OPTIMISM RETURNS: THE 2014 CONSTRUCTION HIRING AND BUSINESS OUTLOOK

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Summary

Contractors are more optimistic about the outlook for 2014 than they have been since the commercial construction market experienced a significant downturn roughly seven years ago. Many firms plan to hire again in 2014, while few plan to start making layoffs. Meanwhile, most contractors predict demand will either grow or remain stable in virtually every market segment covered by this report. Nearly three-quarters expect to purchase new equipment this year and 86 percent expect to lease new equipment. And for the first time since this association began conducting its annual outlook survey in 2008, a plurality of contractors – 36 percent – expect the construction market to grow again this year while an additional 32 percent expect it will grow in 2015.

While the outlook is significantly more optimistic than in years past, there are still areas of concern for most contractors. Many expect to pay more for materials and supplies, and health care costs continue to rise for every firm. Nearly two-thirds of respondents report they are already having a hard time finding qualified workers to fill key positions and they expect workforce conditions to remain tough, or get tougher, in the next twelve months. Many firms also report their operations will be negatively impacted by new federal regulatory requirements dealing with wetlands, silica protection and human resources paperwork requirements.

Private Sector Demand Should Grow As Public Sector Stabilizes

Contractors have a relatively positive outlook for virtually every market segment covered in this report. In particular, pluralities of contractors are optimistic about certain key private sector market segments, including manufacturing (44 percent predicting an increase versus 16 percent predicting a decrease); retail, warehouse and lodging (43 percent predict an increase while 16 percent predict a decrease); and hospital and higher education (42 percent anticipate growth while only 17 percent anticipate decline).

Optimists also outnumber pessimists in all other segments except marine construction, although the predominant expectation is for stable volumes. For instance, 43 percent of contractors expect the private office market to expand while only 14 percent expect it to contract. Forty percent of respondents expect power construction to expand, while only 15 percent expect it to shrink. Thirty-five percent of contractors expect the water and sewer market to expand while only 17 percent expect demand to decline.

Meanwhile, contractors predict that certain key public infrastructure segments will stabilize in 2014. For example, 48 percent of contractors predict demand for highway construction will be comparable to last year, 31 percent expect it to grow and only 21 percent expect it will decline. Fifty-five percent of contractors expect demand for other types of transportation projects (including transit and airports) will be comparable to last year, while slightly more expect it will grow (24 percent) than expect it will shrink (21 percent). Even demand for public buildings should stabilize, with 45 percent predicting comparable demand, 30 percent predicting growth and 25 percent predicting further contraction. Likewise, the K-12 school construction market should stabilize, with 47 percent predicting comparable investment levels this year, 29 percent expecting growth and 25 percent expecting declines.

The outlook for marine construction appears to be the least optimistic according the survey respondents. More firms expect that market will shrink (21 percent) than expect it to grow (18 percent), while the remaining 61 percent expect it will be the same as last year.

Contractors' market expectations are significantly more optimistic than they were a year ago. At that time, more contractors expected demand for highway, other transportation, public building, retail, warehouse and lodging, K-12 schools and private offices to shrink than expected it to grow. And while contractors were more optimistic about the prospects for hospital and higher education and power construction, their expectations are even more positive this year than they were at the start of 2013.

Many Firms Set to Start Hiring This Year

Many firms plan to begin hiring again in 2014, while relatively few plan to start making layoffs. Forty-one percent of firms that did not change staff levels last year report plans to start expanding their payrolls in 2014 while only two percent of firms report they plan to start making layoffs, a net positive of 39 percent. This follows a year where 51 percent of all responding firms report they added staff while 23 percent reported making layoffs, a net positive of 28 percent. However, net hiring should be relatively modest, with 86 percent of firms that plan to start hiring this year reporting they plan to add 25 or fewer new employees this year. That would not be significantly different from 2013, when 78 percent of firms hired 25 or fewer new employees.

Fortunately, the firms planning to start cutting staff in 2014 expect to make relatively modest changes to the size of their workforce. One hundred percent of those firms estimate their planned layoffs will amount to 15 or fewer positions being cut. Those layoffs would be smaller in scope than what occurred in 2013, when 34 percent of firms reported reducing staff by 16 or more people for the year.

Among the 19 states with large enough survey sample sizes, 100 percent of firms that did not change staffing levels last year in Utah plan to start hiring new staff this year, more than in any other state.

It Will Get Tougher for Expanding Firms to Find Qualified Workers

As construction firms continue to slowly expand their payrolls, they will have an increasingly difficult time finding enough skilled construction workers. Already, 62 percent of responding firms report having a hard time filling key professional and craft worker positions. In particular, many firms report having a hard time finding qualified workers to fill project manager or supervisor positions, equipment operators, carpenters and laborers. Worse, two-thirds of firms expect it will either become harder or remain as difficult to find qualified construction professionals during the next 12 months. Similarly, 74 percent of responding firms predict it will get harder, or remain as hard, to find qualified construction craft professionals this year.

As the supply of qualified construction workers tightens, competition for those workers is heating up. Fifty-two percent of firms report they are losing construction professionals to other construction firms or other industries and 55 percent report they are losing construction craft workers. As a result, 57 percent of firms report raising pay or benefits to retain construction professionals and 60 percent report they have increased pay and/or benefits to retain their construction craft workers.

One potential reason for growing construction worker shortages is that many contractors have a poor opinion of the local pipeline for preparing new workers. Forty-eight percent of firms believe training programs for new construction craft workers are below average or poor, for example. And while only 23 percent of firms have negative opinions regarding the pipeline for new construction professionals, only 22 percent think training programs for construction professionals are above average or better.

Tight Credit Becoming Less of a Problem for Construction Markets

Perhaps one reason contractors are relatively optimistic about 2014 is that credit conditions appear to be easing considerably. While last year 13 percent of firms reported having a hard time getting bank loans and another 40 percent reported that projects were being delayed or cancelled because of tight credit conditions, those numbers have declined this year. Now only 9 percent of firms report having a harder time getting bank loans and only 32 percent report customers' projects are being delayed or cancelled because of tight credit conditions. Another 51 percent of firms report no change in credit conditions compared to last year.

Most Firms Plan to Buy or Lease New Equipment in 2014

The vast majority of responding firms plan to purchase and/or lease new construction equipment. Specifically, 73 percent of firms plan to purchase some kind of construction equipment this year while 86 percent of firms plan to lease new equipment in 2014. However, the scope of those new equipment acquisitions remains limited, with 44 percent of firms saying they will invest $250,000 or less. Likewise, 53 percent of firms plan to limit their leasing investments to $250,000 this year. Firms are more optimistic about their equipment purchasing and leasing plans than they were a year ago. At the beginning of 2013, only 64 percent of firms planned to purchase new construction equipment while 77 percent of responding firms planned to lease new equipment.

Contractors Expect to Pay More for Health Care and Materials

Construction firms plan to spend more for construction materials and health care for their employees in 2014. Indeed, 81 percent of firms expect the cost of providing health care insurance for their employees will increase in 2014. This follows a year where health insurance costs increased for 79 percent of contractors. Despite these escalating health care costs, only 1 percent of contractors report they plan to offer less health care coverage for their employees this year. Only 3 percent of firms reported their health care costs went down in 2013 and only 3 percent expect to pay less to cover their employees this year.

Similarly, 90 percent of construction firms report they expect prices for key construction materials to increase in 2014. Most expect those increases will be relatively modest, with 45 percent reporting they expect the increases to range between 1 and 5 percent while only 2 percent expect prices to increase by over 25 percent. This is consistent with what contractors experienced in 2013, when 43 percent experienced a 1 to 5 percent increase in materials costs and only 2 percent experienced cost increases greater than 25 percent.

The Construction Market Will Grow, But Competition Will Get Tougher

The vast majority of contractors report they expect the construction market will grow either this year or in 2015, the most optimistic timeframe yet recorded in AGC's Outlook series. Indeed, more contractors – 36 percent – indicated they think the market will expand this year than any other single year. Another 32 percent report they expect the market to increase in 2015 while only 32 percent expect the market will grow in 2016 or later. In each of the last three annual surveys, a majority of respondents said they expected the market would not improve for at least one more year.

Even as the market expands, most respondents report they expect competition to remain tough, or get even tougher, in 2014. Forty-seven percent of firms report they expect competitive pressures will become even greater for them this year, while an additional 48 percent expect competitive pressures to remain the same as last year. This follows a year where 54 percent of firms said competitive pressure became greater and 40 percent report it remained the same. Perhaps as a result of greater competition, 55 percent of firms report they plan to pursue new projects that are farther away than their traditional geographic market area this year.

Washington Is Not Here to Help As Far As Contractors Are Concerned

Budgetary fights and the Obama administration's aggressive regulatory agenda are having a negative impact on contractors. Fifty-one percent of contractors report that demand for their services is being impacted negatively because of federal funding cutbacks known as "sequestration," new federal regulations and/or Congress' inability to set an annual budget. Meanwhile, large numbers of contractors are worried that newly enacted federal regulations will negatively impact their business operations in 2014. In particular, 50 percent of responding contractors report they expect new regulations requiring federal contractors to keep detailed records of all job applicants will have a negative impact. Fifty percent of respondents flagged proposed new silica exposure regulations as a potential problem as they are currently structured. Forty-nine percent of contractors also identified efforts by the Environmental Protection Agency to expand their jurisdiction over wetlands as a potential problem.

Instead of promulgating new regulations and slashing construction budgets, contractors would prefer to have federal officials working to solve key problems. Seventy-seven 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-three percent of firms want Congress to repeal all or part of the Affordable Care Act, 63 percent want Congress to renew tax deductions and bonus depreciation for construction equipment and 59 percent want Washington officials to reform a tax code that forces construction firms to pay higher effective tax rates than most other businesses.

Demand for Building Information Modeling, Public Private Partnerships and Green Construction Varies

The use of Building Information Modeling (BIM) technology is becoming increasingly prevalent. Forty-four percent of firms reported using BIM in 2013 while a majority – 53 percent – of firms expects the amount of projects involving BIM will increase in 2014. Meanwhile, only 2 percent of firms expect the use of BIM to decrease this year. It would appear that demand for public private partnerships tapered a bit in 2013, with only 29 percent of firms reporting they work on these kinds of projects. Last year 37 percent of firms reported working on public private partnerships in 2012. However, 34 percent expect demand for these kinds of public-private collaborations will expand in 2014 while only 1 percent expect it will decline. Similarly, 38 percent of contractors report they expect the share of their work in 2014 that is certified green or energy efficient will expand.

Regional Market Analysis

While the overall outlook for most market segments was generally positive, especially for private-sector markets, results varied considerably by region. In particular, contractors in the South were the most optimistic, compared to contractors in other regions, about 7 of the 11 market segments covered in this report. Meanwhile, contractors from the Northeast were the least optimistic in 8 out of 11 market segments.

Contractors from the Midwest region were the most optimistic about demand for power construction in 2014. The optimists outnumbered the pessimists by 31 percent. Meanwhile contractors in the Northeast were the least optimistic, with a net difference of only 21 percent. The net difference for contractors in the West was 22 percent and 26 percent for contractors in the South.

Midwestern contractors were also the most optimistic about the outlook for manufacturing construction, with a net difference of 40 percent. Again, contractors in the Northeast were the least optimistic, with a net difference of 8 percent. The net difference for Western contractors was 19 percent and the net difference in the South was 32 percent.

Contractors from the South were the most optimistic about hospital and higher education construction, with a net difference of 30 percent, while Northeastern contractors were the least optimistic, with a net difference of 16 percent. Midwestern contractors had a net difference of 25 percent while the net difference in the West was 19 percent.

The South also has the most optimists when it comes to the combined retail, warehouse and lodging segment. The net difference there was 34 percent, whereas the net difference in the Northeast was 12 percent. The net difference was 31 percent in the Midwest and 27 percent in the West.

Southern contractors also feel the most optimistic about the private office market, topping the regions with a net difference of 40 percent. Again, contractors in the Northeast were the least optimistic, with a net difference of 14 percent. The net difference for Midwestern contractors was 29 percent and it was 23 percent in the West.

The one market segment where contractors from the Northeast are the most optimistic is water and sewer construction. The net difference for contractors from that region was 30 percent. Meanwhile contractors in the Midwest were the least optimistic, with a net difference of only 13 percent. The net difference in the South was 14 percent and in the west it was 15 percent.

However, Southern contractors were the most optimistic about the 2014 outlook for highway construction market, with a net difference of 22 percent. Contractors from the West were the most pessimistic, with a net difference of -4 percent. The net difference in the Northeast was 11 percent and it was 6 percent in the Midwest.

Contractors from the South also were the most optimistic about other types of transportation construction, with a net difference of 17 percent. In marked contrast, the net difference was -21 percent in the Northeast. It was -2 percent in the Midwest and 4 percent in the West.

The only region of the country where contractors had a positive outlook for K-12 construction was the South, where the net difference was 16 percent. Contractors in the northeast were the most pessimistic, with a net difference of -9 percent. The net difference in the Midwest and the West was -3 percent.

The South also has the most optimistic outlook for public building construction, with a net difference for that segment of 7 percent. The Northeast also has the most pessimistic contractors in this segment, with a net difference of -22 percent. The net difference in the West and Midwest was 5 percent.

The number of contractors predicting the market would expand and would shrink in the Northeast and the South was evenly split. Contractors in the West were the most optimistic about this market segment, with a net difference of 2 percent. Midwestern contractors were the most pessimistic, with a net difference of -12 percent.

Workforce challenges also vary by region. For example, only half of contractors from the Northeast report having hard time filling positions. By contractors, 71 percent of contractors from the Midwest report they are having a hard time filling positions.

Two-thirds of contractors in the West are having a hard time filling positions while 59 percent of contractors in the South report difficulties filling key positions.

Contractors from all regions are relatively consistent in their expectation that it will remain hard, or get even harder, to fill professional positions in 2014. Seventy percent of contractors in the West feel the labor market will remain tough, or get even tougher, followed by 69 percent of contractors in the Midwest, 64 percent of contractors in the South and 57 percent of contractors in the Northeast.

They were also fairly consistent about their outlook for filling craft worker positions. Seventy-nine percent of contractors in the Midwest expect it will get harder, or remain tough to fill craft worker positions. Meanwhile, 75 percent of contractors in the South believe it will get harder, or remain hard, to hire craft workers in 2014, followed by 74 percent of contractors in the West and 65 percent in the Northeast.

Finally, contractors were equally optimistic by region about when the overall construction market would grow again. Forty-two percent of Midwestern contractors report they expect the market to grow again this year, followed by 38 percent of contractors in the West, 35 percent in the Northeast and 33 percent in the South.

Conclusion

There is no doubt that contractors are more optimistic about 2014 than they have been since the start of the downturn. They expect virtually every market segment to expand or at least remain stable. Many firms plan to expand their payrolls, add new equipment and pursue new market opportunities. Yet with growth will come new challenges for firms as they struggle to find enough skilled workers, cope with escalating materials and health care costs and struggle to comply with expanding regulatory burdens.

There are clear steps Washington officials can take to support the industry and ensure a successful year. Foremost among those is taking steps to make it easier for education officials to establish career and technical programs to help prepare the next generation of workers. They also need to 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 so many costly new regulatory burdens on employers, especially when so many of these measures are likely to produce limited benefits.

Federal 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 our infrastructure more efficient will provide an additional boost to the economy, helping stimulate greater private sector demand for construction services.

While competitive pressures remain difficult and are likely to get worse, 2014 should be a better year for the construction industry than any year since 2009. While the industry still has a long way to go before it returns to the employment and activity levels it experienced during the middle of the last decade, conditions are heading in the right direction. At last, optimism returns to the construction industry.

About the Survey

AGC conducted the survey that serves as the basis for the 2014 Construction Hiring and Business Forecast during December 2013 and the first week of January 2014. Over 800 firms from every state and the District of Columbia completed the survey. (Varying numbers responded to each question.) Participating firms represent a broad cross-section of sizes. Thirty-two percent report performing $10 million or less worth of work in 2013. Twenty-two percent performed between $10 million and $30 million worth of work, 13 percent between $30 and $50 million, 12 percent between $50 and $100 million, 15 percent between $100 and $500 million, and 6 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