The Meter

Transportation (Trucking) Update (9-1-2020)

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With Input From:

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Introduction

The introduction to this quarter's newsletter has been difficult. Picking a direction to go with has made me start over about four times. Every time I would decide on an idea, something would change in the news and change my/our way of thinking. So I will start with this: I am excited to announce that my wife, Jenny, is having our second child tomorrow morning. Our second boy. I will be sure to get as much sleep as I possibly can tonight in preparation for the next couple of weeks!

It does appear that the resilience of people is starting to payoff and we are learning how to move forward despite the pandemic. It is good to start to see some of the success stories of hard-working people getting through difficult times. Most industries are on the rise even if it has been a slow process.

This quarter has seen some good with the markets bouncing back, unemployment on the decline again, and oil prices above zero! Unemployment numbers have bounced around and changed daily and make it difficult to pin down where the overall numbers will end up being by the end of the year. We have also experienced some bad. The COVID outbreaks in locations, the constant finger pointing election years bring upon us and the loss of the fall sports season.

In other words it's not like other years just the peaks and valleys are exaggerated. Trying to figure out when things will become a little steadier is the next hurdle. With the election coming up in November, it is more than likely going to play a part in the next few months mirroring July. It seems like we again have that cautious optimism looking forward. And why not?

On a different note, new truck and trailer sales and orders are on the rise. They still have a long way to get to average but at least going in the right direction. We could see this coming and expect to get back to replacement numbers by years end. Auction values and volumes have been strong. Spot rates have been high with opportunities for truckers to capitalize on and plenty of job openings. The airlines are slowly gaining a little steam.

After speaking to a few trucking companies of various sizes this week I noticed two similarities with all of them. One, they can't find enough drivers. Most state that the stimulus checks have drastically lowered numbers of applicants. Two, they are still being frugal with spending. Some are starting to make some orders but at a fraction of what a typical year would be.

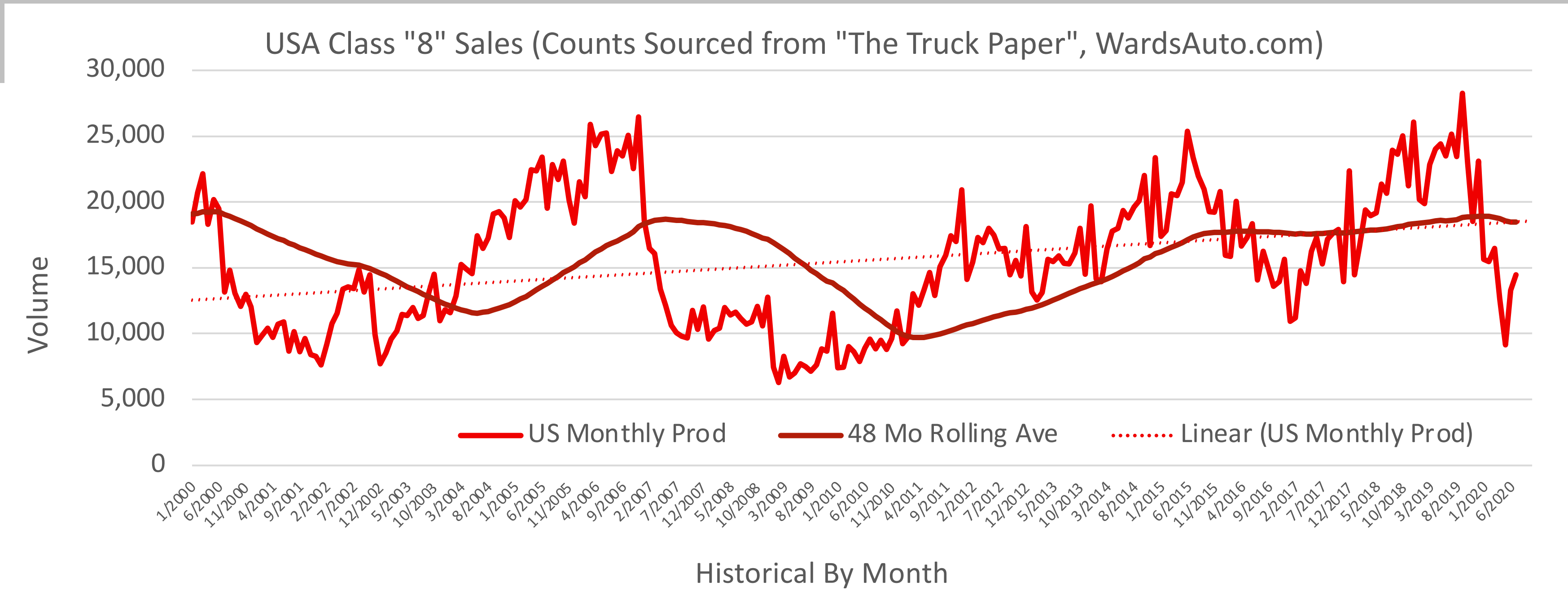
The U.S. ports have shown a decline on incoming containers of nearly 16% and in August for the first time the numbers are encouraging. With any success, our ag and manufacturing markets will help drive our exports up this fall. Peak season is now in prep for the holidays. Once again it will require consumers to start spending money in the retail world to maintain any growth thru the first part of 2021.

After spending six years in the sales/auction side of Taylor & Martin, I watched a couple of other trends to read what the market was going to do. We pay attention to how many of our buyers were dealers. Dealers are buying right at an average pace at our auctions currently. We would also see an increase in registered bidders. Increases and decreases in values are normally seen at the auction well before the retail side adjusts.

In a normal year they have been very reliable resources on the health of the market. This year however is drastically different than most. Prices and attendance are both up due to lack of new being produced this spring and rates being so high. Dealers have not yet put a huge push in buying at our auctions yet, but we will be keeping an eye on it.

In looking at the following data keep in mind that some of the YTD numbers look as though it is down. In the last quarter with the added more recent auction data that the overall values have risen. For example, the 5-year dry vans were at $12,944 and over the past 3 months that has risen to $14,467. Same thing with the 5-year-old 53' reefers. $17,901 in the spring to $19,235 currently.

Now off to the charts. I hope you find it interesting and useful. Some of the data is interesting based on the year we have had so far. Let's begin as we always do with Class 8 Trucks.



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. We have now been well below the 48MRA for 7 consecutive months. History suggests that we will remain below the 48MRA for the next few months.

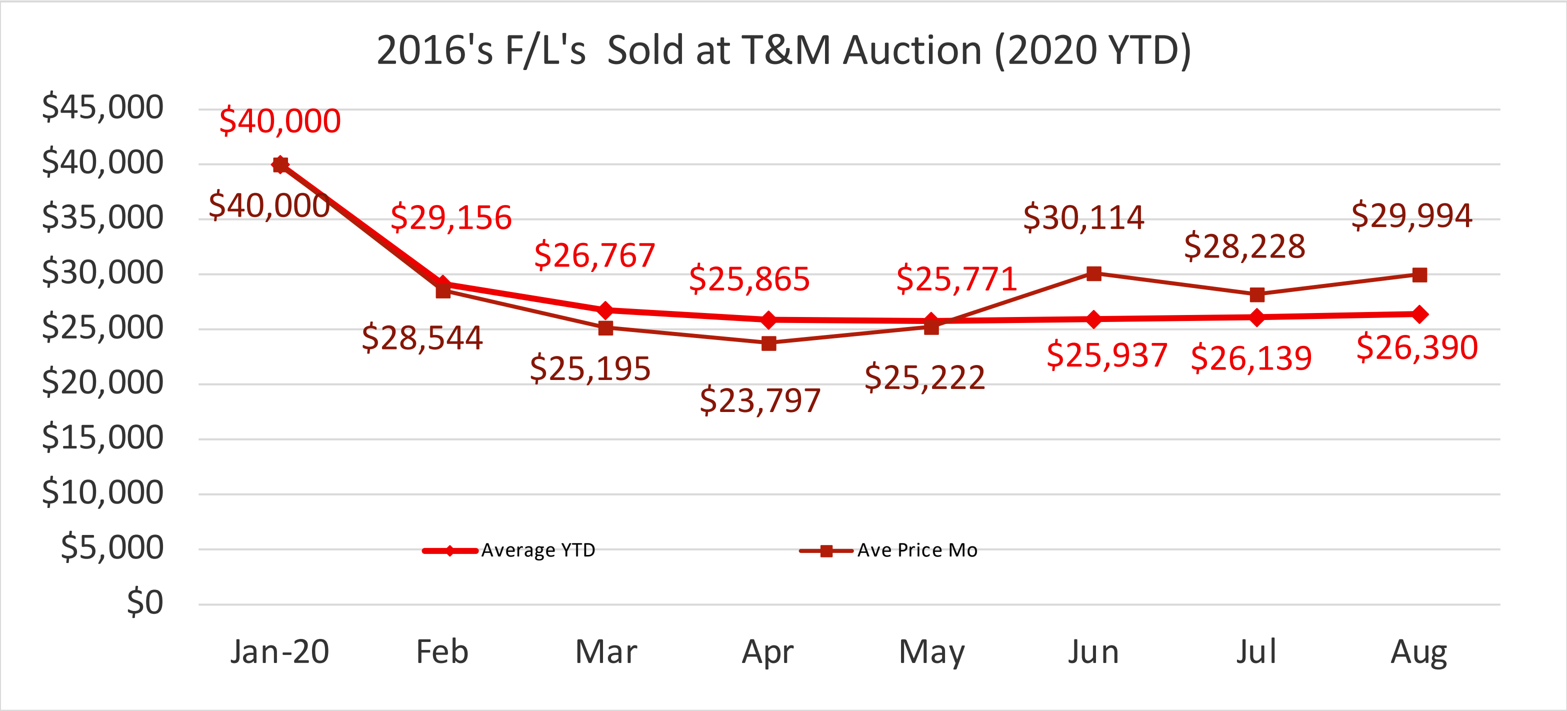
2: Historical needs have grown from slightly lower than 15,000 Class 8 tractors per month (in the 2000's) to about 17,500-18,000 Class 8 tractors per month now. Currently, the 48MRA is 18,483. Monthly sales have been on the rise since May. It is up to 14,462 in July from 9,165 in May. The rise is slow, but it at least it's showing a little confidence in the economy going forward. Late model low miles tractors should stay strong until orders are hit and trades hit the market.

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 13,875 for the year in 2020 with the low at 9,165 in May. I would expect the sales number to slowly rise throughout the rest of the year with the typical year end spike with out any more coronavirus interference.

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 has now shown marked improvement over the first 8 months, which has brought the retail and auction levels of trade back into balance. Volume went down early in the pandemic and have since reversed and are high. Lack of production has sent buyers to look for used to fill the void until production is back to replacement levels.

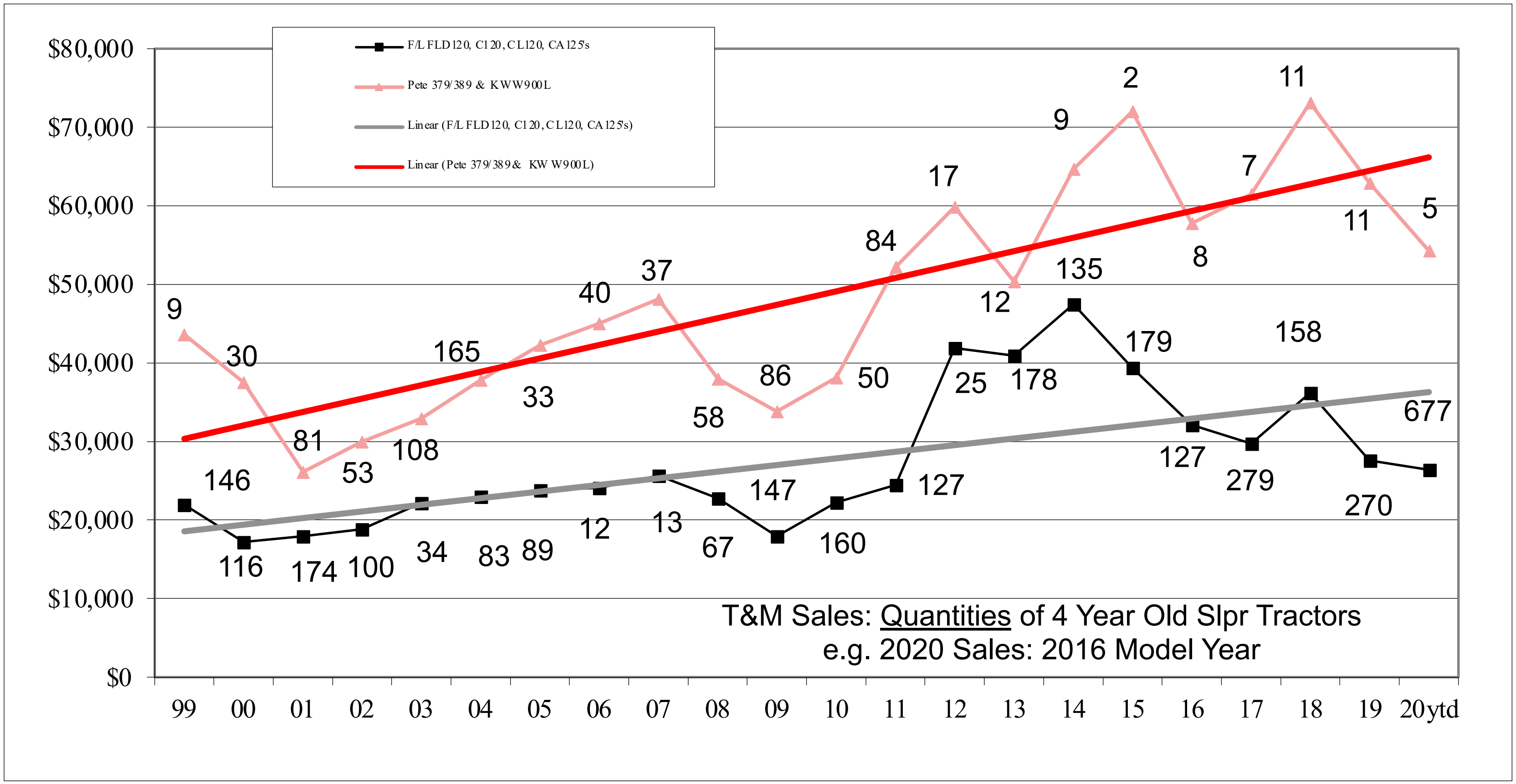
6: The class 8 truck orders for the month of April are at 4,100 compare that to 14,859 April 2019. March was also down to 7,800 compared to 15,783 the previous year. May 2020 had 6,787 orders and then the orders began to show some promise with June and July coming in at 16,000 and 20,300, respectively. Good sign that at least some companies are willing to start spending showing a little more trust in the future.

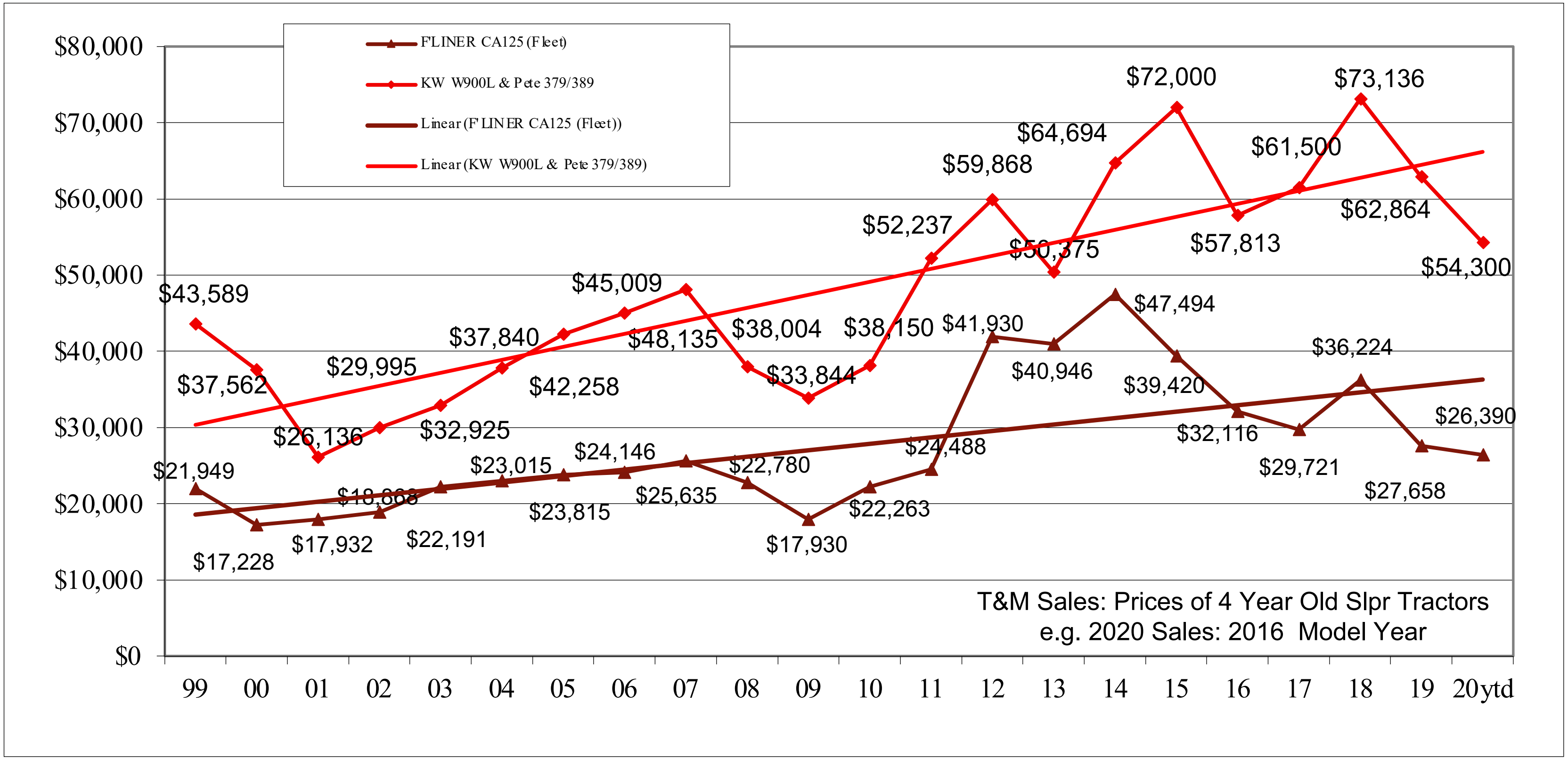


The above new chart 2020 monthly sales prices: To be fair we only sold 7 2016 Cascadia's in January and 124 in February. The market has shown strong indications that used tractors, sold at auction, have turned the corner and are currently moving higher pre-Covid. Since May you can see that the monthly values for 2016 Cascadia's has been up over the YTD Avg.

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 so far this year.
Bankruptcies and dispersals have a lot to do with the larger volumes.



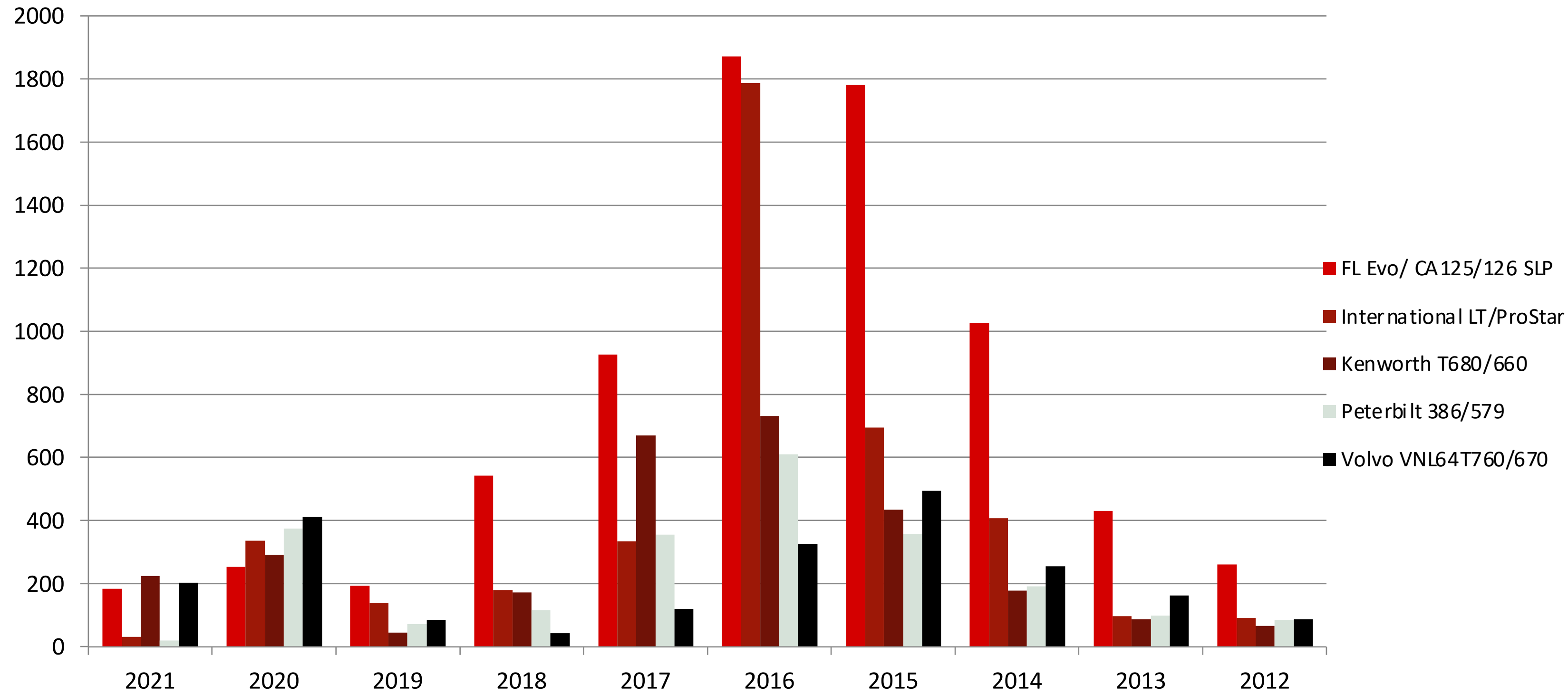


Above are T&M Sales by average annual prices. [As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both generally considered to be spec'd as Owner-Operator (O/O) tractors.]

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 670 so far without a large dip in values.

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? (Aug 22, 2020) See chart below. [Sleeper Tractors] There were about 6,260 less tractors for sale on truck paper than we had in May. That is showing us a continued demand with a lack of new production during that time. The "high count" years are typically for trade-ins or end of lease units. Low counts for 2017's, 2018's & 2019's indicate that most units are typically in the first lessee/owner's hands. 2020's new tractors are carryovers at dealerships.



19-Aug-20	Sleeper Tractors For Sale On TruckPaper.com: August 19, 2020									Ave. Age	2016.17		
Make	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	Total	% of Total	% of Prev
FL Evo/ CA125/126 SLP	185	254	193	543	926	1872	1780	1026	430	261	7,470	39.430%	66.93%
International LT/ProStar	31	336	139	181	334	1787	695	407	97	92	4,099	21.636%	106.83%
Kenworth T680/660	225	293	45	173	670	732	435	178	88	66	2,905	15.334%	79.05%
Peterbilt 386/579	21	375	72	116	355	610	357	191	99	85	2,281	12.040%	77.61%
Volvo VNL64T760/670	203	411	85	44	121	326	494	256	162	88	2,190	11.560%	60.93%
Year	665	1,669	534	1,057	2,406	5,327	3,761	2,058	876	592	18,945	100.000%	75.16%
19-Aug-20													
	1343965	3371380	1078146	2133026	4852902	10739232	7578415	4144812	1763388	1191104	38,196,370	86.58% of Aug 2019	

Additional Factors

Retail "For Sale" counts (total: 18,945), This is a large drop in just 3 months. It is showing a need for trucks but with the lack of new production and the want to conserve money, the used trucks are being sucked up to fill the need. I will expect this number to rise thru the rest of the year slowly if production stays up and running and companies trust the economy enough to purchase new and trade/sell their used.

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

The Crude Oil Industry has started to recover. It is just a slower recovery than anticipated. This second spike in cases slowed down a lot of travel and even led to more travel restrictions. The apprehension of what is going to happen during school and flu season will likely hold back any jump in oil prices. Lack of travel will hold back the oil industry for the foreseeable future.

Building Activity (Home, Office, etc.): Working from home has proven to be more cost effective for a lot of individuals or companies. Lack of state and city funds has hampered start of many planned projects. The low interest rates have help combat the lack of spending and helped to continue with the building activity. Home sales and builds are strong.

Drivers: Or should I say lack there of. Companies are on the rise to grab drivers to fill up new orders and are not seeing the needed candidates to fill the void. A couple of companies that I spoke to, hope that the end of the stimulus package will drive truckers back to the road.

Ports: Total volumes have been down 15% year over year. Numbers have slowly been picking up. Consumer demand will in the retail industry will needed to drive imports and additional loads for companies. Holiday season should give this area a push.

Construction activity has been stung hard by COVID-19. New construction is down near 15% with small gains in the housing construction. Lumber prices have risen about 100% this year. In other word cities and states are struggling to produce the money to begin projects without government assistance.

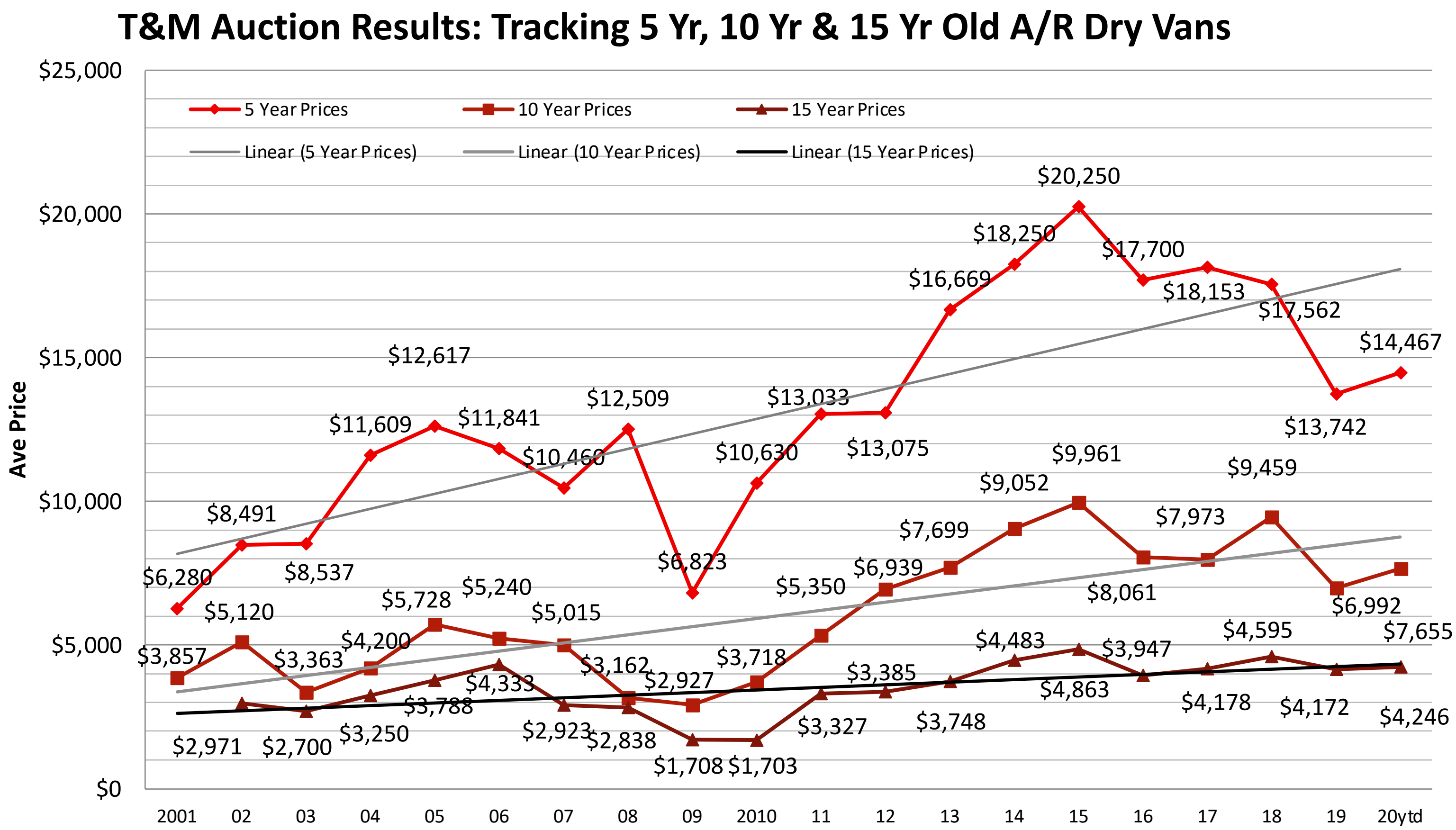
Election: Generally nothing changes in the second half of an election year for fears it could jeopardize re election efforts. This year some issues will continue to have to be addressed. I.e.. Stimulus money, Foreign Trade

Trailers

- After a steady summer as far as values are considered we have started to see a slight uptick in trailer values. Particularly in the late model vans and reefers.
- Ag trailers: Demand is still soft/weak due to ag commodity (grain, fiber & livestock) prices and seasonal use. Grain, Soybean and livestock prices have suffered due to the COVID-19 concerns. Should see a slight rise for the upcoming harvest. This still rings true!
- 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/Drop Decks: In-bound freight is down. International freight has continued to decrease and will take some time to recover. Manufacturing reopening and production beginning to rise has led to strong load rates.
- Heavy Haul Trailers: Demand is stable, per conversations with dealers & manufacturers. RCN is stable, but subject to steel prices. Still down from a high 2017 but above average.
- Dry Vans & Reefers: Late model vans and reefers have remained strong and over the last month even end of life equipment has brought more than expected numbers. The orders are on the rise for both so we should start to see an increase of used vans and reefers hit the market as orders are filled.
- Overall, a rise in sale and new orders are showing future promise. Along with the trucks it would have been hard to go down much farther than they did. It looks like everything has more than likely hit the bottom now it is just a matter of how long will recovery take and how many setbacks will we have to endure along the way.

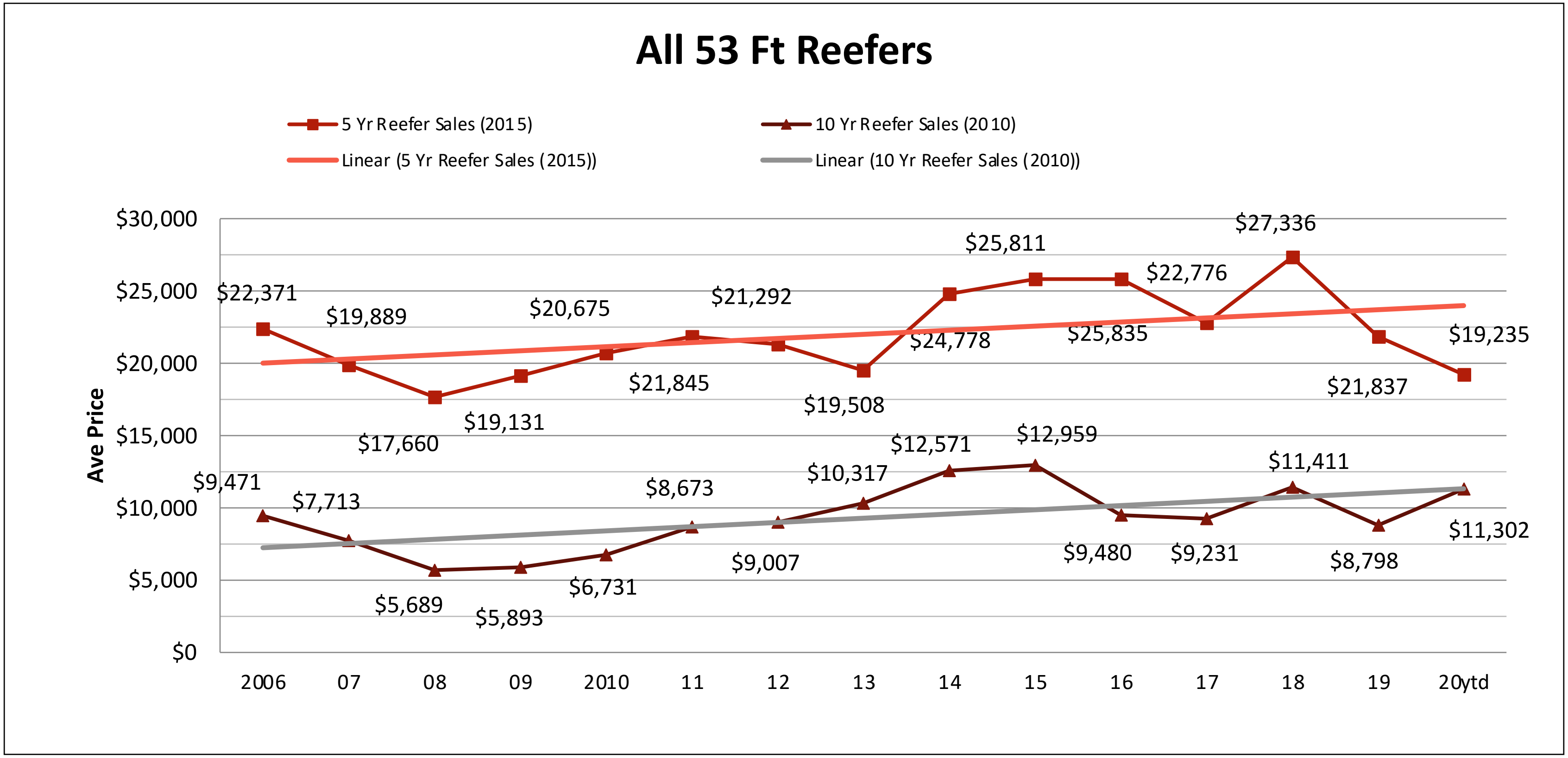
T&M Auction Results:
Tracking 5 Yr, 10 Yr & 15 Yr Old A/R Dry Vans

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



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

Reefers: There is a clear distinction between Tier I and Tier II refrigerated trailer sales prices over the past year. Considering the Ten-Year-Old refrigerated trailers, Tier II trailer sale prices indicate a 40% discount to Tier I trailer sale prices. Both Five-Year-Old & Ten-Year-Old (2010) Reefers are now below trendline. I would expect that 10-year-old trailers will hoover around the trendline and 5-year-old trailers to rise gradually though the rest of the year.

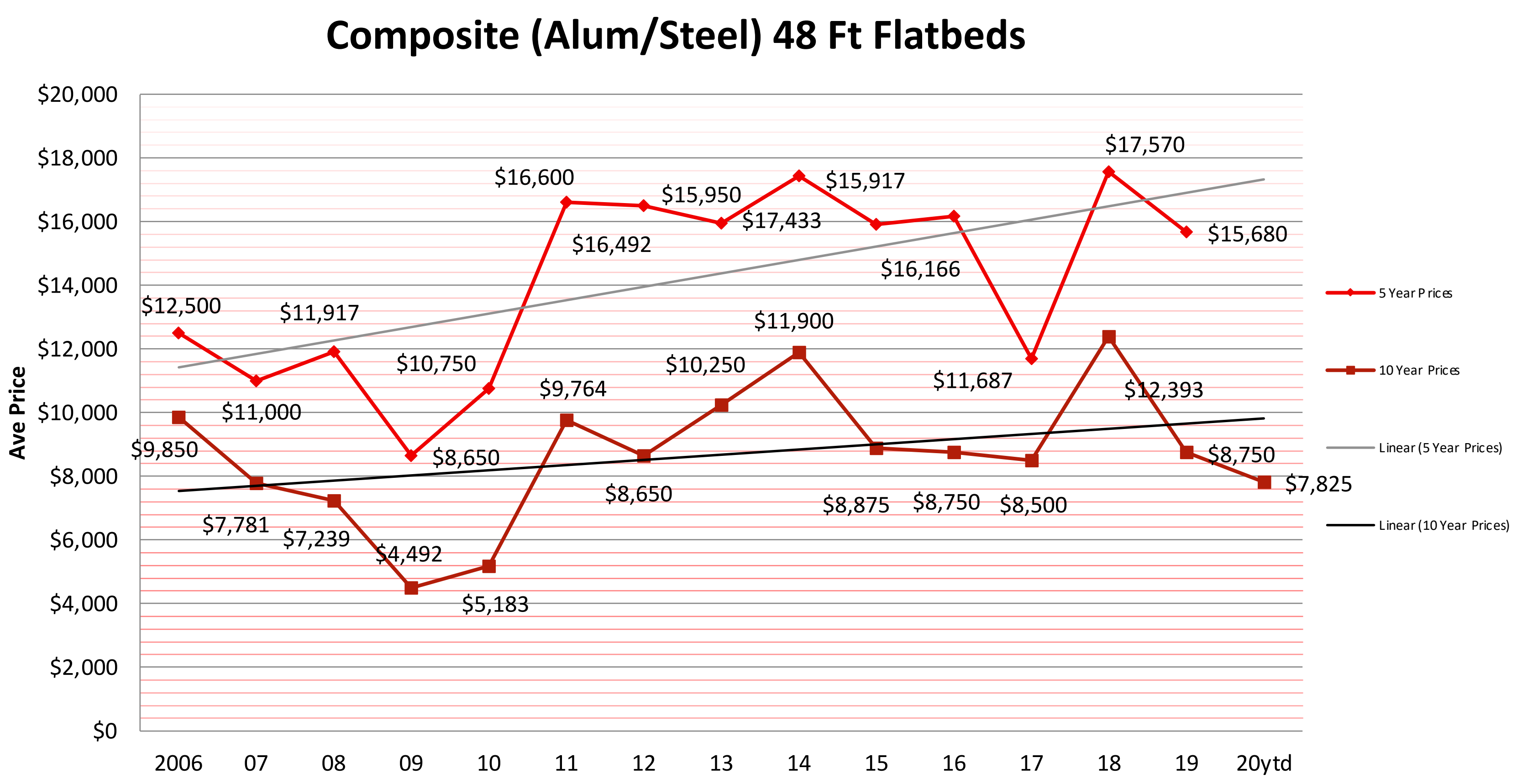


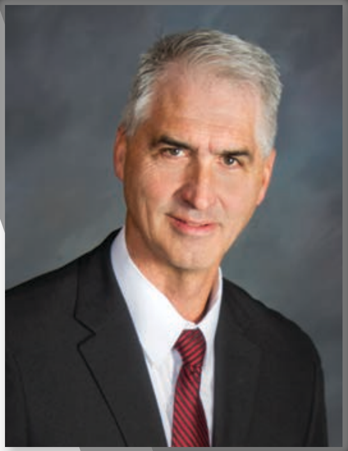
Five and ten-year old Composite Flatbed sales (Taylor & Martin Auctions) are charted below:

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.

Covid 19 has put a standstill on the work economy. Flatbed spot rates are solid, but the load volumes are still down and will be for the near future.





John Seymour’s thoughts on Agricultural equipment, “filling the Ag Hopper” in The Meter!

Well, there is some normality beginning to show in areas of the country practicing social distancing and in the ag sector getting ready for fall. Ag has been social distancing for most of its existence but is just beginning to see some positive signs during this pandemic. Economically, Nebraska is seeing better communications with Canada and Mexico. The NAFTA provisions protect market access Nebraskans have worked hard to secure over the last two decades. Bigger news is that China is returning to the table, hopefully exceeding the 2012 benchmarks set of $26 billion with the potential of $32 billion in U.S. exports committed to in 2020. The concerns are that the retaliatory tariffs on U.S. exports to China still exist and may not allow the goal to be reached as well as U.S. competitors will not easily give up market share.

It has been dry through must of the U.S. that has not been experiencing fires, monsoons, or tornados. These impact and the dry weather may impact yields up to or exceeding 10% this year for a lower-than-forecasted profit year. Even milk is having difficulty finding a strong recovery from the Spring months where the supply chain caused milk dumping. The brief bump in demand from stay-at-home use of milk for more breakfast meals at home will have to focus on trends to value-added products for long-term demand as the pre-COVID channels may not return.

Just like the adaptation of the meat industry, agriculture will have to find its new normal. Shear demand will not be the only factor weighing in on supplying the world with food. Attention will have to balance with the up-coming world “COVID-19 free” preferences as well as new environmental concerns being defined by consumers. Change is rarely unexpected in Agriculture, the goal is to answer the calls to change with operational growth, enthusiasm and focus. Processing will take the initial brunt of adapting, but marketing and development will have to move mountains of food to meet the changing landscape.

Stay healthy and Safe!