European Trucks

COMPANIES: F IM, MAN GR, PCAR, SCVB SS, VOLVB SS

Sales, Orders Take a Dive

Truck orders plunged in Western and Eastern Europe during 3Q08 yy because of the weak construction market, tighter credit and order cancellations, and expectations for 2008 overall and 2009 also have deteriorated.

- Eastern European 3Q08 orders down 8%-13% yy; no growth in Russia for the first time in an OTR Global report
- Western European truck 3Q08 orders down 35%-40% yy; cancellation levels above expectations especially in the U.K., Germany, France
- 2008 sales expected down 2%-7% yy in Western Europe, flat-up 5% in Eastern Europe and Russia; 2009 expectations also dropped off since July
- Lead times drop dramatically for most manufacturers qq, inventories building in the U.K. and Spain
- PCAR's DAF gaining share in Western and Eastern Europe; VOLVB SS gaining in Eastern Europe

EXECUTIVE SUMMARY

Truck dealers in Western and Eastern Europe said 3Q08 orders were down yy, more than expected in OTR Global's July report. Dealers said the weak economy, falling construction sector and difficulties getting credit were hurting their customers' finances and confidence. In Eastern Europe, only Romanian sources reported positive yy figures. Almost one-half of Western European and several Russian dealers said order cancellations were above expectations. Several Western European **Volvo AB** dealers complained about hidden increases by the manufacturer, leading to market share losses during the quarter. DAF gained share for most Western European sources, while Volvo gained in Eastern Europe. European sources revised their 2008 yy sales projections downward, and the 2009 outlook is negative in Western Europe, with sales expected down an average 20%–25% yy; Eastern European sources had mixed 2009 expectations.

KEY DATA

2008 YY Sales Estimates Downgraded (number of sources)

	WESTERN EUROPE	EASTERN EUROPE	TOTAL
Up 61%–70%	1	-	1
Up 11%–20%	1	2	3
Up 6%–10%	2	2	4
Flat	9	-	9
Down 6%–10%	2	-	2
Down 11%–20%	3	2	5
Down 31%–40%	1	-	1
Down 41%–50%	2	-	2
Weighted average	Down 2%–7%	Flat–up 5%*	Not averaged
July's 2008 expectations	Flat–down 5%	Up 10%–15%*	Not averaged

** Straight average*

SOURCES & BACKGROUND

32 truck dealership sales managers representing more than €1.8 billion in 2007 truck sales

WESTERN EUROPE 21 truck dealership sales managers, comprising 5 each in France and Germany (both having 2 Volvo and 1 each MAN, DAF and Iveco), 4 in the United Kingdom (2 Volvo, 1 each MAN and DAF), 3 in Spain (1 each Volvo, MAN and DAF) and 2 each in Benelux and Scandinavia (2 Volvo); **EASTERN EUROPE** 11 sources comprising 5 in Russia (2 Volvo and 1 each MAN, DAF and Scania) and 3 each in Poland and Romania (both having 1 each Volvo, DAF and MAN)

REPEAT SOURCES 20 (16 in Western Europe and 4 in Eastern Europe/Russia)

INTERVIEWS Beginning of October

AVERAGES Western European country averages weighted according to each source's 2007 truck sales, while the region's averages weighted according to each country's sales of heavy commercial vehicles (above 16 tons) during the first four months of 2008; Eastern European averages straight

"We have customers going bankrupt, and it's not only the small independents — we also have large fleets."

German Volvo dealer

Western European Demand Plunges

Truck dealers in Western Europe said 3Q08 orders were down an average 35%–40% yy, a deterioration from OTR Global's 2Q08 findings as well as sources' prediction of a 3Q08 drop of 23%–28% yy. Three-fourths of dealers said order volumes were below their expectations, and only one source reported positive yy orders. The credit crunch, the slower economy and the crisis of the construction sector added to the difficulties linked to high fuel prices and were the top negative factors cited by Western European dealers. Almost one-half of sources said the cancellation rate was higher than their expectations. "We really have a lot of cancellations, especially from the construction sector, which is on its knees," a U.K. Volvo dealer said. No German source said the cancellation rate was above normal in 3Q08. A German Iveco dealer said, "Buyers who cancel their orders have to pay a fee up to 15% of the negotiated total price of their order. Customers withdraw only in the worst-case scenario." Almost all sources said their customers had low confidence in the freight market because of the economic crisis, and several said buyers faced increasing difficulties. "We have customers going bankrupt, and it's not only the small independents — we also have large fleets," a German Volvo dealer said.

"We really have a lot of cancellations, especially from the construction sector, which is on its knees."

U.K. Volvo dealer

Eastern Europe and Russia Also Hit

Truck dealers in Eastern Europe and Russia said 3Q08 orders were down an average 8%–13% yy, also lower than in OTR Global's July report, with only Romanian sources reporting positive yy orders. The drop was below the growth of 1%–6% sources expected last quarter, and most sources said it was worse than their expectations. A Polish DAF (**Paccar Inc.**) dealer said, "Demand from international freight companies is low, and clients have stopped their purchases. We did not expect such a bad situation." Russian dealers were even more negative, with no source reporting positive figures and more than one-half of sources reporting decreases. One Russian Volvo dealer said, "There is a significant slowdown in construction, and the freight market is very low." Two of five Russian dealers also said they faced cancellations during 3Q08, a trend OTR Global found in July. "The situation is really worse than expected," a Russian **MAN AG** dealer said. A Russian Volvo dealer said, "The cancellations are due to the difficulties in the financial market."

Only Romanian dealers remained positive, with all reporting increasing demand yy. "There are huge needs for transport here in Romania. A lot of companies are entering the market, and our orders are up 10% year to year," a MAN dealer said.

Lead Times Plunge, Inventories Reappear

Lead times plunged further for most European truck dealers during 3Q08 qq, averaging 11–16 weeks in Western Europe, with dealers noting they decreased 16–21 weeks on average qq. Lead times averaged 4–9 weeks in Eastern Europe, a slight deterioration qq. Most sources blamed lower demand for the shorter lead times, but several also cited order cancellations. "We have hundreds of trucks coming back from Eastern Europe," a French Volvo dealer said. "We went from a year or so [in lead times] last quarter to about eight weeks now; it's incredible! We have lots of cancellations here." A Scandinavian Volvo dealer said, "Lead times are shorter because there are trucks coming back from several countries."

Several Spanish and U.K. dealers said their 3Q08 inventory levels increased for the first time in a long time. "We now have a lot of stocks," a Spanish Volvo dealer said. A U.K. DAF dealer said, "We have immediate availability due to cancelled orders." A U.K. Volvo dealer said, "I don't order because now I have a lot of stocks, and I'm one with the lowest levels."

Prices Mostly Stable, Pockets of Erosion

New truck prices were up slightly on average qq in Western and Eastern Europe, with most sources reporting flat prices qq. Several said Volvo passed some increase during 3Q08, although there were only a few. A Spanish dealer said, "Volvo is not aware of the situation; they keep on increasing prices although demand is very low." A U.K. dealer said, "Volvo keeps on having a financial approach to the market. Although they say prices are stable after the increase of last quarter, they continue to pass hidden increases on the account of improved features." Several MAN, DAF and **Fiat S.p.A.**'s Iveco dealers also said their manufacturers increased prices. A German MAN dealer said, "Prices are officially up 2% year to year, but there is definitely pressure on the prices." A French Iveco dealer said, "Iveco passed the seasonal price increase of 5%, but there are new incentives for dealers who have excessive inventories." Two German sources (one Volvo and one Iveco) said prices started to erode, and this view was shared by a French MAN source. "Price competition is starting, and we have to sell our stocks; prices are down 5% compared to last quarter," the source said. A German Volvo dealer said, "Prices started to erode by about 1.5% quarter to quarter; price hikes at the moment would be completely insane."

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German Volvo dealer

All Eastern European sources said prices remained flat qq except for two Russian dealers. "Prices increased by 5% as of Sept. 1," a **Scania AB** dealer said. A Volvo dealer said, "Prices are up 3%."

USED PRICES DROP

Western European sources said used truck prices were down an average 9%–14% qq. "We saw a sharp drop of used truck prices during the summer. We stopped buying used trucks because we would lose money," a French Iveco dealer said. A German Volvo dealer said, "There is oversupply in the market; prices are down 17.5% quarter to quarter."

DAF Gains Share in Europe

Several sources had difficulty identifying any manufacturer gaining share in the depressed European truck market, but nearly one-third said DAF gained during 3Q08 — especially in Western Europe. A U.K. Volvo dealer said, "DAF has a much better approach than Volvo and Scania to the truck market; they have a product of quality, correctly priced, and they have a better understanding of the transporters' situation. They are very industry-oriented." Several Western European sources said Volvo lost market share, but no Eastern European source said it lost; several said it gained. A Romanian DAF dealer said, "Volvo has the best after-sales service, but DAF offers the best financial services; they are the leaders in the market right now." Russian dealers said the Chinese brands continued to lose share on low quality. A Volvo dealer said, "Customers buy Chinese trucks only for very short projects; when they are done, they just throw the equipment away."

2008 Outlook Revised Down

Western European truck dealers expect 4Q08 new orders to be down an average 29%–34% yy, while Eastern European sources are more optimistic, with only three of 10 sources who commented expecting a yy decline. A German dealer said, "It's like a sailing yacht with no wind in sight at all." A Russian Scania dealer said, "I hope our orders will be up, but it is hard to tell in such instable a financial situation."

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Western and Eastern European sources have downgraded their 2008 sales estimates. In Western Europe, sources expect 2008 sales to be down an average 2%–7% yy, whereas sources in July predicted sales would be flat–down 5% yy. In Eastern Europe, sources expect 2008 sales to be flat–up 5% on average yy, whereas they predicted 10%–15% yy growth in the July report. A German Iveco dealer said, "The drop in orders will be already very visible in the 2008 statistics." A U.K. Volvo dealer said, "We had a very strong first semester, but with all our cancellations, we had to downgrade our estimates for the whole year. We'll end up only flat compared to last year."

Western European sources expect 2009 sales to be down an average 20%–25% yy, whereas sources only last quarter predicted 2009 sales would be flat–down slightly on average yy. "Lots of customers bought trucks in the last three years; it could not stay like that forever. We will be back to 2005 levels," a Benelux Volvo dealer said. Eastern European and Russian sources could not give a clear picture of their expectations for 2009. "It's too early to tell," a Russian MAN dealer said. A Volvo dealer said, "The market will be up; the European brands will continue to gain against the Chinese brands." However, the Romanian truck market is expected to lose momentum. "The market will probably decelerate in the second half of 2009 because there will be enough trucks in the market by then," a MAN dealer said.

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ON ORDERS

“We are still on the normal growth rates.” *Romanian Volvo dealer*

“We have very few orders. We’re renegotiating deals; buyers have difficulties obtaining loans.” *French Iveco dealer*

“We had a bad summer with orders cancelled and postponed.” *French MAN dealer*

“Last year was really, really strong; hence, our dramatically low figures.” *Benelux Volvo dealer*

“New EU work regulations for truck drivers make their work much more costly.” *German Volvo dealer*

ON COMPETITION

“It’s hard to see who gains or loses in such a situation.” *Spanish DAF dealer*

“[China National Heavy Duty Truck Group Corp.’s] Howo and DongFeng [Motor Group Co. Ltd.] really offer low quality.” *Russian MAN dealer*

“Scania had a major deal cancelled in Benelux.” *Benelux Volvo dealer*

“Volvo customers would not buy from Iveco.” *Spanish Volvo dealer*

“We suffer from a bad image.” *French Iveco dealer*

“Mercedes and Scania don’t have the necessary marketing strategy.” *Polish MAN dealer*

ON OUTLOOK

“2008 will definitely compare negatively with 2007.” *Russian Volvo dealer*

“2009 will show the order dip that we are experiencing right now.” *German Volvo dealer*

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1. **What trends do you expect to help or hurt truck sales during the next three to six months? (Some sources gave more than one answer while others did not respond.)**

POSITIVE	WESTERN EUROPE	EASTERN EUROPE	TOTAL
Freight levels:	-	3	3
Fuel costs stabilizing:	2	-	2
Construction demand:	-	2	2
Good demand:	1	-	1
Lower lead times:	1	-	1
Prices decreasing:	-	1	1
NEGATIVE			
Credit crunch:	14	2	16
Low economy:	13	1	14
Construction decreasing:	4	3	7
Cancellations:	4	2	6
Fuel prices:	3	2	5
Hesitancy:	4	-	4
Low freight:	2	2	4
Companies' bankruptcy:	2	-	2
Low confidence:	2	-	2
Low demand:	1	1	2
Currency depreciation:	-	2	2
Others:	4	1	5

2a. **Did your 3Q08 new truck orders increase, decrease or remain the same yy?**

Up 11%–15%:	-	1	1
Up 6%–10%:	-	2	2
Up 1%–5%:	1	-	1
Flat:	1	2	3
Down:	-	2	2
Down 11%–15%:	-	2	2
Down 16%–20%:	4	-	4
Down 21%–25%:	1	-	1
Down 26%–30%:	2	-	2
Down 31%–40%:	4	-	4
Down 41%–50%:	3	2	5
Down 51%–60%:	2	-	2
Down 71%–80%:	2	-	2
Down 91%–100%:	1	-	1
Weighted average:	**Down 35%–40%**	**Down 8%–13%***	**Not averaged**
July's 2Q08 average:	**Down 22%–27%**	**Up 3%–8%***	**Not averaged**
July's 3Q08 expectations:	**Down 23%–28%**	**Up 1%–6%***	**Not averaged**

** Straight average*

2b. **Was this better, worse or in line with your initial expectations for 3Q08?**

Better:	1	1	2
In line:	4	2	6
Worse:	16	8	24

2c. **Did the order momentum increase, decrease or remain the same qq?**

Same:	7	4	11

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Decreased:	14	7	21

2d. Was your 3Q08 order cancellation rate above, below or in line with expectations?

	WESTERN EUROPE	EASTERN EUROPE	TOTAL
Above:	10	3	13
In line:	11	7	18
No response:	-	1	1

3. Is your customers' confidence in the freight market for the coming months positive, neutral or negative?

Positive:	1	3	4
Neutral:	2	4	6
Negative:	18	3	21
Don't know:	-	1	1

4a. How long are lead times for truck deliveries?

51–60 weeks:	1	-	1
21–25 weeks:	3	-	3
16–20 weeks:	3	-	3
11–15 weeks:	3	1	4
6–10 weeks:	8	6	14
1–5 weeks:	3	4	7
Weighted average:	**11–16 weeks**	**4–9 weeks***	**Not averaged**
July average:	**30–35 weeks**	**6–11 weeks***	**Not averaged**

** Straight average*

4b. Did 3Q08 lead times for truck deliveries increase, decrease or remain the same qq?

Flat:	1	6	7
Down:	3	2	5
Down 1–5 weeks:	4	3	7
Down 6–10 weeks:	1	-	1
Down 11–15 weeks:	3	-	3
Down 16–20 weeks:	3	-	3
Down 21–25 weeks:	2	-	2
Down 31–40 weeks:	3	-	3
Down 41–50 weeks:	1	-	1
Weighted average:	**Down 16–21 weeks**	**Flat–down 4 weeks***	**Not averaged**
July's 2Q08 average:	**Down 6–11 weeks**	**Down 10–15 weeks***	**Not averaged**

** Straight average*

5a. Did 3Q08 new truck prices increase, decrease or remain the same qq?

Up 6%–10%:	1	-	1
Up 1%–5%:	5	2	7
Flat:	12	9	21
Down 1%–5%:	3	-	3
Weighted average:	**Up slightly**	**Up slightly***	**Not averaged**
July's 2Q08 average:	**Flat–up 5%**	**Flat–up 5%***	**Not averaged**

** Straight average*

5b. By what percentage do you expect prices to increase or decrease during 4Q08?

Up 1%–5%:	1	2	3
Up:	-	1	1
Flat:	10	-	10
Don't know:	10	4	14

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No response:	-	4	4

6. Did 3Q08 used truck prices increase, decrease or remain the same qq?

	WESTERN EUROPE	EASTERN EUROPE	TOTAL
Up 6%–10%:	1	-	1
Flat:	8	3	11
Down:	-	2	2
Down 1%–5%:	1	-	1
Down 6%–10%:	-	1	1
Down 11%–15%:	1	-	1
Down 16%–20%:	6	-	6
Down 21%–25%:	2	-	2
Down 26%–30%:	1	-	1
Down 31%–40%:	1	-	1
Not applicable:	-	5	5
Weighted average:	**Down 9%–14%**	**Not averaged**	**Not averaged**
July's 2Q08 average:	**Down 8%–13%**	**Flat–down 4%***	**Not averaged**

** Straight average*

7. What companies gained or lost market share during 3Q08? (Some sources gave more than one answer while others did not respond.)

GAINED

DAF:	8	2	10
Volvo:	2	3	5
Renault:	3	-	3
Iveco:	2	-	2
Scania:	1	1	2
MAN:	-	2	2
Mercedes:	1	-	1
Chinese brands:	-	1	1
None:	7	3	10

LOST

Volvo:	4	-	4
Mercedes:	3	1	4
Scania:	2	2	4
Iveco:	2	1	3

MAN:	2	-	2
Chinese brands:	-	3	3

8. Do you expect your 4Q08 new truck orders to increase, decrease or remain the same yy?

	WESTERN EUROPE	EASTERN EUROPE	TOTAL
Up 16%–20%:	-	1	1
Up 11%–15%:	-	1	1
Up 6%–10%:	-	1	1
Up:	-	4	4
Flat:	2	-	2
Down:	1	3	4
Down 6%–10%:	1	-	1
Down 11%–15%:	3	-	3
Down 16%–20%:	1	-	1
Down 26%–30%:	4	-	4
Down 31%–40%:	2	-	2
Down 41%–50%:	5	-	5
Down 71%–80%:	1	-	1
Down 91%–100%:	1	-	1
Don't know:	-	1	1
Weighted average:	**Down 29%–34%**	**Not averaged**	**Not averaged**

9. Do you expect your 2008 truck sales to increase, decrease or remain the same yy?

Up 61%–70%:	1	-	1
Up 16%–20%:	-	1	1
Up 11%–15%:	1	1	2
Up 6%–10%:	2	2	4
Up:	-	1	1
Flat:	9	-	9
Down:	-	2	2
Down 6%–10%:	2	-	2
Down 11%–15%:	2	1	3
Down 16%–20%:	1	1	2
Down 31%–40%:	1	-	1
Down 41%–50%:	2	-	2
Not applicable:	-	1	1
Don't know:	-	1	1

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Weighted average:	**Down 2%–7%**	**Flat–up 5%***	**Not averaged**
July's 2008 expectations:	**Flat–down 5%**	**Up 10%–15%***	**Not averaged**

** Straight average*

10. Do you expect your 2009 truck sales to increase, decrease or remain the same yy?

	WESTERN EUROPE	EASTERN EUROPE	TOTAL
Up 11%–15%:	-	2	2
Up 6%–10%:	-	1	1
Up:	2	1	3
Flat:	2	-	2
Down:	4	2	6
Down 1%–5%:	1	-	1
Down 6%–10%:	2	-	2
Down 11%–15%:	2	-	2
Down 16%–20%:	1	-	1
Down 21%–25%:	1	-	1
Down 26%–30%:	1	-	1
Down 31%–40%:	1	-	1
Down 41%–50%:	2	-	2
Down 61%–70%:	1	-	1
Don't know:	1	5	6
Weighted average:	**Down 20%–25%**	**Not averaged**	**Not averaged**
July's 2009 expectations:	**Flat–down slightly**	**Not averaged**	**Not averaged**

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Additional information available upon request.