



Stand Behind Her...

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Happy Holidays

A very warm holiday greeting from all of us at MacKay & Company. Like many of you, we have a great deal to be thankful for this holiday season. The economy is on a roll – as is much of the truck and equipment business. Interest rates are at record lows – while interest in building business and markets moves toward what could be record highs. All in all, a pretty good finish and a very good opening for 2004.

Most of you probably noticed that our July exuberance for Chicago teams, specifically the Sox and the Cubs, didn't carry them all the way to the Series. Unlike horseshoes and hand grenades, close just doesn't get it. And the Bulls, Bears and Blackhawks (bad, badder, baddest) don't give us much hope for the winter. But just wait until next year!!

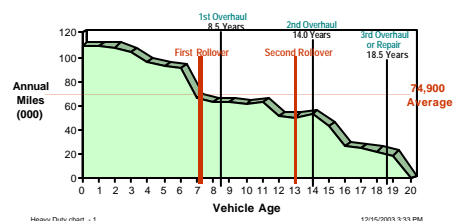
Happy holidays and our best for the New Year from the one team in Chicago on your side, the MacKay team!

Truck DataMac: Generation II

Structural shifts in the heavy duty aftermarket over the past several years are shifting more of the aftermarket decision-making out of the hands of the first owner, the new truck buyer. For those trucks traded or sold by their original owner after the first five or six years of operation, much of the major overhaul activity is driven by the next owner. By contrast, trucks that are kept by their first owner much longer (construction and refuse trucks are good examples), the first owner is still very much a factor in major repairs and overhauls.

MacKay & Company is in the process of restructuring Truck DataMac to reflect the impact of the second (and often third) truck owner. Much of the basic information necessary for this restructuring has been captured in our DataMac research over the past several years. Our challenge now is reworking the data by vocation of truck use and trade cycle to accurately reflect the current aftermarket and its impact on supplier distribution policies.

2003 Class 8 Diesel Engine Overhauls
640,000 Average Overhaul Miles



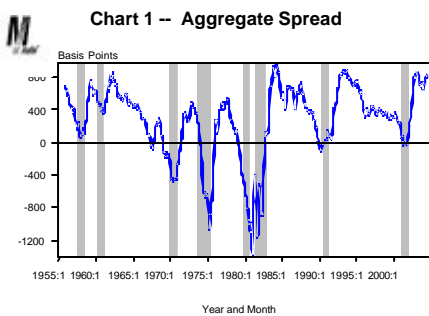
A typical composite chart for all Class 8 vocations of diesel engine trucks and tractors is displayed above. The chart highlights the impact – on average – that the second owner is having on engine overhaul decisions.

Year-end Update: Bob Dieli



Bob Dieli

Much has happened since last we spoke at the June Workshop.

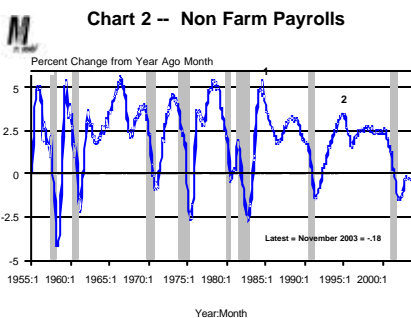


The National Bureau of Economic Research (NBER), the official arbiters of these matters, announced the official ending date of the 2001 recession. As seen on Chart 1, the economy was in recession between March of 2001 and November of 2001. Which, as it turns out, is exactly where Mr. Model had said the starting and ending dates of the recession would be. As you may recall, Mr. Model's Aggregate Spread was designed to find the starting and ending points of recessions nine months before they happen. Mr. Model has been sending a strong recovery signal for more than a year. To a large extent, that forecast was confirmed with the news of third-quarter GDP growth running at 8.2%. While some observers were surprised by the size of the latest increase in GDP, Mr. Model has been surprised we had not had a number at least that big already. Chances remain good for another quarter or two of rapid growth because we are just now beginning to feel the full effects of the

massive stimulus from the changes in fiscal and monetary policy applied over the last three years.

With the economy finally back in the expansion phase of the business cycle, two topics will dominate business news over the next several months. First, when will the employment situation improve? Second, when will the Federal Reserve raise interest rates?

The answers to both those questions will be seen on Chart 2, where the first thing you notice is how different the profile of employment growth has been in this recovery compared to its two predecessors. While the line made its usual "V" right at the end of the recession, its latest upward leg has been interrupted. Hence the question about the health of the job market. Anecdotal evidence (which is the stuff they make statistics out of) from the labor scene has reports of more interviews but still not much hiring. We also see reports of more overtime being worked. It is also the end of the calendar year and budgets are usually calendar driven. Taken together, these signals would point to more hiring early in 2004, which should take the kink out of the curve on Chart 2.



In the last two expansions, the Fed's first moves to higher rates occurred at the points labeled 1 and 2 on Chart 2. In other words, the Fed did not raise rates until the economy had been generating jobs for some time. In that light, the announcement that came out of December's Federal Open Market Committee meeting that the Fed would be taking no steps "for a considerable period", makes sense. So, keep an eye on this chart, which appears in

The Employment Situation, and in *Prospects and Perspectives*, two reports available every month at Mr. Model's web site www.mrmodelonline.com

At the same time that total GDP has been making strong forward strides, Truckable Economic Activity (TEA), MacKay & Company's measure of activity that can directly affect the volume of truck tonnage, has also been moving ahead at a fairly rapid clip. Chart 3 shows that 2003 projected TEA will exceed its pace of 2002, just as the Aggregate Spread had suggested it would. This news is also consistent with the responses received in the most recent operating rate surveys and with anecdotal evidence from several vocations that report higher volumes and an improved pricing environment.

Chart 3 -- Change in Truckable Economic Activity (TEA) vs. the Aggregate Spread With 12 Month Lead

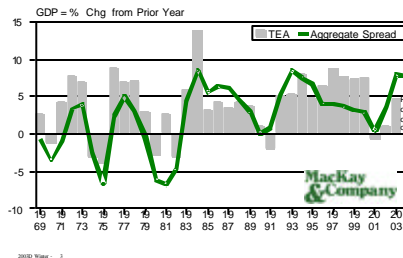


Chart 4 breaks out the major components of TEA and helps to illustrate both the short term cyclical effects of the recession-associated weakness in business spending and foreign trade, as well as the fact that those two sectors together continue to account for more than 50% of all Truckable Economic Activity. We expect this dominance to continue over the course of the expansion, something that should figure prominently in your plans to profitably exploit growth opportunities going forward.

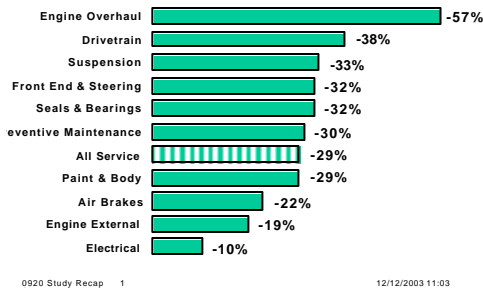
Chart 4 -- Components of Truckable Economic Activity Percent of Total

TEA Sector	1970	1980	1990	2000	2003
Consumption	47.2	45.9	44.3	36.1	39.3
Business	26.5	26.2	22.4	24.1	22.4
Exports and Imports	15.6	20.1	24.8	33.7	31.3
Government	10.7	7.8	8.5	6.1	6.7

Honey, I Shrunk The Market!

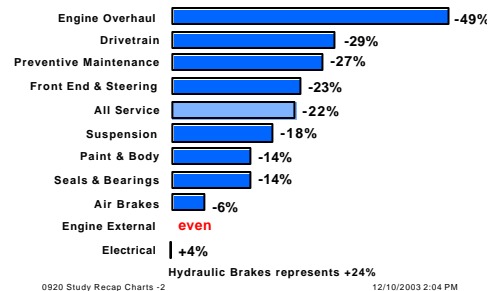
Back in the last century, when MacKay & Company and many of its clients participated in the initial study of the Truck and Trailer Service Market, we forecast that the annual service labor hours required to support Class 8 trucks would probably shrink approximately 19% over five years to 2002. What we found this past summer is that the decline was not 19% — it was 29%!

Heavy Duty Truck: 2003 vs. 1997 Service Labor Hours Per Activity Per Truck



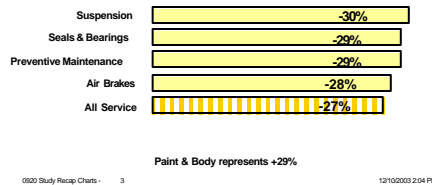
It was not just the Class 8 market where we found this happening. In the medium duty truck market, the annual number of service labor hours dropped by 22%.

Medium Duty Truck: 2003 vs. 1997 Service Labor Hours Per Activity Per Truck



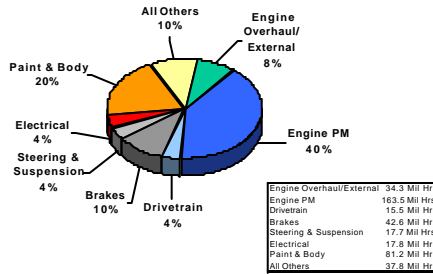
The decline in the trailer market was even more significant, 27%.

Trailer: 2003 vs. 1997 Service Labor Hours Per Activity Per Trailer



By no means has the truck and trailer service market become less attractive an opportunity than it was in 1997. Today, the labor required to support the medium and heavy duty trucks and trailers in operation totals more than 400 million hours. As in 1997, we found again that preventive maintenance and paint and body work represent the majority of this 400+ million-hour market. The “hard parts” side of truck and trailer product support accounts for only one-third of today’s service labor opportunity.

410.4 Million Service Labor Hours



If you’d like more details on how to acquire the complete 363-page report, please give John Blodgett a call or e-mail johnblodgett@mackayco.com.

Meet a MacKay & Company Employee

Jenni Heinlein has been with MacKay & Company since May 2000. Before MacKay, she worked for a physician’s management company and was a volunteer for the Moecherville Fire Department in Aurora, IL. She enjoys spending time with her husband Kevin, and their son John. She’s nuts about the Harry Potter books and loves listening to music.

2004 Roadshow Schedule

Back in 2001, which seems like a much longer time than just two years ago, we announced a shift from our long-standing practice of “winter wonderland” DataMac workshops in Chicago in January to a more attractive option. In the even years, starting in 2002, we offered to bring a condensed workshop to each DataMac client during the spring months. And, in the odd years (and 2003 was certainly an ODD year), the workshop would be held in Chicago – but in June, not January.

Judging by the enthusiastic response to our first go at this program, we will again be on the road come spring. The roadshow structure will be similar to 2002, a two-three hour market overview and forecast session with plenty of time for questions and (hopefully) answers. About mid-February, we’ll start to contact each DataMac client to see how schedules look over the next few months and start to structure our road program.

If any DataMac clients have some specific date alternatives in mind even at this early date, please let Molly or Gloria know and we will start building our program around those options. Molly is available at molly.zacker@mackayco.com and Gloria at gloria.manata@mackayco.com



Jenni Heinlein

Identity Theft?

Probably all of us have seen the Citicorp ads promoting identity theft protection featuring the incongruous combination of a female senior citizen cleaning her pool with the voiceover of a gruff biker-type describing the \$40,000 pickup he has just purchased with the senior's ID. Certainly a scary thought – and even more interesting when it happens to you – kinda.

Earlier this year I received this picture from Tim Walker, an old friend now based in the U.K. with Truck-Lite. Imagine his surprise meeting Stuart Mackay at a U.K. bus show — and my surprise when he advised me!



Tim Walker & the "Bus" Stuart Mackay

Well, that Stuart Mackay and THIS Stuart MacKay have emailed each other since Tim's meeting and find that we do have a few things in common besides both being members of Clan Mackay. But I do want to stress: he's the BUS Stuart Mackay – I'm the TRUCK Stuart MacKay!



The "Truck" Stuart MacKay

The '53 Chevy is a near duplicate of my high school transportation and was trailered back to upstate New York for my 50th high school reunion. It was fun to hear some recollections that others had about the truck and what we did in it. I'm not sure my wife was!

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