

## Machinery, E&amp;C and Waste

# Normalization narrative faces uphill battle: Construction Equipment Dealer Survey

Industry Overview

## Q4 survey: 'Normalization' continues but caution creeps in

All through 2023, corporates have warned that at some point – backlogs will fall given replenished inventories and improved supply chains (i.e., not a function of demand, but merely a normalization of the equipment cycle). This is likely to be the theme this Q4 based on our survey (40 dealers): utilization levels moderate, purchasing expectations subdued, inventories rebuilt. The problem – we sense investors uncomfortable underwriting a 'normalization' following signs that rising rates (finally) starting to weigh on pipeline.

## '24 outlook: top-down flattens out vs bottom-up positive

Globally, expectations for 2024 are still 'flat to up' yet softening from last survey: 37% growth (48%), 34% flat (vs 23%), 29% down (30%). On a bottom-up basis, 70% of NA dealers indicate enough heavy construction/infrastructure to offset a slowdown in commercial construction. The sentiment (top-down) is more cautious vs the bottoms-up.

## Inventories: enter danger zone unless...demand is there

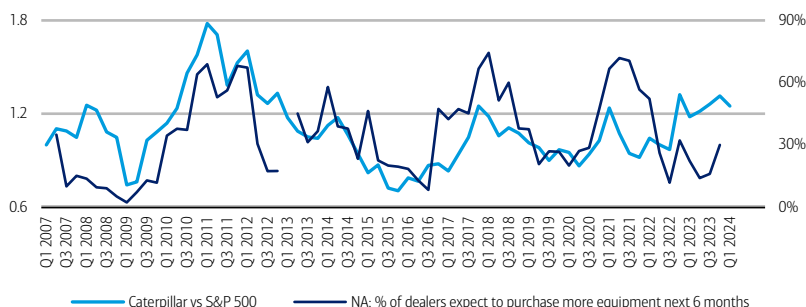
57% of NA dealers see 'higher than normal inventories' – touch lower vs Q3 (64%) but well ahead of the last few years (i.e., sub 50%). The risk – inventory readings in 2H23 are approaching the territory of prior destocking events (2H12, 2H15, 2H19). In these periods, non-res spending and retail sales slowed notably the following 6-9 months. It is clear inventories need to be worked down, but the key is if underlying demand is positive – determines a prolonged de-stock cycle vs just a 1-2 quarter 'inventory digestion' event.

## Purchasing expectations subdued – be selective/nimble

Only 30% of NA dealers expect to purchase more equipment over next six months, not typically associated with 'peak/froth conditions' (exhibit 1). We advise being nimble and selective on construction exposure in our [Year Ahead report](#): we see a challenging 1H as headwinds 'catch up' to equipment fundamentals, yet expect some green shoots to emerge through 2H – helps bracket backlog, suggests EPS is far more resilient vs prior cycles.

### Exhibit 1: CAT share price relative to S&P 500 vs % of dealers purchasing expectations

Typically, CAT relative performance is extended when purchasing expectations are 'frothy'/at peak



Source: BofA Securities Survey, Bloomberg

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NA = North America

OEM = original equipment manufacturer

% = percentage

Cons = consensus

Equip't = equipment

+ve = positive

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Timestamp: 22 January 2024 05:38AM EST

## Q4 construction equipment dealer survey

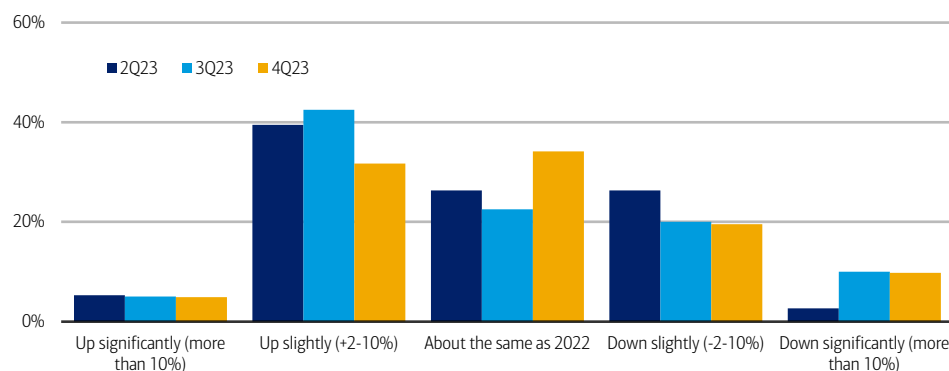
Our survey indicates a changing environment than we have seen the last few years. There is evidence that supply chains are improving: i) dealers are seeing supply rebuilding, ii) pricing moderating, iii) inventories are coming into balance, and iv) dealers are not expecting to purchase as much equipment in the next 12 months vs prior surveys. Additionally, growth expectations for 2024 and rental metrics (rates, utilization) are moderating to more 'flattish' expectations vs 'growth' in prior surveys. That said, most dealers think heavy construction/infrastructure spending can offset weaker areas.

### 2024: Growth expectations shift to flat vs positive

Globally, expectations for 2024 are less positive in 4Q23 (vs 3Q23 and 2Q23). We simply asked, "What are your expectations for your business in 2024?" Simply put, expectations are shifting from growth to flat for 2024. Globally, 37% of dealers expect business activity to be up at least 2% in 2024 (vs 48% in 3Q23), 34% of dealers expect business activity to be flat (vs 23% in 3Q23), and 30% of dealers expect business to be down next year (vs 30% in 3Q23).

#### Exhibit 2: Global - What are your expectations for your business in 2024?

Expectations for 2024 are flat to up



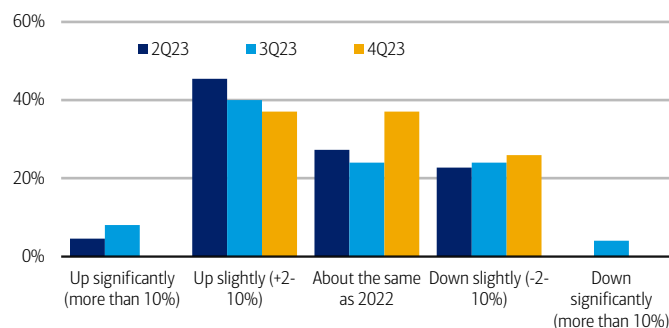
Source: BofA Securities Survey

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In NA, growth expectations are resetting from growth to flattish backdrop. 37% of dealers expect business activity to be up at least 2% in 2024 (vs 48% in 3Q23 vs 45% in 2Q23), 37% of dealers expect business activity to be flat (vs 24% in 3Q23), and 26% of dealers expect business to be down next year (vs 28% in 3Q23). The overall shift is a flattening out of expectations. Internationally, 40% of dealers expect business activity to be up at least 2% in 2024 (vs 47% in 3Q23), 29% of dealers expect business activity to be flat (vs 20% in 3Q23), and 36% of dealers expect business to be down next year (vs 33% in 3Q23).

### Exhibit 3: North America - What are your expectations for your business in 2024?

Expectations for 2024 are flat to up

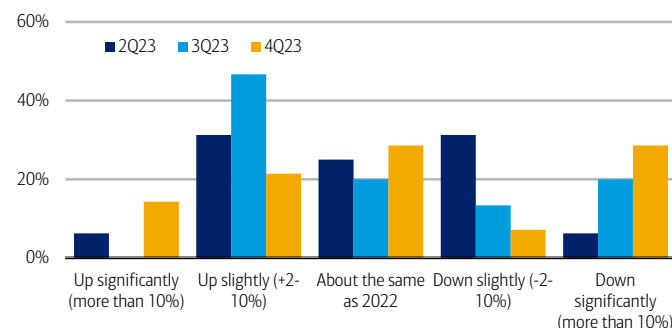


Source: BofA Securities Survey

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### Exhibit 4: International - What are your expectations for your business in 2024?

Expectations for 2024 are mixed



Source: BofA Securities Survey

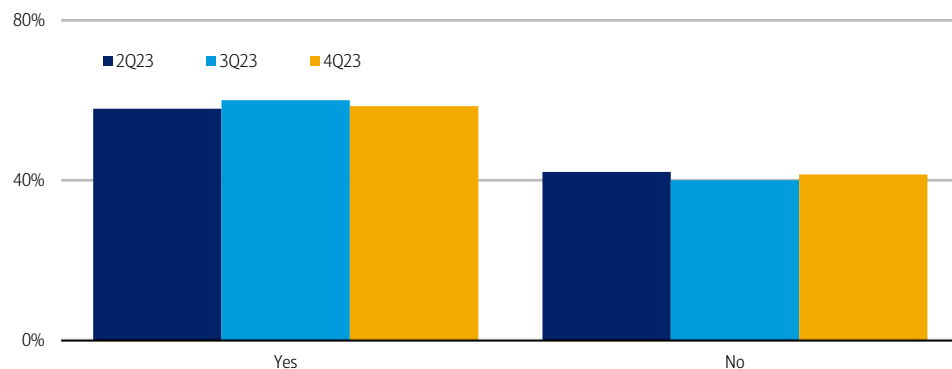
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## Special question 1- enough activity in heavy construction and infrastructure to offset slowdown in commercial construction?

In 2Q23 we introduced a new question that asked dealers 'Do you see enough activity in heavy construction and infrastructure to offset slowdown in commercial construction (offices, retail) in 2024?' Globally, 59% of dealers answered, 'Yes' and 41% answered 'No' (vs 60% "yes" and 40% "no" in 3Q23). In NA, 70% of dealers answered, 'Yes' and 30% answered 'No' (vs 60% "yes" and 40% "no" in 3Q23). Internationally, results were weaker where 36% of dealers answered, 'Yes' and 64% answered 'No' (vs 60% 'Yes' and 40% 'No' in 3Q23).

### Exhibit 5: Global - Do you see enough activity in heavy construction and infrastructure to offset slowdown in commercial construction (offices, retail) in 2024?

Dealers think there will be enough activity in heavy construction to offset a slowdown in commercial

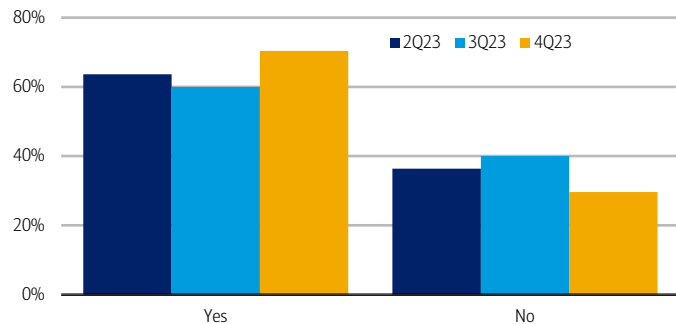


Source: BofA Securities Survey

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### Exhibit 6: North America - Do you see enough activity in heavy construction and infrastructure to offset slowdown in commercial construction (offices, retail) in 2024?

Most dealers think there will be enough activity in heavy construction to offset a slowdown in commercial

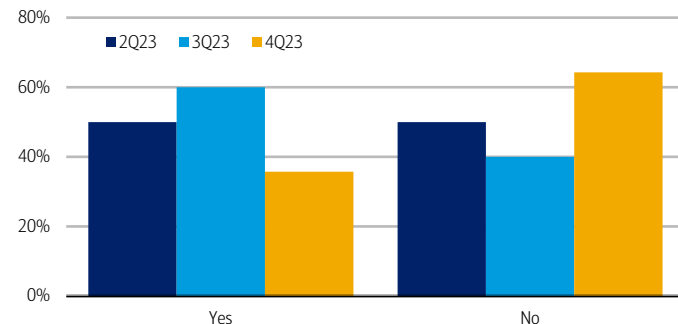


Source: BofA Securities Survey

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### Exhibit 7: International - Do you see enough activity in heavy construction and infrastructure to offset slowdown in commercial construction (offices, retail) in 2024?

Most dealers think there will be enough activity in heavy construction to offset a slowdown in commercial



Source: BofA Securities Survey

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### Dealer quotes:

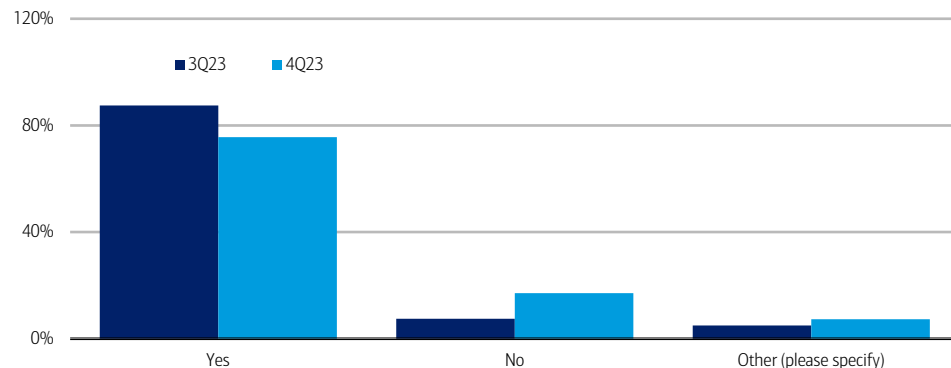
- “A lot of activity in Infrastructure, including wind farms, transmission lines, roads, and dams”.
- “Yes, we have a lot of highways, dams, windfarms and data center activity”.
- “The projects and the money is there, so in spring it will come back again”.

### Special question #2 – are higher rates weighing on customer purchasing decisions?

Last quarter we introduced a new question that asked dealers ‘are higher rates weighing on customer purchasing decisions?’ Globally, 76% of respondents say that higher rates are impacting purchasing decisions vs 17% “no” and 7% “other”. This compares to 88% ‘yes’, 8% ‘no’ and 5% ‘other’ in 3Q23. We are surprised that there is less dealers suggesting a headwind vs a quarter ago (albeit still a high amount). In NA, 66% of respondents say that higher rates are impacting purchasing decisions vs 17% “no” and 17% “other”. This compares to 92% ‘yes’, 4% ‘no’ and 4% ‘other’ in 3Q23. Internationally, 75% of dealers answered, ‘Yes’ and 13% answered ‘No’ (13% answered “other”). This compares to 81% ‘yes’, 13% ‘no’ and 6% ‘other’ in 3Q23.

### Exhibit 8: Global - Are higher rates weighing on customer purchasing decisions?

Higher rates are weighing on customers purchasing decisions

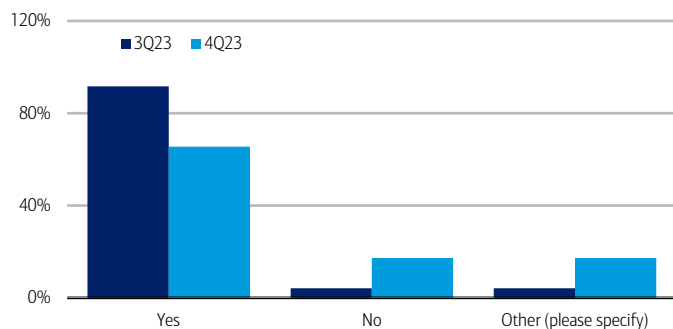


Source: BofA Securities Survey

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**Exhibit 9: North America - Are higher rates weighing on customer purchasing decisions?**

Higher rates are weighing on customers purchasing decisions

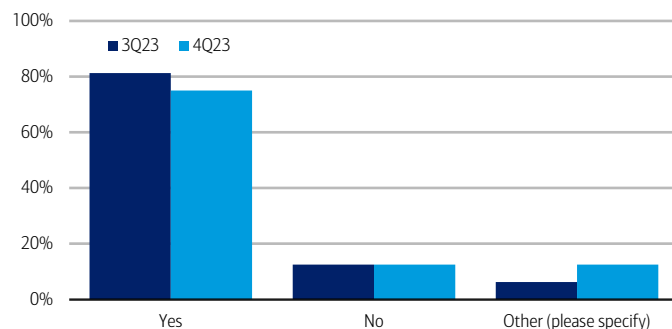


Source: BofA Securities Survey

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**Exhibit 10: International - Are higher rates weighing on customer purchasing decisions?**

Higher rates are weighing on customers purchasing decisions



Source: BofA Securities Survey

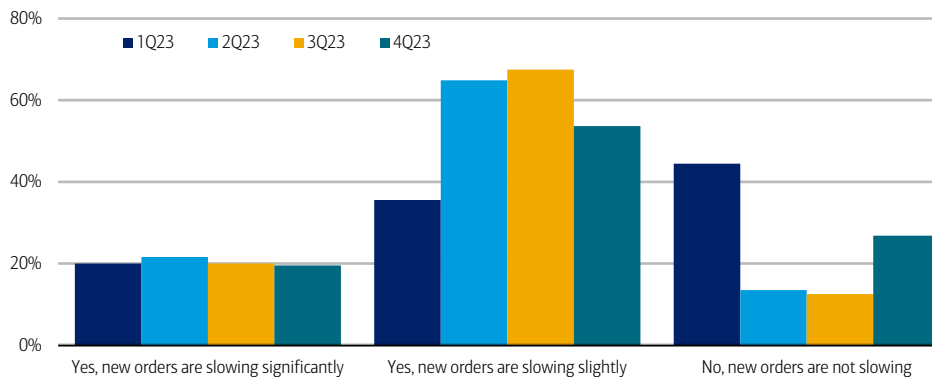
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**Special question 3 - Is new order intake beginning to slow?**

In general, dealers are indicating that new order intake is slowing – aligning with the slowdown in the economic environment and industrial data points. That said, somewhat surprising is that the respondents flagging an orders slowdown is not accelerating Q4 vs Q3 vs Q2. Globally, 73% reported slowing of order intake (vs 88% 3Q23). 27% of dealers responded that they saw no slowing of orders (vs 13% in 4Q23).

**Exhibit 11: Global - Is new order intake beginning to slow as lead times extend?**

New order intake is slowing relative to prior quarters



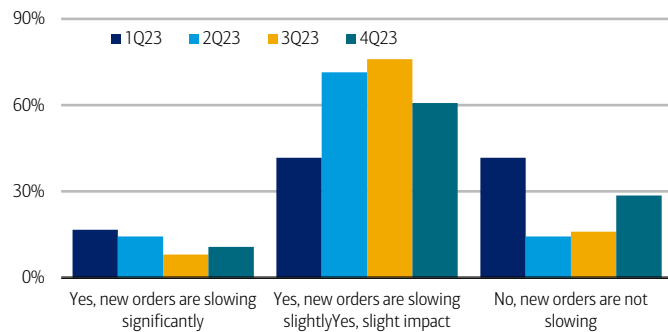
Source: BofA Securities Survey

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In NA, 71% reported slowing of order intake (vs 84% 3Q23). 29% of dealers responded that they saw no slowing of orders (vs 16% in 4Q23). International order activity improved from last quarter with 77% reporting slowing of orders (vs 93% in 3Q23). 23% reported 'no slowing of new order intake' (vs 13% 2Q23). That said, despite the QoQ improvement, new order activity remains weak.

### Exhibit 12: North America - Is new order intake beginning to slow as lead times extend?

New order intake is slowing relative to prior quarters

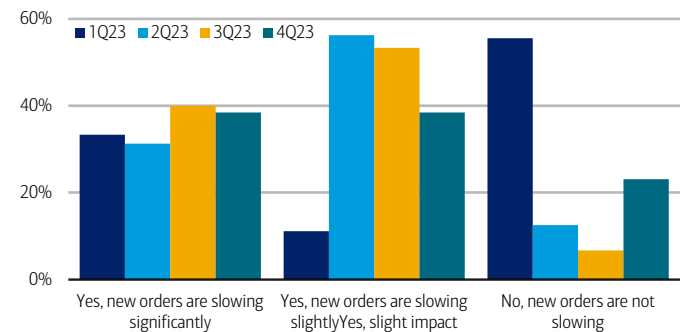


Source: BofA Securities Survey

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### Exhibit 13: International - Is new order intake beginning to slow as lead times extend?

New order intake is slowing relative to prior quarters



Source: BofA Securities Survey

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### Dealer quotes:

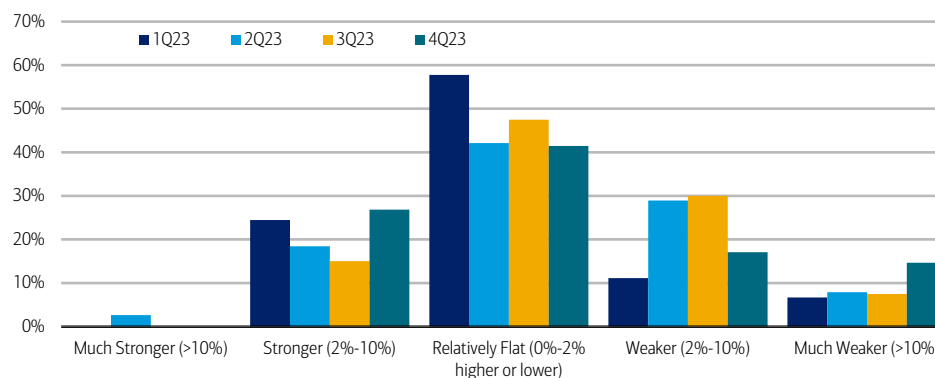
- “Orders are slowing slightly but I think it is due to a big December”.
- “We're seeing a significant drop off in orders for smaller machines. December push of sales was much smaller than previous years”.
- “50% less than 2022”.

## Outlook: Next twelve months

We asked dealers what their expectations for construction equipment demand is in the next twelve months compared to the previous twelve months. Overall, outlook for the next twelve months is largely unchanged. Globally, 41% of dealers expect flattish growth over the next 12 months (vs 48% 3Q23). 27% of dealers are expecting at least 2% growth (vs 15% 3Q23), while 32% expect weaker demand (vs 38% 3Q23).

### Exhibit 14: Global – compared to the past twelve months, what are your expectations for construction equipment demand in the next twelve months?

Near-term dealer outlook has weakened



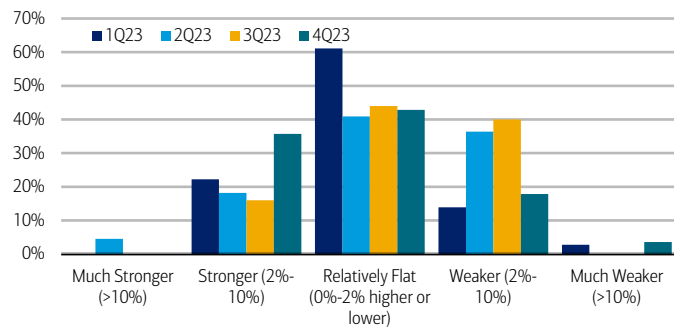
Source: BofA Securities Survey

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Among NA dealers, 43% of dealers expect flattish growth over the next 12 months (vs 44% 3Q23). 36% of dealers are expecting at least 2% growth (vs 16% 3Q23), while 21% expect weaker demand (vs 40% 3Q23). International dealers were slightly more pessimistic with 8% of dealers expecting a ‘stronger outlook’ over the next 12 months (vs 13% in 3Q23) and 54% expecting a weaker sales environment (down 2-10% YoY or greater) over the next 12 months (vs 33% in 2Q23). 38% of international dealers expect flat growth over the next twelve months (vs 53% in 3Q23).

### Exhibit 15: North America- compared to the past twelve months, what are your expectations for construction equipment demand in the next twelve months?

Near-term dealer outlook has weakened

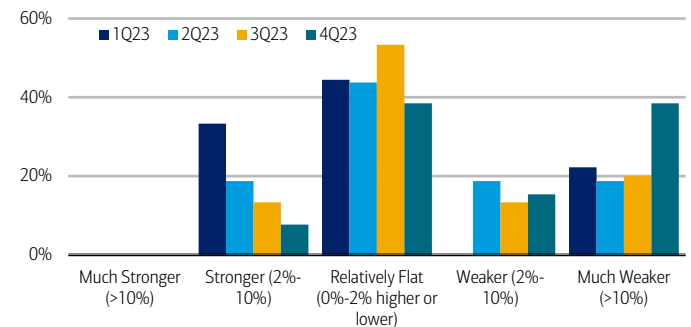


Source: BofA Securities Survey

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### Exhibit 16: International - compared to the past twelve months, what are your expectations for construction equipment demand in the next twelve months?

Near-term dealer outlook has weakened



Source: BofA Securities Survey

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### Demand – dealer quotes:

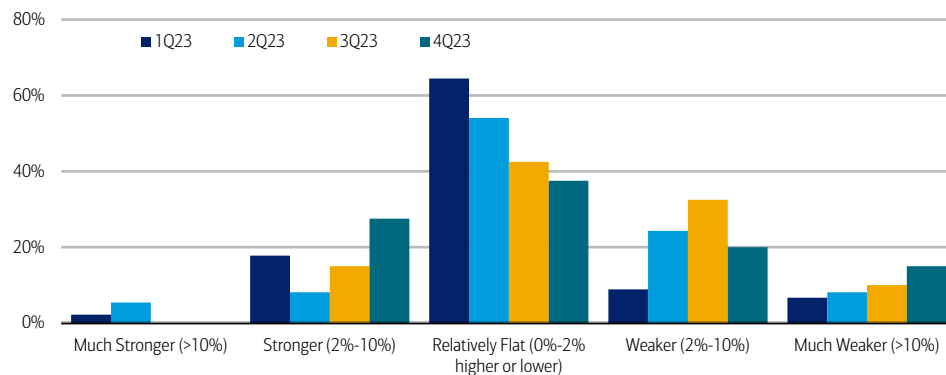
- “Election years always slows purchasing down”.
- “Our orders and sales will depend on our manufacturers' ability to supply us with a few critical product families that drive our industry”.
- “Market is still showing strength signals”.
- “Polish market down like European, no contracts”.
- “Expecting demand to be flat overall on New and Used”.

### Purchasing expectations: near term ordering plans

Dealer purchasing expectations remain subdued, consistent with the last few surveys. We believe this is likely a function of the higher inventory levels and improved supply chains – dealers do not have pressure to ramp purchasing expectations like the last few years. Globally, 28% of dealers plan to purchase more equipment over the next six months, tick up from 3Q23 (15%). 35% of dealers purchasing plans are flat over the next six months (vs 43% 3Q23). Dealers expecting to purchase less equipment fell QoQ, with 35% of dealers planning to purchase less equipment (vs 43% 3Q23).

### Exhibit 17: Global - compared to the last six months, your purchasing plans for the next six months are:

Purchasing plans have weakened QoQ



Source: BofA Securities Survey

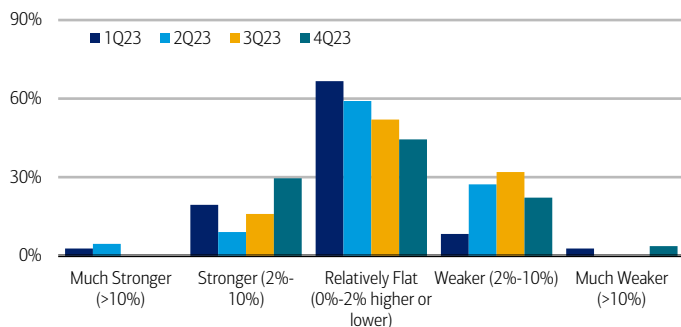
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Purchasing expectations in NA improved QoQ slightly. 30% of dealers plan to purchase more equipment over the next six months, up from 16% in 3Q23. 44% of dealers purchasing plans are flat over the next six months (vs 52% 3Q23). Dealers expecting to

purchase less equipment decreased QoQ, with 26% of dealers planning to purchase less equipment over the next six months (vs 32% 3Q23). Internationally, only 23% expect to purchase more equipment (vs 13% in 3Q23), 54% expect to purchase less on a YoY basis (vs 60% 3Q23) and 23% expect flat purchases (vs 27% 3Q23).

#### Exhibit 18: North America - compared to the last six months, your purchasing plans for the next six months are:

Purchasing plans have weakened QoQ

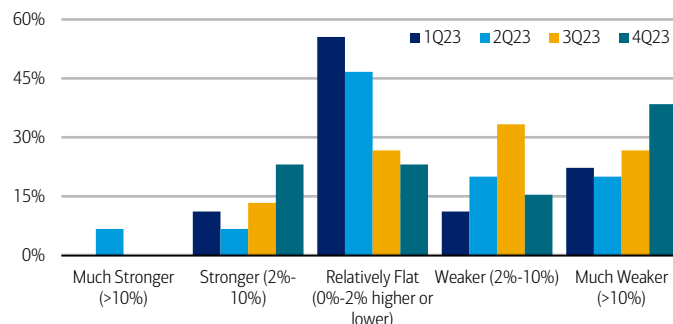


Source: BofA Securities Survey

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#### Exhibit 19: International - compared to the last six months, your purchasing plans for the next six months are:

Purchasing plans have flattened QoQ



Source: BofA Securities Survey

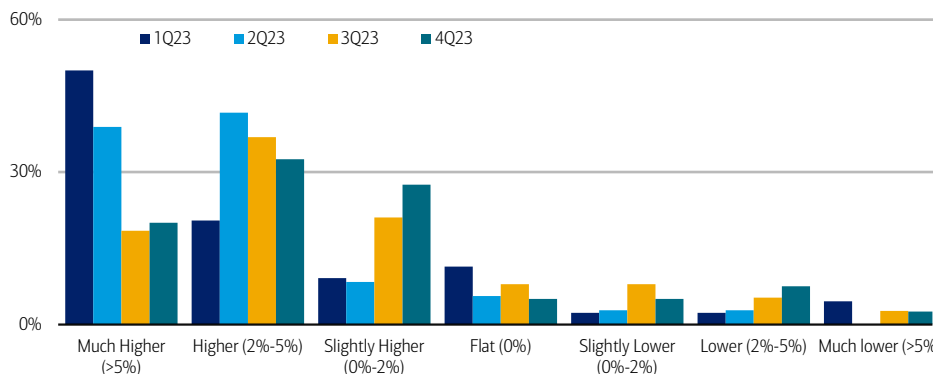
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## Pricing: New holding, used falling

Pricing across new equipment remains solid vs historical levels yet there are signs of moderation on new and a more notable trend of falling used equipment prices. For example, in new equipment – pricing expectations are resetting from ‘greater than 5%’ to ‘positive 0-5%’. On new equipment, 80% of dealers globally reported higher prices on a YoY basis (vs 76% 3Q23). 20% of dealers see pricing over 5% (vs 18% in 3Q23) and 15% of the global dealers reported declines on a YoY basis (vs 16% 3Q23).

#### Exhibit 20: Global - compared to the same three-month period last year, prices of NEW equipment were:

Pricing remains elevated vs historical levels but is moderating



Source: BofA Securities Survey

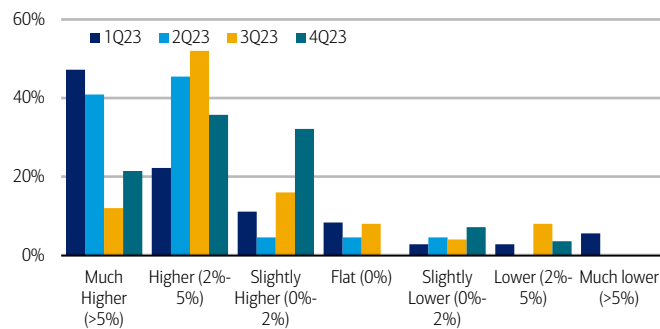
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In NA, 89% of dealers globally reported higher prices on a YoY basis (vs 80% 3Q23). 21% of dealers see pricing over 5% (vs 12% in 3Q23) and 11% of the global dealers reported declines on a YoY basis (vs 12% 3Q23). We are observing a mix shift playing out in pricing expectations. In NA, only 21% dealers see pricing >5% vs 68% a year ago. Regarding the international market, 58% of respondents saw increased pricing, down from 69% in 3Q23. Only 17% reported ‘much higher >5%’ price gains (vs 31% 3Q23). 25% of respondents saw lower prices (vs 23% in 3Q23).



### Exhibit 21: North America - compared to the same three-month period last year, prices of NEW equipment were:

Pricing remains elevated but is moderating

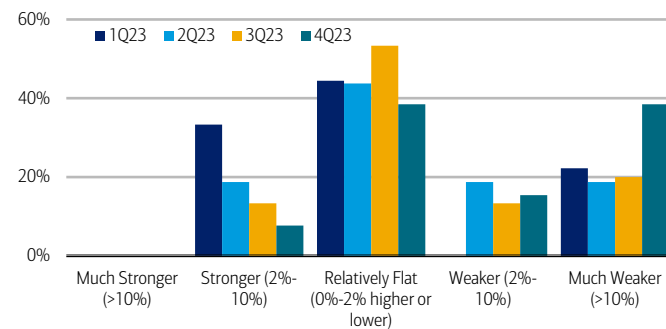


Source: BofA Securities Survey

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### Exhibit 22: International- compared to the same three-month period last year, prices of NEW equipment were:

Pricing remains elevated but is moderating



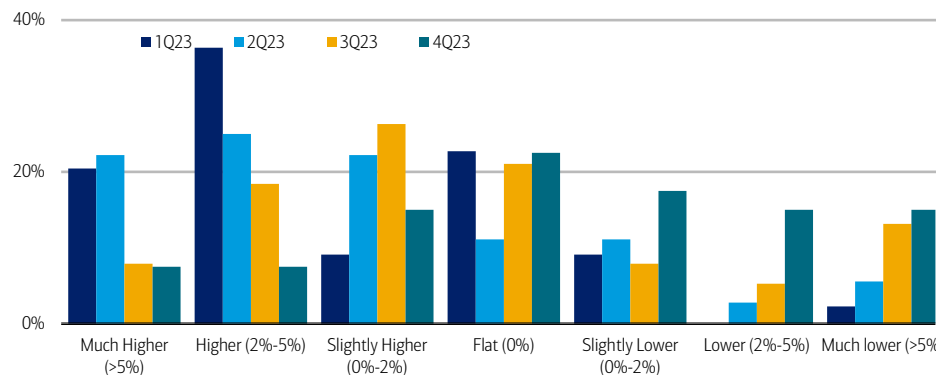
Source: BofA Securities Survey

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We view used equipment pricing as one of the best indicators of momentum in the construction equipment market as it provides a gauge of underlying supply-demand. Used prices are dropping rapidly it appears from elevated levels a year ago. For the first time in 14 consecutive quarters...more saying used values lower YoY basis (48%) vs higher YoY basis (30%). Globally, 48% of dealers are observing weaker pricing (vs 26% in 3Q23). Only, 30% of dealers reported higher used prices YoY, down from 53% in 3Q23 (peaked at 96% in 4Q21)

### Exhibit 23: Global - compared to the same three-month period last year, prices of USED equipment were:

Pricing remains elevated but is moderating



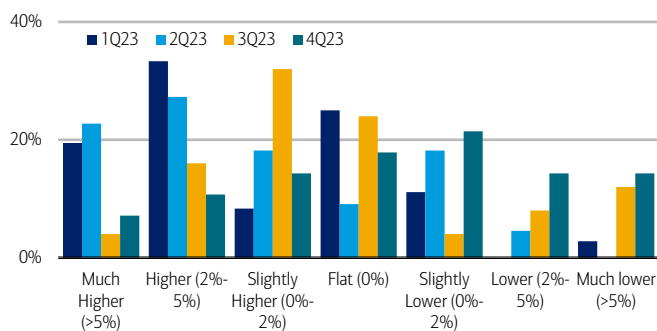
Source: BofA Securities Survey

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In NA, 50% of dealers are observing weaker pricing (vs 24% in 3Q23). 32% of dealers reported higher used prices YoY, up from 52% in 3Q23. The international used market showed weaker trends with 42% reporting lower pricing (vs 31% in 3Q23). 25% of dealers reported higher pricing (vs 54% in 3Q23).

### Exhibit 24: North America - compared to the same three-month period last year, prices of USED equipment were:

Pricing is moderating

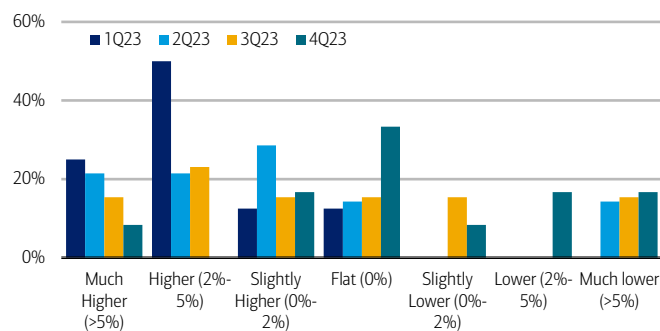


Source: BofA Securities Survey

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### Exhibit 25: International - compared to the same three-month period last year, prices of USED equipment were:

Pricing is moderating



Source: BofA Securities Survey

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## Pricing - dealer quotes:

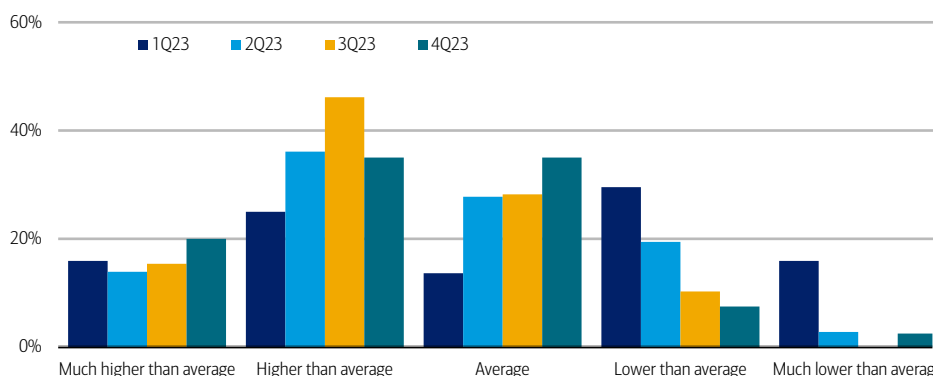
- “Used values are starting to trend back to normal levels”.
- “Used market has seen a pretty drastic drop off from the Summer as dealers finally have inventories of new equipment to sell”.

## Inventories (re)building

As supply chain issues are beginning to ease, dealer inventory is starting to build. The market has come along way from low inventory levels for several quarters after COVID recession to finally rebuilt. There are signs that perhaps a little excess inventory is now in the channel. 55% of global dealers say inventory levels in 4Q23 are ‘higher/much higher than average’ (vs 62% 3Q23). 10% of dealers suggest ‘lower/much lower than average’ levels for new equipment (vs 10% 3Q23). This is consistent with last quarter but shows a change from the last two years where most dealers indicated inventory levels are ‘average’ or ‘lower/much lower than average’.

### Exhibit 26: Global - your NEW equipment inventory for this time of year is:

Inventories are beginning to build from the lows



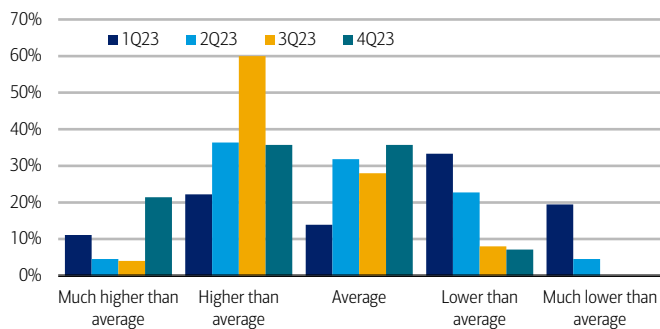
Source: BofA Securities Survey

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In NA, 57% of global dealers say inventory levels in 4Q23 are ‘higher/much higher than average’ (vs 64% 3Q23). 7% of dealers suggest ‘lower/much lower than average’ levels for new equipment (vs 8% 3Q23). Internationally, 50% of dealers saw ‘higher than average’ new equipment inventory levels (vs 57% 3Q23). 17% saw inventory levels as ‘lower than average’ (vs 14% 3Q23). 33% see average inventory levels vs 29% in 3Q23.

**Exhibit 27: North America– your NEW equipment inventory level for this time of year is:**

Inventories are building from the lows



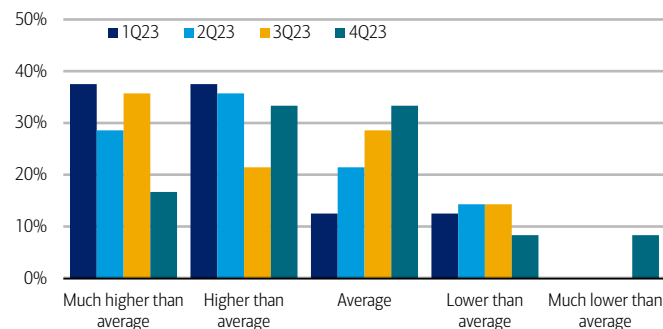
Source: BofA Securities Survey

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Globally, 28% of dealers reported lower than average used equipment inventory levels, vs 36% 3Q23. 23% of dealers indicated above average levels (vs 23% 3Q23). All in all, used equipment inventories have remained tight since 1Q21, driven by low availability of new equipment and soaring prices.

**Exhibit 28: International– your NEW equipment inventory level for this time of year is:**

Inventories are building from the lows

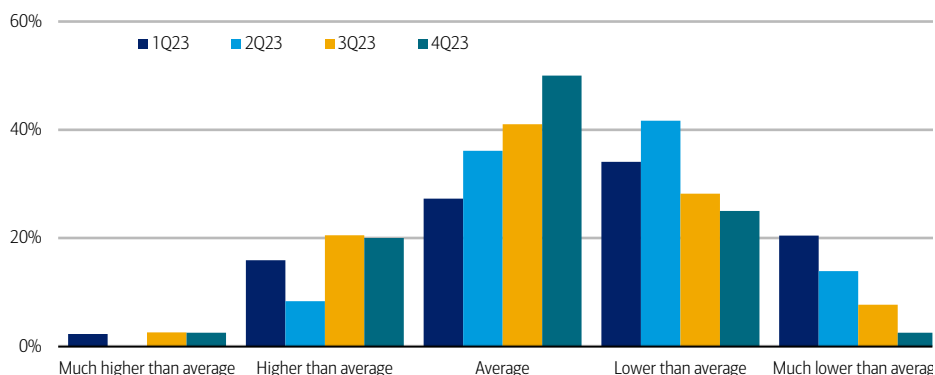


Source: BofA Securities Survey

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**Exhibit 29: Global - your USED equipment inventory level for this time of year is:**

Inventories are growing QoQ



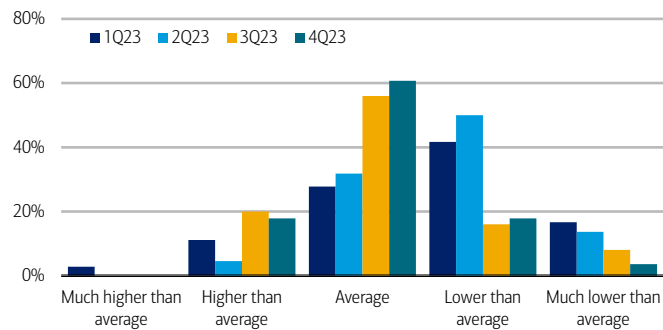
Source: BofA Securities Survey

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18% of dealers reported lower than average used equipment inventory levels, vs 20% 3Q23. 21% of dealers indicated above average levels (vs 24% 3Q23). Internationally, 42% of dealers reported lower than average equipment levels (vs 57% 3Q23). 33% of international dealers reported higher than average inventories (vs 29% 3Q23).

### Exhibit 30: North America - your USED equipment inventory level for this time of year is:

Inventories are growing

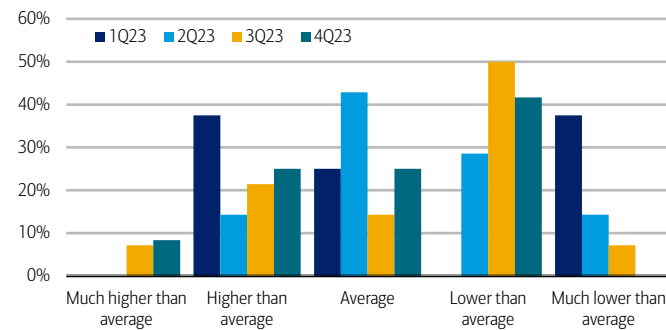


Source: BofA Securities Survey

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### Exhibit 31: International- your USED equipment inventory level for this time of year is:

Inventories are growing but remain lower than average



Source: BofA Securities Survey

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## Inventory - dealer quotes:

- “We intentionally keep a lean used inventory”.
- “Parts inventory levels are much higher”.
- “We expected much higher sales last month, inventory 90% higher than planned”.
- “Our new inventory is currently at a record high as we're finally seeing machines arrive. The Whipsaw of orders has officially begun. Numerous dealers are offering up orders to anyone that'll take them”.

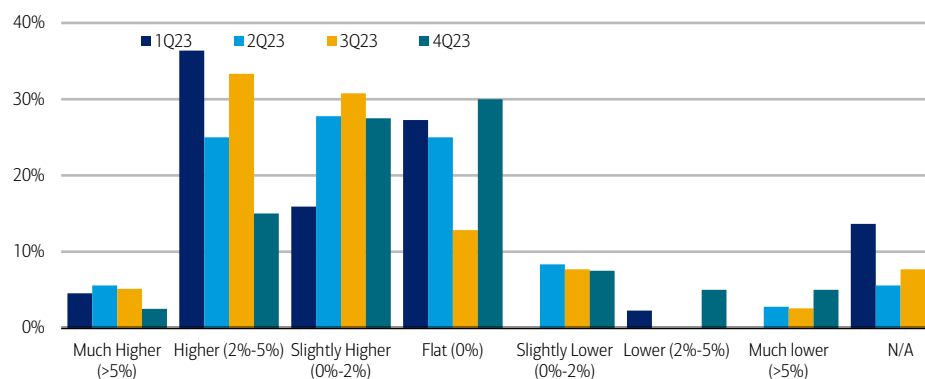
## Rentals – metrics moderating

### Recent performance

The number of global dealers reporting higher rental rates moderating. 45% of global dealers indicated higher rental rates on a YoY basis (vs 69% in 3Q23) and 18% indicated lower rental rates (vs 10% in 3Q23).

### Exhibit 32: Global – compared to the same three-month period last year, equipment rental rates were:

Rental rates remain elevated



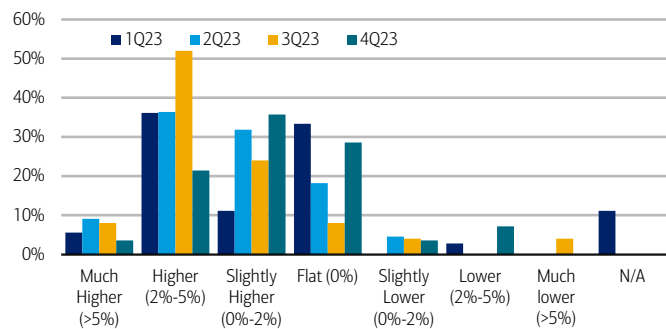
Source: BofA Securities Survey

BofA GLOBAL RESEARCH

In North America, 61% of global dealers indicated higher rental rates on a YoY basis (vs 84% in 3Q23) and 11% indicated lower rental rates (vs 8% in 3Q23). 29% said flat (vs 8% in 3Q23). Internationally, 8% of dealers reported higher rental rates YoY (vs 43% 3Q23), and 33% reported lower rental rates YoY (vs 14% 3Q23).

### Exhibit 33: North America - compared to the same three-month period last year, equipment rental rates were:

Rental rates remain elevated

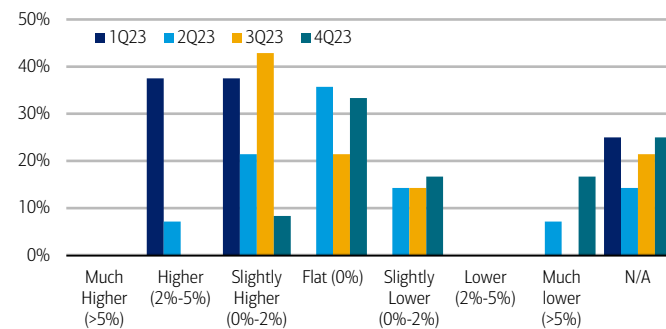


Source: BofA Securities Survey

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### Exhibit 34: International - compared to the same three-month period last year, equipment rental rates were:

Rental rates remain elevated



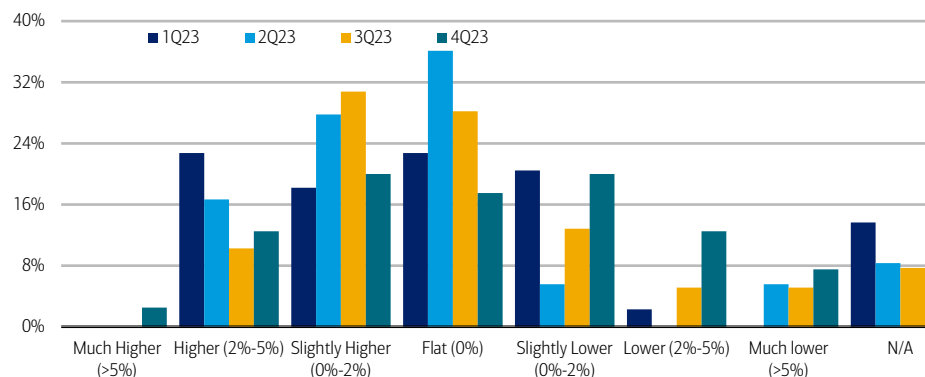
Source: BofA Securities Survey

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Globally, 35% of respondents indicated a YoY expansion in rental equipment utilization in 4Q23 (vs 41% 3Q23). 40% of global respondents indicated a decline in utilization rates YoY (vs 23% 3Q23).

### Exhibit 35: Global - compared to the same three-month period last year, rental equipment utilization rates were:

Utilization rates slowed QoQ



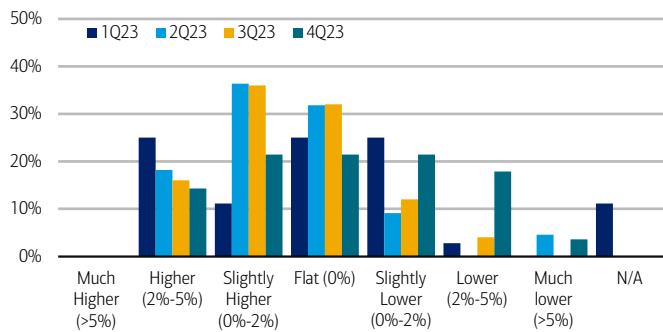
Source: BofA Securities Survey

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In NA, 36% of respondents indicated a YoY expansion in rental equipment utilization in 4Q23 (vs 52% 3Q23). 43% of NA respondents indicated a decline in utilization rates YoY (vs 16% 3Q23). Internationally, 33% of respondents noted higher utilization (vs 21% 2Q23), and 33% reported lower utilization (vs 36% 3Q23).

### Exhibit 36: North America - compared to the same three-month period last year, rental equipment utilization rates were:

Utilization rates slowed QoQ

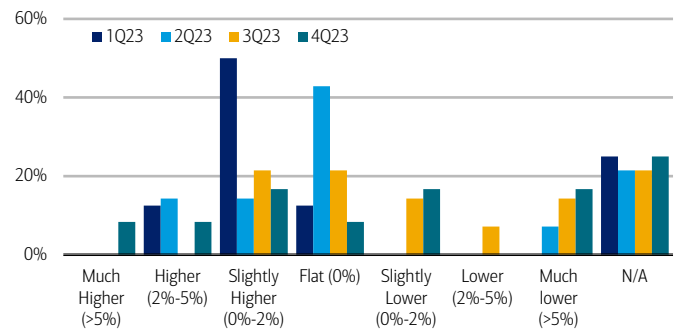


Source: BofA Securities Survey

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### Exhibit 37: International - compared to the same three-month period last year, rental equipment utilization rates were:

Utilization rates slowed QoQ



Source: BofA Securities Survey

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## Rentals – dealer quotes:

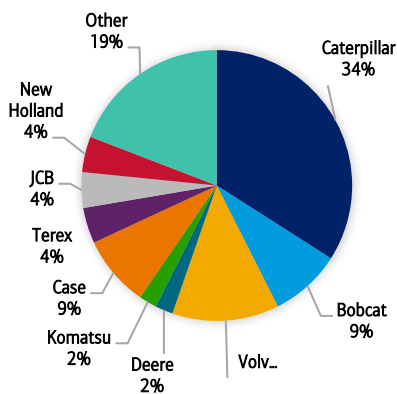
- “Rental utilization is back to traditional levels vs. highs of previous years”.
- “Rental utilization is at acceptable levels but more on par with historical levels than last year which was exceptionally high”.

## Breakout

We surveyed ~40 dealers globally, representing the Caterpillar, New Holland, Volvo, Case, Bobcat, Terex, Deere, Komatsu, and JCB brands, among others. The breakout of our participating dealers is presented below:

### Exhibit 38: Dealer breakout by brand

Breakout by brand

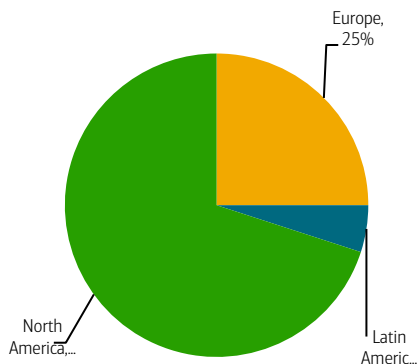


Source: BofA Securities, BofA Securities survey

BofA GLOBAL RESEARCH

### Exhibit 39: Dealer breakout by geography

Breakout by geography

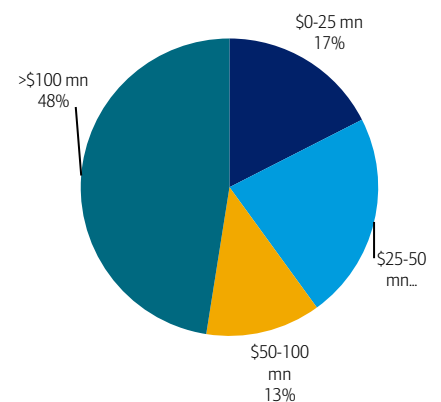


Source: BofA Securities, BofA Securities survey

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### Exhibit 40: Dealer breakout by revenue

Breakout by revenue



Source: BofA Securities, BofA Securities survey

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R1</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R1</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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