Let There be Light . . . at the End of the Tunnel

By Anirban Basu, Sage Policy Group, Inc.

The U.S. economy has been stuck at 2 percent growth for several years and throughout much of 2013. Imagine a sports car with incredible get up and go, but one that has to constantly negotiate a series of speed bumps that permit it to only travel between 30 and 40 miles per hour. To complete the analogy, that translates into sub-par economic growth and an unemployment rate still stuck at 7 percent after more than four years of economic recovery. It also translates into a nonresidential construction sector that remains immune to forceful and broad-based recovery. As of November 2013, the value of nonresidential construction put-in-place remained 19 percent below the October 2008 high.

However, the outlook for 2014 is as positive as it has been for any year since the onset of the financial crisis. There are a number of relevant factors at play. The world economy is now strengthening, with accelerating growth apparent in China, parts of Europe, the U.S., and in a host of emerging nations. Accordingly, the International Monetary Fund projects that the global economy will expand 3.6 percent in 2014 after expanding closer to 3 percent in 2013.

There are other tailwinds that more specifically impact the U.S. economy. The nation now enjoys greater certainty regarding its federal budgetary and Federal Reserve monetary policies. Seemingly against all odds, the federal government recently passed a budget that guides spending into 2015. On December 18 of last year, the Federal Reserve announced that it would begin to taper its bond purchase program beginning in January. Rather than purchasing $85 billion each month in assets, the Federal Reserve will taper its purchases to $75 billion per month. Specifically, the Federal Open Market Committee will reduce its purchases of Treasuries and mortgage-backed securities to $40 billion and $35 billion per month.

Equity investors cheered the policy announcement for at least three reasons. First, the Federal Reserve introduced language suggesting that short-term rates will remain low for many quarters to come. The announcement also reduces the level of policy uncertainty, and markets don’t like uncertainty. Finally, the decision to taper implies that the Federal Reserve’s forecast for U.S. economic activity has improved since its September 2013 meeting. There’s more at work than policy shifts. Gas prices have fallen, helping to increase consumer disposable spending power. Corporate performance remains solid. A majority of large U.S. corporations beat their earnings estimates during last year’s third quarter. However, a materially smaller share beat their revenue estimates, implying that companies continue to aggressively manage costs to boost bottom line performance. With economic growth now accelerating, corporate America may have an opportunity to rapidly expand both their respective bottom and top lines.

The stock market has simply boomed as a result of the confluence of many factors, with the S&P 500 surging nearly 30 percent in 2013. While 2014 is unlikely to generate anything close to that return, the stock market’s performance has added both capital and confidence to the U.S. economy, which in turn creates a better environment for both the broader economy and the construction industry.

The most recently updated data indicate that the nonresidential construction sector of the U.S. economy is set to expand more forcefully this year. Nonresidential construction spending rose 0.6 percent in November. Private nonresidential construction spending expanded 2.7 percent for the month, though that gain was partially offset by a 1.7 percent decline in public nonresidential construction.

The expansion in private construction activity is attributable to a number of factors, including consumer spending. After a brief third quarter lull, consumer spending began to re-emerge during the late stages of 2013. Retail sales registered their largest monthly gain since September 2012 in November. Core sales expanded only 1.4 percent on an annualized basis during the third quarter of 2013, but are on pace to expand 3.5 percent during the fourth.

Businesses are also spending more, including on travel. Among the 16 segments that comprise the nonresidential construction industry in America, the largest annual construction spending gain was registered in lodging, with spending up 31.2 percent on a year-over-year basis in November 2013. The commercial construction segment has also performed well, as has transportation and manufacturing.

We expect that publicly-financed segments will continue to be hamstrung by reluctant state and local government budget officials. State governments continue to deal with (among other things) long-term pension and healthcare cost issues. Moreover, with one-third of their revenues coming from the federal

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The reemergence of the U.S. auto industry has also begun to significantly and positively impact a number of regional economies, including in Michigan, Indiana and Tennessee.

Anirban Basu is Chairman & Chief Executive Officer at Sage Policy Group, Inc., an economic and policy consulting firm in Baltimore, MD. Mr. Basu consults on behalf of numerous clients, including prominent developers, bankers, brokerage houses, energy suppliers and law firms. He will be presenting at the RCA 2014 Annual Meeting on Saturday, March 8, with a focus on the associated sources of opportunity in 2014 and the myriad threats to the most optimistic forecast supplied in several years.

Industrial production in America has been expanding for a number of years, driven in part by growing domestic production of both oil and natural gas. Not surprisingly, the economic outlook is most optimistic in regions of the country that represent the vanguard of America’s energy production renaissance, including Texas, Louisiana, Oklahoma, and North Dakota. The reemergence of the U.S. auto industry has also begun to significantly and positively impact a number of regional economies, including Michigan, Indiana, and Tennessee. The recovery of the nation’s housing market has also begun to support more economic growth, including in Florida, California, Arizona, and Nevada.

We predict that the U.S. economy will grow between 2 and 3 percent in 2014 and that non-residential construction spending will expand in the high single-digits.

In terms of the industry forecast, certain private categories are set to expand meaningfully during the year ahead, including healthcare (utilization will be at the rise), power (a consistently strong segment in recent years), commercial (the result of protracted periods of consumer spending growth), and lodging (hotel occupancy continues to rise). Manufacturing-related construction is also likely to rise, particularly given expected growth in exports this year given the anticipated strengthening of the global economy.

Style and function in just 30 minutes.

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President’s Message

By Art Rectenwald, President, Rectenwald Brothers Construction

As business owners, we have a lot of partners: employees, clients, vendors, our families. Each group brings something different to the table, and their individual parts are an important part of the whole. Our partners play a vital role in our success and their contributions are invaluable. As association leaders, we also have partners whose impact can sometimes be immeasurable.

As I began to write my final letter as your RCA president, I reflected on the partnerships that have made this experience so rewarding. Personally, my fellow RCA members, leaders—Board members and past presidents—and our staff have been an essential part of my RCA experience, and inspired me to take on various leadership commitments with the goal of making the RCA an important asset to any successful retail contractor. Thank you to everyone who provided ideas, planned events, developed new member benefits and opportunities, improved our existing programs, gave feedback, and provided countless other forms of support over the past two years. Your participation in this organization is instrumental to the RCA’s success, and I encourage you to continue to be industry leaders in promoting professionalism and integrity in retail construction.

Organizationally, the RCA has great sponsor partnerships. Not only have they supported the association financially, but have gone the extra step to provide discounts and resources to our members to help in their operations. You’ll have an opportunity to meet and hear from our sponsors at the RCA Annual Meeting in March. I encourage you to take advantage of the opportunity to learn more about how these companies can support you as you grow your business and serve your clients.

I look forward to my continued involvement in the RCA, as our new officers lead the association and its members as we evolve and adjust to reflect the changing landscape of our industry and address the challenges and opportunities ahead.

Art — art@rectenwald.com

New Advisory Board Member

RCA’s Advisory Board is comprised of representatives from retail markets including specialty, big box, department stores, developers, architecture/engineer, and restaurant retailers. Advisory Board members are appointed by the President and serve three year terms. During that time, they actively assist the RCA Board of Directors in identifying key industry issues and formulating policies and programs designed to positively impact those issues. Meet the RCA’s newest Advisory Board member.

Dave Gearing is the founder of GEAR Management Group, LLC, which offers specialized construction, design, and store planning consulting services for the retail industry. Gearing has more than 30 years of experience in the specialty retail construction management industry. Prior to founding GEAR in 2001, Gearing held executive level management positions at retailers such as Gap Inc., Foot Locker, and The Walt Disney Co. His experience includes the development and implementation of retail rollout programs and flagship construction in North America, Europe, Asia, Japan, and Australia.

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Matthew Pichette
568-874-5280
mattp@ruccoinc.com

ANNUAL MEETING
Rick Winkel
352-860-0500
rickw@winkel-construction.com

EDUCATION & SCHOLARSHIP
Mike McBride
817-302-2059
mike@timberwolff.com

MEMBERSHIP
Mike Wolff
909-949-0380
mike@timberwolff.com

MARKETING/COMMUNICATIONS
Jack Grothe
909-993-3322
jcg@jgconstruction.com

MEMBERSHIP
Mike Wolff
909-949-0380
mike@timberwolff.com

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RCA members must meet and maintain a series of qualifications and are approved by the Board of Directors for membership. They have been in the retail construction business as general contractors for at least five years; agree to comply with the Association’s Code of Ethics and Bylaws; are properly insured and bonded; are licensed in the states in which they do business; and have submitted letters of recommendation.
Visit retailcontractors.org

View the profile of each RCA member company. Click on “Find a Contractor” from the home page to search the member list. Each profile includes relevant information, including the RCA programs in which the member participates. Look for these icons!

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Past Presidents – Where are They Now? Gene Colley

Gene Colley, President of Royal Seal Construction, Inc. a nationally-recognized construction company operating throughout the U.S. Colley’s career in the construction industry began in 1974 with residential remodeling and construction in Kansas City, MO. He quickly advanced within the carpentry trade and in 1977 opened his own remodeling company. The company completed numerous projects for national chains throughout Kansas, Texas, Oklahoma, Louisiana, and Tennessee. One of his first jobs was remodeling Winchell’s Donut shops. In 1982, Colley opened Royal Seal Construction in Lewisville, TX, specializing in new construction, commercial remodeling, and tenant finish-out work.

Colley has been a member of the Retail Contractors Association since 1994. “My first year on the Board was the year that Tom Eckinger was president, in 2002. Tom was great. You could tell he ran a construction company because of how he kept the game pieces in play while not letting the game board fall off the table!” said Colley. “I started off working on the Marketing Committee for a couple of years and really enjoyed that part. Writing the monthly article for the newsletter was a good way to keep up my skills. Then I went through the progression of Secretary/Treasurer and Vice President, and then President.”

Colley served as RCA President from 2006 to 2008. He continued, “I followed Bob Benda as President. Bob had literally turned the RCA around in two years and it was my job to follow his example of leadership and progress. The resurgence of the RCA was fun to be a part of. The new, younger guys were coming on board and the old guys were moving on. I was sort of the in-between guy, not nearly as old as Bob Benda or as young and good looking as Matthew Schimenti!”

Benda, CEO of Westwood Contractors, Inc. said, “It was my pleasure to work with Gene on the RCA board for a number of years. He has always been very committed to our association and cheerfully and enthusiastically accepted any task. In addition to his duties in various officer roles on the Board, Gene actively represented RCA on the planning committee of ICSC’s Centerbuild conference for many years.”

Benda continued, “Gene’s good humor and quick smile were always a very positive influence over his colleagues on the board and I greatly appreciate his collegiality during my tenure as well as his leadership when he followed me in the President’s role. RCA has been very fortunate to have Gene as a leader over the years”

Colley said his favorite thing about the RCA is the camaraderie and trust that builds from knowing other business owners facing the same opportunities.
that he faces every day. “I really enjoyed my time on the Board. The brain power that assembles in the room three times a year is great. Most people probably would not believe the relationships and trusts that are built in this organization. I wish there was a way to convey to some of the members that are not as active, that they could really benefit from resources available through the organization and the membership,” stated Colley.

On a professional level, the RCA has been great for Colley as a business owner. “Sometimes when you least expect it, another morsel of knowledge will be conveyed in a random conversation,” said Gene. “Discussing and comparing policies and procedures helps to make all of us better at company management.”

Colley reflects on the changes he has seen through the years. “We used to have to wait one to three weeks for a phone to be installed on the job site on an 8-week job; now we have the job finished at the end of week (ok a small exaggeration, but not much) and use cell phones!” He continued, “The lightning speed at which an owner can make a change to a design, have an architect draw it, and then incorporate it into a project is amazing.”

Colley’s mentor is his late grandfather, the person that he wants to be most like. “He was a farmer who experienced so many hard times. Growing carpentry work. He taught me so much when we were together, not just about carpentry, but about life. He is the one who taught me a very important lesson.

I had installed some trim on a front porch on someone’s house and it didn’t look right. He looked at me and said, ‘The difference between a good carpenter and a bad carpenter is that a good carpenter knows how to fix his mistakes.’ I fixed it and kept going, and that has become my motto in life,” Colley recounts.

Colley loves to play cards. He grew up playing Pinochle and Pitch with his grandparents and friends and those remain some of the best memories of his life. “It seems like we don’t slow down enough to enjoy playing cards anymore. It lets people relax and talk and just be themselves.”

If Colley wasn’t in the construction industry, what would he be doing? “I finished high school thinking that I was going to be a chemist. Amazing that I ended up in construction! Realistically, I would enjoy being a commercial pilot so that I would have the free time to enjoy my hobbies,” he said. As for his guilty pleasures, that would be smoking good cigars and enjoying an XO Cognac. In his free time, Colley enjoys turning and carving wood. The craftsmanship and beauty of his pieces are inspiring.

Colley has been happily married for 35 years to his wife Robin. He has three kids, a daughter-in-law and son-in-law, and five grandkids! He has been involved with local politics and several local charitable organizations.

Colley continues to give his time, talent, and knowledge to better our industry and build relationships among friendly competitors, retailers, and suppliers. We look forward to continuing to have him as a part of our organization and calling him both our colleague and our friend.