Economic Recovery Continues Despite Causes for Concern

By Anirban Basu, Sage Policy Group, Inc.

During last year's third quarter, profits at U.S. companies posted their largest annual decline since the recession. Corporate earnings have been trending lower for a variety of reasons, including a stronger dollar, a weak global economy, sagging exports, more competition from cheaper imports, as well as pressure from rising wages and healthcare costs. Weaker earnings typically translate into diminished private investment, which in turn implies unsignaled rates of economic growth. As reported in the Wall Street Journal, a comprehensive measure of U.S. corporate profits produced by the U.S. Department of Commerce fell to $2.1 trillion during the third quarter, down more than a percentage point from the second quarter. Compared with a year earlier, profits fell 4.7 percent, the largest annual decline since the second quarter of 2009. The third quarter marked only the second time profits have declined on a year-over-year basis since the recession ended in mid-2009.

The third quarter reading helped highlight the divergence in performance between globally oriented companies and domestically oriented ones. During the quarter, domestic profits actually expanded by $7.3 billion or by 0.4 percent, entirely the result of expanding profits at nonfinancial firms. Over the same period, foreign profits were down by $30 billion, translating into a 7.4 percent decline from the second quarter and a 12.2 percent fall from one year earlier.

The issue would not be nearly as worrisome if the factors driving the decline in profitability were merely temporary. However, rising wage pressures are part of today’s reality given a national unemployment rate of 5 percent and reported human capital shortfalls in key industries like construction and trucking. Healthcare costs are also likely to expand, with certain insurers indicating recently that they may pull back from the marketplace due to unsatisfactory financial performance. The global economy will remain weak. If anything, the situation in China is becoming more—not less—serious. Weak performance in Russia, Brazil, much of Europe, and Japan is also likely.

When one includes the specter of higher interest rates on top of all of these factors, there is a strong implication that this could be an appropriate time to reduce portfolio risk. Even non-economic factors suggest something similar. Iran, North Korea, Ukraine, and other hotspots seem only to be getting hotter.

This is not intended to imply that recession is coming to America anytime soon. Given ongoing job and wage growth coupled with low fuel prices, consumer spending should be enough to keep the nation out of recession in 2016. However, the broader economic outlook for 2017 and 2018 is decidedly murky. There are indications of issues in key parts of the economy, including data indicating bubbles in commercial and multifamily real estate markets, declining energy sector investment, junk bond defaults, and excess supply capacity.

That said, the nation’s labor market ended 2015 with a bang. The best two months of the year in terms of monthly job growth last year were October and December, as the labor market gained momentum as the year came to a close. According to the Bureau of Labor Statistics‘ preliminary estimate, the nation added 292,000 net new jobs in December, bringing the 2015 monthly average to 221,000 net new jobs. During last year’s final quarter, the nation added an average of more than 280,000 jobs per month. The early months of 2016 are also likely to be associated with meaningful job growth. It is also encouraging that the nation’s labor force has been expanding in recent months as more Americans have decided to begin their respective job searches.

Given a national unemployment rate of around 5 percent and ongoing job growth, one might think that consumer confidence would be higher. In fact, it has been flat in recent months due to a number of factors, including growing geopolitical unease. Among other things, a weakening global economy and sagging U.S. exports suggests that the Federal Reserve is unlikely to tighten monetary policy substantially in 2016 even as labor conditions continue to improve. The nation’s unemployment rate seems destined to dip below 5 percent in the near-term. Normally, that would be associated with frequent and regular rate increases, but a disturbed news cycle may keep the Federal Reserve on the fence more often than not. Many investors expect the nation’s central bank to raise short-term rates only twice this year. In short, interest rates generally and mortgage rates in particular are unlikely to rise significantly in 2016.

There are five leading engines of economic growth in America today: consumer spending, auto purchases/production, residential construction, nonresidential construction, and technology. At least four of these segments are disproportionately interest rate sensitive (the possible exception being technology). The Federal Reserve understands that if rates rise too quickly, the U.S. economy could stall.

The upshot is that housing momentum could continue through 2016. U.S. housing starts in November expanded by over 54 million units on an annualized basis. Through November, housing starts have been above a one million unit pace for eight consecutive months. Single family starts now sit at an annualized rate of 768,000, their highest level since January 2008.

Looking Ahead

The nation is approaching its 80th month of economic recovery. The prior three recoveries lasted an average of 95 months. If one views this as a meaningful indicator, recession could be upon us sometime next year. Equity markets often perform poorly during the period leading into recession (e.g. 2000, late 2007). The recent performance of corporate profits and equity markets may be signaling that we are collectively entering the late-stage of the current economic expansion.

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. You can hear him speak at the RCA 26th Annual Conference on March 12.

RCA's mission is to promote professionalism and integrity in retail construction through industry leadership in education, information exchange, and jobsite safety.
Register for RCA’s Annual Conference, March 11-13

RCA’s 26th Annual Conference will be held March 11-13, 2016 at the Hilton Anatole, Dallas, TX, prior to SPECS 2018.

**Friday, March 11, 6:00-8:00pm:** Welcome Reception

**Saturday, March 12, 8:00am-3:30pm:** Conference, including industry roundtable discussions and keynote presentations by:
- James Benham, Chief Executive Officer, JBKnowledge
- Anirban Basu, Chairman & CEO, Sage Policy Group, Inc.
- David Madison, Senior Consultant, Risk Management, FMI

**Saturday, March 12, 6:30-9:00pm:** Networking Reception and Showdeo at Southfork Ranch (shuttle provided)

**Sunday, March 13, 9:00-10:30am:** Owner’s Breakfast (invitation only)

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RCA members: your first registration is free, additional registrations are $199. Retailers: Registration is free. Architects: One free registration for each organization; additional registrations are $199. Nonmembers: Registration is $299. Visit retailcontractors.org for a full agenda and registration form.

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For information on joining Commercial Construction & Renovation People, contact Membership Director Kristen Corson at kristenc@ccr-people.com

If you would like to sponsor a CCRP event, please contact David Corson at davidc@ccr-mag.com
President’s Message

Mike Wolff, President, Timberwolff Construction, Inc.

This is my final president’s column. It has been a privilege to serve this organization and its members for the past two years.

Andrew Carnegie said, “Teamwork is the ability to work together toward a common vision.” I could not have asked for or imagined a better team than the Board of Directors with whom I’ve worked during my tenure. Together, we worked to create value for RCA members and the retail construction industry. This was done in part by building upon the foundation of our first 25 years, and in part by developing programs and benefits that respond to the ever-changing needs of our businesses.

In 2014, we launched a Military Service Initiative, spearheaded by Steve Bachman. The program matches transitioning veterans with RCA member companies. Initially focused on superintendent recruitment, it has recently been expanded to include project managers, estimators, and administrative staff. In the coming months, we’ll be sharing the individual success stories of this program, each of which make us proud to be part of this effort.

The past two years have seen record attendance at our Annual Meeting. Rick Winkel has done a great job putting programs that offer our members substantive information to help them manage their businesses. Eric Handley has joined the planning team and we are excited about our 26th Annual Conference coming up in March. Building on the well-received offsite event last year, we’ll be hosting our Saturday, March 12 reception at Southfork Ranch (“Dallas” attire encouraged!).

Our membership continues to steadily grow, with Hunter Wekees leading the committee. We’re developing a targeted prospect list, and have been reviewing the membership application and renewal process to make it more efficient while maintaining our rigorous standards.

Guided by Jack Grothe, the communications and marketing committee oversaw an overhaul of our website last year. And we continue to utilize partnerships with Chain Store Age and Commercial Construction & Renovation to place ads for retailer engagement and membership recruitment.

Sponsor support is a vital part of our operations. Brad Bogart has cultivated one of our most important sponsor relationships, Home Depot. The collective Home Depot rebate received by RCA members last year was $275,000. As treasurer, Brad has been vigilant in monitoring the financial health of the association.

Job site safety has always been a hallmark of RCA. Kent Moon coordinated a review of our full kit of materials in 2014. New committee chair Doug Marion is pursuing new partnerships to increase our members’ access to safety material and information. With the most recent membership year, all members were enrolled in Safety Meeting Outlines, providing them relevant and topical content for weekly safety meetings.

Before moving to Safety, Doug launched our technology committee, committed to providing information about the apps, software, and systems that can help our members be more resourceful. Ray Catlin has taken over this group and will soon be overseeing the launch of a technology wiki.

We’re always searching for new member benefits. Justin Elder was instrumental in negotiating our most recent member discount with La Quinta, for short-term stays. This is a great counterpart to our Extended Stay discount, which launched in 2014.

Last year we revamped our scholarship program to a nationwide call for applications. Currently in our second cycle of the new system, we received three times as many applications in 2016 as in 2015. Mike McBride leads this committee, ensuring RCA focuses on grooming the next generation of construction management leaders.

In the office of president, I am preceded by Art Rectenwald and will be succeeded by Bob Moore. Both of these men have a passion for our industry and devotion to the success of this organization. It’s humbling to be part of this leadership pipeline, and encouraging to know that our association has had, and will have, first-rate leadership as we maintain our commitment to our members while responding to the challenges and demands we face as business owners.

Our staff is led by Carol Montoya, at the association management company Potomac Management Resources. With us for 11 years, Carol is a repository of historical knowledge and a great resource when we embark on new initiatives. She and her staff work hard to keep us organized and on track.

RCA has an Advisory Board comprised of retailers, landlord representatives, and architects. These industry leaders attend our Board meetings and participate in committees. Their contributions and counsel are invaluable and highly impactful on our successful. Many thanks to Chuck Barnes, G.C. Barnes & Associates, Jason Miller, JCPenny, Steve Olson, CESO Inc., Mike Clancy, FMI, Mike Glaser, Signet Jewelers Ltd., Raj Singh, H&M, Jeff Mahler, L2M, Inc., Dave Gearing, GEAR Management Group, LLC, Larry Tureff, Utica, Inc., and Ken Christopher, LBrands.

I’ll close this column with another quote, this one from Henry Ford: “Coming together is a beginning. Keeping together is progress. Working together is success.” From the start of my term, through all of our accomplishments, the collective efforts of our leadership has led us to success. I wholeheartedly thank them for this experience and for their dedication to our members and our industry.

Mike — mike@timberwolff.com
### RCA Membership

**Company** | **Contact** | **Phone** | **State** | **Email** | **Member Since**
--- | --- | --- | --- | --- | ---
Acme Enterprises, Inc. | Robert Russell | 586-771-4800 | MI | russell@acme-enterprises.com | 2009
All-Rite Construction Co., Inc. | Warren Zysman | 973-340-3100 | NJ | warren@all-riteconstruction.com | 1993
Bogart Construction, Inc. | Brad Bogart | 949-453-1400 | CA | brad@bogartconstruction.com | 2008
Buildrite Construction Corp. | Ian Bannister | 770-971-0787 | GA | ian@buildriteconstruction.com | 2013
Chance Construction Co. | D. Jay Chance | 408-787-2615 | TX | tellinaw@chanceconstruction.com | 2000
Commercial Contractors, Inc. | Kenneth Sharkey | 616-642-4540 | MI | kent.t.sharkey@teamcci.net | 1990
Commonwealth Building, Inc. | Frank Trainer | 617-770-0050 | MA | frank@combuild.com | 1992
Construction One, Inc. | Bill Moberger | 614-235-0057 | OH | wmoberger@constructionone.com | 2015
Cranes Construction Company | David Crane | 816-324-5951 | MO | dcrane@cranesconstruction.com | 2013
David A. Nice Builders | Brian Bacon | 757-566-3032 | VA | bbacon@davidnicебuilders.com | 2011
De Jager Construction, Inc. | Dan De Jager | 616-530-0060 | MI | dandi@dejagerconstruction.com | 1990
Desco Professional Builders, Inc. | Bob Anderson | 860-870-7070 | CT | banderson@descopro.com | 1995
DGC Capital Contracting Corp. | Gerry Ryan | 914-664-7244 | NY | gryan@gdgcapital.com | 2013
Diamond Contractors | Lori Perry | 816-650-9200 | MO | lorierry@diamondcontractors.org | 2015
DLP Construction | Dennis Pigg, Jr. | 770-887-5537 | GA | dpigg@dlpconstruction.com | 2008
Ecker Construction Company | James Healy | 708-396-0490 | IL | jhealy@eckerconstructionservices.com | 1996
Elan General Contracting Inc. | Adrian Johnson | 619-284-4174 | CA | ajohnson@elanweb.com | 2010
Elder-Jones, Inc. | Justin Elder | 925-345-0609 | MN | justinelder@ejones.com | 1990
EMJ Corporation | Ray Caitlin | 972-580-1210 | TX | gcfee@emjcorp.com | 2014
Fortney & Weygandt, Inc. | Greg Freh | 440-716-4000 | OH | gcfee@fortneyweygandt.com | 2013
Fred Oliviier Construction Company | Dean Oliviier | 330-494-1007 | OH | dean@froldiviier.com | 1992
Fulcrum Construction, LLC | Mike Arasin | 770-612-9005 | GA | marasin@fulcrumconstruction.com | 2014
Gray | Robert Moore | 714-491-1317 | CA | ramoore@gray.com | 2005
Hayes Construction Company, Inc. | Roy Hay | 303-794-5469 | CO | rhay@hayesconstruction.com | 2002
Healy Construction Services, Inc. | James Healy | 708-396-0490 | IL | jhealy@healyconstructionservices.com | 1996
Herman/ Stewart Construction | Ternar Varney | 301-731-5555 | MD | tvarney@herman-stewart.com | 1995
International Contractors, Inc. | Bruce Bronge | 630-834-8043 | IL | bbronge@icinc.com | 1995
J. G. Construction | Jack Grothe | 909-993-9332 | CA | JackG@jgconstruction.com | 1998
James Agresta Carpentry Inc. | James Agresta | 201-498-1477 | NJ | jim.agresta@jacarpentryinc.com | 2013
KBE Building Corporation | Michael Kolakowski | 860-284-7110 | CT | mkolakowski@kbebuiding.com | 1998
Kerricook Construction, Inc. | Ann Smith | 440-647-4200 | OH | ann@kerricook.com | 2012
Lakeview Construction, Inc. | Kent Moon | 262-857-3336 | WI | kent@vconstruction.com | 1995
M. Cary, Inc. | Robert Epstein | 631-501-0024 | NY | mepo@meircyn.com | 2014
Management Resources Systems, Inc. | Doug Marion | 336-861-1960 | NC | dmarius@mris197.com | 1992
Marco Contractors, Inc. | Martin Smith | 724-741-0300 | PA | marty@marcocorporation.com | 1994
Marriott Construction Co., Ltd. | Jane Feigenbaum | 210-829-5542 | TX | jfeigenbaum@marriottconstruction.com | 1996
Montgomery Development Carolina Corp. | John Fugo | 919-969-7301 | NC | jfugo@montgomerydevelopment.com | 1999
Murray Costello Construction, Inc. | Murray Costello | 239-482-2770 | FL | Susan@MBCUSA.com | 2014
National Building Contractors | William Corcoran | 651-288-1900 | MN | bill@nbconstruction.us | 2013
Pinnacle Commercial Development, Inc. | Dennis Rome | 732-528-0080 | NJ | dennis@pinnaclecommercial.us | 2012
Prime Retail Services, Inc. | Donald Boom | 866-504-3511 | GA | dbloom@end retailservices.com | 2014
PWI Construction, Inc. | Jeff Price | 480-461-0777 | AZ | price@pwiconstruction.com | 2003
RCC Associates, Inc. | Beverly Raphael | 954-429-3700 | FL | braphael@rccassociates.com | 1999
Green Construction LLC | Jeffrey T. Smith | 941-887-0010 | FL | jefft@greencorning.com | 2011
Redefining Brothers Construction, Inc. | Art Wittenberg | 724-772-8292 | PA | ar@redefiningconstruction.com | 1998
Retail Construction Services, Inc. | Stephen Pachman | 651-704-9000 | MN | sbachman@retailconstruction.com | 1998
Retail Contractors of Puerto Rico | Sean Parker | 586-725-4400 | MI | sparker@retailconstruction.com | 1996
Roche Construction, Inc. | Thomas Roche | 970-356-3611 | CO | trocke@rocheconstructors.com | 2008
Rockford Construction Co. | Thomas McGovern | 616-285-6933 | MI | tmcgovern@rockfordconstruction.com | 2014
Royal Seal Construction, Inc. | Gene Colley | 817-491-6400 | TX | gene@royalseal.com | 1994
Russco, Inc. | Matthew Pichette | 508-674-5280 | MA | matthew@russcoinc.com | 1995
Sachse Construction and Development Corp. | Jeff Katowsky | 248-647-4200 | MI | jkatowsky@sachseconstruction.com | 2009
Scheiner Commercial Group, Inc. | Joe Scheiner | 719-487-1600 | CO | joscheiner@joeschier.com | 2012
Schmitz Construction Company, Inc. | Mathew Schmitz | 914-244-9100 | NY | mschmitz@mschmitz.com | 1994
Shanes Construction Co., Ltd. | Carolyn Shanes | 925-606-3000 | CA | cshanes@shanes.com | 1994
Shrader & Martinez Construction, Inc. | Ronald Martinez | 928-282-7554 | AZ | info@shradermartinez.com | 1990
Singleton Construction, LLC | Denise Dzocy-Delon | 740-756-7331 | OH | desnisedelon@singletonconstruction.net | 2012
Solex Contracting | Gerald Allen | 951-308-1706 | CA | jerry@solexcontracting.com | 2015
Sullivan Construction Company | Amanda Sullivan | 954-484-3200 | FL | amanda@buidwithsullivan.com | 2012
Taylor Brothers Construction Company, Inc. | Jeff Chandler | 812-379-9547 | IN | jchandler@tbcci.com | 2014
TDS Construction, Inc. | Robert Baker | 941-795-6100 | FL | inbox@ttdconstruction.com | 1994

*(Continued on page 9)*
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!

Please notify the RCA Office (800-847-5085 or info@retailcontractors.org) of any changes to your contact information.

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Giving Back – How RCA Members are Improving Their Communities
Retail Construction Services, Inc. (RCS)

By Jennifer Danquist Kilgore, Managing Director of Client Relations, Singleton Construction, LLC

Members of the Retail Contractors Association are high caliber retail contractors united to provide a solid foundation of ethics, quality, and professionalism within the retail construction industry. But our members are not just building stores around the country; they are also giving back through a variety of public service efforts. In this feature series, we share how our members are making a difference in their local communities.

Retail Construction Services, Inc. (RCS) is headquartered in Lake Elmo, MN (outside the Twin Cities), with RCA Board member Steve Bachman at the helm. The 31-year-old company has a home-grown family feel to it—with many employees having been with the company since its inception—and a collective desire to help those around it. RCS has been involved in and supportive of dozens of charity organizations and nonprofits, a culture that is a cornerstone of how they treat everyone: friends, neighbors, vendors, and clients.

“From what we get, we can make a living; what we give, however, makes a life.”

- Arthur Ashe

President and founder Bachman talked about what the company has been doing in its community. “There is much hunger in the world and in all our neighborhoods, so a thought began to grow that we at RCS could make a difference at our corporate office here in Lake Elmo, MN. This passionate gardener knew our employees would be willing to help the community’s neediest residents if only they had the means. In this case, that meant a garden—The RCS Giving Garden.”

(Continued on page 7)
RCS staff plants the Giving Garden.
The property where RCS’s corporate office sits has more than enough green space and possibilities, including the ability to reduce their own carbon imprint. The Giving Garden is being used as a full circle teaching tool; involving the children from across the St. Croix Valley, who learn about gardening, the impact of the food cycle on fossil fuels and the collapse of the honey bee, water conservation, food storage, harvesting seeds, composting, and many other lessons. Above all, they experience firsthand the spirit of giving and volunteering.

Children’s learning hands-on in the garden.
Valley Outreach, the food shelf to which the Giving Garden supplies food, utilizes some of the produce for cooking and nutrition lessons in their teaching kitchen, which was constructed by RCS for them in the summer of 2012. Local high school students that previously volunteered in the RCS Giving Garden have now begun a garden of their own, incorporating the same full circle learning into their school curriculum.

This is an example of what our RCA members are doing to improve their local communities. Thank you to the RCS family for improving the lives of those in Saint Croix Valley as well as the environment as a whole, and educating our youth to be sustainable for the future.

You can read more about this project at http://rcsgivinggarden.blogspot.com.

Steve Bachman helps with the honey bee harvest.
RCA members, if you are interested in having your firm featured in new series, please contact Jennifer at jkilgore@singletonconstruction.net.