2020 Construction Hiring & Business Outlook Media Call Remarks

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Hello everyone, thank you for dialing 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, a vice president with Sage Construction and Real Estate, North America.

We also have two contractors on the call with us today. They are Jim O'Brien, one of the founders of Bothar Construction in Binghamton, New York; and Mike Tuohy, Senior Vice President for McCarthy Building Companies in Newport Beach, California.

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.

Nearly 1,000 firms participated in our Outlook survey between November 6th and December 9th, representing a broad range of firms in terms of size, business volume and geographic distribution. Their responses make clear that contractors are very optimistic about demand for construction in 2020 and, as a result, three-quarters of them plan to expand their headcount in 2020.

At the same time, many construction executives are troubled by labor shortages and the impacts those shortages are having on their operations, training & safety programs and bottom lines. That demand for workers is prompting significant changes to the way firms operate their businesses, hire and prepare workers, schedule, price and build projects. Labor shortages are also prompting many firms to boost investment in innovative new technologies and techniques that allow them to be even more productive and successful.

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. The percentage of respondents who expect a market segment to expand exceeds the percentage who expect it to contract for all 13 categories of projects included in the survey. The difference between the positive and negative responses—the net reading—ranges from 8 to 25 percent, with most segments clustered between 10 and 20 percent.

Respondents were most optimistic, on balance, regarding water and sewer construction, with a net positive reading of 25 percent. In addition, respondents were notably optimistic about the outlook for four other categories, all of which had net positive readings of 20 percent: kindergarten-to-12th grade (K-12) school; hospital; bridge/highway; and other transportation (e.g., transit, rail, airport) construction.

There was a net positive reading of 17 percent for power projects and construction for federal agencies. Respondents were nearly as optimistic about higher education projects, with a net positive reading of 16 percent. For all of these segments, respondents were more upbeat about market prospects than in last year's survey.

There were net positive readings of 11 percent each for manufacturing and multifamily residential construction and 10 percent each for public buildings and the retail/warehouse/lodging category. The smallest net positive reading—8 percent—was for private office projects, although even in that niche, more than one-quarter of respondents who compete in the category foresee growing opportunities in 2020.

The results are also largely similar by region—with one notable difference. Respondents from the Northeast have a net negative outlook for seven of the 13 project categories, although they have a slightly more positive expectation than the national average for higher education and power construction.

Three out of four construction firms (75 percent) plan to increase headcount in 2020. Just over half (52 percent) of firms report their expansion plans will only increase the size of their firm by 10 percent or less. About one-fifth (19 percent) of respondents report that they plan to increase headcount by 11 to 25 percent, while five percent of respondents plan to increase employment by more than 25 percent. Only 5 percent of respondents plan to decrease their headcount.

Despite firms' plans to expand headcount, 81 percent report that they are having a hard time filling salaried and hourly craft positions. In addition, 43 percent of firms expect that in the next 12 months it will continue to be hard to hire and 22 percent expect that it will become harder to hire.

Close to half of respondents (44 percent) report that staffing challenges drove costs higher than anticipated. In reaction, 41 percent of firms are putting higher prices into new bids or contractors. Similarly, 40 percent report projects have taken longer than they anticipated, and 23 percent say they have put longer completion times into bids or contracts.

In order to address the workforce shortage, firms continue to raise pay and provide bonuses and benefits. Over half (54 percent) of firms report they increased base pay rates more in 2019 than in 2018. Twenty-three percent provided incentives and/or bonuses. Fourteen percent of firms increased contributions or improved employee benefits to cope with workforce shortages. Only one-fifth (19 percent) of firms report taking none of these steps.

In addition to increasing compensation packages, many firms are investing more in training programs for current and new workers. Roughly two-fifths (42 percent) of firms report they revamped initiatives to recruit labor in the last year.

Nearly a third of respondents (32 percent) report their firms are investing in labor-saving equipment, including drones, robots, 3-D printers, and laser- or GPS-guided equipment. Twenty-eight percent of respondents are using methods to reduce onsite worktime, including lean construction, building information modeling (BIM) or other virtual construction techniques, or offsite fabrication. And 17 percent of respondents report adding specialists, such as architects, BIM or lean construction personnel, drone or other equipment operators, or data or IT personnel.

Indeed, many firms clearly see technology as a key answer to coping with labor shortages and becoming more efficient. 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.

For the past several years the qualified worker shortage has been weighing on contractors' minds. This years' survey results reinforce that it's affecting more than just a firm's ability to fill open positions. Not having enough qualified workers affects how firms operate—and their ability to complete projects on time. It often leads to projects taking longer and costing more in the process. At the same time projects are becoming more complex. As less experienced workers take on increasingly more complex projects it increases the firm's risk. We're going to continue to see firms turning to technology to help bridge the gap.

Technology can be strategically applied to increase productivity of current staff. As Ken mentioned, 32 percent of firms have adopted or increased use of labor-saving equipment such as drones, robots, 3-D printers, or laser/GPS guided equipment. Firms are becoming more strategic about IT as they try to remain competitive in today's environment. According to this year's Outlook, 48 percent of contractors indicate they currently have a formal IT plan that supports business objectives while an additional 10 percent of contractors plan to create a formal IT plan in 2020.

Outsourcing is one sign that contractors are taking a more strategic approach to IT. According to the survey, 84 percent of respondents outsource either IT or a business function, down from 91 percent last year. While the percentage of respondents currently outsourcing went down, outsourcing for specific functions went up. Forty-five percent outsource backup and disaster recovery, up from 26 percent last year. Thirty-six percent outsource voice over IP (phone service over the internet), up from 27 percent last year. And 35 percent outsource desktop (light maintenance), up from 19 percent last year.

The results also show that contractors are spending more in order to fund their IT plans. Forty-two percent of respondents say they currently spend 1 percent or more of revenue on IT (keep in mind this number does not include those who indicated they were unsure of the percentage of revenue). In addition, 46 percent of contractors report they will increase IT investment in 2020, up from 42 percent last year. Most telling -- only 2 percent of firms plan to decrease IT investment, while 44 percent expect their IT spending to stay the same as last year and 9 percent are unsure. The technology areas with the largest planned increased investment are project management software, document management software, fleet tracking/management software, and estimating software.

While we're seeing the majority of firms using some type of technology to collaborate with project partners, the numbers decreased from last year. Seventy percent of respondents are using file sharing sites such as Dropbox or Box.com, down from 75 percent last year. This is likely due to purpose-built construction solutions addressing this need more effectively. Forty-seven percent use online project collaboration software designed to keep building teams in sync and improve a project's financial and quality outcome. Only 15 percent are not using any project collaboration technology. We expect the adoption of cloud-based collaborative tools to increase as greater collaboration among teams helps reduce errors and improve efficiencies.

Construction is getting even better at collaboration. Building information modeling is another collaboration tool used primarily by respondents for clash detection, constructability input into the design process, construction means and methods, and to visually communicate project scope to clients. Eighteen percent of respondents expect an increase in the number of projects that involve BIM in 2020 while 39 percent expect to have about the same number of BIM projects (+ or - 10%).

Contractors are also advancing their use of cloud technologies. Forty-nine percent of respondents use cloud-hosted technology for project management, while 37 percent use cloud technology for some component of field operations and 31 percent use cloud technology for accounting. When it comes to cloud-based mobile solutions on the job site, the numbers are higher. Sixty-eight percent use mobile software for daily field reports, 61 percent use mobile technology for employee time tracking and approval, and 55 percent use mobile technologies for both field access to customer and job information, and for the sharing of drawings, photos, and documents.

Finally, the use of information technology is not without its challenges. Forty-three percent of contractors say it's difficult to find the time to implement and train on new technology. Employee resistance to technology and communication between the field and office are the other top concerns as identified by 38 percent and 36 percent of respondents respectively. Connectivity to remote job sites was a close fourth with 35 percent of respondents identifying it as one of their biggest challenges. These were the top four issues identified last year as well. Contractors can help mitigate some of these concerns by setting priorities and implementing technology in stages.

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.

The bottom line is most contractors expect demand to remain strong, and in many cases strengthen, in 2020 despite signs the overall economy may slow or stall. In particular, they expect demand for most types of public and institutional construction to expand. And while the outlook for many types of private-sector projects, including private-office and multifamily residential, is less optimistic, more contractors expect demand in those segments to grow than shrink.

Construction executives appear to believe that a host of pro-growth measures, including tax cuts and federal regulatory reforms, will offset the potential impact of restrictive immigration policies and a slowing global economy. Washington officials must continue to promote pro-growth economic policies like regulatory reform and investing in infrastructure. Congress can and should act quickly in 2020 to promote economic growth by passing measures to make needed investments in airports, waterways, highways and transit systems. At the same time, the Trump administration should continue its work reviewing and reforming many needless regulatory burdens.

While contractors are optimistic about their ability to find work, they continue to worry about their ability to find qualified workers. Congress and the administration must work together to double funding for career and technical education over the next five years. Congress should also pass the JOBS Act, which makes it easier for students in short-term post-secondary construction education programs to qualify for federal Pell Grants. And administration officials should look at federal guidelines for evaluating high schools to make sure they are being properly recognized for placing graduates into careers like construction instead of just colleges.

Washington officials also need to recognize the need to allow more people to lawfully enter the country to address workforce shortages while the domestic pipeline for preparing and recruiting workers is being restored. This means Congress should pass legislation establishing a temporary work visa program specifically focused on construction.

The administration and Congress should also move forward on long-overdue comprehensive immigration reform. And it should take steps to provide legal certainty to tens of thousands of construction workers lawfully in the country through either the Temporary Protected Status program, or via the so-called "Dreamers" program. The Administration and Congress also need to take additional steps to secure the nation's borders. Allowing people to unlawfully work in this country sets them up to be exploited by unscrupulous firms who are able to under-bid more responsible firms.

A thriving, successful and diverse construction industry is the essential foundation for America's continued economic prosperity, security and well-being. Investing in infrastructure and extending the work of regulatory reforms is essential to sustaining economic growth. At the same time, making needed investments and enacting measures that demonstrate the tremendous value of high-paying construction careers, along with reforming immigration, will ensure that contractors can keep pace with the kind of strong demand for their services most firms anticipate.

Now before we take questions, I would like to invite Jim O'Brien and Mike Tuohy to share their observations about local market conditions where they operate. After that, we will take any questions the reporters on the line may have...

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