TURBULENT TIMES

Global financial market turmoil has dominated the economic landscape over the past couple of months. Equity markets worldwide have fallen heavily and credit markets have seized up. The New Zealand dollar lost 17% in less than a month. So what has caused the shake-up, and what are the consequences for the transport industry in New Zealand?

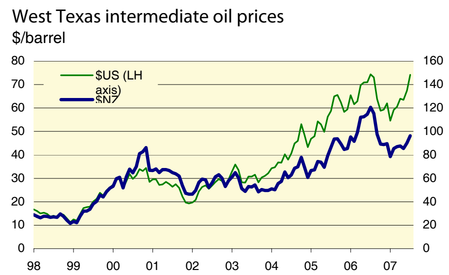
The financial market firestorm was sparked by a reassessment of the risks posed by the US sub-prime mortgage sector to the American economy (sub-prime mortgages are those taken out by people with chequered credit histories).

The sub-prime issue is not a particularly new one. The problem has been on investors' radar since early this year, and as recently as June, market participants had been reasonably confident that any negative fallout would be minor and localised.

The sanguine outlook changed when some high-profile hedge funds began reporting losses on their sub-prime investments. Because of the complicated way the institutions that lent the original money had then repackaged those mortgages and on-sold them to other investors, no-one was (nor are they still) really sure of the size of the bad loans or who actually owned them.

That uncertainty created panic in the markets and investors rushed to exit investments perceived to have a high degree of risk. The carry trade – where investors borrow in low interest rate countries such as Japan and invest in high interest rate countries like New Zealand – is one such risky investment. The dash to unwind the carry trade on the New Zealand dollar saw the local currency sink like a stone.

The drop in the dollar aside, the fall-out locally has been relatively limited so far. The turmoil has coincided with a number of local finance company failures, but apart from the problems experienced by Christchurch-based Property Finance, these have had more to do with simple mismanagement than any tightening of credit conditions.



So what does all this mean for the transport sector? The most immediate impact on transport operators will be higher fuel costs. The strength of the New Zealand dollar has sheltered local motorists from a steady lift in international oil prices this year, but with the dollar having fallen sharply, the price of diesel is likely to rise. The weaker currency will also increase the costs for those wanting to buy a new truck.

Transport operators can expect demand for their services from the export sector to increase. A weaker dollar boosts export returns and stimulates production – although increasing output in many of the primary sectors will take time.

The flip-side of the weaker currency is that it will lead to some softening in demand for imported goods. But the lower dollar will be a minor player in the slowdown that operators with a domestic focus can expect to experience over the remainder of this year. Falling net migration numbers, high interest rates and a rapidly cooling property market will cause consumers to adopt a more cautionary approach to their spending over the months ahead.

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Infometrics

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