

# MARCUM

## Commercial Construction ▶ Index

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## Private and Public Nonresidential Construction Recovery Remains Sporadic

By Anirban Basu, Chief Construction Economist, Marcum LLP



The U.S. economy has now entered its sixth year of economic recovery. During the fourth quarter of 2013, the U.S. economy expanded again, this time at a 3.2 percent annualized rate. 2013 will not go down in history as a great year for the U.S. economy, and tax increases, sequestration, and a still sluggish global economy are all partially to blame for this result. That said, economic momentum developed over the course of the year and 2013's final six months were reasonably encouraging.

In December, nonresidential construction spending fell 1.3 percent on a monthly basis following a 0.6 percent increase in November and a 1.6 percent increase in October. Spending fell in both the private and public sectors in December. Total private nonresidential construction spending fell 0.7 percent and public nonresidential construction spending fell by 2.1 percent. Weather played a role, though does not necessarily represent a complete explanation.

Spending in the following four nonresidential construction subsectors expanded in December:

- ▶ Construction spending in the power category grew 2.7 percent on a monthly basis, but declined 20.5 percent on an annual basis.
- ▶ Conservation and development-related construction spending was up 0.1 percent for the month and up 4.4 percent for the year.
- ▶ Highway and street-related construction spending expanded 1.8 percent on the month and was up 11.2 percent from December 2012.
- ▶ Spending in the transportation category was up 0.7 percent on the month and 10.3 percent for the year.

Twelve of the sixteen nonresidential construction subsectors posted losses in spending for the month, including the following:

- ▶ Religious spending fell 2.1 percent for the month and was down 7.2 percent from the same time last year.
- ▶ Education-related construction spending fell 5.5 percent for the month and was down 8.2 percent on a year-over-year basis.
- ▶ Commercial construction spending fell 1.3 percent, but was up 19.7 percent on a year-over-year basis.
- ▶ Communication-related construction spending fell 0.4 percent for the month and was down 12.9 percent on a yearly basis.

- ▶ Office-related construction dipped by 0.2 percent in December and was down 6.0 percent from the same time one year ago.

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

Despite a sluggish 2013, nonresidential construction should accelerate in the coming year. Over the course of last year, the U.S. economy gained momentum due largely to consumer outlays and investment in inventories to meet household demands. The stock market boomed, with the Dow and the S&P 500 rising by nearly 30 percent and the NASDAQ surging by nearly 40 percent. Confidence among various economic actors has been rising, including among financiers, developers and even government budgeting officers.

Unfortunately, to date, the long-awaited sustained recovery in construction has yet to transpire, with December serving as a fitting ending to 2013. That said, December's uninspiring performance should not alter what remains a relatively positive forecast for 2014's nonresidential construction industry. The fact of the matter is that construction's leading indicators have largely turned positive. Average backlog has been on the upswing, and architectural billings have generally edged higher from month-to-month.

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What to say about fourth quarter 2013? In two words: Polar Vortex. This winter, for most of the country, truly did a number on construction contractors, the businesses that support them and the people they employ. You just can't work through unrelenting snowstorms and unprecedented deep freezes. All of the key metrics in this Marcum Commercial Construction Index show just how meaningful and stagnating an unpredictable market force such as weather can be. However, as I am writing this, Spring has sprung on the East Coast, and my clients and peers in our industry appear well positioned to reap the benefits.

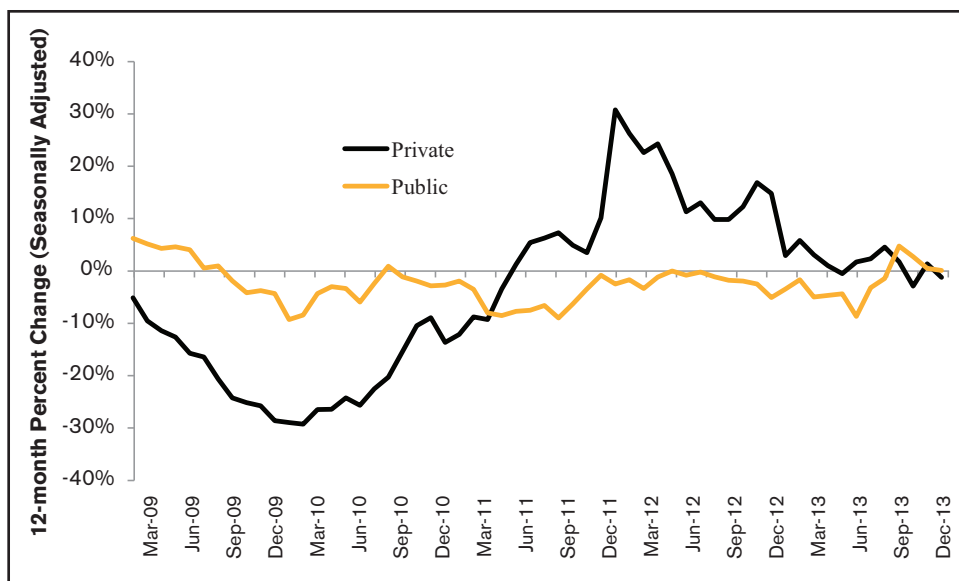
When I talk about 2014 forecasts and expectations with my clients and peers in the industry, I hear good news. And while margins continue to be static, I'm told people are busy – and meaningfully busier than in the past quarters. Backlogs are robust and people have gotten back to work. Nationally, we're reporting nearly 50,000 jobs in employment expansion in January alone. This is much needed good news, and I'm optimistic that it is the start of a trend.

I'll conclude with a positive forecast that comes with a caveat: All of the signs we read point to 2014 as the year of real recovery in the construction industry (following the losses since 2008). We all know that in the construction world bad financial news can have an immediate effect, but good news can take years to manifest. I believe that time is now. Now for a word of caution: in order for contractors to successfully capture the gains I've been talking about and to truly recover, they will be wise to pay close attention to their access to capital. No one wants the horror of winning new work only to find out that you can't afford to perform it. Keep an eye on the health and condition of your balance sheets, talk with your sureties and your bankers and, of course, your trusted advisors in the professional services to make sure you are best positioned for prosperity - this year and for generations to come.

Have a winning Spring,

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

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



Source: Census Bureau

Surprisingly, national construction employment expanded by 48,000 jobs in January according to the U.S. Department of Labor. Nonresidential construction employment gained 21,000 positions. The industry's job gain was surprising for at least two reasons. First, most industries disappointed in January, and the nation only added 113,000 jobs in total for the month (according to the Department's preliminary estimate) despite a consensus estimate of 175,000. Secondly, the thinking among many was that weather would have constrained construction hiring in January. Construction represents among the nation's most weather-sensitive industries.

The national construction unemployment rate expanded to 12.3 percent in January on a non-seasonally adjusted basis, up from 11.4 percent in December and down from 16.1 percent at the same time last year. While the decline in industry unemployment on a year-over-year basis is largely positive, the decline is also a reflection of the fact that not many people are entering the construction industry in search of work.

Naturally, the economic expansion is more potent in certain communities. The strongest growth in construction employment has been in a handful of regions that suffered mightily during the downturn, but are now recovering rapidly. Among these communities are Tampa, San Diego, Atlanta and Los Angeles.

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**The Marcum Commercial Construction Summit 2014**

DATE: September 8, 2014  
LOCATION: Omni Hotel, New Haven, CT

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



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

Rank	MSA	Percent Change
1	Tampa-St. Petersburg-Clearwater, FL	10.60%
2	San Diego-Carlsbad-San Marcos, CA	10.10%
3	Atlanta-Marietta, GA	9.60%
4	Los Angeles-Long Beach-Santa Ana, CA	7.90%
5	Minneapolis-St. Paul-Bloomington, MN-WI*	7.70%
6	Phoenix-Mesa-Glendale, AZ	5.60%
7	Riverside-San Bernardino-Ontario, CA	5.60%
8	Detroit-Warren-Livonia, MI*	4.70%
9	Boston-Cambridge-Quincy, MA-NH	4.30%
10	Baltimore-Towson, MD*	3.90%
11	San Francisco-Oakland-Fremont, CA	3.40%
12	Dallas-Fort Worth-Arlington, TX*	2.10%
13	Houston-Sugar Land, TX	1.90%
14	Chicago-Joliet-Naperville, IL-IN-WI	1.40%
15	New York-Northern New Jersey-L. Island, NY-NJ-PA*	1.10%
16	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD*	0.00%
17	Washington-Arlington-Alexandria, DC-VA-MD-WV*	-0.30%
18	St. Louis, MO-IL*	-0.70%
19	Miami-Fort Lauderdale-Pompano Beach, FL	-1.00%
20	Seattle-Tacoma-Bellevue, WA	-2.50%

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

### Looking Ahead

Expect to see U.S. economic growth around 2 percent again this year (2.3 percent to 2.8 percent). Interest rates will remain supportive. In part, this reflects the recent nomination of Janet Yellen as the nation's next Federal Reserve Chairwoman. She is an architect of round three of quantitative easing and other monetary stimulus programs and has a reputation for being more concerned about unemployment than inflation. With inflation pressures likely to remain suppressed, accommodative monetary policy is set to stay in place throughout 2014.

That should help re-ignite the nation's housing market, which will in turn help restore consumer confidence and allow America to possibly approach 3 percent growth by the final two quarters of this year. In fact, that pace of growth could occur earlier because some of the economic activity postponed during 2013's final quarter (e.g., purchases of automobiles) likely will show up during the first half of 2014. That said, too much economic uncertainty remains for sustained 3 percent growth this year. Part of this uncertainty stems from the ongoing implementation of health care reform, including ultimately the enforcement of the employer mandate. News emerging from abroad could also dampen growth while producing more volatility in financial markets. Some of this has already been observed.

<b>Fourth Quarter 2013 Performance</b>	<b>Quarterly Values</b>			<b>% Change from</b>	
<b>Gross Domestic Product</b>	<b>2013Q4</b>	<b>2013Q3</b>	<b>2013Q2</b>	<b>2013Q3</b>	<b>2013Q2</b>
Overall Real GDP	3.2%	4.1%	2.5%	NA	NA
Nonresidential Fixed Investment in Structures	-1.2%	13.4%	17.6%	NA	NA
<b>Construction Spending, Seasonally Adjusted (in \$millions)</b>	<b>Dec-13</b>	<b>Nov-13</b>	<b>Dec-12</b>	<b>Nov-13</b>	<b>Dec-12</b>
Total Construction	930,493	929,927	922,898	0.1%	5.3%
Residential	357,423	349,210	345,872	2.4%	17.5%
Nonresidential	573,070	580,716	577,027	-1.3%	-1.1%
Lodging	16,675	16,684	16,314	-0.1%	31.0%
Office	41,266	41,346	40,745	-0.2%	6.0%
Commercial	54,712	55,411	52,600	-1.3%	19.7%
Healthcare	40,313	40,930	41,811	-1.5%	-1.9%
Educational	75,187	79,563	80,063	-5.5%	-8.2%
Religious	3,245	3,313	3,424	-2.1%	-7.2%
Public safety	9,168	9,875	9,766	-7.2%	-4.1%
Amusement and recreation	14,626	15,094	15,402	-3.1%	4.8%
Transportation	43,297	42,989	43,182	0.7%	10.3%
Communication	15,485	15,553	13,965	-0.4%	-12.9%
Power	86,103	83,857	82,808	2.7%	-20.5%
Highway and street	84,074	82,583	82,540	1.8%	11.2%
Sewage and waste disposal	20,522	21,389	22,709	-4.1%	-2.9%
Water supply	12,742	13,914	13,847	-8.4%	-5.4%
Conservation and development	6,286	6,280	6,505	0.1%	4.4%
Manufacturing	49,371	51,937	51,346	-4.9%	-2.0%
<b>Employment, Seasonally Adjusted (in thousands)</b>	<b>Jan-14</b>	<b>Dec-13</b>	<b>Jan-13</b>	<b>Dec-13</b>	<b>Jan-12</b>
National Total Nonfarm	137,499	137,386	137,311	0.1%	1.7%
Construction	5,922	5,874	5,743	0.1%	3.1%
Residential building	646	633	594	2.1%	8.8%
Nonresidential building	690	681	668	1.2%	3.3%
Heavy and civil engineering construction	886	877	880	1.2%	0.8%
Residential specialty trade contractors	1,584	1,580	1,515	0.2%	4.6%
Nonresidential specialty trade contractors	2,114	2,101	2,085	0.6%	1.4%
<b>Producer Prices</b>	<b>Dec-13</b>	<b>Nov-13</b>	<b>Dec-12</b>	<b>Nov-13</b>	<b>Dec-12</b>
Finished Goods (seasonally adjusted)	197.7	197.0	195.2	0.4%	1.3%
Inputs to Construction Industries	223.2	223.3	219.9	0.0%	1.5%
Softwood lumber (seasonally adjusted)	197.9	200.6	185.6	-1.3%	6.6%
Concrete products (seasonally adjusted)	222.8	222.4	217.6	0.2%	2.4%
Crude energy (seasonally adjusted)	232.8	221.2	223.0	4.8%	4.4%
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 1,300 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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- ▶ Financial Audits Reviews and Compilations
- ▶ Breakeven Analyses
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- ▶ Family Wealth Planning
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- ▶ 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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- ▶ 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

#### **JOSEPH DESIMONE**

joe.desimone@marcumllp.com  
484.270.2530

#### **JOHN ECKWEILER**

john.eckweiler@marcumllp.com  
949.236.5660

#### **ADAM FIRESTEIN**

adam.firestein@marcumllp.com  
954.320.8025

#### **BARRY FISCHMAN**

barry.fischman@marcumllp.com  
203.401.2110

#### **JOHN GABRIEL**

john.gabriel@marcumllp.com  
561.653.7310

#### **IRA KANTOR**

ira.kantor@marcumllp.com  
631.414.4726

#### **BRETT MCGRATH**

brett.mcgrath@marcumllp.com  
860.218.1415

#### **ROBERT MERCADO**

robert.mercado@marcumllp.com  
203.508.1026

#### **STEVE RAPATTONI**

steve.rapattoni@marcumllp.com  
949.236.5670

#### **ANTHONY SCILLIA**

anthony.scillia@marcumllp.com  
617.624.0526