



August 2004
Volume 3, Issue 1

Inside this Issue

- 1 Back-to-School Special
 - 1 DataMac Truck: Generation II On the Way
 - 2 Mid-Year Economic Review: Bob Dieli
 - 3 DataMac Mexico 2004 is Here!
 - 3 Local Area Aftermarket Demand
 - 3 Guess Who's Coming to Dinner (or Lunch)?
 - 3 Meet a MacKay & Company Employee
 - 4 Harold Schramm 1936-2004
- Second Career for John Blodgett
- Disney Can't Beat O'Hare

MacKay & Company
One Imperial Place, Suite 300
Lombard, IL 60148
630-916-6110
www.mackayco.com



Back-to-School Special

It seems like every other business we know is running some sort of back-to-school special about now, which is a bit hard to figure, since Memorial Day was just a couple of weeks ago, right? Where does the time go, when we're in an up market and the time really flies?

Not being in the backpack or lunchbox business, running a back-to-school special probably doesn't quite fit our business. But we WILL be running some neat back-to-school sessions starting in October for our DataMac Truck Generation II interactive database programs. Chris Walters and Dave Kalvelage will be managing these; if you haven't signed up yet, drop us a note and we'll send along the details.

Back-to-school would also be an excellent idea for the Cubs and White Sox, whose winning skills have diminished as the season has progressed. Around our town, the media is measuring how many games into or out of the wild card slot each team might be, much less first place. Bob Dieli, our resident guru on these subjects, is projecting the Cubs into the wild card spot. However, he's not putting any money on it yet!

We hope you're all having a great summer, a great market; we'll see you back in school!

DataMac Truck: Generation II On the Way

In our December 2003 Newsletter, we indicated that we were in the process of a major restructuring of our DataMac Truck program to reflect the structural changes in the heavy duty aftermarket over the past few years. With the dramatic increase in major component longevity, many of the major repairs on trucks are now being performed by or for the second owner instead of the first – and sometimes the third owner, too. Furthermore, the incidence of repair work by the first or subsequent owner varies dramatically by vocation, driven primarily by both operational variations as well as differences in trade cycles.

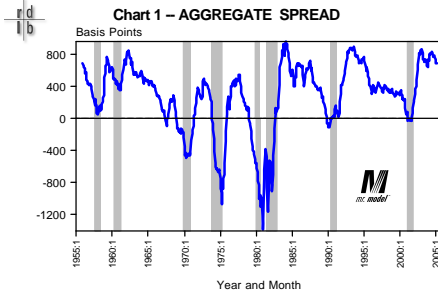
Generation II of DataMac Truck is being released in September for the United States; Canada will follow in 2005. Generation II will allow each DataMac subscriber to determine the relative importance of the first or subsequent owner – by vocation of use – in driving demand for each component tracked in DataMac. Generation II will track the differences in point of service and channels of parts distribution for each of these components as well.

Effective with the launch of Generation II, all U.S. DataMac Truck output will be in an electronic format. And each DataMac subscriber is being encouraged to acquire the CD Database, which permits rapid and detailed electronic manipulation of all data into any appropriate analysis, with the production of graphics integral in the Database program.

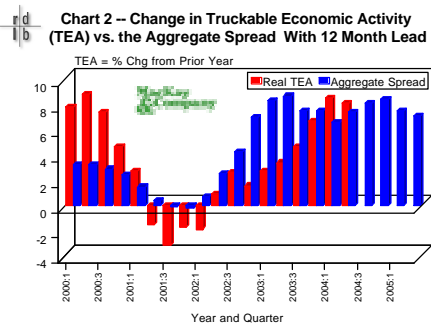
Current DataMac Truck subscribers have already received information on the Generation II program and its details. If you would like information, please let Dave Fulghum or John Blodgett know and they will get it to you PDQ.

Mid-Year Economic Review:

Bob Dieli



Over the past several months, just as Mr. Model's Aggregate Spread (Chart 1) said it would, the economy made a successful transition from the recovery phase of the business cycle to the expansion phase of the business cycle. The success of that transition is also reflected in the steady acceleration of Truckable Economic Activity, MacKay & Company's proprietary measure of demand for trucks and trucking services (Chart 2). In making that transition, the economy leaves behind one set of problems and shoulders new burdens, principal among which are adjusting to a new monetary policy environment and identifying the leaders of the new expansion. In other words, now comes the hard part.



Since the end of the recession in the fourth-quarter of 2001, the issue of when the Federal Reserve would start to raise rates has been in the forefront of most economic discussions. As Chart 2 shows, however, the initial pace of economic growth was both halting and uneven. Consequently, the Federal Reserve kept rates on a downward track until the middle of 2003. With economic activity accelerating in the second half of 2003 and into 2004, the Federal Reserve began to list the conditions

under which it would consider going from a recovery-inducing stance to an expansion-sustaining stance. The Fed's two key indicators would be the pace of inflation as measured by the year-over-year change in the Personal Consumption Expenditures Index excluding Food and Energy (known in the trade as the Core PCE), and the change in nonfarm payroll employment.

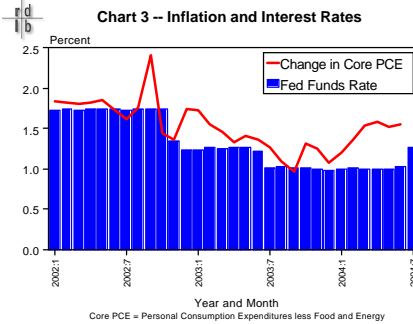
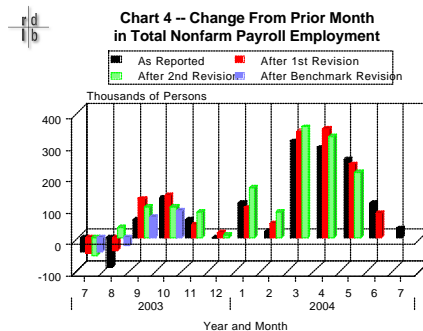
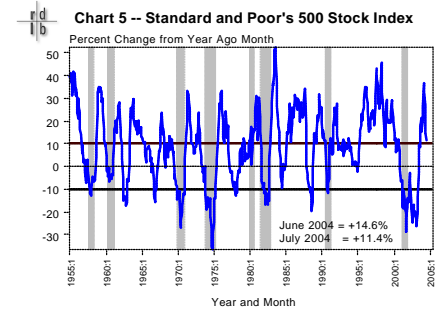


Chart 3 tracks the Core PCE and the Fed Funds rate. What the Fed wants to achieve is that the bars on the chart be higher than the line on the chart. Having now raised the Fed Funds rate twice to 1.50%, the Fed appears to have the inflation target in sight. The latest available reading on the Core PCE had it at 1.54% in June. So, it may be that the bulk of the work needed to meet this target has been done.



This is good, because the other target variable has lately not been performing well. The Fed announced its intention to start raising rates following the release of the March employment data. As you can see on Chart 4, March payrolls rose with unexpected sharpness, suggesting the economy had finally broken out of the doldrums. When April came in with an equally impressive, and almost equally unexpected, performance, the die was cast for an increase in the Federal Funds rate, the first of which was announced at the June meeting of the Federal Open Market Committee. When both the June and July payroll numbers unexpectedly came in on the low side, concerns began to mount that the Federal Reserve had too soon shifted

away from its recovery-inducing policy. Having set the Funds rate within sight of the inflation target, however, the Fed can afford to take the time to be sure that the employment numbers represent only a "soft spot" in the expansion. The Fed's next meeting to review the Funds rate is in late September. From the looks of things now, it would seem they will leave rates alone at that meeting.



A respite from rising rates would probably help the stock market make its own transition from recovery to expansion. As can be seen in Chart 5, the S&P 500 has traced out its normal recession-recovery pattern – down sharply in the recession and up sharply in the recovery. As can also be seen there, historically, soon after the recovery rebound, stock prices have slumped but the economy did not go into recession. Historically, this slump in stock prices occurs fairly close to the time when the Federal Reserve starts raising rates. It is also around this time that equity investors start to sort out which firms they think will show the most promise in the expansion. While this sounds neat and tidy, the reality is quite different. But, this process is as much a part of the economic expansion as the growth of employment and output... both of which we expect to continue to grow for the foreseeable future.

While it is entirely possible that the "soft spot" will bring the overall pace of growth down somewhat from that seen earlier this year, we do not expect anything more serious. The Federal Reserve will continue to raise rates from time to time so as to keep its inflation target in sight while seeking all the while to foster stable and sustainable growth. The Aggregate Spread is still configured much as it was in the long expansions of 1961-69, 1982-90, and 1991-2001. None of those episodes were easy or worry free but none of them stopped until active restraint was applied, and no such restraints are being applied now.

DataMac Mexico 2004 is Here!

Every four to five years, MacKay & Company completes a detailed study of the medium and heavy duty truck, bus and trailer aftermarket in Mexico. Over 1,500 interviews with fleets across Mexico have been completed and the final analysis is nearly finished. Early results show Mexico has a much more dynamic aftermarket than the U.S. or Canada and offers plenty of opportunities.

This is the fourth study MacKay & Company has conducted on the Mexican aftermarket since 1991 and the third in the traditional MacKay & Company DataMac style, so in addition to providing an update to the current aftermarket, we also have a solid historical perspective.

DataMac Mexico 2004 is a comprehensive analysis of the Mexican aftermarket and profiles the replacement demand for over 270 components. DataMac Mexico includes a final report, a presentation of the findings at your office and an easy to use database with results from 1999 and 2004. Want to have a better understanding of the vehicle population, aftermarket size and service and parts sourcing practices of fleets in Mexico? Contact John Blodgett at john.blodgett@mackayco.com.



Local Area Aftermarket Demand

Want to know what the replacement demand is for your dealers' or distributors' territories? Do you want to know what the potential aftermarket is for a new territory? Over a decade ago, MacKay & Company developed an economic model to determine the replacement demand for parts and components on Class 6-8 trucks, school buses and trailers at the county level. This model provides aftermarket demand by vehicle class, vocation and component group.

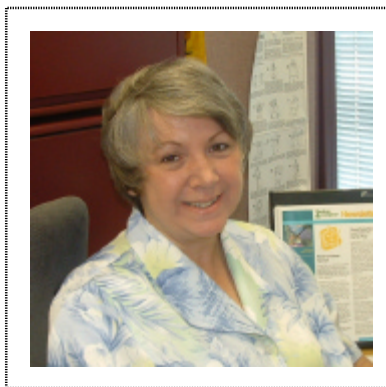
The model is based on the types of industry, agriculture, population and other factors which drive the need for trucks, school buses and trailers in a particular market and it is updated regularly. The model is not based on vehicle registration data, which is typically a very poor indicator of where replacement parts are purchased.

Want to learn more? Contact John Blodgett at john.blodgett@mackayco.com.

DataMac Mexico

Meet a MacKay & Company Employee

Pat Adamik has been with MacKay & Company since May 2000. As a graphics specialist she creates and combines text, charts and graphs for MacKay & Company newsletters, reports and presentations. Before MacKay, Pat did computer layout and handled print production for a plumbers' marketing group. She enjoys gardening and silk floral arranging.



Pat Adamik

Guess Who's Coming to Dinner (or Lunch)?

We've just about finished the last of our 25 2004 Road Shows — and we'd like to again thank each of you who hosted one of our teams this spring and summer. We've appreciated the opportunity to take our "Workshop on Wheels" to your conference rooms — and to have so many of you participate with us in these sessions.

Our original Road Show plan was to alternate one year of shows with a workshop here in Chicago. We've had such a great response from the Road Shows, however, that we're going to run two years of Road Shows between each workshop. That means that we'll be back next spring and summer with laptop, projector and a healthy appetite for lunch. By then, we'll be into DataMac Truck Generation II full swing and have some other new programs in the planning stages for both DataMac Truck and Tire.

Working on this schedule means that our next workshop here in Chicago will be in June 2006. Depending on your perspective, that will be about 18 months into W's second term or JFK II's first. We won't get into that issue; things are so bad in Illinois, we had to outsource a Republican candidate for Senate. But by June 2006, we should have a much clearer picture of the probable economic softening in 2007 and the impact of the engine and brake regulations for that year as well.

Thanks again for your Road Show support. Maybe next year you could consider a modest Pinot Noir along with the sandwiches!



Harold J. Schramm

Harold Schramm: 1936-2004

On June 27, MacKay & Company lost a very good friend and a very good consultant. Harold Schramm, a long-time engineering professional with International Harvester and then Case IH, died suddenly in Dover, Delaware, where he was staying for a technical business seminar. Schramm retired from Case IH in 1992 and started working with MacKay & Company as a project consultant in the mid-1990s. During his tenure at International Harvester, he was instrumental in the design and development of the Cub Cadet

lawn tractor, among other accomplishments. During this time, one of his key engineers was Dave Fulghum. At MacKay & Company, Harold worked on several assignments, especially those of a technical nature involving equipment, vehicles and components. His field work was precise, timely and always thorough.

Schramm is survived by his wife Mary, two children and three grandchildren.

G: \...0797 Summer 2004 Newsletter.doc



Cub Cadet Tractor

**MacKay & Company
One Imperial Place, Suite 300
Lombard, IL 60148**

FORWARDING SERVICE REQUESTED