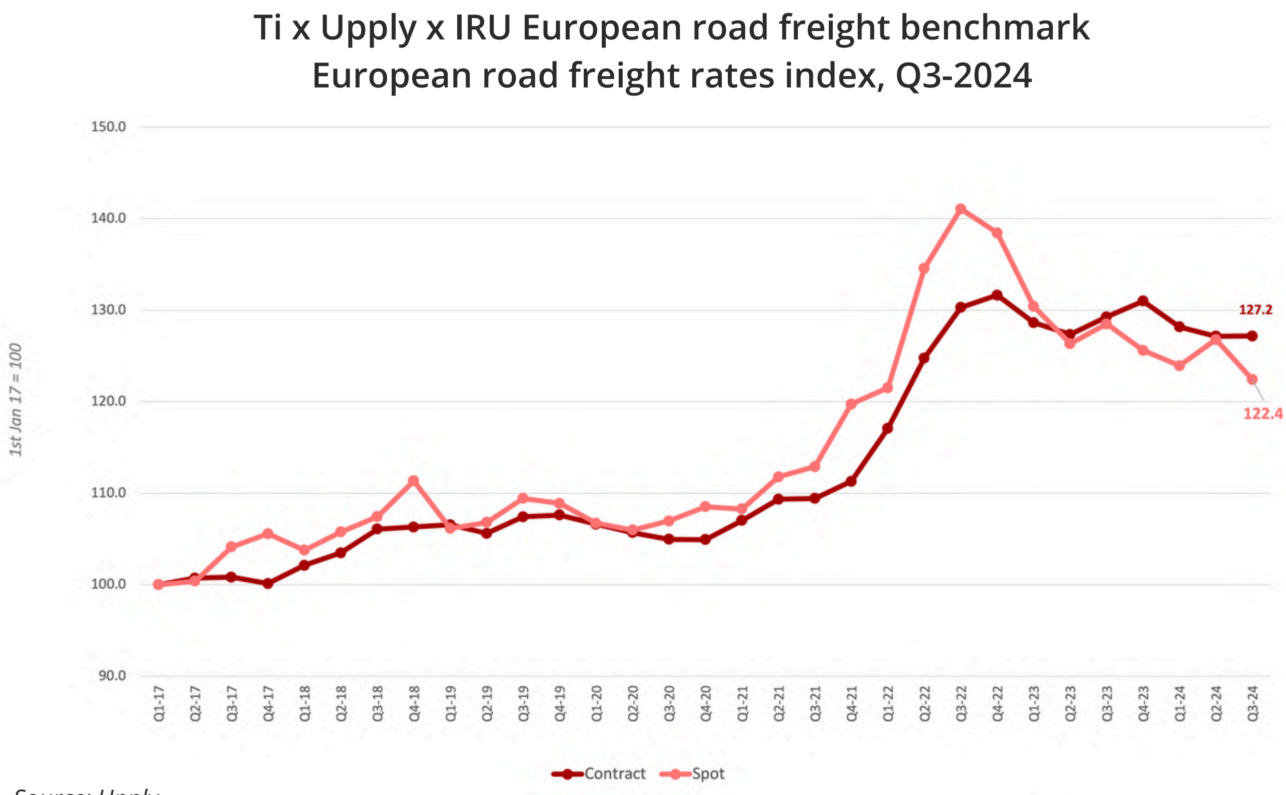
THE EUROPEAN **ROAD FREIGHT RATE** DEVELOPMENT **BENCHMARK**

Q3 2024

Contents

European Road Freight Market Benchmark



Source: Upply

Rate development

The trend has reversed since the last quarter. The benchmark index for contract rates is still higher than spot rates in Q3 2024. However, the contract rates index has remained flat, with no change quarter on quarter, whereas it had fallen in Q2 compared with Q1. The spot rate index on the other hand has decreased by 4.4 index points quarter on quarter whereas it had risen in Q2 compared with Q1. Compared to the same period last year, the contract rates index has decreased by 2.1 index points and spot rates have fallen by 6.1 index points.

Market Story

- ***Demand-side influences on rates***

Production across the eurozone is facing headwinds, with persistent declines in manufacturing activity. The euro area's purchasing managers' index (PMI) dropped to 45 in September 2024, one of the lowest readings of the year. Germany has seen its manufacturing PMI fall even more sharply, reaching 40.6 – the lowest in a year – indicating a steep contraction. This downturn is largely driven by weakening demand, market uncertainty and struggles in key sectors like automotive manufacturing, leading to reduced new orders, destocking, and a slowdown in production output. Additionally, labour markets are showing stress, with employment levels falling at the fastest rate in four years, driven by reduced input demand. While some regions, like Poland, are showing signs of recovery with rising new orders, the overall industrial outlook remains grim.

Several continent-wide factors are weighing on production, creating a challenging environment for manufacturers. First, high inflation and energy costs continue to strain operational budgets, despite recent drops in core inflation (which fell to 2.7% in September 2024). Elevated producer prices are also exerting pressure, rising to 124.9 points in August. In addition, delays due to the Red Sea crisis continue to disrupt supply chains, further compounding the issues in production sectors.

- ***Supply-side influences on rates***

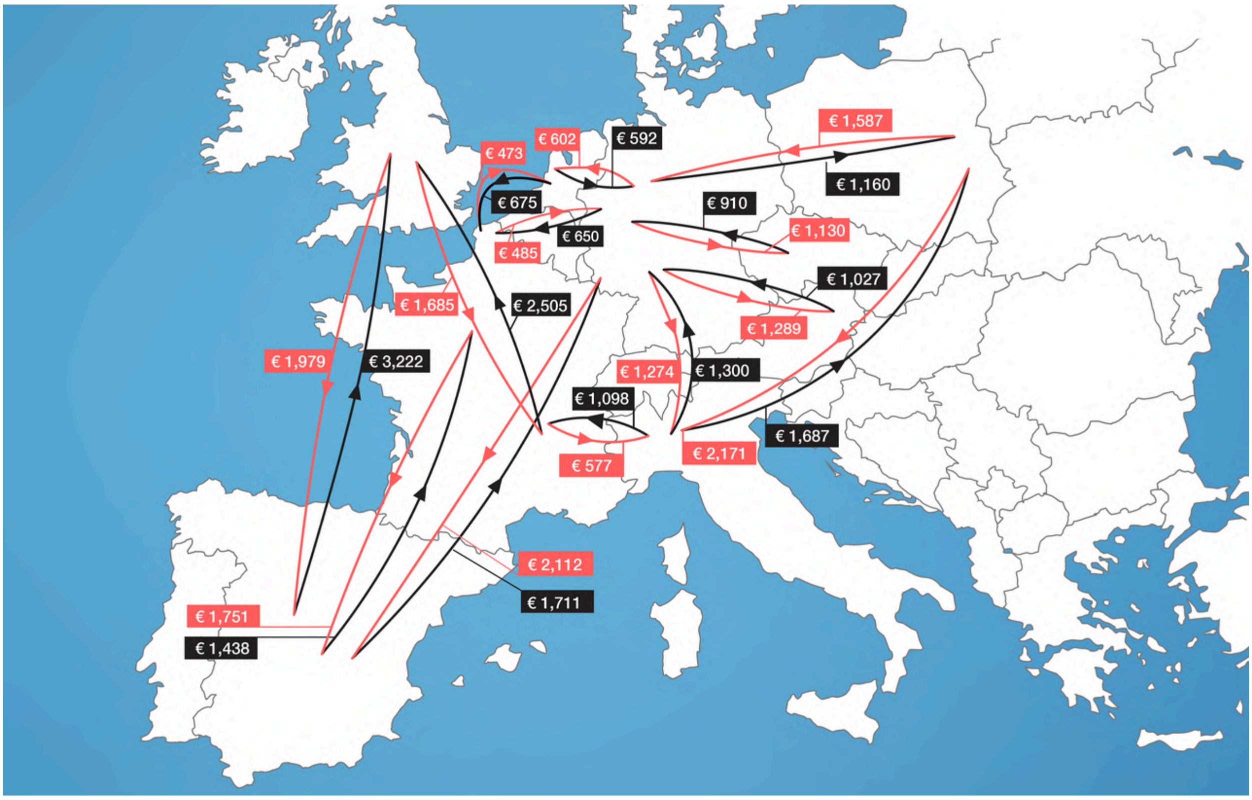
These production challenges have a direct impact on the road freight market. As manufacturing output declines, so does the demand for freight services, which has driven spot rates down since Q2 2023 (with a brief inflection point in Q2 2024). However, despite falling demand in the short term, freight rates remain well above 2021 levels, primarily due to structural increases in operational costs.

Labour costs, the biggest cost item along with fuel in road haulage, have also risen sharply due to inflation over the last two years. Diesel prices, although trending downward in Q3 2024, are still volatile. Moreover, substantial increases in costs related to motor vehicle insurance, maintenance, and tyres are contributing to higher operational expenses for freight operators.

For example, motor vehicle insurance costs have surged by nearly 20 index points, while maintenance and repair costs have risen by 21.9 index points. Tyre costs did increase by 20.89 index points compared to 2021, notably due to the implementation in that same year of a mandatory labelling of tyre performances which is pushing the market towards better performing products. Spare parts are also getting more expensive to meet new regulation, such as brake pads compounds which need to be upgraded to meet EURO 7 emission requirements.

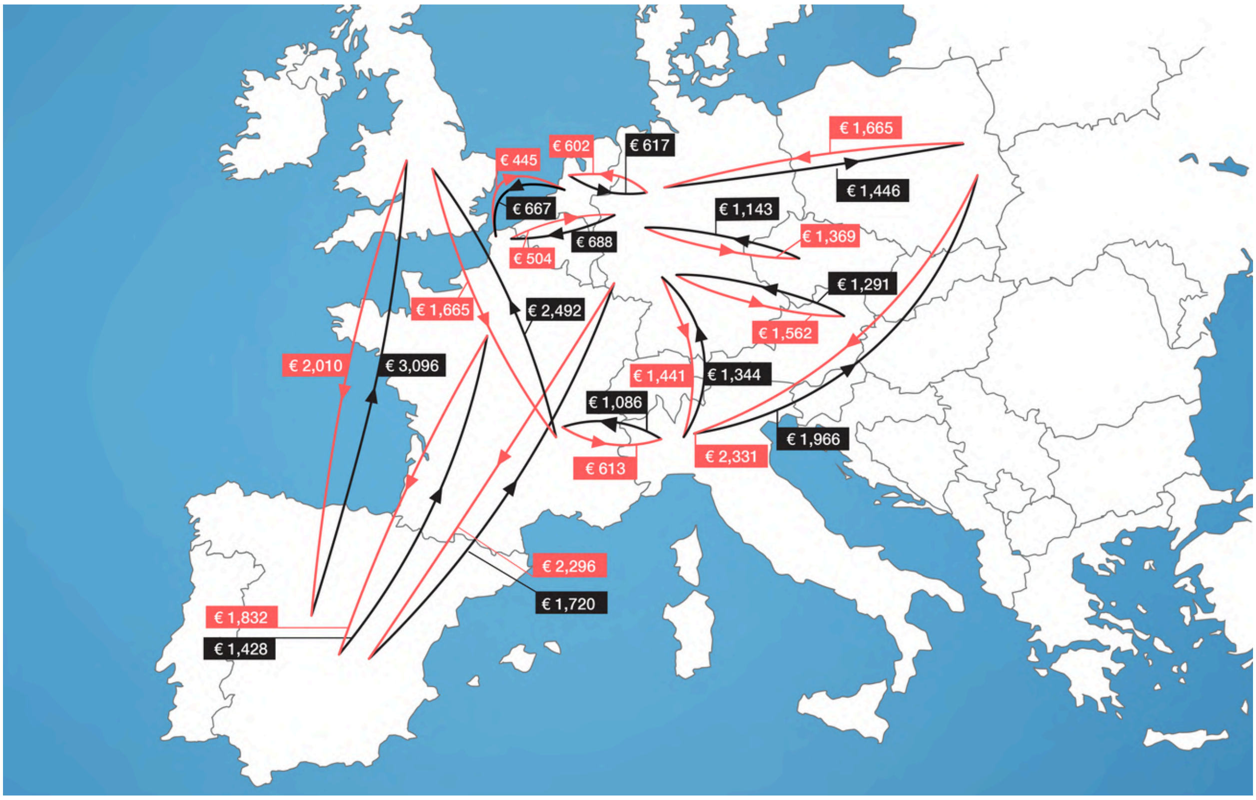
These elevated costs continue to push freight rates higher, despite the downward pressure from lower demand. They prevent rates from dropping to 2021 levels, as carriers must cover their rising expenses even with softer demand conditions. Thus, while spot rates have softened, they remain significantly elevated compared to pre-pandemic times, as the underlying cost structure has shifted upward.

Ti x Upply x IRU European Road Freight Benchmark Map – Q3 2024 Contract Rates



Source: Upply

Ti x Upply x IRU European Road Freight Benchmark Map – Q3 2024 Spot Rates



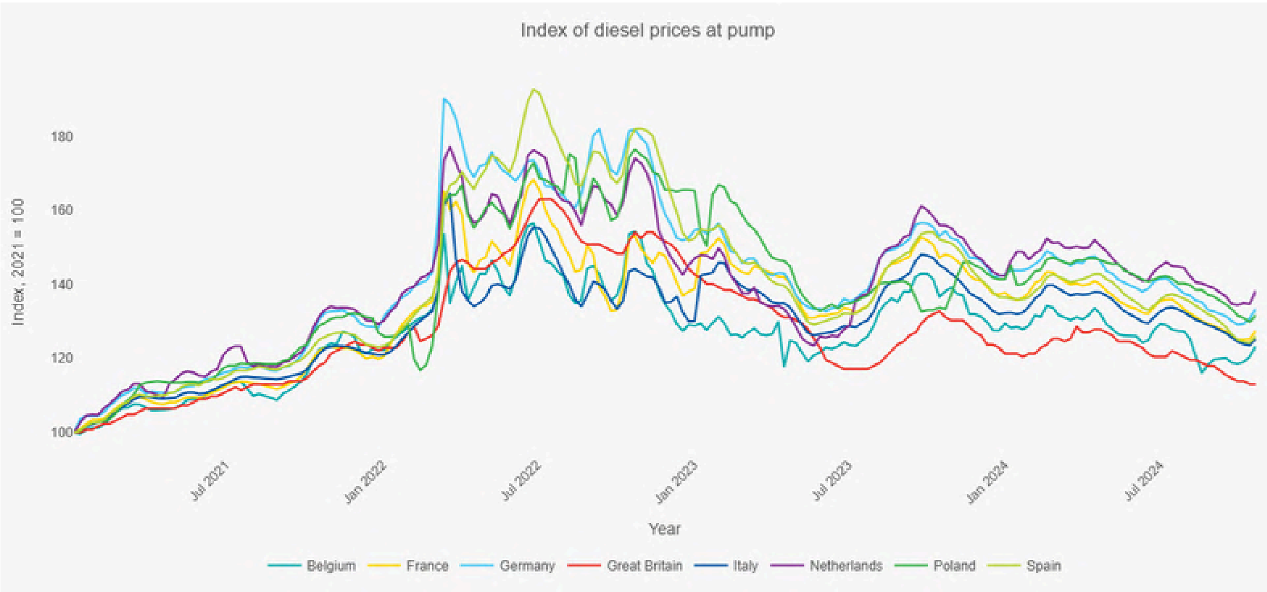
Source: Upply

Operator costs

Fuel prices

- ***Diesel***

Index of diesel prices at pump [1]
EU weighted average diesel price: €1.50/L (30/09/2024)



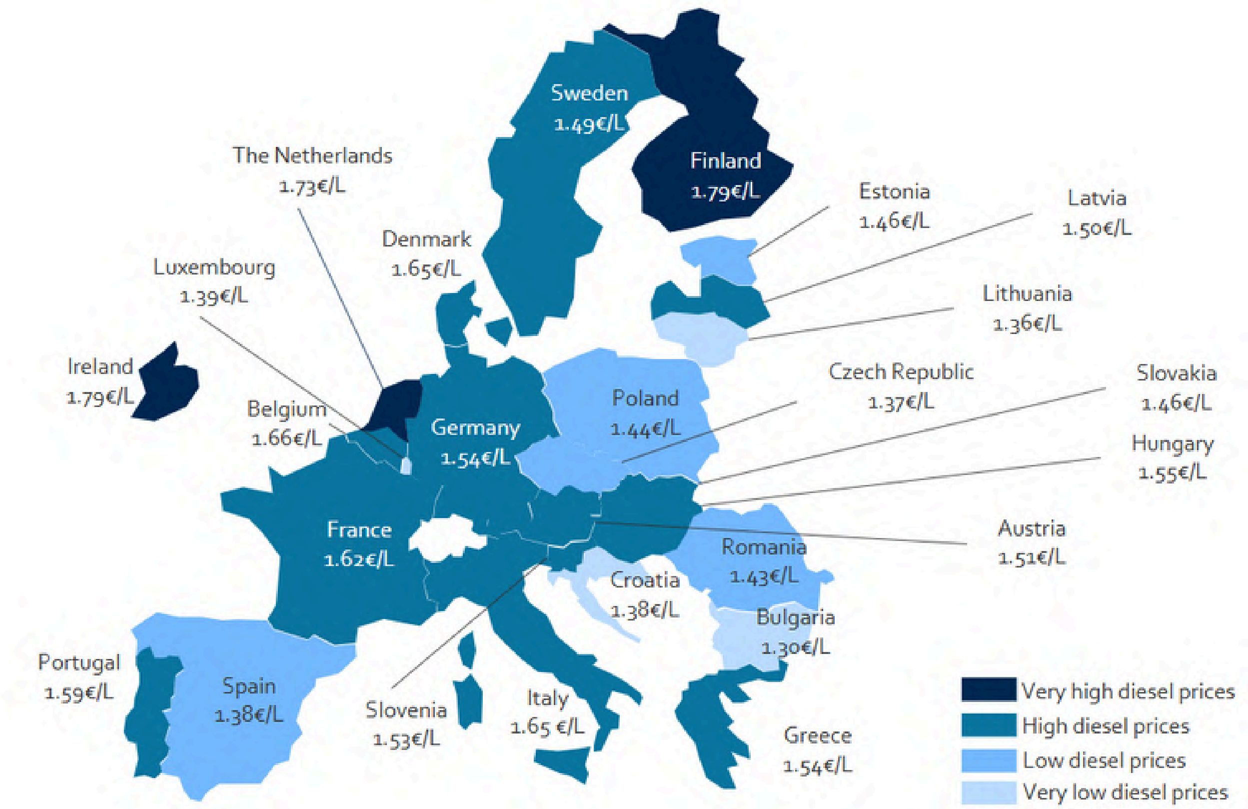
Source: Xavvy, index of average weekly [1] diesel price at pump (including taxes) by country (in local currency)
Index, 2021 = 100

Diesel prices increased between mid-June and early July, driven by rising crude oil prices (due to the extension of voluntary cuts announced by OPEC+ in June) [2]. They were on a downward trajectory until the end of the quarter. The EU weighted average diesel price reached €1.64/L on 8 July, up from €1.59/L on 10 June (+3%), before falling to €1.50/L on 30 September (-8% fall since its peak in July, and the lowest value seem since January 2023). However, in October, fuel prices started to rise again due to the escalation of conflict in the Middle East, raising the possibility of oil supply disruptions and further crude oil price increases.

[1] Access diesel and alternative fuel prices at pump in more than 65 countries with up to 10 years historical data at IRU Intelligence - fuel prices service
[2] 2.2 million b/d voluntary cuts (announced in November 2023 by 8 members of OPEC+), that were set to expire at the end of June 2024 and were extended until September 2024.

The Brent crude oil spot price averaged $74 per barrel (b) in September, down from $80/b in August and $85/b in July. Prices have been falling as concerns over global economic and oil demand (especially in China) outweighed declines in oil inventories and OPEC+ members' decision to delay production increases (which were set to start in October) until December 2024 [3]. After the recent conflict escalation in the Middle East, the Brent spot price rose to $79/b on October 4, up 11% from a week earlier. However, prices started to fall again after 15 October. The key word for oil prices seems to be volatility.

Diesel prices at pump (monthly average, September 2024)



Source: Xavvy

[3] 2.2 million b/d voluntary cuts (announced in November 2023 by 8 members of OPEC+). The group planned to gradually phase them out from October 2024 on a monthly basis until the end of September 2025, but the phase out remained subject to market conditions.

- ***CNG and LNG prices***

Diesel powertrains currently account for 99% of trucks in the EU. However, the transition to net-zero emissions has sparked interest in alternative powertrains such as compressed natural gas (CNG), liquefied natural gas (LNG), electric and hydrotreated vegetable oil (HVO). In 2023, about 56,000 trucks used alternatives to diesel, with Poland, Italy and Spain advancing significantly in the adoption of liquefied petroleum gas (LPG), CNG and LNG, respectively.

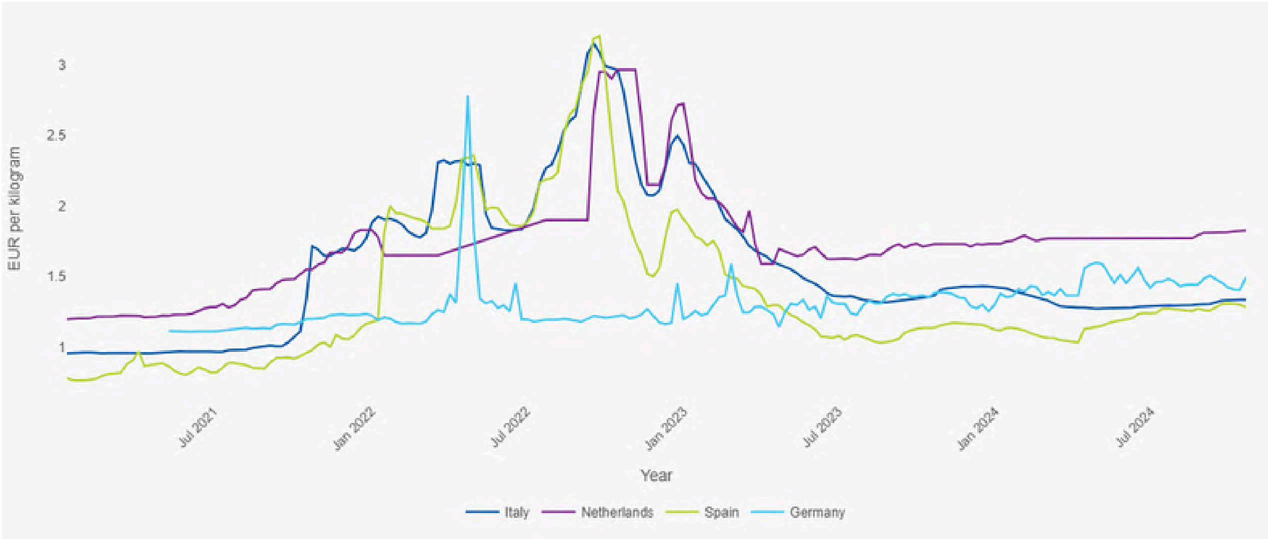
CNG and LNG are derivatives of natural gas. In CNG and LNG trucks, mechanical energy is generated through the combustion of methane, which is stored in compressed form (CNG) or liquefied form (LNG).

- CNG is the second most used fuel choice among road transport operators in the EU. With engine power and torque levels comparable to diesel engines since 2013/2014, CNG-fuelled vehicles have been growing in popularity. Although there was a slowdown in CNG-fuelled vehicle registrations in 2021 and 2022, it soared back in 2023, regaining a momentum comparable to electric trucks. The sharp increase in CNG trucks in 2023 could be associated with the implementation of the Eurovignette Directive in countries like Germany and Austria, which applied a lower toll rate to CNG vehicles than to diesel ones.

- LNG is natural gas cooled to a liquid state through a liquefaction process. Stored at -162°C, LNG has a higher energy density, allowing tractor units to have a greater operational range.

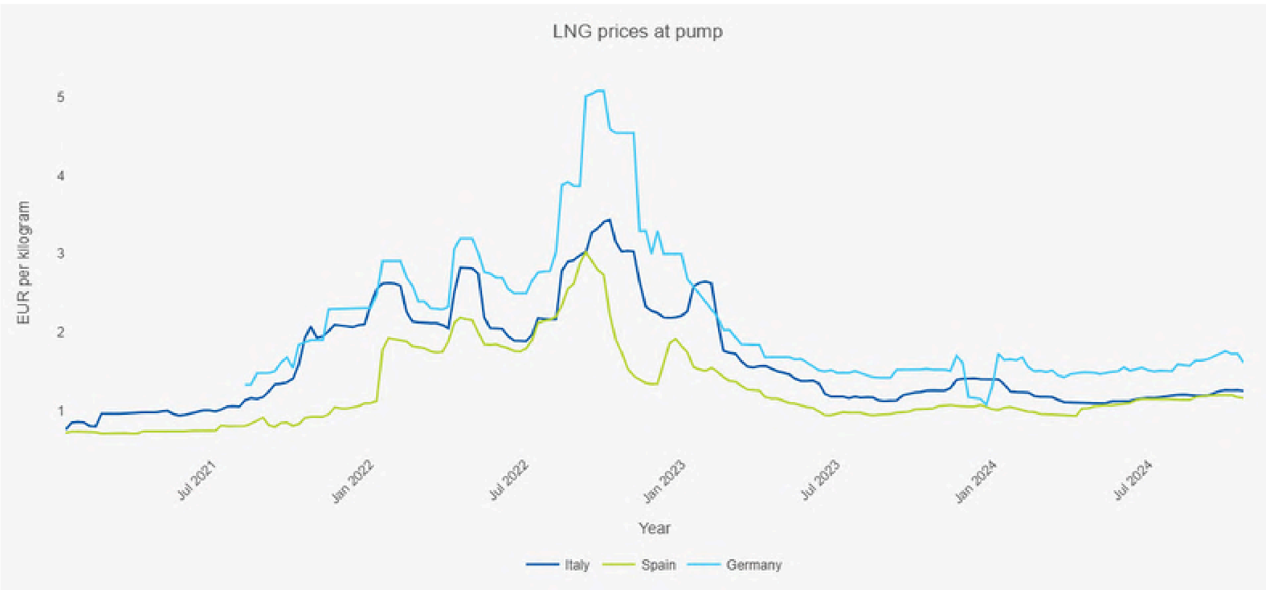
Local natural gas production in the EU has been declining over the last decade, highlighting the EU's reliance on imports. The geopolitical landscape, particularly the war in Ukraine, has impacted natural gas imports and affected CNG and LNG pricing, which soared in 2022. LNG experienced sharper spikes, especially in Germany and Italy. Although prices for both fuels have since decreased, they remain higher than pre-2022 levels. LNG has shown more stability in recent years but is still costlier than CNG in most markets. CNG and LNG prices are currently facing an upward trend, which will also be influenced by future taxation linked to the EU emissions trading system (ETS2).

CNG prices at pump



Source: Xavvy, average weekly CNG price at pump (including taxes)

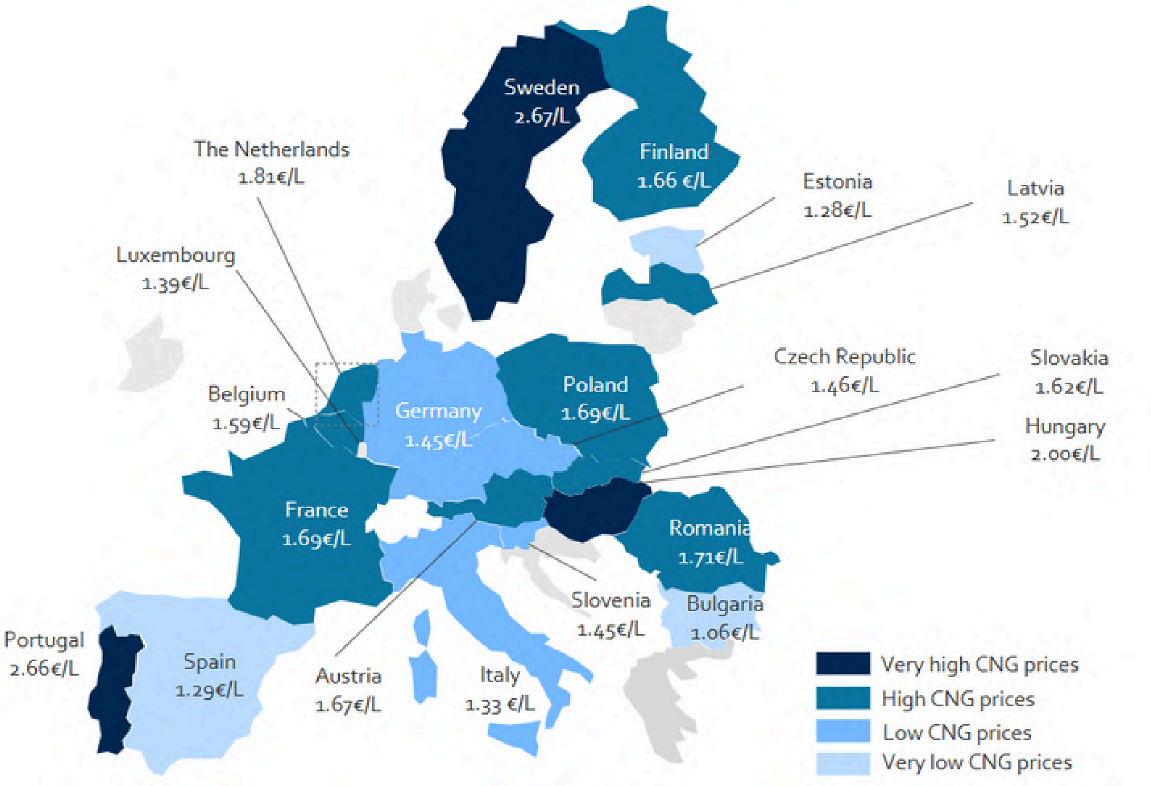
LNG prices at pump



Source: Xavvy, average weekly LNG price at pump (including taxes)

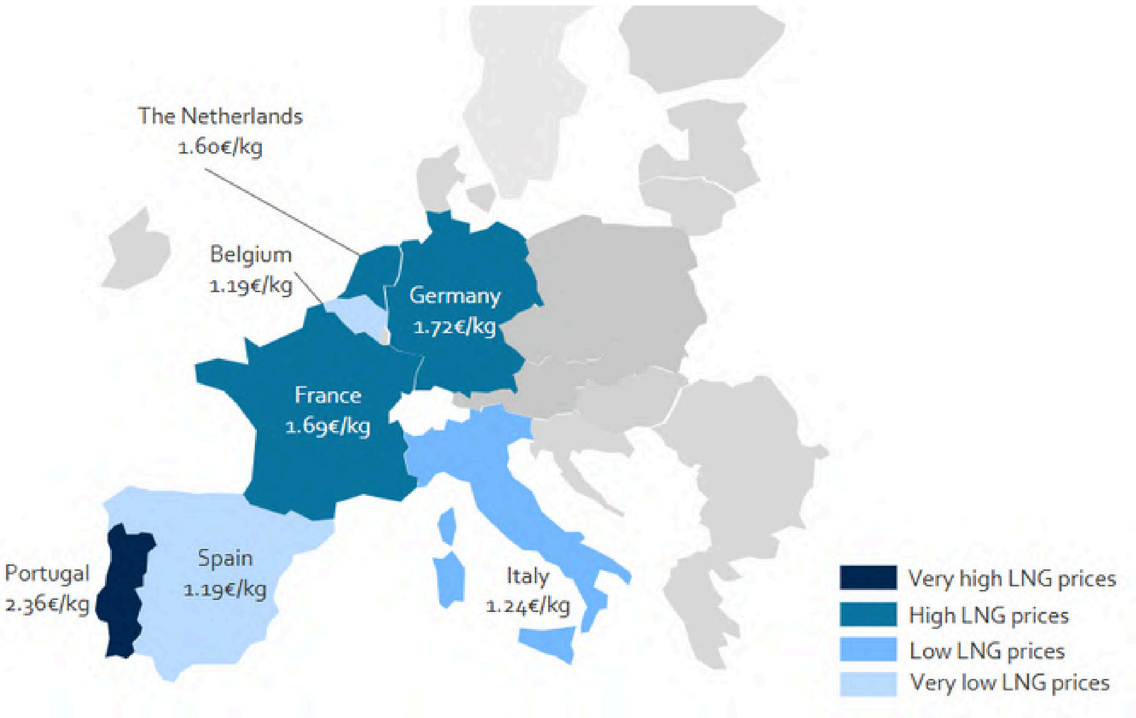
CNG and LNG prices, influenced by raw material costs, distribution and taxes, show significant national disparities. In 2023, Spain and Italy where among the countries with the lowest CNG prices (which explains the popularity of CNG trucks in both countries), while Sweden had the highest due to higher taxes.

CNG prices at pump (monthly average, September 2024) [4]



Source: Xavvy, including taxes

LNG prices at pump (monthly average, September 2024) [5]



Source: Xavvy, including taxes

[4] & [5] Access diesel and alternative fuel prices at pump in more than 65 countries with up to 10 years historical data at IRU Intelligence - fuel prices service

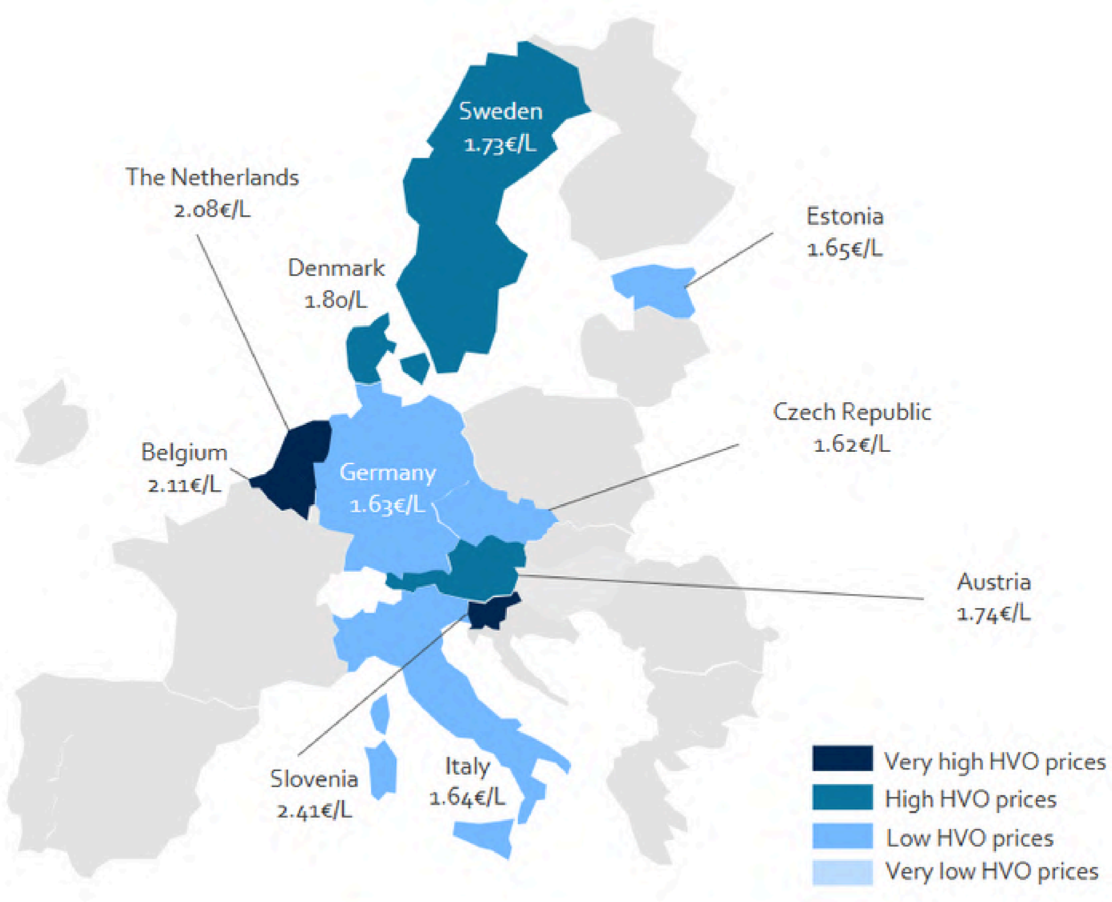
- ***HVO prices***

HVO, also referred to as renewable diesel, is a biofuel made from waste products such as cooking oil, animal fat, tallow, fish oils and technical corn oil. It is considered an alternative fuel because, on a well-to-wheel accounting basis, it emits about 0.52 kgCO2 per litre, on average, in the EU, which is 85% less than diesel.

The advantages of HVO, compared with diesel, include less tailpipe pollutants (better trade-off between particulate matters and nitrogen oxides) and compatibility with a modern diesel engine. However, its disadvantages include a higher price and more limited availability. Not all EU countries allow the distribution of HVO at public refuelling stations (Cyprus, Greece, Hungary, Latvia, Lithuania, Luxembourg, Malta, Portugal and Slovenia do not have public HVO refuelling stations.) There are also disparities in the density of HVO refuelling stations within the EU. The Netherlands has the greatest density, while France and Romania have the lowest density of HVO refuelling stations, with five and two public stations distributing HVO, respectively. However, the situation is evolving rapidly, as the number of stations tripled between March and July 2024.

The next map shows the price for HVO at the pump. In general, HVO is between €0.10/L to €0.50/L more expensive than diesel, except in Italy where HVO is €0.01/L cheaper due to government subsidies.

HVO prices at pump (monthly average, September 2024) [6]



Source: Xavvy, including taxes and subsidies

[6] Access diesel and alternative fuel prices at pump in more than 65 countries with up to 10 years historical data at IRU Intelligence - fuel prices service

Other developments impacting costs

In 2020, EU legislators adopted the most comprehensive road transport social and market access rules package. Soon after, several Member States contested key rules, including provisions related to the posting of drivers, driving and rest time rules and market access. In early October, the Court of the European Union broadly confirmed the validity of the Mobility Package 1, but it annulled the rule on the return of the vehicle, because “the EU legislature has not established that it had sufficient information to enable it to assess the proportionality of that measure”. The rule, which requires vehicles to return to the operational centre of the transport undertaking every eight weeks, was one of the elements of the package that had a greater impact on operators’ costs.

While the cancellation is clear and subsequently removes the legal basis for all sanctions which have been applied to transport operators for the breach of this provision, the ground for cancellation makes it uncertain if the EU may go ahead with a new attempt to regulate.

According to Eurostat data, there was a 6% decline in the EU cabotage penetration rate [7] between 2020 and 2023. IRU will monitor to see if there is a change in this trend after the cancellation of this rule (even if the limitation on cabotage operations and the cooling-off period of the vehicle after cabotage operations are still applicable [8].

[7] Ratio of total cabotage road freight transport volume (performed by foreign fleet) divided by the sum of total road freight transport for hire and reward (performed by national fleet) plus cabotage freight transport volume (performed by foreign fleet).

[8] Limitation on cabotage operations: A haulier can perform up to three cabotage operations within seven days following an international delivery. This means that after delivering goods internationally, the haulier can carry out three domestic transport operations in the host country within a week. Cooling-off Period: After completing the allowed cabotage operations, the same vehicle cannot perform cabotage in the same country for four days.

Outlook

Demand side and rates

In Mckinsey's latest quarterly European consumer sentiment report, consumer optimism in Europe saw a slight increase in Q3, driven by improved perceptions of the economic and geopolitical environment. The tourism sector experienced a strong rebound over the past several months, contributing to economic growth and offering some protection against broader uncertainties. However, as Q4 approaches, consumers remain cautious. If inflation continues its gradual decline, consumers in Europe could see a modest rise in purchasing power, potentially leading to stable spending levels.

According to Eurostat, with prolonged weakness in the manufacturing sector leaving many plants operating below normal capacity utilisation rates, equipment investment is expected to expand only marginally for the rest of 2024, before accelerating in 2025.

The result is a freight market where cost structures are keeping rates elevated even in a period of softer demand. Indeed, the inflation of the last two years has left its mark: the cost base of transport operators has shifted upwards and remains elevated. We expect continual upwards pressure on rates, because even if weak demand were to push in the opposite direction, too sharp a fall in prices would threaten the viability of transport companies.

Supply side

- ***Fuel costs***

According to EIA forecasts, despite recent conflict escalation in the Middle East, crude oil prices will only rise modestly in the coming months.

- On the one hand, global oil inventories are expected to continue declining, as oil production will remain below consumption due to OPEC+ production cuts. Global oil inventories decreased by an estimated 0.8 million b/d in Q3 2024 and are expected to decrease by 0.6 million b/d in Q4 2024 and Q1 2025, due to extended OPEC+ production cuts. As a result, oil prices are expected to reach an average of $77/b in December 2024, up from $74/b in September, $78/b in the first quarter of 2025 (Q1 2025) and $79 per barrel in the first half of 2025 (H1 2025) [9].
- The potential for further escalation in the Middle East has injected significant uncertainty and volatility into oil markets in recent days. However, there has not been any oil supply disruptions so far, and even if there were, there is a significant surplus of crude oil production capacity available which could cover any potential.

Markets will return to moderate inventory builds and thus decreasing oil prices in H2 2025, as crude oil production growth from non-OPEC+ countries begin to offset global oil demand growth, and OPEC+ voluntary production cuts expire.

In addition to the escalation of the conflict in the Middle East, other uncertainties remain.

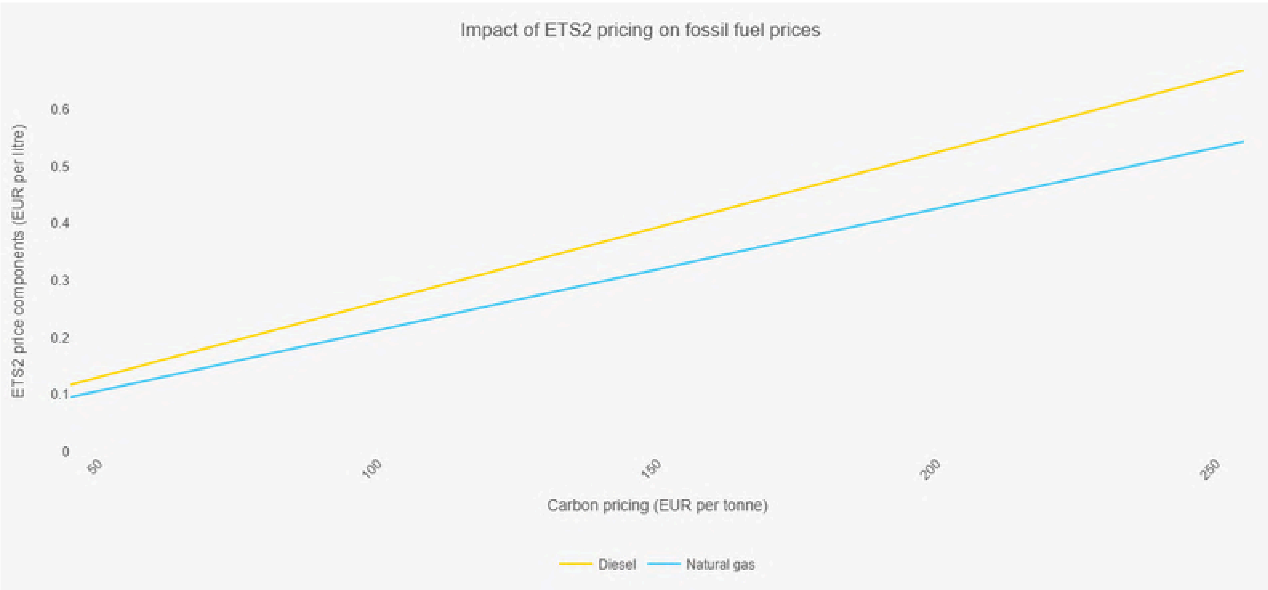
- Recent production outages in Libya add a new source of uncertainty for crude oil prices in the coming months. As of early October, the cause of the disruption appears to have come to a resolution, but production in the country can be volatile.
- Existing uncertainties driven by attacks on commercial ships along the Red Sea shipping channel persist. Shipping operations through the channel, including many oil shipments, have been suspended, increasing transit times and shipping costs for oil, and limiting the flexibility of the oil market to adjust to any future supply disruptions.

[9] International Energy Agency (EIA), Oil Market Report – October 2024

- Additionally, OPEC+ members could continue to delay the phasing out of voluntary cuts (now set to start from January 2025).

The European Commission has recently implemented several regulations and directives to guide industries towards achieving carbon neutrality by 2050: CO2 standards for new vehicles, the Eurovignette Directive for toll taxes, CountEmissionsEU for CO2 reporting, and Euro 7 for pollutant emissions. Most of these regulations will impact vehicles' total cost of ownership [10], but they will not directly affect fuel prices at the pump. However, with the integration of road transport (private cars and commercial vehicles) into ETS2 by 2027, an increase in fossil fuel prices based on their carbon content is anticipated. In the long run, this also means less demand for diesel powertrains.

Based on the tank-to-wheel approach, burning one litre of diesel emits 2.62kg of CO2, while one kilogram of natural gas, either LNG or CNG, emits 2.31kg of CO2. Integrating road transport into ETS2 means that the carbon content of fossil fuels used by trucks will have a price set by a carbon exchange market, starting at a minimum of €45 per tonne of CO2, with no maximum value. HVO is not expected to be affected by such taxation and is thus expected to become more competitive pricewise. The graph below shows the link between carbon pricing and fossil fuel taxation for diesel and natural gas, excluding additional value-added taxes that EU countries might apply.



Source: IRU

[10] IRU Intelligence briefing Alternative vs traditional truck powertrains in the EU: Total Cost of Ownership 2024 compares different alternative powertrain solutions for trucks to traditional powertrains in the EU, both in terms of total cost of ownership (TCO) and CO2 emissions.

- ***Tolling costs***

The implementation of Directive (EU) 2022/362 amending the Eurovignette Directive is still underway. Sweden, Denmark and the Netherlands have recently shared their implementation plan:

- For Denmark, trucks with a gross combined weight (GCW) greater than 12 tonnes will be subject to the new CO2 component first, while trucks of 3.5 tonnes and above as of 1 January 2027. As of 1 January 2025, the toll applies to the main part of the state road network, and parts of the municipal road network (in total approximately 10,900km). It is the intention of the Danish government that the road toll will apply to the entire Danish public road network as of 1 January 2028 (approximately 75,000km). Low-emission zones where trucks will pay a greater CO2 component are being set in Copenhagen, Frederiksberg, Odense, Aarhus and Aalborg. This new toll will be reduced by approximately 19% in 2025-2027, and by approximately 12% in 2028 due to a recent political agreement.

- For the Netherlands, the new rates will also apply to trucks above 12 tonnes in 2025, and others in 2027. Current vignettes purchased before 1 January 2025 will remain valid for the period for which they were purchased. These vignettes will be discontinued as soon as the truck levy is introduced in the Netherlands. This is scheduled to take place in mid-2026.

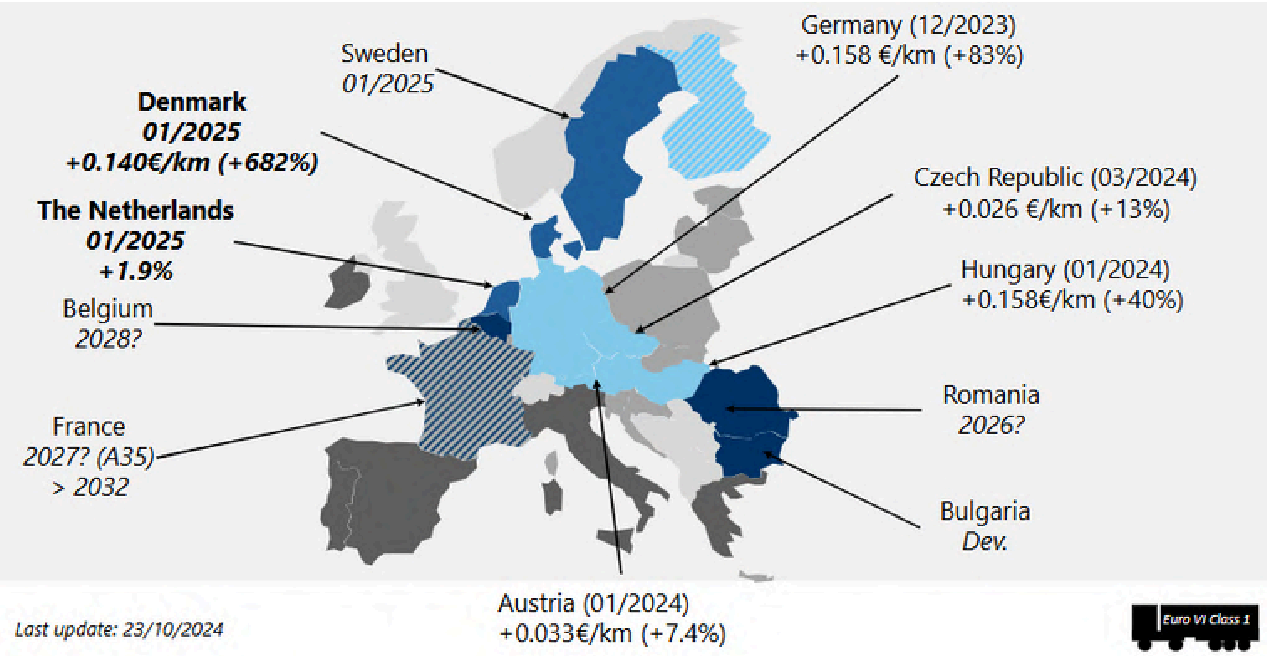
- For Sweden, the new rates will also apply to trucks above 12 tonnes in 2025, and others in 2027. No more information on prices is yet available.

Additionally, in France, the implementation of an Ecotaxe in Alsace, which could be similar to Eurovignette, was voted on 21 October, leading to a potential deployment in 2027. It will target, in particular, the A35 highway, largely used to avoid the LkW-Maut in Germany. For other highways, the implementation of Eurovignette Directive will depend on concessions renewal.

In May 2024, 16 Member States (Belgium, Bulgaria, Croatia, Cyprus, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Slovenia, Slovakia and Spain) received a formal notice from the EU Commission to move on the implementation of the Eurovignette Directive in their countries. Changes might then come soon for these countries.

What is the updated of CO2 toll implementation across Europe?

Tolling increases by country for a Euro VI Class 1 truck



Does not apply truck tolls

Implemented

Implementation plan shared

Discussions on-going but no concrete implementation plan yet

Partly implemented

Existing concessions exempt until renewed or substantially amended

Discussions on implementation of new tolling obligations not yet started

Source: IRU [11]
Last update: 23/10/2024

- ***Other developments impacting costs***

As part of Mobility Package 1, transport operators have the obligation to retrofit all vehicles registered in the EU and intended for cross-border operations with the Smart Tachograph Version 2 (G2V2). Depending on the current type of tachograph installed in the vehicle, there are two applicable deadlines:

- Deadline 1 – replace the analogue and digital tachograph (G1) by 31 December 2024
- Deadline 2 – replace the first generation of the smart tachograph (G2V1) by 19 August 2025

[11] Download CO2 tolling implementation map on IRU website

However, there have been material delays impeding the retrofitting process:

- The retrofitting process for vehicles in circulation could not start before early 2024 due to a massive delay in the supply of G2V2 devices (theoretically it could have started in August 2023 when the G2V2 became mandatory for newly registered commercial vehicles)

- The short lead time given to tachograph and vehicle manufacturers to test and produce the new tachograph caused technological complexities. For example:

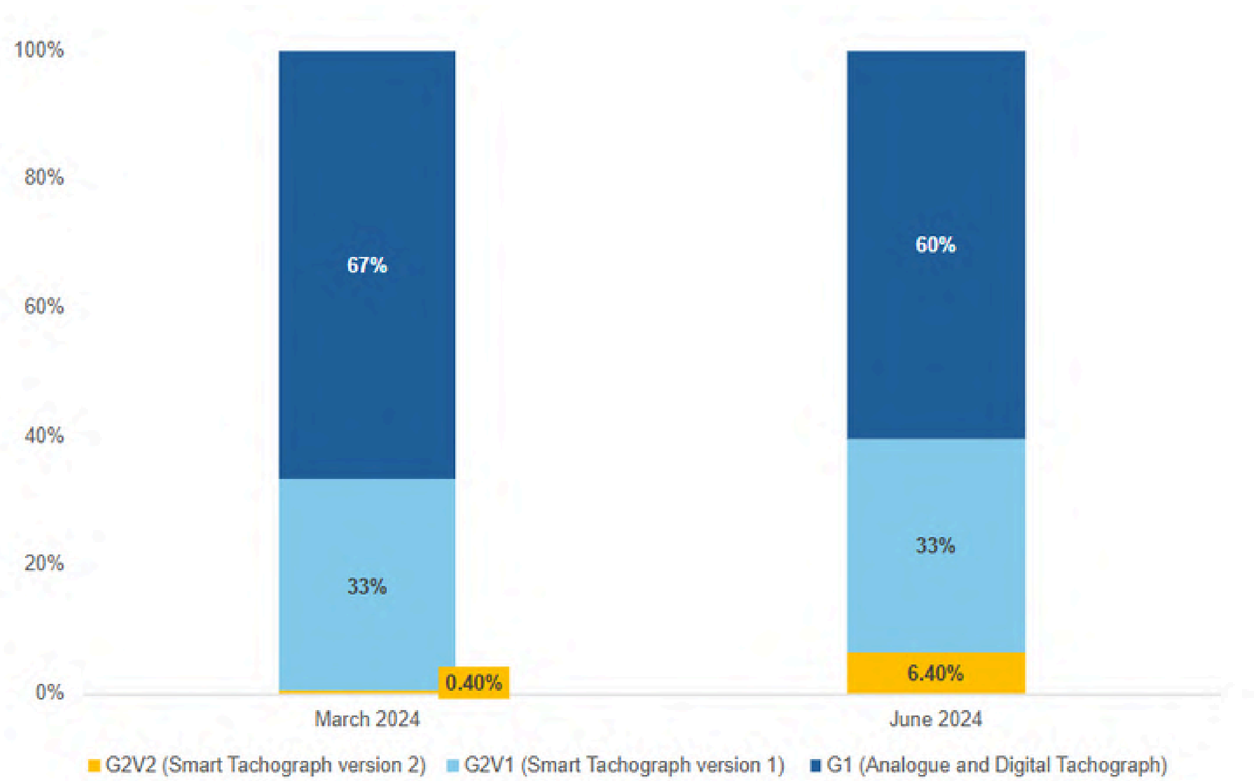
  → Even the G2V2 devices that are currently being installed are a transitional version, generating uncertainty among transport operators and a general distrust regarding the reliability and hidden costs of future upgrades.
  → In addition, there have been numerous cases of G2V2 devices malfunctioning, causing vehicles to return to workshops and spend several days out of operation. This has further fueled the lack of trust and discouraged timely retrofitting planning.

- Although G2V2 became largely available in 2024, IRU members in several EU member States reported a lack of workshops to carry out the retrofitting.

Based on IRU's survey of transport operators, in March 2024, out of the 3-3.5 million vehicles to be retrofitted (including trucks and buses; we estimate around 90% are trucks), only 0.4% EU vehicles were already retrofitted with a G2V2 tachograph, while around two thirds still had a G1 tachograph (due to be retrofitted by end of the year), and one third a G2V1 (to be retrofitted by August 2025). Three months later (in June), the share of vehicles retrofitted had increased to 6.4%, while there were still around 60% G1 vehicles and 33% G2V1 vehicles to be retrofitted. In March 2024, there was already enough supply of G2V2 devices, meaning this was not the cause for the slow pace observed for retrofitting (six percentage points in three months). This means that even if the retrofitting pace strongly accelerates compared to what was observed from March to June, a significant share of vehicles with G1 devices will be in violation of the law because they are equipped with tachographs that fall under the first deadline.

Even the second deadline could be hard to meet: 93.6% of tachographs were yet to be retrofitted by June, even if the pace of retrofitting triples (6% per month), around 10% of vehicles could still be equipped with a G2V1 tachograph, putting them in breach of the law if they continue to perform cross-border operations.

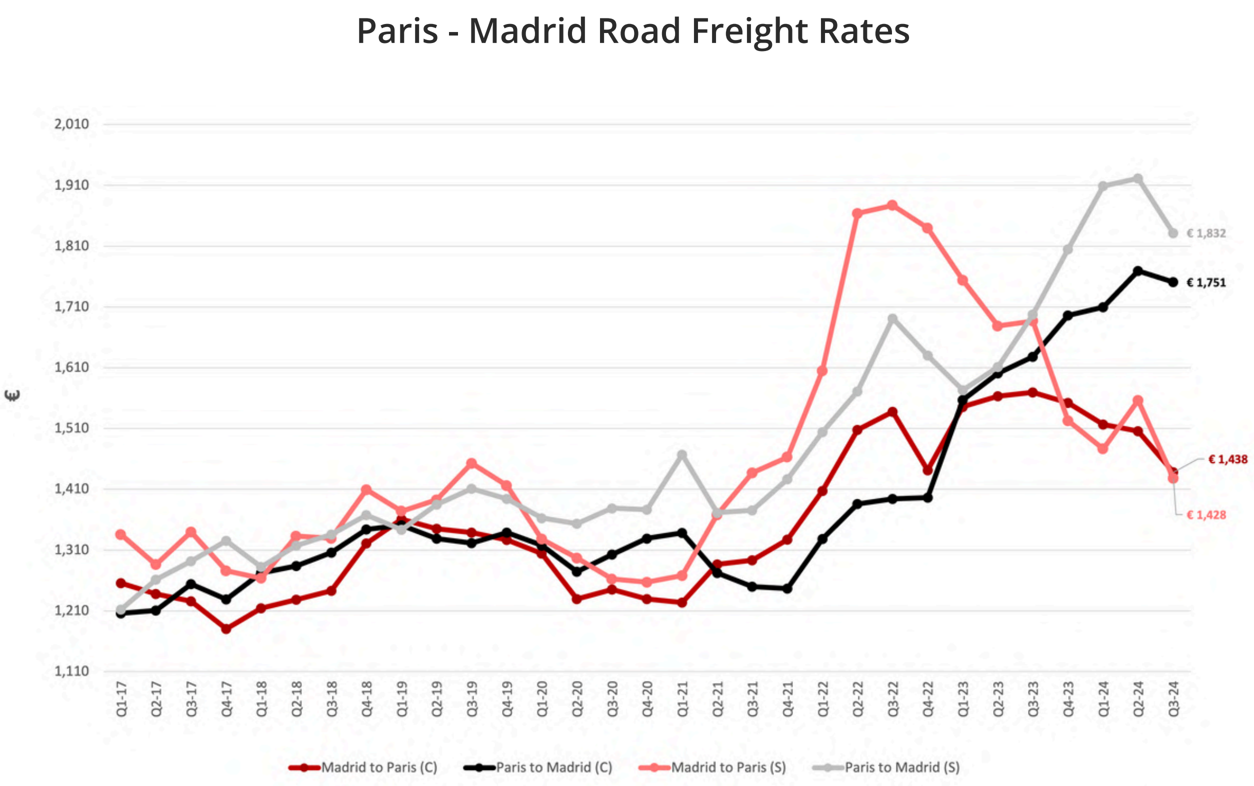
Vehicles to be retrofitted by type of tachograph



Source: IRU survey of transport operators

Regarding the geographical scope of the issue, national road freight transport associations from most of EU Member States have reported delays, while members from Germany, the Netherlands and Nordic states have not reported any issues. As a result, even with the best possible resolve, efforts and mobilisation, thousands of vehicles currently performing cross-border movements in the EU could be in breach of the law if they continue such operations after the first deadline. Assuming that these transport operators will stop their cross-border activities until they have retrofitted their tachographs, a significant market capacity issue can be foreseen, and it would be difficult to imagine that the retrofitted fleet could manage the EU's operational demand.

Spain - France



Source: Upply

Rates

On the headhaul from Madrid to Paris, contract rates fell 4.4% to € 1,438 (€1.13/km), vs Q2, in comparison, spot rates have declined by almost twice as much, decreasing -8.2% to €1,428 (€1.13/km). Compared to the same period last year, both contract and spot fell significantly, by -8.4% and -15.3%, respectively. Spot rates are now -0.7% below contract rates.

On the backhaul from Paris to Madrid, spot rates remain 4.7% above contract rates. Contract rates fell slightly by 1.0% vs last quarter to €1,751(€1.38/km). Spot rates have had a sharper fall of 4.7%, currently standing at €1,832 (€1.44/km).

Compared to the same period last year, both spot and contract have increased in a similar magnitude, by 7.5% and 7.9%, respectively.

Market story

According to McKinsey's survey on European consumer sentiment, pessimism among French consumers rose by 5 percentage points to 28 percent, despite the country hosting the Olympic Games. This increase in pessimism perhaps correlate to the political concerns because of the elections held at the beginning of July.

Despite inflation in France falling by 1.2% in September compared with the previous month (+1.1% year on year), compared with an increase of 4.9% in 2023 vs 2022, according to INSEE, recovery in the retail sector remains slow and disappointing. Consumption accounts for half of France's economic activity. In August 2024, French household food consumption grew by 0.8%, up from 0.2% in July, driven by increased purchases across most agri-food products. Tobacco consumption also saw an uptick. However, household spending on engineered goods continued to decline, falling 0.4% after a 0.3% drop in July. Spending on clothes increased slightly by 1.4%. Spending on durable goods fell by 1.5%, particularly in electronics, furniture and appliances worsened, with a 4.2% drop in the capital goods category. As French spending remains below par, we can see that reflected in the low spot rates on this lane.

Spanish consumers on the other hand were more optimistic. Statistics published by the INE show that retail sales increased 2.3% year on year (y-o-y) in August 2024, the highest growth since December 2023. Non-food products were the top category, particularly household goods, which were up 3.9%. Month on month (m-o-m), retail sales increased 0.4% in August vs 0.5% in July. Spain also enjoyed a very dynamic tourist season in 2024, surpassing almost all its historical records. More than ever, tourism is a key driver for the Spanish economy.

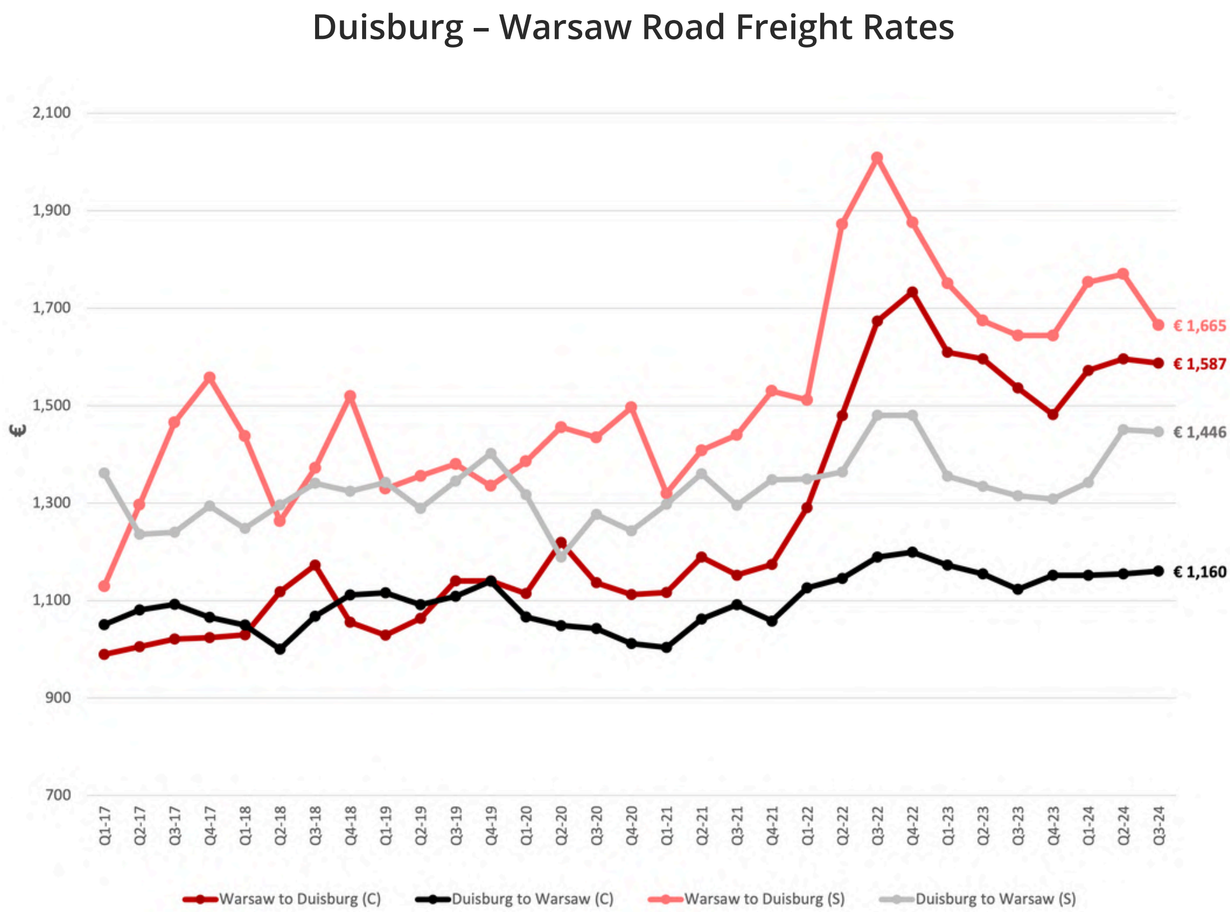
However, rates are dropping on a quarterly basis. This can be attributed to short-term weak demand, especially on the French side, in addition to rising available capacity due to Spanish carriers, but also to the fall in fuel prices, especially at the end of the quarter. Costs have had a notable increase on both legs of this route. The average annual rate of change in Q3 for insurance was an 8.6% increase in France, and a 10% increase in Spain, in addition to the cost of maintaining and repairing vehicles rising 5.6% in France and 4.0% in Spain. Tyre prices have increased the least, down 1% in France and up 2% in Spain.

As costs have risen, we can account for the y-o-y rise in contract rates on this route. Spot rates into Madrid have also increased significantly compared to the same period last year, reflective of the strong Spanish consumer sentiment and the buoyancy of the 2024 tourist season. The q-o-q fall in contract rates on the Madrid to Paris leg reflects the decline in business confidence in consumer demand, as spending remains weak. Consumer confidence in Europe as a whole is recovering but remains below par.

Outlook

In the long term, we expect that contract demand on this route's headhaul will rise. Rises in the costs noted above are likely to translate into rising contract prices, such rises are likely to be further supported by increasing demand, especially from new sectors like electric vehicles (EVs). Spain has actively subsidised and scaled up its EV industry in 2024. The Spanish Ministry of Industry has promised Stellantis subsidies totalling €133M for a potential battery cell factory at the Figueruelas plant near Zaragoza. The project would be Stellantis' fourth European battery gigafactory. Spain is home to Stellantis' three vehicle plants, and it is a leading candidate for the new site. Meanwhile, Volkswagen has already begun constructing a battery cell factory near Valencia, with approval granted in spring 2023. Ti therefore expects this sector to be a key future demand driver for Spanish road freight, putting upward pressure on rates in the long term.

Poland - Germany



Source: Upply

Rate

On the headhaul towards Duisburg, the spot rate fell 5.9% q-o-q to €1,665 (€1.54/km), an increase of 1.3% y-o-y. Contract prices fell a more modest 0.5% to €1,587 (€1.47/km), an increase of 3.3% y-o-y. The two markets are getting closer; spot rates on the headhaul are now 4.9% more expensive than contract rates. This gap is down from 10.9% last quarter, the result of falling demand pressure on spot rates but a high cost base keeping contract rates elevated.

On the backhaul, spot rates fell 0.3% q-o-q to €1,446 (€1.33/km); however, they remain up 10.0% y-o-y. The contract price rose 0.5% q-o-q to €1,160 (€1.07/km) and is up 3.3% y-o-y.

Market Story

German manufacturing activity is still on a downwards path. Cautious optimism has faded as German manufacturing continues to contract rather than enter a season of stagnation. According to available Q3 2024 Destatis data, total German manufacturing fell 5.0% q-o-q, a significant worsening from the 0.2% drop seen last quarter. This has been driven by a 7.0% and 7.3% drop in the production of capital and durable goods, respectively. This is resulting in reduced demand for road freight used for intermediate goods from Poland into German factories. The executives at major German manufacturer Continental cited continued weak European demand and now slower-than-expected Chinese growth as the reason for a lowered sales outlook in 2024. Overall, expectations remain weak, with Franziska Palmas, senior Europe economist at Capital Economics, stating, "Weakness in German industry is one of the main reasons why we expect that the German economy will broadly stagnate in the rest of this year".

Falling demand from production is freeing up more capacity on this lane, resulting in more competition among transport operators, which is driving prices down further.

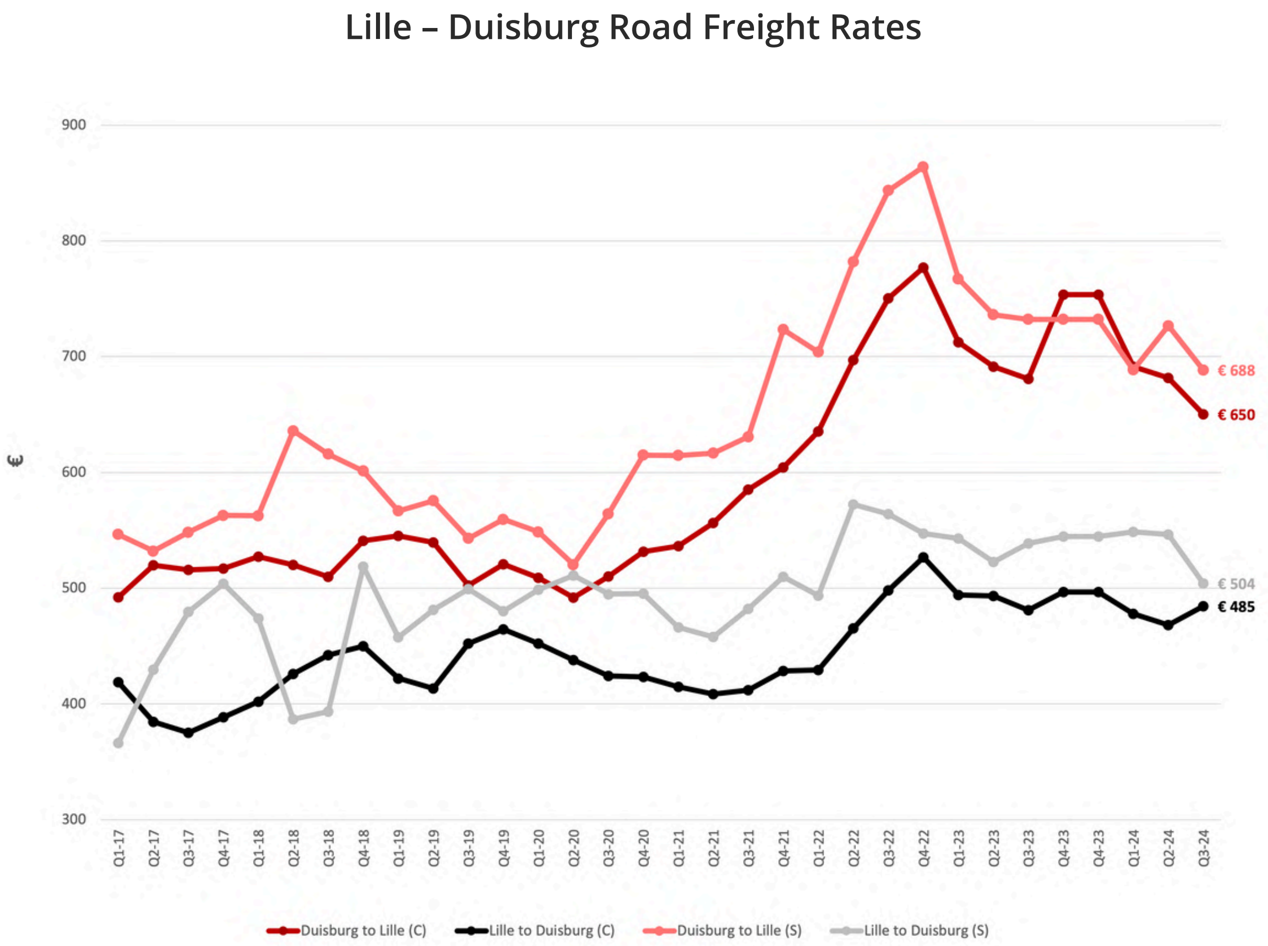
Rates into Poland remain stable due to consumption growth and robust economic growth. Available Q3 2024 data shows a 3.3% q-o-q increase in the volume of retail goods sold in Poland, and the country was the fastest-growing economy (+4.0%) in the EU in Q2 2024. The result is that demand pressure remains high on lanes heading into Poland; however, increases remain light as German manufacturing woes have a knock-on effect in Poland, with Polish manufacturing contracting for the 28th consecutive month.

Outlook

Looking to the future, demand on this lane is set to remain low. Total new manufacturing orders in Germany increased 3.0% q-o-q and 1.0% y-o-y. However, this is largely due to the automotive sector, which remains down considerably compared to previous years, and orders for other durable goods (-9.4%) and consumer goods (-5.9%) continue to fall.

The outlook for rates on these lanes is due to falling demand-side pressure on the headhaul into Duisburg, driven by declining manufacturing volumes. However, the Polish economy is growing well and increasing its demand for goods, but knock-on effects of German industrial decline are causing backhaul rates to suffer. However high costs are squeezing margins; therefore, the scope for future price reductions continues to narrow.

France – Germany



Source: Upply

Rates

On the headhaul towards Lille, spot prices fell 5.3% q-o-q to €688 (€2.28/km) and are now down 6.0% y-o-y. Contract rates on the headhaul fell 4.6% q-o-q to €650 (€2.15/km), now down 4.5% y-o-y.

On the backhaul towards Duisburg, spot prices fell to €504 (€1.67/km) following a 7.7% q-o-q drop, taking them down 6.4% y-o-y. The contract rates to Duisburg are the only prices that rose, increasing 3.5% q-o-q to €485 (€1.60/km), which puts them up 0.7% y-o-y. This results in a significant convergence between the two markets; spot prices on the backhaul are now just 4.1% more expensive than contract rates, down from 16.7% last quarter.

Falling demand for road freight on this lane is resulting in some of the lowest prices in over two years. On the headhaul, contract prices reached their lowest point in 2.5 years, while spot prices are the lowest they've been for three years.

Market Story

Falling industrial activity is the leading cause of falling rates on both sides of this lane as reduced industrial output decreases the demand for road freight to transport intermediate, capital and finished goods between Europe's two largest economies. In both France and Germany, the production of transport equipment was the biggest contributor to their industrial output decline. Available Q3 2024 data from Insee shows output falling 1.3% q-o-q and now down a significant 7.1% y-o-y in France. Notable volumes remain up 7.0% compared to 2021, which suggests that reduced supply disruptions facilitated a temporary recovery in the automotive market; however, weakened consumer spending power meant that international demand was unable to sustain these higher activity levels once order books had been worked down.

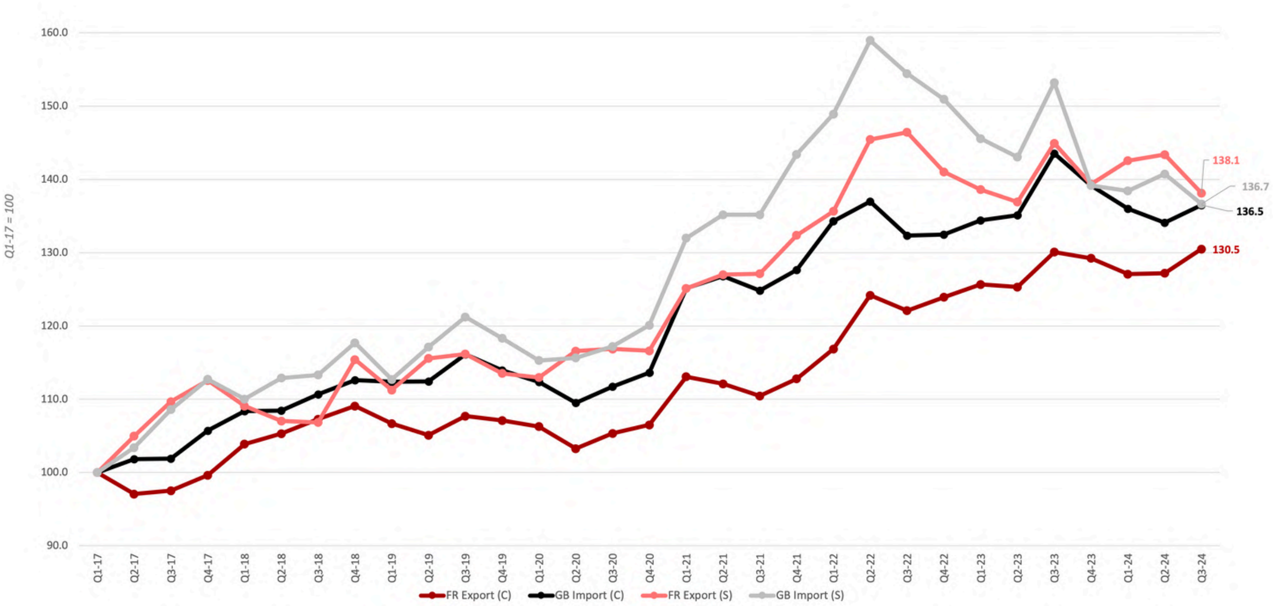
Industrial woes appear to be spreading across Europe as wider French manufacturing struggles to sustain any significant growth in a weakened global demand environment. S&P Global's seasonally adjusted PMI shows an accelerated deterioration in the health of French manufacturing as they struggle with rising producer prices (which have cooled only slightly from an 18-month high in July 2024) coupled with supplier delays as a result of the Red Sea crisis. This, in turn, is impacting the outlook for road prices.

Outlook

The outlook for road prices on this lane is further rate falls as the closely intertwined production sectors of France and Germany both struggle in the face of elevated costs and low global demand, and the automotive sector, in particular, is in crisis. Consumption in both countries also remains rather stagnant, but improved peak demand from consumers freed from inflation could potentially cause some upward pressure in Q4 2024.

France - UK

France - UK imports and exports



Source: Upply

Rates

French export spot rates have decreased 5.2 index points since Q2 2024, dropping to 138.1 points from 143.4 points. Spot rates remain 5.8% higher than contract rates. Contract rates on the other hand increased by 3.3 index points from 127.2 in Q2 to 130.5 in Q3. Compared to the same period last year, contract rates increased by 6.4 points.

UK import spot rates have also decreased by -4.1 points vs Q2 2024, dropping to 136.7 points from 140.7. Spot rates are only 0.1% higher than contract rates. Contract rates on the other hand have slightly increased by 2.4 index points, from 134.1 points to 136.5 points. Year on year, this is an increase of 5.2 index points.

Market Story

In the words of Ken Murphy, Chief Executive of Tesco, “while they’re [UK customers] not doing cartwheels down the hallways, [they] are in reasonably good shape”.

According to the Office for National Statistics, the quantity of goods purchased in the UK rose by 1% between July and August, surpassing economists' forecasts and marking the highest level since July 2022. This was also reflected in retail companies’ results. Tesco, holding 27.8% of the UK grocery market, raised its forecast for annual retail adjusted operating profit to around £2.9bn, slightly up from previous guidance. The company's sales growth was driven by volume rather than price, with a 2.9% increase in like-for-like retail sales, though slightly below analyst expectations.

The HCOB France Manufacturing PMI rose slightly to 44.6 in September, up from 43.9 in August, reaching its highest level since June. However, as the index remains below 50.0, it still indicates contraction in the sector.

From June to August 2024, cumulative output in the manufacturing sector fell by 1.1% compared to the same period the previous year, with a 0.7% drop across the entire industry. In August 2024, manufacturing output saw an increase, largely driven by a 2.8% rise in "other manufacturing industries", particularly in pharmaceutical products, which surged by 22.0%. There was also a notable rebound in transport equipment manufacturing, up 3.3% m-o-m in August compared with July after a 4.7% m-o-m decline in July compared with June. The resurgence in industrial demand is likely to push contract rates higher on the French export front.

In July 2024, the UK saw a significant decline in trade, with goods imports falling by £1.5 billion (3.0%) and goods exports dropping sharply by £3.4 billion (10.8%). The fall in exports, driven largely by reduced chemical exports to both EU and non-EU countries, followed a strong rise in the previous month. While Brexit continues to strain UK trade, the decline hasn't been concentrated solely in EU markets as expected. Instead, UK businesses have maintained their trade with the EU but have not pursued growth, leading to a slow stagnation or decline, a trend described as the "slow puncture" effect.

The overall trade balance has worsened, with the total goods and services trade deficit widening by £5.5 billion to £14.6 billion in the three months to July 2024. This was largely driven by a £5.9 billion increase in the goods trade deficit, which reached £53.5 billion. Meanwhile, the services trade surplus rose slightly by £0.3 billion to £38.9 billion, but this modest growth was not enough to offset the growing goods deficit.

Outlook

The GfK consumer confidence index – a measure of how people view their personal finances and broader economic prospects – fell 7 points to -20, taking it back to January's level, according to new data from the research company. As a result of shaky consumer confidence, demand might decline, therefore increasing a downward pressure on UK import rates, specifically spot rates.

The French Chamber of Great Britain highlights that the end to the free movement of goods has caused border delays, increased paperwork, and uncertainty around regulatory alignment, all of which have impacted France-UK trade. French SMEs, especially in sectors like retail and support services, are feeling the impact the most, as new tariffs and customs procedures after Brexit have added complexity and costs, putting further pressure on profit margins.

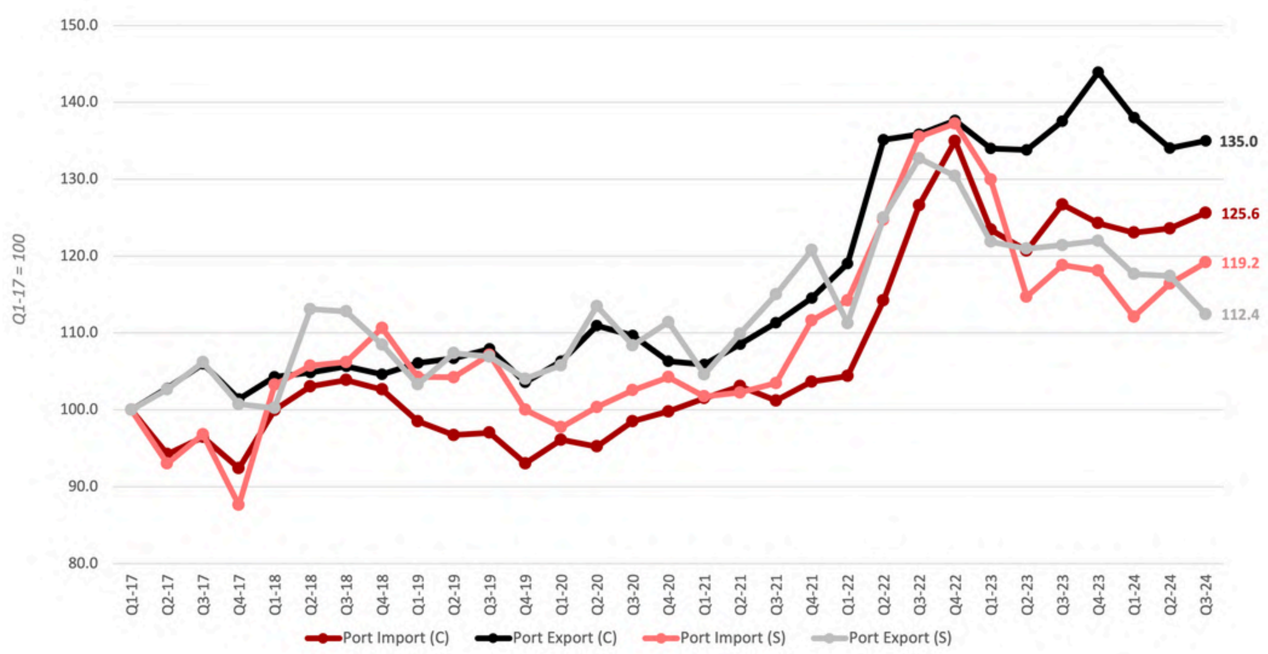
The UK government is postponing EU import checks on meat, dairy and plant products for a seventh time, with the start date now pushed from 1 January 2025 to 1 July 2025. As a result, we can expect a rise in contract rates linked to these additional checks. According to a letter from Environment Minister Sue Hayman, the government is not fully prepared with its border systems and will only implement limited checks on high-risk goods. Meanwhile, EU controls on UK exports have been in place since 2021, creating an uneven playing field that advantages EU exporters to the UK.

This delay is likely to exacerbate administrative burdens on businesses. The additional paperwork and logistical challenges may shift capacity away from this lane, further driving up rates. These combined factors are expected to lead to higher costs for businesses reliant on EU-UK trade routes, amplifying the disruptions already in place since Brexit.

Goods traded have the potential to decline due to those factors, therefore due to the declining volume of goods coming into the country, the pressure on both contract and spot prices for UK imports might soften.

Ports

Ports imports and exports



Source: Upply

Rates

On export lanes from European cities towards Rotterdam and Antwerp, contract rates have slightly increased by 0.9 index points to 135.0. Spot rates on this leg have been declining since Q4 2023, losing 9.5 index points, to its lowest level of 112.4 since Q1 2022. Compared to the same period last year, that is a drop of 9.0 points. Contract rates are 22.5 points higher than spot rates.

On the import lanes from the Ports towards the cities, the contract rates index stood at 125.6, up 2.0 points vs Q2 2024. Spot rates on this leg experienced an increase of a similar magnitude, rising to 119.2, increasing by 2.8 index points. Contract rates are 6.4 points higher than spot rates.

Market story

The Netherlands have proven to be a high operation cost environment in Q3. According to Eurostat, the average annual rate of change in Q3 for insurance was an 18.6% increase. For tyres, the average increase was 8.3%. For maintenance and repair, the average increase was 3.2%.

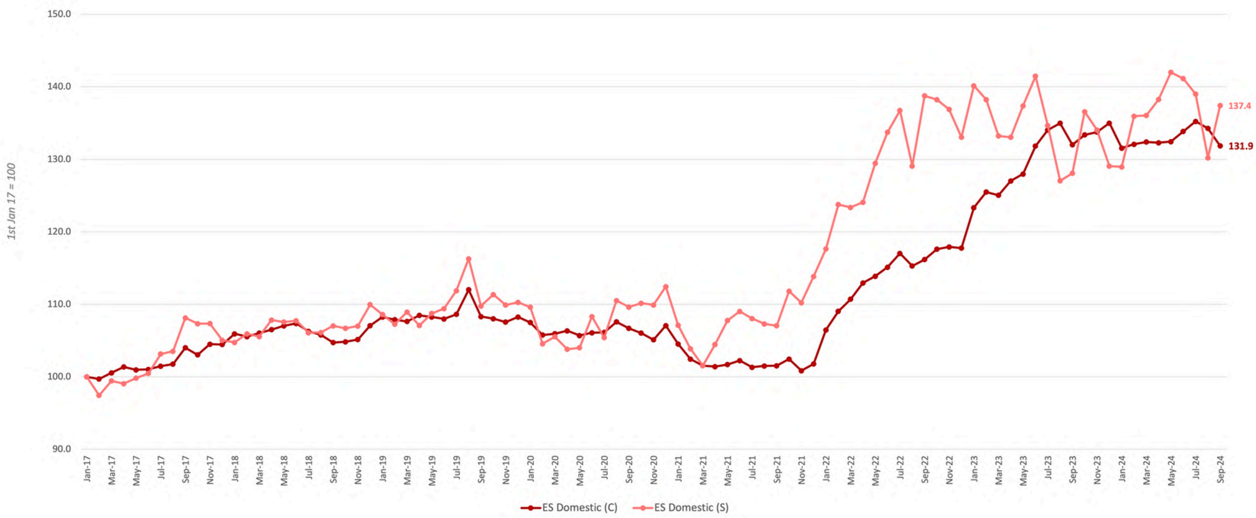
Operating costs in Belgium have also increased on average, however less significantly. The average annual rate of change in Q3 for insurance was 2.0%. For maintenance and repair, costs were up 4.3%. Tyre prices increased 1.0%.

The eurozone saw cautious optimism at the start of 2024, with economic growth exceeding expectations in the first quarter, increasing by 0.3% q-o-q, largely driven by higher net exports and modest private consumption. After five stagnant quarters, the region returned to growth, which is expected to continue at a quarterly rate of 0.3%–0.4% for the rest of the year, leading to a projected overall growth of 0.8% for 2024.

Outlook

In the short term, private consumption is set to support growth, while export activity is expected to improve as foreign demand strengthens. Easing monetary policy could also reduce growth constraints in sectors like construction. Looking ahead to 2025, private consumption and stronger investments, supported by improved financing conditions, are expected to boost GDP growth to around 1.4%. As private consumption grows, we can expect to observe a modest growth in EU import rates, although as European industry recovery is slow to emerge, the same cannot be said about EU export rates. Ti expects that there will be more upward pressure on freight rates on export lanes later in the business cycle, as manufacturing recovers.

Spain Domestic Rates



Source: Upply

Rates

As of September, domestic contract rates have decreased 2.4 index points m-o-m, currently standing at 131.9. On the other hand, spot rates shot up by 7.2 index points compared to August. Domestic contract rates in Spain stood at 133.8, up 0.9 index points from last quarter. Spot rates stood at 135.5 index points, down by 4.9 points from Q2.

Domestic spot rates were declining since May 2024, and they had a steep decline in Aug-24, before shooting up by 7.2 index points in September. This could be attributed to the seasonal agricultural demand in the Spanish market.

Market Story

In Spain, consumer optimism increased significantly in the third quarter, rising by 6 percentage points to 36 percent. The Spanish economy outperformed its peers in the first half of the year, with quarterly growth of 0.9% in Q1 and 0.8% in Q2, raising the annual growth rate to 3.1%, according to revised data from the National Statistics Institute (INE). Unlike other eurozone countries, Spain showed resilience to interest rate hikes, with private consumption up by 1%, boosting domestic demand. The manufacturing sector also saw improvement, growing by 1.5% q-o-q, aided by lower energy costs and increased competitiveness.

As stated previously, statistics published by the INE show that retail sales increased 2.3% y-o-y, the highest growth since December 2023. Non-food products were the top category, particularly household goods, which were up 3.9%. Food spending was modest, with a slight 0.8% increase. E-commerce has had a notable decline of -7.4%, perhaps as shoppers switch back to physical shopping, as shopping in store (except for department stores) increased by an average of 3% overall. Month on month, retail sales increased 0.4% in August vs 0.5% in July.

On the industrial side, the Spanish PMI for the manufacturing sector skyrocketed to 53.0 in September from 50.5 in August. Any reading above 50 indicates an expansion, and Spain outperformed the euro area PMI, which fell to 45 points in September, indicating a contraction.

Operating costs in Spain have not increased as much, relative to the other European countries observed in this report. The average annual rate of change in Q3 for insurance was a 10% increase, maintenance and repair rose 4.0%, while tyre prices marked the lowest increase among the costs observed with a modest 2.0% rise.

Outlook

The Spanish economy posted growth of 2.7% in 2023, according to INE revisions. Also, GDP grew at a q-o-q rate of 0.8% in both Q1 and Q2 2024, outpacing the eurozone's 0.3% growth in Q2. The strong outturn was underpinned by robust labour market developments which sustained private consumption.

According to revised figures by the Bank of Spain, economic activity in the country is expected to grow at 2.8% in 2024 and 2.2% in 2025, driven by domestic demand and sustained by continued labour market resilience. The implementation of the Recovery and Resilience Plan (RRP) is set to underpin investment growth over the forecast horizon. Headline inflation is projected to maintain its downward trend as underlying price pressures moderate. As private consumption grows, we can expect upwards pressure in the spot market. As previously mentioned, over the medium to long term, as the economy progresses further into the growth phase of the business cycle, we anticipate a rise in contract rates, provided demand surpasses market capacity.

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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