REMARKS FOR 2014 CONSTRUCTION INDUSTRY OUTLOOK
MEDIA CALL
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; Vince DeLeonardis, president of Pontiac, Michigan-based George Auch Construction Company; Jim Bothar, the owner of Bothar Construction – road builders based in Binghamton, New York; Rob Moore, the President and CEO of Salt Lake City-based Big D Corporation; Antonio Ledezma of Commerce City, Colorado based Jalisco International; and Barry Fries, the owner of New York City-based B.R. Fries Construction.

The construction industry experienced a mild recovery in 2013, although it was more uneven and far slower than most of us would like. Total employment increased by 122,000, or just over 2 percent, while investments in construction rose by nearly six percent between November 2012 and November 2013. But the industry still employs 1.9 million fewer people than it did in 2006, and annual construction spending levels remain $200 billion below peak levels – without even taking inflation into account.

We are eager to understand whether last year's growth will continue, accelerate or decelerate in 2014. And if the construction industry continues to expand in 2014, we want to get a sense of what kind of challenges will come with that growth. As an organization focused on advocating for our members here in Washington, we also want to evaluate how decisions made in D.C. impact our members.

That is why we spent several weeks at the end of last year and early this month conducting an in-depth survey of our member firms from across the country. We analyzed the answers that over 800 of our member firms from every state and the District of Columbia provided and have prepared a comprehensive forecast for the construction industry in 2014. Today we are releasing those survey results and our analysis, which we call Optimism Returns: The 2014 Construction Hiring and Business Outlook.

Contractors are more optimistic about 2014 than they have been in a long time. 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 they plan to start expanding payrolls in 2014, while only two percent plan to start making layoffs. However, net hiring should be relatively modest, with 86 percent of those firms reporting they plan to hire 25 or fewer new employees this year.

But the optimism is not limited to firms that are re-entering the labor market. And since I don't want to be accused of hogging all good news, I will turn things over to our chief economist, Ken Simonson, who will provide some more in-depth analysis of this year's Outlook. Ken…

Ken Simonson

Thank you. As Steve mentioned, the outlook for the construction industry in 2014 is mostly upbeat.

Contractors have a relatively positive outlook for virtually all of the 11 market segment covered in this report, in particular for the private-sector segments. For five of these segments, at least 40 percent of respondents expect the market to expand and fewer than 20 percent expect the market to decline in 2014. The difference between the optimists and pessimists – the net positive reading – is a strong 28 percent for private office, manufacturing, and the combined retail/warehouse/lodging segments, and 25 percent for power and hospital/higher education construction.

Among public sector segments, contractors are most optimistic about demand for new water and sewer construction, with a net positive of 17 percent. Contractors are mildly optimistic about the market for highway construction, with a net positive of 10 percent. Respondents are almost equally divided regarding the outlook for the other four segments, ranging from net positives of 5 percent for public buildings, 4 percent for kindergarten-through-12th grade schools, 3 percent for transportation facilities other than highways, to a negative 2 percent for marine construction.

Contractors' market expectations are significantly more optimistic than they were at this time last year. 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.

In addition, seventy-three percent of firms plan to purchase construction equipment and 86 percent plan to lease it this year. The scope of those investments is likely to be somewhat limited, however. Forty-four percent of firms say they will invest $250,000 or less in equipment purchases and 53 percent say they will invest that amount or less for new equipment leases.

One reason firms may be more optimistic is that credit conditions appear to have improved. Only 9 percent of firms report having a harder time getting bank loans, down from 13 percent in last year's survey. And only 32 percent report customers' projects were delayed or cancelled because of tight credit conditions, compared with 40 percent a year ago.

However, with growth will come new challenges. As firms continue to slowly expand their payrolls, for example, they will have a harder time finding enough skilled construction workers. Already, 62 percent of responding firms report having a difficult time filling key professional and craft worker positions. Worse, two-thirds of firms expect it will either become harder or remain as difficult to fill professional positions and 74 percent say it will get harder, or remain as hard, to fill craft worker positions.

Indeed, 52 percent of firms report they are losing construction professionals to other firms or industries and 55 percent report they are losing craft workers. As a result, a majority of firms report they have improved pay and benefits to help retain qualified staff. One reason firms may be worried, particularly about the supply of craft workers, is that nearly half of the firms participating in the survey believe training programs for new workers are poor or below average.

Even as firms struggle with growing worker shortages, they anticipate paying more to provide health care and purchase materials. Eighty-two percent of firms report they expect the cost of providing health care insurance for their employees will increase in 2014, while only 3 percent expect to pay less. Despite that, only 1 percent of firms report they plan to reduce the amount of health care coverage they provide this year.

Ninety percent of construction firms report they expect prices for key construction materials to increase in 2014. Most, however, expect those increases will be relatively modest, with 45 percent reporting they expect the increases to range between 1 and 5 percent.

Contractors also expect competition to get tougher in 2014. Forty-seven percent of firms report they expect competitive pressures will become even greater this year while an additional 48 percent expect competitive pressures will remain the same as last year. Perhaps as a result of this greater competition, 55 percent report they plan to pursue new projects beyond their traditional geographic market area this year.

Adding to their challenges, fifty-one percent of contractors report that demand for their services is being negatively impacted by federal funding cuts, new federal regulations and/or Washington's inability to set an annual budget. It would appear that Washington is not here to help as far as contractors are concerned.

Now let me turn things back to Steve for more insight on contractors' concerns with new regulations and where they would rather Washington officials focus their efforts.

Steve Sandherr

Thanks Ken. Large numbers of contractors are worried that newly enacted federal regulations will negatively impact their business operations this year. In particular, 50 percent report they are worried about new regulations requiring federal contractors to keep detailed records on all job applicants. Fifty percent are worried about the impact new silica exposure rules will have, while forty-nine percent are concerned about the Environmental Protection Agency's efforts to expand their jurisdiction over wetlands.

Instead, seventy-seven percent of firms listed having Washington find ways to make it easier to prepare the next generation of skilled workers as a top priority. Sixty-three percent listed repealing all or part of the Affordable Care Act as a top priority. And 63 listed renewing tax deductions and bonus depreciation for construction equipment as a top priority.

Of course, should Congress and the administration fail to find a way to address highway, transit and other infrastructure funding shortfalls, contractors will become far less optimistic about public-sector market demand. Should that occur, it is possible fewer companies will begin hiring again or purchasing new equipment.

But assuming Washington officials can find a way to work together, 2014 should be a better year for the construction industry than any year since 2009. And while the industry 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.

With that, operator, let's open things up for questions, please and remember that we also have contractors Vince DeLeonardis, Jim Bothar, Rob Moore, Antonio Ledezma and Barry Fries on the line to answer questions about what they are seeing in their market areas.

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