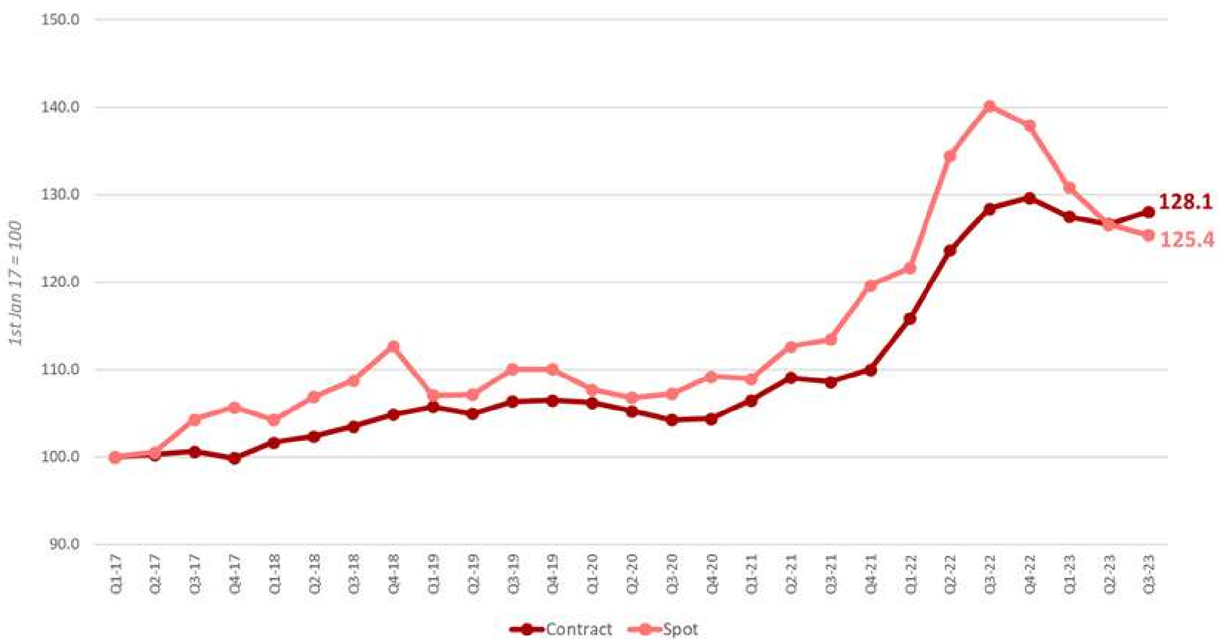
THE EUROPEAN **ROAD FREIGHT RATE** DEVELOPMENT **BENCHMARK**

Q3 2023

Contents

European Market

Ti x Upply x IRU European road freight benchmark
European road freight rates index, Q3-2023



Source: Upply

Q3 2023 sees the spot index move further below the contract index. This now means spot rates are closer to their base level (2017 Q1) than contract rates. Considering that contract rates were higher than spot in the base period, this does not guarantee a cheaper spot price vs contract; however, it does vastly increase the likelihood that routes on the continent may see Euro spot prices drop below the contract price.

The spot market index dropped for the 4th consecutive quarter, down 1.2 points to 125.4, now putting it down 14.8 points year-on-year (Y-o-Y). The speed of decline in spot rates has slowed by more than a third as spot rates begin to settle in response to demand settling at a lower level.

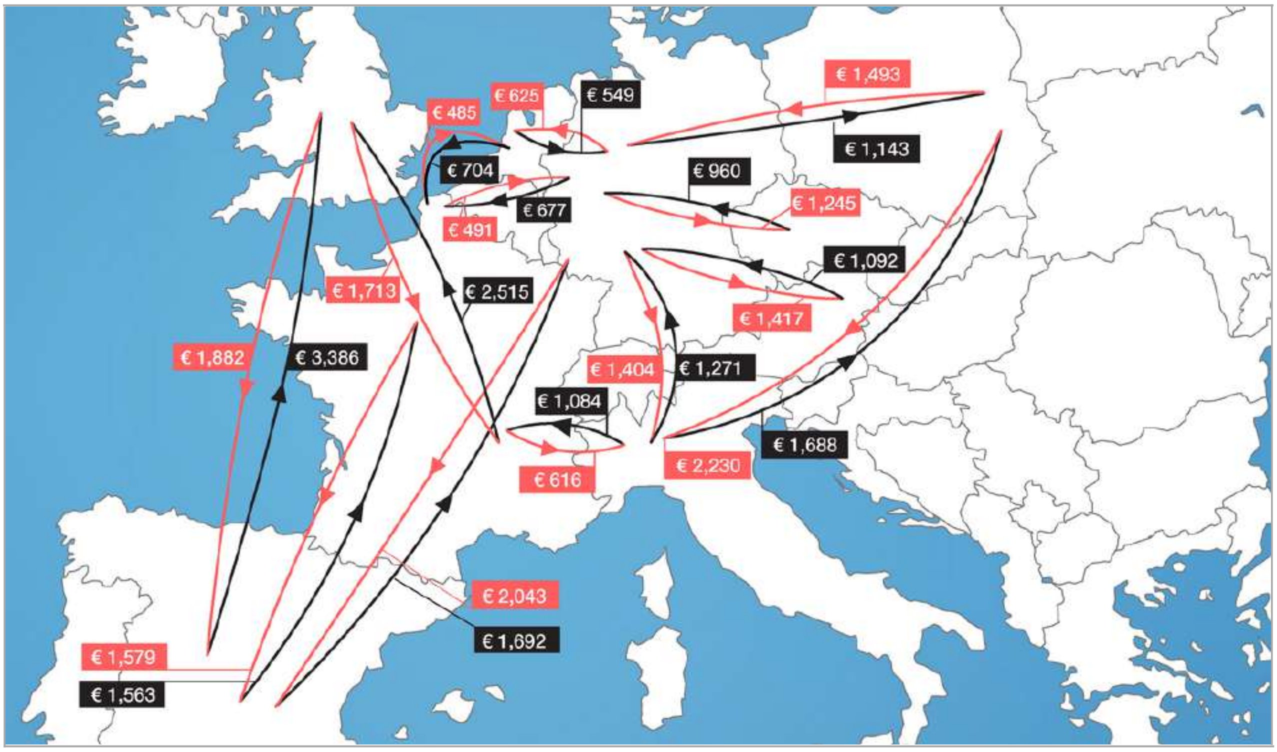
The contract market rate has edged upwards 1.4 points quarter-on-quarter (Q-o-Q) and sits down just -0.4 points Y-o-Y. Q3 2023's contract rate change is the first increase in the index since Q4-2022 as cost pressures compound.

Short-term demand-side pressure on road freight continues to fall throughout the continent. Consumers who are now poorer in real terms are consuming fewer goods, while businesses reduce their output in the face of declining demand. Official figures have put Germany in a recession since May 2023, but both consumption and manufacturing continue to decline in Europe's biggest market (Germany). Available Q3 2023 Eurostat data shows no change quarter-on-quarter in European retail trade but a -3.6-point fall in manufacturing. Germany is a significant driver of falling activity because of high business costs and weak international demand for goods. As a result, total demand-side pressure for road freight continues to fall, freeing up capacity, and allowing rates to slide further.

In the rest of the continent, the rate of decline in the spot price has slowed due to abated inflation, which fell to 4.3% in September 2023, down from a peak of 10.6% in October 2022. The result is smaller falls in the demand for goods, thus reducing the weight of downward pull on prices, suggesting some spot prices may begin to normalize.

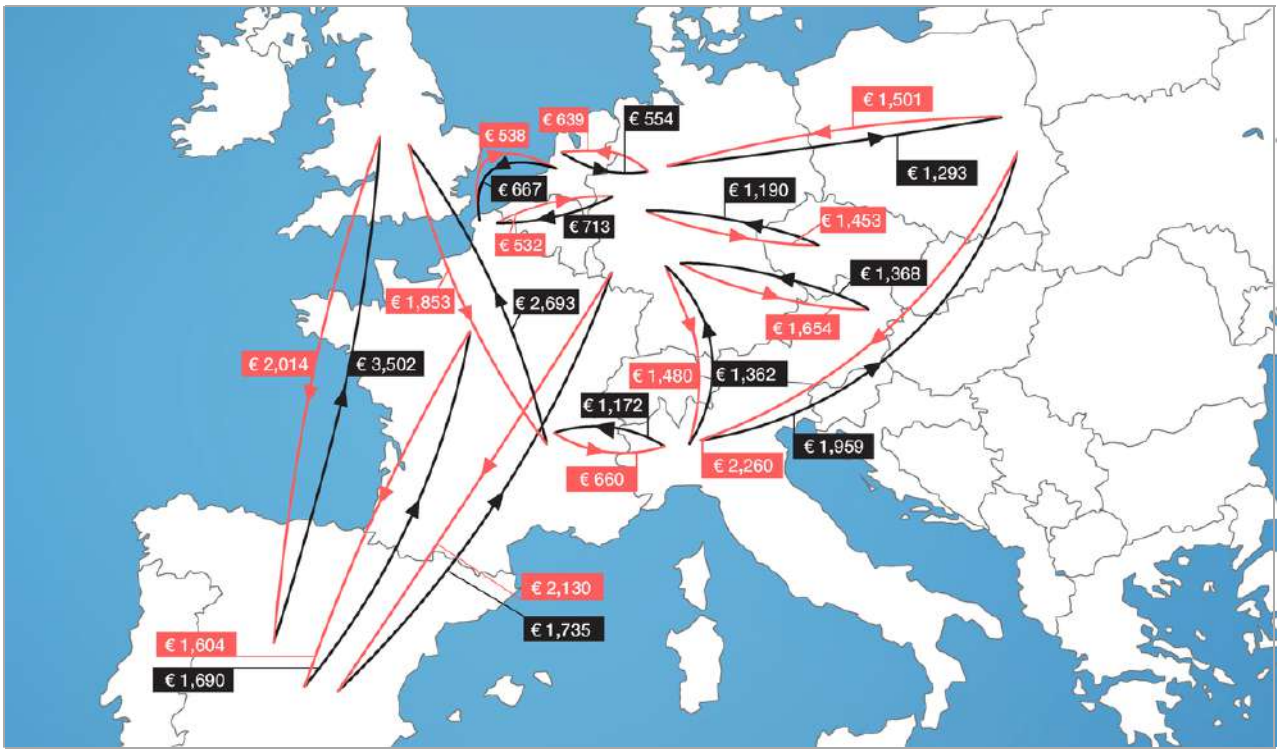
Contract rates have been kept high by an elevated cost base, and cost increases continue to push rates up. Contract prices are less exposed to changes in short-term demand. However, should the European economy continue to stagnate at activity levels below previous years, we can expect this to add downward pressure to contract rates as renewal volumes decline.

Ti x Upply x IRU European Road Freight Benchmark Map – Q3 2023
Contract Rates



Source: Upply

Ti x Upply x IRU European Road Freight Benchmark Map – Q3 2023
Spot Rates

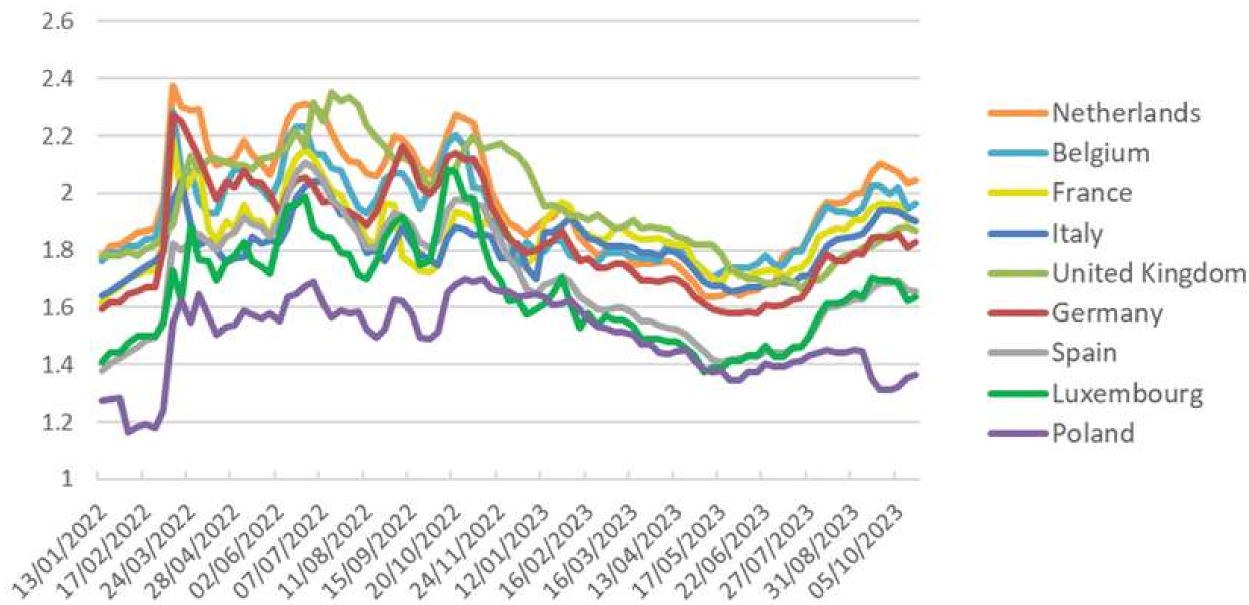


Source: Upply

Operator costs

1. Fuel Prices

Diesel prices at pump (€/L)



Source: IRU

Rises in oil prices have pushed up diesel prices. Crude oil prices have been increasing since June primarily because of extended voluntary cuts to Saudi Arabia's crude oil production [1] (1 million barrels per day from July 2023) and increasing global demand. In September, they have increased further after Saudi Arabia and Russia announced an extension of its voluntary crude oil production cut through the end of the year. The Brent crude oil price reached $94/b in September (25% increase versus June 2023), before falling below $90/b during the first week of October.

[1] This comes on top of OPEC+ members' crude oil production voluntary cut of 1.2 million b/d cut in place from May 2023, announced to be extended through 2024.

Prices at European pumps are now at 1.76 euro, up 14% in mid-October 2023 versus June 2023 (when they reached their lowest level since the beginning of the war – 1.54€/L) and remain 18% above their January 2022 levels, and 25.5% above their Q3 2019 levels.

Additionally, fuel government subsidies for hauliers have come to an end or will do so in the coming months in many countries, increasing cost pressures for operators. In Spain, they were reduced by 50% in June 2023 (from 0.20 to 0.10€/litre), and will be halved again in October (to 0.05€/litre) before disappearing on 31 December 2023. In Germany energy tax reduction on fuels was phased out in 2022. In France, discount schemes ended also in 2022, the French government asked fuel providers to implement measures to reduce end-user price. In response, TotalEnergies capped fuel prices to € 1.99 /litre in February and has recently announced that it will maintain this price ceiling beyond 2023 [2] and some retailers are implementing specific actions to sell fuel at cost price in their petrol stations (i.e Leclerc, Carrefour).

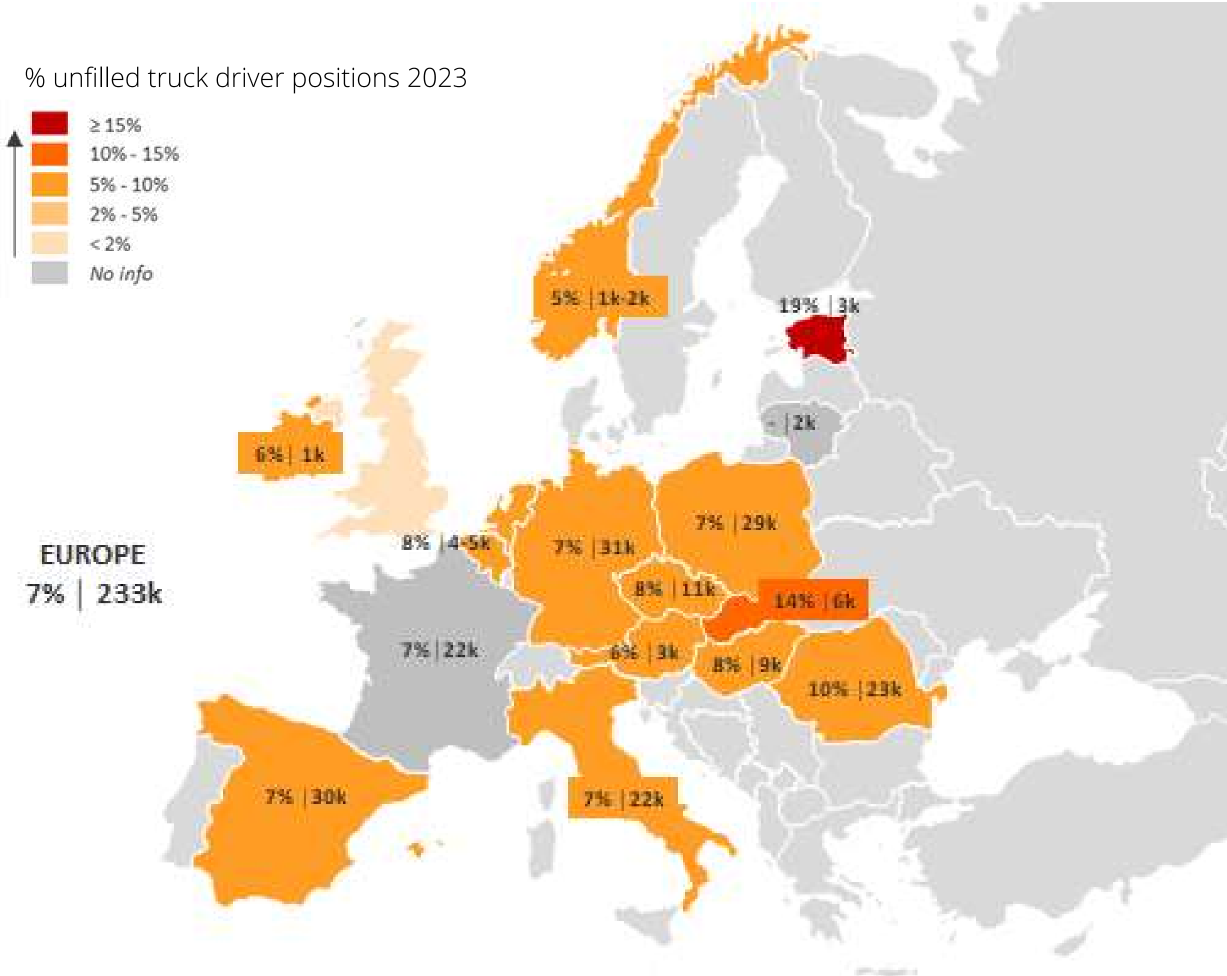
2. Labour costs

Inflationary pressure in consumer products is now beginning to make its way through the economic system and increase producer prices. Transport and storage sector wages are up 17.6% versus 2019 levels, in addition to a 15.9% increase in the cost of spare vehicle parts, a 21.4% increase in vehicle maintenance costs, and a 6.3% increase in insurance costs. Indeed, inflation, supply chain issues and increased labour expenses are driving up the cost of maintenance for Class 8 tractors. Rising maintenance costs are in line with overall operational cost increases in the trucking industry.

Driver shortage remains the key issue of the trucking industry. According to latest IRU driver shortage study, there were 235’,000 unfilled truck driver jobs in Europe in Q2 2023.

[2] According to TotalEnergies, 2,600 out of 3,400 TotalEnergies service stations have benefited from the measure.

Driver shortage in Europe 2023



% of unfilled truck driver positions in 2023 | Number of unfilled truck driver positions in 2023

Source: IRU driver shortage study 2023

The shortage of truck drivers was slightly lower than a year ago with 7% of truck driver positions remaining unfilled versus 9% at the end of 2021. Driver shortage decreased in all countries studied except the Netherlands, where it remained stable (7% unfilled truck driver positions). The primary reason of this decrease is the decline in transport demand due to falls in consumption, driven by inflation together with limited wage growth. Despite this temporary relief, the shortage of drivers still remains an issue for operators, with 62% companies in Europe are facing severe or very severe difficulties to fill truck driver positions.

3. Tolling

Toll Increases Drive up European Road Freight Costs. Significant adjustments to toll rates are expected in many European countries in the context of Eurovignette Directive revision. The so-called CO2 toll is currently the subject of controversial discussions in the industry and is causing great uncertainty in the road freight sector.

When the CO2 truck toll comes into force on December 1, 2023, freight forwarding and logistics companies will have to pay a surcharge of around €200 per ton of CO2. Trucks with a gross vehicle weight of more than 7.5 tons are affected. From July 1, 2024, the toll will then also apply to trucks with a gross vehicle weight of more than 3.5 tons. Zero-emissions vehicles such as electric vehicles and hydrogen vehicles, as well as vehicles with a hydrogen fuel cell, will remain exempt from toll until the end of 2025. Thereafter, only 25% of the regular rate is to be levied on zero-emissions vehicles.
Road freight operators could face up to 83% increase in road toll charges under the proposed rule, with the increase being the highest for operators with older vehicles. The amount of the individual surcharge depends on the emission class.

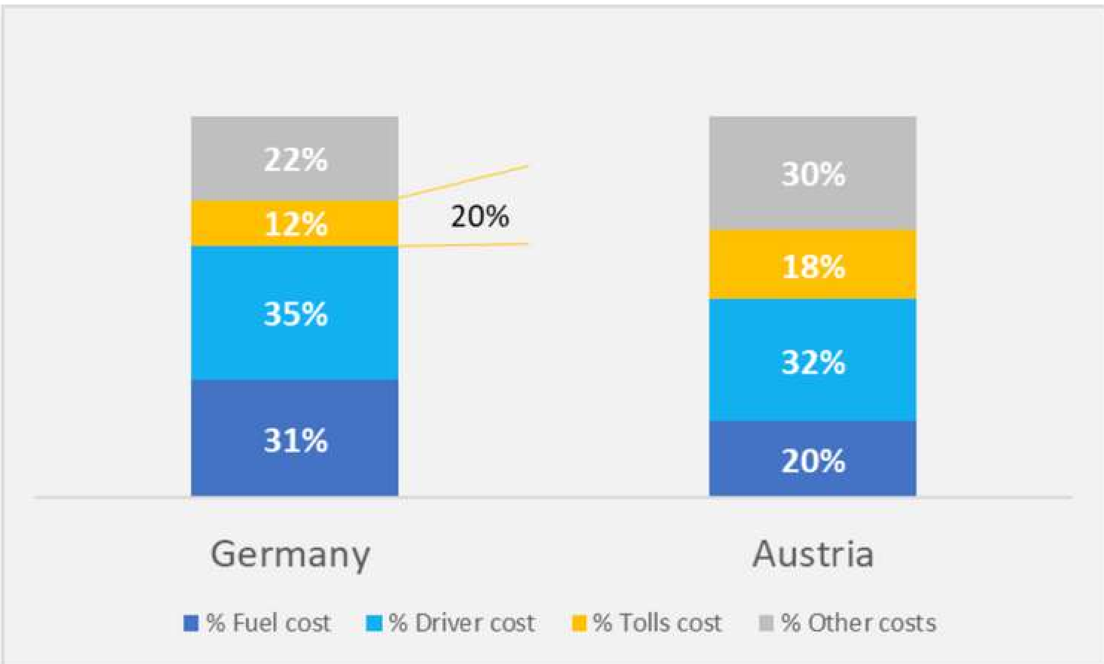
Rationale:
The toll tax is intended to accelerate the reduction of greenhouse gas emissions and reach climate reduction goals by increasing pressure on hauliers to invest in electric transport fleet. However, Dirk Engelhardt, President of the Federal Association of Road Transport, Logistics and Utilization (BGL), believes that in the end it will be the consumer who will become the funder of the construction and renovation of railroads and roads as hauliers will pass on the cost increase to shippers and eventually to the end consumer. In addition, while the objective of the new tax is to speed up the transition to emissions-free vehicles, the nationwide fuelling and charging infrastructure is still underdeveloped.

Implications:
The increase in road tolls will have negative financial implications, and burden both shippers and consumers with higher prices.

- **Increased operating costs**

The doubling of road tolls will directly affect hauliers' operating costs. Transport companies will face financial challenges due to the increased tolls. Higher toll charges will add a financial burden, affecting profit margins and rate strategies. The increased costs could have a ripple effect, leading to adjustments in transportation rates and overall supply chain expenses. While some operators may try to absorb the costs, the majority may be forced to pass them on to their clients through higher freight rates.
Currently around 12% of hauliers' costs in Germany are attributed to tolls. Once the CO_2 toll comes into force this share will increase to about 20%. For instance, a haulier with 130 trucks currently pays around €200,000 a month in tolls. From December it will be €400,000. This is an enormous burden that hauliers will have to pass on to customers.

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



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

Logistics operators have already announced rate increases as a response to the toll increase. Maersk for instance stated that "the rise in toll fees will increase cargo transport costs and as such, bring a need for Maersk to increase rates for truck transport in Germany. Taking into account the increased toll, we will revise the tariff for Q4 of this year". Similarly, DB Schenker announced that it will "pass on these tax adjustments directly to the client".

- **Modal shift**

The sharp rise in road tolls might encourage hauliers to explore alternative modes of transportation to reduce/minimise costs. This could result in a shift from road transport to rail or waterways, especially for long-haul journeys, as these modes are proving to be a financially attractive alternative to road. As a result, rail and inland waterway operators may experience an increase in demand. However, capacities in rail and waterways are limited so it will be crucial for businesses to react quickly.

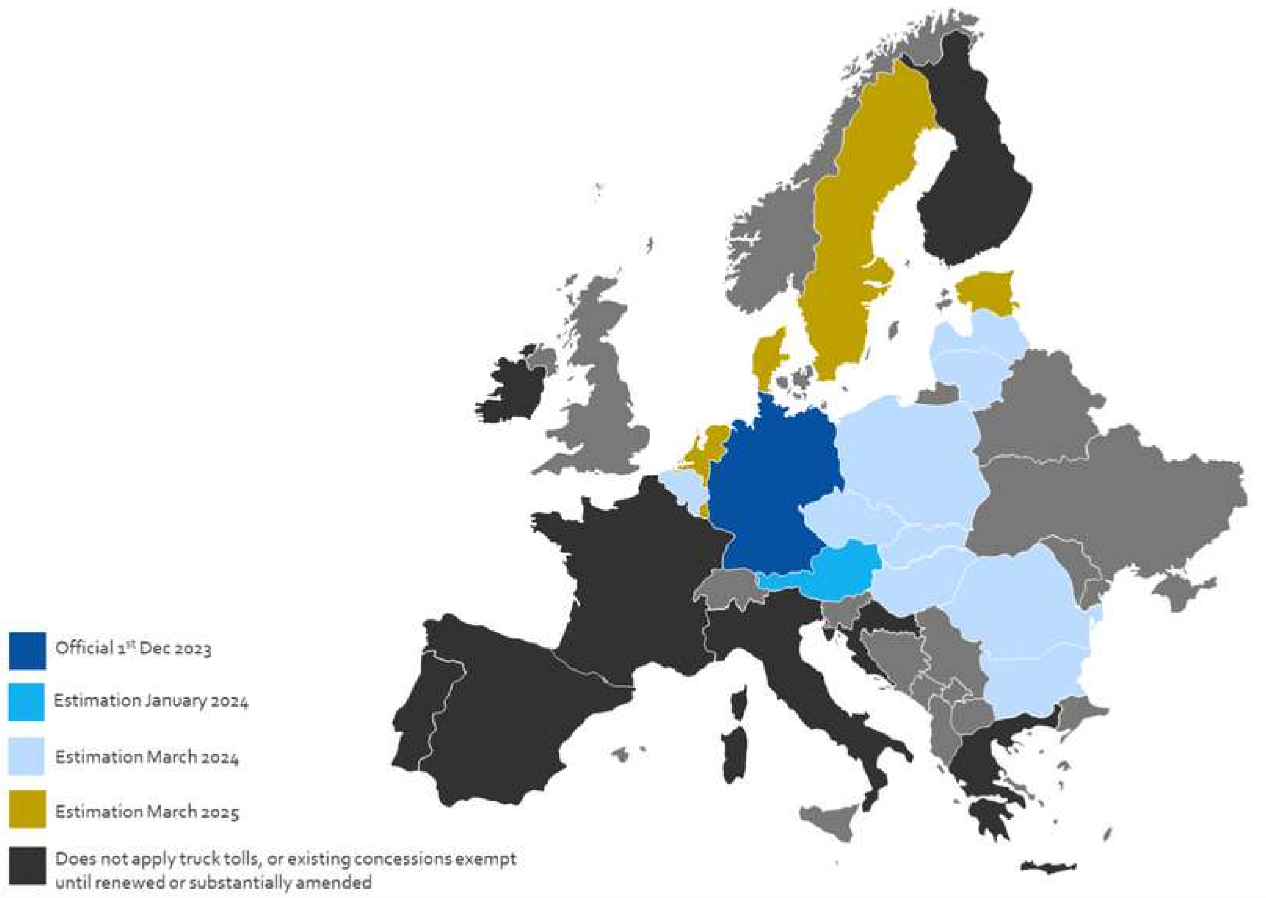
- **Regional disparities**

The impact of increased road tolls may not be evenly distributed across Germany. Industries located in remote areas or with limited access to alternative transport modes such as rail or waterways may face higher logistical challenges and increased costs, potentially impacting their competitiveness.
In addition, the toll tax is expected to increase the costs of road transports crossing Germany in transit. This puts Germany at a disadvantaged position as higher transportation costs could reduce the competitiveness of German goods in international markets, potentially affecting exports.

- **Domino effect**

Germany and Austria will be the first two countries to implement the new Eurovignette directive on Co2-based tolling with expected rules coming into force starting on 1 December 2023 in the case of Germany and estimated in January 2024 for Austria . Other EU Member States are expected to implement the Eurovignette Directive by March 2025 at the latest. Germany could therefore trigger a domino effect that would have a major impact on road transport across Europe.

New obligations for EU members states related to CO2-based tolling:
Entry into force of new regulations



Source: European Commission

In Germany, parliament and Federal Council approved on 20 October 2023 the increase of German road toll tariffs (Lkw-Maut). The new tariffs will enter into force as of 1 December 2023. The vast majority of vehicles will fall into CO2 emission class 1, which is the most expensive one: CO2 emission class 1 will cover all vehicles with Euro 0 – Euro V classes, all Euro VI vehicles first registered before July 2019 and most Euro VI vehicles first registered after July 2019.

Consequently, Toll Collect, the federal enterprise in charge of toll collection and enforcement, will classify all vehicles in CO2 emission class 1 by default.

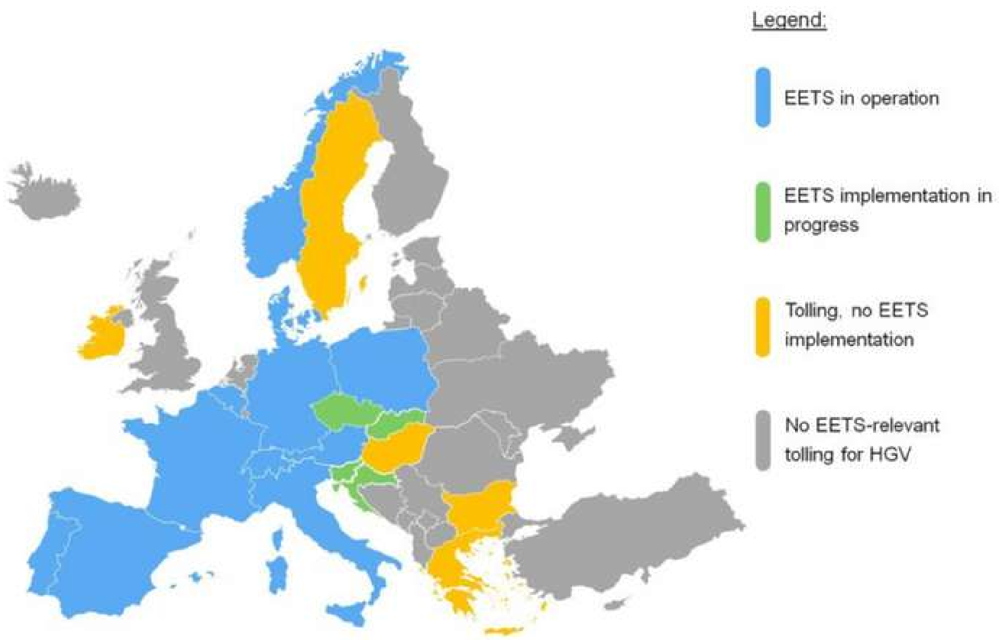
Gas-driven vehicles (CNG/LNG) will continue to benefit from the exemption of German Lkw-Maut until 31 December 2023. As of 1 April 2024, these vehicles will be subject to the full tariffs according to their relevant Euro and CO2 emission classes.

- **EETS (European Electronic Toll Service) implementation status**

The implementation of the CO2-based tolling needs to be considered in a context of the EETS deployment, where the main goal of the EU is to standardize the methods of collecting fees.

EETS is a tool aimed at achieving the goal of European interoperability. The concept of European interoperability should be understood as enabling users to pay tolls for toll roads in the European Union under one contract concluded with the EETS Provider and using one piece of On-Board Equipment (OBE).

EETS implementation status



Source: EETS Information Platform

The Netherlands is working on deploying its satellite toll system by 2026 as are Denmark and Lithuania by 2025 or 2026.

EETS involves two main stakeholders:

- Toll chargers, which operate either on behalf of a Member State or in the framework of a concession contract with a Public Authority of a Member State, manage the infrastructure or levy the tolls for the circulation of vehicles on the network they manage.
- EETS providers, supplying drivers or vehicle owners with the necessary equipment and services to access tolled infrastructures in the EU and ensuring the payment to the toll chargers of the fees due for use of their network.

Costs outlook

1. Fuel prices

According to the US Energy Information Administration (EIA), the Brent crude oil spot price will rise in the coming months, reflecting the expectations of tightening balances in global oil markets. The Brent spot price will average $91/b in Q4-2023 and $96/b in Q2-2024, potentially leading to continuous pressure on diesel prices at pump in the coming months, before some modest downward pressure emerge in H2-2024 ($95/b average price forecast 2024).

Countries within the OPEC+ agreement are expected to have lowered crude oil production by 1.4 million barrels per day (b/d) in 2023, partly offsetting production growth of 2.7 million b/d by non-OPEC+ producers, and their oil production will fall by an additional 0.3 million b/d on average in 2024 [3].

Global oil inventories are expected to fall by 0.2 million b/d in H2-2023 and will continue decreasing in Q1-2024, as OPEC+ cuts are expected to keep global oil production lower than demand. Inventories will be balanced in the remaining three quarters of 2024 as global oil consumption growth generally slows while production growth accelerates.

However, the following factors remain a source of uncertainty in crude oil price forecast:

- Although the recent attacks on Israel have not affected physical oil markets, they raise the potential for oil supply disruptions and higher oil prices.
- Current OPEC+ production targets are set to expire at the end of 2024, continuing voluntary cuts and other factors are expected to keep actual OPEC+ crude oil production well below targets as the group tries to limit increases in global oil inventories. However, should OPEC+ produce closer to target levels, it could reduce prices in 2024.

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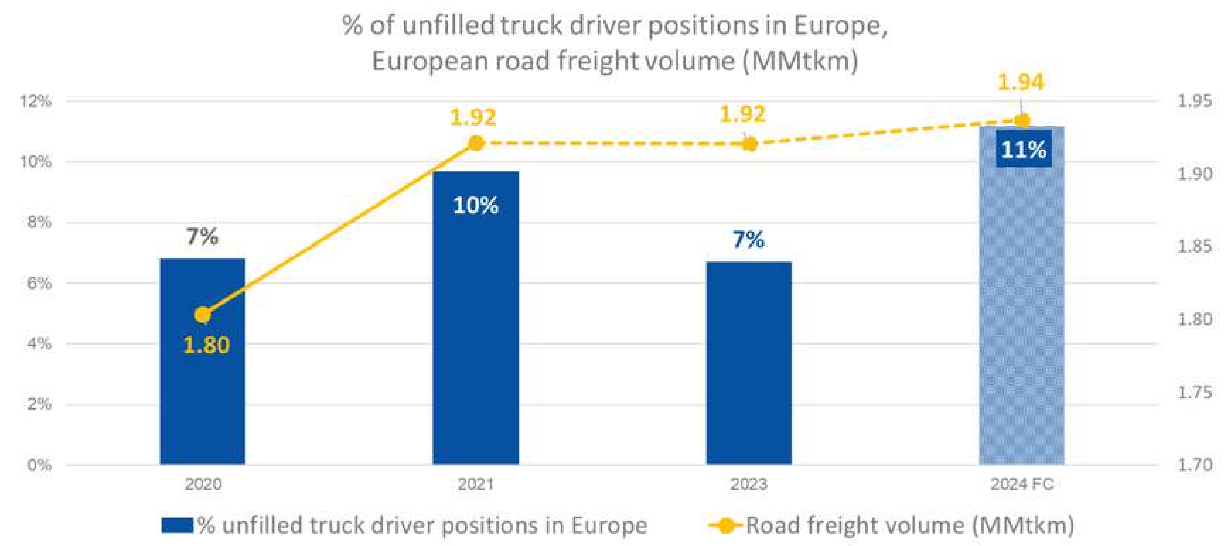
[3] Assuming some extension of voluntary production cuts from Saudi Arabia into 2024 and overall production from OPEC+ countries remaining below targets).

- The rate at which U.S. tight oil producers add drilling rigs and improve well-level efficiency is highly uncertain and could cause global oil production to vary significantly from forecast.
- Finally, the global economic outlook remains uncertain, and unexpected changes in GDP growth in the coming months could affect oil demand.

2. Labour costs and driver shortage

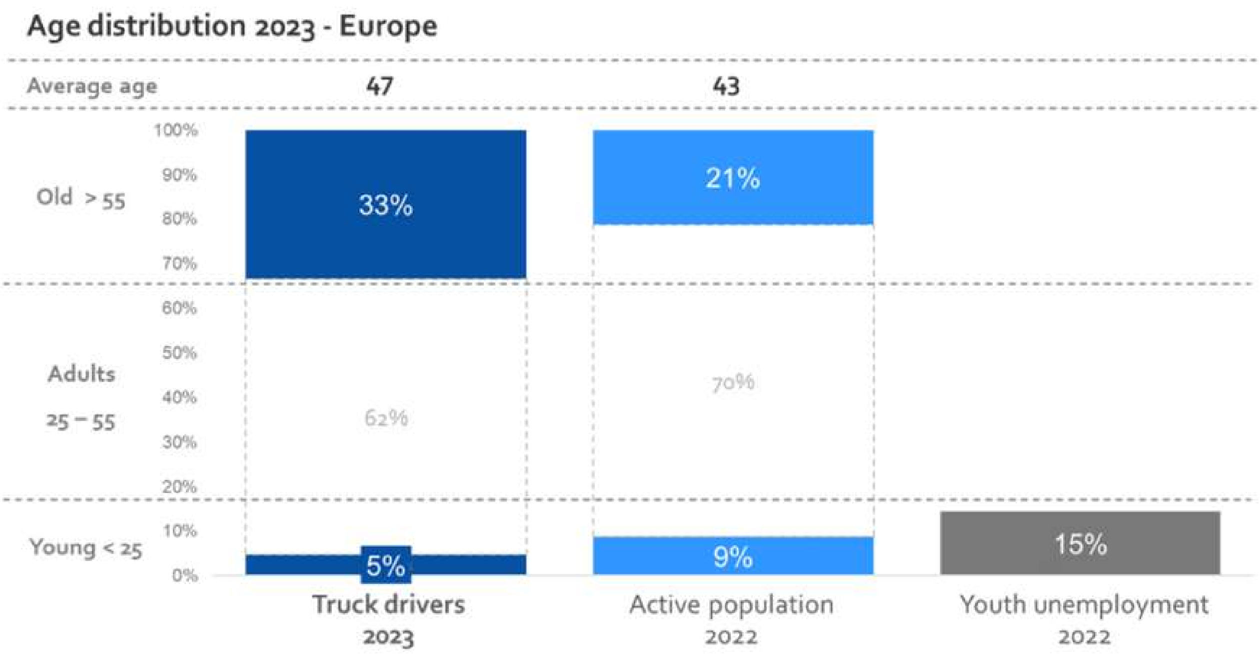
Next year, the shortage is forecasted to reach 11% unfilled jobs, driven by transport demand growth expectations as well as an ageing population of drivers.



Source: IRU driver shortage report 2023 and IRU estimation

The forecasted driver shortage will strongly depend on the economic activity with a mild rebound in growth that is still projected next year, as inflation keeps easing, the labour market remains robust and real incomes gradually recover.

Over one third of truck drivers in Europe are currently over 55 years and will retire in 5 to 10 years, while the number of new entrants joining the profession is insufficient to ensure the replacement of older ones (less than 6% truck drivers are below 25 years old in Europe). Driver shortage medium term forecasts estimate over 745,000 truck driver jobs could be unfilled in 2028, solely due to driver retirements.



Source: IRU Driver shortage report 2023

3. Road freight demand and rates

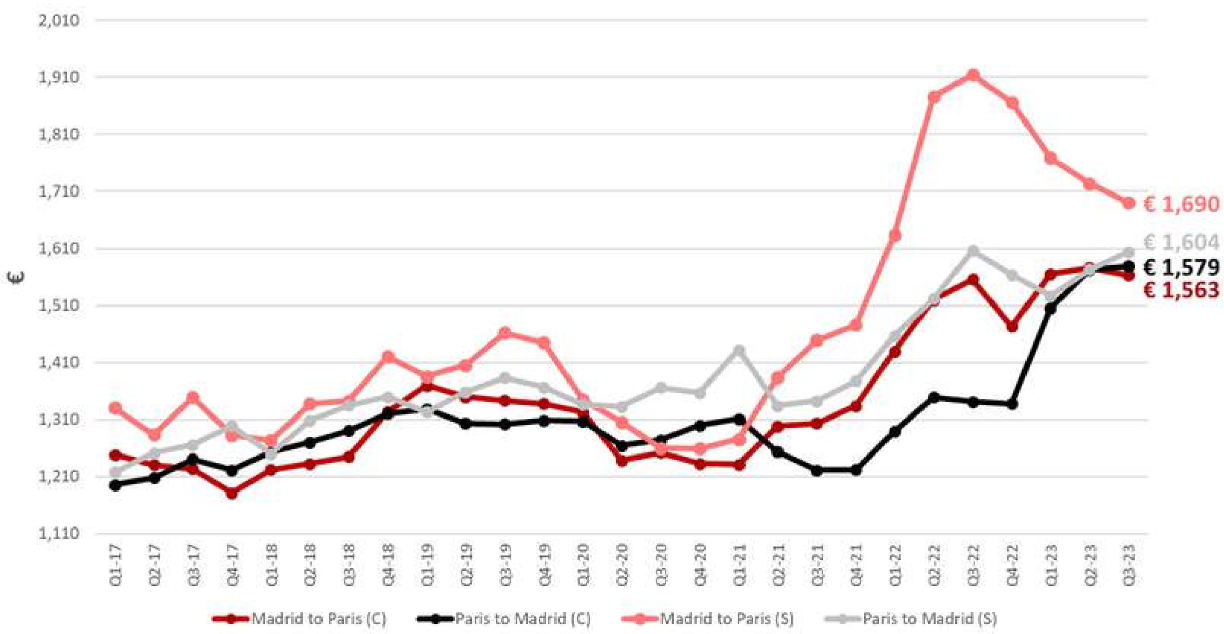
Evidence suggests that the carrier cost base is significantly higher than a few years ago, which raises the road freight market's break-even level. Even with further contractions in demand and the resulting extra capacity in the market, rates will not drop down the lows seen the past.

The outlook for European rates is reduced volatility as European demand stagnates at lower levels than in previous years. There are signs that further falls in consumption and production could pull spot rates below contract rates. Sustained lower levels of demand will eventually add downward demand-side pressure to contract rates, but cost pressure is likely to keep them high.

Inflation in services is set to continue moderating as demand softens, under the impact of monetary policy tightening and a fading post-COVID boost. The other non-energy components of the consumption basket will continue contributing to easing inflation over the forecast horizon, also reflecting lower input prices and normalising supply chains.

France – Spain

Paris – Madrid Road Freight Rates



Source: Upply

Rate development:
On the headhaul from Madrid to Paris, contract prices dropped to an average of €1,563 (€1.23/km) down 0.8% Q-o-Q but up 0.4% Y-o-Y. In the Spot market rates fell 1.9% Q-o-Q and now sit down 11.7% Y-o-Y.

On the backhaul the price of cargo travelling from Paris to Madrid rose in both markets. A 0.4% increase in the contract market put average journey prices up to €1,579 (1.24/km) placing them up 17.7% Y-o-Y. The spot market price rose 1.9% to €1,604 (€1.26/km) now up 0.2% Y-o-Y.

Market Pressures:
Overall French demand for goods remains depressed vs previous years with few signs of growth from key indicators. Available Q3 2023 data from Insee (French National Statistics Institute) puts overall consumption down 1.3%, mainly due to a 7.6% fall in the consumption of food. While the consumption of engineered goods is up 2.8% year-over-year (Y-o-Y), it remains down 1.7% versus 2021. The result is continued easing of demand-side pressure, facilitating the fourth consecutive quarter of spot rate falls. A 1.9% fall in the spot rate represents a deceleration of the speed of price falls by a third, suggesting the market is normalizing around 20% above its 2019 level.

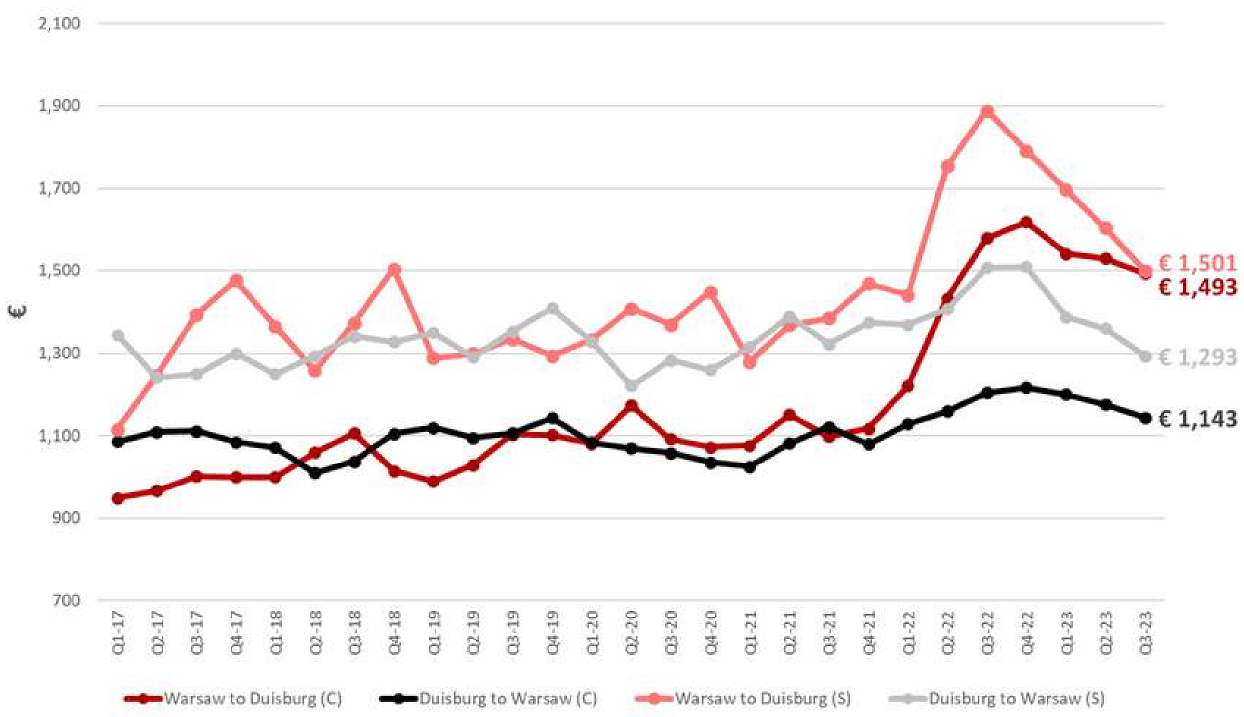
On the backhaul, the Spanish economy is benefiting from lower inflation rates, now down to 3.5% in September from a peak of 10.8% in July 2022. Available consumption data suggest consumer demand remains fragile, with expenditure on wholesale and retail falling 1.2 points in Q3 2023 versus Q2 2023 but sitting up 1.3 points Y-o-Y. Total Spanish production shows a similar weakness, with available Q3 2023 data showing total manufacturing volumes falling 0.4% quarter-over-quarter (Q-o-Q), putting them down 1.3% Y-o-Y. Spain's production of vehicles, however, has been growing, with Q3-2023 Eurostat data showing 3.4% Y-o-Y growth in volumes produced. This has increased demand for intermediate and capital goods into Spain.

Costs:
Cost increases are playing a major role in prices, as prices bottom out due to a more stable demand environment. Headhaul routes originating in Spain now face transport sector labour costs up 7.1% year-over-year (Y-o-Y), while Spanish diesel prices grew 4.7% in Q3 2023 and remain up 20.0% Y-o-Y. In addition, the cost of vehicle spares and maintenance in Spain are both up over 14.0% when compared to 2019.

Outlook:
As economic activity in both countries continues to slow, demand-side pressure still has the ability to pull spot rates down on this lane. However, the size of rate falls is decreasing, suggesting some normalization of rates on this lane, yet at a much higher level than previous years. This can be linked to the much higher cost base, as carriers now face elevated costs across the board.

Germany – Poland

Duisburg – Warsaw Road Freight Rates



Source: Upply

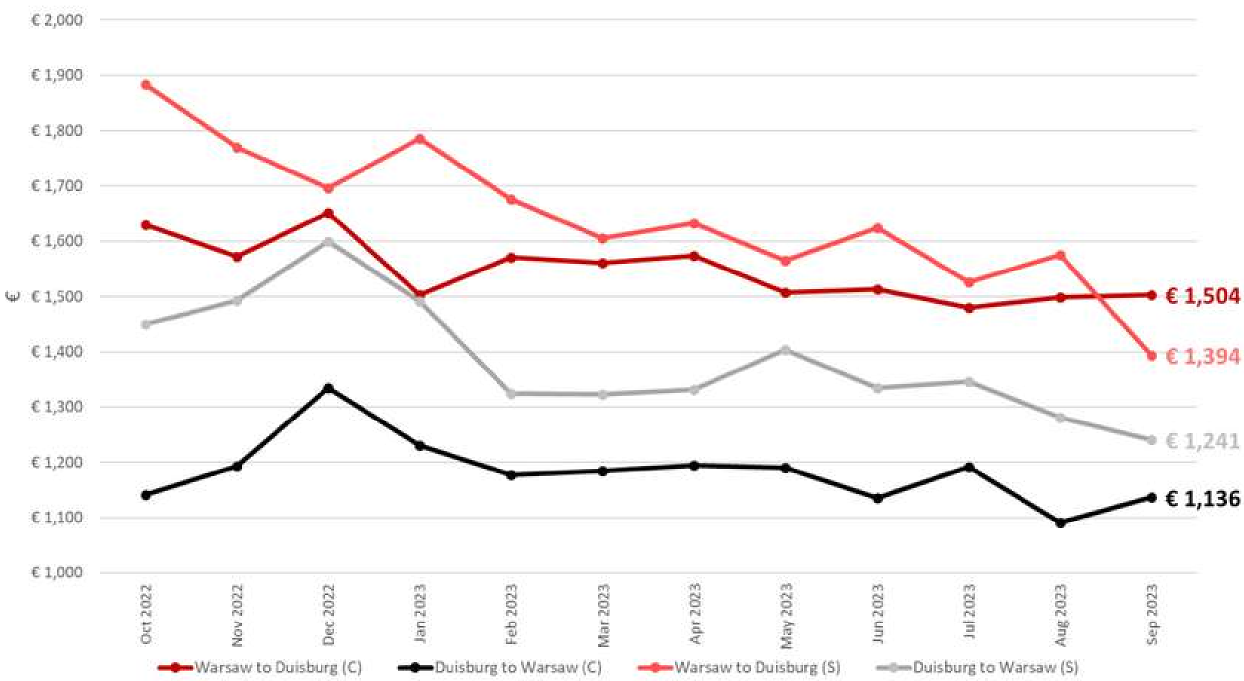
Rates development:

On the headhaul towards Duisburg contract rates dropped to €1,493 (€1.38/km) down 2.4% Q-o-Q and 5.5% Y-o-Y. Spot rates fell 6.4% to €1,501 (€1.39/km) now down 20.5% Y-o-Y.

In the opposite direction towards Warsaw, contract rates fell 2.7% to €1,143 (€1.05/km), now 5.1% below their 2022 Q3 level. Spot rate fell 4.9% Q-o-Q and are down 14.2% Y-o-Y.

During Q3 2023 spot prices on the head haul were just 0.5% more expensive than contracts, down from 4.9% the previous quarter and 19.5% a year ago. When we look at the monthly data we can see that the spot price fell below the contract price in September 2023.

Duisburg – Warsaw Monthly Road Freight Rates



Source: Upply

Market Pressures:

The German economy continues to see a fall in activity across the market, as more indicators show signs of recession. This is causing a reduction in demand and resulting in excess road freight supply in the short term. This has vastly increased the supply-side (carrier) competition in the market and pulled spot rates down.

Data suggests Germany remains the sick man of Europe, with consumption and production down and continuing to fall. Total German manufacturing fell 1.7 points versus the previous quarter and remains 6.8 points below 2019 Q3 levels. While car production recovers across the continent, available Q3 2023 data from Eurostat shows German vehicle production fell 5.5 points versus the previous quarter and is now 13.3 points below 2019 levels. The result is reduced demand for Polish intermediate goods into German factories and reducing the demand-side pressure on headhaul rates. Producer price growth has hurt Germany's international competitiveness, and August 2023 data from Destatis puts international new manufacturing orders down 5.7 points year-over-year.

The interdependency of German and Polish manufacturing means the backhaul paints a similar story. However, the Polish economy maintains a more positive outlook on the whole, meaning rates may head on a different path. Polish production fell by a more modest 0.3 points quarter-over-quarter based on available Q3 2023 Eurostat data. This puts Polish production down 2.6 points year-over-year but up 28.9 points versus 2019, a sign that Polish manufacturing is in a long-term state of growth. This growth could keep demand for intermediate goods into Poland elevated.

Costs:

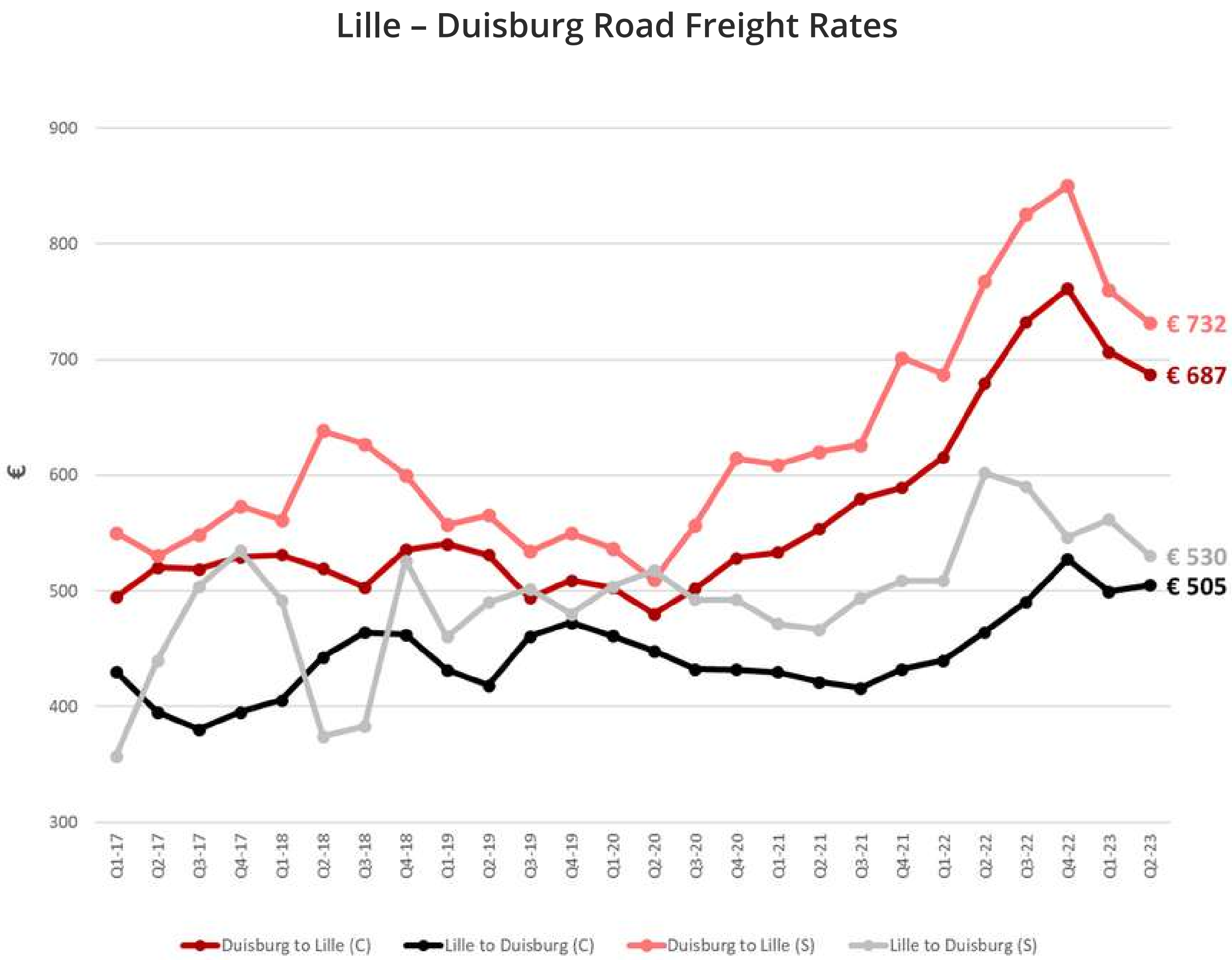
Polish carriers dominate the supply on this lane, and high inflation in the country has pushed prices up across the board. Wages in the Polish transport and storage sectors are up 17.5% year-over-year (Y-o-Y), while spare parts costs are up 7.6% and vehicle maintenance costs are up 10.0%. Inflationary pressure has eased, but with Polish inflation peaking as late as February 2023, these cost pressures still have the potential to make their way through the system and increase supply chain costs in Q4 2023 and early 2024. Polish fuel rates (+0.2%) increased well below the European average (6.4%) in Q3 2023, adding little short-term rate pressure. However, they remain up 20.0% versus 2019.

A 5 Class CO_2 emission based toll system will increase toll cost by an average of 74% for high polluting vehicles from December 1st 2023. Similar systems will be introduced across the European union by March 2024.

Outlook:

Weak German demand dominates the story on this lane, with economic activity continuing to fall as the country aims to dodge a damaging recession. The result is falling spot rates due to low short-term demand-side pressure, but also continued falls in contract rates as long-term sentiment becomes more pessimistic and German customers demand smaller long-term road freight capacity.

France – Germany



Source: Upply

Rates development:
On the headhaul to Lille, contract rates fell to an average of €677 (€2.24/km) down 1.2% Q-o-Q and 7.1 Y-o-Y. Spot rates averaged €713 (€2.36/km) down 2.1% Q-o-Q and 12.8% Y-o-Y.

On the backhaul route from Lille to Duisburg, contract rates sat at €491 (€1.63/km) down 2.6% Q-o-Q and 1.0% Y-o-Y. Spot Prices sat at €532 (€1.76/km) down 0.3% Q-o-Q and 10.9% Y-o-Y.

Market Pressures:

On the head haul into France, the speed of decline for rates has slowed as the Eurozone's second-largest economy is set to grow modestly into 2024. Available Q3 2023 data from Insee shows 0.9% quarter-on-quarter growth of French household expenditure, but it remains down 1.3% year-on-year. Total French production saw no overall volume change in Q3 2023 and sits up just 0.7 points year-on-year, but 3.6 points below 2021. As a result, France rates appear to be normalizing somewhat, with reduced volatility as a result of stable French demand at new lower levels.

On the backhaul, contract rates dropped 2.6%, reflecting a continued decline in the long-term output expectations of the German economy. Indicators across the board point to a stagnating German economy struggling in recession. On the consumer side, retail trade fell 2.3 points quarter-on-quarter and has fallen in 6 of the last 8 months. German production fell 1.7 points quarter-on-quarter, and even vehicle production fell 5.5 points quarter-on-quarter and is now 6.8 points below its 2019 level. As a result, both spot and contract rates toward Germany have the potential to fall further as the projected volume capacity required into Germany continues to decline and free up market capacity.

Costs:

While demand levels from consumers and industry in both markets are down on historic 2019 levels, costs are considerably up versus 2019, and as a result, prices remain elevated.

Vehicle maintenance costs in France are up 21.1% versus 2019, and 24.0% in Germany. Diesel is up 26.0% versus 2019 in France, and 39.5% in Germany.

In the short term, fuel, labour, and tolls are set to push the cost base up further. Diesel prices at the pump increased 4.6% versus Q2 2023 in France and 7.2% in Germany. Q2 2023 data shows that wages in the transport and storage sectors are up 6.5% year-on-year in France. Wages rose just 2.1% in Germany due to falling activity, but with the minimum wage increasing and general wage increases at 6.6%, we can expect this cost to rise if German demand picks up and requires more labour in the medium term.

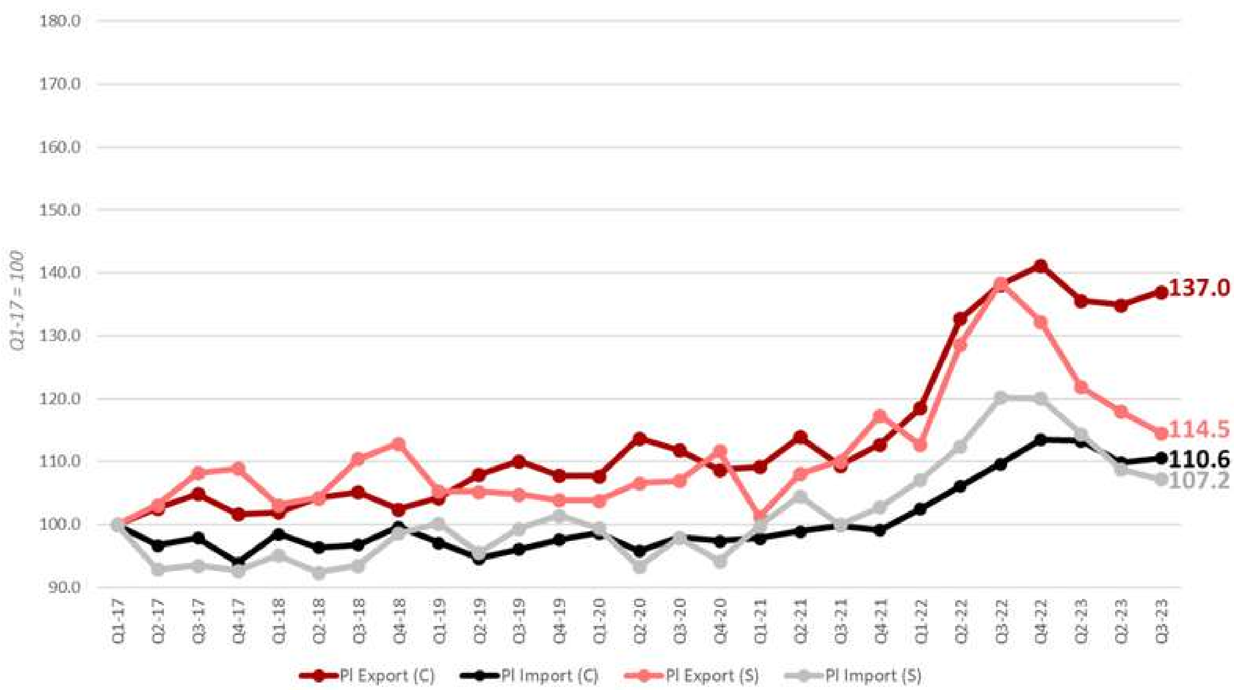
A 5 Class emission based toll system will increase toll cost by an average of 74% for high polluting vehicles from December 1st 2023 in Germany. Similar systems will be introduced across the European union by March 2024.

Outlook:

Prices on the headhaul appear to be normalizing as French economic activity remains muted, yet costs remain elevated for transport operators. On the backhaul, as Germany's woes continue, demand-side pressure continues to fall, with the potential to free up capacity and add downwards pressure to rates. However, as costs within the German economy also remain high, the size of rate falls, especially in the contract market, is limited.

Poland International Lanes

Polish Import and Export Lanes



Source: Upply

Rates development:
On Polish export lanes, the contract index reached 137.0 points up 2.1 points Q-o-Q but is now sitting down 1.1 points Y-o-Y. The spot index dropped 3.4 points Q-o-Q to 114.5 putting the index down 23.9 points Y-o-Y.

On Polish import lanes, the contract index rose 0.7 points Q-o-Q to 110.6 points and now sits down 1.0 point Y-o-Y. The spot market dropped to 107.2 points following a 1.5 point decrease Q-o-Q leaving it down 13.0 points Y-o-Y.

Market Pressures:
High costs and falling demand-side pressure are the main drivers for Polish international road freight rates, especially on export lanes where spot rates are now just 0.4% higher than contract, down from 5.2% the previous quarter and 20.1% a year ago.

Poland's exposure to struggling European economies has reduced short-term demand for intermediate and capital goods to the rest of the continent. This is evident from Eurostat data, which puts Polish manufacturing volumes down 0.3 points quarter-on-quarter and 2.6 points year-on-year. As a result, spot rates continue to fall significantly. However, the longer-term trajectory of Polish manufacturing remains one of growth. Total manufacturing volumes are up 47.2 points versus 2019, machinery up 45.0, and food up 23.9. In addition to the potential to gain from Germany's lost competitiveness, demand-side pressure has been steady on contract rates, helping to keep them high.

High inflation, which peaked at 17.3% in February 2023, hurt Polish incomes and reduced the total demand for goods on import lanes into the country, freeing up short-term road freight capacity and allowing a 13.0-point year-on-year drop in the spot market. Available Q3 2023 data shows total retail demand remains down 0.7 points year-on-year, but recent data suggest consumption is rebounding, up +5.1 points Q-o-Q for vehicle expenditure, +1.9 points for appliance expenditure, and +1.4 points for total retail volume consumed. The result is less downward demand pressure on contract rates, which are increasing, and spot rates, for which the rate of decline has slowed by two-thirds in Q3 2023 as they normalize.

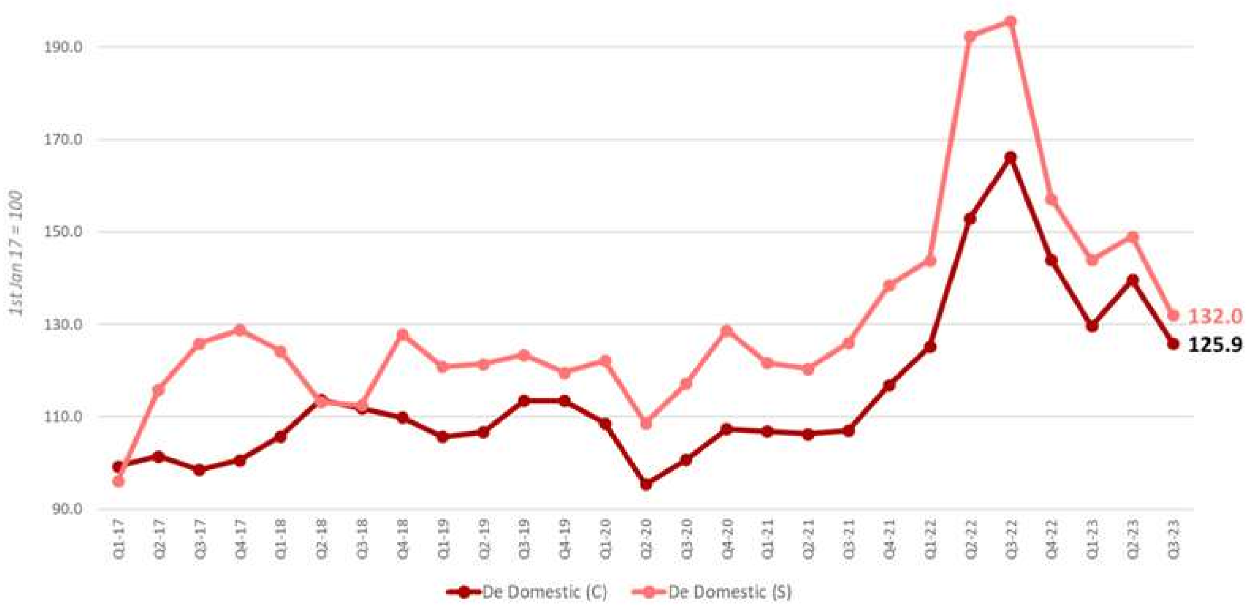
Costs:
Polish transport and storage sector wages are up 17.5% Y-o-Y and are now 59.6% higher than 2019 levels. The cost of spare vehicle parts in Poland is now 7.6% higher than in 2019 whist maintenance cost are up 43.3% and Insurance vehicle insurance is up 13.0%. The result is a significantly elevated carrier cost bases which increases the floor for both spot and Contract rates.

Outlook:

The outlook for rates on this lane is import rate with a slowed rate of spot decline resulting from slowing inflation resulting in rebounding consumption, and a continued elevated contract rate. A higher cost base for carriers will keep all rates elevated but export rates will face further downward pressure from falling demand as Poland's major trading partners struggle.

German Domestic Rates

German Domestic Road Freight Rates



Source: Upply

Rates development:

Contract rates in the German domestic market fell 13.7 points Q-o-Q down to 125.9, they're now down 40.3 vs 2022 Q3.

Spot rates in Germany fell 17.1 points Q-o-Q to 132.0 and are now down 11.9 63.7 points Y-o-Y.

Market Pressures:

Rates have been pulled down by falling demand in the German economy. The major market was confirmed to be in a recession in May 2023, and the latest figures suggest that its downward trajectory is set to continue. This will continue to add downward demand pressure to rates while they remain elevated to costs. This has the potential to pull spot rates below contract rates in euro terms, evidence of which has already been seen on German international import lanes.

Demand for goods is falling from both consumers and manufacturers. Q3 2023 consumption data from Destatis shows that total retail trade fell 2.3 points quarter-on-quarter and is 4.4 points lower than the same period in 2022. Food sales are now down 5.3 points year-on-year. With wholesale energy rates that are 180% higher than in 2019, German industry continues to cut output as its global competitiveness and demand wane. Available 2023 Q3 Eurostat data puts total German manufacturing volumes down 1.7 points quarter-on-quarter, with vehicles production down 5.5 points and machinery down 2.2 points. The effect is reduced demand for road freight capacity from FMCG and just-in-time intermediate goods, in turn freeing up domestic capacity and facilitating large rate falls in the domestic spot market.

The medium-term outlook for Germany is also continuing to bring down contract rates within the German domestic road freight market. In July, domestic new orders in Germany reached their lowest level since May 2020 (the beginning of the pandemic response in Europe), and while growing 3.9% in August, they're still 4.2% lower than 2022.

Costs:

Cost will limit the scope of rate falls in the German domestic market. Diesel prices have added pressure to rates in the short term, up 7.2% quarter-on-quarter, and remain up 39.5% versus 2019 levels. Eurostat data from Q3 2023 shows that the cost of vehicle maintenance in Germany is up 8.6% year-on-year and is now 24.0% higher than in 2019. These cost increases have also now caused large increases in vehicle insurance costs, which are up 12.7% year-on-year.

Toll costs for carriers operating in Germany will soon significantly increase with a new 5 class emission, weight and axel configuration based system being introduced from December 1st 2023 for vehicles over 7.5 tonnes. This will be extended to those over 3.5 tonnes in July 2024. All combustion engine vehicles will be considered Class 1 (High emission) unless evidence is provided Tollcollect which proves lower emission levels. Class 1 5 sees an average increase of 74% across weight categories.

Outlook:

Indicators suggest that low German demand-side pressure will fall further, as both consumers and manufacturers continue to demand a smaller volume of goods in Germany, freeing up greater capacity as a result. However, the cost base of German carriers remains elevated, and with producer costs within the market continuing to rise, cost pressure will increase. This market has the potential for spot rates to drop below contract rates, as further capacity is freed up.

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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Upply is the digital platform for freight transport professionals. Upply designs and develops cutting-edge and innovative solutions to help shippers, carriers and forwarders exploit the full potential of digitisation for their business.

Combining transport expertise and Data Science, since 2018 Upply has developed its leading solution, Smart, for benchmarking, tracking and analysing global freight rates. With Smart, supply chain players can make fully enlightened decisions and optimise their transport investments.

Through its Connect digital platform, Upply directly connects shippers with road hauliers and freight forwarders. As an operational tool, Connect simplifies transport operations by automating their processes.

To develop these unique technological solutions, Upply employs data scientists, logistics professionals and digital experts. The company is based in Paris and counts 60 employees.

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IRU, the world road transport organisation, has 75 years of on-the-ground experience with a network of 175 members from around the world. We represent the entire industry – bus, coach, truck and taxi, and strive for the sustainable mobility of people and goods across the planet.

As the voice of more than 3.5 million companies operating mobility and logistics services in over 100 countries, IRU fosters impactful solutions to help the world move better.
We bring a unique perspective, bridging the public and private sectors to support trade, economic growth, jobs, safety, the environment and communities.
IRU provides concrete services to transport and logistics companies, ranging from representation at the European and international level, trade and transit tools, driver skills assessments (including eco-driving), comprehensive research and insights with thematic workshops and roundtables on decarbonisation, driver shortages and digitalisation.

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