The Construction User 2.0 | Episode 14

“CLRC Quarterly Settlements Report”

Kirk: Welcome to The Construction User 2.0 from The Association of Union Constructors. In this podcast, we explore the latest labor trends, industry insights, and important issues in the world of construction. Join us for conversations with industry leaders, subject matter experts, and innovative visionaries as we discuss how we are building the world of tomorrow.

Today's guest is the executive director of the Construction Labor Research Council. CLRC is the nation's foremost source of labor cost and related information on the unionized sector of the construction industry.

Before coming to CLRC, he spent 14 years with the Tennessee Valley Authority where he conducted extensive market studies on wages, salaries, and benefits and led all the compensation-related negotiations with the construction trades and other unions.

He has his doctorate in Industrial and Organizational Psychology and has a wealth of knowledge about all things data in the union construction industry. Please help me welcome, Carey Peters.

Thank you so much, Carey, for coming on with us today. It's great to have you here.

Carey: Hey, thank you, Kirk. It's great to be here. I'm looking forward to telling you guys what little I know.

Kirk: I always like to try to start the show off with something a little bit fun to keep it light, so I have to know what is the last song that you had stuck in your head and couldn't get free of?

Carey: That's a good one. I love Pink Floyd. Pink Floyd is my favorite band. I just went to a Pink Floyd tribute concert a few weeks ago with a buddy who's my age and my son who is actually obviously much younger than me, but he also likes Pink Floyd. I think I'll go with The Great Gig in the Sky by Pink Floyd from their The Dark Side of the Moon album.

Kirk: Nice. Outside of the tribute band, did you ever get a chance to see Pink Floyd live back in the day?

Carey: Not Pink Floyd, but I did see Roger Waters. There were five members of the band but mostly four, and he was one of the big two. He's the one that wrote The Wall, which some of your listeners may be familiar with, but he parted ways with David Gilmore who was the lead guitarist and is the greatest guitarist ever, by the way. Roger Waters was the bass guitarist and provided a lot of creative content for that. I saw him at a concert in DC about five years ago.

Kirk: Nice. When I was a kid—I think I was about 12 which would have made my brother 17 or 18—and we were living in El Paso, there was a Pink Floyd laser show in the canyon. My brother snuck out of the house and went and saw the Pink Floyd laser show in the canyon.

He got home, got caught, and got grounded. He walked in, and they're like, explain yourself. He's like, I figured no matter what you did to me, it was going to be worth it. My parents were like, how are we supposed to respond to that?

Carey: He learned at a young age that it's easier to ask for forgiveness than permission sometimes.

Kirk: Awesome. Let's get into it.

You and I have talked in the past, and you do the CLRC Quarterly Settlements Report. For those that are unfamiliar, myself, of course, included in that group, talk to me a little about what is a settlements report. Why does this go out and why is it quarterly?

Carey: A settlement is when a union and a management entity like an association negotiate a contract. The part of the contract that we track is the wages. I hate to say it's the most important part, but it is probably what people pay the most attention to.

There are many other aspects of a contract, but the big piece there, of course, is the wages. When they agree on their wages and fringe benefits, then we call that a settlement. They have negotiated a settlement. We track those for many different classifications for many different unions in the construction industry. We have the biggest database in the US where we track these settlements between labor and management on their wages and fringe benefits.

Kirk: The recipients of that, the people that have commissioned, and the people that you give these reports to, what is it good for?

Carey: It's good for benchmarking in large part. Maybe you could say we're the CPI of the union sector of the construction industry. A lot of times in the news, we all heard of the CPI and the cost of living. That was a big deal a year or two ago when it was very high, but you even hear about that when it's not the time of inflation. It's a metric that tells us how expensive things are. In a sense, we're kind of like that but specific to the union sector of the construction industry and focusing on wages and fringe benefits.

Those unions all over the US and their management counterparts are curious. When they get ready to negotiate a new contract—which is typically every three years, but there's no set time, that's just the most common amount—they're curious about what is happening in the rest of the country. That gives them a context for what they might negotiate for their particular situation.

For example, electricians in Peoria are going to gather some labor representatives and get together with some management representatives. They're like, well, how much are we going to make your increases? We can give them at least a starting point as to what's happening out there.

Kirk: My understanding is this week, right now, you're finishing up this quarterly settlements report. By the time people are listening to this next Tuesday, it will have just come out. I guess the question is that one. What's happening? What's going on in the industries and the settlements?

Carey: Big changes. Even though inflation has slowed a lot, I think there was some pent-up demand out there in the last couple of years, and now we're seeing that come through in new settlements.

These settlements sometimes are a little slow to react to what's going on in the economy because they're typically a three-year agreement. We've seen some for a year. I looked at one the other day, and that was 9 or 10 years. That’s pretty rare, but it's typically three years, so there might have been a settlement that was reached in 2020 before inflation took off.

We saw this peak in inflation, and now here in 2023, they're ready to renegotiate. The union probably is going to want to catch up with what happened in society during the last couple of years with 5%, 6%, 7%, 8%, and 9% inflation. Because of that, even though inflation has gone down a little bit now, we're seeing pretty high increases.

These numbers that I'll give you are tentative. We've not done our final analysis of them, but I can tell you we're close. It won't be much different from what I'm sharing. What we're seeing in first-year settlements is about a 4.5% increase. That's the national average across the settlements that we have in our database.

Contrast that with the end of 2022, which was 3.8%, we're already seven-tenths higher in just a little over six months into 2023 than we were on average in 2022. 2022 was eight-tenths higher than it was in 2021. If we go back just to 2020, our average is 2.8%, and now we're looking at approximately 4.5%. That's a very large jump.

Kirk: Let me ask two quick questions in there for the people like myself that aren't very smart. Do these settlements stay pretty in lockstep with general inflation, or are they completely independent? Are they related? How closely can you predict settlement increases to inflation?

Carey: I wouldn't say they're in lockstep, but they're correlated. They're pretty close, but like I said, there could be a lag time because a typical settlement is three years, so those that are green today on, let's say, this average of 4.5%, typically, each year of the settlement is about the same.

If that is a three-year settlement, it probably is 4.5%, 4.5%, and 4.5%. Sometimes, it might be a little different, it could be 4.5%, 4.6%, and 4.7% or 4.5%, 4.4%, and 4.3%. They're pretty consistent. Three years from now, in 2026, they will be negotiating again coming off of a 4.5% increase three years in a row.

Let's say inflation has been down in the low 3% for a few years. At that point, then they'll recalibrate and very likely not negotiate another 4.5% agreement. If inflation is 3%, they would probably get a lot closer to 3% then. But it took them three years to get there because typically about two-thirds of settlements are for three years.

Kirk: I have two more quick questions. You said eight-tenths of a point is huge. Give me a benchmark here of what would be very small. What's very small and what's egregious, oh my gosh, the stock market's crashing kind of a huge jump? What is the threshold?

Carey: From 2011 to 2019, those eight years in our settlements, we went from 1.7% to 3%, so that's a 1.3% increase in eight years. It took eight years to go 1.3% from 2011 to 2019.

For us numbers people, it was kind of boring. Nothing was going on. If you chart it, it’s just a little slow, gentle increase up the hill in your neighborhood when you're going on a walk. Then, in 2020, we reported 2.8% as I mentioned, and we're going to report here halfway through 2023 4.5%, so we're at about 1.7%. It took 1.5–2 years, whereas it took 8 years before.

Kirk: It did in 18 months what had taken 8 years previously. That line on that graph is looking a little more daunting with that trajectory.

Carey: It makes a difference to contractors who are the ones that will pay this amount, so they pay close attention. Labor cost is a big part of their work materials and other things also, but it certainly has a big impact on contractors because it's greater costs for them. For workers, it's important to them because a gallon of gas and a loaf of bread cost a lot more now than they did in 2020 also.

Kirk: Especially if you’re trying to buy eggs. You've said a couple of times the first year, second year, and third year. What's the difference between the first-year settlements and the overall settlements?

Carey: Again, we'll go back to this typical three-year settlement. It could be two years or five years, but three years is the most common.

The first year of that is what's new. In labor and management sit down to bargain, that's what's new. No one knows what that is. Typically, they'll negotiate all three years of those agreements.

Here at CLRC, we'd like to know that. We want to know what the second year and the third year are because we can then predict what the next year and the year after next year will be because they've already told us what that amount will be, 4.5%, 4.7%, or whatever it is.

They've told us that, but the new number is what they sat down at the bargaining table typically in the months of June, July, and August, and negotiated new numbers following the conclusion of the previous contract.

We also do, however, track all years. The first year is probably most important for those people that are sitting down to negotiate a new contract because it's more current and it tells us what's happening around the US now in 2023.

All settlements are helpful because it also includes what was the second year of settlements from last year and the third year of settlements from two years ago. That statistic contains many more numbers in it. It's more robust, so it doesn't bounce as much because there are many more numbers in it and it does represent what contractors are paying in the aggregate right now because they are paying an increase. That was the third year of a settlement reached two years ago. They're still paying for that, so we track that value as well.

All settlements combined and first year have different uses and different meanings, but for those that are hitting the bargaining table—and those are the ones that are closest to our reports probably because it's like, uh-oh, here we go, we're going to be bargaining—are going to key in a little bit more on those first-year settlements.

Kirk: Why don’t you elaborate a little bit more on that? If I'm not the CFO, I'm not the accountant, I'm just the guy at the table, and I'm the negotiating guy, and I have these numbers, what do they tell me? What do I use this number for? Hey, look, these settlements, here's the total, and here's the first year. What does that empower me to do? What do I have with that information?

Carey: You're going to use it just as a gauge, as a data point, and as a resource for your own negotiations, but each negotiation has its own entity, so you don't have to do what CLRC says, here's the national average by any means.

Probably both parties—labor and management—are going to look at that as a guide and say, here's what's happening in the rest of the country. There is sort of a little bit of compensation in effect where people want to know what everyone else is doing, and they say, oh, they did that, so we should give some deference to that.

We have a lot of data cuts, by the way. We might get into this a little bit. We have cuts by craft and by region. Each side of the table may tend to focus a little bit more on the data cuts that favor them, so labor might say, well, let’s peruse our report and find a high number. Let's look at this area. Let's look at the Northwest.

They have high numbers, so labor and management might say, well, yeah, but we're not in the Northwest. We're in Missouri, so let's look at these numbers and whatever craft we are. There's a little bit of cherry-picking of data, but we're all going to slant our interests toward one set of data or the other.

Kirk: You actually cued me up perfectly for what I was about to ask. Back to my gallon of milk or a dozen of eggs thing, those cost differently if you're buying in New York City than if you're buying in Winchester or Virginia. How do settlements vary by region? What kind of variants do we see?

Carey: We do see a fair amount of variance by region. Again, remember in this world, 1% is a lot. You might think, well, that isn't a lot, but it is. Think of people who are getting ready to retire, the stock market goes up a little bit, and they get all excited. It goes down just a little bit, and they get all worried, and that might even be less than a percent.

Anyway, the game we're talking about here is a percent is a meaningful amount, so we do have some range. To get ready for you, Kirk, on this podcast, the highest region right now is the Northwest, and they've been leading the way for us for a little while. Our average now is around 5.5% for the Northwest region. That large part is Washington, Oregon, and Alaska. Those are the three big states in the Northwest. They're pretty high.

We've seen that for a while as a dollar amount that's $4.12 on average. When we look at the low end, we don't have a lot of settlements yet for this area, but New England is lower, believe it or not. This is going to be Massachusetts and states around Massachusetts. It’s around 3%.

Kirk: New England is lower than the Pacific Northwest?

Carey: Yes, at least right now, and it's been that way. When I look at our year-end report from 2022, the Northwest was well ahead of New England. Sounds kind of interesting.

Kirk: I've lived in Boston, I've lived in Seattle, and I find that fascinating.

Carey: Seattle, even a little bit in Wyoming. I know that's not going to move the needle a lot because of the low population, but in Washington State, we see a lot of high settlements. They have an inland area they call, more on the Spokane area in the eastern part of the state but certainly in the Tacoma and Seattle area. Large settlements in the Pacific Southwest. We don't have a lot of settlements yet from there, but last year, the Southwest Pacific, which is characterized by California, Arizona, and Hawaii had big settlements, so if you're on the left part of the US, that's where it pays more for union crafts.

Kirk: I had not thought of this until you said it a second ago, and this is one of those questions that I really don't know. Obviously, geography is going to pay, but would settlements in one region vary from craft to craft very much, or do regions stay pretty similar?

Carey: They do vary. There are at least two big variables. We run two data cuts. It's going to be your craft and your region. I do think the region might have a little more influence on the settlement than the actual craft, so whether you're a pipefitter or electrician, there are still going to be differences. But the fact that you're in the Pacific Northwest might have a bigger influence on that than which craft you are, but certainly, there are craft variances.

Kirk: What are the standouts?

Carey: Millwrights, believe it or not, are pushing the high 6% right now, and that will be across the entire US. It'll include the Northwest, the Southeast, and wherever we're able to get those settlements, but millwrights are high.

The others that are over 5% are carpenters—millwrights are kind of negotiated by the carpenters union—and then we have laborers in our database as of now, a little over 5%, and then the other one is pipefitters. Those four crafts right now—I'm going to come back to that in a minute—the carpenters, laborers, millwrights, steamfitters, and pipefitters together are all over 5%.

I just want to remind you, this is going to be our second quarter settlements report. We'll do another one after the third quarter, and then a year, and one after the fourth quarter, which is the end of the calendar year. We are going to be continually adding probably a few hundred settlements and hopefully hundreds more, so these numbers could change.

It's just like you go to a ball game. At halftime, you might think you know who's going to win, but you might not as well, so we're at that time right now.

Kirk: You really want to wait for the seventh inning before you make any big predictions.

Carey: Yeah. If it's you, that's when you put the big bets in, isn't it?

Kirk: How about the other side? Who's on the lowest? Who are the ones standing out at the low end?

Carey: On the craft side, I mentioned as far as regions go, we have New England which is at the lowest pricing. Again, that could change. On the craft side, glaziers are a little bit low right at about 3%. Looking at my list here, all others are at least 3.5%.

Remember, a year ago, our average is 3%, so the low ones now are half a point higher than what our average was, but a couple of others at least now that are a little bit low are plasters at about 3.5%, and teamsters at about 3.6%. Most of the rest are around 4%, so they're pretty close to the average there. Again, this could change.

Kirk: I've always been told there's no such thing as a stupid question, but I'm absolutely going to challenge that assumption now with this next one. A 3% on the low to 6% on the high in terms of point percentages is a big difference. That's double. What causes such a variance? I'm not trying to speak out of turn here, but what would cause that big of a discrepancy?

Carey: That's a very good question. We have to send you to an economics school. There could be many factors, one of which is a little bit spurious. By that, I mean it may not have directly to do with what's actually happening.

Early in the process now, we have a few more settlements from a high region in the country for craft A and a few more from a lower-paying region of the country for craft B, so that has a little bit of intertwining of the region and the craft. That could be one factor that we just have more high settlements for one craft than we do for another.

But there are more site-specific issues. One of the biggest would be market share. In a given area, what's the workload for that union? The workload is heavy, and there are a lot of jobs. There's a new chip factory coming for a billion dollars, or Ford, GM, or somebody's going to build there, then this work demand will, generally speaking, benefit labor and benefit the union.

Kirk: That's going to make the settlements go down, a huge demand.

Carey: It might make them go up.

Kirk: Oh, make them go up.

Carey: That will help labor because they're going to say, well, you got a lot of work coming to the contractors. You guys are going to be busy and making a good profit. We'd like to share in that.

Firstly, if the work is limited, everybody's leaving town, or market share is going down, management could lay claim that we just can't be competitive with non-union contractors. They have lower wages, they're winning more of the bids, we're not getting enough work, and we need some help on the wages side.

By the way, materials skyrocketed. We have a report that we've done in the last couple of years. Inflation was high, but the cost of commodities that contractors buy was much higher yet, so contractors could say, lumber, cement, and iron are killing us. It's going to be real hard for us to provide large increases now because work is limited. When the work is lower in that part of the country, then that would push toward a lower or smaller increase.

Those could happen. One other thing that we've seen particularly coming off of COVID is once in a while, the parties may have kicked the can down the road and said, look, we're just going to do a one-year agreement. We're not even going to touch the wages, or it's just going to be a very small increase because it's a COVID thing. We don't know what's going to happen next.

They did that, and now, COVID is kind of over, so they have to make up ground because maybe there wasn't much of an increase for a year. Normally, that would have been 3%. Now we're negotiating, and the parties reached an agreement where it's a 5% or 6% increase because there wasn't much for a year.

Kirk: I don't want to get us off track with hypothetical economics, but I'm more curious about this than anything else. I think I know the answer, but I'm going to ask anyway. I understand what makes them go faster and what makes them go slower. Is there a scenario that prices would drop?

Carey: What goes up must come down is not true in compensation, so it’s very rare. I’ve been in this job for about 12 years. I worked in a big company before here. It's exceedingly rare for a given employee to have a pay cut, but it could certainly happen if they're in the same job. That is exceptionally rare. Now, if they took a new job, whether it’s in the same company or somewhere else, of course, they pay as much, but for the same job, pay almost never goes down.

A journeyman in Peoria, as I said earlier, who's an electrician making $50 this year—I’m making up numbers here—will not be $49 next year.

Kirk: That is what I assumed you were going to say, but when we're working from contract to contract, we might negotiate a different contract. I just wanted to see if that ever happened.

Carey: You bring up a good point. Sometimes though, some people call it a market recovery rate. In a contract, they might have, here's our rate, $50, but we have a market recovery rate that the parties have to agree to use that's 90% of the dollar package. They can use that for select projects.

Maybe a contractor says, wow, we really want this new Amazon distribution center or whatever it is, but to be competitive, I don't think we're going to get it at the 100% journeyman standard rate. Can we go to 90%? Maybe the parties agree to that. I'm glad you brought that up. That could be an example of a situation. It’s situational though, it's not standard.

Kirk: There wouldn't be a standard, and it would probably never hit the average across the industry. It would be job-specific.

Carey: Very job-specific and location-specific. I want to caution the listeners on one thing. You may see averages that are lower though. We're heavy users of BLS data, the Bureau of Labor Statistics. They do surveys, and they check what people are paid. Sometimes, we've noticed that the average rate for sheet metal workers could be lower from one year to the next.

I've just gone off on you here telling you how no individual has their pay cut, and that's seemingly extremely true, but the average could. That's simply a function of BLS surveying a sample that is not exactly the same from year to year. This year's sample may only overlap 80% with last year's sample, so the new 20% might have a lower pay rate.

Kirk: That’s just the margin of error within the sampling.

Carey: The margin of error, yes.

We even see that a little bit at CLRC although we're very aware of this statistical phenomenon, and we try and control that as much as we can, but it's a fact of life in a world of surveys.

Kirk: That makes a lot of sense.

You actually just touched on it, but just for the listener and a little bit for myself as well, where do you get this data? This is going into a lot of pay rates and closed-door contract information. Where are you getting the data?

Carey: We get it wherever we can. We often just rummage through trash cans in town and we find them. When that doesn't work, then we go to a lot of sources.

CLRC is well supported by associations in the construction industry. [TAUC] is one of our favorites, by the way, but we have others such as MCAA for the mechanical trades, NECA for electrical, AGC for basic trades, and many others.

Their regional chapters, affiliates, and associations are probably our primary sources of data. They know who we are, they believe in what CLRC does, and they know that they need to give us their contracts so we can populate our database with that. In return, we produce these settlement reports at no cost to any of them, so they get it for free. There's a little bit of a quid pro quo, and we really appreciate it when these regional chapters provide us with their data.

That's our primary source. We get some data directly from unions and various other sources, but in large part, it’s through associations.

Kirk: This is some cool, fascinating stuff. Quarter two is coming out this Friday. This podcast will be coming out Tuesday, so it just came out last Friday as the listeners are listening to this and is available definitely to the associations that provided the data. I'm interested to look through it and see some of this stuff. It'll be fascinating.

Carey: We love people to read it. We are always open to feedback. If anyone wants to give us their insights, we really do enjoy it. It's a whole lot of work, I should say, collecting a lot of settlements, populating a database with that, and running the analysis, but it makes us satisfied to know that it is a well-received and often used resource for labor and management all over the US whether they're entering into bargaining here in the summer or in the fall, or they just want to know what's going on. We enjoy the fact that others use it and find value in it.

Kirk: That makes a lot of sense. Obviously, I wanted to get into a little bit more of what is it, what is it for, and what does it do this time, but we definitely want to have you come back next quarter, update us, and keep this conversation going about what's going on because I think this is valuable data for people to just be aware of and hear not just spread out in a spreadsheet but talked about and see how the numbers are moving.

Carey: That's great. Invite me back, and we'll tell you more.

Kirk: Awesome. Thank you, Carey, so much for coming on, and we look forward to seeing more of you.

Carey: All right. Thank you. Take care, Kirk.

Kirk: You've just listened to The Construction User 2.0 podcast from The Association of Union Constructors. Don't forget to subscribe to get all future episodes of what is going on and what is current in the union construction and maintenance industry.