

## SOME GOOD NEWS

The fall in fuel prices over the past six weeks will be adding some fat to some pretty lean margins in the trucking industry. How much further will prices fall? Not much in our view. Although there are some conspiracy theories floating about that suggest the Saudis will pump enough oil to drop prices leading into the November mid-term elections in the US to help George Bush. An interesting theory, but one we don't subscribe to.

The currency has also helped lower fuel prices. The rebound in the NZ dollar since mid-year has taken almost everyone by surprise, but in our view it won't last. As it edges lower it will prevent fuel prices falling further and may in fact nudge them higher before the end of the year.

So that wasn't all good news, but there is more. For the past three years one of the main sources of demand for heavy road transport – forestry – has been pretty quiet. That is likely to change over the next three years. The Ministry of Agriculture and Forestry are picking strong growth (6%pa) in the volume of wood harvested out to 2010.

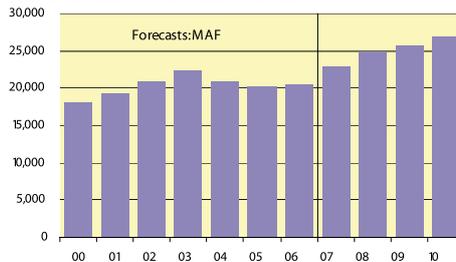
The vast majority of this additional wood will be exported. That adds up to around 6 million tonnes of additional wood to be transported from forests

to ports or sawmills over the next five years. That's a lot of extra freight.

Furthermore, the forests from which the additional wood will come from are in many cases further from export ports than has traditionally been the case for log exports. Northland and East Coast forests will be important sources of demand for log transport services.

To get the change in wood freight volumes in perspective let's go back over the last five years. The volume of wood harvested has remained roughly constant at around 20-21million m<sup>3</sup>. That volume is expected to rise to 23 million over the year ending March 2007 and to nearly 27 million

Forest harvest  
Year end March million cubic metres



by 2010. So forestry will move from a stagnant market for freight services to one of the strongest over the next few years. Suppliers of trucks and road transport companies with experience in log haulage will need to gear up for the lift in demand from forestry companies.

In addition to forestry the simple growth in the size of the economy will generate demand for freight services. There is a reasonably direct link between GDP and the volume of transport services required. And as businesses have sought to become more efficient and add value the demand for high quality freight services has seen transport output increase faster than GDP. We expect GDP to grow on average by around 3%pa. That is likely to see the volume of freight carried within the economy double by around 2025.

So despite the tight margins and sluggish growth in transport activity evident over the past year, prospects look reasonably bright. Forestry is likely to be a star sector for the transport industry over the next five years. 

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Photo by Warren Aitken