

## GATHERING SPEED

Demand for road freight transport services has been firm so far this year. Increased production in the forestry and dairy sectors and a sharp lift in domestic demand have kept road freight operators busy. The increase in activity is apparent in a number of the indicators we monitor:

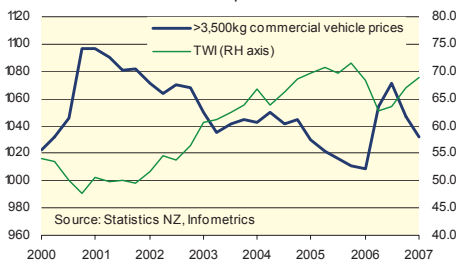
- Year-to-date private sector commercial diesel sales are up 5.2% on last year.
- Prior to the April 1 increase, RUC data showed steady annual growth in transport activity. Forward buying to avoid the price rise has skewed the data in recent months but heavy truck and trailer revenue purchases in May were still 5.5% ahead of May last year.
- Forestry output has increased sharply. March quarter log and timber export volumes were up 15% on the March 2006 quarter. Year-to-date exports out of the Port of Tauranga in May were up 17% on last year.

The upswing in activity has led to a tentative recovery in truck sales. March quarter sales of new big rigs were down 2.4% on year-earlier levels, a marked improvement on the -39% annual growth recorded for the December quarter.

We expect sales to continue to recover over the second half of this year, on the back of ongoing robust activity in the forestry and dairy sectors. Let's look at the prospects of each of these industries, beginning with forestry.

The ANZ commodity price index shows world forestry prices are now at their highest since 1993. The high dollar has offset much of the pick-up in returns, but New Zealand dollar prices are still up 24% from two years ago. The higher prices have also come at a fortunate time for forest owners looking to harvest their trees ahead of Kyoto-related restrictions coming into force.

Dollar up, prices down  
TWI and commercial vehicle prices



Forestry exports have also benefited from reduced competition in the key Chinese market. A Russian government decision to impose a 20% tariff on log exports has constrained supply to China, and with the tariff set to increase to 80% in 2008 or 2009, conditions should remain favourable for New Zealand producers.

Dairy prices have risen phenomenally since August last year. According to the ANZ's price

index, world dairy prices have risen 75% over the last nine months (or 52% in New Zealand dollar terms). The lift in prices has been underpinned by a number of factors that appear to be fairly permanent: increased production of bio-fuel in the US has pushed up the price of cattle feed (corn); European subsidies have been removed; demand from the emerging Asian economies is increasing; and water supply issues in Australia.

The strong New Zealand dollar is another factor behind our bullish outlook for truck sales over the remainder of this year. The currency's strength has significantly lowered the cost of trucks (see Graph), and we expect to see registration numbers recover over the next six months as trucks ordered earlier in the year are delivered.

Against these positives, transport operators focused on distributing imported goods are likely to experience some slowdown in demand over the remainder of this year, as the cumulative impact of the Reserve Bank's three interest rate hikes since March begin to bite. **FO**

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Infometrics



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