RER® Rental Equipment Register

Equipment Rental Healthy in 3Q, Baird Survey Finds

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About 25 percent of respondents expect a recession to occur in the next 12 months, 45 percent in 12 to 24 months with 75 percent of respondents altering business operations to prepare for a potential downturn. Sentiment seems cautious heading into 2020 (with election year dynamics adding another level of uncertainty).

Respondents reported average rental revenue growth of 7.1 percent year over year in the third quarter compared to 5 percent in the first and second quarters.

Average rental rates increased 1.2 percent year over year in the third quarter of 2019. In the second quarter rental rate growth was 1.3 percent; in the first quarter it was 1.8 percent and in the fourth quarter of 2018 it was 2.3 percent. Increased fleet sizes are driving heightened competitive pressures while suppressing rental rate growth (especially for smaller rental companies).

Fleet utilization for respondents was 65.6 percent, remaining in the two-year range of 64 to 66 percent, with 1Q19 (56 percent) proving to be an outlier caused by extremely harsh winter weather.

Growth in the cost of new units increased 1.6 percent, the slowest growth in survey history; OEM price increases/steel surcharges appear to be dissipating and, in some cases, unwinding.

Respondents' forecasts were incrementally more cautious in spite of current steady demand trends. Second half revenue growth expectations averaged 4.3 percent, below last quarter's forecast (+6.0 percent) and 3Q19's actual growth of 7.1 percent.

Respondents expect a 3.8 percent increase in fleet purchases during the next six months (mostly consistent with the past several surveys). Big Iron Earthmoving Equipment expected to increase 2 percent, Big Iron Access Equipment expected to grow 6 percent (mostly consistent with last quarter).

Rates expected to increase rental rates 0.8 in 2H19, a continuation of the downward trend.

Selected comments about rental revenue growth included:

- Flat, mature market with small growth components, but overall steady market conditions.
- Contractors are still busy and have decent backlogs, but they can't find labor to do more work.
- Our market remains strong, we have seen some slowdown but believe it is a result of the midstream project cycle as opposed to reflective of a broader recession.
- This has been an extended economic cycle and a good one at that, but a modest slowing is inevitable.

Comments on slowing rental rate growth included:

- **Seeing downward rate pressure from several competitors, both regional and national.**
- **Increased competition and additional locations from the national players.**
- **Some suppliers keep dropping prices in a growing market, it has us wondering what they are doing.**
- **Customers demanding and getting lower rates. Lot of competition chasing a smaller, competitive market.**
- **Continued deep discounting by rental houses which puts pressure on niche equipment dealers and the market in general.**
- **High level of competition, pricing pressure.**