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Monitor

Construction & Transportation

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COVID-19 TAPS THE BRAKES ON TRANSPORTATION

SOFTENING DEMAND FOR EQUIPMENT

Construction starts were significantly impacted as of April 2020, declining 25% from the previous month

TOWER CRANE DEMAND REMAINS STABLE

Utilization rates remain high for tower cranes, while other classes experience decreases

TRUCKS AND TRAILERS CONTINUE DOWNWARD TREND

COVID-19 has further impacted a declining market, with orders decreasing

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Overview

Current trends indicate a slowdown in the previously growing market for the transportation industry. Although transportation markets are displaying significant pre- and post-COVID-19 declines, the impacts in the construction markets are tying more directly to the downturn of the U.S. and global economies.

Crude oil demand in April 2020 was estimated to be roughly 30% below demand in April 2019, which has driven U.S. rig counts to their lowest level since 1940. Therefore, activity in the oilfield sector, as well as with related support equipment, has declined. The recent stay-at-home orders and quarantines have caused some uncertainty, leading to a steep drop in consumer confidence as of April, which has fed into the month-to-month decline of freight transportation figures.

The market for cranes and other lift equipment was stable through the first quarter of 2020; however, there has been signs of softening more recently as demand for commercial and residential construction declined. Construction equipment manufacturers have seen a decrease in production and sales, as precautionary safety measures against COVID-19 are made a priority for emloyees and demand in the industry has temporarily slowed.

Retail truck sales in North America have plunged through April, as year-to-date sales have displayed a decrease of 30.7% compared to the same period in 2019. Additionally, truck orders hit their lowest volume in the past decade, while trailer orders declined to volumes not seen since 1990.

While new construction starts dropped 25% in April, the steep decline in the industry can be tied closely to the timing and effects of the ongoing global pandemic. Mining equipment continues to be a slow-moving market, as demand for thermal and metallurgical coal softens.

The intermodal and freight industry, which was already experiencing a downturn prior to COVID-19, is bracing for the short- and long-term impact of the global pandemic. The sector was categorized as critical infrastructure and was therefore able to continue operating and delivering essential goods during shelter-in-place orders that began in March. While the industry has put numerous procedures in place to keep workers safe, and while these employees are figuring out how to operate in the “New Normal,” the sector is seeing an economic slowdown since COVID-19 hit the U.S.

A report from the Association of American Railroads (“AAR”) showed that U.S. weekly rail traffic was 449,767 carloads and intermodal units for the week ended March 28, 2020, down 11.8% compared to the same week last year.

Additionally, North American intermodal volume in April 2020 fell to the lowest point in nearly a decade, underscoring the dramatic decline in containerized imports and slowing growth in the shipment of trailers and domestic containers.

Cranes & Lift Equipment

While the secondary marketplace for cranes and lift equipment has seen some slowing since the onset of COVID-19, the sector is anticipated to reflect steady growth as effects begin to subside beginning in the later months of 2020 and into 2021. Following the close of the first quarter of 2020, construction starts seemed to escape significant impacts of the pandemic, with only a 5% overall decrease from February to March, according to Dodge Data & Analytics ("Dodge"); however, many of the state-regulated orders had not been implemented until late March or early April.

As the shutdowns began, effects were felt throughout the country, with construction starts beginning to show a more distinct decline. Dodge reported a 25% decrease in total construction starts to $572.2 billion from March to April 2020 and an 8% decline compared to the first four months of 2019. While nonresidential and residential starts took the hardest hits at 37% and 25% respectively, nonbuilding starts only fell 5% from March to April. While it is difficult to find a silver lining in these recent indicators, some comfort can be taken from the relative health of the market prior to the onset of the pandemic, as well as recent reports of modest improvements in demand as states begin to reopen and recover.

Tower cranes remain in high demand, as they are mainly utilized in long-term construction projects that are rarely stopped, and this has been the case throughout the course of the ongoing pandemic. While utilization rates for other classes have seen slight declines across the nation following project delays and pending cancellations, tower crane utilization has remained relatively stable. In addition, new equipment sales have declined as uncertainty resulting from the current economic state lingers.

According to American Cranes & Transport, The Manitowoc Company reported a net first-quarter loss of $7.8 million, with first-quarter orders declining 15% to $375 million compared to the same period in 2019.

Auction activity for cranes has slowed due to restrictions put in place by state governments prohibiting large gatherings, which has transitioned all bidding to online only. Websites such as The Crane Network are currently reporting slightly lower numbers of cranes for sale, leveling out around 5,000, where the number of cranes had remained relatively consistent around 6,000 throughout 2019. Given current economic conditions, there is less urgency or need for companies to invest in new equipment and refresh their fleets with late-model equipment. Softening demand in the secondary marketplace is also evidenced by slight decreases in asking prices for used equipment. Cranes in good condition, with relatively low hours, and of newer vintage models, are the most sought-after by potential buyers.

Trucks & Trailers

As was the case in the fourth quarter of 2019, new and used truck and trailer sales have continued to decline through the first four months of 2020. While the market was already on a downward trend prior to the emergence of COVID-19, the pandemic seemingly took hold as of April when almost all state shutdowns and closures came into effect. According to ACT Research ("ACT"), March Class 8 truck orders hit their lowest in the last decade, totaling 7,800 and plummeting 51% as compared to March 2019. Consequently, four major truck manufacturers halted production as a precautionary measure against the pandemic.

Following the decline in March, April Class 8 orders took another dive, with preliminary orders netting round 4,100 units versus 14,859 the prior year. Additionally, total trailer orders for April dropped to their lowest level in the last 30 years. ACT reported net orders to be around 300 units, with orders for the past 12 months totaling 162,000. Many fleets have cancelled or put their orders on hold, with dry vans seeing the largest impact and refrigerated vans displaying the same.

Retail sales of new Class 8 tractors plummeted 47.4% from March to April, totaling 12,637 units, as reported by WardsAuto.com. On a year-to-date basis, sales have decreased 30.7% to 60,219 units in comparison to the 86,908 units in 2019. As reported by the American Trucking Associations, the seasonally adjusted For-Hire Truck Tonnage Index decreased 12.2% in April, after a 0.4% increase in March. This drop can largely be attributed to the decline in factory shipments and retail sales, although supply chains related to grocery stores and ecommerce were not as significantly impacted as a result of the pandemic.

As of March 2020, sales of used class 8 tractors were around 18,000 units, compared with 20,500 in March 2019. This represents a 12% drop since February. According to ACT, this trend continued into April as sales fell to 17,200, a drop from the 21,500 units sold in April 2019. The average price per unit of a used Class 8 tractor dropped to $36,318 in April, a decline of 22.2% since the previous year when the price per unit averaged $46,675. While many large companies may be hesitant to invest in additional fleet assets, first-time buyers are creating activity in the secondary marketplace.

As the U.S. unemployment rate grew to include 20.5 million Americans as a result of COVID-19, 88,300 of those were trucking and warehouse employees, as reported by the U.S. Labor Department. Many laid off or furloughed individuals are choosing to become self-employed and continue to work or begin work in the trucking industry. According to J.D. Power's May 2020 Commercial Truck Guidelines Industry Review, used equipment pricing is anticipated to begin to recover as states continue to reopen their economies. The secondary marketplace could see stabilization in the summer months, with slight increases to follow in the fall and into the early months of 2021.

Construction & Mining Equipment

As of April 2020, total construction spending dropped 2.9% to $1.34 billion compared to the March estimate of $1.38 billion. The private sector realized a total 3% decrease in spending, with residential construction showing the largest decline of 4.5% in April versus March. As previously mentioned, larger construction projects were shown to have a lesser likelihood of being cancelled or postponed following the onset of the global pandemic, which is evidenced by the slightly smaller decrease in spending of 2.5% for public construction including but not limited to highway and street, sewage, public safety, health care, and educational construction.

Consequently, construction equipment manufacturers and rental construction equipment companies experienced decreases in net sales. Construction equipment manufacturer Terex Corporation and JLG, a division of Oshkosh Industries posted net sales decreases of 26.7% and 13.1%, respectively, for the first quarter of 2020 compared to the first period of 2019. Additionally, Caterpillar, a leading OEM in the industry, realized a sales decrease of 21% in the first quarter.

The secondary marketplace for construction equipment has softened throughout the course of the ongoing pandemic. While 2020 started off on a strong note, growing economic uncertainties has driven down current demand for used construction equipment. The need for and orders of new equipment have slowed following the contraction of the construction industry, and pricing and sales of equipment in the secondary marketplace have followed suit.

As the economy begins its road to recovery and construction starts and spending begin to stabilize, equipment related to infrastructure and non-residential construction, such as excavators, wheel loaders, bulldozers, motor graders, and other similar equipment, are expected to return to more steady demand levels.

Similar to impacts seen across other verticals, companies in the mining industry have experienced significant changes in the early months of 2020. Impacts were felt as early as the COVID-19 outbreak began in Asia. The novel coronavirus has now taken its toll on U.S. steel demand, with some major producers curtailing output and, in some cases, cutting production altogether.

Arch Coal, a top coal producer in the U.S., reported a first-quarter net loss of $25.3 million, compared to a net income of $72.7 million for the same period in 2019. Equipment in the construction and mining sector will rise and fall in line with demand for global mined goods, and as such, it should be monitored in the coming months.

Intermodal & Freight Rail

Intermodal carriers had a tough year in 2019 due to shippers turning to the highway rather than the railway as a result of low spot rates in the trucking market. Trouble in the industry carried into 2020 as intermodal volume in North America declined 4.8% in the first four weeks of the year, according to the AAR. Railroads indicated that they would not chase truck rates lower to keep volume, and instead would focus on service and efficiency until demand rebounded. Early signs also suggest that intermodal might be the first to take a hit from the COVID-19 pandemic, as domestic intermodal volume in April 2020 suffered its worst month in eight years.

U.S. weekly rail traffic for the week ended April 25, 2020 was 414,123 carloads and intermodal units, a decrease of 22.4% versus the same week in 2019. Total carloads for the week were 192,110 carloads, down 28.2% compared with the same week last year, while U.S. weekly intermodal volume was 222,013 containers and trailers, down 16.5% versus 2019.

Miscellaneous carloads was the only carload commodity group out of 10 groups that posted an increase compared with the same week in 2019, up 1,515 carloads, to 10,021. Commodity groups that posted decreases included coal, down 32,853 carloads, to 48,128; motor vehicles and parts, down 13,562 carloads, to 2,235; and metallic ores and metals, down 7,572 carloads, to 17,496.

AAR Senior Vice President John T. Gray attributed the decline in rail volume to most of the country being in lockdown due to the coronavirus pandemic.

U.S. railroads reported a cumulative volume of 3.8 million carloads for the first 17 weeks of 2020, a decrease of 10.7% from the same period last year; and 4.0 million intermodal units, down 10.7% from last year. Total combined U.S. traffic for the first 17 weeks of 2020 was 7.8 million carloads and intermodal units, a decrease of 10.7% compared to last year.

Industrial Marine

The nation's major ports felt the full economic impact of the coronavirus in March as global trade nearly came to a standstill. The Port of Los Angeles, the nation's busiest port, experienced a 20-foot-equivalent unit ("TEU") containers decline of 30.9% to 449,568 containers from 650,977 containers in March 2019. Cargo volume for the first quarter was down 18.5% year-over-year. "People aren't buying patio furniture for their backyards and things like that, so there is just softening demand," said Chris Connor, chief executive officer of the American Association of Port Authorities.

The Port of Long Beach experienced a lesser TEU drop of 6.4%, processing 517,663 containers compared with 552,821 the previous March. Further north along the California coast at the Port of Oakland, monthly TEUs fell 11.1% to 190,189 containers versus 213,972 containers in the same period a year ago. The Northwest Seaport Alliance, which operates the ports in Seattle and Tacoma, Washington, reported a 21.6% plunge in TEU volume to 264,133 from 336,828.

The Houston port posted an 11% drop in containers, processing 248,840 TEUs, compared with 280,721 versus the prior year.

On the East Coast, the Port of Virginia's TEU volume was down 8.6% to 219,315 in March from 240,035 last year. The Port of Savannah, Georgia processed TEUs dropped by 74,537 containers, or 18.1%, to 335,789 compared with 410,326 a year ago. The lack of demand due to COVID-19 has resulted in ocean carriers reducing their network sailings by 20% for the second quarter of 2020.

Monitor Information

GA's *Construction & Transportation Monitor* relates information covering most transportation sectors, including industry trends and their relation to our valuation process. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole. GA welcomes the opportunity to make our expertise available to you in every possible way. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.

The information contained herein is based on a composite of GA's industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of respected sources believed to be reliable. GA does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither GA nor any of its representatives shall be liable for use of any of the information in this issue or any errors therein or omissions therefrom.

Experience

GA has worked with and appraised a number of companies within the construction and transportation industry, including industry leaders in heavy mobile equipment, freight rail, marine, and aerospace. GA's extensive record of transportation inventory and machinery and equipment valuations also features appraisals for companies throughout the entire supply chain, including manufacturers and distributors, maintenance and repair companies, and freight rail refurbishing companies.

GA's extensive experience includes valuations of major businesses in the construction and transportation industry such as:

- One of the largest providers of crane rental services in all sizes and varieties in North America.
- Long-standing providers of truckload shipping services for chemicals, petroleum, and energy sector products.
- A heavy civil construction company specializing in building and reconstruction of transportation/water infrastructure projects.
- A leading miner and explorer of coal properties.
- Providers of locomotives supplying more than 50 railroads including Class I and commuter rail systems.
- Manufacturers and distributors of inland and ocean-service vessels and equipment, as well as OEM and aftermarket marine components and accessories, for the industrial marine and recreational boating industry.
- Manufacturers and distributors of OEM components and parts for aircraft, helicopters, ships, submarines, ground systems, avionics, and other commercial airline and defense applications.

Moreover, GA has liquidated and been involved in the asset disposition of many companies such as Flyi-Independent Air, Cessna, Airbus, Hawker Beechcraft, Daimler Chrysler, Vector Bus, ABC Bus, Green Lawn Tour & Coach, March IV Industries, Affholder Construction, American Sand & Gravel, Big Eagle Services, Canron Construction, Chesapeake Construction, City of Cedar Hills, Cook Harriet Construction, DE Rice Equipment Construction, Flint Energy, Ibarra Concrete, James River Coal, Joe Bland Construction, Marine Pipeline, Marine World, Mohawk Concrete, Pease Construction, Pickus Construction, PT Borneo Mining Services, R.E. Holland/American Excavating, Rinker Material Group/Twin Mountain Rock, Roads Construction, SelectBuild, Stigler Construction, Super Transport, Tamrock Drill Rigs, U-Brothers, Victory Industrial, and WDC Exploration.

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