

# TURBULENCE CLEARED – SMOOTH SAILING AHEAD?

The global market turmoil of July and August has subsided in recent months as the US Federal Reserve steadied market nerves by dropping interest rates by 75 basis points.

The return of relative calm has seen the value of the New Zealand dollar recover to around 76c against the US dollar, the highest rate since June. Furthermore, recent world economic indicators are pointing to increasing world demand, with US real GDP growth of 1.0% in the September quarter, and Australian real GDP growth of 0.9% in June (both seasonally adjusted).

With prospects for domestic and world economic growth improving, what's ahead for the transport industry?

Robust world economic growth indicates that commodity prices will remain strong. Even with a high exchange rate we believe this will lead to an increase in export activity. Greater export activity should increase demand for transport services, making room for an improvement in revenue growth.

In the year to June, costs rose by just 0.7%, the slowest rate since March 2004. The appreciation

in the New Zealand exchange rate has helped to shield transport operators from recent jumps in world oil prices, ensuring that cost growth does not accelerate significantly over the next few months.

### Bounce back!

\$US/\$NZ exchange rate



However, even these significant positives do not ensure that it is all smooth sailing ahead for the road transport industry.

Tight monetary conditions, a cooling housing market, and falling migration will see activity ease for transport operators with a domestic focus. A

tight labour market will also increase wage costs associated with road transport, with only 40% of heavy truck vacancies filled over 2006.

Furthermore, the introduction of emissions standards on trucks from January 1 2008 and higher fuel prices deriving from the carbon trading scheme from January 1 2009, will put upward pressures on transport operating costs.

In our view solid economic growth in New Zealand and strong demand for most of New Zealand's commodity exports will underpin demand for road transport services over the next year. However, cost pressures will continue to dog the transport industry as well as the economy generally. So how operators deal with rising costs will be a key factor determining business profitability over the next year. **END**

Matt Nolan  
Infometrics

