

Transport Market Monitor

Price drop in first quarter, despite increased fuel costs

Edition: 7 (May 2011)



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Price drop in first quarter, despite increased fuel costs

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

- The price index decreased by 5.6% in Q1 2011 (index 96.4), compared to the price index in Q4 2010 (index 102.1).
- Compared to the index level of the previous year, Q1 2010 (index 88.9), the price index increased by 8.4%.
- The price drop in Q1 2011 may seem remarkable, due to the significant increase in diesel prices: the diesel index increased by 5.6% in Q1 2011, compared to Q4 2010.
- The drop in transport prices, despite increased costs, clearly indicates the impact of available capacity in the market on transport prices: the capacity index increased by 36.3% in Q1 2011 (index 101.6), compared to Q4 2010 (index 74.5).
- The price drop in Q1 is a seasonal effect that we also monitored in previous years (e.g. minus 6.2% between Q4 2009 and Q1 2010). It is caused by a relatively lower demand for transportation in Q1.
- It is expected that the price index will increase during the subsequent quarters of 2011. This is a trend that we also monitored in previous years, mainly driven by increased demand for transportation. The economic outlook and the expected increase of transport costs support this trend.
- Both the market dynamics and the expected cost increase of transportation emphasize the need to monitor transport price developments very closely, to prevent from unexpected negative impact on company results.

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

This report is the seventh 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).

Prices dropped in Q1, but are 8.4% higher than Q1 last year

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 first quarter of 2011.

The price index (see figure 1) decreased by 5.6% in Q1 2011 (index 96.4), compared to the price index in Q4 2010 (index 102.1). However, compared to the index level of the previous year, Q1 2010 (index 88.9), the price index increased by 8.4%.

The price drop between Q4 in 2010 and Q1 in 2011 is a seasonal effect that we also monitored in previous years (e.g. minus 6.2% between Q4 2009 and Q1 2010). It is caused by a relatively lower demand for transportation in Q1. Shipped volumes are lower due to seasonal effects in various industries. E.g. for consumer products, Q4 is clearly high season, followed by lower volumes in the first quarter.

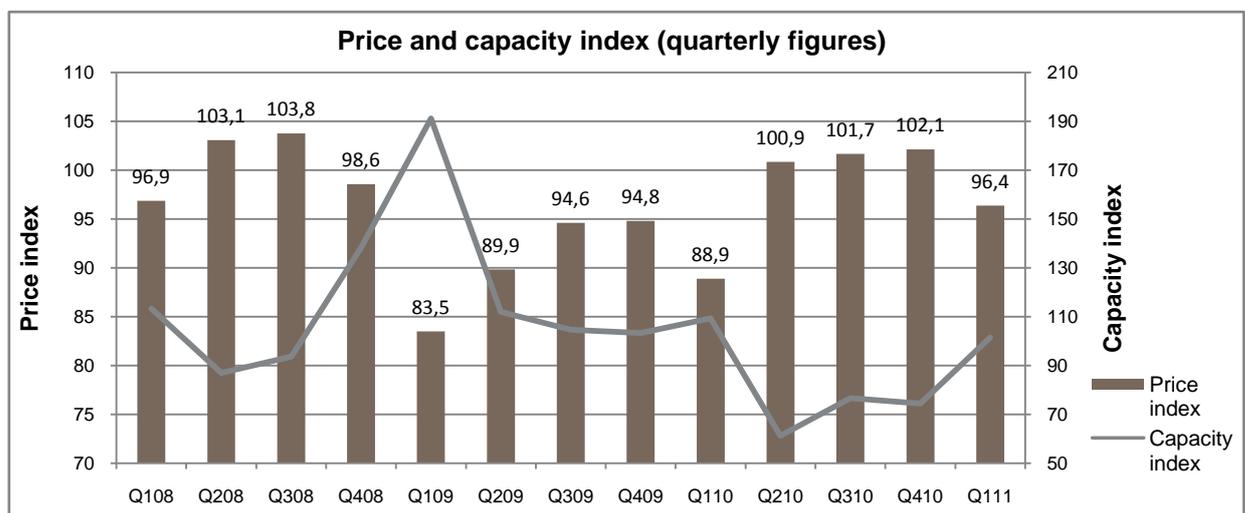
The winter period also impacts transport volumes in different industries e.g. construction. Less demand for transportation drives an increase in available capacity and has a downward price effect.

The price drop in Q1 2011 may seem remarkable, due to the significant increase in diesel prices (the diesel index increased by 5.6% in Q1 2011, compared to Q4 2010). This clearly indicates the impact of the increase in available capacity: the capacity index increased by 36.3% in Q1 2011 (index 101.6), compared to Q4 2010 (index 74.5).

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 – Q1 2011)



It is expected that the price index will increase during the subsequent quarters of 2011. This is a structural trend that we also monitored in 2009 and 2010. The moderately positive economic outlook and the fear of increasing costs (mainly caused by expected increase of oil prices) support this trend. Also March 2011 already indicates an increasing trend (see next paragraph).

Differences in price and capacity index are decreasing

This section of the Transport Market Monitor depicts the monthly developments in the price and capacity index over the last 12 months. Analysing Q1 2011 (see figure 2), January and February showed a clear price decrease, while March indicates a recovery. Following the reverse pattern, the capacity index was at the highest level in February 2011 (index 111.0).

During the last 12 months, the price index varied, outlining the dynamics in transport prices. The highest price index was in July 2010 (index 104.3) and the lowest in February 2011 (index 94.6). The capacity index was at the lowest point in May 2010 (index 60.7). This was the lowest point measured in the history of this report. Since then, available capacity has been recovering.

Figure 2: Price and capacity index, monthly (Apr 2010 – Mar 2011)

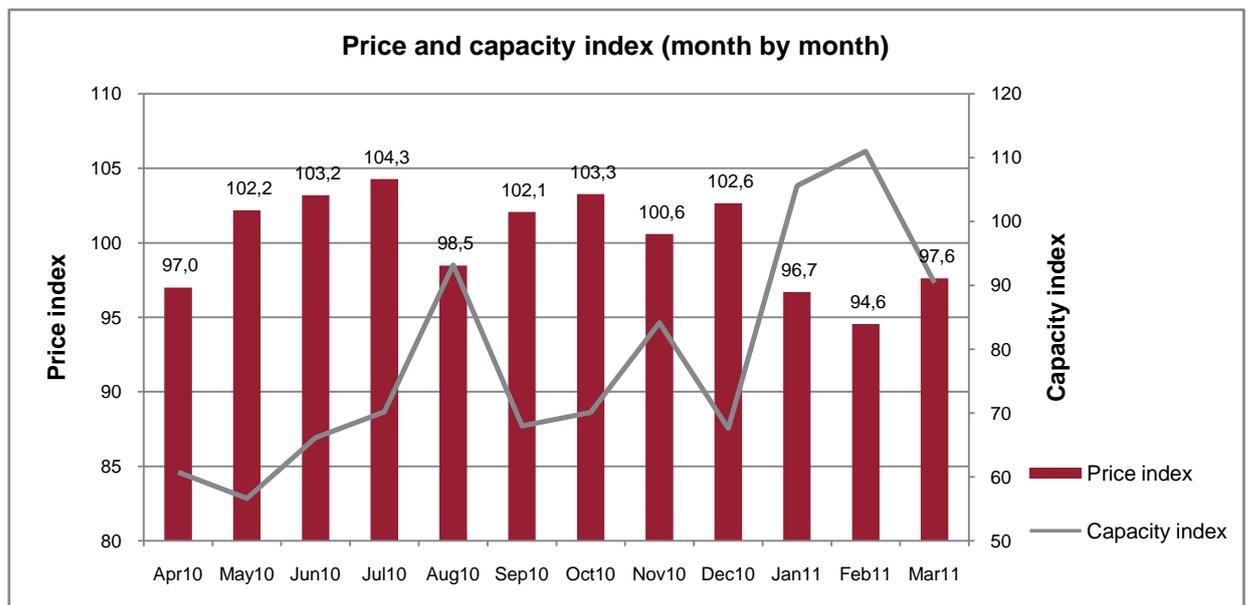


Figure 3 (next page) compares the monthly developments of the price index, over the last 12 months, with the same period one year before. The price index has constantly been above the levels of the year before: on average prices were 8.3% higher compared to the year before. In May 2010 to July 2010 this differential was higher (around 12%) compared to other months. Since December 2010 the difference in price index compared to the year before is decreasing.

The price index developments over two consecutive years have been comparable, showing a seasonal pattern. In general, the price index decreases from January to February. Thereafter, the price index increases until October, decreases in November, but recovers again in December.

As already seen in the previous editions of the Transport Market Monitor, in August a different pattern was visible between 2009 and 2010. While in 2009 prices continued to increase during the summer, prices dropped during the summer 2010. Normally during the summer period, available capacity increases, causing a downward price effect. This pattern was not measured in 2009, probably because of the economic recovery and increasing pressure on available capacity during that period.

Figure 3: Price index comparison, monthly (Apr 2009 – Mar 2011)

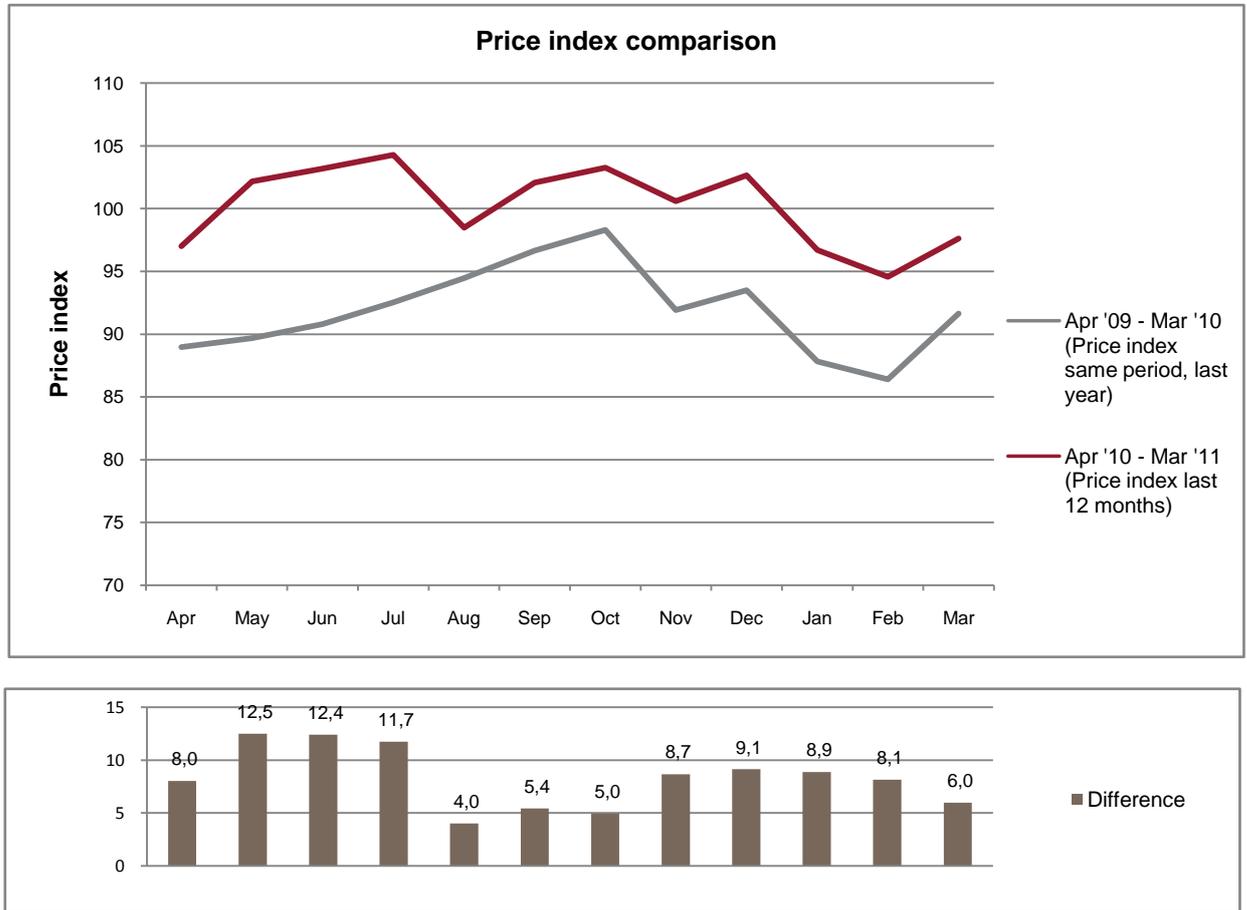
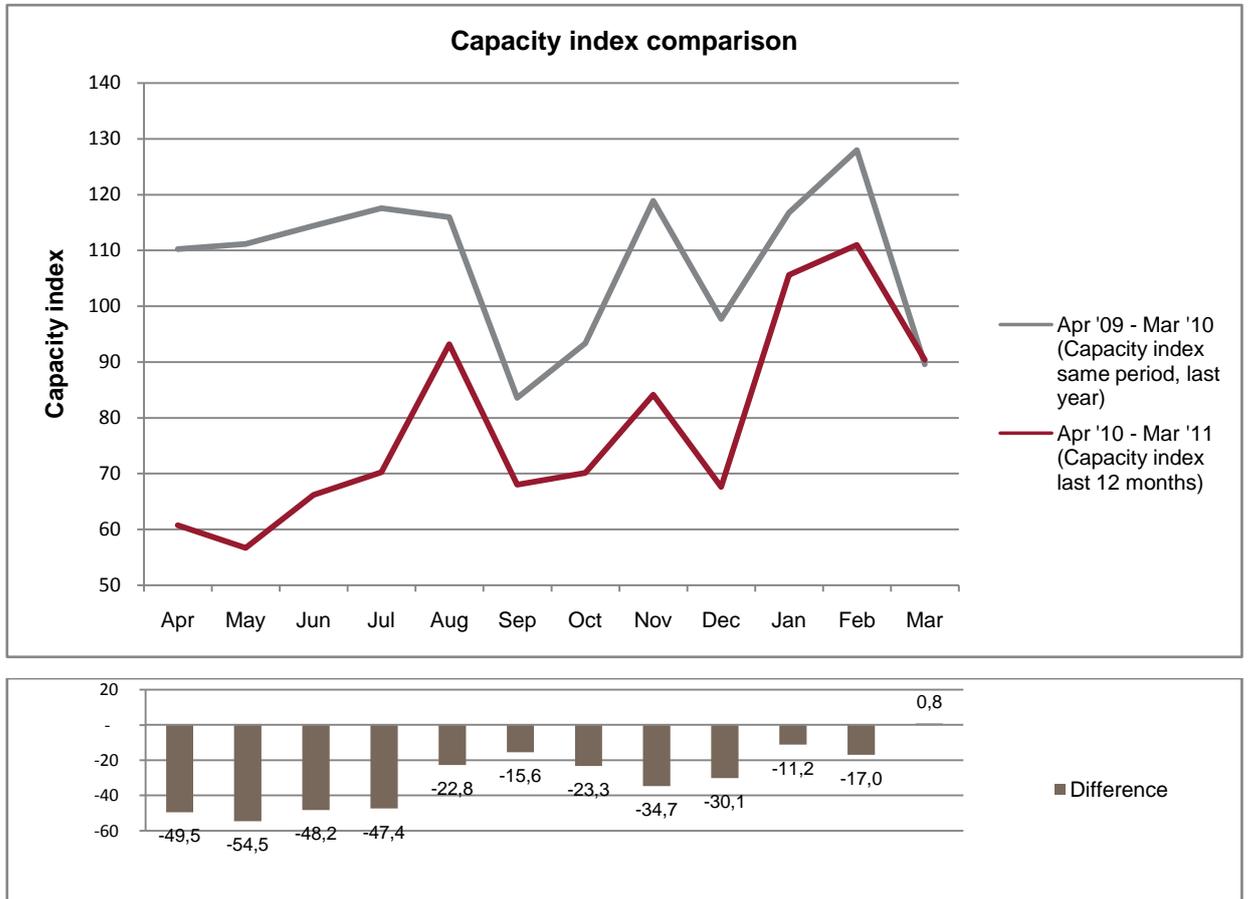


Figure 4 (next page) compares the monthly developments of the capacity index, during the previous 12 months, compared with the same period one year before. The capacity index over the last 12 months was below the capacity index of one year before, except in March 2011.

Over the last 12 months, the largest difference in the capacity index compared to the year before, were monitored during April to July 2010 (with a maximum difference of 54.5 index points in May). This clearly indicates the high pressure on available capacity during that period. This difference diminished in the subsequent months.

Figure 4: Capacity index comparison, monthly (Apr 2009 – Mar 2011)



Industry focus

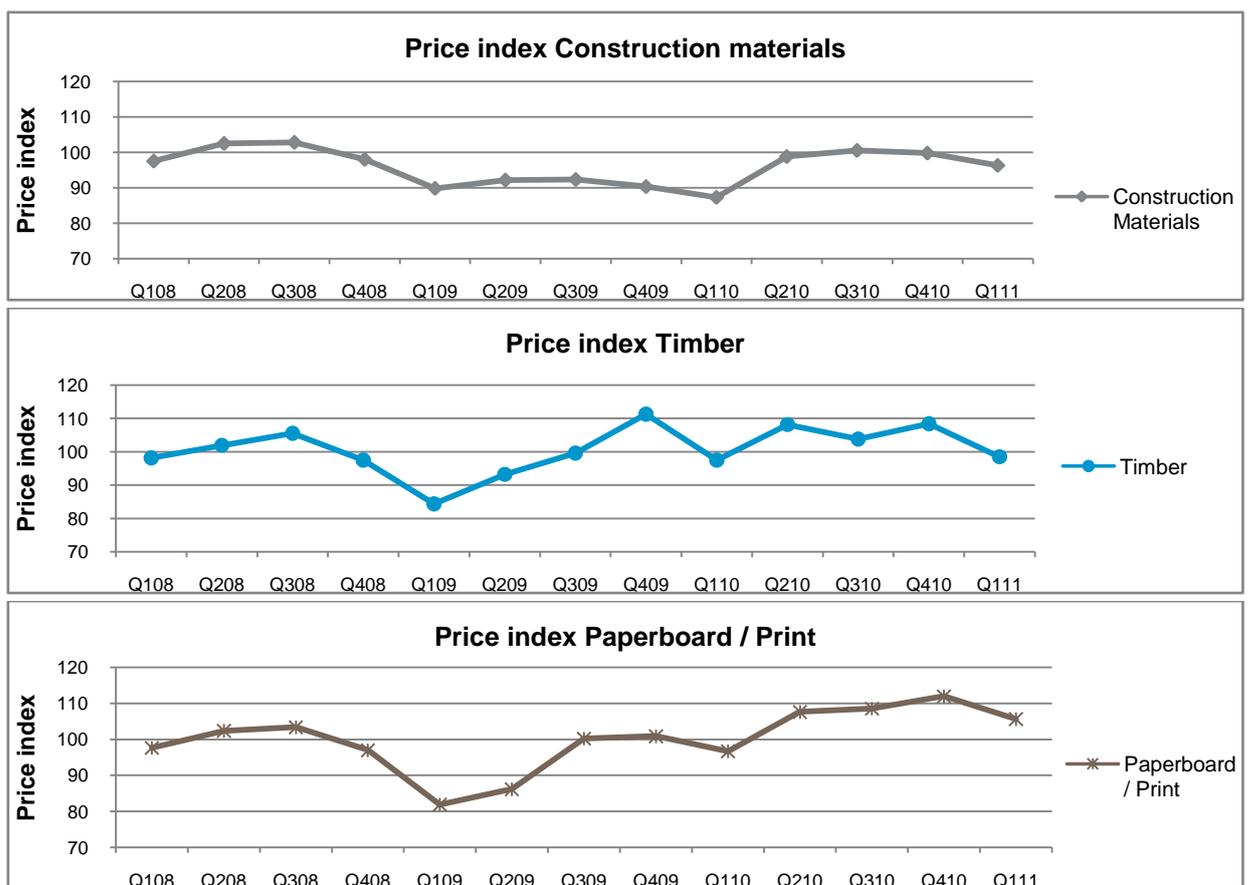
General dynamics apply to all industries, but trends may differ and be stronger or weaker in individual industries. Analysis of the price index by the type of industry identifies these differences, shown graphically in figure 5 (next page).

Construction materials showed a smaller decrease compared to the other industries, but started to decrease prices in Q4 last year, when the other industries were still increasing. Paperboard / Print and Timber are in line with the development of the overall price index during Q1 2011.

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)

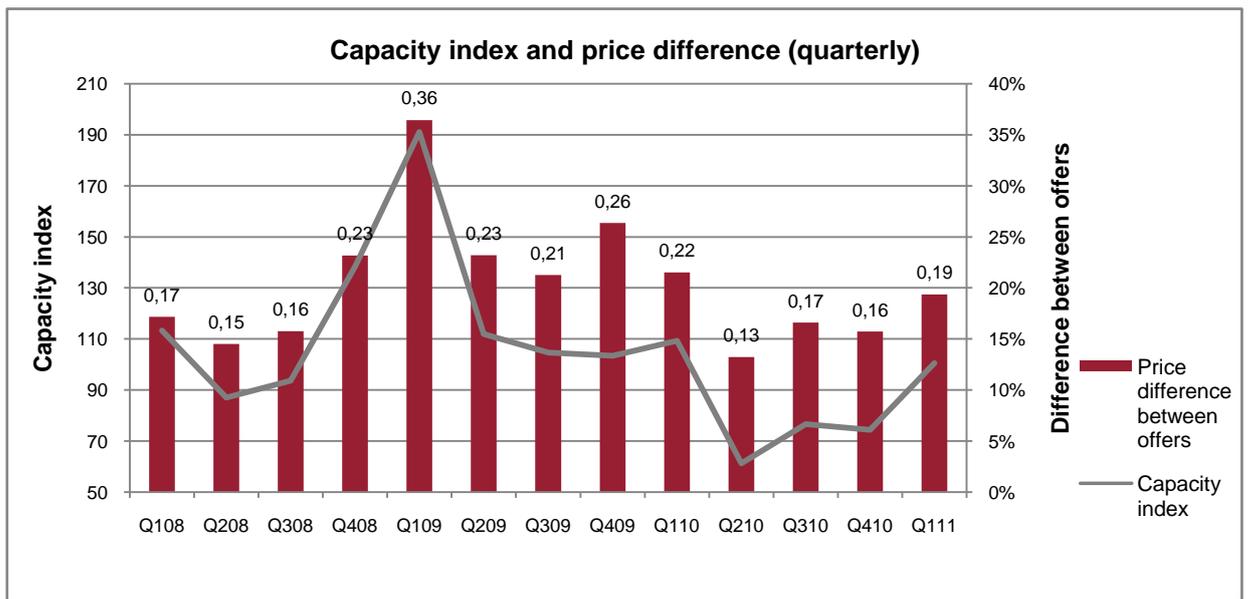
Figure 5: Price index for different industries (Q1 2008 – Q1 2011)



Price differences between offers increased to 19.4%

This section further outlines transport dynamics, by analysing the price difference between the highest and the lowest average offered price per transport request. Figure 6 outlines the price difference between offers, and the development of the capacity index. If the capacity index increases, the level of competition increases, clearly impacting the differences in price between offers.

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



In line with the clear increase in available capacity, price differences between the highest and the lowest offered price increased from a 15.7% price difference in Q4 2010 to 19.4% in Q1 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 to the highest level since 2008

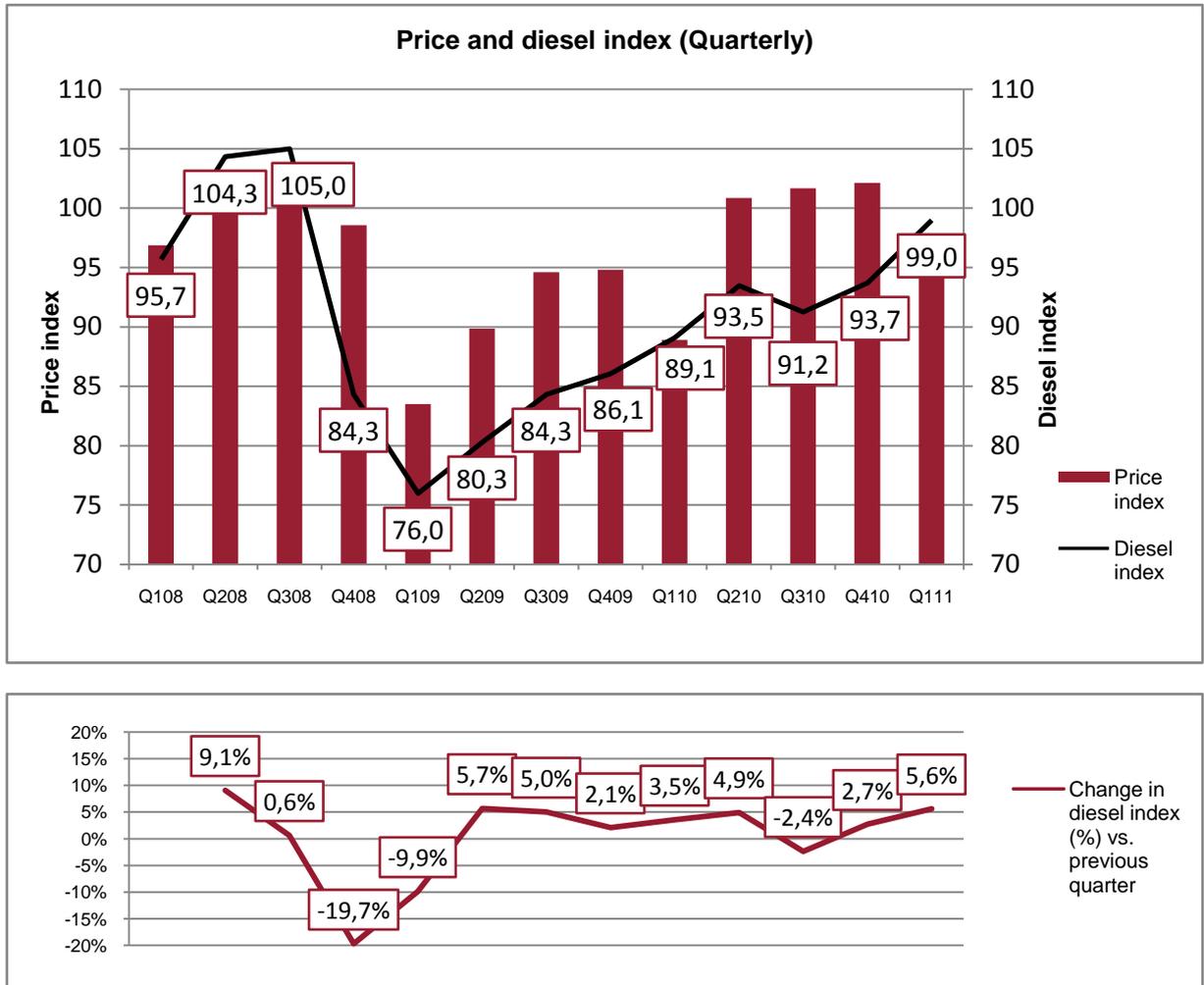
This section compares the price index with the diesel index (see figure 7). In general there is a positive correlation between the diesel index and the price index, clearly indicating the impact of diesel prices on transportation costs and consequently prices. However, in Q1 2011 we monitored an increase in diesel prices (5.6%, compared to Q4 2010) and a clear decrease in transport prices (-5.6%). The upward price effect of increased diesel prices is compensated by the downward price effect, caused by the increased available capacity, indicated by an increase of the capacity index (+36.3% compared to Q4 2010).

With the exception of Q3 2010, diesel prices have been increasing since Q1 2009. In Q1 2011 the diesel index increased by 5.6% compared to Q4 2010 to index 99.0. It is the highest diesel index measured since 2008.

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.benzinpreis.de. We assume that the index pattern, based on the above figures, is representative for Europe for the purpose of this report.

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



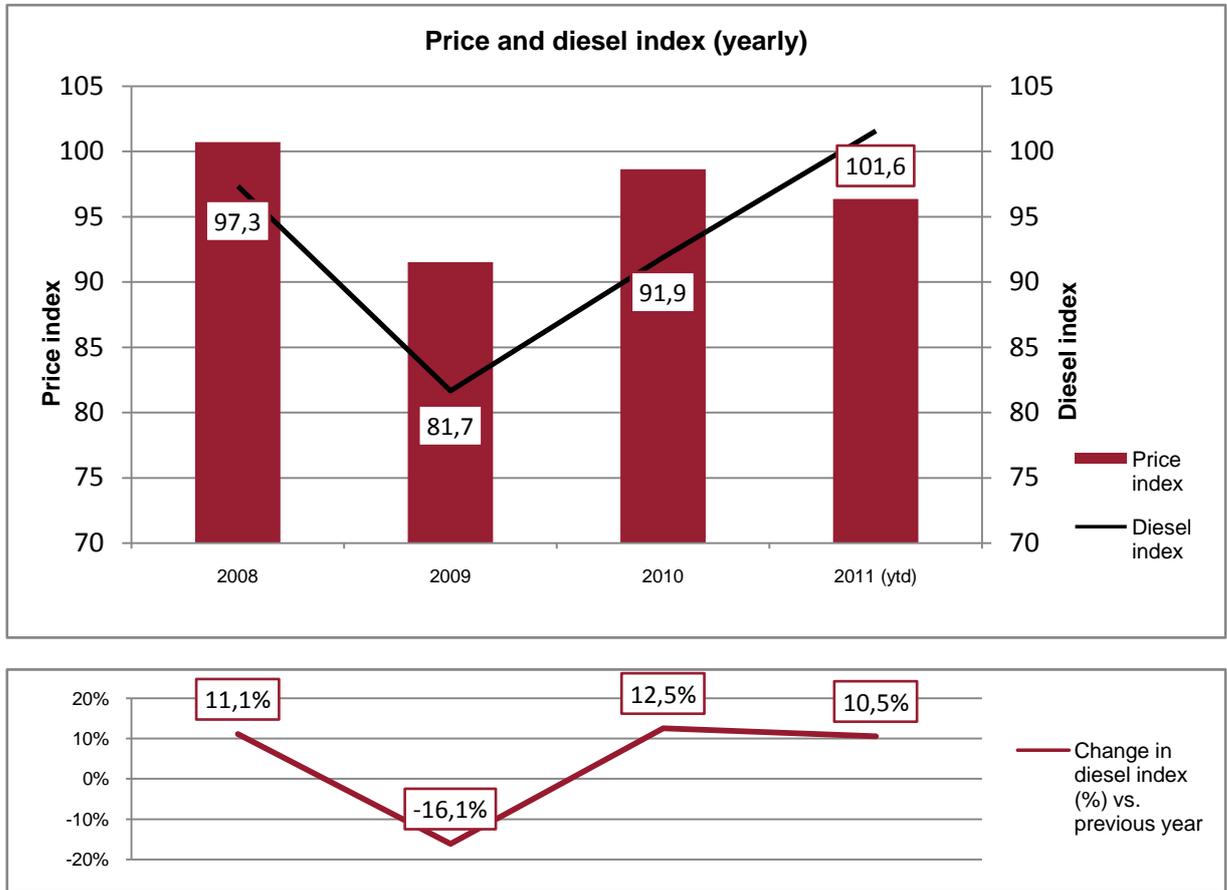
During the economic downturn, from July 2008 onward, the diesel price decreased 7 months in a row by almost 30%, reaching its lowest level of index 76.0 in Q1 2009.

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 Q1 2011 the diesel index is already 10.5% 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%¹ of the total transport costs. This figure differs per region and per type of transportation. This means that, if all other factors would remain unchanged, every 10% increase of diesel price would cause around 2.5% increase of the overall transport rates. As the diesel price is expected to increase in the next period, it will have an upward effect on transport prices.

¹ Source: Capgemini Consulting 2011

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



However, apart from cost drivers like diesel and labor costs, the market driver “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. Also 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 back at the price and capacity developments since the beginning of the Transport Market Monitor in 2008. It outlined the price decreases in Q1 2011 compared to Q4 2010 and the price increase compared to the same period one year before. In addition, we took a closer look at diesel price developments. The next edition, number 8, will include the figures for Q2 2011. It will be published in August 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.

About Capgemini and TRANSPOREON



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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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