THE EUROPEAN ROAD FREIGHT RATE DEVELOPMENT BENCHMARK

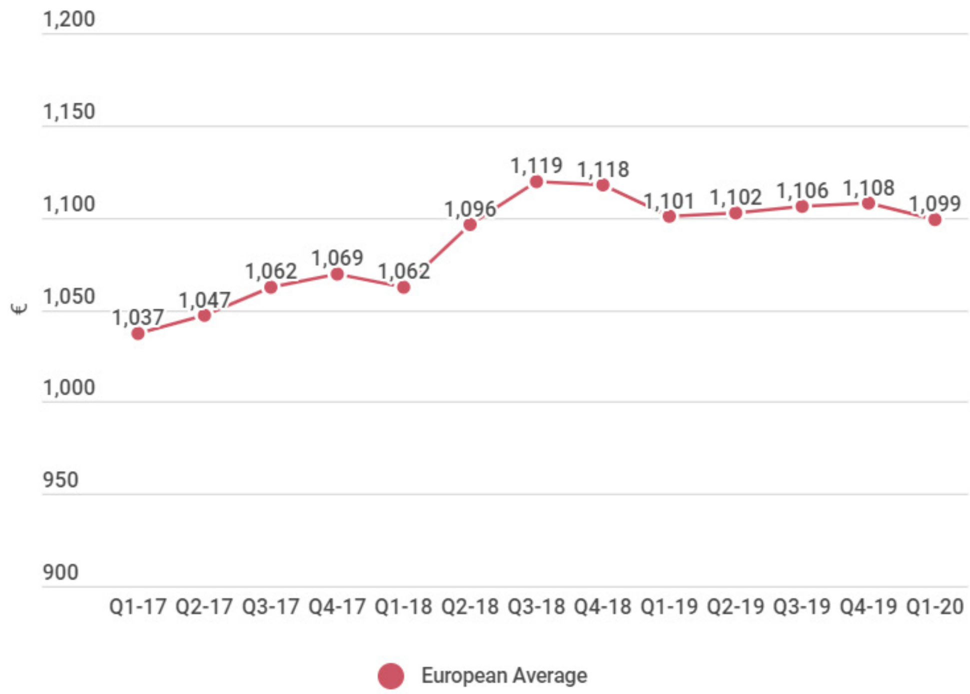
Q1 2020

Contents

The European Road Freight Rate Benchmark

The Ti & Upply European Road Freight Benchmark rate was €1,099 in Q1 2020, marking a drop of 0.8% quarter-over-quarter and 0.2% year-over-year.

Ti & Upply European Road Freight Benchmark - Average European Road Freight Rates, Q1 2020



Despite rates dropping to a near two-year low, the coronavirus outbreak appears at first sight to have had a relatively muted effect on the European average. However, the pandemic only had an impact on rates towards the end of the period. The first national lockdown began in Italy on March 9th and whilst there were signs of subdued economic activity and supply-side effects before this point, macroeconomic data shows a mixed picture in the first two months of the year. Retail trade volumes in the Euro Area were 2.4% higher year-on-year according to the OECD. However, the manufacturing sector continued to show similar signs of weakness that had been prevalent throughout 2019. Production volumes fell 1.3% on average in January and February compared to the previous year.

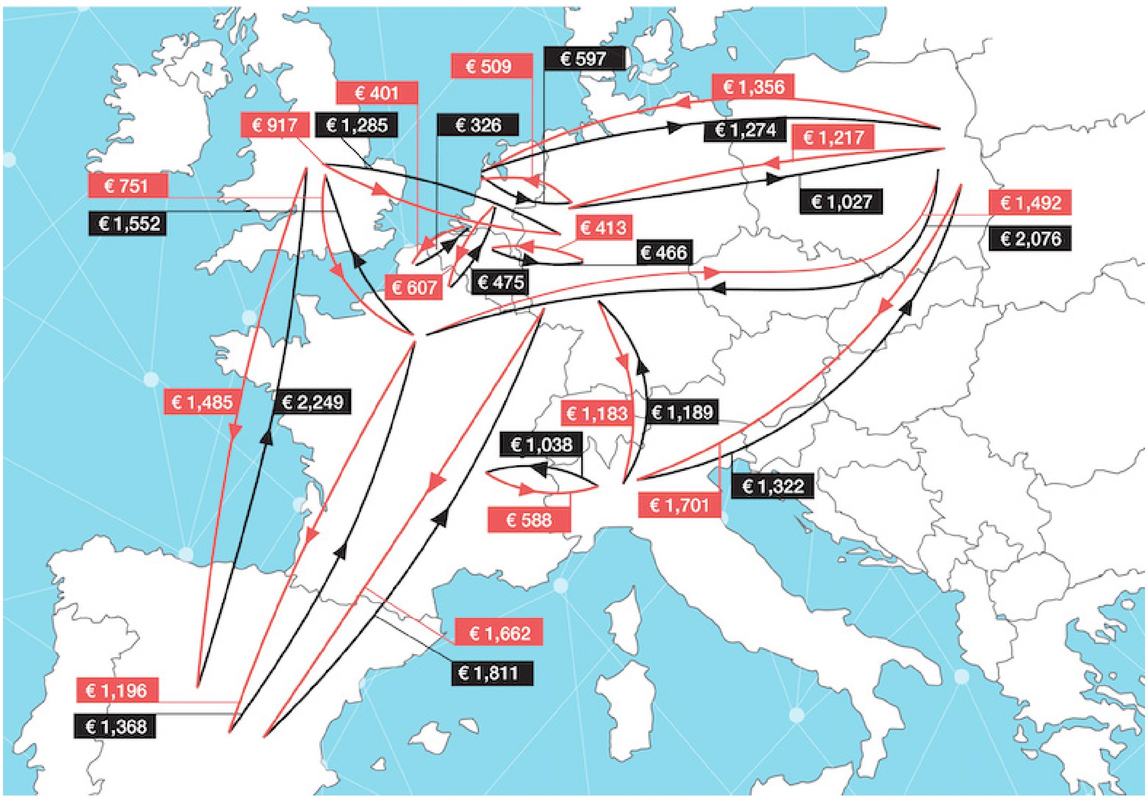
Through March, the picture in European road freight changed drastically. In general, demand fell, but there have been significant differences across sectors. Production in the automotive sector largely came to a standstill in mid-March, eradicating significant road freight volumes related to the sector. There were violent jumps in demand for grocery-related transport as a result of panic-buying, although in France, Spain and Italy in particular, it appears demand subsided here later too. Chemical and pharmaceutical production have seen sustained higher demand levels throughout the crisis, but the fashion-retail and industrial sectors have suffered.

Many hauliers reacted to the pandemic by closing down operations. A survey from French road freight organisation FNTR showed that at the end of March, 86% of French road freight companies had either fully or partially stopped operations. The drastic drop in capacity around the continent has helped freight rates remain relatively strong despite the downturn in output.

Carriers have also seen significant changes in day-to-day operations over the period. For instance, new border controls led to long delays at borders, but changes in legislation around driver operating hours have provided more flexibility. Diesel prices hit an 18-month low in March, offsetting small toll price increases seen in Germany and France. Meanwhile, national minimum wage hikes introduced at the start of the year have had an influence on driver wages in some incidences too.

However the key narrative is the disruption to the supply and demand dynamics brought about by Covid-19. Such circumstances have increased volatility in the market but have not had a clearly substantive upwards or downwards effect on rates in aggregate.

Q1 2020 European Road Freight Rates

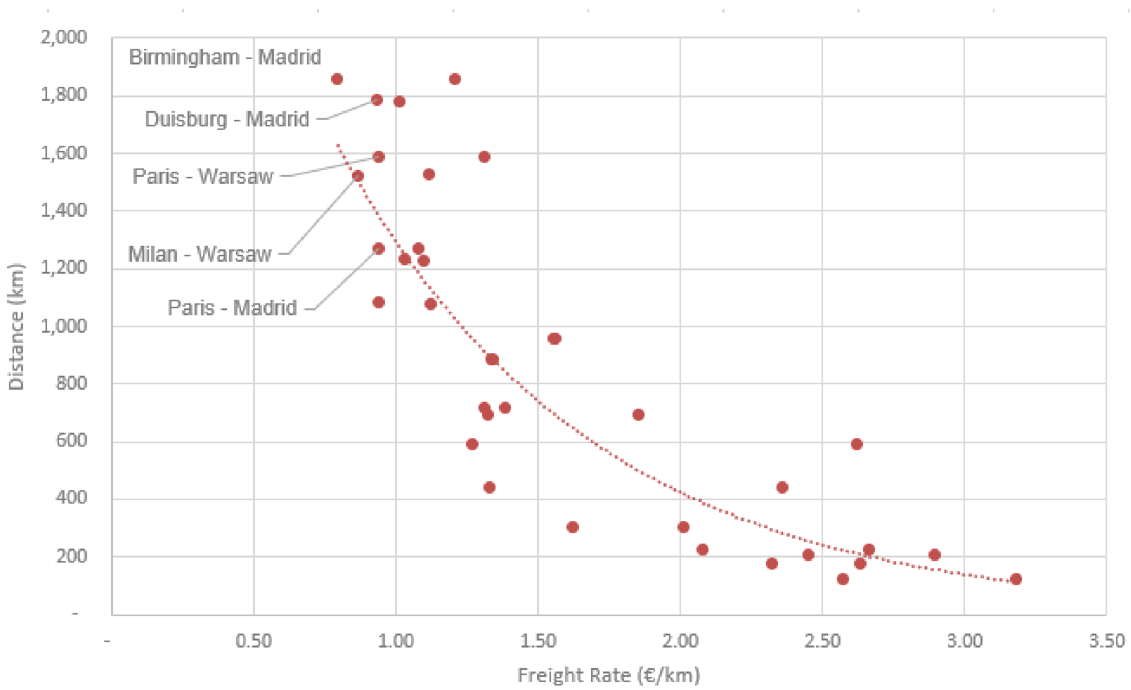


Rates per Kilometer

Shippers paid an average rate of €1.61/km for road freight services in Q1 2020. The variation in this cost between different lanes is largely dependent on the length of the lane. Longer routes create cost efficiencies, diminishing the significance of fixed and variable costs associated with road transport operations and lowering €/km prices.

In Q1, the cheapest lane in relative terms was Birmingham to Madrid (top left of the graph below), where shippers paid €0.80 per km, which is less than half the price of the European average. It is also the longest lane pair covered, at 1,861km. A number of other long distance lanes follow this trend, including Duisburg to Madrid, which has a journey distance of 1,785km and an average Q1 freight rate per km of €0.93, making it the second cheapest lane in relative terms and also the second longest lane pair.

Freight Rates in €/km



Rate Development on Europe's Major Trade Lanes

France-Spain

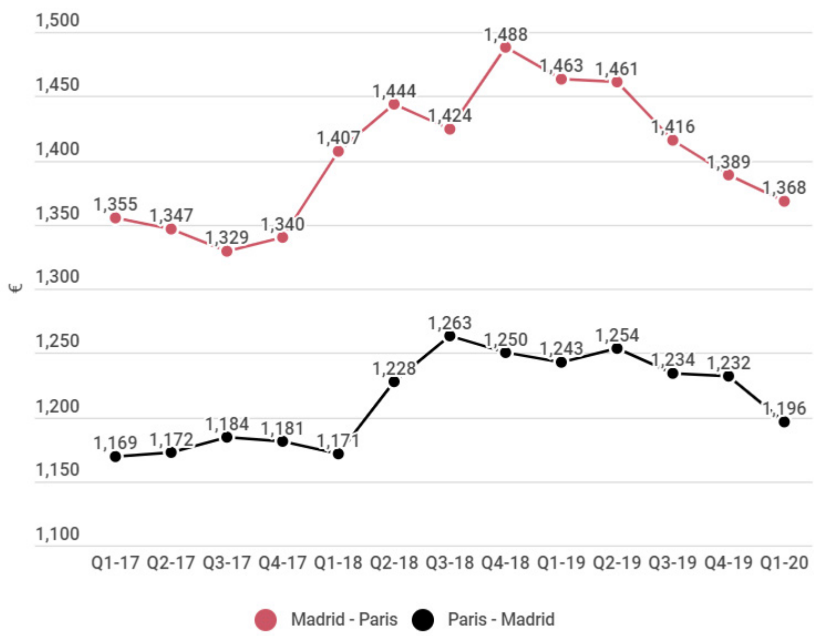
Freight rates between France and Spain fell in the first quarter. Both countries have been hit hard by the coronavirus outbreak and have had to enforce tough lockdown restrictions to slow the infection rate. The associated drop in demand contributed to freight rates weakening, even if some market segments had seen strong variations or increases.

From Paris to Madrid, rates fell 3.8% year-on-year (down 2.9% quarter-on-quarter). On the backhaul lane, rates fell 6.5% year-on-year, but just 1.5% quarter-on-quarter.

Both economies were losing momentum before COVID-19 struck. The French economy contracted by 0.1% quarter-on-quarter in Q4, whilst Spain's GDP growth slowed to 0.4%. Both have seen private consumption levels decline recently and that trend continued into the start of 2020.

According to Eurostat, Spanish hauliers carry over 80% of goods on this trade lane and are also significant players in the overall European international market, second only to Polish hauliers for the percentage of international tonne-kilometers driven. However, unlike Polish hauliers who can re-deploy across Central Europe with relative ease dependent on demand, in the majority of instances Spanish hauliers carrying out international freight movements must go via France to return home, often trying to take a load back with them. This means that even though economic activity has declined, capacity has been unable to deploy elsewhere, and as such this has led to hauliers accepting lower prices.

Madrid - Paris Road Freight Rates



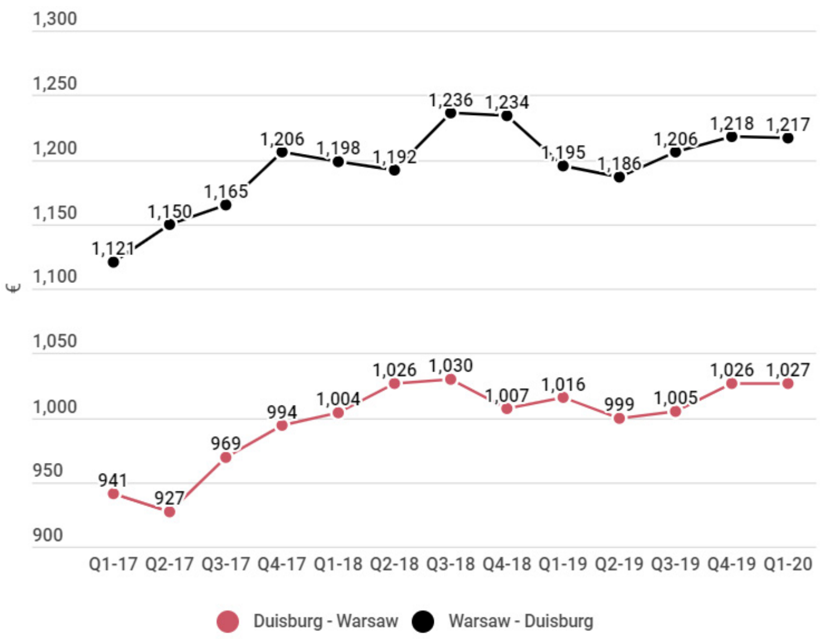
Poland-Germany

Prices on the Duisburg-Warsaw lane held up in Q1 2020. Against Q1 2019, prices were up 1.1% out of Duisburg (0.1% quarter-over-quarter), while in the other direction, growth was 1.9% (-0.1% quarter-over-quarter).

Rates spiked between February and March, up 4.8% on transportation to Warsaw, and 4.0% into Duisburg.

The spike coincided with border controls introduced along parts of this lane. Germany's A4 saw 40km backlogs which tied up capacity for up to 18 hours in the days after the restrictions were imposed. Even as congestion eased over the month, however, uncertainty over driver movements limited capacity crossing the border into Germany – some 95% of cross-border road freight is undertaken by Polish drivers.

Duisburg - Warsaw Road Freight Rates



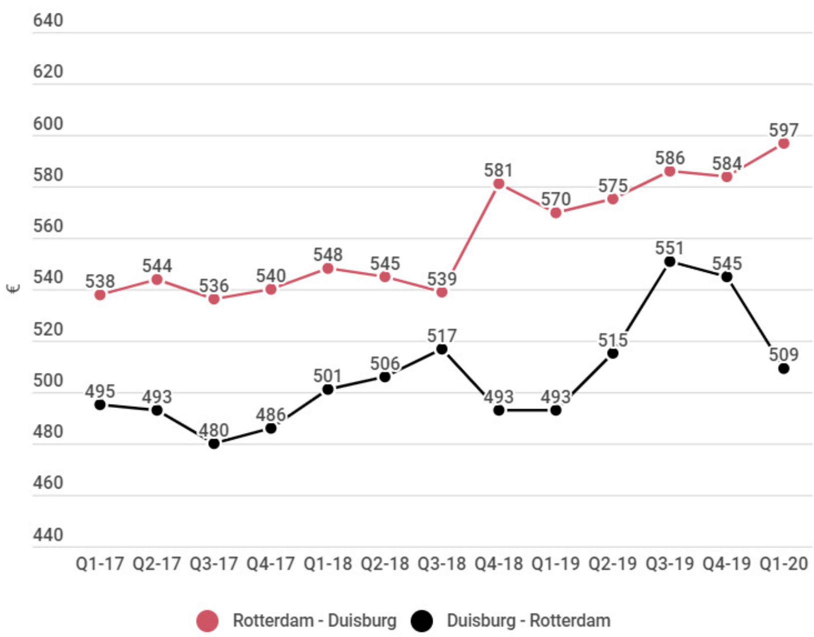
Netherlands-Germany

A significant portion of Netherlands-Germany road freight movements include Germany's goods trade with the rest of the world, utilising the Port of Rotterdam and Amsterdam Schiphol airport.

The first quarter of the year shows something of a divergence in road freight prices, with the range between inbound and outbound rates of €88 now the largest disparity since the beginning of the dataset. This comes as Germany's export trade with non-EU countries fell by 2.1% according to Destatis, caused in part by weaker trade with China, which fell 7.7%.

Weaker trade flows on the fronthaul out of Germany mean shippers on the backhaul lane are in effect asked to pay a premium for services into Germany too, further widening the imbalance.

Rotterdam - Duisburg Road Freight Rates



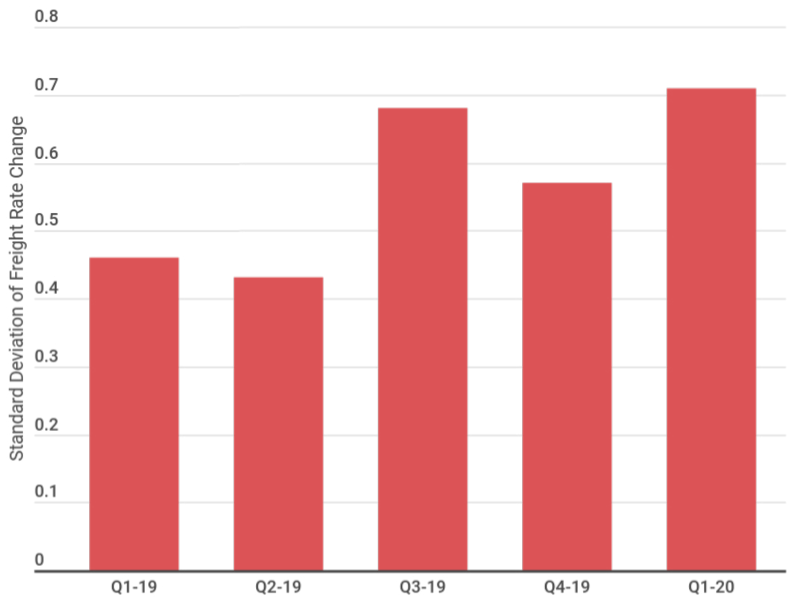
Volatility

While in aggregate rates across Europe held steady in Q1, a greater degree of volatility can be found beneath the surface. As a result of lockdowns, demand for road freight has clearly fallen, although in some places, such as pharmaceuticals and groceries, there have been some significant spikes. The supply side has seen shocks as a result of capacity cuts, whilst diesel prices hit an 18-month low in March.

This had led to increased volatility in road freight prices, as measured by the standard deviation of quarterly figures. Here, the size of the standard deviation, or "σ", signifies how different weekly rate changes were from their average weekly change throughout the relevant quarter.

For the European benchmark rate, the standard deviation of weekly price changes over the past quarter was measured at σ = 0.71% in Q1 2020. This shows that freight rates in Q1 were generally more volatile when compared year-on-year, where the standard deviation for Q1 2019 was σ = 0.46% and when compared quarter-on-quarter, where the value for Q4 2019 was σ = 0.57%.

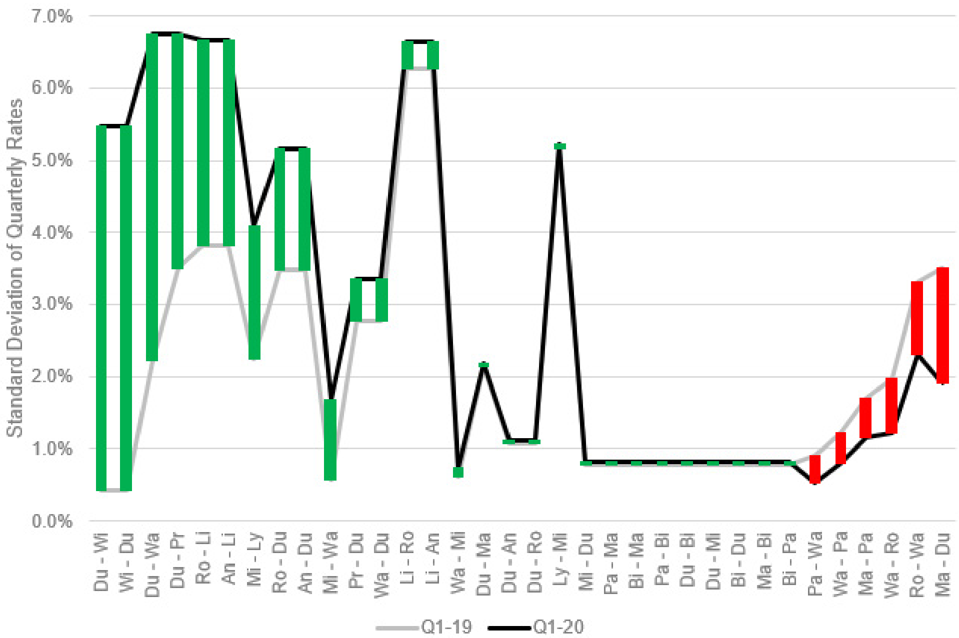
Quarterly Volatility in Weekly European Freight Rate Changes



Note: A σ value of zero would imply weekly freight rates changed at the same percentage each week throughout the quarter. A higher σ value represents higher volatility, and there is no upper limit to this figure. However, the size of the standard deviation is best viewed in like-for-like comparisons, such as quarterly measures of the same variable.

More volatility in weekly freight rate changes was seen on a lane-by-lane basis too. Of the 34 lanes measured, 28 were more volatile than in the same quarter the previous year. This can be seen below by lanes which have green bars present. However, these trends must be considered with caution, since the proportion of contractual flows versus the spot market on some lanes can influence the degree of volatility.

Standard Deviation of Freight Rate Changes on Individual Lanes

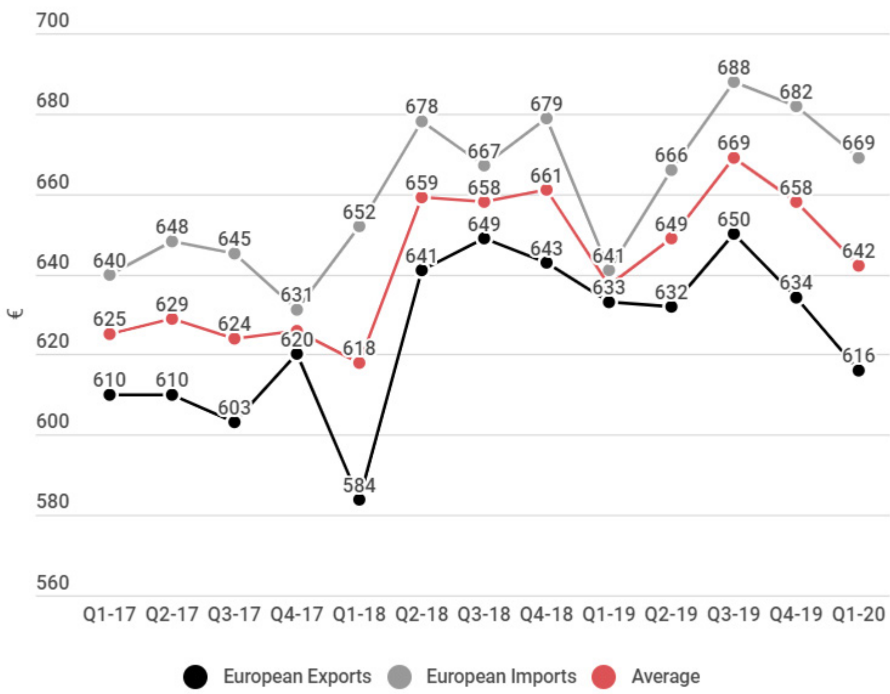


The COVID-19 pandemic only began to have a significant impact on European economic activity in March. The continued shutdowns in April and phased re-opening of sections of the European economy, with different sectors starting production at different times in different countries is likely to induce further volatility in the months ahead.

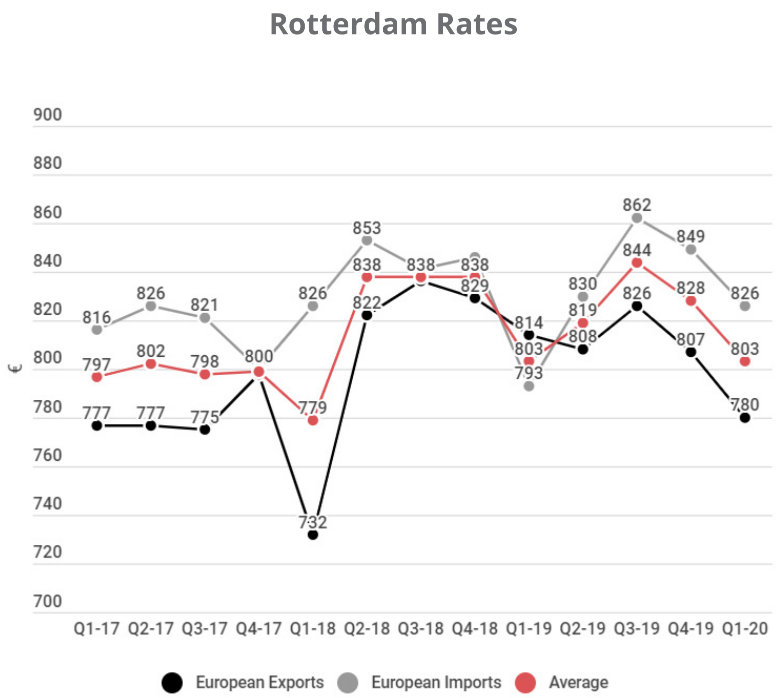
Europe’s Import and Export Hubs

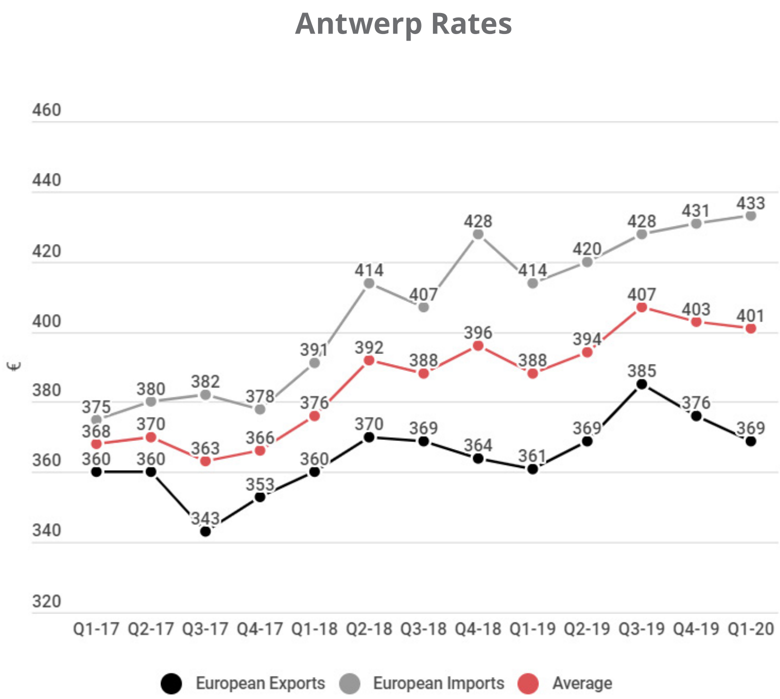
Rates on lanes into and out of Europe’s major ports fell 2.4% against the previous quarter. There is a seasonal element to this, which reflects the seasonality in global trade patterns. The first quarter tends to see a small slump following a Q4 peak season, pushing down demand for road freight services and leading to softer rates. When compared year-on-year, rates were up 0.8%.

Rates to and from Major Ports



Comparing the ports of Rotterdam and Antwerp, rate dynamics were slightly different. For routes into and out of Antwerp, rates were 3.5% higher year-on-year, whereas rates to and from Rotterdam were 0.1% lower against 2020. Demand-side aspects played a role here in a quarter where throughput volumes varied. The port of Antwerp reported a 9.5% year-on-year increase in container throughput at the beginning of the year, which was driven to an extent by “long-life foodstuffs”, e-commerce related traffic and pharmaceuticals. Conversely, Rotterdam saw container traffic edge down 4.7%, due to weaker short-sea shipping volumes caused by weaker consumer demand.





The coronavirus outbreak appears to have had a limited effect both on port volumes and road freight rates. Factory shutdowns in China in February have slowed trade flows into Europe. However, since the journey time to Europe by sea is approximately four weeks, there is a limited impact of this seen in the data. Rates may show further volatility in April, where Rotterdam Port Chief Executive Allard Castelein recently commented that a “10 to 20% drop in throughput volume on an annual basis would seem to be very likely.”

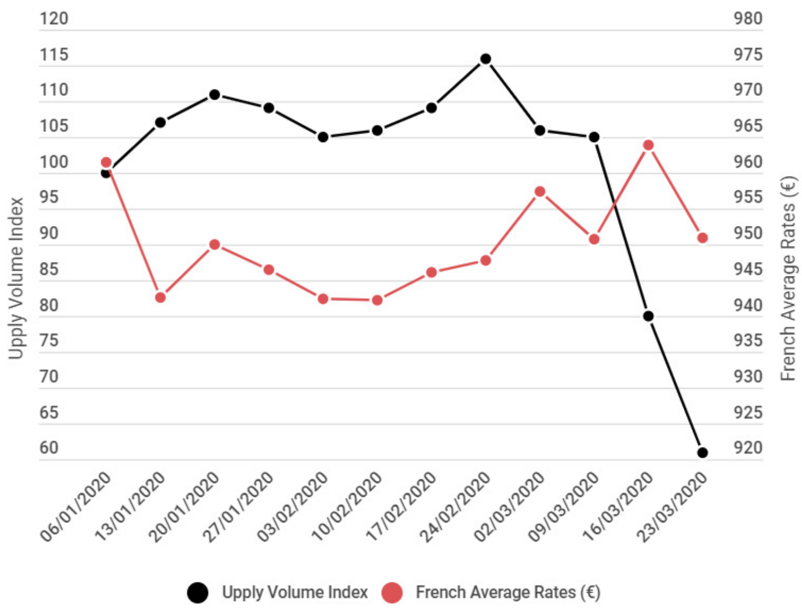
France Volume and Price Comparison

French road freight activity, as measured on Upply's freight marketplace, dropped 40% at the end of the quarter compared to levels at the start.

In the absence of other factors, shrinking demand levels are often a pre-cursor to a fall in road freight rates. It tends to result in excess capacity, which leads to lower prices. However, many operators are choosing to take capacity out of the market, rather than run at a loss.

This means that despite road freight activity dropping considerably, price declines have only been relatively minimal.

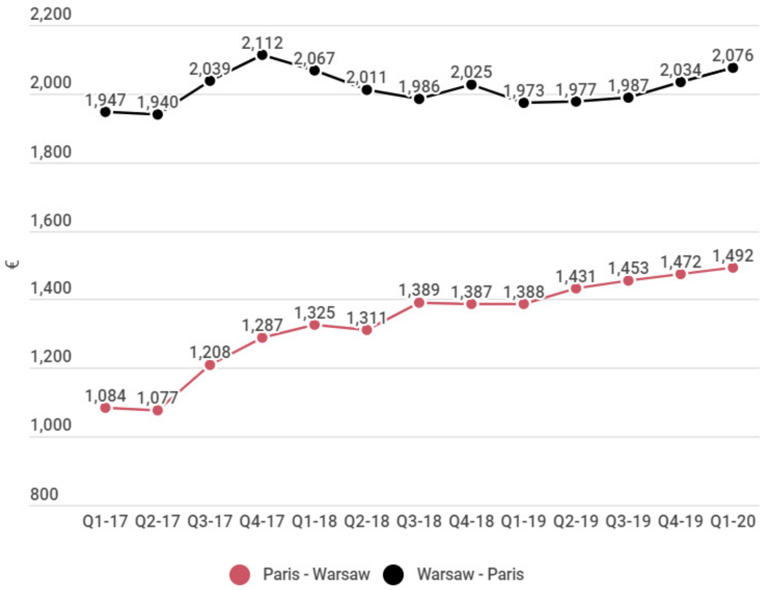
Upply France Volume Index versus Rates



Biggest Price Change – Paris – Warsaw

Freight rates from Paris to Warsaw have shown consistently strong growth rates over the past few years. The quarterly rate for Paris-Warsaw in Q1 2020 was 37.7% higher than in Q1 2017 (the start point for data collection in this whitepaper). This is the fastest rate of growth of the 34 trade lanes considered. It also grew at the fastest year-on-year rate of any lane in the first quarter too, at 7.5%.

Paris - Warsaw Road Freight Rates



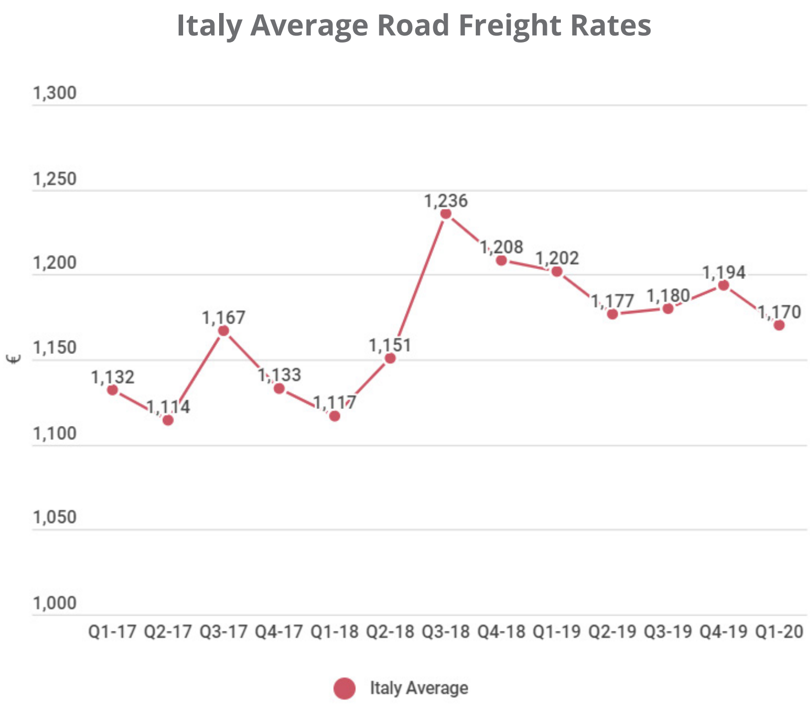
France's biggest exports to Poland are automotive and machinery goods. Double-digit percentage growth rates of both products to Poland were seen in 2018. Although the manufacturing sector suffered in 2019, other goods exports performed well. French cosmetic and pharmaceutical exports to Poland found some solid momentum, up 8.8% and 5.1% respectively in the year. Growth in demand in different sectors has helped prop up freight rates. Moreover, Polish hauliers integrate potentially higher social costs in their prices, France being seen at the forefront in the fight for the implementation of the Mobility Package.

Aside from this, wage growth in Poland has also pushed up the cost base for road freight transport. According to Eurostat, Poland's Labour Cost Index grew 6.3% in 2018 and 6.0% in 2019. This is ahead of the European average level of 2.9% and 2.2% for these years respectively.

The rate of growth in prices has been sustained into Q1 by the coronavirus pandemic. Rates were affected in March by Polish border restrictions at the German border. Although not aimed at freight transport, border controls did lead to queues of cars and trucks of up to 40km on the German A4. Other routes from the German side of the border into Poland saw similar issues. Uncertainty over driver movements has also limited capacity on this lane, leading to higher prices.

Lanes to Watch - Italy Post-Lockdown

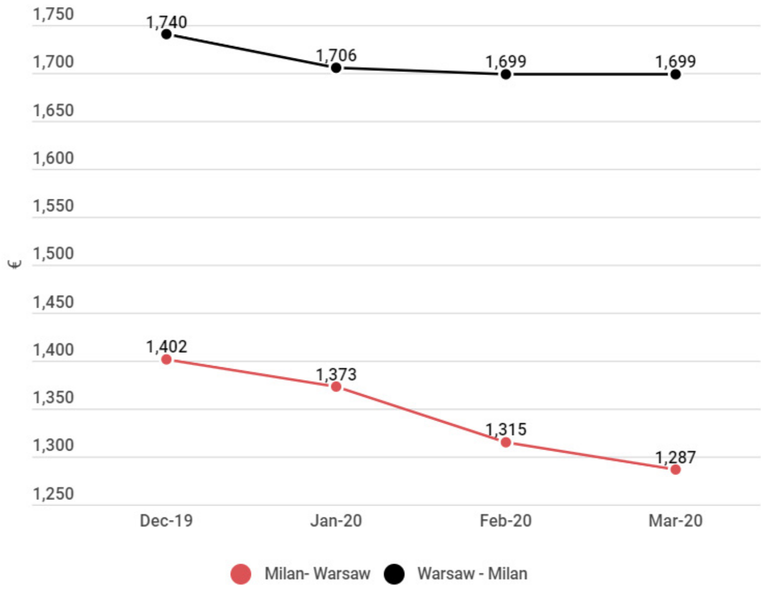
On average, rate drops in Italy were more severe than at a European level. The fall in Italian combined inbound and outbound rates was 2.6% year-on-year in Q1 2020. Italian rates also declined quarter-over-quarter, which at -2.0% was steeper than the Europe-wide fall of -0.8%.



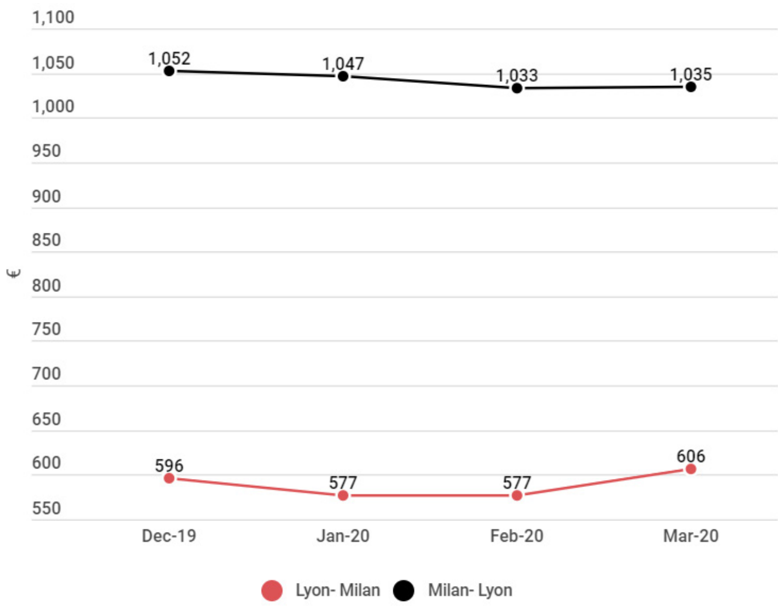
Italy entered into a national lockdown on March 9th, although the first quarantine began in parts of Lombardy on February 21st. This led to factory shutdowns in key parts of Italy's Northern industrial heartlands near to Milan. However, rate changes appear to have been relatively steady. After falling month-on-month in January and February, rates jumped by 0.7% in March.

As much as the macroeconomic situation in Italy has been bleak, it appears that political moves made elsewhere have also had a major impact on reducing the supply of trucks in the market. Border closures led to many Central and Eastern European drivers returning home, cutting supply out of the market. This shows through in some of the routes more open to cross-trade. For instance, Lyon to Milan rates jumped 5.1% month-on-month in March. However, routes to and from Central and Eastern Europe saw more subdued or showed negative growth in rates, as exemplified by Milan-Warsaw outbound rates, which fell 2.1% month-on-month in March and inbound rates that were flat.

Milan - Warsaw Road Freight Rates



Milan - Lyon Road Freight Rates



Following peaks in new cases towards the end of March, Italy has begun easing restrictions on everyday life. By the time it comes out of lockdown, it will have experienced one of the longest and most stringent lockdowns on the economy anywhere in Europe. The challenges of opening up may well be more severe than for other countries, with a highly uncertain supply and demand-side picture sure to have a significant impact 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 200 million prices. Upply provides Full Truck Load (22 000 kg) weekly rates estimations for each major European trade lanes, associated with a confidence rate. 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.

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To develop this unique solution, Upply employs data scientists, logistics and IT professionals, and digital experts. Launched in November 2018, Upply is based in Paris, and will soon be opening an office in Chicago to anticipate its expansion into the United States.

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