COMMERCIAL TRUCK GUIDELINES

INDUSTRY REVIEW

January 2020

J.D. Power Valuation Services

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SUMMARY

December Market Conditions Underperformed Expectations

Class 8 auction volume increased dramatically in December, and pricing dropped more than expected. Trucks sold retail also lost value, as the market continues to lose tolerance for trucks with anything other than low mileage. The medium duty market was mixed, with cabovers stable, Class 4 conventionals mildly weak, and Class 6 conventionals recovering.

CLASS 8 AUCTION UPDATE

The volume of 4-7 year-old trucks sold at auction increased notably in December. Pricing was markedly lower on average. Both measures were more volatile than expected. See below for detail.

- Model year 2016: $27,051 average; $3,699 (12.0%) lower than November
- Model year 2015: $23,697 average; $3,246 (12.0%) lower than November
- Model year 2014: $19,376 average; $1,990 (9.3%) lower than November
- Model year 2013: $15,954 average; $1,212 (7.1%) lower than November
- Model year 2012: $13,559 average; $2,391 (15.0%) lower than November
- Model year 2011: $12,667 average; $3,417 (36.9%) higher than November

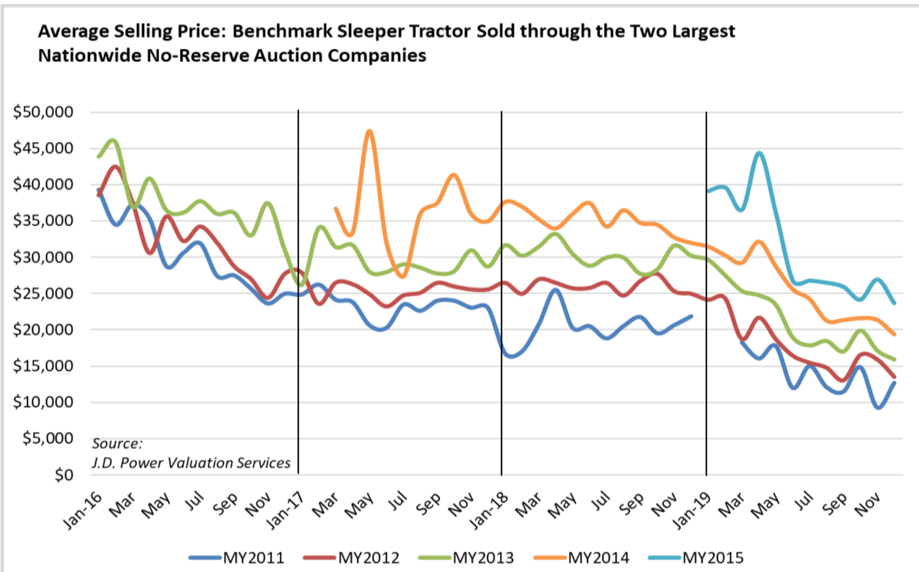
Both measures were more volatile than expected.

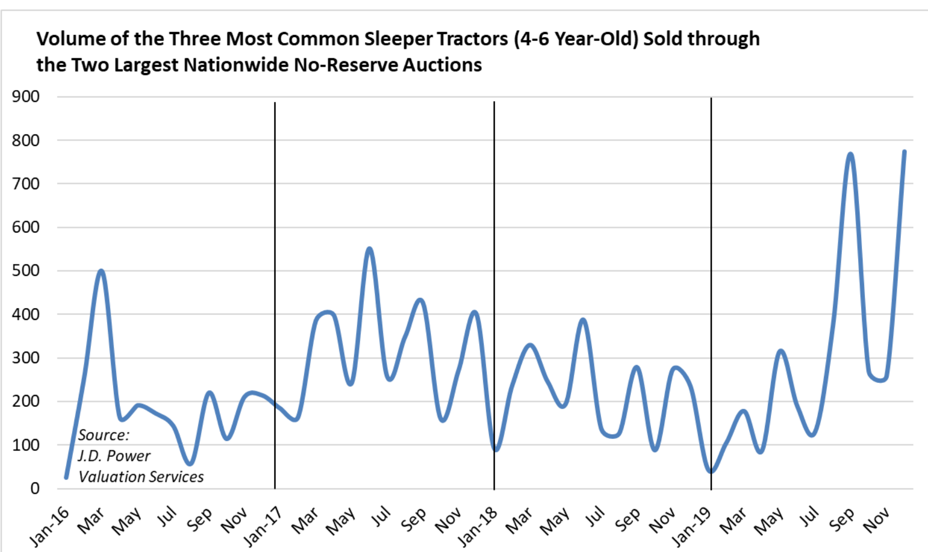
In calendar year 2019, our benchmark group of 4-6 year-old trucks brought 14.0% less money than in 2018. If we narrow our comparison to the last two months of each year, the variance increases to 30.8%.

Monthly depreciation for 4-6 year-old trucks averaged 3.5% in 2019. In 2018, there was essentially no depreciation. Pricing for late-model trucks is now roughly 10% lower than the last market bottom in 2016.

December is typically a high-volume month, as fleets and dealers look to remove unused trucks and excess inventory from the books. However, this December's increase over November was greater than expected. In addition to these factors, the greatly increased number of fleet bankruptcies in 2019 is not helping. January is typically a slow month, so we don't expect much change in the market in that period.

See the "Average Selling Price: Benchmark Sleeper Tractor…" and "Volume of the Three Most Common Sleeper Tractors…" graphs for detail.





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CLASS 8 RETAIL UPDATE

Late-model trucks lost more value than expected in December. Sales volume of 3 year-old trucks increased notably, while the volume of 4 and 5 year-old trucks was in line with expectations. There were no anomalies in average mileage, spec, or model mix, so depreciation appears to be natural market movement.

The average sleeper tractor retailed in December was 71 months old, had 481,060 miles, and brought $47,311. Compared to November, the average sleeper was 5 months newer, had 4,447 (0.9%) fewer miles, and brought $1,549 (3.4%) more money. Compared to December 2018, this average sleeper was 2 months older, had 21,093 (4.6%) more miles, and brought $9,924 (17.3%) less money.

Looking at trucks two to five years of age, December's average pricing was as follows:

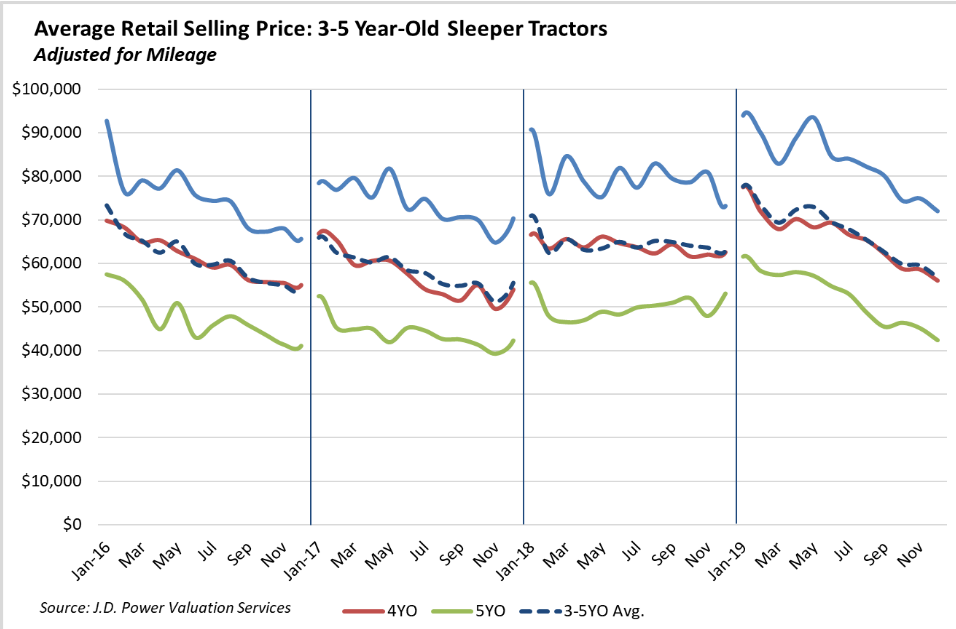
- Model year 2018: $92,225; $2,877 (3.0%) lower than November
- Model year 2017: $71,941; $2,943 (3.9%) lower than November
- Model year 2016: $56,074; $2,553 (4.4%) lower than November
- Model year 2015: $42,433; $2,761 (6.1%) lower than November

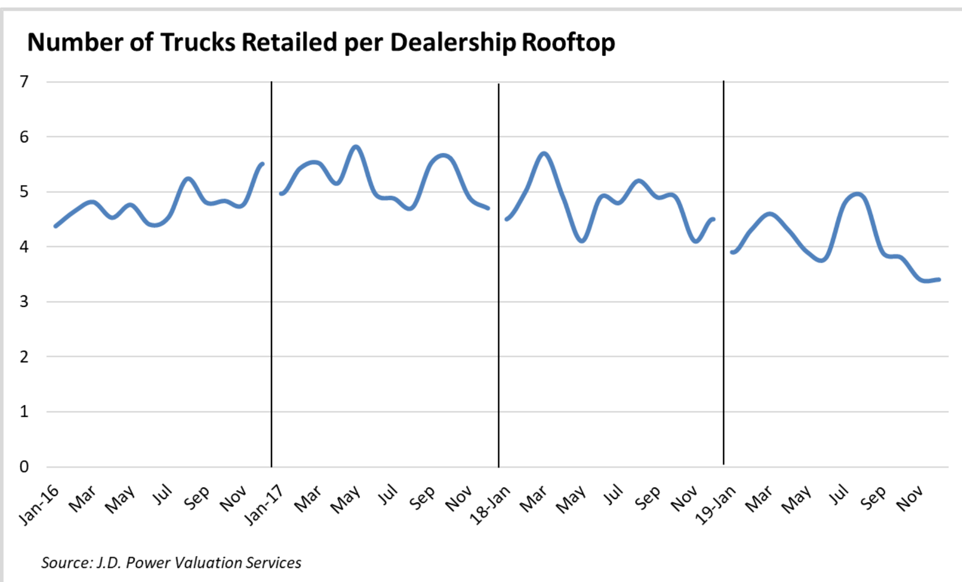
Year-over-year, late-model trucks sold in calendar year 2019 brought an average of 4.2% more money than in 2018. As we've said the past few months, this full-year comparison is misleading since it doesn't reflect the market shift in the second half of 2019. Narrowing our focus to the last two months of each year, 2019 came in 8.0% behind. Average monthly depreciation was 2.1% per month in 2019, compared to well under 1% in 2018. Pricing remains roughly on par with the last market bottom in 2016.

Narrowing our focus to November-December 2019 vs. November-December 2018, 2019 came in 8.0% behind.

Dealers retailed an average of 3.4 trucks per rooftop in December, identical to November's 11-year low. There aren't a lot of buyers looking for replacement trucks currently.

See the "Average Retail Selling Price: 3-5 Year-Old Sleeper Tractors," "Number of Trucks Retailed per Dealership Rooftop," and Retail Value Forecast" graphs for detail.





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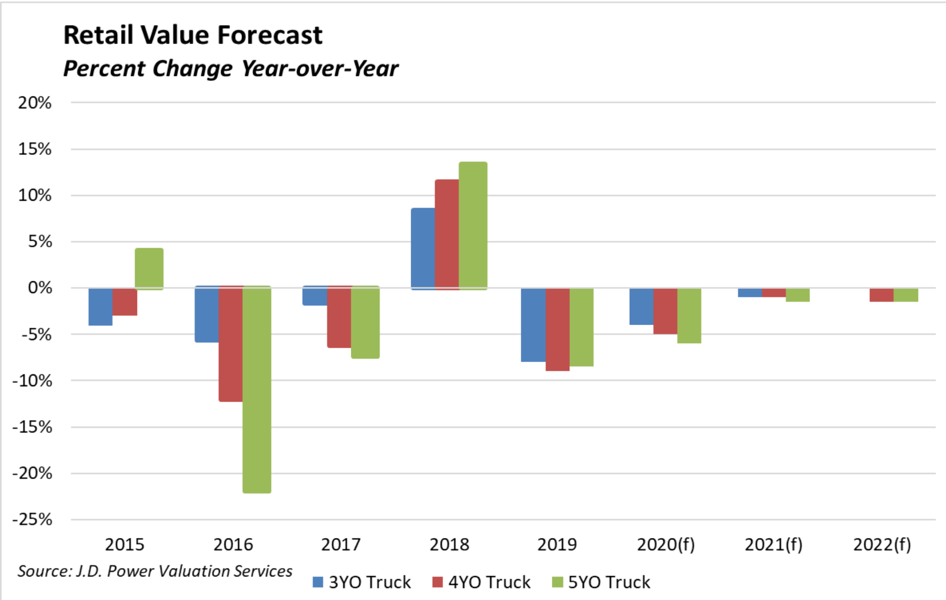
Our Retail Value Forecast estimate for 2019 was very pessimistic if comparing full-year to full-year, but essentially right on if looking just at the last few months of each year (which is a more accurate way of accounting for the market shift in mid-2019). Basically, trucks are retailing today for roughly 8-10% less than this time last year, which is what we intend to convey in this graph. Early this year, we predicted downward movement in the retail channel would more closely mirror the auction



channel, when in fact there was a lag of 4-6 months. Of course, our actual residual value forecasts (available by subscription, not published here) are a more sophisticated analysis referencing estimated trade-in figures, so results were different in that data.

… consumer spending is still red-hot, and as long as employment figures remain at 50-year highs, it should stay that way.

Looking forward, here are the main economic factors we're tracking. Starting with the positives, the first big one is signing an initial phase of a US-China trade agreement, which will halve tariffs on about a third of Chinese imports and prevent additional tariffs from being implemented. The deal also stipulates massive increases in Chinese orders of various US products and services, but let's just say we're taking a wait-and-see view of that aspect. At the very least, this development provides some stability to costs of doing business abroad. Another major trade development will be the ratification of the USMCA by the US Senate and Canadian Parliament, which we assume will happen in the first quarter. This agreement will further reduce uncertainty and inefficiency in cross-border commerce. In terms of the broader US economy, consumer spending is still red-hot, and as long as employment figures remain at 50-year highs, it should remain that way.

Moving over to headwinds, the industrial side of the economy has pulled back notably from the recent peak in late 2017/early 2018, and data looks a lot like the end of a cycle. Layoffs in manufacturing industries are of concern, particularly in the non-cyclical white-collar sector. Second, fleet bankruptcies increased dramatically in 2019. Insurance costs, much lower value of assets, and regulatory requirements were the main reasons, but volatility in freight demand is an underlying factor. If the industry overall has too many trucks available (trucks in service plus trucks on the sidelines waiting for freight), trucks from bankrupt fleets are either scrapped or sent to the resale market. Another major headwind will manifest itself in the second half of the year, when Presidential election season kicks into high gear. Even in less contentious times, investment typically pulls back in the months leading up to the election.

Bottom line – expect economic conditions to feel similar in the short term. If Industrial Production flatlines or declines further, we can expect a broader economic retrenchment. Keep a close eye on IP and unemployment figures.

Medium Duty Trucks

Cabovers were stable in December for the third month in a row. The Class 4 conventional market pulled back, while Class 6's recovered.

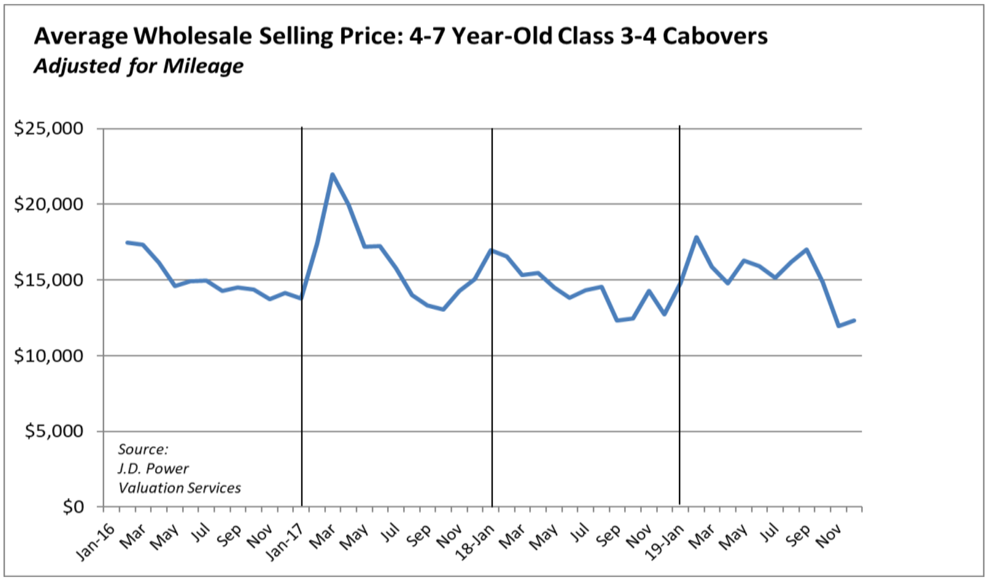
Cabovers were stable in December for the third month in a row.

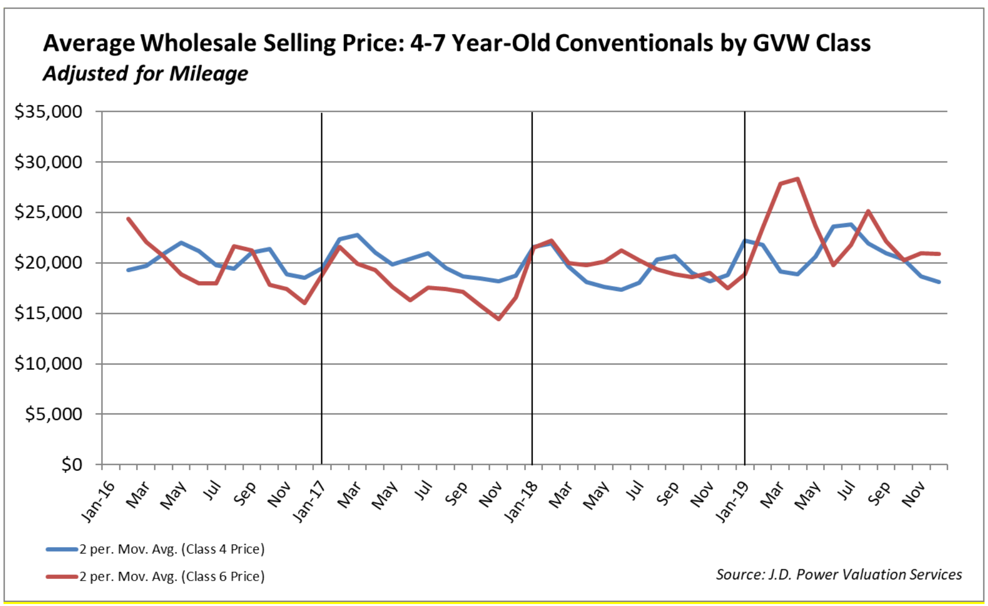
Starting with Class 3 – 4 cabovers, December's average pricing and volume were very similar to the preceding two months. December's average was $12,439, $444 (2.0%) higher than November, and $1,703 (15.9%) higher than December 2018. Metrics in the fourth quarter were stable, helping the year-over year average come in 7.5% higher in 2019. Average monthly depreciation in 2019 was 2.3%, very similar to 2018's 2.2% figure.

Looking at Class 4 conventionals, pricing and volume both pulled back month-over-month in December. Average pricing for our benchmark group was $17,673, $920 (4.9%) lower than November, and $1,458 (17.6%) lower than December 2018. In calendar year 2019, pricing for this group was 8.5% higher than 2018. Depreciation in 2019 averaged 1.0%, slightly higher than 2018's 0.7% average, but still well below the historical trend.

Class 6 conventional volume recovered from November's slump, and pricing was higher as well. In December, our benchmark group averaged $21,451, $1,100 (5.4%) higher than November, and $5,180 (31.8%) higher than an unusually low December 2018. In calendar year 2019, average pricing for these trucks was 16.2% higher than 2018. Average monthly depreciation in 2019 was 1.6%, compared to 1.7% in 2018.

See the "Average Wholesale Selling Price: 4-7 Year-Old Class 3-4 Cabovers" and "Average Wholesale Selling Price: 4-7 Year-Old Conventionals by GVW Class" graphs for detail.





The Class 4 conventional market pulled back, while Class 6's recovered.

Forecast

January is typically a slow month for volume, so we don't expect much change in the market. One bright spot in 2020 will be fewer trade returns compared to 2019, but of course the industry still has a major surplus of trucks in inventory to work through. Industrial Production will need to recover or at least stabilize for the used truck supply/demand relationship to improve noticeably.

About J.D. Power

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About J.D. Power Valuation Services (formerly NADA Used Car Guide)

J.D. Power Valuation Services, formerly NADA Used Car Guide, is a leading provider of vehicle valuation products, services and information to businesses. Its team collects and analyzes over 1 million combined automotive and truck wholesale and retail transactions per month, and delivers a range of guidebooks, auction data, analysis and data solutions. J.D. Power acquired NADA Used Car Guide in 2015, forming a powerful combination that brings the automotive industry rich data sets, strong analytics and over 130 years of market experience.

Commercial Truck Consulting Services

J.D. Power Valuation Services leverages its database of retail, wholesale, and auction transactions to provide residual value forecasting, inventory analysis, competitive model positioning, and other used truck market metrics. Consulting products are customized to each customer’s specific needs. Contact Chris Visser to discuss J.D. Power’s capabilities.

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