



BUILDING ON **SOLID GROUND**

Construction Industry Insights for 2024



In the world of construction, the first half of 2023 witnessed the U.S. economy outperforming even the most optimistic expectations. However, a looming slowdown in the construction sector for 2024 commands attention.

This compelling report offers an in-depth exploration of present-day industry dynamics, shedding light on the anticipated 2024 slowdown. Within its pages lie three indispensable strategies poised to empower contractors, not only to navigate crises but to thrive in challenging landscapes:

- (a) Building and nurturing relationships
- (b) Establishing a robust preconstruction process
- (c) Embracing technological advancements to remain competitive.

Venturing further, this report uncovers an enticing growth opportunity hidden in the often-overlooked preconstruction sphere. This underutilized segment holds the potential to revolutionize project execution efficiency in the preconstruction landscape.

Takeaways:

- 1. Surprising Growth:** In the first half of 2023, the construction industry exceeded expectations, experiencing a remarkable 20% increase in spending, far surpassing the initial conservative estimate of under 6% for the year.
- 2. Strong Q3 Performance:** Q3 2023 witnessed a noteworthy annualized expansion of 5%, marking the industry's most robust performance since 2021.
- 3. Diminishing Recession Concerns:** Concerns about an impending recession have diminished, and the possibility of a soft landing in 2024 now seems more likely than ever.
- 4. Persistent Challenges:** Construction is anticipated to slow significantly in 2024. Construction materials manufacturers and distributors continue to grapple with supply chain disruptions, cost fluctuations, and evolving market conditions, posing ongoing challenges for the industry.
- 5. Varied Impact:** Construction companies must brace for a tightening market, with different industry segments experiencing varying outcomes. While some sectors may see modest growth of around 2% in 2024, others, such as the "retail and other commercial" category, could face negative growth of approximately -3%, resulting in an average variation of -2% across all commercial categories.
- 6. Preparedness Strategies:** In light of an impending industry slowdown, construction firms should focus on three key behaviors: (1) building and nurturing relationships, (2) establishing a robust preconstruction process, and (3) embracing technological advancements to remain competitive and resilient.

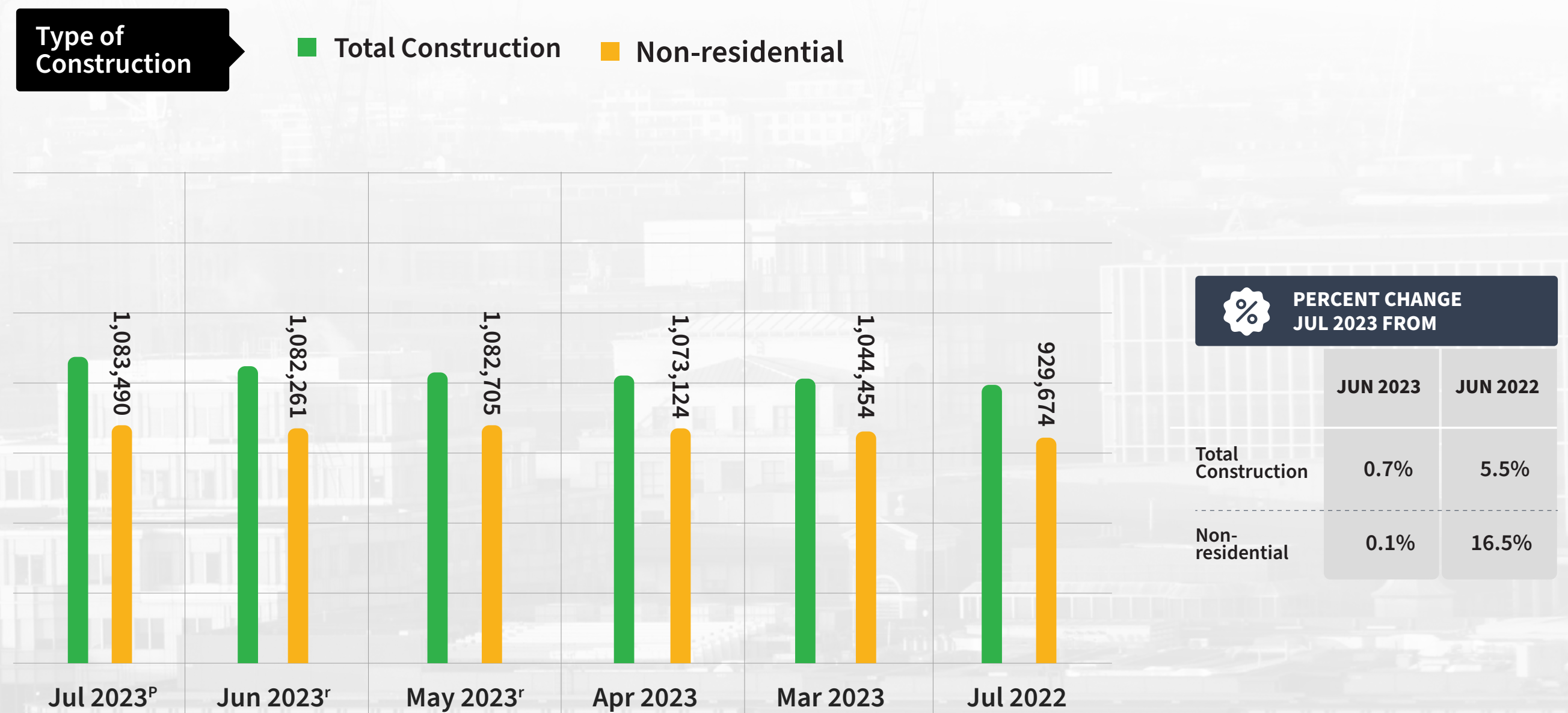
Surprising Growth for first half of 2023 and Strong Q3 Performance

In the context of the construction industry, the U.S. economy has performed exceptionally well in the first half of 2023, surpassing even the most optimistic expectations. Key economic indicators, such as consumer spending and residential investment, consistently outperformed initial forecasts, leading economists to revise their predictions.

For instance, in July 2023, commercial construction spending reached an estimated annual rate of \$1,972.6 billion, marking a significant 5.5 percent increase compared to July 2022. Over the first seven months of the year, total construction spending amounted to \$1,101.5 billion, showing a substantial 3.7 percent growth from the same period in 2022, which recorded \$1,062.1 billion in spending.¹

**TYPE OF CONSTRUCTION PUT IN PLACE IN THE UNITED STATES,
SEASONALLY ADJUST ANNUAL RATE**

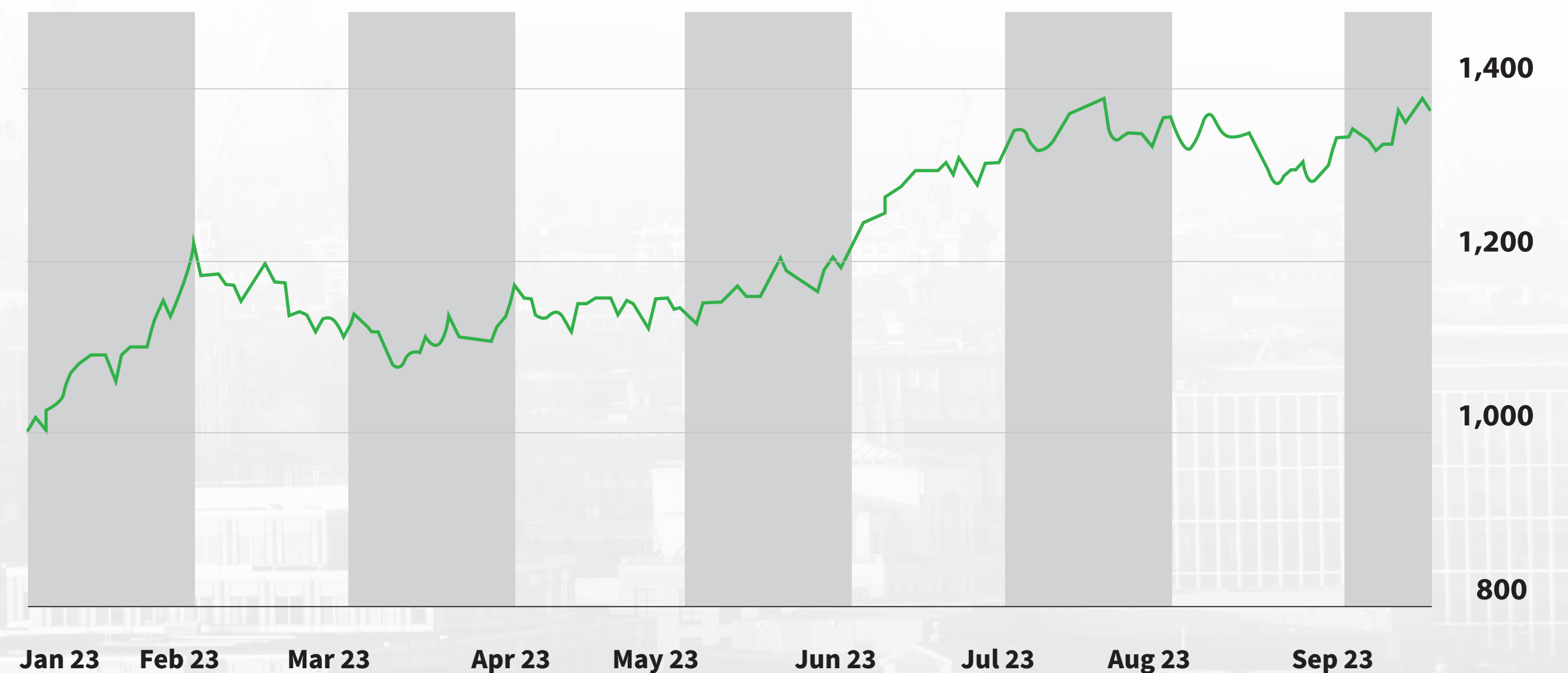
(Million of dollars, details may not add to totals due to rounding.)



Surprising Growth for first half of 2023 and Strong Q3 Performance

The consistent month-to-month growth observed in the first half of 2023 prompted the American Institute of Architects (AIA) to revise their consensus construction forecast for nonresidential building spending. Originally projected to be under 6% at the start of the year, it has now been adjusted upward to an impressive 20%.²

The consumer discretionary sector of the S&P 500 index has surged by more than 30% in the current year. This remarkable growth can be attributed to robust economic data indicating that Americans are maintaining their strong spending habits.



Surprising Growth for first half of 2023 and Strong Q3 Performance

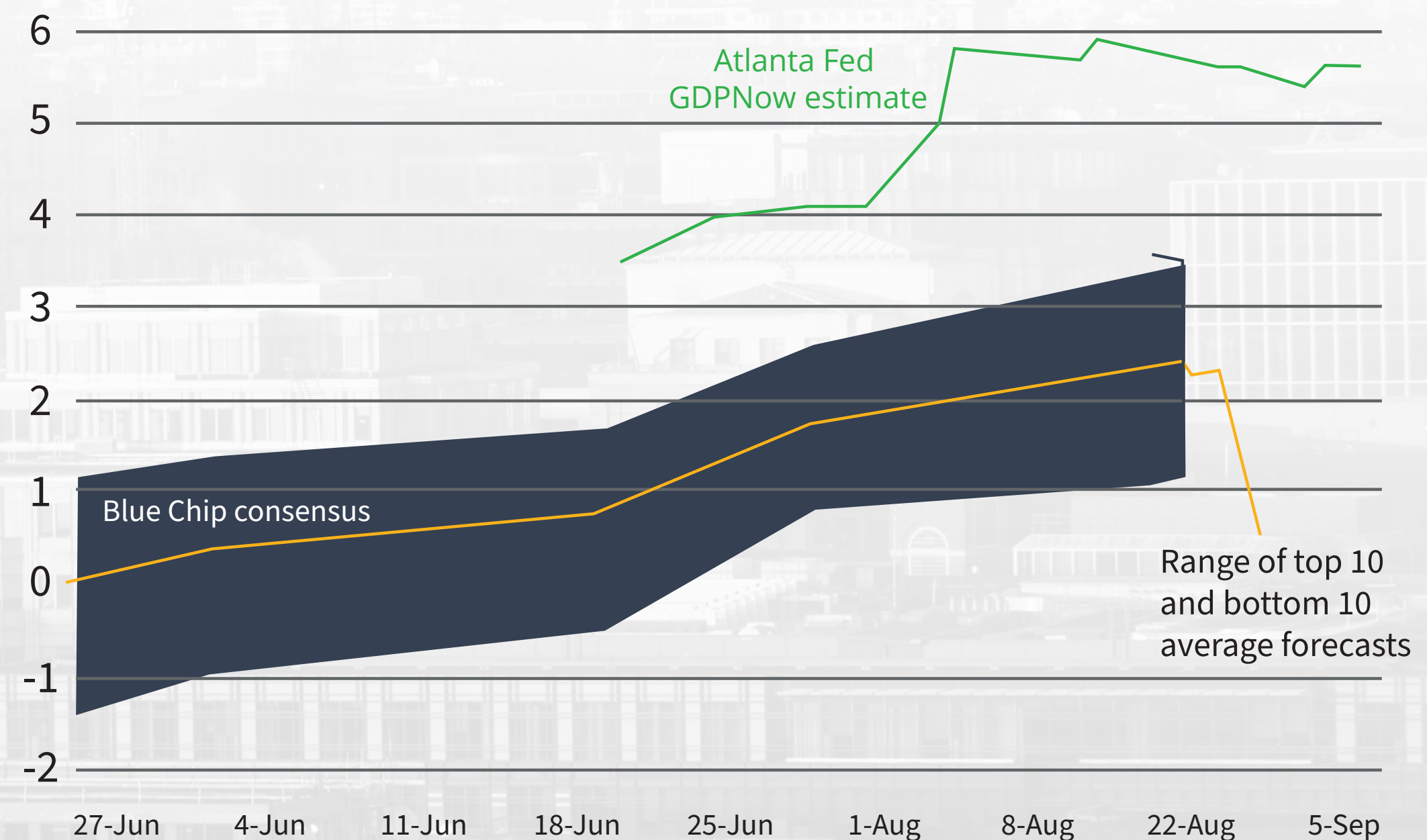
Early forecasts, including those from the Federal Reserve Bank of Atlanta's GDPNow model and other seasoned forecasters, are predicting a positive trajectory for the economy in the third quarter (Q3) of 2023. Notably, Q3 is expected to showcase an exceptional annualized expansion of 5%, signifying the most robust performance since 2021.³

First-half Trends in the PlanHub marketplace ecosystem

Within the PlanHub marketplace, the first half of 2023 has demonstrated remarkable growth. Year-over-year (YoY) registrations have surged by over 50%, while in-app bids have increased by more than 30%. Notably, the construction materials manufacturers, distributors, and suppliers sector emerged as the standout performer, boasting a staggering 100% rise in new registrants.⁴

IMPORTANCE OF REPUTATION / EXISTING RELATIONSHIP WHEN DECIDING TO BID

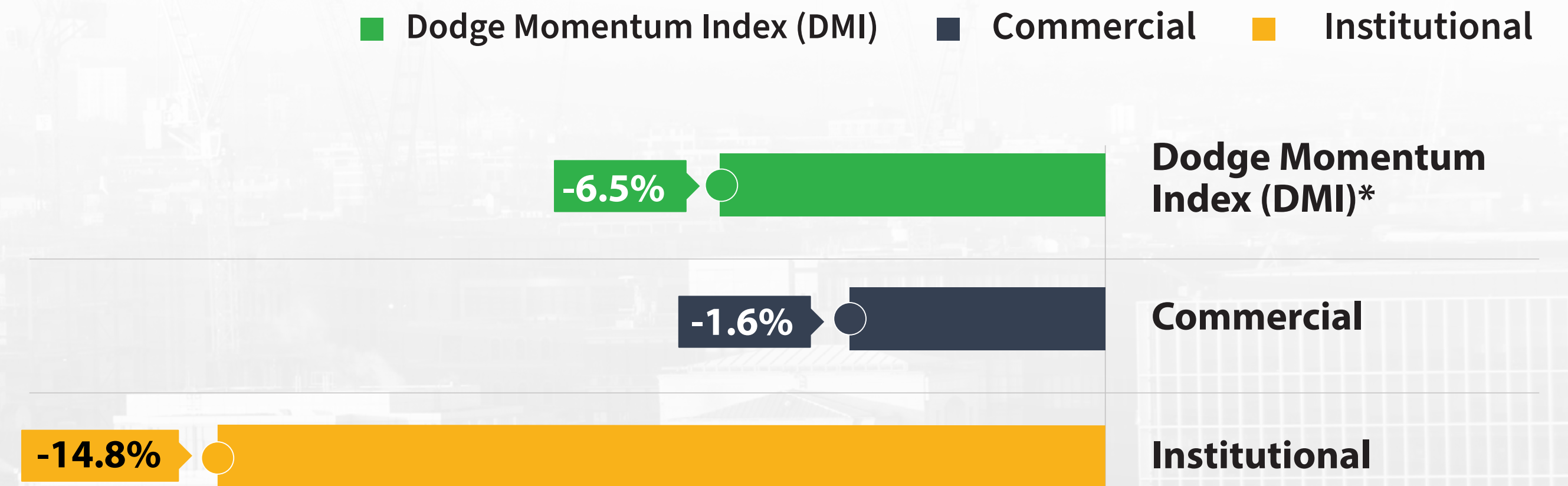
Evolution of Atlanta Fed GDPNow real GDP estimate for 2023:
Q3 Quarterly percent



Signs of Caution for the Construction Industry: No Recession but Deceleration

The Dodge Momentum Index (DMI)*, published by the Dodge Construction Network, experienced a notable decline of 6.5% in August. During this month, the commercial segment of the DMI dropped by 1.6%, while the institutional segment witnessed a more significant decline of 14.8%. The institutional sector's decline was primarily driven by a slowdown in planning activity for education, healthcare, and amusement projects. However, it's worth noting that when compared to August 2022, the DMI remained 4% higher, indicating year-over-year growth despite the recent dip.⁵

Quarterly percent change (SAAR)



*The DMI is a monthly measure of the initial report for nonresidential building projects in planning, shown to lead construction spending for nonresidential buildings by a full year.

Signs of Caution for the Construction Industry: No Recession but Deceleration

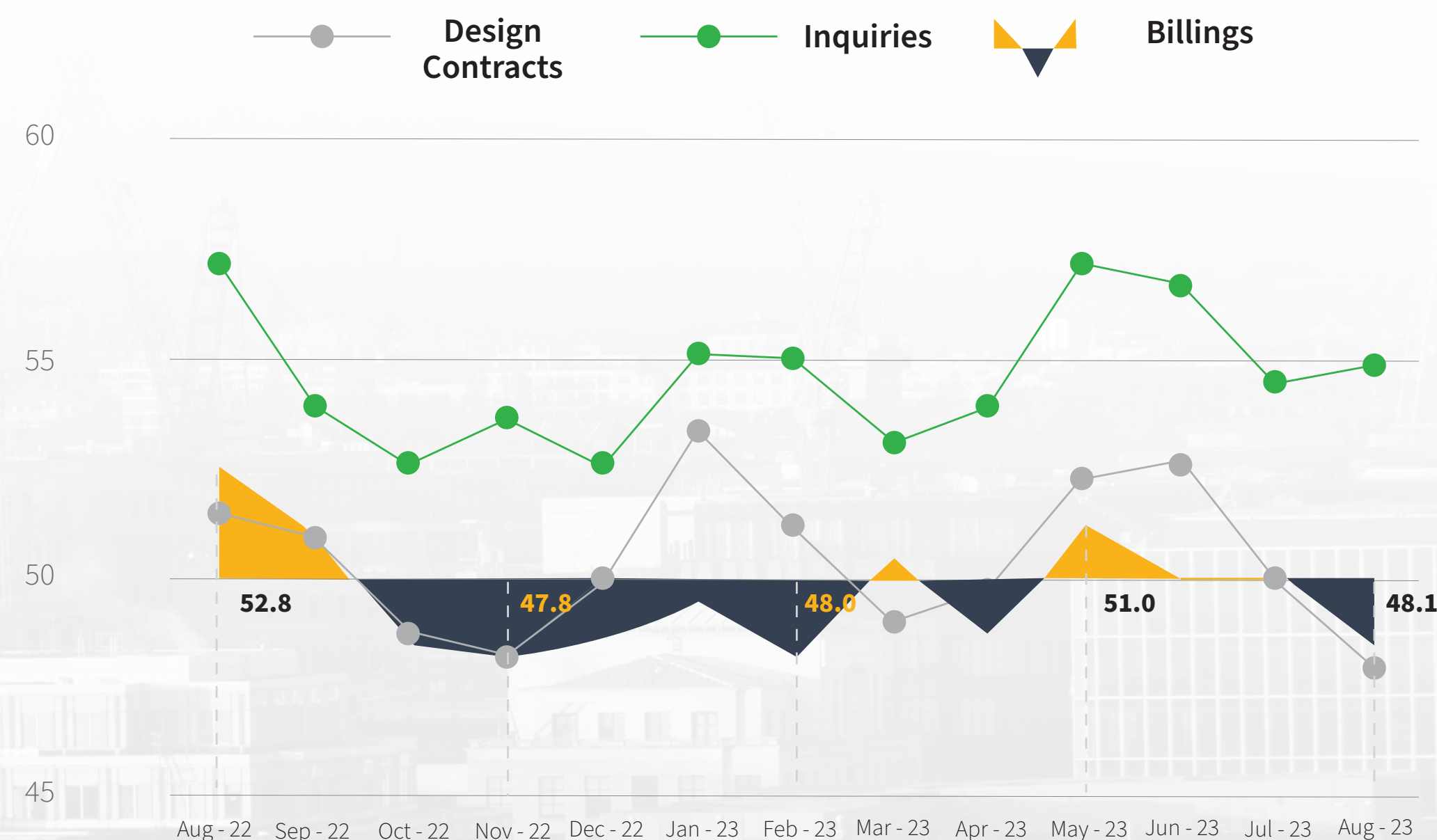
The Architecture Billings Index (ABI), created by the American Institute of Architects to gauge upcoming construction work volume, has fallen below the 50-point threshold, registering at 48.1. This marks the eleventh consecutive month where billings have remained essentially stagnant at architecture firms, following a period of robust growth throughout much of 2021 and 2022.⁶

ABI JUNE-AUGUST 2023: ARCHITECTURE FORM BILLINGS REMAIN FLAT



NATIONAL

Architecture form billings decline in August



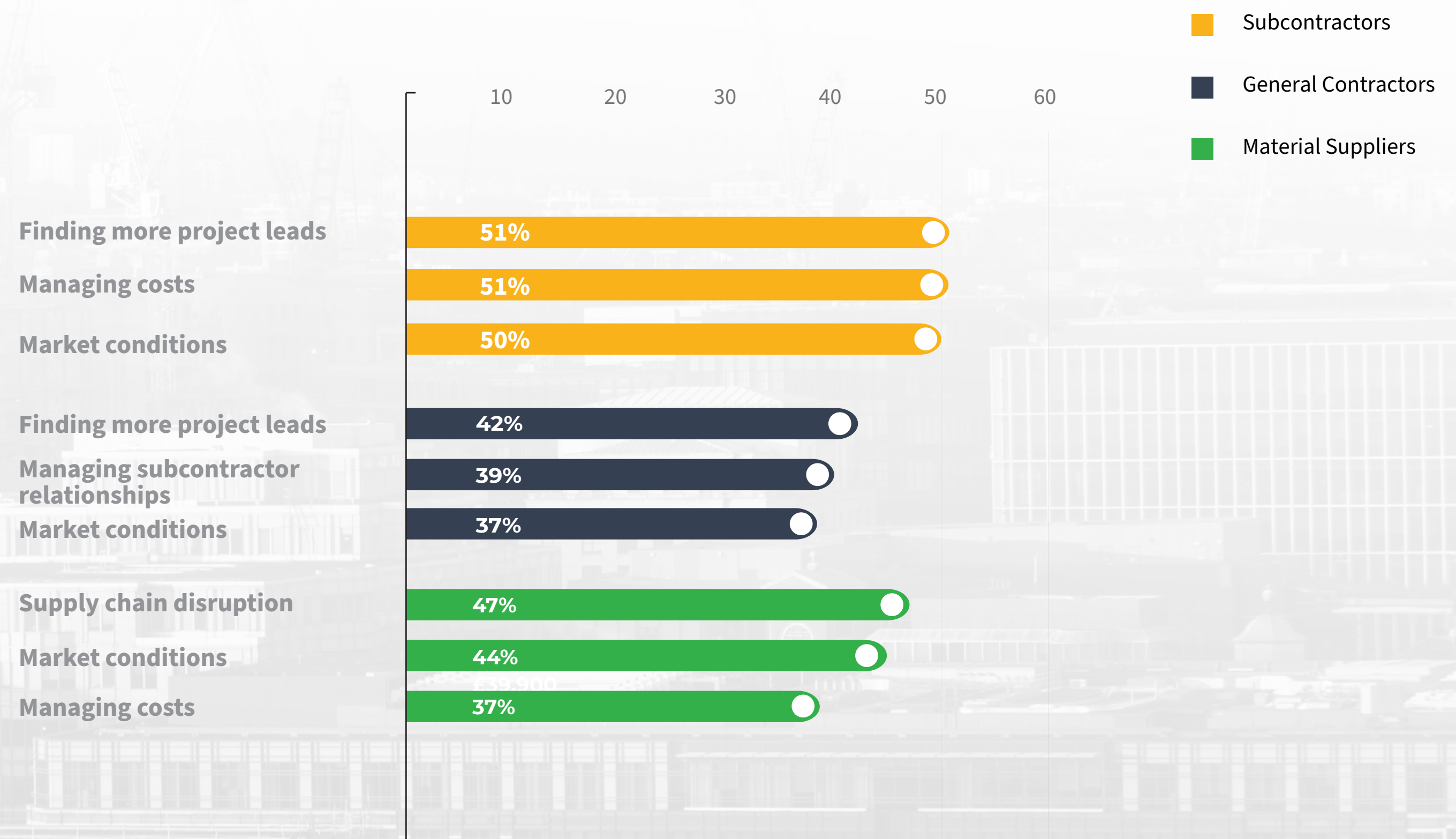
Furthermore, there are indications that the pipeline of future work may be starting to decelerate. The value of newly executed design contracts experienced its first decline since April. This decline signifies that fewer clients have committed to new projects compared to the preceding three months.⁷

What are contractors and material suppliers saying?

Surveying 641 PlanHub users, which encompassed subcontractors, general contractors, and material suppliers, we gained insights into their perspectives on business, technology adoption, and the economic outlook for the remainder of the year.

Notably, approximately 24% of respondents, nearly one in four, expressed direct concerns about prevailing market conditions. When asked to identify their top three challenges for the rest of the year, the significance of market conditions as a concern became evident. In the subcontractor category, the number of users citing market conditions as a top challenge doubled, and for general contractors and material suppliers, it increased by 65%. This shift underscores the prominence of market conditions as one of the top three concerns across all categories.

TOP 3 CHALLENGES FOR THE REST OF 2023



Forecast for 2024

AIA predicts a healthy outlook for nonresidential construction through the second half of 2023 and into 2024. However a shift to a “much more moderate pace of expansion” in 2024 seems likely.

What exactly does this “much more moderate pace” mean? The shift can be dramatic, depending on your niche. Verticals within the industry will be affected differently. While some segments might experience a modest 2% growth in 2024, others — like the “retail and other commercial” category — might see negative growth of around -3% with an average variation of -2% across all commercial categories (office, retail, hotel). A soft landing for the overall economy might look like a significant growth slowdown for construction.⁸

	Forecast % Change	
	2023	2024
Nonresidential Total	19.7	2.0
Commercial Total	11.2	-1.7
Office	8.0	-1.4
Retail & Other Commercial	10.8	-2.8
Hotel	24.0	7.0
Industrial Total	55.1	5.4
Institutional Total	10.0	3.6
Health	10.4	3.0
Education	10.5	4.3
Religious	8.4	1.0
Public Safety	3.9	5.3
Amusement & Recreation	10.2	1.9

How to prepare for a significant growth reduction in 2024

Drawing from the experience gleaned from the extensive network of contractors within PlanHub and our analysis of the most current industry trends, we have pinpointed three key behaviors that can enhance the economic success of construction companies, even in the face of a substantial slowdown:

Building Relationships

Establishing a Robust Preconstruction Process

Enhancing Efficiency Through Technology Adoption

A. Building Strong Relationships

Building strong relationships is often more attainable during periods of economic abundance. It is crucial to expand your business network now, taking advantage of the influx of new projects. One effective strategy for achieving this is to utilize marketplace platforms that feature vetted contractors, providing an avenue to introduce your business and bid on upcoming projects.

IMPORTANCE OF REPUTATION / EXISTING RELATIONSHIP WHEN DECIDING TO BID

SUBCONTRACTORS



Ranking

67%

Respondents

GENERAL CONTRACTORS



Ranking

84%

Respondents

MATERIAL SUPPLIERS



Ranking

66%

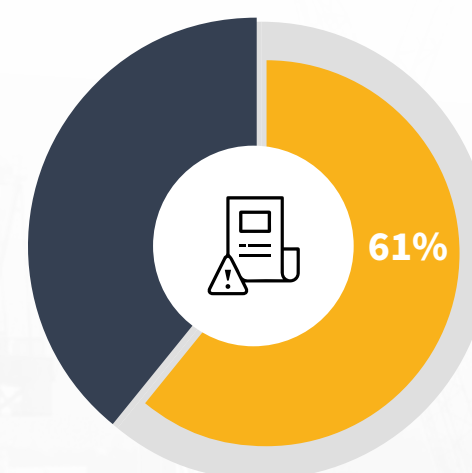
Respondents

A. Building Strong Relationships

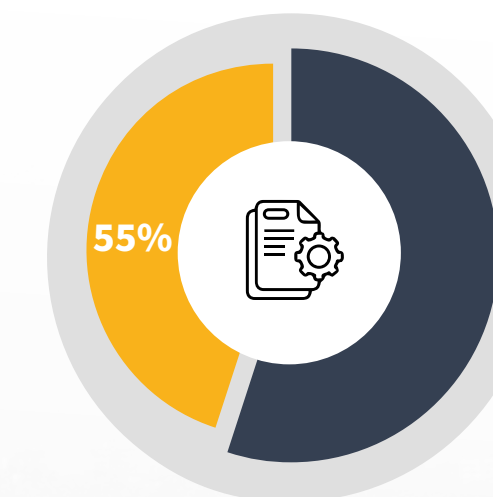
According to the PlanHub user survey, there is a notable willingness among general contractors to initiate new working relationships with subcontractors.

However, there appears to be an untapped opportunity, as 55% of subcontractors seldom bid on projects from general contractors with whom they have not previously collaborated. This suggests that there is potential for growth by fostering new connections in the industry.

GENERAL CONTRACTORS ACTIVELY CONSIDER AND CHOOSE NEW SUBS

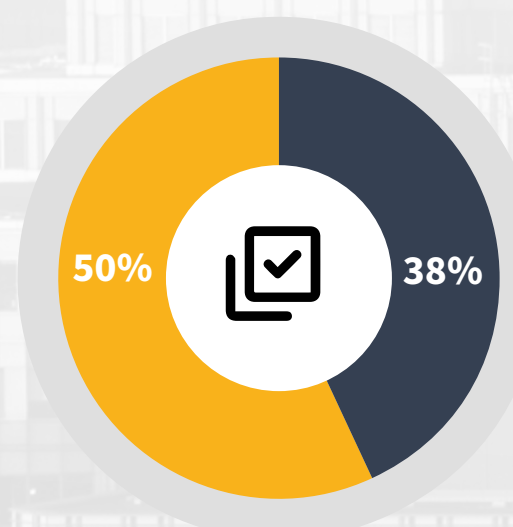


61% of the time general contractors will consider subcontractors they don't know.

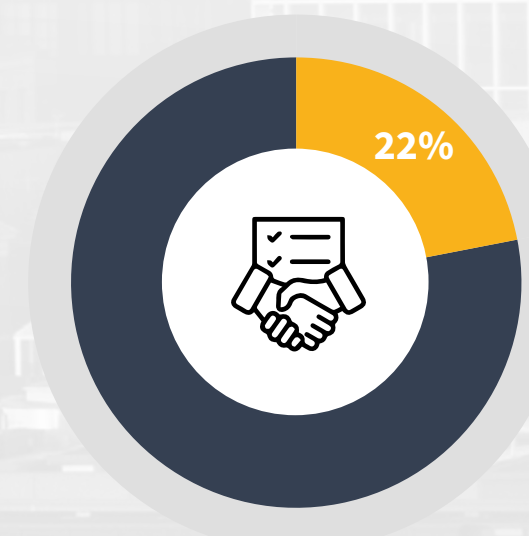


55% of subcontractors rarely bid on projects from general contractors they haven't worked with previously.

THIS IS A MISSED OPPORTUNITY FOR MOST SUBCONTRACTORS



38% say they select new subcontractors at least 50% of the time



Only 22% of subcontractors actively bid* on projects from general contractor they haven't worked with previously.

B. Establishing a Robust Preconstruction Process

Preconstruction is becoming a higher investment priority. This shift is driven by the increasing complexity of construction projects and a growing recognition of the substantial benefits that detailed planning can deliver throughout the construction lifecycle.

In a recent survey conducted by FMI consultants, it was revealed that preconstruction has emerged as the most critical aspect of business, second only to project execution. It takes precedence over financial management, workforce management, and project closeout in terms of importance.

PlanHub users have shared their success stories, reporting a substantial 20% increase in revenue following the implementation of a more organized preconstruction process combined with the adoption of bid management.

Notably, the same survey indicated that companies with above-average preconstruction processes enjoy several significant advantages:

Decrease
Rework
by

34%

Grow
Profitability
by

22%

Increase
Productivity
by

23%

C. Enhancing Efficiency Through Technology Adoption

The construction industry has been notably slower in adopting digital solutions compared to other sectors. Traditional tools like Excel spreadsheets, A3 drawings, and clipboards continue to have a widespread presence. According to JBKnowledge, a staggering 60% of construction firms lack a dedicated R&D budget, and 35% point to staffing constraints as the primary obstacle to embracing new technology. Dealing with multiple one point solutions adds to the confusion and frustration within the industry. Consequently, many construction professionals harbor skepticism towards digital solutions.⁹

HOW DO YOU TRACK AND MANAGE NEW LEADS/OPPORTUNITIES?

Type of Construction

- Subcontractors
- General Contractors
- Material Suppliers

Subcontractors		General Contractors		Material Suppliers	
Spreadsheets	Pen & Paper	Spreadsheets	Pen & Paper	Spreadsheets	Pen & Paper
58%	34%	59%	12%	34%	25%

HOW DO YOU PRIMARILY BUILD YOUR TAKEOFFS/ ESTIMATES?

Type of Construction

- Subcontractors
- General Contractors
- Material Suppliers

Subcontractors		General Contractors		Material Suppliers	
Spreadsheets	Pen & Paper	Spreadsheets	Pen & Paper	Spreadsheets	Pen & Paper
7%	45%	9%	33%	24%	10%

In this context, it's worth noting that preconstruction appears to be even more technologically underserved compared to other phases of the construction process. PlanHub's own surveys corroborate these findings, highlighting that there is still a considerable journey ahead in terms of digitizing the preconstruction process

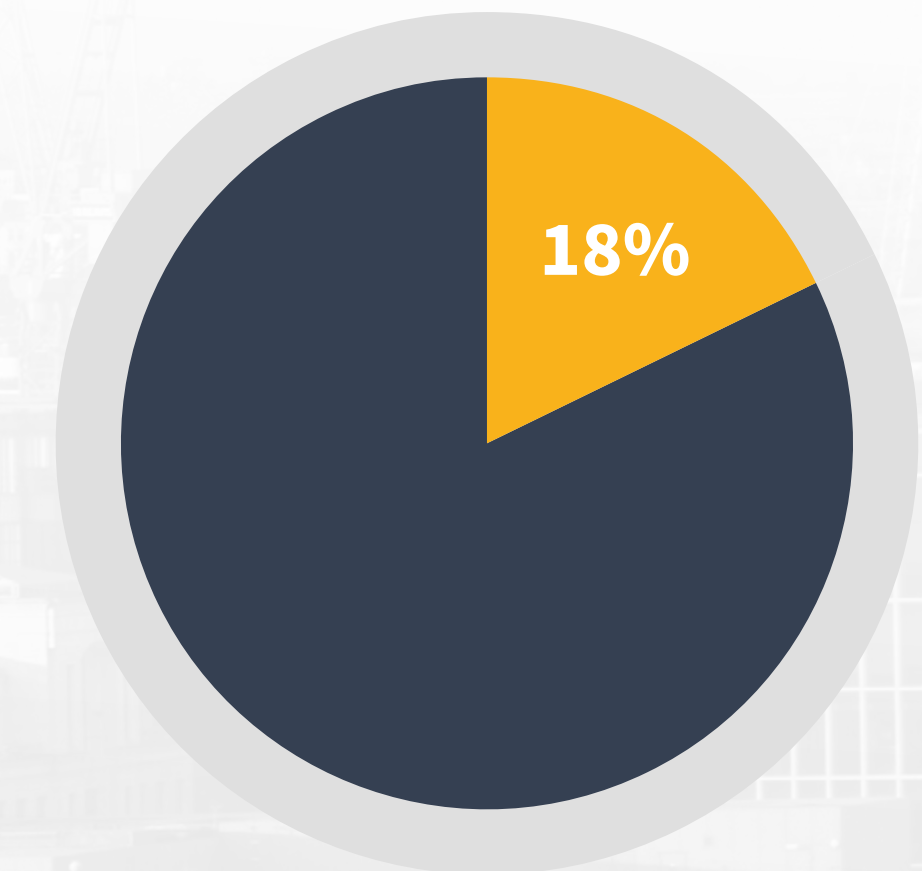
C. Enhancing Efficiency Through Technology Adoption

Subcontractors overwhelmingly rely on digital spreadsheets or pen-and-paper methods for tracking new project leads and managing business relationships, accounting for a substantial 92% of their approach. Among general contractors, 71% opt for these traditional methods, while a significant 59% of material suppliers follow suit.

Moreover, when it comes to building takeoffs and estimates, the use of manual and printed plan options remains prevalent. Subcontractors resort to printing plans 52% of the time, while general contractors adopt this approach nearly half the time. Furthermore, one in three material suppliers still relies on manual methods for constructing estimates. These statistics underscore the persistence of traditional practices within the industry, highlighting areas where digitalization and technological advancements could yield substantial improvements in efficiency and productivity.

Benefits of adopting new technologies

The data reveals a sobering reality within the construction industry: respondents reported dedicating a substantial portion of their valuable time, an average of 18%, to the task of simply searching for data or information on a typical project. This allocation of time to what can be considered a low-value activity underscores the inefficiencies that persist within the industry's information retrieval processes.¹⁰



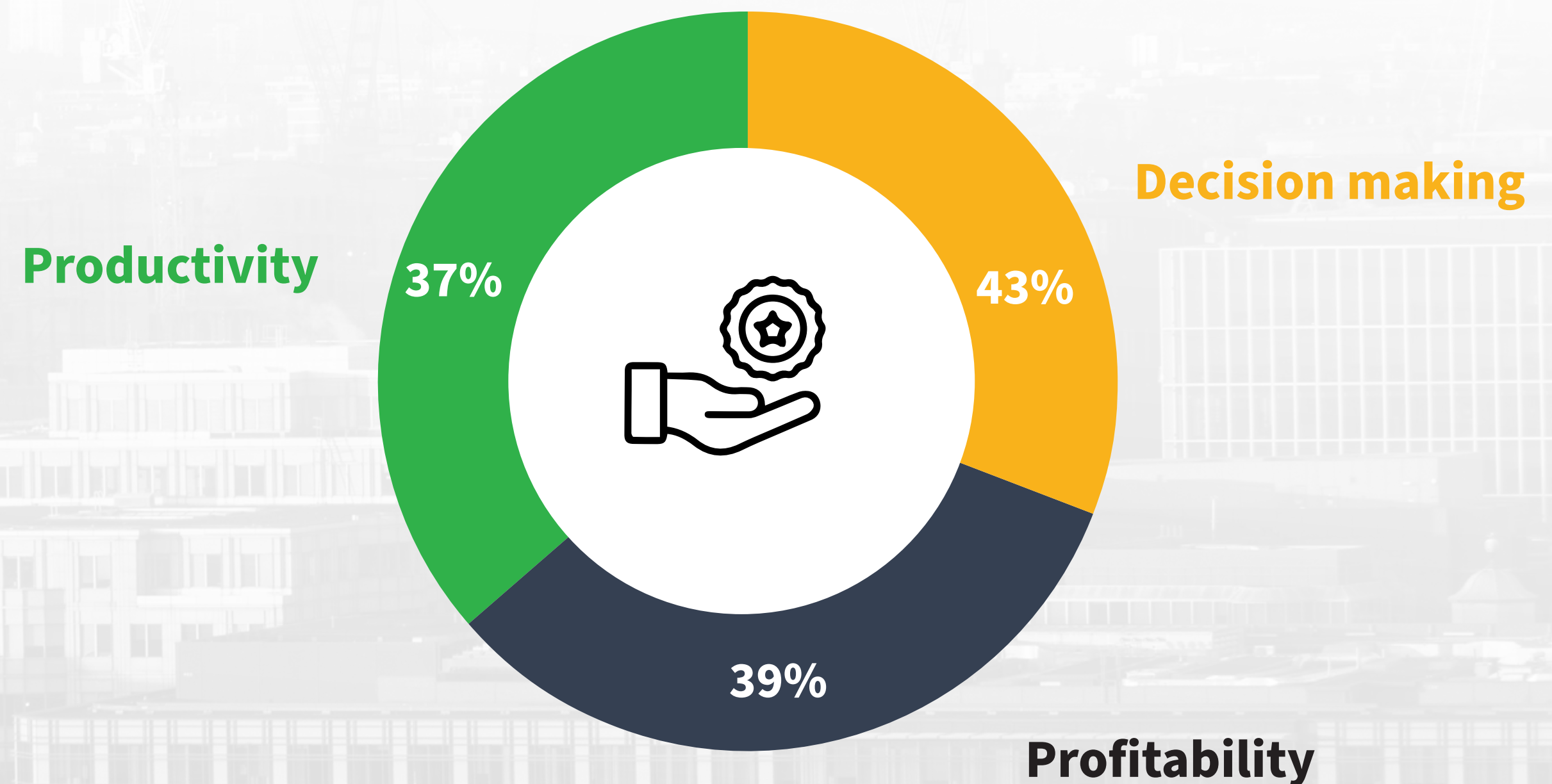
of time on a typical project
is spent searching for data or information

C. Enhancing Efficiency Through Technology Adoption

The consensus is clear among key stakeholders in the construction industry—general contractors, subcontractors, and owners are aligned in their recognition that embracing technology represents a fundamental pathway to enhancing productivity and profitability in their businesses. Among a myriad of potential strategies for improvement, technology consistently emerges as one of their top three choices.

When it comes to the critical aspect of decision-making, 43% of respondents voiced a shared sentiment: the belief that they would make better decisions if they had access to real-time and historic information. This finding highlights a crucial aspect of modern business operations—the importance of data-driven decision-making.¹⁰

BENEFITS OF ADOPTING TECHNOLOGY



Conclusion

The construction industry is poised to experience a significant slowdown in 2024, marked by varying impacts across its diverse verticals. While certain segments may witness modest growth, others could face declines of approximately -3%, with an average variation of -2% prevalent across all commercial categories.

In light of this impending industry deceleration, it is imperative for construction firms to adopt three key strategies to fortify themselves against the slowdown. Firstly, fostering and nurturing robust relationships with stakeholders is paramount. Secondly, the establishment of an effective preconstruction process is essential for efficient project planning and cost management. Lastly, embracing technological advancements is critical to ensuring competitiveness and resilience.

It is noteworthy that the construction sector has lagged behind in the adoption of digital solutions compared to other industries, and preconstruction, in particular, has been underserved in terms of technological innovation when compared to other phases of the construction process.

Nevertheless, there is a promising outlook for preconstruction, as it is poised to mature in the coming years due to its pivotal role in shaping the overall construction process. Embracing technology solutions represents a significant opportunity for construction firms to streamline operations, enhance efficiency, and elevate productivity levels within the industry. By implementing these strategies, construction firms can better position themselves to thrive in an evolving and challenging market landscape.

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