

Construction Industry Forecast

2017

The Optimism Quotient (OQ) — this survey's primary benchmark for measuring contractor and equipment distributor sentiment on local nonresidential construction activity — is 123 for 2017. Overall optimism regarding construction activity remains very strong and has increased in the past year. Survey respondents have a positive outlook for 2017 and expect construction activity to improve during the next two years.



A look forward

As part of the 2017 Construction Industry Forecast, Wells Fargo Equipment Finance asked survey respondents about their industry expectations in 2017. Here's what they had to say.

How is the state of your business? What concerns do you have?
What are you looking forward to in 2017?

"We are doing well. Finding qualified employees and being able to compete from a wage perspective are a concern, as well as increasing construction activity."

— General manager

"The current state of our business is improving. My concerns are the burden of healthcare, the cost and availability of qualified employees, and access to machinery, new and used."

— Chief executive officer

"State of the business is good. Looking forward to an increase in infrastructure funding and business tax cuts."

— Regional sales manager

"2016 was far and away our best year ever: The perfect storm of falling asphalt and fuel prices coupled with plenty of projects. Backlog is way down, and I do not see projects in our area until last half of 2017. We definitely need and want to keep present employees but will do so at considerable expense."

— Business manager, retail finance and leasing for equipment distributor

"Business is good in Colorado. We need less regulation at the municipal level. Obtaining permits has caused major delays in project starts, which impacts the bottom line."

— Environmental remediation, excavation, and specialty construction

What are your thoughts on the construction industry as a whole in 2017? What do you believe will be happening in the industry?

"The construction industry saw a strong 2016, and I expect 2017 to be strong as well. I think residential will continue to be strong, and hopefully nonresidential will follow the new suburban build-outs."

— Survey respondent

"I feel it should be good growth, and maybe even strong growth, in 2017."

— General manager of sales

"Our customers are tentative due to lack of long-term work. We are still optimistic but do not have any clarity to long-term work."

— Manager of equipment

"Looking for the housing and infrastructure segments to gain momentum in 2017."

— General manager, construction equipment dealer

"I believe there is pent-up demand and that construction will resume growth in 2017."

— Survey respondent

"We have a large local transportation budget that has been passed, so we expect construction to continue growing in 2017, but not as steeply as it did in 2016."

— Brand manager, heavy equipment dealership

A message from Wells Fargo Equipment Finance

Optimism in the construction industry is near the highest it has been in 20 years, according to the Wells Fargo Equipment Finance 2017 Construction Industry Forecast. For 41 years in a row, we've surveyed more than 10,000 construction industry executives to produce our annual report. Historically, the forecast has given our customers and other industry constituents a sneak peek into what they can expect in the coming year. The highlight of the annual forecast is the Optimism Quotient (OQ).

The OQ is a measurement of industry sentiment. It is directional in nature and tells us whether or not industry executives believe that local nonresidential construction activity will be higher or lower than in the previous year. In addition to the OQ, the forecast features other interesting and useful information. You will find construction industry leader opinions on residential construction, mid-term (two-year) optimism, company profitability expectations, equipment buying and selling trends, rental trends, and business strategies specific to the construction industry.

We also started something new this year by asking several open-ended questions about the industry. Participants responded as they felt appropriate, and you'll find many of their responses add significant value and perspective to the numbers.

The survey was conducted after the U.S. presidential election concluded and ran until early December. We received more than 400 responses. Of the respondents, 48% were end-users of construction equipment, 33% were distributors or rental companies, and the remaining 19% were either manufacturers or industry suppliers. The largest category of industry respondents was heavy highway (21%), followed closely by site preparation and excavation contractors (19%). These types of companies tend to be the heaviest users of construction equipment and their responses add significant value into the supporting areas of the forecast.

Now the results: For 2017, the annual Optimism Quotient is a very robust 123. This level of optimism is the third highest recorded number in the past 20 years. It also represents the sixth consecutive year the OQ was higher than 100, and the seventh consecutive year of optimism. We consider any OQ higher than 75 optimistic, and any result higher than 100 highly optimistic.

The industry is sending a strong signal that nonresidential construction will be positive in 2017. While expectations for nonresidential construction have increased, expectations for residential construction have remained relatively flat when compared to 2016, with 45% of companies expecting increased activity versus 46% who said they expected an increase in last year's report.

From a profitability perspective, the majority of the industry (58%) is expecting an increase to their bottom lines in 2017, with an additional 28% expecting flat profits. Only 14% of respondents expect to be less profitable this year.

We observed a significant shift toward two-year optimism, with 84% of executives expecting expansion in 2017 versus the results in last year's report that indicated only 62% expected expansion.

Respondents expressed mixed opinions about the equipment that will allow for this expansion. Is this the year that rental rates will increase and prompt end-users to buy more?

Fewer distributors and rental companies expect to increase the size of their rental fleets than in previous years. Only 40% expect to increase the sizes of their fleets, with 44% holding steady and 16% expecting to decrease the size. End-users tell us they expect to rent more (38%) or hold steady (49%), and only 12% plan to decrease their rental activity. End-users also said that small rental rate increases of less than 15% would drive more buying activity (one in two), and even a nominal rental rate increase would compel them to buy more (one in five). Certainly, these points are something that manufacturers and distributors should pay attention to throughout 2017.

The optimism expressed in the 2017 forecast is set against a backdrop of common themes that will take time to cycle through. End-users still want a strong backlog of work. They express uncertainty in their local and national economies, and note marginal pressure from increased competition. These are issues that our construction industry faces every year.

The upside for 2017 is significant talk in all areas of the need for increased infrastructure spending. The industry made progress in 2016 with the passage of the long-term highway funding bill and the momentum felt by executives, so 2017 could prove to be the year in which all participants in the industry prosper.

We'd love to hear your feedback after you've had a chance to take in the material contained in this forecast. Please give us a call at 1-866-726-4714 or contact your local representative with your thoughts.



John Crum
National Sales Manager
Construction Group
Wells Fargo Equipment Finance

A handwritten signature in black ink that reads "John D. Crum". The signature is written in a cursive, flowing style.

Overview

The survey results presented in this 2017 Construction Industry Forecast represent the 41st 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 407 construction industry executives in 48 states. The margin of error for this survey is 5.9% (95% confidence level).

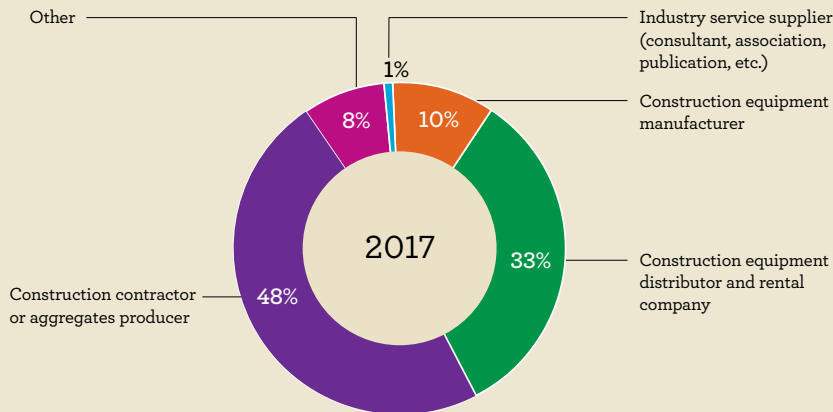
About the survey

Survey dates

Nov. 10 – Dec. 2, 2016

Composition of survey respondents

What best describes your primary function in the construction industry?



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.
- **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. **Equipment rental companies** acquire equipment to rent out to contractors.
- **Manufacturers** create or build the equipment that contractors use.



Percentages in this report 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 wefmarketing@wellsfargo.com.

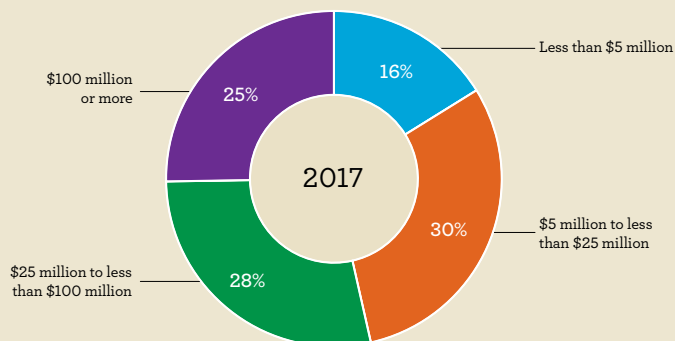
We surveyed companies ranging in size and revenue: Nearly two-thirds have more than 51 employees and about half have \$25 million or more in revenue.

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

Category	2017
Heavy highway	21%
Site preparation/excavation	19%
Utility contracting	12%
Concrete and asphalt	9%
Nonresidential building	7%
Residential building	6%
Oil and gas	5%
Aggregates production	5%
Mining	4%
Bridges and overpasses	2%
Materials transport	2%
Other	8%

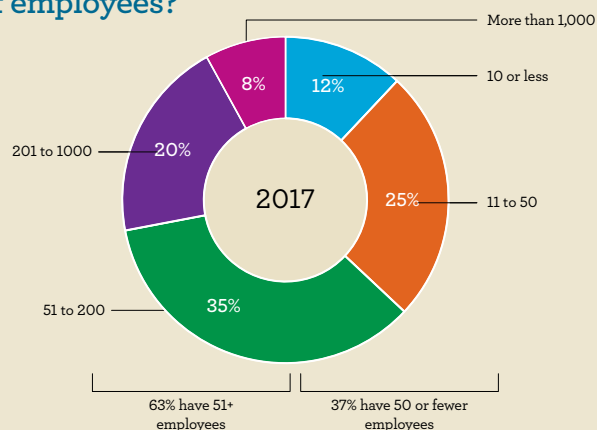
Base: 407 respondents

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



Base: 407 respondents

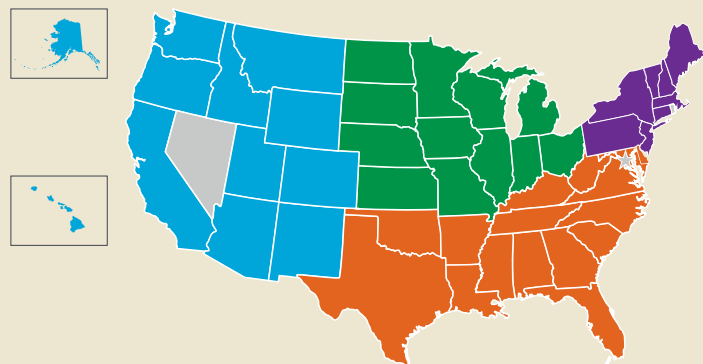
Which of the following categories best describes your company's total number of employees?



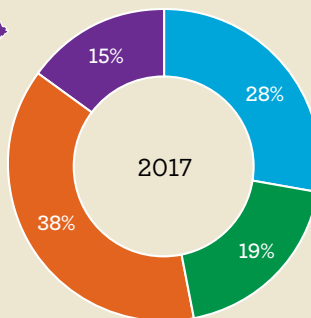
Base: 407 respondents

Geographic distribution of 407 survey responses

Survey included responses from 48 states as shown on the U.S. map.



- **West**
 AK, AZ, CA, CO, HI, ID, MT, NM, OR, UT, WA, WY
- **Midwest**
 IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI
- **South**
 AL, AR, DE, FL, GA, KY, LA, MD, MS, NC, OK, SC, TN, TX, VA, WV
- **Northeast**
 CT, MA, ME, NH, NJ, NY, PA, RI, VT

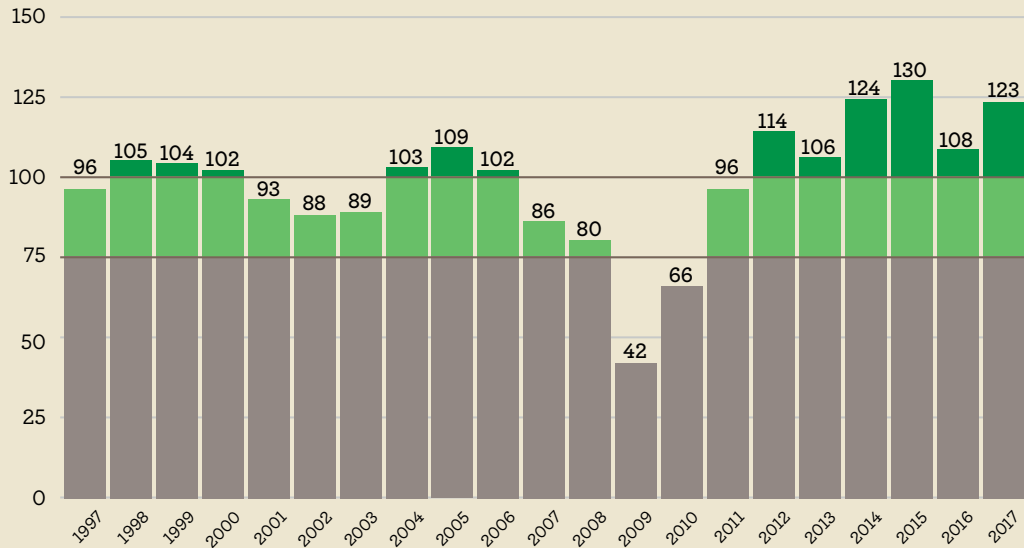


The 2017 survey did not include responses from Nevada, Rhode Island, and Washington, D.C.

The Optimism Quotient (OQ)

The 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 reflects industry executives’ optimism about the coming year compared to the previous year.

U.S. national OQ



Q2. What is your projection for local nonresidential construction activity in 2017 compared to 2016?

Base: Total respondents – 407 in 2017, 474 in 2016, 413 in 2015, 552 in 2014, 370 in 2013, 405 in 2012

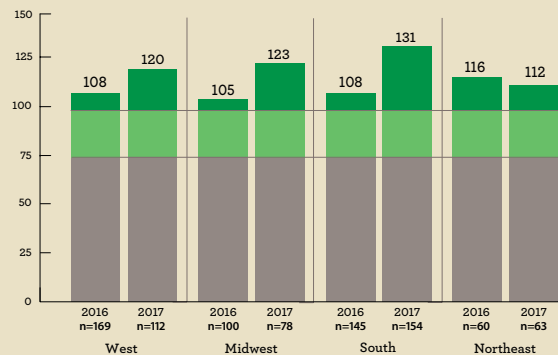
How to read the Wells Fargo Equipment Finance OQ

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.

The OQ for 2017 is very positive at 123, a marked increase over 2016. After a big dip from 2007 to 2010, industry optimism has rebounded and remains increasingly positive. Survey respondents across the U.S. expressed agreement that construction activity in their local areas will likely increase.

U.S. national OQ by region

The Northeast is the only region that did not have an increase in optimism in 2017.



Base: Total respondents, n=total respondents by region

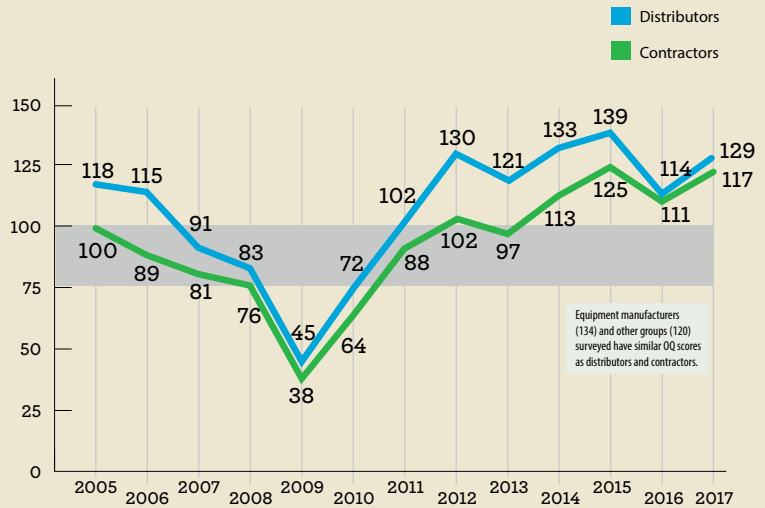
Distributors and contractors

Consistent with last year, about half of the contractors surveyed expect nonresidential activity to increase. Distributors project a directional increase of nonresidential construction activity in 2017.

U.S. national OQ

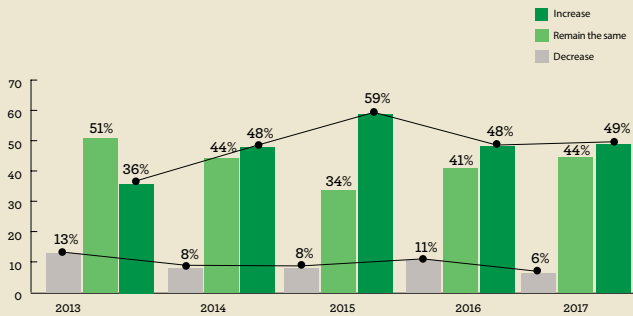
Although distributors are historically more optimistic than contractors, the gap widened in the 2017 survey, with the distributor OQ advancing from 114 to 129.

The OQ scores of equipment manufacturers (134) and other groups (120) surveyed were similar to the OQ scores of distributors and contractors.



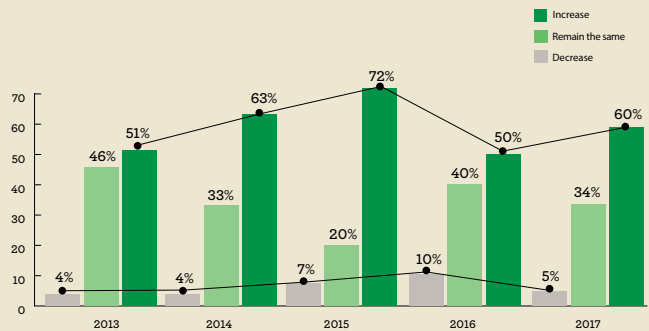
Base: Total 2017 contractors (194), plus distributors and rental companies (134)

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



Base: Total contractors — 194 in 2017, 248 in 2016, 238 in 2015

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

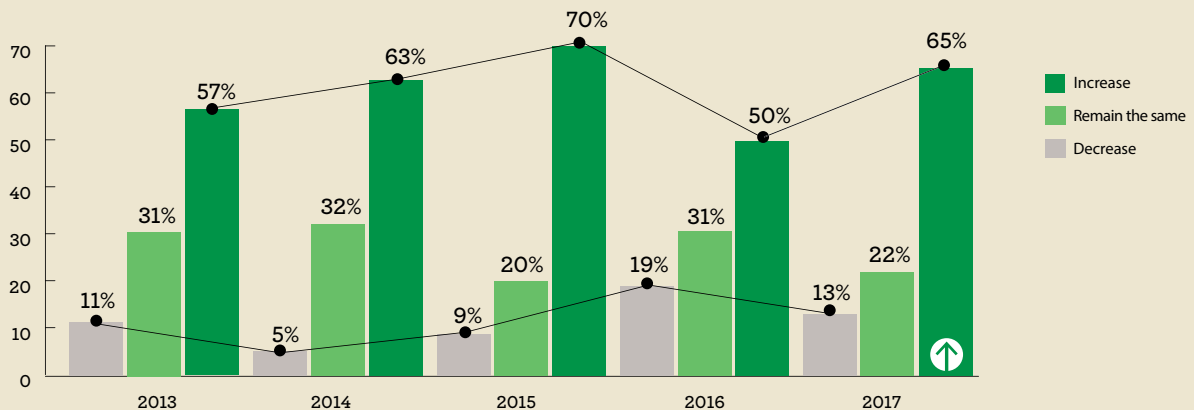


Base: Total distributors and rental companies — 134 in 2017, 174 in 2016, 138 in 2015

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.

Distributors

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

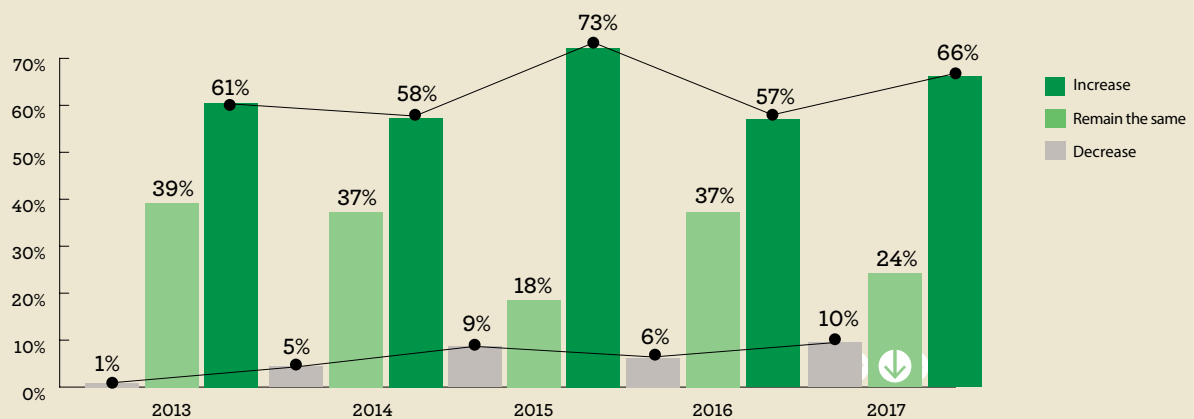


The up arrow indicates a significant difference from 2016 at the 95% confidence level.

Base: Total distributors and rental companies – 130 in 2017, 162 in 2016, 132 in 2015

Distributors have a more positive outlook for new construction equipment sales in 2017. Nearly two-thirds of distributors anticipate an increase in sales of new construction equipment, compared to one-half of respondents in 2016.

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



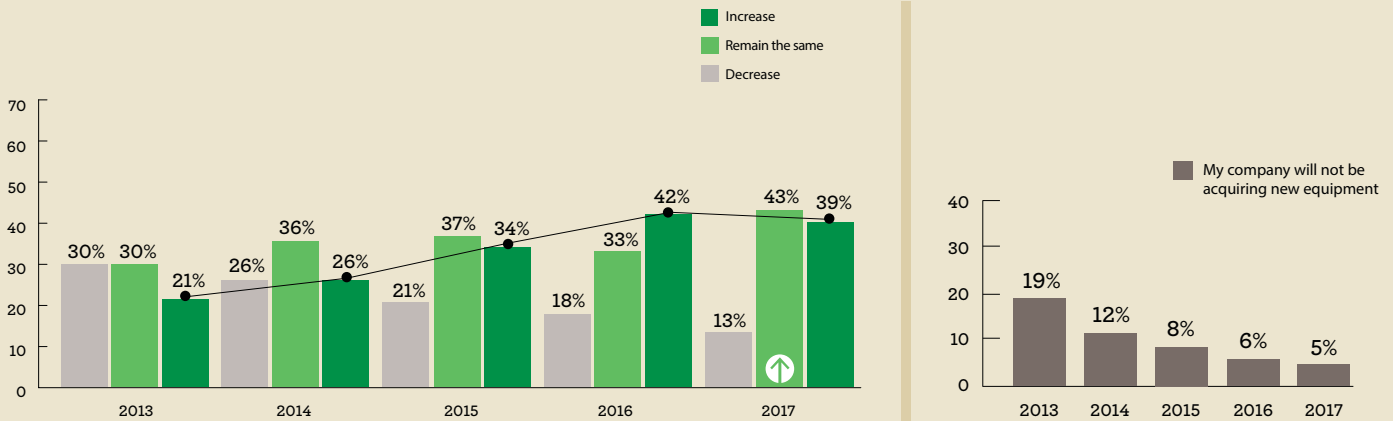
The down arrow indicates a significant difference from 2016 at the 95% confidence level.

Base: Total distributors and rental companies – 134 in 2017, 167 in 2016, 132 in 2015

Distributor expectations about used equipment sales have improved from the low observed in the 2016 report. More distributors project sales of used equipment to increase in 2017, and fewer distributors expect their sales of used construction equipment to remain the same compared to last year. A surplus of used equipment on the market may be driving distributors' expectations for used equipment sales to increase, as costs to contractors may be lower.

Contractors

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



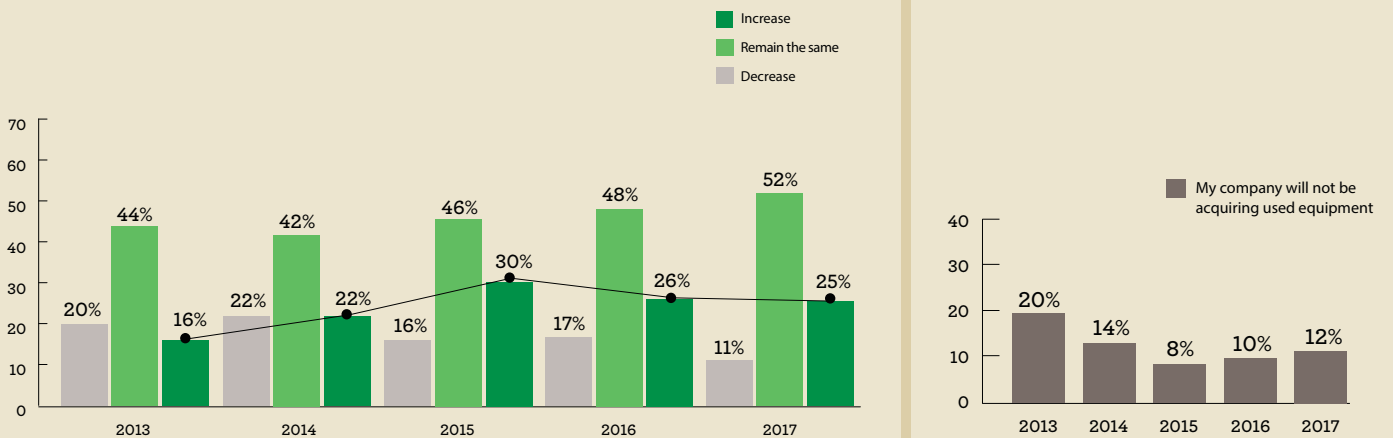
The up arrow indicates a significant difference from 2016 at the 95% confidence level.

Base: Total contractors – 194 in 2017, 248 in 2016, 238 in 2015

More contractors expect that their purchases of **new** equipment will remain the same in 2017 compared to 2016. However, the proportion of contractors expecting to acquire new construction equipment continues to grow every year.

One-half of contractors expect purchases of **used** equipment to be consistent with 2016 volumes. As was the case in last year's report, fewer contractors plan to buy used equipment over new equipment.

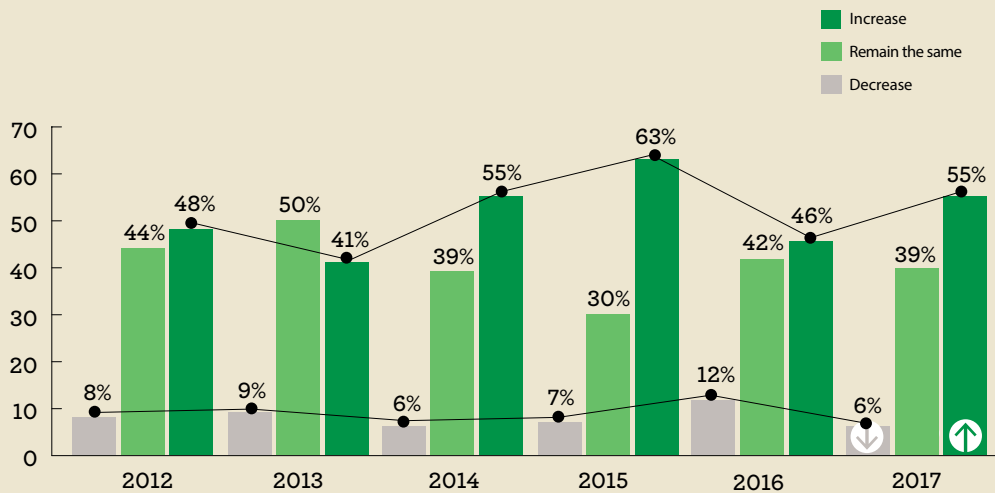
Do you think that your purchases of **used** construction equipment this year compared to last year will:



Base: Total contractors – 194 in 2017, 248 in 2016, 238 in 2015

Residential versus nonresidential activity

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



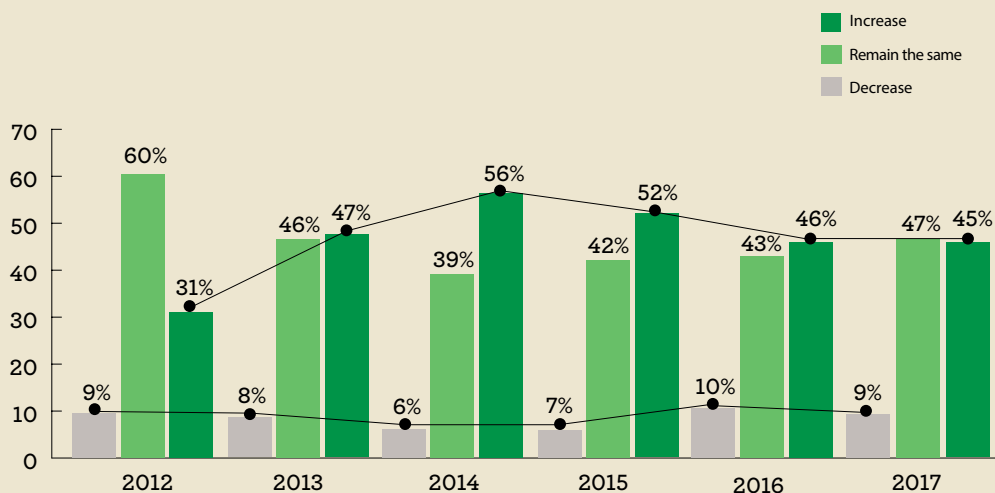
The up and down arrows indicate a significant difference from 2016 at the 95% confidence level.

Total respondents: 407 in 2017, 474 in 2016, 413 in 2015, 552 in 2014, 370 in 2013, 405 in 2012

Relative to last year, more executives expect an increase in local **nonresidential** activity in 2017. Fewer executives than last year believe nonresidential activity will decline.

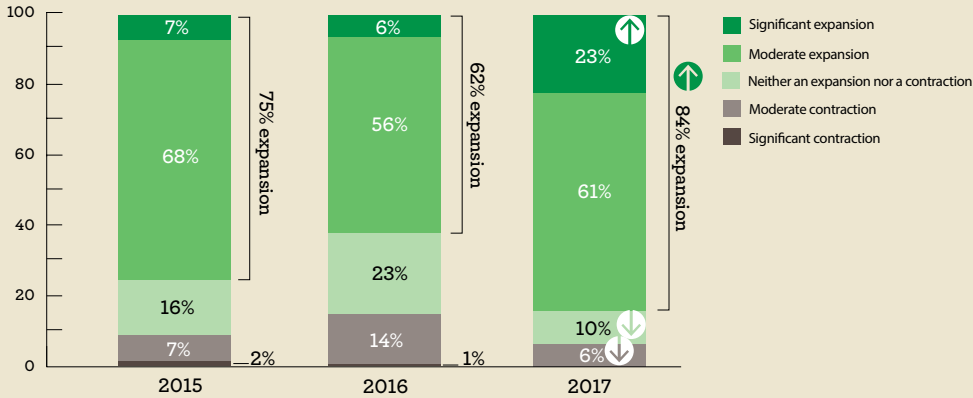
The percentage of executives who expect local **residential** construction activity to increase is about the same as last year, and an increasing number believe activity will remain the same in 2017 compared to 2016. Less than 10% of respondents expect a decrease in local residential construction activity.

What is your projection for local **residential** construction activity this year compared to last year?



Total respondents: 407 in 2017, 474 in 2016, 413 in 2015, 552 in 2014, 370 in 2013, 405 in 2012

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

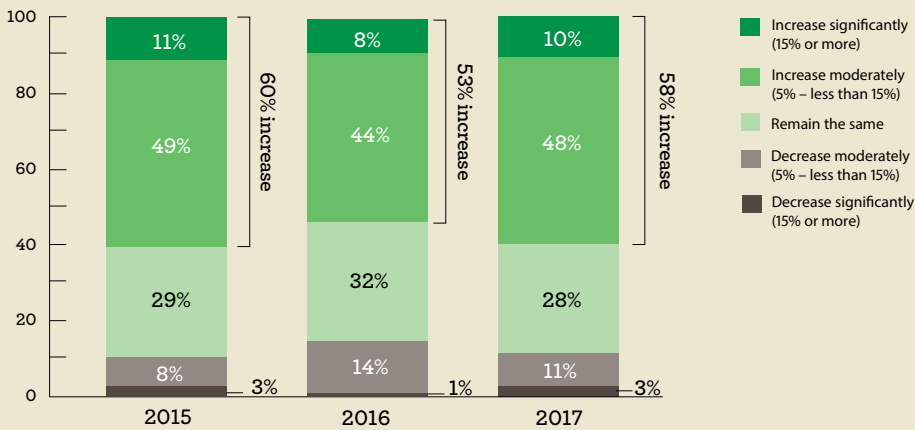


A growing majority of executives believe the industry will expand in the next two years. Far more executive respondents foresee a significant jump, quadrupling last year's expectations for 2016.

Up and down arrows indicate a significant difference from 2016 at the 95% confidence level.

Base: Total respondents — 407 in 2017, 474 in 2016, 413 in 2015

Compared to net profit for 2016, do you think your net profit for 2017 will:



A majority of executives project net profit will increase in 2017 from 2016. Contractor worries are likely tempering their net profit expectations.

Contractors are more concerned about equipment purchase costs compared to previous years. In a separate survey question, they cited a rise in equipment costs as a fourth most important concern (just behind wages and benefits, taxes, and healthcare costs). An increasing number of respondents (18%) cited it as a top concern, compared to 10% in 2016.

Base: Total respondents — 407 in 2017, 474 in 2016, 413 in 2015

2017 Nonresidential construction outlook



A moderation in outlays is in the offing as commercial real estate (CRE) fundamentals slow and costs rise

Economic activity grew at a snail's pace during most of 2016, and experts estimate it has increased just 1.6%, marking the slowest annual growth rate in five years. Contraction in business fixed investment, net exports, and the change in inventory investment weighed down the overall pace of growth. Slow global economic growth, uncertainty in monetary policy, and unexpected political outcomes in the U.S. and U.K. prompted many firms to err on the side of caution during the year. Moreover, the collapse in energy prices and dollar appreciation contributed to the sluggish pace of output. With less of a drag from energy prices and employment growth remaining steady, our baseline forecasts predicts real gross domestic product (GDP) growth will increase between 2% and 2.5% in 2017.



Anika Khan, Senior Economist
Wells Fargo Securities, LLC

Anika R. Khan is a managing director and senior economist at Wells Fargo with more than 20 years of experience in corporate and investment banking, including U.S. macroeconomic and quantitative analysis, institutional sales and trading analytics, and commercial-mortgage-backed securities underwriting. Based in New York City, she is responsible for producing commentary on U.S. residential and nonresidential real estate markets, and she contributes to the company's *Weekly Economic & Financial Commentary*.

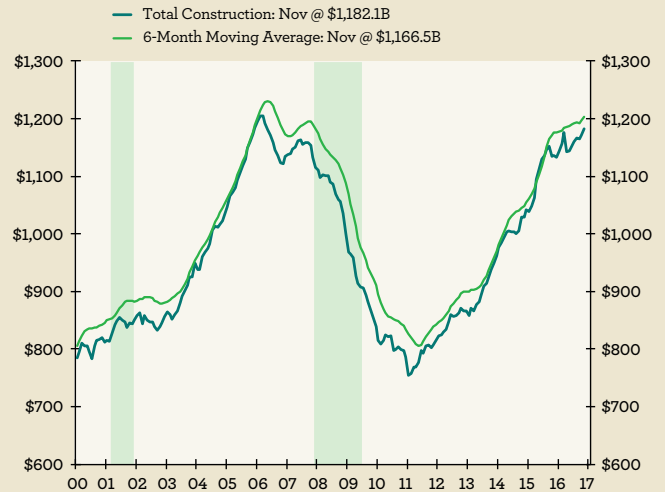
With this backdrop, we expect nominal private nonresidential construction spending will have grown about 7.5% in 2016 and 3.5% on an inflation-adjusted basis, once we tally the numbers. We expect nominal private nonresidential construction spending to grow about 5.5% in 2017, reflecting softer commercial real estate operating fundamentals, weakness in manufacturing, transportation and communication construction outlays, and shortage of skilled labor, as well as intimating a deceleration in the pace of overall activity. That said, some sectors will continue to see strong gains, but at a moderate pace.

Lodging, office, distribution centers, and amusement-related construction spending registered solid gains in 2016 and will likely continue to increase in 2017. Lodging and amusement-related outlays will likely advance as builders construct so-called “integrated resorts” that include lodging, gaming, and meeting space.* One such project that broke ground in 2016 is the \$1.7 billion Wynn Casino in Everett, Massachusetts. We also expect office activity to continue to post strong gains during the year, with the construction of large-scale projects like Hudson Yards and One Vanderbilt Tower. However, overall office operating fundamentals suggest some moderation in activity is in store. The pace of distribution center construction spending will continue to grow as e-commerce garners a larger share of retail sales. On the other hand, manufacturing construction is facing tough year-over-year comparisons, as building in the chemical sector retreats. Institutional building will likely slip in 2017, especially as talk of repealing the Affordable Care Act gains steam.

Rising construction costs will play a role in slowing overall activity during the year. Costs have been muted in recent years, largely due to weak global demand and the strong dollar. However, the overall cost of materials and components for construction, including cement, gypsum, ready-mix concrete, and steel, is expected to see some upward pressure in 2017. Moreover, labor costs could rise as construction firms continue to report a shortage of skilled workers.

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Total value of construction put-in-place Billions of current dollars, SAAR

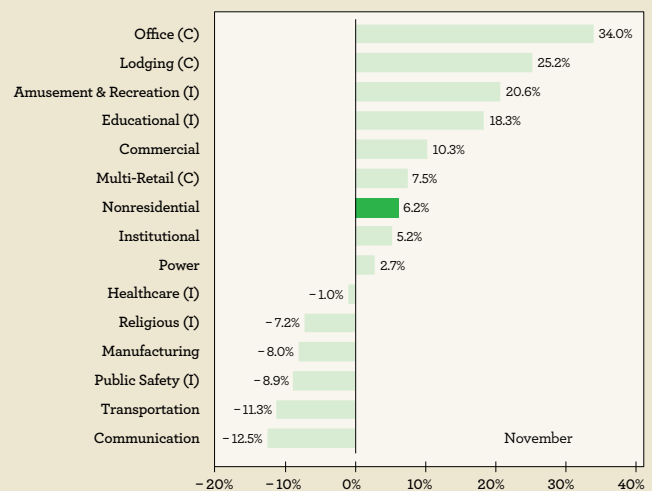


Source: U.S. Department of Commerce and Wells Fargo Securities

Private nonresidential construction put-in-place

Year-to-year percent change of a 3-MMA, seasonally adjusted

(C)=Commercial, (I)=Institutional



Source: U.S. Department of Commerce and Wells Fargo Securities

Construction costs to rise modestly

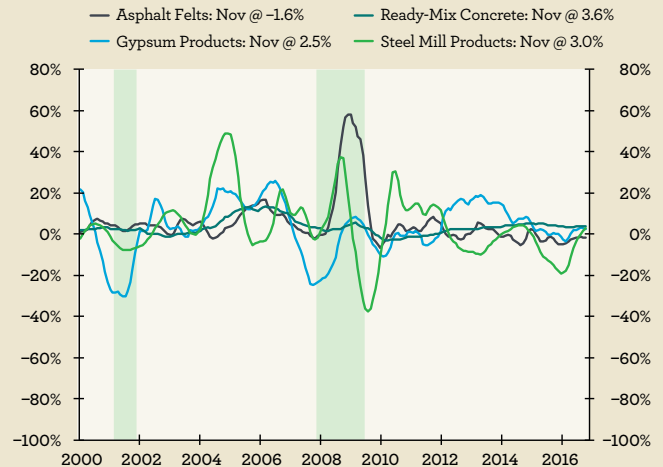
Overall construction costs have been well contained in recent years, with the Producer Price Index (PPI) final demand for construction on track to rise more than 1% in 2016. The overall cost of materials and components for construction were flat in 2015 and 2016, largely due to weak global demand and the strong dollar. Other costs indexes like the Engineering-News Record Building Cost Index (ENR BCI) and ENR Construction Cost Index (ENR CCI), which look at hard construction costs (excluding costs like land, architectural, engineering, and legal fees), have increased between 2% and 3% in 2016.[†] Meanwhile, the Rider Levett Bucknall Construction Cost Index (RLB CCI) grew a solid 6%.[†] With sustained demand, we expect the cost of some construction materials — especially cement, gypsum, ready-mix concrete, and steel, which are all showing a pickup in momentum — to increase in 2017. Although asphalt prices were weak in 2016, we may see some upward pressure in 2017 as oil prices rise.

For construction labor, much of the discussion has centered on the shortage of skilled workers. Reports by the Associated General Contractors of America (AGC) and Associated Builders and Contractors (ABC) show that construction firms are having difficulty finding skilled workers.[‡] The AGC reports that more than two-thirds of construction firms are having a difficult time filling some hourly craft positions, especially carpenters. Firms that are reporting a dearth of salaried talent are struggling to fill roles for project managers and supervisors. Indeed, the construction unemployment rate fell to 6.3% in 2016, which is the lowest level in almost two decades.

That said, the overall construction industry added roughly 215,000 workers in 2016, following two annual increases of almost 300,000 jobs. This is a slowdown from the previous two years but still does not look anemic. By comparison, there were roughly 360,000 jobs added in 2005 and 2006, which was the peak in the previous cycle and building boom. If there is a labor shortage in the construction industry, we should see anemic job growth along with an uptick in wages.

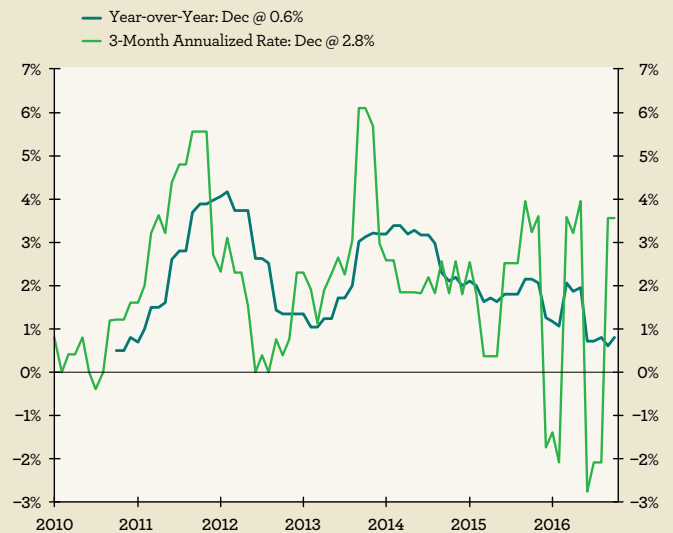
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Producer Price Index
3-month moving average, year-over-year percent change



Source: U.S. Department of Commerce and Wells Fargo Securities

Construction final demand PPI
Seasonally adjusted



Source: U.S. Department of Commerce and Wells Fargo Securities

Despite reports of hard-to-fill positions, average hourly earnings in construction are roughly in line with the private sector, up 2.7% in 2016, and well below the 4.1% peak registered in 2008. The Employment Cost Index (ECI) for wage and salary growth in the construction sector, which is a broader measure, registered an increase of just 2% in 2016, which is also below the 4% peak in 2007. So, where is the evidence of a construction labor shortage?



If there is a shortage of construction workers, it is likely in the heavy and civil engineering component. Overall, the nonresidential construction sector logged 80,000 net new jobs in 2016, with more than 80% of the jobs registered in nonresidential specialty trade contracting, which is the second-largest share of net new jobs added in 15 years. On the other hand, heavy and civil engineering construction increased by only 2,500 jobs in 2016, marking the smallest gain in

six years. In fact, average hourly earnings in heavy and civil engineering rose by a solid 4% in 2015, more than any other nonresidential construction component in this cycle, but slowed to about 2.6% in 2016.

* We diverge from the definition of commercial used by the U.S. Census Bureau, which includes automotive, food and beverage, multiretail (general merchandise, shopping centers, and malls), other commercial (drug stores, building supply stores, other stores, warehouse, and farm). Instead, we follow the construction industry standard and refer to lodging, office, and retail as commercial.

† Stated costs indexes may vary by the weighting of individual material inputs

‡ AGC 2016 Workforce Survey Results and ABC 2017 Construction Outlook, December 2016

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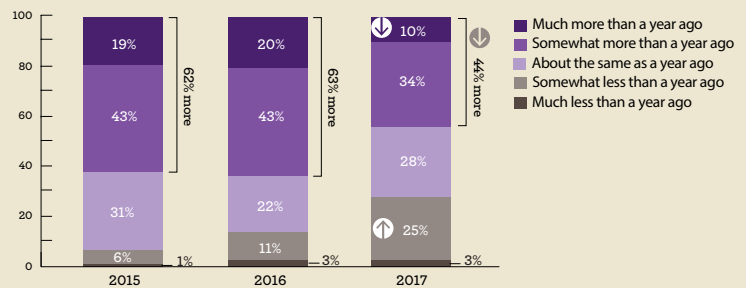
Rental review

Contractors expect equipment purchases to remain the same as in 2016, and are more worried about equipment costs. Therefore, they anticipate relying on rental equipment more often to support expansion. However, a small increase in rental prices (less than 15%) would cause many contractors to reconsider purchasing equipment. A slight increase (under 5%) would cause one in five to consider purchasing equipment. Contractor respondents state they would need a larger backlog of jobs to feel more confidence in buying.

At the same time, distributors plan to reduce rental fleet sizes. As the demand for rentals increases, distributors should manage fleet sizes accordingly. If distributors reduce fleet sizes, purchasing their used equipment may be an opportunity for some contractors. Many respondents expressed concern for political and regulatory uncertainty with national and local economies, but still feel optimistic.

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

Growth in the rental market is softening for distributors and rental companies. The proportion of rental companies renting less than they did a year ago has doubled since 2016. Compared to last year, more respondents (28%) said they are renting about the same as the year before.

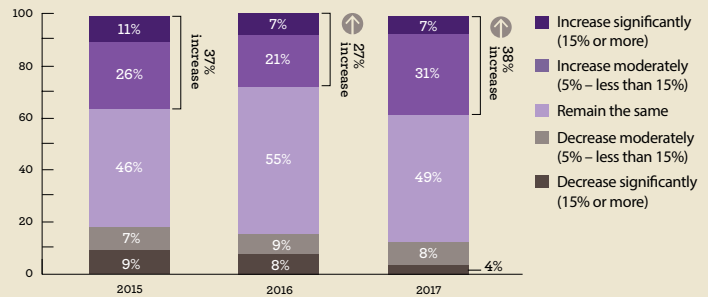


Up and down arrows indicate a significant difference from 2016 at the 95% confidence level.

Base: Total distributors and rental companies – 134 in 2017, 174 in 2016, 138 in 2015

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

Contractors generally expect to support construction expansion through rentals in 2017. Although most continue to believe equipment rentals will remain flat, a growing number of contractors (38%, up from 27% in the 2016 report) believe it will increase.



Up arrows indicate a significant difference from 2016 at the 95% confidence level.

Base: Contractors that rented heavy construction equipment in 2016 – 155 in 2017, 208 in 2016, 189 in 2015

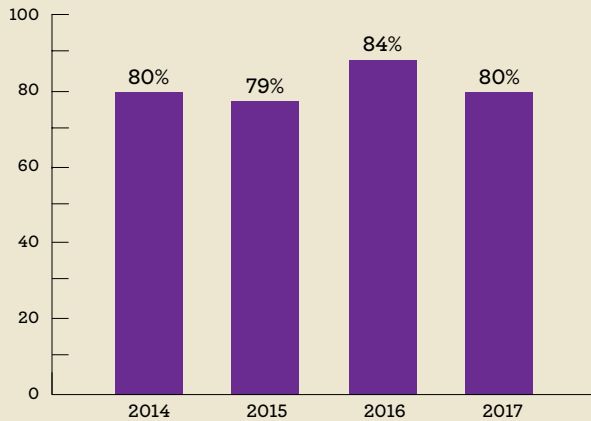
(Contractors) Why do you rent construction equipment? Please rank the top three reasons.

The largest percentage of respondents (49%) cited the need for flexibility as the most important factor in renting equipment instead of buying, while 29% of respondents said rental equipment being readily available is also very important. Flexibility is key.

Top reason % (Rank first)	2017
Flexibility; I can return equipment whenever I want	49%
Rental equipment is readily available	29%
I don't want to own or acquire equipment	11%
Rental rates are low and attractive	6%
High costs to repair and maintain my own fleet	5%

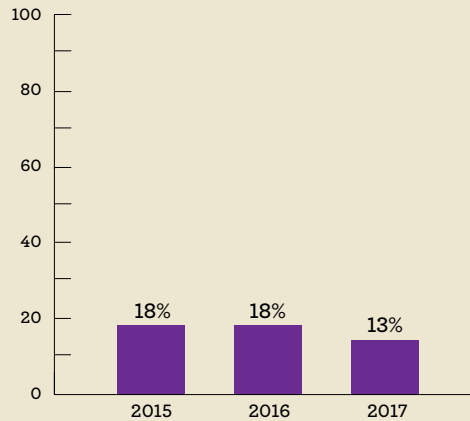
Base: Total contractors – 194 in 2017

(Contractors) Did your company rent any heavy construction equipment in 2016? (%=yes)



Base: Total contractors – 194 in 2017, 248 in 2016, 238 in 2015, 261 in 2014

(Contractors) Do you think that you will rent heavy construction equipment in 2017? (%=yes)



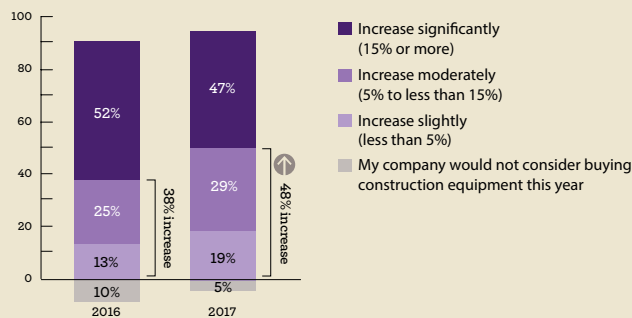
Base: Contractors that did not rent any heavy construction equipment in the past year: 39 in 2017, 40 in 2016, 49 in 2015

Rental of heavy construction equipment remained strong in 2016, but decreased slightly, with 80% of contractors saying they rented heavy equipment. On par with previous years, only about one-fifth of those who did not rent heavy construction equipment in 2016 anticipate renting equipment in 2017.

What would it take to consider buying equipment instead of renting?

Just under half of the respondents (48%) said that they would consider buying over renting if rental costs increased slightly or moderately. Nearly one-fifth of respondents stated that it would only take a slight increase in rental prices to cause them to consider a purchase.

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



Up arrow indicates a significant difference from 2016 at the 95% confidence level.

Base: Contractors whose companies would consider buying construction equipment – 194 in 2017, 248 in 2016

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

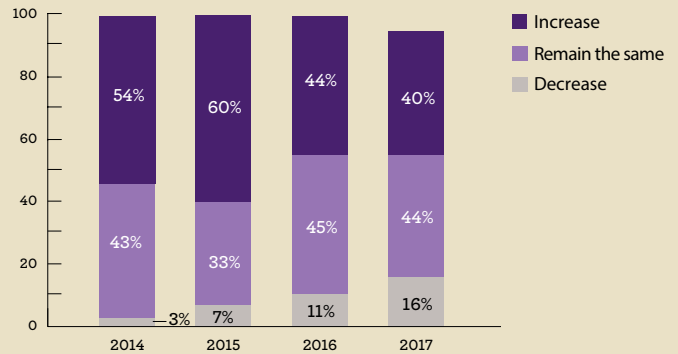
Most important factors	2015	2016	2017
Stronger backlog of jobs	29%	25%	29%
Long term confidence in the local economy	24%	19%	18%
Long term confidence in the national economy	15%	14%	18%
Lower equipment costs	7%	7%	10%
Special low-rate interest programs	6%	6%	6%
My company would not consider buying construction equipment in 2017	0%	2%	2%
Other	3%	4%	6%

Base: Total contractors – 194 in 2017, 248 in 2016, 238 in 2015

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

Since 2014, more distributors expect the sizes of their rental fleets to decrease. In the 2017 survey, 16% expect their rental fleet to decrease, compared to 11% last year.

Although these numbers are down from last year, 40% of distributors still expect the size of their rental fleet to increase, and 44% expect it to remain the same.



Base: Total distributors and rental companies — 134 in 2017, 174 in 2016, 138 in 2015, 175 in 2014



“I see the first and second quarter about the same as 2016, with minor increases and growth. If the new political climate can agree on some needed change, we may see a small increase in third and fourth quarters of 2017, and leading into 2018. As I look at growth from a manufacturer selling to distributors, I look at dealer inventory, and it is at record levels. That has to pass through in order for dealers to reorder.”

— Regional territory manager

“Business is good but not great: rentals growing and profitable. Concerned about leverage to build our rental fleet. Concerned about rising interest rates. Look forward to continued economic growth in 2017 and possible government stimulus.”

— Survey respondent

Risk, regulation, and opportunity

Which of these factors poses the greatest risk to the U.S. construction industry in 2017? Please rank the top three.

Compared to last year, there is an increased concern among executive respondents about the rising cost of materials, the residential construction market, and tier IV emission standards.

In 2017, executives perceive political and regulatory uncertainty as a top risk to the industry. Concerns about national economic uncertainty have slightly diminished, down to 24% from 33% the prior year.

Top answer % (ranked first)	2014	2015	2016	2017
Political and regulatory uncertainty	n/a	30%	29%	27%
National economic uncertainty	n/a	25%	33%	24% ↓
Rising interest rates	12%	8%	9%	11%
Local economic uncertainty	n/a	8%	9%	7%
Falling oil prices	n/a	14%	8%	7%
Rising material costs	n/a	3%	3%	6% ↑
The residential construction market	3%	4%	3%	6% ↑
The nonresidential construction market	4%	2%	4%	5%
Tier IV emission standards	3%	5%	1%	5% ↑
Other	1%	1%	1%	2%

The up and down arrows indicate a significant difference from 2016 at the 95% confidence level.

Base: Total respondents — 407 in 2017, 474 in 2016, 413 in 2015, 522 in 2014

Note: The 2014 survey had four response categories that were not included or changed in subsequent years.

Which of these factors creates the greatest opportunity for growth in the U.S. construction industry in 2017? Please rank the top three.

As in 2014, 2015, and 2016, executives (24%) believe that improving the national economic situation would create the greatest opportunity for growth in the industry.

An increasing number of respondents believe improving the political climate would provide growth opportunity, and fewer respondents than in 2016 believe the residential construction market would spur growth.

Top answer % (ranked first)	2014	2015	2016	2017
Improving national economic situation	35%	23%	23%	24%
Improving political climate	12%	11%	12%	17% ↑
Increased government spending	8%	8%	14%	16%
Increased consumer confidence	15%	17%	16%	13%
Improving local economic situation	n/a	10%	10%	9%
Stable regulatory environment	6%	9%	7%	8%
The nonresidential construction market	7%	8%	7%	6%
The residential construction market	13%	9%	7%	4% ↓
Public/private partnerships (PPP)	4%	3%	2%	2%
Other	2%	2%	*	*

The up and down arrows indicate a significant difference from 2016 at the 95% confidence level.

Base: Total respondents — 407 in 2017, 474 in 2016, 413 in 2015, 522 in 2014

* Total responses amount to less than 1%.

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.

Year after year, executives consider the Highway Funding Bill (35%) and tax incentives (28%) to be critical regulatory issues of interest, followed by the Affordable Care Act (16%).

Top answer % (ranked first)	2014	2015	2016	2017
Highway Funding Bill	32%	32%	37%	35%
Tax incentives such as bonus depreciation and section 179	30%	31%	33%	28%
Affordable Care Act	15%	14%	12%	16%
Tier IV emission standards	7%	9%	5%	6%
Gas tax	7%	4%	4%	5%
Debt ceiling	6%	4%	5%	4%
Hours of service (HOS)	2%	4%	3%	3%
Other	1%	2%	2%	3%

Base: Total respondents — 407 in 2017, 474 in 2016, 413 in 2015, 522 in 2014

Business strategy — contractors versus distributors

Contractors and distributors report similar cost concerns in 2017. As in prior years, fuel costs in 2016 remained relatively low, so survey respondents did not list fuel as a top concern. Employee wages and other benefits (24%) and healthcare costs (19%) ranked as contractors' top concerns, although both were slightly down in 2017 from 2016. For distributors, increasing concerns over equipment costs (31%) and continued concerns over healthcare costs (22%) were at the top of the list.

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

The top concerns among contractors continue to be employee wages and other benefits. Contractors are also more concerned about equipment purchase costs in 2017 than they have been in previous years.

Top answer % (ranked first)	2015	2016	2017
Employee wages and other benefits	31%	30%	24%
Taxes	19%	19%	21%
Healthcare costs	21%	22%	19%*
Equipment purchase costs	12%	10%	18% ↑
Material costs	7%	8%	10%
Fuel costs	6%	6%	5%
Financing costs	1%	3%	1%
Equipment rental costs	2%	1%	1%
Other	†	2%	3%

The up arrow indicates a significant difference from 2016 at the 95% confidence level.

Base: Total contractors — 194 in 2017, 248 in 2016, 238 in 2015

† Total responses amount to less than 1%.

* 55% of contractors surveyed have 51 or more employees, implying they have health insurance for employees.

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

Distributors continue to be most concerned about equipment costs and healthcare costs.

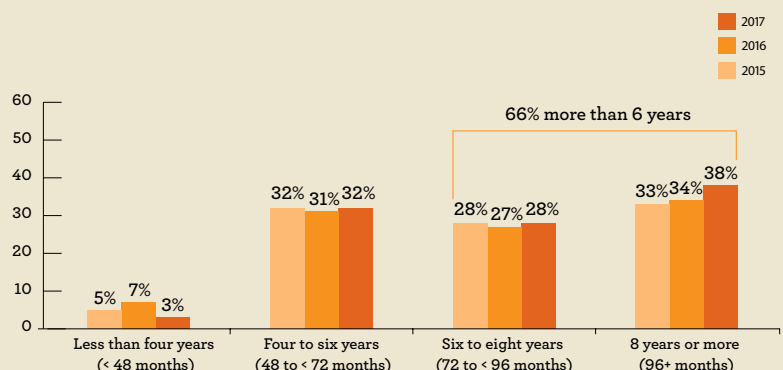
Concerns over employee wages declined in 2016 after a sharp uptick the prior year.

Top answer % (ranked first)	2015	2016	2017
Equipment costs	29%	24%	31%
Healthcare costs	28%	21%	22%
Equipment rental costs — cost of carrying rental fleet	15%	21%	19%
Employee wages and other benefits	9%	17%	10%
Financing costs	7%	7%	10%
Taxes	12%	10%	7%

Base: Total distributors and rental companies: 134 in 2017, 174 in 2016, 138 in 2015

(Contractors) On average, how long do you own the construction equipment that you acquire?

On par with previous years, two-thirds of all contractor respondents typically own their equipment for six years or longer, with only one-third owning their equipment for four to six years.



Base: Total contractors answering — 193 in 2017, 245 in 2016, 232 in 2015



A look forward: Survey respondents share more thoughts

At the conclusion of the survey, Wells Fargo Equipment Finance posed two open-ended questions, asking respondents for candid feedback. The words of our colleagues and customers offer some perspective. Here is what they had to say.

How is the state of your business? What concerns do you have?
What are you looking forward to in 2017?

"I look forward to continued profitable work in 2017 like we had in 2016. I am concerned with the lack of skilled tradesman like mechanics and CDL drivers, and the increasing costs and burdens of regulation by federal, state, and local governments." — Survey respondent

"Our wet utility construction business is healthy with great backlog. We are also in the aggregate producing business. This industry seems to be hit hard with supply shortages. This will drive up prices of aggregates that we utilize in our construction business. Hopefully, new ground will be opened up in 2017, thus increasing the aggregate supplies across the state."

— Survey respondent

"Business is steady but slower than years past. Most customers state that there will be no improvement until late third into fourth quarter of 2017."

— Account Manager

"My biggest concern is carrying inventory and interest rates. Looking forward to increased economic growth and confidence."

— Manager

"We are looking forward to the energy industry stabilizing."

— Sales manager

What are your thoughts on the construction industry as a whole in 2017? What do you believe will be happening in the industry?

"The construction industry as a whole is going to be pegged to the success of the new president and how solid or shaky his start is."

— Environmental services contractor managing oil and hazardous waste on land and navigable waterways

"More bridges, roads, and investment into the U.S."

— Manager of finance

"Will be quite flat. At the moment, there are a lot of uncertainty and stability issues. Spending will strongly depend on confidence in the new administration and what stimulus it can implement and when."

— Survey respondent

"There should be a higher volume of activity, especially surrounding roads and bridges. Continued focus on available, qualified workers is critical to complete construction projects and sufficient mechanics to service equipment. Use of smart technology to monitor projects and equipment will become a focus to improve efficiency of equipment and drive overall projects done, as government spending may be needed to fund a higher volume of projects." — Survey respondent

"It will take longer than expected for infrastructure stimulus to be authorized and for funds to reach local economies. Looking to mid-2018 for real growth in [the] infrastructure sector."

— Survey respondent

Together we'll go far

