2023 Construction Hiring & Business Outlook Media Call Remarks

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 **Mac Caddell**, President and Chief Operating Officer of Montgomery, Alabama-based Caddell Construction; **John W. Casella II,** President of Pittsford, Vermont-based Casella Construction; **Michael Cwienkala,** Vice President of K.R. Miller Contractors in Chicago, Illinois and **Chris Long,** the President and COO of Kaufman Lynn Construction in Delray Beach, Florida.

Each year, AGC of America and Sage conduct a nationwide survey of the construction industry on their expectations for the coming year. Those survey results form the basis of a Construction Hiring and Business Outlook that offers clear predictions about demand for commercial construction in the coming year and how that demand will shape key industry decisions, including hiring, purchasing equipment and investing in technology.

Today we are releasing our latest Construction Hiring and Business Outlook, titled High Hopes for Public Funding Amid Workforce and Supply Chain Challenges. It finds that while contractors are less optimistic about many private-sector segments than they were a year ago, their expectations for the public sector market have remained relatively bullish. The bottom line is that contractors have high hopes for public funding in 2023 even as they expect to cope with continued supply chain challenges and workforce shortages.

The changing outlook reflects the fact that higher interest rates and evolving work and shopping patterns are impacting office, retail, hospitality, and multifamily residential demand. The prospect of an economy that is slowing and perhaps heading into recession has dimmed the short-term outlook for warehouses, data centers, and manufacturing plants.

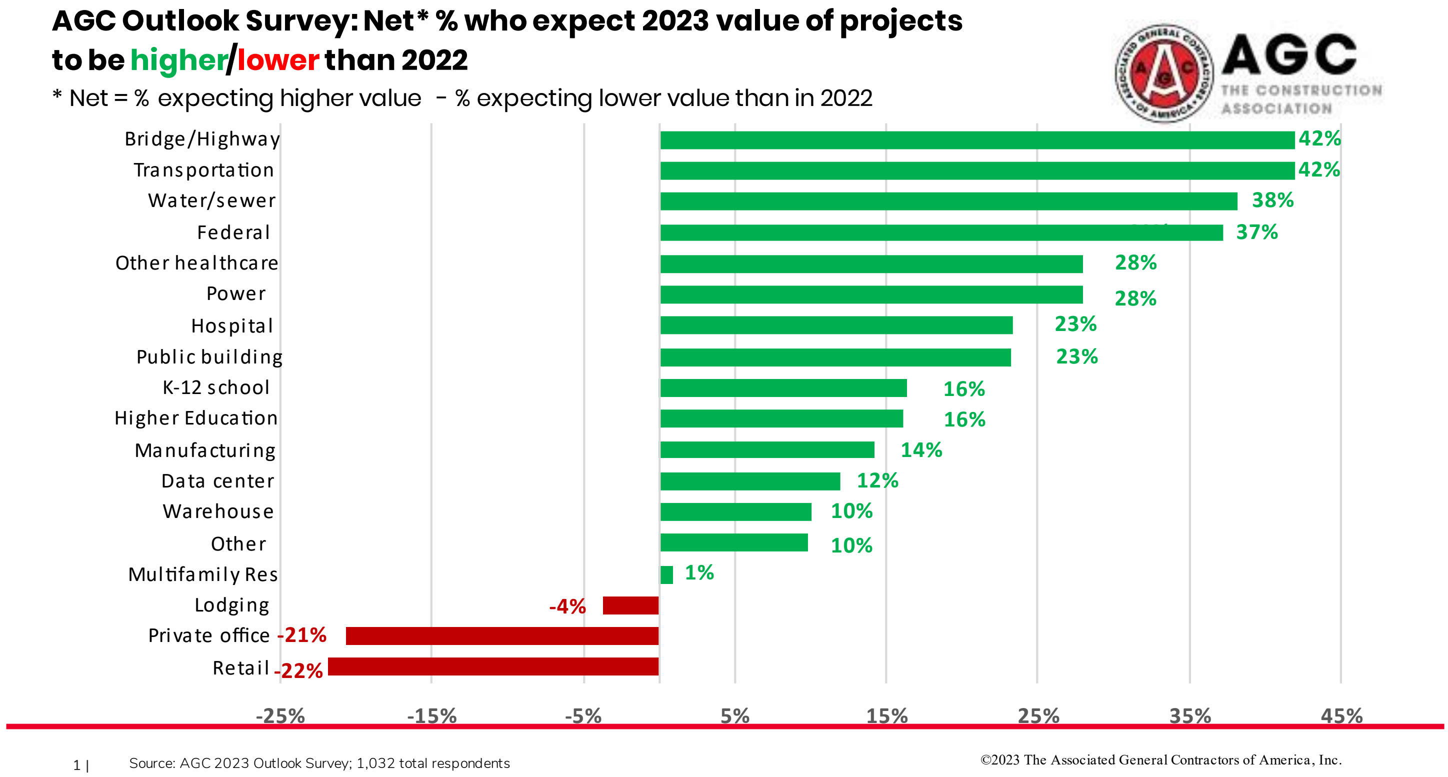
At the same time, many contractors hope to finally see the benefits of a flurry of new federal investments in infrastructure and construction. This includes funding from the Bipartisan Infrastructure Law, the CHIPS Act and the so-called Inflation Reduction Act. In addition, many state and local governments have boosted their construction budgets as they have benefitted from a strong economy and a COVID-related influx of federal funds.

Even as market demand evolves, contractors will continue to be confronted by many of the challenges they faced in 2022. This includes the impacts of supply chain problems that have inflated the cost of many construction materials and delayed deliveries of those products. Contractors also expect to continue to struggle to find enough workers to keep pace with demand in 2023.

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 is right, while contractors remain upbeat about the available dollar value of projects to bid on in 2023, their expectations have definitely shifted compared to last year. As shown in this slide, 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.



Respondents are most optimistic about infrastructure categories. Specifically, there were net positive readings of 42 percent for both highway and bridge construction and transportation projects such as transit, rail and airports. Contractors are almost as upbeat about sewer and water construction, with a net reading of 38 percent. The net reading for federal projects is 37 percent.

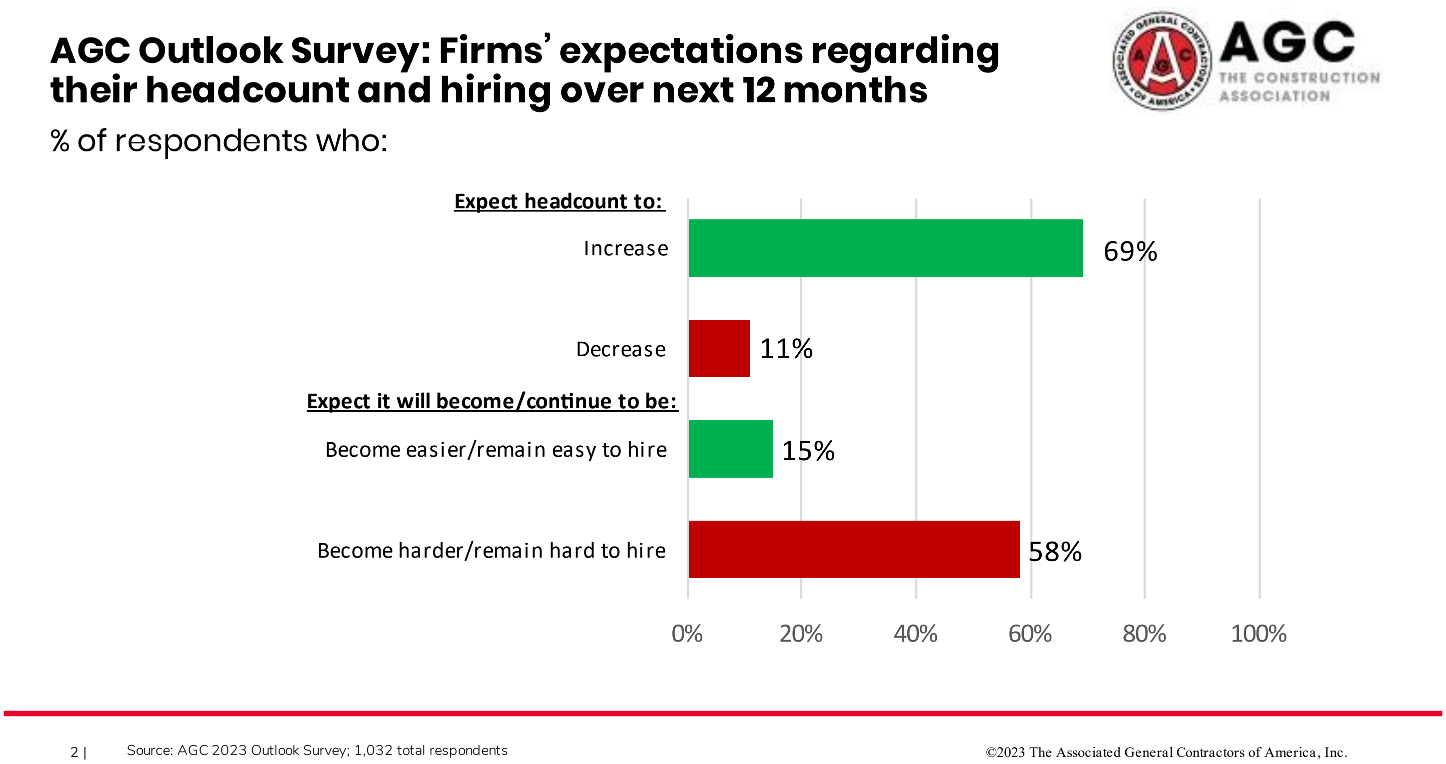
Despite this optimism, only 5 percent of respondents say they have worked on new projects funded by the law, while 6 percent have won bids but have not started work. Five percent say they have bid on projects but have not won any awards yet, whereas 21 percent plan to bid on projects but say nothing suitable has been offered yet.

The highest expectations among predominantly private-sector categories, with net readings of 28 percent each, are for power projects and other healthcare, such as clinics, testing facilities and medical labs. There is also a generally positive outlook for hospital projects and public buildings, with net readings of 23 percent each. Contractors on balance were optimistic, as well, about the education sector. The net reading for both kindergarten-to-12th-grade schools and higher education construction is 16 percent.

The net reading for manufacturing construction is 14 percent, compared to 27 percent in the 2022 survey. The net is 12 percent for data centers, down from 31 percent a year ago, and 10 percent for warehouses, down from 41 percent. There is a net positive reading of 1 percent for multifamily residential construction. Expectations are bearish for lodging, with a net negative reading of -4 percent; private office, -21 percent; and retail construction, -22 percent.

Despite the largely positive net readings, respondents are less confident about growth prospects than they were a year ago. For all but three project types, the net reading is less positive than in the 2022 survey. The steepest downturn in expectations occurred with multifamily and warehouse construction, both of which recorded declines of 31 percentage points from the net readings in the 2022 survey. The outlook for lodging construction slipped from modestly positive a year ago to negative.

As shown in this slide, more than two-thirds of the respondents expect to add to their headcount, compared to only 11 percent who expect a decrease. While just under half 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 5 percent of respondents anticipate an increase in headcount of more than 25 percent.

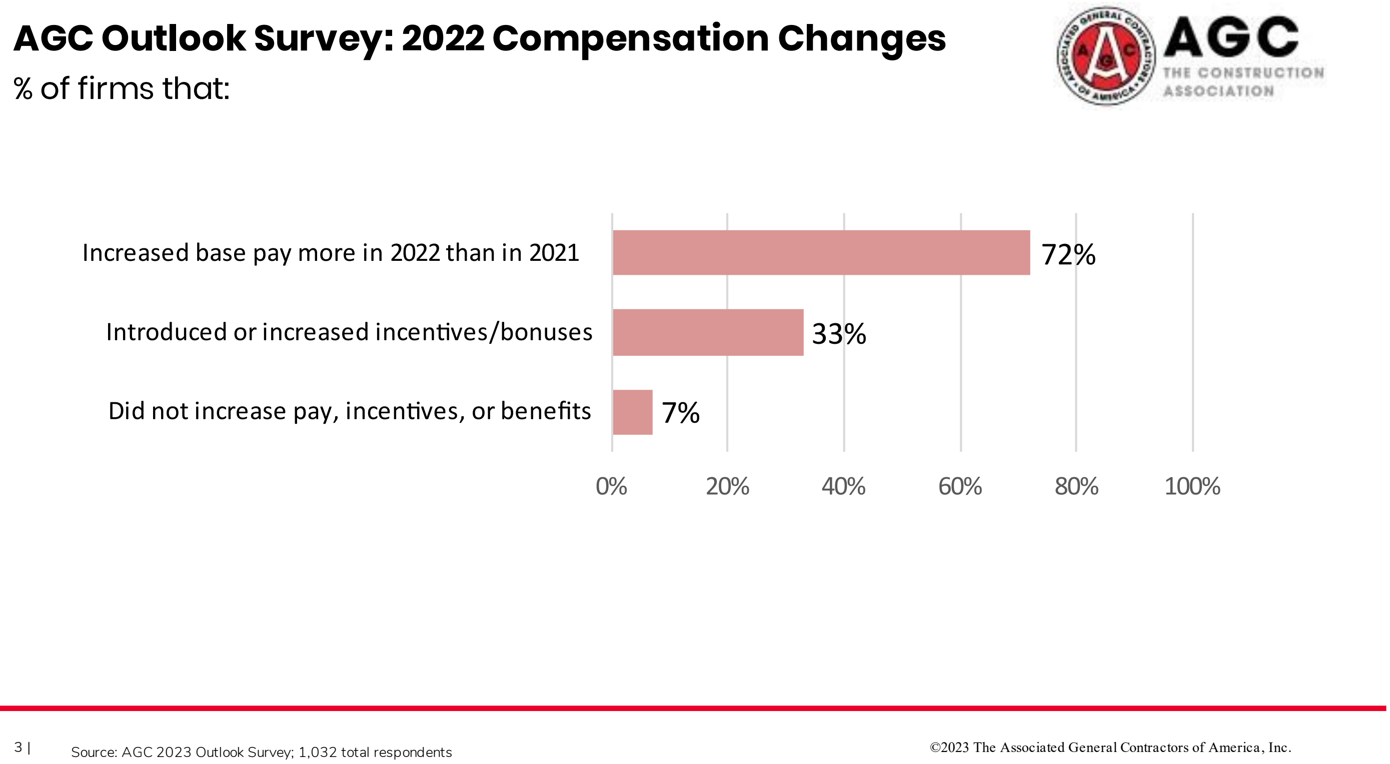


However, an overwhelming 80 percent report they are having a hard time filling some or all salaried or hourly craft positions, compared to only 8 percent who say they are having no difficulty. (The rest have no openings.) In addition, the majority—58 percent—of respondents says either hiring will continue to be hard or will become harder. Only 15 percent say it will become easier or remain easy to hire, while 27 percent expect no change.

Union and open-shop firms have similar expectations about expanding their headcount and the difficulty in doing so. Roughly two-thirds of respondents from both types of firms expect to add workers in 2023: 64 percent of union firms and 69 percent of open-shop firms. Both types of firms report difficulty filling positions: only 7 percent of open-shop respondents and 11 percent of union respondents report no difficulty filling any salaried or hourly craft positions.

Those workforce shortages likely explain why nearly three out of four firms—72 percent—increased base pay rates more than in 2021, as this slide shows. That was an increase from the 62 percent of firms that boosted pay more in 2021 than in 2020. Additionally, one-third of firms provided incentives or bonuses. And more than one-fourth of the firms increased their portion of benefit contributions and/or improved employee benefits. Only

7 percent of firms provided no increases in pay, incentives, or benefits in 2022, down from 12 percent that made no changes the year before.



In general, there was little variation by region among contractors' responses, but firms in the South were somewhat more likely than in other regions to have used steeper pay increases to attract and retain workers. Seventy-six percent of firms based in the South increased base pay rates in 2022 more than in 2021, compared to 73 percent of firms in the West, 72 percent in the Midwest, and 65 percent in the Northeast.

Only 9 percent of firms report they have not had any significant supply chain problems in 2022. To cope with these problems, more than two-thirds of respondents have reacted by accelerating purchases after winning contracts. A majority turned to alternative suppliers. Almost half have specified alternative materials or products, while close to one-quarter have stockpiled items before winning contracts.

Most contractors have experienced project delays or cancellations. Only a third report no projects have been postponed or canceled. A substantial share of respondents reports a project was postponed in 2022: 39 percent report a postponed project was rescheduled, while 36 percent had a project postponed or canceled last year that has not been rescheduled. Thirteen percent of firms have already experienced a canceled or postponed project that was scheduled to begin in the first half of 2023.

The main reason for cancellations and postponements was rising costs—for construction, financing, insurance, etc.—which was cited by nearly half of contractors. Another 12 percent said the main reason was that the owner had reduced funding available, while 8 percent said the main reason a project was canceled or postponed was because of a delay in the likely completion date. Only 5 percent cited reduced demand for the completed project as the main reason for a cancellation or postponement.

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.

As the industry navigates challenges such as the qualified worker shortage and supply chain issues, technology will continue to play an important role in keeping teams connected and increasing business visibility and efficiency. Firms have been more strategic about IT the past few years, with 61 percent of firms reporting that they have a formal IT plan to support their business objectives, while another 8 percent say they plan to adopt one in 2023. These percentages were similar to last year's findings.

Also similar to what we found in the 2022 survey is that 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, ranging from 68 to 91 percent, said their investment would remain the same as last year in each of the technologies. When it comes to plans to increase technology spending, between a quarter and a third of firms plan to increase their investments in assorted technologies in 2023.

The top category for increased spending is document management software, with nearly one-third of respondents planning to increase spending. Project management software came in a close second, cited by 30 percent of firms. Roughly one-fourth of firms plan to increase investments in accounting software, estimating software, tool and asset management or tracking, and human resources software. Only 1-2 percent of respondents expect to decrease investment in any of the 15 technologies. These numbers were all nearly the same as 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, with 57 percent of firms using it. Nearly half (47 percent) of contractors use cloud technology for field operations, while 45 percent use cloud technology for accounting, and 42 percent use cloud technology for time tracking. Only 16 percent use cloud technology for tool management, while 21 percent say they do not use the cloud. While we saw some gains in these percentages in last year's survey, this year's numbers closely matched those in the 2022 survey.

As we've seen in previous years, when it comes to the use of mobile software technology, the adoption numbers are higher. More than two-thirds (68 percent) of firms are using mobile software for daily field reports, while 61 percent will use mobile technology for employee time tracking and approval. More than half plan to use mobile software technology for the sharing of drawings, photos, and documents (58 percent, up 3 points from last year) and access to customer and job information from the field (56 percent). These numbers were all in line with last year's findings.

While technology delivers a host of benefits, firms cite several IT challenges. The top challenge for the past few years has been finding the time to implement and train on new technology, with 40 percent of firms citing it as their top challenge. Other top challenges were employee resistance to technology (38 percent), keeping company data secure from hackers (37 percent), and connectivity to remote job sites (35 percent).

These percentages were all within a point of last year's responses. However, two challenges were mentioned more often than in the 2022 survey. Thirty-two percent of firms said that integration between software used inside their company was a top challenge, while 27 percent selected keeping software current, both up 5 points from last year.

Most of these challenges can be alleviated with the use of cloud-based technology, particularly solutions with an open API. These technologies deliver seamless integrations with software used both inside a business and by external stakeholders. They also provide automatic updates so solutions are always current, and offer superior connectivity and security features. These benefits will have more businesses turning to the cloud -- once they overcome the hurdle of finding the time to implement and train on new technology. Contractors can make the 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, contractors remain optimistic overall about the construction industry's prospects in 2023. But fewer contractors than a year ago expect continued growth, especially in private markets, even as public-sector funding appears poised to tick up. This rotation among project types should help the industry keep growing despite a possible economic downturn. But a lot must go right for this market transition to be a positive one for the industry.

Federal officials need to deliver on the promise of these substantial new investments in infrastructure and construction. To do that, they will need to address much of the regulatory and permitting uncertainty that muted the hoped-for benefits of the Bipartisan Infrastructure law in 2022. For example, the Biden administration will need to resolve the significant uncertainties that exist around the Buy America provisions within the Bipartisan Infrastructure law.

To date, the administration has not settled on a uniform interpretation of those requirements. As a result, different federal agencies are likely to have inconsistent interpretations of which materials are covered. This regulatory uncertainty will make it harder for state and local officials to move forward with vital infrastructure projects, since so many of the components needed could potentially be tripped up by the Buy America requirements.

The administration must also address many of the labor and tax provisions that were included in the so-called Inflation Reduction Act. For example, the law offers significant tax breaks for many types of energy efficient construction projects, but only if a percentage of the workforce performing the work is involved in a registered apprenticeship program. The administration must make it easier for construction firms, community and technical colleges and other institutions to establish and be registered as apprenticeship programs.

The Biden administration also needs to act on the permitting reform measures that were included in the 2021 Bipartisan Infrastructure Law. To date, administration officials have refused to issue guidance that could significantly accelerate the timeline for federal reviews, without diminishing approval standards.

And Congress should work with the administration to pass immigration reforms and boost investments in career and technical education programs. This will help encourage more people to pursue high-paying construction careers.

AGC of America is supporting the industry as it works to overcome the challenges it faces. This includes our ongoing targeted digital advertising campaign to help identify and recruit new workers into the industry. This campaign, which is called Construction is Essential, enables us to partner with our chapters across the country to help drive significant numbers of candidates to local construction workforce recruiting campaigns and direct them to training opportunities.

Our Culture of Care program is also helping firms better attract and retain talent, particularly diverse talent. Culture of Care is a comprehensive program designed to help firms create a more welcoming and inclusive work environment. To date over 800 firms are participating in the program, and we continue to urge other members to sign up for the program by visiting BuildCulture.org.

We continue to offer a wide range of safety training and resources for our members. And we will continue to focus on the mental health and wellbeing of the industry's workforce. Late last year we released a series of video public service announcements focused on the topic.

And we will continue to be vigorous advocates for the industry in Washington and with public officials across the country. The bottom line is we will do everything in our power to make sure that 2023 is a successful one for the industry, our members and the tens of thousands of men and women that they employ.

With that, let me offer the contractors with us, Mac Caddell, John Casella, Michael Cwienkala and Chris Long, an opportunity to share their observations about local market conditions and their expectations for this year. Let's start with Mac…

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