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JOLT

SURVEY ANALYSIS 2013

JOLT Survey Spotlights Emerging Skills Shortages

The US construction industry remains far from full recovery. Despite that, the industry is increasingly impacted by emerging skills shortages; the products of ongoing retirements, rapidly shifting technologies, and inadequate levels of interest among younger workers. Readers should note that net given job creation in any given month is the product of massive numbers of people being hired and almost equally large numbers of people being released from employment over that same period. All too frequently, the number of US construction jobs actually declines on a monthly or annual basis. When construction adds or loses jobs in a given month, the reported figure is a net change statistic that often obscures the frantic pace of hiring and firing that characterizes the industry.

The Job Openings and Labor Turnover Survey (JOLTS, a product of the Bureau of Labor Statistics) produces data regarding the number of job openings, hires and separations during any given month. According to JOLTS, the construction industry hired just 269,000 new employees on a seasonally adjusted basis in December 2013. That represents the worst performance since the survey began in December 2000. The December hires rate, which measures hires as a percentage of total industry employment, stood at 4.6 percent, the lowest observed rate since February 2007.

The skills shortages that construction firms have fretted over for years are already here. Demographic and other factors suggest that these shortages will worsen over time, eventually translating into significant construction wage growth.

It appears that the weather played a strong factor in shaping these data, though there may very well be a meaningful level of economic content in the data as well. The question becomes whether the decline in hiring is due to a lack of demand for workers, or whether there simply aren't enough people with the right sets of skills to take on available construction positions.

Exhibit 1 shows how hiring has declined over the past ten years. Many observers would simply conclude that the general decline in the number of hires over time is purely a function of diminished demand for labor. Without question, the impacts of the financial crisis have heavily influenced construction hiring in recent years.

But that is hardly where the story ends. While December hiring was suppressed, the number of available construction job openings (143,000) was higher than in any month since August 2007. The rate of new job openings stood at 2.4 percent, matching the post-recession peak established in November 2013. The very strong implication of these data is that there are relatively abundant opportunities for workers in construction, but they are either unwilling or unable to accept available jobs. In short, the skills shortages that construction firms have fretted over for years are already here. Demographic and other factors suggest that these shortages will worsen over time, eventually translating into significant construction wage growth. These shortages have already been noted in a variety of contexts, particularly in dynamic economic environments such as those found in rapidly expanding states such as Texas and North Dakota. Exhibit 2 provides additional evidence by juxtaposing the expansion in openings and the lack of associated rebound in hiring. ●

MARCUM LLP is pleased to provide the first in a series of analyses focused on the Bureau of Labor Statistics' Job Openings and Labor Turnover Survey. These analyses are tailored to construction industry leaders.

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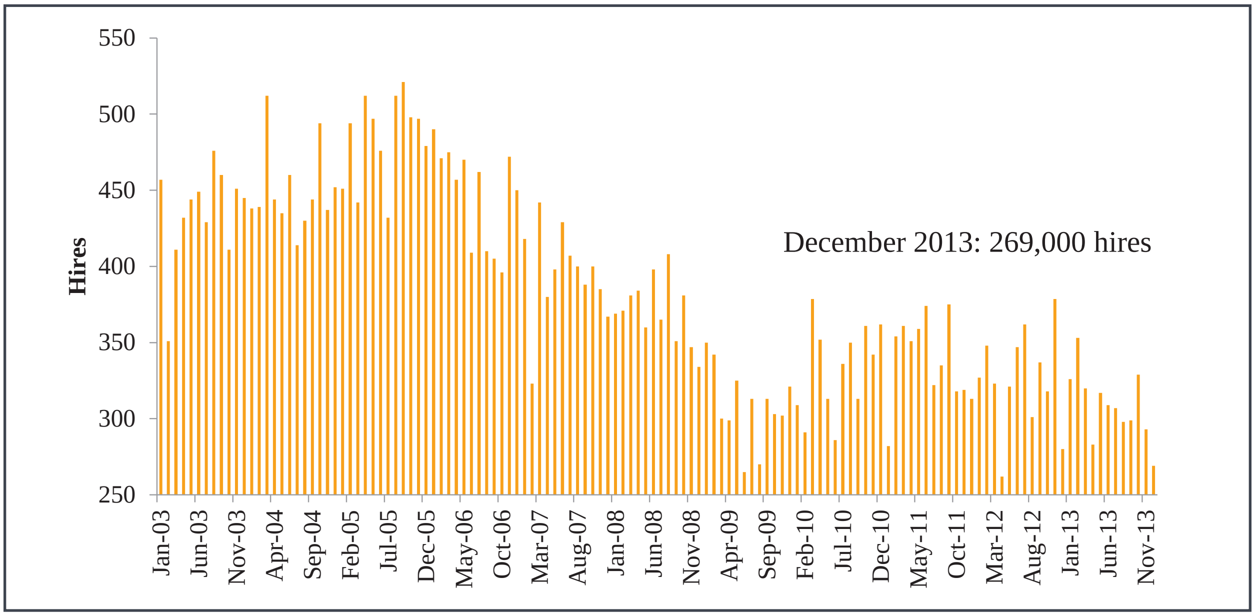
In response, employers appear to be working harder to retain their current talent. The job separation rate stands at 4.8 percent, well below its historic average level. Comparing December 2013 with December 2005, when construction job separations were at their historic peak, the number of monthly separations in the construction industry declined by 214,000 jobs, a 43 percent decline. This is not merely a reflection of an improving economy. After all, the job separation rate declined during portions of the Great Recession and has been falling ever since, even in the context of sporadic industry recovery (Exhibit 3).

EXHIBIT 1

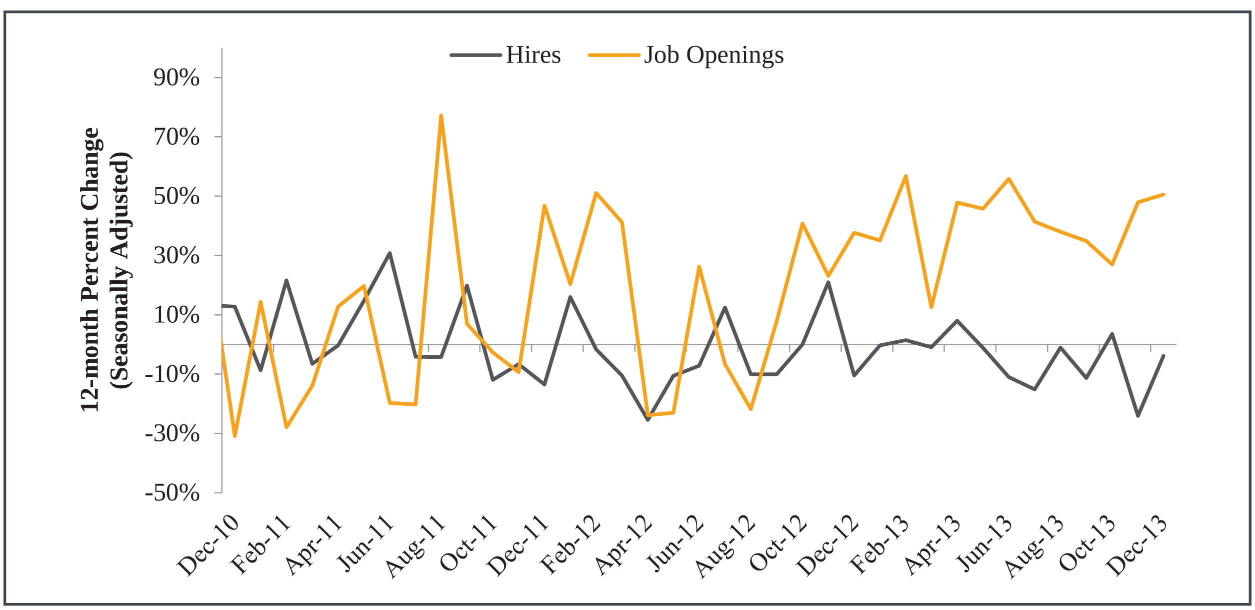
Total U.S. Construction Hires, January 2003 through December 2013



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

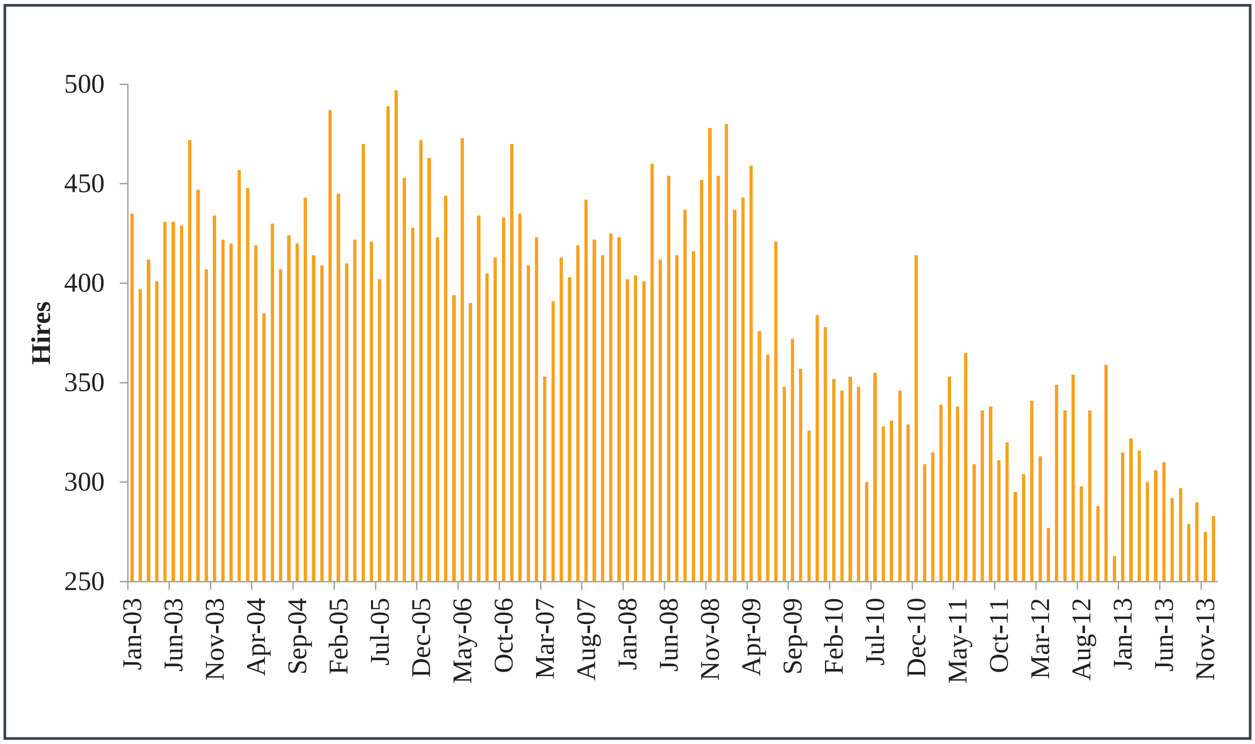
EXHIBIT 2

Hiring and Openings, December 2010 through December 2013



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

EXHIBIT 3 Construction Industry Separations, January 2003 through December 2013



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

Conclusion

The expectation is that skills shortages will worsen over time, impacting industry profitability and potentially project safety in the process. On the other hand, the ongoing shortage of sufficiently skilled workers will generate enormous demand for new labor-saving technologies, the utilization of which will ultimately translate into substantially enhanced productivity.

For leaders of construction firms, this means placing relatively greater focus on retention and recruitment going forward. Construction leaders have spent much of their energy in previous years on rebuilding backlog and profit margins while managing relationships with vendors, bankers, insurers, and other financial enterprises.

Those tasks will of course remain priorities, but increasingly the issue will relate to the human capacity of individual construction firms. All things being equal, larger firms may have certain built-in advantages in terms of recruitment, in part because of their greater name recognition. These firms may also be able to more easily offer attractive benefits. In fact, because of government mandates, in certain instances these firms are required to supply certain benefits. Heads of smaller firms will need to compete with similarly-sized and larger firms for talent. This indicates that more time will have to be spent upon thinking through staffing models, skills requirements and technology, benefits, sources of talent and models for retention. ●

Services

Marcum LLP is one of the largest independent public accounting and advisory services firms in the nation. Marcum offers the resources of more than 1,300 professionals in over 20 full-service offices strategically located in major business markets in the U.S. and abroad. Marcum's comprehensive services accommodate companies of all sizes in varied industries. From start-up through growth, merger or acquisition, to public listing or ownership transition, Marcum professionals guide businesses every step of the way.

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- Family Office Services
- Risk Management

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