



Thanks for being with us for the long haul!

Summer 2005
Volume 4, Issue 1

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Mid-Year Greetings Once Again

I trust that few of us are surprised that we have made it half way through the year 2005 and we find ourselves more or less intact after this six month odyssey. With oil bumping around \$60 a barrel and temperatures (at least in Chicago) at equally astronomical levels, simply surviving this year to this point has to have an element of good news in it. It wasn't just June that was bustin' out all over—it was January, February and everything in between!

Our in-house forecaster (to differentiate this position from the alternative, a forecaster in the out-house) is once again using mysterious algorithms and similar mathematical machinations to forecast the probable contenders for the 2005 World Series. Picking the Sox (White, not Red) to be the AL contender seems pretty close to a no-brainer; even those of us who are Cubs' fans are at least a little bit in awe with the runaway train on the South Side. North of town is a bit like Mudville at the moment; about the only path to a Cubs league lead would be North Korea declaring war on the City of St. Louis. Somehow we just don't think this is going to happen.

With the truck and equipment businesses as strong as they are—and with the OEM tire suppliers taking most of the heat instead of the rest of us —perhaps we should just sit back, rock a bit on the porch and enjoy the combination of the hot weather and a cool one. We surely don't know if it can get a

great deal better than this —but we certainly know that it can get a great deal worse!

Enjoy!

Corraling the Aftermarket for 9.5 Million Trucks

In late spring, MacKay & Company launched its multi-client study of the aftermarket parts and service business for Class 2c-5 trucks. In preparation for launching the first wave of surveys this month, we've been working to define the size and composition of this extremely large universe of vehicles.

What we've found is that the current operating universe of trucks in these four light/mediumweight classes total well in excess of nine million vehicles. As might be expected, the largest share of these trucks is in the Class 2c category. Nonetheless, there are over two million trucks in the Class 3-5 categories – and most of these are in true commercial applications.

A fair chunk of the smallest vehicles in these weight classes are operated by "individuals". Many of these, however, are individually-owned vehicles operated in commercial applications: contractors, service businesses and a variety of similar applications. Only a small portion of the larger vehicles is even classified as individually owned. And, interestingly enough, about 1.3 million of these trucks are in lease/rental fleets.

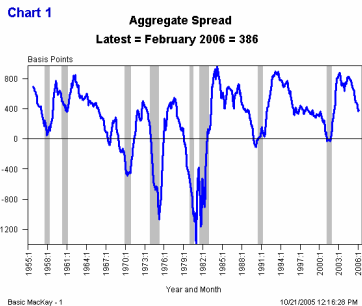
If you're interesting in learning more about tapping into this multi-billion dollar market opportunity, just give John Blodgett or anyone else here a call. We'll be happy to give you all the details.

Mid-Year Update:

Bob Dieli



Just as Mr. Model's leading indicator of business conditions said it would, the economy continued to grow over the first half of 2005. The Aggregate Spread, seen on Chart 1, looks ahead nine months for evidence of turning points in the economy. Recessions start when the line reaches zero from above. The latest reading, for February 2006 was 386, suggesting there is no chance of a downturn in the immediate future. The economy has successfully made the transition from the recovery phase to the expansion phase of the business cycle. What's next?



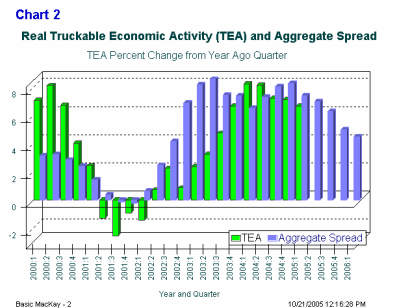
For one thing, we expect the Federal Open Market Committee (FOMC), the policy-making arm of the Federal Reserve, to announce some changes to its plan to manage short-term interest rates. For the past year, the FOMC has raised the Federal Funds rate (the only interest rate they control directly) by one-quarter-of-one-percent at each of their regularly scheduled meetings. This was done to bring the Fed Funds rate up from the 1% level — to which they had taken it to combat the recession — when the economy found firmer footing last summer. At some point over the next several months, it is expected that a new policy will be announced. The new policy goal will be to establish an interest rate structure that simultaneously promotes sustained growth and prevents the development of hot spots. Difficult, but as the FOMC demonstrated in the 1990s, doable.

What we will be looking for over the next several months is how the FOMC is setting up to deal with the array of variables that are driving this expansion. It is important to keep in mind that every business cycle has its own dynamic. Structural shifts have occurred in the labor, capital, energy, and housing markets that will cause the process to play out differently this time. You can follow all the developments in the monthly reports published by Mr. Model, subscriptions to which are available at www.mrmodelonline.com

The Aggregate Spread is also foreshadowing a slower pace of growth for Truckable Economic Activity (TEA),

MacKay & Company's proprietary measure of trucking activity, seen on Chart 2. TEA includes the components of real GDP that can be moved in a truck and, as the chart shows, this measure has been rising quite rapidly for the past year and a half.

The downshifting of the TEA growth rate perfectly reflects the transition of the overall economy from the recovery phase to the expansion phase of the business cycle. As more and more sectors reach the "cruising speed" associated with profitable operating rates, TEA growth will become more measured. Note carefully, however, that the projected rate of growth is strongly positive unlike the pace seen shortly before and during the recession.



With TEA expected to continue to move ahead at a respectable clip, we anticipate further strong demand for new trucks and equipment over the course of 2005 and into 2006. Full details of the outlook are available through MacKay & Company's MacForecast service.

Meet A MacKay & Company Employee

Robert Humpal joined the MacKay & Company team in April 2005 as a Market Research Analyst. Robert's nearly 20 years of diverse marketing experience has included research, sales analysis, forecasting and pricing for OEM and aftermarket parts manufacturers and distributors to the truck, automotive and industrial markets. He earned his undergraduate

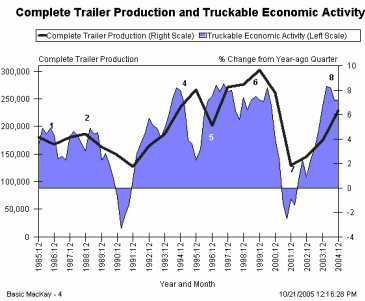
degree in Marketing at Creighton University in 1985 and completed an M.B.A. at Keller Graduate School of Management in 1997. Robert has also received training in Six Sigma techniques as a greenbelt. In his spare time, Robert enjoys spending time with his wife Anne, their children and the two dogs and keeps busy making candles, collecting character memorabilia, listening to music and playing the harmonica and guitar



OK, Who Walked Off with 190,000 Trailers?

There probably aren't any among us who would contest the volatility in the new trailer production business. The increases in production from year to year can be sharp – and the decreases can be both sharper and steeper. One only has to compare 1998 new trailer volumes in the 300,000 unit range with output in the 120,000 range less than three years later. The turns in the market are not only frequent – they are usually tough to call.

MacKay & Company's Truckable Economic Activity (TEA) index, historically, has proven to be a solid leading indicator of shifts in the production of new trailers. As the chart that follows indicates, TEA pretty well calls the ups and downs of the new trailer business, usually with a lead of a year or more. The eight tops and bottoms shown in this chart have always been preceded by up or down swings in the TEA index.

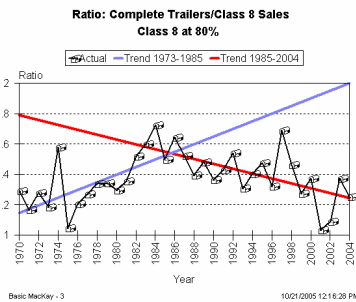


The trailer industry bounced back up slowly in 2003, then more sharply in 2003 and 2004. The industry was comfortably above the 200,000 unit level last year – and will be measurably above this again in 2005. Alan Greenspan hasn't personally taken credit for this turnaround, as far as we know, but we also know he's probably lurking in the background waiting for the opportunity.

So, thanks, Alan, but what did you do with the other 190,000 trailers that we were

supposed to produce last year? And, if you're not responsible for these trailers, where in the world did they go?

Where they went, as it turns out, is the same place that all the traditional medium duty trucks went – they weren't needed – and they were never built. But, wait a minute. The medium duty trucks weren't needed because some truck operators shifted to equipment that could double as both line-haul and local delivery equipment. And other truck operators shifted what used to be LTL freight to truckload movements, obviating the need for smaller delivery vehicles altogether. Not many straight jobs at Home Depot, Wal-Mart and Costco! So why doesn't today's trailer production include the missing 190,000 units?



Quite simply, truck operators today have capitalized on several factors to wring much more efficient use out of their trailer fleets. The intersection of the blue line and the red line on the chart at 1985 is the key. At the 1985 point, truck and trailer purchasers were buying slightly more than 1.5 trailers for every Class 8 tractor purchased (tractors are approximately 80% of Class 8 total production). Had the tractor/trailer purchase trend continued, tractor buyers would have purchased approximately 420,000 trailers in 2004. For those with an arithmetic bent, that's 0.8 times 262,000 Class 8s times 2.

What actually happened was a sharp and continual decline in the ratio of purchases of new trailers to new tractors. Today it is at approximately 1.25 trailers for every tractor purchase. The only significant variations from this trend are the years of major overbuying (1997) and recession-induced under buying in 2001 and 2002.

Trailer users have certainly benefited from the use of longer trailers (or doubles combinations) and marginally wider trailers. But what appears to be even more important is the ability to keep trailers longer than ever before. Schneider, for example, was unloading early 1990s trailers this year and last. Here, Schneider's trailer trade cycles are nearly double those of its tractor fleet. And for operators with much shorter power equipment trade cycles, the impact is even greater.

It certainly appears that old trailers, much like old soldiers, never die. Unlike old soldiers, however, they don't seem to fade away; they just keep rolling.

Datamac Truck Generation II Interactive Database

Late last year, MacKay & Company announced the availability of a new Interactive Database CD for DataMac Truck Generation II. For the first time, a system was available to all DataMac Truck subscribers to manipulate the three million individual pieces of heavy duty aftermarket information in the Generation II Database. In addition, the Database CD also facilitated the direct development of charts and graphs from DataMac.

We're certainly pleased that so many of our DataMac Truck subscribers have acquired and are now utilizing the Database CD. Nearly 60% of our current DataMac Truck users are now employing the Database CD to make the maximum use of all the information available from the Generation II program. If you'd like more information on the Database CD and how it can be integrated into your internal information network, please give Dave Fulghum, John Blodgett or Chris Walters a call. We'd be pleased to give you an overview of the system right at your computer terminal.

DataMac Truck Generation II for Canada

Last summer, MacKay & Company completed its overhaul of DataMac Truck in the United States and released it as Generation II. For the first time, DataMac subscribers could critically evaluate the market opportunities represented by first owners of trucks and trailers – and those who acquired this equipment subsequent to the first owner.

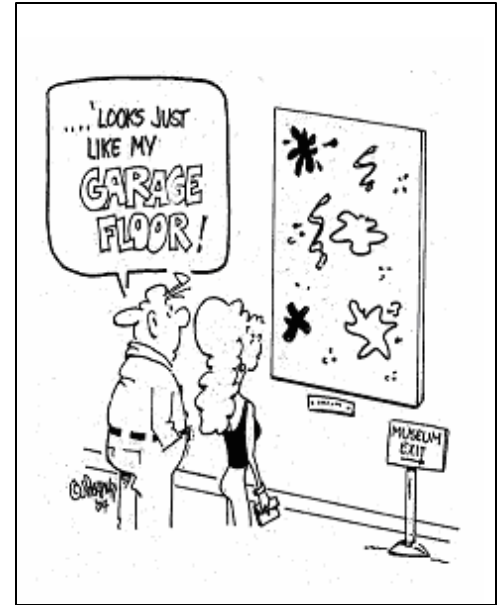
Generation II also provided much more detail than the original DataMac about the repair and replacement characteristics for older equipment. Dramatic increases in

replacement mileages for major components have pushed many more “consequential” overhauls and repairs to the second owner – and Generation II captured these shifts in detail.

For the past several weeks, Don Kuntz and Robert Humpal have been working on the development of DataMac Truck Generation II for the Canadian aftermarket. Canadian Generation II will replace the original Canadian DataMac Truck effective with the late-summer Market Overview report.

If you’d like more details on this new expanded program for the Canadian truck aftermarket, please don’t hesitate to contact John Blodgett, Dave Fulghum, Don or Robert.

For those of us who collect old vehicles – and leave the new stuff in the driveway...



Thanks to *Old Cars Weekly!*

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Ole! Mexican Aftermarket Study #4 Completed

If you're looking for another \$2.5 Billion in aftermarket opportunities, look no further than south of the Rio Grande River. That is what the Mexican heavy duty truck and trailer aftermarket is worth at the point of last sale. And that's nearly 40% more than the market was worth just five years ago.

The study completed in late 2004 is the fourth one completed by MacKay & Company in this rapidly growing market since 1991. Field research in Mexico was conducted in conjunction with our Mexican research partner. Research results were integrated into the same DataMac Truck classification format used in both the U.S. and in Canada.

Speaking of Canada, the heavy duty aftermarket in Mexico is slightly more than 20% larger than the heavy duty aftermarket in Canada. And the aftermarket in Mexico is generated by approximately half the number of vehicles driving aftermarket demand in Canada. Mexico continues to be a tough market on trucks – and the aftermarket reflects it!

If you'd like to learn more about the aftermarket opportunities in Mexico, just give John Blodgett or Don Kuntz a call.

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Fleet Profile

Fleet Profile at PartsPotential.com is an online tool developed by MacKay & Company to assist truck dealers in assessing the average parts demand of the fleets they service. **Fleet Profile** calculates parts demand based on a wide-ranging host of data integrated through the methodology of MacKay & Company's flagship database and market forecasting service, DataMac®. Dealers can enter the number of vehicles in a fleet by weight class and vehicle age and they can also select from eight vocational categories, which places the fleet in its proper market context. **Fleet Profile** will then calculate parts demand according to the specified fleet composition for the 21 component groups listed to the right. Dealers can also enter the dollar values of fleet purchases according to the 21 component groups so **Fleet Profile** can calculate dealer market shares. Fleet profiles can be stored and subsequently accessed, modified and printed out in a clean, easy to understand format.

*Calculate dealer market share
Store, access, modify and print information.*

Component Groups

- Engine Components: Internal
- Engine Components: External
- Engine Components: Repair/Maint
- Clutches
- Manual Transmissions
- Automatic Transmissions
- Axle Components
- Propshaft Components
- Wheel Seals/Bearings
- Air Brakes
- Hydraulic Brakes
- Power Steering/Front End Part
- Suspension: Springs/Shocks
- Wheels/Hubs
- Electrical Starters/Alternators
- Batteries
- Lights/Misc. Electrical
- Air Conditioning
- Seats
- Other Parts & Components
- Mirrors

Go online to PartsPotential.com to see what the **Fleet Profile** user interface looks like. Using **Fleet Profile** is easy to learn and it will play an instrumental role in helping you determine the needs of your customers. **Fleet Profile** will increase your ability to fulfill those needs and, therefore, will impact your bottom line. If you would like to know more or if you would like to subscribe, please call 630.916.6110 or email mackay@mackayco.com.



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