The Meter

Transportation (Trucking) Update (6-1-2022)

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Introduction

We at Taylor & Martin hope you all had a safe Memorial Day weekend. Summer is finally here and changes in the trucking world are here as well.

The used truck and trailer market has finally taken a step back from the insanely high values we started getting used to in the auction world. We are still in a very elevated market just not the $242,000 used Volvo 860 market or the $92,000 Wabash Van market. Both values we have seen at auction.

A combination of falling spot rates, rising diesel costs and a shift from consumer spending on goods to services have all contributed to the decline. We still have a strong trucking industry, margins have just decreased. This of course will have a bigger impact on smaller or young companies. 97% of all trucking companies in the US operate 20 or fewer trucks. These companies are also large drivers of the used truck market since they tend to buy used as opposed to new. These companies are also more apt to be using the spot rate market as opposed to contracts for many of their loads.

We need to understand we are still in a strong trucking market, it is just less extreme. We still have many supply chain issues and lack of new inventory that will help keep values above historic trends. As I stated in the last newsletter, we were in a perfect storm for used equipment values - high rates, lack of inventory, high consumer demand and affordable diesel took values well above levels we have ever seen. We are just trending down from the peak, but still maintaining well above traditional values.

Diesel costs look like they will remain elevated for most of the summer and with the cost of goods remaining high or going higher and a concern of consumer demand dropping could drop spot rates further slimming margins. Contract rates, which generally, react to market changes 8-12 weeks after changes to spot rates are expected to start to fall soon. This should have a more direct effect on prices for the consumer.

The ongoing conflict in Ukraine and the lack of more refining capabilities worldwide along with elevated seasonal use diesel costs will remain a problem. Diesel is so widely relied upon in the transportation industry from manufacturing to shipping and the extra costs will continue to be passed to the consumer, aiding inflation.

What we have begun to see at auctions is a 15% reduction overall in prices. Late model and equipment with low miles are closer to 10% down and older equipment nearing 20% down. We have seen a small spike in dealer purchasing at auction but from what many of the dealers have told us is that they are going to pull back on purchasing until they have more confidence in the future market. Lack of available new equipment resulting in less trade in trucks and trailers should hold the used market above pre-covid levels.

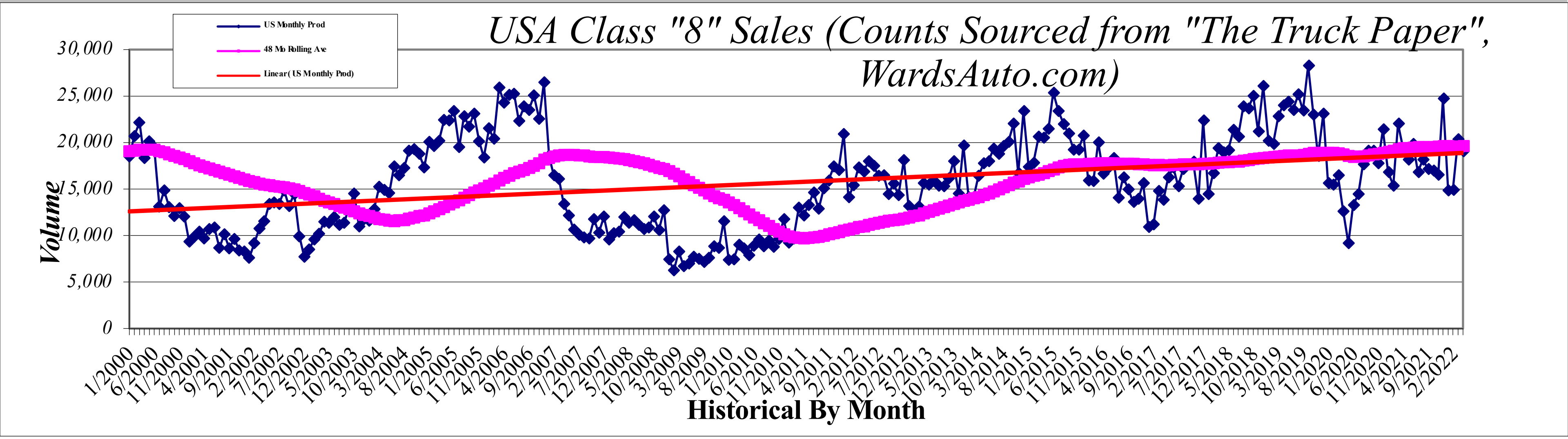
The current market will make it hard on the smaller companies. With the margins continuing to tighten we would expect to see a lot of independents exiting from the market or people signing on with a larger company. Many that entered the market paid the full premium for their equipment will not be getting the same treatment when selling. Let's hope most took advantage when they could to pay down loans. Unfortunately, we all know this will probably not be the case for many.

When we start seeing the swing in the market we currently are in, we see a transition period from the buyers and sellers. Nobody wants to overreact so many just sit back and try and play it safe by waiting to see what the future market holds. If you have something to sell and are planning on moving it in the next 60 days at auction, now is the time. I am by no means predicting a major fall in values, but we do expect the decline to continue in the near term.

We have started to see a slight increase to the number of ads on Truck Paper. We are still well below standard totals we have noted less 2020-2023 model year trucks and 2018 and older total number of ads increasing. I would expect to continue to see modest growth in older tractor listings but until production gets back closer to full capacity used inventory will remain suppressed.

We are really living on the edge with our economy. Many factors that affect the trucking industry are at or have been at all time highs. Potential for quick swings in the markets are in play. Whether we end up in a recession or not the markets are volatile, but overall the trucking world is healthy just not at the levels achieved in Q1.

Let's take a look at some of the charts. Take note of the current drop in values at auction and how high we still are compared to historical 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 18,002 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.

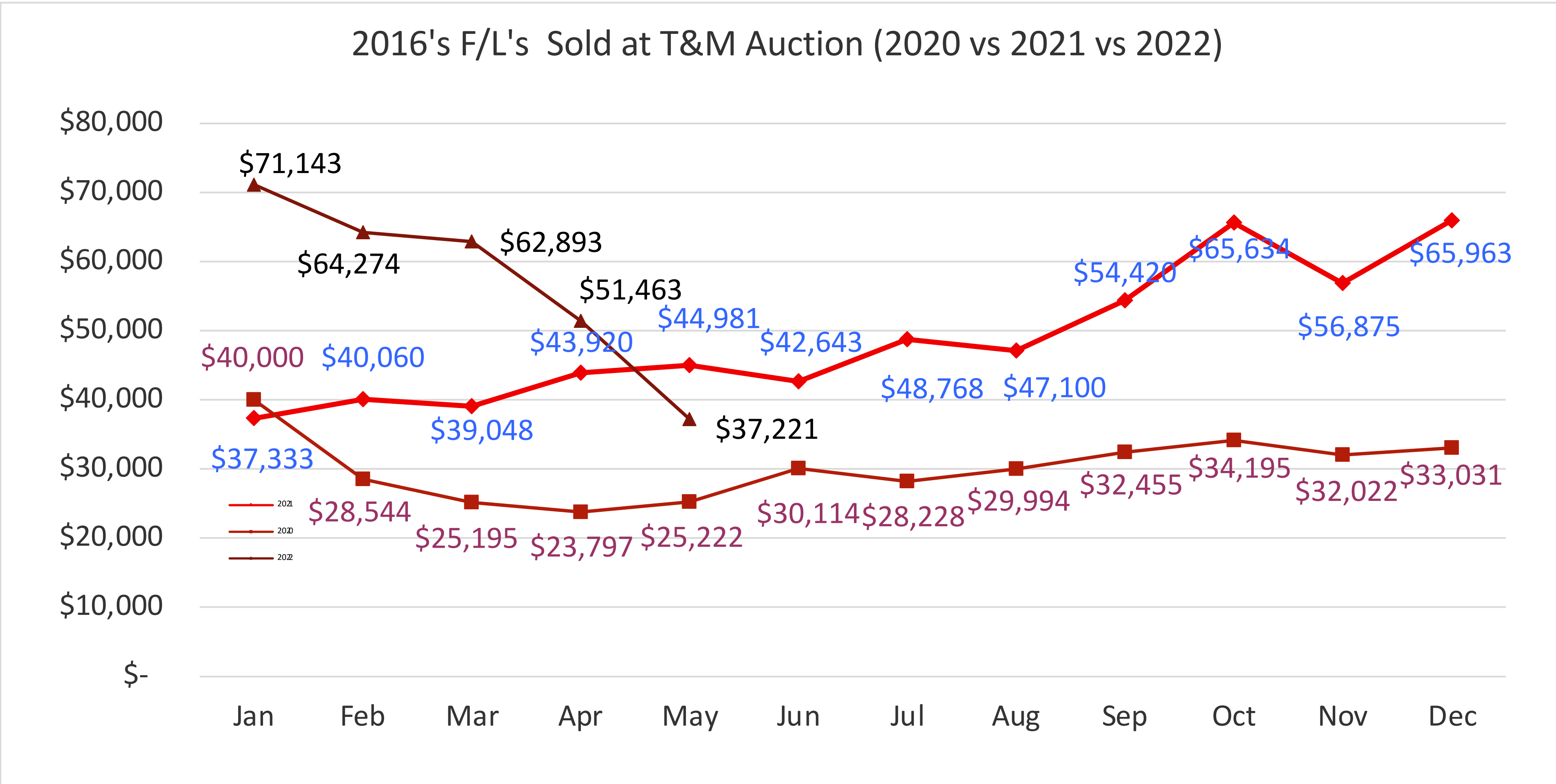
4: Actual Class 8 purchases have been down since the year end. December 2019 of 23,119 to averaging 15,271 for the year in 2020 with the low at 9,165 in May. We are currently at 19,602 for 48MMR and as production increases sales will follow until we reach the trucking industry demands.

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. Confidence in current market and delivery times also hold back orders.

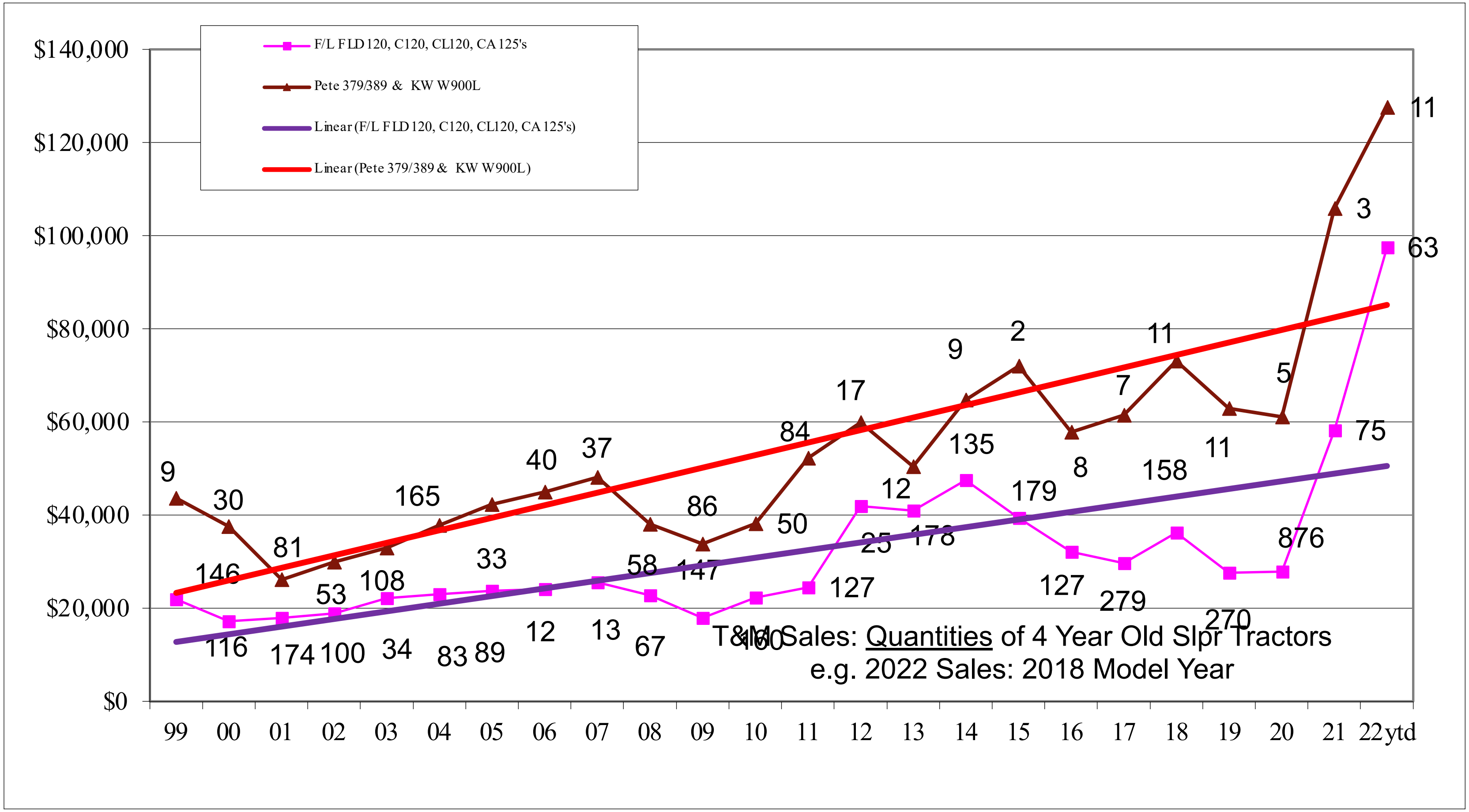
7: We are currently in a trucking friendly market. Supply chain disruptions and the impacts of inflation on consumer demand should hold sales at or around the 48MRA. Both of these factors are trending on being issues throughout the rest of the year.

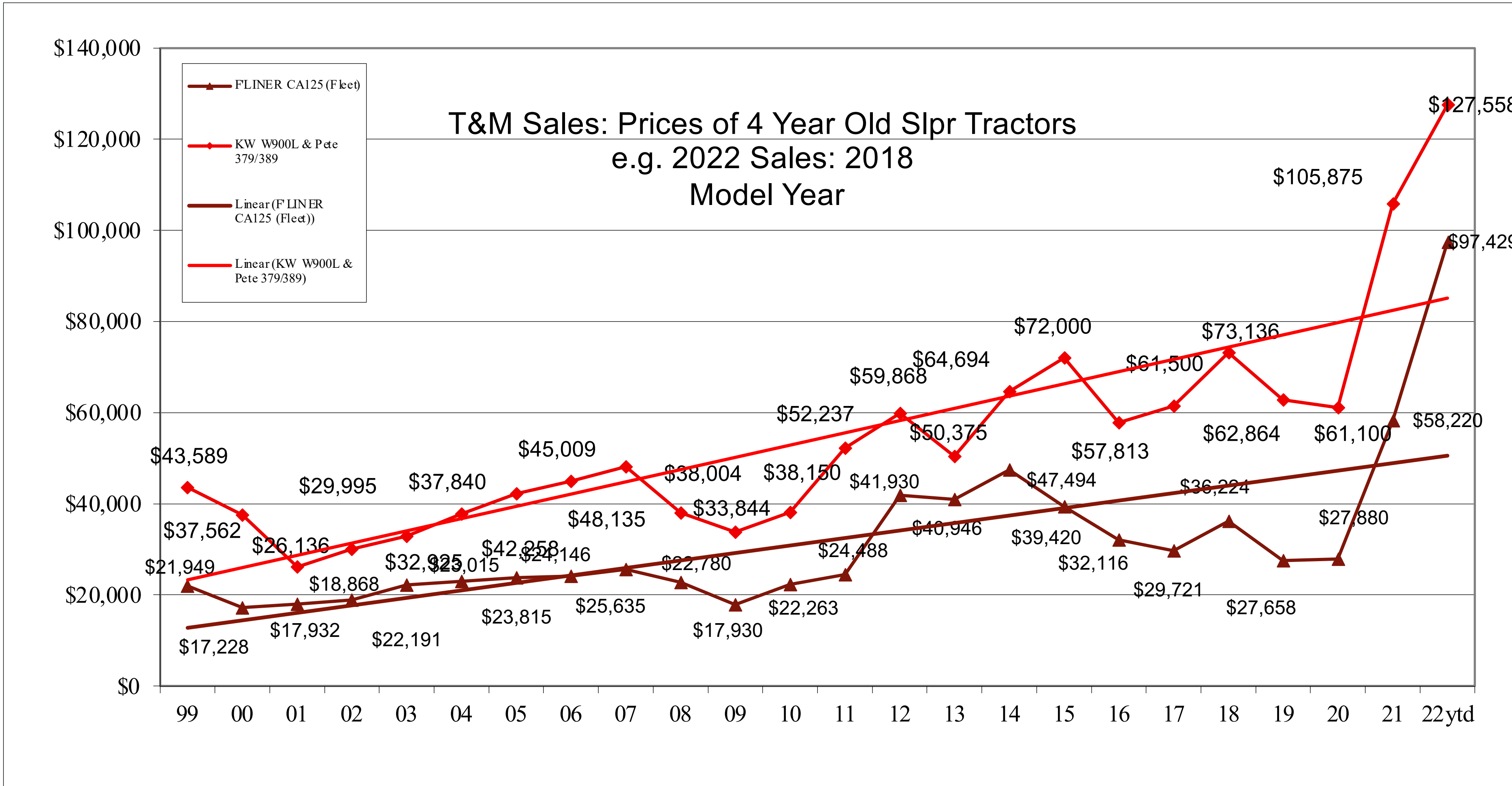
I have decided to keep this chart going. Now we are looking at 2016 Cascadia sleeper trucks into 2022. These trucks are now 2 years older than when they sold in 2020. Now looking at this chart it could be alarming. It is a dramatic drop in April and May, but keep in mind that in 2020 the values for the 2016s would be equivalent to a 2018 currently. 2018s have averaged $87,808 in April and $83,538 in May. That is a drastic difference from what a 4-year-old Cascadia was bringing in 2020. All in all, this chart shows the downfall from peak, but also the fact of how high values currently still are.



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.
Volumes have been on the rise for this later model equipment at auction due to the extremely elevated values.
I would expect volumes to level off as the values slowly work their way back toward less extreme levels.



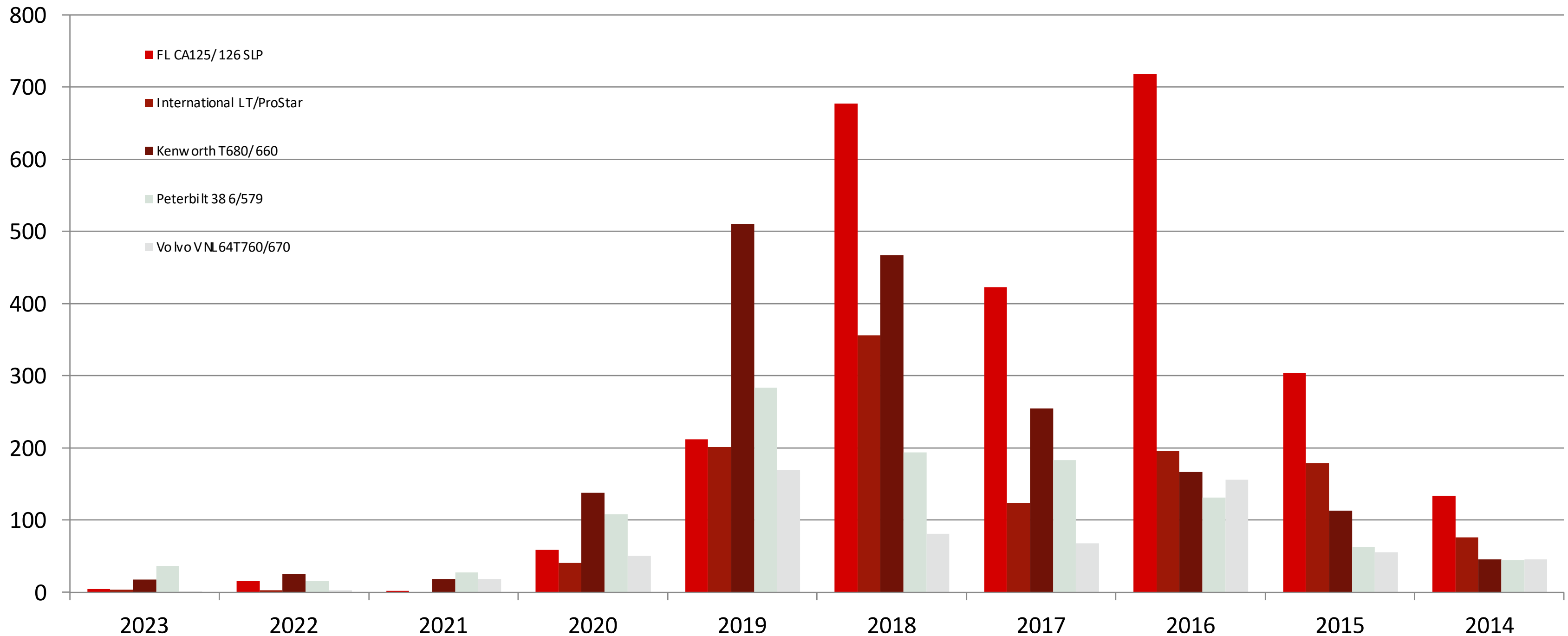


Above are T&M Sales by average annual prices. (As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both are generally considered to be spec'd as Owner-Operator (O/O) tractors.) As seen in the previous slide overall sale volumes are down with the values being up drastically.

As mentioned in the previous page with quantities, values are still well above trendlines. We should remain well above trendline for the foreseeable future. As long as new production is hampered by supply chains values will continue to remain on the high side of trend.

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? (May 27, 2022) We are up slightly from February (5,869). We have had a shift in available equipment on TruckPaper. You can see below we have a huge decline in new equipment listings and more in the older/trade term equipment. The tightening in the market is already having companies adding older equipment up for sale and dealers having nothing to list. 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.



27-May-22	Sleeper Tractors For Sale On TruckPaper.com: May 27, 2022									Ave. Age	2016.44	
Make	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	Total	% of Total
FL CA125/126 SLP	5	16	2	59	212	677	423	718	304	134	2,550	35.284%
International LT/ProStar	4	3	0	41	201	356	124	196	179	76	1,180	16.328%
Kenworth T680/660	18	25	19	138	510	467	255	167	113	46	1,758	24.325%
Peterbilt 386/579	37	16	28	108	284	194	183	131	63	45	1,089	15.068%
Volvo VNL64T760/670	1	3	19	51	169	81	68	156	56	46	650	8.994%
Year	65	63	68	397	1,376	1,775	1,053	1,368	715	347	7,227	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 staying steady between $95 to $115 a barrel. Currently WTI is sitting around $110. With having the petroleum ban on Russia, oil prices will stay inflated. Analysts predict that in the upcoming months oil will stay steadily high based on the summer season, but the upside will be limited based on oil reserves being released. While forecasting $80 to $95 a barrel in the year 2023.

- Building Activity (Home, Office, etc.): Housing markets are still strong, but analysts are predicting less competition on bidding up prices, but housing prices will still increase in value but at a slower pace. Supply chains haven't gotten much better with 3 to 6 months wait on certain materials to build homes. We are in our second month of slowing of new home builds month or month, but apartment buildings with more than five units are still up ticking. With our second-rate hike of the year which rose .50 bps, the forecast for the next two Fed Meetings is a consecutive raise of .50 bps. The nations average rate for a 30-year mortgage loan is 5.02%.

- Drivers: Shortage! The American Trucking Associations estimate that the industry needs 80,000 more drivers, which this number could double by the year 2030. Even with a 25% increase in pay from 2019 it still isn't enough to keep up with demand. Trucking employment now exceeds its pre-pandemic level by 35,000 drivers. The trucking industry partnered with Veterans Service Organizations to help combat the truck driving needs with about 200,000 service members transitioning out of service each year.

- 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 until supply chains are sorted out with more drivers, trucks and inland storage spaces. Analysts believe ports won't be able to catch up till at least the first half of 2023. Less than 40% of ships are arriving on time and the current turnaround time is 6.9 days verse 3.4 days prior to Covid. The only thing that could help shorten that time frame is the lockdowns in China and the Russia-Ukraine war. They both have the potential to create a break in the demand at the ports, but only time will tell.

- Construction activity is still slowly increasing. The lack and price of supply (Lumber, Steel, Workers) is still a major issue. Associated General Contractors of America survey showed 75% of companies indicated project delays due to longer lead times or shortage of materials.

- Politics: The government launched a 90-day challenge at the end of 2021 which aimed at encouraging private companies and organizations to offer registered apprenticeship programs that provide workers a debt-free path to becoming certified drivers. Since December 2021 to February 2022 was the best three-month stretch for long distance truck hiring since the 1990's.

- Inflation: CPI was 8.5% in March and 8.3% in April. It may seem that we have peaked on inflation but with oil still climbing we could see a higher May CPI number. One way to compare is looking at Core CPI numbers in May since that removes food and energy.

Trailers

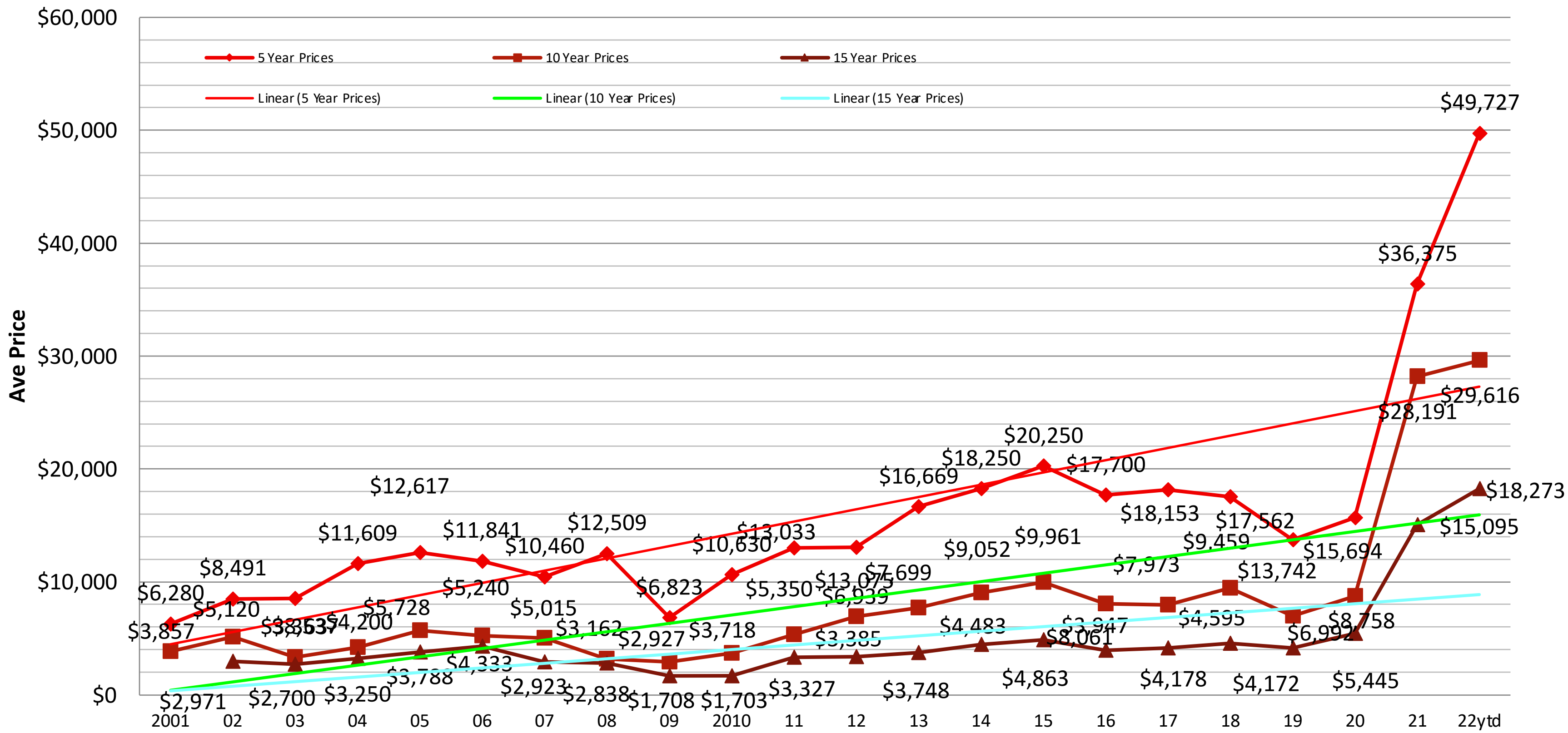
- Production issues continue to hold up new and used equipment values. Vans and reefers are still bringing higher values prior to covid at auction. The first quarter of auctions were very strong, but with April and the start of May the values are slightly dropping. The values should still be above pre pandemic levels throughout the rest of 2022.
- **Ag Trailers:** Demand is slowly starting to pick back up based on the season. The main factor for 2022 is fertilizer and crude oil prices since they usually follow each other. Fertilizer, Crude Oil, and Corn are all staying steady near their highs.
- **Pneumatic Trailers:** Steady demand for large capacity trailers. 1040s still struggling. Large numbers of the small cubes on the secondary market are holding values down. New costs are still rising with a 4-8 month wait.
- **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 have increased 7% from February to March and currently hovering around the highs.
- **Heavy Haul Trailers**: Demand is steady. Should start to see more volume on late model heavy haul trailers based on having the highest net build rate in 5+ years during March.
- **Chassis Trailers**: Had its first down tick in backlogs since the middle of 2021 and having the highest net build rate in 5+ years during March. With the ports not slowing down, demand and prices will stay relatively strong.
- **Dry Vans and Reefers**: Very high demand is continuing to keep prices elevated from prior pandemic levels. On the public market there has been a slight increase month over month since the beginning 2022 of for sale units. Dry Van net builds was the highest since late 2020 during March, while Reefer’s backlog is still growing. Spot raises have fell 12-14% from February of 2022. Starting to see an ease in the inflated prices of vans and reefers from what they were bringing at the beginning of the year, but still above pre pandemic levels.
- Sales and orders are remaining high with the 6-12 month wait for new spurring the increase in values in many sectors. While auctions are starting to see a down tick in prices from the beginning of the year. Some manufacturers are already done taking orders for the year.
- Overall, the trailer market is still very strong compared to pre pandemic levels while 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:

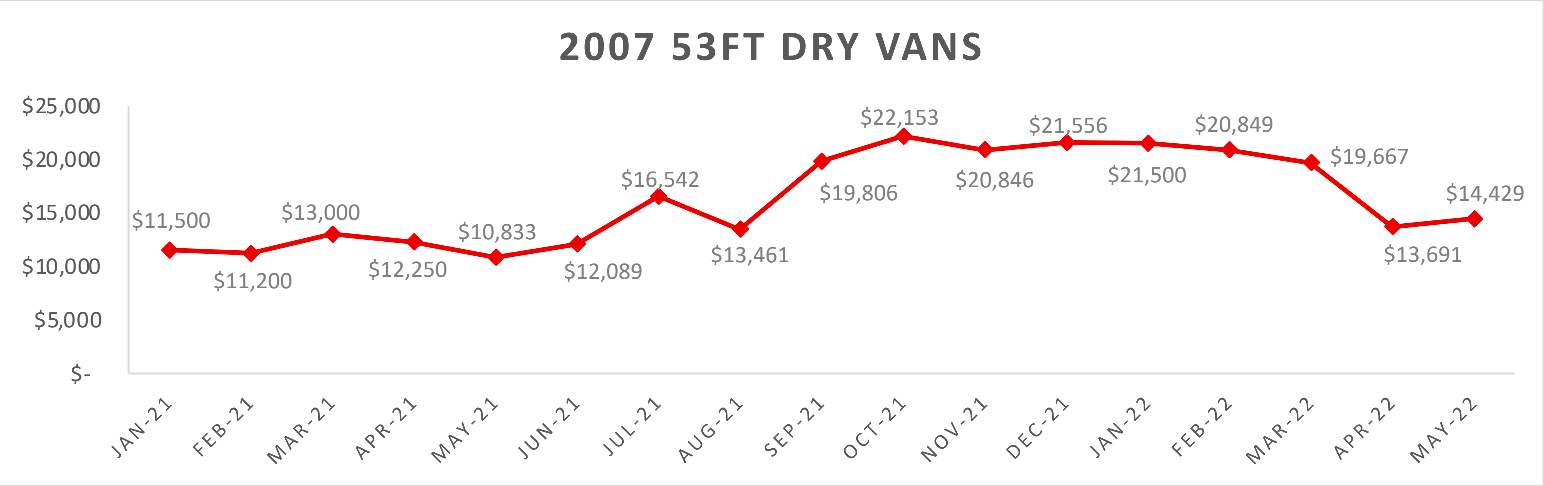
This chart is still amazing to look at, but numbers have fallen some. March 1st we were at $56,833 on 5-Year-old Vans and $36,769 on 10-Year-old Vans. Still showing a lot of strength but it does seem we are off the peak values in the vans as well. Volume is still high at auction, but I would expect to see some slowing in the late model vans being added to auctions as they are not bringing 30-50% over new cost anymore.

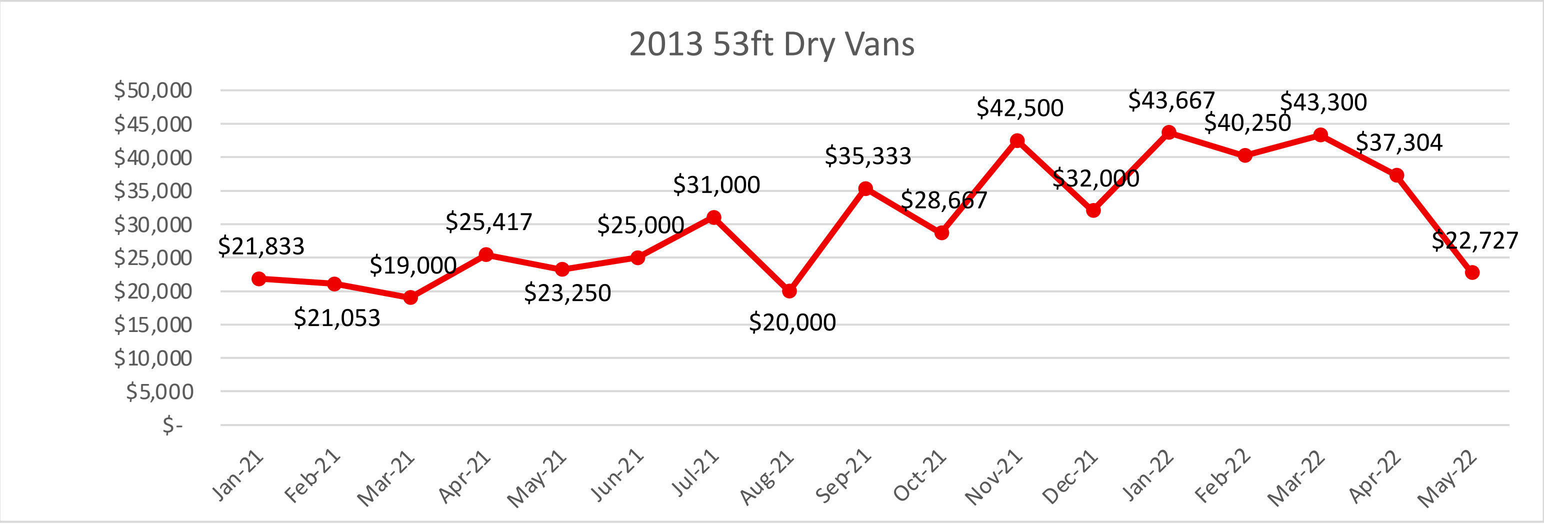
T&M Auction Results: Tracking 5 Yr, 10 Yr & 15 Yr Old A/R Dry Vans



The below charts show the drift we have had from off the peak in Q1. Numbers are still above where we were at in Jan of 2021. We also included what we have seen for estimated new costs of a new tier 1 plate dry van. These are estimates from past invoices and are just a guide to show the change in new cost recently and how the rise in new cost should help hold used costs above past trends.

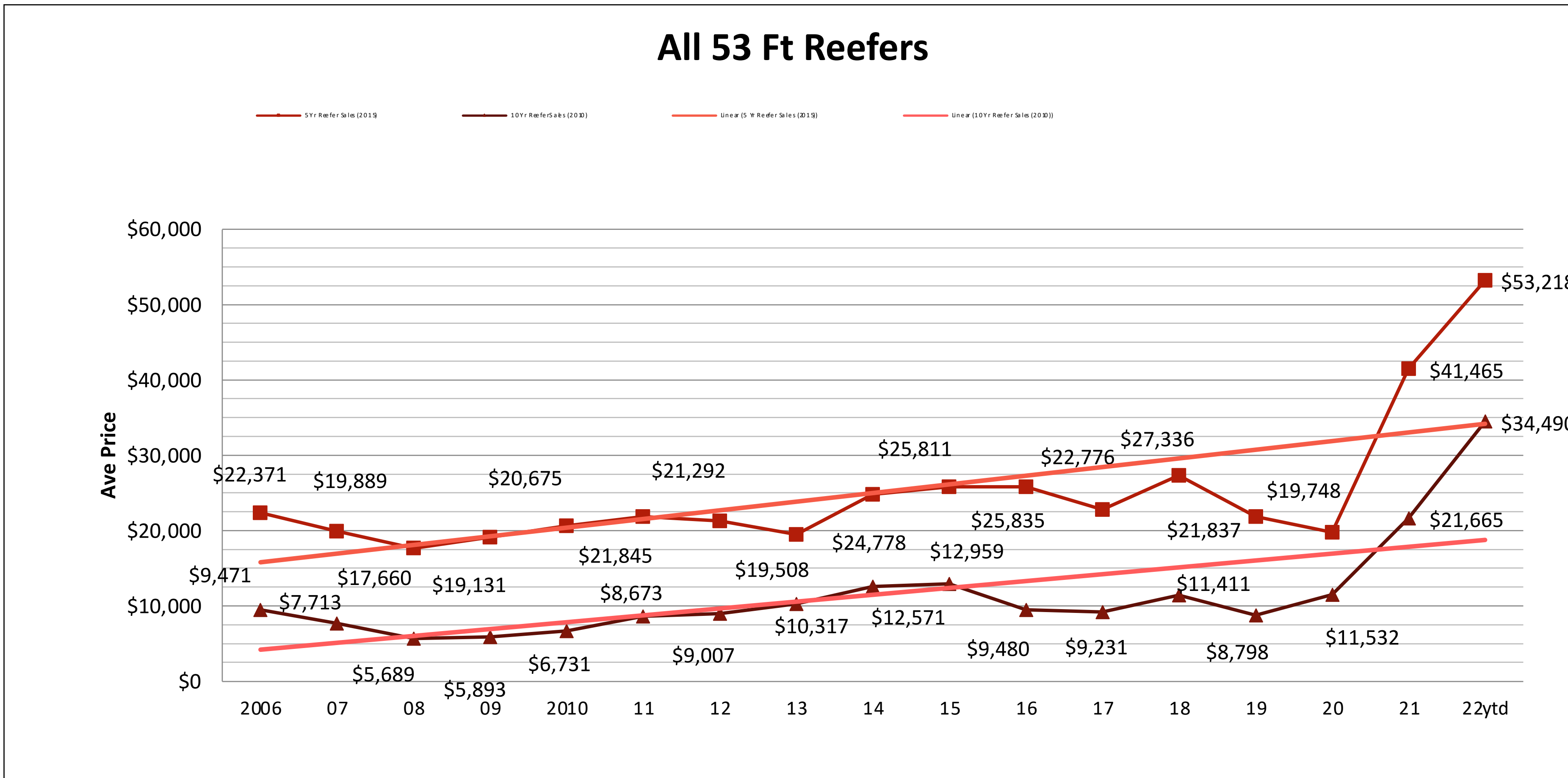
	Estimated New Cost 53ft Plate Vans
2013	$ 29,000
2014	$ 29,500
2015	$ 30,500
2016	$ 30,000
2017	$ 29,900
2018	$ 30,000
2019	$ 32,500
2020	$ 33,850
2021	$ 36,000
2022	$ 42,000
2023	$ 50,000





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

Reefers: Both 5 & 10 year old (2012). Refrigerated trailers have been along the same lines as the vans.
Spot rates like the vans have taken a large hit since the beginning of the year. I would expect these stay well above trendlines as well.

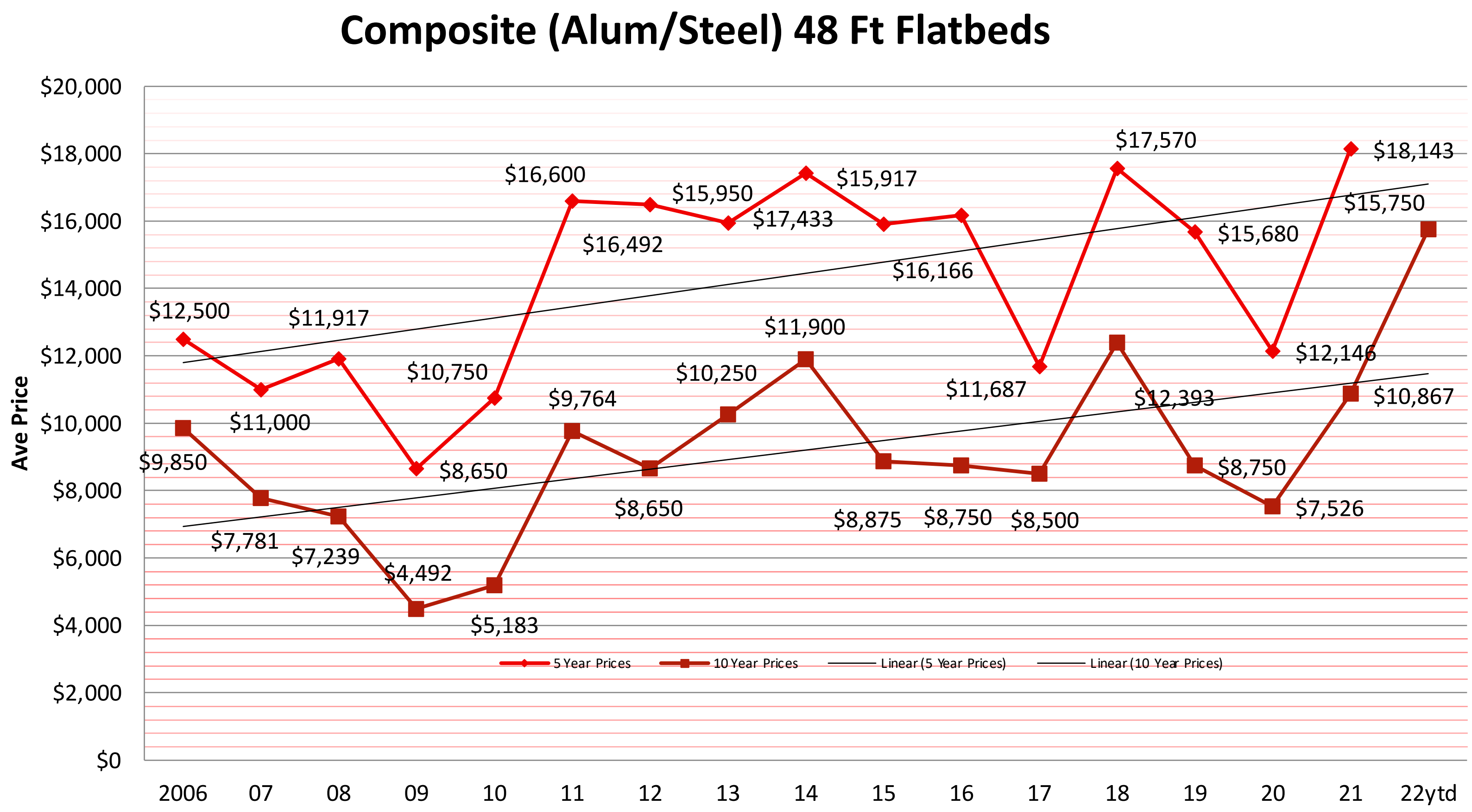


5 & 10 Year Old Composite Flatbed Sales (Taylor & Martin Auctions) are charted below:

Combo Flatbeds (Alum/Steel Composite) have been showing signs of strength. Spot rates in the flatbed market have begun to rise. Values should follow. I would expect to see less that typical depreciation though the summer months.

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.



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

- Much has heated up since our last newsletter. Stormy weather worldwide turned geopolitical aggression when Russia attacked Ukraine to the West. The Ukrainian people exert resistance despite a weakened economy, daily military attacks and tens of thousands daily fleeing the country. The world watches as the disruption moves world-wide into economic/production markets. A rich and heavy agricultural export region has been halted, shutting down the Black Sea to trade vessels. Most US commodity markets initially hit trading limits eventually settled but remain volatile and the general disruption has now turned worldwide.

- Many of the US economic concerns from 2021 like the labor shortages, cost-of-goods, freight woes and the growing driver shortage have lost center stage to human tragedy and dictator aggression upon so many of this region. UN nations document and record war crimes with hopes of peace, hesitant to escalate this action within borders outside Ukraine and willing only to provide military arms support to this point. However, it will not be long before every world nation feels the impact beyond oil demands from this conflict. Agricultural exports and production have been on hold in this region until the fighting ends. Early March per Feed & Grain magazine, the Ukraine state-ran railway operator stated confidently that it can move 150 grain carriages (70 tons each) per day via neighboring UN countries ports though now stalled in-place. Planting will of course be halted causing new season crop issues should this action continue further into spring.

- Planting here in the US continues to feel these impacts in soybeans as a Brazilian crop is reduced even further possibly down 40-50% including Argentina and Paraguay yield estimates says USDA which impacts 50% of the world soybean supply. Technology news finds 4R (30") autonomous planters are currently in Midwest field trials running 24/7. Zero compaction with soon to be add-ons for 6 & 8 row features. Future cost savings may not get here soon enough as *global demand* adds even more pressure on a 2022 crop beyond ag inputs.

- No big news that fertilizer pricing is on the increase, but a Canadian Rail Strike adds work stoppage to the potash supply woes for agriculture. Canada, in addition to Russia and Belarus, is one of the top three world suppliers of potash. Rising inputs costs coupled with `retaliation tariffs imposed' in 2018 and 2019 by top six trading partners with US will negatively affect 2022 farm cash receipts, focused the hardest on Midwestern States soybean and pork farmers. These `retaliatory tariffs' stemmed from US tariffs on steel and aluminum imports in 2017. These costs and supply chain woes may change the appeal of 'just-in-time' inventories.

- China is important to US trade but may be *slowing its food imports* as it rebuilds its hog numbers after Swine fever losses per an Iowa State University Extension economist Wendong Zhang. China has 20% of the world's population and 11% of arable land but has been filling protein gaps from its aging population growth. China's *trade partner agreements strengthen* with U.S. competitors as the average tariff on US products is roughly 20% from 8% in 2018 while lowering tariffs to non-U.S. trade partners to below 7% today embracing their view of free trade. A slowing growth rate and aging population signal *population structure change*, specifically more affluence and protein demand that is changing the quantity and make-up of the exports. *Infrastructure improvement* is still a focus beyond high-speed rail to improving the trucking system that links rural and city areas with green and smart cold-chain technologies insuring increased meat transport versus live animals. The China and U.S. *political relationship appears to be a bumpy road* over the next decade in the broad view as China President Xi Jinping will likely stay in power for his up-coming third term watching American politics.

- Continued strong agricultural equipment demand carries into 2022 as production monitors global disruptions reflected in the world demand for US commodities. Manufacturers, farmers and ranchers have hard choices this spring facing increasing input issues and volatile markets, especially with expiring Section 179 Tax provisions. La Nina takes a bow with hints of a warmer, drier year ahead. World disruptions aside, spring is here as a renewed sign of hope and a new season of growth. Hopefully, the world can grow in a view that we are all on this planet together. Until then agriculture must keep looking forward and get to planting.

John L. Seymour, ASA Senior Appraiser