The Meter

Transportation (Trucking) Update (12-2023)

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Introduction

First and foremost, we at Taylor and Martin want to wish everyone a happy and healthy holiday season. It always amazes me how fast it comes. Enjoy your friends and family because it seems to go just as fast as it comes.

We also wanted to congratulate John Seymour on his retirement. His last day will be November 30th. John has provided us with a wealth of knowledge especially in the Ag sector and he will be missed. He is looking forward to time with the grandkids and enjoying the farm.

The trucking industry is going through the tough part of the cycle. Like most industries, trucking is full of ups and downs. This down is feeling worse due to how high the highs were. It's just human nature, but this one is different than past cycles and has made it tough to predict what is coming next. We have been in the camp that we are near the bottom and predicting potentially another 10% decline in the market. Once again this is overall, and some assets will hold strong while others will fall. The hard part is when we will begin to see an increase in values. I don't see much that would indicate any increase in values in the next 3-4 months.

You will see in the inventory chart on page 7, levels are up but nowhere near historical highs. With the decline in contract and spot rates, that has led to companies shutting thier doors or getting acquired. With limited numbers of loads available and an excess of trucks for those loads is a recipe for decreased values. In the acquisition world generally, those trucks don't hit the open market and are just absorbed into the purchaser's fleet. Inventory levels are just part of the story but can be an early indicator to changes in the used equipment market.

Dry vans have been on such a wild ride throughout the last 2 years. I wanted try and find a way to see what way they are trending and predict the turnaround in the market. One of the ways is inventory levels. Since Oct 26th inventory on 53 Ft. tandem axle dry vans has dropped from 2,590 to 2,178 on Nov 13. Interest at the auctions has been end users with limited interest from dealers.

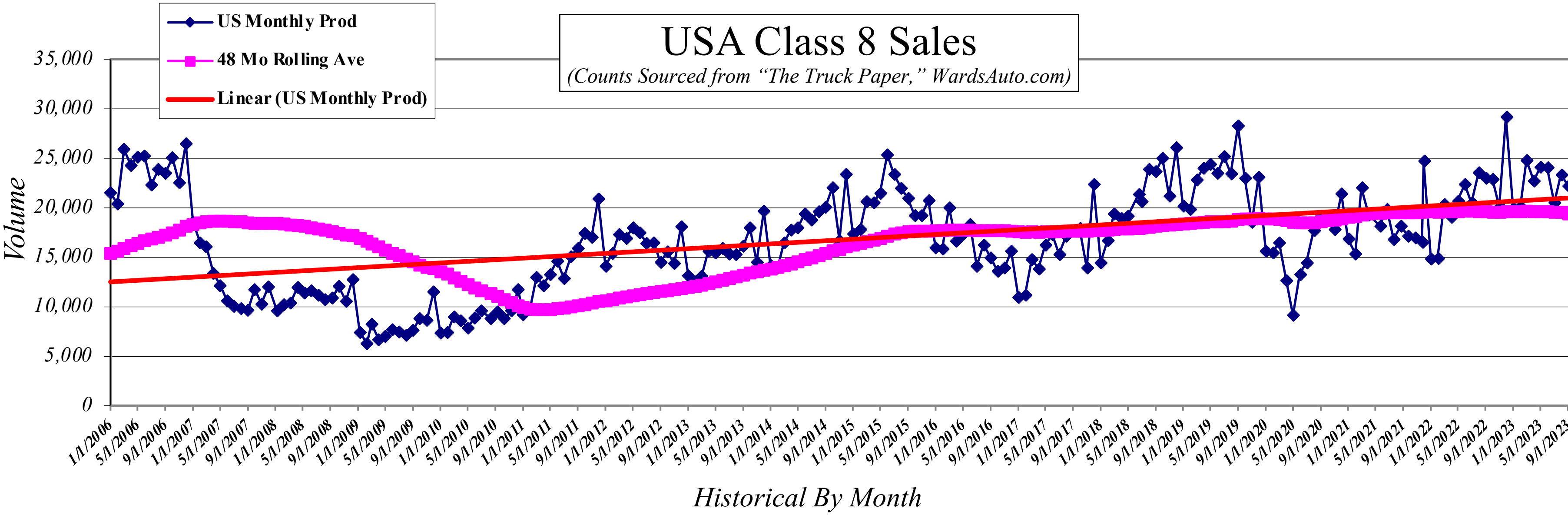
We still have been looking at a 70/30 ratio at auction for buyers. We like to see around 70% of our buyers be end users and 30% be dealers. This is the ratio we like to see at auction. We have been selling quite a few late model owner-operator 389s in the last few weeks. Dealers have been the successful bidders on the majority of these. Not normally a good sign for the used truck market at auction. On the other hand, we have also been selling a lot of 2023-2024 Cascadia's as well, but these have been bought by end users for the most part. Small to medium fleets are looking to upgrade or grow their fleet while owner operators are not looking to upgrade.

For reference the 2023 Pete 389s within the 100,000 mile range have been bringing an average of $159,000 and some 2023 Cascadia's with miles ranging from 2k to 100K have averaged $152,000. You would typically expect to see a much larger spread in these two makes and models. Exactly why dealers were all over the 389s and not as active on the Cascadia's.

Auction values have stabilized. I don't normally like to say a statement like this. Saying the market is down 30%-40% since the beginning of the year, for example, is true overall but of course different asset groups act differently. This is why different spec'd trucks will depreciate at different levels than others. We also see the declines in value first on Tier II equipment and increases in Tier I equipment first.

Volumes at auctions have continued to be strong. We are pacing a 60% increase in total numbers of trucks and trailers sold from 2022 to 2023. The sales side is still being approached regularly on shutdowns and dispersals. Majority of these companies are just making decisions to right size fleets to adjust to the market conditions. Repos have also been on the rise. Class 5-7 held on to the higher values longer than class 8 did. They have now started to feel the strain that class 8 has been feeling with used values.

Once again, any feedback or suggestions for the newsletter is greatly appreciated. I am always looking for new or beneficial information we can provide. Hopefully the following charts will help show what we are seeing in the marketplace.



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 quantities 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.

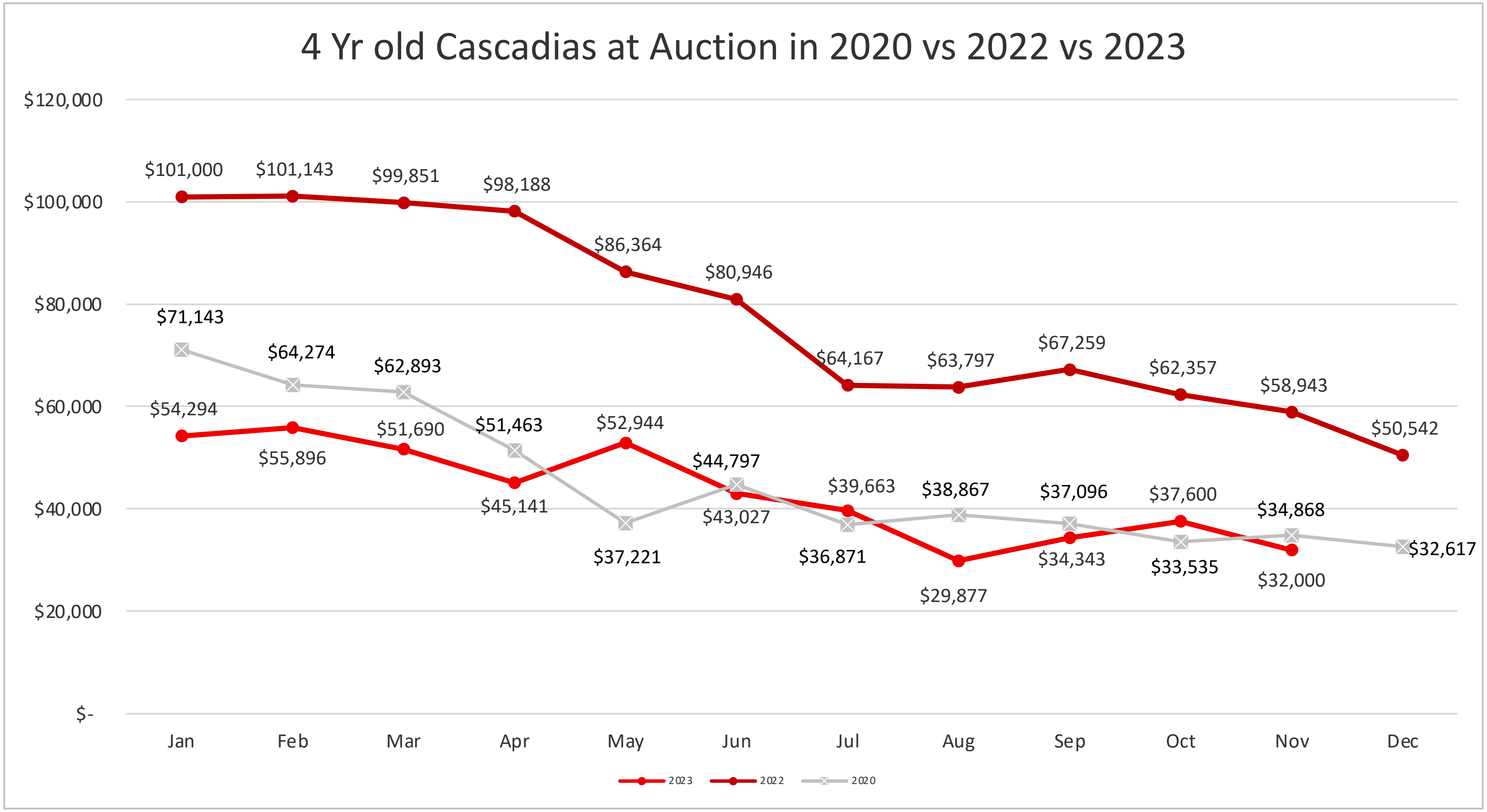
4: Actual Class 8 purchases have been down since the year end. December 2019 of 23,119 to averaging 15,271 for the year in 2020 with the low at 9,165 in May. We are currently at 19,390 for 48MMR and as production increases sales will follow until we reach the trucking industry demands.

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.

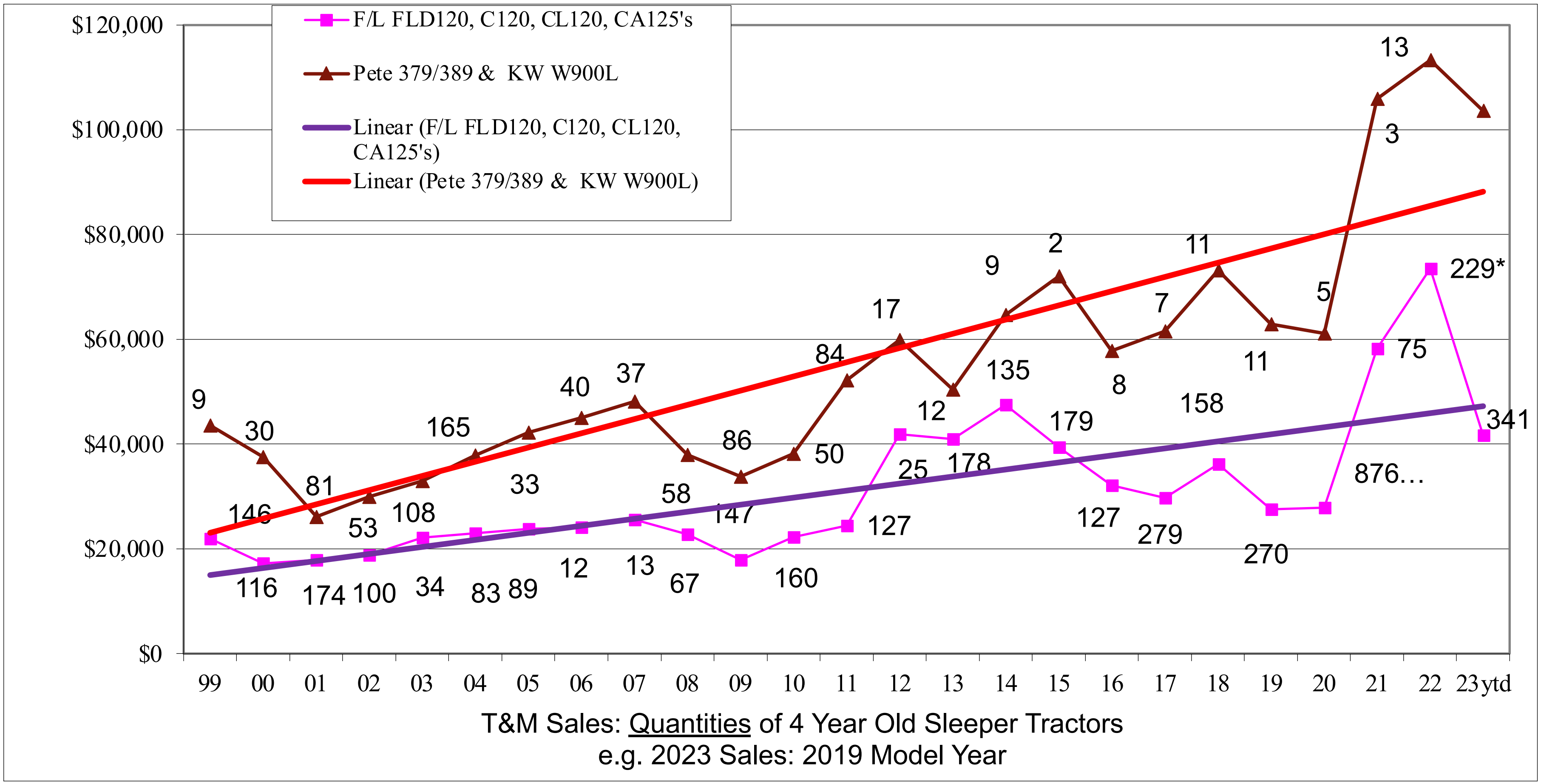
6: The class 8 truck orders have been leveling off since the peak at the end of 2020 as expected. The overall demand has softened. The supply chain issues have for the most part diminished but still have not disappeared completely.

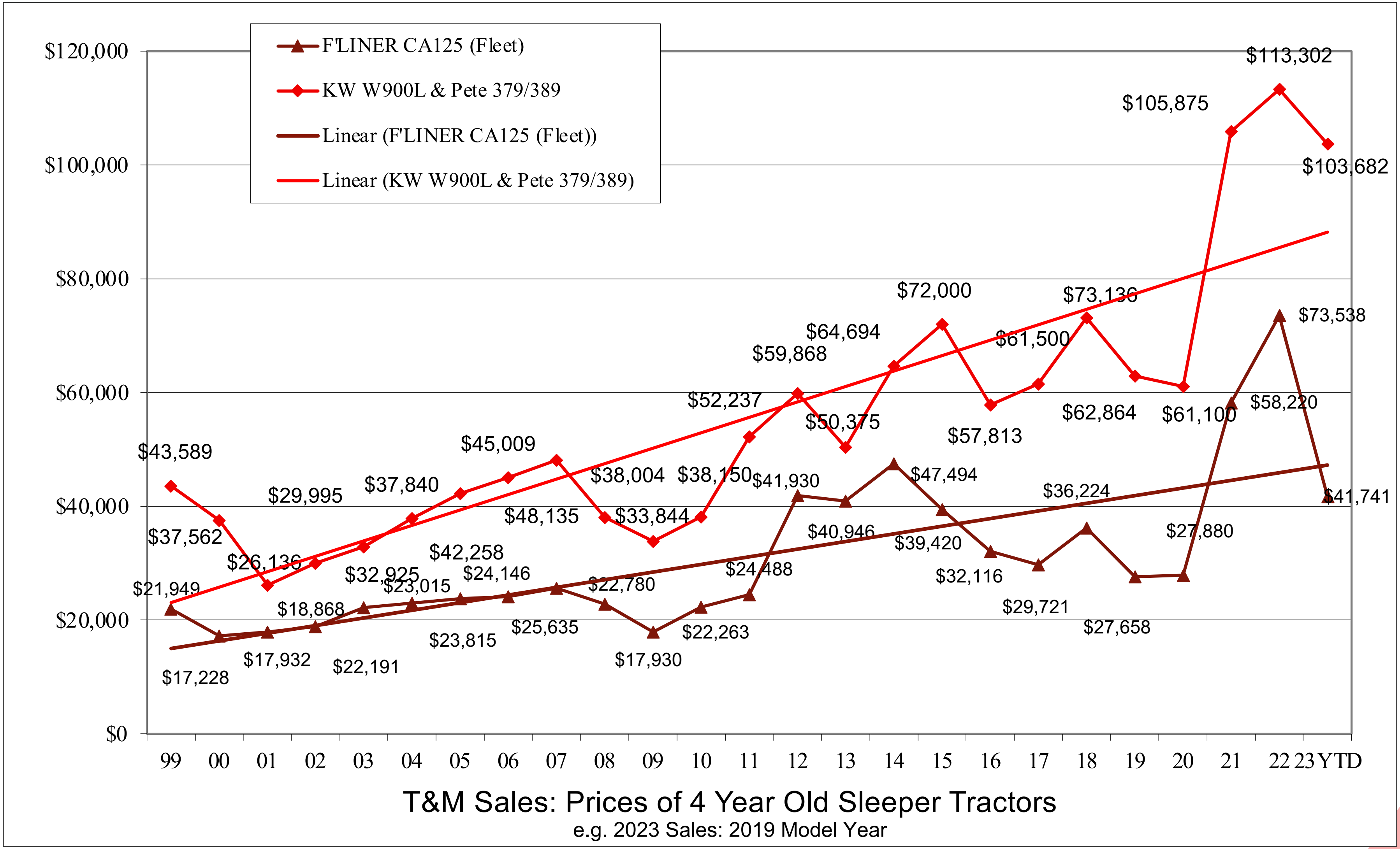
7: Sales volumes have been on the decline. Lack of loads and uncertainty in consumer spending has cooled the push for purchasing new. I would anticipate new sales to continue to slowly decline. Typical cycles have been thrown way out of wack with the pandemic. If we have started a new cycle we would expect the sales totals to stay above the 48MRA for the next few years. Only time will tell.

We added the 2020 numbers as another frame of reference while comparing markets. As you can see, we are well off the highs of 2022 and are currently mirroring the 2020 values. This chart is one of the examples showing the potential of us being at the bottom of the market. At the very least the decline has slowed over the last few months. Also keep in mind the miles on these in 2023 have been higher than the previous years. If we see a continued slow decline, we are not expecting it to be drastic at auction.



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 15 sold. The only real change here is volume. Prices have seemed to have stabilized at auction.



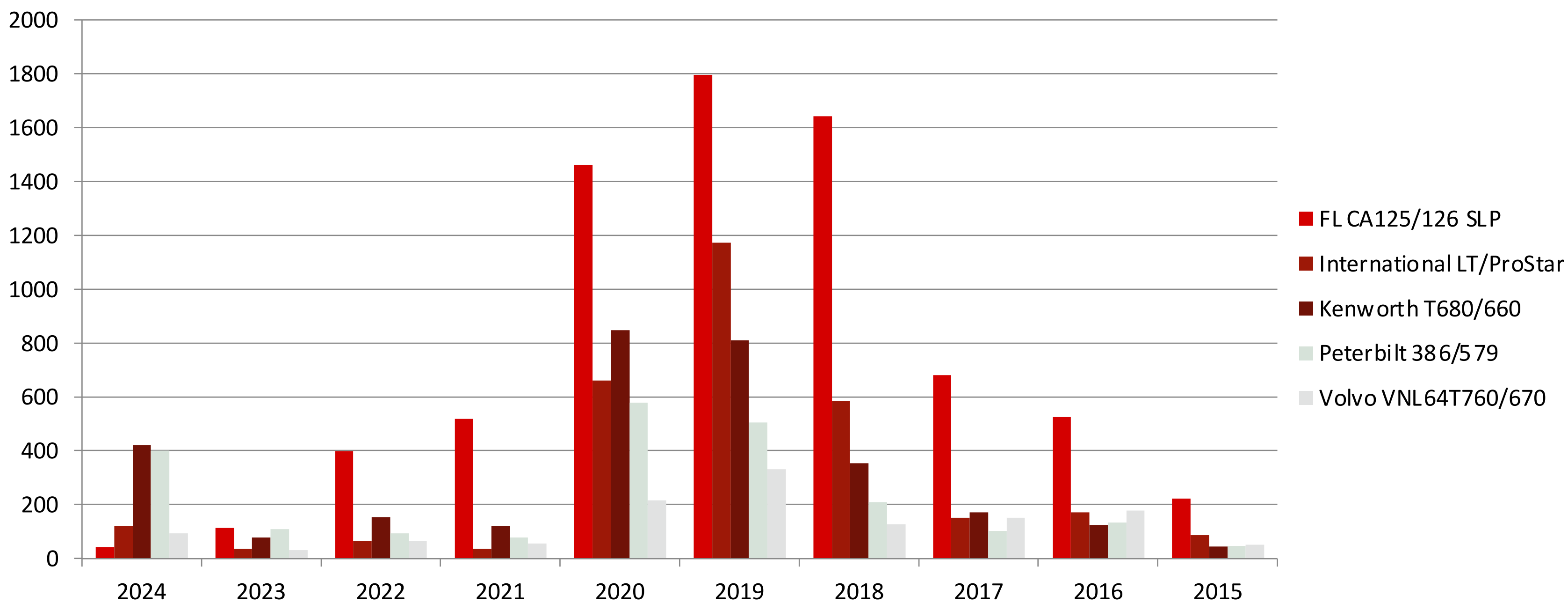


Above are T&M Sales by average annual prices. (As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both are generally considered to be spec'd as Owner-Operator (O/O) tractors.) As seen in the previous slide, overall sale values are well above the trendline.

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. As stated in previous slides, the decline has slowed and I anticipate values to stabilize.

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? (Nov 15, 2023) This chart is again interesting. This is typical during a downturn. When values were on the slide toward the end of 2019 inventories were in the 20.000s most of the year. We are up 8% in the last 3 months but we had an increase of 46% in 3 months in 2019. Due to the supply chain issues over the last few years I don't believe we will get to the mid 20s for inventory but given that information we have a large supply of equipment out there for sale hindering any increase in values currently.



15-Nov-23	Sleeper Tractors For Sale On TruckPaper.com: Nov 15, 2023									Ave. Age	2018.26	
Make	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	Total	% of Total
FL CA125/126 SLP	43	114	398	518	1463	1795	1642	681	526	222	7,402	43.057%
International LT/ProStar	121	36	66	36	661	1173	586	151	173	88	3,091	17.980%
Kenworth T680	422	79	153	120	849	811	355	172	125	46	3,132	18.219%
Peterbilt 579	402	110	94	78	579	505	210	102	133	47	2,260	13.146%
Volvo VNL64T760/670	93	32	65	57	217	333	127	151	179	52	1,306	7.597%
Year	1,081	371	776	809	3,769	4,617	2,920	1,257	1,136	455	17,191	100.000%

Additional Factors…

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

- Crude Oil went to a high of $93.68 at the end of September. Lately it has been hovering in the mid 70-dollar range. World oil output rose from higher production from Nigeria and Kazakhstan. The Israel-Hamas conflict has not had any direct impact on oil flows. Analysts say oil should remain volatile but should average in the low 80-dollar range to the end of the year. While forecasting in the mid 90-dollar range for the year 2024. Crude Oil Petroleum Reserves have significantly decreased from an average of 600 million barrels in 2019 through 2022. Since then, it has fallen from the start of 2022 to currently around 350 million barrels. At the end of July, the government purchased about 6 million barrels.

- Building Activity (Home, Office, etc.): Housing starts in the U.S. increased 1.9% month-over-month in October. In October, single family housing starts, which account for the bulk of homebuilding, increased by .2% and starts with five units or more surged by 4.9%. Housing starts refers to the number of new residential construction projects that have begun during any month. The nation’s average rate for a 30-year mortgage loan is 7.258%. It peaked at the end of October reaching over 8%.

- Drivers: Shortage! Still continuing to have a driver shortage, at least experienced drivers. 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. With the holiday season approaching, spot rates should increase but it is unlikely to be enough to get the table to turn. Expecting freight rates to be low well into 2024. Still seeing continued owner-operator drivers transferring to fleet companies for employment.

- Ports: The International Longshore and Warehouse Union contract was finally approved. More than 22,000 workers at all 29 West Coast ports voted 75% in favor of approving the new 6-year agreement that will expire on July 1, 2028. The new agreement includes updates to health benefits and improvements to wages, pensions, and safety protections. This gives a 32% pay increase over the six-year life of the contract plus a $70-million bonus for continuing to work in the early months of the Covid pandemic. The pay increase consists of a $4.62 hourly raise in the first year of the contract followed by $2 hourly raises each year. Ships are not fully loaded, and freight rates are declining as a result. Analysts are forecasting a 5.4% increase in freight for the 2024 year.

- Construction: Lumber Index prices have been very volatile in 2023. This year’s lows bottomed in the $480 range while the highs peaked at $640. It’s currently sitting in the middle of the range around $530. The American Steel Index has been stable for this year ranging from $1,631 to $2,100. It’s been ranging in the same levels from back in 2010. Nonresidential building spending is up 22% year to date compared to January to September of 2022. Manufacturing last month was up 72% year to date. Highway spending is up 15% from 2022 and up almost 27% in the last two years. Highway spending is expected to increase 25% over the next two years.

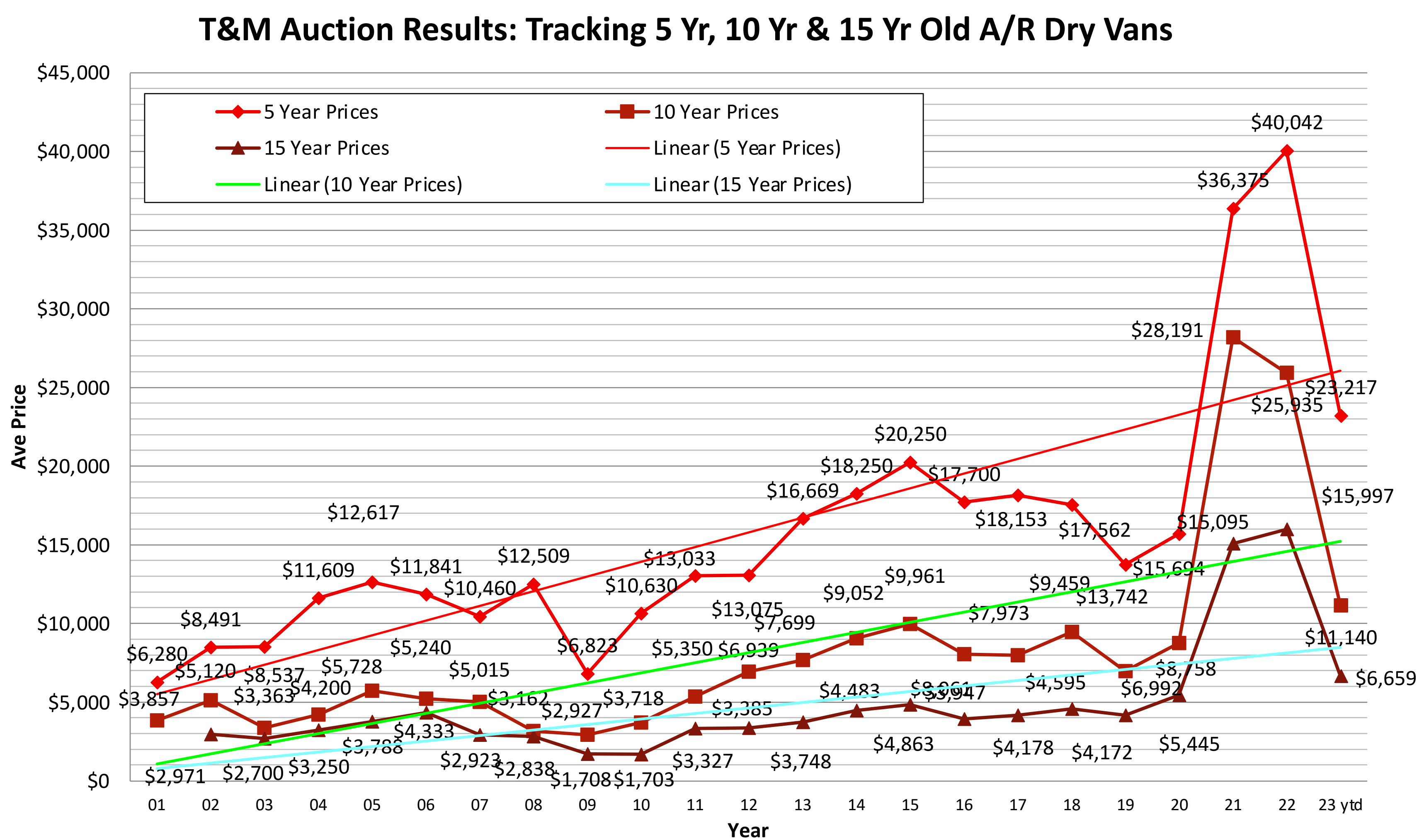
- Inflation: CPI was 3.2% in October and 3.7% in September. Core CPI month over month in October was 0.2% and 0.3% in September. PPI (Producer Price Index) month over month in October was -.5% and 0.4% in September. As of right now the market is pricing in no rate hikes and no rate cuts till June 12th and July 31st, 2024. In June and July, the market is pricing a rate cut of .25 basis points each with a total of .50 basis points.

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 relatively strong at auction based on the season. Quantities at auction have increased from the third quarter but values stayed flat. The Fertilizer Price Index bottomed at the end of June, but still well below the highs in 2022. But compared to pre Covid prices it's still double. Corn has continued to fall since the beginning of the year. Grain trailer backlogs have slightly decreased throughout the year while net orders have stayed relatively flat.
- Pneumatic Trailers: Steady demand for large capacity trailers. On the open on market (Truck Paper) 37% of the units for sale are small cubes with a 1% increase from last quarter. New costs have finally leveled off but there is still a three to four month wait for new. The Aluminum Price Index has continued to fall since the beginning of the year but in September the price started to move back up. Bulk Tank backlogs have slightly decreased throughout the year but in the month of October net builds doubled from this year's average.
- Flatbeds and Drop Decks: The national spot rate has been continuing to erode slowly and is currently sitting around 2.44. Load-to-Truck Ratio had a small bump higher in September but currently right above the lows for the year. Load-to-Truck Ratio is higher when there are more loads and less trucks to fill those loads and vice versa. Backlogs have decreased by half from the first quarter's average. Net builds have increased by 40% in the last two months from this year's 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 especially 48ft and below trailers. Dry Van backlogs have decreased by half from the first quarter's average, while Reefers have been slowly decreasing throughout this year. Both Dry Vans and Reefers net builds in the past two months have doubled from this year's average. Spot rates for Dry Vans and Reefers have been flat since April. While Load-to-Truck Ratio on both have had a bump higher back in April and have recently fallen back down. Spot rates for Dry Vans are 2.06 while Reefers are 2.49. The load-to-Truck Ratio for Dry Vans is 2.11 and Reefers are 2.95.
- Sales and orders remain elevated but continue to recede. In the past few months, the net orders have increased significantly. If this increase in the quantity of net builds continues, this should continue to increase quantities for sale. Which could/should continue to push prices down slightly. The quantities at auctions from Taylor and Martin have continued to increase. There was 124% increase in quantity from 2021 to 2022. While in 2023 there was a 133% increase from 2022 and the year isn't over yet.
- Overall, the trailer market is still steady. Should still see some weakening in prices throughout the rest of the year and into the first quarter of 2024.

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. I think a big part of this chart is the volumes. The next chart will show some more detail. We have sold 3 times as many 2008 model year vans than we did all of last year. The decline has slowed significantly but of course as you can the overall reduction of auction values year over year.



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 920.

Sales Year	5 Year Count	5 Year Price	10 Year Count	10 Year Price	15 Year Count	15 Year Price		15 Year 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
2023 ytd	46	$23,217	292	$11,140	920	$6,659		2008

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

Reefers: Both 5 & 10 year old (2013). Refrigerated Trailers acted very similar to dry vans. Volumes of reefers at auction have not increased at the same level of vans but values have decreased like them. Values have steadied at auction along with most asset groups. We have been surprised with the decline in even the late model reefers at auction.