Global Truck Markets: Structural Shifts or Cyclicality Taken to the Extreme?

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Introduction

- The world economy is in an unprecedented crisis

- What are the impacts on the truck business in key regions...?

- ...do we see extreme cyclicality in the market — or fundamental shifts?
Truck Markets — The Global Picture

- 2 million unit barrier crossed in 2004 – 2.5 million tipped just 4 years later

- On a global level, emerging market fuel sales growth, driven by increased requirement for goods transportation and replacement of old technology truck stock

- Current crisis punches fully through on sales in all regions – but proportionally hitting the TRIAD harder than emerging markets
WE: Economic Background

- Economic growth peaked in 2006, slowing since in an ever more accelerated way...turning into free fall

- Current slump unprecedented in decades...currently bottoming out

**Eurozone: Business and consumer confidence indicators (percent balance of positive responses)**

**GDP %**

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<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
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<th>2010</th>
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<td>Germany</td>
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<td>3.2</td>
<td>2.6</td>
<td>1.0</td>
<td>-6.0</td>
<td>0.0</td>
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<tr>
<td>France</td>
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<td>2.4</td>
<td>2.1</td>
<td>0.7</td>
<td>-3.2</td>
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<td>U.K.</td>
<td>1.8</td>
<td>2.9</td>
<td>3.0</td>
<td>0.7</td>
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<td>Italy</td>
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<td>1.9</td>
<td>1.5</td>
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<td>W. Europe</td>
<td>1.9</td>
<td>3.0</td>
<td>2.7</td>
<td>0.7</td>
<td>-4.5</td>
<td>-0.3</td>
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Market developments:

- 2008: Sales still strong — due to record orders in good times

- 2009 will be the weakest year for sales in decades
  - Credit crunch 1: Affecting truck haulers ability to buy trucks
  - Credit crunch 2: Affecting other sectors/entire economies, reduction of total freight demand
  - Germany: Maut scheme, incentive to replace older trucks, due to higher costs of “Euro3 >”

- 2010: Market recovery, but back-end loaded

- 2011: Full market recovery

- 2012/3: Continued demand growth, peaking in 2013
WE Sales Developments

Western European Sales: 2000 – 2020

Unit Sales in '000

- ARTIC
- HEAVY
- MEDIUM
- Total


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GLOBAL AUTOMOTIVE CONFERENCE
WE Sales: Vocational Split for Artics

- Distribution
- Long Haulage
- Construction/Municipal
WE Sales Recovery Scenario’s (1)

Scenario 1: “U-shape”

- Bottom out phase in first three quarters
- Recovery kicking in 4Q’09 — preceded by relatively short order intake
- Recovery lead by artic segment, followed by heavy rigid and mediums
- Steady growth in 2010, driven by improving economic fundamentals
- Full recovery in 2011 — increase of >25%
- Flat sales unlikely, due to inherent volatility of truck sales
- No truck sales stimulus package, bringing sales forward… so no retarding factor during economic upswing
- Least likely of all scenarios

Most Likely!
Scenario 3: “Accelerated U-shape”

- Would be nice... if current European stock market recovery is sustainable
- Mega recovery in 2010, stagnating afterwards
- Not likely, due to vast number of idle transport capacity at the moment, generally young truck parc age...
- Current optimism on European stock markets not reflected in economic fundamentals... stock market correction likely

Scenario 4: “W-shape”

- Similar pattern to U-shape, with a contraction in the sales increase
- Bounce-back more probable, if sales increase strongly during the next months/quarters
- Contraction period would last for several months — ending a speedy recovery and allowing a more profound second recovery phase
WE Truck Production Development

Production developments:

• 2008: Booming production, due to massive demand in Europe

• 2009: Production down by more than 50% !!!
  – Sales: Severe collapse in Western Europe and export destinations
  – Inventory: Generally high amongst all players – poor mix of Euro norms
  – Clearing inventories aggressively
  – Capacity: Major adjustments (headcount, shifts…factories???)

• 2010: Pick up in demand punch through to production, build up some stock again

• 2011: Add back structural capacity — step change!

• 2012/3: Move towards cycle peak — recovery of lost volume

• Summary: Key challenge for OEMs is to manage capacity, synchronize factory output with demand cycles
Summary of Western Europe

- Severe market contraction in Western Europe
- Moderate recovery — most probable recovery scenario
- Customers structure: Consolidation occurring, but on a limited level
- No structural impact — due to fundamentals staying in tact
- Segment pecking order unchanged: Artics > Rigid > Mediums!
Truck Sales Will Remain Depressed Until Economic Conditions Improve

Deteriorating Economic Conditions Spell Trouble for NAFTA Truck Manufacturers
(Percent change in real GDP)
The third year of the downturn in medium and heavy trucks continues… no ’09 pre-buy

Economic conditions in the U.S. and Canada remain distressed and the Mexican economy has faltered further as a result of the swine flu outbreak

We believe the worst is behind us but there will be no quick fix to the problems facing the NAFTA economies

GDP for the NAFTA region is slated to decline 3.2% this year, while industrial output tumbles 10.4%

The combination of extremely weak economic activity, dismal motor carrier and vocational market earnings, still tight credit conditions, and nagging uncertainty will remain an obstacle to invest in new equipment

Better days do lie ahead for the truck market, but not until 2011 when economic activity and industrial output finally hit their stride

At that point, pent-up replacement demand will reach the critical point and the more aggressive/successful motor carriers will press ahead with capacity expansion programs
NAFTA: Truck Sales

- Long term reduced demand, following structural changes (decimation of independent drivers)
- Structural implication in class (Cl) 4–7 low — due to different customer structure
NAFTA: Production Outlook

• For truck manufacturers 2009 will be yet another rough year

• New orders for medium and heavy trucks continue to bounce along the bottom, signaling little chance of a quick turnaround in production and sales

• NAFTA truck production slumped badly during the first quarter with class 8 at 31,882 units, down 37.4% versus a year ago, and class 4–7 at 24,151 units, a drop of 39.6%

• For the NAFTA region, 2009 will be another rough year as domestic sales and exports falter and truck makers whittle down inventories

• Beyond this year production recovers slowly in the face of improving domestic and export demand

• Notable shift of capacity — Mexico gaining in importance, as factories move from the United States and Canada
NAFTA: Truck Production

- Shy recovery in 2010, followed by strong recoveries in 2011 and 2012

- Most notable short term crisis implication: factory relocation… favouring low cost Mexico…
Summary of NAFTA

• Longest lasting decline of all regions — impacting structurally

• 2009 pre-buy effect completely wiped out

• New economic growth impetus will lift sales up close to prior peaks
BRICS in the wider Context…

• BRICS sales relative to global sales volume 1/3

• BRICS and neighboring countries — access almost 2/3 of global trucks sales!

• BRICS: Essentially, they are a local hub, to enter/serve neighboring countries/regions
BRICS — Changes and Implications

- “Chain Reaction” going through BRICS
- Truck population: Good reflection of economic transition process

<table>
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<tr>
<th>Economy</th>
<th>Infrastructure</th>
<th>Transport Sector</th>
<th>Truck OEMs</th>
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<tbody>
<tr>
<td>Developing economies</td>
<td>Investment in road quality and quantity</td>
<td>More structural haulage capacity required</td>
<td>Emphasis: heavy truck development</td>
</tr>
<tr>
<td>Blossoming industries and sectors</td>
<td>Construction of highway and highway networks</td>
<td>Heavy duty truck demand booming, more efficient concept for heavy transport tasks</td>
<td>Lack experience in heavy truck business! Opportunities for Western brands!</td>
</tr>
<tr>
<td>Increasing living standards</td>
<td>Need to cope with intensified freight traffic</td>
<td>Declining need for owner operators</td>
<td></td>
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<tr>
<td>Growing import and exports</td>
<td></td>
<td>Demand for professional trucking companies</td>
<td>Provide sales and support for more sophisticated trucks</td>
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</tbody>
</table>
• Boom in 2006 and 2007 driven by raw material demand, agriculture and governmental incentives

• Replacement demand still high — driven by high avg. truck age and ever increasing mileage

• Segment shift from MDT to HDT — limited growth potential

• Fleet formation process — continuously driving HDT demand

• Before EU5 introduction in 2013 — run on EU3 models

• Brazil’s production — increasingly driven by regional exports

• Exports outside of South-America growing

• Western European manufacturers established emerging market basis — especially Daimler, Scania and Volvo

• Structurally higher production levels aimed to serve export potential …in the good times…
Russia: Truck Sales and Production

- HDT sales booming — both for Western and domestic brands
- Chinese brands falling after peak level in 2007
- Concept Clinch: Cab-over-Engine or Conventional Truck?
- Kamaz strengthened by Daimler Truck Alliance
- Kamaz share falling, new products required to boost share
- Production of domestic players leading
- Western brands starting with assembly
- Risk: New Taxation could make local production inevitable
India: Truck Sales and Production

- Substitution from MDT to HDT
- MDT sales stabilizing in long term — growth potential in HDT
- Introduction of EU4 — create a pre-buy effect up to 2012
- Tata’s dominance in HDT reduced, but not jeopardized

- Production is driven by local sales
- Exports increase, but no major market structurally entered
- Inventory levels high in 2007 ad 2008 (15% to 20%)
China: Truck Sales and Production

- Clear Substitution process from MDT to HDT
- HDT sales react more sensitive to the economic development
- Replacement demand huge, avg. age of truck >20 years
- Counteracting factor: New trucks are significantly more productive than old trucks
- Production cycle follows domestic sales
- Exports limited, but gradually increasing. Production outside of China likely...Russia?
- Inventory build-up high in 2008 — production slashed over-proportionally
South-Africa: Truck Sales and Assembly

- Market demand increasing
- Highly heterogeneous market demand, multitude of brands and price segments — most diverse worldwide
- Demand driven by economic growth, construction, governmental spending and replacement demand
- Competition from railways limited, long term growth potential
- Reduction of players — benefiting Western OEMs
- Assembly is necessary due to CBU import taxation
- Local production not attractive due to limited quantities
- Key market for locally assemble trucks is SA, neighbouring markets are increasingly important export destination
- Vertical integration varies between manufacturers
Summary of BRICS/Emerging Markets

• Notable impact of current crisis — punching through on BRICS

• Russia, Brazil, South-Africa strongly impacted

• Degree of impact varies — China, India affected rather gently…

• No long term structural implication in BRICS!

• BRICS will lead recovery and fuel sales growth…!
Thank You!

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