MAKING SENSE OF DECLINING CONSTRUCTION EMPLOYMENT

The demand for construction workers is high, but industry employment stagnates due to the reality of churn.

ANIRBAN BASU AND JOSEPH NATARELLI

The economic recovery that commenced in May 2020 has been, in a word, stunning. Over the past year, the United States has added back millions of jobs, U.S. equity prices have achieved record highs along with home prices and other asset values, and consumer spending has been elevated. The prevalence of low interest rates combined with rapid economic recovery and stimulus has expanded demand for construction services, as evidenced by higher residential permitting levels and expanded nonresidential contractor backlog.

When the pandemic began to strike down the economy in February 2020, there were 302,000 unfilled, available construction jobs openings in the United States according to the Bureau of Labor Statistics (BLS).[1] Two months later, the tally had been trimmed to 220,000, representing a decline exceeding 27 percent.[2] At that time, contractor backlog was declining in the context of project cancellations. Project postponements and interruptions were pervasive due to spreading COVID-19 infection rates. Financing for projects was drying up as a result of massive economic uncertainty. The federal government was offering direct payments to U.S. citizens and stepped-up unemployment benefits in large measure to persuade many workers to just stay home.

That was then, but by April 2021, the number of construction job openings had surged to 357,000, 62 percent above the cyclical low suffered a year earlier and 18 percent above the level associated with the onset of the downturn.[3] In short, demand for construction workers has seldom been higher than it is right now. This is why the current set of circumstances is so mysterious. With unemployment still elevated and household stimulus steadily running out, one would think that the pace of construction job creation would be elevated as sidelined workers race back to the industry. Instead, in May, the U.S. construction sector employed 20,000 fewer people.[4] How is this possible?

ANIRBAN BASU *is the chief construction economist at Marcum LLP and the CEO of the Sage Policy Group.*

JOSEPH NATARELLI *is Marcum LLP's national construction industry leader and office managing partner in New Haven, Connecticut.*

At the heart of the matter is the concept of churn. Each month, millions of people are hired by U.S. employers, while millions of others are separated from work, whether voluntarily or not. This is nothing new. Each month between 2001 and 2019, approximately 5 million people were hired on average, a shade under 2 million people were laid off or fired, and another 2.6 million people quit their jobs.[5] Another 350,000 people lost or left their jobs for other reasons, which the BLS classifies under "other separations".[6] The upshot is that even though millions of people might be hired in a given month, net job growth may end up close to zero or even in the negative.

Although the pandemic has altered much of the U.S. economy, it has not altered the reality of churn. In March 2021, U.S. businesses hired more than 6 million people. In the same month, 1.4 million were laid off, 3.5 million people quit, and another 334,000 were separated for other reasons.[7] The end result was that a few hundred thousand net new positions were added to the economy.

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Construction employment churn is even more intense. While the segment comprises 5.1 percent of total nonfarm national employment (7.4 million jobs out of a total of 144.9 million), it plays a disproportionate role in both hires and separations.[8] Recent data indicate that construction was responsible for nearly 8 percent of hires and separations across all industries, which means that while many people enter the industry in large numbers during any given month, a similar number exits. Given the nature of the industry, this makes perfect sense. When new projects are secured, contractors often race to hire workers to expand capacity. When projects end, workers can be squeezed out of the industry in large numbers, at least temporarily.

One would think that the substantial number of available, unfilled jobs would dominate construction employment calculations. Contractors have even striven to hold onto more of their workers, given the expectation of rising backlog and demand for construction services going forward. In March 2021, only 150,000 construction workers were laid off or fired, which was about 50 percent lower than average. However, workers can also leave voluntarily, especially if there are attractive opportunities in other industries. Moreover, the United States continues to face massive skills shortages, which means that job openings can go unfilled indefinitely, further suppressing hiring.

There's more. When Amazon or other companies raise their respective minimum wages or simply raise average compensation, those maneuvers can induce some construction workers to take their talents elsewhere. Given May's industry job loss, the implication is that many construction workers are being actively recruited away from the industry. Some may prefer, for instance, to work indoors at a fulfillment center rather than outdoors in the summer heat. Certain industries are searching for talent with noteworthy assertiveness. This is certainly true in the leisure and hospitality segment, which was laid low by the crisis. Starting wages in such segments rose 5 percent over a recent two-month period.[9]

Compensation levels will rise

Here's the bottom line: Given structural shortages of skilled construction workers in the United States, wavering immigration policy, amassed contractor backlog, and rising competition for workers from other industries, contractors can expect upward pressure on construction wages going forward. The impact of these factors on construction wages may not show up neatly in compensation data. As federal supplements to state unemployment insurance payments begin to wane, more entry-level and near entry-level workers are likely to render themselves available to the labor market. As these workers find new jobs, average wage growth will be suppressed. Still, this should not be confused with the notion that wages are falling for the average worker presently on the job. Wage pressures are decidedly tilted to the upside. ■

NOTES

1 U.S. Bureau of Labor Statistics, "Job openings: Construction," FRED, Federal Reserve Bank of St. Louis (2021). Available at: https://fred.stlouisfed.org/graph/?g=F3dq.

2 *Ibid.*

[3] *Op. cit.* note 1.

[4] U.S. Bureau of Labor Statistics, "All employees: Construction," FRED, Federal Reserve Bank of St. Louis (2021). Available at: https://fred.stlouisfed.org/graph/?g=F3fx.

[5] U.S. Bureau of Labor Statistics, "FRED graph," FRED, Federal Reserve Bank of St. Louis (2021). Available at: https://fred.stlouisfed.org/graph/?g=F3nl.

[6] *Ibid.*

[7] *Op. cit.* note 5.

[8] U.S. Bureau of Labor Statistics, "All employees, construction/all employees, total nonfarm," FRED, Federal Reserve Bank of St. Louis (2021). Available at: https://fred.stlouisfed.org/graph/?g=F4bI.

[9] U.S. Bureau of Labor Statistics, "Average hourly earnings of all employees, leisure and hospitality," FRED, Federal Reserve Bank of St. Louis (2021). Available at: https://fred.stlouisfed.org/graph/?g=F4bS.