

# HOTLINE

## Market Trends

The trucking industry may be facing an equipment crisis, Eaton Chief Economist Jim Meil tells carriers & shippers at The Freight Transportation Capacity Summit, co-hosted last Oct. by Schneider National & The Logistics Institute of Georgia Tech. Per the ATA Tonnage Index, freight volume has increased 61% in the last 10 years. After declines in 2000/2001, volume has grown an average 5% from 2002-2004.

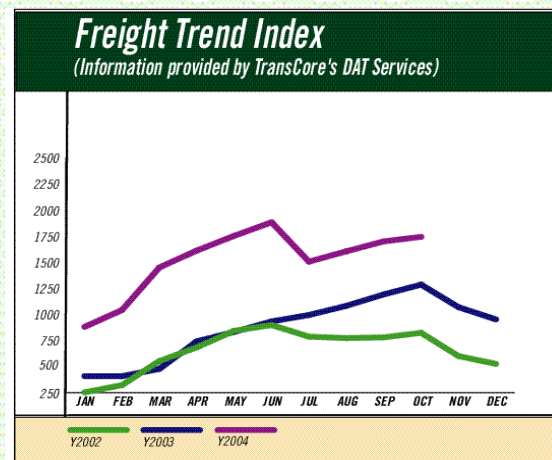
But the fleet has contracted. Eaton estimates that NAFTA population of first use Class 8 trucks went from 1.58 million in 2000 to 1.35 million in '04 & the heavy duty fleet is the oldest in 15 years. Capacity utilization is close to 100%. "It's going to take a big year in '05 & '06 to get it right," Meil said. Estimated current replacement demand is 250,000 units/year. Freight growth is expected to slow some in '05 but still be another big year, which could push capacity expansion demands to 60,000 units. Bottom line: Total demand for new Class 8s in '05 could reach 310,000 units, up from a projected 255,000 unit production in '04.

Class 8 production through the '90s averaged 218,000 units/year – but the market is extremely volatile, Meil noted. Examples: N. American production rose an average 19.6% '97-'99, then dropped 24.2% in 2000 & 42.1% in '01. After a rare single digit slide in '03, 2004 production jumped some 44%.

Until recently Class 8 demand cycles have been driven mainly by the economy but, as we saw with the '02 pre-buy, regulations can play a big role. Stricter emissions standards for '07 and 2010 could likely mean more pre-buys, thus increasing market volatility, Meil noted. "These forces put distance between annual demand & the "sweet spot" for the supply side of about 260,000 a year. It will be a struggle to cost-effectively get capacity right-sized."

## Executive Viewpoint

As the economy rebounds, trucking companies can look forward to increased growth in coming months if labor & fuel issues hold stable, says Ken Hoexter, senior airfreight & surface transportation analyst for Merrill Lynch.



Hoexter told execs at Carrier Logistics' annual Leadership Summit that he expects general volume growth & good pricing in the truckload sector.

"More trucks are being ordered, but major fleets are not expanding," he said. "A big problem is drivers – they are hard to find. CEOs say they have never seen the driver market as tight. While driver pay has increased 6-8%, carriers who have raised rates about the same amount are losing some of their increase."

The less-than-truckload industry is being affected by the new hours of service rules on the truckload side, Hoexter said. "Capacity in the LTL sector is running about 90% & the Master Freight Agreement has removed major overhanging issues from negotiations."

## Freight Trends

American Trucking Assns.' seasonally adjusted Truck Tonnage Index rose 0.6% in Sept. following a 1.8% decline in Aug. The unadjusted index was up 6% from a year ago. Year-to-date tonnage is up 7% from the same period in '03.

"After a summer breather, truck tonnage bounced back in Sept.," said ATA Chief Economist Bob Costello. "September's improvement was particularly impressive considering that Hurricanes Frances, Ivan & Jeanne all hit the U.S. during the month. It's

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very reasonable to assume that, minus the hurricanes, September's increase would have been even stronger. Also, year-over-year growth remains robust."

Availability of exception freight through TransCore load posting services in Oct. was up 36% from a year earlier. Company says volumes are consistent with historical & seasonal trends for this time of year. Based on historical data, the best combinations of high freight volumes & favorable inbound/outbound load ratios in Nov. were expected in Illinois, Arkansas, Ohio, Texas, Indiana, Wisconsin, Alabama, Texas, Pennsylvania, California, Tennessee & Missouri.

## Utilization

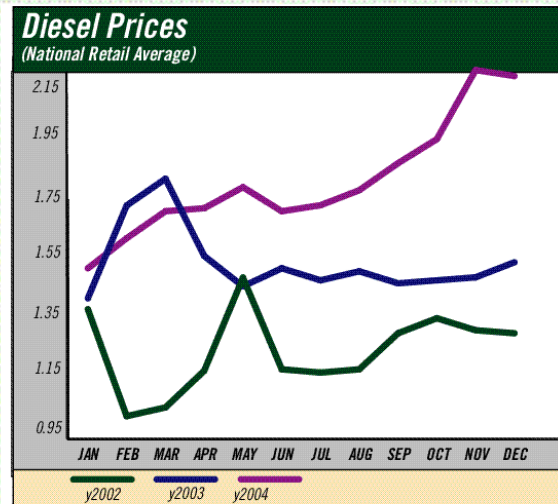
MacKay & Co. 3rd quarter survey puts Class 6-8 vehicle utilization at 89.1%, down 0.7 point from the record high in 3rd quarter '03. Class 8 truck utilization was 90.1%, the same as a year ago & down only slightly from the peak 90.3% in '02. For-hire utilization was up 0.4 point, private up 0.9 point, ag up 8.7 points, lease/rental up 3.5 points, construction/mining/refuse up 1.1% points from last year. Owner-operator utilization, which usually increases with freight volume, fell 8.3 points. Analysts said the decline may be due to sharp increases in diesel fuel prices.

Class 8 utilization was 79%, down 6.2 points from 3rd quarter last year. Class 7 was 88%, down 1.8 points. Medium duty utilization declined for owner-operators and private carriers but was up slightly for for-hire carriers, lease/rental & construction/mining/utilities.

Trailer utilization was 88.4%, up 6.7 points. Owner-operators, farmers and "other" fleets reported declines. Lease/rental was up 10 points, private up 4.8 points. Trailer utilization in for-hire fleets was a record 94.2%; lease rental was 90.2%, the highest rate since '01. Contact: MacKay & Co. (630) 916-6110.

## Repossessions

Heavy truck repossessions in 3rd quarter were down 70% from a year ago, according to Nassau Asset Management's NasTrac Quarterly Index. "This summer, truck reposses-



sions climbed 33% between 1st & 2nd quarter, when truckers were battling rising fuel & insurance costs," says Edward Castagna, senior exec. vp. "What we saw in 3rd quarter was in line with the overall decline in equipment repossessions that began in '03."

Repossessions of construction equipment increased 57%, the first time in '04 that construction repos rose compared to '03. Castagna says other economic indicators show that construction spending as of Aug. was up 9.4% from the same period in '03. He says they're watching the construction sector to determine if the increase was due to greater front-end volume or an early indication that construction businesses are responding to economic pressure.

## Financials

Paccar reports best quarter in its 99-year history: Revenues of \$2.92 billion, up 42% from Q3 '03; earnings of \$246.7 million, up 86%. President Tom Plimpton says new purchasing system, which electronically links engineering, purchasing & suppliers, partially offset negative impact of increasing material costs. "A few suppliers are still reluctant to invest in additional capacity & labor due to the cyclical nature of the market, resulting in some restricted parts availability."

Paccar projects '04 U.S. & Canadian heavy truck retail sales at 225,000-235,000 units, up 35% from '03. "Record freight volume, fleet expansion & improved carrier profitability are driving new truck orders," says Plimpton. "Profits for publicly-traded truckload carriers are up nearly 50% vs. the same period a year ago. U.S. & Canada Class 8 truck sales

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could increase to 270,000-280,000 units in '05 due to a good economy & fleet growth." W. Europe sales of 15+ ton trucks projected at 230,000-240,000 units in '04, up 10%. Forecast for '05 is 240,000-250,000.

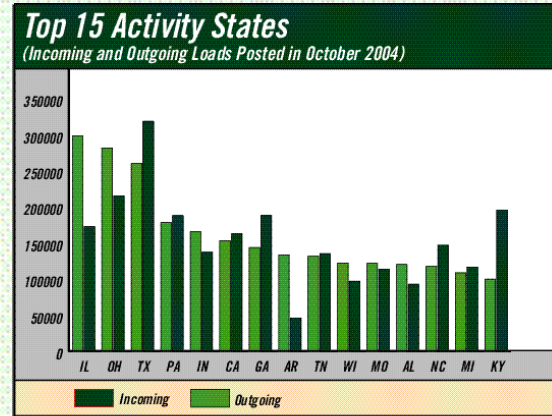
Cummins posts record \$2.19 billion 3rd quarter sales, up 34% from '03. Net earnings were \$116 million vs. \$24 million. Chairman/CEO Tim Solso says sales were stronger than expected in most markets & especially the N. American heavy truck engine market where Cummins' share through Aug. was 27%, up 5.5 percentage points from the beginning of the year. Overall engine sales were \$1.44 billion, up 53% from last year; pre-tax earnings were \$96 million vs. \$36 million. Sales volumes in the N. American heavy duty truck market rose 119%. Medium duty truck engine shipments were up 74%.

Caterpillar 3rd quarter revenues were a record \$7.65 billion, up 38% from a year ago. Profits were a 3rd-quarter record \$498 million, up 124%. Engine operating profit was up 96%, machinery up 78%, financial products up 40%. Company says higher material costs & supply chain bottlenecks limited profit pull-through & that continued global economic growth will likely sustain external cost pressures in the near term.

Dana posts 3rd quarter sales of \$2.1 billion vs. \$1.9 billion a year ago. Net income, including one-time gains & charges, was \$40 million vs. \$61 million. Chairman/CEO Mike Burns said the quarter was disappointing, largely due to increasing raw materials costs. Steel costs alone were up \$22 million. "We had expected that the bottom-line impact of the commodity price increases would be offset by the stronger performance in our heavy vehicle business & continuing cost-reduction efforts," he said. "But the magnitude of the raw material increases, coupled with a decrease in light vehicle production volumes, hit us harder than expected."

## Aftermarket

Automotive Aftermarket Industry Assn. & Federal Trade Commission square off on proposed "Right to Repair" legislation. Bills in both the House & Senate (HR 2735/S2138)



would prevent manufacturers from restricting access to information & tools necessary to diagnose & repair vehicles.

In a letter to Rep. John Dingell (D-Mich), a ranking member of the House Energy & Commerce Committee, the FTC said such a law could force the agency to review vast amounts of documents beyond its expertise. The agency also argued that it would be difficult to determine what information constituted trade secrets, which would be exempt from the rules and the potential effect on consumer costs was unclear.

AAIA says most of the concerns cited in the FTC letter can be addressed by reviewing regulatory history on the issue. Govt. Affairs VP Aaron Lowe says the U.S. Environmental Protection Agency & the California Air Resources Board, with help from manufacturers and the aftermarket, worked through most of FTC's concerns in an emissions-related service information rule. This law, he says, could simply build on that framework already in place.

## Alliances & Acquisitions

Modine Manufacturing to spin off its aftermarket business & merge it with Transpro Inc., forming a new, publicly traded company that will sell replacement radiators, heaters, air conditioning components & other products for automotive, truck & industrial applications in N. America & Europe.

ArvinMeritor to divest its Light Vehicle Aftermarket business group & its Roll Coater coil coating business. Company says it wants to focus on Light Vehicle Systems OEM customers and its Commercial Vehicle Systems OEM & aftermarket customers.

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First Advantage Corp. buys CompuNet Credit Services. Pilot Travel Centers buys new travel center in Vienna, Ga., from Davis Bros. CPC Logistics buys the assets of Transpersonnel. FleetCor Technologies buys Mannatec.

## **New Business**

Kenworth offering Watson & Chalin's 20,000-lb. Tru-Track steerable lift axle on T800, W900 & C500 models used for vocational service. Caterpillar C13 & C11 engines now available on Kenworth T2000, T800, T600, W900 & C500 models.

Kidron to market & support Transportation Safety Technologies' Eagle Eye Obstacle Detection System. FleetCor's Fuelman Fleet Card now accepted by ExxonMobil, Bridgestone Firestone, Cottman Transmission & Netcost Glass Repair & Replacement Network.

## **Transition & Expansion**

Great Dane buys new production facility in Scott County, Tenn., from Wabash National. Start-up expected in 1st half '05. Webb Wheel Products buys Computer Numeric Control machining equipment to boost drum production capacity. Qualcomm to expand its Network Operations Center in Las Vegas.

## **Resources**

R.L. Polk & Co. launches Polk Used Truck MarketView, detailing transactions where previously registered commercial vehicle VIN has changed name & location. Off-lease units & first time used vehicles are also identified. Data is available on a subscription basis in report form or via Polk's TIP Net web based system. Contact: [www.polk.com](http://www.polk.com).

2004/05 Directory of Truck Dealers, published by Transportation Technical Services Inc., lists 2,120 dealer locations, including 303 in Canada. Demographics include name & title of company owner or gen. mgr., address, phone, e-mail, manufacturers represented & services offered. Directory is available on CD-ROM. Contact: [www.ttstrucks.com](http://www.ttstrucks.com) or (888) ONLY-TTS.

## **Emissions**

Study by ATA's American Transportation Research Institute & Cummins shows 4% - 19% decrease in fuel consumption & emissions per ton-mile for vehicles 100,000 lbs. GVW; 22% reduction/ton-mile at 120,000 lbs. GVW; 27% reduction at 140,000 lbs. "If the U.S. DOT estimates calling for a near doubling in freight over the next decades are correct, we've got to find ways to deal with that freight to avoid crippling the economy," says Douglas Duncan, president/CEO, FedEx Freight and ATRI Board member. "This research shows both trucking industry leaders & federal highway regulators that higher productivity vehicles continue to be a sensible option for not only meeting the freight demands of the future but also for easing traffic congestion."

Assn. of Local Air Pollution Control Officials and the State & Territorial Air Pollution Program Administrators say at least 12 states & the District of Columbia have indicated willingness to adopt legislation that mirrors federal diesel emissions standards for '07 and '10. The two environmental groups are reportedly urging state action in order to block any trucking industry attempts to delay implementation of the stricter rules.

California EPA's Air Resources Board verifies Donaldson's Diesel Oxidation Catalyst Muffler with Series 6000 catalyst formulation alone & with "Spiracle" Crankcase Filtration System for use in ARB's Diesel Risk Reduction retrofitting plan.

## **Technology**

Peterbilt & Eaton preview Pete Model 320 with new Hydraulic Launch Assist system at the mid-Oct. Hybrid Truck Users Forum in Mich. HLA recovers a portion of energy normally lost as heat by the vehicle's brakes in the form of pressurized hydraulic fluid & stores it in on-board accumulators until the driver next accelerates the vehicle. Peterbilt Chief Engineer Craig Brewster says initial tests show the system can significantly improve fuel efficiency in the fuel economy mode or reduce cycle times in productivity mode. Other potential benefits: increased brake life, reduced exhaust emissions, less noise. Brewster says Peterbilt is targeting evaluation of a production vehicle in '05.

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### Associations

National Private Truck Council annual Fleet Management Institute, Jan. 15-19, St. Louis, to offer full schedule of sessions private fleet management issues plus a full-day workshop to help candidates prepare for the Certified Transportation professional certification exam. For attendance or tabletop exhibit information contact: [www.nptc.org](http://www.nptc.org).

Fleet Management Symposium to kick off over 30 training sessions scheduled for The Work Truck Show '05 & 41st Annual National Truck Equipment Assn. convention. Symposium, set for Feb. 28-Mar. 1, is designed to help managers of vocational truck & equipment fleets maximize driver/tradesman productivity while minimizing cost per mile. Sessions cover a wide range of management & technical issues. Show is Mar. 1-4, convention is Mar. 2-4, both in Indianapolis. Contact: [www.ntea.com](http://www.ntea.com).

### Community

DaimlerChrysler Vans donates '05 usage & service of 2 Freightliner Sprinter vehicles to Lakeshore Foundation, the official USOC Training Site for both Olympic & Paralympic Sports, and Blaze Sports Club of America, which provides community-based programs through local recreation providers. Company says this is the first of 8 vehicle awards to be given through the rest of the year.

SKF/CR receives Oklahoma Assn. of Technical Centers Partners for Progress Award for its donation of 7 acres adjacent to the company's Hobard, Okla., plant for a Western Technology Center campus. SKF/CR also supplies equipment, materials & industrial consultation to WTC.

### Honors

Kenworth's Renton, Wash., plant named Assembly Plant of the Year by Assembly magazine. Senior Editor Austin Weber says the goal "was to identify a state-of-the-art facility that has applied world class processes to reduce production costs, increase productivity, shorten time to market & improve product quality." Plant was featured in Assembly's Nov. issue.

### People

Asahiko "Duke" Nishiyama to vice chairman/president, Bridgestone Americas & Bridgestone Firestone N. America, from director, Americas & Europe operations, Bridgestone Corp. He succeeds Yuji Tomiyasu who returned to Japan due to ill health.

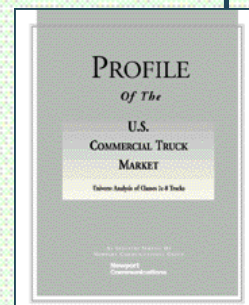
Caterpillar Power Systems Marketing Div. names John Campbell general mgr., large power systems div.; Greg Gauger global product mgr., on-highway engine products; Bill Allen emissions compliance & certification mgr. Sam Gupta to manufacturing senior vp, Great Dane, from manufacturing vp, van div. Pat Ron Storz to national sales mgr., DaimlerChrysler Services Truck Finance.

Gary Meteer Sr. to account director, commercial vehicles, R.L. Polk & Co. Richer Systems Group names Ken Chapman vp product development, Glenn Bryan vp implementation services. Pat Sullivan to national sales mgr., McLeod Software.

Lisa Mullings to president/CEO, NATSO from acting president. She succeeds William Fay who left NATSO in Jan. '03. Jack Zolomy, president, Interstate Nationalease, Albany, Ga., elected chairman, National Truck Leasing System. Caterpillar Technology & Solutions Div., elected Mark Pflederer vp, Society of Automotive Engineers Commercial Vehicle Business.

### Now Available From Newport Communications: Profile of the Commercial Truck Market

The Profile is the only unbiased industry authority on market size and composition. It documents ownership and usage of commercial trucks and trailers by fleet size and vocation. Now expanded to include Class 2 through 8 commercial trucks, the Profile is offered at a cost of \$895 and is available free to qualified industry suppliers. Go to [www.truckinginfo.com](http://www.truckinginfo.com) to apply for a copy.



**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.		
	OCTOBER SALES	YTD SALES	YTD SHARE	OCTOBER SALES	YTD SALES	YTD SHARE	OCTOBER SALES	YTD SALES	YTD SHARE
Chevrolet				163	1,530	2.50%	83	1,632	2.74%
Ford				357	3,377	5.53%	1,208	13,235	22.25%
Freightliner	5,872	47,925	29.31%	1,517	15,960	26.11%	1,867	18,876	31.73%
GMC				293	4,416	7.23%	113	1,374	2.31%
Hino				23	254	0.42%	105	1,077	1.81%
International	4,171	31,210	19.09%	3,079	24,426	39.96%	2,001	20,874	35.09%
Isuzu				29	374	0.61%	3	22	0.04%
Kenworth	1,728	18,613	11.38%	524	4,024	6.58%			
Mack	1,709	16,046	9.81%		21	0.03%			
Mitsubishi Fuso				8	91	0.15%	76	526	.88%
Nissan Diesel				10	78	0.13%	68	742	1.25%
Peterbilt	2,633	21,279	13.01%	520	3,595	5.88%			0.00%
Sterling	1,286	9,551	5.84%	285	2,973	4.86%	148	1,133	1.90%
Volvo	1,912	16,388	10.02%						
Western Star	176	1,788	1.09%						
Other	36	727	0.44%						
<b>Totals</b>	<b>19,523</b>	<b>163,527</b>	<b>100.00%</b>	<b>6,808</b>	<b>61,119</b>	<b>100.00%</b>	<b>5,672</b>	<b>59,491</b>	<b>100.00%</b>

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

