Transport Intelligence

Freightex

10 TEN YEARS OF EXPERT ANALYSIS

Freightex European Road Freight Rate Index

A quarterly analysis of European road freight rates provided by Transport Intelligence and Freightex

November 2012

Index shows European road freight rates sliding

After rising by 20% in two years, road freight rates on key routes in Western Europe have fallen steadily for the past five months.

According to the new international road freight index compiled by Transport Intelligence using data provided by European freight exchange, Freightex, road freight rates have fallen 7% in the past five months from their peak.

By the end of May 2012, the Index (based on actual transactions settled in euros) was 21.2% higher than in May 2010, the starting point for the index. After this date, however, rates have fallen consistently.

The rise in prices up to May 2012 had several factors behind it. Firstly, the market was undergoing a substantial 'bounce-back' from the crisis point of 2009, when prices crashed. Quantifying the effect of this is difficult as rather than settle back to equilibrium, prices have remained volatile. This volatility appears to be a structural issue, both in terms of demand and supply in the market.

It would seem likely that the fall in prices over the past few months has been driven by falling demand, whilst capacity has yet to re-adjust.

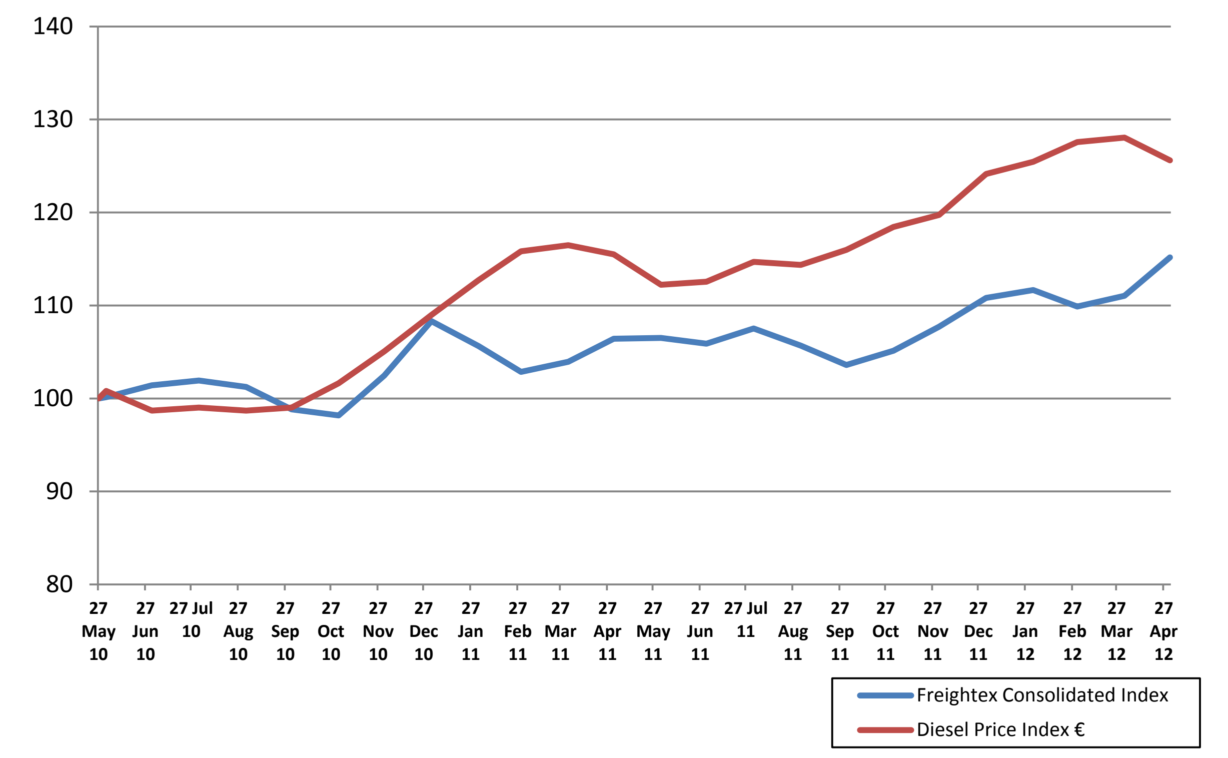
Consolidated Freight Index (Index of € per full loads)

Source: Freightex/Ti

The relationship between fuel and rates

Clearly, the rise in the price of oil has been the single largest factor in terms of the increase in road freight prices over the past two years. The chart below shows the relationship between the price of diesel and the freight index. The sharp rises in the price of oil will also have increased the proportion of fuel in the cost of road freight. That said it is not the only factor, with demand and supply still significant influences on price.

Price of Diesel and European Road Freight Indices 2010-12



Bounce-back from the recession

A second characteristic of the market since 2010 has been the continuing effects of the 2009 crash. Specifically, truck owners were severely affected by the first downturn in 2009 and responded by shrinking their asset base. Fewer trucks on the market resulted in higher prices, both for 'Full Truck Load' (FTL) and 'Less-than-Truck Load' (LTL) shipments. Several big LTL providers cited this as a factor in increasing their costs: "The crisis has led to a shortage of hauliers but groupage providers have not been able to increase prices," said one operator.

The demand picture however, is more complicated, with large differences between southern European markets and the rest of Western Europe. Unsurprisingly, demand is very weak out of Spain, with hauliers reporting as much as a 10% decline in volumes. For the rest of Europe, demand is either flat or growing, but it is hardly fulfilling expectations. A sentiment across the sector is that demand is highly unpredictable.

Market Pattern

The changes in demand have also had a significant impact on the nature of some markets. Larger companies report that the balance in cost between inbound and outbound has changed, with inbound becoming cheaper and outbound more expensive due to a shortage of loads, resulting in crude price stability. This applies to most, if not all, of Southern Europe.

There has been some change in major shippers' purchasing strategies. Some of the largest consumer goods companies have been looking to reduce their business with forwarders and larger providers, and increase their direct business with medium-sized road freight transport companies. This has only been partially successful as the shippers have encountered some problems with capacity availability in tight markets. They have also suffered from poor customer service levels. However, this trend may have an impact on the ability of larger LTL providers and forwarders to pass on higher costs to customers.

'Stickiness' of rate increases

The consensus amongst the larger LTL providers is that customers are more aggressive in resisting price rises. DB Schenker's comment in their recent report that, "Given the reserved economic outlook, we expect the European land transport market in 2012 to post a weaker development than in the year under review, while nevertheless remaining very favourable. Accordingly, we expect to see a continued tense market situation and strong margin pressure in 2012" summarises the position fairly well, with another company observing that larger customers were improving their buying practices. However, this is contradicted by Norbert Dentressangle's recent statement that, "we also demonstrated our capacity to pass on increased diesel costs in the prices that we charge for our services."

The key issue here for LTL providers is that such networks have fixed infrastructure investment as opposed to truck asset owners whose asset base is 'semi-variable'. The problem is that volumes increases are not sufficiently predictable for LTL providers to be confident that they can cover fixed costs and this may depress profits for such providers and affect their investment plans adversely.

An uncertain future

The big problem is volatility. The swings in demand from month-to-month are both large and unpredictable. "We are simply not in a position to work out future developments," said one operator. This is a major problem in assessing both the present state of the market and its immediate future. Some big players reported a strong first quarter in Germany, but a weaker second quarter, with no growth year-on-year in July. Other companies, which focus on the UK, reported only slight growth throughout the year, with a very modest up-tick in the second quarter.

Individual Markets

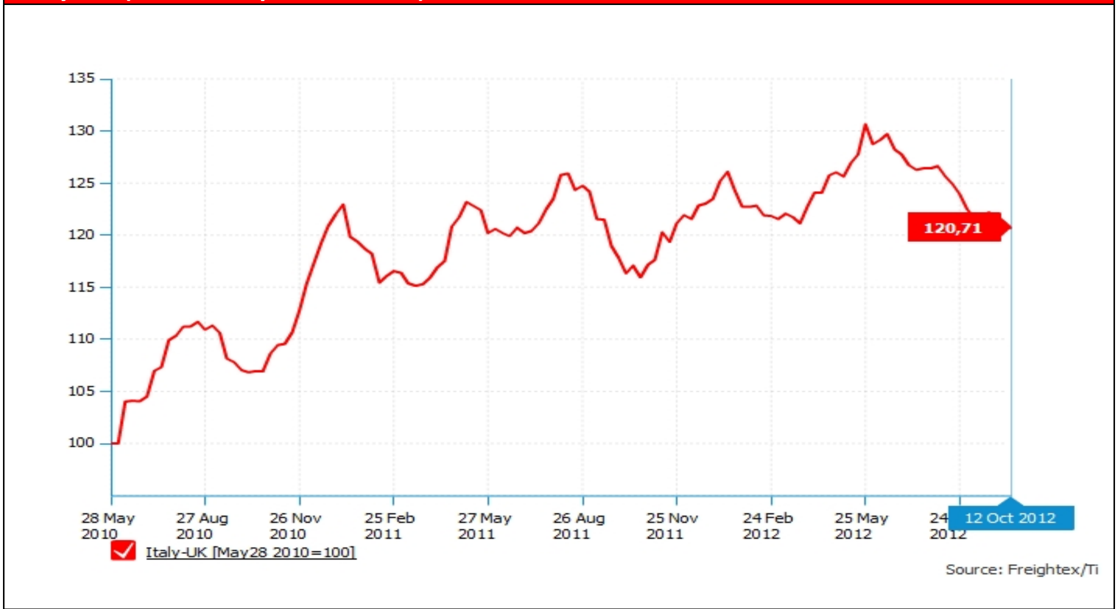
Germany-UK (Index of € per full loads)

Germany has been one of the more complex markets over the past two years. On the one hand, inflationary forces have been reasonably strong, with increases in road-tax (Maut) as well as some wage pressure. However, this has been strongly mitigated by an increasing presence of Central European drivers and companies in the German market; something aided by the changes in EU cabotage rules over the period. This is reported to have made competition tough in both the FTL and LTL markets.

France-UK (Index of € per full loads)

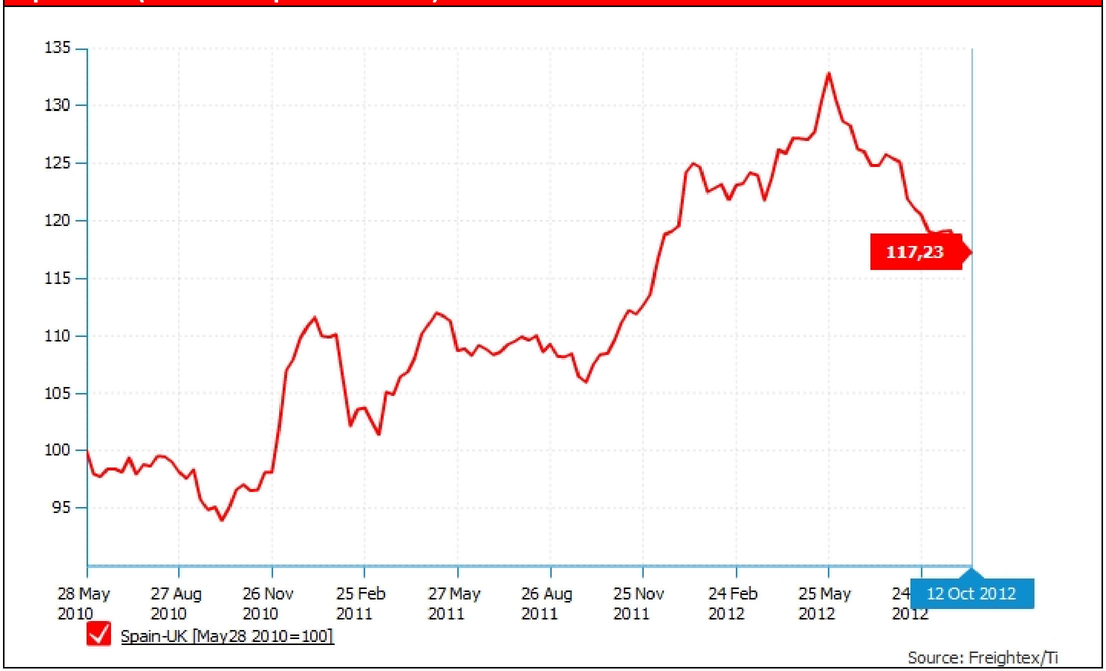
The French market has been characterised by changes on the supply side. Two large providers, Mory and Geodis, have reduced capacity, through restructuring and acquisition respectively, and this has supported the market in otherwise tough demand conditions.

Italy-UK (Index of € per full loads)



The rises in costs on routes east into Italy have been influenced by the increases in road tolls through the Mont Blanc tunnel. These are generally pegged to the rate of inflation in the Euro area, but they have been aggressively 'passed through' by operators. This is despite low and falling levels of demand.

Spain-UK (Index of € per full loads)



Spain has been the most distressed of the major markets with falls in inbound demand reported to be around 10%. This has affected the structure of the market, as it is more difficult to find inbound loads, driving down prices. Yet outbound capacity availability has decreased, whilst volumes have increased, driving up rates. Consequently, rates overall have remained roughly static over the past few quarters.

The market has been characterised by 'supply-side' issues, with many Spanish hauliers going out of business. In addition, many non-Spanish shippers, LTL networks and suppliers have been reluctant to trade with Spanish hauliers out of fear of poor credit conditions. This has only exacerbated the hostile business climate for road freight providers in Spain.

Other Markets:

Scandinavia has seen modest growth, however the international market has become difficult with a soft supply situation. Central Europe, especially Poland, has generally seen strong demand and the supply side is firm, leading to generally good market conditions. However, these may be weakening from the second quarter. South Eastern Europe remains severely depressed, affected by the situation in Greece.

Present and Future Trends

The two clear themes of the market at present are volatility and fuel prices. Demand remains highly unpredictable with big swings from month-to-month. This is affecting planning by suppliers and may have the longer term affect of depressing investment and therefore the availability of capacity. This is unlikely to be as great as the trend seen in 2009, when a substantial amount of truck capacity was removed from the market. However, it could lead to higher prices in the medium-term due to shortages of capacity if there is a bounce-back in demand.

However, the oil price remains the biggest driver of costs. At present, elevated price levels have a dominant effect on road freight prices. This effect is so great that, for the moment, purchasers of road freight should look to projections of fuel costs as the most powerful guide to short-term costs.

One of the most interesting symptoms is a likely compression in the margins of LTL providers. A combination of higher costs of truck services, higher fuel costs and new entrants into the market are likely to drive-down profit margins that, up until now, have been comparatively strong.

Methodology

The statistics on which this analysis is based are taken from FreightEx's exchange activities and reflect the prices paid/bought for actual loads. The Consolidated Freight Index is created through the aggregation of the data on individual routes but not on a weighted basis. The routes are selected for the quality of data. Routes that do not have data of sufficient data quality- such as size of sample or consistency- are not used.

About FreightEx

Since 2001, Freightex has worked to impress its many customers across Europe with its high levels of service and efficient transport solutions. We specialise in cross-Channel routes where our team of experienced freight professionals use their unique knowledge to provide our customers with excellent prices and excellent service levels. We embrace technology to optimise traffic flows and to ensure that we use available truck capacity to maximum effect. See the Freightex Service Promise. We have the flexibility to manage spot loads or long term contracts – every customer has a dedicated account manager who is committed to managing their work with the greatest care and responsibility. The company's international office is ideally situated in the Port of Dover and staffed with multinational freight specialists. It has three further regional UK offices. It is a member of the British International Freight Association (Bifa) and the Chartered Institute of Logistics (CILT).

www.freightex.com

About Ti

Transport Intelligence (Ti) is one of the world's leading providers of expert research and analysis dedicated to the global logistics industry. Utilising the expertise of professionals with many years of experience in the mail, express and logistics industry, Ti has developed a range of market leading web-based products, reports, profiles and services used by all the world's leading logistics suppliers, consultancies and banks as well as many users of logistics services.

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More information

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Updated weekly, interactive European Road Freight Rate Index charts are available at http://www.transportintelligence.com/graphs/