The Meter

Transportation (Trucking) Update (9-1-2021)

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Introduction

The supply and demand scenario is still out of whack. We have seen signs of when to expect a more balanced typical ratio, and then we hit another roadblock. The Delta variant has started to become a bigger concern across the world causing slowdowns in production and distribution.

We are just getting in the peak of the shipping season as stores across the country order, plan and prep for the holidays. These delays are going to put a crunch on availability of some consumer goods and I am assuming some higher spot rates for truckers in Q4.

It's hard to see much of a change coming before the end of 2021. Deliveries on new trucks and trailers are being pushed into next year which will hinder much of a slowdown in the used truck and trailer market.

I have added a new page that I found very telling in the availability of used trucks since the pandemic. Check out page 8 concerning used truck inventory.

Class 8 tractor orders have fallen but have been steady in the mid 20,000 range. This was expected. The backlog and delivery dates can be seen as far as 12 months out. Mid summer is usually a slow time for orders and with delays in manufacturers putting in 2022 costs, orders are still strong for this time of year.

Many of the dealers I have spoken with don't expect to have any inventory on their lots at all in 2022. Everything that will be on their yards will be spoken for. That will continue to hold up used truck values. If you haven't put in an order for a new truck yet it will be tough to get one from a lot next year.

Contributing to the used truck demand is the lack of parts for service. Many guys that have been purchasing at auctions have been just trying to replace trucks that have been down for a couple weeks waiting for parts to come in. The risk of losing a contract is worth paying 20%-30% more for a truck to continue working as soon as possible.

The ports are all still behind with tons of inventory to move. The demand for goods remains and will only strengthen into the holiday season. Containers and chassis also have been strong. The distribution of goods industry is going to be at an increased level through years end.

The service industry has improved throughout the year, but the Delta variant has begun to slow that down in parts of the world. With so much manufacturing done overseas we rely heavily on other country's COVID statuses. Two of China's main ports were running at 60% due to the pandemic last week.

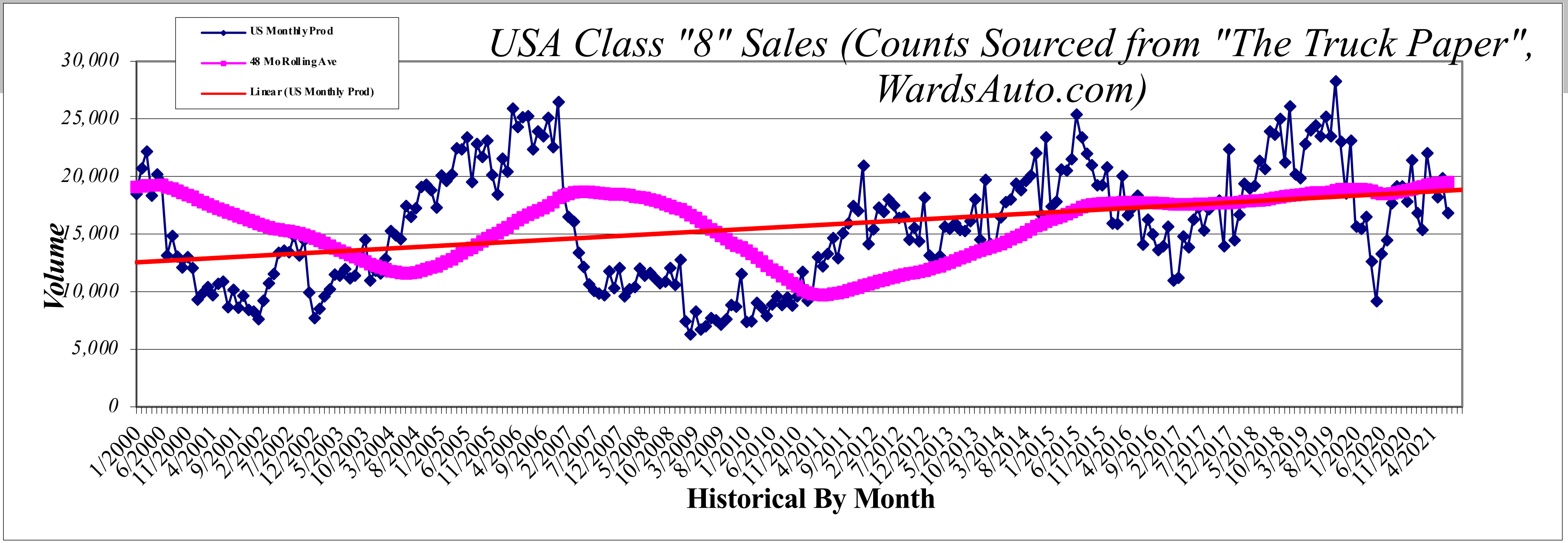
Inflation is next on the potential list that could cause major disruptions in the economy. It could cause uncertainty in the overall demand for goods which could lead to lower consumer spending. This over time and with builds being completed next year could speed up the return to more normalized used truck values sometime in 2022.

We are still dealing with a driver/worker shortage as we all know. We can blame the government assistance program, COVID, and the generation itself, but all together it seems like everyone is looking to hire. It's a good problem showing growth and recovery but when will we see the workers needed to fill the void?

Most everything I have touched on already involves lack of supply (trucks, trailers, drivers), high demand for goods and supply chain issues. Most of these will be settled over time. The problem is that we keep hitting roadblocks that seem to compound the problem.

The auction values continue to skyrocket - you will see in some of the upcoming slides. We have started to see a slight decrease in the late model low mile trucks and late model vans and reefers. With the values they have been bringing most consignors are stating they wish that they had 1,000 more to sell. The fact is, most have taken advantage of the market and simply have nothing more they can sell and continue to take advantage of the high rates. The demand is still there and it could start driving all the rest of the used equipment up as well.

Now to the charts. Some of these give a very clear depiction of the market we are currently in. Comparing these charts month over month should show us the early signs that the market is shifting. Over the last few months, they have remained steady and strong.



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 finally exceeded the 48MRA. History would suggest that we should hold north of the 48MRA. The 48MRA is at 19,389 it has been above 19,000 for the last 4 months. We have not seen a 19,000+ average since 2000.

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 the 48MRA has been on the rise averaging 17,859 ever since. Only thing holding higher sales back is the long wait times for delivery.

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 total sales down to (5/2020) 9,165. Lowest it has been since 10/2010.

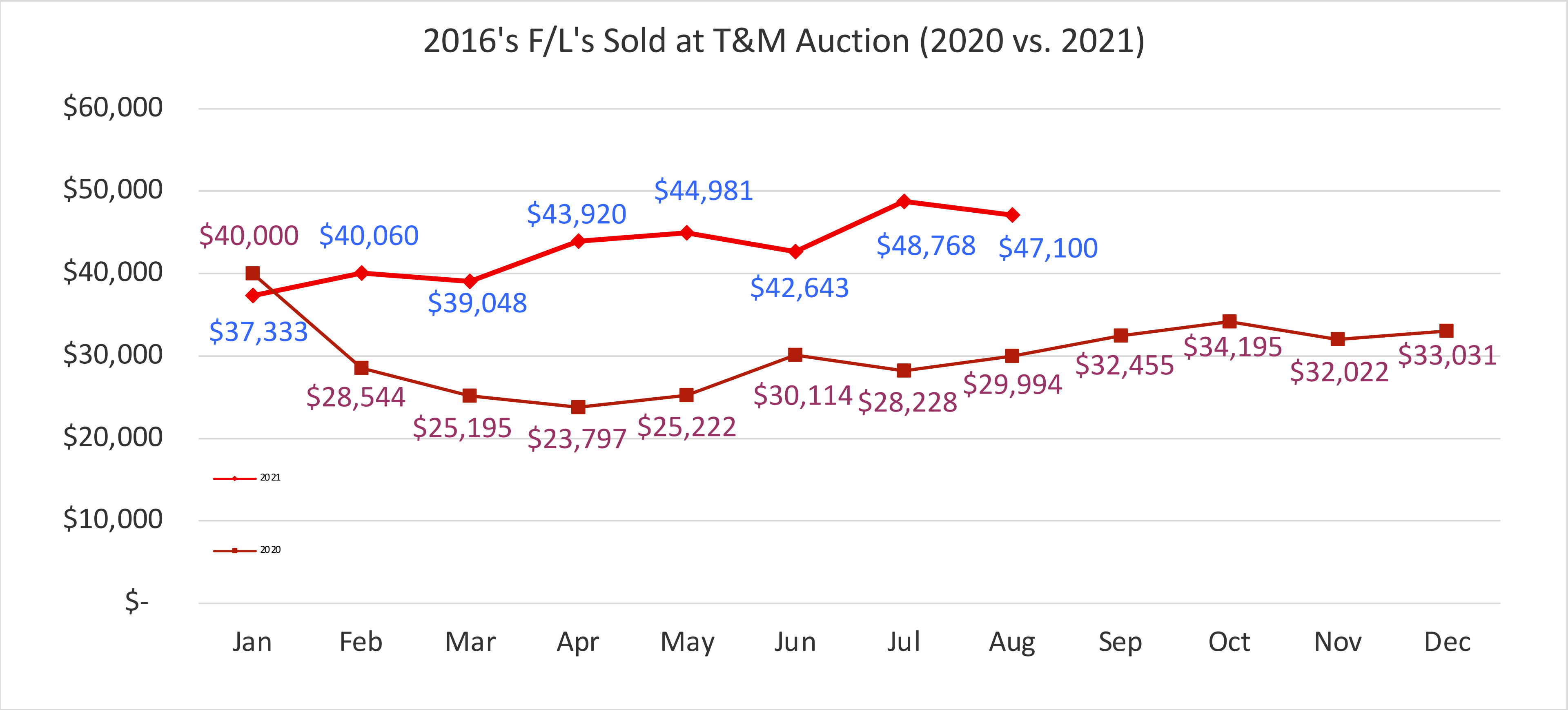
4: Actual Class 8 purchases have been down since the year end. Dec 2019 of 23,119 to averaging 15,271 for the year in 2020 with the low at 9,165 in May. We are currently at 19,312 for 48MMR and as production increases sales will follow until we reach the trucking industries demands.

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 marked improvement, and 2021 so far has continued to trend 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 on the rise since June of 2020. Since June the numbers have been up Y/Y by 50%. Orders should remain steady over the next few months. With production being pushed so deep into 2022 overall orders should be held in check.

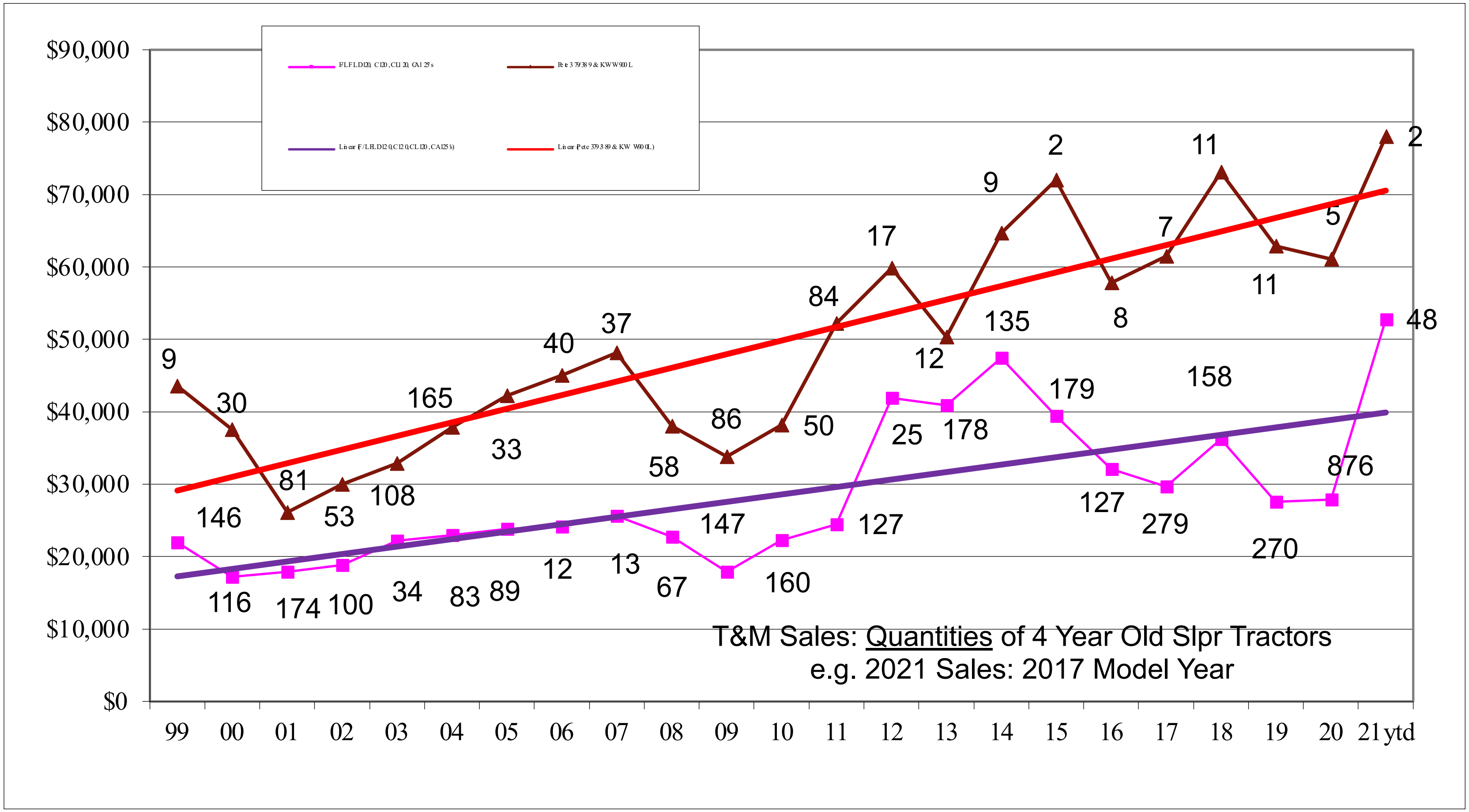
7: The historical trends have been thrown out of trend due to COVID. Recovery times and production have significantly hampered normalization. Expect delays to persist well into 2022.

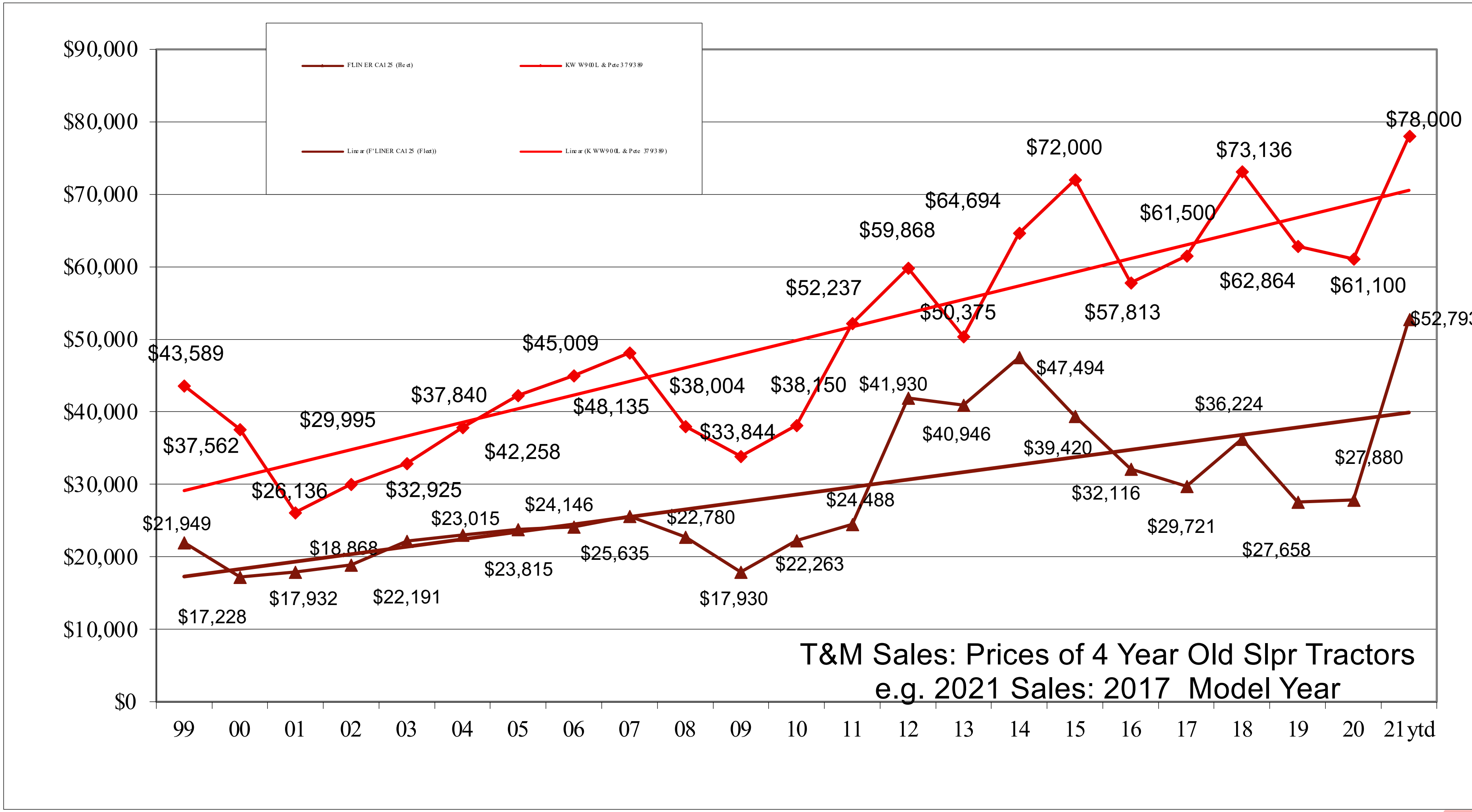
This chart shows the average sale price of 2016 Cascadias. They are all sleepers with average miles between 500,000 and 700,000. The 2021 sales are still the 2016 model year so technically a year older, but the auction values have continued to rise despite the increase in age. Volumes are down from last year but still a large enough sample size to get a proven value. Over the last 5+ years the Cascadia has been the most popular fleet truck by sheer volume and should be one of the first models to show initial signs of a slowing used market due to the amount of Cascadias expected to hit the market as new trucks are released. I will leave this chart in until we start to see a larger consistent change in values. It should be a good indicator as to when demand begins to fall.



True Value Guide Quantities of 2017 model year trucks.

Here are total actual sales of the Freightliner Cascadia (Fleet) and the O/O Spec'd Petes and KWs. Total quantities are down from last year. The need for tractors has limited the number for potential sale. Values are so high some have just allowed their fleet age to grow to take advantage of the market. O/O trucks generally don't hit the market as often as fleet trucks. With volumes down you can see prices are up. We do not expect to see a large volume increase until production catches up and trades are release into the market.



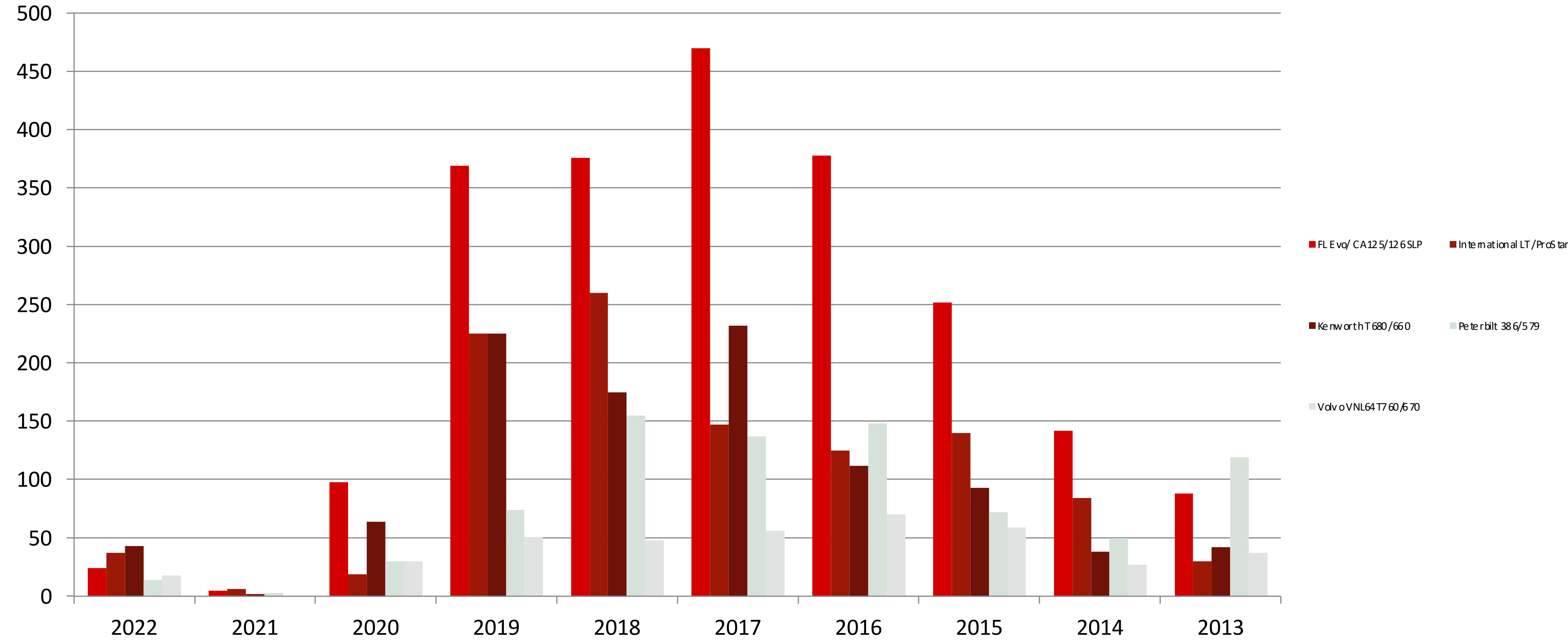


Above are T&M Sales by average annual prices. [As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both generally considered to be spec'd as Owner-Operator (O/O) tractors.]

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. Fleet truck values continue to remain high. Parts availability on down trucks have started to increase demand to fill the void. The continuous rise in fleet values has been remarkable at auction. We should be nearing a plateau but have not seen any leveling off on values so far this year.

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. Both averages are well above the trend line and should remain there for the duration of 2021.

What is available to the marketplace today? (May 20, 2021) See chart below. [Sleeper Tractors] This chart is showing the number of listings on Truck Paper for these models as of Aug 20,2021. The total number of tractor currently offered on Truck Paper is down to 5,499. I will get into the drastic decline in trucks for sale on the next slide.



20-Aug-21	Sleeper Tractors For Sale On TruckPaper.com: Aug 20, 2021									Ave. Age	2016.06		
Make	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	Total	% of Total	% of Prev
FL Evo/ CA125/126 SLP	24	5	98	369	376	470	378	252	142	88	2,202	40.044%	107%
International LT/ProStar	37	6	19	225	260	147	125	140	84	30	1,073	19.513%	97%
Kenworth T680/660	43	2	64	225	175	232	112	93	38	42	1,026	18.658%	80%
Peterbilt 386/579	14	3	30	74	155	137	148	72	50	119	802	14.584%	80%
Volvo VNL64T760/670	18	0	30	51	48	56	70	59	27	37	396	7.201%	84%
Year	136	16	241	944	1,014	1,042	833	616	341	316	5,499	100.000%	92.90%

The top chart is from May 2020 and shows a total of 25,206 tractor ads on Truck Paper. Currently there are 5,499. We only have a little over 21% of the number of trucks being advertised than we did in May of 2020. It shows how strong the demand has been in the last 15 months. With the demand still strong it makes sense with how high truck prices have risen. Side note: A lot of the 2022 ads that are there are just ads offering potential orders or availability in 2022.

22-May-20	Sleeper Tractors For Sale On TruckPaper.com: May 22, 2020									Ave. Age	2016.03
Make	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	Total
FL Evo/ CA125/126 SLP	200	620	87	529	1,012	3,149	2,805	1,596	774	389	11,161
International LT/ProStar	40	411	226	171	248	966	956	598	120	101	3,837
Kenworth T680/660	81	533	57	177	541	1147	614	279	143	103	3,675
Peterbilt 386/579	39	557	65	89	426	795	522	249	106	91	2,939
Volvo VNL64T760/670	258	740	86	71	167	526	745	549	325	127	3,594
Year	618	2,861	521	1,037	2,394	6,583	5,642	3,271	1,468	811	25,206

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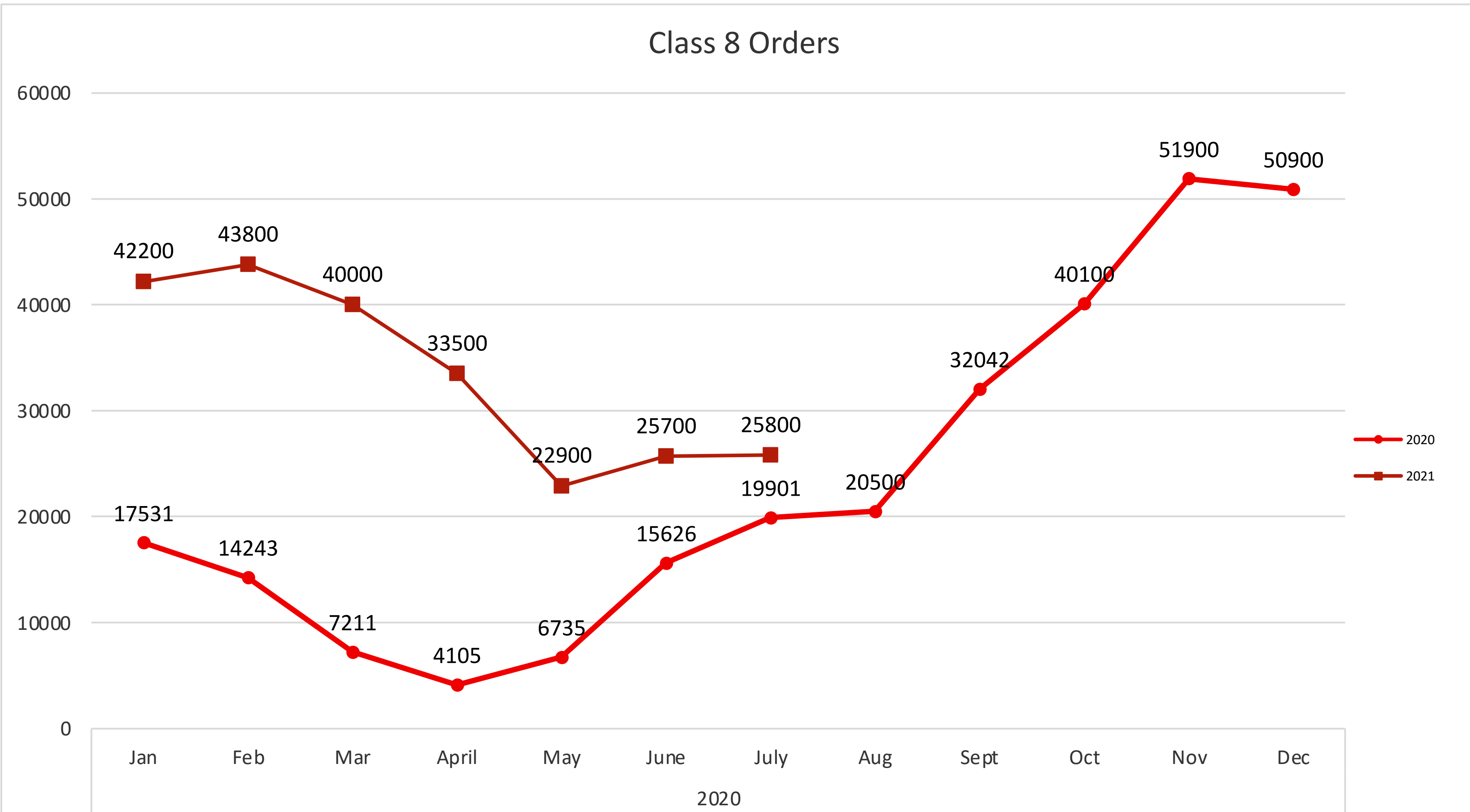
Year	136	16	241	944	1,014	1,042	833	616	341	316	5,499

2020-2021 Class 8 Orders:

I kept this chart in to show how much demand has remained for new tractors in 2021. In 2019 we averaged 14,900 per month. The Class 8 orders are slowing mainly due to the wait times but still are above replacement numbers. The orders have started to level out not unexpectantly. As stated before, with the extremely long lead times on orders and many placing them early, the orders have seemed to plateau. Still well over the 2019 average, but it will keep adding to the backlog and lengthening the time to get back into a supply/demand balance.



Additional Factors

Retail “For Sale” counts (total: 5,499). Lowest advertised total we have seen since we started keeping track in late 2015. It shows the strength of the overall trucking market and more clarification on how much demand is out there. Once more orders are filled and trades accepted the for-sale totals will begin to rise, and it will be an early indicator of when this market will ease.

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

The Crude Oil Industry is improving slowly. Currently we are at WTI at $68. Most are assuming at least a short-term bump in values due to hurricane Ida disruptions. Thoughts on the rise in Q4 has been dampened a bit due to the rise of the Delta variant impact on travel.

Building Activity (Home, Office, etc.): Housing market is still strong. Supply constraints has hampered production, but demand is still strong. Long term effects on the very high home values will be an issue for some in the long term. Still with low interest rates has created desire to take advantage.

Drivers: Shortage! Raising pay rates have helped but the demand for drivers is still extremely high.

Ports: Still playing catch up. Imports continue to inundate the ports and help feed the trucking industry. Expect above average activity especially inbound at US ports. COVID related labor issues are still a concern going forward worldwide.

Construction activity is slowly increasing. The lack and price of supply (Lumber, Steel, Workers) is still a major issue. Slow construction results is another factor in the slow transition back to a more stable market.

Politics: The bill opposing FET tax is ongoing. If passed it will produce an increase of new truck and trailer demand and lesson the pressure on late model equipment. All is inconsequential until we can get production caught up to demand a little.

Inflation: It was at 5.4% in July. Still at 13-year highs. Some analysts think it will remain manageable without major rate changes and will steady itself back to the sub 3% range but the end of 2022. It has remained higher that predicted each month. This is something worth keeping an eye on.

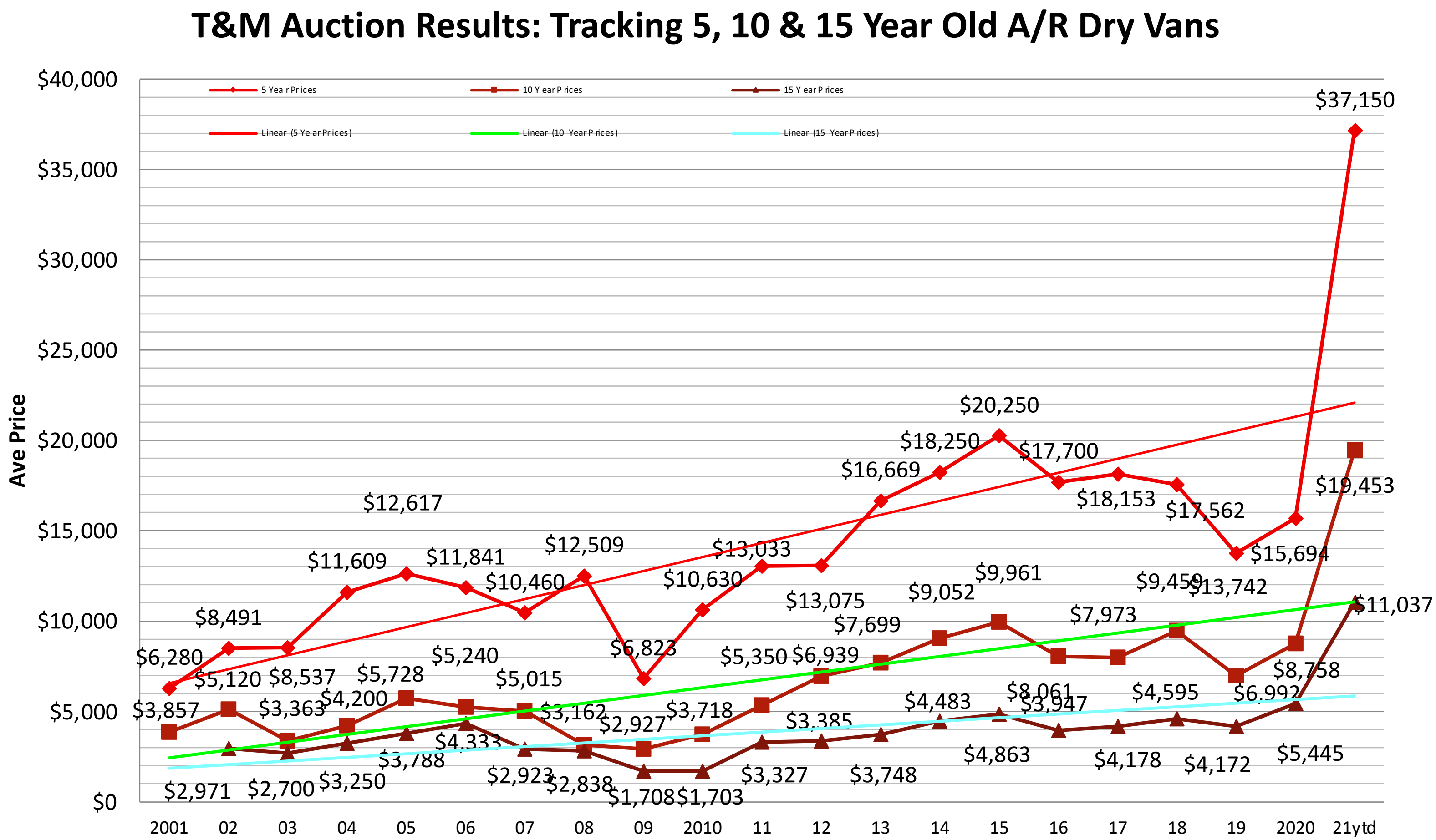
Trailers

- Production issues continue to drive up used prices. Vans and reefers are still bringing ridiculous values at auction. Don’t expect a change until manufacturers can catch up with demand.
- Ag Trailers: Demand is slowly increasing with the harvest nearing in the Midwest. Values should strengthen through September as they typically do before slowing for the winter months.
- Chemical Tank Trailers: Stable Pricing - good used equipment in the secondary market is in very limited supply. Lesser quality trailers (out of test) are readily available.
- Pneumatic Trailers: Steady demand for large capacity trailers. 1040s still struggling. Large numbers of the small cubes on the secondary market are holding values down.
- Flatbeds and Drop Decks: Flats and drop values have slowly begun to pick up steam. Not a lot of volume has been moving at auction. Manufacturing and production are beginning to rise which has led to strong load rates and a rise in demand. Should maintain normal to less than normal depreciation going forward.
- Heavy Haul Trailers: Demand is steady. Have not had much for increasing values. Late model and well-maintained units still bring a premium.
- Dry Vans and Reefers: High demand. Late to mid age trailers that are above average condition trailers are bringing above new cost at auctions.
- Sales and orders remain high. The 8-12 month wait for new is spurring the increase in values in the van and reefer sector.
- Overall, the trailer market is still looking good. The demand for goods nationwide continues to drive the trucking industry and not showing any signs of slowing down yet. We are now in the peak demand season for trucking. I don’t see how it will pick up much more, but it will add to the backlog helping maintain the higher than usual values.

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

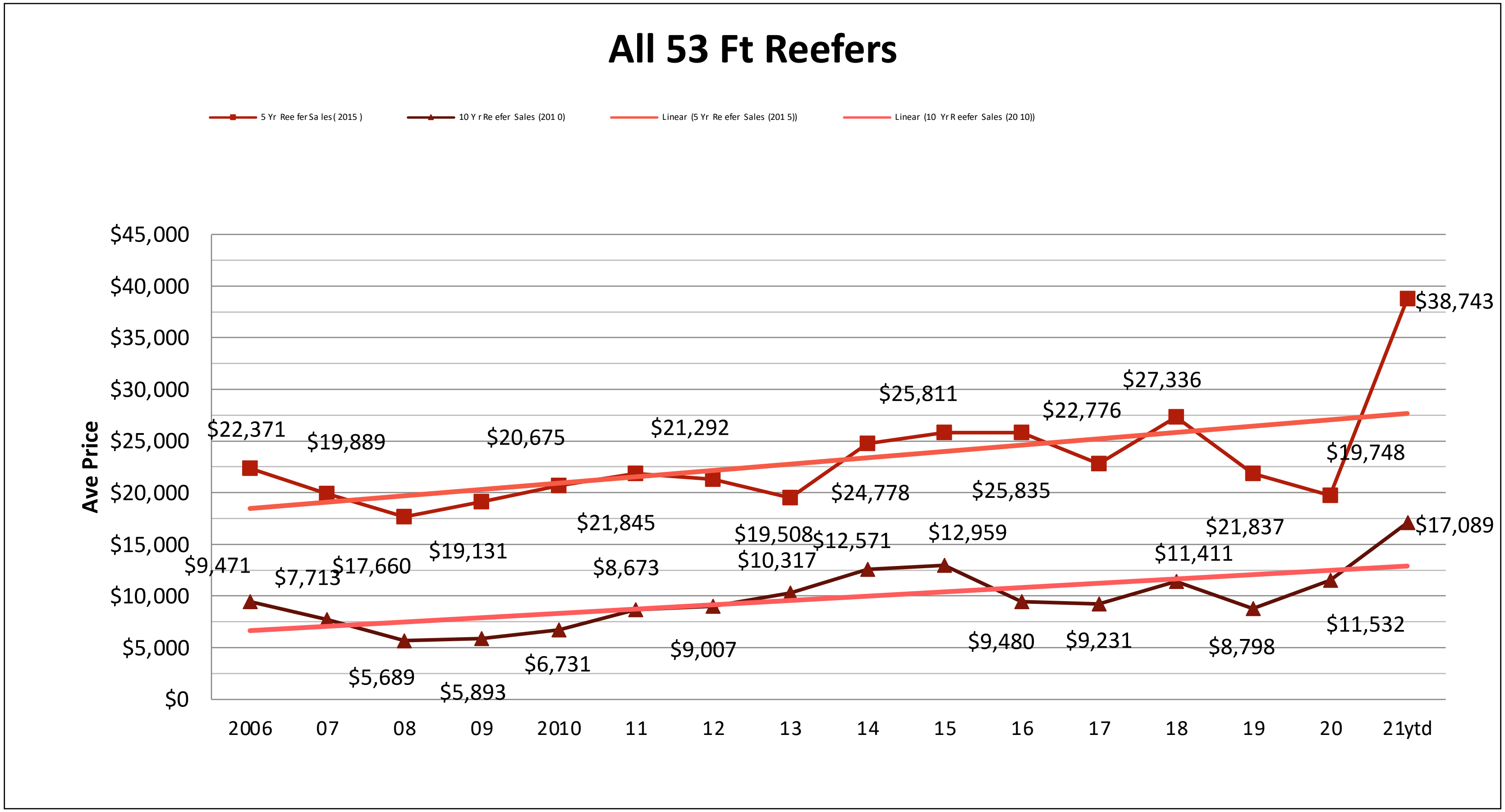
5, 10 & 15 Year old Dry Vans sales (Taylor & Martin Auctions) are charted below:

This chart is an interesting reflection on the used van market. The van market is just crazy. It is almost uncomfortable to trust a chart that looks like this, but we have sold more 5 year old vans this year than last and we have had that kind of increase.
10 & 15 year old vans are both close to the last years quantities and are both showing this kind of strength.



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

Reefers: Both 5 & 10 year old (2010). Same story here. The reefers have been following the same trend as the dry vans. Late model trailers have been bringing insane values at our auctions. Once again this is not just a couple of sales, we have had decent volume bringing consistently high values.



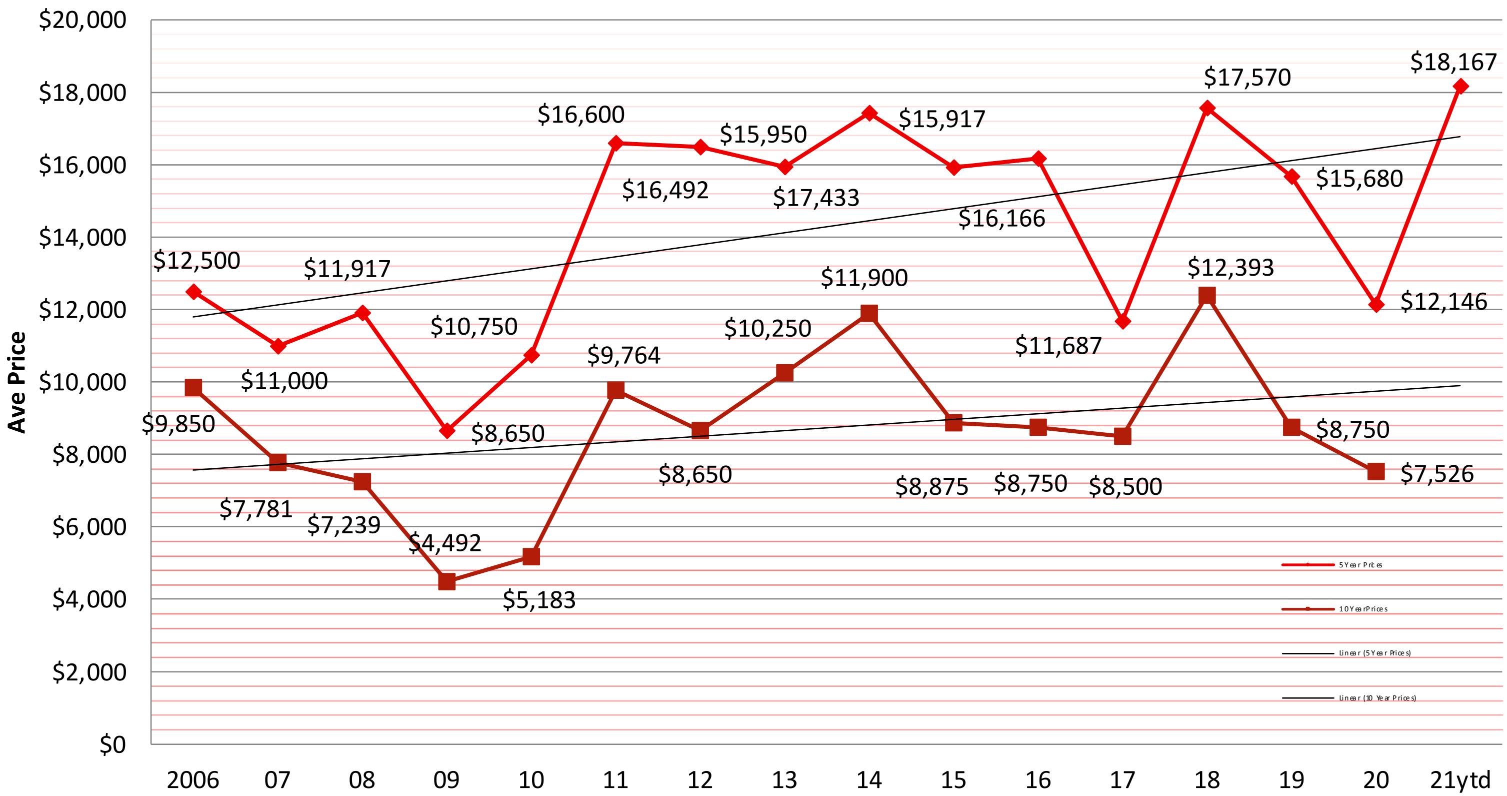
5 & 10 Year Old Composite Flatbed Sales (Taylor & Martin Auctions) are charted below:

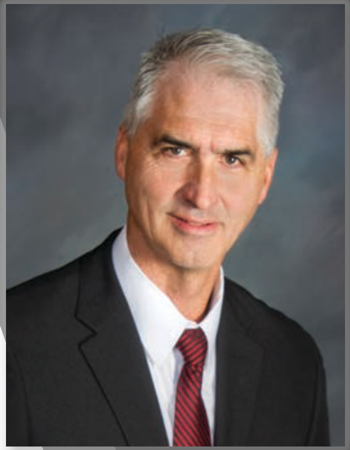
Combo Flatbeds (Alum/Steel Composite) have continued to show significant weakness, when compared to 2018. To date, limited 5 or 10 year old combo flats have been sold by T&M in 2020. The below chart was not updated for the 5 year old flatbeds, due to the lack of material data. I did have to use some 2009's and adjust for my 10 year numbers.

The flatbed market has 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. Load rates have improved and started a small growth in the flatbed market, but it still has a long way to go.

The flatbed values have slowly begun to rise. The below graph is hampered by lack of sales in these particular model years. Looking at sales of different age values would be below trendline and holding steady. Limited sales data so far this year but in speaking to dealers the demand has started to show signs of increasing. Volumes have been down all summer and limited number of 5 & 10 year old trailers but overall, they have slowly been showing some signs of increasing values.

Composite (Alum/Steel) 48 Ft Flatbeds





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

Summer hit the heartland and Americans are venturing out and about. The markets are moving too and the weather is more to norm…. constantly changing. The intense heat took its toll in most of the U.S. and as the nation’s corn crop matures the road to mending the supply chain continues as new production lumbers along.

As the nation celebrated its independence this year, and in distancing itself from initial COVID-19 issues, Eastern and Western U.S. coastal areas are still feeling the effects of unusually high temperatures. Midwest rains gave some relief to the Corn Belt states heat hampered crops adding optimism and anticipation for even more debt servicing opportunities prior to any looming economic changes on the horizon. Historically, some of the best commodity prices in the past two decades came when Feb-June excessive heat had moved across the U.S. during early cropping seasons and with the late June rallies this year appears to be no exception.

As I stated in the last quarterly newsletter, Ag firms continue their appetite for acquisitions and the search for additional labor. CNH is acquiring Raven Industries who just purchased Jaybridge Robotics, Valmont Industries is acquiring Prospera (Israeli-based AI firm) and PivoTrac of Texas. Other Ag firms are increasing capacity with new locations and staff like Doosan Bobcat (telescopic handler R-Series) hoping to double U.S. sales, AGCO Power launching its new engine series and New Holland is introducing its NA T-6 Methanepowered Ag Tractor in 2022 while other suppliers like Sandhills Global create web-based partnerships in the CNH Industrial markets to bolster construction sales by bettering access to inventory between dealerships.

Increased market saturation without over-production is the focus as dealer combine inventories slow and floor plans are down with good year-over-year new sales and 5-Year rolling average growth, some advisors even feel that the combine market is ready to surge again. Similarly, the recovery seen in 4WD tractor sales helps the year-over-year and 5-Year rolling average growth. Still, dealers remain conservative in stocking inventories of 4WD and large horsepower units much beyond filling current demand from COVID-19 shortages. Used units are still good yet age is increasing. Expect some dealers to bump service margins and possibly used equipment margins over remaining 2021 with their tech, labor costs and the recent good commodity prices. Cashflow and good farm incomes remain key in continuing this growth move as markets help bolster 2021 farm incomes and an equipment buying appetite. When the farmers make money, they buy equipment!

Most economists see the recent optimism, harsh early heat and buying demand leading to ‘good Economic stability and growth ahead’ as reflected in the Creighton University Rural Mainstreet Index which has tracked survey date from various banking CEOs to develop a growth neutral measurement between 0 - 100. *“Strong growth in grain prices, the Federal Reserve’s record –low interest rates, and growing exports have underpinned the Rural Mainstreet Economy. Even so, current rural economic activity remains below pre-pandemic levels,” said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.* For a seventh straight month, the farmland price index advanced above growth neutral. April climbed to 78.6, the highest rating since 2012 and the June rating of 70 is the 1st time a seven month climb above growth neutral has been recorded! Bankers remarking that 9% of last six-month real estate sales have gone to nonfarmer investors helping hit a record nine straight months farmland prices are above growth neutral. A similar index for new farm equipment sales rose to 71.6 for June, its highest level since 2012.

Most classes of ag equipment are selling well when inventory is available. Keep watch for the add-on steel taxes/fees on most orders like fees imposed for steel not included in the unit cost as seen in other sectors. Most sector’s costs are increasing, and agriculture is no different. The demand shift has begun from the Stimulus dollars to the manufacturing expenses still coming. Many experts believe these costs will transition down after peak demand wains but are not ready to define this movement as inflation rather preferring a more unique label of ‘transitional inflation’ expected to be more temporary in nature.

Look for a hot August-September soybean market, available employment positions exceeding qualified workers, continued over-listing priced home buying and more talk on taxes. The Ag economy is heating up.