EXPECTING A POST-ELECTION BUMP:
THE 2017 CONSTRUCTION HIRING AND BUSINESS OUTLOOK

The Associated General Contractors of America (AGC) is the leading association for the construction industry. Over 26,000 firms, including more than 6,000 of America's leading general contractors, nearly 9,000 specialty-contracting firms and almost 11,000 service providers and suppliers are associated with AGC through a nationwide network of chapters. Visit the AGC Web site at www.agc.org.

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SUMMARY

The construction industry has relatively high expectations for 2017 as most firms expect public and private market segments to expand. It would appear that their optimism is based on the assumption that the economy will continue to grow next year and that the incoming Trump administration will enact significant new investments in a range of public works projects, especially for highways and public buildings. As a result of this optimism, many firms expect to expand their headcount next year. As optimistic as the industry is about 2017, there are still significant challenges facing the industry, including growing workforce shortages and increasing health care costs.

Another significant challenge facing the industry is that their expectations for new federal investments in public works may go unmet. The survey results indicate that firms are significantly more optimistic about most public sector market segments than they were are the start of last year. Yet if Congress and the incoming administration fail to deliver on the promise of new infrastructure investments, the industry's optimism and expansion plans are sure to fade.

The optimistic outlook for 2017 also means that many firms will boost their investments in pay, training and information technology. Many of these new investments will likely be used to address the challenge of worker shortages that many firms continue to experience. In addition, as costs for labor, health care and regulatory compliance continue to mount, many firms will be looking for the increased efficiency and related savings that come with a better trained and equipped workforce.

While the industry continues to face a number of challenges, the bottom line is that 2017 promises to be a good year for the domestic construction industry. Growing demand for construction will help a sector of the economy that, even as it has experienced several years of steady growth, still employs fewer people than it did in the middle of the last decade prior to the economic downturn.

CONTRACTORS ARE OPTIMISTIC ABOUT ALL MARKET SEGMENTS

Contractors expect every segment of the construction market will drive demand for construction services in 2017. In fact, five times as many respondents (46 percent) expect the overall construction market to grow as the share who expect it to shrink (9 percent), with the remainder expecting the market to remain roughly the same as in 2016. As measured by the net positive reading – the percentage of respondents who expect a market segment to expand vs. the percentage who expect it to contract – respondents are most optimistic about the outlook for the hospital and the retail, warehouse and lodging segments (23 percent net positive for both) private office (20 percent net), manufacturing (18 percent net), highway (15 percent net) and public building construction (15 percent net).

Respondents are more optimistic about public sector markets than they were a year ago. In addition to being more upbeat about highway and public building construction, they are also more optimistic about the higher education (14 percent net positive vs. 13 percent last year), K-12 school (14 percent net positive vs. 12 percent last year), water and sewer (14 percent net positive vs. 8 percent last year), other transportation (11 percent net positive vs. 3 percent last year) and federal markets (7 percent net positive vs. -1 percent net positive last year). The only market segment where contractors are less optimistic this year than they were last year is the multifamily residential sector, where there is an 11 percent net positive this year vs. 14 percent last year. That result is consistent with recent declines in multifamily construction starts and permits. It is important to note that most respondents completed this survey in the days and weeks following the 2016 national elections and may have based some of their optimism on the recent growth in stock market values and the fact the president-elect has repeatedly promised to make massive new investments in public infrastructure and rebuilding urban areas.

HEADCOUNTS WILL CONTINUE TO EXPAND IN 2017

Similar to last year, nearly three out of four (73 percent) construction firms say they will increase their headcount in 2017. That hiring, however, will likely only lead to modest increases in the overall size of most firms. Indeed, only 6 percent of firms report they will expand their headcounts by more than one-quarter. Again similar to last year, very few firms – 6 percent – plan reductions in their total headcounts in 2017.

FIRMS WILL CONTINUE TO COPE WITH WORKER SHORTAGES

It is possible that one reason firms expect to make only slight increases to their headcounts is that they appreciate how difficult it will be to find enough qualified workers to hire. Indeed, 73 percent of firms report they are having a hard time finding qualified workers, including salaried and craft professionals. And 76 percent of respondents predict that labor conditions will remain as tight, or get worse, during the next 12 months.

Most firms report they are increasing pay or benefits to retain or recruit qualified staff as a result of these worker shortages. More than half of firms (52 percent) report they have increased base pay rates, 35 percent report they are providing incentives and/or bonuses, and 28 percent report they have increased contributions to employee benefits. These percentages are all slightly higher than they were a year ago. An additional twelve percent of firms report they are considering increases in pay and/or benefits in the near future to cope with worker shortages.

Even as firms increase compensation, they are also investing in training and development programs for current and new workers. Over half of firms (52 percent) report they plan to increase their investments in training and development in 2017 compared to 2016.

FIRMS ARE MOST WORRIED ABOUT LABOR, TIGHT MARGINS AND GROWING COSTS

When asked to identify the issues that are the biggest concern to their businesses, a majority of contractors (55 percent) said they were worried about worker shortages. Forty-six percent of contractors reported they were worried about worker quality, which is also clearly related to the challenge of worker shortages. And 42 percent said they were worried about rising direct labor costs.

Even as contractors worry about competing for workers, they are also very worried about the tight margins that come from a very competitive marketplace. Forty-eight percent of firms cited increased competition for projects as among their major concerns. They are also worried about the continued expansion of regulatory burdens and the growing cost of compliance. Forty-one percent report they are worried about the growth in federal regulations and 35 percent responded that they were worried about the growth in state and local regulations as well.

WORKER SHORTAGES MAY IMPACT WORKPLACE SAFETY

The shortage of qualified construction craft and salaried professionals poses the greatest potential to undermine workplace safety according to survey respondents. Fifty-one percent report that worker shortages and inexperienced skilled labor are a major challenge to the safety and health of workers. Another 36 percent cite worker shortages as a minor challenge.

Many contractors are also worried about the safety and health performance of the subcontractors with whom they work. Twenty-one percent of contractors list poor subcontractor safety and health performance as major concerns and another 46 percent said it was a minor concern. Much of the concern about subcontractor performance is likely connected to the same workforce worries that contractors cite for their own safety challenge.

Contractors are also concerned about the outgoing administration's move away from the collaborative safety approach that proved so effective since it was introduced by federal safety officials the mid-1990s. The current administration has instead opted to spend less time educating contractors on safe practices and more time penalizing them for infractions. That is likely the reason why 22 percent of contractors cited the lack of cooperation from federal regulators as a major safety concern while another 39 percent said it was a minor concern.

CREDIT CONDITIONS REMAIN POSITIVE

Credit and lending conditions continue to remain mostly positive for construction firms and developers, according to the Outlook survey results. As with the 2016 Outlook, only four percent of firms reported having a harder time getting bank loans compared to a year ago. Credit conditions continue to be positive for developers, with 24 percent of respondents noting that credit conditions have caused their customers to delay or cancel projects, the same percentage as in 2015 and 2016.

HEALTH CARE COSTS CONTINUE TO INCREASE

Health care costs continue to climb for the vast majority of construction firms. Eighty-four percent of firms report the cost of providing healthcare for their employees increased in 2016. In addition, 82 percent of firms report they expect their healthcare costs to increase in 2017. These figures are almost identical to last year, when 79 percent of firms reported their health care costs went up in 2015 and 81 percent expected their costs to increase in 2016.

MOST CONTRACTORS PLAN TO ADD NEW FLEET VEHICLES

A majority of construction firms report they plan to expand the number of fleet vehicles they operate in 2017. Fifty-six percent of firms report they plan to purchase or lease new fleet vehicles next year. While some of this likely represents replacement of existing fleet vehicles, many firms are likely expanding their fleets as they address growing demand for construction services.

INNOVATIVE CONTRACTING APPROACHES ARE BECOMING MORE COMMON

Many firms report they are using innovative contracting approaches, such as Building Information Modeling (BIM), Lean Construction and/or modular and prefabricated construction techniques on their projects. For example, 34 percent of contractors expect the amount of projects involving BIM will increase in 2017 while an additional 23 percent say they expect to work on a similar number of BIM projects. Fifty-seven percent of firms report their firm uses lean construction principles on their projects and/or their operations. And 33 percent of firms expect they will work on a project using modular or off-site prefabrication construction techniques in 2017.

CONTRACTORS ARE MAKING I.T. A PART OF THEIR BUSINESS STRATEGY

Forty-seven percent of contractors indicate that they currently have a formal IT plan that supports business objectives. This number is up from last year, when 42 percent of contractors said they had a formal plan in place. An additional 7 percent of contractors plan to create a formal IT plan in 2017.

There is also indication that contractors are increasing their funding of IT plans. Forty-seven percent of contractors said they spent at least one percent of revenue on IT in 2016, compared to 42 percent who spent 1 percent or more of revenue in 2015. In addition, 40 percent of contractors report they will further increase IT investment in 2017. Investment will continue in core business systems such as accounting (28 percent of respondents), estimating (25 percent), document management (22 percent), project management (18 percent) and scheduling (16 percent).

GREATER ACCESS TO INFORMATION IS PRIMARILY DRIVING CONTRACTORS' MOVE TO CLOUD COMPUTING

Forty-four percent of contractors use or plan to use cloud-based software because it provides access to information anytime and anywhere, especially important for improving communication on the job site. A combined 24 percent of contractors use or plan to use cloud-based software to address IT concerns such as redundancy and disaster recovery (13 percent), built-in security (5 percent), reduced IT costs (4 percent), and faster implementation (2 percent). Only 15 percent do not use or plan to use cloud-based software, down from 23 percent last year.

COLLABORATION TECHNOLOGY IS GAINING A FOOTHOLD

While email (used by 91 percent of respondents) and file sharing sites such as Dropbox (used by 76 percent) are still the predominant methods contractors use for collaborating with project partners, more sophisticated online collaboration software has been adopted by nearly half (49 percent) of respondents, up from 40 percent a year ago.

MORE FIRMS ARE USING TECHNOLOGY TO WIN BUSINESS

Increased competition for jobs (listed among the three biggest concerns of Outlook survey recipients) appears to be driving more adoption of software tools aimed at obtaining work. Sixty-nine percent of firms report they use estimating/bidding software to help obtain work. Meanwhile, 43 percent of firms use social media to support their marketing efforts, an 11 percentage point increase from the 2016 Outlook. One-quarter (25 percent) use client relationship management software, while 23 percent use marketing/business development software. And 11 percent use sales software to obtain work.

MORE FIRMS ARE TAKING STEPS TO ADDRESS I.T. SECURITY

Overall, most construction firms appear to be taking steps to protect company data in an environment of increased hacking. Seventy-seven said they currently have an overall IT security plan in place to protect against hacking. Tighter security around mobile devices is also occurring. The 2017 Outlook survey shows that number increasing to 54 percent with a mobile security policy in place compared to 46 percent last year. Many companies continue to supply all mobile devices used at work. Fifty-four percent of firms report they provide employees with mobile devices, unchanged from last year's Outlook survey.

REGIONAL MARKET ANALYSIS

The outlook by market segment varies among the four different regions – Northeast, Midwest, South and West – that the association analyzed. Contractors in the Northeast are most optimistic about highway construction (28 percent net positive), followed by K-12 education (21 percent net) and hospital (20 percent net). Midwestern firms are most optimistic about manufacturing construction (27 percent net), followed by water/sewer (24 percent net) and hospital construction (23 percent net). In the South, contractors are most optimistic about the prospects for hospital construction (31 percent net), followed by retail, warehouse & lodging (30 percent net) and manufacturing construction (27 percent net). In the West, contractors are most sanguine about the retail, warehouse and lodging construction segment (26 percent net), followed by private office construction (24 percent net) and other transportation construction (22 percent net).

Contractors in all four regions provided relatively consistent answers regarding their plans to expand headcounts – ranging from 68 percent in the Northeast to 74 percent in the Midwest. Yet construction worker shortages appear to be less of a concern for contractors in the West than in the rest of the country. Sixty-nine percent of contractors in the West report having a hard time finding workers compared to 72 percent in the South, 74 percent in the Northeast and 80 percent in the Midwest.

Otherwise, the Outlook for 2017 is remarkably consistent between regions, with similar responses for the remaining questions covered in the survey.

CONCLUSION

Contractors have relatively high expectations for 2017 as they are expecting the economy and demand for all types of construction to grow. Most firms expect key market segments to expand, they plan to expand their headcount and they are prepared to invest in new equipment, new training, new techniques and new technologies. Yet they remain quite concerned about labor shortages, tight margins, growing costs for healthcare and regulatory compliance and online and other technological risks.

Overall economic conditions indicate next year should continue to be a positive one for the construction industry. Yet it does appear that the Outlook responses are based as much in high expectations for the incoming administration as they are a calculated evaluation of current market and economic conditions. Those high expectations imply an assumption that the President-elect will follow through on his promises to increase investments in infrastructure and other public works, improve federal health care laws and reduce the overall regulatory burdens contractors and many other employers have been forced to endure for the past several years.

While the new administration and its stated policy objectives offer many reasons for optimism, there is also a significant risk to the industry if the new Congress and administration under-deliver. Should plans to invest in infrastructure and repeal, replace or reform healthcare laws fail to progress in Congress next year, or if plans to roll back regulatory burdens are stymied by bureaucratic inertia and/or legal challenges from special interest groups, then many contractors will likely scale back their plans to expand headcounts and make new investments in compensation, equipment and IT.

Workforce shortages also appear to remain a significant challenge for construction firms this year. As additional older workers reach retirement age, firms will struggle to find qualified new workers to replace them. That is because few schools offer the kind of career and technical education programs needed to recruit and prepare future workers. And despite above-average pay for construction careers, cultural stigmas may keep many families from encouraging their children to pursue construction careers.

Because the need for new infrastructure investments, fewer regulations and new workforce development measures is so significant to the viability of the construction industry in 2017, the association has crafted two separate plans to help guide the incoming administration and Congress. The first plan is the association's Agenda to Rebuild Infrastructure and the Construction Workforce. This plan outlines a series of steps the new Trump administration and Congress should enact to finance and fund new investments in infrastructure. The plan also outlines a series of steps federal officials should take to cut the time and costs associated with planning and permitting new infrastructure projects. The plan also identifies steps federal, state and local officials should take to help recruit and prepare the next generation of construction workers in this country.

The second plan identifies a host of needless and costly federal regulations and executive orders that the new administration should immediately cancel, improve or reconsider. These regulations include misguided and unnecessary measures like President Obama's so-called blacklisting rule and his government-mandated project labor agreement directive that simply need to be repealed. Other measures, such as the silica rule, should be recrafted to actually provide healthier workplace environments.

Together, these two plans offer a clear roadmap for the administration and new Congress to help deliver on the promise of this year's relatively positive construction outlook. The two plans, if followed, will also contribute to broader economic growth.

As long as the new administration follows through on its commitment to address out-of-control health care costs, invest in infrastructure and reduce red tape, construction firms will see more demand for their services. And if federal, state and local officials marry those new infrastructure investments with a robust new workforce development plan, construction employment and investments in new technology and equipment are sure to benefit. While there are a number of challenges for the industry, 2017 should be a very positive year for the construction industry.

ABOUT THE SURVEY

AGC conducted the survey that serves as the basis for the 2017 Construction Hiring and Business Forecast during November and December 2016. A total of 1,281 firms from the District of Columbia and forty-nine states completed the survey. (Varying numbers responded to each question.) Participating firms represent a broad cross-section of sizes. Thirty-four percent report performing $10 million or less worth of work in 2015. Twenty-two percent performed between $10.1 million and $30 million worth of work, ten percent between $30.1 and $50 million, twelve percent between $50.1 and $100 million, thirteen percent between $100.1 and $500 million, and ten percent performed over $500 million worth of work. Thirty-one percent of firms report they employ union workers most or all of the time while the remainder are either exclusively open shop or only occasionally employ union labor. Contractors who completed the survey were entered into a raffle to win a $100 Amazon gift certificate. Other than that, firms and their employees were not compensated or in any other way reimbursed for completing the survey.

The regions covered in the survey included the following states:

Northeast

Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont

South

Alabama, Arkansas, Delaware, District of Columbia, Georgia, Florida, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia

Midwest

Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

West

Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, Wyoming