



# NEVER WASTE A GOOD CRISIS

A crisis often presents an opportunity to address a long-standing challenge.

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**F**or years, leaders of construction firms in the United States have complained about a lack of electricians, pipefitters, welders, glaziers, roofers, HVAC professionals, plumbers, superintendents, estimators, and so forth. Each quarter, the Construction Financial Management Association produces its Confindex report based on a survey of its members. At the end of 2019, fully 78 percent of financial leaders in construction indicated substantial concern regarding skill shortages.<sup>1</sup>

The persistent shortage of human capital associated with the U.S. construction sector is attributable to many factors. Among them are the retirement of baby boomers in large numbers, shifts in academic curricula, contemporary attitudes toward working outdoors, a dearth of women entering the industry, and competition from other industries ranging from energy to e-commerce.

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Still, with the U.S. economy rocked by COVID-19 and experiencing its worst downturn in decades, workers are being dislocated in large numbers, creating new opportunities for talent recruitment. Between March 15 and April 22, more than 30 million Americans filed for unemployment insurance.<sup>2</sup> While some of those Americans may have regained employed status in the interim, as of this writing, the official rate of unemployment is likely headed toward 20 percent and then higher from there.

Without question, construction has held up better than many industries. As an industry that largely takes place outdoors, there is greater room for social distancing. Many states (although not all) consider construction to represent an essential activity, allowing many firms to continue delivering services, even as other industries falter.<sup>3</sup> There is also the protective shield formed by preexisting backlog.

Nonetheless, concern remains regarding industry prospects. With so many small businesses failing, the crisis will leave in its wake many empty storefronts and office suites. That will most certainly crimp



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Financing for projects may become more difficult to obtain, including with respect to public projects, as state and local governments race to close massive budget gaps. Unlike the federal government, these governments must balance their budgets each fiscal year.

Confidence among developers and other purchasers of construction services will also be lower than it has been in recent years, resulting in both project postponements and outright cancellations. In short, absent a major national infrastructure-oriented stimulus plan, demand for construction services will be meaningfully diminished over both the near and intermediate terms.

The extent to which the surviving and expanding contractors will have access to these available workers is a matter of speculation. Still, prior economic downturns may be instructive. Many construction workers were separated from their employers during and after the 2008 global financial crisis. Indeed, many construction jobs were lost even prior to the onset of the Great Recession in December of 2007.

The housing boom that preceded the downturn had dramatically expanded demand for construction talent. By April 2006, the number of construction jobs in the United States attained an all-time high, surpassing 7.7 million positions.<sup>4</sup> Housing activity began to subside from that point forward, as credit began to tighten and mortgage delinquencies skyrocketed. In the aftermath of the Great Recession, industry employment was down by 30 percent, translating into a staggering loss of 2.5 million construction jobs.<sup>5</sup>

Remarkably, even the lengthiest economic expansion in the nation's history proved inadequate to return construction employment to its prior peak. By February 2020, one month before COVID-19 utterly obliterated the nation's economic momentum, construction employment stood at 7.6 million, which was still a bit less than the peak achieved 14 years earlier.<sup>6</sup>

With the sharpness of the economic downturn even more profound than it was in late 2008, it may seem apparent that the

problem of skilled craftspeople has been solved. The U.S. economy shrank 4.8 percent during 2020's initial quarter, according to initial estimates from the Bureau of Economic Analysis, and the year's second quarter is likely to be the worst quarter for economic data in the nation's history.<sup>7</sup> Nonetheless, contractors may find an inadequacy of talent supply even after the end of the crisis, at least based upon prior experience.

### **Where did all the construction workers go?**

In 2015, roughly halfway through the economic expansion, the U.S. Census Bureau conducted a study examining what happened to millions of displaced construction workers.<sup>8</sup> The study focused heavily on what workers chose to do following the Great Recession, as well as on how construction companies responded once industry hiring resumed.

Research determined that more than 60 percent of construction workers who lost their jobs as a result of the housing bust and ensuing economic downturn found employment in other industries.<sup>9</sup> Thus, even the Great Recession did not solve the nation's skilled construction worker shortfall.

During the lead-up to the Great Recession, there was an increase in the flow of workers — from segments such as hotels, restaurants, manufacturing, and mining — into construction as U.S. citizens sought to participate in the housing boom. Following the downturn, that flow radically reversed its course, with construction workers flocking to retail, energy, logistics, and a host of other industries that began to recover prior to construction.<sup>10</sup> Research indicates that approximately 5 percent of dislocated construction workers found their way into the nation's energy/mining sector, with many ending up in boomtowns like Williston, North Dakota.

This time could be different. Presently, energy prices have hit rock bottom, which will frustrate well-drilling and other energy-related activities. Many retailers are set to go bankrupt or to shrink their corporate footprints. Many manufacturers will be wrestling with reduced demand

for their products, and industries such as hotels and airlines will struggle to recover as concerns persist regarding the need to socially distance. All of this suggests that dislocated construction workers will have fewer options going forward, resulting in more of them remaining in the industry, albeit potentially with new employers.

Perhaps the greatest threat to construction skill adequacy comes not from other industries, but rather from the passage of time. Many construction workers are on the verge of retirement, and they may take their current bout of idleness as an opportunity to call it quits. According to *Electrical Contractor* magazine, as of the summer of 2018, the average age of electrical contractors was 58.2 years, up from 57.3 years in 2016.<sup>11</sup> The implication is that the average electrician was already on the verge of retirement prior to the

crisis, and that is true for many of today's construction workers. ■

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#### NOTES

<sup>1</sup> Basu, A., "Construction CFOs will enter 2020 with confidence," Construction Financial Management Association. Available at: <https://www.cfma.org/resources/content.cfm?ItemNumber=7889>.

<sup>2</sup> "Initial claims," Federal Reserve Bank of St. Louis. Available at: <https://fred.stlouisfed.org/series/ICSA>.

<sup>3</sup> Budds, D., "How essential is construction during the coronavirus pandemic?" *Curbed* (Mar 30, 2020). Available at: <https://www.curbed.com/2020/3/30/21199753/coronavirus-covid-19-construction-industry>.

<sup>4</sup> "All employees, construction," Federal Reserve Bank of St. Louis. Available at: <https://fred.stlouisfed.org/series/USCONS>.

<sup>5</sup> *Ibid.*

<sup>6</sup> *Op. cit.* note 4.

<sup>7</sup> "Real gross domestic product," Federal Reserve Bank of St. Louis. Available at: <https://fred.stlouisfed.org/series/GDP>.

<sup>8</sup> Janicki, H. and McEntarfer, E., "Where did all the construction workers go?" United States Census Bureau (Oct 16, 2015). Available at: <https://www.census.gov/newsroom/blogs/research-matters/2015/10/where-did-all-the-construction-workers-go.html>.

<sup>9</sup> *Ibid.*

<sup>10</sup> *Op. cit.* note 8.

<sup>11</sup> Ross, C., 2018 profile of the electrical contractor, *Electrical Contractor* (July 2018). Available at: <https://www.ecmag.com/section/your-business/2018-profile-electrical-contractor>.