

BUSINESS CORNER

THE BRAKES ARE ON

Glum businesses, cautious consumers and slim margins have crunched demand for new trucks. The steady growth in road transport activity over the past few years has evaporated. Road user charge data shows little, if any, growth over the past year and diesel sales are also pretty stagnant.

The sluggish state of the road transport sector is consistent with a marked slowdown in the rate of domestic demand growth over 2005. Over the 2004 calendar year domestic demand grew by 8.2%; a year later the rate of growth had almost halved, and we predict it will halve again (to 2%pa) by the end of this year.

Growth in import and export volumes has also slowed dramatically over the past year. Export growth slumped from 5.6% over 2004 to a slight contraction (-0.3%) over 2005, and while demand for imports is still growing, the pace of growth has

slowed from 16.6% in 2004 to 6.4% over 2005. We expect import volume growth to ease further over the next 18 months as the higher exchange rate pushes up the price of imports and businesses and households become more cautious about spending their incomes.

The slower growth in economic activity and an increasing emphasis on controlling costs will curb demand for transport services.

Truck operators are responding to the gloomier business outlook by buying fewer new trucks. Sales of brand new very heavy trucks are running 25% below year earlier levels, while sales of medium trucks (first-time registrations) in April were nearly a third lower than a year earlier. Sales of medium trucks, however, had held up well until April. (See graph below)

Total RUC km purchased are down on this time last year by around 5%. Purchases

by heavy truck operators are flat to falling. There is some evidence that operators are trying to lift their capacity utilization with total RUC revenue falling more slowly than km implying more weight being carried per km traveled.

Over the three months, ended April 2006, the volume of diesel sold was down 2% compared to a year earlier. That's consistent with the fall in RUC km purchased and fewer truck sales, and ultimately weaker demand for road transport services.

In our April article we discussed the impact of a sliding currency on truck operators – the cost of rigs and fuel would rise, but there would eventually be some pick-up in demand for road transport services from exporters. The latter is likely to be the first place transport operators will see a turnaround in business conditions implying rural and forestry operators are in a good starting position. Operators focused on distributing imported goods can expect lean pickings for at least another year. Domestic economic activity will eventually revive, but probably not until 2007. 

