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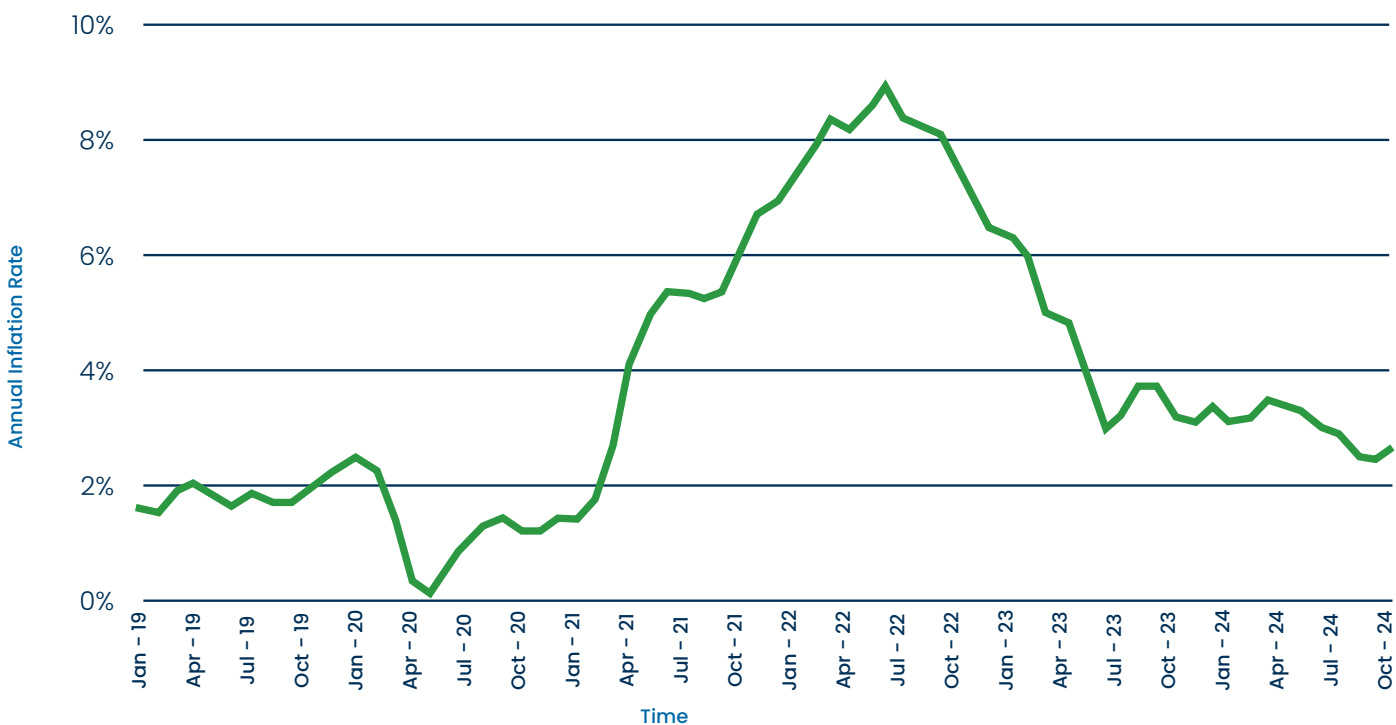
2024 U.S. INFLATION UPDATE

An in-depth analysis of the latest economic trends with strategies to position your fleet for success in 2025 and beyond.

INFLATION

Economic inflation and the impact it has on the lifecycle of a vehicle continues to be of significant concern for U.S. fleet managers and executives alike. This whitepaper outlines the current economic environment and the impact it has on the lifecycle of a vehicle throughout its four stages: Buy, Drive, Service and Sell. Additionally, this paper addresses the outlook of the economic landscape and suggests action plans to mitigate potential future impacts.

U.S. Consumer Price Index



The U.S. Consumer Price Index (CPI) has historically tended to follow the Fed's target of 2.00% annual inflation. Since dropping to a low near 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 gradually until reaching a low of 3.00% in June 2023, remaining just above that point until recently with the index now at 2.60% as of October 2024.**

What is the outlook for U.S. inflation going forward?

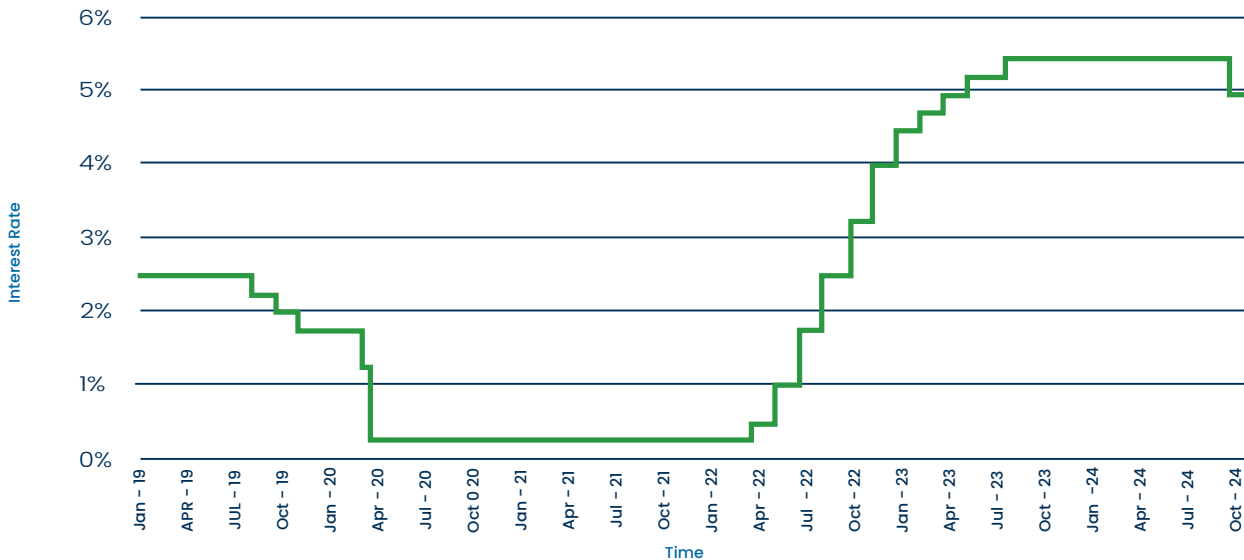
On November 14th, 2024 Fed Chair Jerome Powell indicated that inflation appears to be on a sustainable path to the Fed's goal of 2.00%. Policymakers have faith that inflation will maintain its downward trajectory but will remain on guard to help ensure that inflation continues to run close to their 2.00% target. However, inflation is expected to remain above the 2.00% goal until at least 2027.

BUY

To buy right, commercial fleets analyze vehicle and equipment performance data to determine the optimal vehicles that result in a predictable budget and increased reliability. Key factors affected by inflation and impacting the Buy Stage of vehicle management are the interest rates involved in the funding and also the pricing of new vehicles.

INTEREST RATES

Fed's Benchmark Overnight Interest Rate



The U.S. Fed's benchmark overnight interest rate was at 1.75% just prior to the onset of the COVID Pandemic before dropping quickly to 0.25% in March 2020 where it remained until March 2022. In response to inflation, the Fed then steadily increased the benchmark rate until reaching a high of 5.50% in August 2023. In September 2024, the benchmark rate was cut by 0.50% to 5.00% and a further 0.25% to 4.75% early in November.

What is the outlook for U.S. interest rates going forward?

Fed Chair Jerome Powell's remarks on November 14th, 2024 indicated that current economic signals show that the Fed does not need to be "in a hurry" to cut interest rates quickly. Rather, the U.S. economy is well positioned to allow policymakers to approach decisions carefully. Recent economic projections show the benchmark rate declining to 4.25% by the end of this year and to 3.75% by the end of 2025. This is well above the Fed's 2.90% current estimate of the neutral interest rate, which neither stimulates nor restrains the economy.

How can commercial fleets mitigate the impact of higher interest rates?

- Fleet managers and company executives should explore unique options including alternate funding sources, refinancing and leveraging the equity within their fleet.
- Commercial fleets should leverage the financial and analytical resources available through their FMC partnerships.

NEW VEHICLE PRICES

U.S. Consumer Price Index - New Vehicles



The U.S. Consumer Price Index (CPI) for New Vehicles generally fell between 0.00% and 2.00% until starting to climb sharply in May 2021. The annual CPI reached a high of 13.21% in April 2022 before falling steadily for 2+ years to below 0% with the index currently at -1.16% as of October 2024.



What is the outlook for U.S. new vehicle pricing going forward?

Per J.D. Power, in November 2024, the average new-vehicle retail transaction price in the U.S. was trending towards \$45,471, which is \$150 lower than in November 2023. Incentive spending per vehicle was on track to reach \$3,291, up 42.3% from the previous year. This rise in incentives is partly due to higher inventories, prompting automakers and dealers to offer more discounts. **Despite these discounts, the overall vehicle pricing environment remains challenging for consumers due to stubbornly high interest rates. However, this still reflects a trend towards more competitive pricing and improved buying conditions.**

How can commercial fleets mitigate the impact of higher new vehicle pricing?

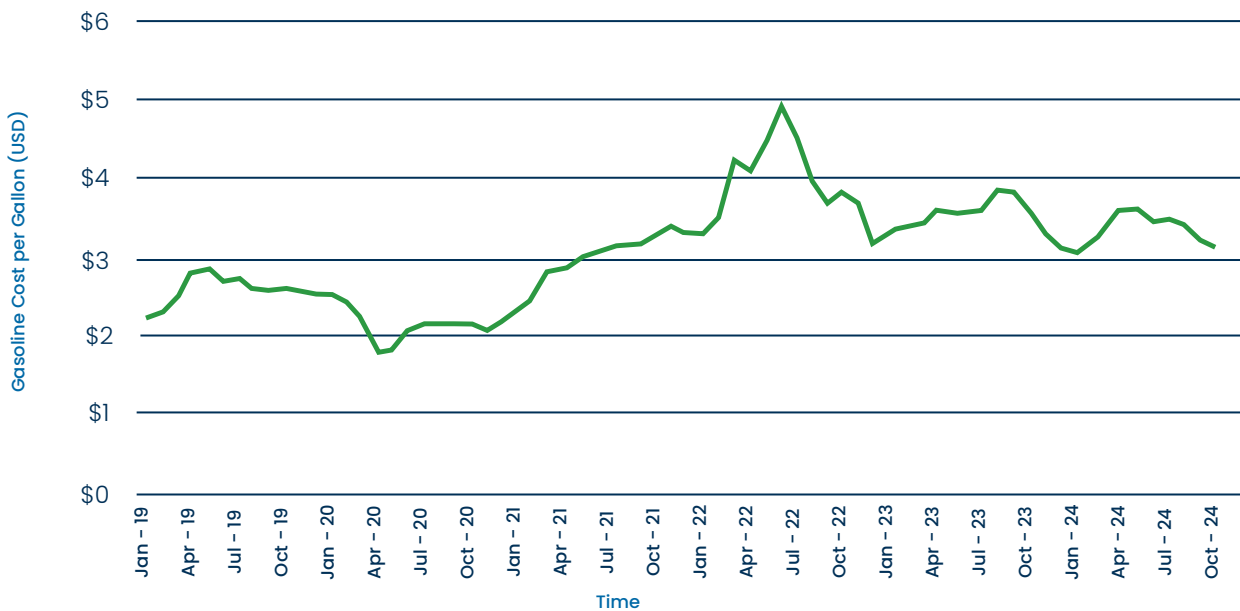
- Fleet managers need to have in place a sufficient, consistent and correctly allocated replacement strategy.
- Need for up front TCO analysis to select vehicles that meet both job specifications and budgetary requirements.
- Be prepared to think creatively and explore innovative cost-effective alternatives to current vehicles and configurations.
- Work closely with OEMs to optimize vehicle pricing and take advantage of factory ordering over dealer stock purchases.
- Adopt strategies from a maintenance and downtime/productivity standpoint to maximize the useful life of your vehicles.

DRIVE

To drive right, commercial fleets monitor utilization and driver behavior to help increase efficiency for overall fleet performance. Key factors affected by inflation and impacting the Drive Stage of vehicle management are the costs of gasoline and electricity.

GASOLINE

U.S. Gasoline Prices between 2021 and 2024



The U.S. monthly retail price for gasoline hovered around \$2.000/gal before starting to climb slowly in January 2021 before peaking at \$4.929/gal in June 2022. The price has since dropped to a low of \$3.075/gal in January 2024 and is currently at \$3.137/gal as of October 2024.

What is the U.S. outlook for gasoline pricing going forward?

The U.S. Energy Information Administration publishes a monthly Short-Term Energy Outlook (STEO). With the September drop in prices and the expectation that oil demand growth will be lower in 2025, global oil inventories are expected to fall and oil prices to be pushed downwards. U.S. retail gasoline pricing is forecasted to average \$3.320/gal through 2024 and \$3.172/gal in 2025.

ELECTRICITY

U.S. Nominal Residential Electricity Prices



The U.S. monthly nominal residential electricity price hovered around 13.00 to 14.00 cents/kWh before starting to climb sharply in March 2022 before peaking at 16.19 cents/kWh in September 2022. The price then fell briefly before rising and peaking again at 16.88 cents/kWh in April 2024. The price is currently at 16.61 cents/kWh as of October 2024.

What is the U.S. outlook for electricity pricing going forward?

The U.S. Energy Information Administration publishes a monthly Short-Term Energy Outlook (STEO). Electricity sales are expected to increase in 2025 across both residential (1% due to warmer temperatures) and commercial (4% due to industrial growth) sectors. U.S. residential electricity pricing is forecasted to average 16.38 cents/kWh for 2024 and rise to 16.69 cents/kWh in 2025.

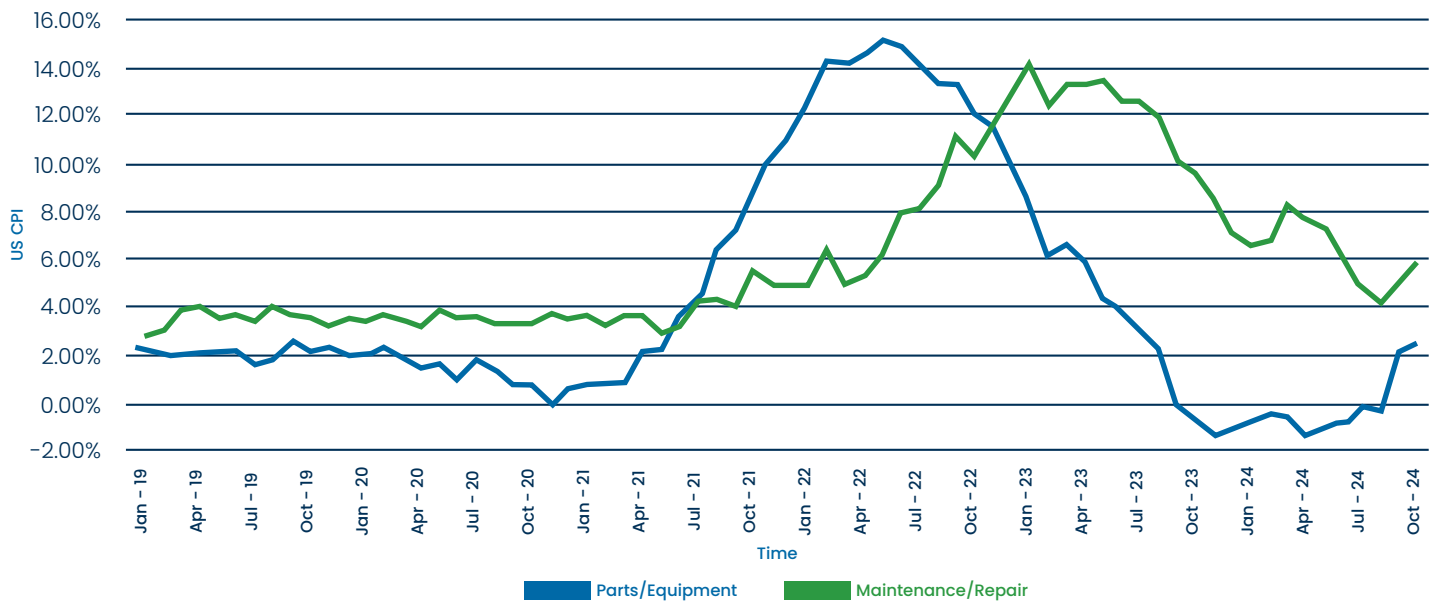
How can commercial fleets mitigate the impact of fluctuating energy costs?

- Carry out the due diligence up front to select vehicles that are fuel efficient yet meet both job specifications and budgetary requirements.
- Telematic devices can be leveraged to monitor utilization and provide visibility to driver behaviors such as idling and speeding.
- Take advantage of charging 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 in those geographies where possible.

SERVICE

To repair right, commercial fleets utilize analytics to focus on a “predict and prevent” methodology to control operating costs and downtime. Key factors affected by inflation and impacting the Service Stage of vehicle management are the costs of parts, maintenance and repair.

U.S. Consumer Price Index - Parts / Equipment vs. Maintenance / Repair



The U.S. Consumer Price Index (CPI) for Parts & Equipment hovered around 2.00% before rising to 15.28% in May 2022, falling to -0.30% in July 2024 and then edging up to 2.27% as of October 2024. The U.S. annual CPI for Maintenance & Repair fluctuated around 3.50% before starting to climb in July 2021, peaking at 14.24% in January 2023 before dropping down to 5.79% as of October 2024.



What is the U.S. outlook for vehicle parts, maintenance and repair pricing going forward?

One of the areas hardest hit by inflationary pressures is vehicle parts, maintenance and repair, putting tremendous strain on already stretched operating budgets. Technical labor shortages remain acute placing upward pressure on costs whereas parts availability is improving but remains a challenge. **Maintenance and repair specific costs are expected to exceed the overall inflation rate as they are projected to sustain an average inflation rate of 6.50% through the end of 2024.**

How can commercial fleets mitigate the impact of higher 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 preventative maintenance, and having a solid vendor strategy.

- Focus on the basics i.e. PMs, 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 i.e. 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 the aging vehicles within the fleet.

SELL

To sell right, commercial fleets utilize vehicle data to determine when repairs are no longer economical for older vehicles and to adopt a replacement strategy. A key factor affected by inflation and impacting the Sell Stage of vehicle management is the pricing of used vehicles particularly in wholesale markets.

Change in Black Book Used Vehicle Retention Index from 2019 to 2024



The Black Book Used Vehicle Retention Index (UVRI) is a measure of the strength of used vehicle wholesale market values. The above chart represents the percentage change in Black Book UVRI as compared to January 2019. The UVRI remained flat until it dipped to a low of -8.23% in May 2020 before starting a steep climb, eventually reaching a peak of 70.56% in January 2022. The UVRI has since fallen steadily for the most part over the last 2+ years reaching the current low of 27.36% in October 2024.



What is the U.S. outlook for used vehicle wholesale pricing going forward?

Manheim market data highlights a clear downward trend in wholesale used vehicle prices throughout 2024. This is due to several factors including inflationary pressures and higher interest rates as well as seasonal factors and high dealer inventory levels. The increase in new vehicle production has been slowly balancing the market reducing the demand for used vehicles. Dealers may adjust pricing strategies to remain competitive or take advantage and use this opportunity to replenish stock. Edmunds suggests that if economic conditions stabilize, wholesale used vehicle prices could gradually recover by the end of 2024.

How can commercials fleet mitigate the fluctuations in the pricing of used vehicles?

- Fleet managers need to determine vehicle replacement parameters and dispose of assets appropriately and timely.
- Ensure that vehicles are being properly utilized and maintained while keeping in mind parts delays and shortages.
- Avoid regional stockpiles of assets and prevent “graveyards” of unrepairable, immobile vehicles.



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Driving What's Right