

2006 has shaped up to be quite a year, hasn't it? And we still have three months left! But, what will 2007 bring to the dealers, marketers, manufacturers and suppliers of the tire industry?

Many play a huge role in this big old industry. But, which are the real movers and shakers – the real Market Influencers?

TIRE REVIEW's annual review of Market Influencers looks at the 10 people, products, issues and things that we think will have a major impact on this business over the coming year. Sometimes we're right; sometimes we're wrong. Still, over the past six years, Market Influencers has become the best-read, most-referenced and most-discussed part of our annual Sourcebook.

Some of those making the 2006 list are past winners – some many times over – and others are entirely new entries. As an added bonus, we'll take a look back at last year's list to see how well our predictions fared. Hint: We did pretty good!

This a purely subjective list, determined by the editors from a lengthy list of suggestions gathered over the past year. TIRE REVIEW's editor makes the final selection.

Agree? Disagree? Doubled over in laughter? We'd love to hear your take on Market Influencers. Letters, e-mails or phone calls are always welcome. And, if you have some candidates for next year's list, please pass them along.

1 Fuel Prices

This list could pretty much start and end here. Not only is the daily commute more expensive, the cost of everything else has gone up, too. Since last fall, 'roided diesel and gas prices have pushed food, clothing, toys...you name it...prices skyward. Heck, even road projects have ground to a halt. And, while we're currently seeing some personal pump relief, diesel prices remain in the stratosphere. Once prices go up, they have a nasty habit of staying there. Consumer shifts to fuel-friendly rides have left car dealers choking on pick-ups and SUVs. But, those meager MPG savings are quickly absorbed, as consumers try to keep bread on the table. Post fill-up disposable incomes are tight, tighter, tightest, because diesel-influenced goods leave little room for more than just the necessities. Want more good news? Big 3 automakers are building their 10-year business plans around \$3-\$4 per gallon. Thank God it's Detroit; otherwise, they might be right.

Lingering Questions: *Do your kids look at you all weird when you say, "I remember when gas was only \$1.50 a gallon?" If oil companies get tax breaks for discovering new sources of crude, do we get tax breaks for discovering new ways to finance a full tank? How long before you get '90 days same as cash' deals at Exxon? Is \$30 billion net profit really that bad?*

2 The Economy

Wanna know why the retail tire biz was down 7% in the first half of 2006 and is headed for a 5%-6% decline for the full year? Wanna know why 2007 doesn't look a lot better? Sure, the broad economy is growing. Productivity is up. Profits are up. Stock markets are up. But the micro-economy – Mr. and Mrs. Public's household – isn't enjoying such growth. While worker productivity is up 16.6% since 2000, real wages – actual take-home bucks – have fallen 2% since 2003. Inflation (excluding energy and food) is at 3.1% for 2006 and is expected to creep to 3.3% next year. Add in energy and food, and total inflation is much higher. Even for workers making \$80,000 a year, inflation has outstripped pay increases over the last three years, the government says. And it only gets better. Recent Census Bureau figures show that one in eight Americans have income below the poverty level. "There are two economies out there," one analyst said. "One has been just white hot, going great guns. And then there's the working stiffs who just don't feel like they're getting ahead, despite the fact that they're working very hard. There are a lot more people in that group than the other group." Jeez, if this keeps up, we'll have to apply to join the EU.

Lingering Questions: *Are we really better off just watching "American Idol" and playing video games? Does the FDA recognize "American Idol" as a painkiller? Is a second job counted as a second income or leisure time?*

3 Raw Materials

Carmakers put the cane to their suppliers, and tiremakers are getting switched by their vendors. An odd paradox, that. In 2005, total raw material costs increased 13%, on average. This year has been worse. Oil, carbon black, natural and synthetic rubber, steel, chemicals – the story is the same. NR alone is up 40% this year, according to one analyst. Toss in higher shipping (gas/diesel) and heating costs, and you can see why tire prices jump thrice a year. Here is an odd fact: Back in 2001, RMA reported that the ratio of natural to synthetic rubber in tires was 40/60. The very next year, that ratio switched to 60/40. Why? Tiremaker shifts to more complex rubber compounds. Demand is high, thanks to China and others, but raw material supplies have kept pace. So, the rising costs aren't the result of the old supply/demand scam. Tiremakers, we know, are hitting their chemistry sets looking for less costly alternatives. Some are looking to lighten the load by using less material. It'll be more of the same in 2007, though.

Lingering Questions: *How sure are we that less material is not a recipe for disaster? Will we get to choose between a regular Potenza and Potenza Lite? How 'bout "Less Weight, Runs Great" as the slogan? Can Latin America become a legitimate new source for NR?*

4 Automotive OEMs

Ford has another extreme makeover plan and a new chief to execute it. GM is restructuring, too. Big 3 dealer lots are teeming with gas-gulping pick-ups and SUVs, so domestic production is being whacked. Often missed in this drama are the suppliers. Cost-cutting demands and production rollbacks by automakers – and a little bad management – have all but squeezed many major names out of business. Dana. Delphi, Visteon. Collins Aikman. Lear. American Axle. They and many others are staggering – and don't see a bright future. America's single largest industry is a mess, and there are no clear answers on the dashboard. Goodyear has already challenged GM on tire prices, trying to get back some of from past givebacks. Will others join the fray? Regardless, the OE business ain't one to be in right now. As always-alert GM chief Rick Wagoner recently said, "I think the fuel price situation has been a little surprising to everyone." Really, Rick? Never saw that coming?

Lingering Questions: *How would car lots look if all the vehicles were up on cinder blocks? Cool, eh?! Now that Toyota is the sales leader in the U.S., can we stop calling them imports? If Ford and GM are buying out employees, will they buy out suppliers, too? Can Dr. Z really save the world?*

5 Globalization

Global Inc. has been a reality for years, but it's still a relatively new concept for the tire industry. More and more of our 'broad-line' gets outsourced to so-called 'low-cost' countries – particularly China, South America, CIS and Russia and Southeast Asia. We're keeping the high-margin, large-diameter stuff here – for now. Some U.S. makers are betting heavily on offshoring to meet domestic needs. Made at (fill in the country here) costs and sold at American prices! These countries thrive on smaller diameters – outside of North America, 16-inch is a mighty big tire – bolstering their local trade and technology and manufacturing bases. What we see as dirt-poor wages are good-paying jobs in those countries, boosting their economies and building new groups of "middle class" consumers. As long as exchange rates don't go all goofy on us, everyone on the map is grunted. Well, that is, except for the disgruntled USW. Price competition being what it is, some of these overseas tiremakers are looking at the old U.S. of A. Give us your poor, your tired, your 4 for \$100...

Lingering Questions: *When exchange rates do change – and they will – what's the plan? It's worth asking again: How long will it take before our "high-tech, high-margin" tires are built elsewhere? Will the U.S. become a tire consumer and not a tire producer?*

6 Private Brands

Talk about a tough market to be in right now. The private brand business has not been fun. Over the last three years, the private brand share of the U.S. consumer market has slowly declined and is now just 20%. Even though they have been able to maintain a price advantage in the face of countless price increases, backside cost pressure from low-cost import lines – primarily tires from China – have eroded business. With TBC and Treadways merging, it's anyone's guess which brands will stay and which will go – if any. And, Goodyear's nixing of private brand production has left a number of known names scrambling

to for future supplies. With primary options like Cooper and Conti going offshore for their low-end product, the alternatives are limited. Still, there are a lot of plants around the world looking to fill capacity. The shakeout may claim a few names, but the stronger players – the ones that were well-positioned to begin with – will remain vital. Still, with imports increasing 24% over the last two years – and many of those brands are looking to make a name here – one has to wonder what the future holds.

Lingering Questions: *How many associate brands will bite the dust? How many dealers have been scrambling to find new lines? Who will be left standing when all is said and done?*

7 Congress

Even with the mid-terms – and a possible change in the balance of power – a month away, Congress has a passel of stuff on the boards that could have a marked impact on the tire industry. Right to Repair Act. Association Health Plans. RMA-written tire fuel efficiency consumer education. Tire aging. Not to mention potential tax-code changes, trade issues, the economy and possible aid to struggling industries. It's a full platter on buzz-happy Capitol Hill. And, Congress, as always, will seek the biggest bang for the sound bite. So don't expect action on the small stuff, but you will see lots of grandstanding on the big stuff. Translation: lots of jabber-jawing and little action. Still, what happens in the Beltway over the next 12 months could have a profound impact on our industry. Stay vigilant!

Lingering Questions: *Wouldn't it be cool if Congressmen came with a 30-day test drive guarantee? Or, if we could mount a BSMS on every one of them so we'd know when they were lying? Or, if we could give them all an alignment so they'd steer dead center instead of pulling left or right? You know how much fun I'm having right now?*

8 Titan

Who'd have thought we'd see the day when Titan stock traded at the same level as Goodyear and Cooper – combined? It happened July 14. Despite failing to take the company private, 2006 was a pretty big year for Titan. It finished its \$100 million deal for Goodyear's ag business, bought Conti's OTR plant for \$41 million, got licensing deals for the Goodyear, Kelly, Conti and General brands, and got extended deals with the USW. And some how, some way Morry Taylor has become the USW's best buddy – even after a bitter, record-setting, 40-month strike and filing organized-crime charges against union members. What a big old goofy world this is! Its interesting past aside, Titan is now a player in the ag tire market and can make some noise in the earthmover biz – two segments with decent margins. As long as the OTR tire market remains backlogged, Titan can enjoy a nice roll. Taylor has set the sales goals high – \$800 to \$825 million for 2007 – and has begun "realigning" his manufacturing to deliver some \$110 million in profits. Ambitious for a company that had 2005 sales of \$470 million.

Lingering Questions: *Does the USW understand the definition of "realigning"? This being 2006, just how well does the xenophobe thing thing really play in the market? With the financials sorted out and its stock price growing steadily, can Titan keep up the momentum?*

9 Lead in Vehicles

The EPA is probably less concerned about what happens to lead wheel weights after they leave your shop than it is about your employees' exposure to them in your shop. No, they aren't going to drop a big fine on your doorstep, but the EPA will drop the bomb on lead weights before too long. Lead was out of paint in 1977. Two years earlier, we started phasing it out of gasoline. Lead shot is now banned in waterfowl hunting. Don't want to poison the ducks...or the water. Hate to say this, gang, but wheel weights are next. Europe moved smoothly to lead-free vehicles, and most Japanese and Korean nameplates are nearly lead-free. Last year, the EPA rejected a lead-ban petition for lack of "adequate" data on exposure and risk. It was not, as touted, a regulatory victory by any stretch. Believe me, the special interests are reloading. With steel shot this time.

Lingering Questions: *If lead in the water supply is an issue, when will sinkers get sunk? Do your guys wear rubber gloves when balancing tires? Will lead police bullets be considered cruel and unusual punishment?*

10 Blingy SUVs

Looks like the Big Bling Era is over. Plugged like a gangsta. Played out like the Hummer II and III. Besides the fact that you could never cram a 28-inch tire/wheel under a Civic – unless you went all monster truck on it – America's fascination with really big and shiny seems to be waning. The victim of bigger pump prices and that unsustainable image that huge is good. It was fun – and quite profitable – while it lasted. And, a big shout out to the tire and wheel guys for proving that no technological hurdle could not be, well, hurdled. Don't get us wrong, there is still a solid HP tire/wheel market out there. Hey, fuel-efficient doesn't have to mean ugly. Hybrids need some love, too. It just looks like Plus-10 is spent. Like that last dime to feed the 12-MPG tank.

Lingering Questions: *Will some of these pimped-out monster SUVs become part of an "Our Wretched Excess" exhibit at the Smithsonian? Ever notice how "Pimp My Ride" doesn't fix the crap wagons they take in; they just put lipstick on the pigs? Think we'll get nostalgic for pimped Escalades like we are for muscle cars? Is it Xzibit or Xbiscuit?*

So, How Did We Do? 2005 Influencer Scorecard

1) The Economy

Unless your store is in a gated community, the news isn't good. **A+++**

2) Gas/Diesel Prices

Like kudzu, strangling everything within its grasp... **A+++**

3) Raw Material Costs

Enough already. Can we level off and move on? **A++**

4) 2006 Labor Negotiations

Remain unresolved, but USW needs another synonym for "giveback." **A++**

5) Tire Fuel Efficiency/Tire Aging Legislation

Still out there, but the straight-A streak is over. **B**

6) Dealer Competition

Behind that stiff upper lip lurks a worried dealer. GPA down to 3.67. **B-**

7) Trucking Industry Growth

And now for something completely different – a slow period. **A**

8) China

Six straight years on the MI list. Little wonder. **A++**

9) Ancient Infrastructure/Plant Closures

Money-in-the-bank pick. Now, let the capital investing begin! Scholarship letters are pouring in! **A**

10) Continental Tire North America

Sing along with us: "Everything's coming up roses..." **C**