# THE IMPACT OF COVID-19

# A ROADMAP FOR RECOVERY IN THE UK HAULAGE SECTOR

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# EXECUTIVE SUMMARY

This report has been written to provide UK Haulage Operators and their blue-collar temporary staff providers with a clearer understanding of how COVID-19 has affected and will continue to affect this sector for many years to come. But it's not just about COVID-19, it also brings together all the other challenges we may face and opportunities that await us in the coming decade. It is essentially a "Road Map" for you to use as a guide and as a checklist when formulating your response to the changing circumstances and when developing your company strategy and business plans.

The report starts by looking at how the COVID-19 Lockdown has so far affected the UK Haulage Sector. The key findings are that the Haulage Sector has been strongly polarised with grocery and supermarket suppliers being extremely busy while up-to half of the nation's remaining truck fleet has stood idle during the peak of the crisis. Now, as we are released from Lockdown, agility will be key as different sectors recover at different rates.

We then go on to examine how COVID-19 has affected the UK economy as a whole and we summarise economic predictions for the rest of 2020. We determine that this is the worst economic crisis since World War II and that GDP is, on average, predicted to fall by -6.0% in 2020, but it could be a lot worse.

Next we take a macro-economic, regional and global perspective, which leads us to conclude there will inevitably be a recession. We examine what type of recession it will be and over what timeframe, concluding that it will take the form of a quick decline, swiftly followed by a rapid partial recovery towards the end of 2020 and then a prolonged "U-Shaped" recession, in which GDP will take on average 3 years to recover to pre-COVID-19 levels and possibly as long as 5 years.

Then we look back at the 2008 Great Recession concluding that Transport and Storage employment numbers, and more granularly LGV driver employment numbers, dropped by almost twice as much as general employment and took 1.5 times as long to recover.

We apply these learnings from the 2008 Great Recession to our COVID-19 Recession model, to produce a forecast of how Haulage Sector employment will evolve over the next few years. We conclude that it will take between 5 and 6 years for the Haulage Sector to return to pre-COVID-19 business levels and that we are likely to see a 10% drop in demand for LGV drivers through 2021, gradually improving over the following 3 years.

Having analysed the economic and employment aspects, we proceed to examine other factors and upcoming events that will have an impact on the UK Haulage Sector through to the end of 2021, specifically exploring the impact of Brexit, IR35 reform, VAT deferral, LGV driver testing suspension, LGV MOT delays, temporary staffing and the importance of protecting cash flow in these turbulent times. We determine that these factors will cause a reduction in the supply of LGV drivers, roughly equivalent to the drop in demand, with the result that the LGV driver shortage will remain unresolved and may even be exacerbated.

Finally, we look into the future, beyond 2021, examining the trends that will influence the UK Haulage Sector's prospects in the long term, these being: the need for greater supply chain resilience; the increase in home working and e-commerce; digitisation, automation and robotics; greater government intervention; increased prominence of the Green Agenda; and last, but not least, an appreciation of Key Workers as "Strategic Assets".

We conclude that, although we face a turbulent decade with many challenges, there will also be plenty of opportunities for the taking. We expect there to be a levelling of the playing field over the next couple of years, which will provide the survivors, i.e. those with more robust, value-adding business models with greater agility and better cash management, with exciting openings for growth and profit generation.

We hope you find the report useful and that it will help you navigate a successful path through the coming decade.

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# THE IMPACT OF COVID-19: A ROADMAP FOR RECOVERY IN THE UK HAULAGE SECTOR

## INTRODUCTION

This report has evolved from what was initially an internal exercise to get our own minds around how COVID-19 would affect our clients and our business as a supplier of temporary professional delivery drivers to the Haulage Sector. We soon realised that there was an enormous amount of information available, some of it contradictory or at least offering different opinions. We couldn't "see the wood for the trees", so we set out to try to distil it all down into a set of easily understandable messages and to predict what the post-COVID-19 world might look like, all based on a clear logic.

The first edition of the report consisted of 3 Sections, which were published consecutively over several weeks in late April and early May. These received lots of positive feedback and expert validation, confirming that our assumptions, predictions and conclusions were credible and robust.

Since then, things have moved on considerably, so we have entirely updated and restructured the report. It is now one contiguous document designed to take you logically through a thought process about how COVID-19 has affected and will continue to affect the Haulage Sector for many years to come. But it's not just about COVID-19, it also brings together all the other challenges we may face and opportunities that await us in the coming decade. It is essentially a "Road Map" for you to use as a guide and as a checklist when formulating your response to the changing circumstances and when developing your strategy and business plans.

The report is structured as follows:

- It starts by looking at how the COVID-19 Lockdown has so far affected the UK Haulage Sector.
- We then go on to examine how it has affected the UK economy as a whole and we summarise predictions for the rest of 2020.
- From this we conclude there will be a recession, we examine what type of recession it will be and over what timeframe.
- By amalgamating various expert economists' predictions and forecasts, we develop our own forecast of how the recession will play out over the coming years.
- Then we look back at the 2008 Great Recession to establish how Transport and Storage employment numbers, and more granularly LGV driver employment numbers, were affected as the recession progressed through to full recovery.
- Next, we apply the lessons learned from the 2008 Great Recession to our COVID-19 Recession model, to produce a forecast of how Haulage Sector employment will evolve over the next few years.
- Having analysed the economic and employment aspects, we proceed to examine all the other factors and upcoming events that will have an impact on the UK Haulage Sector through to the end of 2021.
- Finally, we look into the future, beyond 2021, examining the trends that will influence the UK Haulage Sector's prospects in the long term.

We are in an extremely volatile period, with significant developments occurring daily and a prolific amount of new data regularly being disseminated. This means that this report will need continuous maintenance to keep it current. We nevertheless hope that it will provide a useful basis for understanding our current circumstances, how these are likely to evolve and help you decide what to do now to maximise your chances of survival, to eventually come out with increased competitive advantage.

We would much appreciate your feedback, both positive and constructive criticism, so that we can continue adapting the report to new conditions and keep it valuable and relevant to your needs

# THE IMPACT OF COVID-19: A ROADMAP FOR RECOVERY IN THE UK HAULAGE SECTOR

# THE LOCKDOWN EFFECT

**A REVIEW OF LOCKDOWN & THE EFFECT ON THE UK HAULAGE SECTOR:**

The COVID-19 Pandemic has been developing for over half a year and its effect on the UK economy should not really have been a surprise, nevertheless we have been shocked by the extreme nature of the changes it has forced upon us and the massive challenges we now face to return to some degree of normality.

The government has gone to extreme lengths in an attempt to diminish the longer-term human and economic impact of this microbial attack on our population. The effect of Lockdown on UK society as a whole has been undeniably traumatic, not least with regard to the serious curtailment of personal travel and major shortages of many household essentials. Indeed, the closest analogy in living memory to its impact could arguably be with the (albeit shorter-lived) two 'Big Freeze' winters of 1947 and 1963 that caused a significant disruption to the UK. The Lockdown has been traumatic to say the least, the closest living memory being the rationing after the Second World War. The effect on our economy is disastrous, with the entire recreational and high street retail sectors decimated, manufacturing and construction activity stalled for two months for all but critical sectors, leaving healthcare, social care, emergency services, grocery distribution and home delivery as the primary functioning sectors.

On a positive note, the Haulage Sector was recognised as a critical service, promoting logistics workers and delivery drivers to the esteemed status of "Key Worker". It was great to finally receive some recognition of the importance of the service the Haulage Sector provides, which before was grudgingly accepted as a "necessary evil" by the retailers and other haulage customers who forced hauliers down to razor-thin margins, through to the general public who resented lorries clogging up "their roads".

Over the past 3 months the haulage industry has suffered enormous disruption, but this has not been evenly distributed across the sectors they serve. The supermarket companies and grocery suppliers have been operating at maximum capacity, home delivery is in overdrive, while medical and PPE supplies were top priority. Unfortunately, the other half of hauliers, whose customers are caterers, restaurants, events companies, service businesses, manufacturers and construction companies, remained idle for much of the Lockdown period. Their lorries were parked up and their workers furloughed or working from home. This led to an extreme polarisation of the Haulage Sector, with one half standing down workers and drivers, and the other half screaming out for more workers. Agencies played a critical role in transferring some of these redundant workers from idle sectors to busy sectors, but there were only so many extra workers these busy sectors could absorb.

The result was that, according to surveys conducted by the FTA[1] and RHA[2], there were around a quarter of a million delivery vehicles parked up with no work, this being just under half of the UK's truck fleet. Even at the end of May when some haulage operations were starting up again, a further survey concluded that "*a third of fleet operators' trucks were still laid up*". An RHA[3] survey of UK haulage businesses in May found that 69% of hauliers furloughed staff during the Lockdown. The result was that, at the height of the Lockdown, 25% of commercial delivery drivers were laid off on furlough leave, while a further 25% were "inactive" or on "reduced hours".

The fact that the government has gone to unprecedented lengths to prevent these companies going into administration is enormously appreciated. The problem is that many hauliers, large and small, have been operating on tiny margins, have extended their debts to the limits and have poor cash reserves. Aside from the coronavirus Job Retention Scheme (furloughing), the government's approach has been to make loans available to distressed companies, which presented a problem to haulage companies who have little capacity to take on extra debt. The process has taken weeks, and even then, the banks have been extremely reluctant to provide more credit because they consider these low profitability, highly indebted hauliers to be "toxic" customers. Meanwhile these hauliers still have vehicle lease payments, fuel, vehicle maintenance, property rates and utility bills to pay, mortgages to service, all eating away at what little cash they have remaining.

The RHA[3] survey established that, by the end of May:

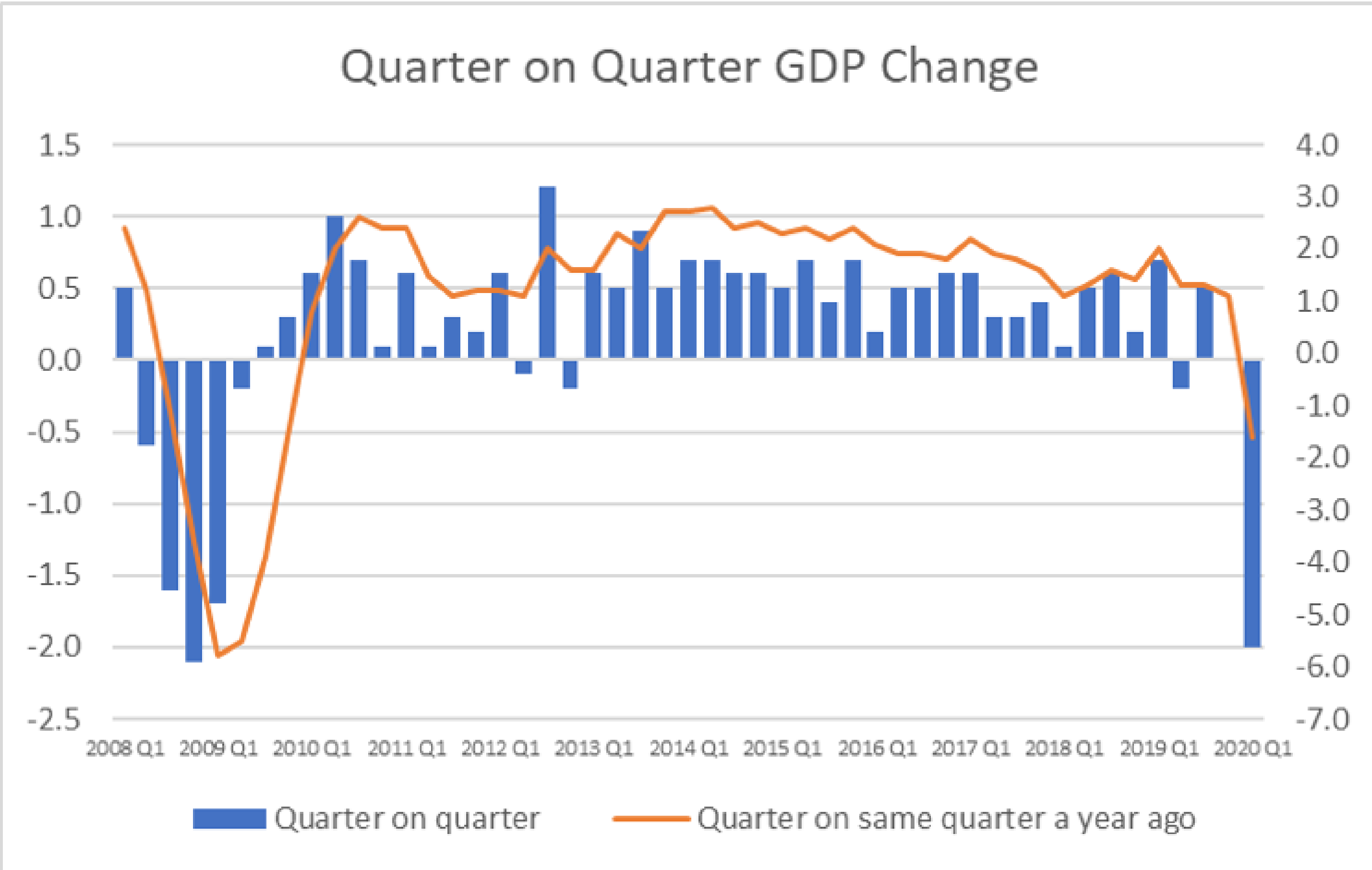
- Only 6% of hauliers had secured a Coronavirus Business Interruption Loan Scheme (CBILS)[5] loan with 9% still waiting to hear if their application had been successful.
- Meanwhile, hauliers had more success with Bounce Back Loans (BBLS)[7] where 18% had secured this form of financial support and a further 13% were awaiting a decision.
- Very importantly the survey results found that 16% of hauliers predicted that they could face insolvency and cease trading in June. Anecdotally, we at Driver Require have seen some evidence of this with six haulage companies that operate within our coverage area going into administration in May and June, however we are yet to see a significant rise in insolvencies.

A further impact on those hauliers who are busy servicing the remaining active sectors, is the reduction in backhaul. When a lorry delivers a load, it is inefficient to return empty with no income being derived from the return journey. As the haulage industry has come under increasing pressure to reduce margins and increase efficiency, backhaul, the practice of planning a return load to pay for the return journey, is fundamental. The problem we now face is that much of the backhaul traffic was from sectors that have closed down, so hauliers are often having to run empty on their return journeys, causing them to run at a loss. This problem should steadily diminish as the Lockdown eases, but it will nevertheless have taken its toll on hauliers' profits.

Finally, the DVSA suspended LGV and PSV MOT tests from April to June and issued hauliers with a 3-month certificate of temporary exemption (CTE) for their vehicles that had been due an MOT in this period. While this measure was well-intended as a means to prevent the spread of COVID-19, it has thrown hauliers' maintenance schedules into disarray and is expected to create a large backlog of MOT tests as we come out of Lockdown.

## PREDICTIONS OF THE SHORT-TERM ECONOMIC IMPACT OF COVID-19:

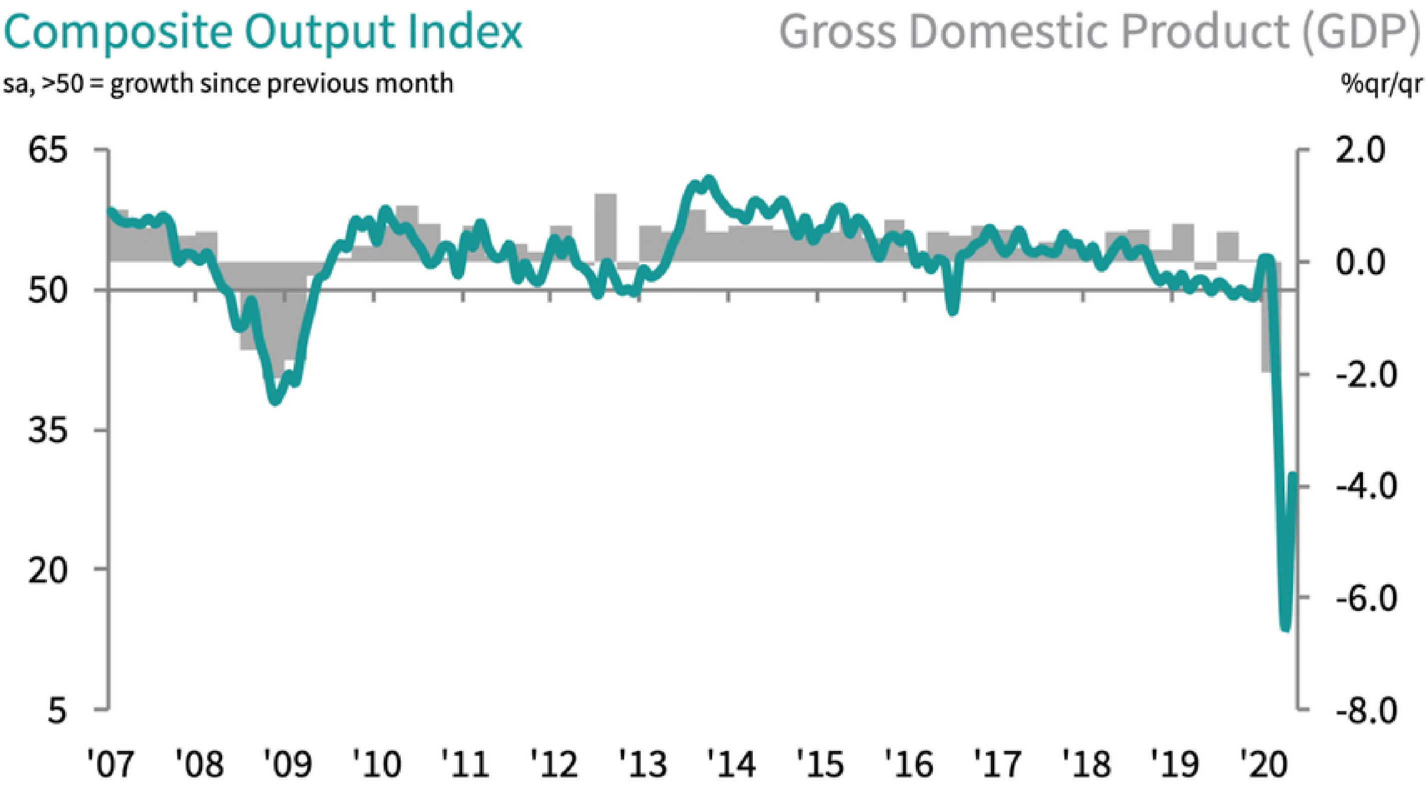
Now that we have looked at how we have been affected so far, we can attempt to predict the path ahead. To do this we need to forecast how the overall UK economy is likely to fare over the coming months then years, which requires an understanding of how we measure the health of our economy. The primary measure used is Gross Domestic Product ("GDP") (See Appendix 1: GDP Definition, Calculation & Reporting), which measures the value of economic activity within a country. In the graph below we show how GDP has evolved since the beginning of the Great Recession in 2008 and 2009.




**Source: ONS**

The next step is to understand what measures we can use to predict GDP performance. The short-term predictor of GDP direction has in recent times been the Composite Purchase Managers' Index ("PMI") (See Appendix 2: PMI Composite Score – Definition & Calculation). The correlation has been accurate over the past 20 years or so, and many pundits are therefore watching the various PMI indices to predict what may happen to the economic output (GDP) at a local, regional and global level. A PMI score of 50 represents "business as usual"; over 50 indicates improving market conditions (growing consumption and production) and below 50 indicates a contracting market. In the UK, the PMI score dropped massively from 53 in February to 37.1 in March, then further to 12.9 in April; finally, it started to recover in May as it rose to 30.0.

A drop of this magnitude is something that has never been seen before since the PMI index was launched in July 1996. The previous lowest UK PMI score was, unsurprisingly, in 2008 as the Credit Crunch took hold and had a very consistent correlation with the fall in GDP. At that time the PMI fell to its lowest point of 38.1 in November 2008. That means that we are already well below the 2008 score and have not yet recovered to a level better than the worst point in 2008; it may be some time before we return to 50 or above. To add further weight to this point, the Eurozone PMI dropped from 52 in February to 30 in March, which corresponded to a Q1 GDP fall of -3.6%. It then dropped further in April to 13.6, an all-time low.



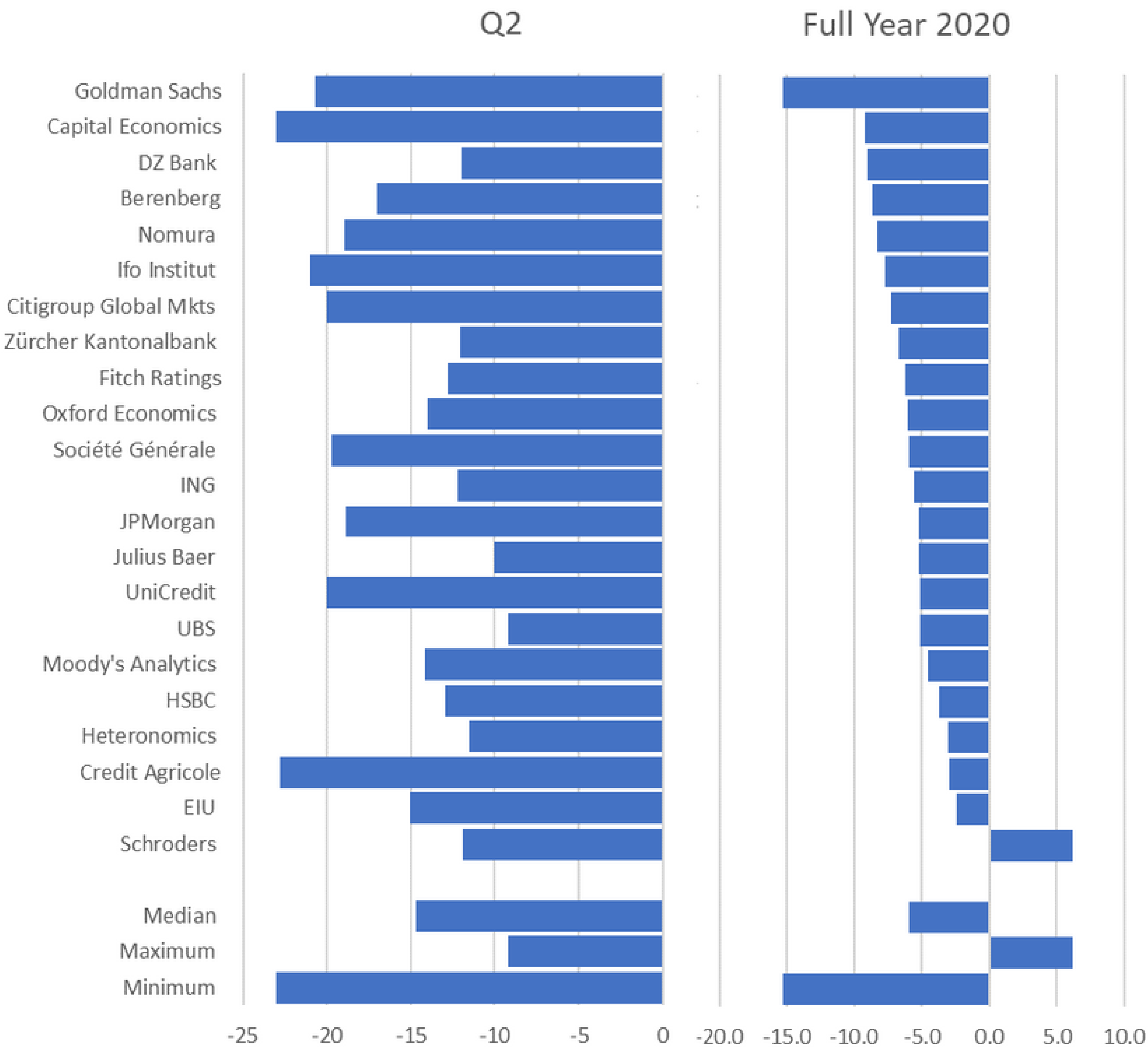

Sources: IHS Markit, ONS.

As we can see from the graph above, a UK Composite PMI score of 38.1 correlated with a drop in GDP of -1.6% in Q3 2008 followed by a further drop of -2.2% in Q4 2008. Over the 5 quarters spanning Q2 2008 to Q2 2009, GDP dropped in total by -6.3%. No wonder economists are forecasting large drops in GDP for Q2 2020 and the rest of the year.

To summarise, the biggest issue we are facing is that we don't have a model for how to tackle this crisis, nor do we know how it will unfold; economists are trained and accustomed to forecasting GDP growth to within a 0.2% accuracy, yet we are receiving forecasts from acknowledged experts that vary by tens of percentage points. We are into unchartered territory, where epidemiologists may be better positioned to predict the economic outcomes than economists.

Consequently, economic forecasts for Q2 2020 vary significantly, however the common conclusion is that "this is grave". The best academic and financial analytical minds in the world are focused on how the COVID-19 Pandemic will affect their local economy, their regional economy and ultimately the global economy. They are all coming up with widely differing estimates. The latest FocusEconomics[10] Weekly Update, released in early June, collated multiple forecasts for the UK, and these are shown in the table below:

## UK 2020 GDP FORECASTS:




**Source: FocusEconomics**

The current forecasts for Q2 2020 UK GDP are a decline of between -9.2% and -23%, with a median of -14.7%. The same experts are forecasting a GDP drop of between +6.2% and -15.3% for the entire year 2020, the median being -6.0%. This is equivalent to the Great Recession drop of -6.3%, but in half the time. As a further validation, in May HM Treasury produced a similar analysis [11] amalgamating 24 independent forecasts and concluded that annual GDP would drop by approximately -8% in 2020.

We also note the analysis released by the Office for Budget Responsibility [12] (OBR) on 14th April, which predicted a -35% drop in GDP in Q2 2020 rising quickly back up to result in a -13% fall in annual GDP in 2020. This was at the extreme end of previous predictions, which is not surprising as it assumed a 3-month Lockdown with a 3-month recovery phase, this being more severe than the assumptions in the other forecasts. The OBR emphasised that it was not a “forecast” but a “reference” scenario, to be used “as a reference point against which to monitor incoming data and other information.” The OBR stated that the “scenario should not be taken as [their] view of the most likely path for the economy…”. This made sense as it omitted to include the possibility of a global recession, international trade disruption and international supply chain dislocation, so, in contrast to its pessimistic forecast for 2020, it offered an unrealistically optimistic view of the post crisis period.

OK, so we now have a prediction of what might happen in the next 9 months, but what about the longer term?

This requires an understanding of the larger perspective, i.e. a regional and global viewpoint. The UK recovery will depend on how quickly we can recover locally, but, because we depend very much on imports and exports to fuel our economy, it will also be determined by what happens in the European region and furthermore in the global arena. If we recover quickly but the rest of Europe or the World goes into recession, we cannot avoid following them along the same path.

**WHAT TYPE OF RECESSION ARE WE FACING?**

Economists have defined various types of recession:

- V-Shaped: Short, sharp shock then back to business as usual
- W-Shaped: Two V-Shaped recessions in quick succession, then back to business as usual
- U-Shaped: A protracted recession that lasts for several years, gradually recovering
- L-Shaped: A long recession where the economy doesn’t recover
- See Appendix 3 for a more detailed analysis of the types of recession.

So, which will it be? V, W, U or L?

Optimists have been insisting that the recession will be a short, sharp shock, (a “V-Shaped” recession) on the assumption that we can quickly eliminate the virus and get back to normal life, avoiding any material or lasting damage to our economy. This is naturally the initial political viewpoint, as any other outcome is extremely unattractive to the voting population and a PR disaster to say the least. Eventually, even the politicians must come to terms with the reality that a quick recovery may not be a realistic scenario. So why might it not be a V-shaped recession?

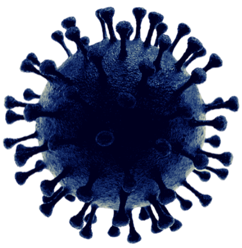
Ultimately it comes down to the fact that we are dealing with a challenge that is part conventional recession and part natural disaster. Until the restrictions can be lifted, our economy will be constrained, and this depends on whether we can control the virus. Even with the number of cases falling, we will still be far away from the end of the crisis, perhaps years.

Closing down large parts of society is not sustainable in the long-term. What we need is an epidemiological exit roadmap because the coronavirus is most likely to return again and again in different mutations. If we lift the restrictions that are holding COVID-19 back then the virus will come back in force, the real problem being that this is not just a UK issue, we are depending on all countries to achieve the same goals in the same timeframe. This is a massive scientific and societal challenge.

Any thoughts that we can avoid a recurrence after lockdown restrictions are lifted have been put in doubt by a series of events across the world. In Singapore, where they had apparently defeated the virus in an exemplary fashion in early 2020, there was a flare up amongst the immigrant population in May. In South Korea, where they recently celebrated their hard-won battle with COVID-19, there are now fears of a coronavirus second wave as it emerges the R rate has risen to 1.8 in the Seoul area. Similarly, in the Middle East, both Saudi Arabia and Iran are experiencing pronounced second waves of the epidemic, while their neighbour Iraq has also seen a dramatic rise in infections. Meanwhile, Israel has seen a recurrence of the virus as they reopened their schools.

Also, the belief that the virus could not thrive in hot conditions has been undermined by various research studies. For example, an analysis of the spread of the virus in Asia by researchers at Harvard Medical School [13] suggests that this pandemic coronavirus will be less sensitive to the weather than many hope. It is believed that once the pandemic is under control and has become endemic, i.e. it has been circulation within the human population for some time, it may show seasonality.  Evidence is now mounting that the virus's sensitivity to seasonal conditions does not significantly influence its capacity to spread under pandemic conditions. This is demonstrated by the considerable numbers of cases in tropical regions, examples being the Middle Eastern region, Southern China, Singapore, and Equador, to name but a few, where the virus has spread rapidly in weather conditions where the temperatures have remained consistently above 30℃.

There are essentially three ways to thwart the COVID-19 threat:

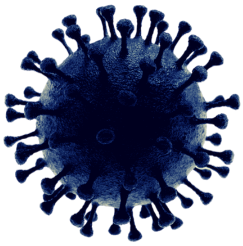


**Prevention or cure:**

Vaccination is the obvious prevention mechanism, but this is still at least 12 months away, assuming everything goes to plan, and even then, the UK will probably be at the back of the queue because we have no UK-based vaccine production facilities planned until 2022; until then will have to rely on foreign manufacturers.

In parallel, drugs could be developed to successfully treat COVID-19 infection. These could be used at an early stage to prevent transmission and also to make the disease less deadly, reducing pressure on intensive care facilities, meaning that nations could cope with larger infection levels before needing to resort to Lockdowns.

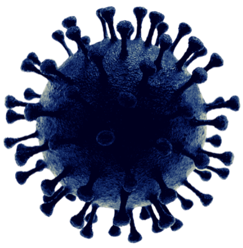
The problem is that, until recently, no such drugs had been identified. Prior to June the world's best hope was Remdesivir, but it wasn't a cure; at best it speeds up recovery, thereby reducing pressure on ICU capacity. The latest discovery, announced in June, is more significant, this being Dexamethosone, an existing anti-inflamatory drug that is cheap and widely available. It was discovered by an Oxford University research trial that Dexamethasone cuts the risk of death from 40% to 28% for patients on ventilators, and from 25% to 20% for patients needing oxygen.



**Natural Immunity:**

We need to be cautious regarding the “herd immunity” strategy. Three European countries, the Netherlands, the UK and Sweden, started out believing that herd immunity was the way to go but quickly abandoned this strategy in the face of mounting infections and a realisation it would overwhelm their healthcare facilities.

However, by very careful relaxing of restrictions and protection of vulnerable individuals it might eventually be possible to achieve “herd immunity” but this could take years to build up. Experts believe it would take at least 2 years to achieve a sufficient herd immunity to suppress transmission enough to be able to control the virus, but the problem remains that immunity may degrade over time and the virus may mutate, undermining any such strategy. Remember that the Spanish Flu epidemic had three waves with the second being the most lethal, killing over 50 million worldwide.



**Behavioural:**

A third approach is to effect permanent changes in our behaviour that allow us to control transmission of the virus, such as keeping some of the current measures, including social distancing, coupled with extensive testing and tracing of infected individuals. We are already seeing how this might work with the habituation of social distancing and the wearing of face masks into our daily behaviour.

Ultimately it will be through a combination of all the above measures that we eventually control the virus. The fundamental issue we are facing now is by how much the Lockdown constraints can be released, without triggering another surge in infections. Health has, quite rightly, been the highest priority, but we have come to the point where the social and economic consequences of a prolonged recession have become the greatest concern.


**THE 90% POST-COVID-19 ECONOMY:**

The Government is concerned that the longer the Lockdown continues or if it must be re-imposed, the worse and the longer the recession is likely to be, and also the greater its own fiscal debt burden. Any recovery will be constrained by how well the virus is controlled, which, as we have discussed above, is likely to take years rather than months. We are now about to permit closer, more frequent personal interaction with the opening of non-essential retail outlets, hotels and recreational services etc. This will happen gradually over the next 6 months and we expect that a significant proportion of the recreational businesses will not recover to pre-COVID-19 levels for at least a year, i.e. until a vaccine is successfully deployed. Any resurgence of infections will incur further lockdowns, hopefully on a local rather than national scale, but nevertheless will inevitably delay the process further.

Once we have lifted the Lockdown restrictions, the next factor will be the cumulative effect on the population and on businesses, and how long it will take them to recover. The government can only sustain the financial support for the community and for businesses for a limited time, which is why it is winding down its Coronavirus Jobs Retention (CJR) Scheme by the end of October. Current predictions are for a relatively modest increase in unemployment, however these are distorted by the CJR Scheme and, when it ends we expect to see a large jump in the number of redundancies. As we passed mid-June, the point at which consultation periods must start for large-scale redundancies to be effected by the end of July, many large-scale redundancies were announced: British Airways up to 12,000; Centrica 5000; Easyjet 4500; Johnson Matthey 1500; Jaguar LandRover 1100; not to mention the impact on their suppliers and temporary agencies. This is just the beginning, there will inevitably be increased levels of unemployment and business closures, meaning it will take months if not years for the labour market to recover. One knock-on effect could be a further wave redundancies amongst the drivers, employed by the logistics players serving the aforementioned companies, thereby releasing a tranche of experienced drivers onto the market, further changing the dynamic of the driver shortage.

Even with continued government financial support, it will not be easy to get businesses back up and running, as they will be dependent on all links in their supply chain being operational. This will be far from the case, especially considering that many of their international suppliers will be in regions that are at different stages of the war against COVID-19 and may not yet be able to supply critical parts or services. Consumers will have depleted their nest eggs or expanded their debts, while surviving businesses will have lost profit and also will have increased their debt burden. This means that those projects and investments planned before the crisis will be abandoned or postponed, leading to a drop in overall business activity. Finally, banks will be more risk averse and will constrain lending or at least take longer to approve loans.

All of this leads us to conclude that the economy that emerges from the COVID-19 Pandemic will be fundamentally different and will have substantially contracted. We concur with the Economist article on 30th April, “Not Quite All There - The Economy that Lockdowns will Leave Behind”[14], which makes a convincing case that the economy will have contracted by around 10% post Lockdown.

This pretty much counts out the possibility of a V-shaped recession, which requires a quick rebound to previous levels. The same applies to a W-shaped recession, which again would require a quick rebound after the second dip.

## A GLOBAL VIEWPOINT:

Then we come to the larger economic consequences of the global Pandemic. At the beginning of April Kristalina Georgieva, Head of the International Monetary Fund, said that the coronavirus Pandemic will turn global economic growth "sharply negative” this year and that 2021 would see only a partial recovery[15]. She warned that emerging markets and developing countries would be hardest hit, requiring hundreds of billions of dollars in foreign aid. Ms Georgieva said that just 3 months ago predictions were that 160 of the 189 IMF member nations expected positive per capita income growth in 2020, but now this had been “turned on its head” with over 170 expected to experience negative per capita income growth this year.

More recently, at the beginning of June, OECD Chief Economist Laurence Boone said the pandemic would have "dire and long-lasting consequences for people, firms and governments"[16]. She added that "extraordinary policies will be required to walk the tightrope towards recovery. Even if growth does surge in some sectors, overall activity will remain muted for a while". The OECD report looks at two scenarios, a single wave and one with a second wave. It describes both outlooks as sobering, but either way, the deep recession now unfolding will be followed by a slow recovery.

There are also macro-factors such as the oil price, which plummeted following Russia and OPEC's negotiations in March to cut production. They cut production by around 10% until the end of June, in anticipation of a 10% drop in global oil demand for the rest of 2020. Even then supply exceeded demand causing oil prices initially to drop dramatically to sub $20/barrel and now they have stabilized at around $40/barrel; two thirds of the pre-COVID-19 prices. Sustained low oil prices will inflict serious damage on countries such as Iraq and Iran, which rely on their oil revenues to sustain their economy. Add to this that the Arab states are predicted to be one of the worst hit regions with an 8.1% decline in working hours (equivalent to 5 million full time workers being unemployed) and we get a tinder box in the Middle East.

Looking at other regions, in the Eurozone, the north/south divide is reopening, with conflicts over who will absorb the main burden for rescuing the southern countries more severely afflicted by the pandemic. Could we be looking at a collapse of the Eurozone?

In the USA, though Trump doesn't want to admit it, all indications are that they too will be heading into recession as a result of COVID-19. Remember that when the USA sneezes, the world catches a cold; just imagine what will happen if the USA catches flu!

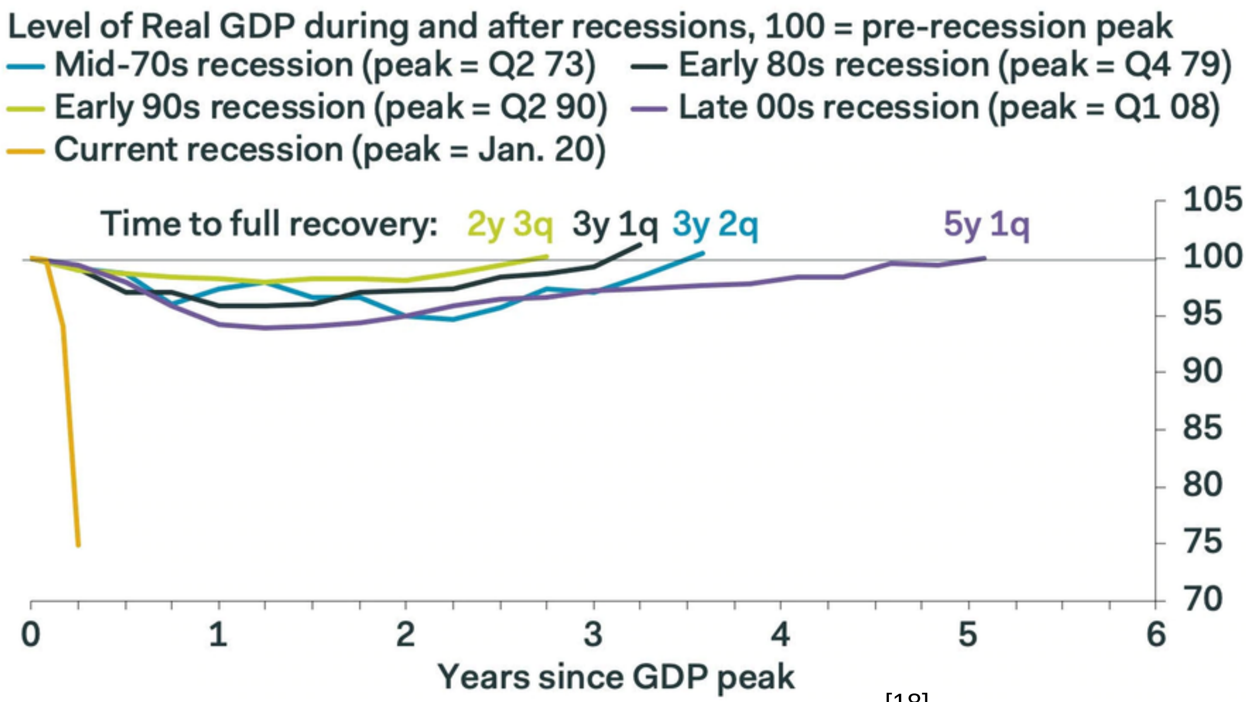
Even if most of what we are considering turns out to be a false alarm, a global recession is still looking inevitable along with all the regional and national consequences.

**This leads to the regrettable conclusion that a U-shaped recession or even an L-shaped recession are the only likely outcomes. Supporting this conclusion is a sequence of surveys conducted by Focus Economics,**[17] **which found that economists from 35 institutions around the world now believe there will be a longer global recession because of the pandemic. According to their last survey conducted on 6th May, of these economists only 17% polled V-Shape, while 66% polled U-Shape. This compares with 34% who polled V-Shape and 62% U-Shape in March.**

***We therefore agree with predictions that it will probably be a U-shaped recession in the longer term with a V-shaped partial recovery in late 2020, as we come out of full Lockdown. The initial recovery will only be enough to partially offset the massive drop in GDP in Q2 and will still leave the economy operating well below pre-Q2 levels as we head into the prolonged global recession.***

### HOW LONG CAN WE EXPECT THE RECESSION TO LAST?

Our challenge is to model how GDP will change in the longer term. Firstly, it would be useful to examine how previous recessions played out and the typical time it has taken for GDP to return to pre-recession levels. The chart below does exactly this.

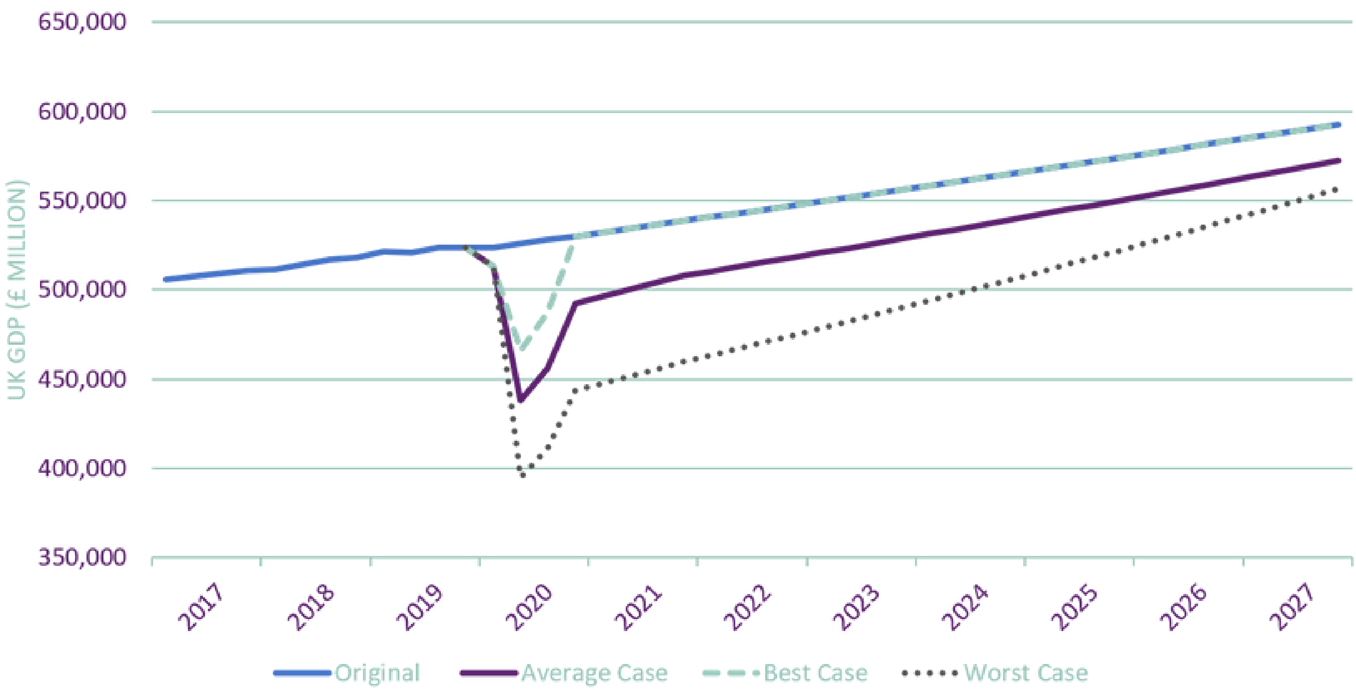



**Source: Pantheon Macroeconomics**[18]

We can see that, in all but one of the recessions over the past 50 years, the recovery period has been at least 3 years, with the most recent 2008 Great Recession taking over 5 years to return to pre-recession GDP levels. Given the severity of the current circumstances it would be hard to envisage the recovery time from the COVID-19 recession being any shorter than 3 years and realistically we could expect it to be longer.

We have taken the short-term forecasts examined earlier in this document and then applied appropriate recovery rates, which results in the graph below. This demonstrates the GDP dropping sharply in Q2 2020, partially recovering in the second half and then growing again at between 0.4 and 0.8% per quarter, i.e. between 1.6% and 3.2% per annum.

## PREDICTED SCENARIOS FOR UK GDP:




- In the **Best-Case scenario** UK GDP drops by -9.2% in Q2 then rises to a total 2020 GDP rise of 1.2%. Subsequently it rises at 0.4% per quarter, which equates to 1.6% per annum.

- In the **Worst-Case scenario** GDP drops by -23% in Q2 then rises to a total 2020 GDP fall of -15.3%. Subsequently it rises at 0.8% per quarter, which equates to 3.2% per annum.

- In the **Average-Case scenario** GDP drops by -14.7% in Q2 then rises to a total 2020 GDP fall of -6.0%. Subsequently it rises at 0.5% per quarter, which equates to 2.0% per annum.

The logic is that the further GDP falls the greater the recovery rate. This assumes that the basic infrastructure, resources and know-how remain to enable this recovery rate.

**The conclusion from the above model is that GDP could return to pre-pandemic levels between 2023 and 2025. This is consistent with previous recession recovery rates and we therefore consider it to be a reasonably reliable predictor of what is to come.**

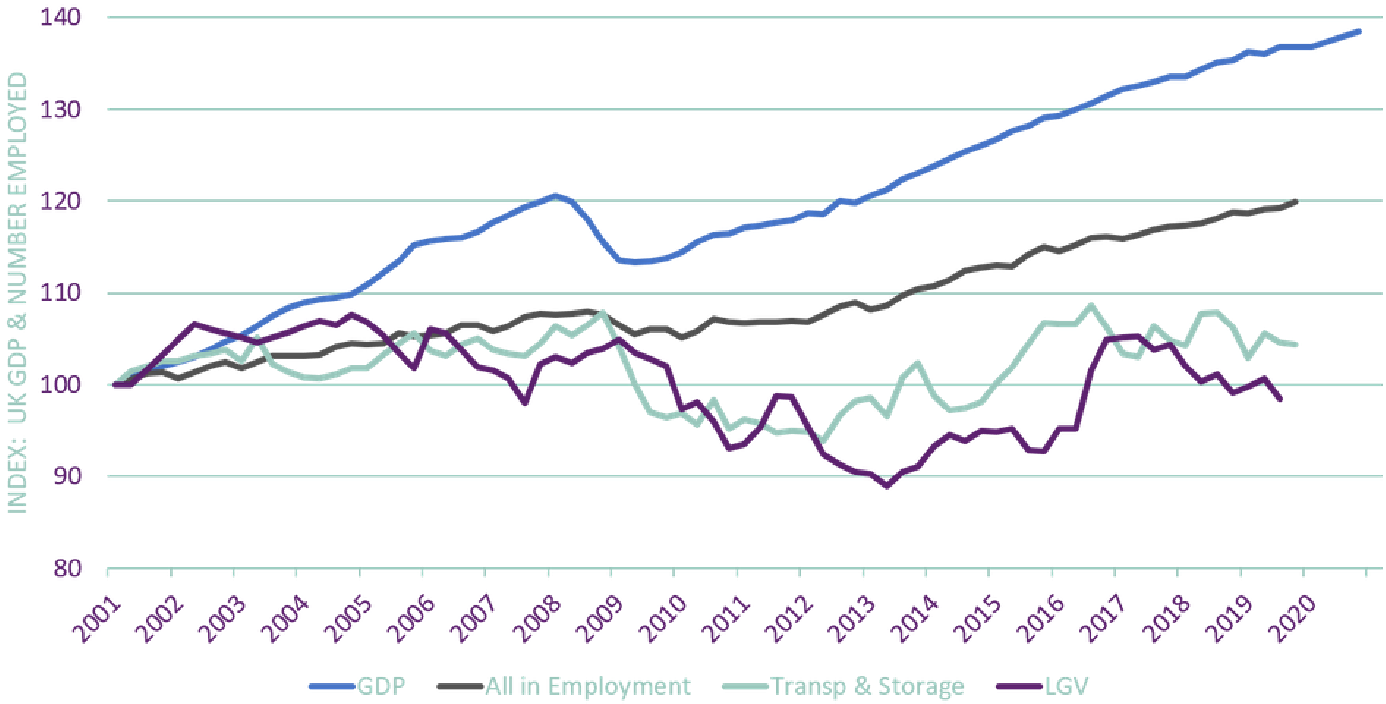
To summarise what we have determined so far: the latest PMI scores and all other evidence is pointing towards a dramatic decline in Q2 GDP. We established that expert economists' forecasts average a -14.7% drop in Q2 GDP rising by the end of the year to an annual GDP fall of -6.0 for 2020. We examined the various types of recession and concluded that we are probably looking at a V-Shaped phase in mid-2020 followed by a prolonged U-Shaped recession. We then developed this into a COVID-19 Forecast Model, with Best, Worst and Average-Case scenarios.

We will now examine the impact of the 2008 Great Recession on employment in the UK Haulage Sector. We will draw inferences from this to predict how our COVID-19 Average-Case scenario might affect employment in the UK Haulage Sector.

**THE 2008 RECESSION'S EFFECT ON THE HAULAGE SECTOR EMPLOYMENT LEVELS:**

In late 2007 the US Sub-Prime Mortgage market crashed causing the US housing market to collapse, pushing the USA into a recession that lasted from December 2007 to June 2009. This triggered a global financial crisis and the collapse of many well-known banks, causing a massive credit shortage, the "Credit Crunch". The resulting global recession was far-reaching and extremely long, leading to its name, the "Great Recession". The effect on the UK economy was more or less immediate with UK GDP falling precipitously from Q2 2008.

## Employment Levels




**Source: ONS**

The UK economy contracted for 5 quarters in a row, from Q2 2008 to Q2 2009, causing the UK GDP to fall by an unprecedented -6.3% over the 15-month period. To put this in context, GDP had grown by 20% in the previous 8 years and lost over one quarter of this progression in just over a year. It is also worth noting that a drop in GDP of -6.3% had not been seen since the depression following the First World War. No wonder that it took 5 years for UK GDP to recover to pre-2008 levels, but there were some other extremely significant ramifications:

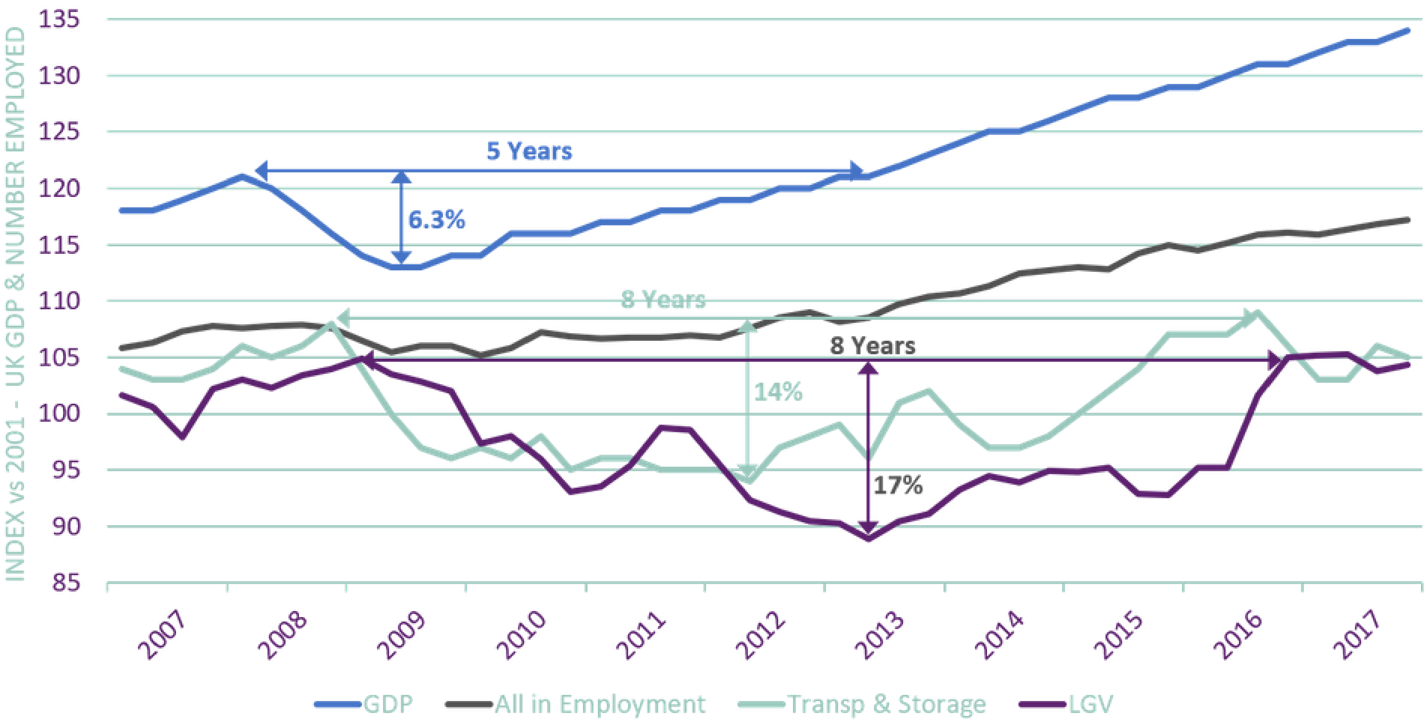
- Real earnings (wages adjusted for inflation) decreased steadily until 2013 and have slowly recovered to only recently reach the 2007 level. That's over a decade of zero real wage growth!

- UK productivity, measured as output per hour worked, has also flatlined since 2007, i.e. there has been no noticeable improvement, which compares with a 21% rise in the previous 11 years.

- By the end of 2011, almost 2.7 million people were looking for work. The quarterly unemployment rate reached 8.4%, the highest rate since 1995. Unemployment returned to its pre-downturn rate at the end of 2015, 8 years later, and since then it has continued to fall.

So, if that's what a -6% drop in GDP does to our economy, we can only wonder what will happen to us with the massive damage COVID-19 is predicted to inflict on us. More on that later; let's get back to how the 2008 Great Recession impacted the haulage and LGV employment numbers.

We can now look in more detail at the 2007 – 2017 period of the graph shown previously. The important conclusions we can derive from this are, what impact a drop in GDP might have on overall employment, then on the sub-set of "Transport and Storage", and finally, more specifically, on "LGV Driver" employment; we can also deduce when this is likely to happen.




**Source: ONS**

In the graph above we can see the first impact of the Great Recession as it hit the UK economy in mid-2008. Overall employment took a small hit and then stabilised.

Meanwhile employment in the "Transport and Storage" sector continued to rise for half a year before plummeting by -13% in 2009; it then flattened out for nearly 3 years, bottoming out at a cumulative drop of -14% and finally started to rise from 2012 as the haulage sector began to grow again.

LGV driver employment peaked in Q1 2009 and then fell for 4 and half years to reach its low point in mid-2013, -17% below its pre 2008 level. The interesting thing is that it lagged behind the “Transport and Storage” sector by between 3-6 months on the way down and by over a year on the way out. We can hypothesise that this was because LGV drivers are skilled professional workers in short supply, so hauliers would be reluctant to let them go. This explains why they would retain their LGV workforce longer than they would their warehouse and general labour workers.

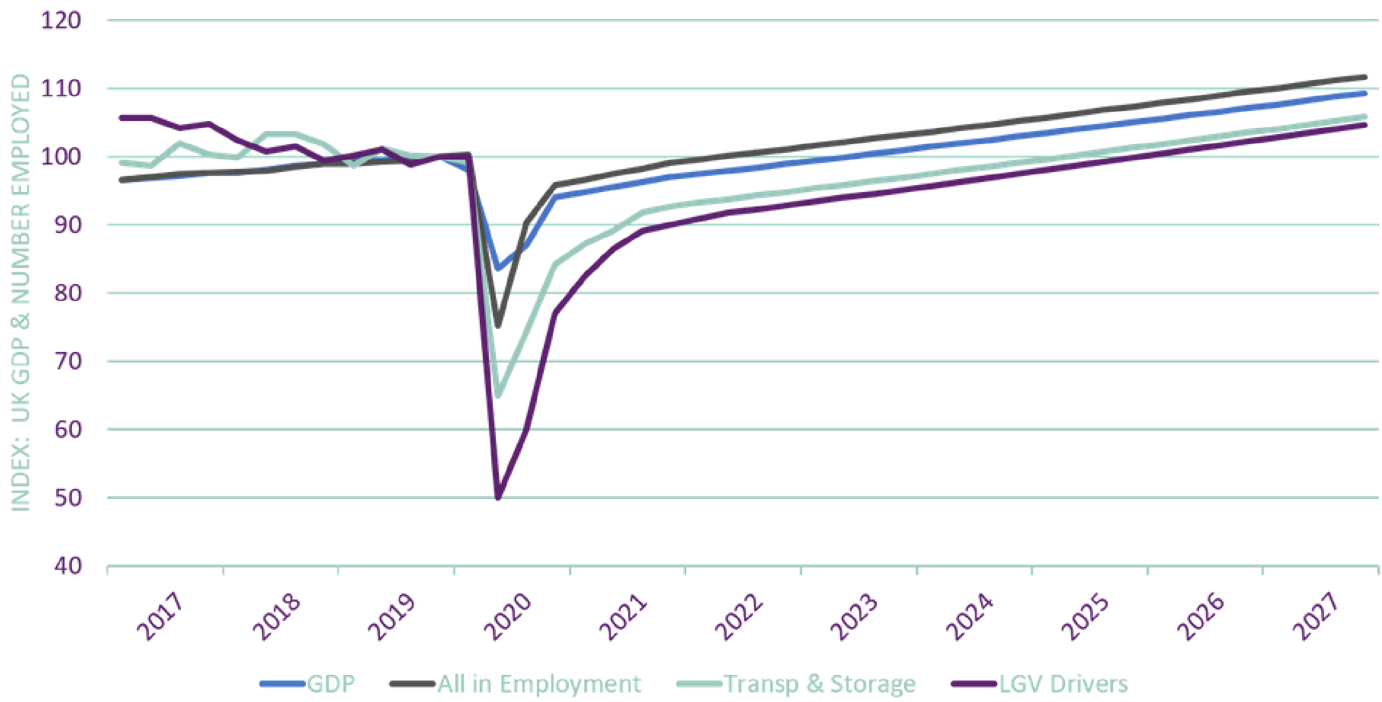
Also, as the economy recovers, it is logical that hauliers would take longer to re-employ a scarce skilled resource like LGV drivers, who are harder to recruit, need more investment to onboard and induct, and who are paid more.

***In summary, we can observe that a -6.3% drop in GDP produced a drop in “Transport and Storage” employment of 2 x the GDP % drop, and a drop in LGV driver employment of approximately 2.5 x the GDP % drop. We can also deduce that the time for the Transport and Storage sector, including LGV drivers, to recover was around 1.5 times the time it took for the overall economy to recover, i.e. 8 years as compared to 5 years for GDP to return to pre-2008 levels.***

**The big question is, will it be similar this time? Or perhaps worse?**

## A POST-COVID-19 FORECAST OF HAULAGE SECTOR EMPLOYMENT LEVELS:

We have applied these assumptions from our analysis of the 2008 Great Recession to the Average Case scenario from our GDP Forecast, which results in the employment forecast model below:




**Source: ONS**

### All in Employment:

We assume a -25% drop in total employment during the Lockdown, recovering to about a -4% drop by the end of 2020, then rising slowly to regain its pre-crisis level by mid-2022; over 2 years to recover from the crisis. We believe this is consistent with the ONS Business Impact of COVID-19 Surveys (BICS) [9] conducted from March to June, which indicated that roughly 30% of employees had been furloughed. Note that the -4% drop also corresponds with the expected increase in unemployment through to the end of 2020

## Transport & Storage Employment:

We have stated a -35% drop in employment in the Transport and Storage sector during the Lockdown. This correlates with the ONS BICS[9] surveys, which indicated that Transport and Storage businesses had furloughed between 35% and 40% of their staff. We assume this rises quickly, as the government relaxes the Lockdown restrictions, to a net drop of around -15% by the end of 2020. Employment in this sector then rises to -7% below pre-crisis levels at the end of 2021, followed by a slow recovery over the next 5 years. This compares with a protracted (5+ years) drop of -14% during the 2008 Great Recession caused by an overall GDP fall of -6.3%; we therefore believe our assumption is conservative

Specifically, considering the current circumstances, we think it is also consistent with the predicted significant drop in business volumes due to delayed manufacturing recovery, as well as numerous business closures and continued restrictions on trading in the recreational and catering sectors. Thereafter employment numbers are assumed to rise gradually, though held back by the global recession, to eventually achieve pre-crisis levels in mid-2025.

## LGV Driver Employment:

We apply a -50% drop in LGV driver employment numbers, which is based upon an RHA Survey[2][3] that established that 46% of the UK fleet and 50% of truck drivers were inactive during the Lockdown, with over 70% of haulage firms furloughing employees[1]. These then rebound to a roughly -20% drop by the end of the year as haulage companies reactivate. As happened during the 2008 Great Recession, we expect recovery of LGV employment numbers to lag 3 to 6 months behind the overall Transport and Storage sector.

LGV employment will continue to rise to around 10% below pre-crisis levels by the end of 2021 as manufacturing and construction activity ramps up, then it rises gradually to achieve pre-crisis levels by the end of 2025.

Our conclusion is that we are probably looking at a 10% drop in LGV driver employment through 2021, equating to around 30,000 driver positions, gradually improving over several years following the crisis, as the global economy recovers. This is expected to partially offset the perceived current UK shortage of around 50,000 LGV drivers.

**Note that the recovery period of 5½ years from the start of the crisis for both LGV Driver and Transport & Storage employment numbers, correlates with the observation that during the 2008 Great Recession it took 50% longer for this sector to recover than for GDP.**

It is hard to be more optimistic about post-2021 growth rates for all the reasons explained previously in this document. To summarise, these are:

- Long term slow-down of the global economy.
- High business debt levels, which will slow investment plans or cause them to be cancelled.
- Government increases progressive taxation on individuals, while also increasing Corporation Tax to pay down its enormous debt burden, which in turn reduces consumer demand and business capability to invest and expand.
- Dislocated supply chains need repairing, slowing down recovery.
- Money that would have been invested in growth initiatives is instead diverted towards restructuring supply contracts to accommodate multi-sourcing strategies to mitigate sole-supplier risk.
- UK productivity remains flat or maybe even deteriorates further.

**Let's go through this one step at a time, considering the implications for UK hauliers, their workers and temporary worker suppliers.**

## HOW WILL THE HAULAGE SECTOR BE AFFECTED IN THE SHORT TO MEDIUM TERM?

**V**

We have talked about the immediate drop in haulage activity caused by the Lockdown and the possibility of multiple haulage businesses collapsing if it continues. As expected, the government is endeavouring to end the Lockdown at the earliest opportunity and to restart trade as quickly as safe and practicable. Consequently, the Haulage Sector and its agency worker suppliers, need to be ready to respond to a rapid increase in demand for their services. This initial flurry of activity should then subside to “business as usual”, which will be when we start to discover the real structural impact of the crisis

**U**

“Business as usual” for the next few years will follow the pattern of a U-shaped recession, in which we expect overall economic activity and consequently demand for haulage services, as well as temporary blue collar agency requirements, to stay depressed, except in those sectors that remain robust through the recession, such as supermarket deliveries, grocery supply chain operations, healthcare, pharmaceuticals, home delivery and other essential services. We expect to see haulage companies downsize their permanent workforce over time in the negatively impacted sectors until they reach steady-state employment levels. During this time agency requirements will be reduced, returning to normal activity levels once steady-state levels are achieved. This will result in a short to medium-term reduction in agency requirements and a recovery once the market stabilises at its new lower level and starts to grow again.

**W**

If we are unlucky enough to have a W-shaped recession it will essentially be an extended turbulent time for us all, with agency support being essential to moving resources between sectors as they are variously affected by the swings and turns of the economy. Flexibility and agility will be key.

# SHORT-MEDIUM TERM CHALLENGES

Now we can address the short to medium term period, spanning the release from Lockdown through to the end of 2021.

**Lockdown Release Timing:**

The phased release of Lockdown will have a disproportionate effect on those hauliers focused on particular sectors. There are large stockpiles that have built up through the Lockdown that need to be distributed and we therefore expect a series of spikes in activity along with an associated increase in demand for fleet and workers, as different sectors accelerate at different rates. For example, builder's merchants and other building service providers were among the first to reactivate as the housing construction sector burst back into life, while drinks logistics hauliers and catering suppliers who service the restaurant sector are still waiting for their customers to be reactivated. Others, such as events logistics companies may have to wait more than a year until their sectors can restart their operations.

**The Role of Agencies:**

Agencies are performing a critical role in providing a flexible workforce to respond dynamically to varying demand for temporary staff as it evolves across the sectors. They are instrumental in diverting resources from those still dormant sectors to those that are experiencing a spike in demand as they clear backlogs. Hopefully the sequencing and timing will work to everyone's advantage and exploit the surplus resources to maximum effect as we revert to normal operations. If, however, it is not properly thought through and managed carefully, we may end up with periodic and/or regional shortages of fleet and labour to meet demand.

**LGV Roadworthiness Testing:**

We talked earlier about the suspension during Lockdown of DVSA LGV MOT tests and the potential backlog this could cause. The RHA survey reported that this was the major concern for hauliers over the next six months, with nearly 30% of hauliers stating that one of their biggest challenges would be the availability to obtain roadworthiness tests. Related to this, 42% asked for the government to contribute to the “standing costs” for parked up (SORNed) trucks. They also asked that the SORN (Statutory Off Road Notification) process be changed so it can operate weekly.

**LGV Driver Training & Testing:**

We have recently spoken with one of the UK's largest independent LGV driver training schools who operate multiple testing locations, and they have confirmed that they are still a long way off returning to previous testing levels. The reasons they quoted were that a significant proportion of DVSA test sites were operating at either a reduced capacity or had not yet opened (as at mid-August). The reduced capacity is partly due to the DVSA’s precautionary measures which restrict DVSA testers to 3 tests per day compared to the pre-COVID0-19 rate of 4 tests per day; that’s an immediate cut of 25% capacity.

Furthermore, the DVSA has restricted the “Trainer Booker Service”, which allows training schools to pre-book tests, from a 10-week horizon to six weeks. The training schools are given an Average Allocation of test slots per week and unsurprisingly these have been "rounded down" to reflect the lower DVSA Test Centre capacity. The difference is that, pre-Lockdown, the training schools would normally have had access to surplus ad hoc test slots, on top of their Average Allocation. Now the schools are taking their entire reduced allocation but can rarely get any more ad hoc bookings. The overall effect is to make the test booking process significantly more inefficient.This is all exacerbated by brokers who undermine the booking process and delay candidates’ progress for their own financial benefit. A further issue could be that restriction of test and training availability, along with the increased inefficiency, could force up training fees, which in turn may put off candidates who are increasingly cash-strapped due to the worsening economic conditions.

The driver training schools are therefore doubtful that testing throughput will improve much above 60% of previous levels, at least not until a vaccine is successfully deployed. This reduced throughput could force some of the smaller training companies, who are already struggling to make a profit, out of business, thereby further restricting training availability.

IR35

**IR35:**

In April 2021, we will finally see the introduction of the IR35 reforms in the Private Sector, which will bring agency pay and charge rates into line with permanent employee costs. We still expect that this will increase agency rates to the hauliers by up to 20%, regardless of there no longer being a chronic shortage of LGV drivers. This is because the cost increase is essentially a tax by the government that increases the cost of the driver to the agency. Neither the agency nor the driver will benefit from this rate hike.

One benefit brought about by the IR35 reforms will be the enforcement of agency payroll compliance. This should remove the unfair competitive advantage enjoyed by non-compliant agencies and umbrella companies, creating a level playing field where margins will be much more transparent, forcing agencies to compete on quality of service and value added.

We envisage that the increased cost of agency workers will cause larger operators to bring back in house their volume agency contracts, leaving the variable element to be covered by smaller more agile agencies. Ultimately agencies should move towards their true purpose, this being a primary focus on covering their clients' variable requirements. For more information please refer to our IR35 White Paper, which can be found at:
https://driverrequire.co.uk/upload/files/IR35-WhitepaperDownload.pdf

An amendment to the IR35 bill, to delay the Private Sector roll-out until April 2023, was tabled by David Davis.[20] MPs were due to vote on 19 May but it was scuppered by Labour who refused to vote, wrecking any chance of the amendment receiving a majority. The bill amendments to delay implementation was put to Parliament again on 2 July and was voted down, making it a near certainty that it will now go ahead as planned in April 2021. It is still likely that changes will be made, especially given the House of Lords request for an "independent review"[21], but these are most likely to relate to the manner of implementation for specific groups of workers, e.g. white collar consultants etc. We should remember that the government will be looking for every possible opportunity to recoup its massive COVID-19 financial stimulus and will become more reluctant to forego the extra tax income it would gain from this initiative.

**VAT:**

In March the government announced its VAT deferral scheme to help cash-strapped businesses survive through the COVID-19 crisis [23]. This permitted companies to defer any VAT payments due between 20 March and 30 June, until 31 March 2021. There is speculation that the government may announce an extension to this VAT deferment scheme.

Unlike the other COVID-19 emergency funding schemes (CBILS [5], CLBILS[6], BBLS [7]and CCFF[8] ) the VAT deferral scheme has no qualifying criteria and has therefore been a significant source of extra cash to companies that otherwise may have had no other finance options. This means that there are many unprofitable companies living off the cash from their deferred VAT, competing at unrealistic margins to maintain their cash flow, potentially undermining other previously healthy companies by forcing prices down to unrealistic levels. It will be interesting to see what happens in April 2021 when their VAT becomes due and they are forced into negotiations with HMRC for "Time to Pay" arrangements.

We predict that, despite the "Time to Pay" option, many companies with unsustainable business models will opt to throw in the towel at this point and there will be a rash of insolvencies in Q2 2021, both haulage companies and temporary staffing agencies. This should contribute further to the "levelling of the playing field" brought about by the IR35 reforms.

**Brexit:**

Since the COVID-19 Pandemic hit us, Brexit has very much taken a back seat. Now that we are emerging from Lockdown it is returning to the fore, with the stark realisation that the negotiations are significantly delayed, and insufficient time remains to achieve a deal. The government also accepts that practical preparations for Brexit have been delayed by the Pandemic, such as border controls and checking systems.

Originally the new border controls were to have been implemented on 1st January 2021, however, in response to the concerns mentioned above, on 12th June the government announced phased implementation of the border controls:[23]

- From 1st January, there will be checks on controlled substances, such as alcohol and tobacco, while standard goods, such as clothes and electronics, will be subject to basic customs procedures. But firms will have up to six months to complete customs declarations and pay relevant tariffs.
- From 1st April, those importing products of animal origin, including meat, milk or egg products, will have to pre-notify officials and provide the relevant health paperwork.
- By 1st July, all goods will be liable for relevant tariffs and customs declarations as well as full "safety and security" declarations. From this moment, there will be an increase in physical checks on livestock, plants and other sanitary and phytosanitary products at ports and other entry points.

Meanwhile, the EU is still adhering to its commitment to introduce full border controls on all UK exports with effect from 1st January 2021. At least this means that hopefully there will be enough breathing space to avoid a supply chain crisis in Q1 2021, which would compound the challenges we already face as a result of the COVID-19 Pandemic and IR35 reform.

# THE LGV DRIVER SUPPLY CRISIS

In the July release of this updated, consolidated Report we made the bold statement that we expect there will no longer be an LGV driver shortage in the UK; at least not until we are fully out of the post-COVID-19 recession, which could be more than 3 years away. We now realise that the LGV driver shortage will remain unresolved and is likely to worsen, at least in the short term. Let's explain why.

Our report concluded that the predicted drop in GDP could cause a 10% reduction in LGV driver employment numbers (approximately 30,000 drivers) for the next couple of years. This would, in theory, go some way to offsetting the perceived pre-COVID-19 shortage of over 50,000 LGV drivers, however other factors are at play. Please refer to the Driver Require White Paper, "**Investigating the UK's LGV Driver Shortage**" released in January 2020, for an explanation of the evidence and causes of the potential LGV driver shortage in the UK.

We now appreciate that other factors could reduce the available LGV driver pool to a greater degree than the drop in demand and also that the timing of these factors could combine to exaggerate conditions. The size of the LGV driver pool is affected by several variables:

- In the longer-term, market forces should ensure that the driver pool adapts to match overall market demand as it fluctuates with economic activity. When demand exceeds supply, wages will rise to attract more entrants to the pool, and when there is a surplus of drivers, wages will drop until enough drivers leave to achieve equilibrium. This dynamic is however very slow, especially when there is a driver shortage, as cash-strapped hauliers on razor-thin margins are loath to offer pay rises unless necessary. Consequently, the equilibrium state will be one of chronic low-level shortage, but not so great a shortage as to prevent critical deliveries being made.

- In the short term, we have new LGV passes and foreign drivers entering the driver pool, while leaving the pool are drivers retiring or simply choosing an alternate career. A further source of LGV drivers are those leaving the armed forces to join the civilian workforce, but this has recently diminished to an insignificant level.

- In our Driver Shortage White Paper we determined that there are approximately 40,000 new passes entering the LGV driver pool and about 10,000 retiring every year. Meanwhile the pool itself has remained stable at around 320,000 drivers for the last 4 years.

- The fact that the pool has not grown over this timeframe implies that there are 30,000 drivers per annum leaving the pool prior to retirement. These are either new passes who decide not to take up driving as a career or existing LGV drivers who decide to stop driving to move into management or pursue another career.

- We then examined the reasons why every year about 10% of the UK LGV driver workforce was giving up LGV driving as a career. We established several factors that contributed to this level of churn, these being: poor working conditions and roadside facilities, long unpredictable hours, stress at work, conflict between family and work commitments, especially for those with a young family and, underlying all these, dissatisfaction with pay levels relative to these working conditions.

So, we have established that we need to maintain a flow of 40,000 new entrants (new LGV passes) to keep the driving pool at its current level. What happens if those new passes dry up? This is exactly what has happened during Lockdown. Richard Simpson recently wrote an excellent article on this subject, which was published in the July issue of Transport Operator.[34] The article confirmed that, prior to the Lockdown, approximately 900 candidates were passing their LGV test per week. The DVSA closed all its LGV Driver Testing sites with effect from mid-March and these only started to re-open from 6th July.

As discussed in the section "LGV Driver Training & Testing", above, driver training schools are doubtful that testing throughput will improve much above 60% of previous levels, at least not until a vaccine is successfully deployed. We can now estimate how many new entrants have been "lost" over the past few months. For 16 weeks there were no tests, and we believe that, over the past 4 weeks, the testing rates have been at best 60% of previous levels. This means that we have "lost" over 16,000 new passes so far. If the training and test capacity continues at around 60% until a vaccine is successfully deployed, which is forecast to be the end of Q1 2021, we stand to "lose" another 14,000 new passes, bringing the total to about 30,000.

There are other less quantifiable factors to consider:

- There will inevitably be a backlog of candidates, but we don't know what proportion of these will give up waiting and opt for a different career, resulting in a permanent loss rather than the creation of a backlog.
- It is estimated that there are 40,000 foreign LGV drivers, mostly of Eastern European origin. Latest statistics indicate that the net immigration of Eastern Europeans has dropped substantially, and we have noticed a reduction in the number of new arrivals of LGV drivers from Eastern Europe. The toxic combination of COVID-19, Brexit and the implementation of the IR35 reforms in the Private Sector, could now cause many of them to leave for mainland Europe.
- While the 40,000 Eastern European drivers remain working in the UK, the majority (approximately 30,000) are believed to be working through agencies. Many of these agency workers return to their home country for several weeks in late summer and over the Christmas period to be with their families during the school holidays. This causes a noticeable drop in agency driver availability during the peak periods.
- The IR35 reforms may also cause many British drivers to seek alternative careers. However, if unemployment levels rise as expected, British LGV drivers may be deterred from leaving the sector to pursue another career.

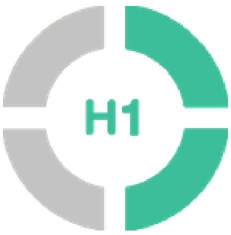
The next big question is how the timing of these fluctuations will play out.

**Currently**, we are experiencing an acute shortage of LGV drivers and agencies are struggling to meet demand. This is being caused by a combination of Eastern European agency drivers taking extended holidays, while many employed drivers, who delayed or cancelled their holidays during the Lockdown, are now trying to take them before the schools restart. At the same time haulage operators are busy clearing backlogs that accumulated during the Lockdown.


**Once we get past the Summer peak and into September:**

- Permanent staff will have returned from their holidays, while the Eastern European agency LGV drivers will have returned to the UK bolstering the agency workforce.
- We know that we have already “lost” 16,000 new LGV passes, but we don’t know if the rate of departure of existing drivers to pursue other careers may have lessened, and to what degree this may have offset the lack of new entrants.
- Another factor at play may be that COVID-19 may persuade older LGV drivers (over 55) to retire early or seek alternative “safer” employment; again, this is an unknown quantity.
- Lastly it is not clear how long it will take for hauliers to clear the backlogs.

On balance we believe that the combination of the above factors will cause demand to continue to exceed supply and that the current perceived LGV driver shortage will continue through to the end of 2020, getting more pronounced through the Christmas peak period.




**Going into 2021:**

Once we’re past the Christmas peak, we anticipate demand for temporary agency staff to drop as we first start to feel the true impact of the recession. The backlogs will have been cleared and few permanent employees will be taking holidays. We expect the effect of the “90% Economy” to really kick in with a noticeable drop in demand for haulage services. This will be the time that hauliers will start making redundancies to reduce their costs to match their new operating levels. High unemployment rates will continue to put off full-time drivers from pursuing other careers, so hauliers will have a full complement of LGV drivers and therefore a reduced need for agency support.

As we progress through the first half of 2021, there will be great uncertainty with Brexit unravelling and IR35 reforms being implemented in April. Haulage companies should have right-sized their workforce, while IR35 is likely to have caused many to bring back in house agency drivers who were staffing their "standard operations", leaving just the variable element to the agencies.

**As we move into the second half of 2021:**

The LGV driver market should stabilise and this is when we expect the driver shortage to rear its head again. The combination of:

| Factor | Effect (,000) | Cumul. (,000) |
|---|---|---|
| A reduction in demand of 30,000 LGV drivers due to the weakened economy | +30 | +30 |
| 10 - 15,000 new passes (reduced from the usual 40,000) | +10 to +15 | +40 to +45 |
| Retirement of 10,000 older drivers (or more, depending on the COVID effect) | -10 | +30 to +35 |
| Drivers leaving for another career. This was more than 30,000/year over the past 4 years, but may drop due to high unemployment rates and poor economic conditions | -20 to -25 | +10 |

The result is that, at best, the UK LGV driver shortage might improve (the deficit will decrease) by around 10,000 drivers, but this assumes that the foreign drivers remain working in the UK. This is an optimistic assumption given the mounting factors likely to alienate them: Brexit, the new immigration rules, IR35 reform and on top of all this COVID-19. We only need a quarter of these to leave to completely eliminate any easing of the shortage caused by the COVID-19 recession.

It is worth noting that, in our LGV Driver Shortage White Paper, we identified that the margin of error for the shortage calculation could be up to +/- 30,000. This renders the +10,000 largely irrelevant.

Furthermore, some of our assumptions are very uncertain so we have erred on the side of caution. It would be useful to get a better understanding of these factors and their dynamics. For example, can we:

- Identify an accurate number of the actual LGV test passes since Lockdown commenced?
- More accurately predict the number of new LGV test passes over the coming months?
- More accurately estimate the number of existing LGV drivers who might quit driving for another career?
- More accurately predict the number of Eastern European drivers who might emigrate to mainland Europe in response to IR35, Brexit and the new immigration laws?

# LGV DRIVER SUPPLY: CALL TO ACTION

We are enlisting the support of industry experts and academics to try and get greater clarity on these questions. In the meantime, it is difficult to see the LGV driver shortage diminishing significantly and, if anything, it could worsen periodically over the coming 18 months unless there is determined Government intervention, for example:

- Temporary subsidy of LGV training and testing costs
- Rapid action by the DVSA to increase testing capacity and throughput
- Financial support for LGV training schools to prevent the smaller operators going out of business
- Investment in and improvement of truckstops and LGV roadside facilities
- In line with the Key Worker Status awarded to commercial delivery drivers during the COVID-19 Lockdown, perhaps introduce some form of concession that would increase LGV drivers' net income without imposing greater costs on hauliers
- Restrict working hours, for example along the same lines as in Europe where LGV drivers are prohibited from working on Sundays. This would have the effect of significantly improving working patterns but would also limit earning potential.

***All the above require careful consideration and planning, and, even if some are rolled out quickly, it will take considerable time before we would see tangible benefits. The RHA and Logistics UK are already lobbying the Government and regulators on a number of these aspects with some success. The question is what more can we do and through which channels?***

# CASH IS KING

As we have discussed, over the coming 12 months we will transition through the release from Lockdown, Christmas peak and into next year with IR35 reforms and VAT repayments in April, and Brexit border controls coming into force in the first half of 2021. Not to mention the possibility of a second wave of COVID-19. These are turbulent times indeed and it is unlikely there will be any respite until a vaccine is successfully deployed and we have stabilised our European border controls. Realistically we cannot expect calmer waters until next summer. In the meantime, the key to survival will be managing your cash.

- **Cash is King**[24]: No matter how much effort and investment you have put into your business nor how much your future business opportunities could be worth, if you have run out of cash, your business is valued at nothing. If you can, renegotiate your debt position. But if you run out of cash, and you have no source of friendly short-term financing, your business could be in trouble.

- **Cut costs early and don't procrastinate.** Taking those tough decisions and erring on the side of caution means that you are prepared for the worst, (while still hoping for the best). Swift, decisive cost-cutting will give you competitive advantage over those who delayed the inevitable and spent too much.

- **Avoid unnecessary risks:** Large companies will try to extend their payment terms, effectively making you their bank, where you share their business risk but have no control over them. The longer the payment terms, the larger the debt and the higher the risk to you if they go bust. Don't be tempted to trade with high credit-risk clients with long payment terms. The worst thing that can happen when you are operating hand-to-mouth is for a client to cease trading, leaving you with substantial debt, and you suddenly run out of cash. Private equity-backed companies should be avoided unless they offer short payment terms because they are known to be ruthless and will close down a failing investment without a thought for its creditors, i.e. you.

- Those who survive through to summer 2021 with cash to spare will be in the privileged position to take on the business left by those who have fallen by the wayside or perhaps acquire other weakened haulage operators and agencies for a bargain price. Such is the ruthless world of capitalism.

# THE LONGER TERM OUTLOOK

In the longer term we will be living in "a new world" with some potentially fundamental changes to our strategic priorities and the way we work and live. Here are a few thoughts along these lines.

**Greater Resilience:**
As a nation we can expect to endeavour to build greater resilience to international health crises and consequent economic and political instability: [25][26]

- JIT (Just in Time) will become JIC (Just in Case): strategic reserves will be built up and stored locally to protect against supply chain disruption caused by international crises. This will mean larger inventory being held as buffer stock at key points within the supply chain.

- Early warning signals will be key to resilience and an important source of competitive advantage. Excellent data collection and communication will enable companies to remain alert to potential supply chain disruption and to react quickly to prevent or remedy any supply failure. If they can do this before their competitors, they will reap the benefits.

- Much reduced sole sourcing of key components, especially from foreign suppliers. We expect businesses to establish dual or multiple sourcing networks to make their supply chains more resilient.

- Related to the previous point, businesses will have to better understand each link in their entire supply chain, so that vulnerabilities can be detected and reinforced. This will help avoid the threat of "supply chain dislocation" in the event of another international crisis.

- There will be a move from longer term to shorter term contractual commitments, especially for warehousing, which will permit companies to remain agile in the face of fluctuating market conditions. This will combine with outsourcing of warehouse and stock management to 3PLs (3rd Party Logistics providers), who will pool the requirements of multiple customers allowing them to respond to the varying demands of their clients yet maintain a sustainable and profitable business model.

# INCREASED HOME WORKING & E-COMMERCE

**Increased Home Working and E-commerce:**[26][27]

- Since early March, on-line orders in all sectors increased dramatically as did home deliveries and hence the demand for van drivers. This created significant challenges for retailers and home delivery operators alike, compounded by the need to maintain social distancing. This increased level of demand for online distribution is predicted to continue after Lockdown due to natural caution, the inconvenience of having to queue everywhere and evolving habits and behaviours.

- We can therefore anticipate continued growth of the home delivery operators with associated increased demand for competent multi-drop delivery van drivers. At the same time it is likely that general hauliers and pallet network operators will experience an increase in home deliveries, offset by an equivalent reduction in bulk business deliveries.

- Customer expectations continue to rise, with same day or next day deliveries and click-and-collect becoming the norm. This places pressure on both the retailers and the delivery companies to move to 24-hour operation and dramatically improve the efficiency of their distribution operations. While picking and packing can be automated to a large extent, "last mile" distribution is likely to remain dependent on van delivery networks for some time to come.

- A further, and very significant, aspect of e-commerce is "returns processing". For fashion retailers, returns can exceed 20% of distributed product, with over 40% of online buyers purchasing additional items with the intention of returning less desired items or those that don't fit. This has led to the growth of logistics companies specialising in returns processing, and we can expect these to continue to prosper as e-commerce flourishes. Returns processing is a very resource-intensive activity and is difficult to automate. We can therefore expect continued demand for cheap manual labour to work in this sector.

# DIGITISATION, AUTOMATION & ROBOTICS

## Digitisation, Automation and Robotics:[27]

- We talked earlier about the need for early warning systems and for supply chain visibility. Digital technology is the means to achieve these objectives. The COVID-19 Pandemic has been a wakeup call for many haulage operators and their clients, as it clearly demonstrates the importance of digitisation and digital tools.

- It is likely we will witness an acceleration of the adaptation and adoption of existing digital solutions, accompanied by a wave of innovation. Over the next decade, we can expect the supply chain and logistics industry to undergo massive digitisation. Everything beyond the pure movement of physical goods will be digitised including, documentation, freight matching, quotations, ordering, booking, monitoring, customs clearance, invoicing, and customer service and sales. Processes and assets along the logistics and manufacturing value chain will be automated, with humans in the "driving" seat. Covid-19 has shown that we cannot predict everything, which means that machines need to be supervised and their outputs validated. The most powerful model is the man-machine hybrid.

- The Internet of Things (IoT) is now becoming commonplace in the haulage sector, with it being used primarily for asset tracking and monitoring, such as trailers and ISO containers, as well as fleet management, where it conveys valuable information on the operating status of vehicles. Examples of current applications are tyre pressure reporting, vehicle maintenance monitoring and refrigerated trailer status reporting.

- Operators will use digital tools to make operations perform to higher standards and be more resilient. In addition, there will be services emerging that extract data from the operational platforms as well as the ecosystem and use intelligence to create new value. At a macro level, artificial intelligence and machine learning, together with data mining across very large data sets, will contribute to comprehensive supply chain analytics and management information tools. With these new tools and services, the traditional logistics and supply chain industry will move into a new phase.

- Meanwhile in the flourishing e-commerce market, picking and packing automation and robotics will become essential means to meet the ever-increasing demands for speed and accuracy. We are already seeing this in the grocery home-delivery sector and this technology is ripe to be transferred to other sectors, such as hardware and homeware delivery and click-and-collect retailers.

# GREATER GOVERNMENT INTERVENTION

### Greater Government Intervention:

- More protection of businesses in key sectors from acquisition by foreign or “hostile” entities, or falling into administration.
- “Nationalisation” of key “strategic” assets, which so far has extended to writing off NHS debts, temporary “nationalisation” of the railways (government has taken over the franchises), could the airlines be next… would road haulage ever be considered?
- It is a very grey area as to what exactly is “Key” or “Strategic” and there will be much contention as to which businesses and sectors fall within this definition.
- With the increase in outsourced storage and logistics comes a need for a loosening of Competition Law to allow competing companies, especially retailers, to achieve more efficient utilisation of assets. This has already been applied to food retailers during the COVID-19 crisis, allowing them to share physical assets, workforces and demand data. Perhaps this could be extended to permit supply chain collaboration that is economically beneficial, serves the Green agenda, and does not constitute a conspiracy to disadvantage the consumer[33].
- With the economic turbulence comes increased financial distress. UK Insolvency Law is relatively severe compared to that in other countries. On 28 March 2020, the Secretary of State for Business, Energy and Industrial Strategy (BEIS) announced key measures[28] to protect companies and businesses facing major funding and operational difficulties in the current COVID-19 Pandemic. The measures will involve the Government bringing forward legislation at the earliest opportunity to amend current UK Insolvency Law to give companies extra time and space to weather the current storm while ensuring that creditors can get the best return possible in the circumstances. These measures will likely have a significant impact on the position of creditors and their existing rights to seek repayment of overdue debts. This is likely to be similar to the Chapter 11 system in the USA.
- Austerity and recession will bring about higher and more progressive taxation. The government will continue to seek to maximise its tax revenues while at the same time trying to stimulate economic growth. Not so different from the past 10 years…

# THE GREEN AGENDA

## Increased Prominence of the Green Agenda:

- The Green Agenda already has a significant influence on government policy and we can expect its momentum to increase rapidly in the coming years.

- In June 2019, the UK became the first major economy in the world to pass laws to end its contribution to global warming by 2050[29]. The target requires the UK to bring all greenhouse gas emissions to net zero by 2050, compared with the previous target of at least 80% reduction from 1990 levels.

- This will inevitably lead to an acceleration of the decarbonisation of the UK Road Haulage Sector [31][32][33]. We could soon be looking at electrification of the inside lane of motorways and key arterial routes, powered by new gas fired power stations with super-efficient carbon capture systems. This would be well aligned with the government's intention to launch major infrastructure investment projects to boost the UK economy.

- Another impact in an altogether different area, could be the move away from our “throw-away society” with our culture given to overconsumption and dedicated to the production of disposable items. We may see demand grow for goods to be repairable rather than replaceable[33]. There may also be developments in the leasing or rental of consumer durables, as an alternative to outright purchase. If they come to pass, these developments could radically alter the role of retailing in some sectors, and the shape and function of their supply chains. It may be that, for such retailers, the competitive edge, from a logistics point of view, will derive not so much from the initial fulfilment of a consumer purchase, but from the reverse leg of the supply chain – the ability to pull back not just returns, as at present, but leased/ rented goods, used goods in part exchange, and so on, and to refurbish, repurpose, resell or recycle as appropriate. This would be a natural extension to the services already being provided by the “returns processing” logistics companies mentioned previously.

# OUR STRATEGIC ASSETS

## Appreciation of Key Workers as “Strategic Assets”:

- During the Lockdown we gained an appreciation of the importance of key workers in delivering essential services.

- Relevant to the Haulage Sector, we hope that there will be continued recognition and appreciation of the essential services provided by delivery drivers and logistics workers, alongside healthcare, social care, supermarket workers, and of course our emergency services and armed forces.

- Perhaps the concept of Key Worker status will be formalised, and the government will be persuaded to protect and nurture these worker categories, regardless of the economic pressures it may be under.

- There is scope for standards and policies to be established for essential workforces to ensure crews reach their planes, trains, trucks, ships, and homes. This is no simple task, as it will involve ensuring an adequate supply of suitably skilled and experienced workers, which in turn may require government intervention in recruitment, remuneration, retention, training and policing of standards.

# CONCLUSION

We don’t yet know where this will take us. Every week brings new data and understanding. There are so many diverging views and it is anyone’s guess which is right. We have put together our forecast based on everything we have gleaned from the current analyses, press articles and our own experience. We believe this forecast is not unreasonable, but we consider it to be just a starting point, from which we will gradually refine a better prediction of what is to come as more information becomes available. We will constantly strive to provide our latest interpretation of the potential impact on the Haulage Sector, the LGV driver market and more specifically how we as a temporary driver supplier can add value.

Right now, the most important thing for every business is to maintain gross income while conserving cash so as to remain as robust as possible in the face of the ups and downs you will encounter over the coming months and possibly years. Beware of being lured into trading with high risk clients who offer extended payment terms. Remember that while on paper you may believe you are making a profit, if your clients go under you will be saddled with a debt and a consequent cash flow shortfall of 5 to 10 times the profit you thought you had made. There are many decent companies that have gone into administration for this reason.

There will always be a need for haulage companies and temporary staffing agencies in the long term; the greater the uncertainty and variability in demand, the greater the need for a temporary workforce. For this reason, we want to live to fight another day. If that means cutting costs, making redundancies, furloughing staff and turning away risky work, then that is what we must do to conserve cash and protect the core business. Meanwhile we will remain agile and ready to spring into action as the lockdown is relaxed. Flexibility and agility will be paramount for hauliers and agencies alike to exploit opportunities as they arise.

The haulage sector is an exciting place to be in the coming decade. The changes it will go through will present significant challenges but also tremendous opportunities. We hope you have found this report useful and that it will help you navigate a successful path through the coming years.

# APPENDIX 1: GDP DEFINITION, CALCULATION & REPORTING

Gross domestic product (**GDP**) is the total value of output produced by a nation in a given time period. GDP includes the output of foreign owned businesses that are located in a nation following foreign direct investment.

If the GDP figure is higher than it was in the previous period – the economy is growing. If it's lower – the economy is getting smaller.

There are three ways of calculating GDP:

**The Expenditure Method (also known as Aggregate Demand):**

GDP = C + I + G + (X - M) where:

- C: Household spending on goods and services
- I: Capital Investment spending
- G: Government spending
- X: Exports of goods and services
- M: Imports of goods and services

**The Income Method:**

GDP is the sum of the incomes earned through the production of goods and services. This is:

- Income from people in jobs and in self-employment (e.g. wages and salaries)
- + Profits of private sector businesses
- + Rent Income from ownership of land

**The Production Method:**

This measure of GDP adds together the value of output produced by each of the productive sectors in the economy using the concept of "Value Added".

- "Value Added" is the increase in the value of goods or services as a result of the production process, i.e. it is the value of all goods and services produced in the economy minus the value of intermediate goods

Rather than use the absolute value of the GDP, many economists compare change in GDP from one time period to a previous time period, expressed as a percentage of the previous time period.

"Quarter on Quarter" (QOQ or qr/qr) measures the % change between one fiscal quarter and the previous fiscal quarter. For example, Q4 GDP % QOQ is the absolute GDP value generated in Q4 divided by the absolute GDP value generated in the previous quarter, i.e. Q3, multiplied by 100 and then minus 100 to produce the difference in the form of a %.

"Year on Year" (YOY) measures the % change from one year relative to the same time period in the previous year. For example, Q4 GDP % YOY is the absolute GDP value generated in Q4 of a given year divided by the absolute GDP value generated in Q4 of the previous year, multiplied by 100 and then minus 100 to produce the difference in the form of a %.

### GDP Reporting:

In the UK, we get a new GDP figure every month.

The Office for National Statistics (ONS) is responsible for calculating the GDP figure for the UK. Naturally it collects a lot of data from a lot of different sources to do this. It surveys tens of thousands of UK firms working in manufacturing, services, retail and construction, as well as using a wealth of administrative data.

Monthly GDP is calculated only using the output measure (the value of goods and services produced) and the changes from month to month can be quite large. So, the ONS also produces an estimate of GDP over 3 months, where it compares data to the previous 3 months. This provides a more reliable picture of how the economy is performing, and it includes data from each of the expenditure, income and output measures.

You might have heard people refer to the first or second estimate of GDP For the first estimate of each quarter, the ONS has not gathered all the information it needs – so this can be revised at the second estimate. At the first estimate, the ONS has gathered around half of the data it needs across the expenditure, income and output measures.

GDP can also be revised at a later date due to changes in the methods for estimating it, or to incorporate less frequent data.

# APPENDIX 2:
# PMI COMPOSITE SCORE: DEFINITION & CALCULATION

Purchasing Managers' Indexes (PMI) are economic indicators derived from monthly surveys of private sector companies. This is essentially a crude but effective short-term measure of the degree of economic change, i.e. improvement or deterioration.

The three principal producers of PMIs are the Institute for Supply Management (ISM), which originated the manufacturing and non-manufacturing metrics produced for the United States, the Singapore Institute of Purchasing and Materials Management (SIPMM), which produces the Singapore PMI, and the Markit Group, which produces metrics based on ISM's work for over 30 countries worldwide.

ISM, SIPMM, and Markit Group separately compile Purchasing Managers' Index (PMI) surveys on a monthly basis by polling businesses which represent the makeup of the respective business sector. ISM's surveys cover all NAICS categories. SIPMM survey covers all manufacturing sectors. The Markit survey covers private sector companies, but not the public sector.

PMI data are presented in the form of a diffusion index, which is calculated as follows:

PMI = (P1 * 1) + (P2 * 0.5)

P1 = Percentage number of answers that reported an improvement.
P2 = Percentage number of answers that reported no change.

Thus, if 100% of the panel reported an improvement, the index would be 100.0. If 100% reported a deterioration, the index would be zero. If 100% of the panel saw no change, the index would be 50.0 (P2 * 0.5). Therefore, an index reading of 50.0 means that the variable is unchanged, a number over 50.0 indicates an improvement, while anything below 50.0 suggests a decline. An index of 50.0 would arise if either all respondents reported no change or the number of respondents reporting an improvement was matched by the number of respondents reporting a deterioration. The further away from 50.0 the index is, the stronger the change over the month, e.g. a reading of 55.0 points to a more frequently reported increase in a variable than a reading of 52.5. The degree of confidence experienced by respondents reporting an improvement and the degree of concern experienced by respondents reporting a deterioration are not factored into the index.

The PMI scores are adjusted to account for seasonal variations.

# APPENDIX 3: TYPRES OF RECESSION

Economists have defined various types of recession:

V

**V-shaped recession:**
This begins with a steep fall but quickly bottoms out, turns back around and immediately returns to previous levels or similar. This is a best-case scenario. The assumptions are that government intervention is successful, virus propagation is controlled, we return to business as usual (BAU), except for those aged over 60 or 70 who remain in isolation until the vaccine is deployed. There is no resurgence of a more virulent form of the virus and we quickly recover from the economic shock with little lasting damage to production capability.

W

**W-shaped recession:**
This begins like a V-shaped recession but then turns back down again after showing false signs of recovery. These are sometimes called "double-dip recessions" because the economy dips twice before full recovery is achieved. To apply this model to current circumstances, initial government intervention is successful, virus propagation is controlled, we return to BAU, except for those aged over 60 or 70 who remain in isolation until the vaccine is deployed. We quickly recover from the economic shock but then a more virulent mutation of the virus returns in around 6 months to a year's time and forces us all back into Lockdown. We repeat the current cycle, further depleting our nation's capital reserves and lengthening any recovery.

U

**U-shaped recession:**
This begins with a slightly less pronounced decline but then remains at the bottom for an extended period of time before eventually turning around and rising to previous levels. In today's circumstances this would be:

- Government intervention is not as successful as we would like. The Lockdown continues for several months as we struggle to control propagation of the virus.
- Permanent damage is inflicted on our production capacity, with many companies going into liquidation.
- The nation's capital reserves are severely depleted, reducing our capability to invest our way out of the recession.
- There is mass unemployment.
- It takes 3-5 years for the economy to recover.

L

**L-shaped recession:**
This is the most pessimistic scenario. Here it begins with a quick decline in economic output and then a failure to recover; it is essentially a more severe version of the U-shaped scenario. There is permanent damage to the economy. The post COVID-19 environment is the new "now". It is to all intents and purposes a "post-COVID-19 winter" that endures for decades while the country, region and the world as a whole recover slowly to previous levels.

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