President's Forum

FEM - Industrial Trucks

Palm Beach, Florida

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Slide 1 – Introduction

Good morning and thank you. I would like to start by thanking ITA for the hospitality and first class organization of this event. Your commitment to supporting the Alliance of International Truck Organizations is very much appreciated by FEM-IT. We look forward to our continued exchange of information with all members.

Slide 2 – Agenda

The following presentation will include information on the current state of the European economy as well as developments in the Industrial Truck Market.

Slide 3 – Europe in Numbers

There are approximately 742M inhabitants living in Europe including the 145 M who live in Russia. From this total, 508M people live within the 28 countries which make up the European Union and approximately 340M of these actually live within the 19 countries which use the € as their currency known as the Euro Area.

Of the 16.9T€ in GDP generated within Europe in 2014, 13.9T€ was generated within the 28 country EU. If seen as one entity, the EU represents 7% of the world's population yet accounted for almost 24% of the world's GDP in 2014 making the Union the single largest economy in the world. 1/3 of the EU's economy is made up either of exported or imported goods and services to and from other regions of the world. Obviously, the health of the EU's economy is heavily dependent on what is happening globally.

Four of the EU's countries namely, Germany, France, Italy and the UK are in themselves within the world's top 10 largest economies. Adding Spain to these would represent more than 70% of the entire EU's GDP. I will therefore concentrate my remarks on these 5 economies as well as Russia later in my presentation.

Slide 4 – GDP Quarterly Growth Rates

The economy in Europe has been growing slowly but steadily over the past 8 quarters. Growth in the 1st 2 quarters of 2015 were 0.5 and 0.4% respectively within the EU. Domestic demand has remained suppressed in many countries, while a weaker Euro has helped to fuel European exports outside of the region.

Slide 5 - GDP Growth by Country

Country performance within Europe, as you can see, varies greatly.

The front-runner is Ireland with an annual growth rate of 6.5%. After leaving the IMF's bailout program some 18 months ago, Ireland's economy is now set to surpass its pre-crisis GDP highs.

Spain has grown more than 3% over the previous 12 months and is growing at a rate the country has not seen in 8 years. While the recovery is broad-based, it is worth noting that tourism has grown an average of 6% over the last 5 years culminating with 65 million visitors over the past 12 months alone. Quite a number considering the population of Spain itself is only 45 million.

The Czech Republic, Polish and Romanian economies all continue to bear the fruit of EU integration which comes in the form of EU monies for infrastructure and private capital investments in manufacturing capacity. All three economies are outperforming their Western counterparts.

With 0.4% and 0.7% growth in the 1st and 2nd qtrs respectively, the UK is enjoying its 10th successive qtr of growth, making this the 3rd longest expansion in the UK's modern history. While the increases are broadly consumer and service sector based, the much maligned manufacturing sector recorded an over 7% increase in Q2.

Germany's economy, which represents over 20% of the entire EU's GDP, has shown quarter on quarter growth of 0.3% and 0.4%

respectively for the 1st 2 quarters of 2015. Domestic demand has had a negative impact on German growth, while exports, which trail only China and the US in volume, have increased year on year by approximately 6%. This will result in a record 12 month trade surplus of almost €245B for Germany.

France, which had a promising 0.7% quarter on quarter growth rate in the 1st qtr of 2015 fell back to 0% growth in the 2nd quarter. Weak domestic demand, particularly in the construction sector which is reporting over 50,000 fewer jobs than last year, was a key factor in the reduced demand. France maintains one of the highest rates of Govt spending as a % of GDP and has struggled to implement austerity programs in a politically charged climate. This high level of Govt spending may indeed be masking even worse performance in the private sector.

After a 0.2% 1st qtr increase, Italy's economy expanded by 0.3% in the 2nd qtr. While modest, this represents the first back to back quarterly expansion in several years.

Slide 6 – GDP Forecast 2015

Within the 19 country Euro Area, full year 2015 forecasts call for only 1.4% growth. The forecast is pulled down mainly due to predictions for France and Italy each of which likely will grow significantly less than 1% . Germany seems likely grow by 1.7 to 1.8%.

The wider European Union is poised to grow some 1.8%, fueled by the UK, Sweden and most countries in the East which will continue to outgrow their Western counterparts.

Slide 7 – Budget Balances

Last year, I talked at length about KPI's set by the ECB to control national spending. Following the onset of the Euro Crisis, Brussels went on the offensive by insisting its member countries become more fiscally responsible and threatening them with real action if they did not conform.

One key criterion was to have a budget deficit of no more than 3%. While some countries have not obtained this to date, the picture is looking much better than previous years.

France for instance has moved closer to the 3% mark having come from a deficit of 8.5% in the crisis year of 2009.

Another example is Spain, which many believe will be under the 3% threshold as early as next year, has come from levels of 11% in 2009 and 8% as recently as 2012.

Slide 8 – Public Debt

The second key performance indicator monitored by Brussels is Public Debt as a % of GDP. This has proven to be a bigger challenge to those economies' which had racked up decades of debt under systems which had heavy government spending as a main component of the economy.

For those countries with slow growth and high debt, reducing the deficit is a seemingly impossible task. Even Germany is struggling to meet the target. The cost cutting in some of these cases would have to be so deep that it could also have a counterproductive effect on GDP.

Slide 9 – Government Spending

This chart helps to understand the size of the undertaking some of these countries are wrestling with.

Total govt expenditure as a % GDP averages roughly 48% within the EU. France tops the list with a govt expenditure ratio of 57%. Italy is next with 51%. The UK and Germany currently sit at approximately 44% which is closer in line with the US when all government spending is taken into consideration. Spain, having gone through major spending cuts over the past years, is also in the 43 – 44% range.

Slide 10 – European Unemployment

With economic gains over the past few years, European unemployment numbers are reduced although they do remain high when compared to the rest of the developed world. Current unemployment within the EU is approximately 9.5% while the Euro Area countries are reporting just under 11% unemployment.

While this would seem to indicate an overall abundance of labor to sustain further growth, a closer look reveals a vastly different country by country picture.

Slide 11 – Unemployment by Country

Spain, while unemployment is still well over 20%, has made the biggest gains coming from highs of close to 30%. Germany to the contrast is well below 5% and is at, or near, full employment.

Germany is, in fact, a microcosm of that what is Europe. In some areas of Germany, unemployment remains stubbornly close to 10% while in other areas it is approaching 3%. Despite this, labor remains relatively inflexible. People simply do not necessarily move to where the jobs are. Add to this language, culture and country borders and you can imagine why the chart before you is as it is.

Considering most of the unemployed represented on this chart are receiving some sort of government support, it also becomes clear why several countries are finding it difficult to reduce government spending as illustrated a couple of slides ago. They argue that cutting too much too quickly will only lead to increased spending in the form of social support for the newly unemployed.

Slide 12 – 2016 Forecast

The outlook for 2016 is that the overall European economy will continue to grow at a “steady” pace. Current forecasts indicate faster growth in 2016 as compared to 2015 for most economies. Italy and France are predicting levels above 1% for the first time in several years and Germany is hoping its economy will crack the 2% growth mark. Sweden and most eastern European countries expect their recent growth spurts to also continue. Spain also is tracking to continue its recent gains. It is fair to say, however, that most of these estimates were pre recent news out of Asia. With such a high dependency on exports, world events certainly will have an influence

Slide 13 – Economic Sentiment Indicator

The Economic Sentiment Indicator is a composite of European business and consumer confidence from various sectors. A score of 100 or more indicates a positive outlook toward economic expansion. The latest values published in late August were increases to 104 in the Euro Area and 107 in the EU as a whole. These represent approximately a 3 point gain in both geographic areas versus the published values at the same time last year.

A weak Euro and continued reduced energy prices have been cited as key reasons for optimism. In addition, the ECB has seemingly shifted its' focus from continual fiscal tightening alone, to one which is also promoting growth. As announced last year, the ECB began a program that is adding 60B€ per month into the European economy. Recently, the ECB has indicated the program will be continued and most likely beyond its initially foreseen September 2016 end date. A key target group of this added liquidity is Europe's 20M Small and Medium Sized Enterprises, or SME's, which represents 50% of Europe's GDP. This business segment has grown slower than expected and represents a potential catalyst for continued expansion.

Slide 14 - Industrial Truck Market in Europe

Now some words on the Industrial Truck Market in Europe.

Slide 15 – Market Development in Europe

The charts shown at the top of the following slides represent 3 and 12 month trend lines for unit orders per WITS through July of this year. The charts at the bottom show the rate of change in the market and are often an indicator of the direction the market is heading by comparing the 3 month rate of change to the 12 month rate of change.

As you can see the Industrial Truck Market in Europe is at its highest level in over 6 years. Through July, the market is up over 7% compared to last year. Last year's market for the same period was also up 10.5% when comparing to July 2013. Western Europe continues to drive these volumes although growth in the East has also been steady when Russia is excluded. Through July, order intake for all of Europe stood at nearly 221.000 units which is roughly 15,000 units more than at the same time in 2014. 2014's year-end volume was 344.000 units which was only 5 – 6% off the all-time peak year of 2008. Whether or not the peak will be reached this year remains to be seen. As you can see from the charts, there has been somewhat of a cooling off period in the last quarter.

One very noticeable trend is the lack of growth in the Forklift or Counterbalanced market. A severe reduction in demand from the

Russian market certainly has had a large effect on the numbers in this segment but, even in Western Europe, demand has only reached 80% of prior peak volumes. On the contrary, Warehouse Trucks are currently selling at volumes which are running close to 15% above all-times highs.

Slide 16 – Market Development in W. Europe

The Western European Market, at 191,000 units through July represents over 85% of the total European market for 2015. This is up from 80% at this time in 2014. Again, continued market decline in Russia is the key factor in the shift of the market. Total volumes in the West are up 11% this year on top of gains of 12% last year. If growth were to continue at this pace for the remainder of the year, Western European unit volumes would reach a record 300,000+ units for one calendar year.

While still only approximately 80% of pre-crisis levels, the Forklift Truck segment has experienced a steady rise in volume. This has been supported with large gains in Italy, Spain and the UK. Electric Counterbalanced trucks with a 13% year on year gain have outperformed Internal Combustion trucks which have increased only 3%.

Warehouse trucks have seen double digit gains in both Classes II and II in virtually every major market and order intake has remained above historical high level for several months running.

The latest 3 month rate-of-change trend lines show only a slight cooling off of the market in all 3 Classes within Western Europe.

Slide 17 – Germany

Germany is the single largest European market representing over 1 in 5 trucks sold in all of Europe and 25% of the western European demand. The market, at 49,000 units through July, is tracking 8.3% higher than last year and is set to break the all-time record of 75.500 units set in 2007 and which also was almost matched last year.

While Internal Combustion trucks continue to lag behind, Counterbalanced Electric Trucks are up by 11% YTD and most likely will also post an all-time record this year. Warehouse trucks will exceed pre-crisis levels by some 20% with large gains being seen in both Classes II and III over the past few years. Even with a slight reduction in the rate of increase over the past couple of months, the Industrial Truck market in Germany remains an uber-performer in all segments.

Slide 18 – France

Currently the French market for Forklift Trucks is tracking at a rate of roughly 2/3's of peak volume. As in most markets, IC trucks lag behind Electric and will only rise to around 60% of pre-2008 levels. The Warehouse segment has steadily climbed to near record levels of just under 3 ½ thousand trucks per month. Growth has been equally strong in Classes II and III. Total volume through July was over 36,000 units.

Slide 19 – Italy

Italy is tracking at a 17.8% total volume increase which is on the back of an 18% increase for the same period in 2014. As you can see, the Industrial Truck market fell almost 50% in 2009 and experienced a double dip recession in 2012 before it had recovered much. While total W. European unit sales have nearly reached pre-crisis volume, Italy remains at approximately 70%. The good news is currently Classes I, II and II are all growing at close to 20% though IC trucks have only grown 4% YTD and remain well below of pre-crisis levels.

Slide 20 – UK

The UK market, standing at 21,000 units through July, is poised to shatter last year's post crisis record volume of 32,000 total units. Current Year on Year volumes are up by 14% and these gains are seen in all classes. Contrary to most other European markets, the UK's short term trend is also pointing upward on the back of increased production output in the 2nd quarter of this year

Slide 21 – Spain

It may come as no surprise that considering the level from which the market is coming, Spain is experiencing the most significant growth in 2015 when compared with any of the other big 5 markets in W. Europe. In percentage terms it is 35% up and this is on the back of a 40% increase for the same period last year over 2013. YTD growth in Forklift trucks is over 50% and this holds true for both Electric and Internal Combustion trucks. Classes II and III have increased 6 and 30% respectively after gains of 30 and 40% last year.

At current rates, Spain could well finish the year between 23 and 24,000 and there is still plenty of room for more growth as peak level in 2007 was more than 30,000 units.

Slide 22 – Market Development in E. Europe

Eastern Europe's volume through July was just under 30,000 units. This is down from 34,000 for the same period in 2014. The number is somewhat misleading however as the Russian market is down on its own by 6,000 units. This leaves the rest of the Eastern European market up by just under 10%.

Leading this gain is Poland, now the largest market in Eastern Europe, representing almost 33% of volume even with Russia included. Poland has experienced double digit gains in nearly all segments with the highlight being a 33% YTD gain in Class II. The Czech Republic, Hungary, Romania and Slovakia have all experienced modestly increased markets as well. The remaining smaller markets had mixed performance often dependent on how close their respective economies are tied to Russia's performance.

Slide 23 – Russia

It doesn't take a long look to see the effects that the economic sanctions and weak oil prices have had on the Russian economy and the Industrial Truck market. The days of peak demand in 2007, when the market reached more than 27,000 reported units, seem long gone. At its current pace, the market seems destined to finish below 12,000 units this year. The Forklift Segment has suffered the most and is realizing volumes which are only 25% of what they once were. Compared to last year, Classes II and III are both down in the range of 40% and current news from Russia doesn't seem to indicate any change in the foreseeable future.

Slide 24 – Closing Remarks

Some 6 years after what hopefully will be the worst crisis in our careers, the world, and certainly Europe's, market has recovered very nicely. While there remains more structural change to be done within Europe's economies and uncertainty with reference to world markets and global strife remains, we seem to be in a relatively comfortable spot. Of course this run will not continue forever and we may well see a cooling off period over the coming quarters.

To give my personal forecast for the near future I would like to use a weather analogy. Last year at this time Europe’s forecast was seemingly partly cloudy. This year, considering the ECB’s continued monetary expansion program and Europe’s current positive Economic Sentiment balanced against a potential slowdown in Asia, it seems as if the forecast can be stated as partly sunny. With a chance of a rain shower, of course.

Ken Dufford

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