

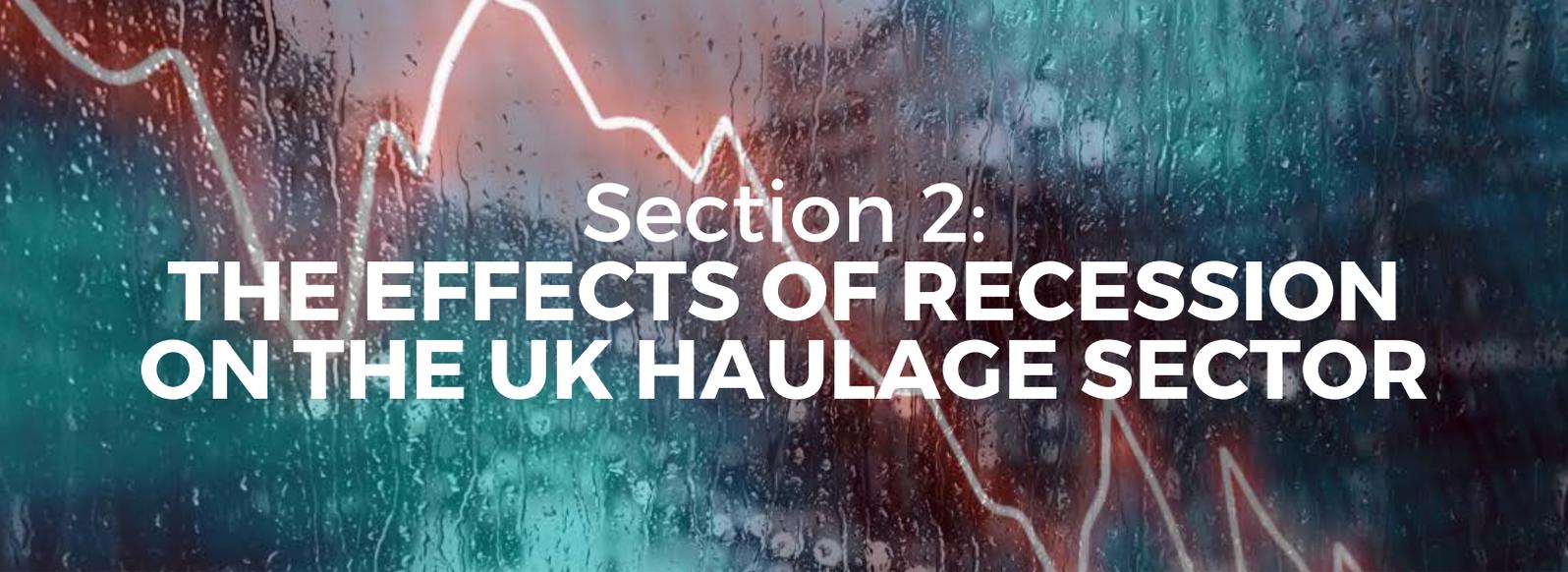
THE IMPACT OF COVID-19 ON THE UK HAULAGE SECTOR

SECTION 2: The Effects of Recession on the UK Haulage Sector

Kieran Smith, CEO Driver Require



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Section 2: **THE EFFECTS OF RECESSION ON THE UK HAULAGE SECTOR**

In the first instalment of our three-part analysis on the impact of COVID-19 on the UK Haulage Sector, we explored the current coronavirus Pandemic and the evolution of its consequential social and economic impact.

We developed a number of possible recovery scenarios, concluding that we're likely to face a V-shaped partial recovery in late 2020 as we come out of full lock-down, followed by a U-shaped recession in the longer term with GDP returning to pre-pandemic levels by 2025.

In this second instalment, we'll look at lessons from the 2008 Great Recession, interpreting how this affected the UK haulage industry and, in particular, employment numbers within the Transport and Storage Sector and the UK LGV driver workforce.

Our Report **COVID-19 & Its Impact on the UK Haulage Sector** is structured into 3 sections:



SECTION 1: Economic Crisis, Recession & Recovery Scenarios

We explore the current COVID-19 Pandemic and the consequent social and economic crisis. We look at how this is likely to evolve over time and we develop a number of possible recovery scenarios.



SECTION 2: The Effects of Recession on the UK Haulage Sector

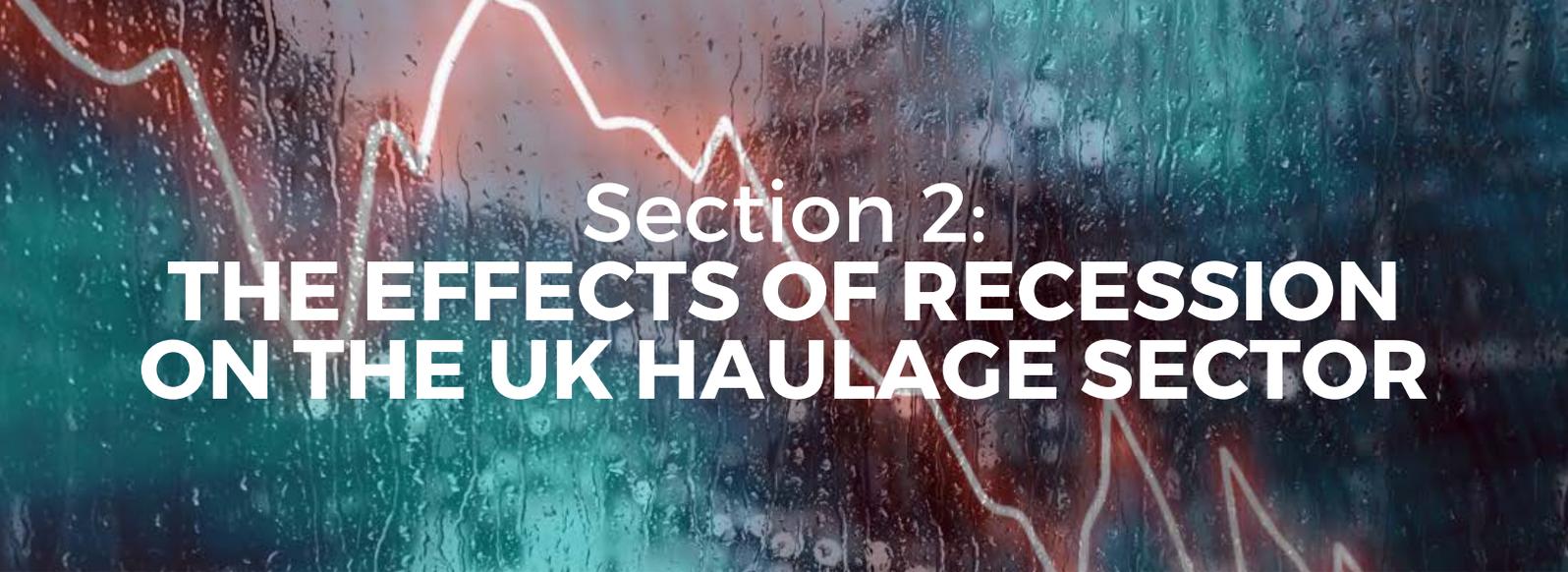
We look at lessons from the 2008 Great Recession. We interpret how this affected the UK haulage industry and in particular employment numbers within the Transport and Storage Sector then, more granularly, the UK LGV driver workforce.



SECTION 3: What is the Future for the UK Haulage Sector after COVID-19?

In the third part we combine the key conclusions from the previous two sections to predict how the UK Haulage Sector and the LGV driver market will be affected by the COVID-19 Pandemic crisis, the subsequent recession and recovery.

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 hauliers decide what to do now to maximise their chances of survival to eventually come out with increased competitive advantage.



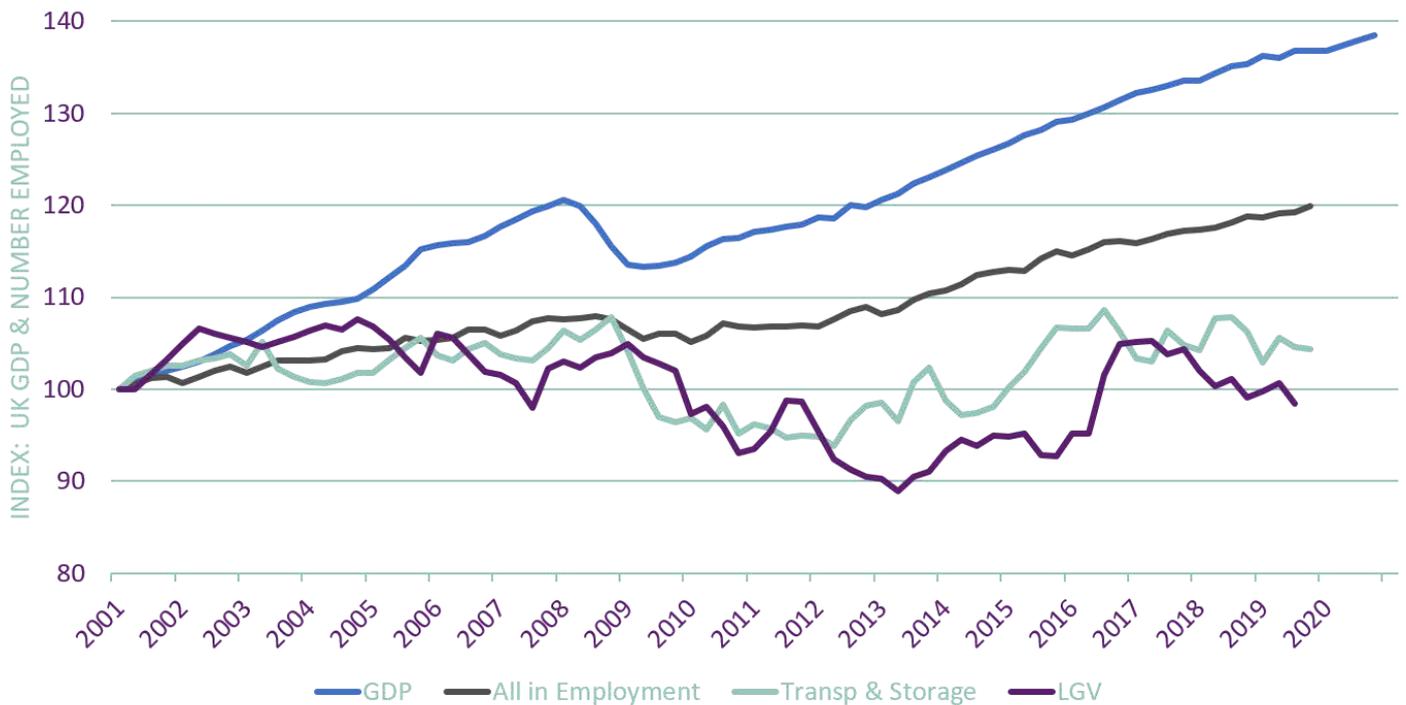
Section 2: **THE EFFECTS OF RECESSION ON THE UK HAULAGE SECTOR**

Expert economists are comparing the current crisis to the Great Recession as well as the economic conditions following the Second World War. There is also much speculation about how the impending recession will pan out, with a veritable alphabet of what sort of shape it will take: V-shaped, W, U or L, as previously discussed in Section 1 of our report into the impact of COVID-19 on the UK Haulage Sector.

The important thing for us in the UK Haulage Sector is how it will affect us and, from our own interest as a temporary driver supplier, how it will impact employment numbers in the logistics market. If it's anything like the Great Recession of 2008, the effect on the Haulage Sector will be exaggerated compared to other sectors. This section looks back at how the 2008 Great Recession affected employment in the UK Haulage Sector and draws inferences that can be applied to our current circumstances and help us develop a prediction of what is to come.

A reminder of what happened in 2008...

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.

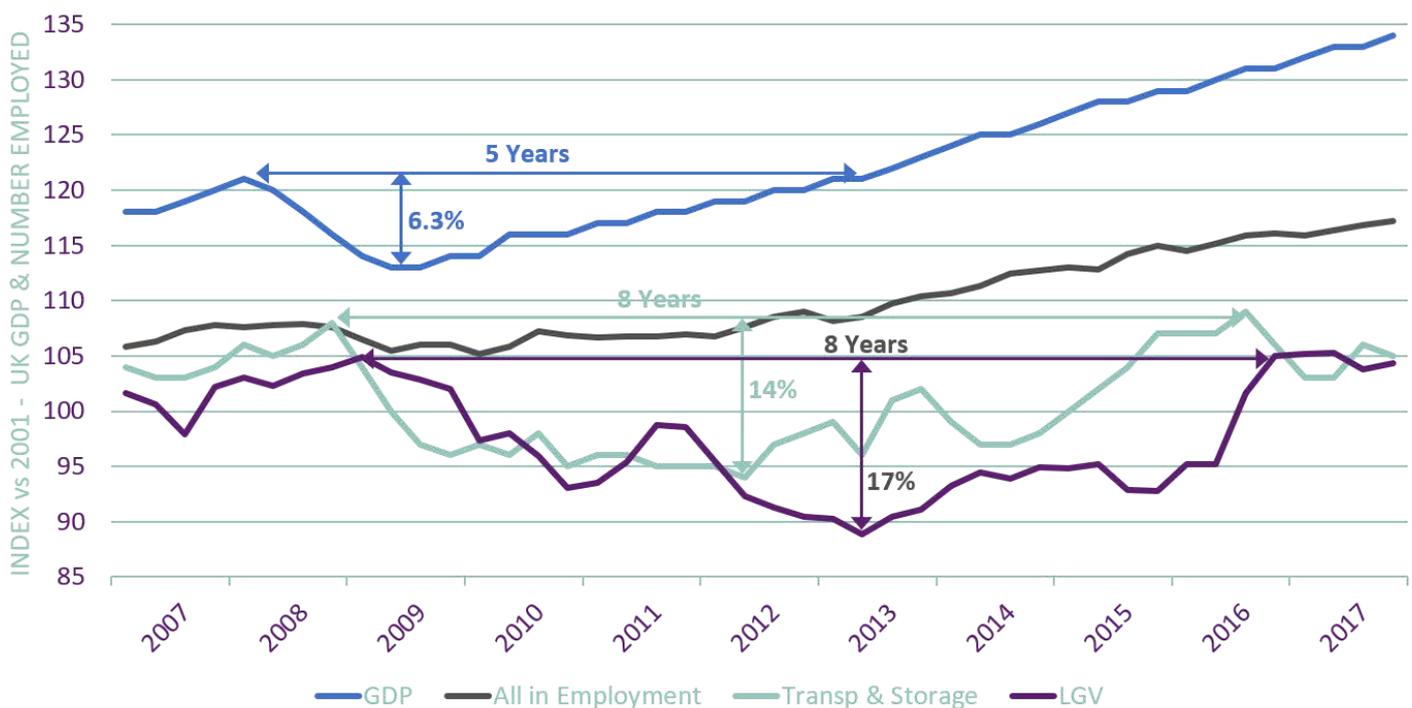


The UK economy contracted for 5 quarters in a row, from Q2 2008 to Q2 2009, causing the UK GDP to fall by an unprecedented -6.3% over the 15 month period. To put this in context, GDP had grown by 20% in the previous 8 years and lost over one quarter of this progression in just over a year. It is also 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 is 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.



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?

In Section 1 we concluded that we are facing a predicted Q2 2020 drop in GDP of -14% due to the COVID-19 Pandemic, but which could be as large as -24%, (or even larger if we include the OBR "reference" scenario that suggests a -35% drop in Q2 GDP) and a 2020 annual GDP drop of -7%, worst case -11%. What this is telling us is that the COVID-19 Pandemic is already forecast to be harsher than the 2008 Financial Crisis, so we need to buckle our seatbelts, this is going to be a rough ride.

The final section of our report takes our knowledge of how the Great Recession affected the UK economy and applies these key learnings to the COVID-19 Pandemic recession scenarios from Section 1 to provide a forecast of the potential impact on the UK haulage market and LGV driver employment.