Rental Penetration Continues to Grow, ARA Economist Says

February 10, 2020

Equipment and event rental companies are expected to generate $58.1 billion in revenue in the United States in 2020, up 3.8 percent compared to 2019, according to the latest updated forecast released today by the American Rental Association.

Construction and industrial equipment rental is forecast to reach $40.1 billion in 2020 with general tool rental revenue accounting for $14.1 billion and party and event revenue expected to be $3.8 billion.

Total U.S. rental revenue is expected to grow by 4.1 percent in 2021, 4.2 percent in 2022 and 3.5 percent in 2023 to reach $65.2 billion.

"We are in a fairly steady growth pattern with the chances of recession relatively low, keeping rental revenue growth moving higher throughout the forecast period," said John McClelland, Ph.D., ARA vice president, government affairs, and chief economist.

"The good news is that the U.S. economy will hold to a moderate growth path, and the risk of recession has fallen," said Scott Hazelton, managing director, IHS Markit, the economic forecasting firm that compiles data for the ARA Rentalytics service as part of a partnership with ARA. "However, the markets that equipment rental primarily serves are likely to see some challenges. The U.S. economy continues to slow as the impetus from tax cuts, fiscal budget stimulus and interest rate reductions all wear off. Growth will be driven by consumer spending with investment and trade lagging. Manufacturing activity will see virtually no growth in 2020 as the dollar remains high, tariffs continue, and the global economy slows. Even the energy patch will see limited potential as oil prices sag under weak global demand. Absent a Highway Bill that is unlikely in the current political climate, nonresidential construction will contract while residential construction only holds its own."

In Canada, total rental revenue is forecast to top $5.6 billion in 2020, up 2.1 percent compared to 2019. Rental revenue in Canada is expected to grow 2.3 percent in 2021, 3.3 percent in 2022 and 2.7 percent in 2023 to total $6.1 billion.

In addition to rental revenue, ARA also is reporting an increase in rental penetration over the last two years, ticking up to 55.9 percent in 2018 and 56.7 percent in 2019. ARA defines rental penetration as the percentage of construction equipment currently in use in the U.S. that is owned by equipment rental companies.

"One very impressive number in the latest ARA Rentalytics report is the increase of 80 basis points in the Rental Penetration Index from 55.9 percent in 2018 to 56.7 percent in 2019," McClelland said. "This is one of the main factors that is keeping rental revenues growing faster than GDP [gross domestic product] and in the face of a flat outlook for construction spending. We believe this increased penetration of rental equipment into the construction market is because equipment rental companies have become problem-solving companies helping customers make more efficient business decisions and reducing the uncertainty that comes with making large capital investments in equipment. Our view is that this trend will continue for the foreseeable future."

ARA and IHS Markit review the ARA Rentalytics program on a regular basis and over the last year, ARA continued to evolve the subscription service by updating the equipment category class reports, adding state economic impact reports, improving the platform interface to speed access to the data subscribers requested and updating the content of webinars that go beyond the numbers with insight related to timely industry topics and issues.

“ARA members want and need exclusive rental research and forecasting. These ongoing improvements are geared to the benefit of our members and in 2020, these changes will provide even more value,” said Tom Doyle, ARA vice president, program development.

This year, ARA plans to update the party and event rental analysis and forecast with specific webinars for those in the party and event segment as well as update the light construction and general tool analysis and forecast.

In addition, ARA will launch a new rental research webinar series and a new quarterly Rentalytics State Digest subscription that is delivered to the subscriber’s inbox with a rolling two-quarter forecast and a link to state economic and business environment analysis.