DIVERSITY AND ENHANCED PROFITABILITY: SOMETHING TO UNIFY US AS THE RECOVERY SLOWS

Looking forward, the goal must be to increase the size of the nation's construction workforce, including through greater diversity.

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Americans are deeply divided on many issues — something that has become increasingly apparent during the ongoing presidential election cycle. The dimensions along which these divisions persist are perhaps too numerous to mention but include positions on immigration, international trade, the 1 percent, the Affordable Care Act, women's health, the minimum wage, affordable housing, and personal and corporate tax rates.

Imagine a circumstance under which people who fixate on social justice and those who strive to sustainably operate businesses could rally around an issue and agree. It is hard to conceive of many issues likely to generate agreement and alignment, but one of them is assuredly the goal of attracting more women and minorities into the domestic construction industry.

Most contractors are well aware of the difficulties in recruiting motivated, talented, and trained personnel into the construction trades. Despite a national obsession with the shrinking middle class of the United States, today's workforce persistently overlooks middle-income opportunities associated with improving the character and capacities of the nation's built environment. Others bemoan higher unemployment rates among minorities and excessively low compensation among women.

The fact that the nation's construction industry wrestles with skills shortfalls on an ongoing basis is hardly

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surprising when one considers how underrepresented certain groups remain. Policymakers in Washington, D.C. have steadily begun to understand the potentially positive socioeconomic impacts associated with preparing more people for technical fields. In a recent White House release, the Obama Administration unveiled an intention to invest up to $90 million in apprenticeship programs, including, of course, construction apprenticeship opportunities.[1]

While that will help develop the construction workforce of the future, it may not, in and of itself, produce a more diverse construction workforce. This is because historically many racial and ethnic minorities, as well as women, have not gravitated toward these programs. For instance, in 2009, the U.S. Department of Labor released a report stating that only 3 percent of newly registered and active apprentices in construction were female. The typical profile of someone who completes an apprenticeship program is that of a white male.

If construction were able to tap into members of other groups, construction skills shortfalls could be diminished. According to the Bureau of Labor Statistics, there were roughly 9.9 million people employed in the nation's construction industry in 2015.[2] Unlike other parts of the economy, like technology, manufacturing, and even agriculture, the makeup of the labor force is dominated by a handful of select groups.

The latest available data indicate that women only hold 9.3 percent of the industry's jobs, which translates into approximately 924,000 positions. African-Americans, who represent approximately 13 percent of the nation's population, are associated with 6 percent of the construction industry's employment. Asians, who represent roughly 5 percent of the nation's population, represent less than 2 percent of the construction workforce.[3]

Obviously, there is one non-white male group that is very well-represented in the nation's construction industry — Hispanics. Hispanics hold nearly 29 percent of the nation's construction jobs, translating into more than 2.8 million positions.[4]

In total, the result is a workforce that remains too small. Given the large number of construction workers now in their 50s and 60s, the presumption among many is that skills shortfalls will continue to expand. The industry has many options, including attempting to pass along labor cost increases to owners of projects and embracing more capital-intensive production techniques.

However, while these conceivable solutions would help support industry profitability, they would not inure to the benefit of the U.S. middle class. Higher construction costs would make it even more difficult to address the nation's growing infrastructure deficits, resulting in less productivity and wage growth. More capital-intensive construction processes would help support high-tech companies in Silicon Valley and elsewhere, but they would shrink the number of available middle-income positions.

The goal therefore must be to increase the size of the nation's construction workforce, including through greater diversity. According to the U.S. Bureau of Labor Statistics, industry employment will increase by more than 12 percent over the next decade. The dynamic status quo is therefore likely to generate greater workforce shortfalls.[5]

Some may wonder whether it is realistic to include more women in the construction workforce. After all, the stereotypical construction job is filled by a brawny male wearing a plaid shirt, jeans, and boots. Of course, women can wear such items as well, but the stereotype ignores shifts in the ways in which construction services are delivered today. Many construction workers ply their trades with computers or sophisticated equipment. Data from *Builder* indicate that women are more competitively compensated in construction than in most other industries. According to the *Builder* article, nationally, women earn about 82 percent of what men do. In construction, the figure is in excess of 93 percent, indicating that women can compete with men and are valued by their construction employers.[6]

Thankfully, there are organizations striving to enhance both the size and

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the diversity of the nation's construction workforce, including Women Construction Owners & Executives USA and the National Association of Minority Contractors. However, there needs to be a more general industry and policy-making push in order to create and fill more middle-income job opportunities.

As a final point, geography helps. Much of the need to improve the built environment in the United States is in the nation's cities. As it turns out, the communities with the greatest need to be rebuilt are often rich in minority population, creating an opportunity for people to work toward improving their own communities in very direct ways.

Faster productivity growth is an imperative

There is perhaps greater urgency to secure a more productive construction workforce than many may realize. Construction firm owners and managers tend to feel better about circumstances when firms are busy. However, recent data regarding industry activity have not been nearly as upbeat.

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The construction industry entered 2016 with a fair amount of momentum. But the observed decline in industrial production over the past year, incredibly soft wage growth, and jittery financial markets have led to the loss of a meaningful fraction of that forward push.

According to a release from the Bureau of Economic Analysis on April 28, nonresidential fixed investment in the United States fell 5.9 percent (seasonally adjusted annual rate) during the first quarter of 2016 after a 2.1 percent decline during the fourth quarter of 2015.[7] Investment in nonresidential structures, a component of the broader nonresidential category, performed especially poorly, plunging 10.7 percent on an annualized basis in the first quarter. Nonresidential investment in equipment, another subcategory, didn't perform much better, falling 8.6 percent over the same time period.

How bad is this? Nonresidential fixed investment hasn't had such a dreadful quarter since the segment plunged 12.3 percent during the second quarter of 2009. Moreover, 2009 represents the last time the segment contracted in consecutive quarters.

There are other indications of emerging near-term weakness. Nonresidential construction spending fell 1.4 percent in February (the most recent month for which data are available), totaling $690.3 billion on a seasonally adjusted annualized basis according to the U.S. Census Bureau.[8] Despite the month-over-month dip, February's figure was still 1.5 percent higher than December 2015's total. Precisely half of 16 construction spending subsectors experienced monthly decreases in February, with more than half the total decline in spending attributable to the 5.9 percent decline in manufacturing-related construction spending.

This could be due to any number of factors, including seasonal factors that will unwind as temperatures warm. First quarter data have been notoriously weak in recent years, with second quarters often ushering forth a springy bounce-back. While weather in much of the nation was milder this past winter than it was during last year, the Mid-Atlantic region was pummeled in February.

There have also been some unusual economic dynamics unleashed by falling oil and natural gas prices. Mining output has been plunging in the United States. Certain manufacturing segments have also been negatively impacted. That has translated into less investment. Of course, falling oil and natural gas prices are good for consumers, which may have helped to stimulate both residential and commercial construction. Given a household savings rate of 5.4 percent and ongoing job creation, one suspects that the economy will continue to expand with consumers leading the way.

Even as construction output has stumbled, construction employment has continued to expand. The industry added 37,000 net new jobs in March according to the U.S. Bureau of Labor Statistics.[9] This follows a healthy gain of 20,000 net new jobs in February. Over the past year, construction has added more than 300,000 positions, an indication that most construction firms remain busy.

Most jobs have been added by specialty trade contractors, who collectively support 5.5 percent more employment than they did just one year ago. Among the leading growth segments are the multifamily rental market, hotel room construction, office construction, and highway/street construction.

The hope is that after posting very little economic growth during the year's initial quarter, the U.S. economy will gain strength during the second and third. That happened last year as consumers traveled and spent extensively. It could happen again.

In any case, construction will fare better if its labor force becomes more productive. That is true under any conceivable scenario. Among major U.S. industries, construction has generated among the lowest levels of productivity gains over the past few decades. That must change and will become especially important when the industry finds itself mired in its next downturn. ■

NOTES

1 "Fact sheet: President Obama launches competitions for new manufacturing innovation hubs and American apprenticeship grants." The White House (Dec 11, 2014) (press release). Available at: https://www.whitehouse.gov/the-press-office/2014/12/11/fact-sheet-president-obama-launches-competitions-new-manufacturing-innov.

2 "Employed persons by detailed industry, sex, race, and Hispanic or Latino ethnicity." United States Department of Labor, Bureau of Labor Statistics (May 2, 2016). Available at: http://www.bls.gov/cps/cpsaat18.htm.

3 *Ibid.*

4 *Op. cit.* note 2.

5 "Occupations with the most job growth." United States Department of Labor, Bureau of Labor Statistics (May 2, 2016). Available at: http://www.bls.gov/emp/ep_table_104.htm.

6 Goodman, J., Women are a growing force in construction, *Builder* (March 8, 2016). Available at: http://www.builderonline.com/builder-100/people/women-are-a-growing-force-in-construction_o.

7 "Table 1.1.1: Percent change from preceding period in real gross domestic product," U.S. Department of Commerce, Bureau of Economic Analysis, (last revised on April 28, 2016). Available at: http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=1.

8 "Value of construction put in place at a glance." United States Census Bureau(April 1, 2016). Available at: https://www.census.gov/construction/c30/c30index.html.

9 "Current employment statistics — CES." United States Department of Labor, Bureau of Labor Statistics (April 1, 2016). Available at: http://www.bls.gov/ces/.