The Meter

Transportation (Trucking) Update (3-1-2022)

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Introduction

As most of you know, we recently had to deal with a ransomware cyberattack. We immediately hired a company named Mandiant to begin the forensic computer analysis. We also hired Coveware to represent us in the negotiation process with the hackers. The same day of the attack our IT department, along with the hired companies, isolated the affected systems and defended against any further attack. Mandiant was able to locate the malware, which had self destructed and the list of files that had been infected. After a full review, we were able to determine no sensitive data was breached.

We have since rebuilt new servers in a clean environment with our uninfected backup data. We continue to work with Mandiant's remediation team, DarkTrace, Sentinel One and Sirius to evaluate what we can do to reduce the chances of another ransomware attack.

In having discussions with many of you and others in the industry I have been shocked by the amount of cyberattacks that are occurring, and they only seem to be on the rise. As I am writing this, there are many reports as it is being used in warfare. It has increasingly become more common in modern war tactics.

We suggest you double check your firewalls and data storage systems as this will be a concern for all of us going forward.

As far as the trucking industry, not much has changed. New production is well behind and ordering a new truck or trailer this year will have delivery dates into 2023 already. This continues to hold the used truck and trailer market values extremely high.

Covid is still a factor. Now it is mainly affecting the supply chain and vaccine mandates are disrupting the workforce. Consumer demand for goods still remains strong which holds the load rates up. Inflation could get to a point to where demand dips and rates are reduced. Travel spending in some sectors is up 80% and still shows more signs of improving.

In speaking with many dealers this week, most are indicating that they are booked for the rest of 2022 on most models. The increase in new costs and lack of availability on new units is another reason to expect inflated used equipment values though most of the year.

Dealers continue to buy at auction. Some I have recently spoken to are referring some customers to take their equipment to auction citing that they would not want to ask for the prices that are being seen in recent auctions. Not the ideal situation when inventories are so low but, could be best for the customer in some situations.

Inventory is still down a little from 2019 at our auctions but we have seen more and more late model high demand equipment (Dry Vans, Reefers, and Fleet Trucks). These have continued to bring huge premiums at auction. We have seen a large amounts of retirements that have come about based on the values of equipment being sold at auction.

The amount of new to 1 year old equipment we have seen at auctions is also on the rise. I will put a couple of charts together for the next newsletter showing those values based on new costs. The need for new equipment for has driven these values through the roof.

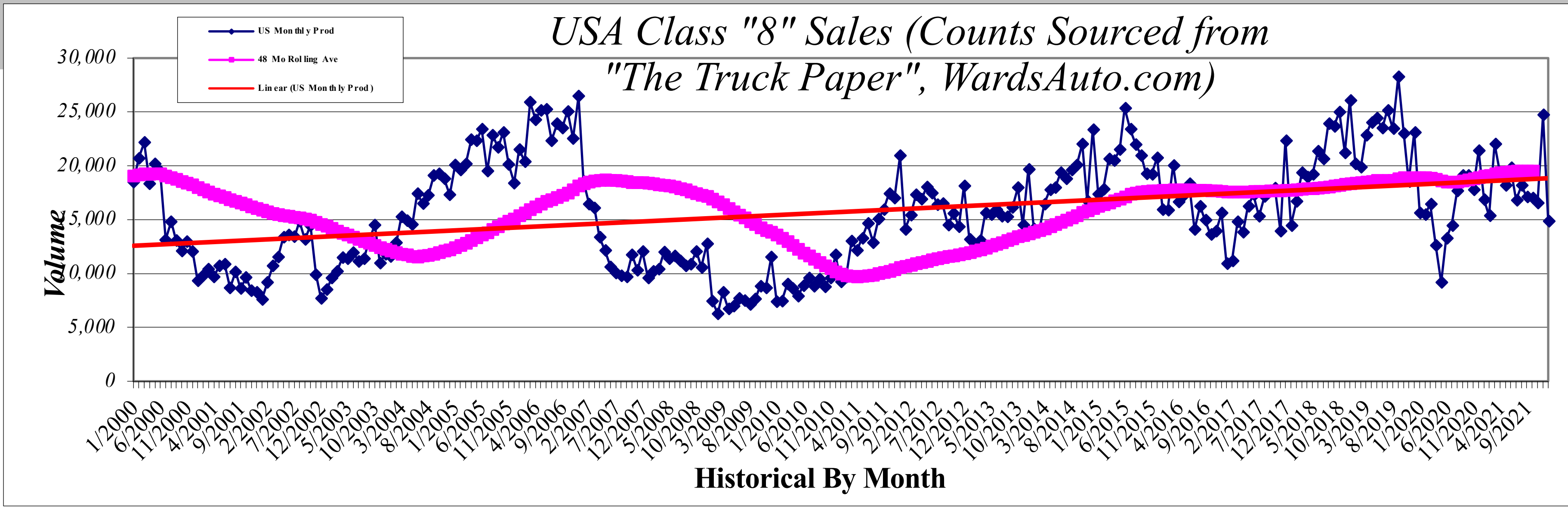
The war in the Ukraine is going to be the next hurdle in the timeline to return to more normalized used truck market. The uncertainty of what this war could turn into, and the potential Chinese involvement will all play a role in the already shaky supply chains.

Inflation and interest rates will be the other factor on equipment demands. As long as consumer spending remains high, the demand for equipment will remain elevated. What will the CPI number need to be that will greatly reduce consumer spending?

To say the least, we are in an interesting time. We have really lost the historical trends that have been key in reading future markets. Today we have so many major factors affecting the markets that change daily. The future is still somewhat cloudy, but nothing is indicating that supply chains and therefore production will be back running at 100% in the near future.

To summarize, the world is seeing increased costs on everything including trucks and trailers. Costs of goods, gas, services, cars, pretty much everything in the coming months should remain high.

Let's take a look at some of the charts. These will give us some evidence of the rise in values in the used market and that we have not seen any indication that we are close to seeing any relief from these elevated values.



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. Sales have been hovering just below the 48MMR. The demand is there but lack of product has held overall sales back. Expect us to be back above trend when inventory returns.

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.

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 peak 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, 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.

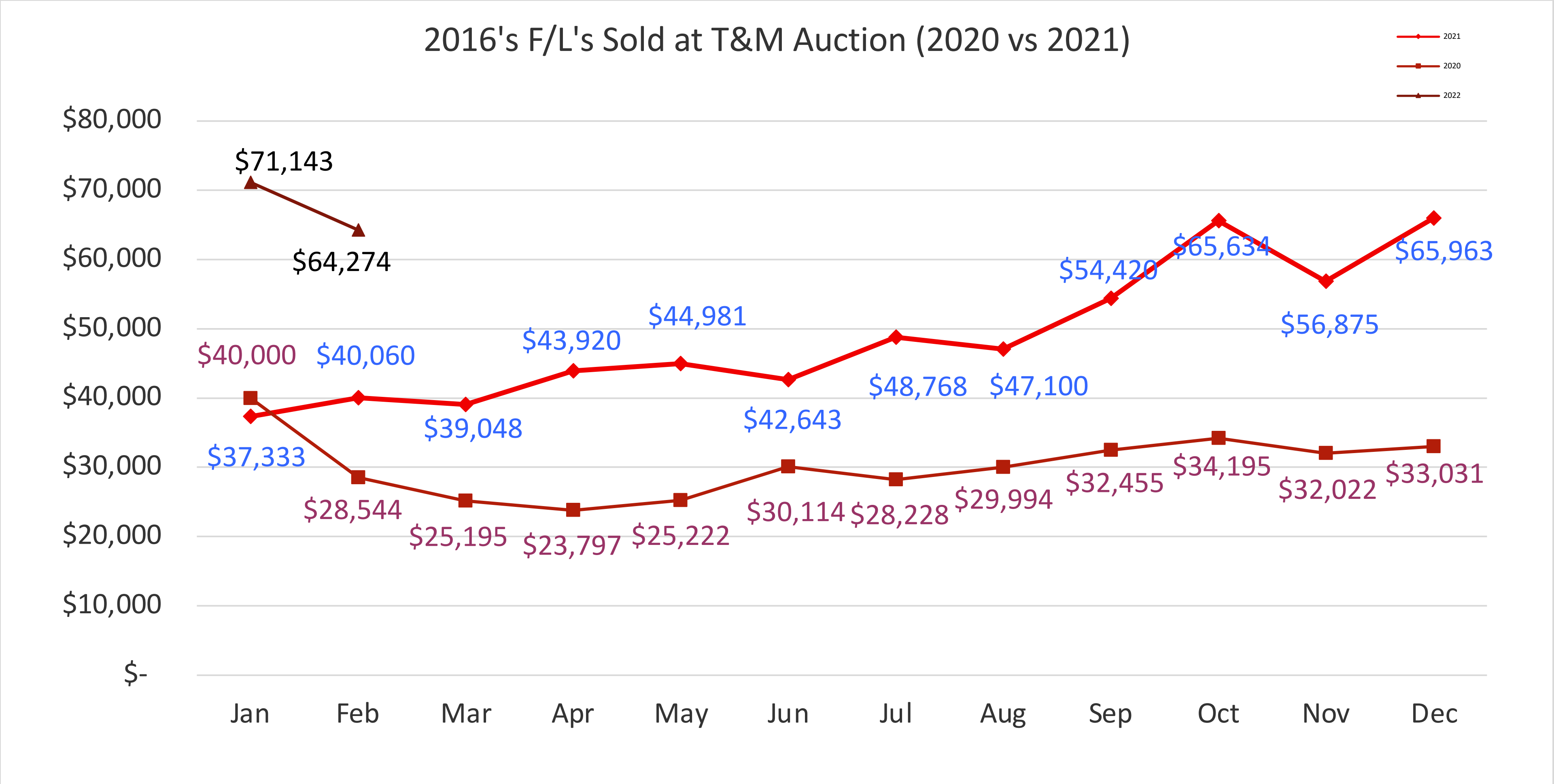
4: Actual Class 8 purchases have been down since the year end. December 2019 of 23,119 to averaging 15,271 for the year in 2020 with the low at 9,165 in May. We are currently at 19,616 for 48MMR and as production increases sales will follow until we reach the trucking industry demands.

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 improvement, and 2021 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 leveling off since the peak at the end of 2020 as expected. The demand is still there but slow delivery times and lack of open slots have held the actual orders in check.

7: The historical trends have been thrown out of trend due to COVID and now potentially the war in Europe. We had a bump in year end sales in December and the opening of the order boards. I would expect below trend sales numbers in the near future. Until production can be working at 90% or better for a consistent amount of time, orders and sales will remain suppressed.

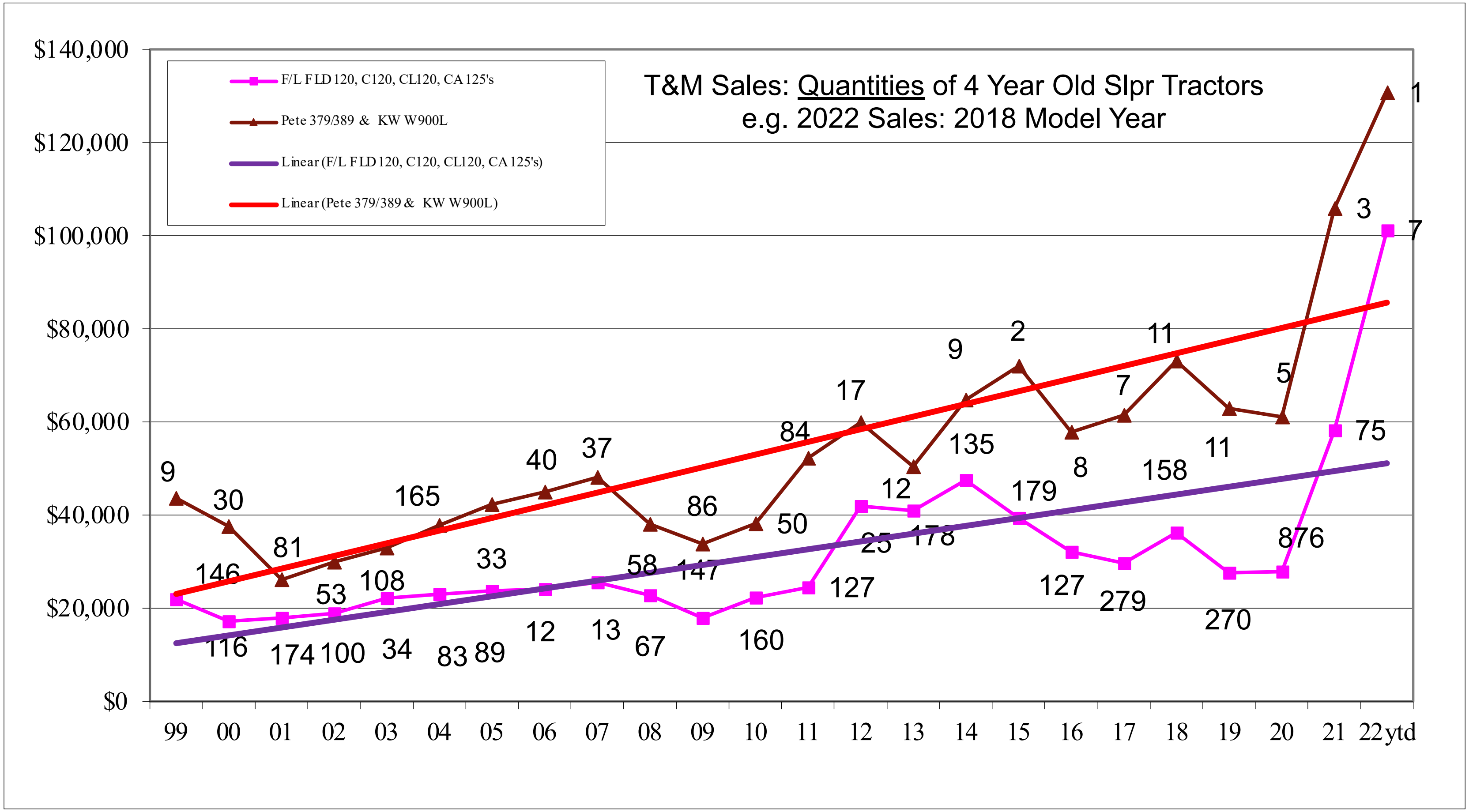
I have decided to keep this chart going. Now we are looking at 2016 Cascadia sleeper trucks into 2022. These trucks are now 2 years older than when they sold in 2020. We still have large volumes of this model selling at auction preventing these numbers from being very misleading due to just a few outliers. I still believe monitoring these values will give an initial sign on when the market could be slowing. Historically 6 to 7-year-old fleet trucks have not been as desired in the secondary market with no remaining warranty left. As you can see below, they are still bringing as high of a premium as ever at auction. I will continue to update and monitor these values closely.

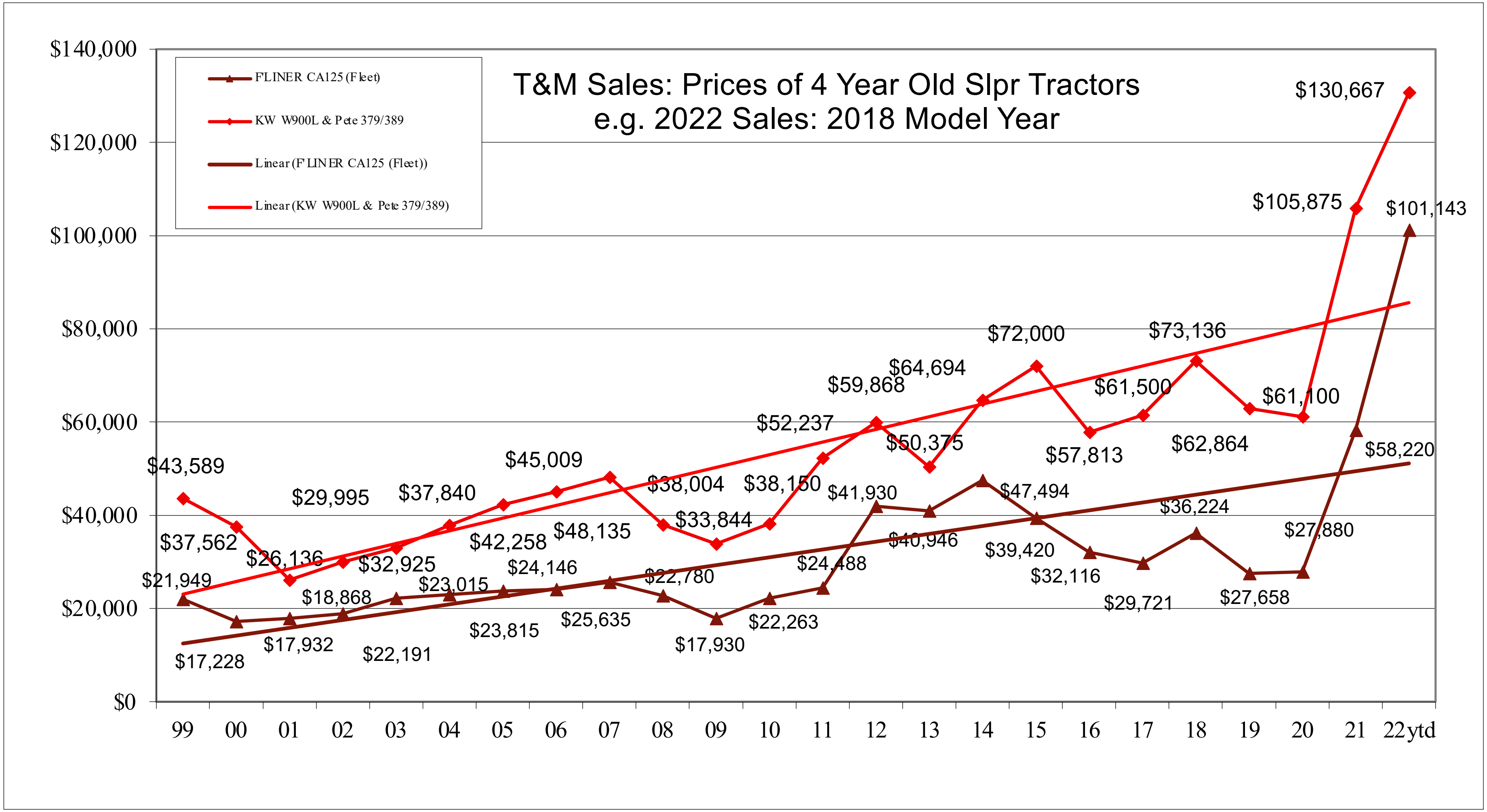


True Value Guide Quantities of 2018 model year trucks.

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. With volumes down you can see prices are up. We do not expect to see a large volume increase until production catches up and trades are released into the market.

Not a lot of change here.



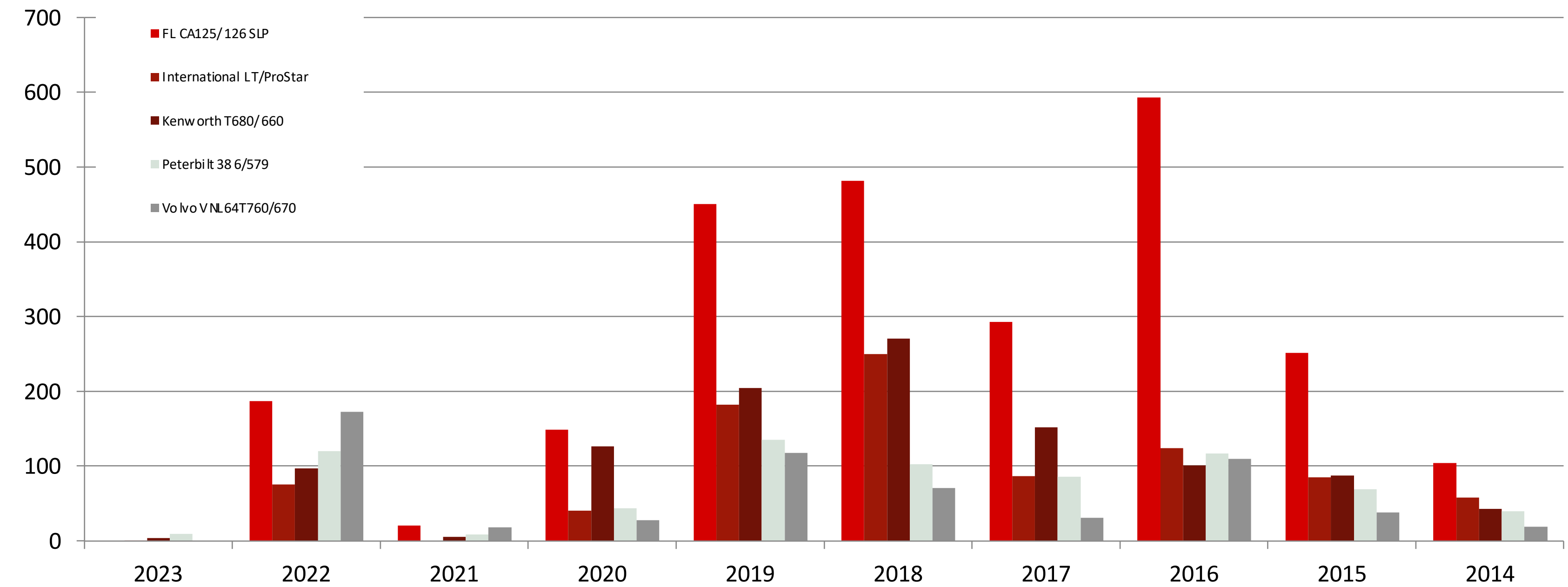


Above are T&M Sales by average annual prices. (As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both are generally considered to be spec'd as Owner-Operator (O/O) tractors.) As seen in the previous slide overall sale volumes are down with the values being up drastically.

Not a lot of O/O moving their equipment at auction this year. In general, O/O are not rotating trucks on a 5-6 year 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 are clearly evident (2001-2003 & 2008-2011 & 2015-2017 & 2019 and 2020). 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. Both averages are well above the trend line and should remain there for the foreseeable future.

What is available to the marketplace today? (February 23, 2022) We are up slightly from November 21 (4,086) but keep in mind we had a huge jump in ads for 2022 model year trucks. The vast majority of these are asking for orders on later deliveries so not equipment on the ground for sale. We would expect to see the total number of listings in the 15,000+ range in a normal time, so we still do not have much equipment out there for sale on TruckPaper currently.



23-Feb-22	Sleeper Tractors For Sale On TruckPaper.com: Feb 23, 2022									Ave. Age	2016.93	
Make	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	Total	% of Total
FL CA125/126 SLP	0	187	21	149	451	482	293	593	252	104	2,532	43.142%
International LT/ProStar	1	76	0	41	182	250	87	124	85	58	904	15.403%
Kenworth T680/660	4	97	6	127	205	271	152	101	88	43	1,094	18.640%
Peterbilt 386/579	10	120	9	44	135	103	86	117	69	40	733	12.489%
Volvo VNL64T760/670	0	173	18	28	118	71	31	110	38	19	606	10.325%
Year	15	653	54	389	1,091	1,177	649	1,045	532	264	5,869	100.000%

Additional Factors…

Retail "For Sale" counts (total: 5,869) is still extremely low. It shows the strength of the overall trucking market and more clarification on how much demand is out there. 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 has been moving back up since December's dip. Currently WTI is at $95. Most analysts are assuming a steady decline and settling in around $70 for 2022 and 2023. But it all depends on what Russia does this year. Russia produces roughly 11% of the worlds oil supply. If the U.S. puts sanctions on Russia's oil exports, oil could significantly increase.

- Building Activity (Home, Office, etc): Housing markets are still strong with many competing to buy. Supply constraints is still hampering production, but demand is still strong. Supply chain issues have been getting worse in just getting normal everyday products. Wait times can be seen 3 to 6 months out on certain items. Analysts predict sales may decline in 2022, but they will still exceed pre-pandemic levels. With the possibility of raising interest rates to .25 to .50 bps in March this could impact lending rates. Currently the average rate for a 30-year loan is 4.026%.

- Drivers: Shortage! The American Trucking Associations estimate that the industry needs 80,000 more drivers, with that number growing every year. Even with a 25% increase in pay from 2019, it still isn't enough to keep up with demand.

- Ports: Still playing catch up. Imports continue to inundate the ports and help feed the trucking industry. Analysts believe that the shortage/supply chain issues will continue through 2022. Companies are building/buying more warehouses to have more inventory on hand. Over the last 3 months, container ships unloading goods have remained at American ports for seven days on average.

- Construction activity is still slowly increasing. The lack and price of supply (Lumber, Steel, Workers) is still a major issue. More than 5 million people over the age of 55 exited the labor force during the pandemic. Construction materials have increase by 25% in 2021 which some analysts don't think it will stabilize in 2022. Local, state, and federal spending is expected to drive construction activity in 2022.

- Politics: The government launched a 90-day challenge aimed at encouraging private companies and organizations to offer registered apprenticeship programs that provide workers a debt-free path to becoming certified drivers. The employee is on the hook for the training costs if the employee quits prior to the training being paid off.

- Inflation: It was 7.5% in January. Some analysts predict a slowdown of inflation, but majority of the numbers causing inflation is a lagging indicator. Even if we start seeing supply chains catch up, those inflation numbers will remain high for a period of time after.

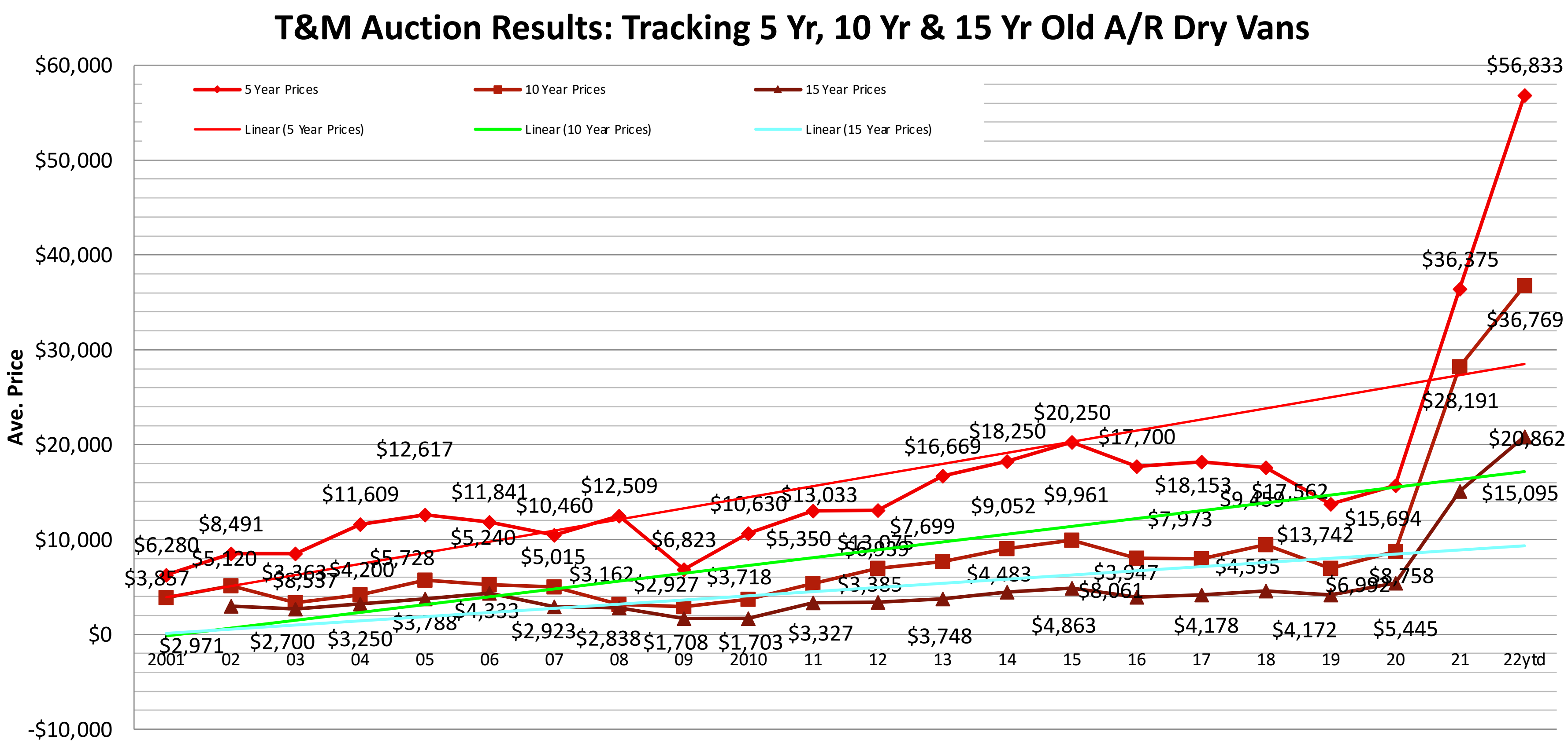
Trailers

- Production issues continue to drive up new and used prices. Vans and reefers are still bringing ridiculous values at auction. Don't expect a change until manufacturers can catch up with demand, which some say might not even happen in 2022.
- **Ag Trailers:** Demand is slow based on the season. The few that show up to auction are still increasing in price with everything else. The main factor for 2022 is fertilizer and crude oil prices. If fertilizer and crude oil prices keep going up corn prices should follow and vice versa.
- **Chemical Tank Trailers:** Stable Market- good used equipment in the secondary market is in very limited supply. Lesser quality trailers (out of test) are readily available.
- **Pneumatic Trailers:** Steady demand for large capacity trailers. 1040s are still struggling. Large numbers of the small cubes on the secondary market are holding values down. Oil production could give these a value boost.
- **Flatbeds and Drop Decks:** Overall market has been staying steady. Should still expect to maintain normal to less than normal depreciation going forward. Spot rates still have been roughly the same since August of 2021.
- **Heavy Haul Trailers**: Demand is steady. Late model and well-maintained units are still bringing a premium.
- **Chassis Trailers:** Backlog is still in an issue that keeps growing. With the ports not slowing down, demand and prices will stay strong.
- **Dry Vans and Reefers:** Backlog is still in an issue that keeps growing. Very high demand is continuing to drive up prices. On the public market, there has been a slight increase month over month since May of 2021 units of for sale. Spot raises continue to slowly increase.
- Sales and orders are remaining high with the 8-12 month wait for new, spurring the increase in values in many sectors. Some manufacturers are already done taking orders for the year.
- Overall, the trailer market is still very strong with the demand of goods nationwide continuing to drive the trucking industry. Supply issues will help maintain the higher-than-normal values.

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

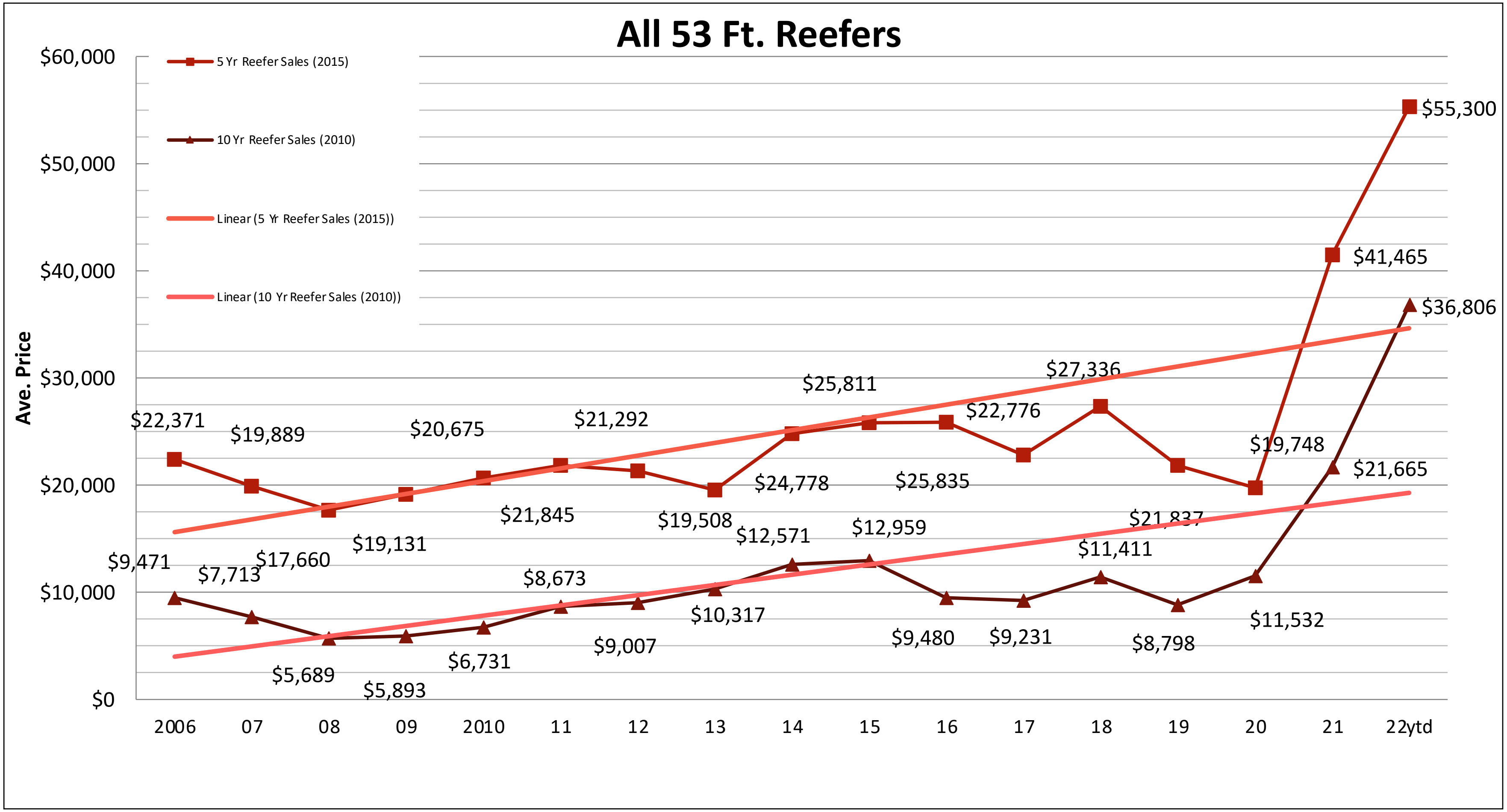
5, 10 & 15 Year old Dry Vans sales (Taylor & Martin Auctions) are charted below:

Once again, this chart is wild to look at. It is early in 2022 but we have sold (3) 2017s, (26) 2012s and (98) 2007s.
We just sold a new 2023 Wabash van for $96,600 on February 24, in Fort Worth, Texas.
I keep thinking that vans have peaked, but they consistently climbed over the last quarter.



5 & 10 Year Old Refrigerated Trailer sales (Taylor & Martin Auctions) are charted below:

Reefers: Both 5 & 10 year old (2011). Refrigerated trailers have also remained on an upward trajectory of the last quarter. We have a large amount of reefers coming to auction over the next couple of months and will continue to monitor the results. We have not seen any indications that values will soften in the coming sales.

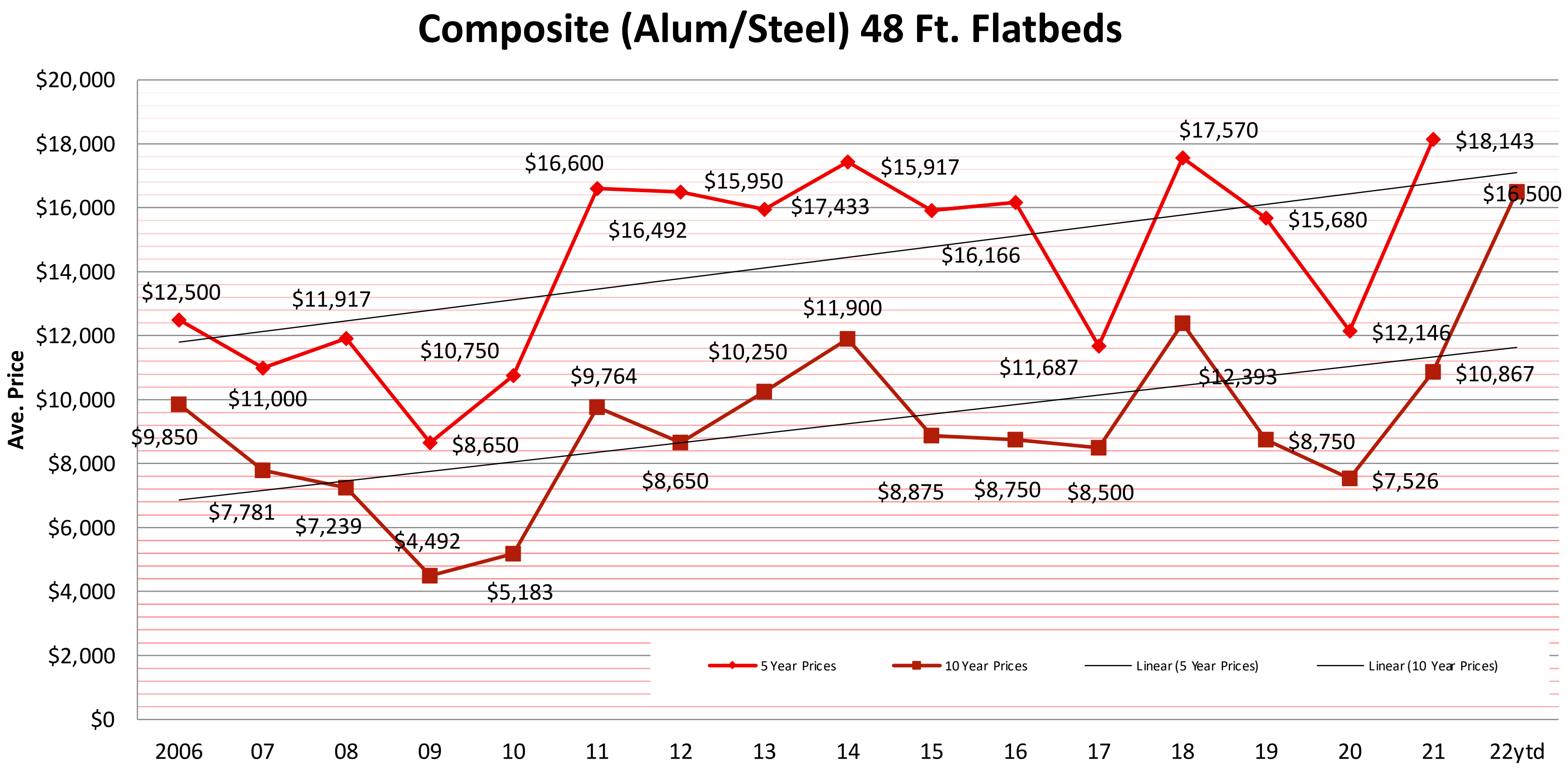


5 & 10 Year Old Composite Flatbed Sales (Taylor & Martin Auctions) are charted below:

Combo Flatbeds (Alum/Steel Composite) have been showing signs of strength. They have lagged behind vans and reefers in value jumps but have been on an uptick. We expect to continue to see a slow rise in values primarily due to the coming spring and new cost increases.

The flatbed market has 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 dealers the demand has started to show signs of increasing. Volumes have been down all summer and limited number of 5 & 10 year old trailers but overall, they have slowly been showing some signs of increasing values.



New year, stormy weather, volatile grain markets and renewed hopes of prosperity in 2022. The supply chain issues continue to plague the nation and the world as Santa headed back to his hopefully still frozen tundra. Most folks push forward into 2022 with hopes for any sign of relief in the labor shortages, cost-of-goods, freight woes and/or the growing driver shortage. If you have been in Agriculture for any length of time, the most certain thing on the horizon is change…. How to handle the next change is what gets our focus.

The crush is on in 2022. Announcement after announcement pop of new soybean crush facility commitments across the country. North Dakota Soybean Processors, LLC. announced a joint venture to develop a 42.5 million bushel per year plant back in North Dakota. Parent companies CGB Enterprises has an Indiana facility and Minnesota Soybean Processors already crush in MN. Continental Refining Co. breaks ground in Kentucky for a new soybean crushing, biodiesel refinement plant. Industry development progresses as soybean acres are expected to climb even as prices whiplash, and weather threatens Brazilian crop yields ahead in 2022!

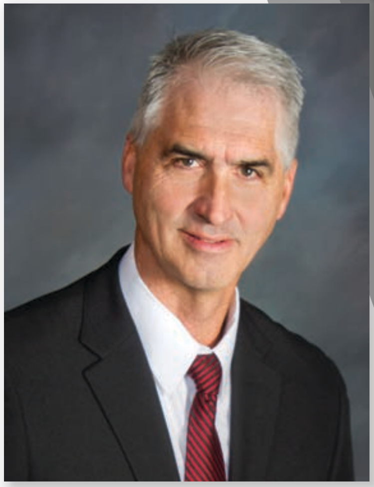
Soybean crush demand provides some hope as weather and export opportunities will undoubtedly affect U.S. planting decisions. Fertilizer supplies shrink as spring looms on the horizon. Early fall application helped with the extended weather, but costs have risen dramatically for producers. Some anticipate significant early soybean planting, volatile spikes, yet $11-12 bushel soybeans in 2023, despite the possibility of being buried by meal. China's initial delays in orders are a sign of market ties to the strength of Brazilian soybean supply.

As the crush marches on, U.S. goals of a smaller carbon footprint feather into more areas of agriculture. From bio-fuel formulas to better engine performance to markets not seen before … a transformation is coming. US dependence on fossil fuels is not going away any time soon but may lessen as more efficient and sustainable alternatives become available to daily life on the farm. This will drive change to the #2 cost-per acre item in farm operations, the machinery, though not overnight. We have seen automation and efficiencies implemented already, yet costs will determine the speed of new technology in future adoptions.

Trends driving this transition are beginning to take shape as I discussed in many prior newsletters. Feed & Grain magazine outlines many of these as part of the 'Top 10 trends shaping the Future of Food'. Robotics will aid labor woes while increasing efficiencies. Examples may be forms of more compact autonomous equipment. Environmental, Social and Governance (ESG) factors are the newest catch phrase in evaluating sustainability of any agricultural operation. Digitalization exemplifies this in action. Supply chain nimbleness, being more localized and less wasteful, is under the microscope since the onset of COVID-19. Alternative protein products will help power the next generation. I addressed the soybean renewal diesel bio-based fuel formula, yet even more important is that food-based protein is finding its way into more diets across the globe than ever before and will most likely stay once sustainable. The USDA sites rising demand for protein rich diets which will fuel import demand of grains and soybeans. Food waste is not just a Generation-Z focus but an extension of a fundamental up-bringing nearly everyone in agricultural has experienced, just applied across a more metropolitan and suburban focus. Artificial Intelligence (AI) and machine learned platforms will unlock many more applications in the food chain as the world demands more nutrient functionality and personalized food products for better health. Food becomes central in preventing chronic diseases and improved health outcomes. A caution warning to every farm operation on cyber-attacks as these 'lock-down artists' attack smaller operations using data not fully encrypted. Lastly, food brands and retailers adopting more integral personal relationships to succeed rather than as just boutique market efforts.

Continued strong agricultural equipment demand continues into 2022 as manufacturers languish in labor and raw material shortages, new pricing levels and rising costs. La Niña takes an encore with a return of warm and dry conditions hopefully adding some moisture to a year of expected drought across the country, despite brief winter weather storms. History will record the wildness of 2021 and document the effect of COVID-19 on the marketplace, but for now producers, ranchers, and all of us in agriculture would just like a little calm.

John L. Seymour, ASA Senior Appraiser



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