

MARKET CONDITIONS

The first half of 2024 has been characterised by slower than expected growth in the Americas and Europe, that has had some impact in the also-underperforming APAC region. External factors such as high inflation, uncertain economic developments, geopolitical conflicts, and labour shortages have impacted the projected recovery in the year. Though inflation has fallen, recovery has not been immediate and palpable, while the ongoing geopolitical issues in the Red Sea and Europe have softened demand.

Contract logistics is resilient to political and economic shocks, as can be seen in DHL Supply Chain's annual results in 2023 which reflected the global trend. Overall revenues were up 3.2% y-o-y with the Americas seeing 2.5% growth, APAC 5.1% and EMEA, 3.2%.

A key trend among integrators has been the continuing growth of e-commerce. Chinese parcel carriers are seeing annual volume growth of 15%+, helping drive the APAC contract logistics market, and integrators such as DHL Supply Chain attribute a lot of their own growth to taking on e-commerce vendors as clients. E-commerce is showing strong growth in nearly every market from smaller countries like Canada to global engines like China and the US.

Ti endeavours to provide the most robust data on market growth and development. For its contract logistics market forecasts therefore, Ti provides real terms growth forecasts which show underlying market growth and changes in the market's performance, independent of inflationary pressures. Results and market forecasts do not attempt to measure or take into account changes in prices and exchange rates that will take place over the forecast horizon. Forecast growth rates are driven by estimated changes to activity only and are thus 'real terms' forecasts. As such, the data provided in this paper should be viewed as a demand forecast rather than a pricing forecast.

GLOBAL CONTRACT LOGISTICS MARKET SIZE 2024-28

Compared to the full year 2023 forecast, Ti now expects a slower contract logistics growth rate for the full year 2024 to around 3.6%, to €294,264.8m. Where growth in services are driving GDP growth, retail is sluggish and this has an impact on contract logistics.

Emerging economies in Asia have driven growth with Ti forecasting 7.1% y-o-y growth to €115,387.7m in 2024 and 7.2% 2025 to €123,692m. North America is set to grow more slowly at 1.7% to €74,712m in 2024 and 3.2% in 2025 to €77,100.2m. Europe is holding back global growth with forecasts of 0.7% y-o-y to €85,727m in 2024 and 1.8% in 2025 to €87,228.1m.

The IMF have stated that global GDP growth is stable yet set to be 'underwhelming' in 2025. East Asia is driving global GDP growth in 2024, though Europe is set to grow more slowly than originally forecast. North America, with the US the majority of volumes, is set to grow a little more quickly than originally forecast in early 2024. The IMF refers to its forecast of 3.1% GDP growth as 'mediocre' compared to the pre-pandemic average.

Major 3PLs have shown resilience in the face of geopolitical conflagrations, with the crises in Ukraine and the Red Sea having less of an effect than they might. Some have taken advantage of the growth in discount online retailers like Shein and Temu, that have moved significant volumes from China to Europe and the US. This adds to the value of e-commerce as it has continued to grow in importance to integrators and 3PLs alike.

GLOBAL CONTRACT LOGISTICS MARKET SIZE AND GROWTH BY REGION, 2024-28

All seven regions saw positive growth in 2023, and this is set to continue in the forecast period. Asia Pacific has long been the major growth driver and this is set to continue. From having 38% of the global contract logistics market in 2023, it is set to grow to 42% by 2025 with a volume of €123,692.9m.

Looking forward to 2028, Ti projects a CAGR of 4.2% to €348,881.4m. APAC is set to grow by a CAGR of 6.9% to €150,485.2m, with North America growing by 2.8% to €84,269.5m. Europe will continue to grow at a relatively slow 1.7% to €92,536m.

With relative growth rates, Asia Pacific will retain the lead as the largest contract logistics market well into the decade with no sign of Europe or North America competing in terms of market size.

NORTH AMERICA CONTRACT LOGISTICS MARKET SIZE, 2023 - 2027

With inflation falling yet interest rates still high, the recent macroeconomic problems affecting North America are beginning to recede. According to Economic Development Canada (EDC), the region isn't out of the woods yet though there are positive signs of recovery. The Canadian government says that the feared recession has not materialised, though there are risks ahead with polarised politics that could yet cause the three economies to stumble. Contract logistics however is notoriously resilient to economic shocks and will be less exposed to political activity than perhaps freight forwarding might be in the coming years.

Housing supply is a core problem in the eyes of the EDC, impacting Mexico, Canada and the US alike. The high cost of living has limited the consumption of goods and services. At the same time though, international affairs could impede recovery. The intensifying conflicts in the Middle East and Europe have both added to inflation, but then concerted effects of international central banks' policies have alleviated this.

Integrators like DHL Supply Chain (DHL SC) and UPS Supply Chain Solutions (UPS SCS) have reported growth rates in line with the North American market. UPS SCS reported revenue growth of 2.9% in Q2, 2024, while DHL SC saw 1.5% revenue growth in the same period. In Q3, 2024 DHL SC saw 2.9% growth in revenues to €1.9bn, though this may be something to do with success in the face of economic headwinds.

In 2023, Ti estimates that the North America contract logistics market grew by 1.6% to €73,437.2m. This will grow by 1.7% in 2024 and by 3.2% in 2025 to €77,100.2m. Retail growth is an important factor in this, and the boom in e-commerce across the economies is set to contribute to overall growth in the contract logistics market.

NORTH AMERICA CONTRACT LOGISTICS MARKETS BY COUNTRY, 2023-2027

The US is by far the largest market in North America, accounting for 86% of the market in 2023. In 2024, United States August to October retail sales growth of 2.4% have helped North America toward Ti's forecast contract logistics market growth 1.7% in 2024. The US Census Bureau also states that e-commerce retailers have seen average growth rates of 7.0% in the quarter. Ti forecasts that the US is set to see its contract logistics market grow by 1.9% to €64,682.4m in 2024, and CAGR of 3.3% in 2025 and 2.9% by 2028.

Canada accounted for 8.2% of the contract logistics market in 2023. Statistique Canada reported September 2024 core retail sales excluding motor fuel and auto parts were up 1.4% y-o-y, holding the North American market back some but reflecting the trend for steady growth. This is above the 0.6% growth Ti forecasts for Canada's contract logistics market in 2024 but we expect the contract logistics market will grow by 3.0% to €6,297.8m in 2025 and by a further CAGR of 2.1% in 2028 to €6,743.5m.

Despite the trend for US and Chinese online retailers nearshoring into Mexico, the country did not have strong growth in contract logistics as for instance, Turkey has in Europe. Mexico accounts for 5.04% of volumes, set to fall to 4.85% on current projections by 2028. As with the rest of North America, the Mexican contract logistics market is set to grow slowly in the coming years - in 2024, by 0.8% to €3,736.0m, 2025 by 1.7% to €3,799.5m and by 2028 by 2.0% to €4,092.2m.

EUROPE CONTRACT LOGISTICS MARKET SIZE, 2024-2028

The European Commission's Autumn 2024 Economic Forecast stated, "Price pressures on non-energy growth are set to moderate further with inflation of food and non-energy goods stabilising around historical averages by the end of the forecast horizon".

One issue that the EC has seen is that in Q2, 2024, European households' savings rates were 3 pps higher than the pre-pandemic long terms average at 14.8%. The Commission has put this down to uncertainty among households, who seem to have sought to save instead of spend due to attractive retail bank savings rates and the cost of living.

In the European Union and surrounding countries, high food and fuel costs have impacted discretionary spending and retail sales. This has had an impact on the muted recovery seen on the contract logistics market in the region.

Looking at integrators' contract logistics revenues, DHL SC reported a 2.3% increase in revenues in the EMEA to €1.9bn, increasing marginally to 3.2% in the third quarter, gaining market share in the process.

Ti forecasts that contract logistics the European market will grow by 1.8% in 2025 to €87,228.1m and by 2028, CAGR of 1.7% to €92,536.1m.

EUROPEAN CONTRACT LOGISTICS MARKET BY COUNTRY, 2024-28

Most European countries sit at or about the regional trend for growth. The UK, one of the largest contract logistics markets with 21.6% market share, saw -0.5% growth in 2023 and in 2024 is set to grow by 0.8%, reaching 1.9% and 1.7% in 2025 and 2028 respectively.

There are some anomalies worthy of note even so. Denmark is set to significantly buck the trend in Europe. While still only accounting for 6.2% of the European contract logistics market Ti forecasts it is set to see 6.0% y-o-y contract logistics volume growth in 2024 to €532.6m. The country has been described by the *New York Times* as a 'one factory town' regarding the pharmaceuticals giant Novo Nordisk whose diabetes and weight loss drug Ozempic has seen a 5,000% growth in prescriptions in the US alone in recent years. But for this 'factory', it is estimated that instead of GDP growth of 1.1% in 2023, the Danish economy would have shrunk by 0.1%. Novo Nordisk signed an agreement with Danish global shipping giant Maersk to handle its contract logistics in 2020, and much of Denmark's success in bucking the otherwise moribund European trend has been down to the global success of the weight loss medication.

Turkey is another country worthy of note, albeit like the UK, outside of the European Union. In 2021 it ranked #1 in terms of GDP growth in the G20 group of leading industrial nations. It is used for nearshoring into the European Union and has heavy industry that trades extensively into the neighbouring economic bloc. In 2023 Turkey's contract logistics market was still growing rapidly, by 16.3% y-o-y, but this is set to settle some to 7.0% in 2024, 4.1% in 2025 and 5.8% in 2028. However, even with such rapid growth it will account for just over 3.0% of the European contract logistics market in 2028.

ASIA PACIFIC CONTRACT LOGISTICS MARKET SIZE, 2024-2028

The Asia Pacific (APAC) region is the main engine for global contract logistics growth. In 2023 it grew by 7.5% to €107,726.6m, and is a full 26.6% larger than second placed Europe in the global market. Where the economies of Europe are mature and slow-growing, two of the three largest economies of the APAC region - India and China - are classed as emerging and have a long way to grow before matching the maturity of Europe and North America. In our forecast, we expect third placed India to replace the mature economy of Japan in second place by 2028.

According to the IMF, GDP in the region grew by 5.0% y-o-y to 2023 and as of its October 2024 forecast, it is set to grow a further 4.5% this year. Global disinflation is set to help the Asia Pacific to a soft landing in the IMF's opinion, though there are some risks that could cause growth to fall even more sharply in the midterm such as the ongoing problems with China's recent property debt bubble.

The IMF forecasts that APAC will contribute roughly 60% of global GDP growth in 2024 but will continue to slow to a still not inconsiderable 4.4% in 2025. Geopolitical tensions, both across the Pacific with the US and directly affecting trade routes on the Red Sea, could negatively impact growth for the region.

In 2025 by contrast, Ti forecasts the contract logistics market to grow by 7.2%, slowing to a CAGR of 6.9% by 2028. This will be helped with the fast-growing India economy even as the giant in the region, China starts to slow down and mature.

ASIA PACIFIC CONTRACT LOGISTICS MARKET BY COUNTRY, 2024-2028

On 2023 data, China, Japan and India accounted for 72.7% of the Asia Pacific contract logistics market. China alone accounted for 43.3% of it. It seems that the Chinese government has come to accept that GDP growth will settle to below 5% in 2024, with the state-owned *China Daily* reporting in November that there is no need for a 'worship of speed' where it comes to economic growth. The country is beset by structural economic problems such as the recent property bubble bursting and large-scale government debt. That said, growth rates of 5% is far stronger than European and North American economies will achieve in the coming years. Within contract logistics, major fulfilment providers like CJ Logistics are reporting 30% y-o-y volume growth and new direct-to-customer players like Temu and Shein are reporting high double digit volume growth in their exports to consumer economies, so where there are losers in the China economy there are certainly winners too. In 2023, China saw contract logistics market growth of 12.1% y-o-y but Ti forecasts that it will begin to slow to 9.6% in 2024, 9.0% in 2025 and by 2028, to 8.2%.

India is the third largest contract logistics market in Asia Pacific and is said to have the fastest-growing major economy in the world, with RBI suggesting GDP will grow by 6.6% in 2024-2025. Currently it is just over a quarter (26.6%) the size of the China contract logistics market size and 63.2% of that of second placed Japan. With Japan's sluggish growth - 0.2%, 1.1% and 0.6% in 2024, 2025 and 2028 - India

is set to become the second largest contract logistics market in the APAC region by 2028. Ti forecasts that with 14.0%, 13.0% and 13.2% volume growth in 2024, 2025 and 2028, India will achieve a contract logistics market volume size of €22,838.5m by 2028, compared to Japan's 20,045.1m the same year. Much of India's exports are in the service sector - notably in IT - **and the country has better trading relations with the West than China**. That said, the country has structural problems with its economy such as stagnant wages, climate disruptions to its agriculture sector and slowing global demand for its exports. The service sector as opposed to goods may well support the country's GDP growth, fostering domestic demand for retail goods, and this may well contribute to its powerful growth in the contract logistics market.

Japan is experiencing similar issues to that of Europe as the only mature economy in the top three contract logistics markets in the APAC region. It has relatively low poverty levels to that of China and India and therefore less room for its economy to grow, but faces ongoing softness in GDP growth among its relatively comfortably off **but aging** population. This leaves the contract logistics market growing more closely to those of Europe than to those of its regional neighbours.