

# Machinery, E&C and Waste

## Texas: loan survey (negative) vs rental equipment channel check (positive)

Industry Overview

### Texas is a microcosm of the larger investor debate

The Federal Reserve Bank of Dallas banking conditions survey (March 21-29) is clearly cautious: expectations for loan demand to fall, credit terms to tighten, increases in nonperforming loans. That said, on the ground developments are more constructive. Yesterday, we hosted a call with Wes Clark of Rocky Hill Equipment Rentals, which services Texas (*please reach out for replay details*). While Mr. Clark's 'bottoms-up' assessment is positive (public projects, oil & gas, March color), there is an overhang on what is 'around the corner' due to macro concerns. 5 key takeaways below:

#### 1) 2023: off to a positive start

Mr. Clark cited 2022 as a record year and 2023 is off to a strong start: Jan-Feb slower than expected (weather) yet March and (early) April stronger. Based on trends in daily/weekly rates, Mr. Clark is not observing any signs of a slowdown yet in his region.

#### 2) Pipeline: Public strong, Commercial solid, Office softens

Mr. Clark is observing softness in offices. Commercial still solid due to population growth /relocation tailwind – yet monitoring this vertical. Most strength is on the public side: record bond issuance for schools, fiber optics, roads – provides steady work for the next three years. Mr. Clark acknowledges that some fleet can move out of weak pockets (offices) to stronger areas, but does not see big risk of 'flooding' market (i.e. the 2015/16 concern).

#### 3) Tightening lending: no direct impact (yet)

While Mr. Clark is not observing an impact on his operations, the potential fallout of the regional banks crisis is a big part of industry conversations. Financing rates are higher vs a year ago: rental operators likely think twice about adding fleet (particularly high dollar equipment) and customers monitoring cost of projects in 2024. Mr. Clark wonders if customer fears around rates and credit access drives a larger shift to the rental space.

#### 4) Rental rates: positive near-term, expects to steady out

Mr. Clark increased rates in March – passing on supplier increases (~6% on average) and demand still strong. Daily/weekly rates still moving higher in the market, while monthly rates more stable (albeit at higher levels vs prior years). Mr. Clark expects 2024 to be a more 'steady' environment following growth in 2023 and a robust/record year in 2022.

#### 5) Fleet growth: Getting easier to get hands on equipment

Mr. Clark expects to grow his fleet in 2023 as supply constraints ease (i.e.: wait time 4-6 months vs 9 months). That said, equipment is still trickling in unit-by-unit vs large deliveries. Consolidation by larger peers is likely a play on lack of equipment and labor.

### Silver lining of all this caution: less 'boom & bust'

While Mr. Clark expects a 'steady environment' in 2024 (vs growth 2023 vs robust 2022), he does not see signs of 'overfleeing' in his region. Supply chain issues, higher interest rates, and consolidation is resulting in more discipline around fleet growth this cycle.

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**Michael Feniger**  
Research Analyst  
BofAS  
+1 646 855 1923  
[michael.feniger@bofa.com](mailto:michael.feniger@bofa.com)

**Sherif El-Sabbahy**  
Research Analyst  
BofAS  
[sherif.el-sabbahy@bofa.com](mailto:sherif.el-sabbahy@bofa.com)

**Nandita Nayar**  
Research Analyst  
BofAS  
[nandita.nayar@bofa.com](mailto:nandita.nayar@bofa.com)

**Blake Greenhalgh**  
Research Analyst  
BofAS  
[blake.greenhalgh@bofa.com](mailto:blake.greenhalgh@bofa.com)

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