Wells Fargo Equipment Finance

WELLS FARGO

Construction Industry Forecast

2018 — a year of continued optimism

The Optimism Quotient (OQ) — this survey's primary benchmark for measuring contractor and equipment distributor sentiment on local nonresidential construction activity — for 2018 is 133, a 10-point increase over 2017. The increase in optimism is evident for both residential and nonresidential construction activity. Many survey respondents anticipate increases in construction activity during the latter half of 2018.

How is the state of your business?
What concerns do you have?
What are you looking forward to in 2018?

"Business activity is strong. Moderate growth should happen subject to finding quality employees to increase revenue."

— Regional operations manager

"Our business is doing great. Concern: Continuation like it is."

— Waste Services respondent

"Our business is stable and steady. I am concerned about the delays in project starts. We are looking forward to an increase in business."

— Survey respondent

"Business is stable and contractors seem to have work. Dealer rental fleets are busy and rates are good. I believe 2018 will be about the same as 2017. Dealer margins on sales are not rising and that is a concern."

— Territory Manager, Equipment Manufacturer

"Business is strong. We are busy and profitable."

— Survey respondent

"We are on track for a 35% increase in rental revenue,...,but with the lack of construction workers, we may have hit our ceiling locally."

— Survey respondent

"We are having the best year we've had since 2008, I'm very concerned about manufacturer lead times on new equipment, and 2018 should be a great year financially."

— Sales Manager, Earthmoving Equipment

"[Business is] good. Health care is a concern. Looking forward to more growth."

— Survey respondent

"Our business is in good condition. Our greatest concern is finding people. We are hoping the economy uncertainty will relax."

— Survey respondent

"The state of the business at the present time is stable. Our greatest concern is the shrinking availability of skilled labor in the construction industry."

— Accounting, Construction

"Business is strong as usual in New England. Concerned that our dealership may be affected by our peers in other areas which are not doing the same volume. Looking forward to technology finally catching up with our industry (electronic invoicing, DocuSign, etc.)."

— Finance Marketing Manager

A message from Wells Fargo Equipment Finance

Welcome to the 42nd annual Wells Fargo Construction Industry Forecast. We are pleased to present this report and hope that you find the content useful for your business. No matter your role in the construction industry, there is something here for you. If you're a manufacturer, you'll have an understanding of what dealers are expecting in terms of equipment sales and rental fleets. Distributors and rental companies will get insights into the fleet management objectives of contractors, as well as the reasons why they are renting now more than ever. If you're a contractor or other industry player, find out what your peers are concerned about and what they have to say about construction in 2018.

This report is a compilation of survey responses from hundreds of industry executives about their expectations as we start the new year. The showcase of the report is the Optimism Quotient (OQ), a measure of the industry's expectation for local, nonresidential construction activity for the year ahead. The report measures expectations for buying, renting, and selling equipment from the perspectives of both distributors and end users. We also got opinions from executives on topics such as the regulatory environment, how they fund their businesses, and the availability of labor in their area.

For 2018, the Optimism Quotient is a 20-year high of 133, with both distributors and end users reporting high expectations for activity levels this year. This level of optimism is exciting, and you'll find out what factors might be driving this increase. New for this year, an additional analysis is included in the report that compares and contrasts the Optimism Quotient to other economic indices. This gives you a historical and informative view of how the OQ stacks up against other key metrics.

Some key insights from this report:

1. Net profits — The industry is feeling increasingly positive about net profits. 92% of respondents said their net profits will remain the same or increase over 2017, with 61% expecting an increase in profitability over 2017.
2. Equipment sales — Distributors feel upbeat about the market and expect to see increases in new and used equipment sales.
3. Equipment rentals — Distributors, rental companies, and end users agree that 2018 will be a strong year for equipment rentals.
   a. While some contractors feel their fleet sizes are in balance and at a good equilibrium, those who choose to increase their fleet sizes indicate a willingness to supplement with rentals. A caveat here: the survey responses showed that even small increases in rental prices would encourage end users to buy equipment instead of renting it.
   b. More distributors plan to increase the size of their rental fleets over 2017, and these same distributors are renting to contractors more than the prior year.
   c. Flexibility remains a key element driving rental behavior. End users like the ability to return equipment at any time. The wide variety and ready availability of rental equipment also gives them confidence that equipment will be there when they need it.
4. The industry's top concern is the cost of employee wages and benefits. This has been a consistent theme over the last several years.

In this report, you'll also find an excellent overview of the Construction Market and the U.S. Economy, with expectations for the coming year, by Wells Fargo Economist Mark Vitner. He provides perspective on the nonresidential and residential construction industries, and details with particular emphasis on overall building.

2018 may shape up to be another exciting and prosperous year for the construction industry. We are proud to be associated with so many great customers and partners, and as always, we invite your comments and inquiries into the details of what you read here. If you'd like to discuss this report with me or with any of us, please contact us directly and we'll be glad to talk.

Good luck in 2018 and we look forward to working with you.

John Crum
National Sales Manager
Construction Group
Wells Fargo Equipment Finance
412-454-4629
john.d.crum@wellsfargo.com

Overview

The survey results presented in this 2018 Construction Industry Forecast represent the 42nd 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 312 construction industry executives in 44 states. Nearly all respondents have been in the construction industry for five years or more.

Note: The margin of error for this survey is 5.5% (95% confidence level). 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 ***wfefmarketing@wellsfargo.com****.*

About the survey

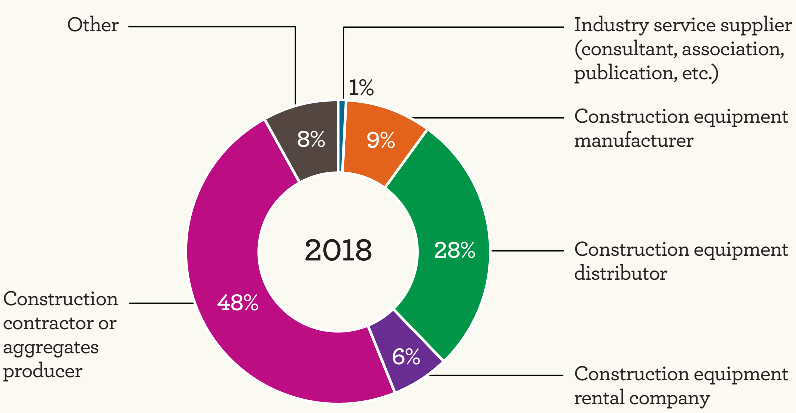
Survey dates:

October 31 – November 27, 2017

Composition of survey respondents:

Most respondents have been in the construction industry for five years or more. Respondents do most of their work in the site preparation/excavation and heavy highway industries.

What best describes your company's 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.

"Technology and telematics are exciting. We can't lose sight of the customer and how to serve them. If the industry is not careful, we'll become so enamored in technology, we'll forget that looking a customer in the eye and shaking their hand still builds confidence."

– Operations Manager, Alaska

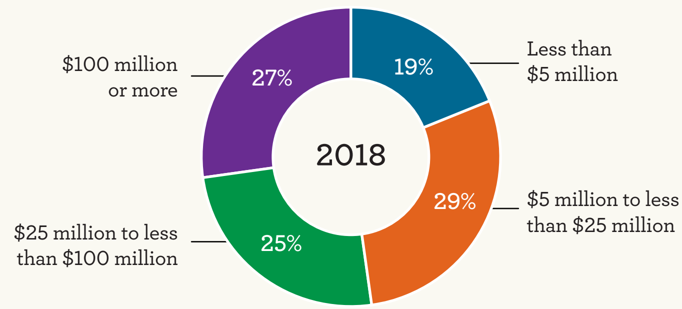
Companies ranging in size and revenue were surveyed; about six in 10 companies have more than 50 employees, and more than half have $25 million or more in revenue.

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

Category	2018
Site preparation/excavation	22%
Heavy highway	17%
Concrete and asphalt	13%
Nonresidential building	10%
Utility contracting	8%
Residential building	7%
Oil and gas	6%
Aggregates production	5%
Bridges and overpasses	2%
Mining	1%
Materials transport	1%
Other	8%

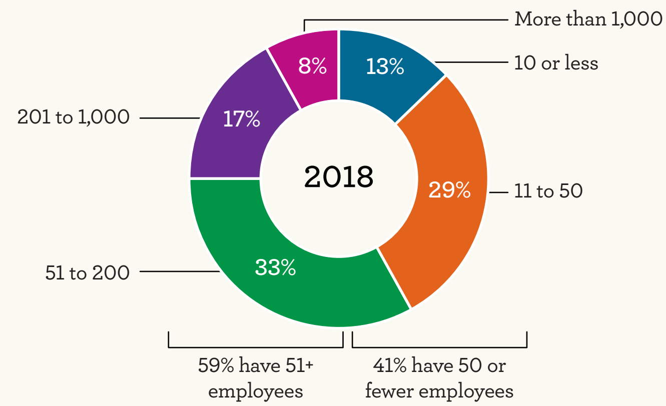
Base: 312 respondents

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



Base: 312 respondents

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

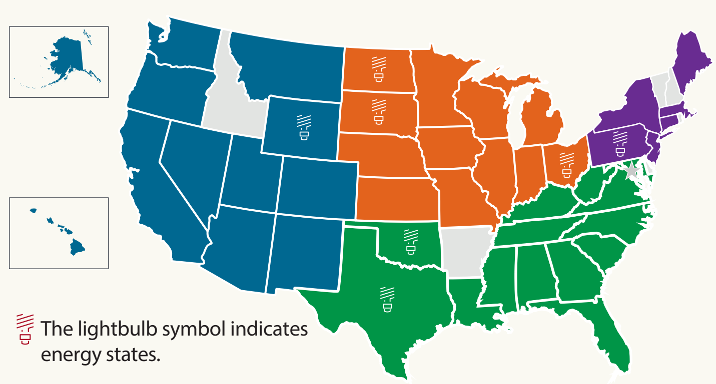


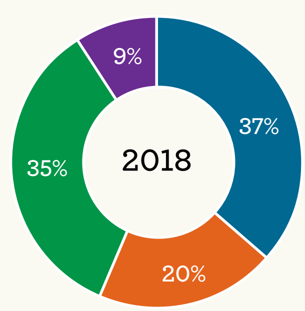
Base: 312 respondents

Geographic distribution of survey responses

Responses were received from 44 states as depicted on the U.S. map.

Responses were received from 44 states. Arkansas, Delaware, Idaho, New Hampshire, Rhode Island, and Vermont were not included in the pool of respondents for 2018. Washington, D.C. was not included. Note: The following are the proportions of survey responses from **energy** states: 23% (2018); 24% (2017); 17% (2016); 22% (2015).





West
AK, AZ, CA, CO, HI, MT, NM, NV, OR, UT, WA, WY

Midwest
IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD, WI

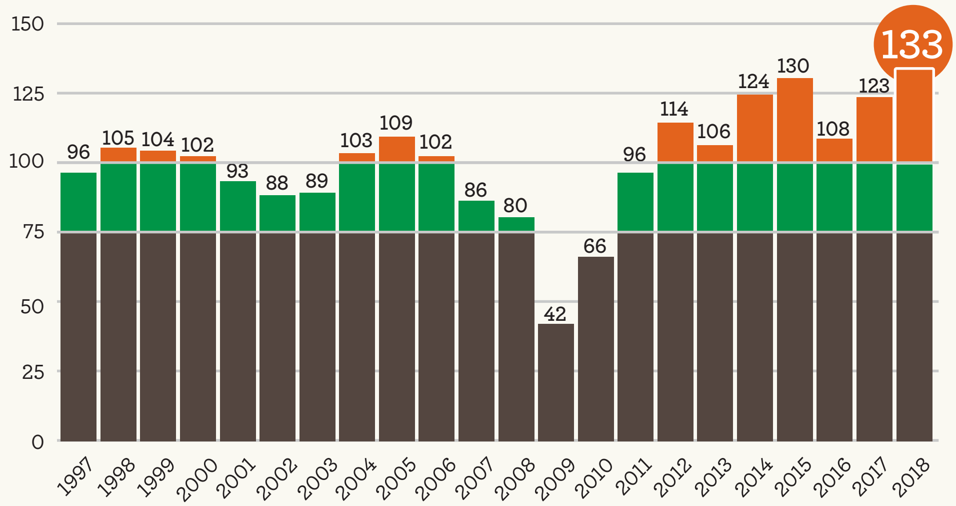
South
AL, FL, GA, KY, LA, MD, MS, NC, OK, SC, TN, TX, VA, WV,

Northeast
CT, MA, ME, NJ, NY, PA

The Optimism Quotient (OQ)

For 2018, optimism for local nonresidential construction activity is at its highest level in more than 20 years. The Optimism Quotient (OQ) presented by Wells Fargo Equipment Finance is this survey's primary metric for assessing respondents' sentiment about local nonresidential construction activity. The measurement is directional in nature and gives an indication of industry executives' optimism about the coming year compared to the previous year.

U.S. National Optimism Quotient (OQ)



Q2: What is your projection for local nonresidential construction activity in 2018 compared to 2017?

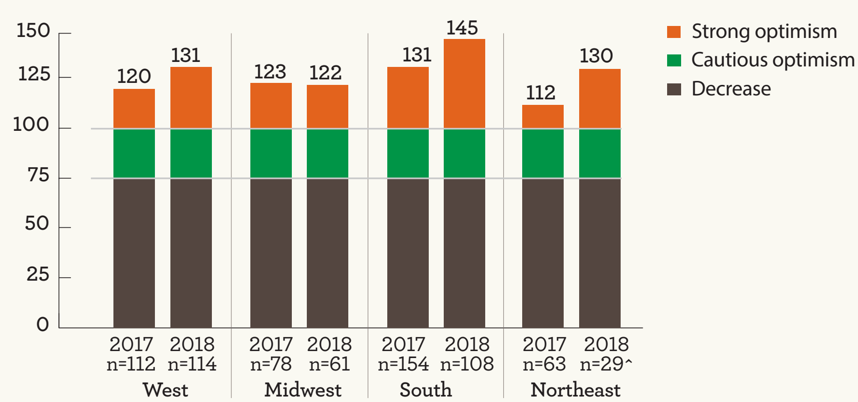
Base: Total respondents — 312 in 2018; 407 in 2017; 474 in 2016; 413 in 2015; 552 in 2014; 370 in 2013; 405 in 2012

How to read the Wells Fargo Equipment Finance Optimism Quotient (OQ)

The OQ for 2018 is very positive 133; a 10-point increase over 2017. 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.

Optimism in the Midwest is on par with 2017, while every other U.S. region reports noticeable gains in optimism. The industry remains increasingly positive with respondents from the South feeling the most optimistic. Survey respondents across the U.S. expressed agreement that construction activity in their local areas will likely increase.

U.S. National Optimism Quotient (OQ) by region



^Caution. Small base size.

Base: Total respondents

Distributors and contractors

Optimism accelerates among both distributors and contractors.

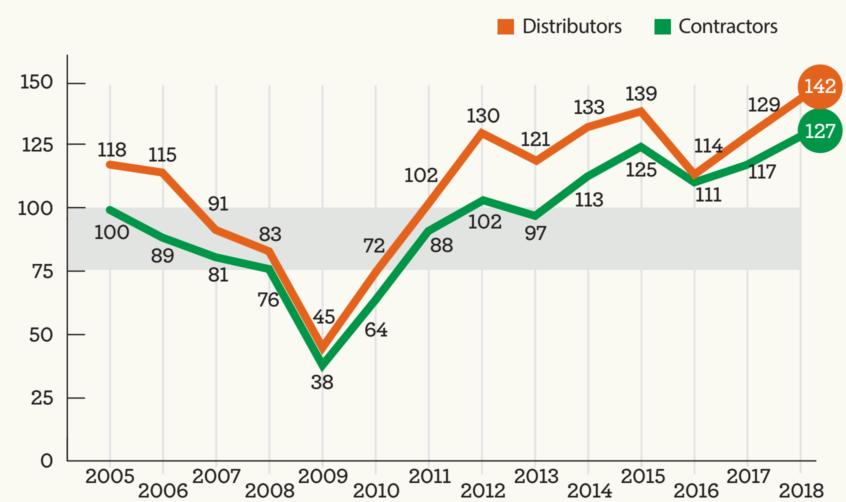
U.S. National Optimism Quotient

Historically, distributors express higher optimism than contractors. For 2018, the gap widens with distributors' optimism increasing from 129 to 142.

Equipment manufacturers (155) and other groups (121) surveyed have similar OQ scores as distributors and contractors do. These groups tend to be less optimistic on average, which brings the overall OQ score of 133 shown on the previous page down a bit.

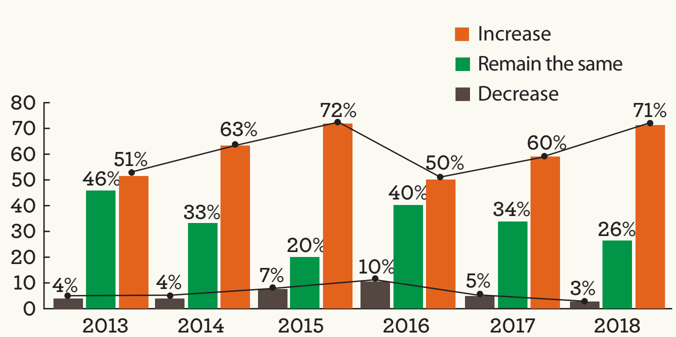
Equipment manufacturers (27^), and other (30^).
^Small base size.

Base: Total 2018 contractors (150), plus distributors and rental companies (105)



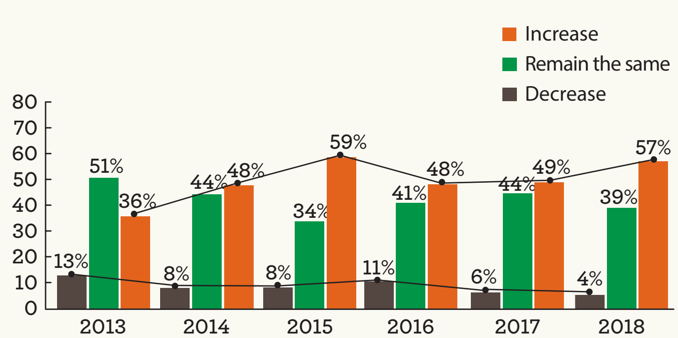
Distributors, a little more so than contractors, expect directional increases in nonresidential activity. 71% of distributors expect an increase in 2018 versus just 60% in 2017. Contractors' expectations for 2018 increased from 49% to 57% with this survey.

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



Base: Total distributors — 105 in 2018, 134 in 2017, 174 in 2016

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



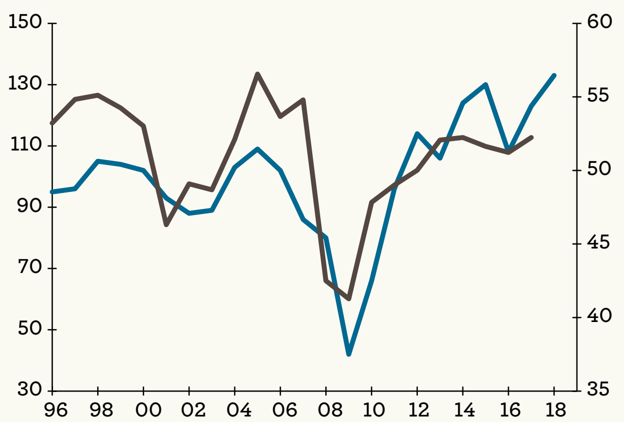
Base: Total contractors — 150 in 2018; 194 in 2017; 248 in 2016

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 years prior, we did not combine the two categories.

How does Optimism Quotient compare to other key economic indices?

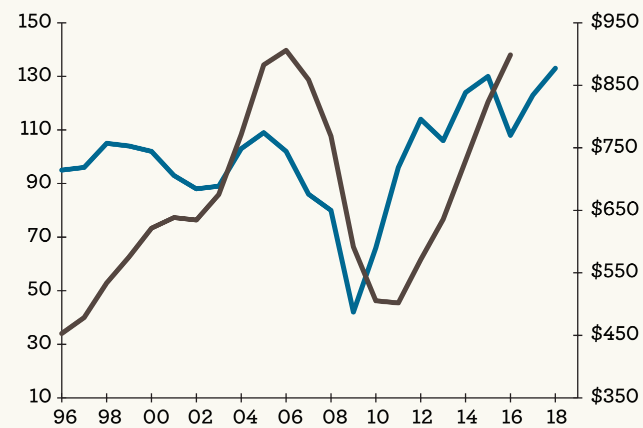
Four economic indices that are significant to the construction industry outlook are the Architectural Billings Index, the Private Construction Index, the Industrial Production Index, and the Public Nonresidential Construction Index. Although there are outlier years, the overall data over time shows that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

Optimism Quotient vs. Total Architectural Billings Index



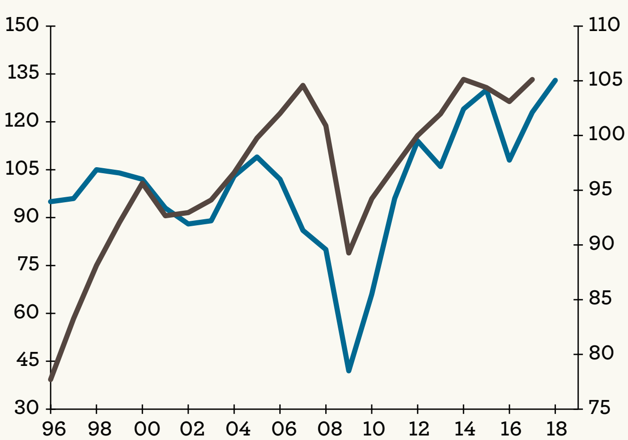
Source: Wells Fargo Securities, LLC

Optimism Quotient vs. Private Construction Index, billions of dollars



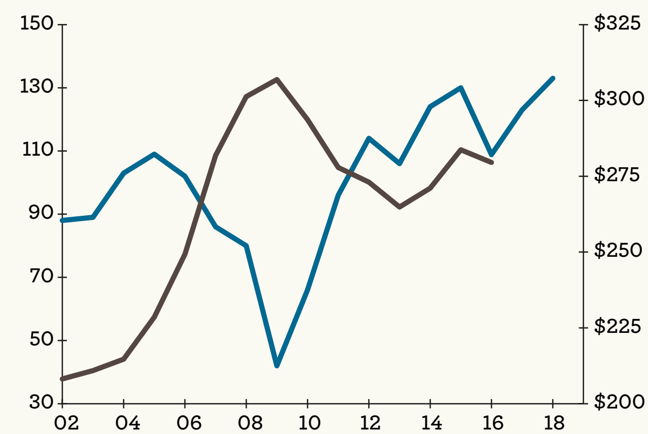
Source: Wells Fargo Securities, LLC

Optimism Quotient vs. Industrial Production Index



Source: Wells Fargo Securities, LLC

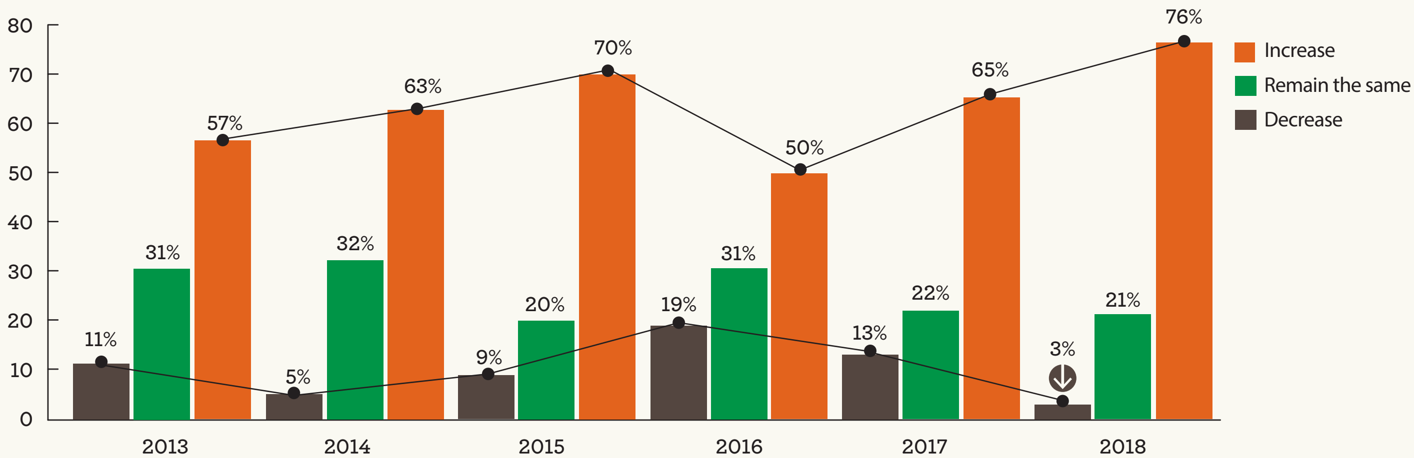
Optimism Quotient vs. Public Nonresidential Construction Index, billions of dollars



Source: Wells Fargo Securities, LLC

Distributors

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

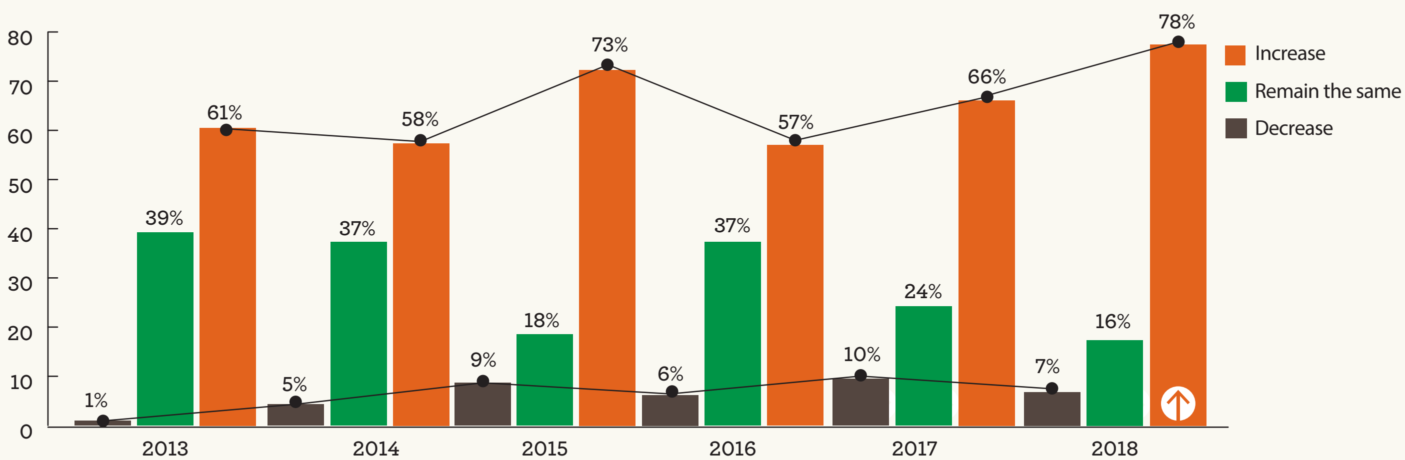


The up/down arrows denote a significant difference from 2017 at the 95% confidence level.

Base: Total distributors and rental companies — 102 in 2018; 130 in 2017; 162 in 2016

Distributors' outlook of **new** construction equipment sales continues to improve. A growing majority, more than three-quarters, of all distributor respondents anticipate a directional increase in sales of new equipment. Compared to just 50% expecting to see increases in new equipment sales in 2016, projections for 2018 have dramatically increased. Far fewer distributors expect sales of new construction equipment to decrease in 2018, dropping from 13% expecting a decrease in 2017, to only 3% expecting a decrease in 2018.

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



The up/down arrows denote a significant difference from 2017 at the 95% confidence level.

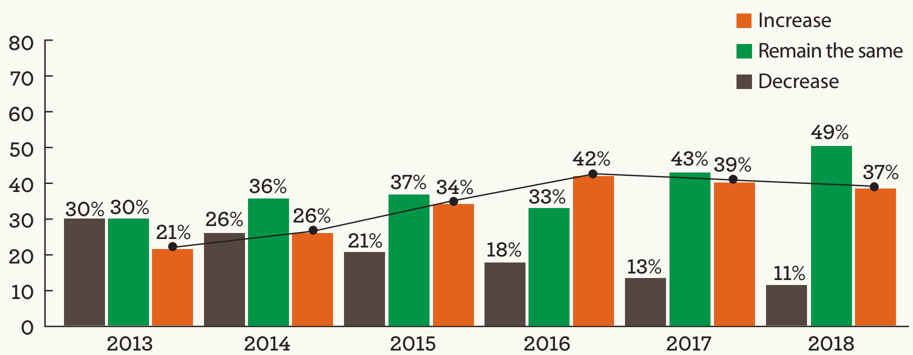
Base: Total distributors and rental companies — 103 in 2018; 134 in 2017; 167 in 2016

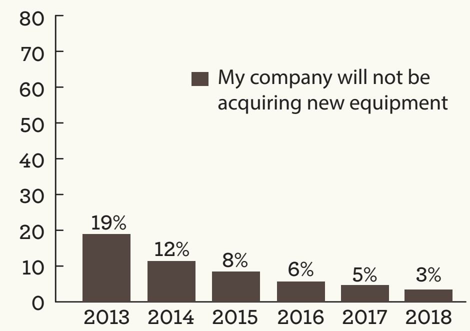
More distributors forecast a surge in used construction equipment sales for 2018. Nearly 80% of distributors anticipate an increase in sales of used construction equipment, compared to 66% of respondents in 2017.

Distributor expectations of used equipment sales have picked up over the last two years and are now closer to 2015 expectations.

Contractors

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

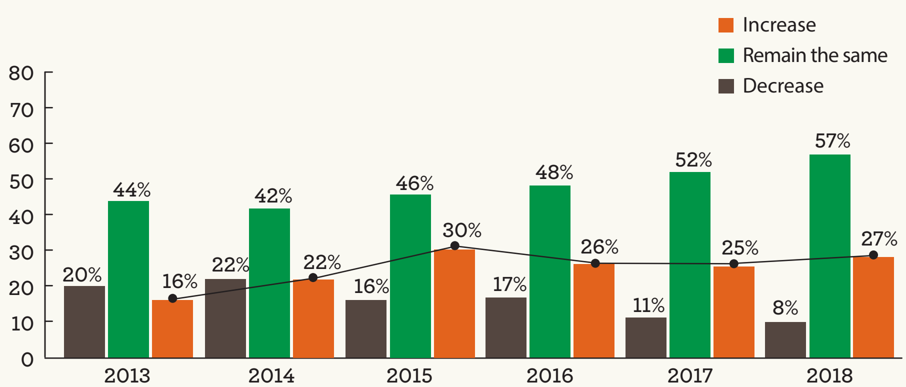


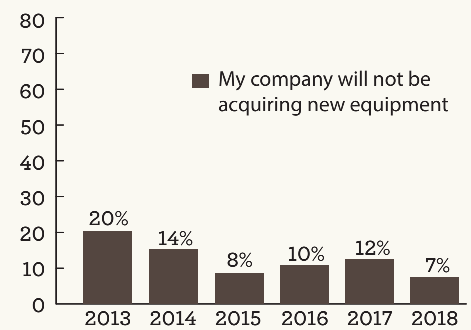


Base: Total contractors — 150 in 2018; 194 in 2017; 248 in 2016

About half of contractor respondents believe **new** equipment purchases will align with 2018 volumes. More contractors expect new equipment purchases overall to remain the same or increase, and only 3% state they do not plan to acquire any heavy equipment in 2018. Only 11% of contractors expect a decrease in equipment purchases in 2018, while nearly three times as many expected decreases in new equipment purchases five years ago. Contractors' estimates of **used** equipment purchases show no significant change for 2018. Historically, fewer contractors intend to buy used equipment over new.

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

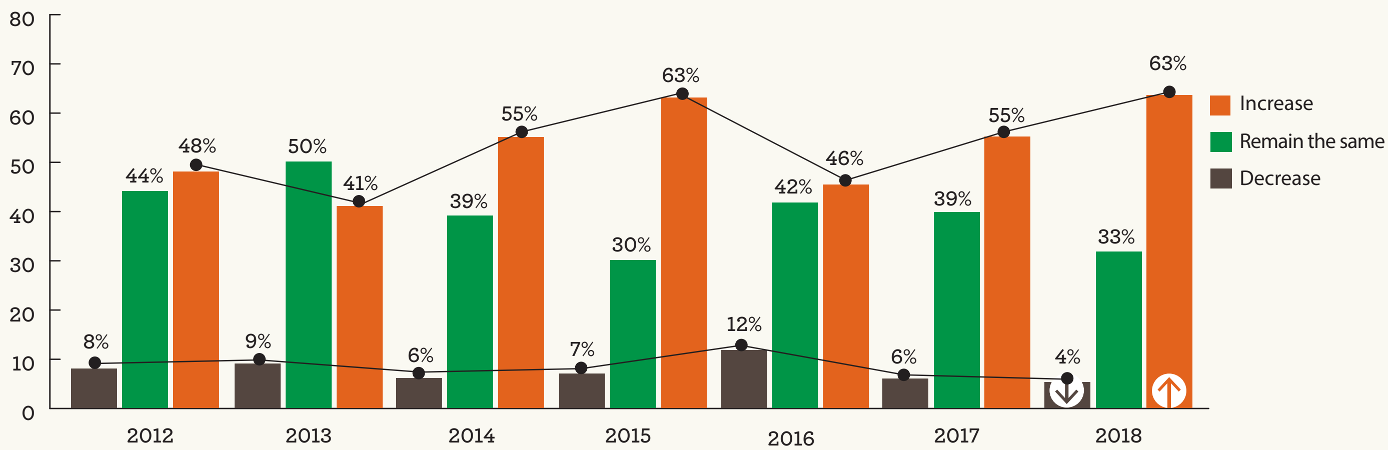




Base: Total contractors — 150 in 2018; 194 in 2017; 248 in 2016

Residential versus nonresidential activity

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



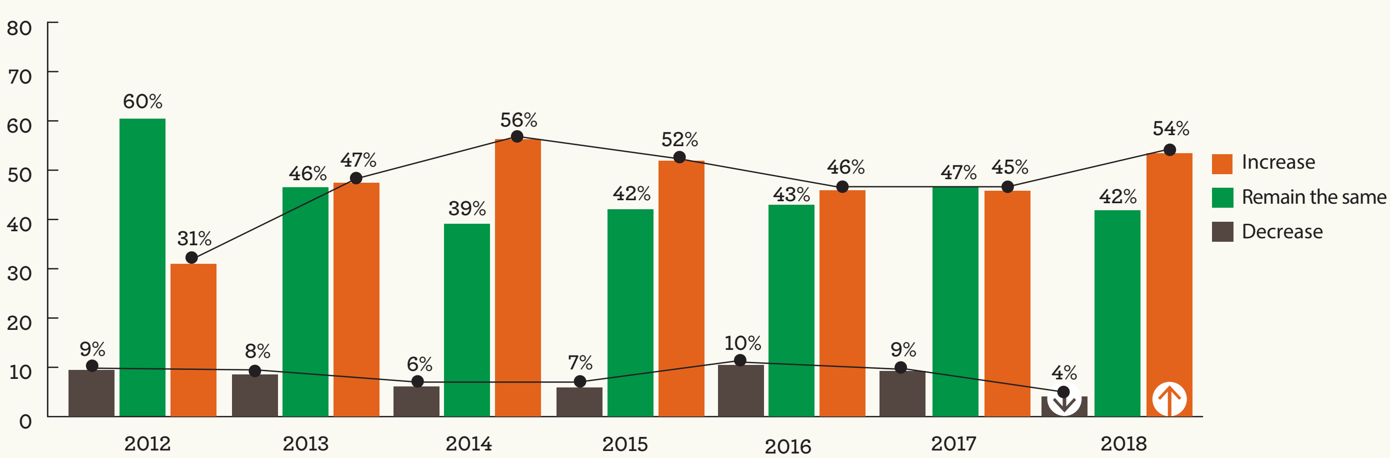
The up/down arrows denote a significant difference from 2017 at the 95% confidence level.

Base: Total respondents — 312 in 2018; 407 in 2017; 474 in 2016

For the second year in a row, more executives (63%) forecast an increase in local **nonresidential** activity in 2018 compared to 2017 (55%). Since 2016, far fewer project a downturn in activity. The percentage of respondents who said activity would decrease plummeted to just 4% in 2018. Among those expecting nonresidential activity to stay the same, respondents said there could be more distant improvement in late 2018 or beyond.

Expectations for local **residential** construction activity are markedly more positive for 2018, increasing from 45% to 54%. There was also a sharp decline in respondents who expect residential construction activity to decrease. Executives who predict residential activity will hold steady in 2018 expect improvement could happen in Q4 2018 or later.

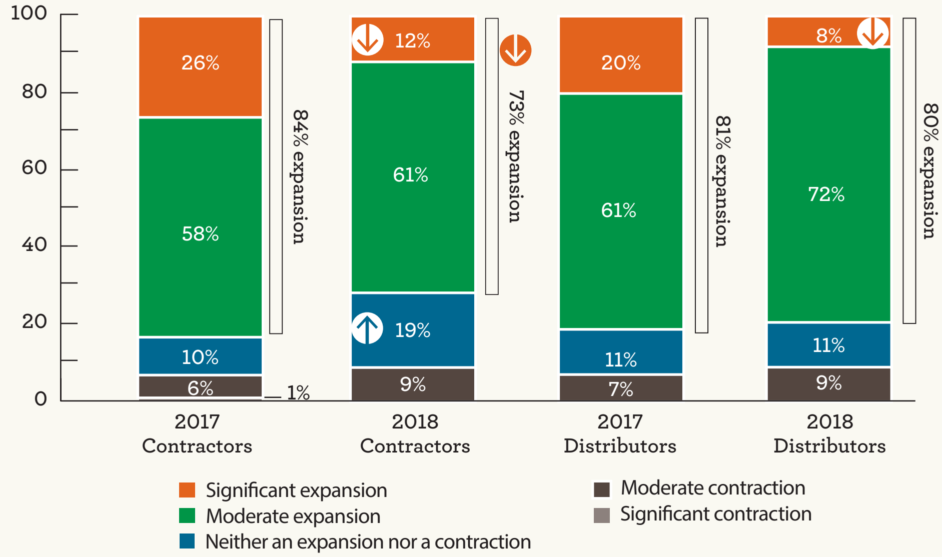
What is your projection for local **residential construction** activity this year compared to last year?



The up/down arrows denote a significant difference from 2017 at the 95% confidence level.

Base: Total respondents — 312 in 2018; 407 in 2017; 474 in 2016

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



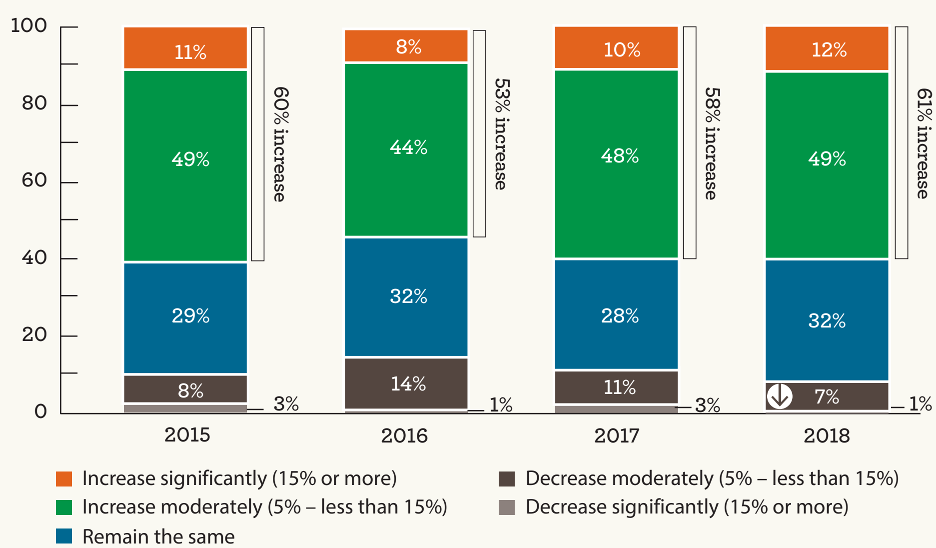
The up/down arrows denote a significant difference from 2017 at the 95% confidence level.

Base: Total respondents — 150 contractors in 2018 and 194 contractors in 2017; 105 distributors in 2018 and 134 distributors in 2017

While most distributors and contractors remain upbeat about construction activity and industry expansion, fewer contractors in 2018 predict industry expansion over the next two years. More contractors (19%) than last year expect the industry will be static relative to 2017.

Net profits

Compared to net profit for 2017, do you think your net profit for 2018 will:



The up/down arrows denote a significant difference from 2017 at the 95% confidence level.

Base: Total respondents — 312 in 2018; 407 in 2017; 474 in 2016

Most executives are optimistic about increased profitability in 2018, with 61% of respondents expecting to see increases. A shrinking number of respondents expect to see decreases in net profits.

92% of respondents say their net profits will remain the same or increase over 2017. Dealers and contractors have been reporting solid financial results through 2017. While net profit expectations remain positive, according to a separate survey question, finding and paying for skilled labor and healthcare costs remain top concerns that potentially can impact net profits.

Construction industry overview

2018 nonresidential construction outlook

Mark Vitner

Managing Director and
Senior Economist
Wells Fargo Securities, LLC

Mark tracks U.S. and regional economic trends for Wells Fargo. He writes for the company's *Monthly Economic Outlook* report and the *Weekly Economic & Financial Commentary*, as well as provides regular updates on the housing markets, commercial real estate, regional economies, consumer spending, and small business issues. Mark's commentary has been featured in the *New York Times*, *The Wall Street Journal*, and *Bloomberg*, among other publications.

Originally from Atlanta, Mark earned a B.B.A. in economics from the University of Georgia and an M.B.A. from the University of North Florida. He spent nine years as an economist for Barnett Banks in Jacksonville, Florida, before joining a Wells Fargo predecessor in 1993. Mark is based in Charlotte, North Carolina.

After eight and a half years of modest expansion, economic growth appears to have picked up.

The real GDP increased to better than a 3% pace in the second and third quarters of 2017. The fourth quarter appears to be off to a strong start, too, with business investment growing solidly. Most important of all, labor markets continue to expand at a healthy clip, with employment gains reaching a broader swath of the economy. We expect this momentum to carry over into 2018 and expect real GDP to grow 2.7%. In the real estate sector, the move back toward center cities by millennials earlier in the decade appears to be topping out, and we are seeing renewed growth in the suburbs. Single-family development is heating up, while apartment construction is cooling off. Likewise, commercial real estate development is expected to expand off the relatively muted recovery from recent years.

Nonresidential construction expenditures have rebounded 65% from its post-recession low but remain modest relative to overall economic activity. Structures investment accounts for just 2.7% of GDP versus a post-war norm of 3.4%, suggesting there is still some runway left in this recovery. The slow recovery in construction spending means overbuilding is much less of a problem this far out into the business cycle than it has typically been. From an operational standpoint, supply and demand appear to be in fairly good balance. Moreover, the recovery to date has been unusually narrow, with energy projects, data centers, and industrial projects accounting for a disproportionate share of growth.

Within residential markets, one of the more prominent trends has been the movement back toward center cities, which has coincided with the millennial generation coming of age and helping trigger an epic apartment boom. The trend has been most prominent in tech-driven markets like San Francisco, Seattle, and Austin, but is also apparent in most rapidly growing large cities. Just more than half of the nation's multi-family permits for projects of five units or more since 2010 were confined to large MSAs, specifically New York City and Los Angeles, and the 20 most rapidly growing metro areas, as measured by net domestic migration. Apartment construction should further moderate in 2018, however, as millennials increasingly form households and opt for a more suburban lifestyle. Declines in many large markets should offset increases in mid-sized markets and the suburbs. This should keep apartment construction close to its recent pace from an overall perspective, but with likely fewer high-rise projects.

After rapid expansion in 2014 and 2015, industrial construction outlays fell into negative territory for the second consecutive year in 2017. Despite this recent weakness, demand for existing warehouse and industrial space remains a growth area. Development continues to be driven by the rapid growth for e-commerce and the resurgence in international trade. The revival in U.S. manufacturing is also playing a supporting role, as is growth in leisure and recreation, which is allowing older spaces to be repurposed as breweries, restaurants, and sports and entertainment venues. The strongest growth continues to be major seaports and large population centers, including the Inland Empire, Northern New Jersey, Eastern Pennsylvania, and Atlanta. Warehouse and industrial development should strengthen in 2018.

Opportunities for office and retail development have been somewhat more limited. Demand for traditional office space remains strongest in technology-driven markets like San Francisco, Seattle, and Austin, but has been more modest in many other markets. Demand from creative industries is also the fastest growing component of many of the fast-growing major office markets, including New York City, Boston, San Francisco, Seattle, Atlanta, and Los Angeles. This is fueling demand for renovated space or new space that has the edginess of renovated buildings. Retail development remains challenged by the relentless growth in e-commerce and evolving demographics. Reports of the death of brick and mortar retailers, however, appear to be overdone. While store closings are likely to proliferate for quite some time, demand for well-located retail locations remains solid. Town center projects, industrial redevelopment, and transit-oriented projects continue to lease-up quickly and command premium rents.

The underlying trend in hotel real estate remains positive as hotel fundamentals are cyclical and generally rise and fall with the broader economic growth. Several unique events, however, had a transitory impact on the hotel market. The recent hurricanes, as well as the "Great American Eclipse" boosted demand for the quarter, yet fears of a public backlash from the perception of price gauging kept average room rates down. For the year, occupancy rates are down slightly from their highs, as competition for guests has increased and several new properties have come to market. Real revenue per available room (RevPAR) fell for the fifth straight quarter in Q3, making the current reading the slowest rate of growth since early 2010. Despite the fact that occupancy and RevPAR are down for the year, the outlook remains positive, as the strengthening U.S. economy should propel demand in 2018.

Rising materials costs remain a concern

Builders have been dealing with rising costs for raw materials over the past year, adding to long-running challenges of finding enough workers and buildable land. The most recent Producer Price Index (PPI) indicates that material costs have indeed been on the rise. In November, the PPI for input prices for construction industries rose 5.6% year over year, marking the fastest rate of growth since 2010.

Gypsum products, which are primarily used in wallboard across both residential and nonresidential applications, have recently seen substantial price increases over the course of 2017. The price of gypsum products surged 8.5% on a year-over-year basis in November, a significant ramp-up compared to the 3.2% average for the same month in 2016. While the recent hurricanes suffered at the end of the summer have certainly increased the demand for gypsum products in several highly populated areas of the country, prices have increased at over 5% each month going back to December 2016.

Softwood lumber, which is used for the framing of houses and other structural applications, has also seen some sharp increases. For perspective, the average cost to frame a house in 2017 was 15% of the total estimated sales price and the largest share of construction costs according to the National Association of Home Builders Construction Cost survey. The most recent PPI indicates that, in November, the price of softwood lumber was up 17.4% year over year, after increasing at an average annualized rate of 5.6% per year since 2012. While the PPI excludes prices on imported goods, much of this increase coincides with renewed tariffs on Canadian lumber, which had expired in early 2015. The newly-imposed tariffs have led to higher prices for softwood lumber in the United States, as domestic producers supply roughly 70% of the softwood market in the United States. The vast majority of the remainder is imported from Canada.

Roofing asphalt is another prominent building material seeing large price hikes. The increases, however, follow a few years of price drops. Prior to 2017, prices for roofing asphalts, pitches/coatings, and cement were either flat or negative going back to 2012, declining an average 5.3% per year. Prices reversed course this past year and are up 6% compared to November

2016. While a host of seasonal and industry dynamics have influenced asphalt material prices, the decline and subsequent rebound follows a similar pattern to the price changes of crude oil, as asphalt is a byproduct of the refining process. Crude oil prices have firmed recently and asphalt prices should follow in a similar manner.

Similar to asphalt, many plastic-related products are directly affected by natural resource prices. Plastics are produced from feedstock derived from natural gas processing and crude oil refining. These products are used in the construction of a home and may include everything from vinyl siding on the exterior to the PVC pipes used in the plumbing. While not as severe a decline as experienced by natural gas and crude oil commodities, plastic construction product prices averaged just 0.3% annualized growth per year between 2012 and 2016. Comparable to other building materials, however, 2017 has brought an uptick in prices, as plastic construction products increased 7.2% year over year in October. Hurricane Harvey may be to blame for the recent price increases as the regions most affected by the storms are also home to several key raw material suppliers. The severe weather caused plants to shut down for several days in much of the industry, including those that make the resins used to produce these plastic products. The higher costs created by this disruption have flowed downstream to builders and contractors.

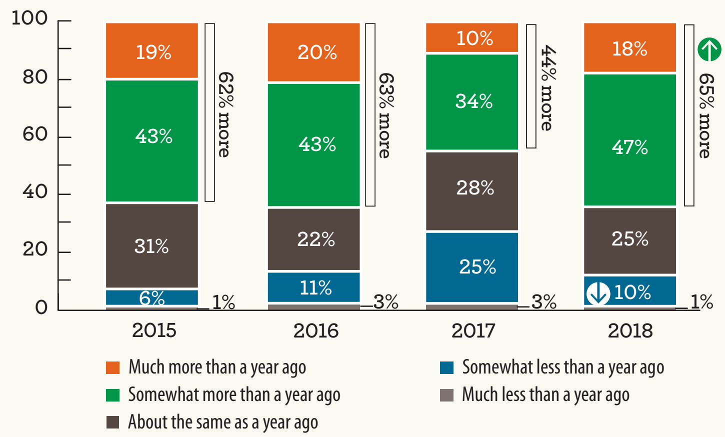
Rental review

Contractors feel their fleet sizes are in balance and at a good equilibrium as nearly half the market will hold steady with their fleet sizes. Those who choose to increase their fleet sizes could supplement with rentals.

At the same time, distributors seem to understand and plan to increase rental fleet sizes.

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

Growth in the rental market is rising for distributors and rental companies. Distributors are renting out more equipment now than they did a year ago. The proportion of those renting out more equipment than the previous year rebounds in 2018 from the low observed in 2017.

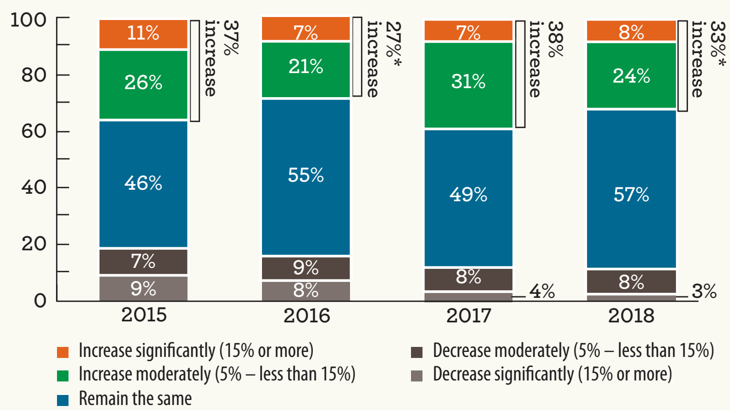


The up/down arrows denote a significant difference from 2017 at the 95% confidence level.

Base: Total distributors and rental companies —105 in 2018; 134 in 2017; 174 in 2016

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

Contractors feel their fleet sizes are in balance and at a good equilibrium. About half the market will hold steady with their fleet sizes. Those who choose to increase their fleet sizes will probably supplement with rentals as long as prices do not increase. An increase in rental prices would possibly spur equipment purchases.



Base: Contractors that rented heavy construction equipment in 2017 – 119 in 2018; 155 in 2017; 208 in 2016

*Percentages in this report may not add up to 100% due to rounding.

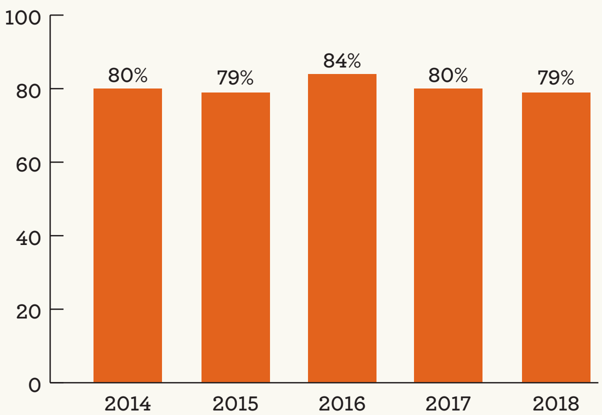
(Contractors) Why do you rent construction equipment? Please rank the top three.

For contractors, flexibility is the most important factor in renting equipment over buying. Having equipment readily available to rent also weighs heavily on contractors' decisions to rent, which aligns with distributors' expectations of increased rental fleets in 2018 (see above).

Top reason % (Rank first)	2018
Flexibility; I can return equipment whenever I want	51%
Rental equipment is readily available	23%
I don't want to own or acquire equipment	9%
Build equity before purchase	9%
High costs to repair and maintain my own fleet	5%
Rental rates are low and attractive	4%

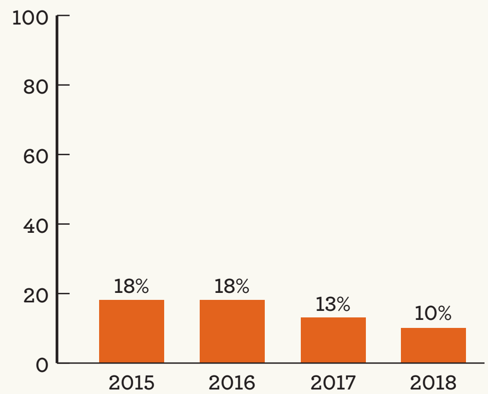
Base: Total contractors: 2018 (n=150)

(Contractors) Did your company rent any heavy construction equipment in 2017? (%=yes)



Base: Total contractors — 150 in 2018; 194 in 2017; 248 in 2016

(Contractors) Do you think that you will rent heavy construction equipment in 2018? (%=yes)



Base: Contractors that did not rent any heavy construction equipment last year

Rental of heavy construction equipment remained strong throughout 2017, holding steady.

Only 10% who did not rent heavy equipment in 2017 plan to do so in 2018, a decrease from 13% in the prior year.

Distributors and contractors are aligned with buying/purchase intentions in 2018 and rental needs versus supply as long as rental prices do not increase even slightly. A stronger backlog of jobs remains most important to contractors when considering buying over renting. Other indicators that may spur purchases instead of rentals would be increased confidence in the local economy and lower equipment costs. Interestingly, only 6% cited confidence in the national economy as an important factor, a sharp decrease compared to 18% in 2017. The price of rental equipment remains a sensitive factor when considering heavy equipment purchases. 63% of respondents say that rental prices only need to increase slightly or moderately to consider making a purchase.

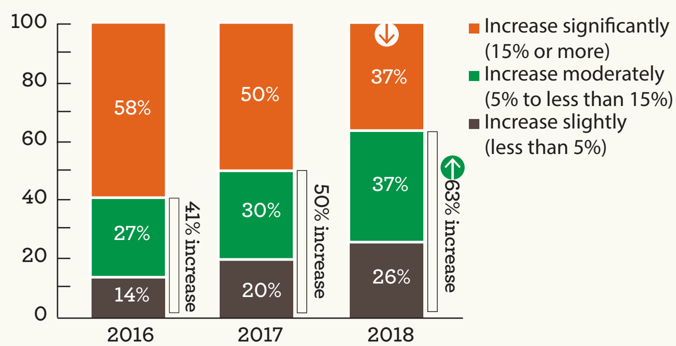
(Contractors) What would need to happen for you to want to **buy** construction equipment?

Most important factors	2015	2016	2017	2018
Stronger backlog of jobs	29%	25%	29%	30%
Long-term confidence in the local economy	24%	19%	18%	21%
Lower equipment costs	7%	7%	10%	10%
Return of Bonus Depreciation	9%	12%	8%	10%
Special low rate interest programs	6%	6%	6%	9%
Passing of a long-term highway funding bill	7%	10%	4%	8%
Long-term confidence in the national economy	15%	14%	18%	6% ↓
My company would not consider buying construction equipment in 2018	0%	2%	2%	1%
Other	3%	4%	6%	5%

The up/down arrows denote a significant difference from 2017 at the 95% confidence level.

Base: Total contractors — 150 in 2018; 194 in 2017; 248 in 2016

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

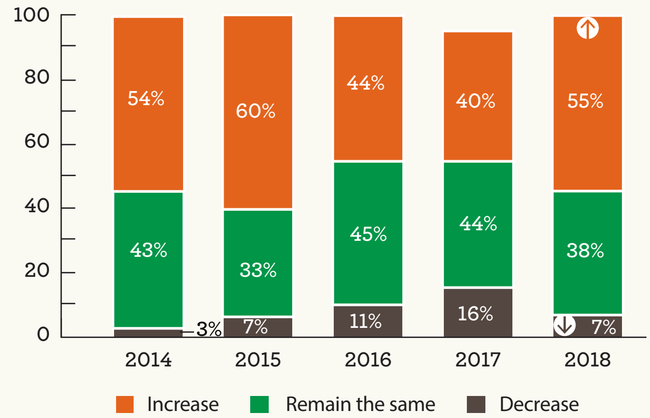


The up/down arrows denote a significant difference from 2017 at the 95% confidence level.

Base: Contractors whose company would consider buying construction equipment — 147 in 2018; 187 in 2017; 228 in 2016

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

Compared to 2017, significantly more distributors (55%) think their rental fleet size will increase in 2018 than did in 2017 (40%). Also, far fewer respondents (7%) expect to decrease rental fleet sizes than did last year (16%). This bodes well for contractors who plan to supplement their fleet size with rentals.



The up/down arrows denote a significant difference from 2017 at the 95% confidence level.

Base: Total distributors and rental companies — 105 in 2018, 134 in 2017, 174 in 2016, 138 in 2015, 175 in 2014

"The state of the business is good with somewhat of a backlog starting 2018. We are concerned about the longevity of the current economic cycle we are in and where it goes from here. We are looking forward to a continued positive economy, a friendlier project permitting process, and a transportation bill."

— Construction Manager

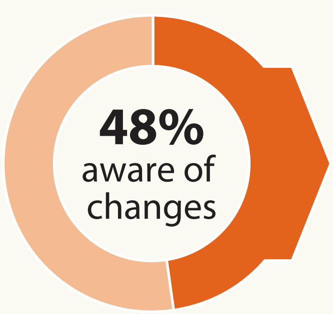
Risk, regulation, and opportunity

Are you aware of pending changes to accounting rules related to leasing?

At the time of the survey, nearly half of executive respondents reported that they are aware of pending changes to the accounting rules for leasing. Of those who are aware, about 50% anticipate somewhat of an impact or even a great deal of impact on their business and about 20% expect no impact at all.

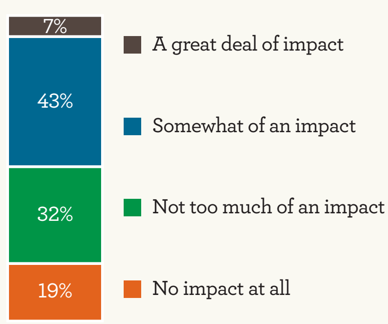
Fewer respondents, just over a third, are somewhat or very concerned about the effect it will have on their business. 28% express no concern at all.

Awareness of pending changes to accounting rules relating to leasing (%=yes)

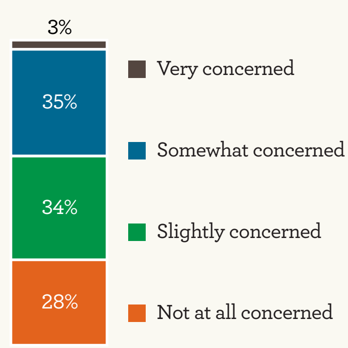


Base: Total respondents — 312 in 2018

What impact will the pending changes to accounting rules have on your business?



How concerned are you about the impact the pending changes to accounting rules for leasing will have on your business?



Which of these factors poses the greatest **risk** to the U.S. construction industry in 2018? Please rank the top three.

Respondents (35%) stated that political/regulatory uncertainty remains a top risk to the industry in 2018, followed by national and economic uncertainty.

Top answer % (ranked first)	2018
Political and regulatory uncertainty	35%
National economic uncertainty	15%
Local economic uncertainty	9%
Rising material costs	9%
Rising interest rates	9%
The residential construction market	7%
Low energy prices, such as oil and natural gas	6%
Tier IV emission standards	4%
The nonresidential construction market	3%
Other	2%

Base: Total respondents — 312 in 2018

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

For the last five years, executives believe that improving the national economic situation would create the greatest opportunity for growth in the industry, although responses were slightly down in this category from 2017. Fewer indicate that improving political climate leads to growth.

Increasing numbers of respondents believe that growth of the residential construction market as well as public/private partnerships would boost opportunity in 2018.

Top answer % (ranked first)	2014	2015	2016	2017	2018
Improving national economic situation	35%	23%	23%	24%	19%
Increased government spending	8%	8%	14%	16%	15%
Increased consumer confidence	15%	17%	16%	13%	13%
Stable regulatory environment	6%	9%	7%	8%	13%
Improving local economic situation	n/a	10%	10%	9%	11%
Improving political climate	12%	11%	12%	17%	9% ↓
The nonresidential construction market	7%	8%	7%	6%	8%
The residential construction market	13%	9%	7%	4%	7% ↑
Public/private partnerships (PPP)	4%	3%	2%	2%	5% ↑
Other	2%	2%	*	*	1%

*Total responses amount to less than 1%.

The up/down arrows denote a significant difference from 2017 at the 95% confidence level.

Base: Total respondents — 312 in 2018, 407 in 2017, 474 in 2016

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.

For 2018, the chief regulatory issue of interest is the Affordable Care Act. Following behind the Affordable Care Act, Tier IV emission standards, and the gas tax round out the top three regulatory concerns among responding executives.

Top answer % (ranked first)	2018
Affordable Care Act	32%
Tier IV emission standards	19%
Gas tax	17%
Debt ceiling	15%
Hours of service (HOS)	9%
Other	8%

Base: Total respondents — 312 in 2018

Business strategy — contractors versus distributors

Employee wages and other benefits (31%) and healthcare costs (18%) ranked as contractors' top cost concerns. Meanwhile, concerns over equipment costs (20%) and equipment rental costs (20%) remained top concerns for distributors. Interestingly, distributors' concerns over healthcare costs dropped from 22% to 18%, bumping its ranking down to fourth place from second place in 2017.

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

The top cost-category concerns among contractors continue to be employee wages and other benefits, healthcare costs, and taxes. 56% of contractors surveyed have more than 51 employees, implying they are carrying healthcare for their employees.

These top concerns have remained consistent over the years.

Top answer % (ranked first)	2015	2016	2017	2018
Employee wages and other benefits	31%	30%	24%	31%
Healthcare costs	21%	22%	19%	18%
Taxes	19%	19%	21%	17%
Materials costs	7%	8%	10%	12%
Equipment purchase costs	12%	10%	18%	11%
Fuel costs	6%	6%	5%	7%
Financing costs	1%	3%	1%	2%
Equipment rental costs	2%	1%	1%	†
Other	†	2%	3%	3%

† Total responses amount to less than 1%.

Base: Total contractors — 150 in 2018; 194 in 2017; 248 in 2016

(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 equipment rental costs. Both tied as a top concern in 2018.

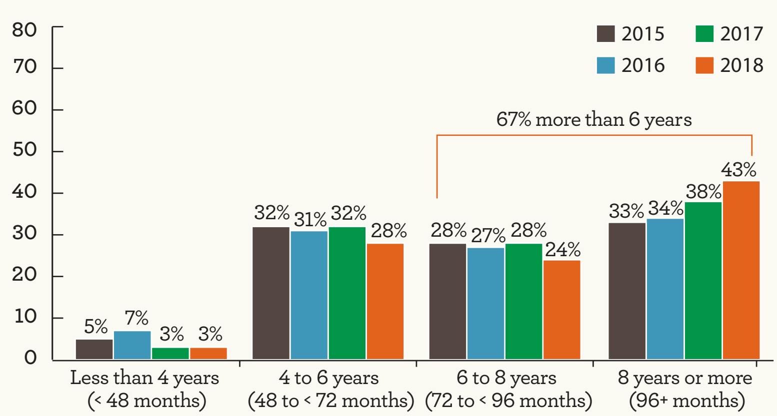
While the costs of carrying a rental fleet ties for first place in 2018, it was ranked third last year in 2017. This rise is perhaps in response to the expectation of increasing fleet sizes to accommodate contractor rental intentions.

Top answer % (ranked first)	2015	2016	2017	2018
Equipment costs	29%	24%	31%	20%
Equipment rental costs – cost of carrying rental fleet	15%	21%	19%	20%
Employee wages and other benefits	9%	17%	10%	19%
Healthcare costs	28%	21%	22%	18%
Taxes	12%	10%	7%	15%
Financing costs	7%	7%	10%	8%

Base: Total distributors and rental companies — 105 in 2018; 134 in 2017; 174 in 2016

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

Contractors who own their equipment typically keep it for six years or longer. For 2018, an increasing number of respondents (43%) stated that they keep their equipment for eight years or more.



Base: Total contractors answering — 148 in 2018; 193 in 2017; 245 in 2016.

What are your thoughts on the construction industry as a whole in 2018?

What do you believe will be happening in the industry?

"We feel there will be continued non-residential construction expansion in 2018."

— Construction Equipment Leasing respondent

"I believe there will be steady growth, and increased projects of larger scale."

— Survey respondent

"Construction industry is in good shape, I worry about regulation constraints in the future."

— Heavy Highway Construction respondent

"I believe 2018 will be about the same as 2017. I don't see the equipment market growing but I also don't see any real downsizing with dealers. If we can get a highway — infrastructure bill in place, I think contractor confidence would get better and perhaps equipment purchases would pick up a bit."

— Territory Manager, Construction Equipment Manufacturer

"Locally I believe the construction industry will remain strong in 2018. As far as the construction industry as a whole, I hope it remains strong. Like most, I feel a downturn is imminent. Hopefully, the downturn is still a few years away."

— Survey respondent

"Labor will be an issue."

— Crane Rental Company respondent

"I think it will improve slightly."

— Survey respondent

"I have a positive outlook for 2018. I believe we will see an increase in work for 2018."

— Survey respondent

"My thoughts are the construction industry as a whole has a severe drought of qualified labor causing cost of operation to continue to grow creating less profit for equipment purchases."

— Regional Sales Manager

"Construction industry is expected to be good in 2018. Looking for government to increase spending on existing infrastructure."

— Survey respondent

"I think customers and dealers can be pretty stuck in their ways, but folks are slowly coming around and realizing what a crucial tool technology is for both to be competitive in our industry."

— Finance Marketing Manager

"I believe as long as the economy keeps ticking forward and interest rates are controlled in a level headed manner, the construction industry will play a large role in the economy as a whole."

— Construction Manager

"The economy would remain about the same in 2018."

— Accounting, Construction

"I think it will continue to grow."

— Survey respondent

"Increased focus on rental and competition driving rack rates down."

— Survey respondent

"I see steady growth well into 2018."

— Branch Manager

"We have a positive outlook for 2018 based on good performance of Hawaii's tourism industry, labor market, and increased income of personal income and tax revenue. For the construction industry in Hawaii, there are several large planned communities that will be built on West and Central Oahu as well as in Honolulu. Therefore, this will have a large impact for our rentals as well as sales of new equipment."

— Sales and Rentals Construction Machinery respondent

"Every aspect of the industry is increasing minus the oil and gas industry. Residential is booming, highway is booming, and commercial is booming."

— Sales Manager, Earthmoving Equipment

"I believe the overall industry will maintain current level of activity, if not increase slightly. Infrastructure on a national level is deplorable and need upgrading and improvements; sewer, water, electric grid, etc."

— Survey respondent

"Construction activity will continue to increase in 2018."

— Survey respondent

"Construction industry is expected to be good in 2018. Looking for government to increase spending on existing infrastructure."

— Survey respondent

How is the state of your business?
What concerns do you have?
What are you looking forward to in 2018?

What are your thoughts on the construction industry as a whole in 2018?

What do you believe will be happening in the industry?

About us

Wells Fargo Equipment Finance (WFEF) provides businesses nationwide with competitive fixed- and floating-rate loans and leases covering a full range of commercial equipment, floor planning, and inventory financing. WFEF has industry financing specialists dedicated to construction, energy, commercial and specialty vehicles, marine, rail, aircraft, and vendor financing programs.

We offer a broad range of direct and vendor finance programs for equipment end-users, distributors, and manufacturers in the United States and Canada. Wells Fargo Equipment Finance is the leading bank-affiliated equipment leasing and finance provider in the U.S. and Canada, with more than $49.7 billion in assets under management,[1, 2] more than 325,000 customers, and 2,600 team members.[3]

Construction equipment financing

We have deep domain expertise in the construction industry and offer tailored financing and leasing solutions. Our nationwide coverage allows us to connect our customers with the correct products to meet their financial needs. WFEF is the only provider that offers complete, creative financial solutions for the entire industry. With end-user leases and loans, dealer retail referral programs, dealer rental fleet and floorplan financing, and manufacturer subsidized retail and inventory programs, WFEF has products suited to your particular needs.

1. 2017 Monitor 100.
2. Equipment financing transactions are provided in Canada by Wells Fargo Equipment Finance Company. Wells Fargo Equipment Finance Company is an affiliate of Wells Fargo & Company, a company that is not regulated as a financial institution, a bank or holding company or an insurance holding company in Canada.
3. Company data as of March 31, 2017.

Together we'll go far

The information contained herein is general in nature and not intended to provide you with specific advice or recommendations. Contact your attorney, accountant, tax or other professional advisor with regard to your individual situation.