

Monitor

Construction & Transportation



VOLUME

348

THE SUPPLY CHAIN STEERS THE INDUSTRY

USED EQUIPMENT PRICING SOARS

Prices for shipping and raw materials continue to rise, paving the way for strong demand in the secondary marketplace

BACKLOGS MOUNTING FOR ALL SECTORS

Manitowoc reported a 91.6% increase in outstanding orders through September 2021

INFRASTRUCTURE BILL MAY PROVIDE BOOST

Investment in roads, bridges, and highways may start to offset unemployment and heighten demand

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Overview

The construction and transportation industries continue to be driven by the up-and-down nature of the COVID-19 pandemic. As issues in supply chains, shipping, and labor continue, and the pricing of raw materials remains on an upward trend, the cost of new equipment production and retail pricing continue to increase as well. These circumstances, however, have resulted in strong used equipment demand and pricing. Increased demand for domestic manufacturing has also strengthened the value of construction starts in the nonresidential sector, while residential starts displayed a slowdown from September to October 2021.

Crude oil demand has quickly increased, drastically raising prices and reducing available inventory. Rising inflation and a changing pandemic climate dealt a blow to consumer confidence in November, with the metric reaching a nine-month low of 109.5. Economists, however, remain optimistic that confidence levels will return, forecasting an overall growth of 7.9% in gross domestic product in the fourth quarter.

The current administration's passing of a \$1.2 trillion infrastructure bill could have sizable impacts on investments in roads, bridges, highways, and stormwater and wastewater systems. Subsequently, increased activity in these sectors could also result in job creation. Stability in demand and equipment values in the secondary marketplace, as well as new equipment, is therefore predicted to remain strong throughout 2022 and the foreseeable future.

Construction equipment manufacturers are reporting year-over-year positive gains in net sales; however, production backlogs are mounting, and shipping rates are at an all-time high. Compared to the same period in 2020, retail truck sales in North America have increased on a year-to-date basis. Orders for trailers and new Class 8 truck tractors, however, are sharply declining due to several issues in production, growing backlogs, and pricing increases.

Construction starts increased roughly 16% from September to October 2021, largely due to upticks in nonbuilding and nonresidential starts, as residential and highway construction trended downwards. Mining equipment demand continues to move along with demand for mined goods, as demand for steel and aluminum remains firm and scrap pricing increases. Still, the overall cost of construction is anticipated to continue rising through the first half of 2022, and the lack of available labor could limit recovery in the short term.

While intermodal volume and output peaked in March 2021, all indicators trended downwards for the remainder of the year, despite a significant increase in demand, making 2021 a historically difficult year for the intermodal and freight sector. On the domestic front, the industry never quite recovered from the impact of the polar vortex in February. On the international side, while initial numbers looked strong, there have been five months of declines through October, primarily due to congestion at the ports and lower velocity. Additionally, the ports are working at maximum capacity; therefore, no matter how many vessels arrive, the system is not able to process additional volume flowing through the ports.

Cranes & Lift Equipment

The second half of 2021 displayed construction industry growth, resulting in increased demand in the secondary marketplace for cranes and lift equipment, as pricing of new equipment remains high following supply shortages and increased costs of raw materials. These factors, coupled with longer and extended lead times, will likely continue to bolster demand and pricing of used equipment into the first half of 2022. In addition, certain construction markets are continuing some of the positive trends seen in the first half of 2021.

According to Dodge Data & Analytics, overall construction starts jumped 16% higher from September to October 2021, to an adjusted annual rate of \$1.01 billion, with nonresidential and nonbuilding starts realizing month-to-month gains of 29% and 52%, respectively. The nonbuilding sector showed a 2% increase on a year-to-date basis; the increase comes despite a lackluster performance for highway, bridge, and road construction, which fell 7% compared to the same period last year. On the other hand, large gains in the manufacturing sector helped strengthen the value of nonresidential construction starts. Residential starts dropped 8% as of October to a seasonally adjusted rate of \$388.6 billion, with multi-family housing falling 24% and single-family gaining less than 1%. That being said, the residential segment still reported a 21% increase in construction starts in October 2021 versus the prior year.

Overall utilization rates from many of the major rental equipment providers have remained solid following a slow start to the year, with long-term projects staying on track and short-term taxi work rebounding. Although some rental and contract companies have begun to invest in new equipment, large backlogs are a persistent concern for many of these major manufacturers.

The Manitowoc Company ("Manitowoc") reported an increase in orders of 37.3%, or \$145.3 million, for the third quarter of 2021 versus the third quarter of 2020. Subsequently, the company's backlog as of September totaled \$890.6 million, which represents a 91.6% increase year-over-year. The company's net sales increased 13.8% to \$404.5 million during the same period.

Global shipping rates remain extremely high, with Bloomberg reporting a 290% increase since October 2020. While the anticipation is that these rates will fall after the holiday season, they are still expected to remain above average in 2022. These additional costs are typically passed on to the consumer, predictably continuing to increase the price of new equipment in the marketplace.

Much of the auction activity for cranes remains solely online; however, this has not affected the number of buyers seeking equipment. Some auctioneers are reporting a return to in-person auctions in early 2022. Cranes in good condition, with relatively low hours, and of newer model years, are the most sought after by prospective buyers.



Trucks & Trailers

Recent news of the passage of a \$1.2 trillion infrastructure package will bode well for the trucking industry in some respects; however, the industry is also plagued with several ongoing issues regarding driver shortages, U.S. port backlogs, and a lack of supply of trucks and trailers to move goods around the country. According to the American Trucking Associations ("ATA"), the industry is down 80,000 drivers, a 30% increase from pre-COVID-19 pandemic levels. In addition, production of new trucks is beset by shortages of semiconductors, stifling the completion of units, and leaving them unfinished. October orders of Class 8 truck tractors came in at 21,900, down from 39,089 the year prior, according to ACT Research.

While demand is evident, increasing production is hindered, as supply, raw materials, staffing, and freight cost issues remain disruptive to the process. Some truck manufacturers are cancelling orders as a result. For those orders still in a holding pattern, prices continue to increase in most cases. Additionally, while sales of new and used units are down, the decline can once again be largely attributed to the lack of available inventory.

In line with these factors, total trailer orders for October totaled 16,800 units, a steep decline from almost 55,000 on a year-over-year basis. For dry vans and reefers are already slated for completion well into 2022. Many manufacturers are now focusing their efforts on managing their current backlogs as opposed to adding to them.

Retail sales of new Class 8 tractors totaled 17,002 units in October 2021, or a 9.4% drop from October 2020. Conversely, year-to-date sales reached 180,685 units, an increase of 18.3% versus the same time period in 2020. According to the ATA, the seasonally adjusted For-Hire Truck Tonnage Index increased 1.8% in October 2021 on a year-over-year basis, the largest jump since the spring of 2021.

Many consumers began holiday spending and shopping earlier than usual in anticipation of shipping delays and product shortages.

As prices and lead times for new equipment continue to increase, used Class 8 tractor prices continue a sharp upward climb as well. The average price of a used Class 8 tractor in April rose to \$72,204 per unit, a stark increase since October 2020 when the average price came in at \$46,913 per unit.

Following September, when used Class 8 tractor sales came in at 22,800 units, October sales totaled approximately 21,700 units, a minor decrease, but in line with total sales a year earlier. For the ten months ended October 2021, total sales were 220,500 units versus 209,000 units during the same period in 2020. The average age of a used Class 8 sold was six years and six months, with mileage averaging around 441,000 miles.



Construction & Mining Equipment

As of October 2021, total construction spending increased 0.2% to \$1,598.0 billion compared to the prior month estimate of \$1,594.8 billion. This indicates an 8.6% year-over-year increase since October 2020. In a similar fashion to total construction starts, nonresidential spending increased, while residential spending decreased, compared to the prior month. The private sector realized a total 0.2% decrease in spending, with residential construction displaying a 0.5% decline. Total public construction fared better, increasing spending by 1.8% to total \$353 billion, with highway construction displaying a 2.4% gain alone. With the recent signing of a landmark \$1.2 trillion infrastructure bill, federal funding on energy, inland waterways, bridges, and road construction, as well as other major rehabilitation projects, will likely continue this trend of positive growth in this sector.

As previously noted for crane manufacturer Manitowoc, other heavy construction equipment manufacturers are reporting year-over-year increases in net sales. Terex Corporation posted an increase in net sales of almost 30% through the third quarter of 2021, despite meeting several supply chain challenges. Similarly, Caterpillar, a leading OEM in the industry, realized a sales increase of 25% through September.

According to Business Wire, the North American heavy construction market is anticipated to reach a compound annual growth rate of 7% over the six-year period from 2021 to 2027. Projects such as the Purple Line Maryland, Central 70 Colorado, the I-4 Ultimate Florida, as well as an increase in airport development activity, will likely continue to bolster activity in the secondary marketplace. Equipment related to infrastructure and nonresidential construction, such as excavators, wheel loaders, bulldozers, motor graders, and other similar equipment, are expected to display steady demand levels.

With commodity demand and pricing reaching all-time highs, effects are being seen across many industries. According to Associated Builders and Contractors, as of October 2021, iron and steel prices were up 95.2% year-over-year, while aluminum was up 63% for the same period. Pricing for these commodities drives pricing throughout the construction and manufacturing industries, leaving the potential for delays or setbacks in these sectors.



Coal production is on the rise as the surplus built up following the onset of the COVID-19 pandemic in 2020 gives way to global demand. Following the significant increase in pricing for natural gas over the 2021 summer months, coal is expected to account for 22% of the U.S.' electricity generation this year, an increase of 2% versus 2020, according to the U.S. Energy Information Administration. Equipment in these sectors typically rises and falls in line with demand for globally mined goods. As such, these factors should continue to be monitored.

Intermodal & Freight Rail

According to The Association of American Railroads (“AAR”), total carload and intermodal traffic increased 6.5% in North America, growing 7.5% in the U.S., 3.7% in Canada, and 4.0% in Mexico from the same period last year. This represents a decline from the first 40 weeks of 2021 (ending October 9), when total traffic (carload and intermodal) increased 7.6% in North America, up 8.7% in the U.S., 4.7% in Canada, and 4.1% in Mexico versus the prior year.

U.S. weekly rail traffic totaled 504,111 carloads and intermodal units for the week ended November 6, 2021, which represents a decrease of 3.5% versus the same week in 2020. U.S. Class I railroads moved 235,585 carloads, an increase of 3.1% from the prior-year period, and 268,526 containers and trailers, a decline of 8.6% compared to the previous year. Intermodal volume has been down for 14 consecutive weeks.

Per the AAR, five out of the 10 carload commodity groups posted increases compared to the same week in 2020, including coal, up 7,625 carloads to 66,745 carloads; metallic ores and metals, up 3,486 carloads to 21,039 carloads; and chemicals, up 1,178 carloads to 33,780 carloads. Commodity groups that posted decreases compared with the same week in 2020 included motor vehicles and parts, down 3,204 carloads to 11,946 carloads; grain, down 2,039 carloads to 25,386 carloads; and petroleum and petroleum products, down 413 carloads to 10,010 carloads.

U.S. railroads reported cumulative volume of 10,192,237 carloads for the first 44 weeks of 2021, which represents an increase of 7.4% from the same period in the prior year, and 12,158,149 intermodal units, a 7.6% increase from 2020. Total combined U.S. traffic for the first 44 weeks of 2021 was 22,350,386 carloads and intermodal units, an increase of 7.5% versus the prior year.

North American rail volume for the week ended November 6, 2021, on 12 reporting U.S., Canadian, and Mexican railroads came in at 334,304 carloads, increasing 2% compared with the same week in 2020, and 356,154 intermodal units, falling 7.8% from the previous year. Total combined North American weekly rail traffic declined 3.3% to 690,458 carloads and intermodal units, while rail volume increased 6.5% from the prior year to 30,478,642 carloads and intermodal units.



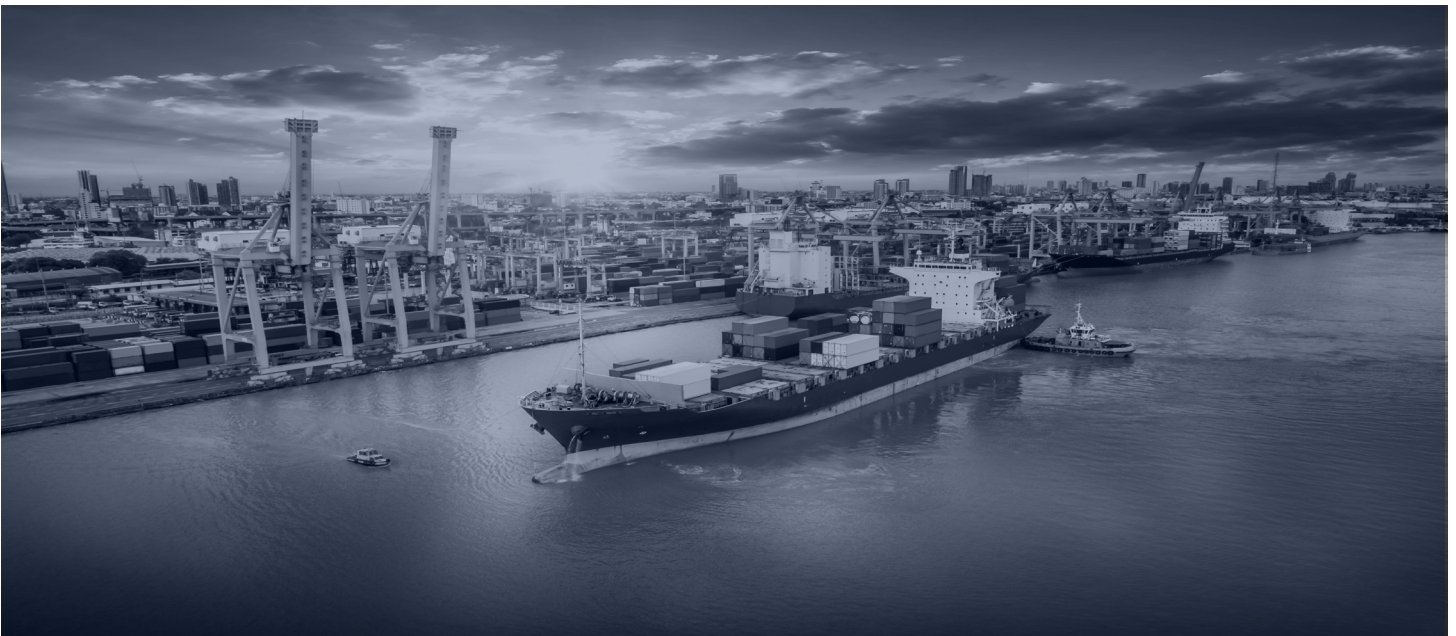
Industrial Marine

A coalition of five U.S. manufacturers successfully launched trade action related to exports from Chinese equipment manufacturers, most notably China International Marine Containers Co., Ltd ("CMIC"). Chinese manufacturers of marine container chassis will be facing duties on sales into the U.S. of more than 200% for the next five years following a final finding by the U.S. Department of Commerce ("USDOC"). The final ruling regarding the percentage of the duty follows earlier findings by the International Trade Commission that Chinese manufacturers had sold chassis into the U.S. at less-than-fair value, leaving domestic producers at a disadvantage.

While CMIC was not the only Chinese company originally investigated by the USDOC, it represents the largest of the Chinese exporters. The duties imposed on all Chinese producers and exporters has allowed the U.S. industry to start rehiring its workforce and ramping up production to meet industry demands in anticipation of a fairly traded market.

In November 2021, the Ports of Los Angeles and Long Beach released preliminary estimates of 849,000 loaded containers imported in October, which brings the total number of containers imported between January and October to 8.6 million. This represents an increase of 16% versus the ports' previous record during the same period in 2018. The ports also reduced the number of containers sitting on the docks for more than nine days by approximately one-third over the first two weeks of November.

According to the United Nations Conference on Trade and Development, annual growth in maritime trade between 2022 and 2026 will slow to 2.4% versus 2.9% over the past two decades. While the COVID-19 pandemic's impact on trade volumes in 2020 was not as significant as initially anticipated, the long-term effects will be felt for years to come. Unprecedented pressures in global supply chains, significant increases in freight rates, rising prices for consumers and importers, and potential shifts in trade patterns due to trade disputes will all shape the maritime sector over the next several years.



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.

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

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.

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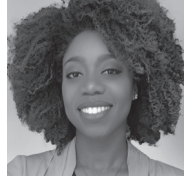
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B. Riley Financial ranked No. 2 on FORTUNE 100 Fastest Growing Companies 2021 list based on revenue growth rate, EPS growth rate, and three-year annualized total return for the period ended June 30, 2021. Fortune. © 2021 Fortune Media IP Limited All rights reserved.

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