AGC of America

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

Quality People. Quality Projects.

READY TO HIRE AGAIN: THE 2015 CONSTRUCTION HIRING AND BUSINESS OUTLOOK

The Associated General Contractors of America (AGC) is the leading association for the construction industry. Over 26,000 firms, including more than 6,000 of America's leading general contractors, nearly 9,000 specialty-contracting firms and almost 11,000 service providers and suppliers are associated with AGC through a nationwide network of chapters. Visit the AGC Web site at www.agc.org.

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Summary

After several years of growth in demand, contractors appear confident about the immediate future, with an overwhelming majority of firms planning to expand their payrolls in 2015. Indeed, if their predictions come true, industry employment could expand in 2015 by the most in a decade. Meanwhile, most contractors predict demand will either grow or remain stable in virtually every market segment covered by this report. They are ready to purchase and lease new equipment – albeit mostly modest amounts. And, for first time since this association began conducting its annual outlook survey, a majority of contractors – 60 percent – expect the construction market to grow again this year while an additional 21 percent expect it will grow in 2016.

Although their outlook is relatively optimistic, contractors still face a number of significant challenges. Foremost among those challenges is the growing shortage of qualified workers – especially craft workers – to fill available positions. Those shortages likely have much to do with the apparent poor quality of local craft worker training programs. Contractors also continue to be squeezed by rising health care costs and many worry about the impact a host of new federal regulatory measures could have on their operations.

Yet despite, or perhaps because of, those challenges, many firms continue to innovate – embracing new technology like Building Information Modeling and practices like Lean and prefab & modular construction. And they remain hopeful that Washington officials will find a way to work together to address workforce and infrastructure funding needs, among other issues.

In other words, the outlook is positive and the industry is ready to hire again.

PRIVATE SECTOR DEMAND WILL DRIVE GROWTH IN 2015

Growing demand for private-sector construction should drive much of the growth in the construction sector in 2015. In particular, contractors are most optimistic about the growth in the retail/warehouse/lodging segment, with the difference between the optimists and pessimists – the net positive reading – a strong 33 percent. Contractors are similarly optimistic about growing demand for manufacturing, private office and energy construction, with net positive readings of 26, 25 and 24 percent respectively. Contractors gave the hospital sector a net positive reading of 20 percent and the power sector 17 percent.

Contractors are also optimistic about a number of public-sector construction segments, especially those segments that aren't largely dependent on federal funding. Within the public sector, contractors are most optimistic about the outlook for water and sewer construction, with a net positive outlook of 24 percent. More contractors expect the highway market to expand than expect it to shrink, with a net positive reading of 16 percent. Similarly, the net positive outlook for higher education construction is 15 percent and 13 percent for the "Other Transportation" segment that includes transit and airport construction as well as rail and other private transportation projects. While less enthusiastic than with other segments, contractors also have a net positive outlook for K-12 school construction (8 percent) and the public building segment (5 percent). All these public-sector segments rely on local and state funding for at least a portion of funding.

Contractors, however, are significantly less optimistic about the outlook for the two market segments that rely almost exclusively on federal funding: marine construction and direct federal construction. More firms expect the market for marine construction to shrink, with a net negative reading of 6 percent. Contractors are the most pessimistic about demand for direct federal construction – a segment that includes the construction of defense facilities and federal courthouses and office buildings. Contractors have a net negative reading of 16 percent for the direct federal construction segment.

Contractors' market expectations are, at best, slightly more optimistic than they were a year ago. The net positive readings are slightly higher this year for retail/warehouse/lodging (33 vs. 28 percent), water and sewer (24 vs. 18 percent), highway (16 vs. 10 percent), other transportation (13 vs. 2 percent), K-12 school construction (8 vs. 4 percent) and public building (5 vs. 4 percent). For the latter four segments, the growing optimism likely reflects improving state and local government finances.

Some of the optimism contractors had last year for a number of private-sector segments has tapered a bit. The net positive readings are lower in 2015 compared to 2014 for the manufacturing (26 vs. 27 percent), private office (25 vs. 28 percent), hospital (20 vs. 26 percent) and power (17 vs. 25 percent) segments. Contractors are also less optimistic about the higher education market, with a net positive reading of 15 percent this year vs. 26 percent last year.

MOST FIRMS PLAN TO EXPAND THEIR PAYROLLS IN 2015

Consistent with their expectation demand will continue to grow for most market segments, most firms plan to expand their headcounts in 2015, while only a handful of firms expect to shrink this year. Eighty percent of firms report plans to expand their payrolls in 2015 while only seven percent expect to reduce headcounts, a net positive of 73 percent. However, of the firms expecting to add employees, 90 percent report they plan to expand by one-quarter or less this year, while only 9 percent expect to expand from between 26 and 50 percent and only one percent plan to add more than 50 percent to their current staff levels.

Assuming these predictions are accurate, construction employment should expand at a faster rate than in 2014, when only 57 percent of responding firms added staff and 18 percent reduced staff.

Among the 23 states with large enough survey sample sizes, 95 percent of firms in Virginia plan to expand their payrolls in 2015, more than in any other state. Meanwhile, 15 percent of firms in Utah report they plan to reduce headcount this year, more than in any other state.

LABOR SHORTAGES ARE WIDESPREAD, AND GETTING WORSE

As construction firms continue to expand, they are having an increasingly difficult time finding enough skilled construction workers. Among respondents that were trying to hire workers, 87 percent report having a hard time filling key professional and craft worker positions. In particular, more than three-quarters (76 percent) of the firms that are hiring report having a hard time finding qualified craft workers to fill vacancies, while 62 percent say the same about professional positions such as project managers, supervisors and estimators. Worse, eighty-one percent of firms expect it will either become harder or remain as difficult to find qualified craft workers during the next 12 months. Similarly, 72 percent of responding firms predict it will get harder, or remain as hard, to find qualified construction professionals this year.

As the supply of qualified construction workers tightens, compensation levels appear to be rising. Fifty-one percent of firms report they have increased base pay rates to retain construction professionals and 46 percent have done the same to retain skilled craft workers. A quarter of firms report they have improved their benefits packages to retain construction professionals and one-in-five firms has done the same to retain craft workers. Despite these pay and benefits increases, many firms report they are losing workers to other construction firms and other industries.

One potential reason for growing construction worker shortages is that many contractors have a poor opinion of the local pipeline for preparing new workers, especially craft workers. Fifty-six percent of firms believe training programs for new construction craft workers are below average or poor, for example. And while only 26 percent of firms have negative opinions regarding the pipeline for new construction professionals, only 20 percent think training programs for construction professionals are above average or better.

These results are similar to other surveys the association released during the past year, including a member survey in October and a survey conducted by AGC's SmartBrief in August. Last year, the association released a comprehensive Workforce Development Plan that identified a series of steps federal, state and local officials should take to make it easier for schools, associations and firms to establish new career and technical education programs.

CREDIT CONDITIONS ARE BETTER, BUT STILL HAVING AN IMPACT

As with last year, credit conditions do not appear to be as much of a concern for contractors in 2015 as they were during much of the downturn in 2009 and earlier this decade. For example, while last year 9 percent of firms reported having a harder time getting bank loans, only 7 percent report having a hard time this year. And while 32 percent reported customers' projects were being delayed or cancelled because of tight credit conditions last year, that number has fallen to 24 percent this year. For the majority of contractors (56 percent), credit conditions have not changed significantly.

MANY FIRMS PLAN TO INVEST – A BIT – IN NEW EQUIPMENT

The vast majority of responding firms plan to purchase and/or lease new construction equipment. Specifically, 79 percent of firms plan to purchase construction equipment this year, up from 74 percent of respondents in last year's survey. Meanwhile, 81 percent of firms plan to lease new equipment in 2015, compared with 86 percent who reported such plans in the 2014 survey. However, the scope of those new equipment acquisitions remains limited, with 64 percent of the firms that plan to buy equipment saying they will invest $250,000 or less in new purchases. Likewise, 67 percent of firms that expect to lease equipment plan to limit their leasing investments to $250,000 this year.

HEALTH CARE COSTS KEEP GOING UP

Construction firms plan to spend more for health care for their employees in 2015. Indeed, 81 percent of firms expect the cost of providing health care insurance for their employees will increase in this year. This follows a year where health insurance costs increased for 76 percent of contractors. Despite these escalating health care costs, only 1 percent of contractors report they plan to discontinue health care coverage for their employees this year. Only 4 percent of firms reported their health care costs went down in 2014 and only 1 percent expect to pay less to cover their employees this year.

FIRMS ARE OPTIMISTIC ABOUT 2015 & EXPANDING THEIR REACH

A clear majority of contractors report they expect the construction market will grow this year, with 60 percent predicting 2015 will be an up year for the industry. This is the most optimistic timeframe yet recorded in AGC's Outlook series since it started in 2009 and is the first time a majority of contractors reported expectations the market would grow in the current year. Another 21 percent report they expect the market to increase in 2016 while only 19 percent expect the market will grow in 2017 or later.

Even as many firms are optimistic about the year, a plurality report plans to pursue new projects outside their traditional geographic area in 2015. Forty-four percent of firms report they plan to pursue new projects that are farther away than their traditional geographic market area this year while 41 percent do not plan to broaden their reach and 15 percent are unsure.

CONTRACTORS WANT SOLUTIONS TO PROBLEMS, NOT RED TAPE

Large numbers of contractors are worried that newly enacted federal regulations will negatively impact their business operations in 2015. In particular, 37 percent of responding contractors report they expect new regulations that will significantly expand the EPA's jurisdiction over wetlands will have a negative impact. Thirty-six percent of contractors worry that new regulations forcing federal contractors to keep detailed records of all job applicants will have a negative impact. Thirty-five percent of respondents flagged proposed new silica exposure regulations as a potential problem as they are currently structured. Thirty percent of contractors also identified efforts to restrict truck drivers' hours of service without considering the impact on construction operations as a potential problem.

Instead of pushing new regulations and slashing construction budgets, federal officials should be working to solve key problems, contractors report. Seventy-six percent of firms reported that getting Congress to pass measures to make it easier to prepare the next generation of skilled workers is important to the success of their business. Sixty percent of firms want Congress to reform the federal tax code, 59 percent want Congress to repeal all or part of the Affordable Care Act and 58 percent want Congress to renew tax deductions and bonus depreciation for equipment.

MANY FIRMS ARE USING BUILDING INFORMATION MODELING, LEAN CONSTRUCTION AND MODULAR CONSTRUCTION

The use of Building Information Modeling (BIM) technology is becoming increasingly prevalent. Forty-one percent of firms expect the amount of projects involving BIM will increase in 2015 while only 2 percent of firms expect its use will decrease this year. Meanwhile, a majority (60 percent) of firms report utilizing lean construction principles on projects and/or in their operations. And over one-third of contractors (36 percent) report working on modular construction/prefab projects in 2014 – a clear sign that the traditional construction model continues to evolve as firms look for more efficient ways to operate.

BEWARE SUBCONTRACTOR DEFAULTS

Only a minority (24 percent) of contractors reported seeing an increase of subcontractor defaults from 2013 to 2014. However, only 10 percent reported a decrease and 51 percent observed no change in the number of subcontractor defaults. One worry for many contractors is that demand continues to grow the number of defaults will expand as demand grows and firms bite off more than they can chew.

REGIONAL MARKET ANALYSIS

Contractors in the Northeast were the most optimistic about the 2015 outlook for highway construction, with a net positive reading of 31 percent. Contractors in the West were the most pessimistic about this segment, with a net positive reading of just 3 percent. Contractors in the South were the most optimistic about the Other Transportation segment of the market, with a net positive reading of 18 percent. conversely, contractors in the Northeast gave this segment a net positive reading of just 5 percent, the lowest for any region of the country.

Western contractors have the highest expectations for the water and sewer market segment, with a net positive reading of 36 percent. In contrast, contractors from the Northeast gave the segment a net positive reading of 17 percent, lower than any other region.

The power market looks brightest in the Northeast, where the net positive reading was 31 percent, whereas Midwestern contractors gave it the lowest net positive reading of 11 percent. Midwestern contractors have the strongest expectations for the manufacturing segment (40 percent net positive) while Western contractors have the lowest expectations (net positive reading of just 13 percent).

The hospital construction segment appears the most promising in the South, where contractors gave it a net positive reading of 25 percent. However, contractors in the Northeast and West were equally less sanguine, with a tied lowest net positive reading of 17 percent.

Higher education construction should do well in the West, where contractors gave the segment a net positive reading of 24 percent, but will be nearly static in the Midwest, where contractors gave it a net positive reading of just 1 percent. Retail, warehouse and lodging construction should be strong in the Midwest, where it received a net positive reading of 38 percent, compared to the Northeast where it had a regional low net positive reading of just 15 percent.

Few contractors are optimistic about the direct federal construction segment. In particular, Midwestern contractors gave the segment a net negative reading of 33 percent. The only region to give the segment a net positive reading was the Northeast (3 percent).

Public building construction is likely to fare better in the West (net positive reading 15 percent) and worst in the Midwest (net negative reading of 1 percent). Private office construction should do the best in the West (net positive reading of 36 percent) while demand is likely to be weakest in the Northeast (net positive reading of 16 percent).

The outlook for K-12 construction is the most optimistic in the West (net positive reading 20 percent) and most pessimistic in the Midwest (-13 percent). Marine construction received the rating in the Midwest (-25 percent) while Northeastern contractors gave it a segment high of a 19 percent net positive reading.

Energy construction should be strong across the country, particularly in the Northeast where it received a net positive reading of 32 percent. It should be the least strong in the West, where the segment received a net positive reading of 15 percent.

Conclusion

There is little doubt the construction industry will continue to recover in 2015. After several years of cautious expansion, many are deciding it is time to start hiring again. Beyond adding to the hours of their current staff, firms appear to have the confidence needed to bring on new workers – if they can find them.

As firms expand their payrolls, they will invest in new equipment, pursue new market opportunities and embrace new and more efficient ways of doing business. Yet the industry must still cope with the challenge of growing worker shortages, worrisome regulatory proposals and declining federal investments in construction and infrastructure.

Fortunately, there are steps federal officials can and should take to help firms overcome current challenges and ensure broader economic growth. First, make it easier for education officials to establish career and technical programs to help prepare the next generation of workers. Officials also should reform the tax code, rethink their approach to health care reform and incentivize investments in costly construction equipment. Meanwhile, federal officials need to reconsider imposing costly new regulatory burdens on employers, especially when so many of these measures are likely to produce limited benefits.

Washington officials need to also find new ways to address the growing funding shortfalls and maintenance backlogs that are contributing to a significant deterioration of public infrastructure. Addressing these funding shortfalls will further improve the outlook for key public construction market segments. At the same time, making the nation's infrastructure more efficient will provide an additional boost to the economy, helping stimulate greater private sector demand for construction services.

That is why the Associated General Contractors will continue to encourage elected and appointed officials to act on the measures outlined in our Workforce Development Plan. We will continue efforts like our Hardhats for Highways Campaign, which is designed to educate members of Congress about how federal infrastructure measures support local economic growth and employment. And we will continue our efforts to push back against the Obama administration's many efforts to put in place regulatory measures that are often as unnecessary as they are unworkable.

With a little luck and a lot of effort, we will make sure the construction industry has the support it needs to continue expanding in 2015 and beyond.

About the Survey

AGC conducted the survey that serves as the basis for the 2015 Construction Hiring and Business Forecast during December 2014 and the first week of January 2015. Over 900 firms from the District of Columbia and every state except Delaware and West Virginia, completed the survey. (Varying numbers responded to each question.) Participating firms represent a broad cross-section of sizes. Thirty-five percent report performing $10 million or less worth of work in 2014. Twenty-three percent performed between $10 million and $30 million worth of work, 12 percent between $30 and $50 million, 11 percent between $50 and $100 million, 13 percent between $100 and $500 million, and 5 percent performed over $500 million worth of work. Contractors who completed the survey were entered into a raffle to win a $100 Amazon gift certificate. Other than that, firms and their employees were not compensated or in any other way reimbursed for completing the survey.

The regions covered in the survey included the following states:

Northeast
Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, Pennsylvania, Vermont

South
Alabama, Arkansas, Delaware, Georgia, District of Columbia, Florida, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia

Midwest
Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

West
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, Wyoming