

LOGISTICS UK

The Logistics Report Summary 2021

Produced by Logistics UK Policy



We support, shape and stand-up for efficient logistics

Logistics UK is one of the biggest business groups in the UK, supporting, shaping and standing up for efficient logistics. We are the only organisation in the UK that represents all of logistics, with members from the road, rail, sea and air industries, as well as the buyers of freight services such as retailers and manufacturers whose businesses depend on the efficient movement of goods.

An effective supply chain is vital to Keep Britain Trading, directly impacting over seven million people employed in making, selling and moving the goods that affect everyone everywhere.

With Brexit, technology and other disruptive forces driving changes in the way goods move across borders and through the supply chain, logistics has never been more important to UK plc.

As champions and challengers, Logistics UK speaks to Government with one voice on behalf of the whole sector, greatly increasing the impact of our messages and achieving amazing results for members.

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Foreword



A handwritten signature in white ink, appearing to read 'D Wells', with a horizontal line underneath.

David Wells
Chief Executive
Logistics UK

Welcome to the Logistics Report 2021. For over 10 years we have produced this report to provide an annual view of the performance of the logistics sector and the principal challenges it faces.

Never have we had to reflect on such an extraordinary year as the last one. But in the face of the pandemic our industry is transforming, growing and demonstrating exceptional resilience. We are now also seeing welcome evidence of recovery in the wider economy and in our society, as the successful vaccine programme proceeds at pace.

As in previous years, the Logistics Report contains information on our industry from respected official and commercial sources. But vitally it also contains the findings of Logistics UK's annual Logistics Industry Survey, along with other member research we have conducted; our members' support for our surveys adds immeasurably to the richness of the report.

The Logistics Report provides expert insights on our industry and raises awareness of the issues that matter most to our members and the sector we represent. Before the pandemic, the sector was already operating in a changing context: driver shortages; new rules because of the exit from the EU; and adapting freight to deliver a cleaner, greener future. COVID-19 has not meant these factors have gone away, but it has accelerated them and made responding to them more complex.

As we recover from the effects of the pandemic, investment in the future of logistics – including rail freight, which will be vital in cutting the UK's carbon emissions in line with its targets – will be essential. Investment in automation and connectivity is also an opportunity for the future. We are urging Government and those involved in the development of Connected and Autonomous Mobility to focus on applications that will build the most robust business cases for industry. If businesses are operating on margins of less than 2%, investment cannot be wasted.

The performance of our economy is dependent on sufficient and efficient logistics. But this is not possible without skilled staff. Driver vacancies and the shortage of skills to support the wider industry are the biggest challenge we currently face, and we are engaging with Government and industry on the urgent action needed to address this.

The Logistics Report is also celebration of the industry, its size, its scale, its determination to innovate and adapt for the future, even in these testing times. It showcases the industry as one to invest in, make a career in and work with.

The Logistics Report 2021 sets out how logistics is performing on key measures and the events and trends currently shaping it. It also contains the findings of the annual Logistics UK Industry Survey 2020/21, which gathers views from 500 businesses engaged in logistics, spanning over 15 sectors, in the UK and globally. In addition to the policy survey, the report draws from an array of respected sources, bespoke analysis commissioned by Logistics UK and insights from our policy experts.

The following is a brief summary of the seven sections that make up the full report. To obtain a copy of the full Logistics Report 2021, please contact customerservices@logistics.org.uk.

Logistics Business Index

Business expectations

This is an ongoing measure of respondents' sentiment about their business's performance in the next six months. Before COVID-19 and the end of the Brexit transition period on 1 January 2021, business confidence and business investment in the logistics sector was positive but had fallen relative to a year ago. The economic impact of the coronavirus pandemic has affected revenue and profit, while clarity on future trading arrangements with the EU has deteriorated in the past year. Fuel price pressures have eased, as has recruitment, but overall there is a decline.

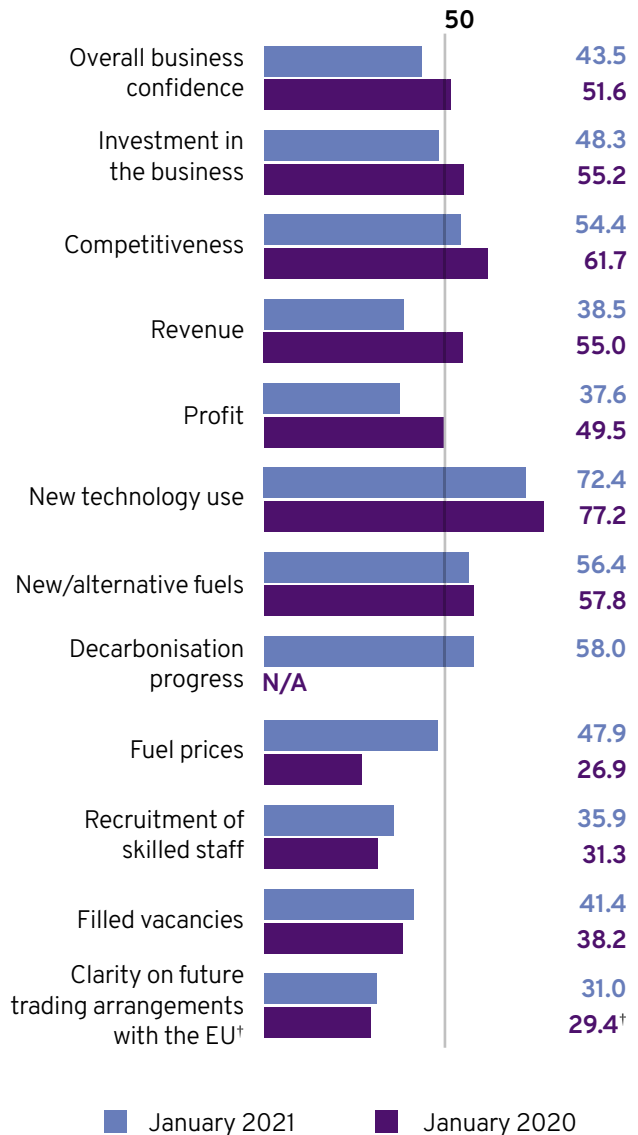
Logistics activity

Logistics activity was derived from a set of modal activity confidence indices which are described in detail in of the main report. The index comprises sentiment indices across all modes and includes an indirect measure of warehousing through road activity and usage. The Logistics Activity Index was derived by weighting the individual indices by proportion of their contribution to Gross Value Added (GVA).

In 2020 there was a deterioration in logistics activity with air freight showing the largest fall in confidence. It is expected that in 2021 there will be large positive swing in logistics activity driven improvements in the road sector. The Logistics Business Index also indicates an uplift in business confidence in 2021 compared with 2020.

Logistics Business Index*

Compared to a year ago, have you experienced improvements or a deterioration in the following:



*<50 = Deterioration >50 = Improvement

[†]was "Legal/political uncertainties/Brexit"

Source: Logistics UK Industry Survey 2020/21

The logistics sector



Key facts

- 1 The logistics sector contributes £127 billion Gross Value Added (GVA)¹ to UK economy.
- 2 There are 205,380 logistics enterprises in the UK.
- 3 Online retail averaged 28.1% of retail sales in 2020, up from 19.2% in 2019.

Summary

The UK logistics sector is vital for the country's financial success, contributing 10% to the UK non-financial business economy. Despite the pressures brought on by the COVID-19 pandemic, the industry has adapted well, and the proportion of businesses in the transport and storage sector with cash reserves of more than six months rose after April 2020 before stabilising. Fleet investment intentions, the number of goods vehicle operator licences and new HGV and van registrations declined during 2020, with the leasing of additional

warehousing distribution premises expected to reduce in 2021. However, progress with vaccinations and clarity over Brexit is expected to have a positive impact on businesses.

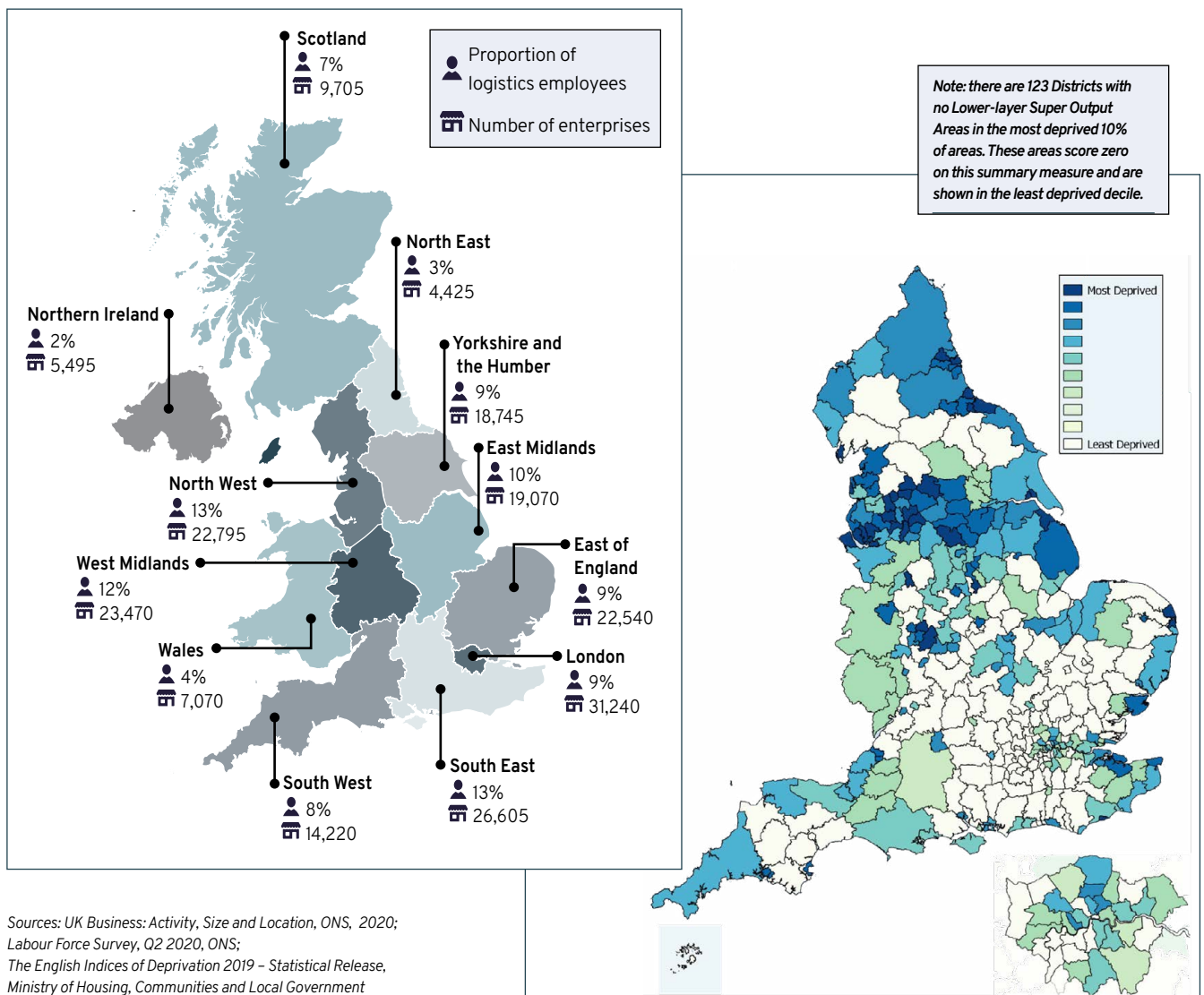
Expectations/things to watch for

- 1 Adaptations of business due to new social distancing measures and an increase in home working and online shopping.
- 2 Large-scale business investment intentions for 2021 indicate an increase in purchases of additional warehousing distribution premises.
- 3 Potential liquidations and insolvencies as Government support measures are wound up.

¹ Approximate Gross Value Added at basic prices (aGVA) is the amount individual businesses, industries or sectors contribute to the economy.

Proportion of logistics employees, number of enterprises by deprivation index

Employment in logistics is spread unevenly across the UK. There is some correlation between the number of logistics businesses and lower levels of deprivation, indicating the role freight operations play in providing employment and generating growth for a region.





Competitiveness

Key facts

- 1 A global shortage of shipping containers contributed to a rise of 185% in rates by the end of 2020.
- 2 Brent crude prices reached a 21-year low of \$17/bbl in spring 2020.
- 3 2020 levels of warehouse take up reached a new record.

Summary

The UK ranked in the top 10 or 15 countries for every metric in the World Economic Forum's 2020 Global Competitiveness Report. Costs increased for all modes, possibly due to pandemic restrictions, reduction in the availability of services (such as flights) and the price of implementing COVID-19 measures, though the drop in

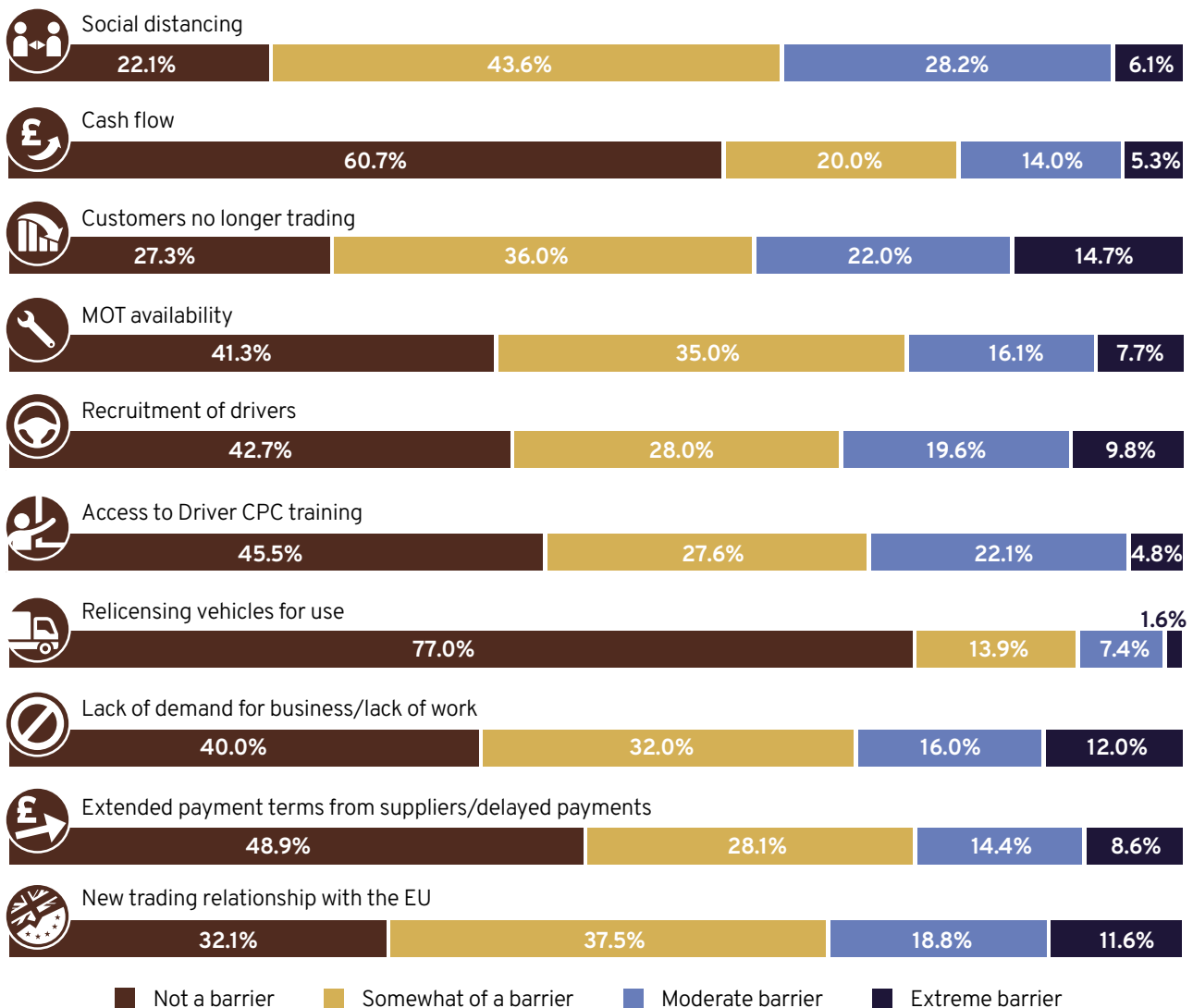
fuel prices potentially offset some of these rises. The UK's future competitiveness is likely to depend on its ability to adapt to a new regulatory regime post Brexit and the extent to which it deploys emerging policy and regulatory reforms in the wake of the pandemic.

Expectations/things to watch for

- 1 Freight rates expected to increase dramatically across all modes in 2021.
- 2 Increased demand for incentivising alternative fuels and carbon reduction.
- 3 New freeports and a tax cut likely to boost productivity-gaining enterprises.

Barriers to business recovery

Barriers to business recovery as the coronavirus restrictions lift were explored in Logistics UK's February 2021 Logistics Performance Tracker. 'Social distancing' (78%), 'customers no longer trading' (73%) and 'new trading relationship with the EU' (68%) were cited by respondents as the most prevalent barriers.



Source: Logistics UK, February 2021



Key facts

- 1 UK remains a net importer with a negative trade balance that narrowed by £11.3 billion in 2020.
- 2 In 2019, 95% of international freight tonnage arriving in the UK was moved by sea.
- 3 USA and China remain UK's largest non-EU trading partners.

Summary

UK's imports and exports were disrupted by the coronavirus pandemic, as well as the uncertainty around the end of the EU Exit transition period. £301.7 billion of goods were imported from the UK's top 10 import trading

partners, and the top 10 exports from the UK to the EU had an estimated value of £78 billion. Adapting to changes in moving or trading goods after the EU Exit transition period and introduction of the NI Protocol proved to be difficult at the beginning of 2021.

Expectations/things to watch for

- 1 New trade agreements with EU partners.
- 2 OECD doubled its predictions for UK growth in 2021, citing the USA's new economic stimulus package as an important factor in this increase.
- 3 Imports and exports are expected to increase in 2021.

UK trade

The UK remains a net importer, with a negative trade balance that narrowed by £11.3 billion in 2020; the majority (£10.9 billion) came in the final quarter of the year. This is likely to have been caused by stockpiling in the lead up to the end of the EU Exit transition period.

At the beginning of 2021, the Office for National Statistics (ONS) made it clear that, due to disruption from COVID-19 and the EU Exit, caution should be taken when looking at short-term comparisons of trade data. January 2021 saw a record (since 1997) fall in exports and imports compared to the year before. The ONS established that data is hard to compare month on month due to the combination of border delays, COVID-19-related trade pressures and global supply chain disruption, as well as the end of the transition period. Trade data also indicates evidence of stockpiling in the final quarter, in the lead up to the new trading arrangement with the EU. This is comparable to previous Brexit deadlines in March and October 2019.

UK trade by direction and international mode of transport (2019)



Source: Transport Statistics Great Britain 2020, ONS, 17 December 2020





Connectivity

Key facts

- 1 HGVs moved 1.3% more goods in 2019 than 2018, with the amount of goods lifted increasing by 2.4%.
- 2 In air freight, overall volumes of global cargo tonne-kilometres (CTKs) fell by 10.6% year-on-year, the largest decline since since 1990.
- 3 486.1 million tonnes of freight were handled by UK ports in 2019, up 1% on the previous year.

Summary

Freight operations have been affected by lockdown restrictions, though efficient adaptations led to road, rail and cargo-flight-specific air freight recovering to pre-pandemic levels by the end of 2020. Road and

rail reliability increased, though demand for air freight plummeted. Global maritime trade is estimated to have fallen by 4.1% in 2020 due to supply chain disruption caused by COVID-19.

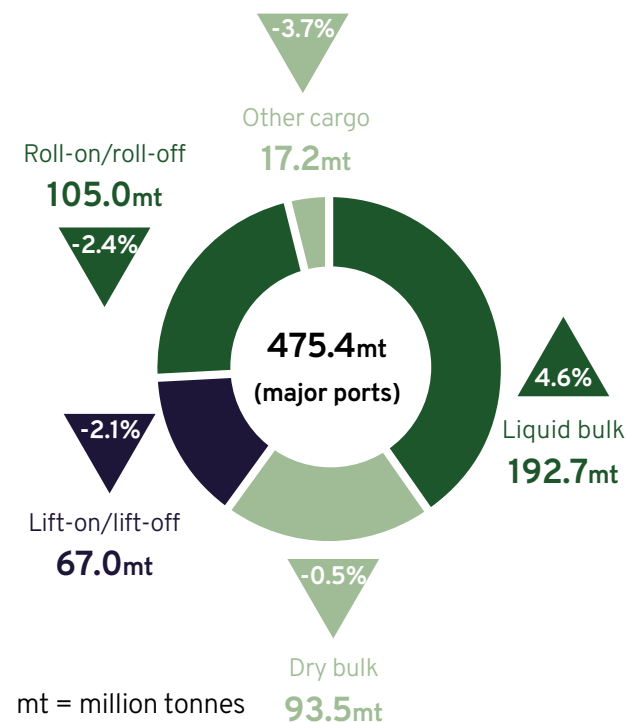
Expectations/things to watch for

- 1 Growth of world seaborne trade is expected to expand by 4.8% in 2021, assuming the world economic output recovers.
- 2 Air cargo volumes to improve as passenger flights resume, following pandemic restrictions, providing more bellyhold space.
- 3 Reliability of road freight could decrease if traffic volumes return to pre-lockdown levels.

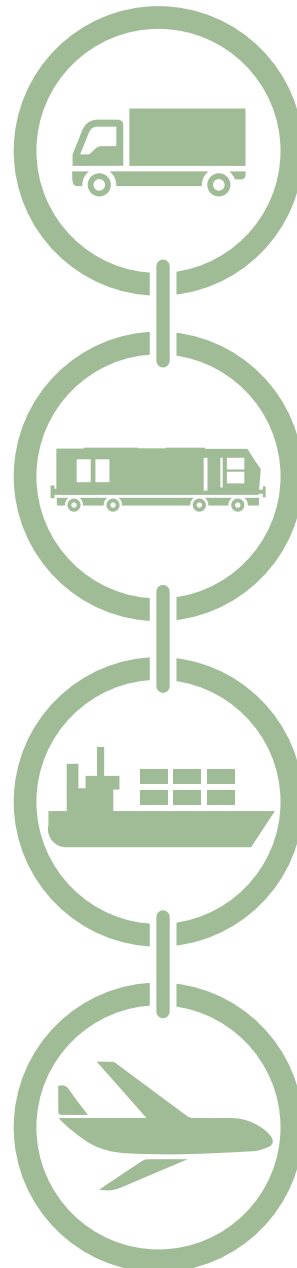
Seaborne trade

The performance of the global economy impacts on the success of world seaborne trade. According to a report by the United Nations Conference on Trade and Development (UNCTAD), global maritime trade is estimated to have fallen by 4.1% in 2020 due to supply chain disruption caused by COVID-19. The report published in November 2020 warned that new waves of the pandemic might cause an even steeper decline. The short-term outlook for maritime trade is downbeat and the pandemic's longer-term impact, as well as the timing and scale of the industry's recovery, is uncertain. However, growth is expected to expand by 4.8% in 2021, assuming world economic output recovers.

Freight handled by UK major ports (million tonnes) in 2019



Source: UK Port Freight Statistics 2019, DfT, August 2020





Key facts

- 1 At the start of coronavirus restrictions, around a quarter of logistics staff were furloughed.
- 2 Average pay across all sectors increased by 4.7%, affected upwards by a fall in the number and proportion of lower-paid jobs.
- 3 The number of HGV drivers in employment fell by around 21,000 in Q2 2020.

Summary

There are currently 1.7 million jobs in the specific logistics sector. COVID-19 drastically affected working practices over the past year, with furloughing and redundancies affecting every sector. However, the industry's 'key worker'

status and increased demand for online delivery services meant many businesses were able to continue, with 46% of respondents to the Logistics UK Industry Survey 2020/21 indicating they had increased staff gross pay. The sector is under continued pressure to meet staffing needs.

Expectations/things to watch for

- 1 Respondents to the Logistics UK Industry Survey 2020/21 indicated that increasing the number of staff and training were the highest HR priorities for the year ahead.
- 2 Increased demand for fitter, mechanic and technician roles, as these were the hardest to fill in 2020.
- 3 Increase in staff gross pay.

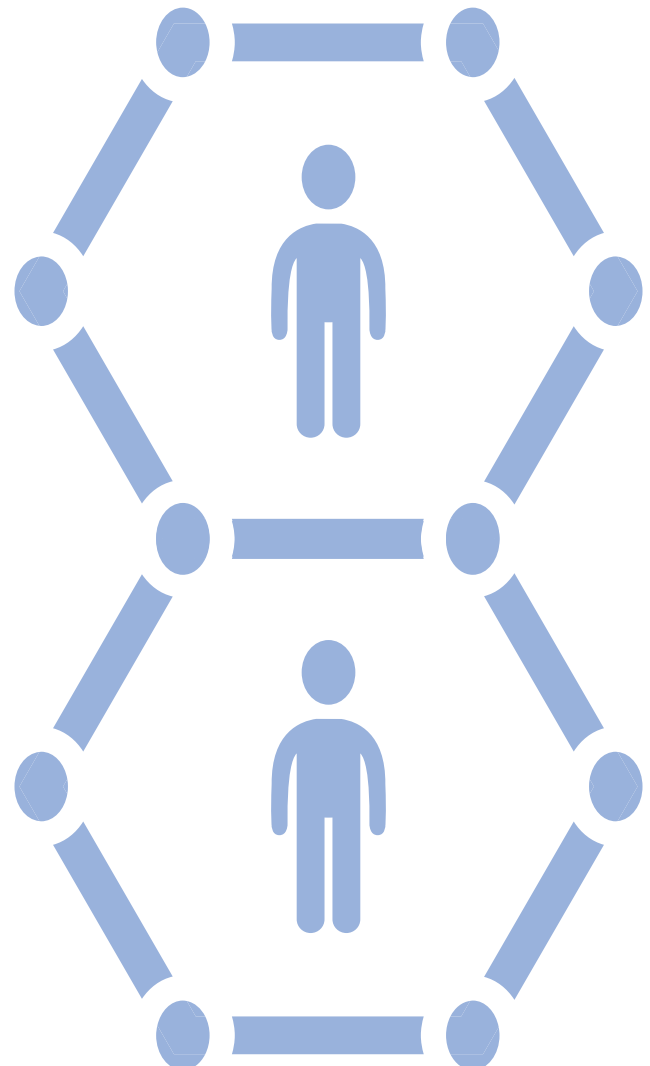
Total tests

There is an ongoing, historical problem in the sector with filling driver vacancies. In order to drive a HGV, drivers must pass a vocational driving test. HGV drivers employed or used in commercial capacity also need to acquire and then maintain a Driver CPC; however, with testing suspended for a year, supply of licensed drivers has fallen even further behind demand. Comparing calendar years, the average pass rate has remained fairly consistent, averaging at 57.7% from 2015-2019. It is only higher in 2020 because of the very high average pass rate from April to June, averaging 79.4% and skewing the overall average higher, when testing rates collapsed.

Compared to 2019, there were 43% less tests conducted in 2020. 35% of these were conducted in the first quarter (January to March), when more than 15,000 tests were carried out, prior to the pandemic. However, during the first lockdown period of April through June, only 631 tests took place. By comparison, in 2019, 18,625 tests were conducted over a similar period. Testing structures were reinstated from April, but there is now a significant backlog of drivers seeking tests which will take time to clear, causing further delays.

	Conducted	Passes	Pass rate (%)
2016	77623	43643	56.22
2017	72446	41867	57.82
2018	72787	42192	57.97
2019	73554	43282	58.82
2020	42200	24626	63.73

Driver Testing Statistics, UK Government, April 2020





Sustainability

Key facts

- 1 First Clean Air Zones and other local emission-reduction schemes being implemented in 2021.
- 2 Phase out of new petrol and diesel vehicles given date of 2035.
- 3 Nationally, drivers saved more than £3.4 billion in time savings compared to 2019 due to improved traffic levels.

Summary

Despite plans facing disruptions due to the coronavirus pandemic, logistics' journey to net zero is picking up again with the introduction of low-emission schemes and an increase in sustainable technology development. The

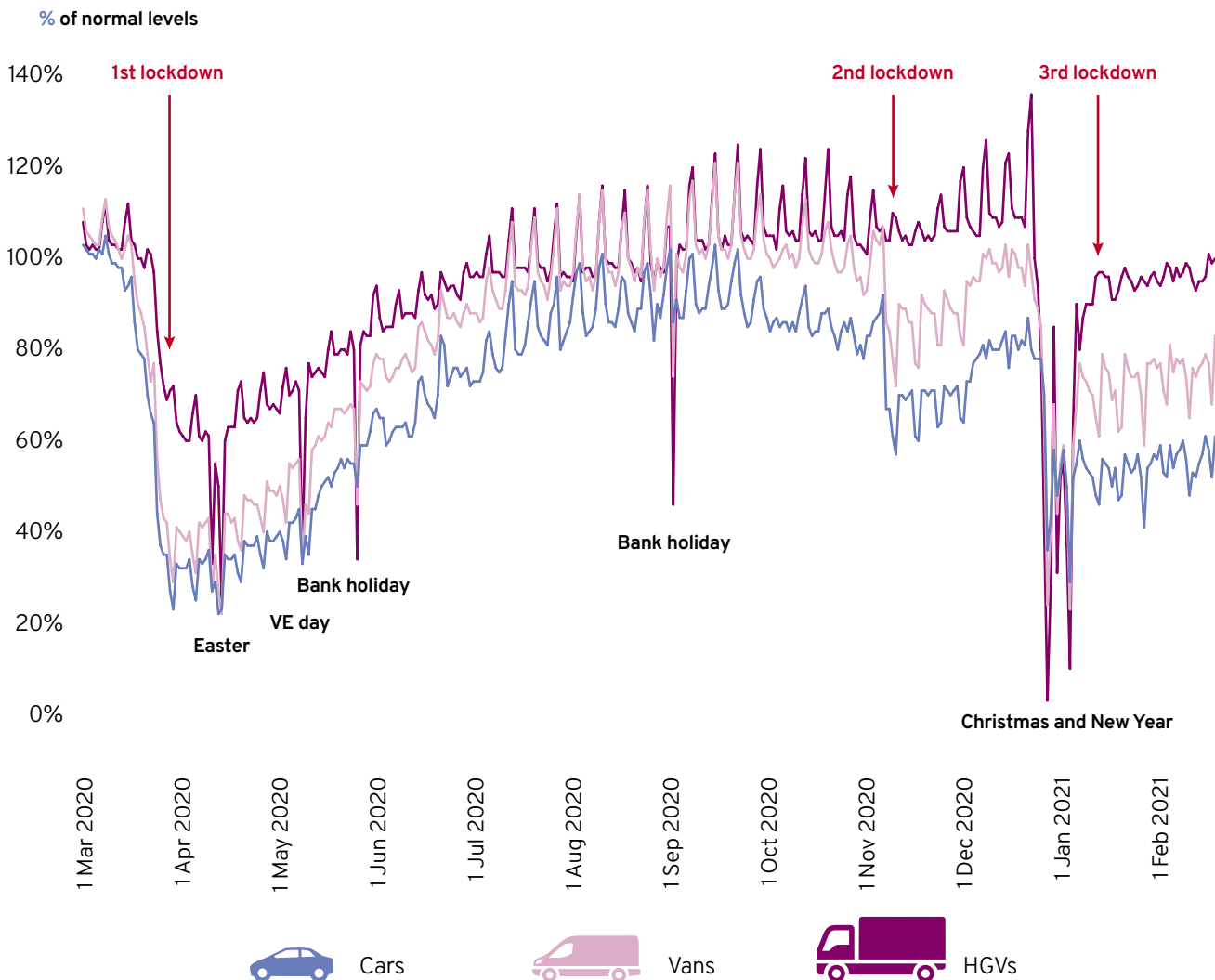
growth of online retail had a positive effect on warehouse take-up and home deliveries, while COVID-19 restrictions improved traffic levels for freight as the majority of private vehicles stayed off the road.

Expectations/things to watch for

- 1 Continuing increase in online shopping which will drive warehouse take-up and home delivery services.
- 2 More zero-emission vehicles developed and introduced as local and national schemes restrict access for vehicles that do not meet emission requirements.
- 3 Additional Clean Air Zones and Low or Zero Emission Zones developed.

Traffic levels during COVID-19

Road congestion was positively impacted by COVID-19 restrictions, through a reduction in traffic density, due mainly to the fall in car traffic after the first COVID-19 lockdown on 23 March 2020; car traffic was on average 30% lower than pre-23 March lockdown levels to the end of 2020, while vans and HGVs were 17% and 7% lower, respectively.



Source: Transport use by modes: Great Britain, since 1 March 2020, DfT, 15 February 2021

Safety and innovation



Key facts

- 1 Goods vehicle operator licences fell by 2.5% in 2019/20 compared to 2018/19.
- 2 Number of HGV fatal accidents per billion vehicle miles was 22% lower compared to a decade ago.
- 3 Government spent around £10.5 billion on Britain's roads.

Summary

Both vehicle and driver testing has been impacted by lockdown restrictions over the last year, though data suggests industry compliance may have improved overall and the number of fatal accidents involving a commercial

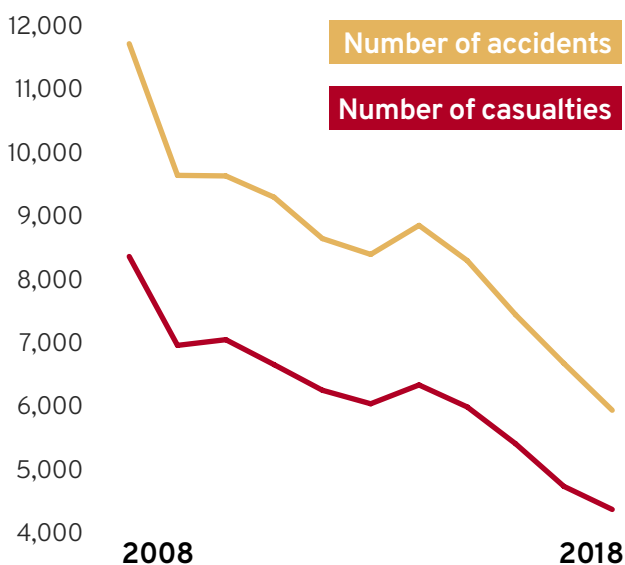
vehicle decreased. As the sector recovers from the pandemic, technology developments are expected to drive a rise in automation and sustainability benefits across all modes.

Expectations/things to watch

- 1 Volumes of vocational driving tests to increase, to make up the backlog created during lockdowns when testing was suspended.
- 2 Use of automated and connected technology expected to grow across all four modes.
- 3 Slow recovery of air freight, especially as plans for airport expansions are delayed.

Number of accidents and casualties and accidents involving HGVs

The number of HGV fatal accidents per billion vehicle miles was 22% lower compared to a decade ago and 9% lower in 2019 compared with 2018. The number of van fatal accidents per billion vehicle miles was 16% lower in 2019 compared to 2010 but up 10% compared to 2018. With growing traffic volumes, the interaction between commercial vehicles and other road users, particularly cyclists in urban areas, presents a considerable challenge to the road freight logistics sector. 2019 saw a drop across the board in the number of HGVs involved in accidents with vulnerable road users. The number of cyclist fatalities remained the same in 2019 as the year before, but the number of HGVs involved fell by over a third.



Source: Reported Road Casualties in Great Britain: 2019 annual report, DfT, September 2020



T: 01892 526171* F: 01892 534989 www.logistics.org.uk

Logistics UK is a trading name of Freight Transport Association Limited
Registered office: Hermes House, St John's Road, Tunbridge Wells, Kent TN4 9UZ
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