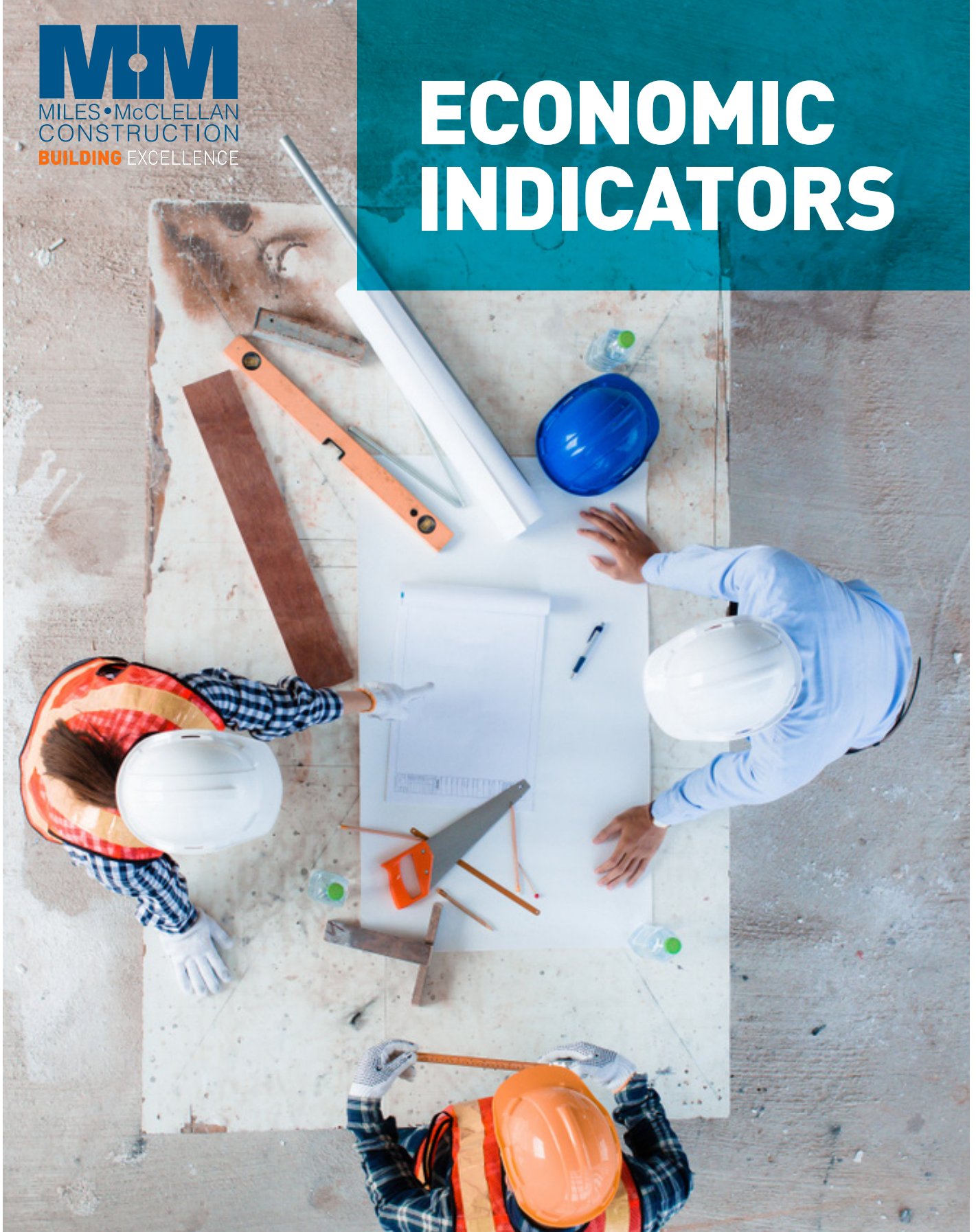


4TH QUARTER 2022

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ECONOMIC INDICATORS





12-MONTH PERFORMANCE SUMMARY

	ABC Backlog	AIA ABI	FMI NRCI	Dodge Momentum Index
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	182.2
October 2022	8.8	46.6		199.7
November 2022	9.2	46.6		208.3
December 2022	9.2	47.5	46.4 Q1 2023	222.2

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 Flat in December at Highest Level Since Q2 2019

"Backlog remains at its highest level since the second quarter of 2019. This has been especially true in the South, which has been the case for many of the past several years.

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

"Contractors enter the new year with plenty of optimism," said ABC Chief Economist Anirban Basu. "Backlog remains elevated, which means that, even if the economy were to enter recession this year, contractors would likely be insulated from significant harm. Rather than fixate on the possibility of a recession, many contractors remain focused on growth, with expectations for rising sales and staffing levels over the next half year. Even the reading on profit margins increased this month, perhaps reflecting an improved supply chain.

"While 2023 continues to be filled with promise, contractors may soon show more concern," said Basu. "Anecdotal evidence suggests that financing commercial real estate projects is more difficult, due in part to recession predictions. The general increase in the cost of capital has also jeopardized many projects, with certain contractors noticing an increase in postponements."

Basu, A. (2023, January 10). *ABC's Construction Backlog Indicator Flat in December at Highest Level Since Q2 2019*. Retrieved from abc.org: <https://www.abc.org/News-Media/News-Releases/entryid/19740/abcs-construction-backlog-indicator-flat-in-december-at-highest-level-since-q2-2019>

Construction Backlog Indicator

	Dec. 2022	Nov. 2022	Dec. 2021	1-Month Net Change	12-Month Net Change
Total	9.2	9.2	8.2	0.0	1.0
Industry					
Commercial & Institutional	9.4	9.6	8.5	-0.2	0.9
Heavy Industrial	8.2	9.5	7.7	-1.3	0.5
Infrastructure	10.0	6.7	7.3	3.3	2.7
Region					
Middle States	8.1	7.8	8.2	0.3	-0.1
Northeast	8.9	8.6	7.5	0.3	1.4
South	11.5	11.5	9.0	0.0	2.5
West	7.2	8.3	8.4	-1.1	-1.2
Company Size					
<\$30 Million	7.9	8.5	7.6	-0.6	0.3
\$30-\$50 Million	13.1	9.8	8.7	3.3	4.4
\$50-\$100 Million	11.1	10.6	11.3	0.5	-0.2
>\$100 Million	14.2	12.7	10.7	1.5	3.5

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Construction Confidence Index

Response	December 2022	November 2022	December 2021
CCI Reading			
Sales	59.0	56.8	66.3
Profit Margins	52.3	50.5	57.4
Staffing	60.9	63.0	64.6
Sales Expectations			
Up Big	9.1%	4.3%	11.5%
Up Small	44.6%	44.9%	53.6%
No Change	24.6%	28.6%	25.1%
Down Small	16.6%	17.8%	8.2%
Down Big	5.1%	4.3%	1.6%
Profit Margin Expectations			
Up Big	2.9%	2.7%	2.7%
Up Small	36.0%	29.2%	45.4%
No Change	35.4%	38.9%	33.3%
Down Small	18.9%	25.9%	15.8%
Down Big	6.9%	3.2%	2.7%
Staffing Level Expectations			
Up Big	4.6%	5.9%	7.7%
Up Small	50.9%	54.1%	53.0%
No Change	31.4%	27.6%	31.1%
Down Small	9.7%	10.8%	6.6%
Down Big	3.4%	1.6%	1.6%

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2023 North American Engineering and Construction Industry Overview - Q1 Edition

U.S. Engineering and Construction Outlook

"Last year FMI altered its base case assumptions for our forecasts to include a recession in 2022 and 2023. As with historical contractionary cycles, the impact on the engineering and construction industry will be longer-lasting.

"Economic factors influencing this forecast include ongoing shortages of key materials and labor across various industries; challenges and opportunities associated with the reopening of international borders; geopolitical territorial and trade tensions; impacts and volatility in real estate, financial and equity markets associated with a deeply inverted yield curve, ongoing quantitative tightening and rate hikes; and continued inflationary pressures tied to heightened living expenses, energy costs, strength in the U.S. dollar and rising wages.

"There are also now multiple layers of interconnected government policy in place influencing new opportunities across various programs stemming from the Infrastructure Investment and Jobs Act (IIJA), the CHIPS and Science Act (CHIPS), and the Inflation Reduction Act (IRA). Combined, these policies will reinforce longterm economic competitiveness and resilience, and ultimately will become a major driving force across several key areas of our industry.

"FMI anticipates the U.S. economy will fare better than that of most countries in the years ahead, as reflected by the strength in labor markets, the appetite for innovation, and these recent significant policies supporting long-term manufacturing, infrastructure and institutional investments. As a result, the engineering and construction industry is expected to play a major role in our economy's foundational strength over the coming years."

Daum, C., Strawberry, B., Bowman, J., & Beardall, E. (2023). *2023 North American Engineering and Construction Industry Overview First Quarter Edition*.

U.S. Key Takeways:

Total engineering and constructions pending for the U.S. is forecast to end 2022 up 8%, the same increases as in 2020 and 2021, all led primarily by residential construction.

Looking to 2023, FMI forecasts a 2% decline in engineering and construction spending levels compared to 2022 due to an anticipated fall in residential construction.

High-growth segments in 2022 include multifamily, residential improvements, commercial, manufacturing, sewage and waste disposal, water supply, and conservation and development construction, each with annual growth rates exceeding 10%.

A limited number of segments are expected to end the year with growth rates between 0% and 4%, or roughly in line with historical rates of inflation. These segments include lodging, office, educational, transportation and communication. Elevated inflation in the industry in 2022 is driving output contraction across these segments.

Only religious, public safety and power segments are expected to decline in 2022. Real losses in output (e.g., square footage, installed capacity, etc. are projected to be significant, especially in power.

The latest Nonresidential Construction Index (NRCI) score of 46.4, nearly flat from the previous quarter's score of 46.3, suggests ongoing concerns into the first quarter of 2023. Economic and industry sentiment fell slightly but is balanced by improving productivity and falling cost pressures in material and labor. The index has remained under 50 for three quarters and indicates fewer future engineering and construction opportunities into 2023.



Dodge Momentum Index Wraps up 2022 with December Growth

Commercial and institutional planning push higher, closing year on positive note

"The Dodge Momentum Index (DMI), issued by Dodge Construction Network, improved 6.6% (2000=100) in December to 222.2 from the revised November reading of 208.3. In December, the commercial component of the DMI rose 8.4%, and the institutional component ticked up 2.7%.

"One of the key construction storylines for 2022 was the return of enthusiasm and optimism in prospects for nonresidential growth," stated Richard Branch, chief economist for Dodge Construction Network. "While some of that will likely erode in 2023 as economic growth wanes, increased demand for some building types like data centers, labs, and healthcare buildings will provide a solid floor for the construction sector."

"Commercial planning in December was supported by broad-based increases across office, warehouse, retail and hotel planning. Meanwhile, institutional growth focused on recreation and public building, with education and healthcare planning activity remaining flat. On a year-over-year basis, the DMI was 40% higher than in December 2021; the commercial component was up 51%, and institutional planning was 20% higher.

"A total of 15 projects with a value of \$100 million or more entered planning in December. The leading commercial projects included a \$500 million Vantage Data Center in Sterling, VA and a \$183 million mixed-use building in Chicago, IL. The leading institutional projects comprised of the \$400 million Acute Neuropsychiatric Hospital in Los Angeles, CA, and a \$185 million life sciences building in Philadelphia, PA.

"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."

December 2022 DODGE MOMENTUM INDEX

DODGE MOMENTUM INDEX

(2000=100, Seasonally Adjusted)

	Dec-22	Nov-22	% Change
Dodge Momentum Index	222.2	208.3	6.6%
Commercial Building	281.0	259.2	8.4%
Institutional Building	149.3	145.4	2.7%

Source: Dodge Construction Network

DODGE MOMENTUM INDEX

(2000=100, Seasonally Adjusted)





Architecture firm billings end the year on a soft note

"Business conditions remained soft across the country in December, as billings declined in all regions for the second consecutive month. Conditions remained softest at firms located in the West and Northeast regions. Billings also declined at firms of all specializations this month, with the weakest conditions reported at firms with a multifamily residential specialization. Even firms with an institutional specialization are now seeing a more significant decline in billings, despite reporting strong growth just four months ago.

Stalled, delayed, and cancelled projects of concern to firm leaders

"For December's special practice questions, the AIA asked architecture firm leaders for an update on the status of stalled, delayed, and cancelled projects at their firms. Overall, firms reported that an average of 13% of the projects at their firm over the past six months have been significantly delayed, 6% have been indefinitely stalled, and 3% have been cancelled. Firms with a multifamily residential specialization have been most significantly impacted, as they reported that an average of 18% of their projects have been significantly delayed, in contrast to 15% of projects at firms with a commercial/industrial specialization and 9% of projects at firms with an institutional specialization. Firms located in the Northeast and West regions also reported a higher share of significantly delayed projects than firms in other regions.

"Finally, when asked what they anticipate will be the trend for delayed, stalled, or cancelled projects over the first six months of 2023 as compared to the past six months, more than half of firm leaders (55%) indicated that they expect it to remain about the same. One quarter of firms expect to see fewer delayed, stalled, or cancelled projects, although 20% expect to see more. However, just 2% of firms indicated that they expect the share of stalled, delayed, or cancelled projects to be significantly higher over the next six months, in contrast to 9% that expect the share to be significantly lower.

Key December ABI highlights:

- **Billings:** 47.5 (increase)
- **Design Contracts:** 49.4 (increase)
- **Regional Averages:**
 - South - 48.6 (decrease)
 - Northeast - 46.5 (increase)
 - West - 49.4 (increase)
 - Midwest - 52.1 (decrease)
- **Sector Index Breakdown:**
 - Multi-Family Residential - 44.3 (decrease)
 - Commercial/Industrial - 45.2 (increase)
 - Institutional - 47.3 (decrease)

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 month's numbers.

The American Institute of Architects. (2023, January). *ABI December 2022: Architecture firm billings end the year on a soft note*. Retrieved from aia.org: <https://www.aia.org/pages/6587696-abi-december-2022-architecture-firm-billings>



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