Belated Happy New Year! First off, I want to introduce myself and give you a little of my background. I am Andy Vering and I have been with Taylor & Martin since 2011. I started with the T&M auction lot crew. I was parking vehicles, verifying specs and helping set up our auctions. I then moved to the appraisal department. I spent the next two years learning the appraisal process from Mike. I then had the opportunity to be a sales representative based out of our home office in Fremont, NE. After 5+ years of being on the road in sales, I had the chance to return back to the appraisal department. I have always enjoyed putting values on assets, whether for an appraisal or for an auction. I relish the opportunity to return to the full-time appraisal world. I do want to thank Mike for his support and advice as we went through our transition. Transition does take time and prioritizing tasks; as such, the December Newsletter was delayed. My apologies. I look forward to the opportunity to meet and work with you in the future. John Seymour ASA, Stacy Tracy, President and Steve Oliver, Director of Sales, and I will be attending the ELFA conference in Orlando in February so please feel free to stop by and say hello.

On to business, after being in the auction world the last few years I certainly started to notice trends. We had our first sale of the year in South Sioux City, Nebraska on Jan 23rd. The overall values were well above the anticipated quotes. That is never the case when the market is falling. Quotes are given up to 30 days prior to sale. One sale could be an outlier, but we also had a very large crowd. In a market like we are in, those two things happening at once is quite rare. It could just be everyone wanting to get out of the house and think about something other than the snow. An auction like that happening right out of the gate in the new year is at least a positive sign. If this continues, it would be the first sign that we have seen the bottom of this market. Only time will tell. If bankruptcies continue at the recent rates, it will continue to put a strain on the used truck and trailer market.

So, are we headed into a recession? Transportation, as a leading economic indicator, historically suggest we will, sooner rather than later. Having made that statement, we should have had a recession in the 2016-2017 time frame.

So, what has transpired in the past four months? Read on to find our take on the market today. [You may also want to refer back to our last newsletter.]

Auction bids are certainly lower. The number of stressed or failing trucking companies is increasing. Used equipment is in plentiful supply and we still have a nervous economy as the backdrop. The overall advertised tractor numbers have increased by about 15% in the past three months and 105% higher than one year ago.
Overall monthly sales (new) are well above the trendline. The past twelve months have averaged 23,322 units/month (900 higher than last month’s rolling average), new tractor sales since March, 2018 are all above the 48-month rolling average (48MRA). [Trendline (Red Line) has moved up to about 17,500-18,000 per month.] Both have been heading higher for many months. Sales data is now starting to uncover the issues that were only possible concerns three and six months ago.

Trailers are starting to tell an equally disturbing story, particularly for flatbeds and dry vans. Most classes are depreciating at or above their historical rates. On a positive note, trailer rental companies are still on firm ground. Rates are still firm and utilization is equal to one year ago.

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

**Tractors**

USA Class "8" Sales (Counts Sourced from "The Truck Paper", WardsAuto.com)

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 are now above and have been above the 48MRA and have been for period of time. How long, going forward? Currently we have a reasonably healthy period of growth, but now we are seeing higher depreciation rates. Going forward, considering the short term, I anticipate higher than normal rates of depreciation for tractors. The 48MRA has been straddling the long-term trend line for the past two years.

2: Historical needs have grown from slightly lower than 15,000 Class 8 tractors per month to about 17,500-18,000 Class 8 tractors per month. Currently, the 48MRA is 18,874. The overall late model fleet continues to inch higher (48MRA is 246 higher this past quarter). Historically we needed 15,000+ tractors per month. Today, given the HOS limitations, other governmental regulations and anticipated growth (this has disappeared) in the US economy the new benchmark may be up to 18,000 tractors per month. This is noted by the fact that the 48MRA is on/near the Linear Tend line. (Historical long-term Build/Wear Out number.) I anticipated some flattening, in trend, in the near term.

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 only 48 below 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. 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. This Cycle: Monthly High (12/2018) 26,083; 48MRA (11/2019) 18,628. In summary, we are back up to levels that have been troublesome in the past.

The Odd Statistic continues: Actual Class 8 purchases over the three most recent (published) months have been declining. They are as follows: September sales (28,258), October sales (23,001) and November sales (18,545). Whereas, new orders, have been in the low teens for the past four months. WHY? Most orders are for units which won’t be built for several/many months and the drop, in orders, suggest optimism has dropped significantly.

4: Since the drawdown (~20%-30%) from July 2015 to July 2017, tractor prices had improved significantly. When considering fleet type tractors, recent auction results are on par with ~25% from the 2017 low. Used values have rolled over again, showing a significant decline in prices again.
The following new chart (2019 monthly sales prices: Taylor & Martin) shows significant weakness in the past ten months (March-December).
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’ed 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 were nearly back to trend line; but failed and are declining, month over month (see page 4).

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 & now 2019). 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? (Dec 27, 2019) See chart below. [Sleeper Tractors] There were about 3,223 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 & 2019’s indicate that most units are typically in the first lessee/owner’s hands. 2020’s new tractors at dealerships.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight’er CA125/126 SLP</td>
<td>622</td>
<td>104</td>
<td>181</td>
<td>714</td>
<td>2,761</td>
<td>3,028</td>
<td>1,856</td>
<td>1,075</td>
<td>493</td>
<td>116</td>
<td>10,950</td>
<td>43.60%</td>
<td>109.15%</td>
</tr>
<tr>
<td>Int’l LT/ProStar</td>
<td>393</td>
<td>194</td>
<td>58</td>
<td>153</td>
<td>1,026</td>
<td>1,040</td>
<td>601</td>
<td>96</td>
<td>134</td>
<td>55</td>
<td>3,750</td>
<td>14.93%</td>
<td>120.58%</td>
</tr>
<tr>
<td>Kenworth T680/660</td>
<td>516</td>
<td>40</td>
<td>93</td>
<td>415</td>
<td>1,200</td>
<td>826</td>
<td>341</td>
<td>166</td>
<td>100</td>
<td>9</td>
<td>3,706</td>
<td>14.76%</td>
<td>119.05%</td>
</tr>
<tr>
<td>Peterbilt 386/579</td>
<td>566</td>
<td>65</td>
<td>38</td>
<td>362</td>
<td>814</td>
<td>604</td>
<td>222</td>
<td>135</td>
<td>109</td>
<td>44</td>
<td>2,959</td>
<td>11.78%</td>
<td>123.96%</td>
</tr>
<tr>
<td>Volvo VNL64T760/670</td>
<td>822</td>
<td>51</td>
<td>37</td>
<td>104</td>
<td>575</td>
<td>921</td>
<td>560</td>
<td>503</td>
<td>143</td>
<td>33</td>
<td>3,749</td>
<td>14.93%</td>
<td>115.39%</td>
</tr>
<tr>
<td>Year</td>
<td>2,919</td>
<td>454</td>
<td>407</td>
<td>1,748</td>
<td>6,376</td>
<td>6,419</td>
<td>3,580</td>
<td>1,975</td>
<td>979</td>
<td>257</td>
<td>25,114</td>
<td>100.0%</td>
<td>114.72%</td>
</tr>
</tbody>
</table>

December 27, 2019^ 201% of Dec 2018
Retail “For Sale” counts (total: 25,114), as charted above, are higher again, up about 14.70% when compared to last quarter (measuring 2011-2020 MYs) and 201.00% higher when compared to one year ago (measuring only Most Current 9 MYs). Inventories are building on dealer lots.


Considering the most current four quarters: Sept., 2019: Ave VIN: 2015.33; June, 2019: Ave VIN: 2014.93; Mar. 2019: Ave VIN: 2014.82. The average vintage, of the “for sale” assets, which indicates the inventory available has improved, a bit. Sept. 1 to Dec. 27 only improved by .31 of a year (it should move .25) to stay current. One Year ago, the average age was 2014.57. Inventory available has grown and is seven-hundredths of a year newer (by average and year adjusted), which tells me the overall quantity available is the issue, not age of the assets for sale.

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. More Drivers are now driving “day trips”, using day cabs.

Thirty-five months into the current administration: Along with the political games being played between the Executive and Legislative Branches we now have to consider the impacts of trade tariffs (trade issues concern most industries). Election politics are also influencing opinions and actions. Impeachment games are also being played, while the rest of the country tries to make “a go of it’. The net effect is still unknown.

The Crude Oil Industry is improving. Crude prices have improved over the past four months, now over $60/bbl. This is a lift to the US economy.

Building Activity (Home, Office, etc.): Areas slowing a bit: Interest rate sensitive. Rates have had significant declines. Concerns with other countries’ economies and the rate cut in the US. 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 lower and are still some of the lowest rates in history which was encouraging and now has the bond market showing some concerns; due to the temporary rate inversion for 2Yr & 10Yr US Treasury notes.

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

World economics: DISRUPTION! Tariffs and trade concerns are still the buzz; which, depending upon your industry, has little to major affects to the bottom line. With Washington DC politics and the world unknowns in play, people tend to become more defensive, fiscally. They retreat, hunker down, or reduce their risk, etc. Currently an all-out trade war is not imminent. If continued progress towards a resolution with China (primarily) and other trading partners (secondarily) doesn’t arise the US economy will continue to slow down, along with most of the rest of world’s economies. The amount, of slowdown, for each country, is dependent upon exposure. This is true for US companies as well.
Trailer trends have started to indicate, with more certainty, what the tractor market has been telling us for several months; demand has softened, and equipment inventories are increasing. In the past 30 days, the trailer markets (class dependent) are showing weakness. Order cancellations are much higher than one year ago. Backlogs are still historically high. The slowdown that transportation experienced from July, 2015 through June, 2017 was primarily limited to the tractor market. [Yes, trailers dipped a little back then; however, not nearly to the extent that power prices slid.] We are seeing weakness in portions of the trailer market. Most notably in dry vans, combo [alum-steel] flatbeds and small cube pneumatic tank trailers. The US consumer is still doing their part, that is buying stuff. However, trade related demand is down. Historically, the direction of trailer values typically lagged tractors by several months; and now, we are seeing weakness in some trailer classes already. Anticipate higher rates of depreciation in more sectors, in the coming months.

Generally:

Ag trailers: Demand is still soft/weak due to ag commodity (grain, fiber & livestock) prices. Grain, Soybean and livestock prices have suffered due to tariffs. The overall crop yields were good for what did get planted; though below trendline.

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. Some recent auction results indicated softness for small cube trailers (i.e. 1040’s). Utilization in the oil fields is down.

Construction activity should be supported, for a while, by committed building activity (apartments, commercial & houses). Additionally, flood repairs and rebuilding throughout the Midwest.

Flatbeds/Drop Decks: Stable/soft depending upon the asset’s makeup: Construction remains solid (It takes a while to build out committed & started projects.) In-bound freight to manufacturers and finished goods reported steady. 53 Ft & 48 Ft Combo Flats lower, there is a large supply now available to the market, on dealer lots. RCN is steady to down. The flatbed market still new 2018’s and an abundance of 2019’s for sale as well.

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 have, rather suddenly, shown significant declines. (Trade concerns, most likely), now generally reflect below “trend-line” for auction prices. I anticipate the market to be cautious until the China Trade Tariff impasse is settled. Refrigerated trailers have started to show some weakness, particularly in Tier II and high hour trailers. If you recall, refrigerated trailers are not
as vulnerable to world economic issues, people consume food every day. Refrigerated trailers are needed and used every day. NOTE: We are hearing of some stress on companies with refrigerated trailers as their primary trailer class.

Overall, supply (new & used) currently seem to have moved to an imbalanced scenario. Freight volume have been waning. Somewhat surprising, rental fleets are enjoying good utilization and rental rates (dry van, flatbeds, step decks, reefers). Short-term rental commitments are through year-end. [Christmas surge]

Five, ten and fifteen-year old Dry Vans sales (Taylor & Martin Auctions) are charted below:
Dry vans (previous page) have fallen below the long-term trend line, with the newer trailers considerably below trend line and ten-year old trailers are faring the best. Recent sales prices are lower than the averages shown.

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 (2019) Reefers are now below trendline. As stated previously, some carriers are experiencing financial duress in this segment.
Five and ten-year old Composite Flatbed sales (Taylor & Martin Auctions) are charted below:

Combo Flatbeds (Alum/Steel Composite) have shown significant weakness, when compared to 2018. To date, limited five or ten-year-old combo flats have been sold by T&M in 2019. All sales were from this past quarter. 53 Ft Long flatbeds show similar results. RCN is stable/lower.

The flatbed market had recovered from the 2015-2017 pullback. Actual sales numbers (2019) as very low. Considering previously mentioned cautions, and the current number of flatbeds offered in the retail market, this segment is showing stress as well.
John Seymour’s thoughts on Agricultural equipment, “filling the Ag Hopper” in The Meter!

The year in review... now completed with some positive signs. Difficulties of the lagging economy and embargo concerns going into ag harvest added additional pressures to new sales, but recent news of the USMCA (United States, Mexico and Canada) Trade agreement passage is positive. Especially good news for our home state of Nebraska with two of the largest world agricultural product consumers. Finally, some protection of market access, that was secured by Nebraska over last twenty years, mainly in poultry and dairy. Much larger than the nominal increase estimated for coming years is that trade relationships are solidifying from recent disruptions allowing growth opportunities by other states.

China is returning as a buyer also. Not only to levels above 2017 volumes but defining “non-tariff” barriers to US ag products and seafood recognizing the US Beef traceability system. Retaliatory tariffs are not entirely removed, and world competitors have taken market share, so a $40 billion average per year goal is still a lofty expectation. Soybeans, despite the African Swine Fever (ASF) continues to be China’s largest imported good. Due to the reduction of meat protein from ASF, beef and pork producers and even dairy producers have the opportunity to benefit. Outlook input from Jay Rempe Sr. Economist for Nebraska Farm Bureau.

A plus for Phase One trade deal. While new pricing is still pressuring used market, Ag equipment indicators show some better new demand than over last 6+ years. It may not be an immediate demand to “Buy a bigger tractor” or an immediate Industry turn-around catalyst, but it takes off some pressures which will certainly help by next harvest. Class 7 Combines and higher horsepower Tractors are starting to widen in the gap from new cost to used values or showing higher costs to trade. Ag fleets have increased in average age, despite selective new acquisitions. Manufacturers are still reducing new produced volumes and not estimating 2020 anywhere near normal annual growth, but we will take a slight positive in this economy!

Thanks,

Andy Vering
Director, Appraisal Services
1865 N. Airport Rd.
Fremont, NE 68025
Office: (402) 941-1079
Cell: (402) 658-8435
avering@taylorandmartin.com

John Seymour, ASA
Project Manager, Appraisals, Ag Appraisals
Office: (402) 941-1072
Cell: 402-981-6415
jseymour@taylorandmartin.com
www.taylorandmartin.com

IMPORTANT NOTICE: The preceding newsletter is the opinion of the author and is based upon information known to the author. No guarantee as to past or future directions are expressed or implied herein. This message is intended for the addressee and may contain confidential, privileged information. You may use, copy or disclose this information contained in this e-update as you see fit. I only ask that you reference your source.

2020 Copyright Taylor & Martin, Inc.