

SCHIZOPHRENIC BUSINESS CONDITIONS

These are interesting times for business with some adversely effected by the current trading conditions and others trading very positively. One sector trading well is the Dairy industry who are continuing to post excellent returns. The substantial dairy investments being made are having positive impacts on many parts of rural sector. Transport operators on the other hand are one industry that is finding (in the main) they are 'playing into a stiff breeze'. Margins are being eroded and the difficulty of increasing prices continues. All this is not helped by the sudden increase in Road User Charges at the start of July.

The effect of all these cost increases is transport operators need to evaluate what work they might need to pass on. Recent data has identified the Labour Cost Index for the June year end had the largest annual increase of 3.5% since recording commenced in 1992. These increases are seen in transport driver's labour rates. Given the shortage of drivers there has been reasonably free movement of staff between firms. This movement might slow as there is a limit to what driver's wages can be increased to and passed on in the transport rates.

For those who have funding arrangements with variable rates (often flexible credit facilities) the interest rates are likely to be climbing due to the credit crunch around the world. It is more costly for financiers to borrow the funds from offshore as there are insufficient funds saved in New Zealand to meet our borrowing requirements. This means our money needs to come from offshore

and as our New Zealand economy is not insulated from the world economy interest rates are increasing.

The transport industry is a good barometer in the economy as it feels the effects of change early. With the inability to improve margins operators need to be decisive in their actions. This decisiveness means avoiding unprofitable work and managing the business expenses. These are times when your customers may find it challenging to pay their transport costs so it is important you stay on their case and if necessary stop doing business with them

These are times where business relationships need to be enhanced so it is likely transport operators will have to do more for less (margin) but they need to know what the actual margin is and if the work being done is attractive. It is important everyone in the business is aware of what constitutes the cost of doing business and it is too easy to be wrong for too long which may have catastrophic effects. I encourage you to be one of the decisive businesses because at the moment transport is on the wrong side of schizophrenia. **FTI**

Trevor Thornton
Transport Advisor

Grant Thornton 

