

# Monitor

## Construction & Transportation



VOLUME  
**375**

## SUPPLY CHAIN CONDITIONS IMPROVE

### EQUIPMENT DEMAND REMAINS

Demand for new equipment remains steady despite high interest rates and low equipment availability presenting challenges to operators

### CLASS 8 SALES RISE YEAR-OVER-YEAR

Retail sales of class 8 trucks have remained above 2022 levels thus far in 2023

### CONTAINER IMPORTS DECLINE

Declining consumer spending has decreased import levels despite port congestion improving

# In This Issue

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# Overview

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## Global supply chain conditions have improved significantly in recent months as China's reopened economy has rebounded faster than anticipated.

However, consumer demand and spending continue to fall as recessionary fears loom, evidenced by ocean and freight rates continuing to decline in 2023.

Total construction starts decreased in the first quarter of 2023 compared to the same period in 2022 primarily driven by declines in residential construction activity despite increases in nonresidential and nonbuilding starts. Although the start of 2023 appeared promising to the construction industry, tougher lending conditions are beginning to have an impact. Construction starts, particularly for residential construction, are expected to fall off as the year progresses. Although demand for new and used construction equipment remains, higher interest rates and low equipment availability on the market have presented challenges for purchasing operators.

Order boards for class 8 trucks in 2023 have been filled as evidenced by falling class 8 orders. Industry experts anticipate order activity to remain subdued throughout the summer as manufacturers continue to work through ample backlogs built up in recent years. However, order activity is expected to pick back up in the latter half of the year following the opening of 2024 order boards.

Prices for used class 8 trucks have fallen in recent months as availability on the market rises due to trade-ins, purchases of new trucks, and owner-operators exiting the market and placing more inventory on the market.

Sales of class 8 trucks have remained above 2022 levels thus far in 2023 but are expected to taper off in the latter half of the year while remaining well above pre-pandemic levels as demand continue to outpace supply.

Intermodal and rail freight volume in 2023 has remained below 2022 levels, subdued by lower port activity on the East and West Coasts. The slow down was exacerbated by lower consumer demand and excess retail inventories remaining from high levels of ordering during periods of significant supply chain concerns.

On February 3, 2023, a train carrying the highly combustible chemical vinyl chloride, derailed in East Palestine, Ohio, resulting in the controlled detonation of the derailed cars and an ongoing cleanup of the area. In response to this derailment and increases in derailments in recent years, a bipartisan group of senators introduced The Railway Safety Act of 2023, which includes numerous provisions to prevent similar, future incidents. The bill is currently in front of the Senate.

Import container volume skyrocketed in April over March driven by increased imports from China following the reopening of its economy, but remained below April 2022 levels. Port delays have also declined compared to 2022 levels, averaging less than eight days for both the East and West coast ports. Container prices have fallen in 2023 driven by lower consumer demand and are currently below their 10-year average, signaling prices are returning to pre-pandemic levels.

# Cranes & Lift Equipment

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Total construction starts fell in April 2023 driven by a decrease in nonresidential starts. However, the decline was somewhat offset by increases in nonbuilding and residential starts. For the 12 month period ended April 2023, construction starts remained above the same period in 2022 supported by increases in nonresidential and nonbuilding starts. Declines in residential starts limited overall growth for the 12 month period.

The amount of utilized construction cranes in major North American cities increased in the first quarter of 2023 over the last quarter of 2022. Crane utilization is expected to remain elevated in 2023 as new projects continue to break ground.

Although construction starts declined in the first quarter of 2023, investments in infrastructure and energy and utilities are expected to increase as the Infrastructure Investments and Jobs Act gains traction, benefitting crane utilization rates.

High demand for used equipment continued into 2023 despite recent slowdowns in global economic activity. Substantial backlogs and low availability of new equipment have continued to support higher prices for used equipment in 2023. Higher interest rates have also presented additional challenges and considerations to operators looking to invest in new equipment.

Rental rates are expected to soften in 2023 compared to the high levels of 2022 and 2021. Nonresidential construction starts and improved manufacturing activity are expected to benefit rental firms. However, rental firms focused on the residential construction sector are not expected to benefit as much due to declining consumer spending.



# Trucks & Trailers

North American class 8 truck orders have been on a downward trajectory for much of 2023, only experiencing an increase in February. Lower order levels in 2023 are not an indication of slowing demand but rather reflect full order boards in 2023. Orders are expected to remain subdued throughout the summer but are expected to pick back up in the latter half of the year after 2024 orders boards have opened.

Declining class 8 orders are also an indicator of improving supply chain conditions, which have benefited manufacturing output levels, enabling truck manufacturers to work down backlogs built up since the onset of the COVID-19 pandemic in 2020. April 2023 exhibited the highest build rate since August 2019.

Retail sales of class 8 trucks increased in April 2023 versus April 2022 but declined from March 2023 levels. Sales of class 8 trucks in 2023 have remained above 2022 levels thus far due to improved supply chain conditions and carriers renewing fleets.

Carriers have put off renewing fleets in recent years due to low availability and high manufacturing backlogs due to global supply chain constraints. Sales are expected to slow in the latter half of the year but will remain elevated compared to pre-pandemic levels as demand continues to outpace production.

The amount of freight moved by truck fell both month-over-month and year-over-year in April, indicating softer consumer demand and spending. April marked the second consecutive month of declines, reaching the lowest level of truck tonnage since September 2021 and the largest year-over-year decrease experienced since February 2021.

Used class 8 truck prices fell in March 2023 compared to March 2022 as the availability of inventory on the market increased. Rising trade-in levels and new truck purchases coupled with owner-operators exiting the market, resulted in more units on the used market. Prices are expected to stabilize in the summer of 2023, approaching pre-pandemic levels.



# Construction & Mining Equipment

As of March 2023, total domestic construction spending reached a seasonally adjusted annual rate of \$1,834.7 billion, 0.3% above February's revised estimate of \$1,829.6 billion and 3.8% above March 2022 per the U.S. Census Bureau. For the first three months of 2023, construction spending totaled \$403.3 billion, 4.3% above the first three months of 2022. Private construction spending totaled \$1,435.1 billion, 0.3% above February's revised estimate; residential and non-residential expenditure increased 0.2% and 1.0% from February, respectively. The public sector's expenditure totaled \$399.6 billion, 0.2% above February's revised estimate. Educational construction spending increased 0.7% month-over-month while highway construction fell 0.1%.

Construction equipment manufacturers benefited from improved demand and higher volumes related to improved supply chain conditions thus far in 2023. However, impacts from unfavorable currency exchange rates have presented growth limitations to major industry operators. Global construction output slowed in 2022 and is expected to remain sluggish in 2023, and rising interest rates are expected to present growth limitations for manufacturers. However, investments in infrastructure and energy and utilities are expected to benefit manufacturers as the Investment Infrastructure and Jobs Act begins to pick up speed.

According to the latest Producer Price Index report, building material prices fell 0.2% month-over-month but have increased 0.5% for the four months ended April 2023, the smallest year-to-date increase since the first quarter of 2020. Building material prices declined 0.8% for the 12 months ended April 2023 but are 23.9% higher compared to pre-pandemic levels. Gypsum building material prices fell 1.1% month-over-month, driving the overall monthly decline, but remain 12.1% above April 2022 as prices

began stabilizing in September 2022. Softwood lumber prices rose 6.2% in April, the first increase since July 2022, and have increased 0.9% year-to-date but are 40.1% below April 2022 levels. Steel mill products experienced similar price fluctuations, rising 3.1% in April, marking the third consecutive monthly increase and the fourth increase over the past year but have fallen 14.8% for the 12 months ended April 2023.

Domestic coal production totaled 11.1 million short tons for the week ended May 20, 2023; year-to-date production totaled 232.4 million short tons, 1.9% above the same period in 2022 as reported by the Energy Information Administration ("EIA"). U.S. coal production is anticipated to decline in 2023 compared to 2022 as approximately 6% of the entire coal-fired generating fleet is scheduled to be retired by the end of the year. More than half of the coal plant retirements are scheduled to occur before July 2023, limiting coal-fired power generation for the summer. The EIA anticipates coal consumption to fall 13% in 2023 due to lower natural gas prices, more renewable energy generation, and coal plant retirements. Global coal prices began to decline in the second half of 2022 as production increased but remain above their historical averages. Coal prices in 2023 are expected to remain below 2022 levels but will be higher compared to historical norms.



# Intermodal & Freight Rail

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For the first 20 weeks of 2023, U.S. rail traffic (intermodal units and carloads combined) declined compared to the same period in 2022. Total North American rail traffic, which combines the U.S., Mexico, and Canada, also declined for the first 20 weeks of 2023 compared to 2022. Canadian railroads also reported a decrease for the 20 week period while Mexican railroads reported a modest increase.

Rail volumes in 2023 have been negatively impacted by significantly lower port activity on both coasts, lower consumer demand, and excess retail inventories leftover from pandemic-induced ordering. Intermodal freight has also faced increased competition from the trucking transportation market since mid-2022, which has only continued into 2023.

On February 3, 2023, a train carrying 11 tank cars of vinyl chloride, a highly combustible chemical, derailed in East Palestine, Ohio. The EPA immediately began decontaminating the water within days following the crash and on February 6, crews conducted a controlled detonation of the cars holding vinyl chloride. Air and water monitoring was conducted numerous times following the detonation and continues to be monitored as the derailment is cleaned up.

Since 2020, train derailments have experienced slight year-over-year upticks on a yearly basis. Experts attribute the increase in derailments to increased freight business since 2020, which has caused trains to get longer and heavier.

However, government research into the matter has yet to reach a definitive conclusion.

A group of bipartisan senators introduced The Railway Safety Act of 2023 in response to the increase in derailments. The bill includes various safety provisions to increase safety procedures to prevent future incidents as well as new rules for train size and weight and increased detection and inspection for equipment failure. The bill also increases fines for rail carrier wrongdoing and prohibits time restrictions for inspections as well as requiring the Department of Transportation to ensure only trained mechanics are used for inspections. The bill is currently in front of the Senate.

In late 2022, a railroad worker strike regarding paid sick leave was narrowly avoided by the passing of a bill including one of the largest wage packages seen in five decades and improved benefits to railroad workers but did not include the passage of a second bill regarding paid sick leave. In the spring of 2023, the Union Pacific Railroad announced it had reached agreements that provide access to paid sick leave with eight out of 13 unions, beginning April 1. Other railroad companies are currently in negotiations with unions regarding paid sick leave.



# Industrial Marine

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U.S. container import volumes rose in April 2023 from March driven by increases in Chinese imports, which have skyrocketed following the reopening of China's economy. Despite the monthly increase, import container volumes remained below April 2022. Import container volume at the top 10 domestic ports also experienced monthly increases, with the Port of New York/New Jersey exhibiting the largest increase followed by the Port of Savannah.

Port delays also experienced significant improvements in April over March, reaching their lowest level since 2021. West Coast port delays have fallen to an average of less than eight days while East Coast port delays are averaging less than seven days.

Continuing lower consumer demand has also pushed container prices lower in 2023, below both 2022 and 2021 levels. Container ship deliveries are expected to surge in 2023 into 2024 following high levels of ordering in recent years, placing more downward pressure on container prices. Container prices are currently significantly below their 10-year average, signaling prices are beginning to return to pre-pandemic levels.

Ocean freight prices have declined compared to the spring of 2022 as imported container levels have fallen and port congestion has eased. Falling consumer spending has also contributed to falling ocean freight prices.

For a two day period in April, terminals in the Ports of Los Angeles and Long Beach were closed due to labor shortages. The labor union attributed these shortages and partial closures to a union meeting, which occurred on the Thursday closure while the Friday closure was attributed to employees staying to observe the Good Friday holiday.

On April 20, 2023, the International Longshore and Warehouse Union and Pacific Maritime Association announced tentative agreements for labor contracts had been reached but did not disclose details. However, on June 2, the Port of Oakland shut down as negotiations began to breakdown. Although this is not a formal strike, operations have also been halted at terminals in the Port of Los Angeles and the Port of Hueneme. The situation remains fluid as contract negotiations continue.



# Monitor Information

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B. Riley Advisory Services' Construction & Transportation Monitor relates information covering most transportation sectors, including industry trends and their relation to our valuation process.

B. Riley Advisory Services strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole. B. Riley Advisory Services 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 B. Riley Advisory Services Business Development Officer.

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## Experience

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B. Riley Advisory Services 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. B. Riley Advisory Services' 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.

### **B. Riley Advisory Services' 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, B. Riley Wholesale & Industrial Solutions has liquidated and been involved in the asset disposition of many companies in the construction and transportation industry.

# Meet The Team

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# About B. Riley Advisory Services

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B. Riley Advisory Services works with lenders, law firms, private equity sponsors and companies of all types. Our Advisory Services are a unique mix of Valuation and Appraisal Services including asset-based lending (ABL) Valuations; Restructuring and Turnaround Management; Forensic Accounting and Litigation Support; Operations Management; Compliance, Risk & Resilience Services; and Transaction Support Services including Due Diligence and Quality of Earnings Reviews. B. Riley Advisory Services is the trade name for GlassRatner Advisory & Capital Group, LLC, B. Riley Advisory & Valuation Services, LLC, Great American Group Machinery & Equipment, LLC, and Great American Group Intellectual Property, LLC.



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