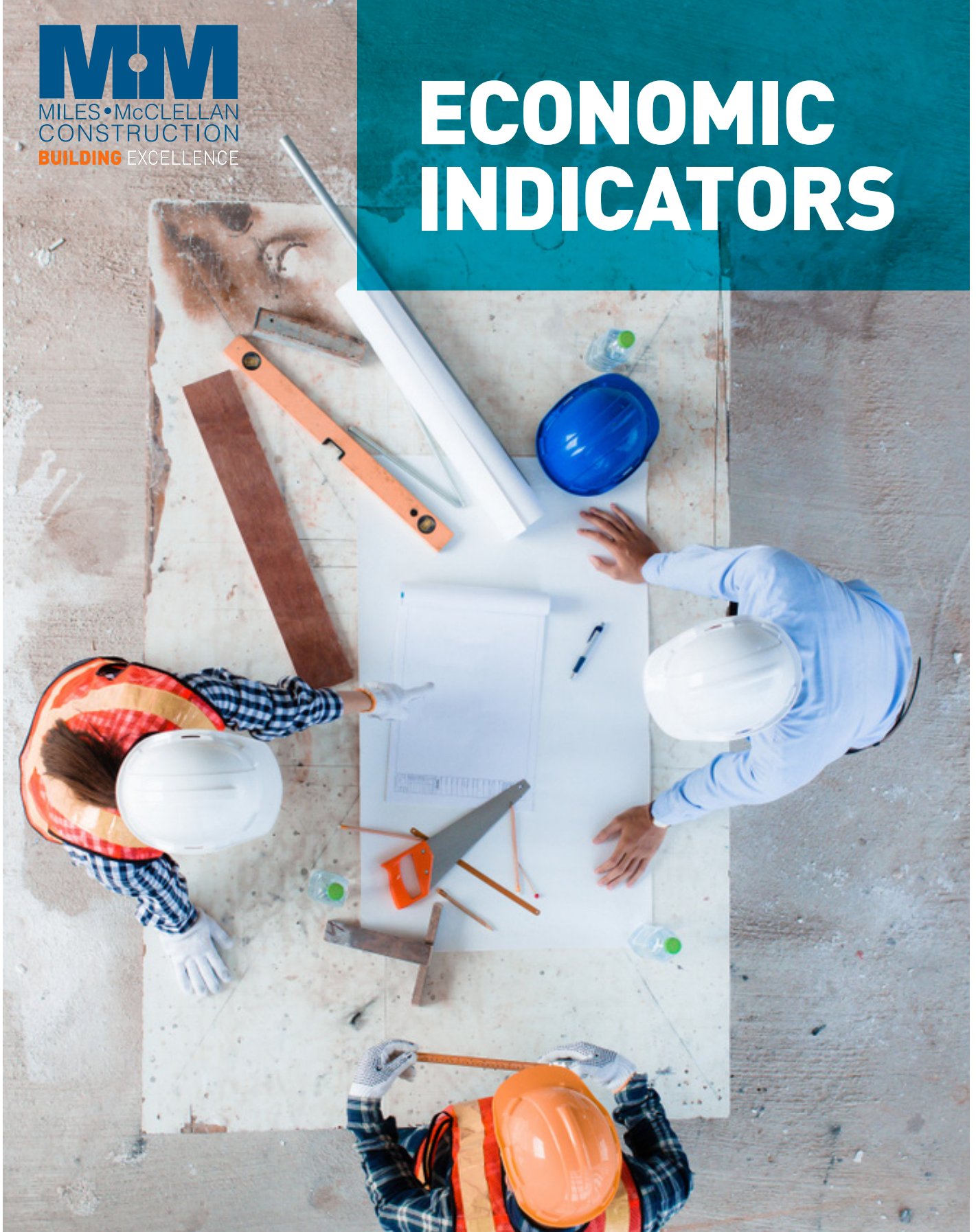


3RD QUARTER 2022

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ECONOMIC INDICATORS





12-MONTH PERFORMANCE SUMMARY

	ABC Backlog	AIA ABI	FMI NRCI	Dodge Momentum Index
October 2021	8.1	54.3		178.1
November 2021	8.4	51.0		170.7
December 2021	8.2	51.0	54.8 Q1 2022	166.4
January 2022	8.0	51.0		152.9
February 2022	8.0	51.3		160.3
March 2022	8.3	58.0	53.8 Q2 2022	166.9
April 2022	8.7	56.5		165.2
May 2022	9.0	53.5		173.1
June 2022	8.9	53.2	45.2 Q3 2022	173.6
July 2022	8.7	51.0		174.0
August 2022	8.7	53.3		173.4
September 2022	9.0	51.7	46.3 Q4 2022	183.2

DEFINITIONS AND BASE STANDARDS

ABC Construction Backlog

Amount of commercial construction to be performed in coming months

AIA Architectural Billing Index - 50 or above indicates growth

FMI Non-Residential Construction Index - 50 or above indicates growth

Dodge Momentum Index - a unique 12-month leading indicator of construction spending for nonresidential building. Base measurement = 100

Performance Key:

Good ■

Average ■

Poor ■

These projections are based on assumptions of fact which may not occur, and are speculative in nature. These projections have not been reviewed or approved by independent accountants or legal counsel or other advisors. Such assumptions are subject to variations that may arise in the future and which may be beyond the control of the corporation. Any change or variation in any of the assumptions would change the projected financial statements and analysis. No representation or warranty, express or implied, is intended as to the reasonableness or accuracy of these projections.



ABC's Construction Backlog Indicator Jumps in September; Contractor Confidence Remains Steady

"Associated Builders and Contractors reports that its Construction Backlog Indicator increased to 9.0 months in September. The reading is 1.4 months higher than in September 2021.

"Backlog reached its highest level since May 2022 and is once again above the level observed at the start of the pandemic (8.9 months in February 2020). Backlog in heavy industrial increased sizably in September, spurred by a 21.5% year-over-year increase in manufacturing-related construction spending.

"ABC's Construction Confidence Index readings for profit margins and staffing levels increased in September, while the reading for sales moved slightly lower. All three readings remain above the threshold of 50, indicating expectations of growth over the next six months.

"The construction confidence and backlog metrics appear strong despite the U.S. economy facing headwinds like inflation, financial market volatility and rapidly rising borrowing costs," said ABC Chief Economist Anirban Basu. "Contractors remain decidedly upbeat, with backlog expanding and expectations for rising sales, employment and profit margins over the next six months.

"One would think the recent surge in interest rates would be enough to dampen contractor confidence," said Basu. "Instead, project owners continue to move forward with a significant number of projects. Faced with high demand for their services, contractors continue to show pricing power, helping to offset rising compensation and other construction delivery costs."

Construction Backlog Indicator

	Sep. 2022	Aug. 2022	Sep. 2021	1-Month Net Change	12-Month Net Change
Total	9.0	8.7	7.6	0.3	1.4
Industry					
Commercial & Institutional	9.4	9.1	7.8	0.3	1.6
Heavy Industrial	8.5	7.4	7.5	1.1	1.0
Infrastructure	7.2	8.2	7.4	-1.0	-0.2
Region					
Middle States	7.2	7.2	6.7	0.0	0.5
Northeast	9.4	8.0	6.6	1.4	2.8
South	10.7	10.9	10.3	-0.2	0.4
West	8.4	9.1	6.3	-0.7	2.1
Company Size					
<\$30 Million	8.0	7.8	6.8	0.2	1.2
\$30-\$50 Million	10.0	10.0	7.8	0.0	2.2
\$50-\$100 Million	11.2	13.1	11.1	-1.9	0.1
>\$100 Million	13.4	13.9	10.6	-0.5	2.8

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Construction Confidence Index

Response	September 2022	August 2022	September 2021
CCI Reading			
Sales	55.1	55.9	60.7
Profit Margins	52.5	51.9	51.6
Staffing	59.8	59.0	58.9
Sales Expectations			
Up Big	6.6%	3.8%	6.8%
Up Small	40.5%	47.3%	49.4%
No Change	25.6%	23.7%	25.3%
Down Small	21.1%	19.4%	16.9%
Down Big	6.2%	5.9%	1.7%
Profit Margin Expectations			
Up Big	4.4%	2.7%	2.5%
Up Small	30.8%	34.9%	33.3%
No Change	38.8%	34.9%	36.7%
Down Small	22.5%	22.0%	22.8%
Down Big	3.5%	5.4%	4.6%
Staffing Level Expectations			
Up Big	4.8%	5.9%	3.4%
Up Small	44.9%	39.8%	43.0%
No Change	36.6%	40.3%	40.9%
Down Small	11.9%	12.4%	11.0%
Down Big	1.8%	1.6%	1.7%

© Associated Builders and Contractors, Construction Confidence Index

Basu, A. (2022, October 11). *ABC's Construction Backlog Indicator Jumps in September; Contractor Confidence Remains Steady*. Retrieved from abc.org: <https://www.abc.org/News-Media/News-Releases/entryid/19644/abcs-construction-backlog-indicator-jumps-in-september-contractor-confidence-remains-steady>



North American Engineering and Construction Outlook - Q4 2022

Construction Put-in-Place (2022/2021 comparison)

- | | |
|---|--|
| <p>↑ Multifamily Residential: UP 25%
 "Climbing mortgage rates will push more people to rent. Rising rents will also push inflation higher into 2023. As rents increase, there will be a wave of multifamily & mixed-used developments across both urban and suburban markets. Affordable housing projects & rent caps will be incentivized as elevated living costs weigh on lower earners."</p> <p>↑ Commercial: UP 11%
 "The recent fall in oil prices provides some relief in discretionary spending on retail goods, but ongoing & broadening inflation and rising unemployment will continue to weaken consumers' purchasing power. Poor earnings & higher interest rates put many retailers at risk of failure. National chains & big-box retailers will continue to peruse renovations to improve services such as online customer pickup & same-day delivery. Logistics infrastructure & warehousing (a subset of commercial) will become less active over the coming years as major owners (e.g., Amazon) pause expansion plans."</p> <p>— Healthcare: STABLE 4%
 "Health care remains the only institutional segment to experience growth in construction spending through both 2022 and 2023, supported by aging & growing populations. Recessionary pressures will encourage owners to eliminate unnecessary expenses. Large projects that are in the planning stage will likely be put on hold or delayed due to staffing issues, increased operating expenses & high construction costs. Specialty care & nursing home investments will remain depressed due to severe staffing limitations along with advancements in home care services and associated technologies."</p> | <p>↓ Education: DOWN 3%
 "Significant deferred maintenance & recent demographic shifts will drive increased K-12 construction beyond 2022. Higher education investment will be challenged by ongoing depressed enrollments, strained budgets, higher operations costs & continued staffing challenges. Student loan forgiveness & other supportive government programs, in addition to recessionary factors (e.g., rising unemployment), will drive enrollments over the next several years."</p> <p>↑ Manufacturing: Up 18%
 "Manufacturers are moving more production back to the U.S. due to breakdowns in supply chains & political developments (e.g., CHIPS Act). A large wave of megaprojects in semiconductors, liquified natural gas, refining & green energy investments (e.g., EVs, battery storage & generation technologies) will offset falling consumer demand for manufactured goods. Planned construction investment will cause near-term inflationary pressures, lower gross domestic product growth & rising trade tensions. Robotics & automation will be used to address lack of manufacturing labor."</p> <p>↓ Office: DOWN 2%
 "Data centers (a subset of office) will continue to outperform traditional office space. Permanent hybrid working & increasing recessionary pressures through 2023 will push many businesses to trim office space. Owners will opportunistically look to reduce SF as leases expire. Reorganization & relocations will cause short-term opportunities in renovations, while reshoring of manufacturing operations will drive mid- & longer-term opportunities. Earnings pressures & taxes will continue to fuel corporate relocations from 2023-2024 as companies migrate out of expensive coastal markets (e.g., California)."</p> |
|---|--|



Dodge Momentum Index Rises In September - Despite Recession Anxiety, DMI Shows Strentht

"The Dodge Momentum Index (DMI), issued by Dodge Construction Network, improved 5.7% (2000=100) in September to 183.2 from the revised August reading of 173.4. The DMI is a monthly measure of the initial report for nonresidential building projects in planning, shown to lead construction spending for nonresidential buildings by a full year. In September, the commercial component of the Momentum Index rose 2.9%, while the institutional component also increased, seeing a double-digit gain of 11.7%.

"After a solid performance in September, the DMI landed less than 5% below an all-time high. On the commercial side, the figure was primarily bolstered by an influx of data centers entering the planning queue. The institutional component saw a notable increase in research and development laboratory projects in the education sector, with solid contributions from healthcare and recreation projects entering the planning process. On a year-over-year basis, the DMI was 26% higher than September in 2021; the commercial component was up 25%, and institutional planning was 28% higher.

"A total of 39 projects with a value of \$100 million or more entered planning in September. The leading commercial projects included a \$500 million data center campus on the Tech Park at Brambleton site in Ashburn, VA, and the \$500 million construction of two warehousing buildings at the Matrix Global Logistics Park's West Campus in Bloomfield, NY. The leading institutional projects were the \$311 million Shoshone-Bannock Casino in Mountain Home, ID, and a \$300 million laboratory project at 120 Middlesex Ave in Somerville, MA.

"The gain in the Momentum Index and its components in September reassures us that despite whispers of recession, owners and developers are still looking to move forward with projects to meet demand," stated David Reaves, senior economist for Dodge Construction Network. "Certain subsectors have shown resilience since the pandemic's onset, such as data center projects, and continue to stream into the planning pipeline. However, looming challenges still remain for the sector, including supply shortages and the rising cost of materials that could chip away at the flow of new projects if inflation is not tempered."

DODGE MOMENTUM INDEX

(2000=100, Seasonally Adjusted)

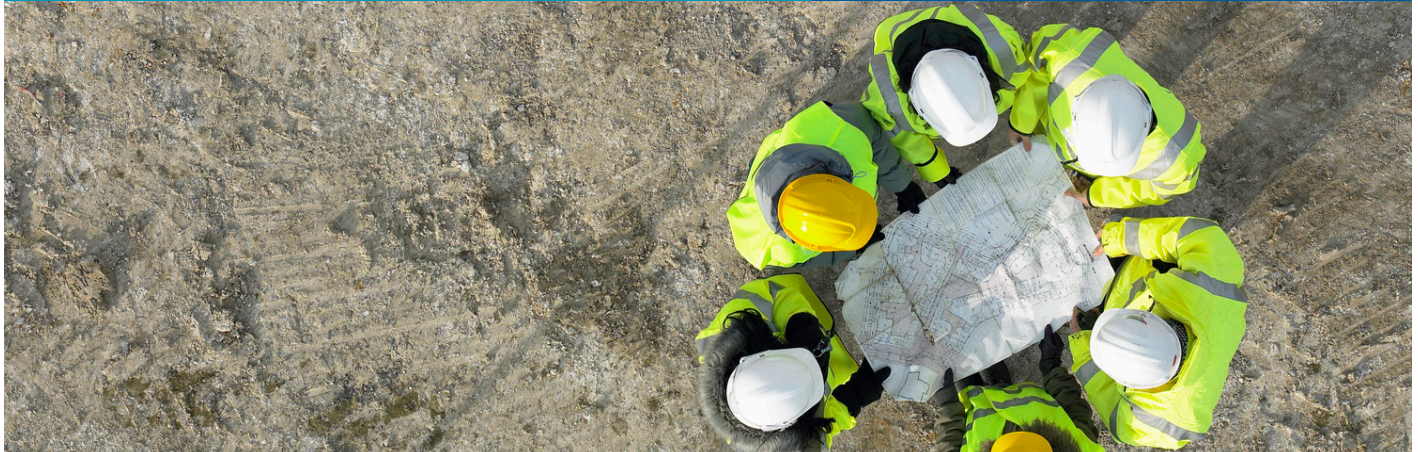
	Sep-22	Aug-22	% Change
Dodge Momentum Index	183.2	173.4	5.7%
Commercial Building	220.5	214.2	2.9%
Institutional Building	137.1	122.8	11.7%

Source: Dodge Construction Network

DODGE MOMENTUM INDEX

(2000=100, Seasonally Adjusted)





ABI September 2022: Despite slowing billings growth, firm backlogs remain robust

After strong revenue growth in 2022, firms are less optimistic for 2023.

"Architecture firm billings grew at a modest pace in September. While the Architecture Billings Index (ABI) score of 51.7 for the month means that slightly fewer firms reported increasing billings this month than in August when the score was 53.3, growth continued at most firms for the 20th consecutive month. However, there are some areas worth monitoring in the coming months. Two indicators of future work, client inquiries into new projects and the value of new design contracts, recorded their lowest post-pandemic growth rates in September as fewer clients are expressing interest in new projects now than in the last year and a half. However, backlogs at firms remained at a robust 7.0 months as of the end of September, still near record-high levels since we began collecting this data regularly more than a decade ago.

"Firms in all regions of the country reported billings growth for the second month in a row in September, with the strongest conditions reported by firms located in the Northeast and Midwest. However, there was more volatility by firm specialization this month. Both firms with a multifamily residential specialization, as well as those with a commercial/industrial specialization, saw their billings decline in September, for the first time since the post-pandemic recovery began. On the other hand, firms with an institutional specialization reported very strong business conditions this month, with billings reaching their highest level in several years."

Looking ahead to 2023, optimism wanes.

"...But many firms are less optimistic looking toward to 2023, with only 36% expecting revenue to increase from 2022. Firms expect that their revenue will increase by just 0.8%, on average, while smaller firms, with annual revenue of less than \$1 million, are expecting a decrease in revenue of about 2.4% in 2023. Even large firms, with annual billings of \$5 million or more, are only projecting an increase of 2.9%.

"At firms expecting a decrease in revenue in 2023, nearly half (44%) indicated that client nervousness was likely to be the major impediment to revenue growth that could have the single biggest impact in 2023, followed by high costs for materials and labor for construction projects (19%), rising interest rates (14%), and lack of staff/limited ability of firm to take on new projects (9%). While some firms are concerned about a lack of available contractors to work on projects and cutbacks in funding by federal, state, or local government, few selected those potential impediments to revenue growth as the single largest impacts for 2023. Firms with a multifamily residential specialization, recorded their lowest post-pandemic growth rates in September as fewer clients are expressing interest in new projects now than in the last year and a half. However, backlogs at firms remained at a robust 7.0 months as of the end of September, still near record-high levels since we began collecting this data regularly more than a decade ago."

Key September ABI highlights:

- **Billings:** 51.7 (decrease)
- **Design Contracts:** 50.7 (decrease)
- **Regional Averages:**
 - South - 51.7 (increase)
 - Northeast - 54.6 (increase)
 - West - 51.6 (decrease)
 - Midwest - 52.1 (decrease)
- **Sector Index Breakdown:**
 - Multi-Family Residential - 47.9 (decrease)
 - Commercial/Industrial - 49.6 (decrease)
 - Institutional - 58.9 (increase)

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

*decrease/increase over the prior quarter's numbers.



To learn more or discuss an upcoming project, contact us today



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AIA. (2022, October 19). *ABI September 2022: Despite slowing billings growth, firm backlogs remain robust*. Retrieved from aia.org: <https://www.aia.org/pages/6556503-abi-october-2022-despite-slowing-billings->