

Skilled Worker Shortages Emerge

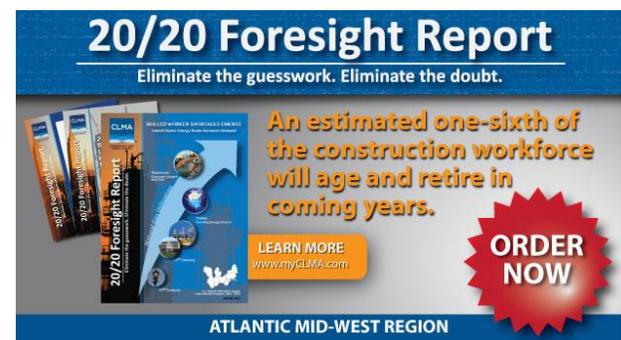
Marcellus and Utica Gas Plays Driving Demand

Tough choices – recession, recovery, significant expansion, or collapse. Though the nation is presently in its fourth year of economic recovery, uncertainty continues to permeate the economic outlook. Factors impacting the economy are working in completely different directions, including positives such as an ongoing energy boom, stable industrial production, corporate profitability, a booming stock market, active consumers, job growth, low interest rates and a rapidly improving housing market; and negatives such as sequestration, higher taxes, unpredictable energy policies, lack of clarity regarding the impacts of the Affordable Care Act, weakness in Europe, provocations from North Korea, instability in the Middle East and stubbornly high unemployment.

For now it appears that slow and steady is the new normal. Still, the pullback in government spending, including in the form of public investment, continues to threaten near-term economic growth, especially if the stock market begins to give back some of its recent gains. That said, business fundamentals remain strong and corporate profitability remains lofty. With a considerable level of cash on hand, banks certainly have the capacity to lend more and corporations have the capacity to borrow and invest more, but will they?

All of this will shape the trajectory of activity within the nation's construction sector, which is particularly susceptible to economic vicissitudes. Since nonresidential construction activity tends to lag the state of the economy at any given moment, the implication is that since the U.S. economy has continued to expand slowly since the end of the Great Recession in June of 2009, nonresidential construction activities will also continue to recover only gradually. The residential component of the industry, however, follows a much different timing cycle, and is presently in the midst of what appears to be a reasonably well sustained, surprisingly brisk expansion.

Interestingly, it's not even clear whether construction can handle a vigorous expansion cycle. The industry was arguably harder hit than any other during the Great Recession, resulting in many projects that had been in the development pipeline to be postponed or canceled, leaving many workers, including those of specialty trade contractors, without jobs. Facing prospects of long-term unemployment, many workers left construction for industries that were either less impacted by the Great Recession or which began to recover on a more timely basis, including retail, distribution, assembly and a myriad of service categories. At the same time, many young people have eschewed the industry, considering it to offer less glamour and to be associated with high rates of unemployment. While the construction industry probably should have used the downturn as an opportunity to retrain workers and to improve its image among young labor market entrants, the industry merely licked its collective wounds, leaving open the possibility of large skills shortages in the future.



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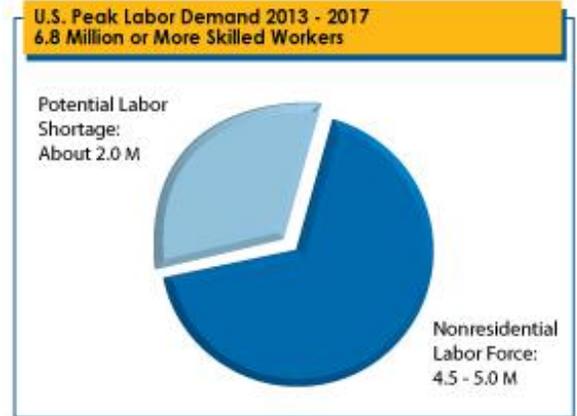
What's included in this report...

- National and regional macroeconomic construction perspective (2013-2017)
- Regional labor demand scenarios by state
- Regional gap analysis by craft and state
- Worker demographic trends
- Oil and gas play analysis
- Raw demand data in table format

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In certain business segments and geographies, that future has already arrived. Today, as the development pipeline once again expands, the industry is confronted with an insufficient pool of experienced labor; a pool that will be further diminished as ***an estimated one-sixth of the construction workforce ages and retires in coming years.*** For rapidly expanding segments such as oil and gas, the lack of sufficient numbers of skilled workers threatens industry expansion and therefore the broader U.S. economy. Widespread staffing concerns have already developed among contractors and owners and while some may be forced to abandon projects, others may choose to settle for rising costs in order to compete for labor. Unless proper training and efforts to refill the skilled labor pipeline are put into place, these difficulties will only be exacerbated during the years ahead and efficient project execution will be challenging. More than ever, prudent planning is essential.

The nation's nonresidential construction labor force currently stands at between 4.5-5 million, down from an estimated 6 million prior to the Great Recession. Upwards of five million skilled workers will be in demand toward the end of this year for planned industrial and non-industrial projects as estimated by the Construction Labor Market Analyzer®. Furthermore, with the CLMA®'s five-year pipeline valued at \$2.3 trillion (including an industrial pipeline of \$542 billion), a peak of more than 6.8 million workers will be needed by 2017. All key trades are facing rising demand and without an increase in the supply of available craftsmen, ***a deficit of at least two million tradesmen will quickly emerge,*** underscored further with the increase in demand for skilled labor from the oil and gas industry.



Until recently, energy production was associated with states such as Alaska, North Dakota, Texas, Louisiana, and Oklahoma. Today, however, new technologies and discoveries of the Marcellus and Utica shale formations has led to large-scale oil and gas development in the Mid-Atlantic and Mid-West regions. Also in these regions, renewed interest in American-made goods and other factors has resulted in a strengthening manufacturing sector. As such, the "Atlantic Mid-West" will likely see further gains in construction activity. In fact, the CLMA®'s current project database suggests that the Atlantic Mid-West states will see an estimated \$518 billion in total nonresidential construction activity during the next five years. States such as New York, Illinois, Ohio, and Pennsylvania should be particularly active, with oil and gas development to drive much of it in Ohio, Pennsylvania, and West Virginia. And elsewhere in the Atlantic Mid-West, growth in manufacturing and related industrial sectors should fuel future growth.



New York has seen (and will continue to see) a rise in its construction market share within the region with \$157 billion in planned nonresidential construction activity anticipated for the state through 2017, according to the CLMA®. Elsewhere, growth is evident in Pennsylvania and Ohio also which are each expected to see upwards of \$60 billion in project volume during the same period. These states will likely be among those to see the greatest demand for labor in the coming years. In fact, the CLMA® estimates a need for nearly 300,000 workers in New York; and in Ohio and Pennsylvania, labor demand is projected to peak at 224,000 and 210,000, respectively. Regionally, an estimated peak demand of 1.5 million workers will develop in the

Atlantic Mid-West within the next five years, which will likely escalate further as the CLMA®'s database grows. However, with sub-par population growth and a slowly expanding construction workforce in the Atlantic Mid-West, there is concern that there will be an insufficient supply of workers to accommodate the rise in demand.

There was a time when low prices and bids determined who the most successful contractors would be. While cost and price will always matter, the future of competition will increasingly be along the dimension of human capital. Owners and contractors need to consider this dimension carefully as they attempt to maximize profits and/or minimize costs. Thankfully, a better way to plan is available through the CLMA®, a revolutionary solution that marries planned industrial and non-industrial project data with specific demands for skilled craftspeople and available supply. This represents an increasingly important aspect of the construction industry's managerial toolkit.

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