

'Bus use decline caused by changing behaviour'

Lacklustre regional bus revenues have been wrongly attributed to economic growth, says JP Morgan, but the root cause is a shift in our travel behaviour

► The economy is not to blame for lacklustre revenues at Britain's large bus groups, according to a research paper by JP Morgan.



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regional bus revenue trends among the four listed groups - FirstGroup, Go-Ahead, National Express and Stagecoach - have fallen from 2-4% to 0-2% over the last 12-24 months, and appear to be getting worse (see Table 1).

The most commonly cited reason for this slowdown in revenue trends is due to weak economic growth in the North, but JP Morgan believes that this is a red herring.

Growth in revenue has indeed been lower in the North, but economic growth has been at least as strong as that in the South.

"The relatively weaker Northern bus usage trends have existed for many years, and appear more structural than cyclical in nature," the report concludes.

The report instead observes that there is a very general trend in the UK towards travelling less, across all modes of transport.

'Stay at home society'

The number of trips taken, across all modes of transport, by UK residents is falling steadily by around 1% per year.

"We believe that this is due to a variety of factors including online shopping, working from home,

online food delivery as well as a dislike of congestion and possibly the increasing cost of transport," JP Morgan's report states.

"From 2002 to 2015 the average number of bus journeys per capita (excluding London bus) fell by 10.6%, compared to a fall in total trip numbers of 13.0%, indicating a slight modal shift nationally towards buses over that time.

"The recent fall in per capita bus usage therefore should not be thought of as a cyclical effect [ie. related to economic growth], but rather as part of a broader trend towards lower personal travel, across all modes."

The report notes the relative mix of journey purpose among bus passengers versus the wider transport market. Bus usage appears to be more heavily driven by commuting, education, shopping and less by leisure activity than the broader UK transport market. Leisure

accounts for the largest proportion of per capita trips across all modes, at 26.0%, but it accounts for 20.6% of local bus journeys.

Explaining the North

If low economic growth doesn't explain bus use trends in the North and Scotland, how does JP Morgan explain the decline?

First of all, it notes that car ownership has grown more strongly in the North of England and Scotland over the last few years than in the rest of the UK.

Meanwhile, within England, the report notes that total trip volume (by all modes) is not falling particularly faster in the North than in the South, with total trip volume between 2003 and 2015 falling by 10% in the North East versus by 13% in the South East.

In contrast, since 2010 the number of bus trips per capita in the North has fallen by around 15%, much greater than the total

trip reduction of 5-7%.

"We therefore conclude that residents in the North are seeing substantial modal shift away from buses, and have done for many years," the report states.

"Given this, we think it is unwise to expect any improvement in volume trends in the short or medium term. This is a behavioural issue, not a cyclical one."

What happens now?

In the past the listed operators have bucked the weak national patronage trends by buying up smaller rivals and bearing down on costs - but these levers are no longer available to pull.

Three decades after the break-up of the National Bus Company and the forced sale of PTE bus operations, the market is now highly consolidated.

Meanwhile, JP Morgan notes that the fuel tailwind that has recently helped these groups will dissipate over the next 12-24 months, putting additional pressure on profit margins.

Stagecoach is seen as the most vulnerable, because the group generates around 55% of its overall profits from its regional bus operations (see Table 2). Furthermore, it is clear that FirstGroup and Stagecoach have a higher exposure to the North of England and Scotland, at around 50-60% of total revenue versus Go-Ahead on 30% and National Express being almost solely focussed on the West Midlands. ■

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