2022 Construction Industry Forecast
A year of cautious recovery

With an unceasing health pandemic, and supply chain constraints in tow, 2021 brought us continued industry stress, with a glimpse of optimism mixed in. During complex times such as these, it is vital to survey our industry peers to understand their sentiment as they reflect back, and begin to look forward.

This marked the 46th year of our annual Wells Fargo Construction Industry Forecast, and we are pleased to report that industry executives from 46 states responded to our survey. The primary goal of the survey is to determine the 2022 U.S. National Optimism Quotient (OQ), which is the survey's primary benchmark for measuring the degree of optimism in the non-residential construction business for the coming year. In addition to determining the OQ, the survey also posed questions about equipment sales and purchase expectations, trends in the rental market, and explored major cost and risk concerns that industry executives are thinking about as they look ahead to 2022. This year’s OQ comes in at 112 indicating optimism, but still peppered with caution.

COVID-19 continues to affect our economy and our society, and the aftermath of the initial impact still looms. Executives told us that the greatest risks to the construction industry are unavailability of skilled workers and an increase in supply chain disruptions. In spite of these, and other imminent risks and concerns, executives have noted that key opportunities lie in an improved overall economy, improved qualified labor availability, the recent Congressional passage of the Infrastructure Bill and low interest rates. Overall, most executives remain positive about profitability in 2022 with significantly more (52% vs. 40% last year) expecting profitability will increase and only 28% predicting net profits will remain the same.

As we shift our focus to what may come next, 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 2022 Construction Industry Forecast represent the 46th 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 313 construction industry executives in 46 states. Note: The margin of error for this survey varies among respondent groups, but does not exceed 15% (95% confidence level).

Respondent classification

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. These companies are grouped with distributors for purposes of analysis.

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

September 13 – October 4, 2021

Composition of survey respondents

Over half of respondents represent companies with more than 51 employees (59%) and an annual revenue of over $25 million (53%). Non-residential building and site preparation/excavation are the most common industries among respondents. Respondents are high level executives including primarily owners (34%) or C level executives (21%).
Companies surveyed varied in size and revenue; nearly 6 in 10 companies have more than 50 employees and approximately one-half have $25 million or more in annual revenue.
In which of the following industries do you do the most work?

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-residential building</td>
<td>20%</td>
</tr>
<tr>
<td>Site preparation/excavation</td>
<td>17%</td>
</tr>
<tr>
<td>Equipment dealers/rentals</td>
<td>12%</td>
</tr>
<tr>
<td>Concrete and asphalt</td>
<td>11%</td>
</tr>
<tr>
<td>Residential building</td>
<td>10%</td>
</tr>
<tr>
<td>Heavy Highway</td>
<td>9%</td>
</tr>
<tr>
<td>Utility contracting</td>
<td>8%</td>
</tr>
<tr>
<td>Aggregate production</td>
<td>4%</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>4%</td>
</tr>
<tr>
<td>Renewable energy</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>6%</td>
</tr>
</tbody>
</table>

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

- Aggregate producer: 4%
- Construction equipment distributor with rental: 23%
- Construction equipment rental company: 5%
- Industry service supplier (consultant, association, publication, etc.): 1%
- Construction equipment manufacturer: 8%
- Other: 58%
- Construction contractor: 1%

Base: Total respondents — 313.
Percentages may not add up to 100% due to rounding. For questions regarding this Wells Fargo Equipment Finance survey, please contact us at WFCCInquiries@wellsfargo.com.
2022 — A year of cautious recovery

The Optimism Quotient (OQ) — this survey’s primary benchmark for measuring contractor and equipment distributor sentiment on local non-residential construction activity — is 112 for 2022. Rebounding from the sentiments of the prior two years, most executives expect increased growth, though some do maintain their caution for the year ahead.

While this year’s score is considered strong optimism for local non-residential construction, the strong expectations this year should be taken within the context of exceeding the tempered optimism of the last two years.

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 and contractors predict positive growth in 2022 in spite of the continuing effects of the global pandemic, uncertainty related to supply chain disruptions and concerns over inflation.
Strong optimism emerges for local non-residential construction after two years of tempered forecasts. The Optimism Quotient (OQ) presented by Wells Fargo Equipment Finance is this survey’s primary metric for assessing respondents’ sentiment about local non-residential 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

Optimism rose across all regions with the Northeast recording a 45 point swing in optimism after seeing the largest decline last year rising from 70 (low optimism) to 115 (strong optimism).
Optimism is comparable among contractors and distributors

Contractors and distributors alike are optimistic in their outlook for non-residential construction in 2022. For the fourth consecutive year, contractors and distributors have largely consistent expectations for the year ahead. Previously, distributors had expressed a higher level of optimism than contractors.

Base: Total contractors (n=197), Distributors (n=86) for 2022 forecast.

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 Optimism Quotient compare to other key economic indices?

Although there are outlier years, the overall data over time shows that the Optimism Quotient tracks closely with four key economic indices. The indices that are significant to the construction industry outlook are the Architectural Billings Index, the Private Construction Index, the Industrial Production Index, and the Public Non-residential Construction Index.

![Optimism Quotient vs. Total Architectural Billing Index](image1)

Source: The American Institute of Architects (AIA)

![Optimism Quotient vs. Industrial Production Index](image2)

Source: Wells Fargo Securities, LLC.

![Optimism Quotient vs. Public Non-residential Construction Index](image3)

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

![Optimism Quotient vs. Private Construction Index](image4)

Source: U.S. Census Bureau (BOC): Construction Put-In-Place (C30)
Survey results
Three things to know for the year ahead

1. Industry Optimism
   While optimism has rebounded from 78 up to 112, the positive outlook for 2022 retains elements of caution due to key industry risks and ongoing uncertainty due to the global pandemic. However, in spite of the risks, both contractors and distributors have similar expectations of local, non-residential activity for 2022 with roughly half of executives expecting it to increase compared to 2021.

2. Top Risks, Financial Concerns and Opportunities
   Executives told us that the greatest risks to the construction industry are the availability of skilled workers and supply chain disruptions. Rising material costs and inflation also factor highly when expanding to look at the top three concerns. The ability to hire qualified workers is also the top cost concern among 53% of contractors (followed by materials costs and employee wages and other benefits). In spite of these looming risks and concerns, executives noted that key opportunities lie in an improved overall economy, improved qualified labor availability, the recent Congressional passage of the Infrastructure Bill, and low interest rates.

3. Equipment Acquisition
   Distributors are largely optimistic about sales of new equipment with 61% stating they expect an increase in sales. Those who do not expect an increase are split with 18% who predict sales of new equipment will remain the same and 21% who believe sales will decrease. Among contractors, the expectation of new equipment purchases in 2022 is mixed; 43% feel it will remain the same, 38% feel it will increase, 14% feel it will decrease. A stronger backlog of jobs, and long-term confidence in local and national economy followed by lower equipment costs are the main factors that would encourage contractors to purchase equipment. Similarly, most contractors feel that their purchases of used equipment will remain the same (50%), while 60% of distributors think their sales of used construction will increase.
What does non-residential construction look like in 2022

Non-residential construction

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

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

Contractors and distributors have similar expectations in 2022 for non-residential construction activity with significantly more than last year, 51% and 50% respectively, predicting activity will increase. Compared to last year, fewer believe non-residential construction will decrease.

Note: The up/down arrows denote a significant difference compared to 2021 at the 95% confidence level.


Industry growth

Over half of executives predict there will be industry expansion two years from now. While this estimation is consistent with last year, the recent passage of the Infrastructure Bill could have the ability to strengthen this optimism. Those anticipating no change to the industry (21%) or some form of contraction (25%) in two years has remained largely unchanged.

But what about net profits?

Net profit

Most executives remain positive about profitability in 2022 with significantly more (52% vs. 41% last year) expecting profitability will increase and only 28% predicting net profits will remain the same. Down from last year, 4% believe that net profits will decrease significantly in 2022 compared to 2021.
Non-residential versus residential activity

Expectations for 2022 saw many significant shifts from the 2021 outlook. Half of executives expect non-residential construction activity will increase (50% in 2022 up from 28% in 2021), and only 12% anticipate activity will decrease (down from 24% in 2021). Last year, nearly half of executives predicted that non-residential construction activity would remain the same; however, for 2022, significantly fewer believe it will remain the same (38% in 2022 compared to 48% in 2021). Non-energy states saw a similar shift with significantly more predicting an increase (49% up from 24%) in activity while significantly fewer expected activity to remain the same or decrease. More than half of those from energy states are also expecting an increase in activity. Of the executives who expect non-residential activity to remain consistent with activity last year, executives are mixed — approximately 50% believe it will happen in 2022 and the remaining half believe improvement will happen in 2023 or beyond. Significantly more executives are predicting a longer period before improvement (second half 2023 or beyond, 29% up from 15%).

What is your projection for local non-residential construction activity in 2022 compared to 2021?

Optimism for residential construction activity is consistent for those from Energy and Non-Energy states compared to last year

Optimism for residential construction activity remains consistent with predictions from last year with 44% expecting an increase and 43% expecting activity will remain the same. Optimism for residential construction activity is consistent for those from Energy and Non-Energy states and regions compared to last year. Executives who believe activity will remain the same have diverging opinions on residential construction activity with 27% expecting an increase in the first half of 2022 and 32% conservatively estimating an increase in residential activity in the second half of 2023 or beyond.

What is your projection for local residential construction activity in 2022 compared to 2021?
Sales heading into 2022

Distributors

Overall, distributors indicate positive predictions for 2022 sales. Distributors are optimistic with 61% who believe that sales of new construction equipment will increase. Other distributors (18%) expect sales of new equipment will remain the same while 21% fear that sales may decrease.

Do you think that your sales of new construction equipment in 2022 compared to 2021 will:

- Decrease: 21%
- Remain the same: 18%
- Increase: 61%

Total distributors and construction equipment manufacturers answering (excludes rental companies) — 71 for 2022 forecast.

Consistent with last year, over half of distributors (60%) are predicting strong sales for used construction equipment in 2022; 28% think sales of used equipment will remain the same in 2022.

Do you think that your sales of used construction equipment in 2022 compared to 2021 will:

Contractors

Contractors are more conservative about purchases of new equipment in 2022 compared to distributors’ expectations of sales. Contractors are divided with 38% who believe their new equipment purchases will increase this year, 43% who expect purchases to remain flat and 14% planning to decrease their purchase of new equipment in 2022.

Do you think that your purchases of new construction equipment in 2022 compared to last year will:

- **Decrease**: 14%
- **Remain the same**: 43%
- **Increase**: 38%

Base: Total contractors — 197 for 2022 forecast.

When asked about used equipment purchases, half of contractors anticipate purchases will remain the same, while 23% predict an increase, and 10% expect purchases to decrease in 2022. Fewer contractors believe their purchases of used equipment will decrease.

Do you think that your purchases of used construction equipment in 2022 compared to last year will:

- **Decrease**: Varying percentages from 20% to 44%
- **Remain the same**: Varying percentages from 16% to 42%
- **Increase**: Varying percentages from 22% to 50%

Base: Total contractors: For 2022 Forecast (n=197); 2021 (n=112); 2020 (n=166); 2019 (n=262); 2018 (n=150); 2017 (n=194); 2016 (n=248); 2015 (n=238).
“Finding skilled labor is the biggest problem that keeps us from growing our company. We turn work down daily because we do not have enough workforce.”
— Survey respondent
The construction industry appears to be moving back into balance. One of the major themes over the past year and a half has been the divergence in residential and non-residential construction owed largely to the aftershocks of the pandemic. Now, with vaccines and an expanding toolbox of therapeutics, the post-pandemic economic picture is becoming clearer and the gap appears to be narrowing. After surging higher for much of the past two years, residential spending has moderated. Despite strong demand from buyers and investors and persistent low-for-sale inventory, housing starts have remained relatively constrained. The apparent contradiction is being driven by the persistent shortages of materials and labor as well as substantially higher input costs, which is making it tougher for builders to finish projects started during the pandemic. During October, there were 726,000 single-family homes under construction, the most in over a decade. Furthermore, the number of multifamily buildings with five or more units currently under construction stands at 712,000, more than at any time dating back to 1974.

On the other side of the ledger, non-residential activity is starting to gather momentum. The knock-on effects of the public health crisis continue to be a boon for new warehouse and industrial development, with the shift to e-commerce becoming more fully entrenched following the lockdown periods at the start of the pandemic. Retail construction has also picked up, as consumers feel more comfortable heading back into stores and have more time to do so with more flexible work schedules. In addition to diminishing COVID concerns, consumers have accumulated a stockpile of savings. Along similar lines, businesses continue to work to find ways to shorten and fortify supply chains amid surging consumer demand, which has bolstered activity in the factory sector and spurred development of new manufacturing projects. The public sector has been another recent bright spot. State and local governments are now flush with cash from unexpectedly strong tax receipts and federal aid, and much of this money appears to be flowing into a myriad of public works projects.

Of course, the non-residential sectors which have suffered the most adverse pandemic-related impacts are still struggling to get back on track, notably for new office, hotel and education projects. That noted, there are encouraging signs that the worst days are likely in the past. Schools appear to have successfully welcomed back students for in-person instruction without significant disruption from COVID outbreaks in most of the country. The return to the office is gaining traction, which is a step in the right direction for the beleaguered office market. We expect the return to gain momentum in 2022, despite the threat from the Omicron variant. There is even some cause for cautious optimism for the hard-hit lodging sector. Despite new COVID outbreaks, domestic and leisure travel ramped up considerably in 2021 and the long-awaited return of business and international travelers should further revive the hotel market in 2022.

While conditions are improving, the entire construction industry remains constrained by pervasive supply-side bottlenecks. The many twists and turns of the pandemic over the past two years has left global supply chains tied up in knots, making a long list of building materials difficult to come by. Shortages of key inputs have pulled prices sharply higher for a wide array of items ranging from steel and copper to appliances and pickup trucks. This past year’s meteoric rise in lumber prices provided the first clue that building materials would not be exempt
from the inflationary pressures building up throughout the economy. After peaking in May, lumber prices have come down significantly but are now once again trending higher. Transportation logjams and wildfires in the Pacific Northwest and Canada have curtailed new supply, all while home builder demand and demand from remodelers remains strong. The fluctuations in framing lumber prices comes as prices for other key materials continue to soar. Steel prices have skyrocketed, as global steel production continues to be curtailed by pandemic related factory closures. Higher oil prices and widespread transportation shortages have significantly boosted freight costs as well.

The building material pricing and availability environment stands to be somewhat friendlier in 2022. Supply constraints appear to be easing slightly as the winter brings a seasonally slow period for construction projects in the Northeast and Midwest, which could potentially free up resources for the South and West. As the holiday season winds down and the calendar moves into 2022, logistics networks presumably will be under far less stress from the onslaught of imports arising from the upshift in holiday spending. Less congested transportation channels should foster the movement of building materials and other freight around the country. Furthermore, the growing armament of COVID-19 treatments and vaccines should help reduce unplanned factory closures and port disruptions, which will allow production to catch up with demand.

Unfortunately, there appears to be no relief in sight for the increasingly dire shortage of skilled workers. The number of construction job openings jumped to 410,000 in October 2021, marking the highest level on record, which dates back to 2000. Shortfalls of labor are widespread across the trades, but appear most acute for skilled positions that require technical knowledge, extensive training, or certifications. Difficulties finding qualified
workers have thrown meticulously choreographed project schedules into disarray, leading to delays and uncertain completion timelines. Construction firms are now quickly raising compensation to attract and retain workers. The Employment Cost Index (ECI) for construction workers, which measures total compensation, shot up 3.6% year-over-year in the third quarter of 2021, the sharpest rise since 2008.

While unlikely to meaningfully abate, worker shortages should improve in 2022. The absence of fiscal support and rising wages across the construction industry will help convince sidelined workers to return. Less restrictive immigration controls should also help augment the supply of labor. Even before the pandemic ignited a surge in early retirements, the pace of retirements was far exceeding the number of new entrants into the construction industry. Given that construction work has mostly fallen out of favor with younger generations thanks to the rise in less physically intensive service-based occupations, the construction industry as a whole will likely continue to endure the challenge of labor shortages over the long term. One silver lining of labor shortages and the pandemic-induced need to social distance is that the construction industry now appears to be adopting new technologies at a much faster pace. The use of drones, virtual inspections, augmented reality apps and other new tech stand to significantly boost productivity in coming years, which can provide some offset to supply chain and labor challenges.

Despite these headwinds, builders and developers appear to be pressing ahead. A structural shortfall of existing single family homes, still-strong buyer demand and low mortgages provide the foundation for a strong pace of home building next year. Even with some recent moderation in housing starts, the NAHB Housing Market Index remains at a lofty level, meaning home builders remain overwhelmingly optimistic. Overall permitting activity has strengthened, with both single-family and multifamily permits rising in recent months. The elevated level of multifamily permitting recently suggests developers are encouraged by the broad-based resurgence in demand for apartments in nearly every major market in the country. A large proportion of apartment development is in mid-rise and high-rise projects. Keeping this in mind, we expect residential spending to increase 6.5% in 2022, a slowdown compared to the feverish pace seen in 2021, yet still a fairly strong rate of growth.

We expect non-residential construction to further get back on track next year. The rise of remote work and shift to hybrid work models will continue to weigh heavily on new office construction. As the RTO makes further progress in 2022, however, new office construction should begin to slowly advance. A massive overhang of sublet space in the large gateway markets such as New York City and San Francisco means most new office construction will be concentrated in Denver, Austin, Charlotte, Miami and other Southeastern and Mountain West markets with robust population and employment growth. Spending on retail projects is also poised to strengthen, as retailers follow residential development spurred by the population shift to the suburbs and secondary metro areas throughout the Sun Belt.

Warehouse construction will also continue to expand, as the rise of e-commerce and congested supply chains continues to drive demand for warehouses, distribution centers and logistics facilities. Manufacturing is likely to be another bright spot. In addition to global manufacturing capacity being partially re-shored as firms seek more resilient supply chains, higher commodity prices will likely allow some LNG and petrochemical manufacturing projects to get back underway, notably in the Western Gulf states.

Spending on healthcare buildings is likely to improve, but only modestly so. Healthcare 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. Education project spending is set to take a similar trajectory. Substantial renovation and remodel spending to upgrade buildings with the latest air filtration systems and other safety modifications will provide a boost to activity. Spending on higher educational buildings, however, is likely to be a major drag on overall educational construction moving forward. Virtual and distance learning are becoming more commonplace. Shrinking enrollments due to a smaller college age cohort and better job prospects from tighter labor markets are also a significant headwind.

According to Dodge Data & Analytics, total non-residential building starts have begun to climb higher, with starts up 11% on a year-to-date basis in October. What’s more, the forward-looking Architecture Billings Index has been solidly in expansion territory for most of the past year. Taking these factors into consideration, we anticipate private non-residential spending to bounce back from an estimated 5.8% decline this year and increase 2.8% in 2022, as commercial, institutional and manufacturing expenditures all begin to pick up modestly.

We also look for a 3.2% rise in public non-residential construction spending in 2022 and a 7.4% increase in 2023. State and local governments are now flush with cash from unexpectedly strong tax receipts and federal aid, and new funding now appears to be flowing to public works projects. The bulk of COVID relief funds to state and local governments already have been disbursed, but another $100 billion of grants are yet to be released. What’s more, the recently enacted Infrastructure Investment & Jobs Act, which provides $550 billion of new spending for roads, bridges, mass transit, water and numerous other infrastructure projects, stands to boost public sector construction further, but the bulk of that spending will not materialize for a year or more.

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The above commentary is based on the 2021 Construction Outlook published by the Wells Fargo Economics Team on December 10, 2021. For additional information, please contact economics@wellsfargo.com.

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Distributors are experiencing a rebound as 17% indicate they are renting out much more equipment than a year ago — significantly more than last year. Distributors continue to utilize the majority of their fleets. Most contractors (56%) believe they will rent the same amount of equipment in 2022 as they did in 2021, but the number of contractors who report their rentals will decrease significantly has gone down from 9% to 2%.

(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 2021 at the 95% confidence level.

“Employee shortages, material cost increases and supply chain costs of inbound freight from overseas are all major concerns.”
— Survey respondent
(Contractors who rented equipment) Do you think that your rental of construction equipment in 2022 compared to 2021 will:

<table>
<thead>
<tr>
<th>Year</th>
<th>Increase significantly (15% or more)</th>
<th>Increase moderately (5% – less than 15%)</th>
<th>Remain the same</th>
<th>Decrease moderately (5% – less than 15%)</th>
<th>Decrease significantly (15% or more)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>7%</td>
<td>9%</td>
<td>46%</td>
<td>9%</td>
<td>26%</td>
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<td>2016</td>
<td>37%</td>
<td>21%</td>
<td>55%</td>
<td>8%</td>
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<tr>
<td>2017</td>
<td>28%</td>
<td>31%</td>
<td>49%</td>
<td>6%</td>
<td>9%</td>
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<tr>
<td>2018</td>
<td>32%</td>
<td>24%</td>
<td>6%</td>
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<tr>
<td>2019</td>
<td>62%</td>
<td>57%</td>
<td>3%</td>
<td>6%</td>
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<tr>
<td>2020</td>
<td>30%</td>
<td>50%</td>
<td>5%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>2021</td>
<td>31%</td>
<td>27%</td>
<td>5%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>2022</td>
<td>35%</td>
<td>56%</td>
<td>2%</td>
<td>7%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Base: Contractors who rented construction equipment in 2021 — 162 for 2022 forecast, 86 in 2021, 139 in 2020, 204 in 2019, 119 in 2018, 155 in 2017, 208 in 2016, 189 in 2015. The up/down arrows denote a significant difference compared to 2021 at the 95% confidence level.

(Contractors) Why do you rent construction equipment? Please select up to two reasons.

<table>
<thead>
<tr>
<th>Top 2 Reasons</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexibility; I can return equipment whenever I want</td>
<td>62%</td>
</tr>
<tr>
<td>Rental equipment is readily available</td>
<td>29%</td>
</tr>
<tr>
<td>High costs to repair and maintain my own fleet</td>
<td>18%</td>
</tr>
<tr>
<td>I don’t want to own/acquire equipment</td>
<td>13%</td>
</tr>
<tr>
<td>Long order cycles for equipment purchase</td>
<td>9%</td>
</tr>
<tr>
<td>Build equity before purchase</td>
<td>8%</td>
</tr>
<tr>
<td>Rental rates are low and attractive</td>
<td>5%</td>
</tr>
<tr>
<td>None of these</td>
<td>10%</td>
</tr>
</tbody>
</table>

Base: Total contractors: 168 for 2022 forecast.

Flexibility continues to be the primary reason contractors decide to rent construction equipment. Other top reasons for renting include availability of rental equipment (29%) and high costs to repair and maintain a proprietary fleet (18%). The most common duration for the rental period is monthly, consistent with past years.
(Contractors) Did your company rent any construction equipment in 2021? (% — Yes)

Rental of construction equipment remains strong and on par with previous years. Over three-quarters of contractors rented construction equipment in 2021. Of those who did not rent in 2021, 17% predict that they will rent in 2022.

(Contractors who did not rent construction equipment in 2021) Do you think that you will rent construction equipment in 2022? (% — Yes)


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

<table>
<thead>
<tr>
<th>Reason</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stronger backlog of jobs</td>
<td>27%</td>
</tr>
<tr>
<td>Long term confidence in the national economy</td>
<td>22%</td>
</tr>
<tr>
<td>Long term confidence in the local economy</td>
<td>16%</td>
</tr>
<tr>
<td>Lower equipment costs</td>
<td>15%</td>
</tr>
<tr>
<td>Shorter lead time for order delivery</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
<tr>
<td>Low interest rates</td>
<td>4%</td>
</tr>
<tr>
<td>Increasing rental costs</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
</tbody>
</table>

Base: Total contractors: 179 for 2022 forecast.

A stronger backlog of jobs is most important to 27% of contractors when considering buying instead of renting. Long-term confidence in the local/national economy along with lower equipment costs are other top driving factors in contractors’ willingness to buy equipment. Low interest rates, increasing rental costs and shorter lead time for order delivery are each top factors for fewer than 10% of executives.

(Contractors) To what degree are equipment rental costs an influence in your decision to buy vs rent equipment in 2022?

- Extremely influential: 8%
- Very influential: 18%
- Somewhat influential: 37%
- Slightly influential: 16%
- Not influential at all: 21%

Contractors who gave a reason to buy construction equipment instead of rent — 179 for 2022 forecast.

The impact of rental costs on a contractor’s decision to buy or rent equipment is mixed. Just over one quarter (26%) say rental costs are very or extremely influential, while 37% say it is somewhat influential, and an equal 37% say it is slightly or not an influential factor.
(Distributors) Do you think that the size of your rental fleet this year compared to last year will:

Over half of distributors (57%) expect to increase the size of their rental fleet in 2022, aligning with the increased utilization rates they experienced in the past year. Fewer distributors (31% down from 46% last year) expect their fleet size will remain the same. Only 12% expect to decrease rental fleet sizes, on par with past years. Most distributors did raise their rental prices in 2021 and nearly three quarters (72%) expect to raise rental prices in 2022. This is unsurprising given the risk of inflation that is one of the top three industry risks for 44% of distributors.
Industry Risks, Cost Concerns, and Opportunities
Which of these factors poses the greatest risk to the U.S. construction industry in 2022? Please rank the top three.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Top answer % (Ranked 1st)</th>
<th>Top 3 (Ranked 1st–3rd)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of skilled workers</td>
<td>30%</td>
<td>57%</td>
</tr>
<tr>
<td>Supply chain disruptions</td>
<td>14%</td>
<td>41%</td>
</tr>
<tr>
<td>Economic uncertainty</td>
<td>10%</td>
<td>28%</td>
</tr>
<tr>
<td>Rising material costs</td>
<td>8%</td>
<td>32%</td>
</tr>
<tr>
<td>Government/regulatory policy</td>
<td>6%</td>
<td>22%</td>
</tr>
<tr>
<td>Taxes</td>
<td>6%</td>
<td>17%</td>
</tr>
<tr>
<td>Availability of domestic equipment/materials</td>
<td>6%</td>
<td>16%</td>
</tr>
<tr>
<td>Inflation in the economy</td>
<td>6%</td>
<td>31%</td>
</tr>
<tr>
<td>High labor/wage costs</td>
<td>4%</td>
<td>22%</td>
</tr>
<tr>
<td>Interest rates rising</td>
<td>2%</td>
<td>10%</td>
</tr>
<tr>
<td>Availability of offshore equipment/materials</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Energy prices such as oil and natural gas</td>
<td>1%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Base: Total respondents — 313 for 2022 forecast.

Almost one-third of executives ranked the availability of skilled workers as the single greatest risk to the U.S. construction industry in 2022. When taking a broader look at the top three concerns, the leading concern is still the availability of skilled workers followed by supply chain disruptions, rising material costs, inflation in the economy and economic uncertainty. Up from last year, 39% of executives said that their business has been greatly impacted by their ability to hire skilled employees. Almost half (47%) say that it has had somewhat of an impact on their business.

To what degree has the ability to hire skilled employees impacted your business in 2021?

Base: Total respondents — 313 for 2022 forecast, 226 in 2021, 305 in 2020. The up/down arrows denote a significant difference compared to 2021 at the 95% confidence level
Contractor Cost Concerns

Fiscally, contractors are most concerned about the ability to hire qualified workers with 53% citing it as their top cost concern for their business and 68% saying it is one of their top two concerns. Other top concerns include material costs and employee wages and other benefits.

(Contractors) Of the following cost categories, which three concern you the most? Please rank the top three.

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Top answer % (Ranked 1st)</th>
<th>Top 2 (Ranked 1st–2nd)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ability to hire qualified workers</td>
<td>53%</td>
<td>68%</td>
</tr>
<tr>
<td>Materials costs</td>
<td>16%</td>
<td>43%</td>
</tr>
<tr>
<td>Employee wages and other benefits</td>
<td>15%</td>
<td>34%</td>
</tr>
<tr>
<td>Equipment purchase costs</td>
<td>5%</td>
<td>11%</td>
</tr>
<tr>
<td>Taxes</td>
<td>5%</td>
<td>16%</td>
</tr>
<tr>
<td>Fuel costs</td>
<td>3%</td>
<td>10%</td>
</tr>
<tr>
<td>Healthcare costs*</td>
<td>3%</td>
<td>11%</td>
</tr>
<tr>
<td>Interest rates</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Equipment rental costs</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>4%</td>
</tr>
</tbody>
</table>

* 61% of contractors surveyed have more than 50 employees, implying they have health insurance for employees

Base: Total contractors: 197 for 2022 forecast.
Which of these factors creates the greatest opportunity for growth in the U.S. construction industry next year? Please rank the top three.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Top answer % (Ranked 1st)</th>
<th>Top answer % (Ranked 1st–3rd)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved qualified labor availability</td>
<td>17%</td>
<td>37%</td>
</tr>
<tr>
<td>Recent Congress passage of the Infrastructure Bill</td>
<td>17%</td>
<td>35%</td>
</tr>
<tr>
<td>Improved overall economy</td>
<td>15%</td>
<td>47%</td>
</tr>
<tr>
<td>Stable political climate</td>
<td>13%</td>
<td>31%</td>
</tr>
<tr>
<td>Low interest rates</td>
<td>11%</td>
<td>35%</td>
</tr>
<tr>
<td>Improving non-residential construction market</td>
<td>9%</td>
<td>26%</td>
</tr>
<tr>
<td>Increased government spending</td>
<td>6%</td>
<td>21%</td>
</tr>
<tr>
<td>Improving residential construction market</td>
<td>5%</td>
<td>17%</td>
</tr>
<tr>
<td>Increased consumer confidence</td>
<td>4%</td>
<td>25%</td>
</tr>
<tr>
<td>Industry favorable regulatory environment</td>
<td>3%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Base: Total respondents — 313 for 2022 forecast.

Loosely mirroring risks, executives report that an improved overall economy (47%), improved qualified labor availability (37%) and the passage of the Infrastructure Bill (35%) are the three greatest factors that would create opportunity for growth in the construction industry next year. Other top areas that could create opportunities are low interest rates (35%) and a stable political climate (31%).
“If we cannot get enough equipment to supply our customers, business will fall off. We have gone from a full lot to nothing and are selling everything as it comes in. Next year we start with an empty lot.”

— Survey respondent
“Not overly optimistic with reduced labor availability and rising inflation/supply chain issues. Commercial markets have great uncertainty due to long-term impact of COVID business changes.”
— Survey respondent

“There appears to be a strong economic demand for construction services in both the commercial construction industry and in the private and public sectors.”
— Survey respondent

“We have a huge backlog of sales that need to be cleaned out, but the baseline demand is still out there which is very encouraging.”
— Survey respondent
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¹. Company data as of January 2022.
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