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by Daniel Groves

Although 2015 brought continued growth in the construction industry as the economy rebounded; this growth was not without challenges as labor shortages escalated and federal funding for projects was constrained. Optimism for the industry going into 2016, while down slightly from the record high 2015 is still higher than average as 42% of contractors expect to increase their purchases of new equipment in the coming year. Contractors and executives from the energy states believe that activity will remain consistent with last year, although many surveys were conducted before the recent downturn in oil and gas revenues. So what are the construction industry trends to watch going into 2016? Here are five trends that will impact the industry moving forward.

1. **Worsening Craft Shortages** – Even as construction continues its frenetic pace in the U.S., persistent shortages of qualified labor threaten growth and productive project execution. With 71% of firms planning to expand payrolls in 2016, labor shortages will persist as the rate of new workers coming into the industry fail meet the demand for skilled labor. What’s worse, age attrition is outpacing new entrants, further exacerbating the problem. Expect to pay more for qualified craft workers in 2016 in both wages and incentives. Early planning will be essential. The more effectively you understand labor risk, the more effectively you can mitigate it. (Here’s how we can help: CLMA | Wages)

2. **Productivity Decline** – Other industries such as manufacturing have made changes that have significantly improved productivity. However, construction has not followed suit and the result of this improvement deficit is minor, if any, positive change in reported productivity of the construction industry over the years. Consequently, productivity continues its slide and contractors in the Southeast are reporting consistent rates exceeding 2.0.

   For the construction industry to make significant progress on productivity, leadership needs to adopt a different approach to project execution and think in terms of how projects can be built with significantly less labor. This is also critical to how the construction industry will survive the growing labor shortage. More work must be done with less labor. Steps have been taken in the right direction (E.g. Off-site fabrication, modularization, smart engineering models, collaboration, workforce planning, etc.) but these efforts must be institutionalized, not optional. In the short-term, effective, early-FEL planning; improved and consistent training; and effective apprentice-to-journeyman crew mix ratios can help improve project execution while building a workforce prepared to productively do the work that technology, automation and robots may never be able to complete. (Here’s how we can help: Productivity)

3. **Owner Downsizing** – Downsizing of internal owner construction programs and organizations has become a consistent theme over the past couple years and increases an owner’s risk of realizing cost, schedule, quality and safety issues on capital projects. Downsizing also impacts the overall construction industry as senior, talented professionals are pushed out or re-aligned internally. To address this, owners should seriously consider:
   - Succession planning and knowledge transfer (E.g. mentoring programs)
   - How to adjust to this new reality by understanding impacts and risks
   - What this does to their contracting strategy
• The impact on the role of owner – will an owner’s representative suffice?
• The core competencies for owner representative effectiveness
• What can be easily contracted to EPCM or alliance contractors

Downsizing for capital project staff is not the same as other corporate downsizing; but owners must put a structure in place to ensure contractor accountability, validation, risk mitigation and the most productive use of every capital dollar. (Here’s how we can help: Personalized Solutions)

4. Modularization and Prefabrication – Craft labor shortages and productivity declines are increasingly driving project planners to explore construction alternatives, and this trend will continue. Prefabrication and modularization enables on-site field work to be minimized by moving some of the work hours to other locations. These options have been used effectively for many years to build units in areas of high labor availability or lower cost and to ship completed units to remote areas experiencing labor restrictions. In this case, the local labor shortage may make prefabrication and modularization an attractive alternative that may not have been pursued under normal labor conditions.

However, prefabrication and modularization may not always be the right solution. They require additional time in early phases of a project, significant lead time and intense logistics planning. Therefore, the cost of these additional planning needs must be balanced against the cost savings realized in an off-site, controlled labor environment and the potential higher cost of attracting workers to the project site.

Additional items owners and contractors should think about when considering modularization:

- **Storage issues** — Plan for how the items need to be stored and positioned while in transit and staging.
- **Transportation issues** — Plan for permitting, cost and issues related to crossing oceans.
- **Early planning** — Modularization tends not to work when introduced mid-project; its advantages are best realized when planned for early in the project. Prefabrication and modularization are growing as construction alternatives, but it’s imperative to complete a realistic cost–benefit analysis before pursuing any alternative. (Here’s how we can help: Solutions)

5. Cautious Project Selection – Market uncertainty tends to equate to cautious project selection. Prior to the previous recession, the construction marketplace was booming and craft workers were in short supply. Contractors became very selective about which projects they even chose to bid on. Often, owners were getting few or no RFP responses as expectations were very high and contractors chose to work on projects where they had the highest level of confidence they could deliver on expectations. Contractors have this luxury in an expanding market, which currently defines the construction market. This contractor response to market conditions is repeating itself and is likely to continue until the construction market softens again. Knowing market conditions facilitates better planning. (Here’s how we can help: Market Intelligence)

These are five construction industry trends to watch in the coming year and beyond as the industry will likely continue to expand, at least in certain sectors, if not all sectors. Overall, construction owners and contractors should remain diligent and optimistic, while also considering the impact of construction industry trends as they relate to their unique business situations.