the
WHITE METAL MARKET™
report

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

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SECOND QUARTER | 2024

WHITE METAL MARKET SETTLES IN

Welcome to the Q2 2024 issue of our quarterly White Metal Market Report. The publication that gives our customers, partners and friends in fleet an in-depth look at the factors driving the wholesale used vehicle market.

Over the years that we've been compiling this special publication (8 of them now), the fleet space – and more appropriately the used vehicle market - has certainly seen its share of ups and downs. From the near euphoric "salad days" in the years leading up to the pandemic (definitely a high.) To the terrifying unknowns that greeted us in the first weeks and month after the pandemic struck (definitely the low) - fleets have had to navigate a veritable boat load of uncertainty.

Now, after what seems like one challenge after the next – lack of available vehicles, supply chain snafus, industry consolidation – I'm happy to report that things may be returning to some semblance of normal (and actually a consistent normal at that.)

Let's take a look at where the industry stands as we cruise through Q2 and into the summer.

AFTER SLOW START, MARKET HITS STRIDE

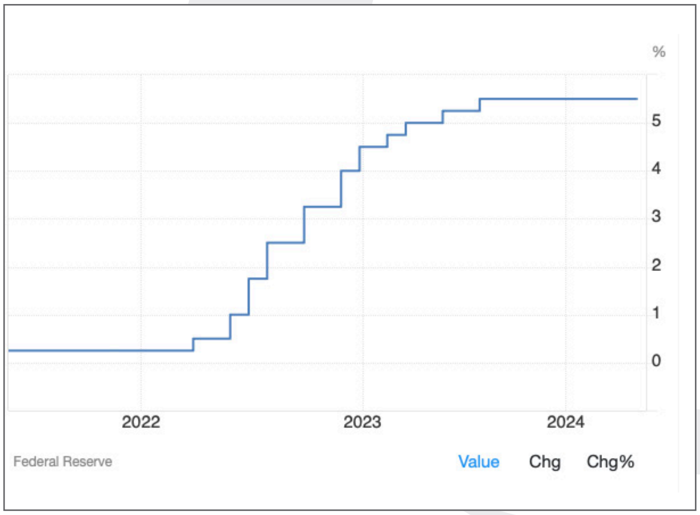
As we started 2024, I have to admit things looked shaky as many of the factors that kept the market in a holding pattern in 2023 continued to persist the first 4 to 6 weeks of the year. However, once the Spring markets kicked off, the outlook began to improve, business began to pick up, and frankly, that's the way things have stayed as of this writing, certainly a positive sign for the rest of 2024. And while valuations are anywhere from 7 to 10% lower across the white metal segment than they were a year ago, used vehicle prices are definitely starting to form a pattern, something they haven't done since before the pandemic and yet another encouraging sign for what we think lies ahead.

Looking at the used market at the half-way point of Q2, supply remains "snug" as new vehicle availability is not back to pre-pandemic levels and fleets continue to hold on to used assets un=l they're certain they can get new ones. A situation further pressured by reduced leasing volume and build rates over the past few years (something we think will improve each year as vehicle availability – and the industry as a whole - creeps back.)

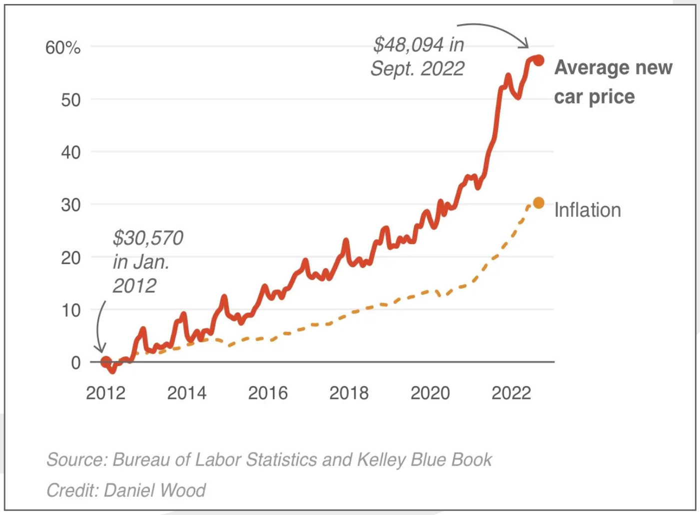
At this point, the market is still trying to process – and likely will continue to – a large amount of aging inventory, putting a premium on assets with low miles and good specs. Fleets that have those units are getting top dollar, and while pricing remains down for less than desirable units, sales remain steady.

Two other mitigating factors having a negative effect on the used market?

Despite both the rising cost to purchase new vehicles – and the interest rate to finance them – sales remain brisk, a situation further driven by the fact many used assets are so distressed fleets have but to source new vehicles. This is exactly the same scenario we're seeing in the US Housing market, where the lack of quality used inventory and rising interest rates have done little to quell demand for high quality product. Something that can be especially tough for small fleets struggling to pay higher vehicle prices and having to finance at twice the rate of little more than a year ago. And while there's little doubt that the used wholesale market has changed permanently, we expect the pandemic effect to moderate over the next several years and that the space is likely to enter – barring any unforeseen global incidents - an era of stability as we move towards the end of the decade (though likely one not as dynamic as pre-2020.)



United States Fed Funds Interest Rate



Average New Car Price

VEHICLE SEGMENTS PRESENT MIXED BAG

With regards to individual vehicle segments:

- **PASSENGER VEHICLES AND LIGHT DUTY TRUCKS** are by far the most stable, with pent up demand keeping prices steady and trending slightly upward, something we'd expect to see as this class usually follows a normal curve.
- **CLASS 8** – overall incredibly soft with Sleeper trucks the softest. The overall lack of freight demand and available inventory are keeping prices down. Day cabs are holding their own although good spec and good miles are down 50% year over year.
- **CLASS 6 AND 7** have suffered same fate as they share the same kinds of vehicles. Class 7 – CDL is soft with zero demand in certain markets. Vocational trucks are subject to the same scenario we're seeing in other classes where good spec & good miles still show demand. Meanwhile, under CDL – Class 6 - seems to be holding steady for both box and vocational models. Both Class 6 and 7 are off 50 to 60% from last year.
- **CLASS 3 TO 5** vehicles have seen a consistent market, with prices off anywhere from 15-25% year over year with supply and demand fairly balanced, a good sign in our opinion.

All in all, a mixed bag, but a much better picture than we've seen for the last several quarters.

MARKET INDICATORS DEFY TRADITION

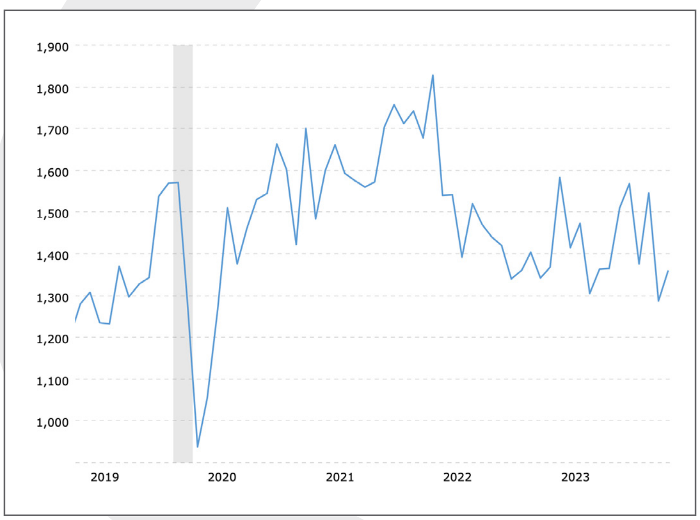
Over the nearly 10 years that our team has been producing our quarterly White Metal Market Report, we've leveraged a host of traditional economic indicators to gauge the health and veracity of the wholesale used vehicle market. And - to give us an indication of where it might be headed in the future. These indicators have included the strength of the US dollar, housing starts, the unemployment rate, and the price of crude, and for the most part they have been fairly reliable.

These days – as the saying goes – forget about it.

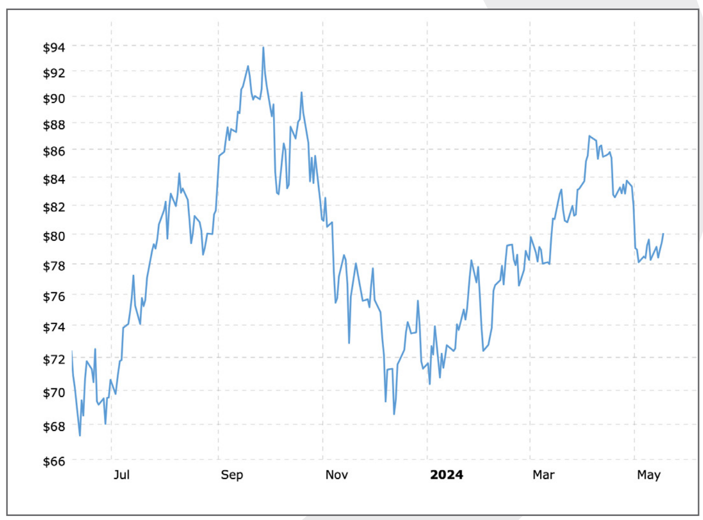
For example, increased activity in the housing sector generally meant an uptick in both the demand and price of used white metal. But while developers are in the process of completing 1 million new rental units – with 600,000 more planned to complete construction in 2024 according to realpage.com, that activity is not driving the kind of robust volume – or pricing – our team would have traditionally predicted.

Instead, Class 3 to 5 cutaway vans were down hard in the last quarter, as was the demand for 16-foot cutaway vans, units we would have expected to increase in value with so much construction going on nationwide. Further indication that the price for most vehicle classes will not approach some of the sky-high valuations we saw up until April 2022.

Making matters worse – interest rates have more than doubled since January, restricting access to financing and leaving companies cash strapped. And while some lenders are offering better rates in an attempt to jump start business, the economy remains strong and we expect the Federal Reserve will be hesitant go all in on rate decreases for fear of overheating the markets.



Housing Starts



WTI Crude Oil Prices

A LOOK AHEAD: CAUTIOUS OPTIMISM, REALISTIC EXPECTATIONS

Just short of the half way point of 2024, most of what we're seeing in the marketplace is positive and trending in the right direction. And while we've detailed a few laggards, there's some clarity startitng to form, a much different scenario than we've experienced the last four years, when virtually anything was possible.

Here's a few of our key predictions as we head into the rest of the year:

*We expect that progress towards the patterns that are forming in the used market will continue, with smaller units (passenger and light duty) continuing to shine. It's also our belief that demand and pricing for class 3 to 8 units will stay fairly consistent, with prices off by roughly 5 to 6% for passenger and light duty (and slightly more for higher classes.) Continued strength and stability in the rental car companies will also mean more units coming on to the market.

*Distressed units will continue to flood the market, putting a further premium on low mileage, high spec vehicles, and likely keeping prices trending downward.

*Used semis/truck prices will continue losing value, at least until freight picks back up, a situation that could worsen significantly depending on what happens with the Yellow Freight liquidation. A scenario that will dump thousands of day cabs on the market, and one that will likely have an outsized effect on used truck prices.

*Continued consumer demand for goods and services will have a positive effect on used wholesale vehicle prices, but likely not enough to prevent a downward effect on prices for used assets given their deteriorating condition. We'll certainly be keeping an eye on consumer habits through the Spring and early Summer and address this in our Q3 WMMR.

*Auction activity will be robust with multiple buyers vying for the best units. Distressed assets will remain a challenge to sell and will likely stay that way as the market works to process a backload of less than desirable assets left over from the pandemic.

*Fleets looking to adopt EV's will face continuing head winds, as it appears the "bloom is off the rose" as the realities of integrating these vehicles in an era of limited range and lack of access to charging infrastructure persists (a proverbial rubber meets road moment.) Given this, look for the irrational exuberance around EV's we've experienced the last few years to subside as fleets pivot to hydrogen and other alternative fuels to meet strict mandates around carbon neutrality.

*Off lease assets will likely trend downward for another 2 years, but if fleets are fortunate enough to still be holding a lease from 2019 or early 2020, they can sell for top dollar.

*With the Presidential election less than 6 months away, it's anyone's guess as to how the battle between Trump and Biden will flesh out. Or how it will affect the fleet space. As it stands, it does not appear to be having any kind of over-sized influence, but the reality is that it will likely take months to perhaps a full year for any new policies – EV's, infrastructure – to have any real effect on our industry.

COUNT ON FLD TO KEEP YOU AHEAD OF THE GAME

With Covid further and further in the rearview mirror and disruption from issues like industry consolidation and EV adoption finally abating, we remain mildly positive on the outlook for the rest of 2024. And while it appears the state of our world and nation are cooling down, that could all change should a spark turn into a fire. Rest assured, if it does, the team here at FLD will be the first to let you know how that will affect not only our industry, but your corner of the world as well.

Here's hoping everyone has a great Spring and start to Summer. We'll look forward to being in touch in Q3 – all the best everybody!

Bill Bishop is SVP of Sales and Marketing *for FLD Remarketing, a recognized expert on the used vehicle wholesale space and a 30-year fleet veteran. He has been publishing the White Metal Market Report since 2017, and can be reached at bill.bishop@fldinc.com. To subscribe to our free quarterly market report, email marketing@fldinc.com, and we'll put you on the list.*

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