EXPECTING GROWTH WHILE COPING WITH THE LINGERING IMPACTS OF THE PANDEMIC: THE 2022 CONSTRUCTION HIRING AND BUSINESS OUTLOOK

The Associated General Contractors of America works to ensure the continued success of the commercial construction industry by advocating for federal, state and local measures that support the industry; providing opportunities for firms to learn about ways to become more accomplished; and connecting them with the resources and individuals they need to be successful businesses and corporate citizens. Over 27,000 firms, including more than 6,500 of America's leading general contractors, nearly 9,000 specialty-contracting firms and almost 11,000 service providers and suppliers belong to the association through its nationwide network of chapters. Visit the AGC Web site at www.agc.org.

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SUMMARY

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. This is in marked contrast to last year, when contractors expected demand for many types of projects to contract and were less bullish in their hiring plans.Contractors also continue to invest in new technologies that are designed to make them more efficient and effective.

This optimism stems in part from the fact the federal government has committed to increase investments in a broad range of infrastructure. It also reflects the fact that demand for many types of private-sector projects, including health care and warehousing facilities, have grown as a result of the pandemic.

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. Workforce shortages remain severe and are making it difficult for contractors to keep pace with demand. And most contractors expect demand for retail and office construction to continue to shrink as the pandemic leaves many offices vacant and online shopping takes a toll on brick-and-mortar retail operations.

Contractors are taking steps to cope with these challenges. They are finding alternative suppliers and materials to use in their projects. They are boosting pay and adding other incentives to attract new workers. They are raising bid prices to reflect higher materials costs and building more time into their construction schedules to accommodate supply chain obstacles. And they are adopting new technologies designed to bring efficiencies into their operations.

The last two years have become increasingly unpredictable, thanks in large part to the coronavirus and public officials' varied reactions to it. But assuming current trend lines hold, 2022 should be a relatively strong year for the construction industry. While contractors face challenges, most of those will be centered on the need to keep pace with growing demand. The industry should end 2022 in far better shape than it started

CONTRACTORS EXPECT DEMAND FOR CONSTRUCTION TO PICK UP FOR NEARLY ALL MARKET SEGMENTS

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. This represents a stark turnaround from the 2021 survey, in which contractors were bearish about the prospects for all but a few segments.

Respondents are most optimistic about highway and bridge construction: 63 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. (The remainder expect volume to remain about the same as in 2021.)

Contractors are also strongly upbeat about the demand for transportation projects such as transit, rail and airports, with a net reading of 51 percent, as well as water and sewer projects, which have a net of 50 percent. Both of these categories, along with bridge/highway projects, are expected to receive major funding boosts in 2022 and beyond from the Infrastructure Investment and Jobs Act that became law in November. Two other segments that are likely to benefit from the new infrastructure law are federal construction projects, which received a net positive reading of 37 percent, and power construction, with a net of 29 percent.

The highest expectations among predominantly private-sector categories, with a net of 41 percent each, are for warehouses and other healthcare, which includes clinics, testing facilities and medical labs. Both of these segments also received net readings that were positive—albeit much less so—in the 2021 survey. And the outlook for hospitals, with a net reading of 38 percent, is nearly as favorable as for other healthcare.

Contractors on balance were optimistic, as well, 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 but still positive for four other categories: public buildings, with a net reading of 20 percent; kindergarten through 12th grade schools, 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. Both of these segments, along with lodging, received the lowest ratings in the 2021 survey, as well.

OPTIMISM VARIES BY SIZE AND LOCATION

The construction industry is in much better shape overall than a year ago but there is wide variation among companies. Slightly more than half (52 percent) of firms report the volume of business matches or exceeds the year-ago level, compared to one-third of firms reporting that level of activity in the 2021 survey. But 19 percent of respondents say that recovery won't occur for more than six months, while another 11 percent predict recovery in one to six months.

There are also some differences by firm sizeand region. For instance, small contractors, on average, have been slower to recover than larger businesses and are generally less optimistic about the 2022 outlook. Among firms with $50 million or less in revenue, fewer than half (46 percent) report that the volume of business matches or exceeds the year-ago level, while 22 percent expect their volume of business will not return to normal for more than six months. In contrast, nearly three-quarters (72 percent) of the largest firms--those with more than $500 million in revenue--report their revenue had reached year-earlier levels, while only 11 percent expect a return to normal will require more than six months.

While contractors in all regions expect 2022 to be a year of growth in business opportunities and employment, firms in the Northeast are less upbeat than elsewhere. Forty percent of respondents in that region report their volume of business had returned to year-ago levels, compared to 57 percent of firms in the South, 54 percent in the West, and 50 percent in the Midwest. Conversely, a higher share of contractors in the Northeast--28 percent--expect a return to prior volumes of business will require more than six months, compared to 17 percent of respondents in the West, 18 percent in the Midwest, and 20 percent in the South.

HIRING EXPECTATIONS ARE HIGH BUT SO ARE THE OBSTACLES

Nearly three-fourths (74 percent) of the respondents expect their firm's headcount will increase in 2022, compared to just 9 percent who expect a decrease. While just under half (47 percent) of firms expect to increase their headcount by 10 percent or less, more than one-quarter anticipate larger increases. Twenty-two 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, respondents expect difficulty adding workers. 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. (The remaining 9 percent have no openings.) In addition, three-fourths of respondents say either it will continue to be hard to hire (49 percent) or it will become harder (26 percent). Only a relative handful say it will become easier to hire (6 percent) or will continue to be easy (1 percent), while 19 percent expect no change.

Strikingly, these expectations differ little between union and open-shop firms. Unlike last year, when open-shop contractors were much more optimistic than union contractors, both types of firms overwhelmingly expect to add workers in 2022. Seventy-one percent of union employers and 74 percent of open-shop firms expect to increase their headcount this year. And both types of firms report difficulty filling positions: only 11 percent of open-shop respondents and 5 percent of union respondents report no difficulty filling any salaried or hourly craft positions.

A majority of firms took steps in 2021 to attract and retain workers. Sixty-two percent increased base pay rates more than in 2020, compared to 23 percent that provided similar or smaller increases. Additionally, one-third (33 percent) of firms provided incentives or bonuses. And about one-fifth (21 percent) of the firms increased their portion of benefit contributions and/or improved employee benefits. Only 12 percent of firms provided no increases in pay, incentives, or benefits in 2021.

THE PANDEMIC CONTINUES TO NEGATIVELY AFFECT PROJECTS

The coronavirus pandemic has had multiple impacts on construction projects. On the negative side, 84 percent of respondents report costs have been higher than anticipated, while 72 percent say projects have taken longer than anticipated. On the other hand, 29 percent of firms say they have won new projects or add-ons to existing projects. Only 3 percent report no impacts.

Contractors have reacted to these impacts. More than two out of three (69 percent) have put higher prices into bids or contracts, while 44 percent have specified longer completion times.

Supply chain bottlenecks, many of which stem from the pandemic, have led contractors to respond in multiple ways. Only 10 percent of firms report they have not had any significant supply chain problems. Two-thirds (67 percent) of responents have reacted by accelerating purchases after winning contracts, and nearly as many--61 percent--have turned to alternative suppliers. Almost half--48 percent--have specified alternative materials or products, while close to one-quarter--23 percent--have stockpiled items before winning contracts.

Most contractors have experienced project delays or cancellations. Only 35 percent report no projects have been postponed or canceled. Close to half (46 percent) of respondents report a project was postponed in 2021 but rescheduled, while 32 percent had a project postponed or canceled last year that has not been rescheduled. Nine percent of firms have already experienced a canceled or postponed project that was scheduled to begin in the first half of 2022.

The main reason for cancellations and postponements was rising costs, cited by 48 percent of contractors. Another 16 percent said the owner had reduced funding available, while 11 percent said a project was canceled or postponed because of a delay in the likely completion date. Nine percent cited reduced demand for the completed project as the reason for a cancellation or postponement.

TOP CONCERNS INCLUDE MATERIAL COSTS, SUPPLY CHAIN, AND WORKFORCE

Whatever their state of recovery, contractors have similar concerns for 2022. Material costs are the most widespread top concern, cited by 86 percent of respondents.

Availability of materials/supply chain disruptions and the continuing impact of the pandemic on projects, workers, or the supply chain are each listed as top concerns by 79 percent of firms.

Worker shortages and quality are also among the top concerns. Almost three-quarters (73 percent) of firms list worker shortages as a top concern, while two-thirds (66 percent) pick the impact of immigration policy on labor supply. In addition, 58 percent cite rising direct labor costs, including pay, benefits, and employer taxes, as a top concern. Just over half (52 percent) list worker quality.

Repondents identified several challenges regarding the safety and health of their firm's workers. Overwhelming, inexperienced skilled labor or workforce shortages appear as a challenge, cited by 83 percent of firms. Additionally, 29 percent list lack of cooperation from government agencies or regulators as a safety and health challenge, while 23 percent cite poor subcontractor safety and health performance. Eighteen percent report being concerned about safety hazards created by third parties, such as motorist crashes into work zones.

AS IN 2021, CONTRACTORS PLAN TO MAINTAIN CURRENT LEVELS OF INVESTMENT IN INFORMATION TECHNOLOGY

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 percentages are virtually identical to those from the 2021 survey.

More than half the firms--56 percent--use cloud-based technology for project management. In addition, 47 percent of contractors use the technology for field operatons, as do 45 percent for accounting and 41 percent for time tracking.

As in the 2021 survey, most firms plan to keep their technology investment about the same as the year before. 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. The most likely candidate for increased technology spending is document management software, which one-third (33 percent) of respondents plan to increase spending on. Project management software came in a close second, cited by 31 percent of firms. Roughly one-fourth of firms plan to increase investments in estimating software, tool and asset management or tracking, accounting software, human resources software, and/or fleet tracking/management software. Only 1-2 percent of respondents expect to decrease investment in any of the 15 technologies.

Contractors are expecting to use numerous varieties of mobile software technology. As in the 2021 survey, more than two-thirds (68 percent) of firms plan to use mobile technology for daily field reports, while 60 percent will use it 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). All of these percentages are nearly identical to those in the 2021 survey.

The use of information technology, however, continues to pose 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. Thirty-nine percent of firms, more than previously, list keeping company data secure from hackers as one of their biggest IT challenges. And more than one-third of firms cite connectivity to remote job sites (35 percent) or communication between field and office (34 percent) as among the biggest IT challenges.

CONCLUSION

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 invest in new technologies. But, while the outlook for this year is far more positive than it was for last year, the construction industry still faces many challenges. These include the 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 the year. 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 only cover 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 projects. 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. This will make it harder for firms to accurately bid upcoming projects and to acquire the materials they need to complete them.

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. For every dollar the federal government currently invests in career and technical education, it spends six dollars encouraging students to attend college and pursue non-technical careers. Addressing that funding imbalance will go a long way in helping encourage more young adults to at least consider high-paying construction careers.

Congress must also rapidly appropriate the funding it promised to deliver when it passed the Bipartisan Infrastructure bill. These promised new investments are a key reason why contractors are so optimistic about the demand for infrastructure this year. Yet Congress failed to actually appropriate the additional, promised infrastructure funds when it passed a temporary spending extension bill at the end of last year. This means that despite the fact the infrastructure bill is now law, federal infrastructure investments have not yet increased. Without those additional federal funds, the outlook for many segments of public construction will be less positive than most contractors are predicting.

And federal officials must avoid imposing new and needless regulatory burdens that will undermine the construction sector's recovery. The Biden administration's plans to revisit the Waters of the U.S. rule, for example, have the potential to stifle private-sector development initiatives by subjecting them to byzantine federal environmental reviews. Likewise, the administration must avoid imposing portions of the dangerous PRO Act that would destabilize labor relations and discriminate against workers who choose not to join a union.

AGC of America will continue to work to ensure that federal officials support, and not harm, the outlook for the construction industry this year. We will continue to push for new federal workforce development investments. We will make sure Congress keeps its promise and boosts funding for infrastructure. We will push back against unwarranted efforts to saddle construction activity with new layers of red tape.

All the while, we will continue our efforts to encourage more workers to get vaccinated. This includes releasing a new series of Spanish-language coronavirus public service ads 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 program and our Construction is Essential recruiting campaign. We also plan to issue the first in a new series of scholarships for minority students studying construction at the nation's historically black colleges and universities this year. And we will launch a new series of virtual education programs designed to help the industry continue to improve and thrive.

Our ultimate goal is to make sure that contractors' optimistc outlook for 2022 becomes a reality, despite the many challenges the industry is currently facing.

ABOUT THE SURVEY

AGC conducted the survey that serves as the basis for the 2022 Construction Hiring and Business Outlook during November and December 2021. A total of 1,031 firms from all fifty states and the District of Columbia completed the survey. (Varying numbers responded to each question.) Participating firms represent a broad cross-section of sizes. Sixty-two percent report performing $50 million or less worth of work in 2021. Thirty-one percent performed between $50.1 million and $500 million worth of work and seven 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 59 percent are either exclusively open-shop or only occasionally employ union labor. The remaining 10 percent do not self-perform of directly hire craft personnel. 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