



Beyond the Soft Patch:

A look at NA Commercial Vehicle Markets and the underlying demand drivers that promise to keep the market healthy for several years to come

Kenny Vieth
ACT RESEARCH Co., LLC

FRB Chicago Automotive Outlook Symposium
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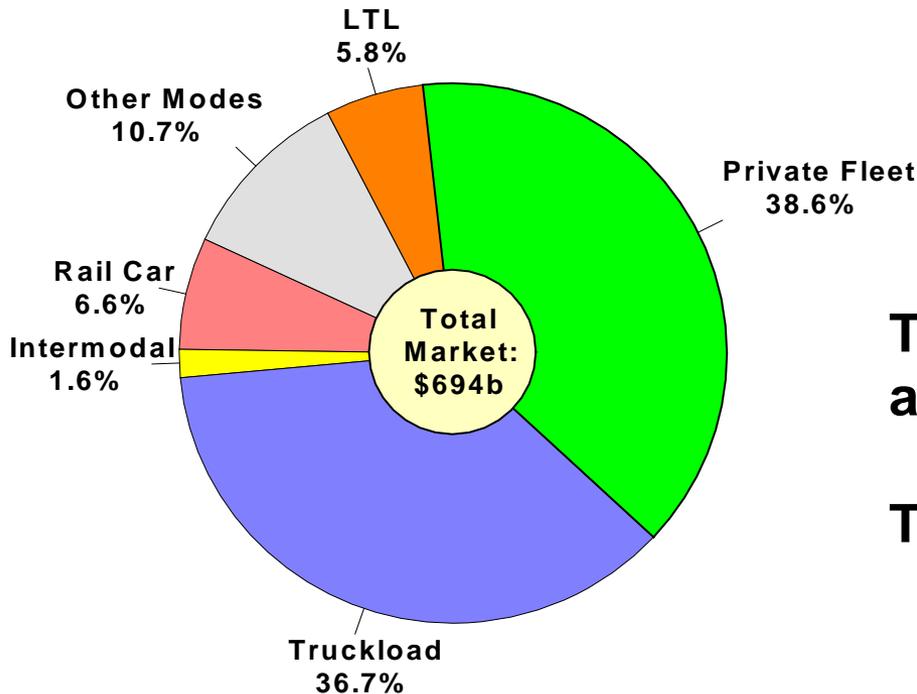
Thesis

- There is no substitute transportation mode for heavy trucks.
 - Heavy trucks provide flexibility and reliability at a good value that other modes cannot match.
 - Economic activity provides a proxy for the freight that trucks haul.
 - Economic momentum provides insights into near to medium-term freight volumes.

Who Hauls the Freight?

U.S. Freight Market: 2010

as a % of Revenues



Truckers are hauling 81% of all freight (\$ basis):

Tot. Truck:	\$563b
Private:	\$268b (47.6%)
TL:	\$255b (45.3%)
LTL:	\$ 40b (7.1%)

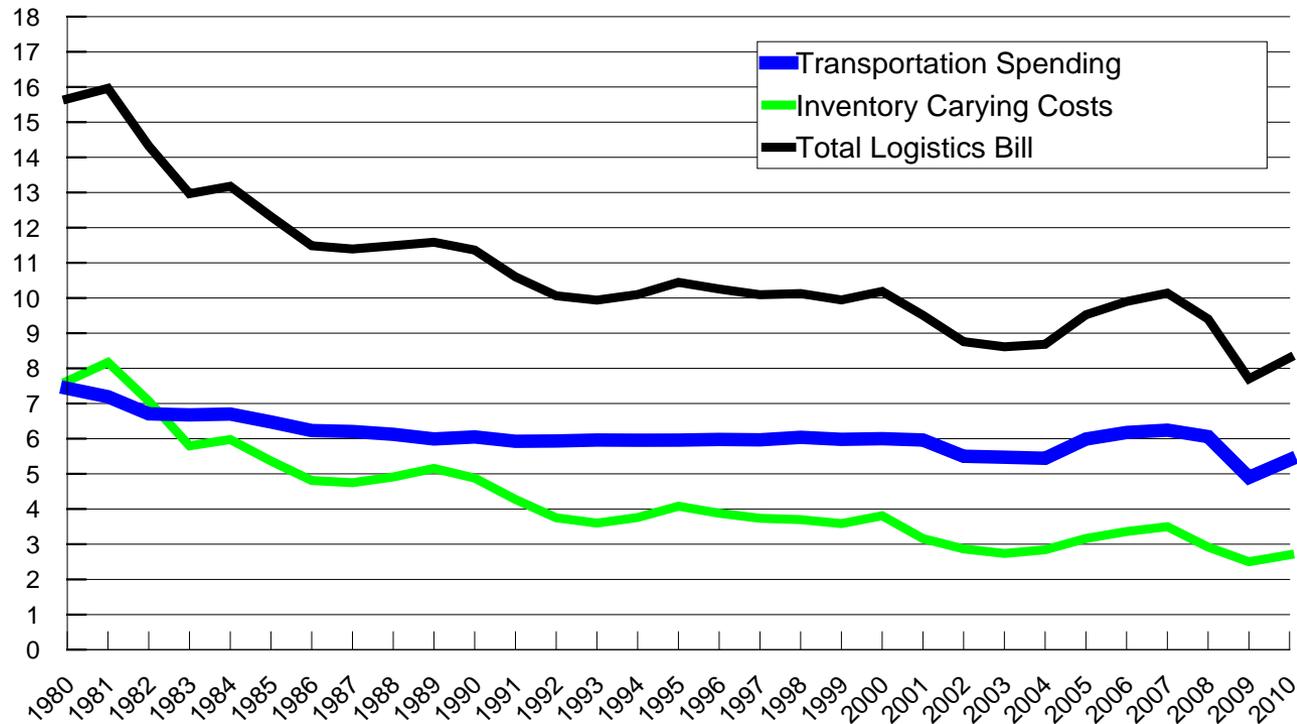
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Marginal Demand Considerations: Evolution not Revolution

Detracting from Demand	Accretive to Demand	Trend Period
Retail Consolidation	Population Growth	Long-term
Packaging evolution	Internet Shopping	Long, Medium-term
Electronics Miniaturization	Ubiquitousness of electronics	Long-term
Intermodal		Long-term
Rising Oil Prices	Cheap Natural Gas	Recent
	Mfg. On-shoring	Now/Coming
Rising Truck Prices	Regulatory Onslaught	Now

No Low Hanging Fruit

U.S. Logistics Spend as a Percentage of GDP 1980 - 2010



Council for Supply Chain Management Professionals, ACT Research Co., LLC: Copyright 2011

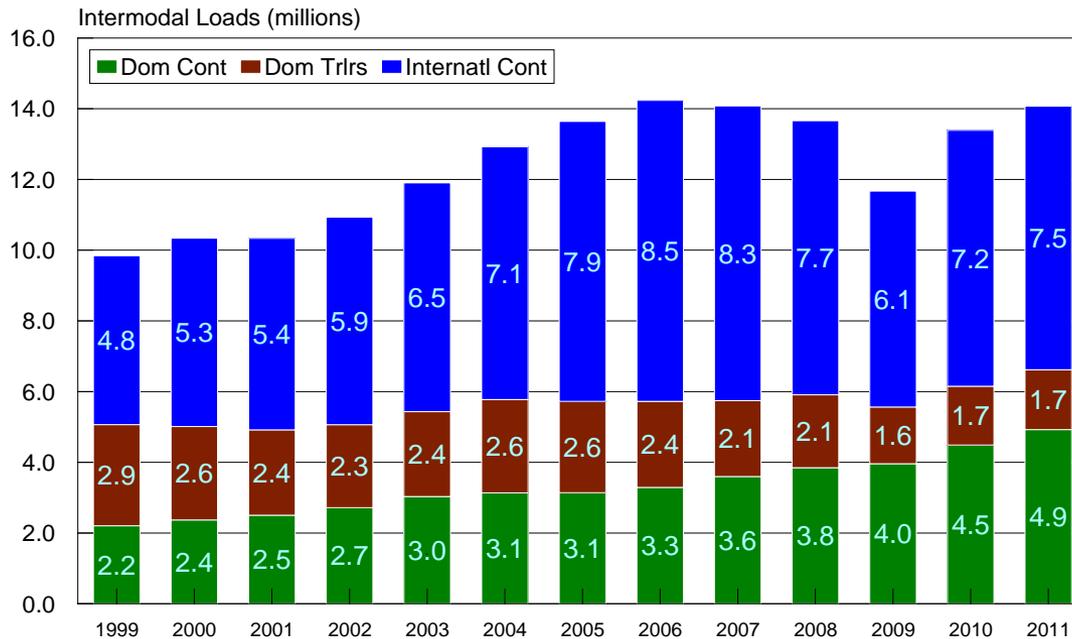
Intermodal

- Significant RR infrastructure investments
 - Strong service levels and expanded service offerings
 - Shipper acceptance of IM as transport option
 - IM starting to compete in shorter-hauls (<1000mi)
 - Reduced cost per mile
 - Lower fuel bill/smaller carbon footprint
 - Density and distance are major limitations
 - 10 lanes account for 80% of IM loads
 - Exchange speed & flexibility for cost

Estimated Impact

Intermodal Loads by Type

1999 - 2011



Source: IANA ACT Research Co., LLC. Copyright 2012

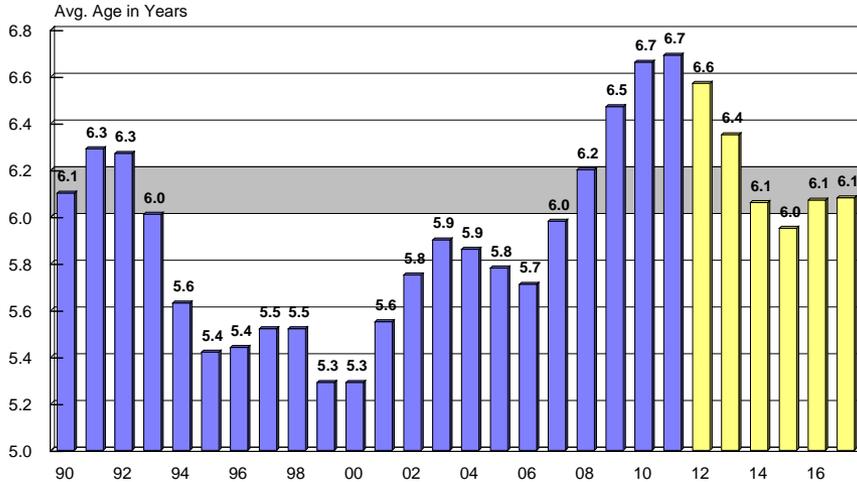
Every 1M domestic IM loads reduces need for Class 8 trucks by ~10k units

The Happy Side of the Cycle

- Freight supply-demand equilibrium tilted in truckers' favor
- Trucker profits have rebounded
- Used equipment valuations continue to rise
 - Credit availability/worthiness improving
- Also,
 - Significantly better fuel economy
 - A really old fleet from deferred capex
 - Regulatory impacts on productivity, liability & drivers
 - Positive influence of driver shortage on demand

AVERAGE AGE: U.S. Class 8 Active Population

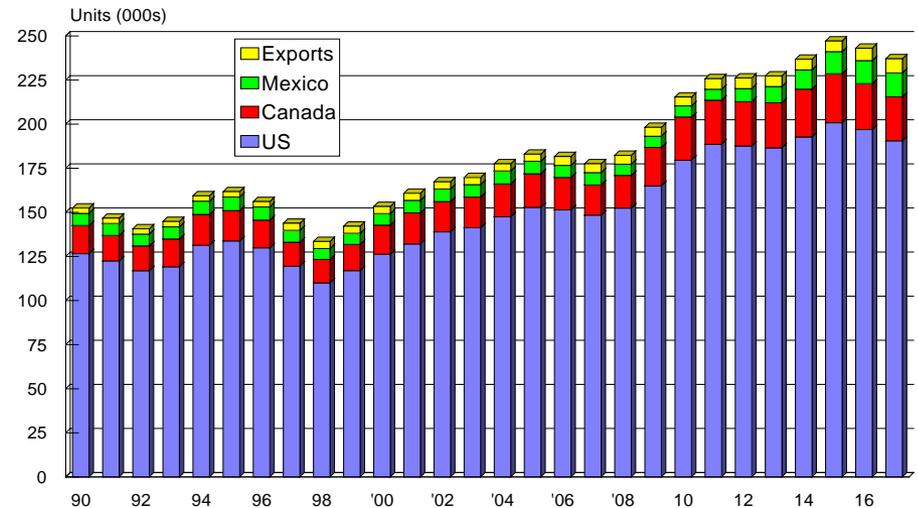
1990 - 2017



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REPLACEMENT: NA Class 8 Active Stock

1990 - 2017



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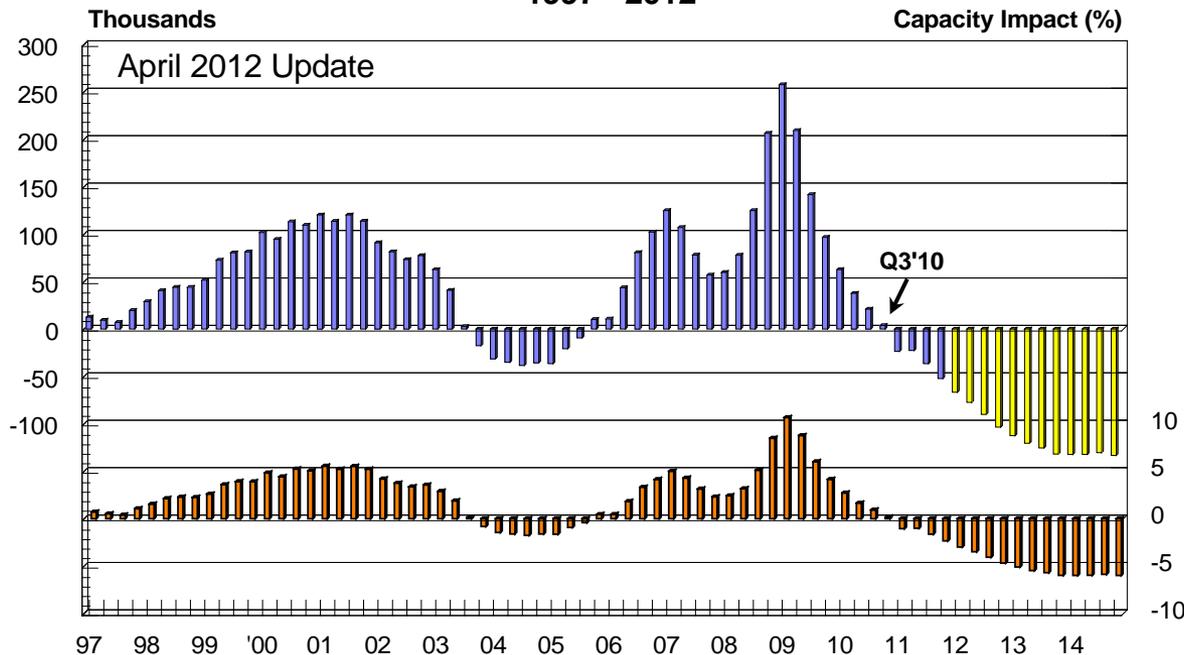
The Coming Capacity Crunch

- The imbalance between trucks and freight will continue to widen
 - Below replacement sales
 - New trucks are crazy expensive
 - Credit constraints
 - Growing freight volumes
 - Productivity sapping regulations (CSA, HoS, EOBRs)
 - Slower speeds
- Market conditions point to strong bargaining position for truckers on freight rates
 - Needed to offset rising costs

Capacity Crunch Accelerates in 2012

U.S. Class 8 Supply & Freight Demand Overbuy:Underbuy

1997 - 2012



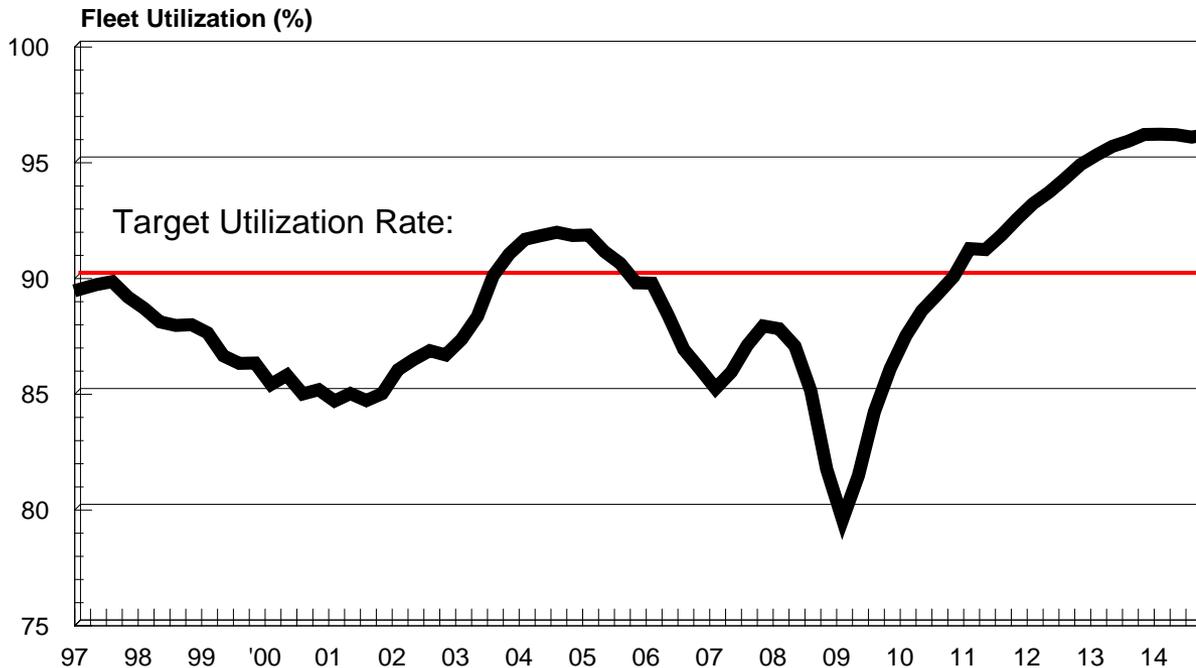
Capacity shortfall projected to peak in late 2013: 6% or 130k too few trucks in the U.S.

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Implied Capacity Utilization

U.S. Class 8 Implied Fleet Utilization Rate

1997 - 2014



Capacity shortfall will be a contributing factor in rising freight rates

We expect for-hire freight rates to rise rapidly as shippers compete for a dwindling supply of equipment

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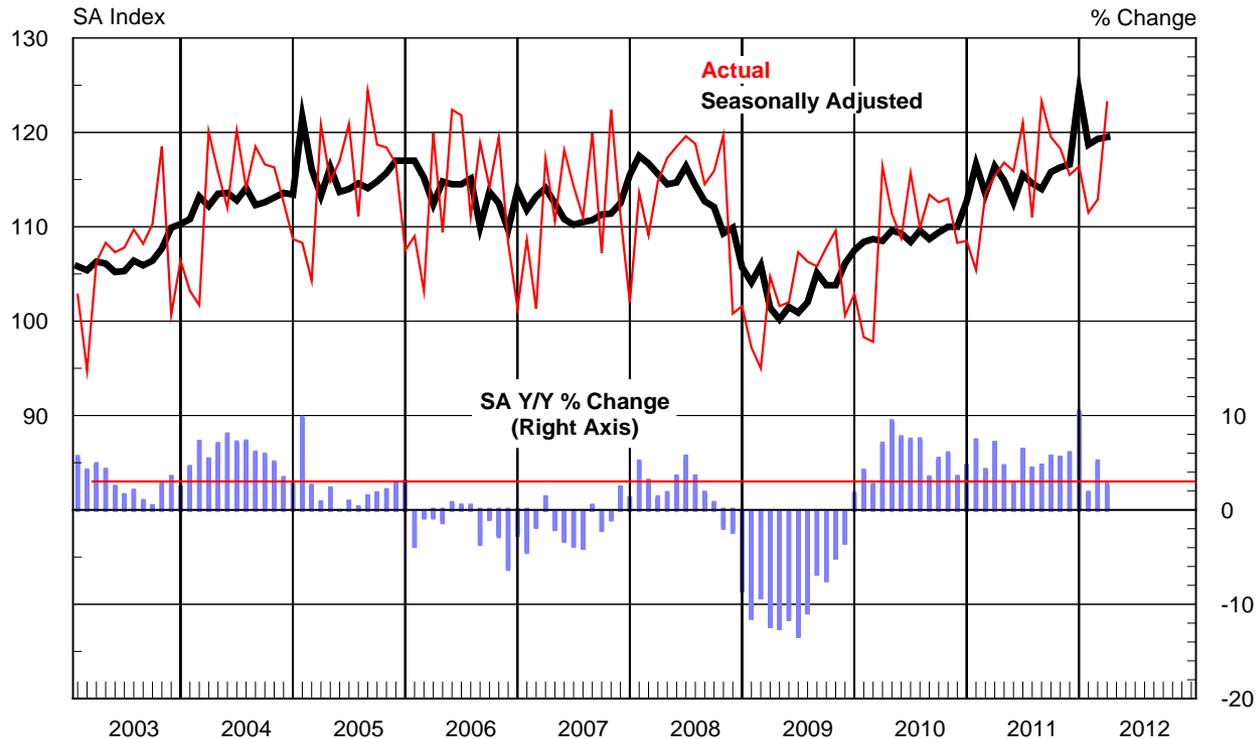
Productivity Onslaught

- CSA ('11):
 - Productivity, Liability, Drivers
 - FMSCA New Entrant Safety Standard
- EOBRs: On hold
 - Productivity, Drivers
- Hours of Service ('12):
 - Could have been worse
 - Keep 11 and 14 hours (for now)
 - 34 hour reset must include 2 overnights
- CAFE Standards ('14, '18)

Steady Freight Growth

ATA Monthly Truck Tonnage Index

January '03 - March '12 (2000=100)

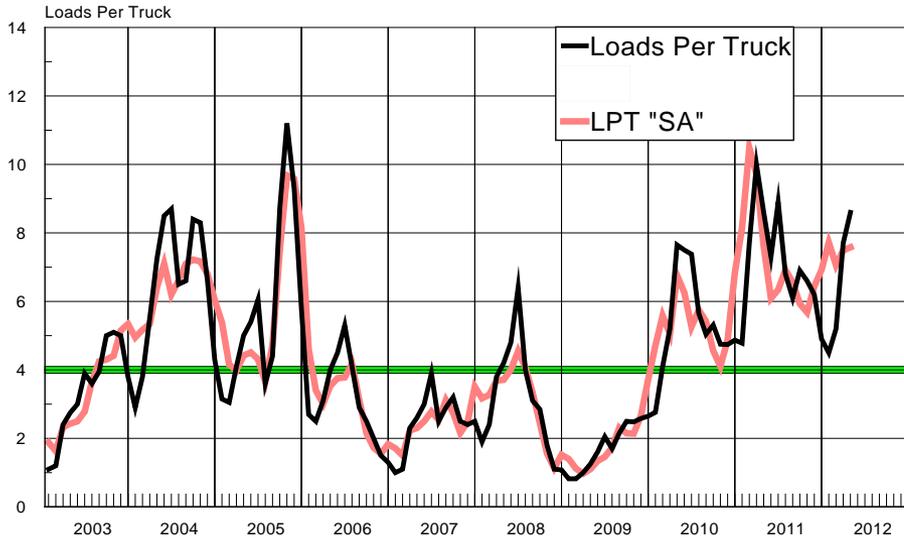


Source, American Trucking Associations, ACT Research Co., LLC: Copyright 2012

Trucking Loadboards

Transcore Loadboard Data

January '03 - April '12 (2000=100)

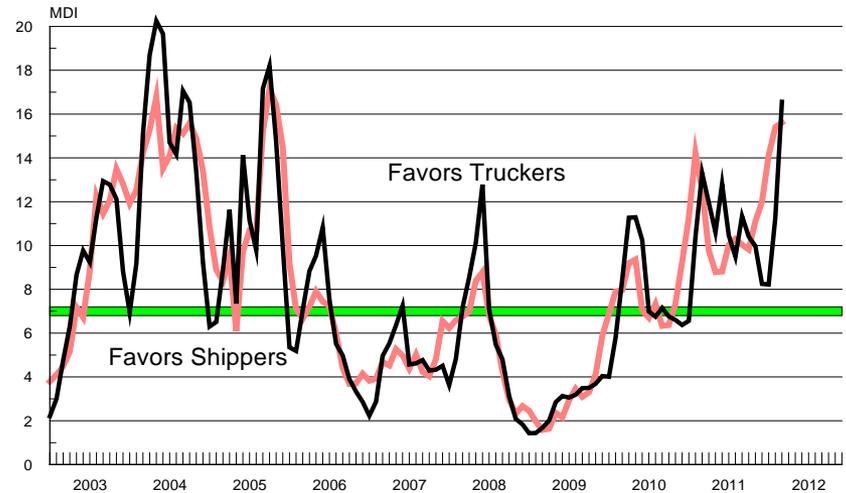


Source, Transcore Commercial Technology Group, ACT Research Co., LLC: Copyright 2012

Transcore “offers 68m freight loads per year”

Internet Truckstop Market Demand Indicator

January '03 - March '12 (2000=100)

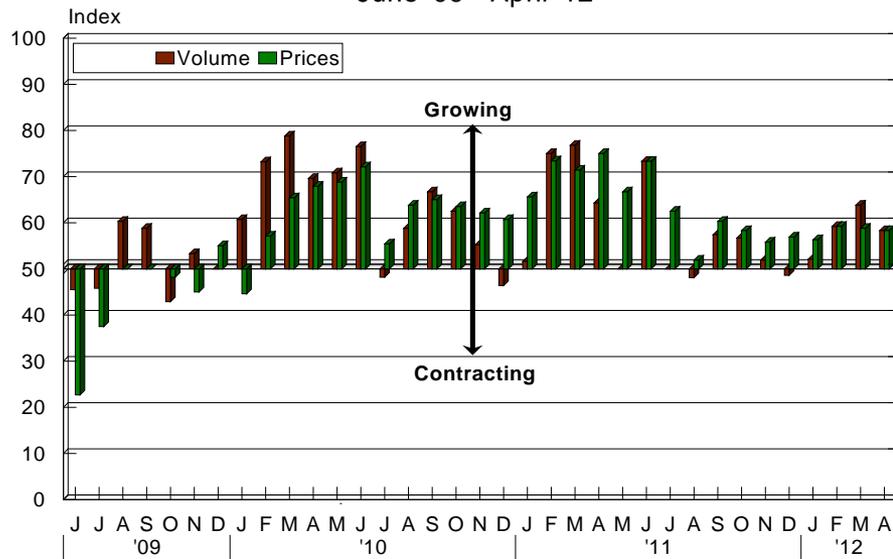


Source: Internet Truckstop, ACT Research Co., LLC: Copyright 2012

Positive Survey Response

**ACT-Echo Truckload Index
Freight Volumes & Rates**

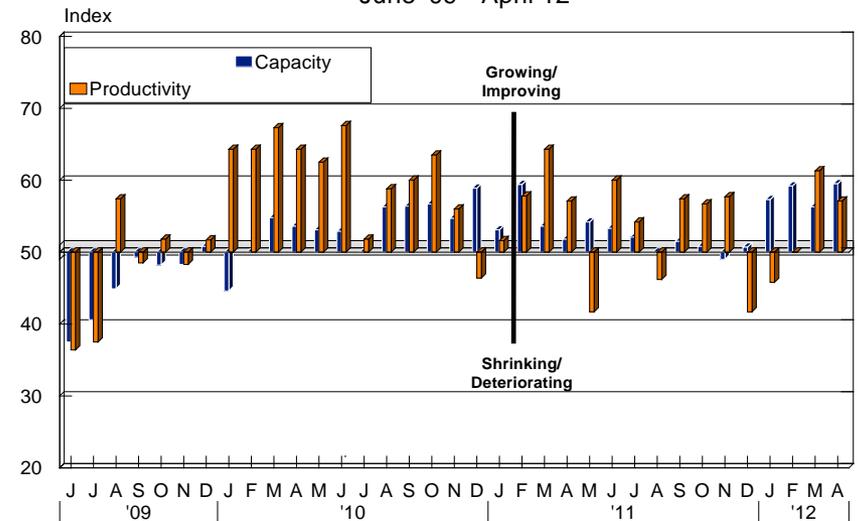
June '09 - April '12



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**ACT-Echo Truckload Index
Fleet Capacity & Productivity**

June '09 - April '12

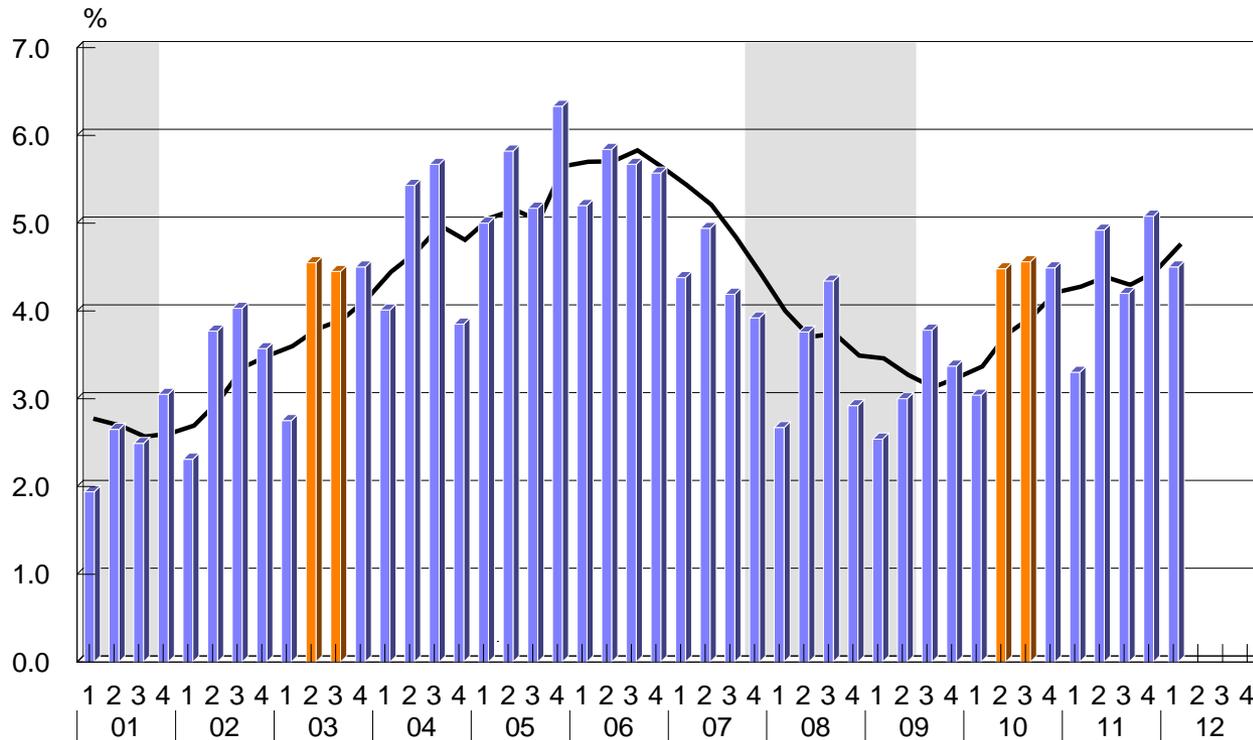


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Rising Profitability

TL Carrier Database: Net Profit Margin

Q1'01 - Prelim. Q1'12 (Excludes SWFT)



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Market Challenge

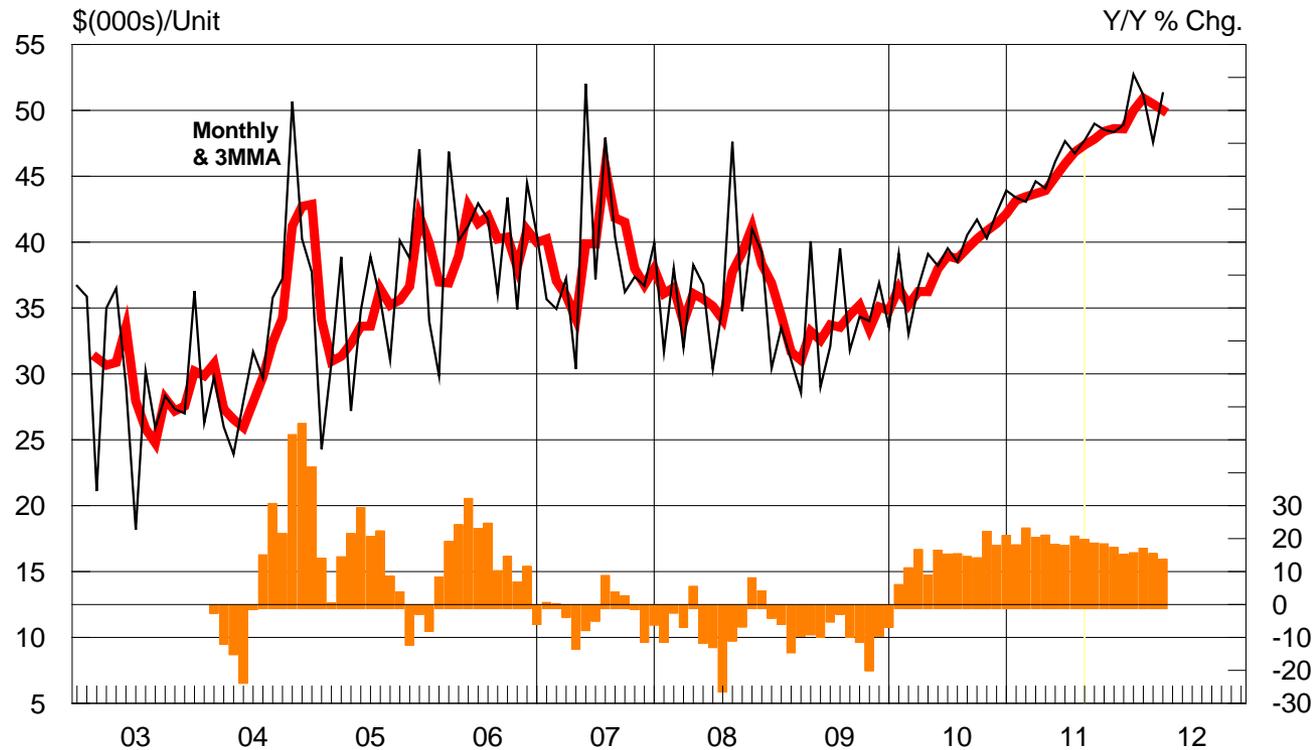
- Record fleet age = little equity in many fleets
- EPA mandates/rising commodity prices have significantly impacted new Class 8 prices
 - **Many truckers need mortgage-sized loans to continue competing in the JIT economy**
 - Situation will keep traditional Class 8 demand surge from forming

A growing capacity shortage into 2014 seems more likely than the arrival of traditional period of capacity surplus

April Rebound

Used Class 8: Average Retail Selling Price

January '03 - April '12



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Into the Preferred Quadrant

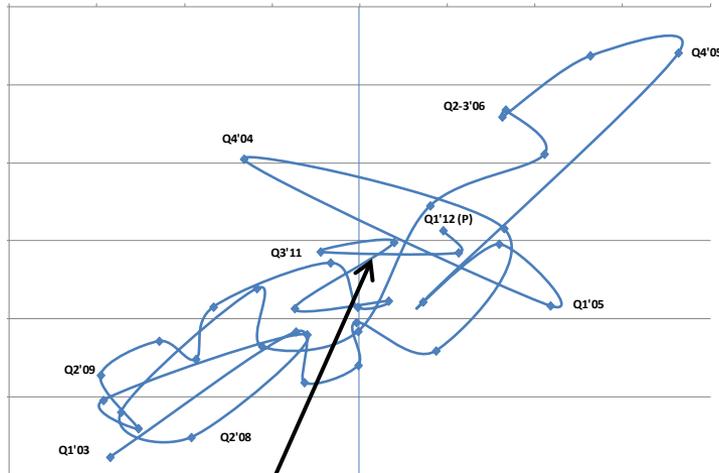
Truckers' Ability To Buy

TL Carrier Profitability (SA)

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Last four quarters,
“ability” plot has been
stuck in neutral

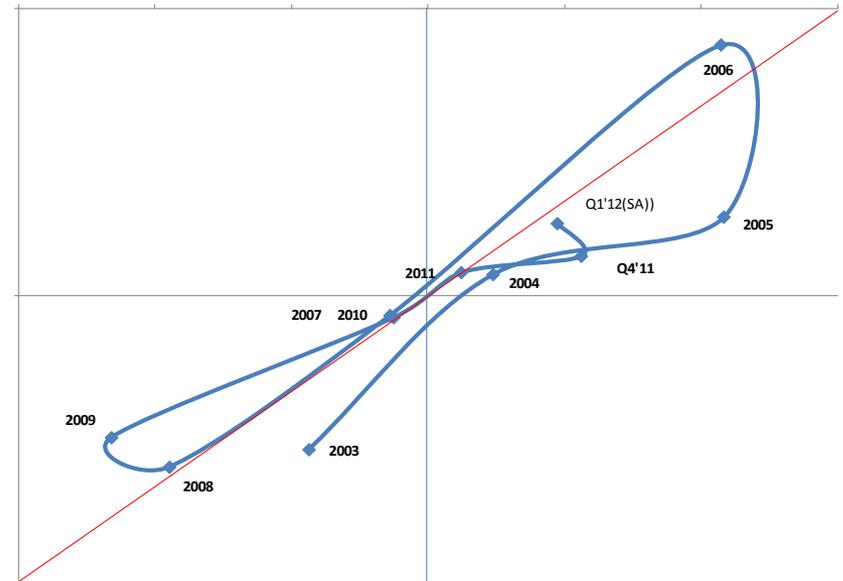
Truckers' Ability To Buy

Carrier Profitability

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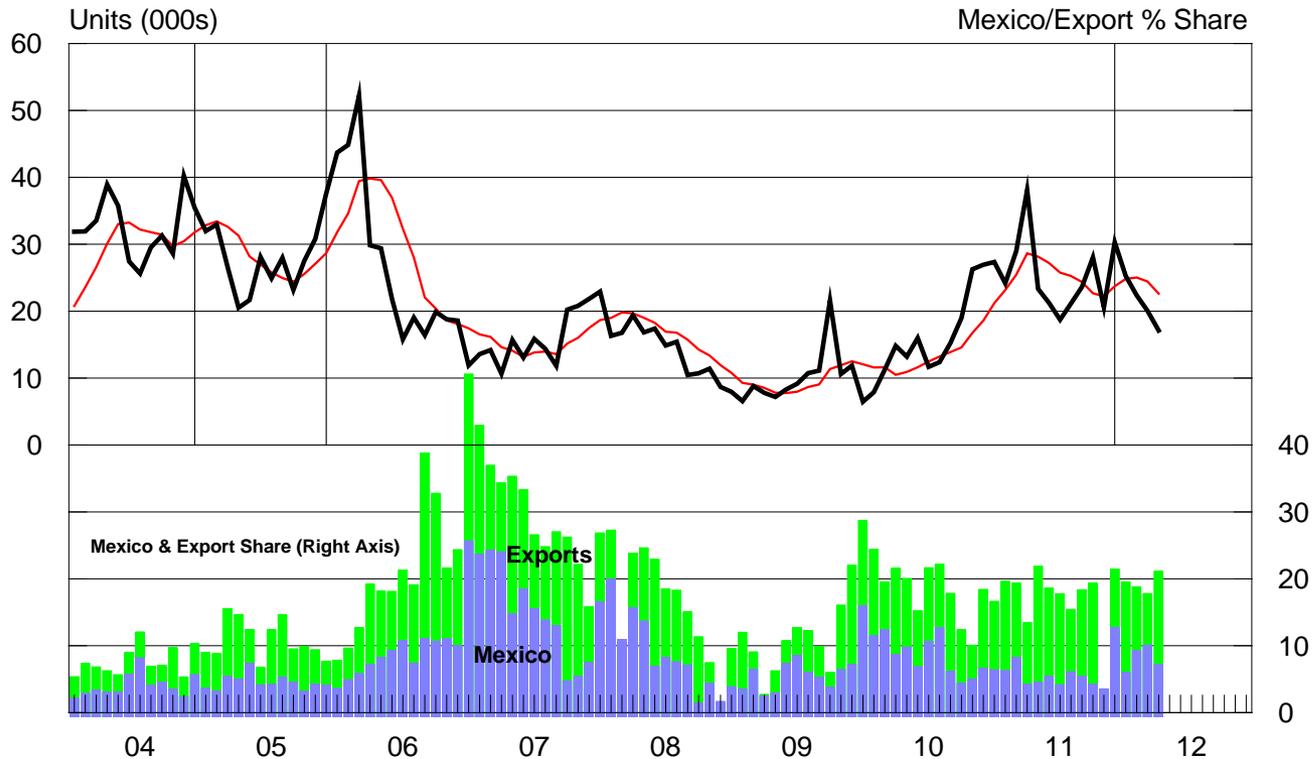
What Happened to Orders?

- Perceived risks currently outweighing potential rewards
 - Economic uncertainty
 - Lumpy freight
 - Rising fuel costs in Q1
 - Large gap between new and used truck prices
 - Others
 - Waiting for a tax break,
 - Waiting for natural gas
 - Profitability has not yet shifted from good to great

Weak Orders Persist

TOTAL CLASS 8: N.A. NET ORDERS

January '04 - April '12 (Not SA)

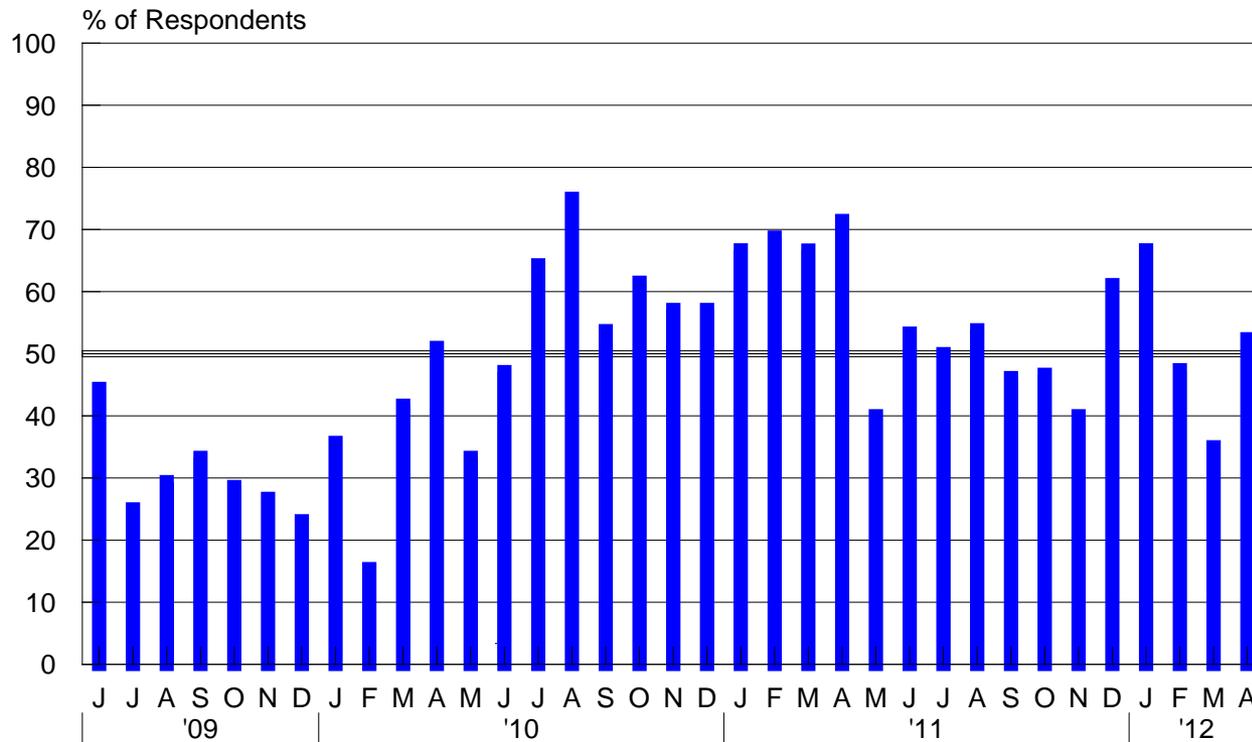


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Order Survey Rebound

ACT-Echo Truckload Index % Respondents Buying Equipment in Next 3 Months

June '09 - April '12

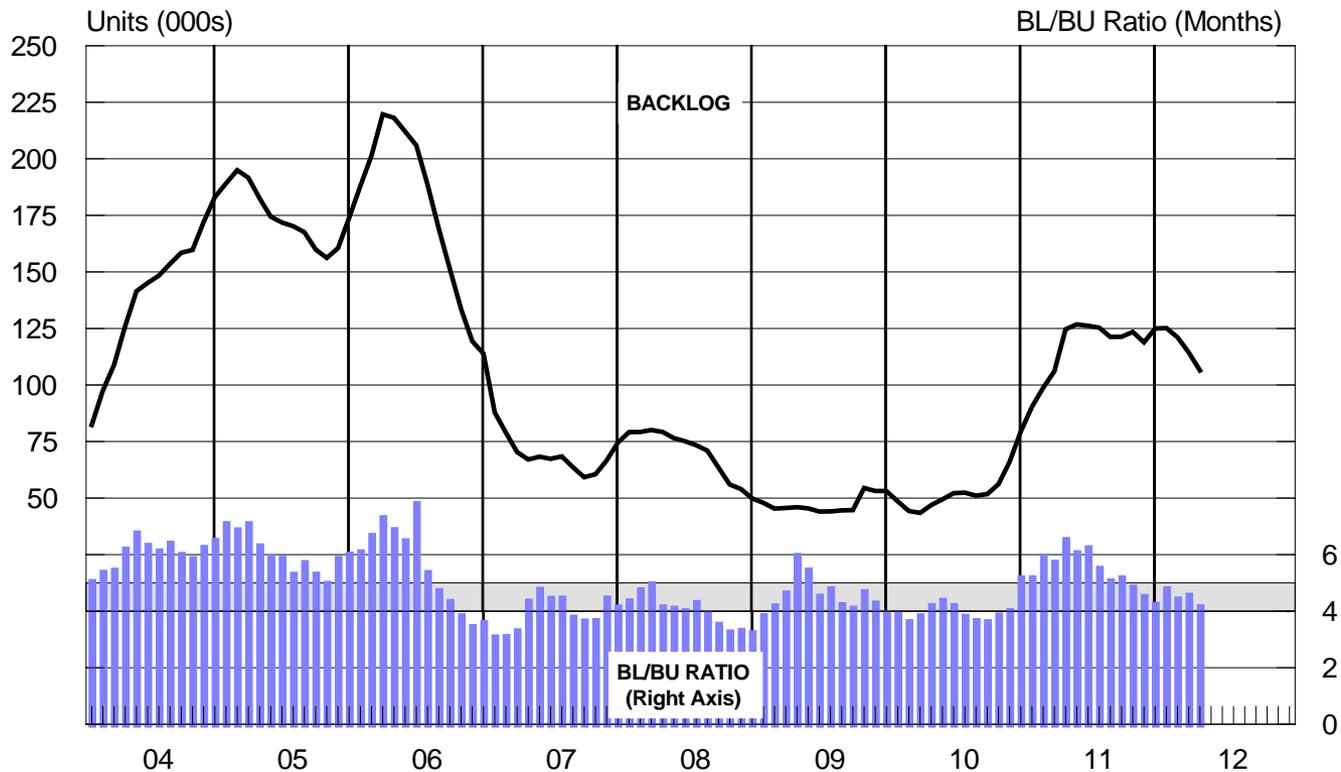


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Backlogs Declining

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

January '04 - April '12 (Not Seasonally Adjusted)

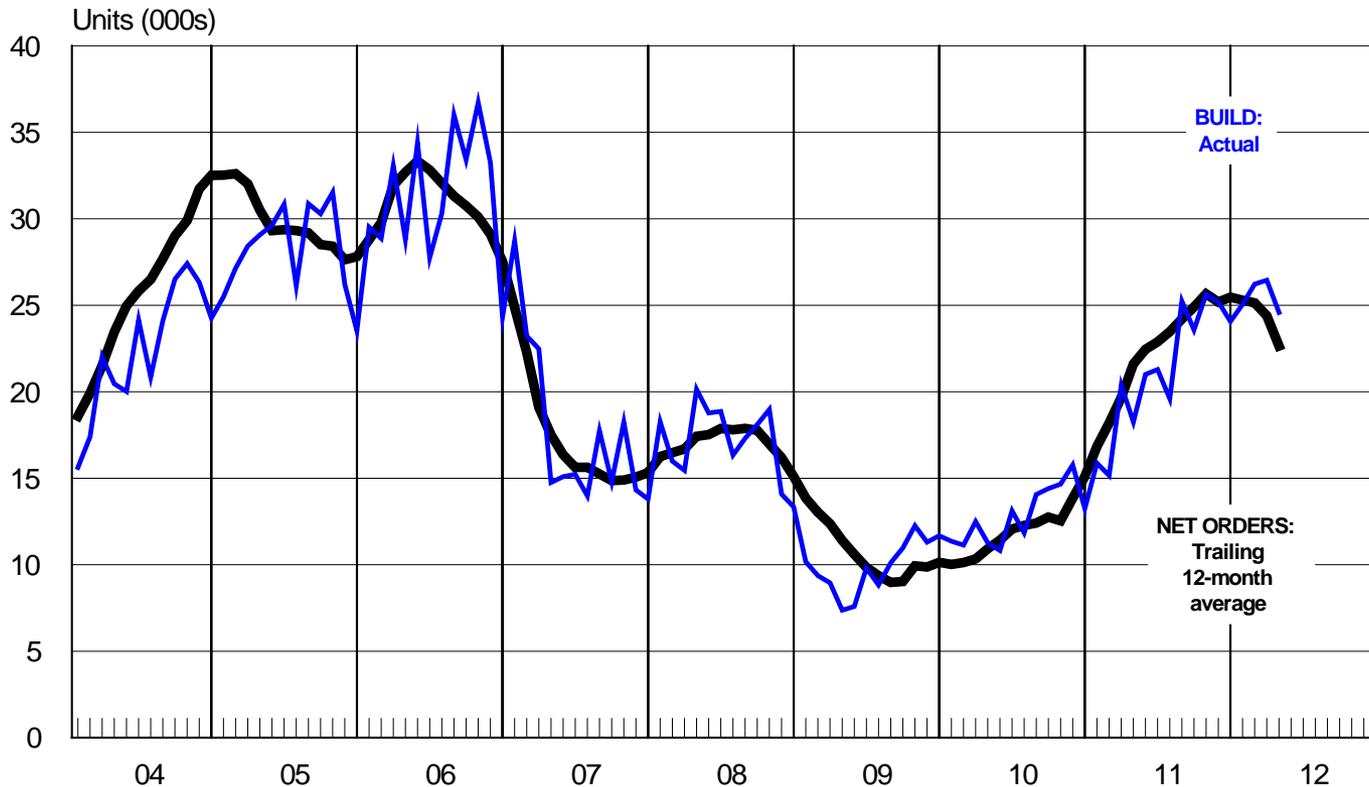


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Build Chases Orders

TOTAL CLASS 8 NA: NET ORDERS (Trailing 12 Months) & BUILD

January '04 - April '12 (Not Seasonally Adjusted)



OEM Build Plan

Build Timing of Units in Backlog as of April 30, 2012

<u>CLASS 8</u>	Actual BU <u>2012</u>	Bal.Q2'12 <u>May-Jun</u>	Q3'12 <u>Jul-Sep</u>	Q4'12 [▼] <u>Oct-Dec</u>	2013 <u>Beyond</u>	<u>TOTAL</u>
BACKLOG DISTRIBUTION		39,285	38,616	22,161	6,345	106,407
. Mix by scheduled build date		36.9%	36.3%	20.8%	6.0%	
Actual/OEM BUILD PLAN (Pp. 19)	102,305	54,500	79,400	79,000	--	315,205
. Open build slots		15,215	40,784	56,839	--	--
. % Open		27.9%	51.4%	71.9%	--	--
	YTD	Q2	Q3	Q4		
BUILD UPD (A/F)	1,248	1,309	1,413	1,350		

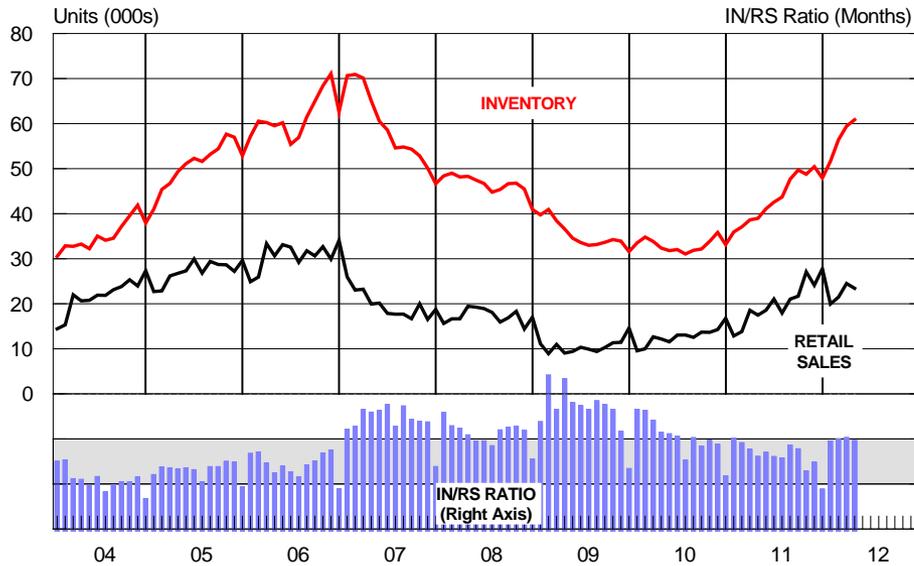
Back of the Envelope Analysis

	BUILD	U/D	NET	BL End	BL/BU
Q1	77,700	1,254	67,600	114,400	95d/4.5m
Q2	75,600	1,200	60,000 (20k/m)	99,000	83d/3.9m
Q3	69,000	1,175	54,000 (18k/m)	84,000	72d/3.5m
Q4	71,000	1,200	81,000 (27k/m)	94,000	79d/3.8m
Total	294,000				

Quick Rise

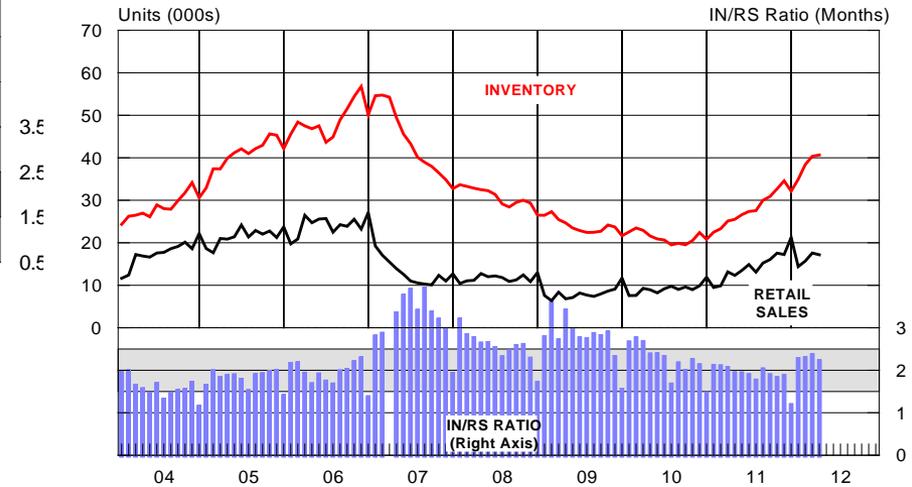
TOTAL CLASS 8: N.A. INVENTORY/RETAIL SALES RATIO

January '04 - April '12 (Not Seasonally Adjusted)



TOTAL CLASS 8: U.S. INVENTORY/RETAIL SALES RATIO

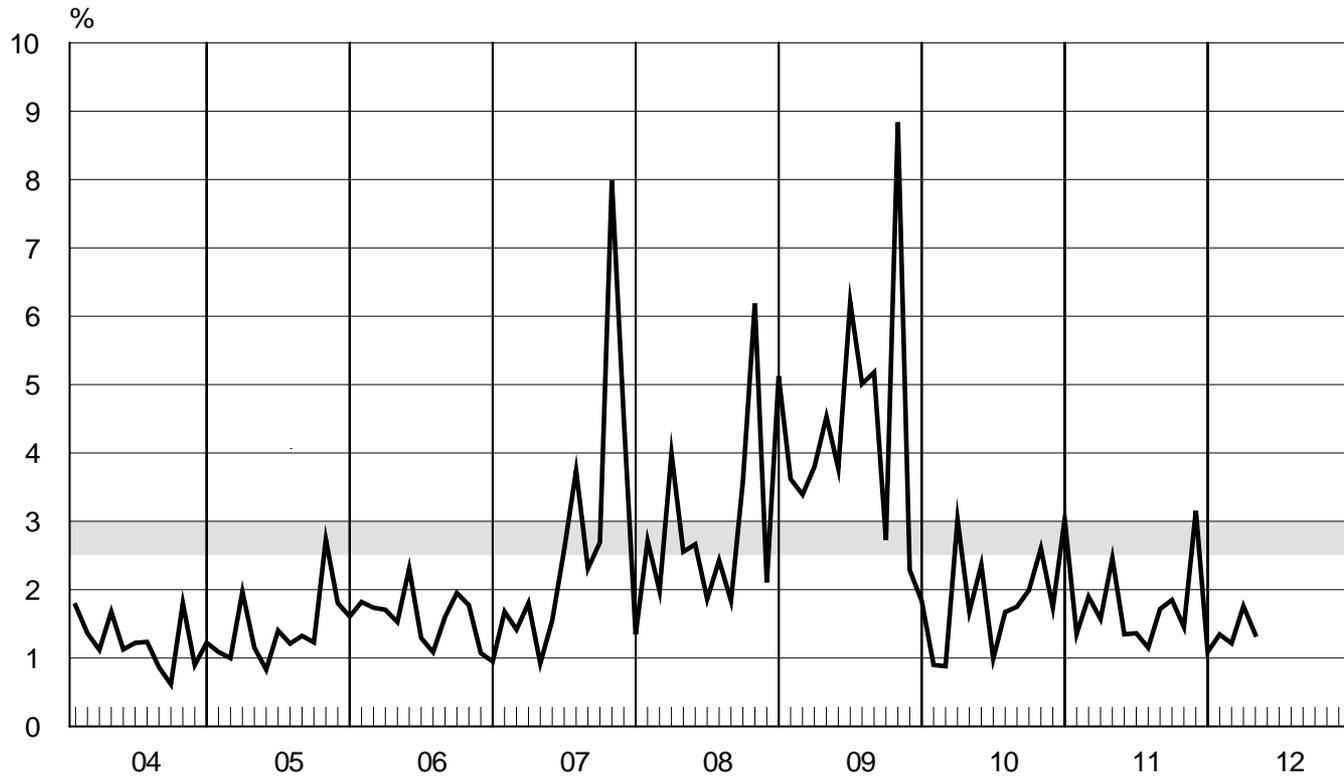
January '04 - April '12 (Not Seasonally Adjusted)



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A Good Sign

TOTAL CLASS 8: N.A. CANCELLATION RATE
Expressed as a percentage of Backlog
January '04 - April '12 (Not Seasonally Adjusted)

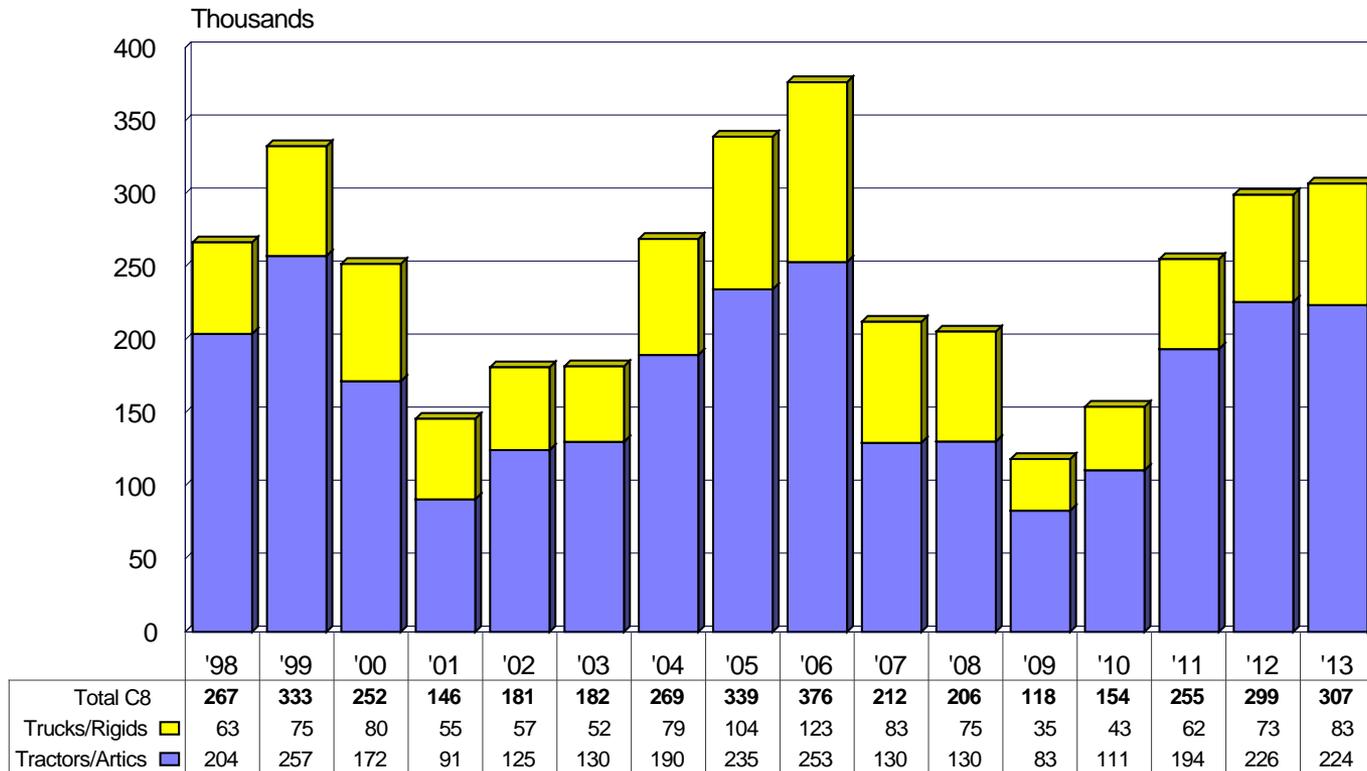


Class 8 Summary

- Everything but orders pointing in the right direction:
 - Freight data
 - Underlying demand
 - Trucker Profitability
 - Rising used equipment values
- Market indicators
 - Cancellations are low
 - Retail sales remain strong
 - U.S. IN/RS at not unreasonable 2.4 months/50 days

Steady As She Goes

N.A. Class 8 Production 1998-2013



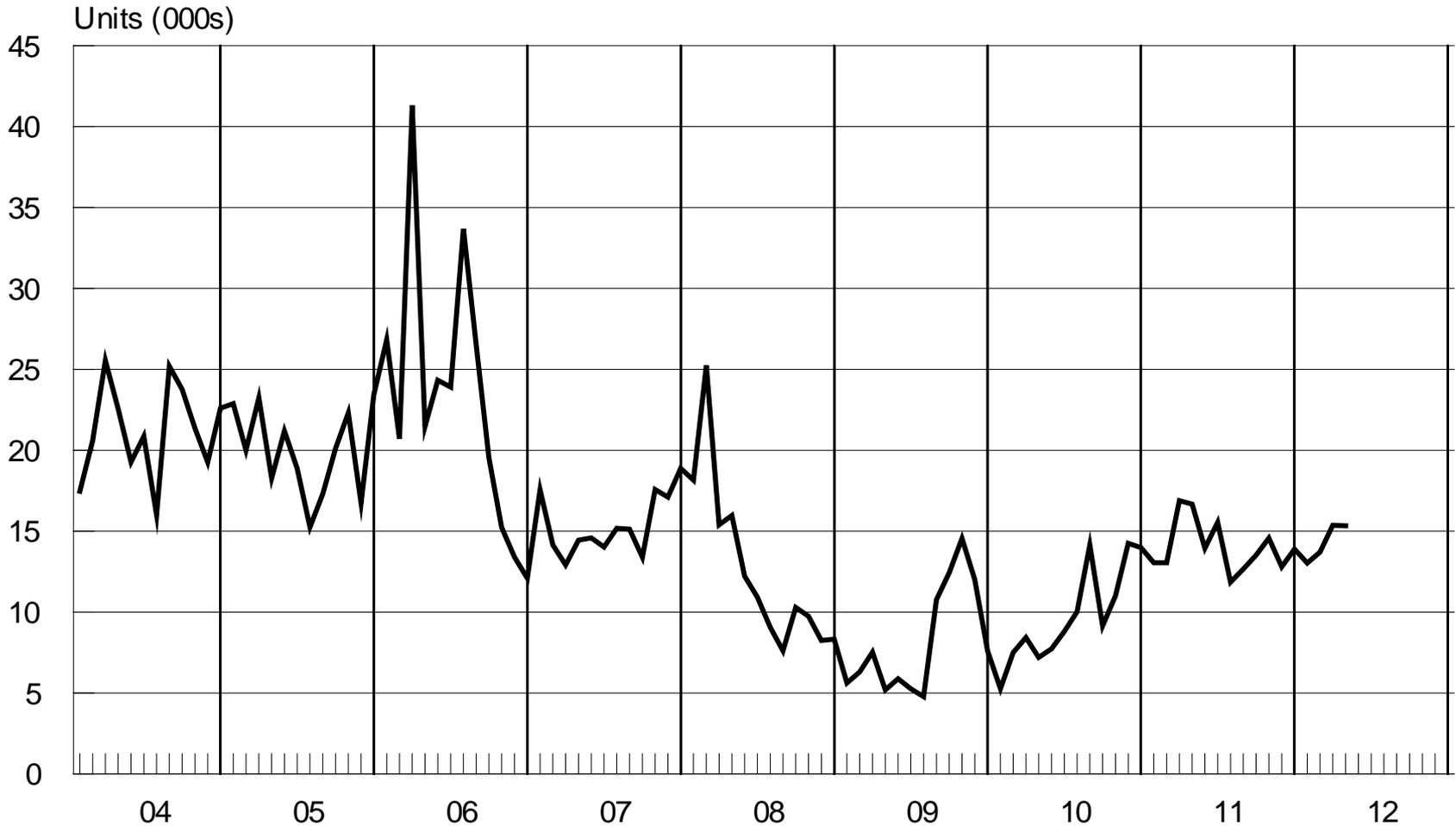
N.A. Classes 5-7 Order Distribution

(Data through April 2011, annualized)

<u>Classes 5-7 Orders</u>	Truck (000s)	Bus (000s)	RV (000s)	Total (000s)
Past 12 Mo.	124.5	31.6	10.4	166.5
Past 6 (AR)	132.3	29.0	4.3	165.6
Past 3 (AR)	128.7	33.9	3.9	166.5
April	141.1	39.4	1.3	181.8
Apr. (SAAR)				193.6

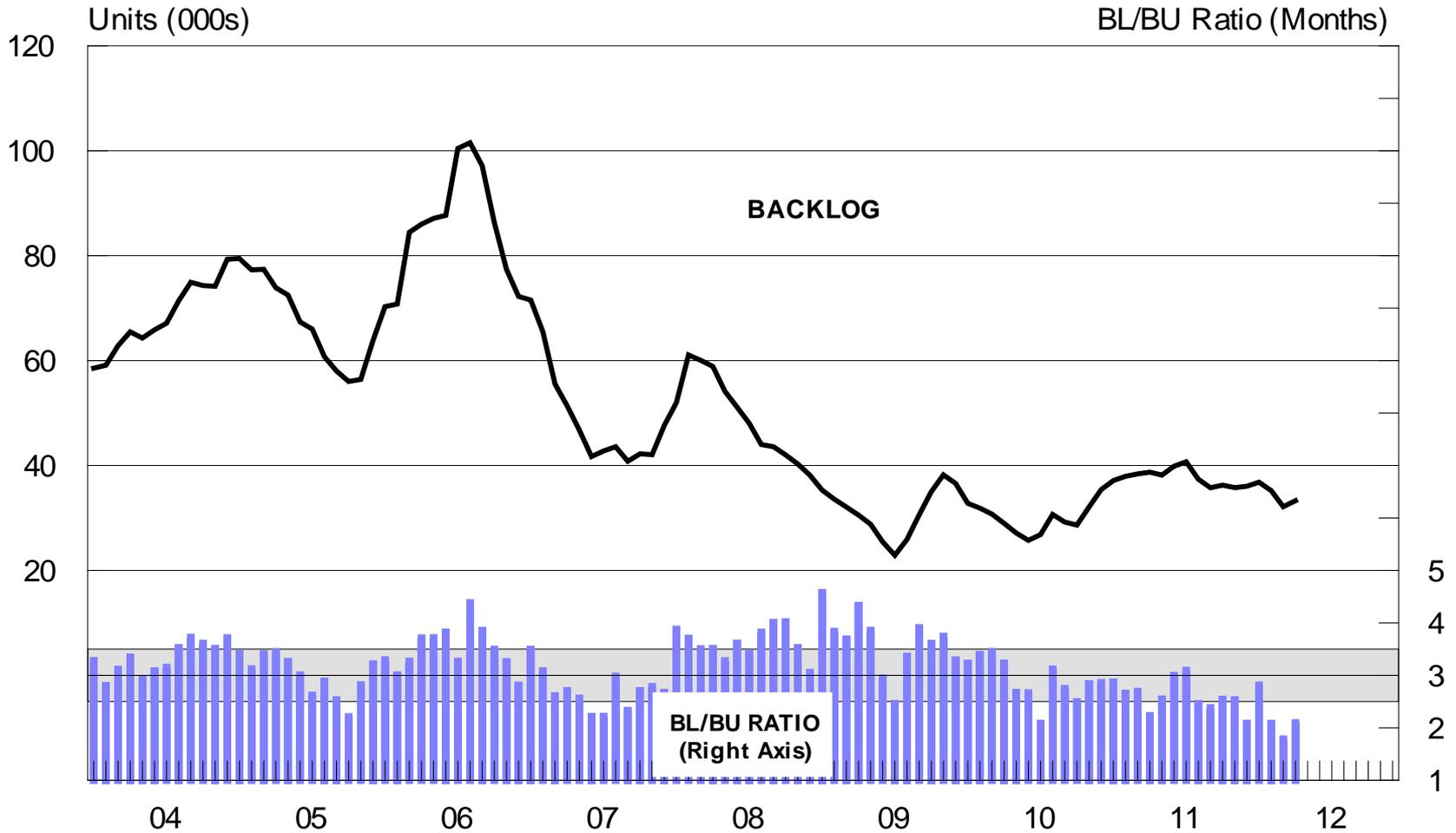
TOTAL CLASSES 5-7: N.A. NET ORDERS

January '04 - April '12 (Not Seasonally Adjusted)



TOTAL CL. 5-7: N.A. BACKLOG & BL/BU RATIO

January '04 - April '12 (Not Seasonally Adjusted)

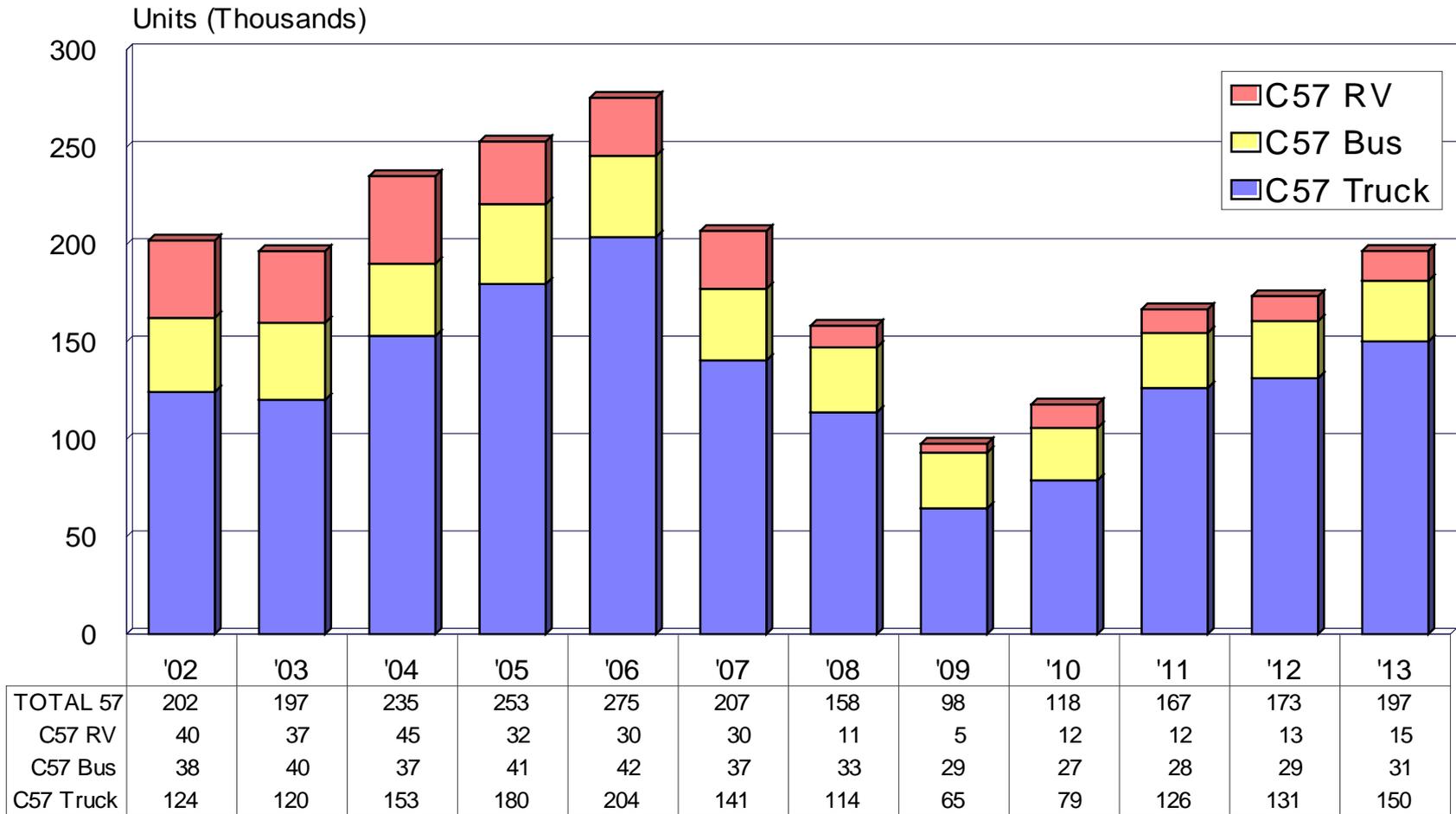


Medium Duty Summary

- Forecast is below replacement into 2H'14
 - Classes 6-7 at ~150k/yr
 - Classes 4-5 at ~75k/yr
- Employment/debt/credit still weigh on MD vehicle buyers
- Housing losing its stranglehold on MD truck/RV demand
- Bus chassis market defying dampened state/school district budgets

N.A. Classes 5-7 Production

2002-2013





ACT Research Company, LLC

11545 North Marr Road
Columbus, IN 47203

Phone: (812) 379-2085

Fax: (812) 378-5997

Email: trucks@actresearch.net

[***www.actresearch.net***](http://www.actresearch.net)