

2022 Q2 REPORT

Trends

by Element Fleet



Executive Summary

Inflationary cost pressures continue to impact many areas of fleet including vehicle acquisition, fuel, and maintenance. This is largely driven by post-pandemic supply and demand imbalances as well as the war in Ukraine impacting energy prices globally.

Inflation has reached all-time highs in the U.S., Canada and Mexico



Taking action to mitigate risks and reduce spend remains top of mind for many fleet leaders. Based on our 2022 Market Pulse Survey, with over 182 respondents, 91% of fleet leaders rank controlling operating spend among their top 3 financial priorities and 81% rank supply chain issues among their top 3 focus areas.

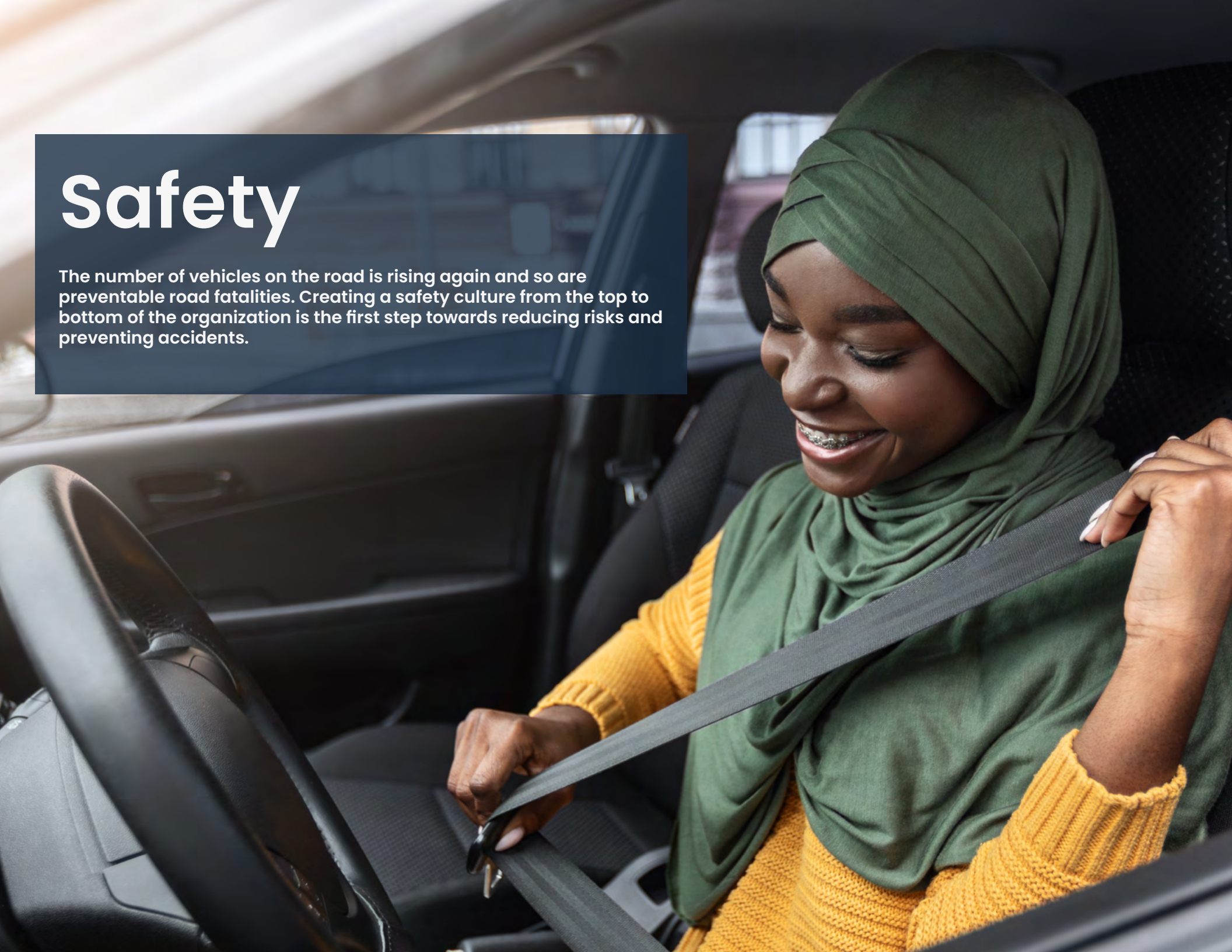
Macroeconomic trends impact each facet of fleet. The highlights for this quarter include:

1. Road fatalities are rising as traffic returns to normal. Establishing a safety culture is critical to ensuring driver safety and mitigating risks.
2. Supply chain constraints continue and placing vehicle orders early remains vital to controlling rising fleet costs.
3. The used vehicle market is starting to slow but remains high. Plan for more normal seasonal patterns and be strategic with your vehicle replacements.
4. Rising fuel prices continue due to increased demand and geopolitical uncertainties impacting global crude oil. Take action to mitigate fuel spend by focusing on controllable factors.

Report Contents

Safety

The number of vehicles on the road is rising again and so are preventable road fatalities. Creating a safety culture from the top to bottom of the organization is the first step towards reducing risks and preventing accidents.



Safety

Key trends

Due to the number of vehicles on the road increasing to pre-pandemic rates, fatal accidents involving car crashes in **2021 exceeded 2019 by 19%** according to the National Safety Council (NSC). NSC data shows that **more than 46,000 people died on U.S. roads in 2021**.

In Canada, the latest report released by the Transport Canada's National Collision Database (NCDB) indicates that the number of **motor vehicle fatalities was down 1%** compared to the previous year (2019). However, in 2020 there was a **32% increase in the percentage of occupants that were killed or seriously injured who were not wearing seatbelts**.¹

In Mexico, more than **17,000 deaths caused by traffic mishaps** are registered each year, with more than **170,000 people injured**, according to the National Alliance for the Road Safety (ANASEVI).²

Recommended actions

Building a safety culture is an ongoing effort which should start from the top. Executives must prioritize this matter by making sure the right employee incentives are in place along with up-to-date safety policies across the organization, not just in the fleet.

More specifically, the fleet program should include a 360-degree, holistic approach that focuses on a clear policy, expectations, and a comprehensive training strategy. This can help to reduce risk and prevent accidents by identifying high risk drivers, providing targeted just-in-time training, and managing collisions effectively when they do occur.

To foster a safety culture, we recommend:

- 1) Ensuring all drivers have the correct safety specifications in their vehicles
- 2) Leveraging e-learning driver training solutions to encourage safer driving behavior
- 3) Monitoring driving improvements using technology and interactive training methods

Lastly, it is important for fleet managers to know how technology can assist when it comes to providing extra safety options for drivers. [Discover the effectiveness of in vehicle safety technologies.](#)

¹ <https://tc.canada.ca/en/road-transportation/statistics-data/canadian-motor-vehicle-traffic-collision-statistics-2020>
² <https://www.intertraffic.com/news/event/mexico-2021-more-than-17000-annual-deaths-from-road-accidents/>

CASE STUDY

In-Vehicle Safety Technologies

How a client saved \$860k+ in accidents avoided



6,000+

Vehicles in
Service Fleet

33

accidents
avoided

\$860,637

in cost
savings

19

high probability
of liability avoided

A large service fleet had a mix of vehicles in operation. They opted for **advanced front collision avoidance** technologies and **back up cameras** for 365 of their fleet vehicles. Results were examined one year later, comparing vehicles with and without the technology.

Results After One Year:

Type of Accident	Accident Rate without Collision Avoidance Technology	Accident Rate with Collision Avoidance Technology	Estimate of Avoided Accidents
Overall	2.06 PPMM	1.57 PPMM (a 24.2% reduction)	33 accidents
Specific (Fleet Driver Hit Other Vehicle)	0.68 PPMM	0.40 PPMM (a 41.6% reduction)	19 accidents

*PPMM: Preventable Per Million Miles

Overall accidents avoided estimated at 33 accidents, equaling \$860,673* in cost savings. Out of the 33 accidents avoided, 19 were for a type with a higher probability of liability.

*Based on the Network of Employers for Traffic Safety (NETS) average cost estimate of \$26,081 per accident.

Acquisition

The global chip shortage is likely to continue impacting vehicles orders for the remainder of the year and into 2023. Place your orders as soon as banks open, prioritize replacements and be flexible with vehicle requirements.



Acquisition

Key trends

Original Equipment Manufacturers (OEMs) are predicting that supply chain impacts delaying vehicle replacements could go well into 2023. Demand remains strong but shipments due to parts shortages have decreased.

In the U.S., there has been an **8.4% increase in the average capital cost for each model year** (factory and stock) while Canada has seen a **6% increase from 2021 to 2022**.

Mexico has also experienced a higher overall vehicle acquisition price, with an increase reaching **9% as of May 2022**, and is expected to continue its incremental pace during 2022.

The good news is that auto production could still **improve this year by as much as 30% versus 2021**, but it will depend on the market situation in China and the geopolitical tensions in Europe, which will determine whether more disruptions in the manufacturing of cars can happen.

Recommended actions

Some order banks have already opened and closed. To be ready for your ordering cycle, validate OEM allocation commitment and obtain pre-approvals from OEMs where required, so that orders can be processed for the remainder of banks opening.

In Mexico, the recommendation is to **place orders at least 5 months in advance** of the end of the leasing period and consider alternative options in the market based on vehicle specifications and total cost of ownership. Additionally, prioritize your renewals based on fleet aging and consider lease extension where market options are available and suitable for your fleet needs.

Remarketing

The used vehicle market is expected to slow but remain elevated compared to the last 5 years. Plan for normal seasonal patterns after new model year 2023 vehicles deliver this year.

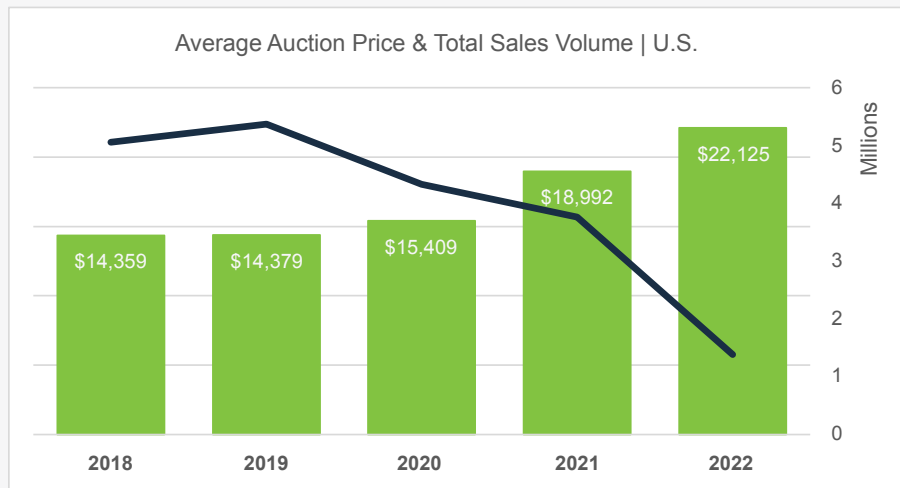


Remarketing

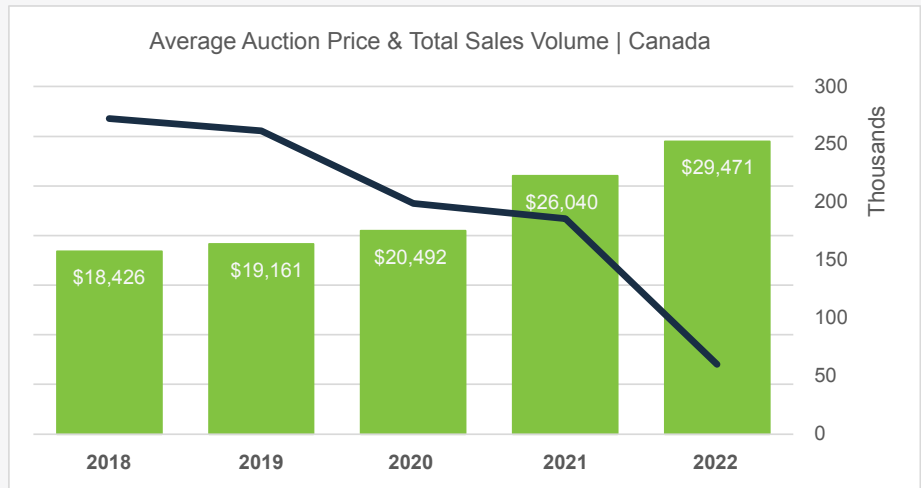
Key trends

The used vehicle market remains strong to start out 2022 with a return to more normal seasonal trends and buying patterns. The outlook for the second half of 2022 (and into 2023) is for overall market prices to decline as higher interest rates and less government financial support should slow down the demand from elevated levels in 2021.

OEM production delays have been a major factor limiting new vehicle production and the lack of supply in the new vehicle market has pushed excess demand into the used vehicle market. Initially, newer used vehicles with low mileage and in good condition were in high demand. However, as inventory levels have remained low, these search parameters have continued to expand. As a result, overall auction prices in the U.S. are approximately 30% higher than in 2019 and the trend in Canada is very consistent.



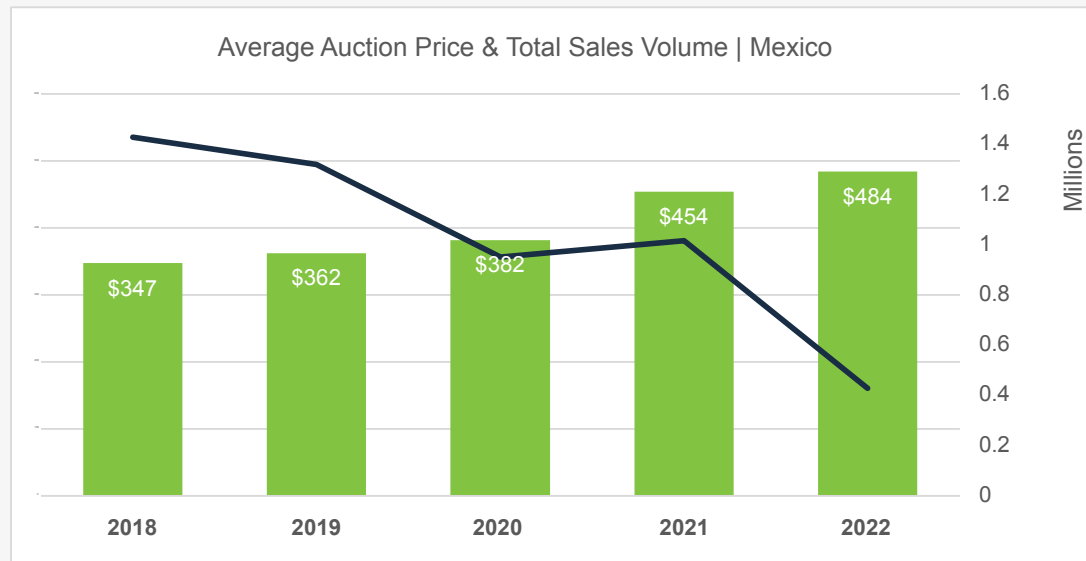
Source: US vehicle auction data



Source: Canada vehicle auction data

Remarketing

Similar trends are seen in Mexico, following the impact of the OEM production delays. **Used vehicle prices have increased up to 20%** from a normal trend of 5-7% annually in the past 5 years. This trend is expected to be maintain at least until mid-2023 following a market recovery in new vehicle production.



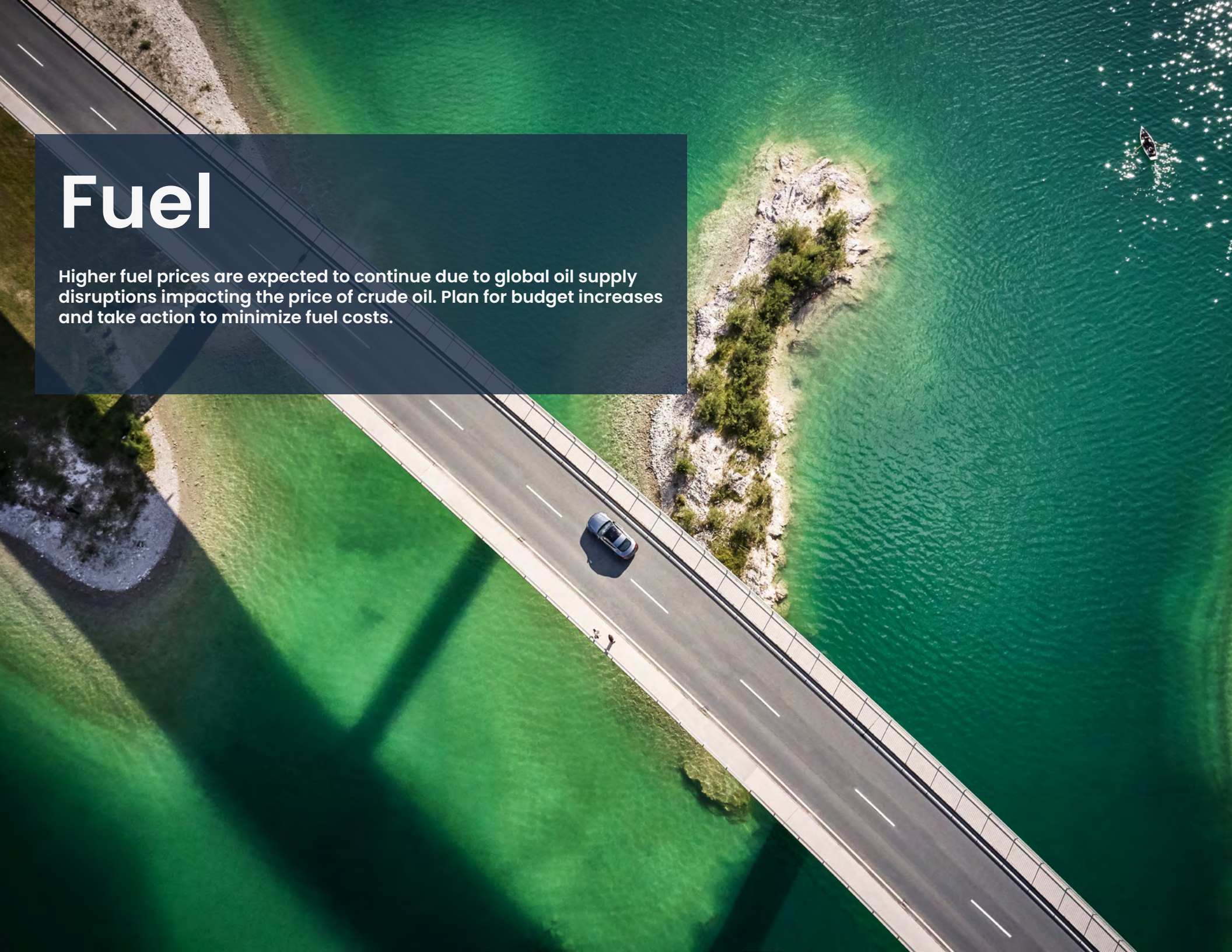
Sources: Asociación Mexicana de Industria Automotriz (AMIA) / Automotive Industry Mexican Association & Instituto Nacional de Estadística y Geografía (INEGI) / National Institute of Geography and Statistics

Recommended actions

We recommend **taking advantage of the strong resale market** by continuing to cycle aged fleet vehicles as appropriate to avoid expensive maintenance repairs. In addition, make sure to stay on top of preventative maintenance and inspections as vehicle condition impacts resale and therefore your overall fleet depreciation expense. Lastly, make sure to **prioritize vehicles to be replaced**. Element's Strategic Consulting can help you analyze vehicle utilization patterns and redistribute lower usage assets to higher use areas.

Fuel

Higher fuel prices are expected to continue due to global oil supply disruptions impacting the price of crude oil. Plan for budget increases and take action to minimize fuel costs.



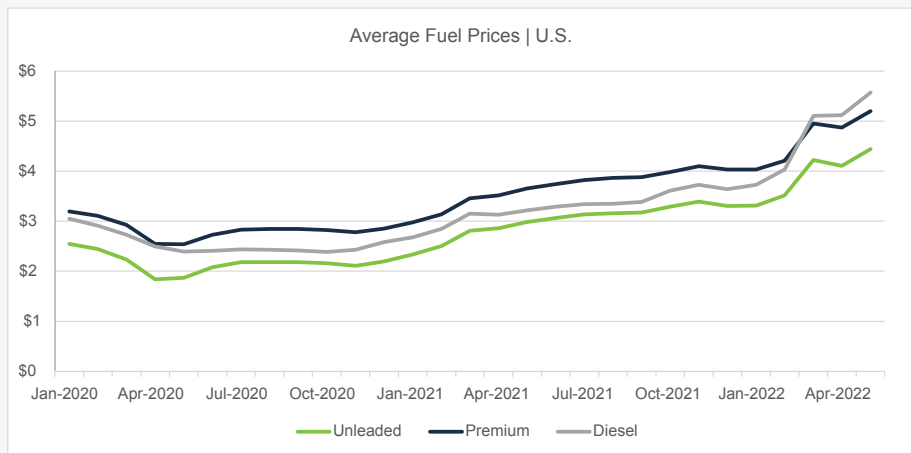
Fuel

Key trends

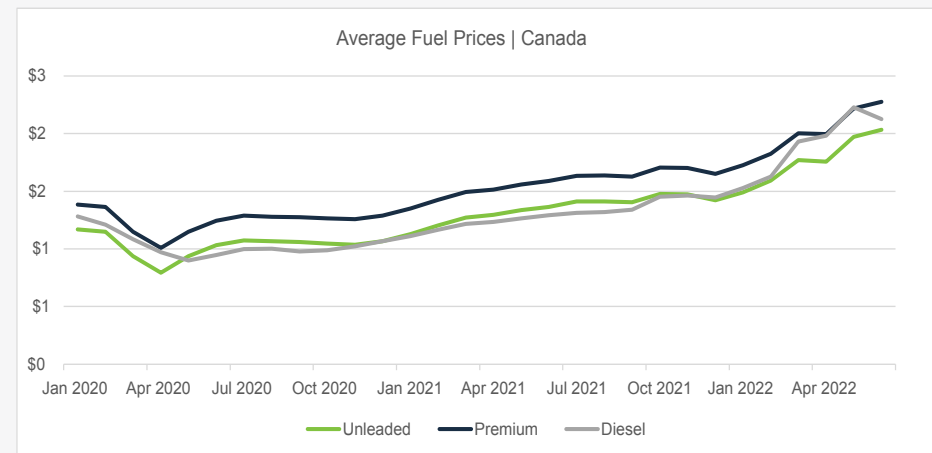
The increased demand for oil, low inventories and geopolitical uncertainties are contributing to rising fuel prices. Higher gas prices are likely to continue if the global oil supply remains disrupted.

The U.S. Energy Information Administration (EIA) expects the U.S. retail average to be \$4.07 USD (2022).

Kent Group expects the Canada retail average to be \$2.05 CAD (2022). The unleaded national average in the U.S. as of May 2022 is \$4.21/g and \$1.97/L in Canada.



Source: The U.S. Energy Information Administration (EIA)

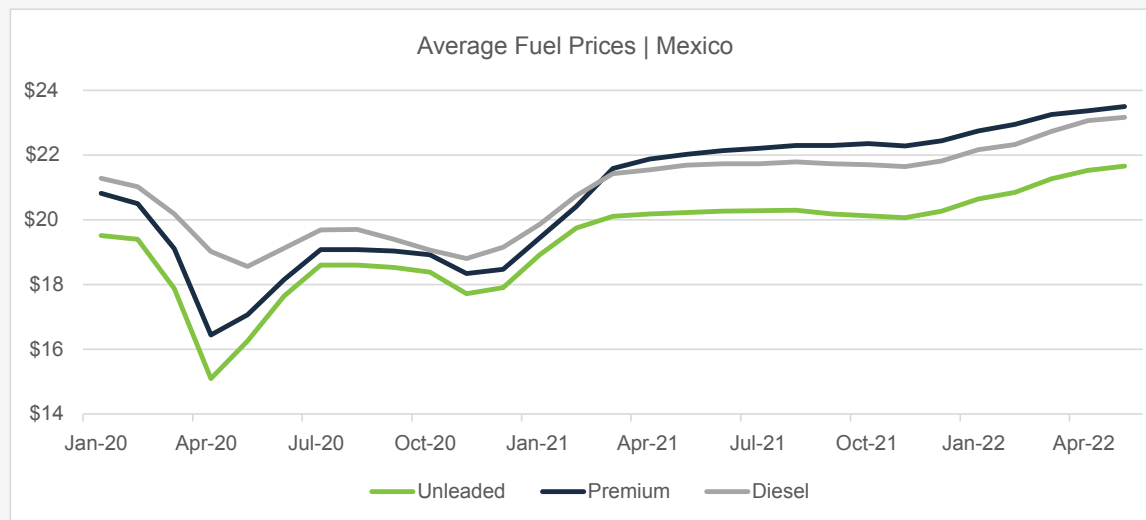


Sources: The EIA and Kent Group

Fuel

Key trends

Fuel prices in Mexico have increased 6% from \$20.28 in Dec 2021 to \$21.67 in May 2022 and 43% compared to the lowest point in 2020. The government in Mexico has made efforts to reduce the overall impact of global crude oil prices by cutting tariffs to fuel in the local market. As of May 2022, leaded prices in Mexican pesos are at \$21.67, unleaded at \$23.52 and Diesel at \$23.19.



Sources: INEGI, Banco de Mexico, El Financiero, Bloomberg (BNEF)

Fuel

Recommended actions

To help manage fuel costs, we recommend:

1

Ensuring you have **the most fuel-efficient vehicles** for each job application in your fleet. Make sure that the vehicles are not overloaded to assist in reducing fuel consumption.

2

Leveraging your fleet management applications to **locate the closest and lowest cost fuel station**. Use the OEM recommended fuel grade for optimal spend.

3

Influencing driver behavior by providing eco-driving tips including **limiting speeding, aggressive driving, and idling**. Technology such as telematics can help monitor and correct these types of behaviors.

Element's Strategic Consulting

Element's strategic consulting team brings deep expertise to **help you realize greater productivity and reduced total cost of ownership**. Leveraging the most robust benchmarking database in the industry with over 1 million vehicles under management, the team uses advanced analytics to mine data for actionable insights. In 2021, **the team identified over \$1.5B in cost savings for clients** across U.S and Canada and over \$101M in Mexico.

Find out more about Element's strategic consulting services [here](#) or [get in touch with us!](#)



Steve Jastrow

Vice President, Strategic Consulting & Analytics

Steve is a client-focused executive leader with over 25 years of experience leading high performing finance, commercial consulting, data and analytics organizations within the General Electric Corporation and Element Fleet Management. At Element, he leads a team of over 40 experts with on average 13 years of industry experience. The team is focused on supporting clients' fleet goals including fleet cost savings, operational efficiencies and sustainability through financial modelling and advanced analytics.



Javier Cabrera

Strategic Consulting Mexico Leader

Javier leads the Strategic Consulting team in Mexico and has more than 13 years of experience in management consulting, strategic sourcing and automotive. He has worked in several strategy and operations projects in over 8 industries. He leads the team in Mexico to address the needs of over 120 strategic clients by building financial models, developing improvement analysis and ad-hoc optimization projects for cost savings. Javier holds a Masters in Business Administration from the UVM Mexico City.

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About Element Fleet Management Corp.

Element Fleet Management (TSX: EFN) is the largest pure-play automotive fleet manager in the world, providing a full range of fleet services and solutions to a growing base of loyal, world-class clients – corporates, governments and not-for-profits – across North America, Australia and New Zealand. Element's suite of services span the total fleet lifecycle, from acquisition and financing to program management and remarketing – helping clients optimize performance and improve productivity.

Learn more about Element's strategic consulting services [here](#) or [get in touch with us!](#)
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