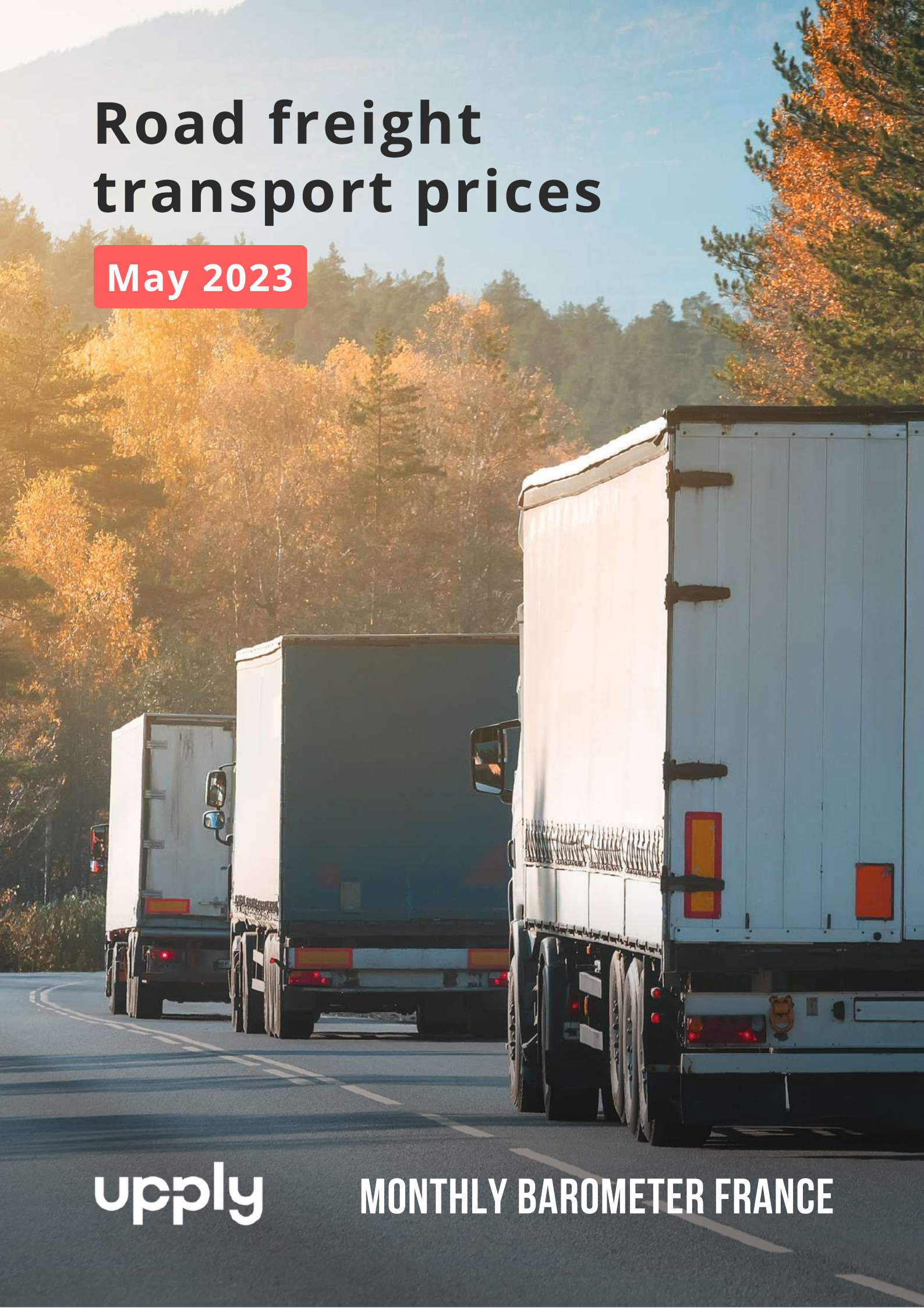
Road freight transport prices

May 2023



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MONTHLY BAROMETER FRANCE

French transport prices rose sharply in May

BAROMETER. Road transport prices in France rose by 1.1% in May, as public holidays led to a concentration of demand. The ecological transition becomes a major subject, symbolized by the Decarbonization roadmap given to the French government by professional organizations.

The month of May in France was marked by a lull in the social unrest. Despite some sporadic outbursts, we have undoubtedly witnessed the epilogue of the pension reform confrontations, with the publication of the first implementing decrees at the beginning of June.

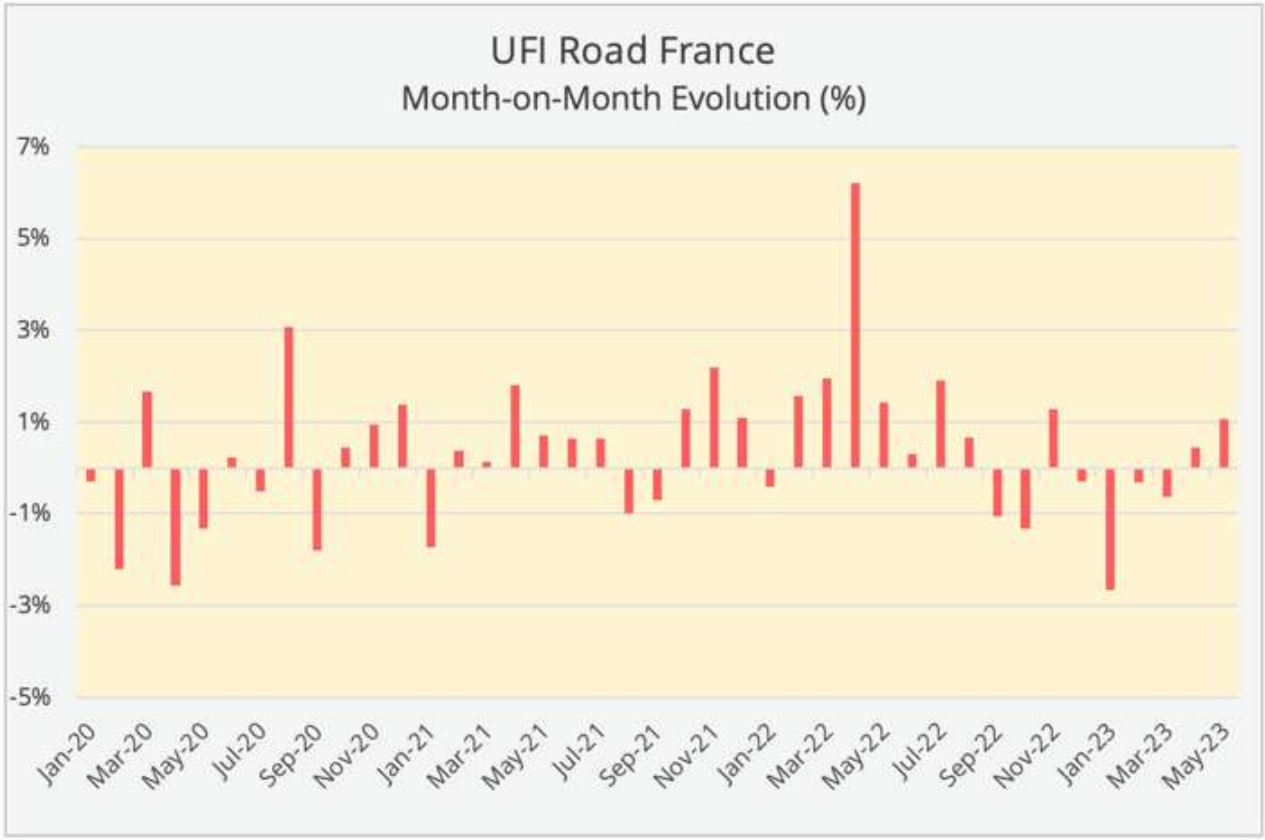
The general economic climate is also showing some positive signs. The provisional estimate published by the INSEE on 21 May indicates an increase in consumer prices of 5.1% in May year-on-year, in clear decline compared to the inflation rate of 5.9% observed in April. In addition, the outlook for economic growth is improving. The European Commission, in its spring forecast published on 15 May, has revised its forecasts for the growth of the French economy upwards. **GDP is expected to grow by 0.7% in 2023,** 0.3 percentage points higher than what was expected in the forecasts published in autumn 2022. **Moreover, the whole of Europe should benefit from slightly more favourable winds.** The forecasts for GDP growth in 2023 have increased from 0.3% to 1.1% for the Eurozone and from 0.3% to 1% for the European Union. Inflation is expected to reach 5.8% in the Eurozone and 6.7% in the European Union, which again represents an improvement of 0.3 points compared to the autumn 2022 forecasts.

In France, the month of May was also marked by new announcements by the State in favour of accelerating the reindustrialisation of France. This strategy, presented by the President of the Republic Emmanuel Macron at the Élysée Palace, provides for **13 billion in foreign investment and the creation of 8,000 direct jobs.** The Hauts-de-France region has been particularly successful: with the announcement of 4 gigafactories on its territory, including 2 in Dunkirk, it aims to become "the battery valley", at a time when the electric vehicle is revolutionizing the automotive industry.

Despite this wave of optimism, in the short term, the morale of French bosses remains low. In May 2023, the business climate in France lost two points compared to April and returns to its long-term average of 100. **This is its lowest level since April 2021.** All sectors of activity contribute to this general deterioration: in construction -3 points, in industry and services -2 points, in retail trade -1 point. Order intentions and business prospects are declining. This suggests lower volumes to be transported in the next quarter compared to last year.

Increase of net rates for French RFT

Under these conditions, **road transport prices in France show a notable increase of 1.1% in May 2023** compared to the previous month. This is the second consecutive month of increase.



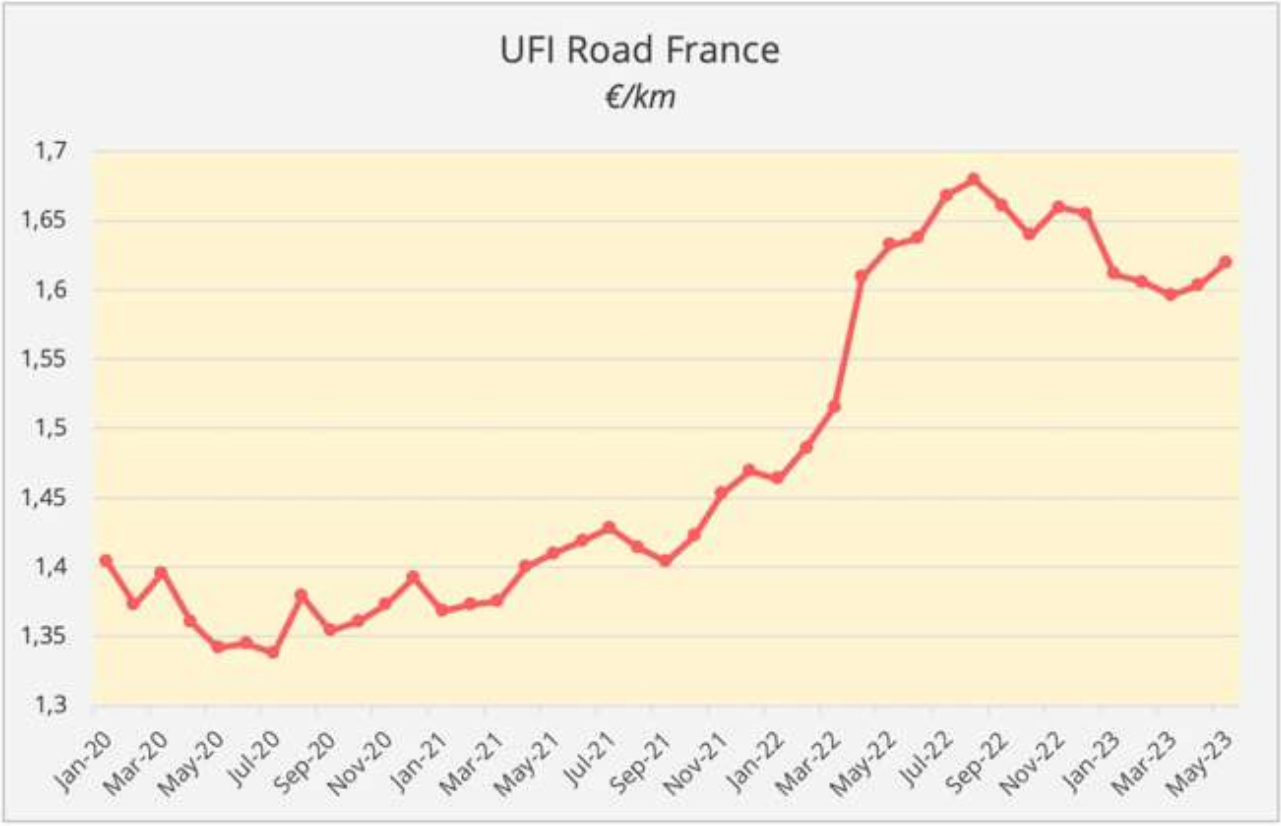
Source : Upply Freight Index – Road France

The price increase in May only came as half a surprise. In April, diesel prices fell by 4.3%. With its impact occurring with a lag of about a month, a price drop in May limited to about 1% could have been expected (taking into account the fact that the share of fuel in total operating costs is estimated at 26.5% over long distances by the CNR). Following the same reasoning, with a further 6.6% drop in fuel in May (see indicators p.10), it would be normal to expect prices to fall in June.

The increase in May can be explained at least in part by the particularly high number of public holidays. In general, during the prolonged bank holiday weekends, there is **a concentration of demand** over a few days, which results in a strain on capacity and a consequent increase in tariffs.

This year, all public holidays (4 in total) were concentrated on the month of May alone, i.e., 23 days worked out of 27 potential working days if we include Saturdays (19 days worked out of 23 if we count only the week with 5 days). This created a loss in capacity of between 14 to 17%.

The average transport price in France in April was €1.62 per kilometre driven. As such the index gained 0.02 euros per kilometre compared to the previous month.

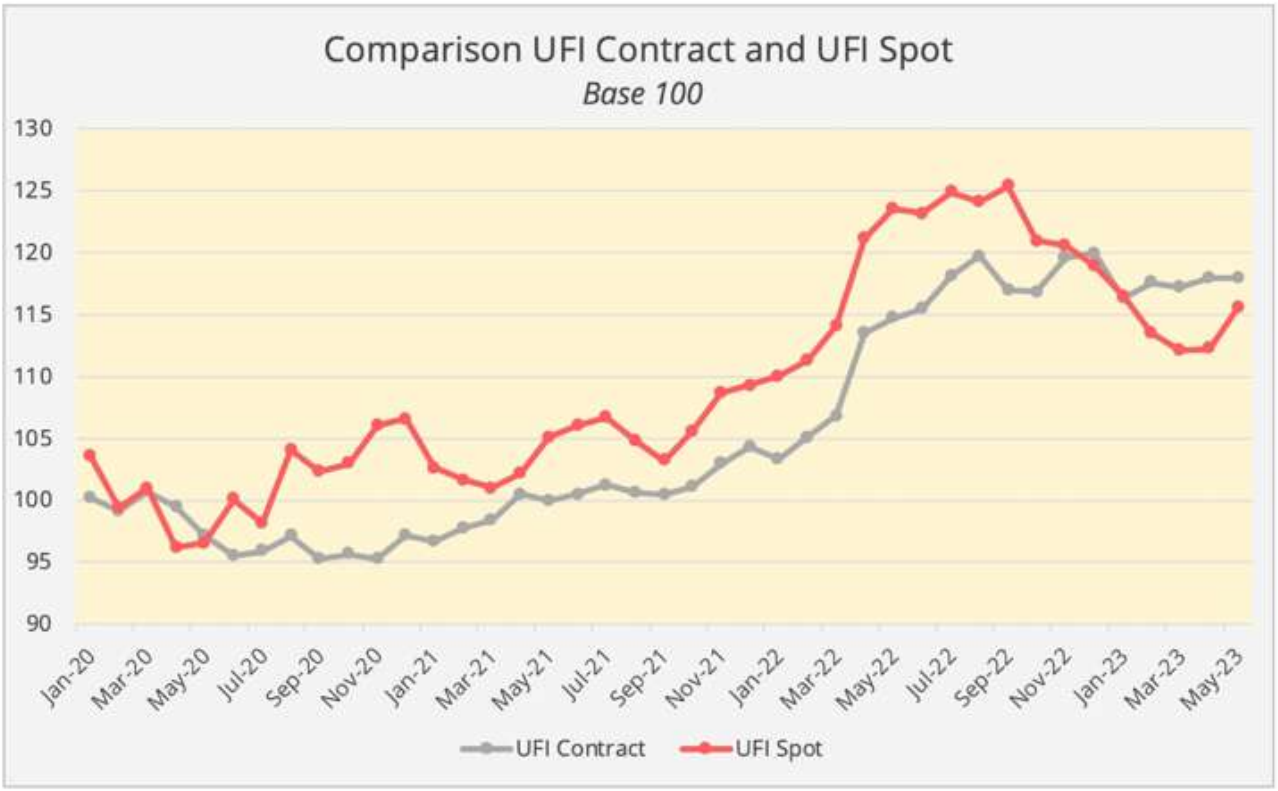


Source: Upply Freight Index – Road France

The UFI Contract index reveals the tension in the market

The evolution of Upply's UFI Spot index, which represents the variation in spot road transport prices in France, **is indicative of the tension on capacity in May.** This index jumped 3% month-on-month. This puts a temporary stop to the depressionary situation of transport in France that we have been reporting for months now. Moreover, year-on-year, spot prices are down 6.5%. This decrease is greater than the impact on prices of the decline in diesel, which confirms that the volumes to be transported are lower in 2023 than in 2022.

The Contract index, which represents the contractual prices between shippers and carriers on the French market, **is stable** and does not follow the fall in diesel. As these are usually the prices negotiated between the largest carriers and their customers on an annual (long-term) basis, this confirms once again that large carriers have managed to pass on substantial rate increases to their customers, which is good for their bottom line.

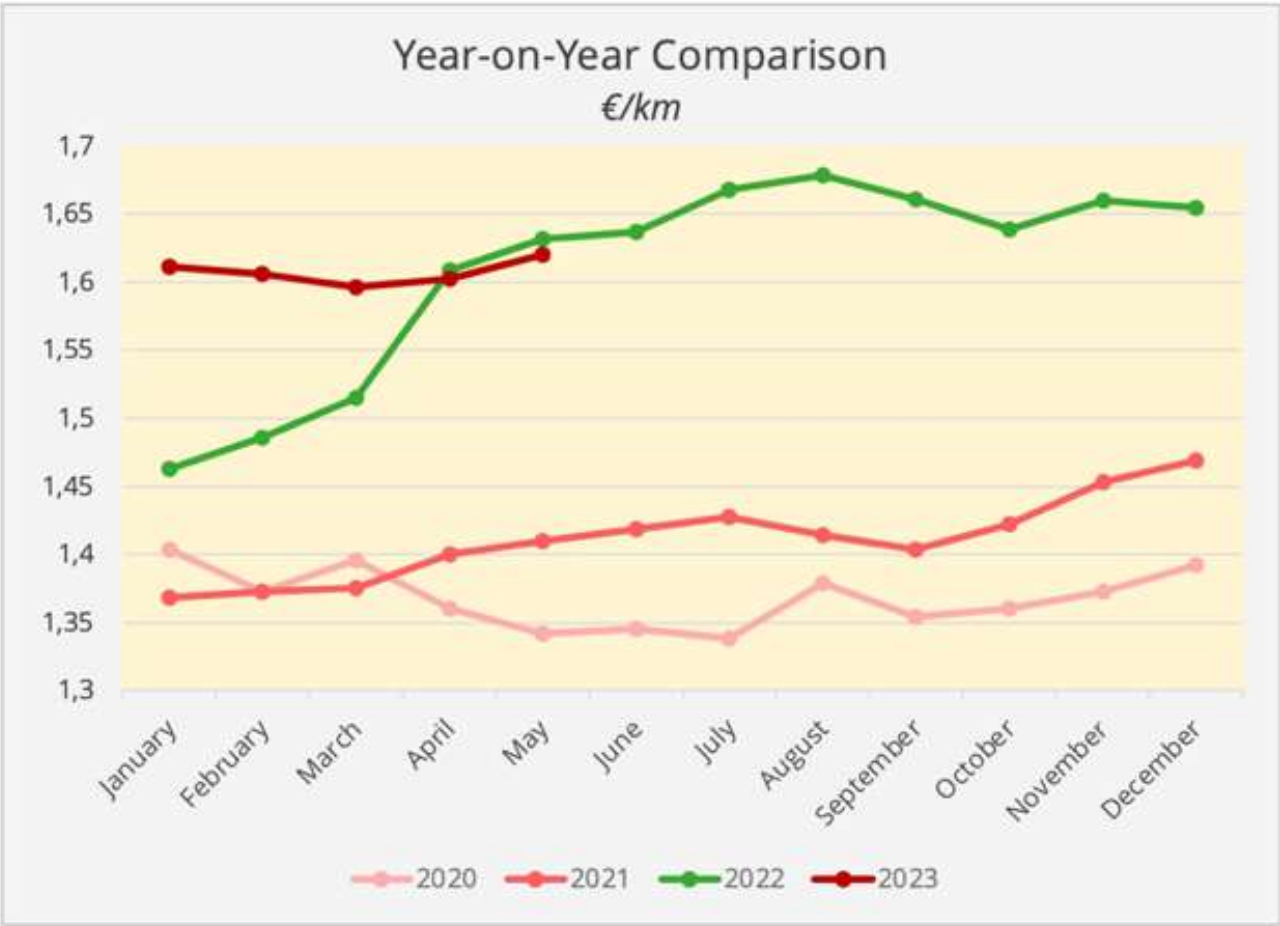


Comparison of changes in contract prices and spot prices
Source: Upply Freight Index – Road France

A favourable development for large carriers

As in April, transport prices over a year in France remained lower by about 1 euro cent per kilometre driven, or -0.7%, in May. However, the CNR LD EA index (see indicators p.10), which aims to charter the evolution of the costs of road transport of various goods over long distances by means of articulated assemblies up to 44 T, fuelled by diesel, varied by - 4.2%.

Arithmetically, we can therefore calculate that the carriers' profit margin improved overall by 3.5% [-0.7% - (-4.2%)]. If this information is combined with the evolution of the UFI Contract index, it can be estimated that this improvement in profit margins mainly benefits large market players.



Source: Upply Freight Index – Road France

Decarbonisation is underway

The ability to restore and increase profit margins is a major challenge for road carriers, who now have their backs against the wall when it comes to energy transition.

On 24 May, the professional road transport organisations (FNTR, TLF and OTRE) submitted to the government **their roadmap for the decarbonisation of heavy goods vehicles,** which should make it possible "to feed the future operational action plan of the third edition of the National Low Carbon Strategy (SNBC 3)". **They estimate the cost of decarbonising trucks at €52.5 billion for the period from 2026 to 2040:**

- 11.9 billion additional costs for NGV/BioNGV, i.e., €7.3 billion additional costs for the purchase of heavy goods vehicles compared to the diesel equivalent and €4.6 billion for refuelling.
- €23.5 billion in additional costs to switch to electric trucks (€12.8 billion compared to the purchase of diesel trucks and €10.7 billion for the deployment of recharging points)
- €17.1 billion in additional costs to switch to hydrogen trucks (€12.2 billion in purchase still compared to the diesel equivalent, while refuelling equipment is estimated at €4.9 billion).

The share of diesel in the fleets of road carriers is expected to fall in 14 years from 97% to only 2%. At the same time, the share of NGV/BioNGV will increase from 3% to 39%, while electric and hydrogen will increase from 0% to 45% and 14% respectively. In other words, professionals will have to face a phenomenal technological revolution, within very short timelines. The CSIAM (International Chamber of Automobile and Motorcycle Trade Unions), which represents manufacturers, speaks of a "colossal" challenge, that requires "a stable regulatory framework, based on forecasts shared by the sector."

What options for electrical technologies?

As we have just seen, **there are really three technological possibilities for decarbonising freight transport:** a non-electric technology, biogas, obtained by recycling waste, as well as two electrical technologies, batteries and low-carbon hydrogen. These different technologies can be combined with solutions such as multimodal or electric road system (ERS). On this last point, an experiment is planned by 2026 in the south of Alsace region in France following in the footsteps of Germany and Sweden. However, the technology is not considered mature enough, and many issues remain unresolved, both in terms of standardisation and security.

At this point, the electric truck, which runs on rechargeable batteries, has demonstrated its relevance to meet urban delivery needs. Given the relatively short distances to travel in this case (about 120 kilometres), its moderate autonomy does not pose any difficulty (nor does the reduced payload), and the benefits in terms of reducing noise pollution are also appreciable.

The penetration rate of electricity is still very low. Invited to speak during a webinar of the Road Union of France dedicated to the decarbonisation of freight by 2050, Marc Lejeune, Business Intelligence Director of Renault Trucks, however, stressed the growing interest of the market for this type of vehicle, especially in Germany, France, Sweden, and Norway, but also recently in the Netherlands, where the introduction of zero-emission zones is looming for 2025. Marc Lejeune also stressed the rapid progress in the range of electric trucks. Renault Trucks aims to achieve 50% of its sales in the electric vehicle segment within 7 years, compared to less than 1% today.

The announcements are multiplying. XPO is expanding its fleet with 100 Renault Trucks electric trucks. MAN Truck & Bus also signed an agreement with DB Schenker covering 100 MAN eTrucks by 2026. The first deliveries are due to take place in the first half of 2024.

Hydrogen trucks, on the other hand, are just beginning to enter the market. They have the advantage, like diesel, of having a very favorable range-to-unladen weight ratio compared to the battery-powered trucks. They therefore have real potential in the long-distance segment, but the technology is not yet fully operational.

If alternative technologies still have a way to go yet to compete with the operational efficiency of diesel, **we can see that the decarbonisation movement is underway. But the process promises to be gradual and costly**. On the other hand, the main decarbonisation options also depend on resources that are under pressure (metals, biomass, electricity, etc.), as they are coveted by other economic sectors, and whose operating conditions are far from neutral in environmental, social or geopolitical terms. To get away from oil, freight transport would have to rely on a diversity of energies.

KEY INDICATORS

INDICATORS	May 2023	April 2023	Evolution M / M-1	May 2022	Evolution over 12 months
Business climate (base 100)	100.0	102.2	- 2.2%	105.6	- 5.3 %
CNR Commercial Diesel Index	191.12	204.60	- 6.6 %	243.06	- 21.4 %
CNR's Long Haul semi trailer truck index	156.41	160.09	- 2.3 %	163.27	- 4.2 %

Sources: Insee, CNR

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