Diesel Engines & Related Parts

US Industry Study with Forecasts for 2013 & 2018

Study #2464 | February 2009 | $4700 | 260 pages
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Demand will be led in part by increasingly stringent emissions control regulations, which will force transportation specialists to either remanufacture existing engines or purchase new ones.

**US demand to rise 6.2% annually through 2013**

Demand for diesel engines and related products is forecast to rise 6.2 percent annually to $19.5 billion in 2013. Gains will be driven by the recovering US heavy truck market. Rebounding consumer confidence and loosening credit standards will encourage truck fleet owners and managers to purchase new vehicles, virtually all of which are outfitted with diesel engines. Further advances will be led by continued emissions control regulations, which will increase the cost of diesel engines by several thousand dollars. As these regulations become more stringent, transportation specialists must either remanufacture existing engines to meet the new standards, or opt to purchase new engines. Finally, as the large numbers of truck engines purchased as part of the 2006 pre-buy are subject to wear and tear, these engines will have to be replaced. Many fleet owners and managers will choose to install newer diesel engines, which generally offer enhanced fuel economy with reduced maintenance needs.

Shipments of diesel engines are forecast to rise 5.3 percent annually to nearly $20 billion, reflecting strong US demand gains for diesels, which will encourage US manufacturers to increase production. However, imports of diesel engines and related parts are projected to rise at a more rapid pace, as US manufacturers transfer more of their production facilities to countries with lower cost structures.

**Motor vehicle market to be fastest growing**

Demand for diesel engines and related parts in the motor vehicle market as a whole is projected to advance 8.5 percent annually to $10.7 billion in 2013. In addition to the heavy truck market, increased use of diesel engines in recreational vehicles, light trucks and passenger cars will also spur demand gains. Consumers will increasingly opt for diesels due to their fuel economy and superiority over gasoline engines for towing and hauling. Further advances will be promoted by increased sales of medium-duty trucks and specialty vehicles, such as ambulances and dump trucks, of which the majority are equipped with diesels.

In the non-motor vehicle segment of the diesel engine market, demand for engines and related parts is forecast to rise 3.7 percent annually to $8.8 billion in 2013. Advances will be derived from increased construction spending, which will boost demand for diesel-powered construction and mining equipment. Further gains will be promoted by the implementation of Tier 4 emissions control standards for off-road diesels. These regulations, which are scheduled to be fully phased in by 2014, will force many owners of diesel-powered equipment to upgrade their engines to meet the new standards, or purchase new, more environmentally friendly diesel engines.
Recreational Vehicles

Demand for diesel engines and related parts used in RVs is projected to rise to $650 million in 2013. This rapid gain in demand will be largely driven by rising consumer purchases of RVs, many of which are powered by diesel engines. Demand for RVs fell between 2003 and 2008, as rising fuel prices, declining consumer confidence and a decrease in disposable income led many Americans to delay or entirely forego RV purchases. Moreover, many RV users sold their vehicles or curtailed their use, citing rising fuel costs and concerns about the economy. Going forward, rising economic growth and rebounding consumer confidence will lead some Americans to purchase RVs. Population growth of people 45 years old and older -- the primary buyers of RVs -- will encourage demand gains, as will changes in consumer vacation habits. Many people will opt to travel shorter distances and on weekends, planning less than normally required for vacations centering around other travel modes. Also, owning an RV means people can travel to areas without large numbers of hotels or other accommodations, such as parks and more remote areas. Many RV buyers will opt for diesel-powered vehicles, as these vehicles can offer significant long-term fuel savings, an important consideration for users that will travel many thousands of miles per year.

Among all RVs, Class A motor homes -- the largest and most expensive type of RV -- are expected to maintain their position as the leading type of RV in terms of shipments, despite increased competition from smaller, more fuel-efficient models and towed RVs. Diesel engines are installed on many Class A motor homes (as well as other RV types), as these engines can provide the additional torque required to power these extremely heavy vehicles. Providing such levels of torque will become even more necessary as newer generations of the vehicles grow larger and more laden with amenities, which tend to add to the gross vehicle weight.
Stanadyne Corporation
92 Deerfield Road
Windsor, CT 06095
860-525-0821
http://www.stanadyne.com
Sales: $293 million (2007, as reported to the SEC)
US Sales: $131 million (2007, as reported to the SEC)
Employment: 1,725 (2007, as reported to the SEC)
Key Products: combination fuel filter/water separators, fuel pumps and injectors

Stanadyne is a privately held manufacturer of components for diesel and gasoline engines. The majority of outstanding stock in the Company and its parent holding company is owned by Kohlberg & Company LLC (Mt. Kisco, New York), a merchant banking firm.

The Company is active in the US diesel engine industry through the production and sale of such diesel and gasoline engine components as filtration systems, pumps and injectors to original equipment manufacturers (OEMs) and the aftermarket. The primary markets for these products are agriculture and industrial off-highway. In 2007, OEMs accounted for sales of $173 million, while the aftermarket represented sales of $120 million. Stanadyne’s primary customers are diesel engine OEMs, including Deere & Company (Moline, Illinois), Cummins (Columbus, Indiana) and the General Engine Products subsidiary (Franklin, Ohio) of AM General (South Bend, Indiana).

Diesel engine components from Stanadyne include combination fuel filter/water separators, fuel pumps and injectors. The Company’s combination fuel filter/water separators are produced and sold under the FUEL MANAGER brand name and are typically employed in light trucks.

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“Ferrous metals, which accounted for more than half the cost of diesel engines in 2008, will continue to be the most significant cost to diesel engine producers in 2013. Advances in materials costs will rise 2.0 percent annually through 2013, a rate that is almost one-half of that experienced over the previous decade. Gains will be severely restrained by declining metal prices, which will continue to fall from the highs experienced in 2006 and 2007.”

--Section IV, pg. 86
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