the

WHITE METAL MARKET ™

report

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

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US FLEET SPACE CONTINUES RECOVERY BUT CHALLENGES STILL REMAIN

Having compiled our White Metal Market Report for nearly 6 years, our team of experts at FLD has characterized the fleet space at various times as being "like ground hog day," or of having a seemingly "dual personality." But as we sit at roughly the halfway point of 2023 and look back over the past few years, it's a Charles Dickens novel – a "Tale of Two Cities" – that most comes to mind.

On one side of the equation are the years right before Covid, a time when fleet enjoyed what can best be described as a "golden era" characterized by predictable patterns, widespread vehicle availability; fast, easy and cheap access to financing; and both a strong supply chain and steady pool of highly qualified labor.

My how things have changed.

As any fleet professional can tell you, the last 3 years have been the exact opposite of the three years before Covid, presenting a cascading cadre of challenges that continue to negatively affect the space to this day.

During this time, new vehicle availability has been nil to non-existent, leading to a litany of problems affecting every corner of our industry from upfitting to transport to our own neck of the woods – remarketing.

Access to cash and fast, flexible financing is restricted, and as we start the second half of 2023, interest rates are roughly double what they were before the pandemic, making it tough for fleets of any size to ramp up. Further exacerbating the situation, EV integration continues to be a steep learning curve – and getting steeper - as more fleets make the transition to electrification. Meanwhile, the supply chain – while getting better – has left many fleets and the service providers that supply them struggling to find the raw materials, components, and products they need for optimal operation.

And while there have been times over the past few years that we have had little trouble reading the pulse of our industry, doing so in today's world has become a virtual crap shoot.

That said, here is what our experts are seeing as we transition to the latter half of the year, and a few predictions for where we might be headed during the rest of 2023.

INVENTORY RECOVERING, STILL A LONG WAY FROM OPTIMAL

Vehicle availability - or the lack thereof - has been the number one problem facing fleet the past three years, and stubbornly remains so.

In a series of in-depth interviews with our Customer Advisory Board conducted in mid Q2, nearly 80% of our member fleet managers reported that lack of access to available vehicles was hands down their biggest challenge (followed by issues around their supply chains – a situation they say is getting better -and challenges with EV integration.)

The good news is that it would appear as we transition to Q3 that vehicle availability is headed in the right direction as consumers are once again able to purchase passenger cars and light duty vehicles. Given this, it is our belief that access to these types of vehicles will continue to improve, eventually rolling into the fleet space when the 2024 order boards open. At this point, fleets have likely received their allotment of new vehicles for the year and will continue to hang on to aging inventory – much of which is being pushed well past its prime - until indications are that new vehicle availability will continue to increase.

As it stands, there still seems to be a preference for used vehicles, especially with interest rates at nearly double what they were 18 months ago, and the cost of new vehicles up more than 30% in the same period.

In addition to the fact that OEMs are still producing less vehicles than they traditionally would – several other factors are negatively affecting fleet vehicle availability.

Chief among these is upfitting, which appears to be lagging by as much as 90 to 120 days in some cases, as upfitters scramble for available parts, materials and labor. Chatter also suggests that several upfitters are on a tight credit leash, something that can hurt vehicle availability, and a phenomenon we'll be keeping an eye on.

Meanwhile the lack of transport options continues to hinder new vehicle deployment, leaving holding lots relatively full and storage at a premium.

According to our sources, some vehicles are waiting as long as 5 months for available rail space, while most traditional fleet transporters report being booked weeks and months in advance, and business up year over year by double digits. Some large fleet managers have also told us that they've been unable to deploy new vehicles as they wait for graphic application.

Overall, hardly a rosy picture, but in our opinion, headed in the right direction.

EV PRICES COMING DOWN, NEW VEHICLES STABILIZING, USED LAGGING

At the mid point of the year, fleet is experiencing a mixed bag of vehicle pricing.

As we've seen in the consumer market, the price of EVs is coming down, something we hope continues as fleet adoption proliferates. Meanwhile, new vehicle pricing has stabilized – a welcome sign for fleets anxious to start buying as new vehicle availability recovers.

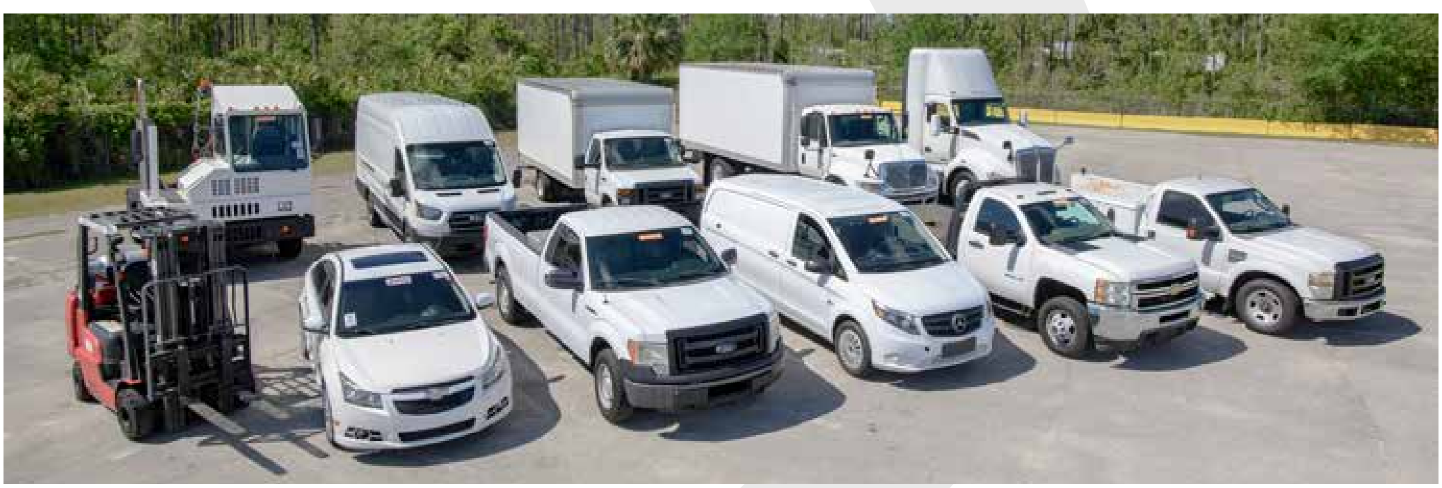
Just as we predicted in late 2021 - and again in our Q1 2022 White Metal Market Report - the pricing "top" of the used wholesale market occurred somewhere at the end of March/beginning of April 2022. Since then, used vehicle prices have fallen steadily, with the biggest decline in early 2023, when we saw numbers drop by double digits in several classes.

Smaller work vehicle pricing – classes 1 and 2 – remain steady. This despite coming down roughly 15% in the first half of this year. And while this class has likely seen the last of any big drop offs, we believe the price of these vehicles could fall another 4-5% by the end of 2023.

Class 3, 4 and 5 vehicle pricing has been somewhat stable, with assets in this class down roughly 10% since the beginning of the year. We suspect the widespread lack of available new vehicles in this category is likely the reason we haven't seen as significant of a price drop as we saw with used Class 1 and 2, where greater availability of new vehicles put pressure on used vehicle pricing.

Class 7 and 8 assets took by far one of the biggest hits of all vehicle classes this year, with pricing off by 25% in the first 7 months of this year – a phenomenon that we predicted in our Q4 2022 WMMR. Some of the vehicles in this class took a bigger hit than others, with the price of sleeper trucks falling by as much as 50%. Meanwhile, both day cabs and straight trucks – while dropping significantly in the first half of the year – seem to have found a floor, and while we anticipate prices for these units will continue to fall moderately, we doubt they will approach the significant declines we saw in the first two quarters of the year.

On a positive note, it appears that the freight market is slowly stabilizing – a welcome development we were unsure of when we published our Q1 2023 report. As it stands, the price for spot freight has climbed from $1.40 a mile in Q1 to roughly $1.70 currently, leading us to predict that fleet should return to a reasonable – and more stable – freight environment by the end of the year and on into 2024.



ECONOMIC INDICATORS A MIXED BAG, HARD TO READ

For years, our team here at FLD has taken many of our ques from the same economic indicators on which mainstream economist rely.

These include the price of crude oil, the unemployment rate, the strength of the US dollar and the number of US housing starts. Depending on how these traditional bellwethers performed, fleet in general – and the wholesale used vehicle market specifically – usually followed some fairly predictable patterns. For instance, when housing construction boomed, the small businesses that support the industry purchased used work vehicles, driving prices higher and availability lower. And when the US dollar held strong, exports of used vehicles dropped. In those pre-pandemic days, there was a logic to how these indicators affected our industry.

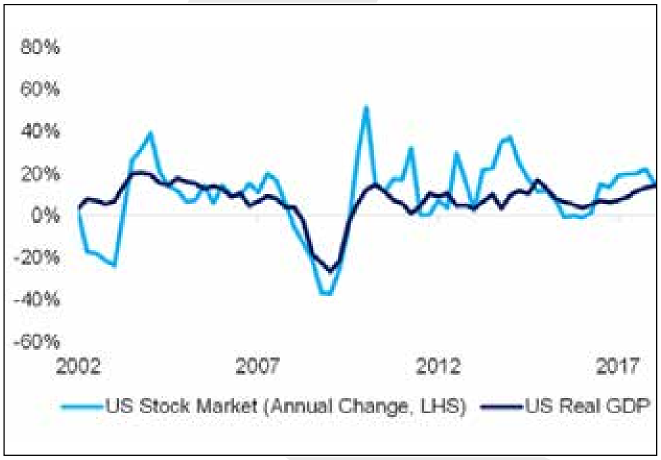
Today – forget about it.

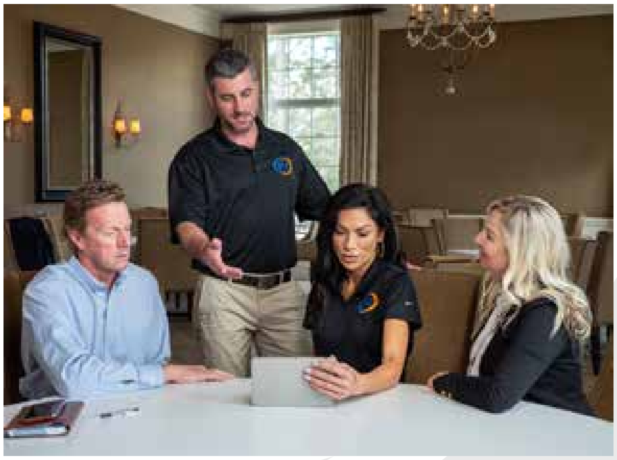
As we've been saying for pretty much the last three years, the likely reason these indicators are so hard to read is because of the unique set of factors affecting the automotive and fleet industries. After all, what does it matter if there is plenty of cheap diesel if acquiring the vehicles to utilize it is virtually impossible? And how does a small businessman decide how many used trucks to purchase when he's not even sure if he can find the labor to operate them?

And while we believe there are several glimmers of hope in the US economy, persistent inflation is still on the move and resisting seemingly every attempt to cool its jets. Considering this, we are advising clients to be mindful of some of the real dangers that could still sneak up and grab the industry from behind.

At the midway point in the year, we do see strength in several key indicators including the Consumer Price Index and the overall economy in general. So much so that Fed Chairman Jerome Powell continues to raise interest rates to their highest point in 25 years. That's pushed the cost of fleet financing to double what it was just three short years ago, making it hard for small operators to borrow money or to purchase - or upgrade to - new vehicles.

Meanwhile, the unemployment rate continues to confound, remaining one of most fickle of the indicators we watch. So, while the job market seems strong now, all of us should be mindful that anything can happen - much the way it did in 2008 - when one minute labor was non-existent, and the next it seemed like no one had a job. Because of this, we still believe lack of access to labor could end up having a decidedly negative affect on fleet.





ON THE WATCH, THINKING POSITIVELY

Standing at the halfway point of Q3, we're mildly positive on both the economy and the prospects for fleet. That said, nothing is set in stone, and the reality is that even the slightest wobble in the world – or domestic – economy could have significant (and negative) consequences.

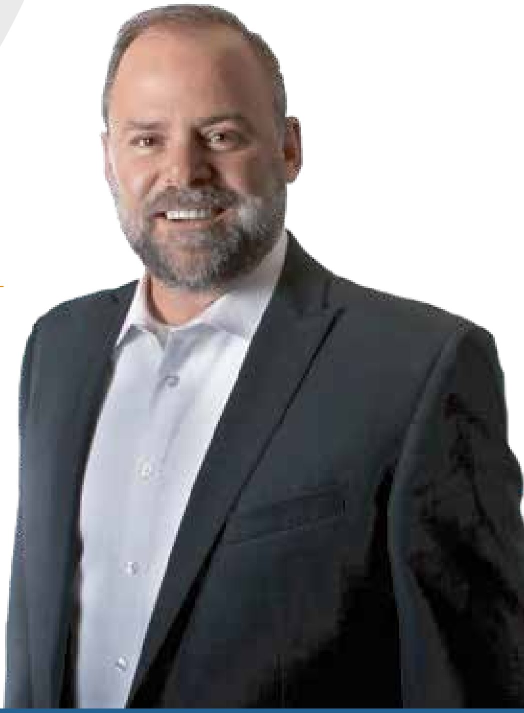
And while questions remain around stubborn issues like vehicle availability and access to cash, we do believe there are some positive seeds being planted that we hope will take root over the coming 6 to 18 months. In the meantime, here are a few predictions for the rest of the year and beyond:

-Fleet is likely to experience another 3-4 months of status quo, free of any wild swings either up or down (unless we experience an unforeseen negative event.)

-Used vehicle inventory and pricing will lag expectations for the next 9 to 12 months

-Dealer and new vehicle inventory will even out by the latter half of 2024, but in the meantime, fleets will continue to hold vehicles they likely would have remarketed 2-3 years ago

Of course, considering how unpredictable both our industry – and our world – have been the past few years, we can say with some degree of certainty that there are likely a few surprises yet instore for our industry. When they appear, our team at the White Metal Market Report will be poised and ready to sniff them out, and to keeping our clients, partners and friends in fleet up to date – and in the know – about the important industry and economic factors that can have a profound effect on their business and operations.



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FLD Remarketing pioneered vehicle remarketing 45 years ago and is the only provider that will purchase used assets upfront in one seamless, easy process that takes less than a week.