Skilled Worker Shortage Escalates

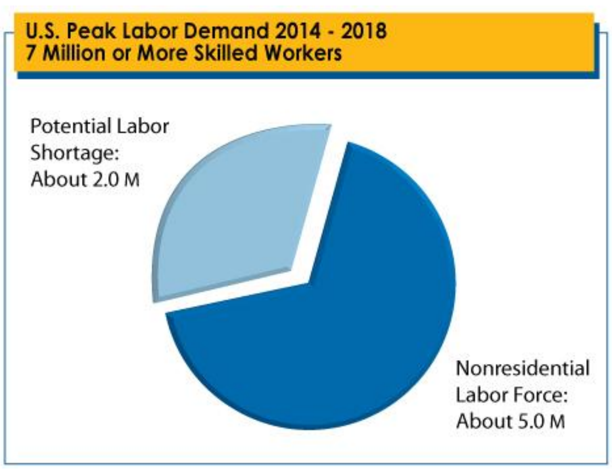
Industrial Construction Demand Outpacing Supply

Slow and steady...little by little, the U.S. economy continues to expand, which it has done in each year since its emergence from the Great Recession in 2009. During the nearly two-year downturn (December 2007 through June 2009), economic growth came to a screeching halt; however, by 2010, private sector investment rebounded, with consumer outlays showing signs of life in that year, too. Yet, the recovery has not been as robust as is typically seen with post-recessionary expansions. Instead, businesses remained wary during the initial years, while at the same time, consumers were restrained by sluggish improvement in hiring and a still-wounded housing market. Then, once confidence finally returned, the public sector made widespread spending cuts and subsequently raised taxes. While these factors have slowed the pace of growth, the resilience of the U.S. economy has persevered, as it has done time and time again. In fact, by 2013, the financial market outperformed expectations and the housing market surged, resulting in an uptick in economic growth during the latter half of that year. Looking ahead, though, an unusually harsh winter, post-holiday inventory adjustments, health care uncertainties, and Federal Reserve actions may result in some short-term easing early in 2014. That said, fundamentals remain strong and the outlook is positive for the second half of the year and beyond.

The construction sector is largely driven by economic trends, yet it is a lagging industry, such that when changes in the economy occur, their effects on construction volumes typically surface in later periods. For instance, when the economic recovery began in late 2009, solid growth in nonresidential construction activity was not evident until the end of 2011 and 2012. When the sequestration and tax hikes impacted both public and private sector investment at the start of 2013, the effects on construction spending did not fully emerge until year-end. But the forecast is bright and in light of the lag, it is anticipated that the uptick in economic growth in the latter half of 2013, coupled with a release of positive indicators early in 2014, will result in a continued rise in construction volumes throughout the year. In particular, the lodging, office, commercial, gas, and manufacturing categories have been and should continue to be among the strongest performers. Still, some volatility should be expected as businesses and consumers adjust to near-term concerns and uncertainties.

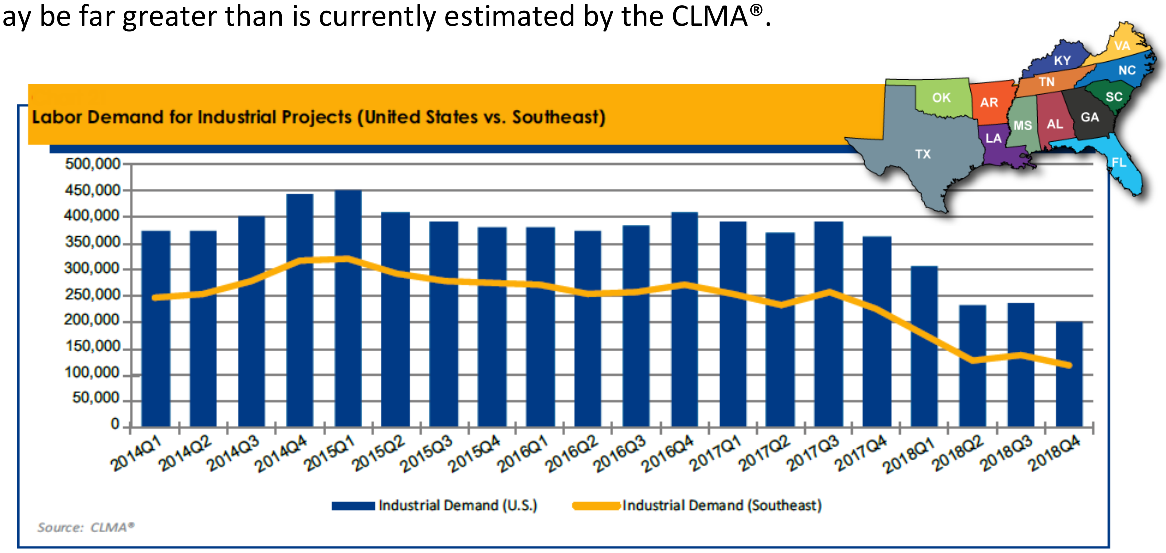
Construction was among the Great Recession's most unfortunate victims and when overall unemployment peaked at 9.6% in 2010, unemployment in the construction sector surged to more than 20%. With plummeting construction volumes and rising unemployment, many workers left the industry, opting for retirement or jobs in other industries perceived to be more stable. The result was a severely diminished labor force, which today, remains far below pre-recessionary levels. During the downturn, the industry failed to prepare for the growth ahead and did not invest in retention, recruitment, and training programs. Yet growth in activity, while sluggish and volatile at times, has resumed and already, contractors report of staff shortages, as well as labor-induced cost increases and project delays and cancellations.

As reported in the "Spring 2013 20/20 Foresight Report," concerns of further weakening of the construction labor force are valid, as an estimated one-sixth of workers will age and retire in the years ahead. However, the pipeline of construction projects is expanding and competition for labor from other industries, such as oil and gas, is intensifying. Fortunately, industry has increased the availability of skilled workers; however, the construction sector must continue to replenish the labor supply with well-trained and talented workers. Failure to act means that staff shortages far more grave than have already surfaced thus far should be expected.



The nation's nonresidential construction labor force currently stands at about 5.0 million workers. While up slightly from last year, in remains down from an approximated six million prior to the Great Recession. However, the Construction Labor Market Analyzer® (CLMA®) estimates that at least 5.6 million skilled workers will be in demand toward the end of this year for planned industrial and non-industrial projects, rising to 6.1 million or more as soon as next year. Looking ahead, labor demand is only expected to intensify and with the CLMA®'s five-year pipeline valued at \$2.3 trillion (including an industrial pipeline of \$473 billion), a peak of 7.0 million workers will be needed by 2018. Nearly all key trades will face rising demand and without an increase in the available supply; ***a deficit of at least two million tradesmen continues to be a major challenge***. And with further demands for skilled labor from unidentified construction projects and from continued development in oil and gas, the realized shortage may be far greater.

Much of the anticipated growth in construction activity is expected to occur in the southeastern United States and within a thirteen-state region, the CLMA® forecasts $968 billion in nonresidential construction projects to come to fruition within the next five years (including $313 billion in planned industrial activity). Gulf Coast states, such as Texas, Louisiana, and Florida, should be particularly active, with future volumes to be driven largely by oil and gas development and related activities, as well as industrial and commercial growth. In Texas alone, nearly $229 billion in nonresidential construction is planned to occur within the next five years. In Louisiana and Florida, another $153 billion and $137 billion, respectively, is scheduled. Within the Southeast, these three states are projected to be among the greatest generators of skilled labor demand (along with Georgia, North Carolina, and Virginia). For instance, Texas will single-handedly reach a projected need of more than 600,000 workers in 2016, followed by a peak need of 725,000 workers by 2018. Regionally, an estimated peak demand of more than three million workers will develop in the Southeast within the next five years. Again, when unidentified projects and competition from other industries are factored in, the demand for skilled labor may be far greater than is currently estimated by the CLMA®.



A major driver in the increased construction activity in the southeastern United States is the widening of the Panama Canal. Both Miami and Savannah have undertaken massive projects to deepen their ports. Additionally, construction of the Miami Port Tunnel, which will facilitate a higher volume of trucks to the port, is nearly completed. A confluence of other factors has fueled industrial construction activity in the southeast: the presence of right-to-work states, affordable natural gas, favorable tax climates, and growing economies of scale around seaports. Admittedly, office market progress in the southeast has lagged behind. Though Nashville, and especially Houston, seem to have thriving office markets, progress in the rest of the region has been slow to develop.

In order to successfully navigate the risks that lie ahead, prudent planning will be essential among owners, contractors and other industry stakeholders. To do so, the CLMA®, a state-of-the-art tool that marries planned industrial and non-industrial project data with specific demands for skilled crafts, has become an increasingly crucial component of the management toolbox.