## REMARKS FOR 2012 CONSTRUCTION INDUSTRY OUTLOOK

*Stephen E. Sandherr*

Hello and thank you for making time to join us today. My name is Stephen Sandherr and I am the chief executive officer of the Associated General Contractors of America. With me are Ken Simonson, our chief economist, Roger Kirk, Computer Guidance Corporation's President & CEO – Computer Guidance is co-sponsoring our Outlook this year - and two contractors: Tracy Hart of St. Louis, Missouri-based Tarlton Corporation and David Morrill, of Aurora, Colorado-based Concrete Frame Associates.

More than four years after demand for commercial construction began to plummet, economic conditions remain difficult. Nationally, the construction industry's unemployment rate is at 16 percent, far higher than the average for all workers. Construction materials prices continue to rise while bid levels remain extremely low. Most local and state construction budgets continue to shrink. And now federal construction spending is shrinking… sharply. Indeed, the federal 2012 budget includes a 6 percent cut for federal building construction programs.

Yet the news has not been all bad. Private sector demand for nonresidential construction is growing once again, up nearly five percent between November 2010 and November 2011. Construction firms added nearly 50,000 new employees in 2011. And a number of states are finally approaching pre-bust construction employment levels.

Given the mixed messages on the overall state of the construction industry, we invested significant time at the end of last year surveying our members on their hiring, purchasing and business plans, and analyzing what their answers portend for the year to come. The question we wanted to answer is whether the construction industry will truly begin to recover in 2012.

Today we are releasing those survey results and our analysis, which we call the 2012 Construction Hiring and Business Outlook. While there are some promising signs, especially when it comes to construction employment, the outlook for the industry is mixed. While conditions are clearly stabilizing, survey respondents do not expect a broad-based recovery until at least 2013.

On the positive front, far fewer firms are planning on making layoffs this year – only 9 percent in 2012 compared with 37 percent last year.

Even more positive, 32 percent of firms report they plan to add new staff in 2012. And half of those firms report they plan to add 6 or more new employees. Among the 29 states with large enough survey sample sizes, 57 percent of firms in Wisconsin plan to hire, more than in any other state. Meanwhile, 18 percent of firms in Missouri plan layoffs for this year, the highest percentage of any state.

While hiring plans remain relatively modest, especially considering the fact the industry has shed more than 2 million jobs since 2008, the trend is obviously heading in the right direction. Unfortunately, as our chief economist Ken Simonson will explain, other indicators are more mixed. Ken...

***Ken Simonson***

Thank you, Steve. There are definitely some conflicting trends when it comes to contractors' expectations for construction demand in 2012. On one hand, a majority of firms expect the dollar volume of projects they compete for to either grow or remain stable in every market segment. In particular, the power and the hospital and higher education market look particularly robust, with roughly three-fourths of contractors expecting each of those markets to expand or remain stable this year.

In contrast, contractors working on a number of market segments typically funded by the public sector are less optimistic. For example, 44 percent of contractors expect the market for new public buildings to shrink, while only 17 percent expect that market to grow in 2012. Forty-one percent of contractors expect the market for K-12 school construction to shrink, while only 18 percent expect it to expand. And 40 percent of contractors expect the highway market to contract, while only 19 percent expect it to grow.

Adding to the challenges facing contractors working on publicly funded construction projects, the impacts of the stimulus are fading fast. While 51 percent of firms report they worked on stimulus-funded projects at some point between 2009 and the present, 75 percent report they do not expect to perform anymore stimulus-funded work. Even worse, among the firms that expect to perform stimulus work in 2012, 83 percent of firms report the stimulus work will total a quarter or less of their total revenue for the year.

Meanwhile, many contractors report they continue to be impacted by tight credit conditions. Nearly half – 49 percent – of responding firms report that tighter lending conditions have forced their customers to delay or cancel construction projects. However, a significantly smaller number of firms – only 14 percent – report having trouble attracting financing directly for their companies.

Perhaps related to tight credit markets, the growth in demand for green construction appears to be cooling. Indeed, 60 percent of firms report they expect demand for these kinds of projects to stagnate or decline in 2012.

Contractors remain very cautious with their plans for acquiring new construction equipment. Indeed, many firms are more likely to lease instead of taking the risk of purchasing new construction equipment. Only 40 percent of firms report they plan to purchase new equipment this year, while 66 percent plan to lease. Even as they shift toward a greater reliance on leasing, firms' appetite for new equipment remains modest, with 57 percent saying they will buy $250,000 or less in equipment and 70 percent saying they will lease $250,000 worth of equipment this year.

And contractors remain caught between stagnant bid levels and rising materials prices. Eighty-six percent of firms report they expect their materials prices to increase in 2012, even as 80 percent say they expect bid levels to stagnate or decline this year. As the majority of the respondents made clear, the construction industry will improve this year, but we are going to have to wait until at least 2013 before contractors experience the kind of recovery this industry needs. Now I will turn things back over to Steve.

***Steve Sandherr***

Thanks Ken. In addition to challenging economic conditions, construction firms are facing added pressure because of what is, and all-too-often isn't, happening in Washington.

For example, among the 96 percent of firms that plan to provide health care coverage for their employees in 2012, 82 percent report they expect their health care costs to increase in 2012 while only 2 percent expect their health care costs will decrease. This follows a year where 81 percent of firms paid more to cover their employees. The fact an overwhelming majority of employers from a major segment of the economy continue to pay more for health care raises serious questions about the effectiveness of health care reform measures enacted in 2009.

Meanwhile, many contractors are worried because Congress and the administration have failed yet again to enact long overdue multi-year infrastructure bills that finance highway, bridge, transit, airport and water system upgrades. And they remain concerned about a regulatory environment that appears better suited to delaying – or, as we saw last week with the Keystone pipeline, blocking – needed new infrastructure projects.

Even though they are struggling through difficult days, many are taking steps now to make their operations more efficient, to upgrade their information technology and to embrace the "Cloud."

For example, a growing number of firms seem to be focused on increasing efficiency and reducing cost by taking advantage of Building Information Modeling services, better known as BIM. Thirty-one percent of firms surveyed report they currently use the technology, up from just 8 percent who reported using BIM in last year's outlook. And 47 percent report they expect BIM use to increase in 2012.

Roger Kirk, the President and CEO of Computer Guidance Corporation also has some interesting results to share about firms' embrace of new technology. Roger...

***Roger Kirk***

Thank you. As Ken and Steve noted, margins continue to decrease and bidding on new work is increasingly competitive. Behind this are increased overhead and rising costs for materials. This is further complicated by tighter controls and more restrictive environments for financing and investments. Cash flow continues to be a concern and every dollar spent most count.

As a result, construction companies are continuing to think strategically and leverage their investments in information technology. Money is being spent on software solutions that better support the business and the need to do more with fewer people. That is why 55 percent of firms report they plan to invest in their information technology departments in 2012. Moreover, companies looking to invest in replacing legacy solutions are looking at alternative models which require up front investments and limit the impact on existing resources. Indeed, one-third of firms report they would consider leasing or financing new job cost software, compared to the 9 percent who said they would planning to purchase that kind of software.

For solution developers, this is the time where our software proves its value by increasing the efficiency of existing staff and creating transparency into the financial transactions of the company. Business intelligence and financial reporting solutions are critical to evaluate performance and proactively respond to business activities. Integrated solutions with enterprise content management and business intelligence will facilitate communications and aids in ensuring that the appropriate financial controls are put in place to protect the profit margin.

Although a majority of firms indicated that they will not take their current solutions to the Cloud, they have also indicated that if they were to invest in new or complementary solutions, they would very likely to consider the Cloud. Cloud computing is becoming popular as it is proven to be reliable and it provides the flexibility that construction companies need by avoiding significant upfront investments in IT infrastructure and ongoing maintenance costs.

In other words, from an IT point of view, there is some indication that 2012 will be a more productive year for the construction industry. Now I will turn things back over to Steve.

***Steve Sandherr***

Thanks Roger. Before we open things up for questions, let me remind you that we have two excellent contractors on the call – Tracy Hart and David Morrill - that are here to share their observations on what is happening in the marketplace. With that, operator, let's open things up for questions, please.

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