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How economic issues and the supply chain are affecting the equipment rental market

Wayne Walley, VP Publications

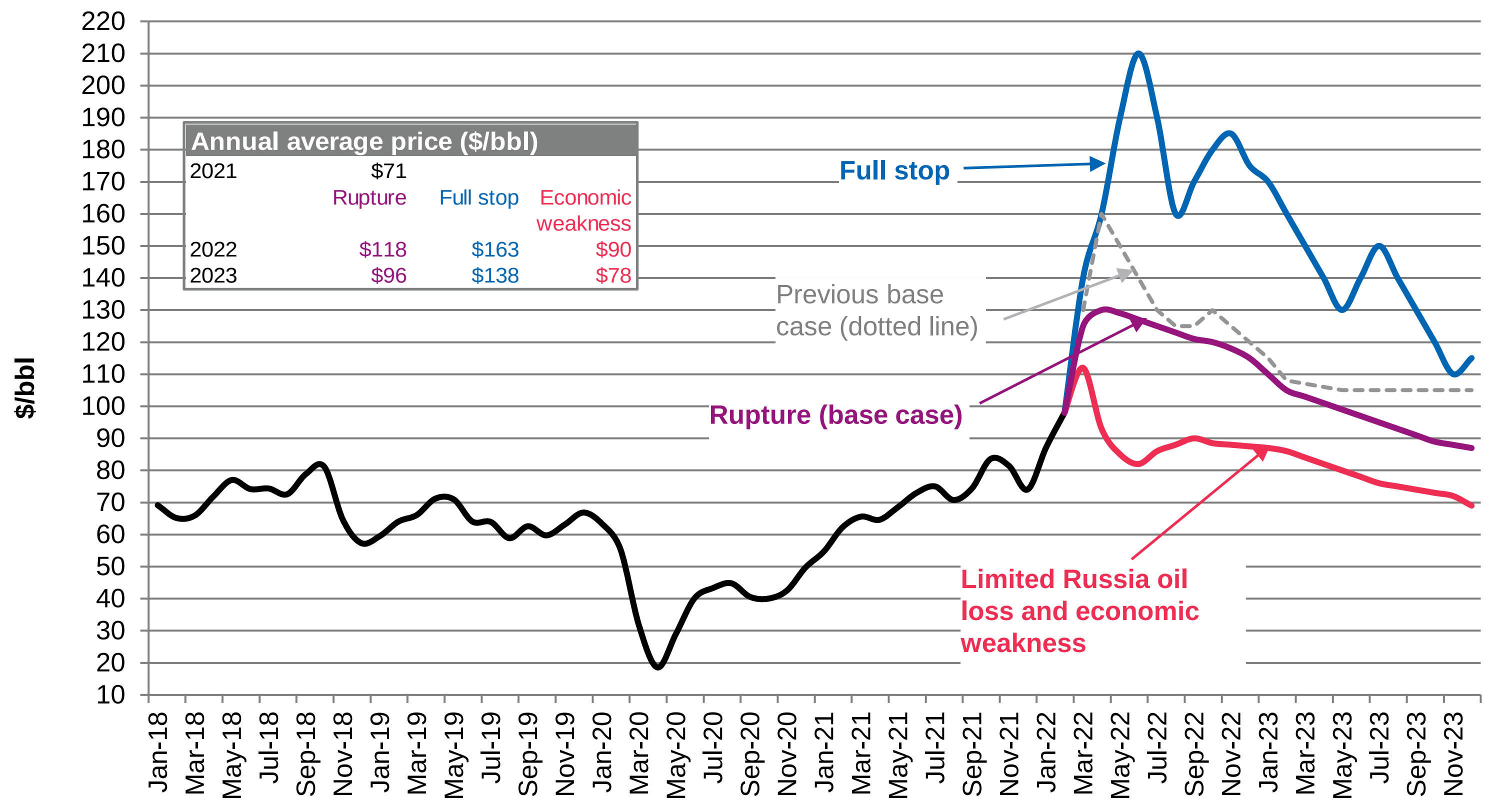
S&P Global Presentations

Diesel prices are high both in the United States and globally due to many factors

- High crude price due to the Ukraine/Russia war and supply constraints
- High demand
- High cost of production
- Low diesel inventory globally

The primary cause of higher diesel prices are due to higher crude prices

Dated Brent price scenarios

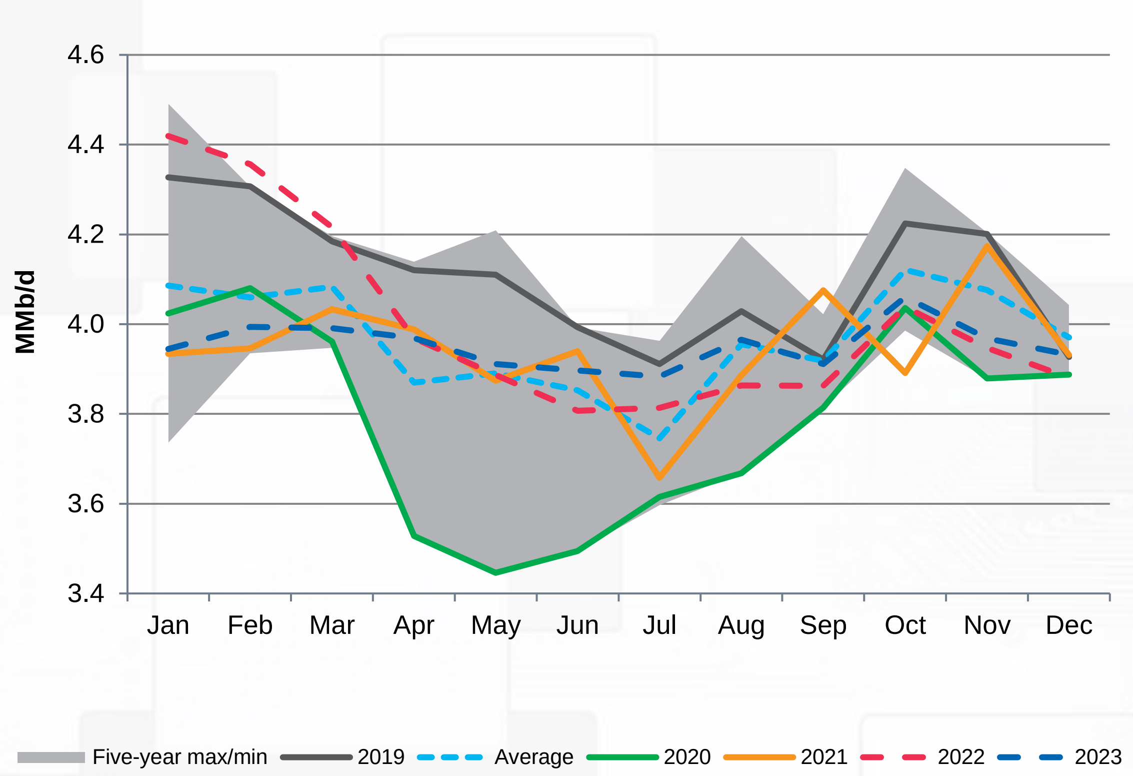


Note: Prices shown are indicative monthly price averages and not intended to project daily/weekly high and low prices.
Source: IHS Markit, Argus Media Limited (historical prices)

- **Rupture (base case).** Volatile range of 1–3 MMb/d cut to Russian oil exports.
  - Saudi Arabia and the UAE raise output through 2022
  - World oil demand growth of 2.6 MMb/d in 2022, 3.2 MMb/d in 2023.
  - Production gains outside of OPEC+ deal total 3.7 MMb/d for the year, including growth from Iran in second half 2022.
  - Strategic reserves are released at times.
  - Commercial inventories rise from low levels of first quarter 2022.
- **Full stop.** About 4–6 MMb/d of Russian oil exports stop.
  - Little to no supply growth from Iran.
  - Increases in Saudi Arabia and the UAE are too little and too late.
  - Strategic and commercial inventories drained to low levels, even as demand falls.
  - Weaker than expected production gains outside OPEC+.
- **Limited Russia oil loss and economic weakness.** Estimated 0–1 MMb/d cut to Russian exports and weaker oil demand.
  - Weak oil demand growth as COVID-19 leads to widescale lockdowns in mainland China.
  - Inventories increase by the end of 2022.

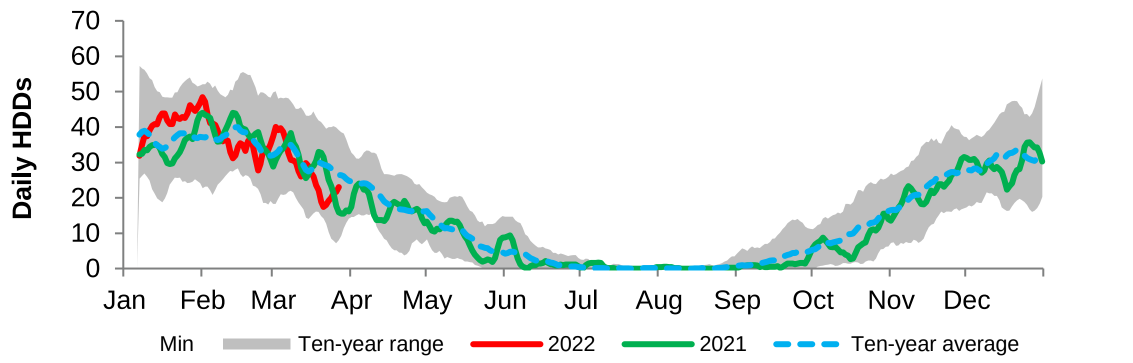
March diesel demand maintains healthy rates on strong trucking VMTs; Softer demand expected through 2023 as durable good purchases subside

US diesel demand



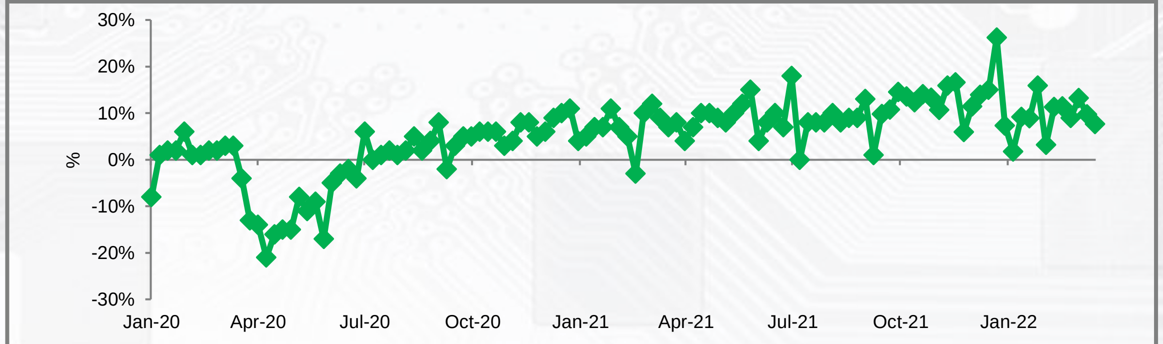
Source: IHS Markit, EIA

New England seven day moving average daily HDDs



Source: IHS Markit, NOAA

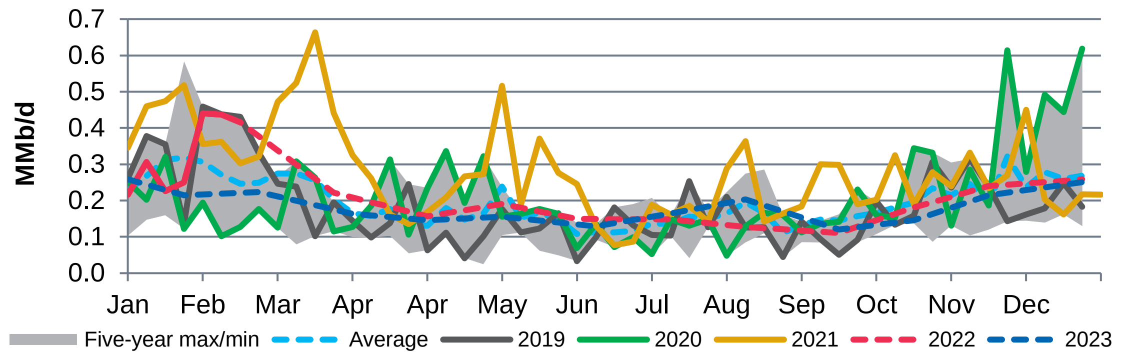
Trucking VMT year over year change vs 2019



Source: IHS Markit, DOT

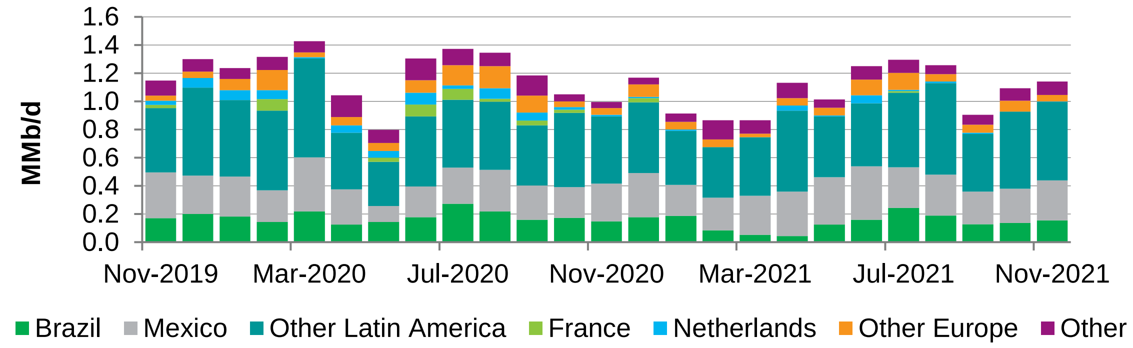
Europe requires diesel from the US Gulf Coast and Russia to balance their market. The US east coast also imported diesel from Russia

Distillate weekly imports



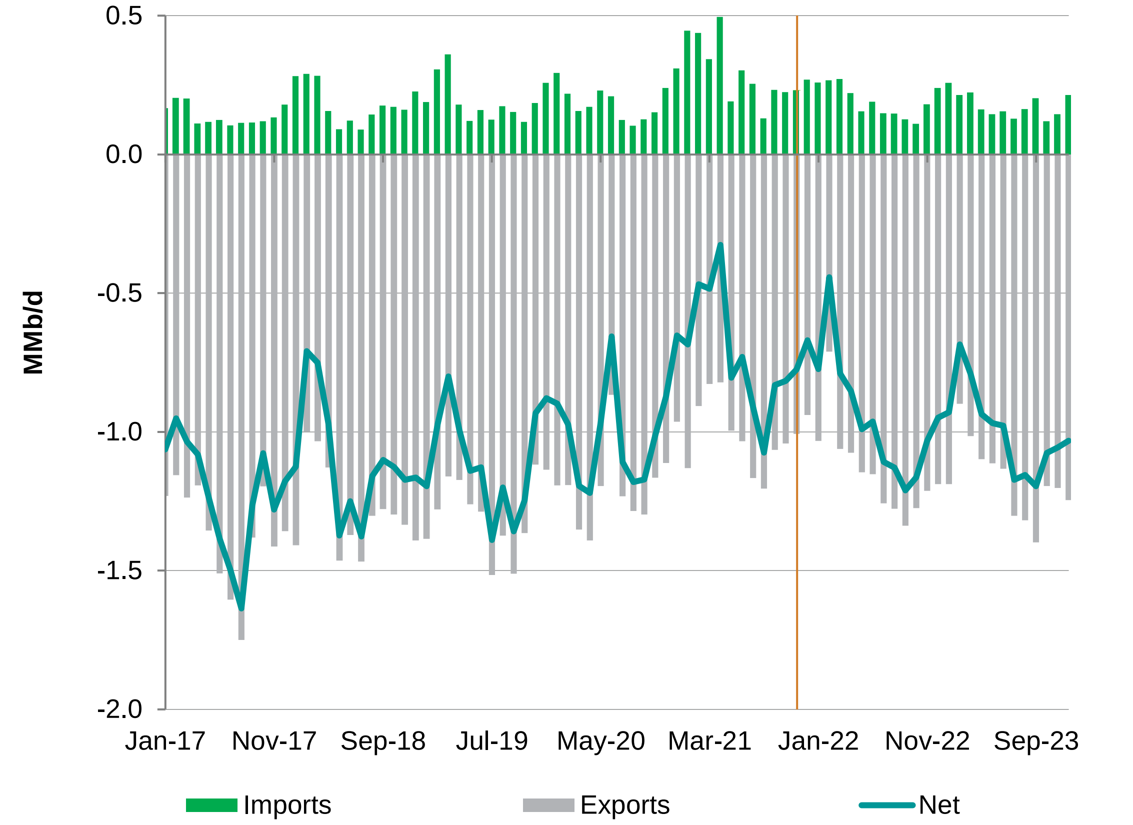
Source: IHS Markit, EIA

US diesel export by destination



Source: IHS Markit, EIA

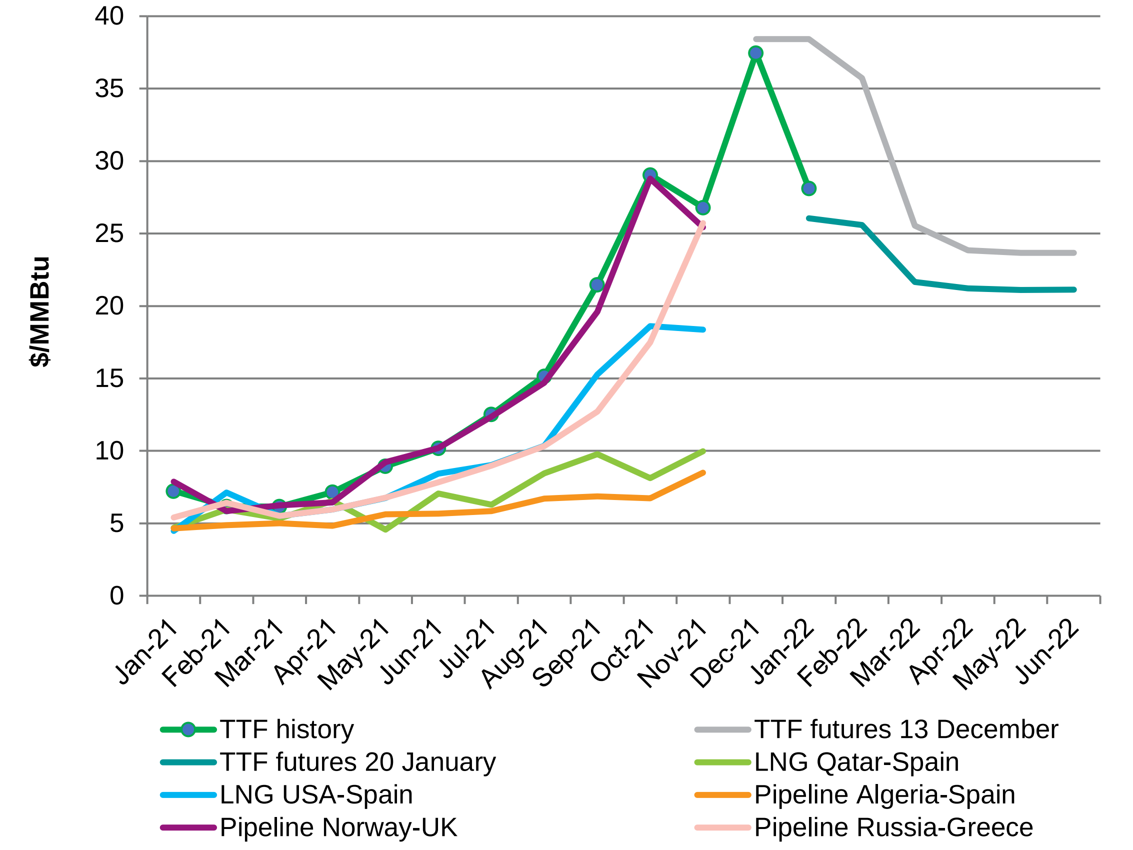
US diesel trade balance



Source: IHS Markit, EIA

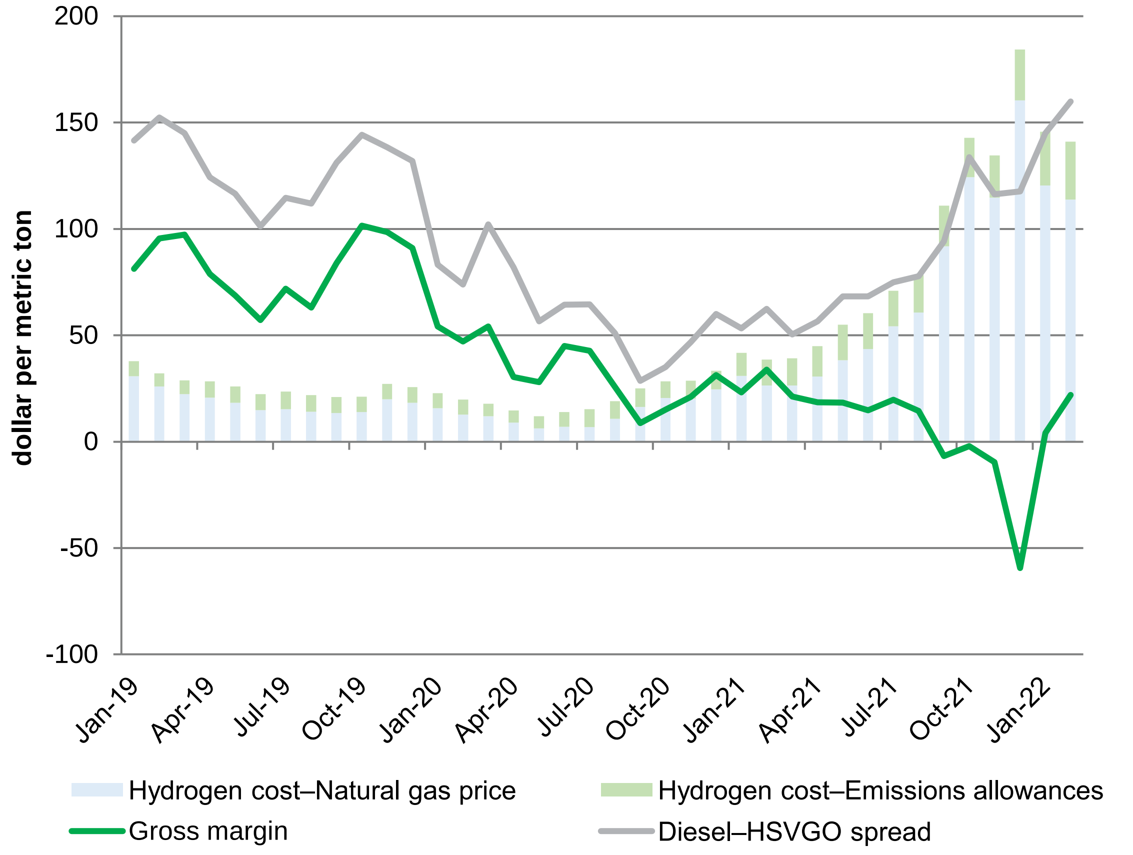
High natural gas prices in Europe have significantly increased the cost to produce diesel

European natural gas prices



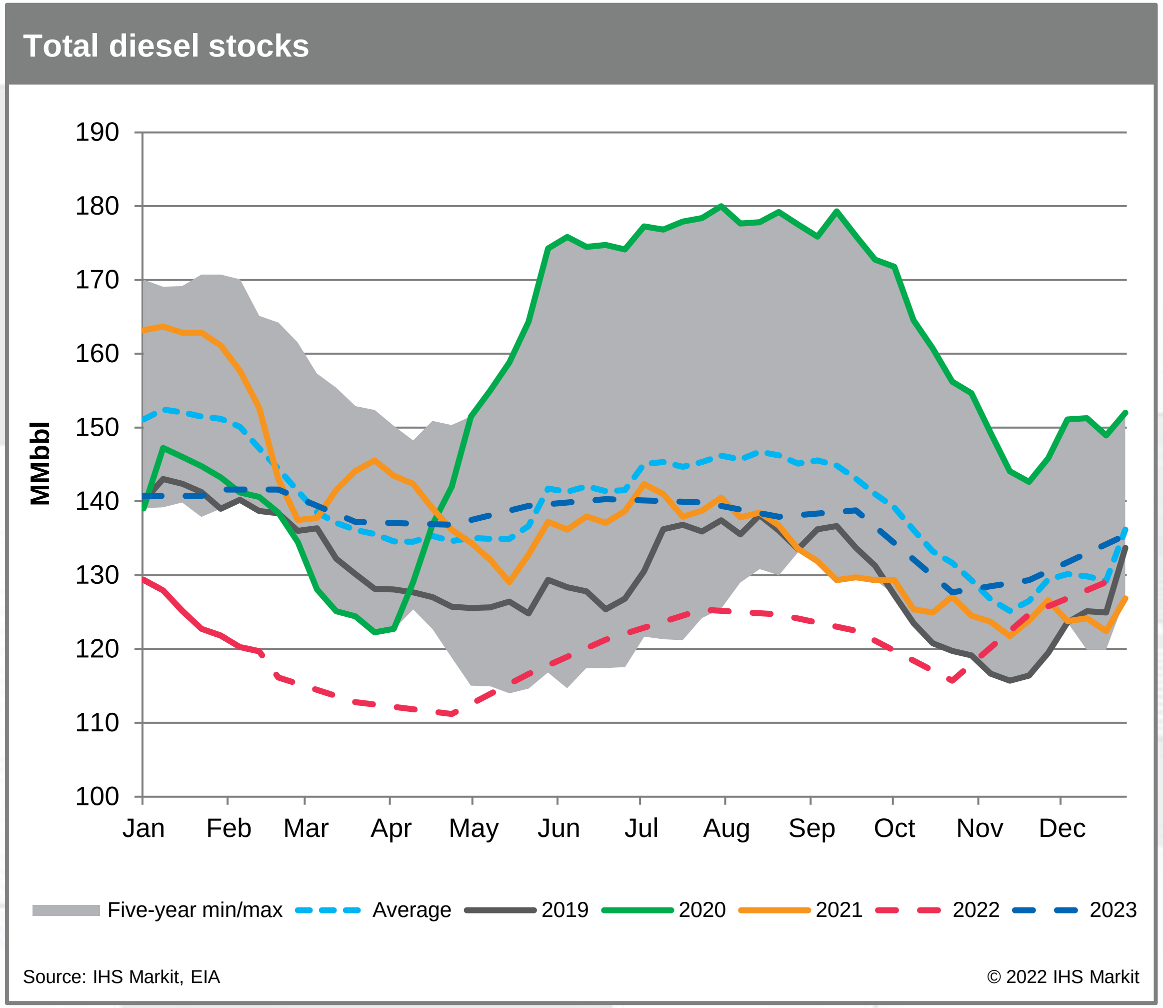
Note: bilateral trade derived from country pairs for HS codes 271111 (LNG) and 271121 (pipeline gas) reported in USD per GJ
Source: IHS Markit Global Gas, Global Trade Atlas, Argus Media, CME Group

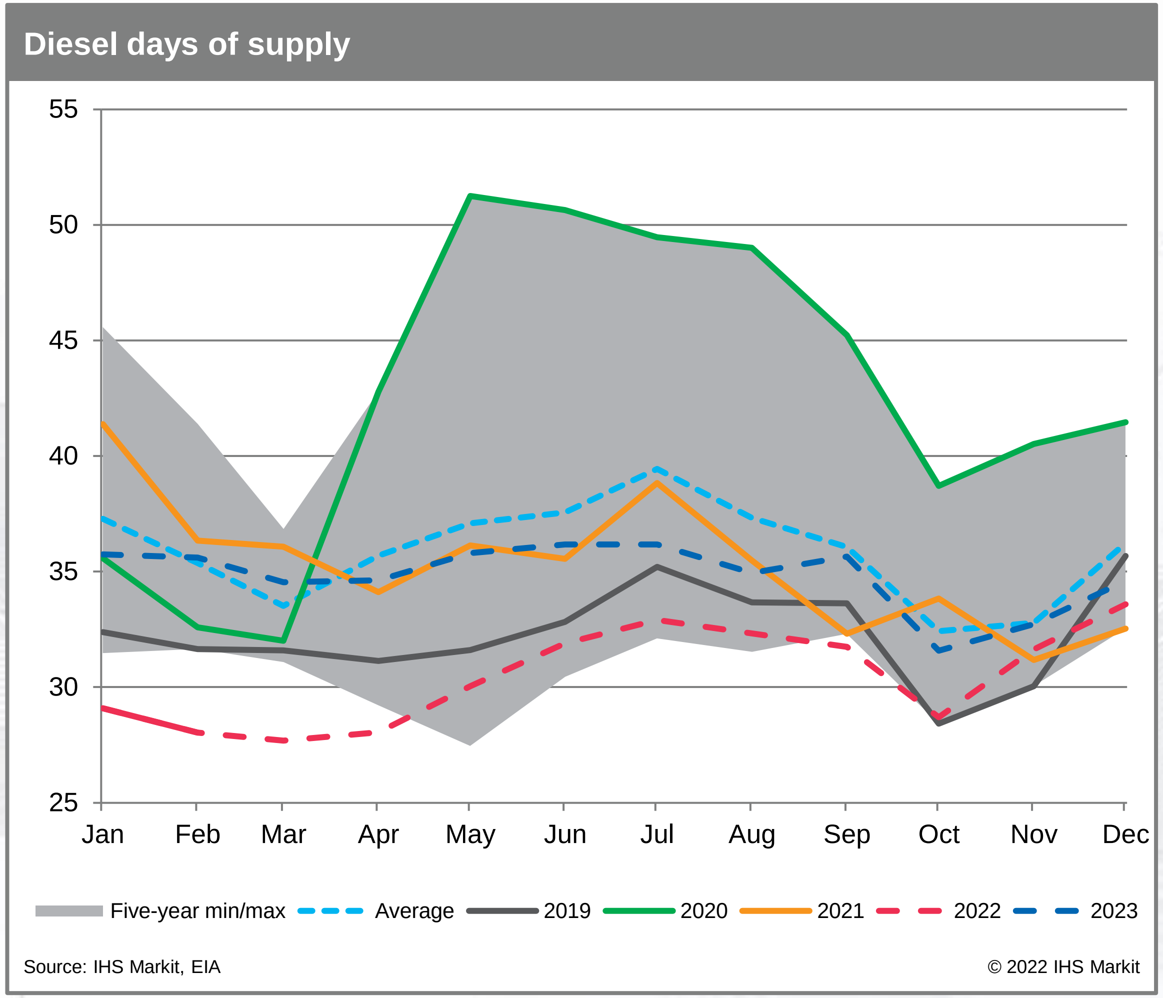
Indicative hydrocracker margin, full exposure to spot natural gas prices



Note: hydrogen cost based on 3 times the natural gas price and 9 times that CO2 price, assuming 2.94% H2/feed ratio
Source: IHS Markit

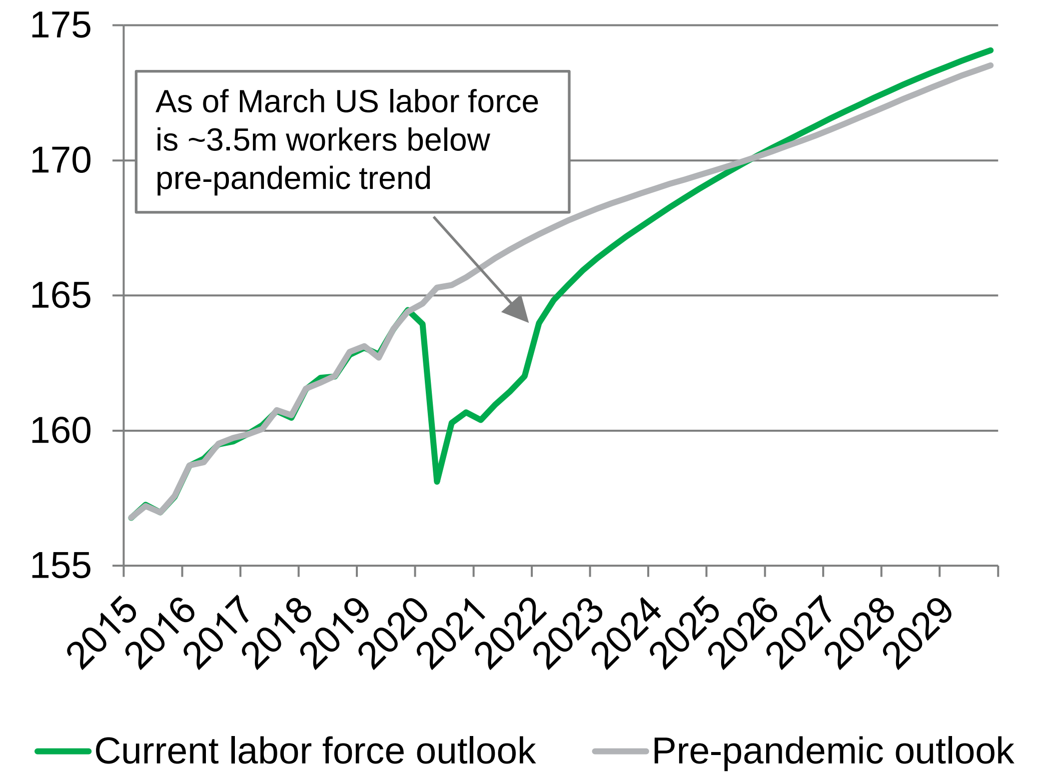
Distillate stocks exit February at critically low levels; Softer diesel demand through second half of the year and yield shifts towards distillate should help inventories rebuild





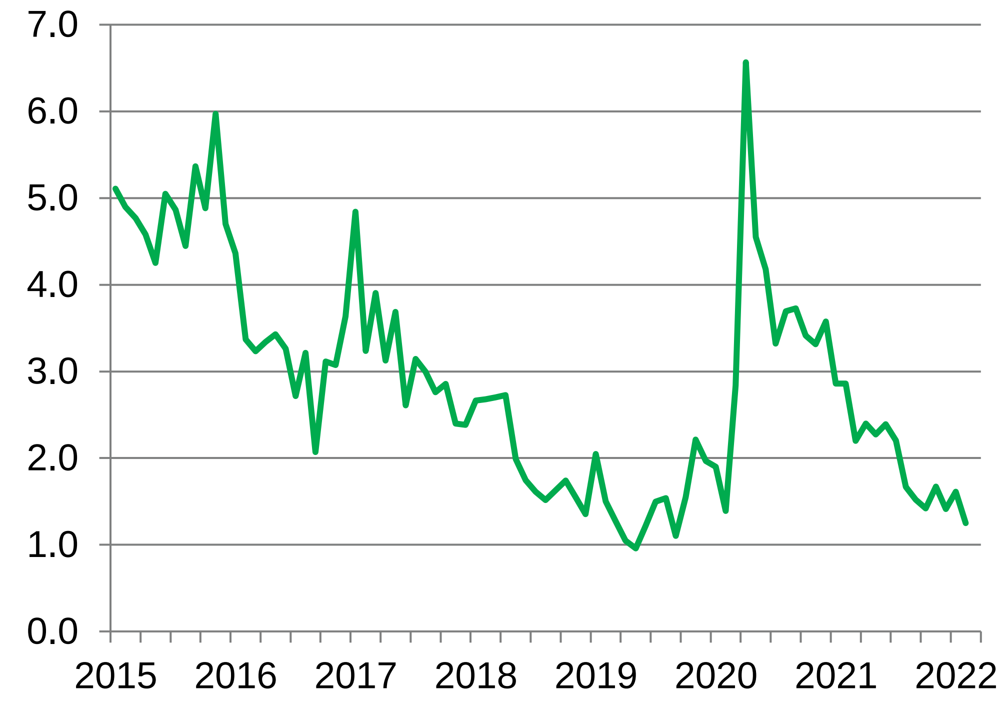
US labor markets experiencing historic shortages

US Labor Force (millions)



Source: IHS Markit

Construction industry: available workers per job opening (seasonally adjusted)



Source: IHS Markit

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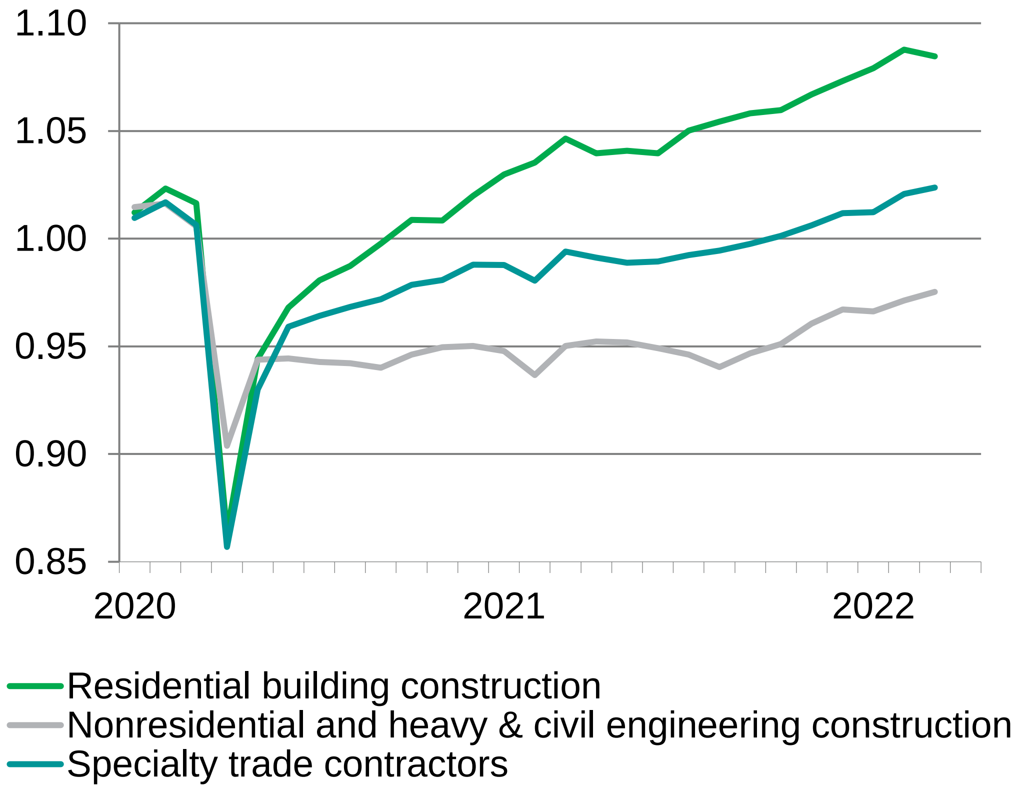
IIJA poses upside risk for construction trade workers

Construction employment index (2019=1.00)



Source: IHS Markit

- Activity has been concentrated in residential building, where employment is now 9% higher than pre-pandemic levels (72k workers)
- Meanwhile nonresidential building and heavy and civil engineering employment are still 3% below pre-pandemic levels, and have lost nearly 60k workers
- Looking forward we expect rising interest rates combined with the higher cost of construction to begin to cool residential markets, taking some pressure off of labor demand
- However, IIJA spending will partially offset this slowing demand
  - IIJA increased our outlook for wage growth for heavy and civil contractors by half a percentage point per year between 2023 and 2025

Recent weakness in nonresidential and heavy and civil construction likely to have longer-term impact on worker availability

- The Good News:
  - Not all workers have left construction, occupations like electricians, plumbers, roofers, have moved into specialty trade contractors or residential building
- The Bad News:
  - Workers in professions more highly concentrated in nonresidential and heavy and civil construction have faced 2 years of weak job prospects, and are at a higher risk of permanently leaving workforce
    - These workers have a higher level of training and experience and will be difficult to replace, and also tend to be older
    - IIJA will increase demand for many of these occupations, increasing risk of shortages

Occupations at highest risk of shortages

Millwrights
- 50% of workers over 45
- Requires up to 1 year of training
- Very small labor force

Riggers
- 75% of workers over the age of 45
- Requires up to 1 year of training

Industrial Machinery Mechanics
- 50% of workers over 45
- Requires up to 4 years of training

Pipelayers
- 30% of workers over the age of 45
- Heavily exposed to nonresidential downturn

Heavy Equipment operators
- 40% of workers over 45
- Requires up to 1 year of training

Many metals under pressure from the invasion

Ferrous	Nonferrous	Precious
• Scrap • Pig iron • Slabs • Iron ore • Sheet	• Aluminum • Titanium	• Palladium

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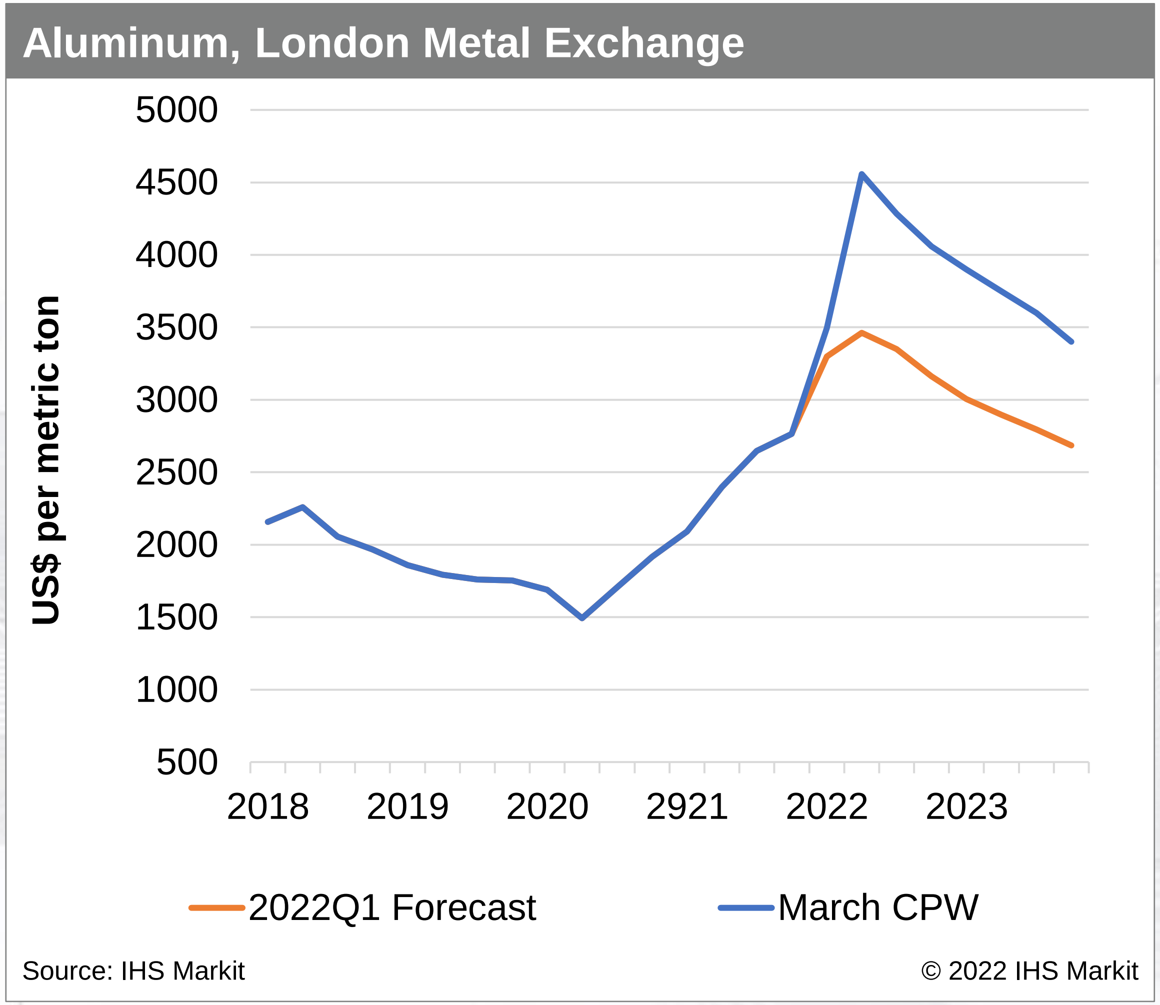
What do we expect for steel? Record prices, tight supply.

- Input costs are already spiking
  - Ore, scrap, coal, energy will all approach or exceed the extreme prices from last year
- European prices have already exceeded mid-2021 all-time records. Supply shortages likely.
  - Hot rolled coil prices fell from record $1500/metric ton to $1000 or less, now up to $1600 and climbing
  - Production cuts happening in the Mediterranean; Northern Europe will soon be short of ore and coal.
- North American price declines turned into rapid increases. Supply shortages possible.
  - Russian slabs not going to Mexico, US forced to import pig iron from China
  - European imports not undercutting domestic pricing so not flowing
- Asia feels least impact but cannot escape rise in raw materials. Supply shortages unlikely.

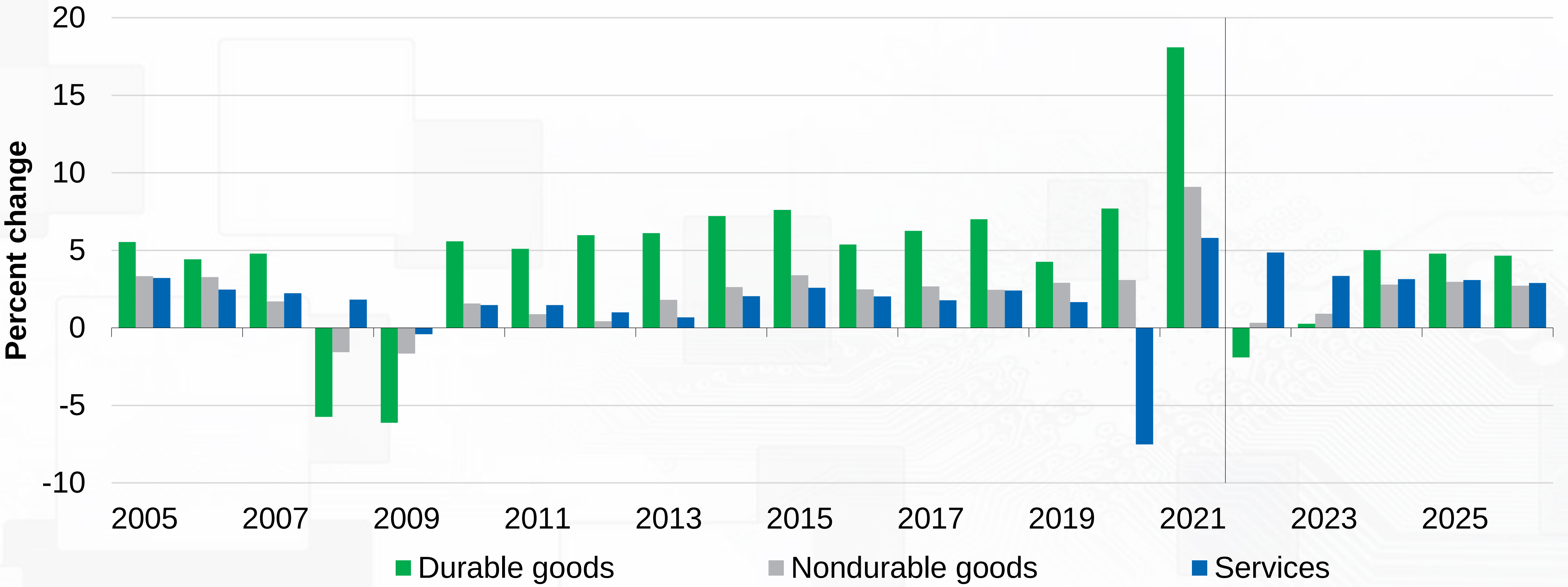
Aluminum: from bad to worse

- Production cuts in China and EU widen the projected deficit for 2022 before the Russian invasion of Ukraine
- Russian sanctions add to concerns about supply
- LME price has hit a 34-yr high with cash prices near $4,000/mt in early March
- US and EU premiums have also risen, highlighting which regional markets are most vulnerable
- Risk premium has also risen
- Record prices above $4,200/mt are possible should Russian production falter
    - RUSAL's alumina refinery in Ukraine is closed (1/5 of Russia's requirement
    - RUSAL's Ireland refinery is not receiving bauxite shipments
    - Australia is refusing to ship alumina to RUSAL
    - Traders in China do have an alumina export arbitrage and may be able to fill some of the gap
- Bottom line: strong fundamentals and supply-side risk provide support for elevated prices



Transportation system catching up in 2022 as US consumer spending shifts towards services (+4.9%) and away from durable goods (-1.9%)

Real US consumer spending by category



Source: S&P Global

What do we expect for logistics? Total costs still high due to fuel

- Trucking, rail and ocean shipping ‘base’ rates soften from 2021 highs
  - Carriers worked to lock in elevated rates, and shippers, capacity, in Q1 contracts for rest of 2022
  - Shippers who rely on spot market will benefit from softening base rates
  - Overall supply / demand for freight transport moves back toward balance

- Fuel surcharges hit shippers; protect carriers. Partially offset supply/demand rebalancing.
  - Except in very short run spikes, carriers pass through most higher fuel costs to shippers by all modes

- Trucking capacity availability improving with fleet additions and expanded driver workforce.
  - Segments of trucking such as intermodal terminal and container ports still have equipment shortages
  - Intermodal rail likely to increase capacity / performance in 2022, supplementing effective truck capacity

- Warehouse/distribution center/fulfillment center space still tight. Labor still a challenge.

Freight system capacity / performance improving

- Congestion metrics show reductions in 2022 in trucking, rail and container shipping delays
  - As freight shipments velocity increases, effective capacity increases with same equipment and crews
  - Modest equipment and labor additions combined with past-the-peak demand improves performance
  - COVID shutdowns in China threaten supply chains but not likely worsen shipping performance itself
- Containership backlog at Port of Long Beach/Los Angeles down 60% since January
  - Vessels slow-steaming in 'virtual' queue now, with almost zero ships at anchor awaiting berths
  - Port terminals and rail system still operating at near practical capacity, but improving
- Risk of US West Coast port disruption from dock worker union contract expiration July 1
  - History of labor negotiations shows delays / disruptions possible
  - Main contract issue is not compensation but harder-to-resolve terminal automation limitations
- Diversion to East / Gulf Coast ports already has led to some South Atlantic port congestion

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