road. Consumer spending has rebounded strongly, with pent-up demand stored during 2020 being released in 2021, driving further growth in the European road freight market.

International trade has picked up pace in the second half of 2021, with intra-EU trade volume growing an average of 9.5% year-on-year, and total EU trade volume up 9.6%, derived from figures released by Eurostat. This represents a very strong recovery from the contraction in 2020. Data from the OECD shows that retail sales in the EU have also recovered, growing 5.5% compared to the contraction of -0.5% in 2020. Manufacturing contracted significantly in 2020, but in 2021 rebounded by 8.1% in the EU. The automotive industry has struggled to recover to 2019 levels however due to a lack of input supply. Conversely, European e-commerce has continued its rapid growth, up 25.1% in 2021. Overall, this amounts to diverse but increasing demand for road freight services in 2021.

1.2 Total European Road Freight Market 2022 (F)

The European road freight market is projected to show positive growth in **2022**, expanding by 4.9% in real terms to reach **€390,754m**. The Ti COVID-19 Recovery Tracker 2022 (CRT22) tracks the recovery of the market in 2022 by comparing the market size to pre-pandemic 2019. Overall, the European road freight market is expected to reach a CRT22 of 6.3%, representing a full recovery, with an additional 6.3% growth compared to 2019 levels. Both markets segments have recovered from their pre-pandemic levels, however recovery has been significantly stronger in the international market. International trade, especially intra-EU trade has seen impressive levels of recovery and growth in 2021, and trade forecasts continue this trend forward into 2022.

European Road Freight Transport Segments – CRT22



Source: Ti

High levels of vaccinations have significantly reduced the impact of COVID-19 by the end of 2021, allowing governments to focus on recovery. With the reductions of lockdowns and opening of economies, there was still some worry that COVID-19 could re-emerge and force governments to reconsider their policies back towards preventing a large number of deaths. In late 2021, the Omicron variant began to spread as a highly virulent and potentially problematic form of COVID-19. However, the variant now appears to have a much lower death rate than previous variants, reducing the need for further shutdowns and limiting its impact on the European economy. This has promoted optimistic growth forecasts for GDP and trade, bolstering forecasts for the road freight market.

On the other hand, the conflict in Ukraine has reduced optimism for forecasts. Border closures and restrictions have reduced trade and the movement of drivers, particularly Eastern European countries geographically close to Ukraine. Sanctions directed at Russia will damage European economies. Fuel costs have already risen dramatically since the start of the conflict, which will provoke increasing inflation, and ultimately harm consumer confidence and lower spending. The impacts of the conflict are not likely to be felt immediately however, and the reduction in demand for road freight services may not be felt until the latter stages of the year, limiting the conflict's impacts in the 2022 forecast.

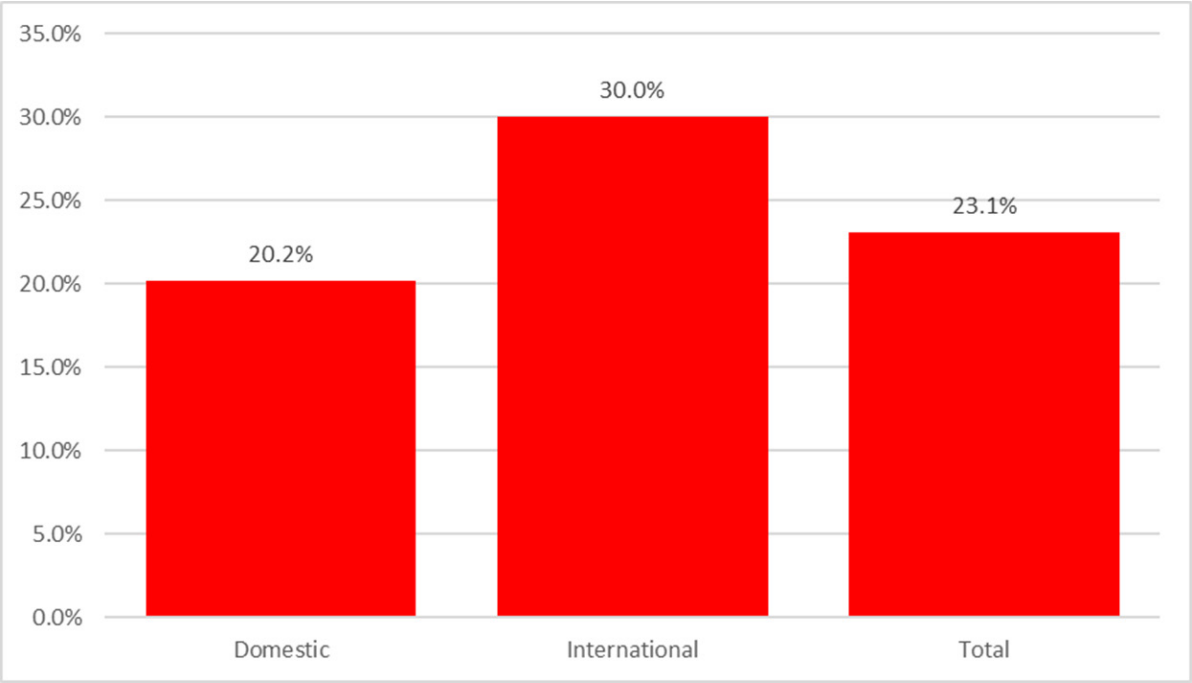
Hauliers underestimated the strength of the recovery in demand for road freight services in 2021, leading to a rush of new orders for vehicles to meet the rising demand. The shortage in semiconductors has meant that new orders will likely not be delivered until at least 2023, meaning capacity in 2022 will be limited and unresponsive to changes in demand.

The automotive industry is a major vertical sector for road freight, which is also affected by this lack of semiconductors. This has severely limited the recovery in the sector, along with various other shortages in key materials and chemicals used in the production process. The Ukraine conflict does look set to cause more hurdles to automotive production in the form of energy and raw material scarcity, which is likely to reduce demand and rebalance the market's lack of capacity to an extent. Supply of semiconductors to the sector is poised to return in 2022 however, and growth in other sectors such as e-commerce is set to reapply demand over the year.

1.3 Total European Road Freight Market 2026 (F)

By **2026**, the total European road freight market is forecast to be worth **€431,360m**, with a projected real CAGR of 3.0% from 2021 to 2026. The COVID Recovery Tracker for 2026 (CRT26) shows that the region's total road freight market will be 23.1% larger in 2026 than it was in 2019 in real terms. On the back of solid trade forecasts, the international road freight market is expected to grow faster than domestic during the 5-year period, although it will remain the smaller of the two markets, reaching €135,635m by 2026. Domestic growth is forecasted to be somewhat slower, growing at 2.7% on average during the next 5 years to reach €295,725m by 2026.

European Road Freight Transport Segments – CRT26



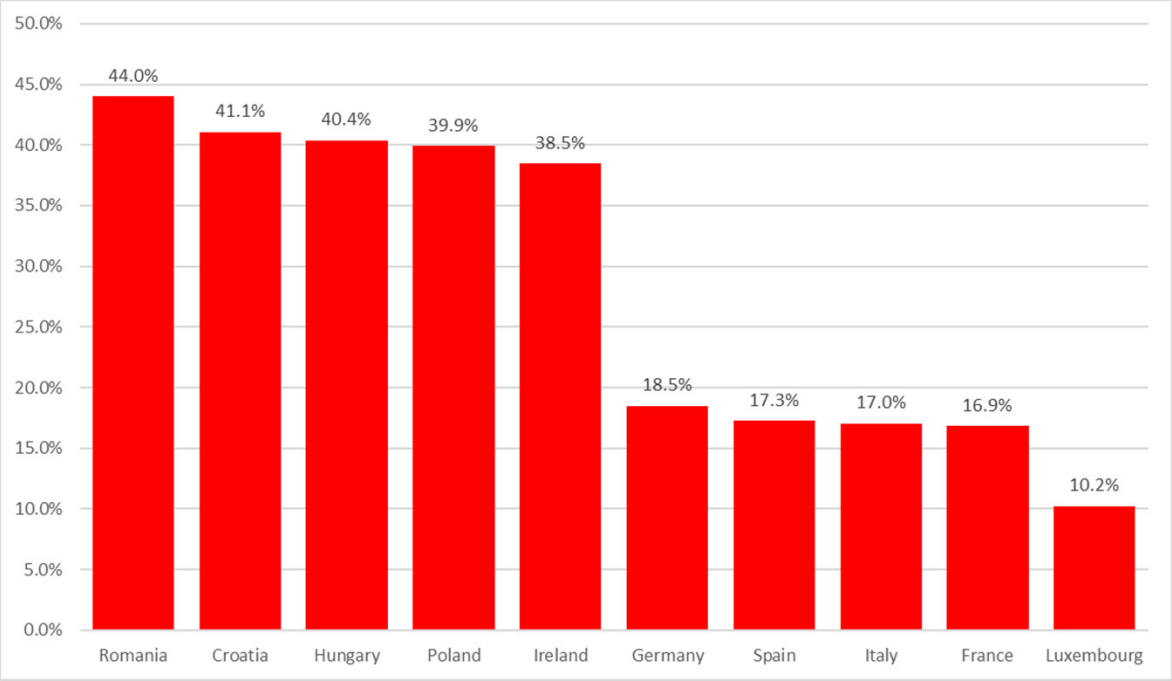
Source: Ti

The 5-year forecasts for European road freight are becoming increasingly uncertain and will depend on the outcome of various unpredictable factors. The length and result of the conflict in Ukraine, the response to increasing inflation, and the rising cost base for road freight services will heavily impact growth in the market. A long conflict in Ukraine and extended periods of high inflation will reduce demand in the market and cause rising fuel costs and wages.

The Mobility Package, which will have begun to influence the market in 2022, will demonstrate its impacts

more fully after 2023. Domestically, the cooling off period for cabotage operations is expected to reduce domestic capacities, which is likely to limit growth. In the international market, the new rules surrounding movement of drivers will have an uneven impact on volumes across Europe. The return of vehicle rule change means that trucks must be returned to the member State of establishment every 8 weeks without exception. The cooling off measure is designed to make life hard for so-called letterbox companies — businesses based in cheaper countries that operate more or less permanently in other nations. This will have a disproportionate effect on Eastern European hauliers, as they are most likely to be currently not complying with the new provision. Countries such as Bulgaria, Romania, Lithuania, and Latvia, will likely lose market share to countries closer to the west such as Poland, the Czech Republic, Hungary, and Slovenia.

European Road Freight Transport Market CRT26 – Strongest & Weakest Recoveries



Source: Ti

As with the 2022 forecasts, a similar regional growth landscape is presented for the European road freight markets, with Central and Eastern Europe expected to continue their rapid expansion. Meanwhile western advanced economies maintain a more stable pace of growth. A key difference however is the overperformance of central European countries, as their newfound competitive advantage granted to the region from the Mobility Package is converted into larger international market share, at the expense of Eastern European markets. Croatia is a prime example of this, having the highest forecasted real CAGR.

2. MARKET DEVELOPMENT

The European Road Freight market is being affected by a number of supply and demand side factors, including:

Demand-side factors:

- Economic growth
- Consumer behaviour

Supply-side factors:

- Driver shortages
- Mobility Package
- Cost increases
- Congestion and supply chain bottlenecks

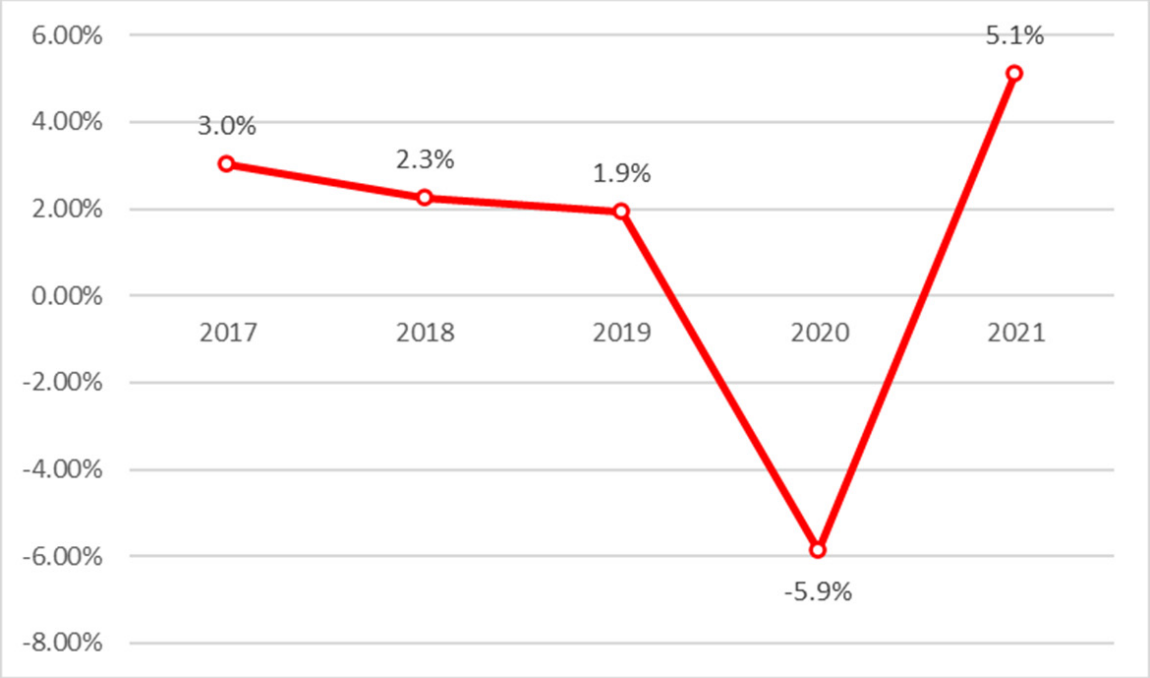
The following section analyses the key factors influencing demand, growth, opportunities and challenges within the European Road Freight market.

2.1 Demand-side contributions to European road freight market growth

2.1.1 European economic environment

With road freight being such an integral step in the movement of a wide range of finished and unfinished goods, the performance of the economy has a strong relationship with the level of demand in the market. The European economy in 2021 has approached a full recovery from the lows of the pandemic in 2020. GDP growth in the European Union was 5.1% in 2021. The partial recovery has been driven by a surge in consumption as households reduce their savings rate, and pent-up disposable income unwinds into the economy. National and European recovery plans have consisted of considerable investment, which has further promoted recovery and growth. In addition, unemployment has fallen to levels similar to pre-pandemic levels in 2021, encouraging further wage increases and spending. However, disruptions in the wider supply chain applied friction to the economy, which has limited expansion to more moderate levels over the year.

European Union Real GDP Growth Rate

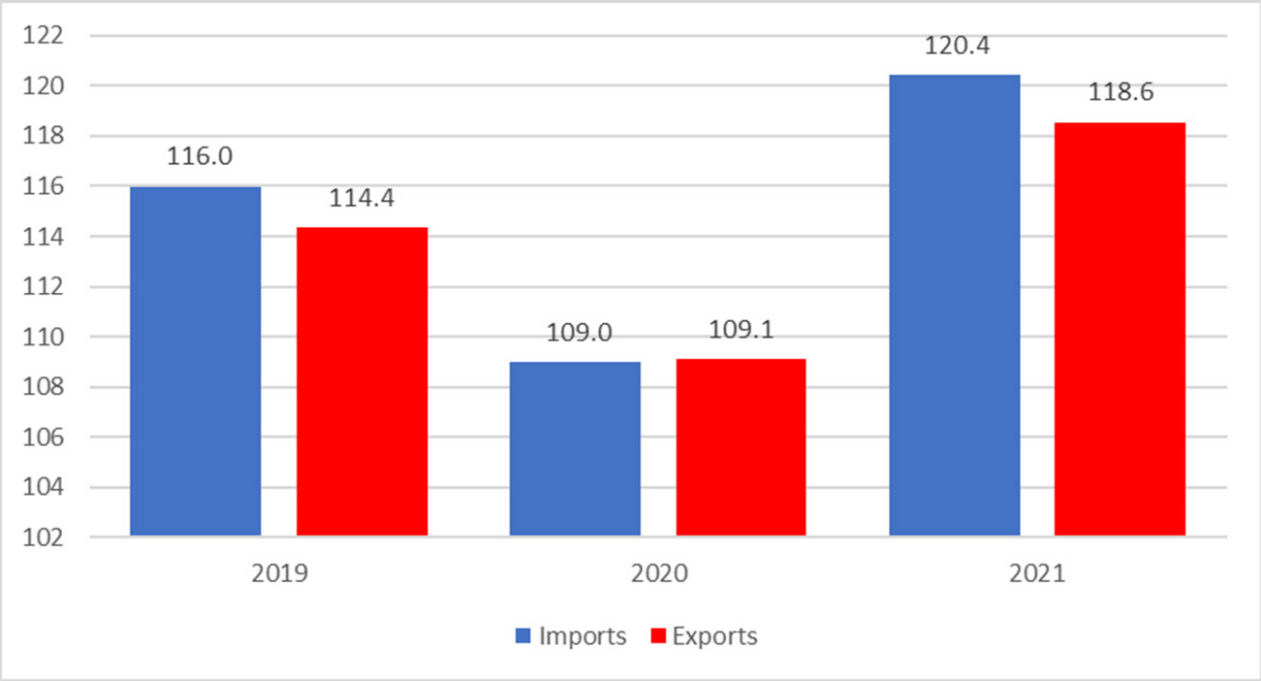


Source: IMF / Ti

Moving into 2022, the outlook is less optimistic. With the war in Ukraine, supply chain disruptions, low unemployment, and rising energy prices continuing into 2022, inflation will be a crucial factor in determining future levels of demand. According to an April estimate from Eurostat, annual inflation in the Euro area in 2022 is now expected to be 7.5%, a significant increase from the rate of 1.1% in 2021. With rising prices, households have less disposable income, and thus overall demand is set to fall relative to 2021.

International trade in the EU has recovered very strongly in 2021. Total EU trade has increased by 9.6% year-on-year in 2021, an impressive recovery following the 5.3% decline in 2020. Despite suffering a more severe contraction than exports in 2020, imports in the EU have strongly rebounded, growing 10.5% in 2021. EU exports have also recovered, although slightly slower, at 8.7% in 2021. This is likely due to consumer demand driving higher levels of imports, while issues in production have had a negative impact on export growth. Regardless, the overall EU trade picture has driven strong demand for international road freight in 2021.

Averaged Monthly EU Trade Volume Index (2015 Base)



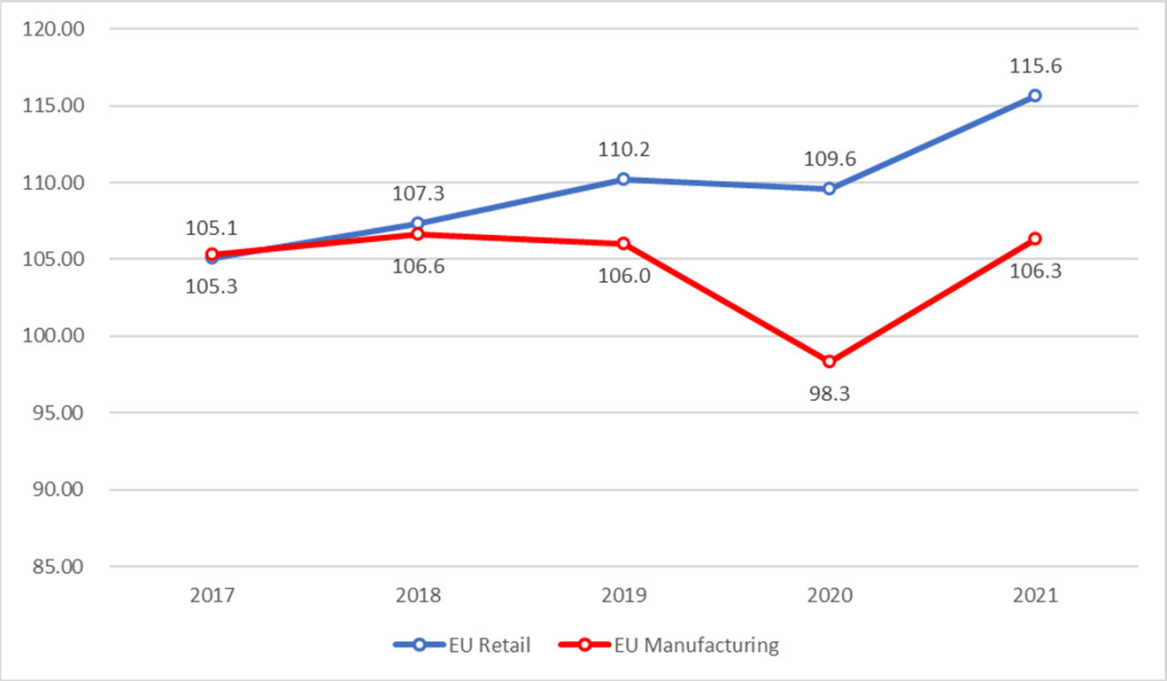
Source: Eurostat / Ti

2.1.2 European Road Freight Vertical Sectors

Retail and Manufacturing

Retail is an essential sector for generating demand in the road freight market. The retail sector in the European Union has expanded greatly over the last 5 years, only set back slightly by the pandemic in 2020, contracting by 0.5% year-on-year. In 2021 retail activity has jumped 5.5% upwards, inducing increased demand in the European road freight market. The manufacturing industry is another major customer for road freight services. Manufacturing has been more deeply impacted by the pandemic, contracting 7.3% in 2020, due to shortages of materials and equipment. The sector has recovered well in 2021 however, growing 8.1%, driving substantial growth in the road freight market.

European Union Manufacturing and Retail Index (2015 Base)



Source: OECD

Automotive

The European automotive industry has on the whole underperformed in 2021. The European Automobile Manufacturer's Associated (ACEA) has reported that new car registrations have fallen 2.4% year-on-year in 2021, even while comparing to the low base period of 2020. EU car output also has declined 7.1%, again despite a low level of output in the base period. Spanish, Italian, and French automotive sectors, however, all saw growth in 2021, with the overall European contraction almost entirely the responsibility of Germany, Europe's largest automotive producer, which was reported by ACEA to have shrunk 10.1%. As demand for new cars collapsed during the outbreak of the virus, semiconductor producers shifted their production away from the automobile sector and towards other sectors, such as technology and healthcare. This led to a lack of supply once demand returned. The scarcity of semiconductors in the German automotive sector has had an especially substantial impact on production, even causing major manufacturers such as Opel to temporarily shut down its assembly line in the country. Supply of semiconductors are expected to stabilise in 2022, however uncertainties arising from the war in Ukraine may continue to supress growth in the sector and reduce demand for European road freight services.

e-commerce

e-commerce has on the other hand, been an important driver of growth in the European road freight market in 2021. Ti estimates place total European growth in e-commerce at 25.1% in 2021. This is driven in particular by central and eastern European countries, which are experiencing rapid growth in both internet users and income levels. Nielsen reports that in some of these countries, online retail sales have displayed double-digit growth year-on-year in both 2020 and 2021, substantially outperforming brick-and-mortar sales increases. In western e-commerce markets, growth has been slower, however overall demand for road freight is still expected to increase into 2022.

2.2 Supply-side constraints to the European road freight market growth

2.2.1 Cost increases and rates

Pricing in the European road freight market has continued to rise throughout 2021. This has been in response to both falling capacity, rising demand, and increases in the cost base, especially in diesel prices. Spot rates have been consistently higher than contract rates, and the gap has widened over the year.

Diesel prices are a key cost component of European road freight. Ti analysis on GSCi shows it can account for between 20% and 40% of the non-structural costs involved in long haul European trucking. Data from the European Commission shows diesel prices in 2021 grew 16.7% year-on-year, due to both rising demand as the world economy restarts, and to a low base rate in 2020.

The effects of inflation on the supply side of the European road freight market, especially on diesel prices, have already led to substantial increases in rates. The Russian invasion of Ukraine and the restriction of oil supplies from Russia into Europe has led to further upward pressure on prices. The EU-wide weighted average of a litre of diesel has risen sharply since Q3 2021. Compared with the pandemic-induced low of €1.10 during Q2 2020, the weighted average cost of diesel was 52.7% higher in the first quarter of 2022. Indeed, even compared to a pre-pandemic high of €1.40 per litre Q4 2018, diesel prices across Europe are up 20%.

Average European diesel prices – EU weighted average

Source: Ti

Although fuel costs are often mediated by heavy taxes, some of which are fixed levies, others proportionate to the price of the fuel, it is very likely that the recent increase in the price of diesel has resulted in fuel costs approaching 50% of truck operating costs.

Bearing in mind the ubiquitous nature of road freight, it is probably the most significant vector for the inflation in freight transport costs. Indeed, even on logistics solutions that are largely sea and air- based, there is likely to be an effect due to an increase in costs. With driver costs rising in many developed economies as well, it is reasonable to suggest that road freight will see inflation in the cost base.

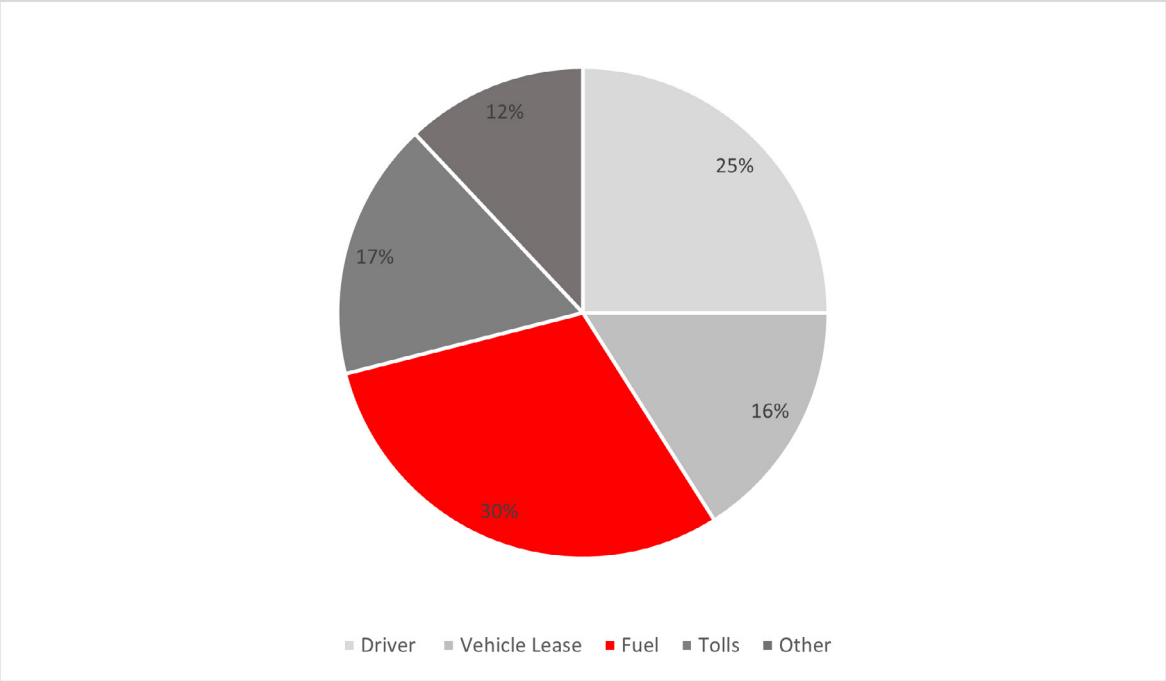
It is important to reassert that prices are not driven by costs, but rather by supply and demand. Therefore, there is no linear relationship between higher fuel prices and higher road freight rates. However, if road freight rates did not increase it is likely that road freight providers, especially the owners and operators of trucks, would go out of business. This would tighten the supply-side and thus increase prices. Indeed, it is likely that this is already happening. If anything, this is likely to amplify the increase in prices. One mechanism for this is the weaker ability of smaller truck owners to pass-on fuel increases. In the long-term, this increases the power of larger companies with greater pricing power, although such companies at present are a small part of the road freight market in both North America and Europe. This may change to a degree.

Therefore, it is reasonable to surmise that:

- Road freight will see the greatest price pressures of all the three major transport modes
- Higher prices in road freight will have the widest impact on freight costs
- Smaller providers are likely to suffer disproportionately
- Larger providers are likely to increase their presence in the market due to their ability to pass on higher fuel prices.

Although the perception that fuel dominates the cost of freight transport is widespread, the numbers on page 16 illustrate that the reality is different. Essentially highly capitalized transport assets such as ships and aircraft have become less energy-intensive. Trucks, however, remain quite energy-intensive and thus vulnerable to fluctuations in the price of fuel.

Cost components of operating a truck in Central & Eastern Europe



Source: CNR

Road freight in 2021 was also characterised by limited capacity, an issue which has worsened over the year, leading to price increases. European driver shortages have been a major contributor to this, with Ti estimating that there is a shortage of around 400,000 drivers across the continent. Another factor leading to falling capacity has been the global shortage of semiconductors, which has caused major disruptions to truck production in 2021.

On the other hand, demand for road freight services in 2021 surged, which has further exacerbated price increases. The digital trucking company Girteka has said that the increases in the cost base are set to continue into 2022, stating a possible increase of 35.0% compared to the levels in mid-2020.

These factors have led to a nominal 14.8% year-on-year growth in the market, with a total European price growth of 4.9%. European domestic prices have grown faster than international, at 5.3% and 2.8% respectively. Domestic markets have been faced with increasing capacity issues, giving more pricing power to hauliers operating within their respective borders. On the other hand, cross-border restrictions have eased across Europe in 2021, improving capacity internationally and effectively weaking international hauliers' ability to pass on increasing costs.

2.2.2 Driver shortages

The availability of HGV drivers has long been an issue in the European road freight market. At the end of 2021 between 380,000-425,000 truck driver positions were unfilled in Europe according to IRU estimates.

The two most heavily impacted countries are the UK and Poland. The UK has been greatly affected by socio-political decisions in the past few years to add to covid-related pressures. The full impact of Brexit is finally hitting, with EU-based drivers – the main recruitment pool – unable to work as easily in the UK and thus diminishing the supply of drivers available.

Driver shortages have such an effect on the market that a small shortage can create large backlogs and losses of stock across the continent. August 2021 saw the corporate impact of these shortages, with companies such as McDonald's and Nandos running out of stock, something completely unprecedented, but unavoidable as there was simply no one to carry stock.

The Ukrainian War has had a profound effect on the driver shortage problem across Europe. IRU estimated that up to 15,000 truck drivers were detained in Ukraine from across Europe. Germany's transport federation estimated that March's shortage of drivers from Ukraine, Poland, Belarus and Russia led to a reduction in road freight capacity of 7%. Some Polish freight transport operators have reported that up to 80% of their drivers were coming from Ukraine, Belarus and Russia, numbers they are desperate to replace. The impact of heightened driver shortages is already reflected in Polish rate data, with rates on lanes leaving Warsaw reaching an all-time high in Q1 2022 according to Ti and Upply European Road Freight Rate Development benchmark. The effect is likely to be felt across the region, as Polish hauliers provide around 20% of the European market's capacity.

2.2.3 Mobility Package

The Mobility Package is a wide-ranging set of initiatives to address challenges affecting European transport and mobility. The new rules on the posting of drivers came into force on 2 February 2022, and the new rules on the access to the profession and to the road freight market, on 21 February 2022.

Impact on capacity

With the capacity pressures that we have seen in the past year, the situation is expected to get even worse as fewer trucks can do cabotage trips because of the return home policy for trucks. According to a study commissioned by the EU Commission, as a result of this rule, vehicles would need to return more regularly to the operational centre in their current Member State of establishment, potentially resulting in additional vehicle journeys of 2% compared to business-as-usual case.

The rule is expected to take capacity out of the market because vehicles will have to return to their home member states and might have to run empty in the return journeys. Eastern European hauliers will be more affected and might not be able to secure additional loads for the return journeys as there are limited market opportunities to and from their operational centres.

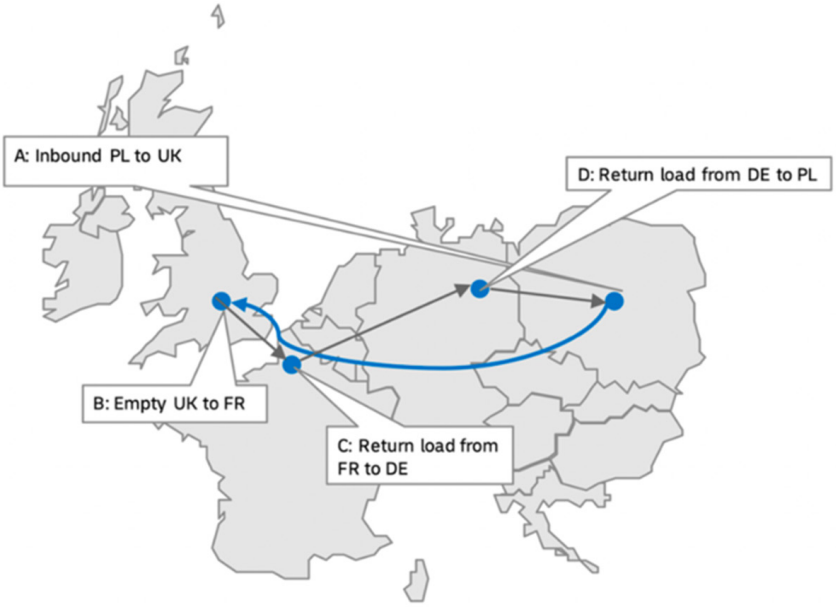
The cooling off period for cabotage operations is also expected to reduce domestic capacities.

Impact on costs/rates

The capacity pressure is likely to further push up costs as the balance of supply and demand tips in favour of suppliers. Moreover, additional vehicle journeys represent additional costs (e.g. fuel, tyres, drivers, etc.). Rates are therefore expected to increase as hauliers pass through the additional costs arising from the new return home policy for trucks. Hauliers established in Eastern European countries may be more inclined to partially absorb additional costs to keep their competitive advantage against the rest of the market that has been less affected by the new regulation. 99.8% of the vehicles engaged in cycles longer than eight weeks are anticipated to be operated by Eastern European-based hauliers. These vehicles are likely to be mostly affected by the provision since they are currently not in compliance with the new obligation and thus would have to return home more frequently.

The posting of driver's rule will also put pressure on costs. Operators will be faced with higher driver costs when operating out of home country due to higher local minimum wage.

Impacts for International Round Trip Poland – UK



Note: Assumption- Polish Haulier Company, all lanes full truck load

Source: DPDHL

DHL estimated the impact of the new regulations on international roundtrip from Poland to the UK. As shown in the visual above, the implications would be as follows:

- For flow A limited impact on inbound lane
- For flows B and C a higher minimum wage would be paid then today
- Assuming complete transit time of +40 hours, at least one hotel stay will be required during round trip (across all flows)
- Capacity challenge due to driver and equipment need to return to home state more frequently
- Additional planning complexities:

i) Need to find accommodation en route and in line with driving hours

ii) Need to reposition the vehicle so that the driver (and potentially vehicle) can return to member state of establishment

Overall, while the latest rules bring an improvement to the working conditions of drivers, they are likely to reduce capacity and make deliveries more expensive. Haulage operators have already started introducing changes to respond to the latest regulations. Girteka, for instance, recently announced it will increase prices. Considering the already difficult operating environment, including rising fuel and raw materials costs, the challenges with sourcing capacity and the resulting rising freight costs will continue for some time.

2.2.4 Congestion

Congestion impacts freight rates and costs as it has an ability to reduce capacity in the market, putting upward pressure on rates. It also reduces the earnings of carriers and hauliers – something that is more significant for smaller companies potentially struggling financially.

During the pandemic and stay at home orders, roads were clear and congestion wasn't an issue for the market, resulting in better reliability, efficiency and asset utilisation. With the re-opening of countries, congestion is again becoming a problem.

Congestion does not just come in the form of traffic on the roads. The road freight market is greatly affected by stationary containers at ports. The re-opening of economies coincided with a rapid increase in demand due to a return to 'normality', prompting ports to be overwhelmed with containers. Bottlenecks meant not only longer wait times for containers, but also for truck waiting to carry shipments. According to the digital freight forwarder Flexport, congestion around northern European ports — and nearby railroad and trucking junctions — has worsened in April 2022 compared to levels registered in mid-February.

ABOUT TI

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- Consulting and Market Research projects
- Training, Conferences and Webinars.

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