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TRUCK MANUFACTURING INDUSTRY  
OUTLOOK

ONAC 81-02

NOISE EMISSIONS STANDARDS

#7

## TRUCK MANUFACTURING INDUSTRY OUTLOOK

Manufacturers of trucks predict a meager real growth rate in annual sales of medium and heavy trucks over the next ten years, perhaps as low as an average of 2.1 percent. <sup>1/</sup> (Source: Data Researces, Inc.) The reasons for this prediction include:

- (1) high interest rates, <sup>2/</sup>
- (2) overcapacity, <sup>3/</sup>; and
- (3) slow general economic growth. <sup>4/</sup>

Of the major truck manufacturers, International Harvester had especially poor profit performance in 1980, about a \$400 million loss. <sup>5/</sup> This is primarily attributed to:

- (1) the longest strike in industry history (172 days), <sup>6/</sup>
- (2) high interest rates, <sup>7/</sup>
- (3) high cost of credit due to a reduction in bond ratings (AAA to BAA), primarily related to the 1980 losses, <sup>8/</sup>
- (4) bankruptcy of Wisconsin Steel, International Harvester's subsidiary. <sup>9/</sup>
- (5) extraordinary losses related to the phase-out of the Scout utility vehicle, <sup>10/</sup>
- (6) phase-out of the industrial wheel-tractor line, <sup>11/</sup>
- (7) large capital outlays, including new research center, and company modernization program, <sup>12/</sup>
- (8) general economic conditions in the U.S., and <sup>13/</sup>
- (9) poor truck market in general. <sup>14/</sup>

Relative to other companies in the industry, International Harvester's total production line profit margin appears relatively favorable. For example, the industry's net profit margin in 1979 (pre-International Harvester strike year) approached 2.6% <sup>15/</sup> compared to International Harvester's margin of 4.4% <sup>16/</sup>. The industry's net profit margin projection for 1981 is 0.7% <sup>17/</sup> compared to International Harvester's 2.8% <sup>18/</sup> both being economically depressed at this point, particularly the overall truck industry. The projected down turn in the overall truck industry position in 1981 is due primarily to unexpectedly high interest rates and general adverse economic conditions. <sup>19/</sup> The International Harvester profit margin is predicted to amount to 4.4% <sup>20/</sup> between 1983 and 1985 compared to 3.0% <sup>21/</sup> for the industry, reflecting anticipated improvement in International Harvester's position to that of the industry which is also expected to be on an upward trend (see attached table).

The projected \$32 million additional cost <sup>22/</sup> associated with the 80 dB truck noise regulation in 1982 would not, of itself, materially affect International Harvester's corporate profits, given International Harvester's projected annual sales in 1982 of over \$10 billion. <sup>23/</sup> However, a deferral of these costs would be expected to be of some benefit to International Harvester, considering their current cash flow difficulties, arising in part from their current debt problem. International Harvester recently reduced a quarterly dividend by 50 percent and cut the salaries of 26 top officers by 20 percent <sup>24/</sup> in order to save cash.

White Motor Company lost \$46.8 million in the first six months of 1980 and has now declared bankruptcy. Mack Trucks, Incorporated, lost \$12.3 million during the first nine months of 1980. General Motors, Ford, and

Freightliner do not break out earnings from truck operations. However, industry analysts feel that these companies suffered losses in the same magnitude as the other truck manufacturing companies. <sup>25/</sup>

In the first 10 months of 1980, sales declined 38 percent for medium trucks and 17 percent for heavy trucks from the comparable period in 1979. <sup>26/</sup> This decline in truck sale coupled with high interest rates have created cash flow problems for the entire truck industry.

The projected \$145 million <sup>27/</sup> to meet the 80 dB truck noise regulation in 1982 would not, of itself, materially affect the industry's net profit margin for 1982. However, a deferral of the 80 dB standard for one year would provide some relief to the current cash flow problems of the truck manufacturers and the trucking industry in general. The beneficial effect of such a deferral would likely be greatest for International Harvester Company, whose debt to equity ratio went from .63:1.0 in 1979 to 1.15:1.0 in 1980, <sup>28/</sup> and for the "smaller independents" like Mack, Paccar, Freightliner, and White.

NET PROFIT MARGINS FOR AUTO AND TRUCK INDUSTRY (IND)  
 AND INTERNATIONAL HARVESTER (IH)  
 (in percent)

		<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1983-1985</u>
Profit	IND	4.4	4.5	4.0	2.6	NA	0.7	3.0
Margin <sup>1/</sup>	IH	3.2	3.4	2.8	4.4	NA	2.8	4.4

<sup>1/</sup>Source: Industry: Value Line Report, January 2, 1981; International Harvester: Value Line Report, November 28, 1980.

#### SOURCES

- 1/ Data Resources, Inc.
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- 5/ Department of Commerce, Unpublished report.
- 6/ Department of Commerce, Unpublished report.  
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- 8/ Department of Commerce, Unpublished report.  
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- 16/ Value Line Report, November 28, 1980.
- 17/ Value Line Report, January 2, 1981.
- 18/ Value Line Report, November 28, 1980.
- 19/ Department of Commerce, Unpublished report.
- 20/ Value Line Report, November 28, 1980.
- 21/ Value Line Report, January 2, 1981.
- 22/ EPA estimates.
- 23/ Value Line Investment Services.
- 24/ Wall Street Journal, January 15, 1981.
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- 26/ Automotive News, November 17, 1980.
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- 28/ Wall Street Journal, December 19, 1980.