

# MARCUM

## Commercial Construction ▶ Index

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### IN THIS ISSUE

Construction Spending Carries Momentum into 2015

Joe's View - Economic Tide is Turning

Exhibit 1. Nonresidential Construction Spending, December 2009 through December 2014 - GRAPH

Exhibit 2. Construction Employment Growth in Twenty Largest U.S. Metropolitan Areas, December 2013 v. December 2014, Not Seasonally Adjusted - CHART

Fourth Quarter 2014 Performance - CHART



## Construction Spending Carries Momentum into 2015

By Anirban Basu, Chief Construction Economist, Marcum LLP

Last year arguably represented the best year for the U.S. economy since the Great Recession ended. GDP expanded 2.4 percent for the year, and while that fell short of the 2.5 percent growth generated in 2010, that year was associated with a significant tailwind from the stimulus package passed by Congress one year earlier. There was no federal stimulus package last year, and the economy still managed to expand moderately. According to the Bureau of Economic Analysis, real gross domestic product (GDP) expanded 2.6 percent (seasonally adjusted annual rate) during the fourth quarter, following a 5.0 percent increase during the third. Investment in nonresidential structures increased by 2.6 percent on an annualized basis.

While many will view the fourth quarter headline figure as disappointing—many economists had expected to see a quarterly number in excess of 3 percent—it's important to consider the context of the fourth quarter data. The number will be revised several times and may ultimately be revised higher. Perhaps more important is the fact that the impact of diminished federal spending is significantly larger than many had anticipated. The federal spending category subtracted more than half a percentage point from the fourth quarter's headline number, which means that the non-federal portion of the economy expanded faster than 3 percent.

Nonresidential construction spending expanded 0.4 percent on a month-to-month, seasonally adjusted, annualized rate in December, following a 0.4 percent decrease in November and a 2.1 percent increase in October. Total nonresidential construction spending was 6.6 percent higher in 2014 than in 2013 on a non-seasonally adjusted basis. All signs point toward continued construction spending growth as we enter 2015.

Seven of 16 nonresidential construction subsectors posted increases in spending in December on a monthly basis.

- ▶ Communication construction spending expanded 2.5 percent for the month, but was down 9.5 percent for the year.
- ▶ Highway and street-related construction spending grew 2.5 percent in December and was up 10.5 percent compared to the same time in 2013.
- ▶ Power-related construction spending grew 1 percent for the month, but was 8.3 percent lower than the same time one year previously.
- ▶ Conservation and development-related construction spending grew 1.7 percent for the month and was up 24 percent on a yearly basis.
- ▶ Office-related construction spending grew 1.7 percent in December and was up 17.6 percent from the same time one year earlier.

- ▶ Manufacturing-related spending expanded by 2 percent in December and was up 18.1 percent for the year.
- ▶ Amusement and recreation-related construction spending gained 1.9 percent on a monthly basis and was up 11.9 percent from the same time the previous year.

Spending in nine nonresidential construction subsectors declined in December on a monthly basis.

- ▶ Health care-related construction spending fell 1 percent for the month and was down 2.1 percent for the year.
- ▶ Education-related construction spending fell 1.2 percent for the month, but was up 3.9 percent on a year-over-year basis.
- ▶ Spending in the water supply category fell 0.3 percent from November and was 10.1 percent lower than at the same time last year.
- ▶ Construction spending in the transportation category fell 0.2 percent on a monthly basis, but expanded by 9.5 percent on an annual basis.
- ▶ Public safety-related construction spending fell 4 percent on a monthly basis and was down 9.5 percent on a year-over-year basis.
- ▶ Commercial construction spending lost 1.7 percent in December, but was up 10.7 percent on a year-over-year basis.
- ▶ Religious spending fell 4.1 percent for the month and was down 1.3 percent from the same time last year.

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ACCOUNTANTS ▲ ADVISORS

One year ends and another begins, and we look to the data to tell us where we have been and where we, the commercial contractors and those that serve them, are going. Well, in the Northeast and around the country, we've been in a pretty good place, I'd say. Q4 2014, while slightly less dynamic than the quarters preceding it, bookended the best 270 consecutive days that the American commercial construction contractor has seen since the great recession of '08. Now, the answers I'm looking for in all of these numbers surround sustainability and the future.

As we've noted before, on the whole, the economic tide has turned for us in the construction industry. Jobs are up, margins are growing, backlog is filling, and our machines are back to work. But with slightly reduced overall growth and slightly less than half of the individual construction sectors in the "plus" column for Q4, you might just call me crazy. And you might be right! However, hear me out. First, trailing the spectacular recoveries of Q2 and Q3, any sector might look less than sparkling in comparison. But the truth is, Q4 wasn't a bad quarter – it just doesn't seem quite as good on paper.

Conversely, I think one could argue it was the most successful quarter since the recession. Why? Because, unlike its predecessors, the fourth quarter of 2014 didn't benefit from the lingering (though tapering) effect of the federal stimulus package which, previously and undeniably, helped all quarters before it. If I had to mark a time when our industry was pushed from its nest and told to fly, this was it. And... if we didn't exactly soar, we certainly stayed aloft. Which isn't saying nuthin'.

The data we're reporting on in this installation of the Marcum Commercial Construction Index is, in my humble opinion, a validation of the economic viability of our industry, independent of government intervention; a (nuanced) vote of confidence going into 2015 and a sign of good things to come.

Here's to a great start of your New Year,

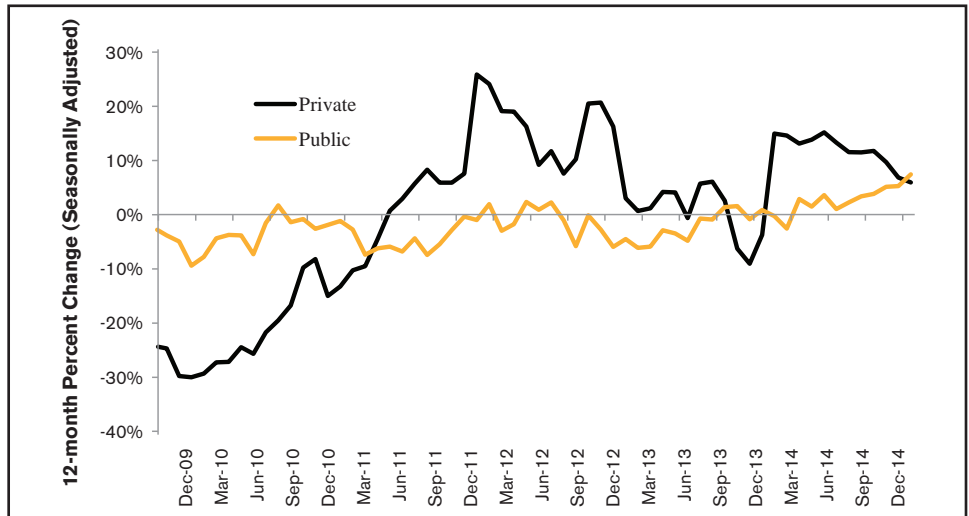
**Joseph Natarelli, CPA**  
National Construction Industry  
Group Leader, Marcum LLP

- ▶ Lodging construction spending fell 1.4 percent on a monthly basis, but was up 18.3 percent on a year-over-year basis.
- ▶ Sewage and waste disposal-related construction spending fell 2 percent for the month, but grew 10.5 percent on a 12-month basis.

Exhibit 1 reflects the fact that public nonresidential construction spending gained some long-awaited momentum in the latter parts of 2014. Though the fourth quarter private growth figures indicate that the economy enters 2015 with somewhat less momentum than had been thought, the fact of the matter is that the final nine months of 2014 represented the

strongest period of growth of the current recovery cycle. Undoubtedly financial markets will continue to be roiled by ongoing fluctuations in input prices and uncertainties regarding the strengthening of the U.S. dollar. But with gas prices low and with job creation now brisk, consumers are likely to continue to push the U.S. economy forward in 2015.

▼ **Exhibit 1. Nonresidential Construction Spending, Dec. 2009 through Dec. 2014**



Source: Census Bureau

The U.S. construction industry added 48,000 jobs in December according to the Bureau of Labor Statistics' preliminary estimate, released on January 19th, while the nonresidential sector added 22,800 jobs for the month. The nonresidential buildings subsector added 10,000 jobs while nonresidential specialty trade contractors added 12,800 new positions in the year's final month. While construction employment growth seemed to stall in the third quarter of 2014, the sector has amassed significant momentum entering 2015.

According to the Bureau of Labor Statistics' household survey, the construction unemployment rate expanded to 8.3 percent on a non-seasonally adjusted basis in December. At first glance, this may appear like a cause for concern. Given the long-feared construction skilled labor shortage, however, a higher unemployment rate is not necessarily a bad thing. Of course, this could be a result of a mismatch—either geographical or skill-related—between prospective workers and job openings. If the elevated rate is a function of skill-mismatches, then wage gains are likely to be sizable in 2015 even in the presence of lofty rates of construction unemployment.

**SAVE THE DATE**

**2015 Marcum Commercial Construction Summit**

September 9 - Tarrytown, NY  
September 17 - New Haven, CT

**Details coming soon!**

For information, contact  
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▼ **Exhibit 2.** *Construction Employment Growth in Twenty Largest U.S. Metropolitan Areas  
December 2013 v. December 2014, Not Seasonally Adjusted*

Rank	MSA	Percent Change
1	Seattle-Tacoma-Bellevue, WA	13.1%
2	Detroit-Warren-Livonia, MI*	9.8%
3	St. Louis, MO-IL*	8.5%
3	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD*	8.4%
5	Houston-Sugar Land, TX	7.9%
5	Miami-Fort Lauderdale-Pompano Beach, FL	7.9%
7	Chicago-Joliet-Naperville, IL-IN-WI	6.6%
8	Dallas-Fort Worth-Arlington, TX*	5.9%
9	San Francisco-Oakland-Fremont, CA	5.3%
10	Baltimore-Towson, MD*	4.5%
10	Los Angeles-Long Beach-Santa Ana, CA	4.5%
12	Boston-Cambridge-Quincy, MA-NH	3.7%
12	San Diego-Carlsbad-San Marcos, CA	3.7%
14	Minneapolis-St. Paul-Bloomington, MN-WI*	2.5%
14	Washington-Arlington-Alexandria, DC-VA-MD-WV*	2.5%
16	New York-Northern New Jersey-L. Island, NY-NJ-PA*	2.4%
17	Atlanta-Marietta, GA	2.0%
18	Tampa-St. Petersburg-Clearwater, FL	-1.4%
19	Phoenix-Mesa-Glendale, AZ	-3.6%
20	Riverside-San Bernardino-Ontario, CA	-3.8%

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

### Looking Ahead

This should be a year of rising construction spending, wages and profit margins. The economic recovery continues to be led by consumers, who are now benefiting from faster job growth, improving job quality, moderate increases in wages, low interest rates, and extraordinarily low gas prices.

As always, there are economic headwinds. These take the form of erratic federal spending, including on public construction work. A rising U.S. dollar will also make it more difficult for American companies to export goods and services; something already observed in disappointing fourth quarter corporate earnings reports among several of America's largest exporters. A stronger U.S. dollar also makes it more likely that American consumers will turn to cheaper, imported products, thereby impacting the domestic market share of U.S.-based companies. While the overall leisure and hospitality sector is helped by lower gas prices, some Americans will decide to take full advantage of their stronger dollar by traveling abroad.

Even with those headwinds in place, the U.S. economy seems poised to grow at a rate of around 3 percent. Recently, both the International Monetary Fund and the World Bank downgraded their respective economic growth outlooks for the global economy, but upgraded their forecasts for the U.S. Indeed, America stands to be one of the world's star performers in 2015.

Fourth Quarter 2014 Performance	Quarterly Values			% Change from	
Gross Domestic Product	2014Q4	2014Q3	2014Q2		
Overall Real GDP	2.6%	5.0%	4.6%	NA	NA
Nonresidential Fixed Investment in Structures	2.6%	4.8%	12.6%	NA	NA
Construction Spending, Seasonally Adjusted (in \$millions)	Dec-14	Nov-14	Dec-13	Nov-14	Dec-13
Total Construction	982,089	978,579	961,158	0.4%	2.2%
Residential	355,014	353,740	369,282	0.4%	-3.9%
Nonresidential	627,075	624,839	591,876	0.4%	5.9%
Lodging	17,376	17,627	14,688	-1.4%	18.3%
Office	48,550	47,747	41,272	1.7%	17.6%
Commercial	60,995	62,030	55,099	-1.7%	10.7%
Healthcare	38,647	39,048	39,481	-1.0%	-2.1%
Educational	77,719	78,701	74,819	-1.2%	3.9%
Religious	3,355	3,498	3,398	-4.1%	-1.3%
Public safety	8,460	8,808	9,352	-4.0%	-9.5%
Amusement and recreation	18,204	17,861	16,274	1.9%	11.9%
Transportation	43,420	43,523	39,658	-0.2%	9.5%
Communication	15,838	15,446	17,505	2.5%	-9.5%
Power	97,778	96,851	106,607	1.0%	-8.3%
Highway and street	90,903	88,667	82,243	2.5%	10.5%
Sewage and waste disposal	23,549	24,027	21,309	-2.0%	10.5%
Water supply	13,320	13,361	12,103	-0.3%	10.1%
Conservation and development	8,060	7,928	6,498	1.7%	24.0%
Manufacturing	60,901	59,718	51,570	2.0%	18.1%
Employment, Seasonally Adjusted (in thousands)	Dec-14	Nov-14	Dec-13	Nov-14	Dec-13
National Total Nonfarm	140,347	140,095	137,395	0.2%	2.1%
Construction	6,166.00	6,118.00	5,876.00	0.8%	4.9%
Residential building	677.30	676.50	632.80	0.1%	7.0%
Nonresidential building	705.30	695.30	681.90	1.4%	3.4%
Heavy and civil engineering construction	937.90	926.30	880.00	1.3%	6.6%
Residential specialty trade contractors	1,665.90	1,653.20	1,578.30	0.8%	5.6%
Nonresidential specialty trade contractors	2,179.70	2,166.90	2,102.80	0.6%	3.7%
Producer Prices	Dec-14	Nov-14	Dec-13	Nov-14	Dec-13
Finished Goods (seasonally adjusted)	201.1	201.6	196.9	-0.2%	2.1%
Inputs to Construction Industries	221.2	221.5	217.8	-0.1%	1.6%
Softwood lumber (seasonally adjusted)	204.7	207.5	204.1	2.7%	10.2%
Concrete products (seasonally adjusted)	230.7	231.4	222.6	-0.3%	3.6%
Crude energy materials (seasonally adjusted)	223.6	225.9	242.7	-1.0%	-7.9%
Iron and steel (not seasonally adjusted)	234.2	233.0	223.9	0.5%	4.6%

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 22 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:

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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
- ▶ 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:

- ▶ Estates, Gifts and Trusts
- ▶ 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:

- ▶ High-Net-Worth Individuals
- ▶ Family Business Owners
- ▶ Large Corporations
- ▶ International Businesses
- ▶ Foreign Nationals
- ▶ Tax Exempt Clients

### ▼ Advisory

Marcum's Advisory Services division works with clients across a broad range of industries. The team's skilled professionals use their experience to help clients address and navigate complex business and personal issues including:

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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 also served as 2013-2014 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. 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 JOLT Survey analysis.

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