



Commercial Vehicle Review

Will the Bump Become Self-Sustaining?

Kenny Vieth
ACT RESEARCH Co., LLC

Chicago Federal Reserve Bank AOS
June 2, 2017

More Questions than Answers

- Shortly after the election in November, there was material improvement in the rate of order activity in CV as well as in other similar industries:

Rate of change in orders (saars) from Q4'16 to YTD04'17

- U.S. C5-7 (Total) +19%
 - U.S. C8 Vocational +22%
 - U.S. C8 Tractors +42%
 - U.S. Comp. Trlrs. +44% (Past 6 vs Aug.-Oct.)
- So,
 - What changed?
 - Orders typically follow freight and profits
 - More importantly, is the change sustainable?

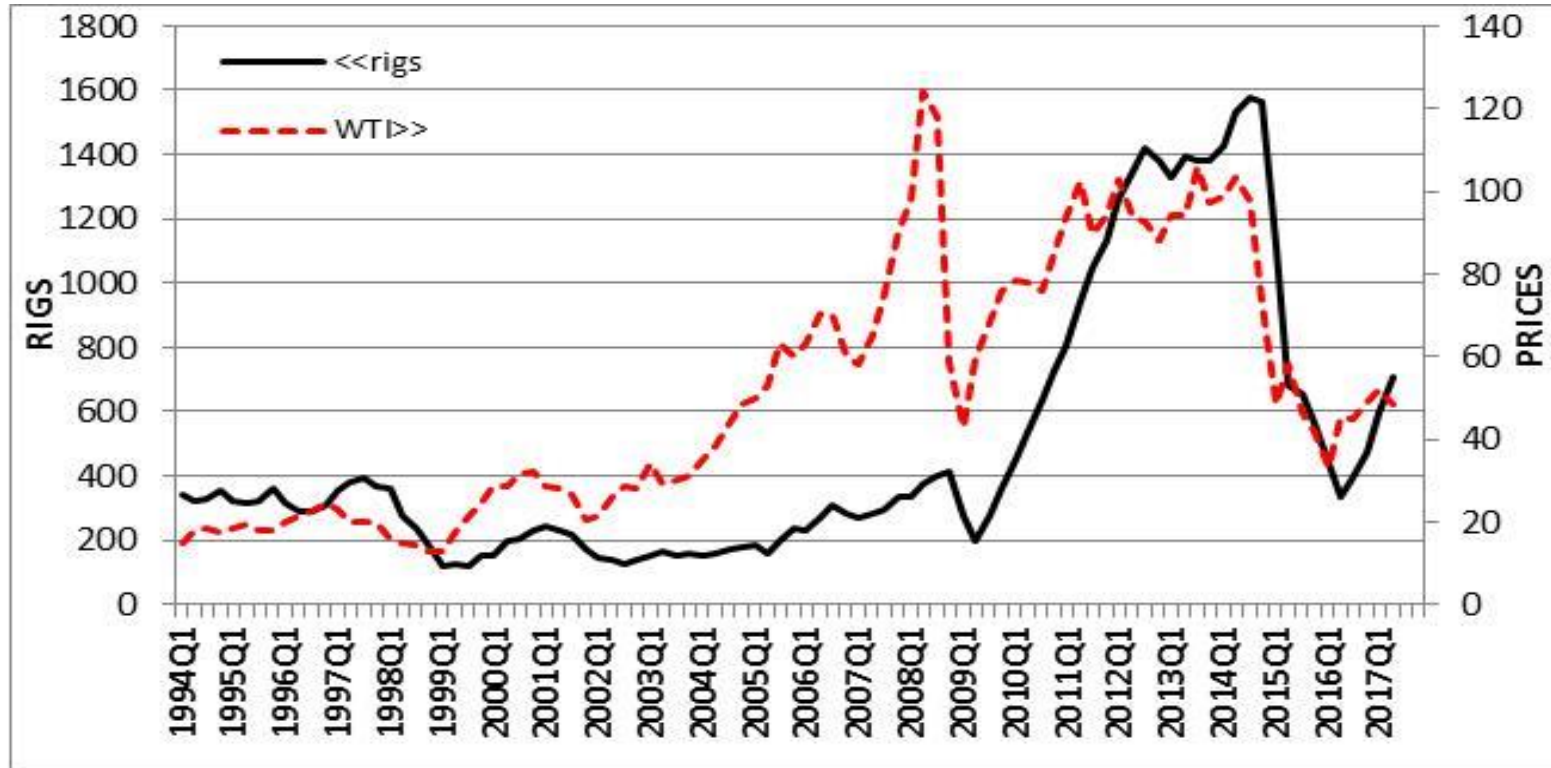
2017 Freight Direction

Hinting at better, but still flattish

- Back to School: Economic sectors are not the same for generating freight
 - Industrials & Investment: Leveraged/multiplier impact, but upside takes time to reestablish momentum
 - Energy
 - Construction
 - Industrial Production
 - Capital goods/machinery
 - Consumers spending: durables (beyond auto) and high-value non-durables
 - Services are not freight-intensive
- ELD mandate at end of 2017 will start the process of eliminating log-book cheating

Key to Sustainability: Commodity Prices

Oil: Prices & Rigs



Number of rigs has ~doubled y/y.
Key for price behavior remains OPEC discipline.

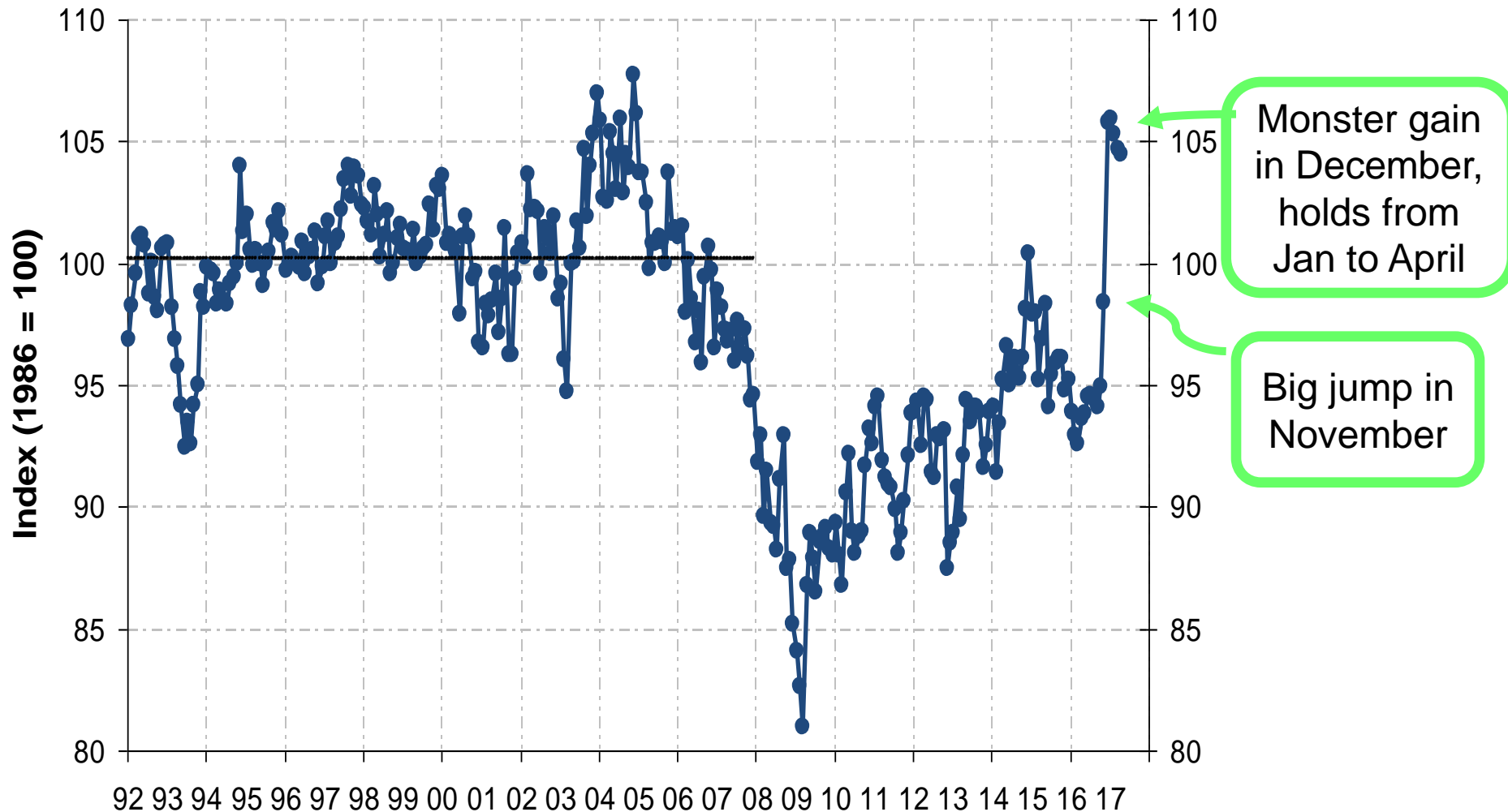
Manufacturers' PMIs

	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
Global	50.1	50.0	50.4	51.0	50.8	51.0	52.0	52.1	52.7	52.7	53.0	53.0	52.8
United States	50.8	50.7	51.3	52.9	52.0	51.5	53.2	54.1	54.3	55.0	54.2	53.3	52.8
Canada	52.2	52.1	51.8	51.9	51.1	50.3	51.1	51.5	51.8	53.5	54.7	55.5	55.9
Mexico	52.4	53.6	51.1	50.6	50.9	51.9	51.8	51.1	50.2	50.8	50.6	51.5	50.7
Eurozone	51.7	51.5	52.8	52.0	51.7	52.6	53.5	53.7	54.9	55.2	55.4	56.2	56.7
Germany	51.8	52.1	54.4	53.8	53.6	54.3	55.0	54.3	55.6	56.4	56.8	58.3	58.2
France	48.0	48.4	48.3	48.6	48.3	49.7	51.8	51.7	53.5	53.6	52.2	53.3	55.1
Italy	53.9	52.4	53.5	51.2	49.8	51.0	50.9	52.2	53.2	53.0	55.0	55.7	56.2
Spain	53.5	51.8	52.2	51.0	51.0	52.3	53.3	54.5	55.3	55.6	54.8	53.9	54.5
UK	49.2	50.1	52.1	48.2	53.3	55.4	54.3	53.4	56.1	55.9	54.6	54.2	57.3
Russia	48.0	49.6	51.5	49.5	50.8	51.1	52.4	53.6	53.7	54.7	52.5	52.4	50.8
Japan	48.2	47.7	48.1	49.3	49.5	50.4	51.4	51.3	52.4	52.7	53.3	52.4	52.7
China	49.4	49.2	48.6	50.6	50.0	50.1	51.2	50.9	51.9	51.0	51.7	51.2	50.3
India	50.5	50.7	51.7	51.8	52.6	52.1	54.4	52.3	49.6	50.4	50.7	52.5	52.5
Brazil	42.6	41.6	43.2	46.0	45.7	46.0	46.3	46.2	45.2	44.0	46.9	49.6	50.1

Source: Markit Economics

>54	51-54	45-51	<45
Above Trend	Trend	Flat	Recession

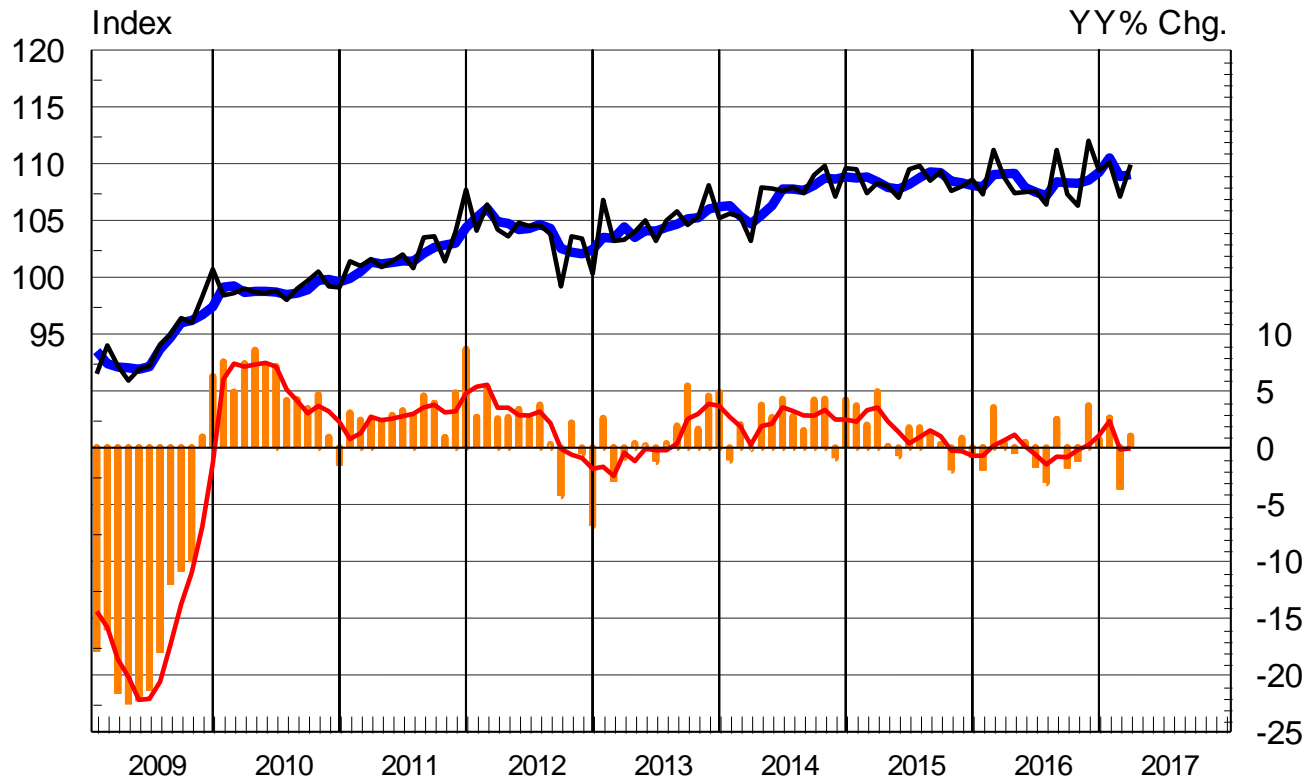
NFIB Small Business Optimism Index



Favorite Metric Lacks Traction

ATA Truck Loads Index (SA)

January '09 - March '17 (2000=100)



2015: +1.0%

2016: +0.1%

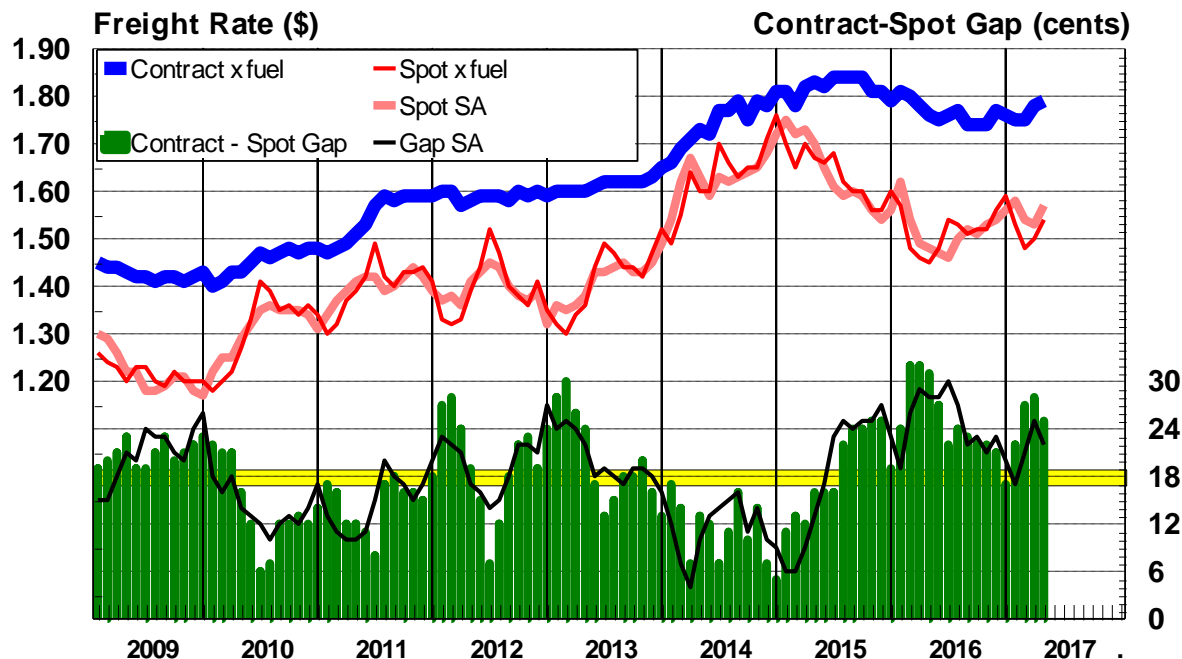
YTD03'17: +0.1%

Source, American Trucking Associations, ACT Research Co., LLC: Copyright 2017

Supply-Demand Balancing?

DAT Trendlines: AGGREGATE Revenue per Mile Rate

January '09 - April '17 (2000=100)



Source: Transcore Commercial Technology Group, ACT Research Co., LLC: Copyright 2017

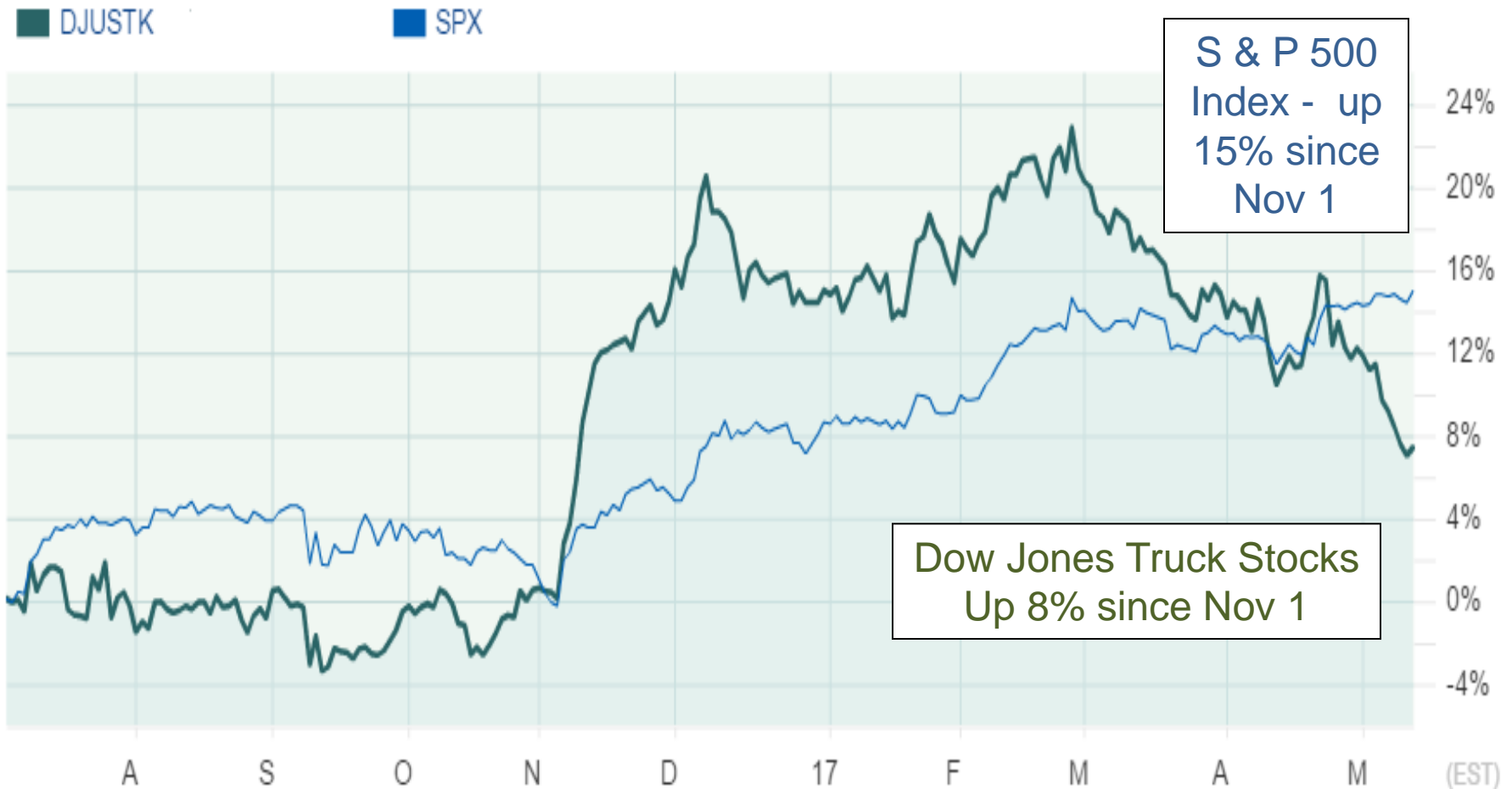
***Solid rate gap
improvement through
2H'16***

***Contract rates = New
tractor buyers***

***Spot rates = Used
tractor buyers***

Trucking Stocks Fade

10 weeks of underperformance follow 4 strong months



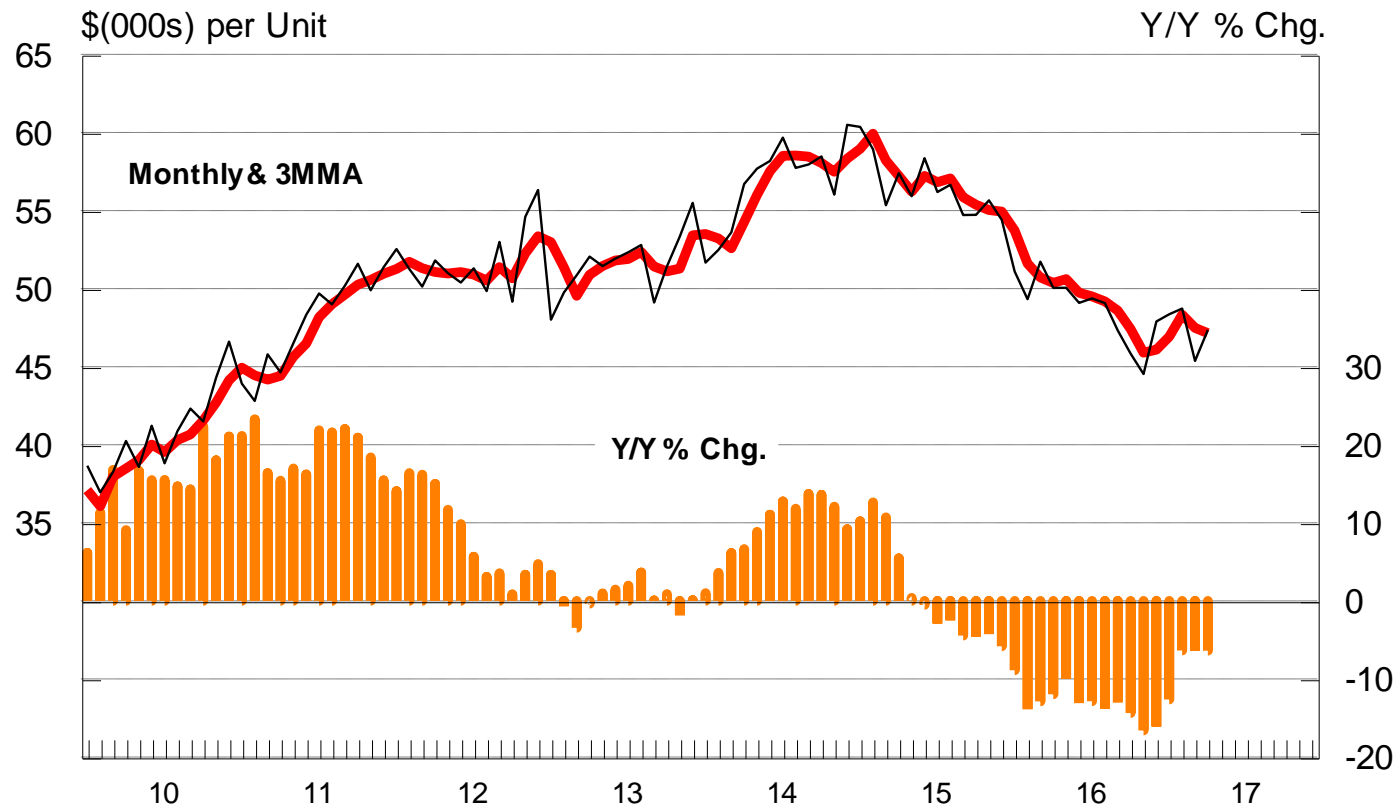
Used Class 8 Trucks

- Average retail at \$47,350 in April(P)
 - +4% m/m, -5% y/y, -6% ytd
 - Excess of late-model aero sleepers, commoditization pressuring used truck pricing
- Exports soared in March
 - +72% m/m, +297% y/y, +161% ytd
 - Vietnam (China?) accounts for 30% of the volume
 - Central America (Guatemala canal) at same level
 - Mexico has imported 20% of ytd total

Making a Bottom

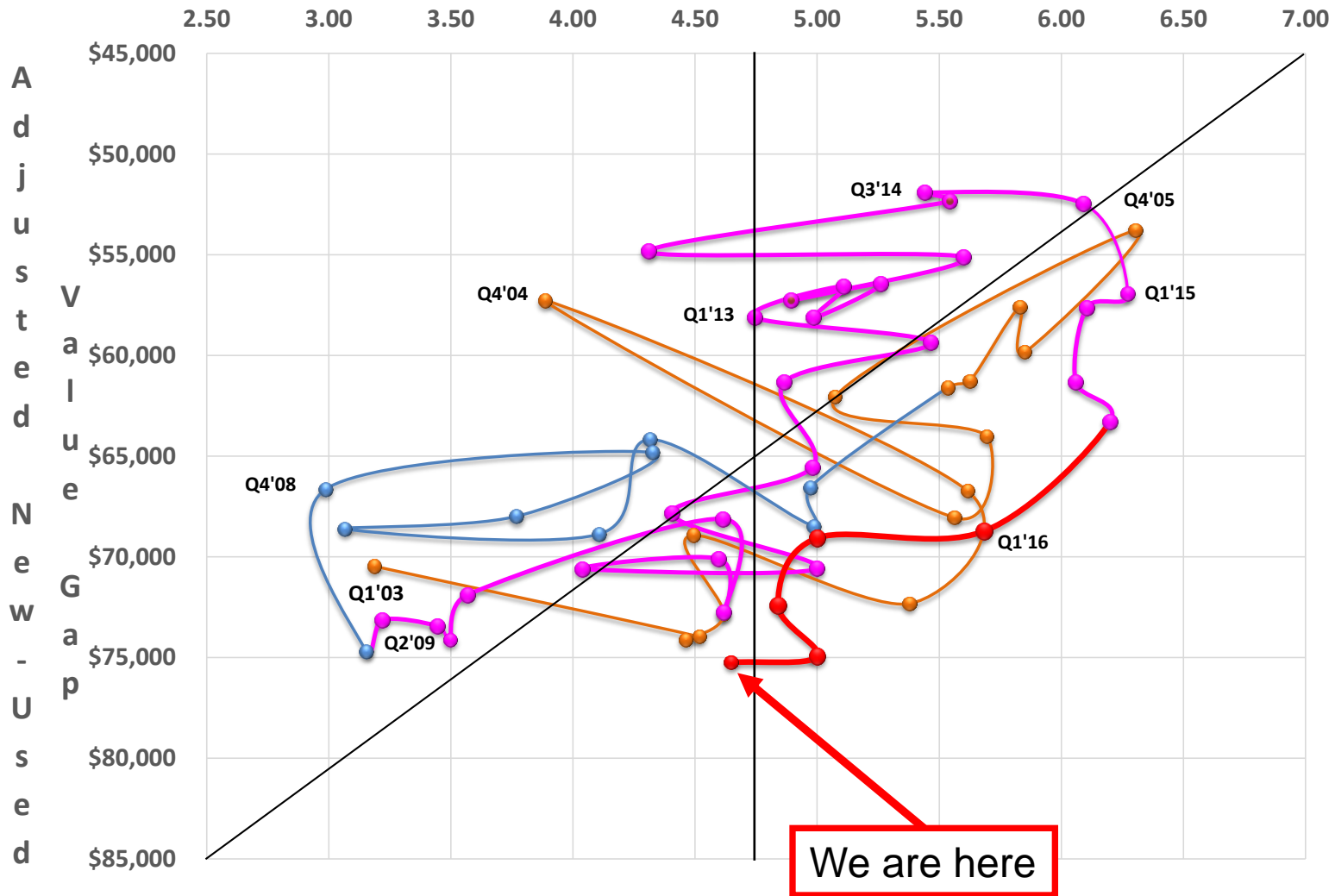
Used Class 8: Average Retail Selling Price

January '10- Preliminary April '17



ACT: Carrier Ability & Willingness Analysis

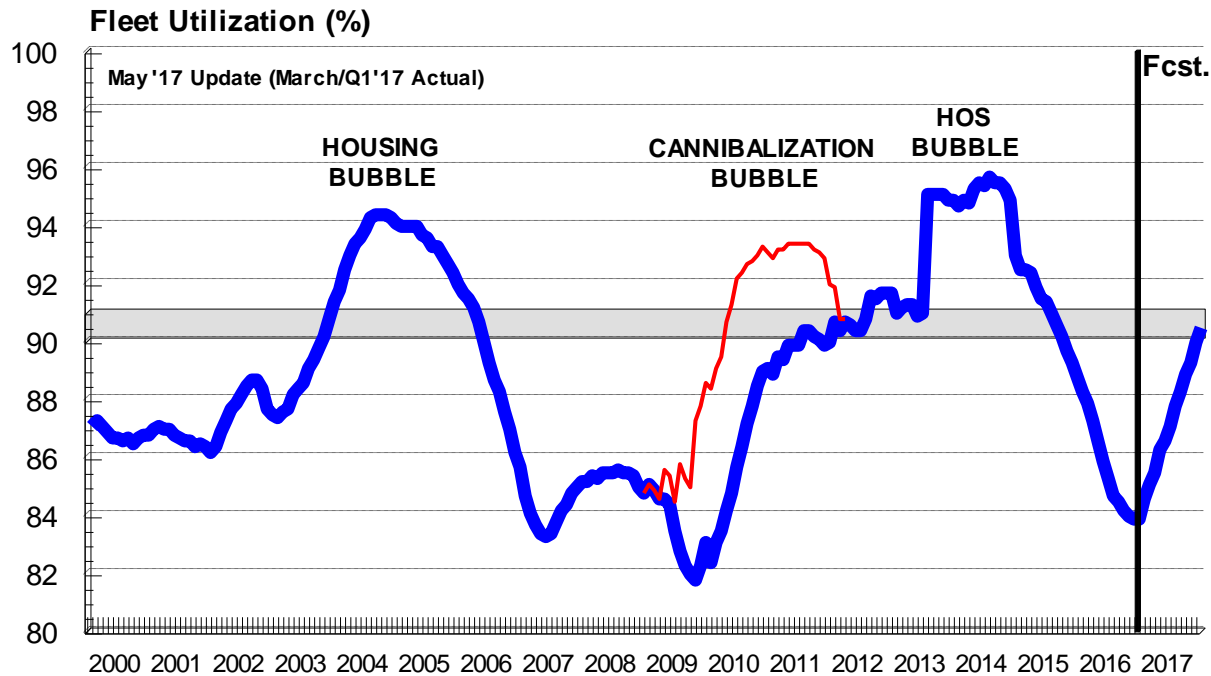
TL Carrier Profitability (SA)



demand + SUPPLY = Overcapacity

U.S. Class 8 Implied Tractor Fleet Utilization Rate

2000 - 2017



ACT Research Co., LLC: Copyright 2017

Fleet realignment in 2017

- 1) ELD productivity hit at end of year
- 2) Positive freight environment
- 3) Below replacement tractor RS

Class 8 Lead Indicator Dashboard

ACT Research Class 8 Tractor Dashboard															
Category	Metric	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
	Green Minus Red Tally	-7	-8	-9	-9	-10	-10	-8	-8	-4	-2	4	-1	1	3
	Positive Indicators (Green)	3	2	1	2	0	1	1	1	4	4	6	3	3	4
	Neutral Indicators	2	3	4	2	5	3	5	5	3	5	7	8	10	10
	Negative Indicators (Red)	10	10	10	11	10	11	9	9	8	6	2	4	2	1
Macro & Financial	ISM-PMI Index	51.8	50.8	51.3	53.2	52.6	49.4	51.5	51.9	53.2	54.7	56.0	57.7	57.2	54.8
	Non-Auto Durables Mfg Output**	-1.5	-1.3	-1.2	-1.1	-0.8	-0.8	-0.5	-0.4	0.0	0.3	0.8	1.4	1.7	1.8
	Consumer Spend, Goods only**	2.6	2.9	2.9	3.2	3.5	3.5	3.9	4.4	4.5	4.9	4.9	4.5	3.8	3.5
	Residential Const Expend (real) **	8.4	5.1	2.2	0.1	-0.9	-2.0	-3.2	-3.0	-2.5	-1.4	0.3	2.7	5.7	6.5
	Dow Jones Trucking Stock Index	551.4	534.4	546.0	535.1	540.5	533.7	535.5	541.1	616.2	615.8	631.3	650.0	618.0	604.2
Freight	ATA TL Loads**	0.7	0.2	-0.4	-1.4	-1.7	-0.1	-0.4	-0.8	0.4	0.7	1.3	0.1	1.7	1.1
	DAT Transcore Loads/Truck	2.2	2.2	3.0	3.6	4.3	4.0	4.0	4.1	4.9	6.8	7.6	5.6	4.1	4.6
	DAT Aggregate Contract/Spot Spread	29	28	29	30	27	23	23	21	23	20	17	21	24	22
	DAT Dry Van Spot Rate*	-16.0	-15.7	-13.5	-10.8	-7.2	-6.6	-6.0	-3.4	-2.0	-2.0	-4.7	-1.4	2.2	6.7
	ATA TL Loads/US Cl8Tractor Pop Growth Gap	-10.7	-10.6	-10.2	-10.2	-9.6	-7.2	-6.9	-6.5	-4.7	-3.8	-2.6	-3.2	-1.3	-1.4
ACT data	Cl 8 Cancellations (sa)	1780	1598	2536	2446	2833	992	1984	5577	1502	2785	1879	2572	3478	1518
	Cl 8 I/S ratio (sa)	2.91	2.85	2.91	3.01	3.01	3.20	2.97	2.91	2.63	2.81	2.49	2.68	2.60	2.43
	Class 8 Inventory Level (000 sa)	65.4	64.7	63.7	61.0	60.8	57.4	53.9	51.9	48.6	47.1	46.7	45.8	45.2	46.0
	Class 8 Net Orders to Build (6mma,sa)	0.83	0.77	0.79	0.74	0.73	0.74	0.77	0.80	0.86	0.91	1.01	1.09	1.15	1.22
	ACT For Hire - Volume less Capacity	41.1	42.2	47.9	47.2	43.5	53.8	55.8	54.3	54.3	50.5	68.0	52.7	56.0	50.8
All measures are levels, except *=Year/Year % Change and **=12 month CAGR Rate of Change															

What is Driving Class 8 Orders

- Better fuel economy for 2018 MY tractors and rising fuel prices
 - 5%-6% y/y
 - ~33% pre EPA'10
- Double the number of oil rigs, ~double the number of trucks serving the frac complex
- OEM incentives on used valuations
- Parts of market that use tractor daycabs continue to do well
- Trump Bump/soft metrics

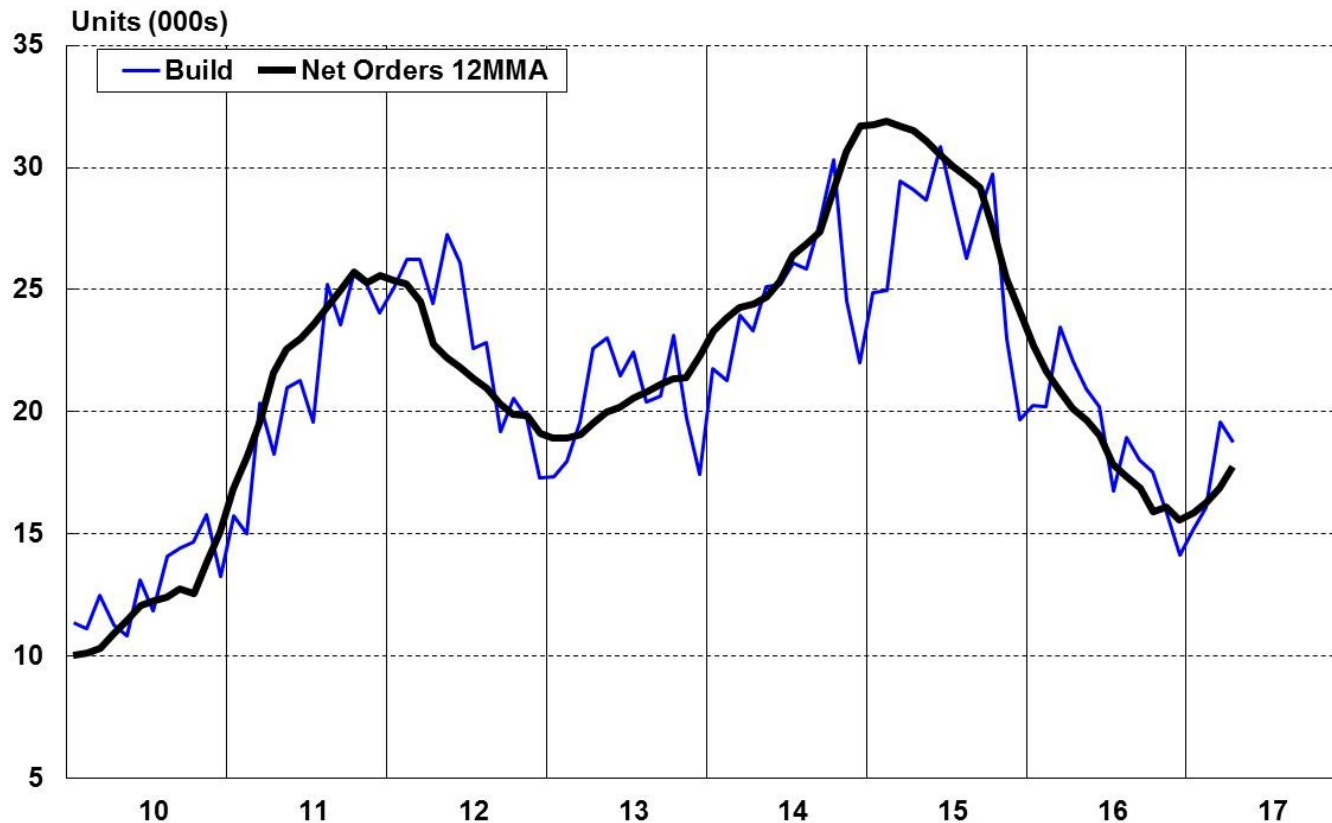
NA C8 Performance

	April SAAR	3 MO. SAAR	6 Mo. SAAR	12 Months
Net Orders	291k	283k	252k	217k
Build	250k	221k	206k	210k
Retail Sales	227k	222k	221k	229k

Strong Order Rebound in Q1

Total Class 8 N.A.: Net Orders 12 Mo. Avg. & Build

January 2010 - April 2017



Source: ACT Research Co., LLC: Copyright 2017

Medium Duty

- Truck, bus and RV markets have all improved
- Cancellations in check and BL/BU ratio solid.
 - *Can always use more orders.*
- IN/RS ratio where it should be
 - OEM build plans call for stable build rates through Q3'17
- Key MD truck demand drivers staying between the lines:
 - Consumer confidence down but still elevated
 - Construction (resi/non-resi) and light truck and automotive markets are especially important to MD trucks
 - Growth has resumed but will remain constrained
 - State and local governments exhibiting moderate growth

N.A. Classes 5-7 Order Distribution

(Data through April 2017, annualized)

<u>Classes 5-7 Orders</u>	Truck (000s)	Bus (000s)	RV (000s)	Total* (000s)
Past 12 Mo.	165.4	40.8	21.3	234.0
Past 6 (AR)	185.2	41.8	23.3	257.4
Past 3 (AR)	187.9	47.0	23.7	265.4
April (AR)	158.6	45.6	22.5	255.4
Apr. SAAR				220.7

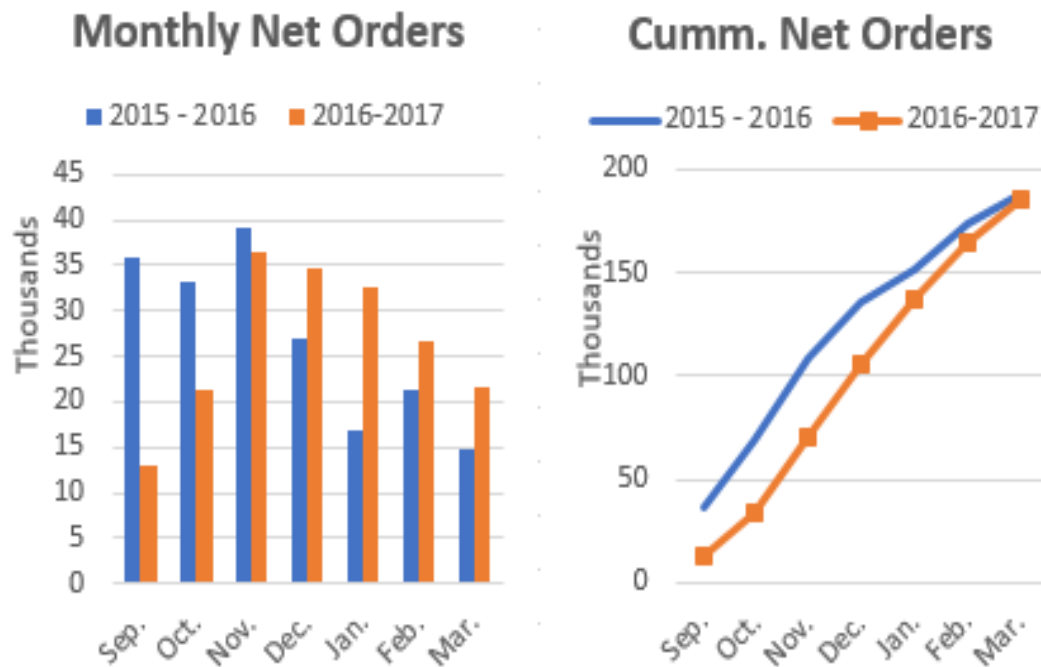
* Total includes Step Vans

U.S. Trailer Market Update

- 2016-17 order season: slow start, strong finish
- Comparable full-year expectations in 2017 vs 2016, but lower backlog peak in 2017 suggests tiring cycle
 - 4-year cycle peak “unprecedented”
 - Indications that small and medium fleets are entering the fray...with dealer participation as well
- Production ramp in March follows November ramp in orders

- “Order Season” now complete...2016/17 & 2015/16 within 1%
- Dramatic post-election swing in fortunes
- Significantly different paths
 - 2015/16 front-loaded
 - 2016/17 started slow; late momentum could extend into Spring

U.S. Trailer Orders



Forecast Summary

- **Class 8**
 - Strong Q1 orders are driving Q2 production ramp
 - Orders are close-in, leaving little cushion if orders cool
 - Current forecast is below OEM Build Plans
 - Could see 240k-245k
- **Classes 5-7**
 - Goldilocks like conditions with healthy end-markets
 - » April order weakness (following a strong March) raise an eyebrow
 - Broad-based across vehicle types
- **Trailers**
 - Orders ripping since election, extending a very long cycle
 - Production regaining momentum after late '16 cooling

Forecasts

Units (000s)	2013	2014	2015	2016	2017	2018
GDP (%)	1.7	2.4	2.6	1.6	2.1	2.6
NA Class 8 BU	245	297	323	228	228	265
Memo: Tractor	180	221	244	159	148	178
Memo: Vocational	65	76	79	70	80	87
Memo: US RS (all)	188	224	253	197	175	205
NA C5-7 BU	202	227	237	233	245	248
Memo: Truck	153	172	181	171	184	185
Memo: Sch. Bus	34	37	38	41	40	41
Memo: RV	15	17	18	21	21	22
U.S. Trailer Only	234	269	308	286	276	259
Memo: Dry Vans	135	156	180	180	172	148
Memo: Reefer Vans	36	39	46	46	44	43



ACT Research Company, LLC

4400 Ray Boll Boulevard
Columbus, IN 47203

Phone: (812) 379-2085

Fax: (812) 378-5997

e-mail: trucks@actresearch.net

www.actresearch.net