RER Rental Equipment Register

Rental Revenue and Utilization Strong in Q3, Although Growth Slowing, Baird/RER Survey Respondents Say

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Rental market dynamics remained healthy in the third quarter but with slowing growth, according to the third quarter Baird/*RER* Equipment Rental survey published this week. Average rental revenue was up 12.2 percent in the third quarter on a year-over-year basis, compared to a 14.3-percent year-over-year increase in the second quarter. Expectations for growth in the fourth quarter are for 9-percent growth and the same expectation for the full year 2023.

While current growth rates remain robust, commentary regarding demand trends and the operating environment remain somewhat cautious. A net 14 percent of respondents saw revenue and utilization higher than their initial budget in the third quarter, a lower number than in prior surveys. Rental rates increased 4.8 percent year over year in the third quarter, compared to 4.5 percent in the previous two quarters. Multiple headwinds continue to impact demand growth and profitability, including labor shortages, wage inflation and long lead times for new equipment.

Sixty percent of respondents said revenue and utilization was in line with initial budgets, 27 percent said business was higher than expectations.

Average rental revenue increased 12.2 percent year over year compared to a 14.3-percent year-over-year growth in the second quarter. Still, this marks the fifth straight quarter of double-digit growth. But for the second consecutive quarter, commentary was more cautious. As noted, 27 percent had better than expected results (9 percent saying much better), with 13 percent pointing to worse than expected results. The net 14 percent positive is below previous surveys.

“Market demand that we thought would happen in 2022 is being extended into 2023,” said one comment.

“Some of the projects in our area have been put on hold temporarily,” said another.

“Economy is a little better in our market because of government spending,” said a third.

And another comment expressed concerns about interest rates. “Higher interest rates are definitely beginning to affect new starts and sales of single-family residential units,” a respondent said.

Fleet utilization very strong

Fleet utilization was a strong 67.9 percent, a 560-basis points sequential increase and up from 66.2 percent in the third quarter of 2021. The utilization rate for access equipment declined to 67 percent from 69.5 percent in the third quarter of 2021, while the utilization rate for earthmoving equipment increased moderately to 67 percent from 66.2 percent a year ago. Small iron utilization jumped almost 8 percent from 61 percent in 3Q21. The “other” category rose substantially from 66.2 percent to 71.8 percent.

Seasonality and a continued tight equipment market contributed to the utilization hike.

The average rental rate increase of 4.8-percent year over year shows that improvement in rental demand provides pricing flexibility. Rental rate growth is expected to slow in 2023. Rental rates are expected to increase

4.2 percent in 2023, according to survey respondents, with the outlook being below current rate growth for the first time in several quarters.

Survey respondents expect an 8.7-percent revenue increase in the fourth quarter of 2022. Nineteen percent of respondents expect a 1 to 5 percent year over year revenue increase in the fourth quarter; 23 percent expect a 5 to 10 percent increase and 29 percent expect a 10 to 15 percent increase. Respondents expect average rental revenue to rise 8.7 percent in 2023, a healthy growth rate but below 2022 growth. Steady demand from relatively healthy end markets are expected to continue, partially offset by equipment and labor shortages and concerns about economic risk factors.

“Hard to ignore core economic data and such data not having some kind of impact,” said one comment. “With the ABI slowing it would seem likely that nonresidential construction will contract in 2023. However, currently there is a lot of work going on and fleet utilization remains high.”

“I am cautiously optimistic that we will be able to weather an economic slowdown, as a lot of contractors have not and will not be purchasing equipment due to the current pricing, lead time and rising interest rates,” added another.

“Most of our big customers have a backlog of 12 to 18 months, so near term should stay highly utilized,” another said. “We are seeing big companies lean more on rental companies because of the labor/skilled mechanic shortage and foresee that to be a trend going forward.”

“Supply chain will remain a problem,” added another. “International conflict will impact Europe in a variety of ways – all negative.”

In other topics, growth rate in the cost of new equipment is moderating; rental fleet sizes are growing although availability is a constraint; equipment availability is stabilizing; and wage inflation is running in the high-single to double digits.