What's in Store for Construction in 2023?

How economic, labor & supply chain issues factor into the new year

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Looking ahead to the state of the construction industry in 2023 and beyond, it's impossible to disregard the impact of the macroeconomic issues we are used to hearing about. On the positive side, we have a strong dollar boosting the purchasing power of domestic companies issuing purchase orders overseas. However, this may be offset by stubborn inflationary trends (and the Federal Reserve's aggressive interest rate hikes in response), ongoing strains on the supply chain, and the struggle of attracting and maintaining a qualified workforce.

Rising Interest Rates

On the private side of the industry, there's less money on the table when it comes to lending. Cash flow is getting crimped as lenders have responded to rising rates by tightening their grip on liquidity. Interest rates are affecting margins, too, so financing deals that looked like a sure thing only a few months ago aren't closing now. Construction firms with private portfolios are feeling that pinch. In turn, many are looking at projects on the public side of the industry moving forward and saying, "We can do that work, too." These new faces are entering bids on public work, with broad ripple effects.

These firms know they aren't competing on experience, so they are happy to compete on price. The result is downward pressure on public bid pricing. Still, experience matters, and that's true both on- and off-site. Private companies are playing a whole new ballgame when it comes to pursuing public work projects. Construction firms with a history of completing projects awarded by government offices and other public entities have a real advantage when it comes to securing bonding and delivering the financial reports this type of work requires.

When Federal Reserve Chair Jerome Powell spoke at a symposium in Jackson Hole, Wyoming, in August, he made it clear that interest rates would continue to climb until "we are confident that inflation is moving down." The October 2022 inflation report returned better-than-expected results, but based on Powell's comments, it'll take more compelling evidence of falling inflation before rising interest rates level off. It remains to be seen what else is in store for the industry as rates look likely to continue their climb.

Supply Chain

COVID-19 introduced a host of issues that revealed vulnerabilities in the just-in-time supply chain. The construction industry has responded with ingenuity, building out capabilities designed to prevent the kind of disruption we saw in 2020. Many are over-purchasing the supplies they struggled to source a few years ago. That may prove smart should any unexpected shutdowns throw a wrench in the global recovery, but they are also added expenses. In addition to warehousing fees, the cost of trucking doubled as goods head first to the warehouse, then to the jobsite. Meanwhile, some construction

companies are striking up partnerships with former competitors. Joint ventures are increasingly common as companies addressing labor and supply constrictions band together to prove the old adage that two are better than one. Some best-in-class firms appear happy to pay for equipment and supplies long before they're needed; others have created partnerships born of necessity.

Solutions like these are a hedge — and could prove strategically significant, smart and profitable — but they are not without risks of their own. It is safe to say, though, that negotiation and sourcing are highly coveted skills within the construction space.

Labor

On the labor front there may be some good news. A recent analysis of labor statistics suggests that job hopping may be slowing. Where economic conditions had made switching employers fairly high-reward and low-risk, a cooling economy is upsetting that equation. According to a recently released Bureau of Labor Statistics report, fewer construction industry employees walked away in 2022. But the industry's unemployment rate has been hovering around 3.5%, with recent data reporting 36,000 new job openings. Considering the country is still at or near maximum employment, getting the right people in place to complete projects remains a serious concern. If these conditions continue, we may see the trend in employee defections reverse. Wise employers won't wait to check in with their teams to make sure employees feel rewarded. That means creating the work environment and pay structure that will serve retention efforts.

The Waiting Game

When the Build Back Better (BBB) plan was passed, it looked like a boon for the construction industry. Now that the industry is in rougher shape (at least on the private side), it could be a lifeline for some firms.

Unfortunately, what was anticipated to be a swift rollout has not yet materialized. Still, with a lot of funding allocated toward major construction initiatives, construction firms are looking forward to a huge influx of utility, infrastructure and environmental work.

In the meantime, construction firms can take some preliminary steps to stand out as BBB-funded projects begin going out to bid.

First, tighten up that balance sheet. To compete for public work, it's essential that a contractor has working capital and equity. Next, start making smart moves to maximize your bonding capacity. The higher value the project, the more you'll rely on your bonding partners to qualify to get the work.

Return to Normal

After a few years of upheaval, we're overjoyed to see that our working world looks a lot more familiar. We're seeing great turnout at in-person industry summits, conventions and committee meetings. If we learned anything through the pandemic, it's the value of interpersonal contact and close community. That lesson is being carried out with a high level of camaraderie throughout the industry. Not only is it great to see people eager to work together, but it will serve the industry well as we prepare to face an economic environment that is full of potential challenges. That said, I do believe the future is ours to design and look forward to building it together. ▲