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

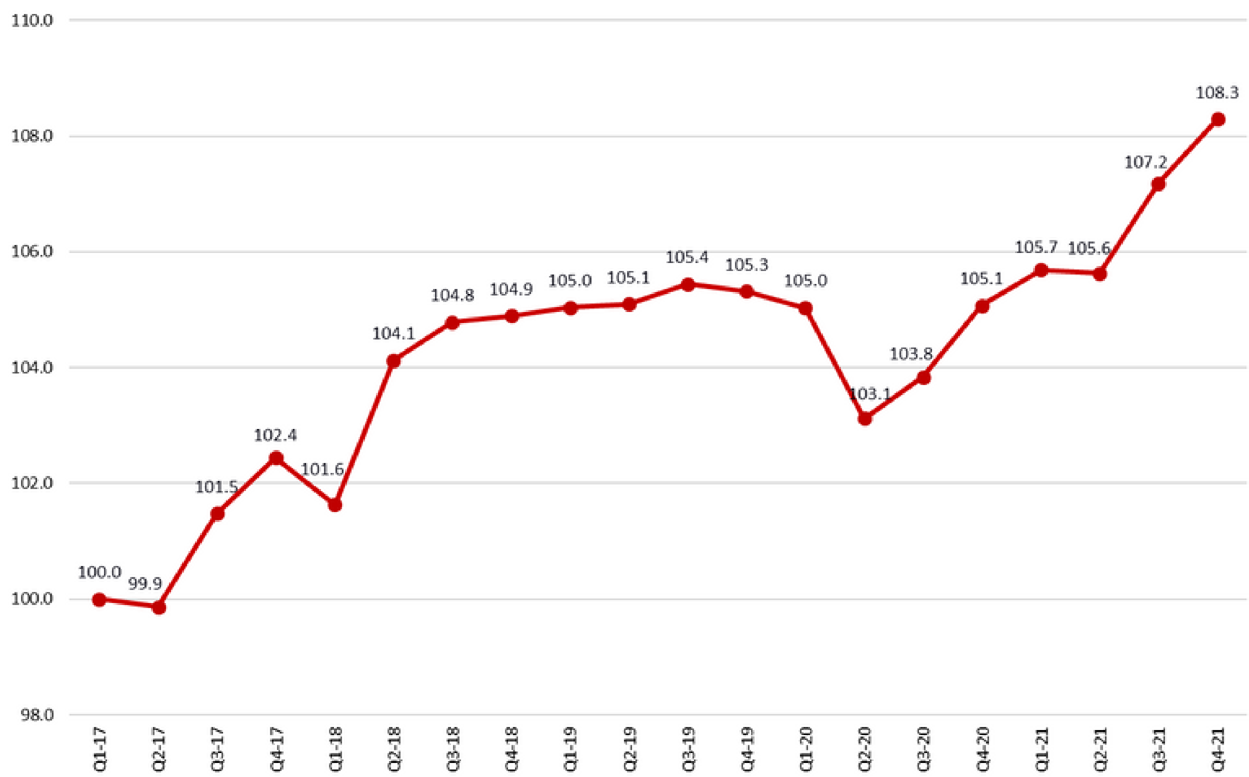
Q4 2021

Contents

Ti x Upply x IRU Q4 2021 European Road Freight Benchmark

The Ti x Upply x IRU European Road Freight Rate Development Benchmark ended 2021 at record highs. The Benchmark has been driven by a volatile mix of drivers over the year with supply chain congestion, supply shortages, cost increases and spiking demand from economic reopenings across the region. The potent mix of factors, which pushed the Benchmark to new record highs three times in 2021, shows few signs of unwinding in the immediate term. Indeed, many of Europe's major manufacturing and consumer markets, continue to show signs that growth is being constrained by these factors.

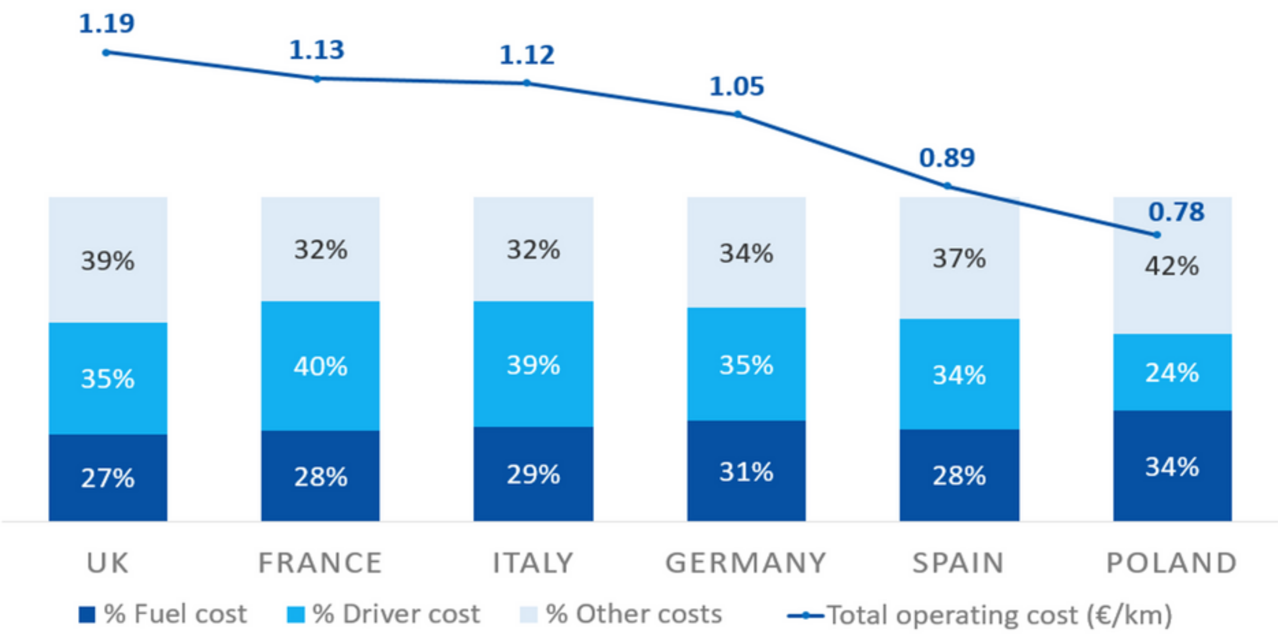
Ti & Upply European Road Freight Benchmark - European Road Freight Rates Index, Q4-2021



In Germany, for example, order books across the country's manufacturing sector are fuller now than at anytime time since records began in the 1960s. In France and Spain, manufacturing growth is being held back by supply constraints, with automotive OEMs limiting production in both countries during the second half of 2021 as parts shortages placed limits on activity. In the UK, retail sales showed solid progress for much of the year. In November, sales were some 7.2% ahead of pre-pandemic levels, with peak season demand and Black Friday sales boosting spending. These factors, many of which have intensified throughout the year, have helped push aggregate road freight rates across the region higher.

Supply-side factors have been no less volatile during the year and have played a significant role in the consecutive quarterly increases, particularly since Q2 2021.

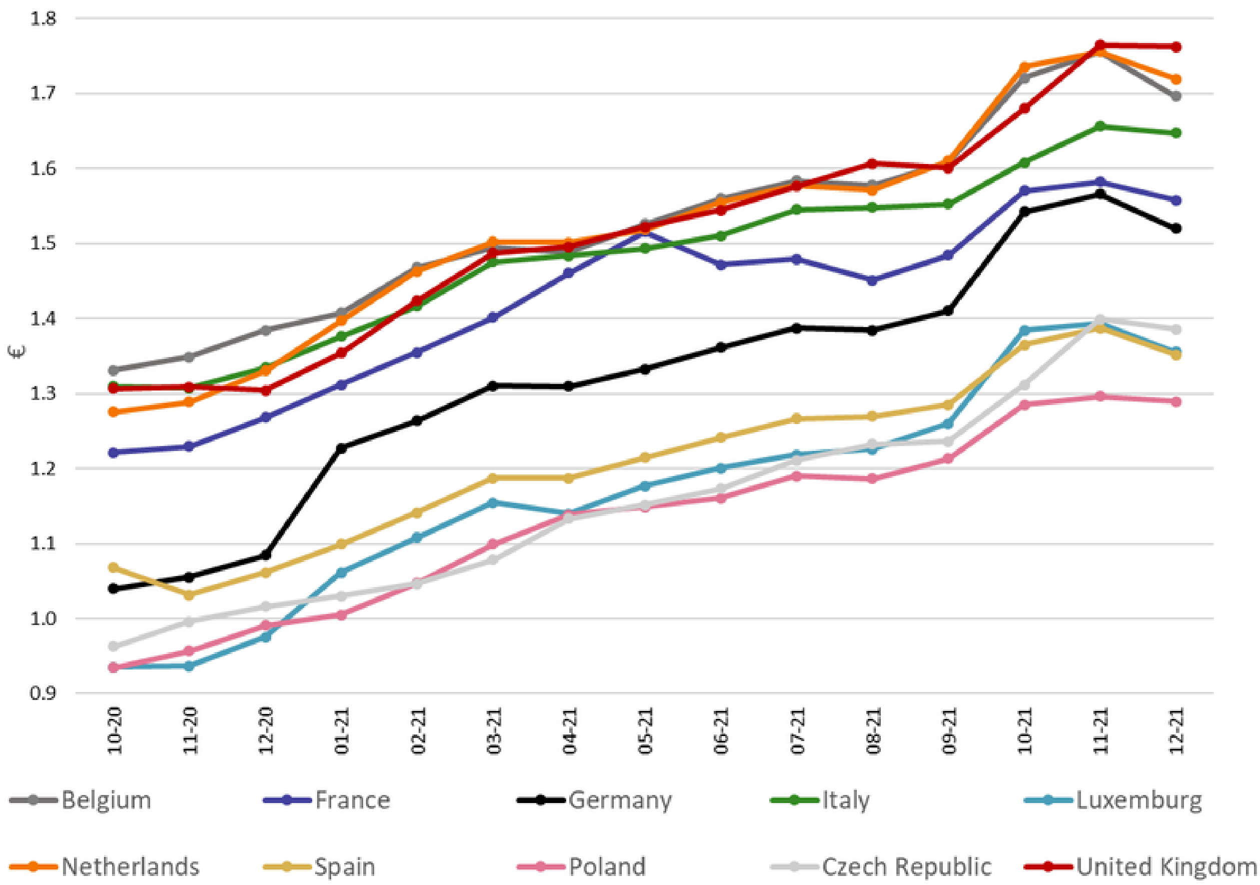
Total operating cost of a 40-tonne HGV operating long-distance international routes



Source: CNR; other costs include tyres, tolls, insurance, vehicle financing and possession, maintenance-repair, axle tax and other vehicle taxes.

Diesel prices, which account for one-third of total operating transport costs, have risen sharply, ending 2021 around 25% higher than at the start of the year in countries across the region including Spain, Germany and France.

European diesel prices by country € per litre

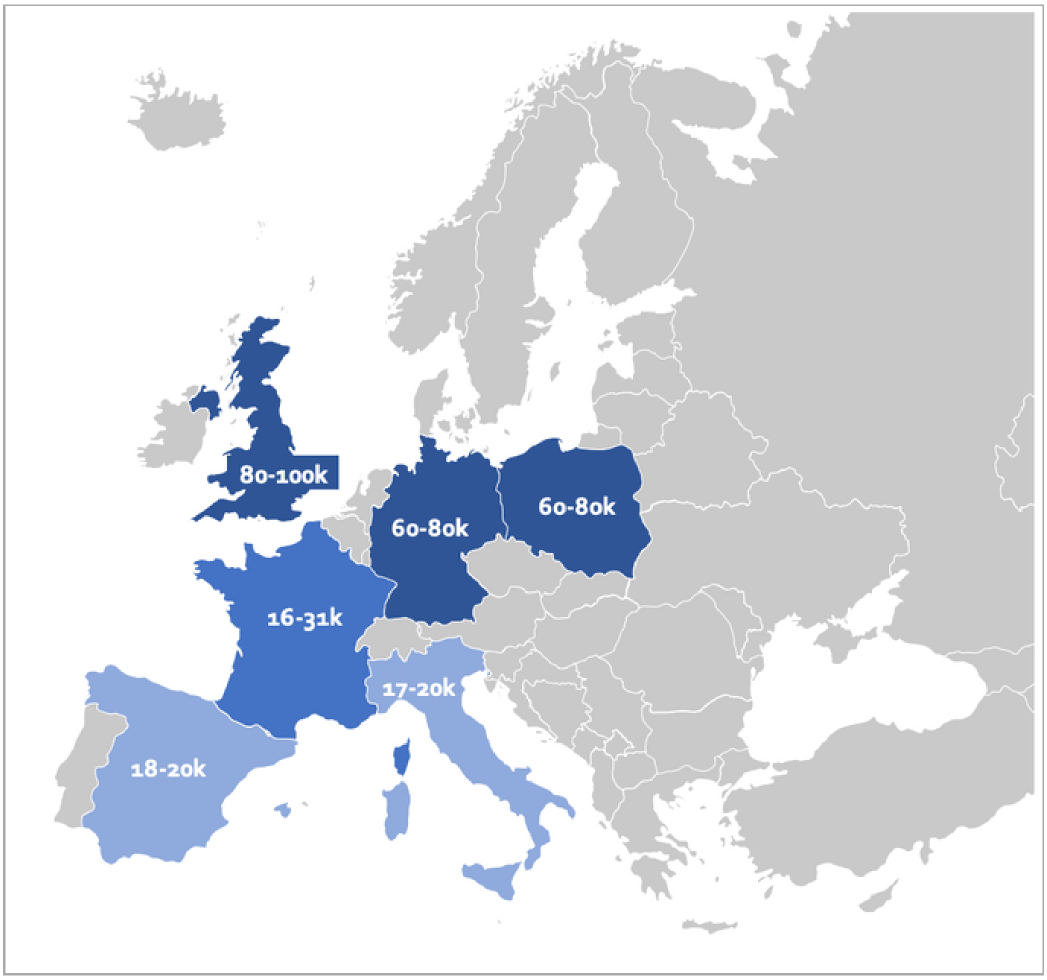


Source: IRU

Driver costs, which make up another third of carriers' operating costs, have also risen due to driver shortages. Many carriers have increased driver salaries several times over the year to remain competitive and attractive employers and to keep their trucks moving. Moreover, driver costs could rise even further in 2022, as some major rules for transport companies come into effect under the EU Mobility Package from 21 February 2022.

On the one hand, the new rules could increase the need for drivers, but on the other, the improvement of working conditions could result in a better image of the profession and enhanced recruitment.

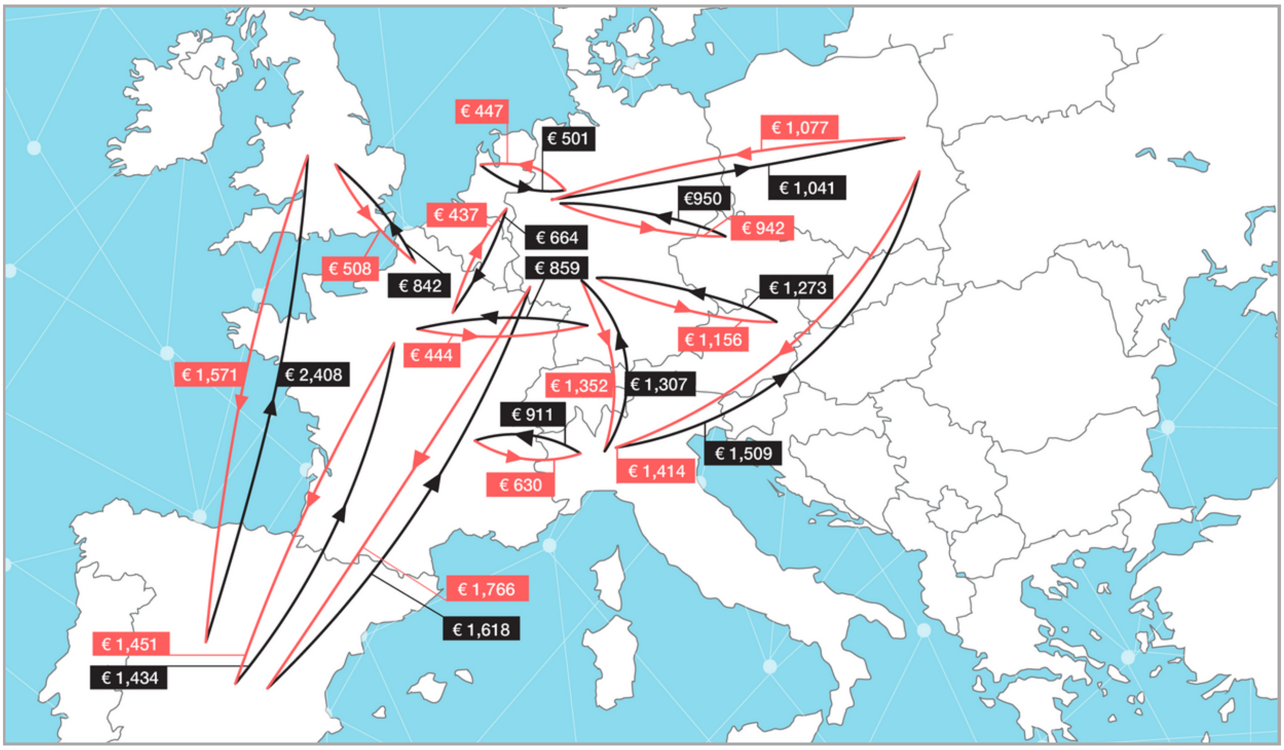
Truck driver shortage 2021 (thousands of drivers missing)



Source: IRU road freight transport associations, IRU analysis

Trucking companies have also experienced growth in operating costs due to the current lack of vehicle resources. Truck manufacturers have struggled to produce enough trucks for road transportation providers globally, especially as there is a shortage of semiconductor chips that are crucial to various systems on trucks. This has resulted in rising prices for new, and subsequently used trucks, as manufacturers have struggled to finish enough vehicles to satisfy the needs of European road freight companies. Such a situation is putting upwards pressure on ownership costs for commercial vehicles.

Ti-Upply European Road Freight Rate Benchmark Map Q4 2021

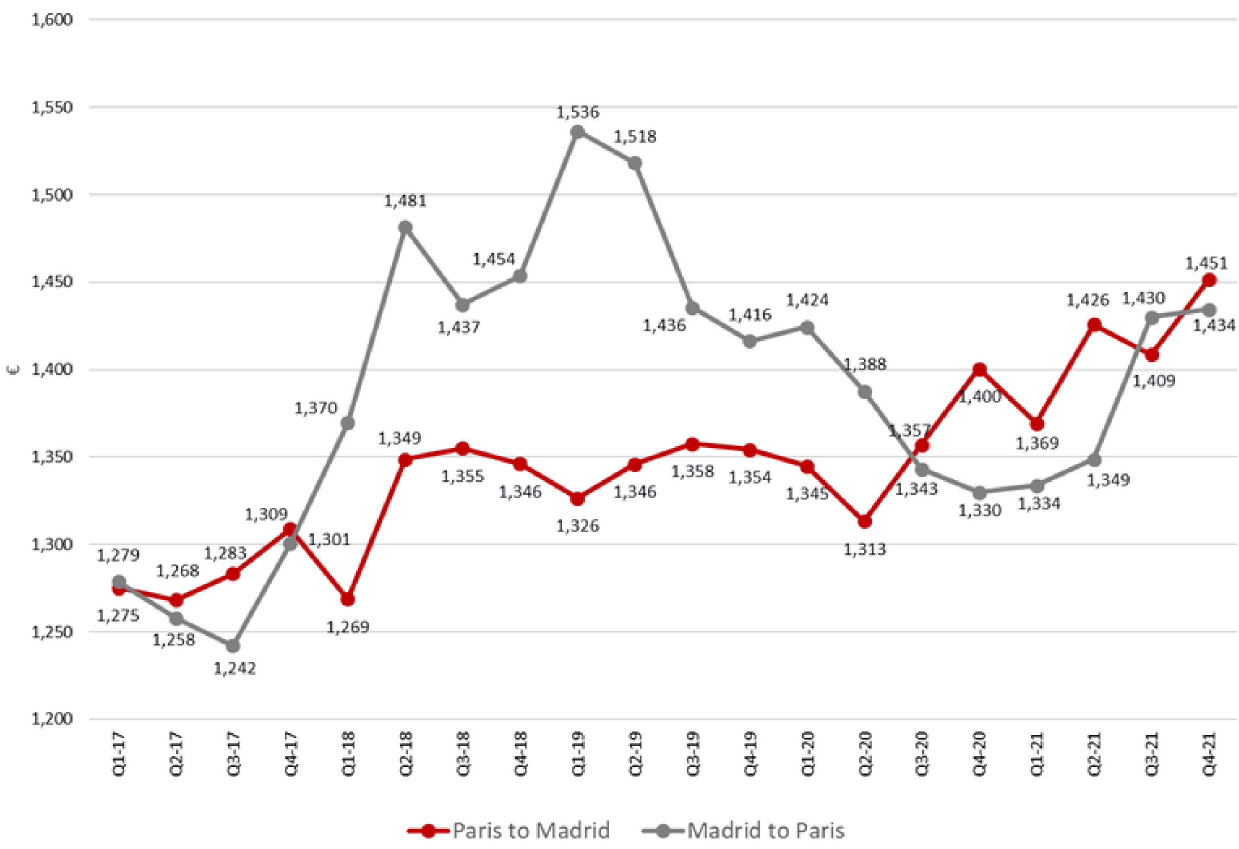


Rate Development on Major Lanes

France - Spain

The head haul and backhaul between Paris and Madrid switched for the second consecutive quarter as a 3.0% rise to €1,451 (to €1.14/km) on the Paris to Madrid lane outpaced the 0.3% increase in the opposite direction to €1,034 (€1.13/km).

Madrid-Paris Road Freight Rates



During the quarter, rates on the Paris to Madrid route hit an all-time high in Q4 2021, the culmination of a turbulent 18 months which has seen rates rise and fall sharply in response to uncertain supply and varying demand.

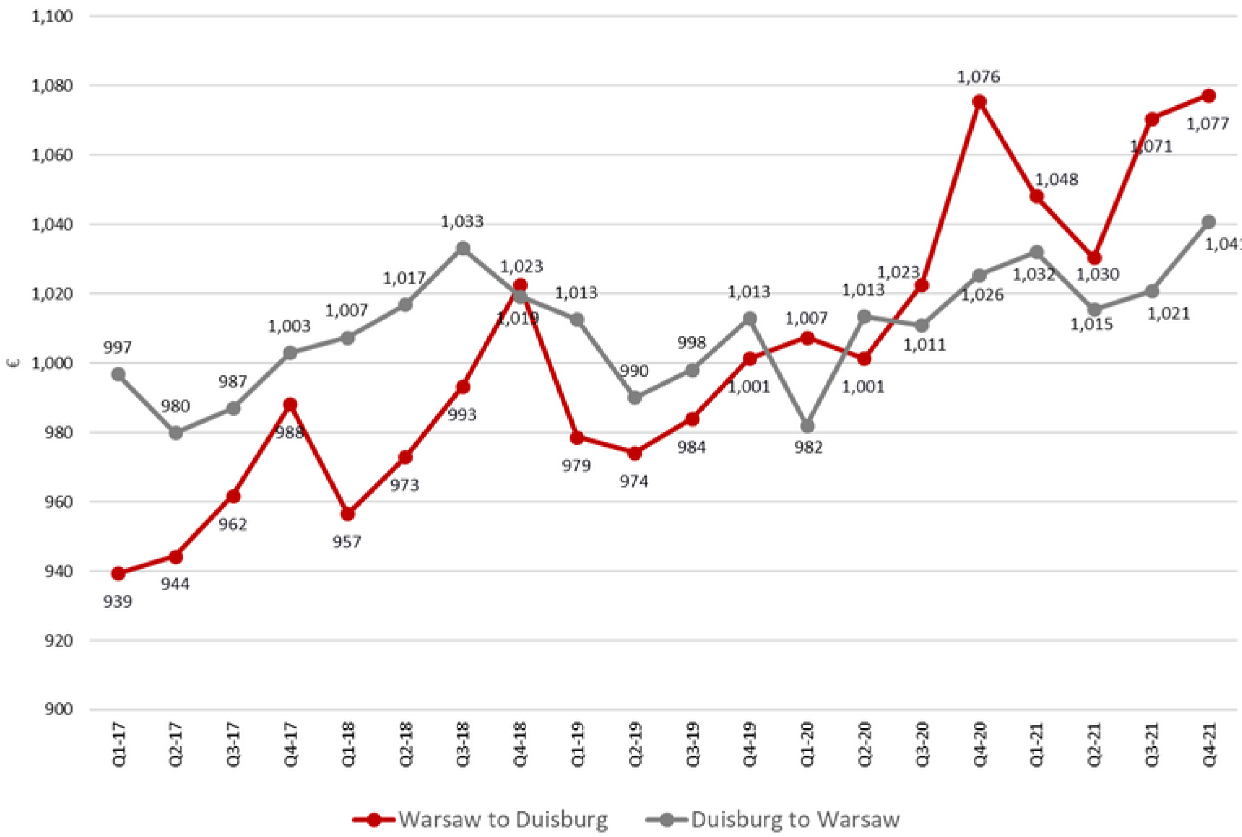
Spain's manufacturing sector has recorded PMI readings in positive territory throughout the final quarter of 2021, although growth has slowed since it peaked in April. Retail sales have also grown throughout 2021 by 5.9% while an October 2021 report from McKinsey showed consumer confidence in the country was rising and outpacing increases in other major European economies like France. While spending has not returned to pre-pandemic levels, demand is returning, even against supply constraints in key sectors such as automotive.

Rate development from Madrid to Paris was flatter during the final three months of 2021, however. Economic activity in France gathered pace from Q2 with a broad-based recovery in retail and manufacturing which drove rates higher in the lead up to the Q4 peak season. While headline growth has remained strong, though, data published by the Banque de France shows retail sales fell 1% quarter-on-quarter and a 1.9% decline in the sale of manufactured goods over the same period. The falls were due in part to restrictions aimed at combatting the Omicron wave of Covid-19 which spread across the country during the quarter, and which have been tightened heading into Q1 2022.

Germany - Poland

Rates on both legs of the Duisburg–Warsaw lanes saw marginal increases during Q4 2021. Rates from Warsaw to Duisburg increased 0.6% quarter-on-quarter to €1,077 (€1.00/km), meaning the lane recorded all-time highs, although only by 0.2% compared to the Q4 2020. Rate development was stronger on the backhaul lane, from Duisburg to Warsaw, where rates ended the final quarter of 2021 up 2% compared to the previous three-month period at €1,041 (€0.96/km).

Warsaw-Duisburg Road Freight Rates



Polish export rates have been buoyed by a manufacturing sector that has been growing throughout Q4. Poland's manufacturing PMI showed positive development during the quarter, ending the year at 56.1 in December, up from 54.4 in the previous month.

The growing level of manufacturing activity in Poland has provided the route with a strong supply of intermediate goods in response to demand from Germany's factories, itself still held back by the ongoing global chip shortages amongst other challenges.

Poland is the largest haulier in the EU road transport, accounting for more than 20% of the EU road freight transport volume, one reason being the high price competitiveness of Polish companies. Polish hauliers dominate not only transport between Poland and other EU countries (93% volume transported), but also EU cross-trade (they account for over 33% of all cross-trade operations in the EU) and EU cabotage (Poland is the main haulier providing cabotage services in the EU).

- Among bilateral road carriage of goods between Poland and the EU, the majority of freight is transported between Poland and Germany (95% of the load between both countries is carried by Polish hauliers); it is the second most important direction for carriage in the EU (the first one being the transport between Germany and the Netherlands).

- Due to the size of the transport market and the geographical proximity, Polish cross-trade carriage of goods is mainly concentrated on the German market. The carriage of goods between Germany and the remaining EU countries accounts for over 60% of cross-trade operations carried out by Polish transport companies. In total, Polish transport companies transport more than 10% of freight in bilateral transport between Germany and other EU countries.

- As in the to cross-trade, also in cabotage the German market is the most important for Polish haulers. (70% of the cabotage operations were carried out between the sender and the consignee of freight in Germany; at the same time, the share of Polish transport companies in the cabotage on the German market reached 55%). Poland is also the main hauler providing cabotage services in France and Italy.

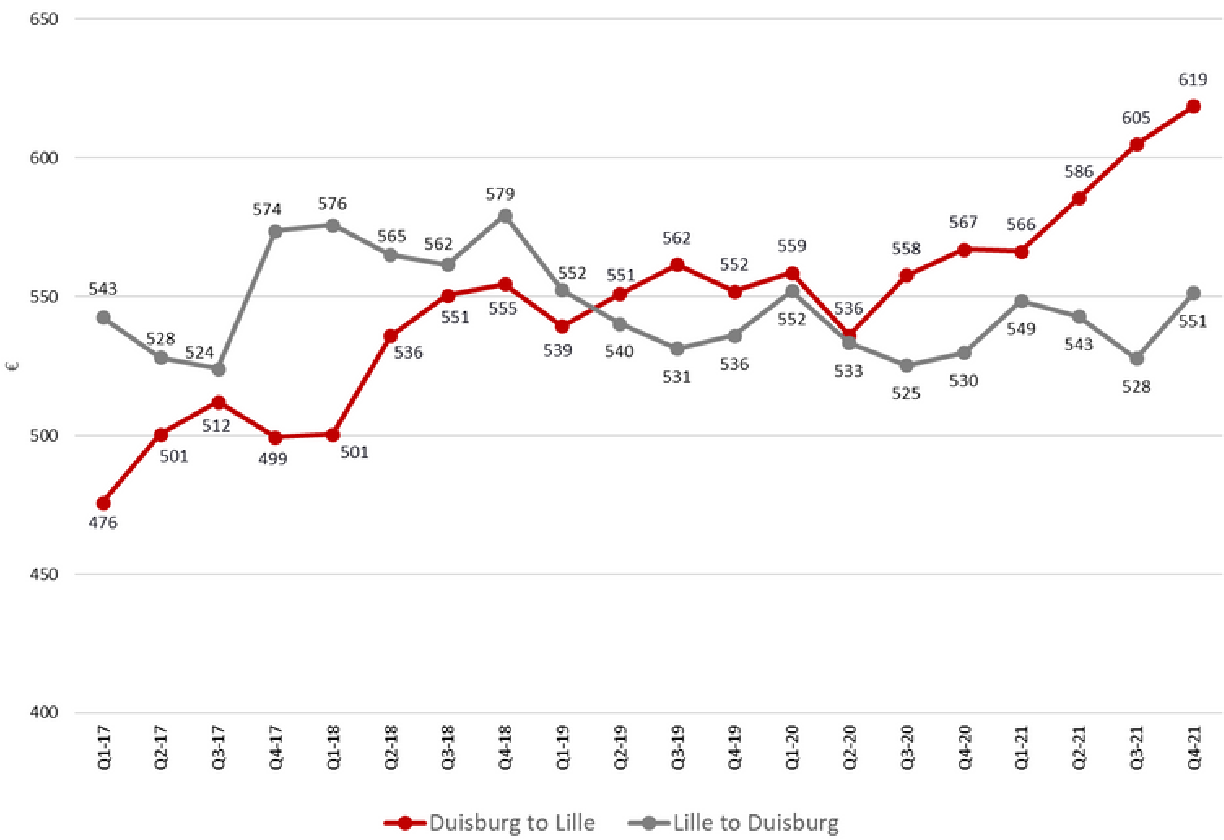
Currently, the industry is suffering from a shortage of up to 80,000 drivers, and according to the Polish Road haulage association ZMPD the shortage could reach 300,000 drivers within a 5-year period as new entrants are not sufficient to replace drivers leaving the profession (retirement and other reasons). Lately, they have been struggling to find drivers for international transports due to the low vaccination rates among the driver population. Despite this high shortfall, supermarkets are not empty in Poland, as it is the case in the UK. The reason is that in Poland the local needs can be served by polish trucks working abroad, who can always be recalled to do some work in Poland, as well as by trucks from other European countries, who are free to do cross-trade or cabotage loads within Poland. The UK instead, is a very isolated market (it was the case even before Brexit); the majority of British hauliers serve the local market only, and thanks to Brexit, they have few options to have hauliers from other countries to transport British goods.

In Germany, the country's manufacturing PMI was still high at 57.4 in December, although the reading was flat month-on-month and is the lowest since January 2021 as bottlenecks and parts shortages weighed down production levels. With the country's composite PMI in negative territory at 49.9, activity in other areas of the economy is comparably weak. As demand from manufacturers drives rates from Warsaw into Duisburg to all-time highs, it is perhaps the weaker development of Germany's retail, services and construction sectors keeping rates from further increases.

France - Germany

Since mid-2019, rates development on the lanes between Lille and Duisburg have followed somewhat divergent paths. While rates have remained broadly flat over the period from Lille to Duisburg, prices have trended generally upwards in the opposite direction, particularly so throughout 2021. Both lanes saw strong year-on-year growth in Q4 2021. Lille to Duisburg rose 4.1% when compared with the final three months of 2020, while the cost of transport from Duisburg to Lille was 9.1% higher in the last three months of 2021.

Duisburg-Lille Road Freight Rates



Positive development in French manufacturing and consumption during the economy's recovery in 2021 have helped push rates higher on the Duisburg to Lille lane.

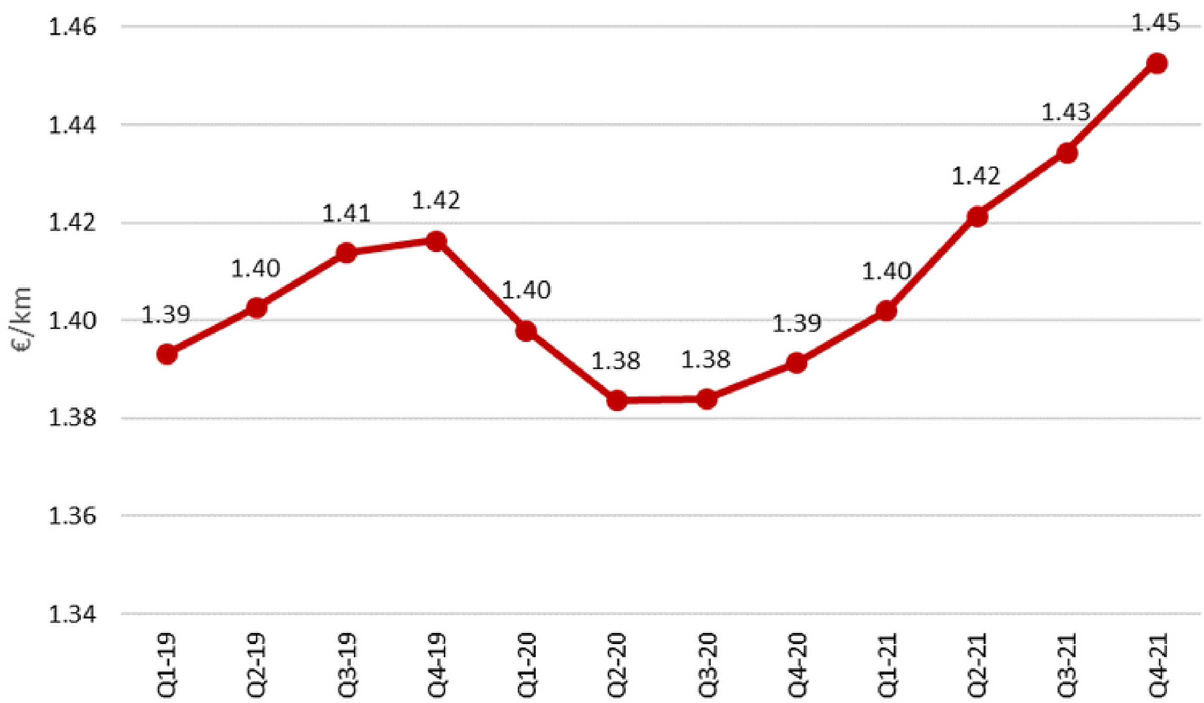
Manufacturing is a significant driver of activity in France's fourth-largest city, employing around 20% of its population, and with the French PMI in positive territory throughout 2021, has contributed to increased demand for materials and components in supply chains that link Lille to one of Germany's larger manufacturing locations. As economic recovery took hold, rates into Lille have also seen an uplift as consumption of finished goods has risen. In addition, supply-side challenges have been provided upwards pressure on rates. German diesel prices ended 2021 some 27% higher than at the start of the year, while Germany has one of the more acute driver shortages in Europe with estimates suggesting a shortfall of up to 80,000 HGV drivers is limiting the availability of capacity in the country. According to German road freight transport association BGL, 30,000 drivers retire every year (about 30% of the drivers are older than 55) and there are only around 15,000 new professional entrants each year, meaning a supply collapse could also become a reality in a few years if no action is taken.

In Germany, from January 1st 2022, the statutory minimum wage will increase from the current €9.50 to €9.82 per hour. Another hike to €10.45 per hour is to take place in July. This means that drivers carrying out transport (cabotage, or international transport with unloading or loading in Germany) will receive higher remuneration under the provisions of the minimum wage act.

Rate Development in the French Domestic Market

Rates in the French Domestic market have been increasing since the middle of 2020. In Q4 2021, rates were 3.6% up year-on-year and 1.4% higher than in the previous quarter. At €1.45/km, rates in the French domestic market are at an all-time high.

Upply Freight Index – France Domestic Road Freight Rates



Source: Upply Freight Index (UFI)

Throughout 2021, a recovering French economy aided a recovery in demand for road transport. In January 2022, French Finance Minister Bruno Le Maire stated the government's belief that GDP development would be higher than the official 6.25% forecast, although the headline figures hide some challenges that remain in the economy.

At 55.6 in December, the country's PMI remains broadly healthy although it is marginally down from the 55.9 reading in November.

Markit Economics noted in its analysis of the PMI data that output and new orders had improved, and that supply chain congestion had eased. Weighing on the wider manufacturing sector's demand for logistics services is the performance of the French automotive sector, however. Sales at Renault, for example, fell by some 4.5m units in 2021, partially as a result of the global semiconductor shortage as well as a shift in demand and the technological base of automotive manufacturing. In the French retail sector, a combination of Covid-19 pandemic restrictions and peak season demand provided similarly uneven demand for road freight in Q4. Data from the French national institute of statistics INSEE showed that household consumption on goods in volumes increased by 0.8% in November 2021, after a decrease of 0.6% in October, mainly due to a rebound in the consumption of manufactured goods which grew 1.5%. Consumption of food also increased, (+0.3%), as did that of energy (+0.5%). All these factors combine to apply significant upward pressure on freight rates in France.

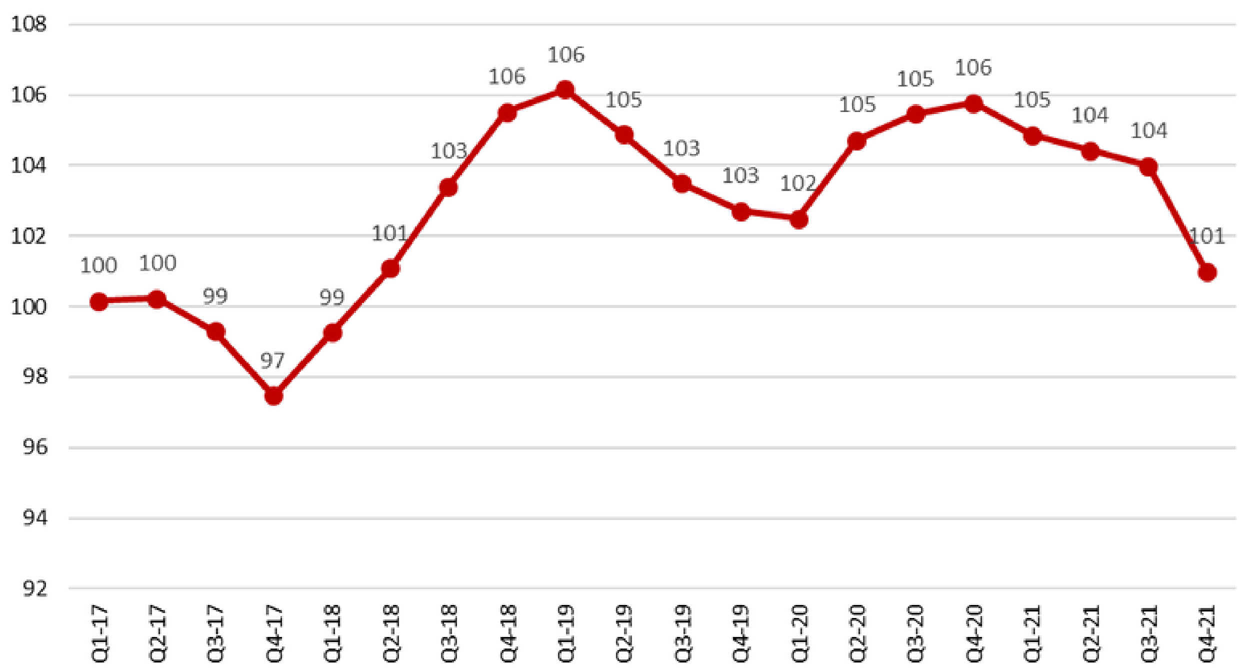
The French road freight market is also suffering from a shortage of up to 31,000 drivers. According to INSEE, in October 2021, 67% of businesses felt they were having problems recruiting drivers – an increase year-on-year, and the highest number ever seen since records began in April 2007. However, according to DARES and FNTR, road haulage companies have not so far reduced their activity due to the shortage. The labour shortage is not limited to drivers and affects an entire road transport sector that is some 40,000-50,000 employees short, more than double the vacancy rate seen as recently as 2017.

In addition, the Annual Mandatory Negotiations of the Road transport sector commenced in December. Unions demanded a 10% pay rise, claiming that almost the entire wage scale of the road freight collective agreement was below the level of the minimum growth wage. However, and in contrast to what is happening in the UK, French employers are reluctant to engage in a bidding war that could put them in difficulty. French carriers have to deal with the rise in fuel prices (+19% in 2021), which it is difficult for them to pass on in full to shippers, thus they need to find the right balance between what they can give away and what they can sell back. The employers' federations have proposed a 5% increase in the wage structure from February 1 2022 and a further 1% from May 1 2022, which has not been proposed for 10 years according to FNTR. No agreement had been reached at the time of publication.

Rate Development in the Spanish Domestic Market

Rates in the Spanish domestic market fell 6% year-on-year in Q4 2021 and were 3% lower compared to the previous quarter. While there are positive signs in the Spanish economy across manufacturing and retail, challenges in its recovery from the Covid-19 pandemic remain.

Upply Freight Index – Spain Domestic Road Freight Rates



Source: Upply

The country's manufacturing sector continues to see notable demand, with a PMI recording of 55.8 in December. The reading, however, fell in each month of Q4 2021 and is the lowest since April 2021. While it still indicates expansion and there are positive signs from the country's manufacturing sectors, including automotive where demand is back to pre-pandemic levels, supply chain bottlenecks are hampering development. This includes Volkswagen Group's SEAT assembly plant in Barcelona, for example, which was forced to close for five days in December in response to parts shortages.

There is a similar pattern in Spain's retail sector. According to the Spanish national office for statistics (INE), retail sales grew 5.9% in 2021, but momentum has been patchy. Retail sales growth was negative at the start of the peak Q4 period, falling 0.7% year-on-year in October, having also fallen 0.1% annually in September, also according to INE data.

In sum, despite headline growth in 2021, Spain's economy, one of the hardest hit by the Covid-19 pandemic seeing a 10.8% fall in GDP, remains some 6% smaller than in 2019. While the signs are positive for more growth and an easing of supply chain bottlenecks in 2022, Spanish carriers faced tough conditions in 2021. Falling rates reflecting an overall fall in economic activity against pre-pandemic levels were met by sometimes significant cost increases. Diesel prices, for example, were nearly 25% higher at the end of 2021 than at the start of the year. Such cost rises were in part responsible for proposed strike action, and called on the country's government for support in dealing with higher fuel prices. The strike was averted as negotiations with the government led to an agreement including a package of 20 long-standing demands (to be rubber-stamped within 60 days). The most important measures include:

- Transport rates the carriers receive from their customers may be pegged to the price of diesel.
- Review of national insurance contributions for lorry drivers (as hauliers believe payments should be lowered given the drop in accidents in recent years).
- No implementation of road tolls or HGV taxes without reaching prior agreement with transport associations.
- A legal ban on drivers carrying out loading and unloading operations (with few exceptions).
- A legal limit on maximum waiting time at loading and unloading sites.
- €20 million investment in new safe truck parking areas, and a €140 million allocation for the digitalisation of transport companies and digital training of transport professionals.

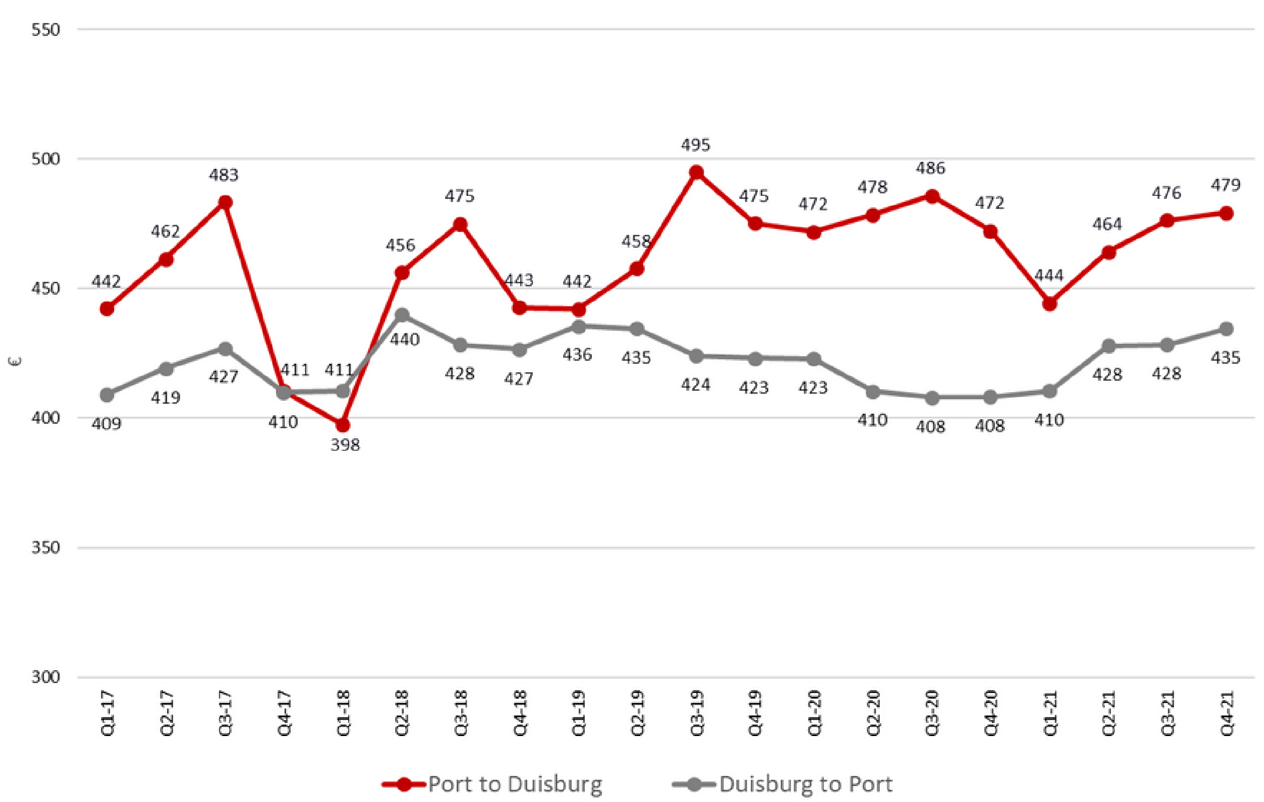
These improvements to working conditions could lead to lower operating costs for companies and enhance the recruitment and retention of drivers in Spain, which is currently suffering from a shortfall of 18,000-20,000 truck drivers.

Significant Price Changes

Antwerp and Rotterdam to Duisburg

Rates on the head haul routes from the ports of Antwerp and Rotterdam to Duisburg were relatively flat in the Q4 peak season, rising 1.5% as Covid-19 restrictions and supply chain bottlenecks weighed on growth.

Antwerp and Rotterdam to Duisburg Freight Rates



The German economy struggled in 2021 and remains around 2% smaller than its pre-pandemic size, according to Destatis, the national statistics authority. GDP in Q4 fell as much as 1% year-on-year, according to official estimates, as supply chain bottlenecks combined with Covid-19 restrictions to suppress activity in Germany’s retail and services sector in the run-up to the holiday season. Rate development on German import lanes has been relatively strong throughout 2021, however, ending the year 7.9% above the rates seen in Q1.

Order levels at German manufacturers are higher than at any time since records began in the 1960s, according to Commerzbank, and driving demand for imported parts and materials. With household consumption expected to show a marked improvement in demand across Germany's retail sector, rates on import lanes may continue the upward trajectory into 2022.

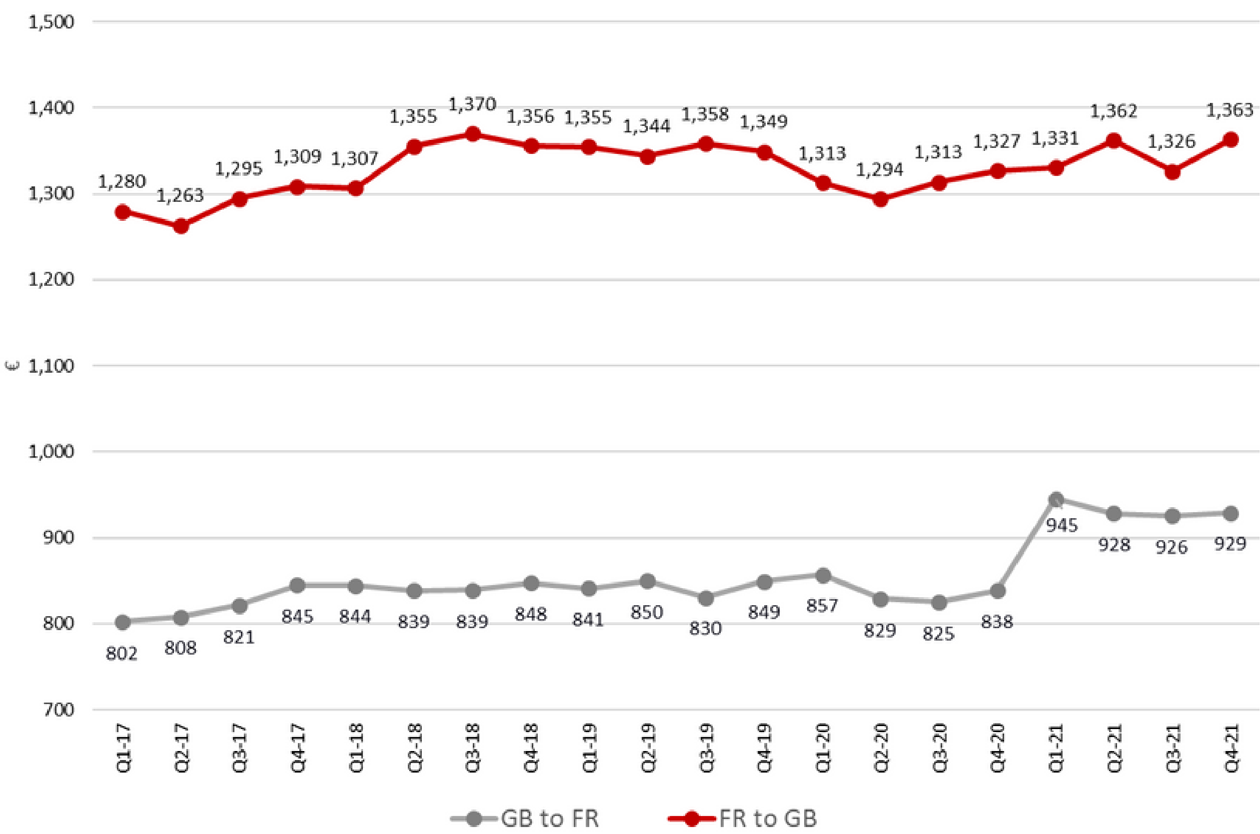
With demand so high in Germany's manufacturing sector, exports maintained growth in Q4 despite supply chain bottlenecks that limited the supply of parts and components. Destatis data shows that exports grew 1.7% annually in November 2021, even as industrial output fell 0.2% as supply bottlenecks and Covid restrictions constrained activity. This contributed to rates from Duisburg to the ports of Rotterdam and Antwerp rising 1.6% between Q3 and Q4 2021. Germany's economy retains an outsized dependence on world trade, driven in large part by the position of its manufacturing sector on global supply chains in sectors like high-tech, pharmaceuticals and automotive. The manufacturing sector, though, remains 6% below pre-pandemic levels with supply chain bottlenecks hampering growth.

Lane to Watch

UK - France

Cross-channel lanes from France into the UK saw relatively subdued growth in 2021, growing 2.8% year-on-year in Q4. The backhaul lane for UK exporters has seen significantly higher development in rates, with a 12.8% spike in Q1 2021 levelling off to a 10.8% rise in Q4 compared to the same three months of 2020.

UK-France Road Freight Rates



The sometimes volatile rate development on cross-channel lanes is primarily a result of delays and border checks related to Brexit and driver shortages in the UK causing a shift in capacity.

The lanes were heavily impacted by Brexit legislation at the start of 2021 with research from the London School of Economics showing that UK businesses were impacted by delays, additional border checks and extra administration costs. The sharp rise in rates on UK export lanes in Q1 2021 suggests UK carriers immediately passed these costs onto shippers. It is also the case that as the UK's economic recovery gathered pace from late-2020, the resulting higher levels of demand in the UK domestic market revealed the extent to which driver shortages were limiting capacity.

The UK is facing an unprecedented driver shortage, estimated by the British Road Haulage Association at up to 100,000 drivers. The shortage is due in part to the economic shocks of the Covid-19 pandemic coupled with Brexit drastically reducing the EU workforce in the UK (between 14,000 and 16,000 EU-national HGV drivers had left by Q2 2021 compared with Q2 2019). Alongside Brexit and Covid-19 resulting in drivers returning to the EU, Britain's exit from the EU has also made it harder for foreign nationals to return to the UK, with those who do not have settled status now requiring a visa. Moreover, fewer drivers entered the industry as tests were held up, and the average age of HGV drivers was 50.8 years, up from 47.9 in Q2 2019.

According to the results of Logistics UK's November 2021 Performance Tracker, 92.7% of UK logistics businesses are reporting HGV driver recruitment problems, but the industry is suffering from skills shortages that go beyond drivers. Businesses are also facing challenges recruiting for vital roles such as warehouse staff, van drivers, fitters, mechanics, technicians, forklift drivers and transport managers.

The demand has driven up wages: driver gross pay surged 18% in the nine months to October 2021 to retain existing staff and attract new drivers, according to a new report published by Logistics UK. However, smaller fleet operators are still not back to full fleet capacity after the Covid-19 pandemic shutdown, and their inability to compete for drivers by matching higher wage offers appears to be hindering their efforts to recruit new staff.

Nevertheless, according to the report, there are signs of cautious optimism that the HGV driver shortage is improving. Several steps have been taken to help address the recruitment issues which have plagued the sector for years, with Government and industry working together to increase capacity to test new drivers (practical HGV tests grew by 25.6% in Q3 2021 compared with Q3 2019), additional funds for training, streamlining of the licence acquisition system, granting some temporary visas for EU HGV drivers, and commitments to improving driver parking facilities. It remains to be calculated how quickly and how significantly these measures will impact the HGV driver shortage.

Rate development on lanes inbound to the UK from France was flatter, missing the Q1 2021 spike but trending generally upwards over the year to end 2021 near all-time highs. The UK's economic recovery, the country's cross channel trade deficit, peak season demand and a stocking up of inventories ahead of EU to GB customs changes all contributed to these higher rates. These factors are all evident in cross-channel traffic flows of HGVs entering the UK in Q4. Data from the UK's Office of National Statistics shows a 2% rise in HGVs passing through the Port of Dover in Q4 compared with the same period in 2020. There was also a 32% rise in HGV movements between Q3 and Q4, showing heightened demand during the last three months of 2021 and contributing to higher rates on UK import lanes.

Methodology

The rates are the result of Upply's own econometric and statistical modelling, which is based on the analysis of more than 350 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 a digital platform that provides a freight price benchmarking tool and brings transparency on road, sea and air freight rates (including past data and future trend estimates) to manage market volatility. To implement its unique solution, Upply employs data scientists, logistics and IT professionals, and digital experts.

Launched in 2018, the company is based in Paris. For further information, please contact Upply's Customer Care at +33 (9)77 40 20 19 or email service.client@upply.com. Press contact: Gwendydd Beaumont, Communication Manager or email gwendydd.beaumont@upply.com.

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