

# MARCUM

## Commercial Construction ▶

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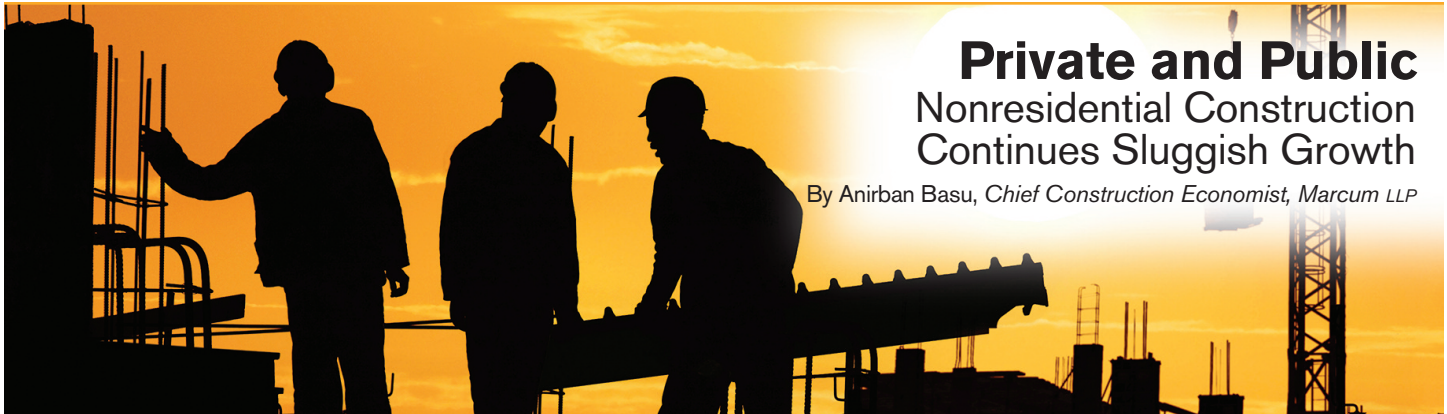
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## Private and Public Nonresidential Construction Continues Sluggish Growth

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

The U.S. economy has now entered its fifth year of economic recovery. During the recently completed third quarter, the U.S. economy expanded again, this time at a 2.8 percent annualized rate – well ahead of expectations. This GDP release, however, represents the last piece of information regarding U.S. output and nonresidential fixed investment that is untouched by the federal government shutdown in October and the most recent debt ceiling debate. Of course, September economic activity could have been impacted by rising uncertainty as the October 1st budgetary deadline approached.

In August, nonresidential construction spending grew 0.2 percent on a monthly basis following a 0.6 increase in July and a 1.0 percent decline in April. Spending expanded in both the private and public sectors in August. Total private construction spending grew 0.7 percent and public nonresidential construction spending increased by 0.3 percent for the month.

Eight of the 16 nonresidential construction subsectors posted increases in spending for the month, including the following:

- ▶ Public safety grew by 7.4 percent but has declined 7.6 percent on a year-over-year basis.
- ▶ Amusement and Recreation is up 6.9 percent but has fallen 3.9 percent from the same time last year.
- ▶ Conservation and development is up 5.1 percent but has fallen 15.2 percent on the year.
- ▶ Lodging grew by 2.6 percent and is up 26.7 percent on a year-over-year basis.
- ▶ Sewage and Waste expanded by 2.3 percent and has grown 3.3 percent for the year.

Spending in the following six nonresidential construction subsectors was down for August:

- ▶ Religious spending fell 2.2 percent on the month and 16.9 percent from the same time last year.
- ▶ Educational construction spending fell 1.8 percent and is down 5.2 percent on a yearly basis.
- ▶ Commercial declined 1.5 percent but is up 0.9 percent on a year-over-year basis.
- ▶ Health care dropped 0.6 percent in August and 5.2 percent on the year.
- ▶ Both power and water supply fell 0.2 percent in August, though both are up from the same time last year (9.7 and 8.1 percent, respectively).

Exhibit 1 reflects the fact that neither public nor private construction has demonstrated significant upward momentum of late.

Mimicking the national economy, the non-residential construction segment is associated with both private sector progress and public sector retrenchment. Many economists agree that were it not for fiscally-induced headwinds and related uncertainty, the U.S. economy probably would be expanding faster than three percent rather than struggling to achieve two percent growth during a number of recent quarters. Similarly, were it not for declines in public construction-dominated categories such as education and a handful of others, non-residential construction recovery would have been more forceful over the past year.

Given lingering fiscal uncertainty emanating from the federal government as well as from many states, public construction is unlikely to rally any time soon. Private construction, however, is positioned to continue to recover in conjunction with a national economy now in its fifth year of expansion. Much of the strength in the U.S. economy relates to consumer spending. Not coincidentally, construction segments that have generally been leading the recovery include lodging and commercial, two sectors supported by consumer outlays.

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With these sidebar comments, I try to tie our industry's progress to that of the US economy, at large. So far, we've done a conservatively good job fighting our way back towards the prosperity, production and profitability of years past. There is and will always be a major obstacle right around the corner in any type of business. Success is all about overcoming those challenges, and construction contractors are among the toughest out there when it comes to doing just that.

I'm pleased to report that we are seeing, around the country, job backlogs on the increase. While the margin gains aren't ticking up in parallel just yet, we expect profitability to catch up as those backlogs become full. Profit follows peace-of-mind.

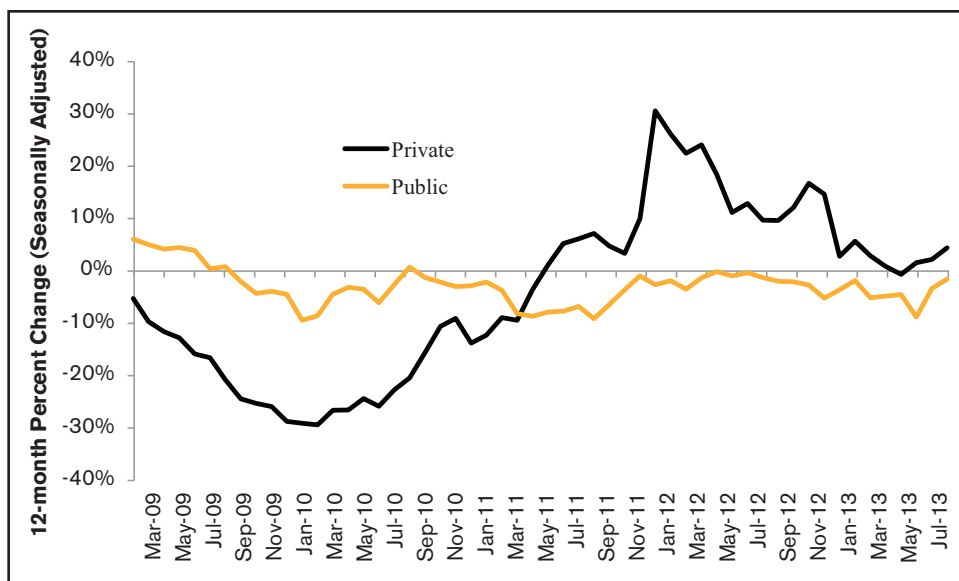
For the last five months, nonresidential spending in both public and private construction continues to rise. We have to take this as a positive indication that we are still in the midst of the recovery, albeit a slow and steady one, which we have mentioned in indices past. We can look to employment growth, year-over-year. For two consecutive months, all major segments of nonresidential construction showed improving jobs figures. This, coming off five months of downward momentum, will help us all sleep a little better. Likewise, year-over-year, unemployment numbers are 20% lower than this time last year.

Throughout the data collected, the effect of this fall's government shutdown and the looming specter of an early 2014 repeat performance are clearly visible. We are optimistic that these obstacles to our industry's regrowth will be bumps in the road and not derail us. We can look to cities such as Boston, LA and Baltimore, which have consistently demonstrated growth, for inspiration and do our best to shutdown-proof our recovery. Our economists and others around the country are predicting 2014 to be a year of continued growth and recovery in both the commercial and residential sectors.

This will be the last Marcum Index that you all receive prior to the holiday season, and so my partners and I wish all of you a happy, healthy and prosperous New Year.

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

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



Source: Census Bureau

National construction employment expanded by 11,000 jobs in September according to the U.S. Department of Labor, and nonresidential construction employment gained 6,400 positions. The national construction unemployment rate stood at 9.0 percent in October on a non-seasonally adjusted basis, up from 8.5 percent in September but down from 11.4 percent at the same time last year.

Since October 2012, the construction industry has added 185,000 jobs or 3.3 percent. Thirty-five percent of that total in October 2013 is attributable to nonresidential activities, as compared to 37 percent in September 2013. It is encouraging to see nonresidential employment continue to rebound. Every major segment of nonresidential construction exhibited job growth for a second consecutive month, a positive indication after the sector posted losses for the five previous months consecutively.

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 in percentage terms (10.3%). Other rapidly expanding regions include Atlanta, Los Angeles, Baltimore, Minneapolis, Tampa, Phoenix, and St. Louis. In percentage terms, Riverside, Chicago, and Detroit have shed the largest number of construction jobs over the most recent twelve-month period for which data are available.

**SAVE THE DATE**

**The Marcum Commercial Construction Summit 2014**

DATE: September 9, 2014  
LOCATION: Omni Hotel, New Haven, CT

Register at [www.marcumllp.com/MCCS/contact](http://www.marcumllp.com/MCCS/contact)



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

Rank	MSA	Percent Change
1	Boston - Cambridge - Quincy, MA-NH	10.30%
2	Atlanta-Marietta, GA	9.20%
3	Los Angeles-Long Beach-Santa Ana, CA	8.60%
4	Baltimore-Towson, MD*	8.30%
5	Minneapolis-St. Paul-Bloomington, MN-WI*	8.30%
6	Tampa-St. Petersburg-Clearwater, FL	7.70%
7	Phoenix-Mesa-Glendale, AZ	6.80%
8	St. Louis, MO-IL*	6.50%
9	San Francisco-Oakland-Fremont, CA	6.20%
10	Houston-Sugar Land, TX	5.50%
11	Seattle-Tacoma-Bellevue, WA	4.80%
12	New York-Northern New Jersey-L. Island, NY-NJ-PA*	4.70%
13	Dallas-Fort Worth-Arlington, TX*	4.50%
14	Miami-Fort Lauderdale-Pompano Beach, FL	3.40%
15	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD*	2.10%
16	San Diego-Carlsbad-San Marcos, CA	1.20%
17	Washington-Arlington-Alexandria, DC-VA-MD-WV*	-1.20%
18	Detroit-Warren-Livonia, MI*	-1.30%
19	Chicago-Joliet-Naperville, IL-IN-WI	-1.40%
20	Riverside-San Bernardino-Ontario, CA	-5.20%

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

### Looking Ahead

Most economists expect faster recoveries in nonresidential construction spending next year. Leading economic indicators, including the Architecture Billing Index and Associated Builders and Contractors' Construction Backlog Indicator, suggest renewed forward momentum. However, the most recent budget deal only contemplates a federal government that will remain open through January 15th and only raised the federal debt ceiling through February 7th. This means that many developers, financiers, and others are likely to continue to maintain a wait-and-see attitude; a posture that is inconsistent with rapid spending recovery. The hope is that the next budget deal creates a greater level of fiscal transparency, boosting developer and financial confidence in the process.

<b>Third Quarter 2013 Performance</b>	<b>Quarterly Values</b>			<b>% Change from</b>	
<b>Gross Domestic Product</b>	<b>2013Q3</b>	<b>2013Q2</b>	<b>2013Q1</b>	<b>2013Q2</b>	<b>2013Q1</b>
Overall Real GDP	2.8%	2.5%	1.1%	NA	NA
Nonresidential Fixed Investment in Structures	12.3%	17.6%	-25.7%	NA	NA
<b>Construction Spending, Seasonally Adjusted (in \$millions)</b>	<b>Aug-13</b>	<b>Jul-13</b>	<b>Aug-12</b>	<b>Jul-13</b>	<b>Aug-12</b>
Total Construction	915,052	909,412	854,048	0.60%	7.10%
Residential	346,459	342,138	292,782	1.30%	18.30%
Nonresidential	568,593	567,274	561,266	0.20%	1.30%
Lodging	15,217	14,825	12,013	2.60%	26.70%
Office	38,232	37,741	38,662	1.50%	-0.90%
Commercial	47,294	48,002	46,864	-1.50%	0.90%
Healthcare	40,474	40,737	42,688	-0.60%	-5.20%
Educational	79,872	81,301	84,244	-1.80%	-5.20%
Religious	3,128	3,198	3,763	-2.20%	-16.90%
Public safety	9,479	8,824	10,258	7.40%	-7.60%
Amusement and recreation	14,290	13,365	14,876	6.90%	-3.90%
Transportation	42,495	42,049	38,393	1.10%	10.70%
Communication	15,627	15,444	17,103	1.20%	-8.60%
Power	91,299	91,467	83,214	-0.20%	9.70%
Highway and street	80,641	80,607	81,668	0.00%	-1.30%
Sewage and waste disposal	22,163	21,665	21,454	2.30%	3.30%
Water supply	13,918	13,944	12,876	-0.20%	8.10%
Conservation and development	5,628	5,354	6,636	5.10%	-15.20%
Manufacturing	48,747	48,751	46,555	0.00%	4.70%
<b>Employment, Seasonally Adjusted (in thousands)</b>	<b>Oct-13</b>	<b>Sep-13</b>	<b>Oct-12</b>	<b>Sep-13</b>	<b>Oct-12</b>
National Total Nonfarm	136,554	136,350	134,225	0.1%	1.7%
Construction	5,834	5,823	5,649	0.2%	3.3%
Residential building	593	588	570	0.9%	4.0%
Nonresidential building	686	684	664	0.3%	3.3%
Heavy and civil engineering construction	895	895	879	0.0%	1.8%
Residential specialty trade contractors	1,563	1,563	1,482	0.0%	5.5%
Nonresidential specialty trade contractors	2,097	2,092	2,054	0.2%	2.1%
<b>Producer Prices</b>	<b>Sep-13</b>	<b>Aug-13</b>	<b>Sep-12</b>	<b>Aug-13</b>	<b>Sep-12</b>
Finished Goods (seasonally adjusted)	197.3	198.1	191.6	-0.4%	3.0%
Inputs to Construction Industries	218.3	218	216.9	0.1%	0.6%
Softwood lumber (seasonally adjusted)	195.1	191.8	177.7	1.9%	9.8%
Concrete products (seasonally adjusted)	222.5	222.2	215.8	0.1%	3.1%
Crude energy (seasonally adjusted)	246.2	241.3	224.4	2.2%	9.7%
Iron and steel (not seasonally adjusted)	224.6	225.3	233.7	-0.3%	-3.9%

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.

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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.

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- ▶ 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

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

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- ▶ Trustee, Reorganization and Financial Advisory Services

#### **Forensic and Litigation Services**

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- ▶ 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.

### Marcum's National Construction Industry Service Group

#### **JOSEPH NATARELLI**

joseph.natarelli@marcumllp.com  
203.401.2102

#### **STEVE RAPATTONI**

steve.rapattoni@marcumllp.com  
949.236.5670

#### **JOHN GABRIEL**

john.gabriel@marcumllp.com  
561.653.7310

#### **BARRY FISCHMAN**

barry.fischman@marcumllp.com  
203.401.2110

#### **BRETT MCGRATH**

brett.mcgrath@marcumllp.com  
860.218.1415

#### **ROBERT MERCADO**

robert.mercado@marcumllp.com  
203.508.1026

#### **ANTHONY SCILLIA**

anthony.scillia@marcumllp.com  
617.624.0526

#### **IRA KANTOR**

ira.kantor@marcumllp.com  
631.414.4726

#### **JOSEPH DESIMONE**

joe.desimone@marcumllp.com  
484.270.2530

#### **PETER MCGOWAN**

peter.mcgowan@marcumcrons.com  
212.485.5874

#### **JOHN ECKWEILER**

john.eckweiler@marcumllp.com  
949.236.5660