January 5, 2022

U.S. & Texas Construction Outlook

SAME Fort Worth Chapter

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PREFERRED PARTNERSHIPS

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ABC
Associated Builders and Contractors, Inc.

THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA
AGC

TEXO By The Numbers:

- **230 Contractor Members**
- **100 Industry Members**
- **$15B in Volume**
- **60 Counties**

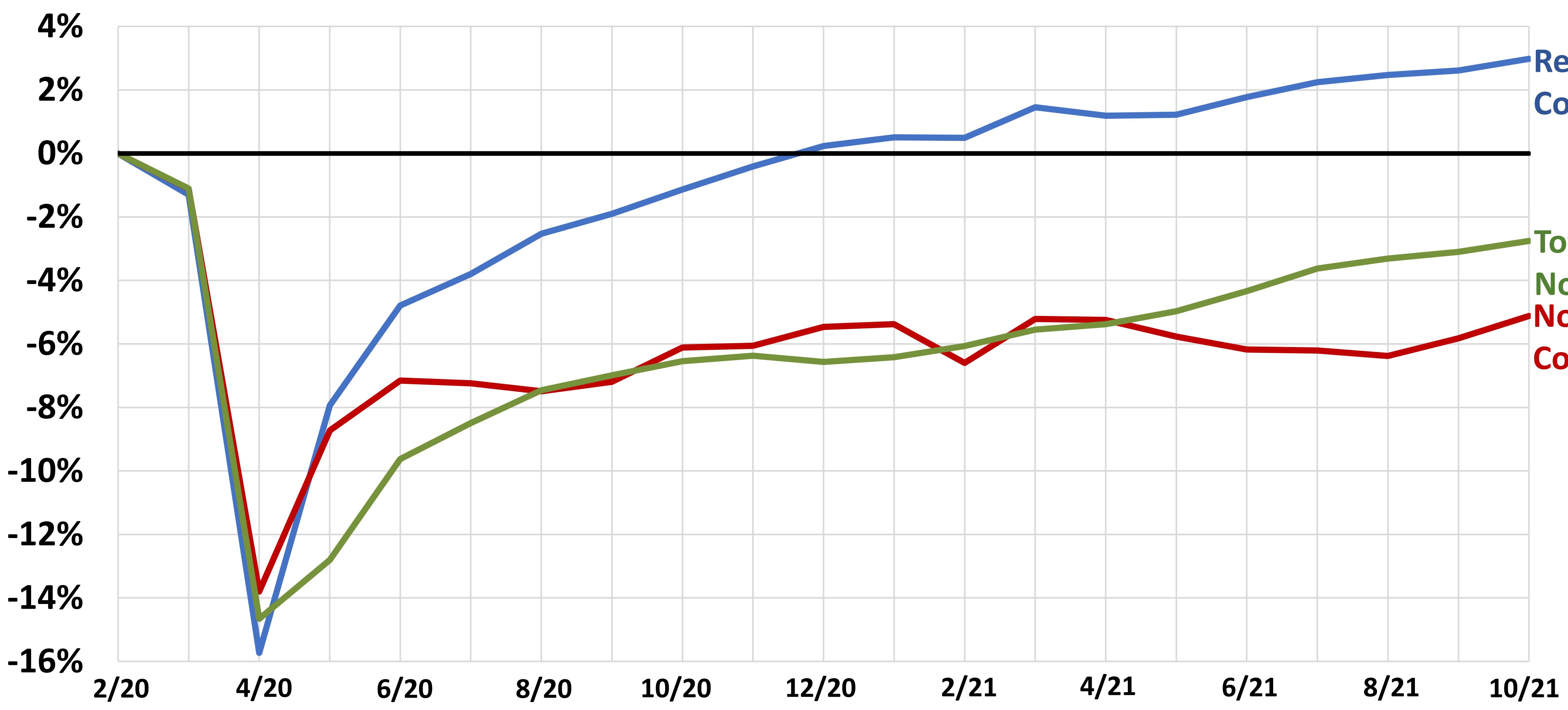
Unify Advocate Advance

Current Market Conditions

- **Material shortage / price escalation**
- **Labor shortage**
  - Degree professionals
  - Craft professionals
- **Rapidly changing technology**
- **Texas continues to boom**
- **Construction has not stopped / tired / burned out workforce**
- **Residential construction continues to rise**

Total Nonfarm & Construction Employment, Feb. 2020–Oct. 2021

cumulative change (seasonally adjusted)



Change to 10/21 from:

	2/20	10/20
Residential Construction	3.0%	4.2%
Total Nonfarm	-2.8%	4.1%
Nonresidential Construction	-5.1%	1.1%

 Source: BLS current employment statistics, https://www.bls.gov/ces/

State construction employment change, Feb. 2020–Sep. 2021

14 states and DC **up**, 1 state **flat**, 35 states **down** **(U.S.: –2.6%)**

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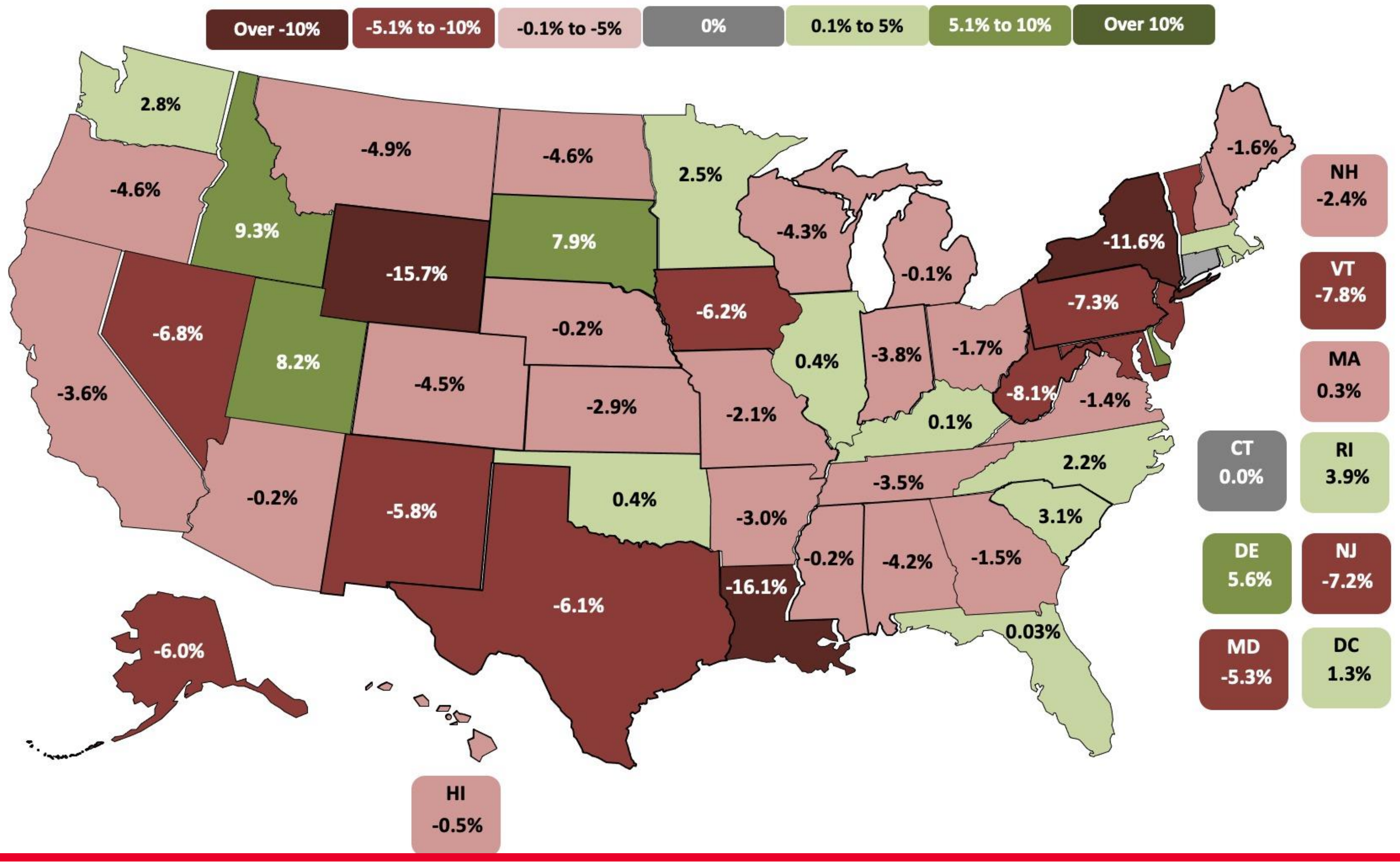
Top 5

Idaho	9.3%
Utah	8.2%
South Dakota	7.9%
Delaware	5.6%
Rhode Island	3.9%

Bottom 5

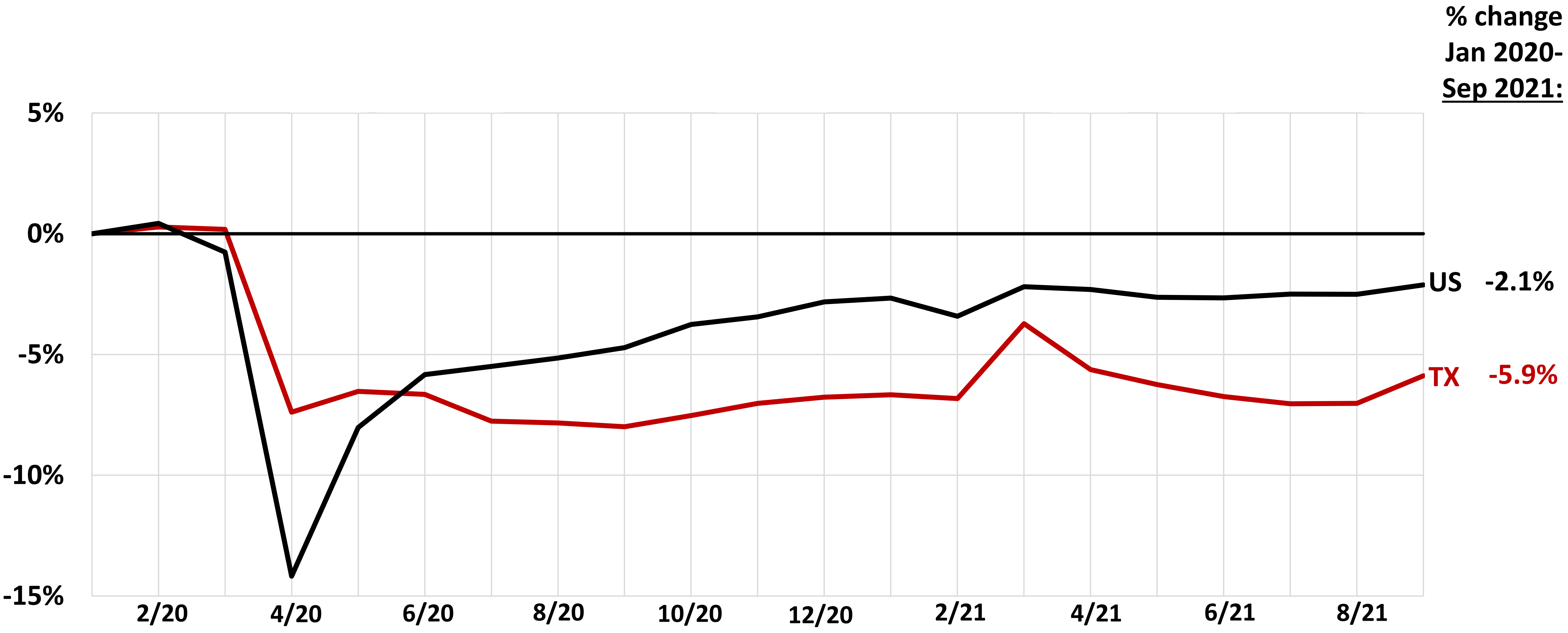
Louisiana	-16.1%
Wyoming	-15.7%
New York	-11.6%
West Virginia	-8.1%
Vermont	-7.8%



Note: Shading based on unrounded numbers Source: BLS state and area employment, www.bls.gov/sae

US & TX Construction Employment

Cumulative change, Jan 2020-Sep 2021, seasonally adjusted



Source: BLS

Texas Metro Area Construction Employment

January 2019–September 2021, not seasonally adjusted

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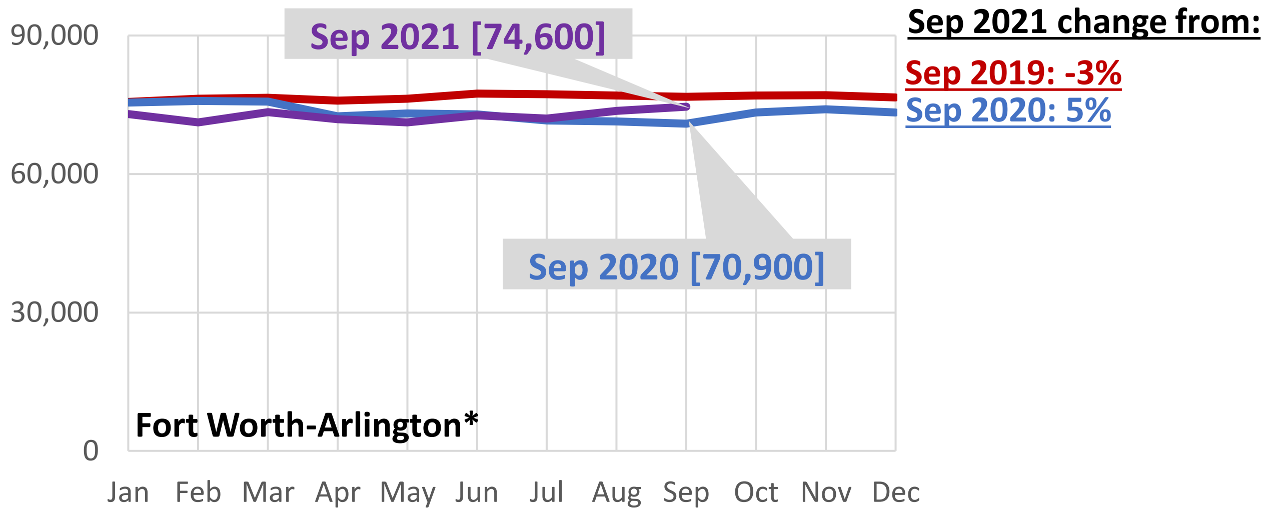

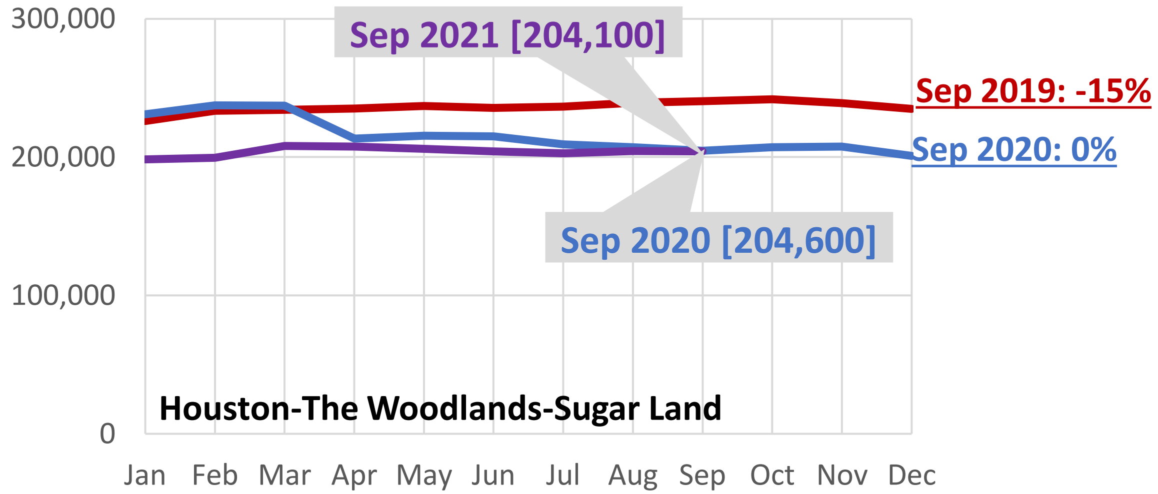

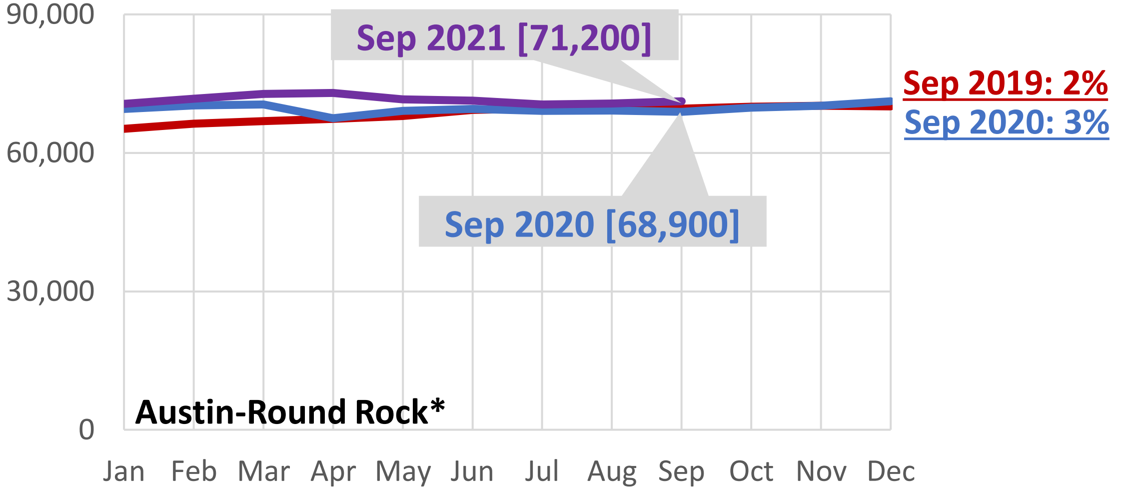

Source: BLS **The Bureau of Labor Statistics reports employment for construction, mining and logging combined for metro areas in which mining and logging have few employers. Construction-only employment change is shown for a metro if BLS posts that data.*

2021 AGC Workforce Survey Results

(responses: US 2,136, TX 164)

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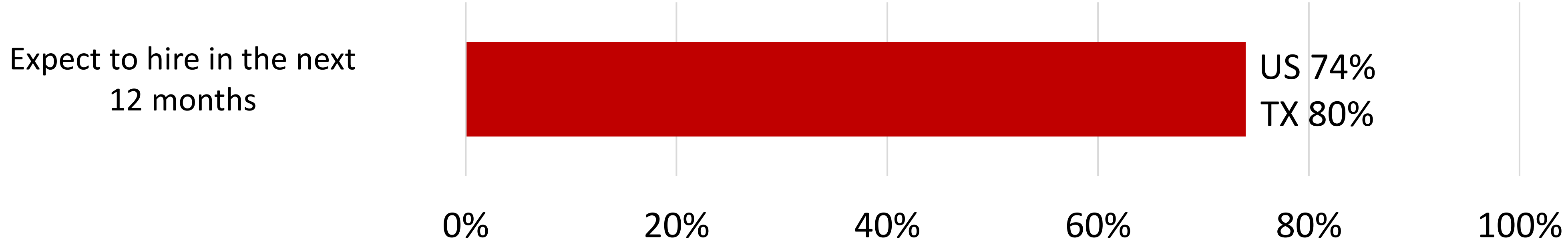
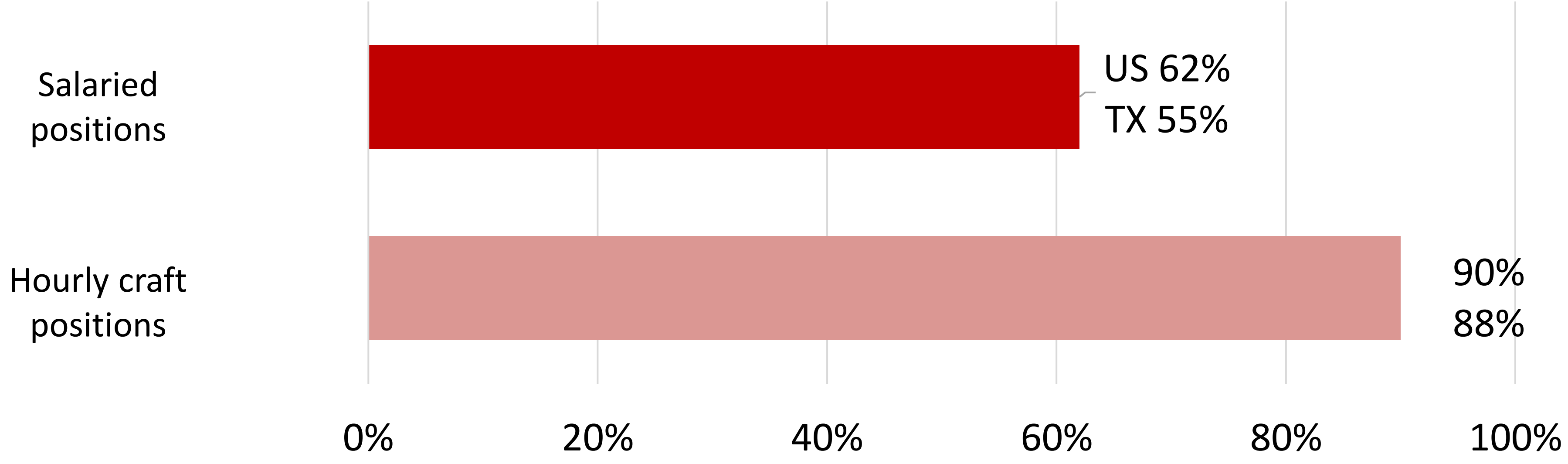
Hiring expectation



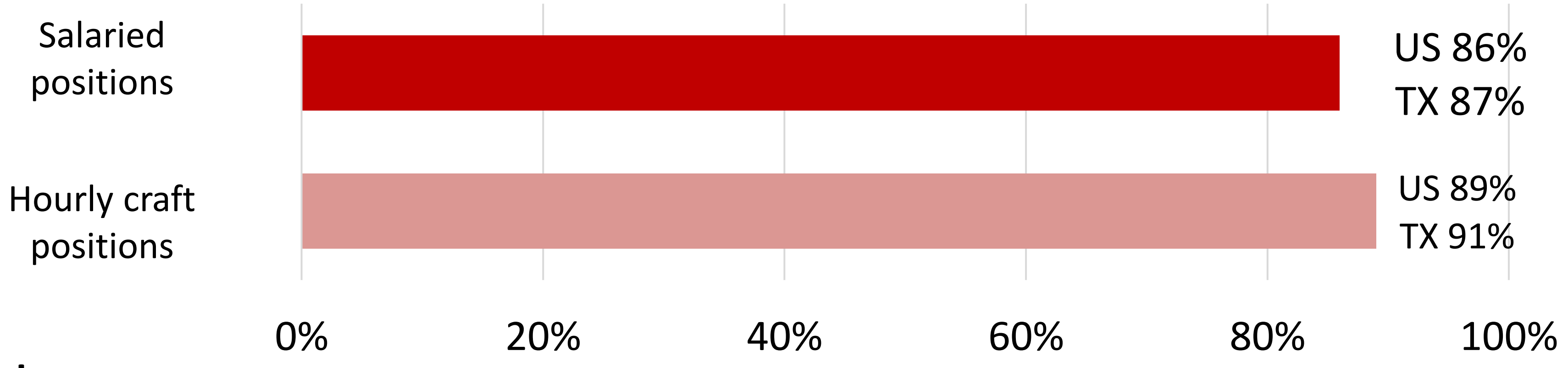
Need to fill open positions



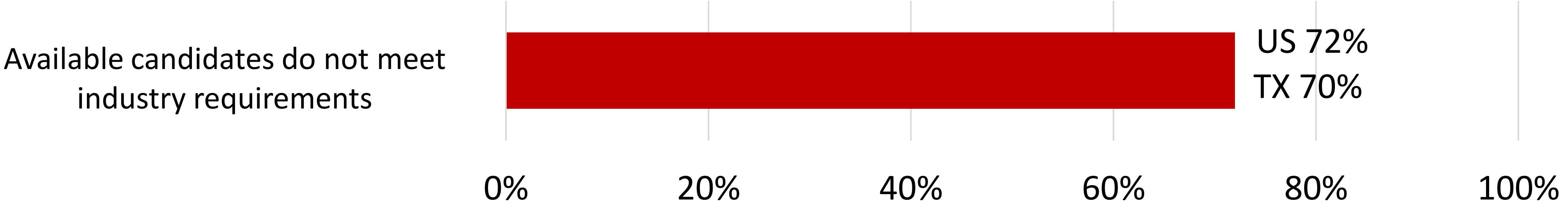
Source: 2021 AGC Workforce Development Survey

2021 AGC Workforce Survey Results

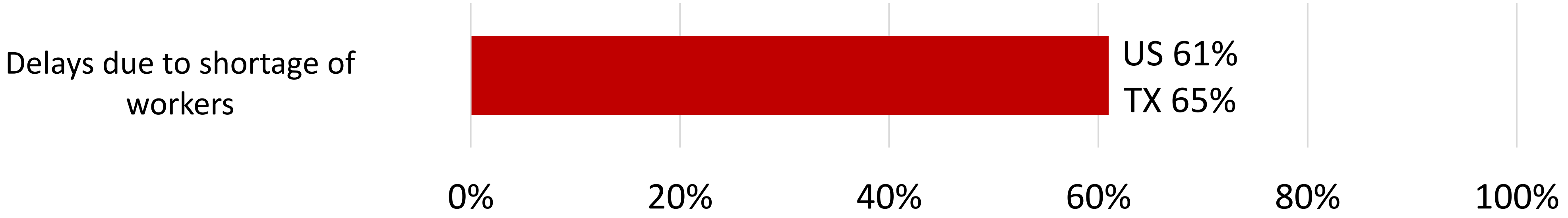
We are having a hard time filling some or all positions



Difficulty finding quality workers



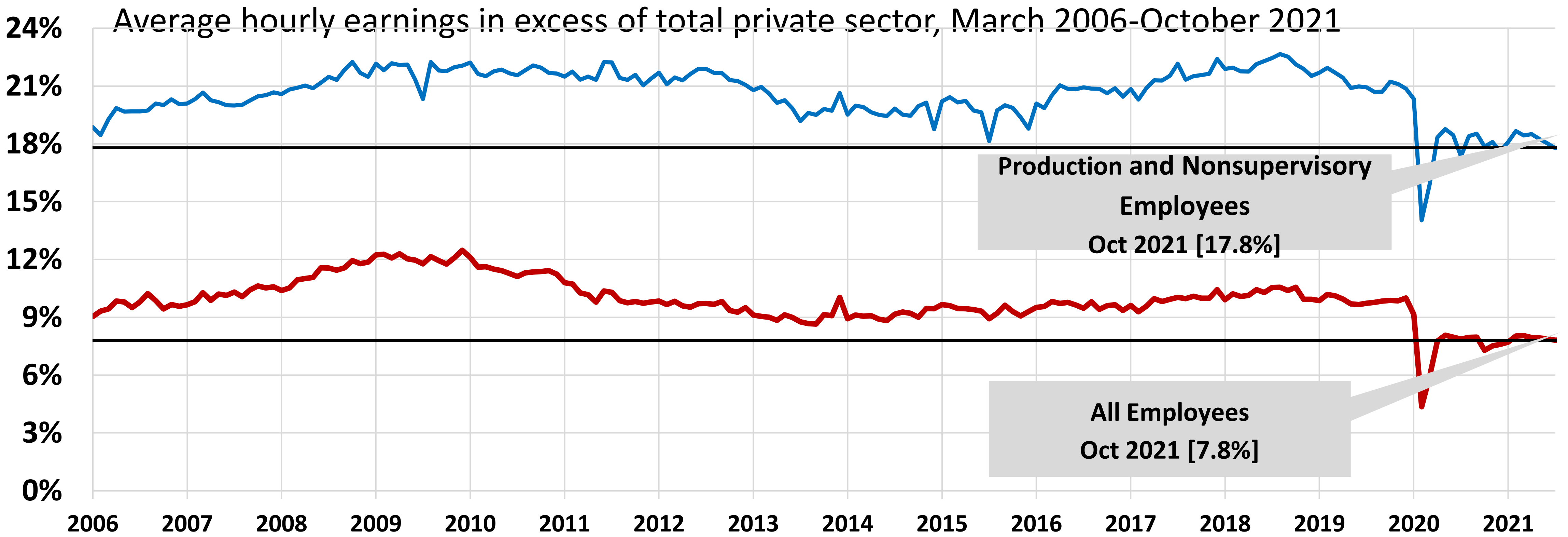
Construction delays



Source: 2021 AGC Workforce Development Survey

2 concerns about construction worker supply

- Low vaccination rate: 53% for construction workers, 81% for other occupations
- "Premium" for construction wages relative to total private sector has shrunk
    - From 10-23% to <18% for production & nonsupervisory employees
    - From 9-12% to <12% for all employees



Source: BLS

Year-to-date construction spending:
Jan-September 2021 vs. Jan-September 2020
(not seasonally adjusted)

- Total 7%; private residential 25% (single-family 37%; multi 18%); private nonres -6%; public -6%

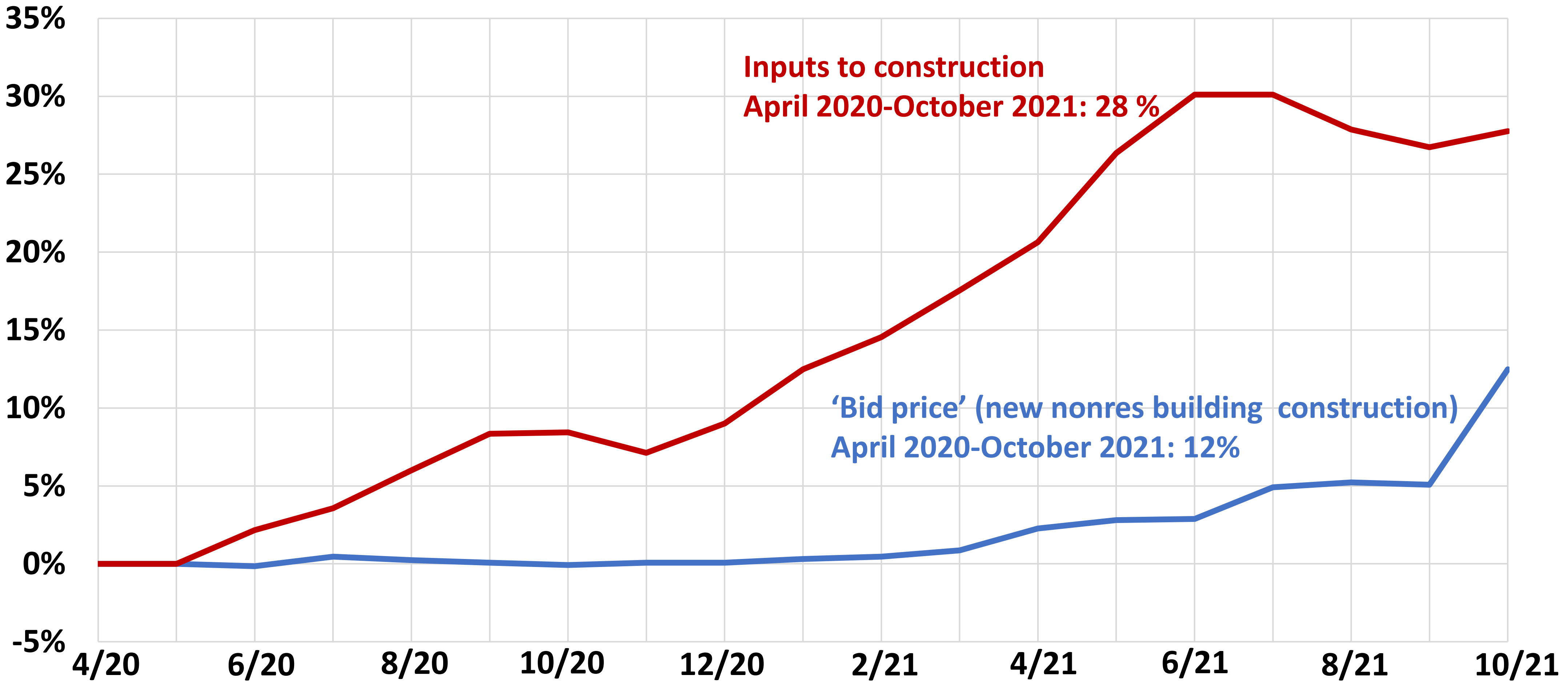
Largest segments (in descending order of 2021 year-to-date spending)

- Power -3% (electric -1%; oil/gas fields & pipelines -8%)
- Education -11% (primary/secondary -8%; higher ed -16%)
- Highway and street -1%
- Commercial 0% (warehouse 12%; retail -13%)
- Office -9%
- Mfg. -0.2% (chemical 6%; transp. equip. 2%; food/beverage/tobacco 20%; electronic/electric -16%)
- Transportation -6% (air -11%; freight rail/trucking -6%; mass transit 2%)
- Health care -1% (hospital 0.4%; medical building 4%; special care -3%)
- Lodging -32%

Source: Author

Construction input and 'bid price' producer price indexes (PPIs)

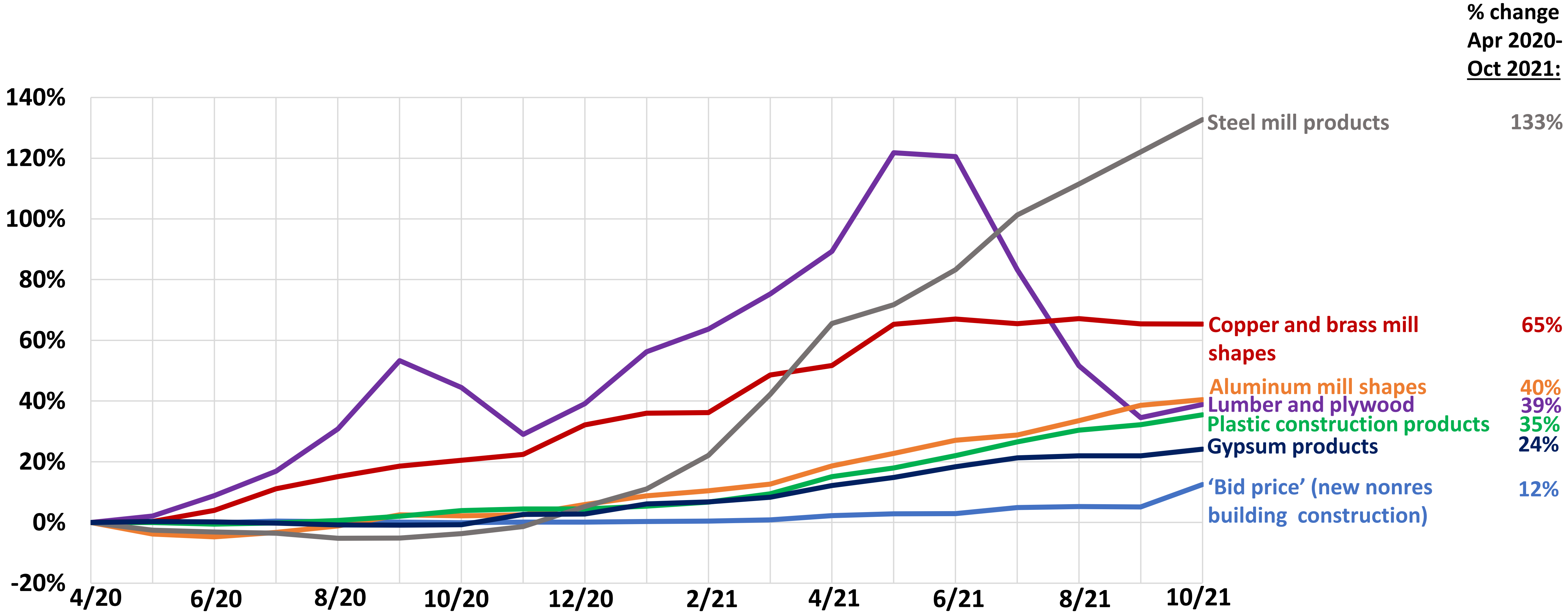
cumulative change in PPIs, April 2020 –October 2021 (not seasonally adjusted)



Source: Bureau of Labor Statistics, producer price indexes, www.bls.gov/ppi

PPIs for construction and selected inputs

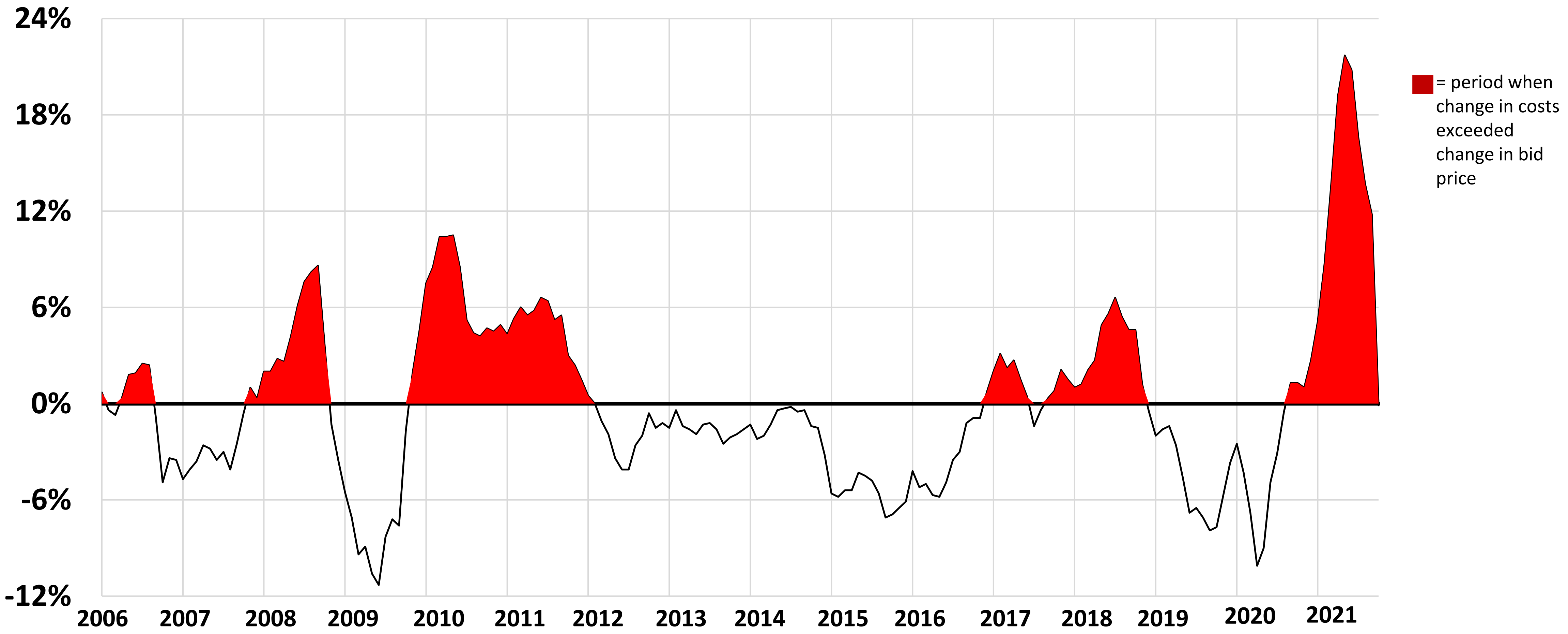
cumulative change in PPIs, April 2020 -October 2021 (not seasonally adjusted)



 Source: Bureau of Labor Statistics, producer price indexes, www.bls.gov/ppi

Cost squeeze on contractors can last two years or more

Difference between year-over-year change in materials costs vs. bid prices, Jan 2006-Oct 2021



Source: Source: Bureau of Labor Statistics, www.bls.gov/ppi, producer price indexes for goods inputs to nonresidential construction (material costs) and new warehouse construction (bid prices)

“The inflation drumbeat continues. With each passing month, the possibility that meaningful inflation will be long-lived increases. For various reasons ranging from sky-high shipping costs to labor shortages and global supply chain disruptions, construction input prices continue to march higher.”

- ABC National Chief Economist, Anirban Basu

Source: Author

AGC's responses to material cost and supply-chain issues

- *Construction Inflation Alert*: https://www.agc.org/learn/construction-data/agc-construction-inflation-alert
- ConsensusDocs Price Escalation Resource Center: https://www.consensusdocs.org/price-escalation-clause/
- Recording of webinar on "Soaring Material and Supply-Chain Costs and Delays": https://store.agc.org/Store/CSI/Store/Product_List_WebEds.aspx
- Presentations to government contracting officials and owner groups
- Lobbying for tariff relief on lumber, steel, aluminum, and products

    - Presentation to National Economic Council, VP's chief economist, Commerce chief economist

    - Presentations in coalitions to counselor to Commerce secretary, Senate & House trade staff

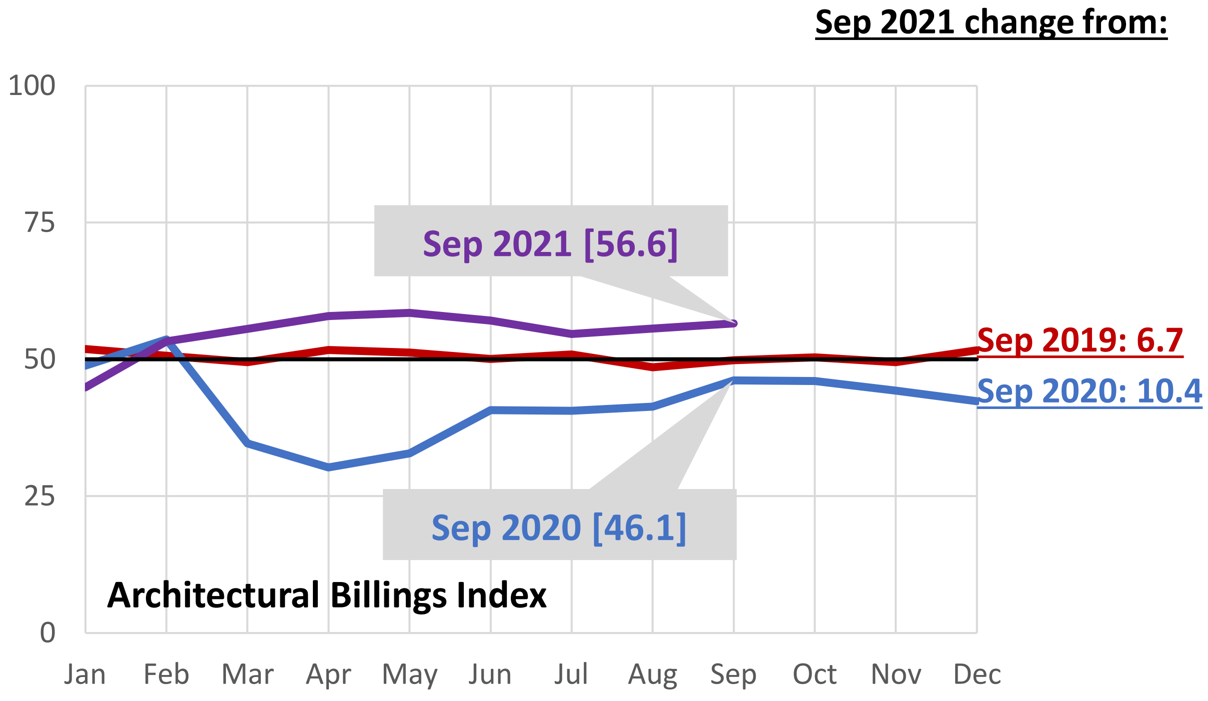
Source: Author

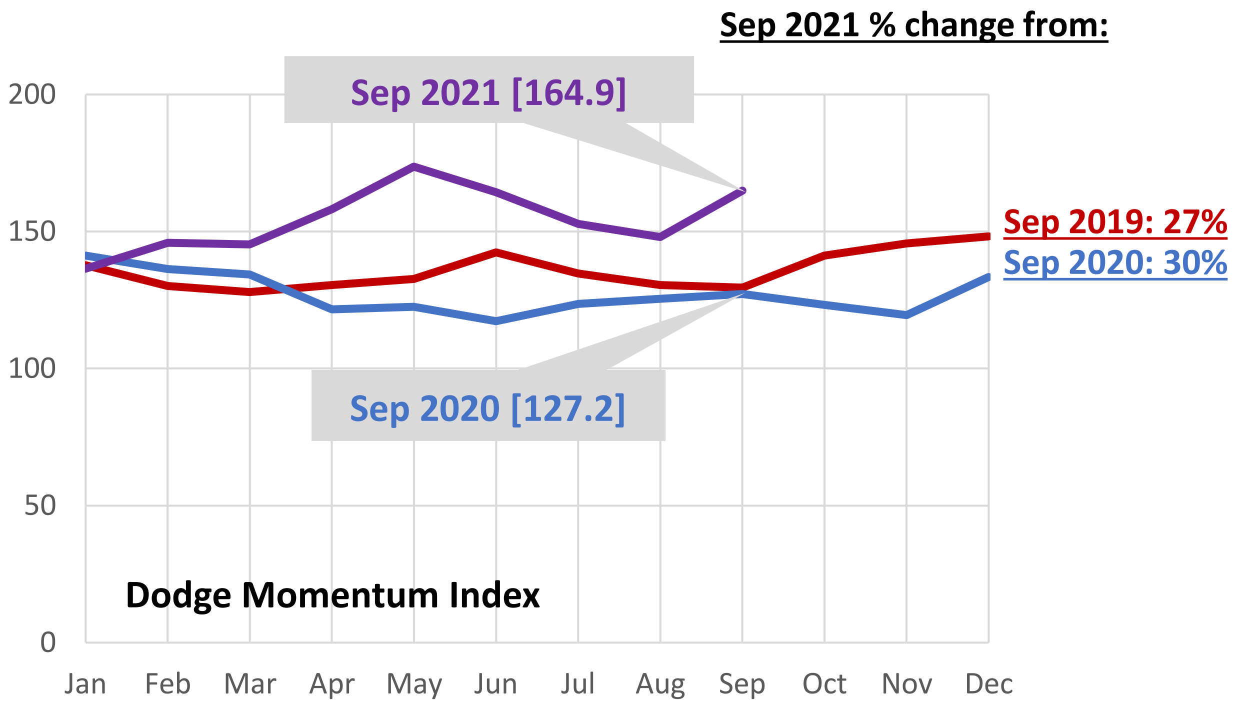
Forward-looking indicators

Indicator	Latest date	Current value	Year-ago value
Architecture Billings Index (ABI)	Sept.	56.6	46.1
Dodge Momentum Index (DMI)	Oct.	181	123
Multifamily permits not yet started	Sept.	103,000	72,000

Source: American Institute of Architects (ABI), Dodge Data & Analytics (DMI), Census Bureau (New Residential Construction)

Architecture Billings and Dodge Momentum Indexes
January 2019–September 2021, seasonally adjusted





Source: American Institute of Architects (ABI) Dodge Data & Analytics (Dodge Momentum Index)

Medium-term impacts as recovery begins

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- Economic recovery looks more certain, but virus risks remain, especially for construction: low worker vaccination rate; possible pullback by owners on project starts
- Slower rebound than for other sectors as owners, investors/lenders, institutions, and public agencies face uncertainty about future demand, project costs, and completion times
- Continuing cost and supply challenges may lead to more project deferrals
- Infrastructure funds will take time to distribute and award to individual projects, muting the medium-term impact on labor and materials supply

Source: Author

Long-run construction outlook (post-pandemic)

- Slower population growth means slower demand growth for most construction
- Permanent shift from retail to e-commerce/distribution structures
- More specialized and online healthcare facilities; fewer hospitals, nursing homes
- More wind, solar, battery storage and charging facilities, and related manufacturing
- Less oil drilling and pipeline construction
- Continuing demand for K-12 but much less for higher ed construction
- Not clear if offices will decentralize or remain in less demand
- Not clear yet if urban/rural or state-to-state trends will change

Source: Author

Population change by state, July 2019–July 2020 **(U.S.: 0.35%)**

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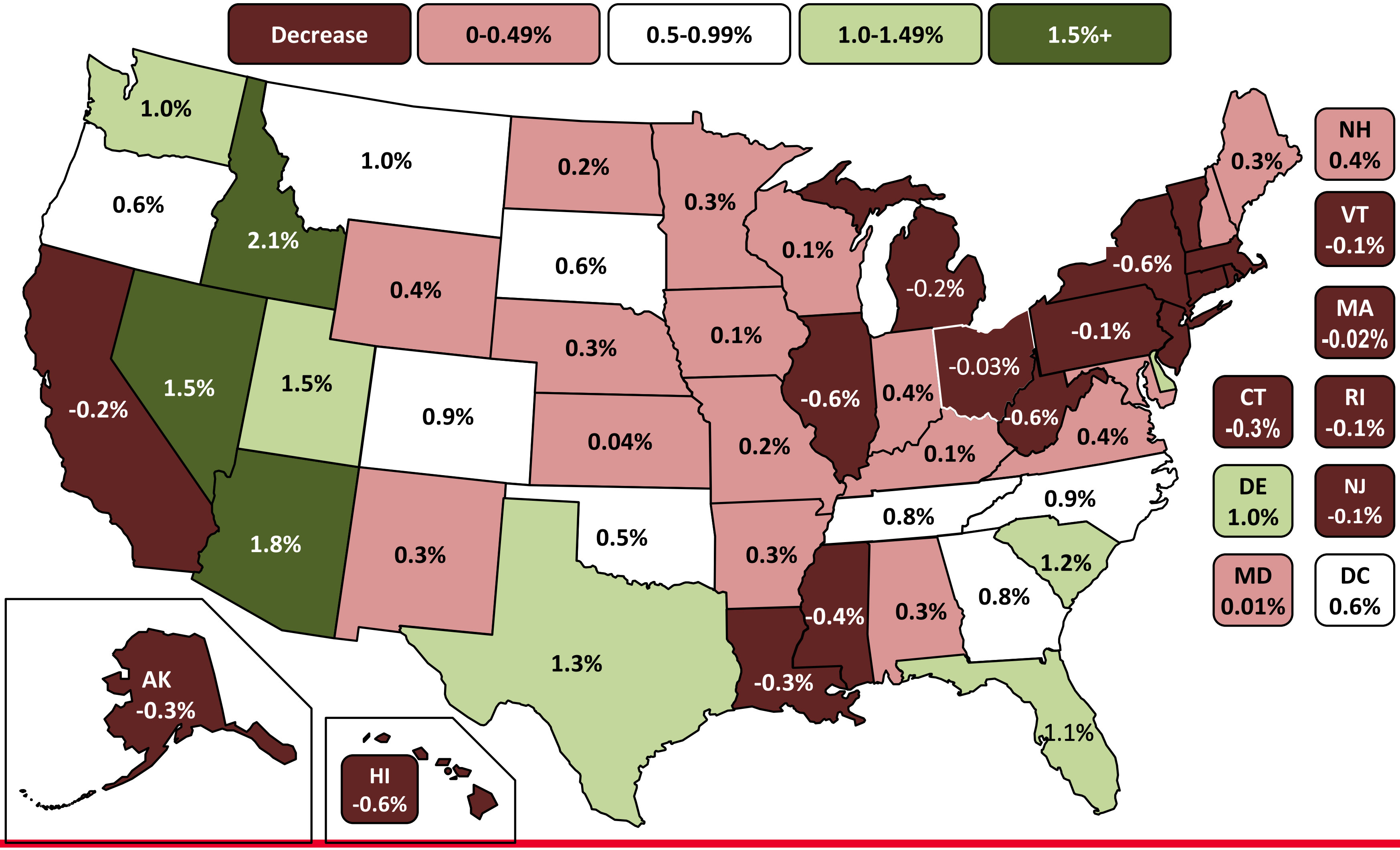
Top 5

ID	2.1%
AZ	1.8%
NV	1.5%
UT	1.5%
TX	1.3%

Bottom 5

NY	-0.6%
IL	-0.6%
HI	-0.6%
WV	-0.6%
MS	-0.4%



Source: U.S. Census Bureau, Dec. 2020 estimates, www.census.gov/popest

DFW Contractor Trends

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Project Starts

- Strong Q1 & Q2 2022
- Manufacturing and light industrial markets
- K-12 market strong

Employment

- Lots of movement in the industry
- Can’t find enough talent – all positions
- Firms continue to hire graduates to avoid an industry wide age gap

DFW Contractor Trends

Materials

- Feeling our way through the dark!

Mental Health Status

- Second highest industry for suicide
- We are a tired industry

Training

- Companies continue to increase their training (technical & professional skills)

87th Texas Legislative Update – Ended 06.21.2021

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- Contractors not liable for design defects – SB 219 | effective September 1, 2021
- Shorten statute of repose for public work from 10 yrs (+2) to 8 yrs (+1) – HB 3069 | effective June 14, 2021
- Modernizing / simplifying lien laws – HB 2237 | effective January 1, 2022
- Mayors / county judges can't shut down commercial construction during pandemic – SB 968 | effective June 16, 2021

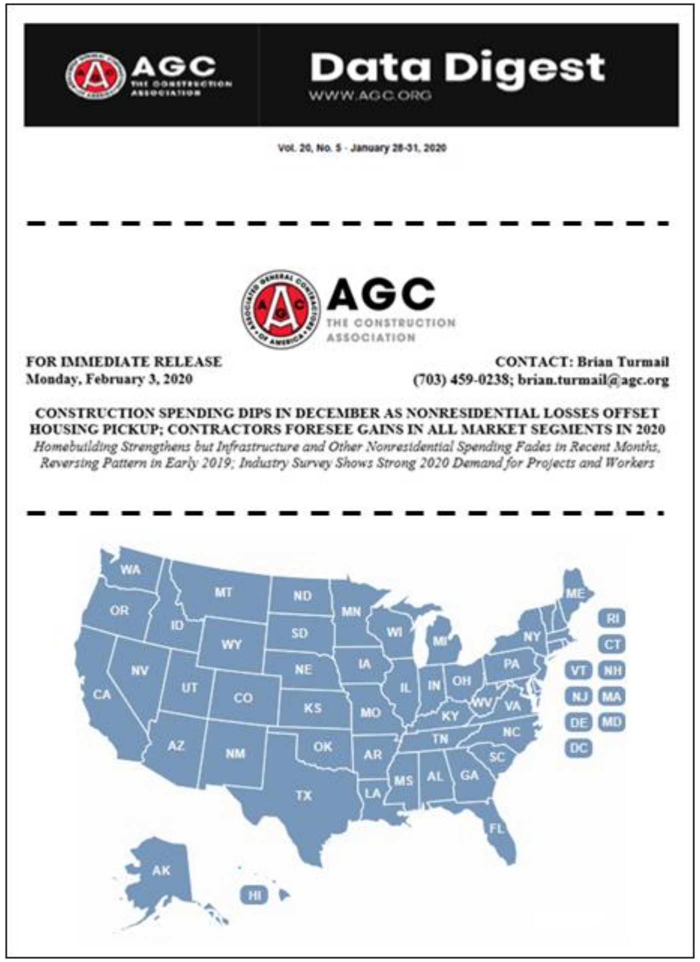
AGC economic resources

(email ken.simonson@agc.org)

- *The Data DIGest*: weekly 1-page email (subscribe at http://store.agc.org)
- *Construction Inflation Alert*:

https://www.agc.org/learn/construction-data/agc-construction-inflation-alert

- ConsensusDocs Price Escalation Resource Center: https://www.consensusdocs.org/price-escalation-clause/
- Surveys, state and metro data, fact sheets: www.agc.org/learn/construction-data
- Monthly press releases: construction spending; producer price indexes; national, state, metro employment with rankings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CONSTRUCTION SPENDING DIPS IN DECEMBER AS NONRESIDENTIAL LOSSES OFFSET HOUSING PICKUP; CONTRACTORS FORESEE GAINS IN ALL MARKET SEGMENTS IN 2020

Homebuilding Strengthens but Infrastructure and Other Nonresidential Spending Fades in Recent Months, Reversing Pattern in Early 2019; Industry Survey Shows Strong 2020 Demand for Projects and Workers

Source: Author

Thank you! Questions?

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