2020 MARCUM JOLTS ANALYSIS

Marcum is pleased to provide the latest in a series of annual analyses focused on the Bureau of Labor Statistics' Job Openings and Labor Turnover Survey. These analyses are tailored to the informational requirements of construction industry leaders.

DESPITE PANDEMIC INDUCED JOB LOSSES, LABOR MARKET TIGHTNESS PERSISTS

The Job Opening and Labor Turnover Survey (JOLTS), a Bureau of Labor Statistics (BLS) product that supplies data regarding labor market churn for the previous year, indicates an ongoing tightening of the nation's construction labor market. This is surprising for several reasons.

First, between January 2020 and January 2021, industry employment fell by more than 200,000 jobs Second, after expanding rapidly during the third quarter of 2020, the broader economy stalled in the fourth quarter of 2020 and the beginning of 2021. Finally, a number of industry-specific leading indicators, including Associated Builders and Contractors" Construction Backlog Indicator and the Architecture Billings Index, suggest lingering softness in demand for construction services.

Nonetheless, JOLTS data indicate that construction firms are clinging to their workers more aggressively, with layoff activity declining during late last year. This represents a departure from labor market dynamics registered in the first few months of 2020.

In March 2020, as the pandemic imposed its will on American society, contractors slimmed down their workforces as project work slowed or came to a standstill. More than 600,000 construction workers were laid off or discharged during that month alone, more than 50 percent above the level registered during the previous worst month on record (April 2009). April 2020 was even worse, with 709,000 workers, or 10.8 percent of the total construction workforce, laid off or discharged.

Despite the availability of stepped-up unemployment insurance benefits from the federal government at that time, many construction workers clung to their jobs. The number of construction workers who quit reached a six-year low in April 2020 but has since rebounded to roughly normal levels.

Indeed, JOLTS' data indicate that the construction labor market has returned toward normalcy with astonishing rapidity. For instance, both total hires and job openings were down only slightly on a year-ago basis by 2020's conclusion.

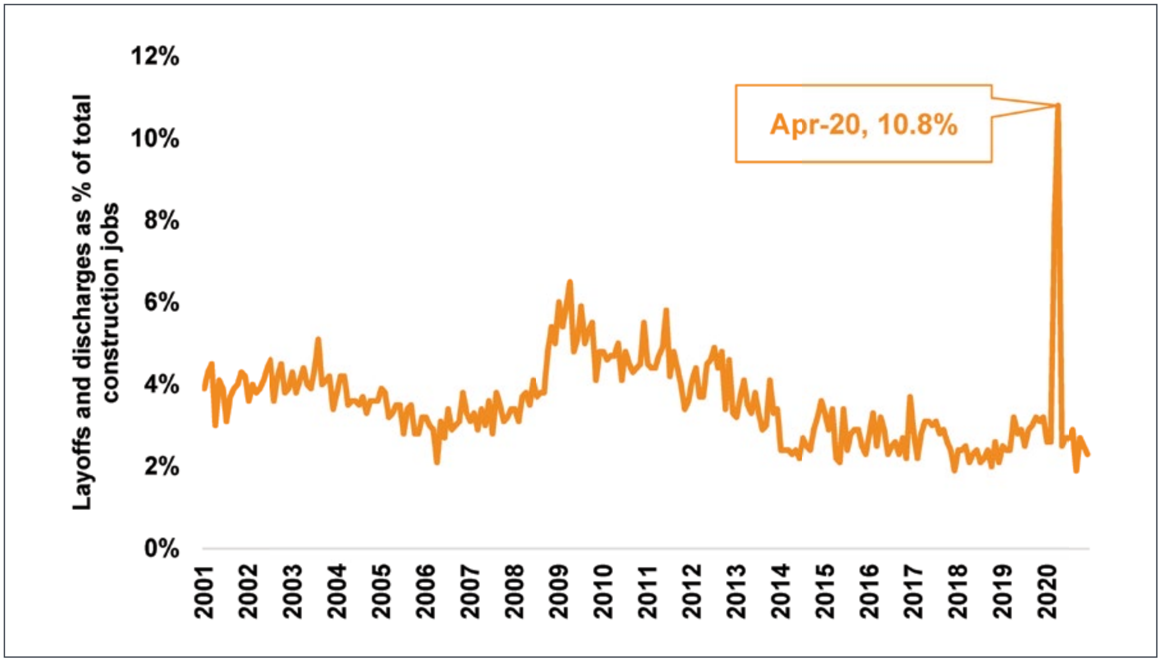
Presently, the number of job openings is equal to 2.6 percent of available construction jobs (195,000 unfilled positions). While that's the lowest proportion registered since December 2017, it's higher than the average proportion of job openings observed from 2014-2017. It's also higher than any month during the 2008-2013 period, indicating that job openings are low by recent standards but not especially low in the context of the past decade. When the pandemic began, some thought (and hoped) that the massive job losses observed in March and April would mitigate the skilled labor shortages that have frustrated construction firms for years. That simply hasn't happened to any meaningful degree.

The return toward normalcy is also apparent in the quits rate, which shows that contractors are struggling to find and retain skilled labor. In December 2020, there were 13,000 more workers who quit their construction jobs than were laid off or discharged by their employers. This was just the 17th month in the past 20 years during which quits exceeded layoffs and discharges—a clear indication of labor market tightness.

There's more. In the midst of a gut-wrenching, economy-destroying pandemic, average hourly earnings of construction employees reached their highest level on record in January 2021 ($32.11), and average weekly hours worked rose to their highest level since 2019's third quarter. This is what might be expected from a strong economy operating under normal circumstances, not one facing a lingering pandemic and elevated unemployment. At the time of this writing, the construction unemployment rate is a still lofty 9.4 percent.

EXHIBIT 1

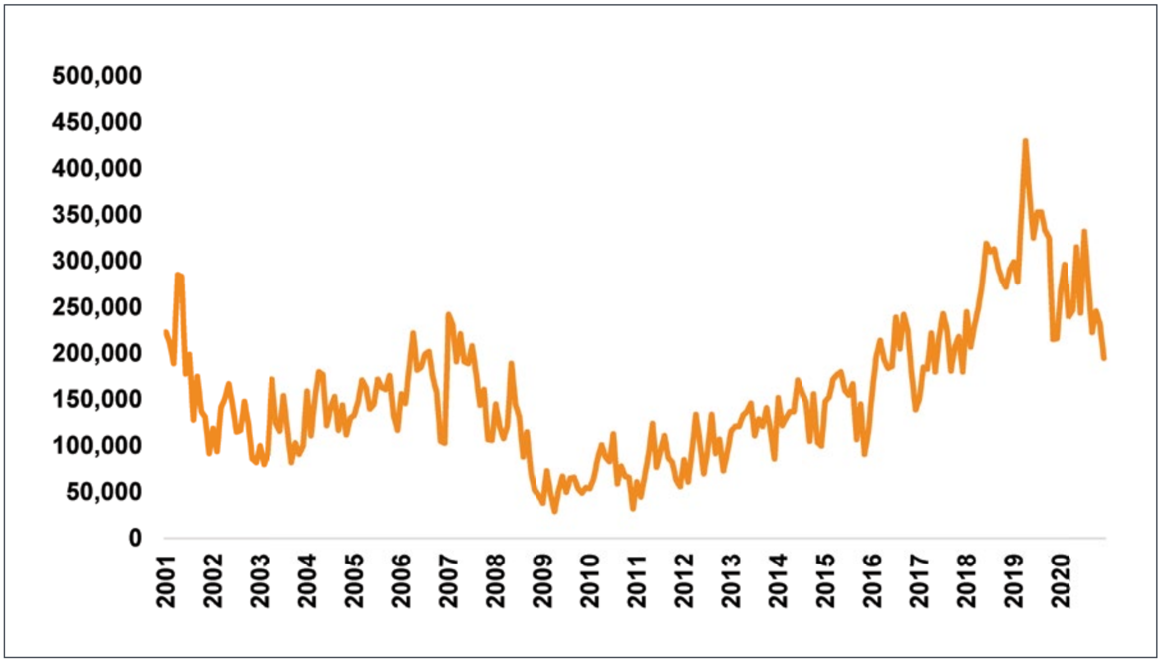
Rate of Construction Lay Offs and Discharges



Source: Bureau of Labor Statistics

EXHIBIT 2

Job Openings



Source: Bureau of Labor Statistics

How can it be that contractors are clinging to workers and still can't fill many available positions during the midst of a pandemic? One possible explanation revolves around regional disparities. Parts of the U.S., like the Southeast, Texas, Colorado, and segments of the Mid-Atlantic region have surging residential marketplaces and reasonably stable levels of nonresidential activity. Other areas, like the Northeast and certain parts of the Midwest, where much of the industry's job losses have occurred and where population has been stagnant or declining for years, are home to an abundance of unemployed construction workers. In other words, the job openings are concentrated in certain regions while idle labor is concentrated in others.

THREE THINGS TO WATCH

1. Will workers come back?
According to the Census Bureau, more than 60 percent of construction workers who lost their jobs during the Great Recession left the industry by 2013. Many of these workers found positions in other industries, while others retired altogether.

2. Will the nonresidential segment catch up?
The residential construction market has surged to unprecedented heights, with residential spending surpassing $700 billion in December 2020 (seasonally adjusted, annual rate), the highest level ever recorded and 20 percent higher than in December 2019. Nonresidential spending, on the other hand, is down almost 5% year-over-year, with the hot single-family construction market driving both labor and materials costs higher.

3. What about public construction?
Thus far, public construction has held up well thanks in large measure to pre-existing backlog and construction's enviable status as an essential industry. But with state and local government finances compromised by the crisis, it is conceivable that public work will dry up absent a federal stimulus package, resulting in more worker availability but fewer contracts.

2021 Marcum National Construction Survey

Be a part of the 2021 Marcum National Construction Survey. For every survey completed, Marcum will donate $1 to the construction trades' training and job readiness programs.

Take the Survey

https://www.surveymonkey.com/r/2021ConstructionSurvey

All participants will receive the complete survey results and a detailed analysis of what they reveal about the current state of the construction industry, including predictions for 2022.

PAS CONTRACTOR COMPENSATION QUARTERLY

THE MARCUM EDITION

The new **Marcum Contractor Compensation Quarterly** (CCQ) is especially designed for the busy construction executive who needs to stay abreast of competitive compensation and benefit levels within the industry.
Read the latest edition at...

www.marcumllp.com/ccq

Construction Services

Marcum LLP is a premier provider of full service accounting, tax and consulting services to the construction industry. Our clients range from small contractors to billion dollar international construction organizations. Our client base gives us the breadth and depth of construction experience to effectively and efficiently develop the strategies needed to meet your requirements.

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- Audits, reviews & compilations of financial statements of public & private companies
- SSAE 16 audits
- Internal audits
- Pension & benefit plan review & audits (ERISA)
- Financial forecasts & projections
- Internal controls review & design
- Due diligence on acquisitions/ divestitures
- Custom assurance services
- Mergers & acquisitions
- Operational auditing
- Accounting outsourcing
- Monitoring

Tax Services

- Tax deferral maximization through contract element review
- Long-term construction contracts
- Alternative minimum tax planning
- Look-back planning & compliance
- Cost allocation
- Federal, state & local tax planning
- Estate & succession planning
- IRS examination assistance
- Tax preparation for owners & businesses
- Tax compliance and planning
- Planning for long term contract tax regulations

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- Forensic accounting
- Fraud investigations
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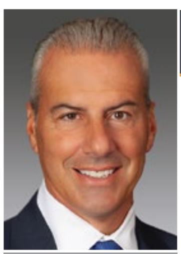
- Claims consulting
- Strategic planning & profit enhancement

Fund Management Services

- Accounting and administration
- Opening and maintaining bank accounts
- Setting up client access to accounts
- Reviewing proof of claims and determining correct payments
- Looking beyond the payment required
- Writing and processing checks with signatures
- Identification of fraudulent and preferential transfers and payments
- Returning undistributed funds
- Accounting and internal control assessment
- Performing monthly bank reconciliations
- Fraud investigation
- Escrow agent
- Paying agent

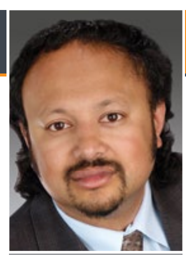
Surety Bond Investigations Services

- Financial analysis of principal
- Claims evaluation/ administration
- Indemnity investigations/ sources of recovery
- Monitoring project progress/ cost estimates
- Litigation support/principal tax issues
- Administration of trust/ escrow accounts
- Cash flow analysis
- Underwriting support



Joseph Natarelli

Joseph Natarelli is national leader of Marcum's Construction Industry Practice and office managing partner in New Haven. For more than a decade, he has served as a technical reviewer for the AICPA's Audit Risk Alert for Construction Contractors and the AICPA Accounting Guide – Construction Contractors. Joe has also chaired the annual AICPA National Construction Industry Conference.



Anirban Basu

Anirban Basu is Marcum's chief construction economist. He is also a member of the Firm's National Construction Practice, as well as chairman & CEO of Sage Policy Group, Inc., an economic and policy consulting firm in Baltimore, Maryland. Anirban leads Marcum's research and analysis of the economic health of the commercial construction industry in America. Additionally, he writes the quarterly Marcum Commercial Construction Index and annual Marcum JOLT Survey analysis and is a keynote presenter at the Firm's construction industry summits.

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