J.D. POWER

COMMERCIAL TRUCK GUIDELINES

INDUSTRY REVIEW
April 2019

J.D. Power Valuation Services

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SUMMARY

Market Conditions Unfold as Seasonal Activity Ramps Up

The Class 8 auction market was generally weaker in March month-over-month. The retail channel is starting to look more historically typical. Medium duty trucks had an unimpressive month. Economic conditions will determine the trajectory of the used truck market in upcoming weeks.

CLASS 8 AUCTION UPDATE

The winter lull in auction activity is behind us, and March data provided our first real look at how the market is holding up in 2019. Volume of our benchmark model was up by an expected proportion over February, but fell well short of last March. Pricing was notably lower month-over-month, with a high-mileage mix of trucks partly responsible for the decrease. See below for detail.
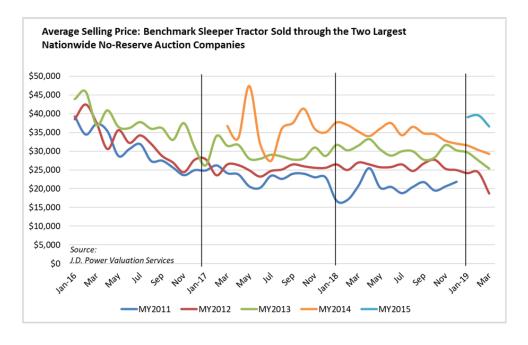
- Model year 2016: $42,750 average; $3,550 (7.7%) lower than February

- Model year 2015: $36,600 average; $3,000 (7.6%) lower than February

- Model year 2014: $29,250 average; $1,050 (3.5%) lower than February

- Model year 2013: $25,400 average; $2,175 (7.9%) lower than February

- Model year 2012: $18,750 average; $5,650 (23.2 %) lower than February

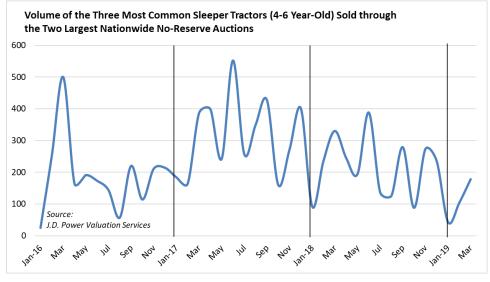- Model year 2011: $18,250 (no sales in February for comparison)

In the first 3 months of 2019, 4-6 year-old examples of our benchmark model brought 4.3% more money than in the same period of 2018. Going forward, year-over-year comparisons should reach parity and then turn mildly negative. Freight-focused economic measures are less stable than last year, but we expect pricing to remain relatively healthy through the second quarter.

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

> … we expect pricing to remain relatively healthy through the second quarter.

Average Selling Price: Benchmark Sleeper Tractor Sold through the Two Largest Nationwide No-Reserve Auction Companies

Source: J.D. Power Valuation Services

Legend: MY2011 | MY2012 | MY2013 | MY2014 | MY2015

Volume of the Three Most Common Sleeper Tractors (4-6 Year-Old) Sold through the Two Largest Nationwide No-Reserve Auctions

Source: J.D. Power Valuation Services

In the first 3 months of 2019, 4-6 year-old examples of our benchmark model brought 4.3% more money than in the same period of 2018.

CLASS 8 RETAIL UPDATE

The volume of late-model trucks sold in March was similar to February, although dealers sold incrementally more trucks in total. Trucks with less-desirable specs and mileage are not faring as well as in previous months.

The average sleeper tractor retailed in March was 69 months old, had 467,319 miles, and brought $55,808. Compared to February, the average sleeper was
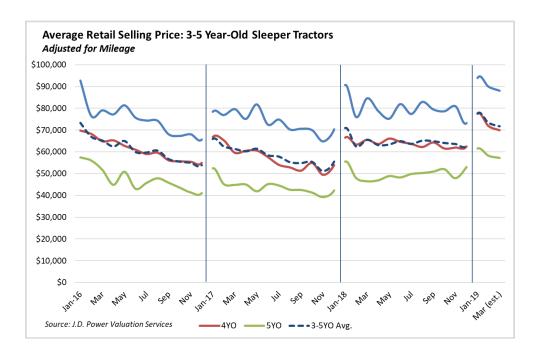
identical in age, had 3,209 (0.7%) more miles, and brought essentially identical money. Compared to March 2018, this average sleeper was two months newer, had 5,140 (1.1%) more miles, and brought $7,321 (15.1%) more money.

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

- Model year 2017: $82,804; $7,037 (7.8%) lower than February
- Model year 2016: $67,908; $4,138 (5.5%) lower than February
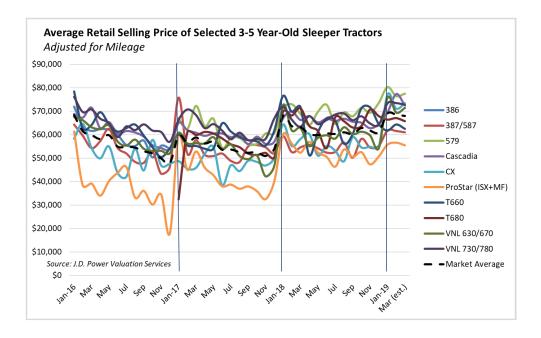- Model year 2015: $57,332; $915 (1.6%) lower than February

On a year-over-year basis, late-model trucks sold in the first three months of 2019 brought 10.6% more money than in the same period of 2018. On average, trucks in this age range depreciated 3.3% per month in the first quarter of 2019, compared to 2.5% in the same period of 2018. Value trends in 2019 are looking more historically typical than in 2018.

See the "Average Retail Selling Price: 3-5 Year-Old Sleeper Tractors" and "Average Retail Selling Price of Selected 3-5 Year-Old Sleeper Tractors" graphs for detail.

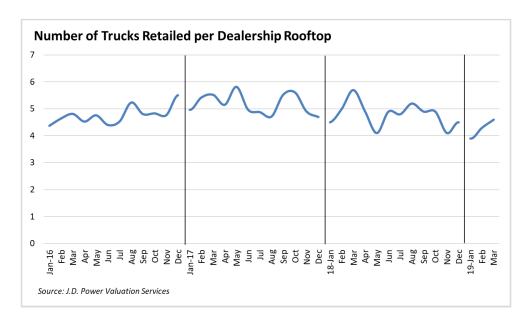Late-model trucks sold in the first three months of 2019 brought 10.6% more money than in the same period of 2018.

Average Retail Selling Price: 3-5 Year-Old Sleeper Tractors
Adjusted for Mileage

Source: J.D. Power Valuation Services   4YO   5YO   3-5YO Avg.

Average Retail Selling Price of Selected 3-5 Year-Old Sleeper Tractors
Adjusted for Mileage

Source: J.D. Power Valuation Services

Legend: 386, 387/587, 579, Cascadia, CX, ProStar (ISX+MF), T660, T680, VNL 630/670, VNL 730/780, Market Average

Late-model, low-mileage trucks are still in relatively short supply.

Class 8 sales per dealership edged up incrementally to 4.6 trucks in March, a 0.3 truck increase over February. Late-model, low-mileage trucks are still in relatively short supply.
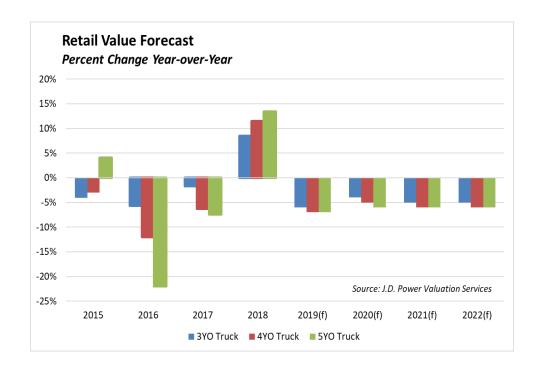
See "Number of Trucks Retailed per Dealership Rooftop" graph for detail.

Number of Trucks Retailed per Dealership Rooftop

Source: J.D. Power Valuation Services

Looking forward over the long term, deliveries of new trucks will remain strong into the second half of 2019, but demand is closer to being met. See the Forecast section below for more analysis.

See the "Retail Value Forecast" graph for a look at how we see used truck pricing unfolding over the next four years.

Retail Value Forecast
Percent Change Year-over-Year

Source: J.D. Power Valuation Services

■ 3YO Truck ■ 4YO Truck ■ 5YO Truck

... deliveries of new trucks will remain strong into the second half of 2019, but demand is closer to being met.
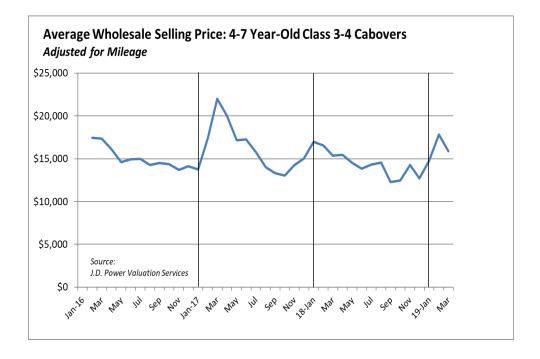
Medium Duty Trucks

Medium duty trucks had a weak month across the board, with lower volume and pricing for the three main segments we track.

Starting with Class 3 – 4 cabovers, March's average pricing came in at $14,944. This figure is $1,875 (11.1%) lower than February, and $1,542 (9.4%) lower than March 2018. This month's result is in line with typical monthly fluctuations, but not indicative of a particularly strong market.

See the "Average Wholesale Selling Price: 4-7 Year-Old Class 3-4 Cabovers" graph for detail.

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Average Wholesale Selling Price: 4-7 Year-Old Class 3-4 Cabovers
Adjusted for Mileage

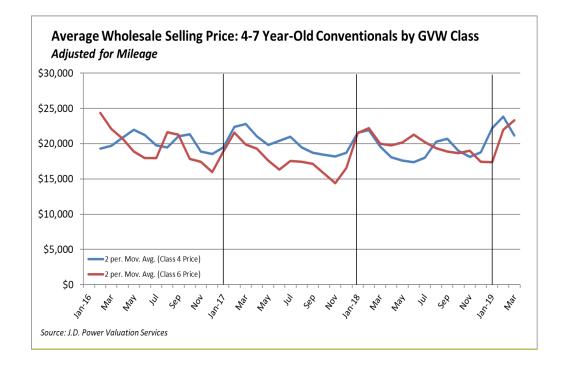*Source:
J.D. Power Valuation Services*

Medium-duty trucks had a weak month across the board, with lower volume and pricing for the three main segments we track.

Looking at conventionals, Class 4's averaged $19,924 in March. This figure is $2,477 (11.1%) lower than February, and $1,003 (5.3%) higher than March 2018. Average mileage was moderately higher than February, and volume of trucks sold was notably lower. March's result was not overly weak but also not impressive.

Class 6's averaged $21,178 in March. This figure is $4,279 (16.8%) lower than February, and $1,233 (6.2%) higher than March 2018. Average mileage was similar to last month, while volume was down substantially. March was a bit of a correction after a strong February.

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

Average Wholesale Selling Price: 4-7 Year-Old Conventionals by GVW Class
Adjusted for Mileage

Source: J.D. Power Valuation Services

Forecast

This month, we're going to take a deeper dive into the factors that will dictate used truck pricing in upcoming months. Since late 2017, the accelerated economic expansion, tax incentives, and pull-ahead manufacturing activity have greatly increased demand for trucks. How many more trucks did the economy need, and how long will these conditions last? What economic factors should we be monitoring for signs of a shift?

According to the American Trucking Association's *Freight Transportation Forecast 2017-2028*, as reported in **Fleet Owner**, there were roughly 150,000 more Class 8 trucks in service in 2018 compared to the last new truck order boom in 2014. In percentage terms, that increase is only about 3.9%. But in an industry that can realistically only build about 300,000 trucks per year, 150,000 is a very meaningful number. To make up for OEMs' inability to build enough new trucks, fleets kept older trucks in service and purchased low-mileage used trucks.

Using the trucks-in-service figures as a proxy for how many trucks the economy "needed," there was demand for about 95,000 more trucks in 2017 than 2016, but OEM's had only delivered about 6,000 more. The same scenario held true in 2018 – the country needed an additional 97,000 trucks,

> What economic factors should we be monitoring for signs of a shift?

but OEM's had only delivered about 58,000 more. So the economy had expanded to the point where there was now a two-year "shortage" of new trucks of about 128,000. OEM's greatly ramped up their deliveries from 2017 to 2018, from about 192,000 to 250,000, for an increase of about 58,000 – still 70,000 short of the needed number. OEMs are whittling away at that shortage as we speak, but trucking companies are still holding on to their older iron and purchasing low-mileage used trucks. This is why values continue to defy gravity.

Looking forward, the big question is how many trucks the economy will need in 2019. There are two obvious factors pointing to flat or downward demand. First, the manufacturing side of the economy stopped "front-loading" raw material inventory in mid-2018. This strategy was employed to avoid potential tariff increases on Chinese materials. Second, exports have contracted, as a symptom of a cooling global market and the ongoing impact of the tariff war. Other economic measures are also looking less hot than last year, but it's too early to identify any trends just yet.

On the truck supply side, factories are generally maxing out two shifts, which is about as fast as is prudent. On the demand side, it is unlikely the economy will need more trucks this year. As such, when the truck shortage is eventually alleviated and fleets turn in a greater number of existing inventory, the economy will either be strong enough to limit the impact to values, or it will have contracted enough to make the impact more notable. Keep a close eye on freight data and fleet sentiment in upcoming weeks. If these figures remain generally stable, used truck values should not see too much disruption. If the economic data turns negative, expect a market shift.

On the demand side, it is unlikely the economy will need more trucks this year.

About J.D. Power

J.D. Power is a global leader in consumer insights, advisory services, and data and analytics to help clients measure and improve the key performance metrics that drive growth and profitability. J.D. Power's industry benchmarks, robust proprietary data, advanced analytics capabilities, and reputation for independence and integrity has established the company as one of the world's most well-known and trusted providers of consumer and market insights for more than a dozen industries. Established in 1968, J.D. Power is headquartered in Costa Mesa, California, and has 17 global locations serving North/South America, Asia Pacific, and Europe.

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 Market Analysis

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