

the WHITE METAL MARKET report

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

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FIRST HALF OF 2022 PRESENTS MORE CHALLENGES, SECOND HALF MURKY

Greetings and welcome to FLD's third quarter White Metal Market Report, a piece we've been producing every quarter for the past four years as a way of keeping our customers, partners and friends in the fleet world up to date – and in the know – of important events and happenings in our industry.

In the first White Metal Market Report that I wrote in early January, my goal was to preview the important events and trends the fleet world – and more specifically the wholesale used truck market - could expect in 2022. At the time, I was fairly convinced that 2022 would be similar to 2021, with much of the industry facing the same challenges it had the previous year:

- *Shortages in everything from vehicles to chips to labor*
- *Crippling supply chain issues that would force inventive decision making*
- *And whacked out economic indicators that would make it hard to predict the future*

A few months later, I echoed many of the same sentiments in our Q2 White Metal Market Report. I even went so far as to suggest that the fleet industry had entered a virtual “Ground Hog Day” scenario, harkening back to the 1990's Bill Murray movie focused on a cynical weatherman forced to live the same day over and over again until he learns to take stock of his situation and use it to his advantage.

Halfway through 2022, little has happened to change my mind.

Like Murray's character, fleets and fleet service providers have been forced out of the pre-pandemic comfort zone the industry enjoyed for nearly a decade. Today, just about our entire industry has learned to “live” with what seems like a litany of never-ending challenges

Sound familiar?

But a funny thing happened on the long road to recovery. Fleet not only learned to survive the constant stream of never-ending challenges, it found ways to thrive despite them. And while many persistent issues continue, the industry has found its way back to what can only be described as an uneasy “next normal.” It's a phenomenon we noted in our most recent white paper: “Four Indications Fleet Has Found Its New Normal.” And while the industry appears to be a way from returning to the carefree days before the pandemic, it appears the worst may very well be behind us. While that's hardly a promise that things can't take a step back, several indicators lead us to believe that won't be the case.



A LOOK BACK AT THE FIRST HALF OF 2022, AND AHEAD TO THE REST OF THE YEAR

Looking back on the first half of the year – here are the topics that kept fleet on its toes - and some predictions for the second half of 2022:

WHOLESALE USED VEHICLE PRICE TOP REACHED

As we predicted in a communication we call FLD “Frankly Speaking” in early April, wholesale vehicle prices likely reached a multi year top at the end of Q1 or early in Q2. Since then, we’ve seen a marked pullback in virtually every segment of the space, and while industry experts like Manheim’s MMR have predicted a 15-20% pullback in prices by the end of week 45, we’ve likely already reached that level already.

PROSPECTS FOR THE REST OF THE YEAR: In all likelihood, used wholesale prices will likely stay flat to slightly higher through the rest of 2022, and that they’ve already fallen as far as they will. As it stands, prices aren’t worse than we thought they’d be, they simply fell faster than anyone expected. That trajectory likely won’t continue, but we’ll be keeping an eye on price action, and will weigh in again if we feel this is not the case.



NEW NORMAL TAKING HOLD

While virtually every corner of the fleet space was rocked by the pandemic, we have noticed that the country – including the fleet space – is starting to learn to deal with pandemic fallout. This includes finding inventive ways to do more with less because of rampant shortages in everything from labor to vehicles, as well as learning to deal with supply chain holdups. This is a phenomenon we flesh out in greater detail in the newest of our ongoing white paper series: “Four Indications Fleet Has Found Its New Normal.”

PROSPECTS FOR THE REST OF THE YEAR: While there’s little chance that shortages and supply chain issues will rectify themselves in the near term (and likely not in the second half of the year,) fleet’s ability to deal with them will be a key indication of how well the industry will continue weathering this storm. One encouraging thought is that now that the industry has learned to survive in the face of these challenges, things can get so much easier and better when they finally work themselves out in the coming months and years ahead.

INFLATION and GAS PRICES CRUSHING BUSINESSES

Without a doubt, the biggest question looming over the country – as well as the fleet space – is the prospect of continued inflation. With a year over year rise of 9.1% at the beginning of July – and gas prices solidly over \$4 a gallon in even the cheapest markets – inflation is taking its toll on American businesses, and the fleet space is no exception. And while we look for this trend to moderate over the second half of the year, it will be important to monitor how long it continues and how bad it gets to determine its ultimate impact., which may not be apparent until well in to 2023.

PROSPECTS FOR THE SECOND HALF OF THE YEAR: At this point, we don't believe the current pace of inflation is sustainable and that while we may very well already be in a recession, there is a likely possibility that it may slow down. And while many smart observers are calling for continued pain and a marked rise in inflation, it remains to be seen if this is true. Whether inflation continues to rise will also be a function of how aggressive the fed gets, but from all indications they have stopped saber rattling and are now aggressively looking to bring inflation under control. This year's holiday buying season should be a good indication of how people are feeling and where inflation is headed.



CONTINUED WOES IN HOUSING INDUSTRY

Year over year housing starts were off nearly 35% in June, while existing home sales declined by 2.4% to a seasonally adjusted annual rate of 5.61 million in April 2022, the lowest since June of 2022. That spells bad news for the wholesale used vehicle market as without home building and sales, less goods and services are required, thus less demand for white metal vehicles that deliver goods and carry workers.

PROSPECTS FOR THE SECOND HALF OF THE YEAR: Given these numbers, it will be important to monitor how bad a hit the industry takes throughout the rest of the year. And while many challenges remain including remain few believe housing will experience a drastic pullback, especially considering that inventory is low and so much cash is sitting on the sidelines simply waiting for an opportunity jump in. That could be a good thing for fleet if the pain we witnessed in the second quarter begins to subside.



US DOLLAR POWERING AHEAD

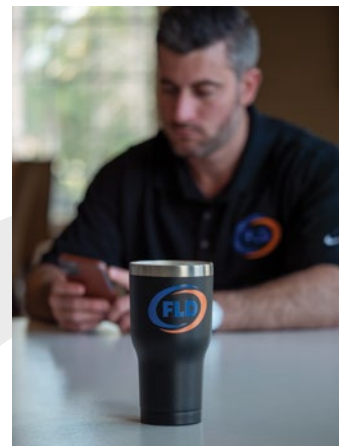
The stronger US dollar has continued to throw a monkey wrench in the wholesale used vehicle market. It shows no sign of slowing down, which is crushing the export market, perhaps not a bad thing given the limited availability of many vehicle segments in this country.

PROSPECTS FOR THE SECOND HALF OF THE YEAR: A strong US dollar can wreak havoc on the export of used vehicles. So unless the situation changes, it's likely that the dollar will continue to strengthen over the rest of 2022, greatly reducing used vehicle exports for the foreseeable future. If that happens – and there are several indications that it will – look for South and Central America and Canada to take the hardest hits.

LIKELY TO BE MORE OF THE SAME

At the risk of sounding like the proverbial “broken record,” it's hard to see the fleet space – nor the wholesale used vehicle market – changing dramatically this year. That is unless our lives are interrupted by a major event. That means – from our perspective – more of a rangebound environment, with things not getting overly worse, or, unfortunately overly better. Not necessarily a bad thing, especially given the pandemic driven challenges that we've all faced the past couple of years.

Regardless, as we always have, the team here at FLD will keep our ear to the ground and to keep an eye on the important indicators that will write fleet's story in the second half of 2022. If you'd like to follow along and receive a copy of our free White Metal Market Report, send an email to our team at marketing@FLDinc.com and we'll sign you up.



Bill Bishop is SVP of Sales and Marketing at FLD Remarketing, and an expert on the white metal market. Each quarter he leads our crack team of analysts to develop the White Metal Market Report, a look at the forces and factors driving the medium duty wholesale remarket. To sign up to receive your free copy every month, send an email to marketing@fldinc.com, and we'll put you on the list. To reach Bill personally, email him at bill.bishop@fldinc.com

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