2022 Construction Hiring & Business Outlook Media Call Remarks

STEPHEN SANDHERR

Hello and 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. Joining me today are: our chief economist, Ken Simonson, and Vice President of Construction and Real Estate at Sage, Dustin Stephens. We also have several contractors on the line. They are Charlie Wilson, the president of Durham, North Carolina-based CT Wilson Construction; Chris Stanton, the vice president for pre-construction at McCown Gordon in Kansas City, Missouri and *(add names).*

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 1,000 firms participated in our Outlook survey between November 9th and December 13th, representing a broad range of firms in terms of size, business volume and geographic distribution. Their responses make it clear that contractors are, overall, very optimistic about the outlook for 2022.

They expect demand for most types of projects to increase and, as a result, most firms plan to add staff. Contractors also continue to invest in new technologies that are designed to make them more efficient and effective. Significantly, contractors are far more upbeat about this year than they were at the start of 2021, when our members expected demand for many types of projects to contract and were less bullish in their hiring plans.

Despite the generally optimistic outlook, contractors expect to encounter several significant challenges this year. Chief among those challenges are supply chain problems that are making it hard to budget for and procure key construction materials. And workforce shortages remain severe and are making it difficult for contractors to keep pace with demand.

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

KEN SIMONSON

Thank you, Stephen. And you are right, contractors are upbeat about the available dollar value of projects to bid on in 2022. The net reading – the percentage of respondents who expect the available dollar value of projects to expand compared to the percentage who expect it to shrink – is positive for 15 of the 17 categories of construction included in the survey.

Respondents are most optimistic about highway and bridge construction. Sixty-three percent expect there will be a larger dollar value of projects to compete for, compared to 5 percent who expect a lower volume, for a net positive reading of 57 percent.

Contractors are also upbeat about the demand for transportation projects such as transit, rail and aiports, with a net reading of 51 percent, as well as water and sewer projects, with a net reading of 50 percent. Federal construction projects and power construction had net positive readings of 37 percent and 29 percent respectively.

The highest expectations among predominantly private-sector categories, with a net positive 41 percent each, are for warehouses and other healthcare, which includes clinics, testing facilities and medical labs. And the outlook for hospitals, with a net reading of 38 percent, is nearly as favorable as for other healthcare facilities.

Contractors were also optimistic about multifamily residential construction, with a net reading of 32 percent, and manufacturing construction, which scored a net positive of 27 percent. Expectations were more subdued, however, for public buildings, with a net reading of 20 percent; kindergarten through 12th grade school construction, 19 percent; higher education facilities, 16 percent; and lodging, 6 percent.

Only two categories received negative net readings, both of -8 percent: retail and private office construction.

Optimism about growing demand for most types of construction projects is leading many firms to plan to hire workers this year. Nearly three-fourths of respondents expect their firm's headcount will increase in 2022, compared to just 9 percent who expect a decrease. Forty-seven percent of firms expect to increase their headcount by 10 percent or less. However, 22 percent say their headcount will grow by 11 to 25 percent and 5 percent of respondents anticipate an increase of more than 25 percent.

Adding those new workers will not be easy, however. An overwhelming 83 percent report they are having a hard time filling some or all salaried or hourly craft positions, compared to only 8 percent who say they are having no difficulty. And three-fourths of respondents say it will continue to be hard to hire or will become harder to hire this year.

Workforce challenges are likely a key reason 62 percent of respondents increased base pay rates more than in 2020, compared to 23 percent that provided similar or smaller increases. Additionally, one-third of firms provided incentives or bonuses. And 21 percent of firms increased their portion of benefit contributions and/or improved employee benefits.

The pandemic continues to impact the construction industry, nearly two years after its initial onset. Eighty-four percent of respondents report costs have been higher than anticipated, while 72 percent say projects have taken longer than anticipated because of the pandemic. As a result, 69 percent have put higher prices into bids or contracts, while 44 percent have specified longer completion times.

Supply chain bottlenecks are also impacting construction. Only 10 percent of firms report they have not had any significant supply chain problems. Meanwhile, 61 percent have turned to altnernative suppliers for materials and 48 percent have specified alternative materials or products.

Rising construction costs and slowing schedules have contributed to a significant number of project cancellations. Forty-six percent of contractors report having a project delayed in 2021 but rescheduled while 32 percent had a project postponed or canceled that has not been rescheduled. The main reason for these delays and cancellations was rising costs, cited by 48 percent of contractors. And 11 percent said a project was cancelled or postponed because of a delay in the likely completion date.

These challenges are prompting many firms to invest in technology that will make them more efficient. I will turn things over to Dustin Stephens with Sage to provide some more insight into the technology findings in this year's Outlook. Dustin…

DUSTIN STEPHENS

Thank you, Ken.

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 information technology (IT) as they try to remain competitive in the current environment. Sixty-one percent of contractors indicate they currently have a formal IT plan that supports business objectives, while 7 percent plan to create a formal IT plan in 2022. These numbers are nearly identical to what they were in the 2021 survey.

Also similar to what we found in the 2021 survey, 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 66 and 89 percent) said their investment would remain the same as last year in each of the 15 technologies. When it comes to plans to increase technology spending, the top category is document management software, which one-third (33 percent) of respondents plan to increase spending on. This was up from 26 percent last year. Project management software came in a close second, cited by 31 percent of firms, up from 25 percent last year. Roughly one-fourth of firms plan to increase investments in estimating software, tool and asset management or training, accounting software, human resources software, and/or fleet tracking/management software, all up several percentage points from last year. Only 1-2 percent of respondents expect to decrease investment in any of the 15 technologies. This was lower than the 3-4 percent range cited last year.

As anytime, anywhere access has become more critical for construction firms, it is not surprising that we have seen gains in the use of cloud-based technologies over the past few years. More than half the firms (56 percent) use cloud-based technology for project management, up from 53 percent last year. Additionally, 47 percent of contractors use cloud technology for field operations, up from 42 percent last year; 45 percent use cloud technology for accounting, up from 38 percent last year; and 41 percent use cloud technology for time tracking, up from 36 percent last year. Moving forward, we anticipate that the adoption of cloud-based technologies will continue to increase as construction firms seek more flexibility from their solutions.

As we've seen in past years, when it comes to the use of mobile software technology, the adoption numbers are higher. The findings were very similar to last year, with more than two-thirds (68 percent) of firms using mobile software for daily field reports, while 60 percent will use mobile technology for employee time tracking and approval. More than half plan to use mobile software technology for access to customer and job information from the field (57 percent) or sharing of drawings, photos and documents (55 percent).

Of course, the use of information technology is not without its challenges. Forty-one percent of contractors say it's difficult to find the time to implement and train on new technology, down slightly from 44 percent last year. This has been the top IT challenge the past few years. Contractors can help alleviate some of these concerns by starting slow and implementing new technology in stages.

Meanwhile, 39 percent of firms list keeping company data secure from hackers as one of their biggest IT challenges. This was up from 33 percent last year. And more than one-third of firms cite employee resistance to technology (37 percent), connectivity to remote job sites (35 percent), or communication between field and office (34 percent) as among their biggest IT challenges.

As the industry navigates the lasting effects of the pandemic, technology will continue to have a big impact in keeping projects moving by providing increased flexibility, efficiency, and collaboration tools. This will play an integral role in helping businesses bounce back and succeed in the current environment.

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

STEPHEN SANDHERR

Thank you Dustin and Ken for your insights and observations. After enduring a difficult 2021, contractors have high expectations for 2022. They foresee growing demand for a wide range of construction market segments. They plan to add to their headcount and to invest in new technologies.

But while the outlook is far more positive than it was for last year, the construction industry still faces many challenges. These include widespread supply chain problems that have impacted many other parts of the economy. And as demand rebounds, labor shortages continue to become more acute.

In addition, some federal measures crafted to respond to the coronavirus have the potential to add to the industry's challenges. For example, the Biden administration's coronavirus vaccine mandates – for firms that employ 100 or more people and for federal contractors – will add to the industry's current workforce shortages. That is because the two rules cover only a small percentage of the total construction workforce.

More than 60 percent of construction workers are employed by firms with 99 or fewer people, and relatively few workers are engaged in direct federal construction. Given how many firms are currently looking to hire, this means that many vaccine-hesitant workers will be able to switch jobs instead of taking a shot they have already resisted for a year. This will put federal contractors and larger firms at risk of being unable to attract enough workers to keep pace with demand.

The administration's plans to increase tariffs on Canadian lumber, and leave other tariffs in place, meanwhile, will lead to higher materials costs at a time when many firms are already struggling with price inflation and supply chain challenges.

Instead of adding to the challenges facing contractors, public officials should be taking steps to help. These steps should include boosting investments in workforce development, particularly for career and technical education programs.

Congress must also rapidly appropriate the funding it promised to deliver when it passed the Bipartisan Infrastructure bill. These new investments are a key reason why contractors are so optimistic about the demand for infrastructure. Yet Congress failed to include these new funds when it passed a temporary spending measure at the end of last year.

And federal officials must avoid imposing new and needless regulatory burdens that will undermine the construction sector's recovery. We will be paying close attention, for example, to the administration's planned rewrite of the Waters of the U.S. rule. We will also be on the lookout for any efforts by the administration to impose measures outlined in the dangerous PRO Act.

All the while, we will continue our efforts to get more workers vaccinated. This includes releasing a new series of Spanish-language coronavirus vaccine PSAs to complement the English language versions we released last year. We will continue to work to expand the diversity of the industry via our Culture of Care and Construction is Essential programs. And we will launch new scholarships and virtual education programs to ensure this industry continues to thrive.

Our ultimate goal is to make sure that contractors' optimistic outlook for 2022 becomes a reality.

With that, let me offer the contractors with us, Charlie Wilson, Chris Stanton and (names), an opportunity to share their observations about local market conditions and their expectations for this year.

Let's start with Charlie…

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