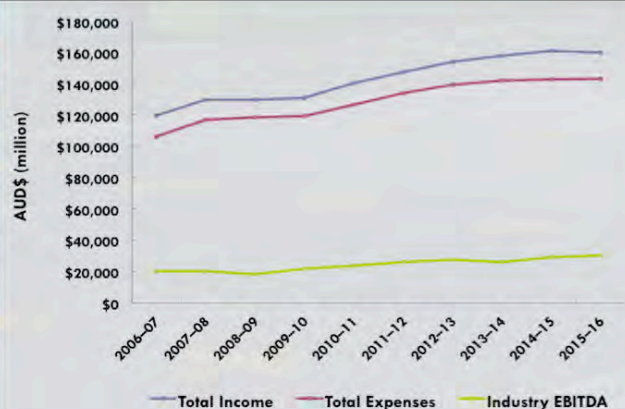


HOW WILL Transport, Postal and Warehousing PERFORM IN 2018?

A JPABUSINESS 2018 INDUSTRY ECONOMIC SNAPSHOT

Australian Transport, Postal and Warehousing industry performance 2006/07-2015/16

Source: ABS/JPAbusiness



BACKGROUND

- Our analysis has been focused on domestic air services, rail transport, warehousing and storage services, grain storage and road transport.
- Transport industry revenue has grown modestly over the past five years. Broader industry growth has been moderated by a decline in domestic airline revenue and reduced demand for grain storage services.
- There has been a decline in domestic airline revenue. This has been as a result of various factors, including: aggressive price wars between Qantas and Virgin, capability restructuring and decreased fly in fly out demand from mining sectors. Additionally, relatively lower oil and fuel prices have reduced costs and have also likely contributed to lower ticket prices for passengers.
- Revenue generated from the grain storage subsector has declined in the past five years, likely as a result of shifting and volatile wheat prices, exchange rate movements and adverse climatic conditions.
- Rail freight demand has been moderated by declining steel-making and associated commodity prices over the past five years. The reduction in prices has affected mining activity, particularly iron ore and metallurgical coal, which has resulted in decreased volumes of these materials being transported.
- The general warehousing and cold storage subsector has achieved low but stable growth over the past five years due to ongoing development of efficient warehousing and storage and a move to vertically integrated supply chains.
- Road freight has grown steadily over the same period. Transport firms are becoming more competitive, efficient, convenient and reliable. Road freight revenue growth is likely to be affected by movements in fuel prices; higher fuel prices are likely to increase industry revenue as costs are passed onto customers, while lower fuel prices are likely to result in savings.

OUTLOOK

- Overall the industry is expected to grow modestly over 2018. Contributors to this growth are likely to be airline transportation, road and rail freight. However, an anticipated decline in the grain storage sector will likely subdue broader industry growth.
- Domestic airline growth is likely to recover as route efficiencies increase, and there is a shift to core business and full-fare markets amongst airlines that will likely support higher profit margins and revenue growth.
- Grain storage in particular is expected to decline due to lower volumes produced in the current year and also as growers and exporters shift to on-farm storage versus industry services.
- Road freight revenue growth will likely be influenced by fuel prices, where increased fuel prices may cause revenue growth as costs are passed onto consumers, while lower prices may reduce costs and pressure revenue growth (however, profit margins likely to remain consistent).
- Recovering/buoyant commodity prices are expected to support growth within the rail freight sector.
- As the industry continues to mature, there may be further market consolidations as larger transport and logistics providers look to grow inorganically and remain competitive (i.e. increased M&A activity).

DRIVERS OF INDUSTRY GROWTH

- Incoming retailer, Amazon, along with growth in other online activity, are expected to drive some growth in domestic delivery freight services (e.g. courier, postal deliveries, dispatch and distribution).
- Recovering mining sector, commodity prices and a growing export market expected to stimulate big haul freight services (e.g. road and rail freight).
- Increased spending in public infrastructure projects to support industrial freight services.
- Continued population growth in larger centres to increase public transport options (e.g. buses, trains and coaches).

RISKS TO INDUSTRY GROWTH

- Decrease in fuel prices likely to lower industry revenue, however effect on profit margins likely to be minimal/positive.
- Ongoing compliance and regulatory transport safety provisions will continue to adversely impact smaller transport companies who may have more difficulty passing any extra costs on to consumers.

