The Meter

Transportation (Trucking) Update (9-2023)

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Introduction

I don't know about all of you, but I am getting very excited now that football season is upon us. Of course, I am a die-hard Husker fan and get overly excited every year about this time, but right now I am optimistic and happy that fall is here. Could be a different story by the next newsletter, but like the used truck market, only time will tell.

The spot/contract rates have been tough on the trucking industry and pair that with rising diesel costs many companies are just getting by. That has led to some bankruptcies and shutdowns. We have had a lot of customers simply shutting their doors while they can on their own terms. This, along with more consistency in the new truck deliveries, has led to more inventory in the used market.

Over the last three weeks, we have observed another dip in auction values predominantly on tier II equipment with high miles. Inventory levels at auction have been extremely high and we would have expected to have a bigger dip in values, but the market has absorbed the excess inventories thus far.

As you will see with the chart on page 7, truck listings are way up since the June newsletter. Listings peaked in May of 2020 at 25,200 with a low of 4,086 Dec of 2021. We will generally see this number in the 13K-18K range. Current total is 15,978 as of September 1st. We have been on a steady rise since that low in Dec of 2021, but I did update that chart 30 days ago for a presentation and since then we are down over 300 listings in the last 30 days. It could just be an oddity and/or a large company pulled a bunch of listings, but it is worth noting and I will keep a close eye on it. I would not have expected any decline in listings in this current market.

Overall, we are still in a healthy economy as a country – the unemployment rate increased for the first time in a long while. Expectations of another rate hike are very slim at the moment. Seems like everyone still has a lot of uncertainty on what all the data is going to do to the market. The Yellow bankruptcy and union strikes have skewed the numbers according to most analysts.

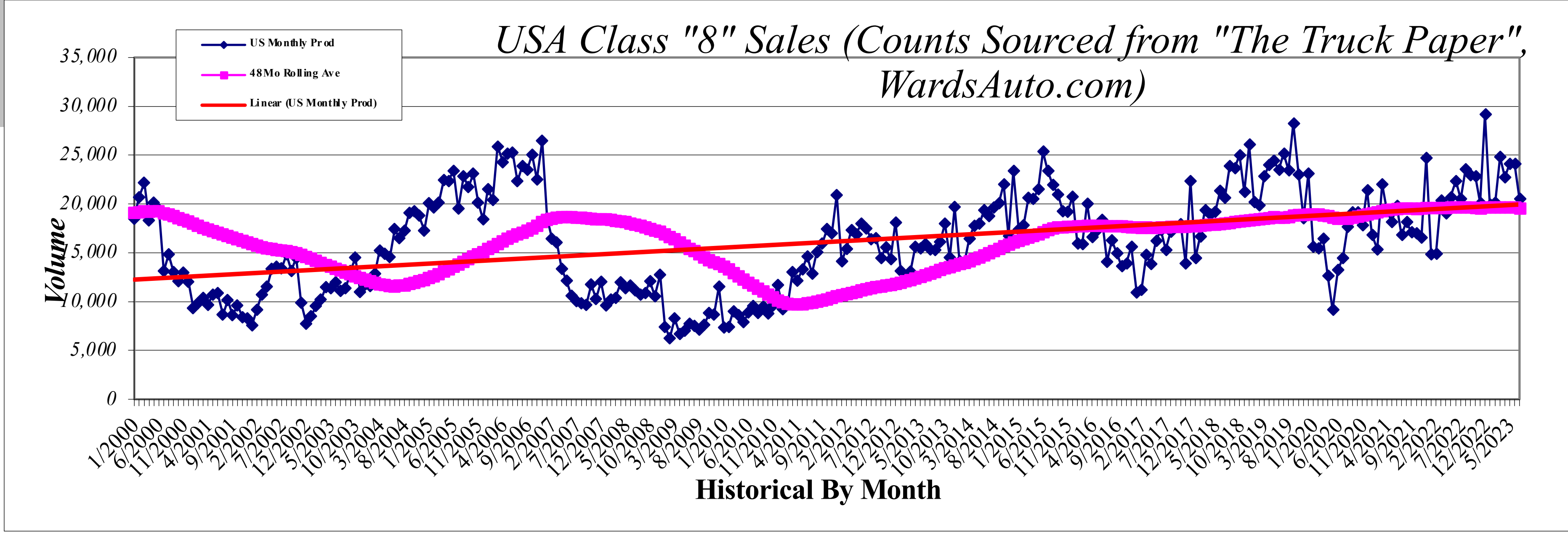
The Yellow bankruptcy has grabbed a lot of headlines. This was so big it has affected the unemployment numbers and is spurring questions about what it is going to do to the used truck and trailer market. It will depend how the sale is handled and what market it will hit - auction or wholesale. The key is spreading out the assets to all fields. The wider the range of industries (i.e. agriculture and construction) will help reduce the impact on the U.S. used equipment market. International sales would also be beneficial to the market, trying to keep all that equipment in the U.S. LTL market will be risky to the overall value of all of the equipment. The late model equipment will bring huge demand from multiple consumers, the rest of the assets could feel the decreased demand and see values decline if not dispersed across as many sectors of the industry as possible.

We have seen roughly a 35% drop overall in values since the first of the year at auctions. We have watched it hit different model years and specs differently. With trucks, a good rule of thumb, is to look at the listing chart to check inventory levels and the higher the level of inventory the harder the hit they are seeing at auction. Of course, this is just a guideline. Right now we have an influx of 2020-2018 fleet trucks at auction and being listed. These have taken the biggest hit as far as values just as you would expect.

The auctions continue to be well above normal volumes. We have seen a lot of new buyers participating in the auctions. This is a good sign for the industry going forward. Dealers have been buying around 30% at auction which is standard. We are not expecting any major changes to inventory levels at auctions with a potential 10% drop in overall values by year end. With that being said, it should still keep us above pre pandemic levels with inflation adjustments.

Hoping some of the following charts will give you a little more clarity on some of our viewpoints. As always, if you have any thoughts you would like to share or even specific charts and information you are curious about, please feel free to reach out to me any time avering@taylorandmartin.com.

Have a great fall and we will have the next newsletter out in early December.



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.

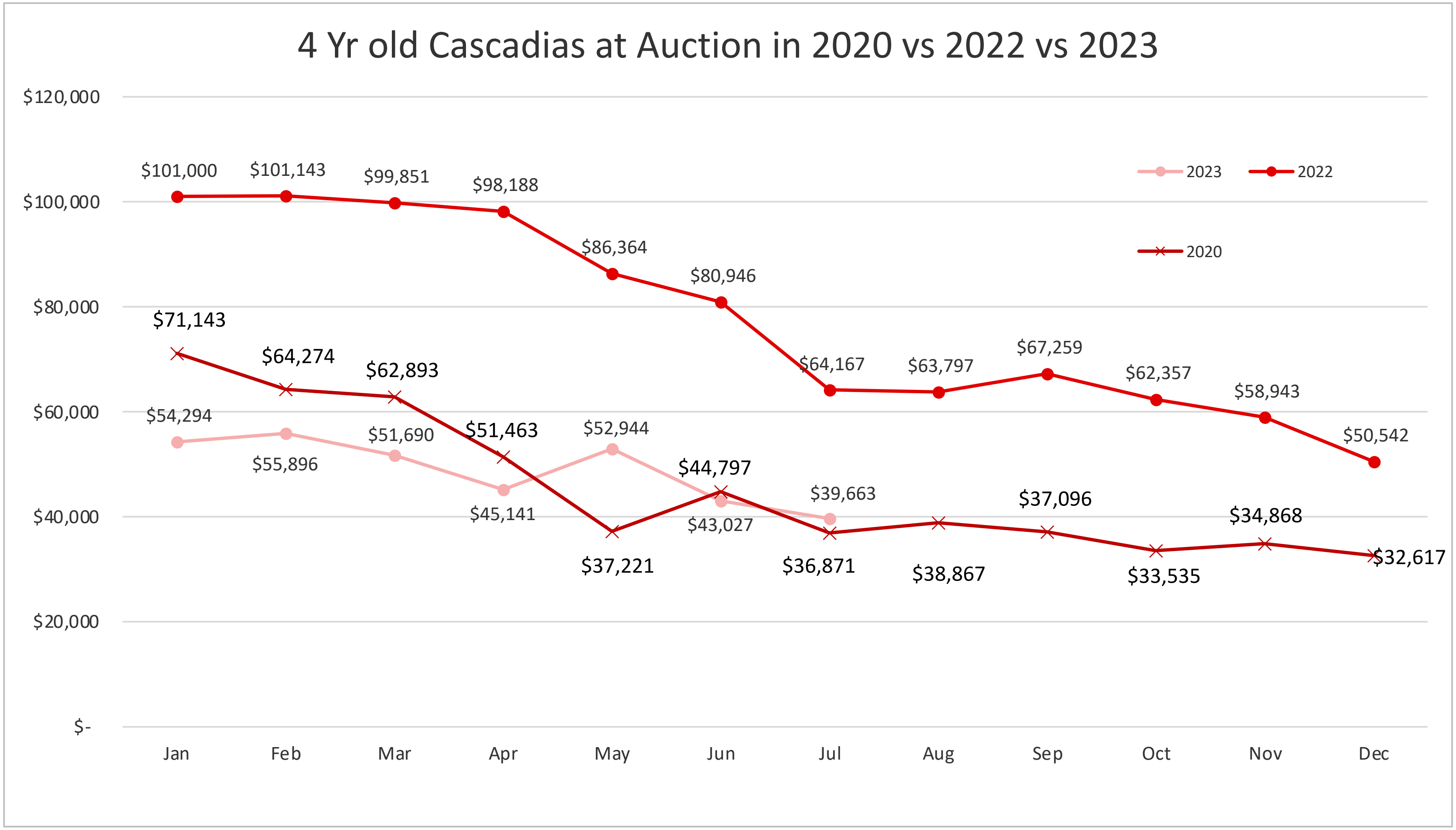
4: Actual Class 8 purchases have been down since the year end. December 2019 of 23,119 to averaging 15,271 for the year in 2020 with the low at 9,165 in May. We are currently at 19,551 for 48MMR and as production increases sales will follow until we reach the trucking industry demands.

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.

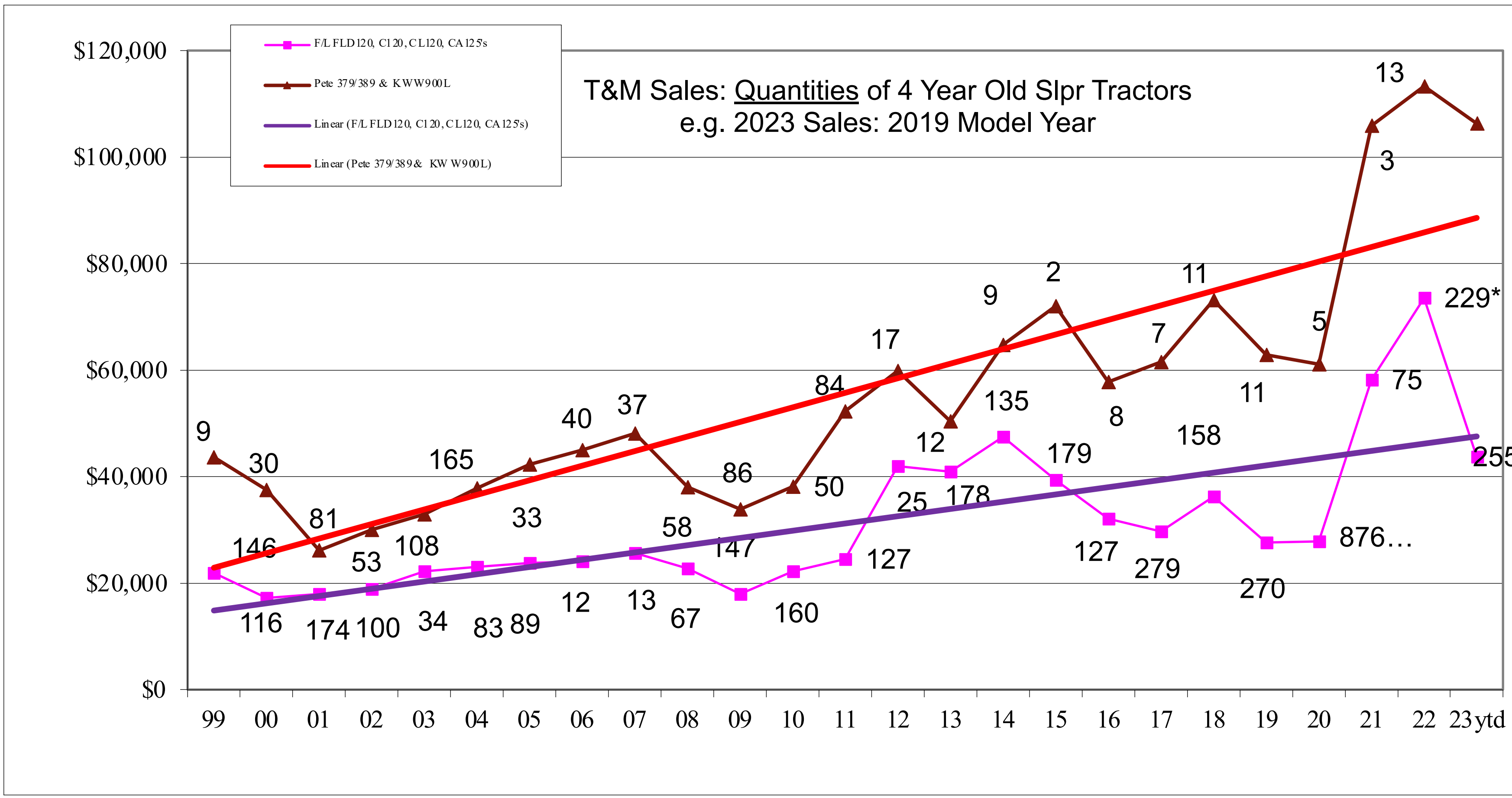
6: The class 8 truck orders have been leveling off since the peak at the end of 2020 as expected. The overall demand has remained elevated. The supply chain issues have for the most part began to deteriorate.

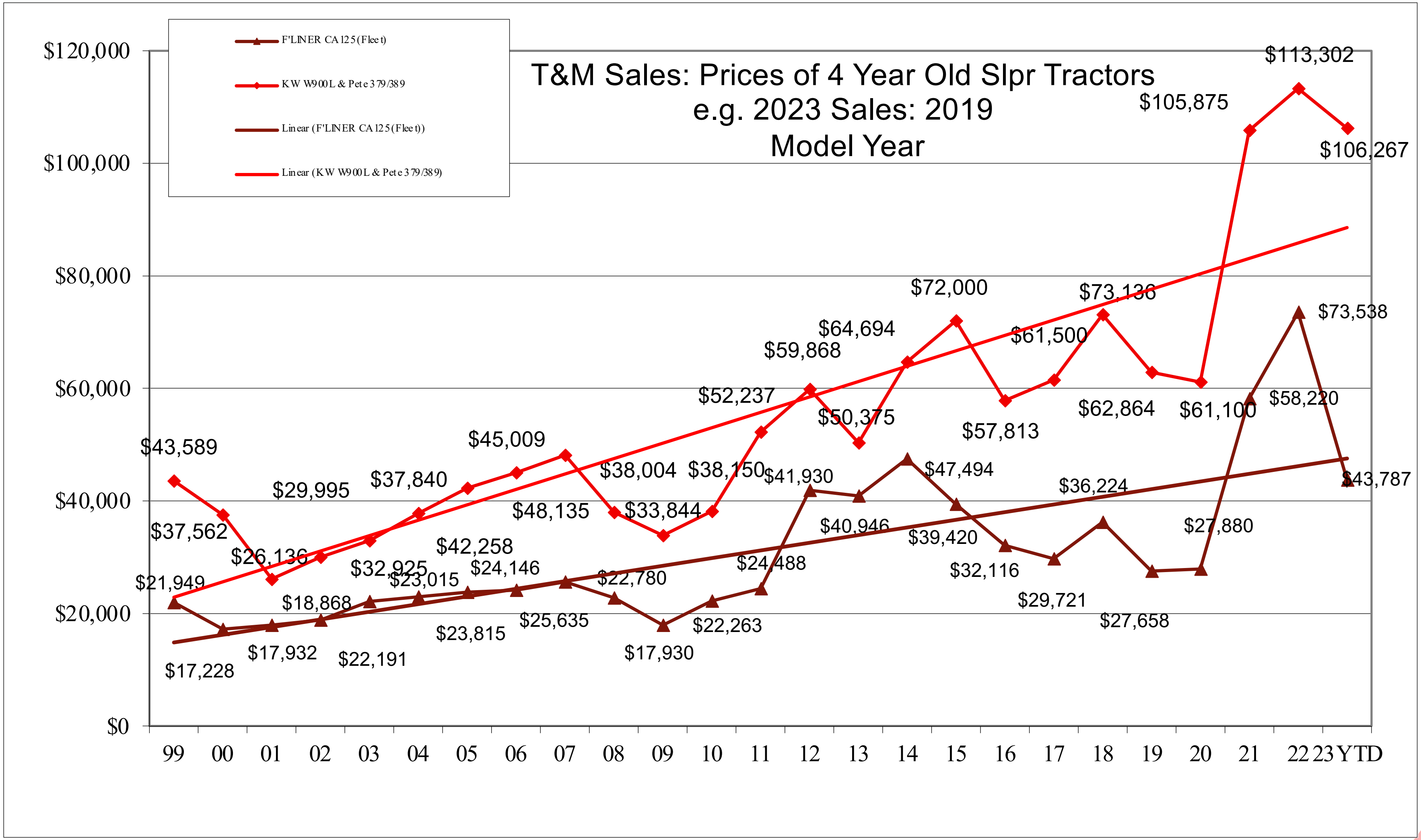
7: While markets have cooled the demand for new trucks has remained elevated with larger companies trying to reduce the age of their fleets. Demand for new has held strong even in the weaking market. Build rates have remained elevated and deliveries are catching up. New truck demand is expected to soften 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.

We added the 2020 numbers as another frame of reference while comparing markets. As you can see we are well off the highs in 2022 and currently mirroring the 2020 values. I would suspect we will continue that trend through the end of the year but I don't think we will get down to the same lows we saw then. The rising used truck inventory will contribute to the decline but the rise in new costs should help hold these used values above historical numbers.



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. And we have done both. Volumes are up and are values down. Less downturn in the O/O models with volume up to 11 sold.



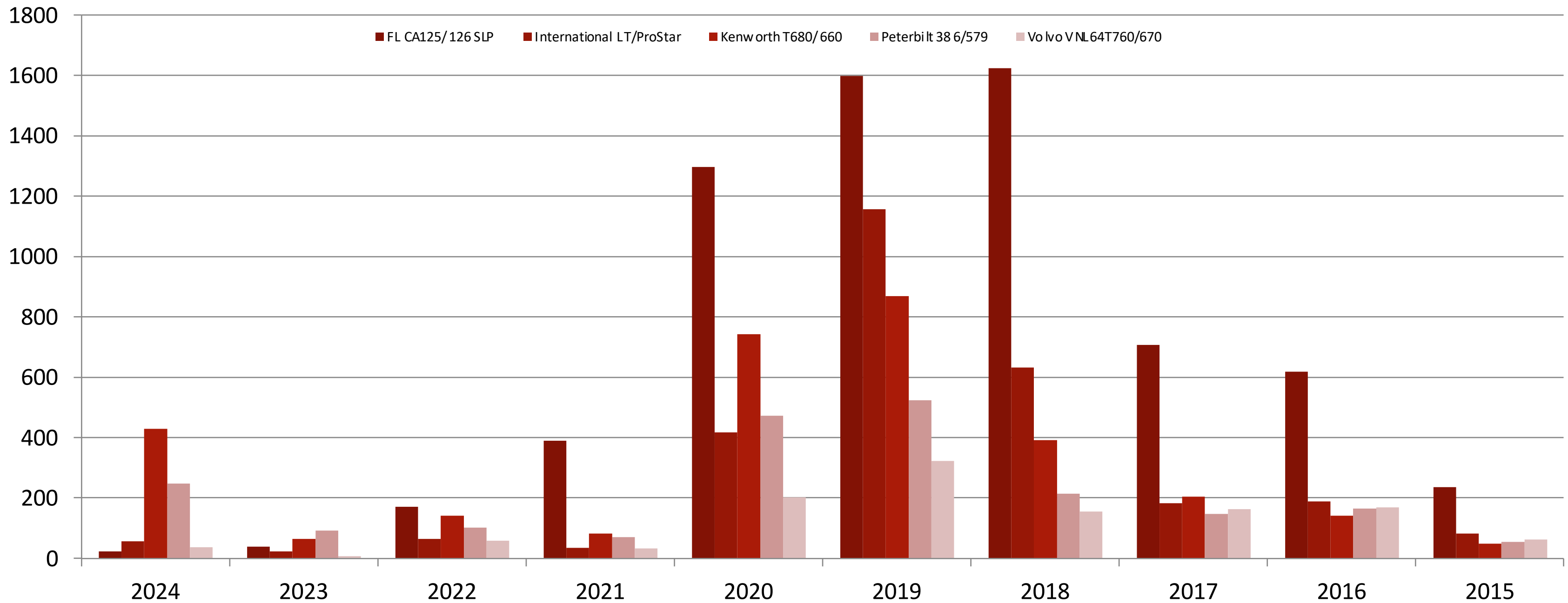


Above are T&M Sales by average annual prices. (As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both are generally considered to be spec'd as Owner-Operator (O/O) tractors.) As seen in the previous slide overall sale values are well above the trendline.

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. As expected, the fleet trucks have dropped below the trendline and are still trending slightly lower. We are anticipating levels to stick above the pre pandemic numbers.

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? (Aug 30, 2023) This chart is again interesting. As you can see we are up 2,612 listings in 3 months. That is a larger increase than typically seen in this chart. I updated this chart 30 days ago for a presentation and the totals were actually above these at 16,398. I will be keeping a close eye on this to see if August volume was the beginning of a trend or just an outlier month. Either way inventory levels are much higher than they were in June and helps justify the decline of values on used fleet trucks.



30-Aug-23	Sleeper Tractors For Sale On TruckPaper.com: Aug 30, 2023									Ave. Age	2017.98	
Make	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	Total	% of Total
FL CA125/126 SLP	24	40	171	390	1297	1598	1624	708	619	237	6,708	41.983%
International LT/ProStar	58	23	64	35	417	1157	632	183	189	83	2,841	17.781%
Kenworth T680	430	65	142	82	743	869	392	205	141	50	3,119	19.521%
Peterbilt 579	249	93	102	71	473	524	215	147	165	56	2,095	13.112%
Volvo VNL64T760/670	38	7	60	34	203	323	155	164	169	62	1,215	7.604%
Year	799	228	539	612	3,133	4,471	3,018	1,407	1,283	488	15,978	100.000%

Additional Factors…

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

- Crude Oil has gone up into the high 70 to mid-80-dollar range since the start of July. Anaysts believe the price of oil should continue to climb but somewhat peak out in the low 90-dollar range, based on the supply cuts. Just recently Saudi Arabia announced a new cut of 1 million barrels per day. While production cuts and possible increasing demand for holiday season, this could cause global oil inventories to fall and put upward pressure on oil prices through the end of this year. Crude Oil Petroleum Reserves have significantly decreased from an average of 600 million barrels in 2019 to 2022 and have since fallen from the start of 2022 to currently around 350 million barrels.

- Building Activity (Home, Office, etc.): Housing starts in the U.S. increased 3.9% month-over-month in July. In July, single family housing starts, which account for the bulk of homebuilding, increased 6.7% and starts with five units or more were unchanged. Housing starts refers to the number of new residential construction projects that have begun during any month. The median existing home sales price is currently $410,200 while the all-time high in June of 2022 was $413,800. Analysts believe we will surpass the all-time high this year. Despite high mortgage rates, the strong demand with tight inventory supply, due to who purchased homes in recent years with record low interest rates are staying put. The nation's average rate for a 30-year mortgage loan is 7.22%.

- Drivers: Shortage! Still continuing to have a driver shortage. Analysts believe we have bottomed out on the spot rates while hopefully seeing a bottom on the contract rates by year end. Analysts believe for contract/spot rates to move higher the supply/number of trucking companies need to continue to decrease. While the other way for contract/spot rates to move back up is demand, which they believe there won't be enough of that demand to boost the rates back up.

- Ports: The International Longshore and Warehouse Union contract won't publicly share the agreement terms until after voting sometime this month. Cargo volume is still lower than last year, but retailers are about to enter the holiday season which could help increase the volume. But until the Longshore contract is finalized the port tensions will still arise. China's economy didn't grow as fast as many analysts predicted. They have some major issues to work through while having a 23% decline of exports to the United States on a year-on-year basis.

- Construction: Lumber Index prices have risen 150% since the beginning of June and are now back to the lows of the covid era, but well above the 20-year average. The American Steel Index is still hovering at the highs since 2021. It hasn't been this high since 2009 to 2012. Nonresidential buildings are leading the growth, but they make up 33% of all construction. Total construction spendings is forecasting a 6.4% growth over 2022. Residential being -8.1%, Non-Residential buildings 26.2%, and Non-Building Infrastructure is 14.4%.

- Inflation: CPI was 3.2% in August and 3% in July. Core CPI month over month in August was 0.2% and 0.2% in July. PPI (Producer Price Index) month over month in August was 0.3% and 0.1% in July. As of right now there is a 93% chance of no rate hike in September verse 7% chance of a 25-basis point hike.

Trailers

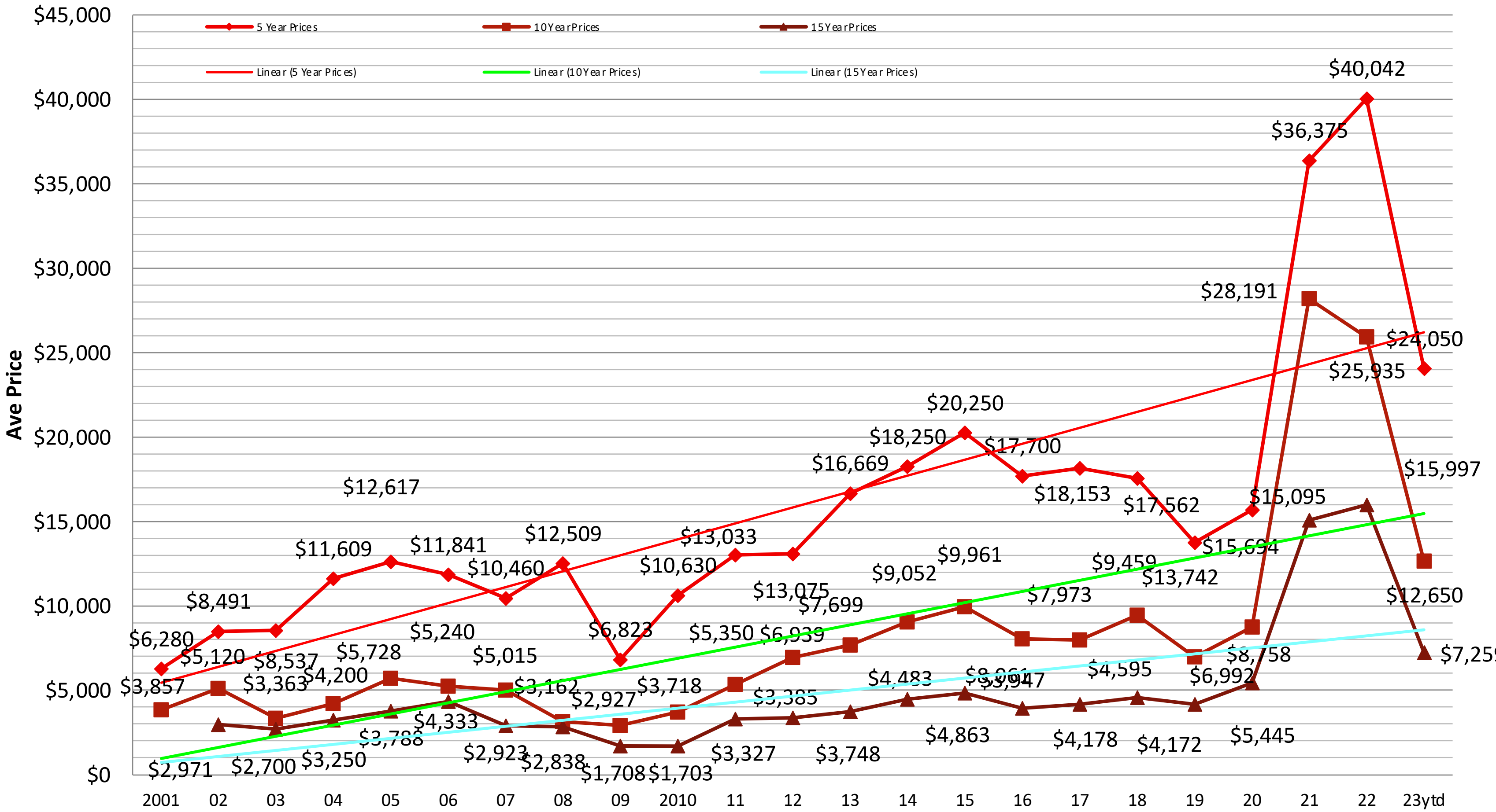
Trailers

- Trailer values have continued to decline but at a slower pace throughout the second half of the year so far.
- Ag Trailers: Demand is continuing to pick back up at auction based on the season. Quantities at auction have increased from the second quarter while values have dipped slightly. Fertilizer has continued to steadily decline but recently bottomed out at the end of June. Corn has continued to fall since September 2022. Grain trailer backlogs and net orders have started to decrease slightly since April of this year.
- Pneumatic Trailers: Steady demand for large capacity trailers. On the open on market (Truck Paper) 36% of the units for sale are small cubes. The increase in new costs has finally leveled off but there is still a six-month wait for new. The Aluminum Price Index has continued to fall since the beginning of the year. Bulk Tank backlogs and new builds have stayed relatively even throughout 2023.
- Flatbeds and Drop Decks: The national spot rate has been continuing to erode slowly and is currently sitting around 2.49. Load-to-Truck Ratio has been increasing from the start of 2023, but since March it has started to fall. 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 while in June net builds were only 5% of the year's average.
- Chassis Trailers: Still having supply issues. If the ports continue to decrease in volume and the holiday season isn't astronomical, this should help chassis trailer manufactures. Backlogs have continued to come down since the first of the year while net builds in the past three months have dropped by 73% off the two-year average.
- Dry Vans and Reefers: Demand is still there, but recently Yellow Corporation went bankrupt. This will flood the market with used equipment. The excess supply easily could put a damper on values if all the equipment gets sold via auction. Backlogs and net builds on Reefers and Dry Vans have decreased since the start of the year. Spot rates have flattened since April while Load-to-Truck Ratio has started to climb back up since April. Spot rates for Dry Vans are 2.07 while Reefers are 2.47. Load-to-Truck Ratio for Dry Vans is 2.64 and Reefers are 3.85.
- Sales and orders remain high while the quantity at auction have been increasing since the first half of the year. While auction prices have steadily come down from the highs of April of 2022. There should still be some weakening into the end of the year.
- Overall, the trailer market is still steady, but supply issues remain. Should still see some weakening in prices throughout the rest of the year.

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. As we all know we have had some huge swings in the van market but take note as to where we currently are compared to years past. Next page will get into better detail.

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



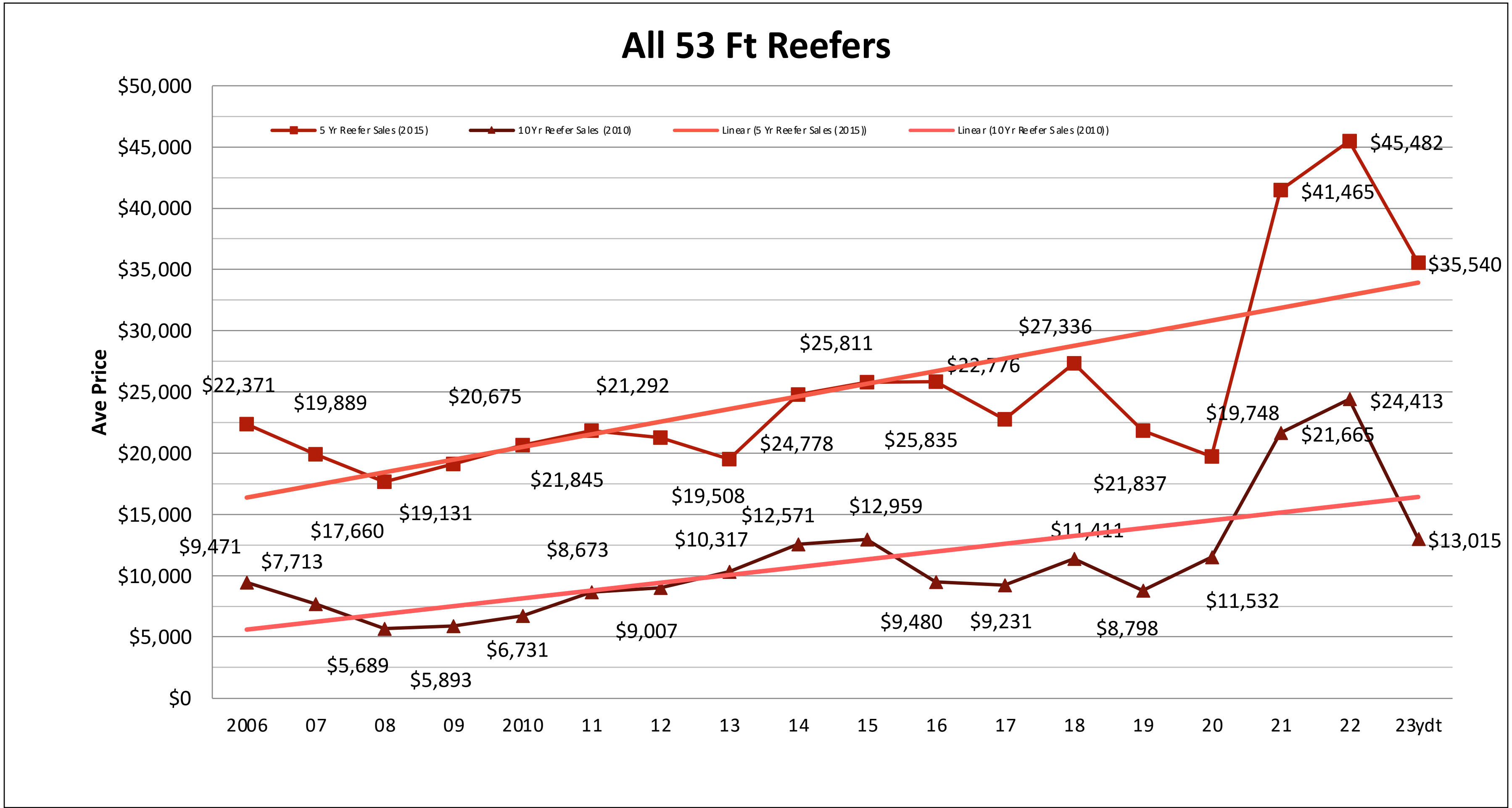
Van Auction Values Through the Years

We have been keeping track of 5 year, 10 year and 15 year old vans for over 20 years. I wanted to show what that has looked like in terms of both volume and pricing. As high as we currently are historically on the 15 year old van it is even more surprising given the quantity sold this year already at 745.

Sales Year	5 Yr Cnt	5 Yr Price	10 Yr Cnt	10 Yr Price	15 Yr Cnt	15 Yr Price		15 Yr VIN
2002	28	$8,491	32	$5,120	7	$2,971		1987
2006	24	$11,841	60	$5,240	9	$4,333		1991
2010	89	$10,630	121	$3,718	115	$1,703		1995
2016	10	$17,700	66	$8,061	58	$3,947		2001
2021	46	$36,375	76	$28,191	142	$15,095		2006
23ytd	40	$24,050	157	$12,650	745	$7,259		2008

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

Reefers: Both 5 & 10 year old (2013). Refrigerated trailers also have been on the decline. As with most everything else they leveled off at auction for a few months and now over the last 30 days have begun to decline. Inventory levels along with spot and contract rates have contributed the continued decline. We are anticipating a decline of around 10% by years end.



- Drought has affected this year's crop despite some good late moisture across the country. Most indications are that yield will suffer with volatile commodity prices, a lowered net return after the higher crop expenses incurred this year. Like the old saying goes, "the cure for high prices, is high prices". Most of Agriculture and its supported economies realize the cost of goods is difficult right now, but the only cure to even higher expenses is to halt paying the high prices… and that has not seemed to stick yet. Couple expense increases with rising interest rates and pressures build in the system for failures. Knowing your bottom line is key to making the right moves today.

- Chapter 7 and 11 filings are up significantly (105 %) from their 15-year low in 2022. Even companies previously bailed out by the Federal Government like Yellow Corp. are not immune from mounting debts taken on prior to its recent bankruptcy filing. The one silver thread in that example may just be its trucking terminals and real estate. Overall real estate sales nationally are not significantly halted yet slowing from the pinch of higher interest costs. Construction equipment resale and auction values are also dipping, yet another indication of market slowdown going into the summer months. Agriculture continues to plow, mow, spray and push forward as the season of cultivation demands attention to reach harvest. Self-propelled combines have remained strong despite large April dip and increasing inventories, 4wd tractors steady in year-over-year growth are just beginning to build some inventories while the utility tractor market shows negativity… reflective of a slipping economic consumer confidence despite slight July uptick. The Equipment Leasing and Finance Association's recent survey claimed one-third of financiers surveyed indicate expectations of worsening delinquencies/defaults after increased 2022 default numbers.

- Though the economy may not be perfect, it is doing pretty good right now despite the last decade trend in economic fiscal deterioration. The market has reflected a renewed focus on the US fiscal situation and to some extent this has been driving some of the market reaction. Any recession will be difficult to weather without enough financial room and market confidence to borrow money during any more difficult time. Too much fiscal stimulation creates challenges also. Strong employment rates have helped, but stronger fiscal sustainability focus needs to be addressed before the current rise in interest rates affects business and consumer households' ability to borrow funds with severe consequences.

- Pandemic effects are waning, generally equipment usage is mounting to near normal levels and depreciation rates. This has led to older, higher use machines at auction reduction in value in these groups as I have referenced in prior newsletters. Banks are reacting with increased conservative lending which opens the door for competitive financing options for customers. Risk assessments are critical at this point.

- Most Ag inventories are beginning to build again though are not fully stocked in large volumes on dealer lots with the mounting interest expense. In the year-over-year review, it appears to still be a seller's market… for now. Trade-turns are of more concern as new sales now become used iron on the lot again. Post-Pandemic default risk, a softening marketplace, declining asset values and default trends all begin appearing after the earlier disruptions in the supply chain, increasing interest rates, inflation, and lessening demand. Grain carts, combines, and fall equipment are again in high demand as this growing season moves into the last months before harvest awaiting more needed moisture to finish out questionable 2023 crops.

- The final net revenues will need to be tallied before any shortfalls can be confirmed but the expectations are that failures will be seen. Managing new acquisitions, expenses and losses is the test to a good, verses weak 2024 finish and what sticks post-harvest. Acquisitions on the secondary market tend to have more hours, use and more age so watch the pricing going into end-of-the-year availabilities. If COVID taught us anything it was to know what you need and move on it WHEN your specifications fit. Safe harvest to all and a good and prosperous year-end.

John L. Seymour, ASA Senior Appraiser

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