

Fleet Sentiment Report[®]

*Reporting from end users in the commercial vehicle
transportation industry*

Issue 4 – 2008

Covering Q4 Data – October 2008

Please direct any inquiries about this report or subscription information
to chris@ckcvr.com

In this issue:

Fleet Interview J.W. Nelson	Page 3
Aftermarket Sentiment Report	Page 4 - 5
Fleet Sentiment: Q3 2008 – Buying Plans	Page 6 - 9
Current Fleet Situation Utilization Rates Capacity vs. Available Freight Fleet Sentiment	Page 9
2010 – Purchasing Plans	Page 10

J.W. Nelson Transports Brad Nelson, President

On October 21st I visited with Brad Nelson, President of JW Nelson Transports located 30 miles from the Gulf Coast in Lake Charles, LA. In spite of their location, damage from Hurricane Ike was primarily limited to one power unit with its hood pried open like a tin can. JW Nelson started in business 50 years ago as a lease operator to Groendyke Transportation – which they still are today. Brad's grandfather, after a successful career with Phillips Petroleum and with the support of Harold Groendyke, started his trucking company in Kansas to haul freight for his former employer, Phillips Petroleum as well as Skelly Oil. The business was moved to its current location in Louisiana in 1970 to take advantage of a better business environment for the company. Brad's father entered the business in 1974 after a career in the U.S. Army. ConocoPhillips continues to be one of their primary customers.

Today, there are 26 power units and 40 tank trailers owned by JW Nelson and leased to Groendyke. 24 of their trailers operate within the Groendyke system itself and Brad and his people seldom see them. The primary commodities moved by their equipment are jet fuel, lube oil and various chemicals. Business conditions are "OK" here with freight demand steady. In fact, October 2008 will be one the best revenue months ever for JW Nelson.

The current inventory of power equipment includes Freightliners with CAT engines and some with the MBE 4000 engines. Unfortunately, for any new equipment purchased, a new engine will be added to the mix because neither of these will be available. New Freightliner models will be purchased with either DD15 or DD13 engines. Brad is disappointed with the decision by CAT to exit this market because he thought they had the best technology for 2010 and beyond – and also is skeptical that customer service for their current customers will continue at the level it is today once they no longer supply the OEM's. New truck purchases have slowed considerably over the last few years, as the company tries to keep down debt in light of the negative economic environment for transportation. Additionally, an unexpected, significant expense for parking lot resurfacing hasn't helped. If new trucks are purchased at all in the near future, they will strictly be to replace aging equipment as any expansion plans are limited by the ability to hire and keep HAZMAT (as well as the TSA TWIC card) certified drivers that are required for this type of operation. Typical trades are now made based on accumulated miles (750,000) as opposed to the pre-determined time trade cycle they used to use.

Tankers are kept for 20+ years and are spec'd to last that long. One trailer Brad showed me on the lot was 28 years old, but appeared significantly newer than that. Newer tankers are almost 100% stainless steel (with the exception of landing legs) and equipped with air-ride suspensions to hold up to rigorous on-highway miles as well as the corrosive environment they sometimes operate in when loading and unloading. Some tankers are equipped with heat exchangers to keep internal temperatures between the required 59°-77° for the acrylic acid they haul. Because the tankers, in most cases, have to be cleaned out between loads, they mostly avoid the western US. There are few cleaning facilities available and back hauls are severely limited from this region.

In addition to Brad's position with JW Nelson, he is also Terminal Manager and Lead Auditor for Groendyke Transportation. In the last issue of the Fleet Sentiment Report, his views regarding in-house vs. out-sourced maintenance were included in an article about the subject and

reflected both his responsibilities to JW Nelson as well as to Groendyke. His own maintenance facility in Lake Charles is manned by (2) technicians and (1) shop supervisor. Because his vehicles are leased to Groendyke, Brad does have the added advantage of utilizing their multiple locations for service as well as being able to rely on their training capabilities for his technicians. Most routine and much of the warranty work is therefore handled in house in company facilities. As mentioned in the article, Brad prefers to have as much maintenance as possible handled this way for a multitude of reasons: quality of the service, accurate record-keeping, quickness of getting equipment back on the road, and the time and cost to shuttle equipment back and forth to an outside vendor. A major influence is the time-sensitivity of the freight they haul and the requirements of some of their customers to produce a "root cause analysis" when freight is delayed.

Brad just believes that they can do a better job if they maintain as much control over the vehicle themselves rather than relying on others. The balance of warranty and major overhauls are handled by the local Freightliner dealer. Drivers are paid here by percent of revenue so they have a stake in making sure their vehicles are operating in a reliable manner – therefore they take a pro-active role in being sure the equipment is serviced when required.

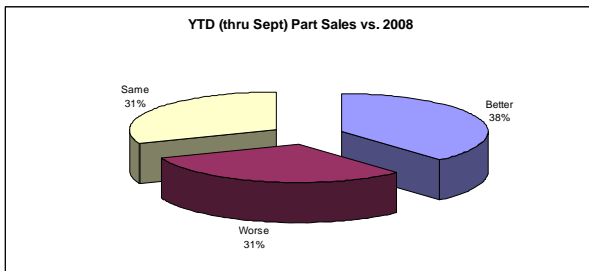
Replacement parts are primarily purchased from the OE dealer for power unit components and local truck part distributors for trailer components. Most of the time Brad purchases the original equipment brand of components, but also looks for value when it's available. For instance, another brand of brake shoes is purchased because they cost less and have equal or better value than the original brand. Part inventories are kept fairly low here because they can get quick delivery for most requirements.

New technology that is looked at is primarily to add safety to the fleet. On the next purchase of power units, the Meritor On-Guard and anti-rollover specs will be added and they may also include CRAM (Driver fatigue monitoring system). As far as Brad is aware, they are the first U.S. commercial fleet that will be testing this technology and the capabilities offer them important benefits. For instance, they've had (2) fatigue related rollovers on the same stretch of highway in MS and CRAM monitoring and reporting may help them avoid them in the future. According to the supplier's (Effective Control Transport) website www.ecnholding.com "CRAM" is designed to be proactive instead of reactive. With a series of optical sensors built within the system the CRAM collects the data needed for analysis in a non-invasive manner." Brad has also inquired about commercial vehicles with the capability to run on natural gas because of the expected \$1.00/gallon less cost of this "fuel". Of course the drawback is the estimated acquisition cost of \$200,000 for an LNG powered vehicle, which makes return on investment currently unacceptable. The ever-increasing introduction rate of new safety and emissions technology for new vehicles is, in itself, one reason Brad is taking a wait and see attitude towards buying new units right now. He doesn't want to be too far ahead of the curve with vehicles that have basically planned obsolescence as soon as they are bought (pre-2010 engines, short on the most current safety technology, etc). On the other side of the coin, as his fleet's average age increases, there could be more vehicles in his fleet that fall "behind the curve" that don't give him the best operational value. It's a fine line and a challenge to make the right decision on when to buy new equipment.

Aftermarket Sentiment

Beginning in October 2008, we're attempting to add some "sentiment" data from industry aftermarket participants. Reporting in this issue is just a start on that goal. We were only able to gather information from thirteen individuals so we don't expect you to be able to take away significant knowledge from this information; but it's worth seeing, at least anecdotally what they are experiencing. The small group consisted of (5) parts distributors who are members of a buying group (5) OE dealers and one each describing themselves as OE Direct, OE Manufacturer and Truck Equipment. Other identifying questions were asked as well and following this analysis there is a chart giving all that information. The questions as posed to this group are shown in italics with results following.

How do your 2008 YTD part sales (through September 30th) compare to the same period last year?



It's pretty evenly split between the choices for these 13 respondents with more doing better than worse, and there was no difference between types of respondents (dealer, distributor, large, small, geographic location or any other demographic identities). As a follow up question, we asked by what percent sales were better or worse from last year with an average of 9% better and 12.5% worse.

What's your outlook for parts sales in 2009?

Fortunately, most of our respondents indicated that part sales were not expected to worsen further in 2009 – (5) said they expected them to remain the same with another (5) expecting "marginally better" sales in 2009. (1) hoped for "significantly better" sales in 2009 with (2) expecting them to worsen. Again, there is no differences seen between types of business.

Please explain any changes

- Marginally better because "Not buying new trucks, repairing old trucks and trailers"
- Significantly better because "New emission scare is over"
- Expected to worsen because "Our market is construction centered and is extremely down"

Currently, what are the top moving parts in your inventory and what are slowest moving?

Respondents gave multiple answers and the following chart lists the components and how many mentioned it. Because of the low number of respondents, there are only a few part categories that were mentioned by more than one; and obviously the type of customer impacts this list quite a lot.

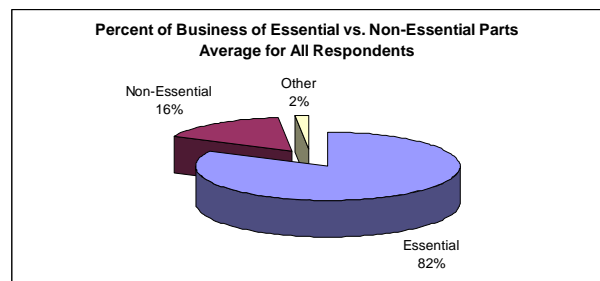
Top Moving Parts (# of respondents)	Slowest Moving Parts (# of respondents)
Brakes (4)	Suspension (4)
Brakes & related wheel parts (1)	Accessories (2)
Drums (1)	Chrome (2)
Engine parts (3)	Body (2)
Filters (3)	Exhaust (2)
Air bags (2)	Trailer parts (2)
Lighting (2)	Air conditioning (1)
Lubricants (2)	Aluminum wheels/wheels (2)
Air system components (1)	Axles (1)
Axle maintenance parts (1)	Clutches (1)
Clutch (1)	Drive Train components (1)
Dome Lids (1)	Dump trailer parts (1)
Drive Train (1)	Electrical (1)
Gearing (1)	Engine (1)
OEM Parts (1)	Fifth wheels (1)
Sight Glasses (1)	Seals (1)
Spring Brakes (1)	Tarp parts (1)
Tanker parts (1)	Toolboxes (1)
Tires (1)	
Wear items (1)	
Wet kits (1)	

Currently, what is your inventory turn rate?

Average: 3.9

What percentage of your part sales do you consider to be for essential (required maintenance) components vs. non-essential (impulse buy, upgrades, beauty products, etc.)?

Even with the limited responses, it's obvious that essential parts are primarily what is being sold now. Since we have just started asking this question, I can't be sure if this is different than when times are good in the trucking industry, but I suspect that it is. Certainly with the financial challenges facing anyone operating a truck today, you would expect the purchase of "non-essential" items to be limited.



Overall, how's your business with (1) being poor and (10) being excellent?

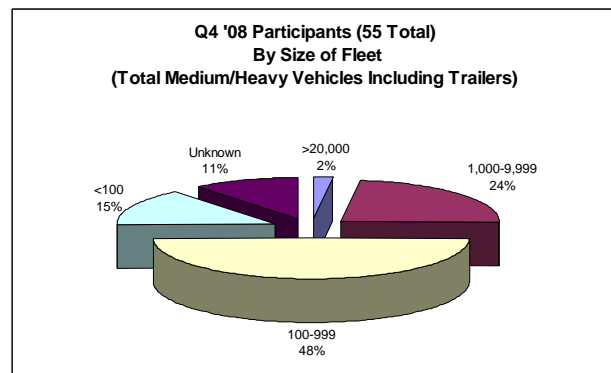
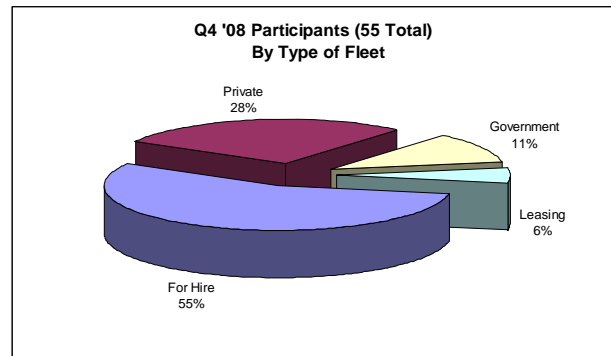
Average 6.8

Demographic description of our aftermarket respondents

Type of Business	Maintenance Capabilities ?	Avg Age of Customer Eq.	Annual Part Sales	Location
Buying Group	NO	6-10	>\$10,000,000	Seattle, WA
OE Dealer	YES	3-5	<\$1,000,000	Rehoboth, MA
Truck Equipment	YES	3-5	>\$1 Mil < \$5 Mil	Sioux City, IA
Buying Group	YES	6-10	>\$10,000,000	Various
Buying Group	NO	6-10	>\$10,000,000	Mississauga, ON
OE Direct	YES	3-5	>\$10,000,000	Greensboro, NC
Buying Group	NO	6-10	>\$10,000,000	Raleigh, NC
Buying Group	YES	6-10	>\$10,000,000	Salt Lake City, UT
OE Dealer		3-5	>\$1 Mil < \$5 Mil	Quebec CDA
OEM Mfg	YES	6-10	>\$1 Mil < \$5 Mil	Marshfield, WI
OE Dealer	YES	6-10	>\$1 Mil < \$5 Mil	Missoula, MT
OE Dealer	YES	3-5	>\$10,000,000	NY, PA, NJ, MA, CA
OE Dealer	YES	6-10	>\$10,000,000	PA

Fleet Sentiment Q4 – 2008

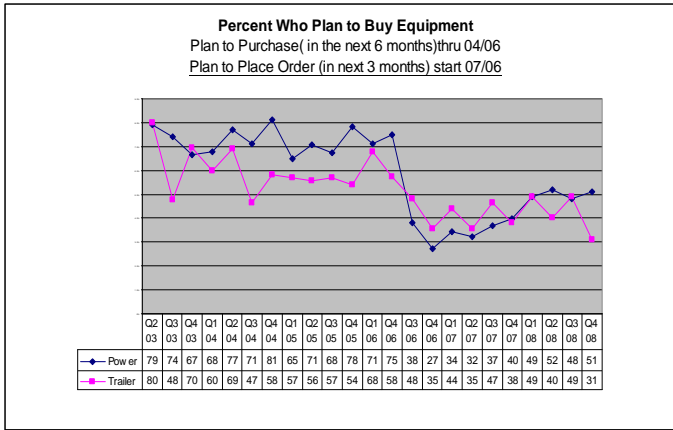
During the week of October 20, we sent out the Q4 2008 FSR Questionnaire to our group of fleet advisors. Currently, that group consists of approximately 200 fleet managers from for-hire, private, leasing and municipal /government operations. From October 20th through October 27th we received (55) responses. The charts on the right indicate from what types of operations the Q4 2008 data was received. We have increased the number of government fleets in our analysis and believe that information from this, sometimes forgotten segment, is important. Throughout the analysis, if we see a significant trend that is different for one group than another, we will point that out.



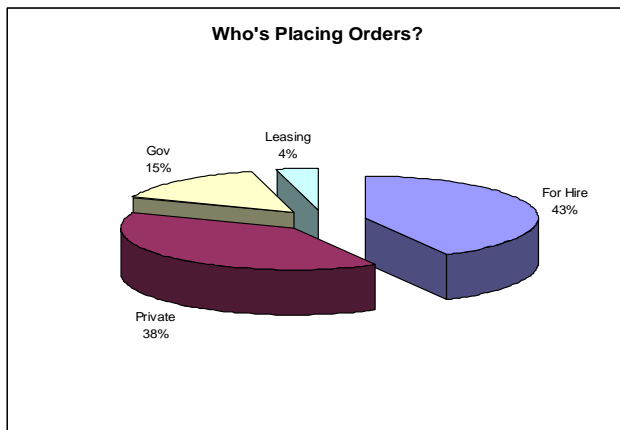
Q4 '08 – Buying Plans

Do you plan to place orders in the next (3) months?

In October 2008, **51% of our respondents indicated they were placing orders for power units and 31% were placing orders for trailers in the next (3) months.** The averages since we have been asking this specific question (Q3 2006) are 41% for power and 42% for trailer planned purchases. So those placing orders for power units is above the average but keep in mind the period Q3 2006 through late 2007 were held down by those avoiding the new '07 models. And trailers orders are soft vs. the historical average.

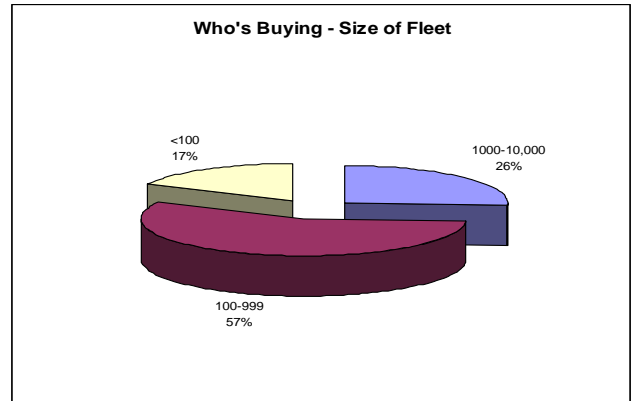


Considering the mix in our group of respondents for this quarter and the analysis of which fleets are planning purchases, those placing orders are more likely to be from the private or government sector than from for-hire fleets.



The size of fleets that are planning purchases of power units is very similar to the group in total. I think it's interesting that 50+% of those fleets placing orders operate between 100-999 (total vehicles). There has

been a lot of discussion recently about small fleets, in a larger proportion, going under in the current environment. I happen to question this – my own opinion is that it's not the size of the fleet but HOW a fleet is run that determines success in good times as well as bad.

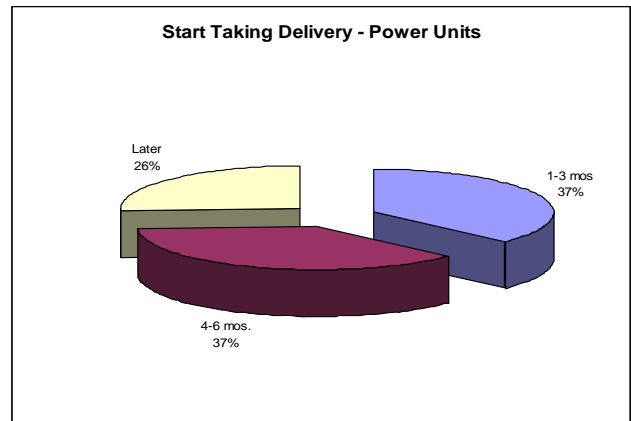


Even the few trailer orders we see are being placed by a higher percentage of private fleets (vs. the group demographics) and again by many fleets in the 100-999 size range.

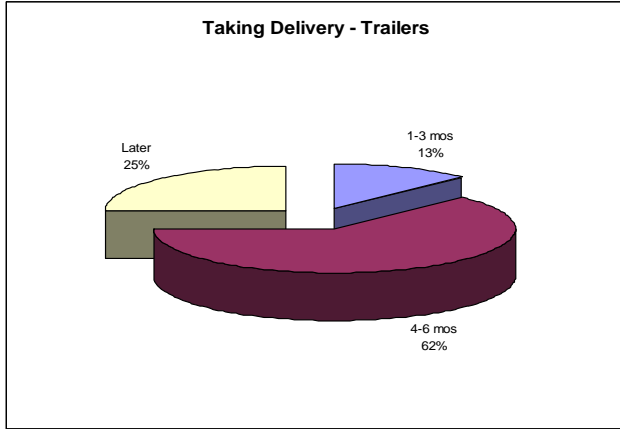
The 51% that plan to place orders for power units in the next (3) months could be considered fairly good news, but needs to be tempered by the additional information of when deliveries are expected to start and more importantly the plans of the rest of the respondents (those not placing orders in the next 3 months). That information follows.

When will you start taking delivery?

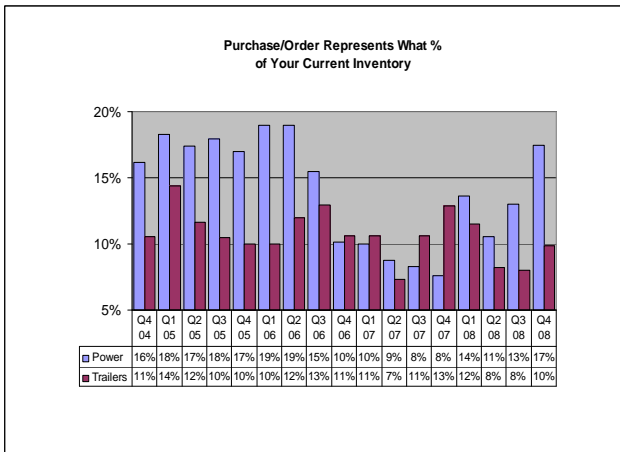
For power units a larger percentage than last quarter have moved out delivery 4-6 months or even later for those orders being placed now.



And for trailers, it's more significant with only 13% expecting to take initial delivery within the next 3 months; and even for the larger percentage that plan to take delivery in Q1 or Q2 2009, keep in mind that only 31% of our respondents plan on placing any trailer orders at all.



As a percentage of your total vehicles (power or trailer) what percent does this purchase represent?



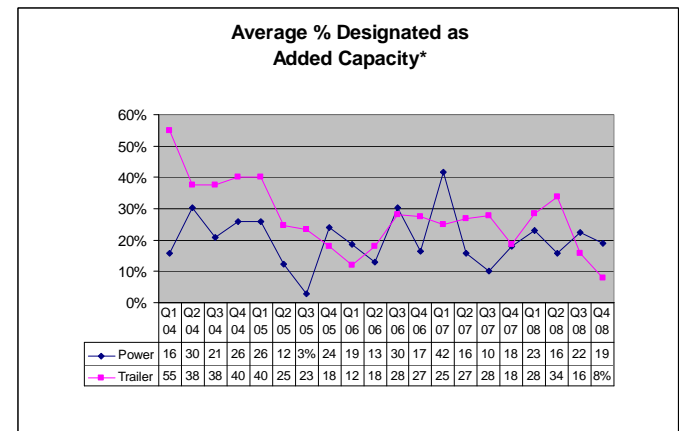
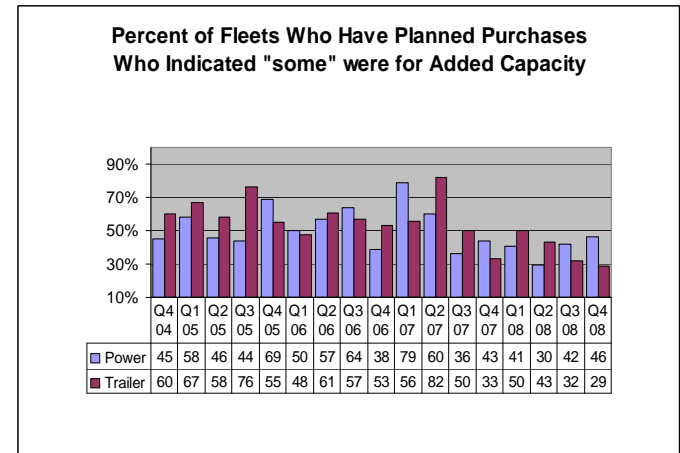
The percentage represented in power unit purchases (17%) is up again and much larger than the historical average of 11%. However, the average size of order is impacted by one fairly small grocery fleet that indicated his purchase represents 95% of his current inventory and a Canadian leasing company who is planning a 50% purchase. Without these fleets, the average is 12%. Trailers remain at the 10% historical average.

The weighted average for power units based on our total group is positively impacted by two significant orders – one from a for-hire fleet operating 2000 power units and the other from the Canadian leasing operation mentioned above. The 2-year average for power is now 5.7% so this quarter is significantly higher than that; however again we

need to remember that late 2006/early 2007 is figured in this average when orders were very slow. Trailer orders as a percent of the group inventory is less than 1% for this quarter against a 2-year average of 3.1%. FTR Associates just recently adjusted their trailer build forecast for next year to be under 100,000 units and our input here gives no reason to question that soft outlook.

What percentage of the units being ordered in the next 3 months are for added capacity?

The percent of fleets that are adding capacity (any units) with **power** purchases at this time 46% is up again from the last couple of quarters; for trailers only 29% of those planning to place orders are doing so for added capacity.

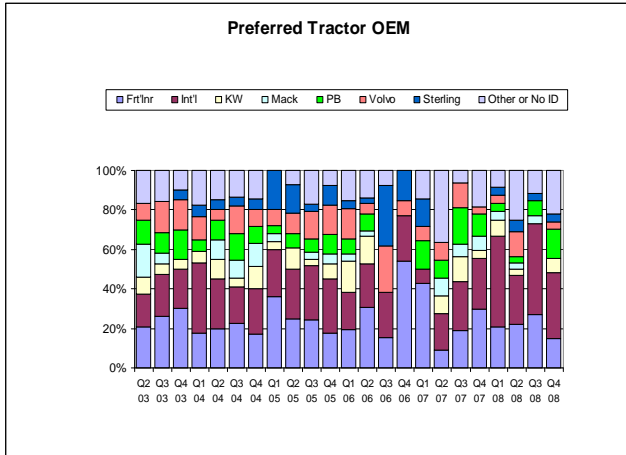


For those fleets who are placing orders for power units, the average percent that is being purchased for added capacity is 19%, lower than the 2-year average of 21% and is a really low 8% for trailers vs. 2-year average of 24%. None of this is a surprise considering the contracting economy – what might be a surprise is that anyone is adding capacity at all.

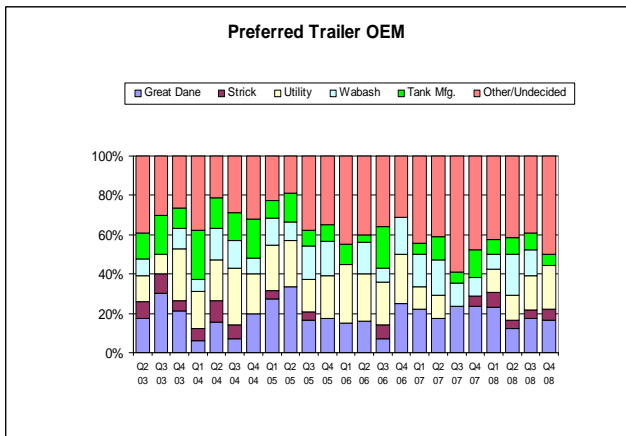
Preferred OEM and Spec Changes

From which OEM will you place these orders?

International remains the preferred brand of power units. Freightliner and Peterbilt follow. A significant number of respondents have not made up their mind yet about which brand they will purchase – I suspect this is due in large part because deliveries are not expected until the second half of 2009 for many.



For trailers, Great Dane and Utility top the list, but “other” as always is a significant group with these orders – those “other” brands this quarter include Transcraft, Trailmobile, Heil, Fontaine and many “undecided”.

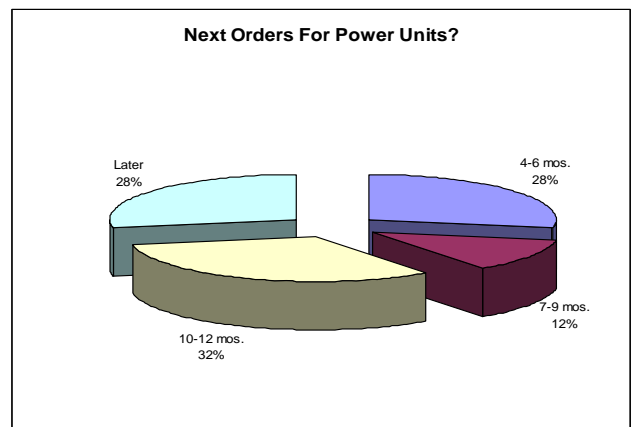


What new spec or new technology will be added to your order?

There are many, many spec changes being contemplated for new power units and quite a few for trailers as well. One clear reason, by looking at the choices, is to reduce fuel consumption.

Power Units (#)	Trailers
APU's (4)	Tire Pressure System
Wide based tires	EPA Smartway
AGM Batteries (2)	"Spec for low or n maintenance"
Disc Brakes (2)	Roll Stability (2)
LDWS (2)	Integral scuffboard
GPS (2)	Hendrickson "Quantum" System
Autoshift (2) Automatic Transmission (1)	Disc brakes
TPMS	Changing suspension
Volvo's Vest	Additional warranties
Engine changes from CAT (4)	
EPA SmartWay Specs (2)	
Smaller fuel tanks	
Smaller cabs	
Rollover Protection (2)	
Lighter units	
Fatigue Detection/CRAM	
Espar Cab Heater	
Electronic logs	
Eaton EVT 400	
Driver Tech	
Aux Heat & AC	

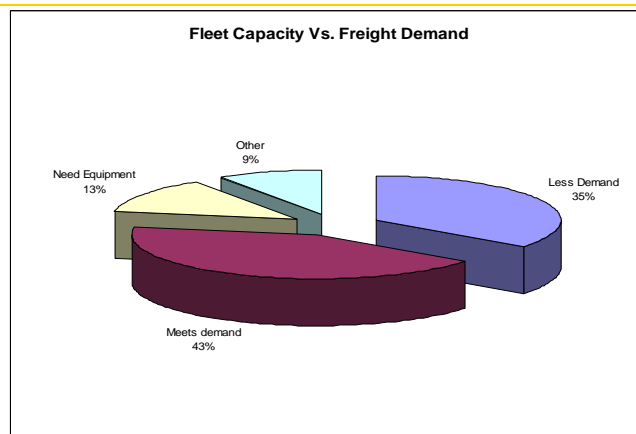
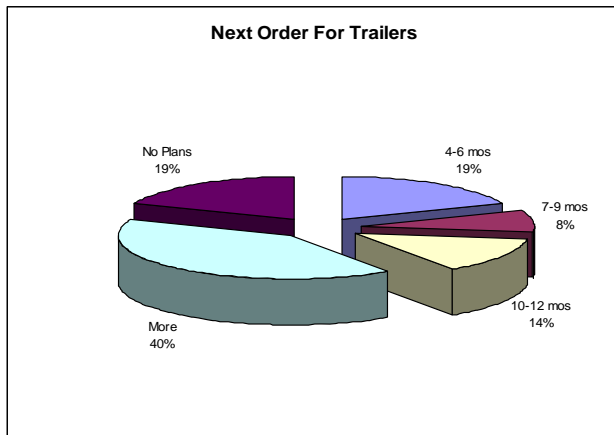
*If you are **not** placing orders in the next (3) months, when do you expect to place your next order?*



Here's the big problem for 2009, 60% of the fleets not placing orders for power units in the next (3) months, don't intend to place orders until at least late next year.

Considering that order activity is slow now, there is no reason to think that it will even maintain that level in 2009.

And, it's not any better for trailers – with 59% of those not placing orders now have no plans to buy for more than a year or have no plans at all to purchase trailers.



Last quarter only 20% indicated that freight demand was less than equipment capacity – this quarter that has jumped to 39% with only 10% saying they need more equipment – interestingly this 10% is made up of all small fleets. Again, I think industry suppliers and other participants in transportation need to recognize that in what is likely to be a challenging year (2009), the segments which may keep the whole deck of cards from crumbling can be small, private and municipal type operations. They are the primary operations where we see some modest strength in the research we do.

Current Fleet Operating Environment

What is your current utilization rate for trucks? For trailers?

There is hardly any change from last quarter with trailers increasing from 75% to 80% average utilization rate. So it appears there is still more fleets can get from their current equipment before they need to significantly add units, especially trailers.

	Trucks (37 Respondents)	Trailers (26 Respondents)
Average	86%	80%
Median	90%	80%

How would you say your fleet capacity (available equipment) compares to the current freight demand? Please choose the one statement that most closely mirrors your fleet's current situation.

- Freight demand for our equipment is less than our capacity (we have equipment sitting for lack of freight)
- Freight demand for our equipment meets our current capacity
- We need additional equipment to meet the current freight demand
- Other (please explain)

"Other" capacity vs. demand descriptions

- Trucks sitting and no sense hiring extra drivers (Canadian fleet)
- We are in good shape, we plan on spares as a small % for new business (LTL)
- We are maintaining but freight is weak! (TL)
- Some divisions are busy, some are slow, depends on how the customer is adapting to current economics, we shift equipment as required. Overall we are slower than previous (TL in CA)
- Some of our freight is seasonal (TL – food)
- We have new business coming into our DC's the first of Jan that should change our utilization (private fleet - food)
- We are a government fleet
- We area government agency our core business is highway maintenance

Considering all factors that impact your company, on a scale of 1 to 5 (with 1 being poor and 5 being excellent), in your opinion, what is the overall outlook for your fleet in the next (3) months?

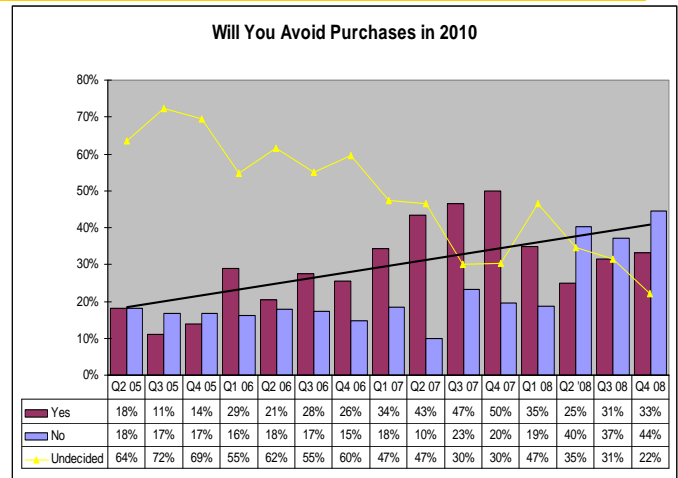
The average rating this quarter is **3.4** (down from 3.67 last quarter). **Last quarter the one rating we received the most was a 4 and this quarter it was a 3** which actually on a scale of 1-5 is not as bad as we could have expected. And almost half of our respondents (26) rated their business environment a 4 or 5. It's important to note that 5 of the 7 (5) ratings came from private fleets. Based on all the information we gathered this quarter, it appears that many fleets are holding their own but that is

not going to translate into good equipment demand in the short term; and the environment for fleets is likely to get worse as the economy shrinks as expected over the next 9-12 months. One bright spot is the reduced cost for fuel.

2010 Purchasing Plans

As things stand today, are you planning to avoid purchases of the 2010 emission compliant models when they are initially introduced?

The highest percent (44%) recorded so far says NO. The over-riding issue now is likely the current economic environment and whether new power units are needed at all through this period. No-one, in my view, will be doing pre-buy in 2009 unless things drastically change so if the economy bounces back in 2010 there may be a pent up demand which may require more new trucks to be purchased then, regardless of the emissions technology.



If you have any questions regarding the material included in this report, please send an e-mail to chris@ckcvt.com

Best regards,

Chris Kemmer
November 3, 2008