The Meter

Transportation (Trucking) Update (3-1-2021)

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With Input From:

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Introduction

The first two months of 2021 were like most predicted. Most believed that we would maintain the strength we had in Q4 of 2020 to carry over and help produce a strong 2021. So far so good, the big question is how long will it last?

Currently the spot rates remain high indicating the availability of loads. The used truck and trailer values remain high with the available inventory low. Drivers are in high demand and pay is increasing in most cases. Truck and trailer orders/sales are still above predictions. Everything seems to be in place for a great year in the world of trucking and in the used truck market.

January 2021 was the 6th consecutive month for a year over year increase in 20ft containers at the Port of LA. As of mid February, up to 60 container ships were anchored up outside of the Port of LA. Hard evidence that consumer spending for goods is still strong and will help hold up the demand for trucking and should continue for some time to build up warehouse inventory. On the flip side, exports continue to lag imports.

The service industry has shown very slow growth even with the roll out of the vaccine. By summer they are expecting to have the vaccine available to everyone and hopefully that will give people the confidence to begin traveling and spending money on services. Until that happens, goods will remain the popular choice for people to spend money on and will continue to boost the trucking industry.

Supply chain problems have continued to slow the rebuild of our new inventory. Now that many manufacturers are up and running at pre-pandemic levels, they are still hampered by distribution issues. This will ultimately add to the amount of time it will take to get the truck and trailer inventory back in balance with demand. Until it does expect less than normal depreciation on trucks and trailers, especially fleet trucks, vans, and refrigerated trailers.

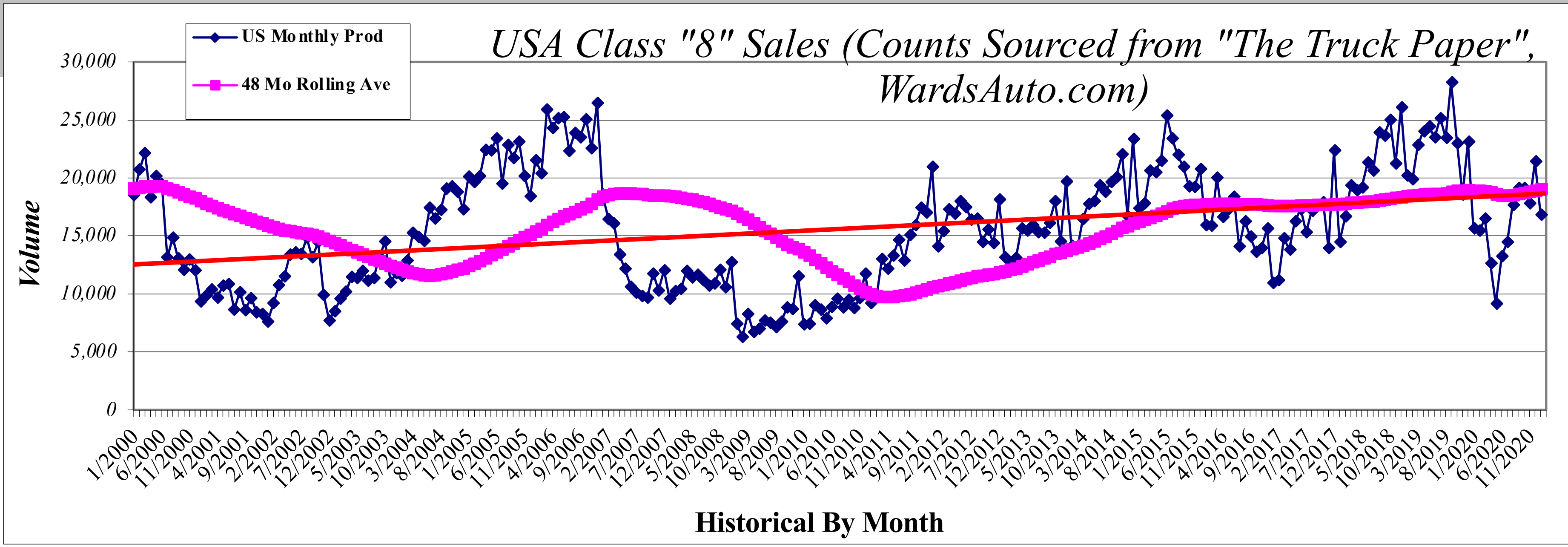
The auction side of Taylor and Martin has seen very strong demand with higher-than-expected values. Late model, low mile trucks are bringing 15%-20% premium and late model vans and reefers are even higher. As expected, they are getting harder to find. With delivery dates pushed back to 2022 most can't afford to sell and take advantage of the premium in the seller's market, which is further limiting the used options on the market.

This in turn has given a boost to mid-life aged equipment. Higher mileage and tier II equipment has also seen stronger auction values with buyers needing equipment to get them by until new arrives. Wanting to take advantage of the higher rates has driven some to buy brands or specs they are not accustomed to.

The auctions seem to see the changes in the market good or bad very early. Dealers, for example, will not lower asking costs on used equipment just because values have lowered at the auctions. Most want to have those prices validated for an extended amount of time before making changes to asking prices. A lot of times they will begin taking lower offers before adjusting advertised prices. We will keep an eye on the auction prices going forward and looking for those first signs of change.

We feel the same as most on how 2021 is shaping up. A big factor driving the upward trend in the market is the classic supply and demand. How long this will last will depend on how long it will take to fill new orders and to repopulate the used market. I don't see any major changes through Q2 or Q3 but as always, we will be monitoring values and looking for indications of a balancing of the market. As we all know, the market's upward trend unfortunately won't last forever.

I think that you will find some of the following charts interesting and hopefully useful. Let's start with the Class 8 Tractors.



As stated, each time before, the chart above shows historical trends that tend to repeat themselves. (Disclaimer: past activity does not necessarily indicate future activity.)

What are the data points and trends telling us now? (Some of my comments are repetitive, and may be found in previous newsletters, but again repeating a notable point makes it more likely to be remembered.)

1: Trucking typically runs in a 7 to 8-year cycle [peak to peak OR trough to trough]. As long as the new sales volume is above the 48MRA, the trend suggests we would see higher builds and values should erode more slowly. In time I feel we will get above and stay above the 48MMR but we will have to stabilize production to do so. Glitches in the supply chain have limited production effecting sales totals.

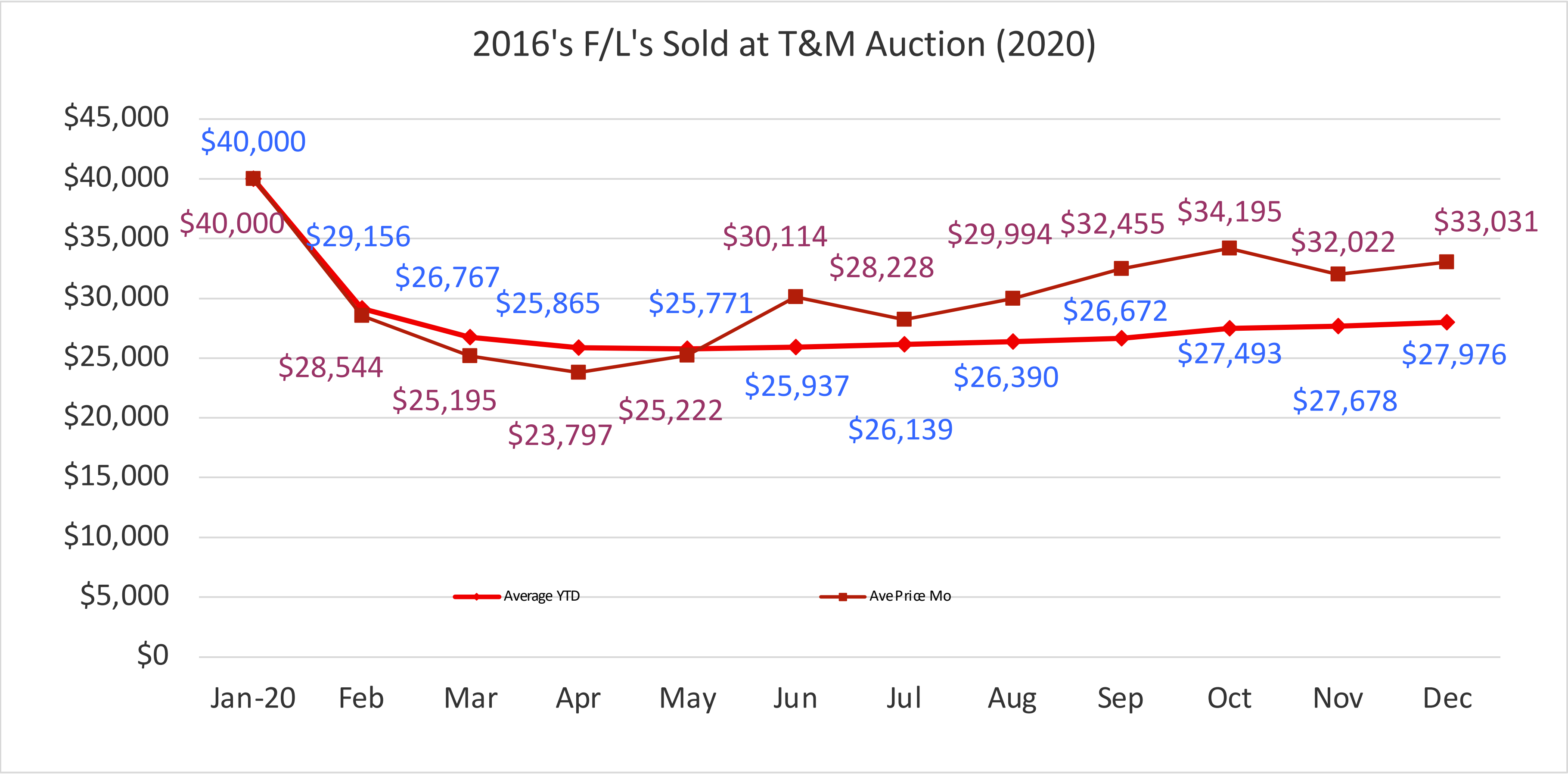
2: Historical needs have grown from slightly lower than 15,000 Class 8 tractors per month (in the 2000's) to about 17,500-18,000 Class 8 tractors per month now. Currently, the 48MRA is 17,606. Monthly sales have been on the rise since May and just leveled off in Oct at 18,774 compared to 19,126 in Sept. Peaked in Dec at 21,412. Strong demand and the time it will take to build up our warehouse inventory sales should remain strong through most of 2021.

3: U.S. Sales ONLY: The 48MRA is the rolling average of all tractors 48 months old or newer. The 48MRA bottomed in 2/2011 (7-year low) with the 48MRA at 9,712. The previous 48MRA high was recorded in 5/2007 at an average of 18,678 (we are now above the high in 2007), which was six months after the actual monthly sales peaked in 12/2006, when 26,462 units were sold. We marked a peak for monthly sales in 6/2015 with 25,369 units sold and now again in 9/2019 with 28,258 units sold. This 48MRA Cycle high: (12/2019) 18,923, which is a new all-time high. As expected with the pandemic we have dipped in totals sales down to (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 19,038 for 48MMR and as production increases sales will follow until we reach the trucking industries 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 marked improvement, and 2021 so far has continued to trend strong. Lack of production has sent buyers to look for used to fill the void until production is back to replacement levels.

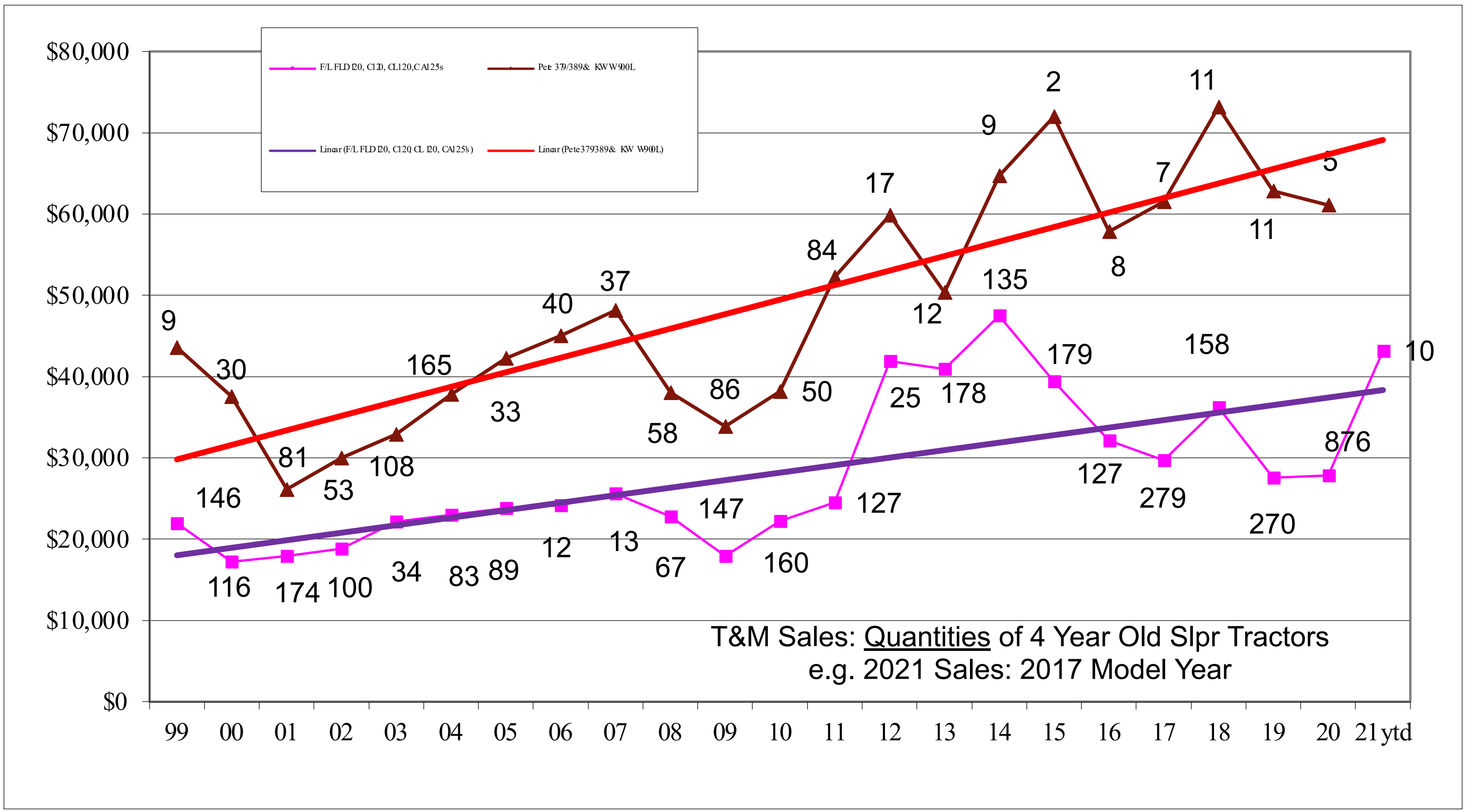
6: The class 8 truck orders have been on the rise since June of 2020. Since June the numbers have be up Y/Y by 50%. With the supply chain not being as reliable as needed to maximize production it is going to take longer for orders to be filled and trades introduced on the secondary market creating below average deprecation through the first half of the year at least.

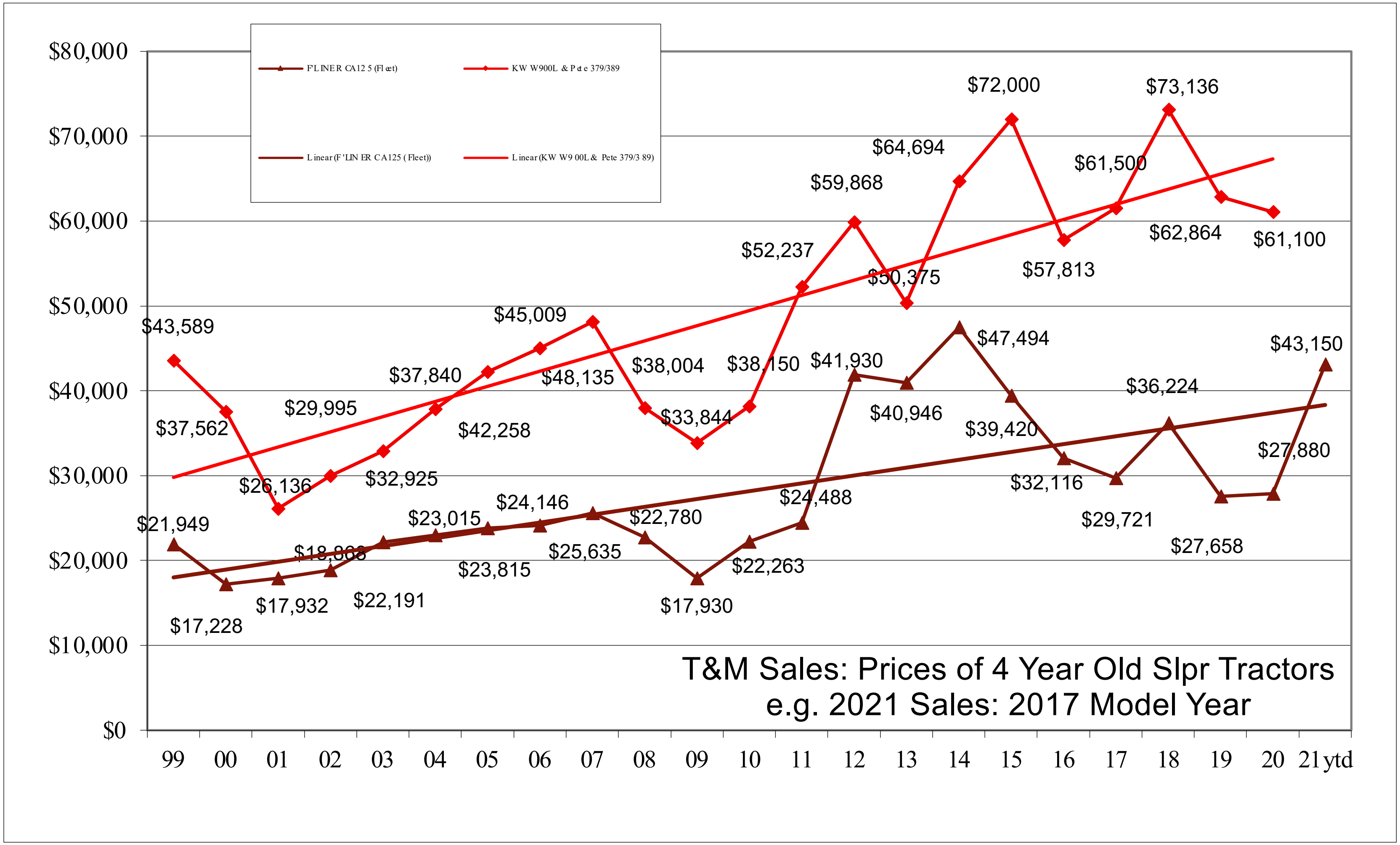


The above new chart 2020 monthly sales prices: To be fair we only sold 7 2016 Cascadia's in January and 199 in March. We have maintained the higher than YTD average through Feb 2021. In the year 2020 we sold 880 total 2016 Cascadia125s for an average of $27,976. In Jan 2021 we sold 15 averaging $37,333 and in Feb we sold 75 averaging $40,060.

True Value Guide Quantities of 2016 model year trucks.

Here are total actual sales of the Freightliner Cascadia (Fleet) and the O/O Spec'd Petes and KWs. Both are below to trendline, but the Fleet truck values have held strong with the extremely high volumes . O/O Spec'd trucks generally don't trade hands with the frequency that fleet tractors do but their auction values do correlate with auction values of the fleet trucks even with the volume differences.



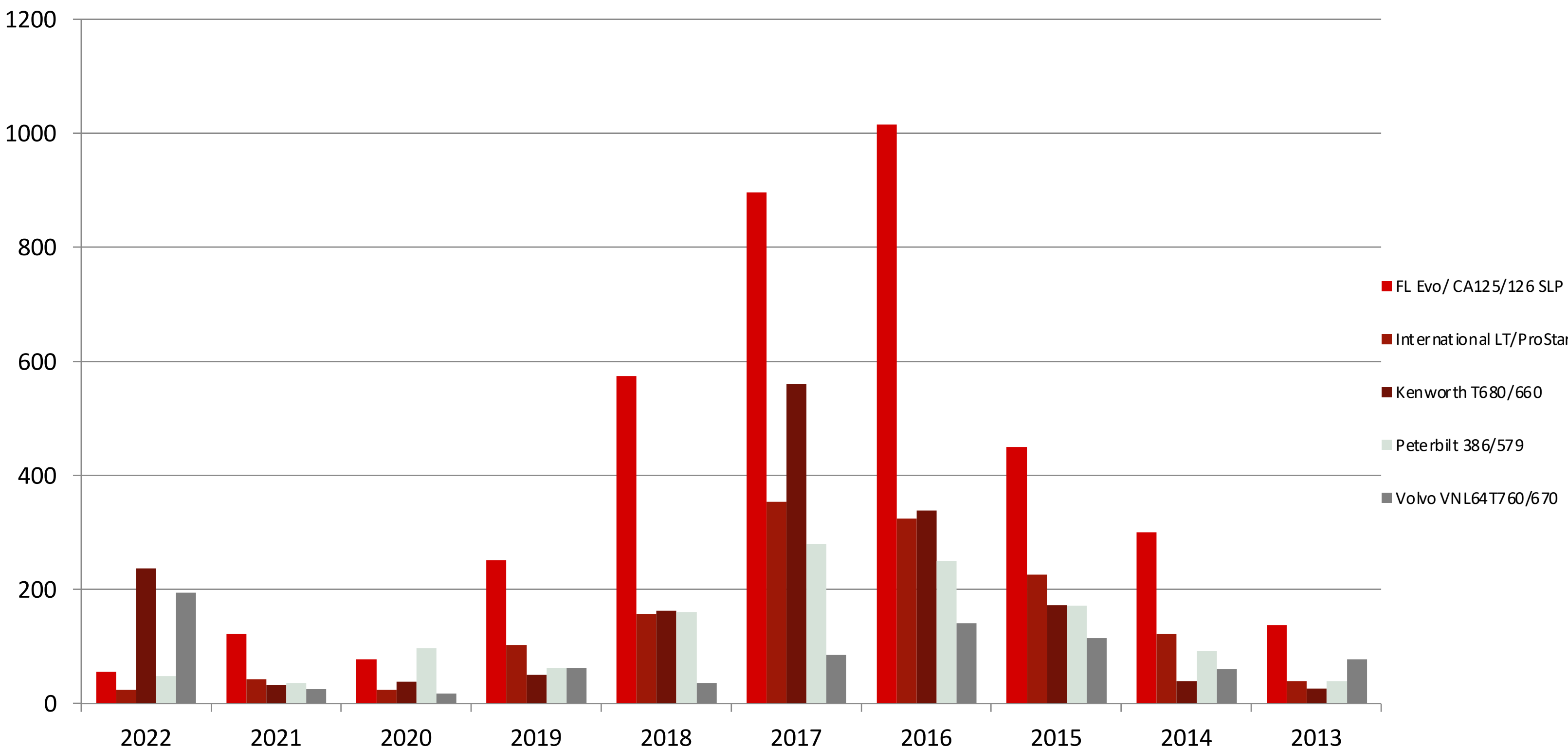


Above are T&M Sales by average annual prices. [As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both generally considered to be spec'd as Owner-Operator (O/O) tractors.]

Not a lot of O/O moving their equipment at auction so far this year. In general O/O are not rotating trucks on a 5-6 years cycle as larger fleets do. You can see the drastic rise of FL's sold and yet values have held stronger than could be expected. It is a good sign to see volume as high as it is in 2020 at 831 so far without a large dip in values. We sold 577 FL from Jan-June with dispersals and bankruptcies, the second half of the year has been higher values and more of an average volume.

The trends (red and purple lines) over time have been higher, but the price declines (green & blue lines) are clearly evident (2001-2003 & 2008-2011 & 2015-2017 & 2019). Remember, RCN is up (from material costs, EPA requirements, technology and safety/comfort improvements); additionally, inflation is included in the sale prices, thus the upward trend line.

What is available to the marketplace today? (Feb 22, 2021) See chart below. [Sleeper Tractors] The inventory listed on Truck Paper is 47.57% of Aug 2020 and 39.26% of Feb of last year. The available tractors advertised on Truck Paper has been cut in half over the last 6 months. This has contributed greatly to the higher than normal values being bought at auction. The demand is strong, and supply is low. (For Now) The "high count" years are typically for trade-ins or end of lease units. Low counts for 2019's and 2020's indicate that most units are typically in the first lessee/owner's hands. Most 2021's and 2022's new tractors are carryovers at dealerships.

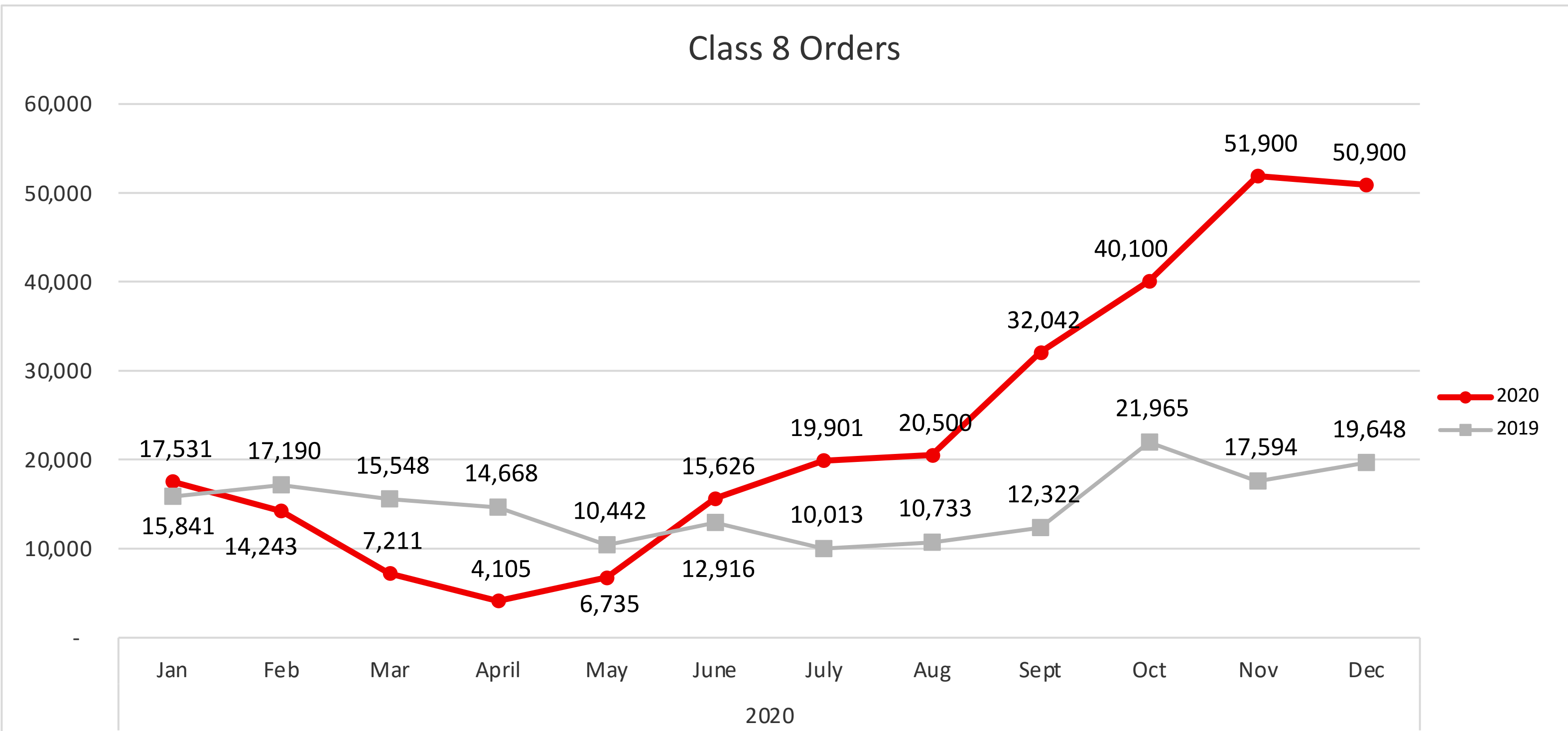


22-Feb-21	Sleeper Tractors For Sale On TruckPaper.com: February 22, 2021									Ave. Age	2015.96		
Make	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	Total	% of Total	% of Prev
FL Evo/ CA125/126 SLP	56	122	78	251	575	897	1015	450	300	138	3,882	43.071%	70.05%
International LT/ProStar	24	43	24	103	158	354	324	226	122	40	1,418	15.733%	57.88%
Kenworth T680/660	237	33	39	50	163	560	339	173	40	26	1,660	18.418%	71.92%
Peterbilt 386/579	48	36	97	62	161	280	250	172	92	40	1,238	13.736%	68.93%
Volvo VNL64T760/670	195	25	18	62	36	85	141	115	60	78	815	9.042%	73.42%
Year	560	259	256	528	1,093	2,176	2,069	1,136	614	322	9,013	100.000%	68.24%
22-Feb-21													
												39.26% of Feb 2020	

2019 vs 2020 Class 8 Orders:

I added this chart to show how strong the demand for new trucks has been over the last year. It shows supply chain disruptions are causing lack of production, which ultimately causes further delivery time delays. Looking at the previous chart and combining it with this one it shows the demand and lack of availability for new and used tractors.

Note: These are gross orders not net. Actual orders and production numbers will differ. Counts sourced from Transport Topics.



Additional Factors

Retail "For Sale" counts (total: 9,013). Lowest advertised total we have seen since we started keeping track. It shows the strength of the overall trucking market and more clarification on how much demand is out there. We will keep an eye on this. 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 improving slowly. Experts predict the WTI prices to hover between 50-55 a barrel. Well numbers are up slightly but still well below 2019 numbers. The uncertainty of how COVID will continue to effect spending on services keeps this industry hamstrung.

Building Activity (Home, Office, etc.): The housing market remains strong. Many believe this will last all of 2021. Lack of inventory and more and more new buyers are still trying to take advantage of the low rates and improve upon their work from home spaces.

Drivers: I don't think I ever need to update this section. Shortage! The CDL Drug and Alcohol Clearinghouse's new regs along with stimulus money has prevented any major growth in available drivers even with majority of companies increasing pay. Looks like it will be an ongoing problem.

Ports: The ports have had overpopulation issues over the last few months. In early February, the port of Los Angeles indicated they had 27 ships anchored offshore waiting for a slot to open. COVID related labor issues are a major concern going forward.

Construction activity has been slowly increasing. Early predictions are for a strong year ramping up in summer with continued growth into 2022. Still expect a few factors that will be challenges such as labor, material costs, and supply chain delays.

Politics: Another round of stimulus will continue to boost the sales of goods. The public's response to the vaccine will determine the strength and speed of the recovery of the service sector. Lots of back and forth on the infrastructure bill. In the end it sounds like it will move forward just a matter of how long until it is put into effect.

Steel: The pricing on steel and aluminum continues to rise and will affect production and RCNs. Worldwide shortages will take a while to correct and a wide range of industries that potentially could be affected.

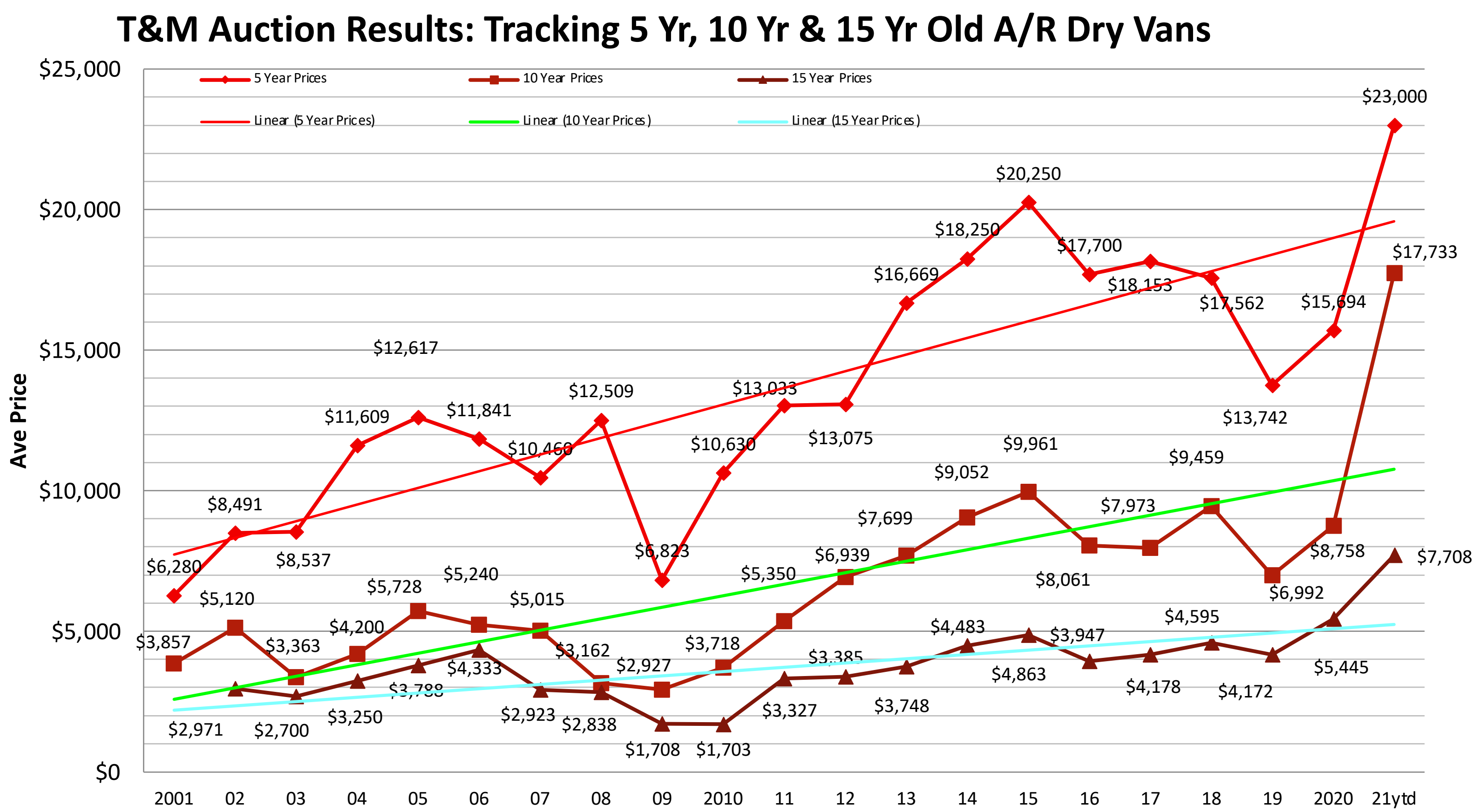
Trailers

- Some sectors of the trailers have continued to be in high demand and look to remain strong thru at least Q2.
- Ag trailers: Demand is still soft/weak due to ag commodity (grain, fiber & livestock) prices and seasonal use.
- Chemical tank trailers: Stable Pricing - good used equipment in the secondary market is in very limited supply. Lesser quality trailers (e.g. out of test) are readily available.
- Pneumatic trailers: Steady demand for large capacity trailers. 1040s still struggling. Slow oil industry has hurt the small cubes.
- Flatbeds and drop decks: Flats and drop values have slowly begun to pick up steam. Not a lot of volume has been moving at auction. Manufacturing and production beginning to rise has led to strong load rates and a rise in demand. Should maintain normal to less than normal depreciation going forward.
- Heavy haul trailers: Demand is stable, per conversations with dealers & manufacturers. RCN is stable for now but the upcoming rise in steel prices will influence that soon. Infrastructure bill would provide a boost.
- Dry vans and reefers: Vans and reefers continue to be strong with no real signs of slowing soon. I have been hearing multiple reports that all new orders if even taken, are 2022 delivery dates.
- Trailer orders hit 54,200 in October - third highest in history. Oct. 2019 orders were at 31,786. Jan 2021 orders are at 29,100. Demand is still there but with delivery dates out close to a year many are reluctant to extend spending to that degree.
- Overall, the trailer market is still looking good. Having strong sales and orders indicate buyers are having more long-term confidence in our economy.

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

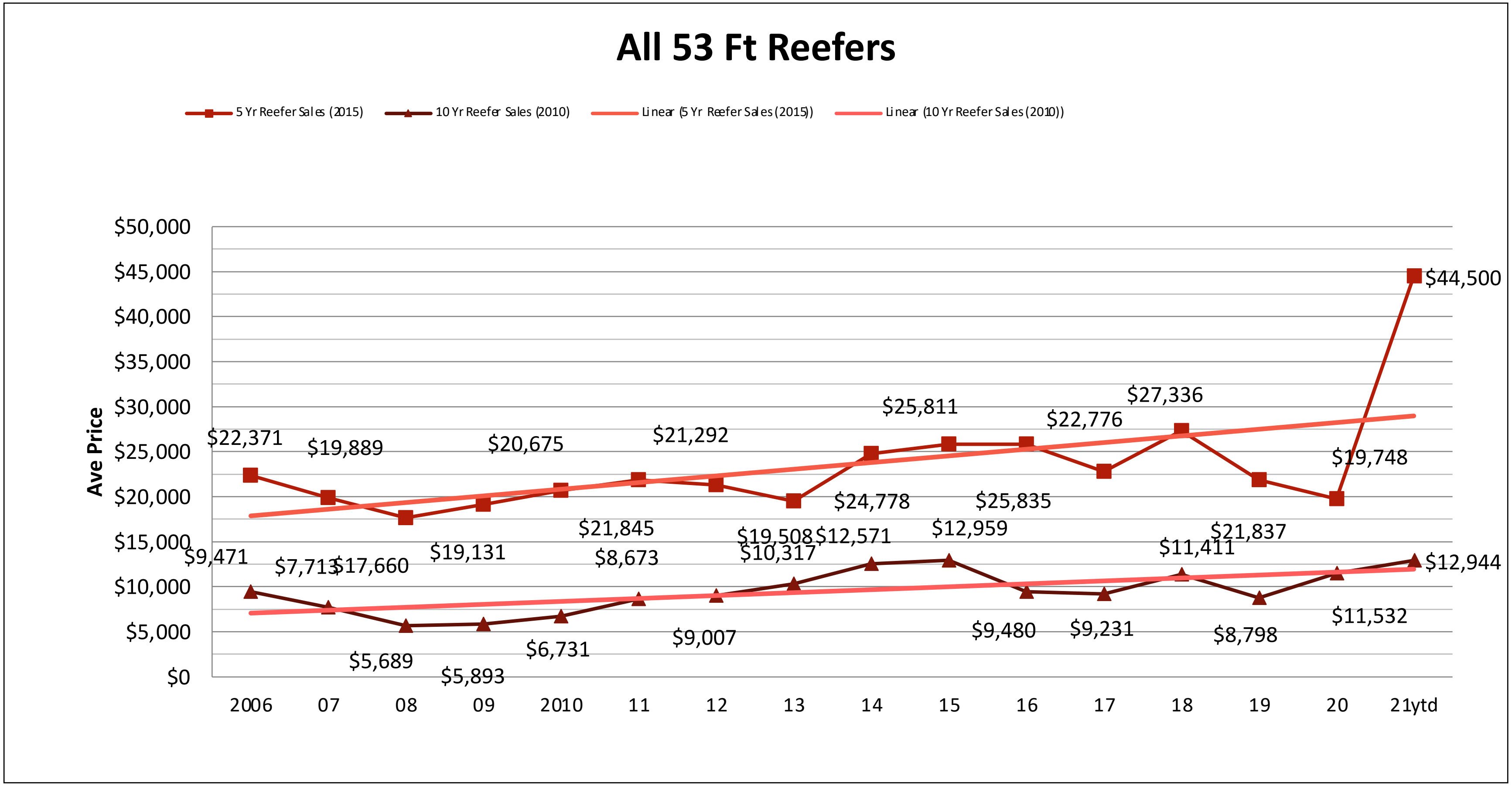
Five, ten and fifteen-year old Dry Vans sales (Taylor & Martin Auctions) are charted below:

As you can see auction values on vans are up from 2019 and have climbed month over month since May. We have seen as much as a 50% premium on 2017-2020 vans at auction the last 8 Months. 2021 has started off even stronger for late model vans. We have not seen huge quantities but what we have sold have been very high. On Feb 25th we sold 2 2020 Utility 4000dx vans for $35,000 a piece plus 5% buyers' premium.



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

Reefers: Both Five-Year-Old & Ten-Year-Old (2010). Reefers have begun 2021 on the rise as well. Keep in mid we have a small sample so far but what has been available is bringing strong numbers. With the delivery dates out until 2022 I would expect high demand for used reefers for at least the next few months.

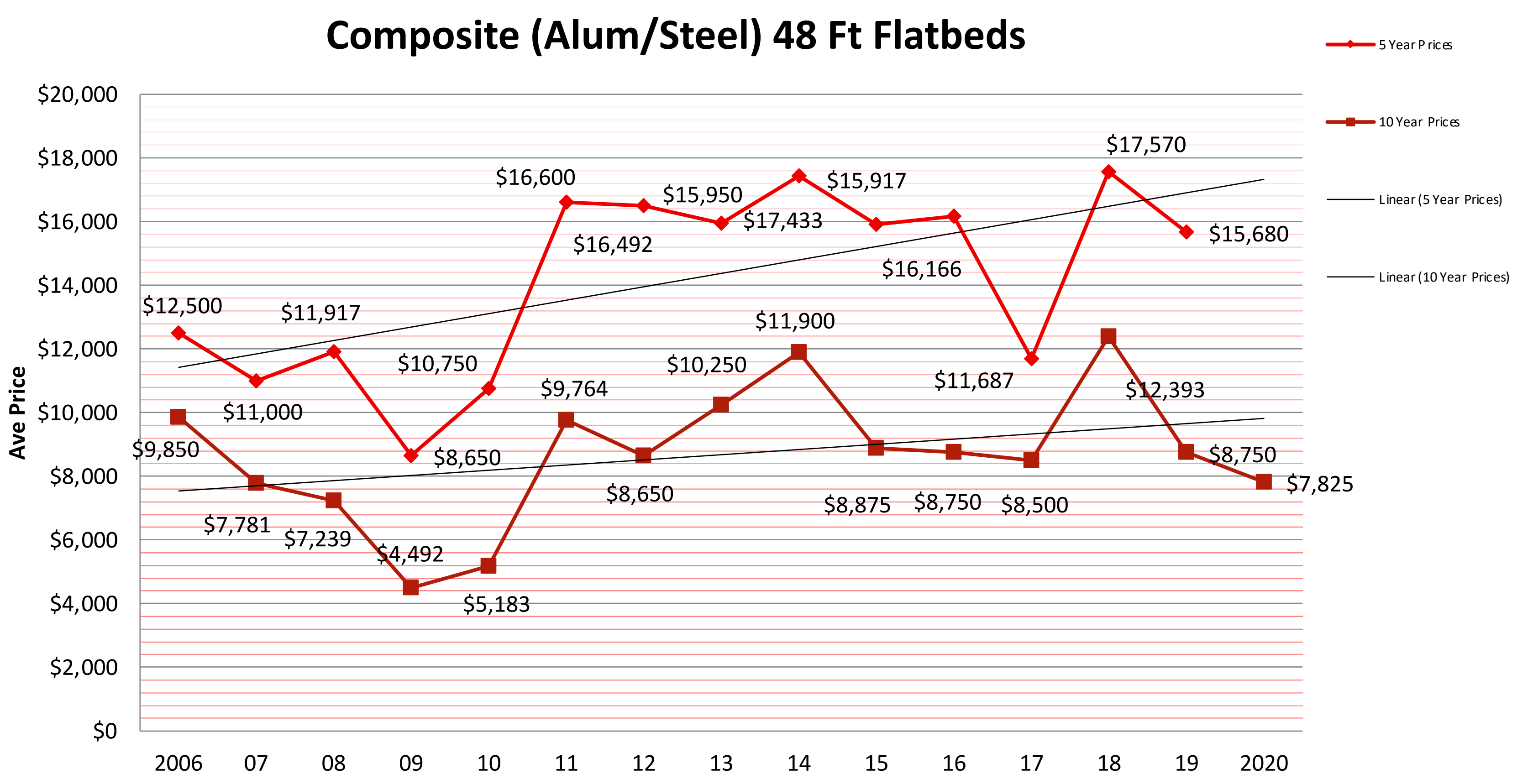


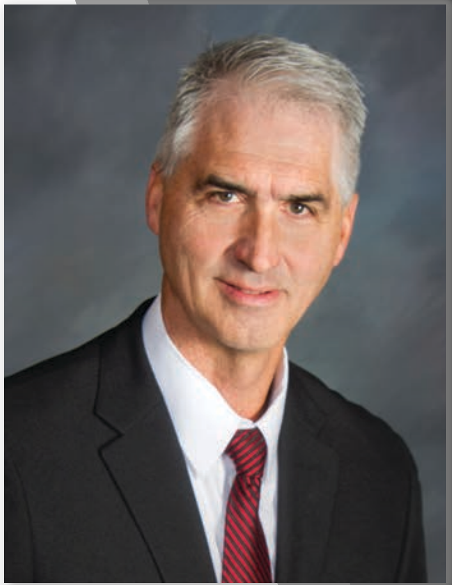
Five and ten-year old Composite Flatbed sales (Taylor & Martin Auctions) are charted below:

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

The flatbed market had recovered from the 2015-2017 pullback. Actual sales numbers (2019) were very low. Considering previously mentioned cautions, and the current number of flatbeds offered in the retail market, this segment is showing significant stress as well. 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 years, values would be below trendline and holding steady. We have limited sales data so far this year, but with speaking to dealers, they are seeing an increase in demand for flatbeds.





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

Changes are coming in agriculture. Markets seem to be reacting positively post-election, weather is harsh dropping frigid temperatures, ample snowfall across the U.S. and agricultural equipment manufacturers are focused upon more efficient, top-of-the-line products.

Ag Week notes Fendt has been field testing their Beloit, KS produced Fendt (AGCO) Momentum planter in the deep soils of the Red River Valley. Adjusting its South American introductory model to North American refinements it is catching some attention. Even in a pandemic, farmers are willing to try new equipment if it shows promise of efficiencies to production or cost. This model's goal is "zero compaction" or "pinch rows". Sensors automatically reduce tire pressures upon field entry, leveling link arms maintain optimum seed depth under changing conditions across the field and even while fully loaded with seed and liquid fertilizer.

John Deere is ramping up its R&D as well to the tune of over $1.7 billion dollars a year. Autonomy is complimenting new technology investments and precision and big data are the elements linking them for the end users to achieve desired field results. The U.K. division has been refining the role of drones and autonomous machinery. Today's tractors are already collecting the data needed to help fully autonomous tractors become a reality in the fields where they work today. Hydraulics may lose out to electric motors for more precise control and artificial intelligence is not far behind that change. Drone swarms are already in test fields, returning to mobile hives and repowering 30-minute fly times to cover up to 30-mile radius mapping treatment and application areas. Future innovations are happening in American fields now.

The global agricultural equipment market size is expected to grow at an 8% plus annual rate over the next 25 years. Continued yield demands to meet growing food needs are a key driving factor to this growth. U.S. new sale 48 Month Rolling Average volumes for 4WD Agricultural Tractors had a 15% Q4 and finally positive Yr.over-Yr. comparison, though not as strong as 2014-15 yet showing good improvement. Per AEM the 5 Year Rolling average for year-over-year new sales of U.S. Combines is also strengthening. Availability is key word… stand in line for a good 4WD 200Hp+ tractor online or in-person, even pre-DEF good condition tractors. Dealer inventories under some pressure on new or used, finally use that tax depreciation credit! Farm auctions have stayed strong even under Covid-19, good condition has a premium despite geographics vs. new cost. Most classes of ag equipment anticipated up slightly in 2021.

U.S. corn exports commitments from China hit record highs for 2020-2021 marketing year of nearly 2.1 million tons. Rebuilding their swine herds back will most likely encourage this positive market movement into 2022 vs. the Chinese record high domestic corn market pricing. Other neighbors have not yet joined-in at such demand levels for contracting U.S. grains mainly due to COVID-19 impacts. Despite greater degrees of farm economy uncertainty in 2020, trade relations appear to be a higher priority of the new administration and farm commodities are forecasted to improve overall.

Production expenses forecasted to remain low such as interest rates and energy-related inputs, while feed costs are anticipated to increase. Land and rents are anticipated to remain steady with improved price outlook. Key points to note are that government payments are anticipated to reduce in coming years driving down net farm income. Volatile and uncertain times in a fragile sector which is highly affected by trade policies and the weather. My prior comments noted lenders still have concerns for cash flow positions, liquidity and depleted working capital going into 2021.

Look for rural infrastructure projects to help move products to the ports, more affordable rural America health costs and cautious trade relationship rebuilding after the COVID-19 focus. Times are changing in Ag.

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