REMARKS FOR 2011 OUTLOOK RELEASE

Stephen E. Sandherr

Hello and thank you for making time to join us today. My name is Stephen Sandherr and I am the chief executive officer of the Associated General Contractors of America. With me is Ken Simonson, our chief economist, Michael Feigin, Navigant's managing director for construction - Navigant is co-sponsoring our Outlook this year - and three contractors, Kris Young of Des Moines, Iowa-based Miller the Driller, Joe Jarboe of Bethesda, Maryland-based Clark Construction and Dean Word of the New Braunfels, Texas-based Dean Word Company.

Many of you have no doubt heard about the many difficulties the construction industry has faced over the past few years. Overall construction spending is down by over 200 billion dollars compared to 2008 levels, the construction unemployment rate has hovered at or above 20 percent through much of the past year, and many contractors are getting squeezed by increasing materials costs and flat levels for what they can charge for completed construction projects.

These challenges aren't just hurting the construction industry, they are undermining broader economic growth. That is because construction industry spending accounts for nearly eight percent of gross domestic product, construction jobs pay better than average wages and construction firms operate in every sized community in the country.

It is because the construction industry plays such a significant role in shaping, and literally building, the broader economy, that we spent a lot of time at the end of last year and this month surveying our members on their hiring, purchasing and business plans, and analyzing what their answers portend for the year to come.

Today we are releasing those survey results and our analysis, which we call the 2011 Construction Hiring and Business Outlook. And while there are some promising, and positive, signs in the outlook, the bottom line is 2011 will not be an easy year for most firms. However, it will be better than last year. Indeed, if current trends continue, the construction industry will be in a much better position 12 months from now than it is today.

The good news is that for the first time in years, more construction firms tell us they are planning to add new staff than tell us they are planning to lay off current employees. Compared to last year, when 55 percent of firms laid off staff and only 20 percent of firms added employees, the outlook is more positive for 2011. Twenty-seven percent of construction firms report they plan to add staff in 2011 while only 20 percent plan layoffs.

Even more positive, expanding firms plan to hire an average of 23 employees, while contracting firms plan to lay off an average of 16 employees. Of course, the employment picture varies from state to state. Among the 26 states with large enough survey sample sizes, forty-five percent of firms in Iowa plan to hire, more than in any other state. Meanwhile, 48 percent of firms in Idaho plan layoffs for this year, the highest percentage of any state.

Considering the wrenching downsizing that so many construction firms have been forced to undertake since 2008, the relatively modest improvement in hiring plans nationwide is extremely welcome. Of course, not all the news is positive, and I would like to ask Ken Simonson to walk you through some of the other key findings in this year's Outlook. Ken...

Ken Simonson

Thank you Steve. You are right, while the overall outlook is not as dreary as we have seen in prior years, the industry is still pushing against some brisk headwinds.

For example, more contractors expect the construction market to shrink in 2011 than expect it to grow. Contractors are most pessimistic about the private office market, where 56 percent expect activity to decline, followed by the retail, warehouse and lodging market, where 52 percent expect less activity. Contractors are most optimistic about the hospital & higher education market, where 32 percent expect growth, and the power market, where 29 percent expect growth. Yet even here, there are more contractors anticipating shrinkage than growth, 36 percent in the hospital/higher education market and 32 percent in the Power market.

Contractors' low expectations may be driven by the fact most firms expect stimulus-funded construction activity will decline this year. Clear majorities of firms - ranging from 56 percent to 66 percent - expect stimulus spending in every market segment to decline in 2011. Meanwhile, only 30 percent of firms report they plan to perform stimulus-funded work this year, down from the 45 percent that reported performing stimulus-funded work in 2009 or 2010.

This decline in stimulus funded activity is significant, given that an average of one out of every five employees were engaged in Recovery Act work at the firms that won contracts. In other words, despite accounting for a relatively small percentage of the overall construction market, the stimulus actually propped up many construction jobs during the past two years. Unfortunately, the stimulus is already becoming a thing of the past in most contractors' minds.

The dour market outlook appears to be affecting demand for new construction equipment. Only 28 percent of firms report plans to purchase new construction equipment in 2011, down from the 34 percent that reported purchasing equipment last year. Investment levels among the firms planning to buy equipment appear to be heading up, however. Firms report plans to spend nearly $900,000 on average for new equipment, up from an average of $671,000 last year.

Bid levels also look to remain very competitive this year. According to the survey results, 29 percent of firms report they plan to lower bid levels in 2011. That follows a year when 74 percent of firms reported lowering bid levels, including seven percent who reported lowering bid levels to the point they lost money performing the work.

Although the picture is improving, this industry is extremely fragile. And that means decisions made in Washington will continue to weigh heavily on construction firms. So let me turn things back over to Steve to address what Congress and the Administration should, and should not, be doing to help the industry and, more broadly, the economy.

Steve Sandherr

Thanks Ken. As if the broader economic picture wasn't challenging enough for construction firms, they are now facing adding pressure thanks to decisions being made in Washington. For example, 71 percent of firms report their health care costs are expected to increase in the wake of the new legislation enacted last year. Shy of a full repeal, we certainly expect the House, Senate and President will find a way to make a bad bill better for our employers and our economy.

Meanwhile, as Ken mentioned, many of our highway, transportation and water and sewer contractors are worried because Congress and the Administration have failed to enact long overdue multi-year infrastructure bills designed to ensure that our aging infrastructure does not become a drag on economic growth. We are hopeful this new Congress, combined with the Administration's new found appreciation of the business community, can finally start addressing our growing infrastructure liabilities.

And of course, our members continue to be worried by the growth in stifling government regulators and the increasingly adversarial approach federal regulators have been taking. We are eager to help the President ensure that his new regulatory executive order delivers on the promise of his encouraging words from last week.

But one of the remarkable things about contractors is that they are eternal optimists. And even though they are struggling through difficult days, many are taking steps now to make their operations more efficient, to embrace new opportunities in green construction and to adopt new technologies and techniques. Michael Feigin, who has 25 years experience as a construction attorney, construction executive, real estate developer and consultant, and who is managing director for construction with Navigant, is a real expert in helping construction firms embrace better business practices. Michael has some interesting results to share on this front. Michael...

Michael Feigin

Thank you Steve and Ken. One of the things we are very interested in here at Navigant is how construction firms are taking advantage of new technology, new market trends and new ways of doing business. That is why we asked AGC to include in this year's survey a number of questions designed to gauge whether the economic downturn was having an impact on the way most construction firms do business.

What we found was that growing numbers of firms seem to be focused on increasing efficiency and reducing cost by implementing best in class technology and business practices, not just by indiscriminate expense reductions. A great example of this is Building Information Modeling services, better known as BIM. While only eight percent of firms surveyed currently use the technology, 55 percent expect that number to increase in 2011.

With respect to business practices, 46 percent – nearly half of firms surveyed, reported implementing Lean Construction Concepts. Lean is a way of adjusting business processes to maximize efficiency and minimize waste of materials, time and effort. It is likely that many firms have embraced lean construction concepts as a way to cope with decreasing revenue and ever tighter profit margins.

Demand for green construction also continues to grow, with 15 percent of firms reporting working on LEED registered projects in 2010 and 53 percent expecting that number to grow this year. For those that may not know, LEED stands for Leadership in Energy and Environmental Design. We were careful to focus on registered projects in the survey, because not all projects registered as LEED actually finalize the process to become LEED certified.

Growing numbers of firms expect to work on public private partnerships (PPP), perhaps driven by tight public sector budgets. Firms report working on an average of 5.2 PPPs in 2010, and an overwhelming 70 percent of firms expect that number to increase this year.

In contrast, use of Integrated Project Delivery (IPD), multi-party agreements that include incentives for collaboration among parties involved in a project and protection from claims, does not appear very widespread. Firms reported working on an average of less than one project last year, and 92 percent of firms expect that they will work on even fewer IPD projects this year. This may not reflect so much on the adoption of IPD generally, but that the adoption is in a very concentrated and specific area of the industry.

What we think this all means is that, because of tough market conditions, many firms are focused on driving down costs, even if it means spending money, and embracing changing market demands. All of which positions these firms to take better advantage of a resurgent construction market. Firms are investing in better technology. They are becoming conversant and comfortable with green building techniques. They are looking at new ways to coordinate on complex projects. And they are finding ways to make their operations more cost efficient and more sustainable. While some of these changes were made out of necessity, the impact they will have on improving the construction industry is likely to be as long lived as it is broad-based.

Now I will turn things back over to Steve.

Steve Sandherr

Thanks Michael. Before we open things up for questions, let me remind you that we have three excellent contractors on the call - Dean Word, Joe Jarboe and Kristine Young - that are here to share their observations on what is happening in the marketplace. With that, operator, let's open things up for questions, please.

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