BUY

Lease Payments

In 2023, lease payments (depreciation) continues to be pressured by high acquisition and borrowing costs.

Monthly lease payments are up 39% from 2020 to 2023.
Principal payments have risen 25% while **Interest and Admin costs are up 208%***

*B*Based on Ford Transit 150 van (148WB:Mid-Roof) on 60-month lease tied to 5-Year SWAP rate and $0.55/$1,000 Admin cost.

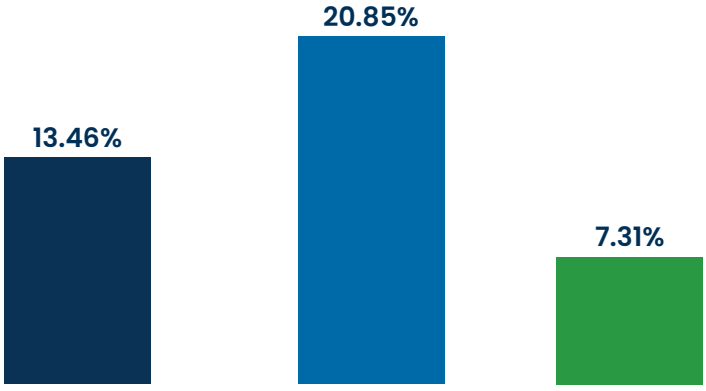
To put the above scenario into context, a van fleet with an annual acquisition budget of $1M would be able to finance 135 vehicles in 2020. However, in 2023, the same budget would finance 97 vehicles, reducing the number of replacement orders by 38 units. In order to maintain the same level of acquisition volume at 2023 costs, the fleet would need to increase the acquisition budget by nearly $386,720.

RISING INTEREST RATES CONTINUE TO INCREASE THE BORROWING COSTS AND PRESSURE DEPRECIATION BUDGETS

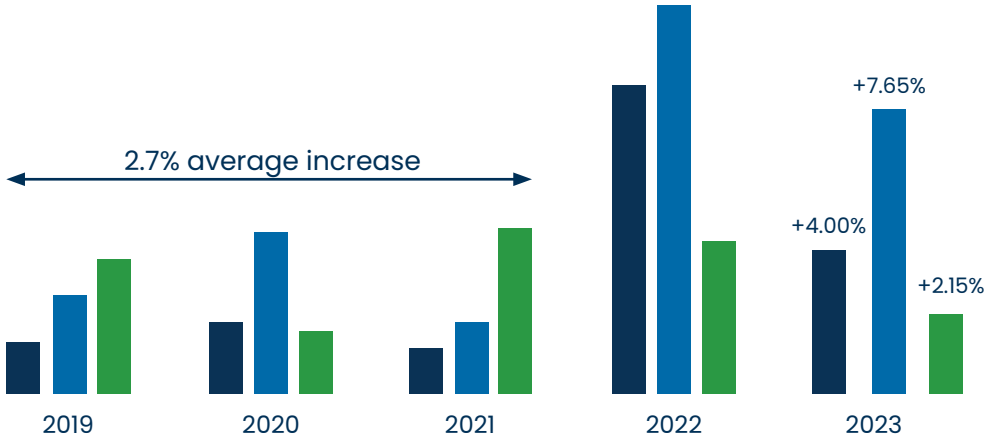
The Federal Reserve raised the target range by 25 basis points to 5.25% during their May 2023 meeting. It marks a 10th consecutive rate hike, which continues to raise borrowing costs. Consequentially, swap rates[1] for vehicle leasing and financing will remain high throughout the year. **Whether the Federal Reserve will eventually pause with rate increases this year remains unclear**, as sources indicate uncertainty both in the markets and in signals from the Federal Reserve itself.

[1] Swap rate: In an interest rate swap, it is the fixed interest rate exchanged for a benchmark rate such as SOFR or the Fed Funds Rate plus or minus a spread.

Invoice Prices for new **Trucks,** **Vans** and **SUVs** have risen 7%-20% between model year 2021 and 2023



Invoice prices for Model Year 2023 **Vans** have surged.
Trucks and **SUVs** have realized a more modest, but consistent price increase.

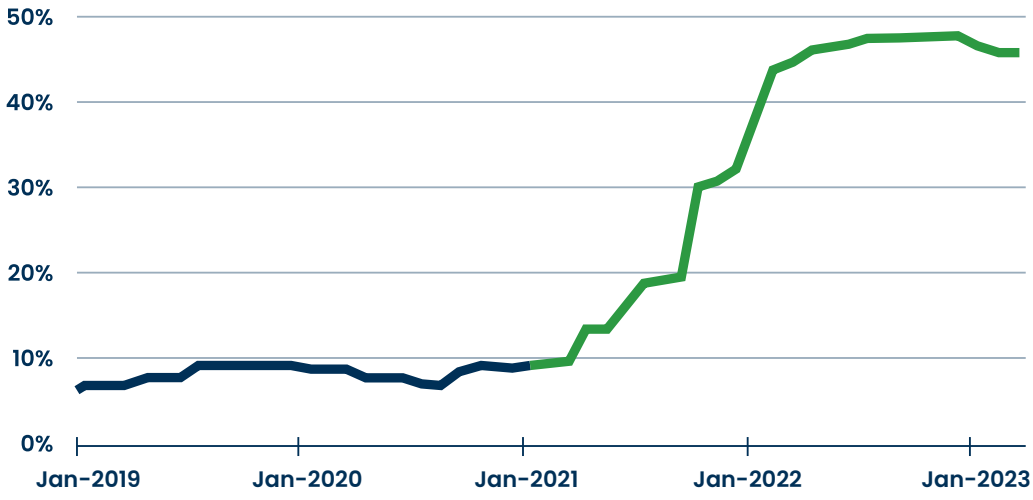


Additionally, Holman Vehicle Supply Chain continues to observe the trend of OEMs restricting the volume and size of vehicle purchase incentives, even for clients with long-standing relationships. This can add significant costs to new fleet acquisitions. The reductions observed in 2022 are plateauing, but will likely be constrained throughout 2023 and into 2024. Fleet managers should continue to factor this into their order strategy planning and budgeting.

Historically increased invoice prices driven by high production costs are stabilizing.

The cost of vehicle production surged in 2021 due to supply chain issues, including **raw materials, chip shortages, expensive backlog in orders, and OEM shutdowns**. Though vehicle manufacturing costs have drastically increased since 2021, early 2023 has seen this cost plateau.

The Cost of Manufacturing a Vehicle
January 2019 - March 2023



Percentage of change based on 2018 baseline, Source: Bureau of Labor Statistics, FTR

While vehicle upfitting costs have also seen an increase of 20% since 2020, these costs are beginning to stabilize and will continue to stabilize throughout the remainder of 2023.

At the end of March this year, one OEM shut down one of its truck assembly facilities for two weeks. With new vehicle production increasing but demand stabilizing, the halt was an attempt to maintain steady and constrained inventory levels on dealer lots. The reduced output provides the OEMs pricing power, which could signal an overall softening demand that is forecasted to continue with higher rates discouraging consumers.

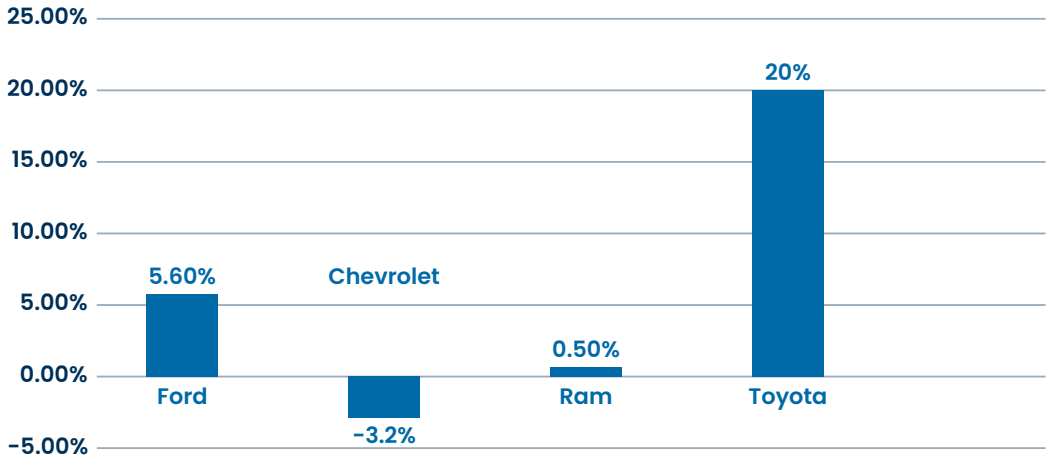
Amid continued delays in ICE vehicle ordering, manufacturing, and vehicle deliveries, other OEMs are prioritizing increasing EV productions. In the EV space, the passing of the Inflation Reduction Act has offered tax incentives for individuals and businesses purchasing qualifying new vehicles. Qualified vehicles can receive up to $7,500 in credits for vehicles weighing less than 14,000 pounds and $40,000 for those weighing more.

Although most of the global supply chain has recovered from the pandemic, it has been difficult for manufacturers to keep up with the demand for semiconductor chips. With chip shortages severely influencing global vehicle production in early 2021, legislation was introduced in August 2022, which provided funding of $54.2 billion to support the domestic production of chips in the United States. Since March of 2023, the U.S. began disbursing this funding. Globally, manufacturing of semiconductor chips has since resumed at full capacity. With EVs requiring around double the chips than their ICE counterparts, the automotive industry's appetite for chips is trending to grow in the coming years.

Material component shortages have caused North American **vehicle production to decrease by 23% in 2021[2] compared to 2018** levels. North American data shows OEMs are overcoming majority of the production challenges. In 2022, light vehicle production closed out at 9.8M and a forecasted 10.3M will be produced in 2023. This production is an increase of 5% from 2022 and 9% from 2021, respectively.

[2] Percentage change sourced from Statista.com - www.statista.com/statistics/204208/north-america-vehicle-production-since-1990/

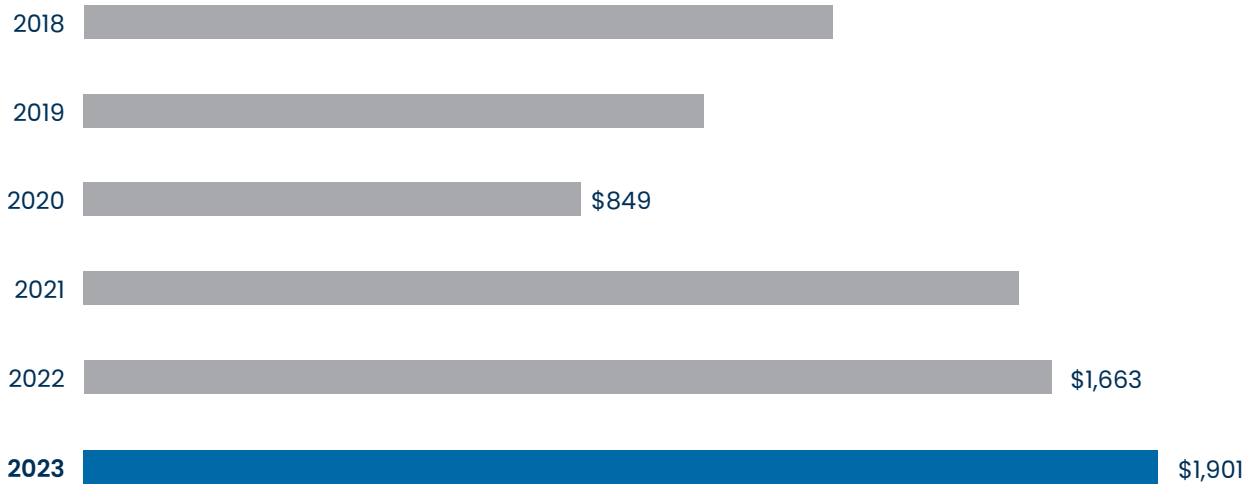
Ford, Ram and Toyota all forecast an increase in vehicle production for 2023
Chevrolet is forecasted to continue to see a decrease in output



Overall, manufacturers' cost of labor increased 11.5% since 2020, but in 2022 and 2023, so far, the cost of labor has risen only modestly. This shift in labor trends suggests the rapid increase in cost seen in the past may have come to an end.

In terms of raw material, the World Steel Association reports that approximately **55% of a vehicle's weight comes from steel**. Due to that relationship, the shortage and rising cost of raw materials have negatively affected market supply and amplified expenses on truck manufacturing costs.

On average the **price of steel is up 14% since 2022**



Data from Wall Street Journal Steel Index

The cost of steel continues to rise which will directly impact the costs of new vehicles. The constrained market has made it difficult for manufacturers to maintain an adequate supply of material components resulting in upward pressure on margins.