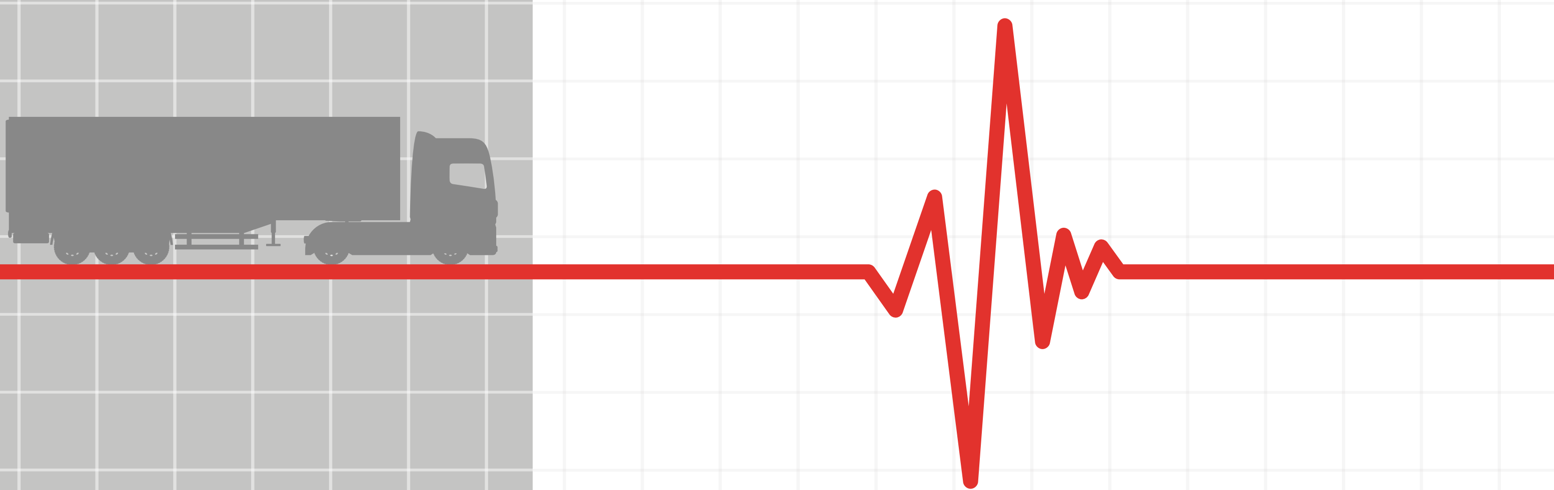
ASSET ALLIANCE GROUP

Industry Monitor
2018 edition



In association with
MotorTransport

Welcome...

The year ahead is full of challenges and opportunities for operators of commercial vehicles, and we hope the Asset Alliance Group Industry Monitor can act as a helpful guide.

In this report we establish the health of the sector; looking at trends and patterns when it comes to the number of operators in the United Kingdom, and how many vehicle businesses are running in day-to-day operation.

We also establish the body type, weight and age of commercial vehicles in operation in the United Kingdom and how their use on commercial fleets has changed over recent years.

In addition, we have looked at the buying patterns of vehicles, and particularly how these have changed before and after the introduction of Euro 6 technology.

You will also find the results of some exclusive research that establishes current confidence levels among sector decision-makers, and what their expectations are for the months and years ahead.

There are many factors on the horizon that will affect the operation of commercial vehicles in the UK; from Brexit and its impact on the economy to clean air legislation and its effect on truck buying patterns. Our research demonstrates how operators intend to react to these events, and what they mean for you and your business.

We would like to thank Motor Transport for their work in compiling this study and hope it helps you to make more informed decisions. Should you require tailored and independent advice on finance and commercial vehicles in your business, please don't hesitate to contact our team.

Willie Paterson
Chief Executive Officer
Asset Alliance Group

Contents and research objectives

This report is a barometer of the health and confidence of the UK road transport and commercial vehicle sector in 2018. It looks at the number of businesses running commercial vehicles in the UK, how many vehicles they operate, which vehicles are in use and how road transport operators view their future growth prospects. It also gauges opinions on how, when and why operators will buy commercial vehicles – as well as looking at how operators will react to changes in the law and the fuels they use.

Fleet operation

How many road transport businesses are in the UK?

All operators of goods vehicles over 3.5 tonnes must (with some exceptions) hold an Operator (O)-licence that has been issued to them by the Office of the Traffic Commissioner (OTC). The licensing provisions are covered by the Goods Vehicles (Licensing of Operators) Act 1995, the Goods Vehicles (Licensing of Operators) Regulations 1995, the Road Transport Operator Regulations 2011, and the Goods Vehicles (Licensing of Operators) (Fees) Regulations.

There are three types of licence:

Restricted – these authorise operators to carry their own goods in the course of their trade and business in Great Britain and on international journeys.

Standard national – these authorise operators to carry their own goods in the course of their trade, business and goods for other people for hire and reward in Great Britain.

Standard international – these are the same as standard national licences but operators are also allowed to carry goods for themselves and other businesses to countries outside of Great Britain.

From 1 January 2018 standard national and international licence applicants are required to demonstrate £7,950 (compared with £7,850 in the previous year) of financial standing for the first vehicle and £4,400 (previously £4,350) for each additional vehicle they request to be authorised.

The rates for restricted licence holders and applicants are unchanged in 2018, at £3,100 for the first vehicle and £1,700 for each additional authorised vehicle.

Financial limits are set by EU Regulation 1071/2009 at €9,000 for the first vehicle and €5,000 for each subsequent vehicle. The exchange rate is set on the first working day in October, and new rates are applied from 1 January. The annual increase for 2018 is based primarily in the drop in the value of the pound against the euro.

"Financial limits are set by EU Regulation 1071/2009 at €9,000 for the first vehicle and €5,000 for each subsequent vehicle."

It remains to be seen what legislation will cover financial standing following the UK's departure from the European Union.

Operators can, and do, hold multiple O-licences. Nationwide operations require eight O-licences to cover each traffic area in England, Wales and Scotland, while different business divisions will require different O-licences. It is important to note that the number of O-licences in circulation in any given year is not a direct representation of the number of individual businesses in the sector. However it is a significant barometer of the health of the overall sector and the number of vehicles in use (**see Table 1**).

Across the UK

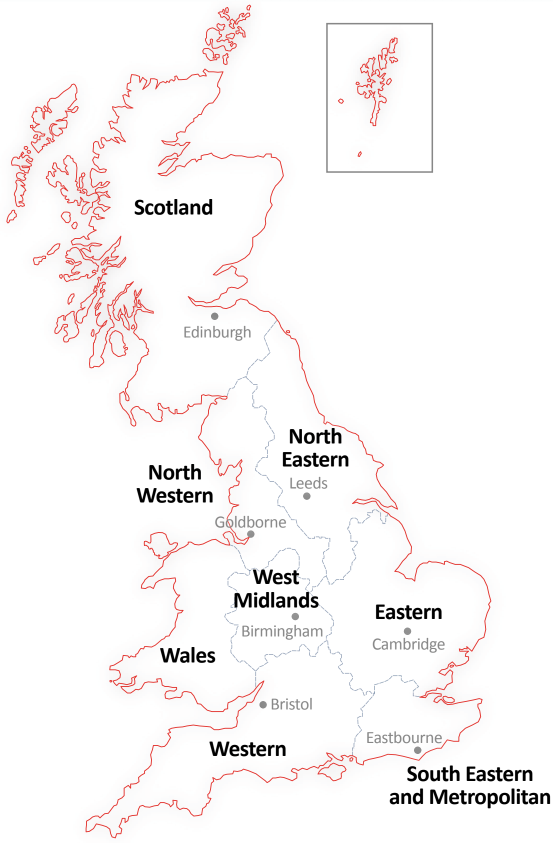
Throughout England, Wales and Scotland, the proportion of O-licence holders that are either restricted, standard national or standard international has shown very little change over the past six years.

Table 1: **Goods vehicle operators in Great Britain – licences in issue, year-to-year**

Types of licence	Restricted	Standard national	Standard international	Total number of licences in issue
2011-2012 (share)	43,420 51.7%	31,738 37.7%	8,914 10.6%	84,072
2012-2013 (share)	42,382 52.4%	30,196 37.3%	8,316 10.3%	80,894
2013-2014 (share)	41,121 52.9%	28,563 36.7%	8,048 10.4%	77,732
2014-2015 (share)	39,896 52.8%	27,739 36.7%	7,960 10.5%	75,595
2015-2016 (share)	40,265 52.3%	28,448 36.9%	8,289 10.8%	77,002
2016-2017 (share)	38,132 51.9%	27,140 36.9%	8,186 11.2%	73,458

SOURCE: Traffic Commissioners Report 2016-17

ASSET ALLIANCE GROUP



But there have been some significant changes to the total number of businesses operating under certain O-licence conditions.

In 2015-16 there was an unusual 1.9% year-on-year rise in O-licences issued, whereas in 2016/17 the total number of O-licences issued fell 4.6%. While there is some consideration to be given to the number of operating centres consolidating and improving operational efficiencies, this fall should be of major concern to suppliers to and customers of commercial vehicle operators. The total number of businesses in the sector is at the lowest level ever recorded.

Furthermore, the year-on-year drop hints toward a fundamental change in market conditions and market demographics – particularly when analysed in conjunction with the number of vehicles specified against each O-licence. Such factors point towards fewer, larger players in a consolidating logistics industry.

The OTC is divided into eight traffic areas (see map): Eastern, North Eastern, North Western, South Eastern and Metropolitan, West Midlands, Western, Scotland and Wales. O-licensing in Northern Ireland is governed by the Department for Infrastructure Transport Regulation Unit (**see Table 2**).

Overall fall

The total number of O-licences in issue fell 4% year-on-year in 2016/17 from 82,982 to 79,596. The number of restricted O-licences in circulation fell by 4.7% year-on-year, while the number of standard national licences fell by 4.5% year-on-year. The number of standard international O-licences fell by just 15, or just 0.1% year-on-year.

Restricted O-licences account for 53% of all O-licences issued, while standard national account for 34% and standard international account for 12%.

Table 2: **O-licences: year-on-year**

Types of licence	Restricted		Standard national		Standard international		Total number of licences in issue	
Traffic area	2016-2017	2015-2016	2016-2017	2015-2016	2016-2017	2015-2016	2016-2017	2015-2016
Eastern	6,543	6,947	4,578	4,803	1,854	1,812	12,975	13,562
North Eastern	5,613	5,861	4,458	4,520	1,213	1,202	11,284	11,583
North Western	5,325	5,564	3,859	4,015	1,013	1,014	10,197	10,593
South Eastern and Metropolitan	4,973	5,396	2,868	3,164	1,178	1,260	9,019	9,820
West Midlands	4,267	4,526	3,002	3,157	821	855	8,090	8,538
Western	5,653	5,895	3,780	3,942	1,177	1,197	10,610	11,034
Scotland	2,994	3,113	2,627	2,745	520	537	6,141	6,395
Wales	2,764	2,963	1,968	2,102	410	412	5,142	5,477
Total: GB	**38,132**	**40,265**	**27,140**	**28,448**	**8,186**	**8,289**	**73,458**	**77,002**
Northern Ireland	4,038	3,971	381	380	1,719	1,627	6,138	5,980
Total: UK	**42,170**	**44,236**	**27,521**	**28,828**	**9,905**	**9,916**	**79,596**	**82,982**

SOURCE: Traffic Commissioners Report 2016-17

In the previous year 53.3% of all O-licences in issue were restricted O-licences, 34.7% were standard national and 12% were standard international. This means there has been little perceptible shift in the composition of commercial vehicle business types over the past two years.

In England, Wales and Scotland, no single traffic area under the jurisdiction of the OTC has seen the number of O-licence holders grow year-on-year. The only classification to see annual growth was in standard international O-licence holders in the Eastern Traffic Area, rising 2.3% year-on-year.

Great Britain accounts for 92.3% of all O-licence holders in the United Kingdom, with Northern Ireland accounting for 7.7%. The largest traffic area, by total number of O-licence holders, is the Eastern Traffic Area, accounting for 16.3% of UK O-licences. Wales is the smallest region at 6.5%.

In Northern Ireland the story is different following the introduction of the Goods Vehicles (Licensing of Operators) Act (Northern Ireland) 2010 – which, among other measures, introduced 'own-account' (restricted) O-licensing. As a result, the number of O-licence holders in Northern Ireland has continued to grow as more operators are recognised as O-licence holders under the law (**see Table 3**).

As a result of the Goods Vehicles (Licensing of Operators) Act (Northern Ireland) 2010 we are now able to see the extent of the road transport industry in Northern Ireland alongside comparative data.

In 2016-17 there were 6,138 O-licences in circulation, compared to 6,141 in Scotland and 5,142 in Wales. This shows a higher use of commercial vehicles per capita than any other region of the UK, with the population of Northern Ireland estimated at 1.862m in 2016.

Restricted O-licences account for 65.8% of all issued, compared to the average of 51.9% in England, Wales and Scotland. Standard national operators account for just 6.2% of all O-licences, while standard international O-licences account for 28% of the total.

Table 3: **O-licences in issue, year-to-year: Northern Ireland**

Northern Ireland	Restricted	Standard national	Standard international	Temporary permits remaining to be converted	Total number of licences in issue
2012-13	643 (9.8%)	394 (6%)	1,453 (22.1%)	4,081 (62.1%)	6,571
2013-14	2,396 (40.4%)	377 (6.4%)	1,507 (25.4%)	1,650 (27.8%)	5,930
2014-15	3,816 (66.5%)	374 (6.5%)	1,540 (26.9%)	9 (0.1%)	5,739
2015-16	3,971 (66.4%)	380 (6.4%)	1,627 (27.2%)	2 -	5,980
2016-17	4,038 (65.8%)	381 (6.2%)	1,719 (28%)	-	6,138

SOURCE: DFT Transport Regulation Unit

Table 4: **O-licences in issue, year-to-year: United Kingdom**

United Kingdom: GB and Northern Ireland	Total number of licences in issue: GB (% change y-o-y)	Total number of licences in issue: Northern Ireland (% change y-o-y)	Total number of licences in issue: UK (% change y-o-y)
2012-13	80,894	6,571	87,465
2013-14	77,732 (-3.9%)	5,930 (-9.8%)	83,662 (-4.3%)
2014-15	75,595 (-2.7%)	5,739 (-3.2%)	81,334 (-2.8%)
2015-16	77,002 (1.9%)	5,980 (4.2%)	82,982 (2%)
2016-17	73,458 (-4.6%)	6,138 (4.2%)	79,596 (-4%)

SOURCE: Traffic Commissioners Report 2016-17 and Department of the Environment (Northern Ireland)

"In 2016-17 the number of O-licences issued stood at its highest level since the first year of recorded statistics in 2012-13."

Close links

According to UK regional trade statistics 33.4% of all exports, and 27.2% of all imports, are with the Republic of Ireland, which one would assume explains the prominence of standard international O-licence holders in the region – a standard national O-licence would restrict commercial vehicle movements to Northern Ireland and the rest of the United Kingdom.

In 2016-17 the number of O-licences issued stood at its highest level since the first year of recorded statistics in 2012-13. What is unknown is whether this is an indicator of economic activity in Northern Ireland, or the continuing success of the work of the Department for Infrastructure in bringing commercial vehicle operators into compliance with the law.

The total number of O-licences in issue in the UK fell 4% year-on-year in 2016-17, and came a year after a 2% year-on-year rise in O-licences issued in 2015-16 (**see Table 4**).

Table 5: **Number of vehicles specified to O-licences: 2016-2017**

Types of licence	Restricted		Standard national		Standard international		Totals	
Traffic area	O-licences	% of TA	O-licences	% of TA	O-licences	% of TA	O-licences	% of TA
Eastern	16,383	23.5%	35,474	50.9%	17,714	25.0%	69,571	100%
North Eastern	14,441	24.5%	30,225	51.4%	14,171	24.7%	58,837	100%
North Western	13,466	26.2%	26,517	51.5%	11,464	22.3%	51,447	100%
South Eastern and Metropolitan	14,381-	31.6%	21,257	46.7%	9,897	21.7%	45,535	100%
West Midlands	10,166	25.4%	19,794	49.5%	10,006	25.0%	39,966	100%
Western	13,769	26.0%	28,012	53.0%	11,007	21.0%	52,788	100%
Scotland	7,055	21.6%	20,218	62.0%	5,368	16.4%	32,641	100%
Wales	6,040	30.4%	10,774	54.4%	3,007	15.2%	19,821	100%
Total	**95,701**	***25.8%***	**192,271**	***51.8%***	**82,634**	***22.4%***	**370,606**	***100%***

SOURCE: Traffic Commissioners Report 2016-17

In recent years the regular annual fall in O-licences has been a result of a combination of factors: the OTC reducing the number of 'no-use' O-licences in circulation; operators with multiple operating centres improving efficiencies and reducing the number of operating centres in use, and an overall reduction in the number of businesses in the sector, either through economic conditions, O-licences being surrendered or O-licences being revoked.

Some 261 O-licences were revoked in 2016-17, just 7.4% of the overall reduction of 3,544 O-licences issued in the same time period. This small proportion hints towards a wider weakening in business conditions that encourages a large number of O-licence holders to run businesses in the UK.

O-licence holders

Standard national O-licence holders constitute the majority of fleet assets in Great Britain (**see Table 5**), accounting for 51.8% of all HGVs over 3.5-tonne gross vehicle weight (GVW) in both 2015-2016 and 2016-2017.

The overall number of HGVs specified to standard national O-licences has dropped 1.6% (or 3,216 trucks) year-on-year to 192,271 units in 2016-2017.

The number of vehicles over 3.5-tonne GVW specified by standard international O-licences holders fell by 51 or 0.07% to 82,634 in 2016-17. Such assets account for 22.4% of all vehicles specified to O-licences in Great Britain, a 1.5 percentage point rise year-on-year.

Table 6: **Goods vehicle operators – number of specified vehicles on licences 2015-2016**

Types of licence	Restricted		Standard national		Standard international		Totals	
Traffic area	Vehicles specified	% of TA	Vehicles specified	% of TA	Vehicles specified	% of TA	Vehicles specified	% of TA
Eastern	17,075	23.9%	36,735	51.4%	17,609	24.6%	71,419	100%
North Eastern	14,979	25.4%	30,043	50.9%	14,005	23.7%	59,027	100%
North Western	13,780	26.8%	26,399	51.2%	11,315	22.0%	51,494	100%
South Eastern and Metropolitan	15,329	31.8%	22,685	47.0%	10,201	21.1%	48,215	100%
West Midlands	10,533	25.9%	19,651	48.4%	10,440	25.7%	40,624	100%
Western	14,295	26.4%	28,887	53.4%	10,880	20.1%	54,062	100%
Scotland	7,312	22.3%	20,252	61.7%	5,269	16.0%	32,833	100%
Wales	6,264	31.1%	10,835	54.0%	2,975	14.8%	20,074	100%
Total	**99,567**	**26.4%**	**195,487**	**51.8%**	**82,694**	**21.9%**	**377,748**	**100%**

SOURCE: Traffic Commissioners Report 2016-17

Table 7: **Total O-licences compared to total vehicles specified on O-licences in 2016-2017, by traffic region**

Types of licence	Restricted		Standard national		Standard international		Total	
Traffic area	O-licences issued	Vehicles specified	O-licences issued	Vehicles specified	O-licences issued	Vehicles specified	O-licences issued	Vehicles specified
Eastern	6,543	16,383	4,578	35,474	1,854	17,714	12,975	69,571
North Eastern	5,613	14,441	4,458	30,225	1,213	14,171	11,284	58,837
North Western	5,325	13,466	3,859	26,517	1,013	11,464	10,197	51,447
South Eastern and Metropolitan	4,973	14,381	2,868	21,257	1,178	9,897	9,019	45,535
West Midlands	4,267	10,166	3,002	19,794	821	10,006	8,090	39,966
Western	5,653	13,769	3,780	28,012	1,177	11,007	10,610	52,788
Scotland	2,994	7,055	2,627	20,218	520	5,368	6,141	32,641
Wales	2,764	6,040	1,968	10,774	410	3,007	5,142	19,821
Total	**38,132**	**95,701**	**27,140**	**192,271**	**8,186**	**82,634**	**73,458**	**370,606**

SOURCE: Traffic Commissioners Report 2016-17

The predominance of the overall UK truck fleet specified to standard national and standard international O-licence holders points to the prominence of third-party logistics in the UK. Together both O-licence types would account for what is traditionally termed hire and reward (i.e. carrying goods as a third party for a customer or customers). Together hire and reward fleet assets account for the operation of 274,905 vehicles above 3.5-tonne GVW in Great Britain, or 74.2% of all fleet assets (**see Table 6, page 7**).

The number of trucks specified by restricted O-licences fell 3.9% (or 3,866 units) in 2016-2017 to 95,701, compared with 99,567 in 2015-2016. Restricted O-licence holders now specify 25.8% of all vehicles in operation in the UK on their fleets, compared with 26.4% of the overall number of fleet assets in the UK in 2015-2016.

Scotland has the highest proportion of vehicles above 3.5-tonne GVW specified to standard national O-licence holders at 62% of all assets held by fleets in the traffic area. For standard international O-licence holders, the highest proportion of the overall traffic area fleet assets is in both the West Midlands and Eastern traffic areas with 25% of all vehicles specified to O-licences. The highest proportion of restricted O-licence assets held by O-licence holders (31.6%) is in the South Eastern and Metropolitan traffic area.

Type of businesses

Table 7 shows the number of vehicles specified in each traffic area in Great Britain, alongside the number of O-licences issued. Overall there are 370,606 vehicles specified on 73,458 O-licences in England, Wales and Scotland. Comparing O-licences issued to the number of vehicles specified per O-licence allows us to discern the type of business operating under each classification.

Restricted O-licence holders make up the majority (51.9%) of road transport businesses in England, Wales and Scotland but are responsible for 25.8% of all specified fleet assets. Whereas standard national O-licence holders account for 36.9% of all businesses operating vehicles above 3.5-tonne GVW, but run 51.8% of all vehicles specified against all O-licences. Standard international O-licence holders are just 11.2% of all road transport businesses in Great Britain, but run 22.4% of all fleet assets.

"The highest proportion of restricted O-licence assets held by O-licence holders (31.6%) is in the South Eastern and Metropolitan traffic area."

Regionally there are some unusual anomalies.

The South Eastern and Metropolitan traffic area is skewed more in favour of restricted O-licence holders and restricted O-licence fleet assets (at 55.1% and 31.6% respectively) compared with other parts of Great Britain.

Scotland has a higher proportion of standard national O-licence holders compared with the rest of Great Britain (at 42.7%) and a much higher proportion of standard national O-licence holder fleet assets (62%) compared with the national average (36.9% and 51.8% respectively).

Standard international O-licence holders are more likely to be found in the eastern part of the country, primarily the Eastern traffic area and South Eastern and Metropolitan traffic area (14.3% and 13% respectively). It would be safe to assume that the concentration of Great Britain's major ports for roll-on, roll-off traffic in these areas is a determining factor in these locations.

Following a Freedom of Information request to the OTC we are able to look at fleet specifications on O-licences in much greater detail (**see Table 8**).

Of primary concern are the 6,953 O-licence holders that specify zero vehicles on the O-licence. This either points to O-licences no longer in use, or businesses not informing the OTC of their current fleet specifications correctly.

However, given that the number of 'zero vehicle' O-licences has declined between 2015 and 2017 from 8,023 to 6,953, it is hoped that the OTC is working to eradicate such O-licence holders, which account for 10.4% of all O-licences issued in Great Britain.

One of the primary findings of this report is the recent shift in the concentration of vehicle ownership – particularly the increasing concentration of vehicle ownership among a small number of businesses.

Overall market growth

Between 2013 and 2017 the number of O-licences issued fell 16.1% from 80,063 to 67,122, while between 2015 and 2017 the number of O-licences issued fell 10.8% from 75,235 to 67,122.

While the number of businesses in the sector has continued to fall at a double-digit rate over the past five years, the number of fleet assets used by road transport operators in Great Britain has continued to rise.

Between 2013 and 2017 vehicles specified to O-licences increased 10.9% from 335,351 to 371,718, while between 2015 and 2017 the overall vehicle parc rose 6.8% from 348,060 to 371,718.

Single vehicle operators

The 'owner-driver' (i.e. a sole trader running a single vehicle that requires an O-licence) has traditionally been a fundamental part of the subcontractor market. Many logistics contracts and operations require bespoke labour on a franchise or subcontracted basis outside of allocating specific fleet assets to the movements of goods.

"It costs the average owner-operator a maximum of £34,048 to set themselves up as a single vehicle business running a 44-tonne artic."

However, this sector of the market has been shrinking over the past five years. The number of O-licences (and by proxy an equivalent number of vehicles specified) fell 21.1% between 2013 and 2017, from 35,302 to 27,848.

Between 2015 and 2017 there was an 11.8% fall, from 31,576 to 27,848, while between 2013 and 2015 there was a 10.5% fall.

In 2017, Commercialmotor.com calculated that it costs the average owner-operator a maximum of £34,048 to set themselves up as a single vehicle business running a 44-tonne artic.

This figure is based on cost estimates for an individual to obtain the correct licensing, skills and financial standing to become an owner-driver running just one 44-tonne artic, without a trailer.

Table 8: **Number of specified vehicles to O-licences, by number**

Fleet size	No of licences 2013	No of vehicles 2013	No of licences 2015	No of vehicles 2015	No of licences 2017	No of vehicles 2017
0	8,383 (**10.5%**)	0 (**0%**)	8,023 (**10.7%**)	0 (**0%**)	6,953 (**10.4%**)	0 (**0%**)
1	35,302/(**44%**)	35,302 (**10.5%**)	31,576 (**42%**)	31,576 (**9%**)	27,848 (**41.5%**)	27,848 (**7.5%**)
2 to 5	25,367(**31.7%**)	72,033 (**21.5%**)	24,112 (**32%**)	69,305 (**20%**)	21,806 (**32.5%**)	62,726 (**16.9%**)
6 to 10	5,472 (**6.8%**)	41,172 (**12.3%**)	5,616 (**7.5%**)	42,512 (**12.2%**)	5,188 (**7.7%**)	39,091 (**10.5%**)
11 to 20	3,026 (**3.8%**)	43,684 (**13%**)	3,141 (**4.2%**)	45,538 (**13%**)	2,797 (**4.2%**)	40,469 (**10.9%**)
21 to 50	1,738 (**2.2%**)	53,161 (**15.9%**)	1,909 (**2.6%**)	59,642 (**17.1%**)	1,662 (**2.4%**)	51,783 **13.9%**)
50 plus	785 (**1%**)	89,999 (**27%**)	858 (**1.1%**)	99,487 (**28.6%**)	868 (**1.3%**)	149,801 (**40.3%**)
Total	**80,063**	**335,351**	**75,235**	**348,060**	**67,122**	**371,718**

SOURCE: Freedom of Information Request to Office of the Traffic Commissioners

With no way of measuring how these costs have changed during the time period that has seen 21.1% of such businesses fall out of the market, it would be unwise to draw a correlation between the two, but the sector is certainly not growing – which points towards a deficit between new businesses coming in as owner-drivers and those that either leave the sector or increase in fleet size.

Small businesses:

The number of fleets comprising two to five vehicles has shrunk by close to 10,000 units – or 12.9% – over the past five years, from 72,033 in 2013 to 62,726. Between 2015 and 2017 the fall has been steep; a drop of 9.1% in two years from 69,035 to 62,726.

The number of businesses running fleets of two to five vehicles fell 4.9% from 25,367 in 2013 to 24,122 in 2015, and then 9.6% to 21,806 in 2017. In five years the number of businesses in this sector has fallen 14%.

The number of O-licence holders with between six and 10 vehicles specified actually increased 3.5% between 2013 and 2015 from 5,427 to 5,616, but dropped 7.6% over two years to 2017 to 5,188. Fleet assets specified to O-licence holders of this size fell 8% between 2015 and 2017, hinting towards more robustness among those trading at this size.

The mid-market

Fleets of 11 to 20 vehicles followed a similar pattern to those with six to 10 vehicles. There was 3.8% growth in the overall number of O-licence holders between 2013 and 2015 from 3,026 to 3,141, before an 11% fall between 2015 and 2017 to 2,797.

Vehicles specified to O-licence holders of fleets between 11 and 20 vehicles rose 4.2% between 2013 and 2015, from 43,684 vehicles to 45,538 vehicles, before dropping 11.1% to 40,469.

Fleets of 21 to 50 vehicles also followed the same pattern of rise between 2013 and 2015, before a drop in 2017. Between 2013 and 2015 the number of O-licence holders in this bracket rose 9.8%, from 1,738 to 1,909, before a fall of 13% to 1,662 O-licence holders.

In terms of assets specified to operators of fleets between 21 and 50 vehicles there was growth of 12.2% between 2013 and 2015, from 53,161 vehicles to 59,642 vehicles, before a fall of 13.2% to 51,783 vehicles in 2017.

Overall, both small operators and mid-market operators, encompassing fleet sizes of two to 50 vehicles, tell the same story: two years of growth followed by two years of decline. This is reflected in both the number of businesses operating at such a size, and the number of vehicles these businesses specify to their fleets.

Collectively, the total number of operators running between two and 50 vehicles fell 9.6% between 2015 and 2017, while the total number of vehicles these operators run fell 10.5%.

"There are now 868 businesses in Great Britain with fleet assets above 50 vehicles, a rise of just 10 businesses in two years."

Large operators

Between 2013 and 2015, fleets of 51 vehicles or more accounted for 0.98% and 1.14% respectively of all O-licences in circulation. That translates to just 785 road transport businesses in 2013 and 858 in 2015 running what would be described as a large fleet of vehicles above 3.5-tonne GVW.

During this period, the proportion of fleet assets specified on O-licences in Great Britain by these businesses also rose 10.5%, from 89,999 (26.84% of overall vehicle parc share) of all vehicles specified in 2013 to 99,487 (28.58% overall vehicle parc share) in 2015.

However, between 2015 and 2017 there has been a remarkable shift. There are now 868 businesses in Great Britain with fleet assets above 50 vehicles, a rise of just 10 businesses in two years. These businesses account for 1.3% of all road transport operators in England, Wales and Scotland, up from 1.14% in 2015.

These operators now run 149,801 vehicles above 3.5-tonne GVW: a 50.5% rise of 50,314 vehicles in the space of two years. That means 1.14% of O-licence holders run 40.3% of all vehicles specified on O-licences in Great Britain – a 12.5 percentage point rise.

Licensed HGVs in the UK

What vehicles are operators running?

Commercial vehicles over 3.5-tonne GVW are often referred to in government statistics as HGVs or large goods vehicles (LGVs), whereas the Society of Motor Manufacturers and Traders (SMMT) produces registration data that defines heavy trucks as over 6-tonne GVW.

There are three broad classifications for measuring the size of the vehicle parc in the UK.
The first is the DfT registration figures, which capture any vehicle registered to be on the road. As of 2014, activity in Northern Ireland has been captured by the Driver and Vehicle Licensing Agency (DVLA). This gives the United Kingdom a total of 517,144 HGVs.
The second is by tax class. According to the DfT, the number of goods vehicles over 3.5 tonnes by taxation group and axle configuration suggests a total of 425,305 vehicles.
The third way of defining the size of the HGV parc in Great Britain is the number of vehicles specified to O-licence allocation, as discussed in part one. This suggests a total of 371,718 commercial vehicles on the road.

Measuring the number of vehicles in the United Kingdom by tax class means only including HGVs in the 'Goods' taxation class – defined as a vehicle 'which is constructed or adapted for the conveyance of goods or burden of any description, including samples, and which exceeds 3,500kg revenue weight'. A goods vehicle is subject to payment of tax in the "HGV" class if it carries goods for or in connection with a trade or business or for hire or reward and excludes vehicles where the axle configuration is not known. These are noted in the registration figures and include vehicles such as 'private' HGVs; recovery vehicles; showman's HGVs and agriculture machines.

Using the measure of taxation group and axle configuration as the most accurate barometer of the number of HGVs applied to hire and reward or own-account work in the UK, as of 2016 some 69% of all body types are rigid bodies, with 2-axle rigids accounting for 48% of all vehicles taxed in Great Britain. Artics account for 31% of all vehicles taxed in Great Britain, with 3-axle artics accounting for 26% of all vehicles (**see Table 9**).

Between 2015 and 2016 the overall number of taxed goods vehicles rose 2% or 8,370 units, with rigid body types rising 1.3% or 3,882 units year-on-year and articulated vehicles rising 3.5% or 4,478 units year-on-year.

In 2010, just after the recession of 2009, there were approximately 389,800 HGVs registered by

Table 9: **Goods vehicles over 3.5 tonnes, by taxation group and axle configuration, Great Britain: 2014-2016**

Year	2014	2015	2016
Rigid vehicles			
2-axle	207,008	204,824	205,020
3-axle	48,819	50,084	51,360
4-axle	32,982	35,246	37,656
All rigid	**288,809**	**290,154**	**294,036**
Articulated vehicles			
2-axle tractor and 2-axle trailer	7,094	7,538	7,555
2-axle tractor & 3-axle trailer	13,623	13,444	12,263
2-axle tractor & 4- or more axle trailer	3,430	2,522	3,074
All 2-axle tractor	**24,147**	**23,504**	**22,892**
3-axle tractor & 2-axle trailer	1,082	931	796
3-axle tractor & 3-axle trailer	93,389	101,484	106,112
3-axle tractor & 4- or more axle trailer	2,524	862	1,469
All 3-axle tractor	**96,995**	**103,277**	**108,377**
All articulated vehicles	**121,142**	**126,781**	**131,269**
All goods vehicles	**409,951**	**416,935**	**425,305**

SOURCE: DVLA/ DfT

Year	3.5 to 7 tonne	> 7 to 8 tonne	> 8 to 18 tonne	> 18 to 31 tonne	> 31 to 41 tonne	> 41 tonne	TOTAL
2010	51,200 (**10.9%**)	134,900 (**28.7%**)	93,100 (**19.8%**)	59,200 (**12.6%**)	49,900 (**10.6%**)	81,800 (**17.4%**)	**470,100**
2011	51,900 (**11.2%**)	129,900 (**27.9%**)	92,200 (**19.8%**)	58,900 (**12.7%**)	48,100 (**10.3%**)	84,500 (**18.1%**)	**465,500**
2012	52,800 (**11.5%**)	124,800 (**27.1%**)	91,200 (**19.8%**)	58,200 (**12.6%**)	46,700 (**10.1%**)	86,800 (**18.8%**)	**460,600**
2013	54,500 (**11.6%**)	121,900 (**26%**)	93,300 (**19.9%**)	58,700 (**12.5%**)	47,900 (**10.2%**)	92,700 (**19.8%**)	**468,900**
2014	56,500 (**11.9%**)	117,400 (**24.8%**)	94,300 (**19.9%**)	59,400 (**12.5%**)	49,000 (**10.3%**)	97,300 (**20.5%**)	**473,900**
2015	58,778 (**12.2%**)	113,494 (**23.5%**)	96,001 (**19.9%**)	60,626 (**12.5%**)	50,790 (**10.5%**)	103,662 (**21.4%**)	**483,361**
2016	61,296 (**12.2%**)	110,512 (**23.5%**)	98,661 (**19.9%**)	61,928 (**12.5%**)	52,842 (**10.7%**)	108,399 (**22%**)	**493,638**

Table 10: **Licensed heavy goods vehicles by weight (tonnes): UK 2010-2016**

SOURCE: DVLA/ DfT

taxation group and axle configuration. In the six years of recovery the number of HGVs registered under this classification has risen 9.1%. Rigids have risen 3.4% during this time period, from 284,400 to 294,036, while artics have risen 24.7%, from approximately 105,300 to 131,269. The market share of rigid vehicles has fallen from 73% in 2010 to 69% in 2016, while the market share of articulated vehicles has risen from 27% to 31% during that six-year period.

Overall, this decade has seen above market average adoption of articulated vehicles, increasing the volumes of artics in circulation in the UK. Rigid vehicles have fallen in overall market share, but total numbers have increased slowly, below the overall market average.

Weighty matters

Using DVLA data we are able to break down the total commercial vehicle parc in the United Kingdom by weight class (again there is a discrepancy as this includes vehicles where only the weight is known).

It is vehicles between 7-tonne and 8-tonne GVW (primarily 7.5-tonne HGVs, but also including 7-tonne and 7.2-tonne vans) that continue to take the largest share of the UK vehicle parc, with a 23.5% share, or 110,512 units (**see Table 10**).

Taking second place in terms of vehicle parc share, is vehicles over 41-tonne (primarily 44-tonne artics with 2 or 3 axles) which are getting close to taking the largest share of all vehicles licensed with 22% market share in 2016, or 113,857 units.

However the share held by 7-tonne to 8-tonne vehicles has declined with vehicles over 41-tonne taking an increasingly larger share. There was an 11.3 percentage point gap, equivalent to approximately 53,100 units, between the two in 2010: in 2016 that gap is 0.4 percentage points or 2,113 units.

Vehicles of other weight categories have seen little proportional change of the overall number of vehicles licensed in the UK. On this measure, the overall vehicle parc has risen 5% between 2010 and 2016, and 2.1% between 2015 and 2016.

Over the past decade, the registration of new HGVs by year has been defined by the introduction of Euro 6 in January 2014. This can be seen by the number of HGVs registered in 2013, when operators refreshed their fleets before the introduction of Euro 6 by buying Euro 5 units, with many units bought under derogation (i.e. the purchase and registration was made in 2013, but the vehicle did not join the fleet until 2014). This meant that between 2013 and 2014 the total number of new trucks registered rose

> **"12,800 vehicles above 41 tonnes GVW were registered in 2014, rising 42% in 2015 to 18,204 before dropping 9.8% in 2016 to 16,418."**

by 11,500 units, or 27.6% to 53,200. The combination of these two factors led to the market shrinking by 27.6% in 2014 to 38,500 new units registered (**see Table 11 on page 13**).

However, since 2014 the number of registrations has risen quickly: by approximately 27% or 13,258 units between 2014 and 2015, and by 4.6% and 2,279 units between 2015 and 2016.

Since the introduction of Euro 6 in 2014 there have been two distinct phases of vehicle registration: firstly the large number of vehicles over 41-tonne GVW (primarily 44-tonne artics of varying axle configurations) registered in 2015. This shows that after initial fears that Euro 6 would be a cost-prohibitive technology, operators saw the benefits to their operations and were quick to return to normal buying patterns – making up for suppressed demand

Table 11: **Heavy goods vehicles, registered for the first time, by weight (tonnes): 2010-2016**

Year	3.5 to 7 tonne	> 7 to 8 tonne	> 8 to 18 tonne	> 18 to 31 tonne	> 31 to 41 tonne	> 41 tonne	TOTAL
2010	3,600 (**11.9%**)	4,400 (**14.6%**)	5,900 (**19.5%**)	3,400 (**11.1%**)	3,200 (**10.6%**)	9,800 (**32.3%**)	**30,300**
2011	4,000 (**9.7%**)	5,300 (**13%**)	7,200 (**17.8%**)	5,000 (**12.2%**)	4,400 (**10.7%**)	14,900 (**36.6%**)	**40,700**
2012	4,200 (**10.2%**)	6,600 (**15.7%**)	7,900 (**19%**)	4,900 (**11.8%**)	4,400 (**10.6%**)	13,700 (**32.8%**)	**41,700**
2013	4,600 (**8.6%**)	7,700 (**14.5%**)	9,700 (**18.2%**)	6,400 (**12%**)	6,600 (**12.3%**)	18,300 (**34.4%**)	**53,200**
2014	4,700 (**12.1%**)	4,700 (**12.2%**)	7,000 (**18.2%**)	4,100 (**10.8%**)	5,200 (**13.5%**)	12,800 (**33.3%**)	**38,500**
2015	5,182 (**10.6%**)	4,897 (**10%**)	9,192 (**18.7%**)	5,307 (**10.8%**)	6,276 (**12.8%**)	18,204 (**37.1%**)	**49,058**
2016	5,576 (**10.7%**)	5,909 (**11.5%**)	10,697 (**20.8%**)	5,960 (**11.6%**)	6,817 (**13.3%**)	16,418 (**32.1%**)	**51,337**

SOURCE: DVLA/ DfT

in 2014. Some 12,800 vehicles above 41-tonne GVW were registered in 2014, rising 42% in 2015 to 18,204 before dropping 9.8% in 2016 to 16,418.

Secondly, the number of 8-tonne to 18-tonne vehicles – predominantly 2-, 3- or 4-axle rigids that are either tippers, or rigids with either boxed trailers or curtain trailers – has grown steadily since the introduction of Euro 6.

As of 2016, trucks in their first year of registration accounted for 10% of all trucks licensed to run on the road in the UK (**see Table 12**). This is a significant rise from 2014, where trucks in their first year of registration accounted for 7.7%, and in 2015, where they accounted for 9.8%. This reflects the improved buying patterns for trucks post the 2014 introduction of Euro 6 as well as improved market conditions.

As an overall share of the market, trucks in their first three years of operation (the traditional period of use before entry into the second hand market) has stayed relatively stable: from 26.7% in 2014 (equivalent to 127,100 trucks), to 27.7% in 2015 (133,400 trucks) and 26.8% in 2016 (131,141 trucks).

Trucks falling between the three and six-year age bracket account for 23.3% or all registrations in 2016, compared with 19.7% in 2015 and 18,3% in 2014. But trucks older than six years have seen overall decline in share of all vehicles on the road, from 54.9% in 2014, to 52.6% in 2015 to 50.1% in 2016.

Overall this points towards operators moving towards new truck technology, fundamentally the longevity of Euro 5 and the widespread adoption of Euro 6. It also points towards a healthy pipeline of stock of Euro 5 and particularly Euro 6 in the near future. With some cities in the United Kingdom moving towards punitive measures against trucks for pollution – namely clean air zones in Leeds, Derby, Nottingham, Birmingham and Southampton, as well as the Ultra Low Emission Zone in London for which Euro 6 is the minimum emission standard for commercial vehicles – there will be increased demand for Euro 6 stock.

Table 12: **Age distribution of heavy goods vehicles**

Year	2014	2014	2015	2015	2016	2016
Age	No of trucks	%	No of trucks	%	No of trucks	%
0-1 years	36,400	7.7	47,200	9.8	49,496	10
1-2 years	51,300	10.8	36,000	7.5	46,380	9.4
2-3 years	39,400	8.3	50,200	10.4	35,265	7.1
3-4 years	36,000	7.6	37,800	7.8	48,933	9.9
4-6 years	50,600	10.7	57,600	11.9	66,200	13.4
6-13 years	180,700	38.1	171,800	35.5	160,531	32.5
13 years +	68,400	14.4	71,500	14.8	75,638	15.3
Unknown	11,200	2.4	11,300	2.3	11,195	2.3
Total	**473,900**		**483,400**		**493,638**	
Average age since 1st registration	7.5		7.5		7.5	

SOURCE: DVLA/ DfT

New commercial vehicle registrations

Buying new and buying often? The rise and rise of Euro 6.

Sales of new commercial vehicles are registered with the Society of Motor Manufacturers and Traders (SMMT) – the trade association for automotive manufacturers in the UK. The SMMT breaks down registration data into three sub-sectors: below 3.5 tonne, 3.5 tonne to 6 tonne, and 6 tonne and above. It does not track the registration of vehicles by emissions type (i.e. Euro 5 and Euro 6).

Over the past five years, sales of new trucks above 6-tonne GVW have averaged 43,855 per year, with 2013 the highest year for registrations before the introduction of Euro 6, and 2014 the lowest following its introduction. Since then the overall market has tracked upwards, except for a 2.5% fall between 2016 and 2017. Of primary concern was the fourth quarter of 2017, where new registrations were down 9.5% compared with Q4 in 2016.

"GDP growth over the next five years would be 1.5% or below – the most sustained period of low economic growth since World War Two."

Business uncertainty

The SMMT said it was not surprising that after two years of intense purchasing and fleet renewals that the market would correct itself in 2017, but it also warned of "declining operator confidence" and the need for the government to "address economic and political concerns and restore the business certainty". Without being explicitly political, it is clear that the SMMT was referring to Brexit, and in March 2018 the Office for Budget Responsibility said that GDP growth over the next five years would be 1.5% or below – the most sustained period of low economic growth since World War Two. It would be easy to draw a parallel between "restoring business certainty" and low growth forecasts for the economy.

Table 13: **Commercial vehicle sales by manufacturer, over 6 tonnes, 2013-2017**

Marque	2013	% Share	2014	% Share	2015	% Share	2016	% Share	2017	% Share
Daf Trucks	14,046	28.42	8,616	24.85	11,535	26.3	13,911	30.1	13,301	29.5%
Mercedes-Benz	8,793	17.79	6,485	18.7	8,005	16.2	7,004	15.2	7,631	16.9%
Scania	6,846	13.85	4,752	13.71	7,098	18.2	7,486	16.2	6,990	15.5%
Volvo Trucks	5,524	11.18	4,074	11.75	5,549	12.6	5,732	12.4	5,819	12.9%
Iveco	3,773	7.63	2,876	8.29	3,089	7	3,542	7.7	3,475	7.7%
MAN	4,934	9.98	3,381	9.75	3,895	8.9	4,074	8.8	3,355	7.4%
Renault Trucks	2,534	5.13	2,050	5.91	2,410	5.5	2,132	4.6	2,065	4.6%
Isuzu Trucks	904	1.83	932	2.69	827	1.9	904	2	829	1.8%
Mitsubishi Fuso	852	1.72	752	2.17	660	1.5	725	1.6	754	1.7%
Dennis Eagle	971	1.96	580	1.67	711	1.6	634	1.4	760	1.7%
Other imports	90	0.18	40	0.12	101	0.2	96	0.2	60	0.1%
Hino	163	0.33	134	0.39	18	0	9	0	6	0.0%
Total	**49,430**		**34,672**		**43,898**		**46,231**		**45,045**	

SOURCE: SMMT

With this in mind it would be incredibly difficult to forecast overall sales in 2018 and beyond. There is a case to argue that localised clean air legislation will drive fleet renewals in 2019 and beyond, but outside of that there are no other legislative drivers to improve new HGV registrations.

As addressed earlier in this report, the rise in registrations of rigids between 8 tonne and 18 tonne points towards vehicles primarily used for retail, home delivery and in construction. These are sectors of the economy dependent on consumer confidence and government infrastructure projects and it remains to be seen how much of an impact Brexit will have on such factors.

Market share

In 2017 the SMMT said that rigids accounted for 56.7% of all unit sales, with artics responsible for 43.3% (**see Table 13**). This compares with the overall UK fleet registered by taxation class and axle configuration in 2016 where rigids account for 69% of all vehicles and artics 31%.

The only market to increase in 2017 was 3-axle artics, up 2.2% to 17,362 units in 2017, compared with 16,982 units in 2016. Overall artic sales (including 2-axle variants) rose 0.8% to 19,510 in 2017, compared with 19,356 in 2016. It also came despite a 7.5% drop in 3-axle artic sales in the final quarter of the year.

DAF has topped the market share rankings for five consecutive years, and in 2017 accounted for 29.5% of all sales between 6-tonne GVW and 44-tonne GVW. In terms of units, it registered 13,301, down 4.4% compared with 13,911 units in 2016.

In 2017 Mercedes was ranked second, with a 16.9% share seeing it register 7,631 units, up 9% year-on-year. Scania took third place with 15.5%, a strong performance considering its range only starts at 16-tonne GVW.

Its overall unit registrations fell 6.4% year-on-year to 6,990. Scania's growth in 2015 and 2016 in particular corresponds with rises in registrations of rigid vehicles between 8 tonnes and 18 tonnes outlined in DfT data for that period.

Volvo came fourth in 2017, seeing a 1.5% year-on-year rise with 5,819 units. It took 12.9% of the market in 2017, and has seen five years of consecutive market share growth.

"DAF topped the market share rankings for five consecutive years, and in 2017 accounted for 29.5% of all sales between 6-tonne and 44-tonne GVW."

Iveco managed to finish the year holding on to fifth in market share (7.7%: 3,475 units), perhaps not surprising given its strength at the top end of the van market where it has 7-tonne and 7.2-tonne offerings. Overall Iveco sales only fell 1.9% year-on-year.

MAN came sixth in 2017 with 3,355 units registered and a 7.5% share, but saw year-on-year sales drop 17.6%. It has seen five years of continuous market share decline, from a high of 10% in 2013.

Renault has remained in seventh place over the past five years with average sales of 2,238 during that time.

Industry Monitor

How are operators responding to current market conditions?

There are many challenges facing the road transport industry; from the declining number of businesses operating in the sector, to the increased concentration of vehicle ownership, to the fall in new truck registrations at the end of 2017. With a major industry body such as the SMMT warning on "operator confidence", our Industry Monitor surveyed business owners, managing directors, chief executives and senior managers across a demographically representative sample from the road transport industry to gauge their views on trading conditions and investment patterns both this year and into 2019.

Overall, given such warning signs, the results of this survey pointed towards a more positive picture than has been outlined. In the main, operators – either of a 'hire and reward' or 'own-account' nature – are trending towards growth in 2018 and in 2019. Operators do concede that the decision to leave the European Union in 2019 has made plans for growth more difficult but for many it has not had an impact on plans to purchase, rent or lease new or used vehicles.

The sample

The mean average number of vehicles operated by our sample is 163, while the median average fleet size is 31-50 vehicles. The mean average turnover is £116.6m, while median turnover is £2m to £10m. Some 47.3% of those responding are third-party logistics operators, while 28% are own-account operators; 3.6% identified themselves as waste and municipal and 3.2% as public sector. There were 17.9% who identified themselves as "other", but these were identified as a mixture of parcels, couriers and combinations of the above. In terms of position in the company, 27.6% were MD, CEO or other board level; 13.6% were owners and 25.8% identified as senior management with the remainder a mixture of middle or junior management.

"Almost two-thirds (62%) of respondents said that they expected business performance in 2018 to be either slightly or significantly better."

Growth prospects for 2018 and 2019

Growth in the road transport sector in the UK is a difficult thing to measure: for hire and reward (third-party logistics) operators this growth can be measured as an annualised increase in turnover, but for many operators in this sector the primary measure is profit – reflecting the efficiency of the delivery of logistics services across the duration of a fixed contract for a customer.

For own-account operators growth is subjective. Turnover growth is not a measure of success in logistics as the road transport operation is a fundamental cost in part of the delivery of goods or services. In asking own-account operators to assess growth this can refer to retail sales, construction output; increased levels of fuel supply to domestic and business customers and the efficiency of the logistics in delivering these products and services. However it is fair to say that growth in construction output, for example, will have a direct impact on the use and purchase of commercial vehicles.

Setting this against the background of political and economic uncertainty following the result of the referendum on UK membership of the European Union, it is important to gauge business confidence in this vitally important sector (**see Chart 1**).

Considering that the number of businesses in the road transport sector continues to decline year-on-year – and new vehicle purchase activity fell sharply in the fourth quarter of 2017 – it is surprising that almost two-thirds (62%) of respondents said they expected business performance in 2018 to be either slightly or significantly better when compared to 2017. Furthermore, almost a quarter (23.4%) said they expected growth to be 'the same'. It is worth giving 'the same' some context, because as outlined earlier we have seen historically high investment in commercial vehicle purchases and increasing average fleet sizes. This points towards a strong economy and robust trading conditions. During the recession in 2009 and 2010 vehicle purchases fell sharply and fleet sizes shrank, as operators looked to trade leanly and run with fewer assets on their bottom line.

"When it comes to those anticipating growth in 2018, there was an even split between 48% saying between 1.1% and 5% growth, and a further 48% saying more than 5.1%."

Only 14% of those surveyed said they believed business performance would be slightly or significantly worse year-on-year – a surprising result given the challenges in the market (**see Chart 2**).

Looking ahead to 2019, expectations around year-on-year growth cool slightly – but 56% of respondents still expect business performance to be slightly or significantly better in 2019 compared to 2018. Only 11% are anticipating slightly or significantly worse growth prospects, with a quarter (24.5%) expecting conditions to stay the same.

Further analysis of predictions for growth shows more optimism for growth prospects from the own-account sector when compared to third-party logistics operators: 73% of own-account operators are anticipating growth in 2018, compared with 59% of third-party logistics businesses, and 67% of own-account businesses are expecting growth in 2019, compared with 51% of third-party logistics operators.

When it comes to those anticipating growth in 2018, there was an even split between 48% saying between 1.1% and 5% growth, and a further 48% saying more than 5.1%. Again, given the current economic background of low growth forecasts from the Treasury, this is surprising – but given the near historic levels of investment in new vehicle technology by operators since the introduction of Euro 6 in 2014 perhaps it is not surprising that operators are predicting strong growth. Investment in commercial vehicles as assets are only made with the anticipation of strong returns, and operators are clearly expecting these in 2018 and beyond.

Among the smaller proportion of operators anticipating a downturn (just 11% of those surveyed), the most common response was a decline of 1.1% to 5%.

Looking to 2019, some 49.6% of businesses are anticipating growth of up to 5%, while 43.3% are anticipating growth of 5.1% or more. This is slightly tempered when compared to growth expectations in 2019, but still a somewhat astonishing level of expected growth in what is expected by many to be a tough year for the UK economy. The remainder were

Chart 1: **How do you expect your business to perform in 2018, compared to 2017, in terms of growth?**

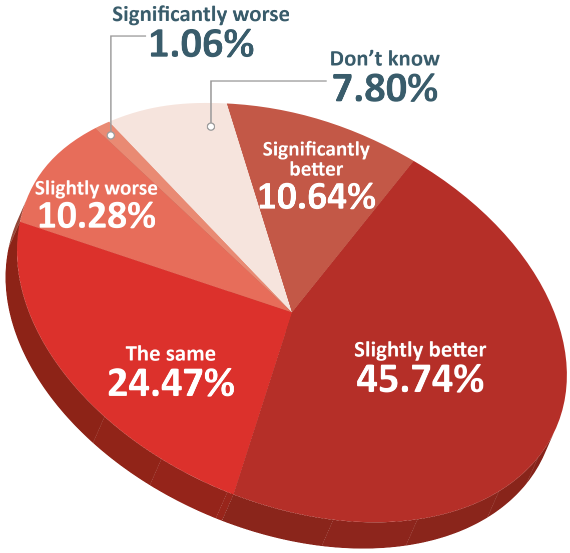


Chart 2: **How do you predict your business will perform in 2019 compared to 2018 in terms of growth?**

ASSET ALLIANCE GROUP

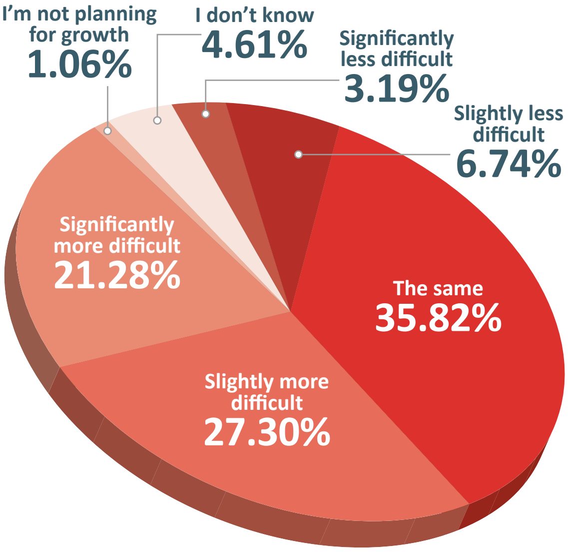


Chart 3: **Do you think the UK's decision to leave the European Union has made it more or less difficult to plan for growth in your business?**

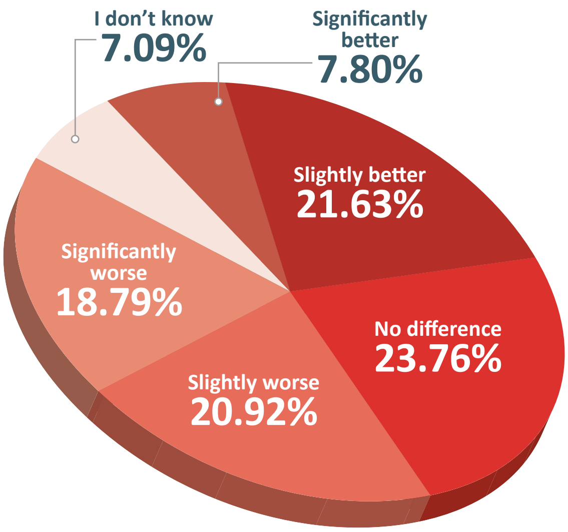


Chart 4: **Do you think the economic prospects for the road transport industry in the UK will be better or worse after the UK leaves the European Union in 2019?**

unsure. Of those anticipating a downturn, 62.5% expect a fall of 0.1% to 5%.

It is reassuring that the sector is expecting strong levels of growth for the remainder of 2018 and into 2019 as it shows a confidence in the domestic economy and its resilience in the face of Brexit. However it must be seen with the caveat that we still do not know what will happen to the economy in the UK once it leaves the European Union, and what it means for the import and export of goods through the supply chain.

A clearer picture would obviously have an impact, either positive or negative, on the results of this survey.

Brexit, growth and buying commercial vehicles

Given uncertainty over our trading relationship with our largest trading partner, the European Union, the survey looked at its impact on growth forecasts and business confidence in the purchase, rental or leasing of new or used commercial vehicles (**see Chart 3**).

Some 48.6% of respondents said that the United Kingdom's decision to leave the European Union had

"In terms of overall economic prospects for the UK road transport industry, a combined total of 53.13% believe leaving the European Union will make no difference, or make things slightly or significantly better."

made it either slightly or significantly more difficult to plan for growth within their business. Only 10% said it had made planning for growth slightly or significantly less difficult, while 35.8% said it had remained the same.

In terms of overall economic prospects (see **Chart 4**) for the UK road transport industry, a combined total of 53.13% believe leaving the European Union will make no difference, or make things slightly or significantly better.

That is in comparison with 39.71% who believe prospects will be slightly worse or significantly worse. Just 7.09% of respondents said they didn't know.

When it comes to purchasing, renting or leasing new or used vehicles, more than three-quarters of respondents (76.2%) said the Brexit vote has had no impact on this activity (see **Chart 5** on page 19). However, almost 15% said that uncertainty over the future of the economy and the UK's relationship with

"A quarter of those surveyed (25.9%) said that they were planning to buy alternatively fuelled vehicles in the next three year."

its major trading partner since the vote in June 2016 has had an impact on their vehicle procurement, saying it had stopped them from purchasing, renting or leasing new or used vehicles.

While it is reassuring the majority (76.24%) said the impact of Brexit has not affected their vehicle purchasing plans, there will be negative impact from the 14.89% who have pointed towards economic uncertainty as a reason not to free up capital and invest for growth.

When it comes to purchasing, renting or leasing new or used vehicles over three-quarters of respondents (76.2%) said that the Brexit vote had had no impact on this activity, but 15% said that uncertainty (**see Chart 5**) over the future of the economy, and the UK's relationship with its major trading partner, had had an impact on vehicle procurement. Just 8.8% said that they did not know.

It may initially look reassuring that the majority are not phased by the impact of Brexit on their vehicle purchasing plans, however, there is nothing to compare these findings to. This survey was conducted after the referendum, so we do not know how many were pointing to economic concerns as a reason not to buy vehicles. If 15% are pointing towards political concerns as a reason not to free up capital and invest for growth, that is already a negative impact on the economy.

Withdrawal for the European Union

Looking ahead to withdrawal from the European Union (**see Chart 6**) – which is set for March 2019 – 56.4% said that this would have no impact on the purchase, rental or leasing of new or used vehicles. One fifth, 20.6%, said that it would have an impact and 23.1% said that they did not know at this point. If the concerns of the one in five operators materialised then it will clearly have a detrimental impact on new and used vehicle sales, constricting the market.

Of those surveyed, 35% were contract hire customers. Of this 35%, two-thirds (63.5%) said that they would consider short or long-term rental over a three- to five-year contract hire agreement if economic conditions became a challenge. This finding shows that operators are open to creative

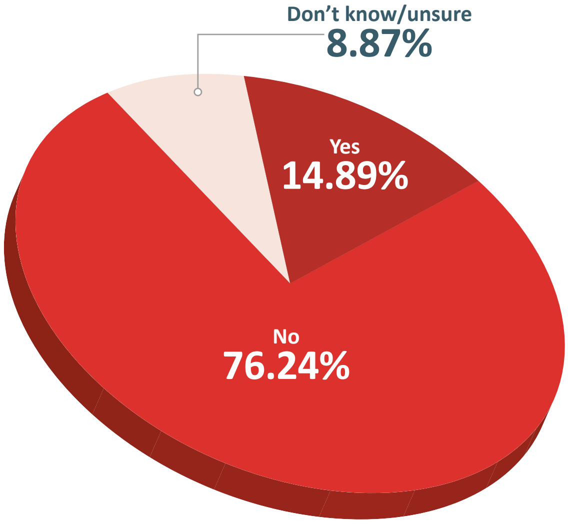


Chart 5: **Since the Brexit vote in June 2016 has economic uncertainty stopped you from purchasing, renting or leasing new or used vehicles for your fleet?**

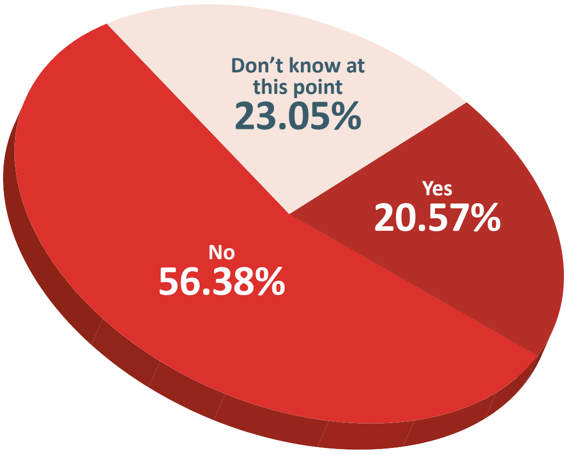


Chart 6: **Do you expect the finalisation of Brexit in March 2019 to have an impact on your future plans to purchase rent or lease new or used vehicles?**

ASSET ALLIANCE GROUP

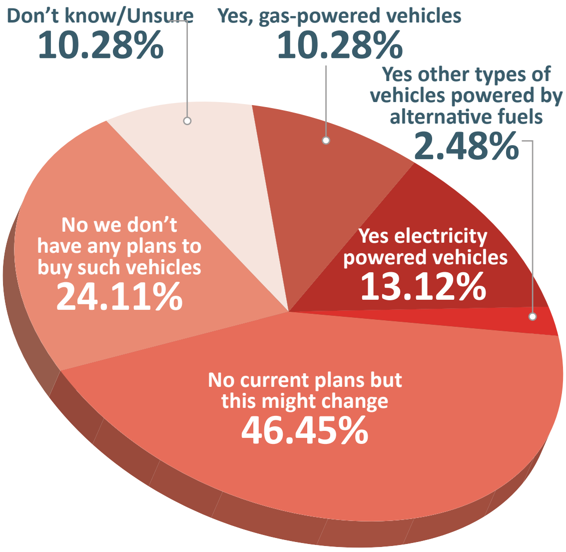


Chart 7: **Many manufacturers are promoting vehicles powered by alternative fuels, such as gas and electricity. Do you have any plans to buy such vehicles over the next three years?**

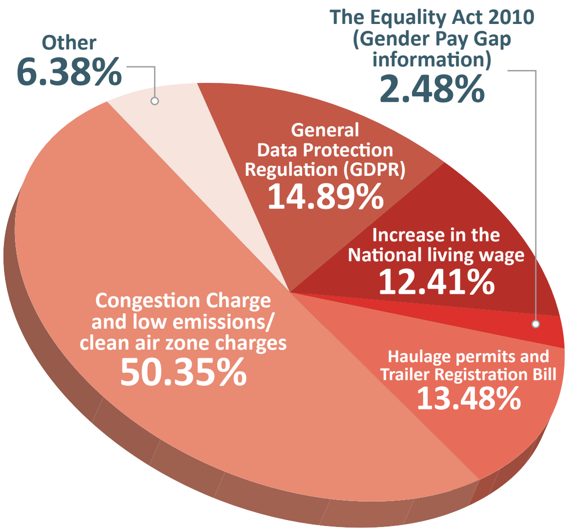


Chart 8: **Which law will have the most onerous effect on the road transport industry in 2019?**

ideas when it comes to funding and financing their fleets, and this should be at the forefront of suppliers and service providers minds when looking at the needs of customers.

Alternative fuels

A quarter of those surveyed (25.9%) said that they were planning to buy alternatively fuelled vehicles in the next three years – split between 10.3% for gas, 13.1% for electric and 2.5% for other types of fuel options, including hybrids (**see Chart 7**).

For what is an 'early-adopter' technology – with concerns in the market over the impact of alternative fuels on the residual value of commercial vehicles – it is a reassuringly high number of operators looking at environmentally-friendly and sustainable fuels.

Looking at the potential in the market for alternatively fuelled vehicles, some 46.5% of respondents said that they had no current plans but "this might change", with a further 10.3% saying that they did not know or were unsure: 24.1% ruled out such purchases outright.

Alternative fuels are not proven in the operation of every fleet. Gas, for example, has had some success in trunking fleets for long-haul distribution, and in the waste and municipal sector for refuse collection in particular. Electric has been a strong prospect in lower weight ranges, and in the van market especially. For some diesel is the most convenient, cost-effective and environmentally friendly way of doing the work.

Forthcoming legislation

Of primary concern to operators are the forthcoming changes to the law that primarily effects the operation of commercial vehicles (**see Chart 8**). While forthcoming legislation such as General Data Protection Regulation (GDPR) – which places the onus on businesses to protect personal data – to increases to the National Living Wage (which rose from £7.50 an hour to £7.83 an hour in April 2017) and the introduction of gender pay gap information via the Equalities Act will have an impact on the day-to-day running of haulage and logistics businesses, it is the fragmented and widespread introduction of

"The government has mandated five cities – Nottingham, Derby, Leeds, Birmingham and Southampton – to implement a charging clean air zone."

"The Freight Transport Association has estimated the shortage of skilled labour at 50,000 and the Road Haulage Association estimates the deficit to be 45,000."

clean air zones and low emission zones that concerns operators the most.

Half of all respondents (50.4%) said that the introduction of such legislation will have the most onerous effect on the road transport industry. The government has mandated five cities – Nottingham, Derby, Leeds, Birmingham and Southampton – to implement a charging clean air zone. Draft legislation to facilitate this was published for consultation in late 2017 and the government has said it will now be legislating for this to come into force "as soon as possible", with charging schemes expected to come in by the end of 2019. This will see punitive measures introduced for HGVs that do not conform to the latest emission standards (anything but Euro 6). However, given that all zones are being introduced at a local level all five cities are at various stages of consultation over such legislation being introduced.

Cleaner cities

Compounding this is the introduction of low emission zones – one has existed in Greater London since 2008 and now issues fines for any HGV at Euro 3 or under. An ultra low emission zone, which will fine any HGV operating below Euro 6 in central London (the same zone as the congestion charge) will be in place from 8 April 2019. Low emission zones have also been proposed in Glasgow and Cardiff in an attempt to improve air quality.

The concern is that this swathe of clean air legislation is hugely localised, and could lead to different standards for different 'zones' in the UK. Furthermore, it could have a detrimental effect on the residual values of vehicles at a very local level. A Euro 5 vehicle may lose its value very quickly to a certain section of buyers, while retaining appeal for others. It will also put pressure on the availability

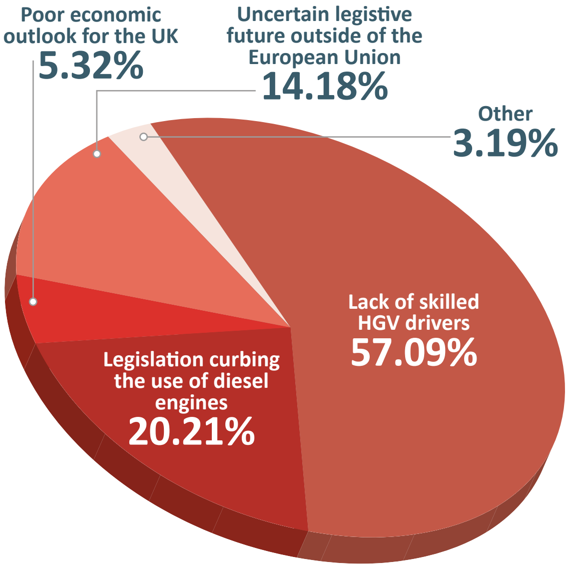


Chart 9: **What is your biggest concern for the future of road haulage and logistics?**

of Euro 6 – and could have a positive effect on new vehicle sales in particular.

The lack of skilled HGV drivers is the major source of apprehension for operators, with 57% of all respondents saying it was their biggest concern for the future (**see Chart 9**). The Freight Transport Association has estimated the shortage of skilled labour at 50,000 and the Road Haulage Association estimates the deficit to be 45,000.

There are also concerns over the use of labour from the European Union – with the Freight Transport Association estimating that 43,000 drivers are EU nationals working in the UK. If the continued status of such individuals working in the UK changes as a result of Brexit it could exacerbate a skilled labour shortage.

Outside of the driver market, 20.2% of respondents were primarily concerned with the introduction of legislation curbing the use of certain diesel-powered engines with 14.1% concerned over the uncertain legislative future outside of the European Union.

Conclusion

The road transport industry is at cross-roads: there is an unprecedented degree of legislative uncertainty – at an international level when it comes to Brexit, and at a local level when it comes to environmental legislation. It would be easy for these challenges to become the catalyst for a downturn in the sector.

Furthermore, there are warning signs of a changing industry. There are fewer small and medium-sized businesses surviving in the UK, while vehicle ownership at the top end of the industry has intensified. The very largest businesses are consolidating and their operations are becoming larger. This means a less diverse and fragmented industry and fewer, but more important, players with intense buying power.

Finally, there is evidence of concern that investment in new vehicles is cooling after a sustained and intensive period of buying Euro 6 during the middle period of this decade. The industry will be following new registration figures very closely during 2018 and beyond as a primary barometer of confidence.

But outside of all of these concerns the road transport industry remains remarkably upbeat about its prospects for growth. This confidence in the economy of the road transport industry is almost paradoxical, coming against the weight of evidence that the industry faces some challenges.

Yet it also points towards an industry that survives with healthy and successful businesses driving a sustained period of growth in UK road transport. Any supplier or service provider to the sector should be heartened that operators remain confident in their ability to grow, both this year and into the next.

ASSET ALLIANCE GROUP

Industry Monitor 2018 edition

www.assetalliancegroup.co.uk

0333 1300 380 @Asset_Alliance /asset-alliance-limited