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THE NEW NORMAL

Facing the Challenges of Today's Labor Market

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CONSTRUCTING CONSTRUCTION AND LABOR

A. Background

—“The construction industry desperately needs qualified, skilled craft professionals to build America.”¹

Michael Bellaman, ABC President and CEO.

While we (hopefully) leave the COVID-19 pandemic behind us, the labor market for construction continues to follow trends from before the pandemic. As with many industries, construction continues to face problems associated with the supply chain. As of the end of 2021, 95 percent of contractors reported experiencing shortages of at least one building material.² The state of the labor market, however, is just as important as material. As of April, the open construction job count has jumped to a record-high of 449,000 unfilled positions.³ This is especially true for skilled construction labor where workforce growth rates have stagnated, even when compared to construction labor generally.⁴

The unemployment rate in the construction industry was 3.8 percent as of May 2022.⁵ As with most single variables, the unemployment rate alone does not tell the full story about what is going on. Whether because of societal trends or job conditions, the construction industry is experiencing a shortage of labor. This is concerning given the age trends of the skilled workforce. Construction workers aged 24 to 54 actually fell by 8 percent over the last decade, and more than one in five construction workers are older than 55.⁶ People entering the workforce, however, have a renewed interest in attending trade school, which would lead to an increased supply of labor in construction. Bonuses and mentor programs have helped construction companies combat industry turnover rates. Changes in construction technology and recruitment pathways can also ensure a solid labor population for the future of the construction industry.

B. Problems Faced

—“Construction, plumbing, electrical work, masonry and other trades have become jobs for ‘someone else’s kid.’”⁷

Greg Sizemore, vice president at Associate Builders and Contractors.

a. History

¹ [ABC: Construction Industry Faces Workforce Shortage of 650,000 in 2022](#)

² <https://www.uschamber.com/assets/documents/Q4-2021-CCI-Report.pdf>

³ <https://www.floordaily.net/flooring-news/construction-industry-hits-record-number-of-open-jobs> (sourced from <https://www.bls.gov/news.release/jolts.a.htm>)

⁴ [ABC: Construction Industry Faces Workforce Shortage of 650,000 in 2022](#)

⁵ <https://www.bls.gov/iag/tgs/iag23.htm>

⁶ [ABC: Construction Industry Faces Workforce Shortage of 650,000 in 2022](#)

⁷ <https://www.constructiondive.com/news/constructions-career-crisis-jobs-shortage-skilled-trades-work/608331/>

a shortage of skilled construction laborers exists throughout the United States. To meet the current demand for labor, one index estimates that the construction industry needs 650,000 additional workers beyond the expected hires for this year.⁸ Everyone, including contractors, feels this press for skilled laborers. In a recent U.S. Commerce Department report, 62 percent of contractors reported high difficulty in acquiring skilled workers, which is an increase of 20 percent year-over-year.⁹

The need for construction labor is not new. A construction labor deficit has existed for at least five decades, beginning with a shift in the U.S. economy¹⁰ As the country transitioned from an industrial to a service-based economy, academia began to push students to universities and away from trade schools and on-the-job apprenticeships.

Students and their families began to think that construction labor was a less valuable form of work than a job that required a degree, which artificially devalued trade school education¹¹ Federal funding reflects this belief: Today the federal government spends only \$1 on career training for every \$6 on college prep.¹²

b. The Great Recession

As with most sectors of the economy, the Great Recession contracted the construction labor market. From a high of 7.7 million employees in 2006, the industry had shed 2.1 million workers by 2011.¹³ Unlike the rest of the market, however, construction stands out because of an extremely slow return to its workforce. Recently reported labor numbers for construction, while close to 2006 levels, still have not exceeded the record set in 2006, partly because many construction workers left the market and never returned after the Great Recession.¹⁴

The labor force issues in general construction increase exponentially for skilled labor. From 2011 to 2022, the number of total construction workers increased only 24.7 percent.¹⁵ Looking at specific classes over the same period, the number of electricians increased only 23.9 percent, managers 2.1 percent, and carpenters actually declined by 7.5 percent.¹⁶ The reduction of skilled workers decreases apprenticeship opportunities on the job, which is particularly concerning since apprenticeships are traditional solutions for any skilled-laborer shortage.¹⁷

⁸ [ABC: Construction Industry Faces Workforce Shortage of 650,000 in 2022](#)

⁹ <https://www.uschamber.com/assets/documents/Q4-2021-CCI-Report.pdf>

¹⁰ <https://news.yahoo.com/the-labor-shortage-is-nothing-new-for-the-construction-industry-morning-brief-090915567.html>

¹¹ <https://www.constructiondive.com/news/constructions-career-crisis-jobs-shortage-skilled-trades-work/608331/>

¹² <https://www.npr.org/2022/03/28/1086454046/2-year-skilled-trades-programs-booming>

¹³ <https://www.constructiondive.com/news/constructions-career-crisis-jobs-shortage-skilled-trades-work/608331/>

¹⁴ <https://fred.stlouisfed.org/series/USCONS>; https://hbi.org/wp-content/uploads/HBI_Fall_Construction_Labor_Market_Report.pdf

¹⁵ [ABC: Construction Industry Faces Workforce Shortage of 650,000 in 2022](#)

¹⁶ [Id.](#)

¹⁷ https://www.researchgate.net/profile/Anil-Baral-2/publication/358336336_Impact_of_COVID-19_on_the_Diversity_of_the_Construction_Workforce/links/6256fb274173a21a0d0f91ac/Impact-of-COVID-19-on-the-Diversity-of-the-Construction-Workforce.pdf

Even trade schools face labor shortages. Trade schools usually hire retired professionals as teachers.¹⁸ The shortage of construction workers has caused a scarcity of teachers entering trade schools.¹⁹ This creates a cycle, restricting the capacity of trade schools and, in turn, the number of new skilled workers that they can train to enter the industry.²⁰

c. Covid

Thankfully, the COVID-19 pandemic had a smaller negative impact on the labor paucity than the Great Recession did. According to data from the CES survey, the virus-induced recession caused a 12.2 percent decline in construction employment between April 2020 and April 2021.²¹ While the demand for labor decreased in the initial months of the pandemic, the employment level began climbing immediately after its lowest point in April 2020.²² As with the Great Recession, however, the COVID-19 pandemic caused a more substantial reduction in the skilled labor force. Faced with the economic uncertainty, skilled workers decided either to retire or switch industries.²³ As such, even when the labor market experienced pandemic-related layoffs, demand for skilled workers actually increased.²⁴

d. The Great Resignation

In addition to the decline in construction workers at the beginning of the pandemic, exodus from the construction industry has been increasing since the outset of 2020. In April, the attrition rate for the entire economy hovered at 3 percent. That is nearly as high as the highest attrition rate this entire century.²⁵ The Great Resignation, as this labor trend is called, started for several reasons, the greatest include low pay, little opportunity to advance, and disrespect in the working environment, according to the Pew Research Center.²⁶

This trend that has affected the labor market in construction. The adjusted attrition rate for construction is 2.9 percent.²⁷ As with the general labor market, construction workers cited low pay and little opportunity to advance as key reasons behind quitting, but they also mentioned

¹⁸ <https://www.forbes.com/sites/jennifercastenson/2021/12/13/despite-challenges-construction-labor-market-shows-promise-in-2022/?sh=7ac8dfb610d1>

¹⁹ [Id.](#)

²⁰ <https://www.ktnv.com/positivelylv/nevada-built/shortage-of-trade-school-instructors-means-fewer-industry-workers>

²¹ https://www.researchgate.net/profile/Anil-Baral-2/publication/358336336_Impact_of_COVID-19_on_the_Diversity_of_the_Construction_Workforce/links/6256fb274173a21a0d0f91ac/Impact-of-COVID-19-on-the-Diversity-of-the-Construction-Workforce.pdf

²² [Id.](#)

²³ [Id.](#)

²⁴ <https://www.agc.org/news/2020/09/02/coronavirus-has-caused-significant-construction-project-delays-and-cancellations-y-0>

²⁵ <https://www.bls.gov/news.release/jolts.t04.htm>

²⁶ <https://www.pewresearch.org/fact-tank/2022/03/09/majority-of-workers-who-quit-a-job-in-2021-cite-low-pay-no-opportunities-for-advancement-feeling-disrespected/>

²⁷ <https://www.bls.gov/news.release/jolts.t04.htm>

the physical and mental toll unique to construction.²⁸ The lack of interest in construction from people entering the workforce compounds the attrition problem.²⁹

e. Immigration

Immigration has long supplemented the native-born labor force in construction.³⁰ In 2021, immigrant workers accounted for 24percent of the construction workforce.³¹ Although the Great Recession reduced the number of immigrant construction workers, they returned to the industry more quickly than native construction workers. The share of immigrant workers in construction grew until 2017, and this plateau is likely attributable to changes in US immigration policy.³² Three years later, the COVID-19 pandemic caused a drastic reduction in all immigration, which also affected the construction labor supply.³³

C. Impact

The labor shortage has cumulative effects on a project's life cycle. First, the lack of labor, especially skilled labor, has caused contractors to reduce expectations. Seventy-two percent of contractors have reported challenges in meeting project schedules, 60 percent of contractors reported putting in a higher bid for projects, and 45 percent of contractors reported turning down work because of the lack of skilled labor.³⁴

Second, the combination of higher wages, premiums, incentives, and overtime payments could result in labor costs doubling from pre-pandemic levels.³⁵ In addition to higher wages driving up costs, decreased labor supply has been correlated to decreased productivity. For instance, during the shale oil boom, labor shortages caused a slight increase in wages but a 40 percent decrease in productivity.³⁶ Because of this, owners increased project timelines by 20 to 25 percent. The impact on general construction today could be greater, given that oil companies during the shale oil boom were able to correct for their inefficiencies by hiring workers from around the country.³⁷ Regardless of the exact impact, consumers will ultimately bear the burden of these increased costs.

D. Potential Solutions

The construction industry has utilized numerous methods to solve the labor problem. For the sake of organization, these methods are split into two categories: short-term and long-term solutions.

²⁸ <https://www.levelset.com/news/why-are-construction-workers-quitting/>

²⁹ [How The 'Great Resignation' Affected Construction \(forbes.com\)](https://www.forbes.com/news/2021/03/15/how-the-great-resignation-affected-construction/)

³⁰ [The Construction Industry and Immigration Reform - Insulation Outlook Magazine](https://www.insulationoutlook.com/construction-industry-immigration-reform/)

³¹ <https://eyeonhousing.org/2021/03/states-and-construction-trades-most-reliant-on-immigrant-workers/>

³² [Id.](#)

³³ <https://www.stlouisfed.org/publications/regional-economist/2022/apr/demographics-covid19-leave-construction-tight-labor-supply>

³⁴ <https://www.uschamber.com/assets/documents/Q4-2021-CCI-Report.pdf>

³⁵ <https://www.mckinsey.com/business-functions/operations/our-insights/bridging-the-labor-mismatch-in-us-construction>

³⁶ [Id.](#)

³⁷ [Id.](#)

a. Short-Term

Construction companies have used short-term solutions to access the current labor supply by employing strategies to attract and retain talent. To attract labor, companies have relied on methods such as increasing base pay and sign-up bonuses.³⁸ Some of these bonuses are conditional, like offering a paid vacation to employees who stay for a certain period.³⁹ Other companies have also offered a weekly bonus contingent on working a certain number of hours.⁴⁰

Simply attracting new labor is insufficient. In the construction industry, for every five workers hired, one will leave before the end of the year.⁴¹ To solve this, one company recently implemented two programs that not only increased its workforce by 20 percent but also reduced its turnover rate to around 5 percent.⁴² The first program is a craft development program that allows employees to learn from and to teach one another. This program allowed the company to hire workers with less experience and train them on the job, and increasing cooperation between employees increased employee retention. The other program is a two- to three-year rotation program. After moving employees through different roles such as project management, estimating, and safety, the company promoted employees to superintendent.⁴³

b. Long-Term

Short-term solutions are insufficient to reverse the construction industry's declining labor supply. The following long-term solutions provide for industry sustainability and stability.

i. Increasing Labor Supply

While it is important that construction companies fill their open positions, it is vital to increase the construction workforce.

Companies across the country have been partnering with local trade schools and community colleges to create direct pathways to the construction industry. Companies have also had success with high school training courses, summer internships, and community events.⁴⁴ Additionally, companies have turned to nontraditional sources of labor. Some programs provide construction work to veterans⁴⁵ and train prisoners so that they will be able to rejoin the work force upon their release.⁴⁶

³⁸ <https://www.agc.org/sites/default/files/Files/Advocacy/Workforce%20Summit%20.pdf>

³⁹ <https://protect-us.mimecast.com/s/vsNeCjRAzpinDzD1CWVx5c?domain=youtube.com>

⁴⁰ <https://www.agc.org/sites/default/files/Files/Advocacy/Workforce%20Summit%20.pdf>

⁴¹ <https://www.procore.com/jobsite/the-cost-of-employee-turnover/>

⁴² <https://www.forbes.com/sites/jennifercastenson/2021/12/13/despite-challenges-construction-labor-market-shows-promise-in-2022/?sh=29f942a610d1>

⁴³ [Id.](#)

⁴⁴ <https://www.agc.org/sites/default/files/Files/Advocacy/Workforce%20Summit%20.pdf>

⁴⁵ <https://www.bizjournals.com/charlotte/news/2022/05/27/veterans-in-workplace-construction-labor-shortage.html>

⁴⁶ <https://www.equipmentworld.com/workforce/article/15114770/how-to-solve-the-construction-labor-shortage>

Contemplated changes in immigration policy, including expanding the current visa program, may enable more immigrants to join the construction labor force. Construction companies currently use the H-2B temporary non-agricultural worker program to source labor. While Congress has recently expanded it — adding 22,000 additional visas for the first half of the 2022 fiscal year and 35,000 visas for the second half to its initial amount of 66,000 annual visas — this is not enough to cover the needs of the construction industry.⁴⁷ Creating a unique class of construction worker visas would also help solve the labor paucity.⁴⁸

ii. Increasing Efficiency

The construction industry can also adapt to a reduced labor supply by increasing the efficiency of the current workforce. Using different methods of production and technology not only reduces costs but also saves time by decreasing the amount of on-site work. Examples of this include lean construction, off-site construction, and modular construction.⁴⁹ Experts have predicted that these methods could increase costs for shipping and supplies as much as 10 percent. Even if modular construction increased supply costs, it would reduce construction time by 50 percent and increase total cost savings by 20 percent.⁵⁰ As labor costs rise, the incentive to switch to these methods will only increase.

Foreign countries have also dealt with construction labor shortages. Japan’s labor population has been shrinking for years.⁵¹ To address this issue in construction, the Japanese government launched the I-Construction program in 2016. This program mandated that all publicly funded construction projects use advanced technology — including automated surveying drones, semi-automatic earthmoving equipment, and single-center cloud storage — at all stages of construction.⁵² For instance, a drone can complete survey work in one hour that would have otherwise taken two workers all day.⁵³ This has increased efficiency and reduced the labor strain in Japan.

E. Conclusion

With increased demand for housing and public infrastructure, the construction market needs labor more than ever. Recent trends have caused historic levels of vacant positions but little availability to fill

⁴⁷ <https://www.uscis.gov/working-in-the-united-states/temporary-workers/h-2b-temporary-non-agricultural-workers>

⁴⁸ <https://www.constructiondive.com/news/truly-no-better-option-h-2b-visas-for-construction-workers-spark-industr/421224/>

⁴⁹ <https://labusinessjournal.com/real-estate/time-cost-savings-increase-modular-construction-in/>; <https://www.mckinsey.com/business-functions/operations/our-insights/bridging-the-labor-mismatch-in-us-construction>

⁵⁰ <https://www.mckinsey.com/~media/mckinsey/business%20functions/operations/our%20insights/voices%20on%20infrastucture%20scaling%20modular%20construction/gii-voices-sept-2019.pdf> (Using prefabricated homes can reduce costs by up to 20 percent. See “How Can the Construction Industry Address the Housing Crisis? (forbes.com)).

⁵¹ [Bringing Innovation to the Worksite with “Smart Construction” / The Government of Japan - JapanGov -](#)

⁵² [For tech-focused labor solutions, US contractors should look to Japan | Construction Dive](#)

⁵³ [Bringing Innovation to the Worksite with “Smart Construction” / The Government of Japan - JapanGov -](#)

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them. To address the issue in the short term, companies have provided incentives, like increased wages, to attract and retain labor. To address the issue for years ahead, companies will need to invest not only in traditional sources of construction labor but also in exploring new labor solutions that we have discussed in this paper. These investments, along with ventures in technology and building methods, can help ensure a healthy labor market moving forward.