Quarterly Transport Activity Survey

October 2017

In association with

Santander Corporate & Commercial

Contents

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FTA's Quarterly Transport Activity Survey in October 2017 is *based* on:

185
returns from member companies

Operating

40,761
HGVs (goods vehicles over 3.5 tonnes)

101,263
vans at or below 3.5 tonnes

Employing

23,638
HGV drivers

98,169
van drivers

Extensive interests in international trade

Thought leadership

Santander Corporate & Commercial

The stars align for transport and logistics

After five consecutive years of healthy growth, the UK economy has slowed during 2017, with GDP in the third quarter up by just 0.4 per cent according to the Office for National Statistics. However, while full-year growth is now expected to be 1.5 per cent for 2017, down from the 2 per cent predicted, the slowdown has not been as pronounced as many forecasters predicted in the wake of the Brexit vote – and there are clear bright spots amid the gloom where opportunities remain, particularly for the transport and logistics sector.

In fact, one consequence of Brexit, a 13 per cent decline in the value of sterling against the euro since the referendum in June 2016, has helped to redress the UK's trade imbalance, with an improving climate for exporters. In Santander's recently-published Trade Barometer report, more than two-thirds of businesses (71 per cent) said they were confident of growth over the next 12 months; that rose to 74 per cent amongst businesses that intend to begin trading internationally over the year ahead.

Many companies have already captured growth benefits from their international trading activities. Businesses trading overseas have grown more quickly over the past 3 years, the Trade Barometer report shows, adding sales and employees at a faster rate than domestically-focused enterprises.

For transport and logistics businesses, this data provides good reason for optimism about the year ahead. As the facilitators of so many businesses' growth, providing crucial fulfilment services as well as supporting the supply chain, firms in the sector are well-placed to benefit from increasing trade, whether domestic or international.

The export market, clearly, represents a growing opportunity for transport and logistics companies. Economic growth across much of the European Union has been strong this year, with GDP expected to rise by 2.2 per cent in the eurozone over 2017 as a whole, the fastest rate of growth since 2007. With British goods cheaper thanks to the falling pound, the continent represents an important source of demand for exports.

Santander's research in the sector shows more than nine in 10 transport and logistics companies (92 per cent) that are already doing cross-border business feel confident about the year ahead. Almost three-quarters of businesses in the sector (74 per cent) are planning to invest in innovation, with new products, services and processes in development.

There are risks that will need to be monitored carefully. Political uncertainty, as the Brexit negotiations continue, represents a potential threat to growth. The UK's return to tighter monetary policy, with the first interest rate rise in a decade in November, is also a cloud on the horizon; if inflation does not begin to slow in the months ahead, there may be further hikes in interest rates to come in 2018.

Nevertheless, the transport and logistics sector has every right to feel confident about the year ahead, given the potential for firms to support their clients' growth ambitions, particularly in international markets. Those businesses that are able to invest in their own growth aspirations will also be particularly well-placed to prosper over the medium and longer term.

For more details of Santander's Trade Barometer, see www.santandercb.co.uk/financing/international/trade-barometer

John Simkins
Head of Transport & Logistics
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Summary of prospects for Q4 2017

- Members see slowdown in UK economic growth as biggest external challenge in the next 12 months
- Concerns persist about skills shortages as HGV driver vacancies expected to be most difficult posts to fill in Q4 2017 as well as delays in recruiting transport managers and technicians
- UK-based international hauliers expecting robust growth in activity levels in Q4 2017
- Insolvencies in the road transport sector at a five-year high in Q2 2017
- Journey time reliability on road network deteriorates in Q3 2017
- Most industry sectors expecting strong growth in domestic road freight activity in Q4 2017
- Expansion in road freight activity levels expected in all regions in Q4 2017

1 Economic indicators

	October 16 (average)	October 17 (average)	Annual % change	
DOMESTIC ECONOMIC ACTIVITY				
GDP			+1.5%	(Q3 17)
UK EXPORTS				
Volume of goods exported to EU*			+8.3%	
Volume of goods exported to rest of the world*			+12.1%	
UK IMPORTS				
Volume of goods imported from EU*			+3.5%	
Volume of goods imported from rest of the world*			–0.5%	
PRICE AND COMPETITIVENESS				
Consumer Prices Index (CPI)			3.0%	(Sep 17)
Retail Prices Index (RPI)			3.9%	(Sep 17)
Retail Prices Index excluding mortgage interest payments (RPIX)			4.1%	(Sep 17)
£/$ exchange rate	$1.2336	$1.3198	+7.0%	
£/€ exchange rate	€1.1188	€1.1227	+0.4%	
COSTS				
Bulk diesel (excluding VAT)	92.10ppl	95.60ppl	+3.8%	
Wage settlements**			+2.7%	(Jul 17)
Total HGV operating costs***			+2.5%	(Jul 17)

* All trade figures are total volumes excluding oil for 3 months to September 2017 compared to same 3 months last year per Office for National Statistics UK Trade Statistical Bulletin
** Change in overall basic pay (where reported) per FTA's Manager's Guide to Distribution Costs, July 2017 update report
*** 44 tonne GVW (3+3) artic running 85,000 miles per year per FTA's Manager's Guide to Distribution Costs, July 2017 update report

2 Introduction

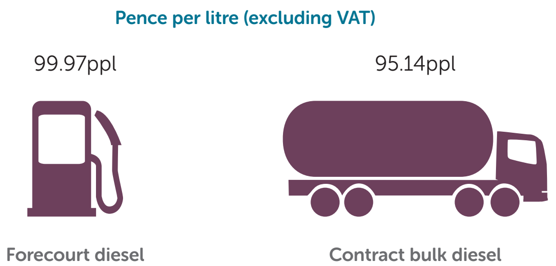
FTA's October 2017 Quarterly Transport Activity Survey (QTAS) was conducted against a backdrop of Sterling's continued weakness on the foreign exchange markets. However, the UK economy has grown for the nineteenth consecutive quarter with preliminary estimates indicating that GDP output rose by 0.4 per cent in Q3 2017, with growth still led by the service sectors. Employment and vacancies rose, whilst unemployment fell in the three months to August 2017, which will add more pressure to employers to increase wages to retain skilled workers in the months ahead with inflation set to rise further.

The issue of driver shortages remains the primary concern of QTAS respondents. Driver vacancies were the most difficult posts to fill with over 32 per cent of respondents reporting long delays in Q3 2017 and over 67 per cent revealing that they have had issues contracting qualified agency drivers. Just over 58 per cent of respondents also anticipate a shortage of HGV drivers in Q4 2017 which indicates that this is an ongoing problem.

In Q3 2017, there is also continued concern regarding filling transport manager and technician roles with 24 per cent and 30 per cent respectively of those surveyed reporting long delays in recruitment.

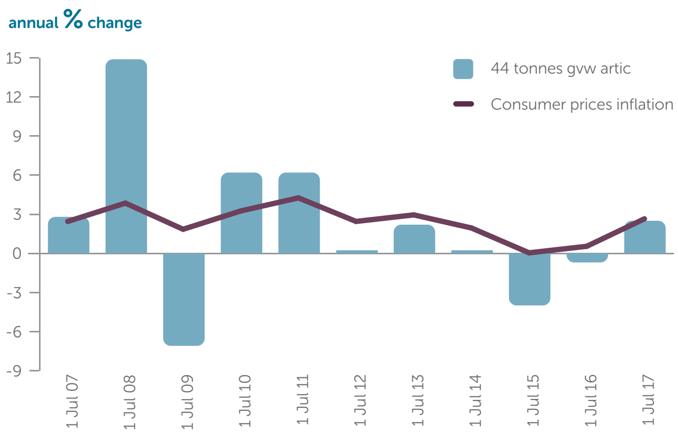
Operating costs

Diesel prices rise influenced by higher oil prices in Q3 2017



Sources: *Portland Fuels, Department for Business, Energy & Industrial Strategy*

Fuel costs rise but annual vehicle operating costs track just below inflation in Q2 2017



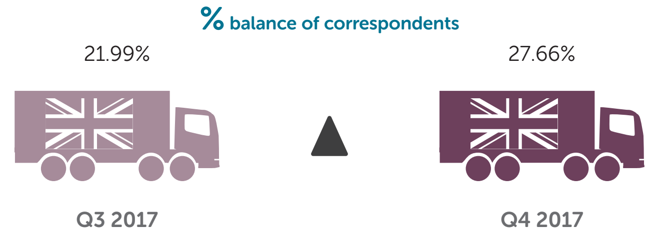
Sources: *Office for National Statistics, Consumer Prices Indices June 2017 Bulletin*
FTA's Manager's Guide to Distribution Costs, July 2017 Update Report

3 Domestic freight activity

Overall road freight activity levels

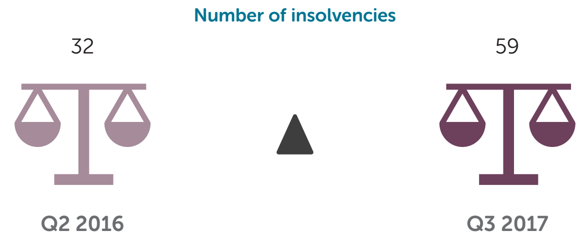
Respondents report that freight activity levels in the domestic road sector in Q3 2017 remain unchanged when compared to the previous quarter. The outturn growth in activity reported was lower than the expected level anticipated in the July 2017 QTAS report reflecting the modest improvement in the UK economy. Respondents report that they expect slightly stronger growth in activity levels in Q4 2017.

Outlook for domestic road freight activity expected to be fairly positive in Q4 2017



Revised figures published recently by the Insolvency Service revealed that the number of road freight operators declaring insolvency rose to its highest level in 5 years in Q2 2017. The number of road freight operators declaring insolvency was up 16 per cent in Q2 2017 compared to Q1 2017 and was 84 per cent higher than a year ago. However, the long-term trend since the end of 2011 has generally been downwards and the number of road freight operators declaring insolvency in Q2 2017 was 31 per cent lower than that seen at the peak of the economic downturn.

The number of road freight operators declaring insolvency rose to its highest level in 5 years in Q2 2017



Source: *The Insolvency Service*

According to official statistics, the UK economy grew by 1.5 per cent in Q3 2017 compared to the same quarter a year ago. However, not all sectors of the economy are experiencing growth and hauliers continue to experience downward pressure on rates and lengthening payment terms from customers, coupled with upward pressure on some input costs and increasing demand from suppliers for shorter payment terms.

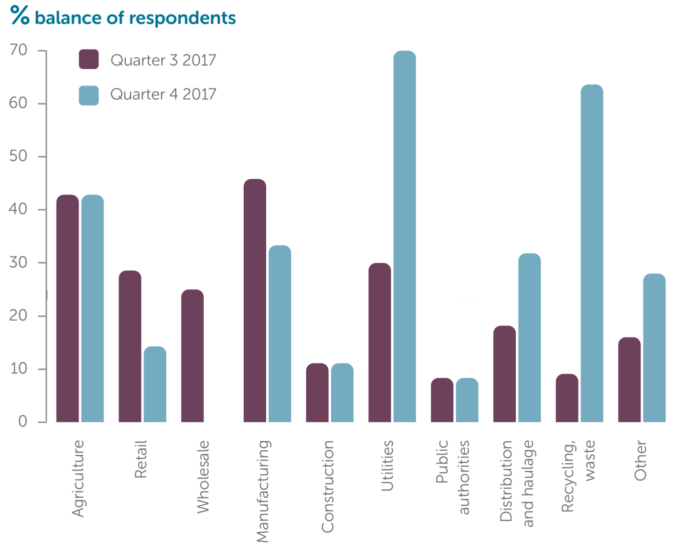
Sector analysis

Industrial sector

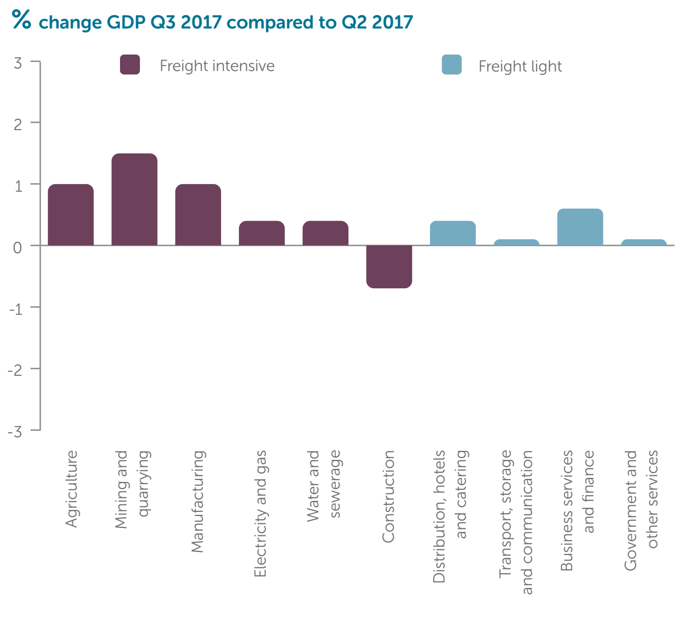
In Q3 2017, outturn domestic road freight activity levels for operators in most industrial sectors showed reasonable or robust levels of growth. The strongest levels were reported by operators in the manufacturing sector. Most sectors reported activity levels different to those anticipated when they were surveyed in July 2017. The most significant variance was indicated by operators in the recycling and waste disposal sector who reported very modest growth despite an expectation of robust improvement when they were surveyed in July 2017. The latest GDP figures show that UK economic activity grew by just 0.4 per cent in Q3 2017, marginally higher than 0.3 per cent reported in Q2 2017 and above expectations. Increases in output were led by the freight light industry sectors with some support from the freight intensive industry sectors.

Respondents report that the outlook for Q4 2017 remains positive with strong levels of growth expected in most industry sectors. One of the sectors not anticipating expansion is the construction sector echoing the subdued sentiment at the start of Q4 2017 outlined in the recent UK Construction PMI published by IHS Markit. At 50.8 in October 2017 up from 48.1 in September 2017, the latest reading indicated muted optimism in the sector (a figure above 50 indicates growth).

Most industry sectors expecting robust growth in domestic road freight activity in Q4 2017



Growth in UK economic activity in Q3 2017 led by freight light sectors

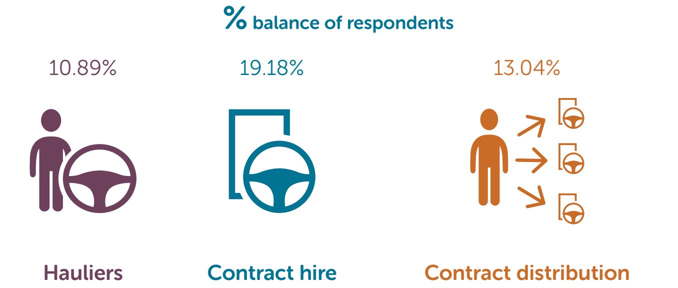


Source: *Office for National Statistics GDP Preliminary Estimate Q3 2017*

Third party sector

Respondents report that they expect growth in demand for third party services to remain modest in Q4 2017. Growth in demand for contract distribution is expected to be broadly similar to the previous quarter, with growth in demand for hauliers expected to be softer and contract hire expected to be slightly stronger.

Growth in demand for third party services expected to remain modest in Q4 2017

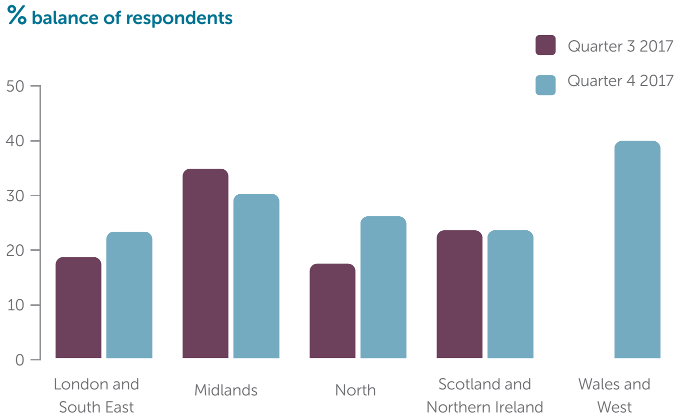


Regional analysis

Most regions indicate reasonable growth in domestic road freight activity levels in Q3 2017. The activity levels reported were all at some variance to those anticipated when they were surveyed in July 2017. The most striking variance was in Wales and the South West where the no change in activity levels reported in Q3 2017 were significantly lower than the strong growth anticipated when asked about expectations in July 2017.

The outlook for Q4 2017 is optimistic with all regions predicting healthy growth in activity levels.

Healthy growth in road freight activity levels expected in all regions in Q4 2017



Rail freight

Growth in demand is expected to fall for intermodal rail freight services and be unchanged for bulk rail freight services in Q4 2017. The anticipated fall in demand for intermodal rail freight services is most likely a reflection of anticipated lack of expansion in deep sea freight import volumes reported by respondents. The anticipated unchanged demand for bulk rail freight services reflects the anticipated low growth in domestic road freight activity levels in Q3 2017 for the construction sector indicated by respondents.

Demand for intermodal rail freight services expected to fall back in Q4 2017

4 European freight activity

European road freight

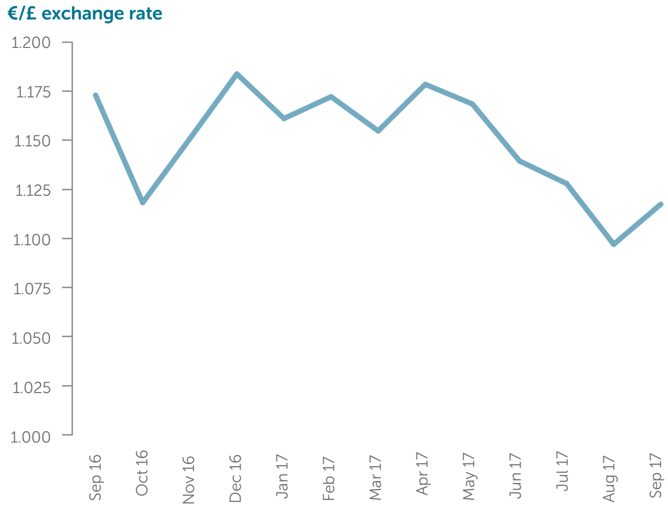
UK-based international hauliers report modest growth in activity levels in Q3 2017. The level of growth is slightly softer than the level anticipated by UK-based international hauliers when they were asked about expectations in July 2017. This may be a reflection of the low growth in the UK economy during Q2 2017.

Respondents indicate that they anticipate robust growth in activity levels in Q4 2017 which may be an indication that Sterling's low level against the Euro on the foreign exchange markets is making UK-based hauliers more competitive on price.

This quarter's activity levels are in line with overall trade volumes and also reflect the continued improvement in the UK economy and the gains the Euro has made against Sterling. According to the Office for National Statistics (ONS), UK exports of goods to the European Union rose by 8.3 per cent and imports of goods from the European Union rose by 3.5 per cent in the three months to August 2017 when compared to the same period in 2016.

Anticipated growth in activity levels for UK-based international hauliers expected to be strong in Q4 2017

Sterling loses ground against the Euro during Q3 2017



Source: *European Central Bank*

European short sea freight

Respondents report that they expect short sea freight export volumes to grow on all trade routes in Q4 2017 which may be a reflection of Sterling's weakness against the Euro. Import volumes are expected to increase on some trade routes which may be an indication of the continued growth in the UK economy.

Case study

Transport and logistics sector drives retail success

The UK retail and wholesale sector plays a key role in the UK economy: retailer's and wholesaler's performance this year has been critical in ensuring the economy as a whole has remained resilient, despite the threats posed by political uncertainty, subdued wage growth and rising inflation driven by weakness in the pound. But as we congratulate leading retailers and wholesalers, we should also extend our gratitude to the transport and logistics sector, which plays an increasingly vital role in driving the growth of retail.

Overall, retail sales each year represent around a third of household spending, which in turn represents 60 per cent of the UK's GDP. In 2017, although we remain mindful of future growth softening on back of some of the headwinds, to date total retail sales have proved remarkably resilient – and continued growing on an annual basis.

However, it is the changing dynamics of retail that is the big story here – and also the key to understanding why so much now depends on transport and logistics. Retail is a sector in the process of transformation, as online sales continue to grow at double-digit rates each year and retailers invest in new technologies to improve customer experience and meet consumer demand across multiple channels, in physical stores as well as on mobile and online.

The most successful retailers are those that have been able to cater for that demand, making their goods available to shoppers however they choose to buy them. But without the support of transport and logistics, solutions such as next-day delivery, click and collect, and multiple other delivery options simply would not be possible. Just as retailers have invested heavily in new technologies to meet the evolving demands of their customers, so transport and logistics businesses have invested to support those services.

The result is that retailers and their logistics providers have become collaborative partners. All the drivers underpinning the digital evolution of the retail sector would be snuffed out without a transport and logistics sector that is able to evolve in tandem with its client base.

The advent of new delivery methods, for example, has required logistics companies to invest heavily in their last-mile services, building new capacity to meet the exponentially increasing demand. The increasingly blurred lines we now see in parts of the retail sector – digital transformation has even spawned new niches, such as fast fashion – is also a reflection of the remarkable fulfilment services on which retailers can depend.

At the same time, transport and logistics companies are playing an important role in delivering the transparency that consumers are now looking for. In an era where shoppers want to know more about the provenance of the goods they buy – where they were made and by whom – the sector's investment in technologies such as RFID tracking has proved invaluable.

Then there is the international dimension. Not only do UK retailers increasingly see more opportunities in international markets, they are also dependent on a supply chain that is increasingly global. It is the transport and logistics industry that has enabled the internationalisation of the retail sector.

Further transformation lies ahead – many retailers have begun to experiment with demand-driven supply-chain sourcing, for example, which cannot work without the closest support of logistics providers. Transport and logistics companies will need to continue investing to develop their partnerships further with retailers – but the future for the sector remains resilient as transformation continues apace.

Sukh Nat
Head of Retail & Wholesale
Santander Corporate & Commercial Banking

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Exports		Imports	
Region	Balance of respondents	Region	Balance of respondents
Western Europe	46.15%	Western Europe	20.00%
Scandinavia	50.00%	Scandinavia	25.00%
Eastern Europe	45.45%	Eastern Europe	0.00%
Mediterranean	41.67%	Mediterranean	0.00%

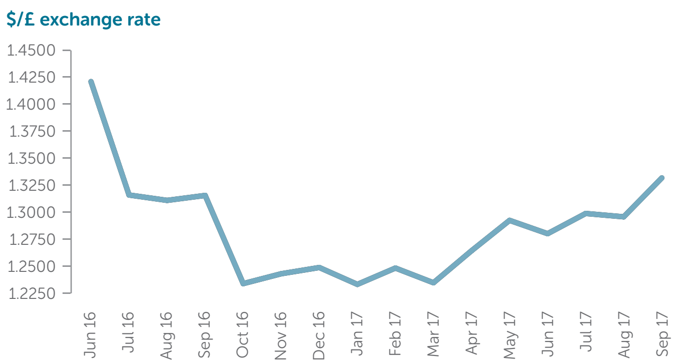
5 Global freight activity

Deep sea freight

Respondents report that deep sea freight export volumes are expected to grow on most trade routes in Q4 2017. The anticipated improvement in export volumes is likely to be due to the low level of Sterling against the US Dollar. Deep sea import volumes are expected to be robust on some trade routes and unchanged on others which may be a reflection of seasonal demand.

Exports		Imports	
Region	Balance of respondents	Region	Balance of respondents
North America	44.44%	North America	50.00%
South America	25.00%	South America	0.00%
Africa	0.00%	Africa	0.00%
Middle East	28.57%	Middle East	0.00%
Indian Subcontinent	33.33%	Indian Subcontinent	16.67%
Far East	50.00%	Far East	33.33%
Australasia	0.00%	Australasia	0.00%

Sterling regains some ground against the US Dollar during Q3 2017



Source: *European Central Bank*

Global air freight

According to respondents, air freight volumes are expected to grow on most trade routes in Q4 2017.

Exports		Imports	
Region	Balance of respondents	Region	Balance of respondents
North America	16.67%	North America	33.33%
South America	16.67%	South America	25.00%
Australia	0.00%	Australia	0.00%
Southern Africa	14.29%	Southern Africa	0.00%
Far East including Japan	14.29%	Far East including Japan	11.11%
Middle East	12.50%	Middle East	16.67%
Western Europe	30.00%	Western Europe	30.00%

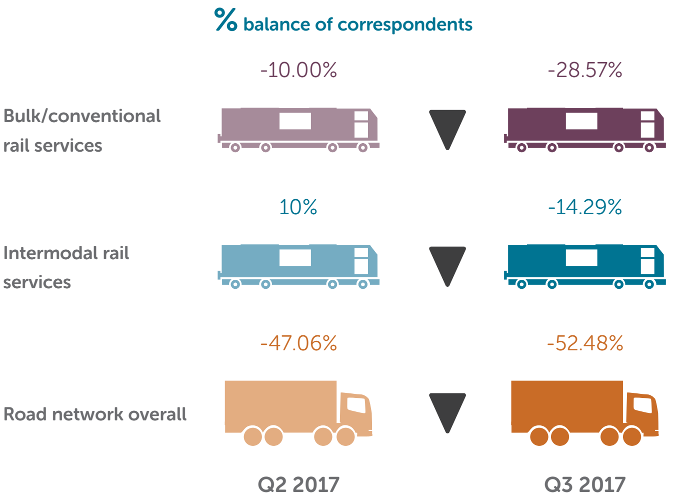
6 Transport infrastructure and service reliability

The rail network maintained its reliability advantage over the road network in Q3 2017. However, both bulk rail freight and intermodal rail freight showed a deterioration in reliability which may indicate an increase in demand.

The rate of deterioration in reliability on the road network due to congestion increased, with 52 per cent balance of respondents in Q3 2017 reporting lengthening journey times compared to 47 per cent in Q2 2017. The rate of deterioration in reliability is more pronounced on the motorway network.

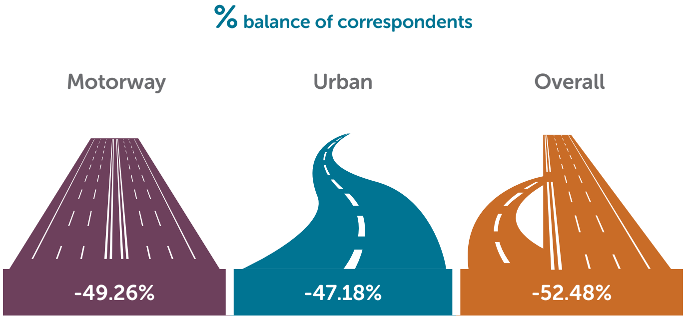
Delays caused by roadworks have a significant impact on the delivery of freight. Unreliable journeys can cost a truck operator £1 per minute for each vehicle standing idle in congestion and that cost has to be borne by the freight industry.

Rail maintained its network reliability advantage over road in Q3 2017



*Positive balance indicates improvement in reliability compared to this time last year
Negative balance indicates deterioration in reliability compared to this time last year

Rate of deterioration in reliability more pronounced on motorway road network in Q3 2017



*Positive balance indicates improvement in reliability compared to this time last year
Negative balance indicates deterioration in reliability compared to this time last year

7 Commercial vehicle investment intentions

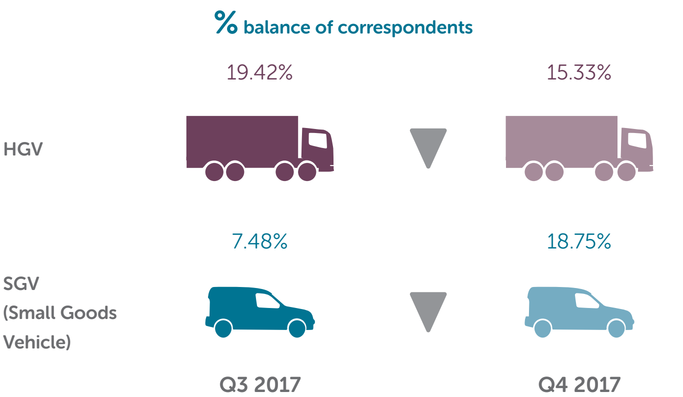
Respondents report that they are cautious about expanding the number of vehicles in their commercial vehicle fleets in Q4 2017. Growth in demand for heavy goods vehicles and vans is expected to remain steady in Q4 2017.

The latest quarterly commercial vehicle registration figures from the Society of Motor Manufacturers and Traders (SMMT) show the number of new truck registrations in Q3 2017 were down compared to Q2 2017, and decreased 6 per cent compared to the same quarter a year earlier. New van registrations in Q3 2017 were up compared to Q2 2017 but down 2 per cent compared to the same quarter a year earlier.

	Annual % change Q4 2016	Annual % change Q1 2017	Annual % change Q2 2017	Annual % change Q3 2017
Vans	-4.22%	-0.95%	-6.56%	-2.00%
Trucks	+3.43%	-0.07%	+4.42%	-6.38%

Source: *SMMT*

Anticipated demand for commercial vehicles expected to remain steady in Q4 2017



8 Skills shortages and recruitment

Overall, the transport and distribution labour market remains well supplied, with few respondents reporting that they are unable to recruit staff. The most straightforward posts to fill continue to be warehouse staff vacancies with 63 per cent of respondents reporting no problem in recruiting during Q3 2017.

However, the primary concern to respondents continues to be the issue of driver recruitment and the risk of HGV driver shortages. There is also continued concern regarding filling transport manager and technician roles.

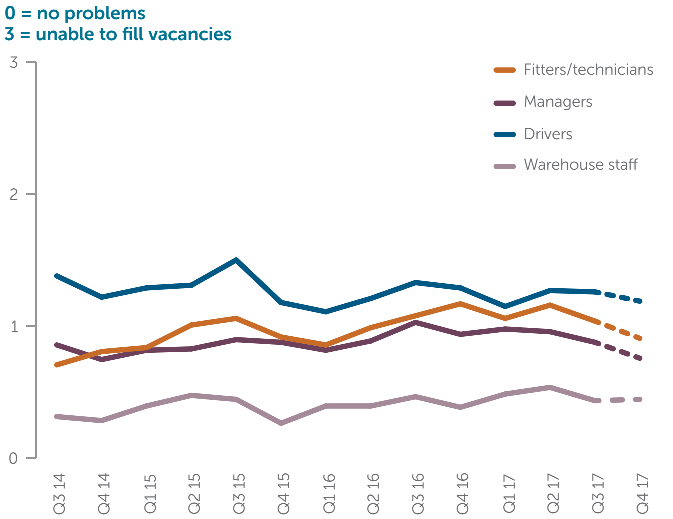
According to the ONS, the number of HGV drivers claiming Jobseeker's Allowance was lower in Q3 2017 compared to Q2 2017. The number of HGV drivers claiming Jobseeker's Allowance was 380 in September 2017, down 27 per cent from a year ago and continuing the long-term downward trajectory. For the UK as a whole, the claimant count was 804,100, up 3 per cent from a year ago.

This worrying statistic shows that labour market trends for HGV drivers in the UK is out of step with general labour market trends. On the surface, this may seem like good news but, in reality, there is an ever-shrinking pool of active job seekers from which to recruit drivers. The current HGV drivers' claimant count is 98 per cent lower than the peak of 15,255 in March 2009 during the economic downturn, almost double that of the UK as a whole in the same period.

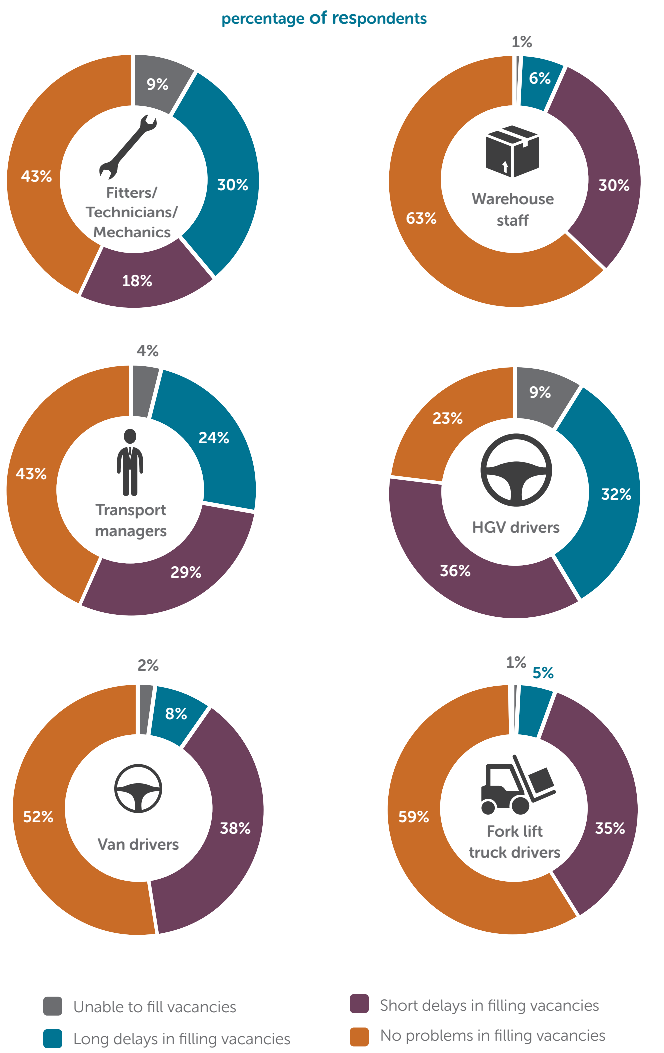
HGV driver vacancies proved to be the most difficult posts to fill in Q3 2017, with just 23 per cent of respondents reporting no problems in filling vacancies which is unchanged from a year ago. Just over 32 per cent of respondents indicated long delays in filling vacancies in Q3 2017 which is broadly similar to just under 33 per cent of respondents at the same time last year. Filling the gap with agency drivers is also proving difficult with over 67 per cent of respondents in Q3 2017 reporting problems with contracting drivers through agencies. Almost 30 per cent of respondents are predicting long delays in filling HGV driver vacancies in Q4 2017 and just over 58 per cent anticipate a shortage of qualified HGV drivers in Q4 2017, which indicates that driver recruitment is a long-term challenge.

HGV driver vacancies are not the only area of concern in recruitment. There are signs that transport manager and technician vacancies are proving difficult to fill with 24 per cent and 30 per cent respectively of those surveyed reporting long delays in recruitment compared to 28 per cent and 25 per cent in the previous survey.

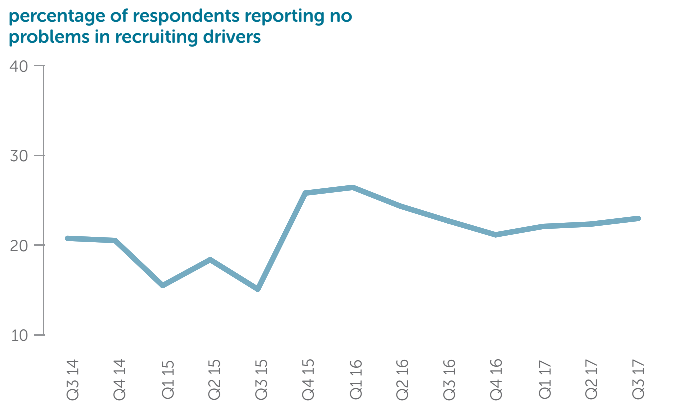
Long-term trend in transport and distribution labour market indicates length of time to fill driver vacancies has increased



HGV driver vacancies most difficult posts to fill in Q3 2017



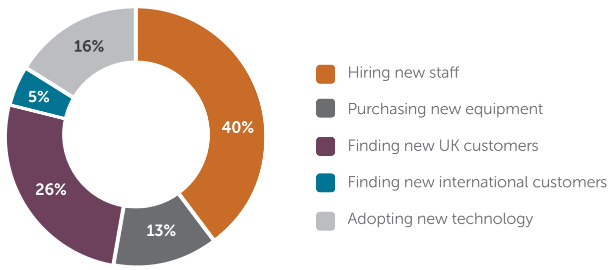
Driver recruitment remains difficult



9 Challenges facing the transport and logistics sector

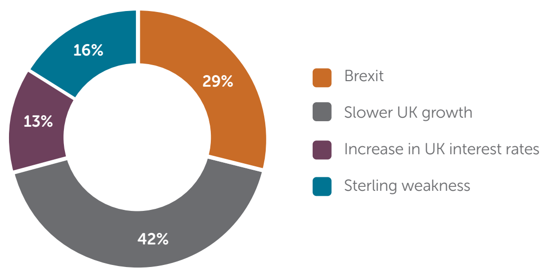
As part of the October 2017 QTAS, members were asked what they felt would be the biggest challenge to face their business in the next 12 months. Reinforcing that skills shortages are a long-term challenge as outlined above, almost 40 per cent stated that hiring new staff would be their biggest challenge.

Which of the following do you believe will be the biggest challenge to affect your business over the next 12 months?



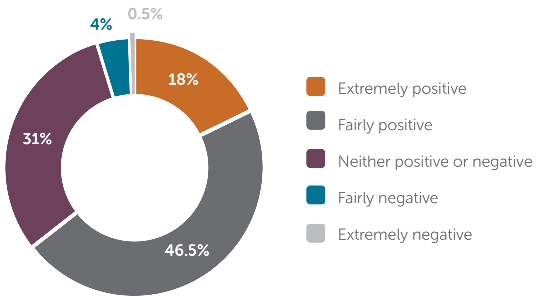
Members were also asked which external factor would be the biggest challenge to their business over the next 12 months. Almost 42 per cent said they were concerned about a slowdown in the UK economy and over 29 per cent saw Brexit as their biggest challenge.

Which of the following external factors do you believe will be the biggest challenge to affect your business over the next 12 months?



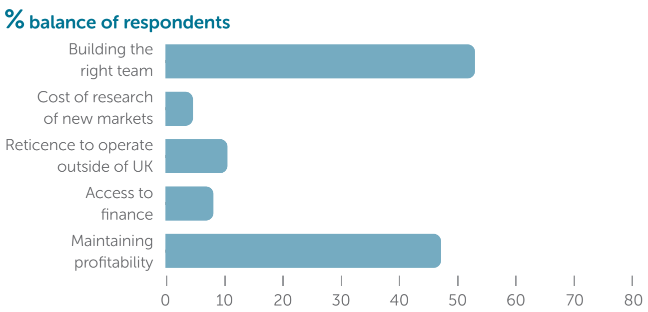
Members are upbeat about the future with almost 65 per cent feeling confident that their business will grow in the next three years.

How confident are you that your business will grow over the next three years?



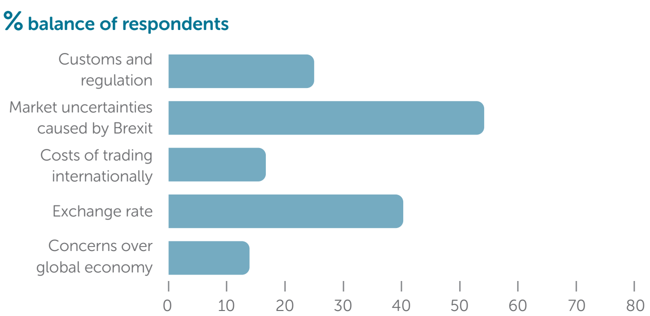
Members operating internationally have the same kinds of internal challenges as those operating domestically. Almost 53 per cent indicated that building the right team was their biggest challenge to growing internationally whilst 47 per cent were concerned with maintaining profitability.

What do you believe are the biggest internal challenges to growing internationally?



Looking externally, over 54 per cent of members operating internationally said that market concerns over Brexit is the biggest obstacle to growing internationally and over 40 per cent also said that the exchange rate was problematic.

What do you believe are the biggest external obstacles to growing internationally?



10 Focus on insurance cost increases 2017–2018

The October 2017 QTAS investigated trends in annual premiums paid for vehicle, goods in transit, employer's liability and public liability insurances. Respondents report that they saw rises in premiums in 2017 that were higher than anticipated last year. Respondents also indicated that they expect rises in insurance premiums again in 2018.

	2017 estimated average increase*	2017 outturn increase	2018 estimated average increase
Vehicle	3.23%	5.81%	4.62%
Goods in transit	2.63%	3.07%	3.79%
Employer's liability	2.22%	2.72%	3.34%
Public liability	2.20%	2.67%	3.24%

*October 2016 QTAS

11 Focus on vehicle operating costs increases 2017-2018

Participants were also asked to provide details of trends in annual costs for tyres, parts and vehicle maintenance costs. The results show that respondents saw higher than anticipated increases in 2017. Respondents anticipate that cost of tyres, parts and external workshop charge-out rates will increase in 2018 by more than the rises seen in 2017, whilst increases in own workshop charge-out rates are expected to be lower.

	2017 estimated average increase*	2017 outturn increase	2018 estimated average increase
Tyres	4.06%	5.90%	6.16%
Parts	1.94%	3.41%	6.50%
Own workshop rates	0.00%	3.06%	2.56%
External workshop rates	1.71%	3.34%	3.55%

*October 2016 QTAS

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