

Wells Fargo Equipment Finance, Inc.

2013 Construction Industry Forecast



Together we'll go far



A message from Wells Fargo Equipment Finance, Inc.

The Construction Group at Wells Fargo Equipment Finance conducts periodic surveys to keep a finger on the pulse of the industry and to give executives relevant business intelligence to reference in their decision-making. We're pleased that in this, our 37th year of conducting industry surveys, 347 executives from across the U.S. took the time to respond.

The full results — and some comparable data from previous years — can be found in the pages that follow, but here are four takeaways that are of particular interest:

1. **Construction is moving ahead.** Our bell-weather indicator for this survey — the Optimism Quotient (OQ) — is a very positive 106. Although the actual number is down somewhat from 2012, it still represents the third highest national optimism reading in the past 13 years with only 2012 and 2005 being higher. Executives are expressing the sentiment that non-residential construction activity in 2013 will improve compared to 2012.
2. **The industry expects rental fleets to continue to grow.** Optimism among construction equipment distributors remains high. Rental fleet growth is anticipated to play an increasingly important role in the business model of distributors. About half of distributors (50.5%) expect to increase the size of their rental fleet in 2013. Only 5.5% said they expect their fleet rental to decrease in 2013 compared to 2012.
3. **Residential could lead the way.** Optimism about the residential side of construction was slightly

higher than for non-residential. The fact that more contractors expect residential activity to increase (46.7%) than to remain the same (45.5%) or decrease (7.8%) is significant.

4. **Contractors will buy new and used equipment.** In 2013, 80.9% of contractors indicated that they anticipate buying new equipment and 80.3% indicated that they will be buying used equipment. These numbers are down slightly from 2012, but the fact that four out of five contractors indicated that their companies intend to acquire equipment is reassuring for the industry.

The survey is conducted on a national scale but we realize the regional nature of the construction industry. Our construction equipment finance specialists are locally based and are ready to offer region-specific guidance about your financing or leasing options.

Thanks to everyone who participated in this year's survey. We are obviously proud of the longevity of our *Forecast* but we know it wouldn't be possible without your responses. We hope it will be a valuable resource to you as you work in the year ahead.



John Crum, National Sales Manager
Wells Fargo Equipment Finance, Inc.
Construction Division

In its 37th year of publication, the *2013 Construction Industry Forecast* presented by Wells Fargo Equipment Finance, Inc. is the nation's premier, forward-looking sentiment survey of the U.S. infrastructure construction industry. Based on the responses of construction company executives, the *Forecast* summarizes industry leaders' perceptions of the state of the industry and looks at trends for the coming year.

The research

The *2013 Forecast* is based on surveys of 347 executives who work for construction contracting companies, construction equipment distributors and other industry equipment and service providers. Surveys were conducted during January 2013.

Respondent classification

"Contractors" are companies that execute construction projects. These companies often buy, lease or rent large construction equipment for the purpose of completing 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 industry.

Each January Wells Fargo Equipment Finance, Inc. surveys construction industry executives to gather insight into current business conditions and measure their sentiment for activity in the coming year. This survey is also made possible thanks to the cooperation and support of Associated Equipment Distributors (AED).

Survey dates

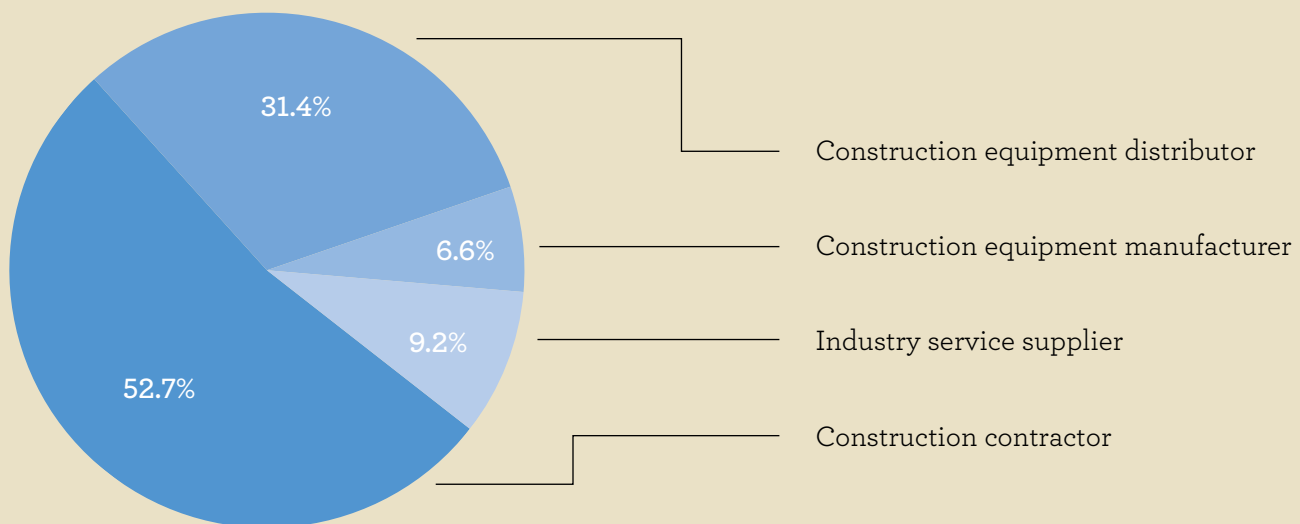
January 3 through January 18, 2013

Total surveys completed

347

Composition of survey respondents

What best describes your primary function in the construction industry?*



* About 7.5% of all respondents reported their annual sales volume was less than \$1 million which compares well to the 6.0% in that category from the survey administered in January 2012. More than one-third of all respondents (38.0%) said their company's revenue was above \$25 million annually. More than half (58.1%) of *distributors* in this survey reported that their annual revenue was greater than \$25 million. About half (43.8%) of *contractors* in this survey reported that their annual revenue was greater than \$10 million.

Survey responses came from 49 of the 50 U.S. states. The state not represented is Rhode Island.

Not all survey questions were answered by all respondents. Percentages may not add up to 100% due to rounding.

For questions regarding this Wells Fargo publication, please contact Greg Giauque at 480-784-2363 or greg.p.giauque@wellsfargo.com

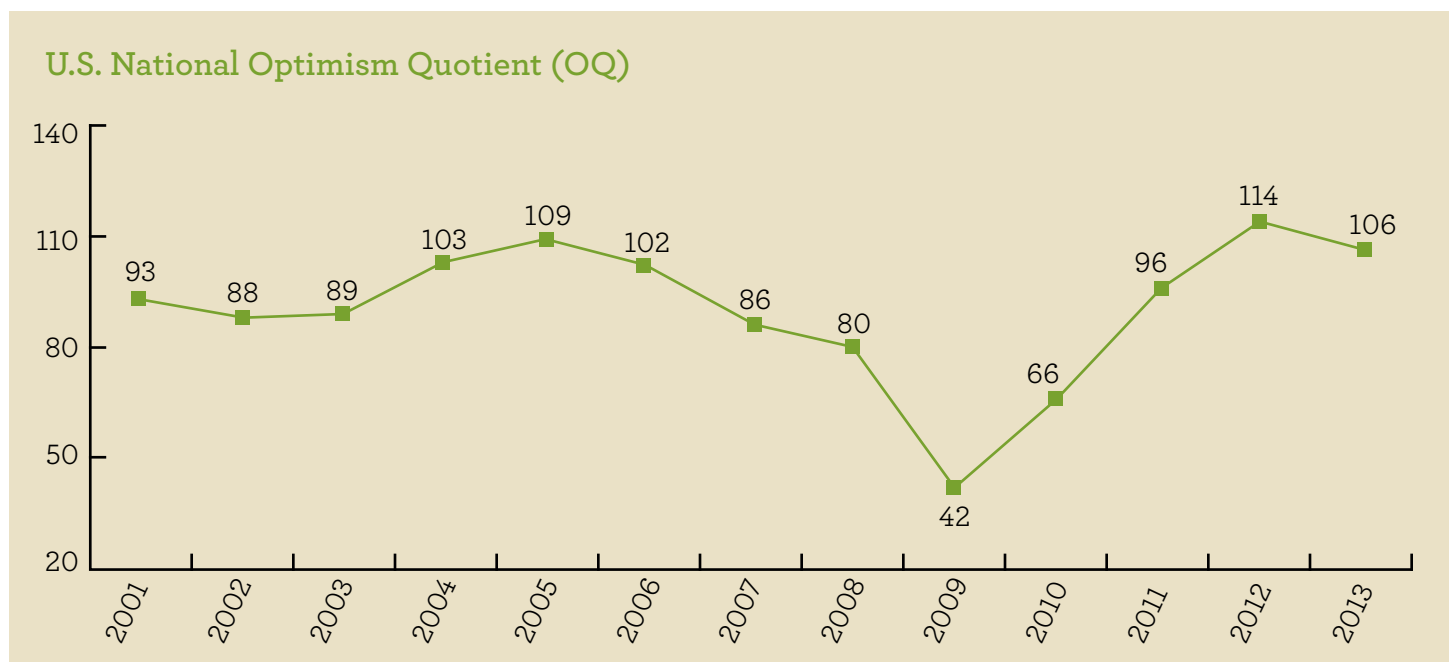
National

The Wells Fargo Construction Optimism Quotient

The Construction Optimism Quotient (OQ) is this survey's primary metric for assessing respondents' sentiment of local construction activity for the current calendar year compared to the previous year.

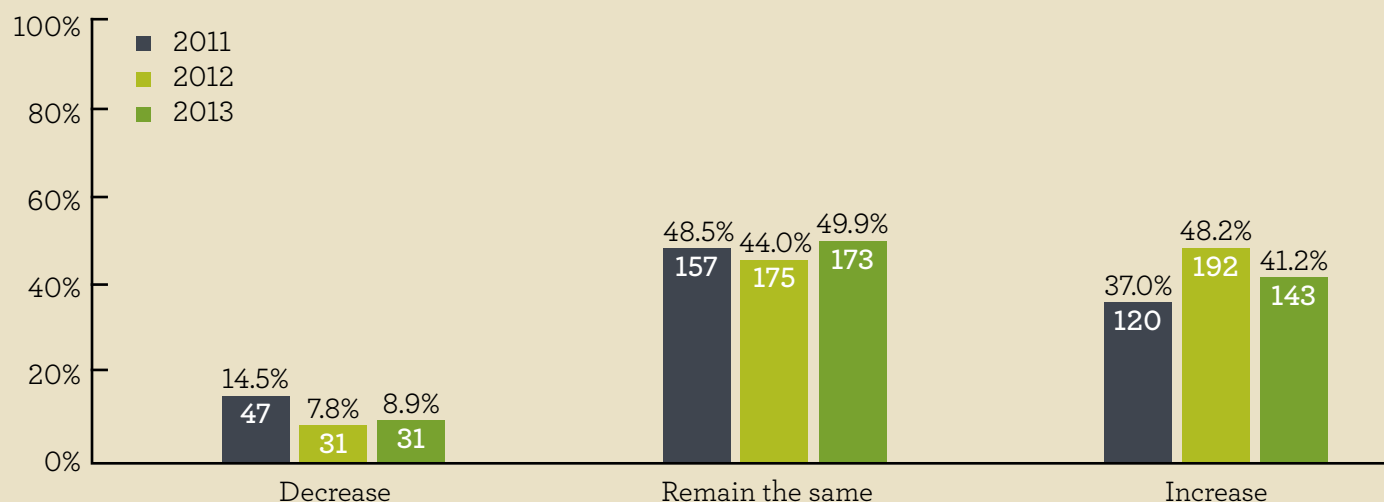
The OQ for calendar year 2013 is a decidedly positive 106. This is a slight dip in optimism from the 2012 score of 114, but it is still a strong indication that construction executives believe 2013 will be a better year for the construction industry than 2012. The score of 106 represents the third highest national optimism reading in the past 13 years with only 2012 and 2005 being higher.

In 2009, the OQ reached an all-time low score of 42, but had increased three years in a row prior to taking this small step back in 2013.

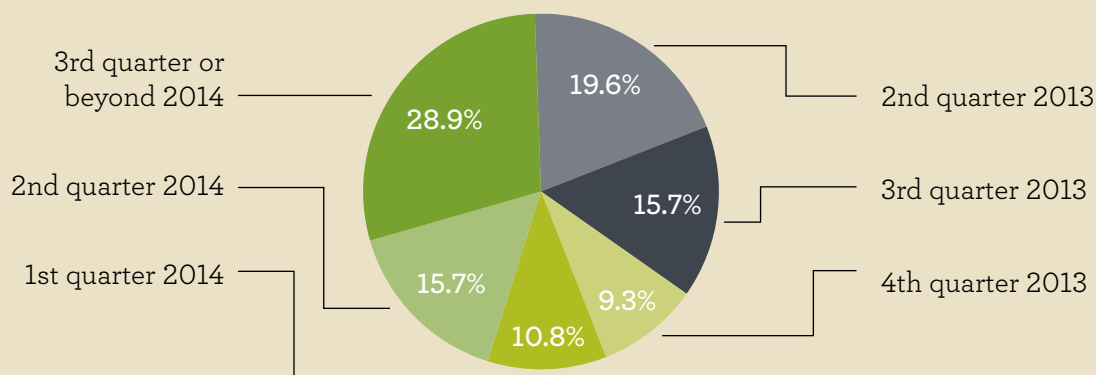


In general, an OQ score of 100 or more represents high optimism for increased local construction activity relative to the perceived level of activity for the prior calendar year. A score above 75 represents more cautious or measured optimism. A score below 75 signals that fewer executives say local construction activity will increase than say it will decrease — a more pessimistic point of view.

What is your projection for local non-residential construction activity in 2013 compared to 2012?



When do you expect local non-residential construction activity to begin improving?

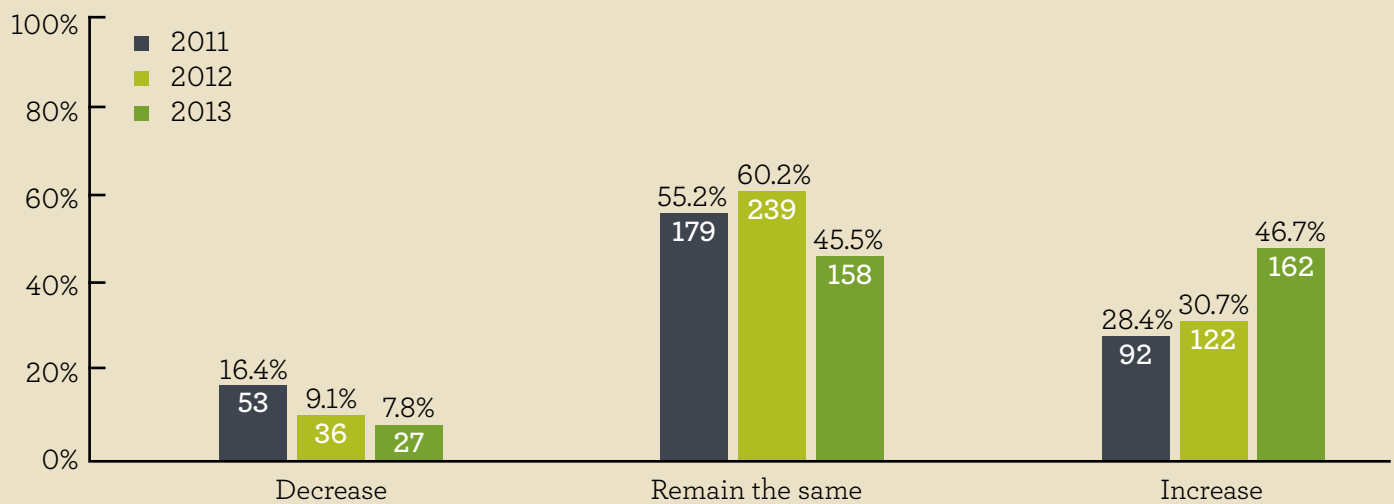


Base: 204 respondents who said local non-residential activity would *decrease* or *remain the same* in 2013.

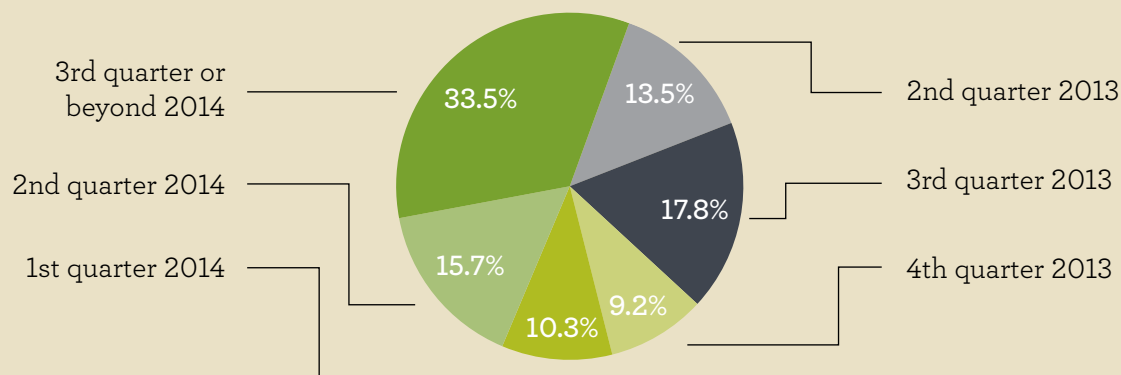
Although 41.2% of construction executives said they anticipate an increase in local non-residential construction activity, an even greater percentage (49.9%) believe non-residential activity levels will “remain the same” as the levels experienced in 2012.

Of the 204 executives who said they expect similar or decreased activity in 2013, almost half (44.6%) said they expect some improvement before the end of the year. However, more than one in four of these executives (28.9%) said that an improvement wouldn’t come until Q3 of 2014 or later. More than half of the contractors (52.9%) and a similar percentage of distributors (51.6%) who expect similar or decreased activity in 2013 expressed the opinion that non-residential construction would not begin to see improvement until Q1 of 2014 or later.

What is your projection for local residential construction activity in 2013 compared to 2012?



When do you expect local residential construction activity to begin improving?

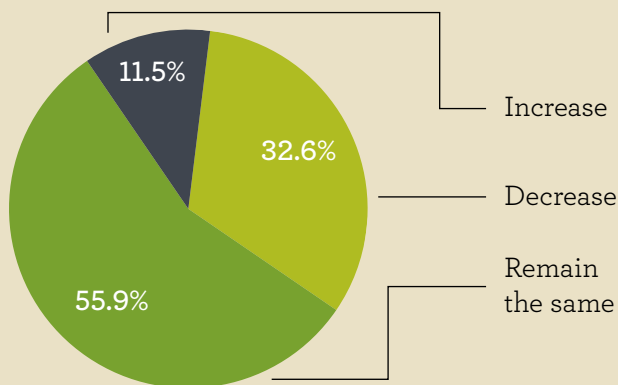


Base: 185 respondents who said local residential construction activity would *decrease* or *remain the same* in 2013

The sentiment for residential construction activity in 2013 is slightly more optimistic than for non-residential activity. While 45.5% of respondents said they expect similar levels of residential activity as in 2012, a slightly larger percentage (46.7%) said they expect increased residential activity. This is particularly significant because in none of our five most recent surveys has the percentage of those that expect an “increase” outpaced the percentage of those that expect activity levels to “remain the same.” In 2012, more than half of respondents (60.2%) said they expected similar levels of residential activity as in 2011. In 2011 the number was 55.2%.

Of the 185 executives who said they expect similar or decreased residential activity in 2013, 33.5% said improvement would not come until Q3 of 2014 or later.

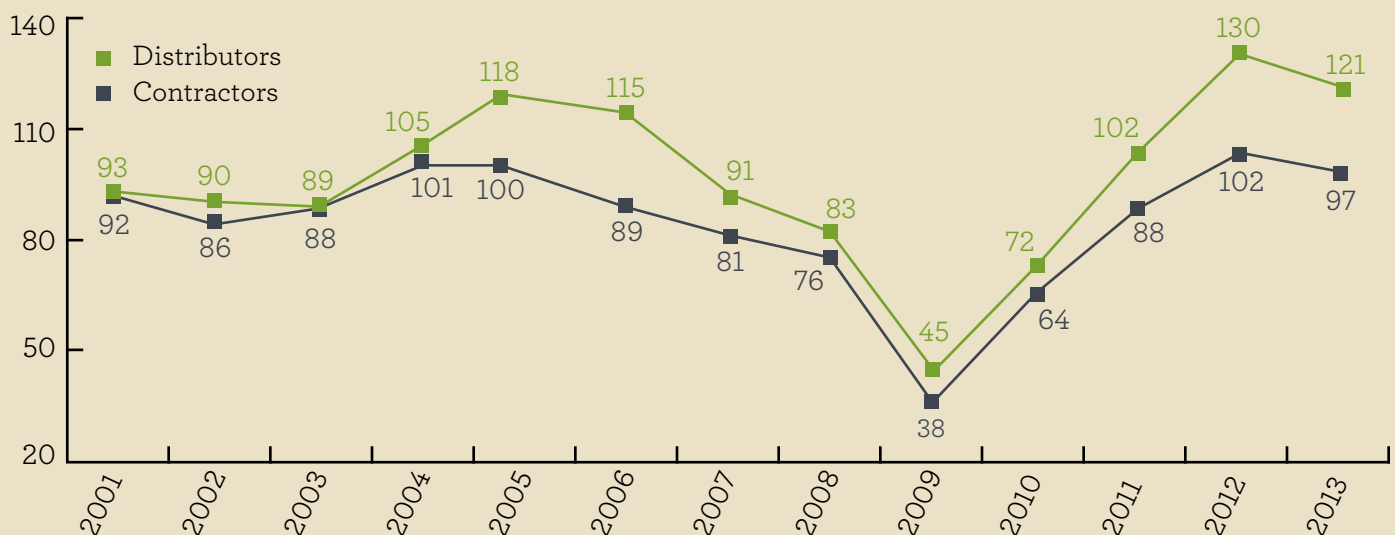
What will happen to the number of construction contractors in your area in 2013?



	2010	2011	2012	2013
Decrease	73.4%	53.0%	41.7%	32.6%
Remain the same	23.1%	41.1%	48.0%	55.9%
Increase	3.6%	5.9%	10.4%	11.5%

In spite of a string of optimistic OQ readings over the last three surveys reflecting a belief that non-residential and residential activity would improve over the prior year, sentiment still appears rather pessimistic that the current state of the industry will sustain an increase in the number of construction contractors. Very few executives (11.5%) anticipate an increase in the number of contractors in 2013, which is comparable to the 10.4% that expected an increase in 2012. About three in ten (32.6%) said they foresee fewer numbers of contractors by the end of 2013, compared to 41.7% who expected a decrease in 2012. However, this is an improvement over the 2011 and 2010 surveys when 53.0% and 73.4% of executives, respectively, said they expected fewer contractors by the end of the year.

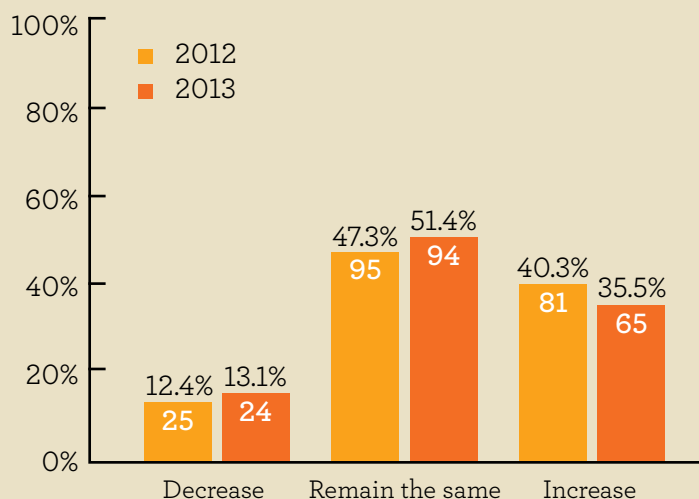
U.S. National Optimism Quotient (13-year trend by group)



The long-standing trend for construction equipment distributors to be more optimistic than construction contractors holds true once again for 2013. In this case, distributors are much more optimistic about construction activity levels than contractors. The 24-point gap between contractors and distributors for the 2013 survey is the third largest disparity in our recent history of surveys behind the 28-point difference in 2012 and the 26-point difference in 2006.

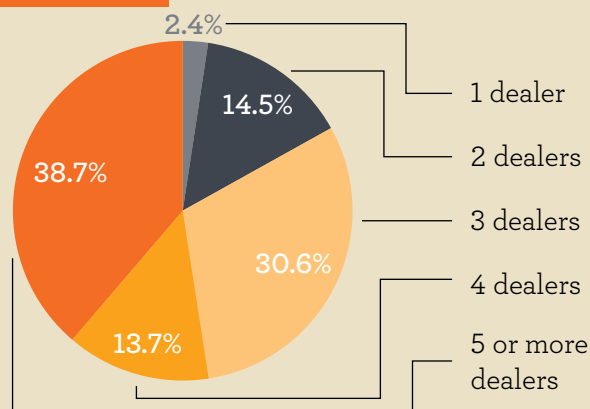
Contractors

What is your projection for local non-residential construction activity in 2013 compared to 2012?

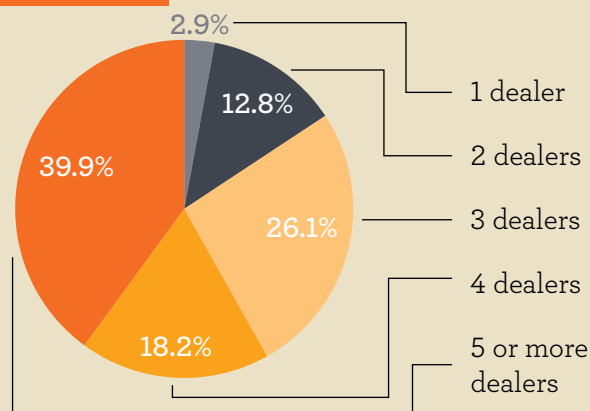


How many equipment dealers do you work with?

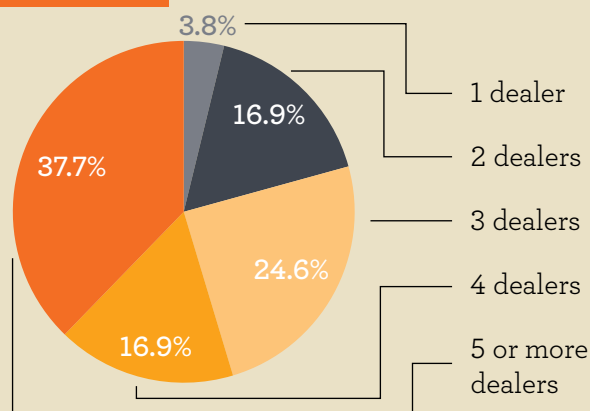
2011



2012



2013



Base: 183 contractors who responded in 2013

On average, contractors said they work with 3.7 different equipment distributors which is comparable to how they have answered in previous years — 3.8 different equipment distributors in 2012 and 3.7 in 2011. Contractors continue to spread their purchases among several providers perhaps indicating that few equipment distributors are able to meet all of a contractor's needs or become its exclusive equipment supplier.

What one thing can equipment dealers do to better meet your needs?

	2011	2012	2013
Improve price	41.6%	36.0%	47.0%
Improve finance options	14.4%	17.7%	15.3%
Improve service	19.2%	14.8%	12.6%
Improve inventory	10.4%	16.7%	12.6%
Improve nothing	12.0%	9.9%	9.8%
Other	2.4%	4.9%	2.7%

Contractors once again identified “price” as the most important item for distributors to improve, and at 47.0%, this answer is up significantly from the 2012 total of 36.0% and the 2011 total of 41.6%.

In a distant second place at 15.3%, “improve finance options” was the next most common option for the second year in a row. “Improve service” and “improve inventory” tied for the third spot this year coming in at 12.6%.

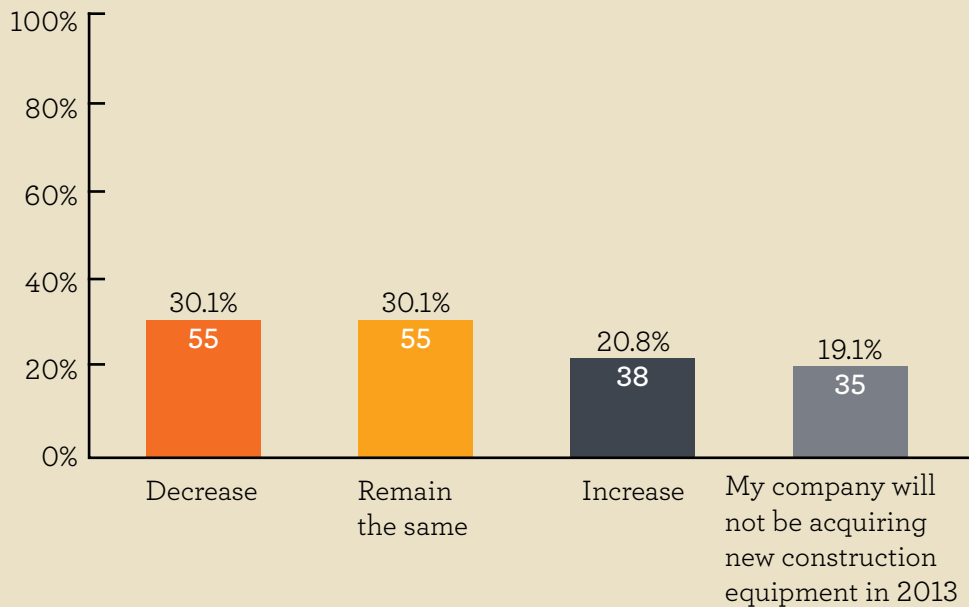
Of note is that 9.8% of contractor respondents said dealers need to “improve nothing.” This is comparable to the 9.9% from 2012, but down from 12.0% in 2011 and 17.0% in 2010. In the 2009 survey, 41.0% of contractors said dealers didn’t need to improve on anything.



New and used construction equipment acquisition

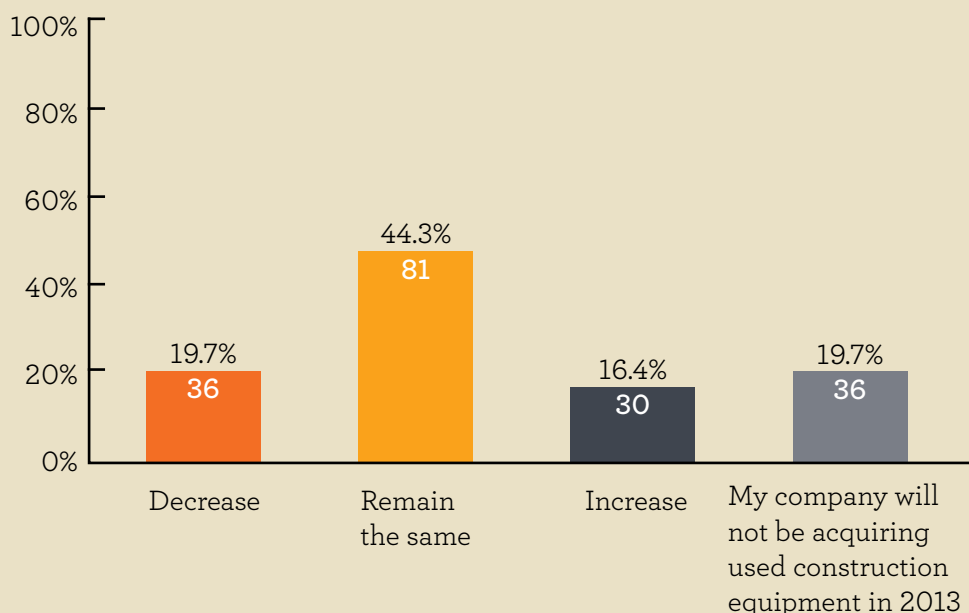
In 2012, 87.4% of executives said their company acquired new or used equipment. For 2013, 80.9% indicated they would purchase new equipment while 80.3% indicated they would acquire used equipment.

Do you think that your purchases of **new** construction equipment in 2013, compared to 2012, will...?



Sentiment among U.S. contractors is that purchases of new construction equipment in 2013 will remain similar to, if not down slightly, compared to the volume of equipment they purchased in 2012. The percentage of executives who said they would increase buying activity was more than offset by the percentage that expect to decrease new equipment acquisition. About three out of ten contractors (30.1%) said their new equipment purchases would be similar to those in 2012.

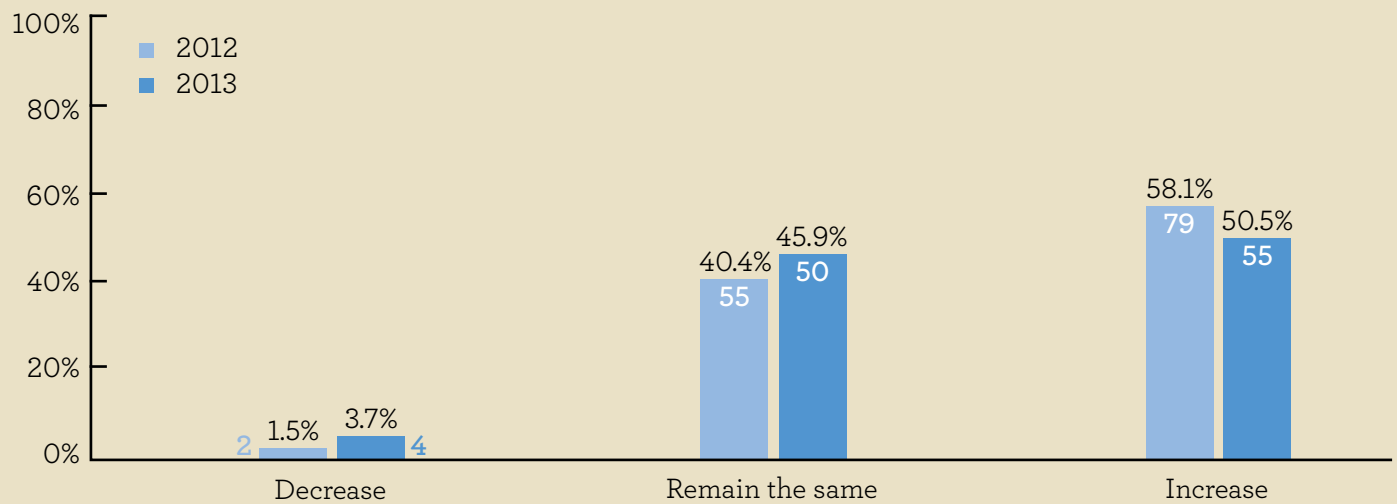
Do you think that your purchases of **used** construction equipment in 2013, compared to 2012, will...?

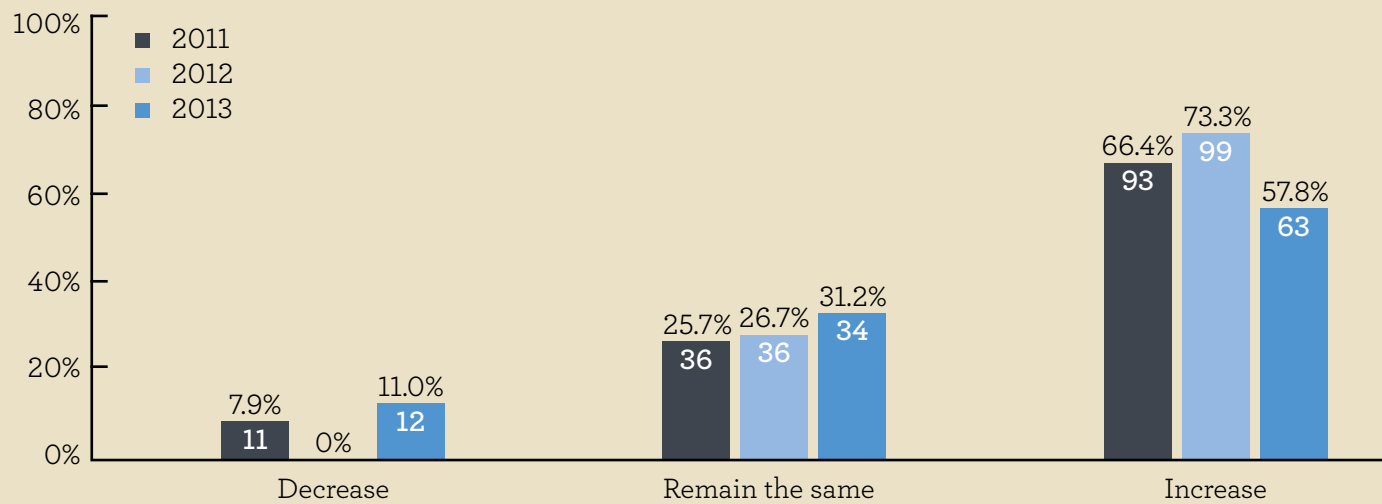


Almost half of U.S. contractors (44.3%) said that purchases of used construction equipment in 2013 will remain mostly consistent with the volume of used equipment purchased in 2012. The percentage of executives that said they would increase buying activity of used equipment was offset by a slightly larger percentage of executives that expect to decrease used equipment acquisition.

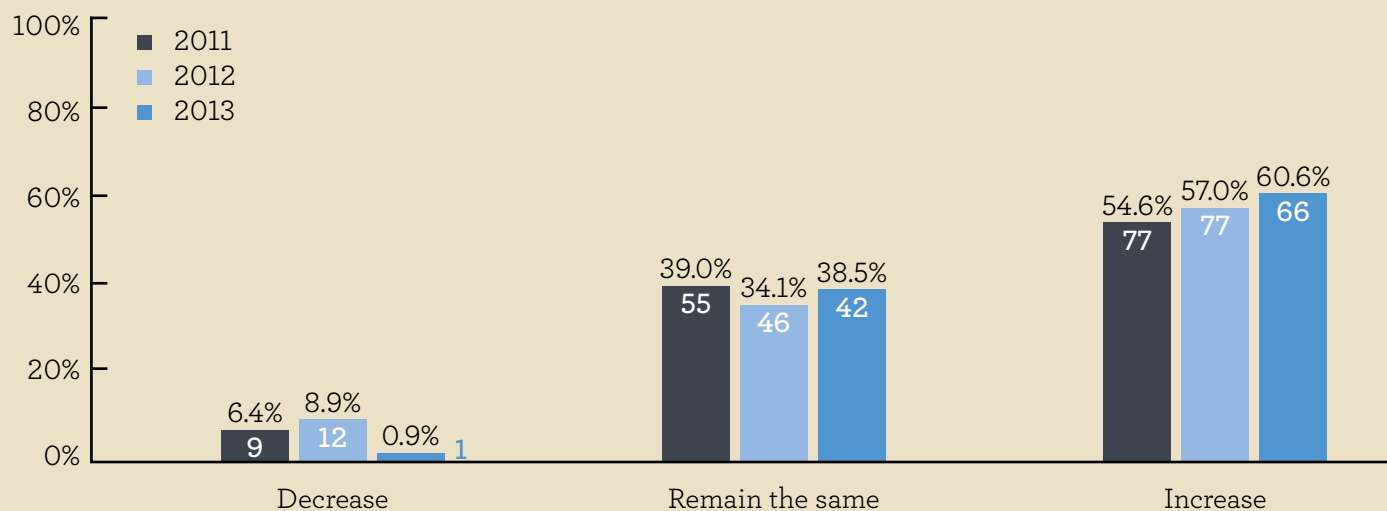
Distributors

What is your projection for local non-residential construction activity in 2013 compared to 2012?



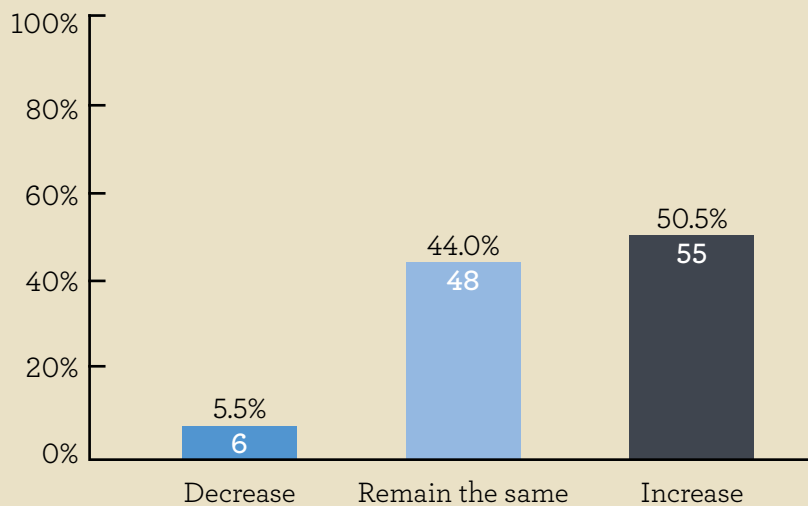
Do you think that your sales of **new** equipment in 2013, compared to 2012, will...?

Construction equipment distributors do not appear quite as optimistic about realizing another year-over-year increase in sales of new equipment compared to a year ago. In 2012, three out of four executives (73.3%) said they expected sales to increase, but for the coming year 57.8% said that they expected an increase in new equipment sales. About one in ten distributors (11.0%) said they expect new equipment sales to decrease compared to 2012 — a significant number since not a single distributor surveyed in 2012 said they expected to sell less new equipment than in the previous year.

Do you think that your sales of **used** equipment in 2013, compared to 2012, will...?

The overall composition of responses regarding year-over-year used equipment sales seems to indicate that used equipment could be a bigger part of the sales mix for distributors in 2013. Only one distributor expressed the opinion that used equipment sales would decrease compared to 2012. In addition, a larger percentage of respondents said that used equipment sales would increase (3.6% improvement) or stay the same (4.4% improvement).

Do you think that the size of your Rental Fleet in 2013, compared to 2012, will...?



Distributors do not see an end to the growing trend of fleet rental in 2013. Only 5.5% of distributors said they expect to decrease the size of their rental fleet this year. More than half (50.5%) said they expect to increase the size of their rental fleet in 2013.

What one thing can equipment manufacturers do to better meet your needs?

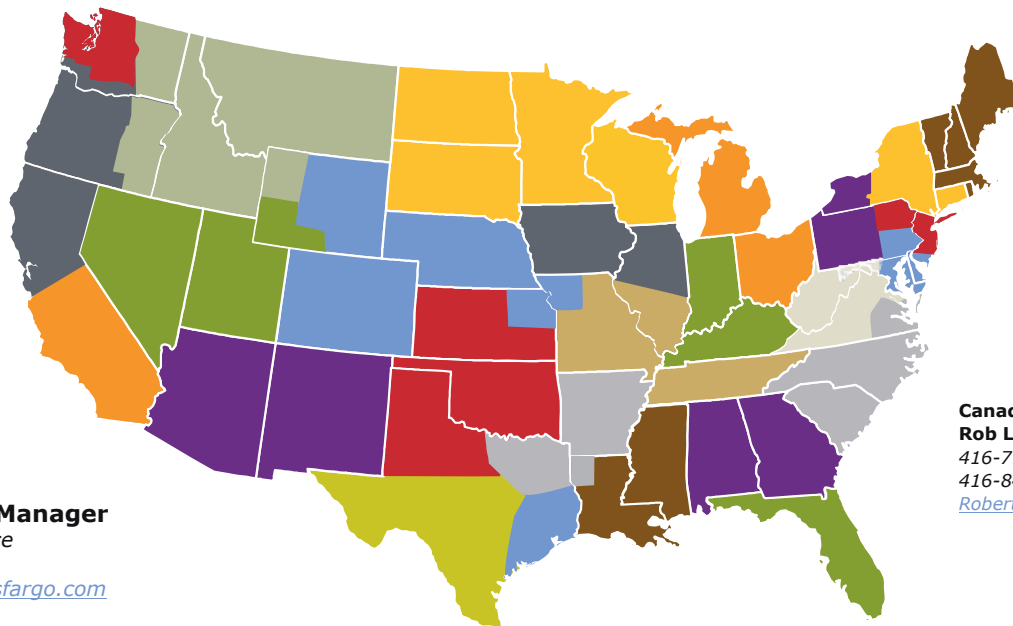
	2011	2012	2013
Improve price	30.7%	26.7%	34.9%
Improve inventory and delivery	12.1%	14.1%	26.6%
Improve finance options	17.9%	25.2%	11.9%
Improve service	7.9%	9.6%	11.0%
Improve product quality	23.6%	17.0%	10.1%
Other	6.4%	3.7%	2.8%
Improve nothing	1.4%	3.7%	2.8%

For each of the last three years, when asked to identify the one thing manufacturers could do better, equipment distributors have selected “price” as a point of improvement. The percentage of “price” respondents surged to 34.9% for 2013 after having dipped to 26.7% in 2012 from 30.7% in 2011. Concerns about “inventory and delivery” (26.6%) resurfaced and these are once again in the second spot after falling to the fourth spot in 2012. Notably, the “financing options” concern fell to the third spot at 11.9% from the second spot in 2012 (25.2%).

Wells Fargo Equipment Finance, Inc. Construction Group



Meet Wells Fargo's dedicated team of construction equipment finance specialists. Visit with your local Wells Fargo banker to learn how we can support all of your company's banking needs.



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