HOTLINE

Markets

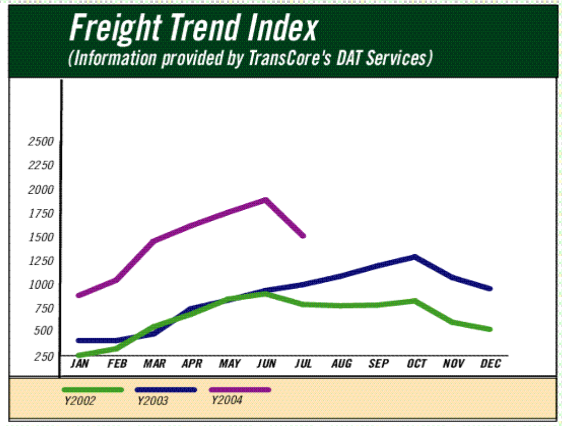
Over the next few years there will be few significant changes in the landscape in which commercial vehicles operate, yet truck-using industries will have to change dramatically, says Stuart MacKay, MacKay & Co. Change will be driven by 3 major factors: escalating costs, increasing shortages & competition.

Most of the framework for cost escalation is already in place, says MacKay. Fuel, insurance, engine emissions, braking regulations, hours of service limitations will continue to drive up truck operator costs. Consolidation will generate some economies of scale but meaningful consolidation in some sectors, such as less-than-truckload & leases/rental, is “all but behind us,” he says. But we can expect further consolidation in the truckload segment.

Key shortages: people & capital. MacKay says driver shortages will persist through 2020 for most truckload carriers “because working conditions (trip length, time away from home, etc.) are not matched with proportionate compensation.” Intermodal will become more important. We’ll see more Pony Express type driver relay teams. Drivers will be progressively channeled into “start/steer/stop roles. Electronics will control most decision-making. Many truck operators won’t be able to generate returns necessary to attract capital, thus capital shortages will drive consolidation.

Competition will escalate & the operating margin for error will narrow sharply, he says. Much tighter equipment control will be mandatory – and will be provided by electronics. Probable innovations: dedicated truck lanes, metro-area truck exclusion areas, tightly-run relay systems.

“Anyone comfortable today with the European truck industry will be very comfortable with the N. American truck industry of 2020,” MacKay says. 4-5 producers will be broad range suppliers with captive powertrains & more limited options. Vehicle configurations will be more uniform, but innovation “will be significant,” he adds. Most trucks will be sold on a cost-per-mile or cost-per-hour basis.



Hybrid power systems & alternative fuel power plants will be widely available in urban use. Diesels will be “clean room” clean, “but at a price.” Trade cycles will lengthen with component reliability & higher first cost. The few components requiring replacement will be modular & allow minimum downtime. Preventive maintenance cycles will double but total maintenance costs will be half those of today.

MacKay predicts that truck operators will outsource more service work to dealers as dealer systems become more efficient – often funded by joint ventures with manufacturers. Used truck owners will still turn to independent shops for work they can’t do themselves, but independents will be hampered by proprietary powertrains & sophisticated electronics. Dealers will eventually take 60% of the replacement parts & component market. Independent parts distributors will be dominated by a small number of regional power houses “as sophisticated as their vehicle manufacturer competitors,” MacKay says. Vehicle service will be an integral part of their business. They will attract – and probably reject – public capital. Their suppliers will mainly be those not supplying the OE market.

Sales Trends

2nd quarter trailer shipments totaled 56,575 units, up 31% from a year ago, according to survey by Economic Planning Associates. Shipments for the first 6 months of the year totaled 108,600, up 26.4%. 2nd quarter

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van trailer shipments: 42,900, up 27.9%. Non-vans: 13,675, up 41.7%. Contact: EPA Inc., (631) 864-4900.

Orders for Class 6-8 trucks are running well above a year ago & the fundamentals are in place for strong sales through this year & next, says Freightliner LLC President/CEO Rainer Schmueckle. Economic & freight growth are fueling new truck demand, although Schmueckle says most of the sales to this point have been replacements, not expansion. Sales this year have also been hampered by materials shortages, a problem not expected to ease until early next year.

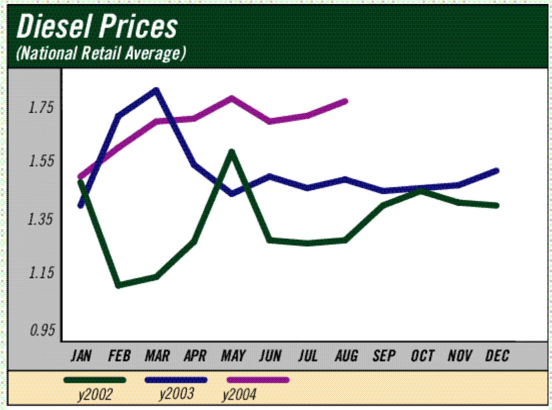
Freightliner projects '04 NAFTA Class 8 sales at 240,000 units; 160,000-165,000 Class 6/7. Company has added a 2nd shift at its Portland, Ore., plant which builds Freightliner & Western Star trucks; and a 3rd shift at its Cleveland, N.C. plant, which builds Freightliner trucks.

Customer jitters re '07 emissions rules for new diesel engines could affect buying patterns over the next few years, says Schmueckle. Freightliner customers could have '07 engines for testing as early as 2nd half '05, which may ease worries. Like other manufacturers, they'd like to see the govt. step in with incentives to shortstop the kind of pre-buying that went on prior to the '02 emissions changeover.

Heavy truck orders slowed in July but analysts at Merrill Lynch expect a "healthy" pick-up in the fall. Citing preliminary data from ACT Research, they note that July orders for heavy trucks were down 9% from June – but the seasonally adjusted annual rate is over 328,000 units, up 9.1% from a year ago. Reasons for the month-to-month drop: strong orders in the first half of the year, the customary summer slow-down, & reluctance of fleet operators to expand capacity. They predict more orders this fall will be expansion vs. replacement.

Freight Trends

American Trucking Assns.' seasonally adjusted Truck Tonnage Index rose 0.5% in June after a 1.5% drop in May. Unadjusted index rose 7% from May to June; 11.1% from a year ago. ATA said this was the 2nd largest year-over-year increase in a year & a half; the biggest was 13% in March.



"June's data shows that the trucking industry continues to deliver a robustly growing economy," said ATA Chief Economist Bob Costello. "Even more impressive than the month-to-month increase is the strength from May '03. And year-to-date, for the first half of '04, compared to the same 6-month period in '03, truck tonnage grew an impressive 7.2% after increasing just 3% from all of '03." Costello said he "remains bullish" on truck freight volumes for the rest of this year.

Transportation Services Index & the Freight TSI, put out by the U.S. DOT's Bureau of Transportation Statistics, hit 14-year highs in May. The freight index rose four consecutive months & is 7.5% higher than May '03. Indexes are seasonally adjusted & include input from all for-hire modes including rail, air, truck inland waterways, pipeline & local transit.

Exception freight coming through TransCore's load posting services in July dropped 20% from June. Loads were up 50% from a year ago but the company says that's lower than year/year increases observed for the past 6 months. Looking to Oct., the best combinations of high freight volumes & favorable inbound-to-outbound load ratios have traditionally come from Texas, Ohio, Illinois, Georgia, Tennessee, Alabama, Arkansas, Pennsylvania,

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California & Indiana.

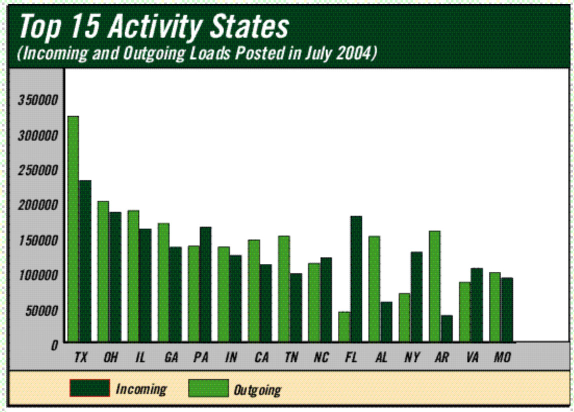
Financials

Paccar posts record $236.5 million 2nd quarter earnings, up 92% from same period last year; record $2.79 billion revenues, up 30%. Another record: 8.9% after-tax return on sales. Paccar President Tom Plimpton noted that Class 8 N. American retail sales in the first half of '04 were up 40% from a year ago. "An 8% increase in industry freight tonnage, improved carrier profitability, low interest rates & equipment replacement cycles are driving industry sales." Kenworth & Peterbilt combined Class 8 market share is over 23%, Class 6/7 share is close to 9%. Industry sales of trucks over 15 tons in Europe are expected to be 5-10% higher this year. DAF has 13% of that market & 9% of the European 6-15 ton market.

DaimlerChrysler reports "very positive" trend for its Commercial Vehicles div. in 2nd quarter. Worldwide sales totaled 184,900 vehicles, up 47% from a year earlier. Div. revenues were $10.9 billion, up 36%. Operating profit was $570 million vs. $270 million. Trucks NAFTA (Freightliner, Sterling, Thomas Built Buses) business unit boosted unit sales 24%, to 40,200 vehicles.

Volvo Group 2nd quarter operating income from worldwide truck sales was $303.7 million, up 124% from a year ago. Sales were $4.6 billion, up 18.6%. Deliveries totaled 49,620 vehicles, up 25%. N. American deliveries were up 24%, Europe up 19%. Company said total Class 8 industry orders were up 108% through June. Mack's order intake in 2nd quarter was more than double 2nd quarter '03. N. American order intake for Volvo trucks rose 110%. Volvo said it expects the order pace to slow in 2nd half, but remain "significantly higher" than a year ago.

Cummins posts $82 million 2nd quarter profit on record $2.12 billion sales vs. $14 million on $1.54 billion same period a year ago. Engine business sales were $1.4 billion, up 57%. Company credited higher N. American sales of heavy duty truck engines, worldwide sales of medium duty trucks, record sales of Dodge Ram engines & strong worldwide construction & mining volumes. Engine segment earnings before



interest & taxes was $91 million vs. $24 million 2nd quarter '03. Cummins' share of the N. America heavy duty truck engine market was 31% for May & 26.8% for the first 5 months of the year – up 5 percentage points from a year ago.

Caterpillar 2nd quarter engine revenues totaled $2.26 billion worldwide vs. $1.84 billion a year ago. N. American engine revenues were $1 billion vs. $862 million. Engine sales in the global on-highway truck & bus sector were up 39%. N. American sales of on-highway truck engines was up 37%. Engine operating profit was $146 million, up 57% from 2nd quarter '03.

New Business

UQM Technologies gets contract from Eaton to develop motor & controller for use in an International truck with an Eaton hybrid electric propulsion system. Eaton & International are working on a U.S. Energy Dept. program to develop a next generation heavy hybrid propulsion system.

Estes Express Lines orders 1,500 International 8600 model trucks to be delivered over the next 2 years. Speedco to sell Goodyear truck tires at its nationwide lube facilities. ConMet PreSet aluminum hubs now standard on Freightliner Century Class S/T, Columbia, Coronado, Classic XL, Classic & Argosy models; optional on other medium & heavy duty lines. Vanguard National Trailer makes Stemco's Platinum Performance System Plus its standard wheel end package.

Alliances & Acquistions

Penske Truck Leasing buys AMI Leasing from Ford Motor Credit. Deal includes 14,000

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tractors, trucks & trailers. Aether Systems sells its Transportation Div., including MobileMax, TrailerMax & GeoLogic tracking products, to an affiliate of Los Angeles based Platinum Equity for $25 million.

Grote Industries to manufacture & sell Panelite accessories. Temco Metal Products & Dometic/Tundra team up to offer Idle Solutions heater/AC & auxiliary power generator package. puraDYN Filter Technologies signs distribution agreements with Utica Egypt to develop markets in Egypt & Tradewinds Power Corp., Miami, to develop S. American markets.

Expansion & Transition

Delco Remy International changes its name to Remy International, marking 10th anniversary as a separate company from General Motors. Company says it will continue to market certain starters & heavy duty alternators under the Delco Remy trademark, which is licensed to the company by GM. It will also add the Remy trademark to its brand portfolio for a variety of automotive products. Under a separate agreement, Remy continues its relationship with GM Service & Parts operations to distribute aftermarket light-duty starters in the U.S. & Canada under the AC Delco brand.

Aurora Trailer is building a new parts distribution center in Lebanon, Ind., for its Aurora Parts & Accessories operation. GT Development opens new manufacturing facility in Auburn, Wash., adding 80,000 sq. feet of manufacturing space. TravelCenters of America opens first Canadian TA maintenance shop in Woodstock, Ont. TruckTraderOnline launches targeted web sites for trailers & for light, medium & heavy trucks.

Marketing

Truck-Lite issues Lighting User's Guide covering electricity basics, why lights fail & how to prevent it, federal regulations, lighting technology advancements, industry terms & support tools. Phillips Industries adds technical product information & improved online catalog to its web site. Thermo King launches redesigned web site with enhanced navigation system, product features & specifications, region-specific product promotions & messages, expanded parts & service menu.

Emissions

School bus fleets in Texas, Arizona & Illinois receive $250,000 in grants donated by Caterpillar to retrofit equipment with Caterpillar emissions reduction technology. Program is part of U.S. EPA's Clean School Bus USA program.

Yusen Terminals orders 2 liquefied natural gas yard hostlers for use at the Port of Long Beach; applies for funding to replace its fleet of 120 diesel terminal tractors with LGN units build by Kalmar Industries. Sound Energy Solutions, a partner in the project, will team with Applied LNG Technologies to provide fuel until SES's proposed LNG import terminal opens in '08. Partial funding for the project is provided by the South Coast Air Quality Management District.

Major European truck manufacturers form co-operation supporting selective catalytic reduction technology to meet new exhaust emissions standards. SCR converts nitrogen oxides into water vapor & nitrogen by means of a catalytic converter & metered quantities of AdBlue, a water/urea solution sprayed into the hot exhaust gas stream. Supporters says trucks & heavy commercial vehicles with current SCR technology can meet the Euro 4 exhaust gas emission standards starting in '06. An improved version should be able to meet Euro 5 standards effective in '09. Trucks equipped with SCR are expected to have approx. 2-5% lower fuel consumption than comparable Euro 3 vehicles.

Associations & Events

National Truck Equipment Assn.'s regional Distributor-Manufacturer Relations Phase I Workshops to run through next year. Meetings are led by professional facilitator Robert Nadeau of the Industrial Performance Group. Objective of the Phase I initiative is to help participants understand current conditions in the truck equipment industry & how they affect

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customers, distributors & manufacturers. Contact: Sharon Rowe, *Sharon@ntea.com*. NTEA organizing a fact-finding trade mission to Russia, under the supervision of the U.S. Commerce Dept. Contact: Steve Latin-Kasper, *stevelk@ntea.com*.

NTEA show/convention dates: The Work Truck Show '05, Mar. 2-4; 41st Annual NTEA Convention, Mar. 1-4, both at the Indiana Convention Center & RCA Dome, Indianapolis. The Work Truck Show '06 will be Mar. 1-3, 2006; Annual NTEA Convention, Feb. 28-Mar. 3, both at the Georgia World Congress Center, Atlanta. Contact: (800) 441-NTEA or *www.ntea.com*.

Veteran industry analyst Bruce Plaxton, president, BGP Marketing Solutions, to chair opening session panel discussion on remanufacturing & the commercial vehicle market during '04 International Big R Show, Oct. 30-Nov. 1, Las Vegas. Panelists include Tom Clevinger, general marketing mgr., Paccar Parts; Lew Flowers, Oklahoma region maintenance mgr., U.S. Postal Service; Russell Musgrave, managing director-maintenance, FedEx. Show runs Oct. 30-Nov. 1, Las Vegas. Contact: Automotive Parts Remanufacturing Assn., (703) 968-2772 or *www.BigRShow.com*.

Used Truck Assn. partners with Equipment Search.com & Auctio to provide discounted services to its members. Auctio system combines interactive television, the Internet & touchtone telephone to line buyers & sellers in live private auctions.

Motor & Equipment Manufacturers Assn. offering video that demonstrates the importance of the motor vehicle product manufacturing industry to the overall automotive industry & the American economy. "The Importance of The Automotive Supplier: The Engine Behind the Largest U.S. Manufacturing Industry" is available to MEMA members, media & industry analysts. Contact: *www.mema.org*.

Freightliner & Trucker Buddy represented the trucking industry at one-day festival, "The Open Road," in Washington, D.C. Event was part of the ongoing "America on the Move" exhibition on display at the Smithsonian's National Museum of American History. A 2005 Freightliner Classic XL was the featured heavy duty tractor at the event.

Global Business

For the 3rd consecutive year, Wal-Mart topped *Fortune* magazine's list of 500 largest service & industrial companies for '03. Britain's BP was #2, surpassing America's Exxon Mobil (#3) for the first time. Royal Dutch/Shell Group (Britain/Netherlands) was #4; General Motors #5; Ford Motor #6; DaimlerChrysler #7; Toyota #8, General Electric #9; Total (France) #10. Exxon Mobil was the world's most profitable company in '03. Citigroup was next, followed by General Electric.

U.S. lead the list with 189 companies, up from 151 ten years ago but editors say China & other developing nations are coming up fast. Number of Chinese companies on the list went from 3 to 15 in ten years while the number of Japanese companies dropped from 149 to 82. Although overall revenues & profits remain low for Chinese companies, those on the global list increased revenues by 53% last year.

People

Charles "Chip" McClure to chairman/CEO/president, ArvinMeritor, from president/CEO, Federal-Mogul Corp. He succeeds Larry Yost who retired in early Aug. Bill Franz to president/CEO, XTRA Corp. He will continue as president of XTRA Lease.

Richard Muzzy Jr. to chairman/CEO, The Holland Group, from president/CEO. Samuel Martin to Holland president/chief administrative officer, from exec. vp. Bill Mossing to assistant gen. mgr., Bendix Spicer Foundation Brake, from operations director, Dana Commercial Vehicle Systems.

Terry Westerman to sales director, Kemlite Co., from national sales mgr. Brian Yielding to director, trailer/chassis engineering, Reinke, from chief engineer. Steven Schweinfurth to director, purchasing & material control, TODCO, from procurement mgr., Parker Hannifin.

U.S. RETAIL TRUCK SALES REPORT

July 2004

MANUFACTURER	CLASS 8 33,001 LBS. & OVER JULY SALES	CLASS 8 YTD SALES	CLASS 8 YTD SHARE	CLASS 7 26,001-33,000 LBS. JULY SALES	CLASS 7 YTD SALES	CLASS 7 YTD SHARE	CLASS 6 19,501-26,000 LBS. JULY SALES	CLASS 6 YTD SALES	CLASS 6 YTD SHARE
Chevrolet				117	1,069	2.56%	90	1,366	3.19%
Ford				344	2,372	5.72%	1,016	9,551	22.28%
Freightliner	4,844	31,786	29.66%	1,745	11,518	27.76%	2,029	13,603	31.74%
GMC				618	3,422	8.25%	131	1,059	2.47%
Hino				25	168	0.40%	107	739	1.72%
International	3,364	19,893	18.56%	2,488	15,702	37.84%	2,120	14,883	34.73%
Isuzu				38	237	.57%	1	16	0.04%
Kenworth	2,175	11,981	11.18%	546	2,515	6.06%			
Mack	1,768	11,177	10.43%	10	20	0.05%			
Mitsubishi Fuso				6	70	0.17%	42	360	.84%
Nissan Diesel				16	49	0.12%	67	512	1.19%
Peterbilt	2,355	13,331	12.44%	363	2,245	5.41%			0.00%
Sterling	892	6,299	5.88%	292	2,105	5.07%	102	770	1.80%
Volvo	1,669	10,906	10.18%						
Western Star	152	1,291	1.20%						
Other	119	505	0.47%						
Totals	17,316	107,169	100.00%	6,608	41,492	100.00%	5,705	42,859	100.00%

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