

Machinery, E&C and Waste

Truck orders drop in April – sliding spot rates, used values suggest weakness ahead

Industry Overview

Trucks: April orders fall 25% YoY and 37% MoM

Class 8 (heavy duty) truck orders of 11.6k units or 11.8k units on a seasonally adjusted basis, declined 27% YoY and 37% MoM. April orders were weaker than expect (ACT ~15-20k units range) and on a SAAR basis (142k) fell below typical replacement (~250k). ACT cites recent turmoil in the banking sector and tightened credit conditions playing a factor. In our view, the soft orders are finally reflecting the weak data trends (ISM New Orders contraction territory last 8 months, declining spot freight rates, exhibit below) as supply chains normalize. The constructive view – orders remain depressed as the equipment market (and freight conditions) normalizes and rebalances. The tail risk – economic conditions take a further leg down into a hard landing recessionary backdrop.

Spot freight rates continue to fall below operating costs

According to ACT, spot freight rates have slid 17% below truckload fleet operating costs in Q2 (worse than 15% operating loss in Q1). BofA Transport analyst Ken Hoexter cites J.B. Hunt noting 'we are in a freight recession' and Old Dominion's April tons/day declined 15% year-year, resulting in the carrier reducing capex for equipment. At some point, capacity likely exits the system and spot rates bottom/infect upward – yet we suspect this is likely to also coincide with weaker ordering trends for a period of time.

Used trucks: inventories up, values down

According to data released today, used truck values continue to moderate. For example, US sleeper trucks (used) inventories up 2.9% MoM (+27% YoY), while asking values fell 5.2% MoM (-28% YoY). While this is somewhat a function of just a normalization of a tight used equipment market the last 2 years, it is coinciding with weak freight trends.

Exhibit 1: Heavy Duty truck orders (SAAR) vs Spot Freight Rates YoY

Order rates are normalizing relative to spot freight rates



Source: Bloomberg, ACT

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