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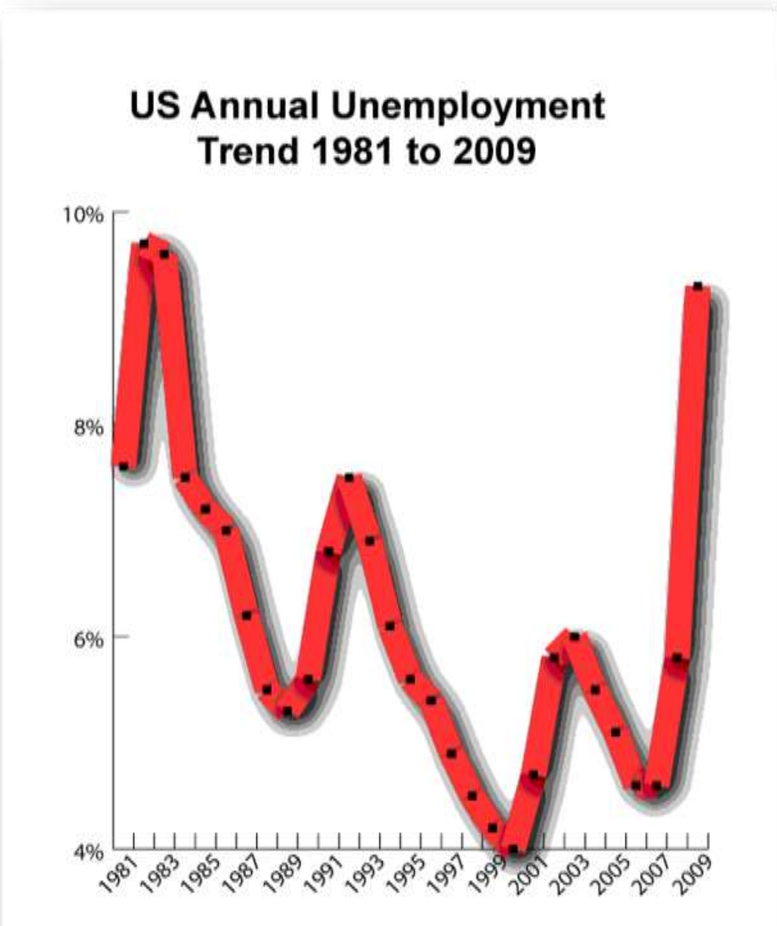
Recovery Soon to Lose "Jobless" Label

The expansion is on track for a resumption of job gains in the near term and sustained growth over the next two years that will slightly exceed the economy's trend pace.



Source: US Bureau of Labor Statistics

There has been a great deal of talk and concern over the US unemployment trend. Not surprising considering that in 2009 US unemployment reached 9.3 percent—the highest it has been in 26 years. Not since 1983 has the US experienced unemployment this high.

The question being debated is whether we will have a jobless recovery or a traditional one.

National Association for Business Economics (NABE) panelists characterize the outlook as largely a traditional economic recovery—with sizable gains in discretionary spending by businesses and households—though still restrained by past wealth losses and excessive indebtedness. "We see a healthy expansion under way, although it will take time to reduce economic slack and repair damaged balance sheets," said NABE President Lynn Reaser, chief economist at Point Loma Nazarene University.

- **The NABE forecast panel expects the economic recovery to remain firmly on track.** Real GDP growth of 3.1 percent is projected over the four quarters of 2010, nearly identical to last November's prediction of 3.2 percent. That pace is also expected for 2011, comparing favorably with the panel's 2.7 percent assessment of the economy's underlying trend.

- **The consensus regarding growth in 2010 has narrowed**, with the more optimistic forecasts being trimmed and the more pessimistic ones being lifted. The dispersion among forecasters (as measured by the standard deviation of predictions on a Q4/Q4 basis) tightened to 0.9 percentage point from 1.1 percentage point.

- When asked to qualitatively characterize the economic recovery, panelists ascribed to no dominant view but suggested a variety of characterizations. The most popular view, by a small margin, describes the outlook as a traditional economic expansion in its early phase, with above-trend growth and gradually firming inflationary pressures. Only nine of the panelists firmly hold this position, however. Many NABE panelists fear that financial headwinds will hold growth short of what might typically be expected. Very few foresee a "stagflation" scenario— blending of slow growth and high inflation—with none regarding this scenario as very likely.

- While "financial headwinds" are expected to remain problematic, they are also likely to abate. **Specifically, bank lending is expected to become less restrictive over the course of 2010**, as bank earnings and economic conditions improve, according to 70 percent of respondents. Thirty percent, alternatively, believe conditions will remain restrictive due to regulatory guidance, capital pressures and a general climate of risk aversion.

Source: NABE, Fast Lane Research

Planning For The Recovery

Since you are reading this, it's likely your company survived the worst recession in memory. You have made the changes and cuts necessary to stay in business. Now how do you prepare for the coming economic recovery? How do you know when the recovery has actually begun?

I like lessons we can learn from college and university professors, but I take many of them with a grain of salt. My concern is how much real world knowledge is actually packaged in the lesson.

A blog by John Quelch, a professor at Harvard Business School, posted almost a year ago has some very useful insights. He made 7 recommendations for businesses planning ahead.

1. Focus on high potential customers
2. Don't assume a return to normal
3. Assess your target customer's trust in your brand

4. Stay focused on costs
5. Know your lead indicators
6. Develop scenarios
7. Don’t wait for permission

Focus on high-potential customers. We all hate to lose a customer, but we also realize that some customers are more valuable to us than others. Some accounts squeeze the profit out of every sale and leave us little or nothing, while others make us money. Some customers buy larger quantities and even at lower margins have higher potential than others. The same is true of whether you are looking at business customers or consumers. One of the traps the industry fell into over the last 5 to 10 years was focusing too much attention on mainstream consumers at the expense of enthusiasts. As we prepare for the recovery, we need to evaluate the potential for sales and profits that each of our customers bring to the table. Then concentrate on the more promising ones.

Don't assume a return to normal. We’ve all encountered folks who lived through the great depression and we’ve seen the lasting effects it had on them. The question now is, will this recession have similar lasting effects on today’s consumers? In particular, will enthusiasts let the recession curb their future enjoyment of the hobby? Will they gauge brands and the quality of products differently than they have in the past? My personal opinion is that the passion that has built this industry is still there. The recession may change how enthusiasts evaluate products, or it may make vehicle modification a slower process—which means that things will be different for the industry than it was before the recession, but the industry isn’t going away.

Assess your target customers' trust in your brand. Before the recession our industry’s customers were a forgiving lot. If they wanted a product they would keep it on their vehicle even if it didn’t fit perfectly. They took the approach of “so what if it wasn’t perfect” it was cool and that was all that mattered. As an industry we may have to evaluate just how far our consumers will trust our brands. They may not allow us the same degree of less than perfect products as they have in the past. Industry consumers will probably be more demanding than ever when it comes to quality, service and dependability. If we can’t meet their expectations, all that has been invested in building our brand will not mean much.

Stay focused on costs. Last week we ran an item detailing how marketers have tackled cutting budgets during the recession. Going forward every aspect of business will need to take a no holds barred approach to maintaining the line when it comes to cutting costs. We have to face the fact that the actions that were taken during the recession were necessary because we did not control our businesses as well as we should have to begin with.

Know your lead indicators. For every industry, and every business in that industry, there are indicators that predict demand for products is changing. The indicators may not be the same for every company, particularly in an industry like ours that is made up of so many niche markets, but they are there none the less. The trick for us is to find the ones that pertain to our business in the niches we serve. The indicators could include new-vehicle sales, consumer confidence, discretionary income, design changes in vehicles, vehicle technology changes, legislative or regulatory changes, or even the “cool factor.” In any case we have to figure out which indicators give us the best signal that changes are coming, and then monitor them closely.

Develop scenarios. We must get good at playing “what if.” As company executives we need to be looking to the future and asking ourselves how we will deal with situations if certain things happen. What strategies we should employ to keep our company afloat in various possible environments. And don't only consider negative situations. How will you deal with a sudden increase in sales when the pent-up demand hits? It's tough when you are busy concentrating on making payroll today, or innovating the next product to carry your company forward, or landing that new account—but we must find the time.

Don't wait for permission. Companies in this industry are historically very nimble. When the recovery begins we cannot be waiting on other companies, Wall Street or anyone else to tell us it's time to step on the gas. If we do, our competitors will have a hole shot on us. We have to have our recovery plan ready and hit the throttle when our lead indicators give us the green light.

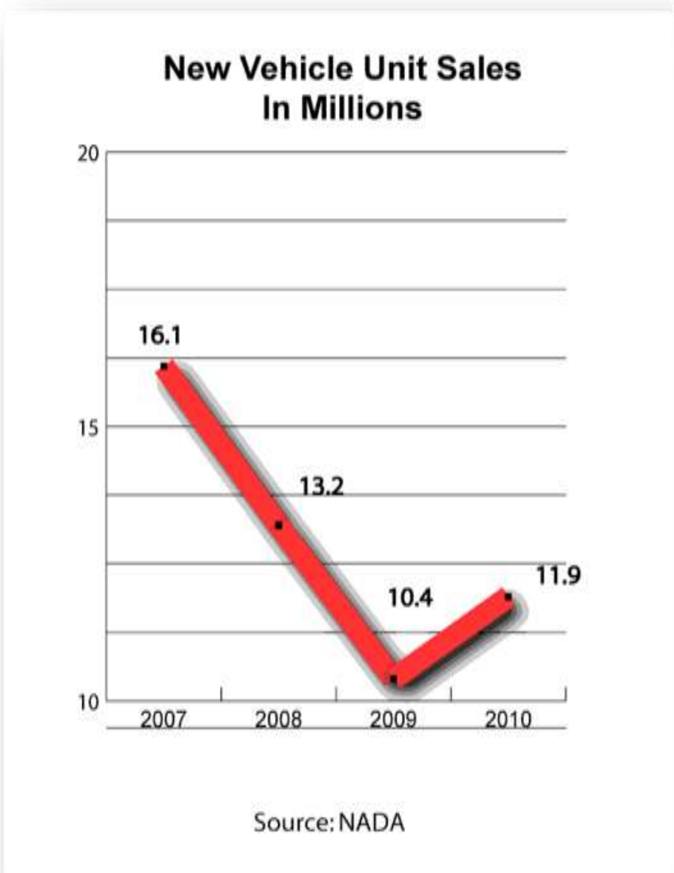
For an industry made up of enthusiasts and competitors I know I'm not telling you anything new. Going into any race we instinctively do all the things talked about here. Now the challenge is to carry those instincts over to our businesses.

To read John Quelch's blog verbatim, go to the following URL

http://blogs.hbr.org/cgi-bin/mt/mt-tb.cgi/3798

Source: John Quelch, Fast Lane Research

NADA Forecasts 14% New-Vehicle Sales Increase



"U.S. light-vehicle sales will reach just short of 12 million units in 2010 as credit becomes more available and consumer confidence improves with rising employment," said Paul Taylor, chief economist for the National Automobile Dealers Association.

U.S. new-vehicle sales plunged to 10.4 million units in 2009, from 13.2 million in 2008 and 16.1 million in 2007.

Speaking at the NADA Convention & Exposition in Orlando, Taylor reported that sales of crossover utilities and small and midsize cars improved in January compared to the same month last year. January sales of crossovers, the only vehicle segment whose sales improved in 2010, were up about

14 percent compared to January 2009, Taylor said. Sales of midsize cars are also gaining, he said, outpacing last year's monthly result by about 21 percent.

Hybrid vehicle sales declined in 2009 but less than the overall industry. Toyota continues to lead the way, accounting for more than two-thirds of hybrid sales in 2009.

Developments in 2009 also had an impact on automakers' shares of the market. Taylor reported that General Motors and Chrysler both lost market share in 2009 as they underwent bankruptcies and slowed production. Ford Motor Co. and Hyundai improved their respective shares of the market by producing small, fuel-efficient cars and crossovers.

Slow new-car sales in 2008 and 2009 contributed to a shortage of used cars that lifted used-car prices, Taylor said. According to data provided to NADA through a partnership with the National Auto Auction Association, the average price of one- to five-year-old vehicles improved last year in every segment. "And strong used-car prices help new-car sales," Taylor said.

Jonathan Banks, senior director of editorial and data services for NADA Used Car Guide, reported that all used-vehicle segments posted double-digit percentage increases year-over-year in January, compared to the low points experienced during 2009. He said that values on most segments are in line or above pre-recessionary levels.

Looking ahead, Banks said the economic fundamentals point to a strong used-car market in 2010.

"Used-vehicle supply, even with the expected million-plus increase in trade-ins, will remain relatively low," he said. "Economic fundamentals point to improved demand, and more constraint on new-car production should keep those transaction prices in check. Seasonality effects are expected, but will be muted since used-vehicle prices are positioned relatively high compared to prices during the past five years."

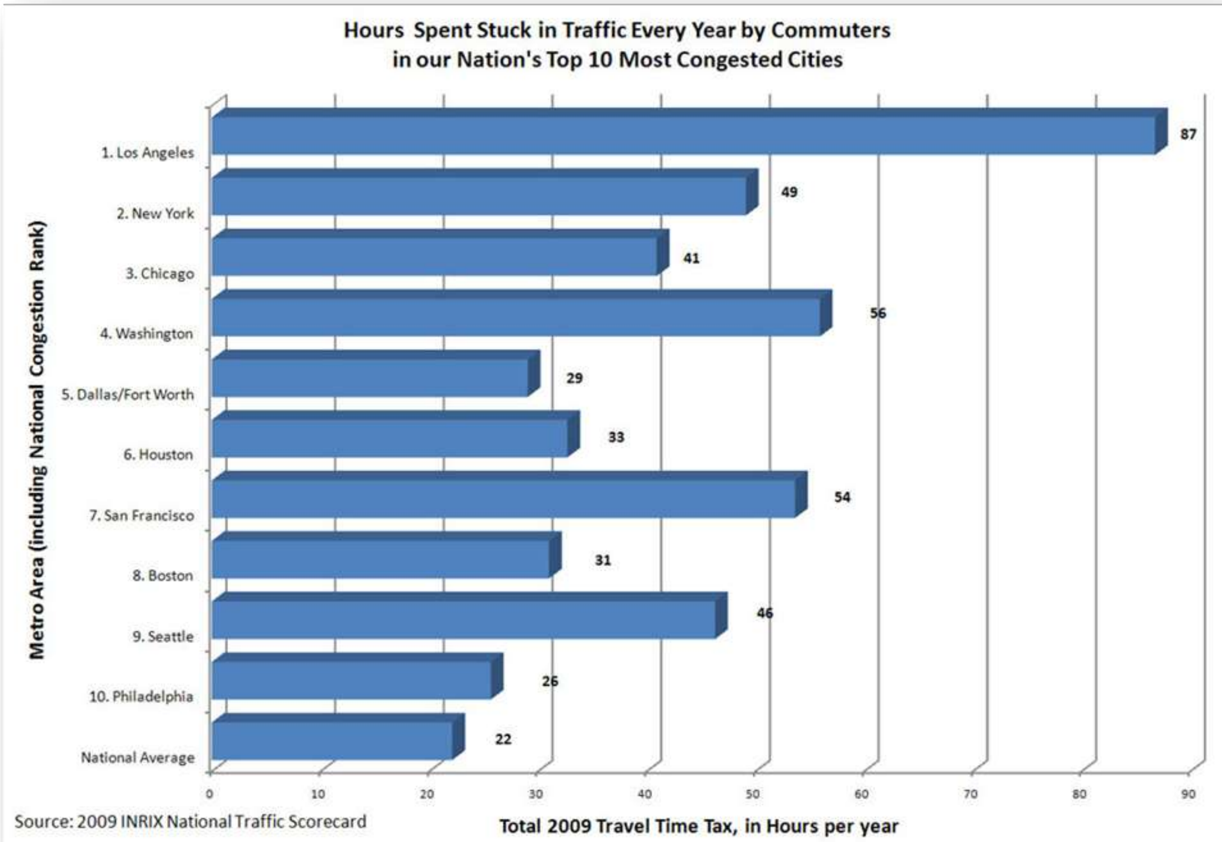
Banks added that gas prices remain the "wild card" factor for the year, as some forecasters expect fuel prices to reach and top $3 per gallon. He noted that NADA will monitor that metric and make adjustments to forecasts, if necessary.

On the Toyota situation, Banks said its values are expected to experience above-average deterioration during the next six months and settle in at a lower premium, compared to substitute models with comparable quality. "In the short-term, there will be a potential lift in competitive prices as dealers migrate towards other options," he added. "This has already been witnessed in the new car side for both retail and fleet sales."

Source: National Automobile Dealers Association

Traffic Congestion Sign of Recovery

On February 23 INRIX® released its 3rd Annual INRIX National Traffic Scorecard revealing that traffic congestion and commute travel times in 2009 are back on the rise as the economy emerges from the recession. The 150-page free report is available at http://inrix.com/scorecard/.



Gridlock across the U.S. bottomed out in March and April 2009 and congestion levels have begun to bounce back ending the year slightly ahead of 2008. In fact, 58 of the top 100 most populated cities in the U.S. experienced modest increases in traffic congestion levels last year. Over the course of 2009, increases in traffic from lower than average fuel prices (nearly $1 less per gallon than 2008) and a recovering economy slightly outpaced drops in commuting from the loss of over 5 million jobs. While unemployment kept morning commutes lighter than normal, traffic was up nearly every other hour of the day as individuals hit the roads in search of work or other trips – a 25 percent increase.

“So goes traffic, so goes the economy. The results suggest the holiday from increasing gridlock we’ve experienced the past few years is over,” said Bryan Mistele, INRIX president and CEO. “An excellent indicator of economic trends, traffic congestion can tell us whether businesses are shipping products, whether people are going to work, and whether shoppers are going to the mall. That said, our analysis indicates that what happens going forward in terms of increasing gridlock, much like the economy, can be summed up in one word: Jobs.”

By analyzing traffic on major highways in the nation’s 100 largest metropolitan areas, the Scorecard provides both a glimpse into the health of our economy as well as a comprehensive snapshot into the intractable issues of urban traffic congestion. According to the report, the top 10 most congested cities in 2009 were:

1. Los Angeles, Calif.
2. New York, N.Y.
3. Chicago, Ill.
4. Washington, D.C. (up from 6th in 2008)
5. Dallas, Texas
6. Houston, Texas (down from 4th in 2008)
7. San Francisco, Calif.
8. Boston, Mass.
9. Seattle, Wash.
10. Philadelphia, Pa. (up from 11th in 2008)

These cities account for half of our nation's traffic congestion with 4 of the Top 10 cities experiencing modest increases in traffic congestion in 2009 (L.A., New York, Washington D.C. and Philadelphia.) Of the nation's top 30 largest cities, Las Vegas, Baltimore and D.C. experienced more than 10% increases in congestion during peak commute periods year-over-year. The increase in Las Vegas congestion was primarily due to major construction along I-15 that began in the Summer of 2008, while congestion in the nation's Capitol was indicative of a city bustling with activity as the federal government enacted policies and increased spending to combat the recession.

Other key INRIX National Traffic Scorecard findings include:

• Showing the after effects of a battered economy, 2009 congestion levels were still one-third less compared to peak levels set in 2007. While varying by region, on a national level, the clock on traffic congestion has been turned back to at least 2005 – a silver lining of the tumultuous past few years – for those who still have jobs.

• The nation's "Travel Time Tax" in 2009 was 8.9 percent, indicating the typical random peak hour trip took 8.9 percent longer than it would in uncongested conditions resulting in the typical urban commuter with a 30 minute commute sitting 22 hours a year stuck in traffic.

• Wednesday from 8 to 9 a.m. continues as the busiest morning peak travel time nationwide and Friday from 5 to 6 p.m. continues to be the busiest evening (and overall) commute hour – with a travel time tax of 18.8%

• The best day to commute is Monday with a Travel Time Tax of 7.1%; worst day is Thursday with a Travel Time Tax of 9.7%.

• Population centers experiencing high unemployment, reduced tourism and/or less convention activity, experienced the highest drops in traffic congestion including Detroit, Honolulu, San Diego, and Chicago. Detroit, where the jobless rate reached a high of 17 percent in 2009, dropped from 18th to 27th in the rankings.

• Los Angeles has the nation's highest metropolitan travel times during peak commute hours, followed closely by Honolulu, Washington D.C. and San Francisco

• The worst region and time to be on our nation's roads is between 5 and 6 p.m. on Thursdays in Los Angeles where the travel time tax is 69%!

• Philadelphia made the Top 10 for the first time (up from 11th) replacing Minneapolis which dropped to 12th (likely due to the I-35W bridge reopening)

• Stimulus spending on road projects nationwide is starting to have an impact on congestion, particularly in off-peak periods. Delays across the country during off-peak periods – mid-days, evenings, overnights and weekends –were up 25 percent. Of the nation's biggest new work zone slowdowns in late 2009, more than half were directly tied to stimulus projects.

• More than 2500 miles of our nation's most important roads are congested more than 5 hours each week. Drivers on more than 437 miles of these roads experience more than 20 hours of congestion each week, or 4 hours each work day.

The Nation's Worst Bottlenecks

INRIX also analyzed and ranked the worst metro traffic bottlenecks across the country and found that New York City, Los Angeles and Chicago continued to dominate the rankings in commuting nightmares. Westbound on the Cross Bronx Expressway (I-95) at the Bronx River Parkway in New York City remains the worst bottleneck in the nation, where traffic crawls more than 94 hours each week at an average of only 11.4 MPH.

According to the report, the Top 10 worst traffic bottlenecks nationwide were:

1. New York: The Cross Bronx Expressway/I-95 Southbound at the Bronx River Parkway
2. Chicago: I-90 Westbound at Cermak Rd. (up from 7th in 2008)
3. New York: Cross Bronx Expressway at I-895 (up from 5th in 2008)
4. New York: Cross Bronx Expressway at White Plains Road (up from 5th in 2008)
5. New York: Harlem River Drive Southbound at 3rd Ave. (down from 2nd in 2008)
6. New Haven, CT: I-91 Southbound at Hamilton St. (up from 62nd in 2008)
7. Los Angeles: US-101 North bound at Los Angeles St.(up from 13th in 2008)
8. Chicago: I-90 Westbound at 18th St. (up from 24th in 2008)
9. New York: Cross Bronx Expressway at Westchester Ave. (up from 11th)
10. Chicago: I-90 Westbound at Ruble St.(up from 26th in 2008)

This biggest mover into the Top 10 was the 6th ranked bottleneck, I-91 SB at Hamilton Street in New Haven, CT. This segment moved up from 62nd last year and leads into the work zone of the I-95 New Haven Harbor Crossing Corridor project. One of last year's Top 10 dropped way down the rankings, was in the San Francisco Bay area, where restriping expanded the exit ramp between I-580 WB and US 101 NB in Marin County from one to two lanes in a work zone, and as a result an upstream segment of I-580 WB that approached and included Bellam Boulevard, saw significantly less congestion, dropping from 4th in 2008 to 491st.

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Markets Manufactures Plan to Target in 2010

Fast Lane Research News readers were recently asked to participate in an industry study to establish a benchmark for performance, trends and opinions at the beginning of 2010. Last week we previewed some of the aggregated information and this week we are continuing to highlight information from the upcoming report.

The responses from our readers were generous and have helped to establish a current snapshot of market behavior. Most of the participants were manufacturers (66%), followed by warehouse/distributors (10%) and jobbers (8%). The remaining participants were a nearly even mix of retailers, installers and representatives from industry publications.

Each business was asked to highlight the markets they would target during 2010 and despite the reduced sales of consumer pickups and SUVs the largest segment selected was Light Trucks (69%). The next popular markets were Modern Domestic Muscle Cars (47%), Classic Muscle Cars (43%), Hot Rods/Street Rods (43%), Off Road (41%) and Restoration/ RestoMods (39%).

Modern muscle cars and the revived "pony war" mentality of OEMs, vehicle owners and fans are providing the specialty equipment industry with a vital shot in the arm. All of the new contemporary muscle platforms are capable in and of themselves, but they also enable enthusiasts the opportunity to continue the automotive love-affair and performance manufacturers to squeeze even more out of them. It should be no surprise then that nearly half (47%) of industry businesses will be targeting these models and their communities in

the current year. Moreover, the convergence of automotive lifestyles of young and old enthusiasts paired with the overwhelming acceptance of these vehicle designs has broadened the market. In other words, more consumers are interested and the “pie” has grown.

Source: Fast Lane Research, Industry Benchmark Report 2010.

Industry Members Forecast Increased Sales in 2010

A business performance element has been included within the 2010 Industry Benchmark Report to compare how members of the specialty equipment industry have performed over the course of the past few years. Like most of the information within the report, these items lump together the information from participants to paint a broad picture.

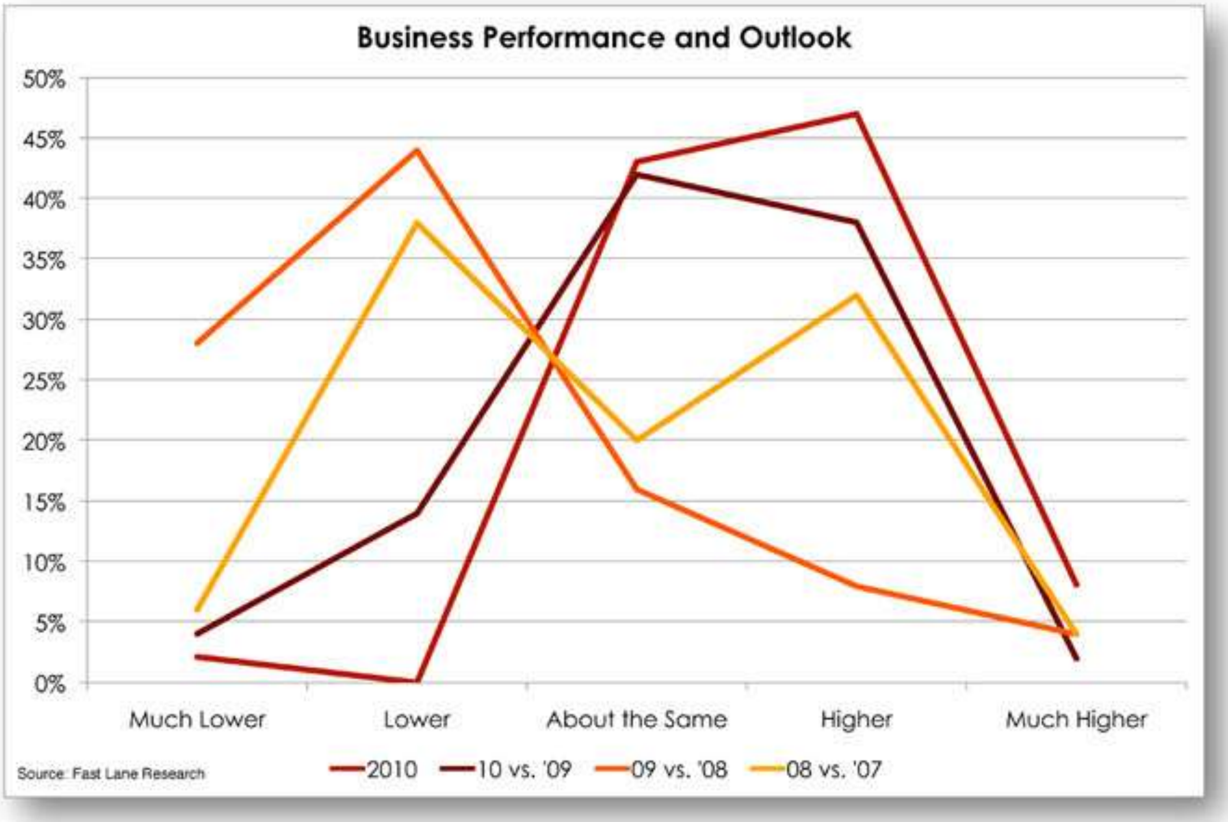
The four elements within this metric compare the yearly sales performance for 2008, 2009 and the beginning of 2010 in a year-over-year format. Simply, we asked how business in one year compared to the previous year (ex. 2008 compared to 2007).

The first yearly comparison (2008 vs. 2007) was the most uniform and almost symmetric with the same amount of business reporting either stronger or weaker sales in 2008 than in 2007. At the middle of the group, 20% of business reported having the same sales while the remaining 80% was split.

During 2009 sales were heavily impacted by the struggling economy with 72% of businesses having reduces sales; 44% were lower and 28% were much lower. Only 12% of specialty equipment businesses surveyed had a positive outcome for the year.

During the tail end of 2009 and the beginning of 2010 companies began to see a shift in market conditions and have reported a much more compliant business environment with 40% experiencing a growth in sales compared to the previous year; 38% higher and 2% much higher. The negative side of the chart has dropped to just 18% and 42% see sales remaining flat during this period.

Looking forwarding the majority of businesses expect a strong rebound from 2009 for the remainder of 2010. When asked how they think the year will end 55% believe it will result in a positive swing forward. 43% of businesses think the year will be as bad as 2009 and a small group (2%) anticipate an even worse year.



Source: Fast Lane Research