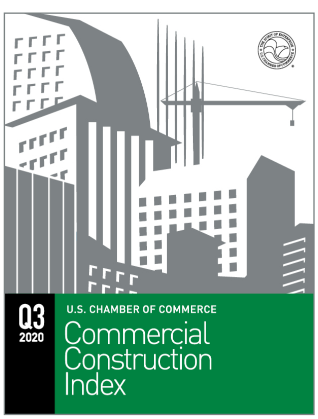
Q3
2020

U.S. CHAMBER OF COMMERCE

Commercial Construction Index

TABLE OF CONTENTS

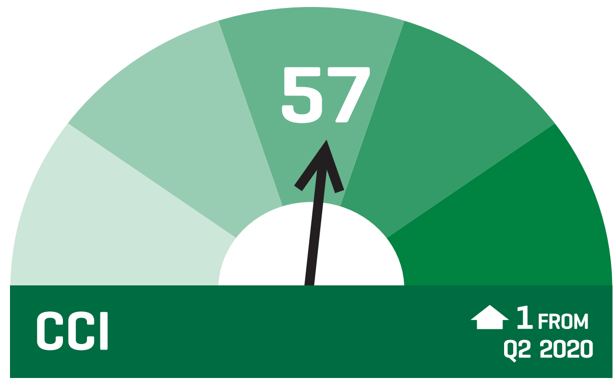


The U.S. Chamber of Commerce Commercial Construction Index (CCI) is a quarterly economic index designed to gauge the outlook for and resulting confidence in the commercial construction industry. Recognizing a need to highlight the important contributions of this sector to the nation's economy, the U.S. Chamber of Commerce produced this first-of-its-kind index. Each quarter, contractors across the country are surveyed in order to better understand their levels of confidence in the industry and top-of mind concerns.

Index Steady, But Remains Far Below Pre-Pandemic Level

In the third quarter of 2020 the U.S. Chamber of Commerce Commercial Construction Index rose just one point to 57 from 56 in Q2, remaining statistically unchanged.

However, the score is significantly below findings before the full effect of shutdowns due to the coronavirus pandemic hit. In Q1 2020, the Index score was 74, which at the time was in the midrange of scores over the last three years.



KEY DRIVERS OF CONFIDENCE

The three key drivers behind the score showed mixed results: Confidence in the construction market and revenue expectations nudged upwards, while backlog went down slightly. Confidence increased by six points to 56, and revenue expectations crept up four points to 48 between Q2 and Q3. Backlog slipped from 73 in Q2 to 68 in Q3. *See Key Drivers on page 3.*

QUARTERLY SPOTLIGHT

This quarter's spotlight examines the consequences of the COVID-19 pandemic on commercial construction. Worker health and safety, along with project cancellations and delays, remain contractors' biggest concerns. Most (70%) contractors say worker health and safety remains a top concern for their business and more than half (60%) report project shutdowns or delays as a top concern.

Nearly all contractors (85%) say they are experiencing delays on some projects due to the coronavirus outbreak. The majority (83%) expect delays to continue into the fall, and most (71%) expect delays to continue into early next year. But the number of projects reporting delays is falling: In Q3, contractors reported an average share of 26% of their projects were delayed, down from 40% in April. *See Quarterly Spotlight on pages 4-5.*

MARKET TRENDS

Market trends this quarter show resilience in the face of challenging times, but few clear indications for what the future holds for commercial contractors. Short-term confidence is up slightly from Q2 with 82% of contractors reporting a moderate to high level of confidence that the market will provide sufficient new business in the next year (up from 75% in Q2). However, finding enough skilled workers remains a perennial problem: More than one in three (36%) contractors who report difficulty also report turning down work due to skilled labor shortages (up from 32% in Q2). *See Market Trends on pages 6-8.*

US CHAMBER OF COMMERCE
COMMERCIAL CONSTRUCTION INDEX

Key Drivers of Contractor Confidence

56 ↑ 6 FROM Q2 2020
NEW BUSINESS

- Contractors' confidence in the ability of the market to provide new business in the next 12 months rebounded slightly, increasing six points to 56 in Q3 from 50 in Q2. This score was 76 in pre-pandemic Q1.
- Most contractors (82%) say they have moderate to high confidence that the U.S. market will provide sufficient new business opportunities in the next 12 months, up from 75% in Q2.
- Contractors are slightly more optimistic looking ahead 24 months, with 86% reporting moderate to high confidence in new business (but that's down from 93% in Q2).

48 ↑ 4 FROM Q2 2020
REVENUE

- Revenue expectations for the next 12 months are slightly more positive than they were in Q2, inching up four points to 48 in Q3, as many contractors saw projects ramping back up after the initial shutdowns early in the pandemic. This score was 70 in pre-pandemic Q1.
- Contractors are almost evenly split between those anticipating an increase in revenue and those expecting a decrease, with 22% expecting an increase in the next year (up from 17% in Q2), and 19% expecting a decrease (a slight decline from 21% in Q2).
- Of those expecting an increase, 46% believe it will be an increase of up to 3% in revenue. On the other hand, of the 19% expecting a revenue decrease, 33% believe it will be a decrease of 10% or more.
- The majority (60%) of contractors expect their revenues to remain about the same in the next 12 months.

68 ↓ 5 FROM Q2 2020
BACKLOG

- The ratio of average current to ideal backlog slipped from 73 in Q2 to 68 in Q3. This key driver score was 76 in pre-pandemic Q1.
- The optimal level of backlog on average was virtually unchanged (12.2 months in Q2 versus 12.3 months in Q3). The average number of months of backlog projects fell from nine months in Q2 to 8.3 months in Q3.
- Impact to backlog from the current crisis may lag for several months as projects are delayed.

US CHAMBER OF COMMERCE
COMMERCIAL CONSTRUCTION INDEX

Project Delays Continue, Share of Delayed Projects Expected to Decline

Nearly all contractors (85%) are currently experiencing delays on some projects due to the coronavirus outbreak. This is statistically unchanged from 87% saying the same in Q2. Most contractors (83%) expect delays to continue into the fall, and 71% expect delays to continue into early 2021.

However, the average amount of delays has decreased sharply as the year continues. In July, contractors reported an average share of 26% of their projects were delayed, down from 40% in April as the pandemic was reaching its height.

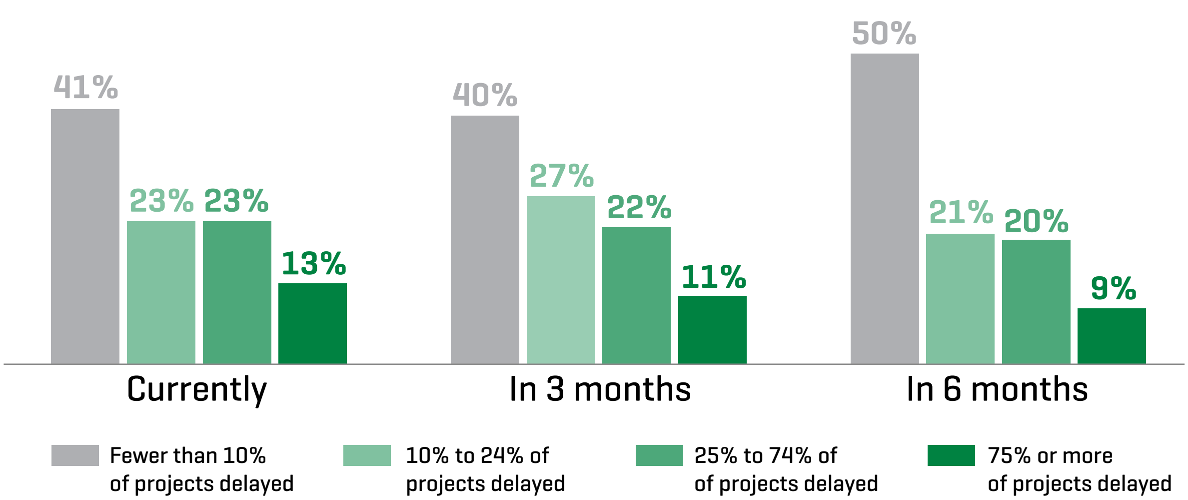
This trend is also seen in the fact that in April, 39% of contractors reported over half of their projects (50% or greater) were delayed, whereas in July, just 19% of contractors said the same (a 20-point fall for the quarter).

85% are experiencing project delays due to COVID-19

71% expect delays to continue into early 2021

Looking ahead to the next three months, the percentage of contractors expecting over half of projects to be delayed shrinks further to 16%. In the next three months, the average share of delayed projects drops to 26%. And in the next six months, the average share of projects on which delays are expected drops to 22%.

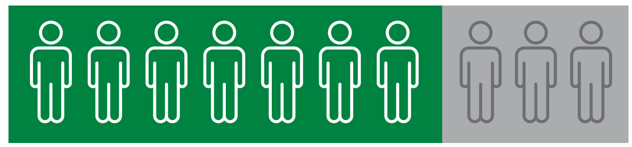
BREAKDOWN OF PROJECT DELAYS DUE TO COVID-19



Contractors' Top Concern: Worker Health and Safety

Contractors were provided a series of challenges that COVID-19 may present to their businesses and were asked to select the three that concerned them the most.

Most (70%) contractors say worker health and safety remains a top concern for their business due to the outbreak. More than half (60%) report more project shutdowns/delays as another top concern. Less contractors (38%) report having fewer projects as a result of the outbreak (down from 48% in Q2).



70% of contractors say worker health and safety is a top concern

CHANGES IN WORK PROCEDURES DURING COVID-19

Contractors were asked what changes their company has made in response to the COVID-19 outbreak. Nearly all (97%) contractors reported making changes in response to COVID-19 this quarter. The responses that drew the strongest majorities all center around keeping employees safe. *See image at right for details.*

82% provided items to protect employee health, such as masks and sanitizer

75% changed work procedures to increase social distancing

67% allowed remote work for office employees

1 in 3 Contractors Plan to Hire, Though Shortage of Skilled Labor Continues

Most (83%) contractors continue to report moderate to high levels of difficulty in finding skilled workers. Of those contractors who report difficulty finding skilled workers, more than one in three (36%) report turning down work due to a shortage of skilled workers, up from 32% in Q2. And nearly three quarters (74%) of them say they are asking skilled workers to do more work (up from 71% in Q2).

CONCERN OVER WORKER SKILL LEVEL

The majority (91%) of contractors also report high or moderate concern about their workers having adequate skill levels, with nearly half (45%) reporting a high level of concern. Although it is important to note that those expressing a high level of concern has declined over the past year, dropping 13 percentage points year-over-year from 58% in Q3 2019.

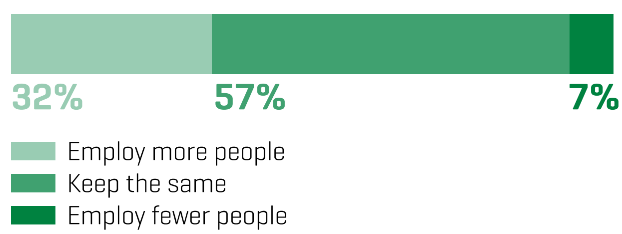
Moreover, contractors are pessimistic about the future. In the next six months, over half (62%) of contractors who reported it was difficult to find workers with adequate skill levels expect the problem will stay the same (up from 47% in Q2 2020), and only 15% expect it will improve.

FEW CONTRACTORS LOOKING TO DOWNSIZE

Despite some challenging circumstances due to the coronavirus pandemic in the larger economy, most contractors are aiming to keep the staff they have and very few are looking to downsize. The number of contractors planning to hire in the next six months (32%) is the same as in Q2. Meanwhile, more than half (57%) of firms expect to keep the same number of workers, and only 7% expect to reduce staffing (down from 15% in Q2 2020).

83% of contractors report moderate to high levels of difficulty in finding skilled workers

Contractor hiring plans
over the next six months



Profit and Revenue Expectations Remain Steady

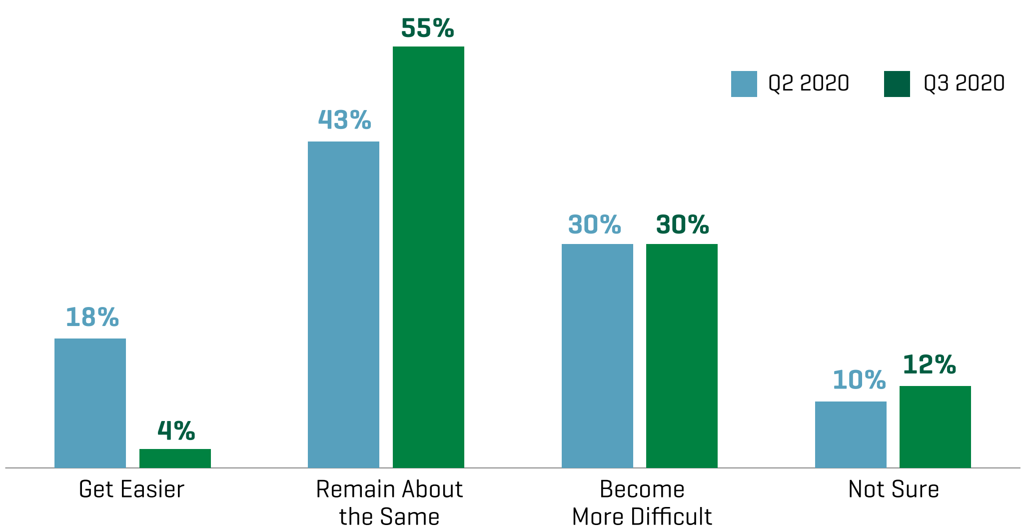
The majority of contractors expect profits to remain steady. Sixty-nine percent of contractors said they expect their profit margins to remain the same over the next 12 months, up slightly from 63% in Q2. Those expecting an increase (17%) were statistically unchanged, up from 15% in Q2. Meanwhile, contractors expecting a decrease in profit margins fell four points with 14% expecting their profit margins to decrease over the next 12 months.

Most contractors (60%) also expect revenues to remain the same over the next 12 months. Contractors are almost evenly split between those anticipating an increase and those expecting a decrease in revenue. More (22%) contractors expect their revenue to increase in the next year (up from 17% in Q2). On the other hand, 19% expect revenue decreases over the next year (a slight decline from 21% in Q2).

CONTRACTORS SEE ACCESS TO FINANCING REMAINING THE SAME

Most contractors remain optimistic about being able to access financing when they need it. Just over half (55%) of contractors expect their access to working capital financing will remain the same (up from 43% in Q2, a 12-point increase), while 30% expect that it may become more difficult in the next six months. Over half (52%) of contractors believe that building owner access to financing will get easier or remain the same in the next six months (up from 49% in Q2).

EXPECTED CHANGE IN ACCESS TO WORKING CAPITAL FINANCING IN THE NEXT SIX MONTHS



US CHAMBER OF COMMERCE
COMMERCIAL CONSTRUCTION INDEX

Spending Steady, Material Costs Concerns Stay High

Although the majority of contractors (56%) report they will not increase spending on tools and equipment over the next six months (down slightly from 59% in Q2), the percentage of those who will increase spending on tools and equipment (30%) is up slightly from 28% last quarter.

Concern about fluctuations in the cost of building materials remains relatively high, with 62% of contractors indicating fluctuations have a high or moderate impact on their business, up four points from 59% in Q2.

CONCERN OVER STEEL & LUMBER PRICES

Of the contractors who are concerned about the impact of cost fluctuations, most (41%) are concerned about steel (up from 33% in Q2). However, 21% are concerned about price changes in lumber. As reported in other surveys, the cost of lumber has increased substantially this year due to a boom in demand for residential construction. Between mid-April and mid-August of 2020, builder costs for lumber to construct an average single-family home have increased 70% according to the National Association of Home Builders. This has resulted in a more than $14,000 increase in the price of a home.

Just over half (54%) of contractors say they face shortages for at least one material, up from 45% who reported the same in Q2. Wood and/or lumber is the most reported shortage at 11%, up from 5% of contractors reporting a shortage last quarter.

54% of contractors face at least one material shortage

30% plan to increase spending on tools and equipment

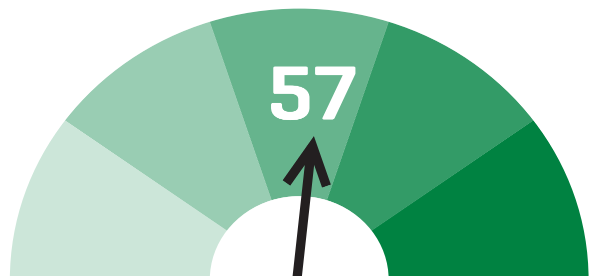
Wood/Lumber is the most reported material shortage for commercial construction contractors

Contractors concerned about the **cost fluctuations of steel** jumped from 33% to 41% this quarter

US CHAMBER OF COMMERCE
COMMERCIAL
CONSTRUCTION
INDEX

Methodology

Dodge Data & Analytics (DD&A) in partnership with the U.S. Chamber of Commerce conducts the Commercial Construction Index survey on a quarterly basis with the DD&A Contractor Panel. The data represented in this report is from the Q3 2020 survey conducted online from July 13 to July 20, 2020.



The Commercial Construction Index is 57 for the third quarter of 2020.

Significant Slowdown
Down Market
Healthy Market
Neutral Maket
Boom Market

DD&A CONTRACTOR PANEL

In order to enable reliable market research in the construction industry, DD&A maintains a panel of more than 2,700 decision-makers that includes general contractors, construction managers, design-builders and trade contractors. This panel allows DD&A to provide findings that are representative of the entire U.S. construction industry by geography, and by size and type of company.

THIRD QUARTER SURVEY DEMOGRAPHICS

210 contractors who do projects in the commercial and institutional sectors in the U.S. (including multifamily residential) responded to the survey.

TYPE OF COMPANY 50% of respondents are prime contractors (including general contractors, construction managers, design-builders), and 50% are specialty trade contractors.

JOB FUNCTION Most are in leadership roles or engaged in projects. 30% of respondents are C-level, 35% are primarily involved on projects, 24% are estimators and 11% fall into the Other category.

REGIONS 25% are based in the Midwest, 15% in the Northeast, 21% in the South, 23% in the West, and 16% in the Southeast.

SIZE OF COMPANY 23% Large companies ($100M and over), 42% Midsize companies ($10M to under $100M), 35% Small companies (Under $10M)

The analysis includes comparisons to previous surveys conducted online with the DD&A Contractor panel since January 2017.

5 METHODOLOGY

US CHAMBER OF COMMERCE
COMMERCIAL CONSTRUCTION INDEX

COMMERCIAL CONSTRUCTION INDEX

The Commercial Construction Index is an indicator of the health of the contractor segment of the U.S. building industry. It is comprised of three specific components reflecting aspects of the commercial contractors' situation.

THE FIRST COMPONENT calculates each respondent's ratio of current backlog to ideal backlog. It takes the mean of the ratio across all survey respondents.

THE SECOND COMPONENT is the mean of all responses, on a scale of 1-10, to the question "How confident are you that the U.S. market will provide your company with sufficient new business opportunities?"

THE THIRD COMPONENT compiles contractors' ranges of expected revenue growth/decline and transposes those to a 10-point scale, then takes the mean of responses on that scale.

Each measure is drawn from the quarterly survey responses, and they are weighted evenly by one third (33.3%) to create the composite index.

DEFINING COMMERCIAL CONSTRUCTION

For purposes of the CCI we define commercial construction as the following types of buildings: Office, Retail, Hospitality, Education, Healthcare, Multifamily Residential (mid- and high-rise), Government, Warehouses, Airport Terminals and other Transportation Buildings.

The U.S. Chamber of Commerce is the world's largest business organization representing companies of all sizes across every sector of the economy. Our members range from the small businesses and local chambers of commerce that line the Main Streets of America to leading industry associations and large corporations. They all share one thing: They count on the U.S. Chamber to be their voice in Washington, across the country, and around the world. For more than 100 years, we have advocated for pro-business policies that help businesses create jobs and grow our economy.

Dodge Data & Analytics is North America's leading provider of analytics and software-based workflow integration solutions for the construction industry. Building product manufacturers, architects, engineers, contractors and service providers leverage Dodge to identify and pursue unseen growth opportunities and execute on those opportunities for enhanced business performance. Whether it's on a local, regional or national level, Dodge makes the hidden obvious, empowering its clients to better understand their markets, uncover key relationships, size growth opportunities and pursue those opportunities with success. The company's construction project information is the most comprehensive and verified in the industry. Dodge is leveraging its 100-year-old legacy of continuous innovation to help the industry meet the building challenges of the future. To learn more, visit www.construction.com.