THE PANDEMIC'S GROWING IMPACTS ON THE CONSTRUCTION INDUSTRY: THE 2021 CONSTRUCTION HIRING AND BUSINESS OUTLOOK

The Associated General Contractors of America works to ensure the continued success of the commercial construction industry by advocating for federal, state and local measures that support the industry; providing opportunities for firms to learn about ways to become more accomplished; and connecting them with the resources and individuals they need to be successful businesses and corporate citizens. Over 27,000 firms, including more than 6,500 of America's leading general contractors, nearly 9,000 specialty-contracting firms and almost 11,000 service providers and suppliers belong to the association through its nationwide network of chapters. Visit the AGC Web site at www.agc.org.

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SUMMARY

The pandemic is prompting many owners to delay or cancel projects, causing delays in the completion of ongoing projects and increasing the cost of construction. Most contractors expect demand for many categories of construction to shrink in 2021 and few expect the market to recover to pre-pandemic levels for more than six months. As a result, relatively few contractors plan to expand their headcount in 2021.

The pandemic has put a spotlight, however, on the need for firms to invest in new technology, both to increase their efficiency and to comply with new coronavirus safety protocols. Despite the difficult market conditions, most firms plan to maintain their current levels of information technology investments in 2021.

The fact remains, however, that without some significant change in the construction marketplace, 2021 will be one of the most difficult years for the construction industry since the recession of the late 2000s. New federal investments in infrastructure – something officials from both parties repeatedly claim they support – would provide a much-needed boost for construction demand.

Federal officials should consider the economic consquences before imposing new regulatory measures. Demand for construction will be slower to rebound if businesses are hobbled by costly new mandates.

As important, federal officials should find ways to ensure that state and local funding for infrastructure and other vital construction projects remains robust during the year. Without federal support these budgets are likely to shrink in 2021, further depressing demand for construction projects and jobs.

The bottom line is that 2021 will be a difficult year for many construction firms. Some of those challenges can be offset with federal support. But by most accounts, the industry is still many months away from recovering to pre-pandemic levels.

CONTRACTORS EXPECT DEMAND FOR CONSTRUCTION TO SHRINK FOR MOST MARKET SEGMENTS

Contractors expect the market for most categories of construction to shrink in 2021 as the pandemic undermines demand for projects. The net reading – the percentage of respondents who expect the available dollar value of projects to shrink compared to the percentage who expect it to expand—is negative for 13 of the 16 categories of construction included in the survey.

For a significant number of major market segments, contractors are overwhelmingly pessimistic. For example, the net reading for the retail sector is -64 percent, a ratio far worse than the most optimistic expectations from last year, which topped out at positive 25 percent.

Private sector uncertainty and shrinking state and local budgets have led most contractors to believe that demand will decline in 2021 for many other key market segments. For example, contractors also are extremely pessimistic about the demand for lodging and private office construction, with a net reading of -58 percent for both; higher education construction, a net of -40 percent; public buildings, a net of -38 percent, and K-12 school construction, a net of -27 percent.

Contractors are also pessimistic about the demand for transportation projects such as transit, rail and airports, with a net reading of -19 percent. The net reading for manufacturing construction is -17 percent; for bridge and highway construction it is -11 percent; and -10 percent for federal construction projects. There is a net reading of -8 percent for both power and multifamily construction. And there is even a net reading of -3 percent for hospital construction.

There are only three market segments where slightly more contractors expect demand to increase instead of contract. These are the water and sewer construction market, with a net positive reading of 1 percent; the warehouse construction market, with a net positive reading of 4 percent and the other healthcare segment, which includes clinics, testing facilities and medical labs, with a net positive of 11 percent. These latter two categories track closely with the few segments of the economy to benefit from the impacts of the coronavirus.

The market outlook is in stark contast to contractor expectations at the beginning of 2020. A year ago contractors expected growth in every market segment covered in the Outllook, including big increases in demand for water and sewer, hospital, bridge, other transportation and K-12 school construction.

Despite the gloomy outlook overall, there are some differences by region, firm size, and labor policy. For instance, contractors in the South are less pessimistic than the national average for every type of project. Moreover, respondents in the South have net positive expectations for hospital and bridge and highway construction. In contrast, respondents in the Northeast have net negative expectations for all 16 project types and are more pessimistic than respondents nationally for every type of project.

The regional variation was even more pronounced at the state level. There were 25 states with responses from at least 20 firms apiece. Among these states, contractors in Alabama were the most optimistic, with higher net readings than the national reading for all 16 market segments. At the other extreme, respondents in Alaska, New York and Pennsylvania were more pessimistic than the national average for every project type.

Small contractors are generally less optimistic about the 2021 outlook than larger businesses. Respondents from firms with $50 million or less in revenue are as upbeat as their counterparts from larger firms about other healthcare construction but do not share their optimism about warehouse or water and sewer construction. Unlike respondents from small and midsized firms, respondents from companies with more than $500 million in revenue on balance see growing opportunities in 2021 for federal military and civilian agency construction.

Contractors who use union labor for all work are less optimistic about the prospects for every project category than their peers from strictly open-shop firms. The only project type for which union contractors have a positive net reading is other healthcare.

MANY OWNERS ARE DELAYING OR CANCELLING PROJECTS

One reason so many construction firms expect demand for construction to shrink in 2021 is that the pandemic has already led owners to delayed, or completely cancel, a large number of projects. Fifty-nine percent of firms report they had projects scheduled to start in 2020 but postponed until 2021. In addition, 44 percent of firms report they had projects canceled in 2020 and not rescheduled.

Eighteen percent of firms also report that owners have already postponed projects scheduled to start between January and June of 2021. And 8 percent of firms report that owners have canceled projects scheduled to start during that period. Looking further out, 6 percent of contractors report that owners have already postponed projects scheduled for the second half of the year and 2 percent report that owners have already canceled such projects.

THE INDUSTRY IS STILL MONTHS AWAY FROM RECOVERY

The cumulative impact of reduced demand, project delays and cancellations is that relatively few firms expect the industry will recover to pre-pandemic levels any time soon. One-in-three firms report their business volumes are already at, or even exceed, year-ago levels. Another 12 percent of firms expect demand to return to pre-pandemic levels within the next six months. But more than half – 55 percent – of contractors either report they do not expect their firm's volume to return to pre-pandemic levels for for more than six months or report they are unsure of when their businesses will recover.

Contractors' low expectations for a recovery are consistent with some of the biggest worries firms listed for 2021. Eigthy-four percent of contractors report one of their top concerns for the year is the continuing impact of the pandemic on projects, workers and supply chains. The supply chain impacts are one reason 58 percent of contractors reported worries about rising materials costs. Depressed demand is leading 55 percent of contractors to list increased competition for projects as a top worry. And 44 percent report a lack of private sector work as a top concern for the year.

RELATIVELY FEW CONSTRUCTION FIRMS EXPECT TO ADD STAFF

Only slightly more than one-in-three firms (35 percent) report they plan to increase headcount in 2021. Meanwhile, nearly a quarter of firms (24 percent) plan to decrease headcount this year and 41 percent of firms expect to make no changes in staff size this year. This is in marked contrast to the beginning of 2020, when 80 percent of firms reported they planned to increase headcount during the upcoming year.

The coronavirus' impact on construction hiring varied only slightly by firm size. But there is variation by region and unionization.

Consistent with their expectations about the volume of business, firms vary by region in their hiring outlook. In the South, the percentage of firms that expect to add employees (39 percent) is more than double the percentage that expect to reduce headcount (17 percent). The outlook among firms in the Northeast is nearly the opposite: fewer than one-quarter (24 percent) of respondents expect to increase their headcount in 2021, while 41 percent foresee a reduction. Firms in the Midwest and West are more closely divided between those expecting to add employees and those anticipating a reduced workforce.

Only one-quarter of union employers expect to increase their headcount, compared to 36 percent who aniticipate a reduction. In contrast, 40 percent of open-shop firms report they expect to add employees, while only 18 percent expect a decrease.

YET MOST FIRMS STILL WORRY ABOUT WORKFORCE SHORTAGES

Even though relatively few firms plan to expand their headcount, most contractors report it remains difficult to fill some or all open positions. Fifty-four percent of firms report difficulty finding qualified workers to hire, whether to expand headcount and replace departing staff. Many contractors expect, despite the pandemic-induced downturn, that it will remain difficult to find qualified workers during the coming 12 months. Forty-nine percent report it will either get harder, or will remain as hard, to find qualified workers, in 2021.

And while they are no longer among the most frequently mentioned concerns for contractors, worker shortages and worker quality remain a key concern for many contractors. When asked to identify which issues are the biggest concerns to their firm, 43 percent of respondents listed worker shortages and 40 percent picked worker quality.

The fact many contractors remain worried about workforce shortages seems at odds with the much larger number of available workers in the job market than at the start of 2020. However, relatively few of the newly unemployed have prior construction experience. In addition, too few of the newly unemployed are considering construction careers, despite the high pay and significant opportunities for advancement. In other words, the industry will still have to work hard to recruit new people into the industry, despite the current economic downturn.

THE PANDEMIC IS SLOWING SCHEDULES & RAISING COSTS

Construction firms have made significant changes to the way they schedule, staff and manage projects as they protect workers and local communities from the spread of the coronavirus. For example, most firms have staggered shift schedules, limited the number of workers in particular parts of construction sites and capped the number of people who can ride in lifts or shuttles to and from worksites. These measures have helped the industry avoid the kind of project outbreaks that crippled so many other sectors of the economy. But they are having an impact on construction productivity, as projects now take longer, and cost more, to complete.

Nearly two-thirds of respondents, 64 percent, report that projects have taken longer to complete than they originally anticipated. At the same time, 54 percent of firms report that the cost of completing projects has been higher than they originally anticipated. As a result, one-in-four firms report they are putting longer completion times into their bids and contracts for new work. And one-in-three firms report they have put higher prices into their bids and proposals for construction projects.

CONTRACTORS PLAN TO MAINTAIN CURRENT LEVELS OF INVESTMENT IN INFORMATION TECHNOLOGY

While the past year has been filled with many challenges, technology has played an integral role in keeping people connected and businesses up and running. Firms are becoming more strategic about information technology (IT) as they try to remain competitive in the current environment. Sixty-two percent of contractors indicate they currently have a formal IT plan that supports business objectives, up from 48 percent last year. An additional 7 percent of contractors plan to create a formal IT plan in 2021.

Most firms plan to keep their technology investment about the same as last year. When asked whether they planned to increase or decrease investment or stay the same in 15 different types of technologies, the majority of respondents (the range was between 71 and 89 percent) said their investment would remain the same as last year in each of the 15 technologies. When it came to plans to increase technology spending, over 25 percent of respondents planned to increase spending on document management software. Project management software came in a close second, while accounting, estimating, and human resources software were the other top technologies contractors plan to invest more in next year. Few respondents plan to decrease technology spending next year as each of the technology areas had less than 5 percent of respondents indicate that they planned to decrease spending in that area.

Contractors are also advancing their use of cloud technologies. Fifty-three percent of respondents use cloud-hosted technology for project management, up from 49 percent last year. While 42 percent use cloud technology for some component of field operations, up from 37 percent last year, and 38 percent use cloud technology for accounting, up from 31 percent last year.

When it comes to how contractors are using cloud-based mobile solutions on the job site, the numbers are higher. The findings were very similar to last year, with 68 percent using mobile software for daily field reports, 60 percent using mobile technology for employee time tracking and approval, 56 percent using it for field access to customer and job information, and 55 percent using mobile technology for the sharing of drawings, photos, and documents.

The use of information technology, however, is not without its challenges. Forty-four percent of contractors say it's difficult to find the time to implement and train on new technology, up slightly from 43 percent last year. Forty-one percent cite employee resistance to technology as a top challenge, up from 38 percent last year. Communication between the field and office and connectivity to remote job sites are other issues that are top-of-mind, selected by 36 percent and 34 percent of respondents, respectively.

CONCLUSION

This is going to be a difficult year for the construction industy. Demand for projects looks likely to continue shrinking as projects continue to be delayed or canceled. Productivity will continue to decline as firms continue to follow coronavirus safety precautions, delaying project schedules and raising costs. This means fewer construction firms plan to hire workers this year and most firms believe recovery is many months away.

The outlook for the industry could improve, however, if federal officials are able to boost investments in infrastructure projects, backfill state and local construction budgets, and avoid the temptation to impose costly new regulatory barriers. That is why the Associated General Contractors of America will continue to push for measures that will boost demand for construction, save construction careers and ultimately help revive the economy.

Among the association's top priorities for the year is getting Congress to pass significant new funding to help rebuild the country's aging and over-burdened infrastructure. With traffic still below pre-pandemic levels, and a large pool of workers available, now is an ideal time to improve highways, repair transit systems, upgrade airports, modernize waterways and otherwise improve other types of public works. Given that politicians of both parties frequently voice support for infrastructure investments, the association will work to make sure this is one of the first tasks the new Congress tackles.

As we learned during the recession of the late 2000s, boosting federal infrastructure investments without backfilling state and local construction budgets is counterproductive. That is why the association will push Congress and the incoming Biden administration to enact legislation providing financial support for state and local construction budgets. Washington made a down payment on these kinds of investments with the coronavirus recovery bill that passed at the end of 2020. But without significant new funding, many state and local construction budgets will shrink in 2021.

The association will also educate the incoming Congress and presidential administration about the risks of imposing burdensome new regulatory measures while the economy remains crippled by the pandemic. While many of these measures may be well intended, the fact is few businesses can afford to expand and bear the burden of costly new mandates at the same time.

Even as we work to advocate for measures to rebuild demand for construction, we also need to take longer-term steps to continue developing the construction workforce. With more than half of firms reporting trouble filling positions even during a challenging year, workforce shortages will only become more severe once demand resumes.

The association is addressing the workforce challenge by crafting a new plan that focuses on continued advocacy, helping chapters and members establish or improve training programs, and launching a new, national workforce recruiting effort. This new effort, “Construction is Essential,” will use targeted digital advertising to complement and build on the many existing local and regional construction workforce campaigns that already exist.

By all indications, this will be a challenging year for the construction industry. But the Associated General Contractors of America will work tirelessly to turn challenges into opportunity. We can turn the challenge of the economic downturn into an opportunity to rebuild infrastructure. We can protect state and local construction budgets. We can continue to reform the regulatory process. And we can act now to attract a new generation of workers into high-paying construction careers.

Our objective is to make sure contractors end the year on a far better note than many are starting it.

ABOUT THE SURVEY

AGC conducted the survey that serves as the basis for the 2021 Construction Hiring and Business Forecast during November and December 2020. A total of 1,329 firms from all fifty states and the District of Columbia completed the survey. (Varying numbers responded to each question.) Participating firms represent a broad cross-section of sizes. Sixty-three percent report performing $50 million or less worth of work in 2020. Thirty percent performed between $50.1 million and $500 million worth of work and seven percent performed over $500 million worth of work. Thirty-six percent of firms report they employ union workers most or all of the time, while the remainder are either exclusively open shop or only occasionally employ union labor. 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, Pennsylvania, Rhode Island, Vermont

South

Alabama, Arkansas, Delaware, District of Columbia, Georgia, 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