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

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Transportation (Trucking) Update (9-1-2018)

Summer wanes in the Midwest! Some trees (Cottonwoods, Maples and Sumac) have started to change color and a lot of cottonwood leaves have fallen since the early/middle part of August (though it is only a small percentage, so far). The ag crops (corn & soybeans) were planted late but are now ahead of schedule. Seems early for the changes! I don't know if it all foretells an early/harsh winter. Let me know, if you know.

Although I never saw an episode, if I recall correctly, there was a television show on sometime back called "The Weakest Link"!? Regardless, whether there is, or was, it almost seems like transportation is dealing with a version of "the weakest link' in getting goods from point A to point B. The weakest link is a shortage of qualified drivers to man all the power units purchased and ordered over the past quarter. Demand for both drivers and equipment is strong.

Like last quarter, in the short run, it is good to have strong demand for tractors and trailers. It is not good, however, to have no one to drive them, it slows down productivity and the economy.

So, what has transpired in the past three months? Tonnage up, Sales up, Prices up, New Orders up and the Driver Shortage is up. Read on, to find out our take on the market.

Recent auction activity continues to show that the truck-tractor market is in full growth mode. The market is attempting to fill in the supply constraints with new equipment and with good used equipment. Both are in short supply. The overall advertised tractor numbers, for 2011 and newer, have dropped by about 21% in the past three months, so the market improvement must be coming from the demand side.

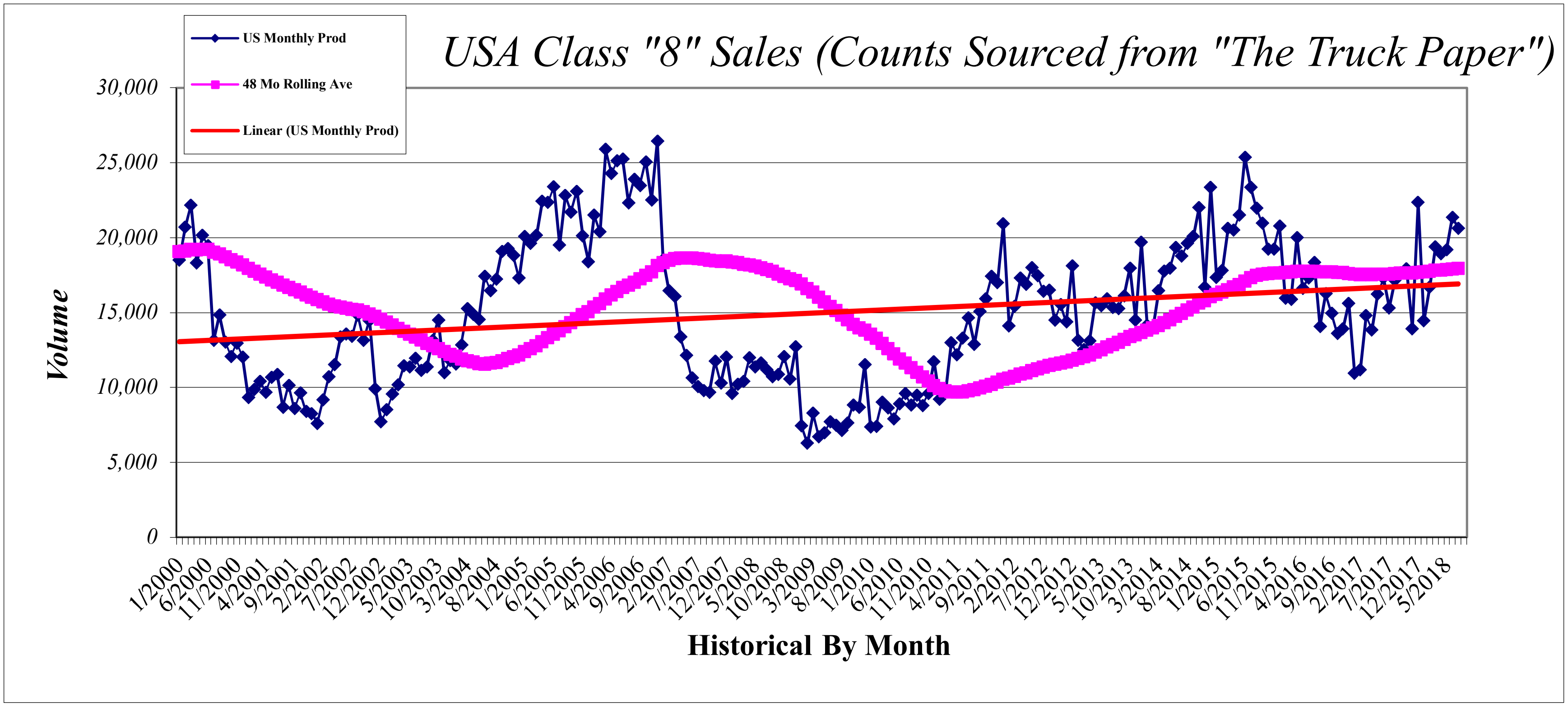
Overall monthly sales now easily remain above the trendline. To date, we have not approached the monthly heights seen in 2015 and 2006, which were above the long term rolling average (48MRA), however new tractor sales from March through July were all above the 48MRA. (New Sales: July 2018: 20,649 vs. 48MRA: 17,972) [Trendline (Red Line) has moved up to about 17,000 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. We have been hearing anecdotal reports of loads waiting for tractors &/or drivers. In these cases, we have been told wait times have been weeks or extremely high rates are being charged.

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.)

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.)

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.

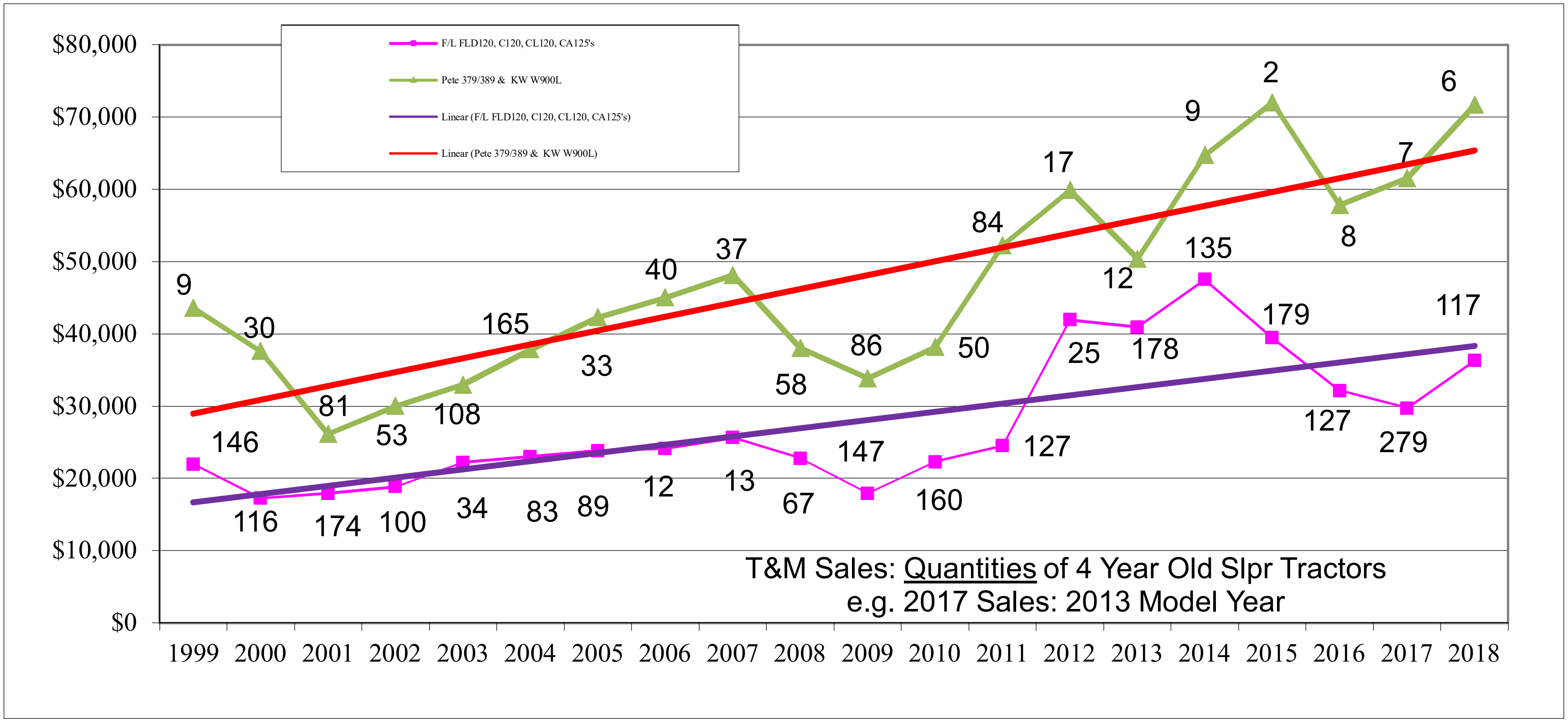
2: Historical needs have grown from slightly lower than 15,000 Class 8 tractors per month to more than 16,500 Class 8 tractors per month. Currently, the 48-month rolling average is 17,972. The overall late model fleet continues to inch higher, month over month and has now exceeded the last 48 month Rolling 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 ~22% 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.

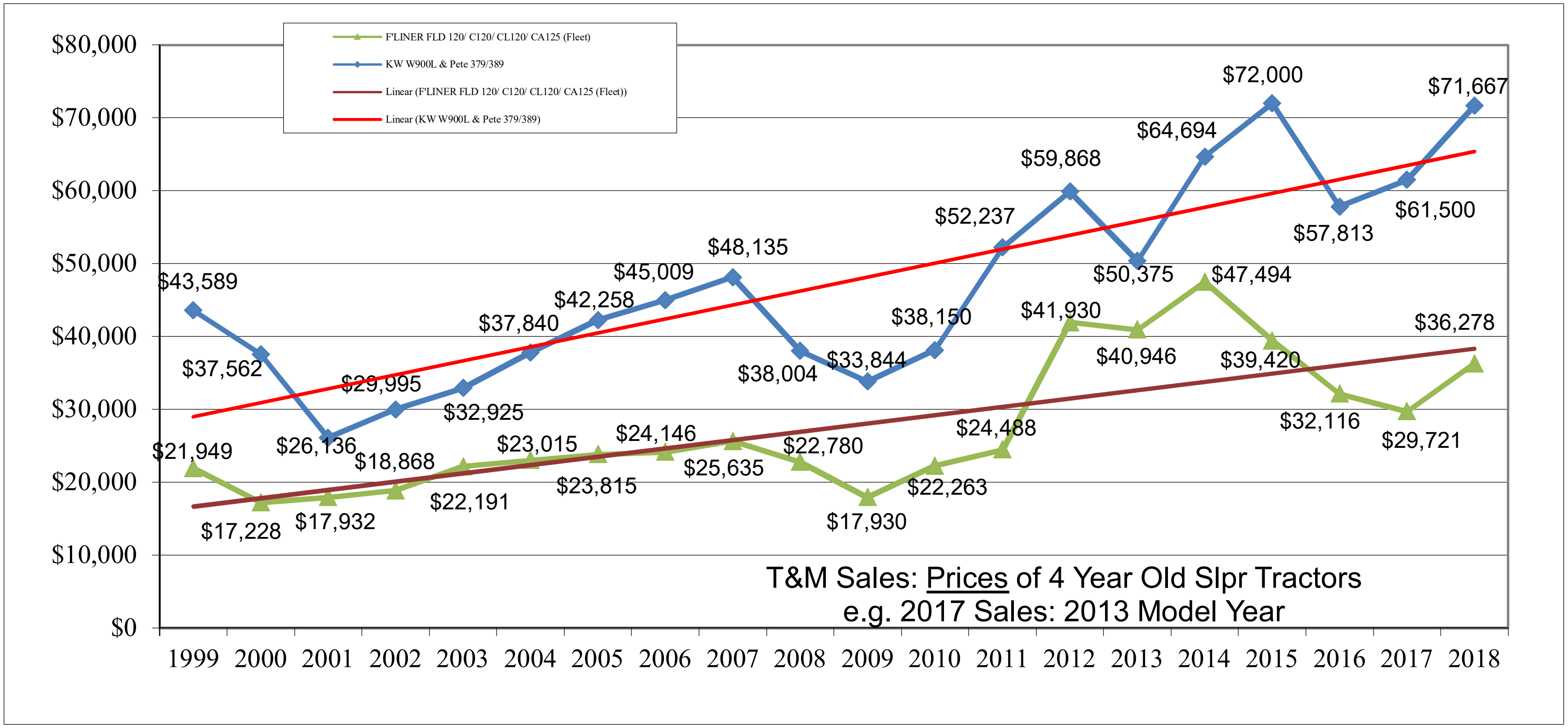
2018 Sales are Year-to-Date (through August 27, 2018)



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.

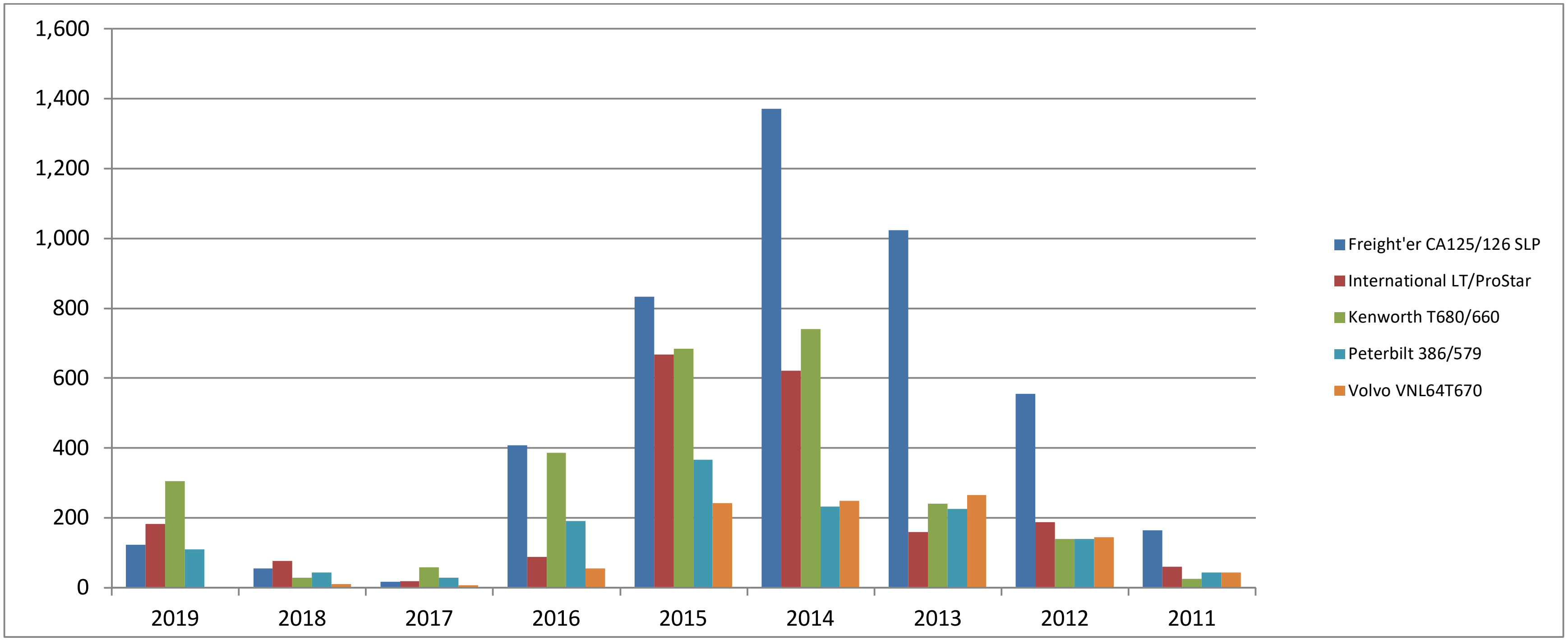


Note, over time, the similar trends of the "Owner-Operator" (W900L & 379ExHd/389) tractors (blue line) compared to the "Fleet" (Freightliner) (green line) tractors.

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 (peak to trough) from Calendar year 2014 to 2017 was 38%, when measuring the Freightliner sales, as shown above. The drawdown from trendline to trough was approximately 17.50%

What is available to the marketplace today? (Aug 25, 2018) See chart below. (Sleeper Tractors) (About 3,100 units "for sale" fewer than last quarter totals.) The "high count" years are typically for trade-ins or end of lease units. Low counts for 2017's & 2018's indicates that most units are typically in the first lessee/owner's hands.



	Sleeper Tractors For Sale On TruckPaper.com: Aug. 25, 2018									Ave. Age	2014.40
Make	2019	2018	2017	2016	2015	2014	2013	2012	2011	Total	Percentage
FL'er CA125/126 SLP	122	55	17	407	833	1,370	1,023	555	164	4,546	39.244%
Int'tional LT/ProStar	182	76	18	87	667	620	158	187	59	2,054	17.731%
Kenworth T680/660	305	28	57	386	684	739	239	139	25	2,602	22.462%
Peterbilt 386/579	109	43	28	190	366	232	225	139	42	1,374	11.861%
Volvo VNL64T670	1	9	6	54	241	248	264	143	42	1,008	8.702%
Year	719	211	126	1,124	2,791	3,209	1,909	1,163	332	11,584	100.000%

Retail “For Sale” counts (total: 11,584), as charted above, are down again, another ~21% 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; June, 2018: 14,723

Total tractors “for sale” have declined approximately 21 percent when compared to the last quarter and 37 percent from the most recent high (June, 2017). Considering the most current four quarters: Sept. 2018: Ave VIN: 2014.40 vs. Sept. 2017: Ave. VIN: 2013.25. The average vintage, of the “for sale” assets, has gotten “one plus” 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. As stated earlier, the driver shortage is around 100,000 drivers.

Nineteen months into the current administration: Legal wrangling regarding President Trump and people associated with his administration and tariffs are the lead stories for the nightly news or the front page of major newspapers. More happens as political theater than as policy, legislation or real jurisprudence. The wheels of progress continue to move slowly. Some think the wheels aren’t on very tight.

The Crude Oil Industry has generally stabilized above $65/BBL. Active Drill Rig Counts continue to move up, but still far from its peak. [See Bob’s comment at the end of the newsletter for current rig counts.] 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.): Strong: Interest rate sensitive. Rates have remained relatively stable, over the past three months, but most expect a quarter point increase in September. Housing starts have slowed but interest in existing housing is robust (except high-end properties), labor markets remain tight and unemployment is low. The 30-year mortgage rates are stable and 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: Tariffs are the buzz; which, depending upon your industry, has little to major affects to the bottom line. The rest of the world is showing areas of some weakness (e.g. Venezuela, where they devalued their currency by 95%) 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 remain stable. 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.

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. (Grain & Soybean prices have suffered due to tariffs and the overall crop conditions are good.)

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: Lower for 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 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.

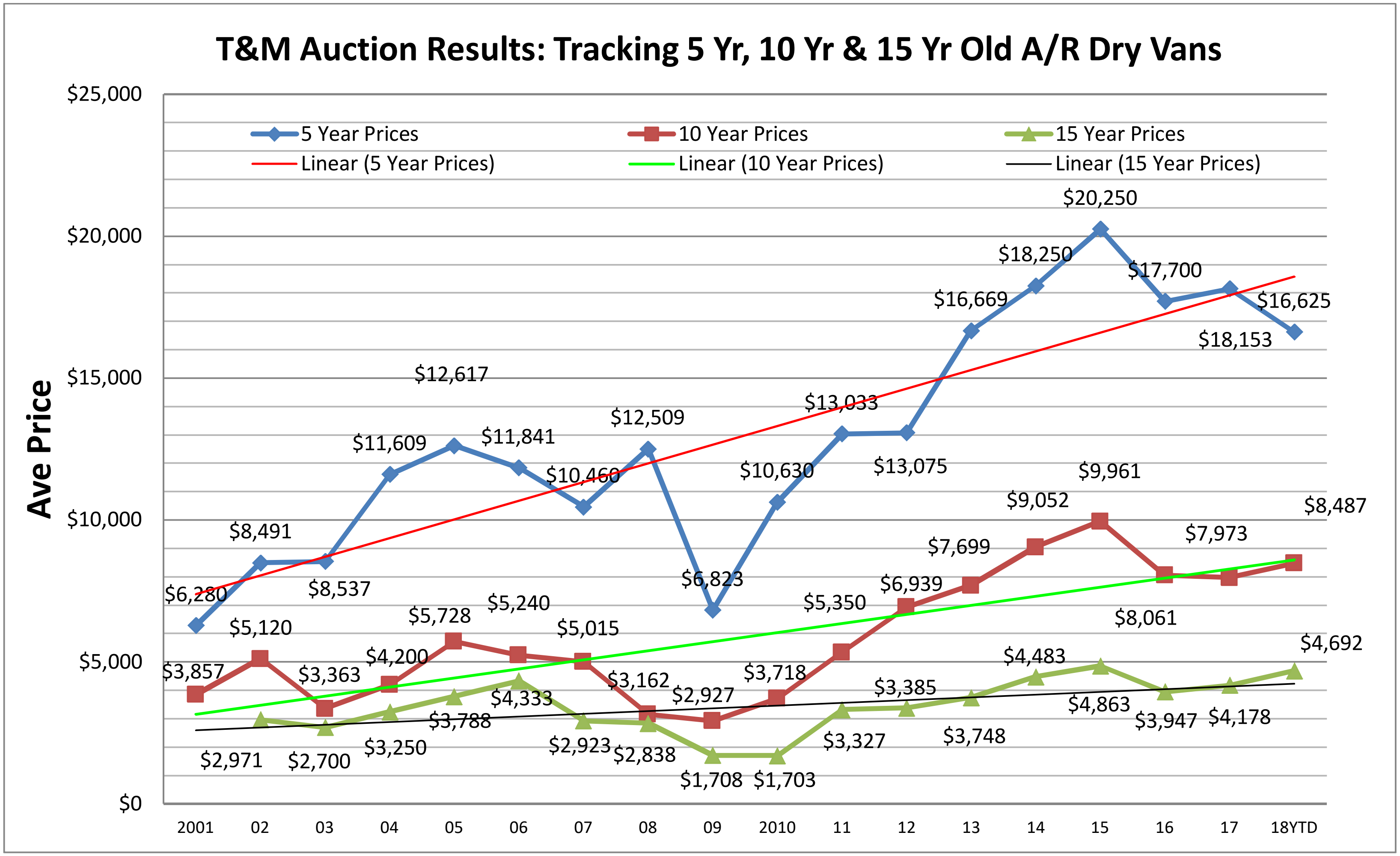
Heavy Haul Trailers: Demand improving, per conversations with dealers & manufacturers. RCN is stable, but subject to steel prices. New orders are up.

Dry Vans & Reefers: Sales data indicate that the dry vans regained their previous strength, now generally reflect "trend-line" for auction prices. There have been some sales well above trend-line, due to condition and demand. [The 5-Year Van average has only 2 units which does not represent a good sample. Based upon other years, 5-Year old vans are at/above trend-line.] The finished product stream is still good. Some units await completion, due to limited availability of components. I anticipate the market to be firm/strong 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.

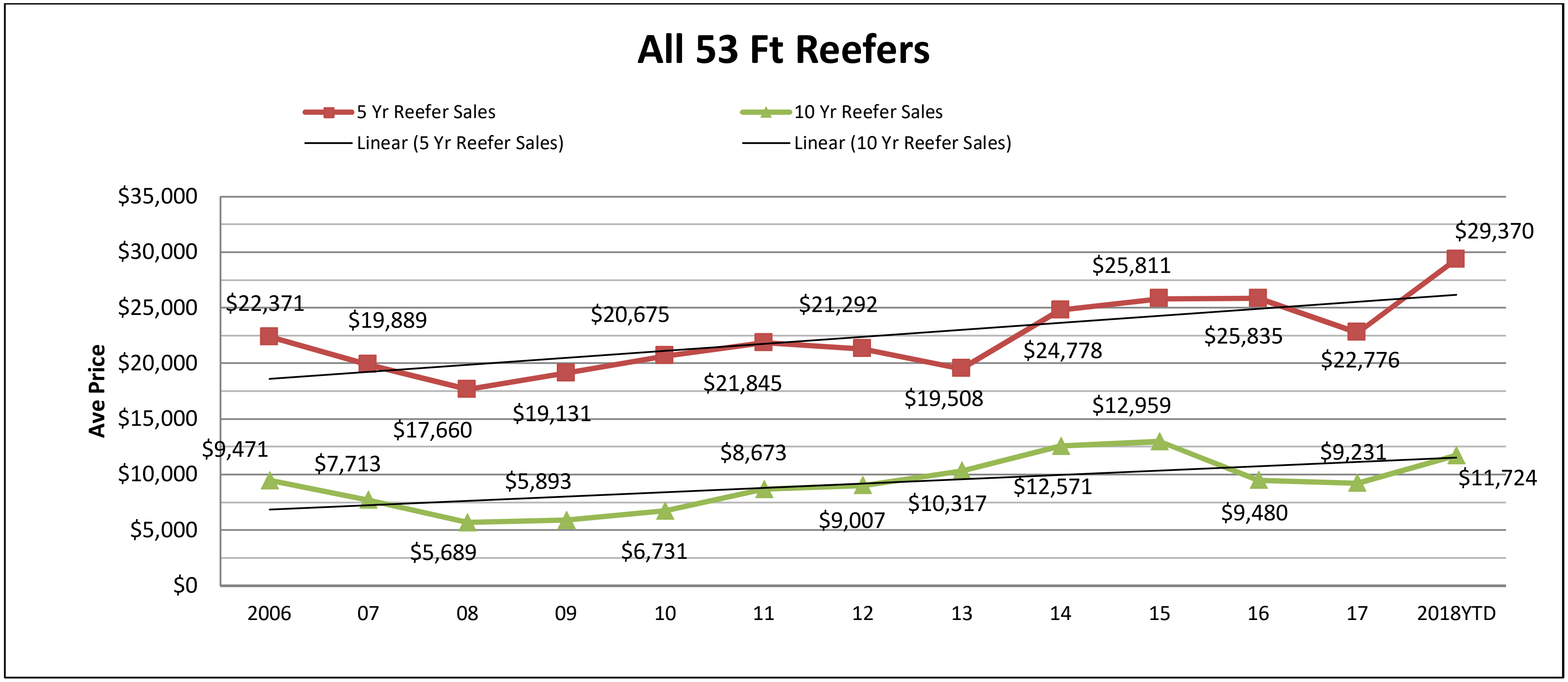
Overall, supply (new & used) currently seems to be near "in balance". Freight volume has been increasing, which certainly helps. As stated earlier, it has been noted that certain loads are waiting for a shipper.

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.

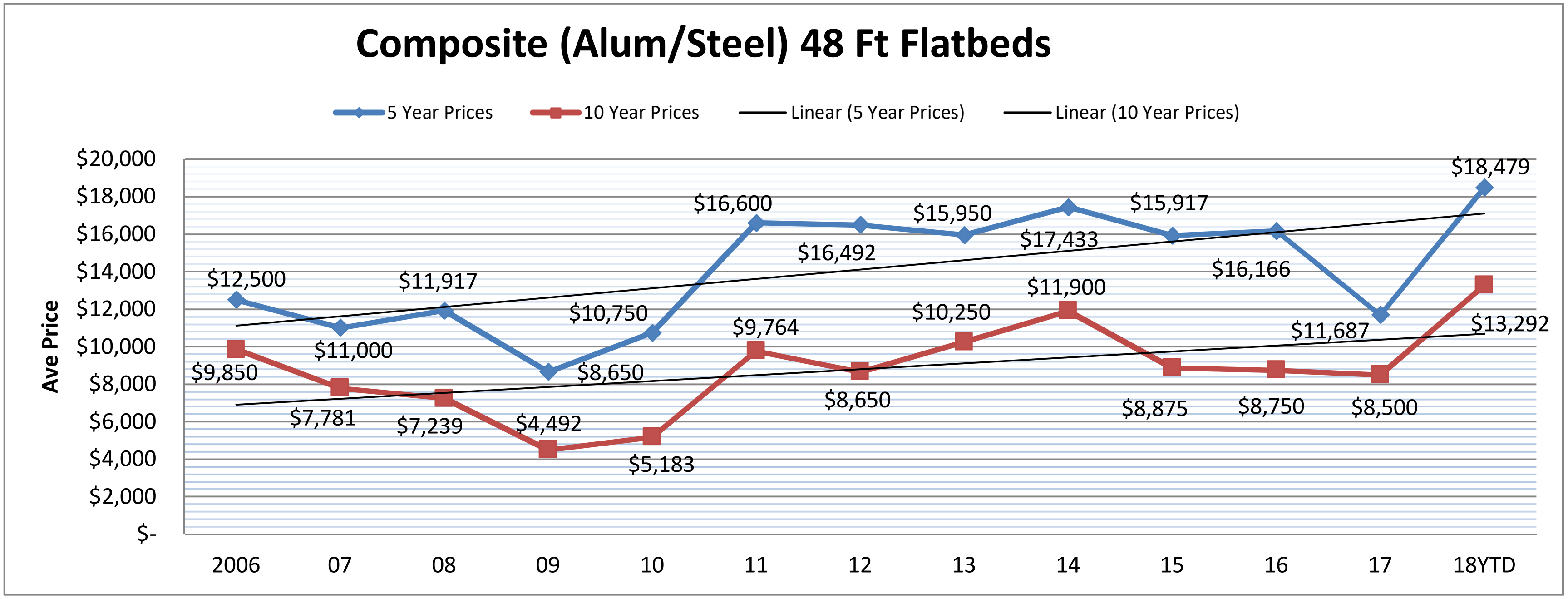
Five, ten and fifteen-year old Dry Vans sales (Taylor & Martin Auctions) are charted below:



Late model Dry vans have generally moved back to / near the long-term trend line; whereas, the older vans continue to trend sideways.



Reefers: Five-Year-Old Reefers (MY13) have risen 13.5% from the 2016 average. 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. I've been asked, on numerous occasions, about the drawdown of refrigerated trailers. As you can see in the above chart, drawdowns are significantly smaller than other classes of trailers. The question is why? Flatbeds and Dry Vans primarily haul raw products and finished goods, which are subject to producer and consumer cycles. Whereas, refrigerated trailers primarily deliver food products. Generally speaking; people tend to eat every day, regardless of the economy. As such, a much more stable volume of food products is delivered, day in and day out. [The condition of the economy may dictate the mix of foodstuffs.]



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

Additional input from John Seymour:

Dry Van orders are strong and suppliers to the OEMs are fighting the large increased demand to break open new lines and supply these “temporary” surges in new orders. These high cost decisions will take time to approve and implement and so “red tag” delays in new production is being seen in both the trailer market and the tractor market, some rational support for the currently strong auction market. Capacity is reaching 2-2.25 Van Trailers to each Tractor and most dealer and vendor input think drop and hook will be the norm due to driver and mechanic shortages. Vendors and OEMs will have to come to some understanding to permanently resolve these delays to partially built inventory unless already increasing cancellations increase significantly into the fall. The good news, both OEMs and suppliers are making strong numbers to finish 2018 and begin 2019 sales years.

Spot rates are slowing according to ACT research and that will have an impact on contract rates once they align later in the year, though right now spot rates are nearly 2-3 months ahead of current contract rates. Not all new orders are being driven by tariff concerns, trucking firms are making some money and generally spend those profits on equipment when they make it. The interesting thing though is that there are less trade-ins right now and most working trailers are full of aluminum which has been increasing in cost (50%+) since Dec 2015 (trough to peak).

The Meter (is Running)! Various thoughts from Bob Sandlin, while on the road:

The driver shortage (100,000 drivers needed) has many factors contributing to the problem. If you ask multiple drivers, whether local short-haul driver or the coast to coast long-haul driver, half would recommend the job and the other half would not. The biggest factor facing the industry is that experienced drivers are leaving in droves. Young drivers are not entering the industry; thus no one taking their place. Some concerns from the drivers are: pay, driver logs, lack of social life, poor home life, lower respect, hygiene issues, physical condition and down time. Down time is one of the biggest struggles many drivers face. Down time comes from areas where the driver has little to no control of the situation. Whether it's gets loaded/unloaded, breakdowns, or learning how to properly work the new e-Log system. It may take a driver several day to multiple weeks to properly utilize the new system so they don't lose valuable time. [This is one of the reasons why older drivers are leaving.]

The oilfield continues to grow according the Baker Hughes rig report the United States rig count is 1,057 rigs up 111 from the same time last year. West Texas Intermediate (WTI) is selling for $67.80 BBL. Drilled but Uncompleted (DUC) wells are at a total of 8,033 across 7 regions in the United States.

We are still waiting to see the long-term effects of the new tariffs on metals. One thing that we know for sure is that scrap prices will change and have moved significantly over the past 3 months. Since scrap metal is a commodity, the price will rise and fall depending upon perceived supplies. Who knows when or by how much. These tariffs are expected to affect other markets other than metals.

Speaking of down time earlier, recently I spent a week at a tractor/truck dealership. The dealership is 7 years old; however, it looks and feels like a new store. The driver's lounge is set up into two areas. The first room is a media room with theater chairs and space between chairs for personal belongings. The media room is equipped with three, wall mounted, flat screen TVs with satellite. The other area has a laundry section, restrooms with showers, and a convenience store area. In the convenience store area drivers can purchase snacks, drinks, or microwaveable food. Both driver lounge areas are clean and well kept. Although no one likes to be broken down, this dealership has helped their drivers and customers deal with their undesired downtime.   Sent from my iPhone, Bob

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, Nate Strong has successfully obtained his AM with the American Society of Appraisers.

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