



2021 Construction Industry Forecast



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A year of perseverance

From a global health pandemic to civil unrest to a historical election year, 2020 was certainly a year for the books. This year we found it more important than ever to survey our industry peers to understand their sentiment as they reflect back on the last 12 months, and look toward all that 2021 may bring our way.

This marked the 45th year of our annual Wells Fargo Construction Industry Forecast, and we are pleased to report that industry executives from 44 states responded to our survey. The primary goal of the survey is to determine the 2021 U.S. National Optimism Quotient (OQ), which is the survey's primary benchmark for measuring the degree of optimism in the nonresidential construction business for the coming year. In addition to determining the OQ, the survey also posed questions about equipment sales, purchase expectations, and rental market trends, while also exploring major cost and risk concerns that industry executives are thinking about as they gear up for 2021.

This year's OQ comes in at 78, indicating optimism, though blanketed in caution. For reference, a score of 75 to 99 represents more cautious or measured optimism. A score below 75 signals that fewer executives say local construction activity will increase than say it will decrease, a more pessimistic point of view. So this year's score indicates slight optimism for local nonresidential construction is still present. With that said, 2021 does cause significant uncertainty for all. The decline in optimism is

most notable in executives' opinions from the Northeastern region and among non-energy states. Although optimism has declined slightly from last year, most executives do still have a neutral or positive outlook on net profits expected for 2021.

COVID-19 certainly had an impact on our economy and our society, impacting some industries more than others. The world as we know it changed in many ways, including how we now go about our day-to-day routines and how we prioritize in this new environment. The construction industry experienced its fair share of impacts. About half of executives said they felt that the COVID-19 pandemic would negatively impact their net profits; however, as in 2020, most believe their net profits in 2021 will remain the same or increase.

In past years, the ability to hire qualified workers was one of the main concerns among executives. However, it's no surprise that focus has shifted to the recent national election and the effects of the COVID-19 pandemic. Most felt the election would have a negative impact on the construction industry, with a potential increase in taxes being one of the leading reasons. Though the ability to hire qualified workers remains the top cost concern among contractors, those who worry about taxes have increased significantly from 4% to 13% in 2021. Among distributors, taxes have become the leading cost concern for 2021, with a substantial increase in 2020 versus 2021 (6% to 31%).

2021 does indicate a drop in optimism among both contractors and distributors, but not at a level that should cause great concern. After a year of great uncertainty, it should be no surprise that we enter the new year with some hesitation. Yet it is worth noting that the outlook of the construction industry as a whole remains positive, with 59% believing it will expand in the next two years.

As we shift our focus to what's ahead, please reference the full report to weigh your future business decisions against what your industry peers have to say. As always, please reach out with any questions you have about the survey. We are glad to share our perspective and interpretation of the results at your convenience.



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Survey method



Overview

The survey results presented in this 2021 Construction Industry Forecast represent the 45th year in which Wells Fargo Equipment Finance and its predecessors have surveyed construction industry executives to gather insight into current business conditions and trends, and to measure their sentiment toward construction activity in the coming year. This year, survey responses came from 226 construction industry executives in 44 states, and nearly all respondents report that they have been in the construction industry for five years or more. Note: The margin of error for this survey varies among respondent groups, but does not exceed 16% (95% confidence level).

Respondent classifications

Contractors are companies that execute construction projects. Producers of aggregate materials and other companies that rely on heavy construction equipment also fall into this category. These companies often buy, lease, or rent large construction equipment to complete such projects.

Equipment rental companies acquire equipment to rent out to contractors.

Distributors are dealers of construction equipment. These companies most often sell heavy equipment, light equipment, or general construction equipment, and provide a range of products and services to the construction industry. It is very common for distributors to also have rental as part of their business strategy.

Manufacturers create or build the equipment that contractors use.

Survey dates

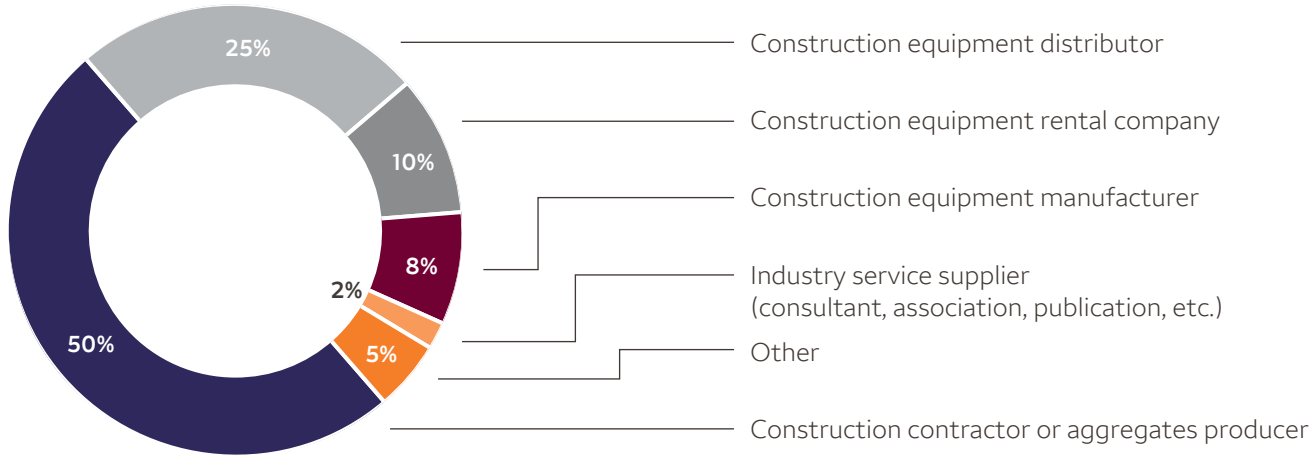
November 9 – December 7, 2020

Composition of survey respondents

Most respondents (98%) have been in the construction industry for five years or more. Site preparation/excavation and heavy highway are the most common industries among respondents.



What best describes your company's primary function in the construction industry?

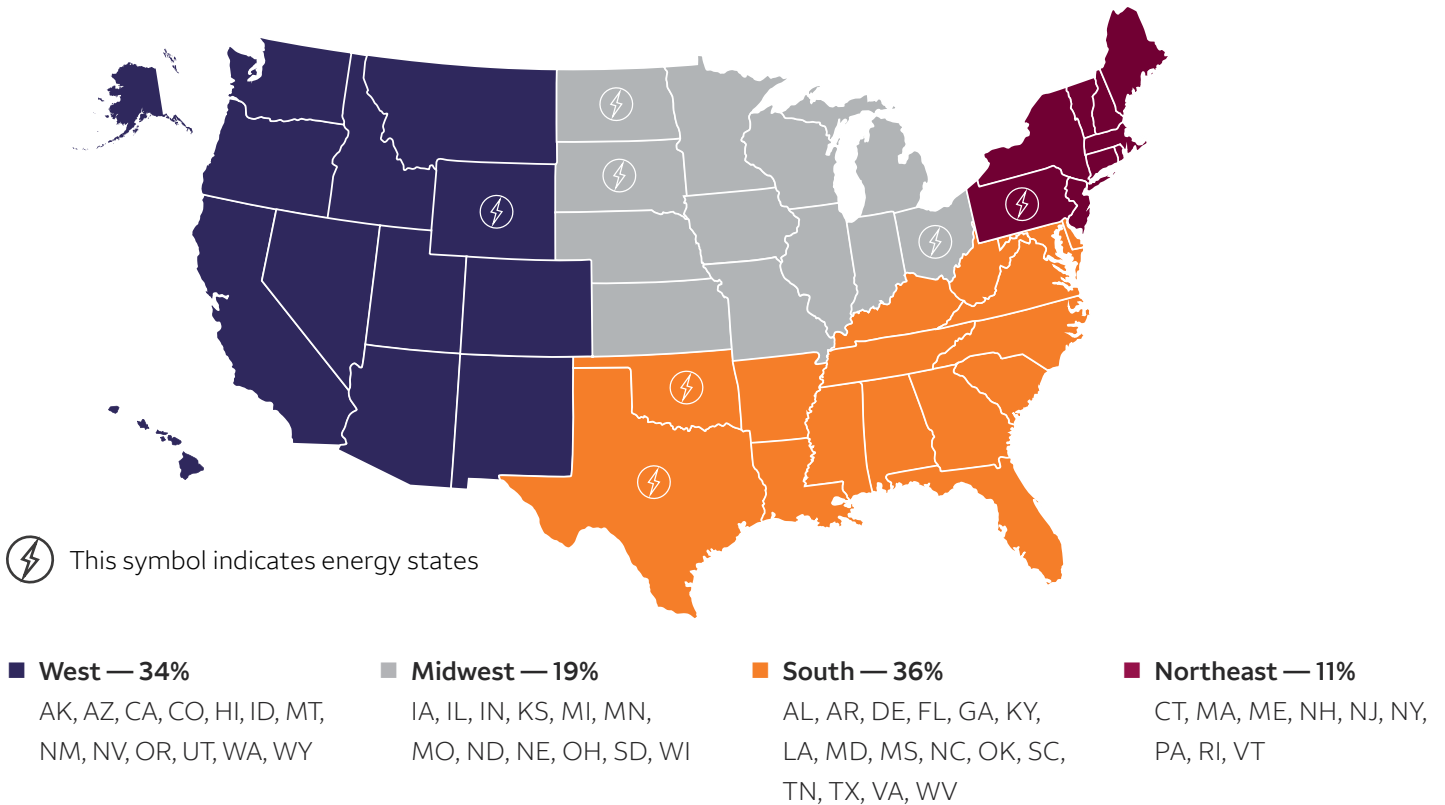


Percentages may not add up to 100% due to rounding. For questions regarding this Wells Fargo Equipment Finance survey, please contact Wells Fargo Equipment Finance Marketing at wfefmarketing@wellsfargo.com.

The number of construction industry businesses with five or more years is 98%, 2% with less than five years. Base: 226 respondents.

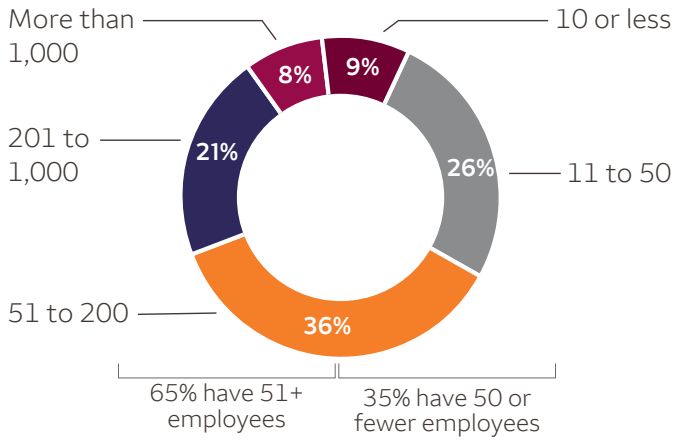
Graphic distribution of survey respondents

Companies surveyed varied in size and revenue; just over 6 in 10 companies have more than 50 employees and approximately one-half have \$25 million or more in annual revenue.

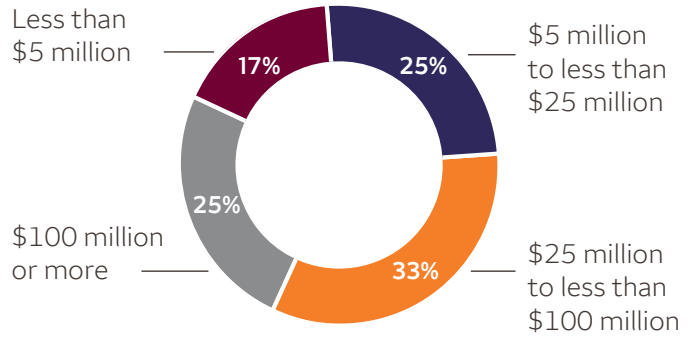


Responses were received from 44 states. Hawaii, Maine, Missouri, Rhode Island, South Dakota, and West Virginia were not included in the pool of respondents for 2020. Washington, D.C. was not included. Note: The following are the proportions of survey responses from energy states: 21% (2021), 17% (2020), 17% (2019), 23% (2018), 24% (2017), 17% (2016), and 22% (2015). Base this year: 226 respondents.

Which of the following categories best describes your company's total number of employees?



Which of the following categories best describes your company's annual revenue?



Base: 226 respondents.

In which of the following industries do you do the most work?

Category	2021
Site preparation/excavation	20%
Heavy highway	20%
Utility contracting	14%
Nonresidential building	13%
Concrete and asphalt	13%
Residential building	7%
Mining	2%
Aggregates production	2%
Materials transport	2%
Oil and gas	1%
Other	6%

The 2021 Optimism Quotient is 78

2021 — A year of perseverance

The Optimism Quotient (OQ) — this survey's primary benchmark for measuring contractor and equipment distributor sentiment on local nonresidential construction activity — is 78 for 2021. This represents a decrease from 2020's already cautious optimism of 99, though notably, executives maintain their cautious optimism about the year ahead.

2021 presents significant uncertainty for all, with optimism dropping among both distributors and contractors. The decline in optimism is most notable in executives' opinions from the Northeastern region and among non-energy states. Although optimism has declined slightly from last year, most executives do have a neutral or positive outlook on net profits expected.

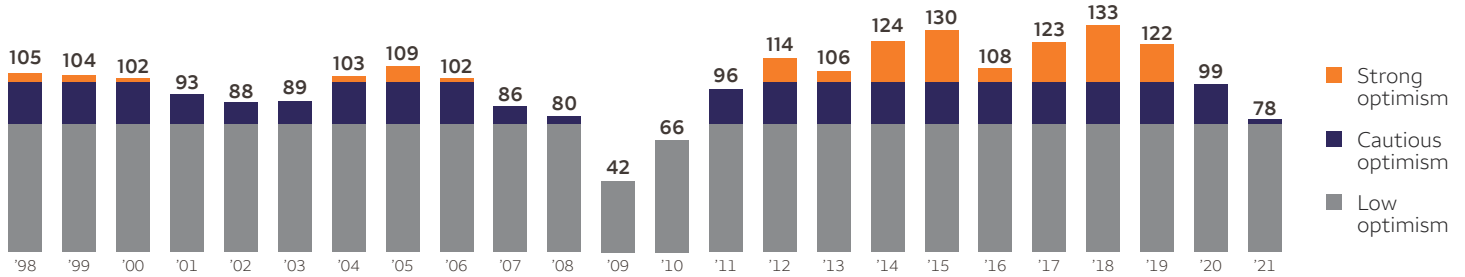
An OQ score of 100 or more represents strong optimism for increased local construction activity relative to the perceived level of activity for the prior calendar year.

A score of 75 to 99 represents more cautious or measured optimism. A score below 75 signals that fewer executives say local construction activity will increase than say it will decrease, a more pessimistic point of view.

With similar OQ scores, distributors (80) and contractors (75) bring hope forward to 2021 in spite of the global pandemic and political and regulatory uncertainty that regularly accompanies predictions after political changes.



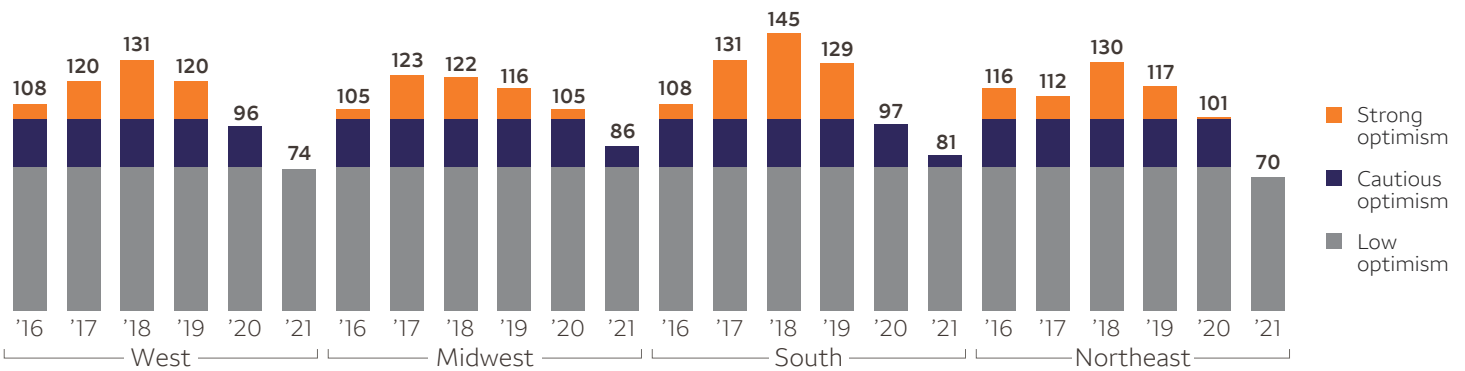
U.S. National Optimism Quotient



Base: Total respondents – 226 in 2021, 305 in 2020, 441 in 2019, 312 in 2018, 407 in 2017, 474 in 2016, 413 in 2015, 552 in 2014, 370 in 2013, 405 in 2012.

Cautious optimism for local nonresidential construction holds for a second year. The Optimism Quotient (OQ) presented by Wells Fargo Equipment Finance is this survey’s primary metric for assessing respondents’ sentiment about local nonresidential construction activity. The measurement is directional in nature and gives an indication of industry executives’ optimism about the coming year compared to the previous year.

U.S. National Optimism Quotient by region



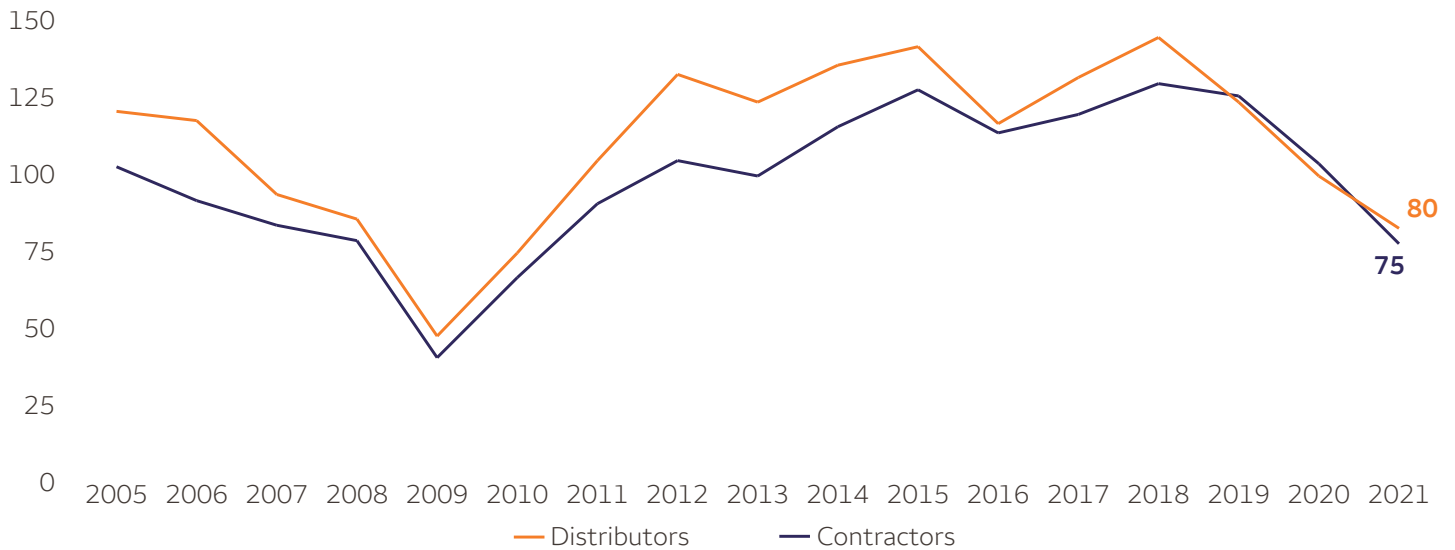
Base: Total respondents.

While overall respondents are cautiously optimistic, executives in the West and Northeast dip into low optimism. In fact, the greatest decline in optimism is seen in the Northeast where optimism fell from 101 (optimistic) to 70 (low optimism).

Optimism gap has shifted again

Distributors and contractors both predict cautious optimism for 2021, with a decline in optimism among both groups. Contractors show a steeper decline in optimism, having been optimistic with an OQ of 101 in 2020 dropping to 75 in 2021. Historically, distributors express a higher level of optimism than contractors, but last year those roles had shifted. In 2021, distributors (80) again lead contractors (75) slightly in their cautious optimism.

Distributors and contractors U.S. National Optimism Quotient



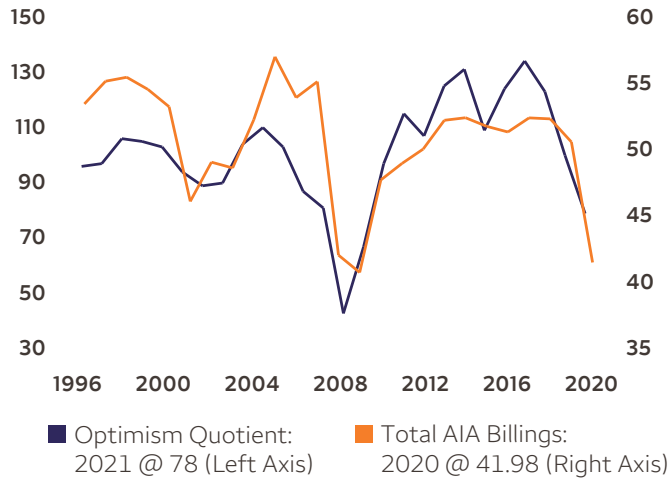
Base: Total 2021 contractors (n=112), distributors and rental companies (n=80), equipment manufacturers (n=18[^]), and other (n=16[^]).

Editor's note: Beginning with the 2014 survey, we have calculated the OQ for distributors using the combined responses of those that identified themselves as distributors or as equipment rental companies. In prior years, we did not combine the two categories.

How does the Optimism Quotient compare to other key economic indexes?

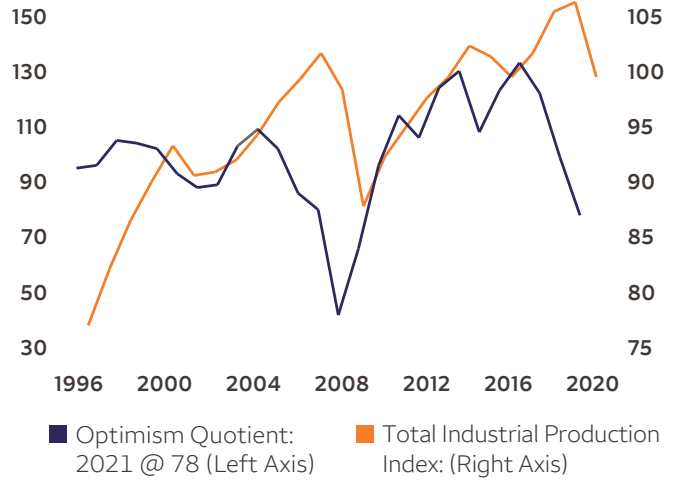
Four economic indexes that are significant to the construction industry outlook are the Architectural Billings Index, the Private Construction Index, the Industrial Production Index, and the Public Nonresidential Construction Index. Although there are outlier years, the overall data over time shows that the Optimism Quotient tracks closely with these economic indexes.

Optimism Quotient vs. Total Architectural Billing Index



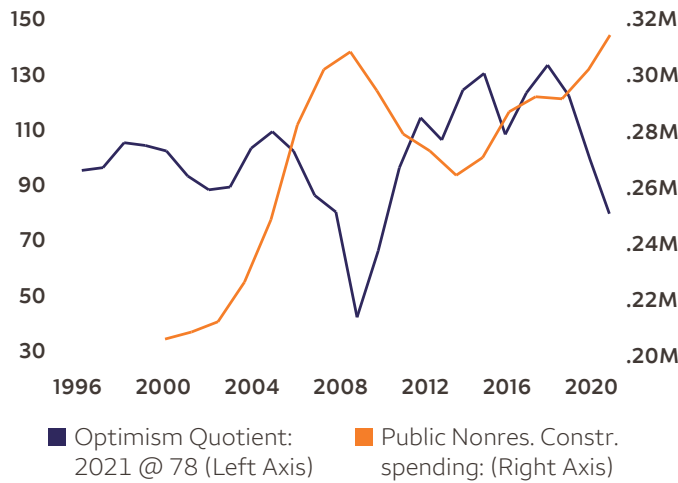
Source: The American Institute of Architects (AIA)

Optimism Quotient vs. Industrial Production Index



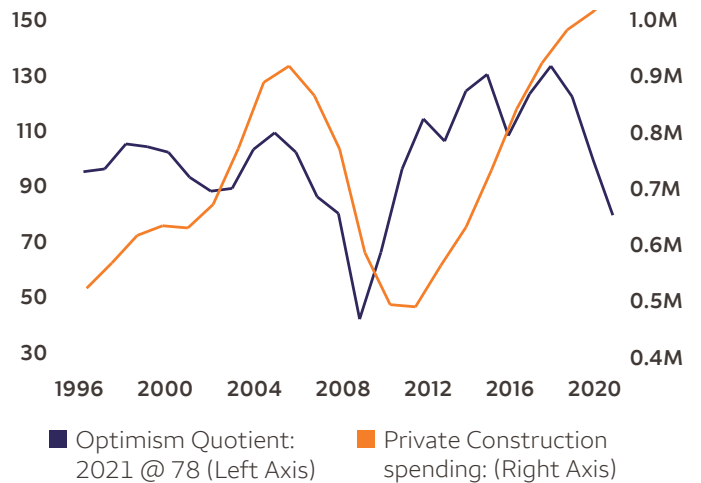
Source: Wells Fargo Securities, LLC.

Optimism Quotient vs. Public Nonresidential Construction Index



Source: U.S. Census Bureau (BOC): Construction Put-In-Place (C30)

Optimism Quotient vs. Private Construction Index, billions of dollars



Source: U.S. Census Bureau (BOC): Construction Put-In-Place (C30)

Survey results





Four things to know in 2021

1. Industry optimism

2021 remains a year of cautious optimism despite a notable decline from 99 in 2020 (pre-pandemic) to 78 in 2021. Though 2021 brings the inevitable uncertainty of an ongoing global pandemic, both contractors (75) and distributors (80) have similar expectations of local, nonresidential activity for 2021 with nearly half of executives expecting it to remain the same.

2. Equipment acquisition

The expectation of new equipment purchases in 2021 is mixed; 38% feel it will remain the same, 30% feel it will increase, and 26% feel it will decrease. Distributors and contractors expect sales and purchases of new equipment will either remain the same or increase compared to 2020, similar to predictions made last year. The two main factors that would encourage contractors to purchase new equipment continue to be a stronger backlog of jobs and long-term confidence in the national economy.

3. Top risks

When asked what the top risk to the construction industry is in 2021, executives cite political/regulatory (35%), economic (21%), and public health/COVID-19 uncertainty (17%). Political/regulatory uncertainty was also a top concern for 2020, but in a departure from previous years, the availability of qualified workers is not seen as the top risk. Significantly more executives said that the ability to hire qualified workers had little to no impact on their business in 2020, though it remains a key financial concern.

4. Key financial concerns

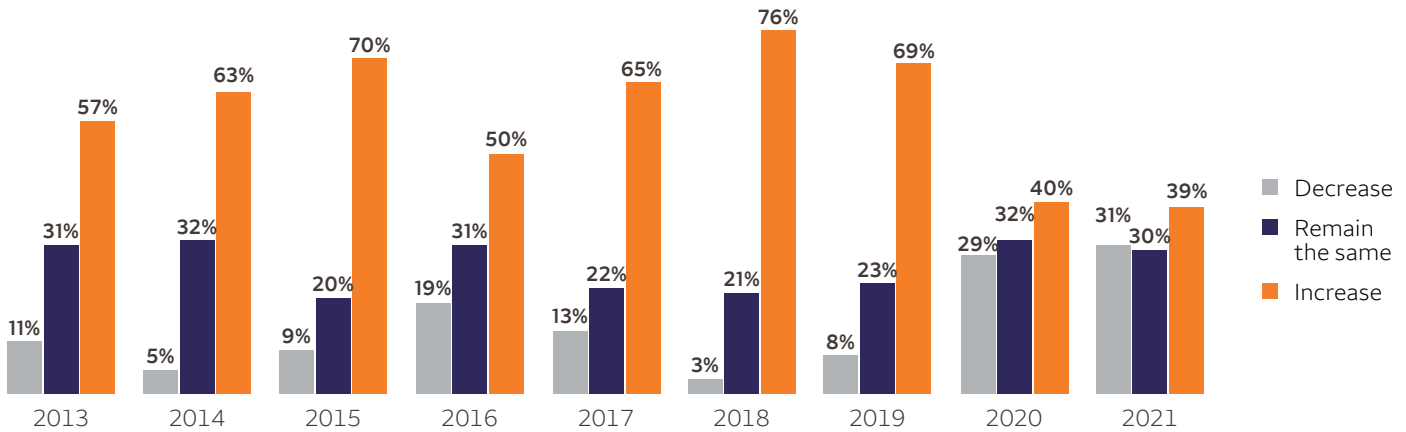
Though no longer a top industry risk, the ability to hire qualified workers remains the top financial concern (54%) for contractors. Notably, taxes are a key concern for contractors in 2021, rising from being mentioned by 4% of executives as a top concern in 2020 to 13% who noted it was of their top three cost concerns in 2021. Among distributors, taxes are of even greater concern and are the leading concern for 2021 (31%) followed by equipment costs (20%) and employee wages and benefits (20%).

How do industry executives feel heading into 2021?

Distributors

After reporting a drop in sales in 2020, 39% of distributors believe that sales of new construction equipment will increase. Other distributors (30%) expect sales of new equipment will remain the same while 31% fear that sales may decrease. Overall, distributors continue to be very mixed in their predictions for 2021 sales, which is on par with expectations we heard last year. Unsurprisingly, distributors were much more optimistic in 2019; 2020 had already represented tempered sentiments.

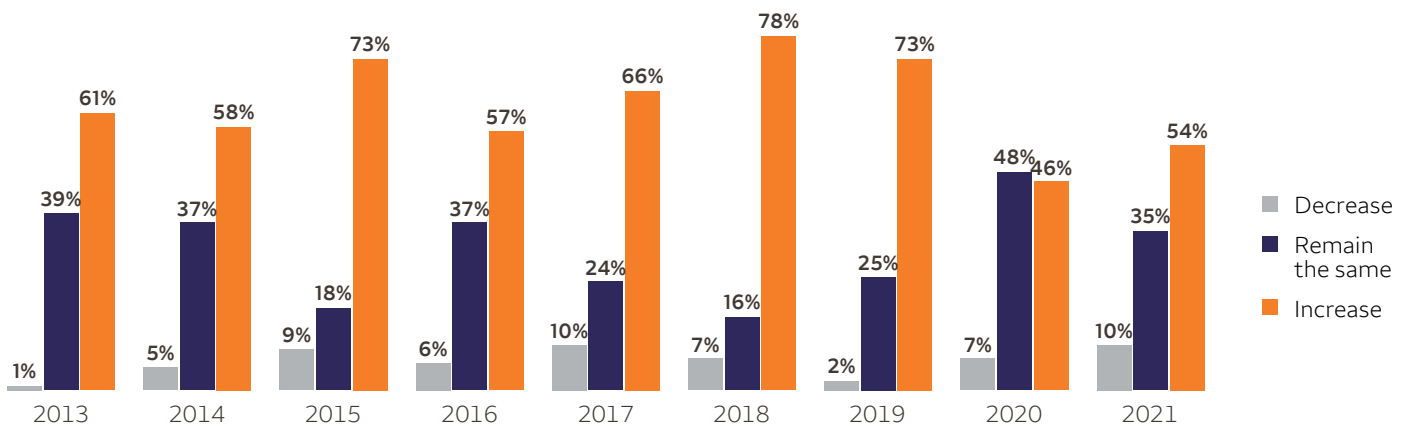
Do you think that your sales of *new* construction equipment this year compared to last year will:



Base: Total distributors and rental companies answering – 111 in 2021, 98 in 2020, 124 in 2019, 102 in 2018, 130 in 2017, 162 in 2016, 132 in 2015.

Just over half of distributors are predicting strong sales for used construction equipment in 2021 (54%), indicating they think sales of used equipment will increase. Those who reported that they think sales of used equipment will remain the same in 2021 declined directionally from 48% in 2020 to 35% in 2021, showing a further mix of opinions among executives.

Do you think that your sales of *used* construction equipment this year compared to last year will:

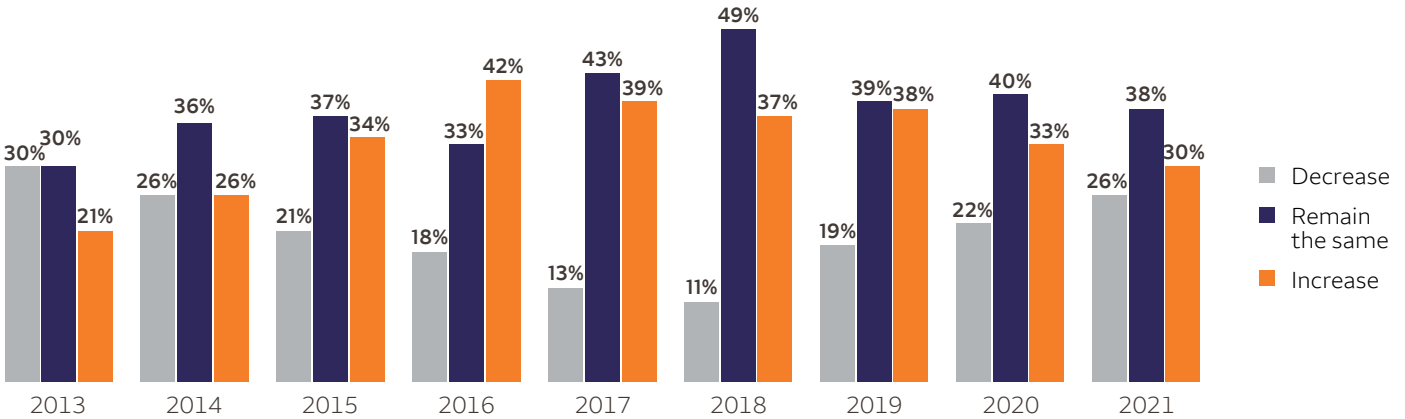


Base: Total distributors and rental companies answering – 83 in 2021, 101 in 2020, 124 in 2019, 103 in 2018, 134 in 2017, 167 in 2016, 132 in 2015.

Contractors

As in past years, contractors are less optimistic about purchases of new equipment in 2021 compared to distributors' expectations of sales. Contractors are divided with 30% who believe their new equipment purchases will increase this year, 38% who expect purchases to remain flat, and 26% planning to decrease their purchase of new equipment in 2021.

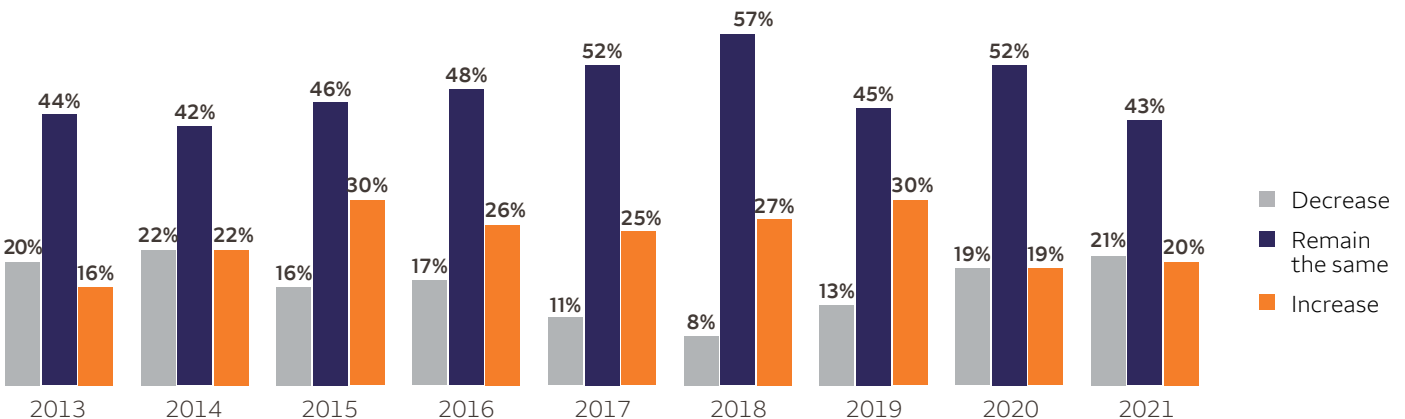
Do you think that your purchases of *new* construction equipment this year compared to last year will:



Base: Total contractors – 112 in 2021, 166 in 2020, 262 in 2019, 150 in 2018, 194 in 2017, 248 in 2016, 238 in 2015.

When asked about used equipment purchases, contractors are again of mixed opinion with 20% who anticipate purchases will increase, 43% estimating purchases will remain the same, and 21% expecting to decrease their purchase of used equipment in 2021. These estimates are roughly unchanged from what executives had forecast last year.

Do you think that your purchases of *used* construction equipment this year compared to last year will:

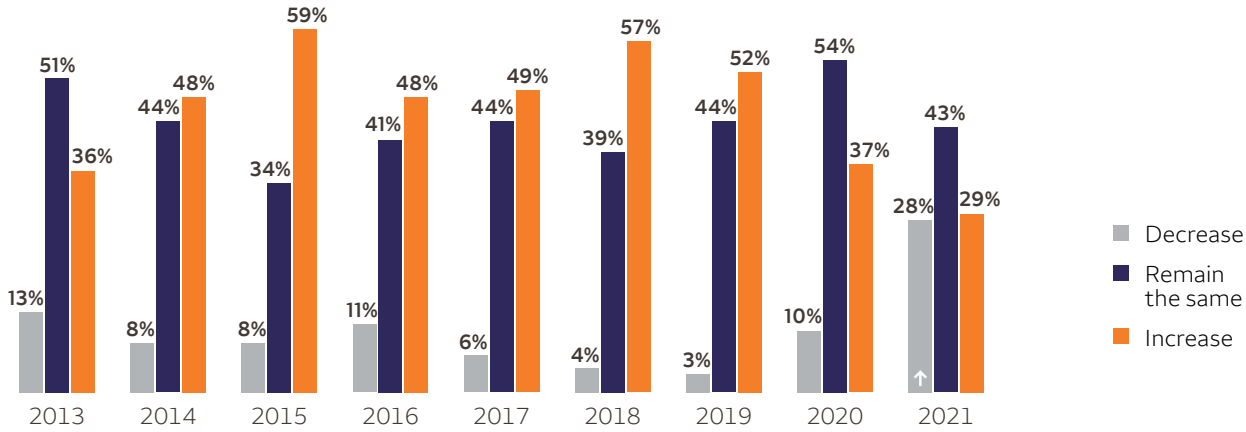


Base: Total contractors – 112 in 2021, 166 in 2020, 262 in 2019, 150 in 2018, 194 in 2017, 248 in 2016, 238 in 2015.

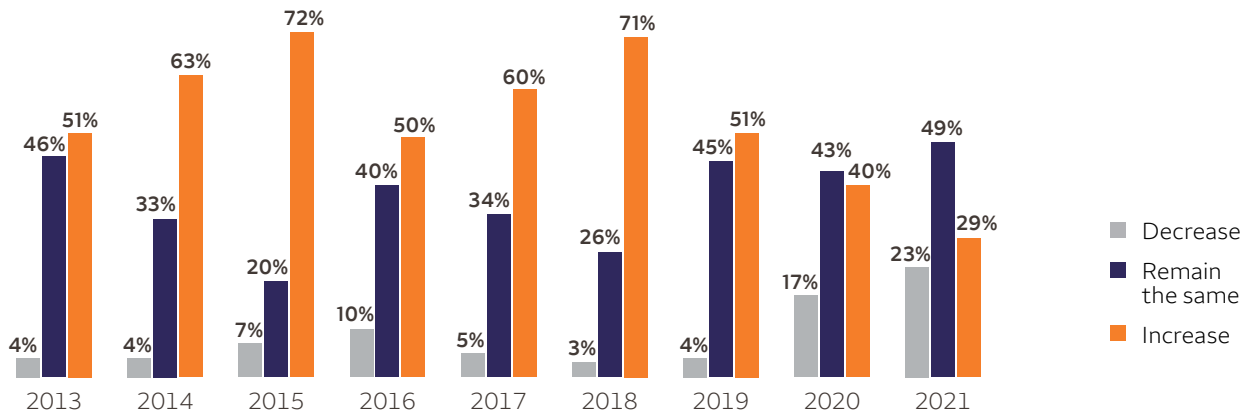
How do industry executives feel in 2021?

Nonresidential construction

Contractors — What is your projection for local nonresidential construction activity this year compared to last year?



Distributors — What is your projection for local nonresidential construction activity for this year compared to last year?



Note: The up/down arrows denote a significant difference compared to 2020 at the 95% confidence level.

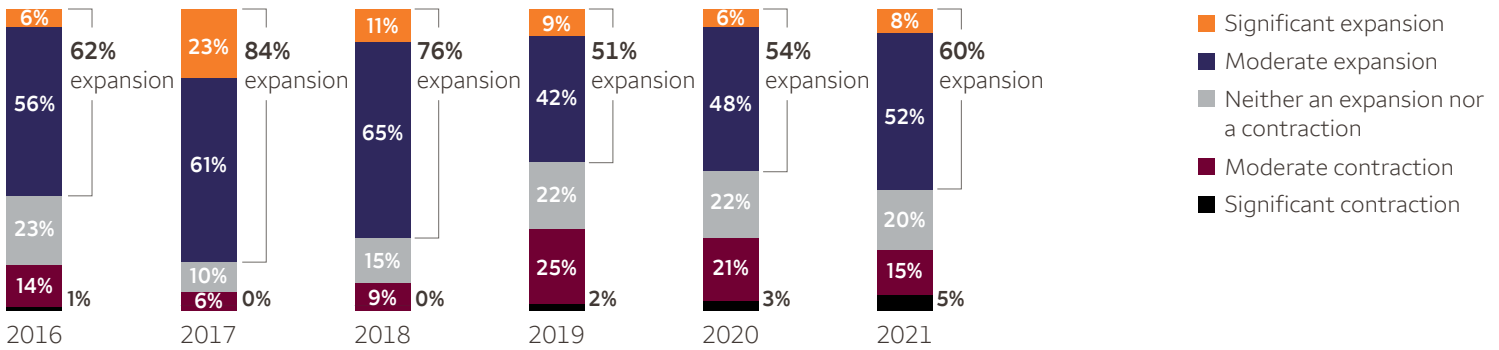
Base: Total contractors – 112 in 2021, 166 in 2020, 262 in 2019, 150 in 2018, 194 in 2017, 248 in 2016, 238 in 2015.

Base: Distributors and rental companies – 80 in 2021, 102 in 2020, 127 in 2019, 105 in 2018, 134 in 2017, 174 in 2016, 138 in 2015.

Contractors and distributors have fairly consistent expectations for nonresidential construction activity, with 29% of each predicting activity will increase. Compared to sentiments last year, more contractors believe nonresidential construction will decrease (28% than last year (10% Distributors' estimations for 2021 are consistent with their projections last year.

Industry growth

Two years from now, which of the following scenarios is most likely to occur?



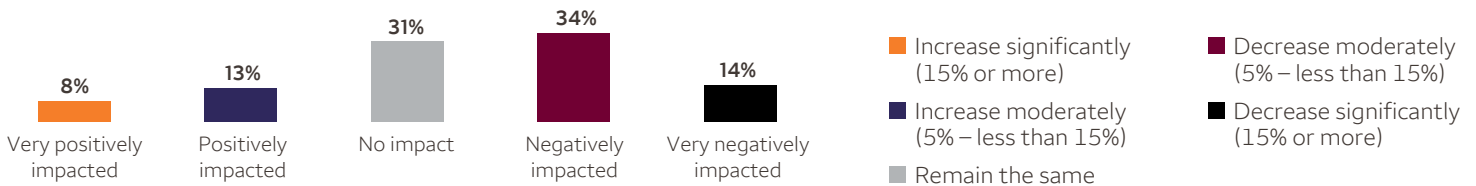
Base: Total respondents – 226 in 2021, 305 in 2020, 441 in 2019, 312 in 2018, 407 in 2017, 474 in 2016.

Nearly six in ten executives forecast industry expansion two years from now. While this prediction is roughly consistent with 2020, executives are slightly more optimistic about the next two years than they were in 2019. A roughly equal number anticipate no change to the industry (20%) or some form of contraction (20%) in two years.

But what about net profits?

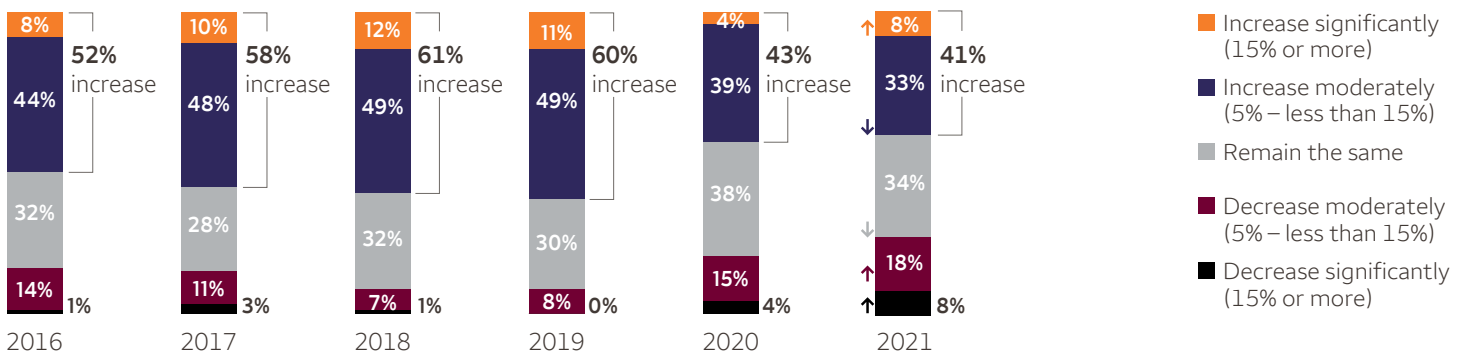
Net profits

How, if at all, do you expect your 2020 net profits will be impacted by the COVID-19 pandemic?



Base: Total respondents – 226 in 2021.

Compared to net profits for 2020, do you think your net profits in 2021 will:



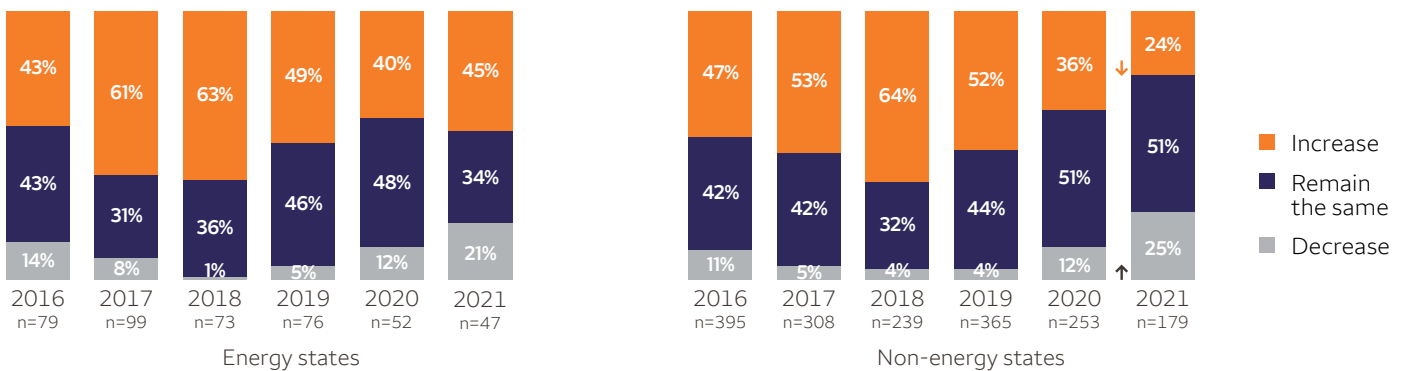
Base: Total respondents – 226 in 2021, 305 in 2020, 441 in 2019, 312 in 2018, 407 in 2017, 474 in 2016.

When taken in comparison to 2020, most executives remain positive about profitability in 2021, with 41% expecting profitability will increase and 34% predicting net profits will remain the same. Up from last year, 26% believe that net profits will decrease in 2021 compared to 2020.

Nonresidential versus residential activity

Nearly half of executives predict that nonresidential construction activity will remain the same in 2021 as it was in 2020. In comparison to 2020 (12%), more executives fear that nonresidential construction activity will decrease in 2021 (24%). Still, 28% expect that there will be an increase in the year ahead. The shift in perception of nonresidential activity in 2021 is most prominent among non-energy states and executives in the Northeast. Those from non-energy states have become more pessimistic in their outlook, with fewer predicting an increase in nonresidential construction activity (24% in 2021 versus 36% in 2020) and a larger number expecting a decrease in activity (25% in 2021 versus 12% in 2020). Executives from energy states (45%) are more likely than their non-energy state counterparts (24%) to forecast an increase in activity. Overall, of the executives who expect nonresidential activity to remain consistent with activity last year, most (52%) believe improvement will happen in late 2021.

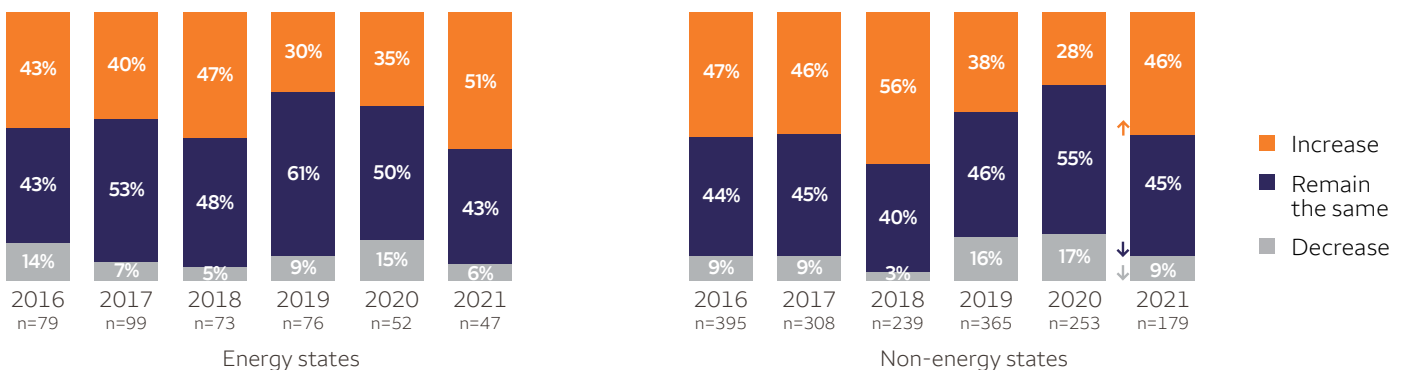
What is your projection for local nonresidential construction activity in 2021 compared to 2020?



The up/down arrows denote a significant difference compared to 2020 at the 95% confidence level. Base: Total respondents.

Optimism for residential construction activity is much stronger than for nonresidential and strengthens compared to last year as well. Roughly half of executives (47%) predict an increase in residential construction activity in 2021 compared to only 29% in 2020. The increase in optimism for residential construction activity has grown significantly since last year among companies in non-energy states, while energy states saw just a directional improvement. Compared to last year, executives in the West, South, and Northeast are more likely to feel that residential construction will increase in 2021 than those in the Midwest, whose projections are on par with 2020. Fewer executives than last year project that activity will remain the same (44%) or decrease (9%). Of those who believe that residential construction activity will remain the same, most feel that it will begin to increase in the second half of 2021.

What is your projection for local residential construction activity in 2021 compared to 2020?



The up/down arrows denote a significant difference from 2018 at the 95% confidence level. Base: Total respondents.

Thinking about the state of your business, what short-term concerns do you have?

“In the short term we’re concerned about consumer confidence in the economy and the potential impact of the new administration’s COVID-19 policies.”

— Survey respondent



Construction industry overview

Construction spending outlook

Divergence in residential and nonresidential activity will persist in 2021

Residential construction remains one of the few bright spots in an otherwise terrible year. As overall economic activity collapsed alongside shelter-in-place orders and business closures, the residential sector was able to quickly adapt and became one of the first parts of the economy to record a complete recovery. As the world was asked to social distance, most in-person activities moved to a virtual setting. This new normal set off a “space race” in order to more easily accommodate home offices, fitness studios, and study areas. With the help of record-low mortgage rates, home sales have surged at a time when inventories are exceptionally lean, pushing builder confidence to record highs and setting off a surge in single-family construction.

In stark contrast, nonresidential construction continues to be sapped by the potential dangers posed by many indoor activities. Construction spending on hotels, retail stores, office buildings, and educational facilities has downshifted substantially in recent months. Although, a hefty pipeline of projects ahead of the pandemic helped avert an outright nosedive in nonresidential construction. The uncertainty surrounding the trajectory of the pandemic, as well as demand for commercial and institutional properties post-COVID-19, has spurred numerous postponements and cancellations.

Of course, the next several months will continue to be challenging. The recent spike in COVID-19 cases, hospitalizations, and deaths has resulted in a patchwork of new restrictions on businesses and social gatherings. There are a few rays of light poking through these dark clouds, however. Multiple vaccines have begun to roll out and many experts believe much of the population could be inoculated

by the end of the summer. The deployment of vaccines should bring more clarity to occupancy needs, which should eventually drive a turnaround in overall nonresidential construction.

Momentum in the residential sector will continue in 2021

There are several reasons why we believe the strength seen in the residential sector will extend into 2021. Mortgage rates are likely to remain very low compared to historical norms and there is a ready-and-waiting wave of Millennials who are now reaching a family-forming and homebuying age. Stronger-than-expected residential demand has led to some supply-side challenges, namely soaring lumber prices and shortages of raw materials due to supply chain disruptions tied to COVID-19 outbreaks, which could constrain activity in coming months. Still, there is a structural shortfall of homes for sale, and the mismatch between scarce supply and robust buyer demand sets the stage for homebuilding to continue to climb higher in 2021.

Multifamily construction appears set to downshift somewhat. Apartment vacancy rates are rising, as more renters look to buy homes. The sudden switch in preferences comes as mountains of new units are being completed. That said, apartment and condo construction, while moderating, does not appear ready to collapse. In 2020 as a whole there were 462,000 multifamily permits issued, which is slower than the robust 524,000-unit pace hit in 2019, but on par with the 480,000 averaged over the past five years.

Nonresidential spending appears set to weaken further

While residential construction should remain a source of strength, the outlook for nonresidential construction is not as clear. The root of that uncertainty is not surprising. Many commercial and institutional structures are used to bring people together in one place, which has largely become

unfeasible. Many pre-COVID-19 projects have been able to continue, but private expenditures for lodging, educational, manufacturing, retail, and office buildings have all fallen considerably compared to prior-year levels.

The pandemic has also led to a surge in project delays and cancellations. According to Dodge Data and Analytics, nonresidential building starts fell 24% in 2020, meaning the weakness in nonresidential activity seen over the past few months is likely to continue into 2021. That said, there are a handful of encouraging signs. The forward-looking Architecture Billings Index (ABI), which collapsed to its lowest level on record in March and April, has greatly improved. The index still sits below the demarcation line, which designates whether more architecture firms are seeing an increase (above 50) or a decrease in billings (below 50). Nevertheless, the substantial improvement signals that the worst fears expressed at the onset of the pandemic will likely not be realized.

Commercial construction will continue to lag, but better days ahead

Challenging times are likely to persist for new office construction. While conditions do appear to be improving, the surprising success of virtual work should continue to cut into demand for office space. Considering the productivity and innovation that occurs from in-person collaboration, however, we maintain our view that the office will remain the predominant workspace for office-occupiers once the pandemic is a thing of the past.

Despite some near-term headwinds, there are several reasons to be cautiously optimistic about new office construction. For starters, office workers will be spaced further apart compared to pre-pandemic norms, which will offset some of the downward pressure on demand from having more remote workers. Furthermore, the tech industry has been one of the major drivers of office demand



in recent years. Tech investment is increasingly migrating away from traditional hubs like Silicon Valley to rapidly growing markets like Texas and other parts of the Sun Belt. The influx is fueling new office development in many of these areas.

Hotel and motel construction will likely remain depressed for the foreseeable future. Even before the pandemic, lodging construction was moderating substantially from the supply boom that occurred in the middle of the decade. While this new supply had been met by strong demand, the collapse in all forms of travel has significantly curtailed new development.

Social distancing and the rapid shift to online sales continue to weigh heavily on the retail sector. The recent surge in retail bankruptcies has pushed retail vacancy rates higher. Moreover, many retail chains are looking to reduce their store count. The amount of retail starts recently fell to the lowest on record. Looking further ahead, the COVID-19 crisis will likely serve to accelerate trends that were already in place before the pandemic. For example, town-center properties, which are mostly outdoor and walkable, stand to benefit in a world of social distancing and the preference for open-air activities. Retailers will also increasingly incorporate a “bricks and clicks” strategy, which utilizes the efficiency and time-saving aspects of e-commerce while having limited physical store to fulfill the need for consumers to vet products for quality and authenticity in-person.

The accelerated shift to e-commerce sales has reinforced already robust demand for warehouses, distribution facilities, and other industrial buildings. Warehouse construction is one of just a few major property types in which spending will end 2020 above prior-year levels. What’s more, new development should be just as strong in the year ahead. Even with last year’s spike in e-commerce utilization, online sales made up only about 16% of total retail sales. That share is likely to rise, and demand for industrial buildings will likely remain a growth area for years to come.

Building resilient supply chains will give a modest boost to manufacturing

Construction outlays for manufacturing buildings dropped substantially in 2020; however, spending should soon begin to see some improvement. New social distancing norms have bolstered consumer spending on both durable and nondurable goods, which has fueled a rapid recovery in manufacturing activity. Moreover, some global manufacturing capacity will likely be re-shored as firms build shorter and more resilient supply chains in the aftermath of the pandemic. On the other hand, disruption in the energy industry will remain a headwind for industrial projects. Aside from substantially lower capital spending plans from oil and gas companies, many of the massive petrochemical manufacturing projects that were slated to get under way have been sidelined following the rout in oil prices earlier in 2020.

Technological disruption in health care and education will be more apparent

Spending on health care buildings was another resilient area of construction last year. Some of the gains were a result of efforts to contend with COVID-19, as health care providers raced to set up field hospitals and expand in-patient capacity. That said, health care construction is likely to cool down in coming years as providers continue to embrace technologies such as telehealth and virtual visits. These channels not only minimize in-person contact but are also more cost-effective and will ultimately reduce the amount of space needed to provide care. Technology will have similarly profound impacts on educational facilities. With virtual and distance learning quickly becoming commonplace, it is difficult to justify higher tuitions. In the short term, spending on all types of educational buildings may be boosted somewhat as facilities are retrofitted with technologies that bolster student safety and virtual access. Spending on higher educational buildings, however, is likely to be a major drag on overall educational construction moving forward.



Public construction outlays have held up reasonably well lately, however the outlook for the coming year currently looks bleak. Efforts to contain COVID-19 have strained many state and local budgets, although not as much as initially feared thanks to buoyant consumer spending on goods and rising residential property values. Nevertheless, rising expenses and slower revenue growth has forced many governments to curb capital spending, meaning overall public expenditures will likely decline in 2021 absent federal relief.

Some aid for state and local governments was included as part of the coronavirus relief package signed into law last December. State and local governments did not receive any direct, unconditional grants from the federal government; however, there is conditional funding for a variety of services provided by state and local governments. While this is an encouraging development, it will likely not be enough to meaningfully boost public construction outlays in the short term. While more substantial state and local aid could be coming, the odds of such relief remain uncertain. While Democrats control the White House and both houses of Congress, their majorities are razor thin. Similarly, while a new political regime in Washington increases the odds of an infrastructure spending package, such a bill coming to pass is still uncertain.

The year ahead will bring challenges, but the worst is likely in the past

Overall, we expect spending on residential buildings to rise 4.5% this year as low mortgage rates and the race for space continues to boost single-family homebuilding and home improvement spending. By contrast, nonresidential construction will continue to be held back until the country reaches herd immunity to COVID-19 and indoor, in-person activities are able to resume. We anticipate a 9.2% drop in private nonresidential spending in 2021, as commercial, institutional, and manufacturing expenditures all decline. Furthermore, severely strained state and local budgets will be a drag on overall public outlays, which we expect will

decline 3.5% this year. That said, the eventual widespread distribution of vaccines should help solidify occupancy plans and bring a turnaround in nonresidential construction, likely in the second half of 2021. Bearing that in mind, we expect nonresidential outlays to rise 2.1% in 2022.



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The above commentary is based on the 2021 Construction Outlook published by the Wells Fargo Economics Team on January 11, 2021. For additional information, please contact economics@wellsfargo.com.

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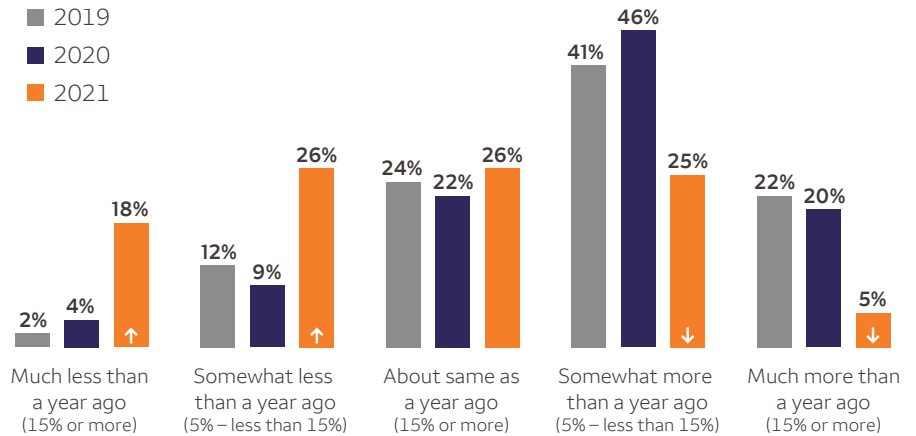
Rental review





Most contractors (55%) believe they will rent the same amount of equipment in 2021 as they did in 2020, though most distributors (44%) report that they are renting out less construction equipment than a year ago.

(Distributors and rental companies) Compared to a year ago, how much construction equipment are you now renting out to contractors?



The up/down arrows denote a significant difference compared to 2020 at the 95% confidence level.
Base: Distributors and rental companies – 80 in 2021, 102 in 2020, 127 in 2019, 105 in 2018, 134 in 2017, 174 in 2016, 138 in 2015.

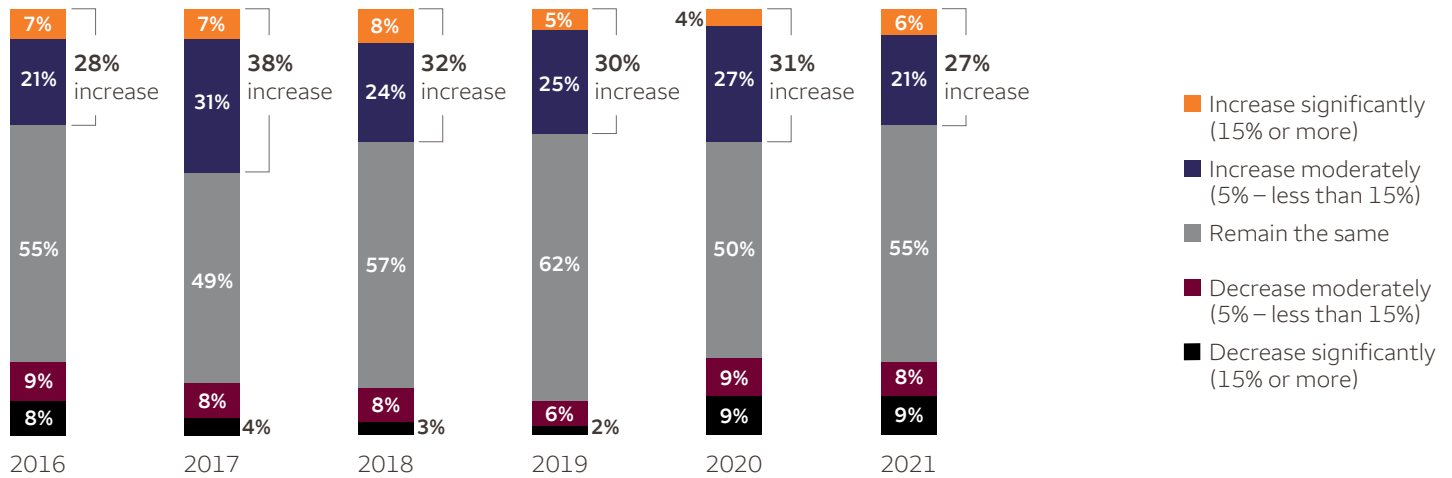
With significant changes for this year’s forecast, more distributors report renting out less equipment than a year ago (44%) and significantly fewer report they rented out either somewhat more (25% down from 46% in 2020) or much more than a year ago (5% down from 20% in 2020).

What one thing could your financial services provider do to help your business be more successful in 2021?

“Partnering with us to develop strategies for the expected boom in growth and development post-COVID-19 would set us up for success in the year ahead.”

— Survey respondent

(Contractors who rented equipment) Do you think that your rental of heavy construction equipment this year compared to last year will:



Base: Contractors who rented heavy construction equipment in 2020 – 86 in 2021, 139 in 2020, 204 in 2019, 119 in 2018, 155 in 2017, 208 in 2016, 189 in 2015.

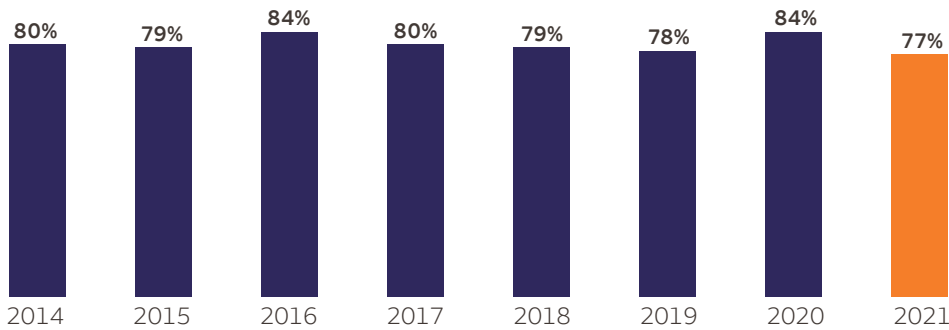
(Contractors) Why do you rent construction equipment? Please rank the top three.

Top reason % (Ranked 1st)	2018	2019	2020	2021
Flexibility; I can return equipment whenever I want	51%	46%	49%	54%
Rental equipment is readily available	23%	19%	23%	16%
Build equity before purchase	9%	20%	11%	12%
High costs to repair and maintain my own fleet	5%	5%	5%	9%
Rental rates are low and attractive	4%	5%	3%	5%
I don't want to own/acquire equipment	9%	6%	9%	4%

Base: Total contractors – 112 in 2021, 166 in 2020, 262 in 2019, 150 in 2018.

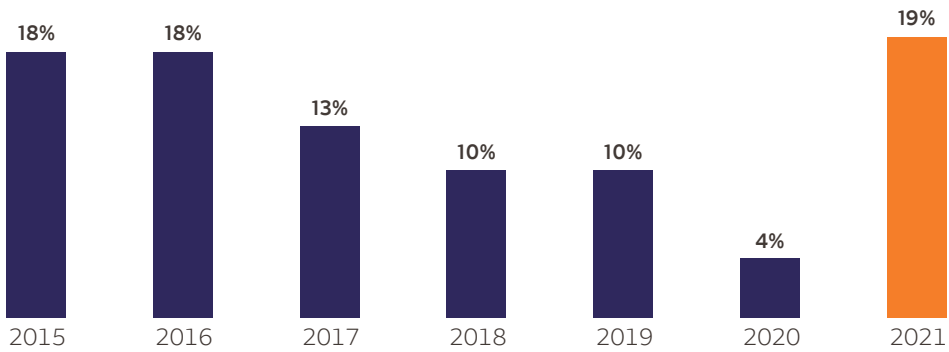
Flexibility continues to be the primary reason contractors decide to rent construction equipment. Other top reasons for renting include availability of rental equipment (16%) and building equity before purchasing (12%). The most common duration for the rental period is monthly, consistent with past years.

(Contractors) Did your company rent any heavy construction equipment last year? (% – Yes)



Rental of heavy construction equipment remains strong and on par with previous years. More than three-quarters of contractors rented heavy construction equipment in 2020. Of those who did not rent in 2020, 19% predict they will rent in 2021, up directionally from 4% in last year.

(Contractors who did not rent heavy construction equipment in 2020) Do you think that you will rent heavy construction equipment in 2021? (% – Yes)



Base: Contractors that did not rent any heavy construction equipment last year – 26^ in 2021, 27^ in 2020, 58 in 2019, 31^ in 2018, 39^ in 2017, 40^ in 2016. ^Small base size.

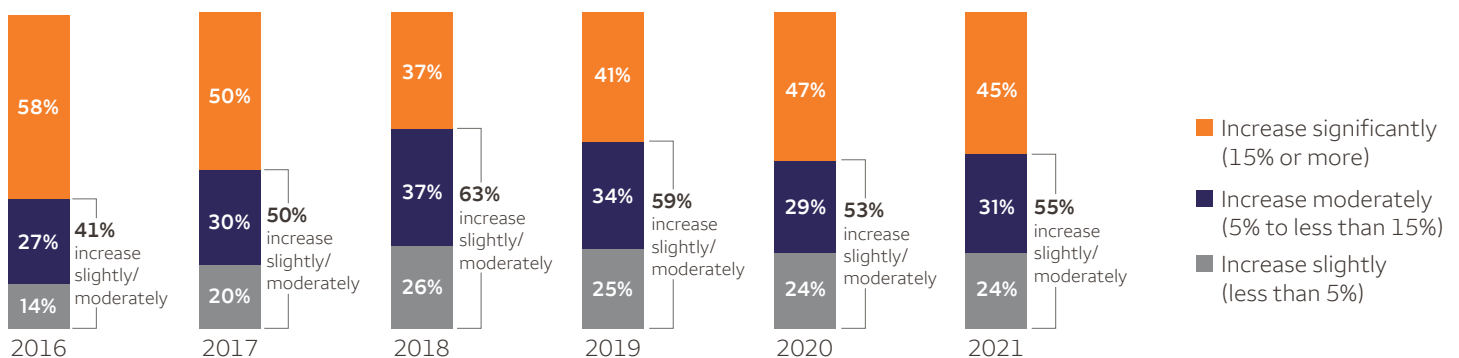
(Contractors) What would you need to happen for you to want to buy construction equipment?

	2019	2020	2021
Stronger backlog of jobs	22%	24%	29%
Long-term confidence in the local economy	22%	23%	24%
Long-term confidence in the national economy	9%	15%	16%
Passing of a long-term highway funding bill	7%	9%	11%
Ability to hire workers to operate the equipment	12%	8%	6%
Lower equipment costs	9%	5%	6%
Special low-interest-rate programs	10%	11%	4% ↓
My company would not consider buying construction equipment in 2021	3%	2%	2%
Other	6%	2%	2%

The up/down arrows denote a significant difference compared to 2020 at the 95% confidence level.
 Base: Total contractors – 112 in 2021, 166 in 2020, 262 in 2019.

A stronger backlog of jobs remains most important to contractors when considering buying over renting; very similar to last year. Long-term confidence in the local and national economy are other top driving factors in contractors’ willingness to buy equipment. Special low-interest-rate programs are not as enticing to contractors as they were in past years (4% in 2021 versus 11% in 2020 and 10% in 2019).

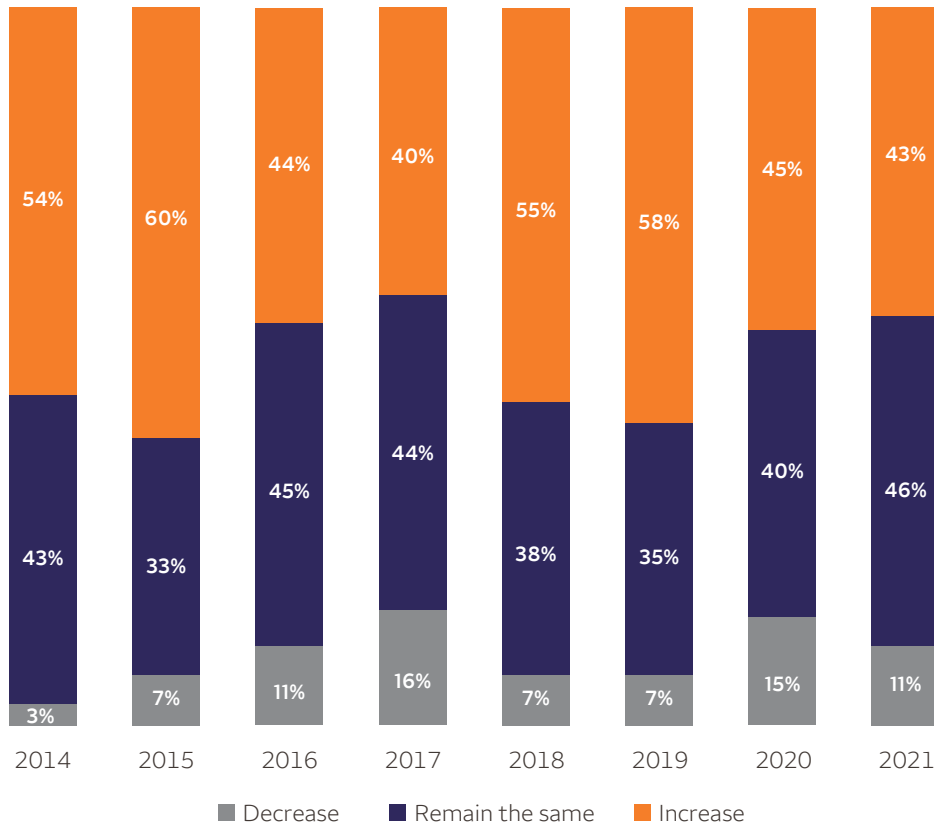
(Contractors) How much would construction equipment rental costs need to increase for you to consider buying instead of renting equipment?



Base: Contractors whose company would consider buying construction equipment – 118 in 2021, 155 in 2020, 244 in 2019, 147 in 2018, 187 in 2017, 228 in 2016.

For at least half of contractors (55%), rental costs would only need to increase slightly (less than 5% or moderately (5% to 15%) for them to consider buying instead of renting equipment. 45% would only be open to buying equipment if costs increased significantly (15% or more).

(Distributors) Do you think that the size of your rental fleet this year compared to last year will:



Base: Total distributors and rental companies – 80 in 2021, 102 in 2020, 127 in 2019, 105 in 2018, 134 in 2017, 174 in 2016, 138 in 2015, 175 in 2014.

In 2021, distributors generally think that the size of their rental fleet will increase or remain the same despite having rented less equipment in 2020. The prediction that distributors will increase or keep the same fleet size is on par with last year. Only about 1 in 10 distributors expect to decrease rental fleet sizes. Most distributors did not raise rental prices in 2020 and a little more than half do not expect to raise rental prices in 2021. This bodes well for contractors who plan to supplement their fleet size with rentals.

What important changes do you believe will occur in the construction industry over the next two years?

“We’re most likely looking at yet another labor shortage sometime in 2021, and we expect that construction technology will become a bigger and bigger part of the operations and business.”

— Survey respondent

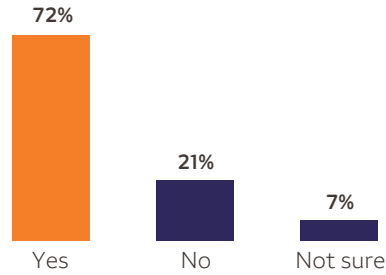
COVID-19 impact, risks, and opportunities



COVID-19: What did companies do?

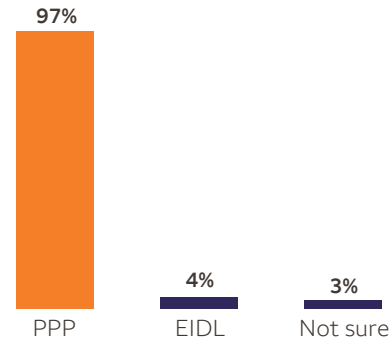
The majority of executives (72%) report having applied for and received government aid related to the COVID-19 pandemic to serve as a financial buffer as about half of executives estimate that the pandemic will negatively impact their net profits. For those who received aid, 97% applied for a PPP loan with very few indicating they applied for other aid programs.

Has your business received government aid related to the COVID-19 pandemic?



Base: Total respondents – 226 in 2021.

(Those who received government aid related to COVID-19 pandemic) Which aid program(s) did your business apply for?



Base: Those who received government aid related to the COVID-19 pandemic – 163 in 2021.

Thinking about the state of your business, what short-term concerns do you have?

“At the moment we’re worried about finding enough additional workers, whether we can afford to provide health insurance, our cash flow, and how COVID-19 restrictions will impact business.”

— Survey respondent



Which of these factors poses the greatest risk to the U.S. construction industry in 2021?

Top answer % (Ranked 1st)	2021
Political/regulatory uncertainty	35%
Economic uncertainty	21%
Public health/COVID-19 vaccine uncertainty	17%
Availability of qualified workers	12%
Declining nonresidential construction market	7%
Rising material costs	3%
Declining residential construction market	2%
Tariffs	2%
Energy prices such as oil and natural gas	1%
Weather	1%

Note: No previous data is shown due to changes to Q26 in 2021.
 Base: Total respondents – 226 in 2021.

In past years, the ability to hire qualified workers was one of the main concerns among executives; however, main concerns have shifted to the national election and the effects of the COVID-19 pandemic. More than one-third of executives express that their top concern for the construction industry in 2021 is political/regulatory uncertainty followed by economic uncertainty (21%) and public health/COVID-19 uncertainty (17%). In 2021, the availability of qualified workers remains as the top concern for 12% of executives, but new concerns overtook the top risk for the majority of executives. Unsurprisingly, more report not being impacted by the ability to hire talented employees in 2020.



Which of these factors creates the greatest opportunity for growth in the U.S. construction industry next year?

Top answer % (Ranked 1st)	2021
Improved overall economy	21%
Increased government spending	19%
Stabilized public health conditions	16%
Improved political climate	9%
Stable regulatory environment	8%
Improving residential construction market	8%
Improved qualified labor availability	7%
Improving nonresidential construction market	7%
Increased consumer confidence	6%

Note: No previous data is shown due to changes to Q27 in 2021.
 Base: Total respondents – 226 in 2021.

Loosely mirroring risks, executives report that an improved economy (21%), increased government spending (19%), and stabilized public health conditions (16%) present the greatest opportunity for industry growth.

Which of the following regulatory issues is of greatest interest to you as it relates to the success of your company? (Please rank the top three.)

Top answer % (Ranked 1st)	2020	2021
Highway Funding Bill	41%	40%
Tax reforms/tax incentives	24%	33% 
Oil prices	11%	12%
Tariffs	10%	4% 
Affordable Care Act	6%	4%
Gas tax	3%	2%
Debt ceiling	3%	4%
Other	3%	2%

Note: No previous data is shown due to changes in Q30 in 2020. Base: Total respondents – 226 in 2021, 305 in 2020.

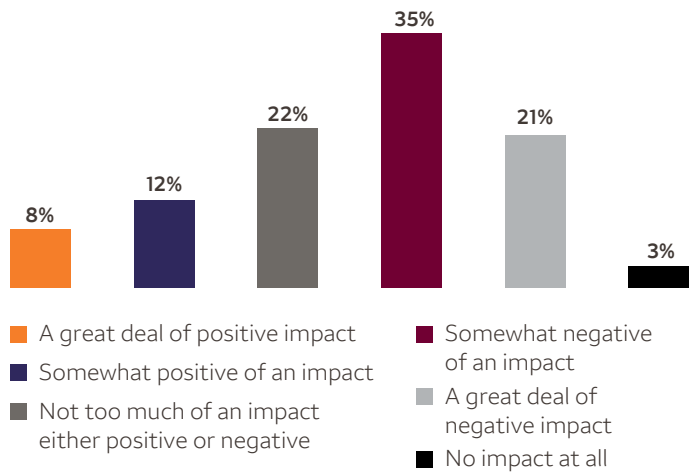
A Highway Funding Bill (40%) and tax reforms/incentives (33%) are the issues ranked as the greatest regulatory issues of interest for executives. Tax reforms/incentives increased significantly from 24% in 2020 to 33% in 2021, while concerns over tariffs fall from 10% in 2020 to 4% in 2021.

Impact of 2020 elections

A majority of executives feel that the results of the election in 2020 will have some sort of impact on the construction industry; just over half believe the impact will be negative (primarily due to taxes as a leading reason) while approximately 20% predict the impact will be positive. A similar number (22%) indicate the impact will be minimal, whether positive or negative.

To what degree will the results of the national election impact the construction industry during 2021?

Will it have...



Note. Q30I was added to the survey in 2020; no previous data are available to present. Base: Total respondents – 226 in 2021.

Reasons why the election will have a negative impact:

“The downside of an election is the potential for more regulations, higher taxes, and a decrease in consumer confidence.”

— Construction Contractor or Aggregates Producer

Business strategy




Ranking concerns of contractors and distributors

The ability to hire qualified workers (54%) and taxes (13%) followed by employee wages and other benefits (8%) ranked as contractors' top cost concerns. Meanwhile, increasing concerns over taxes (31%), equipment costs (20%), and employee wages and other benefits (20%) are top concerns for distributors. Both contractors and distributors saw significant increases in those reporting taxes as a top cost concern for 2021.

(Contractors) Of the following cost categories, which three concern you the most?

Please rank the top three.

Top concern % (Ranked 1st)	2019	2020	2021
Ability to hire qualified workers	47%	54%	54%
Taxes	11%	4%	13% 
Employee wages and other benefits	7%	13%	8%
Equipment purchase costs	8%	8%	5%
Health care costs	10%	4%	5%
Interest rates	6%	4%	5%
Fuel costs	5%	4%	4%
Materials costs	5%	5%	3%
Equipment rental costs	*	1%	1%
Other	1%	1%	2%

** 65% of contractors surveyed have more than 50 employees, implying they have health insurance for employees.




The up/down arrows denote a significant difference compared to 2020 at the 95% confidence level.

Base: Total contractors – 112 in 2021, 166 in 2020, 262 in 2019.

Contractors continue to be worried about the ability to hire qualified workers, but those who report taxes as their top cost concern has tripled from 4% in 2020 to 13% in 2021. Since 65% of contractors surveyed have more than 50 employees, this implies they have health care for their employees. Employee wages and the cost of providing benefits have been a consistent cost concern over the years.

(Distributors) Of the following cost categories, which three concern you the most?

Please rank the top three.

Top concern % (Ranked 1st)	2015	2016	2017	2018	2019	2020	2021
Taxes	12%	10%	7%	15%	4%	6%	31% 
Equipment costs	29%	24%	31%	20%	26%	25%	20%
Employee wages and other benefits	9%	17%	10%	19%	22%	21%	20%
Health care costs	28%	21%	22%	18%	11%	20%	18%
Equipment rental costs – cost of carrying rental fleet	15%	21%	19%	20%	14%	23%	10% 
Financing costs	7%	7%	10%	8%	23%	7%	3% 

Taxes rise as the top cost concern among distributors with nearly five times as many executives citing this as their top cost concern for 2021 (31% compared to 2020 (6% Equipment costs (20% and employee wages/other benefits costs (20% are other key concerns to distributors. Concern for equipment rental costs and financing costs decreased significantly compared to last year.

The up/down arrows denote a significant difference compared to 2020 at the 95% confidence level.

Base: Total distributors and rental companies – 80 in 2021, 102 in 2020, 127 in 2019, 105 in 2018, 134 in 2017, 174 in 2016, 138 in 2015.

What concerns do you have for the construction industry as a whole in 2021?

“For the industry as a whole, I’m worried about demand. I hope that a reasonable amount of projects are available for existing contractors, so we can avoid cutthroat competition, and to provide a consistent and stable construction season. I also hope the COVID-19 vaccines work as expected.”

— Survey respondent





“The year ahead, is in many ways a continuation of 2020. We face many of the same challenges of 2020. COVID-19 is still a big concern, as is the lack of qualified workers. On top of that, changing regulations from the new White House.”

— Survey respondent

“The industry as a whole needs to learn how to better utilize technology and become more efficient building with fewer manhours on the actual jobsite. In addition to COVID, finding and retaining qualified workers both inside the office and in the field is a growing concern.”

— Survey respondent

“Greatly reduced tax receipts for the local/state governments in 2021 will have a negative effect on the amount of projects that will be let.”

— Survey respondent

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