EPA Mandates & C.V. Demand: SURFS UP

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Federal Reserve Bank
Automotive Outlook Symposium
June 1-2, 2006
Critical Demand Components Aligned

• *Emissions mandate aside, 2006 was going to be a very good year for CV industry & trucker*
  
  • Economy generating new freight to haul
  • Strong trucker profits
  • Used equipment supply/demand equilibrium
  • Credit is available

• 2007 EPA mandate turns 2006 into record class 8 demand year
2007 Purchases

Clear majority in our group are planning to avoid 2007 model equipment. The drastic change in this opinion occurred last October – driving strong 2006 orders. For Hire TL Carriers were the most likely to answer yes.
Concerns Regarding 2007 Models

Concerns for '07 Models

- Added Maint. Costs: 89%
- Cost of '07 Models: 83%
- Reliability of '07 Engines: 77%
- MPG Reduction: 77%
- Filter Cost: 71%
- ULSD Cost: 54%
- ULSD Availability: 54%

Concerns as stated in July 2005

Source: CK Marketing & Communications  A.C.T. Research Co., LLC, Copyright 2006
AVERAGE AGE:
U.S. Class 8 Active Population
1979 - 2010e

Avg. Age in Years

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Cumulative Over/Underbuy:
Class 8 Population Relative to GDP Growth
1992 - 2010e

Thousands

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Weekly Diesel Fuel & Spot Crude Oil (WTIC) Prices
2000-2006 (Week 20)
Truckload Carriers

• Regardless of their size, for-hire truckers in business today understand their operating costs

• Freight environment:
  • Strong in Q4’05, seasonal drop in Q1’06
  • Shippers indicate ongoing tight truckload capacity
  • Revenue per mile continued to rise at double-digit (y/y%) rate in Q1’06

• Rising costs
  • Fuel
  • Driver shortage
    – Being alive no longer a sufficient qualification (Liability, insurance, security, etc.)

• Fleet fiscal discipline and driver shortage eliminate overcapacity and improve profitability

• This cycle, drivers, not equipment, are true measure of capacity
TL Carrier Database:
Revenue Per Total Mile

Q1'97 - Preliminary Q1'06

$ per Mile

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Class 8 Market Indicators

- String of record order months ends in April
- Cancellations remain on trend and at low levels
- Backlog rolls over in April
- Build rates steady at high levels
- Retail sales set record in March, at record levels in April
- Strong sales holding inventories in check
TOTAL CLASS 8: N.A. NET ORDERS & BUILD - 6 Mo. Avg.
January '98 - April '06  (Not Seasonally Adjusted)
TOTAL CLASS 8: N.A. BACKLOG & BL/BU RATIO
January '98 - April '06 (Not Seasonally Adjusted)
## Build Timing of Units in Backlog: as of April 30, 2006

**CLASS 8**

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<thead>
<tr>
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<tbody>
<tr>
<td>BACKLOG DISTRIBUTION</td>
<td>--</td>
<td>61,122</td>
<td>78,861</td>
<td>71,861</td>
<td>7,837</td>
<td>1,669</td>
<td>221,350</td>
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<td>. Mix by scheduled build date</td>
<td>--</td>
<td>27.6%</td>
<td>35.6%</td>
<td>32.5%</td>
<td>3.5%</td>
<td>0.8%</td>
<td>100.0%</td>
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<tr>
<td>OEM BUILD PLAN (SOI, p.19)</td>
<td>120,895</td>
<td>63,341</td>
<td>85,824</td>
<td>85,300</td>
<td>--</td>
<td>--</td>
<td>355,360</td>
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<tr>
<td>. Open build slots in 2006</td>
<td>--</td>
<td>2,219</td>
<td>6,963</td>
<td>13,439</td>
<td>--</td>
<td>--</td>
<td>22,621</td>
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<tr>
<td>. % Open</td>
<td>--</td>
<td>3.5%</td>
<td>8.1%</td>
<td>15.8%</td>
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TOTAL CLASS 8: N.A. INVENTORY/RETAIL SALES RATIO

January '98 - April '06 (Not Seasonally Adjusted)
N.A. Class 8 Production
1998-2007

Units (Thousands)

<table>
<thead>
<tr>
<th>Year</th>
<th>Units</th>
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<tbody>
<tr>
<td>'98</td>
<td>267</td>
</tr>
<tr>
<td>'99</td>
<td>333</td>
</tr>
<tr>
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<td>'05</td>
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<td>'06</td>
<td>358</td>
</tr>
<tr>
<td>'07</td>
<td>207</td>
</tr>
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Class 8 Summary

• What will the velocity of the U.S. economy be in late 2006/early 2007?
  – A lot of late model equipment will be in service by the end of 2006 thanks to strong Class 8 sales in the 2004-2006 period
  – New and used truck inventory volumes could be at uncomfortably high levels in early 2007
    • New inventories entirely of pre-mandate units
Current Trailer Market Data

• Spring order rebound winding down
• Cancellation activity remains at low levels
• Backlogs roll over in April after strong rise through Q4, Q1
• Build rates likely to remain near current levels into early 2007
Medium Duty Trucks
Market Description

• Largest N.A. medium duty segment (67%)
• 16,001 to 33,000 lbs GVW (Classes 5-7)
• 135+ different applications
• Demand drivers
  – Consumer spending drives majority of demand
  – New and used home sales, durable goods orders
  – Business spending, government budget issues
N.A. Classes 5-7 Production
1998-2007

Units (Thousands)

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