

Slow Growth for Private Construction Companies

By Brian Hamilton, CEO, Sageworks, Inc. and Libby Bierman, Analyst, Sageworks, Inc.

In early May, the US Census Bureau released its report on estimated monthly and quarterly construction spending. The first quarter of 2011 spending was estimated to be \$161.2 billion, 7.8% lower than the estimate for the first quarter of 2010 which was \$174.8 billion. Consumers and the government are financing fewer construction projects now than they were even a year ago.

Fewer projects and less revenue make for an unhealthy industry, and the financial performance of the construction sector has not improved like the rest of the economy has since the end of the recession. Sageworks aggregates information on privately-held companies, and it has data on the revenue of private construction companies that supports the spending figures from the Census Bureau and shows the impact that decreased spending has had on the construction companies' sales growth.

During the last three quarters of 2010 (April-December 2010), privately-held construction companies, those classified within NAICS code 23, had declining sales for eight of the nine months. Only December 2010 had a positive sales percent growth, and it was a meager 1.2% increase. When looking at the data quarterly, construction sales declined by 8.3% in Q2, declined by 6.7% in Q3, and rose by 1.1% in Q4—largely thanks to the strong showing in December.

So far in 2011, sales for private construction companies again declined briefly and then hovered close to zero percent growth. These numbers show that at least the privately-held segment of the construction sector is having a difficult time keeping pace with overall economy which has seen significant improvement since the end of the recession.

Bruce Kaminer, CPA, an accountant from Fair Lawn, NJ, who works with owners of privately-held construction companies, believes that the decline in gross revenue and gross margins for the industry stems from increased competition for fewer construction projects. Since the poor housing market has reduced the number of construction projects coming from the private sector, these contractors have migrated to publicly-funded governmental projects which have also decreased in number. The increased competition for these projects leads to reduced gross profit margins and even some contractors bidding projects at-cost to only provide cash flow.

What about publicly-traded construction companies? Have they avoided the revenue constraints that privately-held firms have faced since then end of the recession? During 2010, when private construction companies had declining sales for eight of the last nine months, publicly-traded construction companies were not experiencing the same difficulties. While privately-held construction companies' sales declined in Q2 and Q3 of 2010, public construction companies' sales *grew* by 14.7% and 2.8% respectively. Their Q4 for 2010 likewise grew 3.6%—still low but approximately *three times* more growth than their private counterparts.

The public construction companies' recovery after the recession might be credited to their sheer scale and ability to streamline operations more than smaller, private construction firms. And, these larger firms also depend less on the small projects from the private sector since they can handle the extremely large projects that small firms cannot. These large contracts may have shielded the publicly-traded companies from the worst of the recession. Whatever the cause, publicly-traded construction companies—although the percentages were not always impressive—did have positive sales *growth* over the past year.

Assuming that private construction companies continue to lag behind the growth of the general economy and public construction companies, what effect does that lag have on hiring by private

construction companies? Because private construction companies outnumber public firms by such a high number, their hiring trends significantly influence the industry's employment.

Until the private portion of the industry is able to make considerable revenue gains or at least preclude revenue declines, it is unlikely that they will resume pre-recession hiring practices. Thus far in 2011, privately-held construction companies have averaged a profit per employee of \$9,817; that number looked at in isolation appears fairly strong. But compare that to the industry's profit per employee in 2007, \$15,806, and it is evident that private construction companies simply have fewer available dollars to work with and to allocate to workforce growth. In fact their profits per employee are now 40% lower than they were a few years ago, and this is after the industry has laid off many construction workers trying to stay profitable.

Once the sales percent change for private construction companies stabilizes and remains positive for some time, it is safe to assume that they will begin to hire. The timing of that turnaround will depend wholly on construction spending by consumers and the government. Until the private construction sector's sales percent change does remain positive, though, employment opportunities will have to come from other sectors of the economy or at least publicly-traded construction companies.

About Brian Hamilton: Brian Hamilton is the co-founder and CEO of [Sageworks](#), a financial information company, and Inc. 500 honoree. Hamilton is an original co-developer of "FIND" (Financial Information into Narrative Data), Sageworks' core artificial intelligence technology which converts financial numbers into plain language. FIND is the basis of the [ProfitCents](#) and [Sageworks Analyst](#) applications that are used by financial institutions and accounting firms throughout North America and the United Kingdom. Brian Hamilton holds an MBA degree from Duke University and a bachelor's degree from Sacred Heart University, where he graduated summa cum laude. Brian is a noted expert in finance who has been published and quoted in most major national media outlets.

About Libby Bierman: Libby Bierman is an Analyst at [Sageworks](#), a financial information company, and Inc. 500 honoree. Bierman is responsible for the development of new products to improve client retention and practice management within the accounting industry. She received her degree from the Mendoza College of Business at the University of Notre Dame where she graduated summa cum laude.

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Public Relations Department

pr@sageworksinc.com

866.603.7029 ext. 590