



The Outlook for Heavy Machinery

Federal Reserve Bank of Chicago
December 3, 2010

Betty Kouo
Senior Economist
Caterpillar Inc.



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Dealer Reported Retail Statistics - Machines

Recovery
underway across
all regions

	<u>Change from Year Earlier</u>
Latin America	+59%
Asia/Pacific	+45%
Europe/Africa/Middle East/CIS	+40%
North America	+52%
World	+48%

Source: Changes computed using dealer reported deliveries of machines to end users in constant dollars; posted by Caterpillar Investor Relations on www.cat.com.



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Caterpillar Machinery Sales, 2009

Over 61%
outside North
America.

	<u>Million Dollars</u>
North America	6,993
Europe/Africa/Middle East/CIS	4,112
Asia/Pacific	4,488
Latin America	2,555
Outside North America	11,155

Source: Caterpillar Inc. 2009 Annual Report on Form 10-K, p. A-66



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New Machine Distribution to End Users, 2009

Construction
and mining are
main drivers.

	<u>% Share</u>
Heavy Construction	33
Mining	28
General Construction	18
Quarry & Aggregates	7
Industrial	4
Paving & Compaction	4
Forestry	3
Waste	3

Source: Caterpillar Inc. 2009 Year in Review, p. 60.



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Preliminary Outlook for 2011

Developing economies
outperform developed
countries

World economy will continue its recovery

Developed Countries

- Interest rates remain low, and central banks expected to add liquidity
- Modest economic growth
- Unemployment will likely persist as the dominant economic problem
- Construction activity is expected to begin to recover
- Mining expected to benefit from favorable commodity prices

Developing Economies

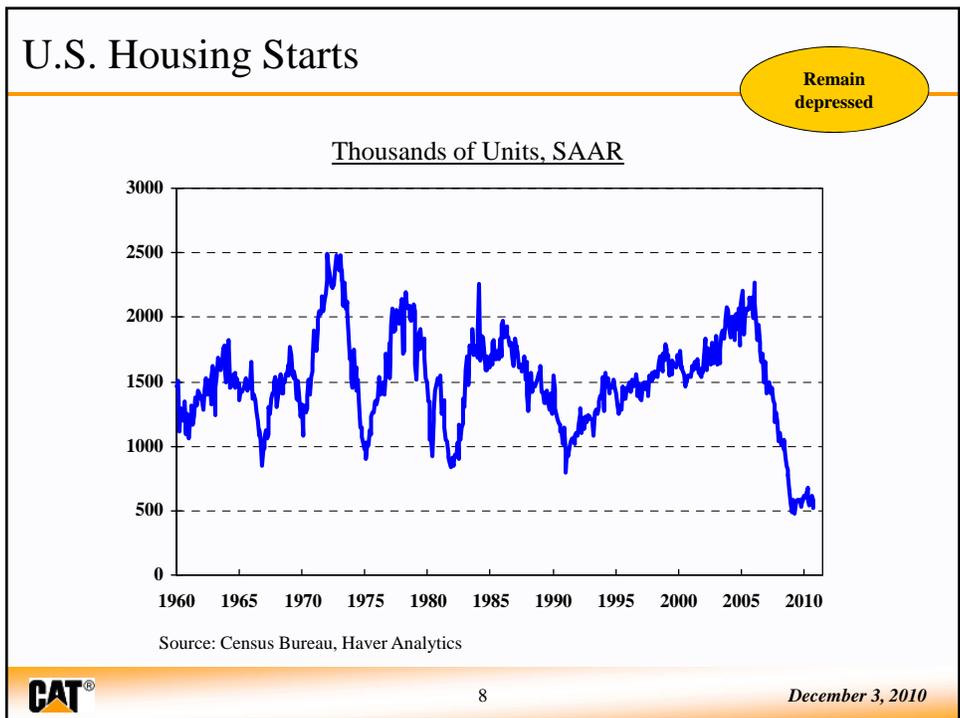
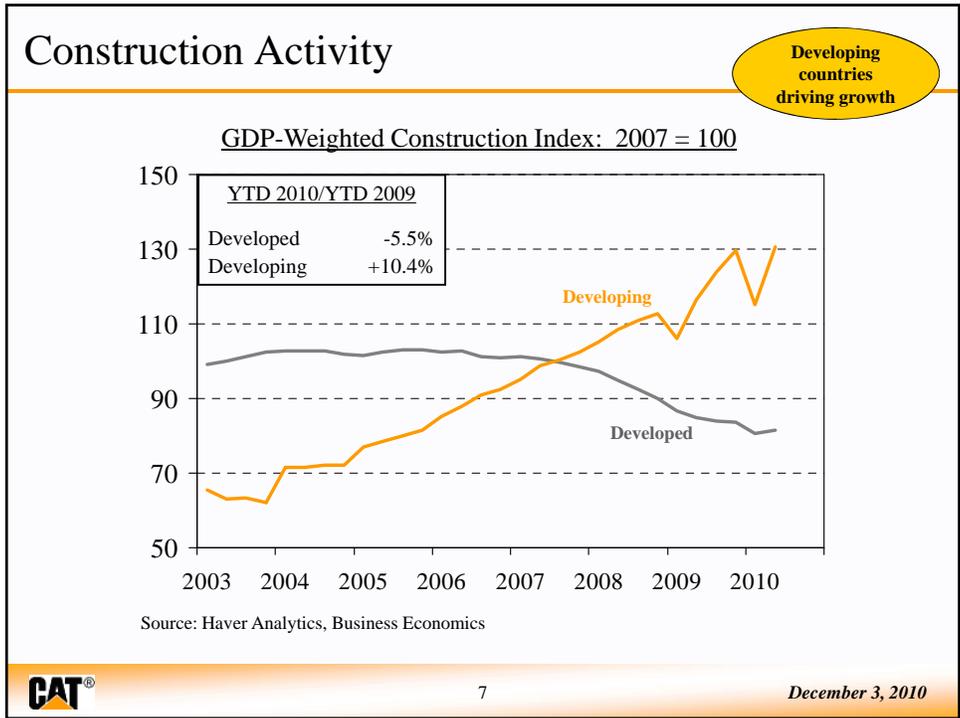
- Economic growth to continue in 2011
- Many are expected to raise interest rates further but remain accommodative
- Construction spending is expected to increase
- Favorable commodity prices will encourage mining production and investment
- Expected to have higher growth rates than developed economies

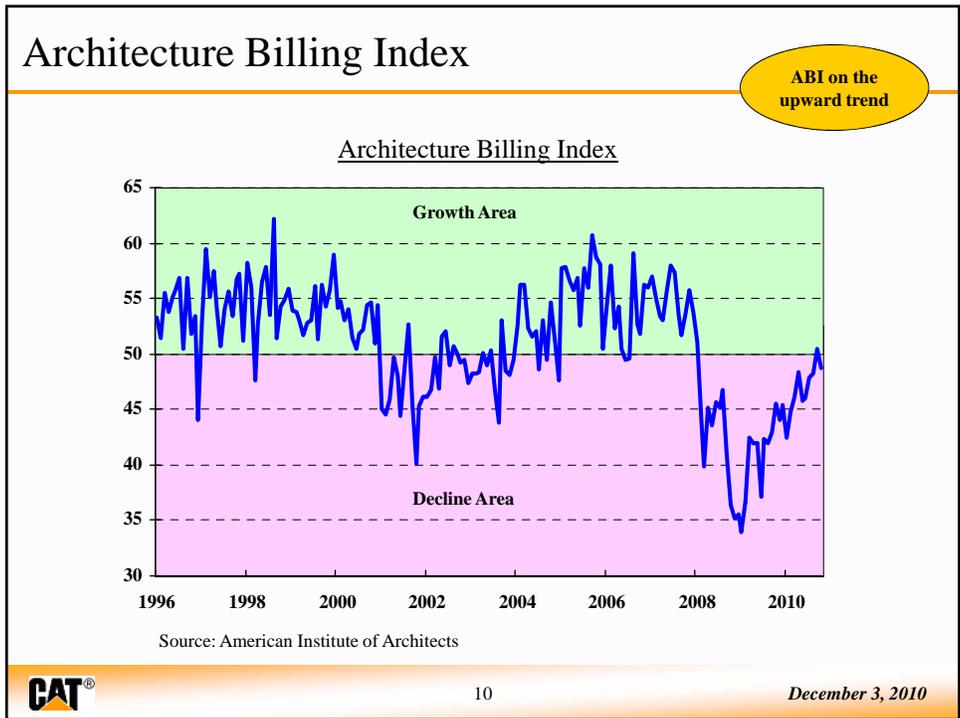
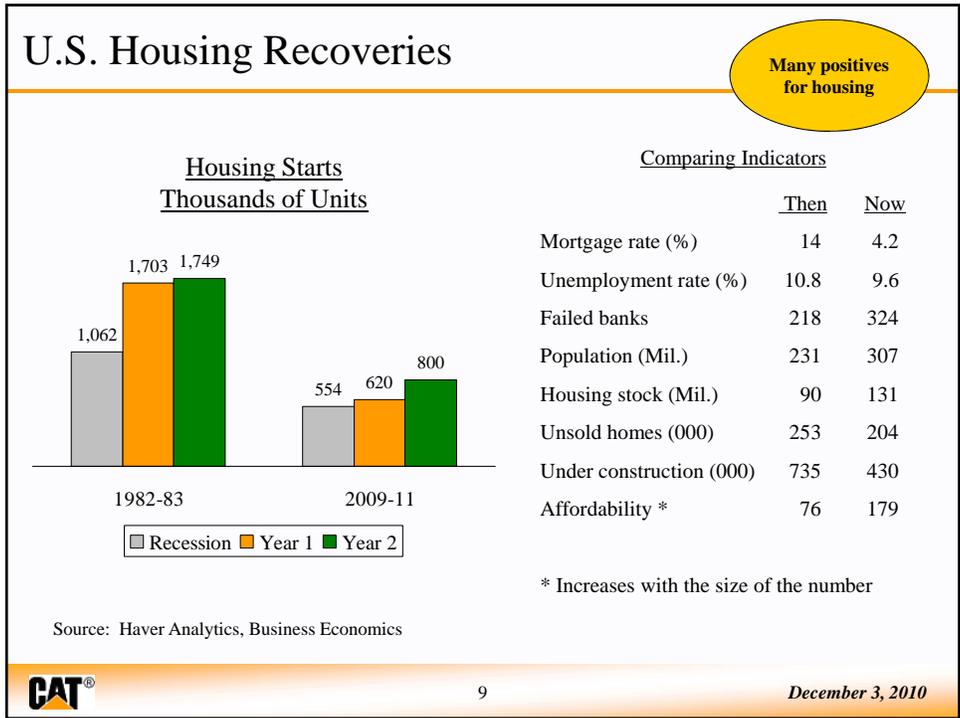
Source: Caterpillar Press Release, October 21, 2010, pp. 15-16.

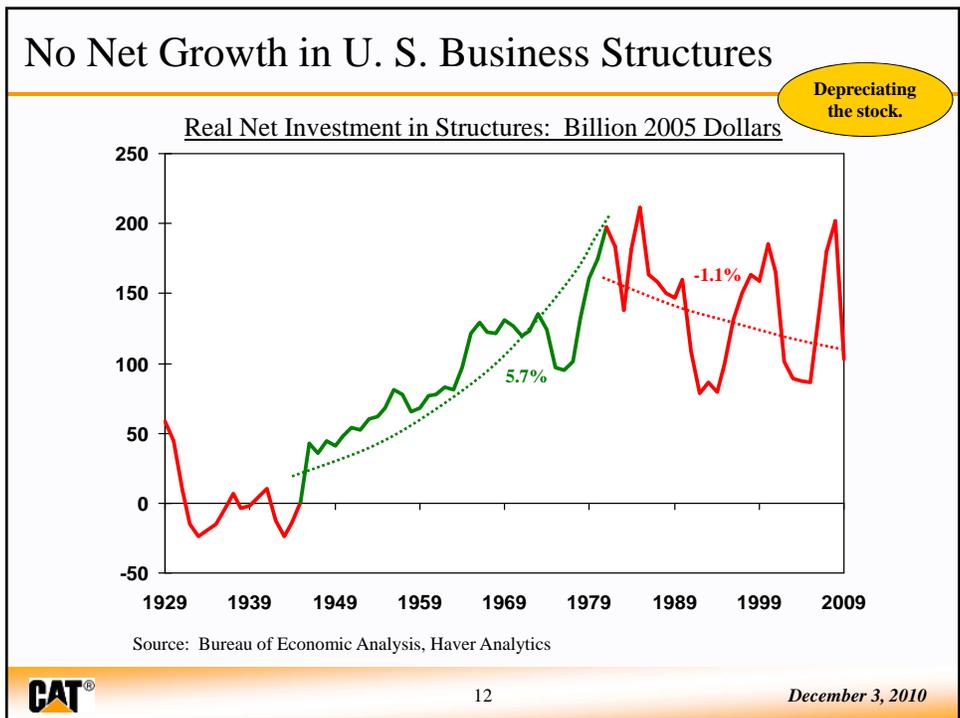
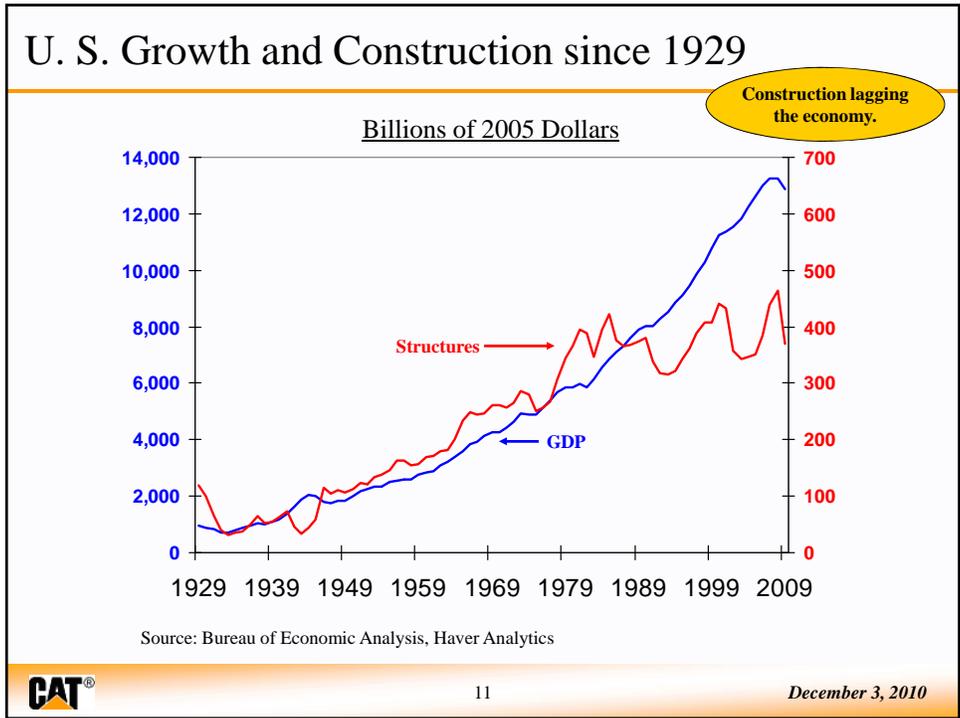


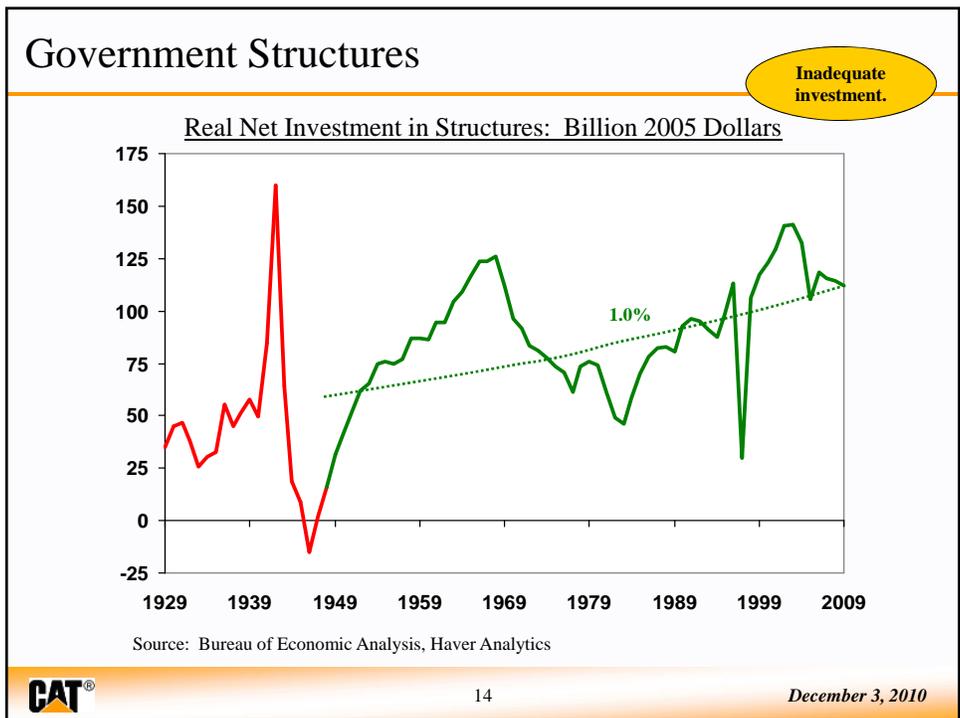
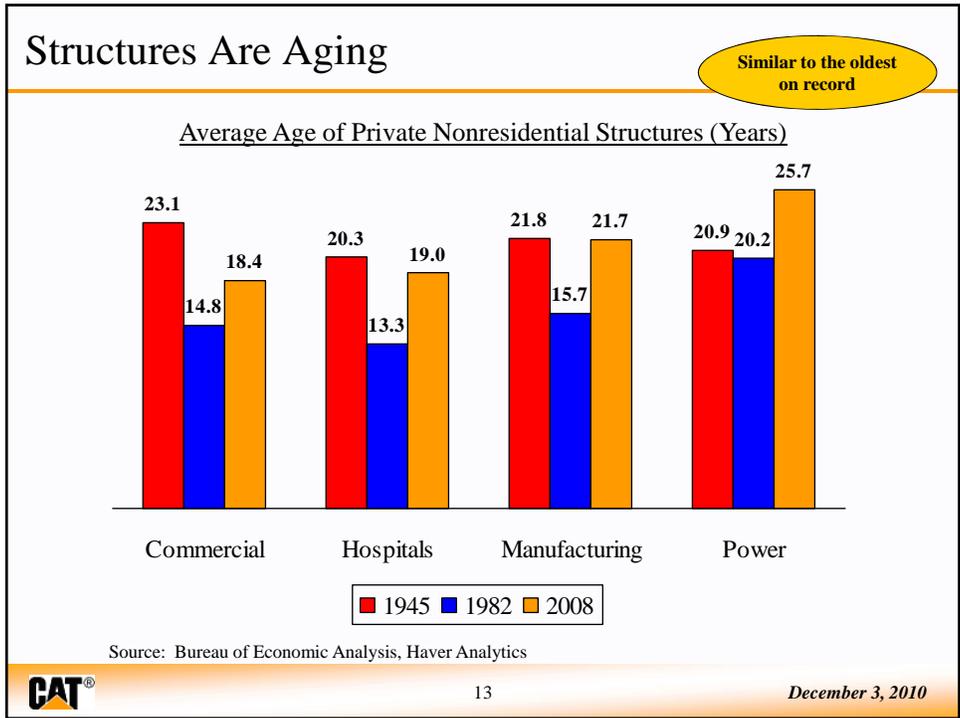
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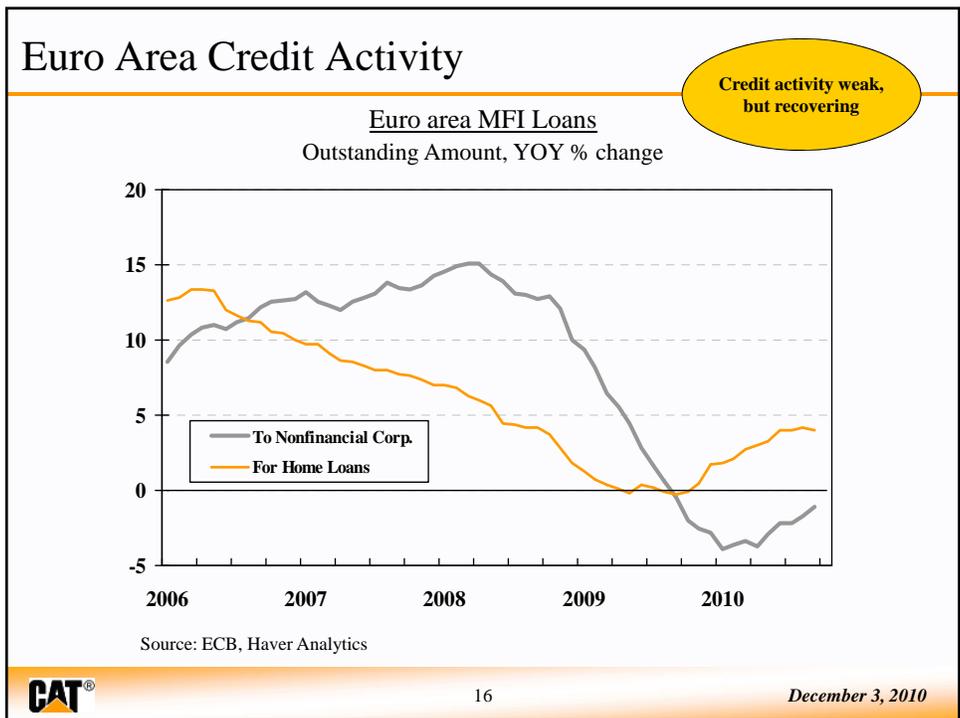
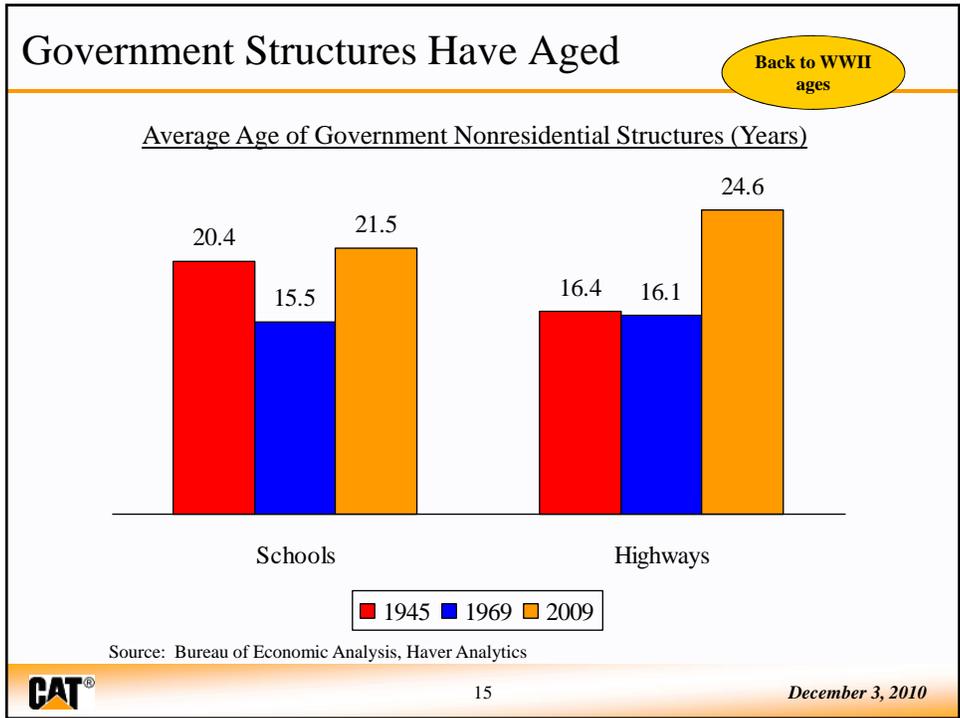
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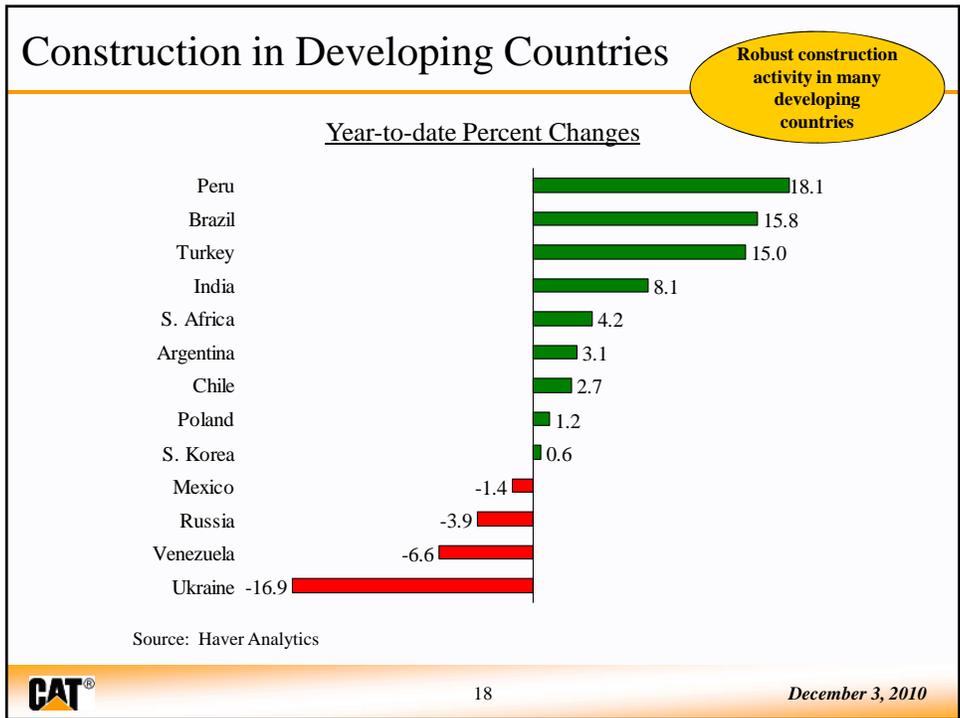
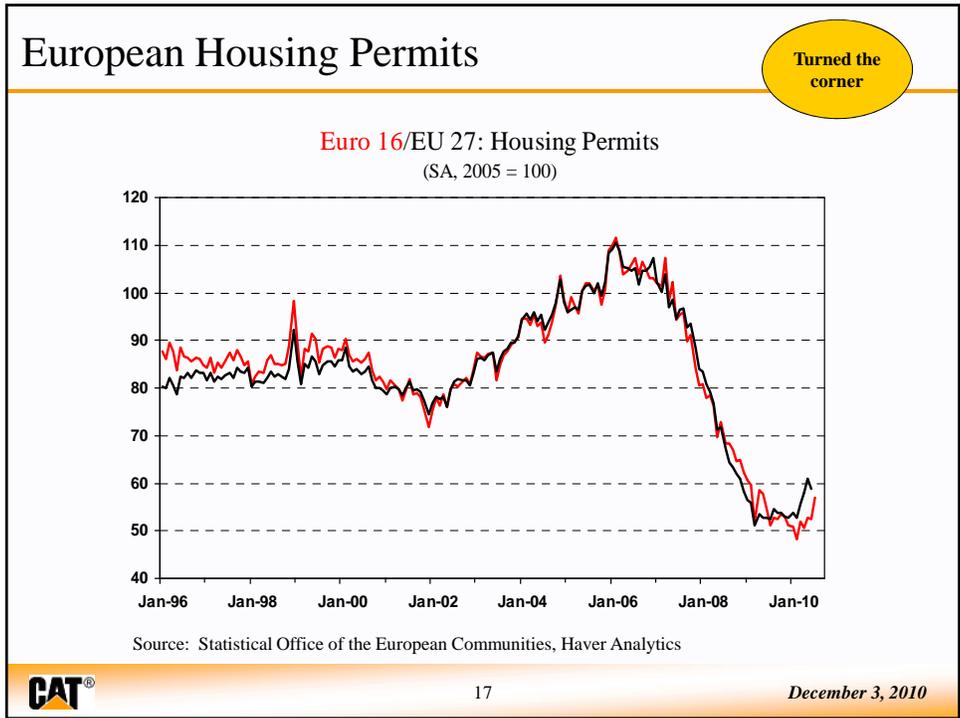












Infrastructure Opportunities



Crowded Roads

- U.S.: Cost drivers \$85 billion a year
- Brazil: 88% roads unpaved, adds 35% to costs
- Japan: 3.8 billion hours a year, or \$91 billion
- India: Average speed in Delhi is 6 mph

Airport Delays

- U.S.: Hours lost more than doubled since '82
- Russia: Most of 393 airports below standards
- India: Country with most frequent late arrivals



Source: Various public and private studies



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More Infrastructure Opportunities



Unsafe Dams

- U.S.: 4,000 out of 85,000 are deficient
- China: Almost 70 failures yearly
- Brazil: 200 of 7,000 dams at risk of failure

Inadequate Sewer and Water Systems

- U.S.: Leaking pipes lose 5% to 40% of water
- Africa: Effectively uses 4% of available water
- China: 700 million drink contaminated water
- India: 13% of sewage is treated

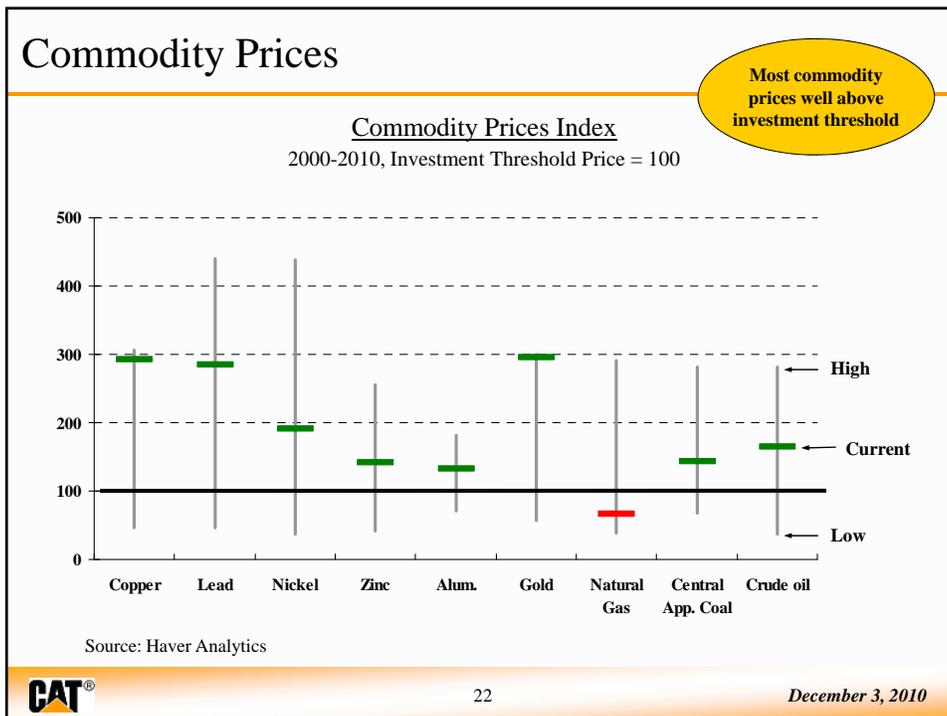
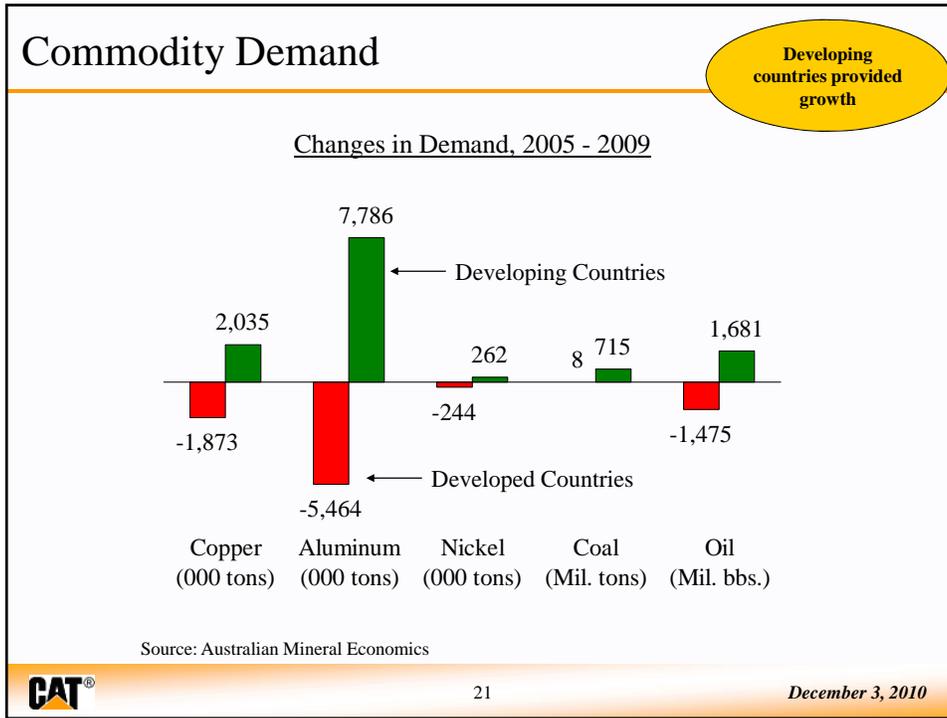


Source: Various public and private studies



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Key Points

Positive outlook for
heavy machinery
industry

- Global recovery remains on track
- Developing economies expected to have higher growth rates than developed economies
- Construction also beginning to recover, though still depressed in many areas
- Inadequate past investment created large backlog of needed infrastructure construction
- Mining recovery continues led by developing country demand

