The Meter

Transportation (Trucking) Update (12-1-2021)

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With Input From: John Seymour, ASA, Alan Harding

Introduction

We at Taylor & Martin wanted to wish you and your family a happy, healthy and safe Holiday season.

As expected, the used truck and trailer values have remained strong. We have still been seeing an increase in some values especially in the late model trucks and trailers. So, the big question is, and the one I get asked the most, "when will the values drop?"

We would all love to know when exactly that will be. This is such a complex situation that makes that answer so tough to answer. Generally, we are working with a natural cycle in the industry. In this situation we have many factors involved and a lot to get sorted out before we can begin to see more normalized values.

All the issues associating with the supply and demand dynamic are separate but entangled. Production delays, shipping delays and demand for goods shipped all play a major role in the current market, but it is the little issues that shape together the market we are in.

We will first need to have an idea of how COVID and its variants are going to affect us going forward. Just a couple of days ago the omicron variant became known. As for now, we don't know much about it or how much it is going to be a hinderance in our quest for normalcy. If it turns out to be stronger or more contagious or even resistant to the vaccine, then shutdowns could put us back to square one in the recovery process.

Another factor is inflation and how high it will go and will it be enough to effect consumer spending to the point of affecting imports? Truck and trailer parts for the public are not talked about as much but just as important. Lack of repair parts for companies have driven them to buy replacement trucks to lessen the downtime with long wait times for repairs.

The truth is it is an international problem, and it will take a lot of cooperation at the worldwide level to relieve the supply strain. As we all know, that will take time and a little luck. Each COVID strain that pops up affecting different parts of the world plays a role in our attempt to find a more complete supply/demand balance.

Not all is bad. Trucking companies big and small have been able to take advantage of the opportunity. Spot rates are high while contracts have improved and we all know that we have plenty of loads to be hauled in the US. Companies have or should be reducing debt and padding accounts. Most are increasing the age of their fleets and will be needing the money to spend when new trucks and trailers become more readily available.

Costs have risen across the board for trucking companies. Labor and equipment are two of the largest costs and these generally don't fluctuate down after a rise like fuel and spot rates can. This could cause long-term trouble for smaller carriers when rates drop.

From most of the people in different industries that I have spoken to, the outlook has remained positive. Demand is there for travel, cars, homes and other services but most have been slowed by the inconveniences of having to wait for goods and services that are not as readily available as they once were or the inability to perform due to lack of supply/labor. These are all good signs, but it is still a challenge for these types of businesses to continue to run at less than 100% nearly two years into the pandemic.

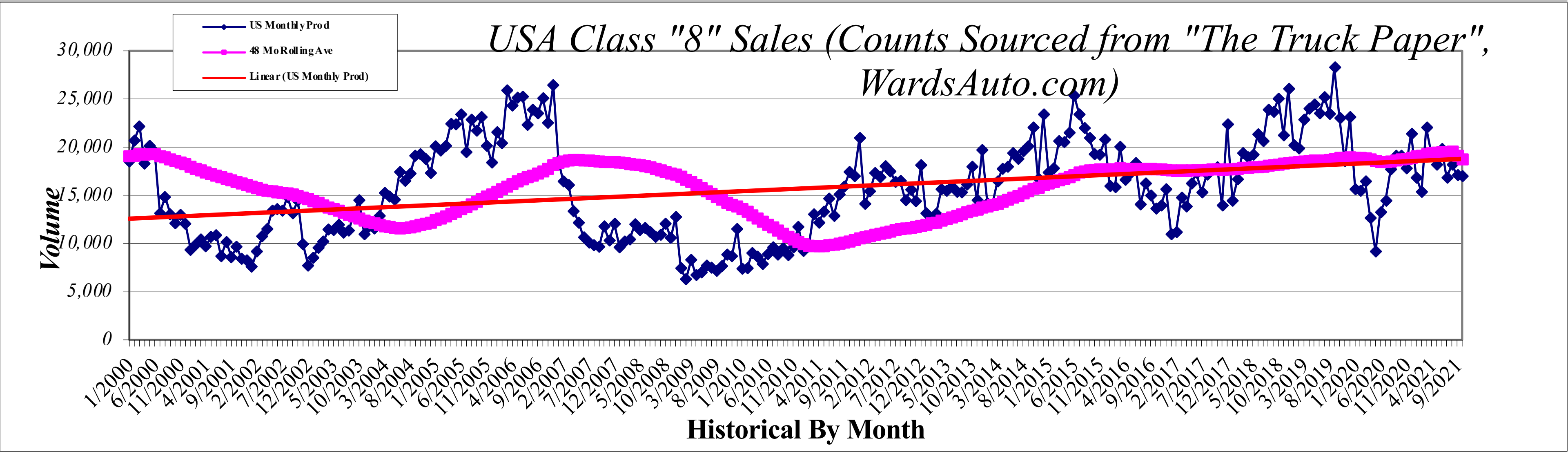
Overall, the values continued to rise in the auction world over the last three months. Demand has remained strong, and prices have been proving it. Not expecting much of a change in the first quarter of 2022.

Dealers have been active at the auctions. The actual purchase rate is still relatively low due the high costs but the lack of used trucks on the lot has forced some to extend themselves just to gather some inventory with minimal margins.

Inventory at auction has been steady. Fleets are finding unseated and underutilized equipment for auction to maximize returns but "these are here because new ones are in" has not been the case most of the time.

It looks like we are going to start 2022 with the same unprecedented used truck and trailer values. We are not expecting much of a change in Q1. If you have anything sitting in the weeds, now is the time to move it.

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. No major indications yet of a change in the auction world.



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. 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 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.

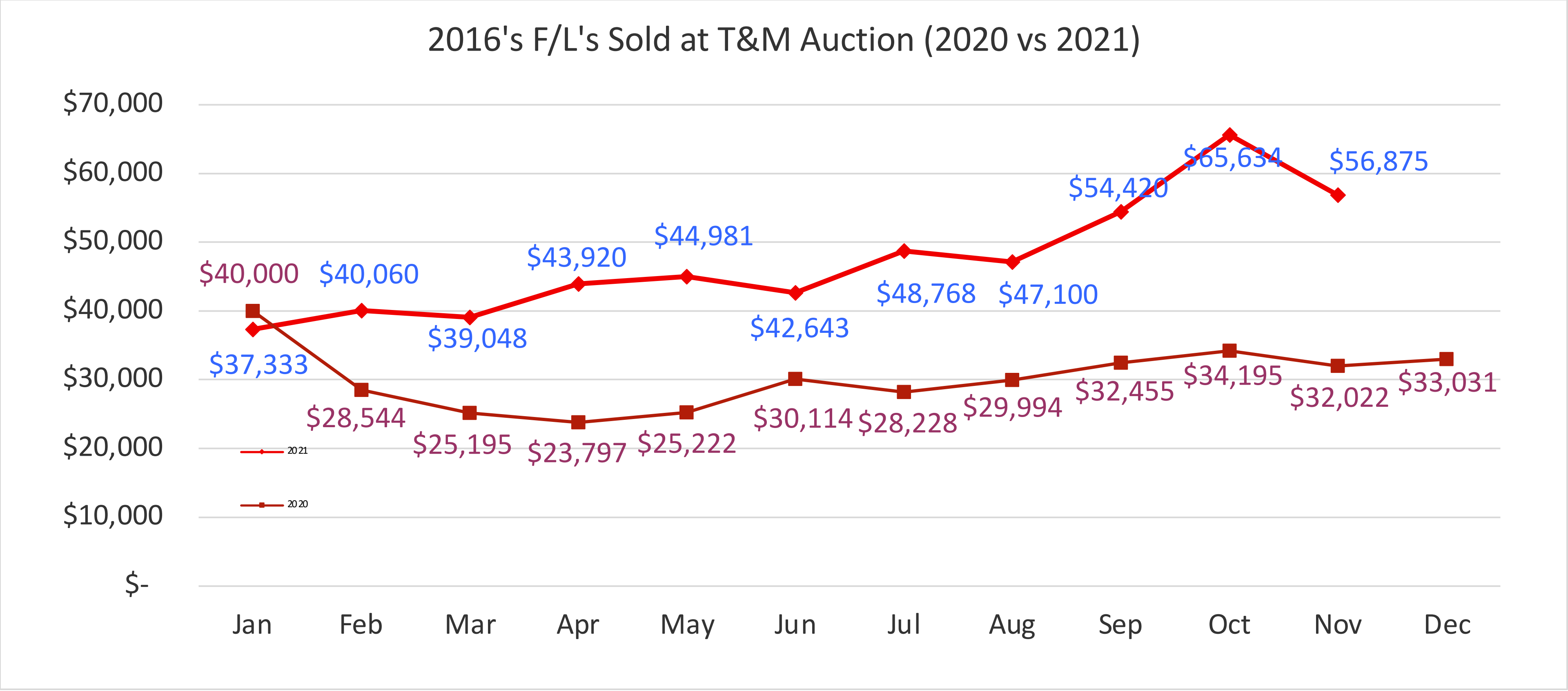
4: Actual Class 8 purchases have been down since the year end. Dec 2019 of 23,119 to averaging 15,271 for the year in 2020 with the low at 9,165 in May. We are currently at 18,724 for 48MMR and as production increases sales will follow until we reach the trucking industry demands.

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.

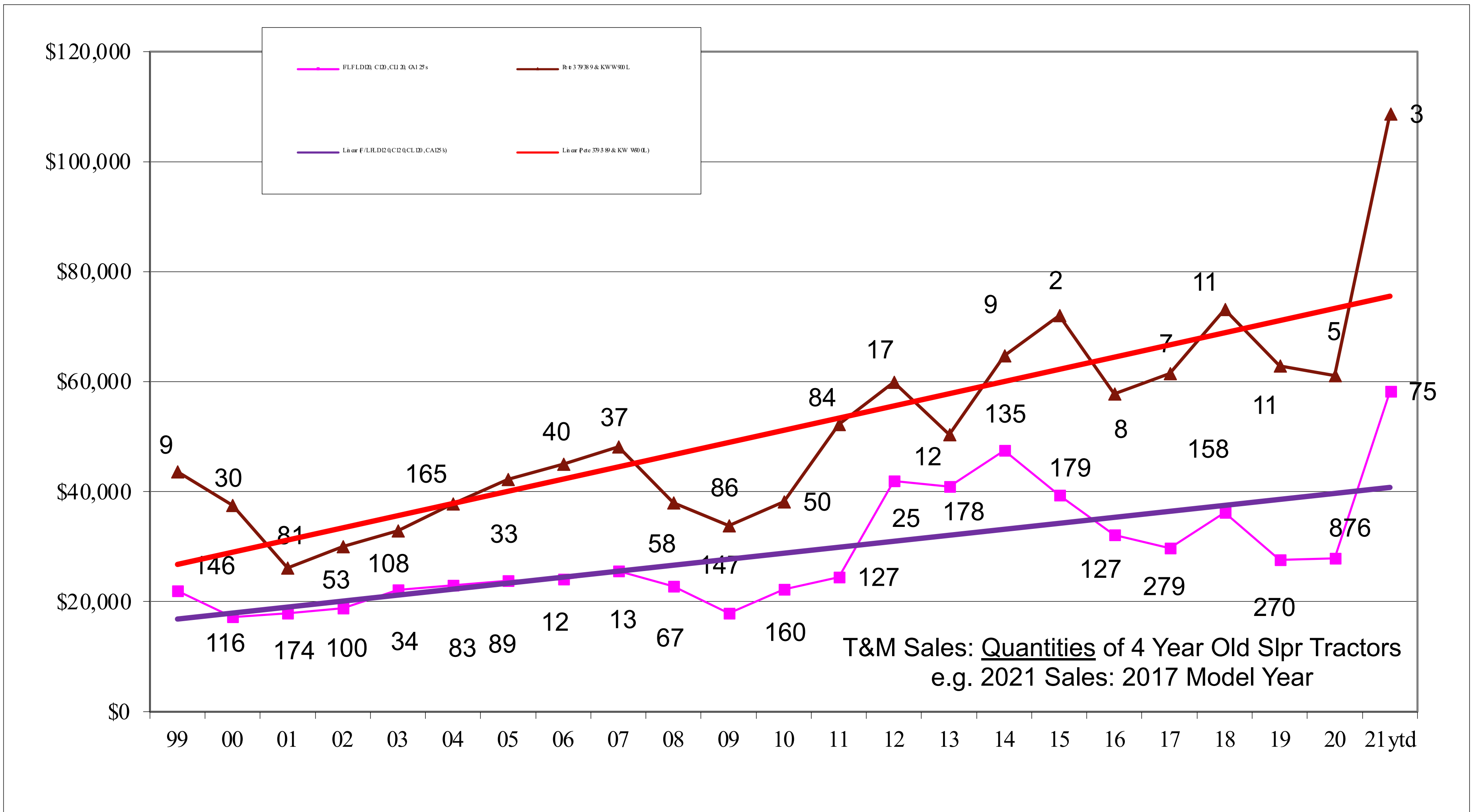
7: The historical trends have been thrown out of trend due to COVID. Recovery times and production have significantly hampered normalization. Expect delays to persist well into 2022.

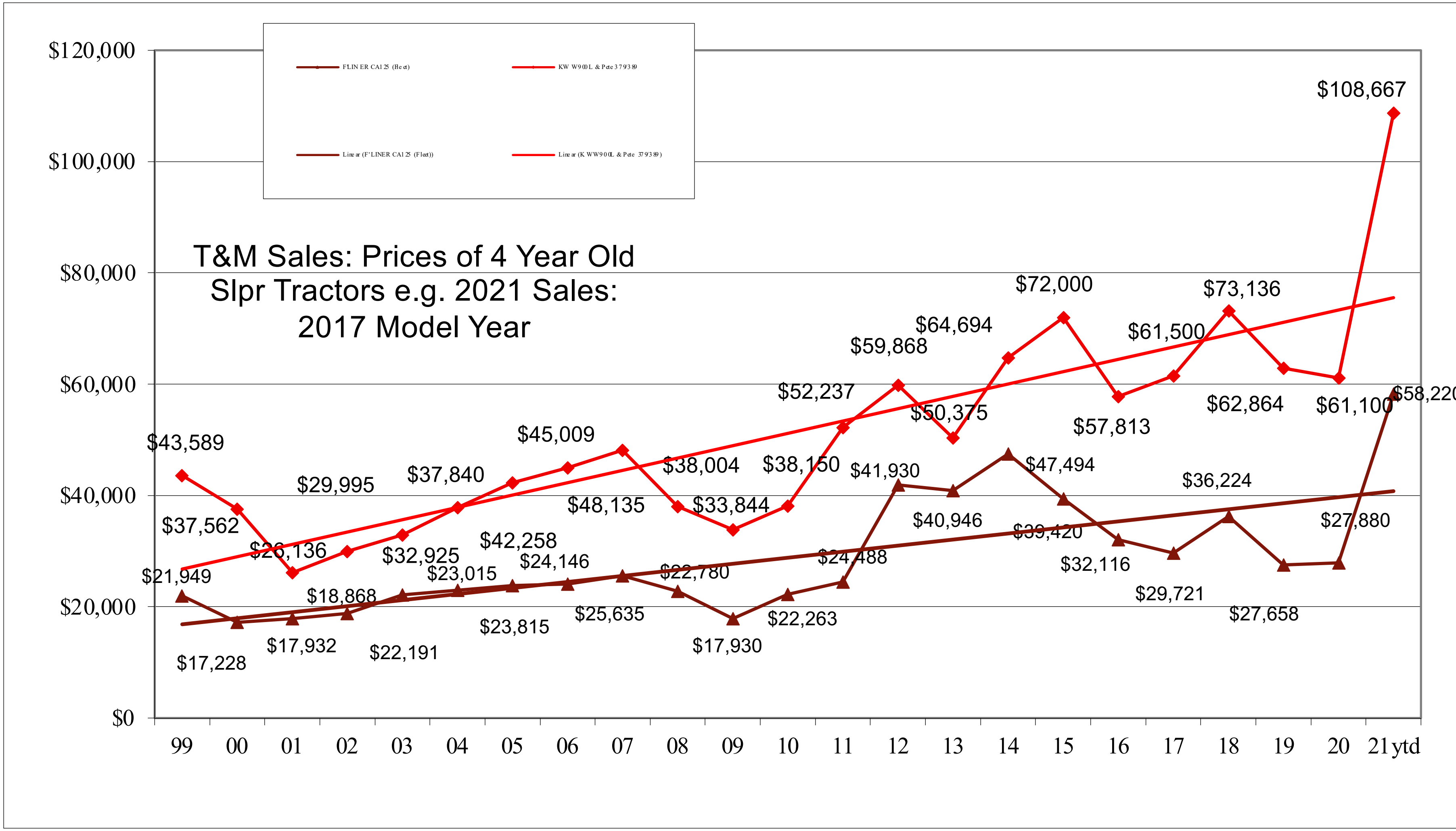
This chart shows the average sale price of 2016 Cascadias. They are all sleepers with average miles between 500,000 and 700,000. The 2021 sales are still the 2016 model year so technically a year older, but the auction values have continued to rise despite the increase in age. Volumes are down from last 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 one of the first models to show initial signs of slowing in a used market due to the amount of Cascadias expected to hit the market as new trucks are released. I will leave this chart in until we start to see a larger consistent change in values. This chart is a little misleading this time. In October, we had a large batch of above average 2016 Cascadias come to auction and inflate the October values. With that being said, we are still seeing an overall rise in values at auction.



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. 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.



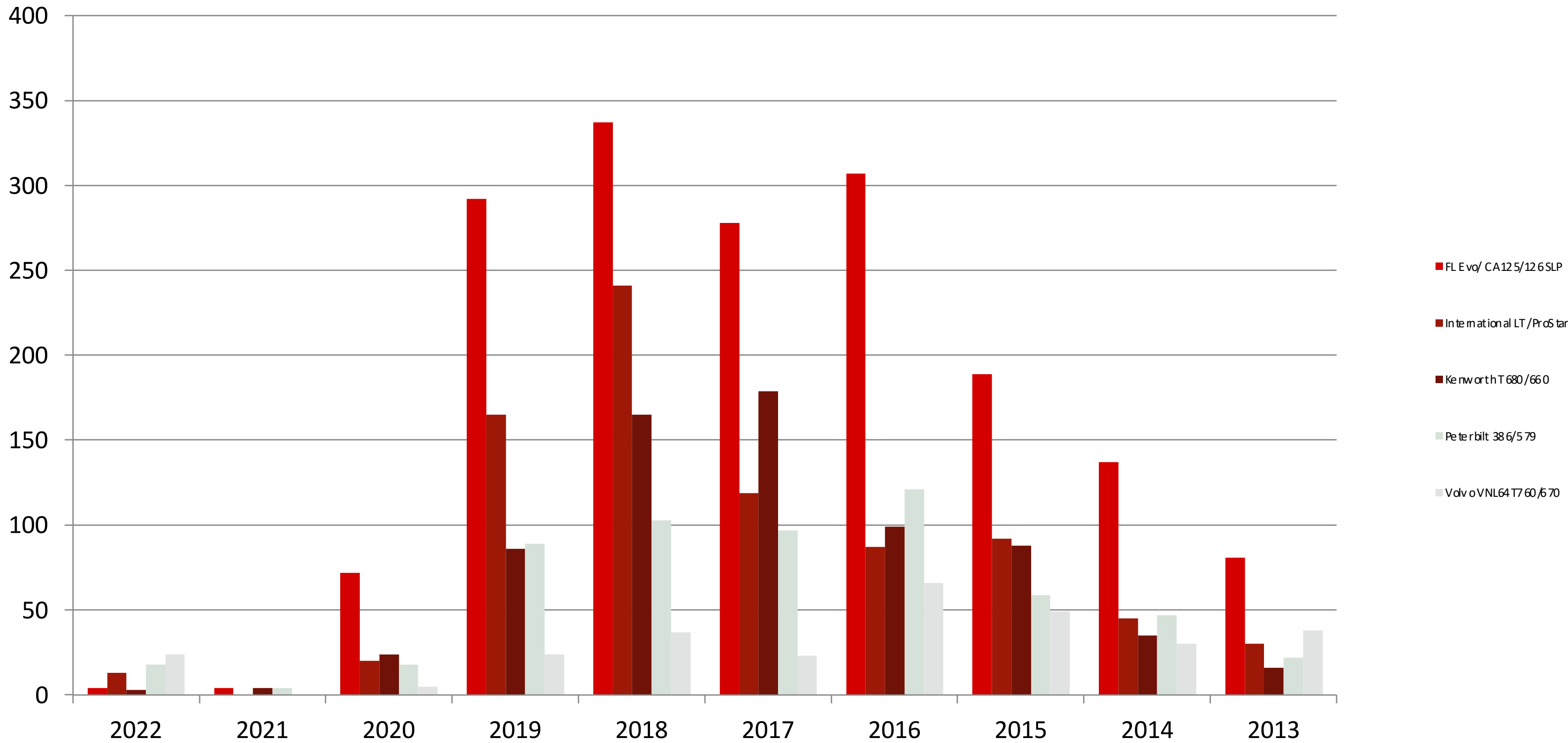


Above are T&M Sales by average annual prices. [As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both are generally considered to be spec'd as Owner-Operator (O/O) tractors.]

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 (green & blue lines) 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? (May 20, 2021) See chart below. [Sleeper Tractors] This chart is showing the number of listings on Truck Paper for these models as of Nov 22, 2021. The total number of tractors currently offered on Truck Paper is down to 4,086. I will get into the drastic decline in trucks for sale on the next slide.



22-Nov-21	Sleeper Tractors For Sale On TruckPaper.com: Nov 22, 2021									Ave. Age	2015.97	
Make	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	Total	% of Total
FL Evo/CA125/126 SLP	4	4	72	292	337	278	307	189	137	81	1,701	41.630%
International LT/ProStar	13	0	20	165	241	119	87	92	45	30	812	19.873%
Kenworth T680/660	3	4	24	86	165	179	99	88	35	16	699	17.107%
Peterbilt 386/579	18	4	18	89	103	97	121	59	47	22	578	14.146%
Volvo VNL64T760/670	24	0	5	24	37	23	66	49	30	38	296	7.244%
Year	62	12	139	656	883	696	680	477	294	187	4,086	100.000%

The top chart is from May 2020 and shows a total of 25,206 tractor listings on Truck Paper. Currently there are 4,086. We only have a little over 16% of the number of trucks being advertised as we did in May of 2020. It shows how strong the demand has been in the last 18 months. With the demand still strong it makes sense with how high truck prices have risen. Side note: A lot of the 2022 listings that are there are just ads offering potential orders or availability in 2022. We have dropped from 5,499 to 4,086 in the last 3 months.

22-May-20	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
FL Evo/CA125/126 SLP	200	620	87	529	1,012	3,149	2,805	1,596	774	389	11,161
International LT/ProStar	40	411	226	171	248	966	956	598	120	101	3,837
Kenworth T680/660	81	533	57	177	541	1147	614	279	143	103	3,675
Peterbilt 386/579	39	557	65	89	426	795	522	249	106	91	2,939
Volvo VNL64T760/670	258	740	86	71	167	526	745	549	325	127	3,594
Year	618	2,861	521	1,037	2,394	6,583	5,642	3,271	1,468	811	**25,206**

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Year	62	12	139	656	883	696	680	477	294	187	**4,086**

Additional Factors

Retail “For Sale” counts (total: 4,086) ,are the 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. 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 still improving. Currently WTI has pulled back from recent highs of around $84, but it’s still hovering around the 2018 highs of $74. The recent surge in natural gas and coal prices globally has increased demand for crude oil to meet power demand. The climbing trend of oil prices is likely to continue in the short term based on the steady gradual increase in output. The increase in output will unlikely meet the rising demand especially with winter approaching.

- Building Activity (Home, Office, etc.): Housing markets are staying strong. Housing prices are supposed to continue climbing but at a slower pace. Lumber prices have steadily come down but still near the highs from pre-covid levels. Its all about the supply and demand, inflated housing prices caused by low interest rates and low inventory of houses for sale. Also, the surge in Millennials buying their first home has put a damper on inventory.

- Drivers: Shortage! Raising pay rates has helped but the demand for drivers is still extremely high. With the increasing age of truck drivers (average age is around 55 years old) it will be hard to fulfill those spots in the upcoming years.

- Ports: Still playing catch up. Imports continue to inundate the ports and help feed the trucking industry. With some ports running 24/7 it’s taking a toll on where to find trailers to haul products and where to store containers.

- Construction activity is still slowly increasing. The lack and price of supply (Lumber, Steel, Workers) is still a major issue. Slow construction results are another factor in the slow transition back to a more stable market. Private non-residential construction is set to rebound as economic reopening drives the need for remodeling and rebuilding.

- Politics: With the Infrastructure bill which just recently passed, it should help with some of the driver recruitment and retention problems. It also includes the DRIVE-Safe Act which allows 18-to-20-year old’s to be able to haul loads across state lines. The vaccine mandate deadline is on January 4th, 2022, which could also affect the driver shortage by around 20% some analysts predict. Analysts predict if the mandate affects that many drivers it could significantly raise spot rates, which in the end will be passed on to the consumer.

- Inflation: It was at 5.4% in September and now 6.2% for October. The last time it reached this high was back in November of 1990. Some analysts think it will continue to rise by the end of the year, but by 2022 should see an ease to around 3% as shortages fade. Higher inflation could get the Federal Reserve to start raising the short-term interest rate in late 2022.

Trailers

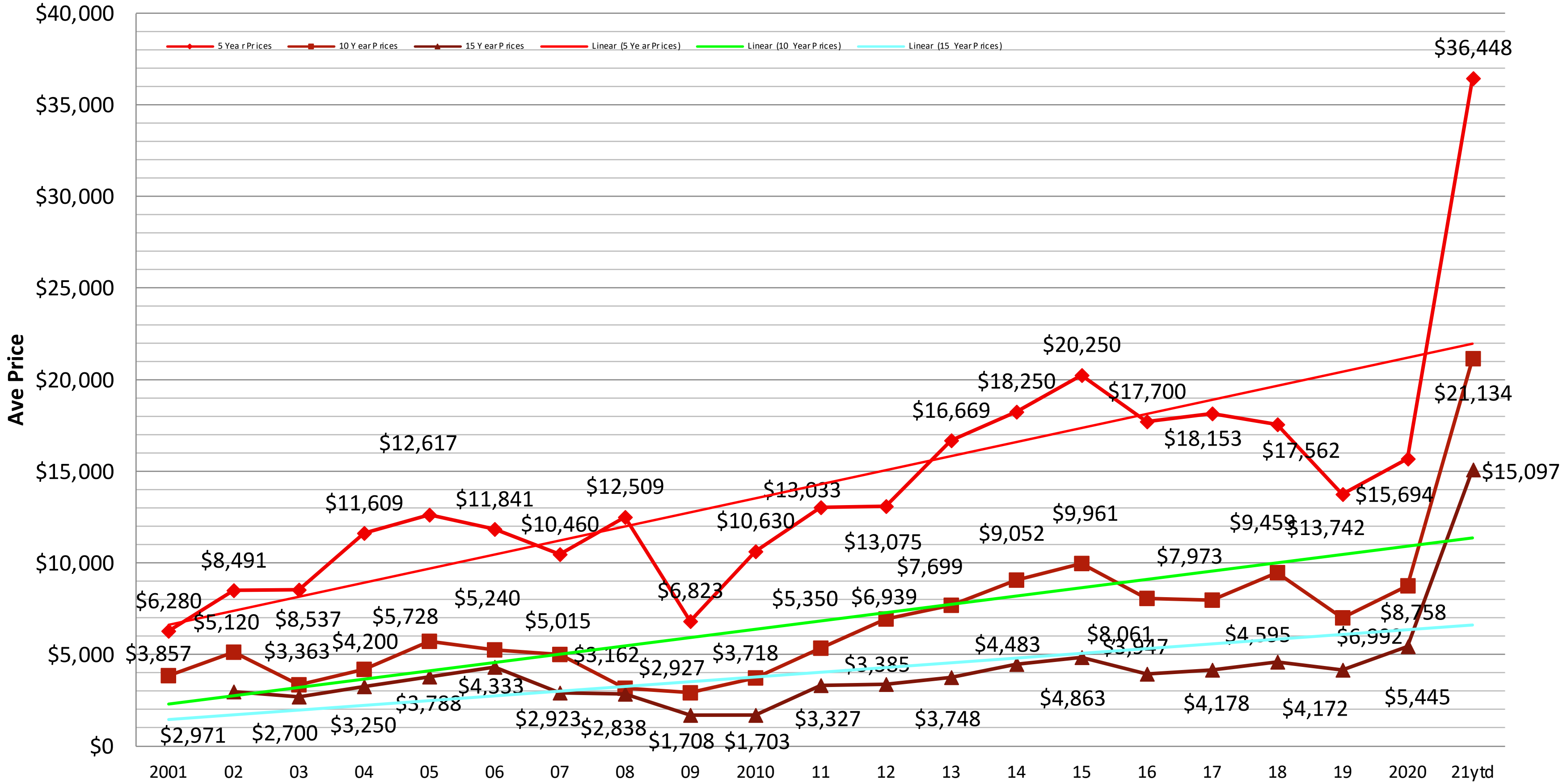
- Production issues continue to drive up used prices. Vans and reefers are still bringing ridiculous values at auction. Don't expect a change until manufacturers can catch up with demand. Which some say might not even happen by 2022.
- **Ag Trailers:** Demand is steady but should start to slow down after harvest. Corn prices have stayed steady since August of this year, but still above the 5-year average. Soybean prices have fallen since July, but still above the 5-year average. Auction prices on grain trailers have slightly increased in the second half of the year where normally they have fallen. Build rates have increased from 2019 and 2020 on grain trailers.
- **Chemical Tank Trailers**: Net build rates for liquid tanks have increased from 2019 and 2020. New cost has increased slightly throughout the year based on material price increases. Overall, a stable market with very limited supply.
- **Pneumatic Trailers:** Net build rates for bulk tanks has increased slightly from 2019 and 2020 while backlog has decreased. New cost has increased slightly throughout the year based on material price increases. There is a steady demand for large capacity trailers, while smaller capacity trailers like the 1040's have been still struggling since there is still an overabundance on the market.
- **Flatbeds and Drop Decks**: Net build rates have increased from 2019 and 2020. New cost has increased also, but overall market has been staying steady. Still not a lot of volume has been moving at auction. Should expect to maintain normal to less than normal depreciation going forward. Spot rates have stayed roughly the same since August.
- **Heavy Haul Trailers:** Net build rates have stayed roughly the same since 2019 but with a small dip in 2020. New cost has increased slightly throughout the year based on material price increases. Late model and well-maintained units are still bringing a premium.
- **Chassis Trailers:** Net build rates have increased from 2019 and 2020. Backlog is more than double the average from the past 7 years. New cost has increased as well. With the increase of manufacturing there is still a 6-12 month wait time for some chassis. The biggest struggle for chassis is the availability of subcomponents such as air tanks, axles, and suspension systems. Should expect to maintain less than normal depreciation.
- **Dry Vans and Reefers:** Net build orders are currently below its 5-year average. Backlog is slightly above its 5-year average. Very high demand is continuing to drive up prices. Above average condition on late models is bringing above new cost at auctions. Month after month there has been a decrease in overall supply of vans and reefers for sale. On Truck Paper alone, vans went from 2,536 in February to 970 as of November this year. Also, reefers went from 2,976 in February to 952 as of November this year. Spot Rates have been slowly increasing since August.
- Sales and orders are remaining high with the 8-12 month wait for new spurring the increase in values in the van and reefer sector.
- 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:

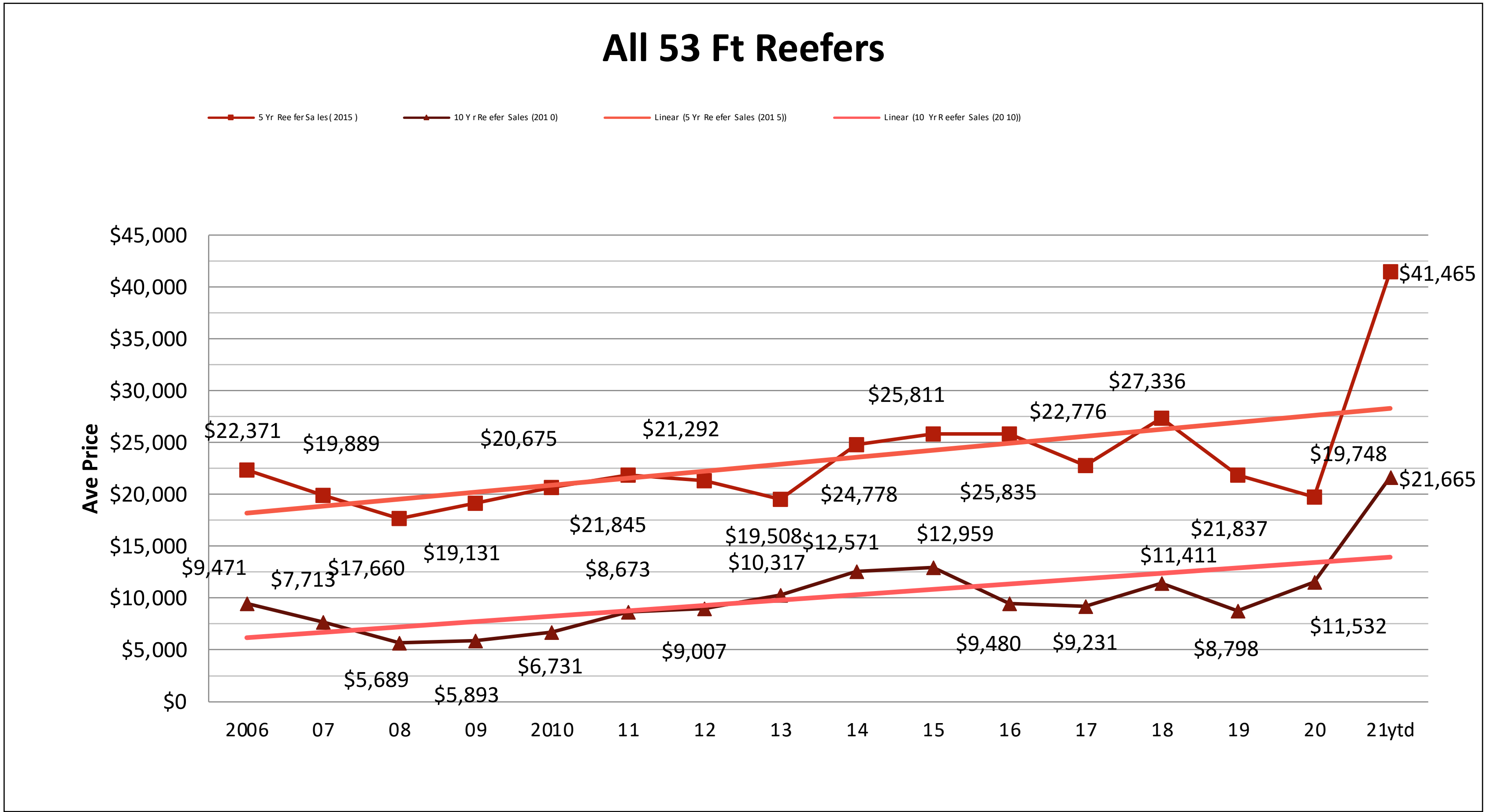
This chart is an interesting reflection on the used van market. The van market is just crazy. It is almost uncomfortable to trust a chart that looks like this, but we have sold more 5 year old vans this year than last and we have had that kind of increase.
10 & 15 year old vans are both close to last years quantities and are both showing this kind of strength.

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



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

Reefers: Both 5 & 10 year old (2010). Same story here. The reefers have been following the same trend as the dry vans. Late model trailers have been bringing insane values at our auctions. Once again this is not just a couple of sales, we have had decent volume bringing consistently high values.



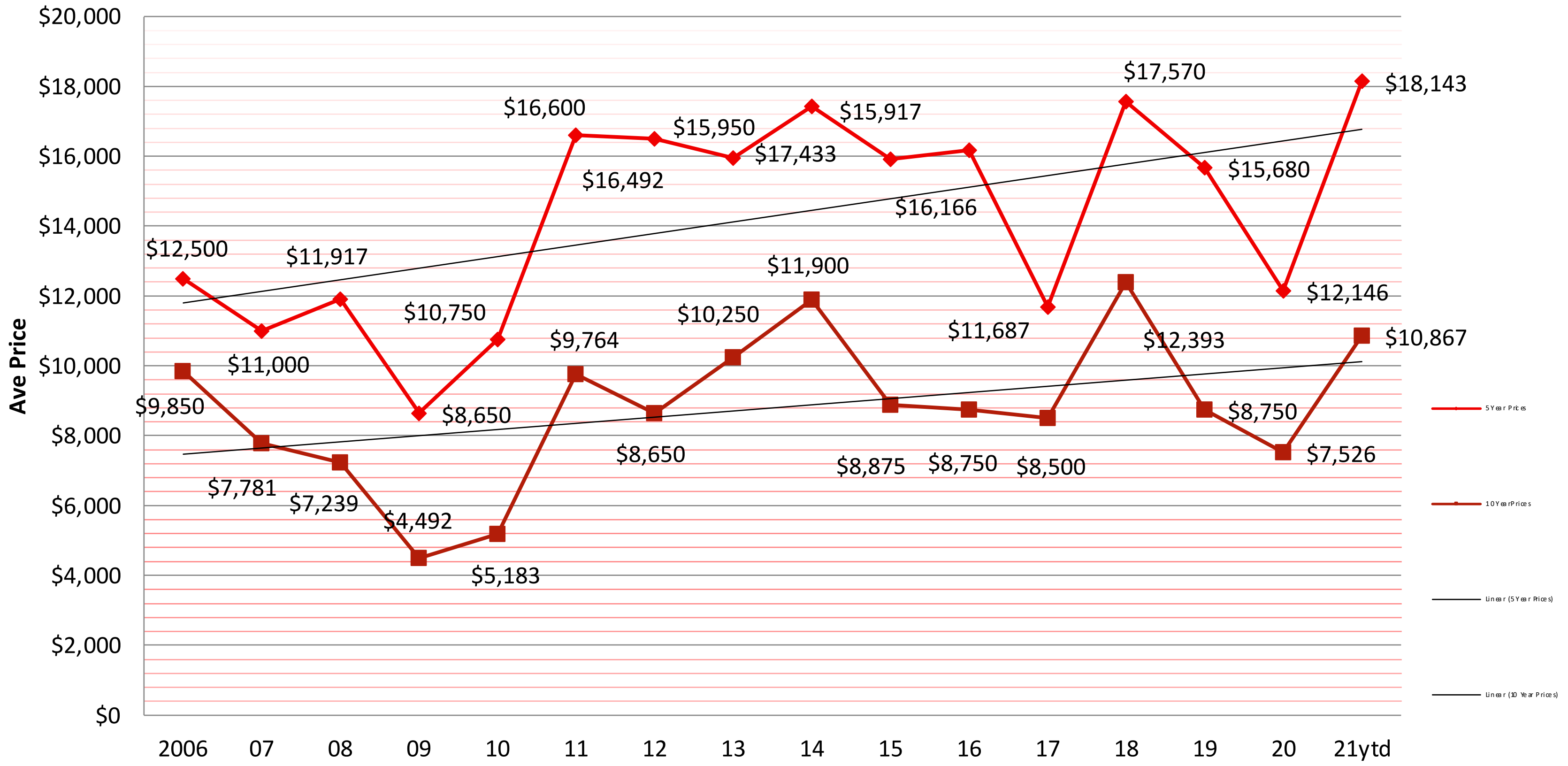
5 & 10 Year Old Composite Flatbed Sales (Taylor & Martin Auctions) are charted below:

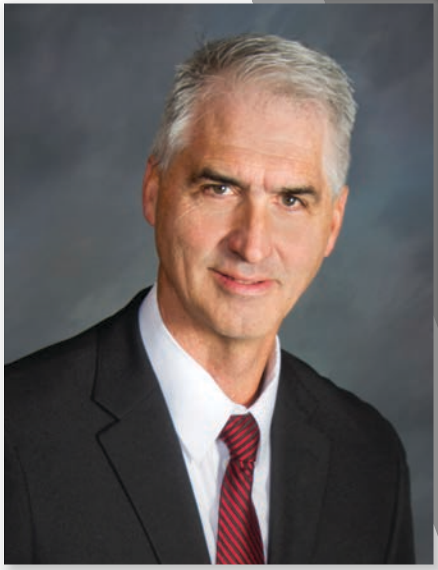
Combo Flatbeds (Alum/Steel Composite) have continued to show significant weakness, when compared to 2018. To date, limited 5 or 10 year old combo flats have been sold by T&M in 2020. The below chart was not updated for the 5 year old flatbeds, due to the lack of material data. I did have to use some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

The flatbed market 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.

Composite (Alum/Steel) 48 Ft Flatbeds





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

Americans have been feeling the pain of the supply chain backlog and are seeing firsthand the global delays reported. Steady 2021 consumer demand has cargo stacked just out-of-reach as the US ports volume has increased all summer causing shipping rates to climb. Insufficient drivers and chassis trailers compound the problem as goods are further delayed leaving the ports. Empty containers make their way back to China from this buying surge by-passing the various ag locations that previously filled them with red wheat or soybeans before a return trip. These delays are fueling this year's drop in agricultural exports which is almost 23% less than last August. Agriculture is feeling the pinch of new orders and the economic demands of a slowed supply chain, unavailable labor, higher fertilizer and steel prices, logistics issues and increasing inflation.

New production still lumbers along as many labor groups raise issue on compensation and benefits. Urged by US agricultural groups, the Federal government has brokered 24/7 operation of the key U.S. West Coast port that handles over 40% of inbound US goods and encouraged other ports and larger firms like FedEx, Wal-Mart, and others to also extend hours in goods delivery. This attempt to improve the supply chain backlog that is stacking up may seem futile as workplace sentiment drops and qualified labor becomes scarce. Even the larger agricultural OEMs like John Deere have union disagreements pending as extensions expire and negotiations stall. Spring parts orders may well be #1 on this year's Christmas lists.

As I stated in the last quarterly newsletter, Ag firms anticipated some increased pricing as 2021 continued. Strong equipment demand and low dealer inventories have continued as manufacturers are layering on new pricing due to increased raw material costs, steel surcharges and labor shortages. Fortune magazine states steel prices are up 215% since March 2020. Ag Equipment Intelligence sites ag price increases anywhere from 4-22% and their sources feel it's possibly the largest increase over the last twenty years. Their September Ag Economy Barometer reflected the lowest Capital Investment sentiment by US farmers since July 2020. A vast majority of lenders surveyed in the Phoenix Management "Lending Climate in America" survey expect a slowed job market rebound into the holiday season, Q4 and early 2022 with some return to normality even with the delta variant. About 23% believe a further Q4 delta variant surge will lead to hiring freezes and possible shutdowns. A vast majority of surveyed lenders felt borrowers have reacted to this Cost-Price squeeze by raising their prices and limiting discounts vs. absorbing margin shrinkage or tightening waste.

Now to the fields, soybean fields specifically. Commercial soybeans are valued for the meal produced and as animal feed, but their oil content may add a new revenue premium. Public policy to reduce carbon emissions and lack of nitrogen availability has increased demand for more bio-based fuels and as oil prices hit a seven year high of $84 per barrel. Estimates expect 5-7 million additional soybean acres to meet current demand. Renewable diesel production processes fats and vegetable oils to create a renewable fuel chemically equal to petroleum diesel without the need to blend. Enter High Oleic (HO) soybeans with a genetic trait of much lower saturated fats, nearly 75% oleic acid and relatively low 2-3% linolenic acids (acid contributing to shelf instability). The plus side, these beans are drawing premiums up to $ .75/bu. Processors like Perdue, Bunge and ADM are partnering with local elevators this year and anticipating more expansion acres in 2022 just when fertilizer is tightening to the point it may be unavailable for spring delivery.

Economics, jobs, new markets and now on to the weather. Normal temperatures and below normal moisture. Possibly, you have noticed the banded Wolly Bear caterpillars crossing the roads? Folk lore says size and smaller rust stripe width indicate harder, longer winters. Possibly though, these predictors of winter are just products of the current year's mild weather. In any event, harvest wraps up across the now wetter U.S. with limited to mild disruption. Argentina spring planting is extremely dry which may provide corn some upside.

Look for a stronger December-March soybean market, continued employment needs, continued decline in building permits, the dollar under pressure and more talk on taxes (estate, gift tax exemption thresholds and corporate tax rates). The Ag economy rolls forward, riding the wake of COVID-19 on the marketplace.

John L. Seymour, ASA Senior Appraiser