Why Europe's road haulage recovery is stuck in the slow lane

European road haulage is slightly picking up after a serious downturn. Economic stagnation – especially in Germany – will, however, limit growth in transport volumes and investment in trucks and trailers in 2025. Cost control is key, and the importance of sustainability is rising. Attracting drivers could once again prove a crucial success factor

Things have started to pick up for European road haulage – but economic stagnation, cost control and sustainability concerns all loom in the 2025 backdrop

The negative aftermath of Covid is over, upside comes from the consumer side now

The road transport sector has faced significant challenges over the last few years. In 2023, consumers shifted back to spending on services, leading to reduced demand for goods. To adjust, shippers reduced excess stock, and that caused a further decline in transport. These pandemic-related corrections and supply chain issues have now subsided, and inventory levels have largely normalised.

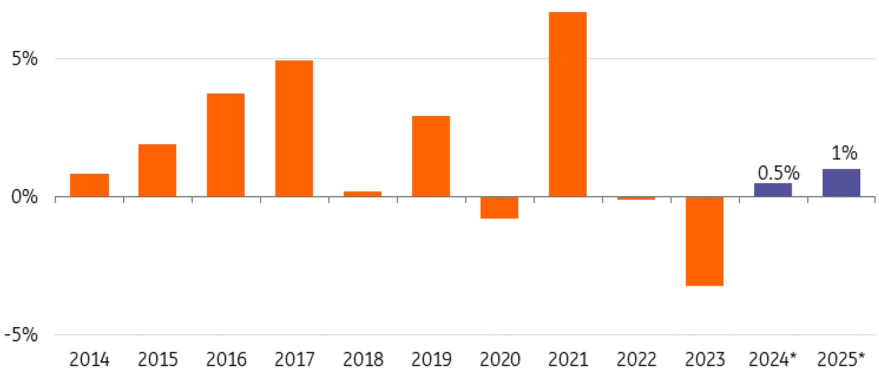
For instance, a European survey conducted before the summer* revealed that 90% of consumer goods shippers reported their stock levels were either at the desired level or too low. This normalisation has resulted in higher container throughput in major European ports, with Rotterdam seeing a 3% year-on-year increase and Antwerp-Bruges experiencing a 9% rise in the first three quarters of 2024. This is good news for road transport, which still handles nearly 60% of seaborne containers to the hinterland.

Consumers are beginning to see their purchasing power improve as inflation decreases and wage increases outpace inflation, while the labour market remains strong. This is a positive for both consumption and transport demand. However, demand from the construction sector is still bottoming out in the run up to 2025, and the manufacturing industry continues to struggle with high energy costs and difficulty remaining competitive.

**Source: Drewry*

European road transport volume sluggish, but slightly recovering

Evolvement of European road transport volume in million ton/km



Source: Eurostat, ING Research *forecast

Struggling industry continues to weigh on European transport

The sluggish European transport demand is reflected in German truck mileage volume, which fell 3% in 2023 and contracted by 0.7% up to October 2024. As the largest economy and a key transit country in Europe, Germany typically provides a good indicator of European road transport activity. However, in 2024, trucking companies reported attempts to avoid Germany due to steep MAUT (toll) increases. Combined with the manufacturing industry's relatively poor performance, this has led to a negative deviation compared to Europe as a whole.

Continued slow (and bumpy) recovery expected for road transport into 2025

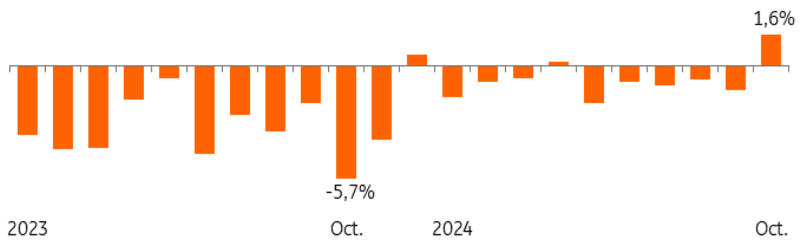
A continued slow (and bumpy) recovery is expected for road transport into 2025

As we approach 2025, the European Purchasing Managers' Index (PMI) for manufacturing still signals contraction. The German industry – particularly its energy-intensive sectors as well as its automotive sector – has struggled to gain sustainable ground after the setbacks it has faced.

In contrast, economies in some other European countries, such as Spain and Poland, are performing better. Overall, improvements in consumer demand and a notable return of driver shortages signal improvements for the market. We expect the road transport volume to recover slightly by 0.5%, with growth expected to increase to 1% in 2025. Nevertheless, the recovery will continue to lag behind long-term average growth rates.

Road transport across Germany leaves worst behind, but recovery still about to materialise

Total truck mileages on German motorways (MAUT) YoY (adj. for work days)



Source: BAG, ING Research

Truck driver shortage relief proves short lived

Truck driver shortages in road transport have become a serious supply constraint over the last few years. The setback in demand brought short-term relief in 2023 but, as we predicted, these shortages return when markets start to recover. The EU now reportedly faces a shortage of 500,000 drivers. This is why forward-looking (larger) companies are permanently hiring drivers through the economic cycle.

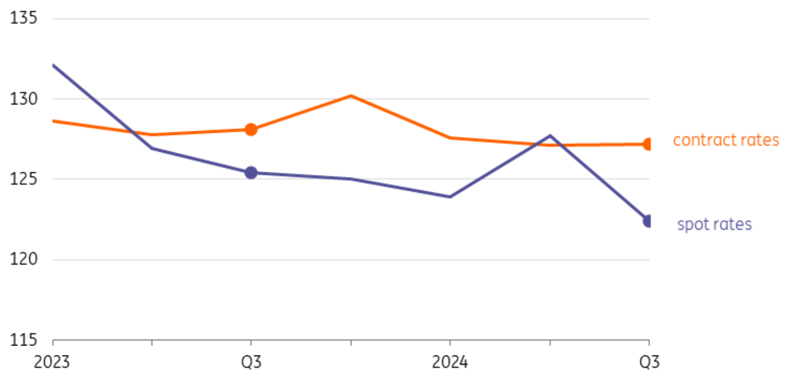
Here are a few key reasons that we believe shortages are here to stay:

- Workers from Western Europe are now less inclined to drive international trucks because they can earn similar wages in other jobs. New-generation truck drivers also prefer shorter working hours and weeks; many are reluctant to spend weeks on the road and away from family.
- The availability of potential workers in EU (and Central and Eastern European) countries is increasingly limited for demographic reasons, and workers have alternative options to earn similar wages.
- The labour force ages, which pushes up outflow. European truck drivers are currently aged 44, with 21% of them older than 55.

The relatively low representation of women is also an ongoing constraint within the sector. To attract drivers, larger transport companies already turned to regions outside of Europe, such as Asia. Many forward-looking larger companies continue to hire and educate a continuous flow of truck drivers through the cycle.

Freight rates in European trucking still fragile amid higher cost environment

Development of freight rates European road haulage (01/01/17 =100



Source: Upply/IRU, ING Research

Contract freight rates are stable, spot rates still reveal ongoing volatility

Europe's road transport market is dominated by fixed transport contracts, with shippers covering most of the traffic. Spot rates – covering perhaps 20% of the market – provide short-term market guidance though. These day-to-day rates slipped below contract rates in early 2023, revealing market weakness and excess capacity.

However, signs of a market recovery appeared in 2024 as several large fleet owners reduced their (idled) fleet capacity. The newest setback seen in the third quarter is likely linked to significantly lower diesel prices. Freight rates remain fragile in the current environment, and given ongoing wage cost pressures, haulage companies are still challenged to pass on higher costs in 2025.

Diesel prices in 2024 lower than in 2023 despite geopolitical tensions

Diesel spot market prices (MT) in EUR per day

Source: Refinitiv, ING Research, last datapoint 11/29/24

Growth potential in (European) road transport

Why has the growth potential in European road transport been dampened?

- Consumers are gradually spending a larger share of their additional income on services that involve little freight transport – digital services and holidays, for example.
- Europe's population growth is stagnating and immigrants, in particular, are driving growth.
- Europe's global competitiveness is under pressure, and this has a notable impact on energy-intensive industries. Trade tensions and import tariff increases could also affect export and import flows negatively.

Are there any signs of new opportunities?

- Nearshoring may offer new opportunities for continental road transportation in the coming years. As a result of increased supply risks and geopolitical tensions across the globe, a growing number of companies are considering diversification and possibilities to source closer to the end market, potentially supporting production in countries such as Poland, Romania or Turkey in the medium term.

More consolidation is needed to remain competitive and meet requirements

The European road haulage sector includes several large international trucking companies such as Girteka, Warberer's, Primafrio, Raben and Vos Logistics, but the far majority are still small and medium-sized companies. Larger trucking companies are generally getting bigger, and more drivers are also starting their own companies. In 2024, we've seen an increased number of bankruptcies amid continued cost pressure alongside disappointing demand in some segments.

However, several companies still lean on their strengthened financial positions from the years before 2023. Given lower borrowing rates, we may see a bolstered flow of acquisitions. Scale is also becoming increasingly important for effectively keeping up with and progressing in digitalisation and sustainability (fleet and reporting).

Investors in trucks and trailers are awaiting the right time to catch up

The investment climate in road transportation has cooled after overheating, and 2024 was mainly a year of 'wait and see'.

For 2025, we see more of a mixed bag:

Downside risks

- Slightly improving, but still sluggish international transport demand.
- Available capacity exceeding demand.
- Remaining uncertainty about how difficult the sustainability path will be in Europe and several countries, also looking at the infrastructure. Together with much higher purchase prices, this may still make companies decide to wait.

Areas of uncertainty

- Prices of new equipment have come down, but fleet owners seem to await further improvements in their negotiating positions.
- Slowing investments following a sharp increase in interest rates (Euribor) from -0.5% to almost 4% in the autumn of 2023. Rates are, however, on a downward trajectory and there should be more to follow through 2025. This could support investment activity again.

Upside risks

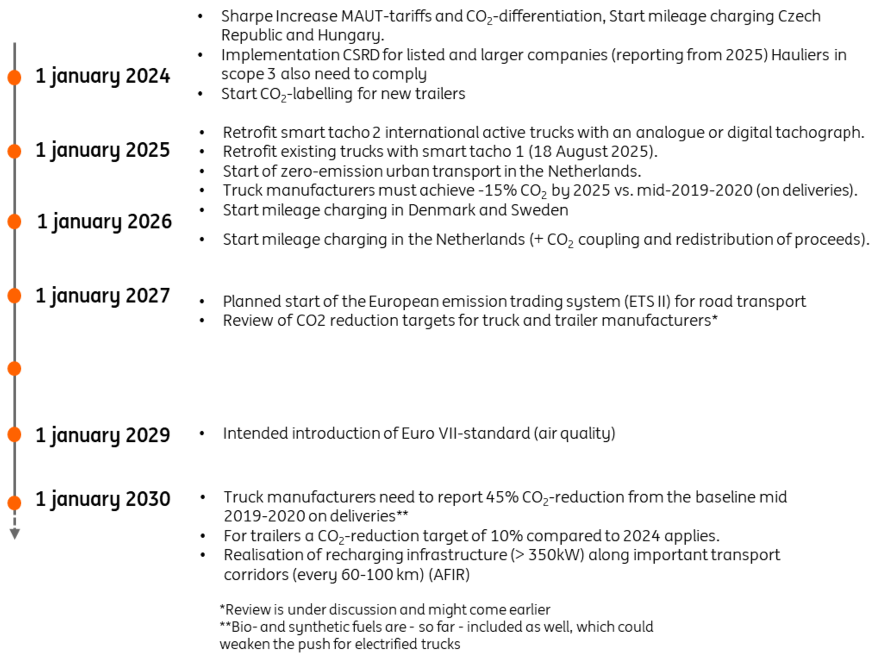
- Efficiency improvement is an incentive for carriers to invest. New generation models of trucks, such as DAF XF/XG, are typically 10-15% more fuel efficient than the previous generation.
- On balance, there is still deferred replacement demand (even though some companies have renewed a significant portion of their fleets). In turn, there still remains a catch-up effect in the pipeline, which is positive for the longer term.
- CO_2-linked mileage charging in several countries including Germany*, as well as increasing policy pressure on clients (CSRD) and manufacturers (CO_2-targets) to become more sustainable supports demand for new equipment.

*As the first country in Europe Germany introduced a price on emissions for road transportation in 2024 by including a CO2-differential in the road mileage charging (MAUT). This pushed up transport rates for EURO VI for conventional heavy-duty 5-axle truck and trailer combinations with almost 16 cents per kilometre to just under 35 cents per km, resulting in an increase of over 80%. Other countries including Austria, Denmark, Czech Republic and Hungary have introduced similar systems (replacing the Eurovignet) or are just about to do so.

Multiple regulatory focus points for road haulage by 2030

On the road to 2030, a range of new regulations will be enforced and will sharpen the focus on sustainability for investments in transport equipment. CO_2 pricing will be introduced for the first time, CO_2 reporting will be required from large corporates, and manufacturers will be pushed to produce zero-emission vehicles:

Multiple new sustainability linked European regulations upcoming for truck manufacturers, hauliers and shippers



Source: ING Research

Europe's Mobility Package storm has calmed

The European Mobility Package and the 'return home' rule for vehicles – that which requires trucks used for international transport to return to their home country at least once every eight weeks – have caused much discussion and raised many questions about efficiency. That's largely over now. The return home vehicle requirement has been cancelled by the European Court of Justice (CJEU), saving many inefficient (empty) miles and unnecessary emissions. The repeal offers trucking companies more flexibility to optimise the deployment of internationally operated trucks (often registered in Central and Eastern European countries), which in turn results in some efficiency gains.

Cabotage rules are also more restrictive under the Mobility Package, and this does show up in transport activity. The cooling off period of four days (max. three domestic rides in a seven-day time frame following an international ride) makes cabotage less attractive. As a result, total cabotage in the EU fell to 4.5% in 2023 from 4.9% in 2022. The new rules are particularly relevant for Germany and Belgium, where cabotage levels are double Europe's average.

Centre of gravity for international transport shifts east

Since the extension of EU membership by 10 countries to the East in 2004, there has been a major shift towards international transport from countries such as Poland, Lithuania, Hungary and Romania, in order to achieve lower labour costs. This has structurally reduced road transport from the Netherlands and Belgium, but also from Germany and France.

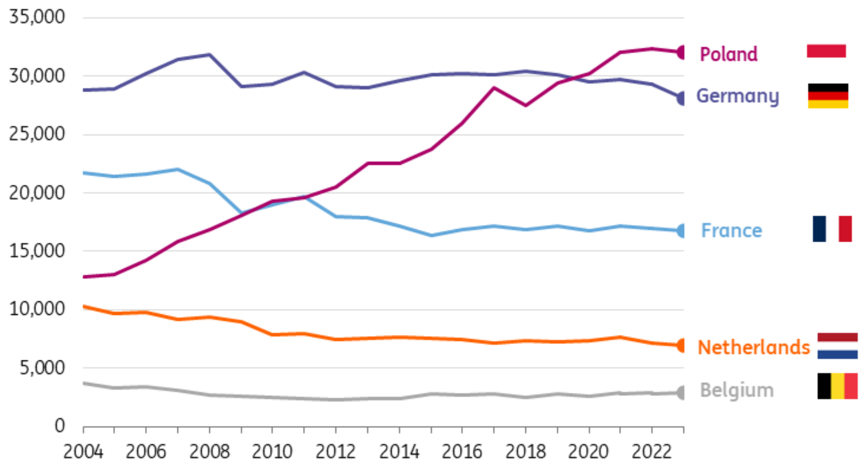
Since then, the share of international kilometres from the Dutch fleet, for instance, fell from 60% to just over a third. The lower mileage among tractors registered in the Netherlands shows that the trend is still in place. Not all Western companies have suffered from this since many have set up subsidiaries.

While international trucks are often registered with Eastern European license plates and Poland has been the European market leader for several years now, much of the transport activity still takes place in Western Europe. The enlargement of the internal market has stimulated competition and reduced the cost of international transport for shippers – and eventually for consumers.

With the cancellation of the 'return home vehicle' regulation, one of the main drivers for a reversal in this trend has been removed. A 'return home driver' requirement once every four weeks remains in place – but drivers can opt to refuse. As the wage gap is still large enough, we believe the trend can continue, though countries other than Poland (such as Romania and the Baltics) are now growing in popularity.

EU's major extension to the East has been a success story for Poland in the past two decades

Development of vehicle km's in mn. per country, per year



Source: Eurostat, ING Research

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