THE STARS ALIGN:
Old Trucks, Trailers, a Growing Economy and …

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Federal Reserve Bank of Chicago
Automotive Outlook Symposium
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State of the Industry (SOI) Reports:

1. NA Classes 5-8 Vehicles

1a. Classes 5-8 Vehicles by Country

1b. Classes 5-7 Bus Report

2. NA BU and RS by OEM by Country

3. U.S. Trailers (with TICG database)

4. NA Classes 5-7 Bus Market

5. Topical Studies/White Papers

The OUTLOOK,
The Road Ahead

with FTR Associates

Global Commercial Vehicle Forecast (GCVF)

with LMC Automotive/ JD Powers

CV Demand & Economic Activity

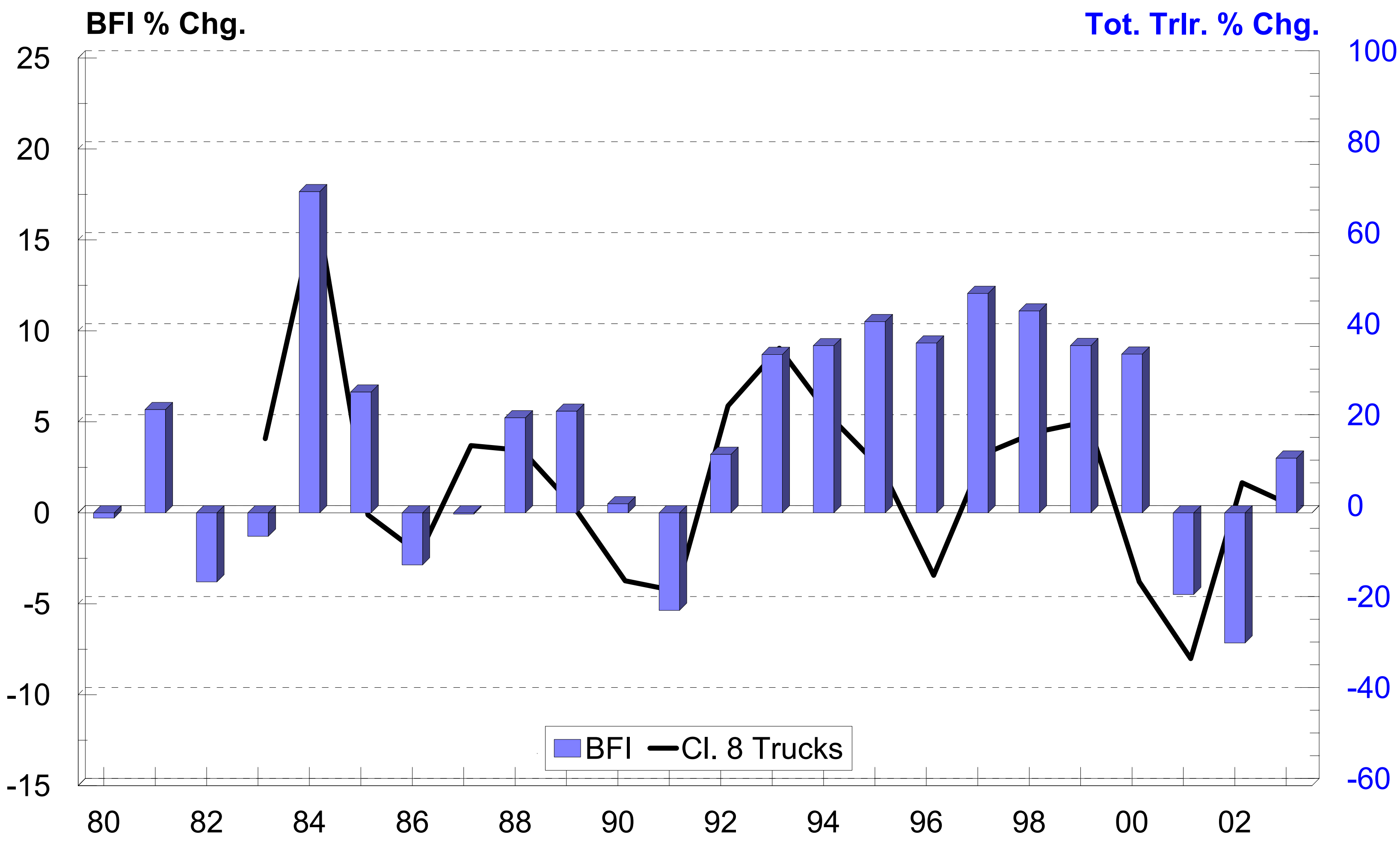
- **Over time, there is a strong relationship between truck demand and economic activity**
  - **Demand tends to lag freight measures on the way up, lead on the way down**
- **Short-term economic considerations:**
  - Energy costs: Macro and micro impacts (1-3 qtrs.)
  - Interest rates, inflation: Macro and micro impacts (2-4 qtrs.)
  - Housing starts: Implied durable goods spending (1-2 qtrs.)
  - Manufacturing Sector: Putting the “C” in cyclical (1-3 qtrs.)
  - Commodity Prices

CV Demand & Economic Activity, And…

- **Longer-term economic considerations:**
  - Manufacturing flight to SE Asia
  - Commodity prices
- **Non-economic factors/Government Regulation**
  - Hours of Service
  - 2007, 2010 Emissions Standard
  - NHTSA Braking Regulations
  - Trailer tracking technology
  - Size and Weight: No change in picture through 2010
  - Security
  - ???

Business Fixed Investment & Class 8 Trucks

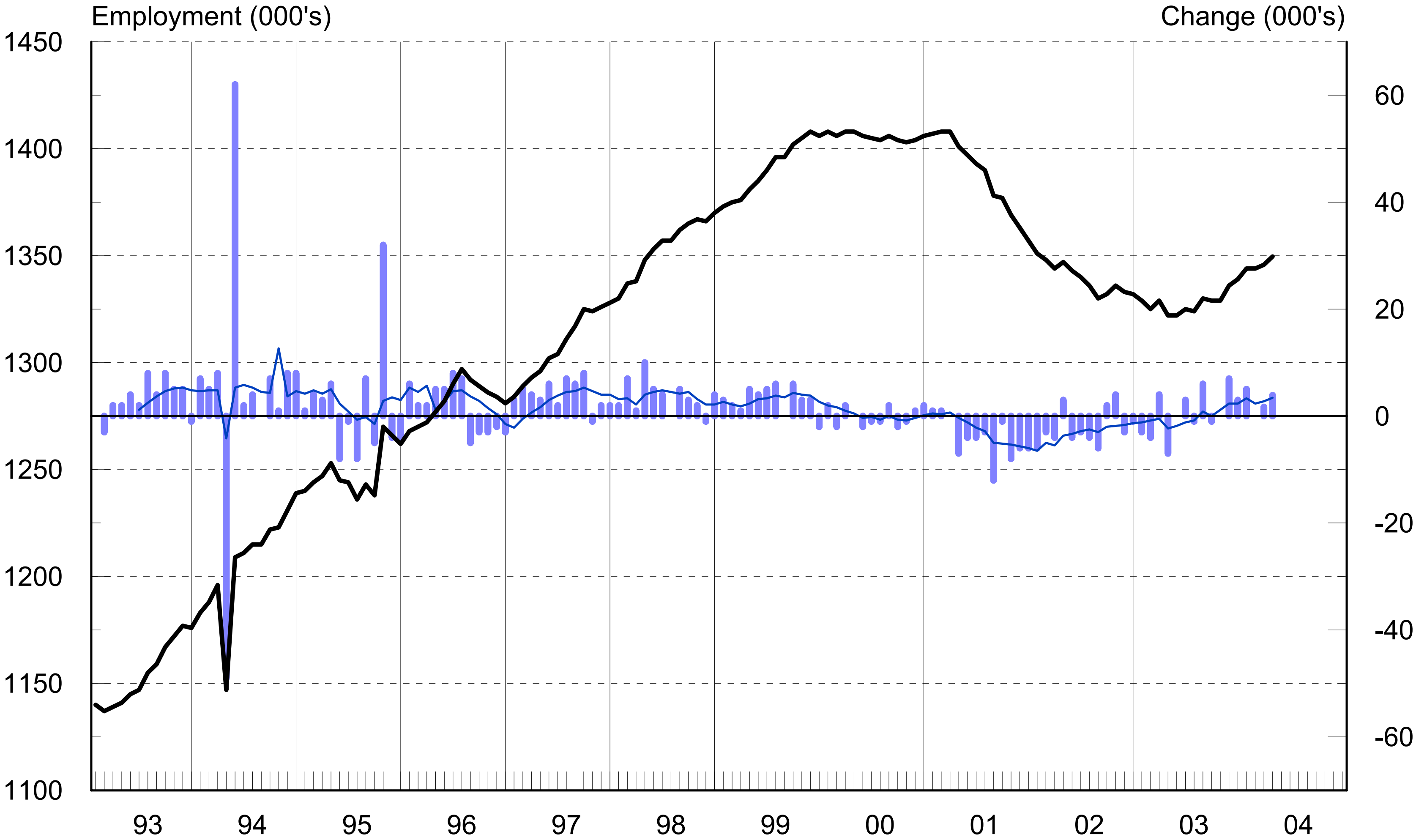
Year over Year Percent Change
1960 - 2003



Source: BEA, A.C.T. Research Co., LLC: Copyright 2004

Truck Transportation Employment

January 1993 - April 2004 (Seasonally Adjusted)



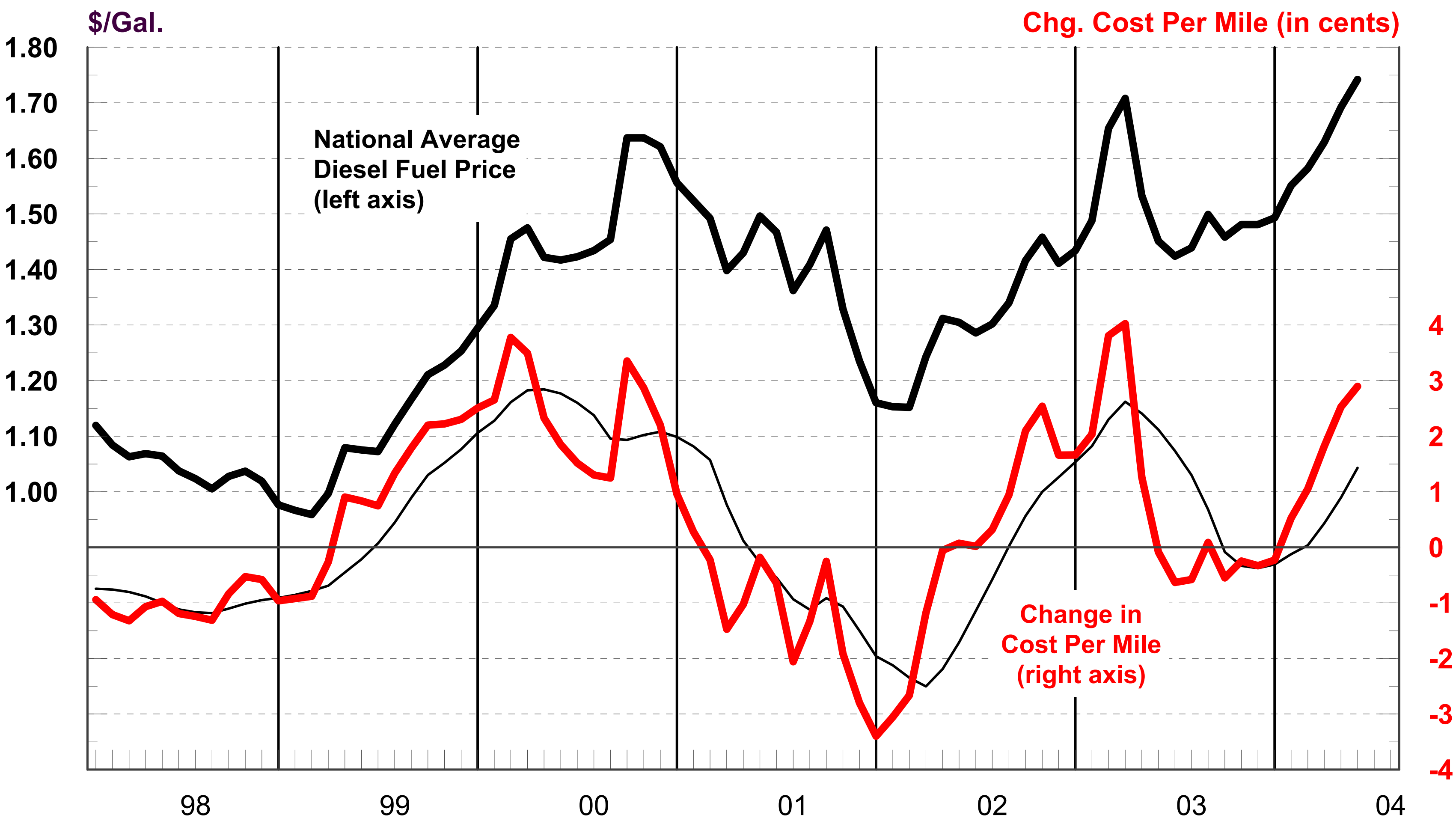
Source: BLS, ACT Research: Copyright 2004

Truckers Today

- Freight environment:
  - Carriers reporting healthy levels of freight
- Rising costs
  - HoS reduces productivity - maybe
  - Fuel again becoming a factor
  - Driver pay shortage = tight driver supply
- Rising barriers to entry favor continued consolidation
  - Engine mandates: more $ up front, more to operate, less at trade
  - Government security regulations
  - Higher cost insurance and tougher credit
- Carrier fiscal discipline
  - Until recently, operating results have not justified investment
  - Stronger economy suggests continuation of strong freight rate gains

National Average Diesel Fuel Price & Per Mile Impact

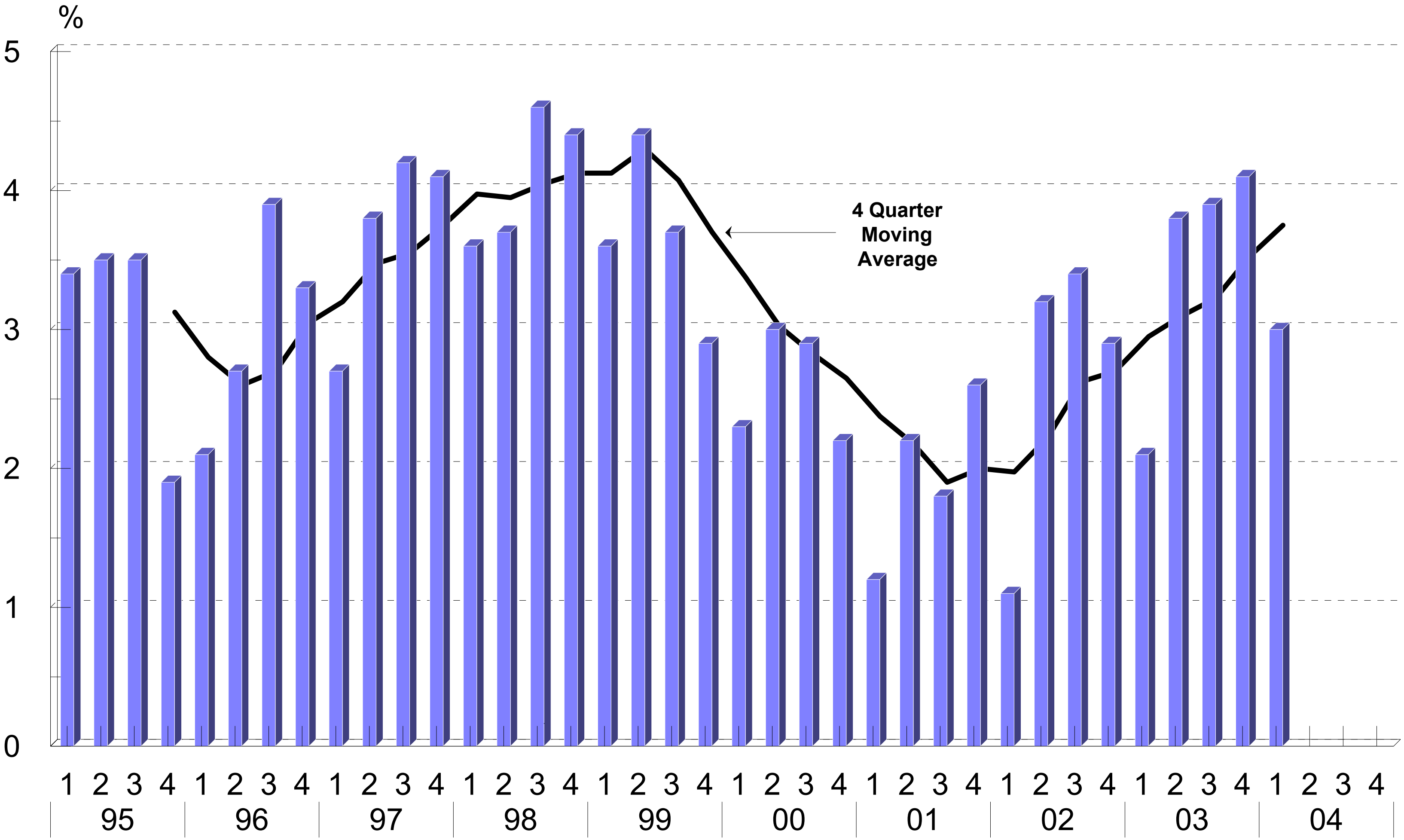
January 1998 - 3 Weeks May 2004 (Seasonally Adjusted)



Source: EIA., ACT Research: Copyright 2004

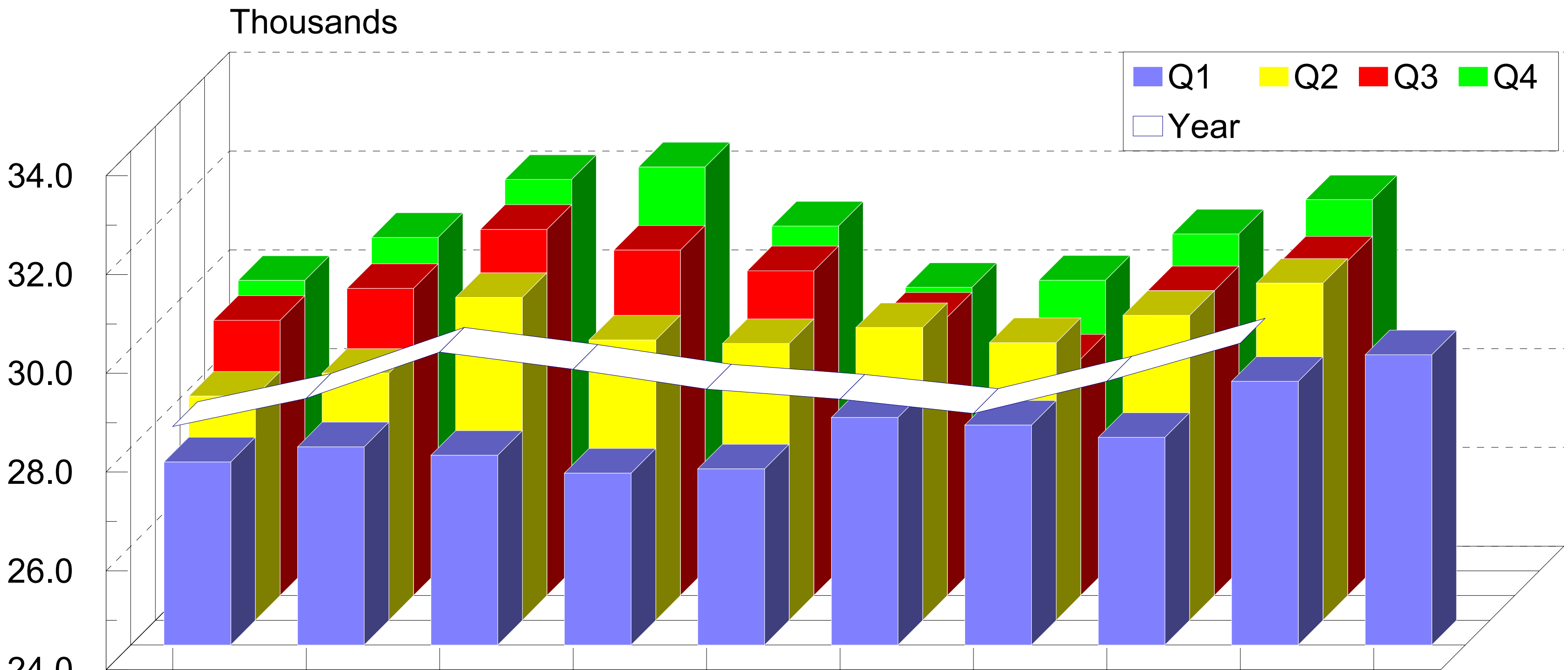
TL Carrier Database:
Net Profit Margin

Q1'95 - Q1'04



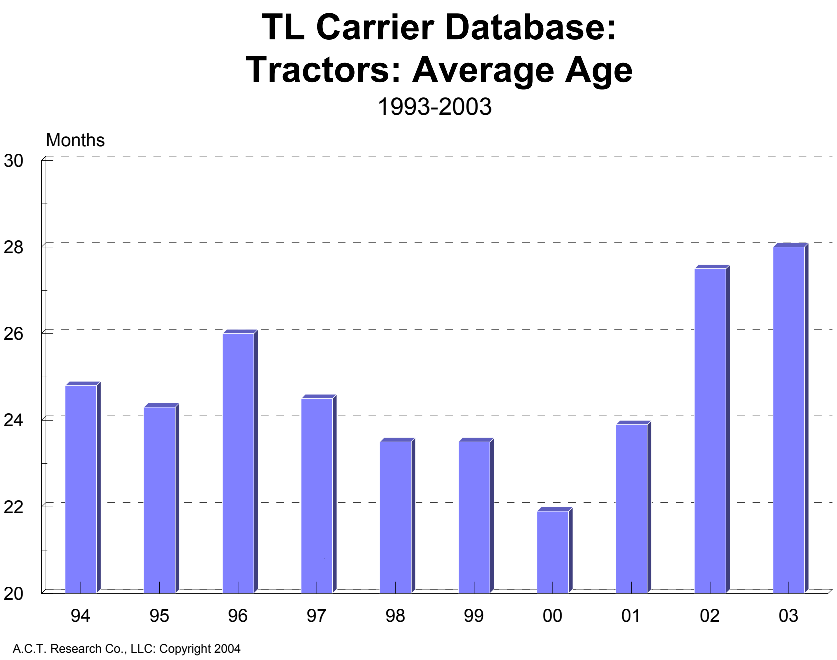
TL Carrier Database: Miles Per Tractor

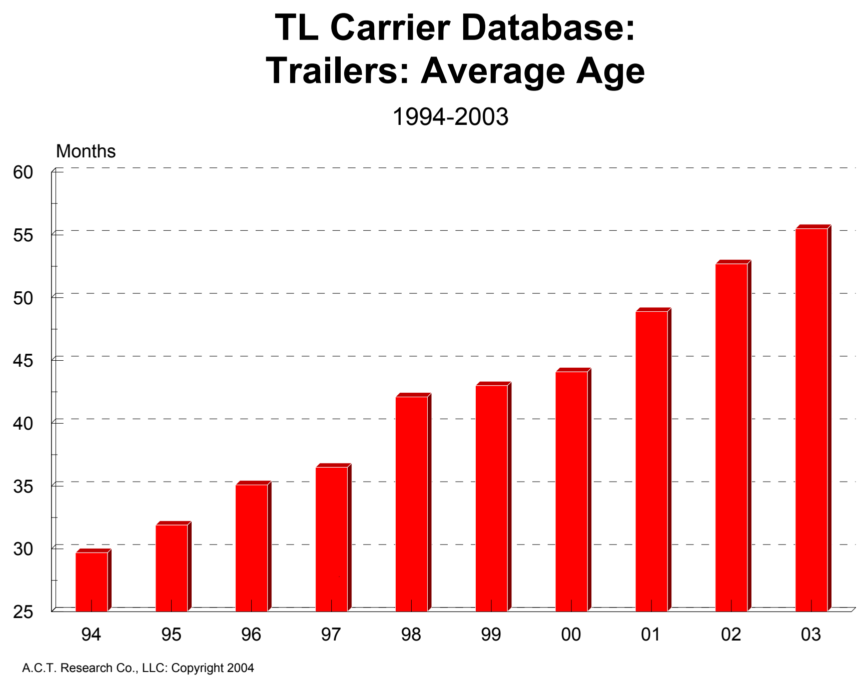
Q1'95 - Q1'04



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Q1	27.7	28.0	27.8	27.5	27.6	28.6	28.5	28.2	29.3	29.9
Q2	28.5	29.0	30.5	29.7	29.6	29.9	29.6	30.2	30.8	
Q3	29.6	30.2	31.4	31.0	30.6	29.6	28.8	30.2	30.8	
Q4	29.9	30.8	31.9	32.2	31.0	29.7	29.9	30.8	31.5	
Year	28.9	29.5	30.4	30.1	29.7	29.5	29.2	29.8	30.6	

Fleets Continued to Age in 2003





Trucks Coming on Strong

- Broad-based rise in order activity
  - Trucks enjoying stronger demand
  - Orders likely to cool moving through Q2 and into Q3
- Backlogs up 137%, 72,000 units in 6 months
  - Up 138% versus last April
- Build rates up 37% y/y in April
  - Expected to move steadily higher in coming quarters
  - Retail sales following build higher
- Inventories slightly higher y/y
- Used equipment prices recover as glut subsides

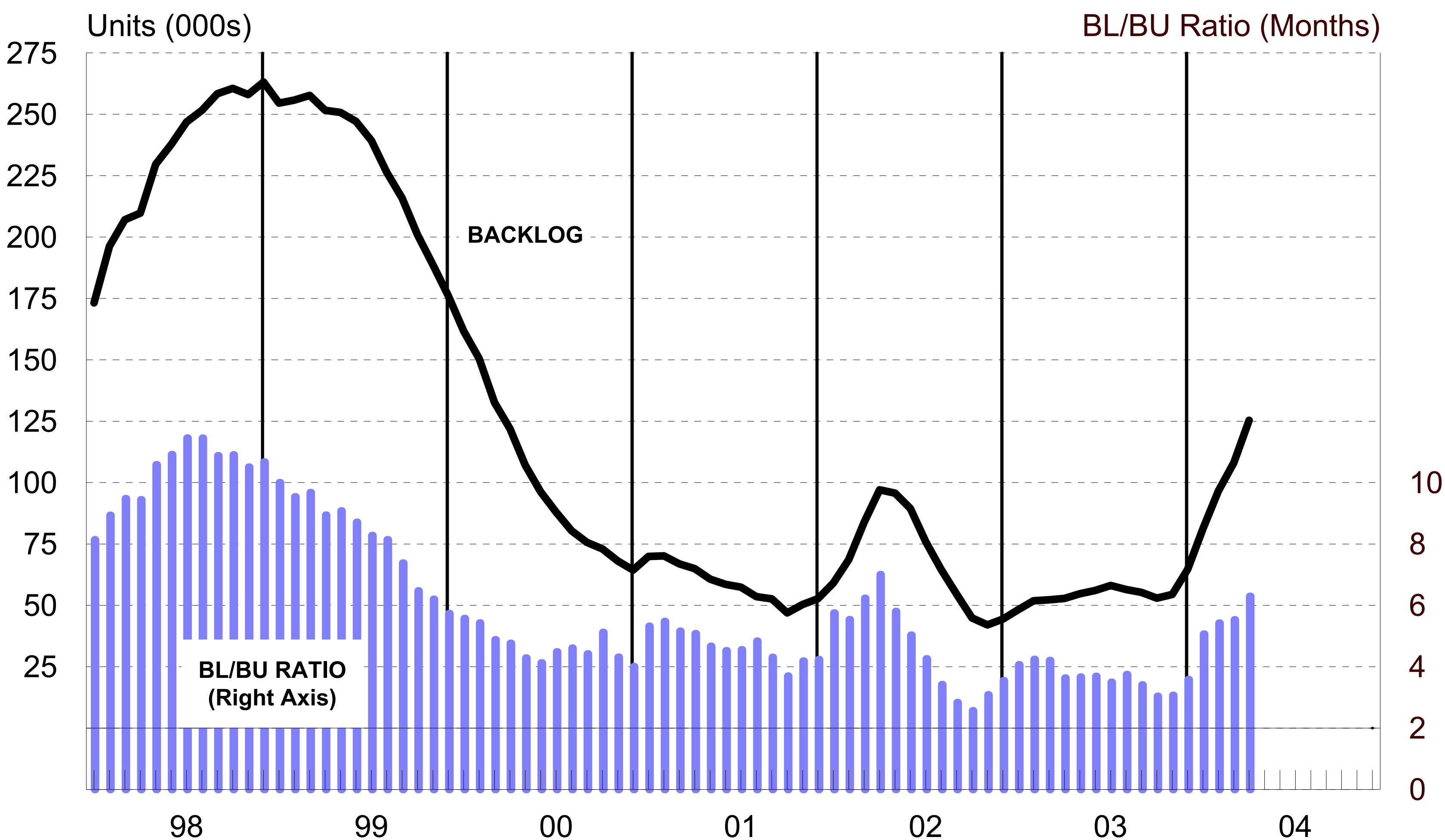
Current Market Activity: Class 8 Trucks

NO & BU Data: Seasonally Adjusted Annual Rate

Ending April	Backlog (Actual)	Net Orders (SAAR)	Build (SAAR)
Past 12 Mo.	52.8	277.4	199.9
Past 6 Mo.	52.9	358.1	211.4
Past 3 Mo.	81.2	410.0	224.7
April	**125.4**	**486.2**	**234.1**

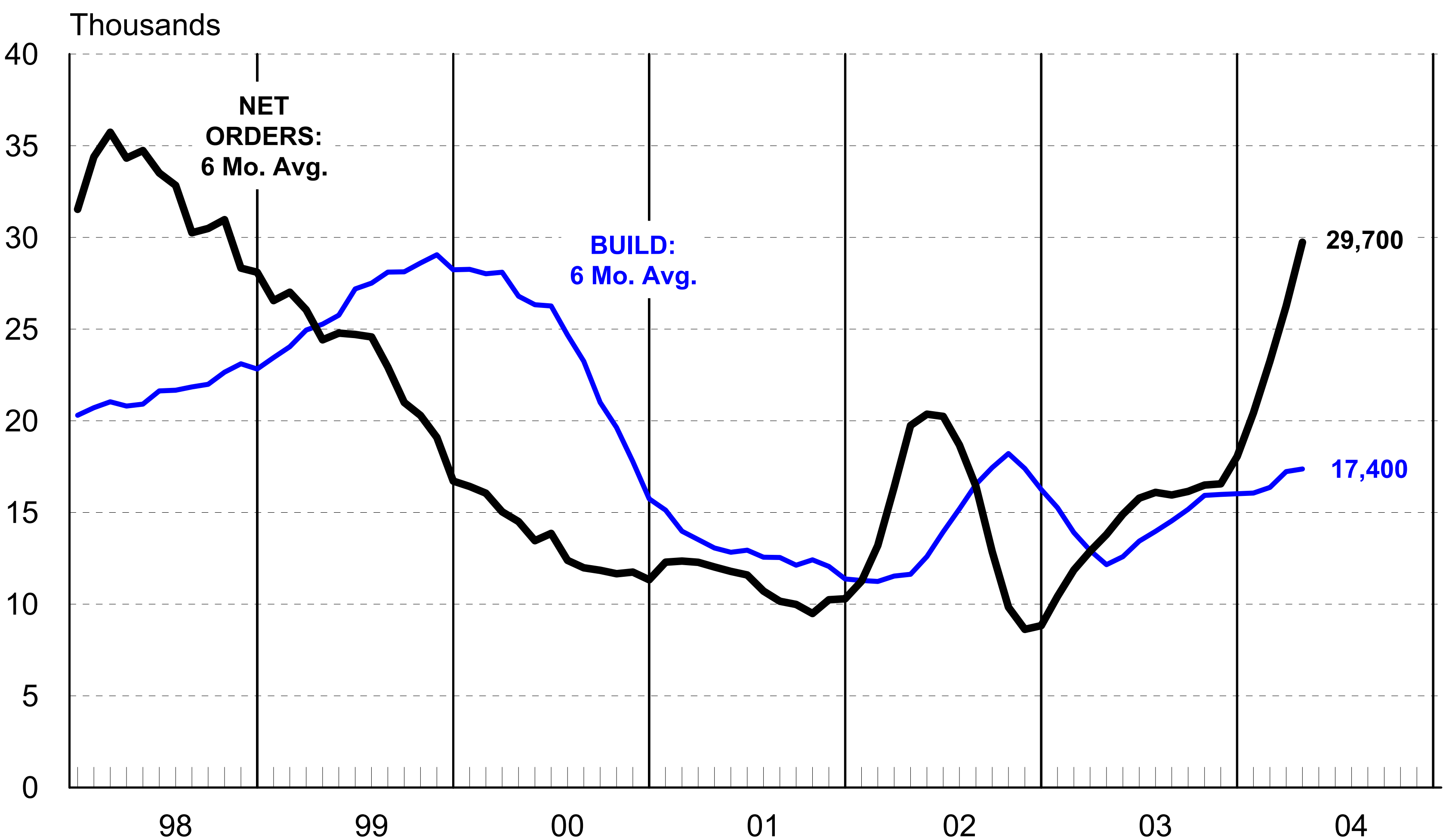
TOTAL CLASS 8: N.A. BACKLOG & BL/BU RATIO

January '98 - April '04 (Not Seasonally Adjusted)



TOTAL CLASS 8 NET ORDERS & BUILD - 6 Mo. Avg.

January '98 - April '04 (Not Seasonally Adjusted)

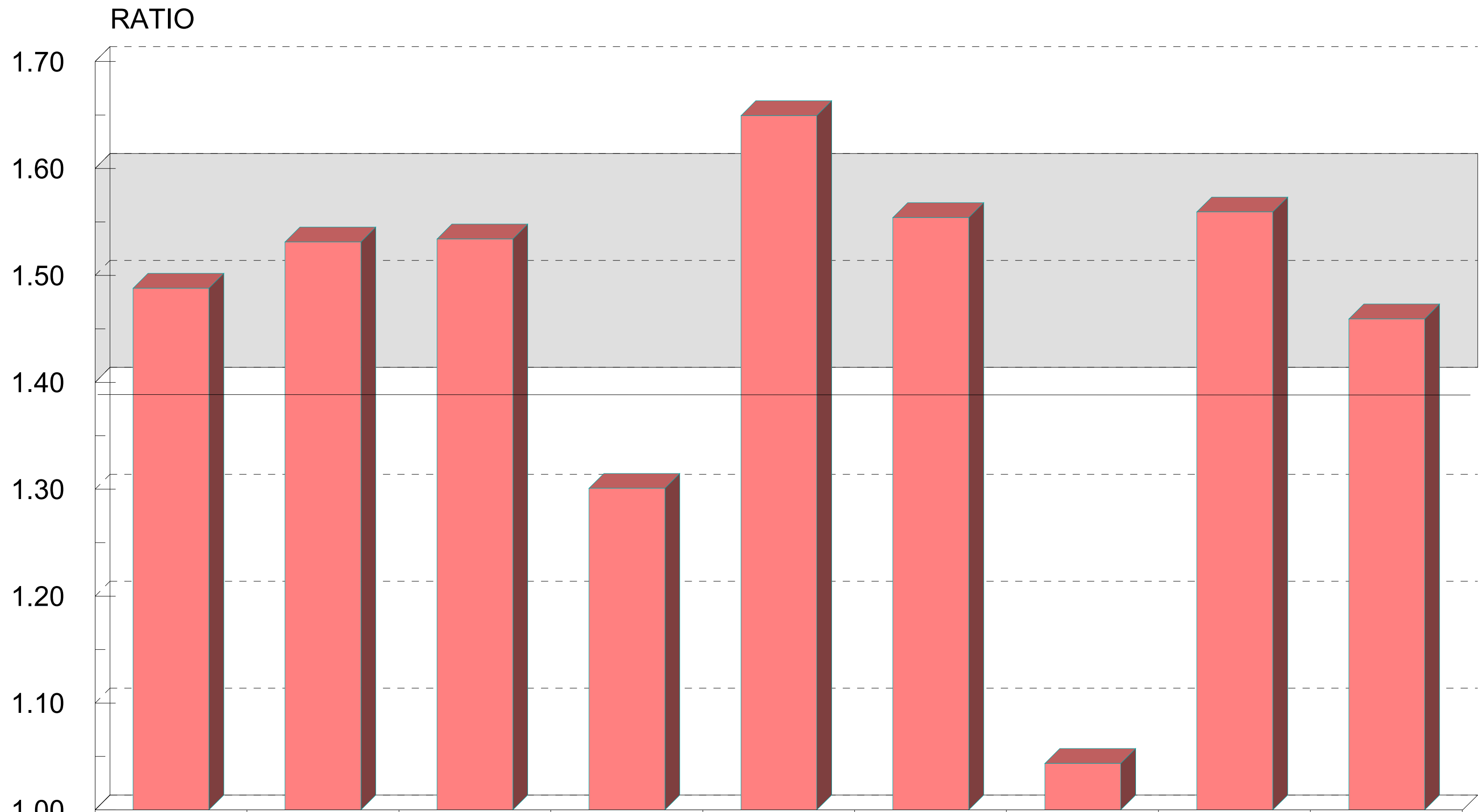


Class 8 Trucks & Trailers: Money Takers & Money Makers

- Strong historical relationship between Class 8 tractor and trailer demand.
  - 1.5 U.S. trailers per 1.0 U.S. Class 8 HDD through 1990s
- Competing for same pool of capital
  - Likely to see disproportionate $ shift to Class 8 in 2006, with correction in 2007
- HoS and driver shortage will continue pressuring freight shift to “drop & hook”
  - Offsets negative trend from tracking technology

U.S. TRAILERS & CHASSIS* and U.S. CL.8 HDD TRUCKS
Build Ratio

1996 - YTD March '04

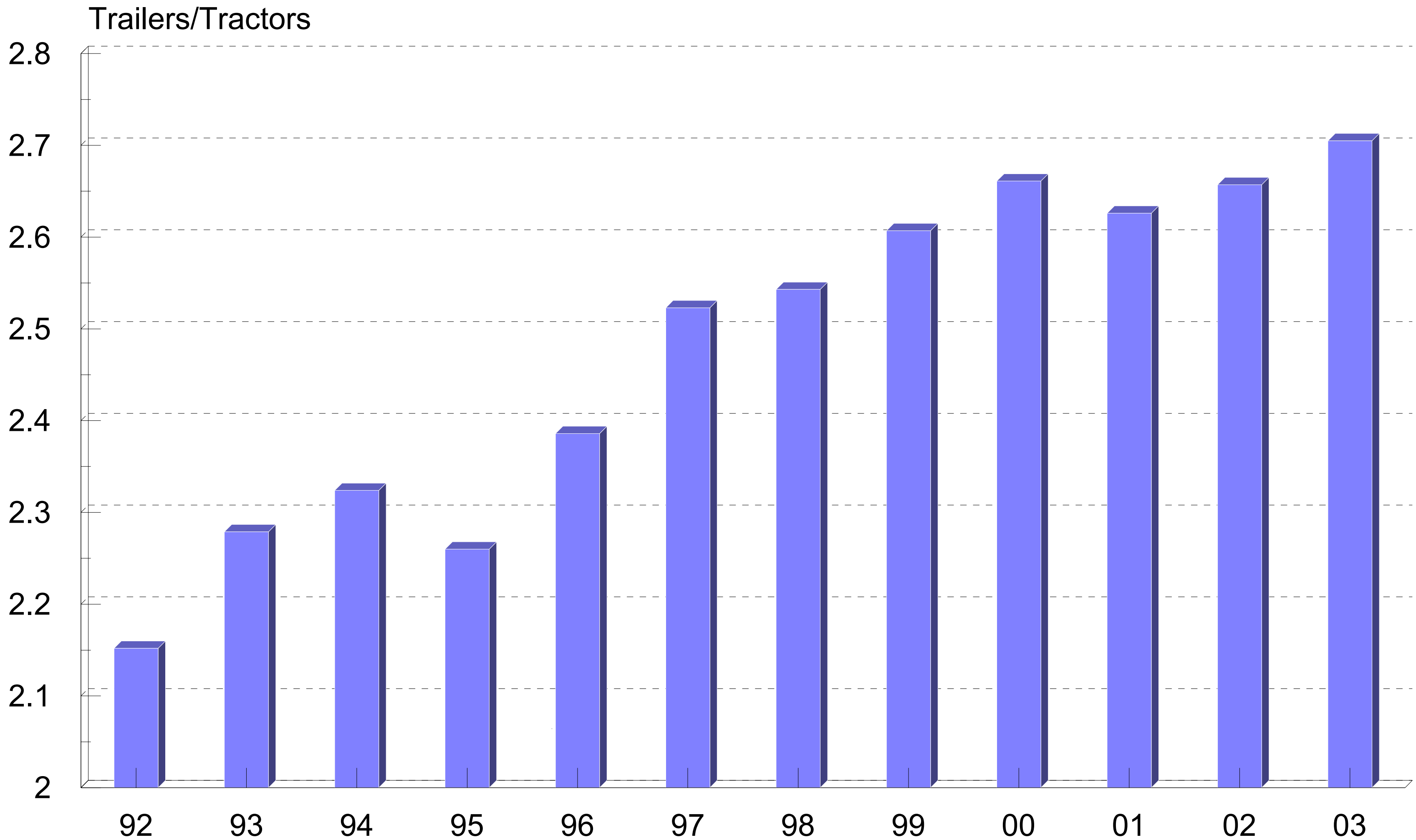


	1996	1997	1998	1999	2000	2001	2002	2003	YTD 2004
BU Ratio	**1.49**	**1.53**	**1.53**	**1.30**	**1.65**	**1.55**	**1.04**	**1.56**	**1.46**

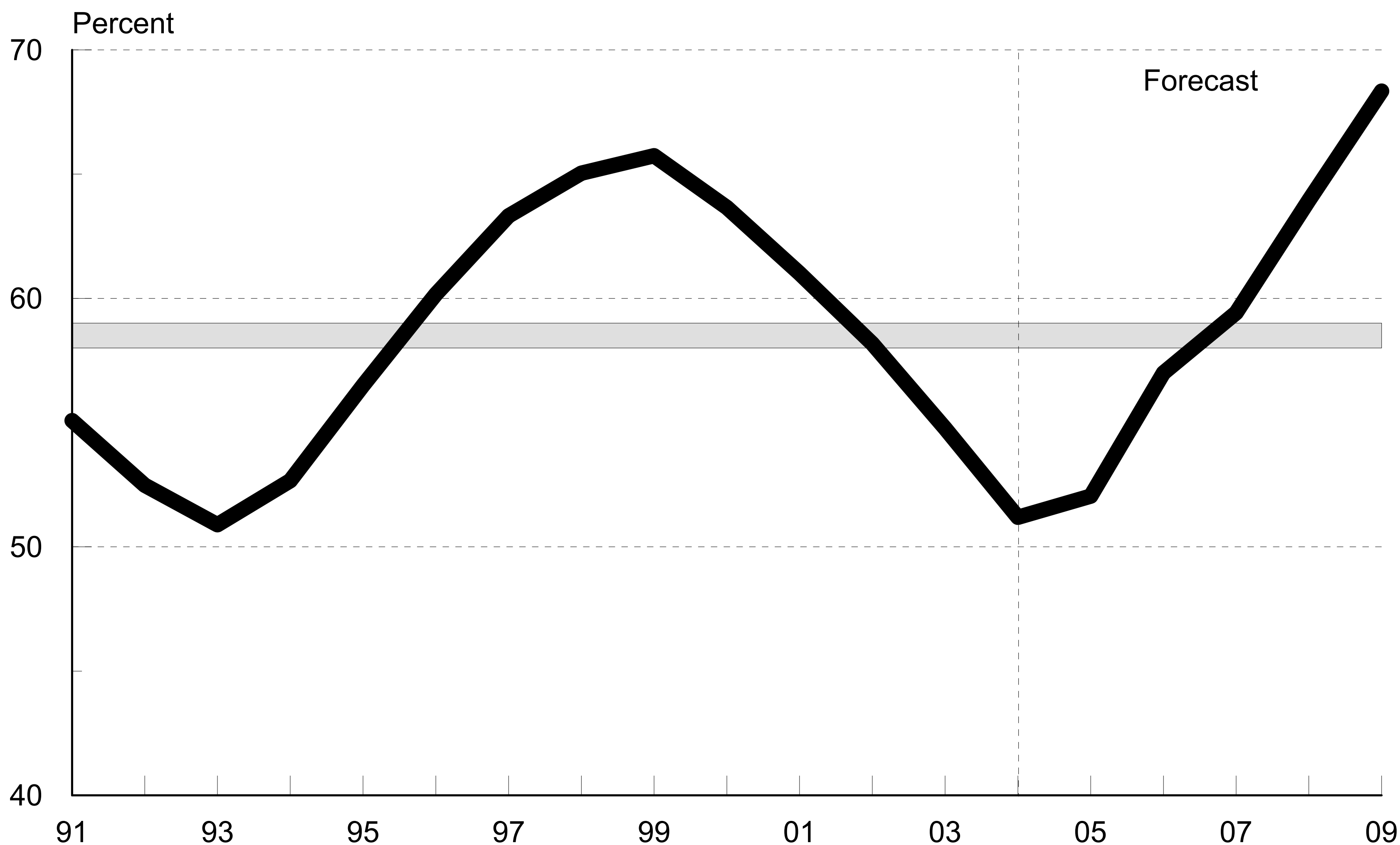
* AS MODELED BY A.C.T. Research Co., LLC: Copyright 2004
U.S. TICG:TRAILER INDUSTRY CONTROL GROUP

TL Carrier Database: Trailer To Tractor Ratio

1992-2003

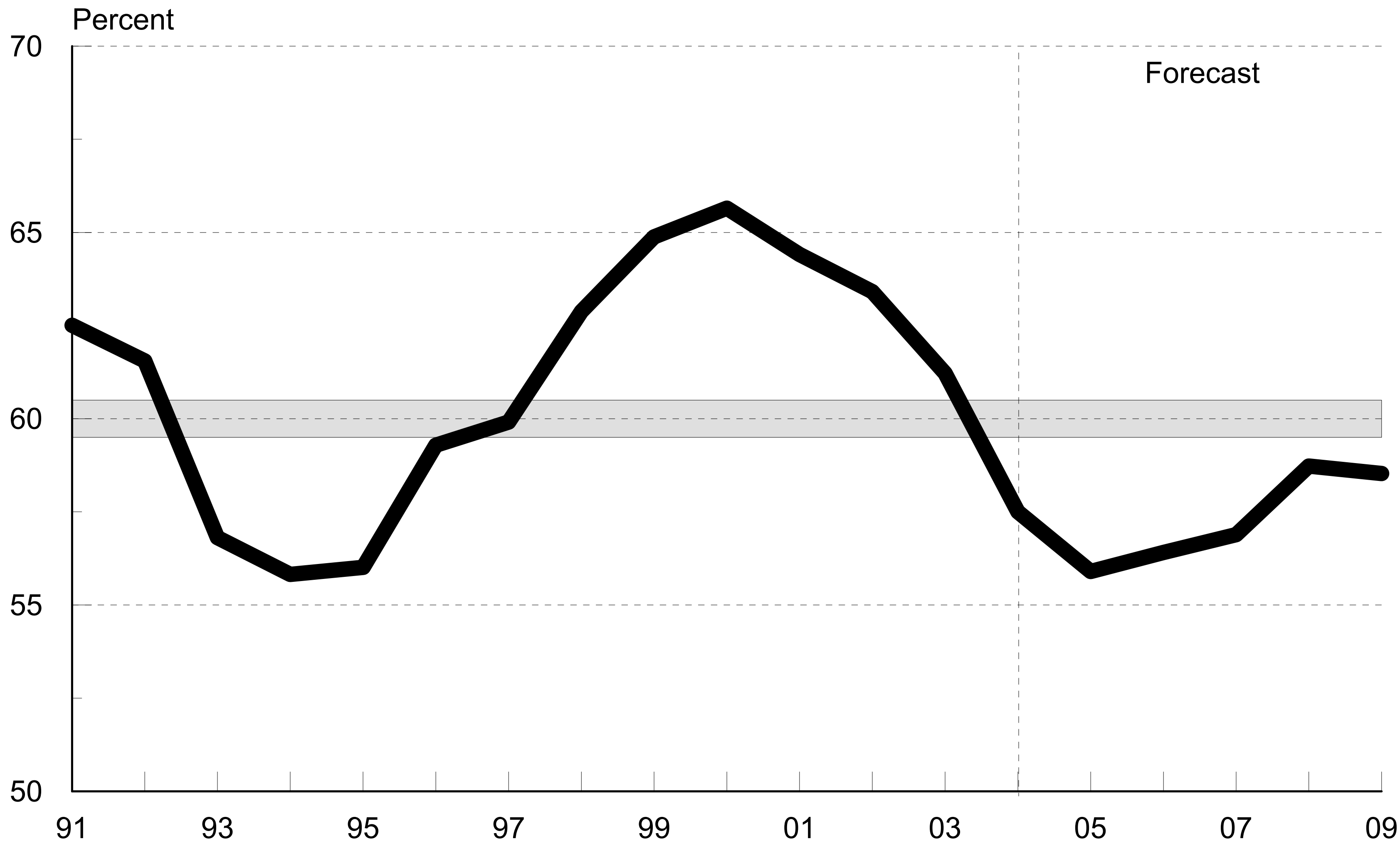


CLASS 8 TRUCKS:
Past 5 Years RS/Past 10 Years RS
1991 - 2009



CLASSES 5-7 TRUCKS:
Past 5 Years RS/Past 10 Years RS

1979 - 2008



2007: The Great Unknown

- Factors affecting drop-off/duration of recovery
  - Fleet age/replacement cycle: Fleets who do not lower their average fleet age during the next 18 months may have no choice but to do so sooner, rather than later, thereby lessening the effect of a pre-buy.
  - Freight hauling capacity: If there is profitable freight to be hauled and truckers need trucks, they may add capacity.

2007: The Great Unknown (con’t)

- Factors affecting drop-off/duration of recovery
  - Fleet segmentation: Will all segments (long haul, regional haul, truckload, less-than-truckload, owner/operator, etc.) be affected in the same manner?
  - Industry participant experience: All player in this space are painfully aware of “binge & purge” mentality and are working to avoid or at least restrain the ramp up and ramp down.

Evolution vs. Revolution

	Price Low	Price as Expected	Price High
Technology OK	Demand Stable		
Technology Neutral			
Technology Poor			Large Pre-Buy

N. A. Commercial Vehicle Forecast

Units (Thousands)

Source: ACT Publications Commercial Truck, Bus, and Trailer Industry OUTLOOK

	2003	2004	2005
Class 8 Trucks	177	248	299
Classes 5-7 Trucks	196	243	271
US Trailer (FS)	211	287	332
Total Units	**584**	**778**	**902**

Summary

- Key demand drivers point to healthy market
    - Economic cycle turning: Economy generates the freight needed to justify fleet replacement and expansion
    - Trucker profitability: Tightening capacity, growing freight, and rising freight rates make it easier to justify investment
    - The fleet is aging while freight is growing: Replacement demand plus capacity additions

If you would like to know more about the trucks and trailer databases, and/or the SOI Reports, contact A.C.T. Research:

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