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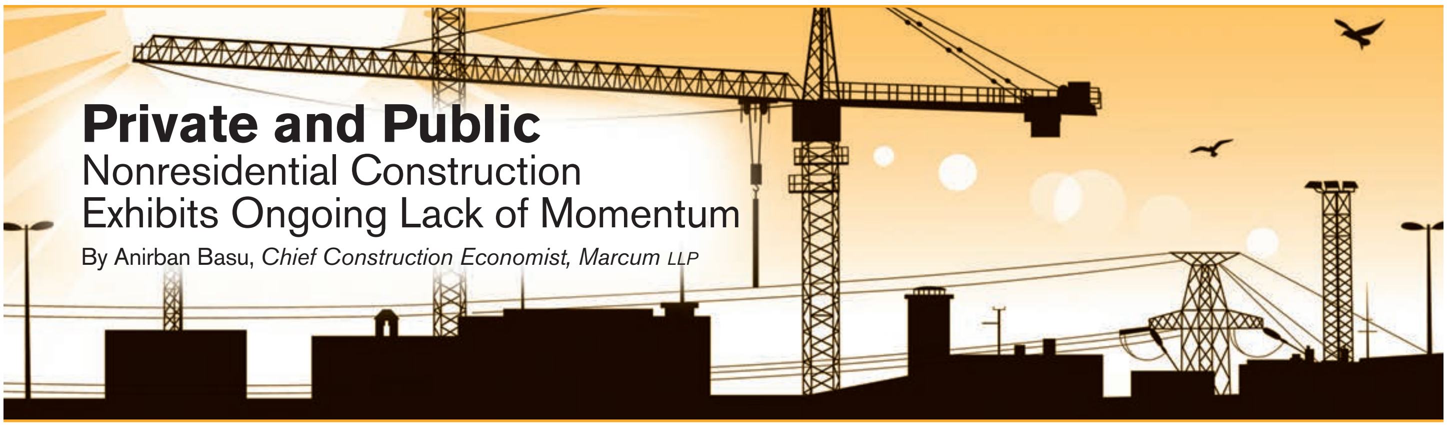

Private and Public
Nonresidential Construction Exhibits Ongoing Lack of Momentum

By Anirban Basu, *Chief Construction Economist, Marcum LLP*

The U.S. economy has now entered its fifth year of economic recovery. Second quarter gross domestic product surprised to the upside, expanding 1.7 percent on an annualized basis despite many forecasts indicating that the second quarter estimate would come in at less than 1 percent. Despite a macroeconomic context associated with a booming stock market and sixteen consecutive quarters of economic expansion, nonresidential construction continues to manifest a decided lack of spending momentum.

Construction data were unspectacular even before sequestration began to have meaningful effect. In June, nonresidential construction spending fell 1.0 percent on a monthly basis following a 0.1 increase in May and a 0.7 percent increase in April. Spending fell in both private and public categories in June. Private construction spending fell 0.9 percent and public nonresidential construction spending declined 1.1 percent for the month.

Only six of the sixteen nonresidential construction sectors posted increases in spending in June, including: power, up 3.6 percent; communication, up 2.5 percent; transportation, up 0.8 percent; health care, up 1.0 percent; office, up 0.8 percent; and amusement and recreation, up 0.4 percent. Just four subsectors have experienced higher spending on a year over-year-basis, including lodging, up 22.7 percent; water supply, up 6.8 percent; power, up 5.7 percent; and transportation, up 4.3 percent.

Ten of sixteen subsectors posted losses in spending for the month. The largest losses in spending were in conservation and development, down 9.4 percent; religious, down 6.8 percent; water supply, down 5.5 percent; sewage and waste disposal, down 5.3 percent; and commercial, down 5.1 percent. On a year-over-year basis, construction spending has softened in twelve subsectors. The largest losses have occurred in conservation and development, down 37.0 percent; communication (e.g., data centers), down 13.8 percent; educational, down 12.6 percent; highway and street, down 12.4 percent; and religious construction, down 12.2 percent. Exhibit 1 reflects the fact that neither public nor private construction has exhibited significant upward momentum of late.

This is not to suggest that there are not areas of emerging activity. One area of intensifying focus has been lodging, a category associated with improving cash flow as more Americans and foreigners spend on recreation. Lenders are issuing increasing amounts of commercial backed securities to support hotel construction. Consequently, lodging construction has routinely generated higher percentage construction spending growth rate than any of the 16 segments that comprise America's nonresidential construction industry on a year-over-year basis, though June represented a bit of a setback. Other segments that have experienced rising levels of construction spending are water supply (due at least in part to EPA mandates) and transportation (due in large measure to a number of large-scale projects underway in various parts of the nation).

Largely because of a significant rebound in residential activity, construction has been among the top performing industries in terms of percentage job growth among major U.S. economic segments. During a recent 12-month period, the industry added 177,000 jobs on net, which translates into 3 percent employment growth. Much of this growth (about 2/3rds) was among specialty trade contractors, with residential contractors leading the way.

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Joe's View

With watchers, in all sectors, anxiously anticipating what four years of recovery will look like, I'm sure that opinions are varied on how sunny it will be this quarter. In our world, the world of commercial construction, the forecast isn't great. That's not to say that we need brace for disaster but only that, as the case has been in our business for eternity, the construction industry during times of financial crisis tends to be the first to fall and one of the last to rise.

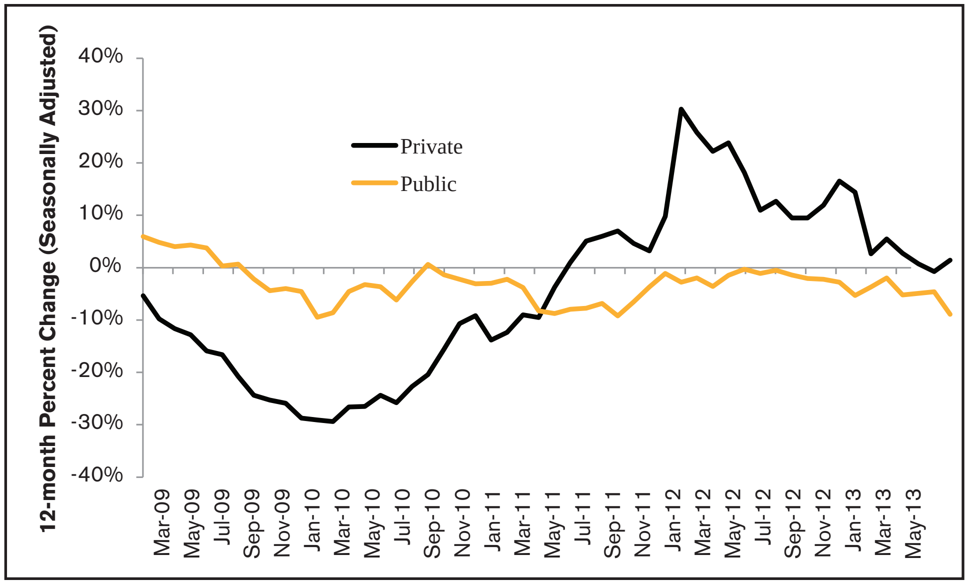
Our data show that residential and non-residential construction are moving in opposite directions, with nearly 18% growth among home-builders but a 4% decrease among commercial contractors. While everyone should be pleased by the residential bump and its subsequent positive impact on employment, our nation's steel, concrete, electrical, road/heavy highway, et al, professionals should be sure to consider regional trending when bidding and planning for business. For example, while Boston continues to show consistent, aggressive growth, Detroit is faltering under the strain of an even tougher economic future, post-bankruptcy. Construction contractors need to have their eyes wide open to these types of geographic differences.

Two thirds of the subsectors in our business just aren't keeping up with the recovery around them. Therefore, while legislators and investors calculate how to stimulate the markets that were, business owners should look to diversify into those subsectors that have the ability to sustain them, now. Whether in Hospitality or Recreation building, builders must identify growth areas and pivot into their opportunities. The primary rule of the jungle seems to equally apply to commercial construction – it is adapt or perish. There is a world of tools, organizations and advisors out there to help you with this transition. Consult with your local, trusted advisor for more information.

Joseph Natarelli, CPA
National Construction Industry Group Leader, Marcum LLP

Graphs

Exhibit 1. *Nonresidential Construction Spending, March 2009 through June 2013*



Source: Census Bureau

The fact that residential construction employment is expanding faster than nonresidential construction employment should come as no surprise. Over a recent 12-month period, residential construction spending expanded 17.6 percent while nonresidential slumped 4 percent. Of course, the impact of recent increases in mortgage rates has yet to be fully felt and one of the major questions regarding the fate of America's economic expansion is the extent to which higher rates will slow residential construction's presently formidable momentum. In recent quarters, residential activity has comprised roughly a fifth of total U.S. economic expansion. It is therefore critically important that rates remain stable enough to allow residential recovery to persist.

Among the 20 largest metropolitan areas, 16 have experienced construction employment creation over the past year. The Boston metropolitan area, a region of 4.6 million people, experienced the largest increase in employment (12.2%). Other rapidly expanding regions include Phoenix, Baltimore, Los Angeles, Minneapolis, San Francisco, Houston, Dallas, New York, Atlanta, Tampa and St. Louis. In percentage terms, Riverside and Detroit shed the largest number of construction jobs over the most recent twelve-month period for which data are available.

Looking Ahead

For now, nonresidential construction's agonizingly gradual recovery remains in place. Various leading indicators, including the Architecture Billings Index and Associated Builders and Contractor's Construction Backlog Indicator, suggest forward momentum. Without question, the pipeline of projects in various stages of planning remains dense, but the requisite level of confidence necessary to foment the next significant construction rally is not yet apparent. The nation's construction industry actually shed jobs in July, with nonresidential specialty trade contractors forfeiting nearly 10,000 jobs. Rising interest rates and Detroit's recent bankruptcy have likely resulted in a more cautious environment, which suggests that the pace of recovery will remain constrained for the foreseeable future.

▼ Exhibit 2. *Construction Employment Growth in 20 Largest U.S. Metropolitan Areas, March 2013 v. March 2012, Not Seasonally Adjusted*

Rank	MSA	Percent Change
1	Boston - Cambridge - Quincy, MA-NH	12.2%
2	Phoenix - Mesa - Glendale, AZ	10.9%
3	Baltimore - Towson, MD*	9.0%
4	Los Angeles - Long Beach - Santa Ana, CA	8.4%
5	Minneapolis - St. Paul - Bloomington, MN-WI*	7.2%
6	San Francisco - Oakland - Fremont, CA	6.2%
7	Houston - Sugar Land, TX	5.5%
8	Dallas - Fort Worth - Arlington, TX*	5.1%
9	New York - Northern New Jersey - L. Island, NY-NJ-PA*	5.0%
10	Atlanta - Marietta, GA	4.8%
11	Tampa - St. Petersburg - Clearwater, FL	4.8%
12	St. Louis, MO-IL*	4.8%
13	Seattle - Tacoma - Bellevue, WA	2.1%
14	Chicago - Joliet - Naperville, IL-IN-WI	1.8%
15	Philadelphia - Camden-Wilmington, PA-NJ-DE-MD*	1.1%
16	San Diego - Carlsbad-San Marcos, CA	0.0%
17	Miami - Fort Lauderdale - Pompano Beach, FL	-0.3%
18	Washington - Arlington - Alexandria, DC-VA-MD-WV*	-1.9%
19	Detroit - Warren - Livonia, MI*	-4.7%
20	Riverside - San Bernardino - Ontario, CA	-8.7%

**Construction, Mining, and Logging are included in one industry.*
Source: Bureau of Labor Statistics

The Marcum Commercial Construction Summit presented with CT ABC and CFMA of Connecticut

DATE: September 17, 2013

TIME: 3:30 - 8:00 PM

LOCATION: Omni Hotel, New Haven, CT

PRESENTERS: Anirban Basu - *Chief Construction Economist*, Marcum LLP
Kelly Riggs - *Author, Speaker and Business Performance Coach*

HOST: Joseph Natarelli - *National Construction Industry Leader & Partner-In-Charge of the New Haven Office*, Marcum LLP

RELATED INFORMATION: Marcum LLP Construction Services Group - Marcum LLP's Construction Services Group is dedicated to assisting contractors with personalized and attentive service, strong technical expertise, and uncompromising integrity.

MARCUM COMMERCIAL CONSTRUCTION SUMMIT 2013

Register at www.marcumllp.com/MCCS/contact

Second Quarter 2013 Performance	Quarterly Values			% Change from	
Gross Domestic Product	**2013Q2**	**2013Q1**	**2012Q2**	**2013Q1**	**2012Q2**
Overall Real GDP	1.7%	1.1%	1.2%	NA	NA
Nonresidential Fixed Investment in Structures	6.80%	-25.7%	6.9%	NA	NA
Construction Spending, Seasonally Adjusted (in $millions)	**Jun-13**	**May-13**	**Jun-12**	**May-13**	**Jun-12**
Total Construction	883,944	889,445	855,779	-0.6%	3.3%
Residential	338,163	338,360	287,508	-0.1%	17.6%
Nonresidential	545,782	551,085	568,272	-1.0%	-4.0%
Transportation	41,250	40,909	39,555	0.8%	4.3%
Lodging	14,004	14,161	11,414	-1.1%	22.7%
Power	88,165	85,066	83,397	3.6%	5.7%
Manufacturing	45,671	46,643	47,158	-2.1%	-3.2%
Office	36,515	36,240	37,599	0.8%	-2.9%
Commercial	45,449	47,901	46,107	-5.1%	-1.4%
Healthcare	41,581	41,159	42,392	1.0%	-1.9%
Communication	15,424	15,045	17,896	2.5%	-13.8%
Religious	3,348	3,593	3,814	-6.8%	-12.2%
Highway and street	75,061	77,312	85,684	-2.9%	-12.4%
Water supply	13,943	14,750	13,053	-5.5%	6.8%
Educational	76,217	77,599	87,211	-1.8%	-12.6%
Conservation and development	5,260	5,806	8,354	-9.4%	-37.0%
Amusement and recreation	13,979	13,921	14,953	0.4%	-6.5%
Public safety	9,581	9,958	10,174	-3.8%	-5.8%
Sewage and waste disposal	20,336	21,465	21,512	-5.3%	-5.5%
Employment, Seasonally Adjusted (in thousands)	**Jun-13**	**May-13**	**Jun-12**	**May-13**	**Junr-12**
National Total Nonfarm	135,876	135,688	133,609	0.1%	1.7%
Construction	5,799	5,791	5,622	0.1%	3.1%
Residential building	584	584	572	-0.1%	2.1%
Nonresidential building	678	677	661	0.2%	2.6%
Heavy and civil engineering construction	893	889	862	0.5%	3.6%
Residential specialty trade contractors	1,547	1,542	1,471	0.3%	5.2%
Nonresidential specialty trade contractors	2,097	2,099	2,057	-0.1%	1.9%
Producer Prices	**Jun-13**	**May-13**	**Jun-12**	**May-13**	**Jun-12**
Finished Goods (seasonally adjusted)	197.3	195.8	192.5	0.8%	2.5%
Inputs to Construction Industries	222.4	222.6	218.9	-0.1%	1.6%
Nonresidential Construction	NA	NA	NA	0.1%	1.2%
Softwood lumber (not seasonally adjusted)	190.4	206	176.6	-8.2%	7.8%
Concrete products (seasonally adjusted)	220.7	220.8	214.2	-0.1%	3.0%
Crude energy (seasonally adjusted)	238.3	237.7	196.2	0.3%	21.5%
Iron and steel (not seasonally adjusted)	221.8	223.8	239	-0.9%	-7.2%

Sources: Bureau of Economic Analysis; U.S. Census Bureau; Bureau of Labor Statistics; NA = Not Applicable or Not Available

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 1,200 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.

▼ Assurance

Marcum's Assurance division professionals provide a tailored audit approach to each engagement. Team members place a strong emphasis on early planning and learning the unique aspects of a client's business. Doing so ensures that each client receives an effective, cost-efficient and independent audit performed in a timely manner.

The Assurance division works with commercial and SEC clients, governmental and not-for-profit entities and employee retirement plans. A full range of services is offered including:

- Agreed-Upon Procedures
- Attestation
- Financial Audits Reviews and Compilations
- Breakeven Analyses
- Single Audits
- Sarbanes-Oxley 404 Compliance
- Forecasts and Projections
- Internal Audits
- Internal Control Reviews
- IT Audit and Advisory Services
- Public Company Filings
- Strategic and Operational Planning

▼ Tax & Business

The Tax & Business Services division is comprised of dedicated professionals who have been involved with numerous complex transactions at the local, national and international levels.

The division offers all forms of regulatory compliance services, planning and specialization in a variety of areas including:

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- Family Wealth Planning
- Bankruptcy and Insolvency Tax
- State and Local Taxation
- SEC and Large Corporate Matters
- International Taxation
- Real Estate Tax Services
- IRS Representation

With partner involvement at every level of service, the Tax & Business Services team provides highly personalized advice and guidance to a client base including:

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- Family Business Owners
- Large Corporations
- International Businesses
- Foreign Nationals
- Tax Exempt Clients

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- Insolvency and Receivership
- Trustee, Reorganization and Financial Advisory Services

Forensic and Litigation Services

- Forensic Accounting and Fraud Assessment
- Damage Determination and Expert Testimony
- Marital Dissolution
- Regulatory Compliance, including Bank Secrecy Act and Taxation
- Due Diligence and Capital Formation
- Computer Forensics
- Business Valuation

Operational & Process Improvement

- Business Process Improvement
- Internal Controls and Governance
- Real Estate Advisory Services
- Family Office Services
- Risk Management

▼ 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 nearly 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 is also 2012-2014 Chair of the 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. Mr. Basu leads Marcum's research and analysis of the economic health of the commercial construction industry in America. Additionally, Mr. Basu creates and produces the quarterly Marcum Commercial Construction Industry Index.

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