3RD QUARTER 2016

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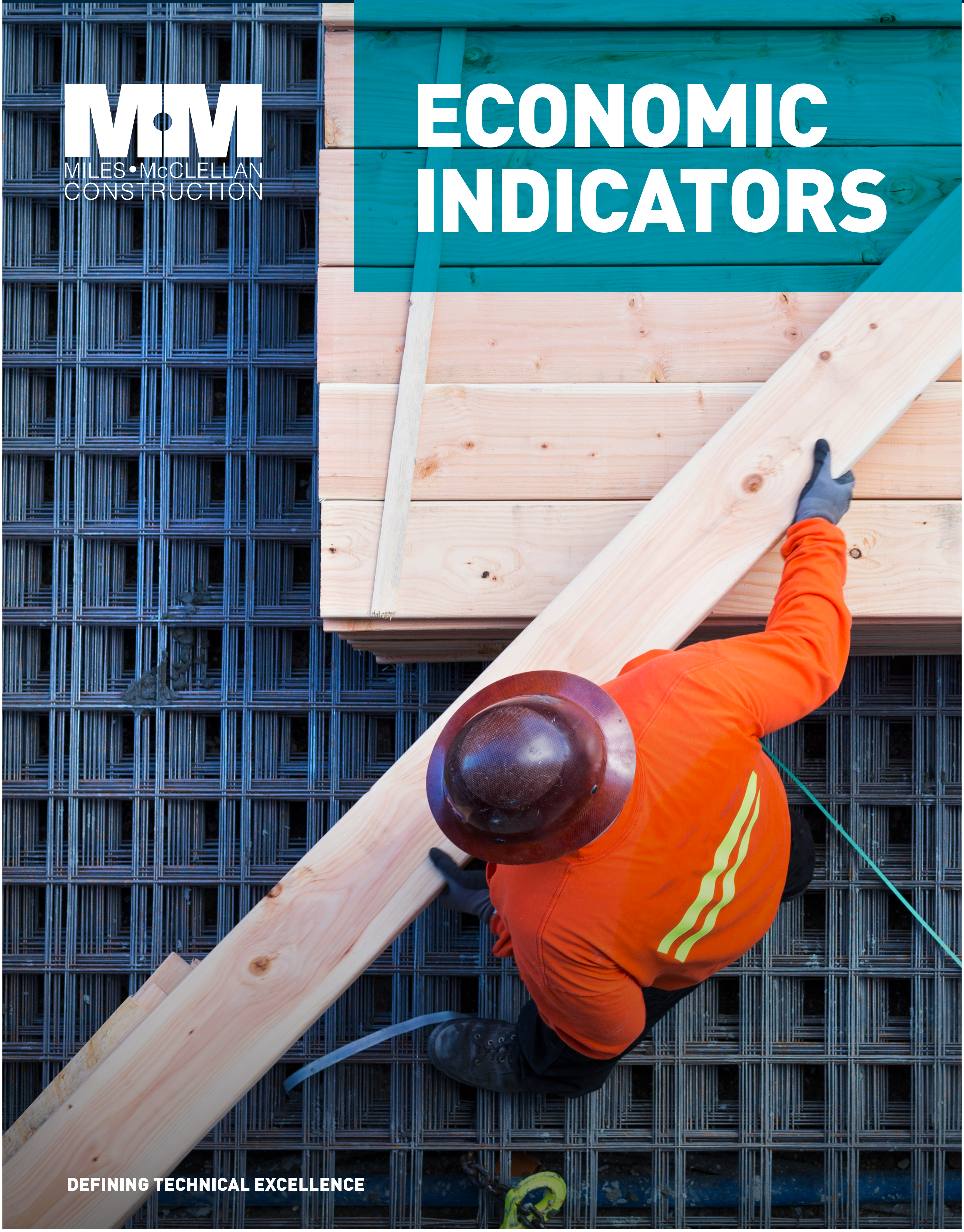
ECONOMIC INDICATORS



DEFINING TECHNICAL EXCELLENCE

EXECUTIVE SUMMARY

MATTHEW MCCLELLAN
President

Over the last two weeks, we have received positive news about two key economic measurements: 3rd quarter Gross Domestic Product and the October Jobs Report. Positive results on these two indicators lead me to predict the long anticipated Fed rate hike will finally be announced during Federal Reserve Board's December meeting.

Real gross domestic product increased at an annual rate of 2.9 percent in the third quarter of 2016, up 1.5 percent from the second quarter, according to the "advanced" estimate released by the Bureau of Economic Analysis. This increase in the third quarter is the direct result of increased personal consumption, an increase in exports, and an increase in business inventory/investment.

Then there is the October Jobs Report. Our economy added a modest 161,000 net jobs and reported an unemployment rate falling from 5% to 4.9%. Many economists now consider the U.S. to be at full employment. Revisions to the August and September numbers in the October report added a total of 44,000 more jobs. Lastly, average hourly wages rose 10 cents to $25.92 and are up 2.8% year to date.

With the combination of wage growth finally rising and a low unemployment rate that is forcing employers to bid up wages to attract from a smaller pool of available talent has giving rise earnings gained, which in turn, fuels stronger inflation. These are the reasons that lead me to my prediction above.

This isn't necessarily bad news as the economy is expected to continue its current expansion, now the 4th longest in U.S. history, through 2017. If the economy can chug along through June 2019, it will become the longest economic expansion in U.S, history. We (all of us with kids in college) have our fingers crossed.

Most modern recessions have been proceeded by a cycle of Fed interest rate hikes that make loans (car loans, mortgages, personal and corporate credit) more costly to obtain. This is where the Fed is struggling because it is a balancing act between raising rates and throwing the economy into a recession versus keeping rates close to zero and allowing inflation to "get some legs."

I am glad that I am just a contractor!

PERFORMANCE SUMMARY

INDICATORS	MARCH 2016	APRIL 2016	MAY 2016	JUNE 2016	JULY 2016	AUGUST 2016	SEPT. 2016
ABC Construction Backlog Amount of commercial construction to be performed in coming months	8.6 mo. 4th Qtr. '15			8.6 mo. 1st Qtr. '16			8.6 mo. 1st Qtr. '16
AIA Architectural Billing Index 50 or above indicates growth	51.9	50.6	53.1	52.6	51.5	49.7	48.4
FMI Non-Residential Construction Indicator 50 or above indicates growth	55.6 1st Qtr. '16			61.3 2nd Qtr. '16			57.3 3rd Qtr. '16
Core Inflation Rate Target is 2%	2.19%	2.15%	2.24%	2.26%	2.19%	2.32%	2.21%
Gross Domestic Product Healthy rate of growth is 2-3%	1.1% 1st Qtr '16			1.2% 1st Qtr '16			2.9% 3rd Qtr '16
Housing Starts - Single Family Declining trend indicates slowing economy	764,000	778,000	745.000	778,000	711,000	724,000	783,000
Unemployment Rate	5.0%	5.0%	4.7%	4.9%	4.9%	4.9%	5.0%

Performance Key: Good Average Poor

Backlog Skyrockets for Largest Firms During Second Quarter, but Falls to 8.5 Months Overall

Construction backlog for large contractors ($100+ million) reached a new peak of 14.06 months during the second quarter of 2016, according to the Associated Builders and Contractors (ABC) Construction Backlog Indicator (CBI). Nationally, average backlog fell to 8.5 months during the second quarter, down 1.6% from the prior quarter. CBI remained virtually unchanged on a year-over-year basis, signaling that growth in the nation's nonresidential construction industry is slowing.

"While a handful of commercial construction segments continue to be associated with expanding volumes, for the most part, the average contractor is no longer getting busier," said ABC Chief Economist Anirban Basu. "While backlog is hardly collapsing, the period of growing in nonresidential construction spending appears to be ending. In fact, nonresidential construction spending data indicate that growth has been slowing for a number of months, something that prior weak CBI readings suggested would occur.

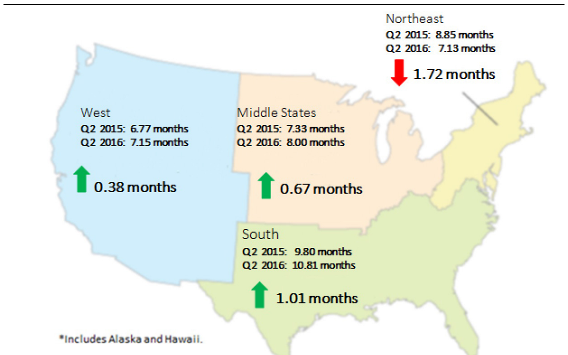
"As the nonresidential construction recovery broadened, smaller contractors began to experience a rise in backlog," said Basu. "However, recent data indicate that once again larger contractors are gaining market share. Small firm backlog has begun to decline.

"There are a number of potential explanatory factors regarding the lack of growth in backlog, the most obvious of which is the continued slow growth of the economy," said Basu. "Financial regulators have begun to express growing concern regarding possible bubbles forming in certain real estate segments in certain cities, which may have rendered the developer financing environment somewhat more challenging. A slowdown in business investment, including in energy-related sectors, has undoubtedly also played a role."

CONSTRUCTION BACKLOG INDICATOR

Region	Months of Backlog	% Change		Change from Q1 2016
Northeast	7.13	-12.9%	−	-1.06 months
South	10.81	7.0%	+	0.70 months
Middle States	8.0	5.9%	+	0.45 months
West	7.15	3.1%	+	0.21 months
Industry				
Commercial/Institutional	8.01	-0.7%	−	-0.06 months
Heavy Industrial	7.44	8.5%	+	0.58 months
Infrastructure	10.80	-3.7%	−	-0.41 months
Company Size				
<$30 Million	7.25	-1.5%	−	-0.11 months
$30-$50 Million	9.1	-15.7%	−	-1.70 months
$50-$100 Million	8.98	3.8%	+	0.33 months
>$100 Million	14.06	14.8%	+	1.81 months

Year-Over-Year CBI Map of Regions and Backlog Months
Second Quarter 2015 v. Second Quarter 2016



Highlights by Company Size

Backlog for firms with revenue less than $30 million—the smallest delineation—declined by 0.1 months in the second quarter and has now fallen during five of the previous seven quarters. These firms are among the most likely to be limited by skilled labor shortfalls, which prevent them from effectively bidding on larger projects, thereby setting the stage for gradual declines in backlog.

A softening of backlog in the northeast helps to explain the year-over-year decline in backlog among firms in the $30-$100 million annual revenue category.

Large industrial projects represent a primarily explanatory factor behind the surge in backlog among the largest construction firms. Large-scale industrial projects have been reported in Texas, Louisiana and other markets, setting the stage for stable to rising construction investment in those markets. Over the past two years, construction volumes have been falling in a number of Texas and Louisiana markets, likely attributable to diminished oil and natural gas prices.

Basu, A. (2016, September 20). Backlog Skyrockets for Largest Firms During Second Quarter, But Falls to 8.5 Months Overall. Retrieved from www.abc.org: http://www.abc.org/NewsMedia/ConstructionEconomics/ConstructionBacklogIndicator/tabid/272/entryid/7646/backlog-skyrockets-for-largest-firms-during-second-quarter-but-falls-to-8-5-months-overall.aspx

FMI Non-Residential Construction Indicator 2nd Quarter 2016

"ONE OF THE GREATEST PIECES OF ECONOMIC WISDOM IS TO KNOW WHAT YOU DO NOT KNOW."

— **John Kenneth** Galbraith

The FMI Nonresidential Construction Index dropped 4 points in the third quarter to 57.3. That score is well within growth range over a score of 50; however, over the past four quarters, we are seeing greater variability than in the last few years. While most components in the Index are also still in positive range, scores dropped nearly across the board compared to last quarter. Although we are concerned to see so many lower numbers, the score for productivity is the lowest (46.5) since we started the NRCI surveys at the beginning of the Great Recession. This trend for construction mirrors the trend for the nation. While labor and material costs continue to rise, productivity continues to slip. The results are not only a lower contribution to GDP, but also a lower contribution to profits.

A majority of our respondents don't expect a recession for the next two years or at least not until late 2018. Furthermore, most seem to believe that the next recession, when it arrives, will not be the Great Recession revisited. More likely, it will be the textbook-normal type with too few dollars chasing too many goods with deflationary pressures leading to downsizing and layoffs. Several comments mentioned concerns about markets that are beginning to be overbuilt in this latest expansion. However, as one respondent describes, there are still many things we do not know:

> Uncertainty is a word that a lot of people are using to describe our world today. Uncertainty of: the current election and politics in general, Brexit, monetary policy, the longest bull-market in history, the length of the current economic expansion, the total debt and deficit spending, etc. The one thing that is certain is that we will eventually have a recession, and I hope this time it is shallow to the point that we are out of it before the economists even measure and announce the two down quarters!

There will be another recession. That is one thing we can say with great confidence.

Overall Economy: Down
NRCI respondents' view of the overall economy dropped 7.3 points in the third quarter. While this is a sharp drop from the second quarter results, the second quarter spiked 8.9 points from the first quarter.

Overall Economy Where Panelists Do Business: Down
As with the overall economy, respondents' optimism in the second quarter seems to have pulled back to what we have seen in previous quarters. Now at 60.4, this NRCI component continues in a positive range.

Panelists' Construction Business: Down
Respondents reported that their outlook for their own business slowed somewhat this quarter, dropping 5.1 points to 70.9. A few actually welcome the change, since some markets have been "overheated."

Nonresidential Building Construction Market Where Panelists Do Business: Down
At 67.3, the nonresidential market that respondents work in is still registering high on the component scale, but 7.0 points lower than last quarter.

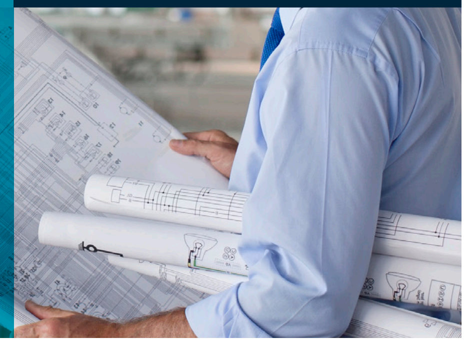
Expected Change in Backlog: Down
The Index component for expected change in backlog dropped 7.2 points in the third quarter to a still positive 58.9. The median backlog for all respondents was 10 months for the third quarter, which is a drop from the last three quarters but on par with the past two years, where backlog hovered between nine and 10 months.

Cost of Construction Materials: Higher
Cost of Labor: No Change
The Index for cost of materials dropped 2.9 points, indicating materials prices are still rising. Likewise, the labor cost component, although unchanged from last quarter, continues to indicate higher costs for labor that is still scarce in many areas.

Productivity: Lower
Productivity continues to be a big concern as the component Index slipped to 46.5, or 5.9 points lower than last quarter. This is the lowest score for productivity since we began publishing the NRCI report in 2008. Likely, the drop is mostly indicative of the continuing difficulty of finding skilled employees in a tight market; however, there are many other reasons for loss of productivity.

Warner, P. (2016). ***NRCI Third Quarter 2016 Executive Summary.*** FMI Corporation.

ABI September 2016: Firm Billings Decline but Design Contracts Grow



One-fifth of firms report interest in mergers or acquisitions, but few have gone through with one.

Architecture firm billings softened for the second consecutive month in September, with an ABI score of 48.4 (a score above 50 indicates increasing firm billings, while a score below 50 indicates declining billings). This is the first time since 2012 that there have been two consecutive months of declining billings; while it is too early to be indicative of a trend, it is worth monitoring. Firms continue to report client caution around the upcoming presidential election, which may be one element contributing to the decline. However, on a more encouraging note, firms reported that value of new design contracts continued to increase in September. While the pace of growth slowed modestly from August, firms signing contracts for new work indicates future billings down the road

Business conditions have softened most notably at firms located in the Northeast region of the country in recent months, although firms located in the West have also seen some softness. Firms located in the Northeast saw declining billings in the second half of 2014 and nearly the entirety of 2015, before recovering for the first half of 2016, but they have now declined again for the last four months. Firm billings at firms located in the South, on the other hand, have been relatively strong for the last several years, and continue to see growth. By firm type, both firms with a residential and institutional specialization saw firm billings decline in September, albeit at a relatively moderate rate, while billings were essentially flat at firms with a commercial/industrial specialization for the fifth consecutive month.

There have been some modest signs of slowing in the general economy as well, recently. Nonfarm payrolls increased by 156,000 positions in September, which is below the monthly average of 178,000 for the year so far and well below the monthly average of 229,000 in 2015. However, architecture employment has continued to slowly but steadily trend up, reaching 183,300 in August, the most recent data available, an increase of 3 percent from one year ago. And the second quarter estimate for the GDP was revised upwards recently, now showing that it increased at an annual rate of 1.4 percent in the second quarter of 2016, an improvement over the 0.8 percent growth reported in the first quarter.

Hon, K. (2016, October). ABI September 2016: Firm billings decline but design contracts grow. Retrieved from www.aia.org: http://new.aia.org/pages/20806-abi-september-2016-firm-billings-decline-but

Key September ABI highlights:

- Regional averages: South (53.4), West (49.5), Northeast (44.0), Midwest (50.1)
- Sector index breakdown: multi-family residential (48.8), institutional (49.0), commercial / industrial (50.4), mixed practice (49.8)
- Project inquiries index: 59.4
- Design contracts index: 51.4

The regional and sector categories are calculated as a 3-month moving average, whereas the national index, design contracts and inquiries are monthly numbers.