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Global parts shortages are impacting Australian truck sales

In my March column this year, I detailed that Australian new truck sales were tracking better than expected. Given the ravages of COVID-19 globally and here in Australia, I was pleased to report that our government's "once in a lifetime" economic policy incentives appear to be helping to steer our nation and truck sales, through the most disruptive period that most of us have ever witnessed. These solid truck sales will ensure that Australia's truck fleet age will remain relative constant, despite the current turbulent times.

As I have detailed on previous occasions, Australia has one of the oldest truck fleets in the Western world, with an average age of 14.8 years as of January 2020, the latest figures that are available from the Australian Bureau of Statistics. Such an old truck fleet is not good for road safety outcomes, environmental and public health results, whilst road freight productivity could be improved with a younger truck park. So, while sales are nowhere near record levels, they have been tracking at, or about, the five year average for the later part of 2020 and the first few months of 2021.

However, sales have been disrupted somewhat in the second quarter of 2021, almost solely due to material, component and system shortages in overseas markets, where a large portion of Australia's trucks are manufactured. And the local truck manufacturers are also feeling the pinch, being hit by these global supply issues too. Many key parts and systems for these Australian manufactured trucks are made in the global manufacturing hubs of Asia, Europe and the Americas.

Truck Industry Council (TIC) members are reporting strong customer enquiries, however fulfilling those requests for new trucks is proving somewhat tricky for the Australian truck manufacturers and importers. The relationship between demand and supply is becoming tight. Heading the component supply issues appears to be the global shortage of electronic semi-conductors, the "chips" that make up the plethora of electronic control units (ECUs) in modern vehicles. These ECUs control engine, transmission, braking and even the heating and cooling systems in cars and trucks, without these control modules modern vehicles simply will not operate.

So what factor, or factors, have led to the current situation? COVID-19 has had a significant impact on the demand for semi-conductors, with a noticeable shift in their use. The COVID

caused global recession of mid-2020 led automotive manufacturers to cut back their production and hence their orders for components, including semi-conductors. That “slack” was more than taken up by producers of consumer electronics, such as games, smart phones, laptops and TVs, in direct response to a market driven by more people staying and/or working from home. When the demand for new cars and trucks began to rise, late in 2020, automakers found themselves unable to procure sufficient volumes of semi-conductors, forcing them to once again curtail production. Ninety percent of the world’s semi-conductors are produced in Asia, the majority, approximately sixty percent, in China. The disruption of supply caused by factory closures in this region has further contributed to the current supply shortage, as has the Trump era USA-China trade tensions. It is believed that many Chinese companies have wound back production, began stockpiling product, or both, so there were less semi-conductors available for export.

When are we likely to see an easing of these supply constraints? That is a much more difficult question to answer. Certainly the COVID demand in consumer electronics is slowing, with many industry experts believing that peak has now passed. There is also some hope that with the new Biden Administration working quickly to repair stressed trading relationships, a possible thawing of US-China relations would assist in addressing some of the current supply chain problems. COVID-19 vaccinations are reducing the effects of the pandemic on global workforces, with many companies returning to, or close to, full manufacturing capacity. The combination of all these factors will hopefully eventuate in global manufacturing and supply channels returning to pre-COVID capacities in the second half of 2021, with a resultant return of truck manufacturing capacity over the same period. So, if you are thinking of purchasing a new truck, or two, now would be a good time to place that order. Not only are there significant financial incentives still on offer by the Australian government through to mid-2022, manufacturing and supply of trucks should witness a resurgence over that same period.

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