

THE EUROPEAN ROAD FREIGHT RATE DEVELOPMENT BENCHMARK

Q4 2023

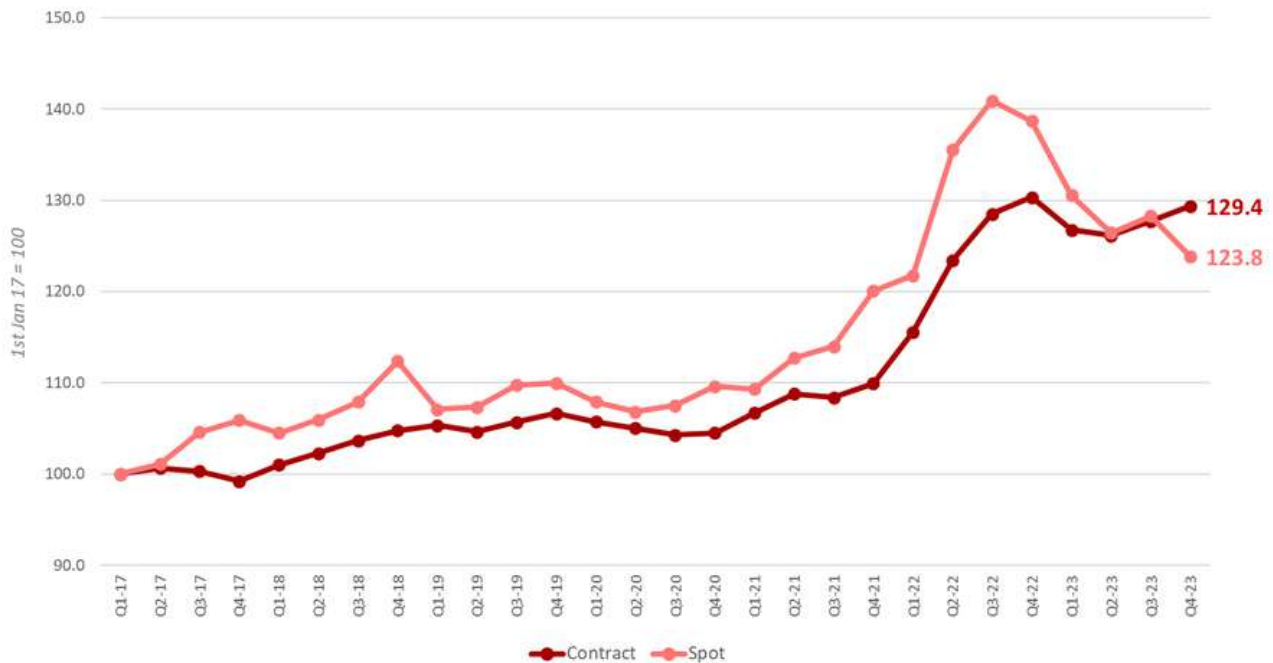


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European Road Freight Market Benchmark

Ti x Upplly x IRU European road freight benchmark
European road freight rates index, Q4-2023



Source: Upplly

Rate development:

The spot index fell 4.5 points Q-o-Q to 123.8 points; it is now down -14.8 points Y-o-Y.

The contract index rose for the second consecutive quarter, up 1.7 points Q-o-Q to 129.4, leaving it down 0.9 points Y-o-Y.

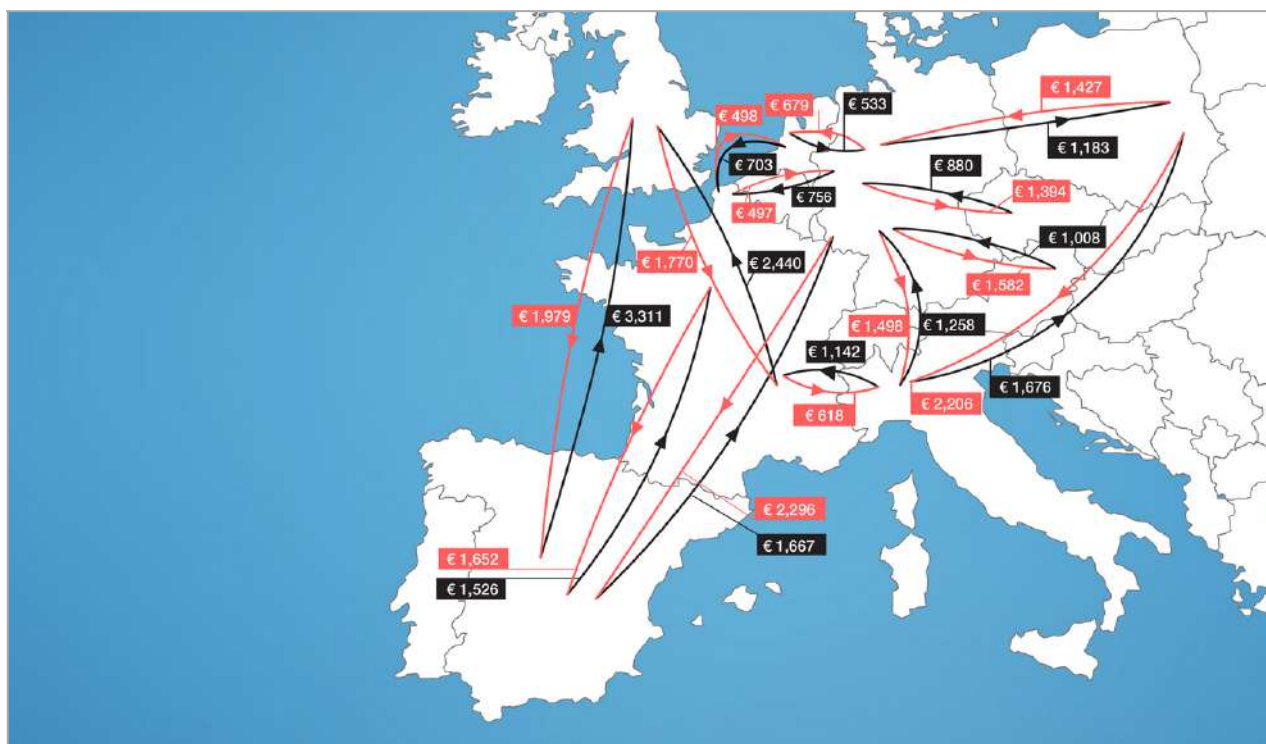
Trends identified and forecasted in the previous two papers have come to fruition as weak and falling demand for road freight across Europe has pulled down spot rates, while contract rates remained elevated due to cost pressure. The spot index now sits 5.5 points below the contract index, meaning that spot rates are now closer to their base level than contract rates. This doesn't mean, in monetary terms, average spot rates are below contract, but we are now seeing this trend on 27% of the sampled international lanes.

A combination of spot falls driven by declining industrial demand, in addition to contract rises caused by new emission tolls and general cost growth, resulted in contract prices climbing above spot rates from Germany to Paris, Birmingham, Milan, Lille, Madrid, Rotterdam, and Antwerp.

Demand-side influences:

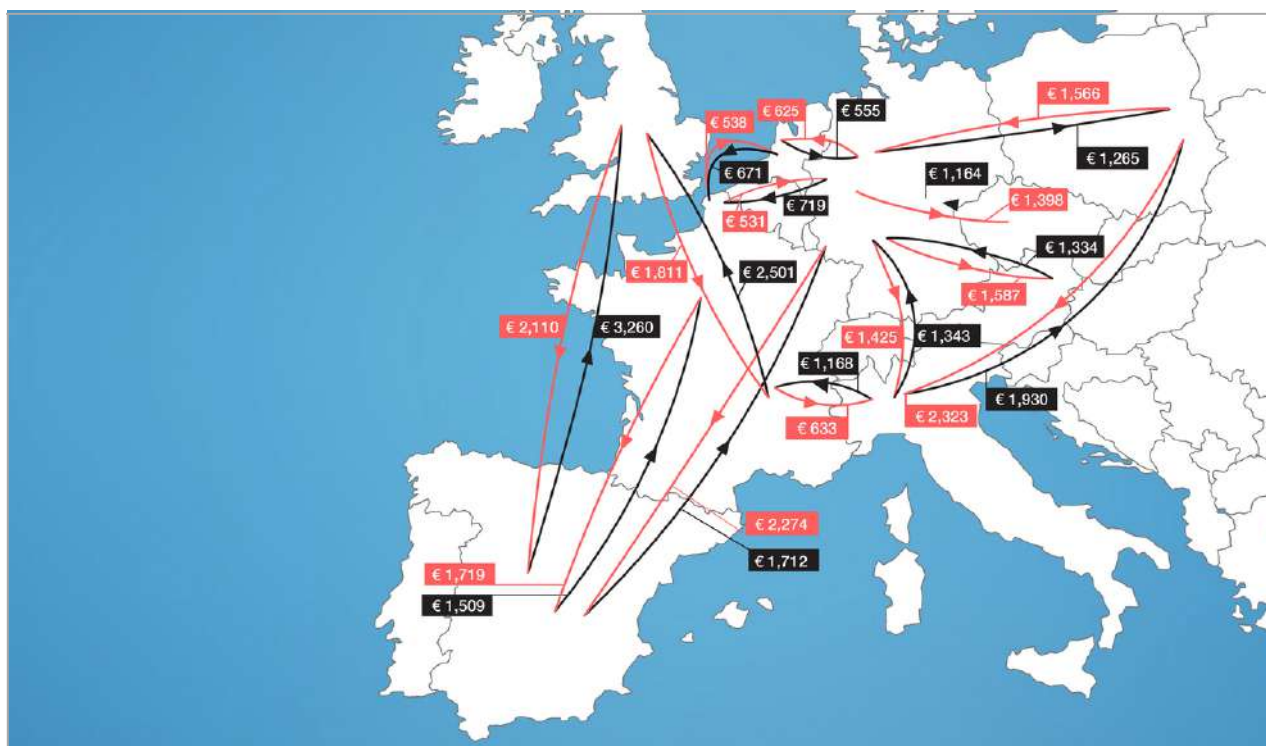
Since rates spiked in H1 2022, plummeting consumption triggered by soaring prices has been the primary catalyst for consistent spot rate falls. However, in a new climate of diminished inflation, consumption has now settled at lower levels. It is this new reduced level of international consumption that has provoked production cuts. Available Q4 data shows Q-o-Q industrial output is falling throughout Europe, down -0.9% in the UK, -1.6% in Germany, -0.2% in France (Poland, +0.4%, and Spain, +0.7% remain structurally robust). This is likely the result of manufacturers who, already burdened with elevated and growing costs, adjust to lower levels of consumer spending and international demand. As a result, total demand for European Road freight continues to fall, freeing up more capacity and pulling down spot rates further.

Ti x Upply x IRU European Road Freight Benchmark Map – Q4 2023



Source: Upplý

Ti x Upply x IRU European Road Freight Benchmark Map – Q4 2023

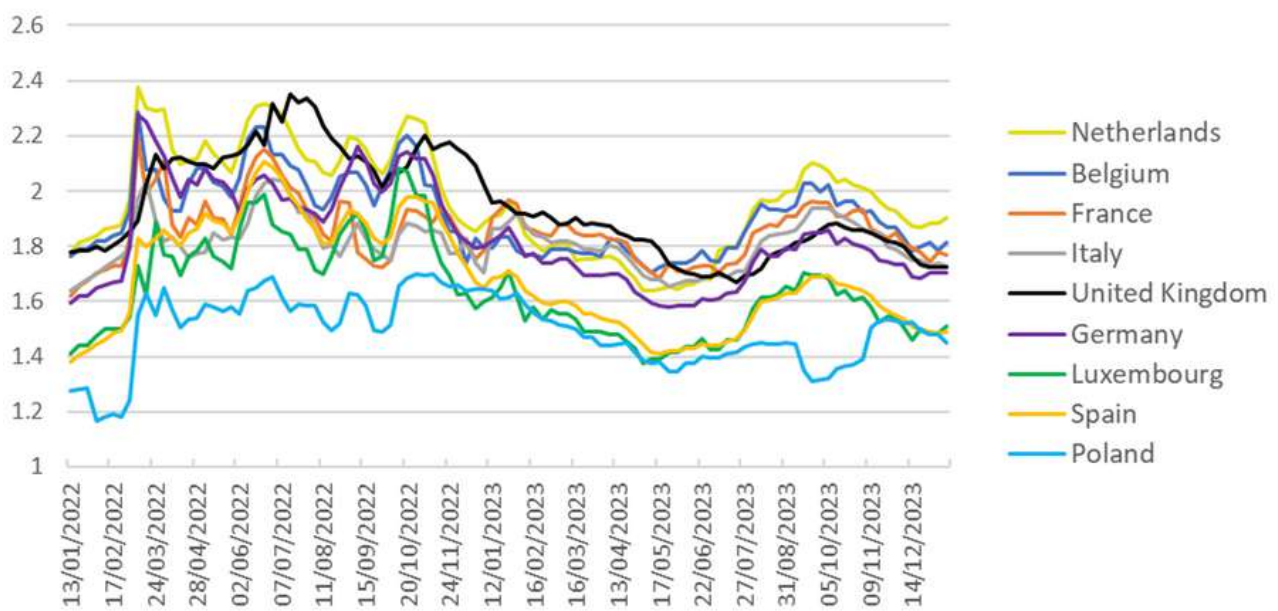


Source: Upplý

Operator costs

1. Fuel costs

Diesel prices at pump (€/L)



Source: IRU

Diesel prices have been continuously decreasing since end of September thanks to falling crude oil prices. The Brent crude oil price averaged \$78 per barrel (b) in December, down from \$94/b in September (-17% decrease), reaching its lowest level since July 2023. Average diesel price at pump in Europe is now at €1.63/L, down 9% versus end of September, even if still 10% above its January 2022 level.

Prices have been falling based on on-going concerns about global oil demand growth and rising oil inventories estimated to have increased by an average of 0.7 million barrels per day (b/d) in Q4-2023, and despite the latest round of OPEC+ production voluntary cuts announced on 30 November 2023 (totalling 2.2 million b/d for early next year, led by Saudi Arabia rolling over its current voluntary cut of 1 million b/d).

2. Tolling costs

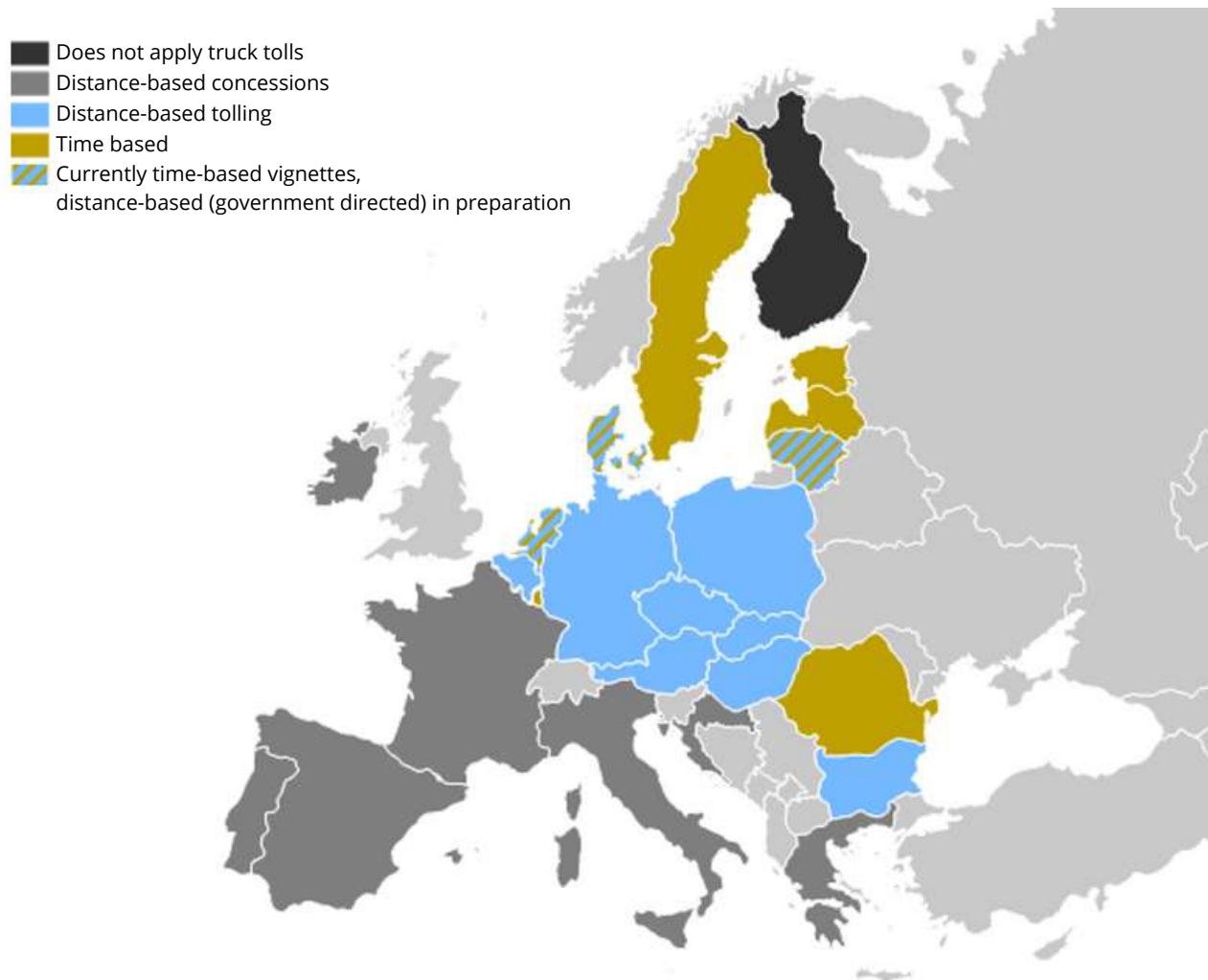
On 4 March 2022, Directive (EU) 2022/362 amending the Eurovignette Directive was published, entering into force on 24 March 2022 with staged implementation deadlines to allow Member States to adapt. The so-called CO2 toll is intended to accelerate the reduction of greenhouse gas emissions and reach climate goals by increasing pressure on hauliers to invest in electric transport fleet.

As indicated in a study by the association Transport & Environment published in November 2022, there are currently four blocks of EU countries according to their tolling system:

- Member States with a time-based vignette system, which allow a vehicle to use the infrastructure for a given period (i.e a day or week): Denmark, Netherlands, Sweden (the largest vignette country), Estonia, Latvia, Luxembourg, Lithuania and Romania. Vignette tolling systems are declining across Europe, but a small number of countries may retain them for regional reasons (to avoid greater transport costs for remote areas), or due to the implementation costs of switching to distance-based tolling. Denmark and Netherlands will leave the Eurovignette system and start applying a distance-based electronic toll in 2025 and 2026 respectively. Lithuania was expected to transition to distance-based tolling in 2023-2024, but the implementation of the new tolling system might be delayed [1]. Romania pledged to migrate to distance-based charging under its post-pandemic recovery programme.
- Members States with distance-based tolling directly controlled by the government: Germany, Poland, Austria, Czechia, Slovakia, Hungary, Slovenia, Belgium, Bulgaria.
- Member States with concession distance-based tolling, with long-term concession contracts granted to private operators: France, Italy, Croatia, Greece, Portugal, Ireland (only selected sections are concession tolled) and Spain (decreasing number of concessions as toll roads become free-to-use as contracts expire).

[1] From 1 January 2024 new road user charge rates (electronic vignette) are in place, the main change being the inclusion of vehicle axles and the level of emissions (Euro class) as criteria to calculate the road user charge amount. However, they are still time-based. <https://lakd.it/en/news/the-road-user-charge-rates-for-passenger-and-freight-transport-will-change-from-next-year>

Overview of current tolling systems in the EU



Source: European Commission, road transport associations

Directive (EU) 2022/362 introduces the following obligations for member states that levy truck tolls (member states not having road user charging in place are not obliged to introduce it):

- A mandatory CO2 based tolling new framework for the rate variations, applicable from 24 March 2024, which can co-exist with the existing rate variation based on the Euro norm of the vehicle. For countries with a common system for user charges (Sweden, Luxembourg, Netherlands, Denmark), the deadline is extended until 24 March 2025, and in the case of countries with concessions, existing contracts are exempted. Member States must adopt one of the three implementation options:

1. Vary the infrastructure charge component of the toll (levied to recover construction, maintenance and operations costs of road) according to the CO₂ of the truck.
 2. Apply an external cost charge for CO₂ on top of the infrastructure charge, leaving the infrastructure charge unchanged.
 3. Do both of the above (i.e. vary the infrastructure charge for CO₂ and apply a CO₂ external cost charge)
- The obligatory application of an air quality external cost charge from 25 March 2026 for heavy goods vehicles, with the possibility to derogate[2].
 - A phasing out of time-based vignettes in favour of distance-based tolling.
 1. From 2024, the introduction of new time-based road vignettes for trucks will be restricted to limited circumstances, and in case time-based vignettes remain on the core parts of the TEN-T after March 2024, they must be varied according to truck CO₂ emissions.
 2. In principle, Member States should move to distance-based tolling on the core TEN-T network by 25 March 2030 (by March 2032 for member States with a common system for user charges), but they can derogate in duly justified cases[3].
 - Tolling of small lorries (between 3.5 and 12 tonnes) and light-duty vehicles (LDV, up to 3.5 tonnes).
 1. Countries with a tolling exemption for HGVs with a gross vehicle weight below 12 tonnes (Denmark, Luxembourg and Sweden, Germany[4]) may be able to keep it in place until March 2027, when they will need to toll all HGVs[5].
 2. Where Member States charge passenger cars, they shall also charge light commercial vehicles (LCVs, gross weight below 3.5 tonnes), and the rates of tolls or vignettes must be varied for environmental performance from January 2026, where technically practicable.

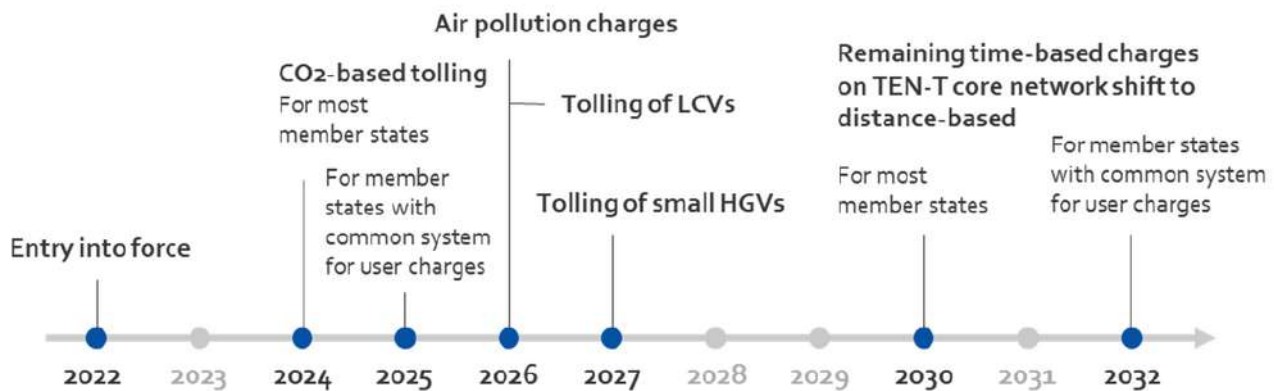
[2] In case it would lead to the diversion of the most polluting vehicles, resulting in negative impacts on road safety and public health.

[3] Where applying a distance-based toll would either involve disproportionate administrative, investment and operating costs compared to the expected revenue, or lead to the diversion of traffic with negative impacts on road safety or on public health.

[4] In the case of Germany, the exemption applies to HGVs between 3.5 and 7.5 tonnes.

[5] However, member states may reduce or exempt HGVs between 3.5 and 7.5t GVW “used for carrying materials, equipment or machinery for the driver’s use in the course of the driver’s work, or for delivering goods which are produced on a craft basis, where the transport is not effected for hire or reward”. They may also exempt ZEVs with a GVW up to 4.25 tonnes (due to their higher drivetrain weight).

Eurovignette directive: timeline of new Member States' obligations



Source: Transport and Environment

Effect on European Road Freight rates:

The increase in road tolls will have negative financial implications for transport operators, affecting their profit margins and rate strategies. It will burden both shippers and consumers with higher prices as many operators may be forced to pass the cost increase to their clients. Germany's new emission-based tolls came into effect on December 1st, 2023, effectively increasing tolls for HGVs on German roads by around 80%. According to GVN, the Lower Saxony Carrier Association, this increase will result in an extra €300,000 monthly expenses for some of its members. Assuming 60% of national road freight transport (kilometres) performed by German trucks are done on a tolled road network, knowing that 55% of freight volumes are transported by 5+ axles articulated vehicles compliant with EURO VI standard, and that these vehicles represent 30% of the German rolling fleet, IRU estimates that the tolling annual overcost could amount around €6,700 per truck[6]. These extra costs have been or will be passed on to customers on contract, allowing it to push up rates. However, where this is not possible, it will have to be absorbed by carriers, raising costs and reducing already tight margins.

Additionally, while the objective of the new tax is to speed up the transition to emissions-free vehicles, the fuelling and charging infrastructure is still underdeveloped.

[6] Based on Eurostat 2022 road freight volume and ACEA road fleet figure. Assuming vehicles first registered 2014-2019 fall within CO₂ emission class 1, class 2, and 2021-2022 class 3.

Vehicles older than 4 years will face the biggest tolling increase. Newer heavy-duty trucks with two or three axles (with one driving axle), which are the most commonly used in the EU, will be assigned a CO2 tax reduction depending on engine fuel consumption compared to a set of reference values. Electric and hydrogen powered vehicles may benefit from a 100% exemption on the infrastructure charge until end 2025, after which the reduction must amount 50-70% versus the least fuel-efficient internal combustion engine vehicles.

3. General Vehicle Operating Costs

Costs have increased across the board over the previous 3 years. Labour (+28.2%), Maintenance + Repair (+20.4%), Tyres (+21.6%), Spares (+13.5%), and Insurance (+8.7%) have all increased considerably and contributed to a particularly bloated cost base. This is the result of inflation passing through the system and has added upward pressure to rates and prevented rate falls.

Costs outlook

Demand-side and rates

Industrial output contraction and falling new orders look set to take over the deflationary mantle from a now-settled consumer demand. This is likely to produce further rate falls, especially in the spot market.

However, the extension of the new emissions-based toll system to other European countries is set to further inflate an already elevated road freight cost base. This could put upward pressure on contract rates while limiting price falls and squeezing margins in the spot market.

Following a stagnation in 2022 (+0.0% growth), EU road freight transport volume is expected to decrease in 2023 by 1.0% y-o-y according to IRU forecasts, reaching 1.90 trillion tonnes kilometre. Constrained purchasing power, as nominal wages lagged behind inflation, resulted in low consumption and thus demand for road transportation. According to the European Commission, in 2024 GDP growth will improve to 1.3%, up from 0.6% in 2023. Increasing wages, continued employment growth and further slowing of inflation are expected to lift the purchasing power of households, boosting consumption. Thanks to the demand increase, EU road transportation volume growth is also expected to improve to 0.6% y-o-y.

Supply side

1. Fuel costs

According to the US Energy Information Administration (EIA), in Q1-2024 OPEC+ production cuts are expected to lead to global oil inventory withdrawals of 0.8 million b/d, pushing up Brent prices to an average of \$85/b in March. Relatively balanced markets for the rest of 2024 put slight downward pressure on crude oil prices, and as a result, the average Brent crude oil price is expected to fall to \$81/b in December 2024.

Global liquid fuels consumption growth is expected to lower in 2024 (1.4 million b/d down from 1.9b/d in 2023), even if global consumption is still expected to reach a new record high of over 102 million b/d. This expected lower growth is attributed to slowing oil demand growth in China based on stalling GDP growth, increasing vehicle fleet efficiency, and an end to pandemic recovery-related growth in 2023. Global liquid fuels production is also expected to slow, with production rising by 0.6 million b/d in 2024 down from 1.7 million b/d growth in 2023, due to continued OPEC+ policy of production restraint and US tight oil production growth decelerating. As a result, the average Brent crude oil price will fall to \$81/b in December 2024, averaging \$82/b in 2024 (about the same as in 2023).

However, several key uncertainties could affect future prices. Heightened tensions around the critical Red Sea shipping channel and other developments in the Middle East have added upward price pressure since early December and have the potential to disrupt global oil trade flows and drive-up global oil prices further should they escalate or persist.

2. Tolling costs

Significant adjustments to toll rates are expected in many European countries in the context of Eurovignette Directive revision.

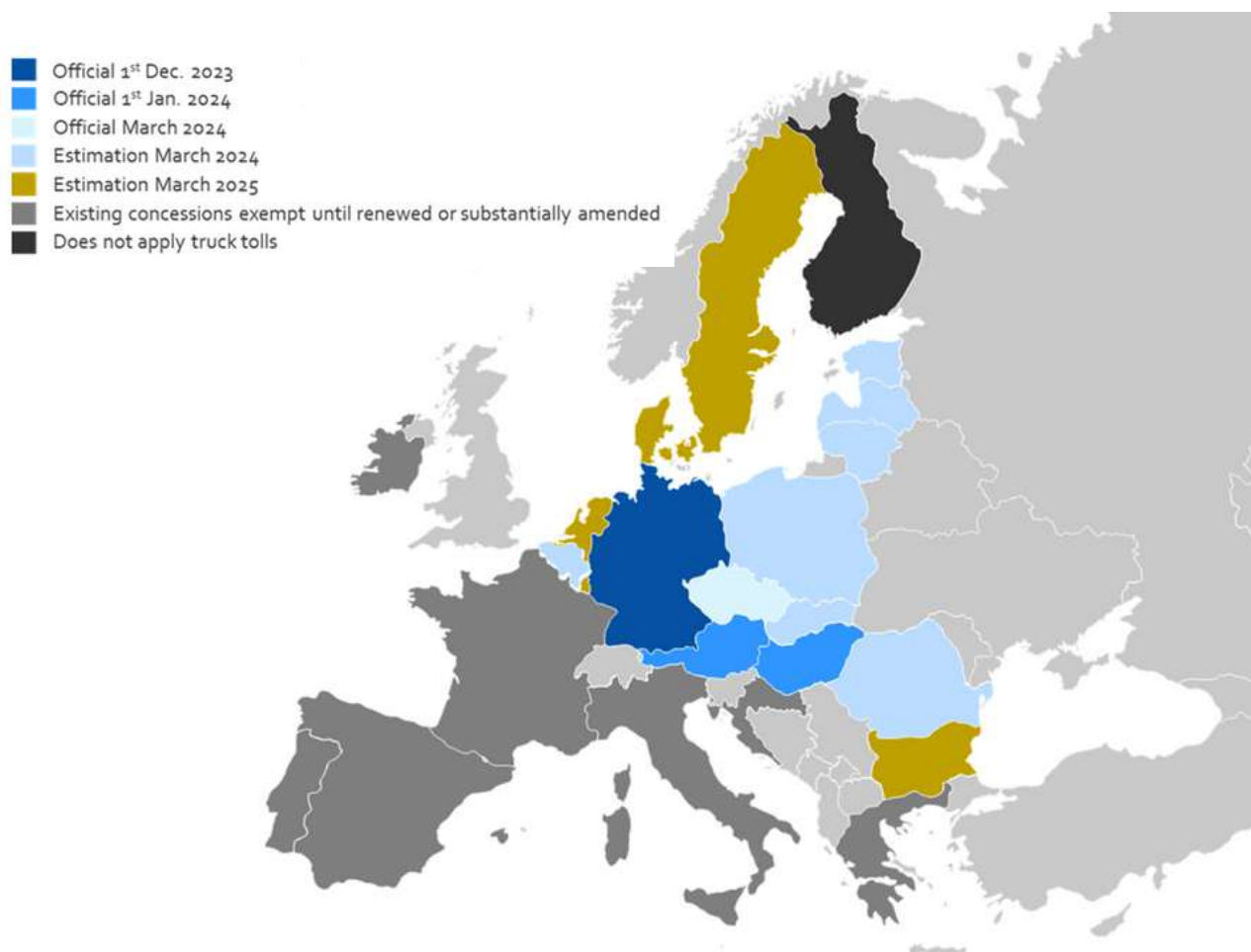
The CO₂-based tolling came into effect on 1st January 2024 in Austria and Hungary. In Austria, for Euro VI vehicles registered before July 2019, tolling rate will increase between 7.2% and 7.8% (depending on the number of axles, and reaching between 0.23€/km and 0.47€/km). In 2019, tolling costs in Austria represented around 18% of total operating costs prior to the tolling rate increase. Assuming 60% of national road freight transport kilometers performed by Austrian trucks are done on a tolled road network, knowing that 56% of freight volumes are transported by 5+ axles articulated vehicles compliant with EURO VI standard, and that these vehicles represent 27% of the Austrian rolling fleet, IRU estimates that the tolling annual overcost could amount €730 per truck.[7]

[7] Based on Eurostat 2022 road freight volume and ACEA road fleet figure. Assuming vehicles first registered 2014-2019 fall within CO₂ emission class 1, class 2, and 2021-2022 class 3.

In Hungary, toll rates have increased significantly, between 30% and 50% (+50% for five axle EURO VI vehicles). Czech Republic will follow in March (15% expected increase).

In France, the new framework of Directive (EU) 2022/362 will only apply to new and renewed concessions after 24 March 2024. Infrastructure charges will vary according to vehicles' CO2 performance, and reduced rates will apply to zero-emission vehicles until the end of 2025. An external cost charge for air pollution will be introduced from 25 March 2026, but an exemption of is foreseen for the best environmentally performing vehicles. Rates will also vary based on the time of the day. A possibility has been foreseen to introduce a rate variation based on the CO2 performance of vehicles on certain parts of the tolled network in the Alsace region from 25 March 2024.

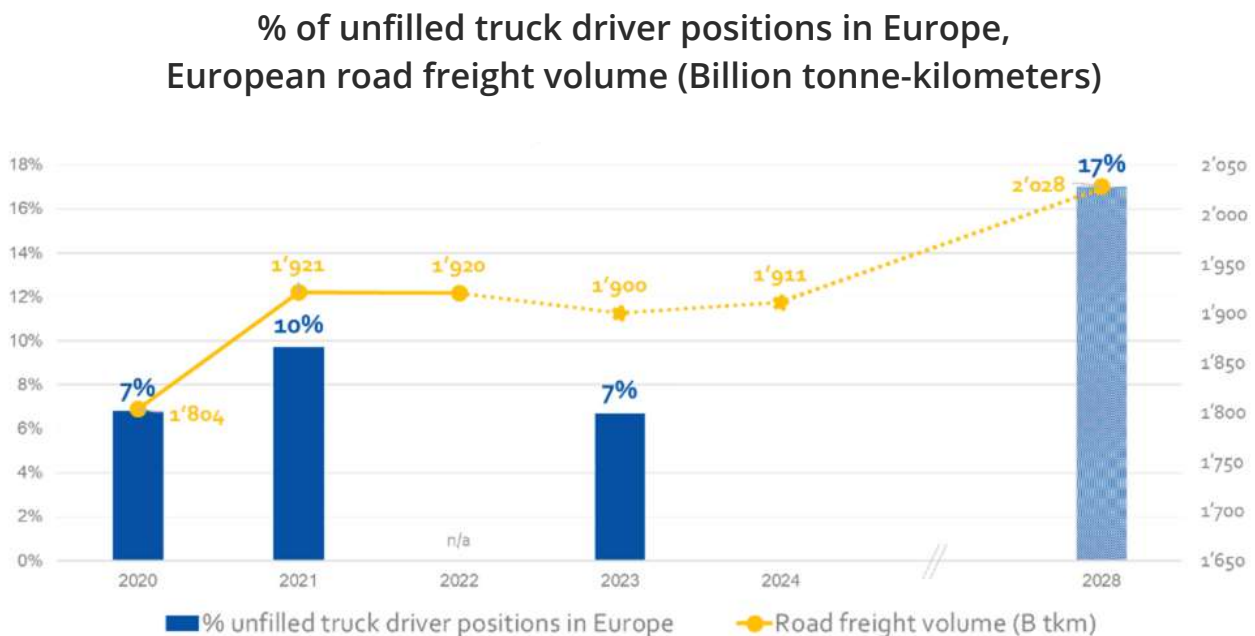
New obligations for EU members states related to CO2-based tolling: entry into force of new regulations



Source: IRU and road transport associations, Transport and Environment

3. Labour and driver shortage

233,000 truck driver jobs were unfilled in Europe in 2023[8]. Taking into account the expected growth of road transport demand in the coming 5 years and the fact that over 470 thousand truck drivers (15% of current driver workforce) are expected to retire in the next five years (with the rate of new comers being much lower) we can expect upward pressure on driver supply side in the coming years, and thus potentially on driver costs. By 2028, the number of unfilled truck driver jobs could reach 745,000.

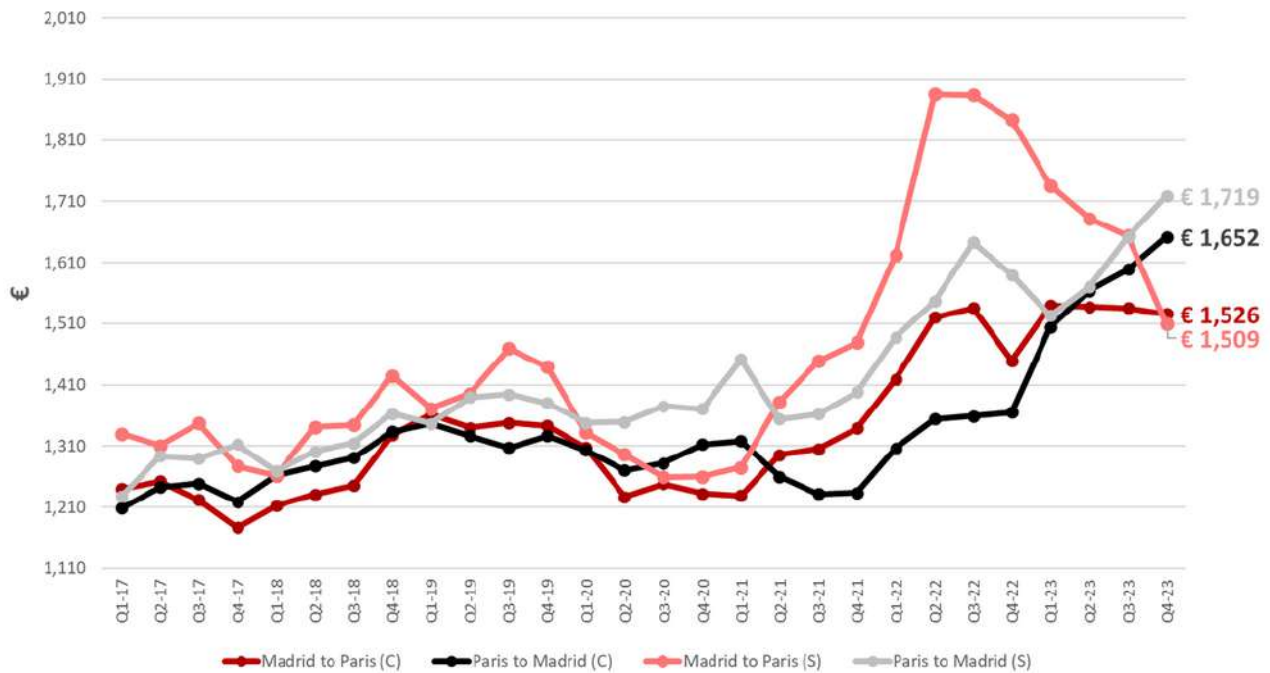


Source: *IRU driver shortage study*, Eurostat (road freight volume 2020-2022) and IRU modelling (forecast road freight volume 2023-2024, 2028)

[8] [IRU freight driver shortage report 2023](#)

France – Spain

Paris – Madrid Road Freight Rates



Source: Upfly

Rate development:

The headhaul and backhaul have both undergone a complete swap on this lane for the first time since Q1 2021. This is a result of falling rates into Paris due to low consumer goods demand, while robust demand in the opposite direction pushed up rates into Madrid.

On the new headhaul into Madrid, contract rates rose +3.3% Q-o-Q to €1,652 (€1.30/km), now up +21.0% Y-o-Y. In the spot market, rates grew +4.1% Q-o-Q, up +8.1% Y-o-Y. Faster growth in the spot market suggests short-term demand growth is the factor pushing up rates from France to Spain.

On the backhaul to Paris, contract rates fell -0.6% Q-o-Q to €1,526 (€1.20/km), but up +5.3% Y-o-Y. Spot rates sit at €1,509 (€1.19/km), down -18.1% Y-o-Y after an -8.8% drop in Q4, a record Q-o-Q fall in that market.

Key market forces affecting rates:

Spain suffered a short but an intense period of high inflation whilst France's inflation was delayed, more moderate and prolonged. As a result, Spanish prices compounded less allowing consumers to recover quickly and businesses to stay more competitive whilst the lagged effects of inflation are still affecting the French economy.

On the headhaul, the road freight market into Paris was pulled down by falling demand pressure. Available Eurostat data for Q4 puts consumption of household goods down -0.5% Q-o-Q, while food consumption is now down -2.0% Y-o-Y. Uncertainty remains around food volume. The failure of negotiations between Carrefour and Pepsico, in addition to ongoing negotiations between Leclerc (France's largest supermarket chain) and Danone, within which Leclerc has asked for price cuts, suggest France's consumer market remains tense. General Price rises could further reduce demand in H1 24. French industry is also demanding fewer Spanish intermediate and capital goods, with France's total industrial output down -0.2% Q-o-Q and now -4.0% below its 2019 level.

On the backhaul into Madrid, both consumers and industry are contributing to volume growth and increasing demand-side pressure in the market. While Spain initially suffered extremely high inflation, the government intervention of capping energy prices, reducing public transport cost, and limiting rent rises protected consumer incomes. The effect can be seen in Spain's Q4 seasonally adjusted retail volumes, which grew +0.8% Q-o-Q and are up +6.5% Y-o-Y. When compared to the Euro Area figure of -0.4% Y-o-Y, it's clear that consumer demand was a major driver of rising spot rates in Q4.

Supply-side influences on price:

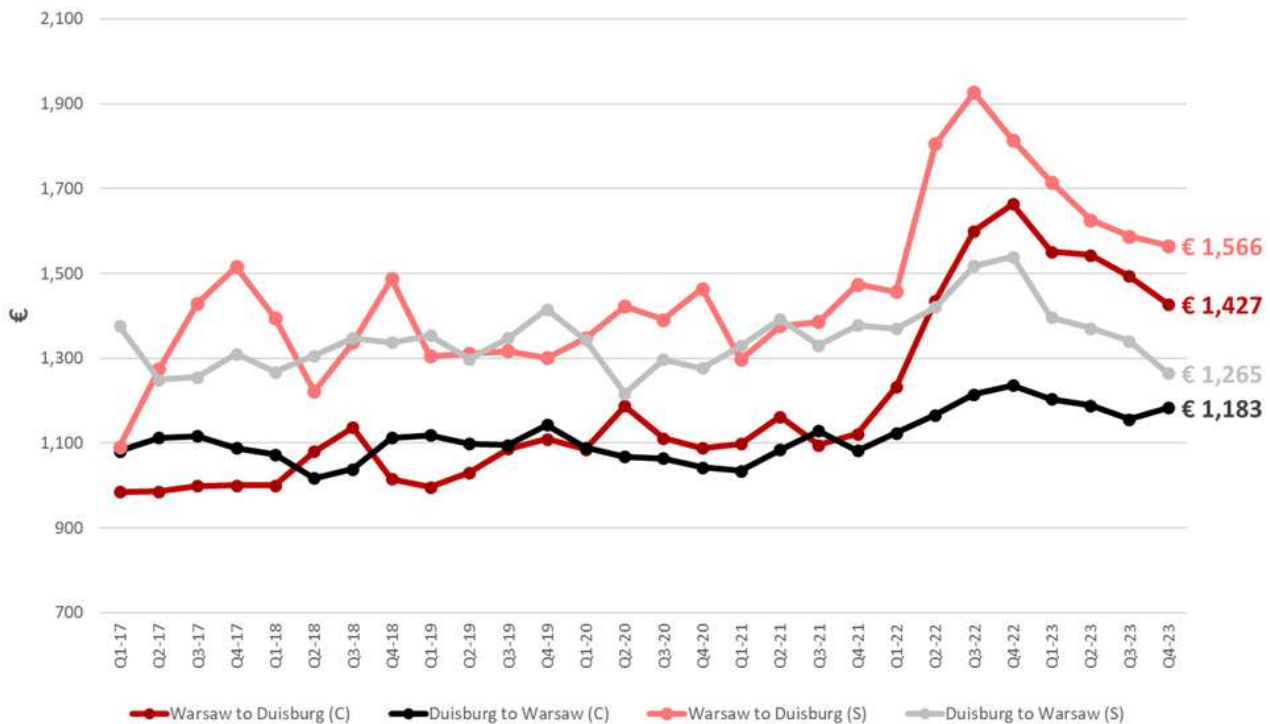
Spanish hauliers provide the majority of supply on this lane. While prices in Spain have increased less than the rest of Europe, the cost base burden has still increased; transport sector labour costs are up +10.3% vs. 2018. However, vs. a European average of 28.2%, this remains steady. Spanish diesel prices rose +4.5% in Q4 and added to price growth.

Outlook:

The outlook for rates on this lane is easing rate changes in both directions as demand growth in Spain slows and falls in demand in France moderate in 2024.

Germany – Poland

Duisburg – Warsaw Road Freight Rates



Source: Upfly

Rates development:

Rates continues to fall across the board with the notable exception of Duisburg to Warsaw contract rates which were inflated by new German toll costs.

On the headhaul to Duisburg contract rates fell -4.4% to €1,427 (€1.32/km) now down -14.2% Y-o-Y. In the spot market rates fell -1.4% Q-o-Q to €1,566 (€1.45/km) and now sit -13.7% below their Q4 2022 level.

On the backhaul to Warsaw contract rates rose for the first time in a year to €1,183 (€1.09/km). After a +2.3% increase Q-o-Q, they're now down -4.3% Y-o-Y. Spot rates fell -5.7% Q-o-Q to €1,265 (€1.17/km) and are now down -17.8% Y-o-Y.

The gap between spot and contract rates widened on the head haul from 9.1% to 9.7%, as the drop-in long-term volumes demanded by German industry effects the market.

Key market forces affecting rates:

German consumption may be bottoming out, but industrial activity still has the capacity to fall further.

Latest data from Destatis suggests German consumption is settling at lower levels and as a result putting less downward pressure on spot rates. Available Q4 data from Destatis suggests German peak demand pushed up retail volumes +5.9% Q-o-Q, however when adjusting for seasonality volumes dropped -0.3% Q-o-Q and sit -6.1% below their 2020 level. This Y-o-Y drop is a major factor contributing to steeper contract falls as distributors secure lower volumes for new lower levels of demand.

Whilst consumption settles at lower levels, German production continues to fall. Available Q4 2023 data from Destatis shows a -1.6% drop in total industrial output Q-o-Q pushing volumes down 3.9% Y-o-Y.

Weak global demand for German goods, compounded by lost competitiveness, paints a bleak picture for German industry. Germany's production of capital goods is 9.8% below its 2019 level and available Q4 Destatis data shows that new orders for German manufacturing fell -2.2% Q-o-Q, driven by a -6.0% drop in new orders for capital goods. This suggests German manufacturers are set to secure even smaller total road freight volumes in Q1 2024, adding more downward pressure to road freight rates.

Supply side influences on price:

Polish hauliers dominate supply on these lanes. Their costs shot up in 2022 and remains significantly elevated. Vehicle maintenance costs are +49.7% vs 2019 whilst wages in the Polish transport sectors are up +56.8% in the same period. The result is a higher cost base which means more rate falls will begin to squeeze margins.

Germany's new 5 class CO2 emission-based toll systems came into effect in December 2023 and increased toll cost by more than 70%. Where possible this cost has been passed on to customers directly leading to contract rate rises. A weak spot market may struggle to absorb the full increase but with margins thinning from an already high-cost base we can expect tolls to push rates up across the board.

Outlook:

The tightly integrated industries and supply chains of the two countries mean that falling activity in Germany is likely to be the dominant variable affecting rates on this lane. German activity looks likely to cause further downward demand side pressure as the competition for road freight falls, with lower volumes of goods flowing in both directions of this lane.

**GLOBAL SUPPLY CHAIN INTELLIGENCE:**

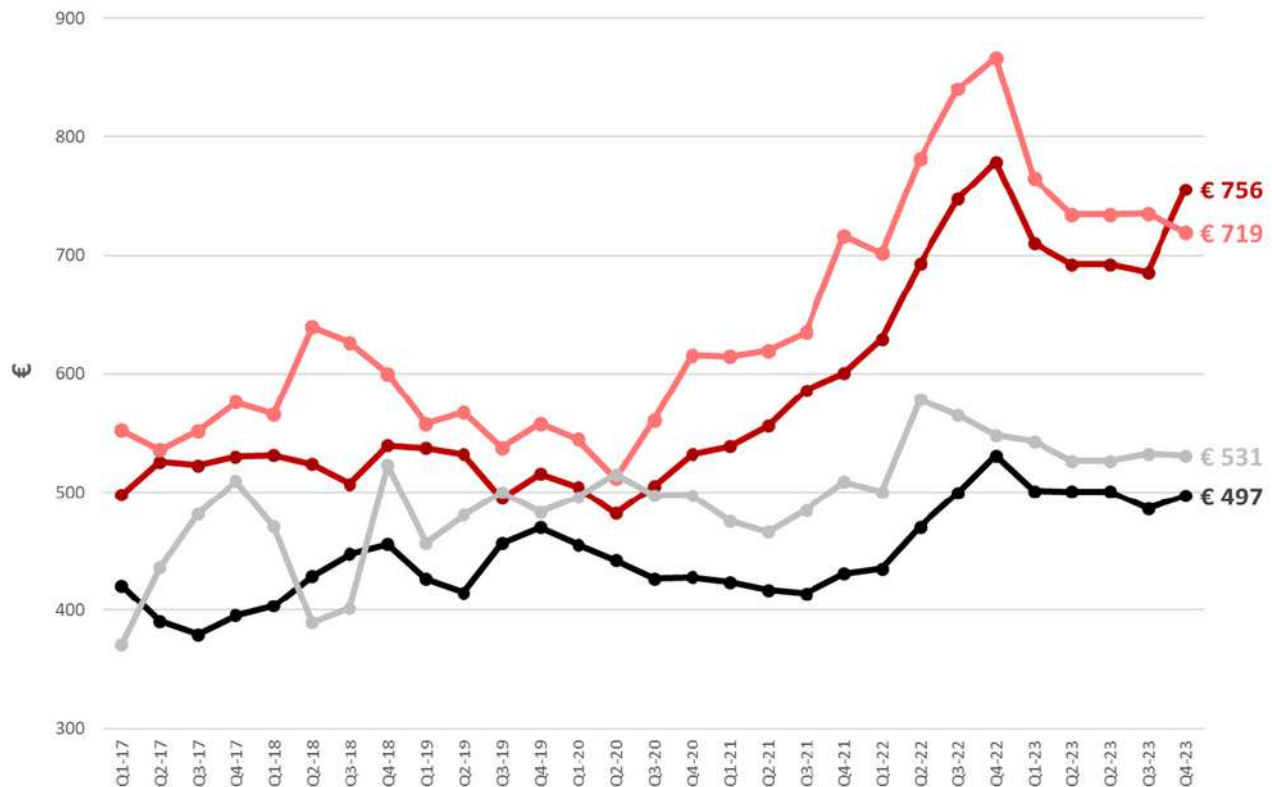
Road freight data and intelligence to support your supply chain strategy

Find out more - www.gsci.ti-insight.com



France – Germany

Lille – Duisburg Road Freight Rates



Source: Upfly

Rates development:

Rates on this lane have continued their downward trajectory with the exception of contract rates to Duisburg being pushed up by new German tolls.

On the headhaul to Lille, contract rates rose +10.2% to €756 (€2.50/km), down -2.9% vs Q4 2022. The spot rates fell -2.2% to €719 (€2.38/km), down -17.0% Y-o-Y. Contract rates rose above spot rates on the headhaul for the first time, as the cost of new German tolls was priced directly into contract prices. Spot rates to Lille are now 4.9% cheaper than the contract after being 7.2% more expensive last quarter.

On the backhaul to Duisburg, contract rates came to €497 (€1.65/km), up +2.2% Q-o-Q but down -6.4% Y-o-Y. Spot rates dropped to €531 (€1.76/km), a -0.3% fall Q-o-Q, leaving them -3.2% below their Q4 2022 level.

Key market forces affecting rates:

While most sectors in both countries are demanding smaller volumes of road freight capacity and pulling down rates, the new car market has been a bastion of growth during 2023. Supply chain problems limited new car production in 2021 and 2022, but 2023 saw restraints subside, resulting in strong production to meet pent-up new car demand across the continent. Available Q4 Eurostat data shows French car sales are up +12.1% Y-o-Y and experienced +1.1% growth in Q4 2023. While Euro Area sales are up +6.4% Y-o-Y. This demand for new cars has buoyed European car production. French car production is up +5.9% Y-o-Y, while German car production is up +1.7% Y-o-Y but grew +8.2% in Q4 2023, making it one of the few German industries to enter 2024 on a high.

With 40% (85) of the EU's automobile assembly and processing plants in France and Germany, car manufacturing activity growth adds significant volumes and thus demand-side pressure to road freight on this lane. It is a key reason that rates remained elevated on this lane throughout 2023 while total consumption and industrial production have fallen.

Supply-side factors:

New German tolls added significant upward pressure to contract rates this quarter and was the driving force behind a +10.2% increase on contract rates to Lille. Other operating Cost increases have subsided but are now resting at new higher levels. Since 2019 labour costs in the Transportation and Storage sector are up +17.0% in Germany and +15.5% in France. We can expect further labour costs increases due to an inflation catch-up effect for European workers' wages. As a result of persistent pressure to recruit labour in the European road haulage industry. Fuel provided a welcoming cost base fall during peak as both French (-11.6%) and German diesel prices fell from September into December.

Outlook:

Road freight rates between the manufacturing hubs of the EU's two largest economies have been kept high from strong vehicle production. For now, the two-directional trade of finished, intermediate, and capital goods driven by the automotive trade, as well as high costs, keeps rates elevated. A slowdown in activity from the car market may see total activity pull rates down in 2024, but for now, demand remains strong.

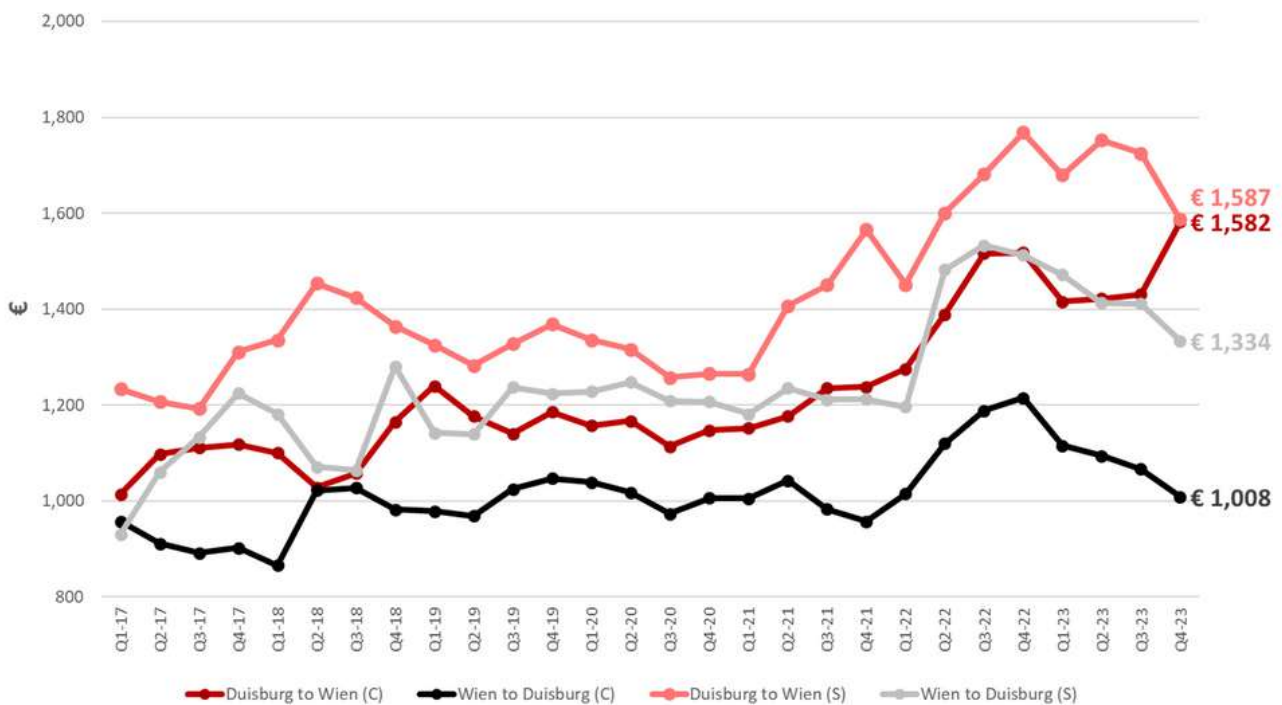


Learn more
iru.org/greencompact



Germany – Austria

Duisburg – Vienna Road Freight Rates



Source: Upfly

Rates development:

Rates between Germany have trended downwards with the exception of contract rates from Duisburg to Vienna, which rose after absorbing the effect of new higher emission-based tolls.

On the headhaul to Vienna, contract rates grew +10.6% Q-o-Q to €1,582 (€1.66/km), now sitting up +4.2% Y-o-Y. Spot rates fell -8.0% Q-o-Q to €1,587 (€1.66/km) and are now down -10.3% Y-o-Y.

On the backhaul to Duisburg, contract rates fell -5.5% Q-o-Q to €1,008 (€1.05/km), down -17.0% Y-o-Y. The spot rate to Duisburg fell -5.5% Q-o-Q and is now down -11.8% Y-o-Y at €1,334 (€1.36/km).

Key market forces affecting rates:

Both consumers and producers are demanding a smaller volume of goods in Austria, translating into less demand-side pressure on road freight rates. Available Q4 data from Statistics Austria shows a -1.3% Q-o-Q drop in manufacturing volumes, taking them below 2022 levels. Both low European demand and falling competitiveness are to blame. DG ECFIN's industry survey reveals competitiveness in energy-intensive Austrian industries, namely chemical sectors and machinery sector has fallen. This has led to Q4 output falls for capital goods (-1.1%) and intermediate goods (-2.9%) according to available Q4 Eurostat data.

On the backhaul, German consumption remains low, down -11.0% vs. 2020. German consumers are still reducing spending, especially on higher-cost FMCG such as meats, which fell -1.1% in Q4 2023 and is now down -18.5% vs. 2020.

Supply-side influences on price:

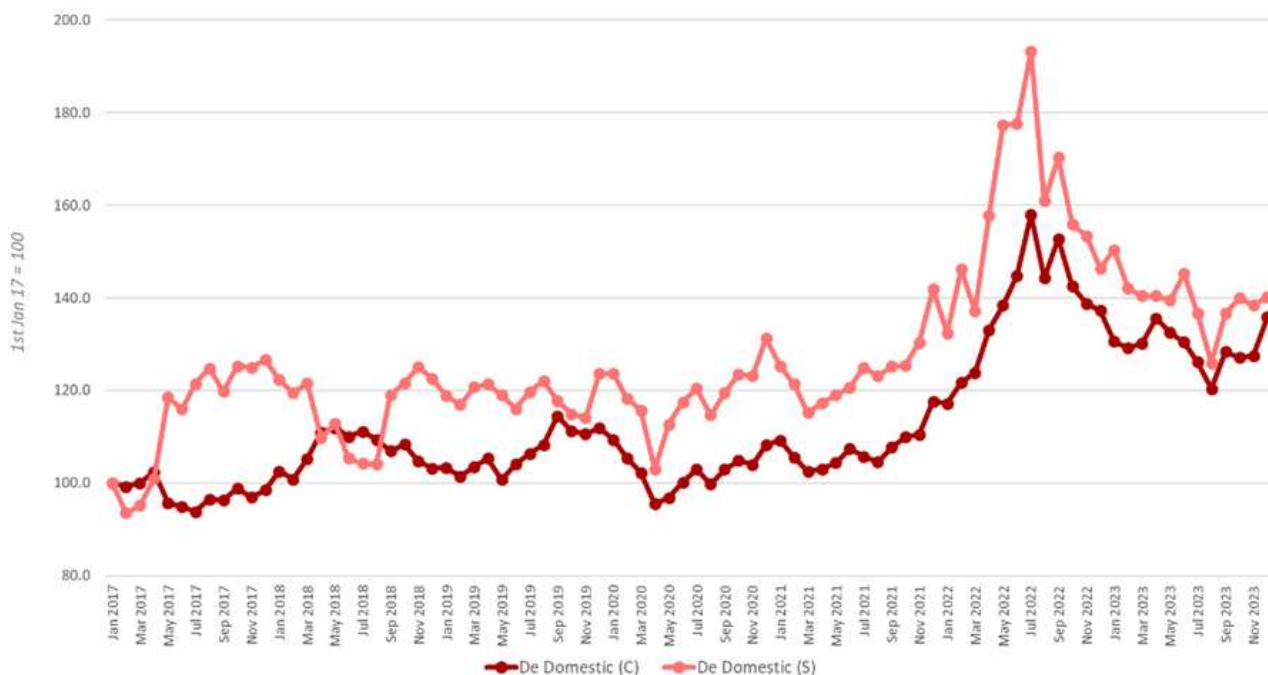
Haulier costs have remained elevated, which keeps rates well above historic levels even while demand remains down. In Q4, rates were also inflated by supply-side disruption caused by protesting farmers and German hauliers. Germany's new emission-based toll system led to rate growth on the headhaul as higher tolls were incorporated into contract prices, resulting in a +10.6% Q-o-Q rise. Starting January 1st 2024 Austria will also implement the EU's new infrastructure cost directive into its tolling system. This further increase costs. It's important to note that this increase isn't a temporary spike and tolls have added to the already high-cost base on this lane.

Outlook:

Germany's stagnation continues to have significant consequences for trade volumes with its neighbours. Demand from German consumers is well down vs. pre-pandemic levels, and Germany's industrial production continues to fall. As a result, falling demand-side pressure has the ability to further pull down all rates. However, an already high-cost base has been further inflated by a toll system overhaul which will, without a doubt, push up contract rates. Weak demand means the carriers in the spot market may struggle to incorporate these costs and stay competitive, but it will likely tighten margins and reduce the scope of further falls.

German Domestic Rates and Tolls

German Domestic Road Freight Rates



Source: Upfly

Rates development:

Monthly data for the German domestic road freight market shows the effect of the new emission-based toll system. Tolls caused the largest monthly increase in contract prices for 15 months, with an +8.3-point increase in December 2023. In contrast, the spot index grew by just +1.9 points.

The effect of the new tolls:

Contract rates are more susceptible to the new higher tolls. This is due to the carrier's ability to directly pass along rising costs through surcharges and existing contract stipulations. Conversely, low levels of demand and the resulting recent price falls in the spot market mean the spot market is likely to be a lot more resilient to new cost increases.

Outlook:

The rising costs caused by tolls mixed with weak German demand have the potential to push contract rates above the spot price, a phenomenon we're already seeing on most German export lanes into major European Cities. The question is, where will the market go next? It's likely this dynamic will encourage greater spot demand, meaning we could very quickly see spot rises on lanes currently dropping.

Member States are expected to transpose the new rules into national legislation by the end of March 2024. However, the European directive provides for a gradual implementation of the various measures. Outside of customer contracts that pass this cost on directly, these new tolls will increase carrier costs, reducing margins and making the likelihood of rate rises across markets much more likely, regardless of demand.

SMART by **supply**

Benchmark your freight rates

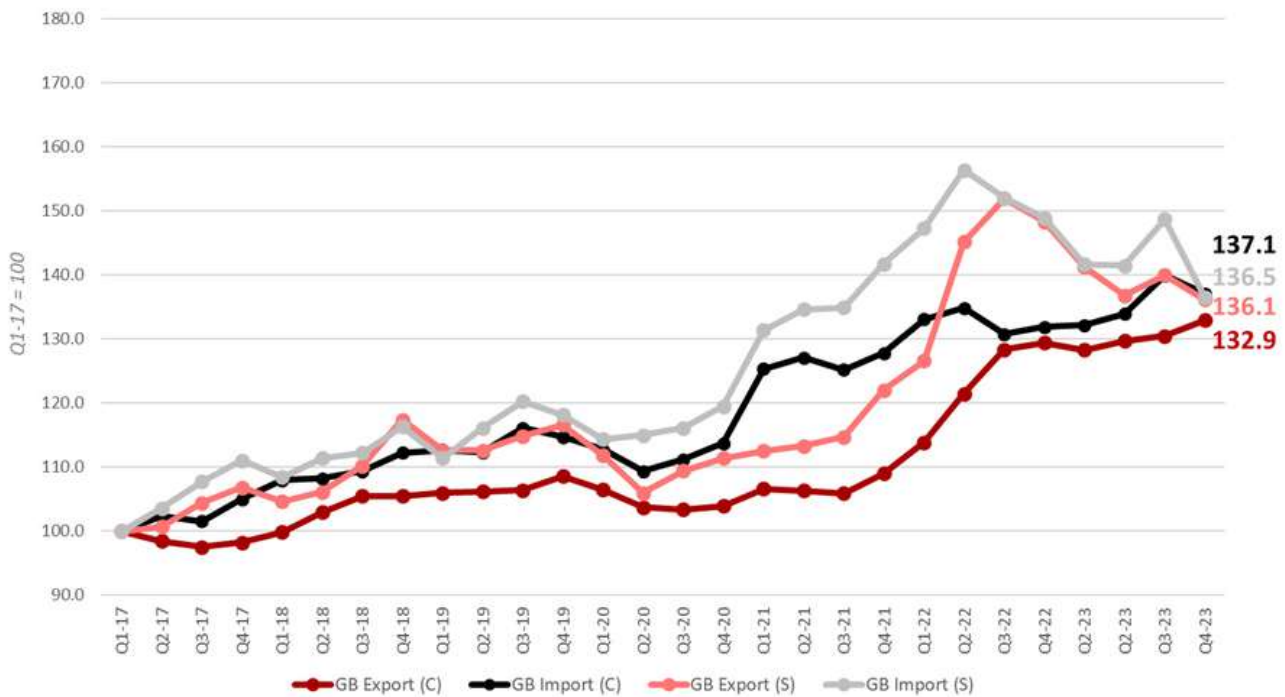
& follow their evolution by road, sea & air freight worldwide

DISCOVER SMART

The banner features a dark blue background with a circuit-like pattern. On the right, a laptop displays the 'supply SMART' interface. The interface includes a 'Median' price gauge showing 1,599 €, a 'Confidence index' (A), 'Trip Information' (Distance: 1,821 km, Duration: 1 day, 3 hours, 1 minute), and an 'Environmental Impact' section with various metrics like CO2, SO2, and PM10.

Great Britain International Lanes

GB Import and Export Lanes



Source: Upply

Rates development:

On GB export lanes, contract rates rose +2.5 points Q-o-Q and now sit up +3.5 points Y-o-Y at 132.9. In the spot market, rates fell -3.8 points to 136.1, down -12.2 points Y-o-Y.

On import lanes, the contract rates fell -2.8 points Q-o-Q but remain up 5.3 points Y-o-Y. The spot market fell -12.1 points Q-o-Q to 136.5 points.

Key market forces affecting rates:

Trade between the UK and the European Union remains down vs pre-Brexit/covid 2019. In Q3 2023, exports were -2.2% lower than Q3 2019, and imports were -1.5% lower.

UK production is weakening and reducing demand-side pressure on spot rates in both directions.

Available Q4 seasonally adjusted data from the ONS (British Office of National Statistics) shows a Q-o-Q decline in the production of intermediate goods (-2.5%), consumer durables (-1.4%), and capital goods (-0.9%), but total production volumes remain up Y-o-Y. This suggests production output falls have reduced demand pressure on spot rates, but long-term expectations of volume remain steady and keep the contract rates elevated.

UK consumption remains stable at lower levels. Seasonally adjusted retail volume data from the ONS shows consumption is down -7.9% vs. 2020, but Q4 brought a modest 0.2% Q-o-Q growth, leaving consumption up 0.5% Y-o-Y. This suggests that consumption is putting very little upward pressure on both spot and contract rates.

Supply-side influences on price:

Lower inflation means costs are no longer playing a major role of pushing up carrier costs and in turn freight rates. The market has now settled at a higher cost base, which keeps rates inflated. The UK's PPI (Producer Price index) supports this with Q4 data showing 2.6 points fall Y-o-Y whilst it remains 27.0 points above the 2019 level. Monthly PPI growth averaged just +0.4 points, suggesting prices are stable.

Q4 2023 UK Diesel prices rallied slightly (up 4.8% Q-o-Q) following a spike in the price of crude in September, but they remain down -21.4% Y-o-Y.

Generally, costs are elevated and keeping rates high. But costs are a lot more stable and are contributing to little, short-term cost rises. Labour costs in the UK Logistics sector grew 5.1% I 2023 and are now 15.9% higher than in 2019, wages still have the ability to increase cost if an uptick in activity drives hiring in 2024, a tight labour market may add considerable cost pressure in H2.

Outlook:

Volumes on this lane remain down vs. 2020 and 2019. Consumption is steady, but falling demand from European industry is resulting in falling industrial output volumes and reducing the demand for road freight in both directions. Rates may fall further, but a higher cost base and constrained capacity growth may limit the size of further rate falls.

Methodology

The rates are the result of Upply's own econometric and statistical modelling, which is based on the analysis of more than 750 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.



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Upply is the digital platform for freight transport professionals. Upply designs and develops cutting-edge and innovative solutions to help shippers, carriers and forwarders exploit the full potential of digitisation for their business.

Combining transport expertise and Data Science, since 2018 Upply has developed its leading solution, Smart, for benchmarking, tracking and analysing global freight rates. With Smart, supply chain players can make fully enlightened decisions and optimise their transport investments.

Through its Connect digital platform, Upply directly connects shippers with road hauliers and freight forwarders. As an operational tool, Connect simplifies transport operations by automating their processes.

To develop these unique technological solutions, Upply employs data scientists, logistics professionals and digital experts. The company is based in Paris and counts 60 employees.

For further information, please contact customer.service@upply.com.

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As the voice of more than 3.5 million companies operating mobility and logistics services in over 100 countries, IRU fosters impactful solutions to help the world move better.

We bring a unique perspective, bridging the public and private sectors to support trade, economic growth, jobs, safety, the environment and communities.

IRU provides concrete services to transport and logistics companies, ranging from representation at the European and international level, trade and transit tools, driver skills assessments (including eco-driving), comprehensive research and insights with thematic workshops and roundtables on decarbonisation, driver shortages and digitalisation.

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