2017 MARCUM JOLTS ANALYSIS

Marcum LLP's Construction Services group is pleased to provide the latest in a series of analyses focused on the Bureau of Labor Statistics' Job Openings and Labor Turnover Survey (JOLTS). These analyses are tailored to the informational requirements of construction industry leaders.

CONSTRUCTION MOMENTUM REVS UP IN EARLY '18

For a time, it appeared that the pace of growth in the U.S. labor market was beginning to moderate. Last year, the U.S. economy added approximately 2.2 million nonfarm jobs. While that represents perfectly respectable performance, it was the smallest number of net new jobs created since 2012.

The softening in job creation occurred despite elevated numbers of available job openings. With the national unemployment rate standing at 4.1 percent for five consecutive months, America remains at or near full employment. Predictably, available job openings tend to linger for longer periods as employers find it increasingly difficult to fill them. All things being equal, that translates into softer employment growth.

Indeed, year-end 2017 data was consistent with this dynamic. After posting 271,000 net new jobs for October, the last two months trended downward, with 216,000 jobs added in November followed by 175,000 in December.

But all things are not equal. The official rate of unemployment does not encompass those who are not actively looking for work. Conceivably, if many of these people suddenly jump into the labor market, employment growth could reaccelerate. This is precisely what has occurred during the early months of 2018.

In January, the nation added 239,000 net new jobs. Then, the nation managed to add an astonishing 313,000 net new positions for the month of February. That type of performance is impressive at any point in the calendar year. The last time the nation experienced the creation of more than 300,000 jobs in a single month was October 2015 (351,000) as retailers and others geared up for what turned out to be a solid holiday shopping season. The last time a February jobs report topped 300,000 was 12 years ago in 2006 (312,000) when the housing market had yet to manifest signs of excess.

Importantly, the labor force participation rate blossomed from 62.7 percent in January to 63 percent one month later. One of the great mysteries over the past several years has been the flat performance of labor force participation in the context of a vibrant economic expansion. The latest data suggest that at long last more people are jumping back into the U.S. labor force, including people looking for employment in construction.

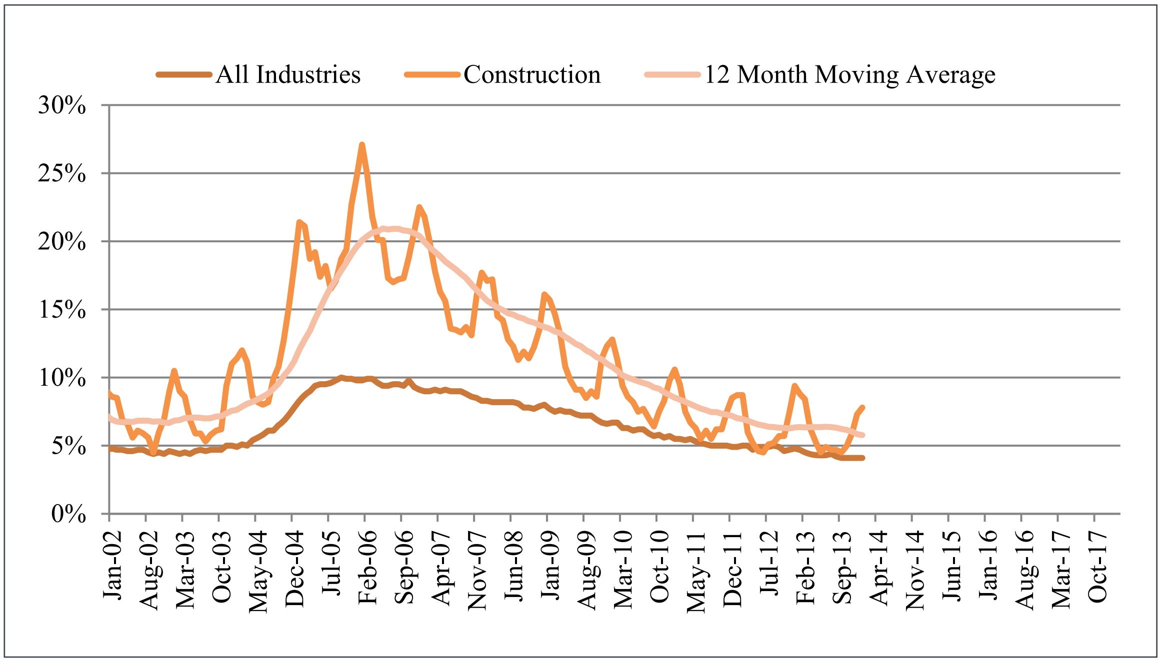
Given strong backlog and elevated architectural billings, construction has predictably emerged as a major source of job creation in America. At the end of 2016, according to the data there were roughly 6.8 million jobs in the construction industry. By the end of 2017, the sector had added an additional 250,000 jobs. Growth was steady throughout 2017, and this trend has continued into the New Year with 40,000 net new jobs added in January, followed by 61,000 net new jobs in February. No major industry was more prolific than construction in terms of creating jobs in February.

Interestingly, despite significant job creation, the nation's construction unemployment rate has 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 this 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.

EXHIBIT 1

Unemployment Rates, 2002-2017

Source: Bureau of Labor Statistics



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.

CONSTRUCTION JOB OPENINGS REMAIN ABUNDANT AND ARE GROWING

In addition to monthly employment statistics, the Bureau of Labor Statistics (BLS) also releases the Job Openings and Labor Turnover Survey (JOLTS). According to the latest release published on February 6, 2018, there were 5.8 million job openings in the U.S. on the final day of 2017. That is near a record high.

Construction is associated with nearly 200,000 unfilled job openings—as has been the case since the end of 2016—and is roughly at its peak for the current cycle. Exhibit 2 indicates that while job openings have been ramping higher for years, the pace of net hires (hires minus separations) expanded only modestly during the early phases of the recovery and has actually slowed in recent years. January and February 2018 appear to represent a departure from this pattern, but that departure has yet to show up in available JOLTS data.

With skilled construction workers remaining scarce, it makes sense that the pace of construction industry separations remains low. In other words, construction firms are holding onto their workers. That said, there was a period in mid-2017 during which the number of separations expanded, but this appears to have more to do with storms that wrought havoc in Texas, Florida, and elsewhere rather than an indication of a softening construction labor market.

EXHIBIT 2

Construction Hiring and Unfilled Job Openings, January 2003 through December 2017

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

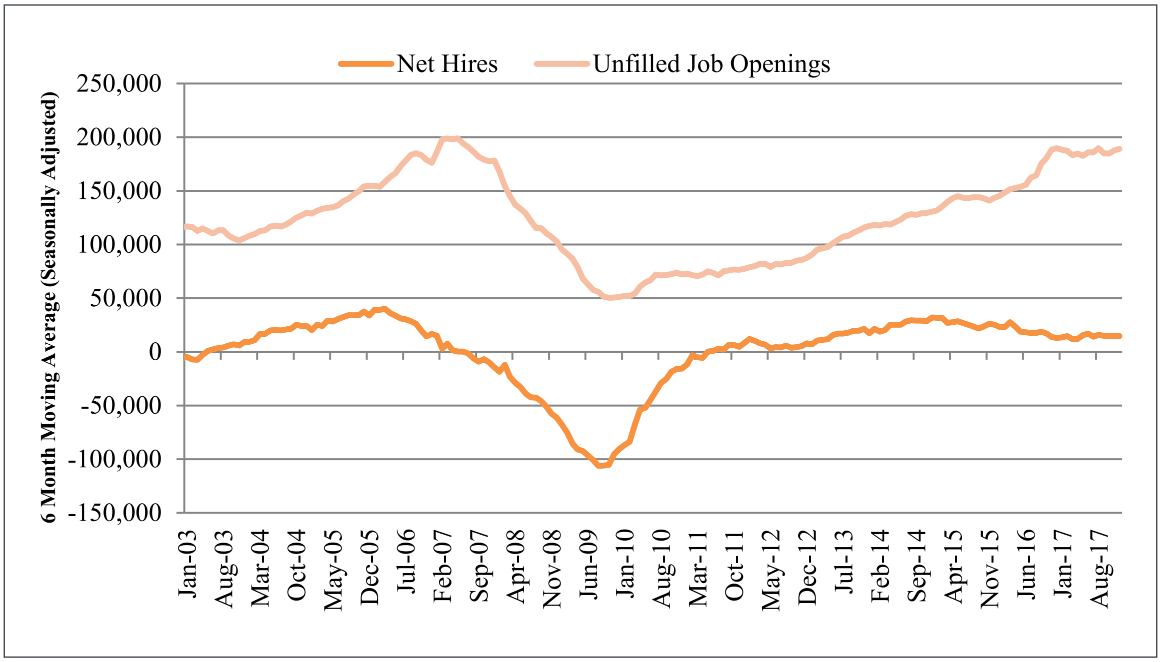
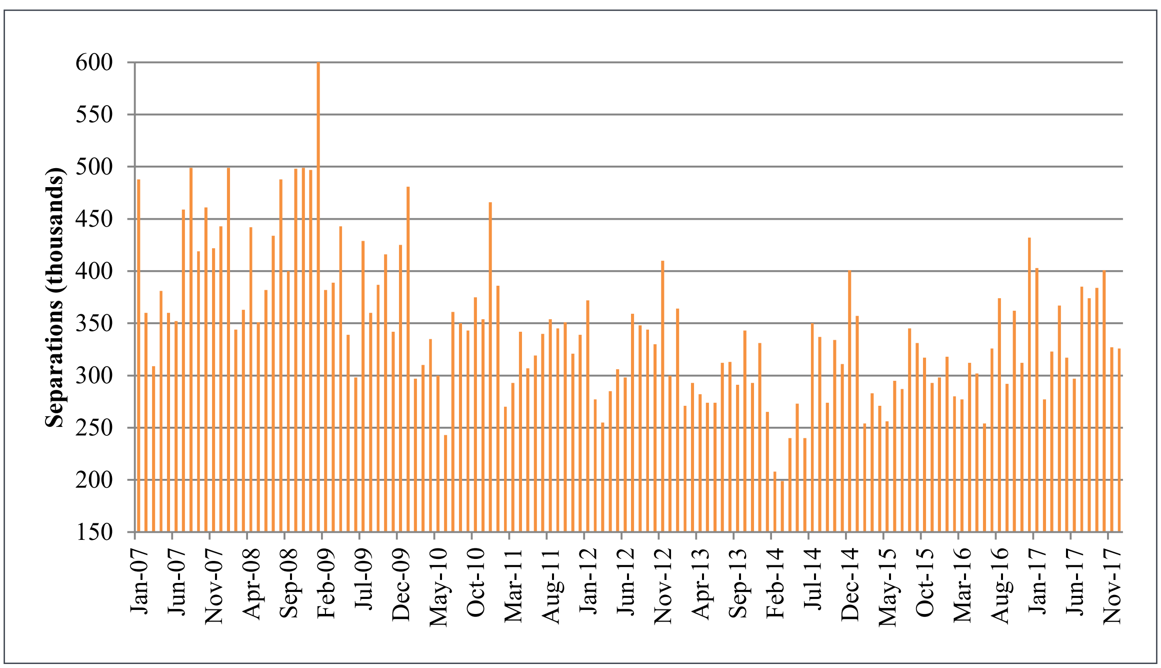


EXHIBIT 3

Construction Industry Separations, January 2007 through December 2017

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



Conclusion

The current year is shaping up to be a very good one for the U.S. construction industry. A combination of capital availability and confidence should fuel significant numbers of construction starts in 2018. One of the implications is that demand for skilled construction workers will continue to be elevated. The hope is that more workers return to the industry and that others postpone retirement in order to participate in the best period for construction since prior to the Great Recession.

Even as confidence in the near-term outlook improves, there has been a growing sense of unease regarding the longer-term outlook for the economy. In addition to the routine concerns regarding the national debt, Medicare/Social Security insolvency, mid-term elections, etc., there are growing concerns regarding inflation, including inflation triggered by newly imposed tariffs on certain imported commodities..

For construction firms, the first order effects will be higher steel and aluminum prices. However, given the exemptions offered to Mexico, Canada, and perhaps eventually to other nations, the impact may not be overwhelming. Still, context matters. Several months ago, the Trump administration stepped up actions against Canadian softwood lumber producers. Available data indicate that over a recent 12-month period, softwood lumber prices rose 14.5 percent. While some of this increase was very likely attributable to stronger construction activity in North America and a general rise in commodity prices, it is equally likely that trade sanctions also played a role in shaping that increase.

But the bigger impact of emerging trade barriers may be related to the durability of the current economic expansion cycle. Inflationary pressures are building throughout the economy whether in the form of healthcare costs, workers, tuition, apartment rents, home prices, or gasoline. The imposition of tariffs on steel and aluminum is likely to inflate the price of many items, including vehicles. These additional inflationary pressures could result in faster increases in interest rates, which could rise far and fast enough eventually to bring the current economic expansion to a grinding halt. That is not the story for 2018, however.

MARCUM LLP

Joseph Natarelli

Joseph Natarelli is the national leader of Marcum's Construction Industry Practice and partner-in-charge of the Firm's New Haven office. For more than a decade, he has served as a technical reviewer for the AICPA's Audit Risk Alert for Construction Contractors and the AICPA Accounting Guide – Construction Contractors. Joe has also chaired the annual AICPA National Construction Industry Conference.

Anirban Basu

Anirban Basu is Marcum's chief construction economist. He is also a member of the Firm's National Construction Practice, as well as chairman & CEO of Sage Policy Group, Inc., an economic and policy consulting firm in Baltimore, Maryland. Anirban leads Marcum's research and analysis of the economic health of the commercial construction industry in America. Additionally, he writes the quarterly Marcum Commercial Construction Index and annual Marcum JOLTS analysis.

National Construction Industry Services Leaders

JOSEPH NATARELLI
National Construction Industry Group Leader
joseph.natarelli@marcumllp.com
203.781.9710

NEW ENGLAND:
ROBERT MERCADO
robert.mercado@marcumllp.com
203.781.9730

NEW YORK:
IRA KANTOR
ira.kantor@marcumllp.com
631.414.4726

PHILADELPHIA:
EDWARD REITMEYER
edward.reitmeyer@marcumllp.com
484.270.2595

NASHVILLE:
JAMES LUNDY
james.lundy@marcumllp.com
615.245.4050

FLORIDA:
MICHAEL BALTER
michael.balter@marcumllp.com
954.320.8040

CHICAGO:
TIM CROSBY
tim.crosby@marcumllp.com
847.282.6368

CALIFORNIA:
WARREN HENNAGIN
warren.hennagin@marcumllp.com
949.236.5620