

1ST QUARTER 2023

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ECONOMIC INDICATORS





12-MONTH PERFORMANCE SUMMARY

	ABC Backlog	AIA ABI	FMI NRCI	Dodge Momentum Index
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	48.4	46.4 Q1 2023	220.2
January 2023	9.0	49.3		201.5
February 2023	9.2	48.0		201.0
March 2023	8.7	50.4	48.0 Q2 2023	183.7

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 March Construction Backlog Indicator Down to Lowest Level Since August 2022

"Associated Builders and Contractors reported today that its Construction Backlog Indicator declined to 8.7 months in March. The reading is 0.4 months higher than in March 2022.

"Backlog slipped in March and is now at its lowest level since August 2022. Backlog is down on a monthly basis in every region except for the South, which continues to be associated with elevated levels of current and future construction activity.

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

"The deceleration in nonresidential construction activity may have started," said ABC Chief Economist Anirban Basu. "With widespread fears of recession, credit conditions tightening and more decision-makers turning their attention to cost containment, new construction work may be more difficult for contractors to line up.

"While the confidence and backlog data weakened in March, they indicate a slowing of activity rather than a shift into reverse," said Basu. "There is a widely held view that financial conditions are tightening in the aftermath of the failures of Silicon Valley Bank and Signature Bank. To the extent that this is true, one could anticipate further slowing and less industry confidence during the months ahead."

Basu, A. (2023, April 11). *ABC's March Construction Backlog Indicator Down to Lowest Level Since August 2022*. Retrieved from abc.org: <https://www.abc.org/News-Media/News-Releases/entryid/19892/abcs-march-construction-backlog-indicator-down-to-lowest-level-since-august-2022>

Construction Backlog Indicator

	Mar 2023	Feb 2023	Mar 2022	1-Month Net Change	12-Month Net Change
Total	8.7	9.2	8.3	-0.5	0.4
Industry					
Commercial & Institutional	9.3	9.4	8.6	-0.1	0.7
Heavy Industrial	8.8	10.4	6.3	-1.6	2.5
Infrastructure	7.1	10.0	8.2	-2.9	-1.1
Region					
Middle States	7.3	8.3	7.5	-1.0	-0.2
Northeast	8.0	8.8	8.6	-0.8	-0.6
South	11.4	11.0	9.7	0.4	1.7
West	7.9	8.7	6.3	-0.8	1.6
Company Size					
<\$30 Million	7.5	8.2	7.7	-0.7	-0.2
\$30-\$50 Million	11.2	8.8	8.4	2.4	2.8
\$50-\$100 Million	14.4	14.8	9.6	-0.4	4.8
>\$100 Million	12.9	12.4	13.8	0.5	-0.9

© Associated Builders and Contractors, Construction Backlog Indicator

Construction Confidence Index

Response	Mar 2023	Feb 2023	Mar 2022
CCI Reading			
Sales	61.3	61.2	65.0
Profit Margins	53.8	55.8	50.2
Staffing	62.6	62.8	66.1
Sales Expectations			
Up Big	5.8%	8.6%	10.3%
Up Small	50.9%	50.7%	55.7%
No Change	28.1%	20.4%	19.7%
Down Small	12.9%	17.8%	12.3%
Down Big	2.3%	2.6%	2.0%
Profit Margin Expectations			
Up Big	1.8%	3.9%	2.5%
Up Small	36.8%	37.5%	31.0%
No Change	39.8%	38.8%	35.5%
Down Small	18.1%	17.1%	27.1%
Down Big	3.5%	2.6%	3.9%
Staffing Level Expectations			
Up Big	3.5%	5.3%	8.4%
Up Small	53.2%	49.3%	56.2%
No Change	33.9%	37.5%	27.6%
Down Small	8.8%	7.2%	7.4%
Down Big	0.6%	0.7%	0.5%

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North American Engineering and Construction Outlook - Q2 2023

Construction Put-in-Place (2023/2022 comparison)

- ↑ Multifamily Residential: UP 5%**
 "Alongside a steadily increasing vacancy rate, apartment rental rates over the past six months have contracted in most markets between 1% and 5%. A significant wave of nearly 960,000 multifamily units in development is expected to come online over the next several quarters. Policies to support affordable housing will become a higher priority in select expensive markets."
- ↑ Commercial: UP 9%**
 "Consumers continue to shift spending toward necessities from discretionary items, with much of that being driven by e-commerce. Warehouse and distribution, a subset of commercial, remains in high demand and has grown in recent years to represent more than 50% of U.S. commercial investment. Following the office market, future leasing activity favors smaller spaces in the most desirable submarkets and Class A buildings. Larger big-box stores continue to consolidate space and invest in e-commerce services and infrastructure."
- ↑ Healthcare: UP 6%**
 "Demand for health care construction spending remains strong through 2023, led by large hospital expansions and a resurgence in demand for outpatient and medical offices. Significant ongoing and planned projects are supported by recent volatility in demographics, capacity and maintenance needs, and new technologies impacting health services (e.g., wearables, telehealth). Large, new facilities will increasingly utilize prefabrication and modularization to improve flexibility and compression of project schedules and budgets. Specialty care and nursing home facilities remain severely resource-constrained, limiting construction activity."
- ↓ Education: STABLE 4%**
 "Both public and private investment in educational construction will grow over the forecast period due to increased tax collections, new bond measures and the Renew America's Schools grant programs. Demand for higher education services will benefit from a weakened labor market, though capital investment will remain challenged due to strained budgets, higher operational costs and ongoing staffing challenges. Significant deferred maintenance and recent demographic shifts demanding new capacity additions will drive increased K-12 construction spending."
- ↑ Manufacturing: Up 27%**
 "Trade disputes and geopolitical tensions continue to encourage reshoring of manufacturing capacity investments, backed by policy support via the CHIPS and Science Act and Build America Buy America Act (BABAA) requirements. Conversely, the Institute for Supply Management's Manufacturing Purchasing Managers Index (PMI) indicates ongoing demand challenges with four consecutive months of scores below 50, suggesting industry contraction. Active and planned megaprojects in manufacturing will result in significant volatility in construction spending over the forecast period as owners race to address current market demands, including electronic vehicles, various energy technologies (batteries, wind, solar, etc.), semiconductors and biopharmaceuticals."
- ↑ Office: UP 5%**
 "Office construction spending will be challenged by high vacancies, increasing sublease activity, rising unemployment and tighter lending standards. Demand for the newest Class A office space has been upheld in most major markets while less desirable Class B or C office space creates investment opportunities for renovation or repurpose projects. Data centers (a subset of office) will continue to outperform traditional office space."

Bowman, J., Strawberry, B., & Beardall, E. (2023). *2023 North American Engineering and Construction Outlook Second Quarter Edition*.



Dodge Momentum Index Drops in March

Commercial and institutional planning decline over the month.

“The Dodge Momentum Index (DMI) slipped 8.6% in March to 183.7 (2000=100) from the revised February reading of 201.0. In March, the commercial component of the DMI fell 6.6%, and the institutional component decreased 12.9%.

“We are predicting the Dodge Momentum Index to work its way back to historical norms throughout 2023, concurrent with weaker economic conditions,” stated Sarah Martin, associate director of forecasting for Dodge Construction Network. “Lending standards for small banks in particular have substantially tightened as banking insecurity intensifies. As a result, owners and developers are more likely to pullback in the short-term, which would further contract the DMI as we continue into the year.”

“Commercial planning in March was driven down by less projects in the office and warehouse sectors, decreasing 29% and 11%, respectively. Institutional planning weakened more substantially, as healthcare fell 17%, education dipped 6%, and amusement planning activity dropped 14%. On the upside, however, a steady flow of research and development laboratories entered the queue, supporting the otherwise weakening sector. Year over year, the DMI remains 24% higher than in March 2022. The commercial component was up 37%, and the institutional component was 2% higher.

“A total of 18 projects with a value of \$100 million or more entered planning in March. The leading commercial projects included a \$300 million office building in Chicago, Illinois, and the \$215 million 58 Logistics Center Industrial Park warehouse project in Bakersfield, California. Two projects at UT Southwestern in Dallas, Texas led the institutional sector: the \$425 million School of Public Health and Health Professions building, and the \$348 million rehabilitation hospital.

“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.”

Dodge Data & Analytics. (2023, April 7). *Dodge Momentum Index Drops in March*. Retrieved from construction.com: <https://www.construction.com/news/March2023DMI>

March 2023 DODGE MOMENTUM INDEX

DODGE MOMENTUM INDEX

(2000=100, Seasonally Adjusted)

	Mar-23	Feb-23	% Change
Dodge Momentum Index	183.7	201.0	-8.6%
Commercial Building	231.2	247.4	-6.6%
Institutional Building	125.0	143.5	-12.9%

Source: Dodge Construction Network

DODGE MOMENTUM INDEX

(2000=100, Seasonally Adjusted)





Architecture Firm Clients Place at Least Moderate Priority on Outcomes Related to Issues of Health, Resilience, and Equity

“The AIA/Deltek Architecture Billings Index (ABI) score of 50.4 for the month indicates that a slight majority of firms reported an increase in their firm billings this month. In addition, backlogs at architecture firms ticked back up to an average of 6.9 months in the first quarter of 2023, after declining slightly in the fourth quarter of 2022. However, the pace of growth of inquiries into new projects at firms slowed in March, while the value of new design contracts declined for the first time in four months. This likely reflects the ongoing concern among clients about committing to new projects due to lingering uncertainty about interest rates and inflation.”

“Billings continued to decline at firms in most regions of the country in March, with only those firms located in the Midwest continuing to report growth, as has been the case for the last five months. Business conditions also remained soft at firms of all specializations, as firms with a multifamily residential specialization saw conditions weaken to the lowest level since the early days of the pandemic. Only firms with a mixed specialization, meaning that they do not receive a majority of their billings from any one category, continued to report billings growth.

This month, Work-on-the-Boards participants are saying:

“Business conditions remain surprisingly strong, with projects continuing to start even in the face of more costly development. Our backlog has increased by 50% over the last 40 days.”— 8-person firm in the West, institutional specialization

“High interest rates, high inflation, and construction cost escalation, along with tightening credit availability, is impacting the viability of many commercial developer projects in the multifamily and hospitality sectors. We expect to see projects in design in both sectors begin to hit pause, or get shelved altogether, in the coming months.”—90-person firm in the South, mixed specialization

“The entire Columbus, OH metropolitan area is experiencing a significant increase in design and construction activity, based in large part on the federal government’s CHIPS and Science Act of 2022.”—30-person firm in the Midwest, commercial/industrial specialization

“Business conditions are in flux based on interest rates and the availability of money.”—64-person firm in the Northeast, residential specialization

Key March ABI highlights:

- **Billings:** 50.4 (increase)
- **Design Contracts:** 48.9 (decrease)
- **Regional Averages:**
 - South - 47.4 (increase)
 - Northeast - 49.1 (increase)
 - West - 47.2 (decrease)
 - Midwest - 51.4 (increase)
- **Sector Index Breakdown:**
 - Multi-Family Residential - 44.2 (decrease)
 - Commercial/Industrial - 49.7 (increase)
 - Institutional - 48.8 (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 month's numbers.

American Institute of Architecture . (2023, April). *ABI March 2023: Business Conditions Improve Slightly*. Retrieved from aia.org: <https://www.aia.org/pages/6617159-abi-march-2023-business-conditions-improve>



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