

the WHITE METAL MARKET report

News, Views and Expertise on the State of today's Medium Duty Vehicle Wholesale Market

VOLUME 6
FIRST QUARTER | 2022

2022 LIKELY TO BE “MORE OF THE SAME”

Nearly 30 years ago, the comedian Bill Murray starred in a movie that would become part of the national lexicon. “Groundhog Day,” was the story of a cynical weatherman who kept living the same day over and over until he sees a way of using it to his advantage.

And while our industry might not be reliving the exact same day over and over, a look back at 2021 – and a look ahead to 2022 – gives the team here at FLD one over-riding thought:

That fleet, especially from a remarketing perspective, can expect to face many of the same challenges in 2022 that it did in 2020 and 2021.

A LOOK BACK AT 2021: THE YEAR NO ONE SAW COMING

Like most of fleet professionals, I had high hopes that 2021 would be markedly different from 2020. And with a new vaccine on the horizon, and nearly a full year of restrictions behind us – why not?

But if at that time I saw light at the end of the tunnel, those sky high hopes gave way to the harsh realities of the virus. Every time the industry seemingly got ahead of Covid; cold reality reared its ugly head. From trade shows turned in to virtual events, to a complete halt to corporate travel, it became obvious that 2021 would be another year of difficult challenges, creative work arounds, and, in some cases, a whole new way of doing things.

For the team here at FLD, many of whom had worked together for decades, the challenges were no different. And while all of us hoped for the best, 2021 hit harder than a freight train as both new and used inventory were extremely hard to come by. It was the kind of shortage that no one in the industry could see coming.

As milestones like NAFA and NTEA morphed into virtual events a new reality, it became clearly apparent that 2021 might be more challenging than 2020. By Q2, the growing chip shortage was in full swing, and not soon after, major auto manufacturers shuttered assembly lines, and in some cases entire plants, idled workers, turning out just a fraction of the vehicles they had planned.



By the time the dust had settled, the global auto market had lost by all accounts more than \$210 billion dollars, but the problems hardly stopped there. As the year wore on, a global supply chain kerfuffle had all but eliminated access to vital manufacturing components, further limiting production and causing an uneasy chill to come over fleet.

STOPS and STARTS COMMON, INDICATORS OUT OF WHACK

Making 2021 an even bigger challenge, several “stops and starts” throughout the year made it hard to get a beat on where things were headed. Just as it seemed things were getting better, the Delta variant surged, excitement for in person activities waned, and issues with chips, inventory, the supply chain, and labor continued. And while OEM’s took orders for just as many vehicles as they had in previous years, we believe that well over 30% of those units never delivered, and most likely never will.

Making the situation even harder to read, the indicators we have traditionally relied on here at the WMMR to predict where the market is headed – the unemployment rate, housing starts, the dollar and the price of crude oil – continue to be out of whack. This has made it all but impossible to get a firm grip on where the industry is headed other than to say that – despite the fleet industry’s best intentions, the overall situation likely won’t change dramatically in 2022. Simply put, using them to surmise 2021 - or predict where 2022 is headed - would be a disservice to our readers.



2022: HIGH HOPES, HARSH REALITIES

Heading in to 2022, it’s easy to both see – and feel - that fleet professionals are anxious for good news. That said, there is little to lead us to believe this year will be markedly different from 2021.

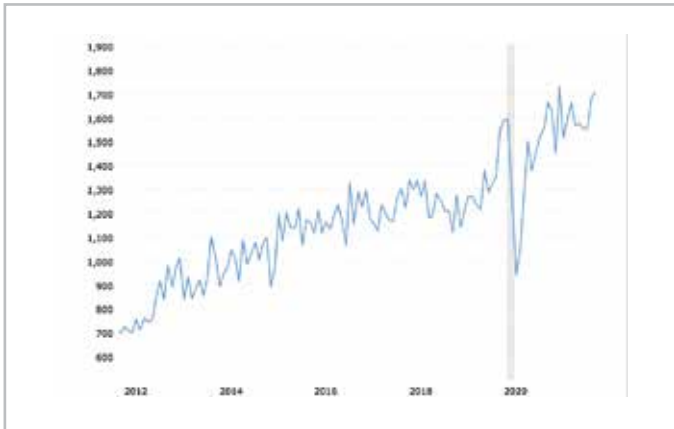
For starters, the supply chain is still in disarray, new variants are pushing people back to home offices, and the microchip, supply and labor issues all remain a challenge. Given this scenario, we’re still advising customers to be extra cautious as they execute strategies and set an agenda for the year ahead.

When it comes to the remarketing space, there is still little or no indication when – or even if – access to new inventory will improve, further driving up the cost of used assets and making it hard for fleets to part with the inventory they do have. And while many OEM’s continue taking orders for new vehicles, the reality is there aren’t enough available materials to build them, something that seems obvious to manufacturers as they continue limiting production. As it stands, while it appears most vehicles that do get manufactured will go to conquest accounts and high volume dealers, the truth is it may be months and months before anyone takes delivery (a hard pill to swallow for those dealers who have waited patiently for their share of inventory and now expect 80% of available units.)

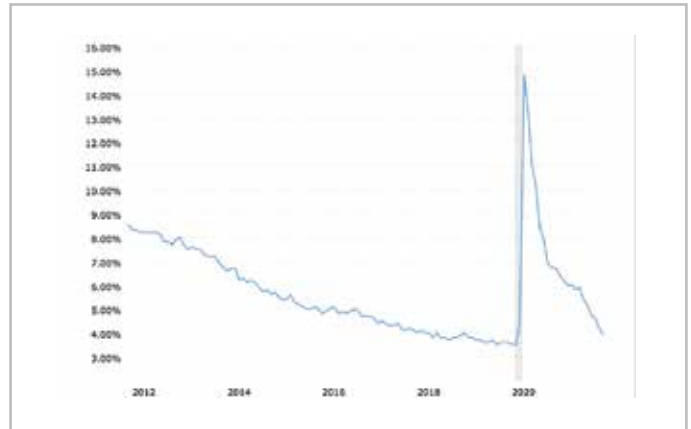
In our estimation, 2022 could see the lowest delivery numbers for new vehicles since 2009, with just a 15.1 SAAR (seasonally adjusted annual rate) expected by even the most optimistic predictions.

TRADITIONAL ECONOMIC INDICATORS

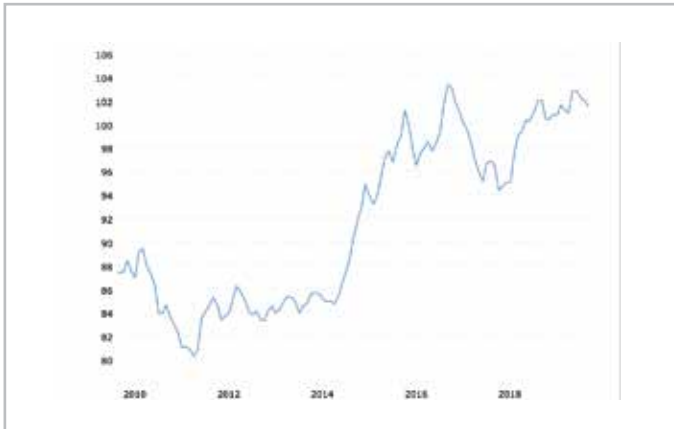
U.S. HOUSING STARTS



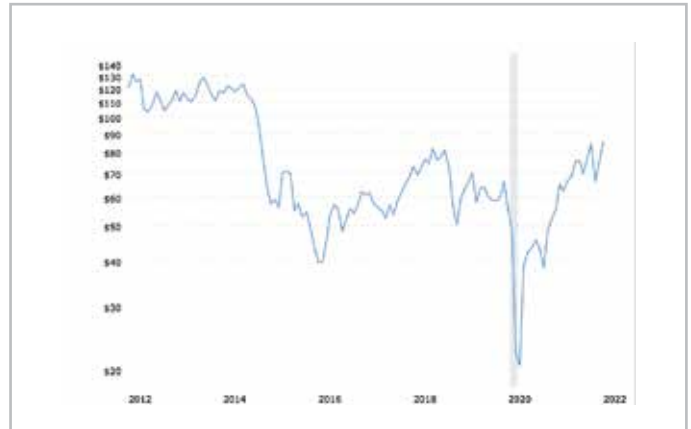
THE UNEMPLOYMENT INDEX



DOLLAR INDEX



CRUDE OIL PRICE HISTORY



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TOUGH MATH, CONTINUED ISSUES

At this point, we believe medium duty vehicles will continue to be in high demand as ravenous consumers increase demand for final mile deliveries. That said, there is little evidence of an uptick in medium duty production as manufacturers lack both resources, components, and labor to make that happen.

All of this tells us that used inventory prices will hold at historic highs, but little indication that they will continue the kind of meteoric increases we saw over the last two years. And while sellers will push to keep prices high, we believe that many business owners who

“do the math” will find it difficult to justify such high costs with profit margins cut by these spiraling cost. And while it is possible that prices will erode towards the end of the year, that is not guaranteed in this environment.



In addition to a reduction in new vehicles, we are still predicting continued issues with the supply chain, as ships line up at major ports, and the cost of importing both raw materials and key components skyrockets. And while several auto makers are exploring the possibility of producing their own microchips, the reality is that lack of access to key items like microprocessors will keep production – especially at historic lows.

And while there is always the possibility that further unforeseen circumstance – think Covid – could radically change the industry’s trajectory, these are a few of the other issues on our radar heading in 2022:

- A rise in inflation that will make money more expensive to borrow, a reality that will make conducting business as usual even harder for fleet entities.
- An increase in production of base model vehicles that require less components, something that will push a return to luxury model production back by as much as three years.
- Costs increases for transportation, as virtually everything that touches the industry will cost more, meaning tough decisions for business and higher prices for consumers
- Renewed efforts to bring chip making back in house or at least back to the States, some thing that only Tesla seems to be doing on well at this point
- A potential tire shortage that could nearly double the cost of not just new – but retread tires (further limiting vehicle production and driving up the cost of transportation.)
- Continued issues around the “stop/start” function on new vehicles, a problem that can only get worse without a return to pre-pandemic chip and micro board production



EYES PEELED FOR UNKNOWNNS

And finally, with traditional indicators still in flux, and established business norms all but normal, we're keeping our eyes peeled for the unknown. After all, who could have predicted Covid or that the world would be such a radically different place than it was just two short years ago?

Regardless where things are headed, one thing is for sure: the team of experts here at FLD is poised, ready and anxious to help our clients completely eliminate remarketing risk during these tough times.

Here's hoping everyone has a happy, healthy, and productive start to 2022!



Bill Bishop is SVP of Sales and Marketing for FLD, and a recognized expert on vehicle remarketing and the medium duty vehicle market. You can sign up for a free quarterly copy of his White Metal Market Report that keeps tabs on the forces and factors effecting fleet, vehicles and remarketing. Just send your name and email address to info@FLDinc.com, and ask to be signed up for the WMMR. And remember, FLD is the risk free way to remarket vehicles and equipment. We'll give you a quote in hours. Get you paid in a day. And leave you free to move on to more important things faster. To find out more, log on to our website, or give us a call at (800) 754-1522 today.

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