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JOLT

SURVEY ANALYSIS 2014

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JOLT Survey Paints a Complex Picture

The US construction industry continued to recover in 2014. Post-recession construction employment surpassed the 6 million plateau for the first time, though total construction employment remains more than one million jobs short of the pre-recession high. During 2014's final month, the construction industry added 44,000 jobs, which means that the construction industry supports 5.7 percent more jobs than it did one year ago. The year-over-year percentage increase represents the largest construction employment gain since May 2006, which arguably represented the beginning of the end for the nation's housing boom.

Economists and other analysts have a tendency to focus on the net change in the number of jobs supported by the economy or a given segment over a specified period. However, the net increase or decrease figure obfuscates the fact that during any given month, quarter or year, the net change in employment is produced by thousands of people being hired even as thousands of others are separated from employment. Recently, the number of hires has easily exceeded the number of separations in the U.S. construction industry.

The Job Openings and Labor Turnover Survey (JOLTS, a product of the Bureau of Labor Statistics) produces data regarding the number of job openings, hires and separations during any given month. According to JOLTS, the construction industry hired 393,000 new employees on a seasonally adjusted basis in December. That represents the most elevated level of hiring since March 2008. The December 2014 hires rate, which measures hires as a percentage of total industry employment, was 6.4 percent, the highest rate observed since February 2013.

The pickup in construction hiring follows a period of accelerated U.S. economic growth. National employment data, which is supplied by the Bureau of Labor Statistics' Current Employment Statistics Program, was glowingly positive during 2014's final month. GDP data for the past three quarters is also consistent with the notion that the U.S. economy has moved into a higher gear.

As with all things economic, the pickup in employment does not represent unmitigated good news. While rising employment is consistent with rising demand for construction services, the increase in demand also implies that observed skills shortages will become more severe, particularly in certain parts of the country and in certain occupational categories.

Exhibit 1 reflects both declines in hiring in previous years and the recent expansion in demand for construction workers. Hiring levels, however, are nowhere near the levels observed during the early 2000s, but the progress is nonetheless encouraging.

The number of available construction job openings is also important. The 147,000 construction job openings recorded in December 2014 represent the second highest level of job openings

MARCUM LLP is pleased to provide the latest in a series of analyses focused on the Bureau of Labor Statistics' Job Openings and Labor Turnover Survey. These analyses are tailored toward the informational needs and requirements of construction industry leaders.

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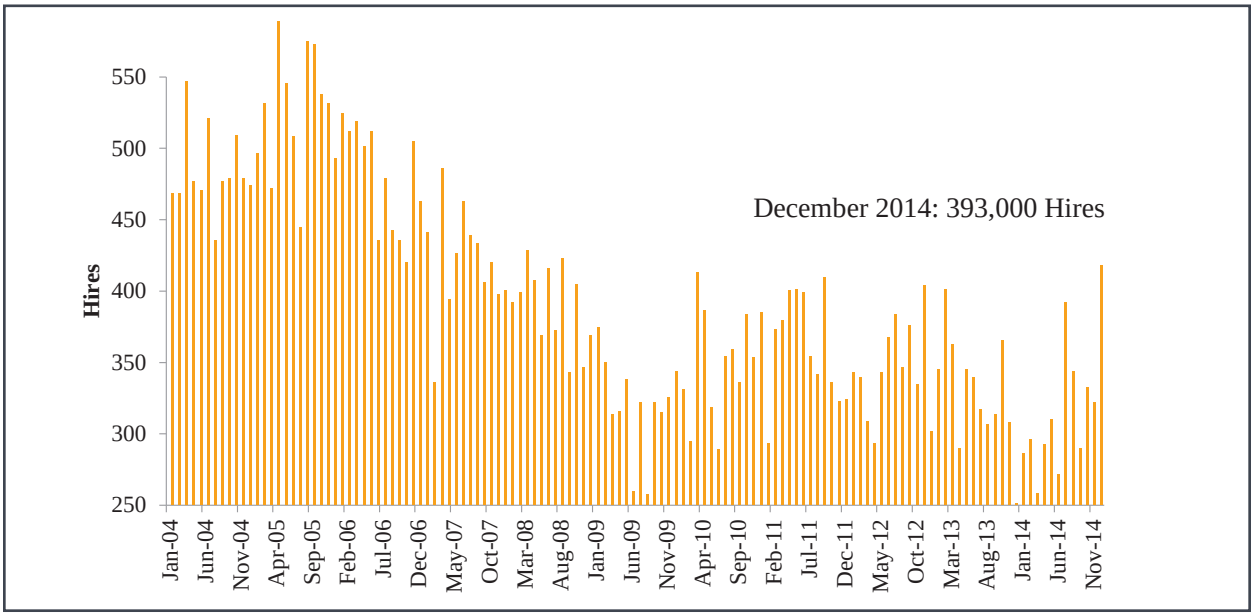
since May 2008 (behind only June 2014). The job openings rate stood at 2.3 percent in December, a level very close to the post-recession peak.

Since the hiring rate remains high, the implication is that workers are still available. Construction unemployment has remained above 8 percent recently, which is consistent with the notion that there is still considerable slack in the overall construction worker market despite the recent acceleration in hiring.

Again, this does not imply that labor availability is satisfactory everywhere. Plenty of anecdotal evidence exists suggesting that in Louisiana, parts of Texas and elsewhere, the construction labor market has become quite constrained, with large annual rates of increases in hourly compensation and per diems observed.

The dip in oil prices since mid-2014 serves to complicate matters. For purposes of this discussion, there are at least two primary effects. First, lower prices have led to an increasing number of layoffs within the upstream oil industry (workers that are not categorically included with the construction industry; e.g., those who have worked for equipment suppliers). Some of these laid off workers will make themselves available to the construction industry. In Texas, many of these workers may originate in the south central part of the state, where construction activity may not be as brisk as in other parts of the Lone Star State. This implies that some workers will need to relocate, which often takes time. Secondly, the decline in oil prices is likely to eventually translate to declines in demand for construction workers who would otherwise work on oil supply-related projects. These effects will help to mitigate current and prospective construction skills shortages, at least in several of the markets that have to date been most closely associated with labor shortages.

EXHIBIT 1 **Total U.S. Construction Hires, January 2004 through December 2014**

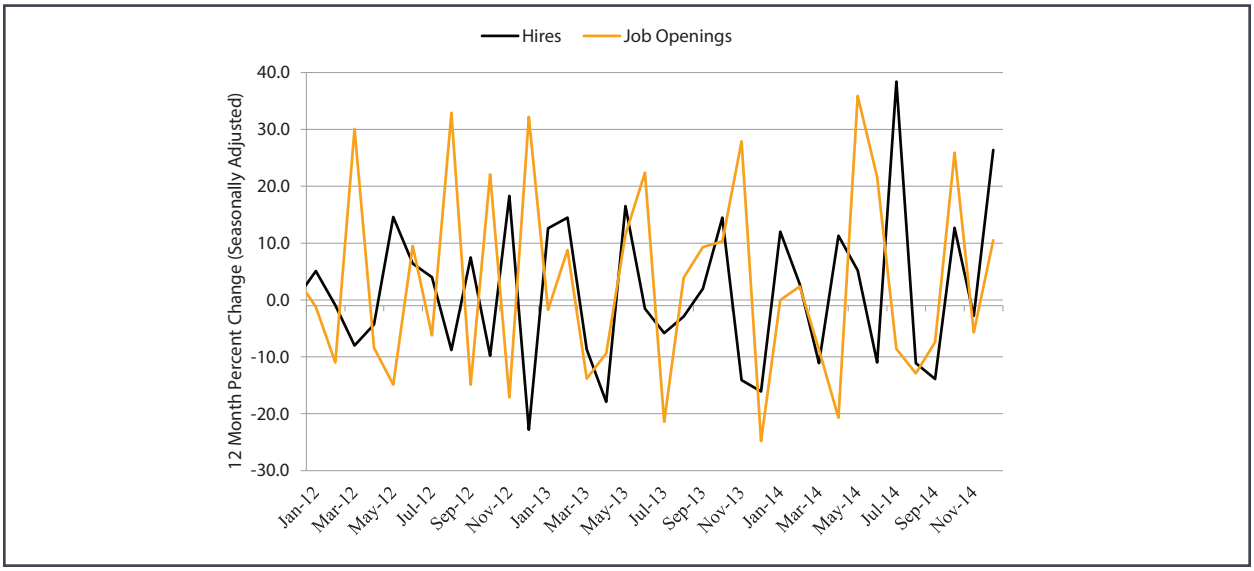


Source: Bureau of Labor Statistics Job Openings and Labor Turnover Survey

On the other hand, the decline in oil prices will likely trigger faster investment in those categories that use oil as an input, including in various manufacturing industries. This, in turn, will increase demand for construction workers.

Exhibit 2 juxtaposes the level of job openings against the level of hires over the previous two years. Note that for most of 2012 and 2013, job openings were increasing at a greater rate than hires, implying that some employers were having difficulty filling available jobs. That was not the case in 2014. The fact that hires and openings have moved in equal proportions suggests that more people may be entering the construction labor market, helping to create a better balance between quantity of labor supplied and quantity demanded.

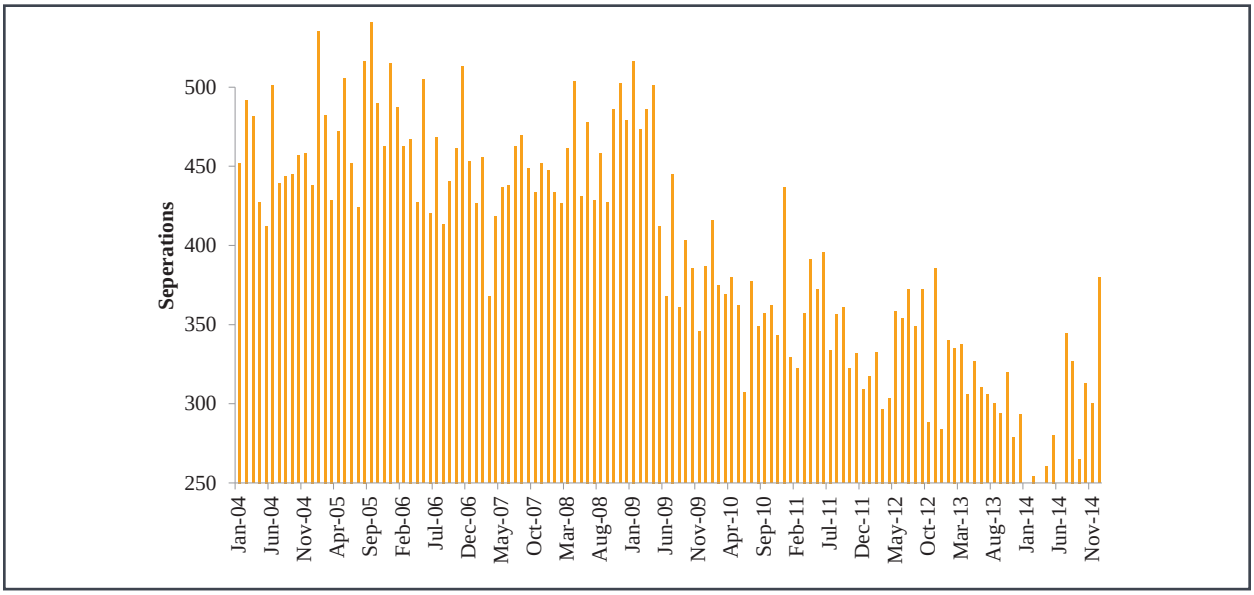
EXHIBIT 2 Construction Hiring and Openings, January 2012 through December 2014



Source: Bureau of Labor Statistics Job Openings and Labor Turnover Survey

Total employment separations, which reflect workers who quit or are laid off, can be seen in Exhibit 3. Consistent with what one would expect, the number of separations has been trending lower. The decline in separations was particularly noteworthy between 2012 and mid-2014, indicating that project flow had become more stable and employers had become increasingly reluctant to release members of their existing workforces. The recent uptick in separations is likely associated with many factors, including languishing federal investment in construction and perhaps lower oil prices. The 361,000 separations registered in December 2014 represent the most recorded during a single month since December 2010.

EXHIBIT 3 Construction Industry Separations, January 2004 through December 2014



Source: Bureau of Labor Statistics Job Openings and Labor Turnover Survey

Conclusion

In general, the JOLTS data are consistent with an increasingly robust construction industry recovery. Falling oil prices are likely creating dislocations in certain segments, but will eventually stimulate higher demand for construction services in others. To date, construction skills shortages are apparent in only a select number of markets, and do not yet appear to be part of a broad national phenomenon.

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- Family Office Services
- Risk Management

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