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

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Transportation (Trucking) Update (3-1-2020)

You will be happy to know that "The Meter" is again running on time. Overall it has been a mild winter. We experienced, to date, below normal snowfall and above normal temperatures. It has been cold enough to have frozen ground and plenty of ice on the rivers, lakes and streams. Which leads to what? Yup, Fremont has been experiencing ice jams in the area, leading to flooding and levees or berms failing. Thankfully, the flooding has not been to the severity of 2019. It does cause many in the area to worry though.

Along with warmer weather, we have enjoyed seeing bald eagles all winter long. It seems that low lying areas along the Platte River and Missouri River never dried out and they did support quite a supply of stranded fish that couldn't get back to the river. As such, the fall and winter temperatures froze them out and then the bald eagles cleaned up on the frozen fish sticks. The bald eagle is a handsome bird and smart enough to take advantage of an easy, but good meal. They have what many people may envy, both brains and beauty! This beauty was a quarter of a mile from my house, overlooking the lake.

There is another issue that is concerning the various markets, worldwide. As of this issue, COVID-19 is a significant concern to the publicly traded markets and to most main streets and communities around the world. How does COVID-19 affect various markets, specifically trucking? It is causing the various economies to slow down, even partially shut down. When that happens, less freight can flow freely, whether by ship, air, train or truck. Weather can slow traffic down, even bring it to a halt, in pockets; but you can see it and respond to it. COVID-19 is not visible to the naked eye, so people can't see it to avoid it. People react, they don't respond. Naturally, people are forced (government edicts) to avoid it by coming to a halt in many areas. Think about what is happening in China and what is becoming more likely in other areas (currently Italy, South Korea, et al). Not only do people need food to survive, so do the domesticated animals that are used to feed the population. If feed can't get to the animals, then the local animals don't survive to feed the people. People will move (legally or not) to get food or to get out of an infected area. When that happens, the virus is less likely to be contained. So, more places have to slow down/stop. Travel is down, tourism is down, consumption is down; thus, more people are out of work (worldwide) and some people have no income, it could get worse before it gets better. Ultimately people will adapt, adjust or accept the new norm. [To date, in the USA, approximately 16,000 people have died from influenza and 26,000,000+ have gotten sick from it; and yet, the economy continues to move forward.] Any idea as to how big of a drag influenza is on our economy? The flu doesn't help our economy, and yet COVID-19 is deemed a much larger threat. Sadly, a high percentage of our population, that could get a flu vaccination, don't even bother to get vaccinated. There are numerous things that have a higher mortality rate to the population; yet are accepted/tolerated.

On a brighter note; who was smart enough to see the sudden turnaround in the auction prices of equipment in the trucking market? The market struggled through 2019 and was continually losing ground (lower offering and settlement prices and as such, individual assets losing significant appraised value). A simple turn of the calendar, to the new year, and things are clearly on the rebound. The enclosed charts and graphs will reflect the overall change in the industry. If the trend is your friend, then over-the-road transportation has found a new friend, for now.

So, what has transpired in trucking over the past couple of months? Please read or review the following pages to find our take on the market today.

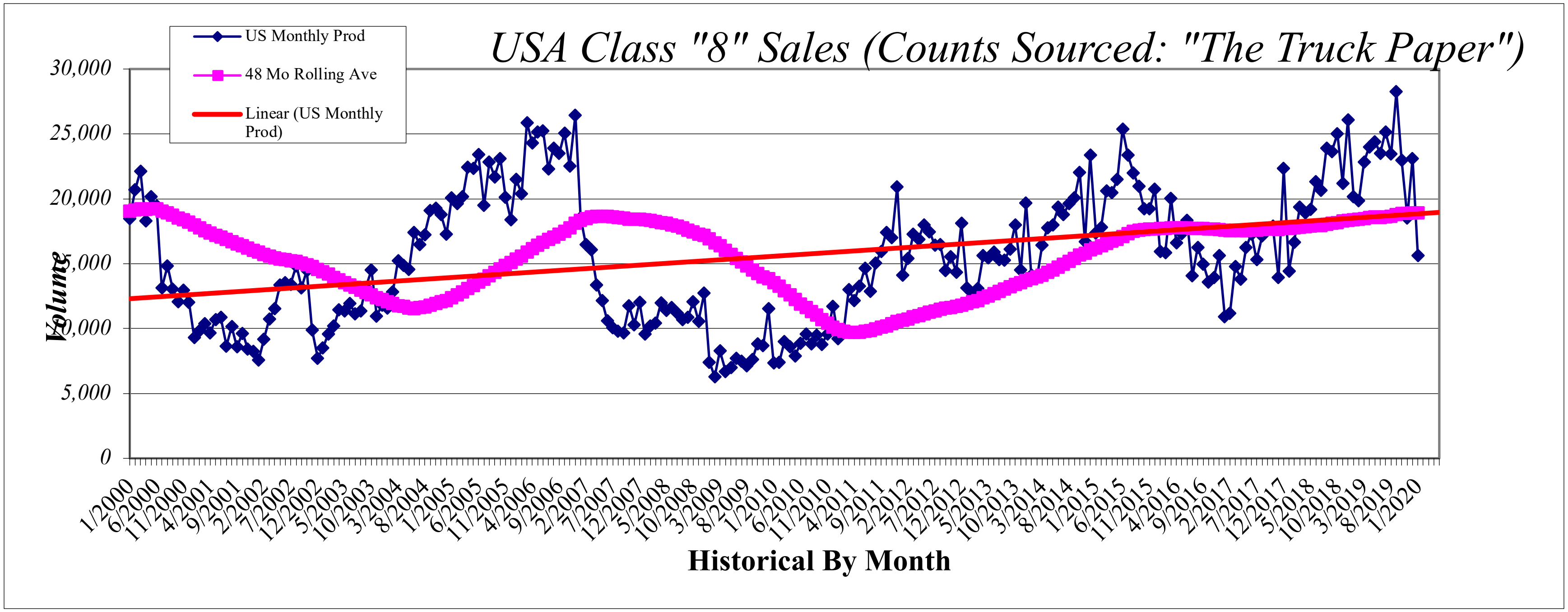
Auction bids have turned around and are consistently stronger than anticipated. The number of stressed or failing trucking companies had been increasing, but during every downturn, sadly, the industry does have some casualties. It seems to be a necessary evil; over capacity needs to be flushed out of the system. Maybe better stated, assets are removed from weaker hands and placed into stronger hands. As is true from the previous newsletter, used equipment is still in plentiful supply and we still have a nervous economy as the backdrop. The overall advertised tractor numbers have increased by about 26.70% as compared to one year ago. It should be noted, there are three large carriers (van & reefer carriers) that currently have a majority of their equipment idled. This equipment will reenter the market, primarily via auctions, in the next 1-4 months. This could have some downward pressure on the used market, once again.

Overall monthly sales (new) have been trending downward since Sept. 2019. However, when considering the past twelve months, they have averaged 22,653 units/month. This is 3,736 higher than January's [last recorded month's] rolling average. [Trendline (Red Line) has moved up to about 17,500-18,000 per month.] Both have been heading higher for many months. Retail sales data may now uncover the issues that were concerns in the auction arena in 2019. So, given the current turmoil around the world, we are getting a lot of mixed signals.

Trailers are now indicating a downturn (normally lag tractors) in the trailer market, particularly for flatbeds and dry vans. Most classes are depreciating at or above their historical rates. Trailer rental companies are now indicating softer utilization (down low single digits), when compared to 12 months ago. Rates are stable, but the leverage on rates has shifted a little more to the renter.

We have included some of our updated data, charts and commentary which we hope you find both interesting and useful. We begin with the Class 8 tractors.

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 48MRA, the trend suggests we would see higher builds and values should erode more slowly. January is the first month that we have seen that is below the 48MRA. What will happen going forward? The 48MRA has been straddling the long-term trend line for the past four years.

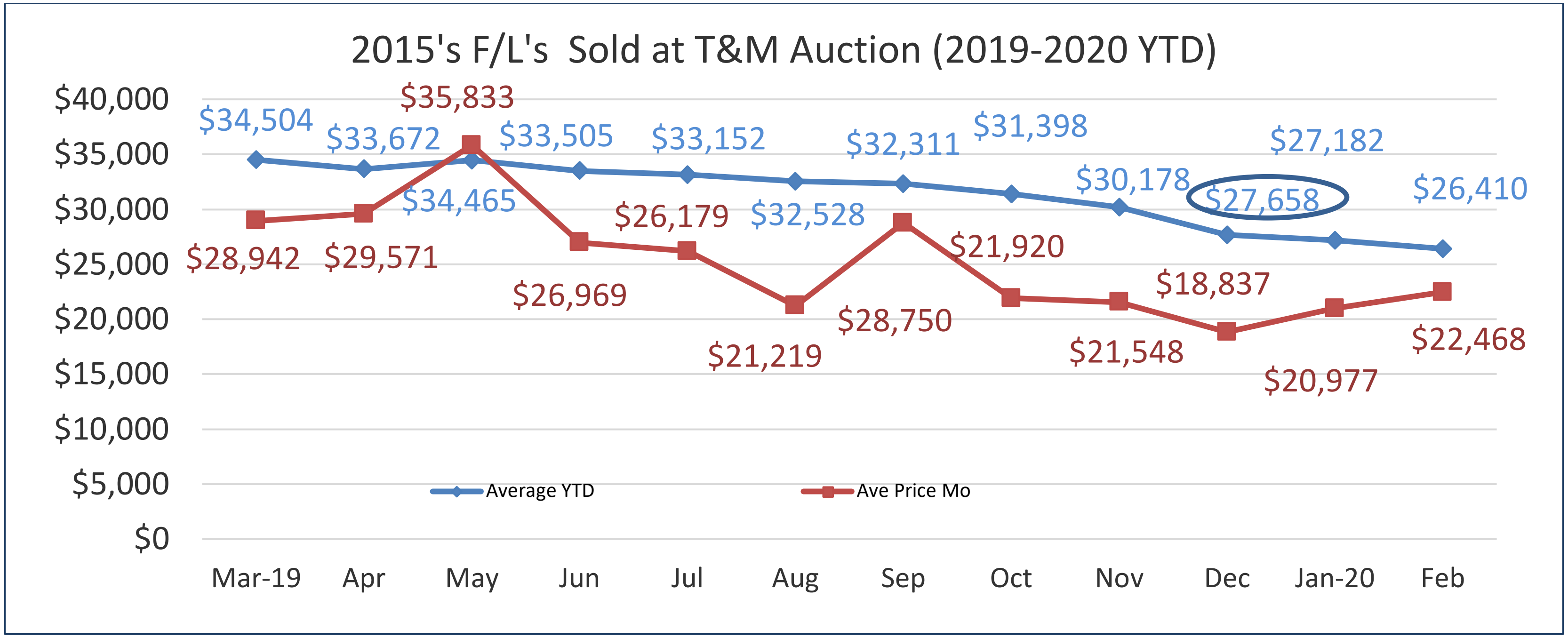
2: Historical needs have grown from slightly lower than 15,000 Class 8 tractors per month (in the 2000's) to about 17,500-18,000 Class 8 tractors per month now. Currently, the 48MRA is 18,917. The overall late model fleet continues to inch higher. (48MRA is about 500 higher than one year ago.) Today, 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 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. In summary, we are back up to levels that have been troublesome in the past.

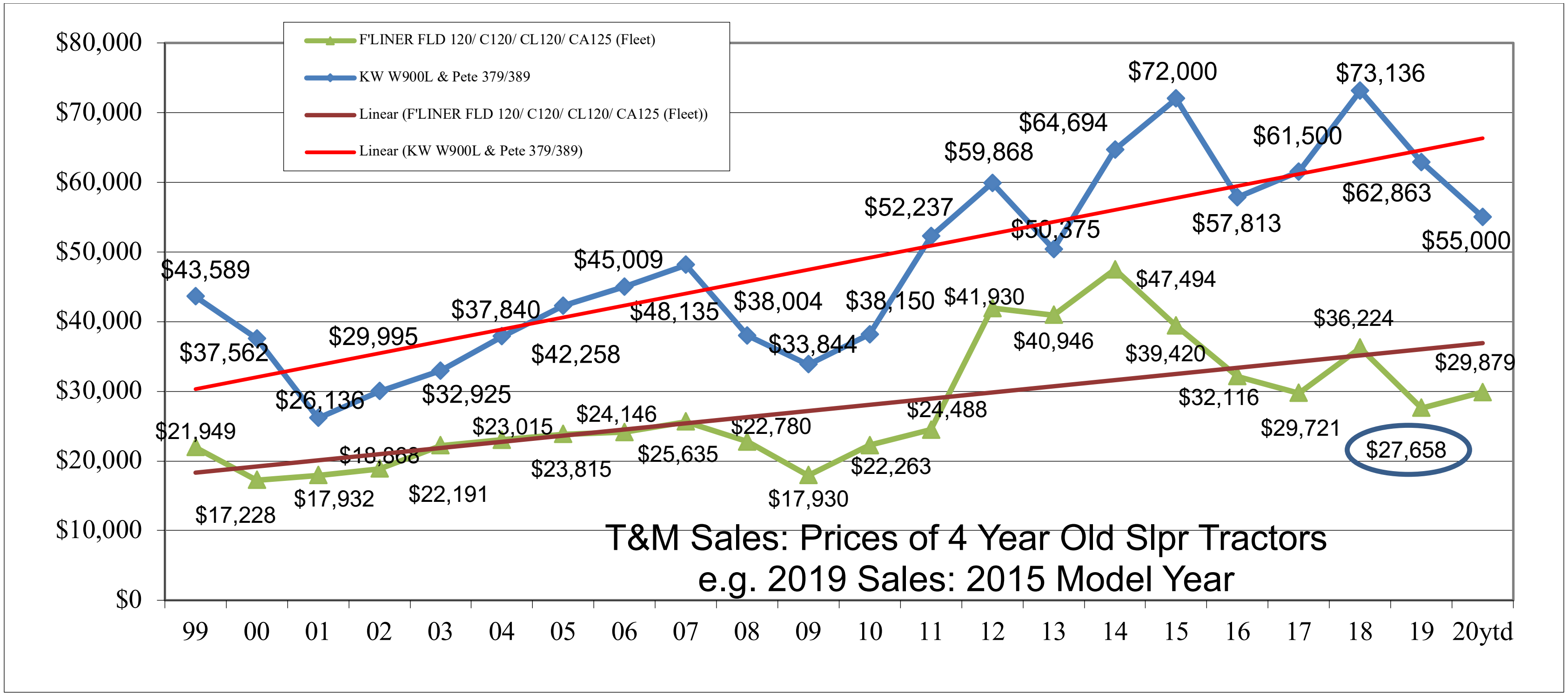
4: Actual Class 8 purchases over the five most recent (published) months have been declining. They are as follows: September sales (28,258), October sales (23,001), November sales (18,545), December sales (23,119) and January-20 sales (15,645). December's spike was not abnormal, there is typically a year-end surge, possibly for tax purposes. Whereas, new orders, have been in the low teens for the past several 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.

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 two months, which has brought the retail and auction levels of trade back into balance.

6: The most recent (January's) retail sale's number is interesting, it is materially below the 48MRA. If we see that the actual February number is below as well, this, historically, has suggested an economic turn down is only months away. This same phenomenon occurred in the 2015-2017 timeframe, but no recession. If you recall, there was significant government intervention in the US and China, to prevent one. Currently, there seems to be plenty of reasons percolating for it: Prolonged economic recovery, COVID-19's potential spread, China's economic slowdown, other countries currently in recession, there are more. Will/can governments intervene again, with success?



The above new chart (2019-2020 monthly sales prices: Taylor & Martin) does show significant weakness in 2019 and improvement in 2020. The market has shown strong indications that used tractors, sold at auction, have turned the corner and are currently moving higher. This also shows up when the annual chart is used, and the 2016 model-year becomes the base (below). **Values are Year-to-Date (through Feb. 27, 2020)**

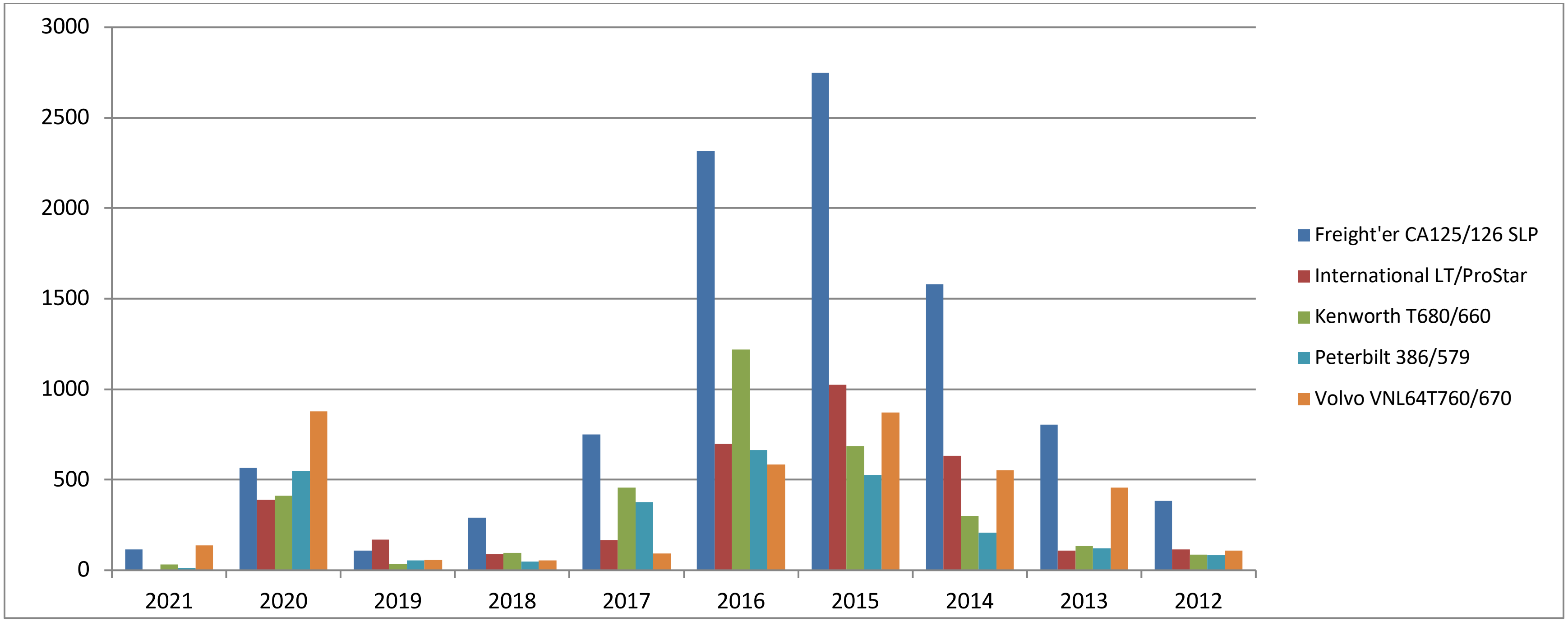


Above are T&M Sales by average annual prices. [As usual, I have combined the Peterbilt 379/389 and Kenworth W900L tractors since both generally considered to be spec'd as Owner-Operator (O/O) tractors.]

Based upon the low count of O/O, this early in the year, it is difficult to know whether O/O tractors are holding up better than fleet 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 & 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? (Feb. 24, 2020) See chart below. [Sleeper Tractors] There were about 3,223 less 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 are carryovers at dealerships.



February 24, 2020^	Sleeper Tractors For Sale On TruckPaper.com: February 24, 2020									Ave.Age	2015.85		
Make	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	Total	% of Total	% Prev
F/L CA125/126 SLP	116	566	110	289	749	2,316	2,749	1,579	805	382	9,661	42.085%	88.23%
Int'tional LT/ProStar	1	388	169	91	166	700	1,024	631	110	115	3,395	14.789%	90.53%
Kenworth T680/660	33	411	36	95	457	1220	687	300	134	87	3,460	15.072%	93.36%
Peterbilt 386/579	12	550	55	49	377	663	526	208	122	83	2,645	11.522%	89.39%
Volvo VNL64T760/670	136	879	56	54	93	585	873	552	457	110	3,795	16.532%	101.23%
Year	298	2,794	426	578	1,842	5,484	5,859	3,270	1,628	777	22,956	100.000%	91.41%
February 24, 2020^													
	602258	5643880	860094	1166404	3715314	11055744	11805885	6585780	3277164	1563324	46,275,847	126.72% of Feb 2019	

Retail "For Sale" counts (total: 22,956), as charted above, are lower than the previous report, down about 8.80% when compared to last quarter (measuring the common years of 2012-2020 MYs) but 26.70% higher when compared to one year ago. Inventories are generally strong on 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; Sept. 2018: 11,584; Dec. 2018: 12,354; March 2019: 18,115; June 2019: 19,002; Sept. 2019: 21,891; Dec. 2019: 25,114. IT MUST BE NOTED: The

December 2019 counts were from the end of December, not the normal "beginning" of the month survey of counts. Some of the elevation in late December's numbers could have been additional advertisements targeting individuals looking to purchase "for tax purposes".

Considering the most current five quarters: Dec. 2019: Ave. VIN: 2015.64; 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, indicates the inventory's age has improved. Dec. 27 to Feb 24 only improved by .21 of a year (only over 2 months) to stay current. Again, one year ago, the average age was 2014.82. Inventory today has grown and is three-hundredths of a year newer (by average and year adjusted), which again tells us the overall quantity 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-seven months into the current administration: Along with the political games being played between the Executive and Legislative Branches we now have to consider COVID-19 and election politics are also influencing opinions and actions. The net effect, when measured by the stock markets, is clearly negative. COVID-19 is the overriding concern at the time of this writing.

The Crude Oil Industry is down. Crude prices have tanked over the past two months, now at/near $45/bbl. This roller coaster of prices is a drag on investment in the oil patch, particularly when prices are at their lows. This segment went from a lift at $60/bbl to a drag on the economy.

Building Activity (Home, Office, etc.): Some 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 is at/near record lows.

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

World economics: DISRUPTION! COVID-19 concerns are 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. The amount, of slowdown, for each country, is dependent upon exposure. This is true for the United States as well.

Trailers

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. 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 active; however, trade related demand is down (COVID-19). 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 and seasonal use. Grain, Soybean and livestock prices have suffered due to the COID-19 concerns.

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: Steady 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, interest rates are very favorable.

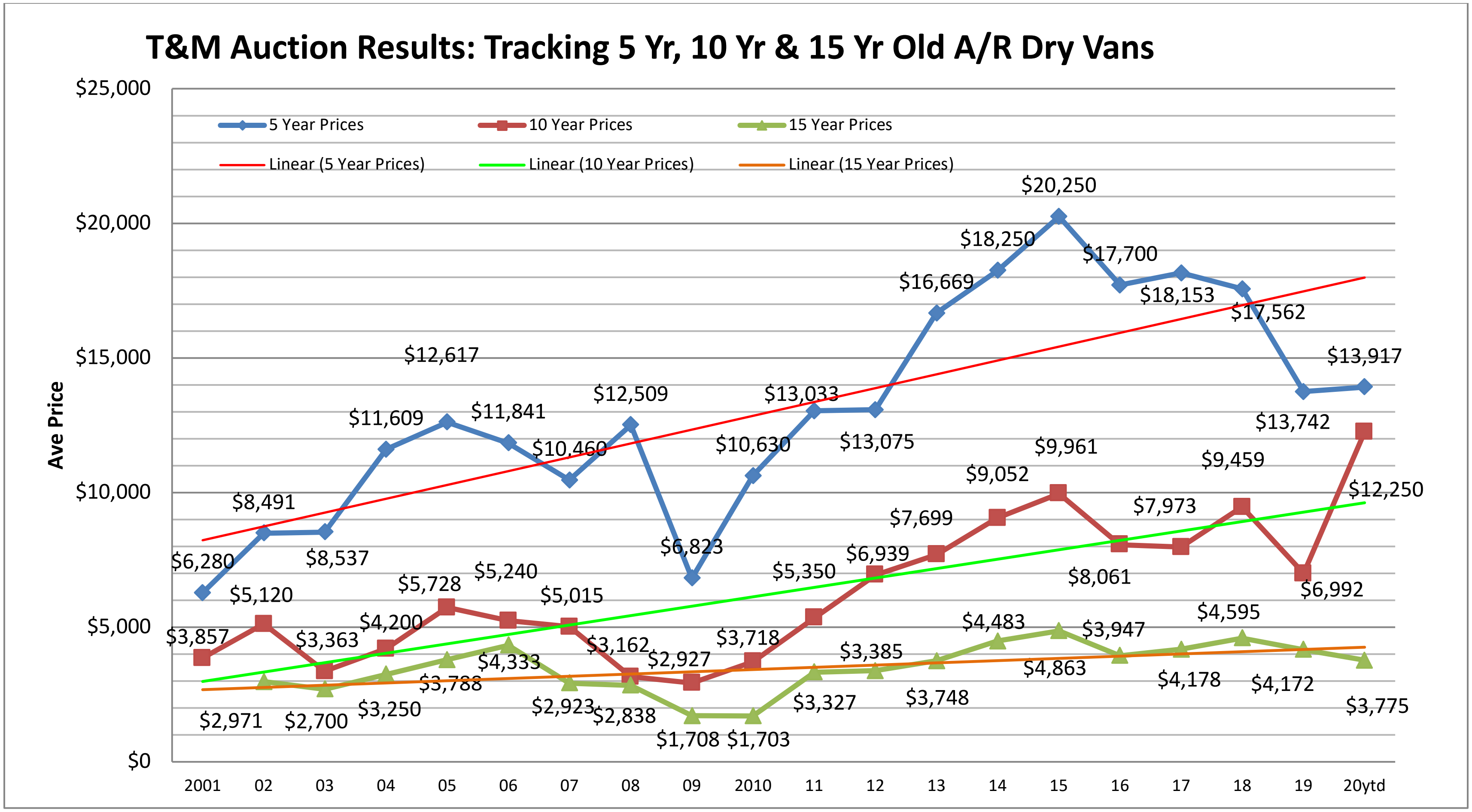
Flatbeds/Drop Decks: Weak! Construction demand solid (It takes a while to build out committed & started projects.) In-bound freight to manufacturers and finished goods reported steady. All 53 Ft & 48 Ft Flats lower, there is a large supply now available to the market, on dealer lots. RCN is steady to down.

Heavy Haul Trailers: Demand is stable, per conversations with dealers & manufacturers. RCN is stable, but subject to steel prices. 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 and COVID-19, most likely), now generally reflect below "trend-line" for auction prices. I anticipated the market would be cautious until the China Trade Tariff impasse was settled. It was, but COVID-19 is a big concern. I didn't anticipate COVID-19 and the impact it is having on the market. This may be a short-term reaction, but as of today I anticipate it may take longer than we would like. Refrigerated trailers continue 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 plan to consume food every day, unless travel restrictions are place which don't allow foodstuffs to be delivered. Refrigerated trailers are generally needed and used every day.

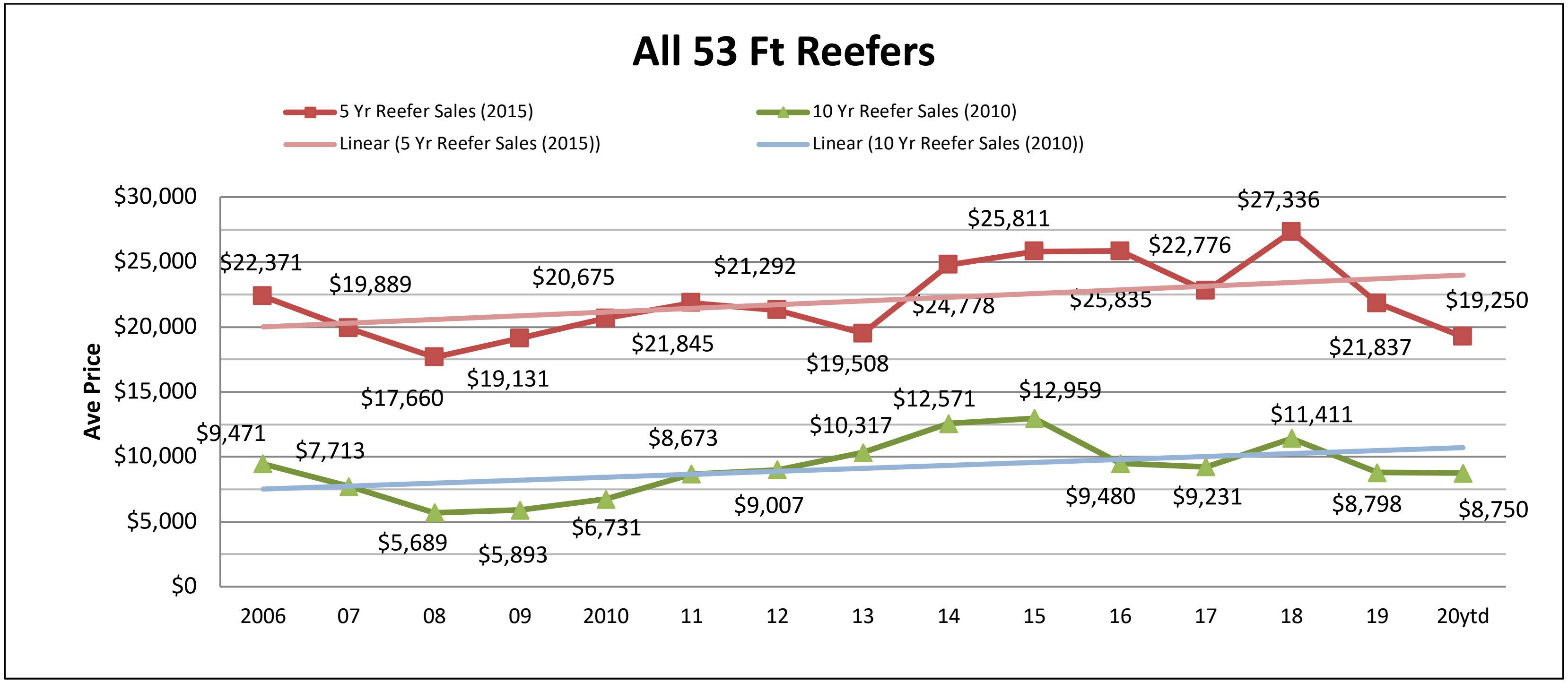
Overall, supply (new & used) currently seem to have moved to an imbalanced scenario. Freight volumes have been steady/up. Rental fleets are experiencing slightly lower utilization and rental rates (dry van, flatbeds, step decks, reefers), but expect utilization to pick up in the last half of 2020.

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



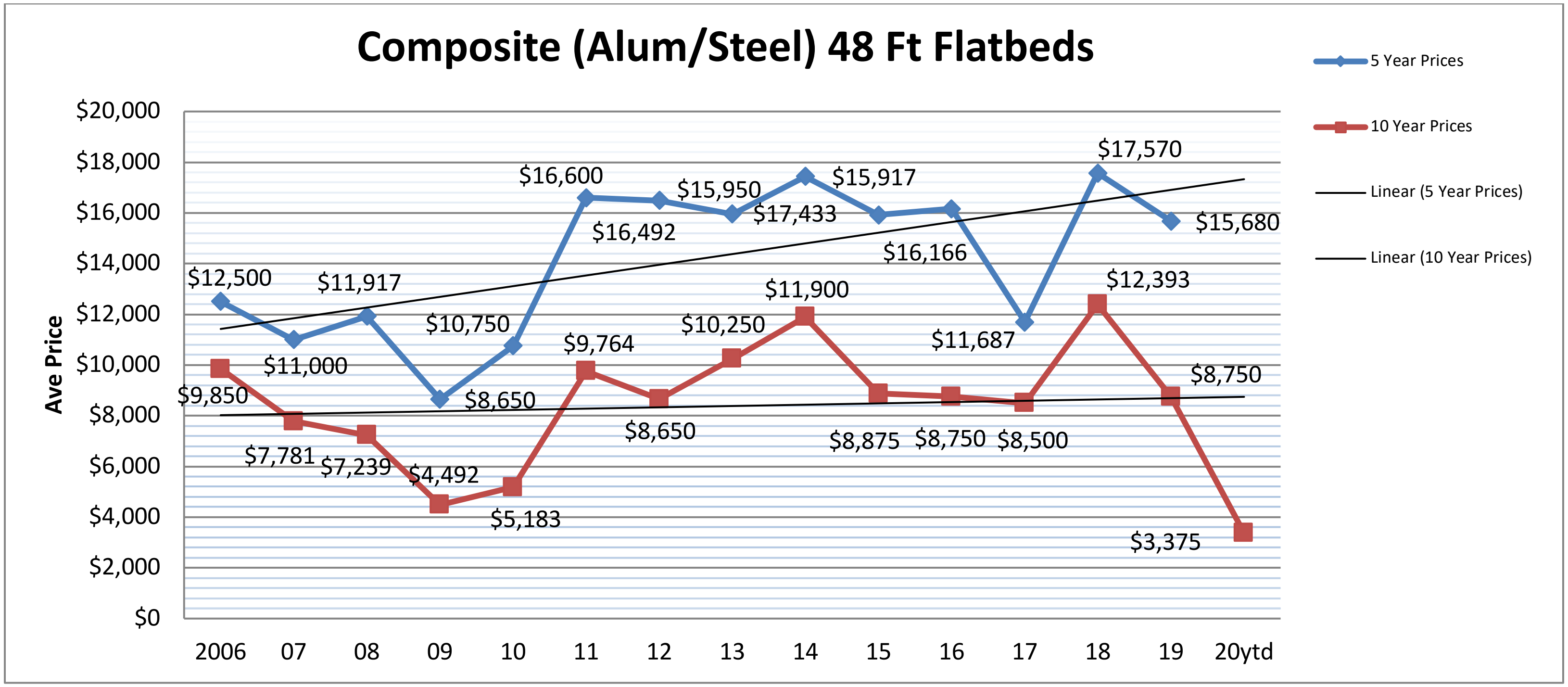
Dry vans have fallen below the long-term trend line, with the newer trailers considerably below trend line and ten-year old trailers are faring the best. Recent sales prices are lower than the averages shown.

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 (2010) 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 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.

The flatbed market <u>had</u> 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.

The next three months will be very interesting for all classes of trucking equipment.

John Seymour's thoughts on Agricultural equipment, "filling the Ag Hopper" in The Meter!

Difficulties in the ag economy continue. Embargo concerns have passed, but again, the new concern is looming, COVID-19. Thus, additional pressures to new sales, but recent news of the USMCA (United States, Mexico and Canada) Trade agreement passage is positive.

China was returning as a buyer also; however, due to logistical problems with moving freight in a country half paralyzed by their government has China bound freight redirected to other ports.

While new pricing is still pressuring used market, Ag equipment indicators had shown some better new demand than over last 6+ years. 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! Currently Ag is not a positive driver to the US economy. Net revenues are down, and government support payments don't cover the loss in revenue from sales. Currently it looks like another tough year. As such, ag equipment will be under pressure.

Thanks,

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