The Meter-Taylor & Martin, Inc.'s Quarterly Newsletter

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Transportation (Trucking) Update (6-1-2018)

From Spring to Summer in Nebraska! Yes, we had a Spring, fortunately it landed on a weekend, so outside work could be started. (We had snow into mid-April.) As the weather has been warming up, so too have certain segments of the US economy. In the short run it is all welcome and good; but in the long run, things tend to overheat and then things tend to change for the worse (using my weather analogy-Winter comes back to Nebraska). Which "certain" segments come to mind? Crude Oil prices, now over $70.00/bbl; Mining: Some raw materials have or are anticipated to rise (Aluminum & S. Steel up 15+%); Labor hovering around 4.00% Unemployment; Tractor & Trailer price & value on the rise.

Now to the main issue at hand: trucks, tractors and trailers. Any excess capacity has been absorbed. Recent auction activity continues to show that the truck-tractor market is now in full recovery mode. The market still has a good, but now smaller supply of used power equipment. The overall numbers, for 2011 and newer have dropped by about 15% in the past three months, so the market improvement must be coming from the demand side.

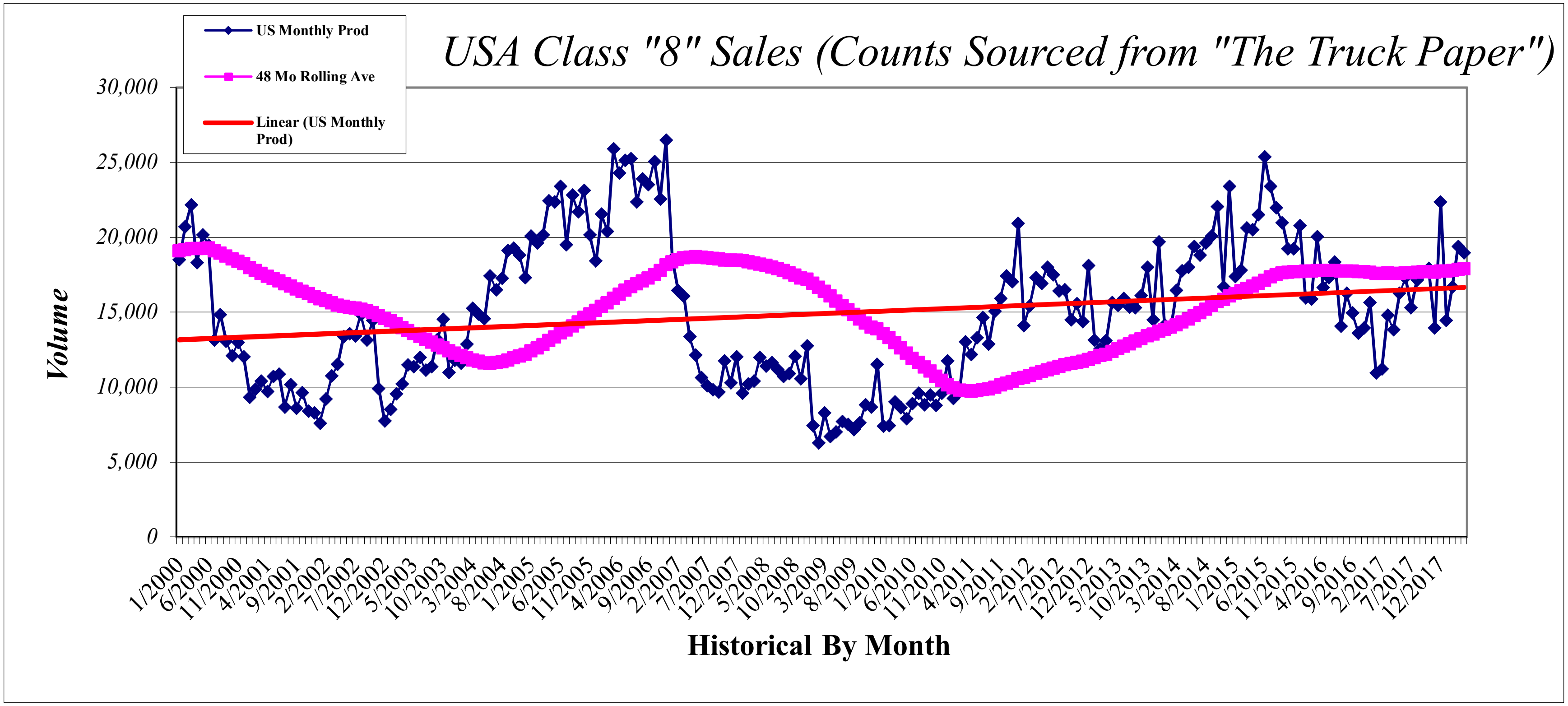
Overall monthly sales had continued to chop above and below the trendline. December sales were above the long term rolling average (48MRA), however new tractor sales for January and February were again below and then again March sales were above the 48RMA. (New Sales: March 2018: 19,384 vs. 48RA: 17,843) [Trendline has moved up to about 16,600 per month.] Both have been heading higher the past few months.

A point worth repeating: Articles continue to discuss the impact of ELD and the overall loss of efficiency and utilization of long haul tractors. The Federal government continues to attempt to refine the regulations to make the requirements less onerous. The estimated loss of efficiencies and overall growth in the US economy could account for the need for tractors (and drivers) to move today's freight volume; thus, absorbing the excess capacity referred to in my previous newsletters. This, along with a good economy.

Trailers continue to hold steady/strong, with most classes depreciating at or less than historical rates. Total new orders are up, when compared to last year's order volume. Some manufacturers are not willing to price next year's trailers due to concerns with raw material costs.

We have included some of our updated data, charts and commentary which I hope you find interesting and hopefully useful.

Tractors



As stated each time before, the chart above shows historical trends that tend to repeat themselves. (Disclaimer: past activity does not necessarily indicate future activity.) We went above the 48MRA in December, but dropped back down below it in both January and February. [History tells me that I need to see two consecutive months over the 48MRA to confirm the positive trend.] March once again exceeded the 48MRA, April's final number, 18,950, should determine whether we are going to stay above the 48MRA. We did not have an overall reduction in supply, but rather a big uptick in activity. Based upon auction activity, I anticipate that we will generally move higher in new purchases in the coming months. The near 3% GDP growth is certainly absorbing some of the previously considered excess capacity. Older Owner/Operator tractors, with pre-2000 engines, have been very strong, due to E-log exemption and relative ease of maintenance. No change from my previous report. NEW Info: Check out an S&P chart or a Dow Jones 500 chart and note the dip in mid-2015 and early- 2016, it ties right to the decline in tractor sales; and as such, value declines.

What are the data points and trends telling us now? (Some of my comments are repetitive, and may be found in previous newsletters, but again repeating a notable point makes it more likely to be remembered.) December's increase in purchases was due, in part, to tax related considerations.

1: Trucking typically runs in a 7 to 8-year cycle [peak to peak OR trough to trough]. As long as the new sales volume is above the 48-month rolling average, the trend is higher for builds and values erode more slowly. We are now above and most likely staying above the 48MRA for a period of time, going forward. This should confirm a reasonably healthy period of growth and reasonable depreciation rates. **Values eroded (economic obsolescence) at rates much higher than historical averages from July 2015 through July 2017.** Going forward, I anticipate somewhat lower than normal rates of depreciation for tractors.

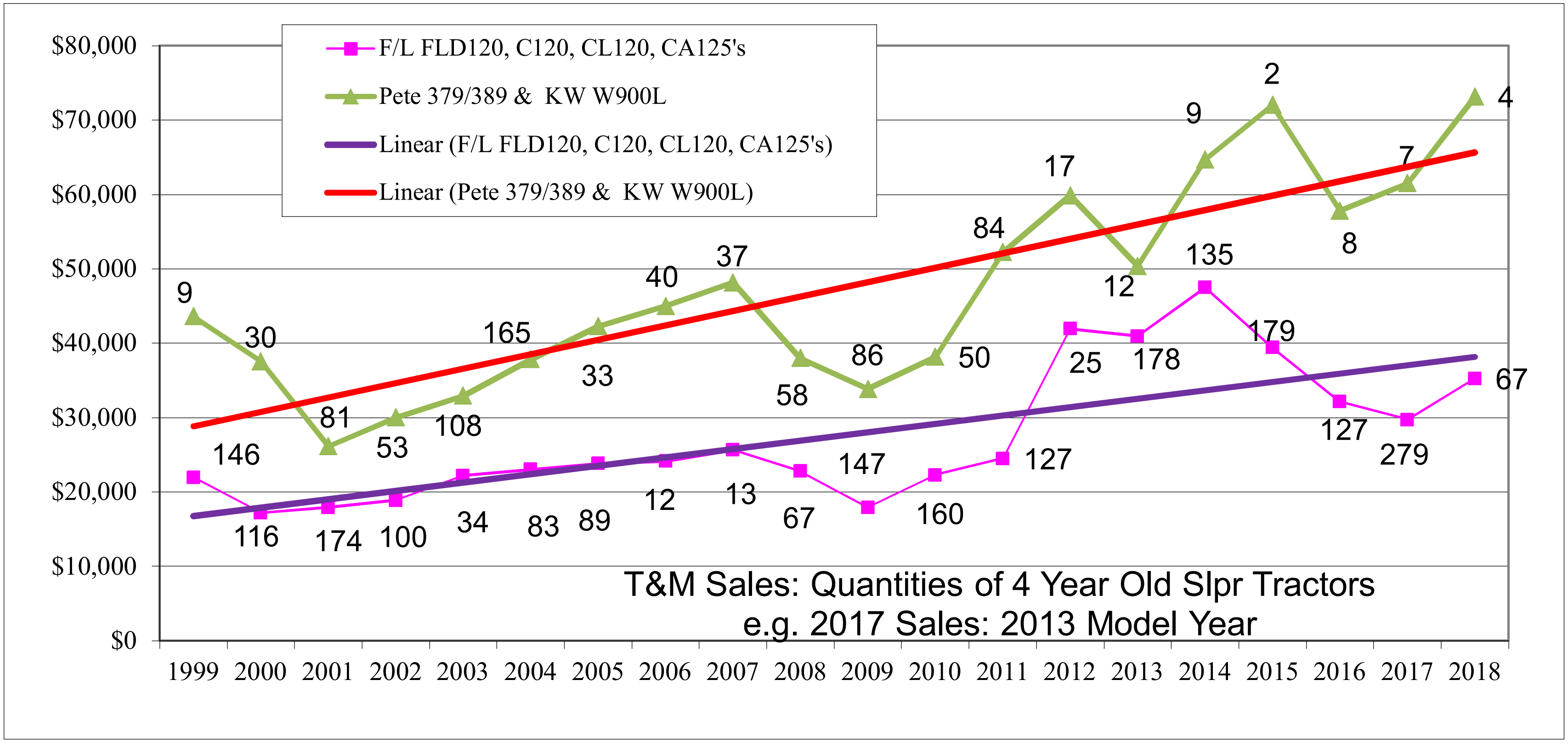
2: Historical needs have grown from slightly lower than 15,000 Class 8 tractors per month to more than 16,500 Class 8 tractors per month. Currently, the 48-month rolling average is 17,867. The overall late model fleet continues to inch higher, month over month and has now exceeded the last 48 month Rolling average "High Water Mark" of 17,783 in March 2016. Historically we needed 15,000+ tractors per month. Today, given the HOS limitations, other governmental regulations and growth in the US economy the new benchmark may be 17,000+ tractors per month. This is noted by the fact that the 48MRA is still well above the Linear Tend line. (Historical long-term Build/Wear Out number.)

3: U.S. Sales ONLY: The 48 Month Rolling Average is the rolling average of all tractors 48 months old or newer (48MRA). The 48MRA bottomed in 2/2011 (7-year low) with the 48MRA at 9,712. The previous 48MRA high was recorded in 5/2007 at an average of 18,678, six months after the actual monthly sales peak in 12/2006, when 26,462 units were sold. We now have marked the peak of monthly sales in 6/2015 at 25,369 units sold. If sales continue at a strong/very strong pace, I anticipate the 48MRA to continue moving higher, with the strong possibility of exceeding the 12/2006 monthly high of 26,462 Class 8 Tractors.

4: Anecdotal mileage information: In conversations with several trucking firms, along with meeting ELD and emission requirements, striving for higher miles-per-gallon is a key goal. Some models are achieving 9+ mpg, with 8+ mpg readily attainable. Most indicated they are planning/working to cull their less efficient makes/models. Other trucking companies are tired of fighting and are electing to exit the industry.

5: Since the drawdown (~20%-30%) from July 2015 to July 2017, tractors have improved significantly. When considering fleet type tractors, recent auction results are up ~18% from the 2017 low and new tractor sales indicate the last downturn is behind us. Used values have recovered some of what was lost; however, it is not possible to determine if, when or how much values will rise above the historical trendline. It takes time for some buyers to both recognize and believe in any positive change in direction, and thus participate.

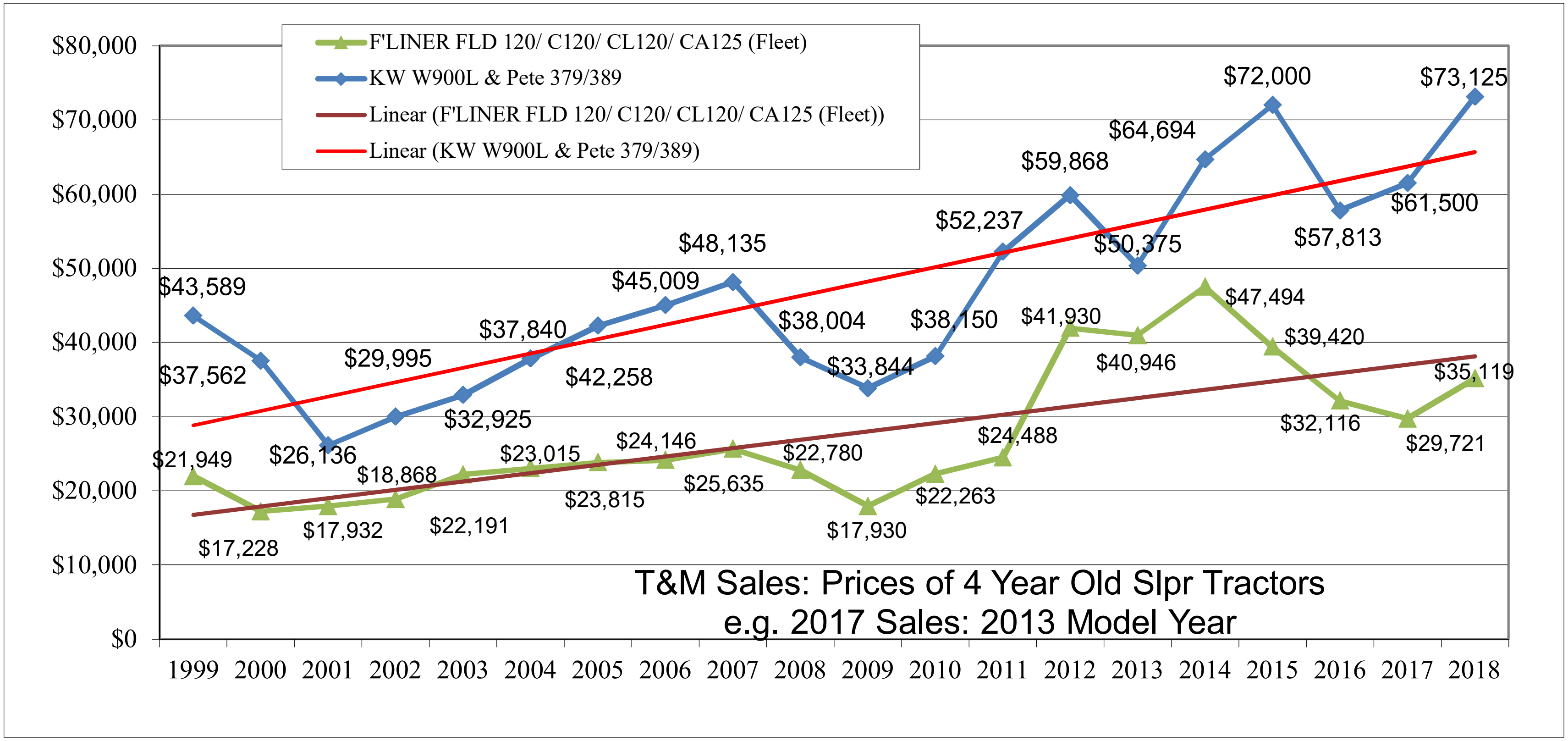
2018 Sales are Year-to-Date (through May 18, 2018)



The average price of four-year old "fleet" tractors (sold at T&M Auctions) mirrors the trend of builds. [Further details found in the chart below.]

Above are T&M Sales by annual Quantities, below are T&M Sales by average annual Prices. [I've simplified the chart by combining the Peterbilt 379/389 and Kenworth W900L tractors since both generally considered to be spec'd as Owner-Operator tractors.]

As the charts indicate, higher quality tractors (typically Owner/Operator specs) are faring better than fleet spec'd tractors. It should also be noted that the "fleet" tractors are nearly back to trend line.

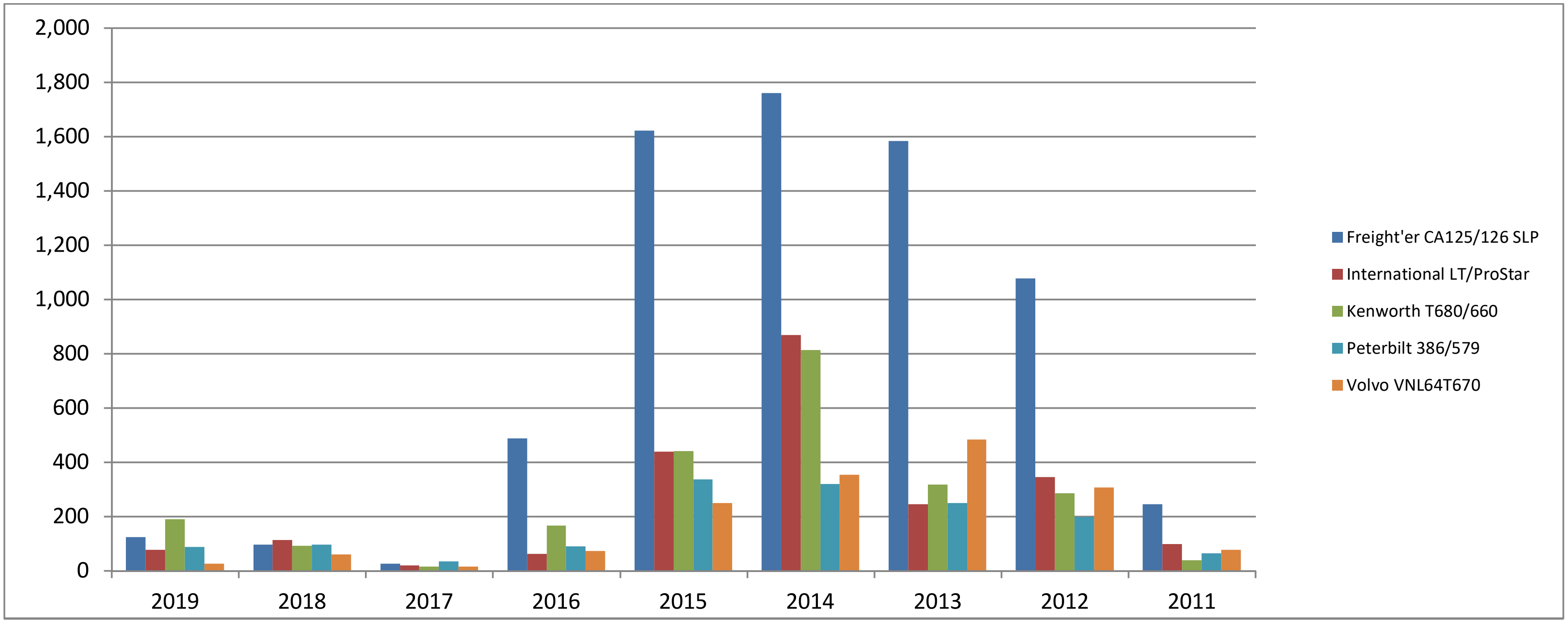


Note, over time, the similar trends of the "Owner-Operator" (W900L & 379ExHd/389) tractors (blue line) compared to the "Fleet" (Freightliner) (green line) tractors.

The trends (red and purple lines) over time have been higher, but the price declines (green & blue lines) are clearly evident (2001-2003 & 2008-2011 & 2015-2017). RCN is up and inflation is included in the sale prices, thus the upward trend line.

The drawdown from Calendar year 2014 to 2017 was 38%, when measuring the Freightliner sales, as shown above.

What is available to the marketplace today? (May 15, 2018) See chart below. (Sleeper Tractors) (About 2,500 units "for sale" fewer than last quarter totals.) The "high count" years are typically for trade-ins or end of lease units.



	Sleeper Tractors For Sale On TruckPaper.com: May 15, 2018									Av Age=	2014.04
Make	2019	2018	2017	2016	2015	2014	2013	2012	2011	Total	Percentage
Freight'er CA125/126 SLP	123	95	24	486	1,621	1,760	1,582	1,077	243	7,011	47.619%
International LT/ProStar	76	112	19	61	438	868	244	344	98	2,260	15.350%
Kenworth T680/660	188	91	14	166	440	813	317	285	38	2,352	15.975%
Peterbilt 386/579	86	95	34	88	336	319	248	198	62	1,466	9.957%
Volvo VNL64T670	24	59	15	71	248	353	483	306	75	1,634	11.098%
Year	497	452	106	872	3,083	4,113	2,874	2,210	516	14,723	100.000%

Retail “For Sale” counts (total: 14,723), as charted above, are down ~15% and inventories are moving: Historic Reference: Sept, 2015: Total: 12,280; Dec, 2015: Total: 14,402; March, 2016: Total: 17,627; June, 2016: 19,618. Sept, 2016: 17,746; Dec, 2016: 17,712; March, 2017: 17,460; June, 2017: 18,481; Sept, 2017: 18,451; Dec, 2017: 17,722; March, 2018: 17,216.

Total tractors “for sale” have declined approximately 15 percent when compared to the last quarter and 20 percent from the most recent high (June, 2017). Considering the most current four quarters: June 2018: Ave VIN: 2014.04 vs. June 2017: Ave. VIN: 2013.08. The average vintage, of the “for sale” assets, has gotten one model year newer over the past year; which indicates the inventory available is not aging.

Additional factors to consider for a bias (positive or negative):

Drivers are in short supply. Demand for qualified (experienced & safe) drivers is strong.

Sixteen months into the current administration: More happens as political theater than as policy/legislation. The wheels of progress continue to move slowly.

The Crude Oil Industry has generally moved upward over the past 270 days (currently above $70’s/BBL). Active Drill Rig Counts continue to move up, but still far from its peak. This sustained improvement in crude oil prices has allowed a good portion of the idle equipment to be put back into service.

Building Activity (Home, Office, etc.): Locally Strong: Interest rate sensitive. Rates had remained relatively stable, until mid-May, shorter term rates are moving upward, there was no Fed rate hike in March; however, it looks like the market is building in additional hikes in the near future. Housing starts are still strong and interest in existing housing is robust, labor markets remain tight and unemployment is low. The 30-year mortgage rates are on the rise, but are still some of the lowest rates in history which is encouraging.

Labor: There is a real shortage of qualified employees for many sectors, including transportation.

World economics: The rest of the world is showing areas of some weakness (e.g. Venezuela) and international politics are in play (China, NAFTA & N. Korea) … the US Stock Market has generally moved sideways over the past 90 days, though choppy. Limiting production (OPEC) with improving demand (worldwide) is causing crude prices to move higher. This is certainly helping the domestic energy industry. US production will certainly attempt to take advantage of the higher prices and ultimately limit the upside potential. The US dollar has moved higher, helping OPEC in pricing their oil, but hurting US Exporters. The players in the “world economy” can seem like a classroom of children; sometimes they work/play together well, sometimes they don’t.

Trailers

Trailer trends remain firm. There are pockets of greater or lesser demand depending upon which sector of trucking is considered. The direction of trailer values typically lags tractors by several months. I anticipate some higher rates of depreciation in more sectors, in the coming months.

Generally:

Ag trailers: still steady/soft due to ag commodity (grain, fiber & livestock) prices.

Chemical Tank Trailers: Stable Pricing: raw products to manufacturing still good. Good used equipment in the secondary market is in very limited supply. Lesser quality trailers (e.g. out of test) are readily available. Chemical companies are anticipating expansion, based upon steady growth.

Pneumatic trailers: High load demand for large capacity trailers. Better demand for small cube trailers (i.e. 1040's), due to construction and improving oil field activity.

Propane tank trailers and bobtails: Stable on older used assets. This is a more mature market and the price of propane is lower, which is good for end users. [Propane is a higher valued component of raw natural gas production.]

Container/Chassis: Supply adequate, growth in rail, port activity up (TEU count is up). Size is important, location is important.

Flatbeds/Drop Decks: Stable/Stronger: Construction remains robust, In-bound freight to manufacturers and finished goods reported to be improving. 53 Ft & 48 Ft Combo Flats: RCN steady. Market still has plenty of 2017's-2018's flatbeds and an abundance of 2019's are for sale as well. Specialized Oil Field Flats: Improving, supply is still plentiful. Generally, depreciation rates are below historical levels, particularly on trailers that are greater than 5 years old. Overall, orders and builds are up.

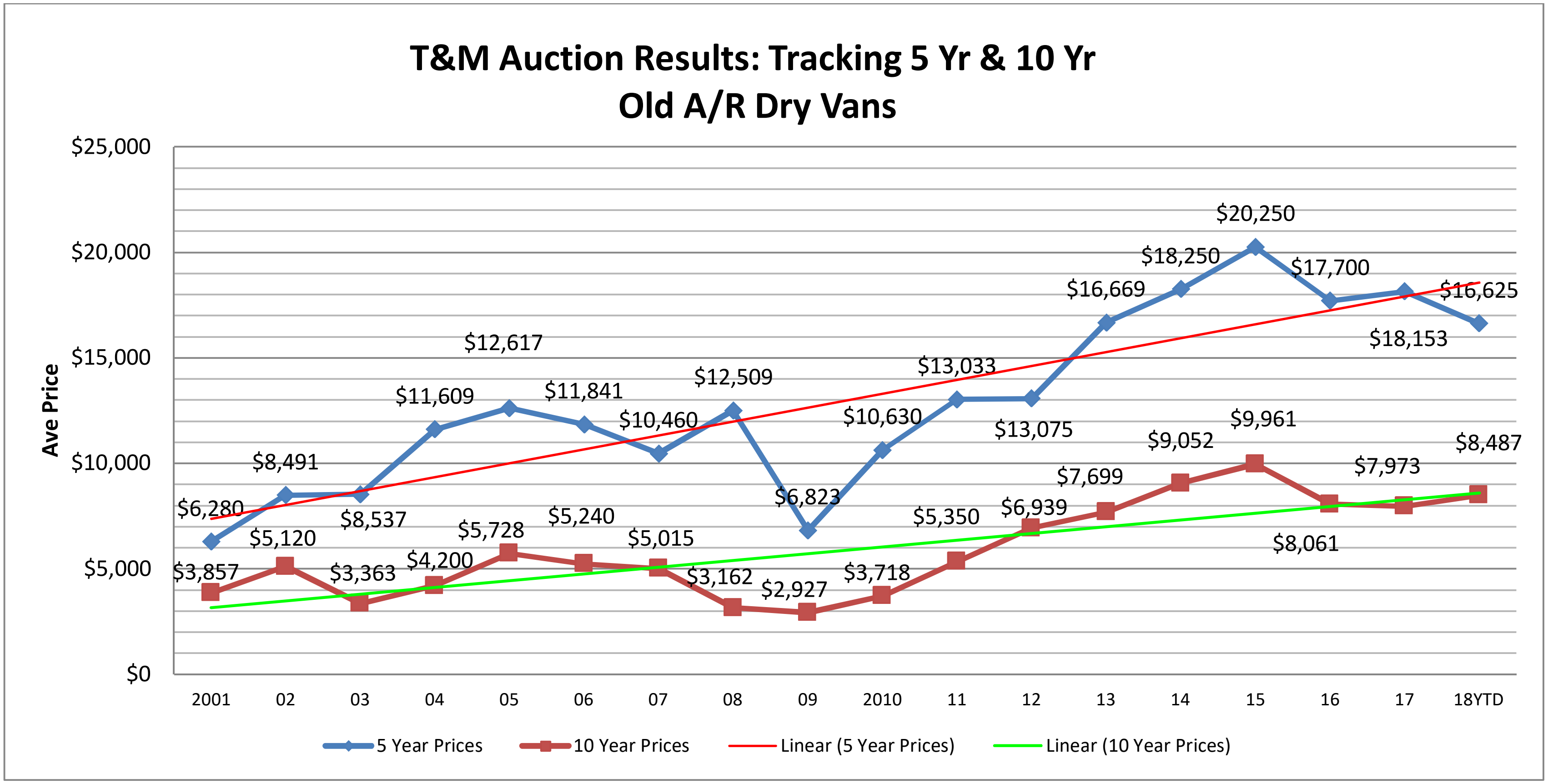
Heavy Haul Trailers: Demand improving, per conversations with dealers & manufacturers. RCN is lower. New orders are up.

Dry Vans & Reefers: Sales data indicate that the dry vans regained their previous strength, now generally reflect "trend line" for auction prices. The finished product stream is still good. I anticipate the market to be firm in the coming months. These two sectors are still stable/strong for late model units. New orders are up for vans, with a significant backlog having been built.

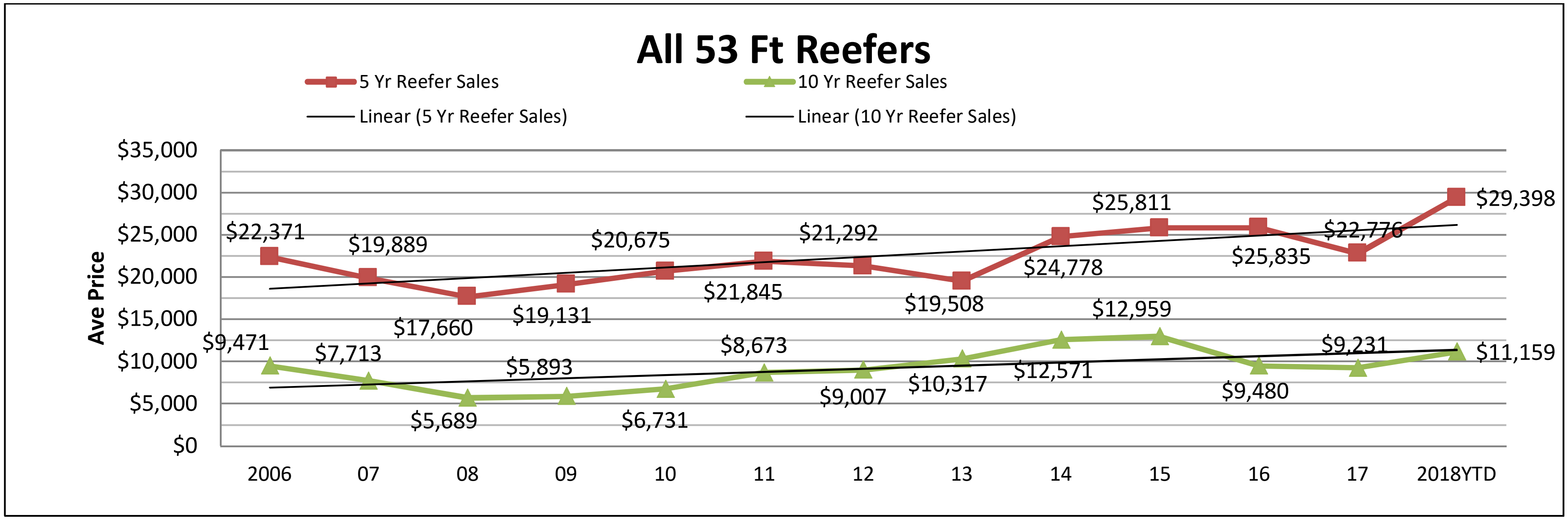
Overall, supply (new & used) currently seems to be near "in balance". Freight volume has been increasing, which certainly helps. The paradigm shift in retail (from large box stores to on-line) has caused the need to rebalance the freight hauling patterns. This may also be impacted by ELD regulations. It appears the net winners (today) are: LTL carriers, FedEx, UPS, logistics companies, etc.; whereas, the net losers are generally LT carriers.

Currently rental fleets are at above average utilization rates (dry van, flatbeds, step decks, reefers). Rental companies are differentiating themselves by price or specs. Generally, trailer rental companies are optimistic.

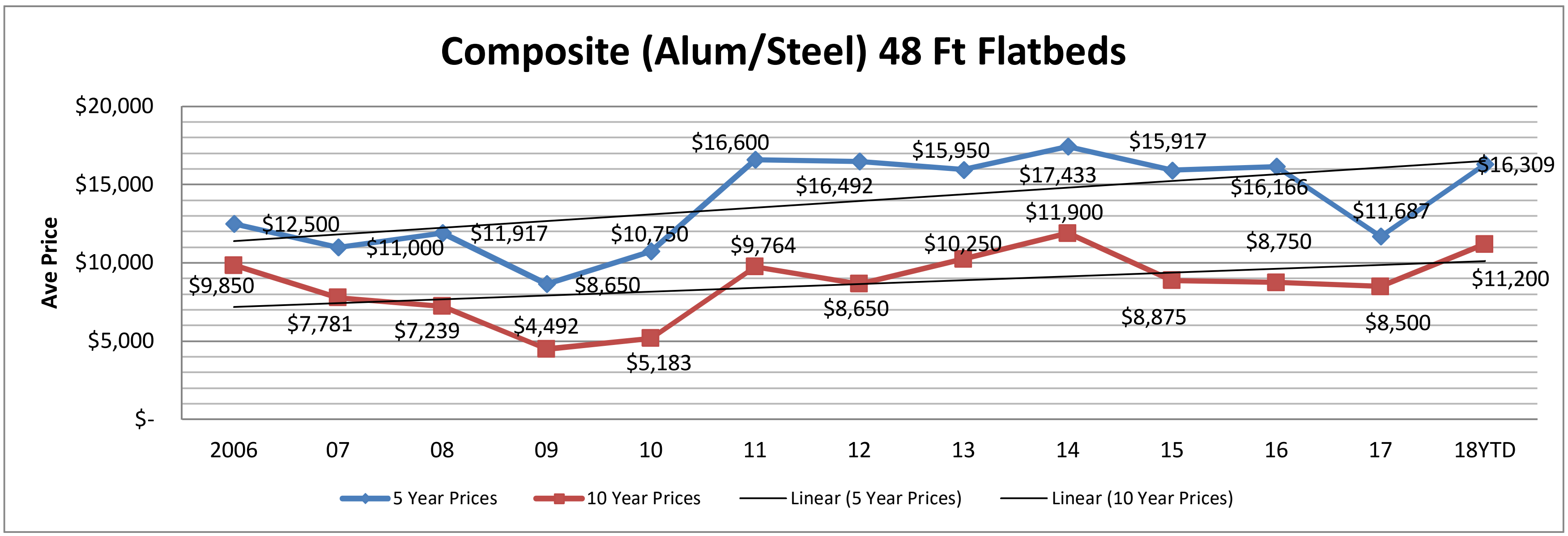
Five and ten-year old Dry Vans sales (Taylor & Martin Auctions) are charted below:



Late model Dry vans have generally moved back to / near the long-term trend line; whereas, the older vans continue to trend sideways. (If you recall, the 10-year old trailers [VIN 2007] had a very high build rate.)



Reefers: Five-Year-Old Reefers (YR17) have fallen 12% from the 2016 average; however, to date, the 2018 sales indicate we have fully recovered and are above the long-term trend line. The Ten-Year-Old Reefers, YTD, are at/near trendline.



Combo Flatbeds (Alum/Steel Composite) remain firm/strong. 53 Ft Long flatbeds show similar results.

For additional information on a specific transportation sector (trucking), please feel free to contact us. Specifications, quantities and market niche should be considered. I am always happy to make a personal visit and am available to speak to your lending/leasing group, if you would like.

I have only provided a brief and general overview of what we are seeing in the market. But having history as a guide, we were due for increasing rates of depreciation, possibly above historical averages, depending upon the market in which the asset is employed or could be employed.

Thanks,

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P.S As a final note, I am happy to announce, as noted on page 1, Robert Sandlin has successfully obtained his ASA with the American Society of Appraisers.

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