

the NEWS

Contractors Predict Growth in Service/Repair this Year

Slight dip in equipment sales could be offset by greater demand for service



BUSINESS CONCERNS: According to PHCC's BIT, small businesses remain concerned about inflation and rising interest rates. (Courtesy of Schuler Service Inc.)

March 27, 2023

HVAC contractors have been busier than ever these last two years, thanks to consumers who felt the time was right to invest in new systems and IAQ equipment. They are hoping that momentum will continue this year, thanks to the Inflation Reduction Act (IRA), which will offer hundreds o

millions of dollars in incentives to consumers purchasing high-efficiency HVAC equipment.

But this silver lining also comes with a cloud, as the economy appears to be cooling, inflation and interest rates remain high, and it's harder than ever to find skilled labor in order to keep up with demand. Still, contractors are mostly optimistic about how 2023 is shaping up.

Economy

The economy is the biggest question mark of the year, as some economists predict a mild recession in response to high inflation and rising interest rates, while others believe the economy will continue to grow, albeit at a slightly slower pace than in recent years. The PHCC—National Association Business Intelligence Team (BIT) sees some warning signs ahead.

“Remodelers are seeing customer reluctance from high prices and high interest rates; home builders are concerned with higher construction costs and lower sales expectations because of higher interest rates; commercial builders are expecting lower revenue and finding skilled workers remains a challenge; manufacturers are seeing demand leveling off with supplies normalizing and high employee turnover; and small businesses remain concerned about inflation and rising interest rates,” according to PHCC’S BIT.

Still, the mechanical service industry appears to be holding quite strong, said Rich Happel, director of service at Emcor Services Mesa Energy in Phoenix, Arizona, and chairman of MSCA.

“Depending on the source, we are either still in one of the largest building periods we have ever seen in this country or we have just begun to come down from that,” he said. “However, each new construction project converts into a new service opportunity immediately after the building is completed. The larger the built environment is, the greater the opportunity for ongoing preventive maintenance and repairs on all of these mechanical systems.”

Indeed, Martin Hoover owner of Empire Heating and Air Conditioning in Decatur, Georgia, and vice chairman of ACCA, predicts that service and repair will likely grow this year, while new equipment installs will shrink slightly or remain flat.



PROACTIVE CONTRACTORS: To address the labor shortage, chairman of MSCA, Rich Happel, believes contractors need to be proactive in order to entice more people to explore a career in HVAC. (Courtesy of MSCA)



GROWING SERVICE: Martin Hoover, vice chairman of ACCA, predicts that service and repair will likely grow this year, while new equipment installs will shrink slightly or remain flat. (Courtesy of ACCA)

“In our service and replacement model, I think there will be some increase in repair over replacement,” said Hoover. “Margins are higher on repair, so overall I think we will be better on net profit and a small increase in gross revenues just from the pricing increases. There is lots of talk about recession and correction from the great growth we have recently enjoyed. I think a correction is in order but don’t think it will impact residential replacement much. However, construction will likely struggle, and we might see some of those people move to repair/replacement.”

“I believe that high-efficiency HVACR equipment and retrofits will continue to lead sales for 2023.”

- Rich Happel

director of service

Emcor Services Mesa Energy and chairman of MSCA

Supply Chain

Fortunately, supply chain problems appear to be easing, but a few problems remain. According to Hoover, there are still delays with some products including air handlers, but for the most part he has been able to acquire components and equipment without delay over the last couple of months.

“It seems to be a revolving basket of items that are hard to get,” said Hoover. “We see some catch up and then we see shortages again in short order. Items that have been more difficult to get include commercial equipment, flex duct, PVC, and welding supplies.”

While supply chain challenges are expected to ease this year, noted PHCC’S BIT, volatility may remain for several years. This is due to several factors, they said, including the Russian invasion of Ukraine; growing U.S.-China tensions; China’s COVID challenges and worker unrest; U.S. sovereign debt (now 95% of GDP); higher oil prices as the U.S. pursues alternative sources from less reliable unstable regions; and workforce shortages that continue to drive higher wages.

PHCC’S BIT believes that efforts to localize supply chains through near-shoring, on-shoring, and friend-shoring will expand as businesses look for more reliable and resilient sources of materials, parts, and products.

Even though supply chain-related issues are gradually improving, Happel notes that there are still some products that continue to be a challenge to obtain. Hard-to-get products now seem to be more random than they were before, he said, but he does not think this will dampen sales of new equipment, which he believes will be at least as good as last year if not better.

“I believe that high-efficiency HVACR equipment and retrofits will continue to lead sales for 2023, as well as equipment using HFO refrigerants beginning to gain traction (based on code adoption),” said Happel. “The movement toward electrification will also likely begin to take hold and drive equipment selections towards those available electric options instead of gas.”

Brian Stack, owner of Stack Heating, Cooling and Electric LLC in Avon, Ohio and an executive board member with National ACCA, agrees that the push for greener products and electrification will lead to more interest in heat pumps and variable-speed systems. He added that the 25C tax credits will also likely spur sales of heat pumps.



MORE HEAT PUMPS: Brian Stack, an ACCA executive board member, believes that the push for electrification will lead to more interest in heat pumps and variable-speed systems. (Courtesy of ACCA)

Labor and Other Concerns

Although there may still be robust demand for equipment and services this year, the shortage of labor could result in contractors not having sufficient workers to fulfill that demand. Happel noted that the industry has experienced a skilled worker shortage for years and that contractors need to be proactive in order to entice more people to explore a career in HVAC.

“We need to begin recruiting potential skilled workers much younger, like in middle school,” he said. “Let’s lobby to get the shop classes (metal shop, wood shop, auto shop, agriculture shop, etc.) back into our schools so that students can evaluate for themselves whether this is a path they are interested in and believe they could be successful at. By the time the students are in high school, many parents are already directing them to four-year universities instead of the skilled trades, which isn’t the best path for every student. Imagine a five-year education, while you’re working full time without any student debt. This is very attractive, and we all need to do a better job in getting the word out.”

Another demographic to target may be young adults who are looking to change careers. As Hoover noted, the industry used to be able to get kids right out of high school, but that is not happening anymore.

“The sweet spot for getting new team members is 26- to 28-year-olds who are looking to get into a good solid career.”

The labor shortage is not the only issue that concerns contractors. Stack, for example, said that it has been difficult to purchase new vehicles, and used vehicles continue to be very expensive. Hoover agrees with that assessment, but he is also closely watching the IRA legislation and the details surrounding it to see how he can best provide its benefits to their customers. He is also concerned about the refrigerant transition — particularly how expensive the refillable tank options will be, as well as their space requirements on vehicles and in the shop.

The refrigerant transition, which is part of the AIM Act, is a concern for PHCC’S BIT as well. The team is worried that the looming step down to a 60% allocation starting in 2024 could affect product availability and pricing toward the end of the 2023 calendar year. After the 2024 production cut, the next reduction comes in 2029, which will reduce allocations to 30% of the baseline, so the industry is on an accelerated timeline to adjust to new refrigerants and technologies, they said.

That could be an issue, said Chuck White, vice president of regulatory affairs at PHCC, because, “very few jurisdictions have updated their various codes to allow the use of the new A2L refrigerants. Without code approval, availability of new products has lagged. The resulting lack of inventory could be an industry obstacle in 2024 and moving into 2025.”

Happel is watching the electrification movement, as he said there is much to learn in order to assist customers undertaking those projects. He said it also presented wonderful opportunities for contractors who get it right.

“We are living in a time when our customers don’t allow us to rest on the laurels of our past performance but rather, we are evaluated at every interaction,” said Happel. “This requires thinking differently about the work we perform and how we perform it. I believe there is significant opportunity for those companies that are nimble and can be flexible in how they conduct their business.”

KEYWORDS: [ACCA \(Air Conditioning Contractors of America\)](#) [economic outlook](#) [economy and HVAC](#) [MSCA \(Mechanical Service Contractors of America\)](#) [PHCC \(Plumbing-Heating-Cooling Contractors\)](#) [Trends in HVACR](#)

Share This Story

Related Directories

. [Air Conditioning Contractors of America](#)

ACCA is the country's leading organization of professional indoor environment and energy service contracting businesses, serving more than 60,000 professionals and 4,000 businesses nationwide.

. [Mechanical Service Contractors of America-MSCA](#)

MSCA represents the industry's most innovative and forward-thinking mechanical service firms.

. [Plumbing-Heating-Cooling Contractors--National Assn. Educational Foundation](#)

The PHCC Educational Foundation provides innovative educational programming to enhance the growth and success of the plumbing and HVACR industry workforce.

×

≡

You are invited to join the ACHR NEWS Network

[JOIN THE NEWS NETWORK](#)

