2020 Construction Hiring & Business Outlook Media Call Remarks

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Hello everyone, thank you for logging in today. My name is Stephen Sandherr and I am the chief executive officer of the Associated General Contractors of America. With me today is our chief economist, - Ken Simonson, and Dustin Anderson, vice president of Sage Construction and Real Estate.

We also have three contractors with us today. They are Rosana Privitera Biondo, the President of Mark One Electric in Kansas City, Missouri; Michael B. Kennedy, the CEO of KAI Enterprises in St. Louis, Missouri and Bob Schafer, President of Ranger Construction in West Palm Beach, Florida.

Each year we survey our member firms on their expectations for labor and market conditions for the coming business year. We then closely analyze those survey results and prepare our annual Construction Hiring and Business Outlook. We have once again teamed up with Sage Construction and Real Estate to prepare the Outlook and have included their insights into how construction firms are – and will be – using technology to remain competitive.

Over 1,300 firms participated in our Outlook survey between November 10th and December 14th, representing a broad range of firms in terms of size, business volume and geographic distribution. Their responses make clear that 2021 will be a difficult year for many construction firms.

That is because the pandemic is prompting many projects to be postponed or canceled, forcing contractors to take longer to build projects, and increasing the cost of construction. Most contractors expect demand for many types of construction to shrink in 2021 and most do not 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.

Now I would like to turn things over to Ken to provide some details from this year's Outlook, Ken…

Ken Simonson

Thank you, Steve. Contractors expect the market for most types 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 projects included in the survey.

Contractors are most pessimistic about the market for retail construction, which has a net reading of negative 64 percent. They are similarly concerned about the markets for lodging and private office construction, which both have a net reading of negative 58 percent; higher education construction, which has a net reading of negative 40 percent; public buildings, with a net of negative 38 percent; and K-12 school construction, which has a net reading of negative 27 percent.

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

Among the three market segments with a positive net reading, two – warehouse construction and the construction of clinics, testing facilities and medical labs – track closely with the few segments of the economy to benefit from the impacts of the coronavirus.

One reason so many construction firms expect demand for construction to shrink is the high number of projects that have been delayed or canceled. Fifty-nine percent of firms report they had projects scheduled to start in 2020 that have been postponed until 2021 and 44 percent report they had projects canceled in 2020 that have not been rescheduled. Eighteen percent of firms report that projects scheduled to start between January and June 2021 have been delayed. And 8 percent report projects scheduled to start in the first half of the year have been canceled.

As a result, few firms expect the industry will recover to pre-pandemic levels any time soon. Only one-third of firms report business has already matched or exceeded year-ago levels, while 12 percent of firms expect demand to return to pre-pandemic levels within the next six months. More than half – 55 percent – report they do not expect their firms' volume to return to pre-pandemic levels for more than six months or are unsure when their business will recover.

The pessimistic outlook means relatively few firms plan to expand their headcount in 2021. Only 35 percent of firms report they plan to add staff this year. Meanwhile, 24 percent plan to decrease their headcount this year and 41 percent expect to make no changes in staff size. This is in marked contrast to 2020, when 80 percent of contractors reported they planned to expand headcount.

Despite these low hiring expectations, 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, either to expand headcount or replace departing staff. And 49 percent of respondents expect it will either get harder, or remain as hard, to find qualified workers in 2021. The unfortunate fact is too few newly unemployed are considering construction careers, despite the high pay and significant opportunities for advancement.

The pandemic is also undermining construction productivity. Contractors 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. These measures have helped the industry avoid the kind of outbreaks that crippled so many other sectors of the economy. But 64 percent of contractors report these changes mean projects are taking longer to complete than originally anticipated. And 54 percent of firms report that the cost of completing projects has been higher than expected.

The pandemic has put a spotlight, however, on the need for firms to invest in new technology, both to become more efficient and to comply with new coronavirus safety protocols. I will turn things over to Dustin Anderson with Sage to provide some more insight into the technology findings in this year's Outlook.

Dustin Anderson

Thank you, Ken.

As we all anticipated, the continuing impact of the pandemic is the top challenge weighing on contractors' minds this year. It has affected everything from project timelines to worker safety to material costs and has left many scrambling to adjust to the new normal. 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 IT as they try to remain competitive in the current environment. According to this year's Outlook, 62 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. In addition, 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.

Finally, the use of information technology 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 cited 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 were other issues that are top of mind, selected by 36 percent and 34 percent of respondents, respectively. These were the top four challenges identified the past few years as well. Contractors can help mitigate some of these concerns by setting priorities and implementing technology in stages.

While 2020 was an unprecedented year for the industry and many firms had to scale back in certain areas, technology was still an important part of most business plans and continues to be as we move into the new year. Technology can have a big impact on a construction business, helping to streamline projects, increase efficiency, improve bid-hit ratio, encourage collaboration, and keep teams in sync, which is more crucial now than ever.

Now I would like to turn things back over to Steve who has some additional observations about this year's Outlook.

Steve Sandherr

Thank you, Dustin and Ken.

This is clearly going to be a difficult year for the construction industry. Demand looks likely to continue shrinking as projects are delayed or canceled. Productivity will continue to decline as firms follow coronavirus safety precautions, delaying 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.

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, AGC 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. We 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.

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.

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.

Now before we take questions, I would like to invite Rosana Privitera Biondo, Michael B. Kennedy and Bob Schafer to share their observations about local market conditions where they operate. After that, we will take questions.

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