Ultra-low construction unemployment a drag on state economy

Unemployment rate among Colorado construction workers is half that of the national

November 6, 2016

Nowhere are construction workers in shorter supply than in Colorado, where the shortfall has left the state unable to keep up with population gains and vulnerable to losing its economic momentum.

“We are at full capacity as to what we can build,” said Michael Gifford, president and CEO of the Associated General Contractors of Colorado. “We could do a lot more construction, but we have a limiting factor.”

Colorado’s construction unemployment rate was 2.4 percent in September, followed by South Dakota at 2.9 percent, according to counts from the Associated Builders and Contractors (ABC).

Nationally, the official construction unemployment rate was 5.2 percent in September, according to the U.S. Bureau of Labor Statistics.

Until this current cycle, Colorado last claimed the country’s lowest construction unemployment rate in 2000 and 2001, according to Bernard Markstein, chief economist of Markstein Advisors, who helps the ABC craft state-level estimates of construction unemployment.

Back then, heavy hiring in tech and telecom drove a big construction surge. Not long after the dot-com boom went bust here, states such as Arizona, Nevada and Florida saw home construction accelerate, with damaging results.

More recently, North Dakota, a lightly populated state trying to keep up with a surge in oil and gas drilling, claimed the title for tightest construction market. But falling oil prices resulted in big layoffs and rising unemployment.

Displaced workers quickly left the state, however, allowing North Dakota to again claim the low mark for construction unemployment in July and August, said Jeff Leieritz, an ABC spokesman.

In September, Colorado reclaimed the title and appears likely to hold on to it. But that isn’t necessarily a good thing, for several reasons, experts said.

An aging construction workforce, too few young adults entering the skilled trades, reduced migration by construction workers and wages that lag rising living costs are all contributing to the shortfall. And none of those trends are easy to reverse.

Neglecting its own

Back in the summer of 2001 there were 176,100 construction workers on Colorado payrolls and the state's construction workforce peaked again at 176,900 in the summer of 2007, according to labor statistics.

In September, there were 172,600 construction workers on employer payrolls — the closest Colorado has come to previous peaks.

The big difference now is that the state has 1.1 million more people than it did back in 2001. And hidden within those peaks was a very steep valley following the housing downturn and recession.

Colorado employers began shedding workers in the summer of 2007, cutting more than 74,000 construction jobs by February 2011, dropping the total to 102,700. Construction unemployment in the state hit a depressionlike rate of 15 percent in September 2010.

"We did chase off a fair amount of people in the industry that didn't come back," said Michael Smith, executive director of the Colorado Construction Institute, a Denver program designed to let people test careers in the skilled construction trades.

Employers made the deliberate choice to hold on to older and more skilled workers, booting younger and greener employees. Many of those dislocated construction workers, regardless of age, moved to other careers.

Construction workers in 2013 were 42 years old on average, about a year older than the overall workforce, according to the U.S. Census Bureau.

As those workers continue to age, the appeal of a less physically demanding job, or just retiring, grows. Employers have paid their aging workers more money to keep them around, but that only speeds up how soon they can retire.

"The silver tsunami is definitely an issue," said Cori Gerlitz, executive director at the Construction Industry Training Council of Colorado, which runs apprenticeship programs in the commercial construction trades.

The construction industry is attracting only one new worker for every three older workers it is losing, Gerlitz said. That means regardless of how much they might lift pay, contractors could one day find workers with the skills they need simply aren't there.

Remaining relevant

Smith recalls asking a gathering of educators and parents if they considered construction and manufacturing part of the advanced workforce. Most of the hands in the crowd of 400 shot up.

He then asked how many would want their children to enter those fields, and almost all of the hands came back down.

“We have stigmatized working with your hands,” Smith said.

Students continue to get the message that they should go to college, even if it means taking on heavy debts and they have no direction on what they want to do as a career. U.S. student loan debt now stands at $1.26 trillion, a 350 percent increase from 2005.

The burden traps many young adults from retooling to pursue other career options, and the construction industry is increasingly paying workers to obtain the skills needed.

If a contractor finds a general laborer with good potential, who has a strong work ethic and the ability to get along with others, they are increasingly willing to cover some or all of the costs for them to apprentice in a trade, Gerlitz said.

Colorado legislators, trying to address the worker shortfall in manufacturing, construction and transportation, passed the WORK Act in 2015. The state is providing $10 million in outreach efforts to get workers interested in those fields and improve training programs.

Smith said all the training programs in the world, whether paid for by employers or with government grants, won’t help if young people don’t consider construction a career field they can — or want to — engage in.

The industry has managed to relaunch training programs in some high schools. A big emphasis is now placed on pre-apprenticeships, which help people learn about construction jobs and test if they are a good fit before making a deeper commitment.

Smith said his program has strong interest among adults in their late 20s and 30s, some with college degrees, who are struggling to make a living in low-paying service jobs. But the industry ideally would like to recruit students coming out of high school as they decide on moving into a career or pursuing a college education.

“We are trying to get people right out of high school,” Gifford said. “That is what we are going to have to do.”

Not moving for work

Colorado has found a way to draw highly skilled white-collar workers, from scientists to engineers, from all over the country, filling gaps in its labor force and in turn drawing in employers.

But attracting construction workers hasn’t come so easily. In New Mexico, construction unemployment was running 8.6 percent in September, the second-highest rate in the country and nearly four times as high as Colorado’s rate.

Pretty much any skilled trade worker willing to drive 450 miles up Interstate 25 from Albuquerque to Denver could find work. But New Mexico’s construction unemployment rate remains stubbornly high and as recently as March was a dismal 14.2 percent.

Gifford said his group invested heavily in online advertisements to recruit in Las Vegas and Detroit, cities with a large number of idle construction workers. The response was underwhelming.

One reason could be that unemployed construction workers who land in metro Denver are likely to face higher housing costs than the places they are leaving behind. And despite increases, construction wages, like wages overall, have failed to keep pace with living costs.

"We don't have enough working-class housing. It is a challenge," Smith said.

Back in 2007, the average hourly construction wage in Colorado was $23.49. This year it is averaging around $27.49 an hour through September. That may look like a big pay hike, but in inflation-adjusted terms, that 2007 wage would be about $27.35 per hour.

One irony of the construction labor shortage is that it is driving up housing costs, making it even harder to attract the workers required to prevent housing prices and rents from spiraling higher.

Metro Denver now has some of the highest rents and home prices of any city not located on a coast. Vacancy rates for affordable apartments in the suburbs run in the 2 percent to 3 percent range.

When faced with employee housing shortages, ski resorts provided subsidies for affordable housing and oil and gas companies provided housing directly.

The construction industry hasn't given that idea serious consideration, Gifford said. Yet, when it comes to providing housing to make it easier for needed workers to relocate, no industry is better positioned.

Why it matters

Construction worker shortages are adding weeks and months to the time it takes to complete apartments, homes, hospitals, hotels, corporate headquarters, highways and so on. Everything costs more to build, and a lack of new supply is pushing up prices on existing properties from homes to warehouses.

Families in turn are having to devote a larger share of their incomes to housing, leaving them less to spend elsewhere in the economy and more vulnerable in a downturn.

Also, the labor market mismatch means young workers toil in low-paying service jobs when they could be earning a middle-class wage that allow them to move forward with their lives, Gifford said.

But the shortages are forcing the industry to think long term and to cooperate on workforce development. And they are dampening the impulse to overbuild. That reduces the chances of a real estate glut, a contributor in the state's last two recessions.

If the industry can maintain a steady backlog of work it chips away at and avoid wild swings in employment, more young workers might commit to construction as a long-term career.

“We are driving the full-speed limit. We can’t go faster,” Gifford said. But going the limit also reduces the chance or severity of a wreck.