

Truck and trailer markets benefit from soft landing in road transport

With European road transport volumes returning, investment in trucks and trailers has picked up and manufacturers started 2021 with filled order books. At the same time, production challenges are creating unusually long lead times. Most orders placed this summer will only be delivered from early 2022, pushing back some of the recovery to next year

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By Rico Luman and Oleksiy Soroka, CFA

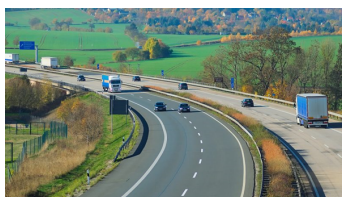


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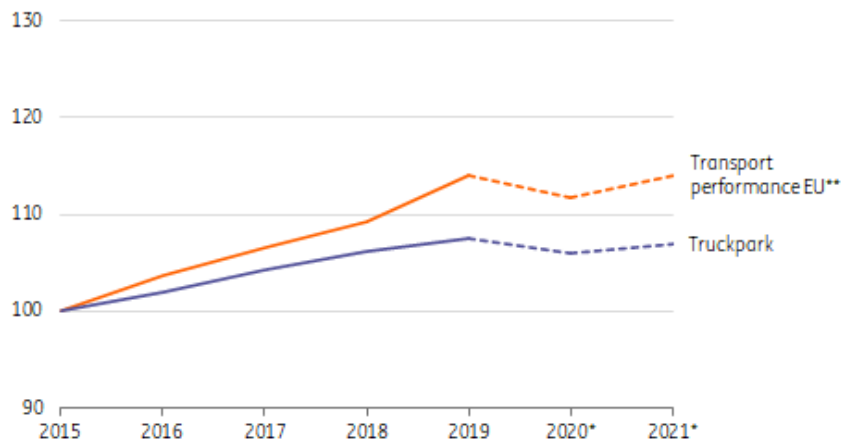
European road transport on its way back

The European road transport sector recovered surprisingly well from the pandemic lows of spring 2020. The sector was affected unevenly by different lockdown measures across countries, but following a shift in consumption from services to goods, general volumes rebounded more quickly than many expected and surging e-commerce led to extra transport activity. With fairly stable or even lower costs, 2020 was also better than expected financially.

German motorway mileage (MAUT) exceeded its 2019 cumulative level again from March 2021 onwards, which indicates that activity is now pretty much back on track. At the European level, we expect road transport performance to largely recover to pre-pandemic levels in FY 2021 (graph).

Slow down in transport halted truck fleet development

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



Source: Eurostat/ACEA/ING Research **based on 20 (large) EU countries

Expansion of the European fleet stagnated in 2020

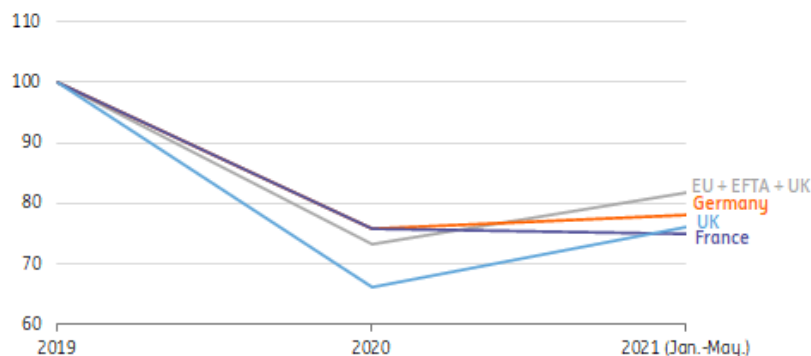
The European truck fleet expanded less than transport volume growth in the pre-pandemic years. Poland (+17%) and Romania (+24%) showed the largest growth in rolling stock, following the shift of international transport towards Eastern Europe. This turned Poland into Europe's largest road transport country, the base for 1.15 million registered heavy duty trucks (> 3.5 ton). The new inflow of trucks was low last year and the fleet may have gone down slightly. However, excess capacity remains limited on average, leaving room for some fleet expansion once transport growth resumes.

European truck registrations dropped sharply in biggest European markets

European heavy duty truck sales dropped sharply in 2020, ending 27% below 2019 levels at just below 300,000 units. In the three largest European markets, the biggest drop was seen in the UK, which experienced a strong lockdown. The Netherlands and Belgium also saw a more than 30% decline. Remarkably, Southern European countries held up relatively well. One reason for this is probably the weak sales figures seen in the pre-pandemic years.

Largest 3 European truck markets behind in recovery

New heavy duty truck registrations in Europe and top 3 countries (2019 = 100)



Source: ACEA, ING Research

Truck market rebounds but 2021 won't bring a full recovery to 2019 levels

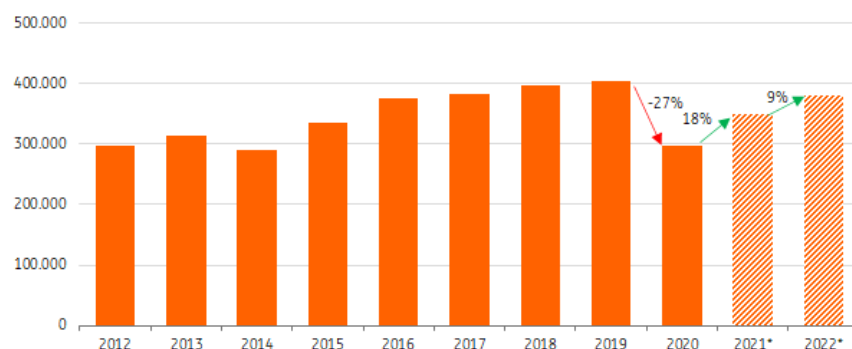
Following the return of European road transport volumes and business confidence, investment in new trucks picked up strongly in the run up to 2021. Large fleet owners, in particular, placed new orders, with a major order for 1,300 DAF trucks coming from the Spanish road transport company Primafrio, for example. Truck manufacturers' order books at mid-year are pretty well filled again.

This has led to a 32% rebound in registrations in the first five months of 2021 compared to the same period last year. For the full year 2021, we expect truck registrations in Europe to rebound by 18% to 350,000 which is still well below the 2019 level, but close to the seven-year average, a common leasing term for new trucks.

Registrations in Poland picked up relatively well and returned to pre-pandemic levels in the first half of 2021. This is remarkable as the European Commission's [mobility package](#) forces drivers to return home periodically, triggering more registrations in countries closer to the western European goods flow. Periodic repatriating of trucks under European law is being reconsidered, however, as this will lead to more inefficiency.

European truck sales show partial recovery in 2021, continued in 2022

Registrations of new heavy duty trucks EU + EFTA + UK



Source: ACEA, *ING Research

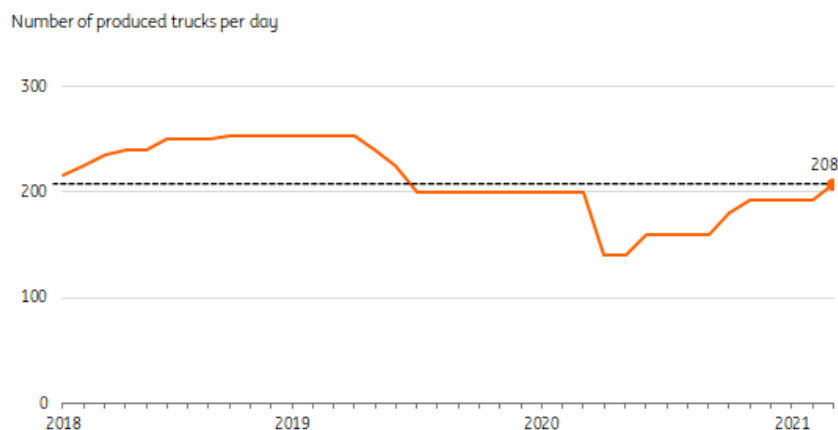
Truck sales to suffer less than during the financial crisis

The recovery of truck sales after the pandemic downturn started earlier than during the slump following the global financial crisis in 2009. While registrations were coming down from all-time highs in the GFC, significant stocks of newly built trucks were still being created. That was not the case this time, with the market losing steam earlier and stocks at minimum levels. This is contributing to the current uptake. The UK truck market, in particular, might benefit from more locally-based transport activity post-Brexit, although the country faces a driver shortage.

Production challenges lead to longer lead times and temper new registrations in 2021

Daily truck production from European manufacturer DAF (part of Paccar) is back on track this year. This is a sign of recovery, although the backlog after the pandemic interruptions in the spring of 2020 pushed up production at an early stage. While manufacturers speak of filled order books, production capacity faces challenges due to long lead times for supplies ranging from steel components to plastics parts to tires. Most critical are chip shortages, which forced Volvo Ghent to halt production for a week in February. Chips have become a crucial input for trucks amid increasing demand for advanced driver systems and connected vehicles. Manufacturers generally try to work around this, but the threat to production schedules remains over the coming quarters. Together with fairly strong order books, this leads to significantly longer lead times, tempering new truck registrations in 2021, with spillover effects for 2022.

Production DAF-trucks at European plants exceeded pre-crisis level in spring 2021

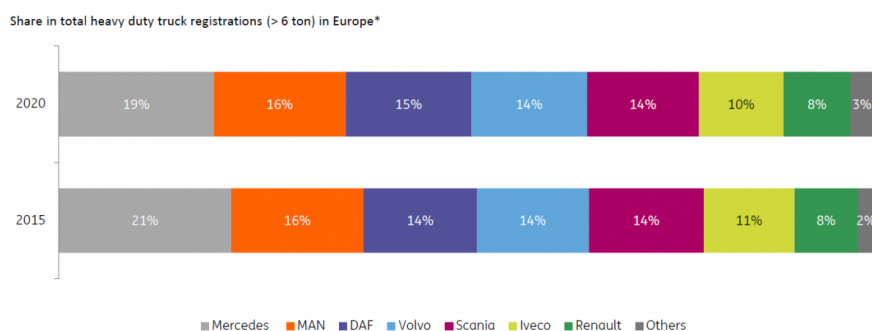


Source: DAF, ED, ING Research

European truck market dominated by seven brands

The European truck market is dominated by seven brands, part of Daimler (Mercedes), Paccar (DAF), Volvo trucks, Traton (Scania, MAN), Iveco (CNH Industrial) and Renault group. The market doesn't change significantly from year to year, although the market share of big brands (in terms of units sold) has become more aligned over the years.

Mercedes still leads the European truck market, the big five cover 80%



Source: MAN, ING Research

*EU + UK + EFTA

Paccar and Volvo trucks are two out of six companies dominating the European heavy truck market. We have a look at their financial performance and the way forward:

Paccar

Paccar said that customer demand for its trucks was "very strong" and that truck deliveries increased in the first quarter of 2021 sequentially, in spite of the constrained supply of

semiconductors affecting the auto sector. In 1Q 2021, the company had consolidated net sales and revenues of \$5.85bn, up 13.3% year-on-year (YoY), with sales up strongly, by 12.7%, for its key Truck segment (new truck deliveries of 42,200 in the reported quarter, +9.9% YoY), while an Aftermarket Parts segment had a record quarterly revenue, up 16.2% YoY.

Paccar commented that freight tonnage was strong in the first quarter of this year as the US economy continued to recover, with trucks accounting for nearly three-quarters of the freight transported in the country, based on the 2020 numbers. The company's Kenworth and Peterbilt's Class 8 truck orders increased nearly three-fold year-on-year in 1Q 2021 in the US and Canada.

Earlier in the year, Paccar also launched new heavy- and medium-duty truck models which offer higher fuel efficiency and advanced driver assistance systems (ADAS). Importantly, DAF started manufacturing CF Electric trucks during the month of April. Kenworth and Peterbilt are expected to launch zero emissions truck production in the coming months. In 1Q 2021, Paccar began producing battery electric customer trucks for applications such as port, refuse and local deliveries. In these applications, trucks return to depots for recharging each day and have a calibrated range to optimise battery weight and cost. Recently, on 9 June, DAF announced it was launching a new generation of trucks, with improved fuel efficiency (up to 10% higher fuel efficiency and an equivalent reduction in CO2 emissions), enhanced safety features and additional comfort features for drivers. The production of this new generation of trucks is due to start in October.

Volvo Group

Volvo Group commented that the first quarter of 2021 was marked by a high level of activity among its customers, including a strong freight market, with increased transported volumes, driven by e-commerce, among other factors. As a result, the company's customers realised higher freight prices and achieved improved profitability, prompting them to expand their fleets to meet increased demand. Consequently, there was a strong order intake in Volvo Group's truck segment. The company noted that inventories of both new and used trucks were low globally and Volvo Group increased deliveries by 17% YoY in 1Q 2021, raising its profitability as well (with the company's operating margin more than doubling to 12.8% in the first quarter of this year, from 6.8% in the respective prior-year quarter). Volvo Group noted that the global semiconductor supply constraints had a limited impact on the company's production in 1Q 2021 while the company expected to lose production equivalent to two to four weeks of the international production, depending on the manufacturing site, during 2Q 2021 and further disruptions cannot be ruled out. Recently, the press reported that the company was halting production at its Ghent factory for the week of the 21 June due to a shortage of semiconductors.

Volvo Group noted that it continued to invest in the electrified, automated and connected technological solutions and the company already has fully electric trucks, buses and construction equipment in serial production. While presently volumes remain small, there is high customer interest in the products and with the expected rollout of the heavy-duty electric trucks by both Volvo Trucks and Renault Trucks in the next two years, the group would offer electric trucks with ranges that cover almost half of the truck transports carried out in the EU. In 1Q 2021, Volvo group also created a new joint fuel cell company called

CellCentric in cooperation with Daimler Truck, aiming to make it a leading global manufacturer of fuel cells. In March, Renault Trucks outlined its further ambitions for electric mobility, targeting the all-electric Renault Trucks' offer for each segment - distribution, construction and long-distance transport - from the year 2023. In April, Volvo Trucks announced the start of sales of three new heavy-duty all-electric models later this year.

During 1Q 2021, Volvo Group had sales of SEK94,018mn, up 2.8% YoY on a reported basis but up 13% when adjusted for foreign exchange movements, helped by a robust increase in vehicle sales. The demand for trucks was broad based across segments both in Europe and North America, with truck fleet utilisation back to the pre-Covid-19 levels and demand for spare parts and services also strong. The Chinese market grew strongly in 1Q 2021, supported by subsidies to speed up the replacement of vehicles which do not meet the CN3 emissions standards. Chinese market sales grew strongly relative to 1Q 2020, which was severely affected by Covid-19. Other prominent markets, including Japan, India and Brazil also recorded positive dynamics. Volvo Group's total order intake was 85,461 trucks in 1Q 2021, up 123% YoY, and deliveries were 52,444, up 17% YoY. In Europe, order intake of heavy- and medium-duty trucks increased by 126% YoY in the reported quarter (to 39,081), with deliveries of 18,871 (+10% YoY). Truck order intake in North America increased by 369% to 22,215, with deliveries of 12,972 (+22% YoY). South American order intake and deliveries increased by 27% and 13% YoY, respectively.

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European trailer market: This time is different

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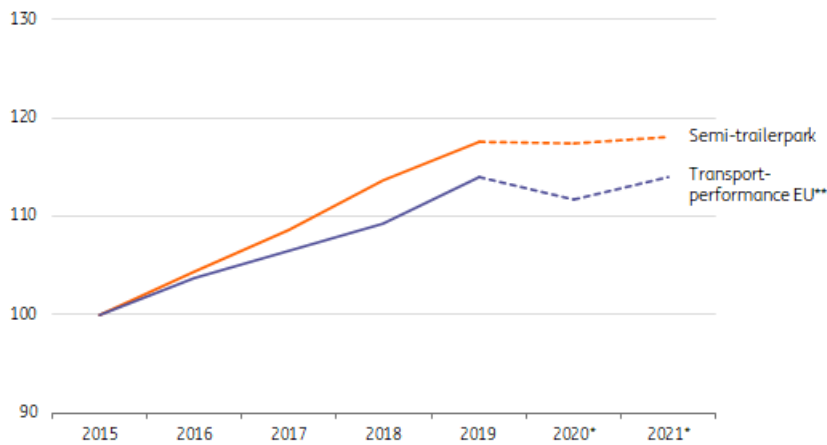
European semi-trailer fleet has grown rapidly in recent years

The European trailer fleet had around three million registered semi-trailers in 2019. In contrast to the truck fleet, trailer capacity expanded faster than European road transport demand in the years before the pandemic, and some reasons include:

- Trailer units are increasingly used as temporary storage facilities in the logistics process at warehouse sites. They are also used as stocking units, and fleet owners and rentals tend to keep several of them to remain flexible, which partly explains some natural excess capacity.
- As part of this, e-commerce has pushed up transport and storage demand. Several logistics services providers like DSV Panalpina only operate trailer capacity and Amazon has started to build up its own European trailer fleet.
- The transport market generally shows more volatility and requires the spare capacity to be able to meet peaks in demand.

Faltering transport growth curbs trailer fleet expansion

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



Source: Eurostat/ACEA/ING Research

**based on 20 (large) EU countries

...but not much trailer fleet reduction expected

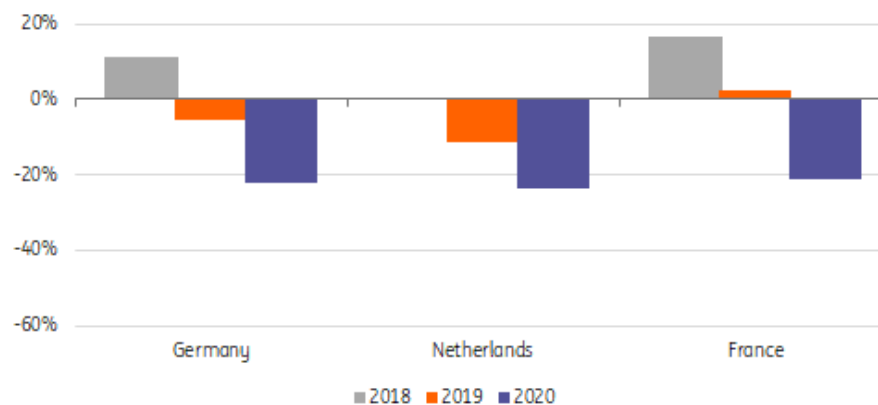
Despite alleged excess capacity in the trailer fleet, we don't expect much reduction in 2020-2021 even though second-hand prices are high.

Fleet capacity has to comply with peaks and we presume a large part of this is natural. Besides that, maintaining spare capacity entails extra costs and the market requires more flexibility which means even more volatility. Ageing of trailers is also slower than for trucks as new engine standards make no difference.

Another reason why more capacity is required is reduced efficiency - more operated trailer capacity to and from the UK is needed due to customs checks and longer roundtrips after Brexit.

NW European trailer registrations already slowed in 2019

Development of new semi-trailer registrations in % per year per country



Source: RAI/RDC/RDW, VDA, SDES-RSVERO, ING Research

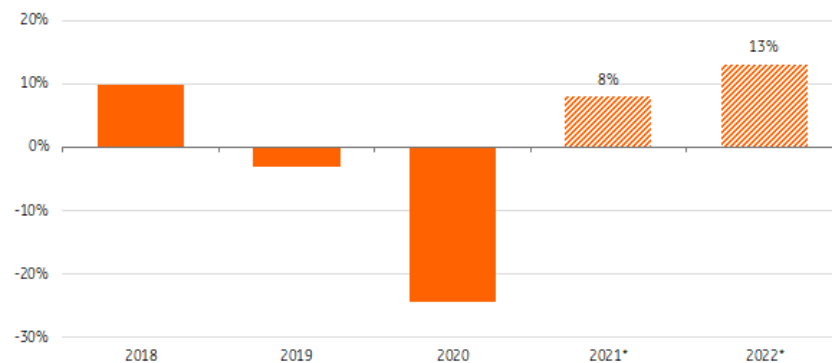
Early cooling-off and lack of stocked units accelerate trailer market recovery

Trailer sales are usually more sensitive to the economic cycle than truck sales. Nevertheless, the 2020-decline was remarkably limited compared to earlier swings. Three main explanations for this are:

1. Trailer sales already showed a decline in 2019 in Western European countries.
2. The decline was not preceded by a wave of extra orders by fleet owners and production in stock by manufacturers. This was different from the situation at the time of the financial-economic crisis in 2009.
3. Finally, large trailer rental companies – responsible for a significant part of market demand – such as TIP and PNO started to invest again in the second half of 2020.

European trailer registrations to show moderate recovery in 2021

NW European** registrations of semi-trailers y.o.y.



Source: RAI/RDC/RDW, VDA, SDES-RSVERO, *ING Research

**Including Netherlands, Belgium, France, Germany

NW-European trailer registration to rebound some 8% in 2021

In spring 2021, registrations of new trailers started rising again in Germany and the Netherlands. This also includes catch-up investment as confidence among fleet owners returned and market prospects improved. Given the rolling start of 2021 we expect new semi-trailer registrations to recover some 8% year on year in FY21 followed by a stronger rebound in 2022.

Long delivery times drives pushes haulage companies to second-hand market and rental

Like trucks, lead times for new trailers are increasing significantly (most new orders will probably not be delivered before the start of 2022).

Trailer manufacturers have rapidly decreased production capacity in the downturn and are currently facing a scarcity of components supply while scaling up again. The purchasing managers' index (PMI) shows that lead times deteriorated further in the run-up to the summer. Chip shortages are not an immediate constraint for trailer manufacturers, but the supply of steel has been a

limiting factor for some time.

As a consequence, production at Krone - a major European vehicle and machine manufacturer - remained well below pre-pandemic levels in 1Q21, driving up demand for used trailers and rental options for short term deployment.

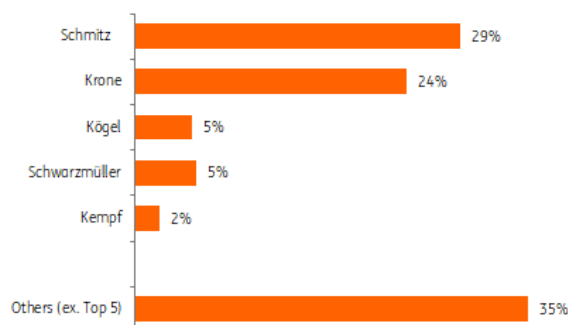
Despite the few dominant players, a fragmented market exists

Despite some consolidation in the previous decade, the European trailer market is still fragmented with hundreds of smaller players manufacturing specialised equipment like tank trailers, bulk trailers and low loaders. For more standard trailers like curtain-siders, box trailers or coolers, Schmitz and Krone are the dominant players in the European market.

Within the standardised range of trailers, demand is gradually shifting from curtain siders to boxes for security purposes.

Schmitz and Krone cover more than half of Europe's largest trailer market

Market share new semi-trailer registrations in Germany in 2020



Source: RAI, VDA, ING Research

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Fuel efficiency the first step in reducing trucking's footprint

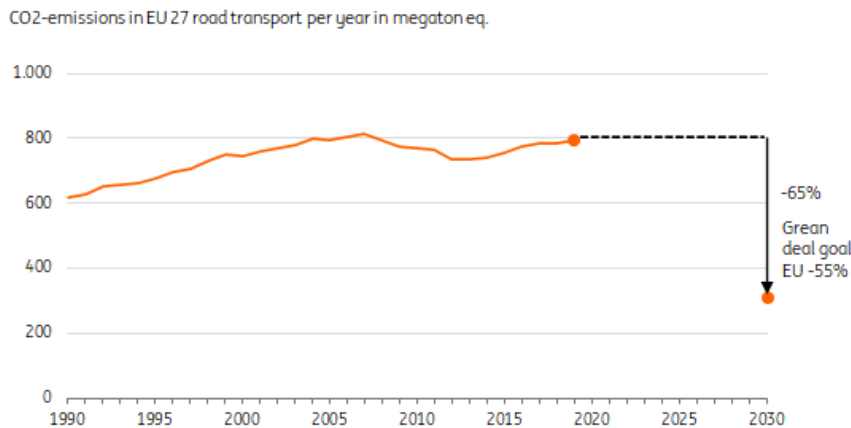
By 2030, the trucking sector has to adapt to even more challenging European CO2 targets. Although zero emission alternatives are not yet viable,...



CO2 emissions in road transport resumed their way up in recent years

The European road transport sector faces a significant challenge to cut CO2-emissions this decade. Emissions peaked in 2007 and started to decrease thereafter, but they moved higher again in the pre-pandemic years amid increasing transport volumes. Given the increased level of ambition for 2030 under the Green Deal, there's a long way to go.

Significant CO2 reduction challenge in road transport by 2030



Source: EEA, ING Research

Progression in CO2 reduction will come in two stages (especially in long haul trucking)

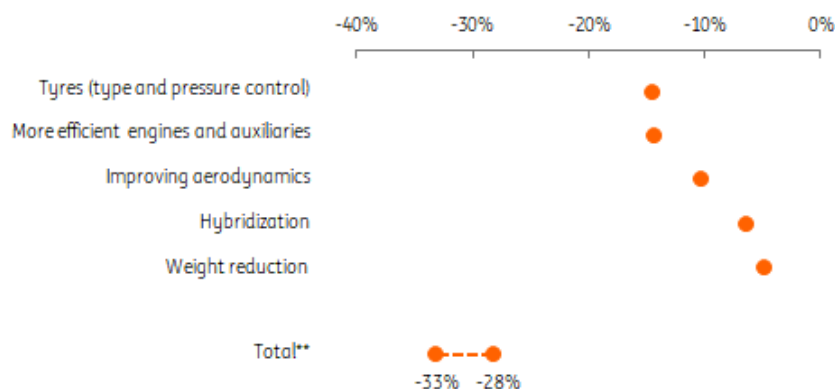
Fuel efficiency first - In most cases and for long haul trucking, electric options are not a viable option yet. And replacement of the full fleet will take quite a while. The truck fleet in most European countries has an average age of more than 10 years which means there are still a lot of old generation Euro 0-V trucks running (built before 2013). At the same time, newly-introduced diesel trucks have accelerated fuel efficiency over the last few years. These trucks are up to 20% less fuel consuming, according to user experience, and progression still continues. The new generation DAF-trucks – for instance - lengthen the tractor to optimise aerodynamics which should improve fuel efficiency compared to the previous 'model 2017' by some 10%. With an average fuel bill of 25-30% and small margins, every single percentage makes sense and consuming and emitting less also creates a win-win. There are three pathways to cutting emissions with conventional trucks:

- (Faster) replacement is one way of saving fuel and reducing the footprint of road haulage. Reducing the average fleet age helps.
- Smarter driving via coaching and gamification (per driver fuel consumption can vary no less than 25%)
- Optimisation of logistics planning ('kill empty running')

Electrification when possible and viable - By 2030, we expect new truck sales to start shifting towards electric propulsion, either by battery or fuel cell. And synthetic fuel also remains an option. Truck manufacturers are being forced to start building zero emission vehicles in serial production as well to meet European CO2-reduction targets for manufacturers. When the EU agrees to extend the emission transfer system (ETS) to road transport, a system of CO2-charging will in fact be introduced. In Germany, this has already been implemented on a national basis.

More efficient engine technology and tyres offer most savings potential

Fuel saving potential for trucks (incl. trailers) towards 2030 (compared to 2015)*



* >16 ton 4*2 tractive unit

** Total fuel saving potential is not equal to the sum (this depends)

Source: TNO, ING Research

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