

# HEAVY DUTY TRUCKING HOTLINE

Trucking's Most Respected Business Report

DECEMBER 2006

## EXECUTIVE VIEWPOINT

**The heavy truck industry will likely experience a market correction in '07** but "there is no reason to get excited or to worry," says George Grask, president, Quad City Peterbilt, Davenport, Iowa, and Chairman, American Truck Dealers. The anticipated 44-53% drop in Class 8 retail sales – attributed mainly to emissions related price hikes – is not unexpected or unprecedented, he writes in ATD's Oct. newsletter.

**The '07 pre-buy is different than the '02 pre-buy** because the '02 engines were untested. "Not so today," says Grask. "These engines are tested. These engines, by comparison, have very little change to them." Also, the economy is much stronger than it was in '02, he says. "Whether it's 160,000 units or 190,000 units next year, it's still a pretty good year by industry standards. I remember in 1979 we sold 173,000 Class 8 trucks – at the time it was a very large year for the industry."

**slightly below its long-term rate of growth at about 3% in '07,"** says Steve Graham, FTR vp-market analysis. Companies still have solid balance sheets and a fairly tight labor market continues to drive investment in productivity enhancing equipment.

Graham expects exports to be healthy, aided by the falling dollar. "The global economy is still experiencing strong, broadly-based growth. However, there is a significant danger that secondary effects from housing & the slowing auto sector could spill over to the wider economy. And if businesses in other industries respond to the weakening activity by curtailing their own investment and hiring plans, the economy could devolve into recession."

**FTR puts the chances of recession at 1 in 3 – most likely in the first half of '07.** That's "uncomfortably high, but not certain," they stress. Even if there's no recession, growth rates will seem weak compared to past years, and there may be some bumps in the road next year.

## ECONOMY

**Factors likely to affect the overall '07 economy are giving a mixed picture,** says FTR Associates, a transportation forecasting & research firm. The declining housing market & production cuts by domestic auto producers are weighing on growth. Layoffs in those industries are responsible for the lackluster employment gains. Job growth in other segments remains steadfast, but bears close scrutiny.

**"We think that housing will find a floor & the economy will expand at**

## UTILIZATION

**Q3 Class 6-8 vehicle utilization was down 1.1 points from Q2 & 0.9 point from a year ago,** according to MacKay & Company's latest survey.

Researchers say the quarter/quarter decline is unusual since Q3 has been the peak utilization quarter since '97. The last time Q2/Q3 decline: 1988.

**Class 8 utilization dipped 1.1 points to 88.4%. Owner-operators were up 2.3 points, lease/rental up 1 point.** For-hire carrier utilization declined

