

Ready to Rebuild?

Construction Recovery Remains Elusive

By **Symone C. Skrzycki**

“Build it and they will come” is a popular and sometimes practical phrase. With the current economic downturn, however, they aren’t coming, which means less building is taking place.

That’s bad news for a construction industry that is vital to success in local communities and across the country. Nationally, it employs more people than any other sector except government and it’s the 12th largest segment of Indiana’s economy.

The recession and wavering recovery have left the industry bruised and battered.

Overall spending declined 14.4% between October 2008 and October 2009, according to the U.S. Census Bureau. Construction unemployment – which has soared to 18.7% (at the time this story was written) – is nearly double the overall national rate (10.2%) and higher than any major U.S. industry.

Among factors impeding recovery efforts are a shortage of projects (partially driven by the housing slump as well as lack of demand for new retail and commercial developments) and increased competition.

Help presumably arrived last February with the American Recovery and Reinvestment Act. The \$787 billion stimulus package allocated \$135 billion for construction and infrastructure investments. Just how significant an impact it will have, however, remains to be seen.

“Home building was kind of hit first and seems to have maybe bottomed out, but particularly on the commercial and industrial (sides), we don’t see a lot of light at the end of the tunnel yet,” asserts J.R. Gaylor, president and CEO of Associated Builders and Contractors of Indiana. “I’d say at this point, we don’t see much recovery until maybe late next year or 2011.”

Related challenges

Because builders and contractors work so closely with other industries, they are directly impacted by their business conditions.

“The manufacturers have laid (workers) off and are not building and expanding,” Gaylor maintains. “Most every indicator in the economy affects us directly because if there’s not building and not expansion, or if that’s slowing down, it obviously affects our people.”

John C. Lindemulder Sr. works in Alsip, Illinois (near Chicago), but lives in Dyer, Indiana (nestled just east of the Illinois border). In 1971, he acquired Amber Mechanical Contractors – a heating, ventilating and air conditioning company (better known as HVAC) – and later sold the business to his sons.

“The biggest challenge will be putting people to work,” he contends. “Anything that stands in the way of small business expanding and growing (such as difficulty obtaining loans to finance new projects and high taxes) is going to hurt employment. Right now, I don’t know a small business owner who isn’t running scared.”

Lindemulder, who serves as president of the board of directors of the Sheet Metal and Air Conditioning Contractors’ National Association, emphasizes that Northern Indiana was among the areas hit hardest by the recession.

“There are industries (steel making in Northwest Indiana and automobile manufacturing in Michigan) that have been hurt and when you rely on them, you’re going to hurt,” he stresses.



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*John C. Lindemulder Sr.
Sheet Metal and Air Conditioning Contractors’ National Association*

Ready, set, slow

Heated debate exists regarding whether the stimulus bill is delivering on its promise to help create jobs (in general and in the construction industry in particular). Critics argue that while federal spending may initially provide a much-needed boost, it's a short-term solution to a long-term problem.

The Transportation Construction Coalition, comprised of national associations and construction unions, contends that many jobs have been saved due to the \$27 billion earmarked for highway projects. Findings from a recent survey conducted by the group, however, show that the stimulus plan hasn't prevented widespread downsizing. Sixty-three percent of respondents cut jobs in 2009. This year, 44% anticipate layoffs.

Indiana will receive \$658 million in federal funding for transportation enhancement projects.

"On the public side, with the Indiana Department of Transportation (INDOT) and others, there have been some results from the stimulus funds," observes Harold Force, president of Force Construction Company, Inc., a full-service general contractor located in Columbus.

"That is driving an increase in available work in some cases, but it doesn't offset the decline in other areas. I think, more importantly, it's helping to preserve some of the jobs that are out there."

Gaylor notes that funding delays have stalled progress.

"Our overall concern is that a lot of the so-called stimulus wasn't really immediate stimulus dollars," he shares, "and that's bearing out because if it really was stimulus it would have hit some of our markets by now."

How Indiana stacks up

Like many states, Indiana has experienced a combination of construction successes and setbacks.

Between October 2008 and October 2009, for instance, job losses in Indiana's metropolitan areas reached approximately 20,000 (with employment levels dropping 13%), according to the Bureau of Labor Statistics.

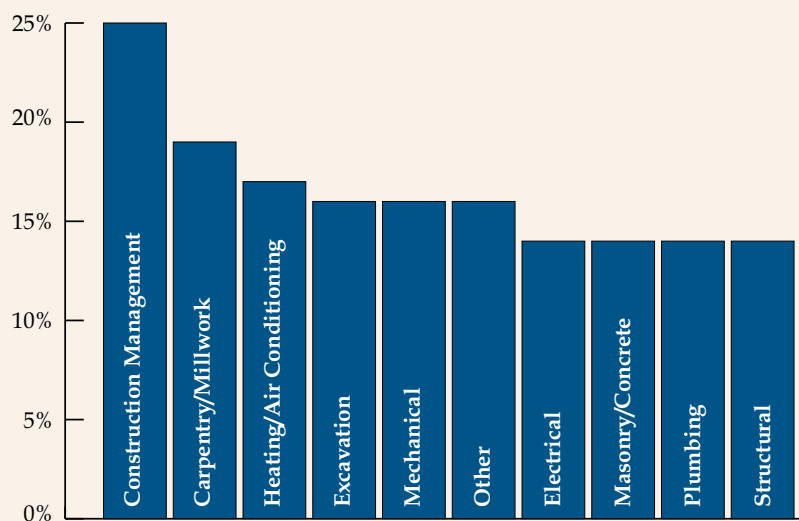
During that same timeframe, Kokomo's construction employment percentage decline (31%) was higher than any other metro area except Reno-Sparks in Nevada. Conversely, Columbus led growth nationwide (20%), while Anderson saw a 6% gain. Still, when combined with positions added in Pennsylvania, Oklahoma and Iowa (the only other states with communities experiencing growth) only 1,900 jobs were created.

Force – whose firm specializes in industrial, commercial and institutional building, as well as heavy highway construction and civil works (such as bridges and dam



Indiana Construction Industry Breakdown

(top responses)



Source: 2009 Indiana Construction Industry Annual Financial Performance and Salary & Benefits Survey conducted by Somerset CPAs, P.C.

structures) – considers Indiana's geographic location one of its greatest strengths.

"Central Indiana – Indianapolis in particular – is a transportation hub, certainly for truck, rail and air traffic," he reflects. "So that's a natural advantage."

Gaylor asserts that expansion of the state's manufacturing base is also important.

"As manufacturing has grown, it certainly has affected construction," he reflects. "Those two strengths were always tied together, and then of course, the construction health market has been strong up until the last year or so."

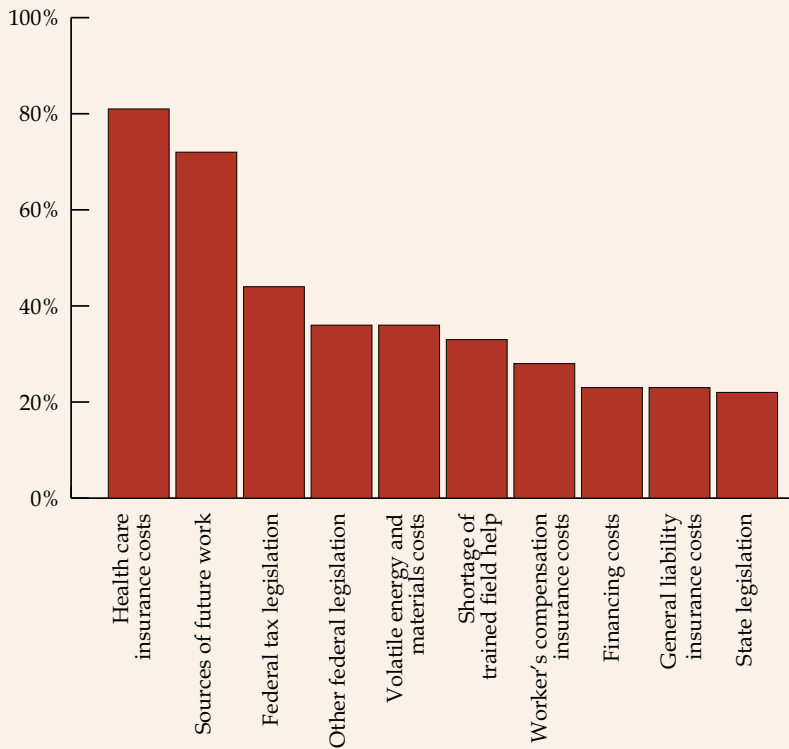
He cites the recent completion of several massive projects as an additional advantage.

"We've been blessed over the last four or five years with some major construction projects (including the new \$1.1 billion Indianapolis Airport, \$720 million Lucas Oil Stadium and Evansville's \$100 million-plus downtown arena) that have been very significant," he observes.

Charles V. Kahl, president of the Indiana Construction



Greatest Challenges Facing the Construction Industry (over the next five years)



Source: Somerset CPAs, P.C. survey

Association, agrees. He notes that large-scale endeavors provide jobs for people working in various segments (and sizes) of the industry.

“The smaller subcontractors are extremely important for maintaining or creating jobs,” he comments. “Think about the suppliers of the carpet, the flooring, the windows, all the electrical roofing materials. Those types of things are what many of the smaller subcontractors are able to perform.”

Receiving less attention, but also significant, are smaller projects taking place.

“Although the smaller communities around the state might not have the mega projects, they have their own projects that are relatively important as far as the size of those communities,” Kahl adds.

Looking ahead

Although he doesn't foresee recovery beginning until later this year, Kahl is optimistic about Indiana bouncing back.

“On the highway side, with the INDOT work volume as a result of the stimulus funding and the governor's Major Moves program, I think Indiana is in a better position than many, if not all (other states),” he declares.

“Even though the commercial building market is very similar to the other states, I think we're better positioned to come out of this quicker because we don't have a big state government debt hanging over our heads like (many) other states. That will cause the governments to raise taxes in those other states.”

Gaylor also remains optimistic despite hardships, which include reduced work volume (“The contractors are telling me their volume of work is down 20 to 30% from a year ago,” he reports).

“The recovery isn't going to bounce back quickly,” he contends. “It's going to be very gradual.

“We're holding our own. We're in a cyclical industry. I guess the upside to all of this usually is that everyone learns to be more efficient and cost effective, and that ultimately makes good companies stronger.”

Kahl sums it up: “Time and strong fiscal discipline is what's going to be needed for companies to survive this downturn.”

INFORMATION LINK

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