

# A greener future ahead for truck and trailer markets

European demand for transport equipment is cooling. After three years of supply chain constraints followed by a rebound, declining order intake for new trucks preludes lower deliveries in 2024 – a reality that has already been faced by the trailer market. At the same time, ambitious regulations will also push zero-emission vehicles into the spotlight

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By Rico Luman



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# Slower speed, tighter control for European road haulage

European road haulage is set to see some pick-up in 2024



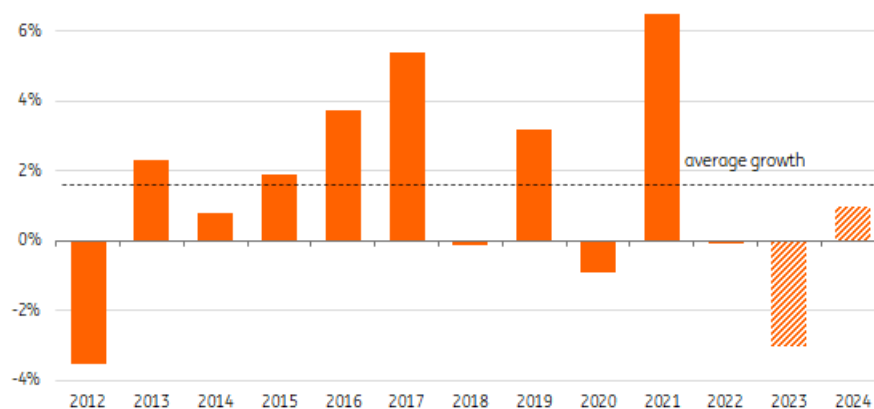
A blockade by Polish truck drivers on the Ukrainian border, protesting against 'unfair competition', has caused long delays

## Pandemic aftershocks and economic headwinds send good flows down

Road haulage companies may have reaped the benefits of strong demand combined with limited transport capacity in recent years – but it now looks as though the tide has turned. Consumers started to shift spending back to services, which led to aftershocks in demand. At the same time, international trade flows face the impact of the economic slowdown, war-related sanctions, and geopolitical tensions. This has sent throughput figures in the seaports of Rotterdam, Antwerp-Bruges, and Hamburg down 6% over the first three quarters of 2023, alongside lower hinterland traffic. In turn, road transport volumes have been pushed into negative territory and made some haulage companies active in manufacturing to temporarily idle capacity, which has been rare for years.

## European road transport heading for mild recovery in 2024

Evolvement of European road transport volume in million ton/km, in % y.o.y.



Source: Eurostat, ING Research

The sluggish transport demand is reflected in German truck mileage volume, which was down some 3.5% up to October 2023 year-on-year. While the weak performance of the German economy, in particular, has weighed on this figure, it also paints the broader European picture as one of the larger players (as [Waberer's](#) also indicates). Competition from Ukrainian drivers on the Polish and Slovakian border also signals current market weakness.

In the run-up to 2024, the European Purchase Managers Index for manufacturing (PMI) still signals a decline (+link), and the significant impact of the sharp interest rate rises is yet to follow. This all leaves the outlook for 2024 rather bleak. Nevertheless, we expect a return to slight growth as the comparative base of 2023 is low, the normalisation of retailer stocks is completed, and ordering should begin to pick up.

## Transport costs continue to rise while pressure on freight rates returned

European haulage companies face a challenging combination of continued rising wage costs (covering up to 50% of the cost bill) and a deteriorated tariffs outlook. Spot rates dropped below contract rates over the course of 2023. Lower fuel costs (accounting for some 20-25%) tempered total costs, but many carriers have hedged diesel price risks in contracts. CO<sub>2</sub> pricing also starts off in Germany, which significantly raises charges (see below). All in all, keeping margins up is set to be more difficult.

As soon as demand recovers, structural capacity and available supply of drivers may again prove tight. Therefore, some shippers may also consider securing long-term availability and value sustained relationships with haulage companies, which may help in re-contracting.

## Diesel prices eased from peak levels while volatility continues amid geopolitical tensions



Source: Refinitiv, ING Research, latest datapoint 12/5

The European road haulage sector has a number of large international trucking companies – such as Girtelka, Warberer's, Primafrio, Raben and Vos Logistics – but the far majority are still small and medium sized companies. In the Netherlands, larger trucking companies are getting bigger, and more drivers are also starting their own companies. Amid more challenging market conditions, the sector could also see more acquisitions in 2024. Scale also becomes more important in order to effectively keep up with and progress further in both digitalisation and sustainability (fleet and reporting).

### Truck driver shortages won't disappear

Truck driver shortages in road transport have become a serious supply constraint over recent years. The setback in transport demand has brought relief, but larger shortages are likely to return quickly and resume their upward trend. The incentive for driving international trucks has also dropped among Westerners, as they're able to earn similar wages in other jobs.

So, what are the main reasons that shortages could be here to stay? There are a few key drivers to note:

- The **labour force** ages, and this pushes up outflow. Currently, most European truck drivers are aged around 44, and 21% are older than 55.
- The **availability of potential workers** in the EU and Central and Eastern European countries is becoming increasingly limited. Workers also have more alternative options for earning similar wages elsewhere.
- New generation truck drivers prefer **shorter working hours** and weeks. Many are reluctant to spend weeks on the road and away from family.

Another ongoing constraint remains the relatively **low representation of women** in the sector. In order to attract drivers, larger transport companies have already turned to regions outside of Europe, such as Asia. Many forward-looking larger companies continue to hire

and educate a flow of truck drivers through the cycle.

## Short term investment climate under pressure

Following a slowdown in transport demand, economic headwinds and higher interest rates, the investment climate has clearly deteriorated. But delivery times have improved, and transport equipment is also more accessible now. Still, there remain both positive and negative drivers for investment.

### ↑ The positives

- **Delayed investments** and an **ageing fleet** both create an underlying solid demand for the replacement of transport equipment. With trailers, this is less prevalent due to longer life cycles and a slower pace of technological renewal and greening.
- **Efficiency improvements** provide an incentive for carriers to invest. New generation models of trucks – such as the DAF, XF and XG models – are typically 10%-15% more fuel efficient than the previous generation.
- Increasing **policy pressure** to **decarbonise transport** in Europe will support investment activity. Manufacturers started to produce electric trucks in series, and retail clients across Europe will aim to start deploying them.

### ↓ The negatives

- Sharp rises in **interest rates** – between 1 July 2022 and 1 October 2023, the Euribor monthly interest rate rose rapidly from -0.5% to almost 4%, which has lifted borrowing costs.
- Softened **transport demand** reduced the urgency to invest.
- **Prices of new equipment** have risen sharply and have not dropped materially. Electric trucks are also still much more expensive to buy.

The shortage of drivers still limits companies' ability to grow in some cases.

## Sustainability regulation progresses, with multiple focus points on the road to 2030

On the road to 2030, a range of new regulations are set to come into force which will sharpen the focus on sustainability for investments in transport equipment. CO<sub>2</sub> pricing will be introduced for the first time, and CO<sub>2</sub> reporting should provide a push for large corporates and manufacturers to produce zero-emission vehicles.

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



Source: ING Research

## Emissions pricing enters road transport sector for the first time in Germany and changes market dynamics

The emissions profile of transportation is becoming increasingly important. Taking the lead in Europe, Germany will put a price on emissions from 2024 by including the costs in the road mileage charging (MAUT). This [pushes up transport rates](#) for EURO VI heavy duty 5 axles truck and trailer combinations by almost 16 cents per kilometre to just under 35 cents per km, resulting in an increase of over 80%. The cost increase benefits the business case for electric vehicles but could also lead to a modal shift to rail in specific long-distance cases.

On a European scale, the road transport sector will be submitted to the Emission Trading System (ETS) from 2027. This means that moving forward, companies will need to buy carbon allowances to compensate for emissions.

## The European Mobility Package storm has calmed

The European Commission's [Mobility Package](#) and the introduction of rules surrounding the [return of vehicles](#) to member states have generated much discussion and raised questions over efficiency. Throughout 2023, however, we've seen much of the debate begin to die down. In practice, the impact of these changes appeared to be almost non-existent – and in November, it also emerged that the European Court of Justice would likely cancel the highly disputed return home vehicle element. A repeal would offer trucking companies greater flexibility in optimising the deployment of internationally operated trucks (often registered in Central and Eastern European countries). As a result, we could begin to see increased efficiency gains, although larger companies have also adapted.

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

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# European truck market slows, while the electric journey accelerates

Europe's truck market to change direction in 2024 following transport demand slump



The Belgium Prime Minister at the wheels of a DFDS electric truck last year

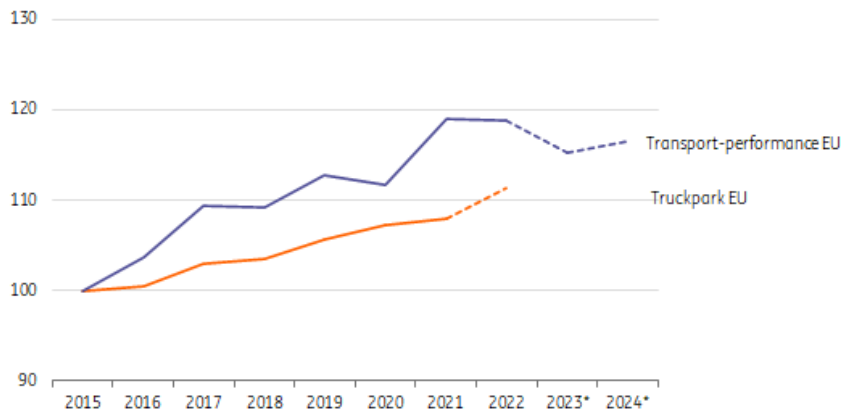
## Truck market to change direction in 2024 following transport demand slump

As volumes in European road transport eased, road haulage companies have left extraordinary years of high demand and limited supply behind in 2023. For many market players this initially was somewhat a relief rather than a struggle as companies had problems with trucks and staff shortages. But a slowdown in transport demand has changed this dynamic over the course of the year. Free capacity has increased, and there's underutilisation in the short run.



## Transport demand growth exceeded fleet expansion but pressure on capacity has diminished in 2023

Development of truckpark vs. transport performance in ton/km (EU 27), index (2015 = 100)

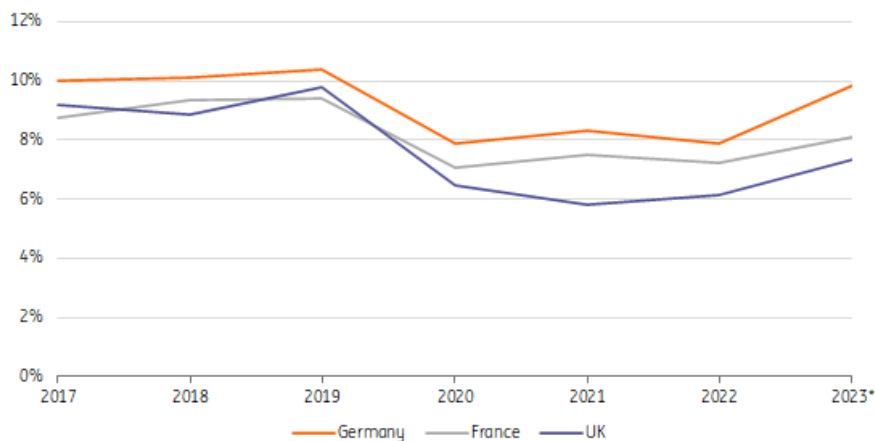


Source: Eurostat, ACEA, \*ING Research

Although excess capacity still remains limited, investment plans for 2024 have been scaled back and companies are now focusing on necessary replacements.

## Years of low replacement rates still promises catch-up effect

Percentage of rolling stock replaced by new trucks per year in the largest European truck markets



Source: ACEA, ING Research \*estimate

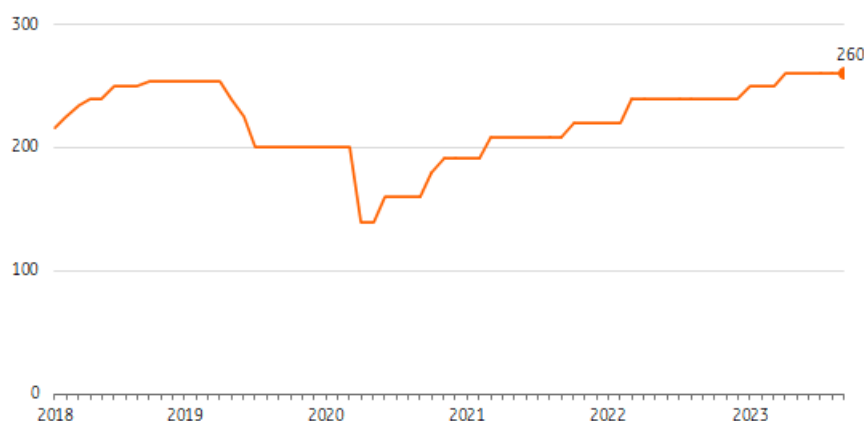
Curbed production and postponed replacements have left their marks on the fleet. Due to pandemic and war-related supply chain disruptions, truck production has been hampered in recent years. Some brands - such as Scania and MAN - even suspended order intake. And long lead times and price increases have also led to the postponement of replacements among fleet owners. In the period 2000-2022, annual replacement rates in major markets Germany, France, and the UK just

hovered around 7% to 8%, some two percentage points lower than in previous years. Consequently, the average European truck turned older, while new generations offer double-digit fuel efficiency gains. A higher fleet age also means downtime goes up due to more maintenance, and that's costly.

Despite the rebound in 2023, this gap is yet to be made up. Some companies will decide to adjust their fleets to lower demand, but at least some underlying pent-up demand still remains. This provides additional upside potential once the business climate improves.

## Daily production DAF-trucks still at record high in Q3 2023

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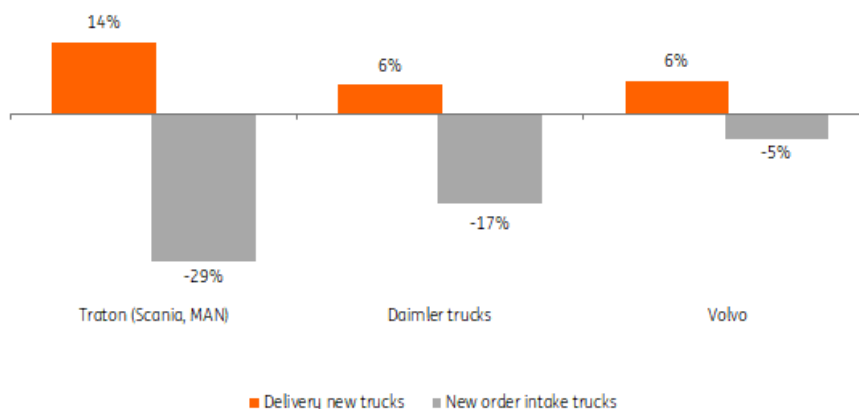
Source: DAF, ED, ING Research

## European new truck registrations in 2023 hit their highest level in fifteen years

On the back of eased supply chain frictions and strong order books, truck manufacturers fully resumed and indeed raised production and deliveries through 2023. DAF even produced at record levels. With still extended lead times, European registrations are to see their highest level since 2008, with just under 420,000 new medium and heavy trucks (EU + EFTA + UK). This results in a strong double-digit increase, though mainly driven by the earlier order intake. While production is still running at full speed, market conditions are in decline. Effectively, a slowdown in slow motion is happening.

## Truck manufacturers ramped up deliveries in 2023 while order intake slows

Global deliveries (registrations) and order intake truck manufacturers Q1-Q3 2023 YoY



Source: Company reports, ING Research

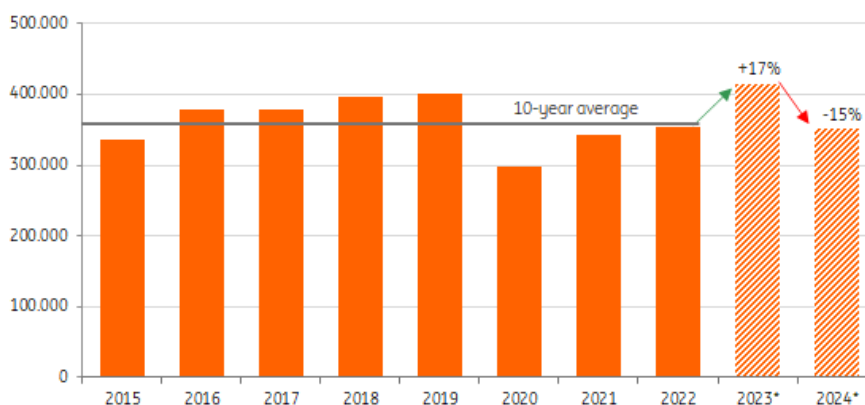
## A turning point is underway; a setback in new truck sales expected for 2024

Slowing order intake shows that appetite for investments in new trucks has started to retreat. This gained ground over the course of 2023. Order intake of Volvo trucks - for instance - decreased from the second quarter onwards compared to 2022. Although order positions still manage to fill available production slots, we expect this to materialise into lower deliveries as 2024 unwinds, especially in the second half of the year.

All in all, we expect new truck registrations to come down to just above 350.000 (-15%). However, this figure is still close to its 10-year average.

## European truck registrations set to drop in 2024 after peak

Registrations of new trucks > 3,5 tonnes EU + EFTA + UK



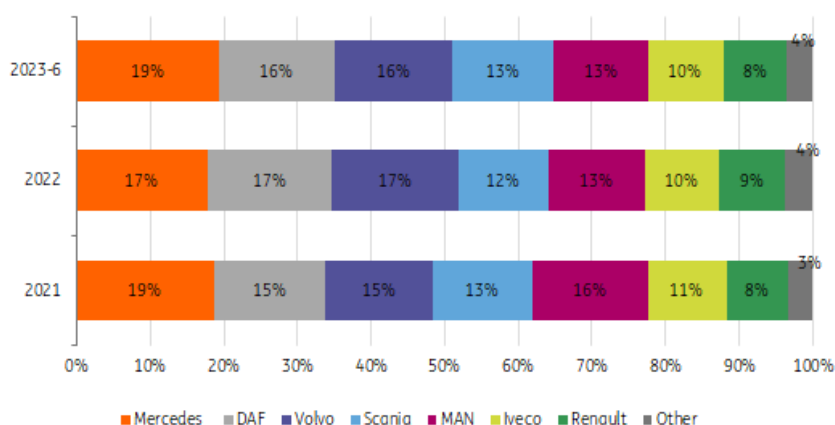
Source: ACEA, \*ING Research

We've seen an increase in the price of new trucks and we see no noteworthy retreats from these levels. Raw material prices also rose and the European consumer price index has increased by some 15% in two years. The cost of regular 400 pk diesel tractors can now easily exceed €100,000 per tractive unit, although this is also linked to the introduction of a new generation of advanced and more efficient trucks which also include required safety features.

At the end of 2023, raw material prices such as steel, rubber, and plastics have eased, which gradually also lowers the input costs for truck production, although wages are still on the rise. In addition, competitive pressure could lead to rationalisation, meaning that buyers are expected to gain bargaining power amid declining demand. In this environment larger players may be keen to see if they could close attractive fleet deals again.

## Mercedes leads European truck market, DAF and Volvo follow

Share of total new truck registrations > 6 tonnes in EU + EFTA + UK



Source: MAN, ING Research

Supply chain problems have left tracks in the market composition as well. DAF managed to continue producing relatively well through 2022. Its newly introduced models with fuel-saving aerodynamic fronts (XF and XG) are also well received, which contributed to a rise of market share. Volvo introduced its electric trucks in an early stage and seems to benefit from that with a high market share in new electric registrations.

MAN – particularly large in Germany – encountered production interruptions in 2022 and had to suspend orders, which had a detrimental effect. Clients might also wait for the brand to introduce new models and a fully electric (long-haul) option.

## Supply constraints waned, but more vulnerable remains

For the past three years, production and delivery of new trucks were limited by disruptions in the supply of parts. Constraints of semiconductors and several other parts, such as axles, receded in the run-up to 2023, and manufacturers focused on building resilience. But supply chains remain more vulnerable than before against the backdrop of continued labour shortages, more extreme weather, geopolitics and the drastic change of supply chains associated with the energy transition. 'Just in time' no longer prevails over 'just in case' although buffers have also become more costly

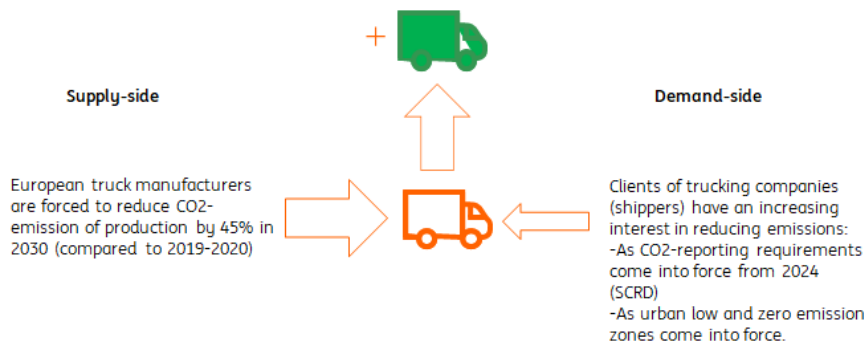
with higher borrowing rates.

## Electric trucks are being pushed to market under ambitious regulation

The composition of European truck sales is set to change significantly over the next ten years. European truck manufacturers are being pushed to decarbonise quickly. They have to abide by CO2 reduction targets of 15% (by 2025) and 30% by 2030 compared to the 2019-20 baseline. This has already prompted a drive in the production of electric trucks. But it's worth noting that roughly half the progress in reducing emissions comes from improvements in diesel technology.

This autumn, the European Parliament agreed to [raise the target](#) still further to 45% by 2030, so manufacturers will have to step up their efforts even more. It's still unclear what the ultimate role of biofuels and e-fuels will be, but it's definitely good for progress on EV production.

## Pressure to ramp up production and sales of electrified trucks on manufacturers, but also via users and shippers

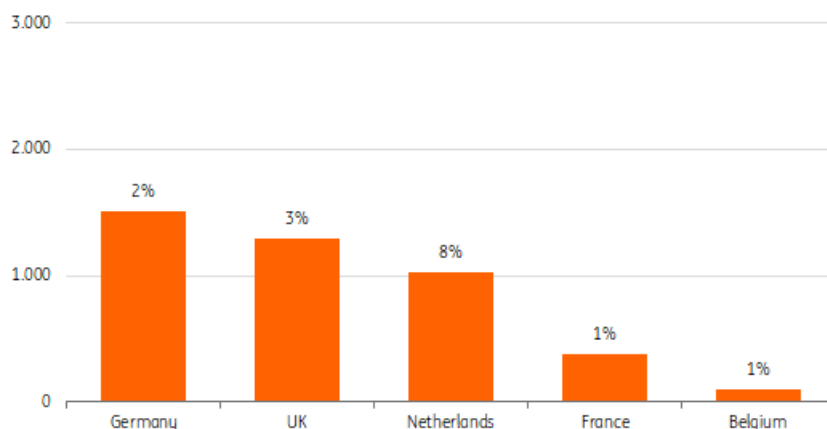


Source: ING Research

Battery electric trucks are seen as the most efficient zero-emission configuration right now. Manufacturers, including Volvo and DAF, are starting production, and the range of electric trucks is also improving. Daimler Trucks introduced a long e-variant of its Actros tractor with a range of 500 km to enter the market in 2024, while Scania also kicked off the production of electric trucks for ranges of up to 400 km.

## Production and inflow of electric trucks starts off in European countries

Registrations new electric trucks (incl. plug-in hybrid) > 3,5 tonne per country, Q1-Q3 2023 and market penetration



Source: ACEA, ING Research

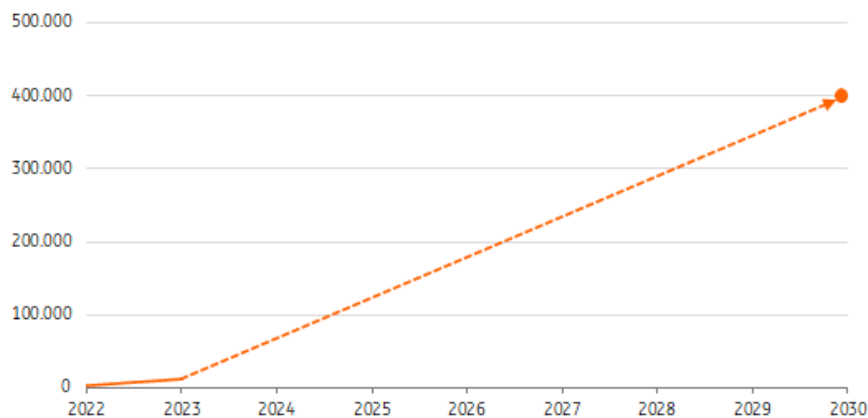
## Government subsidies and upcoming low-emission zones kick-start electric truck sales

Sales of electrified trucks gained traction in 2023. Most e-trucks hit the road in Germany, the UK, and the Netherlands on the back of subsidy schemes. In the Netherlands, this covered some 8% of new registrations as companies prepare for zero-emission zones for distribution in city centres from 2025. A demand-side push for electric trucks in the European Union is coming from CO<sub>2</sub> reporting standards. Larger companies will have to report their Scope 1,2 and 3 emissions, which also includes transport activity from 2024 onwards.

Electric trucks still have a substantially higher price of €250,000-400,000 than diesel trucks. With the continued development and extension of ranges, prices are not expected to drop for some time yet. However, the expected resuming downward trend in battery prices and upscaling could be helpful in due course. With serial production of electric trucks and ex-factory delivery, a step up in technology and quality will be delivered. A higher total cost of ownership needs to be paid and holds most haulage companies back from investing in electric trucks for their own accounts. Investment in e-trucks requires analysis of operations and requirements, coordination, and cooperation with clients. This is more easy for larger shippers who also take the lead themselves, though.

In order to meet the European CO<sub>2</sub> targets, manufacturer branch ACEA presumes the installed fleet of zero-emission trucks will have to expand to 400,000 trucks by 2030, from less than 4,000 now. This means the current level of European sales, which is less than 2%, will quickly have to reach a double-digit market share.

## Production and Inflow of zero emission (electric) trucks should rise quickly to meet CO<sub>2</sub>-reduction requirements in 2030



Source: ACEA, ING Research

## Charging infrastructure development most critical for e-truck success

In order to facilitate the uptake of electric trucks, appropriate charging infrastructure is indispensable, as public fast charging points for trucks are sparse. In most cases, electric trucks will initially be confined to shorter (fixed route) trips and therefore heavily rely on (overnight) 'depot charging'. To support the transition on longer distances, such as 200-300 km one-way, public charging is critical. Long-haul international transport is not in scope yet. Hydrogen might be a suitable solution in the future.

European joint venture of manufacturers [Milence](#) aims to create a network of 1,700 fast charging points by 2027, but a multiple of this figure is needed to facilitate the CO<sub>2</sub>-reduction ambitions for manufacturers. The figure of 40,000-50,000 charging points across Europe by the end of the decade is mentioned. And in addition, charging speed is important. This should be 350 kW or, ideally, [megawatt charging](#), as refuelling should be done during truck drivers' breaks, and waiting is not an option.

The adopted European [AFIR infrastructure regulation](#) should be supportive here. This requires EU-member states to create a network of fast-charging points for heavy duty vehicles along every 60 km of the network of corridors ([TEN-T network](#)) and every 100 km of the comprehensive network by 2030.

## Manufacturers will push for larger control on production

The process of selling and ordering a new truck has been subject to change. Since the pandemic and supply chain disruptions, manufacturers have directed the ordering and delivery process. And they will want more control over this as regulatory pressure mounts. Manufacturers are obliged to reduce CO<sub>2</sub> emissions of the average production output by 15% in 2025 and even 45% in 2030 compared to 2019-2020 levels. Manufacturers will need to prioritise electric trucks if they're going to comply with CO<sub>2</sub> reduction targets and avoid significant fines.



## Truck Manufacturer Update

### Daimler Truck

According to Daimler Truck, the truck market during June-August 2023 and year-to-date (January to August 2023) continued to reflect high demand, with the North American market for heavy-duty trucks (class 8) growing by nearly +6% in June-August 2023 year-on-year (YoY) and by around +16% YoY during the first eight months of this year. In the EU30 area (EU+ UK, Switzerland and Norway), the market for heavy-duty trucks increased by more than 42% YoY in June-August 2023, also influenced by the mandatory introduction of the smart tachograph version 2, which led to some pre-buying. The demand in the region year-to-date was up by nearly +27% YoY, according to the truck manufacturer.

Against this backdrop, in the third quarter of 2023, Daimler Truck sold 128,861 vehicles worldwide (-4.5% YoY). The company mentioned that unit sales declined in the Trucks North America segment mainly due to bottlenecks at the suppliers' side. In the Mercedes-Benz segment, there was also a modest decline in unit sales, mainly due to the introduction of the Euro VI emission standard in Latin America, including a material decrease in Brazil, the largest regional market. Conversely, in the EU30 region, the Mercedes-Benz sales were up by 6% YoY in the third quarter of 2023. In the Trucks Asia segment, unit sales were down by 8% in the third quarter of 2023, impacted by market developments in Indonesia and by bottlenecks on the suppliers' side.

In the third quarter of 2023, the truck manufacturer had revenue of €13,860mn, up 2.6% YoY, and adjusted EBIT (earnings before interest and taxes) of €1,340mn (up 5.3% YoY). During the first nine months of 2023, Daimler Truck had revenue of €40,940mn, up 13.2% YoY, and EBIT of €3,718mn, up 43.3% YoY.

#### *Zero-emission trucks*

Daimler Truck continues to pursue a dual-track strategy with hydrogen and battery-powered vehicles. In September, Mercedes-Benz's GenH2 fuel cell truck completed a record run of more than 1,000 kilometres with one tank of liquid hydrogen. According to the company, the development of the GenH2 truck continues on track, and the vehicle is expected to enter serial production in the second half of this decade.

In October, Mercedes-Benz Trucks launched an electric long-haul truck, eActros 600, a battery-electric truck with a range of 500 kilometres without intermediate charging. The vehicle's battery has a capacity of over 600 kilowatt hours, and the batteries can be charged from 20% to 80% in about 30 minutes at charging stations with an output of around one megawatt. The start of the serial production is slated for the end of 2024.

Daimler Truck, Cummins, PACCAR and EVE Energy are partnering to accelerate the production of battery cells and expand the battery supply chain in the United States. The planned joint venture is aimed at producing battery cells for electric commercial vehicles as well as for industrial applications. Total investment is expected in the range of \$2 to 3bn for the 21-gigawatt-hour factory.

### Volvo AB

In the third quarter of 2023, Volvo AB had net sales of SEK132.4bn, up 15.2% YoY (+9% YoY, when

adjusted for an exchange rate impact), and adjusted operating income of SEK19.1bn, up 61.0% YoY. During the first nine months, the company had sales of SEK404.6bn, up 19.3% YoY, and adjusted operating income of SEK59.3bn, up 54.7% YoY. In the third quarter of 2023, Volvo AB more than offset cost inflation with price increases and continued to manage the disruptions in the supply chain.

In the third quarter of this year, Volvo AB experienced a decline in an order intake for new trucks of 27% YoY (to 47,202 vehicles), which the company attributed to a “normalisation” of demand and continued gradual opening of the order books. Conversely, Volvo AB’s deliveries increased during the period by 4% YoY to 55,274 trucks. The truck manufacturer expects major truck markets to remain strong for the remainder of this year as the company continues to fulfil deliveries on its substantial order book. However, Volvo AB expects lower market levels for 2024. In the third quarter, the company also noted supply disruptions which had an adverse impact on productivity and operation expenses but limited resulting impact on the truck manufacturer’s actual deliveries.

### *Zero-emission trucks*

Over 12 months to the end of the third quarter of this year, Volvo Group had deliveries of 4,141 units of fully-electric commercial vehicles across its business lines and had an order intake of 5,985 units. Renault Trucks has been taking heavy-duty electric orders since the third quarter and was due to start serial production at Bourg-en-Bresse in France in November.

The truck manufacturer sees an increasing demand for clean, efficient and safe urban transportation. In October, it announced that it would join forces with Renault Group and CMA CGM to target this demand with an all-new generation of fully electric and software-defined vans. The vans' production is planned to commence in 2026.

### **PACCAR**

According to PACCAR’s management, the company achieved a record net income for the third quarter of 2023. In the third quarter, the truck manufacturer had net sales and revenues of \$8,696mn, up 23.2% YoY, and net income of \$1,229mn, up 59.7% YoY. In the Trucks segment, PACCAR had sales and revenues of \$6,636mn in the third quarter of 2023, up 27.7% YoY, and pretax profit of \$961mn, up 123.2% YoY.

In the nine months ended 30 September 2023, PACCAR had net sales and revenues of \$26,051, up 25.9% YoY, and net income of \$3,184mn, up 52.3% YoY. In the Trucks segment, during the first nine months of 2023, PACCAR had sales and revenues of \$19,878mn, up 30.5% YoY, and pretax profit of \$2,804mn, up 148.3% YoY.

In terms of unit sales, during the third quarter of 2023, PACCAR had deliveries of 50,100, up 12.8% YoY, including +12.7% YoY in the United States and Canada, +9.0% in Europe and +20.9% in Other regions. In 9M23, the truck manufacturer had deliveries of 153,100 units, up 14.0% YoY, including +16.5% in the United States and Canada, +7.8% in Europe and +19.0% in Other regions.

PACCAR’s management said that its Kenworth and Peterbilt trucks benefited from the replacement of older vehicles with the new, more fuel-efficient ones from 2023 to date, as well as from the infrastructure spending in the U.S. The company estimates that the Class 8 truck industry retail sales will be in the range of 295,000-315,000 vehicles in FY23 and in the range of 260,000-300,000 vehicles in FY24, implying a decline year-on-year. PACCAR expects the European truck industry

registration in the above 16-tonne segment to be in the range of 310,000-330,000 trucks in FY23 and 260,000-300,000 trucks in FY24. In South America, in the above 16-tonne category, the company expects the market to be in the range of 105,000-115,000 in FY23 and in a similar range in FY24. PACCAR also noted that DAF's market share in the Brazilian above 16-tonne truck segment has increased this year to 10% from 6.9% in the same period of the prior year.

### **Iveco Group**

In the third quarter of 2023, Iveco Group had consolidated revenues of €3,757mn, up 6.7% YoY, including net revenues of Industrial Activities of €3,671mn, up 5.8% YoY, driven by positive pricing dynamic and better sales mix. In 3Q23, the company had adjusted EBIT of €213mn, up 91.9% YoY, with the respective margin up 280bp YoY to 5.7%, and Industrial Activities adjusted EBIT margin up 310bp YoY to 4.9%.

Iveco Group also mentioned that it is continuing efforts to shorten order books to healthier levels in preparation for the Model Year 2024 order opening, with 26 weeks of production already sold for light commercial vehicles and around 20 weeks for both medium and heavy-duty trucks. As a result of this effort, Iveco's worldwide truck book-to-bill was 0.73 at the end of the third quarter of 2023. During the quarter, truck and bus deliveries were down 8% on a worldwide basis but flat in Europe year-on-year and up 13% YoY for medium and heavy-duty trucks, offset by lower light commercial vehicle delivery volumes during the period.

The company's third quarter 2023 performance prompted an improvement in Iveco's full-year financial guidance, including expected growth in net revenues of Industrial Activities to between 8% and 9% YoY (from between +5% and +8% YoY previously) and consolidated adjusted EBIT to between €770mn and €800mn (from €750mn to €800mn previously)

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# The European trailer market cools after years of expansion

We won't see a trailer sales recovery any time soon



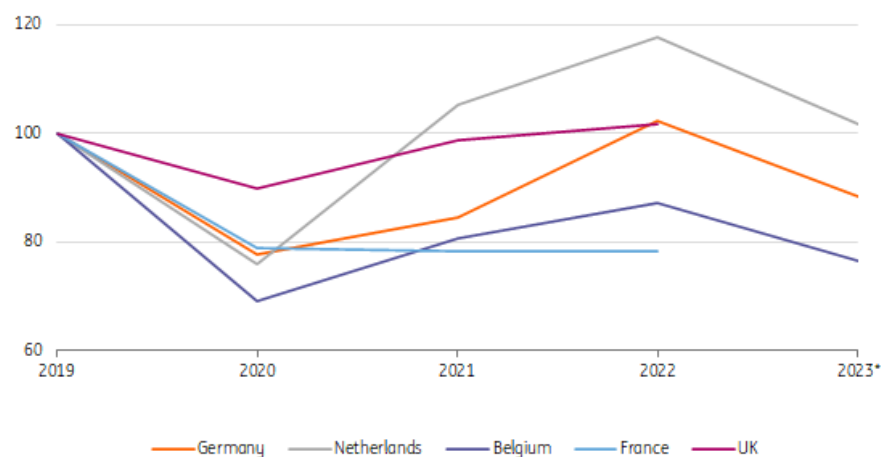
We don't expect to see a trailer recovery any time soon

## A 2021-2022 rebound for the European trailer market

The trailer market saw a rebound from the pandemic lows back in 2021, mainly on the back of strong order books. Trailer manufacturers encountered shortages with components such as axles, but on a less severe scale than in truck production, where electronics - and chips - are more important. They also saw greater success in keeping production lines up and running. Accelerated by pent-up demand, some European countries' trailer registrations surpassed their pre-pandemic registration figure or already reached records previously seen in 2022.

## Unlike trucks, trailer registrations rebounded in 2021-2022

Development of new semi-trailer registrations per country (2019 = 100)



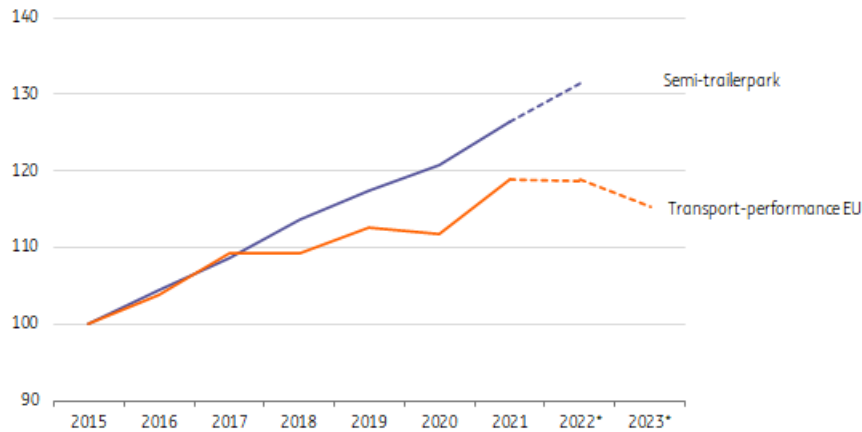
Source: RAI/RDC, CLCCR, Febiac, VDA, SDES-RSVERO, \*ING Research

The European semi-trailer fleet continued to grow through the economic cycle as well as the pandemic. In total the fleet is estimated at around three million in 2022 (in EU + EFTA + UK). The European trailer park has grown rapidly since 2015 and in contrast to the truck fleet, the trailer fleet has already outpaced road transport for longer. Figures about 2022 from the Dutch fleet suggest that this continued to grow through 2022 and probably into 2023. On average, the fleet has expanded by around 30% since 2015.

In prevalent European home countries for international transport, the trailer fleets have expanded. As such, Lithuania, Romania, and Poland – for a long time known as the European market leader in international road transport – have grown the fastest in recent years. International transport activities and registered equipment have increasingly been shifted to entities in Central and Eastern Europe for cost reasons.

## European semi-trailer fleet expansion exceeded transport demand for longer

Development of trailer park vs. transport performance in ton/km (EU), index (2015 = 100)



Source: Eurostat, \*ING Research

## Longer deployment and refurbishment added to the trailer fleet

The gap between the trailer fleet and transport demand has widened recently. The most important reason for this is that fleet owners tend to stick to older trailers. Consequently, the average age of the fleet has increased. There are multiple reasons for this phenomenon:

- The transport market has turned more volatile and less predictable in recent years and this requires more flexibility 'just in case'. It doesn't cost much to keep trailers in the fleet and more trailers don't necessarily require more drivers. Consequently, the trailer-truck ratio has gone up.
- Drawbars are increasingly being replaced by semi-trailers, which are deemed more flexible in operations. Even in a country with a long tradition of drawbars and swap bodies, Germany, the semi-trailer is gradually gaining ground.
- The role of trailers in logistics has expanded too. Trailers are more often used as means of storage (e.g., at warehousing docks). Also, trailers travelling between the UK and the rest of Europe have longer turn-around times after Brexit.
- Fleet owners have chosen to attain and refurbish semi-trailers more often in recent years. Production limitations and shortages were a reason; higher new prices and sustainability considerations also became a factor. Refurbishment could extend life cycles by 5-6 years. Lessors and large fleet owners such as TIP, PNO, DHL and DSV are also convinced that longer deployment is possible. Refurbishment used to be common practice, exclusively for more expensive units such as bulk trailers, but this happens more often for other configurations as well.

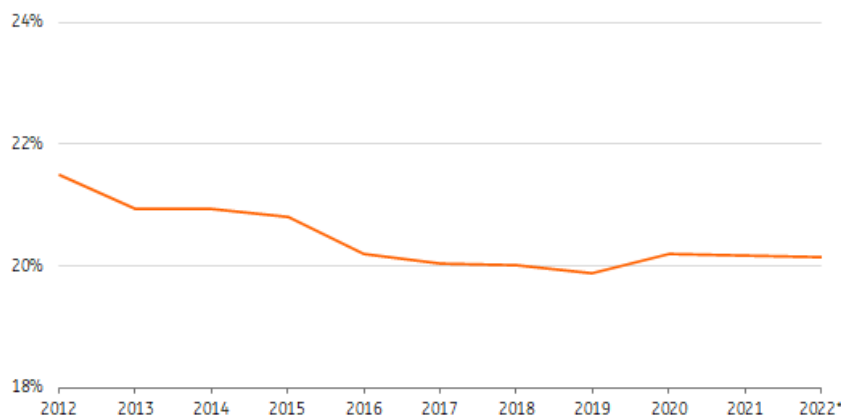
Another factor in play for fleet development is efficiency. Over time, vehicle occupation rates have improved. However, despite multiple efforts at further efficiency improvement – and a further reduction of empty running – has shown itself to be easier said than done against the current economic and logistics backdrop. Despite the planning benefits of digitalisation and platforms,

further efficiency improvement stalled.

The impact of regulation (such as driving time, rest hours and locations) in combination with specific client preferences has limited the upside. Intensified cooperation (data-sharing) and perhaps the use of artificial intelligence in planning still provide an upside for efficiency, but as mentioned above, there are more variables in play.

## Reduction empty running in European road haulage stalled

Share of empty road freight transport vehicle km's in the EU-27



Source: Eurostat, \*ING Research

## Contraction trailer sales to slow in 2024

Following the decline of freight transport demand at the end of 2022, things started to change. The normalisation of elevated consumer demand for goods, economic headwinds, and rapidly rising interest rates affected the business climate and investment appetite. This suppressed demand for new trailers in 2023 and, after catching up with deliveries and the normalisation of extended lead times, this showed up in registration figures.

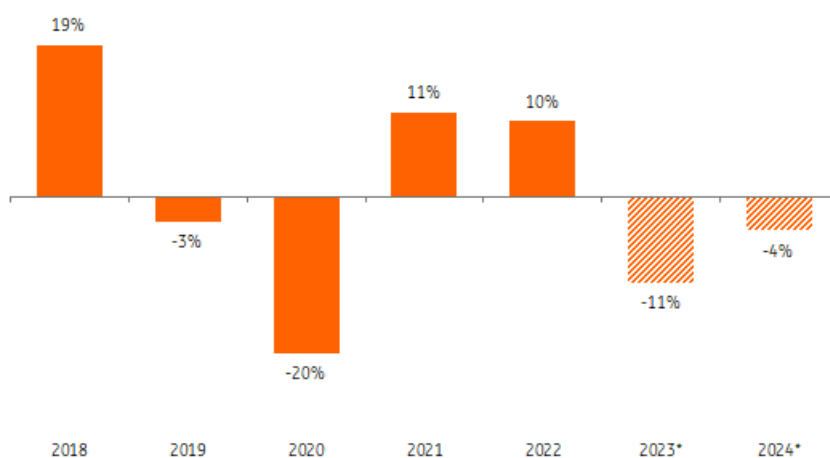
Trailer lifecycles can be stretched fairly easily, and that can lead to a relatively speedy adaption and reduction. For the full year 2023, registration is expected to fall by just over 11%. We still expect to see a contraction in 2024, albeit smaller, as the economy is expected to remain sluggish and road transport only mildly recovers. With economic growth catching up, expansion could happen in 2025.

Despite market headwinds, large fleet owners such as leasing companies TIP and PNO continued to invest in fleet renewal and extension in 2023. The leased-out share in the trailer market has become significant over time, and operational solutions like 'trailer as a service' have been introduced.



## Setback after earlier high tide on the European trailer market

Western European\*\* registrations of semi-trailers, YoY



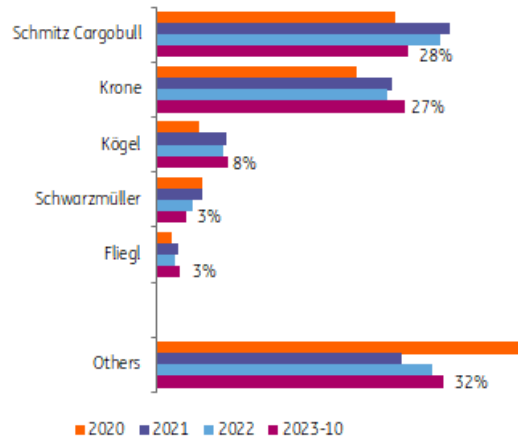
Source: RAI/RDC, CLCCR, Febiac, VDA, SDES-RSVERO, \*ING Research, \*\*Includes The Netherlands, Belgium, France, Germany, UK

Following the drop in order intake, trailer manufacturers have also scaled back their units' production and now clearly operate below their maximum capacity. The changed market conditions also intensified competition between manufacturers, with price pressure returning. Average prices of new trailers have risen at least 25% against the backdrop of the inflationary shock in 2022.

But raw material prices are no longer at extremely elevated levels and this will gradually trickle down via suppliers. At the same time, wage increases push up production costs structurally. Although prices won't return to previous levels, buyers have gained market power, which is likely due to a moderation of prices over the course of 2024. This process already started. In combination with a starting recovery of freight volumes and an older fleet, this may trigger some extra demand again.

## Krone approaches Schmitz's market share, other specialist brands regain ground

Market share in new semi-trailer registrations in Germany



Source: RAI, KBA, ING Research

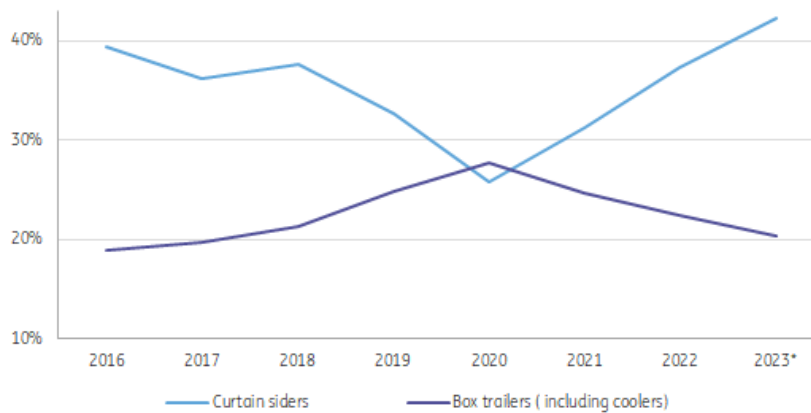
## Market share of curtain side trailers revived following box trailer price hikes

When looking at different types of trailers, there has been a shift in trailer registrations from traditional curtain siders to box trailers for security reasons. The rise of e-commerce also had an impact here. The share of (fixed) box trailers, including coolers, even exceeded the traditional curtain sider share in 2020. However, the trend hasn't been sustained in the last couple of years; sales of curtain siders have revived, with market share again hitting 40%.

Initially, large (rental) fleet orders have pushed curtain sider deliveries. But from 2022, significant price increases for heavy box trailers have probably reversed the trend. Fleet owners may have decided to refurbish trailers and postpone their replacement. Demand for box trailers is likely to catch up somewhat later, and therefore, we expect the share of box trailers – and especially coolers – to stay at higher levels than previously.

## Popularity curtain sider return with higher prices for box trailers

Share of main semi-trailer configurations in total registrations in Europe's largest market Germany



Source: RAI, KBA, ING Research \*up and until Oct. 2023

## Trailers need to decarbonise and electrify

Although the combustion engine is the main focus for carbonisation, the energy transition increasingly also affects the trailer market and its manufacturers. The adopted European plan to increase the CO<sub>2</sub> reduction targets for heavy-duty also includes obligations for a [15% reduction for semi-trailers](#) such as 3-axles 'standardised' box trailers by 2030 compared to 2024 when the CO<sub>2</sub>-labelling via the so-called VECTO tool starts. For some specials and drawbars, [12,5% and 7,5% applies](#).

Achieving this target isn't as easy as the relatively low figure may suggest. As trailers lack an engine, progress should be found in the used materials, design, and components such as the axles and cooling system. European manufacturers branch CLCCR already declared this hardly realistic. Nevertheless, and apart from materials, significant CO<sub>2</sub> reduction could be reached by electric technologies which are already available:

- Over the years, the share of conditioned transport has grown steadily, but part of the cooling units on trailers is still equipped with diesel engines. This has started to change with increased attention to hybrid refrigerated trailers and now full-electric systems, which are powered by the grid or operate in combination with solar panels.
- Another available electric feature for trailers is the regeneration axle that works in combination with a battery. Many fleet owners have already shown interest in this. The next generation is an axle which even has its own battery pack and electric motor, which is able to 'push up' the truck from the rear side ('e-trailer'). However, this is not yet approved under European law.

The market entrance of electric trucks unfortunately isn't an accelerator for simultaneous electrification of trailers as first generation e-tractors are not designed for the combination. But as it still takes over two decades to replace the full truck fleet, it could also work in combination with diesel trucks and raise efficiency.

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