FOREWORD

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CFMA's Annual Financial Survey is a unique resource: No other product provides such detailed financial and operating information about contractors, let alone the variety of cross-tabulations by industry segment, company size, and other characteristics.

However, many contractors can also benefit from information that cannot be collected at the company level. So, this Foreword presents an overview of the role construction plays in our national economy, with comparisons to CFMA survey results where appropriate. In addition, several major data sources of interest to contractors and their staffs are also presented.

National Overview

Construction is a significant source of jobs: The industry provides jobs for 7.6 million employees – more than 5% of the total nonfarm workforce. In contrast to the steep decline in homebuilding, nonresidential construction employment increased at least 1% from September 2006 to September 2007. (The actual increase is likely much greater, because many employees who are still counted in the residential sector are now doing nonresidential work.)

However, continued growth in nonresidential employment may be difficult. Two-thirds of the respondents to this year's Hot Topic on Field Personnel Recruiting and Retention reported a labor shortage for field personnel and 98% expect a future shortage.

Construction jobs are good-paying jobs: In September 2007, seasonally adjusted hourly earnings in construction averaged $21.08 per hour, a 4.5% increase over the September 2006 average and 20% higher than the average for all private-sector production and nonsupervisory workers.

In addition, construction pay may accelerate. Respondents to this year's Hot Topic who expect to raise pay rates in the coming year report an average raise of 5.1% for craftsmen, 5.2% for foremen, and 5.3% for superintendents.

Construction makes a disproportionately large contribution to our GDP: The value of construction put in place in 2006 totaled $1.2 trillion – 9% of our gross domestic product (GDP). Residential spending totaled $647 billion; nonresidential spending was $545 billion.

Construction is a substantial purchaser of U.S. manufactured products: In 2006, shipments of construction materials and supplies topped $500 billion – nearly 11% of total U.S. manufacturers' shipments. Shipments of construction machinery totaled $36 billion – 11% of all U.S. machinery.

Materials costs are a major problem: From December 2003 to September 2007, the producer price indices (PPI) for inputs to construction jumped 30%, more than double the 13% rise in the CPI. (CFMA's 2006 Hot Topic on Material Shortages and Price Escalations cited steel, cement, diesel fuel, and other petroleum-based products as the top four national price escalations.)

The typical construction company is very small: In 2005, there were 788,000 construction "establishments" with 6.8 million paid employees, plus more than two million companies without paid employees – mainly self-employed individuals, but also partnerships and holding companies. Thus, average employment was less than nine individuals per establishment. (An establishment is a permanent business location, so most construction companies have only one establishment.)

Small business is big in construction: In 2005, 91% of construction establishments had fewer than 20 employees, and only 1% had 100 or more.

In 2002, 98% of construction companies had less than $10 million in receipts, 2% had receipts of $10-50 million, and only 0.4% had receipts of $50 million or more. Not surprisingly, participants in CFMA's 2007 survey were much larger on average: 17% had revenue of $10 million or less, 39% were in the $10-50 million range, and 44% had more than $50 million in revenue.

Construction is a low-margin industry: IRS figures for 2004 show that the 722,000 corporations in construction had net income (less deficit) of $47 billion, or 3.7% of total receipts of $1.3 trillion. That was considerably below the all-industry average margin of 4.9%.

CFMA survey respondents averaged net margins before income taxes of 1.8% in the 2005 survey, which generally covered the same year as the IRS data; they averaged 2.4% in the 2006 survey and 2.7% in the 2007 survey. Best in Class companies averaged margins of 8.1% in the 2007 survey.

The lower margin in the 2005 CFMA survey compared to the IRS report may reflect the latter's large number of residential contractors who experienced high demand in 2004. (These contractors typically achieve higher margins because they do not have to bid competitively or negotiate with business owners.)

Margins rose for most contractors in the two latest CFMA surveys, reflecting stronger nonresidential demand, but fell in the 2007 survey for specialty trade contractors, perhaps reflecting weaker homebuilding conditions.

Construction is a high-turnover industry in terms of entering and exiting companies: Census data prepared for the Office of Advocacy of the Small Business Administration (SBA) shows that 99,000 (16%) of the 630,000 construction companies with employees in 2004 had no workers in 2003, while 77,000 companies closed.

Additional Data Sources

Construction Spending

Each month, the Census Bureau provides detailed figures on the total level of construction spending *(www.census.gov/constructionspending).* Press releases from the Bureau break nonresidential construction into 16 segments, and its Web site provides greater detail on these segments, as well as subtotals for new single- and multi-unit residential construction.

Two private vendors produce estimates of construction starts: McGraw-Hill Construction *(www.construction.com)* and Reed Construction Data *(www.buildingteamforecast.com).* The Bureau of Economic Analysis (BEA) provides quarterly estimates of investment in structures as part of the GDP estimate *(www.bea.gov).* Unlike the data above, the BEA provides estimates in "constant" or inflation-adjusted dollars.

Materials Costs

The Bureau of Labor Statistics (BLS) issues monthly estimates of PPIs and changes from one and 12 months ago *(www.bls.gov/ppi).* Press releases from the BLS include the PPI for construction materials and components, and its Web site includes thousands of indices for specific commodities, plus a separate extensive list of industry-specific PPIs.

One construction-specific PPI covers material and supply inputs to construction industries, with separate weightings for highway and street construction; other heavy construction; nonresidential buildings; new multi-unit and single-unit residential construction; and nonresidential and residential maintenance and repair.

In addition to the materials and components that go into projects, these indices also include items consumed by contractors, notably diesel fuel. Like the commodity indices, these PPIs measure costs at the producer's point of sale, such as a loading dock. In contrast, the PPIs for completed schools, warehouses, offices, and industrial buildings measure what a contractor charges to assemble a specified set of components or modules into a completed structure, including labor, overhead, and profit.

ENR publishes actual prices for several dozen materials in 20 U.S. cities each week, as well as three indices covering construction, building, and materials costs *(www.enr.com).* Historical data back to 1913 is available for purchase.

Labor Costs

The BLS provides several measures of construction labor costs *(www.bls.gov).* The monthly employment report lists the number of employees, and includes estimates of average hourly and weekly earnings for "nonsupervisory or production workers."

Quarterly reports on employer costs for employee compensation show average wages plus nonwage costs (health, life, and disability insurance; retirement; paid time off; and employers' payments for employment taxes and workers' compensation). Another series shows "occupational pay relatives" in 78 metro areas: The average annual pay in construction and extraction occupations is compared to the eight other occupational groups in each area and other metro areas.

PAS, Inc. sells surveys of salaried employees by occupation and geographic market, in addition to non-union labor pay rates by craft and location *(www.pas1.com).* The Construction Labor Research Council provides reports for a fee on union labor pay rates by craft and location (clrc@erols.com).

Employment Trends

The monthly employment report from the BLS includes employment data for five major construction categories: residential and nonresidential building, specialty trades, and heavy and civil engineering construction *(www.bls.gov/ces).* Press releases from the BLS include an estimate of the unemployment number and rate for people who last worked in construction. The BLS also issues a report on employment by state and metro area.

The Census Bureau's County Business Patterns reports annually on the number of employees in construction companies by state, county, and metro area *(www.census.gov).* More up-to-date information on the 10 largest counties in the U.S. is available from a quarterly BLS report.

Every two years, the BLS issues projections of employment by industry and occupation for the coming decade. The latest report covers 2006-2016.

Financial & Size Data

The IRS publishes aggregate data for corporations by industry, but with a long lag time *(www.irs.gov/taxstats).* For example, about 80 balance sheet and income statement items are available for three construction specialties for 2004.

The Census Bureau's County Business Patterns also reports on the number of construction establishments, divided into numerous employment size classes. Its Web site details numerous construction segments and establishment counts by state, metro area, and county. The Bureau also reports annually on nonemployer businesses.

The SBA's Office of Advocacy periodically provides analyses of construction trends, including company size data from special Census tabulations and data from the IRS on the number of sole proprietorships by gender.

Getting It All Together

Few people in construction have time to check all of these data sources, understand their distinctions and limitations, or keep current on changes and introductions of new information. The AGC offers two resources to help with this information overload.

The AGC distributes a weekly one-page e-mail, The Data DIGest, that summarizes the latest information from each of these sources and numerous others *(www.agc.org).* A monthly supplement includes tables and charts showing recent, historical, and cumulative changes in PPIs for about 50 construction materials, segments, and structure types.

Twice a year, AGC posts the Construction Inflation Alert, a report that combines, text, tables, and charts that discuss recent history and prospects for future cost increases. Occasional supplements provide a one-page set of bullet points on the role of construction in the U.S. economy, state fact sheets, PowerPoint presentations, and announcements of teleconferences on the outlook for industry segments and materials.

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