MARGINS TIGHT, AND IT'S ONLY THE BEGINNING

Over 2007, road transport operators managed to improve their margins after a long tight period from 2005-06. However, this margin growth was mainly reversed in March. Over the March quarter, road transport users' costs (excluding labour) have increased 6.5% on a year earlier while the price paid for their output increased by 9.7%.

However, since March matters have taken a turn for the worse with diesel prices rising by a staggering 38% over the three months to June. The increase in diesel prices has greatly exceeded the more newsworthy increase in petrol prices – which rose 19% over the three months to June.

Adding to the pain of higher fuel prices, there has been a 10% increase in road user charges from July 1. However, fuel and road user charges are not the only additional costs that trucking companies are having to face at the moment.

Labour costs continued to increase quickly over the March quarter, with quality adjusted wages in the transport and storage industry sitting 3.3% higher than they were a year earlier. A generally tight labour market in conjunction with hefty demand for truck drivers in Australia has created a situation where employees can demand, and often receive, large wage increases.

The current shortage of truck operators in mining regions in Australia is illustrated by the going wage for dump truck operators. In New Zealand the going rate is $NZ55-$60,000, while in Western Australia the going wage is $A75,000-105,000 (Source: Hays recruitment survey).

The outlook for road user transport costs is more of the same over the next year.

The Reserve Bank is set to cut interest rates from September. Although the cut in rates will help to eventually reduce financing costs, the immediate impact will be a lower New Zealand dollar.

A weaker New Zealand dollar will make imported goods more expensive – implying that even higher diesel prices are on the horizon even if the world price of diesel stops rising! Furthermore, higher imported goods prices will ensure that the cost of new vehicles and replacement parts for old vehicles will also head up in price.

On the labour side, wage pressures are expected to remain intense. The Australian economy will continue to run strongly over the next year, as the price of 'hard' commodities remains elevated. This will keep demand for truck drivers strong in Australia, especially Western Australia and Queensland.

These significant cost pressures have occurred during a period when the domestic economy has slowed rapidly. Over the March quarter, gross domestic product fell 0.3% on December (seasonally adjusted), while partial indicators suggest that June may have been even worse.

A slowing housing market combined with sharp increases in petrol prices have made consumers cautious. A softening in world growth will reduce export volumes, while the emissions trading scheme will ensure that the recent significant decline in activity in the forestry industry remains permanent. As a result, there will be little scope for road transport operators to pass on these rising costs to consumers.

Overall, these factors will ensure that margins will continue to tighten in the road transport industry over the coming year.

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