



# Disruption, recovery, innovation: 2021's Truck market topics

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As a year of extraordinary global disruption draws to an end, the global Truck industry stands on the cusp of a wave of innovation and rejuvenation, driven by policy and regulatory changes and robust economic growth as the world recovers from the deepest recession in living memory.

## **Vaccination drives recovery**

The urgently anticipated global rollout of several vaccines will be scaled up rapidly – with large-scale vaccine production in China likely to play a significant role. Industry and supply chains will gradually return to normal operation as virus-related restrictions are lifted. Pent-up demand for services – restaurant visits, entertainment, travel, etc. – will be unleashed as social distancing measures are eased. Macroeconomic drivers of demand are, as a result, expected to return to strong growth by the middle of next year, setting the scene for robust recovery in most Truck markets around the world.

## **Brexit causes disruption**

The end of the transition period will dominate headlines in the UK and Europe at the beginning of the year. Significant disruption of transportation activity is to be expected in the short term, whether or not a 'thin' deal – covering tariffs and customs – is agreed and applied, if not ratified, at the last minute. At the time of writing, less than two weeks before the 31 December deadline, UK container ports are already gridlocked, with pre-Brexit stockpiling, combined with social distancing measures, resulting in severe delays. Ports, the British Retail Consortium (BRC), the Road Haulage Association (RHA), and groups representing the shipping and logistics sector have all sounded alarm bells concerning the state of preparedness, not least over the Goods Vehicle Management System (GVMS) software – for submitting customs declarations – which has still not been rolled out. We have previously discussed the potential consequences of a no-deal scenario for trucking – such as for international road haulage permits (ECMT), recognition of drivers' qualifications, and disruption of just-in-time supply chains relying on the 'ro-ro' (roll on, roll off) model.

## **Green Deal brings technological innovation**

While Brexit will bring disruption in the short term, EU policy initiatives will be taking clearer shape over the year ahead. The aims of the EU Green Deal, agreed this month, include a reduction of greenhouse gases by 55% by 2030, in order to achieve 'climate neutrality' by 2050. An alliance of leading Truck OEMs – Daimler, MAN, Scania, Volvo, DAF, IVECO and Ford – has pledged to phase out internal combustion engines by 2040, with a shift to hydrogen, battery technology and 'clean fuels' being envisaged a decade earlier than originally planned. The OEMs estimate that the number of Heavy Electric Trucks could rise to 200,000 within 10 years.

## **Mobility pact shifts geographical balance**

The EU Mobility Package is being rolled out from this year onwards. It will severely restrict cabotage operations from March 2022, with a requirement for drivers and vehicles to return to the country where they are registered on a regular basis, and for transport companies to prove that they actually operate in the EU member state in which they are registered. This will, in our view, result in registrations shifting away from markets like Lithuania and Poland, back towards Western markets like Germany, France, or the Netherlands. Note that, since 2004 (EU expansion), many transport companies moved to register vehicles in Eastern member states in order to benefit from lower costs (e.g. labour costs) etc. than in the West.

### **North American carriers benefit**

The North American Truck industry enters 2021 in good shape: carrier profits and volumes have soared as a result of spending shifting from services to goods – generating freight. Kenny Vieth, from LMC Automotive’s partners at ACT Research, observes, “A market that was awash in capacity at the start of 2020 saw freight rates rise to record levels across the year’s last trimester. Rising carrier profits accelerated the cycle turn for MD and HD vehicles in the NA market with orders rising to near record levels into the year’s end point to upswinging production through 2021”.

Beyond the short term, the incoming Biden administration is expected to rejoin the Paris Climate Agreement. Mr Biden has expressed support for plans to invest in a transition from fossil fuels to clean energy, cutting carbon emissions from electric power to zero by 2035 and to reach net-zero emissions by 2050.

### **China’s economy pulls ahead**

Green initiatives in both Europe and America highlight the way in which China has, in recent years, spearheaded the shift to green technologies, from electric vehicles to renewables. And China is also likely to lead the way in the world’s economic recovery over the year ahead. Industrial production has pulled further ahead as 2020 draws to an end, and the economy is expected to accelerate in the coming months, even as tailwinds from stimulus measures fade.

The Truck industry – a major beneficiary of those measures, which have included a subsidy scheme to boost purchase of new vehicles – is in for a volatile time in 2021, with demand rising ahead of the transition to CN6a emissions in July. After that point, sales and production are expected to fall sharply as the factors that have been artificially stimulating demand (and pulling forward future sales) fade away and payback kicks in. The repercussions will be felt well into 2022.