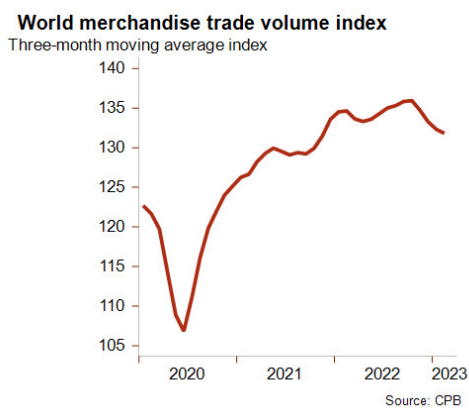


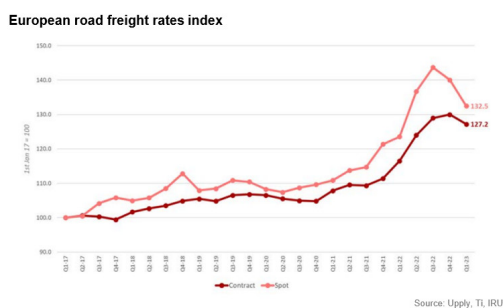
Road freight transport: Downturn in consumer demand weighs on the sector in Europe | Credendo

Low consumer confidence weighs on sector demand

The current slowdown in merchandise trade at the global level (see below graph) is being reverberated in a slowdown in growth of European road freight transport. Transport Intelligence (Ti) forecasts that the growth in international road transport volumes within the European Union (EU) will decrease to 1.1% in 2023 after a growth of 9.4% in 2021 and an estimated 3.4% in 2022.



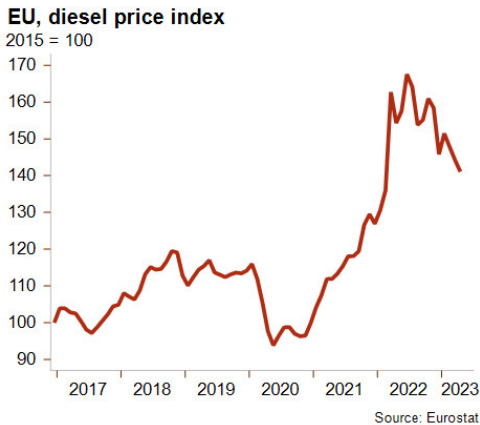
With inflation gaining ground worldwide and in Europe in particular, demand for transport services has stalled since the second half of last year. Even e-commerce, which proved to be a very supportive client of road freight transport services during the pandemic, is losing speed. The automotive sector, a historically important customer industry, has been struggling in the last few years. As a result, spot freight rates declined for the second consecutive quarter in Q1 2023 (see below graph), which had not happened since the peak of the Covid crisis in 2020. Spot rates declined faster than contract rates, as pressure from immediate falling demand was directly translated in spot prices.



Operating margins dented by higher energy and wage costs

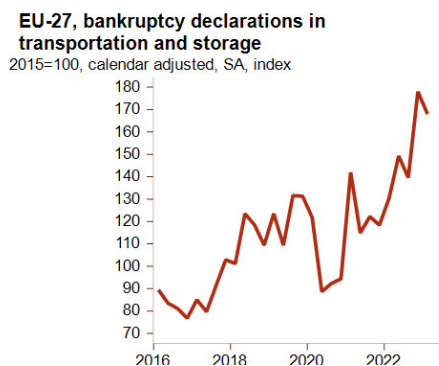
On the supply side, a rise in costs has been observed for both energy prices and wages. Indeed, even

though diesel prices are on the downside since last summer (see below graph), they still stand at a historically high level. A wage inflation is also registered in the sector, as truck drivers are in a strong negotiating position due to an ever-worsening labour shortage. The lack of skilled workers and the competition between companies to retain or find new drivers are pushing up wages. This scarcity of drivers has been exacerbated by the war in Ukraine, considering Ukrainian drivers make up a significant share of the work force in EU countries, in particular for Polish hauliers. As a result of the increasing costs, operating margins of companies – which strongly rebounded in 2021 – are on the decline.



Since 2020, the EU Mobility Package – a series of initiatives set up to address a number of issues and to unify the rules of operation between companies in the EU regarding social fairness, competition and performance – is a hot topic and implies many changes and adaptations for the sector. The latter add further costs for the sector. This year, the package foresees, among others, the mandatory installation of newer-generation tachographs in newly registered trucks as from 20 August 2023.

In this context, 2022 was characterised by a consolidation of the sector, to the detriment of small-size companies. Mergers and acquisitions were led in particular by investment funds. However, the sector was also subject to a rise in bankruptcies. The transportation and storage sector was the industry that registered the highest growth rate (+27.5%) of bankruptcy declarations in the final quarter of 2022 in comparison with the previous quarter, according to Eurostat data (see below graph). Hungary, Poland, Spain and Slovenia registered the highest growth rates in those declarations. This number however decreased by 5.6% at EU level in Q1 2023 compared to the previous quarter.



Transport sustainability considerations further threaten the medium-term outlook

As long as the current general business environment remains characterised by lower consumer and business demand, and elevated energy and labour costs, companies active in the sector – particularly small-size ones – are at risk of bankruptcy. Companies transporting essential goods such as food and beverages are expected to hold up better in the current volatile market environment. On the other hand and as experienced in the past, durable goods transport (especially for cars) tends to experience the biggest decline during low consumer confidence periods.

On a more structural note, the increased interest in transport sustainability – partly due to stricter policy requirements – increases the demand for green transportation solutions (including renewable diesel, electric as well as multimodal transports) and this trend is expected to gain traction in the coming years. This may pose some additional threats to traditional road freight transport, related to more stringent fiscal policy as well. Earlier this year for example, the German government decided to significantly increase truck tolls by 2024 (almost doubling them for some trucks) and use part of the generated revenues to fund large rail projects.

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