EQUIPMENT LEASING & FINANCE FOUNDATION

Your Eye On The Future

2008-2013 Transportation Outlook Series:

Truck and Trailer Financing Trends

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The Equipment Leasing and Finance Foundation is the only non-profit organization dedicated to providing future oriented research about the equipment lease and financing industry.

The Foundation accomplishes its mission through development of studies and reports identifying critical issues impacting the industry.

All products developed by the Foundation are donor supported. Contributions to the Foundation are tax deductible. Corporate and individual contributions are encouraged.

Equipment Leasing & Finance Foundation
1825 K Street • Suite 900
Washington, DC 20006
www.leasefoundation.org
202-238-3426
Lisa A. Levine, Executive Director, CAE

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Table of Contents

Preface

Purpose of This Study

The Equipment Leasing and Finance Foundation commissioned a series of reports on the equipment finance outlook within the transportation segment. Global Insight was selected to conduct the research. This, the first of those reports, provides an outlook on truck and trailer supply and demand, offers a review of the current situation and an analysis of future trends, and provides insight into those aspects of the leasing and financing industry affecting and affected by this market.

In preparing this report Global Insight utilized its pre-existing expertise in analyzing and forecasting sales of medium and heavy trucks, as well as trailers. In addition, broad knowledge of the macroeconomic environment and of the various markets crucial to the truck and trailer industry provided a foundation for the report.

Primary and Secondary Information Sources

Information used in this outlook comes from several sources:

- United States Census Bureau
- United States Energy Information Administration
- United States Federal Reserve Board
- National Federation of Independent Business
- Information provided by the American Trucking Association
- Various industry publications including *Monitor,* Xander Media Group Inc.
- Reports and analysis from several media sources
- Interviews with ELFA members
- Interviews with ELFA Equipment Management Committee members
- The Equipment Leasing & Financing Association (ELFA) *Survey of Industry Activity* for 2006 and 2007 as well as the *Survey of Equipment Finance Activity* for 2008

Executive Summary

- While the overall leasing and financing industry appears to be relatively strong, and even the transportation leasing and financing segment is looking good, the truck and trailer equipment sale markets are not, and this is negatively impacting the number of leases made and the financing for those leases.

- A surplus of vehicles stemming from the 2007 pre-buy[1] and weak demand for capacity is forcing even large fleets to scale back, and pushing smaller carriers out of business altogether. Soaring fuel prices and rising maintenance costs caused by aging fleets and new environmental regulations apply further pressure.

- Environmental regulations and rising fuel costs add uncertainty, causing companies to postpone capital spending decisions on new truck and trailer equipment. Diminishing profit margins are leading companies towards full service leases and complete fleet management solutions in order to squeeze out every possible additional efficiency.

- Used truck markets remain strong due primarily to exports. As a result, residual positions have not suffered as much as they could have, however, trailer valuations which do not receive the benefits of the export markets, are very low. Despite this, threats to the continued strength of the export market for trucks pose a considerable risk.

- While the leasing and financing industry avoided the errors and arrogance of the subprime mortgage industry and its subsequent collapse, thereby maintaining access to funding, tightening credit standards and lower tolerance for risk is preventing many companies from being able to expand their fleets. Many parent companies have been significantly impacted by the subprime problems, which are having a dramatic effect on the availability of capital, thus impacting the equipment finance market.

- Forecasts for overall GDP growth over the next couple of years are low, with threats of stagflation and continued high oil prices. Late 2009 and 2010 are expected to bring restored growth.

- Of the industries considered key to the truck and trailer market, a combination of the housing halt, rising fuel, food, and other commodity prices, and an overall weakening of the economy has harmed all of them with some exceptions: non-oil mining, the energy industries, and agriculture. All of these industries are expected to pick up again in 2010, and after the pre-buy payback is done, sales of trucks and trailers are expected to resume.

- Class 4-5 trucks, the demand for which is dominated by small business, are expected to see a decline in sales this year, a 3.3% pre-buy driven increase in 2009, followed by a 3.3% payback decrease in 2010. After that increases of about 10% are predicted, with a small decrease in 2013.

- Medium duty class 6 and 7 trucks are used primarily by for-hire and private carriers. A retail sale 15.1% fall in 2008 is expected, followed by a 7.4% pre-buying increase in 2009 and an 8.2% drop in 2010. Following 2010, increases of approximately 20% are anticipated and a slower 5.9% in 2013.

- Class 8 heavy truck sales are expected to fall 11.9% this year, with the hoped for pre-buying causing a 39.1% increase in 2009 and an 18.9% payback drop in 2010. 43.7% and 24.1% increases are expected, followed by a drop of 13.1% in 2013.

- The diversion of resources towards power-unit pre-buying combined with less than robust economic conditions is expected to reduce trailer shipments by 28.2% this year, followed by a small 1.8% drop in 2009. 2010 and 2011 are expected to bring a surge of 33.3% and 19.0% respectively, falling to 6.1 and 2.3% growth in 2012 and 2013.

[1]Pre-buy refers to the purchase of vehicles prior to a new set of environmental regulations taking effect. More vehicles are purchased than would be normally, so that they can be grandfathered in and companies can avoid being 'testers' for new technology. Because the actual need for vehicles does not change, the pre-bought vehicles are essentially coming out of the demand for vehicles the year that the regulations take effect. As a result, sales after a pre-buy will be lower, and this is called the payback.

Truck and Trailer Leasing and Financing Trends

Despite overall strength in the equipment leasing and financing industry, and in the overall transportation category, the commercial truck and trailer segment is among the groups suffering badly. Tom Ware, Senior Vice President of PayNet, writes that "construction, class 8 truck, and office equipment… are experiencing substantially increased delinquency".[2] Increasing bankruptcies, adjustments in fleet size and management, and the credit problems suffered to some degree across all industries are cutting into the leasing and financing of trucks and trailers. The bright spot is that despite all this, at least residual values of trucks remain surprisingly strong, although that too is threatened should the export market contract.

Current Conditions

The markets that generally buy or lease trucks and trailers are suffering in the current economic environment. Decisions to stock up on pre-EPA emissions regulation compliant power units made in recent years resulted in a massive pre-buy prior to the 2007 regulatory change, and have made the trucking transportation industry particularly vulnerable to the current slowdown, with severe overcapacity and tight competition preventing carriers from passing on their steeply increasing costs to customers. The result is a sharp uptick in bankruptcies, defaults, and the need for repossessions.

2007 Pre-Buy and Overcapacity

The current overcapacity stems partly from the EPA requirements that came into effect in 2007, which caused wide suspicion among carriers with regards to new vehicles from that model year. The expectation was that engines in compliance with the regulations would cost more to maintain, and consume more fuel; manufacturers had indicated that compliant vehicles would be considerably more expensive. In anticipation, carriers engaged in a massive pre-buy, ordering many more vehicles in late 2005 and 2006 than they would have ordinarily in order to ensure that they would not find themselves in the position of guinea pigs for the new engine technologies. The pre-buy resulted in carriers running more trucks than they would have otherwise, as well as causing a 47% drop in sales of class 8 trucks in 2007 to 150,965 units from 284,008 units in 2006. The increase in trucks on the road meant an increase in competition for the available loads; shipping costs were kept low even as expenses for carriers started to climb.

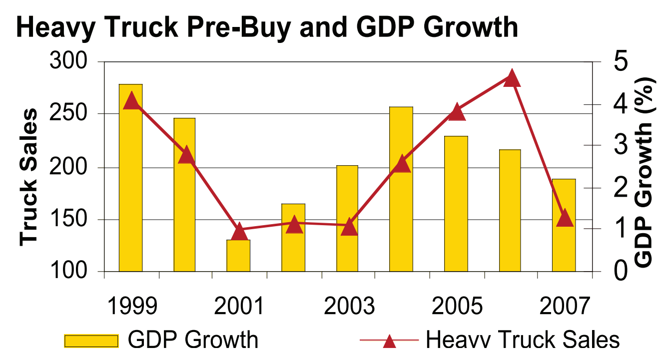

Figure 1

Climbing Costs

The overcapacity promoted intense competition, keeping shipping costs low; when costs began to climb for carriers, the competition prevented those costs from being passed along to shippers. Diesel prices have soared, as demand for petroleum, and for diesel in particular has increased worldwide, not only have gasoline prices increased, but diesel price per gallon has begun to consistently exceed that of gasoline. Large carriers have been able, to a degree, to renegotiate higher fuel surcharges, but smaller carriers and owner-operators have lacked the negotiating power, and are forced to work through freight brokers, who are not concerned with rising fuel prices. Even those companies which manage to get higher fuel surcharges suffered from the astonishing rate of increase in the price of diesel fuel. With surcharges negotiated weeks in advance of the actual shipment, an unexpected rapid increase in fuel price must inevitably be absorbed by the carrier. Fuel has increased from being the second largest expense

[2]March/April 2008 *Monitor*.

for truckers to the first, replacing labor.

Additionally, as the pre-2007 EPA compliant trucks age, maintenance costs increase. This means that carriers are forced to make the no win choice between running the older, and therefore higher maintenance, pre-compliant trucks, and running the newer low emission vehicles with their associated higher maintenance costs. Anecdotally, some companies have even been buying glider kits, entirely new chassis and cabs, and installing their grandfathered power trains, a proposition previously considered to be prohibitively expensive.

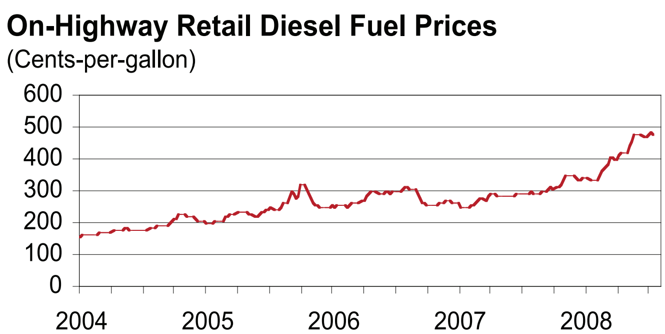

Figure 2

Bankruptcies

The first quarter of 2008 saw 985 trucking companies with fleets larger than 5 vehicles declaring bankruptcy, compared to 385 in Q1 2007, on top of a 52% increase in the number of failed trucking companies in 2007. Companies with smaller fleets, including the 9 percent of drivers who are owner-operators, are believed to have been hit even harder. Ed Castagna, President of Nassau Asset Management said that, "[Nassau] is seeing an increase in trucks being repossessed, particularly from owner-operators… 'These are people that may have been overextended, they have been consolidating debt, using the equity on their homes, which they can't do… anymore'".[3] The Nas-Trac Quarterly Index showed an increase in tractor-trailer repossessions in 2007 of 110%. Castagna added that "delinquent lessees are giving up rather than hiding the equipment or skipping town".[4] Three percent of the U.S. trucking fleet was estimated to have been taken off the road by early June of 2008, with predictions that the price of fuel could force 14-16% of the industry to cease operations.[5]

Furthermore, whereas in the previous transport recession of 2000 and 2001 the average size of bankrupt carrier was between 20 and 35 trucks, but during the first quarter of 2008, the average size was around 45 trucks. Terry Endsley, the VP and treasurer of Navistar said "The nature of the bankruptcies is freaking me out. It used to be that you could kind of see the credit deteriorating and a couple of trucks would come in. But now the guys are just giving up… So, we're getting a little bit lumpier type of recalls and repossessions".[6] As increasingly large companies go under, rather than simply scaling back, repossessions will continue to increase, and will continue to come in large batches. On May 20, 2008 Jevic Transportation closed its doors, despite the purchase of new class 8 trucks in September described by President and CEO Dave Gorman as "a $10 million strategic purchase for our future",[7] and the implementation of a brand new computer network in April. The failure was unexpected, and the sudden loss of a 1000-plus truck carrier was shocking, and makes already nervous lessors even more worried.

Fleet Changes

While the smaller fleet end of the spectrum leaves the industry, larger carriers are affected by the same problems, a glut in capacity and increasing costs. Although the big carriers are less likely to be forced into bankruptcy, they have to make changes in order to weather the downturn.

Scaling Back Fleet Capacity

Large carriers ordinarily outsource some portion of their tonnage to the small independent owner operators, so that when demand for capacity is low, they can avoid having to downsize their own drivers. The owner-operators are no longer receiving business from the large carriers, and demand is still too low. Fleets are reducing their capacity still further, and so, as leases expire, trucking companies are allowing their fleets to shrink. Uncertainty as to when demand will return means that fleet managers are acting to post-

[3]January/February 2008 *Monitor*.
[4]Ibid.
[5]Uchitelle, Louis "Pinched by Rising Fuel Costs, U.S. Truckers Start Pulling Off the Highway." The New York Times Media Group. May 28 2008.
[6]"Navistar International at JP Morgan Basics & Industrials Conference." Voxant FD Wire. June 3, 2008.
[7]Cassidy, William B. and John Gallagher "Off the Road" Traffic World. May 26, 2008.

pone big decisions, choosing to extend current leases rather than to place new orders and risk being committed to a plan that no longer makes sense. Ryder reports that despite the overall reduction in tonnage, the miles of leased vehicles are actually higher than usual. This is an indication that companies are being faced with the choice between parking an owned truck and parking a leased truck and that, unsurprisingly, they prefer to put the extra miles on the leased trucks.

Full Service Leasing and Outsourcing

With changes in fuel prices unpredictable at times, and the requirements for new EPA compliant engines with associated maintenance risks, carriers are opting for full service complete fleet management solutions, in order to transfer some of the risk to the lessor. The low profit margins resulting from steep competition and high costs mean that companies are wringing out every shred of extra efficiency they can find. Outsourcing provides an opportunity to achieve this, whether outsourcing the costs of maintenance, or the costs of accounting. A small carrier may not have the national reach necessary to get a truck back on the road as soon as possible should something go wrong, but by outsourcing this function to a larger fleet management company the small carrier can operate competitively. Similarly, large companies buy fuel in bulk and store it at their own terminals, while small companies or companies without terminals in an area must buy fuel at the pump and at a premium. Buying fuel in bulk and then storing it provides an additional benefit by reducing exposure to volatility in fuel prices and avoiding the difficulties operators found in shifting fuel costs on to shippers when diesel prices rise precipitously over a period as short as a few weeks.

This shift is easier for some sources of financing to take than others. In addition to transferring the risk from breakdowns, a full service lease carries with it a potential for liability not shared with finance leases. Banks, for example, are less able to accept this liability than other institutions; additionally, banks are considerably more risk averse, a condition that is exacerbated in the current financial climate. As a result, if the trend towards full service leases continues, then banks, who are already pulling back from the leasing of trucks and trailers, will surrender even more market share.

Used Truck Markets

During previous slowdowns, used truck market values have dropped significantly, and while values have dropped since tonnage went down and companies started dropping out of the market, they have not dropped to nearly the extent that would have been expected. There are a few of reasons for this; the first is that older pre-emissions-compliant trucks have competitive maintenance costs with the newer post-compliant trucks, so that used trucks can compete in some of the same markets with new trucks. The second reason is that the credit crunch has reduced access to financing for many companies, and so they are forced to turn to the cheaper used truck market. The final, and most significant, reason that used truck prices have not dropped as sharply as they have previously is that the export market for used American trucks is currently very strong.

Untested Technology is Untrusted Technology

With the pre-2007 pre-buy behind, and the downturn stretching ahead, companies are trying to make those grandfathered engines last longer, and the unwillingness to commit to a business plan reliant on higher demand means that companies will not be buying new vehicles without clear signs of tonnage improvement. Previously the anecdote of the glider kits, wherein a carrier chose the expense and maintenance costs of transplanting their old engines into new vehicles in order to avoid having to run vehicles that are in compliance with the new regulations was referenced. Beyond that extreme case, companies are generally lengthening their replacement cycles, making their equipment last longer (although this is aided by lower demand for its services). The end result is that companies who would previously have bought new trucks are instead putting more miles on the trucks they already have. With more miles come higher maintenance costs, and when higher maintenance costs become acceptable, used trucks become competitive.

Credit Crunch

The credit crunch stemming from the sub-prime mortgage collapse, while leaving the leasing industry relatively unharmed, has reduced the availability of financing, and increased the cost of capital; this in turn causes companies that would previously have bought or leased more expensive new vehicles to choose the cheaper used equivalents. Steve Russell, CEO of the Celadon Group, has said,

> I've seen eight freight recessions since 1974. This is the first one where used truck prices really didn't go down. Used trailer prices…have gone down; but used truck prices have not. That is because of people buying $60,000 three-year-old trucks or $40,000 four-year-old trucks instead of $100,000 new trucks, because they can't get financing or can't afford to do that. Plus you have got the export impact.[8]

Export Impact

That export impact is the final and most influential factor in the continued relative strength of used truck prices. A weak dollar and strong overseas demand for trucking capacity mean that exports of American trucks are extremely high. As the developing economies find themselves in need of extra transport capacity, just as the U.S. suffers from a flood of used trucks onto the market, vast numbers of vehicles are being shipped overseas, preventing inventories from piling up. Exports have increased to 20,859 units in 2007, more than double the number in 2006 (9,642 units), and four times the average of 2003-2005 (5,776 units, 4,017 units, and 6,201 units).

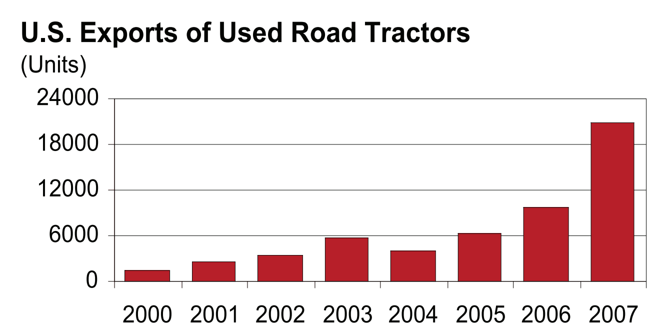

Figure 3

Trucks are being sent to Russia and Eastern Europe, where one of Putin's first acts as prime minister was an enormous financial commitment to rebuild and expand the decaying Soviet road and rail infrastructure. Russia's deteriorating roads and harsh conditions require sturdy vehicles, and American imports fit the bill, with drivers favoring Freightliner, International, and Volvo sleeper trucks, with a bias towards more recent models. With Russia expected to continue its 7.0% yearly expansion from 2003-2008 with predicted 6.0% annual growth in 2009-10 and 4.5%-5.0% growth thereafter, demand for vehicles will not slacken. Unfortunately for American exports, manufacturing plants intended to meet this demand are being constructed in Russia.

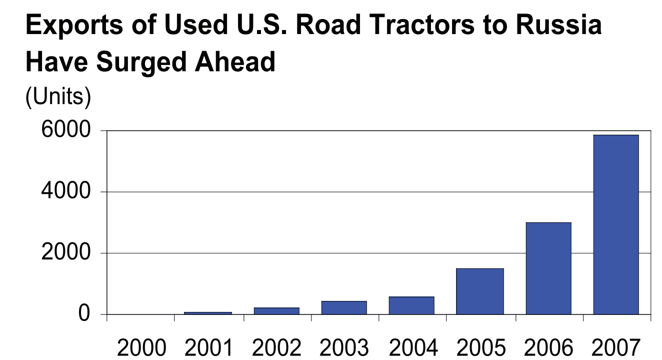

Figure 4

Less choice vehicles are shipped to South and Central America, where the Panama Canal is being expanded, to Asia where economic growth remains shockingly high, while vehicles that are undesirable elsewhere are accepted in Africa. Nigeria, dominating the African importation of American trucks with its expanding oil industry, has gone from receiving an average of 200 tractors from the U.S. from 2000 to 2002, to receiving 2,794 of Africa's 4,131 U.S. tractors in 2007.

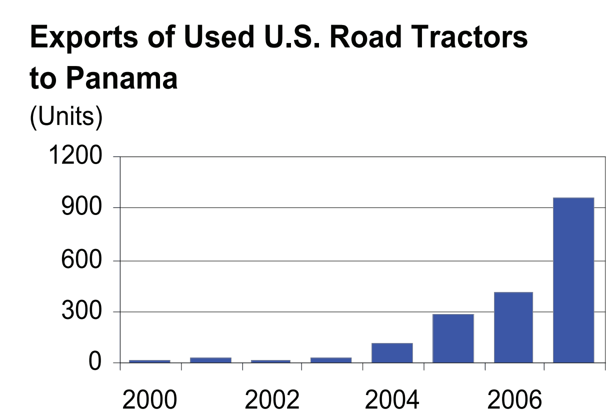

Figure 5

[8]"Q3 2008 Celadon Group Earnings Conference Call" Voxant FD Wire. April 24, 2008.

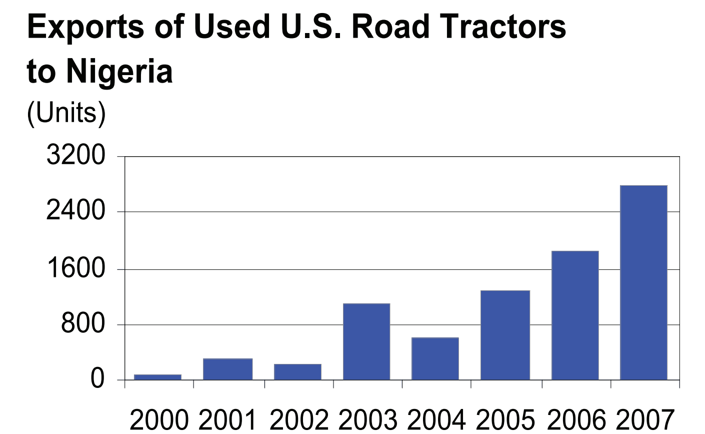

Figure 6

The continuing weakening of the dollar is further strengthening the desire for American trucks which appear discounted to foreigners; this is evident in the increasing exports of American used equipment to Canada. Finally, a relaxation of the laws governing sales of used equipment in Mexico resulted in a spike from 467 units in 2006 to 5,370 in 2007. Even trailers, the export of which was previously considered to be only marginally more cost effective than shipping heavy empty boxes, have begun to leave the country. Hopefully this will slow a decline in used trailer prices that considerably outstrips that of power units.

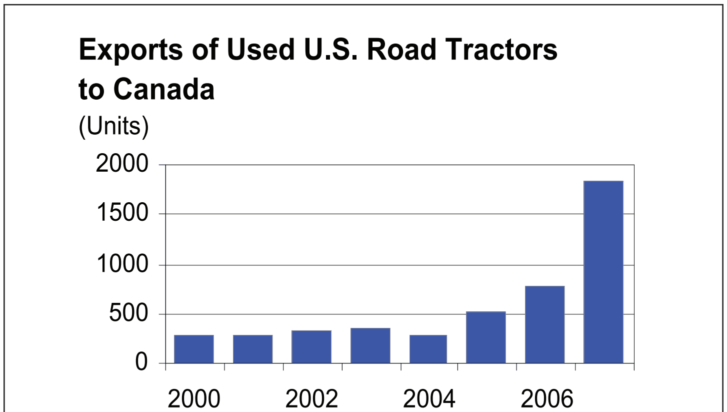

Figure 7

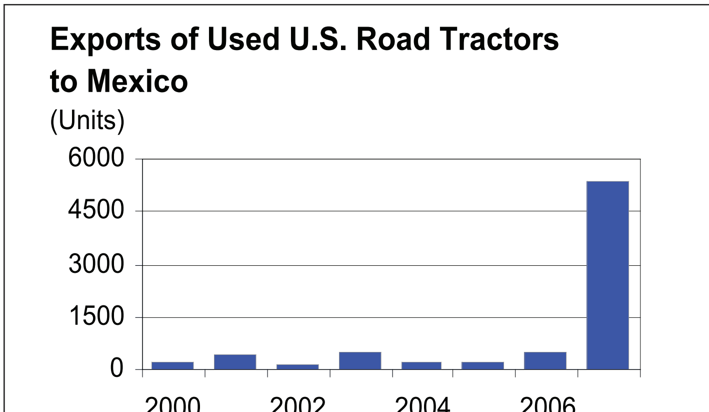

Figure 8

Residuals

The residual values of vehicles are of vital importance to the equipment leasing and financing industry, and are dependent largely on prices in the used vehicles markets. A sudden drop in the value of trucks can have a devastating effect on the residual position of the leasing and financing company. In the last freight recession, at the beginning of the decade, prices dropped drastically, on the order of 50%, and companies fear the same thing happening in the current downturn. Rush Enterprises reported that during Q2 2008 valuations of used trucks decreased 15-20%, and that they themselves would be taking a 16% write-down as a result. Ed Castagna, president of Nassau Asset Management, recalls, "things came to a screeching halt. People were afraid to travel. We were picking up equipment and had nowhere to sell it… Now, as we repossess assets, we have no problem selling them".[9] While values are unexpectedly good, they are still worse than was expected a couple of years ago, and there are further threats on the horizon.

Threats to Residuals

The amount that a used truck can be sold for is currently closely related to fuel efficiency. At the time when the leases currently expiring were being made, this could not have been anticipated. Just a couple of years ago, a trucker was happiest in the largest, highest horsepower vehicle on the market, and residuals were estimated accordingly. Now value is found in practicality; as the industry is squeezed, purchasers prefer low maintenance costs and high fuel efficiency to flash. With oil prices projected to stay high for the foreseeable future, this trend is likely to continue, but other changes could upset current estimations of residual values. For example, among the effects of CAT leaving the on-highway engine market is a devaluation in vehi-

[9]January/February 2008 *Monitor*.

cles with CAT engines as the risks associated with maintaining those trucks increase. Additionally, the wave of purchases and leasing that preceded 2007 will inevitably lead to a slightly more diffuse wave of selling and lease expiration a few years later when companies need to update their fleet. Such a wave could cause a rapid increase in inventories and harm used vehicle market values.

Environmental Regulations

California traditionally holds powers to regulate the environment within its borders, and historically, a practice adopted by California will also be adopted, sooner or later, by much of the rest of the country. Idling regulations are already in effect, and spreading elsewhere, but there is no shortage where plans for future regulations are concerned. Among the things that could be adopted, in addition to tighter regulations for fuel efficiency, and CO2 emissions, are requirements for auxiliary power units, more efficient reefers (referred to as transport refrigeration units, or TRU's by California), and others. Most threatening to residual values is the possibility that retrofits may be mandated. With California's regulations applying not only to vehicles based in the state, but to any vehicle traveling on California's roads, and considering the scale and economic importance of the state, which render it too large to be simply passed over by national carriers, trucks that fail to meet California's regulations would lose value even if the regulations were not adopted elsewhere. The bright side is that any environmental regulations enacted by California that fail to be adopted elsewhere will not affect the small local carriers, who have been harder hit by the recently worsening conditions. If retrofitting is required, so that older pre-EPA-compliant engines were no longer grandfathered in, they would no longer receive the preference that they currently do, and cease their contribution to keeping the domestic used truck market afloat and residual prices up. The selective catalytic reduction (SCR) engines needed to meet 2010 EPA regulations require urea (IUPAC: diaminomethanal), the price for which has climbed recently as demand, energy costs, and input costs have all soared. The need for additional chemicals to run trucks adds an additional series of fluctuating prices for companies to cope with, and additional uncertainty as to future values of vehicles using the technology.

Overseas Demand

Also at risk is the export market for used American trucks. The factors that make U.S. exports cheap could potentially change. While there is no sign that the dollar will strengthen significantly, rising fuel and transportation costs may cause the costs of shipping American vehicles overseas to become prohibitive. Similarly, if the economic slowdown and reduction in tonnage to be transported should spread beyond the US, overseas demand for trucking capacity would dry up. Rumors are circulating that retail financing in Russia may be drying up, and whether true or not, these fears are justified by the current heavy reliance on export markets. Although other countries have not suffered from the pre-2007 EPA-induced pre-buy and the resulting overcapacity, the rising fuel costs are a problem for truckers worldwide, and the sub-prime ripples are continuing to shake markets globally.

Plans are being made by vehicle manufacturers to construct new plants overseas in the strong markets. Similarly, the countries importing American trucks have an interest in producing their own. Daimler AG and Volvo AB have both begun plans to open plants in India, Daimler intending to produce 70,000 commercial vehicles per year. As CAT leaves the U.S. on-highway engine market, it has joined up with Navistar to market trucks in China, Russia, Australia, and Brazil. Volvo plans to open a 15,000 unit-per-year commercial truck per year facility in Kaluga, Russia at the beginning of 2009. Increased supply of trucks overseas could help meet demand, and reduce the desire for imports of used vehicles from the US. Without those strong exports, used commercial truck inventories in the U.S. would be piling up, and prices would be plummeting.

Credit Environment

The collapse of the subprime mortgage market had relatively little direct effect on the equipment leasing and financing industry, due largely to consistently higher lending standards. Tom Ware, SVP of PayNet, writes that,

> Occasionally lessors might get a bit too aggressive in their residual assumptions, but at least there weren't structures where the whole deal was predicated on the concept of perpetual asset price appreciation… Consumer lenders were focused on financing consumer self-indulgence in oversized, overpriced homes and shopping sprees… while the commercial equipment lenders have been providing the necessary, useful and remunerative service of enabling businesses to acquire income-producing and labor-saving equipment.[10]

Unfortunately, the ripples from the subprime market were considerable, and the effects to the financial markets and the markets for trucks and trailers, have been substantial. There is an overall increase in scrutiny of borrowers, and while good credits can still obtain financing with ease, the weaker credits, owner-operators and smaller carriers, are having problems, further squeezing already struggling firms.

With problems in the industries that use trucks and trailers, many of which are after-effects of the subprime crash, the truck and trailer leasing and financing segment is experiencing higher delinquencies. Asset managers are being forced to restructure deals with large carriers in order to avoid being left with a client declaring bankruptcy or having to repossess and resell a large number of vehicles on a soft market. With their newly restored sense of risk aversion, higher defaults are sufficient to dissuade some lenders from this segment, especially when other parts of the transportation equipment leasing and financing industry are still going strong.

Low demand for capacity and low expectations for the immediate future reduce the desire and need of carriers to invest in new vehicles; lack of access to credit prevents even those willing to take the risk from expanding or maintaining the size of their fleets. Prior to the implosion of the housing bubble, credit was cheap everywhere, and people were throwing money around such that Scott Kiley, VP of Fifth Third Leasing Company, wrote that a "$50 million revenue size trucking company was borrowing at nearly the same spread as an investment-grade credit".[11] The situation is now reversed, the small trucking company must suffer having to provide additional collateral and deal with tighter structures in order to obtain financing. The large safer investments continue to find money being thrown at them, as all the newly cautious financiers who expanded during the period of easy credit try to find investments they can still trust.

Summary

The situation in the truck and trailer leasing and financing market looks grim, and the verdict is that things will get worse before they get better. As the next sections will describe in greater detail, the markets on which the truck and trailer segment is dependent are weak, tonnage is down, and companies are going under. The situation has been exacerbated by the environmental regulations, which caused overcapacity, and reduce the desire to acquire new vehicles while increasing running costs. The credit crunch has harmed, and will continue to harm, the smaller operators, who comprise a significant proportion of the demand for trucks and trailers. Fleets are being shrunk, and full service leases are being used by lessees to manage their risk.

On the bright side, when demand picks up, things will improve rapidly and significantly. In previous downturns, the export market has not provided such a ready outlet for extra trucking capacity. As a result, this cycle, instead of being parked against the fence, capacity has been taken overseas, removed from the market for good. With higher demand for capacity, those old trucks will not be available, and demand for new vehicles will soar. In addition, the companies forced out of the market during the period of low demand mean that overcapacity will not be a problem, shipping prices will rise, and carriers will be flush with money and searching for vehicles. The timing of the slowdown in freight is likely to reduce the pre-buy before the 2010 EPA rules come into effect; this will again be harmful immediately, but will smooth things out in the medium to long run, and benefit the survivors of the current inhospitable market.

[10] March/April 2008 *Monitor*.
[11] Ibid.

Macroeconomic Environment

Outlook and Assumptions

The economy did better than expected in the first half of 2008, probably managing an average growth pace of 1.4%. Consumption has done much better than the gloomy sentiment surveys would suggest, and non-residential construction is still growing. Furthermore, the support to growth from net exports remains very powerful. Export momentum remains robust, and imports are falling, so that some of the weakness in U.S. domestic demand is being passed on to the rest of the world. The resilience of consumer spending due to the fiscal-stimulus package is the key reason for our more optimistic view of second-quarter growth. The stimulus will continue to help in the third quarter, but that its boost to growth will fade, and that outright declines in consumer spending and GDP are likely in both the fourth quarter of 2008 and the first quarter of 2009.

Housing is no longer the only area of weakness—the downturn is now spreading more broadly. The consumer is being squeezed by a weakening labor market, falling home prices, tighter credit availability, rising food and energy prices—and now also by declining stock-market wealth. Consumer sentiment is at recession levels. Payroll employment has declined for six months in a row, and although the unemployment rate was steady at 5.5% in June, its trend remains unmistakably upwards. Housing remains the biggest inhibitor of growth. The excess supply of homes for sale—expressed as a monthly selling rate—has not yet turned down. Housing starts are expected to hit bottom only in the fourth quarter of 2008, at just 818,000 units (annual rate). House price declines have accelerated, and we expect the Office of Federal Housing Enterprise Oversight (OFHEO) house price index to drop 10.6% from the first quarter of 2008 to the first quarter of 2009.

The forecast resembles stagflation, as the rise in oil and food prices is expected to drive consumer price inflation up to 6% in the third quarter of 2008. Inflation fears have caused the U.S. Federal Reserve (the Fed) to halt its rate-cutting campaign, but we expect no rate hike until 2009. The upside is that, over the same period, core inflation will only increase slightly—no more than 2.5% y/y— while wage inflation stays below 3.5% y/y. Nevertheless, because the Fed has highlighted inflation risks as the inflation outlook worsens, it may feel some pressure to raise interest rates. While the chances of such a hike are less than 50%, if it were to happen, it would be largely symbolic and aimed at bolstering its inflation-fighting credentials—much like the rate hike by the European Central Bank on July 3. With weak growth fundamentals and little evidence of spillovers from rising oil and other commodity prices to the rest of the economy, the rationale for even a symbolic rate hike is weak.

Growth

The first half of 2008 has turned out better than feared. The outlook for the rest of 2008 and early 2009 is darkening, though, not least because of the seemingly relentless rise in commodity prices. We now expect oil, food, and raw materials costs to keep rising through mid-2009. If this proves correct, then the post-stimulus-payments hangover for the U.S. economy will prove severe. Our forecast includes two negative quarters at the turn of the year, meeting the oft-cited (although not strictly accurate) definition of a recession. Overall, our GDP growth forecast for 2008 is higher than it was in June (at 1.6%, rather than 1.4%), helped by a better-than-expected first half, but we have cut our growth forecast for 2009 (to 0.9%, from 1.3%).

The worst of the financial turmoil may be behind us, although it is too early to assume the economy's problems are over. Even if credit markets stabilize, the impact of the financial crisis will linger, as the grip of the credit crunch tightens, according to the U.S. Federal Reserve's lending survey.

Slower growth in consumer and housing demand, coupled with soaring input costs, will make businesses more cautious about capital spending. Equipment spending was flat in the first quarter of 2008, and we expect a drop in the second quarter. We are doubtful that the stimulus package will do much for equipment spending, but we do expect some bunching of outlays at the end of the year, just before bonus depreciation expires, followed by a weak first quarter of 2009.

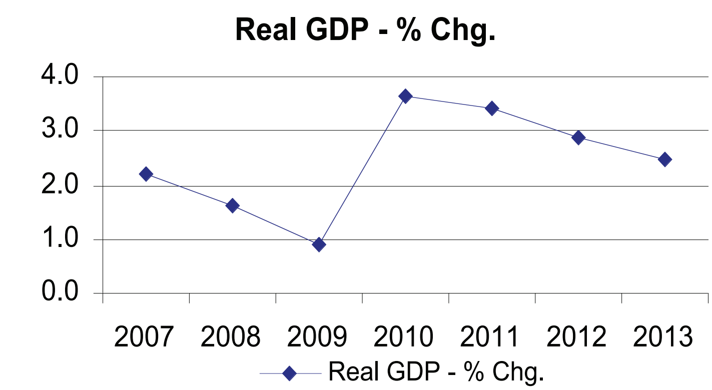

Figure 9

Labor Markets

June 2008 payrolls were almost identical to year-earlier levels, but will hereafter show negative year-on-year comparisons until late 2009. Payroll employment this year will average 0.1% above the 2007 level, with almost an identical average in 2009. Recovery in late 2009 will recoup the year's first-half losses. Two years of jobs stagnation and a growing labor force mean only one thing—a rising unemployment rate. The jobless rate will likely keep climbing for another year, to 6.1%, matching the highs of mid-2003. The hiring recovery in 2010–12 will resemble the 2004–07 gains, averaging 2.2 million per year. The unemployment rate retreats from late 2009 to 2013, before settling around 4.8%.

The economy has been calmed by slower growth, and the year-on-year changes clearly show that. The "big 3" negative sectors—construction, manufacturing, and professional/business services—lost 809,000 jobs during the 12 months ending in June of 2008. The three rising "supersectors"—government, education/healthcare, and leisure/hospitality—accounted for 1.035 million more jobs, almost as many as in the prior year. The swing segments of trade/transportation, "other" services, and information services account for the balance of employment losses versus a year earlier, with the receding retailing sector pulling the trade/transportation segment solidly into the red. Natural resources and mining is a special case, as job cuts in logging have been offset by gains in the oil patch. The swing from job gains to losses over the past year has sprung from deeper cuts in the losing sectors and the shift to contraction in the swing segments.

Inflation

With labor costs contained, surging commodity costs represent the primary near-term inflation catalyst. As in recent months, the July 2008 forecast incorporates higher energy prices than in the preceding forecast. As a result, we now expect consumer price inflation to climb to 6.7% year-on-year (y/y) in the fourth quarter of 2008. Relief from soaring energy and food prices in mid-2009 allows a sharp drop in consumer price inflation, which falls to 0.6% y/y in the fourth quarter of 2009. The 2009 inflation collapse is also more pronounced than before: the June forecast called for a 0.9% y/y (fourth-quarter) rate.

Despite moderately rising labor costs, we expect the recent (and massive) commodity price hikes to pass into core prices in the coming months. Core personal consumption expenditures (PCE) inflation—the U.S. Federal Reserve (Fed)'s preferred inflation gauge—rises to 2.6% y/y in the second quarter of 2009, before backing off to 2.5% y/y in the fourth quarter. The Fed does not rein the core PCE rate back below the 2% "comfort" threshold until the end of 2010.

Monetary Policy

As a result of a much higher projection for crude oil prices in the second half of 2008 and 2009, we have bumped up our forecast for top-line and core inflation. At the same time, however, we have reduced our growth outlook for 2009 GDP. As a result, the risks of higher inflation are balanced against the risks of lower growth, and we expect the funds rate to be unchanged at 2.00% through the end of second-quarter 2009. The Federal Open Market Committee then raises rates in the second half of 2009, with the funds rate landing at 3.50% by the end of 2009.

The Fed is expected to make extensive use of the new special liquidity facilities—the temporary auction facility and the expanded repo facility—to ease pressures in the financial system over the course of 2008. The Fed has also indicated that it would extend the primary-dealer credit facility beyond September 2008.

Financial system recapitalization efforts have run into a brick wall as financial sector stocks have come under severe downward pressure and investors, both domestic and overseas, have pulled back after getting heavily burned in the first round. The upshot is that credit conditions are expected to remain extremely tight—or get even tighter—in the third quarter.

Exchange Rates

Dollar's decline is slowing; and the Fed is becoming more concerned about the currency's weakness. Nevertheless, a meaningful rebound would require the Fed to start hiking interest rates, which we do not anticipate for 2008. The U.S. dollar fell about 10% against major currencies in 2007 (fourth quarter-to-fourth quarter basis), and should drop another 4% during 2008—which implies little change from now through year-end. We assume end-2008 values of $1.57/euro, 100 yen/dollar, and C$1.01/dollar. The Chinese renminbi will continue to rise; and we assume a 7.5% appreciation against the dollar over the next 12 months.

The current-account deficit widened in the first quarter; and we expect it to widen further over the rest of 2008 because of a rising bill for imported oil. The first-quarter current-account deficit came in at $176.4 billion (5.0% of GDP). Since oil prices are now far higher than in the first quarter (when the average price was still below $100/barrel), the current-account deficit will widen further over the rest of 2008. Indeed, we expect it will exceed $200 billion in both the third and fourth quarters, well above the first quarter's $176-billion rate.

Outlook for Key Truck and Trailer Buying Markets

With the exception of energy and agriculture the near-term prospects for key equipment-buying end-markets leave much to be desired.

For-Hire Carriers

Information on the performance of the for-hire trucking industry is difficult to obtain. The American Trucking Association (ATA) has reported that through May 2008 its tonnage index was running 3.0% ahead of last years pace. The Bureau of Transportation Statistics (BTS) has stated that the ATA has indicated that its promises of confidentiality to the companies providing the data prevent them (the ATA) from providing any details that would permit an independent assessment of the data behind the ATA Truck Tonnage Index. No information is available regarding which companies respond or how often, what type of freight they carry, or what proportion of the total truck tonnage they represent. In any case, voluntary response surveys can never be treated as probability based statistical samples. According to the BTS, the ATA "sample" is based on a relatively small proportion of the trucking industry. It is our belief that the ATA truck tonnage index is dominated by larger truckload and less-than-truckload general freight carriers.

Drilling down deeper into the data provided by the ATA, through the first five months of this year, major truckload carriers reported increases of +4.1% in loads, +3.1% in real revenue, and +0.7% in mileage. Last year, truckload general freight carriers reported virtually no growth in loads and real revenue and a decline of 4.5% in mileage. For LTL carriers, tonnage through May was +4.7%, while real revenue inched up by 1.6%. In 2007 major LTL carriers were saddled with declines in shipments, tonnage and real revenues of 3.1%, 2.9%, and 4.0%, respectively. Both TL and LTL carriers have been raising rates in the face of those soaring diesel fuel prices. For TL carriers rates were increased a very modest 1.5% in 2007, but year-to-date rates are currently +5.0% versus a year ago. LTL carriers hiked rates by 2.8% in 2007, but so far in 2008 rates are running 7.8% above a year ago.

For, let's call them non-traditional carriers, UPS and FedEx, times have been tough and are not apt to change dramatically over the near-term. UPS reported a 0.3% decline in first quarter total domestic package volume versus a year ago, with next day air -3.8% and deferred -2.9%, which says something about related drayage activities, and +0.3% in ground volume. UPS recently warned the market that its second quarter performance would be below expectations and that the upcoming years would be a rough one. For the six months between December 2007 and May 31 of this year, FedEx reported significant declines in average daily package volume and average daily freight volume (in tons).

We believe major general freight carriers have been picking up the traffic of their smaller, weaker brethren who have either been forced to or chosen to fold their tents. We do know that trucking company failures have been on the rise with smaller players leading the way out of the business. However, there has also been a disturbing increase in the number of mid-to-large size companies that have fallen by the wayside. It is unlikely that even the big guys in the general commodity and small package carriage business will come away unscathed as we go through what is now shaping up as an extended slowdown in the economy, especially in light of the anticipated declines in economic activity in Q4 2008 and Q1 2009. Simply put, when the economy is doing well companies like YRC, J.B. Hunt, Schneider National, Swift Transportation, UPS, and FedEx and the rest of "big trucking" do well. However, when the economy shifts into low gear as it has, and where it will remain well into 2009, the prospects for "big trucking" leave a lot to be desired. Given the extended period of lackluster growth we anticipate in the overall economy it is likely that major TL and LTL carriers will experience some "hard times" over the near-term, and that the first half of 2008 will be the high water mark for "big trucking" until the economy once again hits its stride.

Looking at the broader for-hire carrier segment, including bulk commodity, specialized carriers and moving companies, all will face some rough roads ahead. The commodity base for trucking companies will remain under considerable pressure over the near-term. It now looks like consumer spending, housing and construction, light vehicle sales and production, manufacturing and corporate activities in general will be limping along well into 2009, and this spells trouble for trucking companies.

Our current forecast has consumer spending on durable goods declining 1.7% this year and an additional 1.9% next year. Spending on nondurable goods is slated to eke out an increase of 1.1% this year and then decline by 0.3% in 2009. Weakness in consumer spending on goods in conjunction with faltering capital spending does not bode well for container imports and the drayage operations associated with them. A significant cooling of the economy suggests weakness in air freight drayage activities.

Total construction activity is slated to decline by 8.6% this year and another 6.5% in 2009 which does not bode well for trucking company movements of building materials such as lumber, cement, crushed and dimension stone, structural steel or for that matter truck movements of construction related waste. Truck capacity that is tied to the construction business will remain underutilized as a result. Light vehicle sales are now slated to decline by 10.6% this year to 14.41 million units and production schedules are likely to be lowered as we move through the rest of 2008…bad news for haulers of motor vehicle parts and auto transporters as well. With sales slated to slip another 1.5% in 2009 to 14.19 million units there is little hope that parts and vehicle haulers will experience much in the way of additional business. Traditional manufacturing is forecast to decline by 1.9% this year and 0.5% in 2009. Manufacturing involves multiple moves of materials, components, intermediate goods and final products and the absence of any vitality in manufacturing until well into 2009 does not bode well for trucking companies who service that sector.

Household and corporate movers have already taken it on the chin. Reflecting the collapse in new home construction and existing home sales, as well as more cautious corporate sector, volume among the almost 4,000 moving companies operating in the U.S. declined by 8% in 2007. The housing market has tumbled 23% after peaking in 2005 and there is nothing in the cards to suggest that the housing market is going to bounce back anytime soon. At the same time, new industrial, commercial and office construction will be weakening as we move through 2009. The bottom line for moving companies is that they will remain under the gun until at least 2010. Anecdotal evidence suggests that many smaller moving companies have idled up to 30% of their fleets as business has dried up. Lastly, sky-high prices are putting downward pressure on petroleum product demand which will certainly take a toll on transporters of gasoline and other refined products.

The bottom line from the for-hire carrier universe is that tonnage could decline in 2008 by as much as 1.9% this year building on the 1.5% drop we estimate took place in 2007. For 2009 a decline in volume of almost 1.4% is anticipated.

For trucking companies, sky-high diesel fuel costs and other operating expenses will only add insult to injury. Fuel surcharges are now the rule rather than the exception but diesel prices of nearly $5/gallon have been wreaking havoc on much of the industry, and there is nothing in the cards to suggest that diesel prices are going to become cheap anytime soon. Over the near-term profit margins in the for-hire sector will remain under pressure from lackluster volume and painfully high fuel prices. In addition, diesel fuel trucking companies will feel the pinch from higher heating and electricity, maintenance, materials, insurance, labor and other costs. Global Insight estimates that gross operating profits (revenues minus material, services and labor costs) for all of for-hire truck transportation peaked in 2006 at $94 billion and will bottom out at about $50 billion in 2009, a drop of 47%.

Beyond this year volume growth for all segments of for-hire carrier trucking will improve along with the general economy. GDP growth is now slated to expand by 3.6% in 2010, 3.4% in 2011, 2.9% in 2012, and 2.5% in 2013. Over the 2010-13 period, the consumer returns to the market place and Corporate America steps up its activities and capital spending programs. Both housing and light vehicles stage a comeback, nonresidential and public construction rebound, and manufacturing once again gathers forward momentum. With this as a backdrop, for-hire carrier bulk and general commodity tonnage is forecast to expand by 3.4% in 2010, 3.9% in 2011, 3.3% in 2012, and 2.9% in 2013. At the same time, with crude oil prices going from $146.3 per barrel in 2009 to $88.8 per barrel by 2013, the pain of those sky-high diesel fuel prices will be easing as we move through the forecast period. Rising volume and help on the fuel front should trigger a rebound in industry earnings (gross operating profit) which are slated to reach $85 billion by 2013, an increase of 70% from their projected 2009 level.

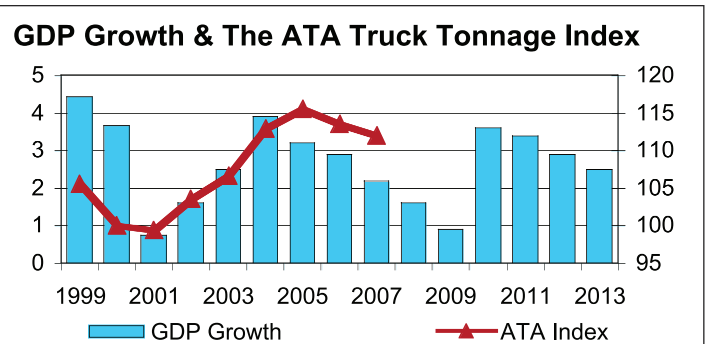

Figure 10

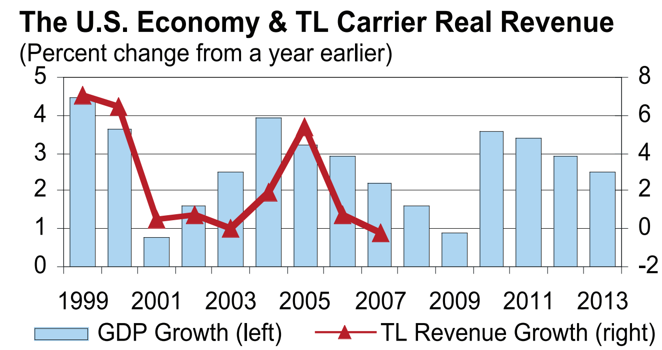

Figure 11

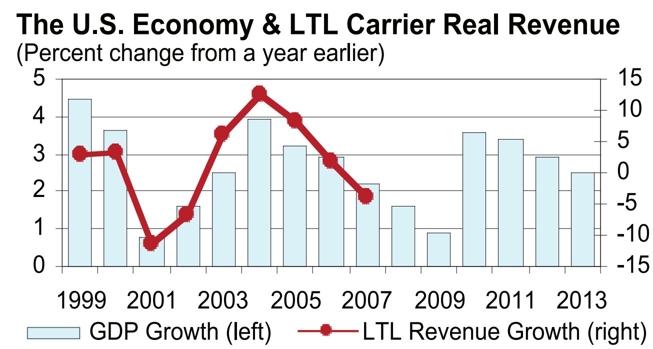

Figure 12

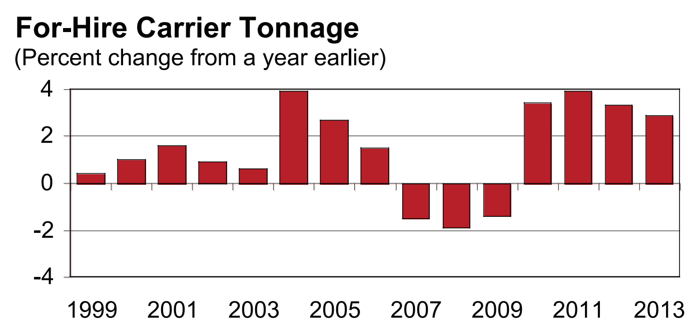

Figure 13

Retailers

Consumer confidence recently fell to its lowest level since May of 1980. The consumer is feeling the pinch of sky-high energy prices, surging food costs and a deteriorating employment landscape. For the nations' retailers 2003-06 were banner years with volume growth of roughly 4.5% per year. Volume growth slowed to a still respectable 3.3% in 2007. Profits among the nation's retailers rose from $79.4 billion in 2002 to $137.5 billion in 2007 fueling a wide variety of capital spending programs including the acquisition of new medium and heavy-duty trucks and trailers. Indications are now that volume growth will slow to 1.5% this year and then decline by 0.7% in 2009. Consumer spending has been aided by those stimulus checks but that support will fade as we move through 2008. Uncertainty is now growing about how retailers will perform when the crutch of the stimulus checks is removed. Absent another stimulus check shot in the arm, we expect the consumer to limp out of 2008 and into 2009. With this as a backdrop discounting will become more prevalent in the retail sector as shoppers become more cautious. At the same time, retailers will have their own problems dealing with intense pressure on the operating cost front. As a result, profits in retailing will take a hit and capital spending programs of all stripes will be scaled back.

Beyond next year, improving economic conditions, including help on the energy and food price front, and a favorable tilt to employment and incomes, bode well for volume growth, profitability, and capital spending in the retail sector. Volume growth is now pegged at 4.0% in 2010, 4.4% in 2011, 3.8% in 2012, and 3.2% in 2013.

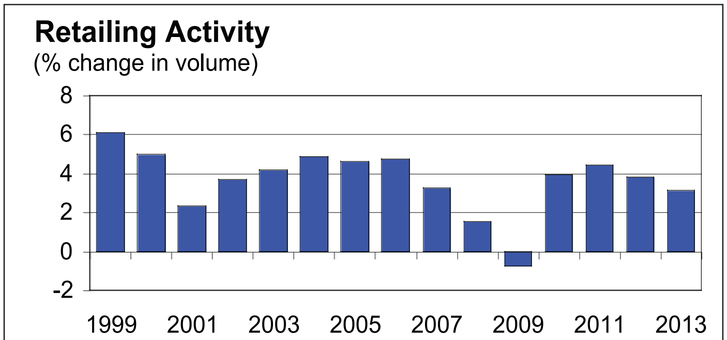

Figure 14

Wholesalers & Distributors

Following a string of very good years, the prospects for wholesalers and distributors have dimmed. Housing and construction, consumer spending and manufacturing all face tough times in 2008 and 2009, which is bad news for wholesalers and distributors. Volume growth was reported at 5.1% in 2004, 4.4% in 2005, 5.4% in 2006, and 3.8% in 2007. Over that same period corporate profits increased by a whopping 79%, fueling a wide variety of capital spending programs including the purchase of new medium and heavy trucks and trailers The worm has now turned and activity among wholesalers and distributors is expected to all but grind to a halt this year and next, suggesting pressure on profit margins and a much more conservative approach to capital spending. Better days do lie ahead, once the economy gets back on track. Following declines of -0.2% in 2008 and -0.7% in 2009 volume growth among wholesalers and distributors could advance by 4.6% in 2010, 4.8% in 2011, 3.8% in 2012, and 3.1% in 2013, fueling a resumption of aggressive capital spending programs.

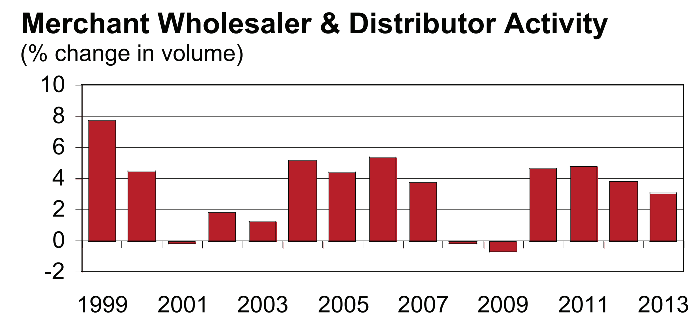

Figure 15

Construction

Construction activity in the U.S. declined by 5.4% in 2007 and is slated to drop by 8.6% this year and 6.5% in 2009. Construction turns the corner beyond next year, advancing by 7.5% in 2010, 7.7% in 2011, 3.0% in 2012, and 1.6% in 2013. Industry spending on new equipment, including trucks, has already exhibited considerable weakness and is not expected to bounce back until construction activity turns the corner.

Housing starts peaked at 2.073 million units in 2005 and then retreated to 1.812 million units in 2006 and 1.341 million units last year. Indications are now that housing starts will fall to a mere 933,000 this year. Beyond this year, housing starts advance to 1.009 million units in 2009, 1.434 million units in 2010, 1.692 million units in 2011, 1.729 million units in 2012, and roughly 1.722 million units in 2013.

After increases of 8.4% in 2006 and 12.9% in 2007, nonresidential construction is slated to advance by 6.7% this year before declining by 7.4% in 2009 and 3.2% in 2010. Nonresidential construction then advances by 3.6% in 2011, 4.0% in 2012, and 2.1% in 2013. Following an increase of 3.0% in 2007 public construction will decline by 0.7% in 2008 and 2.1% in 2009 as revenue growth dries up. Public construction is then slated to expand by 1.0%-1.5% per year through 2013.

Construction industry gross operating profits could decline by more than 20% from 2007-09 as the correction in the industry proves to be a long one. We have already seen domestic demand for construction machinery drop sharply and with building activity faltering and profits under pressure, construction industry spending on other equipment such as trucks and trailers should decline as well. Better days do lie ahead and volume growth of over 20% during the four years from 2010-13 and some help on the energy and materials cost fronts could trigger a rebound in construction industry gross operating profits of 30%-35%, which bodes well for renewed strength in capital spending programs.

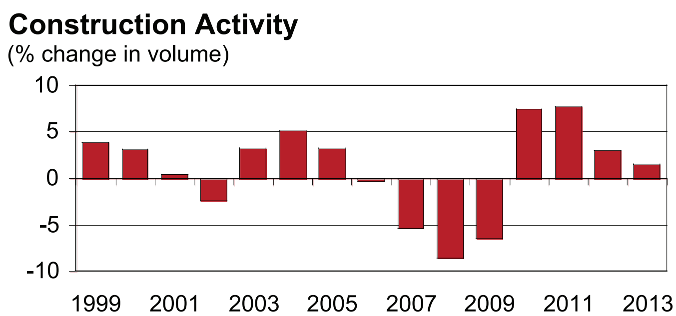

Figure 16

Manufacturing

Slumping consumer spending and a more cautious consumer have taken a toll on the manufacturing sector offsetting the positive impact of robust exports and gains on the high technology product front. The mood among manufacturers is not likely to change until we are well into 2009. After an increase of 1.8% in 2007 manufacturing activity is slated to edge off by 0.1% this year and then advance by a still modest 0.8% in 2009. Looking further out, as the consumer returns to the market place and Corporate America becomes more confident manufacturing growth accelerates to 5.4% in 2010, 4.6% in 2011, 3.0% in 2012, and 2.5% in 2013. Growth in high-technology manufacturing increased 18.6% last year and is slated to expand 20.5% this year, 13.3% in 2009, 15.8% in 2010, and 15.0% per year through 2013. Traditional manufacturing is where the weakness lies. Having increased by a paltry 0.7% in 2007 industry output is slated to decline by 1.9% this year and another 0.5% in 2009. Growth then accelerates to 3.6% in 2010 and 2011, 2.6% in 2012, and 2.1% in 2013.

For manufacturers, gross operating profits (revenues minus material, services and labor costs) grew by 22% during the three years from 2004-06 and then stalled out in 2007. The near-term profit outlook for most manufacturers, the petroleum industry being the exception to the rule, leaves a lot to be desired. Sluggish domestic demand and upward pressure on operating costs will result in a decline in manufacturers profits this year, and keep them under wraps in 2009. With this as a backdrop it is likely that manufacturing capital spending, including programs to buy new trucks and trailers, will come under increased scrutiny. Beyond next year, renewed strength in manufacturing activity is slated to generate an increase in profits of 25%-30% over the four years from 2010-13, allowing more aggressive capital spending programs to emerge.

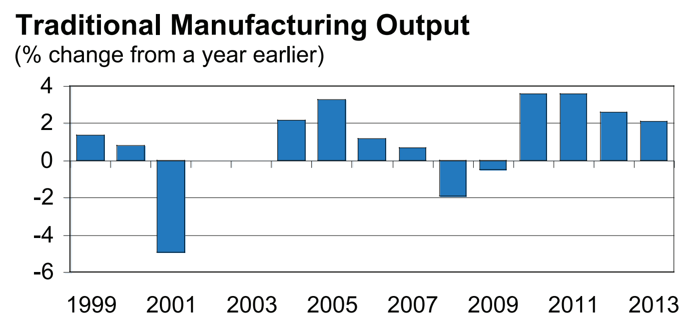

Figure 17

Agriculture

U.S. farmers remain in the midst of a perfect storm…tight supply, strong demand and even stronger prices. Farm net cash income (the cash earnings realized within a calendar year from the sales of farm production and the conversion of assets, both inventories (in years in which reduced) and capital consumption, into cash) reached a record $87.6 billion in 2007, an increase of 29% from $67.9 billion in 2006. Looking ahead, farm income will drift down from its record 2007 level but at $86.4 billion this year, $81.7 billion in 2009 and $87.5 billion per year on average from 2010 through 2013 farm sector capital spending will remain robust. The old adage that, when farmers have money they buy equipment that, including agricultural equipment and trucks and trailers, still holds true and farm sector capital spending programs will continue to benefit from the strength we anticipate in farm income.

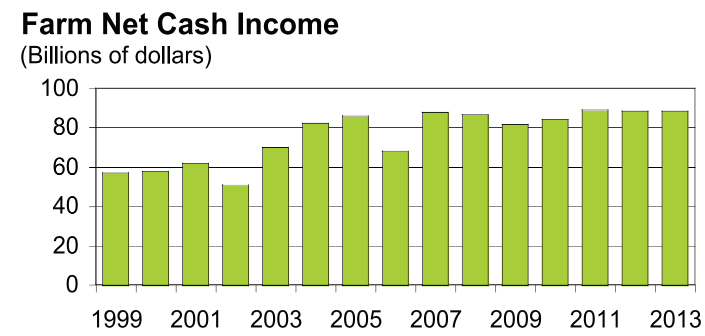

Figure 18

Energy Industries

The energy industries will remain a bright spot when it comes to activity and capital spending over the near-term at least. Traditionally not a major market for either trucks or trailers it nonetheless represents an area of opportunity for equipment manufacturers and leasing companies as robust energy industry activity has a positive impact on specific areas of the country that are energy-oriented, and on supplier and feeder industries.

The supply/demand equation for oil and natural gas suggests that the prospects for exploration and production projects will remain bright well beyond this year. Most major energy companies announced very aggressive capital spending programs long before the most recent run up in prices. Major energy companies have indicated that they are investing about as fast as they can, given the complexity of the exploration process, environmental restrictions, and a tight market for key materials and supplies. With gasoline prices at record levels opposition to domestic drilling appears to be fading. Should the "drill now pay less" crowd win out the oil and gas patch would represent an even more fertile market for trucks and trailers.

Rapid growth in emerging markets is supporting oil demand offsetting the impact of sky-high prices and a sluggish economy on U.S. demand. At the same time, net additions to supply continue to disappoint. Crude oil prices (WTI) are now expected to average $131.46/bbl this year an increase of 82% from a year ago and $146.50 in 2009. Prices then drift down to $112.50 in 2010, $101.42 in 2011, $95.42 in 2012, and $88.83 in 2013.

U.S. natural gas demand for power generation is growing despite the softness in the economy and additional renewables capacity. Electricity demand will grow just 0.6% in 2008, but natural gas use by power generators will increase 0.9%. Power generators will turn to natural gas to meet the strong increase in summer power demand. Ethanol mandates boost gas demand: Federal mandates for transportation biofuels helps ethanol production increase to 9 billion gallons in 2008, growing toward a goal of 15 billion gallons by 2015. Natural gas use in ethanol production has grown from 29 trillion Btu in 2002, to 124 trillion Btu expected for 2008. The average U.S. wellhead price for natural gas will exceed $10/mmb this year and remain at or above $10/mmb through 2011 before drifting down.

Energy industry support activity providers (exploration and drilling companies) could see increases in gross operating profit (revenues minus material, services and labor costs) of 22% this year and 25% in 2009. In the face of sky-high oil and natural gas prices the pressure to expand exploration and drilling activities is mounting, suggesting continued strength in activity and earnings among energy industry support providers.

The ethanol play will last forever, but the near-term prospects for related investment remains bright. Ethanol production is slated to increase by 40% this year and 14% in 2009, with railroads and trucks handling the transportation of it. By 2009 ethanol output is pegged at 10,349 million gallons. Looking further out, ethanol production is forecast to rise by 9.4% in 2010, 9.0% in 2011, 8.1% in 2012, and 9.7% in 2013. The ethanol industry is in the process of building a critical mass of carrying capacity. Once that has been achieved and the growth in ethanol production begins to taper off the number of new additions to the ethanol tank car and tank truck and trailer fleet will begin to taper off as well.

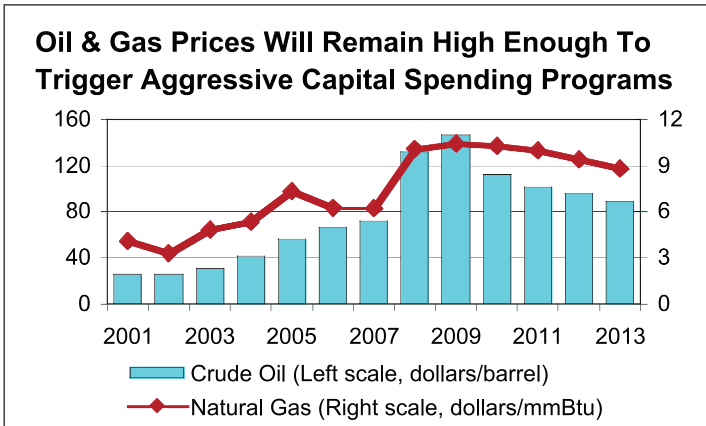

Figure 19

Non-Oil Mining

The prospects for mining industry activity and capital spending remain bright, propelled forward by rising demand and high commodity prices. Efforts are underway to expand capacity and re-open mothballed facilities. Domestic activities and industry earning will be impacted by current slowdown in U.S. economic activity, but prospects beyond this year improve considerably. Gross operating profits will be down in 2008-09 from 2007 levels. However, over the four years from 2010-13 profits are expected to exceed their 2008-09 levels by over 20% fueling aggressive capital spending programs.

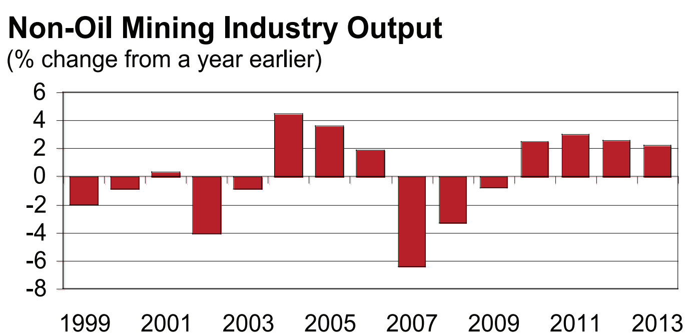

Figure 20

Logging

The prospects for capital spending in the logging industry remain dim. Housing starts peaked at 2.073 million units in 2005 and then retreated to 1.812 million units in 2006 and 1.341 million units last year. Indications are now showing that housing starts will fall to a mere 933,000 this year. Beyond this year, housing starts advance to 1.009 million units in 2009, 1.434 million units in 2010, 1.692 million units in 2011, 1.729 million units in 2012, and 1.722 million units in 2013. The extended slump in housing is likely to translate into a 4.1% drop in logging activity this year and a decline of 8.3% in 2009. Growth then resumes as housing once again hits its' stride with logging expanding by 5.9% in 2010, 5.2% in 2011, and 0.9% in 2012, before declining 1.8% in 2013.

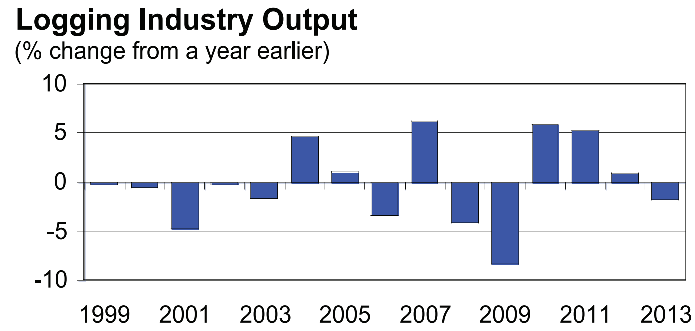

Figure 21

Small Business

Deteriorating economic conditions and surging energy prices in particular are taking a toll on small businesses and will continue to do so over the near-term. The National Federation of Independent Business reported that the Index of Small Business Optimism averaged 90.7 during the first six months of 2008. This represents a decline of 6.9% from a year ago, 8.7% from 2006, 10.9% from 2005, and 12.8% from 2004. More striking, the index of small business optimism has fallen to its lowest level since the NFIB started collecting the data back in 1986.

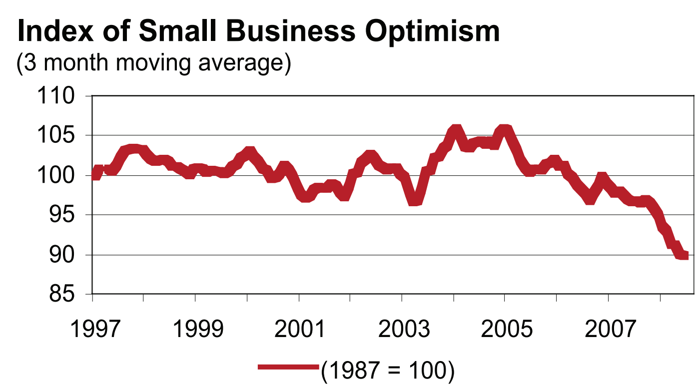

Figure 22

The percent of small businesses planning to hike capital spending over the next six months averaged 25.5% in from January-June of this year versus 29.9% in 2007, 31.0% in 2006, 33.5% in 2005, and 32.2% in 2004. This measure of future small business capital spending plans, like the index of small business optimism, has also fallen to its lowest level since the NFIB started gathering such data.

Small businesses will continue to face hard times over the near-term as the consumer and Corporate America reign in their spending and the bar remains high when it comes to credit market access. Better days do lie ahead for small businesses but conditions are

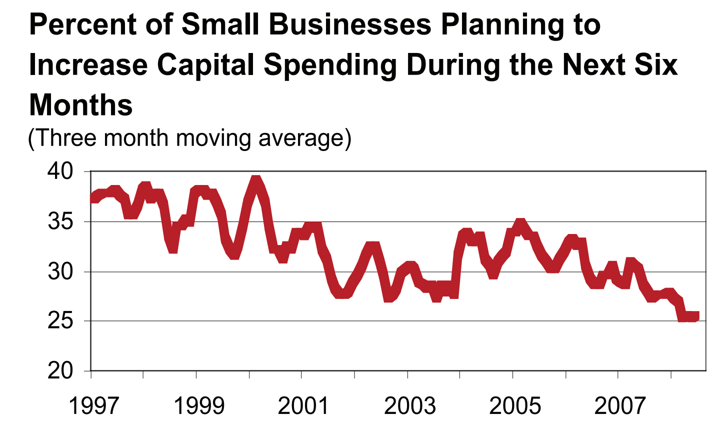

Figure 23

not likely to improve meaningfully until we are well into 2009.

Service Industries

The service sector (including automotive repair and maintenance, electronic, commercial and household repair, residential and commercial lawn and garden care, household and commercial cleaning services, and other services) is slated to expand by 2.6% this year and then slow to less than 1.5% in 2009. Consumer spending on services will be constrained as sky-high food and energy prices squeeze incomes and the employment situation remains tenuous. Corporate America's spending on services will come under scrutiny as profit margins come under pressure. Faced with slower volume growth and pressure on their profit margins the service industries are likely to reign in their own capital spending programs over the near-term, including their purchases of trucks. Once the economy gets back on track, service sector activity is set to advance by 2.5% in 2010, 3.1% in 2011, 2.9% in 2012, and 2.6% in 2013. Renewed strength in service sector activity will be reflected in improving profit performance which will support a return to more aggressive capital spending programs, including the acquisition of new equipment.

The automotive repair and maintenance business grew by 5.5%, in volume terms last year. Growth is expected to pick up to 7.0% this year as new and car light truck sales come under pressure and people look to extend the life of the cars they already own. Beyond this year growth is pegged at 2.4% in 2009, 2.6% in 2010, 2.7% in 2011, and 3.0%-3.5% per year in 2012-13. Gross operating profit is slated to rise by 4.1% this year and then slip by 1.0% in 2009. Looking further out, profits advance by 14% from 2010-13.

Volume growth in electronic, commercial, and household repair services is pegged at 5.1% this year, 0.2% in 2009, 1.9% in 2010, 2.5% in 2011, 2.7% in 2012, and 2.2% in 2013. Gross operating profit is slated to rise by 8.5% this year. Profits then advance by 6.6% in 2009 as material, services and labor costs retreat. Looking further out, profits rise 10.7% in 2010, 7.0% in 2011, 4.5% in 2012, and 5.6% in 2013.

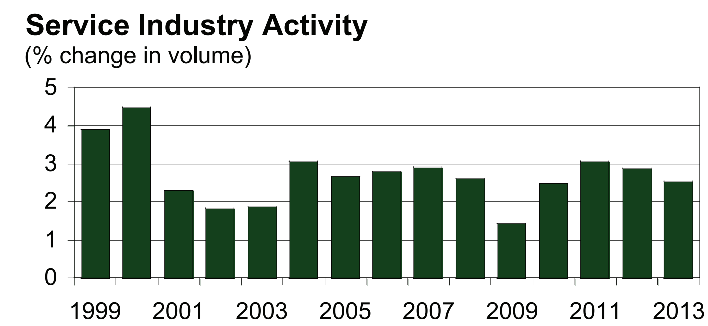

Figure 24

Special Trade Contractors

The slump in housing has taken a toll on employment of carpenters, electricians, plumbers, painters, masons, and other so-called special trade contractors. Employment declined by only 1.0% for all of 2007, as nonresidential and public projects continued to gain ground. Special trade contractor employment is now slated to decline by 5.7% this year and another 5.3% in 2009, as nonresidential and public projects are scaled back. Special trade contractors are largely buyers of light trucks but they are a factor in the small commercial market (classes 4-5) as well. Rising unemployment among special trade contractors will not do the small commercial truck market any good. With construction on the rise once again, special trade employment expands by 1.9% in 2010, 4.6% in 2011, 3.7% in 2012, and 1.8% in 2013.

State & Local Government

The slump in the economy will bring with it reduced revenue growth and eventually a slowdown in state and local government procurement spending. Growth in state and local government revenues peaked at 7.1% in 2005 and then slowed to 5.3% in 2006 and 4.9% in

2007. With economic growth slowing to a crawl revenue growth will slow to 3.7% this year. Looking further out revenue growth is pegged at 4.6% in 2009, 5.3% in 2010, 4.7% in 2011, 4.2% in 2012, and 3.9% in 2013.

State and local government spending on equipment, including trucks, increased by 6% in 2007 and should grow by another 4.0%-4.5% this year as procurement programs already underway are completed. Faced with sky-high diesel fuel prices state and local governments are reviewing their truck and school bus operating and capital budgets. Reflecting the weakness we are anticipating in incoming revenues this year and rising costs, state and local government spending on equipment, including trucks and buses, is slated to decline by 1.7% in 2009 and then advance by 2.0% in 2010. Spending is then slated to advance by 4.5% in 2011, 4.7% in 2012, and 4.5% in 2013 as economic conditions and the state and local revenue flow improves.

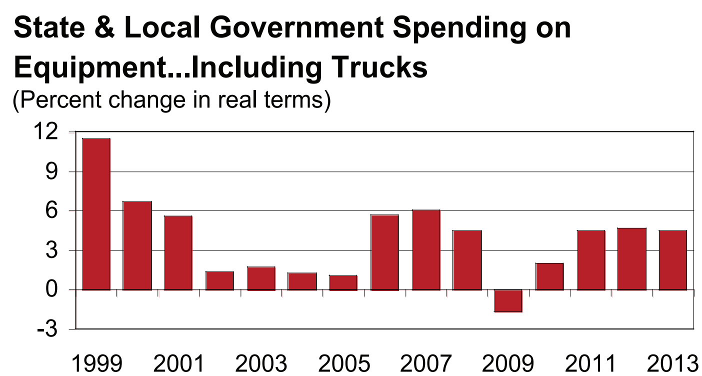

Figure 25

The Outlook for Class 4-8 Trucks & Complete Trailers

Low 2007 Predictions Met

Truck and trailer manufacturers alike had expected 2007 to be a rough year. During the previous three years, 2004-06 U.S. retail sales of class 8 and class 4-7 trucks had totaled 740,000 units and 732,000 units respectively. Over the same period manufacturer shipments of complete trailers totaled 777,000 units. Following three strong years of new equipment acquisition, the commercial fleet was young and pent-up demand no longer a factor in the 2007 outlook. Our age indicators for the class 4-7 and class 8 trucks, and complete trailers clearly point this out. Adding insult to injury, 2007 was a lackluster year for motor carrier traffic and most major equipment-buying markets.

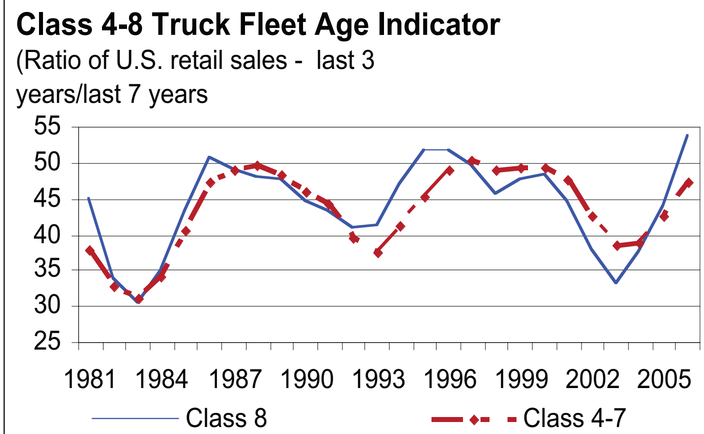

Figure 26

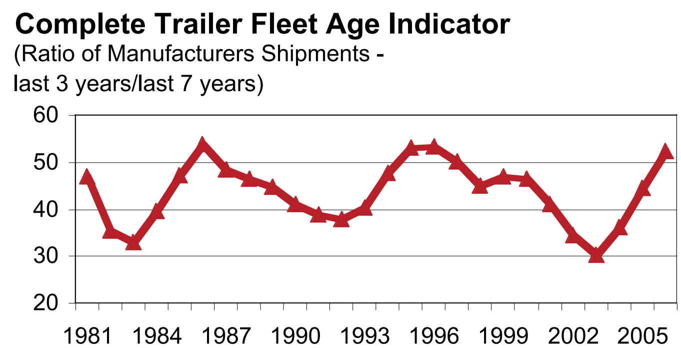

Figure 27

With too many trucks and trailers chasing too little traffic and vocational markets limping along, equipment utilization fell to its lowest level in years. The demand for commercial trucks was also dampened by the payback for 2006 pre-buying to beat 2007 EPA diesel engine emission regulations…approximately 40,000-50,000 Class 8's…15,000-20,000 Class 4-7. The tale of the tape…Class 4-7 truck sales declined 15.5% to 220,128 units, Class 8 heavy truck sales tumbled 46.8% to 150,965 units, and complete trailer shipments fell19.7% to 230,480 units.

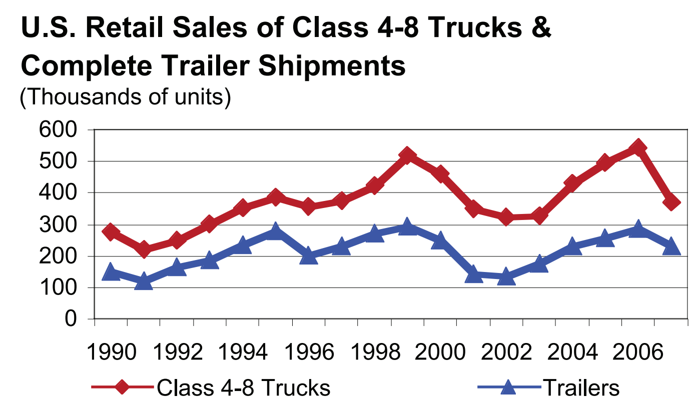

Figure 28

2008 Expectations Lowered

Truck and trailer manufacturers had hoped that 2008 would be an OK year for equipment, betting on "decent" economics and the start of pre-buying to beat those pesky 2010 EPA diesel engine emission regulations to lift the market. However, it now looks like there will not be enough underlying strength in the economy in either 2008 or 2009 to keep medium and heavy truck and trailer sales above water. Truck makers are now pinning their hopes on pre-buying to beat 2010 EPA diesel engine emission regulations to bolster sales and production activity. For trailer builders the economy will be the straw that stirs their drink.

Following their 47% drop in 2007, Class 8 demand has limped into 2008 running 25% below a year ago through June at 65,268 units. Sales of class 6-7 trucks, which dropped 23% in 2007, have also fallen an additional 25% through the first six months of this year totaling 50,985 units. Demand for class 4-5 trucks slipped by almost 4% in 2007, and were off an additional 11% through June at 44,265 units despite a surge in class 5 sales in April and May. Lastly, following a 26% drop in 2007, truck trailer production through June was down an additional 42%.

No Improvement in 2009

Looking ahead, Global Insight has furthered lowered its near-term expectations for the U.S. economy which does not bode well for new equipment sales. Key drivers of motor carrier traffic, including consumer spending, manufacturing activity, construction, and light vehicle sales and production, are all looking more the worse for wear not only over the balance of this year but through much of 2009 as well. Adding to the pain of it all, gasoline and diesel fuel prices have surged into the stratosphere, which is bad news for for-hire carriers, private fleets, and vocational markets as well.

Our latest forecast puts growth in the U.S. economy at a lackluster 1.6% this year, compared to 2.2% in 2007, and an even weaker 0.9% in 2009. The economy is now expected to slip in the negative column in Q4 2008 and Q1 2009. As we have said time and time again, the truck and trailer business and GDP growth do not move in lock step, but with such anemic GDP growth on tap it takes a great leap of faith to be optimistic about the near-term prospects for truck and trailer sales. A weak economy means lackluster motor carrier traffic and anemic vocational market activity, poor earnings, and idle equipment. Motor carrier tonnage is slated to decline by 2.0% this year and 1.6% in 2009, and highway vehicle miles traveled to contract by 1.0% in 2008 and 1.2% in 2009.

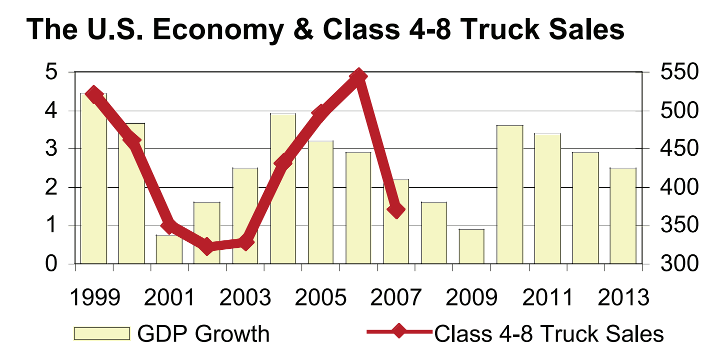

Figure 29

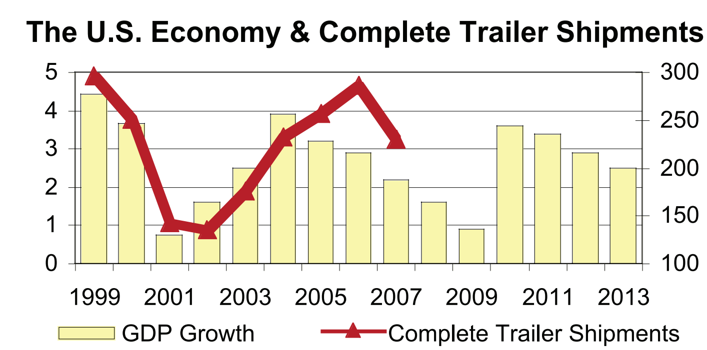

Figure 30

Upcoming Hurdles

The anticipated financial performance of the key private sector markets for trucks and trailers, including trucking companies, manufacturers, retailers, wholesalers and distributors, construction, mining and logging, and the service industries will leave a lot to be desired both this year and next. Profit margins will come under pressure in the face of slumping final demand, sky-high fuel prices, and higher maintenance and operating costs. At the same time the weak economy will have a negative impact on state and local government revenue flows and rising costs will put additional pressure on procurement budgets. Agriculture and energy will buck the trend but those markets are not big enough to move the market.

New Equipment Prices

Truck and trailer buyers can expect heftier price tag on new equipment over the near-term. The cost of materials, components, energy and labor will be heading higher over the near-term putting upward pressure on new equipment prices. At the same time, more stringent environmental regulations will add to the cost of new medium and heavy trucks.

Prices of class 4-7 trucks rose 7.4% in 2005, 5.2% in 2006, and 4.5% in 2007. Prices of class 8 trucks rose 3.2% in 2005, 3.9% in 2006, and 5.5% in 2007. Truck trailer prices rose 5.8% in 2005, 4.6% in 2006, and 2.8% in 2007. Early in 2008 medium-duty truck prices were running 1.9% ahead of a year ago, while heavy-duty truck and truck trailer prices were up 3.4% reflecting weak underlying demand. However, Navistar recently increased prices on International-badged commercial trucks by as much as $1,600 per vehicle citing soaring commodity prices. Other equipment makers, including trailer builders, are expected to follow suit as they wrestle with their similar operating cost hikes.

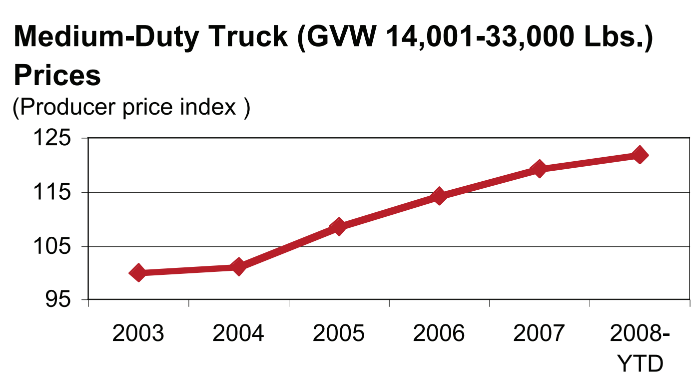

Figure 31

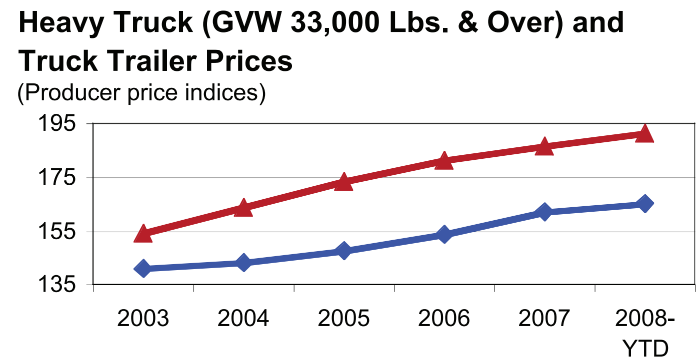

Figure 32

Raw material prices are not expected to break anytime soon. Furthermore any break in prices will still leave steel, aluminum and other material prices at very lofty levels. Key material/component prices are slated to perform as follows: iron & steel - 2008 +24.1%; 2009 -7.9%; 2010 0.0%; 2011 -3.5%; 2012 +3.9%, aluminum - 2008 +12.1%; 2009 +1.4%; 2010 +0.7%; 2011 -3.5%; 2012 -6.5%, truck tires - 2008 +7.0%; 2009 -4.8%; 2010 -0.5%; 2011 +0.4%; 2012 +1.5%. Add in higher energy and labor costs and truck makers and trailer builders have no choice but to pass those costs along to equipment buyers.

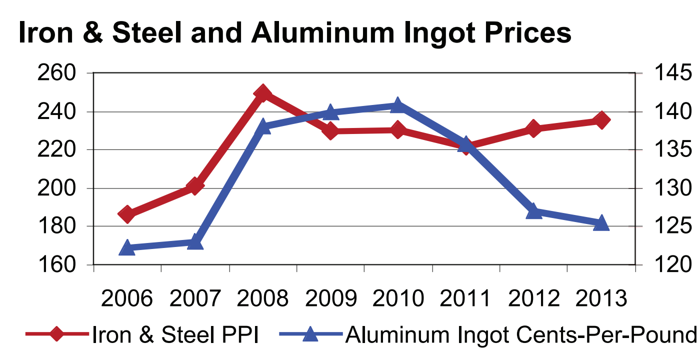

Figure 33

For truck makers there will be additional upward pressure on truck prices from meeting 2010 EPA diesel engine regulations. 2002/2004 engine technology added up to $4,000 to the purchase price of a new truck, while 2007 engine technology added about $7,000. Indications are that meeting the 2010 regulations will carry a heftier price tag than either 2002/2004 or 2007. EPA 2010 regulations are tougher to meet and will require additional engine engineering. In addition because exhaust systems will be larger and burn hotter, body configurations will have to change.

Lastly, it is likely that truck makers will have to wrestle with future environmental regulations, all of which will add to the cost of a new truck. We believe there will be fuel economy/efficiency regulation for medium and heavy-duty trucks from DOT as mandated under the 2007 Energy Bill. Additional possible regulations include: granting of federal authority to EPA to regulate the retrofitting of older engines (the legacy fleet), regulations from the EPA to address CO2 as a criteria air pollutant, regulations pertaining to climate change legislation including low-carbon fuel standards, hybrid technologies, and governing of speeds and speed limit regulations, and regulation of individual constituents in diesel exhaust as further scientific data becomes available. At the same time we expect state and local regulations are also expected to become tougher.

When any of these additional regulations will hit the market is anybody's guess at this point but we are sure that their implementation will only add to the cost of new equipment.

A Rock and a Hard Place

Motor carriers find themselves between a rock and a hard place when it comes to their equipment options. The cost of new equipment will only be heading higher over the near-term at a time when economic conditions suggest that profit margins will be coming under pressure. Delaying buying is an option but not necessarily a good one from a financial performance point of view. Fleets with older equipment that decide to postpone the purchase of new equipment and run with what they have will face higher operating and maintenance expenses as the cost of just about everything needed to operate and maintain trucks and trailers will be heading higher and older equipment tends to need more attention then new equipment. Also the older the truck the poorer the fuel efficiency which is not good news as diesel fuel flirts with the 5$/gallon mark. There is no one size fits all answer to the problem and hard choices will have to be made. Each fleet/owner will have to crunch the numbers to see which road to take.

The bottom line is our expectations for the economy and the performance of key truck and trailer buying end-markets suggests that there will be little need to invest in new equipment, little ability to invest in new equipment, and little willingness to invest in new equipment well into 2009. Illustrating the point, new orders for medium and heavy trucks and truck trailers have been remained lackluster. That being said, the stimulus package did include about $45 billion for businesses (almost all via 50% bonus depreciation). We are doubtful that the stimulus package will do much for equipment spending, but we do expect some bunching of outlays for new equipment, including trucks, at the end of the year, just before bonus depreciation expires, followed by a payback early in 2009.

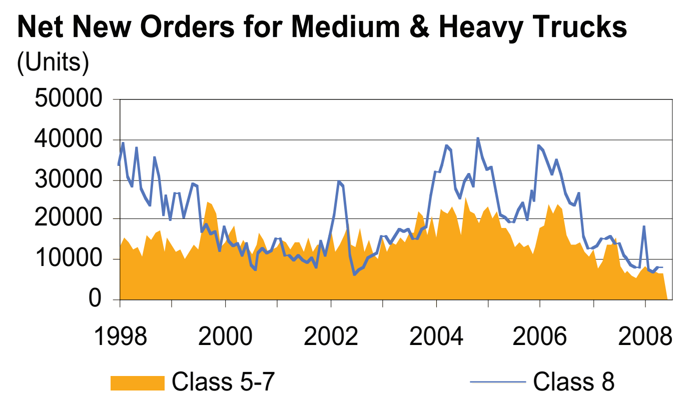

Figure 34

However, it is assumed that pre-buying to beat 2010 EPA diesel emission regulations will begin to push truck demand higher as we transition out of 2008 and move through 2009. Pre-buying will be most aggressive among larger-sized fleets who dominant the upper GVW range.

Beyond 2009

Beyond next year we assume that the economy gets back on track, with GDP growth accelerating to 3.6% in 2010, 3.4% in 2011, 2.9% in 2012, and 2.5% in 2013. With this as a backdrop, a rebound in end market activity and earnings, and motor carrier traffic is anticipated and the prospects for truck and trailer demand should brighten considerably. Motor carrier tonnage is slated to expand by 3.2% in 2010, 3.8% in 2011, 3.1% in 2012, and 2.8% in 2013. Highway vehicle miles traveled is forecast to rise by 2.1% in 2010, 1.4% in 2011, 1.2% in 2012, and 0.9% in 2013. However, payback for 2009 pre-buying will take a toll on truck sales in 2010. Thereafter, truck sales should gain meaningful ground once again.

Motor Carrier Tonnage & Highway Vehicle Miles Traveled
(Percent change from a year earlier)

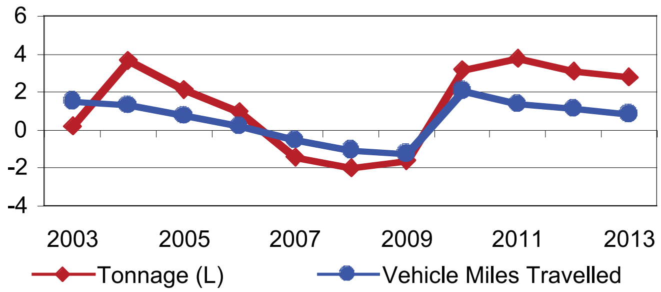

Figure 35

Class 4-5 (14,001-19,500 Lbs.) Summary

U.S. sales of class 4-5 trucks rose by 45.4% during the three years from 2004-06 and then declined by 3.8% in 2007 to 95,913 units. Class 4-5 trucks are utilized by a wide range of industries/markets, including local pickup and delivery, service industry applications such as landscaping, tow-truck and maintenance and repair operations, construction and contractor services, agriculture, utility and other vocations. Small business tends to dominate the landscape when it comes to sales of class 4-5 trucks.

Ford continued to dominate this market in 2007, reporting sales of 50,978 trucks for a market share of 53.2%. GM came in a distant second with sales of 24,317 units or 25.4% of the market. Sales of Japanese brands (Isuzu, Mitsubishi Fuso, Hino and Nissan Diesel) totaled 14,165 units for a market share of 14.8%. Rounding out the market: Freightliner with sales of 2,955 units with a market share 3.1%; International with sales of 2,325 units with a market share 2.4%; Dodge with sales of 588 units with a market share 0.6%; and Sterling with sales of 585 units with a market share 0.6%.

Mid-way through 2008 the landscape has changed a bit. Ford remains the big player in class 4-5 but its market share dropped to 45.7%. GM remains in second place, but its share edged up to 26.0%. Japanese brands have lost ground seeing their share of the market slip to 10.2%. Dodge with its new class 5 offering produced in Mexico captured 6.7% of the market, followed by International with a market share of 5.2%. Rounding things out, market shares for the first six months of 2008 were reported as follows: Freightliner, 4.1%; Sterling, 1.9%; and new entry Paccar 0.4%.

U.S. retail sales of class 4-5 trucks are projected to total 89,515 units this year, a decline of 6.7%. Sales are slated to advance by 3.3% in 2009 to 92,000 units before falling back by 3.2% in 2010 to 89,500 units. Sales then advance to 100,000 units in 2011, and 110,000 units in 2012, increases of 11.7% and 10.0%, respectively, before slipping in 2013 to 109,000 units.

Class 6-7 (19,501-33,000 Lbs) Summary

U.S. sales of class 6-7 trucks rose by 36.5% during the three years from 2004-06 and then declined by 22.8% in 2007 to 124,215 units. These trucks are widely used in the transportation of goods by both for-hire and private carriers (including retailers and wholesalers and distributors). Other uses include service, contractor, agriculture, utility and other vocational applications. School bus chassis accounted for about 21% of total vehicle sales in class 6-7 in 2007.

International claimed the top spot in 2007 with sales of 37,943 trucks and school bus chassis and a market share of over 30.5%. Freightliner was right behind them with sales of 35,465 trucks and school bus chassis, good for 28.6% share. Ford came in third with truck sales of 19,858 units and a market share of 16.0%. GM had 2007 sales of 9,847 trucks and a market share of 7.9%. Paccar sold 9,248 class 7 trucks in 2007 capturing 7.4% of the U.S. class 6-7 market. Japanese brands accounted for 6.6% of the market with total sales of 8,220 units. Lastly, Sterling sold 3,634 trucks for a market share of over 2.9%.

Mid-way through 2008 International remains at the top of the heap with a 34.6% share followed by Freightliner with 28.1% and Ford at 13.1%. Second tier players reported six-month 2008 market shares as follows; Paccar, 7.4%; Japanese brands, 7.3%; GM, 7.0%; and Sterling, 2.5%.

Sales of class 6-7 trucks are slated to fall 15.1% in 2008 to 105,486 units. Buoyed by pre-buying, sales are forecast to rise 7.4% in 2009 to 113,240 before falling back by 8.2% in 2010 to 104,000 units. Sales then advance 22.8% in 2011 to 127,500 units, 20.0% in 2012 to 153,000 units, and 5.9% in 2013 to 162,000 units.

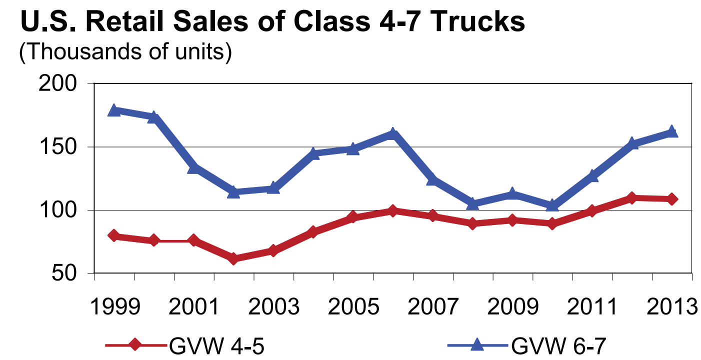

Figure 36

Class 8 (33,001 Lbs. & Over) Summary

U.S. sales of class 8 heavy trucks surged ahead by a whopping 100% during the three years from 2004-06 and then declined 46.8% in 2007 to 150,965 units. Class 8 trucks and tractors are widely used in the transportation of general and bulk commodities by both for-hire and private carriers (including retailers and wholesalers and distributors). Construction (dump trucks and cement mixers), mining, logging, heavy industry, and refuse (garbage trucks) round out the list key applications/uses.

Freightliner sits atop the U.S. market reporting sales of 37,371 units in 2007 and a market share of 24.8%. Second place went to Paccar (Kenworth and Peterbilt divisions) with sales of 39,247 units good for 26.0% of the market. International came in third with sales of 29,675 units and a market share of 19.7%. Second tier players included Volvo with sales of 16,064 units…market share 10.6%; Mack with sales of 13,438 units…market share 8.9%; and Sterling with sales of 12,054 units…market share 8.0%. Rounding out the market Western Star sold 2,281 units in 2007 accounting for 1.5% of total sales and miscellaneous manufacturers reported sales of 835 units accounting for 0.6% of the market.

Six months into 2008 Paccar and Freightliner were just about neck and neck at the top of the class 8 market with market shares of 25.3% and 25.1% respectively. International came in a close third at 22.7%. Volvo, Mack, and Sterling reported six-month market shares of 10.9%, 9.0%, and 5.8%, respectively. Western Star and the remaining players in the class market recorded market shares of 1.0% and 0.1%, respectively.

Heavy class 8 truck sales appear headed for an 11.9% drop this year to 133,020 units. Assuming that pre-buying to beat 2010 EPA diesel engine emission regulations becomes a reality and offsets generally unfavorable economic and end-market conditions, sales are slated to surge ahead by a 39.1% in 2009 to 185,000 units. Heavy truck sales then fall back by 18.9% in 2010 to 150,000 units, before advancing to 215,500 units in 2011 and 267,500 units in 2012, increases of 43.7% and 24.1%, respectively. Sales then fall back by 13.1% in 2013 units to 232,500 units.

Complete Trailers Summary

Manufacturer shipments of complete trailers jumped 63.2% during the three years from 2004-06 and then fell back by 19.7% in 2007 to 230,480 units. Vans account for about 75% of the market, followed by flatbeds at 8%, dumps at 5%, low-beds at 4.5%, tanks at 3%, and all other trailers including auto transport trailers, bulk, pole, log and pipe and miscellaneous trailer types 4.5%. We estimate that the top-five trailer manufactures produced 148,500 units last accounting for over 64% of the market. Great Dane led the way with production of 48,000 units and a market share of 20.8%, followed by Wabash National at 45,524 units with a19.8% market share; Utility Trailers at 30,648 units with a 13.3% market share; Hyundai at 12,950 units with a market share of 5.6%; and Stoughton Trailers at 11,400 units and a 4.9% market share.

Complete trailer shipments are now expected to drop 28.2% this year to 2008 to 165,526 units. We believe motor carriers will be focused on pre-buying power units to beat 2010 diesel engine regulations which will

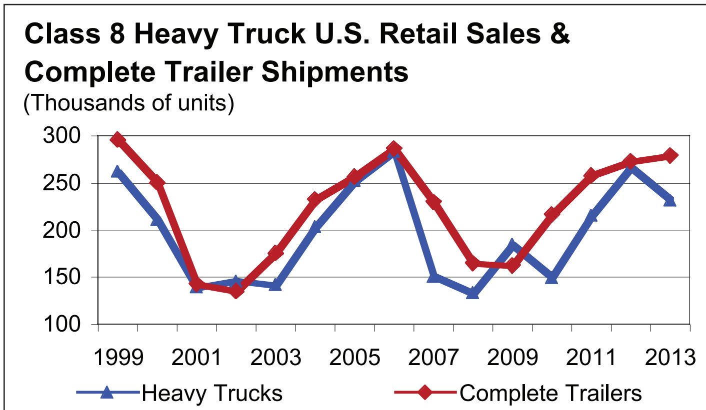

Figure 37

divert limited financial resources from other capital investments. This combined with anticipated economic and end-market conditions suggest a decline in shipments to 162,600 units in 2009. Thereafter favorable economic conditions should support trailer shipments of 216,750 units in 2010, 257,980 units in 2011, 273,800 units in 2012, and 279,970 units in 2013.

Conclusion

In the short run, the outlook is grim. Tonnage is down, companies are failing, and the industries that anyone associated with trucks looks to as indicators aren't showing signs of immediate recovery. Despite that, there are still bright spots. Heavy trucks are really suffering, but medium vehicles are doing relatively well considering the economic environment. Compared with previous freight recessions, the value of used vehicles, and as a result, the positions of the leasing and financing companies has done well, values are down but they are not devastated. That observation is dependent on a variety of factors, including a distrust of newer vehicles, and a strong export market for older vehicles. While that mistrust is unlikely to change, it does not seem to be leading to the scale of pre-buy prior to the 2010 EPA regulations coming into force that was seen in previous regulatory cycles. The export markets are under considerable threat, dependent on a variety of volatile factors.

In the longer run, things are expected to improve after 2010. The economy will recover, along with the industries that require trucks. The pre-buy and the other half of that cycle, the payback, will end and normal buying patterns will return. The companies going out of business now will mean that when demand for trucking capacity returns, it will return to a market where the carriers have more pricing power. The trucks that have gone overseas will mean that as the need to ship things picks up, carriers will not be able to take the trucks they left parked along the fence and get right to it, they will have to buy or lease new vehicles. Some things will not recover; the price of oil is unlikely to return to its previous lows, and the associated transport and materials costs will remain high, but the businesses that pass through this downturn will be the ones equipped to survive in that environment.

Appendix

Table 1

U.S. Economic Forecast Summary

	2007	2008	2009	2010	2011	2012	2013
Real GDP - % Chg.	2.2	1.6	0.9	3.6	3.4	2.9	2.5
Industrial Output - % Chg.	1.7	0.1	0.8	4.2	3.4	2.2	1.8
Light Vehicle Sales – Mil.	16.11	14.41	14.19	15.43	16.31	17.12	17.49
Housing Starts – Mil.	1.341	0.933	1.009	1.434	1.692	1.729	1.722
Consumer Spending - % Chg.	2.9	1.7	0.4	3.2	3.7	3.3	2.7
Business Invest. - % Chg.	4.7	3.3	-2.1	3.1	6.8	5.2	2.9
Crude Oil WTI - $/BBL	72.18	131.46	146.29	112.50	101.42	95.42	88.83
CPI, All Urban - % Chg.	2.9	5.3	3.3	0.5	1.3	1.6	1.6
PPI, Finish. Goods - % Chg.	3.9	10.4	4.9	-2.3	-0.3	0.4	0.2
Gasoline Pump Price - $/gal.	2.85	4.01	4.43	3.64	3.39	3.26	3.16
Diesel Pump Price - $/gal.	2.88	4.39	4.71	3.85	3.53	3.34	3.12
Fed. Funds Rate - %	5.0	2.3	2.4	4.3	4.8	4.8	4.8
3-Month T-Bill Rate - %	4.4	1.9	2.4	4.2	4.6	4.6	4.6
10-Yr. T-Note Yield - %	4.6	3.8	3.9	5.2	5.4	5.4	5.4
Exchange Rate - Major Trading Partners	0.767	0.698	0.689	0.710	0.725	0.727	0.731
Canadian GDP - % Change	2.7	1.2	2.1	2.5	2.6	2.6	2.5
Canadian IP - % Change	0.3	-2.9	2.5	2.0	2.9	2.4	2.2
Mexican GDP - % Change	3.3	2.9	3.4	4.1	4.1	4.1	4.1
Mexican IP - % Change	1.9	2.3	2.9	3.4	3.4	3.4	3.4

Note: Forecasts begin in 2008.

Source: Global Insight

Table 2

Activity in Key U.S. Truck Markets

(Percent change in industry volume, or as indicated)

End-Market	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
For-Hire Carrier Tonnage	-1.5	-1.9	-1.4	3.4	3.9	3.3	2.9
Private Carrier Tonnage	-1.2	-2.1	-1.9	3.1	3.8	3.0	2.8
Small Pkg./E-Commerce	2.8	1.9	1.1	5.2	4.7	3.7	3.1
Low-Tech Manufacturing	0.7	-1.9	-0.5	3.6	3.6	2.6	2.1
Retail Trade	3.3	1.5	-0.7	4.0	4.4	3.8	3.2
Wholesale Trade	3.8	-0.2	-0.7	4.6	4.8	3.8	3.1
Warehouse & Storage	2.4	-1.6	0.7	3.6	4.0	3.4	3.0
Construction	-5.4	-8.6	-6.5	7.5	7.7	3.0	1.6
Crop Production	14.2	-4.8	8.5	0.3	1.1	0.7	1.7
Net Farm Income - $ Bil.	88.7	82.4	79.6	80.7	85.3	84.8	84.6
Mining X Oil and Gas	-6.4	-3.3	-0.8	2.5	3	2.6	2.2
Oil Patch - WTI $/bbl	72.18	131.46	146.29	112.50	101.42	95.42	88.83
Logging	6.2	-4.1	-8.3	5.9	5.2	0.9	-1.8
Special Trades Employment	-1.0	-5.7	-5.3	1.9	4.6	3.7	1.8
Service Industries	2.9	2.6	1.4	2.5	3.1	2.9	2.6
State & Local Government Spending on Equipment	6.1	4.5	-1.7	2.0	4.5	4.7	4.5

Note: Forecasts begin in 2008.

Source: Global Insight's Industry Service

Table 3
Key Drivers of U.S. Bulk and General Commodity Traffic and Highway Truck Vehicle-Miles Traveled
(Percent change)

	2007	2008	2009	2010	2011	2012	2013
Manufacturing	1.7	0.1	0.8	4.2	3.4	2.2	1.8
Traditional Mfg.	0.7	-1.9	-0.5	3.6	3.6	2.6	2.1
Mining (Excl. Oil & Gas)	-6.4	-3.3	-0.8	2.5	3	2.6	2.2
Logging	6.2	-4.1	-8.3	5.9	5.2	0.9	-1.8
Construction	-5.4	-8.6	-6.5	7.5	7.7	3.0	1.6
Major Crop Production	14.2	-4.8	8.5	0.3	1.1	0.7	1.7
Natural Gas Demand	3.5	6.0	-3.9	0.6	-0.4	-0.5	-0.1
Petroleum Demand	-0.4	-3.0	-2.2	4.2	2.0	1.1	1.2
Non-Oil Imports	1.9	-0.9	0.8	7.1	7.5	6.0	4.2
Merchandise Exports	7.9	8.9	9.5	8.0	6.5	6.0	6.2
Bulk Traffic Indicator	-2.2	-3.1	0.6	2.5	2.9	2.7	2.3
General Traffic Indicator	-1.8	-2.1	-1.6	1.9	2.6	2.5	2.2
Vehicle-Miles Traveled	-0.52	-1.04	-1.24	2.09	1.40	1.15	0.86
Heavy Single-Unit Trucks	-0.32	-0.62	-0.85	1.73	1.69	1.13	0.78
Combination Trucks	-0.63	-1.27	-1.46	2.30	1.23	1.15	0.91

Note: Forecasts begin in 2008.

Source: Global Insight's Industry Service

Table 4

U.S. Retail Sales of Class 4-8 Trucks & Complete Trailer Shipments

(Units)

	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Class 4-5 (GVW 14,001-19,500 Lbs)	95913	89515	92500	89500	100000	110000	109000
% Change	-3.8	-6.7	3.3	-3.2	11.7	10.0	-0.9
Class 6-7 (GVW 19,501-33,000 Lbs)	124215	105486	113250	104000	127500	153000	162000
% Change	-22.8	-15.1	7.4	-8.2	22.6	20.0	5.9
Class 4-7 (GVW 14,001-33,000 Lbs)	220128	195001	205750	193500	227500	263000	271000
% Change	-15.5	-11.4	5.5	-6.0	17.6	15.6	3.0
Class 8 (GVW 33,001 Lbs. & Over)	150965	133020	185000	150000	215500	267500	232500
% Change	-46.8	-11.9	39.1	-18.9	43.7	24.1	-13.1
Complete Trailer Shipments	230480	165526	162600	216750	257980	273800	279970
% Change	-0.2	-28.2	-1.8	33.3	19.0	6.1	2.3

Note: Forecasts begin in 2008.

Source: Global Insight's Industry Service

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