The European road freight market's in a mess - but it could be worse

29/Jul/2009 by John Manners-Bell

The European road freight market is in crisis. Even the strongest companies have experienced significantly falling volumes and certain sectors have seen a reduction of up to 50%.

Inevitably this has led to a rise in bankruptcies which in some cases have doubled over the past year. The International Road Transport Union (IRU) estimates that so far 140,000 transport related jobs have been lost in the EU with a further 120,000 in the CIS countries.

The present crisis, of course, was precipitated by the sudden decline of economic output. Most European countries entered this period of a falling GDP around a year ago (June 2008) when volumes started to stagnate. Up to this point the sector seemed to be immune from the downturn which was afflicting the USA.

From the third quarter of 2008 the recession deepened, with the latest quarter in 2009 being the worst yet – the eurozone contracted by 4.9% – although many economists believe the worst is over.

As bad as the state of the transport industry is, the fact is that it could be worse. This may sound strange when company failures are at such high levels and so many are losing their jobs. However the industry has avoided what could be termed a 'catastrophic meltdown' due to the fact that two important variable costs – oil and financing – have also diminished significantly over the past year, saving many road freight companies from bankruptcy.

Oil – which accounts for roughly a third of vehicle running costs – has fallen by around 50% from historic highs of around $140 per barrel in July 2008 to about $70 today. This has provided hauliers with a welcome respite, most of whom will have struggled to have passed on the rises to their customers in the previous year.

Likewise interest rates have also plunged. Base rates in the UK, for example, stood at 5% in July 2008, and are now just 0.5%. There was a similar reduction in the eurozone.

In this respect it is interesting to contrast the recessions of the early 1990s and the early 2000s with today. In the case of the former, oil prices had spiked as a result of the Iraqi invasion of Kuwait and in the case of the latter, oil prices doubled between 1999 and 2001 prior to the dotcom bubble bursting. In the early 1990s rising oil prices were compounded by interest rates which stood between 9-15% in the main European economies – an environment which seems unimaginable today.

These recessions saw a prolonged downturn of economic activity (albeit not at the same rate of deterioration as now), combined with high rising costs. It was this combination which was so damaging to the transport industry of the time.

This raises the question of whether the industry will avoid such a scenario in the coming year. There is certainly the probability that oil prices will start to rise as soon as there are signs of increased economic activity. Likewise, central banks will start to raise interest rates to keep control of inflation, which may be stimulated by the billions spent in governmental economic stimulus packages.

© Jul 2009 Transport Intelligence Ltd

The likelihood is that many small and medium-sized companies will be unable to make it through this stage of the economic cycle where rising costs outstrip any increase in volumes. Many will have burnt through their working capital over the previous year and will be particularly vulnerable to additional costs which they find difficult to pass on. Larger companies however will be in a stronger position. Not only will they benefit from the demise of medium-size competition, but asset-light road freight forwarders will be able to squeeze supplier rates.

Therefore when Europe finally comes out of the recession, the chances are that the market will have been rationalised to an extent, with the major players gaining market share. This is not to say that some of the largest European road freight operators won't be affected. We may well observe that in geographies where loss-making, sub-optimal scale operations exist, they withdraw or enter into partnerships enabling them to concentrate on core, high volume markets.

Interested in further analysis of the European road freight market? Ti's Global Distribution Strategies Conference 2009, 6-7 October 2009, at the Radisson Blu Hotel, Brussels will be packed full of insight from a range of Ti analysts and industry leading speakers. For more information follow the link or contact Sarah Smith on +44(0)1666 511872 or by email: ssmith@transportintelligence.com.

Source: Transport Intelligence, Jul 29, 2009

© 2009 TI Briefing. All rights reserved. Republication or redistribution, including by framing or similar means, is expressly prohibited without prior written consent. TI Briefing is a service from Transport Intelligence Ltd. Transport Intelligence shall not be liable for errors or delays in the content, or for any actions taken in reliance thereon.