



# Holman

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## 2024 US INFLATION FORECAST

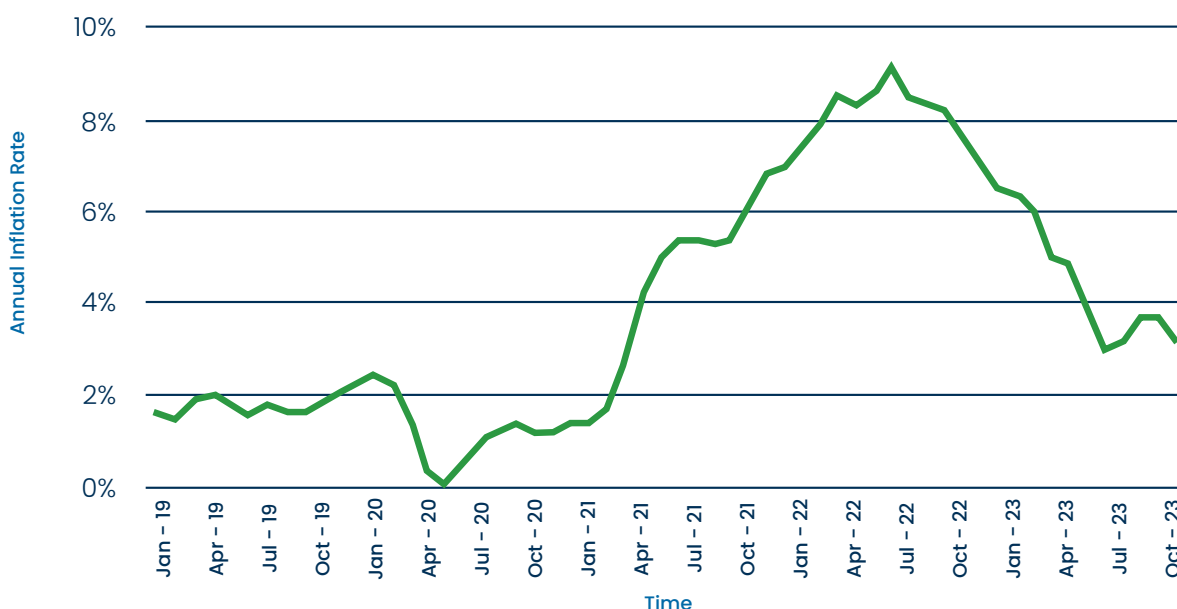
Insights and strategies to position your  
fleet for success in 2024 and beyond.



# INFLATION

Inflation and its impact on the vehicle lifecycle is a significant concern for US fleet managers and executives. With rising costs affecting everything from fuel prices to vehicle maintenance, companies are facing unprecedented budgetary pressures in managing their fleets effectively. In this whitepaper, we outline the current economic landscape and the implications it has on the four stages of the vehicle lifecycle: Buy, Drive, Service and Sell. Read on to understand these implications and learn how fleet managers can effectively mitigate the impact of inflation at each stage.

## US Consumer Price Index



The US Consumer Price Index (CPI) has historically followed the Federal Reserve's target of 2.00% annual inflation. Since dropping to nearly 0.00% in May 2020, the annual CPI for all items steadily rose until peaking above 9.00% in June 2022. **The CPI then fell steadily until reaching a low of 3.00% in June 2023, with the index currently at 3.20% in October 2023.**

## What Lies Ahead?

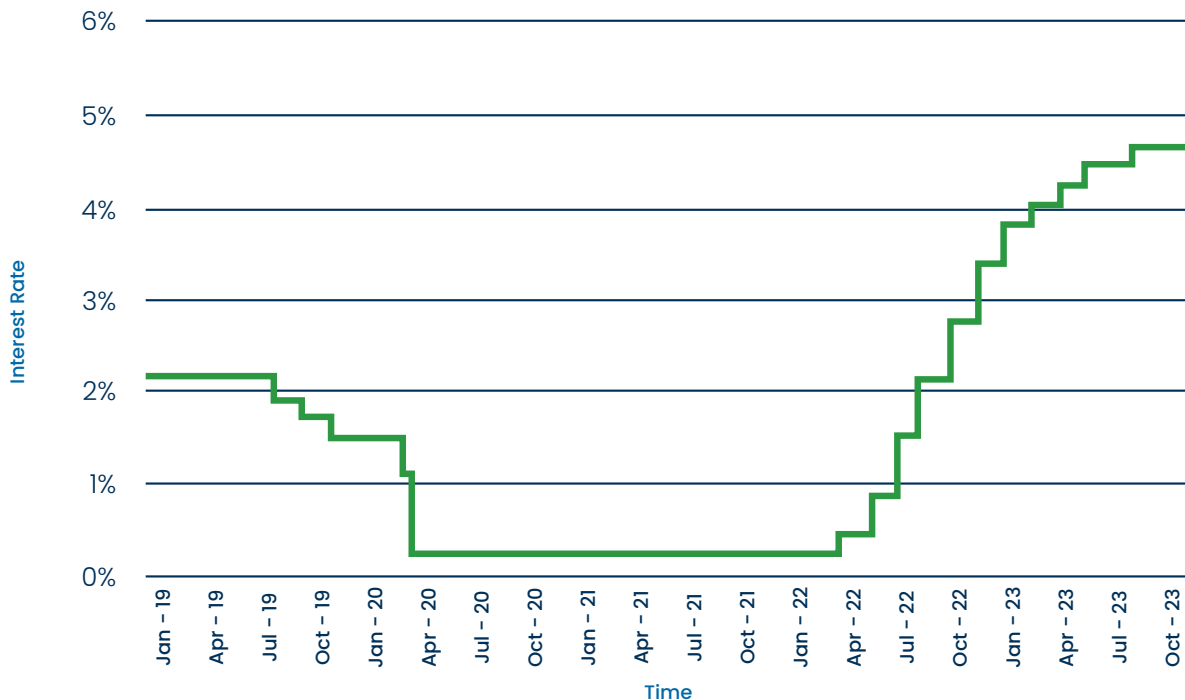
**The US inflation rate is slowing, but is not expected to hit the Fed's target of 2.00% until 2026.** On November 1st, Federal Reserve Chair Jerome Powell said that US inflation is coming down, but is still running well above the Fed's 2.00% target. He also stated that it remains unclear whether overall financial conditions are yet restrictive enough to tame inflation. The Fed forecasts inflation to decrease to 3.30% by the end of 2023 and only reach the target of 2.00% in 2026.

# BUY

To Buy right, fleet managers should analyze vehicle and equipment performance data to determine the optimal vehicles that result in a predictable budget and increased reliability. For buyers, inflation influences two critical aspects of vehicle acquisition: interest rates and the price of new vehicles.

## INTEREST RATES

### Fed's Benchmark Overnight Interest Rate: Pre-COVID Level to August 2023 Peak



The Fed's benchmark overnight interest rate was at 1.75% prior to the onset of the COVID Pandemic before dropping quickly to 0.25% in March 2020 and remaining there until March 2022. In response to inflation, the Fed then steadily increased the benchmark overnight interest rate until it reached the current high of 5.50% in August 2023.

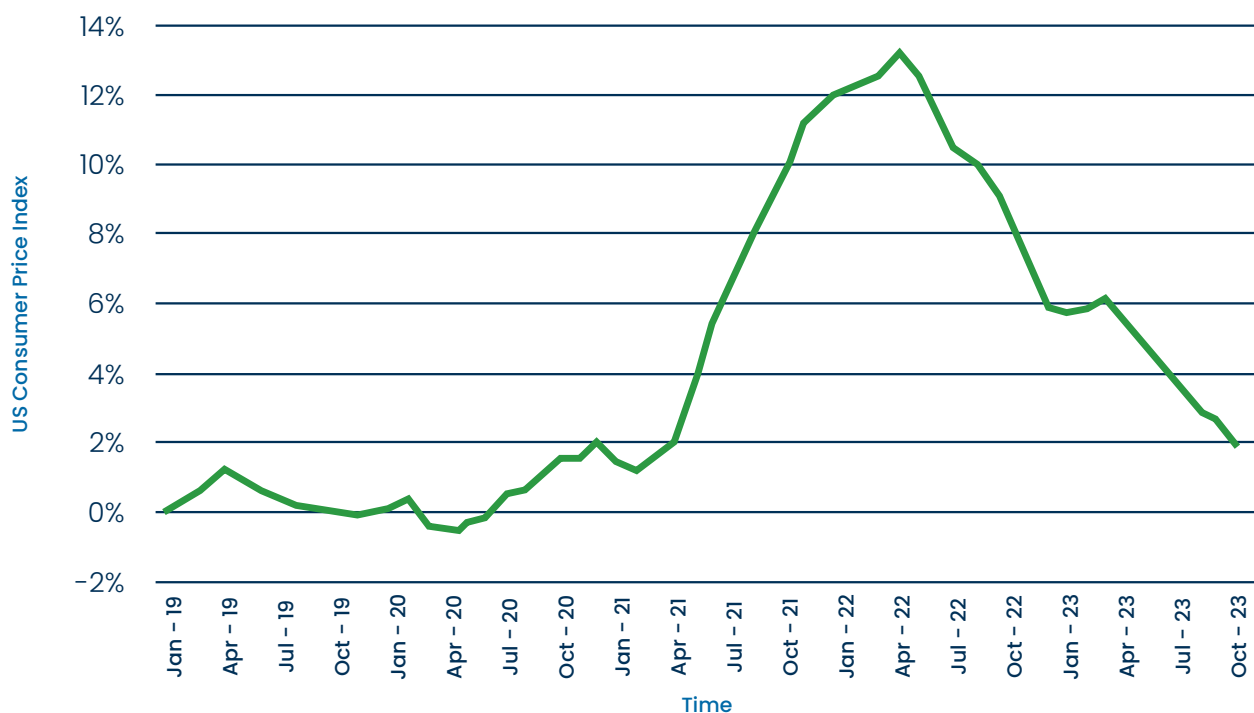
After the November 1st decision to keep the benchmark rate unchanged, Fed Chair Jerome Powell said that the situation is a riddle. The Fed is willing to raise rates again but is wary of weighing down the economy significantly. **It was indicated in September that the Fed anticipates modest initial reductions to their benchmark overnight interest rate with 0.50% in rate cuts expected in 2024 and possibly a further 1.00% in 2025.**

## How Can Fleet Managers Counteract Higher Interest Rates?

- Explore alternate funding sources, refinancing, and leveraging the equity in their fleets.
- Commercial fleets should leverage the financial and analytical resources available through their FMC partnerships.

## NEW VEHICLE PRICES

### US New Vehicle CPI's Dramatic Surge and Decline from 2021 to 2023



The US Consumer Price Index (CPI) for New Vehicles remained between 0.00% and 2.00% until it started to climb sharply in May 2021. The annual CPI reached a high of 13.21% in April 2022 before falling steadily to the current low of 1.87% in October 2023.



## Forecast for New Vehicle Pricing

US new vehicle prices have been falling in 2023 as inventories have recovered and interest rates have risen. The OEMs are increasing incentives and dealers are offering discounts to move vehicles off their lots. Consumers are also benefiting from a lack of used vehicles and, subsequently, higher trade-in values.

The strikes between the United Auto Workers (UAW) and Ford, GM, and Stellantis have, in the short term, only impacted pricing on specific models due to availability. In the long term, it remains to be seen how the new agreements will impact labor costs and, consequently, new vehicle pricing.

**Pricing is not expected to return to the lower levels seen prior to the COVID pandemic as the OEMs strive to maintain higher price points on their vehicles.**

## How Can Commercial Fleets Counteract Rising New Vehicle Prices?

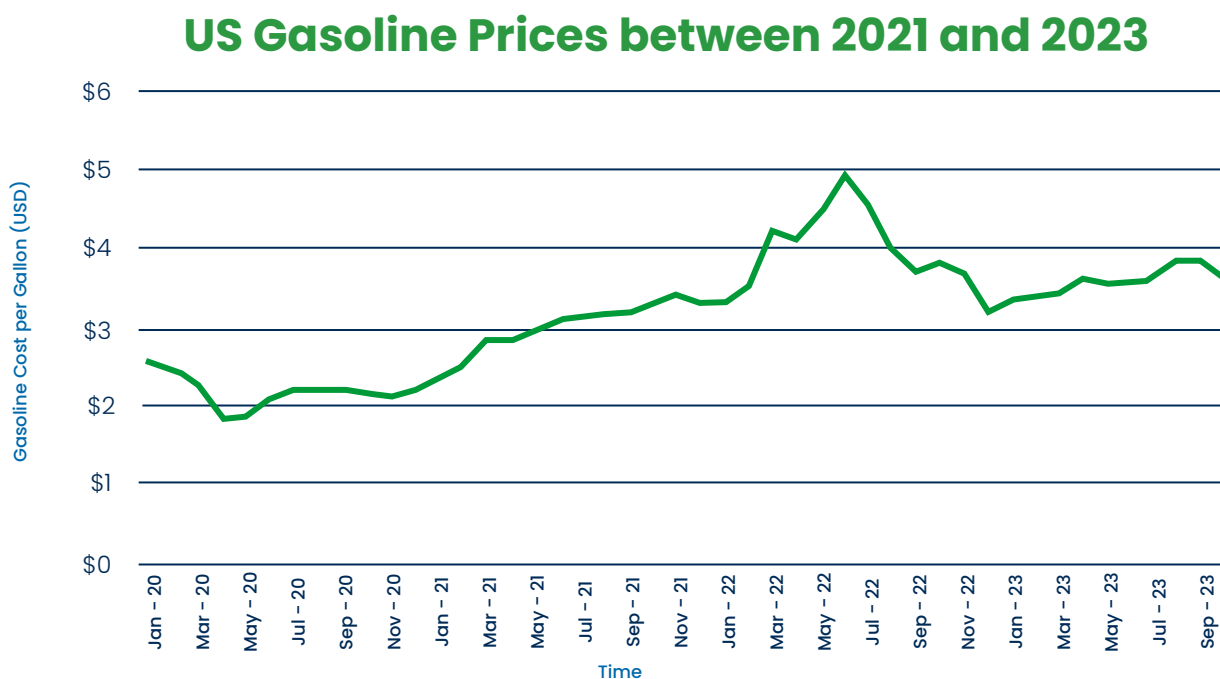
- Adopt a sufficient, consistent and correctly allocated replacement strategy.
- **Conduct TCO analyses to select vehicles that meet job specifications and budgets.**
- Think creatively and explore cost-effective alternatives to current vehicles and configurations.
- Work closely with OEMs to optimize vehicle pricing and take advantage of factory ordering over dealer stock purchases.
- Adopt maintenance strategies that reduce downtime to maximize productivity and vehicle lifespan.



# DRIVE

To Drive right, fleet managers should monitor utilization and driver behavior to help increase efficiency for overall fleet performance. During the Drive stage of vehicle management, inflation primarily impacts the costs of gasoline and electricity.

## GASOLINE



The US monthly retail price for gasoline hovered around \$2.00/gal before climbing slowly in January 2021 and peaking at \$4.92/gal in June 2022.

The price has since dropped to a low of \$3.21/gal and is currently at \$3.61/gal as of October 2023.

### What's Next for Gasoline Prices?

The US Energy Information Administration published its most recent Short-Term Energy Outlook (STEO) in November 2023. **With upward pressure on oil prices due to global oil production falling behind consumption, US retail gasoline pricing is estimated to average \$3.55/gal through 2023 and \$3.60/gal in 2024.**

# ELECTRICITY

## US Nominal Residential Electricity Prices



The US monthly nominal residential electricity price hovered around 13.00 to 14.00 cents/kWh before starting to climb sharply in March 2022 and peaking at 16.19 cents/kWh in September 2022. The price then fell briefly but currently sits at 15.68 cents/kWh as of October 2023.

## Electricity Pricing Trend

The US Energy Information Administration published its most recent Short-Term Energy Outlook (STEO) in November 2023. **With reductions in the wholesale price of electricity, largely due to lower natural gas prices, US residential electricity pricing is forecasted to average 15.8 cents/kWh for 2023 and decline slightly to 15.7 cents/kWh in 2024.**

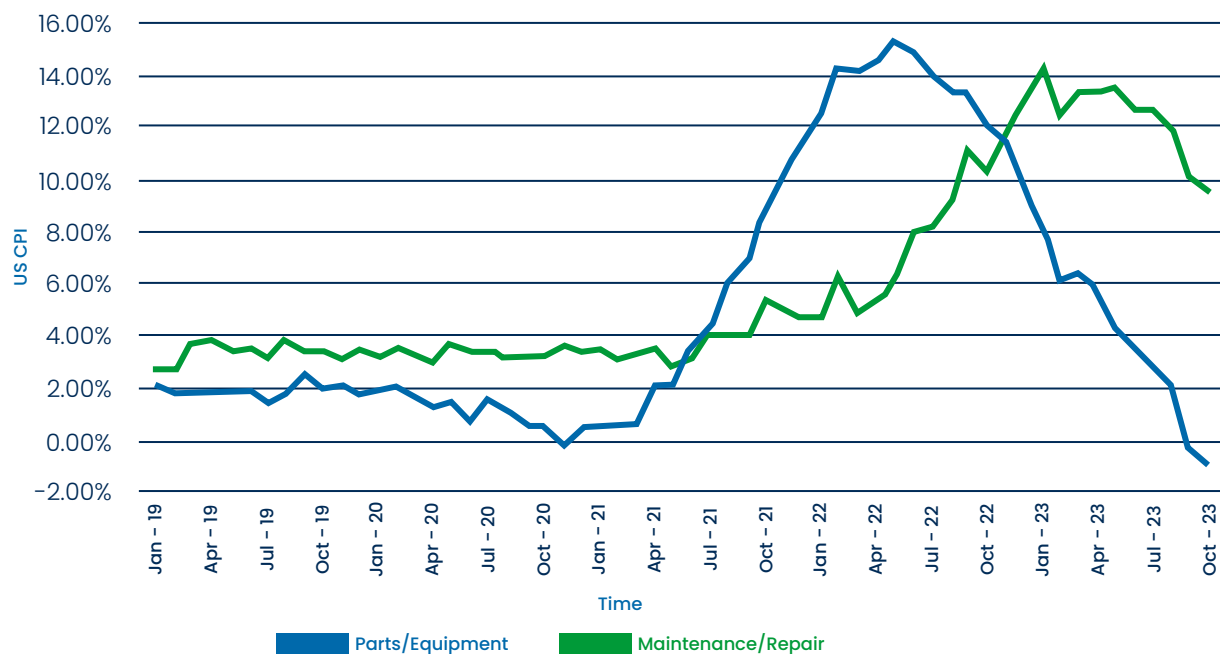
## How Can Commercial Fleets Counteract Rising Parts, Maintenance and Repair Costs?

- Select fuel-efficient vehicles that meet job specifications and budgets.
- Leverage telematic devices to monitor energy use and driver behavior.
- **Monitor and manage driver behavior to help mitigate fuel costs.**
- Charge vehicles during off-peak hours for better electricity pricing.
- Explore battery storage solutions that charge during off-peak hours and supply vehicles during peak hours.
- Negotiate for better electricity pricing wherever possible.

# SERVICE

To Service right, commercial fleets should use analytics to focus on a “predict and prevent” methodology that minimizes operating costs and downtime. In the Service stage of vehicle management, inflation impacts the costs of parts, maintenance, and repair.

## US Consumer Price Index – Parts / Equipment vs. Maintenance / Repair



The US CPI for Parts & Equipment hovered around 2.00% before falling to a low of -0.11% in November 2020, peaking at 15.28% in May 2022, and then falling to -0.97% by October 2023. The US annual CPI for Maintenance & Repair fluctuated around 3.50% before climbing in July 2021, peaking at 14.24% in January 2023, and then falling to 9.56% by October 2023.





## Vehicle Parts, Maintenance and Repair Pricing Trend

Advanced, expensive technology, combined with high-tech service appointments are leading to more expensive repairs. Recent strikes involving the UAW, Ford, GM, and Stellantis, coupled with a shortage of trained, experienced technicians, have further exacerbated ongoing supply chain issues. **As vehicles age, they experience more wear, maintenance, and repair costs. These repair costs are forecasted to sustain an average inflation rate of 7.5% in 2024.**

## How Can Commercial Fleets Counteract Rising Parts, Maintenance and Repair Costs?

**There are several steps that fleets can take to mitigate maintenance costs, including replacing aging units, staying on top of PM, and having a solid vendor strategy.**

- Focus on the basics: PM, tires, and brakes to avoid unscheduled repairs.
- Develop strategies for PM compliance, preferred vendor usage, and tire pricing.
- Match the type of repair to the appropriate vendor: national accounts for PMs and brakes, dealers for warranty, and mobile vendors for downtime critical assets.
- Put controls in place to manage rental utilization and expense.
- Review data frequently for opportunities through maintenance reviews and vendor analyses.
- Maintain a consistent view of aging vehicles within the fleet.

# SELL

To Sell right, commercial fleets should utilize vehicle data to determine when repairs are no longer economical for older vehicles and adopt a replacement strategy. At the Sell stage of vehicle management, inflation affects the pricing of used vehicles, particularly in wholesale markets.

## Change in Black Book Used Vehicle Retention Index from 2019 to 2023



The Black Book Used Vehicle Retention Index (UVRI) measures the strength of used vehicle wholesale market values. The above chart represents the change in Black Book UVRI as compared to January 2019. The UVRI remained stagnant until it climbed from a low of -8.23% in May 2020 before reaching a peak of 70.56% in January 2022. The UVRI has since fallen to the current low of 37.92% in September 2023.





## What Is The US Outlook For Used Vehicle Wholesale Pricing Going Forward?

Wholesale prices for used vehicles have been in rapid decline. However, with the recent strikes between the UAW and Ford, GM and Stellantis, dealers have adopted a “wait and see” approach to buying used vehicles. As a result, the wholesale market has been experiencing uncertainty and fluctuations in supply and pricing. While the recent labor agreements between the UAW and OEMs might lead to a decline in wholesale prices, short-term volatility in the used market is expected to persist, making pricing predictions challenging. **The used vehicle market is going to remain volatile for the foreseeable future.**

## How Can Commercial Fleets Navigate Fluctuations in Used Vehicle Pricing?

- Determine vehicle requirements and dispose of assets appropriately.
- Ensure the proper use and maintenance of vehicles while accounting for part delays and shortages.
- Avoid regional stockpiles of assets and prevent “graveyards” of unrepairable, immobile vehicles.
- Maintain a consistent view of the aging vehicles within the fleet.
- **Mitigate volatile market conditions by keeping vehicles properly maintained without stockpiling unrepairable vehicles as “spares.”**





**Holman**  
Driving What's Right