The Meter

Transportation (Trucking) Update (12-1-2020)

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Introduction

I think everyone is ready for 2020 to be over and get started on 2021. We have hopes of two potential vaccines that, at least for now, are giving us hope for a chance to get back to closer to normal lifestyles. Even with the introduction of a vaccine, the economic recovery process will take time. There are still indications that the trucking industry will have a profitable 2021.

Now that the election is over, we probably have a new administration coming in, no concession made as of today yet. What changes to the trucking industry will the Biden/Harris administration bring? An increase in federal spending on infrastructure should help the flatbed and vocational world along with manufacturing. Concerns on how they will handle the gas/oil industry moving forward have some uneasy. It will be an interesting first quarter that should give us a glimpse of what to expect.

The fourth quarter of 2020 has shown a large rebound in the trucking industry so far. New orders and sales are up, spot rates are high, and fuel is low. So, it looks like the end of 2020 could end on a high note. Then all of a sudden it looks like round two of COVID-19 is taking hold. Right now 44 of the states have reported their highest daily numbers to date. Some of the experts are claiming that the next two months with all the holiday gatherings that we could be looking at another nationwide shutdown of some type. Let's hope this vaccine will be as effective as predicted and readily available to everyone sooner rather than later.

Even with some type of shutdown in Q1 of 2021 the trucking industry, for the most part, should remain steady. Lack of spending on services and the ease of online buying should keep the demand for consumer goods high.

The Federal Reserve is expecting to keep interest rates near zero through 2023 to help stimulate the economy. This should help our recovering economy maintain growth. The economy has been on an uptick since June, but the growth rate has begun to slow.

The driver shortage continues to be a big issue. The demand for trucks and truckers is extremely high. Spot rates continue to remain high as retailers are stocking up for the holiday season. Many companies are increasing driver pay to retain the drivers they do have. Many driving schools are limited to the number of students they can have at a time holding back the number of new drivers entering the driver pool.

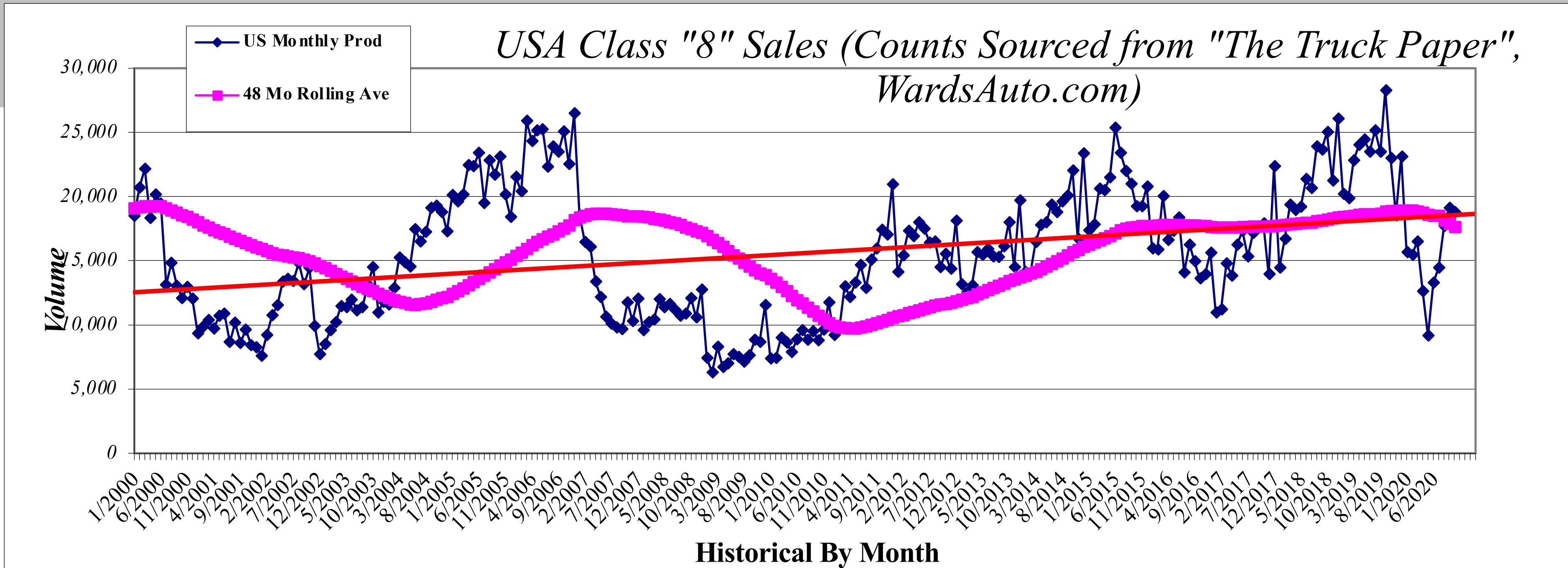
The service sector of the economy continues to struggle. Airlines, restaurants, cruises and hotels have all seen minimal recoveries and with the winter coming and new surge of COVID across America it will probably be a tough go for the foreseeable future with all eyes on the potential vaccine.

The gas and oil industry has remained soft. Lack of demand for air travel has held back any major growth. Along with most sectors of business, the potential vaccine is the best hope for near term growth.

The Taylor & Martin auctions have remained strong. The volume and values have consistently improved from Q1 numbers. Auctions are still seeing new buyers and average participation from dealers. When it comes to trucks, the sales team is saying that the buyers are “Buying Miles”. In other words, low mile trucks bringing good numbers even with below average specs.

The overwhelming consensus is that 2021 will be a strong year overall for trucking. The demand for trucks and trailers (especially vans and reefers) should hold through most of the year. I expect less than average depreciation into mid 2021 on over the road equipment. The recovery from this pandemic is going to take some time and the trucking industry will continue to be a large part of the come back.

I think that you will find some of the following charts interesting and hopefully useful. Let’s start with the Class 8 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 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 for quite some time.

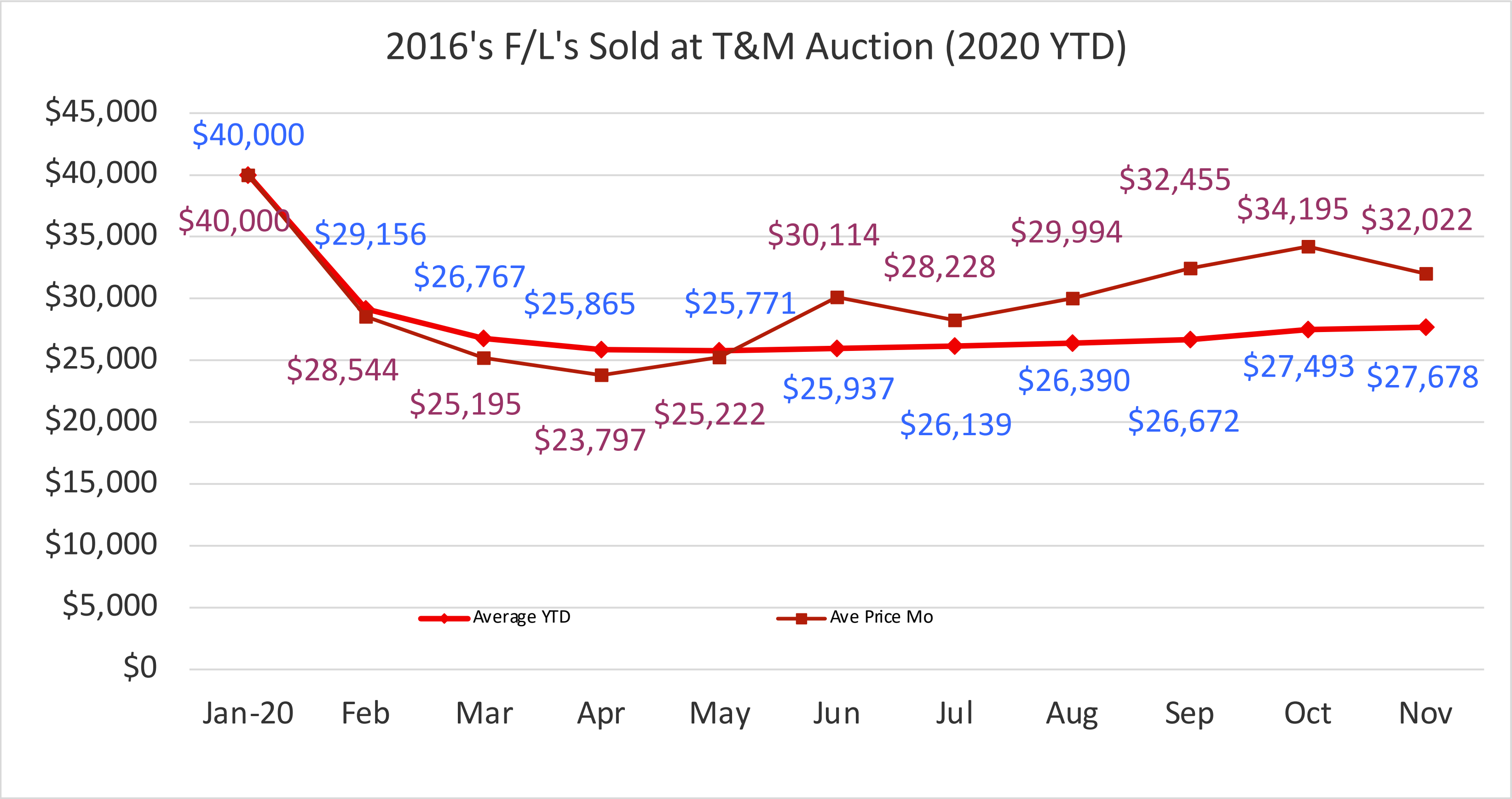
2: Historical needs have grown from slightly lower than 15,000 Class 8 tractors per month (in the 2000's) to about 17,500-18,000 Class 8 tractors per month now. Currently, the 48MRA is 17,606. Monthly sales have been on the rise since May and just leveled off in Oct at 18,774 compared to 19,126 in Sept. Strong demand and the time it will take to build up our warehouse inventory sales should remain strong through most of 2021.

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 totals 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. I would expect the sales number to slowly rise throughout the rest of the year with the typical year end spike with out any more coronavirus interference.

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 has now shown marked improvement, which has brought the retail and auction levels of trade back into balance. Volume was down early in the pandemic and have since reversed and are high. Lack of production has sent buyers to look for used to fill the void until production is back to replacement levels.

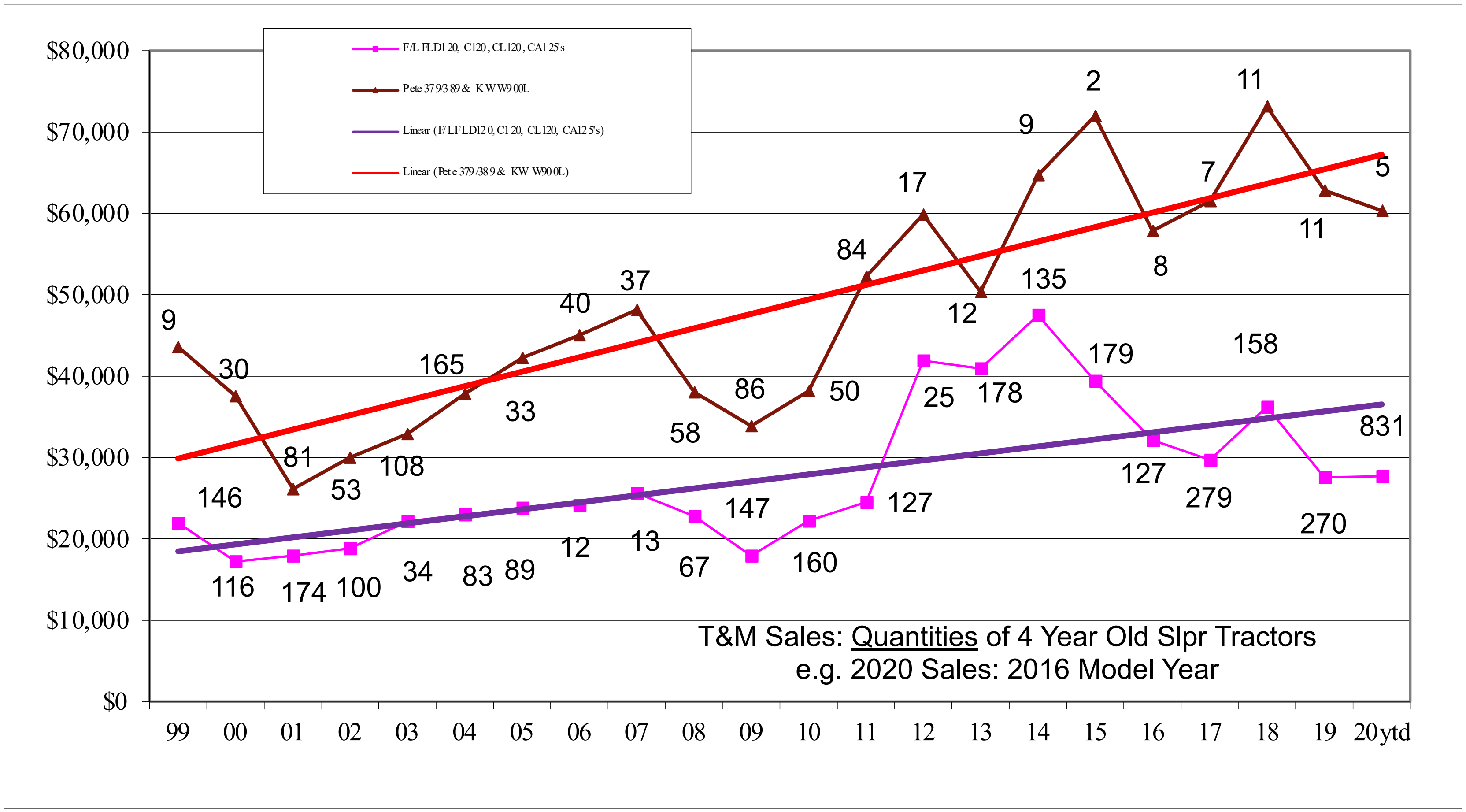
6: The class 8 truck orders for the month of April were at 4,100 compare that to 14,859 April 2019. March was also down to 7,800 compared to 15,783 the previous year. May 2020 had 6,787 orders and then the orders began to show some promise with June and July coming in at 16,000 and 20,300, respectively. Now looking at truck orders Sept at 32,042 and Oct at 40,100 companies are investing in the future and looking to get back to normal fleet ages and trade cycles in 2021.

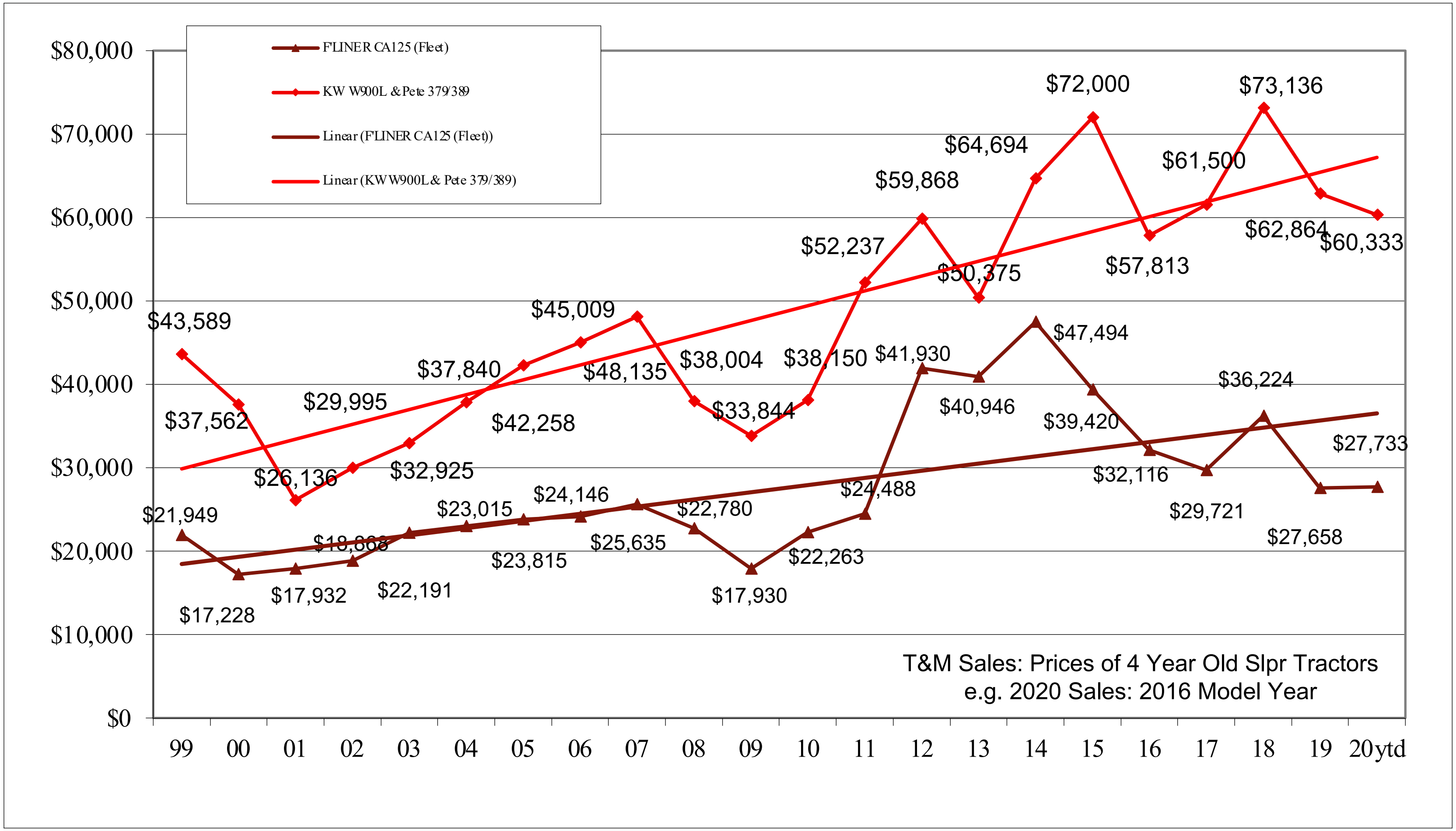


The above new chart 2020 monthly sales prices: To be fair we only sold 7 2016 Cascadia's in January and 199 in March. We have maintained the higher than YTD average through Nov. We had 4 trucks sell in Nov under $20,000 with a million+ miles pulled the average down. I don't see values continuing to rise but do expect them to hold fairly steady without any major COVID interruptions.

True Value Guide Quantities of 2016 model year trucks.

Here are total actual sales of the Freightliner Cascadia (Fleet) and the O/O Spec'd Petes and KWs. Both are below to trendline, but the Fleet truck values have held strong with the extremely high volumes so far this year. O/O Spec'd trucks generally don't trade hands with the frequency that fleet tractors do but there're auction values do correlate with auction values of the fleet trucks even with the volume differences.



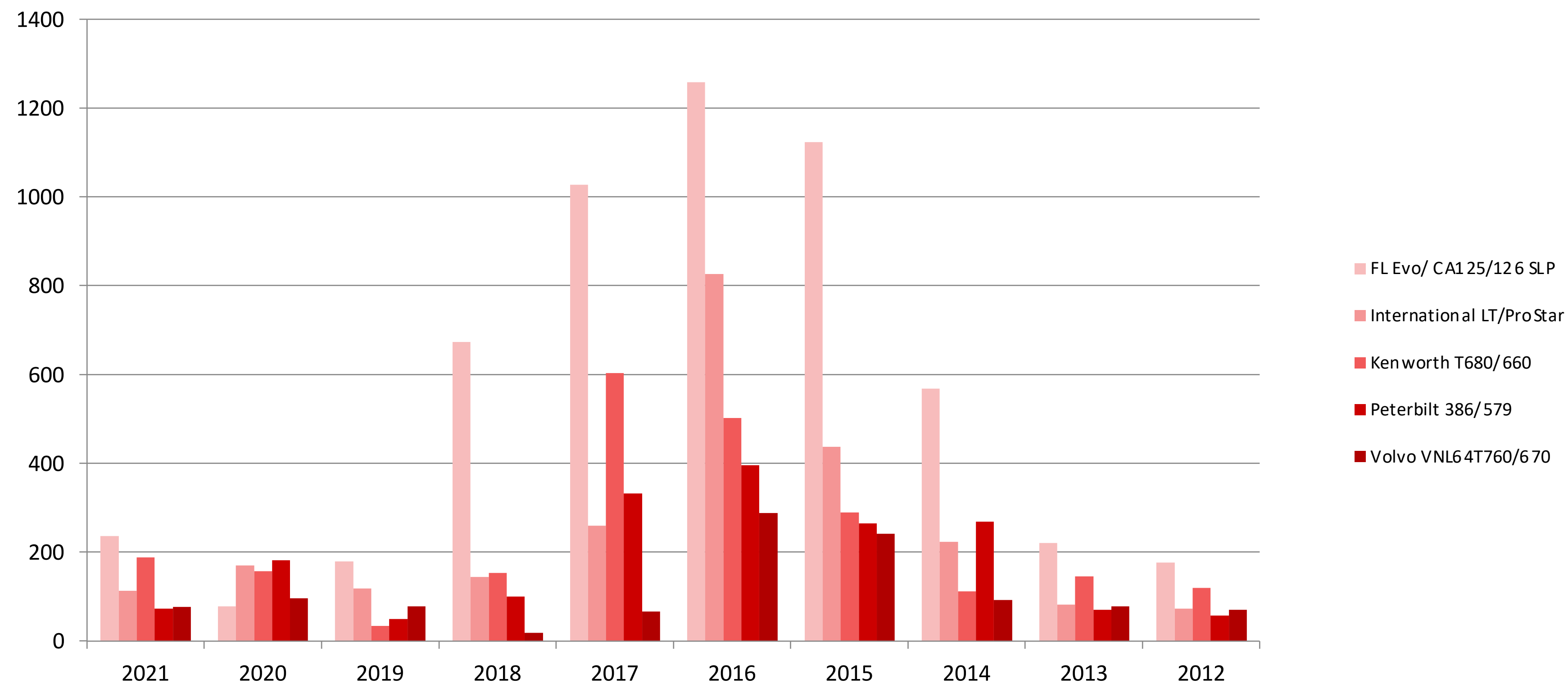


Above are T&M Sales by average annual prices. [As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both generally considered to be spec'd as Owner-Operator (O/O) tractors.]

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. You can see the drastic rise of Fl's sold and yet values have held stronger than could be expected. It is a good sign to see volume as high as it is in 2020 at 831 so far without a large dip in values. We sold 577 FL from Jan-June with dispersals and bankruptcies, the second half of the year has been higher values and more of an average volume.

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? (Nov 19, 2020) See chart below. [Sleeper Tractors] The inventory listed on Truck Paper is down 69.71% from Aug 2020. The used tractor demand has absorbed approximately 5,700 tractors in the past 3 months based on advertised assets. 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 new tractors are carryovers at dealerships.



19-Nov-20	Sleeper Tractors For Sale On TruckPaper.com: November 19, 2020									Ave. Age	2016.25		
Make	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	Total	% of Total	% of Prev
FL Evo/ CA125/126 SLP	236	78	179	674	1027	1258	1124	569	221	177	5,543	41.970%	74.20%
International LT/ProStar	113	170	118	145	260	827	438	224	82	73	2,450	18.551%	59.77%
Kenworth T680/660	189	157	34	153	604	503	290	112	146	120	2,308	17.476%	79.45%
Peterbilt 386/579	73	182	50	101	332	396	265	269	71	57	1,796	13.599%	78.74%
Volvo VNL64T760/670	77	97	78	19	67	288	242	92	79	71	1,110	8.405%	50.68%
Year	688	684	459	1,092	2,290	3,272	2,359	1,266	599	498	13,207	100.000%	69.71%
19-Nov-20													
	1390448	1381680	926721	2203656	4618930	6596352	4753385	2549724	1205787	1001976	26,628,659	69.71% of Aug 2020	

Additional Factors

Retail “For Sale” counts (total: 13,207). This is a large drop in just three months to approximately 5,700. It is showing a need for trucks but with the lack of new production and the want to conserve money, the used trucks are being sucked up to fill the need. I will expect this number to rise thru the rest of the year slowly if production stays up and running and companies trust the economy enough to purchase new and trade/sell their used.

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

The Crude Oil Industry has started to recover. It is just a slower recovery than anticipated. This second spike in COVID cases slowed down a lot of travel and even led to more travel restrictions. Trucking has given the industry a boost but lack of travel, especially air, will continue to hold oil prices back. Winter demand should help hold prices level for the most part.

Building Activity (Home, Office, etc.): The housing market remains strong. Lowered interest rates being the key driver behind the numbers.

Drivers: Companies are on the rise to grab drivers to fill up new orders and are not seeing the needed candidates to fill the void. A couple of companies that I spoke with hope that the end of the stimulus package will drive truckers back to the road. This will be an ongoing issue. Restrictions on class sizes along with new regulations on violations continue to hamper available drivers.

Ports: Volumes have recovered in a big way. Holiday orders and resupplying inventory have boosted port activity and revigorated the need for trucking to and from. Ports are becoming overwhelmed with containers in the US creating even more demand for the trucking industry.

Construction activity has been stung hard by COVID-19. New construction is down nearly 15% with small gains in housing construction. In other words, cities and states are struggling to produce the money to begin projects without government assistance. Biden/Harris have an infrastructure bill on the table. If it gets implemented, it should be a boost for this sector.

Election: Although yet to be conceded, it looks like we will have a new administration in office. It will take at least the first quarter of 2021 to evaluate any major changes made and the effects it will have on the transportation industry.

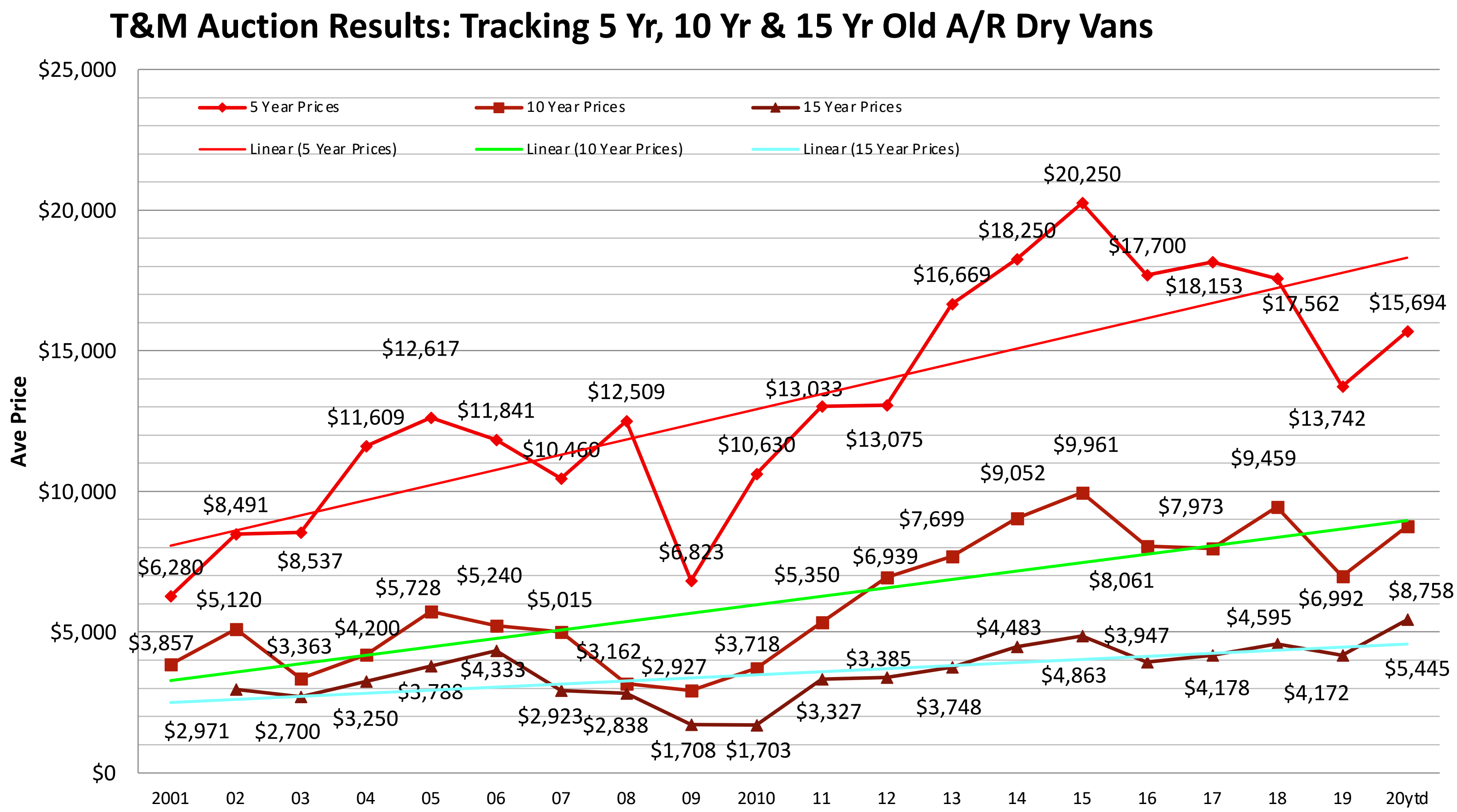
Trailers

- Values of used vans and reefers have exploded. Vans especially have been strong. Trailers for the most part have been strong to steady with a few exceptions in the specialty markets heavily affected by COVID.
- Ag trailers: Demand is still soft/weak due to ag commodity (grain, fiber & livestock) prices and seasonal use. Grain, soybean and livestock prices have suffered due to the COVID-19 concerns.
- 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. Slow oil industry has hurt the small cubes.
- Flatbeds and drop decks: Flats and drop values have been steady. Not a lot of volume has been moving at auction. Manufacturing reopening and production beginning to rise has led to strong load rates but demand has not followed just yet.
- Heavy haul trailers: Demand is stable, per conversations with dealers & manufacturers. RCN is stable, but subject to steel prices. Still down from a high 2017 but above average. Infrastructure bill would provide a boost.
- Dry vans and reefers: Late model vans and reefers have remained strong and over the last month even end of life equipment has brought more than expected numbers. The orders are near record levels.
- Trailer orders hit 54,200 in October - third highest in history. Oct. 2019 orders were at 31,786. Pushing out delivery dates will help the used trailer industry while new production tries to catch up to demand.
- Overall, a rise in sales and new orders are showing future promise. The trucking industry seems to be in full restock America mode. In general, it looks like we should continue to see good numbers long into 2021.

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

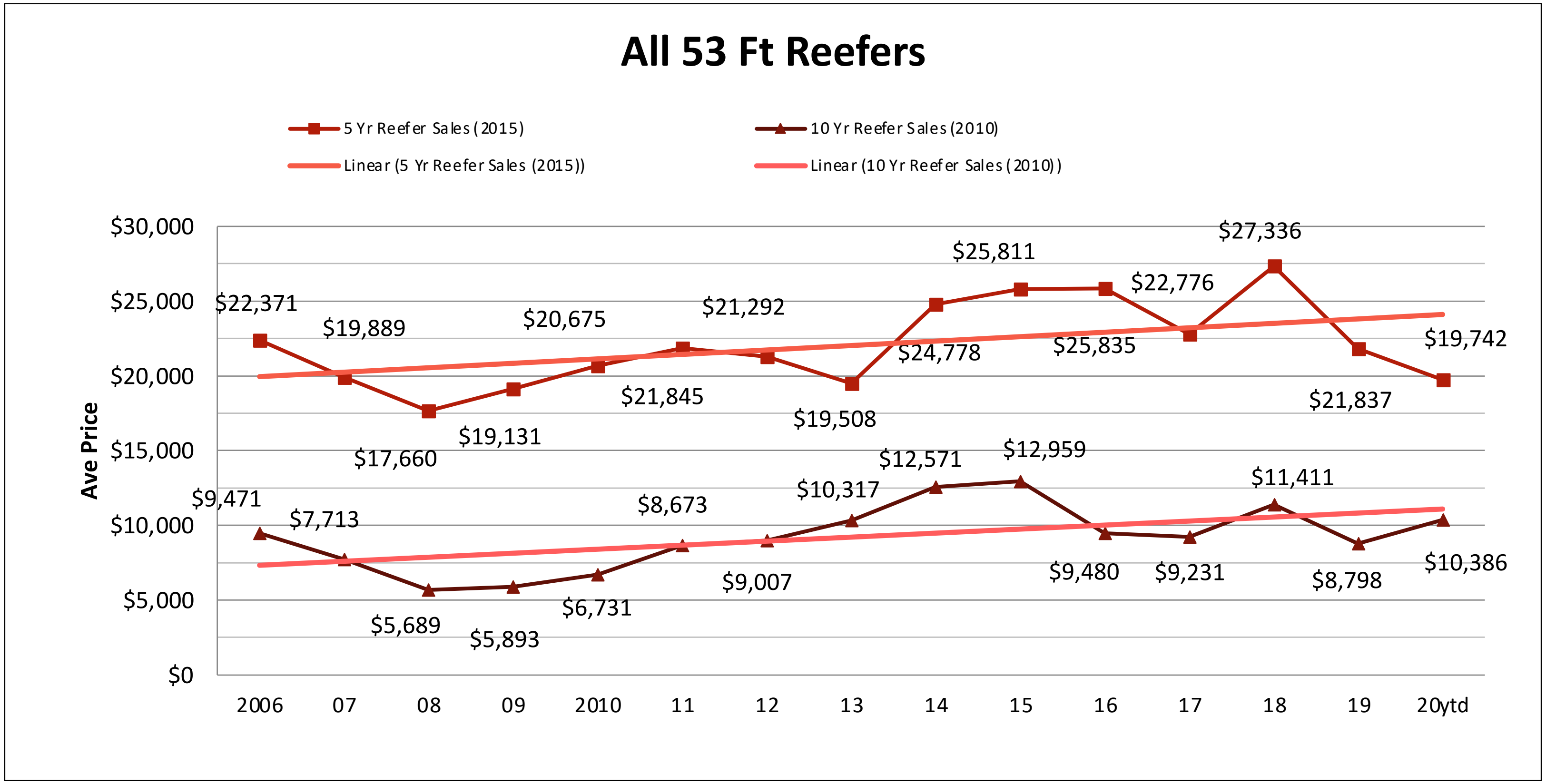
Five, ten and fifteen-year old Dry Vans sales (Taylor & Martin Auctions) are charted below:

As you can see auction values on vans are up from 2019 and have climbed month over month since May. We have seen as much as a 50% premium on 2017-2020 vans at auction the last 4 months. Since July 1 5yr vans avg $19,714, 10yr $11,091 and 15yr $7,429



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

Reefers: Both Five-Year-Old & Ten-Year-Old (2010) Reefers are now below trendline. I would expect that 10-year-old trailers will hoover around the trendline and 5-year-old trailers to rise gradually though the rest of the year. To show the second half strength of the market here are the averages since July 1 5yr $25,031 and 10yr $12,226.

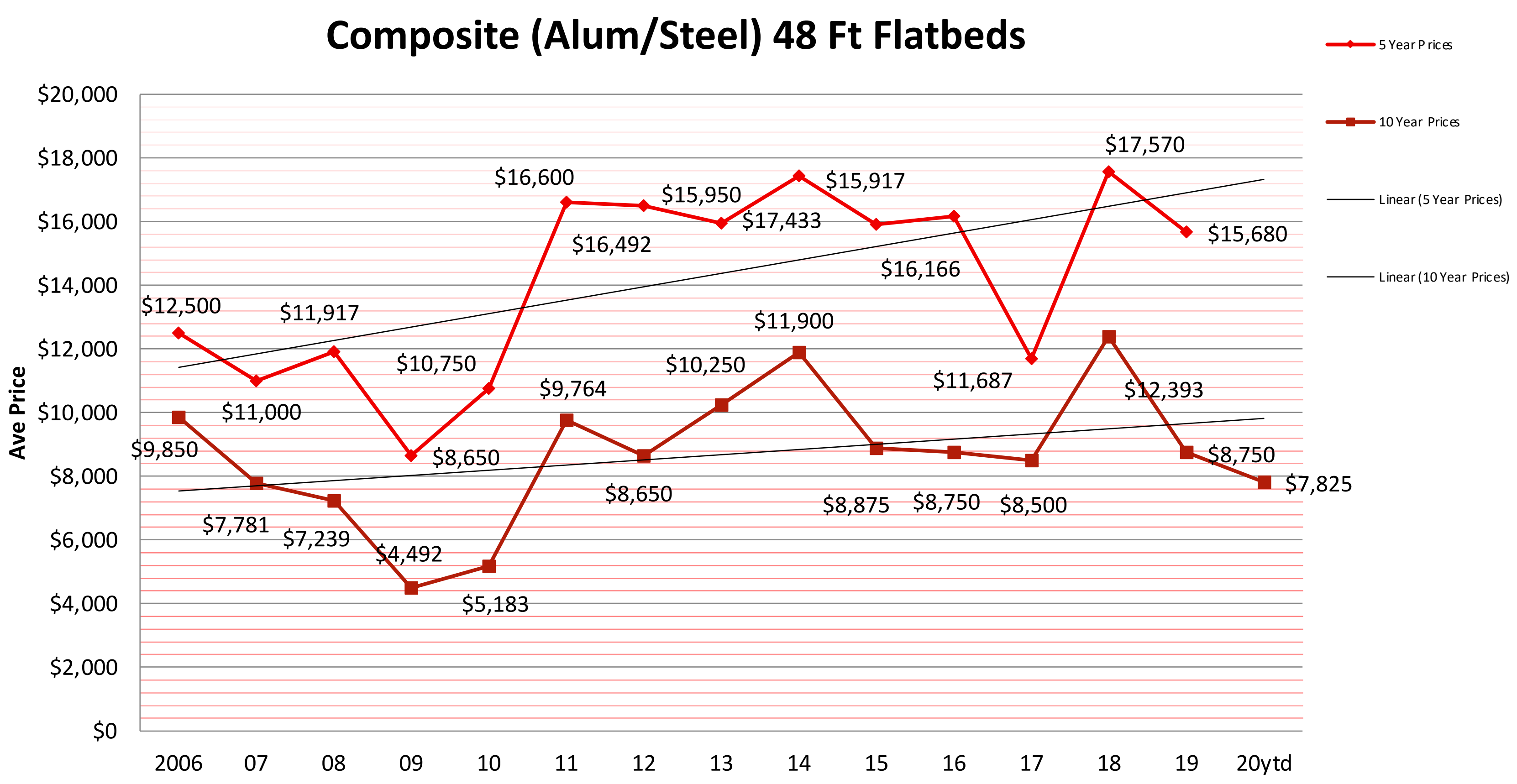


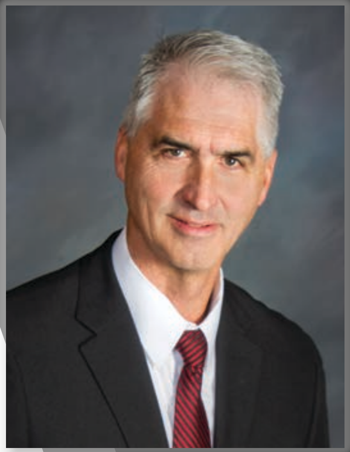
Five and ten-year old Composite Flatbed sales (Taylor & Martin Auctions) are charted below:

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 above 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. As stated before the infrastructure bill could provide a boost to this segment.

The flatbed values have remained steady. The below graph is hampered by lack of sales in these particular model years. Looking at sales of different ages values would be below trendline and holding steady.





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

COVID-19 is still the topic of the day and all of us can agree our lives have changed. Agriculture is known for handling change and while milk is no longer getting "dumped", social distancing now has "worldwide application", the global supply chain disruptions have "slowed", new unemployment is "slowing" and now all of Agriculture looks to the harvest to find some sense of normal. Most of the Midwest has not had anywhere near normal moisture levels reducing yield expectations but harvest was completed. Somehow despite all of the 2020 pressures, the agriculture sector produced yet another crop to harvest.

Retail price increases and short-term pandemic demands coupled with supply chain disruptions, did not relate to producers seeing increases for their products. Despite Farm Sector Income Forecasts – September 2020 showed a slight 3.6% increase in net farm income (a record high since 2014), most of the differences can be attributed to direct federal government payments, commodity and special assistance to offset trade and COVID-19 events. Commodity pressures and falling land values have also limited liquidity and increased borrowing demands even before the pandemic. CFAP (Coronavirus Food Assistance Payments) have helped mitigate growing financial agricultural weaknesses in 2020.

Many government programs in-place have only been partially distributed and the real change to note is that end-users groups that have gone directly to fresh produce, dairy and meat suppliers to find support for their humanitarian efforts in support of the food banks and unemployed relying on this type of help. I would suggest that significant relationships forged in this pandemic will continue as time return to a "normal" environment.

Time will tell. The global supply chain needs time to re-fill after significant delays, the US will steadily recover economically over time, employment with time will creep back nearer to normal levels in 2022- 23 but agriculture exports could see some short-term 2021 recovery benefit as the US dollar has depreciated and a weaker dollar competes better in foreign countries though many are still in a recession situation. The oil industry has major global and national supplies, which has decreased demand for US exports, ethanol and even domestic use with COVID-19 impacts. Markets are volatile but generally, that leads to opportunities and soybeans have been one of those pre-harvest niches. Much can change as South American (producer of 60% of world bean's) weather can greatly impact upcoming bean prices.

Ag equipment needs, much like the trucking industry, are running hard at harvest and still in great need of adequate labor for full utilization. Some of the five-year rolling average trends show some healing as in the 100+ H.P. tractor and combines sales, while 4wd sales are improving though still short of 2014 levels. Post-COVID-19 Ag equipment sales are down, the 83rd straight down month per the farm equipment-sales index and 9 out of 10 rural bank CEOs expect a recession as farm loan demands are increasing, the COVID-19 shut-down effects are now reaching their market areas and farmland prices are still sliding (a 76th straight month decline) adding pressure to liquidity. In general, confidence readings are low… an all-time low and the agricultural economy slump is expected to be prolonged. Even recent OEMs are indicating production cuts to prevent supply gluts while conserving cash and managing costs. Tightening supplies, low new inventories and cheaper diesel rates are helping used demand, similar data to that seen in the trucking industry, but without the hope of pending benefits such as possible FET waiver/elimination or positive spot rates. Similarly, new ag inventory is out-of-reach or lagging and the secondary market is scouring for good equipment. The focus in used demand is on upgrade ability, technology options, longer-term trade improvement and average age as new demand does begin.

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