

HOTLINE

Production & Prices

U.S. manufacturing is on the upswing – good news for truckers. But new equipment buyers are likely facing higher prices and possible delivery delays. In June, the Federal Reserve Board said 5 of 12 districts reported intensifying cost pressures on manufacturers due to rising raw materials costs – especially steel & related products, petrochemical products and wood products. One district, Chicago, said many production lines in its area were being hampered by raw materials shortages.

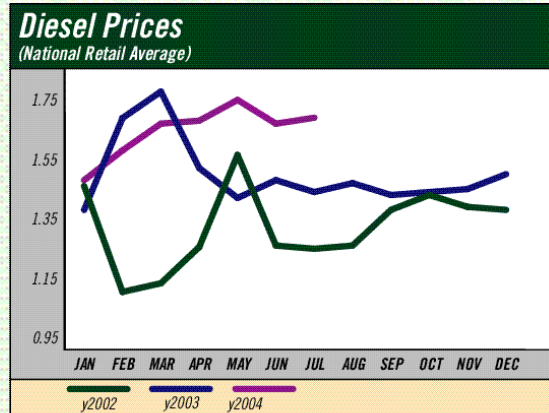
According to the Institute for Supply Management, June was the 13th consecutive month the manufacturing economy grew, but delivery performance by suppliers has slowed for 30 straight months & prices to manufacturers continued to rise – albeit at a slower pace. Steel and stainless steel made the “short supply” list for the 6th month & have been on ISM’s “up in price” list for 9 months. Manufacturers also report rising prices for plastic, copper, electronic components, diesel & freight.

Truck & trailer builders, as well as their suppliers, warned of cost-related price increases or surcharges on materials earlier this year. One supplier said it’s had significant surcharges on steel and may see more price hikes this summer.

“In general, no one sees the crisis as being completely over,” says Tim Kraus, vice president of the Motor & Equipment Manufacturers Assn. & executive director of its Heavy Duty Manufacturers Assn. “Steel increases have sort of stabilized for the larger users and have continued to rise for the smaller ones, although not anywhere near the rates seen in the past 18 months. This has caused a small panic and resultant hoarding to some extent. Most are paying surcharges on certain types of steel purchased under long-term contracts.”

MEMA/HDMA did a benchmarking study with 10 members on ferrous products in general, iron & steel. “Most expect an increase of around 5% overall for next fiscal year,” says Kraus. “They have all seen the rate slowing for the past few months.”

David Tate, president of East Manufacturing, said the company hasn’t seen



much price moderation. Its main business is aluminum dump, flatbed & refuse trailers where materials have gone up, but the big hit has come with steel for their dump trailers – up 40-50% in some cases – and steel components – up 12-15%.

Along with most trailer manufacturers, East raised prices last spring, but the increases haven’t been enough to cover higher materials costs. “Like every other manufacturer, we’re trying to look internally,” Tate says, “to do what we can to reduce manufacturing costs.” Lead times from some of their suppliers have doubled and their own backlogs for some products have stretched to 6 months or more. Part of the problem is raw materials shortages, another is that a dramatic upturn in demand caught many manufacturers & suppliers at a time when inventories & manpower were cut to the bone. As Tate says, “it takes time to catch up.”

During a recent conference call to discuss 2nd quarter earnings, Eaton chairman & CEO Alexander (Sandy) Cutler told financial analysts that many industries where demand has increased quickly – including heavy trucks – are strained right now. The main problem: ability of suppliers to meet stepped-up production of vehicles & components – especially suppliers of steel-based products. “We’re in pretty good shape, but there are elements of the (heavy truck) industry that are starting to bump their heads at this point,” he said.

Heavy truck orders through May averaged 34,000 units/month while production averaged only 18,500 units but “the heavy market is still in the ramping up mode as the supply base & OEMs plan

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for increases over the next 2.5 years," says Frank Sheehan, vp sales, marketing & product planning, Dana Commercial Vehicle Systems. Looking nearer term, he says we'll likely see the daily build rate for heavy trucks increase 10% from 2nd to 3rd quarter, & 24% from 2nd to 4th quarter.

Freight Trends

American Trucking Assns.' advanced seasonally adjusted Truck Tonnage Index for May was down 1.4% from record set in April, but is still the 2nd highest month on record. The unadjusted index fell 3.2% April to May, but was up 4.4% from a year ago. Year-to-date truck tonnage was up 6.4% from the same period in '03.

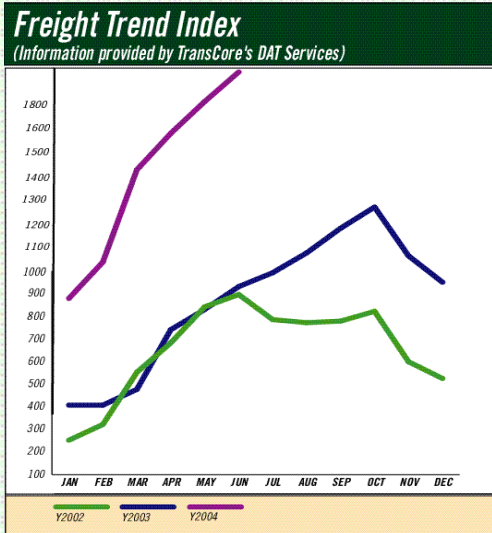
"Despite the monthly reduction in truck tonnage during May, I believe the economic expansion is still very solid and so is the trucking industry," said ATA Chief Economist Bob Costello. "Year-over-year comparisons remain good, and robust growth is expected to continue for the industry. Many motor carriers could boost freight volumes even more if they could just find quality drivers. The driver situation is currently limiting capacity growth."

Three-fourths of shippers surveyed by Bear Stearns said they're paying some accessorial charges or higher freight rates due to hours of service rules - but many say they're not paying the full amount billed. Reasons: They feel their dock times are good enough & say prior contractual agreements absolve them of payment.

June exception freight (freight contracted to a carrier who can't handle it with his own trucks) posted through TransCore load services was up 289% from June last year and 7% from May. The company continues to cite economic improvement and tightening equipment capacity for the steady increase. June is usually the last month of seasonal growth before the summer decline.

Utilization

Class 6-8 vehicle fleets were running an average 86.1% of capacity in June, down 1.5 points from a year ago, according to MacKay & Co's 2nd quarter utilization survey. This was the first year-over-year decline since 1st quarter '03. Class 8 utilization was 87.6%, down 0.4 point, but still considered high. Despite a 1 point drop in utilization, for-



hire fleets were operating at 93.5% of capacity. Lease/rental utilization fell 4.3 points, to 91.1%, which may be related to a 2.9% increase in private fleet utilization. "If private fleets can get improved utilization from their existing trucks, they have less need to add peak capacity with rental vehicles," analysts explained.

Class 6 utilization was 75.6%, down 5.2 points, mainly due to a 25-point drop in school bus utilization, which accounts for 12% of Class 6 vehicles. Class 7 was 83.3%, down 4.6 points. All vocations but agriculture reported a decrease. Trailer utilization was 83.8%, down 3 points from a year ago but still considered normal for 2nd quarter. Contact: MacKay & Co., (630) 916-6110.

The demand for truckload services exceeds supply & the situation is likely to get worse, says Mark Wyman, partner in PMC Logistics Services, a 3rd-party logistics company. "As tight as capacity has been over the first 6 months of this year, it will grow even tighter over the next 6 months with the expected annual surge of imports into the U.S.," he says. "Simply put, there is too much freight & not enough trucks." Reasons: changes in hours of service rules, high cost of fuel, economic growth & driver shortage. Wyman says business failures reduced capacity in regional & less-than-truckload segments, but it's primarily truckload carriers that have been forced to turn away business due to lack of personnel & equipment.

Leasing

Higher interest rates could benefit leasing, according to '04 report of the Equipment Leasing & Finance Foundation's Industry Future

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Council. Sustained low rates of past few years have hurt leasing volume because customers have been more prone to purchase, the report said. One concern: ability to adjust pricing since history indicates there is generally a lag in the market's absorption of higher interest rates.

Report gave 4 reasons to expect rates to go up: growing federal deficit, weakening dollar on foreign markets, capital demands of an improving U.S. economy, and the fact that interest rates are cyclical in nature. General consensus among council members is that rates will stay low during the election year, but trend higher over next 5 years.

Financials

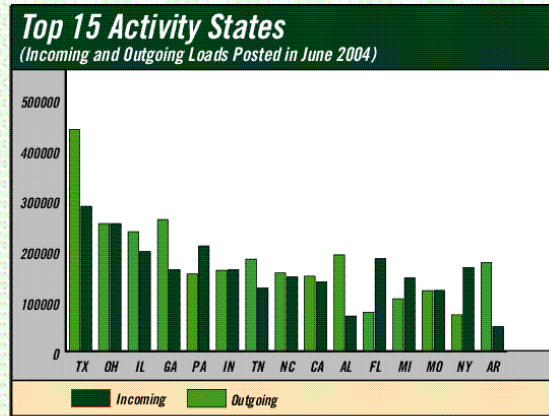
Eaton posts record \$2.4 billion sales in 2nd quarter, up 19% from a year ago. Net income was \$161 million, up 73%. Truck segment sales were \$436 million, up 38%. Company noted that 2nd quarter NAFTA production of heavy trucks was 63,000 units, up 17% from 1st quarter. Monthly orders for new trucks averaged 33,000 units. Eaton projects '04 production at 255,000 units.

Alliances & Acquisitions

Dana Corp. & Bendix Commercial Vehicle Systems joint venture, Bendix Spicer Foundation Brake, begins operations with full portfolio of wheel-end braking systems components & technology from Dana, Bendix & Bendix parent Knorr-Bremse Group. President is Kishor Pendse, formerly vp/general mgr., Bendix wheel-end business team. Company is headquartered in Elyria, Ohio, with technology centers in Elyria & Kalamazoo, Mich. Roadranger Marketing, which has represented Dana & Eaton commercial vehicle drivetrain products & systems since '98, will continue to represent foundation products for the joint venture.

Eaton signs 5-year agreement with VTTi Inc. to provide new line of cellular-based diagnostic software for automotive & commercial vehicle service. Sign*A*Rama adds Media Vehicles Graphic Solutions truck-sided advertising solutions to its product line. Volvo Commercial Finance extends collateral tracking agreement with Premier Lease & Loan Services.

Modern Business Computing partners with



International Truck & Engine to develop Diamond Connection Solutions fleet maintenance & parts replenishment software system, to be sold through International dealers. AirIQ buys Aircept. Melton Technologies to incorporate KonaWare's Mobility Platform in its Horizon fleet management system.

New Business

Kenworth offering Caterpillar C15 engine in 625 & 600 hp ratings as a W900L option. Freightliner offering Mercedes-Benz MBE926 7.2 liter engine for its medium duty Business Class M2 line. ConMet CastLite brake drums now available for all Freightliner Truck models.

Millis Transfer orders 1,776 Great Dane P-Series vans to be delivered over next 5 years. Oshkosh's Pierce Manufacturing gets \$27 million order for 79 fire & rescue trucks & related equipment from Kellogg Brown and Root. Deliveries to begin April '05.

IdleAire Technologies says 402 fleets operating 107,818 trucks have signed agreements allowing their drivers to pay for its travel center shore power services. To date, drivers have used the system over 1.7 million hours.

Sloan Transportation Products develops swing away/shutoff gladhand for FedEx.

Iteris Lane Departure Warning systems now offered as aftermarket application for most N. American Class 8 trucks. Airgo Systems named tire inflation system provider of choice by Midwest Utility.

Bridgestone/Firestone to equip its 300-truck private fleet with PeopleNet onboard computing

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& communications. Fleet One to administer private label fuel card program for The Spinx Co. SystemOne Technologies' on-site recycling solvent parts washer and paint gun washer lines now marketed internationally.

Aftermarket

Dana's Heavy Vehicle Technologies & Systems Service div. drops remanufactured heavy duty axle carriers from its product line, now offers only new Spicer carriers. Core-Free Carrier Program does away with core charge or core return, the company says. Reman carriers in inventory & sold after July 1 will have a 2-year, unlimited miles warranty.

Consolidation of U.S. automotive parts & accessories industry rose in '03 after 3 consecutive years of decline, according to 2004/2005 Aftermarket Factbook published by Automotive Aftermarket Industry Assn. Aftermarket manufacturers accounted for 77% of 48 reported mergers & acquisitions in '03. Factbook has statistics, charts, analysis & trends in the U.S. & key international markets. Contact: www.aftermarket.org.

Associations

Institute for Truck Parts Professionals III, sponsored by the Council of Fleet Specialists, set for Sept. 12-15, Kansas City. Courses are designed to facilitate personal & professional growth for branch managers, purchasing managers, field sales personnel & manufacturer reps. Trucking editors & manufacturing execs will present their views of future heavy vehicle technology. Contact: (816) 421-2600 or www.CFSHQ.com.

American Trucking Assns. Technology & Maintenance Council teams with U.S. Army National Automotive Center for Commercial Vehicle Users Forum during TMC Fall Meeting, Sept. 13-16, Nashville. Forum will identify technologies that NAC & TMC believe have great potential for commercial & military fleets and can be brought to market most cost effectively. Annual conference will have equipment and IT/logistics tracks plus a special program for technicians, a VMRS 2000 Workshop & an EDI Workshop. Contact: (703) 838-1763 or www.tmc.truckline.com.

National Private Truck Council's 2nd annual National Safety Conference, Sept. 16-17, Hyatt

Hotel at Dulles International Airport, to offer presentations, discussions with key government representatives, expert panels, problem solving workshops & tabletop exhibit. Contact: www.nptc.org.

National Truck Equipment Assns.' '05 Economic Outlook Conference, Sept. 22, Dearborn, Mich., to feature economists from General Motors, FedEx, SBC Communications, Global Insight, Florida Power & Light, Associated General Contractors of America, and J.B. Hanauer Co. Contact: www.ntea.com.

NTEA names Simpson Communications public relations agency of record for The Work Truck Show, Mar 2-4, '05, Indianapolis.

Redesigned National Trailer Dealers Assn. web site, www.ntda.org, features searchable industry directory, technical & federal excise tax articles, used trailer marketplace. Members Only area has member news postings, networking database.

Honors

International Truck & Engine and 4 of its Mexican dealers receive Double Eagle Award for '04 from U.S.-Mexico Chamber of Commerce. Award recognizes leadership & commitment in building alliances & strengthening business ties between U.S. & Mexico.

Parish Truck Sales, St. Rose, La., named Independent Used Truck Dealer of the Year; Midwest Truck Sales, Olathe, Kan., named Franchised Used Truck Dealer of the Year in the first Used Truck Dealer of the Year Awards from *Truck Blue Book*.

Professional Truck Driver Institute presents 6th Annual Lee J. Crittenden Memorial Award to Harry Kowalchuk Jr., president/CEO, National Tractor Trailer School, Liverpool, N.Y. Award recognized efforts to advance the ideals & goals of PTDI. Crittenden, a CitiCapital exec. & PTDI supporter, died in '98.

Newport Communications editors win 1 national & 6 regional awards in American Society of Business Publication Editors' annual competition. *Heavy Duty Trucking* took a national bronze

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and regional gold in the feature series category for its hours of service coverage. *HDT* also won regional silver in the news article category for June '03 hours-of-service story. *RoadStar's* Money Matters won regional silver in the regular department category. Newport Editorial Director Deborah Whistler's Soapbox column took regional gold for best staff written column. Whistler & Steve Sturgess, *RoadStar* editor/*HDT* senior editor, tied for regional gold in Best Editorials category. To date Newport has won 6 national & 18 regional ASBPE awards.

Milestones

Freightliner LLC: 25th anniversary of its Mount Holly, N.C., truck plant. Volvo: 50 years building turbocharged engines. International Truck & Engine: 10th anniversary of Power Stroke diesel engine. Reinke Manufacturing: 50th anniversary. Hendrickson: 2 millionth trailer suspension. Supreme Corp: 30th anniversary.

Marketing

International signs sponsorship deal for 2004/2005 NASCAR seasons with FitzBradshaw Racing, owned by Hall of Famer Terry Bradshaw & racing veteran Armando Fitz. International is official Class 8 tractor of NASCAR.

ChevronTexaco Global Lubricants takes Delo Truck to Canada for "customer appreciation" events. Truck is a rolling exhibit designed to educate the transportation industry on proper use of heavy duty engine oils, lubricants & coolants.

Resources

New R.L. Polk Used Truck Market View tracks commercial vehicle registration changes. Details include make, model series, cab configuration, GVW. Off-lease units & first time used vehicles are identified. Data is available in report form to subscribers or via Polk's TIP Net web-based commercial vehicle intelligence system, www.polk.com.

People

Tom Baughman to vp/general mgr., International Truck & Engine Heavy Vehicle Center, from exec. director, product development, Ford Tough Truck Vehicle cluster. John Fay to market-

ing director, International Heavy Vehicle Center, from marketing director, International Bus Vehicle Center. David Hillman to marketing director, International Bus Vehicle Center.

Carl Heikel to president/CEO Arrow Truck Sales, from managing director, Volvo Trucks de Mexico. He succeeds Ed Justis who is leaving the company to pursue other interests. Carlos Pacheco to managing director, Volvo Trucks de Mexico, from heavy duty truck sales mgr., Volvo do Brasil.

Charlie Luper to sales services director, Autocar Truck, from regional sales mgr., central region. Mark Holden, Wabash National senior vp/CFO, resigns to pursue other interests. Federal Mogul names William Mirth regional sales mgr., heavy duty west; Tina Alread, regional sales mgr., heavy duty; Doug Sharp, national fleet representative, heavy duty.

Mitsuo Matsushita to president/CEO, Denso International America, from president/COO. He succeeds Tony Takeuchi, who retired but will serve as honorary advisor.

Benton Routh to senior vp/chief marketing officer, FleetCor, from U.S. brand mgr., ExxonMobil Fuel Marketing Co. Harry Hall to marketing mgr., DuPont Performance Coatings' Refinish Americas, from east region sales mgr. Vic Brown to natn'l sales mgr., branded products, Spray Products Corp., from natn'l sales mgr., Cyclo Industries.

Randy Boyles to vp, integration services, PeopleNet, from president, R. Boyles Systems Integration. Rick Halbrooks to sales & marketing vp, McLeod Software. Robert Riedford to business development director, satellite products, KVH Industries, from sales mgr, global diesel & commercial vehicle electronics, Delphi Electronics.

Former Roadway CFO Doug Wilson named chairman/CEO, Roberson Transportation. Roger Roberson becomes vice chairman, Brian Griffin remains president. Former Truck Sales & Leasing Editor David A. Kolman named associate director, Tire Retread Information Bureau. Alan Dawes, vp/CFO, Delphi Corp. elected '04/'05 chairman, Motor & Equipment Manufacturers Assn.

Who's Who In Trucking?

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U.S. RETAIL TRUCK SALES REPORT

MANUFACTURER	CLASS 8 33,001 LBS. & OVER			CLASS 7 26,001-33,000 LBS.			CLASS 6 19,501-26,000 LBS.		
	JUNE SALES	YTD SALES	YTD SHARE	JUNE SALES	YTD SALES	YTD SHARE	JUNE SALES	YTD SALES	YTD SHARE
Chevrolet	0	0	0.00%	182	952	2.73%	287	1,276	3.43%
Ford	0	0	0.00%	327	2,028	5.81%	1,459	8,535	22.97%
Freightliner	4,826	26,942	30.00%	1,863	9,773	28.01%	1,896	11,574	31.16%
GMC	0	0	0.00%	915	2,804	8.04%	151	928	2.50%
Hino	0	0	0.00%	27	143	0.41%	91	632	1.70%
International	3,211	16,529	18.40%	1,974	13,214	37.87%	1,720	12,763	34.35%
Isuzu	0	0	0.00%	43	199	.57%	4	15	0.04%
Kenworth	2,059	9,806	10.92%	337	1,969	5.64%	0	0	0.00%
Mack	1,970	9,409	10.47%	2	10	0.03%	0	0	0.00%
Mitsubishi Fuso	0	0	0.00%	13	64	0.18%	65	318	.86%
Nissan Diesel	0	0	0.00%	14	33	0.09%	80	445	1.20%
Peterbilt	2,131	10,976	12.22%	301	1,882	5.39%	0	0	0.00%
Sterling	938	5,407	6.02%	364	1,813	5.20%	107	668	1.80%
Volvo	1,780	9,237	10.28%	0	0	0.00%	0	0	0.00%
Western Star	178	1,139	1.27%	0	0	0.00%	0	0	0.00%
Other	99	386	0.43%	0	0	0.00%	0	0	0.00%
Totals	17,192	89,831	100.00%	6,362	34,894	100.00%	5,860	37,154	100.00%

Compiled by Heavy Duty Trucking Magazine. Source: Ward's Communications

