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

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Transportation (Trucking) Update (6-1-2019)

It took a while, but Spring has finally sprung, or has it? Late Snows, Floods, et al. Planting has been delayed in most locations and there are many fields which will not be planted this year, due to the ravages of flooding and the heavy rains that have been prevalent for the past two months. Maturity wise, everything is behind this spring by two weeks, maybe more. It's still snowing in Western Nebraska, Kansas, South Dakota and North Dakota, as well as the mountain states.

I would note, while spring may be late; the orange cones popped up on time and in large quantities. That is to say, it is road repair, and this year, road reconstruction season. (No need for a photo here, we all know what an orange obstacle course looks like.)

An example of the Spring flood waters in Nebraska.

Too much rain and problems arise.

Good news, the water has receded! The “boys of summer” are playing baseball and the college teams are jockeying to make the NCAA Baseball Tournament to see who makes it to the College World Series, in Omaha, NE. [June 14 to June 24]. Plenty to look forward to and be thankful for!

So which way are the tides flowing? Up to early-May, we still had good demand for tractors and trailers. Prices and values were still firm to strong. What changed? Psychology? Is it all about the China “trade negotiations” breakdown and the resulting hefty tariffs? Is that enough to derail a mostly healthy economy? Clearly the transportation market has lost its optimism, one problem is that rates are lower, volume is lower. Other markets are equally concerned.

So, what has transpired in the past three months? Besides what I have mentioned above, the stock market has shown more volatility, April new orders fell hard, auction prices are showing real softness in spots, etc. Read on, to find out our take on the market.

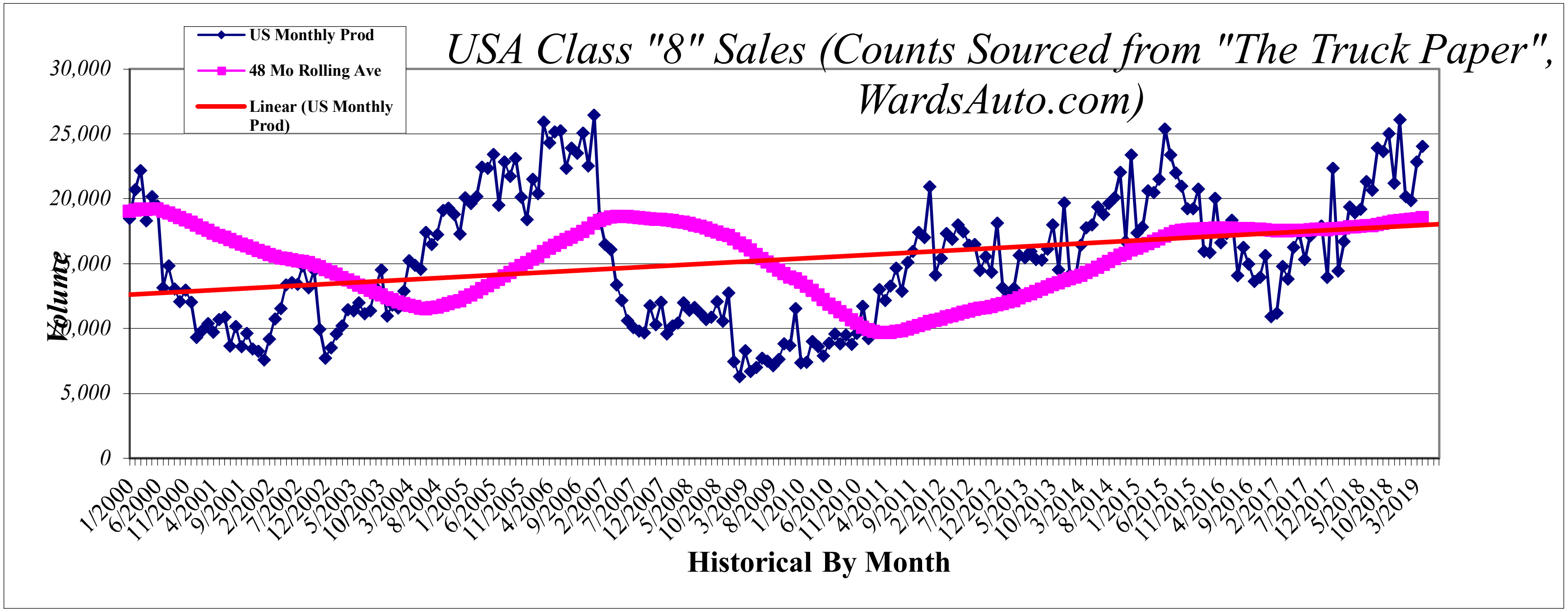
Recent auction activity is like what happens when a lake “turns over” (water at the bottom moves to the top and it brings muck and slimy gunk with it). We are seeing some auction prices roll over, some of the prices are messy, even ugly, when compared to prices 30-60 days prior. So, following up on the March newsletter, the bloom is looking much more likely off of the rose. The market had been filling equipment needs with new equipment and with good used equipment. Used equipment is suddenly in plentiful supply, with a nervous economy as the backdrop. The overall advertised tractor numbers have increased by about 5% in the past three months and 23% higher than one year ago.

Overall monthly sales (new) are well above the trendline. The past twelve months have averaged 22,331 units/month, new tractor sales since March, 2018 are all above the 48MRA. [Trendline (Red Line) has moved up to about 17,500 per month.] Both have been heading higher for many months. In March, I stated, “I am throwing in a cautionary note here; the last two times sales exceeded 25,000 units per month, in the months following, sales dropped off, significantly. Orders are back to historical norms. Overall, the availability of late model equipment is generally on/above trend when considering both the 48MRA and the Linear trend. The continued purchase trend however, is still somewhat troubling. Historically, the run up to this level (25,000+) is farther apart (7-8 Yrs); whereas, this time it has only been 3.5 years.” Sales data is now starting to uncover the issues that were only possible concerns three months ago.

Trailers are starting to tell an equally disturbing story, particularly for dry vans. Most classes are depreciating at or above their historical rates. On a positive note, trailer rental companies are still on firm ground. Rates are still firm and utilization is equal to one year ago.

We have included some of our updated data, charts and commentary which I hope you find both interesting and 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 have been above the 48MRA and will be for a period of time, going forward. This should confirm a reasonably healthy period of growth and reasonable depreciation rates. Going forward, considering the short term, I anticipate somewhat lower than normal rates of depreciation for tractors. When compared to historical cycles the fact that we have exceeded 25,000 units sold in October and December, suggests we are years ahead of schedule to reach such heights.

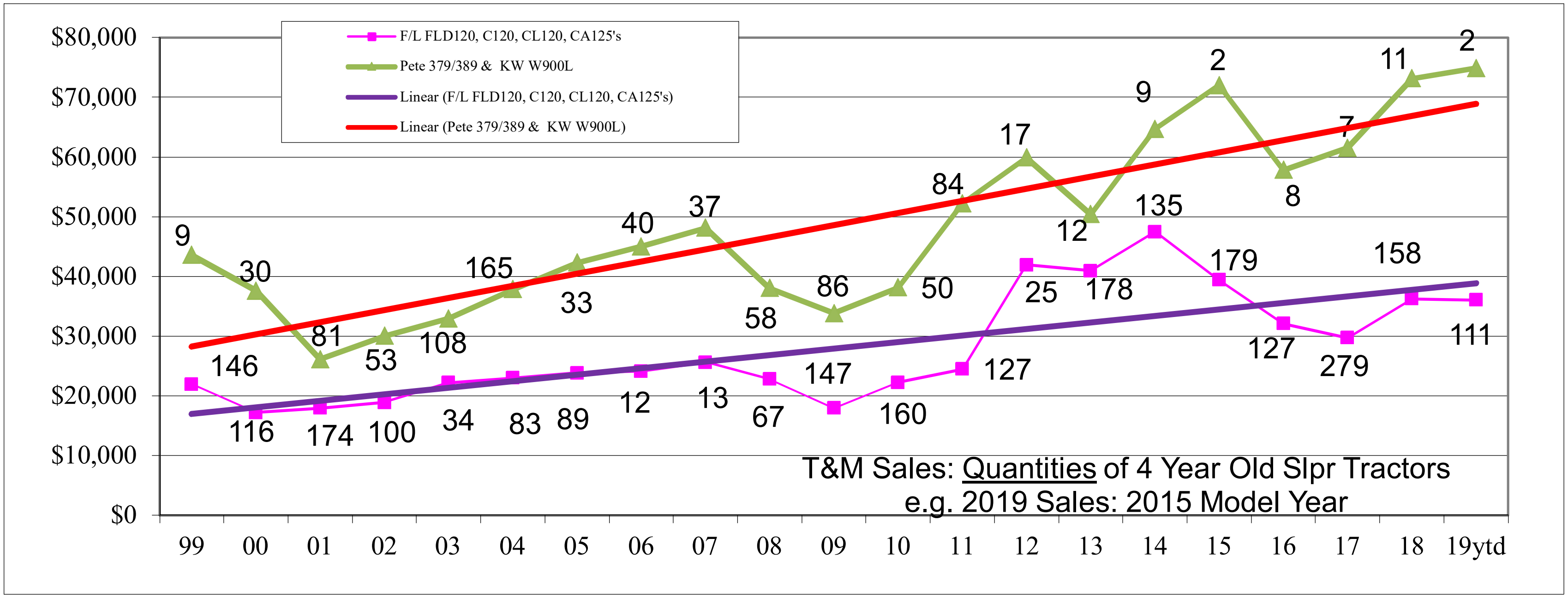
2: Historical needs have grown from slightly lower than 15,000 Class 8 tractors per month to more than 17,500 Class 8 tractors per month. Currently, the 48-month rolling average is 18,569. The overall late model fleet continues to inch higher (162 higher this past quarter). Historically we needed 15,000+ tractors per month. Today, given the HOS limitations, other governmental regulations and growth in the US economy the new benchmark may be 17,000 to 17,500 tractors per month. This is noted by the fact that the 48MRA is 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 (we are only 107 below the high in 2007), which was six months after the actual monthly sales peaked in 12/2006, when 26,462 units were sold. We marked a peak for monthly sales in 6/2015 with 25,369 units sold. Recent sales have continued at a strong/very strong pace, with the strong possibility of exceeding one, or both, of the past two cycle highs. This Cycle: Monthly High (12/2018) 26,083; 48MRA (4/2019) 18,569. In summary, we are back up to levels that have been troublesome in the past.

Here is an Odd Statistic: Actual Class 8 purchases were very strong (24,024); whereas, new orders, in April, fell hard, down to 14,800 units. WHY? One possible answer is that many/most of the purchases actually are "contractual obligations" and want them or not, buyer's must complete their commitment. Whereas, most orders are for units which won't be built for several/many months and the drop in orders suggest optimism has dropped significantly. Will we see cancellations in the coming months as well?

4: Since the drawdown (~20%-30%) from July 2015 to July 2017, tractor prices had improved significantly. When considering fleet type tractors, recent auction results are up ~40% from the 2017 low. Used values have recovered all 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.

Tractor Sales (Quantities) are Year-to-Date (through May 23, 2019)



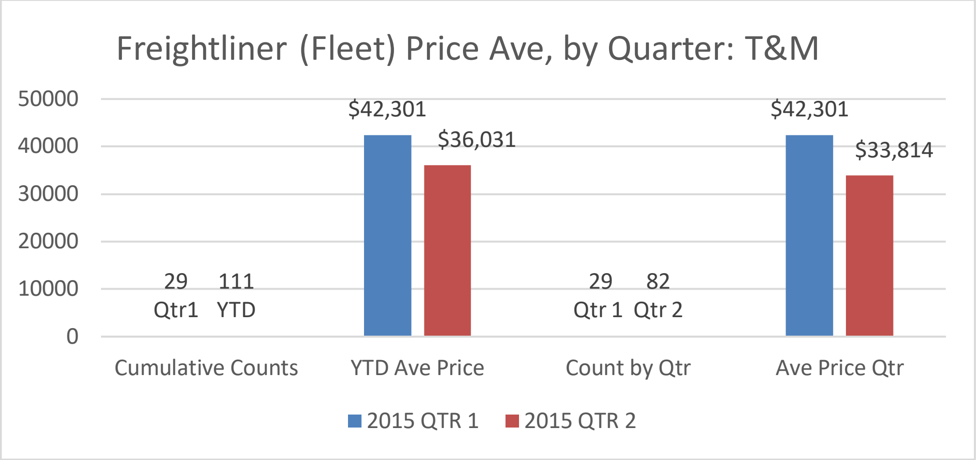
The average price of four-year old "fleet" tractors (sold at T&M Auctions) mirrors the trend of builds. [Further details found in the chart below.]

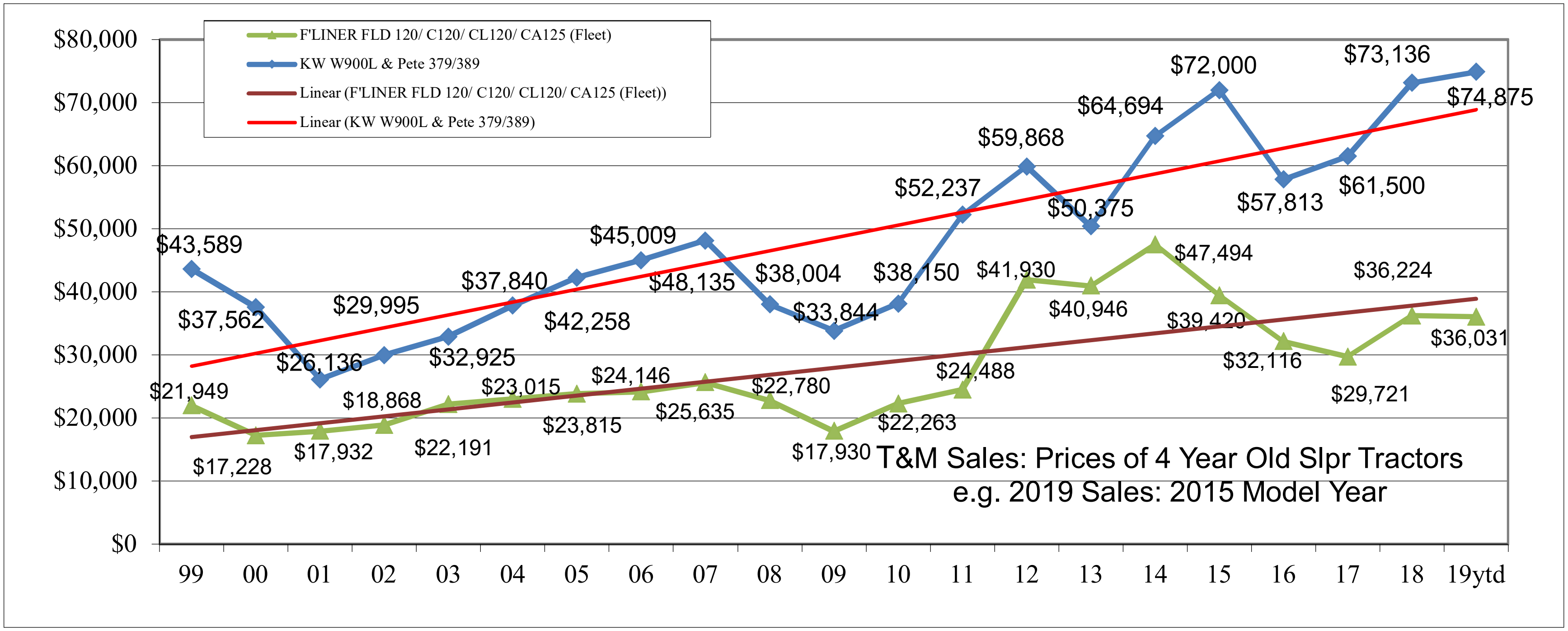
Above are T&M Sales by annual Quantities, below are T&M Sales by average annual Prices. [As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both generally considered to be spec'd as Owner-Operator tractors.]

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 were nearly back to trend line; but failed.

The following new chart (2019 quarterly sales prices: Taylor& Martin) shows significant weakness in the past three months (March-May).

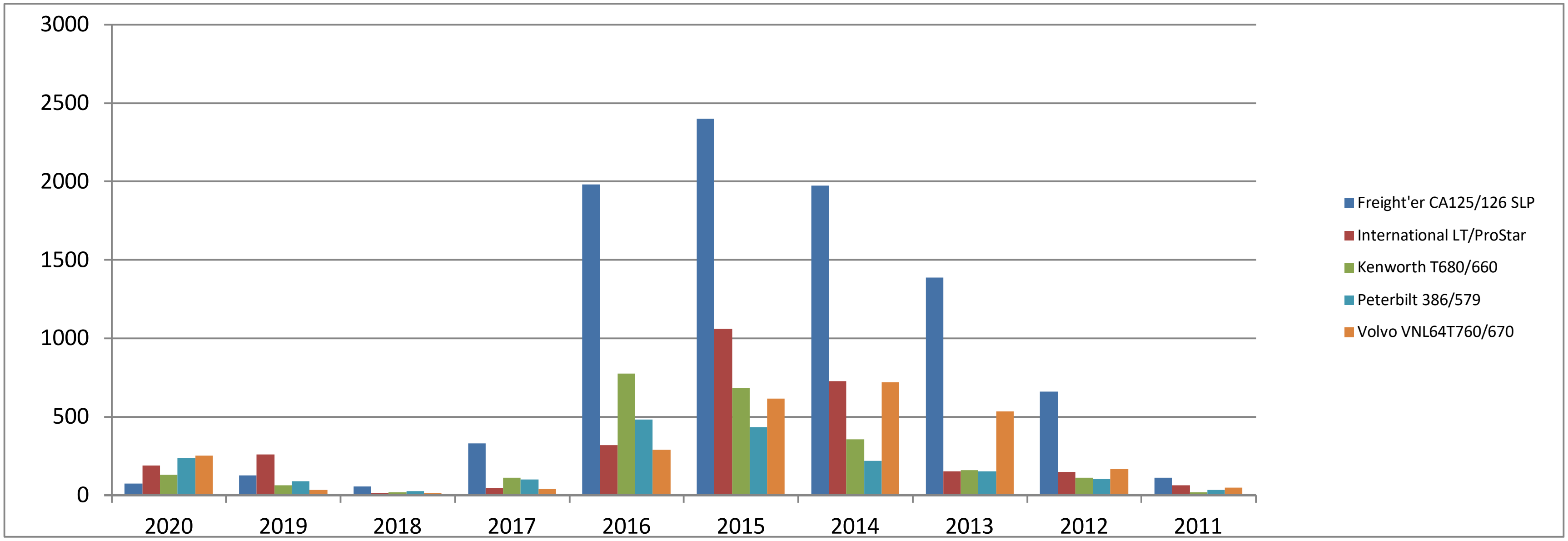
Quarterly Tractor Sales (Average Prices) are Year-to-Date (through May 23, 2019)





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 (from material costs, EPA requirements, technology and safety/comfort improvements); additionally, inflation is included in the sale prices, thus the upward trend line.

What is available to the marketplace today? (May 22, 2019) See chart below. [Sleeper Tractors] There were about 877 more units “for sale” this quarter when compared to last quarter’s totals.) The “high count” years are typically for trade-ins or end of lease units. Low counts for 2017’s, 2018’s & 2019’s indicate that most units are typically in the first lessee/owner’s hands. 2020’s are included but are not counted in the increase.



May 22, 2019^	Sleeper Tractors “For Sale” On TruckPaper.com: May 22, 2019									Ave. Age	2014.93		
Make	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	Total	Percentage	of Prev Qtr
Freightliner CA125/CA126 SLP	74	123	55	327	1,979	2,399	1,973	1,385	657	110	9,082	50.135%	102.46%
Internat’nal LT/ProStar	188	256	13	41	318	1,061	726	150	147	63	2,963	16.357%	112.62%
Kenworth T680/660	128	60	17	108	772	679	353	158	109	17	2,401	13.254%	85.05%
Peterbilt 386/579	236	89	24	99	481	431	218	151	102	30	1,861	10.273%	120.45%
Volvo VNL64T760/670	251	30	13	40	286	614	718	533	165	45	2,695	14.877%	119.67%
Year	877	558	122	615	3,836	5,184	3,988	2,377	1,180	265	19,002	104.896%	104.90%

Retail “For Sale” counts (total: 19,002), as charted above, are higher again, up about 4.90% when compared to last quarter (measuring 2011-2020 MYs) and 23.00% higher when compared to one year ago (measuring only 2011-2019 MYs- the years in Common). Inventories are building on dealer lots. 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; Oct, 2018: 11,584: Dec, 2018: 12,354; March, 2019: 18,115.

Considering the most current three quarters: June, 2019: Ave VIN: 2014.93; Mar. 2019: Ave VIN: 2014.82; Dec. 2018: Ave VIN: 2014.57. The average vintage, of the “for sale” assets, which indicates the inventory available is starting to age, a bit. March to June only improved by .11 of a year (it should move .25) to stay current. One Year ago, the average age was 2014.04, which was without the benefit of 2020’s to lift the average age. Inventory available is growing and aging, which tells me supply has outpaced demand.

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

Well qualified drivers continue to be in short supply. [Driver training schools are doing very well.] Demand for qualified (experienced, drug free and safe) drivers is strong.

Twenty-eight months into the current administration: Along with the political games being played between the Executive and Legislative Branches we now have to consider the impacts of trade tariffs. The net effect is Negative to the market.

The Crude Oil Industry has stabilized (?) around the low-$60’s/BBL. Active Drill Rig Counts have generally inched higher, but below one-year ago counts. Iran and Venezuela both have physical and foreign government impediments, which helps to hold down world supplies. The US is not helping control the world supplies with our overproduction of gas and oil.

Building Activity (Home, Office, etc.): Areas slowing a bit: Interest rate sensitive. Rates have remained relatively stable to slight declines, over the past nine months. Housing starts have slowed but interest in existing housing is still strong (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 still the buzz; which, depending upon your industry, has little to major affects to the bottom line. With Washington DC politics and the world unknowns (tariffs, and Iran) in play, people tend to retreat, hunker down, or reduce their risk, etc. An all-out trade war will slow down the US economy and most of the rest of world’s economies. The amount, of slowdown, for each country, is dependent upon exposure. This is true for US companies as well.

Trailers

Trailer trends had remained firm/strong through April, 2019. In the past 30 days, the trailer markets (class dependent) are showing weakness. The slowdown that transportation experienced from July, 2015 through June, 2017 was primarily limited to the tractor market. [Yes, trailers dipped a little back then; however, not nearly to the extent that power prices slid.] We are seeing weakness in portions (most notably in dry vans and small cube pneumatic tank trailers) of the trailer market which is equal to, and possibly greater than the declines being observed in the tractor market. Trade related down turn. Historically, the direction of trailer values typically lagged tractors by several months; however, we are seeing weakness in some trailer classes already. Anticipate 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. President Trump has indicated that $15+ Billion will be forthcoming to offset the tariff impacts.

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. Some recent auction results indicated significant softness for small cube trailers (i.e. 1040's). Construction and existing oil field activity should be supportive.

Propane tank trailers and bobtails: Stable for older used assets.

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

Flatbeds/Drop Decks: 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.
Market study shows that there has been a slight 1.7%-2% in new cost for Steel and Combo 53Ft, 48Ft flatbeds for the first half of the second quarter of 2019. Resulting in economic obsolescence from the inflation prices of raw material of steel and aluminum from the ongoing US-China tariffs discussions. Which has driven about a 2% increase for year over year cost basis for these assets.

Specialized Oil Field Flats: Supply is still plentiful. Generally, depreciation rates are below historical levels, particularly on trailers that are greater than 5 years old. Overall, orders are softening from a strong 2016-2017.

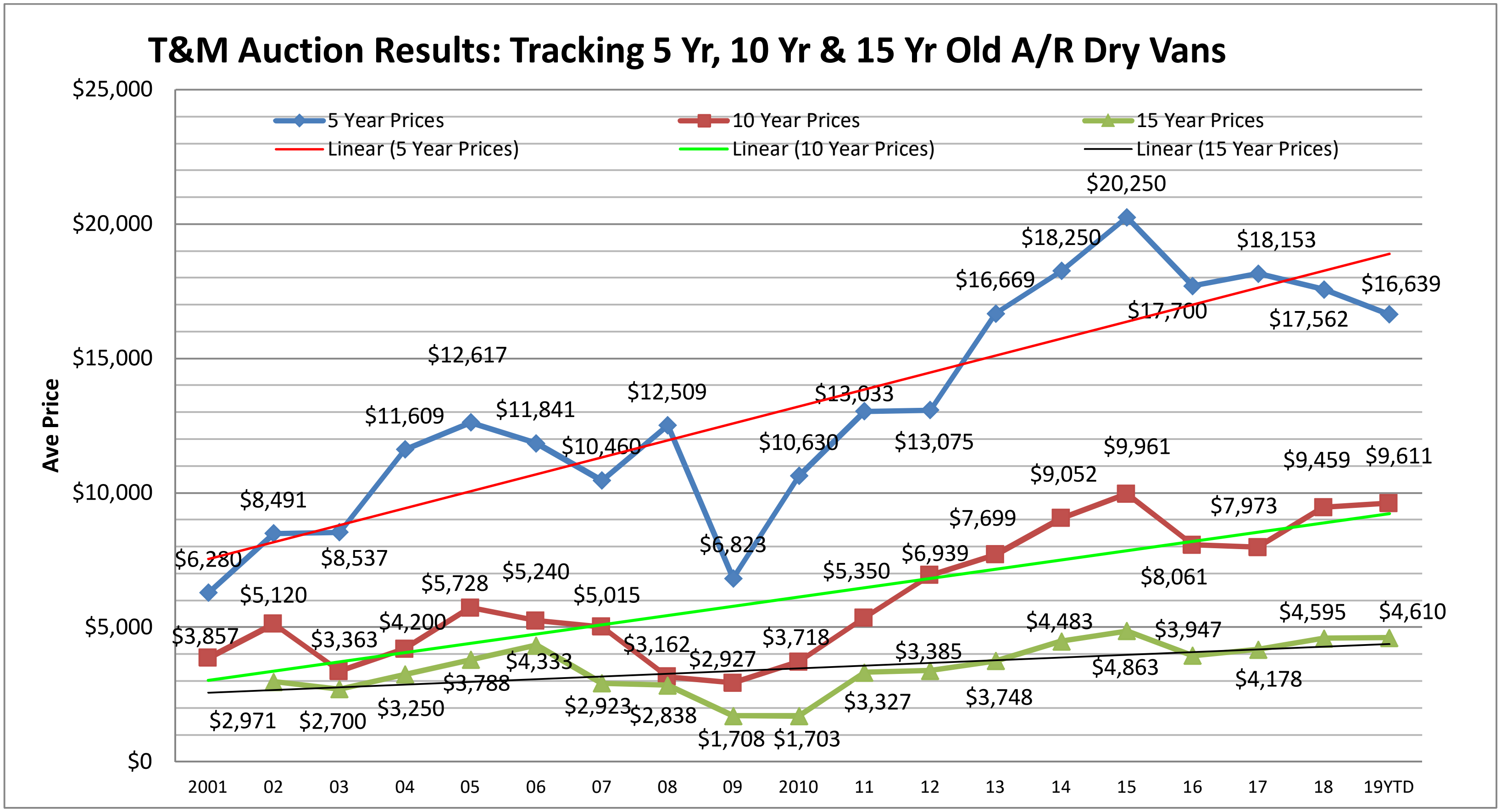
Heavy Haul Trailers: Demand improving, per conversations with dealers & manufacturers. RCN is stable, but subject to steel prices. New orders are up. Overall, orders are softening from a strong 2017, but still above historical averages.

Dry Vans & Reefers: Sales data indicate that the dry vans have, rather suddenly, shown significant declines. (Trade concerns, most likely), now generally reflect below "trend-line" for auction prices. I anticipate the market to be cautious until the China Trade Tariff impasse is settled.

Refrigerated trailers have not suffered weakness, at this point in time. If you recall, refrigerated trailers are not as vulnerable to world economic issues, people consume food every day. Refrigerated trailers are needed and used every day.

Overall, supply (new & used) currently seem to have moved to an imbalanced scenario. Freight volume have been waning. Currently, rental fleets are enjoying good utilization and rental rates (dry van, flatbeds, step decks, reefers).

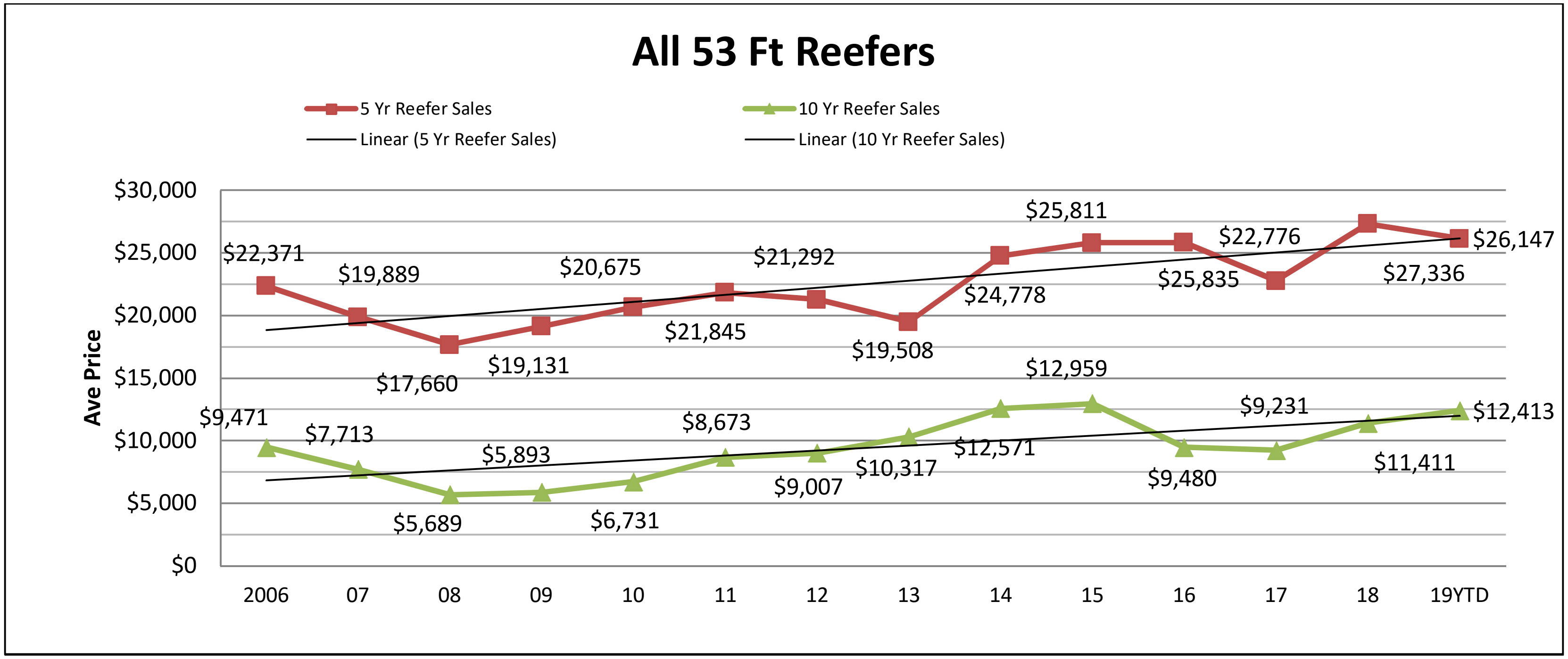
Five, ten and fifteen-year old Dry Vans sales (Taylor & Martin Auctions) are charted below:



Dry vans have generally moved back to / above the long-term trend line and the older vans continue to be on trend. (2019 YTD soft (5-10-15 Year). Recent sales prices are lower than the averages shown.

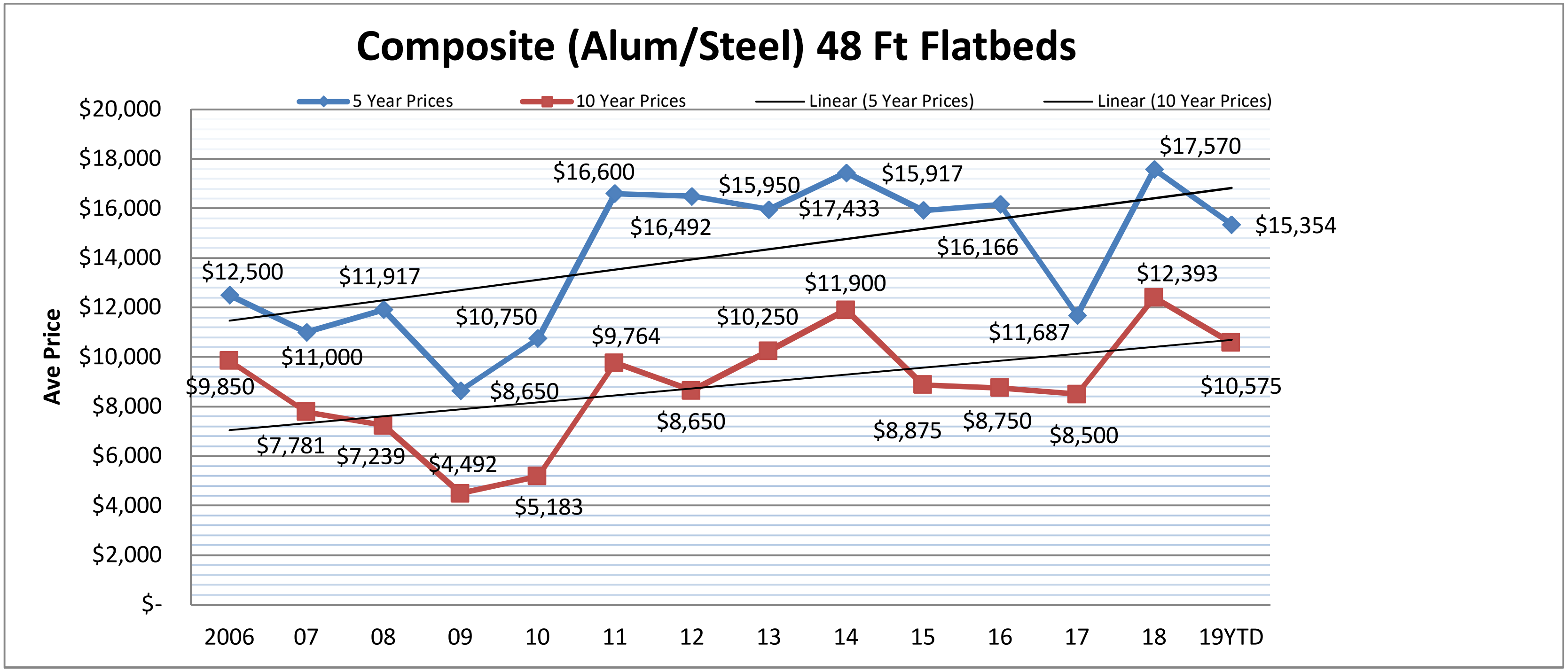
It should be noted that the 2018 results include a high percentage of “sheet & post” (plywood lined) vans. Excluding those, 2018 prices would be approximately five percent above the 2017 prices.

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



Reefers: The 2018 sales indicated that we had fully recovered and were above the long-term trend line. Five-Year-Old (2019YTD) Reefers are back down to trendline. The Ten-Year-Old Reefers, YTD, are also at trendline. Here's a repeat: As you can see in the above chart, drawdowns are significantly smaller than other classes of trailers. The question is why? Part of the answer is: 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.]

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



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

The flatbed market has recovered from the 2015-2017 pullback. Actual sales numbers (2019YTD) as very low. Considering previously mentioned cautions, the flatbed market should be stable over the next few quarters.

John Seymour's thoughts on filling The Meter! [No Plug nickels please.]

Burning through the strong 2018 order backlogs are certainly helping to feed the 2019 calendar year production numbers. To date, order cancellations have not been significant. Inventories (supplies) are not a problem until demand dries up!

The legislative and executive branches of government may actually see eye-to-eye on a significant subject: Infrastructure! Possibly a two trillion dollar shot in the derrière of the US transportation network, which would be a positive driver for all sectors of the US economy. An early May, bank survey indicated that the outlook for small businesses remained strong.

[MW: Congress and President Trump aren't playing well together; the infrastructure bill may become a casualty, among others.]

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

The oil field is still expanding. It will take a while for the committed funds to dry up. [With oil price at these price levels, interest won't dry up any time soon.] The oilfield continues to grow according the Baker Hughes rig report (5/22/2019) the United States rig count is 987 rigs down 59 from the same time last year. West Texas Intermediate (WTI) is selling for $63.10 BBL. Drilled but Uncompleted (DUC) wells are at a total of 8,433 across 7 regions in the United States.

The era of fleet spec "aerodynamic" trucks is upon us but is the fuel mileage saving worth the amount deprecation at trade cycles. Everyone knows that the Owner-Operator spec'd trucks are expensive and hold their value, but the fuel mileage can't come close to the aerodynamic trucks. Fleet Spec Trucks have a role in the market place. They cost less up front, are mass produced (easier & faster). But when they come back on the market there isn't much that will allow them to stand out of the crowd and say look at me. They tend to be lost in the crowd on the dealership or auction lot or even in the online listings. The question for each buyer is, 'do I want a truck that will hold its value and stand out, or a fleet spec'd, me-too, economical tractor?' I don't think there is a right or wrong answer to the question. It just depends on each different scenario/situation, life style, and next buyer. Most people don't even think about the next buyer. Until next time…

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. We have only provided a brief and general overview of what we are seeing in the market.

Thanks,

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