The Meter

Transportation (Trucking) Update (6-2023)

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Introduction

I was researching a new way to get our auction information out to client/customers the other day and I just had to laugh. In 2022, the first truck I saw that we sold was a 2019 Freightliner Cascadia with a DD13 engine and 416,000 miles on it. It brought $143,000. Still hard to believe, but times have changed. Same spec'd trucks were bringing low $70,000s in March and now even lower.

I feel like most have accepted the change and are moving forward. We go though a phase where the auctions show the decline first then the dealers and lastly the sellers finally give in to the actual value of their equipment. During this time, we generally slow in equipment transactions until everyone accepts the reality of the new market. Judging by high auction volumes from dealers, fleets, and end users the acceptance of the new values has started taking effect.

We are nearing the end of the value slide at auction but the length of time we remain on the low side is uncertain. Consumer demand for goods looks like it could remain low through the summer not sparking any major equipment needs. Inventory levels are on the rise on Truckpaper.com which has given anyone in need of equipment more options and holds used values down.

As stated in the previous newsletter, the increased availability of used equipment at retail or at auction has allowed the buyers to be more selective. Tier II equipment and non top-of-the-line specs have really seen a decrease of value. Quality trucks and trailers have become more affordable again but load rates have decreased need. Now is not the time to overlook small details when dealing with trades ins or on loans.

Inflation, interest rates and the increased cost of services should hold back consumer spending on goods. The impact this will have on the smaller trucking companies will be huge if this cycle persists. We are expecting to have an increased number of dispersals in the second half of the year and have already seen an elevated number of repos at auction. I would also expect mergers and acquisitions to be relatively strong as well - last year it was because of growth, now it could be more about opportunity and survival.

The cost of new equipment has gone up across all areas and for the most part this has helped to maintain somewhat better values at end of term but the overall depreciation rate due to higher new cost has increased. We could potentially return to more traditional rates by the end of the year if used truck values and demand increases for the holiday season.

The 2027 emission changes are going to start affecting the market in the next couple of years as well. Estimates of a $20,000+ price increase on new equipment purchased and lack of consumer confidence in the technology are going to give a bump to used truck values in the 2026 model years and older. Most are expecting a large pre buy to occur in 2025 and 2026. I would expect that manufactures will be more prepared this time around compared to 2008. This would hopefully limit the disruption the new emission rules incur.

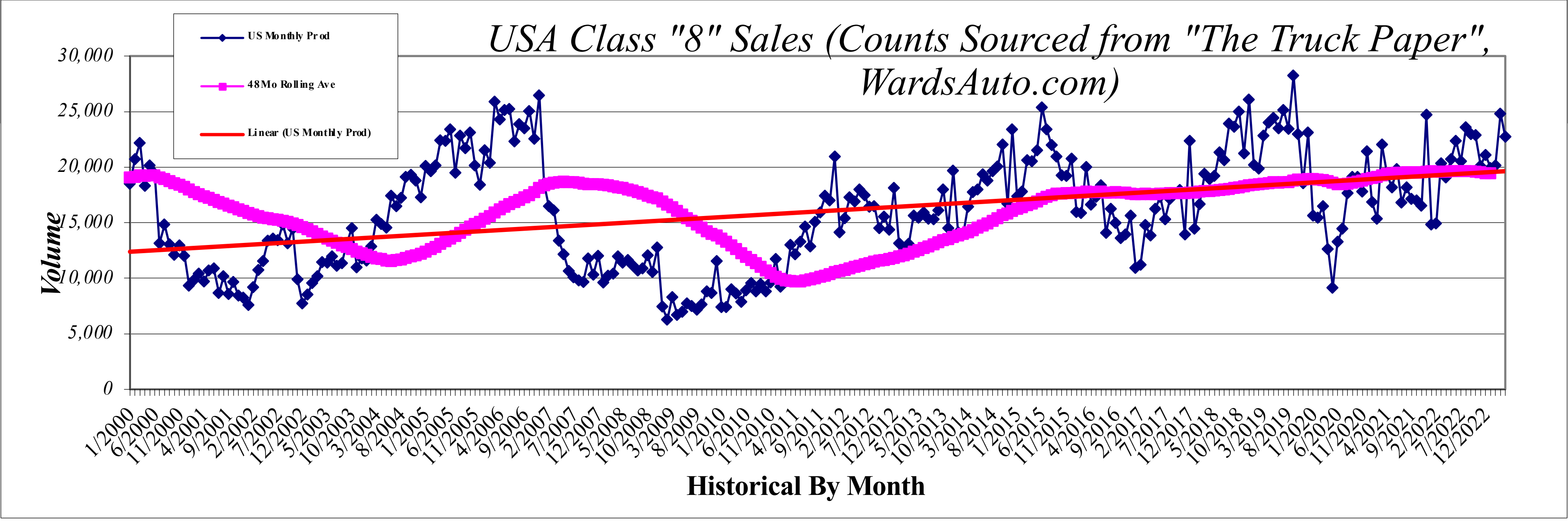
In 2008, when the new engines were introduced, they had some major issues with the emission systems and this drastically increased the value of the 2007 and earlier models that lasted well into the 2010s. Only time will tell but it will be something to keep an eye on in the years ahead.

Speaking of the future, I get asked all the time - as a lot of you do as well - is what will the market look like in the next couple of years for EVs? I also would love to know the answer to that. I believe in the vocational world they make some sense already and when technology is improved class 8 trucks will follow. I believe acceptance and usage will continue to grow and that technology will continue to improve. The harder part is predicting what the used market will be like for EVs.

It is going to take some time for the secondary market to build. The market will favor the larger companies of course, and they will just be buying new. As for the secondary buyers they will not have the luxury (as of now) to take advantage of the subsidies and would have to still deal with their electric grid and charging stations all for their used vehicles. I think it will be quite a while before used EVs command a higher dollar figure than a similarly spec'd diesel truck.

The auctions have been behaving as you would expect higher volumes, lower values. Still a lot of interest and dealers have been active but actual prices being paid have decreased steadily. We are thinking we are close to the bottom of this cycle but not optimistic on seeing any rebound in values anytime soon. We could be stuck with these values for a while, but a lot more equipment volume to choose from.

Hopefully, these charts help explain a little about what I have talked about with real numbers. As always, if you have any thoughts or questions, please feel free to reach out to me any time avering@taylorandmartin.com.



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. Obviously, the market has been thrown out of any typical trend but keeping an eye on what recovery looks like from the past can give us an idea on what to look for. Sales should stay above the 48MRA barring any major economic changes for the next couple quarters.

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 we have been seeing quantitanies in the low 20,000s.

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: (6/2022) 19,654, is a new all-time high. Over the last 8 months we have been hovering in the low 20,000s with strong demand.

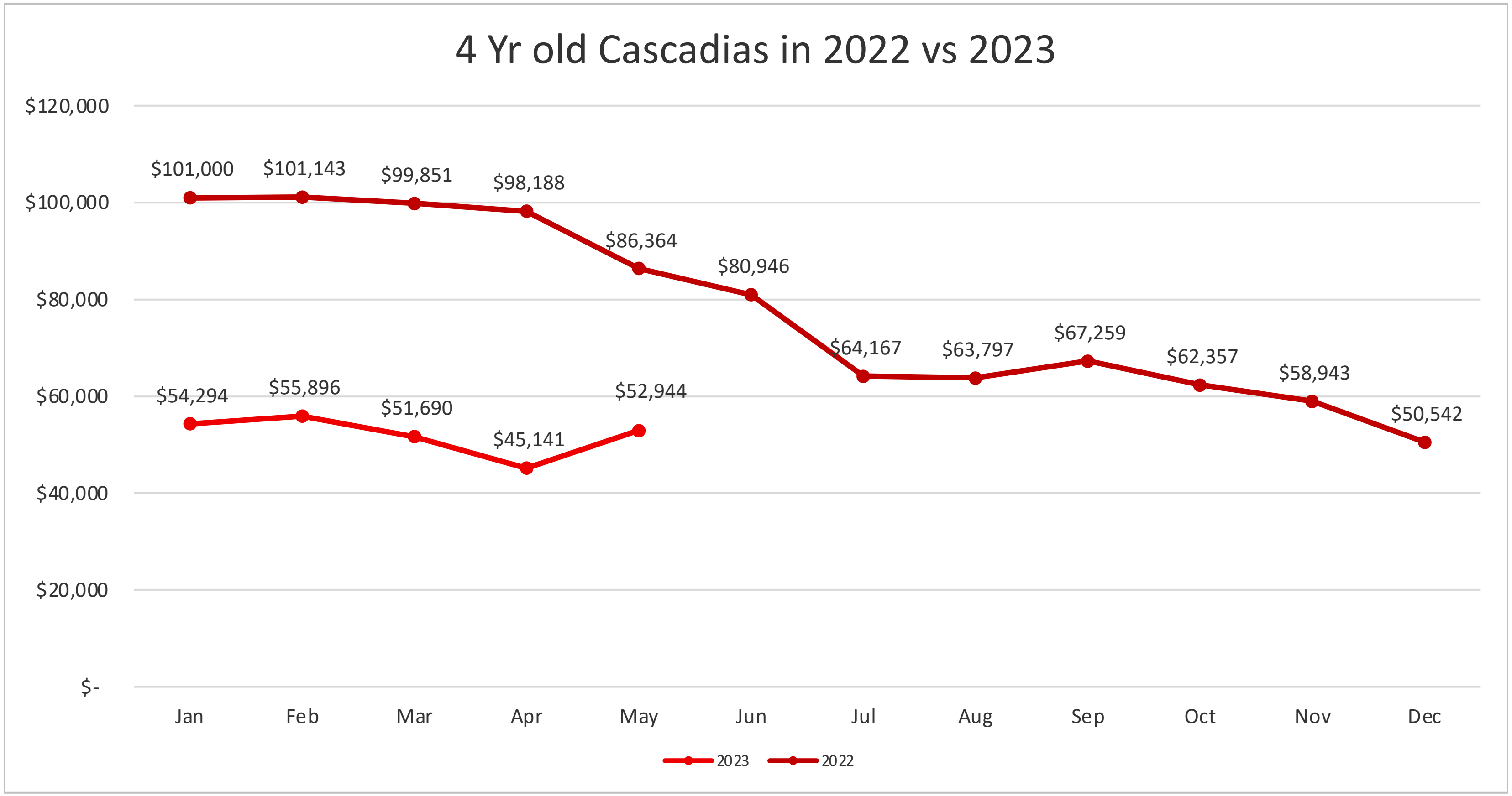
4: Actual Class 8 purchases have been down since the year end. December 2019 of 23,119 to averaging 15,271 for the year in 2020 with the low at 9,165 in May. We are currently at 19,474 for 48MMR and as production increases sales will follow until we reach the trucking industry demands.

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 finished 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 overall demand has remained elevated. The supply chain issues have for the most part began to deteriorate. It will be a lot of rebuilding for fleets in 2023 to try and get back to typical trade cycles they are looking for.

7: While markets have cooled the demand for new trucks has remained elevated with larger companies trying to reduce the age of their fleets. Demand for new has held strong even in the weaking market. Build rates have remained elevated and deliveries are catching up. New truck demand is expected to soften as inventory levels catch up. All this is adding to a growing used truck inventory in a soft market which is holding used truck values lower.

This is showing the auction values on 4-year-old Freightliner Cascadia 126 sleeper trucks this year compared to last year. As expected, we are way off of last years highs but have slowed the downturn over the last few months. We are expecting to continue to see softening in this sector due to availability of this year range to continue to rise over the summer with production of new remaining steady and trades hitting the market. Worth noting with spot and contract rates not expected to rise much if at all over the next few months we are expecting to see more company failures adding to the already rising used truck inventory. April and May numbers were both slightly effected by packages sold each month.

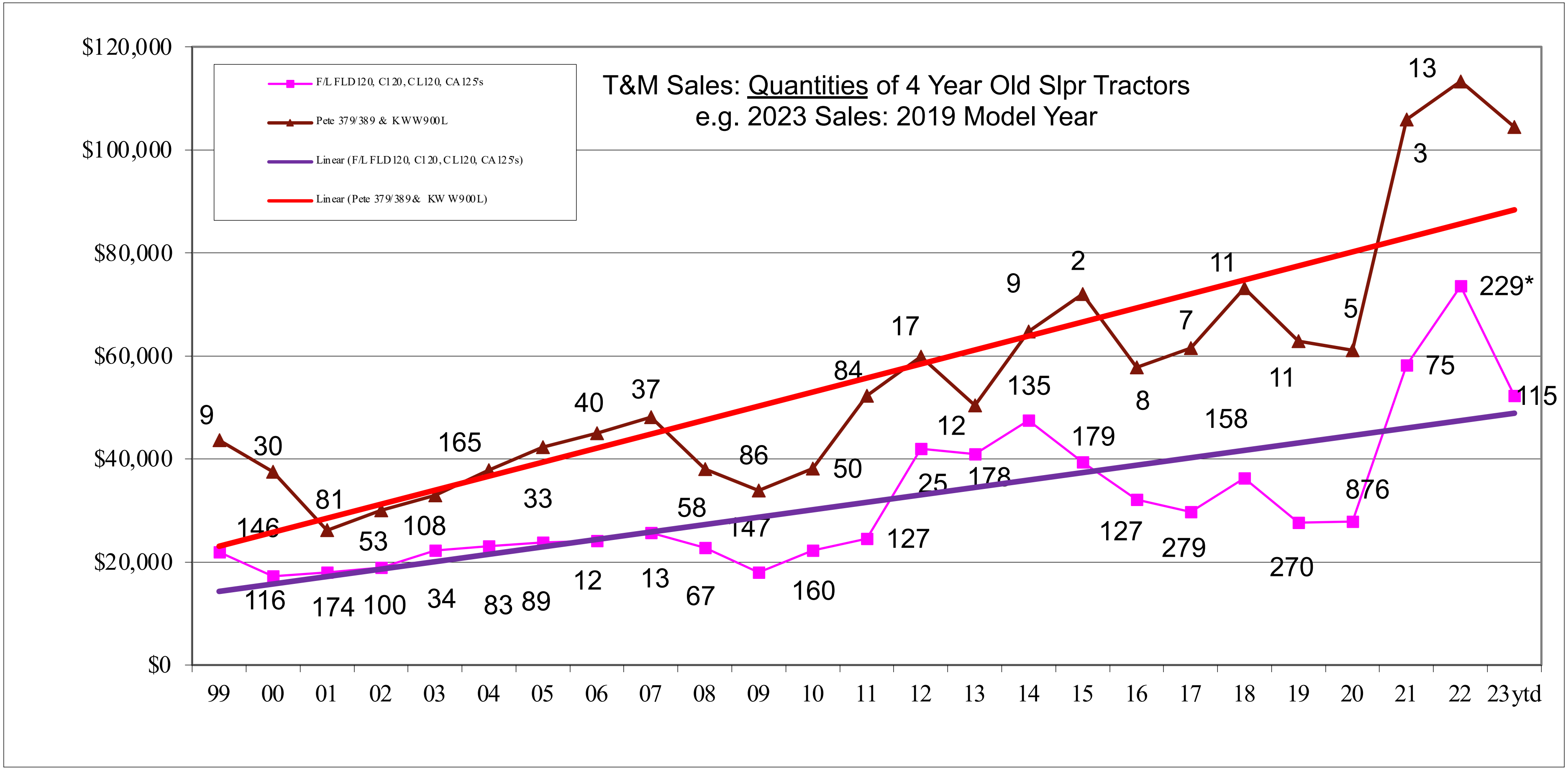


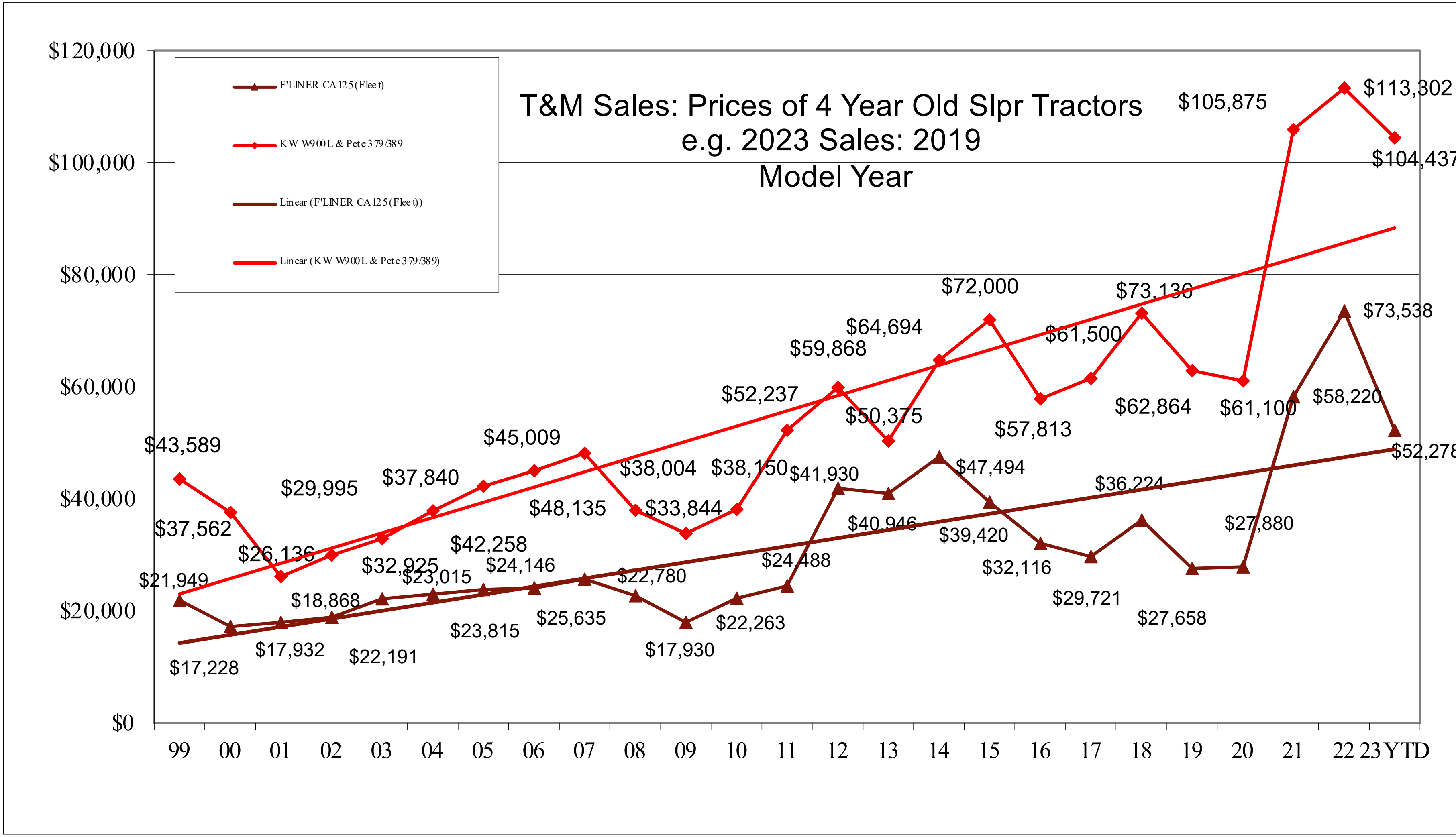
Estimated New Costs

I have been asked by many to put together a chart with historical new cost over the past few years. Below is what I have come up with. Please keep in mind that these values are estimates put together by looking at past comps and invoices we have been provided over the years. Keep in mind these are estimates and understand with different specs these numbers would change. I did want to show the impact that Covid and inflation has done to new costs. This of course does hold up used values from what we have seen in the past but not near to the same level as new costs have risen.

Tier 1 53' Plate Dry Vans			Tier 1 53' Reefer Trailers			Freightliner 126 Sleepers		
2015	$29,000		2015	$65,500		2015	$135,500	
2016	$30,500		2016	$66,000		2016	$136,000	
2017	$29,900		2017	$65,500		2017	$137,500	
2018	$30,900		2018	$68,000		2018	$140,000	
2019	$32,800		2019	$68,500		2019	$155,000	
2020	$33,850		2020	$69,500		2020	$152,500	
2021	$35,500		2021	$70,750		2021	$155,000	
2022	$51,500		2022	$85,500		2022	$185,000	
2023	$52,000	179%	2023	$100,000	153%	2023	$185,000	137%

True Value Guide Quantities of 2019 model year trucks.
Here are total actual sales of the Freightliner Cascadia (Fleet) and the O/O Spec'd Petes and KWs.
I would expect volumes of the 2019 model year trucks to go up later in the year with new orders being delivered and in turn I would expect values to continue to slide toward the trend line.



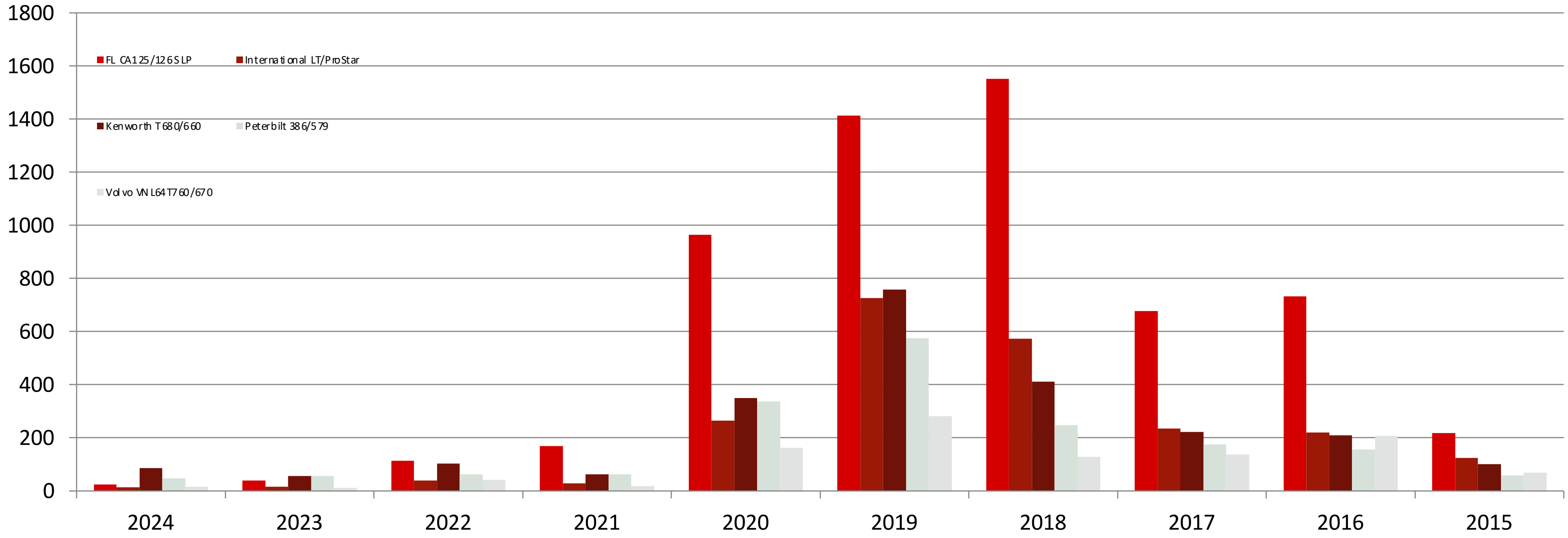


Above are T&M Sales by average annual prices. (As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both are generally considered to be spec'd as Owner-Operator (O/O) tractors.) As seen in the previous slide overall sale values are well above the trendline.

Values continue to decline at auction on the 2019 model year trucks. I would expect the O/O spec'd trucks to stay above the trendline for the year with the fleet trucks dipping below.

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.

What is available to the marketplace today? (May 23 ,2023) As shown below very little new or late model equipment is up for sale on TruckPaper. Overall, 13,366 of these models total. Compared to the low of 4,086 in Nov 2021 and high of 25,114 in Dec of 2019 we inching back to more traditional levels . Typically, we have 2,000 to 4,000 new trucks being offered and currently we have 187 total 2024 Models showing that demand for new is still strong and the market has not caught up yet. We are on the rise with the inventory levels and prices are on the decline. I would expect these inventory levels to increase for the remainder of the year.



23-May-23	Sleeper Tractors For Sale On TruckPaper.com: May 23, 2023									Ave. Age	2017.51	
Make	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	Total	% of Total
FL CA125/126 SLP	24	40	114	169	965	1413	1552	678	732	218	5,905	44.179%
International LT/ProStar	14	17	39	29	264	727	574	235	221	125	2,245	16.796%
Kenworth T680	86	56	104	63	349	758	411	222	209	101	2,359	17.649%
Peterbilt 579	47	57	63	63	338	576	248	176	156	58	1,782	13.332%
Volvo VNL64T760/670	16	11	42	19	162	282	128	138	207	70	1,075	8.043%
Year	187	181	362	343	2,078	3,756	2,913	1,449	1,525	572	13,366	100.000%

Additional Factors…

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

- Crude Oil has been consolidating in the 65–80-dollar range since December of 2022. Analysts believe that in the second half of 2023 oil should start to see a rise in price but not a significant rise. Oil market balances are already set to tighten in the second half of 2023, with the potential for a supply deficit to emerge. Based on China’s demand and tightening output this could create an oil deficit, but if there is a recession it could/should somewhat balance everything back out. Russian oil exports in March soared to the highest since April 2020.

- Building Activity (Home, Office, etc.): Housing starts in the U.S. unexpectedly increased 2.2% month-over-month in April. Single family housing starts in April, which accounts for the bulk of homebuilding, increased 1.6% and starts with five units or more increased 5.2%. Some analysts believe we may top out around 7 to 8 percent for a 30-year loan. For home prices to come down more than what they are, some say this all depends on how inflation/Fed stalls or continues to hike rates. But overall, any fall in home prices will not be enough to offset the rising interest rate and its contribution to the monthly mortgage payment. Assuming home prices ease, and interest rates stay the same, you’ll start to see some of these potential buyers start to emerge. The nation’s average rate for a 30-year mortgage loan is 6.97%.

- Drivers: Shortage! Still continuing to have a driver shortage. But the possibility of a recession and rising fuel costs in the later half of 2023 might help with the stress of not having enough drivers. Analysts believe we are very close to the bottoming of the spot rates which is a very good sign. With fuel prices, falling demand, and very low spot rates, these factors have been a struggle for carriers to even breakeven. In 2023 truck driver employment started to cool off but in March which showed a significant increase and added 12,000 jobs. But looking at a year over year basis, the growth has dropped to the slowest pace since the pandemic began. Many believe by quarter 3 or quarter 4 we should have started to see an increase in spot rates.

Additional Factors…

- Ports: Analysts predict West Coast ports will see a return to pre pandemic levels while East Coast and Gulf ports will expect to remain at higher levels than pre pandemic based on the International Longshore and Warehouse Union contract. Since the negotiations started in May of 2022, more and more ships diverted to East Coast and Gulf ports for reliability. The contract negotiations appear to be heading into their final stretch and are hoping to finalize the contracts in June. They resolved the agreement on the use of automation on the docks, but still have wages and pensions, and how long the contract will run. Employers have been pushing for a six-year contract while the union has been pushing for a two-year contract. While the outlook of the economy remains unclear, if there is a recession, consumers tend to spend more on services rather than retail goods. Which means that will have an impact on import volumes. Analysts forecasts for imports should continue to decrease in the first half of 2023, while rebounding in the second half if we have a soft landing for the economy. Recently the ports have had an uptick in April based on imports from China.

- Construction: Lead times and availability for most materials showed mixed improvement over the past year. Lumber futures have now come back to pre-pandemic prices. The American Steel Index is still 272% above Covid lows, while only 19% off the highs at the end of February 2023. Many challenges that face residential and nonresidential is limited availability of skilled labor which was a top concern from a survey done from National Association of Home Builders. Nonresidential buildings inflation rose 26% from February of 2020 to March of 2023. Nonresidential buildings are leading the growth, but they make up 33% of all construction. Total construction spendings is forecasting a 5.3% growth over 2023. With Residential being -6.7%, Non-Residential buildings +20.3%, and Non-Building Infrastructure is +13.5%.

- Politics: Bipartisan lawmakers have reintroduced into legislation offering tax credits to U.S. truck drivers to address dire pandemic-related shortages. This bill would establish a two-year refundable tax credit of up to $7,500 for truck drivers with a valid Class A commercial drivers license who drive at least 1,900 hours in a year. It would offer a two-year refundable tax credit of up to $10,000 for new drivers or people on a registered trucking apprenticeship. New commercial drivers who did not drive the year prior, or who did not drive over 1,420 hours in the current year, would also be eligible for the credit. The legislation was first introduced over a year ago, before Republicans won control of the House in the midterm elections. It’s still not clear as to whether this bill will pass or not.

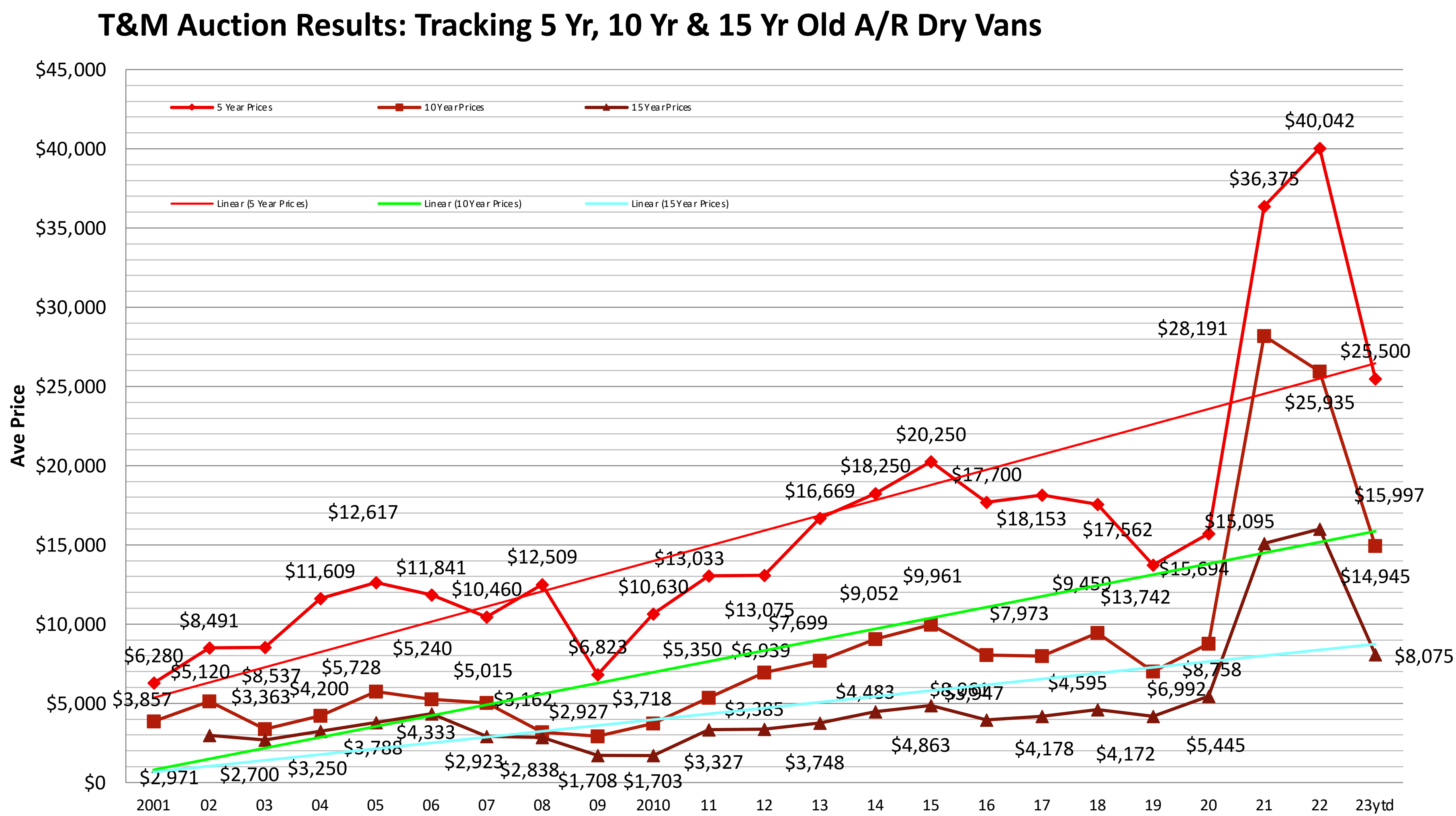
- Inflation: CPI was 4.9% in April and 5% in March. Core CPI month over month in April was 0.4% and 0.4% in March. PPI (Producer Price Index) month over month in April was 0.2% and -0.5% in March. As of right now there is a 34% chance of no rate hike in June verse 66% chance of a 25-basis point hike. Well, this was before the market opened on 5/31 and after lunch its now 72% chance of no rate hike and 28% chance of a 25-basis point hike. With this much flip flop it looks more like a coin flip for June on rate hikes.

Trailers

- Production issues continue to hold up new and used equipment above pre pandemic values. There has been a plateau in falling prices from 2022 but we should still see a small decrease in values throughout 2023.
- Ag Trailers: Demand is starting to pick back up at auction based on the season. Quantities and prices at the auction have had a small gain higher than in the first quarter. Fertilizer has continued to steadily decline, now back to July 2021 prices. Corn has been fluctuating in the 6-dollar range for the past 10 months but recently had a tick lower, breaking the $6 range and holding in the high 5s. Grain trailer backlogs and net orders have increased slightly so far this year compared to last year.
- Pneumatic Trailers: Steady demand for large capacity trailers. 1000-1050s are still struggling. Still roughly about 37% of the units for sale on the open market are small cubes. Quantities for sale on the open market have increased since the last report in March. Bulk Tank backlogs have increased since October of last year while net builds have decreased since last year.
- Flatbeds and Drop Decks: Other trailers like vans and reefers, volume has increased on the open market while flatbeds and drop decks have stayed relatively the same. Since new costs have come up so much in the past couple of years the depreciation for the first 6-8 years will be harder than normal. But from then on, the depreciation rate will be slightly lower than normal. The national spot rate has been continuing to erode slowly and is currently sitting around 2.64. Load-to-Truck Ratio has been increasing from the start of 2023, but in the past two months it has fallen back down to below where we started in 2023. Load-to-Truck Ratio is higher when there are more loads and less trucks to fill those loads and vice versa. Backlogs and net builds have slowly been decreasing since last year.
- Heavy Haul Trailers: Heavy haul trailers, especially with quad axle plus, have been getting hit harder than normal. backlogs have stayed relatively flat while net builds have come down from the prior year.
- Chassis Trailers: Some analysts believe that chassis needs will be mostly caught up towards the end of 2023. Based on the demand of imports continuing to fall at least through the first half of 2023. Backlogs have come down since the first of the year while net builds have stayed about the same.
- Dry Vans and Reefers: Demand is continuing to keep prices above pandemic levels. For sale units on the public market have seen an increase in the past few months. Backlogs on Reefers and Dry Vans have increased while net builds for Reefers and Dry vans have decreased so far this year. Spot rates and Load-to-Truck Ratio has continued to come down. Spot rates for Dry Vans are 2.03 while Reefers are 2.38. Load-to-Truck Ratio for Dry Vans is 1.9 and Reefers are 2.7.
- Sales and orders remain high with a 6-12 month wait for new and since new costs have increased so much in the past few years that is why values are staying above pre pandemic levels. While auctions prices have steadily come down from the highs of April 2022, there should still be some weakening this year.
- Overall, the trailer market is still steady but should still see some weakening in prices throughout the second and third quarters. Supply issues in Dry Vans & Platform Trailers are still dealing with components and labor shortages. Supply issues will help values, but the uncertainty of the overall economy should continue to create small pullbacks on prices through 2023.

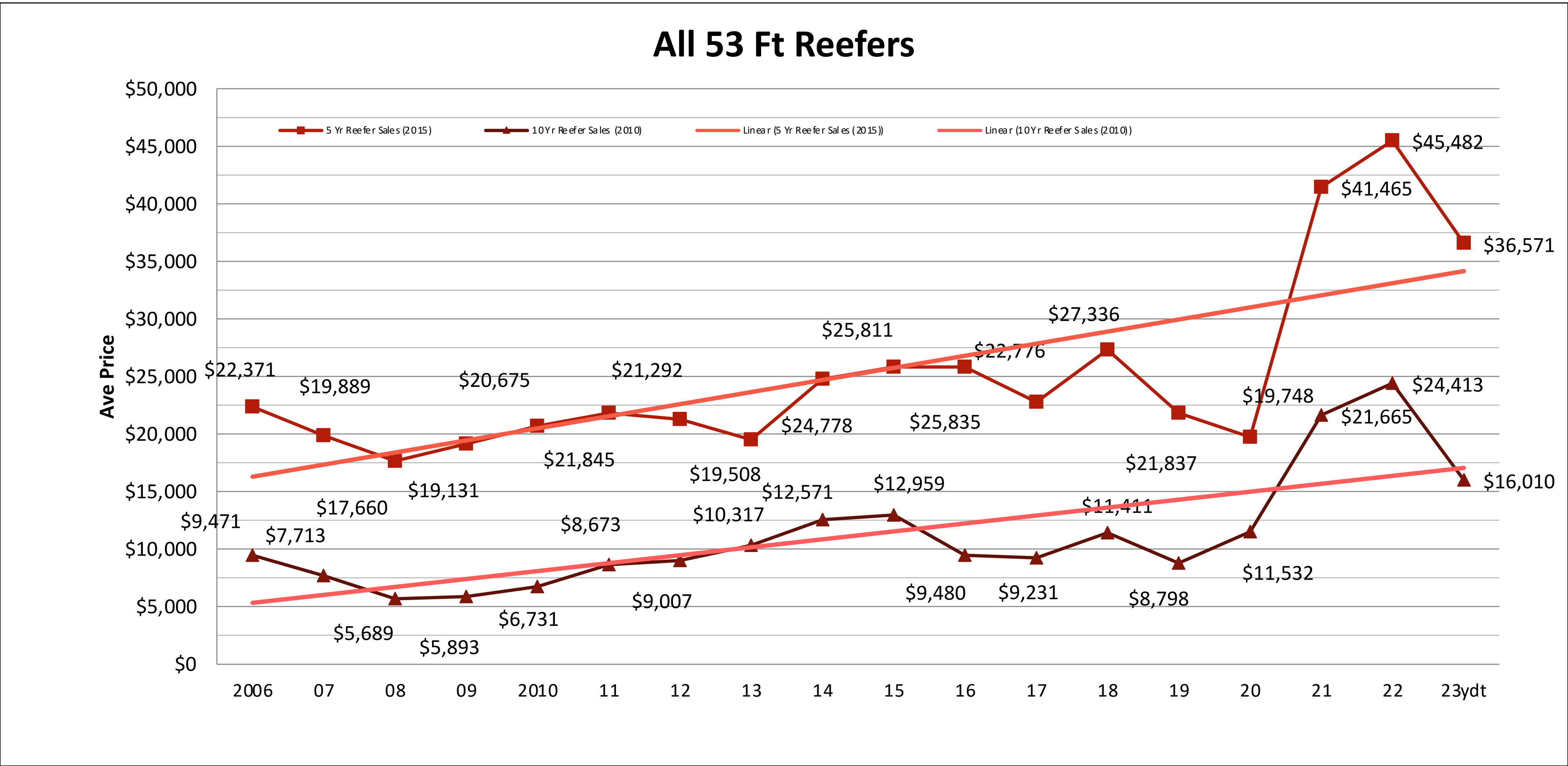
T&M Auction Results:
Tracking 5, 10 & 15 Year Old A/R Dry Vans

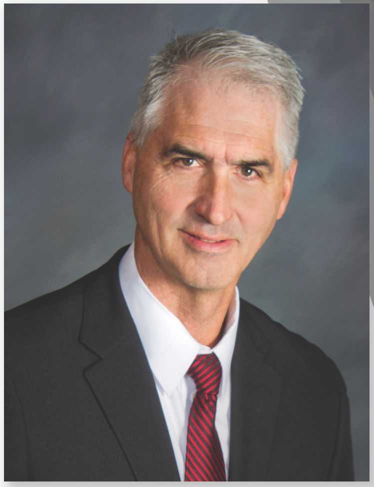
5, 10 & 15 Year Old Dry Vans sales (Taylor & Martin Auctions) are charted below:
Vans were probably the asset group that had the highest swing in values over the last 24 months. It makes the chart look dramatic but if you look at where we are at currently compared to years past values still are still on the high side. Auction values are expected to remain pretty flat for the rest of the year especially on the later model vans.



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

Reefers: Both 5 & 10 year old (2013). Refrigerated trailers are down slightly from the 2022 average as expected. We still are hanging above the trendline but not as dramatic of a drop as vans. Reefers also did not see quite the exaggerated rise as the vans did. We expect late model reefers to hold strong with a slight continued dip in older trailers. Late models have not appeared at auction in volume so tough to gauge but overall, like most areas of the used trucking market we are expecting to continue to see some softening going forward.





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

- Brutally cold weather is in the rearview and the focus is on nutrient application and planting. Fertilizer and chemical applications are not getting any less expensive and more farming operations are seeing the benefits to soil nutrient/soil health. New tech is still driving demand of long-range equipment purchases with market availability proving to be key to securing short-term needed equipment purchases.

- Per AgWeb.com an Illinois farmer, Marion Calmer, got out his old mold board plow on 1.6 acres continuously no-till to test a theory post soil testing in 2018. Probing 8" deep, then every 1-2" he found stratification in the soil profile. His levels of phosphorus (47%) and potassium (44%) were not getting to the roots but pooling in the top 2 inches. The plowed test crop showed an improved 9 bu.-per-acre over the rest of the 1,000 acres. This winter as CEO of Calmer Corn Heads he went to work on awareness of long-term stratification.

- Orange and citrus production took a major hit this last season which will be felt in the price of concentrate. Florida production (80% of U.S. production) is down nearly 60% from the prior year and requires major replanting due to January freezes and citrus greening. That process is about three years to raise trees to bear fruit and nine to hit a break-even point. Like most things in agriculture … the cure involves time.

- Combines are starting to see some expected pullback per Iron Solutions. Like the transportation market, older and higher hour combines are falling at a faster pace than class 8 and 9 models. Ag tractor demand is flattening with small tractors dropping fast from peak highs, larger HP tractors are starting to show some weakening. New production has some impact, though still slow, and inventories are just beginning to come back. Five-year averages are positive, expected demand still strong over 2023 despite economic forecasts.

- I spoke recently of ExactShot in spraying technology. John Deere just introduced its add-on selective spray system, See and Spray Premium, as an upgradable kit for 2018 and newer self-propelled sprayers in the US for 15" to 20" spacings with factory installed ExactApply systems. Artificial intelligence applies precision applications of crop protection vs. the entire field. This one tank system allows more access to this JD tech. Additional partnering continues with Agtonomy and Bobcat innovating agriculture software and services. A sole Bobcat chassis contributed to an all-electric vehicle being developed with software capabilities in the ag tractor market. Embedded technology by OEM partners, much like XM radio platforms, will take pilot versions to market soon to drive advancements and innovation towards a digital tractor. Funding partners are being identified now and progressing partnerships with two winemakers for the core business application… in time.

- Despite new production volumes and some easing in the supply chain the limited access to new equipment is still driving very strong used equipment sales. It seems that inflation had been labeled the main driver to this current sky-high used market, but a lack of supply has a major influence on the used ag equipment sales. OEMs claim improved new production volumes, though one only needs review the Association of Equipment Manufacturers (AEM) statistics to see new sales are just now reaching 2015 volumes. Dealer inventory build has yet to peak in most equipment classes with current demand expected to hold thru rest of 2023. More equipment coming into the marketplace will lead to more equipment potentially getting to auction... in time.

- Farm income strength is essential in application of any technology. Equipment Finance Industry confidence is down in March and Consumer confidence lowering though spending has just started tapering off. Part of each of these survey-based indices include future expectations of business costs, hires and capital purchases.

- Post-Pandemic default risk, a softening marketplace, declining asset values and default trends all begin appearing after these disruptions in the supply chain, increasing interest rates, inflation, and lessening demand. Yet, precision technology on the farm is the future to enhanced operation volumes and profits despite the increased equipment cost of entry into the next phase of the ag-equipment market. Patron concerns of an autonomous agriculture must only stop and think of how much automation is already part of our equipment to truly see the potential for reaching our future expectations... all in good time.

John L. Seymour, ASA Senior Appraiser