

Monitor

Construction & Transportation



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HIGHER INTEREST RATES HAVE IMPACT

EQUIPMENT DEMAND SOFTENS

Dampened construction activity and cautious buying attitudes subdued demand for construction and mining equipment in late 2023

CLASS 8 SALES AND ORDERS DECLINE

Retail sales of class 8 trucks and orders declined month-over-month and year-over-year in October 2023

IMPORT VOLUMES BELOW 2022 LEVELS

Decreased consumer spending, an inflationary environment, and elevated retail inventory levels contributed to lower import levels

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Overview

Rising interest rates, an inflationary environment, and cautious buying attitudes have left an impact on construction and transportation late in 2023.

Higher interest rates, elevated costs, and inflationary pressures impacted construction starts in September as total construction starts, including residential, nonresidential, and nonbuilding starts, all posted month-over-month declines. Total construction starts for the nine months ended September 2023 also declined compared to the same period in 2022, driven by declines in residential and nonresidential starts; however non-building starts posted an increase. Higher interest rates and lower construction activity are expected to dampen demand for construction machinery and equipment in the coming months.

Cautious attitudes towards buying coupled with rising interest rates caused retail class 8 sales to fall in October for the third consecutive month. Sales in the summer of 2023 slowed, allowing OEMs to work through substantial backlogs, which have declined to six months from nine months earlier in the year. Orders for class 8 trucks also declined month-over-month in October as September marked the opening of 2024 order boards, which generally causes an increase in orders.

Sales of used class 8 trucks exhibited a slight decline in September, but the focus of the month was on the much steeper year-over-year decline in class 8 prices as more units became available. Auction sales for class 8 trucks soared in September as equipment owners looked to unload assets following the closure of motor carrier Yellow Corp.

Total U.S. traffic (combining intermodal and rail) increased in October for the second consecutive month, marking the highest increase since June 2021 as the holiday season approaches, exacerbated by concerns regarding Panama Canal capacity. In late October, Panama Canal authorities announced a decrease in daily ship crossings due to an ongoing, severe drought. Daily ship crossings will be gradually reduced from November 2023 to February 2024. For the first 45 weeks of 2023, total U.S. traffic was below the same period in 2022. Lower consumer spending and elevated retail inventories have contributed to the decline.

Import container volume also posted declines in October 2023 from 2022 levels as consumer spending lessens and retailers maintain inflated inventory levels amidst an inflationary environment. Importers have begun shifting back to the West Coast as the union works and West Coast port management reached a six-year agreement; however, the elevated levels experienced at East and Gulf Coast ports are not expected to dissipate entirely as importers seek bicoastal options. Rates for 40-foot containers have also fell in 2023 as the result of declining spending.

Cranes & Lift Equipment

Construction activity has been subdued in the latter half of 2023 as total construction starts reported month-over-month and year-to-date decreases in September. Although residential and nonresidential starts reported year-to-date decreases, nonbuilding starts reported a year-to-date increase. On a 12-month basis, nonbuilding and nonresidential starts posted increases while residential starts exhibited declines. Overall construction activity has been dampened by higher interest rates, elevated energy costs, and inflationary pressures.

Crane utilization rates have also exhibited declines in the third quarter 2023 as numerous projects near completion. Rising interest rates have also had a negative impact on crane utilization as private-sector construction exhibits signs of slowing activity.

Equipment rentals exhibited similar patterns to crane utilization as growth softened in the third quarter of 2023, which industry experts attribute to the market normalizing following a three-year period of chaotic growth. Equipment rental rates

are expected to face headwinds related to an inflationary environment, higher interest rates, and labor shortages, causing slower growth in 2024.

Experts are characterizing the new and used crane market as cautious with operators facing higher prices and interest rates coupled with high demand. Supply chain constraints in recent years have limited the new crane supply, with many of the newer models remaining unavailable until mid-2024. Used crane prices have been driven upward by the lack of newer models, and sales of both new and used cranes are expected to remain brisk with aggressive prices into 2024.

The Manitowoc Company, a global manufacturer of cranes and lift equipment, reported increased sales in the third quarter of 2023. Sales were favorably impacted by changes in foreign currency exchange rates. The company reported increases in non-machine sales and orders as well as an increase in its order backlog.



Trucks & Trailers

Retail sales of class 8 trucks in North America continued to decline month-over-month and year-over-year in October 2023 for the third consecutive month. The October decline comes as a surprise to industry experts as the softer sales followed a strong production month in September. Major truck manufacturers, Daimler Truck North America, Navistar, and Volvo Trucks North America, all reported year-over-year declines in October. Experts attribute the decline to higher interest rates and cautious purchasing as overcapacity amongst fleets has led to lower freight prices. However, for the first 10 months of 2023, sales have increased compared to the same period in 2022.

September marked the month with the most class 8 orders in 2023 as 2024 order boards opened, posting a significant month-over-month increase but declining from the peak experienced in September 2022. Class 8 orders continued their year-over-year decline in October, falling from September's rates as well. Moving forward, production is expected to face downward pressure from increased inventories.

Slower sales in the summer of 2023 enabled OEMs to work through backlogs, which had reached up to nine months from order to delivery. Backlogs for new trucks have fallen closer to six months as the majority of the supply chain disruptions in recent years have begun to improve.

Used class 8 sales fell slightly in September; however, the month was characterized by a steeper decline in used class 8 prices. Class 8 auction sales soared month-over-month in September, partially driven by the closure of motor carrier Yellow Corp. as equipment owners looked to sell assets prior to Yellow Corp. trucks and trailers hitting the market.

Freight moved by truck increased slightly month-over-month in October but remained below 2022 levels. The amount of freight moved by truck increased inconsistently over the summer of 2023 and remains soft due to a weakened spot market. Sales of class 8 trucks in the first half of 2024 are expected to slow as contract and spot rates continue to reflect easing demand from large fleets, weak freight growth, and low freight rates.



Construction & Mining Equipment

Total domestic construction spending was estimated at a seasonally adjusted annual rate of \$1,996.5 billion in September 2023, 0.4% above the revised August estimate of \$1,988.3 billion and 8.7% above the September 2022 estimate of \$1,836.9 billion per the U.S. Census Bureau. For the first nine months of 2023, total construction spending reached \$1,463.5 billion, a 4.2% increase from the same period in 2022. Private construction expenditure totaled \$1,555.9 billion, a 0.4% increase from August's estimate; residential and nonresidential construction expenditures also posted increases of 0.6% and 0.1%, respectively. Public construction spending reached \$440.6 billion, 0.4% above August's estimate; educational construction posted a 1.9% increase from August, while highway construction declined 0.2%.

Orders for new construction machinery increased year-over-year in August but have faced various headwinds in 2023 including higher interest rates, lower corporate profitability, and less activity within the housing market. Experts anticipate new order rates will continue to be impacted by higher interest rates and slower economic activity, which will favor rentals.

According to the Producer Price Index, building material prices in September were unchanged from August; prices rose 0.4% in August. For the nine months ended September 2023, prices have risen 0.8%, the smallest year-to-date gain since 2019. Gypsum building materials fell 0.7% in September, the sixth consecutive monthly decrease; prices have fallen 2.0% over the 12 months to September, but the majority of price declines have occurred in 2023. Steel mill product prices fell 3.7% in September; steel product prices increased 12.4% from January to May 2023 but have declined

9.5% over the four months to September. Steel mill products prices are 12.5% below September 2022 levels and have declined by nearly a third since doubling in 2021. Softwood lumber prices increased 1.3% in September after declining 5.3% in August; softwood lumber prices have declined 11.2% over the 12 months to September 2023. Ready-to-mix concrete ("RMC") prices increased 0.3% in September, following a 1.7% increase in August; RMC prices have increased 9.7% from September 2022. September marked the first month since May 2022 when RMC prices have had an increase of less than 10%.

Domestic coal production is estimated at 11.9 million short tons ("MMst") for the week ended November 18, 2023, 0.6% above the prior week and 2.8% above the same week in 2022 per the U.S. Energy Information Administration ("EIA"). Domestic coal production totaled 142.3 MMst for the second quarter of 2023, a 4.3% decline from the first quarter and 1.6% below the second quarter of 2022. The EIA estimates domestic coal production will total 585 million MMst in 2023 and is expected to decline 100 MMst in 2024 due to falling demand from the domestic power sector. Production declines are also attributed to full coal inventories held by electrical plants; in late 2023, plants hold approximately 50% more coal than they did in mid-2022. North American coal prices increased in the third-quarter of 2023 driven by an increase in demand and higher international interest as the U.S. has experienced the highest export levels for coal since 2018. However, the increase in the third-quarter pricing was limited by a decrease in the first month of the quarter related to reduced coal-fired power generation as electrical plants maintain substantial coal inventories.

Intermodal & Freight Rail

For the first 45 weeks of 2023, total U.S. traffic (intermodal and rail combined) was below the same period in 2022. Total North American traffic, which combines the U.S., Mexico, and Canada, posted an increase for the first 45 weeks of 2023 compared to the same period in 2022; the overall increase was driven by an increase in Mexican traffic levels as the U.S. and Canada both experienced declines for the 45-week period.

Total U.S. traffic increased for the second consecutive month in October 2023, marking the highest increase since June 2021. The increase can partially be attributed to seasonality as the holiday season approaches as well as concerns regarding Panama Canal capacity. In late October, Panama Canal authorities announced a decrease in daily ship crossings due to the severe drought; ship crossings will be gradually reduced from November 2023 into February 2024.

In March 2023, the Railway Safety Act was introduced to the Senate and passed out of committee in May 2023 but has remained stalled since. A similar bill, the Reducing Accidents in Locomotives Act, was introduced in the spring of 2023 but has not been taken up by the House yet.

According to the Federal Railroad Administration (“FRA”), there have been 742 reported train derailments reported in 2023; 2022 train derailments totaled 1,259. Most recently, on November 22, 2023, a train derailed and spilled molten sulfur near Livingston, Kentucky, resulting in a state of emergency for the area being issued and evacuation by residents encouraged as crews worked to contain the resulting fire and clean up the spill. Residents have since been allowed to return home, and the Environmental Protection Agency is monitoring sulfur dioxide levels in the area.

In 2022, a bill was passed that included one of the largest wage packages and improved benefits for railroad workers but did not include sick leave. In the spring of 2023, railroad companies began reaching agreements with workers regarding the paid sick leave, and, as of June 2023, more than half of all unionized railroad workers in the U.S. now have paid sick leave.



Industrial Marine

Import volumes at key U.S. ports remained below 2022 levels in October 2023 resulting from lower consumer spending, an inflationary environment, and general economic softening as well as elevated retail inventories.

Freight rates for shipping a 40-foot container to the West and East Coasts have fallen significantly in 2023 stemming from declining consumer spending. Container prices exhibited a decline in September, when they typically would show an increase ahead of the holiday season, suggesting consumer demand is easing and peak ocean freight rates in 2023 have passed.

Significant backlogs and workforce impediments in 2021 caused importers to shift shipments from West Coast ports to East Coast and Gulf ports in 2022. In August 2023, negotiations between ports and unionized workers ended with a new six-year contract.

Importers have begun redirecting some shipments back to West Coast ports, but, as infrastructure at many East and Gulf Coast ports has improved, elevated activity at these ports is expected to continue as many shippers seek bicoastal options for importing purposes.

In August 2023, the International Longshore and Warehouse Union and dock workers from California to Washington state reached a six year agreement. The agreement includes a pay increase over the six-year span and a one-time bonus for working throughout the early days of the COVID-19 pandemic. The agreement also includes improved benefits for workers.



Monitor Information

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

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- Providers of locomotives supplying more than 50 railroads including Class I and commuter rail systems.
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- 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.

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