

THE EUROPEAN ROAD FREIGHT RATE DEVELOPMENT BENCHMARK



Q3 2020

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Ti

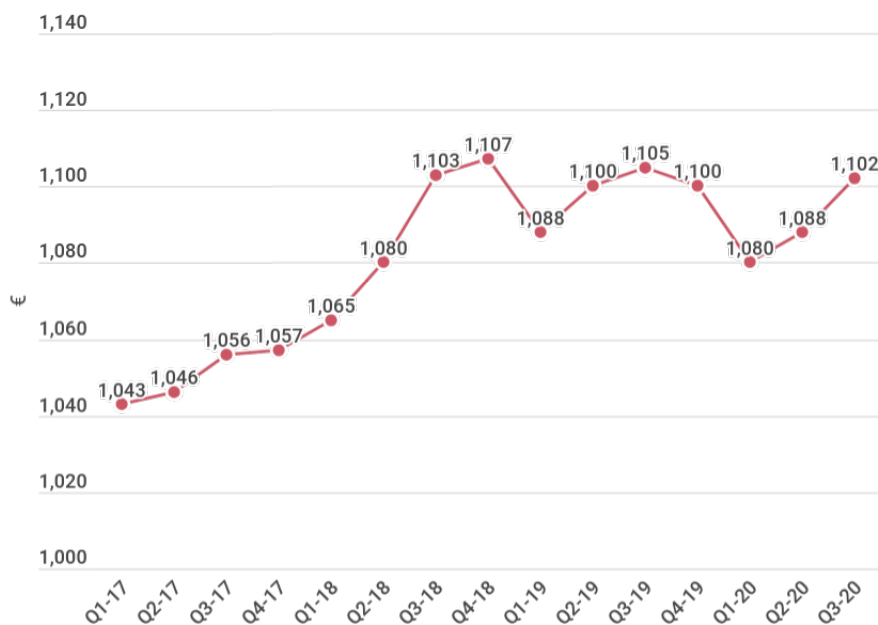
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The European Road Freight Rate Benchmark

The Ti & Upply European Benchmark rate increased by 1.2% to €1,102 in Q3-2020. Despite this uptick, rates are still just below prior year levels, with the benchmark 0.3% lower than the Q3-2019 level of €1,105.

Ti & Upply European Road Freight Benchmark - Average European Road Freight Rates, Q3-2020



The slump in economic activity kept prices down over the first half of the year. However, as demand returned, capacity tightened, pushing rates higher overall. Nevertheless, the demand picture is still weak by pre-COVID standards. With the business climate uncertain, carriers on international routes will in some instances hike prices up to account for the possibility of not being able to take a backhaul load.

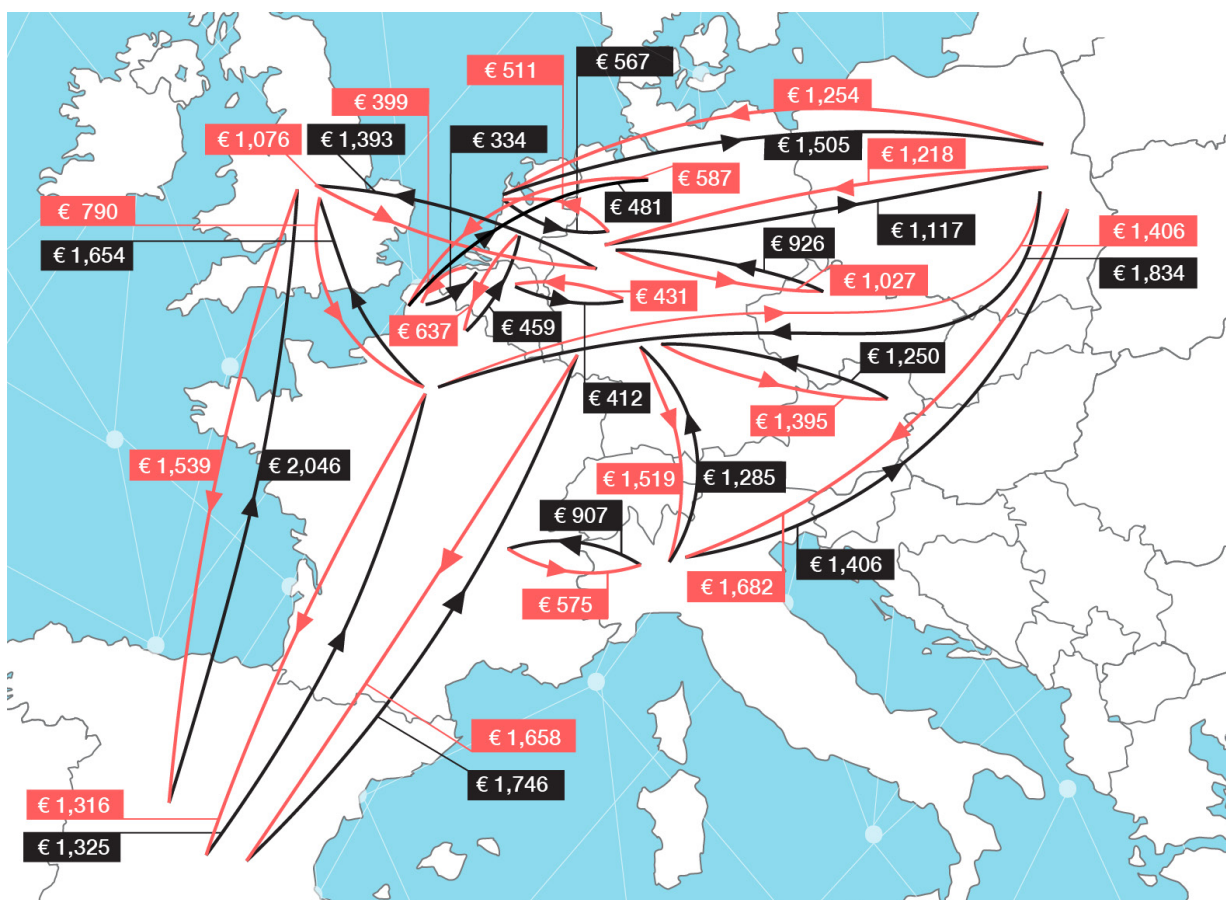
In Q2, many central and eastern European carriers returned home, with demand plummeting and Europe-wide border restrictions being imposed. However, Q3 has seen many re-deployed across Europe, boosting supply on more distant trade lanes. There is evidence that more trucks are being deployed elsewhere across the continent too. According to French road freight association, FNTR, only 5% of trucks were not in use during the first half of July in France, compared to 59% during the peak of the crisis in late March. The financial consequences of the crisis are being felt by carriers though. In Germany, the number of unemployed qualified drivers rose by 47.7% year-on-year in September.

Another change seen in the quarter was the implementation of the first part of the Mobility Package in August, with specific applications around driver rest periods. Although rates have not

yet been influenced by this, reforms around posting and driver pay, due to be implemented from February 2022, could still have an effect nearer the time.

With oil prices still at low levels, the price of diesel continues to fall. According to Eurostat, diesel prices across Europe are 4.8% lower than in Q2 and 14.8% lower than in Q3-2019. The previous iteration of this report showed that diesel price changes had a reasonably strong effect on freight rates, but that has not translated into a price drop this quarter. Additionally, costs related to the implementation of border controls appear to have subsided as a result of Europe's re-opening, but this has not been reflected in rates. It appears that despite lower costs, the benchmark rate in Q3 has mainly been influenced by the improving demand picture.

Q3-2020 European Road Freight Rates

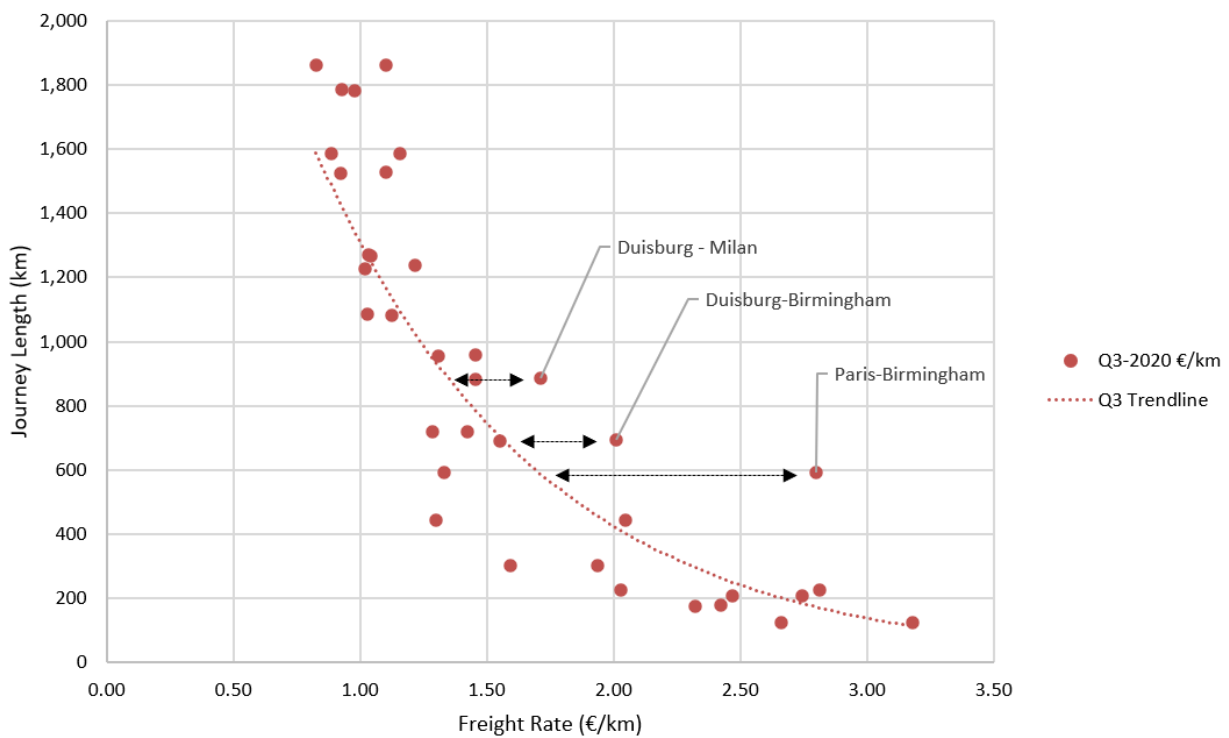


Rates per Kilometer

Shippers paid an average of €1.62/km for road freight services in Q3-2020. In line with the overall average price change, this represents a 1.2% increase from the previous quarter.


The graph below shows the curved inverse relationship between rates and journey length, but a number of lanes do not fall close to the curve of best fit. The points far to the right of it show a €/km price above what the trendline would suggest. For instance, the trendline equation for Paris-Birmingham would suggest a price of €1.71/km, but instead shippers paid €2.75/km in Q3. This trade lane has an imbalance between the volumes of goods that go on the fronthaul and backhaul. This has created a situation where shippers must pay more to ship goods to Birmingham because carriers are not certain of a load back into Paris. The Birmingham-Paris rate comes out at €1.33/km, well below the trendline suggestion, simply because it is more difficult to find loads on this return lane. In a similar vein, Duisburg-Birmingham also has a trade imbalance and thus shippers pay higher rates than suggested by the trendline (€2.01/km v €1.57/km). In addition to this, the UK lanes are also impacted by ferry costs across the English Channel, without which the lanes would be much closer to the trendline.

Freight Rates in €/km



The reason that two inbound UK lanes appear to be so expensive is partly to do with geography. Being more isolated than mainland Europe, the fronthaul and backhaul dynamic is more important to UK trade lanes. On the mainland it is generally easier to carry loads on a greater number of international routes before returning to the origin. Therefore, the mismatch in trade between two specific points makes less of a difference to the freight rate. In fact, this dynamic also partially explains why Duisburg-Birmingham is a less extreme example than Paris-Birmingham. The longer return route to Germany offers carriers the chance to pick up loads in Antwerp, Brussels, northern France or northern Germany, for example, before heading back to Duisburg.

Duisburg-Milan is another example to the right of the trendline. Shippers paid €1.71/km in Q3, despite the trendline suggesting a figure of €1.35/km. On this lane, shippers must cross into Switzerland before Italy using the most direct route and both can be subject to border delays. Meanwhile Switzerland has, according to a European Commission study, the highest average toll price per km of any European country.



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Rate Development on Europe's Major Trade Lanes

France-Spain

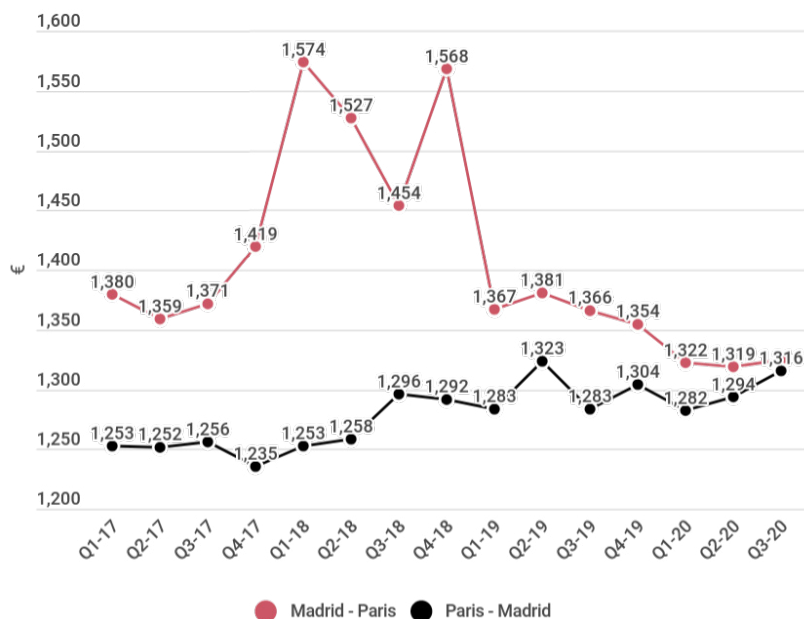
Q3 saw a convergence in rates on the fronthaul and backhaul Madrid-Paris lanes. Both are up slightly on Q2, with Paris export rates up 1.8%, whilst Madrid exports grew by 0.5%.

Trade between France and Spain remains weak but is showing signs of improvement, particularly in the crucial automotive sector. In July, both France and Spain recorded year-on-year increases in new vehicle registrations, albeit this momentum appears to have been lost in August and September. Flatness in rates is also caused by the difficulties seen in the Spanish economy, which was hit particularly badly by the pandemic and where the recovery has also been weak.

Meanwhile, shrinking capacity has held rates up. According to Spain's National Social Security Institute, the number of companies providing transport and logistics services in September was 7% lower than one year ago. Spanish hauliers account for the majority of volumes on this trade lane.

Additionally, as emergency measures have been lifted, truck bans have come back into place. These law relaxations had previously allowed for quicker transport services. However, with Sunday and Public Holiday trucking restrictions on the key N-1 route into France, hauliers have lost some competitiveness compared with earlier in the year.

Madrid - Paris Road Freight Rates



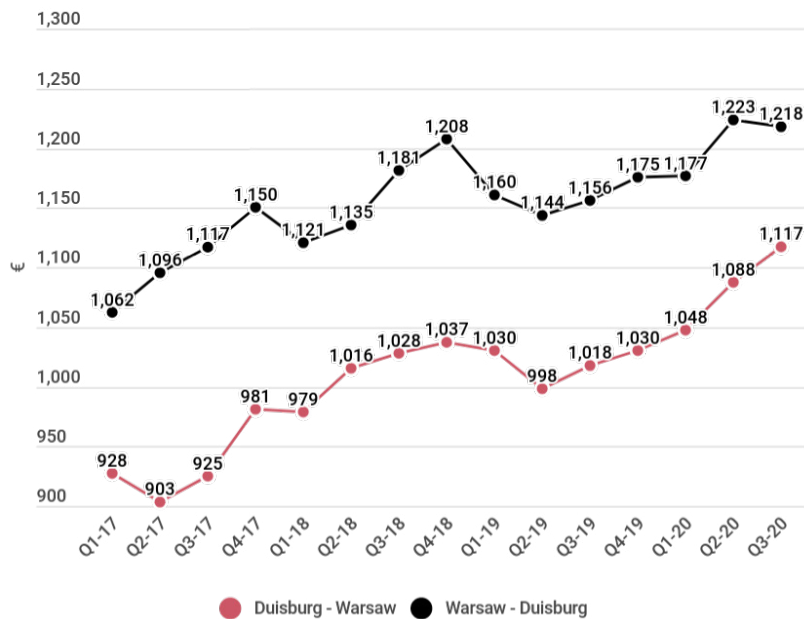
Poland-Germany

Since the beginning of 2017, both Warsaw-Duisburg trade lanes have been on an upward trajectory. Warsaw-Duisburg rates were down 0.3% against Q2, but are 5.4% higher year-on-year. On the backhaul, rates are up 2.7% q-o-q, or 9.7% y-o-y.

There are a few factors contributing to this growth trend. Firstly, demand has been solid given the circumstances; the German economy has showed good signs of recovery in the third quarter and its contraction in Q2 was not as sharp as in other major economies. According to the Federal Office for Goods Transport, by the end of the quarter, an index measuring the mileage of trucks driven along German toll routes exceeded the pre-COVID 2020 average. Similarly, the Polish economy was quick to shutdown and its economy appears to have performed reasonably well throughout the pandemic.

Additionally, as Europe's economy has opened up further, Polish drivers have been re-deployed across the continent. This has reduced the capacity on the Germany-Poland trade lane that existed in Q2, pushing rates higher.

Warsaw - Duisburg Road Freight Rates



Germany-France

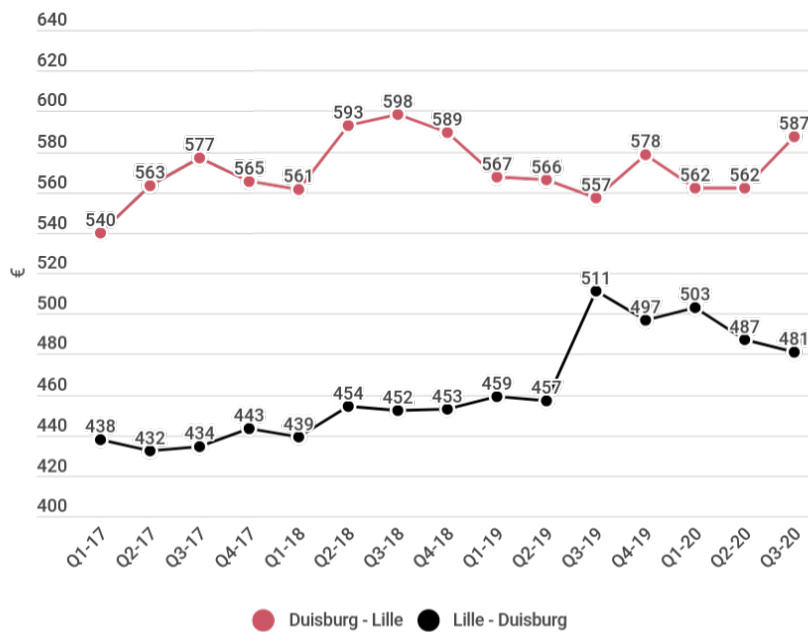
Rates on the fronthaul from Duisburg to Lille moved in an opposing direction to the backhaul this quarter. Fronthaul rates grew 4.3% q-o-q, whilst on the backhaul, rates fell 1.3% q-o-q.

This can in part be explained by the differing performances of the two economies. The German manufacturing sector has come back strongly, and its economy is closer to pre-COVID output than France's, where the recovery appears to have stalled through the end of the summer.

Moreover, the economic slowdown has led Germany to reduce its sourcing from other countries (and especially from France) for intermediate products. German products, thanks to their stronger added value, are necessary for the French economy. This creates (or aggravates) the unbalance.

Rates to Duisburg are seen returning to their trajectory pre-Q3-2019. Following the peak season and uncertainty through COVID, rates remained at a higher level, but with weaker demand, lower diesel prices and an increase in the international supply of trucks, rates appear to be reverting once more to lower levels in line with the historical trend.

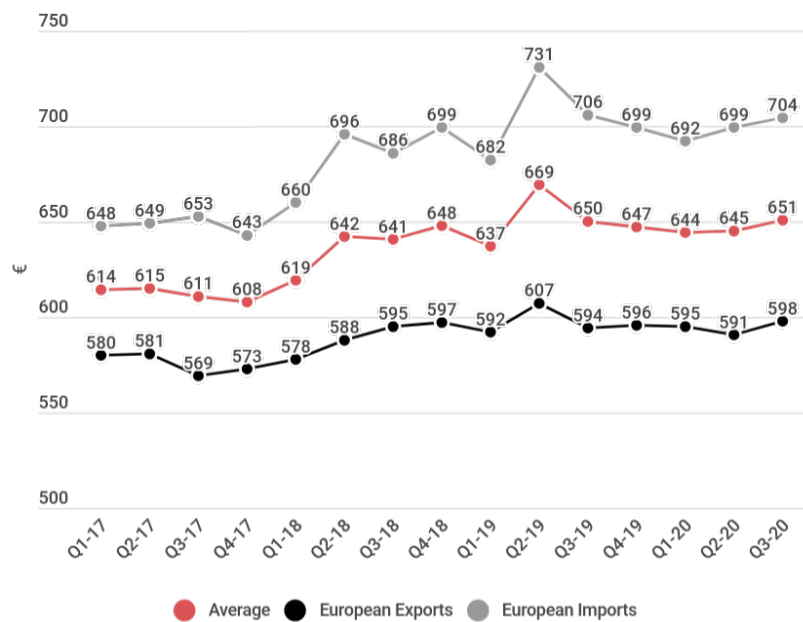
Duisburg-Lille Road Freight Rates



Performance of Europe's Import and Export Hubs

Rate performance into and out of Europe's major trade hubs has been remarkably steady given the circumstances this year. In Q3, rates rose 1.0% q-o-q on lanes into and out of Rotterdam and Antwerp.

Rates to and from Major Ports

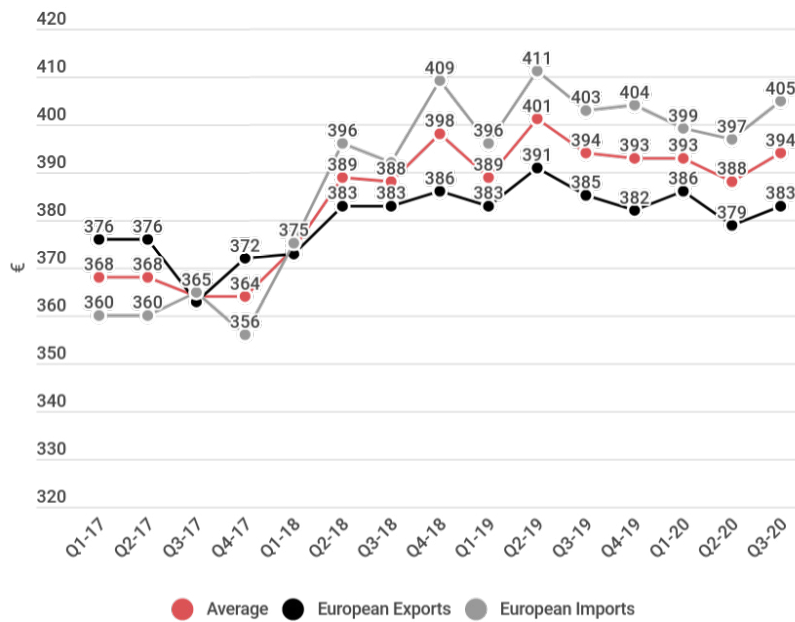


Average rates for both Rotterdam (+0.8%) and Antwerp (+1.5%) have repeated this trend. Import and export trade lanes into these ports are both up q-o-q overall. This matches growth in extra-EU trade seen across Europe. According to Container Trade Statistics, July port volumes across Europe exceeded January levels. However, there was then a slight fall in volumes into August.

In Q2, many hauliers across the continent parked up amid a slump in volumes and concerns over COVID restrictions. For instance, according to Jan Buczek, president of the Association of International Road Hauliers in Poland (ZMPD), over half of the Polish fleet had parked up at the height of the crisis. This is significant, given Polish hauliers account for over one third of Dutch and Belgian-based cross-trade. However, in this quarter supply appears to have returned, thus keeping a lid on the growth of rates into and out of these major ports.

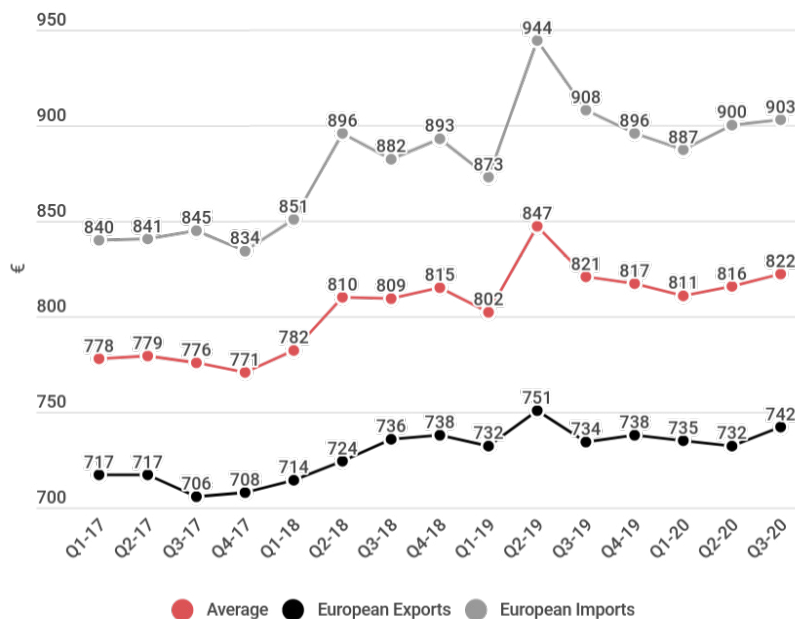
On a y-o-y basis, Antwerp rates were flat overall. There is symmetry here with the performance of the container port. For the first nine months of 2020, container volumes were virtually unchanged from last year.

Antwerp Rates



In July, Rotterdam port CEO Allard Castelein had predicted there would be “no full recovery of volume” this year after H1 volumes were 7% lower year-on-year. Surprisingly then, on a y-o-y basis, Rotterdam rates in Q3 were up 0.2%. This appears to be mainly due to the strength of Germany’s recovery. Duisburg-Rotterdam rates were up 2.6% year-over-year. It appears that as key global markets (notably China) have recovered, demand has built up and therefore German trade levels have also rebounded. This had the effect of pushing up Duisburg’s export road freight prices.

Rotterdam Rates



Economic Comeback

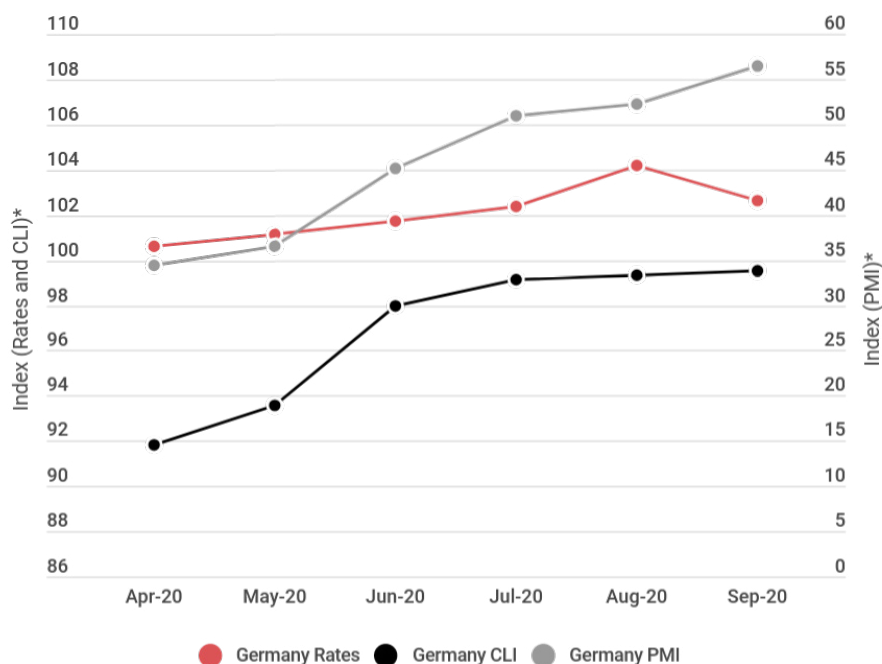
The European economy is recovering from the slump attributable to lockdowns in the first half of the year. Although there are variations on a country-by-country basis, all road freight markets in September look vastly different to the situation on the ground in March and April.

Given the scale of the rebound in demand levels, it might be expected that this would have been the biggest price driver over the last few months. However, this appears to only be telling part of the story.

The OECD's Composite Leading Indicator (CLI) index shows early signals of turning points in business cycles, showing fluctuation of economic activity around its potential. Similarly, the IHS Markit PMI surveys indicate the likely expansionary or contractionary nature of the manufacturing sector at any point in time. Both show strong correlation with swings in GDP growth, making them indicative of likely changes in road freight demand.

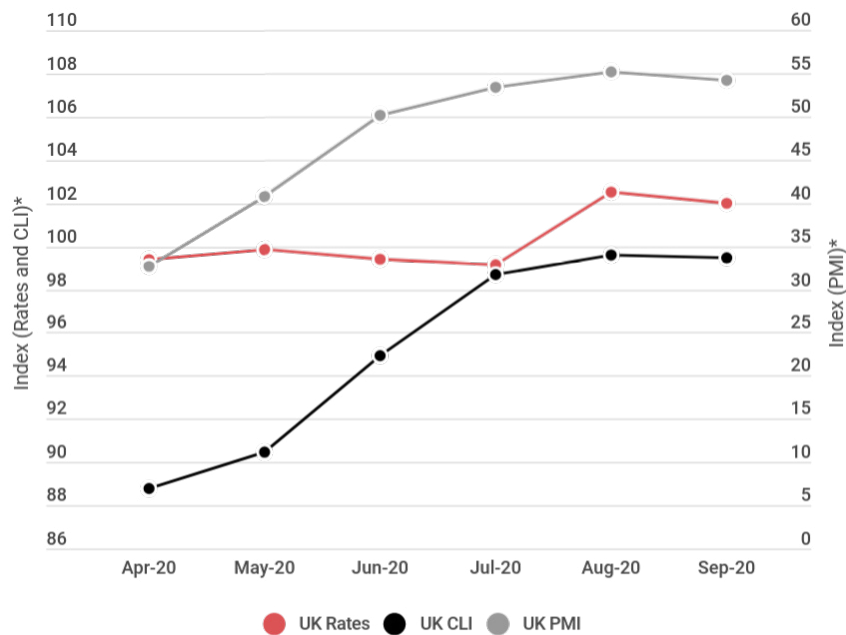
In Germany, rates have shown a reasonable correlation with the pick-up in economic activity, as shown by the graph below. The R coefficient, which is a statistical measure of correlation between datasets, is 0.82 for rates and CLI, and 0.83 for rates and PMI. A measure of 1 represents perfect correlation, whilst -1 represents exact negative correlation. A measure of 0 shows complete independence between two measures. However, over a longer term period (back to January 2019), the respective correlations were -0.05 and 0.14.

Germany Averages Rates v Economic Activity Measures

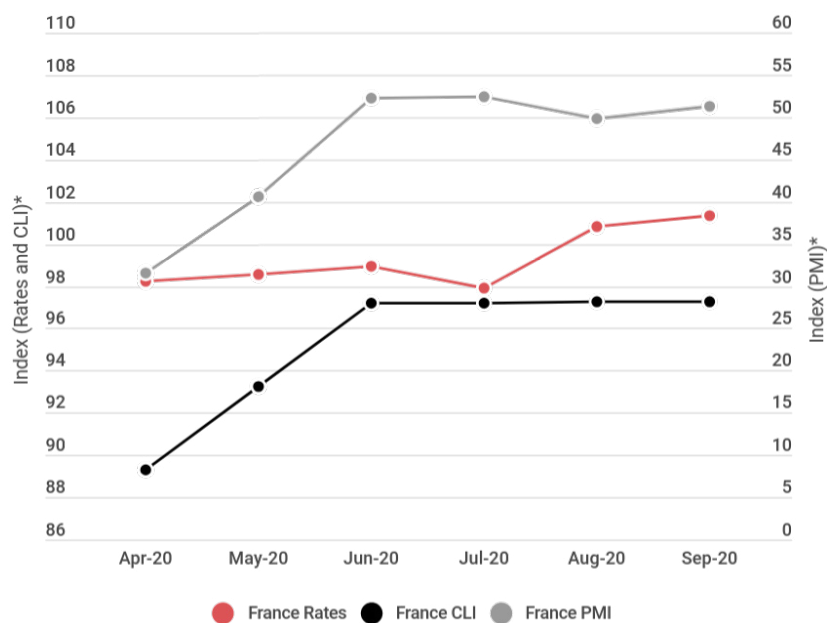


This relationship is weaker in the UK and France. In the UK, the correlation between rates and CLI is 0.60, whilst between rates and PMI, it is 0.53. In France, the correlation between rates and CLI is 0.49 and 0.41 between rates and PMI. Over the longer term, the French correlation figures were roughly as strong as they are now, but in the UK it was non-existent.

UK Averages Rates v Economic Activity Measures

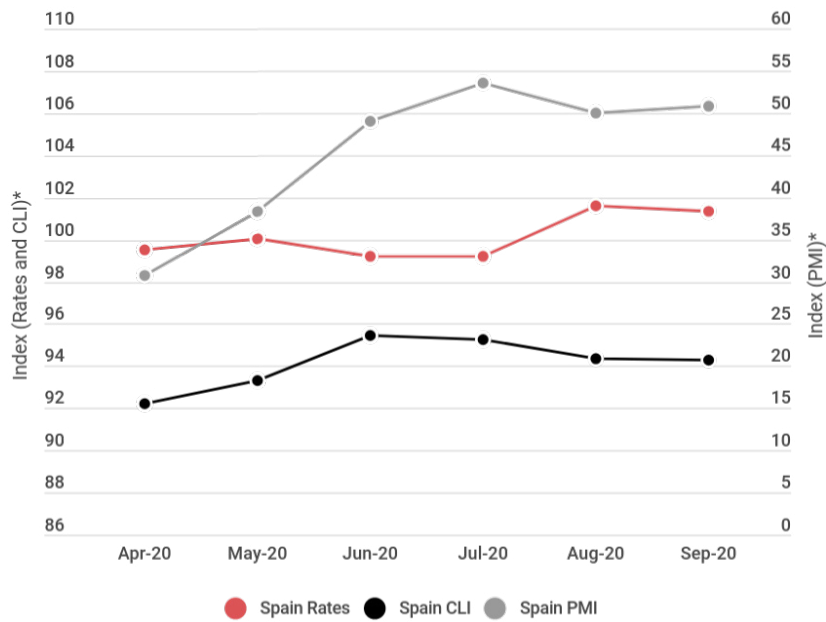


France Averages Rates v Economic Activity Measures

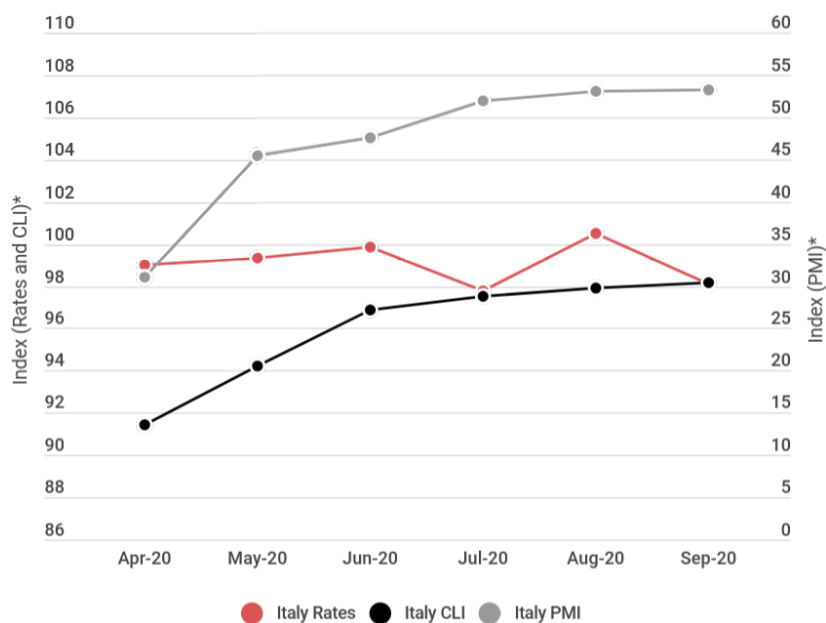


In Spain and Italy, there appears to be no relationship whatsoever between the two variables. In Spain, the CLI/rates correlation is -0.06, whilst with PMI it is 0.27. The R coefficient for Italy's rates with both CLI and PMI is -0.07. For both countries, this is consistent with similar longer term findings.

Spain Averages Rates v Economic Activity Measures



Italy Averages Rates v Economic Activity Measures



Overall, the sharp rise in demand appears to have only partially affected rates in some circumstances. Interestingly the relationship is strongest with Germany, where economic activity fell by less and where demand has returned closer to pre-COVID levels. Here, there appears to be a relationship between demand and rates, where there was none previously. This is perhaps indicative of the strong German rebound.

In the UK, France and Italy, there appears to be more of a flatlining in economic growth later into Q3, whilst in Spain, recent economic indicators have been particularly worrying. This perhaps explains why there has not been an improvement in the correlation between rates and the two indicators. However, it is also apparent that the correlation between rates and demand was only modest over the longer run anyway.

Overall, it seems apparent that the swings in supply, with carriers being furloughed or reduced to part time, or with drivers re-deployed across Europe, is also having a significant impact on rates, thus either partially or fully offsetting the effect of demand changes.

**Rates are the average of all rates related to the country, indexed at January 2020 = 100. The CLI index base is January 2005 = 100. For PMI, a score of 50 indicates zero growth in manufacturing compared to the previous month, whilst a score above 50 indicates growth and a score below it indicates contraction.*

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- Market maps for the new digital landscape, with strategic profiling of start-ups and market incumbents.
- Detailed coverage of the wider logistics market.



Significant Price Change

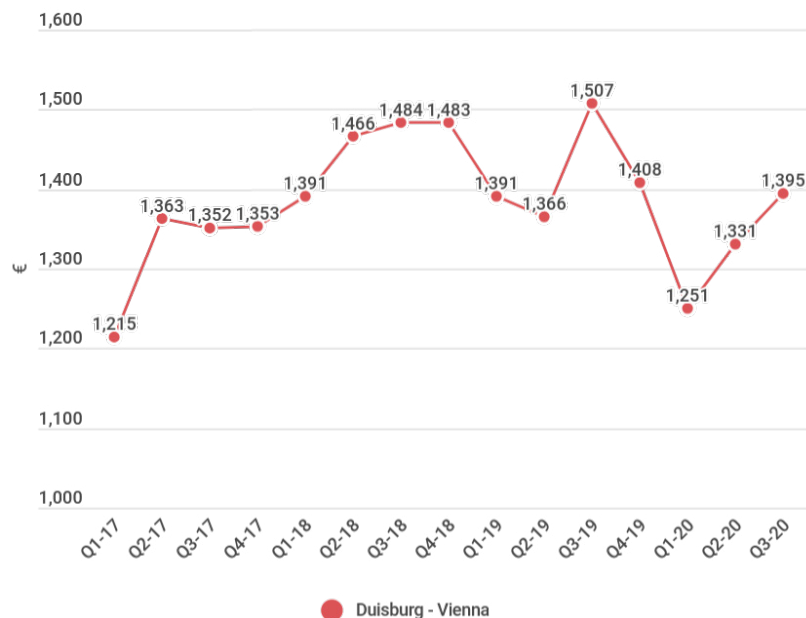
Duisburg-Vienna saw the largest quarterly price rise in Q3. Rates grew 4.9% quarter-over-quarter. Interestingly, rates on this lane also showed one of the sharpest year-over-year declines at -7.4%.

Owing to the refugee crisis, the German-Austrian border has seen border checks conducted since Autumn 2015. This has the effect of leading to uncertain transport times between the two destinations, which is reflected in the volatility of freight rates on the lane.

Whilst Germany has been widely praised for its handling of the pandemic, Austria was also quick to close borders and implement lockdowns. This allowed it to re-open earlier and quicker than many of its European counterparts. As a result, demand levels have rebounded sharply in Q3. With both economies improving, demand levels have returned, pushing up prices.

Finally, a lack of supply may be pushing up rates. The sector continues to face financial difficulties, which is leading to drivers being forced out of the market. According to German statistics, the number of unemployed qualified road freight drivers grew by 47.7% year-on-year in September. According to Eurostat, German hauliers account for approximately one third of the drivers on this lane, with Austria accounting for a third too.

Duisburg-Vienna Road Freight Rates



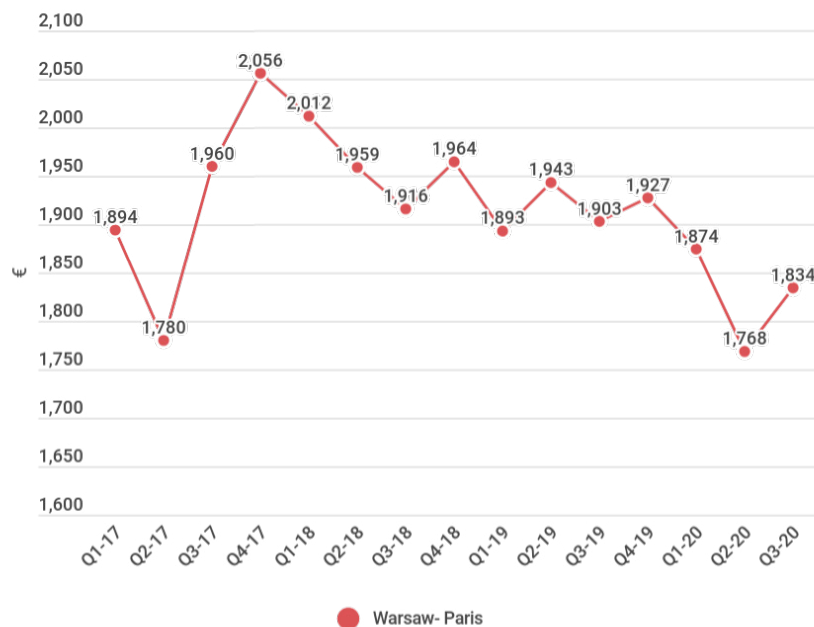
Lane to Watch

Over each of the last few years, Warsaw-Paris rates have seen an uptick in rates in the final quarter of the year. This traditionally makes it the most expensive time to ship goods into the French capital from Warsaw, with a premium of 3.7% over the average price. This coincides with peak season for retail volumes.

Rates on the lane dropped heavily in the second quarter of 2020, with demand dropping significantly. This recovered slightly into Q3, with rates rising 3.8%. However, this is still 3.6% below prior year levels. On only one other occasion over the last few years has the median rate on this lane been so low.

With the economy recovering, rates at below long-run levels, and a normal peak season boost set to arrive, rates ought to be increasing on this lane in the final quarter of the year. However, Paris has begun to see further restrictions amid a second wave of COVID-19 infections. This may harm its economic recovery, which was already showing signs of levelling off. Given this uncertainty around demand, it is unclear whether the Warsaw-Paris trade lane will see this peak season boost again in 2020.

Warsaw-Paris Road Freight Rates



Methodology

The rates are the result of Upply's own econometric and statistical modelling, which is based on the analysis of more than 250 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 from one quarter to the next.



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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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