2024 Construction Hiring & Business Outlook Media Call Remarks

January 4, 2024

STEVE SANDHERR

Hello and thank you for logging in today. My name is Steve 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 Lynn Hansen, the CEO of Charlotte, North Carolina-based Crowder Construction and Angie McElhaney, the CFO of Mark One Electric in Kansas City, Missouri.

AGC of America and Sage conduct an annual nationwide survey of construction firms to get a better sense of the industry's expectations for the coming year. Those survey results form the basis of our Construction Hiring and Business Outlook, which predicts demand for commercial construction in the coming year and how that demand will shape key industry decisions, including hiring, purchasing new technologies and investing in artificial intelligence and other types of information technology.

Today we are releasing our latest Construction Hiring and Business Outlook, titled *A Construction Market in Transition*. It finds that the outlook for the construction market in 2024 is decidedly mixed as contractors predict transitions in demand for projects, the challenges they will face and the types of technology they will embrace. Amid these changes, however, contractors are still struggling to cope with significant labor shortages, the impacts of higher interest rates and input costs and a supply chain that, while better, is still far from normal.

Demand for different types of projects is changing. Respondents to this year's outlook survey are less confident about growth prospects for many market segments than they were a year ago. They are most optimistic about a range of public-sector market segments, including water and sewer projects, transportation, federal and bridge and highway work. Conversely, they predict private sector demand will be less robust for segments like manufacturing and multifamily residential and will decline for lodging, retail and private office construction.

Contractors' top worries for 2024 include fears about the impacts of higher interest rates on demand for construction and the risk that the economy could enter a recession. Contractors also continue to be concerned about workforce shortages and their impacts on construction prices and schedules. And they continue to see projects being delayed – sometimes indefinitely – because of rising costs, slower schedules and shrinking demand for the finished products.

Perhaps because of these challenges, contractors plan to invest in new technologies that promise to make their operations more efficient and productive. Many firms report they will make new or continued investments in drones, artificial intelligence tools and offsite production. But many firms worry they lack the time and personnel to properly implement and train for these new technologies.

In other words, 2024 offers a mixed bag for construction contractors. On one hand, demand for many types of projects should continue to expand. And firms will continue to invest in the tools they need to be more efficient. Yet contractors are less enthusiastic about most market segments than they were at the start of 2023.

Meanwhile, they face significant challenges when it comes to finding workers, coping with rising costs and weathering the impacts of higher interest rates.

Now I would like to hand things over to AGC of America's chief economist, Ken Simonson, to walk us through some of the key findings from this year's Outlook. Ken…

KEN SIMONSON

Thank you, Steve. On balance, contractors remain upbeat about the available dollar value of projects to bid on in 2024. But the optimism regarding opportunities for most project types is less widespread than it was a year ago.

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 14 of the 17 categories of construction included in the survey, as it was in the 2023 survey. However, a smaller share than previously expects the markets they compete in to expand in the coming year.

Respondents are most optimistic about infrastructure, power, and federal construction projects, although the order has changed somewhat. Specifically, the highest net positive reading in the 2024 survey—32 percent—is for water and sewer construction, which had the third-highest reading a year ago. That category nosed out last year's leading segments, highway and bridge construction and transportation projects such as transit, rail and Both of those categories have net positive readings of 30 percent in the 2024 survey. And the net reading for federal projects is 29 percent.

The highest expectation among predominantly private-sector categories is for power projects, with a net reading of 25 percent. Close behind are the readings for hospital construction, with a net of 23 percent, and non-hospital healthcare facilities, such as clinics, testing facilities and medical labs, with a net of 22 percent. The largest increase in optimism from the previous survey is for data center construction, with a net positive reading of 20 percent. That is up from 12 percent a year ago.

Contractors are optimistic, as well, about the education sector. The net reading is 18 percent for kindergarten-to-12th-grade schools and 15 percent for higher education construction. Three other segments have readings that are positive, on net, by double-digit percentages. The net reading for both public buildings and manufacturing construction is 15 percent. The net is 10 percent for warehouses.

There are four market segments for which respondents are closely divided between favorable and unfavorable outlooks or have negative expectations on balance. There is a net positive reading of 4 percent for multifamily residential construction. Expectations are bearish for lodging, with a net negative reading of -3 percent; retail construction, -15 percent; and private office construction, -24 percent.

Despite the largely positive net readings, fewer respondents are confident about growth prospects than they were a year ago. The net reading decreased from the 2023 survey for nine project types, increased for six types, and remained unchanged for two—hospitals and warehouses.

The steepest downturn in expectations occurred with transportation and bridge/highway construction, both of which recorded declines of 12 percentage points from the net readings in the 2023 survey. The net readings for public building and federal construction both slid 8 percentage points. In contrast, the largest upswing in net readings is 8 percentage points--for data center construction—while there were only small upturns for the other five categories that have higher net readings than a year ago.

The decline in optimism regarding infrastructure projects may be because few contractors report having been awarded projects that received funding from the federal Bipartisan Infrastructure law. Only 9 percent of respondents say they have worked on new projects funded by the law, while 6 percent have won bids but have not started work. Seven percent say they have bid on projects but have not won any awards yet, whereas 12 percent plan to bid on projects but say nothing suitable has been offered yet.

Most firms anticipate adding workers in 2024 to accommodate the higher demand for projects. More than two-thirds (69 percent) of the respondents expect to add to their headcount, compared to only 10 percent who expect a decrease. While just under half (47 percent) of firms expect to increase their headcount by 10 percent or less, nearly one-quarter anticipate larger increases. Eighteen percent of respondents say their headcount will grow by 11 to 25 percent, and 4 percent of respondents anticipate an increase in headcount of more than 25 percent.

However, respondents expect difficulty adding workers—a situation that has changed little over the past year. Seventy-seven percent of respondents report they are having a hard time filling some or all salaried or hourly craft positions, close to the 80 percent who reported difficulty in the 2023 survey. In addition, the majority (55 percent) expects that hiring will continue to be hard (35 percent) or will become harder (20 percent).

Union and open-shop firms have similar expectations about expanding their headcount and the difficulty in doing so. For both types of firms, 70 percent of respondents expect their companies will add to their headcount in 2024. Both types of firms report difficulty filling positions: only 7 percent of open-shop respondents and 9 percent of union respondents report no difficulty filling any salaried or hourly craft positions.

Most firms took steps in 2023 to attract and retain workers. Sixty-three percent increased base pay rates more than in 2022. Additionally, 25 percent of firms provided incentives or bonuses and 24 percent of the firms increased their portion of benefit contributions and/or improved employee benefits.

In general, there is little variation by region among contractors' responses, but firms in the South are somewhat more likely than in other regions to have offered steeper pay increases to attract and retain workers. Nearly two-thirds (66 percent) of firms based in the South increased base pay rates in 2023 more than in 2022, compared to 64 percent of firms in the Midwest, 61 percent in the Northeast, and 58 percent in the West.

As in the past two surveys, nearly two-thirds of respondents say projects have been postponed or canceled. Almost equal percentages of firms report projects were postponed or canceled in 2023 and not rescheduled (36 percent of respondents) as report projects were postponed but rescheduled (37 percent). Ten percent have already experienced postponement or cancellation of a project that had been scheduled for the first half of 2024.

More than half (53 percent) of firms say a project was postponed or canceled due to rising costs (for construction, insurance, etc.), while 38 percent of firms cite rising interest rates as a cause of deferrals. In addition, 34 percent cite reduced funding availability. Delays in likely completion dates and reduced demand for completed projects are each listed as reasons for deferral by 11 percent of respondents.

Although only 23 percent of respondents say they have not had any significant supply-chain problems, that is a marked improvement over the previous two surveys, when only about 10 percent of respondents said they had had no problems. To cope with problems, 56 percent of respondents have accelerated purchases after winning contracts, compared to 70 percent in the 2023 survey. Forty-five percent have turned to alternative suppliers, compared to 56 percent in the 2023 survey. Thirty-six percent have specified alternative materials or products, vs. 49 percent a year ago.

Despite the overall improvement in the supply chain, more than 140 respondents took the trouble to list specific items or categories with problems. By far, the most frequently mentioned issues are with electrical items such as panels, transformers, and the switchgear used to control, protect and isolate electrical equipment. Numerous contractors also mentioned heating, ventilation, and air conditioning (HVAC) equipment.

Three other concerns top contractors' lists of worries about 2024. Sixty-four percent pick rising interest rates/financing costs as one of their biggest concerns, while 63 percent list insufficient supply of workers or subcontractors and 62 percent name economic slowdown/recession. (Respondents were offered 22 choices, along with the chance to write in other answers. They could list multiple "biggest concerns.")

Three industry-specific concerns are cited by a majority of respondents. Fifty-eight percent list rising direct labor costs (pay, benefits, employer taxes), while 56 percent pick worker quality and 54 percent list materials costs.

These challenges are prompting many firms to invest in technology that will make them more efficient. Nearly 40 percent of respondents expect their firms to initiate or increase investments in drones, while 30 percent will invest in artificial intelligence—many for the first time--and 30 percent will invest in offsite production.

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.

As the industry navigates challenges such as the qualified worker shortage and rising interest rates, technology will continue to play an important role in helping teams increase their efficiency with limited resources. Nearly all firms plan to increase or keep their current level of investment in software. Only 1 percent of respondents expect to decrease investment in any of the 15 technologies included in the survey.

Most respondents, ranging from 61 to 89 percent, say their investment will remain the same as last year in each of the 15 technologies. The top categories for increased technology spending are accounting software and project management software, both with 38 percent of respondents planning to increase their investment. Close behind is document management software, with 36 percent of firms expecting to increase their investment. Thirty-one percent plan to increase spending on estimating software. All of these percentages are higher than in the 2023 survey. The biggest change was in accounting software, which saw a 13% increase over last year.

As construction firms seek more flexibility and anytime, anywhere access from their solutions, we have seen more firms turning to cloud-based technologies the past few years. The most prevalent use of cloud-hosted technology is in project management, cited by 58 percent of firms. Nearly half use cloud technology for accounting (48 percent) and field operations (47 percent), while time tracking is noted by 46 percent. However, only 17 percent list tool management, while 20 percent say they do not use the cloud. These percentages are little changed from the 2023 and 2022 surveys. The biggest gains over last year are in accounting (5 percent) and time tracking (4 percent) software.

As we've seen in previous years, when it comes to the use of mobile software technology, the adoption numbers are higher. Two-thirds (67 percent) of firms are using mobile software for daily field reports, while 59 percent will use mobile technology for employee time tracking and approval. More than half plan to use mobile software technology for employee time tracking and approval (59 percent), access to customer and job information from the field (58 percent) and sharing of drawings, photos, and documents (54 percent). Other widely cited uses include access to job cost and project reports from the field (48 percent), punch lists and scheduling (42 percent each), and equipment tracking (41 percent). Only 8 percent of firms report having no plan to use mobile technology.

While technology delivers a host of benefits, firms cite several IT challenges. Among the biggest IT challenges noted by firms, three stand out. Forty-three percent of contractors say it's difficult to find the time to implement and train on new technology. Forty-two percent of firms mention keeping company data secure from hackers, while 41 percent cite employee resistance to technology. These were also the top three challenges cited in last year's survey. In addition, 35 percent point to connectivity to remote job sites as among the biggest challenges and 33 percent list communication between field and office.

Once businesses overcome the hurdle of finding the time to implement and train on new technology, cloud technology can help alleviate many of these other challenges. Contractors can make the implementation and training process less overwhelming by starting slow and prioritizing technology that can have the biggest and most immediate impact, then implementing new technology in stages.

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

STEPHEN SANDHERR

Thank you, Dustin and Ken.

As you just heard, despite their relatively positive outlook, contractors are facing enough challenges that the year may not end up being as positive as expected. A lot of these variables depend on the actions of public officials. If the Biden Administration, for example, were to act on Congressionally mandated permitting reforms, many more federally funded infrastructure and construction projects are likely to start this year, providing a boost for construction services.

Federal, state and local officials can help address construction workforce shortages by boosting investments in construction education and training programs. For every dollar it invests encouraging students to go to college and work in the service sector, the federal government invests only 20 cents in career and technical education programs – which include construction. As a result, relatively few students are exposed to key construction skills or are even aware of its potential as a career track. Narrowing that funding gap and exposing more students to construction opportunities will help.

Construction firms are also working to modernize the way they recruit new workers into the industry. This includes using new digital technologies to reach potential workers, expanding recruiting efforts to further diversify the workforce and building strong working relationships with local school districts. Firms are also using programs like AGC of America's Culture of CARE to make their jobsites more welcoming and inclusive to improve their retention rates. And as their investments in information technology, artificial intelligence and drones make clear, firms are also working to make sure they can keep pace with demand even as they struggle to find enough workers to hire.

The Associated General Contractors of America is working to make sure the outlook for 2024 remains positive. We will be pushing for new funding for construction education and training programs as part of both the Workforce and Innovation Opportunity Act and the Pell Grant reauthorization legislation that are expected this year in Congress. We will continue to advocate for new measures to allow workers with construction skills to lawfully enter the country to help meet workforce shortages while the nation rebuilds its domestic pipeline for preparing new construction workers.

We will continue to urge the Biden administration to implement mandated reforms to the federal review and permitting process and otherwise ensure that the federal government no longer serves as the biggest obstacle to its own construction investments. And we will continue to push for improvements to the new Buy America rules, so vital infrastructure projects aren't stymied because a single washer on a single fixture includes some materials that were mined abroad.

There are a lot of reasons to be optimistic about the construction market in 2024. There are also causes for caution about the coming year. We are committed to working with policy makers and our members to make sure the conditions are right for firms to be successful in their efforts to improve the nation's infrastructure, modernize manufacturing and build an even stronger economy.

With that, let me offer the contractors with us, Lynn Hansen, the CEO of Charlotte, North Carolina-based Crowder Construction and Angie McElhaney the CFO of Mark One Electric in Kansas City, Missouri., an opportunity to share their observations about local market conditions and their expectations for this year. Let's start with Lynn…

###