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

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Transportation (Trucking) Update (3-1-2019)

Winter is waning. It's been a long winter in a lot of places, for a lot of people. Let's be optimists and think spring. I'm sure many of you have plans to get some spring projects started soon. The rose bush (below) is from a rose brought over from Germany in the late 1800's. Each generation, in my family, has taken a part of the root/bush and transplanted it to where they currently reside. (Iowa, Nebraska, S. Dakota, Minnesota and Idaho) Yes, this was from LAST Spring, it will be a couple of months before we see this rose in full bloom again.

This past winter, once again, proved to me that the federal government is in disarray. I'm not going to debate any issues here, most everyone has their respective opinions and anything I say wouldn't change many (any) minds. So be optimistic, cheer for your favorite basketball team in the upcoming tournaments. In addition, the "boys of summer" have started spring baseball practice in Arizona and Florida and college baseball has begun.

Like last quarter, in the short run, we still have good demand for tractors and trailers. Prices and values are still firm to strong.

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

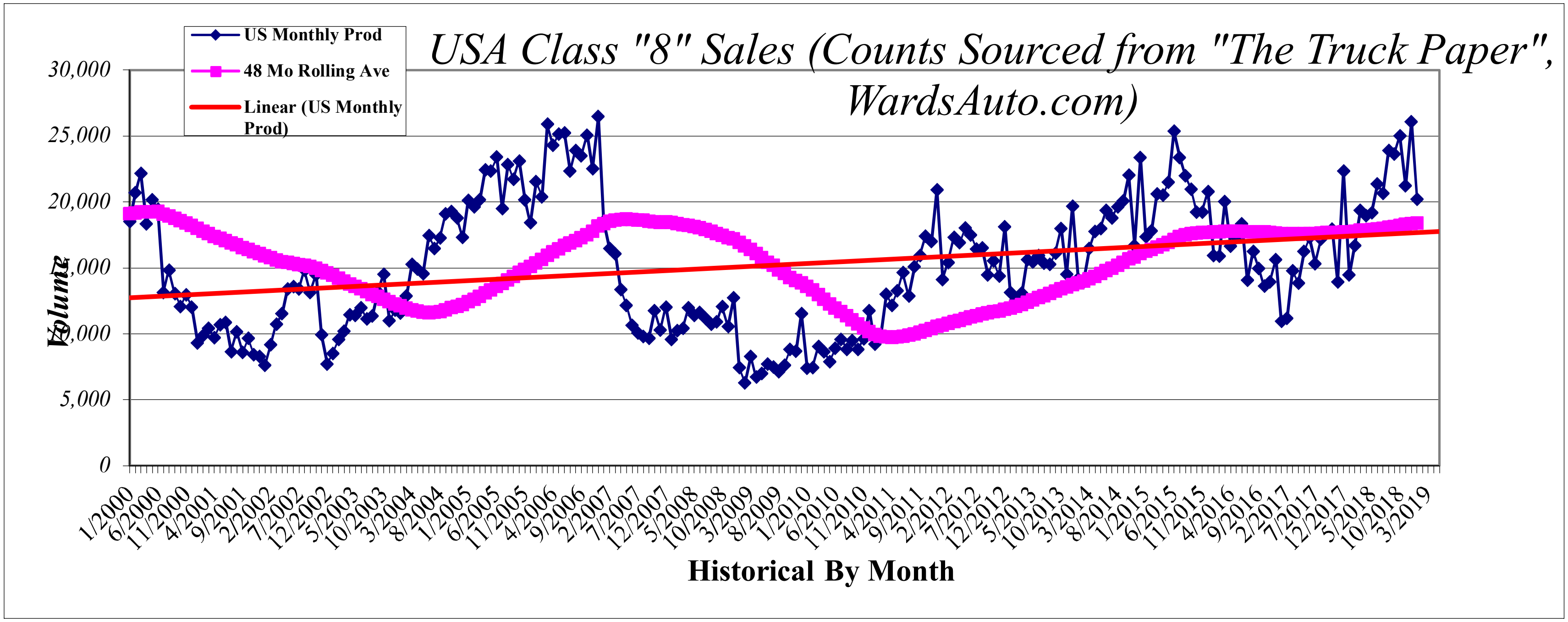
Recent auction activity continues to show that the truck-tractor market is still in a growth mode, but the bloom may be coming off of the rose, as orders are down. The market has been filling equipment needs with new equipment and with good used equipment. Used are in limited supply. The overall advertised tractor numbers, for 2011-2019, have increased by about 43% in the past three months. 5% higher than one year ago.

Overall monthly sales are well above the trendline. The December sales have approached the monthly heights seen in 2015 and 2006, which were well above the long-term rolling average (48MRA Magenta), new tractor sales since March are all above the 48MRA. (New Sales: December 2018: 26,083 vs. 48MRA: 18,348) [Trendline (Red Line) has moved up to about 17,500 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 back to historical norms. Overall, the availability of late model equipment is generally on/above trend when considering both the 48MRA and the Linear trend. The continued purchase trend however, is still somewhat troubling. Historically, the run up to this level (25,000+) is farther apart (7-8 Yrs); whereas, this time it has only been 3.5 years. Not to be overlooked, is the fact that the 48MRA is running in parallel with the linear trendline. For now, this indicates we are not (not yet) building a huge oversupply of late model tractors. If sales over next few months fall back into the upper teens(000), we shouldn't get too far out over our skis. (It's still winter, so it seemed like a decent metaphor.)

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. Vendors (component suppliers) continue to manufacture components only to the limit of NOT adding another shift.

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

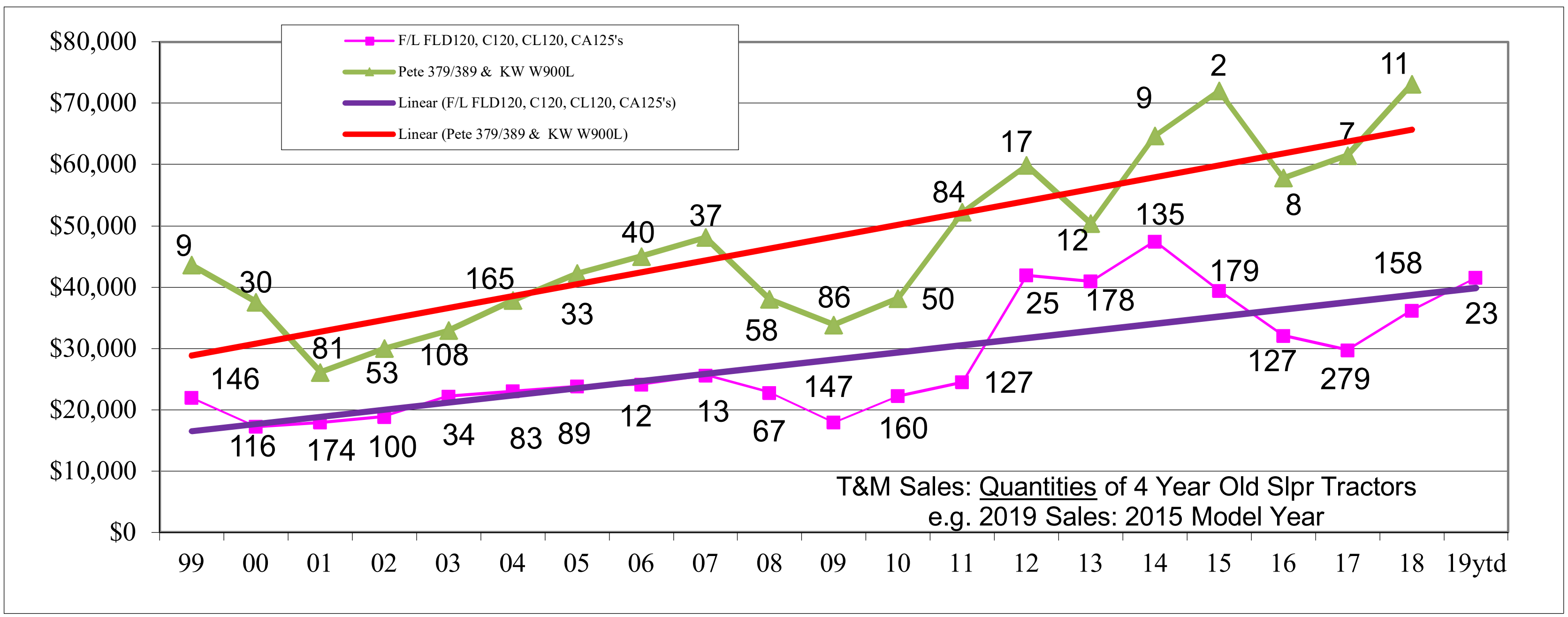
1: Trucking typically runs in a 7 to 8-year cycle [peak to peak OR trough to trough]. As long as the new sales volume is above the 48-month rolling average, the trend is higher for builds and values erode more slowly. We are now above and have been above the 48MRA and will be for a period of time, going 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 and December, 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 17,500 Class 8 tractors per month. Currently, the 48-month rolling average is 18,348. The overall late model fleet continues to inch higher (150 higher this past quarter). 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 to 17,500 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 18,407 (we are only 271 below than 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. 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 ~40% from the 2017 low. Used values have recovered all 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.

Tractor Sales (Quantities) are Year-to-Date (through February 15, 2019)

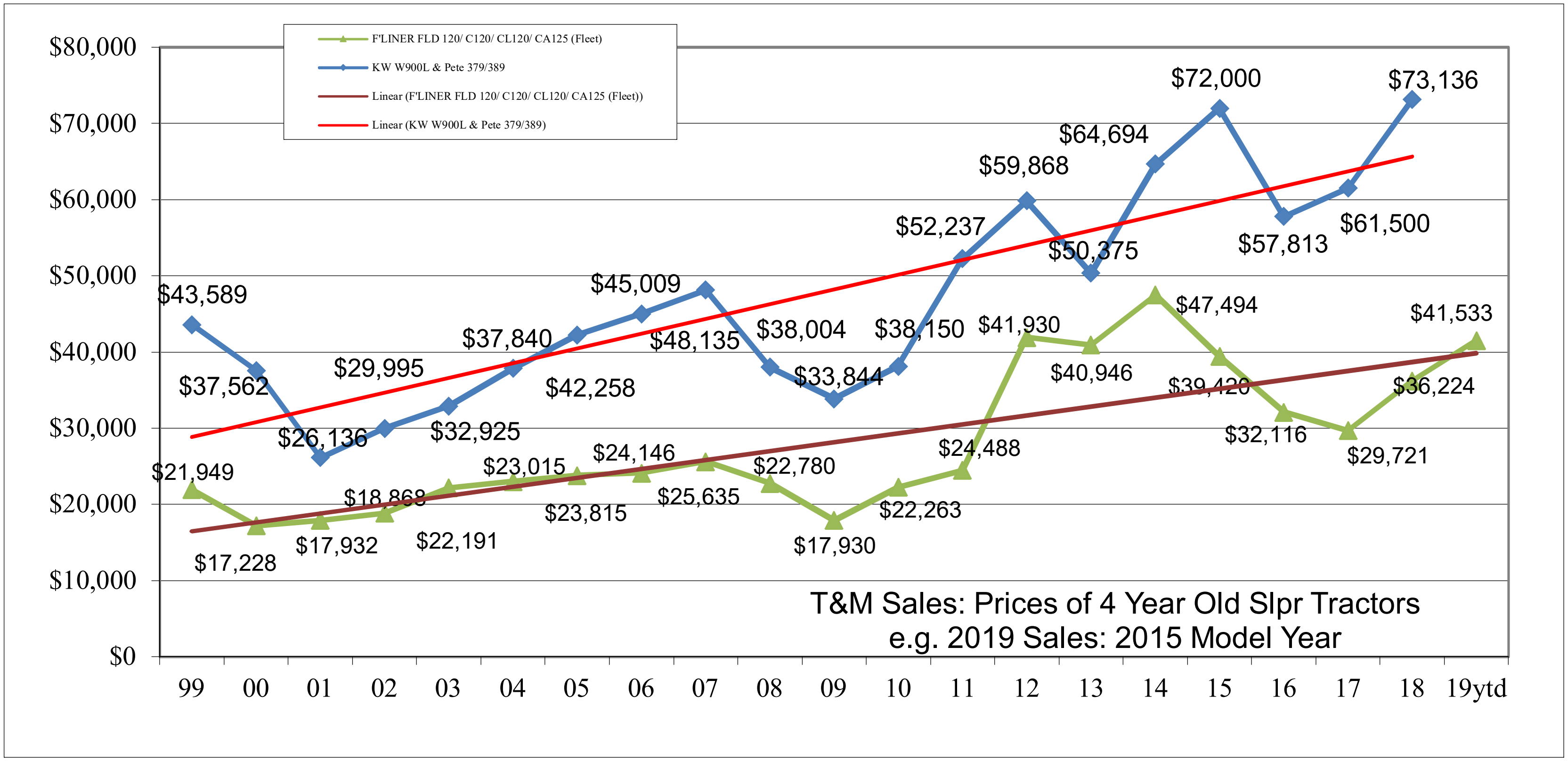


The average price of four-year old "fleet" tractors (sold at T&M Auctions) mirrors the trend of builds. [Further details found in the chart below.]

Above are T&M Sales by annual Quantities, below are T&M Sales by average annual Prices. [As usual, I have combined 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 back to trend line.

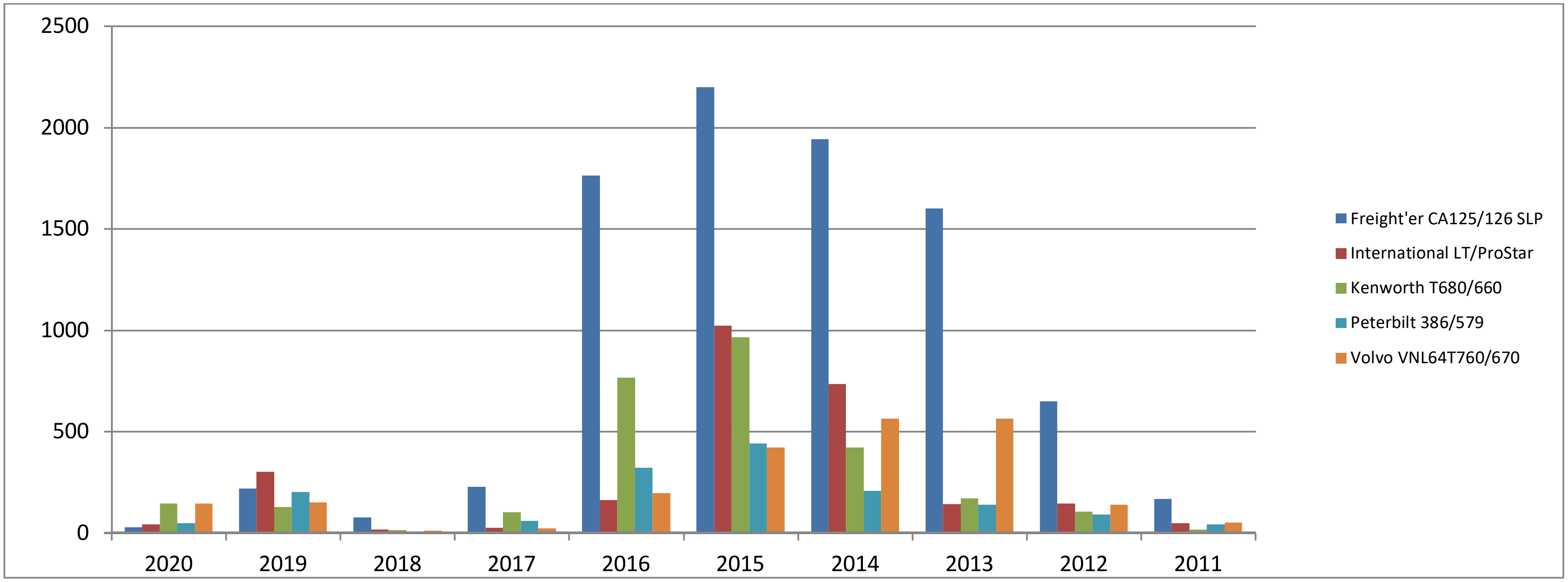
Tractor Sales (Average Prices) are Year-to-Date (through Feb. 15, 2019)



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, 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 15, 2019) See chart below. (Sleeper Tractors) There were about 5,350 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 indicate that most units are typically in the first lessee/owner's hands. 2020's are included but are not counted in the increase.



February 15, 2019^	Sleeper Tractors For Sale On TruckPaper.com: Feb 15, 2019									Ave. Age	2014.82		
Make	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	Total	Percentage	% Prev Qtr
Fr'tl'er CA125/126 SLP	26	219	77	227	1,761	2,197	1,941	1,601	649	166	8,864	48.932%	193.96%
Inter'tional LT/ProStar	40	301	16	25	161	1,021	734	142	144	47	2,631	14.524%	119.65%
Kenworth T680/660	145	126	12	100	764	965	421	169	105	16	2,823	15.584%	103.07%
Peterbilt 386/579	46	200	5	58	321	441	206	137	90	41	1,545	8.529%	117.85%
Volvo VNL64T760/670	144	149	11	21	194	419	564	564	137	49	2,252	12.432%	146.71%
Year Totals	401	995	121	431	3,201	5,043	3,866	2,613	1,125	319	18,115	100.000%	146.63%

Retail “For Sale” counts (total: 18,115), as charted above, are higher again, up about 43.35% when compared to last quarter and 5.00% higher when compared to one year ago. 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: Dec, 2018: 12,354.

Considering the most current four quarters: Mar. 2019: Ave VIN: 2014.82; Dec. 2018: Ave VIN: 2014.57; vs. Mar 2018: Ave. VIN: 2013.78. 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):

Well qualified drivers continue to be in short supply. [Driver training schools are doing very well.] Demand for qualified (experienced, drug free and safe) drivers is strong. As stated previously, my estimate of the driver shortage is still approx. 100,000 drivers, but possibly improving.

Twenty-five months into the current administration: If you are even remotely engaged, you know what is going on. A lot of theatrics, with little or no responsible governance!

The Crude Oil Industry has stabilized around the mid-$50’s/BBL. Active Drill Rig Counts have generally inched higher. Iran and Venezuela both have physical and foreign government impediments, which helps to hold down world supplies. The US is not helping control the world supplies with our overproduction of gas and oil.

Building Activity (Home, Office, etc.): Areas slowing a bit: Interest rate sensitive. Rates have remained relatively stable, over the past six months. (No December hike). 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 still the buzz; which, depending upon your industry, has little to major affects to the bottom line. The rest of the world, including most EU countries and Great Britain, is still showing weakness and international politics are in play (China) … the US Stock Market has shown significantly higher volatility and had declined approximately twenty percent; however, as of the date of this newsletter, it has recovered significantly from its recent lows. Some suggest, without new highs soon, we could retest the December 2018 lows. Only time will tell.

The combination of slowing economies in China, Europe, et al. and increased oil production in the US and OPEC’s uncertainty has really turned things from optimistic, to then pessimistic, and now? Cautiously ___mistic.

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. The Federal government has authorized and made payments ($1.65/Bushel) to offset some of the price declines in soybean prices.

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. This winter has kept this sector busy delivering fuel to many areas of the country.

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.

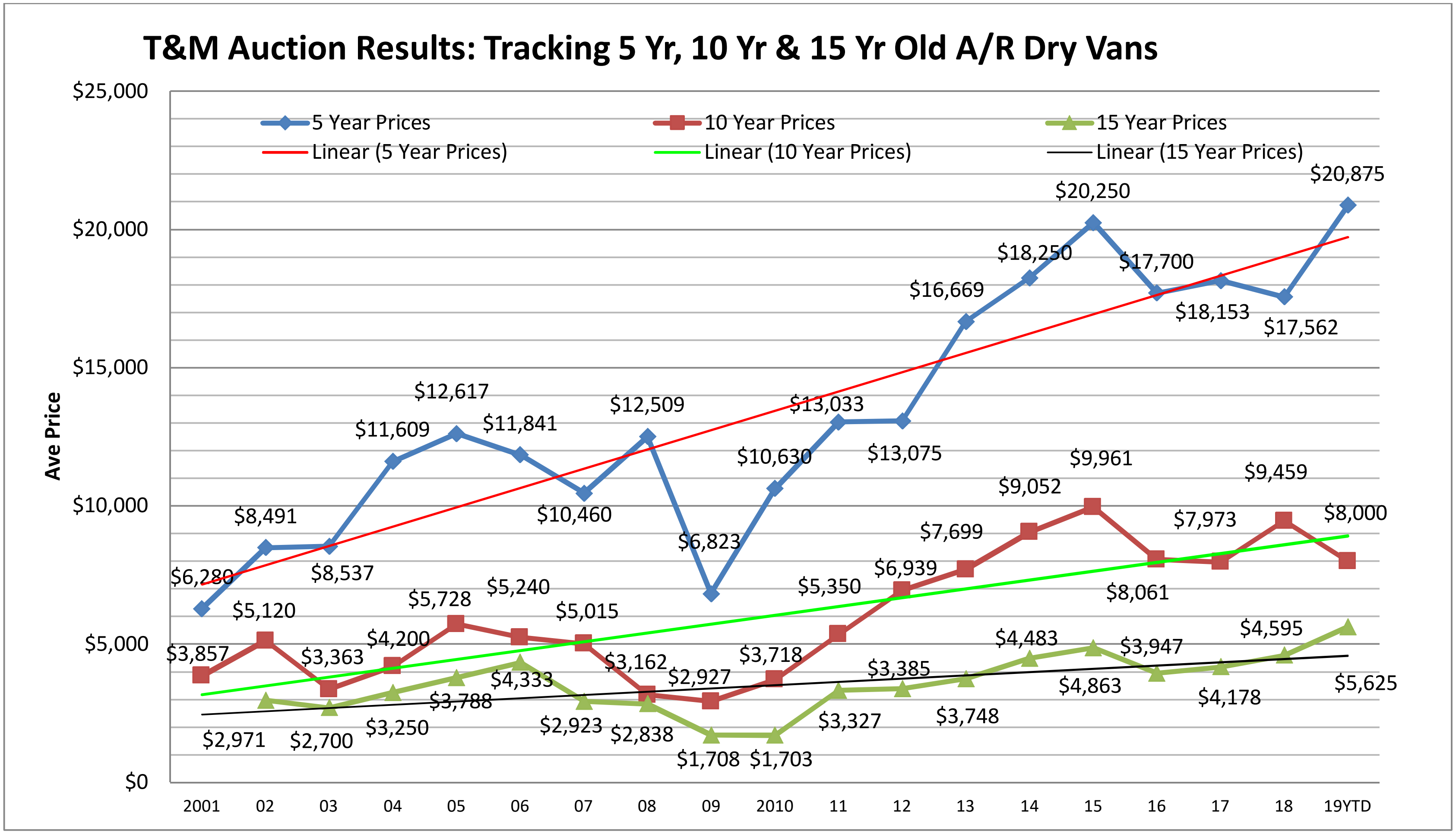
Specialized Oil Field Flats: Supply is still plentiful. Generally, depreciation rates are below historical levels, particularly on trailers that are greater than 5 years old. Overall, orders are softening from a strong 2016-2017.

Heavy Haul Trailers: Demand improving, per conversations with dealers & manufacturers. RCN is stable, but subject to steel prices. New orders are up. Overall, orders are softening from a strong 2017, but still above historical averages.

Dry Vans & Reefers: Sales data indicate that the dry vans regained their previous strength, now generally reflect "trend-line" for auction prices. 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 order backlog still in place.

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

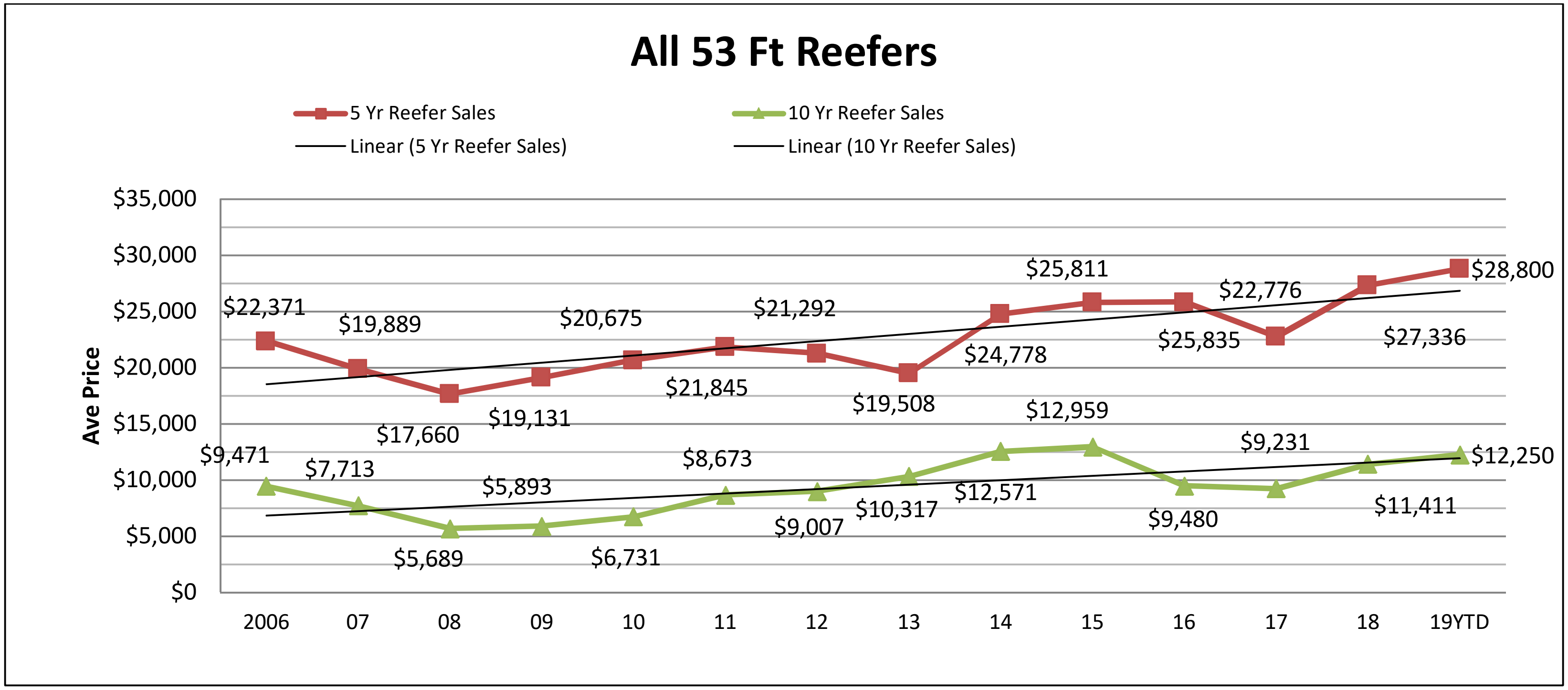
Five, ten and fifteen-year old Dry Vans sales (Taylor & Martin Auctions) are charted below:



Dry vans have generally moved back to / above the long-term trend line and the older vans continue to be on trend. (2019 YTD too few sales (5-10-15 Year) to rely solely on the chart.

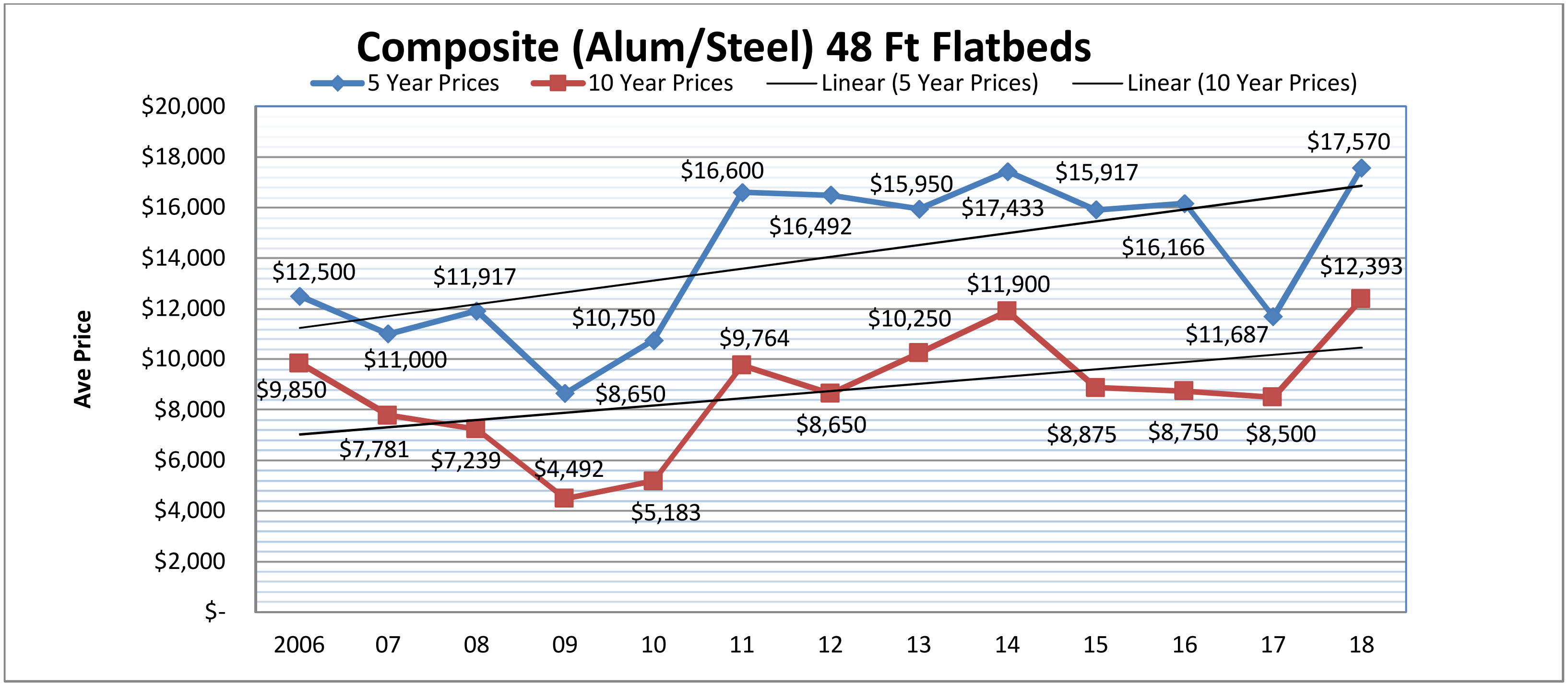
It should be noted that the 2018 results include a high percentage of "sheet & post" (plywood lined) vans. Excluding those, 2018 prices would be approximately five percent above the 2017 prices.

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



Reefers: Five-Year-Old Reefers (MY15-still low counts) have risen 26.0% 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? Part of the answer is: 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.] As a point of comparison, Reefer trailers (both 5 & 10-year old) have moved up approx. 29% since 2006; whereas, dry vans have moved up approx.. 76% (5-year old) and 52% (10-year old).

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)! A couple of thoughts from Bob Sandlin, while on the road:

The oil field is still expanding. It will take a while for the committed funds to dry up. The oilfield continues to grow according the Baker Hughes rig report (2/18/2019) the United States rig count is 1,051 rigs up 76 from the same time last year. [The majority of the increase is in the Permian Basin.] West Texas Intermediate (WTI) is selling for $56.06 BBL. Drilled but Uncompleted (DUC) wells are at a total of 8,594 across 7 regions in the United States. DUC Wells are stacking up because there isn't enough storage or pipelines to send it to the coast for refining or exporting. Why bring it to the surface and find a place to store it when underground is doing a great job at it?

On a separate note; the standard has been, and will continue to be, “I’d like a new truck…with all the new components.” People like new stuff, but in the past few years some have tended to go a new route. “I want a new truck, but I want the old engine (Detroit 12.7/60 Ser., Caterpillar, Cummins N14).” A Glider Kit is a new shell of a truck that comes off the production line without an Engine, Transmission, Rear Ends or a combination of the Three. Glider Kits used to be something that was hard to get financed. Some lenders were afraid of what a single, or multiple old components, would do to the value of a new truck. Was the engine rebuilt or was it just taken out of an old truck and put into place? Was the transmission rebuilt or just put in place? Was there a warranty? And probably the most important question they were asking was, ‘How hard is it going to be to remarket the truck if I get it back?’ There were a lot of unknown variables, which in turn, created a lot of doubt. Today there are many shops that finish Glider Kit trucks for fleets and owner operators. The most widely known is Fitzgerald Glider Kits who deliver new tractors with a “Reman” Detroit 60 Series, Cummins N14 or ISX, or Caterpillar C15. All engines, and rebuilt transmissions can come with a warranty. Glider Kits are becoming increasingly popular and hold their value relatively well, under normal use.

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,

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