The Meter

Transportation (Trucking) Update (6-1-2021)

Produced By: Andy Vering

With Input From:
John Seymour, ASA

Introduction

Calling 2021 a good year for trucking would be a bit of an understatement. Spot rates continue to be through the roof and the demand for new and used equipment continues to be extremely high. With that much strength in the market we will always have a few negatives. Lack of supply to fill the demand and lack of drivers to fill the seats.

While writing this quarters newsletter it seemed so repetitive. Production issues and product demand has driven up values on used equipment, but it's simple supply and demand with a few hurdles hampering the return to a more normal balance balance.

Take a look at the Truck Paper listing chart on page 7, it shows the demand and lack of availability of used trucks currently. It is broken down by make but the total number of tractors advertised compared to 6 months ago is telling. When the total number of listings begin to rise it will be an early sign that the depreciation rates will begin to gravitate toward more standard levels.

Class 8 tractor orders continue to be above the 30,000 mark even with the delivery dates being 6+ months out. Manufacturers are having supply issues and with new orders staying strong, delivery dates keep getting pushed in to 2022. The computer chip shortage continues to be one of the biggest contributors to the production delays.

In 2019, the average monthly class 8 tractor orders were at 14,900 and with a high of 21,000. Last year was so up and down with a high of 51,900 in November and a low of 4,100 in April and averaging 23,400. Having the first three months over 40,000 orders shows how much demand is out there even with availability being so far out. All indications are leading to a longer time-frame to which supply and demand remain out of balance.

The reefer and van market has been even stronger than the tractors. Late models especially. At auctions we have seen 2017 vans and newer consistently bringing over $30,000 and have had a few break $40,000. Keep in mind that new costs on vans are generally in the mid 30s.

The ports are still running at full capacity. The US economy has started to bounce back faster than most countries leaving you with the large gap in imports vs exports. Experts are predicting above average import numbers through Q3 into Q4. This is typically a peak time for trucking and if we are still trying to catch up moving all the imports by then we will still be seeing above average values on used trucks and trailers.

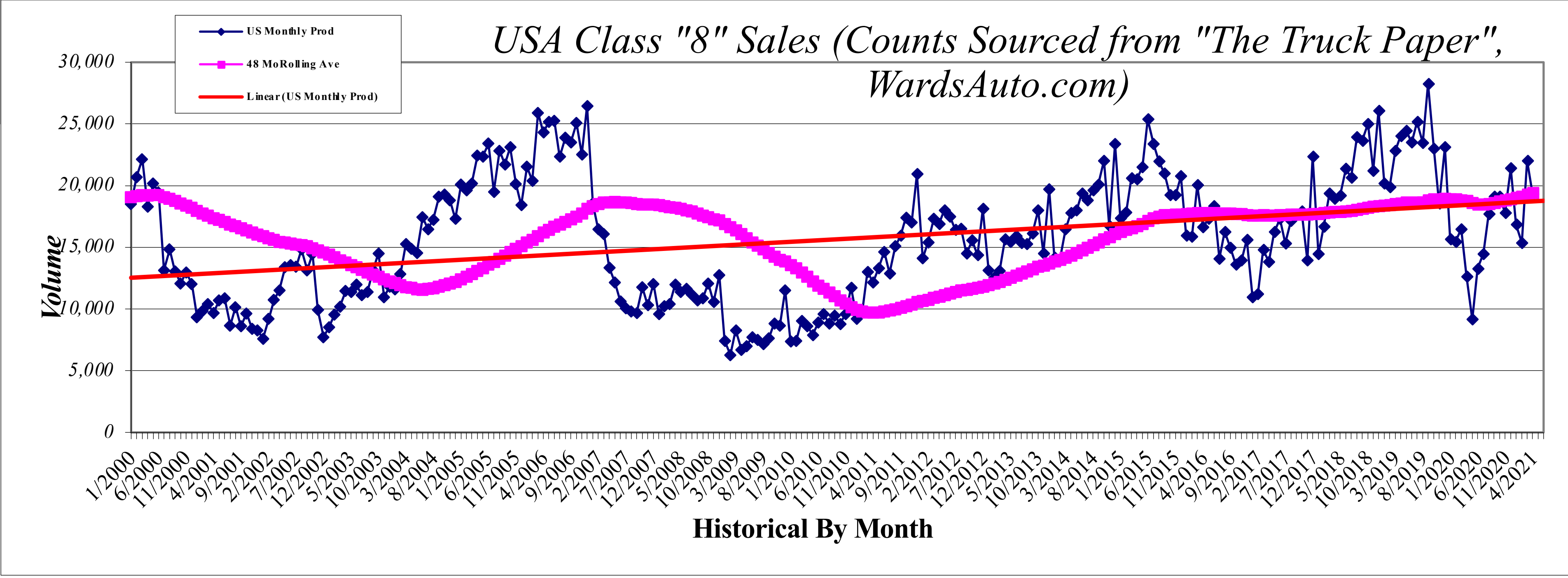
The housing market has also been red hot. Consumers are taking advantage of the low interest rates and high values that have created a huge demand for new homes. The rise in builder supply (lumber, etc.) costs have boosted values of new homes and created even more demand for used homes.

Auctions have remained very strong. Attendance is up along with total piece count. Values have been strong all of 2021 in the auction world. Late model tractors, with low miles, have continued to lead the market but due to lack of supply older tractors are also bringing strong numbers. Delays in new deliveries have also limited the number of trade in or replacement trucks on the used market.

Dealers have had little to no participation in selling at auctions, but they have been very actively bidding on the late model equipment. Lack of inventory on their own lots have forced some to pay the higher prices due to the lack of new and trade opportunities walking through the door. Margins must be tight but the need for inventory spurs the buying trend for some.

I have said it before, but you see the trend change in the auctions first in the trucking market. Most need to see the changes in values for at least three months before adjusting asking prices. We keep a very close eye on what specific equipment brings week to week looking for indications of changes in the market. So far prices and what buyers are expressing to us is that we are not going to see any drastic changes in the next few months.

Now to the charts. Some of these give a very clear depiction of the market we are currently in. Comparing these charts month over month should show us the early signs that the market is shifting.



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 48MRA, the trend suggests we would see higher builds and values should erode more slowly. We have finally exceeded the 48MRA. History would suggest that we should hold north of the 48MRA. The 48MRA is at 19,389 it has been above 19,000 for the last 4 months. We have not seen a 19,000+ average since 2000.

2: Historical needs have grown from slightly lower than 15,000 Class 8 tractors per month (in the 2000's) to about 17,500-18,000 Class 8 tractors per month now. Since the pandemic low of 9,165 in May of 2020 the 48MRA has been on the rise averaging 17,859 ever since. Only thing holding higher sales back is the long wait times for delivery.

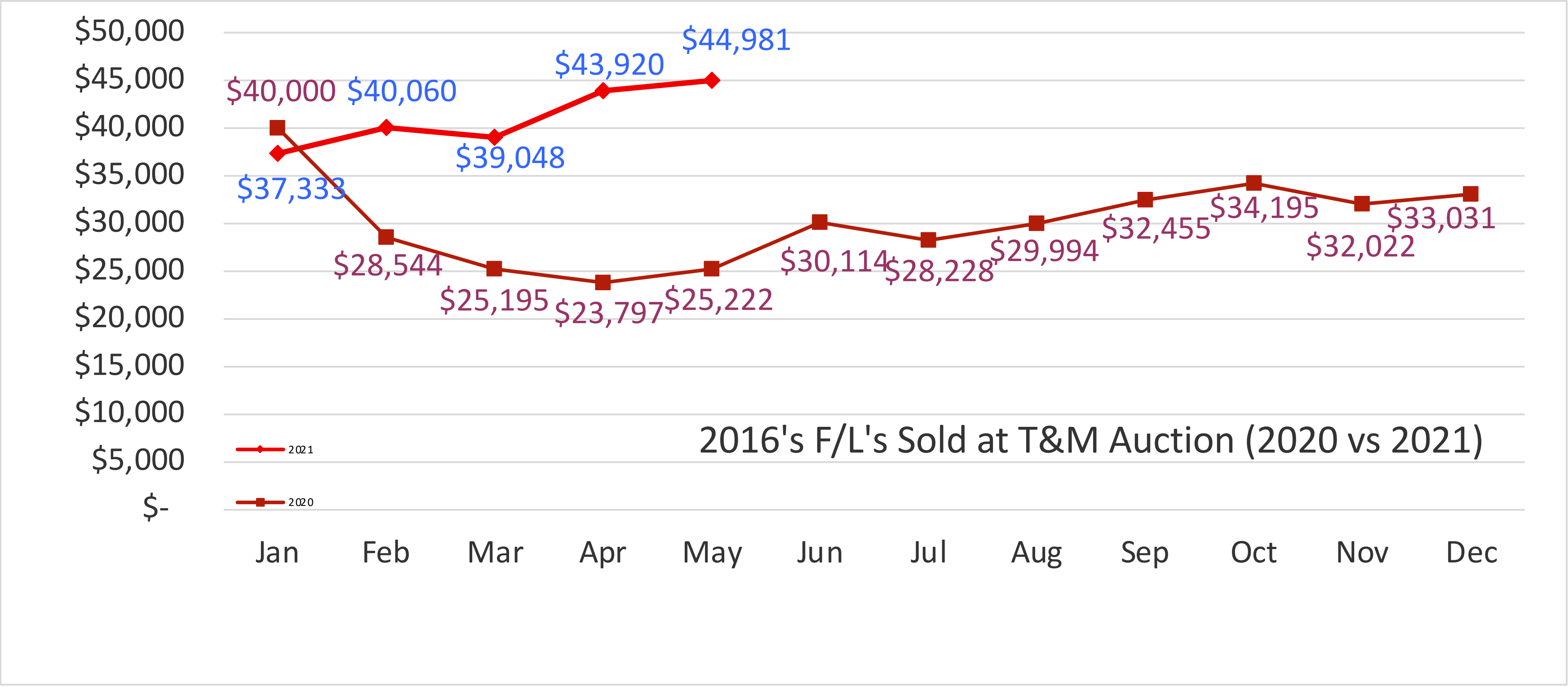
3: U.S. Sales ONLY: The 48MRA is the rolling average of all tractors 48 months old or newer. The 48MRA bottomed in 2/2011 (7-year low) with the 48MRA at 9,712. The previous 48MRA high was recorded in 5/2007 at an average of 18,678 (we are now above the high in 2007), which was six months after the actual 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 and now again in 9/2019 with 28,258 units sold. This 48MRA Cycle high: (12/2019) 18,923, which is a new all-time high. As expected with the pandemic we have dipped in total sales down to (5/2020) 9,165. Lowest it has been since 10/2010.

4: Actual Class 8 purchases have been down since the year end Dec 2019 of 23,119 to averaging 15,271 for the year in 2020 with the low at 9,165 in May. We are currently at 19,312 for 48MMR and as production increases sales will follow until we reach the trucking industries demands.

5: Since the drawdown (~20%-30%) from July 2015 to July 2017, tractor prices had improved significantly, up until 2019. 2019 was a tough year at the auction level of trade. 2020 showed marked improvement, and 2021 so far has continued to trend strong. Lack of production has sent buyers to look for used to fill the void until production catches back up with demand.

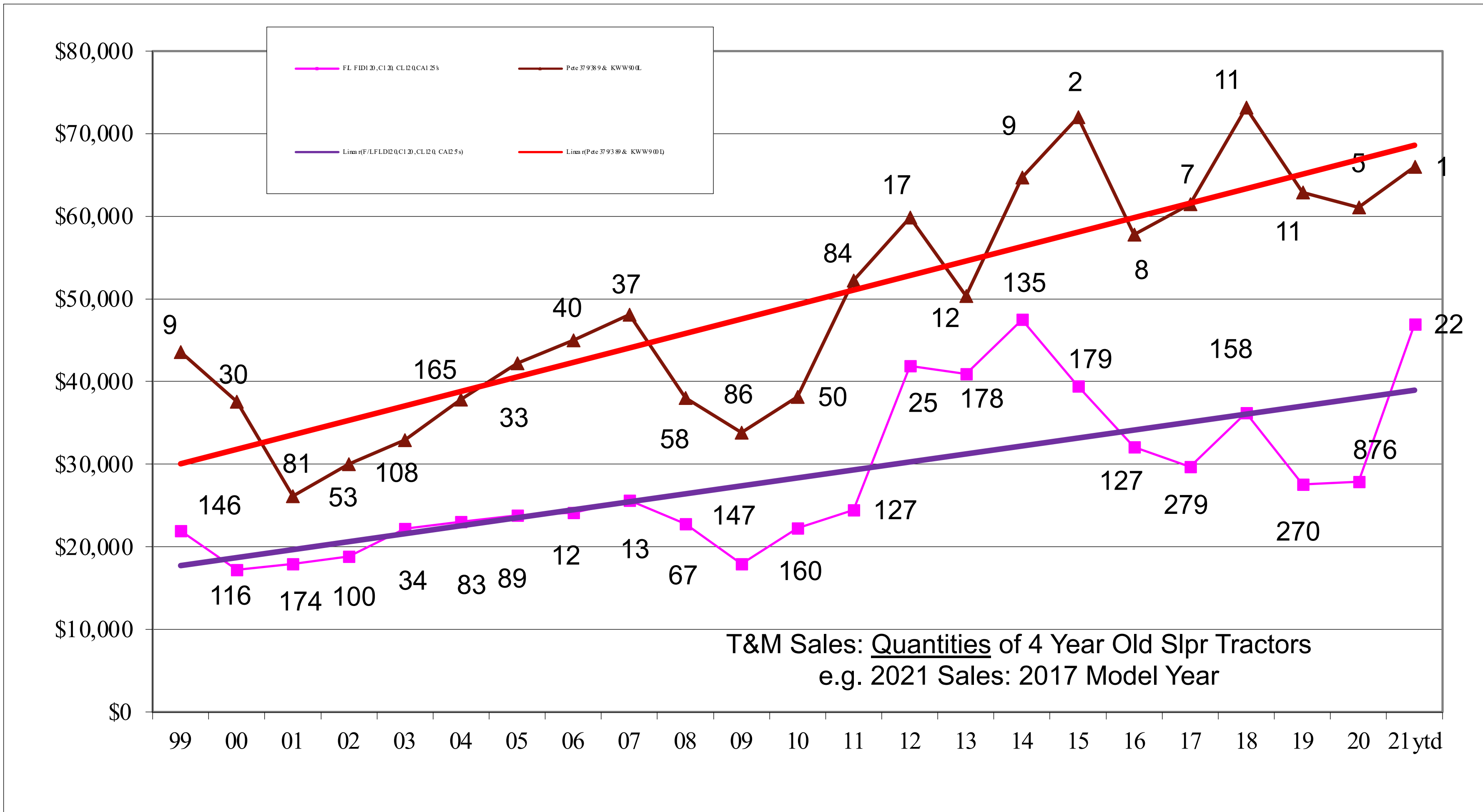
6: The class 8 truck orders have been on the rise since June of 2020. Since June the numbers have be up Y/Y by 50%. With the supply chain not being as reliable as needed to maximize production it is going to take longer for orders to be filled and trades introduced on the secondary market creating below average deprecation through Q3 at least.

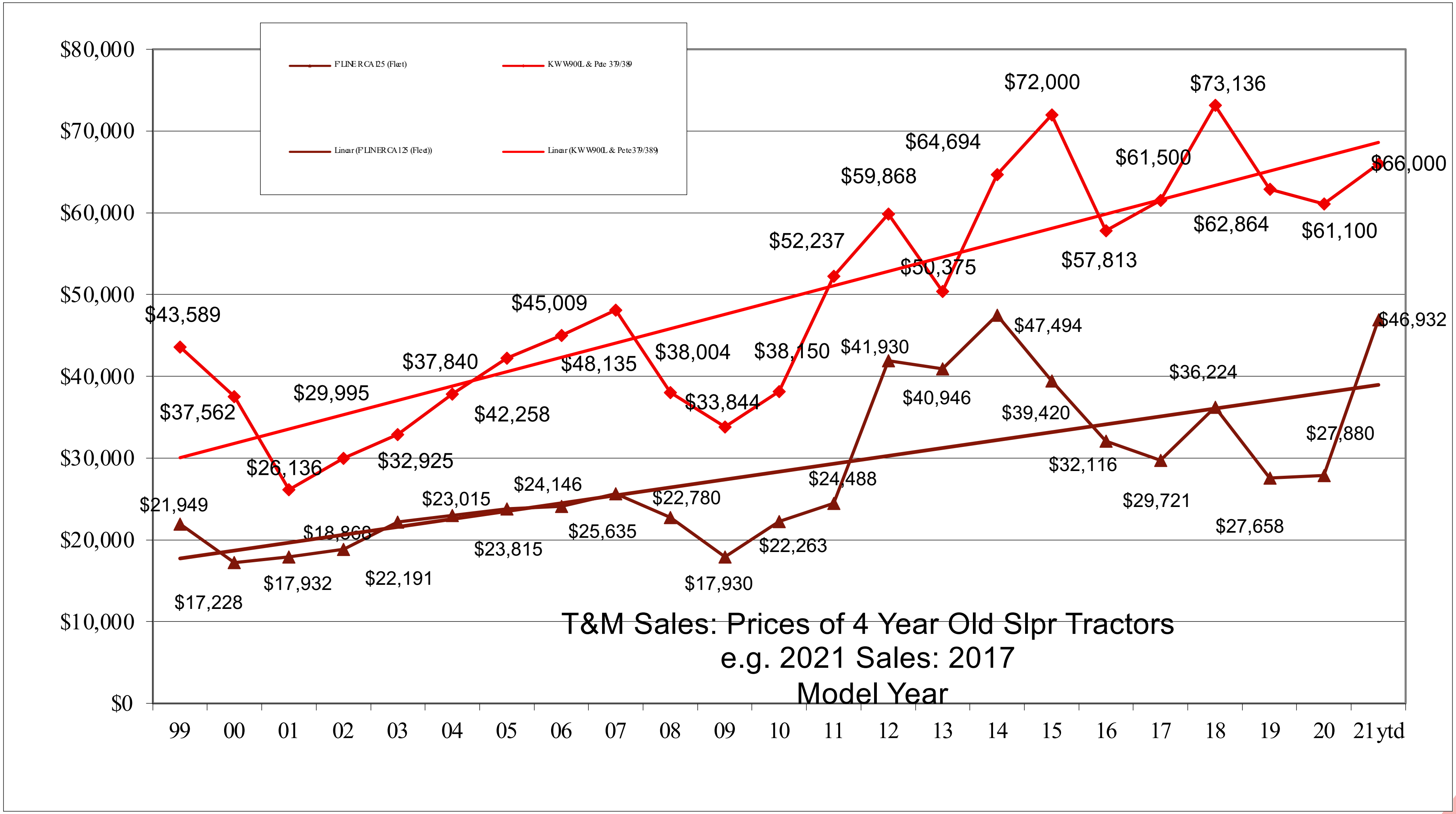
This chart shows the average sale price of 2016 Cascadias. They are all sleepers with average miles between 550,000 and 650,000. The 2021 sales are still 2016 model year so technically a year older, but the auction values have continued to rise despite the increase in age. Volumes are down from last year but still a large enough sample size to get a proven value. Over the last 5+ years the Cascadia has been the most popular fleet truck by sheer volume and should be the first model to show initial signs of a slowing used market due to the amount of Cascadias expected to hit the market as new trucks are released.



True Value Guide Quantities of 2017 model year trucks.

Here are total actual sales of the Freightliner Cascadia (Fleet) and the O/O Spec'd Petes and KWs. Total quantities are down from last year. The need for tractors has limited the number for potential sale. Values are so high some have just allowed their fleet age to grow to take advantage of the market. O/O trucks generally don't hit the market as often as fleet trucks. A strong fall for the Ag world should drive the prices up on the limited number of 2017's sold.



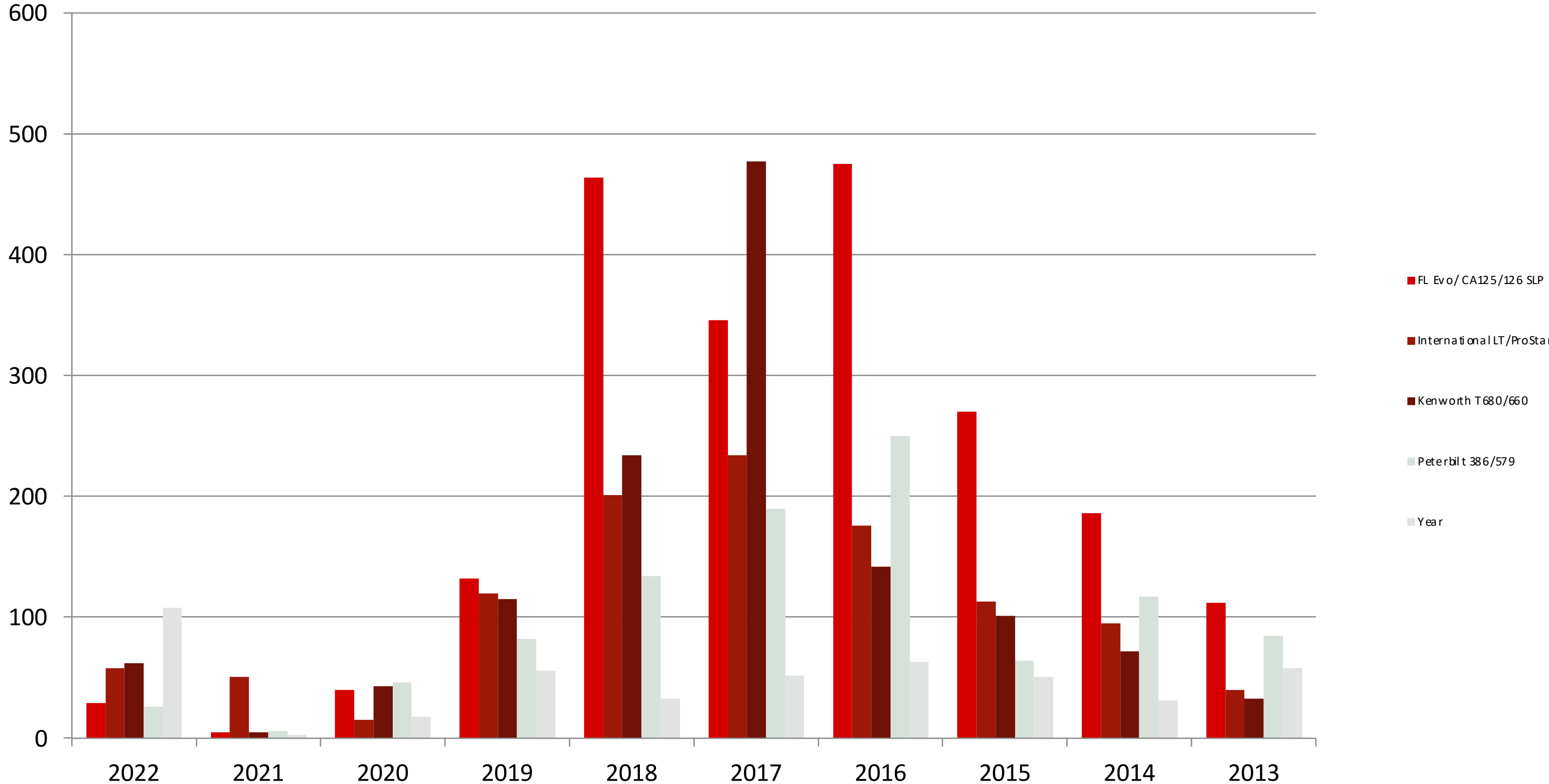


Above are T&M Sales by average annual prices. [As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both generally considered to be spec'd as Owner-Operator (O/O) tractors.]

Not a lot of O/O moving their equipment at auction so far this year. In general O/O are not rotating trucks on a 5-6 years cycle as larger fleets do. Fleet truck values continue to remain high. Parts availability on down trucks have started to increase demand to fill the void. The continuous rise in fleet values has been remarkable at auction. We should be nearing a plateau but have not seen any leveling off on values so far this year.

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 & 2019). Remember, 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 20, 2021) See chart below. [Sleeper Tractors] This chart is showing the number of listings on Truck Paper for these models as of May 20. The % of Prev. column is very interesting. So, on Feb 22 there were 3,882 Freightliner Evo, Ca125s and 126s listed for sale. Currently they only have 2,059 listed. The overall numbers are at 5,919 down from 9,013 in Feb. The demand for used tractors continues to absorb large quantities of trucks off the market that are not getting replaced. Until we start seeing the number of listings increase, it is hard to see any major change in used truck values.



20-May-21	Sleeper Tractors For Sale On TruckPaper.com: May 20, 2021									Ave. Age	2015.91		
Make	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	Total	% of Total	% of Prev
FL Evo/ CA125/126 SLP	29	5	40	132	464	346	475	270	186	112	2,059	34.786%	53.04%
International LT/ProStar	58	51	15	120	201	234	176	113	95	40	1,103	18.635%	77.79%
Kenworth T680/660	62	5	43	115	234	477	142	101	72	33	1,284	21.693%	77.35%
Peterbilt 386/579	26	6	46	82	134	190	250	64	117	85	1,000	16.895%	80.78%
Volvo VNL64T760/670	108	3	18	56	33	52	63	51	31	58	473	7.991%	58.04%
Year	283	70	162	505	1,066	1,299	1,106	599	501	328	5,919	100.000%	65.67%

2020-2021 Class 8 Orders:

I kept this chart in to show how much demand has remained for new tractors in 2021. In 2019 we averaged 14,900 per month. The Class 8 orders are slowing mainly due to the wait times but still are above replacement numbers. Still to see orders over 30,000 for that long with 9 month and longer wait times for delivery is impressive and shows how the need for new trucks is remaining high.

Note: These are gross orders not net. Actual orders and production numbers could differ.

Additional Factors

Retail "For Sale" counts (total: 5,919). Lowest advertised total we have seen since we started keeping track in late 2015. It shows the strength of the overall trucking market and more clarification on how much demand is out there. We will keep an eye on this. Once more orders are filled and trades accepted the for-sale totals will begin to rise, and it will be an early indicator of when this market will ease.

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

The Crude Oil Industry is improving slowly. Currently we are at WTI at $64. OPEC is predicting a large increase in demand in the second half of 2021. The global demand is expected to continue to increase with more economies reopening and travel becoming more common with higher vaccination rates.

Building Activity (Home, Office, etc.): The housing market remains strong. Many believe this will last all of 2021. Lack of inventory and more and more new buyers are still trying to take advantage of the low rates and improve upon their work from home spaces.

Drivers: Shortage! Once again, no need to update this section. Even with many companies raising pay, the need for drivers continues to hold back growth for many.

Ports: Still playing catch up. Imports continue to inundate the ports and help feed the trucking industry. Expect above average activity especially inbound at US ports. COVID related labor issues are still a concern going forward.

Construction activity is slowly increasing. Early predictions are for a strong year ramping up in summer with continued growth into 2022. Still expect a few factors that will be challenges such as labor, material costs, and supply chain delays.

Politics: It looks like a push for cleaner energy is taking shape. Electric vehicles are looking like they are making progress. In a local type use (garbage, bus and utility) EV will become more common soon. Over the road tractors will take a while to prove themselves to become accepted in the marketplace.

Inflation: It is at a 13 year high at over 4.2% and expected to rise. Lagging production of goods and rapid reopening have contributed to the rise. Both issues are shaping up to continue to drive up inflation through the rest of the year. Expect a rise in interest rates sooner than later to try and slow the trend.

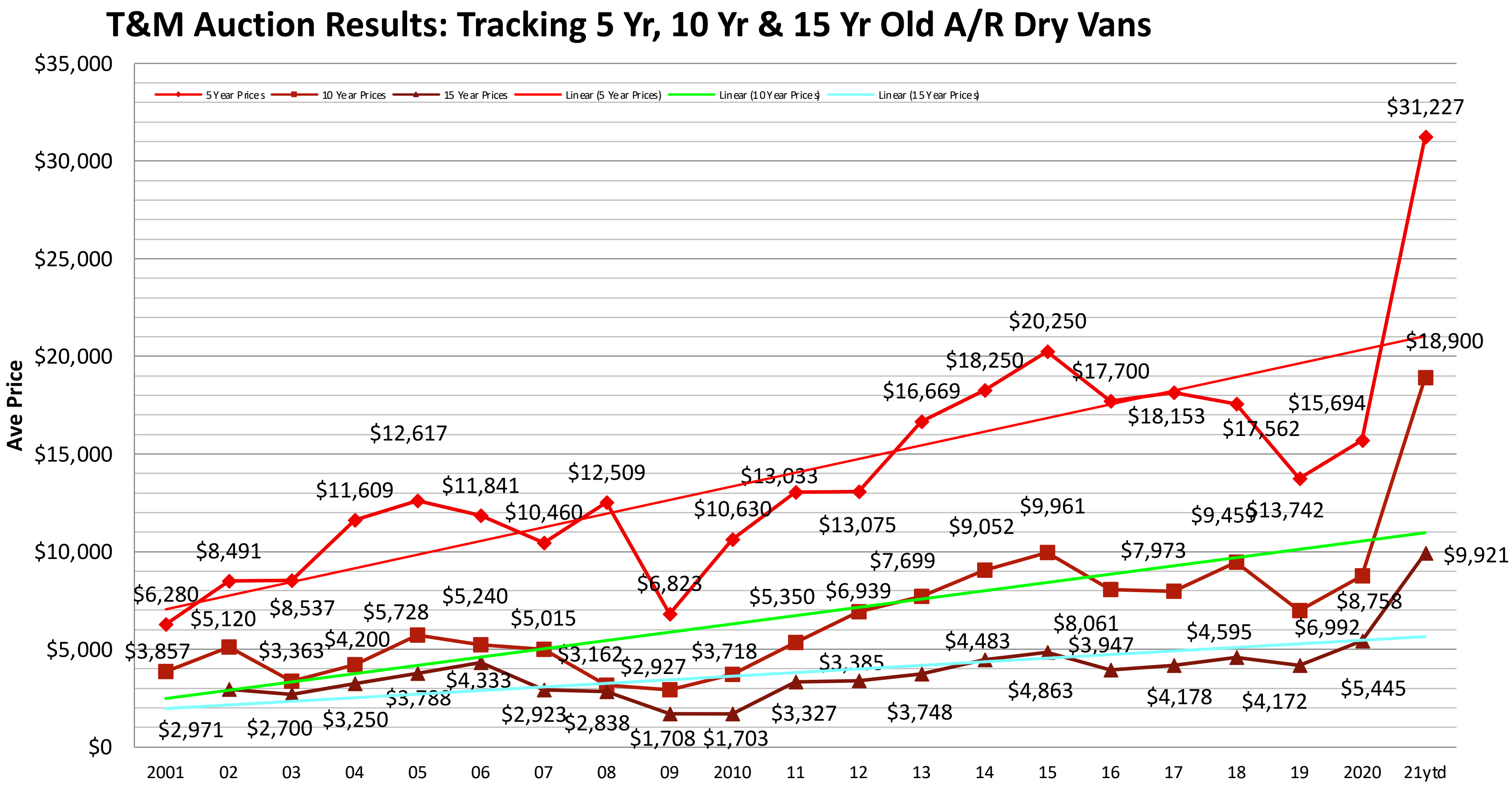
Trailers

- Production issues continue to drive up used prices. Vans and reefers still are bringing ridiculous values at auction. Don't expect a change until manufacturers can catch up with demand.
- Ag Trailers: Demand is currently low due to seasonal use. Corn and soybean prices have had a big start to the year and should give a boost to this market in the fall.
- Chemical Tank Trailers: Stable Pricing - good used equipment in the secondary market is in very limited supply. Lesser quality trailers (e.g. out of test) are readily available.
- Pneumatic Trailers: Steady demand for large capacity trailers. 1040s still struggling. Large numbers of the small cubes on the secondary market are holding values down.
- Flatbeds and Drop Decks: Flats and drop values have slowly begun to pick up steam. Not a lot of volume has been moving at auction. Manufacturing and production are beginning to rise which has led to strong load rates and a rise in demand. Should maintain normal to less than normal depreciation going forward.
- Heavy Haul Trailers: Demand is steady but major growth in this area has been hampered by supply issues. Should see some improvement through the summer months.
- Dry Vans and Reefers: High demand. Late to mid age trailers that are above average condition trailers are bringing above new cost at auctions.
- Sales and orders remain high. The 8-12 month wait for new is spurring the increase in values in the van and reefer sector.
- Overall, the trailer market is still looking good. The demand for goods nationwide continues to drive the trucking industry and not showing any signs of slowing down yet.

T&M Auction Results:
Tracking 5 Yr, 10 Yr & 15 Yr Old A/R Dry Vans

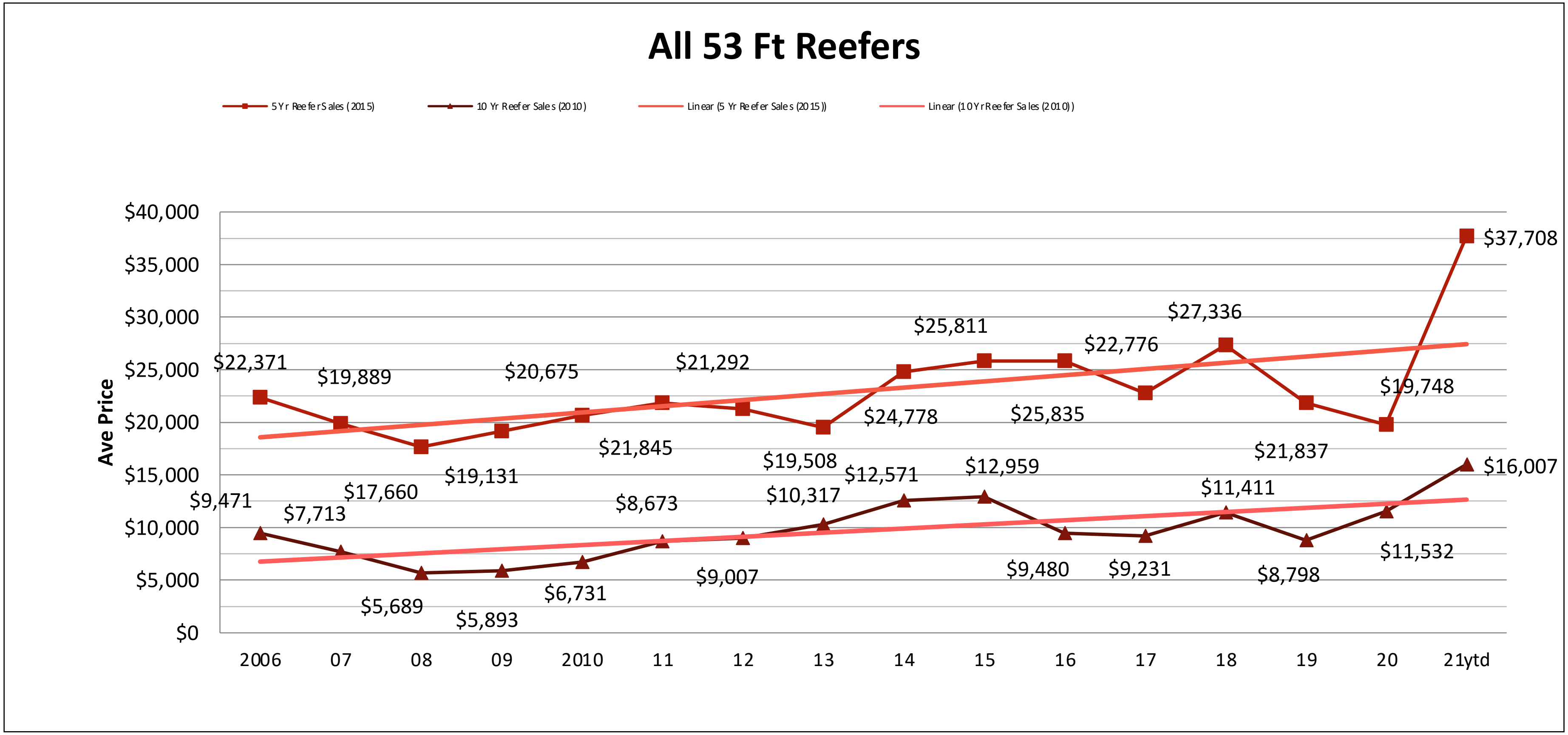
Five, ten and fifteen-year old Dry Vans sales (Taylor & Martin Auctions) are charted below:

This chart is an interesting reflection on the used van market. At first glace you would assume it is just a few outliers. It's not. These values have been consistent so far this year. 2016's at over 30K is crazy. Buyers are continuing to ask for more at this value point. As you can see even the 15 year old vans are up drastically year over year.



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

Reefers: Both Five-Year-Old & Ten-Year-Old (2010). Same story here. Late model trailers to no surprise are bringing top dollar. Along with vans we haven't seen any indication at auction that used values will soften much anytime soon.



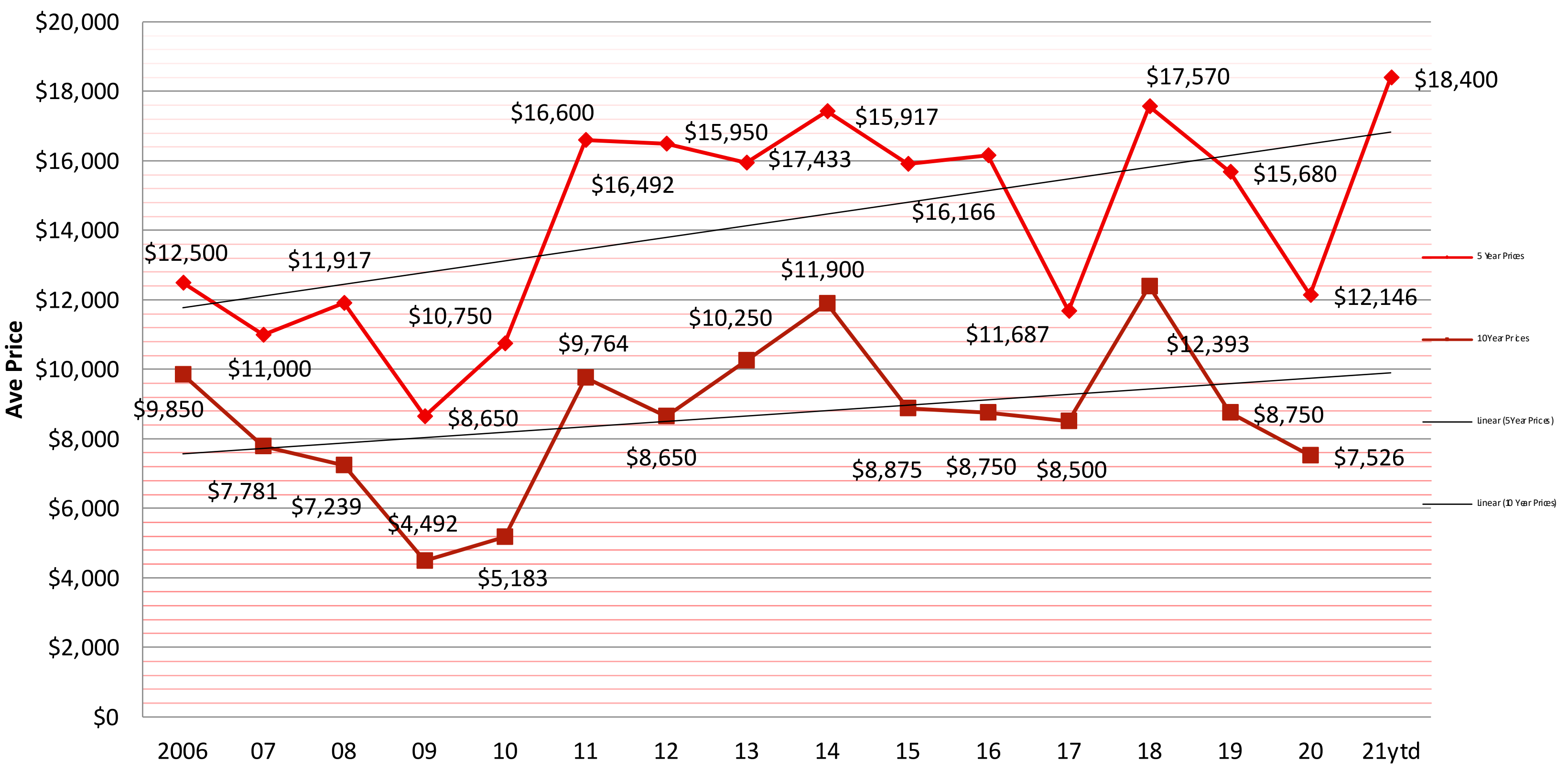
Five and ten-year old Composite Flatbed sales (Taylor & Martin Auctions) are charted below:

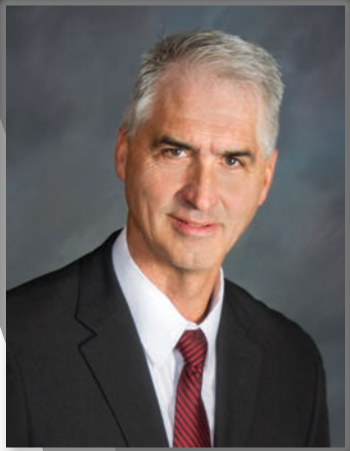
Combo Flatbeds (Alum/Steel Composite) have continued to show significant weakness, when compared to 2018. To date, limited five or ten-year-old combo flats have been sold by T&M in 2020. The below chart was not updated for the 5-year-old flatbeds, due to the lack of material data. I did have to use some 2009's and adjust for my 10 year numbers.

The flatbed market had recovered from the 2015-2017 pullback. Actual sales numbers (2019) were very low. Considering previously mentioned cautions, and the current number of flatbeds offered in the retail market, this segment is showing significant stress as well. Load rates have improved and started a small growth in the flatbed market but it still has a long way to go.

The flatbed values have slowly begun to rise. The below graph is hampered by lack of sales in these particular model years. Looking at sales of different age values would be below trendline and holding steady. Limited sales data so far this year but in speaking to dealer's the demand has started to show signs of increasing. It is only 1 sale but on May 27 we sold approximately 50 flatbeds and we saw an increased demand and higher values given. We don't base opinions on 1 sale but it was a noticeable uptick in participation at the auction.

Composite (Alum/Steel) 48 Ft Flatbeds





John Seymour's thoughts on Agricultural equipment, "filling the Ag Hopper" in The Meter!

Spring is back across the heartland. Wow are markets reacting positively vs. 2020, weather is much improved from the bitterly cold temperatures though still short on topsoil moisture and planting is at an above average pace across the U.S. as agricultural equipment manufacturers focus upon a much better year.

Most mainstream ag equipment manufacturers reported Q1 earnings up in 2021, with 88% of equipment manufacturers reporting to Ag Equipment Intelligence a positive outlook for the rest of 2021 despite labor shortages per ALL 1,000+ AEM members. A positive outlook spurs new farm machinery purchases in the coming year. The Federal Reserve Banks agree per their last report expecting more equipment loans for 2021. This is seen in real-time as agricultural equipment demands rise and the supply chain stutters from more delays. The more immediate pinch has been in securing timely fertilizer and chemical orders. As the weather improves the window of application narrows, while suppliers cannot guarantee timely deliveries.

Business acquisitions are up too. Ag Equipment Intelligence notes Double L, a forty-five-year-old potato equipment manufacturer, has been bought out by a group of private investors. A newly appointed board has years of experience in the industry. Also, Goldoni Tractors are acquired by Keestrack, a mining and construction equipment manufacturer, deciding it is time to enter the agricultural equipment marketplace. Even in a pandemic, farming groups worldwide are restructuring for positions to better their organizations and gain focus into a new agricultural era. Acquiring both sound infrastructure and professional personnel.

The global agricultural equipment market size is expected to grow at an 8% plus annual rate over the next 25 years. Continued yield demands to meet growing food needs are a key driving factor to this growth. U.S. new Ag sales volumes 48 Month rolling average in 4WD Agricultural Tractors had a +15% Q4 and finally a positive year-over-year comparison, though not as strong as 2014-15, still showing good improvement. Per AEM the 5 Year rolling average for year-over-year new sales of U.S. Combines is also strengthening. Availability is key word… stand in line for a good 4WD 200Hp+ tractor online or in-person, even for pre-DEF good condition tractors. Dealer inventories see more pressure on new or used, finally more using that tax depreciation credit! Farm auctions are also strong under Covid-19, good condition has a premium above geographics or new cost. Most classes of ag equipment are anticipated to be up slightly in 2021. Watch for the add-on steel taxes/fees on most orders similar to fees seen in other sectors impose for steel not included in the unit cost.

U.S. corn exports commitments from China hit record highs for 2020-2021 marketing year of nearly 2.1 million tons. Rebuilding their swine herds back will most likely encourage this positive market movement into 2022. Other neighbors have not yet joined-in at such demand levels for contracting U.S. grains mainly due to COVID-19 impacts. Despite greater degrees of farm economy uncertainty in 2020, trade relations appear to be a higher priority of the new administration and farm commodities are improving as this is reported.

Production expenses are forecasted to remain low such as interest rates and energy-related inputs, while feed costs are anticipated to increase. Land and rents are anticipated to remain steady with improved price outlook. Key points are that government payments are anticipated to reduce in coming years driving down net farm income. Volatile and uncertain times in a fragile ag sector, which is highly affected by trade policies and the weather. Prior newsletter comments noted lenders concerns for cash flow positions, liquidity and depleted working capital finishing 2020. The Dallas Federal Reserve just reported bettered ag credit conditions in Q1 2021. The 2020 Q4 total accumulated farm debt decreased at the fastest rate since the 1980s, with bank's credit portfolios beginning a shift from farm loans to farm real estate. Stronger farmer optimism and improved commodity prices in 2021 with eased credit restrictions help. Add continued drought concerns in the Plains states and we are on track for another roller coaster year in agriculture.

Look for rural infrastructure projects to help move products to the ports, more affordable rural America health costs and cautious trade relationship rebuilding after the COVID-19 focus. Times are changing in Ag.

John L. Seymour, ASA Senior Appraiser