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JOLT

SURVEY ANALYSIS 2015

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Construction Labor Market Recovery Continues

The construction industry continued its post-recession recovery through the first month of 2016, adding 18,000 net new jobs according to the Bureau of Labor Statistics' preliminary estimate. This represents the seventh consecutive month of job gains for the industry and brings total construction employment above 6.6 million for the first time since 2008. The industry would likely have reached that milestone earlier, were there not an ongoing shortage of skilled construction workers.

As with every new year, the question is whether pre-existing trends will continue and to what extent. In this regard, the Job Openings and Labor Turnover Survey (JOLTS) supplies important forward-looking information. Among other things, the survey monitors the number of new hires that have been taking place and the number of available job openings. The survey also measures job separations, including instances when employees quit. Ironically, quitting a job is viewed as a positive indicator since it suggests that employees have either been able to secure a more attractive position or are confident that they will.

According to preliminary JOLTS data, the construction sector averaged 325,300 hires per month in 2015 after averaging 320,400 hires per month in 2014. In December 2015, the construction industry hired 314,000 new workers. Industry separations totaled 292,000 for the month. The broader economy (including all industries) registered 5.4 million hires and 5.1 million separations in December, translating into about 300,000 net new positions for the month.

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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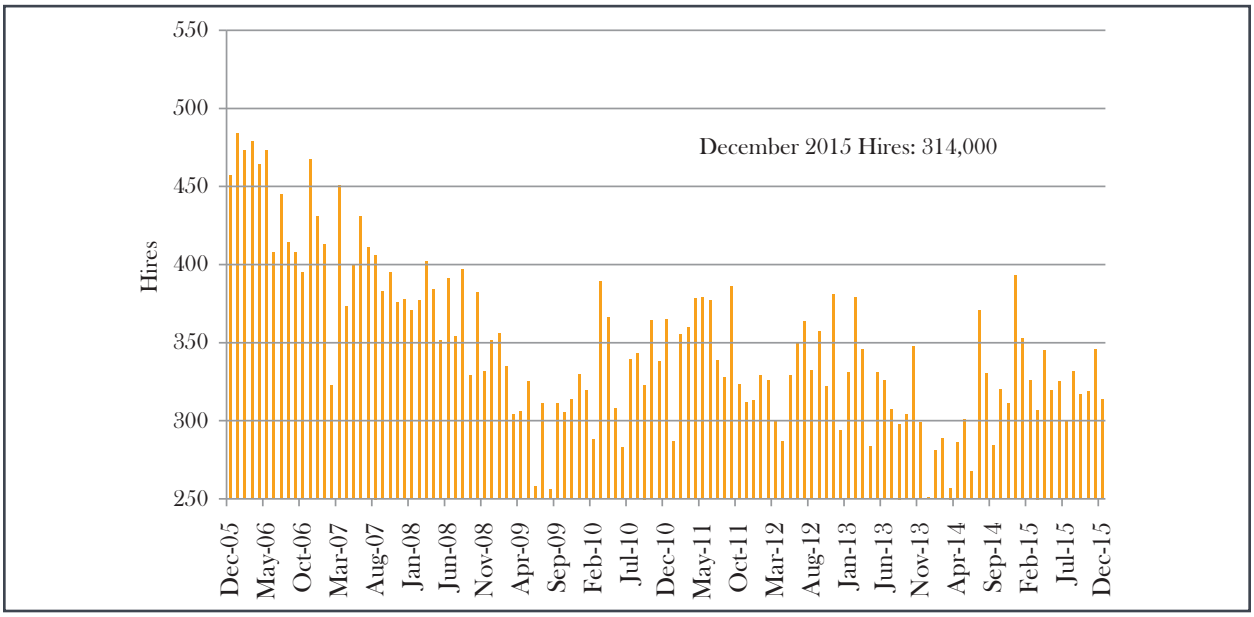
Exhibit 1 tracks the rate of growth in hires over the past several years and reflects a recent drop in demand for construction workers. The industry continues to grind toward full recovery with the rate of hires remaining much lower than during prior expansions.

EXHIBIT 1 Total U.S. Construction Hires, January 2005 through December 2015

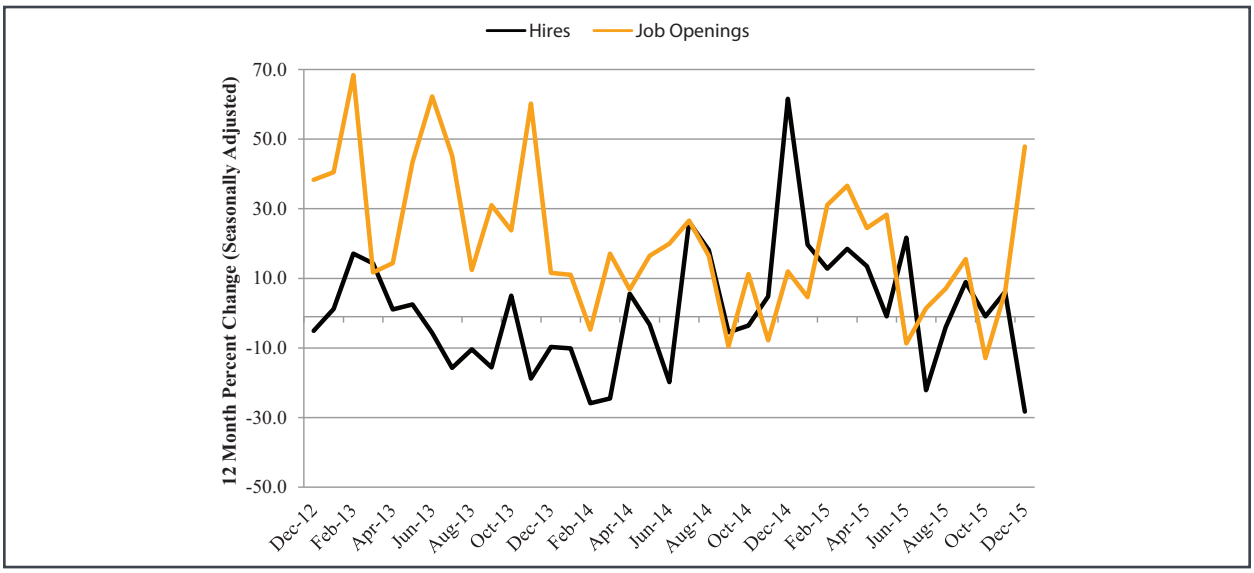


Source: Bureau of Labor Statistics Job Openings and Labor Turnover Survey

Interestingly, construction unemployment surged during the latter stages of 2015. During 2015's initial half, unemployment trended lower, eventually reaching 5.5 percent in July, the lowest level since September 2007 when industry unemployment was 53 percent. By December 2015, the construction industry unemployment rate was 7.5 percent. This implies that more people are interested in securing construction work, including dislocated energy workers. In January 2016, unemployment rose yet higher, to 8.5 percent, but weather likely played a role in shaping the data.

Exhibit 2 compares the growth in job openings against the growth in corresponding hires over the past three years. Note that between June 2014 and November 2015, the respective growth rates of hires and job openings were more or less in line. In December, job openings surged while hiring fell.

EXHIBIT 2 Construction Hiring and Openings, December 2012 through December 2015

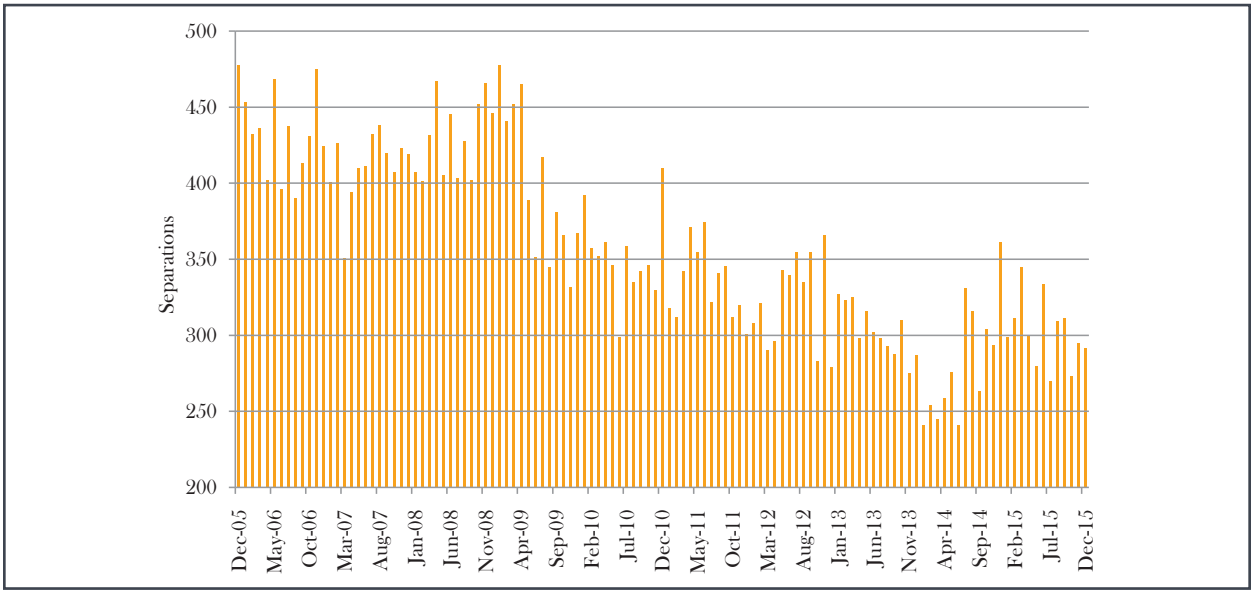


Source: Bureau of Labor Statistics Job Openings and Labor Turnover Survey

This seems inconsistent, but can be readily explained. Job search takes time. Therefore, many contractors likely posted job openings in December with the expectation of hiring people in February, March or April. Hiring in December itself tends to be suppressed by the fact that many states experience less active construction markets during the winter months. The data stand for the proposition that many construction firms continue to report healthy backlog and will need more human capital to deliver on their commitments.

Exhibit 3 tracks the level of separations, which is comprised of workers who quit or are laid off. In general, the rate of separations has fallen as the economy and the construction industry have recovered. The recent passage of the FAST Act, the first significant highway and infrastructure spending bill authorized since 2009, should serve as further impetus for infrastructure contractors in particular to retain current team members.

EXHIBIT 3 **Construction Industry Separations, January 2005 through December 2015**



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

Ongoing job growth in professional services should continue to translate into more office construction. Growing demand for primary healthcare will produce demand for construction services at medical centers and in outpatient settings, including at pharmacies and clinics. Leisure and hospitality also continues to be a source of growth in America. That has helped produce more demand for the construction of shopping centers, hotels and restaurants.

Given recent overall job growth, consumer spending will continue to lead the U.S. economy forward. Consumers are also benefitting from a recent pickup in the pace of wage growth. Over the past 12 months, average hourly earnings have expanded by 2.5 percent in the U.S., with construction average hourly earnings rising by significantly more than that.

Conclusion

The JOLT survey is consistent with the notion that construction's recovery will continue through 2016 and that contractors will continue to hunt for talent. Given recent gyrations in construction spending data and weakening confidence among global CEOs, the most recent JOLTS report serves as an important source of optimism regarding the near-term.

However, clouds are forming in the longer-term forecast horizon. The recent jitteriness of financial markets and ongoing weakening of the global economy has diminished confidence among financiers. Anecdotal information suggests that private capital has become a bit more difficult to access and somewhat more expensive. Corporate profitability is not expanding as it once was, the level of business investment remains uninspired, exports are falling, and deflationary pressures are being imported from much of the balance of the world.

Most economists agree that the chance of near-term recession remains remote. However, the outlook for 2017 and 2018 is decidedly murkier. The good news is that many construction firms have ample backlog. Even if the economy were to weaken as 2017 approaches, contractors will still have the opportunity to remain busy. But if the economy truly weakens in 2017, the implication is that backlog will begin to shrink, which may translate into bigger issues for many contractors in 2018.

It is for this reason that the next several iterations of the JOLTS report will be of such outsized importance. The job openings data in particular serve as a key leading indicator and will provide insight into the durability of the ongoing economic recovery.

Services

Marcum LLP is one of the largest independent public accounting and advisory services firms in the nation, with offices in major business markets throughout the U.S., Grand Cayman and China. Headquartered in New York City, Marcum provides a full spectrum of traditional tax, accounting and assurance services; advisory, valuation and litigation support; and an extensive range of specialty and niche industry practices. The Firm serves both privately held and publicly traded companies, as well as high net worth individuals, private equity and hedge funds, with a focus on middle-market companies and closely held family businesses. Marcum is a member of the Marcum Group, an organization providing a comprehensive array of professional services.

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- Single Audits
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- Family Wealth Planning
- Bankruptcy and Insolvency Tax
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- Family Business Owners
- Large Corporations
- International Businesses
- Foreign Nationals
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- Damage Determination and Expert Testimony
- Marital Dissolution
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- Due Diligence and Capital Formation
- Computer Forensics
- Business Valuation

Operational & Process Improvement

- Business Process Improvement
- Internal Controls and Governance
- Real Estate Advisory Services
- Family Office Services
- Risk Management

Joseph Natarelli is national leader of Marcum's Construction Industry Practice and partner-in-charge of the Firm's New Haven office. For nearly a decade, he has served as a technical reviewer for the AICPA's Audit Risk Alert for Construction Contractors and the AICPA Accounting Guide – Construction Contractors. Joe also served as 2013-2014 chair of the AICPA National Construction Industry Conference.

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