Press release

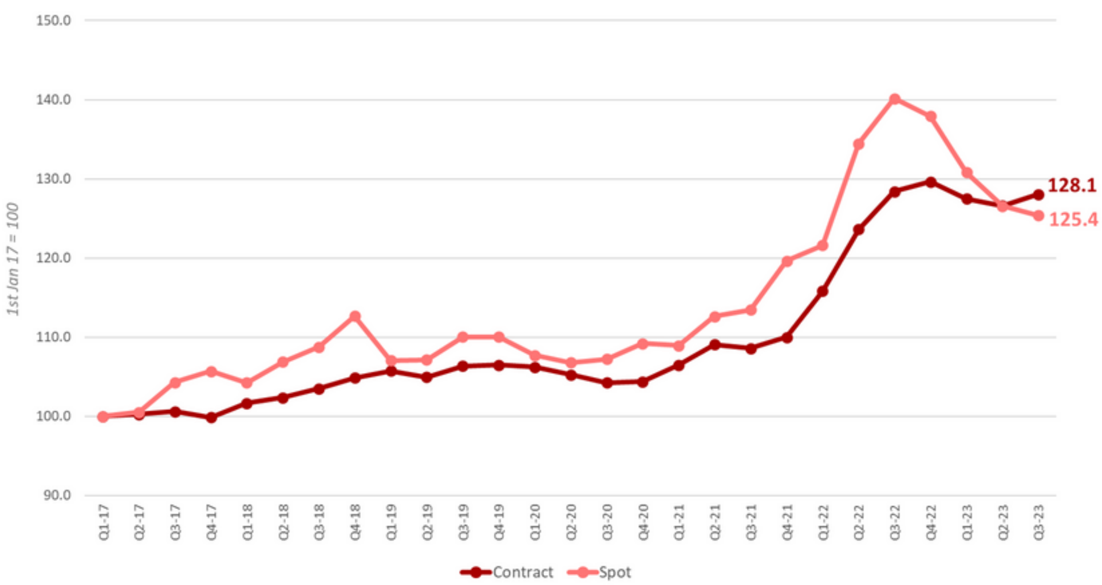
European Road Freight Rate Benchmark Q3 2023: Contract rates rally as spot rates continue to fall

Bath, 7th of November 2023 - The Upply x Ti x IRU European road freight rates index for Europe shows spot rates index moved further below the contract rates index in Q3 2023. The spot index fell for the 4th consecutive quarter while the contract spot index climbed for the first time since Q4 2022.

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. 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.

European road freight rate indexes in Q3 2023



Source: Upply

- The Q3 2023 European Road Freight Spot Rate Benchmark Index stood at 125.4, 1.2 points lower than in Q2 2023 and 14.8 points down y-o-y.
- The Q3 2023 European Road Freight Contract Rate Benchmark Index stood at 128.1, 1.4 points higher than in Q2 2023 and now just 0.4 points down on Q3 2022.

- Toll price increases in Germany in December could increase toll costs by up to 83%, an increase which will likely be passed on to customers.

- New forecasts from IRU shows driver shortages across Europe are expected to worsen again, with 11% of job opening expected to remain unfilled in 2024.

- Freight rates are expected to remain subdued but with a slight seasonal uptick in Q4, but rates are expected to stabilize in 2024 as European demand recovers and higher costs, especially from tolls, kick in.

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. Available Q3 2023 Eurostat data shows no change quarter-on-quarter in European retail trade but a 3.6-point fall in manufacturing. As a result, total demand-side pressure for road freight continues to fall, freeing up capacity, and allowing rates to slide further.

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.

> Thomas Larrieu, Chief Executive Officer at Upply, comments:
> *"The recent Upply data show that road haulage prices are holding up relatively well despite a rather unfavourable economic climate. This is mainly due to a constantly rising cost structure for hauliers. Significant increases in fuel prices and wages are helping to keep upward pressure on prices, which is partly offsetting the downward pressure exerted by weak demand. Yet, it's important to observe that spot prices have been dipping for four consecutive quarters, signaling persistent market volatility and hinting that a market rebound might not be on the near horizon."*

Inflationary pressure still remains across most road freight operating costs, pushing up the cost base further and sustaining the high floor for rates. Transport and storage sector wages are up 17.6% versus 2019 levels, as drivers remain in short supply. Other cost increases are also apparent as October fuel prices are 14% up vs June 2023. There has also been 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.

Much of the European road freight market is now also braced for toll price increases, starting in Germany in December. The new CO2 toll in Germany could increase toll costs by as much as 83% for carriers, a cost that will likely be passed directly to customers. A large part of the European road haulage market is also gearing up for the roll-out of the new European toll system linked to CO2 emissions, which starts in Germany in December and will have an impact on prices.

> Michael Clover, Ti's Head of Commercial Development, says:
> *"Toll price increases are expected to start in Germany in December before sweeping across much of central and Eastern Europe in 2024. The increases are of a magnitude sufficient to make current operating models unsustainable for many operators, so the expectation is that they will try to pass on the cost to shippers, raising rates for freight within and transiting through affected countries."*

As toll increases kick in, further cost pressure is also expected from rising wages driven by the driver shortage. New forecasts from IRU show that 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. 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.

IRU Senior Director for Strategy and Development Vincent Erard adds:
"The road transport industry is engaged in an unprecedented transformation, having to both respond to growing transport demand (+50% by 2050) and decarbonise at the same time. Without support for the sector, made up mainly of small and medium-sized companies whose margins are low (1-2%), in a context of increasing prices, costs and investments (fuel, tolling, labour costs, vehicles, etc) and an increasingly unsustainable shortage of drivers (225,000 in the 2nd quarter 2023), there is a great risk of not achieving any of the economic and environmental objectives."

The outlook for European rates is reduced volatility as European demand stagnates at lower levels than in previous years. In the short term, cost increases and especially the toll price increases in Central Europe are likely to push rates up in Q4 2023 and Q1 2024, before demand begins to recover in the second half of 2024.

About the European Road Freight Rate Benchmark Report

The European Road Freight Rate Benchmark report is designed to provide greater visibility of road freight rate development across Europe.

If you wish to distribute the full PDF report, please share this link:
https://go.upply.com/en-gb/ti-upply-iru-european-road-freight-rates-benchmark-reports

About Ti

Ti is the world's leading source of market intelligence for the logistics and road freight industry, providing data and analysis through its European Road Freight Transport report series, Global Supply Chain intelligence (GSCi) database and expert consultancy services.
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About IRU

IRU is the world road transport organisation, promoting economic growth, prosperity and safety through the sustainable mobility of people and goods. As the voice of more than 3.5 million companies operating mobility and logistics services in all global regions, IRU leads solutions to help the world move better.
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About Upply

Upply, tech platform serving freight transport professionals, designs and develops solutions to help shippers, carriers and freight forwarders exploit the full potential of digitalization to serve their business.
Combining transport expertise and Data Science, since 2018 Upply has been developing its Smart solution dedicated to benchmarking, monitoring and analysing freight rates. As the leader in benchmarking for European road freight, Smart helps supply chain players make decisions with full knowledge of the market and optimise their transport investments.
The company is based in Paris and currently has over 60 employees dedicated to developing its unique technological solutions.
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