



October 10, 2021

The Honorable Dean Phillips
Chairman
U.S. House Committee on Small Business
Subcommittee on Oversight, Investigations
and Regulations
Washington, DC 20515

The Honorable Beth Van Duyne
Ranking Member
U.S. House Committee on Small Business
Subcommittee on Oversight, Investigations
and Regulations
Washington, DC 20515

Dear Chairman Phillips and Ranking Member Van Duyne:

On behalf of Associated Builders and Contractors, a national construction industry trade association with 69 chapters representing more than 21,000 members, I write to comment on today's U.S. House Committee on Small Business Subcommittee on Oversight, Investigations and Regulations hearing, "Global Supply Chains and Small Business Trade Challenges." We appreciate the opportunity to provide insight on this important issue, as small businesses in the construction industry continue to face significant supply chain disruptions, volatile input costs and worker shortages.

The construction industry is fueled by small businesses. The majority of ABC's general contractor and subcontractor members qualify as small businesses as defined by the Small Business Administration. This is consistent with the SBA's findings that the construction industry has one of the highest concentrations of small business participation. Many of ABC's large member companies not only contract directly with the federal government to successfully build large-scale projects that are subject to federal acquisition regulations but also subcontract work to qualified small businesses and meet federal agency small business goals.

Construction Economic Indicators Down Due to Supply Chain Disruptions:

The construction industry continues to feel the strain of ongoing supply chain disruptions, which have resulted in the persistent volatility of input prices, diminished contractor confidence and backlog challenges for small businesses.

In September 2021, construction input prices declined 0.5%, according to [ABC's analysis](#) of U.S. Bureau of Labor Statistics' Producer Price Index data. Despite the modest decline, construction input prices remain 18.9% higher than in September 2020.

Driving these increases are steel mill products, which have experienced the largest year-over-year increase, rising 134.2%, along with iron and steel prices that nearly doubled, rising 96.3%. Additionally, natural gas prices are up 120.9% compared to last year, while crude petroleum and unprocessed energy materials prices increased 89.1% and 84.8%, respectively.

Producer Price Index, September 2021

	1-Month % Change	12-Month % Change
Inputs to Construction	-0.5%	18.9%
Inputs to Nonresidential Construction	-0.4%	20.2%
Plumbing Fixtures and Fittings	-0.5%	3.1%
Fabricated Structural Metal Products	3.1%	36.1%
Iron and Steel	3.0%	96.3%
Steel Mill Products	5.0%	134.2%
Nonferrous Wire and Cable	1.6%	30.7%
Softwood Lumber	-4.3%	-31.4%
Concrete Products	0.0%	5.5%
Prepared Asphalt, Tar Roofing & Siding Products	0.1%	13.1%
Crude Petroleum	4.8%	89.1%
Natural Gas	14.4%	120.9%
Unprocessed Energy Materials	8.5%	84.8%

Source: U.S. Bureau of Labor Statistics

The fluctuation in construction input prices caused by supply chain disruptions has made it very difficult for businesses in the industry to predict budgets and bid work. As a result, many contractors, including small businesses, face additional cuts on profit margins. According to ABC's [Construction Confidence Index](#),¹ contractors' profit margin expectations have worsened in recent months. Readings for sales, profit margins and staffing levels each declined in September, but remain above the threshold of 50, indicating expectations of growth over the next six months. Additionally, contractor confidence still remains well below the [October 2019 reading](#).

Working in conjunction with [persistent worker shortages](#), these factors are resulting in work delays and backlog challenges for businesses in the construction industry. Of particular relevance to this committee, according to [ABC's Construction Backlog Indicator](#), a forward-looking, national economic indicator that reflects the amount of work already under contract but not yet performed by commercial, industrial and heavy highway/infrastructure contractors, ABC found that recent declines in backlog have been registered among smaller construction firms.

As the backlog indicator fell to 7.6 months in September across all contractors surveyed, for smaller construction businesses— those with annual income less than \$30 million—backlog fell from 7.4 months to 6.8 months. With an already smaller backlog among all company sizes measured, smaller construction businesses saw a 0.6 month decline over the past month, the sharpest decline. This data indicates that small construction businesses need additional help to grapple with the ongoing challenges facing them.

Unfortunately, the recent surge in construction input prices strongly suggests that contractors, consumers and other economic actors will be wrestling with inflationary pressures for much of 2022, and many contractors will finish 2021 and with relative trepidation.

¹ CCI readings above 50 indicate an expectation of generally improving conditions in the U.S. nonresidential construction industry, while readings below 50 indicate expectations of deteriorating conditions.

Action for Congress and the Biden Administration:

In March, ABC joined a coalition of construction, housing and real estate organizations in [a letter to the commerce secretary](#) to address the price increases of lumber in the United States during the past year. Additionally, ABC has [continuously advocated](#) for the removal of unnecessary and costly steel and aluminum tariffs to help address the historic shortages of readily available and globally-priced steel and aluminum products for the construction industry. ABC looks forward to continuing to work with Congress to develop solutions to these significant price increases to protect construction jobs and support critical projects.

ABC urges Congress to pursue bipartisan investments in America's infrastructure and ensure that small construction businesses are not excluded from the competitive bidding process for federal infrastructure projects. Most small businesses in the construction industry are not signatory to a construction union. When governments mandate project labor agreements on a federal or federally assisted taxpayer-funded project, small businesses are disproportionately harmed, as they drive up the cost of construction projects by [12% to 20%](#) and discriminate against the [87.3%](#) of U.S. construction workers who choose not to join a union.

Further, ABC has apprehensions about the regulatory agenda of the Biden administration. As the construction industry awaits the findings of the White House Task Force on Worker Organizing and Empowerment, ABC continues to advocate against actions that would make it more difficult for small businesses that are struggling to maintain operations during the pandemic. While we must support thoughtful and necessary regulations, Congress and the Biden administration must ensure they do not place an undue burden on these businesses, but instead allow them to continue to grow and provide jobs to hardworking Americans.

Congress should steer away from policies such as the Protecting the Right to Organize Act, which would limit opportunities for small businesses to compete and recover from the pandemic. Although the PRO Act has passed in the House of Representatives, it has yet to become law. The bill would enact harmful [policy changes](#) that would eliminate right-to-work protections in 27 states, violate employees' privacy and upend the business community. ABC members urge Congress to reject this bill and its devastating policies.

ABC also urges Congress to not pursue damaging tax policy changes to pay for the budget reconciliation package. ABC is adamantly opposed to the proposed change of creating a new top combined rate on pass-through income of 46.4% through the bill's cap on the Section 199A deduction for pass-through businesses, limiting the maximum allowable deduction for individuals to \$400,000 and joint filers to \$500,000, enforcement of a 3.8% tax on active business income, a 3% surtax on top earners and an increase in the top marginal rate for taxpayers. These provisions, as well as the many other changes to tax policy currently being discussed by Democrats in Congress and the White House such as elimination of stepped-up basis, would devastate small businesses struggling to recover from the COVID-19 pandemic and the economy as a whole.

We thank you for your leadership and look forward to working with you to address the critical needs of our nation during this difficult time.

Sincerely,

A handwritten signature in black ink, appearing to read "Kristen Swearingen". The signature is written in a cursive, flowing style.

Kristen Swearingen
Vice President, Legislative & Political Affairs

CC:

The Honorable Nydia M. Velázquez
Chairwoman
U.S. House Committee on Small Business
Washington, DC 20515

The Honorable Blaine Luetkemeyer
Ranking Member
U.S. House Committee on Small Business
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