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The Future of the U.S. Commercial Vehicle Market

“Commercial vehicle sales are expected to start to rebound in 2010.”

Like the light vehicle market, the commercial vehicle market has been significantly impacted by the downward spiral in the economy. Among many other uses, commercial vehicles are utilized for construction, wholesale deliveries and the service sector – all activities that have suffered with the downturn in the economy.

From 2008 to 2009, registrations of commercial vehicles in the Gross Vehicle Weight (GVW) classes 3-8 are expected to drop for the third consecutive year. Based on current data, the projected decline will be nearly 21 percent (from 485,000 to 380,600), although a further decline is possible if the economy does not show improvement in the near term.

In 2010, sales are expected to start to rebound. From 2008 to 2009, the total number of commercial vehicles on the road (Vehicles in Operation - VIO) is expected to increase slightly from 11.8 to 11.9 million, topping the 12 million mark in 2011.

As a result, commercial vehicle and parts manufacturers are struggling with their business planning. Polk recently developed a forecast* of the U.S. commercial vehicle market based on factors including past trends and current and projected economic conditions. Incorporating both VIO and registration projections, this forecast will help the industry answer these questions:

- How will Vehicles in Operation change over time?
- Which types of commercial vehicles will more easily rebound from the current economic situation? Why?

Commercial Market Rebound Begins in 2010

In 2006, commercial vehicle registrations reached their peak volume of 802,100, with 448,200 heavy trucks (GVW 6-8) and 353,900 medium trucks (GVW 3-5). Last year, the total commercial vehicle registration volume fell to 485,000. Continued economic difficulties have resulted in a forecasted volume of 380,600 in 2009.

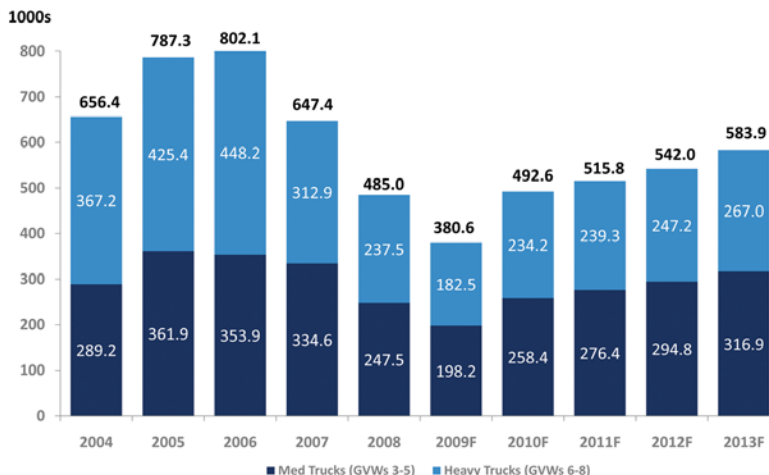
As the economy recovers after a projected “bottoming out” of the housing market in July 2009, commercial vehicle sales are expected to trend upward. By 2013, total commercial vehicle registrations are expected to hit 583,900 (approximately 317,000 GVW 3-5 and 267,000 GVW 6-8 vehicles), still well below pre-2008 volumes.

Commercial Vehicles in Operation

The total number of commercial Vehicles in Operation (VIO) has risen each year since 2004; this trend is expected to continue through 2013. However, growth in VIO has slowed due to the decrease in new vehicle registrations.

One trend is that the percentage of total commercial truck VIO made up of heavy trucks (GVW 6-8) has been on the decline, while the percentage of medium trucks (GVW 3-5) has been increasing. Medium trucks have increased from 38.6 percent of the total in 2004 to 41.6 percent in 2008, with a projected increase by 2013 to almost 45 percent of the total volume of commercial vehicles on the road. In fact, from 2009 to 2013, heavy trucks are expected to grow at a Compounded Annual Growth Rate (CAGR) of just 0.3 percent, compared to a growth rate of 3.1 percent for medium trucks.

Figure 1
New U.S. Commercial Vehicle Registrations



The higher growth rate of the broad category of medium trucks (GVW 3-5) over heavy trucks (GVW 6-8) is largely due to the decline in registrations of new GVW 8 trucks and the increase in GVW 3 vehicles. Through 2006, class 8 vehicles were the largest class in the commercial vehicle market. However, government-mandated rules to decrease diesel emissions have led to significant price increases for GVW 8 vehicles, and a decline in new class 8 vehicle registrations. Since 2007, class 3 trucks have made up the largest segment of new commercial vehicle registrations, a trend that is expected to continue.

continued

*This Polk View contains high-level findings from a more comprehensive commercial vehicle forecast report, which is currently available from R. L. Polk & Co.



“Class 3 vehicles are the largest and fastest-growing segment of the commercial vehicle market.”

Popularity of GVW 3 Vehicles Drives Growth in Medium Truck VIO

GVW 3 vehicles are the largest segment of the medium truck class, and the biggest and fastest-growing category of commercial vehicles as a whole. Their popularity is due to their dual usage as both business and personal vehicles. Unlike other classes of commercial vehicles, a GVW 3 vehicle used by a landscaper, repair technician or other type of small business owner or employee can also easily be used as an everyday vehicle.

Class 4 vehicles, which are typically used for intra-city delivery, make up a relatively small portion of the commercial vehicle market. As a percentage of total commercial Vehicles in Operation, class 4 VIO is expected to grow.

The share of VIO for class 5 vehicles will remain flat and the lowest of all commercial vehicles. Owners of GVW 5 vehicles, often used in the construction and service industries, are holding on to their older vehicles as long as possible because of the downturn in business.

Slower Growth Projected for Heavy Truck VIO

In the heavy truck market, a large percentage of GVW 6 vehicles are Government fleet trucks or moving trucks rented to consumers by companies like Penske and Budget. Because of the U.S. recession, both the private and public sectors are delaying purchase of replacement commercial vehicles as long as possible until they are no longer serviceable, a trend that is expected for at least the next few years. Lower new vehicle registrations will negatively impact VIO.

Buses make up a considerable portion of GVW 7 vehicles. High unemployment has led to reduced public transportation needs, which are expected to shrink further in 2009. Therefore, VIO for this class is not expected to start to grow again until 2010.

Class 8 trucks are used for hauling freight, for large-scale wholesale deliveries and for construction. Therefore, class 8 volumes are highly linked to overall economic activity such as housing starts, and public and private sector construction. With an expected economic recovery in 2010 and beyond, freight delivery and construction are both expected to pick up...meaning that VIO of this large commercial vehicle class will increase due to new registrations.

Conclusion: Commercial Vehicle Market Expected to Grow Again in 2010

While the commercial vehicle market is forecast to begin growing again in 2010, volumes will still be significantly below 2005-2007 levels through 2013. Over the next few years, volume forecasting and scenario planning for both commercial vehicle manufacturers and parts providers will be critical. Especially compared to the light vehicle industry, the commercial vehicle segment is relatively small, making accurate production planning that much more essential. Additionally, the ability to forecast demand by class is critical for parts manufacturers since specific components are needed for specific commercial vehicles.

About R. L. Polk & Co.

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Figure 2
Changes in Commercial VIO (2004-2013)

