

A YEAR TO FORGET

Demand for heavy commercial vehicles fell into a hole last year. Total sales (we are talking first-time registrations here) across the medium and very heavy categories were down 16% on 2005. Sales at the very heavy end of the market were the worst affected, falling 23%. First-time registrations of medium trucks were off 12%.

A flat patch of economic growth in the last half of 2005 was the catalyst for the fall. Recession fears sent business confidence and investment intentions through the floor, and after four years of steady buying, transport operators were able to shelve fleet upgrade plans and ride out the soft patch in demand with their existing capital stock.

But unlike demand for light commercial vehicles – which lifted sharply over the second half of 2006 as the economy found its feet – sales at the heavy end of the market did not respond to the broader lift in economic activity. And this was despite a solid rebound in activity – RUC data reveal a steady increase in heavy truck activity over the latter stages of the year.

Looking ahead, we expect demand for heavy trucks to once again be soft this year. Sales won't plummet as they did last year, but annual growth will be flat – the downward trend in annual sales growth will abate as the year progresses, leaving the annual total at around 2006's level.

We are more bullish about demand for very heavy trucks than medium trucks. This reflects our view that the Reserve Bank's concerns about medium-term inflation will see it hike interest rates 50 basis points by year's end. The dampening effect on domestic demand will be more keenly felt by operators specialising in short-haul, around town type deliveries. With medium trucks often operated at below full capacity, operators faced with higher borrowing costs will look first to more fully utilise their current capital stock before buying additional trucks.

Our more optimistic outlook for very heavy trucks is based on two factors:

- The improvement in trading conditions: After a difficult first six months, domestic spending picked-up markedly over the second half 2006. The delay between order and delivery of big rigs means purchase decisions made as a result of the lift in demand over the second half of last year will appear in this year's registration numbers.
- The long awaited harvest of the 'wall of wood' appears to be under way. September quarter 2005 roundwood production was up 2.3% on a year earlier, the largest annual increase since the March quarter of 2002. We expect production to lift by around 6.5% in 2007, and continue to accelerate through 2008 as a lower currency lifts returns. 

