



# Winter Newsletter



Well, here we are at what is supposed to be eighteen months since the current recovery got underway. Somehow it really doesn't feel like that – and Bob Dieli's observations and forecasts tucked inside pretty much support this perspective. Like the former surgical patient once again learning to maneuver by undergoing some serious physical therapy, that's what things sort of seem like. We're healing, we feel a bit better – but we're really not well yet.

Early November was a refreshing experience for at least some of us; a bit more common sense seems to be emerging these days. Not to belabor what is becoming obvious to most folks these days, we're in for some tough decisions – and the results of these decisions. Being in the truck or equipment businesses as we all are, we used to hunkering down and toughing it out. Unfortunately, we seem to be in the minority these days. Let's hope, as a country, we can pull this off without European-style rioting in the streets, burning cars or some such nonsense. When the fan gets turned on – and it will – just be ready to duck!

At about this time last year, based on the advise and counsel of our resident expert Dieli, we suggested it was finally time to pop the cork on that bottle of Moet or Dom Perignon that you'd been saving since the start of the recession in 2007 (we hope it wasn't a bottle of Asti Spumanti!). This past summer, we suggested that perhaps another pricey champagne might not quite yet be in order – but there were plenty of more than decent substitutes. Maybe one more of these good alternatives is in order right now; the 2007 Bordeaux are supposed to be the best in decades. And, maybe, by mid-year, it will be time for another true cork popping exercise!

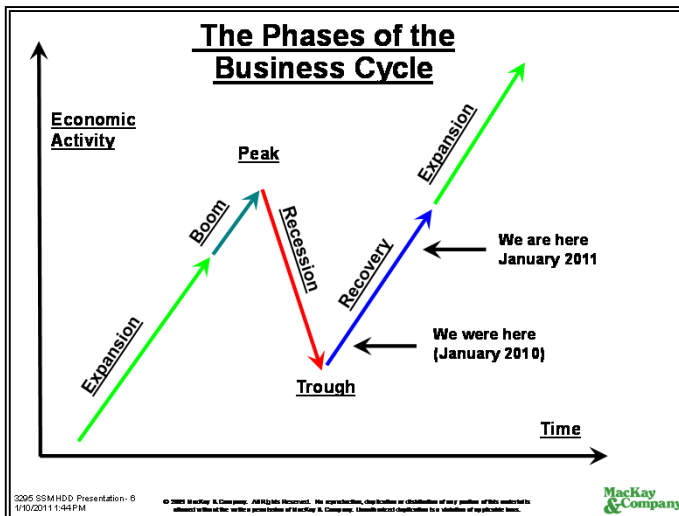


Greetings	1
Economic Outlook	2
Outlook continued...	3
Speaking Events	3
Construction Equipment Utilization Index	4
The Louisville Summit	5
Trivia Questions	5
DataMac Mexico	6
Service Study	6
Spring Webinar	7
Aftermarket Index	7
Bringing Back the Empties	8
TEA	8
Baseball Forecast	9
Trivia Answers	10

1 East 22<sup>nd</sup> Street, Suite 300  
Lombard, Illinois 60148  
(630) 916-6110  
mackayco.com

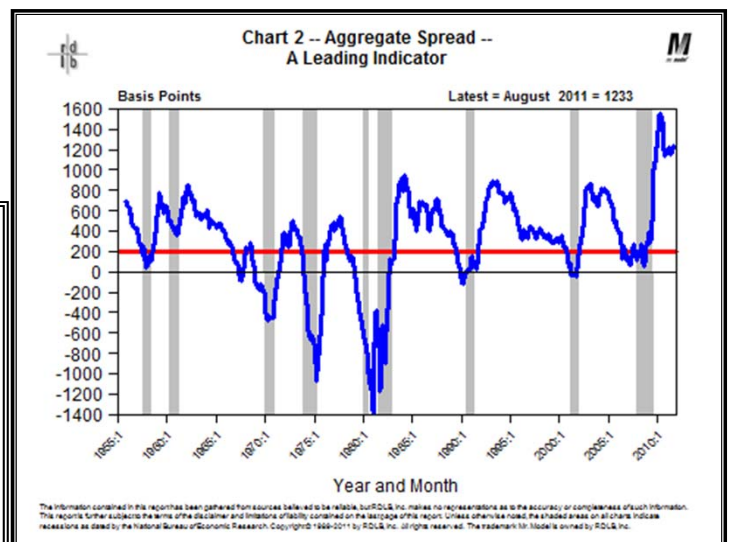
# THE ECONOMIC OUTLOOK

As you can see on the first chart, we have moved the “we are here” arrow up the chart, putting it just south of the boundary between the recovery phase and the expansion phase of the business cycle. Last year, at this time, we were convinced that the economy had made enough progress, between the official end date of the recession in June of 2009 and the writing of the outlook piece in January of 2010, to sustain growth for the entire year. We never bought into the “double-dip” scenario. Rather, we continued to remind folks that it is the nature of recoveries to be uneven.

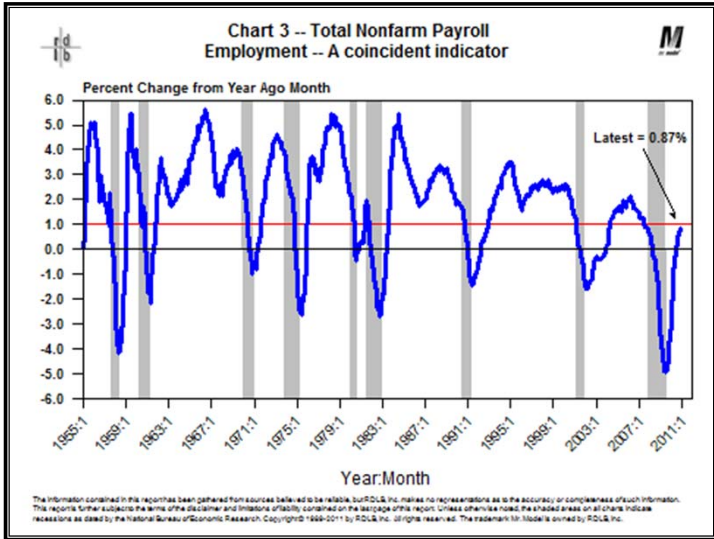


Our reasons for believing that the recovery would be sustained through 2010 were founded in the message we were getting from the Aggregate Spread (Chart 2), our leading indicator of economic activity. As you can see, the level and trend of the Aggregate Spread were consistent with what we had seen in every other recovery since 1955. We are basing our view on what we expect to happen on 2011 on what the chart is telling us now.

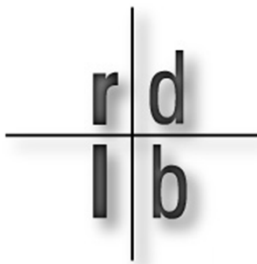
As noted on the chart, the indicator currently can see into the third quarter of 2011 and, from what we know about the indicator and how its components work, we expect the signal to remain unchanged for the year as a whole. (If you would like further explanation on the Aggregate Spread and how it works, please drop Bob Dieli a note at [rfd@nospinforecast.com](mailto:rfd@nospinforecast.com).)



As was the case in 2010, we will be monitoring the behavior of our favorite coincident indicator of economic conditions: the year-over-year percent change in Total Nonfarm Payrolls seen on Chart 3 on the next page. Last year, the level and trend of the Aggregate Spread told us to be looking for the line on Chart 3 to be trending upwards from the inflection point you see near the end of the recession period. This year, the message is the same, we should expect that line to trend higher and soon pierce the +1% level. You will note that there are no recessions on the chart where the line is above +1% and trending higher.



The fact that the economy should make the transition to the expansion phase of the cycle (we say “should” not to hedge our bets, but to remind you that there are always surprises out there to get in the way of forecasts) does not mean that your company or your industry will be the same relative position in the business cycle. Some of you will be ahead of “the economy” and some of you will be behind it. As we said before, recoveries are uneven. Even so, we expect to see the bulk of this year’s economic news to be about improving conditions and solid gains.



**UPCOMING SPEAKING EVENTS:**

- January 17 HDMA - Heavy Duty Dialogue  
Stu MacKay
- March 30 Louisville Summit  
Stu MacKay
- April 15-18 ATD  
Panel Moderator  
Stu MacKay

**LOOK FOR US AT:**

- Jan 17-20 HDAW  
John Blodgett, Mark Linton  
Stu MacKay
- Jan 18-20 World of Concrete  
John Blodgett and Mark Linton
- Feb 9-12 TMC  
John Blodgett and Dave Fulghum
- March 8-10 NTEA  
Mark Linton
- March 22-26 Con Expo  
John Blodgett
- March 31-April 1 MATS  
The whole crew

## Construction Equipment Utilization Index

As a firm, MacKay & Company's covers the commercial on-highway vehicle market as well as the off-highway, agriculture and construction equipment markets. Of the three, the construction equipment market was the hardest hit by the recent recession.

Conversations with our construction equipment manufacturer customers about the recession identified a need to have better insight on when and where upturns or downturns in construction equipment activity can be expected so they can make better forecasts (parts, service, new equipment, rentals) and better use of resources.

With that in mind, MacKay & Company is launching a Construction Equipment Utilization Index for construction equipment manufacturers and other interested companies.

The primary objective of this ongoing service is to provide our clients who have a vested interest in the construction equipment industry with an effective tool to monitor the ongoing utilization levels of construction equipment that is owned by contractors, governments, utilities and rental firms. Additional goals include to:

- Identify signs of potential slow downs or upticks in construction activity
- Identify differences in construction activity by vocation
- Identify differences in construction activity by regions of the country
- Over time, refine and expand the base of knowledge on what indicators are most effective for identifying future construction equipment utilization levels
- Probe to identify future equipment purchase plans.

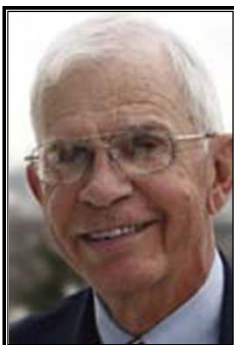
You can learn more about this project by contacting John Blodgett ([john.blodgett@mackayco.com](mailto:john.blodgett@mackayco.com)) 630-916-6110





## The Louisville Summit

Stu MacKay and Eric Starks are teaming up with Newport Communication for Newport's Fleet Summit in Louisville, Kentucky on March 30. Stu and Eric are planning to provide an hour long presentation addressing relevant current topics and providing an outlook for fleets, suppliers, equipment OEMs and the Aftermarket.



## TRIVIA QUESTIONS

1. Many of us are familiar with White trucks, produced until the early 1980s with that nameplate – and subsequently with WhiteGM, VolvoWhite and eventually Volvo badges. And we all know the ubiquitous UPS brown trucks. But what was the first “real” Brown truck?
2. We're all certainly familiar with the passing of Sterling trucks this year. What two other automotive brands that also produced trucks in past years have disappeared?
3. Chrysler has recently badged all its trucks as “Rams”, a name used for many years as a suffix to the Dodge nameplate for truck applications. What was the original Dodge Ram?
4. Mack Trucks' use of the Bulldog as a marketing theme (and a hood ornament) is perhaps the best known and longest running identification program in the truck industry. What truck brand used the Husky in the same manner?
5. “Huckster” is a term often applied to sales persons with a flair for dramatic and occasionally deceptive sales talent. The term also has a place in truck history; any takers?

Answers can be found on page 10.

## DATAMAC MEXICO: 2010

Starting in the second quarter of 2011, MacKay & Company will again be conducting its periodic detailed analysis of the medium and heavy duty aftermarket in Mexico. The 2011 research program will be the first update since our most recent probe in 2007. Mexico has become the “third leg” of the North American heavy duty market, certainly a key market for many MacKay & Company clients.

The fluctuations in the Mexican economy generally mirror those of the United States, its major trading partner. Current estimates of the 2010 economy in Mexico show a recovery from the softness evident in 2009. In 2009, the overall Mexican GDP was estimated at \$1.46 Trillion, ranking it #12 in the world. Reported unemployment in 2009 was estimated at only 5.5%, certainly well below where the United States' current unemployment rate stands.

The attractiveness of Mexico – and its truck business and its truck aftermarket – is both the current size and the growth potential of the country. Its current population of over 112 million ranks it 11<sup>th</sup> in the world. Over 86% of this population is literate; 77% reside in urban areas. Mexico's labor force is over 46 Million, ranking it 12<sup>th</sup> in the world. Its exports exceeded \$230 Billion in 2009, its imports approximately the same.

The operating truck and bus universe in Mexico has grown dramatically since MacKay & Company's initial study of this market in 1992. In the short period between 2004 and 2007, the heavy truck universe alone grew by 34%. Mexico is a market on the move – and our 2011 research program will profile in detail what an opportunity represents today. Please call or email John Blodgett for more details.

## HOW HAS THE WORST RECESSION IN 70 YEARS CHANGED HOW, WHERE AND WHY TRUCKS ARE BEING MAINTAINED AND SERVICED TODAY?



In the spring of 2011, MacKay & Company will launch its fourth comprehensive study of the medium and heavy duty truck and trailer service market. The initial study was conducted in 1997, establishing a broad base of truck and trailer service information for more than a dozen of MacKay & Company's clients. Two subsequent studies have been completed, the first in 2003 (after the 2001 recession) and the second in 2007 (just prior to the 2007-2009 recession).

The 2007 study highlighted the size of the truck and trailer service labor opportunity – 484 million service labor hours. Valuing this opportunity at current shop labor rates of at least \$70 per hour, truck and trailer service represents a \$34 Billion opportunity. For comparison purposes, this is twice the size of the heavy duty parts business today.

The 2011 Service Study will not only be designed to update where key service activities are being performed – it will also delve into significantly more detail than our earlier studies. The 2011 research will break out both vehicle and engine brands – to permit participants to focus not only the overall market – but the market in much more detail. And those participants already on board – and those on board by the end of the first quarter – will be able to shape the scope and direction of the research to most directly benefit them.

John Blodgett and Mark Linton are spearheading this program. Please call or email either of them for more details – and to sign on.

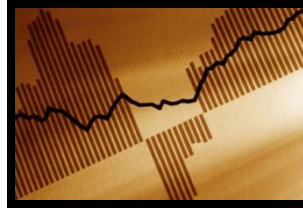
## DATAMAC TRUCK & TIRE SPRING WEBINAR

We were very pleased with both the level of interest and the number of attendees (46) at our October 2010 DataMac Truck & Tire Webinar. We appreciated the questions we received and the kind comments. Thanks to all of you; we're glad we can continually add value to your participation in our DataMac programs.

As Bob Dieli's comments on the recent changes in TEA performance indicate, there are a number of positive changes underway in several segments of truck-related economic activity. In addition, presumably driven by increasing confidence in the overall business outlook (which we all hope will be realized), the new truck and trailer business has picked up as well.

By mid-March, we anticipate that there will be several other additional pieces of (hopefully) good news that will impact trucking, the truck business and the heavy duty aftermarket. To bring all these disparate pieces together into a single package, we will be conducting another webinar somewhere near the ides of March. The date will be firmed up well in advance; we realize your calendars are already filling up.

If there are any questions at this point – or any suggestions about issues that should be included in the webinar, please don't hesitate to call or email Molly MacKay Zacker.



## AFTERMARKET INDEX: A WHOLE NEW BALL GAME

For those companies interested in tracking their heavy duty aftermarket activity against a broad base of other firms, MacKay & Company's Aftermarket Index has become a great deal more valuable tool over the past year. We started the year with five firms reporting monthly on their aftermarket sales activity. Each firm breaks its reported aftermarket sales by channel (OES and Independent) and separately for the U.S., Canada and Mexico.

With a great deal of help from some of this group of five, there are now eleven companies reporting their heavy duty aftermarket sales information on a monthly basis. In total, these firms sell well over \$700 Million annually in the heavy duty aftermarket.

For all eleven, MacKay & Company consolidates their information and provides summary data back to each participant just as soon as all reporting companies, both in dollars and on an index basis. Sales information from individual companies is held confidentially by us; only summary data is released.

Interested in learning more about the Aftermarket Index? Just give Dave Kalvelage or John Blodgett a call or an email.

## WE'RE JUST BRINGING BACK THE EMPTIES, FOLKS.....

For those of us who on occasion watch not only trucks but trains as well, we've noticed that container traffic has really increased in recent months. Commuting across the western Chicago suburbs puts this in particular perspective, waiting at grade crossings for 125 double stack container cars on the BNSF or UP to finally pass by. One would assume that business has to really be picking up. What we've learned, however, is that not all business (container business, anyway) is really equal.

The statistics detailing container imports and exports for 2009 provide both an interesting and a distressing story:

**IMPORTS:** The top ten domestic recipients of loaded containers entering the U.S. from other countries accounted for a total of 2,549,000 units. Of these ten, eight were importing primarily consumer goods – primarily from Asia. The eight are certainly familiar names: Wal-Mart, Costco, Target, JC Penney, Lowe's, Home Depot and a handful of others. These eight accounted for a total of 2,200,000 container loads.

**EXPORTS:** The top ten domestic shippers of loaded containers out of the U.S. in 2009 accounted for 1,171,000 units, only 46% of the import volume. Eighty percent (80%) of this top ten activity was represented by seven shippers, accounting for just over 900,000 units. There aren't very many familiar names in this group; America Chung Nam, International Paper, Potential Industries and Newport CH Int'l are good examples. And what are they shipping out? Recycled corrugated, lumber, recycled plastic and materials like that.

**BOTTOM LINE:** The Chinese are shipping us all the stuff we used to make here – and we're shipping them back the boxes! Go figure!



Regular readers of our quarterly report on Truckable Economic Activity (TEA) will be interested to note that the final revisions to the third-quarter 2010 Gross Domestic Product (GDP) statistics resulted in a significant boost to the growth rate of TEA.

Most of the time, the last set of updates to GDP don't result in much more than minor changes to the figures. However, this time there was a gain in inventory accumulation that pushed Truckable Investment up enough to raise the year-over-year pace of Total TEA growth up from the 6.8% figure we reported to you last month to 7.1%.

Those of you who are not regular readers of the TEA report, and who might be wondering what all this means, can find out with a quick call to John Blodgett, who will be happy to fill you in on the details.

# 2010 BASEBALL FORECAST

As you can see, the model did quite well in calling the playoff teams in the American League. The close race it called between the Rays and the Yankees came to pass, but their order of finish was reversed from what had been forecast in July.

Things did not go quite as well in the National League. The Braves were only team the correctly forecast to make the playoffs, and they made it in as the Wild Card rather than as division champs. The second-half surge by Giants put them past the Padres in the West, while injuries killed the Cardinals' chances in the Central.

Our Chicago teams, which had been projected to win 160 games between them, met that standard with a combined total of 163. And, as anticipated, neither contended for post-season action.



American League			
Division	Team	Projected Wins	Actual Wins
East	Yankees	106	95
West	Rangers	95	90
Central	Twins	96	94
Wild Card	Rays	104	96

National League			
Division	Team	Projected Wins	Actual Wins
East	Braves	98	91
West	Padres	99	90
Central	Cardinals	97	86
Wild Card	Rockies	93	83

Playoff Teams		
Division	American	National
East	Ray	Phillies
West	Rangers	Giants
Central	Twins	Reds
Wild Card	Yankees	Braves



## TRIVIA ANSWERS

1. Brown trucks were built by the Brown Truck and Trailer Manufacturing Company in Charlotte, NC originally exclusively for Horton Motor Lines, a predecessor of Associated Transport. Corbitt Motor Truck Company of Henderson, NC subsequently produced Corbitts badged as Brown after World War II; both brands disappeared in the early 1950s.
2. General Motors discontinuance of the Pontiac brand and Ford's dropping of the Mercury line increased the list of former truck marques by two. Both Pontiac and Mercury offered light duty trucks and sedan delivery vehicles at one time, obviously a long time ago.
3. In 1973, Dodge introduced its 9500 series Class 8 conventional. The truck quickly became known as the "Big Horn", based largely on the big ram's head hood ornament. Dodge exited the heavy truck business in 1975 and the medium duty truck business shortly thereafter.
4. For approximately the last decade of its operating life, Brockway Trucks sported a "Husky" brand designation and hood ornament replicating the Bulldog identification of its owner, Mack Trucks. Brockway passed from the truck scene in 1977 caused by labor difficulties, low production volumes and its parent eliminating any genuine distinction between Brockway and Mack trucks.
5. The term "huckster" was often applied to a pickup (often called express) body with a covered canopy. Locally grown produce was often sold off of these type of trucks on a door-to-door basis. Those of us of a certain age may remember this!

If you would like more information on our upcoming projects or have a project of your own you'd like to discuss, please call our office or send an email to:



**Stu MacKay –**  
[stu.mackay@mackayco.com](mailto:stu.mackay@mackayco.com)



**John Blodgett –**  
[john.blodgett@mackayco.com](mailto:john.blodgett@mackayco.com)



**Dave Fulghum –**  
[dave.fulghum@mackayco.com](mailto:dave.fulghum@mackayco.com)



**John Moery –**  
[john.moery@mackayco.com](mailto:john.moery@mackayco.com)



**Molly MacKay Zacker –**  
[molly.zacker@mackayco.com](mailto:molly.zacker@mackayco.com)



**Dave Kalvelage –**  
[dave.kalvelage@mackayco.com](mailto:dave.kalvelage@mackayco.com)



**Dave Schorn –**  
[dave.schorn@mackayco.com](mailto:dave.schorn@mackayco.com)



**Mark Linton –**  
[mark.linton@mackayco.com](mailto:mark.linton@mackayco.com)