



# 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?

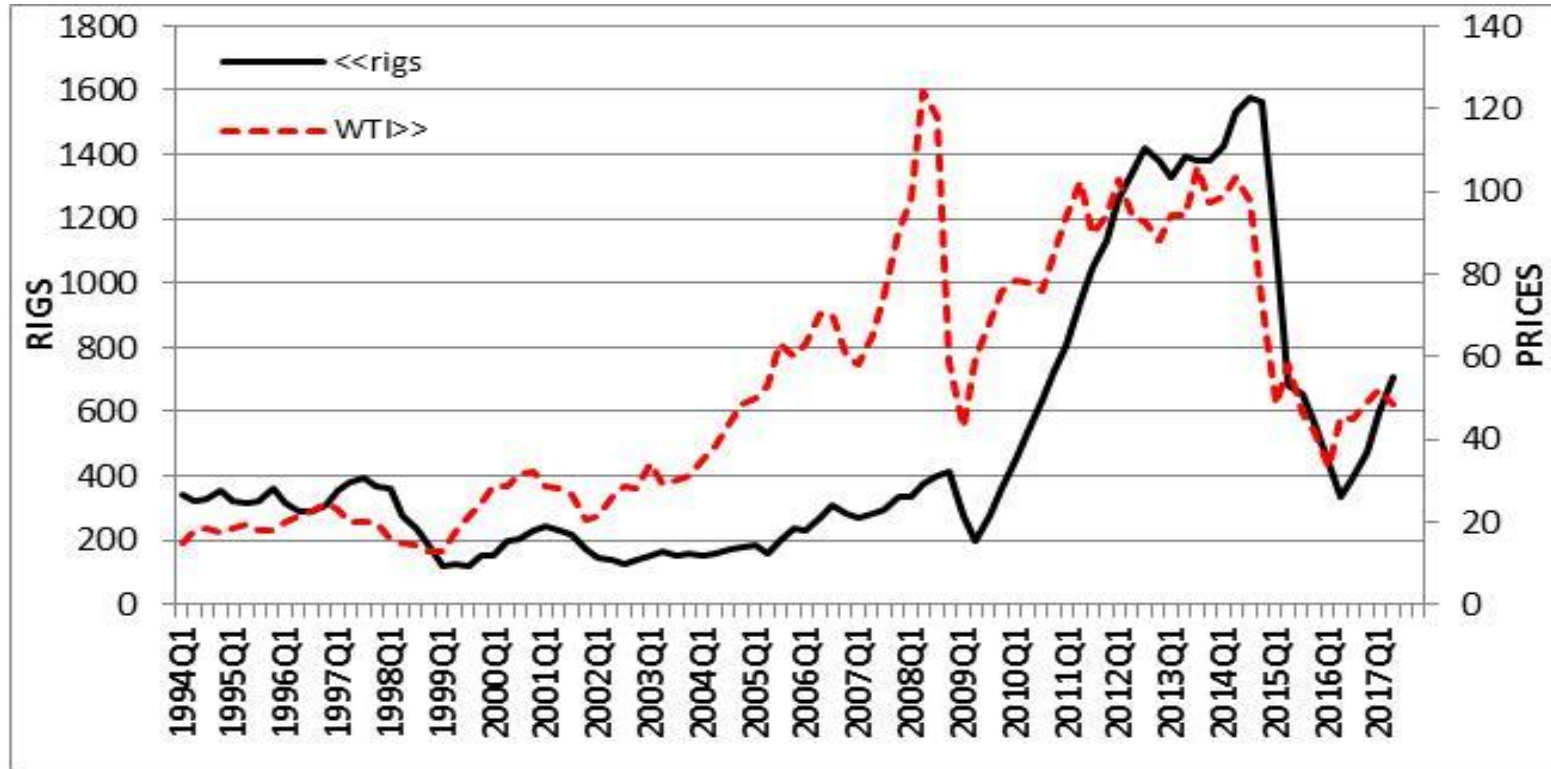
# 2017 Freight Direction

## 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.

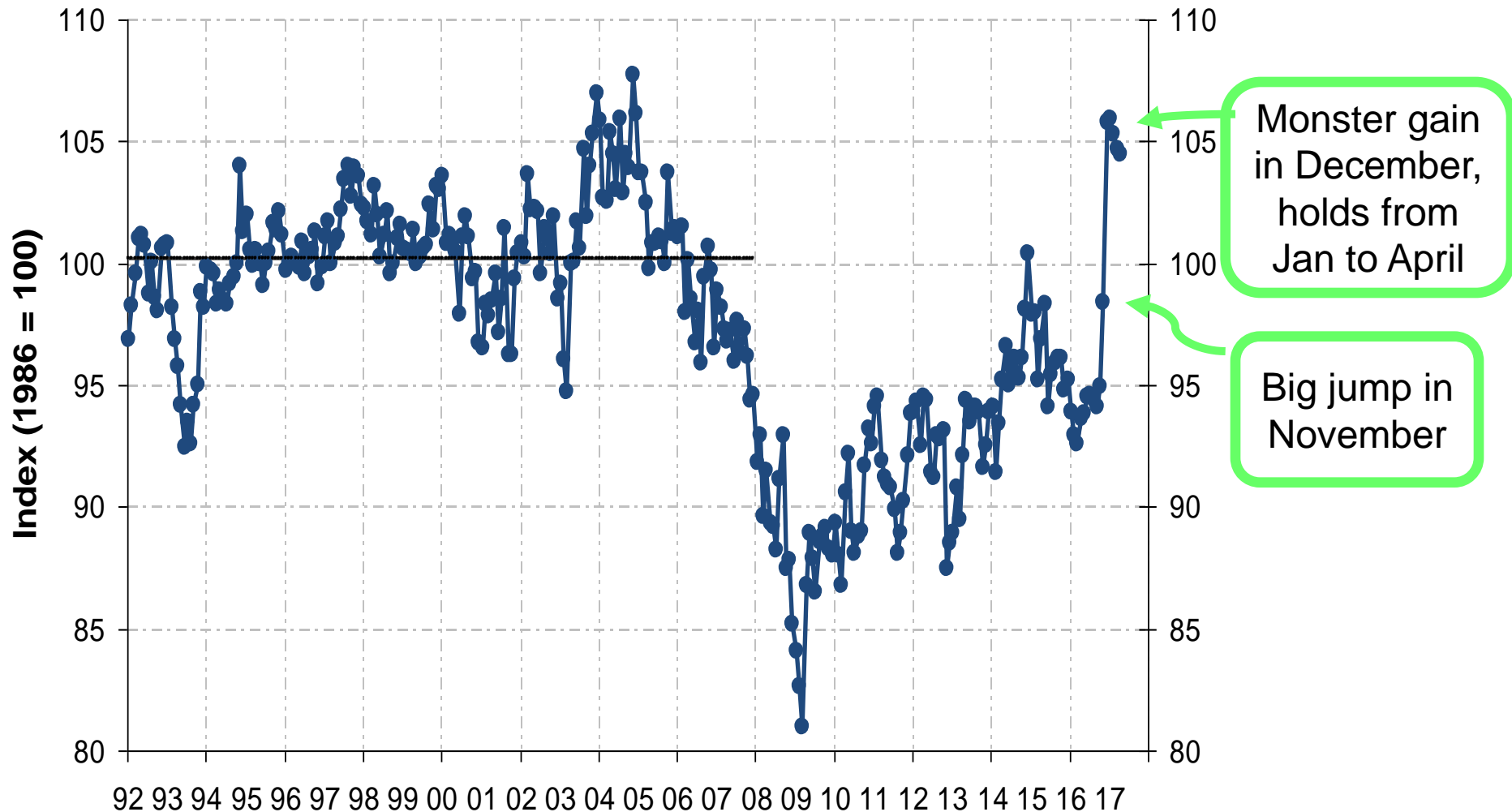
# Manufacturers' PMIs

	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
<b>Global</b>	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
<b>United States</b>	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
<b>Canada</b>	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
<b>Mexico</b>	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
<b>Eurozone</b>	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
<b>Germany</b>	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
<b>France</b>	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
<b>Italy</b>	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
<b>Spain</b>	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
<b>UK</b>	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
<b>Russia</b>	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
<b>Japan</b>	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
<b>China</b>	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
<b>India</b>	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
<b>Brazil</b>	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

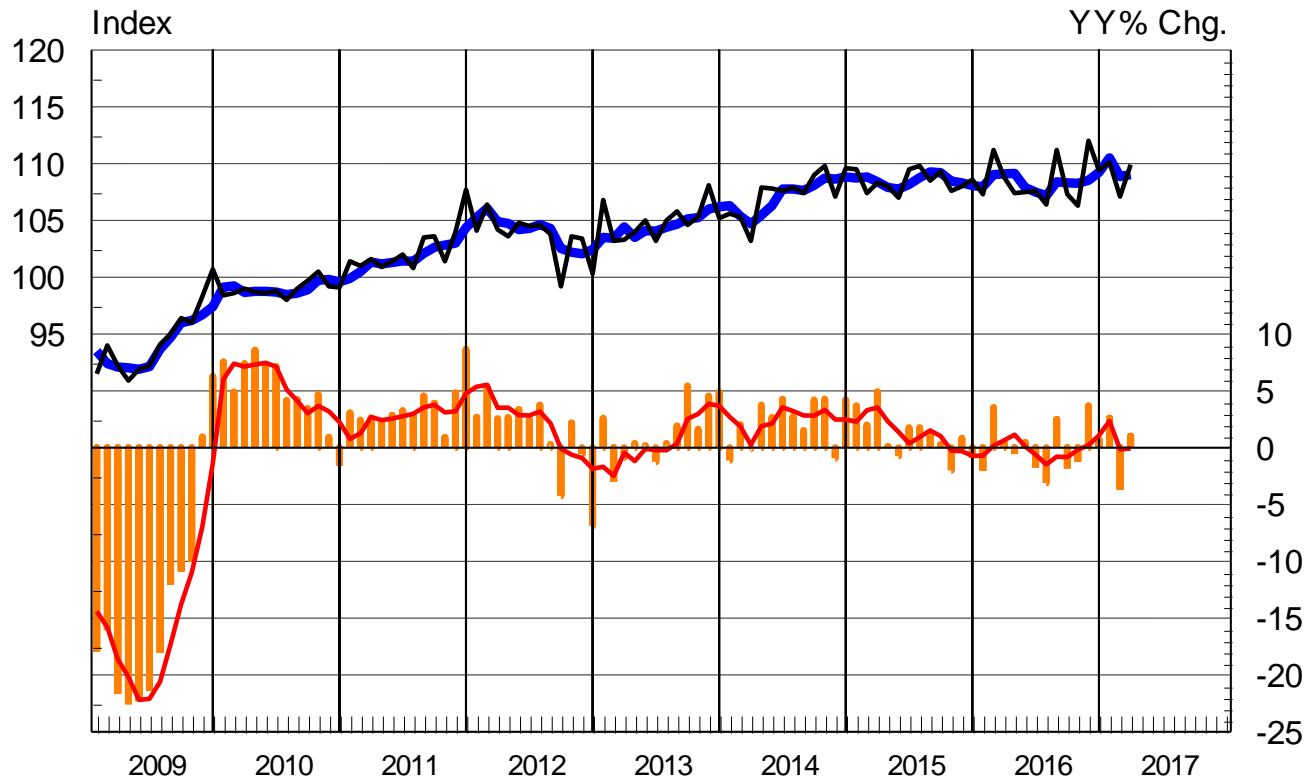
# NFIB Small Business Optimism Index



# Favorite Metric Lacks Traction

## ATA Truck Loads Index (SA)

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



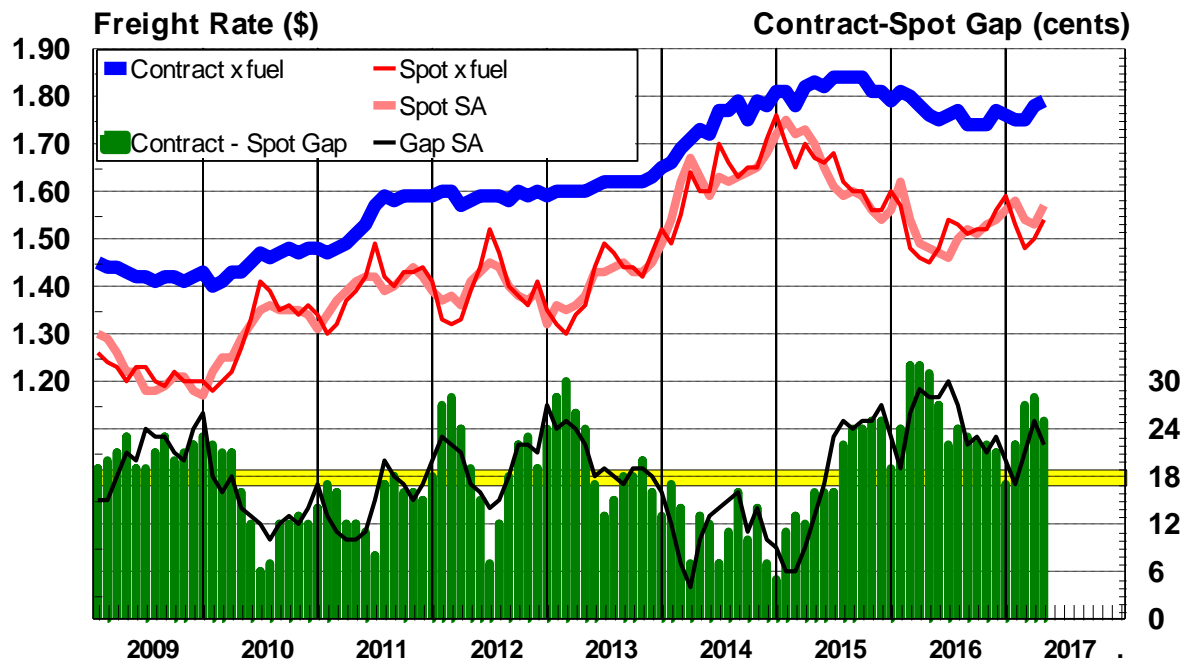
<b>2015:</b>	<b>+1.0%</b>
<b>2016:</b>	<b>+0.1%</b>
<b>YTD03'17:</b>	<b>+0.1%</b>

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



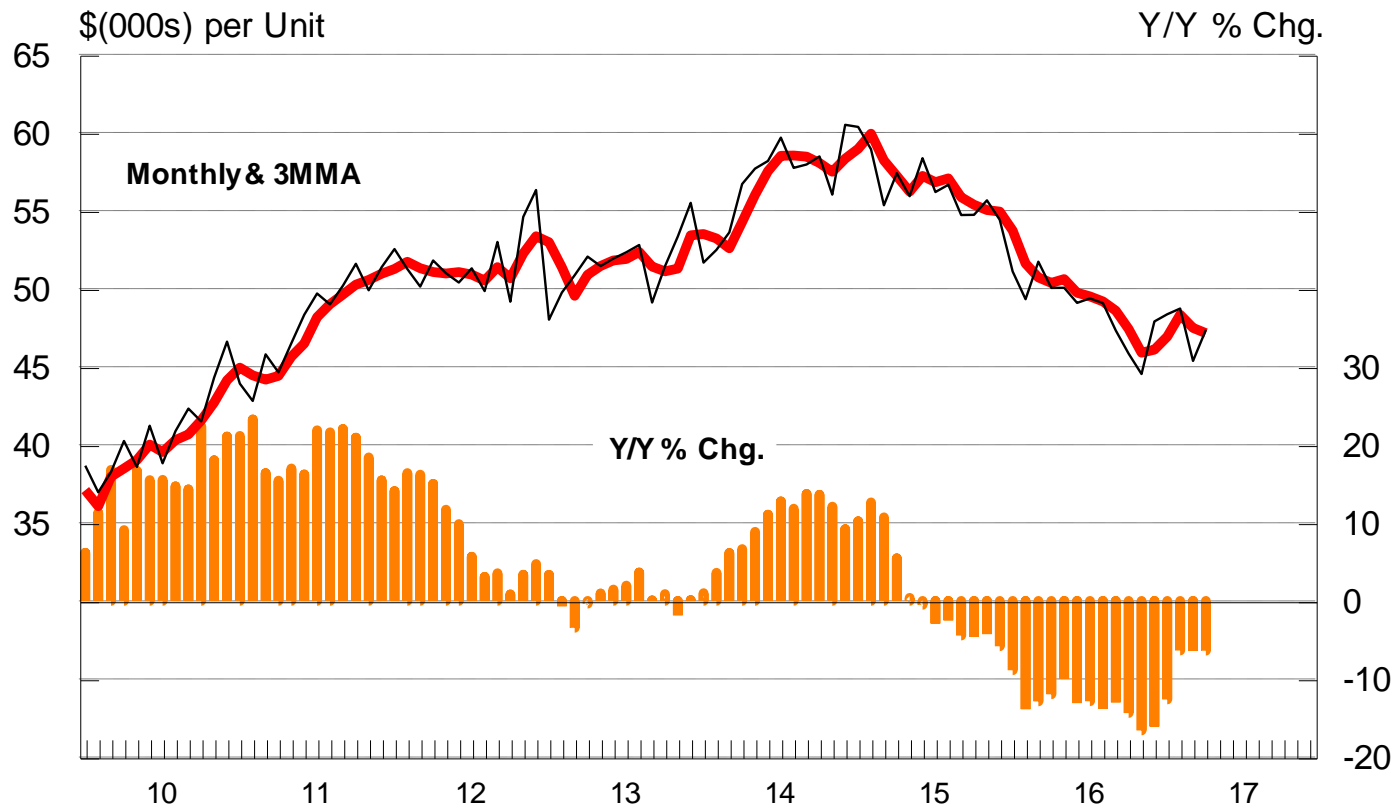
# Used Class 8 Trucks

- 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

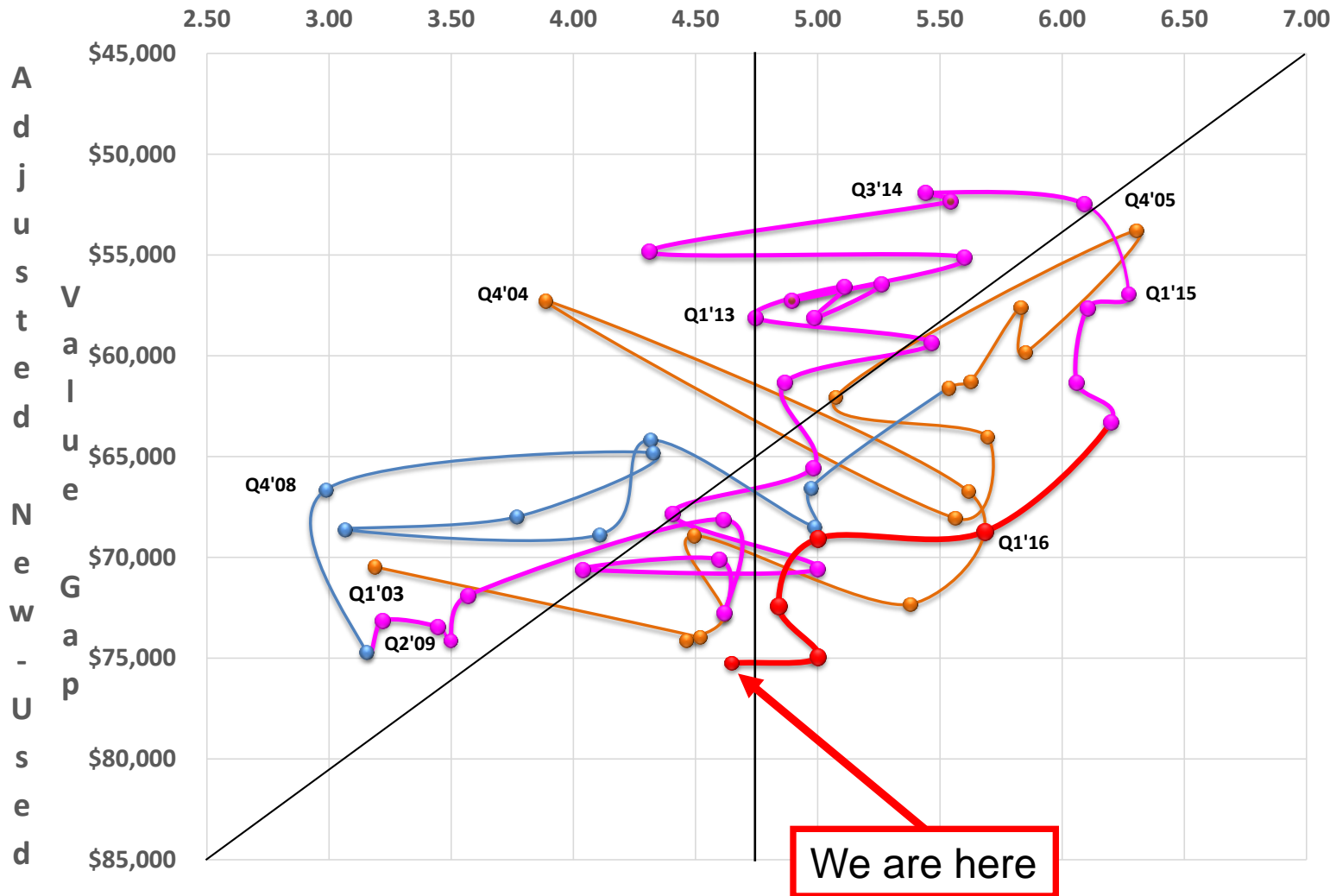
## Used Class 8: Average Retail Selling Price

January '10- Preliminary April '17



# ACT: Carrier Ability & Willingness Analysis

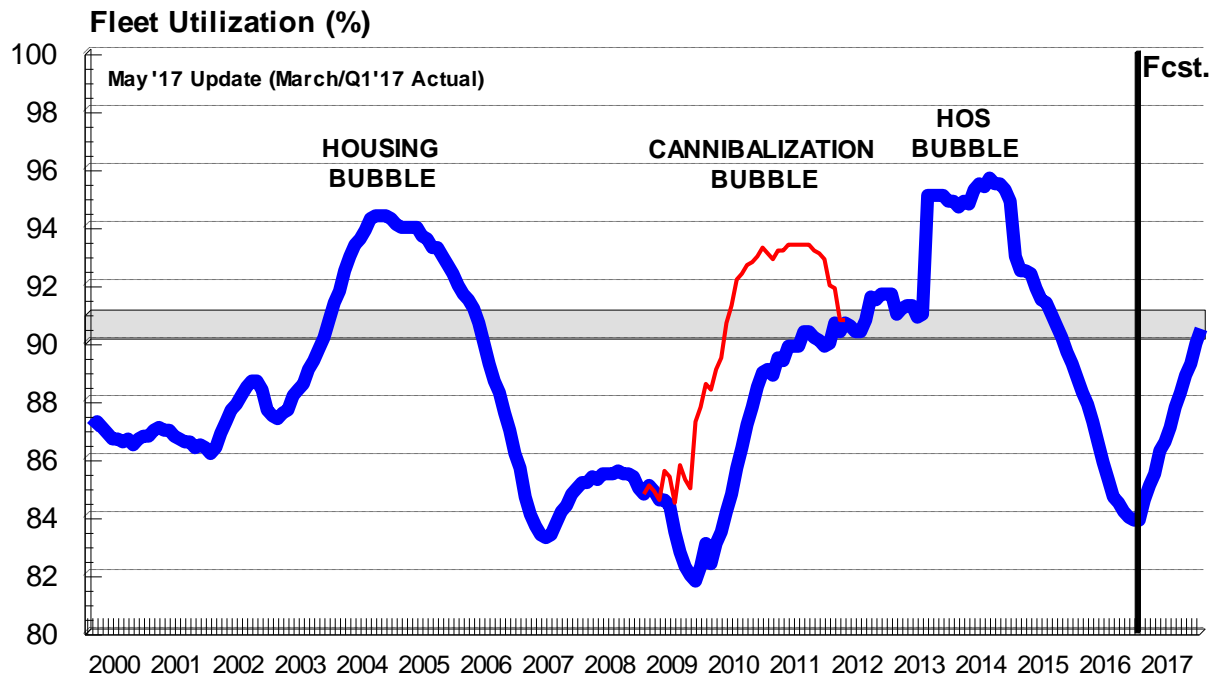
## TL Carrier Profitability (SA)



# demand + SUPPLY = Overcapacity

## U.S. Class 8 Implied Tractor Fleet Utilization Rate

2000 - 2017



### Fleet realignment in 2017

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

ACT Research Co., LLC: Copyright 2017

# 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
	<b>Green Minus Red Tally</b>	<b>-7</b>	<b>-8</b>	<b>-9</b>	<b>-9</b>	<b>-10</b>	<b>-10</b>	<b>-8</b>	<b>-8</b>	<b>-4</b>	<b>-2</b>	<b>4</b>	<b>-1</b>	<b>1</b>	<b>3</b>
	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

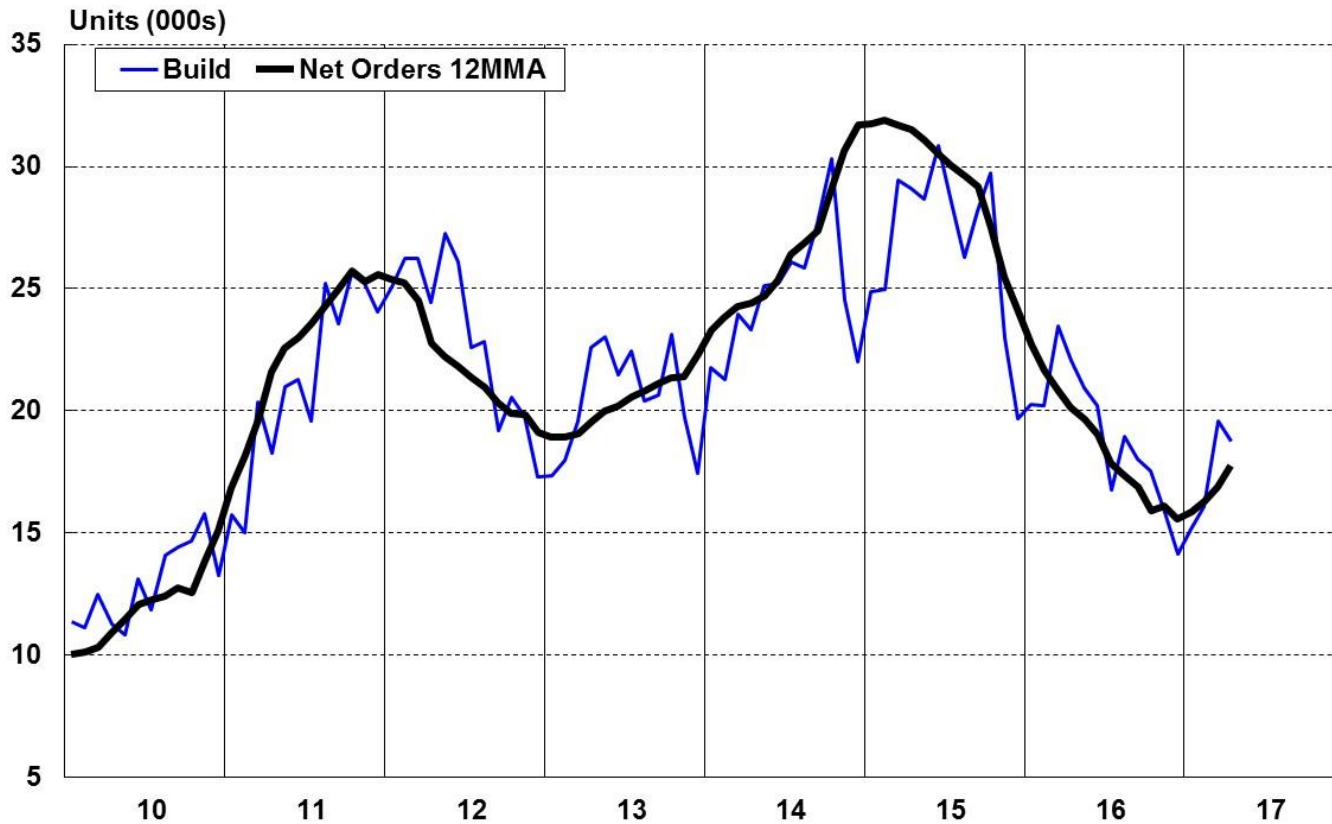
	<b>April SAAR</b>	<b>3 MO. SAAR</b>	<b>6 Mo. SAAR</b>	<b>12 Months</b>
Net Orders	291k	283k	252k	217k
Build	250k	221k	206k	210k
Retail Sales	227k	222k	221k	229k



# 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

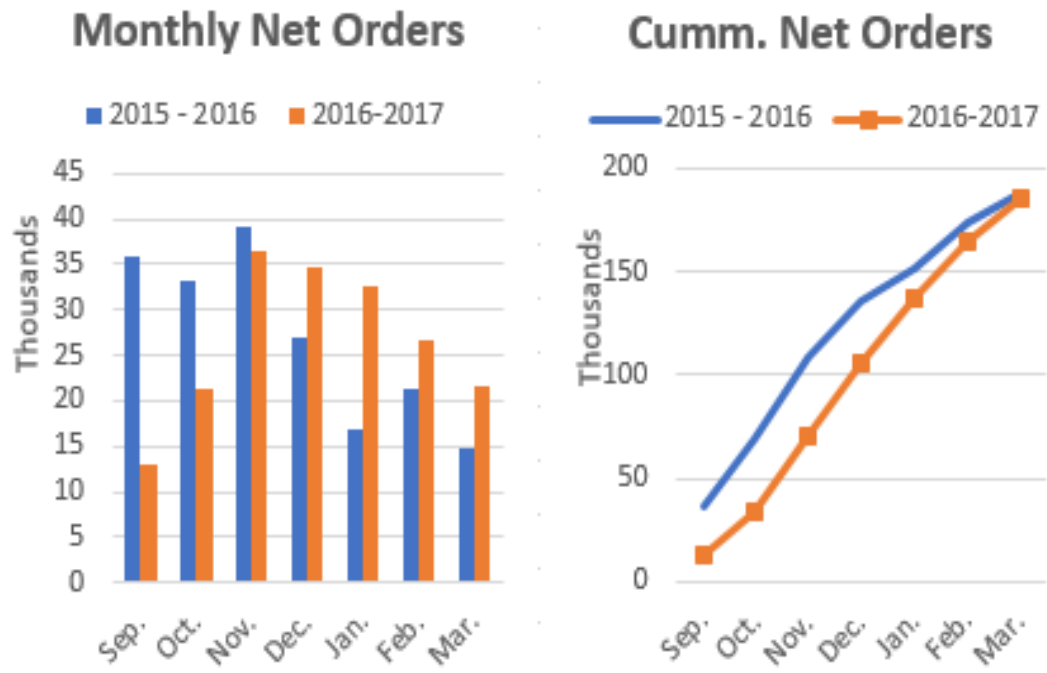
\* Total includes Step Vans

# 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
<b>NA Class 8 BU</b>	<b>245</b>	<b>297</b>	<b>323</b>	<b>228</b>	<b>228</b>	<b>265</b>
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
<b>NA C5-7 BU</b>	<b>202</b>	<b>227</b>	<b>237</b>	<b>233</b>	<b>245</b>	<b>248</b>
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
<b>U.S. Trailer Only</b>	<b>234</b>	<b>269</b>	<b>308</b>	<b>286</b>	<b>276</b>	<b>259</b>
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](mailto:trucks@actresearch.net)

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