

HOTLINE

Market Trends

Rapid growth of Class 8 truck orders doesn't mean the truckload capacity shortage will be over soon, say Legg Mason analysts John Larkin & David Ross. Majority of new tractor orders are replacements, not additions. Class 8 tractor sales surged in '99/2000, due in part to aggressive pricing & financing, they note. Tractor replacement cycles expanded during the 2000 industrial recession & were further extended with fleet reluctance to buy '02 EPA-compliant engines. "Existing fleets are now, by some measures, the oldest they have been in almost 15 years," they say. "Not only do carriers need to catch up on '02 engine purchases, they want to reduce average fleet age significantly in anticipation of the next round of EPA engine emission rules scheduled to take effect Jan. '07."

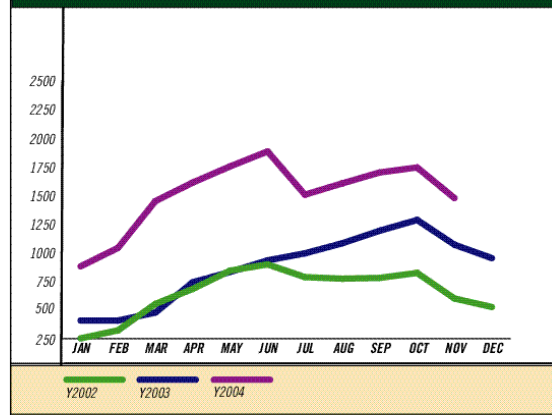
Chronic truckload driver shortage has prohibited most carriers from seating existing trucks, let alone additions. While some small fleets may be adding equipment, Larkin & Ross say they see no evidence of drivers flocking to small fleets. Thus, expansion by some smaller fleets likely isn't representative of a broad pattern or trend that will significantly "move the overall truckload capacity needle."

Other factors expected to keep capacity tight: Surge in imported containerized freight is expected to continue in '05; railroads can't add capacity quickly enough to alleviate the demand for trucks; & potential rerouting of container ships to smaller, less congested ports would squeeze capacity elsewhere.

Larkin & Ross also note that some 20% of Class 8 truck orders are straight trucks, so at least a portion of the recent surge is likely fueled by strong industrial & construction sectors, not by truckload carriers. Moreover, order trends have historically been much more volatile than sales. According to their analysis of the past 5 & 15 years, average monthly Class 8 orders have exceeded average monthly sales by almost 22%. "Accordingly, the recent spike in Class 8 orders should translate into a much

Freight Trend Index

(Information provided by TransCore's DAT Services)



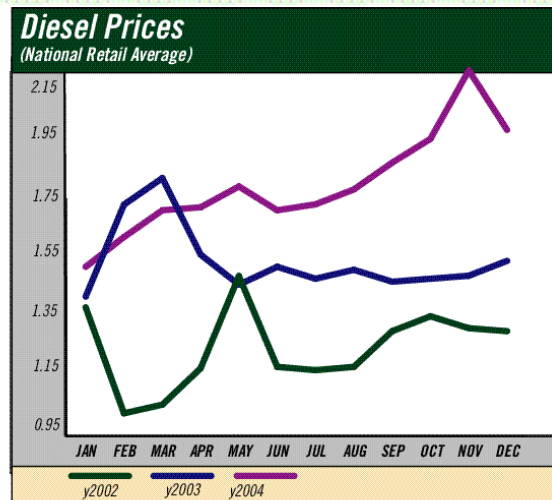
smaller increase in the actual number of tractors being delivered to carriers," they say.

Executive Viewpoint

Carriers today are focusing on return on investment, not growth strategies, Swift Chairman/CEO Jerry Moyes told National Industrial Transportation League annual conference. "Truckload carriers have not been adding trucks to their fleets as freight demand continues to increase, which is by design," he said.

Surge in new Class 8 orders means fleets are replacing older & less efficient trucks to improve productivity & their bottom lines. Average age of tractors in Swift's fleet is 2.5 years which Moyes said is typical for most major truckload carriers but, industry-wide, average age is 7.31 years (up from 6.47 years in '99). "The less-than-truckload & private fleet segments in particular are running some pretty old equipment," he says.

Moyes doesn't expect a lot of new entrants in for-hire trucking. Reasons: banks aren't loaning money to new companies,



fuel costs have gone "right through the roof," insurance is costly & providers are hesitant to insure new carriers, and it's hard to get drivers.

Moyes said he has been in the truckload business 38 years & has never seen a driver shortage as bad as it is today. Quality of work life must improve but pay is key. He said one large private carrier pays its drivers an average \$72,000/year & annual turnover is just 4%. By contrast, truckload for-hire carriers pay their drivers an average \$45,000-\$50,000/year & turnover is over 100%. "It appears wages do have a positive impact," he noted.

Another cost concern: new emissions standards. EPA02 engines cost \$5,000 more than pre '02 engines & Moyes said they've lost a half mile per gallon in fuel economy. "We've been told the ('07) engines will cost at least an additional \$12,000. If you take the worst case fuel consumption scenario presented to us, it will be a further loss of 4% fuel economy. At \$2/gallon, the bottom line cost to the carrier is a whopping 3.8 cents a mile. We don't even know what the additional costs will be for

maintenance, nor do we know if there will be new oil change intervals. We do know that the new EPA07 engines will have a huge cost impact on motor carrier operations."

Sales Trends

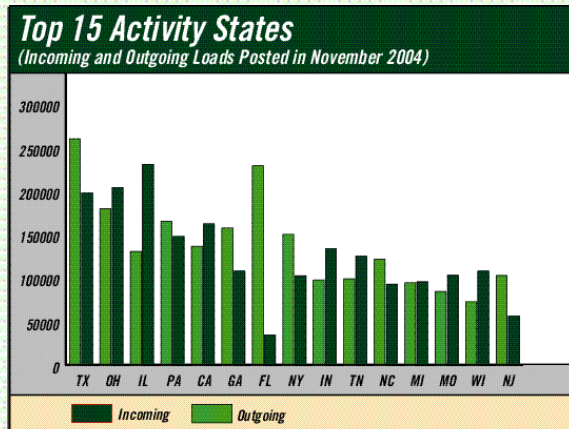
Class 8 orders may have peaked in Nov., say Bear Stearns analysts Peter Nesvold & Chip Miller. Data from ACT Research puts Nov. net orders at all-time-high 39,655 units, up 124% from a year ago. Last Class 8 cycle peaked at 39,288 & 5 months above 30,000. In this cycle, orders have topped 25,000 since June.

Nov. spike was likely driven by continued supply chain concerns & dealers looking to reserve production slots ahead of next year's peak shipping season. Nesvold & Miller note that at least one OEM offered its dealers pricing incentives for '05 orders placed before Nov. '04, which was particularly attractive "given the industry's no-penalty cancellation policy." Also, some dealers placed orders in anticipation of an upturn in owner-operator business with declining fuel prices.

The driver shortage at the national TL level will likely deter near- to intermediate-term expansion by many national carriers, they say. National carriers are replacing equipment and many of their used trucks are winding up in growing local & regional operations that have a little easier time finding drivers.

Nov. Class 5-7 net orders totaled 18,845, up 6% from a year ago. Nesvold & Miller say medium duty truck order trends appear to be tracking historical norms - more so than Class 8, which is likely affected by '07 pre-buy. That should mean medium duty orders will continue to rise modestly for another 6 months or so.

3rd quarter trailer shipments totaled 57,325 units, up 33.1% from a year ago, according to survey by Economic Planning Associates. Van shipments totaled 43,700 units, up 34%; non van shipments were 13,625, up 30.1%. "Based on our analyses of major cus-



tomers markets, we look for further shipments gains in the 4th quarter, extending into '05," said Peter Toja, president. "Expanding markets will fuel a certain portion of the anticipated growth in shipments while a rapidly aging fleet prompts replacement pressure in the quarters ahead."

Freight Trends

American Trucking Assns.' seasonally adjusted Truck Tonnage Index slips 0.4% in Oct. after a 0.3 increase the previous month. The unadjusted index dropped 2.1% from Oct. '03, the first year-over-year decrease since Nov. '03. Year-to-date tonnage was up 6% from the same period last year.

"October is typically a strong month, so this October's weakness came as a surprise, especially on a year-over-year basis," said ATA Chief Economist Bob Costello. "However, a closer look yields a likely culprit. This Oct. had two less working days than October '03 & the fewest number since Oct. '99. While this may not impact the truckload results much, it has a significant impact on the amount of freight the LTL sector hauled this Oct. Still, truck volumes are decelerating as the economy appears to be doing the same."

Freight through TransCore posting services in Nov. was up 38% from the same period a year ago & down 15% from Oct. Company says the month-over-month dip in freight volume is consistent with historical and seasonal trends for this time of year. Based on historical data, best combinations of high freight volumes & favorable inbound/outbound ratios in Dec. were expected to come from Texas, N. Carolina, Ohio, Pennsylvania, California, Michigan, Missouri, Georgia, New York & New Jersey.

Private Fleets

The driver shortage is the most critical issue facing the trucking industry, according to a survey of private fleet executives by First Fleet Corp. High fuel prices was a close 2nd. 61% of respondents said they're adjusting vehicle specs to reduce fuel consumption & 59% have boosted loads to improve productivity.

Half of the executives said they're using some kind of onboard logistics or wireless device to increase productivity; 37% plan to install the devices within a year. Only 13% said they use telematics for truck location and/or recovery of stolen property, 81% use the systems to monitor driving patterns & equipment performance in order to develop fuel-saving, equipment maintenance and spec'ing strategies.

93% of respondents, polled via e-mail & at First Fleet's Bi-Annual Fleet Manager's conference, said they will replace 25% of their fleet within the next year; 72% plan to replace half their fleet in 2 or more years. On average, the execs said they'll replace 38% of their fleets prior to stricter emissions standards in 2007.

Alliances & Acquisitions

Navistar International & Germany's MAN Nutzfahrzeuge AG to collaborate on design, development, sourcing & manufacturing of commercial truck components & systems, including a range of diesel engines. International Engine Group President Jack Allen says they're exploring a number of opportunities to expand the International engine product line but aren't ready to disclose specifics.

Cummins and Dongfeng Cummins Engine Co. to open Cummins East Asia Tech Center to provide engineering & technical services for Cummins products built in China. Opening is planned for early '06. Psion Teklogix, KonaWare & Accord Software to jointly develop mobile computing solutions for LTL carriers.

Bijur Lubrication Group buys Denco Lubrication Ltd. The Denco product line & service operations will merge with German-based Delimon Lubrication & will be marketed as Delimon-Denco. Roper Industries completes acquisition of TransCore, says TransCore will operate as a stand-alone company & continue to market its products under current brand names.

GE Commercial Finance to buy CitiCapital Transportation Financial Services Group for \$4.4 billion. Donaldson named primary marketer of Stanadyne Fuel Manager 1000 Series diesel fuel filtration system in N. America & Europe. Company will market other Stanadyne Fuel Manager assemblies in non-North American & European countries.

New Business

DaimlerChrysler Services Truck Finance and Freightliner Market Development Corp. offering MileMinder used truck contract maintenance program through SelectTruck Centers, Freightliner, Sterling & Western Star dealers. Bandag gets 6-year contract to manage tire program for U.S. Xpress Enterprises' 5,500 tractors, 14,500 trailers.

Holland's CB4000 Air-Ride Suspension System now standard on Stoughton van trailers. Stemco Platinum Performance System Plus wheel-end package now standard on Reinke trailers.

Waste Industries USA to use TMC FleetPortal to streamline delivery of technical information. FleetPortal services, offered by ATA's Technology & Maintenance Council, provides online access to parts catalogs, repair & maintenance manuals, service bulletins and TMC Recommended Practices & Vehicle Maintenance Reporting Standards codes.

Expansion & Transition

Volvo Trucks N. America opens new parts distribution center in Dallas. Company also has PDCs in Reno, Memphis, Columbus, Ohio, Joliet, Ill., & Toronto. Dana completes \$6 million expansion of its heavy vehicle research & development center in Kalamazoo, Mich. Project added research space & advanced test equipment.

Detroit Diesel to build a new heavy duty diesel engine line at its Redford, Mich, plant. N. American assembly of MBE 900 medium-duty diesel engines will also be done at Redford. DDC says it intends to industrialize production of the two engine platforms by '07. Former transportation division of Aether Systems, recently acquired by Platinum Equity, relaunched as GeoLogic Solutions Inc.

Aftermarket

Heavy Duty Distribution Assn. withdraws participation in '05 Council of Fleet Specialists Exec. Conference, set for April. HDDA Board said it would instead focus resources on the new Heavy Duty Aftermarket Week planned for Feb. '06 by coalition of several aftermarket organizations.

CR/SKF donates 50 copies "Inventory Management and Purchasing - Tales from the Automotive Aftermarket," by Pete Kornafel to the undergraduate Aftermarket Management studies program at Northwood University. Sloan Transportation Products awards \$1,000 Heavy Duty Aftermarket scholarships to 2 Northwood students pursuing careers in the heavy duty aftermarket.

Events

Fleet Management Symposium to kick off over 30 training sessions at The Work Truck Show '05 and 41st Annual National Truck Equipment Assn. Convention. Seminar is Feb. 28-Mar. 1. Convention is Mar. 1-4. Show is Mar. 2-4. Contact: NTEA (800) 441-6832 or www.ntea.com.

Assn. of Equipment Manufacturers to manage CONEXPO-CON/AGG international construction exposition. Show was previously managed jointly by AEM & the International Concrete & Aggregates Group. Single management structure to begin May '05 & show will be produced every 3 years through 2020. Next show is Mar. 15-19, in Las Vegas, as originally planned.

China representatives to discuss efforts to combat counterfeiting of U.S. automotive products at Brand Protection Council meeting Jan. 20, Dearborn, Mich. Council is a peer group of the Motor & Equipment Manufacturers Assn. & is open to members of the Heavy Duty Manufacturers Assn. & other MEMA associations. Contact Paul Foley, (919) 406-8840.

Used Truck Assn. to sponsor Professional Used Truck Management training Feb. 16-18, Houston. Facilitator is Heavy Duty Marketing Assn. Contact: (336) 643-1961 or HDMAinc@earthlink.net.

AUTOTRANS commercial vehicle & bus trade exhibition, Sept. 13-16, Moscow, Russia, gets support from ASMAP, the Moscow-based assn. of international road carriers. Show is organized by International Exhibit Group & the Russian Union of Industrialists & Entrepreneurs. Contact: Carlos Cano, (203) 357-1400 Ext. 113.

Associations

National Truck Equipment Assn. revamps web site, www.ntea.com, adding member achievements, product & corporate news, economic forecasts, reports on legislative issues, business advice & quality assurance tips.

American Trucking Assns.' Technology & Maintenance Council to host nationwide Skills Competition for truck technicians at its '05 Fall Meeting, Sept. 19-22, Valley Forge, Pa. Competition is open to TMC technician members & winners of contests held by state maintenance councils. Limited sponsorship will be permitted. Contact: Professional Technician Development Committee Chairman Mike Walters, Marten Transport, (715) 926-4216.

Emissions

California Air Resources Board declares voluntary compliance program unsuccessful, mandates emissions upgrades for 60,000 heavy duty trucks & other vehicles that use model year '93-'99 heavy duty diesel engines. Deadlines for software upgrades – called chip reflashing – to reduce NOx emissions are phased according to vehicle age but retrofits on most heavy duty trucks must be done by the end of '05, medium duty vehicle by end of 2006. Costs are to be covered by the engine makers.

Regulation was adopted Mar. '04 but ARB agreed to voluntary compliance if engine builders met certain upgrade levels by Nov. Despite a concerted effort by the California Trucking Assn. only one engine maker, Detroit Diesel, met the goal. Engine Manufacturers Assn. says the voluntary pro-

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gram was working & asked for more time before setting mandates. An EMA spokesman said there may be some legal issues with a mandatory program, but they're waiting to review details before proposing further action.

Selective catalytic reduction (SCR) treatment is viable but "may not be the best solution" for meeting 2010 emissions standards, says James Parker, vp, Caterpillar Power Systems Marketing Div. Company has test labs engines that meet 2010 standards without SCR & has established an Environmental Technologies Group to work on innovations in the area of diesel particulate filters & NOx aftertreatment. "We believe it is critical for the industry to explore all possible technology options before coming to conclusions about any single solution," he says.

Donaldson web site offers Emissions Resources Center with emissions-control technology resources & updates on emissions standards. IdleAire Technologies' Advanced Travel Center Electrification system is sole winner in Technology Innovation category of the '04 California Governor's Environmental & Economic Leadership Awards.

People

Stephen Luc to managing director, worldwide trailer products, ArvinMeritor Commercial Vehicle Systems, from European trailer products business unit director. Ken Kelley to wheel end product mgr., from vp, Walther Engineering & Manufacturing.

Jim Reis to vp/general mgr., Garlock Rubber Technologies, from sales & marketing vp, Stemco. Stemco & Garlock are both owned by EnPro Industries. Reis will continue to report to Stemco President Richard Andrews. Morie

Myers, Stemco sales director, is now responsible for aftermarket & OEM sales in the U.S. & Canada, and joins the Stemco executive staff reporting to Andrews.

Michael Nark to president/CEO, GEOCOMtms, from sr. vp-worldwide sales, Datastream Systems. Greg White to president/CEO Air-Trak Inc., from partner, Autobahn Consulting Group. Richer Systems names Ken Chapman product development vp, Glenn Bryan implementation services vp, Richard McKeel quality assurance mgr. McLeod Software names Matthew Cacace COO, Chuck Segrest national sales mgr-existing accounts.

William "Bill" Diggory, vp/general mgr., Chicago Rawhide, elected '05 chairman, Heavy Duty Manufacturers Assn. Charles Stamp Jr., vp-public affairs worldwide, Deere & Co., elected chairman, Assn. of Equipment Manufacturers. Mike Drouillard, sales & special markets vp, Brake Parts Inc., elected chairman, Automotive Parts Remanufacturing Assn. Dick Vulgamore Jr., southeast/southwest sales mgr., Paccar Financial, receives Used Truck Assn.'s Marvin F. Gordon Lifetime Achievement award for contributions & leadership in the used truck industry.

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.		
	NOVEMBER SALES	YTD SALES	YTD SHARE	NOVEMBER SALES	YTD SALES	YTD SHARE	NOVEMBER SALES	YTD SALES	YTD SHARE
Chevrolet				127	1,657	2.47%	97	1,729	2.67%
Ford				329	3,706	5.52%	1,151	14,386	22.24%
Freightliner	5,334	53,259	29.38%	1,690	17,650	26.31%	1,826	20,702	32.00%
GMC				355	4,771	7.11%	145	1,519	2.35%
Hino				34	288	0.43%	146	1,223	1.89%
International	3,027	34,237	18.89%	2,051	26,477	39.47%	1,579	22,453	34.71%
Isuzu				58	432	0.64%	2	24	0.04%
Kenworth	2,552	21,165	11.67%	484	4,508	6.72%			
Mack	1,777	17,823	9.83%		21	0.03%			
Mitsubishi Fuso				4	95	0.14%	80	606	.94%
Nissan Diesel				4	82	0.12%	71	813	1.26%
Peterbilt	2,243	23,522	12.97%	455	4,050	6.04%			
Sterling	1,043	10,594	5.84%	375	3,348	4.99%	97	1,230	1.90%
Volvo	1,636	18,024	9.94%						
Western Star	168	1,956	1.08%						
Other	13	740	0.41%						
Totals	17,793	181,320	100.00%	5,966	67,085	100.00%	6,442	64,685	100.00%

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

