The Meter-Taylor & Martin, Inc.'s Quarterly Newsletter

Produced by: Michael E. Winterfeld, w/Input from John Seymour, ASA & Robert Sandlin, ASA

Transportation (Trucking) Update (12-1-2018)

Autumn is behind us. I recognize that technically it is still fall; but lately we've had more winter weather than fall weather. Most people would agree with me, winter has arrived. [Ice has formed on the local lakes, temperatures are below normal, and several major areas of the US have already experienced significant snowfall, all of which are early, as compared to recent years.] In the Midwest, the corn harvest is finally nearing completion. [It was a wet fall in the Midwest, which pushed the harvest back a month in many places.]

The mid-term election is behind us as well, and the newly elected/reelected politicians are eager to dig in and talk things to death. Regardless of the talking heads in Washington, the economy continues to move forward through the hard work of red-blooded Americans. The work may be getting a little harder for a while. We now have tariffs on certain items, significant segments of our economy are struggling with their own slowdowns (due to lower commodity prices) and interest rates have inched higher putting some pressure on home construction. I've mentioned the following before; our economy is like a large stool which is supported by sturdy legs. For the stool to stand firm and level it requires all the legs to be strong. To stay standing it can withstand a couple of wobbly legs, but that generally stresses the other legs even more. Currently our economic stool has a weak agricultural leg, a weakening oil/energy leg and a couple of splinters on each of the construction and mining legs. There are other legs to the stool as well; one leg is transportation which is currently strong, another is the government leg, which is the largest leg, but supports the least. Overall, the stool is less sturdy than it was three months ago.

Like last quarter, in the short run, it is good to have strong demand for tractors and trailers. Prices and values are generally up again.

So, what has transpired in the past three months? Besides what I have mentioned above, the stock market has shown more volatility. Tonnage is still up, Sales up, Prices up, New Orders up and the Driver Shortage is up. Read on, to find out our take on the market.

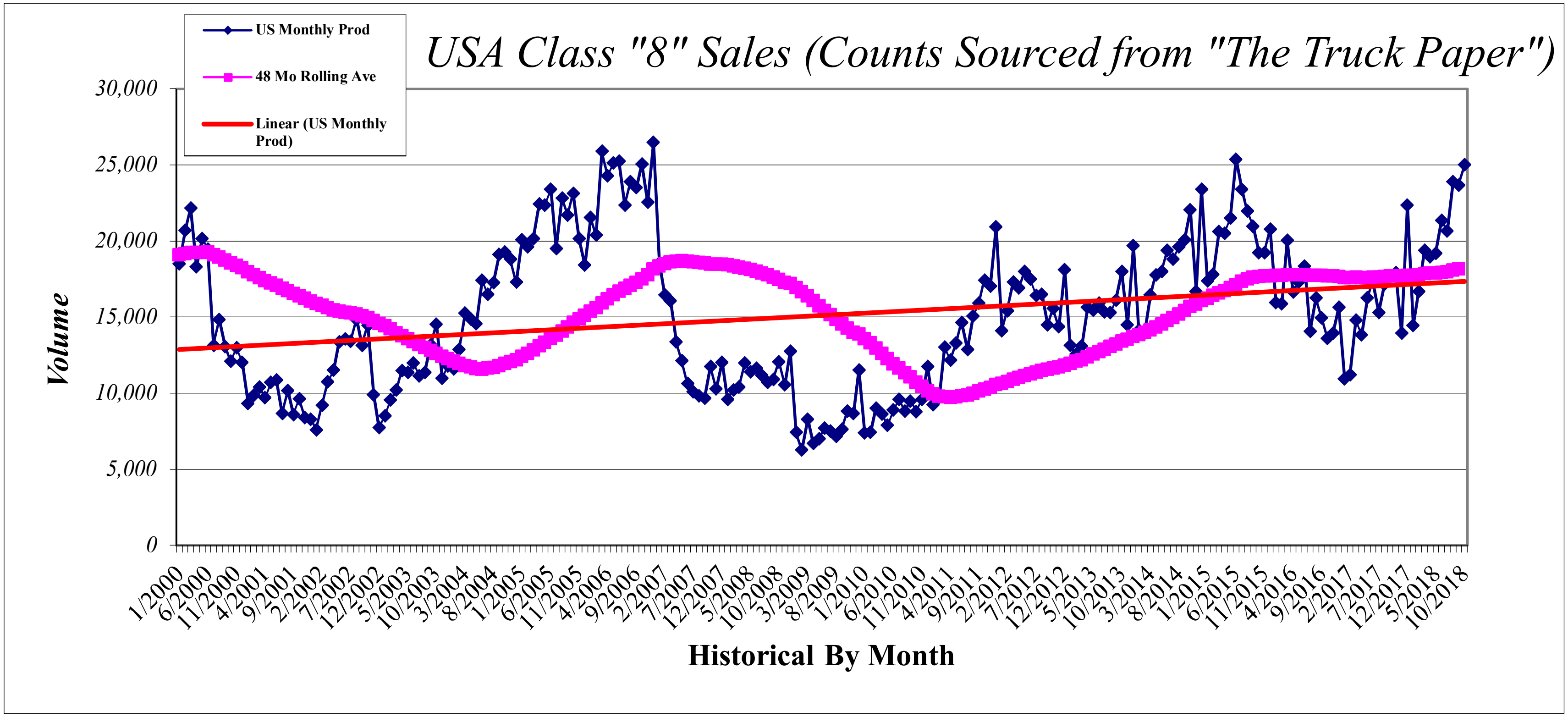
Recent auction activity continues to show that the truck-tractor market is in full growth mode. The market is attempting to fill in the supply constraints with new equipment and with good used equipment. Both are in limited supply. The overall advertised tractor numbers, for 2011 and newer, have increased by about 5% in the past three months.

Overall monthly sales now easily remain above the trendline. The October sales have approached the monthly heights seen in 2015 and 2006, which were well above the long term rolling average (48MRA), new tractor sales from March through October were all above the 48MRA. (New Sales: October 2018: 25,007 vs. 48MRA: 18,198) [Trendline (Red Line) has moved up to about 17,000 per month.] Both have been heading higher the past few months. I am throwing in a cautionary note here; the last two times sales exceeded 25,000 units per month, in the months following sales dropped off, significantly. Orders are still very strong, but orders could be overstated. If some buyers placed orders with multiple manufacturers, once one of the OEMs fills their order they will cancel their other open orders. Overall, the availability of late model equipment is generally on trend when considering both the 48MRA and the Linear trend. The recent purchase trend however, is somewhat troubling.

Trailers continue to hold steady/strong, with most classes depreciating at or less than historical rates. Total new orders are up, when compared to last year's order volume. Some manufacturers are cautious to price next year's trailers due to concerns with raw material costs.

We have included some of our updated data, charts and commentary which I hope you find interesting and hopefully useful.

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.)

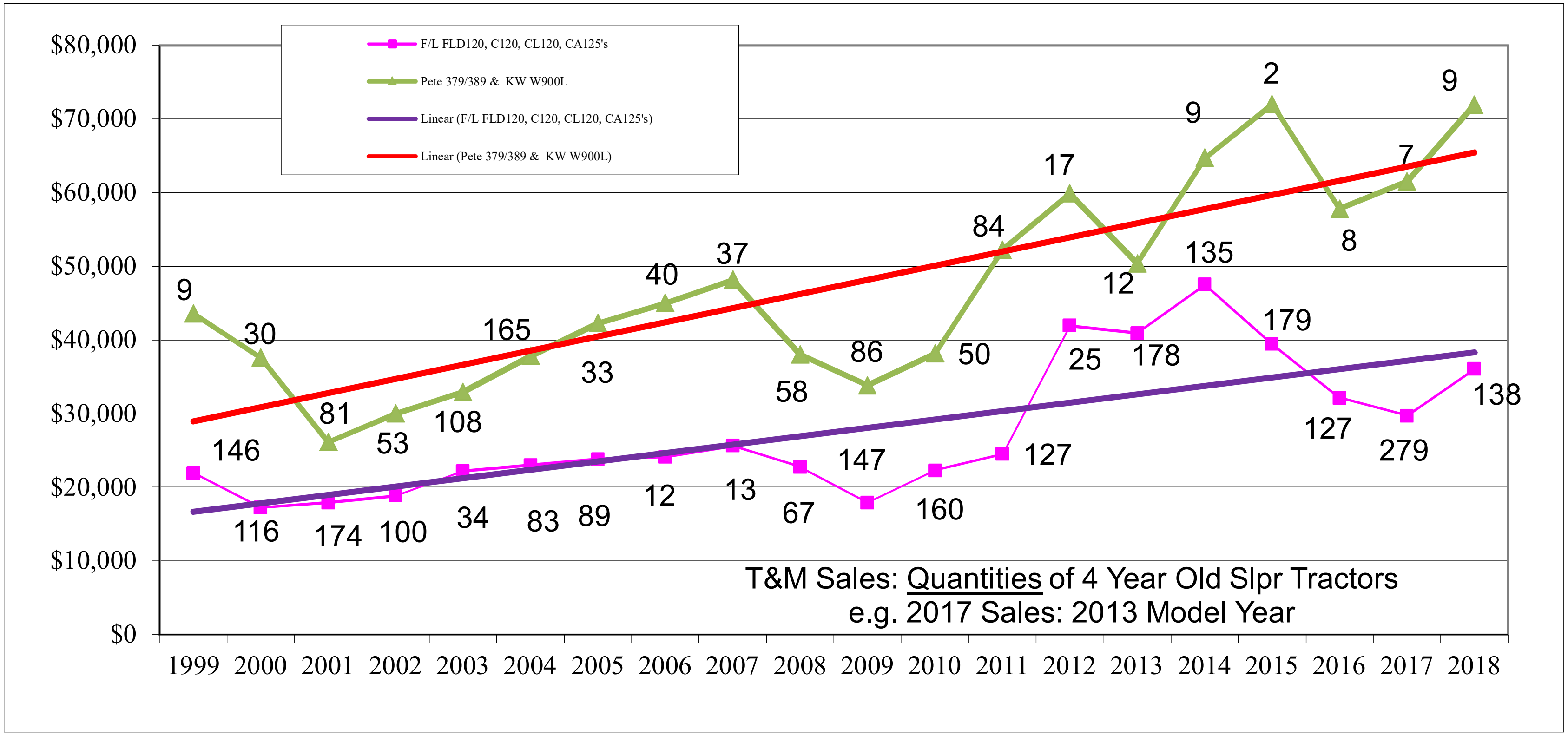
1: Trucking typically runs in a 7 to 8-year cycle [peak to peak OR trough to trough]. As long as the new sales volume is above the 48-month rolling average, the trend is higher for builds and values erode more slowly. We are now above and have been above the 48MRA and will be for a period of time, going forward. This should confirm a reasonably healthy period of growth and reasonable depreciation rates. Going forward, considering the short term, I anticipate somewhat lower than normal rates of depreciation for tractors. When compared to historical cycles the fact that we have exceeded 25,000 units sold in October, suggests we are years ahead of schedule to reach such heights.

2: Historical needs have grown from slightly lower than 15,000 Class 8 tractors per month to more than 16,500 Class 8 tractors per month. Currently, the 48-month rolling average is 18,198. The overall late model fleet continues to inch higher, month over month and has now exceeded the last 48 month Rolling average "High Water Mark" of 17,783 in March 2016. Historically we needed 15,000+ tractors per month. Today, given the HOS limitations, other governmental regulations and growth in the US economy the new benchmark may be 17,000+ tractors per month. This is noted by the fact that the 48MRA is above the Linear Tend line. (Historical long-term Build/Wear Out number.)

3: U.S. Sales ONLY: The 48 Month Rolling Average is the rolling average of all tractors 48 months old or newer (48MRA). 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, 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. Recent sales have continued at a strong/very strong pace, with the strong possibility of exceeding one, or both, of the past two cycle highs. The 48MRA will continue moving higher with the addition of the most recent above average/high purchase numbers.

4: Since the drawdown (~20%-30%) from July 2015 to July 2017, tractor prices have improved significantly. When considering fleet type tractors, recent auction results are up ~22% from the 2017 low and new tractor sales confirm the last downturn is behind us. Used values have recovered some of what was lost; however, it is not possible to determine if, when or how much values will rise above the historical trendline. It takes time for some buyers to both recognize and believe in any positive change in direction, and thus participate.

2018 Tractor Sales (Quantities) are Year-to-Date (through November 27, 2018)

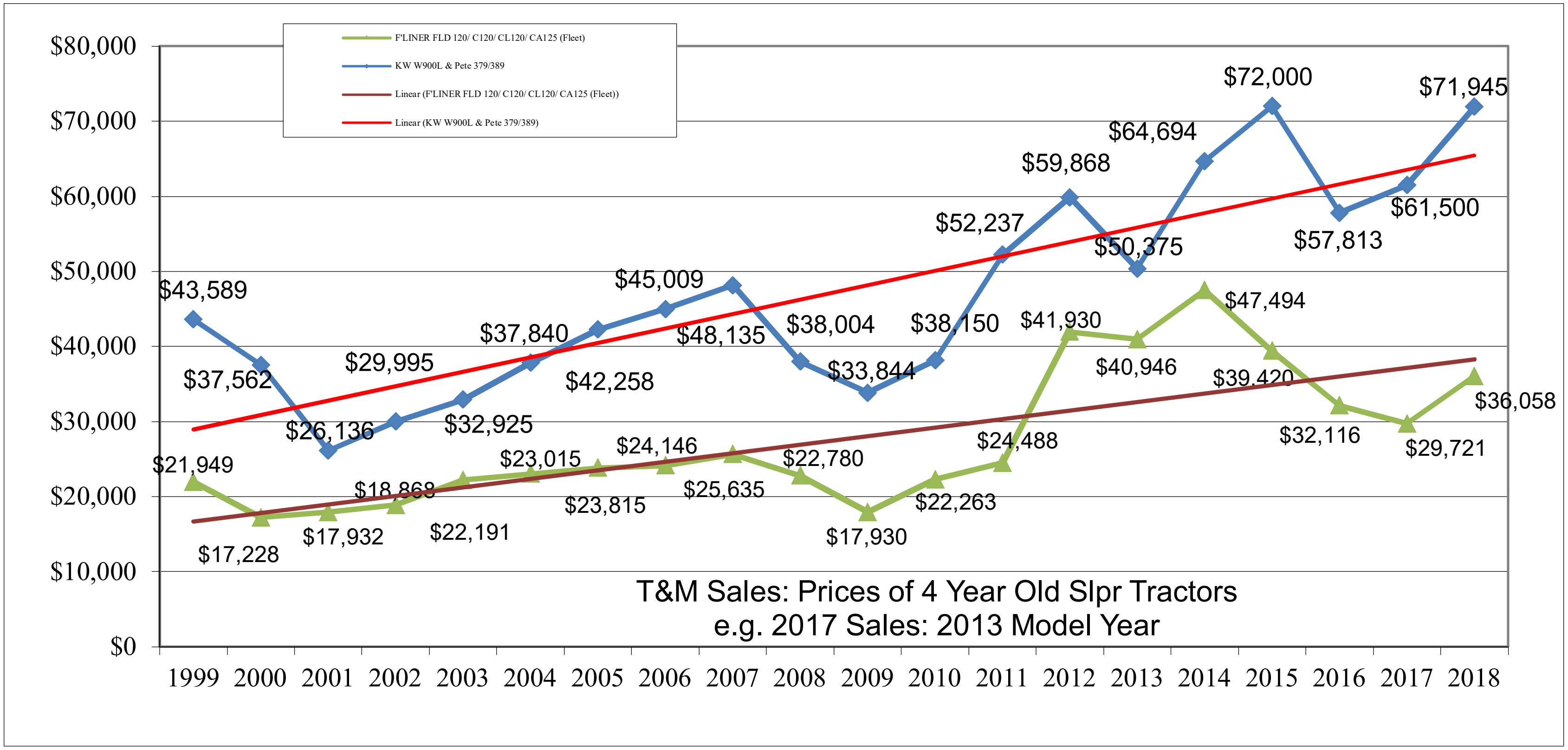


The average price of four-year old "fleet" tractors (sold at T&M Auctions) mirrors the trend of builds. [Further details found in the chart below.]

Above are T&M Sales by annual Quantities, below are T&M Sales by average annual Prices. [I've simplified the chart by combining the Peterbilt 379/389 and Kenworth W900L tractors since both generally considered to be spec'd as Owner-Operator tractors.]

As the charts indicate, higher quality tractors (typically Owner/Operator specs) are faring better than fleet spec'd tractors. It should also be noted that the "fleet" tractors are nearly back to trend line.

2018 Tractor Sales (Average Prices) are Year-to-Date (through November 27, 2018)

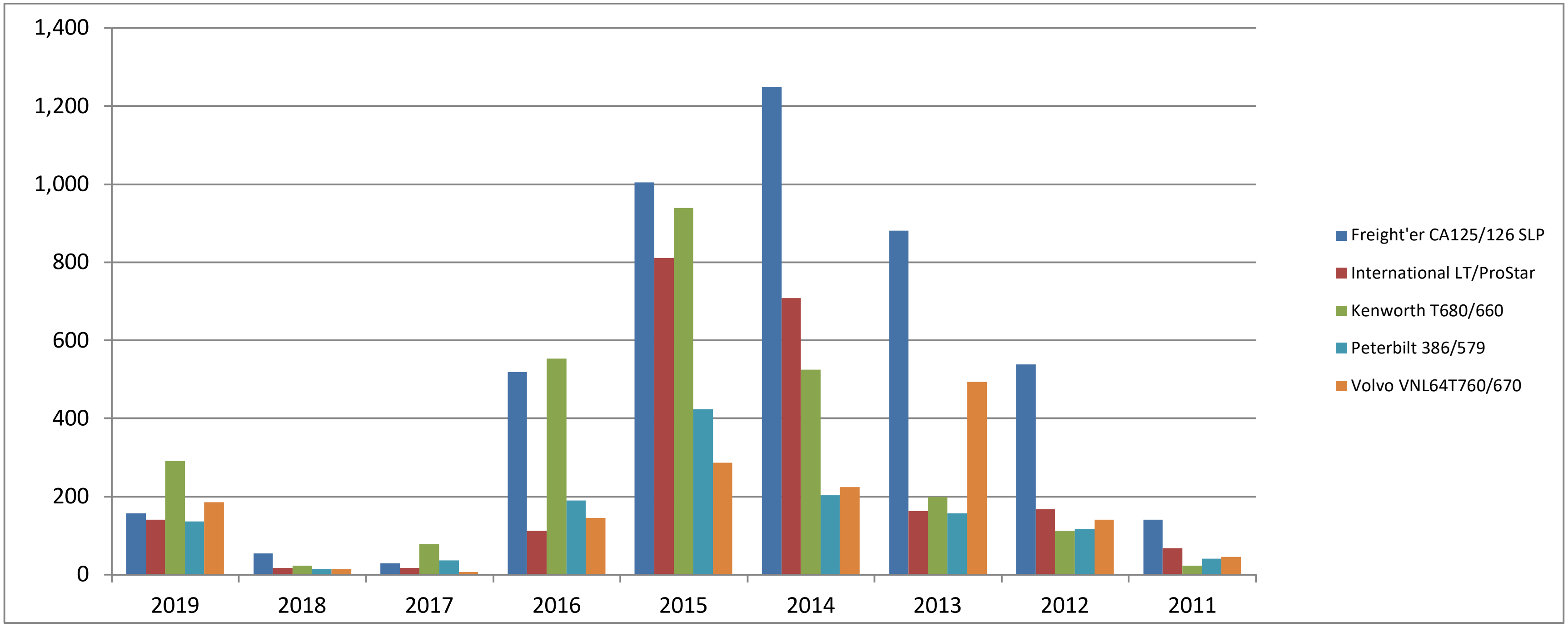


Note, over time, the similar trends of the “Owner-Operator” (W900L & 379ExHd/389) tractors (blue line) compared to the “Fleet” (Freightliner) (green line) tractors.

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). RCN is up (from material costs, EPA requirements and safety/comfort improvements); additionally, inflation is included in the sale prices, thus the upward trend line.

The drawdown (peak to trough) from Calendar year 2014 to 2017 was 38%, when measuring the Freightliner sales, as shown above. The drawdown from trendline to trough was approximately 17.50%

What is available to the marketplace today? (Nov. 25, 2018) See chart below. (Sleeper Tractors) There were about 750 more units "for sale" this quarter when compared to last quarter's totals.) The "high count" years are typically for trade-ins or end of lease units. Low counts for 2017's & 2018's indicates that most units are typically in the first lessee/owner's hands.



November 25, 2018^	Sleeper Tractors For Sale On TruckPaper.com: Aug 25, 2018									Ave. Age	2014.57
Make	2019	2018	2017	2016	2015	2014	2013	2012	2011	Total	Percentage
F/L'er CA125/126 SLP	157	54	28	519	1,004	1,249	881	538	140	4,570	36.992%
Intern'l LT/ProStar	140	17	17	111	811	707	162	167	67	2,199	17.800%
Kenworth T680/660	291	22	78	553	938	525	198	112	22	2,739	22.171%
Peterbilt 386/579	135	14	36	189	423	202	156	116	40	1,311	10.612%
V'lvo VNL64T760/670	184	14	6	144	286	224	493	140	44	1,535	12.425%
Year	907	121	165	1,516	3,462	2,907	1,890	1,073	313	12,354	100.000%

Retail “For Sale” counts (total: 12,354), as charted above, are now moving higher again, up about 6.65% when compared to last quarter, but still down significantly, when compared to one year ago (>5,000 units). Overall inventories are still moving off dealer lots. Historic Reference: Sept, 2015: Total: 12,280; Dec, 2015: Total: 14,402; March, 2016: Total: 17,627; June, 2016: 19,618. Sept, 2016: 17,746; Dec, 2016: 17,712; March, 2017: 17,460; June, 2017: 18,481; Sept, 2017: 18,451; Dec, 2017: 17,722; March, 2018: 17,216; June, 2018: 14,723; Oct, 2018: 11,584.

Considering the most current four quarters: Dec. 2018: Ave VIN: 2014.57 vs. Sept. 2017: Ave. VIN: 2013.54. The average vintage, of the “for sale” assets, is “one plus” model year newer over the past year; which indicates the inventory available is not aging.

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

Drivers continue to be in short supply. Demand for qualified (experienced, drug free and safe) drivers is strong. As stated earlier, the driver shortage is estimated to be approx. 100,000 drivers.

Twenty-two months into the current administration: Legal wrangling regarding President Trump and people associated with his administration and tariffs are still the lead stories for the nightly news or the front page of major newspapers. More happens as political theater than as policy, legislation or real jurisprudence. The wheels of progress (?) continue to move slowly.

The Crude Oil Industry has fallen off significantly, falling from the mid-$70’s to the low $50’s/BBL. Active Drill Rig Counts have generally flattened. This rapid turn-down in crude oil prices has a lot of companies scrambling.

Building Activity (Home, Office, etc.): Slowing: Interest rate sensitive. Rates have remained relatively stable, over the past three months, but most expect a quarter point increase in December. Housing starts have slowed but interest in existing housing is still strong (except high-end properties), labor markets remain tight and unemployment is low. The 30-year mortgage rates are stable and are still some of the lowest rates in history which is encouraging.

Labor: There is a real shortage of qualified employees for many sectors, including transportation.

World economics: Tariffs are the buzz; which, depending upon your industry, has little to major affects to the bottom line. The rest of the world is still showing weakness and international politics are in play (China) … the US Stock Market has shown significantly higher volatility and had declined approximately ten percent; however, as of the date of this newsletter, it has recovered about 1,000 points from its recent lows.

The combination of slowing economies in China, Europe, et al. and increased oil production in the US and OPEC’s uncertainty have really turned things from optimistic to pessimistic. [Sept. 2018, I wrote: US production will certainly attempt to take advantage of the higher prices and ultimately limit the upside potential.] Clearly this has come to pass. We are over producing oil.

Trailers

Trailer trends remain firm/strong. There are pockets of greater or lesser demand depending upon which sector of trucking is considered. The direction of trailer values typically lags tractors by several months. I anticipate some higher rates of depreciation in more sectors, in the coming months.

Generally:

Ag trailers: still steady/soft due to ag commodity (grain, fiber & livestock) prices. (Grain & Soybean prices have suffered due to tariffs and the overall crop conditions are good. Supposedly, the Federal government has authorized payments to offset some of the price declines in soybean prices. To date, no one has received a check and the beans have been harvested.)

Chemical Tank Trailers: Stable Pricing: raw products to manufacturing still good. Good used equipment in the secondary market is in very limited supply. Lesser quality trailers (e.g. out of test) are readily available. Chemical companies are anticipating expansion, based upon steady growth.

Pneumatic trailers: High load demand for large capacity trailers. Better demand for small cube trailers (i.e. 1040's), due to construction and existing oil field activity.

Propane tank trailers and bobtails: Stable for older used assets. [The price of propane is relatively stable when compared to the recent increases in natural gas prices (up about 80%) which is good for producers; but will sting the pocketbooks of consumers.]

Container/Chassis: Supply adequate, growth in rail, port activity up (TEU count is up). Size is important, location is important.

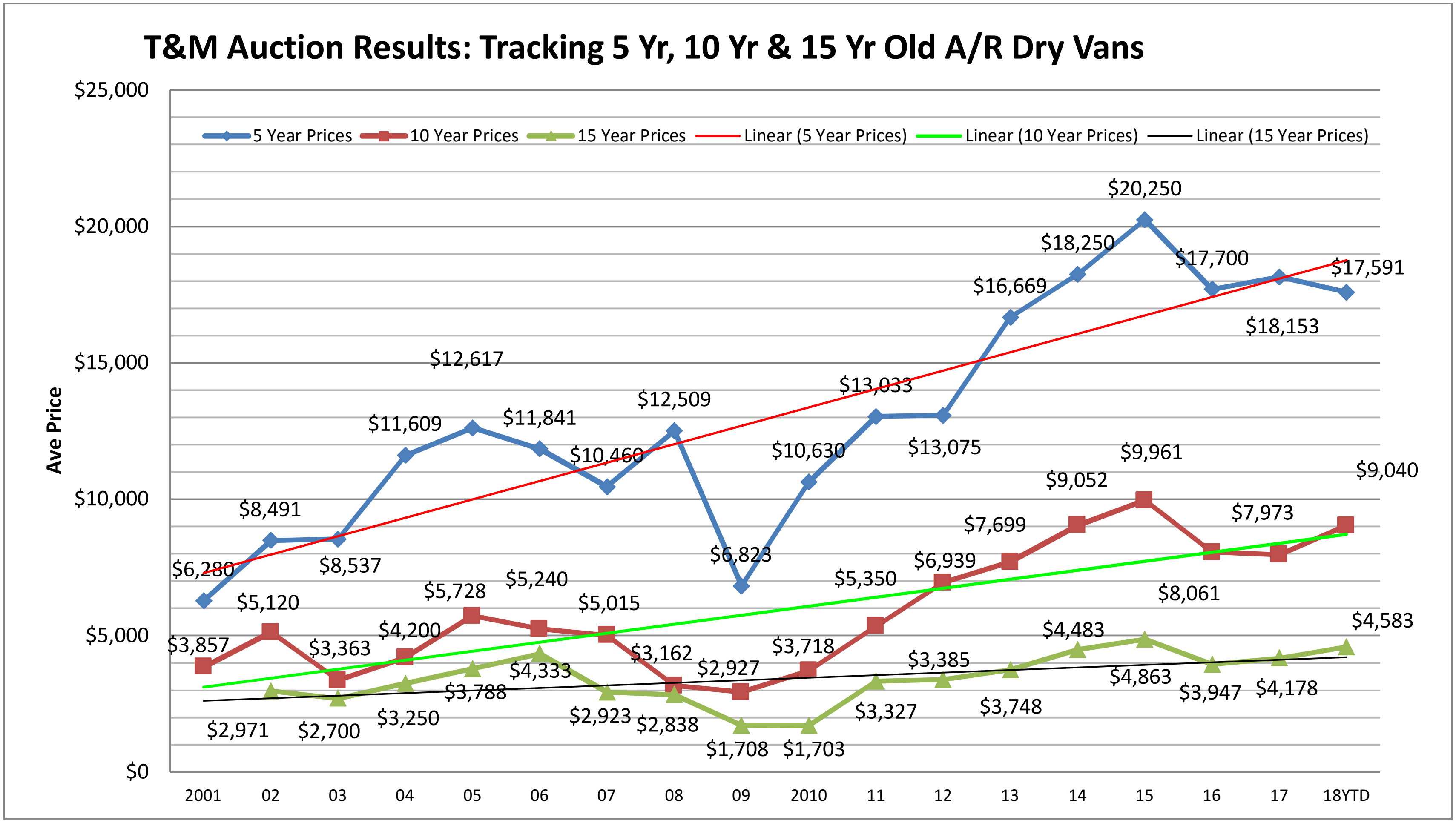
Flatbeds/Drop Decks: Stronger: Construction remains robust, In-bound freight to manufacturers and finished goods reported to be improving. 53 Ft & 48 Ft Combo Flats: RCN steady. Market still has plenty of 2017's-2018's flatbeds and an abundance of 2019's for sale as well. Specialized Oil Field Flats: Supply is still plentiful. Generally, depreciation rates are below historical levels, particularly on trailers that are greater than 5 years old. Overall, orders and builds are up.

Heavy Haul Trailers: Demand improving, per conversations with dealers & manufacturers. RCN is stable, but subject to steel prices. New orders are up.

Dry Vans & Reefers: Sales data indicate that the dry vans regained their previous strength, now generally reflect "trend-line" for auction prices. There have been some sales well above trend-line, due to condition and demand. The finished product stream is still good. Some units await completion, due to limited availability of components. I anticipate the market to be firm/strong in the coming months. These two sectors are still stable/strong for late model units. New orders and prices are up for vans, with a significant backlog having been built.

Overall, supply (new & used) currently seems to be near "in balance". Freight volume has been increasing, which certainly helps. Currently, rental fleets are enjoying above average utilization rates (dry van, flatbeds, step decks, reefers).

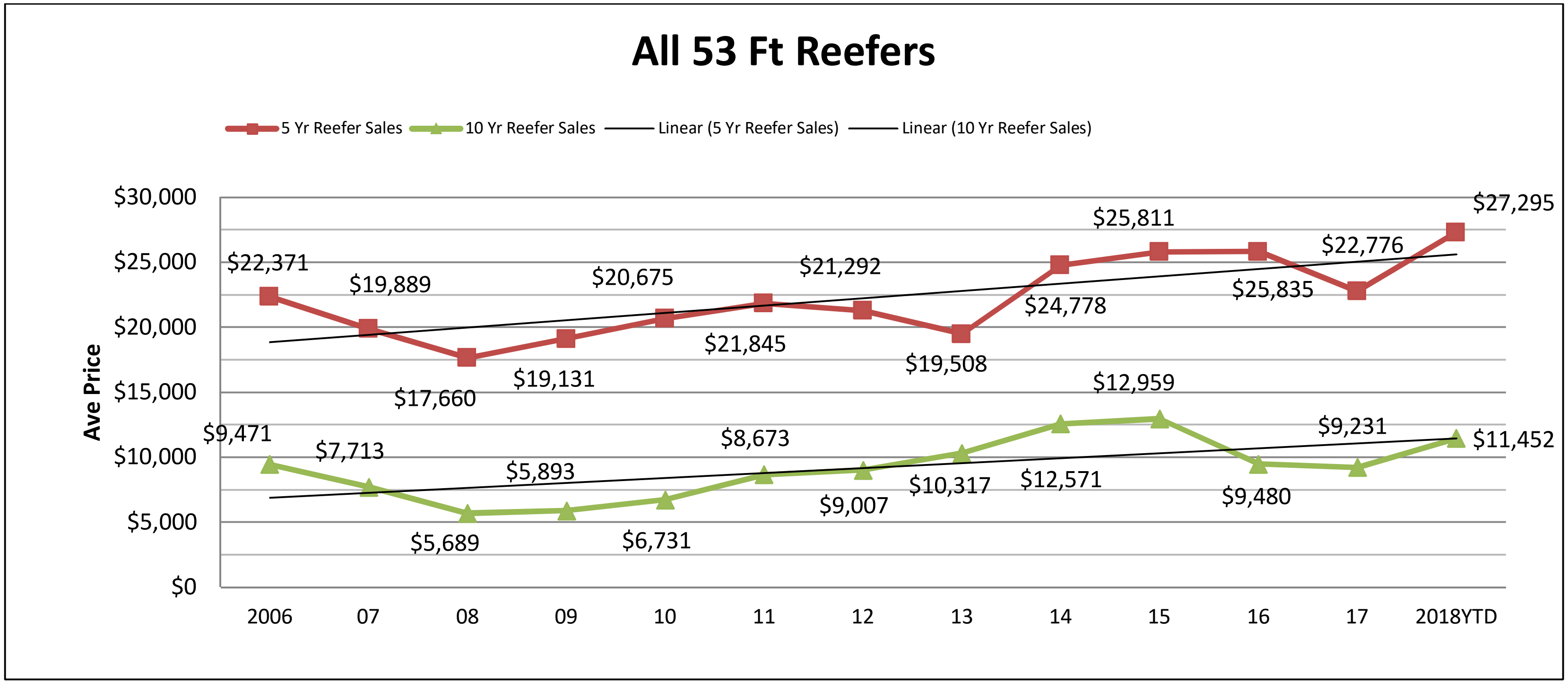
Five, ten and fifteen-year old Dry Vans sales (Taylor & Martin Auctions) are charted below:



Late model Dry vans have generally moved back to / above the long-term trend line and the older vans continue to be on trend.

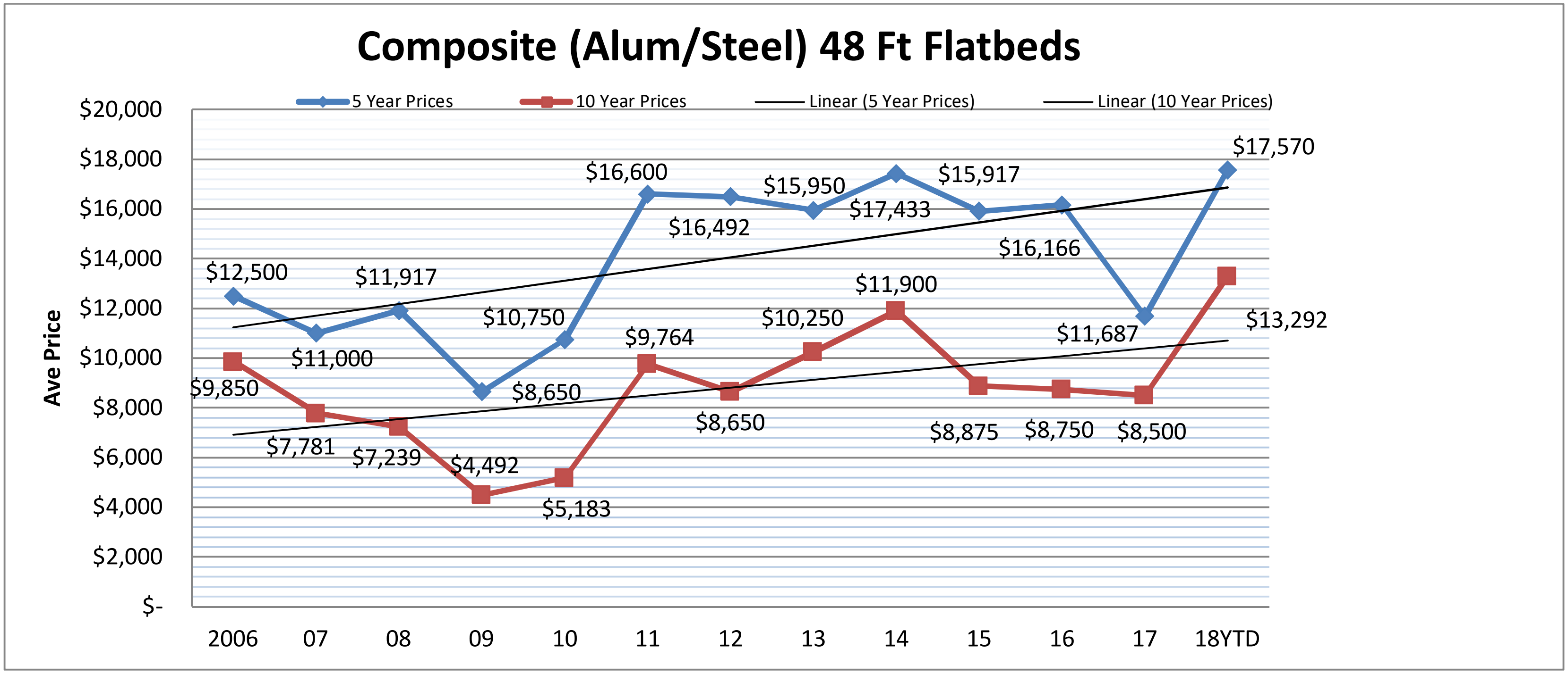
It should be noted that the 2018 results include a high percentage of "sheet & post" (plywood lined) vans. Excluding those, 2018 prices would be approximately five percent above the 2017 prices.

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



Reefers: Five-Year-Old Reefers (MY13) have risen 19.0% from the 2016 average. The 2018 sales indicate we have fully recovered and are above the long-term trend line. The Ten-Year-Old Reefers, YTD, are at trendline. Actual reefer builds in CY2016 and CY2017 were much lower than the CY2018 build rate. The lower builds (2016/2017) could be contributing to the strength in used values today. As you can see in the above chart, drawdowns are significantly smaller than other classes of trailers. The question is why? Flatbeds and Dry Vans primarily haul raw products and finished goods, which are subject to producer and consumer cycles. Whereas, refrigerated trailers primarily deliver food products. Generally speaking; people tend to eat every day, regardless of the economy. As such, a much more stable volume of food products is delivered, day in and day out. [The condition of the economy may dictate the mix of foodstuffs.]

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



Combo Flatbeds (Alum/Steel Composite) remain firm/strong. 53 Ft Long flatbeds show similar results.

The flatbed market has clearly recovered from the 2015-2017 pullback. Flatbed builds are up significantly year over year. Considering the previously mentioned cautions, the flatbed market should be stable over the next few quarters.

The Meter (is Running)! Various thoughts from Bob Sandlin, while on the road:

Oil drilling is still rolling (running & gunning). It will take a while for the committed funds to dry up. The oilfield continues to grow according the Baker Hughes rig report (11/21/2018) the United States rig count is 1,079 rigs up 156 from the same time last year. [The majority of the increase is in the Permian Basin.] West Texas Intermediate (WTI) is selling for $50.35 BBL. Drilled but Uncompleted (DUC) wells are at a total of 8,545 across 7 regions in the United States. DUC is up more than 2,000 from one year ago.

Bob's takeaway, after attending the Taylor & Martin auction in Ft. Worth sale on November 29, is as follows: Twenty plus older, owner-operator tractors (mostly Pete 379 Ex Hoods) were sold. The results indicate that there is still high demand for units which are exempt from ELD, particularly if the quality of the tractor was evident. This allows the driver to use paper logs to track their drive time and rest time.

For additional information on a specific transportation sector (trucking), please feel free to contact us. Specifications, quantities and market niche should be considered. I am always happy to make a personal visit and am available to speak to your lending/leasing group, if you would like.

I have only provided a brief and general overview of what we are seeing in the market. But having history as a guide, we were due for increasing rates of depreciation, possibly above historical averages, depending upon the market in which the asset is employed or could be employed.

Thanks,

Michael E. Winterfeld, ASA
Director, Appraisal Services
1865 N. Airport Rd.
Fremont, NE 68025
Office-Direct: (402) 941-1070
Cell: (402) 981-6412
mwinterfeld@taylorandmartin.com
www.taylorandmartin.com

John Seymour, ASA
Manager, Appraisals
Office: (402) 941-1072
jseymour@taylorandmartin.com

Robert Sandlin, ASA
Manager, Appraisals, Olney, TX
Office: (402) 941-1071
rsandlin@taylorandmartin.com