

LABOR SHORTAGE –CAUSE FOR CONCERN IN THE CONSTRUCTION INDUSTRY



By Richard Riccardi, *Grassi & CO., CPAs*

The construction industry is unlike any industry in the world, it has many components and variations in building methods and forms, from union/nonunion to construction manager/general contractors to subcontractors. However, there is an issue that is impacting every company in the industry regardless of their type and that is the current labor shortage. According to a 2015 survey by the Associated General Contractors of America, 86% of construction firms are having trouble filling available positions. Industry leaders have attributed the shortage to an increase in green lit construction projects, an aging workforce, an identity crisis for younger talent, and the challenge of replacing and/or recruiting talent quickly enough to fill empty slots. The hardest positions to fill are carpenters, sheet metal installers, concrete workers, project managers, and supervisors.

Based on a 2016 report from Dodge Data and Analytics, the construction industry has risen by 6% to \$712 billion nationally (which also includes previous increases of 13% in 2015 and 9% in 2014). As a result, there have been approximately 250,000 jobs created in the construction industry nationwide in the past year alone from March 2015-April 2016, according to the U.S. Bureau of Labor Statistics.

This increase in available jobs, unfortunately, does not coincide with the availability of labor—there are currently not enough tradespeople or skilled laborers available and necessary to complete high-profile construction projects. Millennials, which is the largest group in the labor force, are pursuing venues of higher education (rightfully so) and looking for more tech-savvy careers in “white-collar” environments rather than entering into industries that provide opportunity for instant entrepreneurialism and middle market salary structures. Although construction companies have been diligently trying to adjust their processes to attract a younger workforce by strengthening safety protocols to help reduce the risks associated with labor intensive work (such as stronger harnesses, steadier scaffolding, light-weight equipment and materials), embracing technology and inventing new ways to build daily, it hasn’t been enough to tip the labor scales.

According to a Bloomberg Report, the percentage of construction workers aged 45-54 increased from approximately 23% of the workforce in the first quarter of 2000 to 34% of the workforce in the fourth quarter of 2013, while the percentage of construction workers aged 19-24 decreased from 14% in the first quarter of 2000 to 10% in the fourth quarter of 2013. Further, the [U.S. Bureau of Labor Statistics](#), states the median age of construction industry workers is 42.8, with workers under 34 accounting for less than one third of the total workforce.

As a result of the shortage and increased demand, 56% of firms are increasing the base pay of the workers to entice them to stay and to recruit other qualified workers. In addition to higher wages, the labor shortage is also delaying projects and skewing timeframes to complete work. When contractors are prospecting potential projects to bid, labor issues are an intangible cost that now needs to be considered. Project estimators and managers need to consider factors such as when the work can be done, how long the work will take, and increasing costs to be incurred to complete the work. Increased labor costs will need to be factored in due to inefficiencies of the workers, higher wages due to the demand, and potentially more overtime pay due to inability to get the workforce needed to complete a project in a specified timeframe. This will all be resulting in higher bid amounts.

While the growth in the construction industry has been good for the economy, it is progressing faster than the growth in the interest in the industry. This issue has been growing for the past couple of years and could continue to create havoc for management and owners in the future as they struggle with succession planning and growing their businesses. The skilled labor/job availability gap could get larger leading to the question of who can complete the highly skilled work? This dilemma is most likely not going to be put to rest any time soon.

For more information about the construction industry, contact Richard Riccardi, CPA, CCIFP, Audit Supervisor, at rriccardi@grassicpas.com.