EUROPEAN ROAD FREIGHT TRANSPORT: 2023 MARKET FORECASTS

By Viki Keckarovska, Research Manager, Ti

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TOTAL EUROPEAN ROAD FREIGHT TRANSPORT MARKET SIZE 2023 (F)

The market moderation seen in the second half of 2022 is expected to spill over into 2023.

As a result, the European road freight market is projected to lose speed in **2023**, expanding by only 1.1% in real terms (holding prices and exchange rates constant) to reach **€389,338m**.

GDP growth in advanced Europe is forecasted to fall from 3.2% in 2022 to 0.6% in 2023—a downward revision of 0.7 percentage point from the IMF July projections. In emerging European economies, growth is also projected to decline sharply, from 4.3% in 2022 to 1.7% in 2023—a downward revision of 1 percentage point.

Key Figures 2023

1.1%
Total Real Forecast Growth

€389,338m
Total Real Forecast Market Size

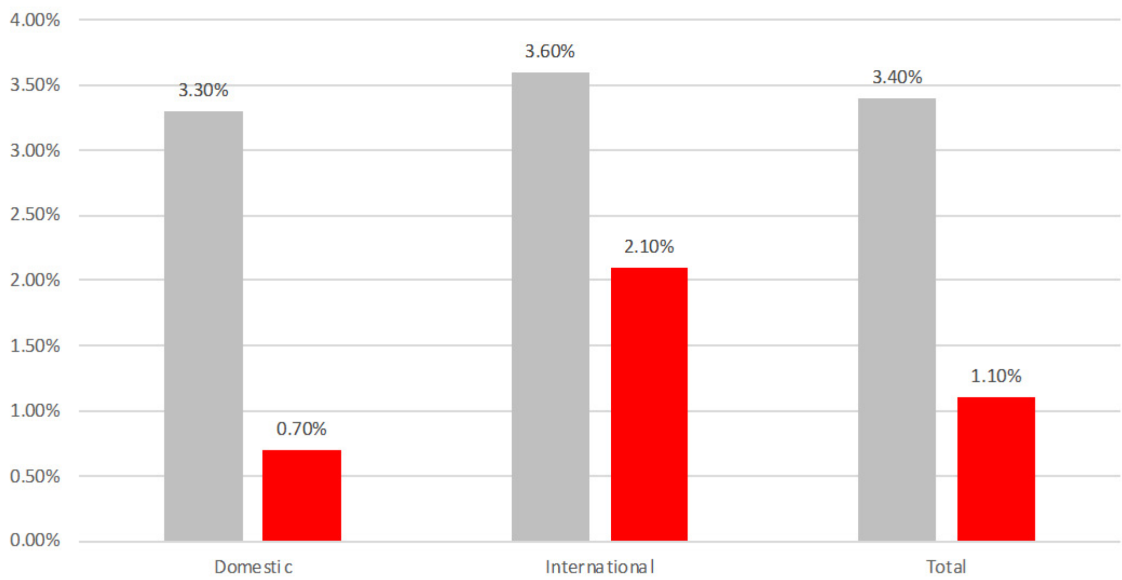
0.7%
Domestic Real Forecast Growth

2.1%
International Real Forecast Growth

Figure 3 shows that both domestic and international European road freight market will slow down in 2023, but the slowdown will be more pronounced in the domestic section of the European road freight market. A key driver behind the stronger performance of the international section might be retail and e-commerce sales which stimulate more cross-border flows of consumer goods. What is more, many industrial sectors (such as construction) are likely to feel the effects of the overall weakening of economies expected in 2023, and these flows tend to be more domestic in nature dampening domestic market growth.

The domestic European road freight market is due to expand only by 0.7% in real terms whereas the European international road freight total market is expected to see growth of 2.1% in 2023.

Real Growth Rates: Domestic and International Markets 2022 and 2023



SUMMARY OF MARKET CONDITIONS 2023

A confluence of headwinds will halt the recovery and growth momentum of European economies - the war in Ukraine, an energy crisis, high inflation, and a looming global recession. This will weigh on consumer purchasing power which in turn will impact demand for road transport.

Ti forecasts for 2023 reflect the general weakening of demand, weaker consumer confidence and high inflation, a development which will be seen across the entire European continent.

i) Economic growth

Downward forces will gain more of an upper hand across Europe. Slowing economic growth in the EU exacerbated by high inflation will weaken demand for road freight services in, through and out of Europe.

The energy crunch, resulting price increases and recessionary risks will continue to counteract the economic recovery in Europe in 2023. According to the IMF, Germany and Italy will tumble into recession in 2023 and it is assumed that this development could be representative for the entire continent.

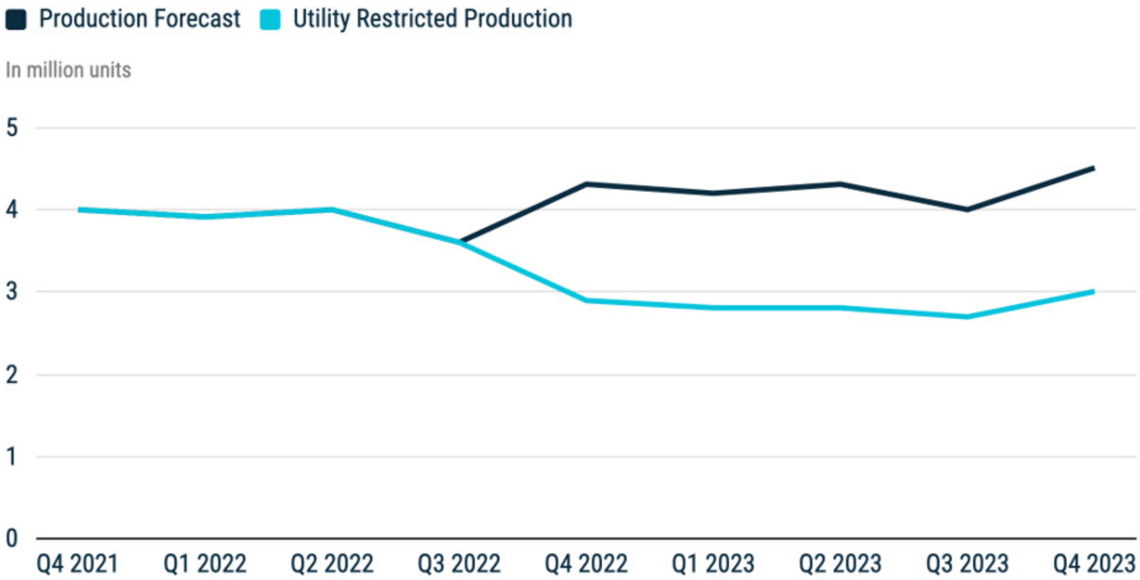
ii) Industrial output and manufacturing

Shortage of raw materials and intermediate products, weakening demand and energy shortages are clouding the outlook for the manufacturing sector in Europe.

Germany for instance, Europe's leading manufacturing exporter, will experience a setback in 2023. A survey of 3,500 manufacturers recently carried out by Germany's Chambers of Industry and Commerce (DIHK) found that 16% were either scaling back production or partially discontinuing business operations due to rising energy prices. German order books are still full, suggesting there won't be a significant drop in production, although fewer and fewer new orders are coming in, fuelling bleak expectations for the year ahead.

The issues are especially dire in the **automotive** industry. While semiconductor shortages continue to disrupt automotive manufacturing, the focus in Europe is switching to the effects of gas shortages. As governments announce emergency measures to reduce industrial use of gas, automotive manufacturers across Europe are increasing their efforts to reduce energy usage. According to ACEA and S&P Global Mobility, these headwinds will lead to potential production losses from Europe-based manufacturing plants of more than 1m units per quarter, starting in the fourth quarter of 2022 through the entirety of 2023.

European light vehicle production forecasts



Source: ACEA/ S&P Global Mobility

The German automotive industry faces a big hit as recession looms and inflation eats away at consumer confidence, and the semiconductor shortage continues to threaten manufacturing. According to the Munich-based Ifo Institute, in the electrical and electronics industry, among manufacturers of machinery and equipment, and in the automotive industry in Germany, around 90% of companies in each area aren't receiving all the materials and intermediate products they need to run their factories.

While many tech companies hold out hope for 2023, the German automotive manufacturers have a more pessimistic outlook on the matter. Both Mercedes-Benz Group and Volkswagen have recently stated that not only will the chip shortage not end in 2022, but it will continue throughout 2023 as this is a structural issue that can't be solved quickly.

iii) Consumer behaviour

Consumer behaviour will act as a growth drag on the European road freight market in 2023.

Consumer behaviour and private consumption will act as a growth drag on the European road freight market in 2023. With the re-opening effect already evaporated and inflation catching up to bullish spending, private consumption is expected to remain subdued in the year ahead.

Along with inflation, higher borrowing costs, preference for spending on services as well contracting real incomes will also weigh on the outlook for retail sales in 2023.

In the UK, some retailers, including UK's biggest supermarket Tesco and online fashion retailer ASOS have already warned about their profit outlook as they face higher energy and staff costs, as well as a weak sterling. According to the ONS, in annual terms, total sales volumes in September 2022 were down 6.9%, the biggest fall since May 2020.

Overall, this trend of falling retail sales is expected to be seen across the entire continent and to continue well into 2023 as consumers rein in their spending. A combination of factors, including high inflation spillover from 2022, recessionary risks, increased unemployment and contracting real incomes will all weigh on consumer spending in 2023 and consequently on European road freight growth.

iv) Congestion and limited capacity

Driver shortages will continue to affect the amount of capacity available on the market.

The war in Ukraine is having a substantial impact on the European economies, energy supply and consequently on the road freight market. To prevent the interruption of energy supply, Germany has issued a legislative decree for its rail network, temporarily prioritising the transport of energy so as to ensure the continuing operation of power plants, refineries, and electricity grids. The measure will be in place for 6 months. Considering the already high utilisation of its rail freight network, not least because of higher wheat shipments from Ukraine, the limited rail capacity might cause a shift of non-priority freight to road. After Germany, Poland became the second country to prioritise coal transport by rail. The Polish rail network will have to prioritise coal transport by rail instead of passengers and other freight. The implication is that road networks, despite already being heavily congested, will have to absorb freight not being shipped by rail.

Finally, workforce shortages will also affect the amount of capacity available. According to TIMOCOM Freight and Cargo Exchange, in certain European countries there has been a significant drop in the vehicle space being offered. One of the key reasons behind this is probably the shortage of drivers. In Germany for instance, 24% less capacity was posted on the TIMOCOM Freight Exchange in the first nine months of 2022 compared to 2021. A similar pattern can be seen in carrier countries including Hungary and Romania. According to TIMOCOM, since the beginning of the year, companies from these three countries have placed an average of 8% less vehicle space on the TIMOCOM Marketplace than in the same period in 2021. Considering that the problem with driver shortages is here to stay and become even worse, shortage of capacity will likely continue to remain a concern for road freight companies.

Poland might be an exception and could even see an increase in truck capacity. This mainly has to do with the changes related to EU licenses introduced with the Mobility Package – as of May 2022, carriers who manage vehicle fleets between 2.5 tonnes and 3.5 tonnes are obliged to meet requirements which to date concerned only carriers carrying out road transport with vehicles with a total weight of over 3.5 tonnes. As such, relying on vans with a gross vehicle weight of 3.5 tonnes has become increasingly unattractive for Polish carriers which seem to now be switching to larger trucks. According to ACEA, Poland registered 15.7% more registrations for trucks over 3.5 tonnes in Q3 2022, whereas registrations of light commercial vehicles of up to 3.5 tonnes decreased by 13.1%.

v) Driver shortages

The shortage is forecasted to become far worse in 2026, with a multiplier effect of up to seven in the case of France.

Among main European countries (France, Spain, Germany, Romania, Poland and Denmark) demand for drivers continued to increase (+44%) between January and September 2022. Every quarter, at least 6,000 new positions are being opened. Demand is expected to continue rising by 10% every year over the next five years.

The Russian invasion of Ukraine is further exacerbating the problem and restricts the supply of truck drivers in Germany, where migrants make up 24% of the driver workforce, as Ukrainian men returned home to fight.

Finally, the potential threat of a new COVID 19 outbreak in the winter could also make the driver shortage even worse in 2023. The threat of high levels of sick leave will be an additional burden for the road freight sector.

The shortage is forecasted to be far worse in 2026, with a multiplier effect of up to seven in the case of France. Over half of truck driver positions are expected to be unfilled during the next five years, if the situation remains unchanged. In five years, around 30% of truck drivers who are currently over 55 will have retired, which represents a third gap to be filled in.

vi) Fuel costs and rate increases

Fuel costs, inflation and driver shortages will put upward pressure on costs and road freight rates.

Soaring diesel prices appear to have come to an end for now. The most recent data shows that for the EU, average weekly diesel prices in Q3 2022 have fallen by 1.7% quarter-on-quarter. This represents at the very least a stabilization of prices, however the momentum at the end of quarter appears to be heading downwards.

Despite this, the outlook for diesel prices in Europe remains very uncertain. With recent escalations in the war, the EU is set to respond with a ban on Russian crude oil imports. The policy will bar oil barrels from entering the continent directly, while allowing the world market only to trade and refine Russian oil for sale in Europe if strict crude oil price caps on its purchase are implemented. According to the European Commission, in 2020, 29% of extra-EU crude oil originated from Russia, and so the country's decision on whether or not to accept these price caps will have a large impact in the supply of diesel in Europe. Russia has thus far maintained that it will refuse to comply with the cap, and in this case, supply of diesel to Europe will be severely affected. This will likely apply significant upwards pressure to prices from December – when the restrictions are planned to begin.

Although supply remains tight and is expected to tighten, this does not necessarily mean diesel price rises are inevitable. On the other hand, the declining economic environment across Europe is expected to reduce aggregate demand for oil and apply downwards pressure on price of diesel a result. How these forces eventually balance out will be reflected in diesel prices, and these movements will not only reveal much information on the condition of the economy, but also will have important consequences for the future of road freight in Europe.

In addition to fuel costs, inflation and driver shortages will also put upward pressure on costs. The EU Mobility Package, which came into effect at the beginning of the year, and driver shortages, further exacerbated by the war in Ukraine, has led to tighter capacity and increasing road freight rates across most regions.

vii) Conclusion

Considering the economic incertitude, it is difficult to make reliable forecasts for the years ahead and the outlook for the European road freight market will depend on the outcome of various unpredictable factors.

But established participants in the road freight market are already warning of a slowdown in the market. Waberer's recently reported a decline in demand for road transport services in the second half of 2022, in particular from retailers, and forecasts that this trend will continue.

In its Q3 2022 release, DSV also stated that the economic slowdown is impacting its road freight business, mainly for business-to-consumer and retail/e-commerce related activities and expects that the markets will continue to be negatively impacted by the slowdown in the economy.

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