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It seems very hard to believe that 2006 is now behind us and we are staring 2007 squarely in the face. It really seems just like yesterday that we were looking forward to the first Heavy Duty Aftermarket Week session in Las Vegas, to a booming new truck market and to Congress maybe finally getting around to taking action to extend sensible tax policies for both individuals and businesses.

On the plus side for 2007, we do have a second Heavy Duty Aftermarket Week to anticipate – but not much positive anticipation on the other two issues. When the last 2006 engine finally gets installed sometime in the first quarter of this year, it should be a quiet time in most truck assembly plants.

A good deal of what would otherwise have been 2007 heavy truck demand has found its way into 2006. The good old EPA has once again managed to skew the already cyclical truck business into a new slump. We can hardly wait until 2010!

And Congress? It's really hard to get excited about anything that might come out of the next sessions of either house that will benefit business. We're the bad guys, after all. All we do is generate the economic activity that generates the taxes that Congress just loves to spend. Hang on!

Hey, it's not all bad. It looks like the Chicago Bears might make it close to – or even into – the Super Bowl. Just how bad can that be!

Again, Happy New Year!

## MEET THE MACKAY & COMPANY EXTENDED FAMILY

Usually our newsletter profiles an employee, giving a bit of background for this staffer, their past experience and their interests. This time we're taking a bit of a different slant.

There have been three new additions to the extended MacKay & Company family over the past year and a half.

The most recent addition is Dave and Julie Kalvelage's daughter Diana, who arrived on December 11. Diana joins her three year old brother, Will, who is adjusting to not being the center of attention all the time.

Chris Walters and his wife Eun-Hye Choi adopted a son in November 2005. Tim is now 17 months old and, at this point, is on track to becoming a stand-up comedian.

We're a bit behind the curve on announcing Kimlyn Luu's "newest" daughter, Kayla, who arrived about 18 months ago. Kayla joins Kimlyn and her husband, Tru Thach and their other daughter, Sydney.

The Census Bureau recently announced that the State of Illinois has experienced only modest population growth in recent years. It would appear that MacKay & Company is bucking the trend!



## WHAT'S UNDERWAY AT MACKAY & COMPANY

Several programs that were only in the planning stages when our last newsletter was issued this past summer are now well under way.

### DataMac® CE

The detailed study to establish aftermarket demand for replacement parts and components on three of the highest volume pieces of construction equipment is now in progress. The operating universes of skid steer loaders, tractor loader backhoes and excavators have exploded in recent years as these three extremely versatile pieces of equipment have found their way into a wide variety of construction and related applications. Surveys are now being designed to capture the appropriate important information that will profile the aftermarket opportunity for these three categories of equipment.

### Truck & Trailer Service Market

The 2007 update to the 1997 and 2003 studies of the service labor opportunities in the medium and heavy truck and trailer markets is also proceeding. A core group of participants has signed on – and we anticipate adding to this group in the first quarter. The initial design work for the study approach and research activities is already in operation. Copies of the prospectus are available for companies interested in learning more about this \$30 Billion market opportunity.

### Future of Heavy Duty Distribution

Our comprehensive look at the future of the distribution environment in the heavy duty industry over the next five and ten years will be moving forward in the first quarter.

A number of our clients have committed to participate in this strategically important program, which we anticipate completing no later than early in the third quarter. Copies of the prospectus for this program are also available.

### DataMac® Mexico

Our summer newsletter indicated that we would be moving forward with DataMac® Mexico in 2007, our fourth update of this rapidly growing and changing truck aftermarket. Our plans are still on track and interest in participation is high. It will probably be the second quarter of the year before we can schedule the launch of this important program.

### DataMac® Trailer

For decades, MacKay & Company has tracked replacement demand for truck parts and components that are used on commercial trailers: suspension components, wheels, electrical components, brakes and other key parts. The market for these parts alone is valued today at approximately \$1.5 Billion.

We estimate there is an additional \$1.5 Billion of demand for replacement parts and components that are exclusive to trailers. Included in this total would be floors, roofs, doors, landing gear, structural members, transport refrigeration and many other components. We also believe that this market is highly fragmented with several categories of parts and service distribution outlets servicing the 3.5 million trailers and container chassis currently in operation.

We hope to have this program under way in the first half of the year if there is sufficient interest from potential participants. As with our other programs, copies of the prospectus are certainly available as well.

## LIKE WILLIE NELSON, WE'RE "ON THE ROAD AGAIN"

Our June 2006 Workshop was a great success judging by all the positive feedback we've been given by those who joined us here in Chicago. We're already starting to work on plans for our next workshop which, as we are planning now, will be in June 2009.

For 2007, we'll be back "on the road again" visiting each subscriber of our DataMac® Truck and Tire programs for a half day overview session at their location. We're looking forward to having as many attendees at these sessions as each subscriber would like to invite – our clients have found these sessions extremely beneficial and thought provoking.

Gloria, our Master Scheduler, will be in touch with each DataMac® subscriber some time during the first quarter to determine which dates in the second quarter might work best. We look forward to spending some quality time with each of you this year.



## TRIVIA QUESTIONS

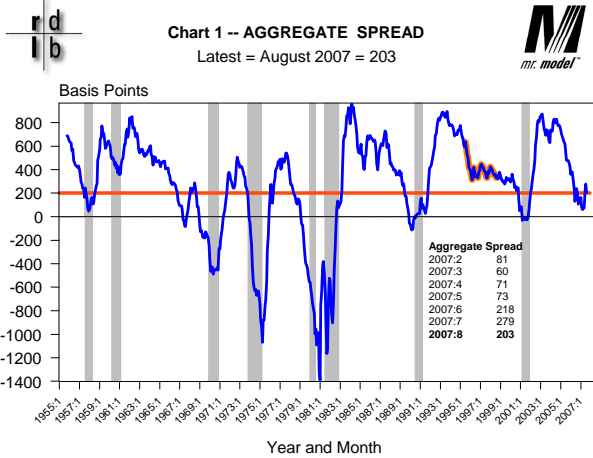
1. We probably all know what a turbocharger and a supercharger are, but what was an "Okie blower"?
2. Which came first, a Spicer backed by a Brownie – or a Roadranger?
3. Why were vise-grip pliers once considered mandatory equipment for truck drivers in a hurry?
4. The Council of Fleet Specialists (CFS) is considered the "granddaddy" of associations in the heavy duty aftermarket. When and where was the first meeting of this group held?

Answers can be found on back cover.



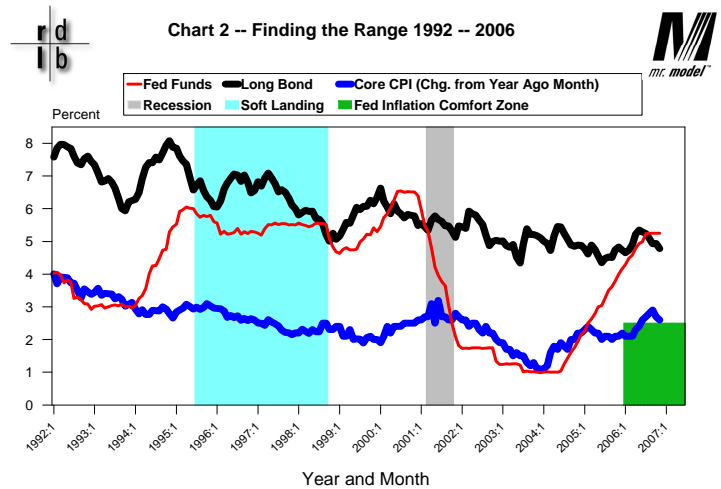
# SLIPPERY WHEN WET

Last July we advised you that dangerous curves lay ahead as the economy had entered the boom phase of the business cycle. Since that time, the information we have received about current and prospective business conditions suggest we issue another hazardous condition advisory. As you can see on Chart 1, the Aggregate Spread – RDLB, Inc.'s leading indicator of business cycle turning points – has continued to zig and zag around the red line on the chart. While the Aggregate Spread did manage to get back to the north side of that line, the fact that it continues to hover around the 200 basis-point level is reason enough for us to suggest you keep your seat belts securely fastened.



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Over the next several months, all eyes will be on the Federal Open Market Committee (FOMC) – the policy making arm of the Federal Reserve Board – to see if they can bring about a soft landing that will allow the economy to continue to expand. Simply put, the issue will be whether the FOMC can get the red line on Chart 2 back between the blue and black lines on the chart while at the same time get the blue line into the green box. The last time the FOMC managed that feat was in the sky-blue-shaded-area of Chart 2 when, after having raised the Fed Funds rate to remove the stimulus, they applied to get the economy going after the 1990-91 recession; they kept the rate steady for more than three years.



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As you can see on the right side of the chart, the FOMC has two problems today that it did not have in 1995. The first problem is that the Fed Funds rate (red line) is running above the Long Bond (black line). This configuration is known as an inverted yield curve and the last time we had an inverted yield curve was right before the 2001 recession. In fact, we have had an inverted yield curve in front of every recession since 1969. Seeing as the FOMC is not trying to start a recession, we know that they would like to get the red line below the black line as soon as possible. The obvious solution would be to lower the Fed Funds rate, just as they did at the end of the soft landing period.

Lowering the Fed Funds rate, however, would only make their second problem worse. The FOMC's second problem is the fact that the Core CPI rate of inflation (blue line) is running above their comfort zone, which is represented by the green box in the lower right corner of Chart 2. Lower interest rates can lead to a faster pace of economic activity which; in turn, can contribute to a higher rate of Core CPI inflation. The FOMC stated at their December meeting that they think there is still some risk of inflation moving higher and they will consider additional firming of the Fed Funds rate to address that risk. This means they are going to insist on evidence of the blue line going into the green box before they will move the red line down.

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In addition to the two problems the FOMC faces on Chart 2, they have a third concern: the level and trend of the Aggregate Spread. Take another look at Chart 1. The soft landing period of Chart 2 corresponds to the highlighted segment of the Aggregate Spread line. Compare that to the level and trend of the number today. Remember, zero is the critical value for the Aggregate Spread when it comes to the start of recessions.

In addition to giving early warning of business cycle peaks, the Aggregate Spread also provides an early and accurate signal of the future behavior of Truckable Economic Activity (TEA), MacKay & Company's proprietary measure of trucking demand. As you can see on Chart 3, the Aggregate Spread, this time operating with a 12-month lead, foretold the contraction in TEA associated with the last recession, as well as its subsequent robust expansion. TEA rebounded in the first-quarter of 2006 as the economy shook off the effects of the hurricanes of the fall of 2005. However, in the past two quarters, TEA growth has slowed – as the Aggregate Spread suggested it would – under the combined effects of the restraints that have been applied to overall economic activity by the FOMC. We expect the slower pace of growth to continue into 2007.

2007 is shaping up to be an exceptionally challenging year in the trucking industry both because of the slower pace of TEA growth and the expected precipitous decline in new Class 8 vehicle sales. Spurred by the new engine regulations, which are projected to add thousands of dollars to the cost of a new truck, buyers have accelerated their purchases of 2006 vehicles to a pace not seen since 1999.

Just for the record, our January 2006 outlook for 2007 U.S. new Class 8 truck sales is shown below. This is our story – and we're sticking to it.

U.S. Class 8 Market Outlook

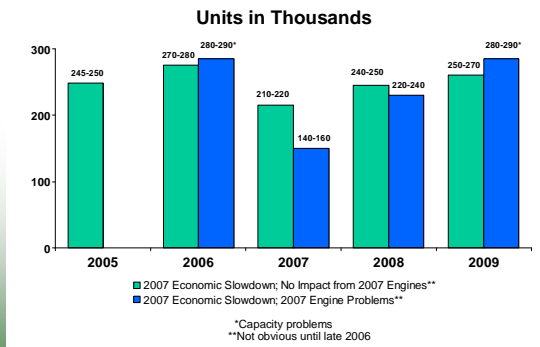
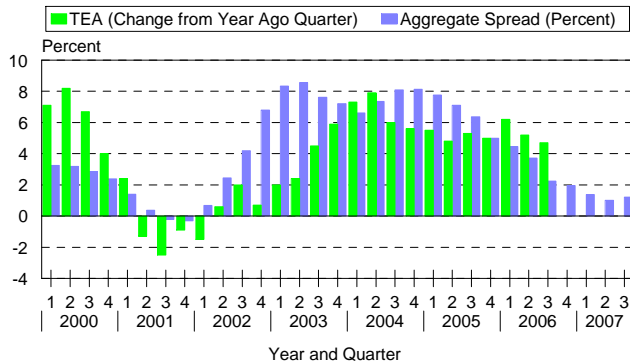


Chart 3 -- Truckable Economic Activity (TEA) and the Aggregate Spread



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For further information about the Aggregate Spread, please visit RDLB's website at [www.nospinforecast.com](http://www.nospinforecast.com). More information about TEA and new truck sales can be had through the MacForecast service of MacKay & Company.



## INTRODUCING THE DATAMAC® FAMILY

What has become today a family of twelve separate aftermarket measuring and tracking programs began as a single program nearly 24 years ago in the summer of 1983.

Several of the participants in our 1982 study of the heavy duty truck aftermarket asked that we develop a system of continual monitoring of this market – which became our U.S. DataMac® Truck program. U.S. DataMac® Truck was launched with four of our clients on board, one of whom, the Triangle Suspension group of Marmon Highway Technologies, has participated continually since 1983.

DataMac® Truck gradually expanded to include Canada in the late 1980s and the initial research in Mexico was conducted in the early 1990s.

DataMac® Ag was launched in 1987 after a large multi-client study of the farm equipment aftermarket was completed a year earlier.

DataMac® CE was brought on-stream in the early 1990s, again, after a large multi-client study of this market was completed in 1989

DataMac® Tire was organized early in 1995 and is supported by the major participants in the replacement tire market.

DataMac® Lube evolved from several years of single client research and was launched in 2006 to include the truck, farm equipment and construction equipment markets.

DataMac® Light Duty is currently in the launch mode following a successful multi-client study of the opportunities in the Class 2c - 5 truck aftermarket.

Designed to more adequately reflect the market opportunities separately driven by the initial and subsequent owners of medium and heavy duty trucks and trailers, U.S. DataMac® Truck underwent a major overhaul in 2004. This overhaul was expanded to include Canada and Tire the following year and will eventually be adapted to all DataMac® programs.

An interactive database program for U.S. DataMac® Truck was developed and launched in 1999 and is being expanded to include Canada and other DataMac® programs. This program allows DataMac® subscribers complete freedom to manipulate, reorganize, analyze and prepare graphics directly from the core DataMac® information. Over 70% of our DataMac® Truck subscribers currently utilize this service.

## BOB'S BASEBALL STATS

As we promised in the July newsletter, here are the final results of Bob Dieli's baseball forecasting efforts for 2006. The predictions made in July were based on data available after all teams had played about 80 games. Bob's system correctly called six of the eight playoff participants. He shares our disappointment about the fade of the White Sox in the second half of the season and our perplexity over whether some of the strange trades they have made in the off season will improve their chances in 2007.

Can Spring Training really be only four weeks away? Pitchers and catchers report on February 15!

American League				
Division	Team	Predicted Wins	Actual Wins	Made Playoffs As
Central	Detroit	107	95	Wild Card
East	New York	95	97	Div. Champ
West	Seattle	87	78	Missed
Wild Card	Chicago	101	90	Missed

National League				
Division	Team	Predicted Wins	Actual Wins	Made Playoffs As
Central	St. Louis	84	83	Div. Champ
East	New York	96	97	Div. Champ
West	Los Angeles	90	88	Wild Card
Wild Card	San Diego	85	88	Div. Champ



## Trivia Answers

1. Turbochargers use exhaust gas to drive more air into the cylinders increasing horsepower; superchargers are gear-driven devices that do the same thing. "Okie" blowers referred to an intake air hole in the front of early Freightliner COEs that was claimed was a "poor man's" attempt to push more air into the intake system (legend, not fact!).
2. Single countershaft Spicer main transmissions (often 5 speed) backed by Brown Lipe auxiliary transmission (3 or 4 speed) were common west coast configurations giving truck operators the best opportunity to extract as much horsepower and torque as early diesels could deliver; twin-countershaft Eaton/Fuller Roadranger transmissions supplanted most of these combinations; they were shorter, lighter and much less complex to use and maintain
3. The fuel lines on early Cummins engines were outside the engine rather than integrally inside as they are today. Pinching the return fuel line with vise grip pliers would increase the pressure in the system and increase the engine output; it also shortened the life of the engine and often the employment of the driver!
4. The first meeting of the group, which became the Council of Fleet Specialists, was held in Chicago in June of 1968 at the Blackstone Hotel, if memory serves me correctly.