

2018 MARCUM

JOLTS

Marcum 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 to the informational requirements of construction industry leaders.

ANALYSIS

CONSTRUCTION LABOR MARKET MOMENTUM CONTINUES INTO '19

Late last year, there was a considerable amount of concern regarding U.S. economic prospects. Financial markets suffered significant losses during 2018's final quarter. The yield curve also partially inverted, which often represents a leading indicator of economic slowdown. The global economy was also beginning to sputter, with Italy finding its way into recession, the Germans barely escaping one, and China registering its slowest economic growth in 18 years.

In response, a growing number of economists began predicting recession in America over the next 12 months. U.S. consumer and small business confidence were also shaken. On top of all of this came a federal government shutdown that began in late December and persisted through 2019's initial month.

But none of this appears to have impacted the performance of the labor market. In January, the nation added another 304,000 net new jobs, blowing through a consensus estimate of around 170,000 new positions. Construction was one of the big winners, single-handedly adding 52,000 net new jobs. Industry unemployment stood at 6.5 percent in January, a bit lower than it was a year earlier. The official rate of national unemployment across all industries rose to 4.0 percent that month, but that figure may have been impacted by the federal shutdown and remains within throwing distance of a 50-year low.

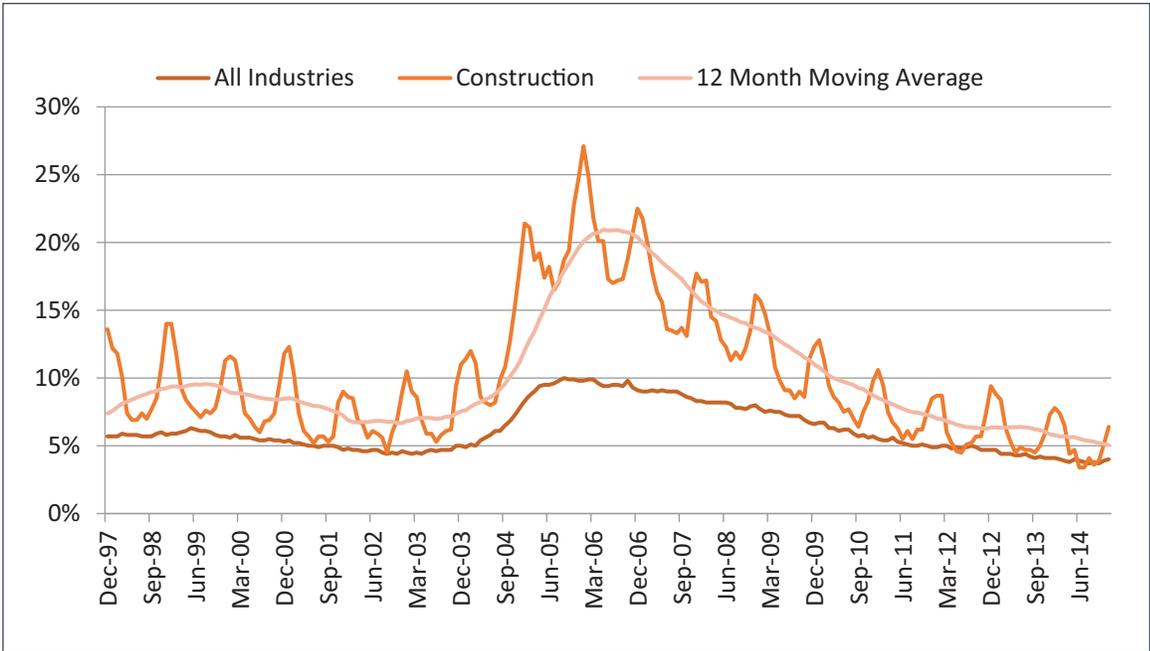
In other words, the momentum that characterized 2018 persisted into 2019 despite numerous headwinds and ominous indicators. The economy added an astonishing 2.7 million net new jobs last year, which is rendered especially incredible by

growing skills shortages that have made filling available jobs increasingly problematic, including in skilled construction trades. For its part, the U.S. construction sector added 338,000 jobs between January 2018 and January 2019.

Interestingly, despite significant job creation, the nation's construction unemployment rate ballooned from 4.5 percent in October to 7.8 percent in February. Much of this increase is seasonal, but there is some anecdotal evidence suggesting that it is at least partially due to renewed confidence among job-seekers in construction's capacity to generate stable employment. Many people left the industry in 2008, 2009, and 2010 as the industry swooned. Some retired. Others left for jobs in retail, energy, or distribution. The data are consistent with the notion that some of these workers are returning to construction.

This is not to suggest that profound skills shortages do not continue to hamper the U.S. construction industry. Earlier this year, the National Association of Homebuilders released its annual survey. Among other things, the survey asks builders what their biggest concerns are for the coming year. In prior years, when the country was still in the early phases of recovery and national unemployment still hovered near 10 percent, only 13 percent of survey respondents cited labor shortages as a concern. Earlier this year, that figure had surged to 84 percent.

EXHIBIT 1
Unemployment Rates, 2002-2017
 Source: Bureau of Labor Statistics



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BEING ONE WITH THE NATURAL RATE OF UNEMPLOYMENT

Economists strive to develop a sea of metrics in an attempt to forecast the future. Whether it involves measuring cardboard sales, global shipping charges, or tracking the number of times the word “recession” is used in newspaper articles, economists will find a way to translate information into indicators of our shared destiny.

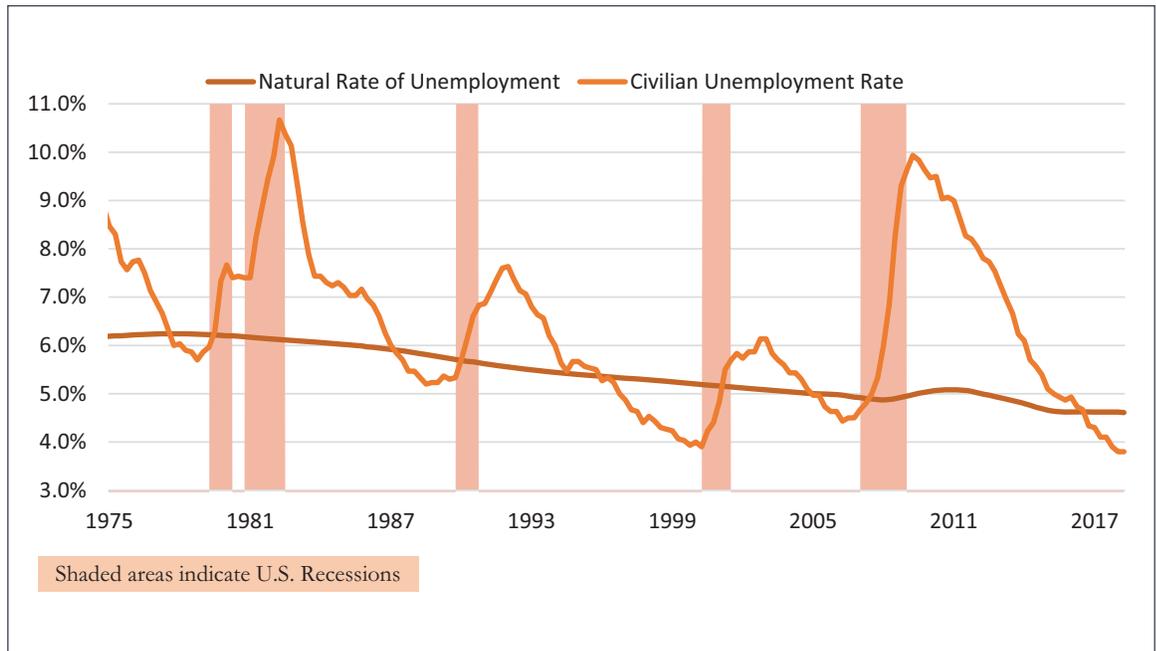
One such indicator is the natural rate of unemployment. This is a notional concept – the notion being that when the actual rate of civilian unemployment dips below its natural rate, problematic inflationary pressures will be triggered, driving up interest rates and borrowing costs, and suppressing consumption and investment in the process. In short, the natural rate of unemployment is the rate at which inflation remains in check. The natural rate of unemployment is often referred to as the non-accelerating inflation rate of unemployment or NAIRU.

According to data supplied by the Bureau of Labor Statistics (BLS) and the U.S. Congressional Budget Office, the unemployment rate dipped below the NAIRU in early 2017. The last time that happened was during the months preceding the Great Recession. This circumstance also prevailed before the 1980 recession, the 1981-82 recession, the 1990-91 recession, and the 2001 recession.

EXHIBIT 2

U.S. Unemployment & Natural Rate of Unemployment

Sources: FRED; Congressional Budget Office, U.S. Bureau of Labor Statistics

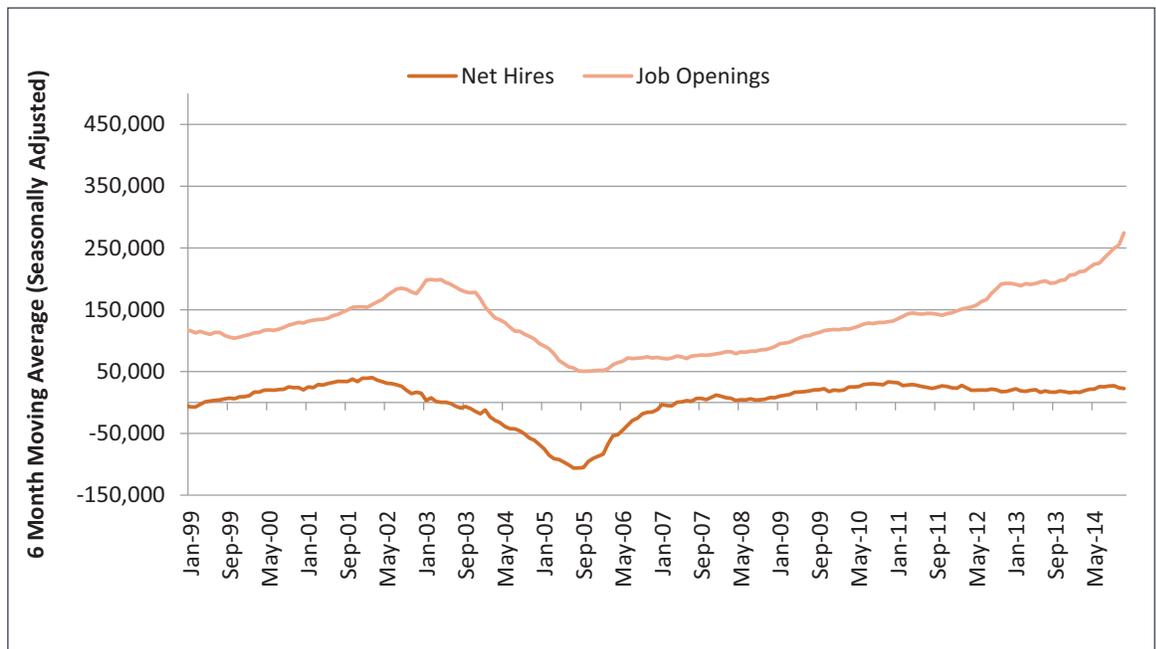


To add to our insight regarding the labor market dynamics and near-term economic prospects, BLS recently published results of its latest Job Openings and Labor Turnover Survey (JOLTS). Never in the nation's history have there been so many job openings. As of 2018's final month, there were more than 7.3 million job openings in America. This represents the highest total since BLS began tracking this metric and presumably the highest ever. Note that while the number of job openings in construction has surged to more than a quarter million, the number of net hires has not changed, a reflection of the growing difficulty contractors are having filling the expanding number of unfilled positions.

EXHIBIT 3

Construction Hiring and Job Openings, January 2003 through December 2017

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



Among all industries, construction added the most to the sum total of available job openings. In December, the sector added another 88,000 available, unfilled jobs. The implication is that filling available positions stands to become even more challenging in 2019. Food services and healthcare also added substantially to America's tally of available opportunities.

Conclusion

For now, the economic outlook remains benign. At the heart of the economy's ability to retain momentum are low interest rates. The Federal Reserve's tightening cycle appears to have come to an end. America's central bank has the luxury of forestalling additional rate increases because broad measures of inflation indicate that price pressures remain contained. As an example, one of the Federal Reserve's favorite measures, the core PCE (personal consumption expenditures) deflator, indicates that inflation continues to run at slightly less than 2 percent, which is the Federal Reserve's target.

The persistence of low interest rates and borrowing costs is critical to the strength of real estate and construction. Despite tariffs, rising wages, and escalating tuitions, a number of factors have served to constrain inflation, including a slowing global economy and the ongoing diffusion of e-commerce, which supplies consumers with enormous price transparency as they select what to buy and from whom.

While 2020 may be associated with the onset of the next downturn as the global economy continues to tumble, there are some upside risks. At the time of this writing, America has neither a trade agreement with China nor a federal infrastructure package in place. One or both of those could help drive financial markets higher, fomenting more confidence and positive wealth effects in the process.

But of course, there are also downside risks. Industrial production has begun to soften in America, in part because of a softening worldwide economy. Consumer debt is elevated. So, too, is corporate debt and the national debt. Were the inflation numbers to heat up, interest rates would be induced higher. With so much debt on the books, the impact on debt service could be enough to both rock asset prices and to induce a softening of consumption and investment. But for now, the JOLTS numbers tell us that recession is not imminent and that employment growth stands to be an element of our collective future during 2019's initial half.

MARCUM LLP

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