

Transport Market Monitor

Transport prices increase to a 3-year high

Edition: 8 (August 2011)



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Transport prices increased faster than diesel costs

This is the eighth edition of the Transport Market Monitor. It outlines developments in European road transport rates and contains the latest figures including the second quarter of 2011.

- The price index increased by 7.8% in Q2 2011 (index 103.9), compared to the price index in Q1 2011 (index 96.4).
- Compared to the index level of the previous year, Q2 2010 (index 100.9), the price index increased by 3.0%.
- The diesel index increase was 5.8% in Q2 2011, compared to Q1 2011. This increase is lower than that of the overall transport price.
- Another factor with high impact on transport prices is the capacity index, which decreased by 34.4% in Q2 2011 (index 66.6), compared to Q1 2011 (index 101.6).
- The price increase in Q2 is a seasonal effect that we also monitored in previous years. It is caused by relatively higher demand for transportation in Q2 compared to Q1.
- The development of the price and capacity index over the next two quarters may be influenced by the development of the current economic situation in Europe and the USA. The TMM monitored a decrease in the price index and an increase in the capacity index in Q4 2008, after the start of the financial crisis in May 2008. It's difficult to predict what the outcome of this will be therefore we will closely monitor the developments within the financial market over the next few months.
- Both the market dynamics and the expected cost increase of transportation emphasize the need to monitor transport price developments very closely, to mitigate the risk of any unexpected negative impact on company results.

This report is the eighth edition of the Transport Market Monitor. Each quarter, a new edition will outline the developments during the past three months and reviews additional themes in transportation.

All indices in this report are based on the logistics platform TRANSPOREON, which handles a yearly transport volume (different truck types, mainly FTL and LTL) of more than €2 billion, covering all European countries. Information is anonymously unlocked from the platform and analysed by Capgemini Consulting.

The figures in the Transport Market Monitor date back to January 2008: the earliest point of measurement of the index figures. For all indices, the average figures of the 6 month period January 2008 till June 2008 have been set as the basis for comparison (Index 100).

These are the conclusions of the Transport Market Monitor by TRANSPOREON and Capgemini Consulting, a quarterly publication, which aims to track transport market dynamics.

Prices increased to the highest level since the start of the Transport Market Monitor

This section of the Transport Market Monitor outlines the quarterly developments of the price and capacity index, based on a time span from 2008 until the second quarter of 2011.

The price index (see figure 1) increased by 7.8% in Q2 2011 (index 103.9), compared to the price index in Q1 2011 (index 96.4). Also compared to the index level of the previous year, Q2 2010 (index 100.9), the price index increased by 3.0%.

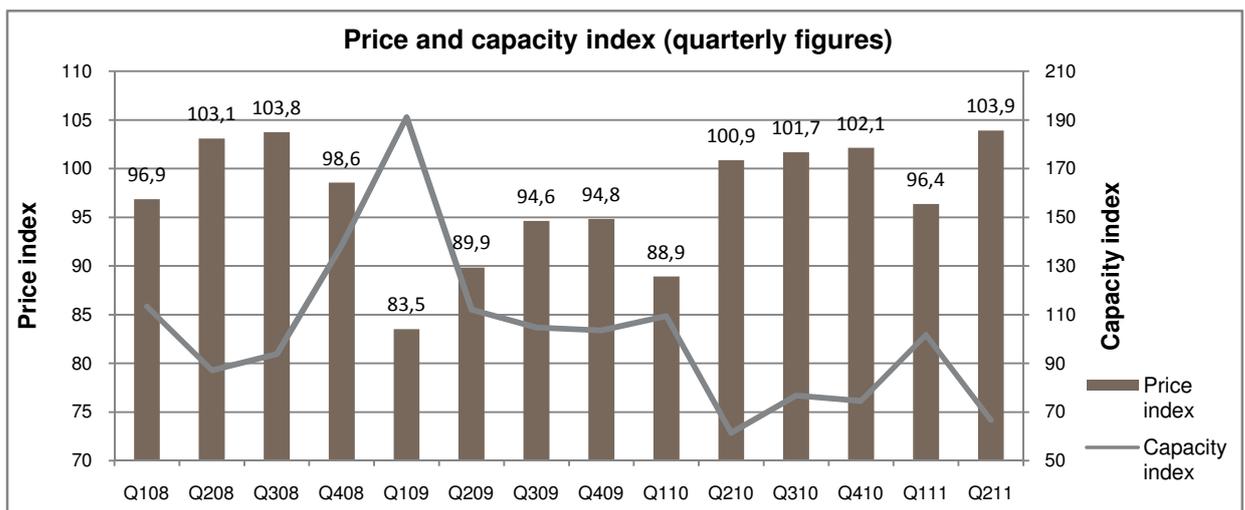
The price increase between Q1 and Q2 of 2011 is a seasonal effect that we also monitored in previous years. It was caused by a relatively higher demand for transportation in Q2 and the effect of various holidays like the Easter weekend, which compressed demand in shorter working weeks. Therefore, shipped volumes are higher due to the seasonal effects typically experienced in various industries. Q1 is clearly low season, followed by higher volumes in the second quarter. The spring period also impacts transport volumes in different industries such as construction. Higher demand for transportation decreases the level of available capacity and has an upward effect on price.

Transport prices increased higher than the diesel price in Q2 2011: the diesel index increase was 5.8% in Q2 2011. This clearly indicates the impact of the decrease in available capacity: the capacity index decreased by 34.4% in Q2 2011 (index 66.6), compared to Q1 2011 (index 101.6).

The price index is calculated by comparing the average price per kilometre over time.

The Capacity Index is an indicator for "available capacity", the ratio between absolute demand and capacity. The capacity index is calculated by comparing the average number of bids in response to a transport request over time.

Figure 1: Price and capacity index, quarterly (Q1 2008 – Q2 2011)



In 2009 and 2010 we monitored the trend that the price index increased during Q3 and Q4, but less steep than in Q2. However, the first indications for the outlook of Q3 2011¹ is that both transport price and diesel index is decreasing. This, in combination with the unknown developments in the European and US economy, will be monitored closely in the next few months by the Transport Market Monitor.

¹ Transport Market Radar

Capacity index drop was similar to previous year

This section of the Transport Market Monitor depicts the monthly developments in the price and capacity index over the last 12 months. Analysing Q2 2011 (see figure 2), April and June showed a clear price increase, while May indicates a slight decrease. Following the reverse pattern, the capacity index was at the lowest level in June 2011 (index 64.9).

During the last 12 months, the price index varied, outlining the dynamics in transport prices. The highest price index in the history of this report was reached in June 2011 (index 106.1). The lowest price index during the last 12 months was measured in February 2011 (index 94.6). The capacity index was at the lowest point in June 2011 (index 64.9). This index has dropped significantly, by 41.5%, since February 2011 (index 111.0).

Figure 2: Price and capacity index, monthly (Jul 2010 – Jun 2011)

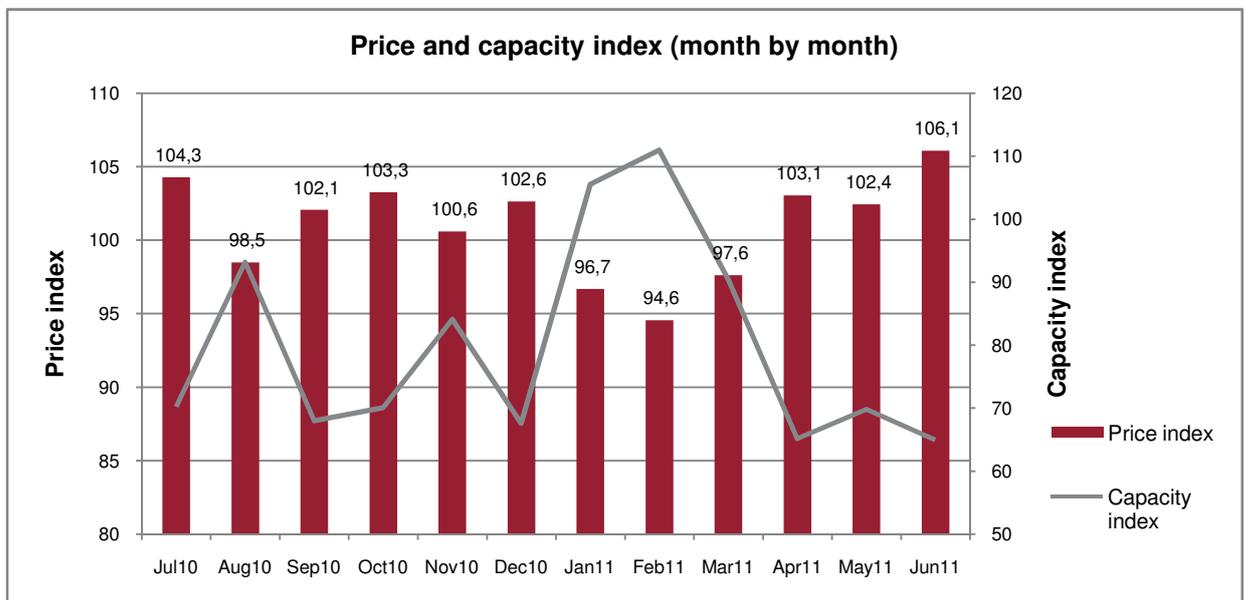


Figure 3 compares the monthly developments of the price index, over the last 12 months, with the same period one year before. The price index has constantly been above the levels of the previous year: on average prices were 6.3% higher compared to the year before. Since December 2010 the difference in price index compared to the previous year, decreased until May 2011, in which the price index was almost the same as the year before.

The price index developments over two consecutive years have been similar, showing a seasonal pattern: generally the price index decreases from January to February, thereafter, increasing until October, decreasing in November, but recovering again in December.

As already mentioned, the price index in May 2011 was almost at the same level as May 2010 (0.3 points difference). In June 2011, the price index increased to the highest level in the 3 year history of the Transport Market Monitor (index 106.1), and increasing the difference again as compared to June 2010 as well (2.9 points). As mentioned before, initial developments in Q3 of 2011 show a downward trend of the transport price index.

Figure 3: Price index comparison, monthly (Jul 2009 – Jun 2011)

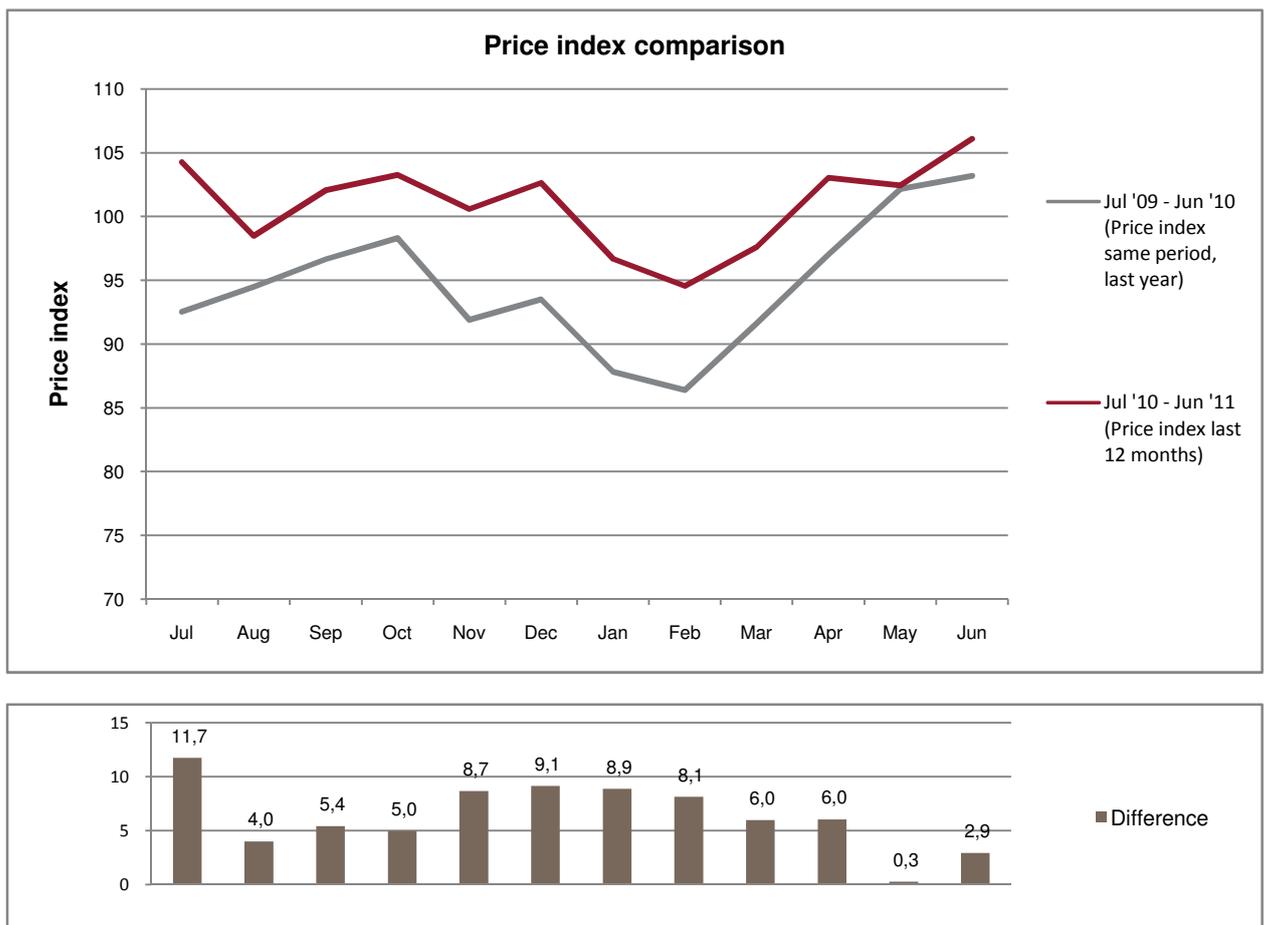
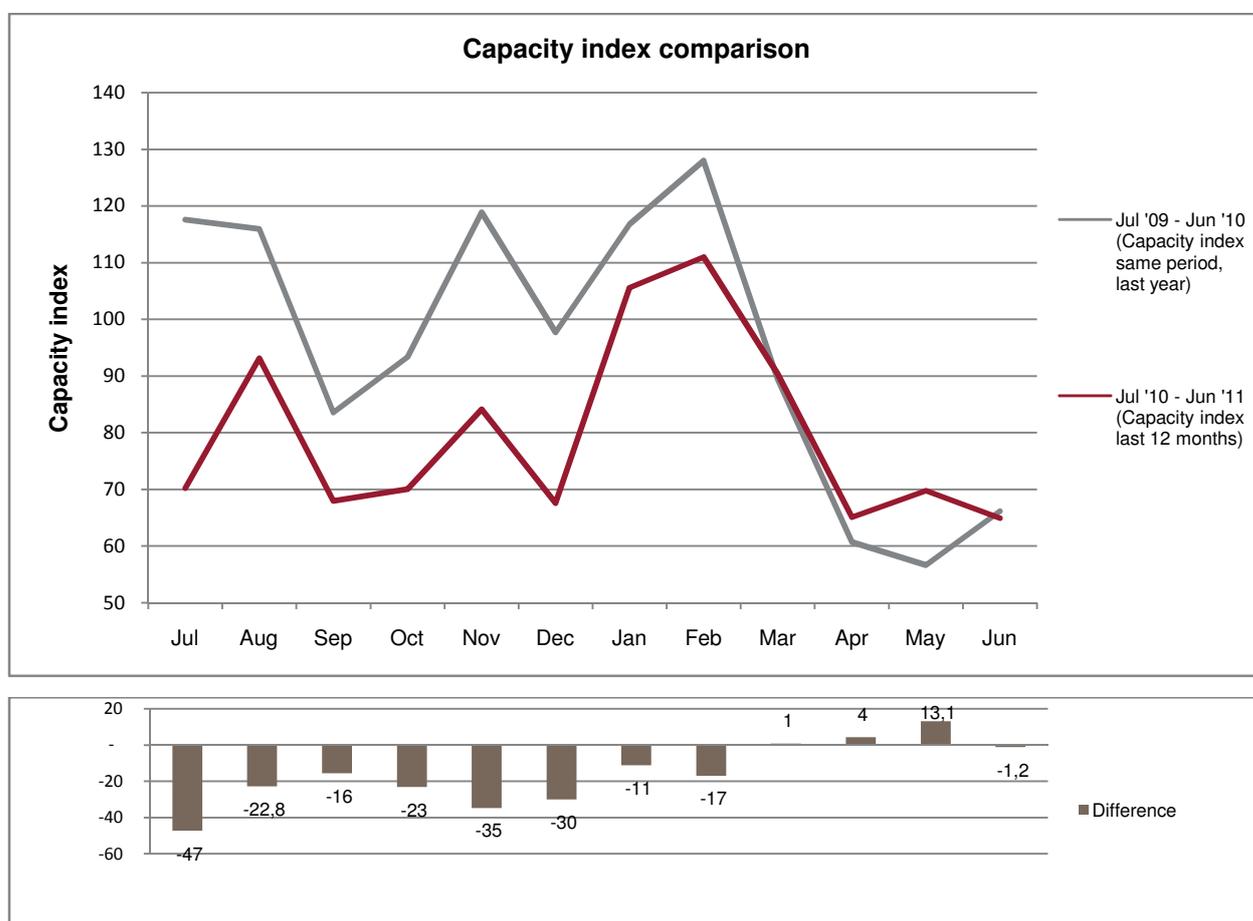


Figure 4 compares the monthly developments of the capacity index, during the previous 12 months, compared with the same period one year before. During the last four months, the capacity index closely tracked the capacity index of one year before, except for May, where the difference between 2010 and 2011 was 13.1 points

The large differences in the capacity index we saw last year are no longer exist. Where we saw a difference of 47 points between July 2009 and 2010, we are back to 1.2 index point difference between June of this year as compared to June 2010. Overall, the capacity index was relatively low during the last couple of months, which is common for the second quarter of the last years. For the first time since July 2009, the capacity index in March 2011 exceeded the level of the year before. In June 2011 the capacity index dropped again under the level of June 2010, with a difference of 1.2 index points.

Figure 4: Capacity index comparison, monthly (Jul 2009 –Jun 2011)



Industry focus

General economic conditions apply to all industries, but trends may differ and be stronger or weaker in individual industries. Analysis of the price index by the type of industry identifies these differences, shown graphically in figure 5.

The development of the price index for construction materials are in line with the development of the overall price index during Q2 2011 and with an index of 103.1 (7.1% increase since last quarter) shows the highest price index in the history of this report within this industry. Timber showed the strongest increase, with 10.8% in Q2 2011 compared to Q1 (price index 109.0) and is almost back to the level of Q4 2010, where the price index reached the highest level in three years (index 111.2). Paperboard / Print showed a smaller increase compared to the other industries, but still increased by 5.2% to a price index of 111.2.

The TRANSPOREON platform handles transport for almost all industries. For this edition of the Transport Market Monitor, different industry types have been analysed individually.

Each chart in figure 5 depicts the price development for that particular industry, indexed against the industry baseline (H1 2008)

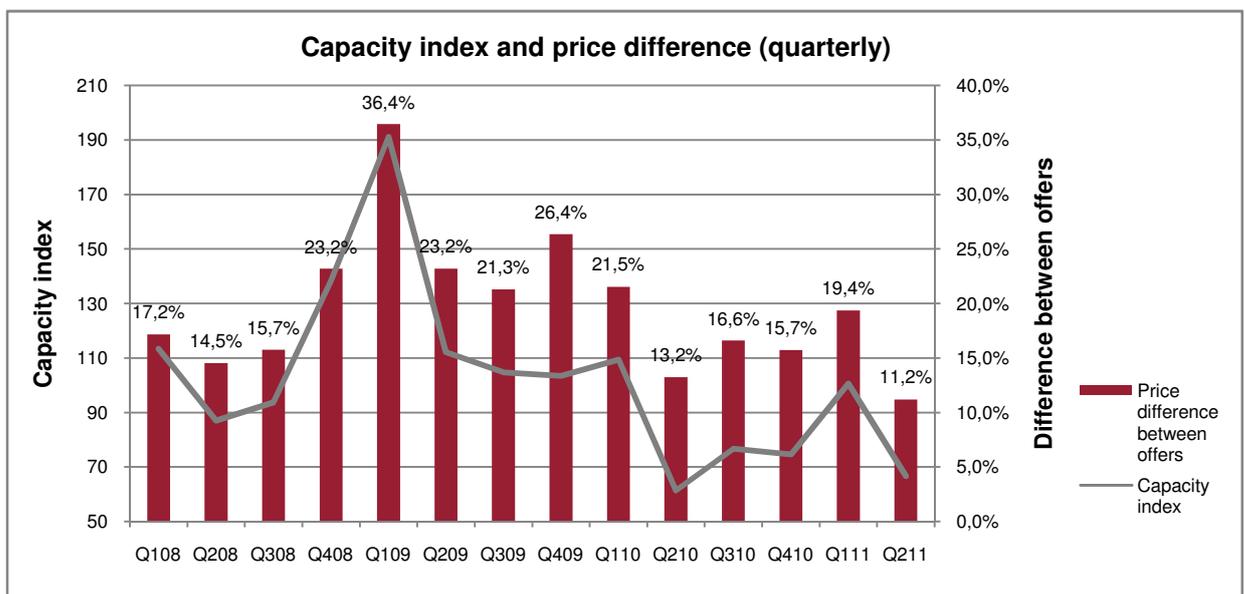
Figure 5: Price index for different industries (Q1 2008 – Q2 2011)



Price differences between offers decreased

This section analyses outlines transport dynamics, by analysing the price difference between the highest and the lowest price offered per transport request. Figure 6 outlines the price difference between offers, and the development of the capacity index. If the capacity index decreases, the level of competition decreases, clearly impacting the differences in price between offers by lowering them. This usually has an upward effect on transport prices. In order to compensate for this effect, the shipper can look for potential optimization options in e.g. load consolidation to increase fill rates.

Figure 6: Capacity index and price difference (Q1 2008 – Q2 2011)



In line with the clear decrease in available capacity, price differences between the highest and the lowest offered price decreased from a 19.4% difference in Q1 2011 to 11.2% in Q2 2011. This price difference is an average figure. In general price differences increase with the greater the distance to be travelled (see TMM, edition 1).

Diesel index increases further towards the record levels of 2008

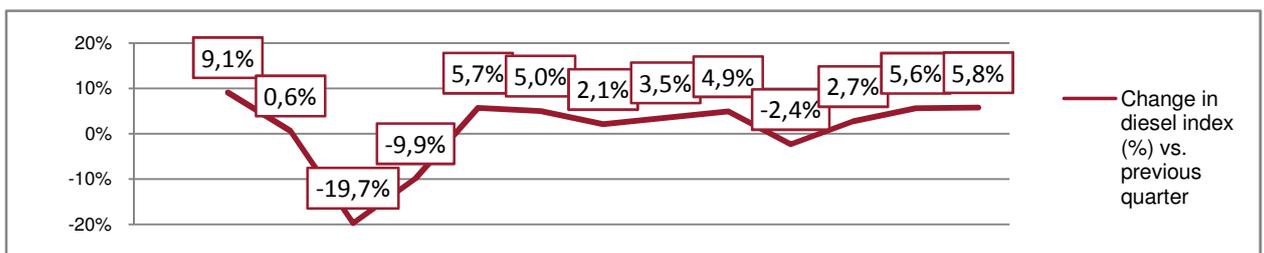
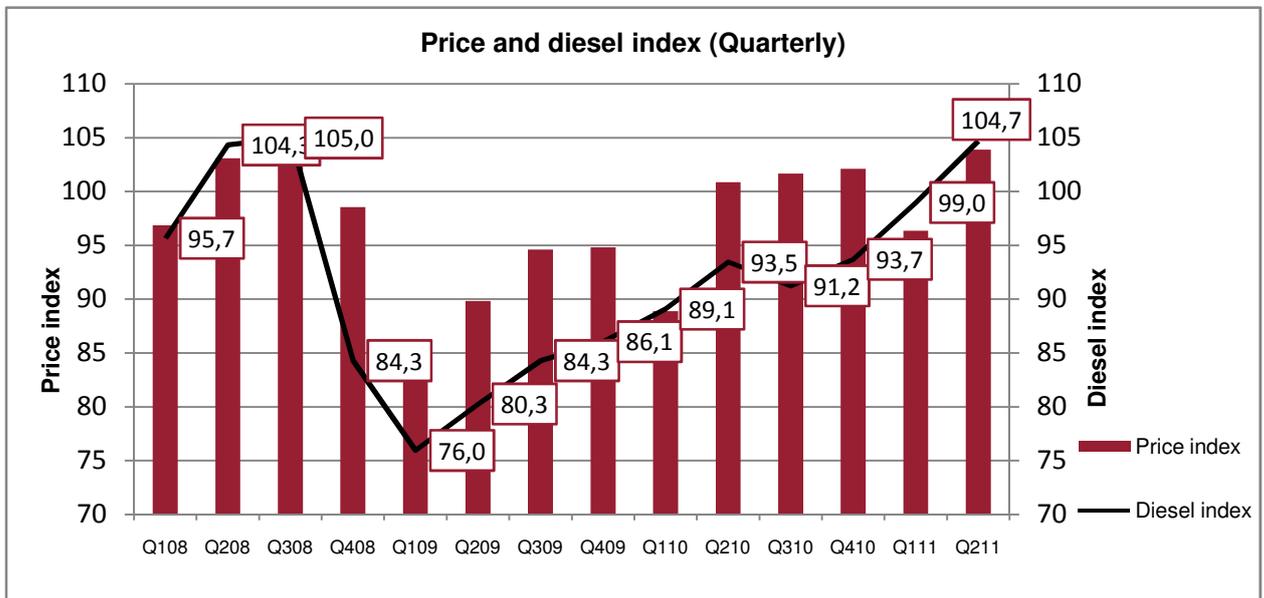
This section compares the price index with the diesel index (see figure 7). In general there is a positive correlation between the diesel index and the price index, clearly indicating the impact of diesel prices on transportation costs and consequently prices. Also during the second quarter of 2011 this was the case. The diesel price increased by 5.8% and the transport price increased even further by 7.8% in Q2 2011, compared to Q1. The reason for the steep increase of the transport price is, besides the diesel costs, also dependant on the transport capacity development. The capacity index in Q2 2011 decreased by 34.4%, which has an effect on the transport prices over and above the diesel index influence.

For the diesel index, the average figures of the 6 month period January 2008 till June 2008 have been set as the basis for comparison (index 100), similar to the other indices used in this report.

The calculation of the diesel index is based on diesel price figures in Germany, obtained from www.aral.de. We assume that the index pattern, based on the above figures, is representative for Europe for the purpose of this report.

With the exception of Q3 2010, diesel prices have been increasing since Q1 2009. In Q2 2011 the diesel index increased by 5.8%, compared to Q1 2011, to index 104.7, reaching the highest level measured since the start of the TMM (index 105.0 in Q3 2008).

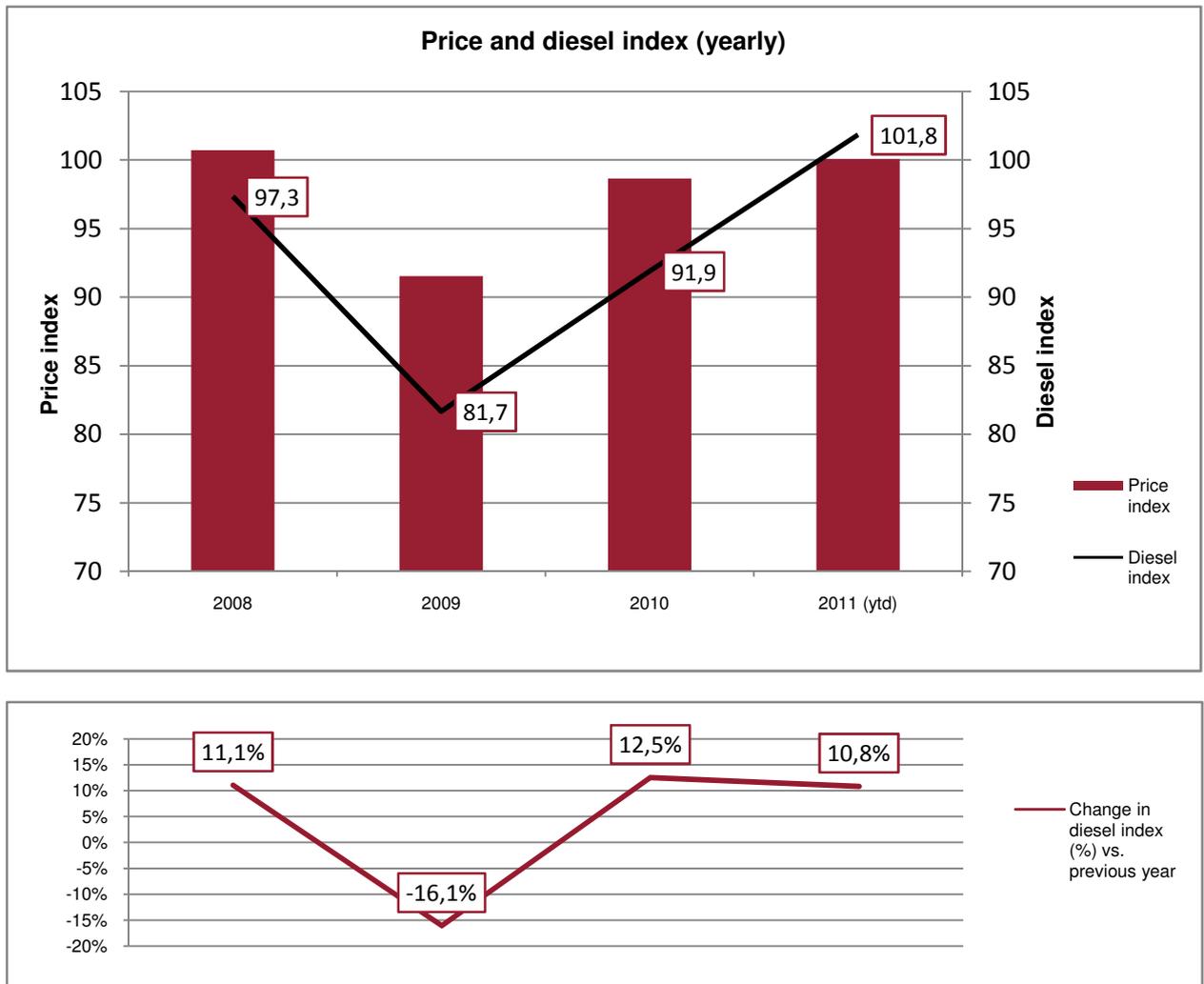
Figure 7: Price index and diesel index (Q1 2008 – Q2 2011)



Looking at the average yearly diesel prices (see figure 8), we have seen a decrease of the diesel index of 16.1% between 2008 and 2009, followed by an increase of 12.5% between 2009 and 2010. In Q2 2011 the diesel index is already 10.8% higher, compared to the yearly average of 2010.

Fuel cost is next to driver wages, one of the most important drivers for transport costs (which are not the same as transport rates). On a European average, fuel costs are accountable for around 25% of the total transport costs. This means that in general, if all other factors would remain unchanged, every 10% increase of diesel price would cause around 2.5% increase of the overall transport rates.

Figure 8: Diesel index (Jan 2008 – Jun 2011)



However, apart from cost drivers like diesel and labour costs, “available capacity” (being the ratio between demand and supply of transport) is another major influencing factor on transport price development. It is therefore complicated to identify the impact of increased cost levels on transport prices. For example during Q1 2011, we monitored a decrease in transport prices, against a clear increase of diesel costs. Both the market dynamics and the expected cost increase of transportation emphasize the need to monitor transport price developments very closely, to prevent any unexpected negative impact on company results.

Next edition

This edition looked at the price and capacity developments since the beginning of the Transport Market Monitor in 2008. It outlined the price increases in Q2 2011 compared to Q1 2011 and the same period one year before. In addition, we took a closer look at diesel price developments. The next edition, number 9, will include the figures for Q3 2011. It will be published in November 2011.

About the Transport Market Monitor

The aim of the Transport Market Monitor is to provide insights into the development of transport prices, and other transport market dynamics to logistics executives and other interest groups. It is a joint initiative of TRANSPOREON and Capgemini Consulting.

The indices in the Monitor are based on the logistics platform TRANSPOREON, on which shippers tender and process their transport needs to their preferred transport partners on a daily basis. The platform handles a yearly transport volume of over €2 billion in all European countries. Anonymously, information is unlocked from the platform and analysed by Capgemini Consulting. This results in monthly indices which are published on a quarterly basis. In addition to each publication of the Monitor, one or more market themes are discussed, supported by detailed analysis.

TRANSPOREON and Capgemini Consulting can help you to find the right strategy between static and dynamic prices. Additional information about both companies and their service offerings is available upon request.

This report is available at www.transportmarketmonitor.com. More information about the products and services of both TRANSPOREON and Capgemini Consulting can be obtained via the contact information provided at the back of this report.

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About TRANSPOREON

The logistics platform TRANSPOREON connects shippers from industry & trading companies with carriers, drivers & consignees – and optimizes and accelerates logistics processes. Users of our platform receive web-based SaaS (Software-as-a-Service) solutions as electronic transport assignment, time slot management and transport visibility. TRANSPOREON allows to reduce dispatch and freight costs, while minimizing waiting times during loading and unloading.

Currently more than 400 shippers, more than 20,000 carriers and more than 54,000 users from 70 countries are connected via the TRANSPOREON platform. The platform as well as the customer service are available in 16 languages.

Operating company of the logistics platform TRANSPOREON is the international TRANSPOREON Group. Other solutions the group is offering are the tender platform TICONTRACT and the retail logistics platform MERCAREON. Presently freight orders with a volume of 6 billion EUR are organised via the solutions of the TRANSPOREON Group. The company is on site in 16 locations throughout Europe and the U.S.A.

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