

Q2
2021

U.S. CHAMBER OF COMMERCE

Commercial Construction Index

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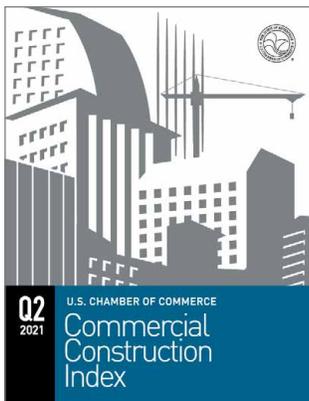
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The U.S. Chamber of Commerce Commercial Construction Index (CCI) is a quarterly economic index designed to gauge the outlook for and resulting confidence in the commercial construction industry. Recognizing a need to highlight the important contributions 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.

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Recovery Gathers Pace as All Three Key Indicators Improve

The U.S. Chamber of Commerce Commercial Construction Index rose this quarter to 65, up three points from Q1 2021. All three key drivers of the Index improved this quarter. The headline score is up nine points from a year ago in Q2 2020 (at the onset of the pandemic) when the Index score reached an all-time low of 56.

This quarter's score still remains below pre-pandemic levels. In Q1 2020, the Index score was 74 which at the time was in the midrange of scores since 2017.

KEY DRIVERS OF CONFIDENCE

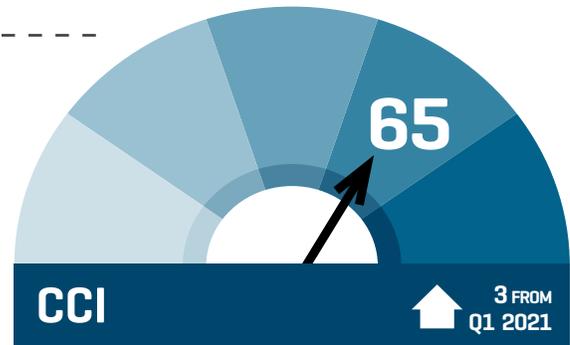
Leading the score increase, revenue expectations jumped four points to 61 in Q2 2021. Contractors' confidence in the ability of the market to provide sufficient new business in the next 12 months rose three points to 62. The ratio of average current to ideal backlog also rose three points to 72 as the reported average months of backlog increased from eight months in Q1 2021 to 9.2 months this quarter. *See Drivers of Confidence on page 3.*

QUARTERLY SPOTLIGHT

This quarter's spotlight examines the ongoing consequences of the COVID-19 pandemic on the commercial construction sector.

Fewer contractors are currently experiencing project delays compared to last quarter. This quarter, 72% of contractors are experiencing some delays, down from 80% in Q1 2021. Even fewer contractors (68%) expect delays to continue in three months (down from 78% in Q1).

Looking ahead, contractors anticipate the total projects delayed will continue to drop. In three months, contractors expect an average share of 11% of their projects will be delayed, and in six months that share drops to 7%. *See Quarterly Spotlight on page 4.*



MARKET TRENDS

Contractors are generally optimistic about new business and expect revenues to increase. This quarter, 89% of contractors report a moderate to high level of confidence that the market will provide sufficient new business opportunities in the next 12 months, up three points from Q1 2021. Also, 39% of contractors expect their revenue to increase in the next year, up three points from last quarter.

Contractors are also looking to hire more employees, but face challenges finding skilled workers. More than half (52%) of contractors say they will employ more people, up from 46% who said the same in Q1 2021. However, most (88%) contractors still report moderate to high levels of difficulty finding skilled workers.

Contractors are also looking to spend more on tools and equipment. This quarter, 44% of contractors say they will increase spending on tools and equipment in the next six months, up from 37% in Q1 2021.

However, contractors are growingly concerned about product shortages and tariffs. Concern about steel and aluminum tariffs jumped 10 points as 45% of contractors express tariffs will have a high to very high degree of impact on their business in the next three years. *See Market Trends on pages 5-8.*

Key Drivers of Contractor Confidence



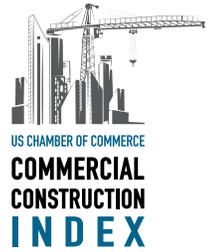
- Contractors' confidence in the ability of the market to provide new business in the next 12 months grew, moving up three points to 62.
- This is up 12 points from Q2 2020 (after COVID-19 shutdowns), indicating a steady recovery, but still below its score of 76 in pre-pandemic Q1 2020.
- 89% report a moderate to high level of confidence that the U.S. market will provide sufficient new business opportunities in the next 12 months, up from 86% in Q1 2021.
- 34% report a high level of confidence in new business opportunities over the next year, up 10 percentage points from Q1 2021.



- Revenue expectations for the next 12 months increased four points this quarter to 61, inching back to its score of 70 in pre-pandemic Q1 2020.
- 39% of contractors expect their revenue to increase in the next year, up from 36% last quarter.
- Only 6% expect a decrease in revenue this quarter, down seven points from Q1 2021, and down 15 points year-over-year from 21% expecting revenue declines in Q2 2020.
- The majority [55%] expect their revenues to remain about the same in the next 12 months.



- The ratio of average current to ideal backlog rose three points to 72 from Q1 2021. This key driver is the closest of the three to its pre-pandemic level: it was 76 in Q1 2020.
- The reported average months of backlog increased from eight months in Q1 2021 to 9.2 months this quarter.
- The optimal average backlog increased to 12.8 months from 11.6 months in Q1 2021. This quarter, 32% report increased backlog, up from 24% in Q1 2021.



COVID-19 Impacts Decline, Product Shortages Are a Top Concern

While a majority [72%] of contractors are still reporting project delays due to the pandemic, this is an eight-point drop from 80% who said the same last quarter.

Overall, contractors report fewer delays and anticipate the impact of these delays will diminish over time.

This quarter, contractors reported, on average, 17% of their projects currently delayed, down from 23% last quarter. Looking ahead, delays are expected to drop even more. In three months, contractors expect, on average, 11% of their projects will be delayed due to COVID-19, and in six months that share drops to 7%.

CONTRACTORS REPORTING MATERIAL SHORTAGES INCREASES

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 challenges.

While worker health and safety and project delays have remained top-of-mind for contractors in recent quarters, the percentage of contractors reporting these concerns is decreasing. In contrast, those reporting product shortages is increasing. Just under half [46%] of contractors say less availability of building products has been a big concern lately. This is up from 33% who said the same last quarter.

72% of contractors are experiencing project delays due to COVID-19

17% is the average share of delayed projects due to COVID-19

Contractors' Top Concerns During COVID-19 in Q2:



52% say worker health and safety.



46% say less availability of building products.



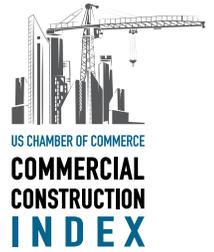
35% say more project shutdowns/delays.



29% say fewer projects.



28% say an increase in worker shortages.



Contractors Look to Hire Amid Persistent Skilled Worker Shortage

Most [88%] contractors continue to report moderate to high levels of difficulty finding skilled workers, which has been a consistent problem over the last several years. Those reporting high difficulty remains consistent from last quarter at 45% and is statistically unchanged year-over-year.

Most [87%] also report a moderate to high degree of concern about their workers having adequate skill levels, statistically unchanged from 88% in Q1 2021. However, less contractors report a “high” degree of concern this quarter with 38% reporting a high degree of concern, down from 46% in Q1 2021.

CONTRACTORS PLAN TO HIRE AND SEE LABOR COSTS GOING UP

In the midst of this skilled worker squeeze, contractors’ hiring plans continue to improve. This quarter, more than half [52%] of contractors say they will employ more people over the next six months, up from 46% who said the same in Q1 2021. Slightly less than half [43%] expect to keep the same number of workers on staff and just 3% expect to reduce their staffing. Of the few who expressed they will reduce staff, the majority [67%] say it will be a small decrease.

At the same time, many contractors see the cost of labor going up. Most contractors [87%] are at least moderately concerned about the cost of skilled labor, with over one-third [36%] expressing a high degree of concern. Of those who expressed concern about the cost of skilled labor, 64% say the cost has increased in the past six months, and 77% believe it will continue to increase over the next year.

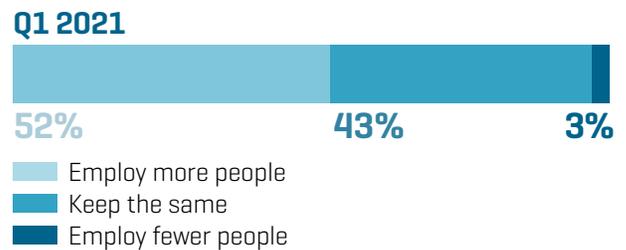
SOME CONTRACTORS TURN DOWN WORK DUE TO LABOR SHORTAGE

The labor challenges continue to have an impact on contractors’ business operations, but there are

88% of contractors report moderate to high levels of difficulty finding skilled workers

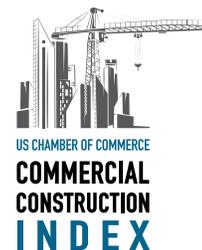
35% of contractors report turning down work due to skilled labor shortages

Contractor hiring plans over the next six months



signs of some improvement this quarter. Of those contractors who report difficulty finding skilled labor:

- **68%** say they are **asking skilled workers to do more work**, down from 75% from Q1 2021.
- **56%** of contractors **report a challenge in meeting project schedule requirements**, down slightly from 61% in Q1 2021.
- **Half [50%]** of contractors are **putting in higher bids**, down from 59% in Q1 2021.
- **Over a third [35%]** of contractors **report turning down work** due to skilled labor shortages. This has been mostly consistent over the last year [was 32% in Q2 2020].



Contractors Expect Slight Improvement in Revenue, Profits

This quarter, 39% of contractors expect their revenue to increase in the next year, up three percentage points from last quarter, while more than half (55%) expect their revenues to remain about the same. Just 6% of contractors expect revenue decreases over the next year, (down from 13% in Q1 2021).

The percentage of contractors expecting an increase in profit margin rose, while those expecting a decrease in profits fell. About a quarter (24%) of contractors expect their profit margins to increase in the next year, up from 17% in Q1 2021. Just 6% of contractors expect their profit margins to decrease, down from 14% last quarter. Still, most expect profit margins to be steady: The majority of contractors (70%) expect their profit margins to remain about the same, up slightly from 68% in Q1 2021.

CONTRACTORS SEE SLIGHTLY EASIER ACCESS TO FINANCING IN THE FUTURE

Most contractors expect financing to continue at the same level, but a slightly growing number see easier access to financing in the future. This quarter, 10% of contractors expect that it will get easier to access working capital financing (up from 6% in 2021 Q1) over the next six months. More than half (58%) expect their access to working capital financing will remain about the same, and 17% said they expect it to become more difficult (down from 21% in Q1 2021).

Close to two-thirds (62%) of contractors believe that owner/developer access to financing will get easier or remain the same within that same time period.

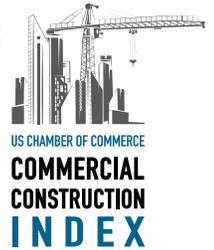
In the next year:

39%

of contractors expect their **revenue** to increase

24%

of contractors expect **profit margins** to increase



Contractors See Big Impacts from Cost Fluctuations

The cost of building materials are top of mind for contractors this quarter.

Almost all [94%] contractors report cost fluctuations have had a moderate to high impact on their business. This figure is up 12 percentage points quarter-over-quarter and 35 percentage points year-over-year [59% reported moderate to high impacts from fluctuations in Q2 2020].

Of those who said material cost fluctuations have had an impact on their business, 56% say wood/lumber is the product of most concern [up from 43% saying the same in Q1 2021], followed by steel [48%, up from 35% in Q1 2021].

94% of contractors say **material cost fluctuations** have a moderate to high impact on their business

MORE CONTRACTORS EXPECT TO SPEND MORE ON EQUIPMENT

For the first time in a year, the percentage of contractors planning to spend more on tools and equipment was higher than those who say they will not spend more.

Just under half [44%] of contractors report they will increase spending on tools and equipment in the next six months, up from 37% in Q1 2021. This is slightly more than the percentage of those who say they will not increase spending on tools and equipment [42%]. The remaining 14% are not sure if they will spend more or less.

Products of most concern to contractors who report impacts from cost fluctuations:



56% say wood/lumber

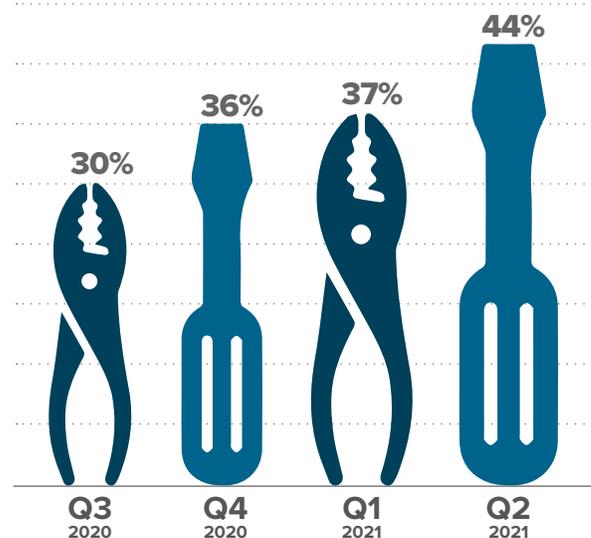


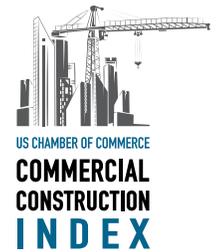
48% say steel



19% say copper

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





Lumber and Steel Shortages Worsen

The vast majority of contractors are experiencing at least one shortage in building materials. According to the survey, contractors say lumber and steel are the two items most likely to be in short supply.

This quarter, 84% of contractors are experiencing at least one product shortage, up from 71% last quarter. Most often, contractors are experiencing a shortage in wood/lumber: 33% say they are experiencing this shortage, up from 22% in Q1 2021. That's followed by steel at 29%, up 15 points from Q1 2021.

Of those contractors experiencing shortages, more [46%] say they are having a high impact on projects, up from 20% in Q1 2021. Meanwhile, 48% report a moderate level of impact on projects due to product shortages, down from 61% in Q1 2021. This indicates that contractors see shortages shifting from a moderate to a high level of impact on their business.

TARIFF AND TRADE CONCERNS JUMP

Contractors have expressed ongoing concerns about the potential effect of tariffs and trade wars on their access to materials. This quarter, those concerns jumped:

- **45%** say **steel and aluminum tariffs** will have a high to very-high degree of impact on their business in the next three years, up 10 points from 35% in Q1 2021.

- **40%** say **new construction material and equipment tariffs** will have a high to very-high degree of impact on their business over the next three years, up 11 points from 29% in Q1 2021.
- **30%** expect high impacts from **trade conflicts with other countries**, rising 11 points from 19% in Q1 2021.

84% of contractors face at least one material shortage

Contractors' top reported material shortages:



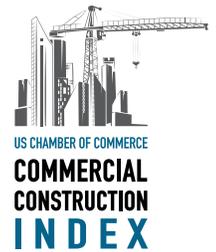
33% say **wood/lumber**



29% say **steel**



12% say **pipe/PVC**



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 Q2 2021 survey conducted online from April 5 to April 7, 2021.

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.

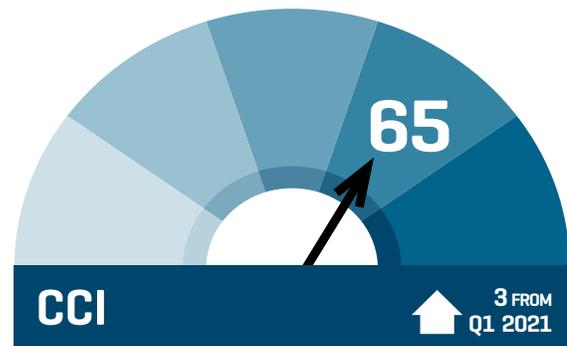
FIRST QUARTER SURVEY DEMOGRAPHICS

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

TYPE OF COMPANY 55% of respondents are prime contractors (including general contractors, construction managers, design-builders), and 45% are specialty trade contractors.

JOB FUNCTION Most are in leadership roles or engaged in projects. 39% of respondents are C-level, 32% are primarily involved on projects, 23% are estimators and 6% fall into the Other category.

REGIONS 36% do most of their project work in the South, 33% in the Midwest, 19% in the Northeast, and 12% in the West.



The Commercial Construction Index is 65 for the second quarter of 2021.

SIZE OF COMPANY 19% Large companies [\$100M and over], 45% midsize companies [\$10M to under \$100M], 36% 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.

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