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 QUARTER | 2023

YEAR BEHIND/AHEAD PREVIEW

Each year for the past several years, we've kicked off our quarterly **White Metal Market Report** series with a look back at the previous year, and a look ahead to the new year. It's our way of helping customers, partners and friends better understand the year we've all just been through, while better preparing for the roadblocks and opportunities in the year ahead.

Last year - with fleet still suffering the leftover effects of the Covid pandemic – we predicted not a lot would change from 2021 to 2022. In fact, I went as far as to say that fleet in general – and the medium duty market in particular - would experience a kind of "ground hog day" effect, referencing the 1993
Bill Murray movie where a hapless TV weatherman is forced to live the same day over and over.

Looking back on those predictions – and measuring them against the reality of what actually occurred – I would suggest that I wasn't far off in identifying the trends, roadblocks and opportunities that characterized 2022. And now, as we kick off yet another year, I'm ready to take a look back at 2022, and offer some predictions on what I believe the fleet industry will experience in 2023.

2022, THE YEAR OF MOVING SIDEWAYS

As 2022 got underway, our prediction that fleet would change little from the previous year began to play out. That included perhaps the most limited vehicle availability the industry had experienced in decades, as well as the kind of shortages, inflation and supply chain woes that we experienced in 2021.

At the same time, I also predicted that the wholesale used vehicle market would soften and that base model pickups and van pricing and availability would go from flat to falling off, while medium and heavy duty truck pricing would stay flat but strong year over year.

As the year progressed, many of these predictions came to fruition, not something any of us enjoyed, but a heads up that helped so many of our customers better prepare for what they were experiencing.

And while it remained unclear how far used vehicle prices would fall by the end of 2022, that process would start in earnest in early Q2, a phenomenon that occurred almost to the day we predicted. As we also suggested, prices proceeded to fall throughout the year, something we expect to continue in Q1 2023.

OEM'S UNDER PRESSURE, ACCESS TO CASH DRYING UP

In addition to a softening market, we also warned that while new vehicle order boards would open as usual in mid to late Q2, manufacturers would be hard pressed to meet demand for the 2023 model year. As predicted, auto makers shipped 8 million fewer vehicles in 2022 than anticipated, largely because of an inability to get the raw materials and products needed to maintain production – a problem that will persist in 2023.

Finally, perhaps the most prescient prediction we made in last year's Look Back/Look Ahead was that easy access to inexpensive financing would dry up and that fleets should start stockpiling cash, something few pundits foresaw with the prime interest rate hovering at historic lows in Q1. By year's end, the prime rate had more than doubled, with fleets facing dwindling options to quickly access funding, a nagging problem that isn't going away soon as the Federal Reserve continues to signal increases to the interest rate.

2023: MORE OF THE SAME WITH A SIDE OF HOPE

Heading into 2023 there is no question that the fleet industry continues to face many of the same hurdles it has since the pandemic began. And while our crystal ball remains a bit foggy, we feel confident in saying that fleet in general – and the medium duty market specifically – may experience a more favorable trajectory in the coming year barring a pro-longed recession or some unforeseen hiccup in the economy.

ELECTRIFICATION DRIVES INNOVATION

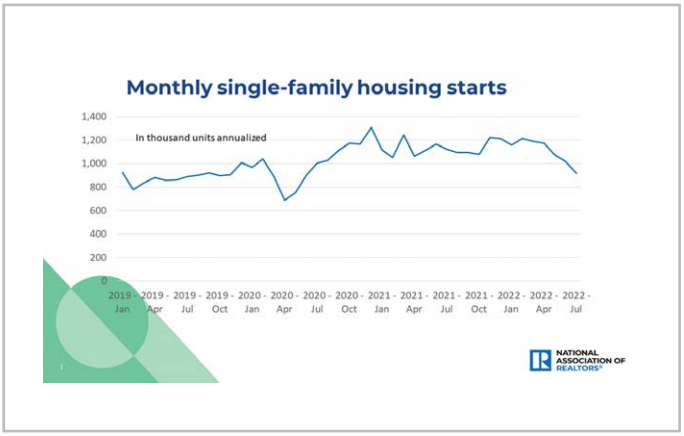
For starters, we believe the continued proliferation of EV's and electrification across fleet as the offering becomes more sophisticated, charging becomes more available, and OEM's do all they can to increase range and decrease anxiety around it. This dramatic growth in all things electric is driving newfound excitement across a broad swath of the industry as everyone jockeys for their piece of the EV pie. Ford – who will deliver thousands of EV's to fleets in 2023 – has definitely moved out front in the domestic EV space, while GM and Stellantis lag. That may change as the year goes on, as GM has moved ahead in overall production and sales, and Stellantis is shuttering plants in early 2023 to further EV conversion.

ECONOMIC INDICATORS FALLING INTO NEW NORMALS

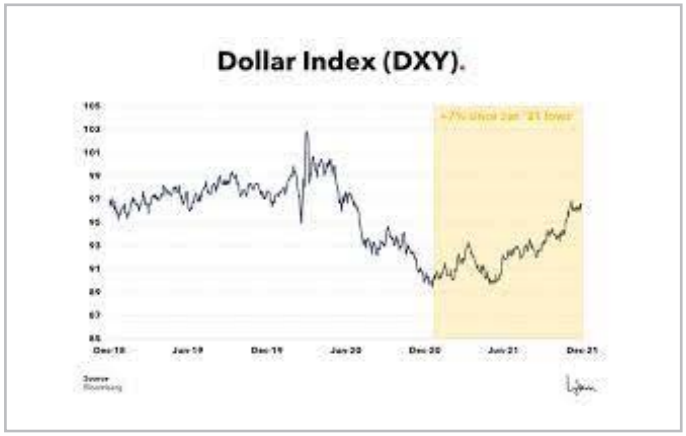
Over the years, one of the most important barometers we've used to predict the fortunes of fleet have been a collection of economic data including housing starts, the unemployment rate, and the strength of the US dollar. And while these traditional bellweathers indicate the potential for more pain ahead, they have fallen into somewhat predictable patters the world in general – and fleet specifically – have learned to live with. Hardly ideal – especially rising interest rates and a tight labor market – but statistics we expect to improve towards the end of the year, yet another indication that fleet is moving in the right direction.

TRADITIONAL ECONOMIC INDICATORS

U.S. HOUSING STARTS



DOLLAR INDEX



The traditional indicators the WMMR has used for years to determine the white metal market's direction are so far out of whack that they are all but useless in today's Covid era conditions.

PANDEMIC NEMESIS PERSISTS

As we start the new year, we also expect that many of the leftover negatives from the pandemic will continue to be a drag on fleet, though not fatal.

In our opinion, OEM production will creep back to what likely will be the "new normal" for at least the next few years. But while that means more new vehicles available in 2023 than there were in 2022, there's little chance we'll return to the kind of robust output we saw in 2018 and 2019 as OEM's convert production capacity to EV's from ICE vehicles. And while we firmly believe manufacturers will try their best to deliver a higher percentage of the new vehicles that fleets request, the reality is that order boards will fill quickly in 2023 (and likely 2024) but may not fully settle until 2025.

USED VEHICLE PRICES LIKELY TO DROP FURTHER

Looking ahead at the rest of the year, we believe pricing across the used vehicle market will continue to stabilize, a process that started in late 2022.

This includes the used pickup and van space, which has been fairly stable since Q2 2022. On an unfortunate note, the scarcity of these assets over the past three years - coupled with reduced production – has rendered the overall quality of the fleet product to be quite poor, something that won't change as 2023 progresses. The price of these vehicles was down 18% in 2022, and we believe they could fall another 10% in 2023. Meanwhile, low mileage and later model units will command premium prices, yet another reality of our new normal.

Medium duty trucks, which dropped in value in early Q4 2022 have held their value and are likely to do so through the better part of 2023 despite some minor regional price variances, with units in the Northeast and West weaker than the South and Midwest.

Used class 8 trucks will be a mixed bag in 2023. Day cab prices are still flat to strong, depending on the model and spec, something we expect to also continue in 2023. Meanwhile, soft freight and lack of available drivers was likely the cause of a 30% reduction in the cost of sleeper truck pricing from 2021 to 22, and that market will continue to struggle in 2023.

In the used, light duty market, we expect values will begin dropping towards the end of Q1 or beginning of Q2. And while a moderate tax season will likely help vehicles hold value early in 2023, mileage and condition will drive pricing after April and throughout the rest of the year.

TENUOUS GROUND, CAUTIOUSLY OPTIMISTIC

As we've seen over the past few years, the fortunes of fleet are often foretold by the same economic indicators that reflect our everyday life.

So while we're cautiously optimistic about what fleet – and more specifically the medium duty truck market – is experiencing, we know that even the slightest wobble in the world's economy can have negative consequences for our industry. Given that, we still think there are several factors that could end up sacking what we otherwise hope will be a positive year for the fleet space. Chief among these would be a pronounced recession, or an overzealous Fed, but for now we don't expect any meaningful move down, and it's possible that by the end of the year we could actually experience some positive developments around vehicle availability and supply chain delays.

Regardless, as we always do, the team at the **White Metal Market Report** will be keeping its eyes peeled – and its ears to the ground – in an effort to keep our customers, partners and friends in fleet in the know and one step ahead of the competition!

Bill Bishop is SVP of Sales and Marketing at FLD Remarketing, a 30-plus year fleet veteran, and a recognized expert of the white metal market. He has been publishing FLD's quarterly White Metal Market Report for almost a decade, and welcomes your comments, criticism and suggestions. He can be reached at bill.bishop@fldinc.com.