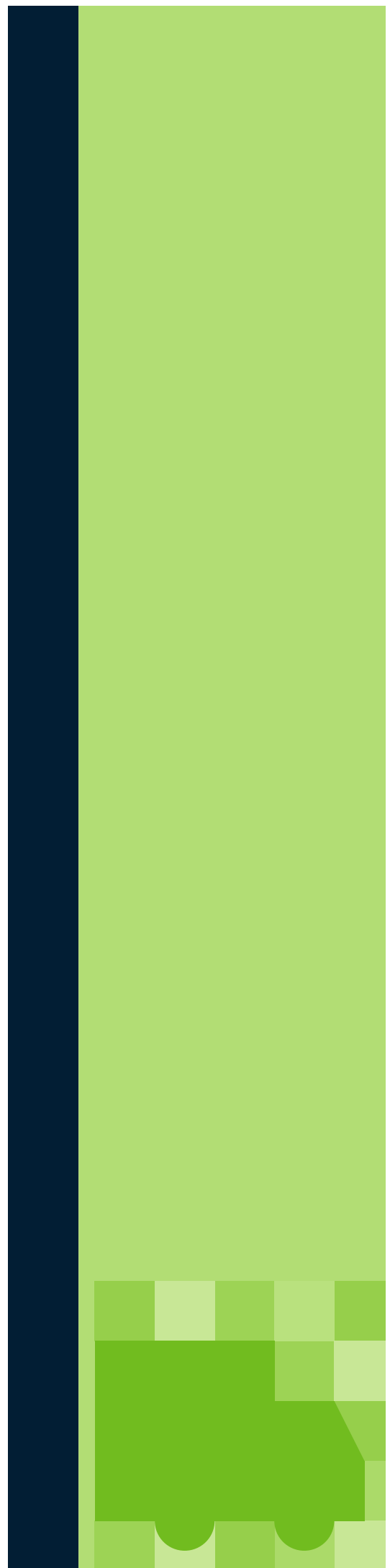


transport forecasts

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Unless otherwise stated, the source for all data is Statistics NZ.

This forecast is based on data available up until 25 February 2005.

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1. ECONOMIC OUTLOOK

Crazy growth

If, in 2000, we had predicted economic growth would average 4%pa for the next five years, we would have been regarded as mad. Forecasting growth of 3%pa for the next two years makes us merely wacky.

Such sustained growth is at odds with New Zealand's standard economic syndrome: manic growth for a couple of years followed by a period in the doldrums. To be fair, signs of a relapse are now evident: a latent inflationary tendency, a worrying addiction to imports, and an obsession with housing.

Treatment of these imbalances will calm the economy. The first step is to resolve the capacity problem that threatens to push inflation above 3%. Dr Bollard stands ready to administer an appropriate remedy – we think the Bank will use interest rates as a sedative, rather than a shock treatment. Nevertheless, compulsive housing investors may get the shakes as higher interest rates take hold.

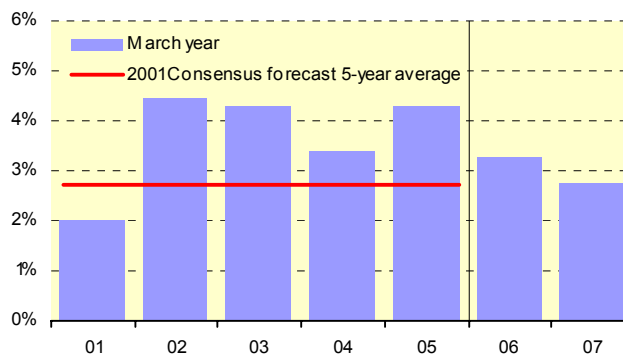
A side-effect of Dr Bollard's remedy for inflation will be an ongoing currency high: while exporters are learning to cope, the ongoing current account deficit will be a reoccurring nightmare for currency speculators.

In the labour market, delusions of grandeur are becoming common, with workers seeking wage rises of 7%. Virtually full employment means such demands are not entirely fanciful – we expect wage inflation to average between 4% and 5%pa. There is method to this madness: the strong labour market will soften any slowdown in domestic demand, and force businesses out of their dependency on labour for growth.

The Bank may be trying to lock-down economic growth, but the government will be padding the cell walls with yet more spending. Economic euphoria should see it through to another 3 years in power, but it may finally come unhinged trying to deal with junior coalition lunatics.

Surprise!

GDP, annual average % change



Graph 1.1

Summary of March 2005 forecasts

Annual average percentage changes

March years	Average 1995-2004	2002/03	2003/04	2004/05 Forecast	2005/06 Forecast	2006/07 Forecast	Forecast Average
Private consumption	3.8%	4.6%	5.6%	5.2%	3.3%	3.3%	3.9%
Private commercial investment	6.3%	10.4%	15.2%	9.9%	4.2%	2.8%	5.6%
Exports of goods and services	4.6%	7.6%	1.0%	5.6%	5.2%	5.4%	5.4%
Imports of goods and services	6.6%	7.4%	11.9%	13.4%	7.5%	6.1%	8.9%
Gross domestic product*	3.5%	4.3%	3.4%	4.3%	3.3%	2.8%	3.4%
Employment	2.3%	2.4%	2.7%	3.5%	2.1%	1.3%	2.3%
Unemployment rate (1)	6.4%	5.1%	4.5%	3.6%	3.1%	3.5%	3.4%
Hourly wage	2.8%	2.8%	3.4%	3.3%	4.0%	4.6%	4.0%
CPI (ex-credit) (2)	2.0%	2.5%	1.5%	3.1%	3.0%	3.1%	3.1%
Budget balance, \$m (3)	2,680	1,966	7,424	6,411	6,711	6,261	6,461
Current a/c balance (\$bn)	-4,870	-4,330	-6,328	-9,352	-8,671	-9,765	-9,263
Exchange rate - TWI; level	58.5	56.4	63.6	66.9	66.4	67.2	66.8
NZ interest rates - bonds	6.9%	6.4%	5.8%	6.1%	6.3%	6.3%	6.2%
- bills	6.8%	5.9%	5.3%	6.5%	6.6%	6.1%	6.4%

(1) Annual average (2) March on March (3) Year ended June *Expenditure base

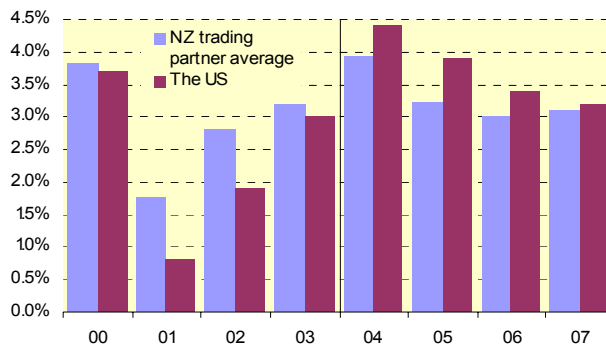
Table 1.1

A more robust world, on the whole

The performance of the US economy is still being overshadowed by its fiscal and current account deficits. Nevertheless, American GDP growth has been upbeat over the last 1-2 years, and is now more well-balanced, with a pick-up in business investment to join consumer spending. Elsewhere, the UK and Australian economies appear to have sidestepped potential problems with their overheated housing markets, while the threat from oil prices has diminished. Among the positives, there are still problems as well – the European economy remains uninspiring, while Japan has inexplicably dipped back into recession.

Hold your head high

GDP growth, calendar years



Graph 1.2

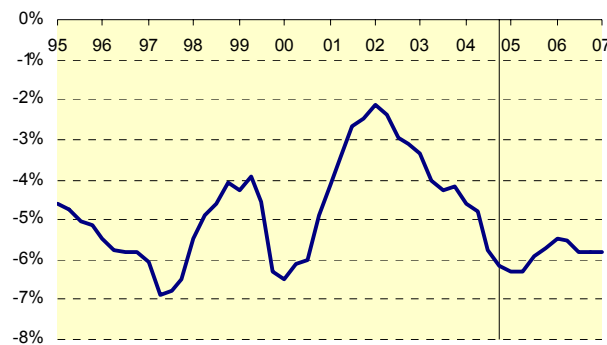


Current account let down

The threat of rampant domestic growth to the current account deficit has been realised. The deficit expanded sharply late last year and we predict it will bottom out at close to 6.5% of GDP sometime this year. The extent of the external blow-out is not surprising given booming domestic spending and the high currency. However, solid world growth and a sustained lift in New Zealand's terms of trade have helped limit the damage. These factors, plus some prospect of slowing domestic demand growth will persuade currency dealers to stick with the dollar – we anticipate no significant fall in its value over the next two years.

Deficit in danger territory

Current account deficit as % GDP



Graph 1.3

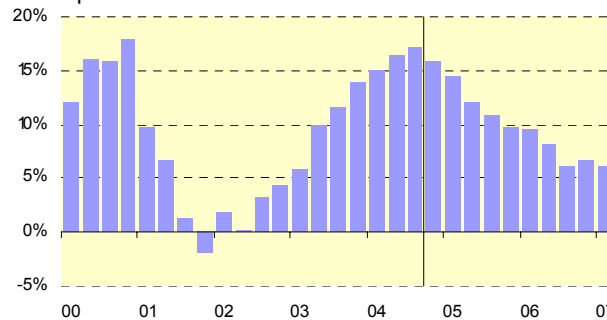
Investing in productivity

Rising wage demands will increase the pressure on business to invest in productivity-enhancing capital. Double digit growth in capital investment spending over the past year is a sign that businesses are heeding the message. But it also reflects greater confidence in the economy, sumptuous profit growth, and the low cost of imported capital equipment. We predict further growth in capital spending, although the pace of growth will slow as businesses look for a return on the investing they have been doing.

Investing productively?

Private capital spending ex residential \$m

95/96 prices



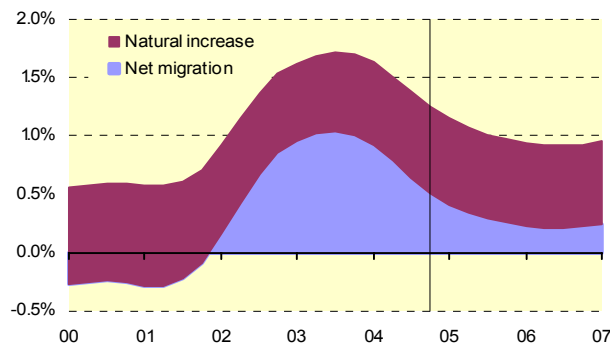
Graph 1.4

Mind the brain drain

Net migration is still shrinking, and the annual balance will fall under 9,000 by March 2006. Nevertheless, this rate of net inflow is not far removed from the long-run average, and provides a foundation for sustained population growth of around 0.9%pa. The composition of net migration is shifting, with New Zealand emigration continuing to rise over the forecast period, although departures will be restrained by tight labour market conditions. Increasing numbers of work-permits and approvals through the Skilled Migrant Category mean that the new arrivals are able to make an immediate contribution to the labour force.

Old-fashioned population growth

Annual average % change



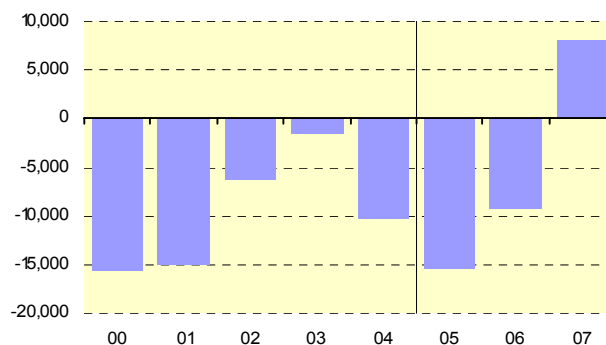
Graph 1.5

No labour left behind

The past year has seen a substantial fall in unemployment, and a large rise in the participation rate. However, there is a limit to how much more labour can be wrung from those two sources. Although we think unemployment might reach 3% in the short-term, ultimately 3.5% will prove to be the lowest sustainable level. With working-age population growth also slowing, businesses will not be able to continue expanding their employment at the current pace. Employment growth will ease from 3.5%pa over March 2005 to 1.3% in 2007, as the cost of finding, employing, and retaining labour forces businesses to seek alternative ways of expanding their output.

The well runs dry

Annual average change in unemployed



Graph 1.6

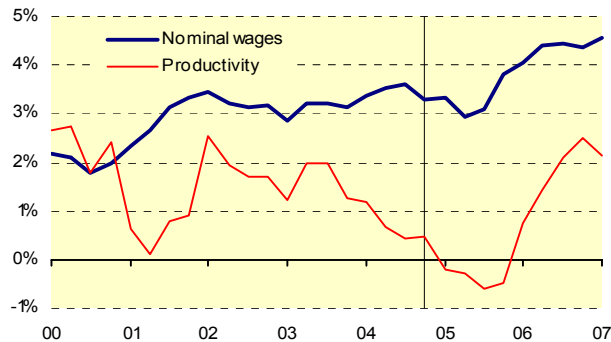


Wages are on the up and up

The inevitable consequence of severe and permanent labour shortages is a growing willingness for labour to seek higher wage claims. We expect rising nominal wage growth over the forecast period in the 4-5% range. Although inflation will remain strong, real wage gains will average 0.9% as businesses are forced to absorb some of the increased wage costs. Higher labour costs will force employers to improve productivity, which will in turn help sustain wage increases. From April 2005, the first of the staggered increases to family support is phased in, giving households another source of income growth.

A signal for change

Annual average % change



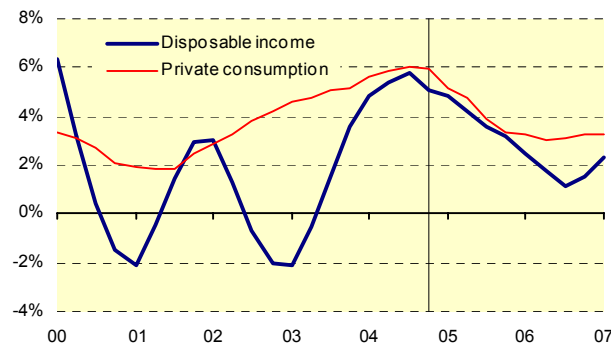
Graph 1.7

Consumption drops down a gear

Slower population and employment growth will undermine disposable income growth and eventually consumption spending. A short period of falling house prices later this year and the lagged effects of higher interest rates, will dent exuberant spending growth. However, a tight labour market and bigger pay packets will keep households confident and consumer humming along – just not as fast as it has been. We predict private consumption spending will grow at around 3.3%pa over the forecast period, somewhat faster than disposable income.

Spending splutters slightly

Annual average % change, real



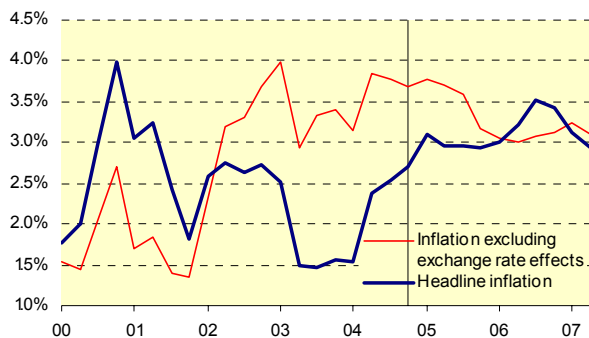
Graph 1.8

Inflated by growth steroids

Capacity constraints are putting upward pressure on inflation. The tight labour market will translate into higher wage demands, which some businesses will be able to hand straight through to consumers in the form of higher prices. The surge in prices and costs in the building industry as a result of strong demand has the potential to be repeated in other sectors. Falling prices for tradable goods have assisted the Reserve Bank in keeping headline inflation down, but the deflationary effects of the currency are waning. Inflation is set to hold up at around 3%pa over the forecast period.

Dollar not such a drag on inflation

Annual inflation rate, Infometrics estimates



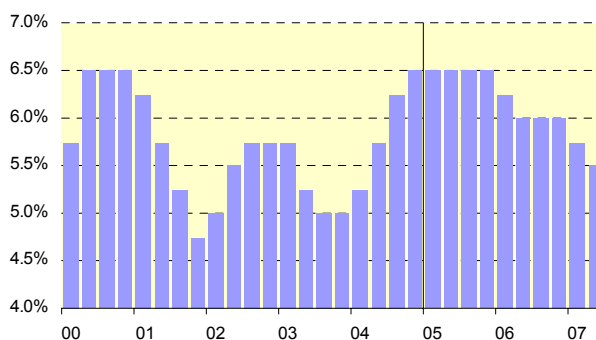
Graph 1.9

Keeping the brakes on

It goes without saying that such a buoyant inflation outlook leaves the Reserve Bank little room to cut interest rates in the near future. Although there is now a significant risk that the Bank will raise rates again to keep inflation down, our forecast is that it will hold fast to its “pipeline” argument and wait for the full effect of last year’s rate hikes to hit households. The Bank will be aware that key areas of the economy (such as housing) are starting to slow, and will be wary of pushing the currency any higher and squeezing exporters further. Interest rate cuts may be possible by 2006, but the OCR will remain at or above neutral over the forecast period.

Prolonging the squeeze

Official cash rate, end of quarter



Graph 1.10

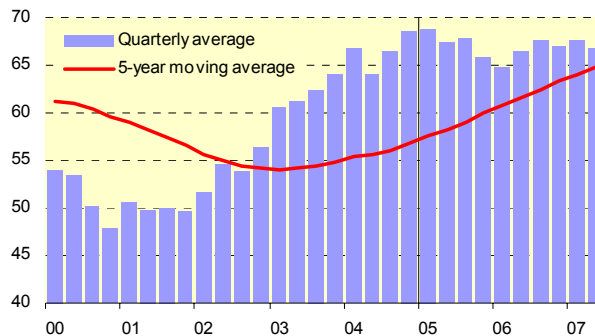


A tick from international investors

Despite being widely recognised as overvalued, the New Zealand dollar is likely to hold up over the next two years. Why? Partly because of America's ugly deficits keeping downward pressure on the \$US, and partly because of New Zealand's solid economic credentials. New Zealand's current account deficit will be over 6% of GDP, but concerns about the balance of payments will be offset by sustained economic growth and relatively high interest rates for international investors.

Living with a strong dollar

Trade weighted index



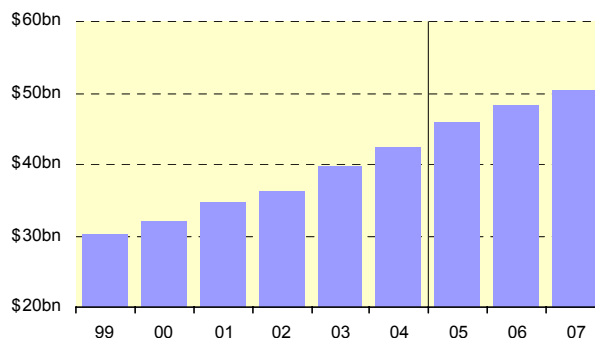
Graph 1.11

No surplus? Yeah, right

It may be trying to redefine the surplus out of existence, but the government is not fooling anyone – and tax revenues will continue to swell in the booming economy. So far, every time that economic growth surprises on the upside, the government finds a way to spend the extra revenue. The next three years will be no different, but the surplus looks likely to remain entrenched above \$6bn. The planned expansion of government spending is unprecedented, and with wide-spread capacity constraints throughout the economy, the government might start practicing what it preaches with regard to productivity.

Labour's creepy secret

Tax revenue, June year



Graph 1.12

2. TRANSPORT ACTIVITY AND PRICES

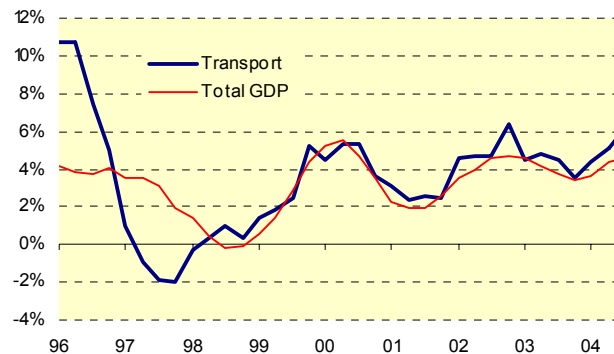
The transport sector continues to record impressive output growth, on the back of a buoyant domestic economy and a generally steady export sector (in spite of the high New Zealand dollar). Over the year ended September, transport sector GDP grew 6.2%, compared to overall GDP growth of 4.6%. Capacity pressures are increasingly common and the transport sector has been signalling a critical shortage of labour for some time. Wage inflation in the road freight part of the sector is running well ahead of overall wage growth (5% compared to 3%pa), while persistently high fuel costs are also adding to the strain on profit margins.

Trucks lead the charge

Road freight is the primary source of the surge in transport activity over the last 2-3 years – purchases of road user charges for heavy trucks and trailers have grown at more than 5%pa since 2002, while commercial diesel sales in the 12 months to January 2005 were almost 8% higher than a year earlier. Turmoil in the rail industry combined with an increasing demand for flexible and efficient service have helped shift demand to road freight operators. Very heavy truck sales are also running at record levels.

An above average performer

Year end % change, constant prices



Graph 2.1

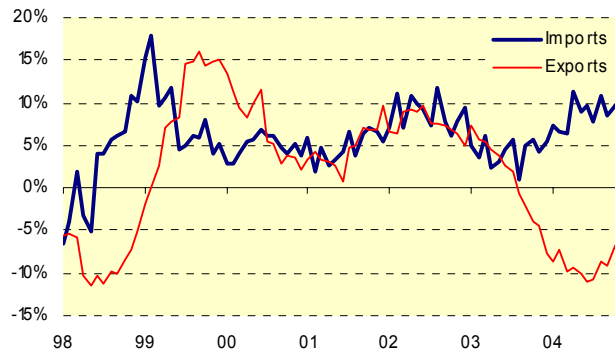
Airfreight volumes have continued to grow, buoyed by growth in high value exports and booming import volume growth. Over the year ended September 2004, total airfreight volumes reached 200,000 tonnes for the first time, and since late 2002, year-end growth has accelerated from 1%pa to more than 12%pa. Import volumes have been the main source of growth, reflecting the strong currency and healthy domestic demand.

Import volume growth through the ports is also running at around 10%pa. Export volume growth has been less impressive reflecting the subdued state of the key forestry sector, the high currency, and punishing shipping rates for bulk cargo. Log and lumber export volumes over the second half of 2004 were some 14% lower than a year earlier. However there are signs of a possible revival in forestry exports with log prices climbing in many Asian countries and a slight tick-up in log exports through the Port of Tauranga in January.



Seafreight volume

Annual average percentage change, tonnes



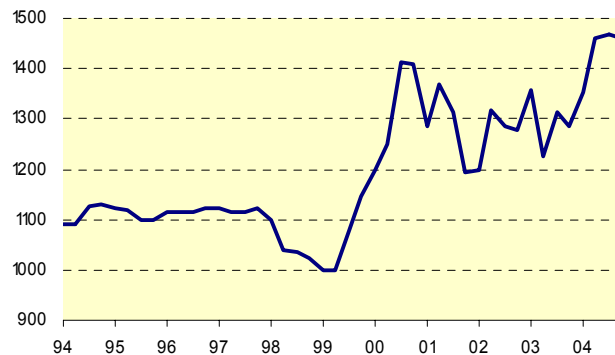
Graph 2.2

Margin strain

Although world oil prices fell in the last two months of 2004, the December quarter average was still around US\$48 per barrel (55% higher than a year earlier). The strength of the New Zealand dollar has helped to mitigate the full impact of the high oil prices, but fuel costs have continued to crimp transport operators' margins. The government's planned fuel-tax hike in April this year will push petrol prices up, but road user charges for heavy trucks are unaffected.

Petrol prices

Consumers price index



Graph 2.3

Rapid output expansion and a tight labour market (New Zealand's unemployment rate is at an OECD low of 3.6%) have kept the pressure on wages in the road freight transport sector. Wage rates for road freight transport workers surged over December after falling slightly between June and September. Annual wage inflation in the sector is around 5%pa – almost twice the growth rate of wages generally.

Although employment (full and part time) has increased, total paid hours in the road freight sector have been falling (down around 3% on a year earlier). This raises two important points: firstly, the sector looks as if it is replacing full-time workers with part-timers, and secondly, with hours worked falling but output rising, productivity is improving – making it easier for operators to afford the higher wages being paid.

Transport activity and prices

Figures are quarterly - either levels, or % changes on same period of previous year (unless otherwise stated)

	00				01				02				03				04			
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec
Activity																				
Transport sector output, constant prices ⁽¹⁾	4.5%	5.3%	5.3%	3.6%	3.1%	2.3%	2.5%	2.5%	4.6%	4.7%	4.6%	6.4%	4.5%	4.8%	4.5%	3.5%	4.4%	5.1%	6.2%	
Real GDP ⁽¹⁾	5.2%	5.6%	4.7%	3.5%	2.3%	1.9%	1.9%	2.6%	3.5%	3.9%	4.6%	4.7%	4.6%	4.2%	3.7%	3.4%	3.6%	4.4%	4.6%	
Road																				
Heavy truck and trailer RUC km	5.6%	5.6%	3.6%	3.3%	2.7%	7.1%	6.7%	4.7%	6.4%	5.5%	5.9%	6.8%	3.9%	2.0%	3.3%	4.7%	7.9%	6.6%	7.1%	4.6%
Medium vehicle RUC km	3.5%	1.3%	-0.1%	-1.3%	-0.3%	2.6%	3.7%	2.3%	7.7%	1.6%	3.1%	5.0%	-0.4%	4.8%	2.7%	4.5%	6.6%	5.0%	5.9%	3.7%
Very heavy RUC \$ revenue per km	0.237	0.237	0.236	0.236	0.237	0.237	0.236	0.236	0.237	0.238	0.238	0.237	0.238	0.239	0.238	0.238	0.238	0.239	0.239	0.238
Diesel sales	6.2%	6.9%	4.0%	2.1%	1.9%	2.8%	7.0%	4.6%	5.5%	10.1%	8.3%	9.9%	6.4%	2.1%	0.2%	3.2%	9.9%	6.5%	10.1%	5.5%
New very heavy truck sales	59.4%	44.7%	14.8%	1.6%	-26.0%	0.3%	-0.5%	-11.5%	41.5%	27.6%	5.6%	20.1%	31.4%	1.5%	29.0%	21.5%	6.2%	17.7%	12.4%	16.8%
New medium truck sales	-25.6%	38.0%	21.7%	-2.3%	-6.2%	-14.3%	17.8%	0.5%	22.8%	56.5%	8.9%	23.3%	45.5%	1.1%	10.7%	7.3%	12.8%	7.5%	13.5%	13.7%
Air																				
Air freight volume - exports ⁽¹⁾	2%	1%	-1%	-6%	-2%	-1%	1%	4%	3%	3%	2%	2%	3%	2%	1%	-1%	-1%	3%	8%	10%
Air freight volume - imports ⁽¹⁾	6%	3%	-1%	-5%	-6%	-5%	-5%	-5%	-5%	-6%	-3%	1%	4%	7%	4%	5%	6%	9%	13%	
Total air freight volumes - exports + imports ⁽²⁾	41	43	46	49	42	43	45	48	41	42	46	51	44	43	45	51	48	49	52	
Revenue passenger kilometres - Air NZ									-6%	-6%	-3%	18%	2%	3%	4%	-1%	-1%	12%	7%	6%
Revenue passenger kilometres - Qantas									7%	9%	8%	11%	2%	-10%	-4%	2%	5%	19%	11%	
Sea																				
Exports by sea ^{(2),(3)}	21,486	22,253	21,725	21,904	22,213	22,431	23,288	24,000	24,179	24,577	24,964	25,180	25,504	25,240	24,452	23,233	22,993	22,490	22,196	22,238
Imports by sea ^{(2),(3)}	13,358	13,507	13,595	13,801	14,002	14,074	14,453	14,544	14,979	15,364	15,572	15,911	15,904	16,067	16,358	16,765	16,927	17,610	17,755	
Exports + Imports ⁽⁴⁾ - Tauranga	21%	22%	21%	22%	21%	22%	22%	23%	23%	23%	22%	22%	23%	24%	24%	24%	24%	24%	23%	
Exports + Imports ⁽⁴⁾ - Whangarei	16%	16%	17%	17%	18%	17%	17%	16%	16%	17%	17%	17%	17%	17%	17%	17%	16%	16%	15%	
Exports + Imports ⁽⁴⁾ - Other	63%	62%	62%	61%	61%	61%	61%	61%	61%	61%	61%	60%	60%	59%	59%	59%	60%	61%	61%	
Prices																				
Road transport margins - output less input ⁽⁵⁾	-75	-105	-120	-151	-157	-143	-134	-119	-106	-89	-84	-82	-80	-71	-62	-43	-44	-73	-63	-82
Real US\$ oil price/barrel - West Texas Int'diate	28.84	28.78	31.62	31.98	28.81	27.82	26.60	20.40	21.61	26.27	28.33	28.18	34.12	29.04	30.21	31.19	35.26	38.33	43.86	48.31
New heavy truck prices ⁽⁵⁾	1023	1032	1046	1097	1097	1090	1081	1082	1071	1064	1070	1068	1050	1035	1042	1045	1043	1050	1042	1045
New light commercial prices ⁽⁵⁾	1038	1063	1081	1101	1108	1118	1121	1122	1124	1124	1125	1124	1120	1114	1109	1106	1100	1102	1102	1102
Mining, quarrying, construction machine prices ⁽⁵⁾	1031	1043	1094	1176	1144	1145	1149	1150	1137	1137	1124	1098	1057	1044	1015	1007	983	991	987	987
Road freight transport labour market																				
- Employment (average weekly hours worked)	46.9	46.1	46.3	48.0	48.5	46.7	47.4	48.3	48.4	48.4	47.8	48.5	48.6	47.0	46.3	49.2	47.8	44.3	44.5	46.8
- Average hourly wage (NZ\$)	13.89	13.87	14.32	14.42	14.26	14.23	14.25	14.48	14.64	14.94	15.04	14.95	15.27	15.71	16.19	15.59	16.00	16.40	16.33	17.02

(1) Year-end % change

(3) Year-end total

(5) Index point difference

(2) Tonnes, '000

(4) Share of national annual total

Sources: Statistics New Zealand, Land Transport New Zealand (LTNZ), major oil companies, Qantas, Air New Zealand, Federal Reserve of St Louis

Table 2.1



3. THE CAR MARKET

Where's that peak?

The peak in economic growth and car sales remains elusive. Although it is tempting to conclude from the latest data that new car sales have reached a plateau, the evidence is hardly compelling. Nonetheless, we are sticking with our view outlined in November that the new car market will take a breather over 2005, while the recent slip in used car sales will be sustained this year. Although economic growth will come off the boil there will still be plenty of heat left in the economy over the next two years to maintain demand for cars at relatively high levels, especially given ongoing labour shortages and other capacity constraints.

Pervasive capacity constraints and labour shortages have forced businesses to increase their rate of capital investment. Impressive profit results have given firms the wherewithal to finance new investment spending some of which will spill over into new vehicle purchases. Certainly the still rapid growth in retail sales as well as building activity will translate into more salespeople on the road. However, growing imbalances in the economy will force some adjustments (interest rates, exchange rates, wages) that will slow the pace of growth over the next two years.

New cars still selling well

Over the second half of 2004 sales of brand new cars totalled 39,081 – that was the highest six months worth of new car sales in 14 years. Sales over the December quarter at nearly 20,000 were again well ahead of our forecasts.

Without exception, forecasters have underestimated the pace at which the economy would grow over 2004. In May, the Treasury predicted that GDP would grow by just 2.8% over the year ending March 2005. Consensus forecasts as at June 2004 showed growth of 3.3% for calendar 2004. Even the most optimistic forecasters were not picking 2004 growth above 4% – the highest pick was 3.7% (we were 3.4%). The outcome is likely to be around 4.5%.

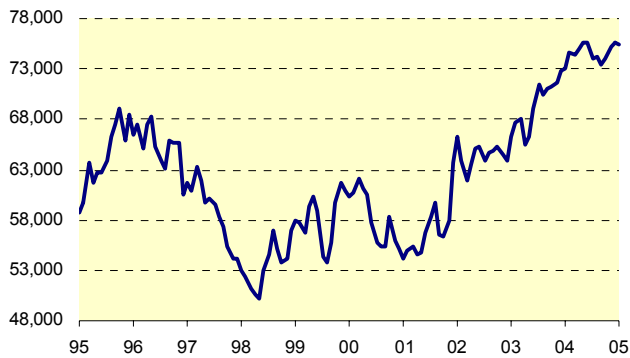
It is not only new car sales that have remained remarkably resilient. The housing sector has bubbled along at historically high levels, and retailers haven't experienced such a sustained burst of growth for 30 years.

In our November report we listed a number of specific factors that may help explain the apparent stamina of the current cycle in new car sales:

- a substantial catch up in capital spending by businesses and the government;
- a structural shift back to new car purchases by increasingly wealthy households;
- government organisations under pressure to spend expanding budgets;
- growing demand for rental cars.

Brand new car sales

Annualised three month running total, s.a.



Graph 3.1

The big question is whether the turning point in sales has been cancelled or simply postponed. Our view remains that a turning point will occur. Indeed if we stare hard at the numbers there is some evidence that the rate of growth in sales is slowing – Graph 3.1 shows that seasonally adjusted annualised sales were no higher in December/January than they were around mid-2004.

Used imports losing their gloss

Sales of used imported cars continue to edge down slightly faster than we have been predicting. The majority of these sales are made to households so it is tempting to conclude that the used import data are an early sign of slowing domestic demand growth.

However, we suspect the divergent trend in new and imported used car sales reflects some shift in market preferences. Factors driving this change include rising per capita incomes, rising household wealth and greater job security. All contribute to greater consumer confidence which is so important to big ticket purchases.

Used import sales

Annualised three month running total, s.a.



Graph 3.2

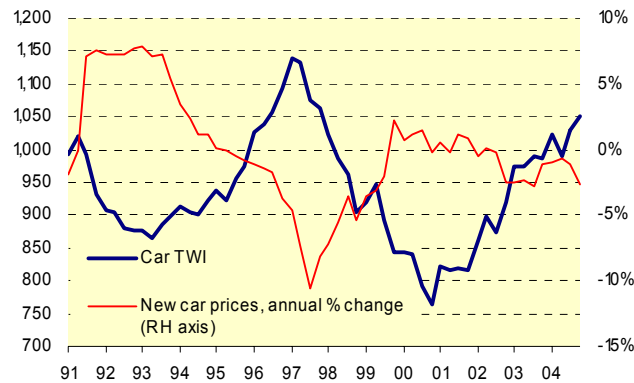
Pricing power

New car prices have continued to edge down in line with the gradually appreciating currency, and ever-present competition. Moreover, world



market prices remain remarkably subdued as car companies constantly search for cost savings (five years ago Toyota announced it was aiming to reduce the cost of its parts by 30%). While the link between new car prices and the exchange rate is theoretically strong, in practice the two have become less closely related over the last 3-4 years – see Graph 3.3.

Taking the currency out of prices



Graph 3.3

The reasons for the weakening (but still present) relationship include:

- a marked reduction in inflation expectations;
- a more open and contestable market;
- a change in pricing strategy by car companies.

Although the currency may play a lesser role in setting new car prices, it remains a critical issue for car firms because of its effect on margins. We have examined the currency from a car importers' perspective and developed a car trade-weighted index (TWI). The major weightings are Japan 45%, Australia 26%, and the Euro 20%, based on customs data for the origin of imported new cars. Interestingly, our car TWI tracks the widely quoted trade-weighted TWI fairly closely. That implies that forecasts of the actual TWI are a useful guide to the currency pressures likely to be faced by car companies.

While we have previously provided individual currency forecasts we think such detail is misleading. It is difficult enough to correctly predict the broad pressures on the exchange rate as measured by the TWI let alone forecast with any helpful degree of certainty individual cross rates.

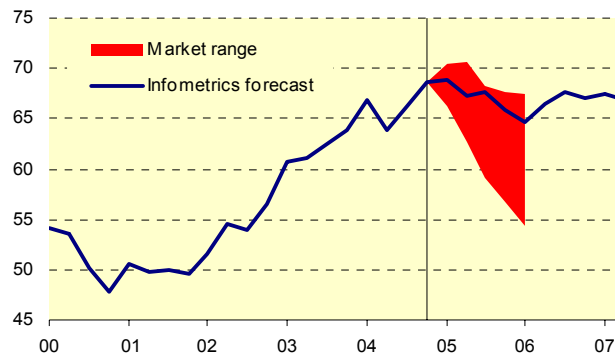
Graph 3.4 shows our TWI forecasts in the context of the market range of forecasts over the next year. It is clear that our outlook for the currency is towards the top end of the range, despite the dollar appearing to be overvalued against the currencies of our main trading partners. Our bullish view for the dollar is based on the following factors:

- Interest rate differentials at the short end of the yield curve will remain relatively attractive for international investors.
- Economic growth in New Zealand will remain healthy, albeit not quite as spectacular as the last two years.

- The current account deficit will peak at around 6.3% of GDP. This is an ugly number, but much of the deterioration has been due to the investments rather than the trade balance. The investment outflows are simply a reflection of New Zealand's strong economic performance.
- Strong international commodity prices will continue to limit the negative effects of the high dollar on export incomes.

A high TWI

Quarterly averages



Graph 3.4

The implication for car companies is that the cost of new cars will rise as the currency weakens over 2005. We think firms will absorb currency shifts over the forecast period leaving nominal car prices relatively stable.

Car price forecasts

		New	% change		Used	% change	
		<i>Index</i>	<i>Quarterly</i>	<i>Annual</i>	<i>index</i>	<i>Quarterly</i>	<i>Annual</i>
2003	March	988	-0.8%	-2.5%	1057	1.6%	-1.4%
	June	986	-0.2%	-2.4%	1025	-3.0%	-4.5%
	September	985	-0.1%	-2.8%	986	-3.8%	-5.6%
	December	985	0.0%	-1.1%	979	-0.7%	-5.9%
2004	March	978	-0.7%	-1.0%	969	-1.0%	-8.3%
	June	979	0.1%	-0.7%	972	0.3%	-5.2%
	September	974	-0.5%	-1.1%	941	-3.2%	-4.6%
	December	959	-1.5%	-2.6%	937	-0.4%	-4.3%
2005	March*	954	-0.5%	-2.4%	935	-0.2%	-3.5%
	June*	954	0.0%	-2.5%	933	-0.2%	-4.0%
	September*	954	0.0%	-2.0%	933	0.0%	-0.8%
	December*	955	0.1%	-0.4%	936	0.3%	-0.1%
2006	March*	957	0.2%	0.3%	940	0.4%	0.5%
	June*	960	0.3%	0.6%	944	0.5%	1.2%
	September*	963	0.3%	0.9%	948	0.4%	1.6%
	December*	967	0.4%	1.2%	952	0.4%	1.7%
2007	March*	969	0.2%	1.2%	954	0.2%	1.5%
	June*	972	0.3%	1.2%	956	0.2%	1.2%

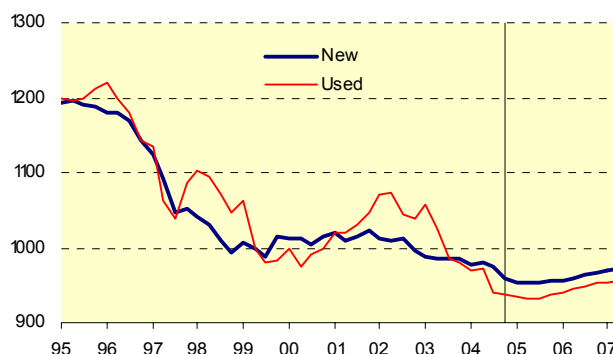
Source: Statistics New Zealand * Infometrics forecasts

Table 3.1



Car prices

Index June 1999=1000, CPI data



Graph 3.5

New car sales at a new level

New car sales have increased by 34% since the beginning of 2001. Even over the last year sales have climbed 6%. These sort of trading conditions have been a refreshing change from the dismal track in demand over the 1990s. The question is, will the upward trend continue?

We predict a year-long pause in sales before they begin rising again in 2006. The pause means sales will remain around their current level over 2005, implying a lift in sales compared to the same month last year, but that lift will get smaller as the year wears on. In practice sales won't be dead stable between 2004 and 2005 – they'll lie in a range of plus or minus 3% of the 2004 total.

The pause in sales will reflect a balance of negative and positive factors. The good news first:

- Consumer and business spending will continue to increase over 2005/06, just not as fast as over the past two years.
- The steady decline in the real price of cars makes them more affordable.
- Household confidence is high and is likely to remain so this year as wages rise in real terms, job security looks assured, and the government recycles some tax money back to households.

In contrast, business confidence looks soggy. The National Bank's index of the net proportion of businesses expecting an improvement in economic conditions over the next year suggests businesses have been persistently pessimistic. Another interpretation is that conditions at the time they respond to the survey are so good they think conditions can only get worse.

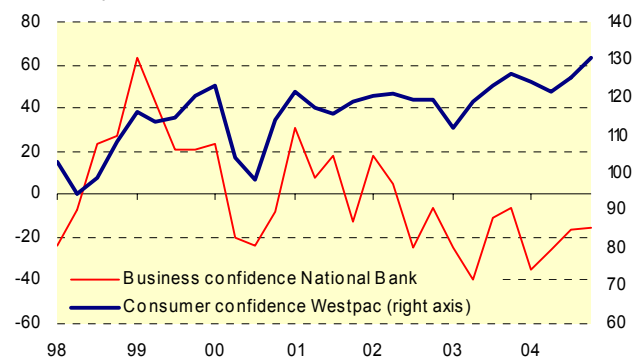
Other factors that will work to cool demand for new cars include:

- Slower population growth – it has slowed from 1.8% to 1.1% and seems likely to edge slightly lower over the next year.

- An end to the big wealth gains available from housing – we expect house price inflation to slow dramatically this year and at some stage this year prices will fall slightly (less than 5%) in nominal terms.
- Higher interest rates will increase debt servicing costs and discourage big ticket purchases.
- We suspect residual value realisations have fallen short of values set two and three years ago primarily because of the unexpected strength of the currency and the downward pressure that has exerted on car prices. It would therefore be unsurprising if companies took a more conservative view on residual values (see *Residual Values – p21*) thereby increasing the cost of financing new car purchases.

Who's feeling confident?

Quarterly consumer & business confidence

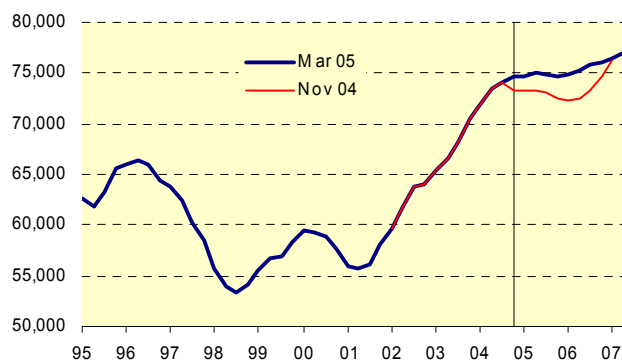


Graph 3.6

These factors will translate into slower economic growth – we are predicting that GDP growth will slow from 4.6% over 2004 to around 3.3% over 2005. The slowdown in domestic spending will be even more dramatic from around 8% to 4%. Even after slowing, though, the rates of GDP and domestic demand growth will still be reasonably impressive.

A pit stop for sales

Annual new car sales



Graph 3.7

At least some of the steep climb in sales since late 2001 reflects the unleashing of pent up demand from the period of very low sales between 1998 and 2001. As the catch-up is completed a pause in sales growth would be entirely plausible.



Our conclusion from the above points is that new car sales will hold up, but the surge in sales over the past three years will fizzle out. We predict calendar year 2005 sales will hold at around 75,000. The economy has taken much longer to slow than anyone expected, the corollary is that the economy may be stuck in the slow lane for two to three years. Despite slower economic growth over 2006/07, we expect new car sales to lift.

New car sales forecasts

Percent change on year earlier data

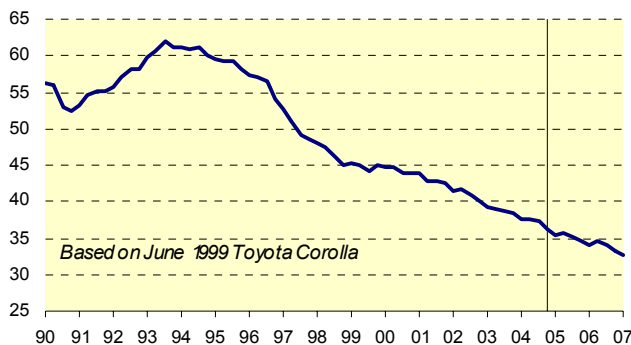
		Quarter	% change	Annual	% change
2003	March	15995	8.7%	65364	9.6%
	June	16642	7.3%	66492	7.9%
	September	18529	9.6%	68108	6.8%
	December	19287	13.8%	70453	9.9%
2004	March	17438	9.0%	71896	10.0%
	June	18236	9.6%	73490	10.5%
	September	19119	3.2%	74080	8.8%
	December	19962	3.5%	74755	6.1%
2005	March*	17400	-0.2%	74717	3.9%
	June*	18520	1.6%	75001	2.1%
	September*	18970	-0.8%	74852	1.0%
	December*	19820	-0.7%	74710	-0.1%
2006	March*	17540	0.8%	74850	0.2%
	June*	18970	2.4%	75300	0.4%
	September*	19540	3.0%	75870	1.4%
	December*	20000	0.9%	76050	1.8%
2007	March*	17840	1.7%	76350	2.0%
	June*	19750	4.1%	77130	2.4%

Source: LTSA * Infometrics forecasts

Table 3.2

Working less to buy a new car

Weeks of gross earnings to buy a new car



Graph 3.8

The economy continues to expand, population increases, business earnings grow albeit at a slower pace and household incomes rise in real terms. These trends will eventually translate into further growth in capital

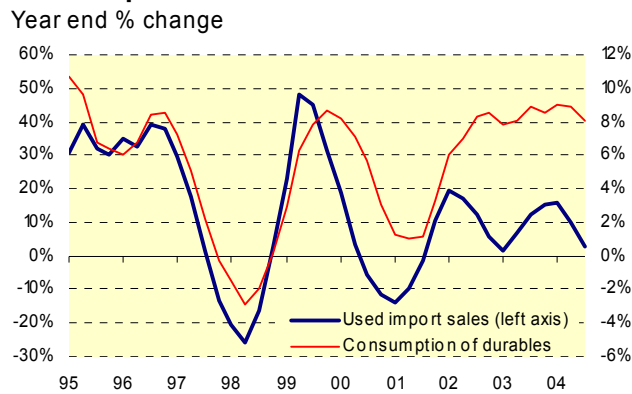
and consumer spending which will push new car sales to around 77,000 by early 2007.

We also expect car prices to remain stable over the forecast period. However, prices generally will rise as will wages and therefore new car affordability will continue to improve. The now firmly established downward trend in the real cost of new cars is a significant factor in the step change in new car sales over the past three years.

Used imports not as appealing

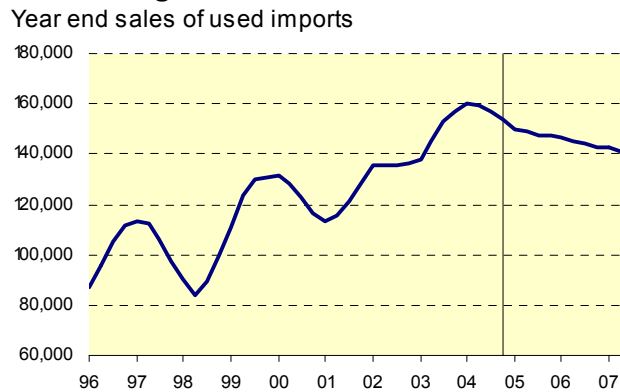
The decline in sales of used imported car at a time when consumer spending has been rising rapidly suggests this market is undergoing more than a cyclical correction.

Used imports out of favour



Graph 3.9

Not much growth in used sales



Graph 3.10

Graph 3.9 shows that used imported cars have tracked households' consumption of durable goods reasonably closely over the past ten years. However since 2002, households have lifted their spending on durable goods significantly, but used imported cars have clearly not been a preferred item on the shopping list. Two important reasons for the apparent fall from grace of used imports:

- Housing and related spending has been a more important spending priority than cars.



- People are increasingly confident about their incomes and wealth to persuade them to step up to new rather than second hand product.

We suspect the second reason carries the most weight and is likely to see demand for used imports drift lower over the forecast period, rather than stabilise. The used market could also be dinged by the introduction of tighter emission standards, concerns over car disposal/recycling, and mandatory security coding of all cars. These changes will create specific costs for all cars irrespective of value.

Imported used car sales forecasts

Percent change on year earlier data

		<i>Quarter</i>	<i>% change</i>	<i>Annual</i>	<i>% change</i>
2003	March	36976	4.8%	138127	1.8%
	June	39788	21.5%	145160	6.9%
	September	41562	22.2%	152718	12.4%
	December	38646	12.4%	156972	15.1%
2004	March	39745	7.5%	159741	15.6%
	June	39692	-0.2%	159645	10.0%
	September	38539	-7.3%	156622	2.6%
	December	36066	-6.7%	154042	-1.9%
2005	March*	35600	-10.4%	149897	-6.2%
	June*	38510	-3.0%	148715	-6.8%
	September*	37540	-2.6%	147716	-5.7%
	December*	35680	-1.1%	147330	-4.4%
2006	March*	34520	-3.0%	146250	-2.4%
	June*	37450	-2.8%	145190	-2.4%
	September*	36200	-3.6%	143850	-2.6%
	December*	34850	-2.3%	143020	-2.9%
2007	March*	34120	-1.2%	142620	-2.5%
	June*	36230	-3.3%	141400	-2.6%

*Source: LTSA * Infometrics forecasts*

Table 3.3

4. RESIDUAL VALUES

Although the buoyant new car market has been supporting residual value (RV) realisations, the strong New Zealand dollar has depressed new and used car prices. The key question looking forward is whether car prices will rise at all over the next three years. While we think there will be some upward pressure on prices from the currency and general inflation, neither will be sufficient, in our view, to lead to significantly higher car prices. If anything, RVs will need to be lowered over the next 2-3 years.

New car prices

A key factor used in determining residual values is the price of new cars at the time the vehicle is resold. Although the direct impact of the currency on car prices seems to have weakened over the last five years (see *The Car Market – p13*), we expect the currency to fall slightly over the next two years, implying some upward pressure on car prices. However, currency movements are unlikely to outweigh car companies' desire to keep market prices relatively stable. We predict little change in nominal car prices out to 2007, implying that RVs in three years time may well be lower than those being achieved today.

Interest rates

Interest rates reflect the overall strength of the economy and inflationary pressure. The higher interest rates are at the time a vehicle is sold, the more the residual value is likely to exceed historically derived estimates.

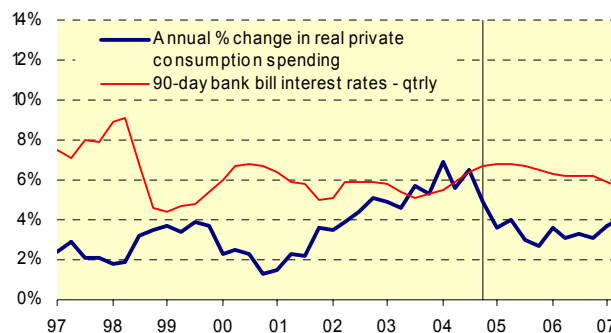
Sustained above-trend economic growth has resulted in an upward trend for inflation. Although we expect the economy to cool over the next year, inflation is likely to hover around 3%pa over the forecast period. The result will be interest rates at the high end of spectrum – 90-day bills will remain above 6% until early 2007. However we expect them to be lower in three years time, thus strengthening the case for setting lower RVs.

The state of domestic demand

Real private consumption spending is used as a proxy for domestic demand. If domestic demand conditions are buoyant, then RVs are likely to be above the value that historical projections would suggest.

Residual value determinants

Interest rates and consumption spending



Graph 4.1



We expect growth in domestic expenditure to slow and then track at around 3%pa for much of the forecast period, as higher interest rates and lower net migration take their toll on the economy. Softer domestic demand will exert some downward pressure on RVs.

Conclusion

Most factors point to a flat trajectory for new car prices over the forecast period, and with economic activity likely to be more subdued in 2-3 years time than it is now, it would be logical to be lowering RVs. We suspect that the strength of the currency has left some realised RVs sitting well above the original target. That will be a powerful incentive to lower RVs on vehicles currently being sold or leased.

Residual value determinants for a three year old car

The level of the following four variables at the time the residual value is realised is important. All changes relative to the historical average.

One percentage point increase in interest rates	\$370
For every \$1,000 increase in the new car price	\$340
Additional percentage point growth in consumption spending	\$285

Table 4.1

5. SECTORS

Forestry flunking

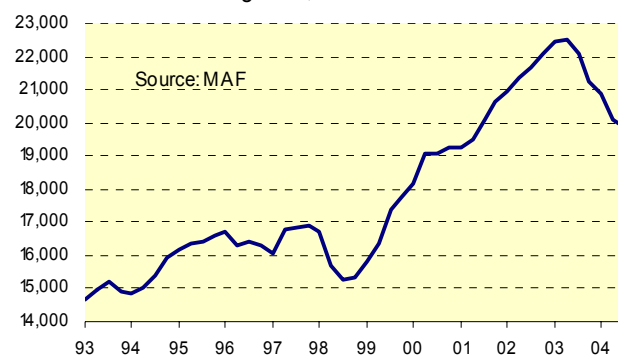
The transport of logs accounts for a large share of the total weight of product carried on New Zealand roads, and therefore forestry activity is an important determinant of very heavy truck sales.

The forestry sector continues to be punished by the high dollar (average cross-rate of US67c over the year to January, compared to long-run value of US57c), a dramatic and sustained rise in bulk shipping rates, and rising labour costs – forestry industry pay packets grew 5.3% in the year to December.

MAF figures show that for the first time since June 2001, annual roundwood removals dipped below 20,000,000m³ in the year ended September 2004 – down 10% on the previous year. Log exports through the Port of Tauranga have picked up slightly, but year-end growth still remains at -29%. Clearly, the slump in harvest volumes has reduced the demand for transport services.

Total roundwood removals

Twelve month running total, '000m³



Graph 5.1

However, despite the subdued performance, the forestry sector has the potential to grow significantly over the next five years as trees meet the older harvest age set by new forest owners, the currency eases a little, and new processing capacity is built.

Carter Holt Harvey has plans to invest in two sawmills in New Zealand – both of which would be larger (processing 700,000-1,000,000 tonnes of logs per year) than any currently in operation. It's likely that one investment will be an expansion of the Kawerau mill (which processes 500,000 tonnes of logs per year), with the second one being either in Tokoroa or Northland.

There is evidence that investment in further processing is also beginning to pay dividends. Although the actual tonnage of wood products being exported has been falling, the real value of forestry exports has been rising at around 9%pa. Roundwood removals are forecast to grow at about 4%pa over the next three years, boosting demand for the services of very heavy trucks.



Agricultural renaissance

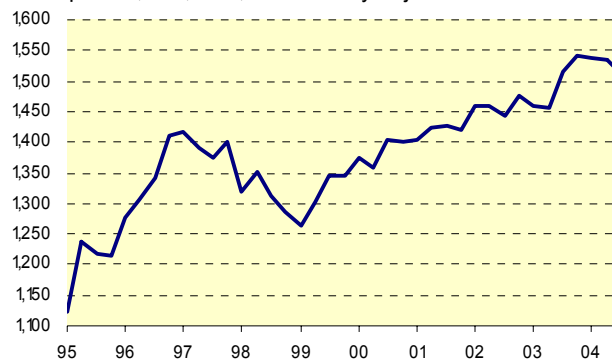
The agricultural sector is a source of demand for general and very heavy transport services, as well as cars, tractors, and light commercials. Output from the sector is an important input to downstream processors and manufacturers. The key products relevant to the transport sector are milk, meat, wool, kiwifruit, fertiliser, and stock cartage.

Agricultural production slipped 1% over the September quarter, with lower dairy output being a key factor. Cold and wet weather over late winter and early spring has stunted milk production, which is likely to be down by around 3% over the current season. Meat production also contracted 1% in the year to December 2004, but still remains at around seven-year highs.

Despite the strong currency, farm incomes are being bolstered by rising commodity prices. Over the 2004 calendar year, dairy product prices rose 22%, while meat, skins, and wool prices recorded 15% growth.

Agriculture production

GDP prod'n, \$m, real, seasonally adjusted



Graph 5.2

Bilateral free-trade agreements (FTA) are all the rage. New Zealand is currently in negotiations with China and ASEAN, and there is a lot of noise about talks with the US. Such agreements would eventually allow New Zealand to leverage the comparative advantages inherent in its agricultural sector. However, the primary sector has been successfully moving to higher value consumer goods, and freeing up trade in basic commodity products could be a dangerous distraction.

Reports from the New Zealand Meat and Wool economic service state that around 35m lambs were tailed in the 2004/05 season. That was 2.6m higher than the previous season, and suggests that national meat production may start to grow again over 2005. Certainly world demand for lamb looks very positive especially given ongoing problems with beef.

Overall, demand for heavy transport services from the agricultural sector is likely to grow slowly over the next year. Softening global growth is likely to dent commodity prices and farm-gate returns, but a mildly weakening New Zealand dollar will provide some offsetting effect. Steady agricultural production will provide a solid base for sales of light and medium commercials over the next 1-2 years.

Residential softens, non-residential takes over

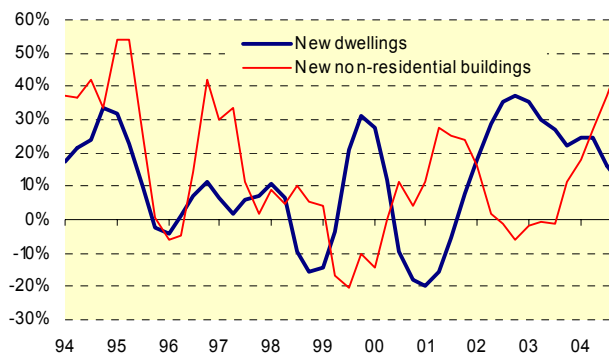
The building and construction sector involves a wide range of vehicles, from builders' vans and utes through to very heavy trucks to deliver steel and concrete products.

Although the volume of residential work put in place fell 6% over the September quarter (seasonally adjusted), the annual total was a new record of \$4.5bn. Lower interest rates and solid population growth have been factors behind the boom in residential building – both factors have reversed over the past year, implying a softening in building activity. However, non-residential activity looks set to take the lead in terms of demand for building materials and transport services. We anticipate non-residential work will grow by around 10% over 2005.

In addition, civil construction work is also healthy – the volume of activity grew 6% over the September 2004 year, to a 2½ year high of \$2.6bn. Increased road-building work has been one source of the strong growth in diesel sales/usage (see *Transport Prices and Activity – p10*).

Consent values

Annual average % change



Graph 5.3

We predict that residential building activity will contract by about 10% over the next year and possibly another 5% over 2006/07. That will leave some builders and tradesmen struggling and therefore demand for light trucks and utes is likely to be dented. The fall in activity will be offset to a large degree by ongoing growth in commercial building work, as vacancy rates right across the sector drop to historically low levels. Overall, we expect demand for transport services from this sector will remain roughly constant, but there will be a significant change in the type of service required.

Civil construction activity is set to rise further and remain at a high level for several years. That will create demand for heavy machinery, as well as a range of lighter vehicles including utes. Much of the increased activity will be carried out north of Taupo.

Ready mix concrete output continues to grow at between 10%pa and 15%pa, implying booming overall building and construction activity. Furthermore, there is a reasonably strong positive correlation between ready mix concrete production and very heavy truck sales, suggesting that solid construction work will support truck demand going forward.



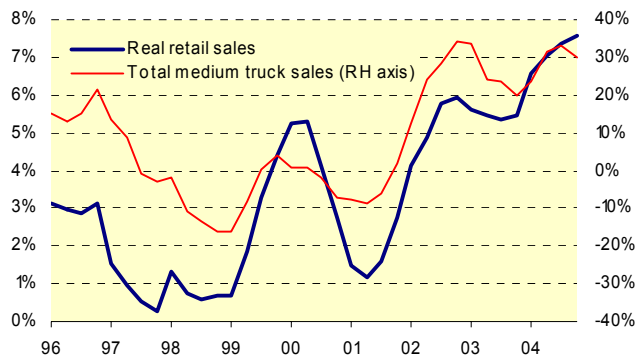
Labour market supports domestic demand

Domestic economic activity, which is dominated by consumer spending, is a determinant of demand for transport services from line-haul to around-town deliveries. Tourism (both New Zealand citizens and foreign visitors) is an important contributor to total domestic expenditure, and also provides significant demand for campervans and rental cars.

Domestic expenditure growth has been a significant factor behind the healthy expansion of the New Zealand economy since 2000 – over this period domestic expenditure has grown an average of nearly 5%pa, and retail sales have grown at a similar pace. Graph 5.4 shows a reasonable correlation between growth in retail sales and total medium truck sales – rising consumer spending lifts the demand for round-town transport services (e.g. couriers and small delivery trucks).

Retail link to medium truck sales

Annual average % change



Graph 5.4

An important determinant of the level of domestic demand over the forecast period will be the development of the labour market. Since December 1998, New Zealand's unemployment rate has more than halved to its current OECD-low level of 3.6%. With people feeling confident about their job and income prospects they have been willing to increase their spending.

We expect the ongoing tightness of the labour market will eventually translate into higher wages. By 2006/07 we predict wage inflation will be between 4% and 5%pa. That will help underpin real growth in consumer spending of at least 3%pa. The implication is that demand for medium trucks and line-haul or road freighters will remain reasonably strong over the next two years.

Tourism activity has been a boon for the domestic economy. Tourist numbers have been growing at over 10%pa reflecting good global growth and successful marketing of New Zealand overseas (both direct by Tourism New Zealand, and indirect via Lord of the Rings etc). A gradually weakening New Zealand dollar will support inbound tourism over 2005, and help shore-up demand for campervans and other medium-sized vehicles.

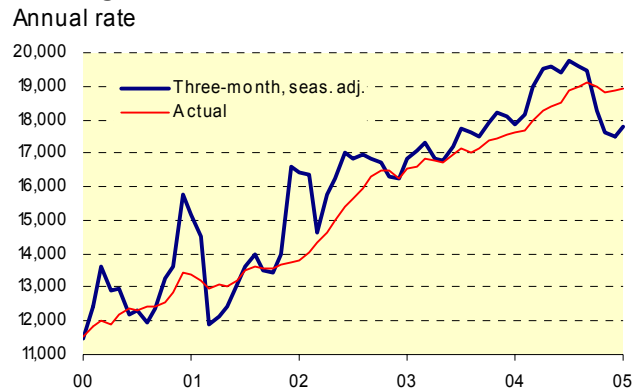
6. COMMERCIAL VEHICLES

Light commercials stall

New light commercial vehicle sales recorded their strongest performance in at least 20 years over calendar 2004, posting a total of 18,897. However, healthy sales in the first half of the year were in contrast with a marked softening towards the end of 2004 – on a seasonally adjusted basis, December quarter sales were down 10% on the preceding quarter.

December quarter sales, at just under 4,000, were definitely weaker than we had expected. Possible reasons for the softer than expected end to the year include: some easing in house building activity (tradesmen may be becoming more cautious), rising cost of finance, and a difficult season for farmers weather-wise and in terms of the rising exchange rate.

New light commercial vehicle sales



Graph 6.1

Although it's still too early to say whether sales of new lights have reached a turning point, there are a number of factors that suggest any further growth in the annual total over 2005 will be modest.

One of the primary causes of the strong lift in sales of new light commercials from 2001 onwards has been the surge in residential building activity. New house construction has increased by more than 50% over the past four years, putting enormous pressure on the capacity of builders and related trades to meet the roaring demand. However, the boom is coming to an end – we predict a 10% fall in residential activity over 2005, and while that will be cushioned to some degree by a pick-up in non-residential and civil construction work, there will be a definite levelling out of activity. And that will limit growth in light vehicle sales over the next 12-18 months.

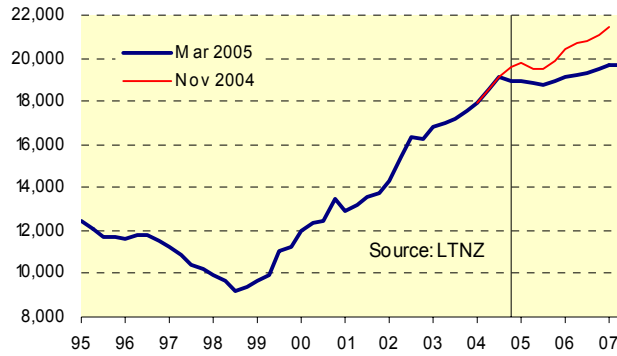
The farming sector has also enjoyed strong income growth since 2000, but we don't see any further significant gains over the next two years. The currency will ease over that period, but not significantly, and we expect some softening in world commodity prices as world growth settles back a little. Slower domestic demand growth (still positive), and some easing in the rate of tourism growth are also factors that contribute to more difficult trading conditions in some areas of the economy.



In summary, two key drivers of light commercial sales over the past few years (residential building and farming) are running out of steam and therefore we expect some easing in the trend growth in sales seen since 2000. The slower growth in sales will be consistent with some easing in the rate of economic growth. However, we see this as a pause in sales growth rather than a turning point.

Brand new light vehicle sales

Annual running total



Graph 6.2

New light commercial sales forecast[^]

Percent change on year earlier data

		Quarter	% change	Annual	% change
2002	Jun	4571	31.2%	15436	16.7%
	Sep	4348	25.9%	16331	20.7%
	Dec	3776	-2.4%	16237	18.4%
2003	Mar	4123	16.4%	16818	17.2%
	Jun	4704	2.9%	16951	9.8%
	Sep	4553	4.7%	17156	5.1%
	Dec	4176	10.6%	17556	8.1%
2004	Mar	4527	9.8%	17960	6.8%
	Jun	5278	12.2%	18534	9.3%
	Sep	5101	12.0%	19082	11.2%
	Dec	3991	-4.4%	18897	7.6%
2005	Mar*	4575	1.1%	18945	5.5%
	Jun*	5175	-2.0%	18842	1.7%
	Sep*	5005	-1.9%	18746	-1.8%
	Dec*	4150	4.0%	18905	0.0%
2006	Mar*	4800	4.9%	19130	1.0%
	Jun*	5250	1.4%	19205	1.9%
	Sep*	5100	1.9%	19300	3.0%
	Dec*	4350	4.8%	19500	3.1%
2007	Mar*	4950	3.1%	19650	2.7%
	Jun*	5290	0.8%	19690	2.5%

[^]All RUC vehicle type 1 registrations, and RUC vehicle type 2 registrations with a GVM under 4.5 tonnes. Source: LTNZ. * Infometrics forecast.

Table 6.1

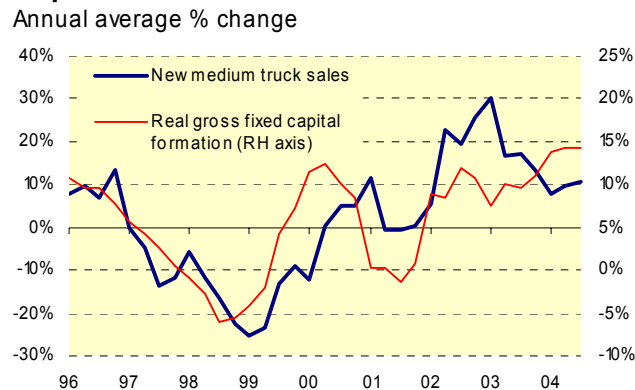
Medium trucks shift down a gear

Despite still strong growth in sales of medium trucks we stick with our forecast that sales growth will slow over 2005. That is in keeping with our prediction that the economy will lose some momentum over the next year. However, economic growth will remain distinctly positive over the forecast period and that will underpin rising medium truck sales through to 2007.

Demand for the services of medium trucks is driven primarily by the final stages of the distribution system – around-town, or within-region deliveries. These trucks will carry a very wide range of goods from perishable food products through to office equipment, building materials and waste. As the pace of economic and consumption growth slows, we expect there will be no need to expand capacity in this part of the transport system at the same rate as firms have been doing.

Graph 6.3 suggests a link between sales of new medium trucks and the volume of gross fixed capital formation. That emphasises the importance of building and civil construction activity to this market. We predict some slowing in the rate of capital formation (down to 3%pa by 2006/07) over the forecast period. Residential housing investment spending in particular will contract.

Capital formation drives mediums



Graph 6.3

Although in previous reports we have noted that some road freight companies have been forced to add more medium-sized trucks to meet the delivery requirements of their customers, we think that trend will peter out as labour shortages and rising wages make such a solution less viable. We're not predicting a reversal in what has occurred to date, just an end to the trend. The implication being that the medium truck fleet will not grow as rapidly as it has been.

Slower fleet growth would be consistent with softer growth in demand for medium truck transport services – RUC kilometre purchases for these vehicles were up 5% in the year to January, which was slightly lower than the November 2004 year figure of 6% (and also weaker than year-end January growth in RUC purchases for heavy trucks and trailers of 6%).

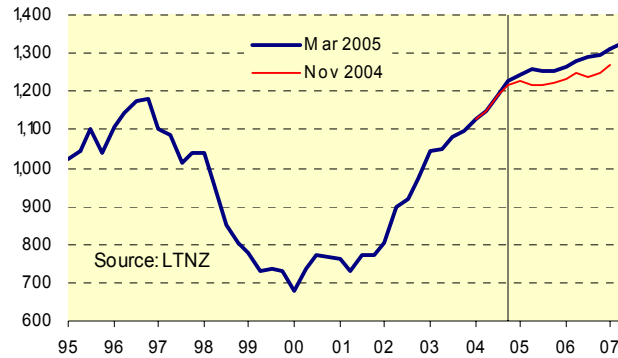
The basic shape of our forecast track for new medium truck sales is similar to our November predictions. The differences lie in the slightly higher economic, consumption, and investment growth over 2005/06 than we had in November. The economy is cooling, but more slowly than we



had anticipated four months ago. Sales will climb above the 1,250pa mark by the middle of this year and hold that level through to the end of the year. Continuing growth in retail sales and investment spending, particularly in the non-residential and civil construction areas will push up demand for new medium trucks over 2006/07, but at a much slower rate than experienced over the past five years.

Brand new medium truck sales

Annual running total



Graph 6.4

New medium truck sales forecast[^]

Percent change on year earlier data

		Quarter	% change	Annual	% change
2002	Jun	263	56.5%	898	22.7%
	Sep	281	8.9%	921	19.5%
	Dec	259	23.3%	970	25.6%
2003	Mar	243	45.5%	1046	30.3%
	Jun	266	1.1%	1049	16.8%
	Sep	311	10.7%	1079	17.2%
	Dec	278	7.3%	1098	13.2%
2004	Mar	274	12.8%	1129	7.9%
	Jun	286	7.5%	1149	9.5%
	Sep	353	13.5%	1191	10.4%
	Dec	316	13.7%	1229	11.9%
2005	Mar*	290	5.8%	1245	10.3%
	Jun*	300	4.9%	1259	9.6%
	Sep*	350	-0.8%	1256	5.5%
	Dec*	315	-0.3%	1255	2.1%
2006	Mar*	300	3.4%	1265	1.6%
	Jun*	315	5.0%	1280	1.7%
	Sep*	360	2.9%	1290	2.7%
	Dec*	320	1.6%	1295	3.2%
2007	Mar*	315	5.0%	1310	3.6%
	Jun*	330	4.8%	1325	3.5%

[^]RUC vehicle type 2 registrations with a GVM of 4.5 tonnes and above.
Source: LTNZ. * Infometrics forecast.

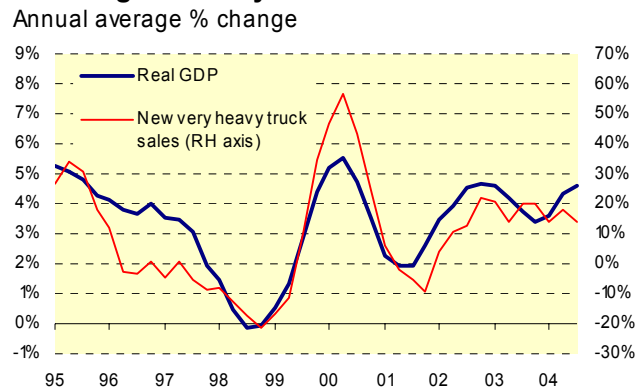
Table 6.2

Heavy trucks – adding more capacity

The ongoing growth in heavy truck sales, despite a lacklustre forestry sector, highlights the broad-based strength of the economy. Sales of new very heavy trucks have increased by about 17%pa since 2000, and in early 1999, dealers were selling less than 1,000 new trucks a year – last year they sold 2,423. We expect demand for heavy truck to continue expanding over the next two years as additional capacity (transport in this case) is required to meet the demands of a growing economy. Annual sales will climb to around 2,700 by the end of 2006.

In 2002, we carried out some empirical analysis of heavy truck sales and concluded that dairy production and real domestic demand were possible determinants of sales. There also appears to be a reasonable link between real GDP growth (the size of the economy) and big rig sales (see Graph 6.5). As the economy has expanded, so has its demand for heavy transport services. Hence the need for more new trucks to both expand the fleet and also to maintain its quality/capacity.

Growing economy needs trucks



Graph 6.5

Dairy production is likely to be down by around 3% this season, but we anticipate growth to bounce back next year (could be up by as much as 5%). Forestry also has a significant bearing on demand for heavy transport services. The rate of harvest will pick up over the second half of this decade as forest estates come through the adjustment to an older average age of harvest. Non-residential and civil construction activity will also underpin solid growth in demand for heavy trucks. Growth of around 15% in ready mix concrete production reflects the buoyant state of building and construction activity.

However, as inland freight consolidation depots are developed in New Zealand over the forecast period (e.g. a Toll Holdings facility in Waikato), a portion of the dairy (and possibly wood) freight market is likely to shift to rail. This would reduce the demand for heavy road transport services. Indeed, Toll and Fonterra are promoting the schemes on the basis that they will cut the number of big trucks on the road.

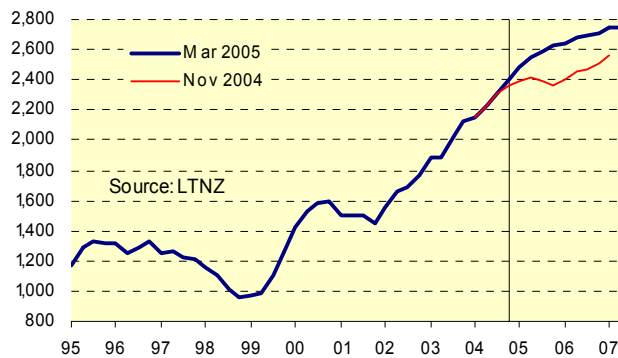
We are forecasting that the rate of GDP growth will slow from over 4%pa over the last three years to around 3% over the forecast period. That implies slower growth in heavy truck sales.



We have revised up our track for new very heavy truck sales throughout the forecast period. The main reasons for the higher track are that economic growth will be slightly faster in the short term, building and construction activity will hold higher for longer, and we predict the forest harvest further out will be bigger than we had previously anticipated.

Brand new very heavy truck sales

Annual running total



Graph 6.6

New very heavy truck sales forecast[^]

Percent change on year earlier data

		Quarter	% change	Annual	% change
2002	Jun	472	27.6%	1662	10.8%
	Sep	449	5.6%	1686	12.6%
	Dec	460	20.1%	1763	21.8%
2003	Mar	502	31.4%	1883	20.7%
	Jun	479	1.5%	1890	13.7%
	Sep	579	29.0%	2020	19.8%
	Dec	559	21.5%	2119	20.2%
2004	Mar	533	6.2%	2150	14.2%
	Jun	564	17.7%	2235	18.3%
	Sep	651	12.4%	2307	14.2%
	Dec	653	16.8%	2401	13.3%
2005	Mar*	615	15.4%	2483	15.5%
	Jun*	630	11.7%	2549	14.0%
	Sep*	690	6.0%	2588	12.2%
	Dec*	695	6.4%	2630	9.5%
2006	Mar*	625	1.6%	2640	6.3%
	Jun*	665	5.6%	2675	4.9%
	Sep*	705	2.2%	2690	3.9%
	Dec*	710	2.2%	2705	2.9%
2007	Mar*	670	7.2%	2750	4.2%
	Jun*	665	0.0%	2750	2.8%

[^]All RUC vehicle type 5, 6, 14, and 19 registrations.
Source: LTNZ. * Infometrics forecast.

Table 6.3

7. VEHICLE DEMOGRAPHICS

In another new development in this set of forecasts we have included the following table containing data relating to what we term “vehicle demographics”. The information may be a useful point of reference for those involved with the transport industry, and we envisage adding more detail over time.

Vehicle demographics

December year figures

	Average age ⁽¹⁾	No. registered As at 31 Dec	Annual registrations	Registrations as % of fleet	Implied scrappage	Scrappage as % of fleet	Prices	
Commercial vehicles (light, medium, and very heavy combined)							Light commercials*	Heavy commercials^
1990	-	299,541	27,689	9.2%			842	897
1991	-	305,819	23,478	7.7%	17,200	5.6%	873	923
1992	-	316,706	22,408	7.1%	11,521	3.6%	952	1003
1993	-	336,592	25,739	7.6%	5,853	1.7%	1035	1049
1994	-	353,786	28,667	8.1%	11,473	3.2%	1074	1069
1995	-	343,504	27,856	8.1%	38,138	11.1%	1080	1072
1996	-	353,665	28,019	7.9%	17,858	5.0%	1085	1062
1997	-	360,409	23,228	6.4%	16,485	4.6%	1053	1020
1998	-	367,152	19,136	5.2%	12,393	3.4%	1027	1000
1999	12.01	373,951	20,913	5.6%	14,114	3.8%	1003	1009
2000	12.25	369,116	22,204	6.0%	27,039	7.3%	1071	1050
2001	12.47	367,778	22,272	6.1%	23,610	6.4%	1117	1088
2002	12.57	373,581	28,100	7.5%	22,297	6.0%	1124	1068
2003	12.63	386,293	31,912	8.3%	19,200	5.0%	1112	1043
2004	-	399,043	35,957	9.0%	23,207	5.8%	1101	1045
Cars (new and used imported combined)							New**	Used imports^^
1990	-	1,557,074	159,746	10.3%			991	1019
1991	-	1,552,026	102,966	6.6%	108,014	7.0%	1022	958
1992	-	1,575,830	92,110	5.8%	68,306	4.3%	1097	1017
1993	-	1,613,333	97,663	6.1%	60,160	3.7%	1173	1109
1994	-	1,657,160	123,853	7.5%	80,026	4.8%	1196	1168
1995	-	1,658,175	146,656	8.8%	145,641	8.8%	1192	1202
1996	-	1,725,221	176,183	10.2%	109,137	6.3%	1168	1185
1997	-	1,787,027	155,599	8.7%	93,794	5.2%	1079	1080
1998	-	1,848,832	154,094	8.3%	92,289	5.0%	1020	1078
1999	11.28	1,928,791	189,313	9.8%	109,354	5.7%	1003	1006
2000	11.42	1,942,307	173,742	8.9%	160,226	8.2%	1010	991
2001	11.55	1,985,220	186,855	9.4%	143,942	7.3%	1016	1030
2002	11.63	2,049,123	200,504	9.8%	136,601	6.7%	1008	1057
2003	11.69	2,148,401	227,425	10.6%	128,147	6.0%	986	1012
2004	-	2,224,679	228,797	10.3%	152,519	6.9%	973	955

Sources: Land Transport New Zealand (LTNZ), Statistics New Zealand

(1) Years * Capital goods price index, trucks 3,500kg or less, annual average

**Consumers price index, annual average

^Capital goods price index, trucks 3,501kg and above, annual average

^^Consumers price index, annual average

Table 7.1



8. CALENDAR OF EVENTS

Infometrics' Calendar of Events has been running for more than 20 years. For the greater part of that period legislative changes have dominated the motor vehicle industry, especially the car industry – the removal of import licensing and the steady reduction and eventual elimination of tariffs were key milestones.

Since mid-1998 there have been only two significant legislative changes affecting the car industry:

- the introduction of new frontal impact standards in April 2002;
- the increase in petrol taxes.

The transport industry accounts for around 5% of GDP, but the critical role it plays in allowing the economy to operate evermore efficiently has placed it at the centre of government policy.

Increased demand for transport services as well as a marked lift in the number of registered vehicles has created major road congestion problems in, and between, the main cities. Consequently, the government has been forced to substantially increase its investment in land transport, including the repurchase of the rail network and a marked increase in expenditure on new roads.

In recent years the Calendar of Events has become more focussed on general transport issues, reflecting the shift in emphasis of government policy and our broader coverage of the transport industry.

1984 June

National Government releases Car Industry Plan.

1985 March 2

The New Zealand dollar is floated.

1990 July

Budget night announcement that excise duty on cars will be abolished.

1996 Feb/Mar

New 96 octane unleaded fuel causes problems for several motorists. Damage to engines caused by aromatics in the new fuel.

1998 December

The last of New Zealand's car assembly plants – Toyota's Thames plant closes. Gull begins retailing petrol around Tauranga.

2001 September

Air New Zealand reports a \$1.43 billion loss for the year ended June 2001 – the biggest corporate loss in New Zealand's history.

The full Calendar of Events can be viewed at www.infometrics.co.nz/article.asp?id=3350.