



Trifurcated in a Bifurcated Economy: The State of the NA CV Industry in 2016

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Chicago Federal Reserve Automotive Outlook Symposium
June 3, 2016

Crosscurrents

Good

- Consumer confidence
- Job creation
- Household big ticket buys (autos slowing)
- Oil prices (users)
- Decent RDPI
- Low inflation & interest rates
- Stock market




Not-so-good

- Rest-of-world economies
 - China, Brazil
- US\$ impact on exports
- Gov't finance-worldwide
- Oil prices (producers)
 - & other commodities
- Beltway blues, '16 election
- Geopolitical risk

Lead Indicator Review

- Yield curve (long/short rate spread): 
 - Healthy, Wide
- Purchasing Managers' Index: 
 - Improved, recent moves above 50
- Commodity prices: 
 - Off bottom, insufficient to spur investment
- Stock market trends 
- Consumer & Business Sentiment surveys: 
 - No traction past ~3 quarters

Key Freight Markets

- Consumer sectors: 
 - RS: Strong April and ~3% RDPI trend suggest sustainability
 - Housing: Lean inventories and strong trend
 - Auto: Underlying strength, but volumes appear peaky
- Capital Goods/Machinery: 
 - Popped commodity bubble triggers capex retrenchment in energy, agriculture, etc.
 - Strong US\$, soft global markets weaken exports
 - Ample domestic capacity
 - Excessive inventories add drag 

ACT Research Class 8 Tractor Dashboard

Category	Metric	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16
Macro	ISM-PMI Index	53.3	52.3	51.6	53.1	53.1	51.9	51.0	50.0	49.4	48.4	48.0	48.2	49.5
	Non-Auto Durables Mfg Output**	1.7	0.6	-0.2	-1.0	-1.3	-1.5	-1.4	-1.6	-1.5	-1.3	-0.9	-0.6	-0.3
	Consumer Spend, Goods only**	3.5	3.2	3.2	3.5	3.4	3.6	3.7	4.1	3.8	3.9	4.0	3.7	3.1
	Residential Const Expend (real) **	7.4	9.1	11.1	13.4	14.9	14.9	14.0	12.2	10.2	8.7	8.2	8.5	9.1
Financial	Dow Jones Transport Stock Index	90.25	87.41	85.93	83.00	80.92	83.90	78.45	77.86	81.28	81.01	75.09	69.07	73.45
Freight	ATA TL Loads**	3.4	2.9	0.9	0.6	1.0	1.0	0.8	0.1	-0.4	-0.4	-1.7	-1.8	0.9
	DAT Transcore Loads/Truck	4.8	4.7	4.3	4.1	3.6	3.4	3.4	2.9	2.6	2.8	3.8	3.9	2.9
	DAT Aggregate Contract/Spot Spread	13	11	18	21	20	24	26	26	27	28	21	24	35
ACT data	CI 8 Cancellations (sa)	2865	2743	2587	2452	2913	3044	4467	4508	2483	4039	3605	4639	3120
	CI 8 I/S ratio (sa)	2.00	2.43	2.68	2.34	2.54	2.64	2.42	2.84	3.29	2.79	3.39	2.58	2.81
	Class 8 Inventory Level (000 sa)	58.2	62.3	65.7	67.6	68.8	69.7	67.1	67.3	70.5	70.2	70.6	72.1	68.0
	ACT For Hire - Volume less Capacity	41.9	57.1	44.2	47.9	49.6	45.0	52.0	41.1	43.8	45.8	45.4	41.6	44.0
Green Minus Red Tally		3	2	-4	-3	-3	-7	-6	-7	-7	-9	-9	-8	-9

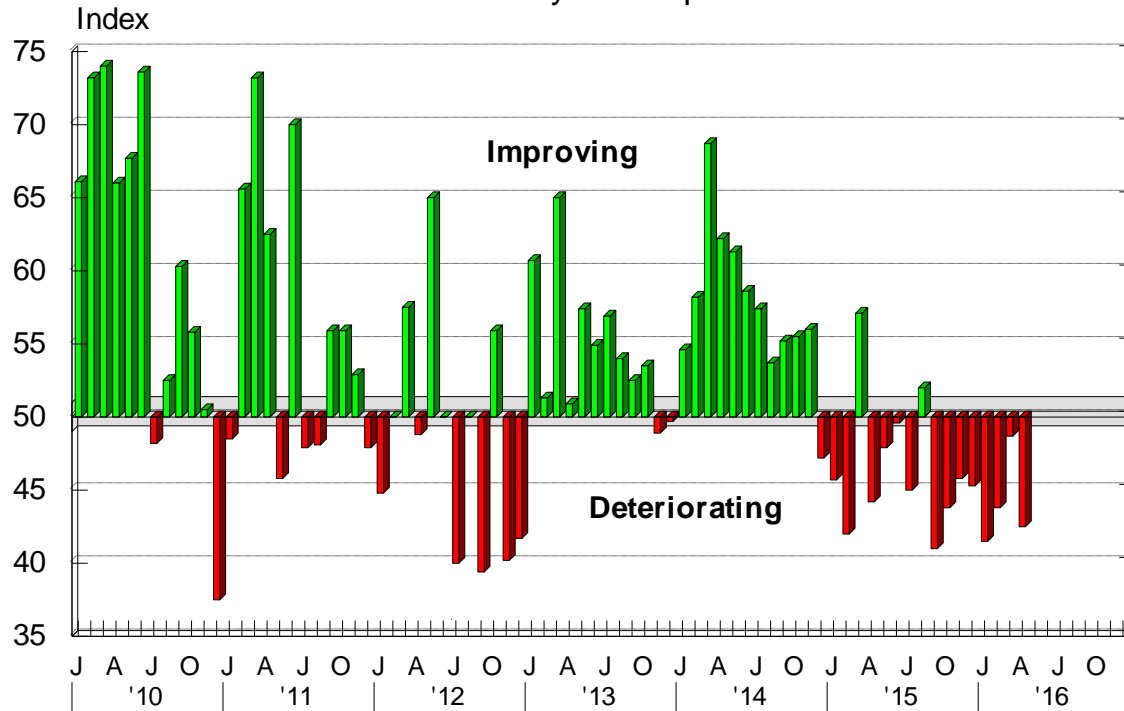
ACT Research Class 8 Tractor Dashboard

Category	Metric	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
Macro	ISM-PMI Index	52.1	54.8	55.1	55.4	55.8	55.3	55.6	58.1	55.8	57.3	57.5	54.9	53.9
	Non-Auto Durables Mfg Output**	0.7	0.7	1.5	1.9	2.5	2.9	3.3	3.1	3.2	3.4	3.7	3.6	2.9
	Consumer Spend, Goods only**	1.8	2.0	2.6	2.9	3.0	3.4	3.6	4.2	4.1	4.3	4.5	4.7	4.6
	Residential Const Expend (real) **	12.6	12.7	13.2	13.3	12.6	10.5	7.8	4.8	2.9	1.9	1.7	3.0	5.1
Financial	Dow Jones Transport Stock Index	72.89	73.48	75.75	76.72	81.05	82.02	81.42	84.08	84.51	87.56	91.98	91.40	86.49
Freight	ATA TL Loads**	1.6	2.6	1.3	1.7	2.2	2.8	2.6	2.6	3.4	3.6	2.6	3.6	3.6
	DAT Transcore Loads/Truck	9.7	10.3	8.9	6.3	5.8	6.9	7.1	7.7	5.9	6.3	6.2	7.4	6.2
	DAT Aggregate Contract/Spot Spread	15	11	5	14	16	8	12	17	10	12	7	5	13
ACT data	CI 8 Cancellations (sa)	2028	1941	1494	1685	1693	1594	2849	3552	2537	1286	1975	2145	3936
	CI 8 I/S ratio (sa)	2.09	1.91	2.06	2.25	2.21	2.14	2.45	2.12	2.41	2.44	2.03	2.47	2.09
	Class 8 Inventory Level (000 sa)	44.0	45.1	47.8	48.9	51.1	51.9	54.5	54.5	55.7	56.1	56.9	56.1	57.5
	ACT For Hire - Volume less Capacity	54.6	58.2	68.8	62.2	61.2	58.6	57.4	53.7	55.2	55.5	56.0	47.3	45.7
Green Minus Red Tally		3	8	8	7	5	8	5	4	4	5	7	5	3



Capacity Rising Faster Than Freight

ACT For-Hire Trucking Survey
Supply-Demand Balance
Fleet Capacity Index Less Freight Volume Index
January '10 - April '16

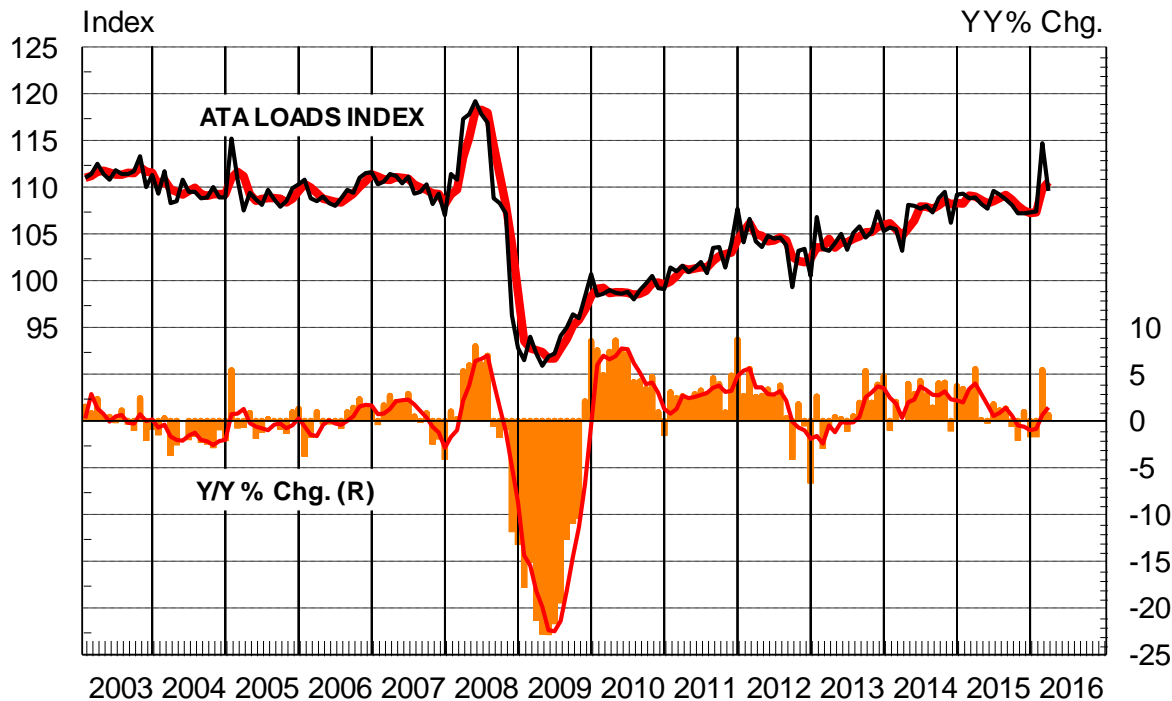


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No Traction

ATA Truck Loads Index

January '03 - March '16 (2000=100)



2015
 FY2015 y/y @ **1.0%**

Q1'15: 4.0%
 Q2-Q4'15: **0.0%**

2016
 Q1'16: **1.4%**

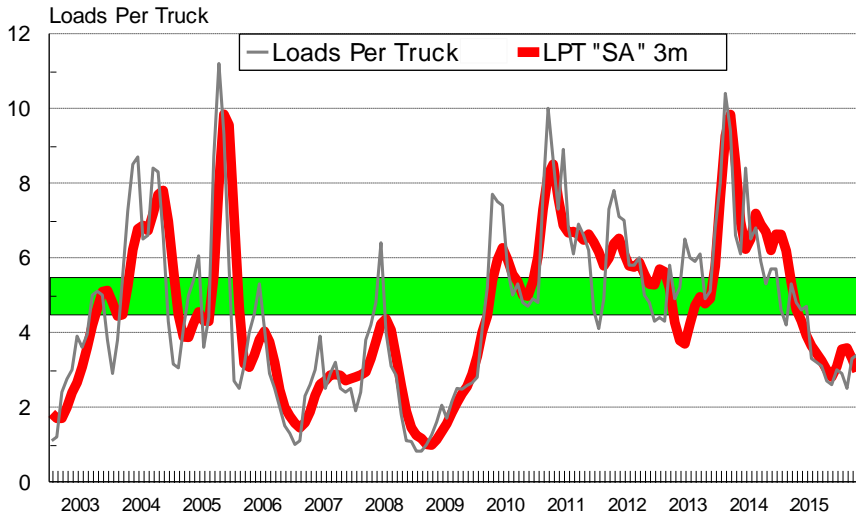
February read
 incongruous relative
 to other data points

Source, American Trucking Associations, ACT Research Co., LLC: Copyright 2016

Supply-Demand Imbalance...

DAT Trendlines: Load Per Truck Aggregate

January '03 - April '16 (2000=100)

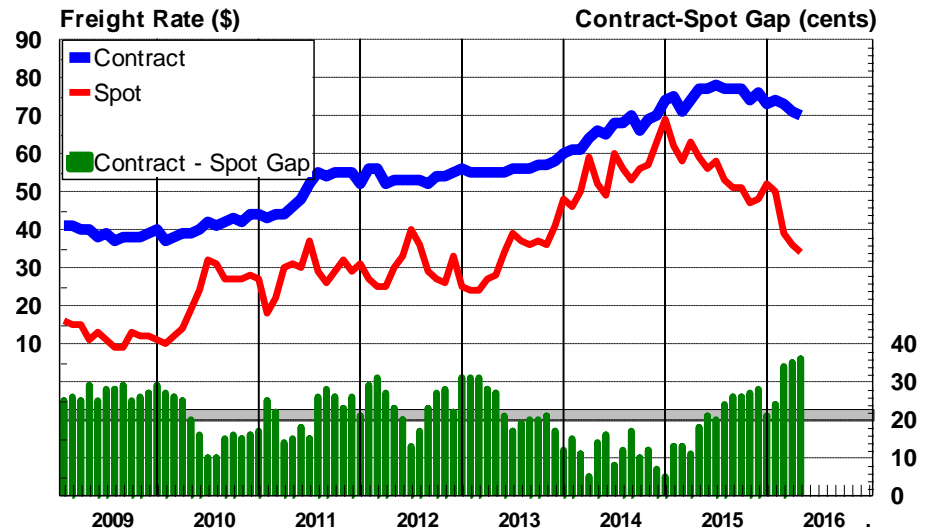


Source: Transcore Commercial Technology Group, ACT Research Co., LLC: Copyright 2016

Widening spot-contract rate gap implies difficult 2017 contract rate environment

DAT Trendlines: Dry Van Revenue per Mile

January '09 - April '16 (2000=100)

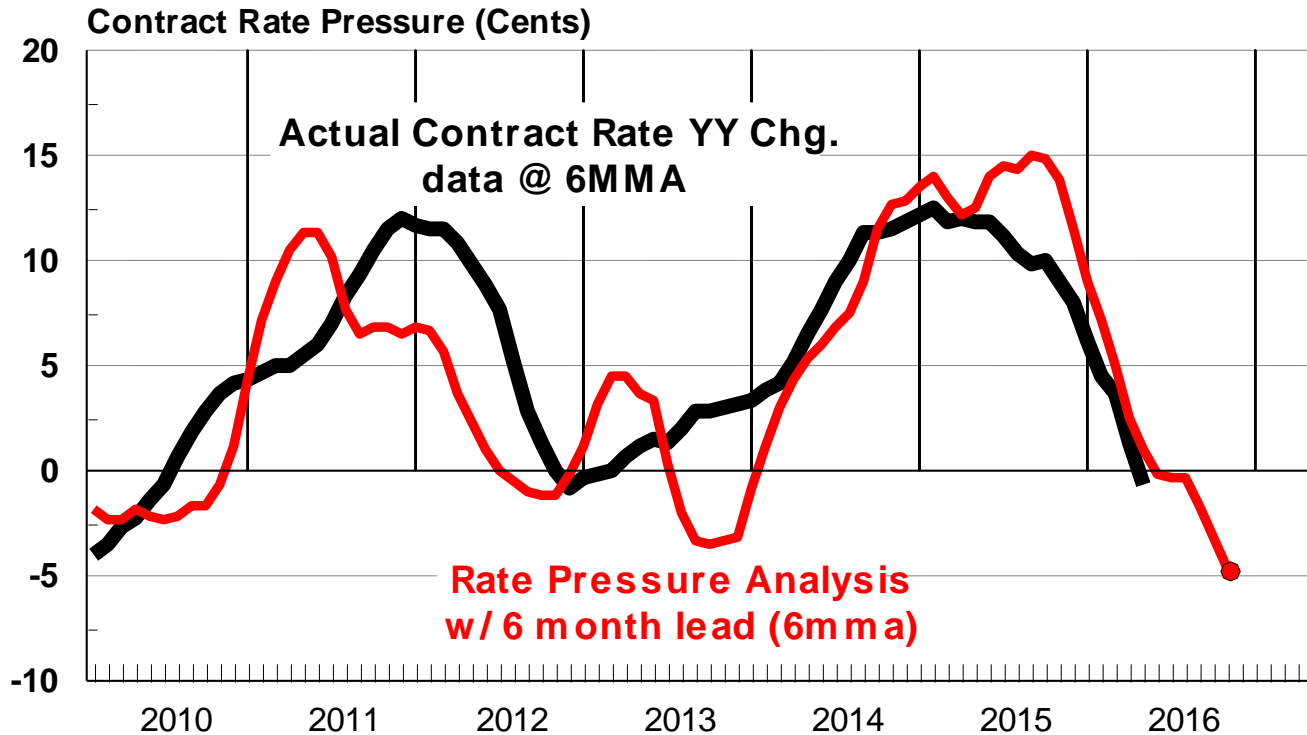


Source: Transcore Commercial Technology Group, ACT Research Co., LLC: Copyright 2016

...Implies Lower Contract Rates

Dry Van Rate Pressure Analysis: Contract less Spot rate relative to target rate spread

January '10 - April '16 (2000=100)



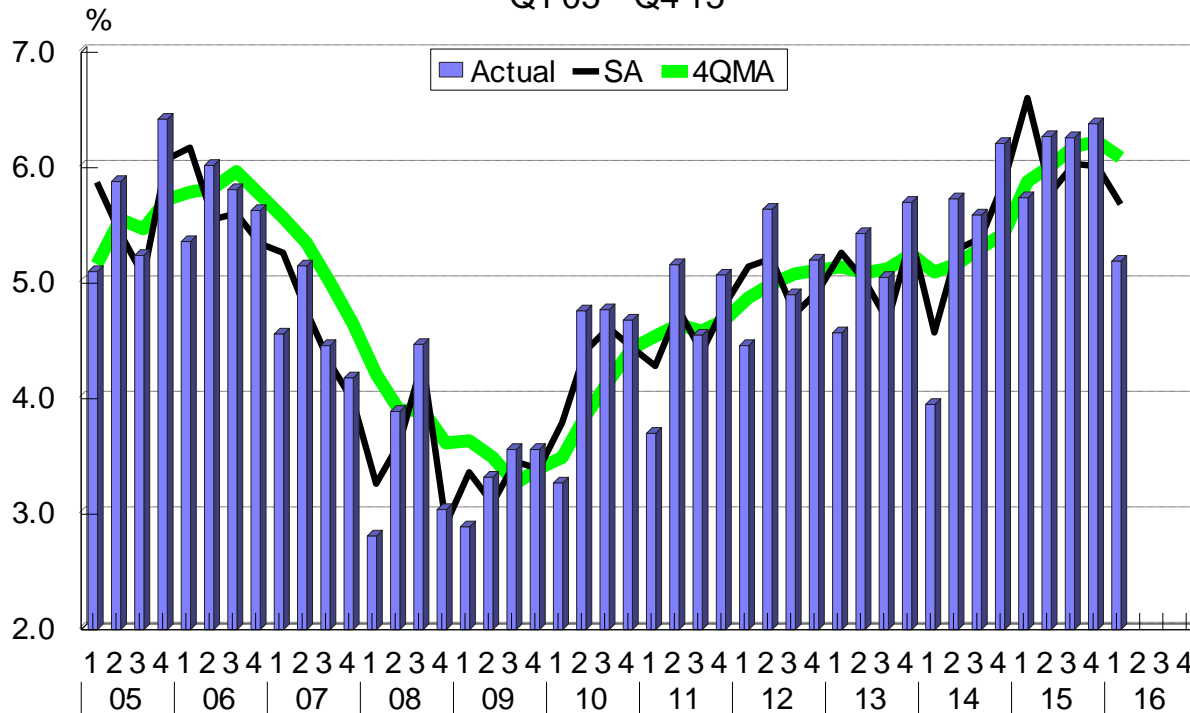
Source, Transcore Commercial Technology Group, ACT Research Co., LLC: Copyright 2016

Carriers Buy Trucks to Make Money

(and not pay so much in taxes)

TL Carrier Database: Net Profit Margin

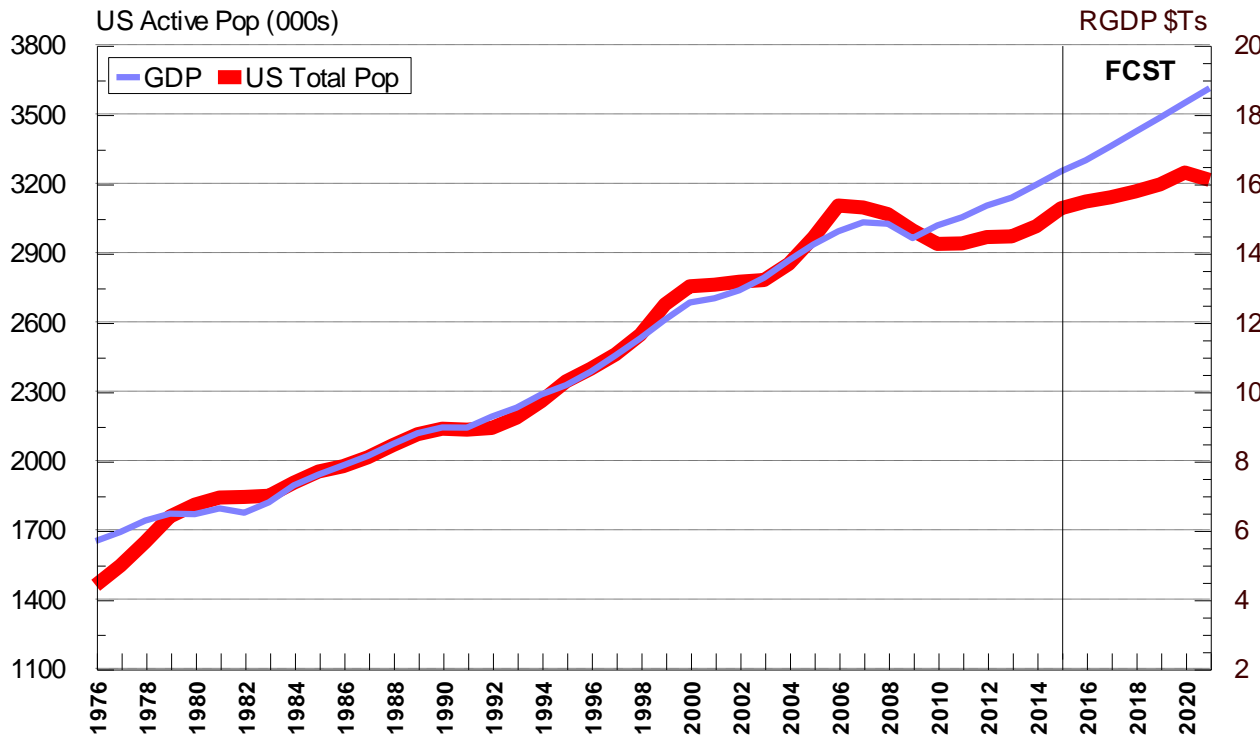
Q1'05 - Q4'15



- *Some top line misses*
- *Margins weaker than year-ago but . . .*
- *Carriers generally hit street earnings targets*
- *Thru cost discipline*

Productivity: Paradigm Shift

Class 8 Total Population & U.S. Real GDP
1976 - 2021f

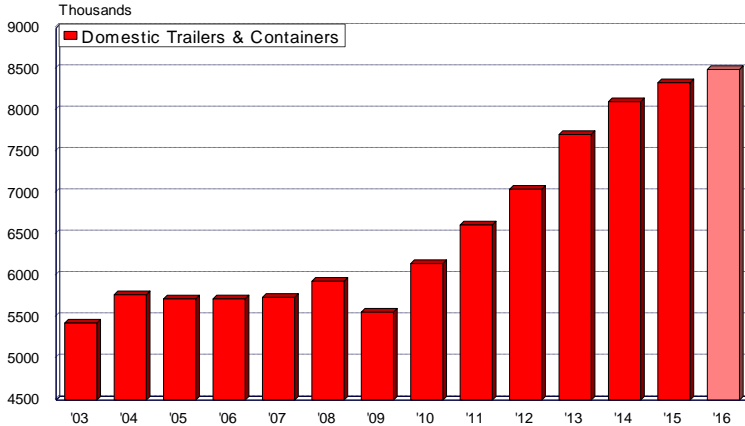


Productivity in Play
Increased Density
Increased Utilization
Some Modal shifting
Online retail shift

Modal Impacts

Domestic Intermodal Loadings

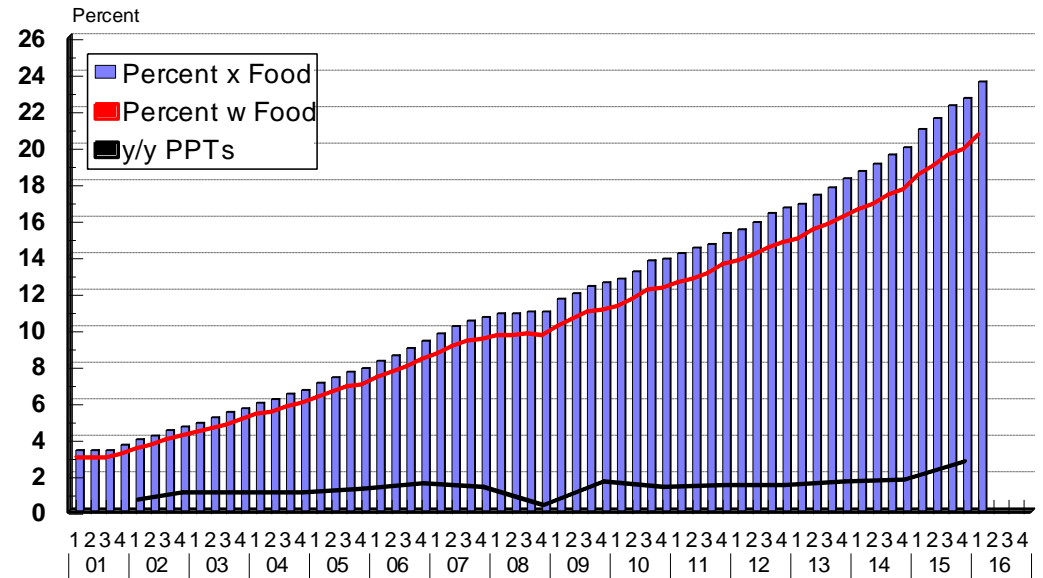
2003-2016F



IANA, ACT Research Co., LLC. Copyright 2015

E-Commerce as a Percentage of Retail Sales

Q1'2001 - Q1'2016

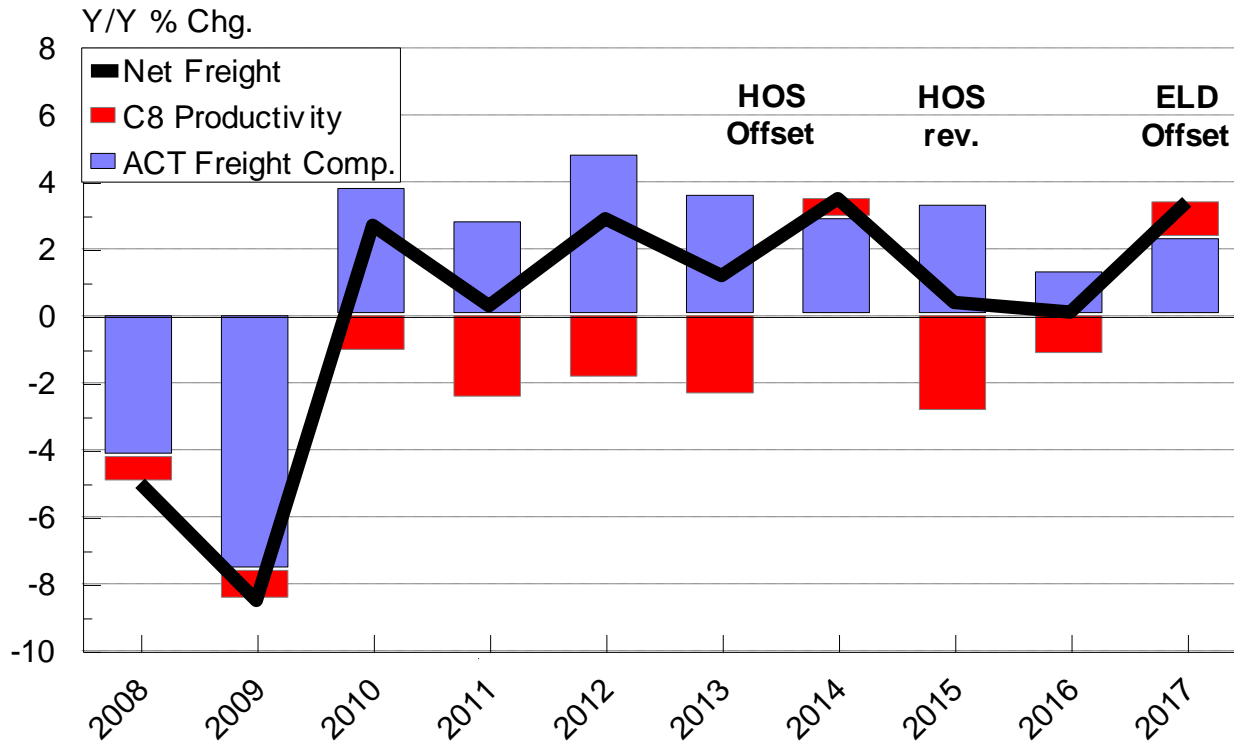


Source: Federal Reserve Board, ACT Research. Copyright 2016

Productivity Impacts Demand-Side

NET FREIGHT: ACT Freight Composite less HD Tractor Productivity

2008 - 2017 (Year/Year)

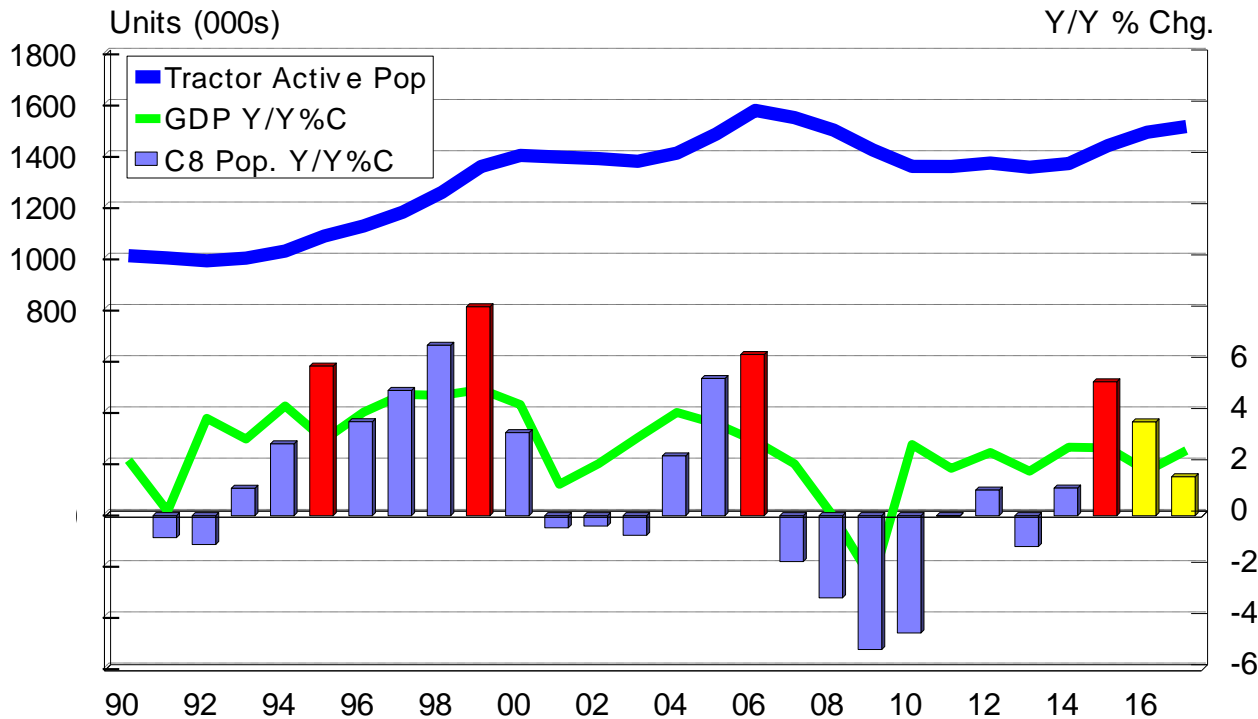


Net Freight:
 Freight Growth less
 Productivity Growth

2015-2016 Supply-Side Surge

U.S. Class 8 TRACTORS: U15 Active Population

1990 - 2017f



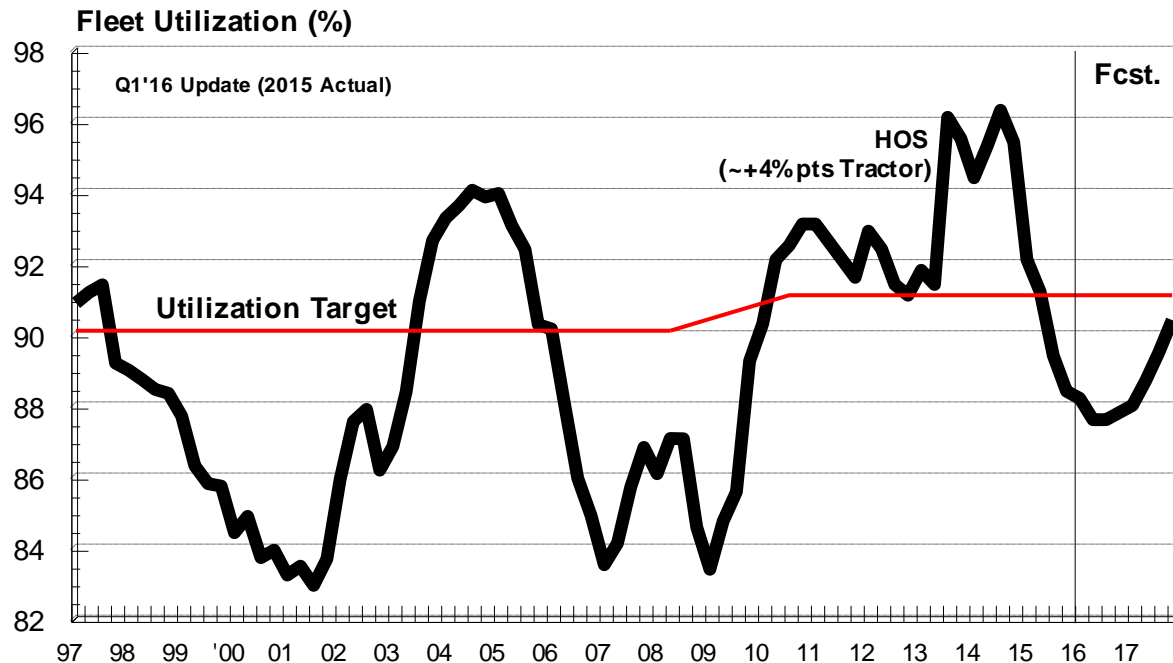
At 2.0% GDP, U.S. tractor-only demand should be ~155k units/yr.

If productivity is offsetting freight growth, tractor-only replacement is ~140k

More Capacity = More Competition

U.S. Class 8 Implied Tractor Fleet Utilization Rate

1997 - 2017



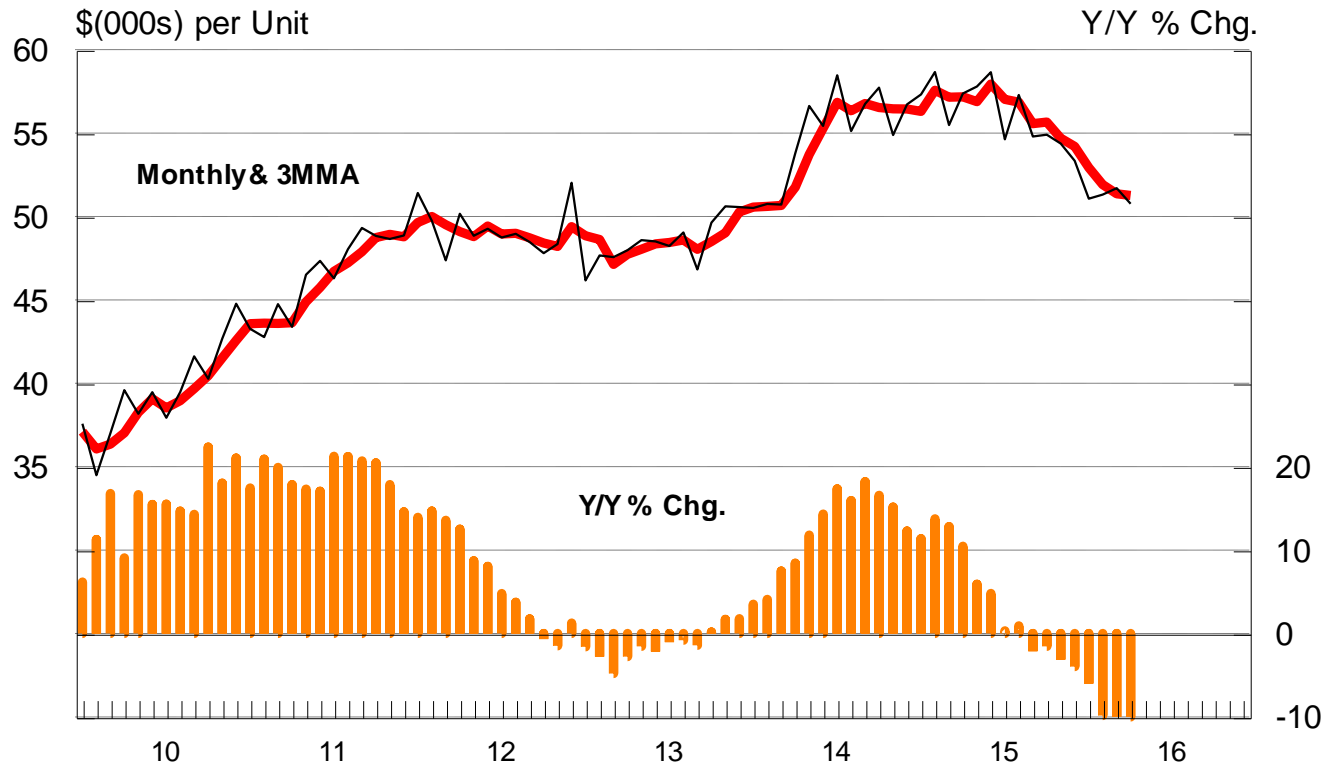
Utilization rebound in 2017 predicated on ELD adoption productivity hit
(OOIDA v. FMCSA ELD suit still not posted on docket)

All utilization model inputs moving in the wrong direction in 2015: *Weaker freight environment; Uptick in productivity trends; Strong Class 8 tractor fleet additions*

Used Values Stabilizing

Used Class 8: Average Retail Selling Price

January '10- Preliminary April '16



Class 8 Off-peak

- Soft freight metrics
- Bifurcated economy
 - 2015-2016 parallel to 1995-1996?
 - Industrial correction in a growing economy
 - But with the added dimension of a burst commodity price bubble
- Orders hit 4-year low in April, continuing (-40% YTD)
 - Even as cancellations fall to 2-year lows
- Still large backlogs thanks to reasonable carrier health
- Payback for excessive inventory builds exacerbates need to cut build rates (-20% YTD)
- Inventory discounting supports sales (-10%)

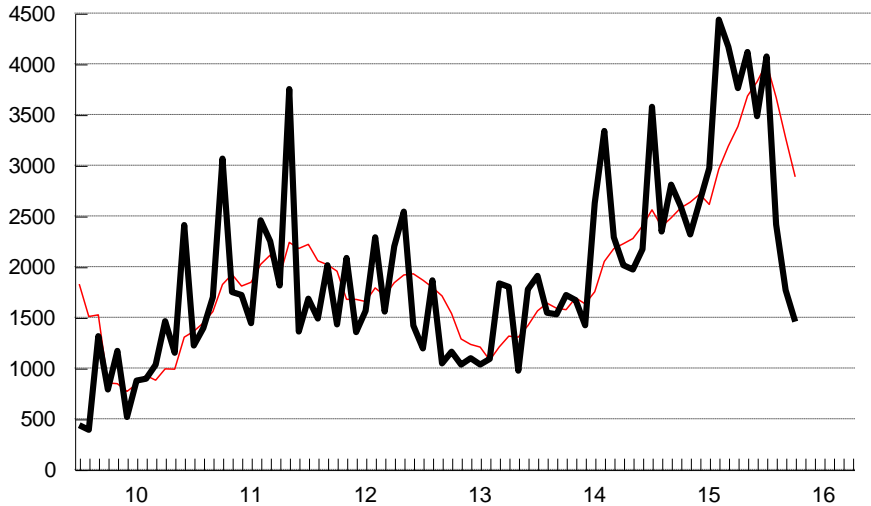
Order Performance: YTD April

	Tractor Slpr.	Tractor DC	Truck Slpr.	Truck DC	Total Class 8
5-Year NA Mkt. Share	47%	27.3%	0.7%	25%	C8NANO SAAR: Past 12: 246k Past 6: 207k Past 3: 195k April: 166k
April YTD Y/Y % Chg. ('15)					
U.S. (81%)	-60	-53	+59	-15	-48
Can (10%)	-57	-52	+256	-50	-54
Mex. (7%)	+96	+28	+166	+165	+98
Exp. (2%)	-35	-79	0	-47	-53
NA	-51	-51	+89	-13	-42

Mixed Signals

TOTAL CLASS 8: N.A. CANCELLATIONS

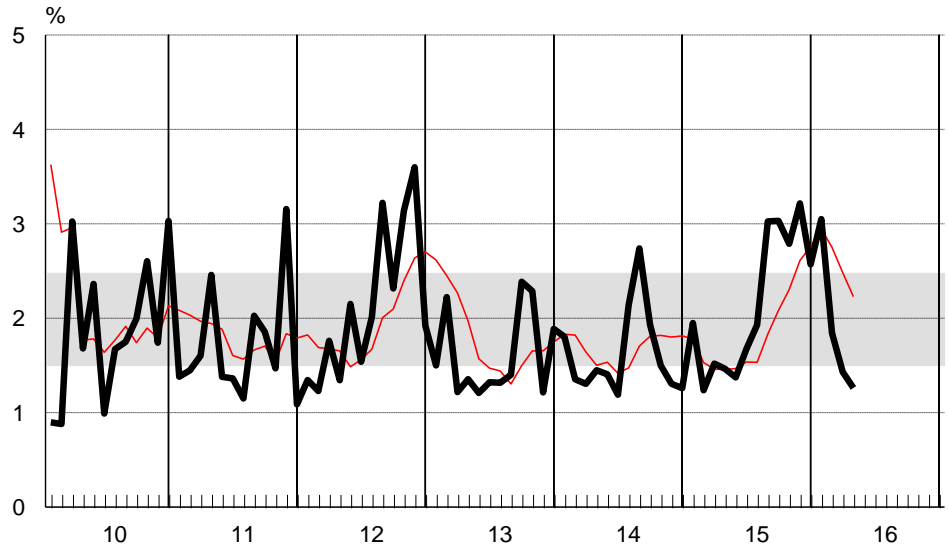
January '10 - April '16



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TOTAL CLASS 8: N.A. CANCELLATION RATE Expressed as a percentage of Backlog

January '10 - April '16

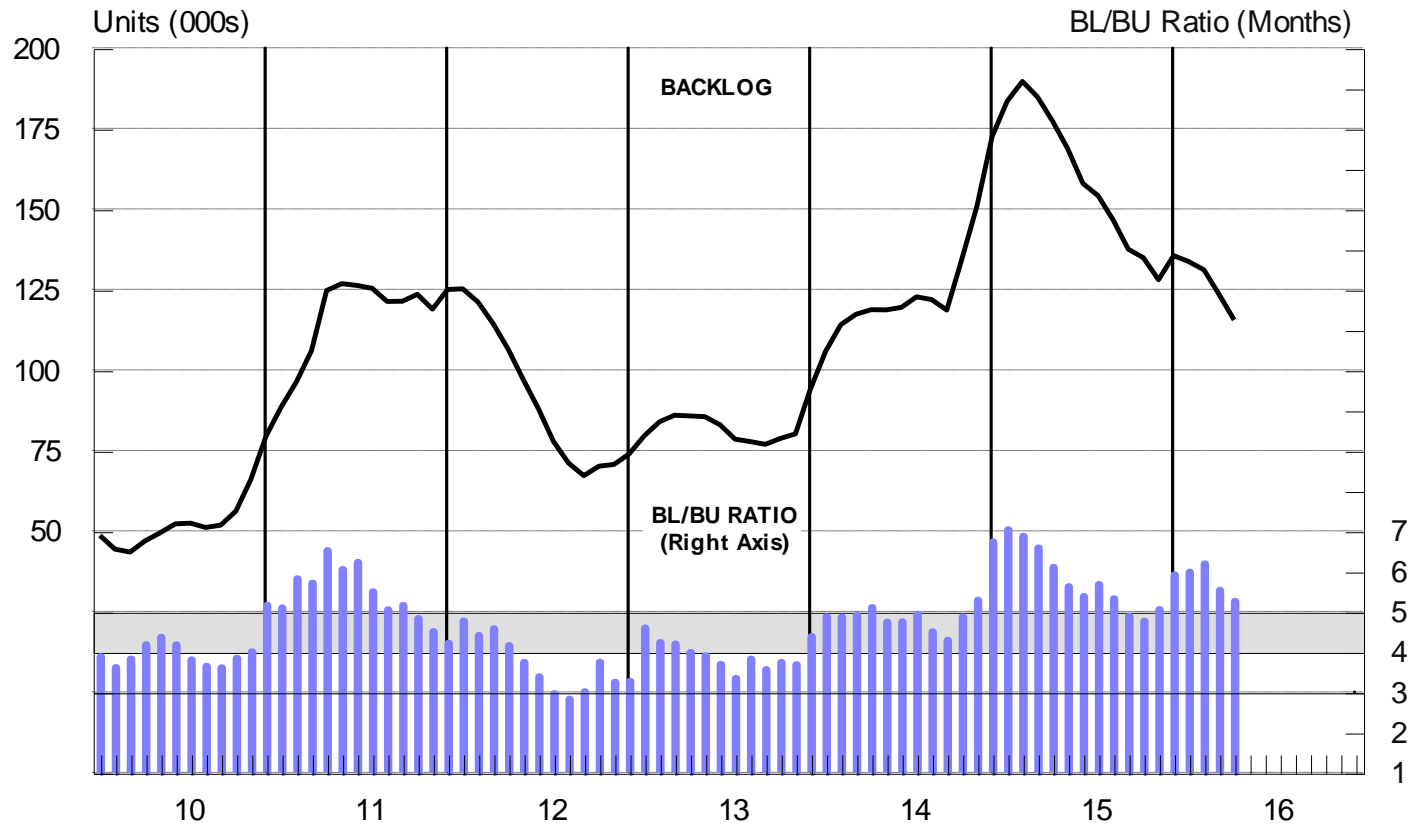


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Bad is Relative

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

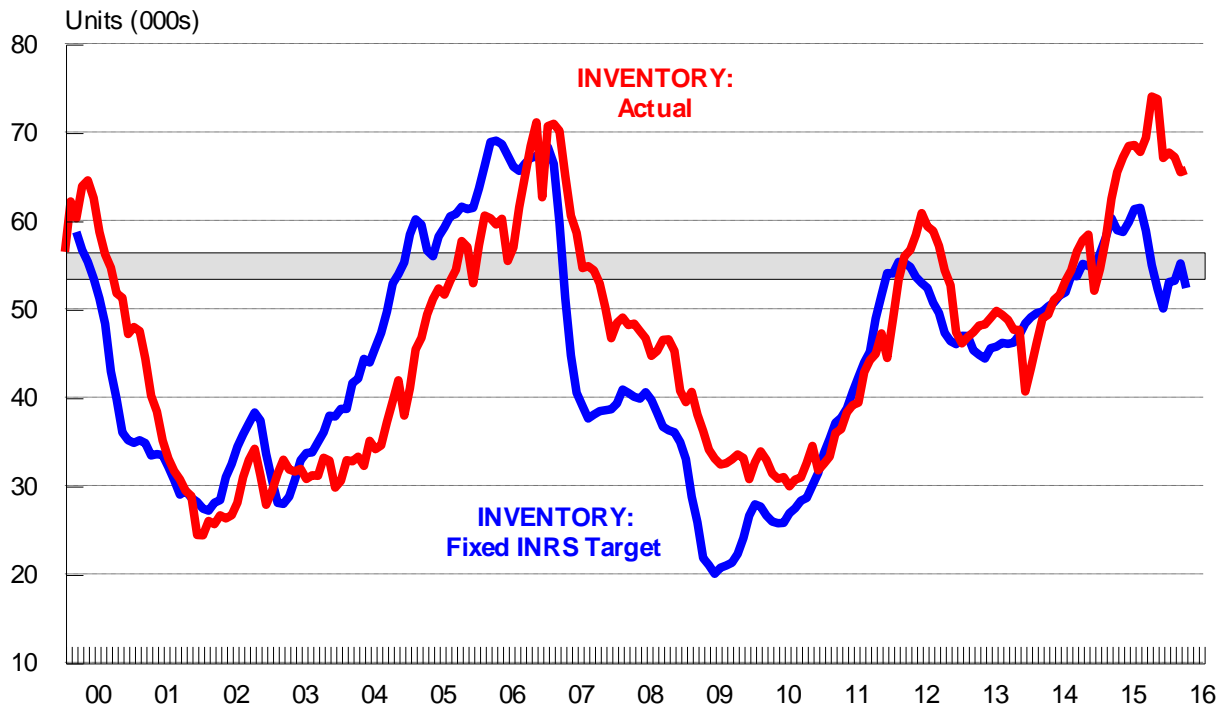
January '10 - April '16



Inventory Drag

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

January '01 - April '16



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Inventory Breakdown:
Assume that “process
IN” is constant @
~5wk/~1.2 mo.

Everything above =
stock

INRS Target @ 250k mkt.
2.2m = ~46,000

April Actual: 65,700

2018: ELD Impact Swag

	Market Share Estimates	Implied Units	ELD Penetration	Units w/ ELD	Units w/o ELD	% "Excess" Miles	Compliance Productivity loss	Capacity Impact
							0%	
Active Tractor Pop.		1,505,000						
Private	47%	708,000	100%			0%		-
For Hire:	53%	798,000						
Expedited	7%	56,000	100%	56,000	-	0%		-
LTL	10%	80,000	100%	80,000	-	0%		-
Large TL	25%	200,000	90%	180,000	20,000	0%		-
Mid TL	20%	160,000	25%	40,000	120,000	5%		6,000
Sm. TL	28%	224,000	10%	22,400	201,600	10%		20,160
OO	10%	80,000	0%	-	80,000	20%		16,000
Total For-Hire Implication				378,400	421,600			42,160
					28%			
Total Tract Fleet Capacity Impact (%)								2.8%
For-hire Fleet Only Capacity Impact (%)								5.3%

Medium Duty

- Cancellations and key ratios (BL/BU and IN/RS) suggest fundamentals are solid. *Can always use more orders.*
- Key MD truck demand drivers staying between the lines:
 - Consumer confidence has subsided a little (election?)
 - Confident consumers are more willing to spend
 - Construction market (resi/non-resi) is especially important to MD trucks
 - State and local governments exhibiting moderate growth
- Classes 4-7 population approaching growth phase
 - Cl.6-7 at ~160k/yr, Cl.4-5 at ~70k/yr
- Competitive landscape rumblings

N.A. Classes 5-7 Order Distribution

(Data through April 2016, annualized)

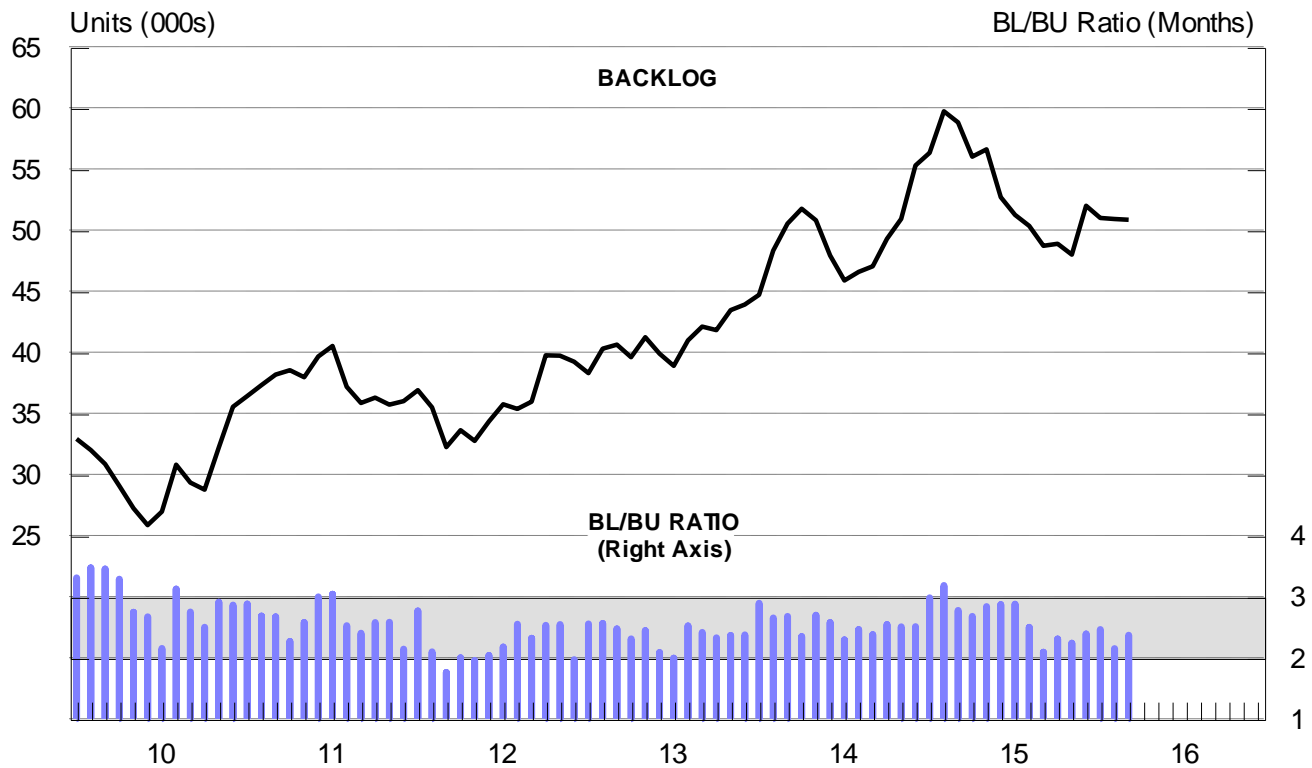
<u>Classes 5-7 Orders</u>	Truck (000s)	Bus (000s)	RV (000s)	Total* (000s)
Past 12 Mo.	170.7	38.6	20.7	238.0
Past 6 (AR)	185.4	36.9	21.7	249.7
Past 3 (AR)	183.7	43.4	26.6	262.7
Apr. (AR)	169.4	39.4	23.7	250.6
Apr. (SAAR)				250.3

* Total includes Step Vans















MD BL/BU On-Target

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

January '10 - March '16



Trailer Demand Remains Robust

Total Trailers				
Category	Actual		Seasonally Adj.	
	Mar-16	Last 13 Mo	Mar-16	Last 13 Mo
Backlog	168,193		156,272	
Build	26,896		24,163	
Inventory	17,729		17,339	
New Orders	16,517		15,216	
Cancellations	1,536		1,259	
Net Orders	14,981		13,911	
Shipments	26,761		24,894	

An old fleet driving strong underlying replacement trend.
Not visible yet, but at some point, gravity will re-exert itself.

Build, Sales & Shipment Forecasts

	2013	2014	2015	2016	2017
NA Class 8 BU (000s)	245.8	297.1	323.3	236.0	239.5
NA C5-7 RS (000s)	190.6	212.3	226.8	237.2	240.5
U.S. C8 RS (000s)	187.6	224.0	252.9	201.5	198.0
U.S. C5-7 RS (000s)	167.7	187.9	203.8	215.2	215.1
U.S. Trailer FS (000s)	234.4	268.7	307.7	296.1	275.3



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