The Meter

Transportation (Trucking) Update (5-29-2020)

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With Input From:

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Introduction

The second quarter of 2020 will be one we will never forget. Looking back on the last newsletter (3-1-2020), the topic of COVID-19 was just a beginning concern and the overall effect of the pandemic was still uncertain. We were still unsure on how much worse than influenza it really was and how drastically the world would react. Well, the world reacted strongly. The pandemic completely shut economies down.

COVID reminded us just how tied together all industries really are. When you shut down one industry it crippled another industry in an area that had not even been hit with the virus yet. The trucking industry showed a lot of resolve in helping the country try and survive with food and medical deliveries. Now is when we start seeing the aftereffects. The auto makers reopened (May 18) manufacturing again and some of the part manufacturers are still running at a fraction of capacity or are not open. This prevents the OEMs from being back to full strength which means there is a diminished need for trucking parts and finished goods. We are going to see this in all areas.

When restaurants, hair salons, and department stores reopen they will not be running at full strength for some time. It will take time for people's comfort level to be high enough to consistently frequent these businesses slowing the return to running as they were before. The government is doing what it can to try and help these businesses out and get them through this tough time but unfortunately, many will not be able to keep the doors open much longer. The airlines are starting to see some growth albeit they were down 95% from the April 2019 passenger loads. What I am getting at is that it will take some time to get the economy up and running to the numbers at which we were accustomed to.

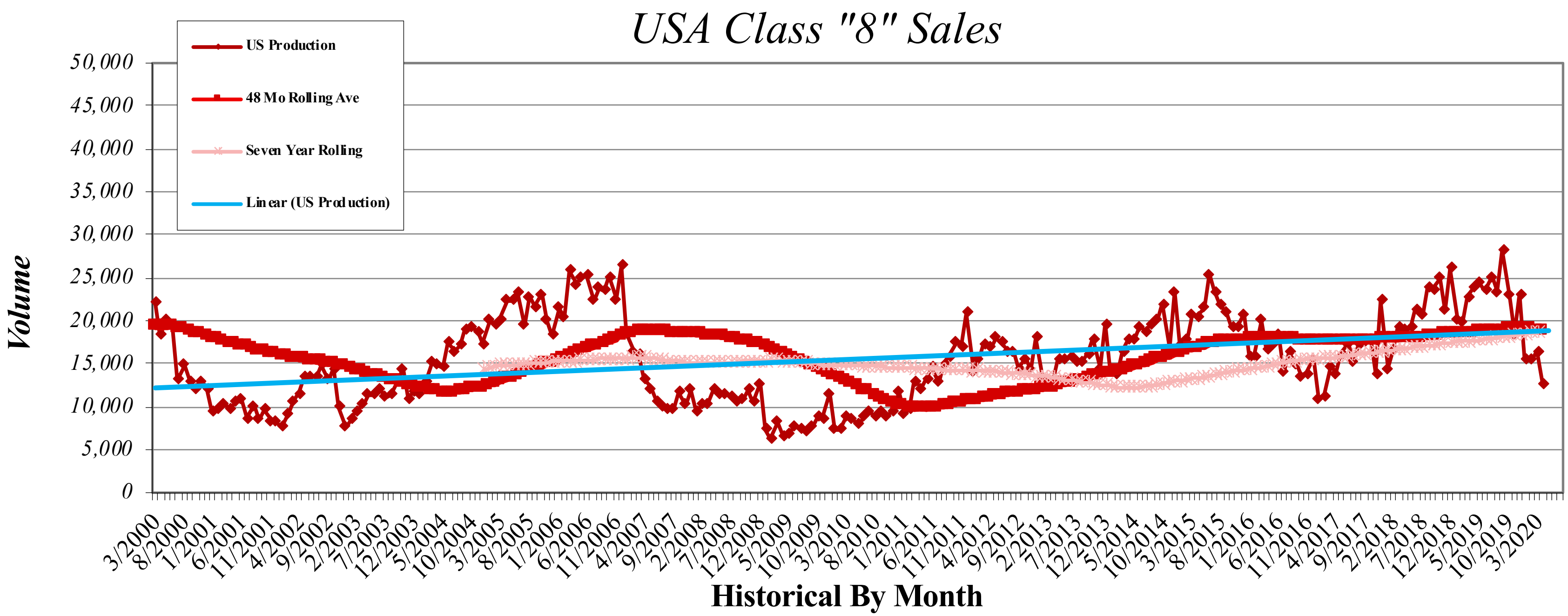
Unemployment is running at 14.7%!! That is a huge strain on our country and will take quite some time to get it back down to an acceptable number. Reopening the country will more than likely cause another rise in the number of people affected. Coming this fall during flu season, I have seen some reports that it could be worse than it was this go around. If that happens, do we shut down again? They are doing that in small parts of China again right now. The world will have a new normal. I will be uncomfortable to be in public with a common cold and some people will be uncomfortable around me.

So now we talked about what has happened, what about the future? We are back in the same boat that we were in March. What is going to happen if it comes back? Are we going to be ready? Will we react differently? As far as today, social distancing has proven to be the most effective way to prevent the spread. That could change at any time. Opinions and beliefs seem to change daily. A lot of people and companies have learned that they can work and be productive from home. That is great but it is not possible for a lot of companies. Blue collar jobs are the backbone of America's workforce and don't work from home. They would be hurt again with another stay at home order. Without them the trucking industry gets hit hard. Manufacturing plants and processing plants have been completely shut down by outbreaks. Now they have tried to separate the workers and have had to slow the production lines down reducing output and reducing the number of trucks needed to transport product.

Finding a cure for COVID-19 would be the best thing and fastest recovery for our country. Sounds obvious. When would this happen? The dates I have heard have varied from early September to never. It is a flu and we have never had a cure for it. I am not a doctor and don't claim to be one, but I have never heard it described as anything other than a strain of the flu virus (I hope I am wrong!). Just the slightest whisper that a company is close to having a vaccine sends the markets jumping.

As far as values are concerned, Taylor & Martin has seen an increase in values over the last two weeks. We have also seen a reduction of volume that has helped produce those higher values. The majority of trucking company owners that I have spoken to, say they have been "sitting on their hands" until they are more comfortable with how we come out of the pandemic. Holding on to cash and putting a little age on their fleets has been what most of the companies I have talked with are doing. Going forward, the consensus has been to move forward cautiously. With the large reductions in income happening so fast in March and April thoughts of the possibilities of this happening again in the fall without ever getting back to 100% are enough to back off as much spending as possible for now.

As has become customary, we have included some of our updated data, charts and commentary which we hope you find both interesting and useful. We begin 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 now been well below the 48MRA for 4 consecutive months. History suggests that we will remain below the 48MRA for the next few months.

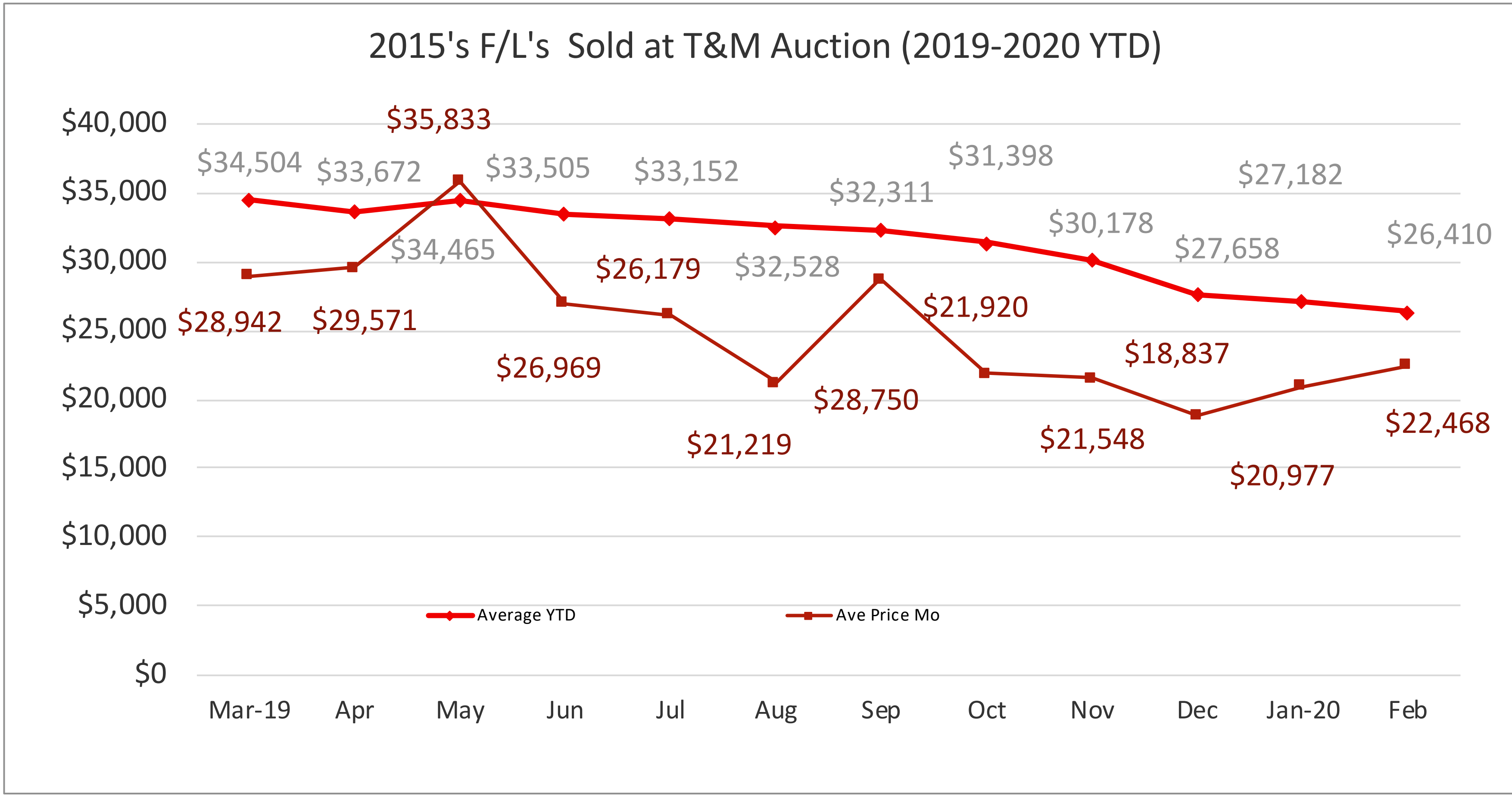
2: Historical needs have grown from slightly lower than 15,000 Class 8 tractors per month (in the 2000's) to about 17,500-18,000 Class 8 tractors per month now. Currently, the 48MRA is 18,751. The overall late model fleet is showing decline. We are currently about 200 higher than we were in April 2019. It is looking like we will stay below the trendline at least for the near future. Until the economy us up and running at or near the previous levels we can anticipate a lower demand for new tractors going forward.

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 (4/2020)12,637. Lowest it has been since 2/2017.

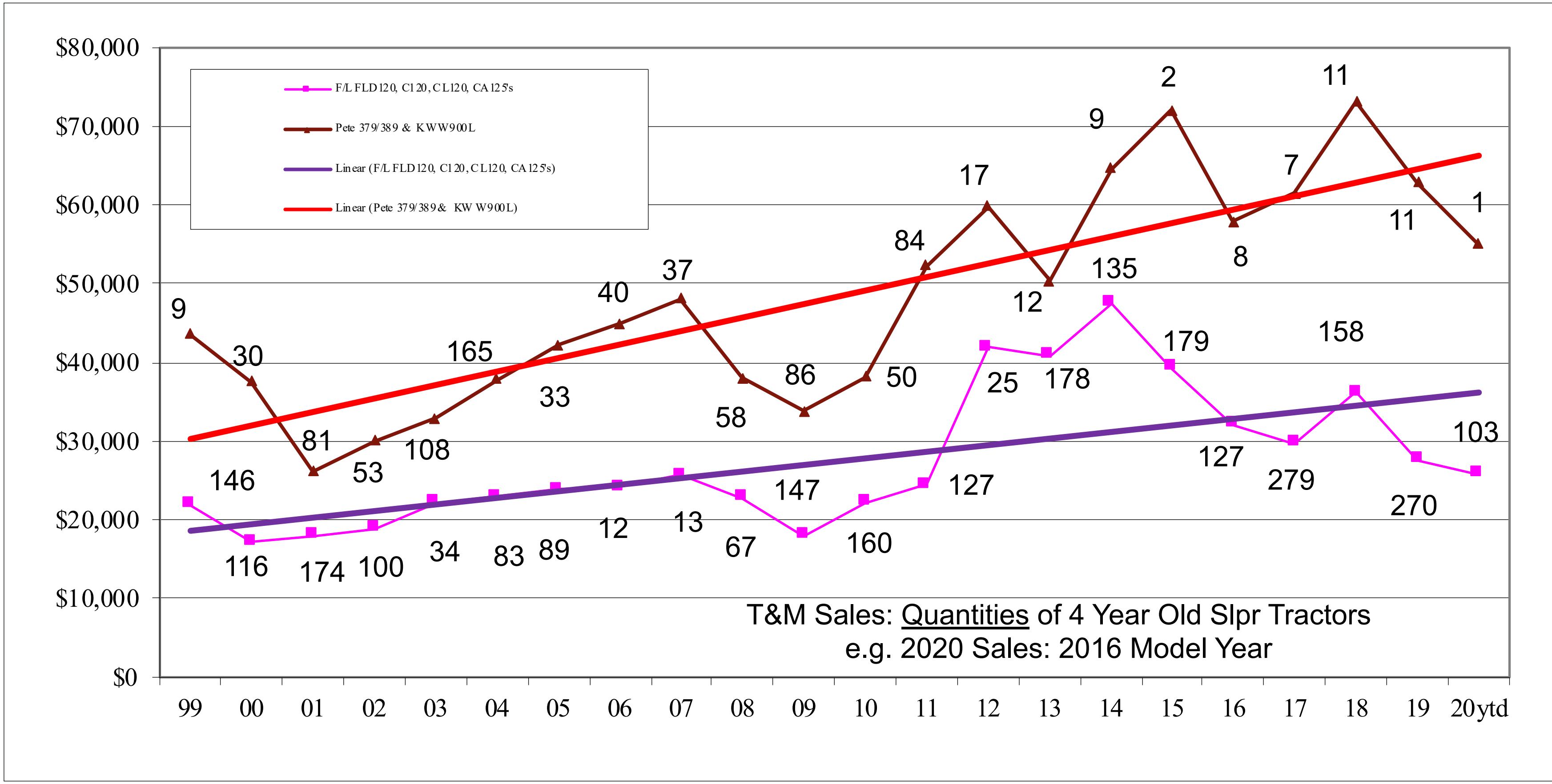
4: Actual Class 8 purchases over the five most recent (published) months have been declining. They are as follows: September sales (28,258), October sales (23,001), November sales (18,545), December sales (23,119) and January-20 sales (15,645). December's spike was not abnormal, there is typically a year-end surge, possibly for tax purposes. We have seen the decline since the Dec numbers. Feb (15,460) March (16,477) April (12,637). As you can see the conserve money and wait to see what happens going forward is proven with the April numbers. I would expect this number to remain low until confidence in the economy grows.

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 over the first 5 months, which has brought the retail and auction levels of trade back into balance.

6: The class 8 truck orders for the month of April are at 4,100 compare that to 14,859 April 2019. March was also down to 7,800 compared to 15,783 the previous year. 2020 overall will be a very down year for Class 8 production and will have an impact on the used truck market in the next 4-5 years. (Typical trade cycle)



The above new chart (2019-2020 monthly sales prices: Taylor& Martin) does show significant weakness in 2019 and improvement in 2020. The market has shown strong indications that used tractors, sold at auction, have turned the corner and are currently moving higher pre-Covid. The values have declined over the past two months due to large volumes. We sold almost 3X the traditional volume of the 2016 Cascadias in Q2.

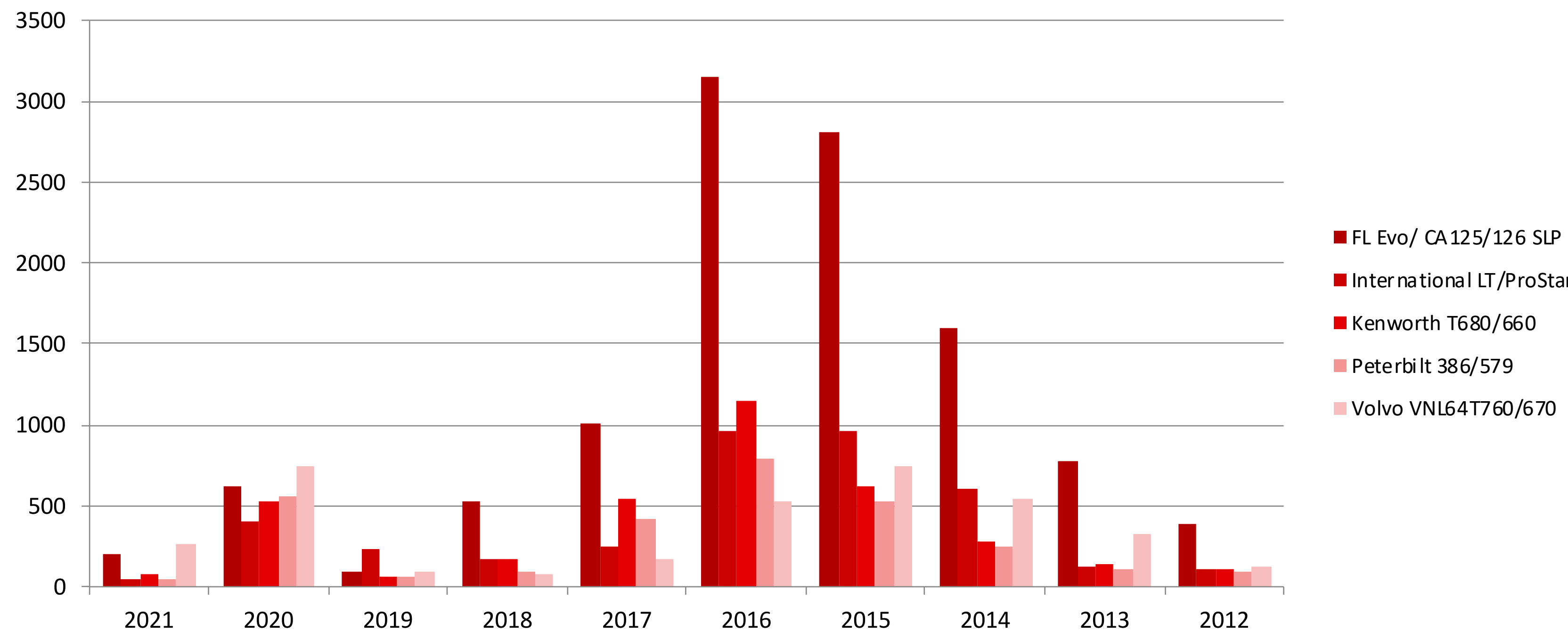


Above are T&M Sales by average annual prices. [As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both generally considered to be spec'd as Owner-Operator (O/O) tractors.]

Based upon the low count of O/O, this early in the year, it is difficult to know whether O/O tractors are holding up better than fleet 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 & 2015-2017 & 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 22, 2020) See chart below. [Sleeper Tractors] There were about 2,250 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 new tractors are carryovers at dealerships.



May 22, 2020	Sleeper Tractors For Sale On TruckPaper.com: May 22, 2020									Ave. Age	2016.03		
Make	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	Total	% of Total	% of Prev Qtr
FL Evo/ CA125/126 SLP	200	620	87	529	1,012	3,149	2,805	1,596	774	389	11,161	44.279%	115.53%
Int'l LT/ProStar	40	411	226	171	248	966	956	598	120	101	3,837	15.223%	113.02%
Kenworth T680/660	81	533	57	177	541	1,147	614	279	143	103	3,675	14.580%	106.21%
Peterbilt 386/579	39	557	65	89	426	795	522	249	106	91	2,939	11.660%	111.12%
Volvo VNL64T760/670	258	740	86	71	167	526	745	549	325	127	3,594	14.259%	94.70%
Year	618	2,861	521	1,037	2,394	6,583	5,642	3,271	1,468	811	25,206	100.000%	109.80%
	1248978	5779220	1051899	2092666	4828698	13271328	11368630	6587794	2955084	1631732	50,816,029	132.65% of May 2019	

Additional Factors

Retail “For Sale” counts (total: 25,206), as charted above (previous page), are higher than the previous report. With what all has transpired since the last newsletter having a higher count is no surprise. As stated earlier new truck purchases were down just over 20% since Jan and the number of trucks for sale rose 9%. All suggesting that new and used buyers both have taken a step back from purchasing.

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

The Crude Oil Industry is down to say the least. This quarter showed oil trading at a negative. It has since started to recover in at $33/bbl. I would expect this number to continue to rise as people begin to travel. (especially by air) Russia and Saudi Arabia both cut back oil production in order to help try and maintain prices. The US cut production due to price. The US cannot collude to control production like other countries can. (i.e. OPEC)

Building Activity (Home, Office, etc.): Working from home has proven to be more cost effective for a lot of individuals or companies. Lowering the need for offices or at least not adding on to them. The low interest rates have help combat the lack of spending and helped to continue with the building activity. Home sales are strong.

Labor: 14.7% leads you to believe that we have plenty of workers out there. The big problem is that they are estimating 65%-75% of Americans who are out of work are being paid more per week than they were from the jobs they had. (JP Morgan)

World economics: Everyone was sent reeling when this pandemic spread. Shutting down economies for as long as some did will make recovery difficult. We are all going to have to work together to come back out of this right side up.

Inflation: With as much stimulus money as we have introduced into the economy it seems like inflation could be inevitable. Up to $5 trillion by the end of the year and with limited goods and services could be setting up for a large increase.

Camping: Many have begun taking the steps to become an RV owner. Social distancing vacation at its best. Production is high and rising. Better book your camping spot now!

Trailers

The trailers market was seeing some greater than average depreciation before the pandemic. Now it has just been held stagnate. Generally:

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. Some recent auction results indicated softness for small cube trailers (i.e. 1040's). Utilization in the oil fields is down. Low oil prices have driven the demand down hard on the 1040 cube trailers.

Construction activity should be supported, for a while, by committed building activity (apartments, commercial & houses). Additionally, interest rates are very favorable. Should be one of the first industries to make a return to near pre-Covid levels. Infrastructure bills that are being introduced will have a favorable impact.

Flatbeds/Drop Decks: Construction demand solid (It takes a while to build out committed & started projects.) In-bound freight is down. International freight has continued to decrease and will take some time to recover.

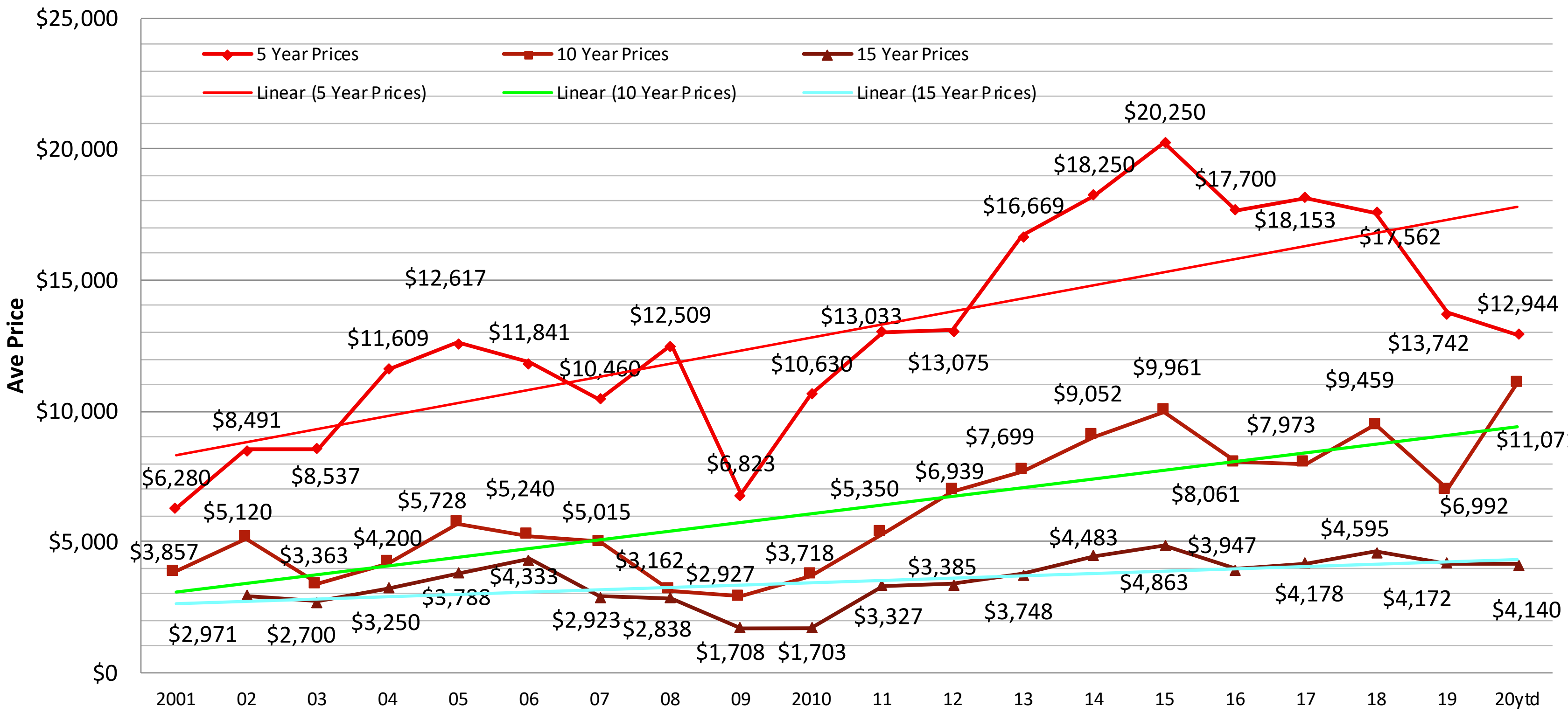
Heavy Haul Trailers: Demand is stable, per conversations with dealers & manufacturers. RCN is stable, but subject to steel prices. Overall, orders are softening from a strong 2017, but still above historical averages.

Dry Vans & Reefers: Vans and reefers held on a little better than other trailers. The constant need for supplies and groceries have kept them afloat. The jump in the 10yr vans shown below could be a little misleading. Very low volume and a few above average trailers have given a large bump to the YTD totals. I would expect that vans and reefers will remain steady as the country continues to open up. China will remain a wild card as the international trade begins to slowly fire back up.

Overall, supply (new & used) currently seem to have moved to an imbalanced scenario. Rental fleets are experiencing slightly lower utilization and rental rates (dry van, flatbeds, step decks, reefers), but expect utilization to pick up in the last half of 2020.

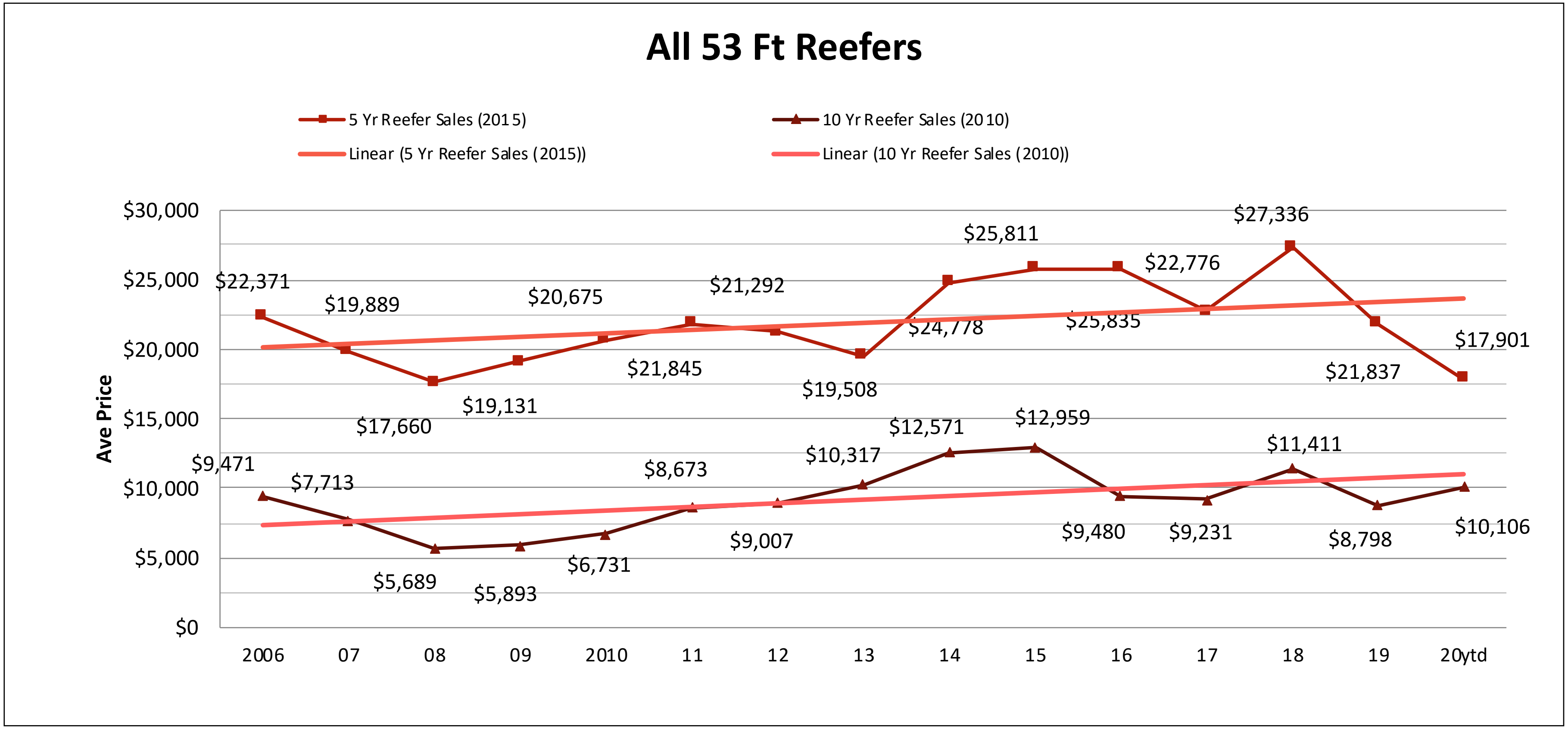
T&M Auction Results:
Tracking 5 Yr, 10 Yr & 15 Yr Old A/R Dry Vans

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



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

Reefers: There is a clear distinction between Tier I and Tier II refrigerated trailer sales prices over the past year. Considering the Ten-Year-Old refrigerated trailers, Tier II trailer sale prices indicate a 40% discount to Tier I trailer sale prices. Both Five-Year-Old & Ten-Year-Old (2010) Reefers are now below trendline. As stated previously, some carriers are experiencing financial duress in this segment.

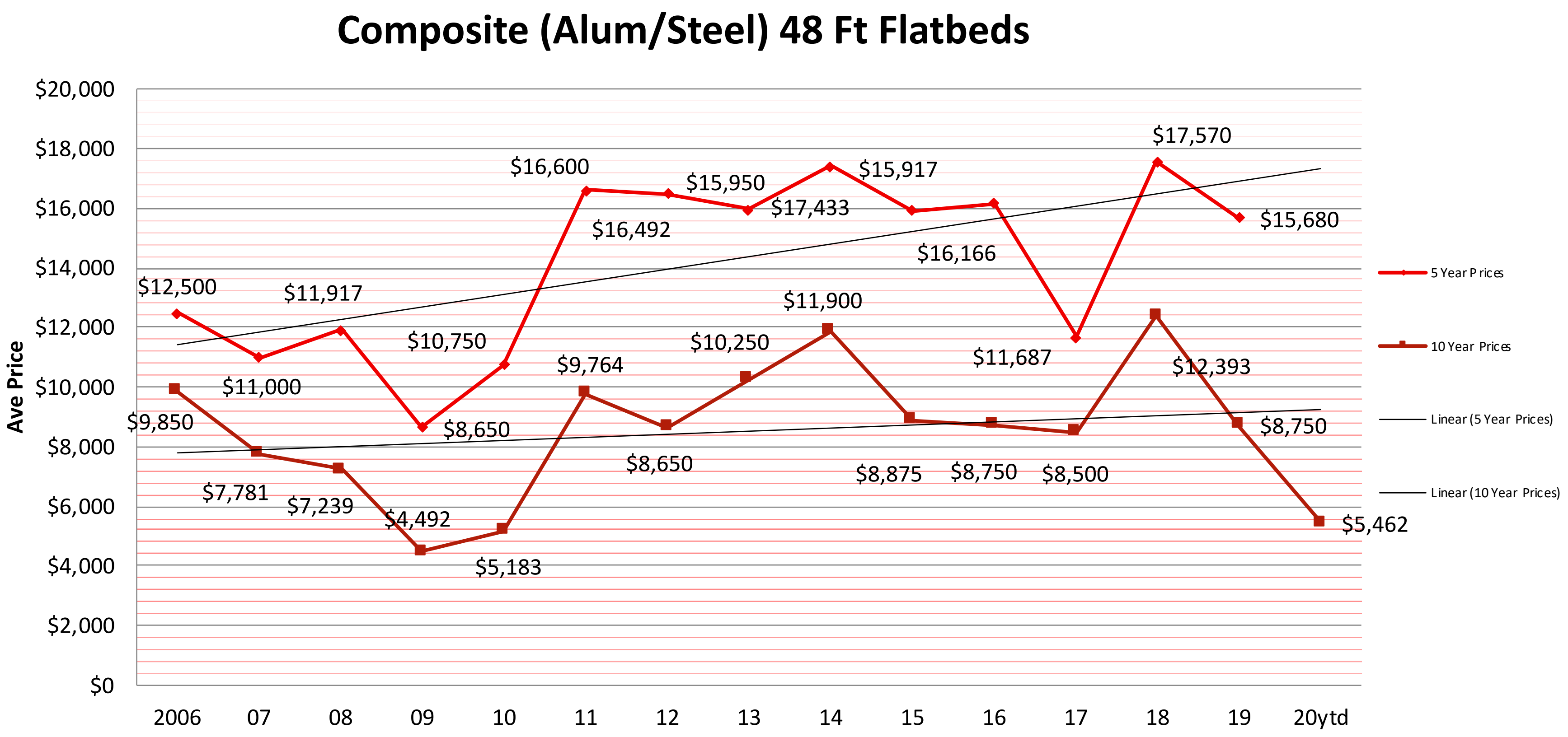


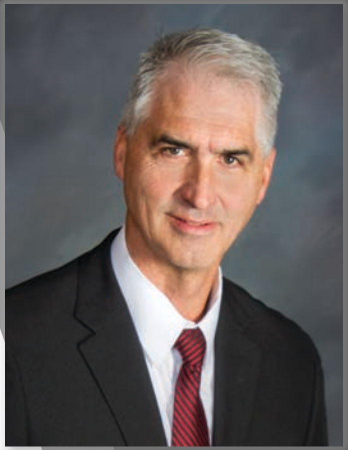
Five and ten-year old Composite Flatbed sales (Taylor & Martin Auctions) are charted below:

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.

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.

Covid 19 has put a standstill on the work economy. As we begin to try and pull ourselves back up it will be interesting see how the trucking industry bounces back from the shutdown.





John Seymour’s thoughts on Agricultural equipment, “filling the Ag Hopper” in The Meter!

We all know that the supply chain has pressures, but it is a bottleneck and not broken. Prudent buyers and sellers in any market are just taking a breath right now, but not in a wait and see approach, rather to me in a ‘keep going’ attitude way. That is how we fix this right now. There might be a silver bullet out there, but I doubt it. It will take a lot of different things over some time to right this ship.

Part of the problem ag today is the secondary hit due to the overconcentration of the packers with just a few players, any plant/labor problems and down the chain that problem bleeds. Nearly 50% of the meat consumed is in the hospitality and entertainment sectors, which is currently shutdown. Ranchers, buyers, feeders and stockers have had to immediately adjust from peak production feeding the processing for this industry now on minimal run times. Consumers see this bottleneck and react in worry.

Generally, most companies support improvements to their infrastructure in a downturn. Transportation has felt its downturn with pressures from an oversupply. Now with supply chain issues threatening, many operations, in my opinion, are in a ‘keep going’ movement to improve fleet ages and bolstering tractor purchases with reserved cash, maybe not at full retail dealership orders just yet; but, buying good trade units that have been showing up at the auctions over the last two plus years. The rest of the year may well have more or new problems; or, should the reactionary fixes implemented today not be corrective enough may require more attention.

In any event, I don’t feel we are seeing as heavy depreciation (2.5% per month) as some indicate.

Stay healthy and Safe!