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

Produced by: Michael E. Winterfeld, with input from John Seymour

Transportation (Trucking) Update (3-1-2018)

Late Winter in Nebraska: Everyone that I have spoken with are more than ready for spring to arrive. In spite of the cold snap in January, some birds that normally migrate south chose to stay around, mostly Canada geese. Outside of my office window, periodically I've seen a couple of robins this winter. They must still be ruing the day they decided the trip south wasn't worth it. No one would have to ask me twice, I'd be going, going, gone.

Now to the issues at hand: trucks, tractors and trailers. It appears any excess capacity has been absorbed, though my survey only shows a seven percent decline from the high last June. Recent auction activity continues to show that the truck-tractor market is now in full recovery mode. The market still has a good supply of used power equipment and the overall numbers haven't changed that much, so the market improvement must be coming from the demand side.

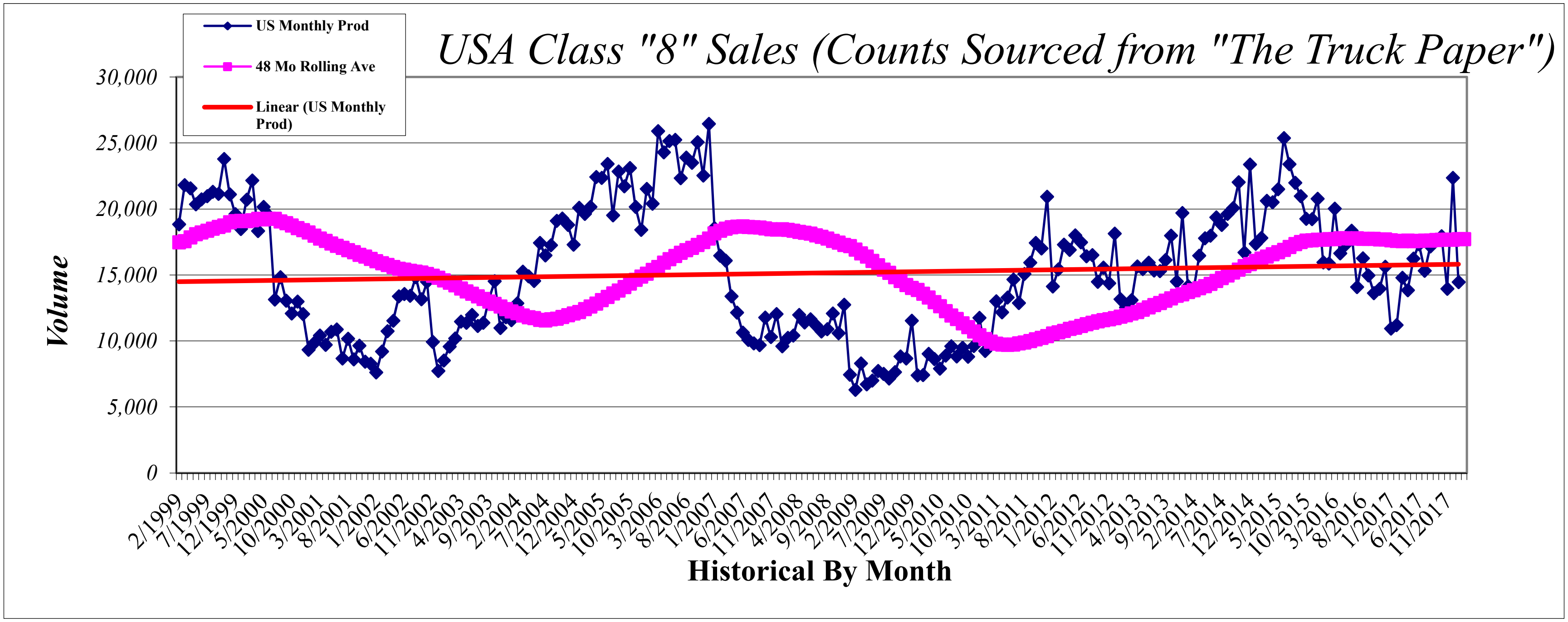
December sales were above, however new tractor sales for January are now again below the long term rolling trend line. (New Sales: Jan., 2018: 14,458 vs. Jan., 2018: 48RA: 17,724) Both have been heading higher the past few months.

A point worth repeating: 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 newsletters.

Trailers continue to hold steady (no material declines), with most classes depreciating at or less than historical rates. Total new orders are steady to up, 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.) We went above the 48MRA in December, but dropped back down below it this past month (January). [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. 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.

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 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 are over 15,000 Class 8 tractors per month. Currently, the 48 month rolling average is 17,724. The overall late model fleet continues to inch higher, month over month and moving ever closer to 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 and other regulations, the new benchmark may be 17,000+ tractors per month (the additional 2,000 tractors per month, times 48 months equals 96,000 tractors). This may answer the why. What appeared to be excess capacity, of 100,000 tractors, instead may be the new normal. This is noted by the fact that the 48 month rolling average is still well above the Linear Tend line (Historical long term Build/Wear Out number).

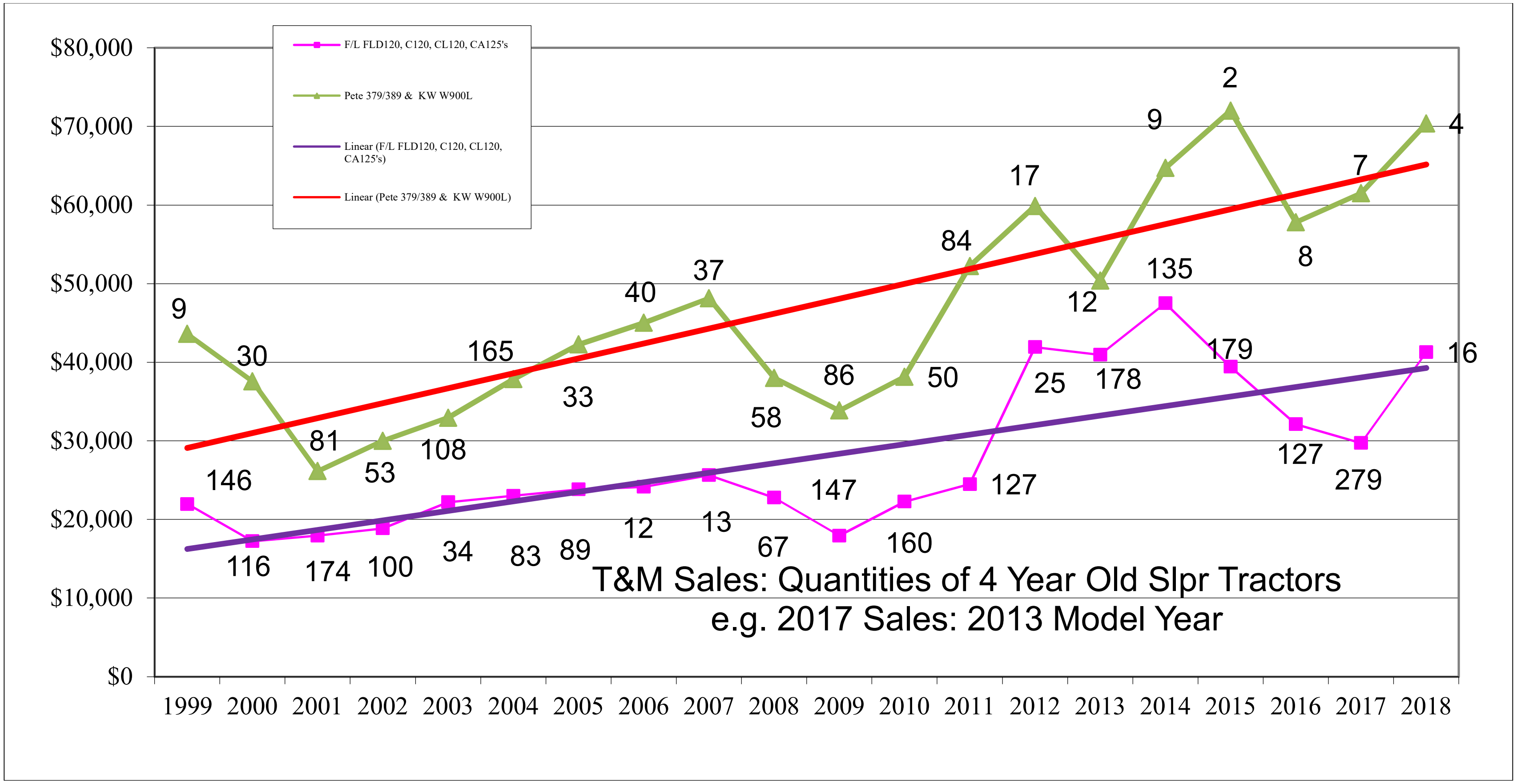
3: U.S. Sales ONLY: The 48 Month Rolling Average, the rolling average of all tractors 48 months old or newer (48MRA). The 48MRA bottomed in 2/2011 (7 year low) with the 48MRA of 9,712. The previous 48MRA high was recorded in 5/2007 at an average of 18,678 (six months after the peak (actual sales) in 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 48MRA high was recorded in 3/2016 at 17,783. The current 48MRA is 17,724 (leveled off/slightly higher).

4: New emission requirements continue to be implemented. The objective is to both further reduce CO2 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 (NG still struggling to gain market share-particularly in the secondary market). Electric is certainly the new buzz. Shocking, isn’t it.

5: It appears, given the amount of economic obsolescence (~30%) since July, 2015, that tractors have bottomed and are improving. [Recent auction results (up ~10%) and new tractor sales indicate the last downturn is now most likely 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 in or regulations of various segments of trucking are being implemented, for both the driver and the tractor or trailer. The primary mover is Electronic Data Logs. Anecdotally, I have received calls from trucking entities saying they are tired of fighting the onslaught of new regulations and requirements and plan to exit the market through the sale of their company (in total) or just liquidating the rolling assets.

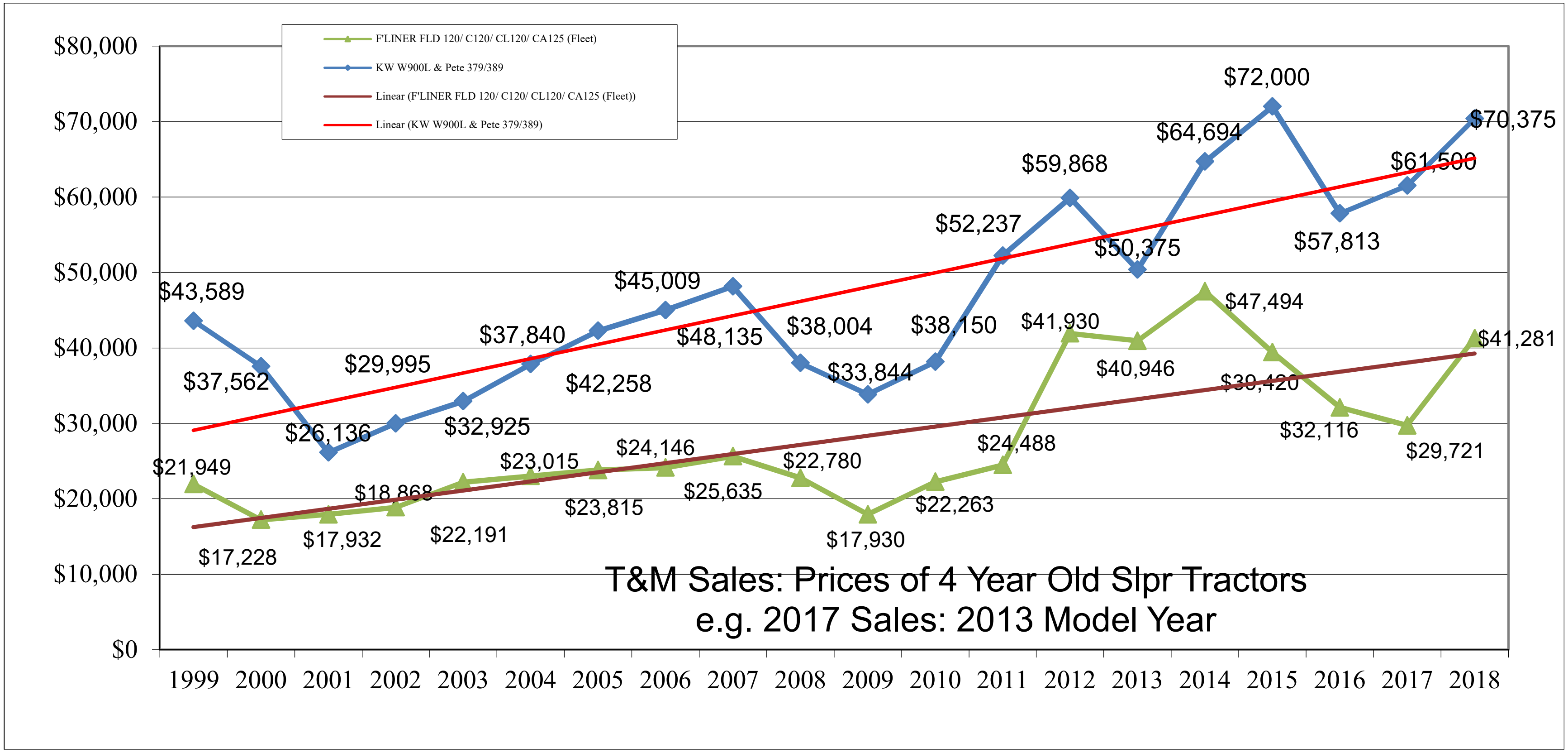
2018 Sales are Year-to-Date (through Feb. 21, 2018)



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 back to trend line. [This is only for the first 52 days of 2018 and only has 16 units as the sample.] [Lower quantities can be somewhat misleading.]

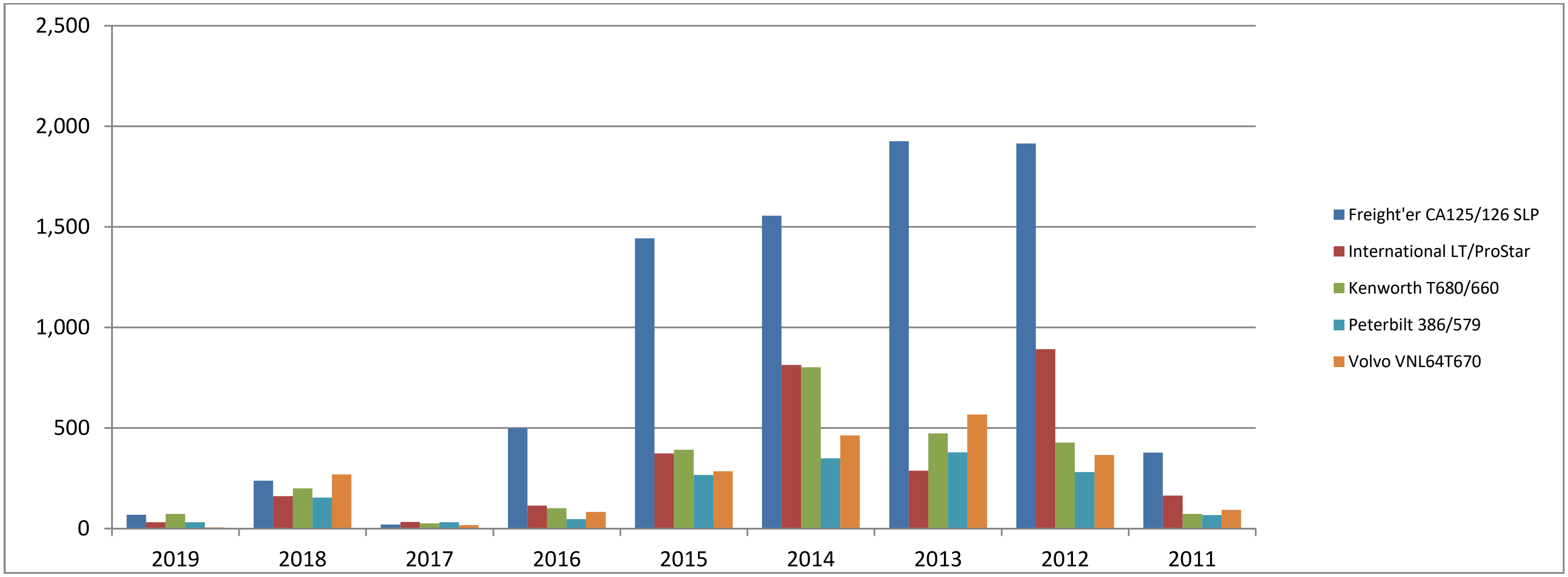


Note, over time, the similar trends of the "Owner-Operator" (W900L & 379ExHd/389) tractors (blue line) compared to the "Fleet" (Freightliner) (green line) tractors.

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 2017 was 38%, when measuring the Freightliner sales, as shown above.

What is available to the marketplace today? (Feb. 20, 2018) See chart below. (Sleeper Tractors) (About 500 units below the last quarter totals.) Please note, beginning this quarter, the 2010 model year has been removed and the 2019 model year has been added.



	Sleeper Tractors For Sale On TruckPaper.com: Feb. 20, 2018										
Make	2019	2018	2017	2016	2015	2014	2013	2012	2011	Total	Percentage
F'liner CA125/126 SLP	68	237	20	498	1,443	1,556	1,925	1,915	377	8,039	46.695%
Internat'l LT/ProStar	31	161	32	114	373	813	288	891	163	2,866	16.647%
Kenworth T680/660	72	199	25	101	391	802	472	427	73	2,562	14.882%
Peterbilt 386/579	31	154	31	47	266	349	379	280	66	1,603	9.311%
Volvo VNL64T670	5	269	17	83	284	463	566	366	93	2,146	12.465%
Year	207	1,020	125	843	2,757	3,983	3,630	3,879	772	17,216	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; Dec., 2017: 17,722.

Total tractors “for sale” have declined approximately 3 percent when compared to the last quarter and 7 percent from the most recent high (June, 2017). For Model Years 2011 through 2018 only, considering the most current four quarters: Mar., 2018: Ave. VIN: 2013.72 vs. Mar., 2017: Ave. VIN: 2012.82. The average age, of the “for sale” assets, has gotten newer over the past year (9/10th of a year newer).

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

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

One plus year since the current administration was installed: The wheels of progress continue to move slowly. A new tax plan is now the law of the land. Total impact of the new tax law for various industries is still being calculated. Certainly new capital investments are being rewarded (e.g. accelerated depreciation). Additional benefits or negative impacts to transportation are still unfolding.

The Crude Oil Industry has generally moved upward over the past 180 days (currently around $62’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 have remained relatively stable, with chatter of whether the Fed will raise rates in March and an additional two/three times this year! 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 (generally) continues to improve … the US Stock Market was headed for to the stratosphere in January and found out that, “what goes up must come down” (in the most recent case, about 10% down). The “long in the tooth?” rally is still in place, though now the long teeth are more jagged. 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 lower US dollar, helps US exports, but hurts the pricing for OPEC oil (Priced in US dollars), thus too much of a good thing, could lead to some pain down the road.

2018 March Agricultural Bullets:

- Larger ag equipment manufacturers feel ag equipment has turned the corner on the recent downturn. Now anticipating 5-10 % increases in 2018 new equipment demands, dealers appear in better shape and able to take more trades for replacement per early orders. Bundling services in new price to make up for loss of parts and repair incomes.
- It is doubtful that equipment is going to get much larger than current roll outs today as size, weight and **field compaction** are nearly limitations to field productivity benefits. Mini Ag bots or agricultural robots are an option swarming the horizon assigned to perform various tasks from field monitoring, spraying to even assisting in precise planting and all cloud-based. Phase Three in AG autonomy!!
- 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.
    - Autonomous equipment moves demand towards AI or supervised autonomy. This pushes the demands of dealers to keep service and repair to same or near same day service.
    - Fully battery-powered tractors are appearing worldwide with sodium batteries next evolution.
    - Tractor trades have been in ILS, FWD, GPS and other upgradable options. Demand for good used trades is still strong and higher horsepower demands below anticipated levels.
    - House and Senate proposals in Tax Cuts and Jobs Act impacts on “inventory” deductibility of interest language changed from original proposal which will help dealer profitability.
    - Limitation or elimination of Like-kind exchange benefit may hurt some fleet replacements.
    - 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 parts and equipment expansion into Kansas for logistics hub. Additional commitment to existing Georgia facility. AGCO Corp.’s Jackson, MN Plant named Assembly Plant of Year, bumps Certified Used Program service coverage to 36 months for more buyers.
- 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.
- The Federal Reserve monitors inflation and job market improvements continue, with gradual adjustment stance in monetary policy for continued moderately paced economic growth.
  July 13, 2017 *Semiannual Monetary Policy Report to Congress*

Construction Bullets:

- Infrastructure Spending shortfalls helped by residential Upsurge in 2017
- Storms and Hurricanes swept the country creating more immediate infrastructure demands
- Labor shortage continues to plague construction and related industries for qualified people. *A continued lack of technical training and less emphasis on the trades contributes to this shortfall.* Many ag and industry related firms react to this demand for mechanics creating in-house training programs, private campus environments and contractual retainer offers with graduation.
- Rental Market growth continues, now representing 50% of the construction equipment market.

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, 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/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 an abundance of 2017's-2018's flatbeds and an abundance of 2019's are now 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.

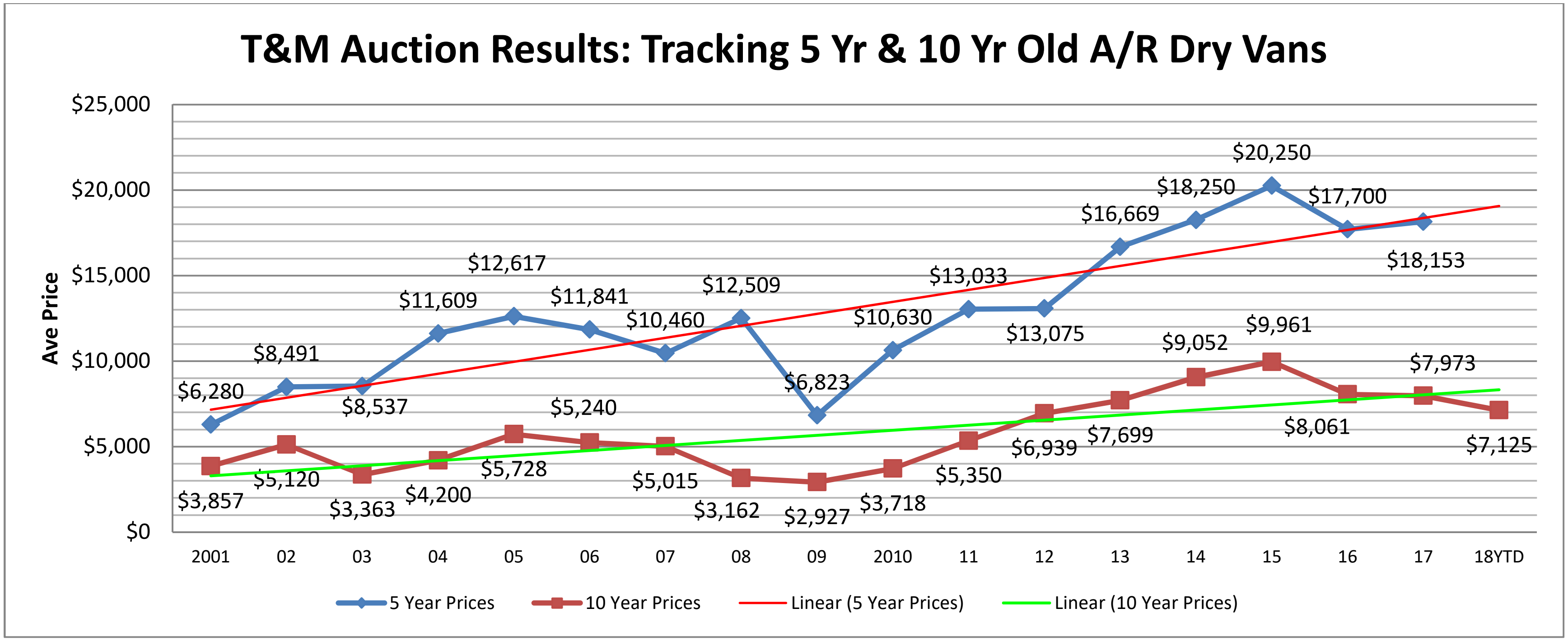
Heavy Haul Trailers: Demand improving, per conversations with dealers & manufacturers. RCN is lower. New orders are up.

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.

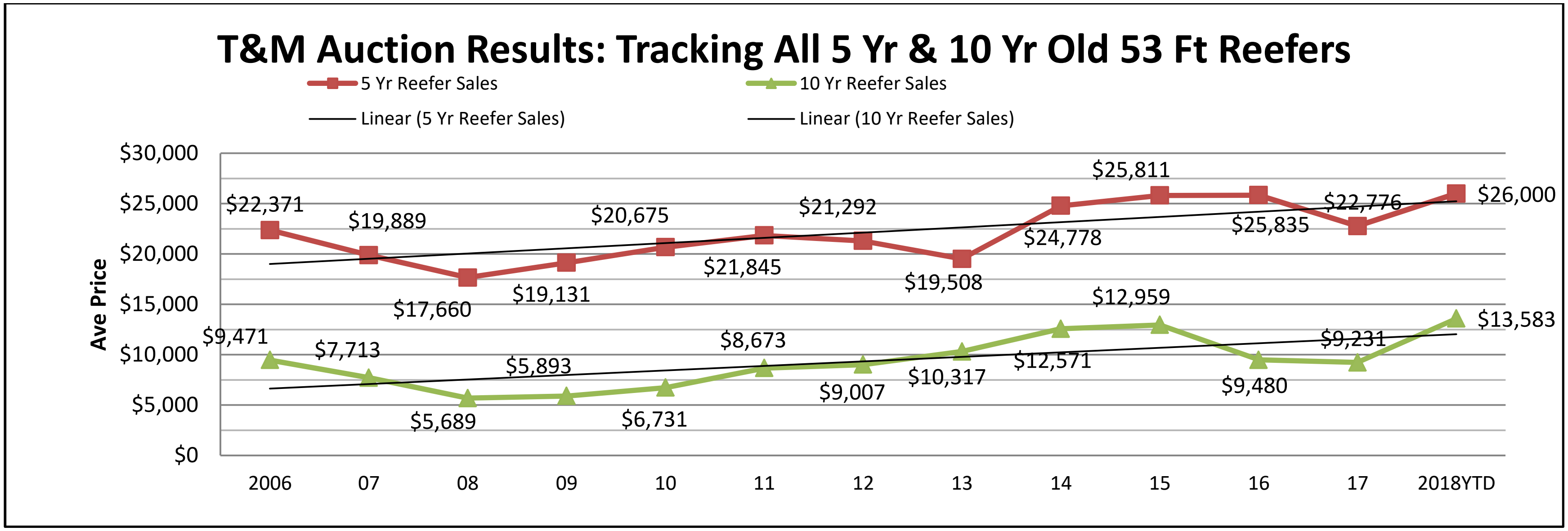
Overall, supply (new & used) currently seems to be near "in balance". Freight volume has been increasing, which certainly helps. The paradigm shift in retail (from large box stores to on-line) has caused the need to rebalance the freight hauling patterns. This may also be impacted by ELD regulations. 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.

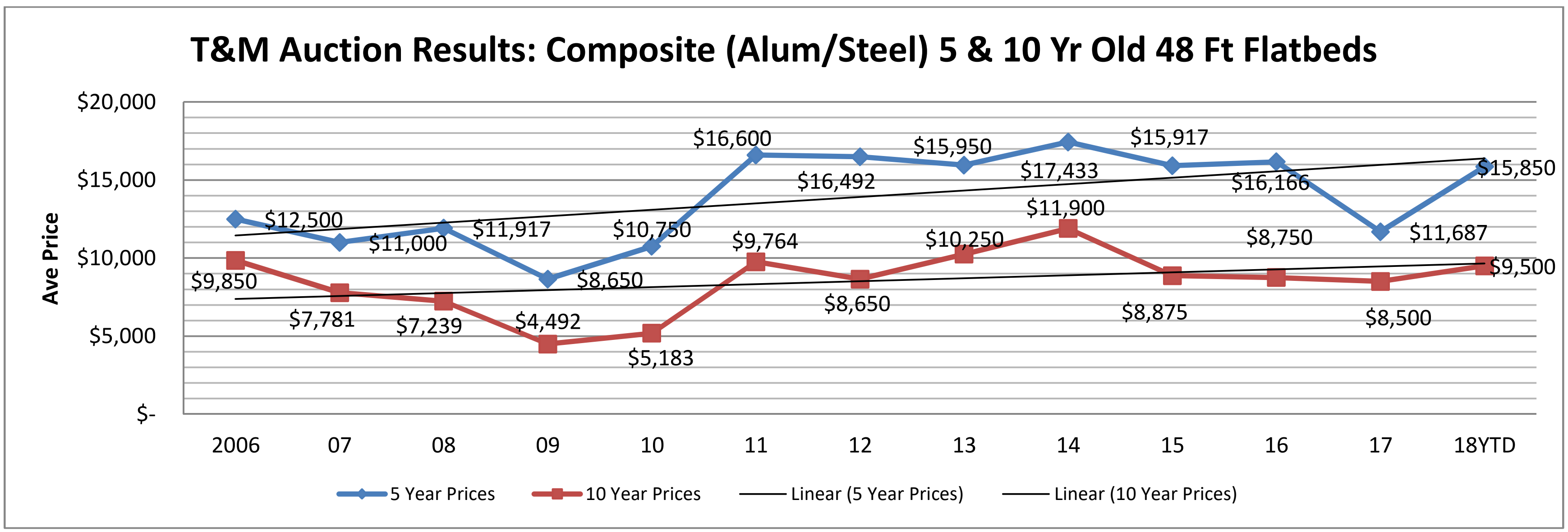
Five and ten year old Dry Vans sales (Taylor & Martin Auctions) are charted below:



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 (2017) have fallen 12% from the 2016 average; however, to date, the few 2018 sales indicate we are still around the long term trend line. The Ten-Year-Old Reefers, YTD, are also over trend line.



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

Michael E. Winterfeld, ASA
Director, Appraisal Services
1865 N. Airport Rd.
Fremont, NE 68025
Office-Direct: (402) 941-1070
Cell: (402) 981-6412
mwinterfeld@taylorandmartin.com
www.taylorandmartin.com

John Seymour, ASA
Manager, Ag Appraisals
Office: (402) 941-1072
jseymour@taylorandmartin.com

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