U.S. Commercial Vehicle Market Expected to Grow Slightly in 2016, IHS Says

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U.S. sales of medium- and heavy-duty vehicles finished up in 2015, at second-highest level in 10 years; are forecast to remain at high level this year even as parts of market soften

SOUTHFIELD, Mich. (January 26, 2016) – The U.S commercial vehicle market is expected to grow slightly in 2016, to just over 500,000 newly registered units, up from projected registrations of 498,000 units in 2015. This according to analysts at IHS Automotive, part of IHS, Inc. (NYSE: IHS) and a leading source of critical information and insight to the global automotive and commercial vehicle industry.

The forecast is based on pre-release truck-market data from the upcoming IHS Medium and Heavy Commercial Vehicle Industry Forecast Report for first quarter 2016, as well as analysis of adjacent commercial segments including buses.

The U.S. ranked number two in global new-truck retail sales in 2015, and was among 2015’s strongest gainers in unit terms, following only India. Compared to just shy of 407,000 retail sales in 2014, the U.S. retail market climbed to some 450,000 trucks in 2015, with gains in the medium-duty segments (Classes 4-7) and heavy-duty segment (Class 8) alike. In 2016, heavy-truck demand is forecast to begin to weaken, following years of rising sales and weakening pressure to replace older vehicles, especially on-highway tractors.

As U.S. job growth continues and the housing market picks up speed, gains in the medium-duty segments will largely offset the expected slip in Class 8 sales, for an overall flat market for Class 4-8 trucks. Looking at commercial vehicles in the broadest sense, a somewhat more positive picture emerges, against the background of forecast increases in demand for some non-truck vehicle classes, including buses and motor homes.

“As one of the largest replacement-driven, mature markets globally, the United States enjoyed a projected double-digit rise in new-truck demand and was among the regions with the fastest expansion since 2011,” said Andrej Divis, director, global heavy-truck forecasting - IHS Automotive.

U.S. Aftermarket Replacement Demand for GVW 3-8 Commercial Vehicles to Continue

With more than 12.6 million commercial vehicles on the road in the U.S., the commercial vehicle parts aftermarket is large and predicted to gain momentum in 2016. The increase in demand for preventive and general maintenance parts is due to the growth in commercial vehicle new registrations since the bottom of the market was reached in the 2009 calendar year, so an increasing number of newer model vehicles are coming in for first parts’ repair/replacement cycle. At the same time, IHS analysts anticipate demand for long life-cycle parts, such as diesel engine overall kits, will soften in the coming years as more model years 2009, 2010 and 2011 vehicles come in for their first major overhauls.

The IHS analysis of demand for both general maintenance and long life-cycle parts is based on the number of GVW 3-8 vehicles operating on the U.S. highways by the model year and applications, which determines the rate at which vehicles depreciate. Registrations of 2009 and 2010 model year GVW 3-8 vehicles were 325,000 or less (as shown in the chart below).

An increasing number of 2009 and 2010 model year vehicles are coming in for major overhauls implying soft demand for long life-cycle parts, following strong demand related to first major overhauls of 2005, 2006 and 2007 model year vehicles. More importantly, if just GVW 8 vehicles are analyzed, registrations of roughly 100,000 of 2009 and another 100,000 of 2010 model year vehicles implies decreasing number of newer model vehicles coming in for first major overhauls.

IHS Parts Aftermarket Database Forecasts Future Parts Demand

Based on IHS analysis of the vehicle population by age, vehicle type, vocation/application and GVW rating our analysis has determined that many general maintenance parts will have strong demand during the 2016 calendar year. Detailed data from
the IHS Parts Aftermarket Database can provide information at the engine make, model and model year levels.

A few of these key components and their anticipated demand in the next 12 months are: diesel oil filters (32M), diesel fuel filters (19M), diesel air filters (10M), shock absorbers (4M), intake exhaust valves (7M), hydraulic brake pad sets (3M).

Likewise, IHS analysis of long life-cycle parts is based on the same vehicle population demographic data. Specifically, parts like: in-frame kits (259,000), replacement engines (13,000), cylinder heads (50,000), fuel pumps (400,000) and engine control modules (348,000).

Based on current vehicle in operations statistics for the U.S., about 83 percent of GVW 3-8 vehicles are operated by fleets operating less than 500 vehicles. Importantly 48 percent of the GVW 3-8 vehicle population is operated by fleets of 2-250 vehicles that will have their vehicle repaired in their local service area and with parts provided from suppliers in those areas. The IHS Parts Aftermarket Database can also identify if a vehicle is acquired used, as used vehicle owners are less likely to go to the dealer for service.

The fleet profile for fleets purchasing new GVW 3-8 commercial vehicles is significantly different from the fleet profile for vehicles in operation and vehicles in operation drive parts aftermarket retail sales (see table below).

Large fleets continue to drive the demand for new vehicles; however, the second and third owners of these vehicles are small to mid-size fleets operating in local markets. While our analysis does not show the numbers, it is important to note that the fleet purchase behavior for both new registrations and vehicles in operation differ significantly for each GVW Class.

### U.S. New Registrations and Vehicles in Operation

<table>
<thead>
<tr>
<th>Fleet Size</th>
<th>New Registrations</th>
<th>Vehicles in Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>25.0%</td>
<td>31.0%</td>
</tr>
<tr>
<td>2-250</td>
<td>34.0%</td>
<td>48.0%</td>
</tr>
<tr>
<td>251-499</td>
<td>6.0%</td>
<td>4.0%</td>
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<tr>
<td>500+</td>
<td>35.0%</td>
<td>17.0%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: IHS Automotive, September 2015

The IHS Automotive commercial vehicle team will attend Heavy Duty Aftermarket Week at The Mirage in Las Vegas, January 26-28, 2016. Experts will be on hand for product demonstrations and discussions on the IHS Automotive product offering for the commercial vehicle market. Please feel free to visit booth 1215 for additional details.

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