

Q4
2020

U.S. CHAMBER OF COMMERCE

Commercial Construction Index

PAGE

2 REPORT SUMMARY

PAGE

3 DRIVERS OF CONFIDENCE

PAGE

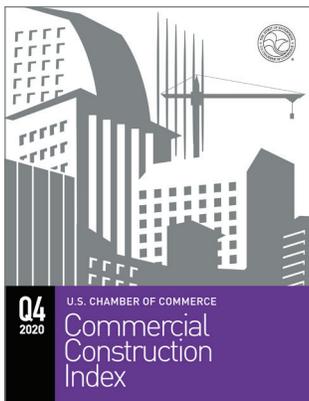
4 QUARTERLY SPOTLIGHT: IMPACT OF COVID-19

PAGE

5 KEY MARKET TRENDS

PAGE

9 METHODOLOGY



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.

Copyright © 2020 by the United States Chamber of Commerce. All rights reserved. No part of this publication may be reproduced or transmitted in any form—print, electronic, or otherwise—without the express written permission of the publisher.

Index Inches Up, Stays Well Below Pre-Pandemic Level

In the fourth quarter of 2020 the U.S. Chamber of Commerce Commercial Construction Index rose two points to 59 from 57 in Q3.

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

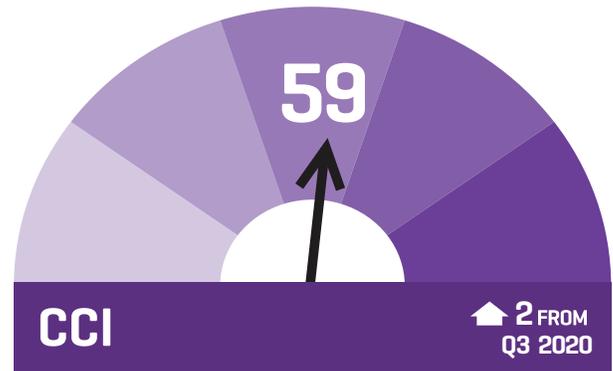
KEY DRIVERS OF CONFIDENCE

All three key drivers behind the score nudged up this quarter. Contractors' revenue expectations increased by four points to 52 in Q4 from 48 in Q3. Backlog rose one point to 69 in Q4, coming closer to its pre-pandemic, Q1 score of 76. Contractors' confidence in the construction market went up one point to 57 in Q4. *See Drivers of Confidence on page 3.*

QUARTERLY SPOTLIGHT

This quarter's spotlight continues to examine the consequences of the COVID-19 outbreak on commercial construction. Worker health and safety, along with project cancellations and delays, remain contractors' top concerns. However, less availability of building products and materials has emerged as a larger concern this quarter as the coronavirus pandemic continues. Over one-third [41%] of contractors say less availability of building products and materials is a severe consequence of the current outbreak for their business.

A large majority of contractors [83%] say they are currently experiencing project delays on some projects due to the coronavirus outbreak. Most [85%] expect delays to continue into January 2021, and 68% expect delays to continue into the spring of 2021. Still, the number of projects with delays remains steady: In Q4, contractors reported an average share of 26% of their projects were delayed, the same as in July. *See Quarterly Spotlight on page 4.*



MARKET TRENDS

Despite ongoing uncertainty over the future of commercial construction, contractors are signaling that they are cautiously optimistic about their medium to long term prospects. Market trends this quarter show moderate-to-high confidence in new business opportunities and steady revenue and profit expectations.

Most [85%] contractors report a moderate to high level of confidence in the construction market to provide sufficient new business in the next 12 months. More contractors [20%] expect to see profit margins increase over the next year [compared to 17% last quarter] and 25% of contractors expect their revenue to increase in the next year, up from 22% in Q3.

Contractors planning to increase spending on tools and equipment continues to rise. More than one in three [36%] contractors plan to spend more this quarter. Lumber shortages are starting to bite: 31% of contractors report a current lumber/wood shortage, up from 11% last quarter. Tariff concerns linger with 24% of contractors saying steel and aluminum tariffs will have a high degree of impact on their business in the next three years. *See Market Trends on pages 5-8.*

Correction: In a previous version of this report published on Dec. 10, 2020, the overall index score and backlog component score were incorrect due a data tallying error. The correct overall index score for Q4 2020 is 59 [originally reported as 60]. The correct score for backlog is 69 [originally reported as 70].

Key Drivers of Contractor Confidence



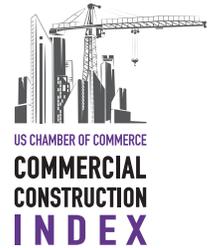
- Contractors' confidence in the ability of the market to provide new business in the next 12 months grew slightly in Q4, inching up one point to 57.
- This is up seven points from 50 in Q2, but still far below its score of 76 in pre-pandemic Q1.
- Most contractors (85%) say they have moderate to high confidence that the U.S. market will provide sufficient new business opportunities in the next 12 months, up two points from 82% in Q3.
- Contractors are slightly more optimistic looking ahead 24 months, with 86% reporting moderate to high confidence in new business, the same as in Q3. Twenty-nine percent reported a high level of confidence for the same period.



- Revenue expectations for the next 12 months are more positive this quarter, increasing four points to 52. This score was 70 in pre-pandemic Q1.
- The wedge between those expecting a revenue increase or a decrease over the next year grew in Q4. More (25%) contractors expect their revenue to increase, up from 22% in Q3; while fewer (14%) expect their revenue to decrease, down from 19% in Q3.
- The majority (61%) of contractors expect their revenue to remain about the same over the next year.



- The ratio of average current to ideal backlog rose from 68 in Q3 to 69 in Q4. This key driver is the closest of the three to pre-pandemic norms: its score was 76 in pre-pandemic Q1.
- The average months of backlog increased slightly from 8.3 months in Q3 to 8.4 months in Q4. The optimal backlog level on average was unchanged at 12.2 months.
- Contractors reporting a decrease in backlog dropped 10 percentage points from Q3. The share who said their backlog stayed the same was up five percentage points, while those reporting an increase went up three points.



Contractors Experience Project Delays and Less Availability of Materials During COVID-19

Nearly all contractors [83%] are currently experiencing project delays on some projects due to the coronavirus outbreak. This is statistically unchanged from 85% saying the same in Q3. Of those experiencing delays, 85% expect them to continue into the early parts of 2021, and 68% expect delays to continue into the second quarter of 2021.

The average amount of delays that contractors are experiencing remains steady. In October, contractors reported an average share of 26% of their projects were delayed, the same as in July.

Looking ahead three months, delays are expected to remain steady with contractors expecting an average share of 27% of projects delayed. Looking ahead six months, however, the average share of delayed projects drops to 18%.

AVAILABILITY OF BUILDING PRODUCTS BECOMES EMERGING CONCERN

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. The graphic to the right lists the top three challenges.

83% are experiencing project delays due to COVID-19

68% of contractors experiencing delays expect them to continue into Q2 2021



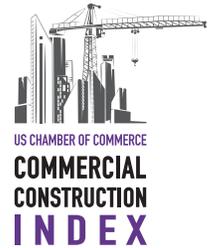
64% say worker health and safety remains a top concern.



53% say more project shutdowns/delays are a top concern.



41% say less availability of building products and materials is a severe consequence of COVID-19.



Skilled Labor Shortages Create Challenges for Contractors

Most (83%) contractors continue to report moderate to high levels of difficulty in finding skilled workers. However, the percentage of those reporting a high level of difficulty has continued to decline. This quarter, 42% of contractors reported a high level of difficulty, down one percentage point since last quarter, and dropping 17 percentage points year-over-year.

Moreover, 87% of contractors express a moderate to high degree of concern about workers having adequate skill levels, of which 90% say it will stay the same or get worse in the next six months.

Contractors who report a skilled labor shortage are seeing an increasing impact on their business operations:

- **83%** are **asking skilled workers to do more work**, up from 74% in Q3.
- **71%** report **struggling to meet schedule requirements**, up from 58% in Q3.
- **58%** are **putting in higher bids**, up from 56% in Q3.
- **39%** report **turning down work opportunities**, up from 36% in Q3.

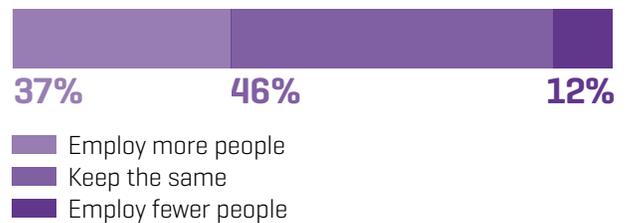
CONTRACTORS ARE MORE DECISIVE ABOUT HIRING PLANS

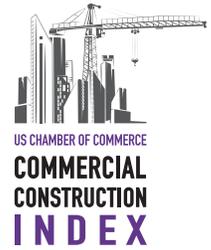
While many contractors plan to retain their current staff levels, this quarter more said they have plans to either hire or let go of staff. More contractors (37%) indicate they plan to employ more people, up five points from 32% in Q3. Meanwhile, 12% expect to reduce their staffing, also up five points from 7% in Q3. Forty-six percent expect to keep the same number of workers on staff.

Those looking to hire are being cautious: Of those who expressed they will employ more people, 95% say it will be a small to moderate increase.

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

Contractor hiring plans over the next six months





Revenue, Profit Margin Expectations Improve Slightly

Slightly more contractors expect their revenue to increase—and slightly fewer see a revenue decrease—in the coming year. One quarter [25%] of contractors expect a revenue increase, up from 22% in Q3. On the other hand, 14% expect a revenue decrease over the next year, a five-point decline from 19% in Q3. The majority of contractors [61%] expect their revenues to remain the same in the next 12 months.

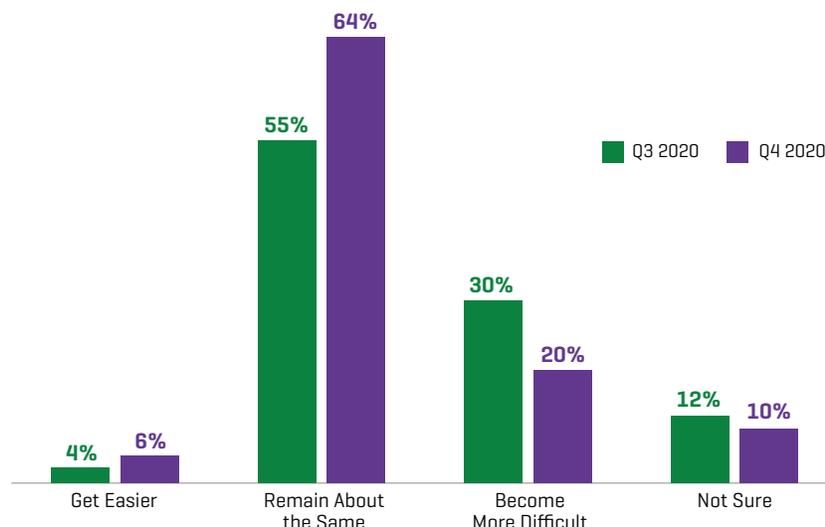
For most contractors [68%], profit margin expectations saw little or no change. At the same time, expectations for an increase in profit margins rose slightly: 20% of contractors expect an increase over the next year, up from 17% expecting an increase last quarter. Expectations for a decrease in profit margins fell: 12% of contractors expect a decrease over the coming year, down from 14% last quarter.

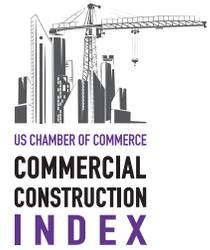
SENTIMENTS ABOUT FINANCING CONTINUE TO IMPROVE

Sentiments about project financing improved in Q4, continuing trends seen as early as Q2. The majority [64%] of contractors expect their access to working capital financing will remain the same [up nine points from Q3, and up 21 points from 43% in Q2]. Only one in five [20%] contractors expect that capital financing may become more difficult in the next six months, down 10 points from 30% in Q3.

Meanwhile, over half [59%] of contractors believe that building owner access to financing will get easier or remain the same in the next six months [up seven points from 52% in Q3, and up 10 points from 49% in Q2].

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

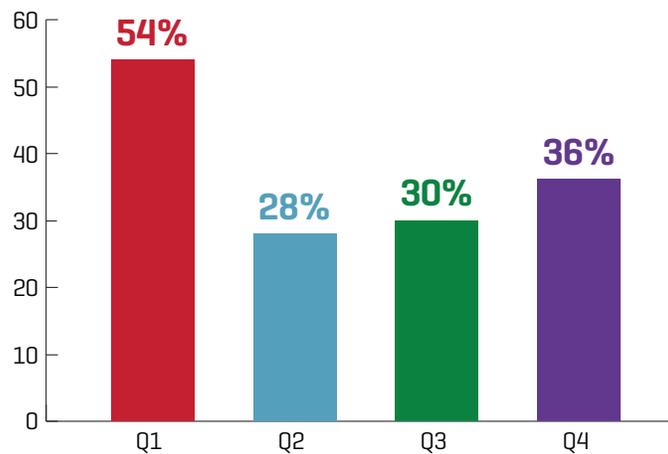




Growing Number of Contractors Intend to Spend More on Equipment

The percent of contractors planning to increase spending on tools and equipment continues to rise. More than one in three [36%] contractors say they plan to spend more on equipment this quarter, up from 30% in Q3. Still, nearly half [49%] say they will not increase spending, and 14% are not sure.

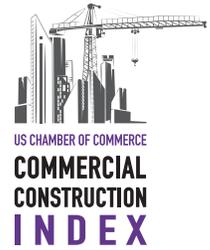
PERCENTAGE OF CONTRACTORS PLANNING TO SPEND MORE ON TOOLS AND EQUIPMENT IN THE NEXT SIX MONTHS



MATERIAL COSTS CONCERNS REMAIN HIGH

Concern about fluctuations in the cost of building materials remains high, with 74% of contractors indicating fluctuations have a moderate to high impact on their business. This figure is up 11 percentage points quarter-over-quarter [from 63% in Q3] and is slightly higher than this time last year [72% reporting the same in Q4 2019].

Of those who mentioned that the fluctuation in building and material costs have a considerable impact on their business, 61% said wood/lumber is the product of most concern [up from 21% in Q3], followed by steel [30%].



Contractors Face Increasing Shortages of Building Materials

Most contractors [71%] are experiencing some sort of shortage in building products and materials, a 17-point increase from 54% last quarter. Additionally, contractors experiencing shortages report bigger impacts this quarter: 89% report a moderate to high level of impact due to product shortages, up 14 points from 75% in Q3.

71% of contractors face at least one material shortage

LUMBER SHORTAGE CONCERNS GROW

Nearly one-third [31%] of contractors report a current lumber/wood shortage, up 20 points from 11% in Q3, and up 26 points from 5% in Q2.

Contractors' top reported material shortages:



31%
Wood/Lumber

Lumber has seen higher demand due to a boom in residential construction since the pandemic began. The other top reported shortages are steel [11%], electrical products other than copper wire [11%], and lighting products [10%].



11%
Steel

TARIFFS CONCERNS DIMINISH LOOKING TO THE FUTURE

Over the long term, contractors seem to be growing less concerned about tariffs on key construction materials.



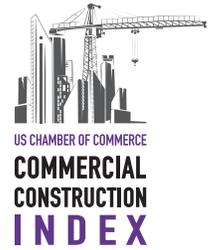
11%
Electrical products other than copper wire

Nearly one in four [24%] contractors said steel and aluminum tariffs will have a high degree of impact on their business in the next three years, down from 29% in Q1, and from 40% in Q4 2019. Only 12% of contractors said steel and aluminum tariffs will have no impact on their business over the next three years [up from 8% in Q1 2020].



10%
Lighting products

The concern about international trade conflicts remains steady, with 20% expecting high impacts from trade conflicts with other countries [the same as Q1]. That's down just one point year-over-year from 21% in Q4 2019. Meanwhile, 14% say trade conflicts will have zero impact on their business in the next three years [up from 11% in Q1].



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 Q4 2020 survey conducted online from October 1 to October 6, 2020; and November 10 to November 15 for the COVID-19 questions.

DD&A CONTRACTOR PANEL

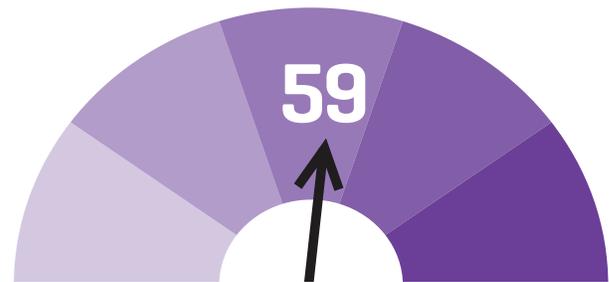
In order to enable reliable market research in the construction industry, D&A maintains a panel of more than 2,200 decision-makers that includes general contractors, construction managers, design-builders and trade contractors. This panel allows DD&A to provide findings that are representative of the entire U.S. construction industry by geography, and by size and type of company.

FOURTH QUARTER SURVEY DEMOGRAPHICS

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

TYPE OF COMPANY 56% of respondents are prime contractors (including general contractors, construction managers, design-builders), and 44% are specialty trade contractors.

JOB FUNCTION Most are in leadership roles or engaged in projects. 31% of respondents are C-level, 36% are primarily involved on projects, 24% are estimators and 9% fall into the Other category.



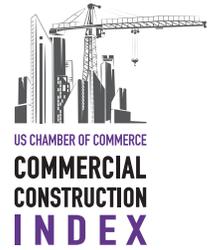
The Commercial Construction Index is 59 for the fourth quarter of 2020.



REGIONS 44% do most of their work projects in the Midwest, 13% in the Northeast, 27% in the South, 16% in the West.

SIZE OF COMPANY 23% Large companies (\$100M and over), 43% midsize companies (\$10M to under \$100M), 34% small companies (Under \$10M).

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



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.

For more information, please visit www.commercialconstructionindex.com.