

CIRT Sentiment Index

Third Quarter Report



EXECUTIVE SUMMARY

INDEX MOVEMENT

		Q2 2020	Q3 2020
Overall U.S. Economy	↑	0.86	75.41
Economy Where We Do Business	↑	0.86	68.03
Our Construction Business	↑	7.69	19.23
Nonresidential Sector	↑	5.26	54.17
Backlog	↑	39.08	49.18
Cost of Labor	↑	50.86	54.92
Cost of Materials	↓	55.17	51.64
Productivity	↑	11.21	40.98

The third quarter of 2020 experienced a return of optimism in both the overall Sentiment Index and in the Design Index segment when compared with last quarter's results. The Sentiment Index surged from 21.6 to 52.1, while the Design Index increased from 39.8 to 49.3, historic rises in both measures. This rebound appears to reflect improved confidence through the end of the year, particularly compared to the significant losses experienced during the second quarter. Government stimulus, relaxing of social distancing restrictions, states reopening businesses and travel, as well as improved client confidence have all contributed to improved expectations, especially across construction-focused members. However, if the Design Index continues to remain below 50, it would tend to indicate or suggest fewer construction opportunities in the future.

Over the past quarter, CIRT members were asked, on an ongoing basis a series of questions addressing organizational response and industry impact of the various economic disruptions seen through the first half of the year (including COVID-19, depressed oil prices, market volatility, etc.). Since March, nearly all respondents have limited business travel and staff exposure both on-site and at the office, while nearly half have reduced staff and overhead.

Notwithstanding over time, it is encouraging to track *receding* organizational response, particularly fewer postponed spending decisions, meetings and project schedules. Similarly, fewer project disruptions over time have been associated with state and local restrictions, resource availability and/or decline in labor productivity. However, industry demand modifications over the same periods indicate an increasing share of respondents have experienced postponed or canceled projects due to shifting owner- or economy-related dynamics.

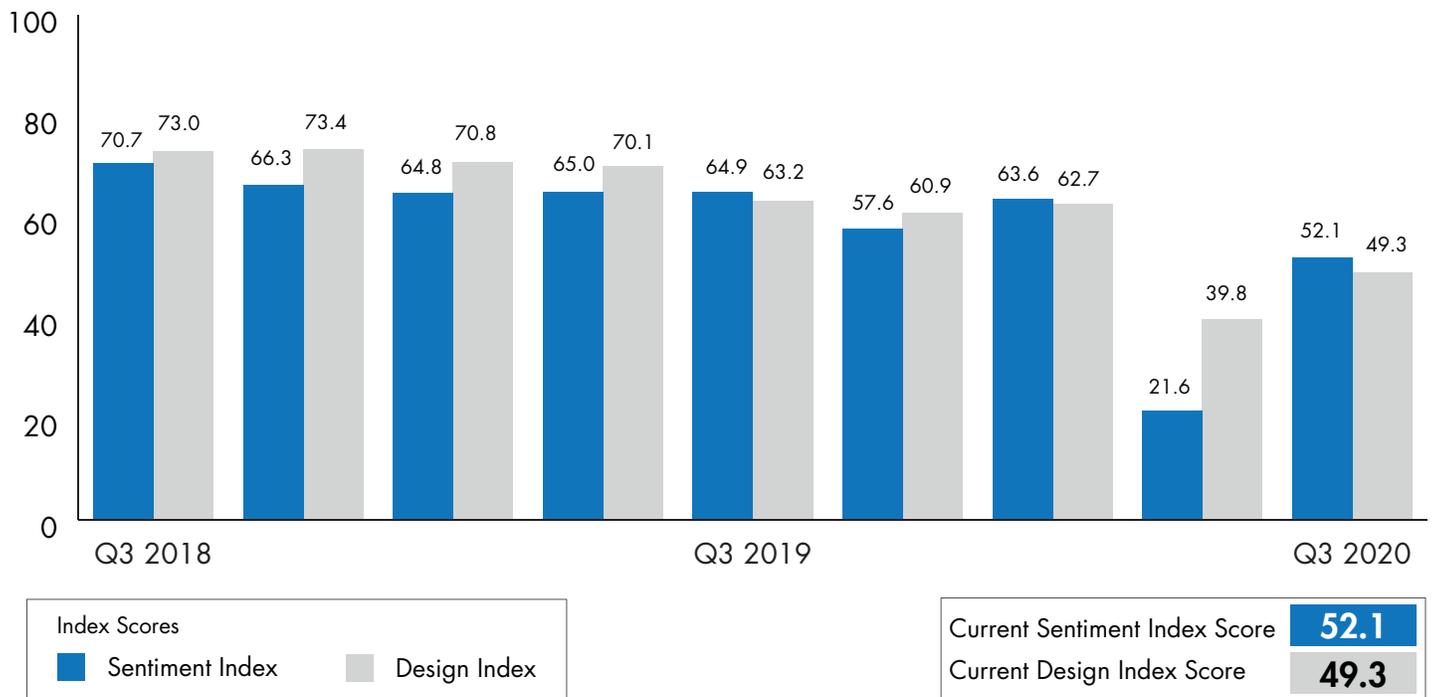
Current issues topics in this quarter's survey addressed perceived change in worker productivity, compensation adjustments, sources of news information and U.S. versus international recovery. Just over half of all respondents reported productivity declines on active job sites following social distancing policies (52%), and just under one-third reported lower productivity among office staff (31%). Going forward, most remote work policies will include more flexibility (89%). For domestic and international social, economic and political news, respon-



dents primarily rely on newspapers (62%) and television news networks (52%). For design and construction industry news, respondents most frequently utilize internet news aggregators (65%) and magazines (59%). Lastly, fifty percent of respondents expect the U.S. will recover faster compared to other foreign countries, while (23%) see the timing about the same with another (21%) that suggest recovery timing and performance will be mixed. Only (5%) expect U.S. will be slower compared to other foreign countries.

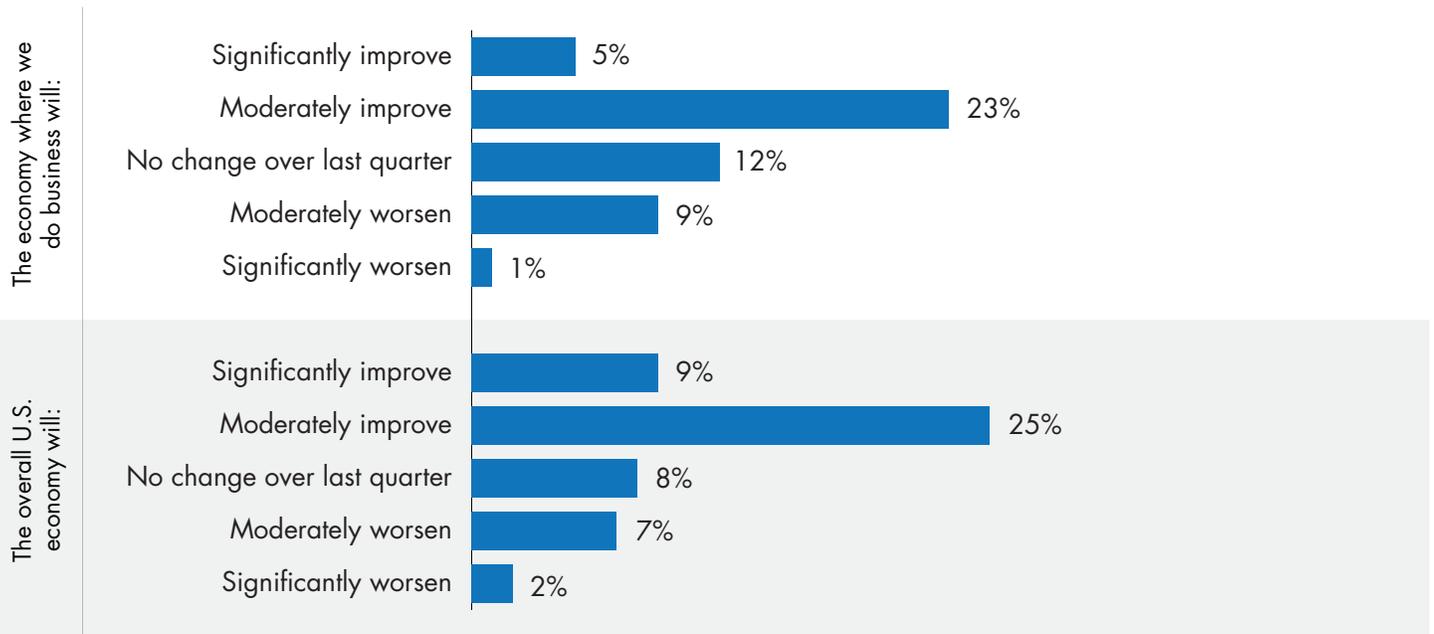
Among the industries represented by CIRT's member base, lodging, office, education and international work are projected to experience the biggest short-term declines across both the design and construction industries. The design industry's long-term view of project growth remains positive, with every sector tracking above 3.0. The construction industry's long-term view is similarly optimistic, with just two of the 10 sectors projected below 3.0 (lodging and office).

CIRT SENTIMENT INDEX AND DESIGN INDEX SCORES FROM Q3 2018 TO Q3 2020

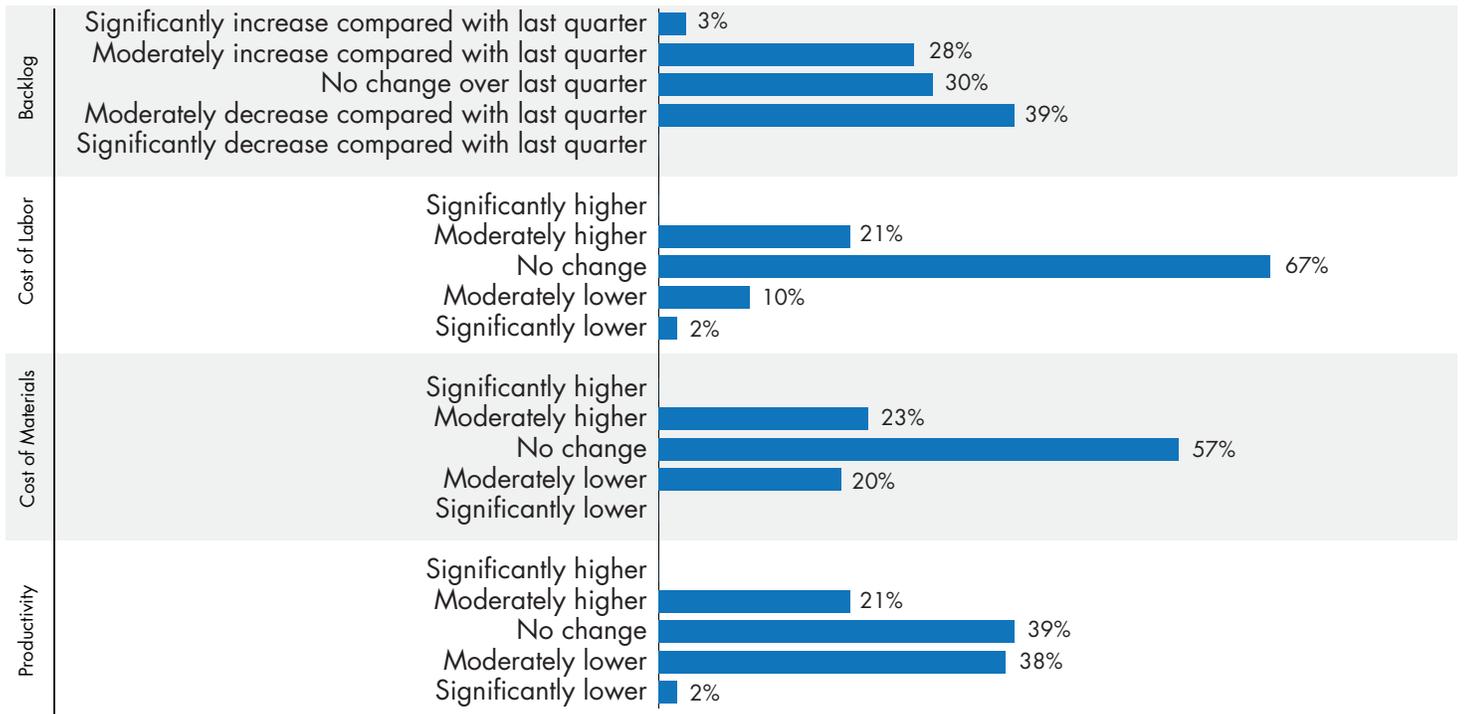




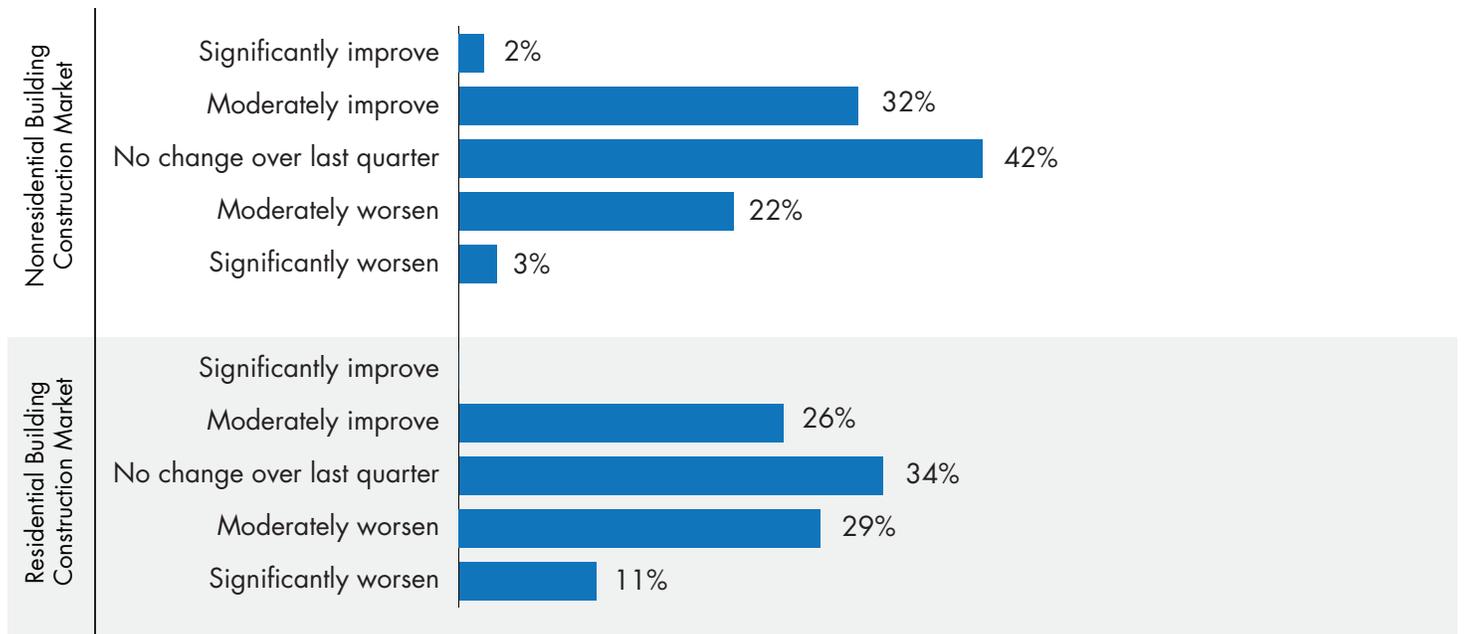
LOCAL AND NATIONAL ECONOMIC PREDICTIONS FOR NEXT QUARTER



CONSTRUCTION INPUT PREDICTIONS FOR NEXT QUARTER

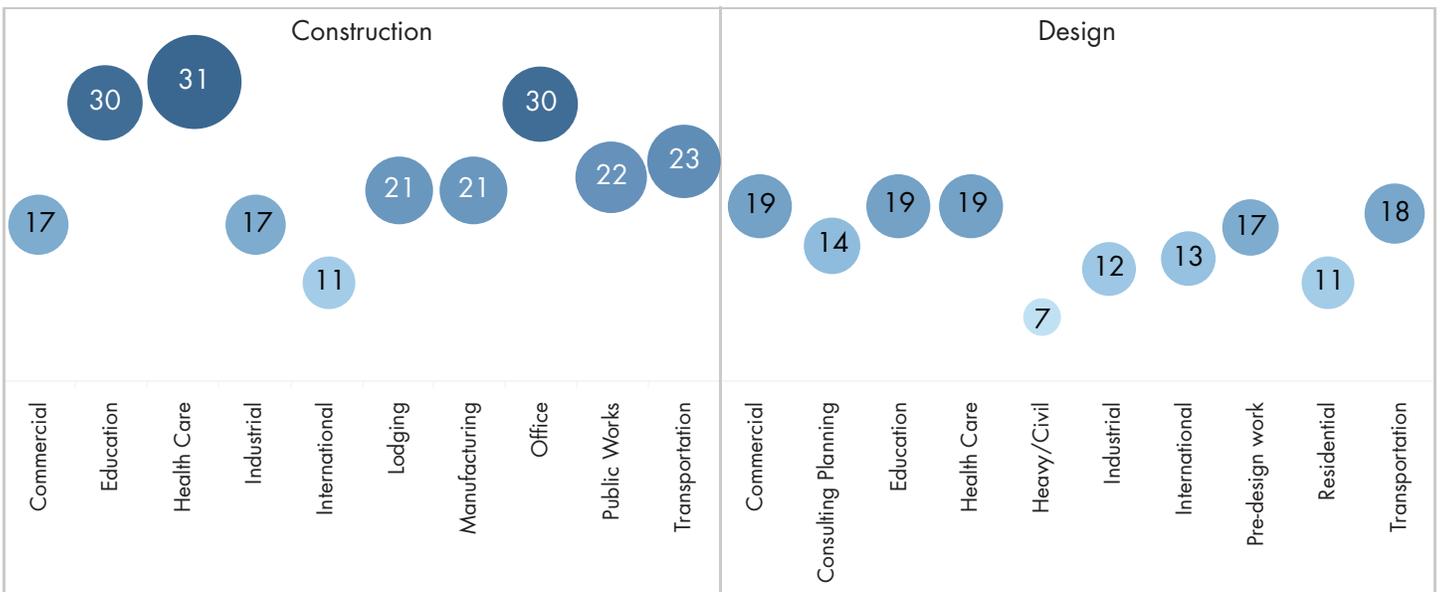


EXPECTATIONS FOR THE RESIDENTIAL AND NONRESIDENTIAL BUILDING MARKETS FOR NEXT QUARTER

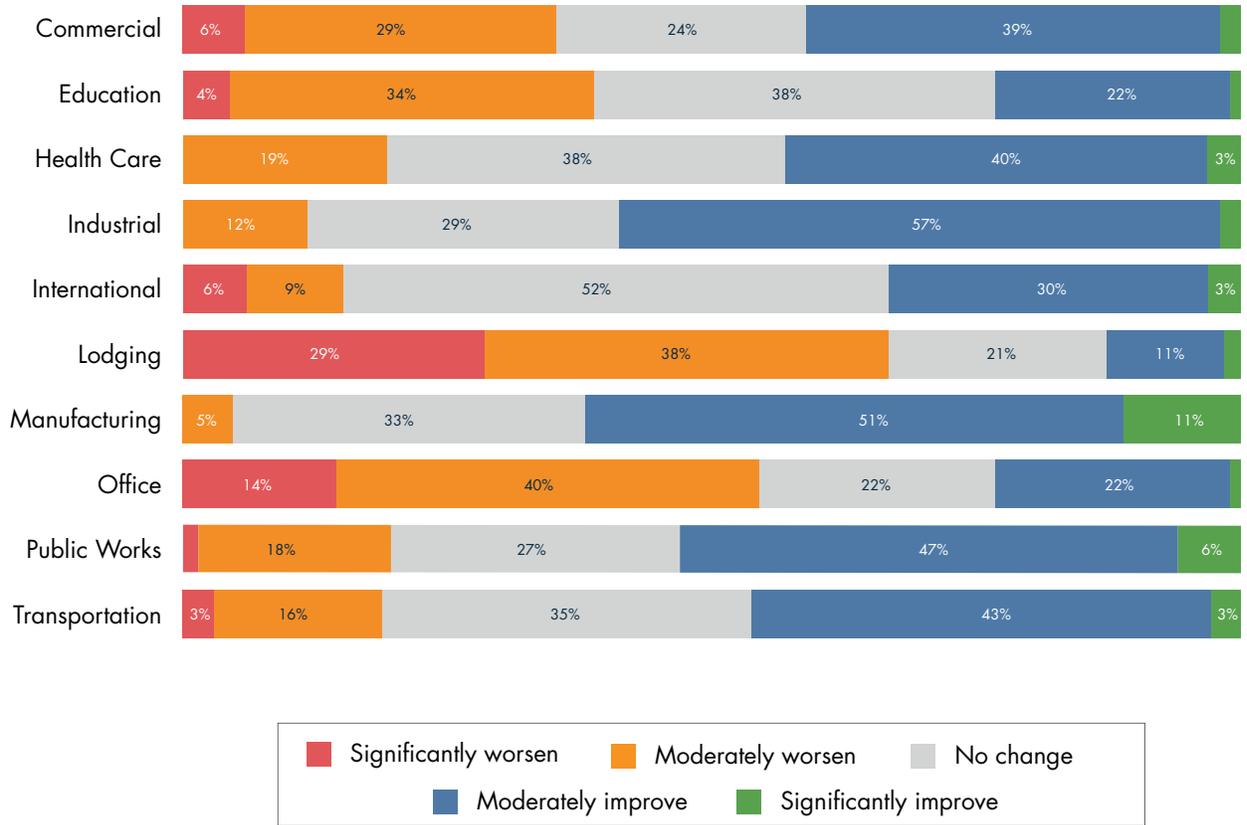




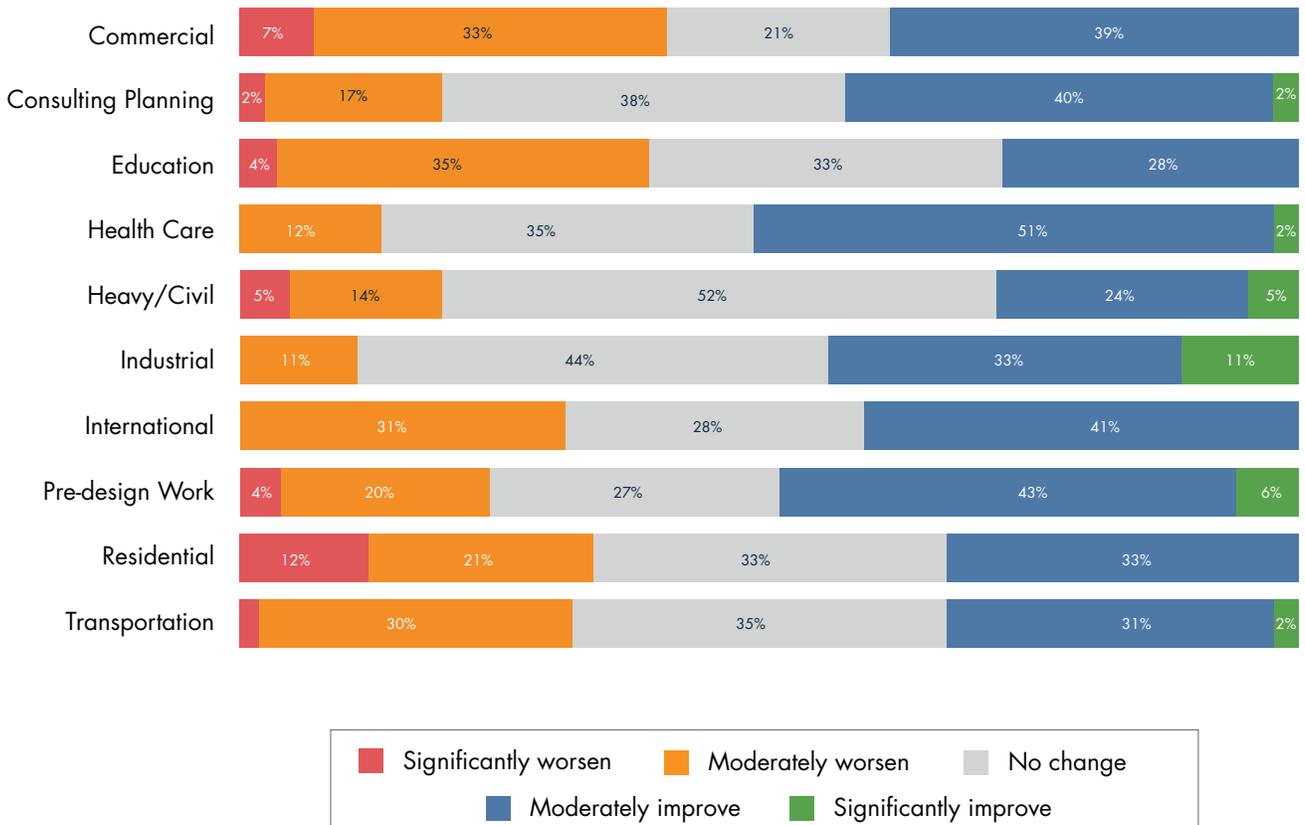
MEMBER PROFILE: NUMBER OF CIRT MEMBER COMPANIES IN EACH SECTOR



PERCEPTION OF CHANGE FOR NEXT QUARTER: CONSTRUCTION



PERCEPTION OF CHANGE FOR NEXT QUARTER: DESIGN





CURRENT TRENDS

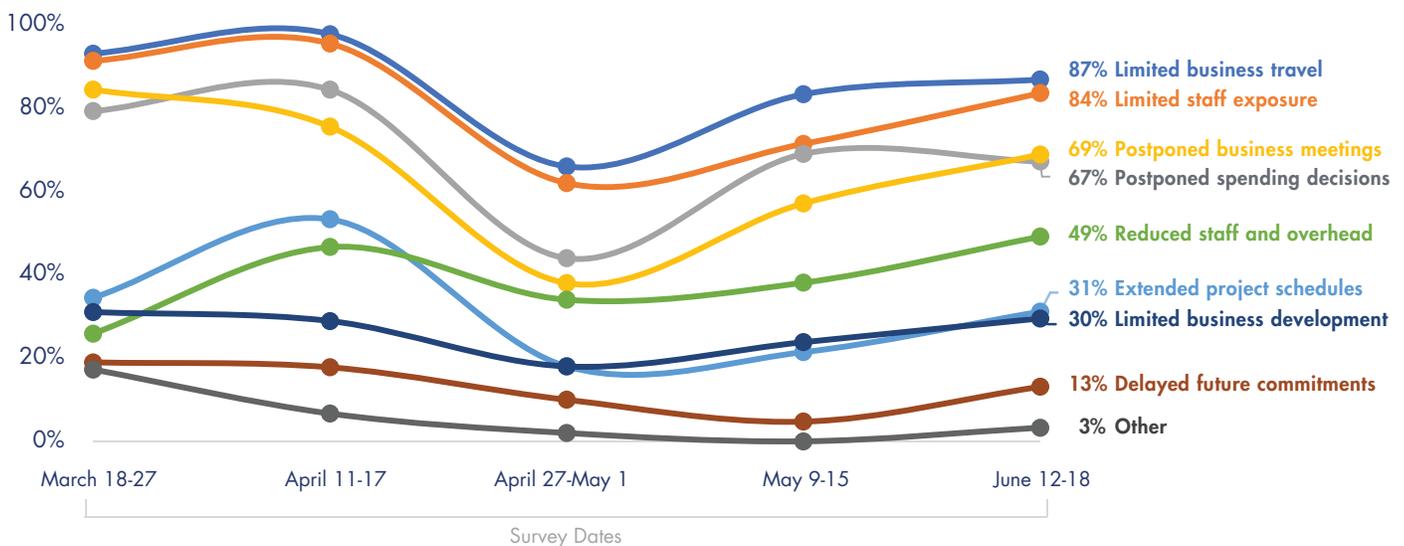
Since the last quarterly Sentiment Index survey, FMI has asked CIRT members the following two questions on a regular basis to gain an understanding of changed organizational response and shifting demand for design and construction services over time.

ORGANIZATIONAL RESPONSE TO CURRENT ECONOMIC DISRUPTIONS

Since mid-March, nearly all CIRT members have reported limiting business travel and staff exposure on-site and/or in the office, and more than 80% of members continue these limitations today. Similarly, nearly two-thirds of respondents have recently opted to postpone business meetings (69%) and spending decisions (67%). Response in these key factors is down from late March and mid-April, but up from early May. An increase in members choosing to delay business and spending decisions is suggestive of an uncertain business environment.

Members reporting reduced staff and overhead have also steadily risen over time, from 26% in mid-March to a new peak of 49% in mid-June.

HOW HAS YOUR ORGANIZATION RESPONDED TO THE CONVERGENCE OF ECONOMIC DISRUPTIONS?

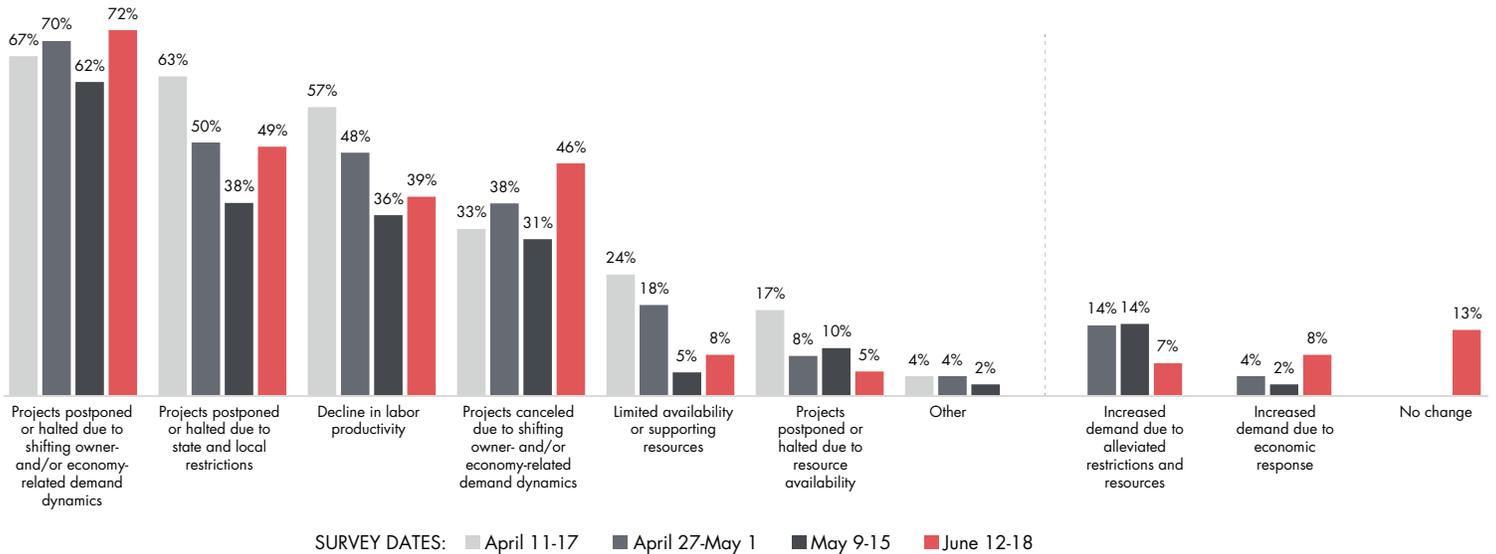




CHANGES IN DEMAND FOR DESIGN AND CONSTRUCTION SERVICES

Over the past quarter, CIRT members have experienced more frequent project delays due to shifting owner- or economic-related demand dynamics. Alternatively, fewer disruptions over time have been associated with state and local restrictions, resource availability and/or decline in labor productivity. It is interesting (and somewhat concerning) to note a recent and brief reversal in this trend, with increased project delays stemming from state and local restrictions at 49% in mid-June, up from 36% as reported mid-May.

PLEASE IDENTIFY WHERE YOU HAVE SEEN CHANGING DEMAND FOR DESIGN AND CONSTRUCTION SERVICES RELATED TO THE FOLLOWING:

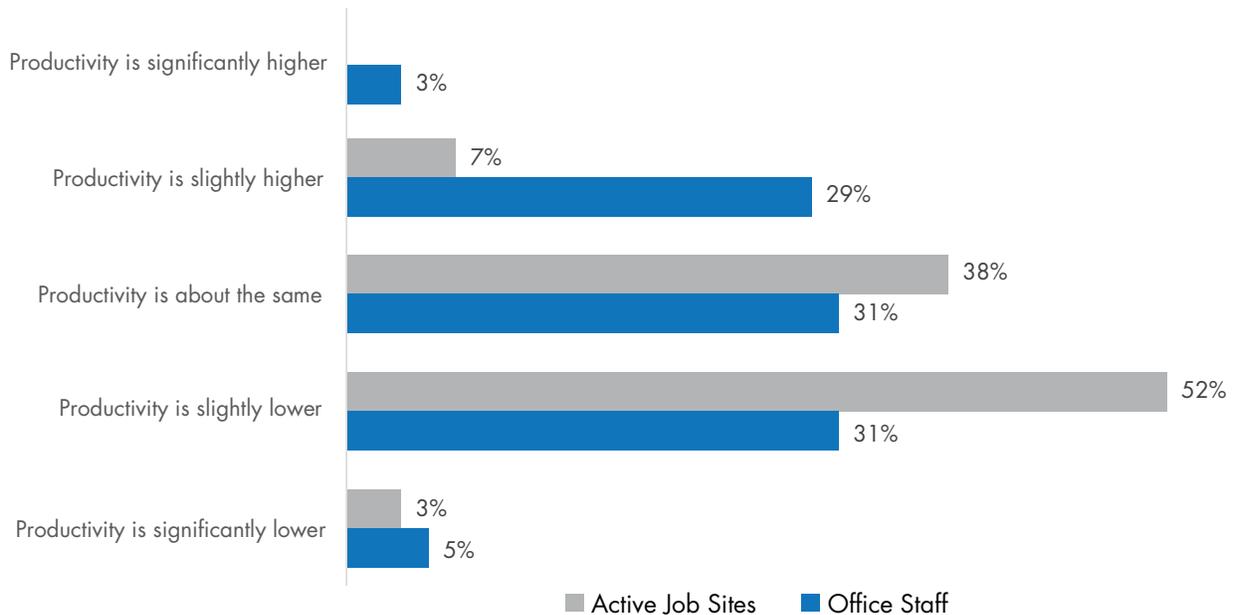


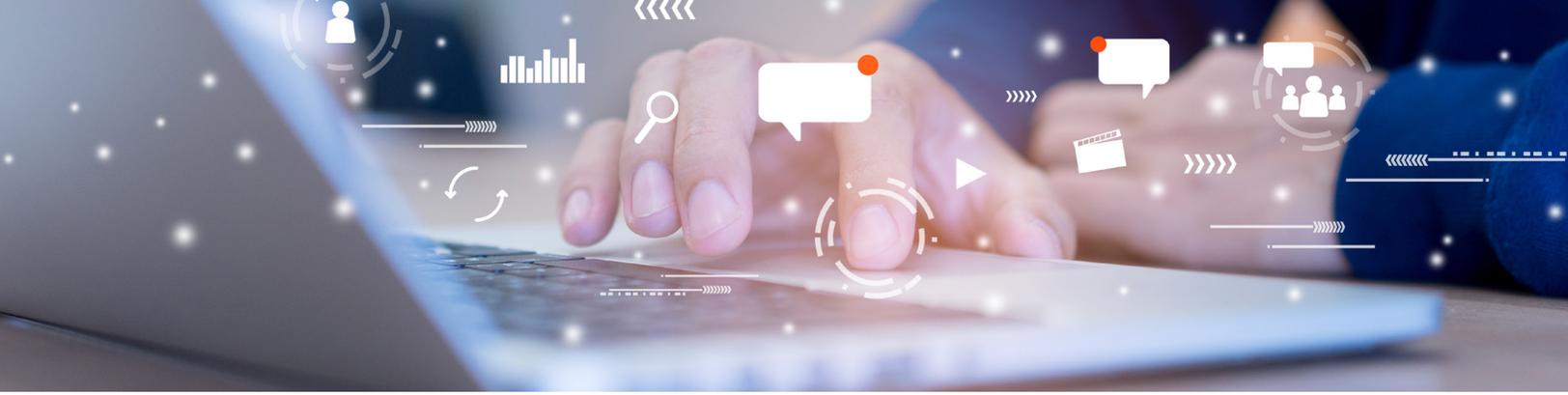


PRODUCTIVITY AND REMOTE WORK

Just over half (55%) of respondents reported productivity declines on active job sites following social distancing policies, and just over one-third (36%) reported lower productivity among office staff. Conversely, 7% of respondents felt productivity is now higher on active job sites, and approximately one-third (32%) reported productivity improvements across office staff. Noted productivity gains however are generally modest. No respondents saw significantly higher productivity on active job sites, and only 3% reported significant productivity improvements across office staff.

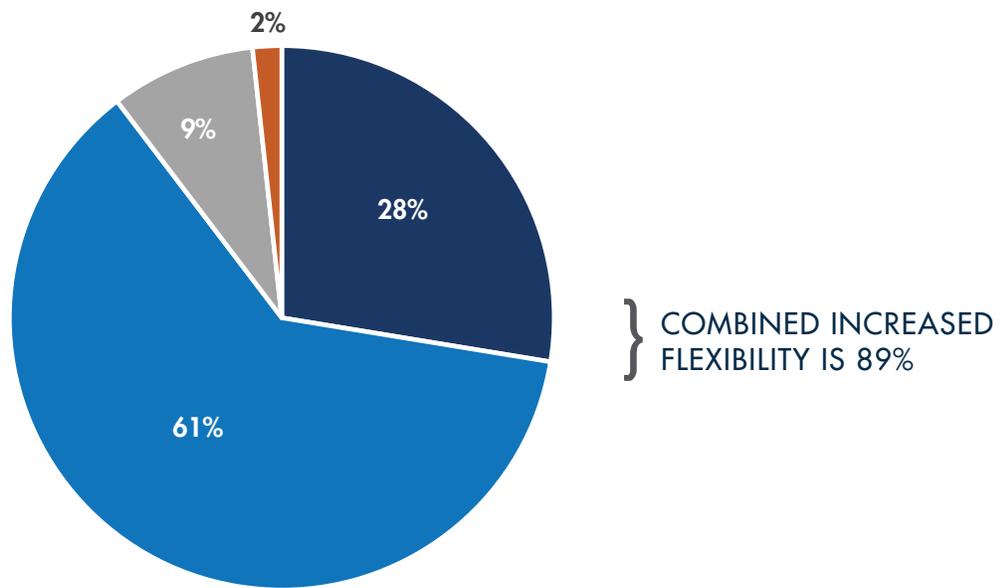
SINCE MARCH 1, CONSIDERING INCREASED REMOTE WORKING POST-COVID-19, WHAT IS YOUR IMPRESSION ON OVERALL PRODUCTIVITY LEVELS ACROSS YOUR ORGANIZATION'S OFFICE STAFF? ON ACTIVE JOB SITES?





Going forward, most remote work policies will include more flexibility (89%). However, few organizations (9%) expect no change to their remote work policy, and only 2% expect less flexibility.

LOOKING FORWARD, WHICH OF THE FOLLOWING BEST DESCRIBES YOUR ORGANIZATION'S LONG-TERM REMOTE WORK POLICY AS A RESULT OF COVID-19?



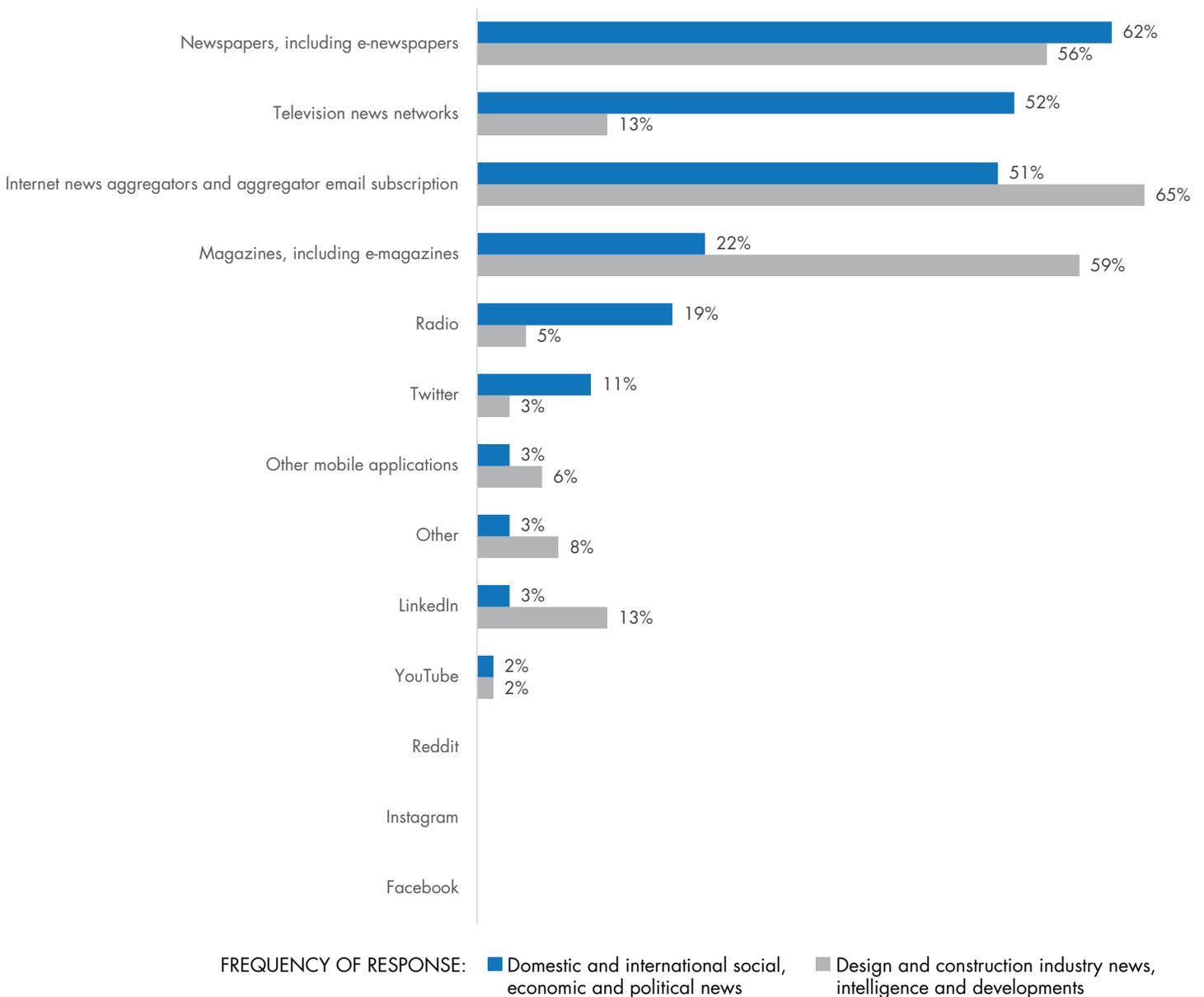
- Much more flexibility to work remotely after the pandemic is over
- More flexibility to work remotely after the pandemic is over
- No change to our remote work policy
- Less flexibility to work remotely after the pandemic is over

SOURCES OF INFORMATION

For domestic and international social, economic and political news, members largely rely on newspapers (62%), television news networks (52%) and internet news aggregators and aggregator email subscriptions (51%). Magazines (22%), radio (19%) and Twitter (11%) are also used frequently when compared to LinkedIn and other social platforms.

For tracking design and construction news, members most frequently utilize internet news aggregators (65%), magazines (59%) and newspapers (56%). Television news networks and LinkedIn (13%) stand above other channels and social platforms for industry-related news and developments.

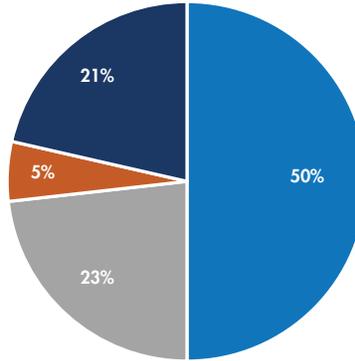
PLEASE RANK (1-3) OUR TOP THREE INFORMATION SOURCES MOST UTILIZED TO TRACK EACH OF THE FOLLOWING:



INTERNATIONAL RECOVERY

Fifty percent of respondents expect the U.S. will recover faster compared to other foreign countries, while (23%) see the timing about the same with another (21%) that suggest recovery timing and performance will be mixed. Only (5%) expect the U.S. will be slower compared to other foreign countries. Open-ended statements supporting a faster U.S. recovery highlight the long-term strength of the U.S. dollar, future/increased U.S. government stimulus, and the industry's lasting impact on unemployment.

WHAT DO YOU ANTICIPATE, COMPARING U.S. AND FOREIGN DESIGN AND CONSTRUCTION RECOVERY PERFORMANCE?

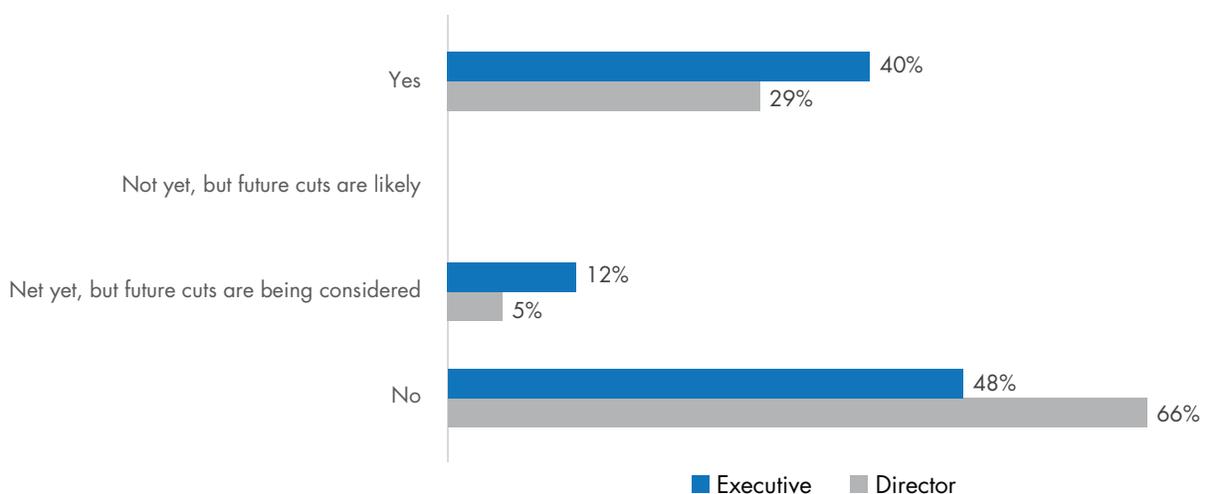


- Generally, the U.S. will be faster to recover compared to other foreign countries
- Recovery time will be about the same comparing U.S. and other foreign countries
- Generally, the U.S. will be slower to recover compared to other foreign countries
- Recovery timing and performance will be mixed

COMPENSATION ADJUSTMENT

Since last quarter 40% of respondents have implemented temporary cuts or adjustments to executive pay, and nearly one-third have implemented similar cuts or adjustments to director pay. Across executive pay adjustments, no organizations adjusted only the CEO's pay. Of the 60% of respondents who have not made adjustments to executive pay, 12% are considering future adjustments. Of the 71% of respondents who have not adjusted director pay, 5% are considering future adjustments.

SINCE MARCH 1, HAS YOUR COMPANY MADE TEMPORARY CUTS/ADJUSTMENTS TO DIRECTOR OR EXECUTIVE PAY?





DESIGN OUTLOOK

Industry	Design Sector Project Growth		
	Next Quarter	Six Months From Now	One Year From Now
Commercial	2.74	2.63	3.37
Consulting Planning	3.00	3.21	3.50
Education	2.53	2.79	3.26
Health Care	3.32	3.32	3.63
Heavy/Civil	2.71	3.14	3.43
Industrial	3.17	3.42	3.75
International	2.54	3.15	3.62
Pre-design Work	2.94	3.35	3.53
Residential	2.73	2.55	3.36
Transportation	3.00	2.89	3.17



Respondents were asked to comment on how the design sector will change next quarter, six months from now and one year from now. Each industry score is on a scale of 1 to 5, with 1 being the worst and 5 being the best. Each percentage is a reflection of the change in score in comparison to the starting average score of the “next quarter” period. Please refer to the “Design Sector Project Growth by Industry” chart to see a visual representation of the scores. Below are the predominant perceptions of CIRT’s members:

COMMERCIAL

Starting average score of 2.74 for next quarter, 2.63 for six months from now, and 3.37 for one year from now.

CONSULTING PLANNING

Starting average score of 3.00 for next quarter, 3.21 for six months from now, and 3.50 for one year from now.

EDUCATION

Starting average score of 2.53 for next quarter, 2.79 for six months from now, and 3.26 for one year from now.

HEALTH CARE

Starting average score of 3.32 for next quarter, 3.32 for six months from now, and 3.63 for one year from now.



HEAVY/CIVIL

Starting average score of 2.71 for next quarter, 3.14 for six months from now, and 3.43 for one year from now.

INDUSTRIAL

Starting average score of 3.17 for next quarter, 3.42 for six months from now, and 3.75 for one year from now.

INTERNATIONAL

Starting average score of 2.54 for next quarter, 3.15 for six months from now, and 3.62 for one year from now.

PRE-DESIGN WORK

Starting average score of 2.94 for next quarter, 3.35 for six months from now, and 3.53 for one year from now.

RESIDENTIAL

Starting average score of 2.73 for next quarter, 2.55 for six months from now, and 3.36 for one year from now.

TRANSPORTATION

Starting average score of 3.00 for next quarter, 2.89 for six months from now, and 3.17 for one year from now.

CONSTRUCTION OUTLOOK

Industry	Construction Sector Business Outlook		
	Next Quarter	Six Months From Now	One Year From Now
Commercial	2.76	3.12	3.18
Education	2.57	2.87	3.00
Health Care	2.94	3.32	3.55
Industrial	3.06	3.65	3.76
International	2.91	3.09	3.45
Lodging	1.76	2.19	2.62
Manufacturing	3.33	3.71	4.00
Office	2.27	2.60	2.80
Public Works	3.27	3.36	3.50
Transportation	3.17	3.17	3.48

This quarter respondents were asked to comment on how the construction sector will change next quarter, six months from now and one year from now. Each industry score is on a scale of 1 to 5, with 1 being the worst and 5 being the best. Each percentage is a reflection of the change in score in comparison to the starting average score of the “next quarter” period. Please refer to the previous chart to see a visual representation of the scores. Below are the predominant perceptions of CIRT’s members:

COMMERCIAL

Starting average score of 2.76 for next quarter, 3.12 for six months from now, and 3.18 for one year from now.

EDUCATION

Starting average score of 2.57 for next quarter, 2.87 for six months from now, and 3.00 for one year from now.

HEALTH CARE

Starting average score of 2.94 for next quarter, 3.32 for six months from now, and 3.55 for one year from now.

INDUSTRIAL

Starting average score of 3.06 for next quarter, 3.09 for six months from now, and 3.76 for one year from now.



INTERNATIONAL

Starting average score of 2.91 for next quarter, 3.09 for six months from now, and 3.45 for one year from now.

LODGING

Starting average score of 1.76 for next quarter, 2.19 for six months from now, and 2.62 for one year from now.

MANUFACTURING

Starting average score of 3.33 for next quarter, 3.71 for six months from now, and 4.00 for one year from now.

OFFICE

Starting average score of 2.27 for next quarter, 2.60 for six months from now, and 2.80 for one year from now.

PUBLIC WORKS

Starting average score of 3.27 for next quarter, 3.36 for six months from now, and 3.50 for one year from now.

TRANSPORTATION

Starting average score of 3.17 for next quarter, 3.17 for six months from now, and 3.48 for one year from now.



ABOUT THE CONSTRUCTION INDUSTRY ROUND TABLE (CIRT)

The Construction Industry Round Table (CIRT) is composed exclusively of approximately 115-120 CEOs from the leading architectural, engineering and construction firms doing business in the United States.

CIRT is the only organization that is uniquely situated as a single voice representing the richly diverse and dynamic design/construction community. First organized in 1987 as the Construction Industry Presidents' Forum, the Forum has since been incorporated as a not-for-profit association with the mission "to be a leading force for positive change in the design/construction industry while helping members improve the overall performance of their individual companies."

The Round Table strives to create one voice to meet the interests and needs of the design/construction community. CIRT supports its members by actively representing the industry on public policy issues, by improving the image and presence of its leading members, and by providing a forum for enhancing and developing strong management approaches through networking and peer interaction.

The Round Table's member CEOs serve as prime sources of information, news and background on the design/construction industry and its activities. If you are interested in obtaining more information about the Construction Industry Round Table, please call 202-466-6777 or contact us by email at cirt@cirt.org.

CIRT SENTIMENT INDEX

The CIRT Sentiment Index is a survey of members of the Construction Industry Round Table conducted quarterly by FMI Research, Raleigh, North Carolina. For press contact or questions about the CIRT Sentiment Index, contact Mark Casso at mcasso@cirt.org.

CONFIDENTIALITY

All individual responses to this survey will be confidential and shared outside of FMI only in the aggregate.

All names of individuals responding to this survey will remain confidential to FMI.

Exclusively Focused on the Built Environment

Who We Are

FMI is a leading consulting and investment banking firm dedicated exclusively to the Built Environment.

We serve the industry as a trusted advisor. More than six decades of context, connections and insights lead to transformational outcomes for our clients and the industry.

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FMI Consulting has a deeper understanding of the Built Environment and the leading firms across its value chain than any other consulting firm. We know what drives value. We leverage decades of industry-focused expertise to advise on strategy, leadership & organizational development, operational performance and technology & innovation.

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- Compensation
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- Partner Program
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FMI CAPITAL ADVISORS

FMI Capital Advisors, a subsidiary of FMI Corporation, is a leading investment banking firm exclusively serving the Built Environment. With more than 750 completed M&A transactions, our industry focus enables us to maximize value for our clients through our deep market knowledge, strong technical expertise and unparalleled network of industry relationships.

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