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

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Transportation (Trucking) Update (12-1-2017)

Late Autumn in Nebraska: All of the signs of fall have been evident: the football season is winding down (or over)for high schools & colleges, the temperature has been steadily declining, the leaves have fallen (and raked up), the farmer's abundant corn and soybeans crops have been harvested and are safely stored away and scattered families have travelled near and far to their Thanksgiving gathering(s). There is and has been plenty to be very thankful for again this year.

Considering the "big picture", that is the entire U.S. market, it appears excess capacity has been absorbed , recent auction activity indicates the bottom is in for tractors (late summer) The overall numbers haven't changed, current orders/sales are near historical wear out rates which means we have not been downsizing the overall fleet. Demand is not consistent though out all Year-Models; it is somewhat dependent upon into which Tier the engine falls. [Pre-emission engines and 2014 and newer are more desirable.]

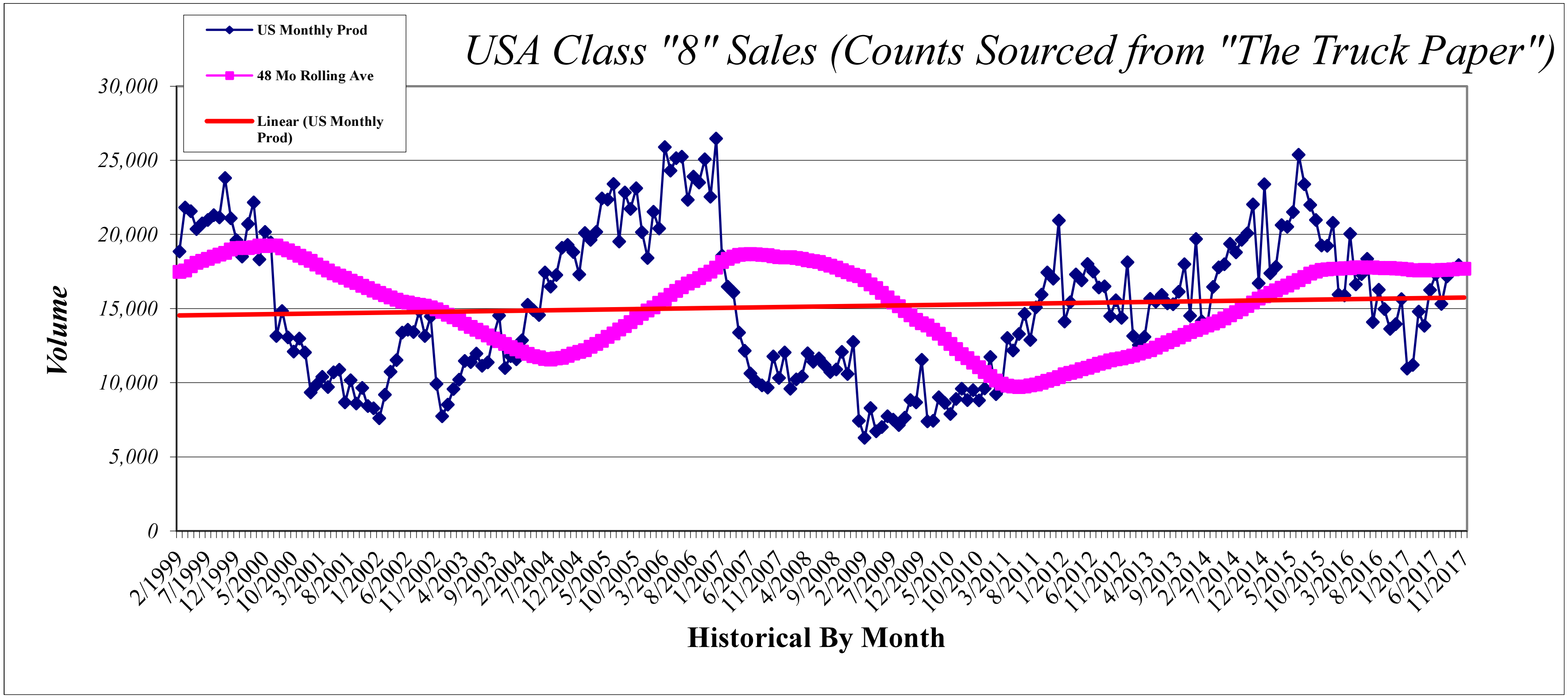
The market still has a good supply of used power equipment. Optimism has been coming from somewhere, orders are up substantially, new sales are reasonably good, very recent auctions prices have generally improved on trucks and tractors. New tractor sales are at/above the long term rolling trend line, (Oct. Sales: 17,928 vs. Oct. 48RA: 17,674).

Recent articles discussed the impact of ELD and the overall loss of efficiency and utilization of long haul tractors. The estimated loss of efficiencies and overall growth in the US economy could account for the need for an additional 100,000 tractors (and drivers) to move today's freight volume; thus absorbing the excess capacity referred to in my previous newsletter.

Trailers have generally held steady (no steep declines), with most classes depreciating at or near historical rates. Total new orders are down slightly, when compared to last year's order volume.

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.) As noted before, I have dropped 1998 data from the chart, to allow more room for the new data. We are now at/above the rolling average. [History tells me that I need to see two consecutive months over the 48MRA to confirm the positive trend.] We did not have an overall reduction in supply, but rather a big uptick in activity. The 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.

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 at the cusp of rising and staying above the 48MRA. Over the next couple of months, if the market continues on its current path of higher sales, this should confirm a reasonably healthy period of growth and reasonable depreciation rates. **Values eroded at rates much higher than historical averages from July, 2015 through July, 2017.**

2: Historical needs are over 15,000 Class 8 tractors per month. Currently, the 48 month rolling average is 17,674. Steady with the last quarter and down from the 48 month Rolling average "High Water Mark" of 17,783 in March, 2016. We are, or are we, still 100,000 tractors (2,000+/mo. x 48 mos.) over supplied with power units (See comments from page 1)? This is noted by the fact that the 48 month rolling average is still well above the Linear Tend line (long term Build/Wear Out number).

3: U.S. Sales ONLY: The 48 Month Rolling Average, the rolling average of all tractors 48 months old or newer (48MRA). The 48MRA bottomed in 2/2011 (7 year low) with the 48MRA of 9,712. The previous 48MRA high was recorded in 5/2007 at an average of 18,678 (six months after the peak (actual sales) in 12/2006, when 26,462 units sold). We now have marked the peak of monthly sales in 6/2015 at 25,369 units sold. This cycle's high was recorded in 3/2016 at 17,883. The current 48MRA is 17,643 (leveled off/slightly higher).

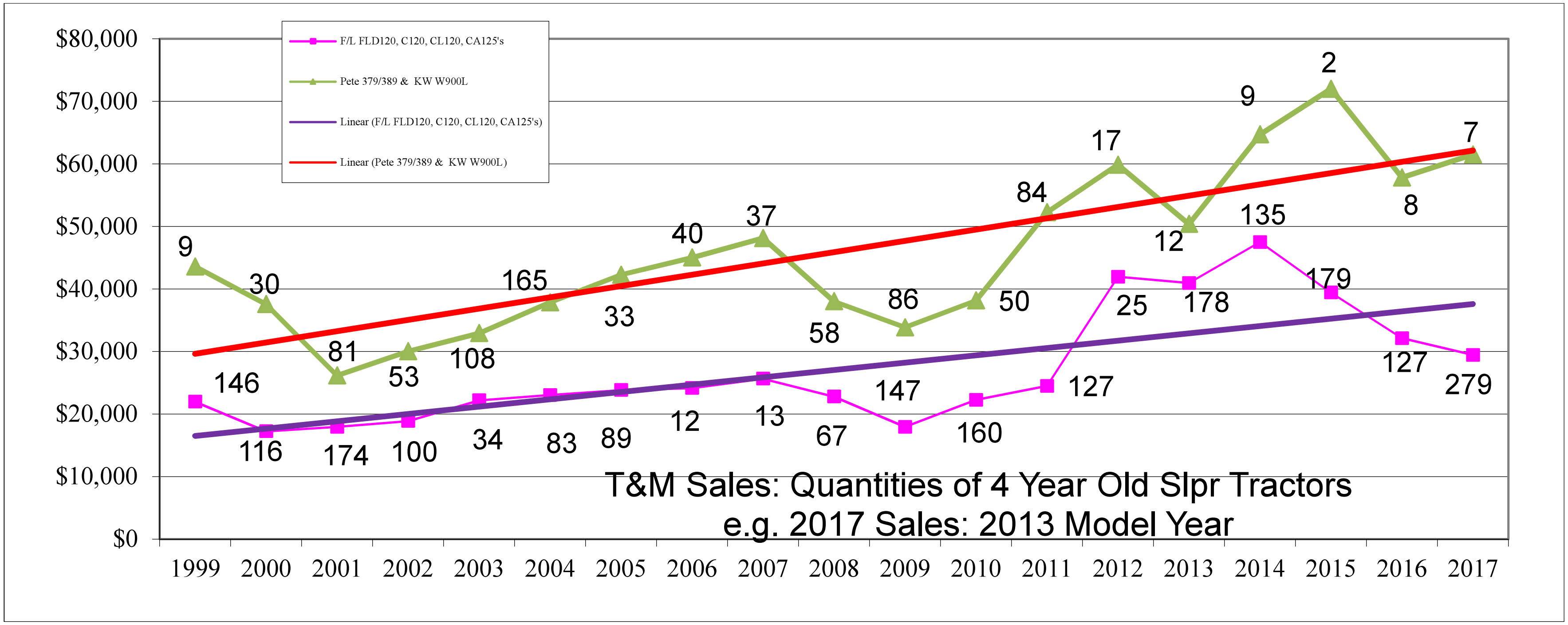
4: New emission requirements continue to be implemented. The objective is to both further reduce CO_2 and increase fuel economy. Newer models (2014 or newer) are outperforming the units they replaced, from better fuel economy (higher MPG), lower maintenance costs and higher up-time. Anticipate alternative power sources coming (and staying) to meet emissions and fuel economy standards: Electric, Hydrogen, Natural Gas (still struggling to gain market share-particularly in the secondary market).

5: It appears, given the amount of economic obsolescence (~30%) since July, 2015, that tractors have bottomed and are improving. [Recent auction results (up ~5%) and new tractor sales indicate most/all of the last downturn is now behind us.] This does not mean that tractors will immediately start to rebound with great gusto. It takes time for buyers to both recognize and believe in any positive change in direction, and thus participate.

6: New regulations: Reductions or regulations for various segments of trucking are being implemented, for both the driver and the tractor or trailer: Electronic Data Logs: Transport Topics has a very good "Special Report" on ELDs, included with their Nov. 20 edition.

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.]

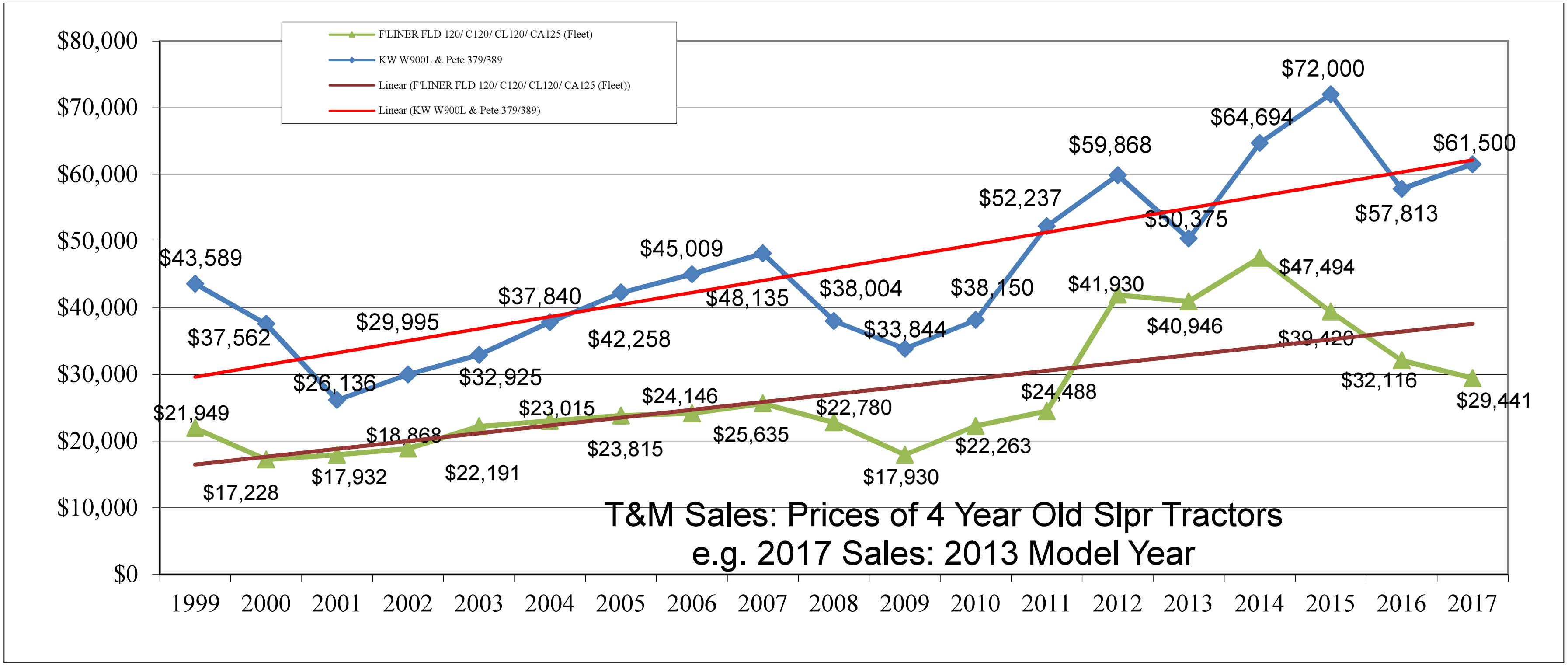
2017 Sales are Year-to-Date (through Nov. 30, 2017)



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 and/or spec’d as Owner-Operator tractors.]

It is noted that, though the 2017 average price for fleet tractors is lower than the 2016 average, for the year, the average price has generally increased. Example: Jan.1-March 1, 2017 Average: $27,039; Sept.1-Nov. 30, 2017 Average: $30,366.

As the charts indicate, higher quality tractors (typically Owner/Operator specs) are faring better than fleet spec’d tractors. [Lower quantities can be somewhat misleading.]

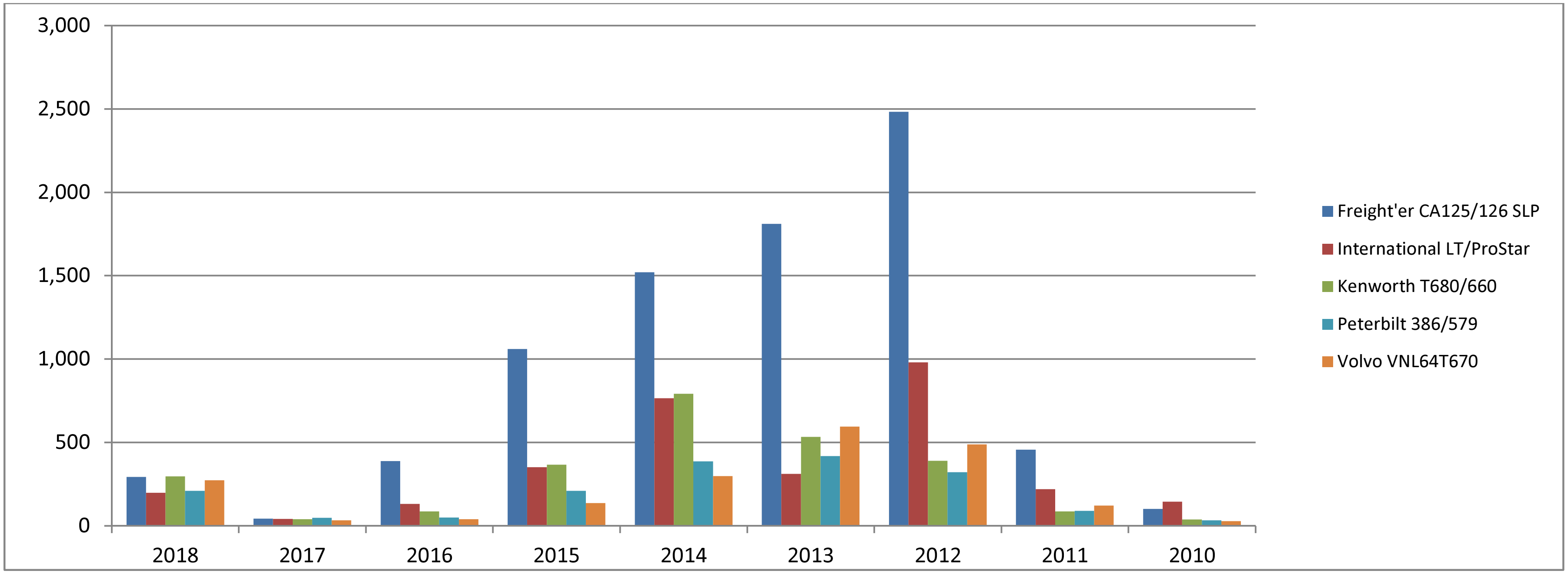


Note, over time, the similar trends of the "Owner-Operator" (W900L & 379ExHd/389) tractors (blue line) compared to the "Fleet" (Freightliner) (green line) tractors.

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 & 2015-2016-2017) RCN is up and inflation is included in the sale prices, thus the upward trend line.

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

What is available to the marketplace today? (Nov. 26, 2017) See chart below. (Sleeper Tractors) (~700 units Below last quarter's total.)



	Sleeper Tractors For Sale On TruckPaper.com: Nov. 30, 2017										
Make	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**Total**	**Percentage**
Freight'er CA125/126 SLP	**294**	**44**	**388**	**1,061**	**1,521**	**1,811**	**2,482**	**457**	**102**	**8,160**	**46.044%**
International LT/ProStar	**199**	**42**	**131**	**352**	**766**	**312**	**980**	**220**	**145**	**3,147**	**17.758%**
Kenworth T680/660	**296**	**40**	**86**	**366**	**792**	**533**	**390**	**86**	**39**	**2,628**	**14.829%**
Peterbilt 386/579	**210**	**48**	**50**	**210**	**387**	**418**	**322**	**90**	**34**	**1,769**	**9.982%**
Volvo VNL64T670	**274**	**34**	**40**	**137**	**299**	**595**	**489**	**122**	**28**	**2,018**	**11.387%**
Year	**1,273**	**208**	**695**	**2,126**	**3,765**	**3,669**	**4,663**	**975**	**348**	**17,722**	**100.000%**

Retail “For Sale” counts, as charted above, are still strong, but 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.

Total tractors “for sale” have declined approximately 4 percent when compared to the last quarter.

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

One year since the current administration was elected: The wheels of progress do move slowly. A tax reform plan is now in the works, if a final bill is hammered out, how it impacts transportation is yet to be seen.

The Crude Oil Industry has generally moved upward over the past 90 days (currently upper 50’s/BBL). Active Drill Rig Counts are up, but still far from its peak. There is a high correlation of the price of crude oil to oil related equipment valuations and prices.

Building Activity (Home, Office, etc.): Locally Strong: Interest rate sensitive. Rates have remained relatively stable, with chatter of whether the Fed will raise rates in December and two/three times next year! Housing starts are still high, very strong interest in existing housing, labor markets are tightening and unemployment is low. The 30-year mortgage rates are just starting to rise slightly and are still some of the lowest rates in history which is encouraging.

Labor: Available qualified labor is tight, employment rates improving.

World economics: China continues to improve … the US Stock Market has lower volatility in place and a “long in the tooth?” rally is still in place. The world economy is generally improving. OPEC seems to have agreed on limiting production, which may be extended through most of 2018. Limiting production with improving demand (worldwide) is causing crude prices to move higher. This is certainly helping the domestic energy industry and may help Saudi Arabia in their IPO efforts with Saudi Aramco.

All Electric: Anything & Everything: Given the pace of today’s society, the short life cycle of technology, the reality of Electric, Self-Driving, Class 8 equipment may be coming sooner than we think. We have Drones, Cars and various Robots already. These new tools can be very beneficial to society, if properly deployed.

2017 Dec Agricultural Bullets:

- Yields affect used equipment prices! Continued lower commodity prices widen the gap between auction values. Some soybean areas of the country benefit from more than adequate Aug-Sep rains and warmer weather held off early frost dangers. Harvest finished well over most of the country.
- Ag gets temporary 90 day Waiver from Dec 2017 Congressional ELD implementation deadline in an attempt to progress safety guidelines and limit commerce impediment.
- Pressures on new/replacement equipment gives hope to continued steady prices for quality used equipment, condition showing up strong in auction market. Precision purchases continue to grow.
  - Dealer optimism about 2018 revenue levels increasing from new equipment sales.
  - Time and labor saving upgrades spur limited demand in new/slightly used equipment.
  - Tractor trades have been in ILS, FWD, GPS and other upgradable options. Demand for good used trades is still strong.
  - Used inventories overall are still larger than desired by most dealers, while multi-store consolidations/partnerships continue at a robust pace the second half of 2017 and expected to continue into 2018.
  - Ag vendors taking steps to capture market share in U.S. Global manufacture, Kubota Tractor Corp., announces expansion into Kansas for logistics hub dedicated to parts and equipment. An additional commitment to the existing Georgia facility. AGCO Corp.'s Jackson, MN Plant has been named Assembly Plant of the Year and bump Certified Used Program service coverage up to 36 months in attempt to secure more used ag buyers.
- Most operations are slowing replacement from normal annual patterns down to key equipment essential to current year demands. It's not as much of a buyer's market as in past years.
- More large chain merchant's online grocery orders increase, especially with in-store pickup.
- Foreign policy struggles continue to be felt in the agricultural sector as the current administration attempts to understand the role agriculture plays in the US marketplace and exports from the US.

Trailers

Trailer trends historically mirror (more like a softer echo, which takes time to reverberate) the power side of trucking; however the build rates for trailers remains firm. There are pockets of greater or lesser softness 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 soft due to ag commodity (grain, fiber & livestock) prices.

Chemical Tank Trailers: Slow 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. Orders up when compared to 2016.

Propane tank trailers and bobtails: RCN down $15K to $20K. Stable on older used assets. This is a more mature market, the price of propane is lower (good for end users). [It is a higher valued by-product of raw natural gas production.]

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

Flatbeds/Drop Decks: Stable: Home construction (improving), In-bound freight to manufacturers and finished goods reported to be improving. 53 Ft Combo Flats: RCN lower, whereas 48 Ft Combo Flats: RCN flat. Market has an abundance of 2017's-2018's flatbeds. Specialized Oil Field Flats: Soft/Poor, supply is still burdensome. Depreciation rates are near historical levels.

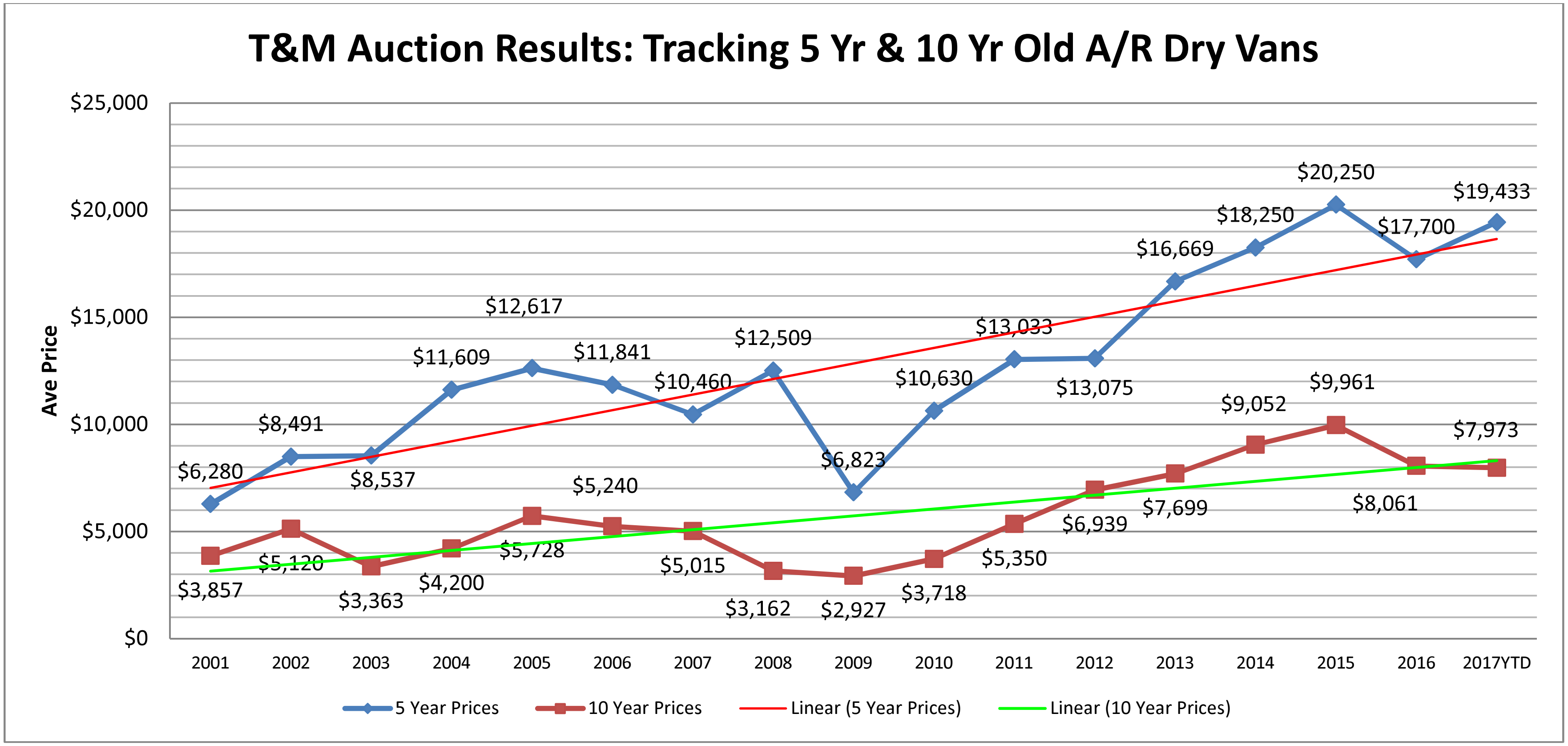
Heavy Haul Trailers: Demand improving, per conversations with dealers & manufacturers. RCN lower. New orders are up.

Dry Vans & Reefers: Sales data indicate that the dry vans regained their previous strength, now generally reflect "trend line" auction prices: Finished product stream still good (these typically decline after flatbeds, after manufacturing has slowed). I anticipate the market to be firm in the coming months. These two sectors are still stable/strong for late model units. New orders flat to lower, as compared to year-ago, 2016.

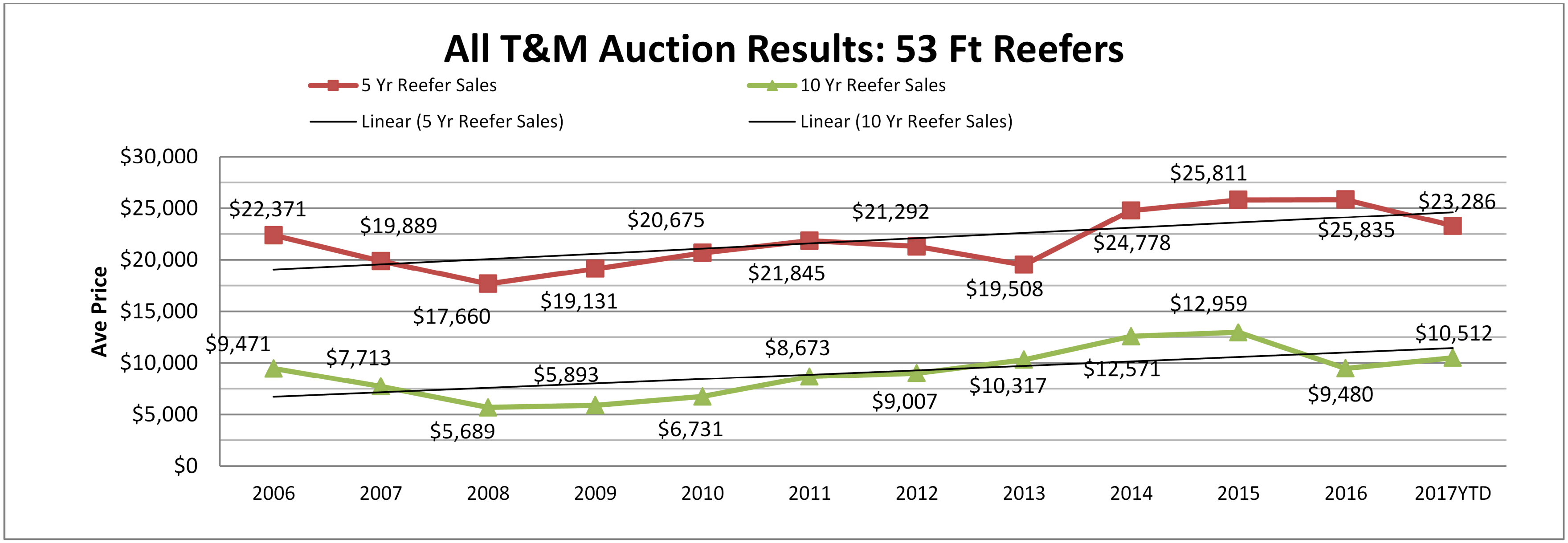
Overall, supply (new & used) currently seems to be near "in balance". Freight volume has been increasing, which certainly helps. The paradigm shift in retail (from large box stores to on-line) has caused the need to rebalance the freight hauling patterns. It appears the net winners (today) are: LTL carriers,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

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

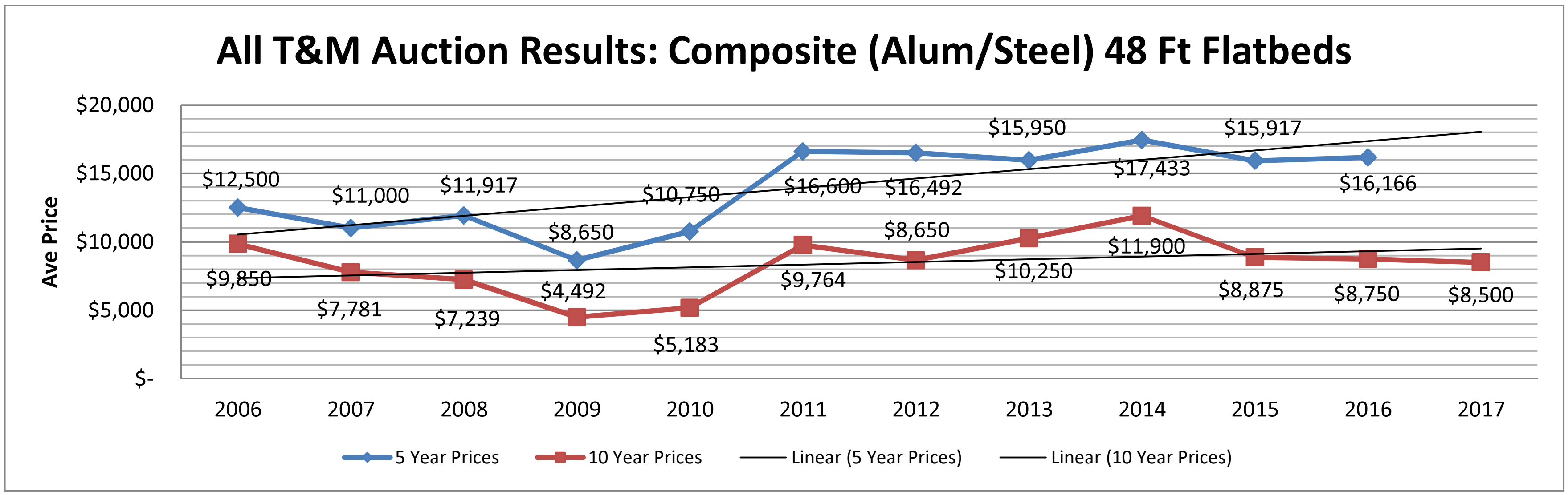
Five and ten year old Dry Vans sales (Taylor & Martin Auctions) are charted below:



Dry vans have generally moved back to / near the long-term trend line.



Reefers: Five-Year-Old Reefers, YTD, have fallen 10% from last year's average. The Ten-Year-Old Reefers, YTD, are almost back up to trend line.



Combo Flatbeds (Alum/Steel Composite) remain firm. 53 Ft Long, 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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