

2ND QUARTER 2023

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ECONOMIC INDICATORS





12-MONTH PERFORMANCE SUMMARY

	ABC Backlog	AIA ABI	FMI NRCI	Dodge Momentum Index
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
April 2023	8.9	48.5		180.9
May 2023	8.9	51.0		202.4
June 2023	8.9	50.1	49.8 Q3 2023	197.3

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 Steady in June, Contractor Confidence Down

"Associated Builders and Contractors reported that its Construction Backlog Indicator remained unchanged at 8.9 months in June.

"Backlog in the infrastructure category increased for the third straight month and is now at the highest level in nearly two years. On a regional basis, the South remains the region with the highest backlog, despite being the only region in which backlog declined in June.

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

"Backlog once again remained stable in June despite tight credit conditions and high interest rates," said ABC Chief Economist Anirban Basu. "While those risk factors drove a decline in all three Construction Confidence Index series, contractors continue to signal an expectation that sales, profit margins and staffing will expand over the second half of 2023.

"Many aspects of the economy, including consumer spending and the labor market, held up better than expected in the second quarter," said Basu. "That bodes well for economic growth over the summer, but also suggests that the Federal Reserve may raise rates higher and keep them there longer in their ongoing efforts to suppress inflation. All else equal, that will reduce construction activity in the quarters to come."

Construction Backlog Indicator

	June 2023	May 2023	June 2022	1-Month Net Change	12-Month Net Change
Total	8.9	8.9	8.9	0.0	0.0
Industry					
Commercial & Institutional	9.0	9.2	9.4	-0.2	-0.4
Heavy Industrial	6.4	7.2	7.7	-0.8	-1.3
Infrastructure	11.2	9.3	7.9	1.9	3.3
Region					
Middle States	8.9	7.5	8.3	1.4	0.6
Northeast	8.7	8.0	8.2	0.7	0.5
South	9.5	10.9	10.0	-1.4	-0.5
West	8.4	9.1	9.0	-0.7	-0.6
Company Size					
<\$30 Million	8.2	8.2	8.6	0.0	-0.4
\$30-\$50 Million	8.2	9.1	8.0	-0.9	0.2
\$50-\$100 Million	10.7	9.7	8.5	1.0	2.2
>\$100 Million	13.5	14.1	13.6	-0.6	-0.1

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Construction Confidence Index

Response	June 2023	May 2023	June 2022
CCI Reading			
Sales	58.7	60.1	58.3
Profit Margins	53.2	55.1	49.4
Staffing	60.2	61.7	59.6
Sales Expectations			
Up Big	7.1%	6.9%	10.4%
Up Small	46.2%	46.9%	43.0%
No Change	26.2%	29.7%	20.4%
Down Small	15.2%	13.1%	21.7%
Down Big	5.2%	3.4%	4.5%
Profit Margin Expectations			
Up Big	2.9%	6.9%	3.2%
Up Small	32.4%	29.1%	32.6%
No Change	42.4%	45.1%	29.0%
Down Small	19.5%	15.4%	29.4%
Down Big	2.9%	3.4%	5.9%
Staffing Level Expectations			
Up Big	4.3%	4.6%	6.8%
Up Small	46.2%	48.6%	40.7%
No Change	38.1%	37.1%	38.0%
Down Small	9.0%	8.6%	13.1%
Down Big	2.4%	1.1%	1.4%

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Basu, A. (2023, July 11). ABC's Construction Backlog Indicator Steady in June, Contractor Confidence

Down. Retrieved from www.abc.org/News-Media/News-Releases/entryid/20016/abcs-construction-backlog-indicator-steady-in-june-contractor-confidence-down



North American Engineering and Construction Outlook - Q3 2023

- Multifamily Residential: UP 12%**

"Apartment rental rates have contracted in many large markets alongside a steadily increasing vacancy rate as new supplies continue to be added. A significant & growing wave of nearly 980,000 multifamily units in development is expected to come online over the next several quarters. Moderating or declining rent prices will assist with cooling national core inflation. Policies to support affordable housing will become a higher priority in select expensive markets."
- Commercial: UP 11%**

"Big-box stores are consolidating space & investing in e-commerce while demand for smaller & community retail accelerates a shift away from goods to service-led businesses. In efforts to uphold purchasing power, consumers will continue to increase e-commerce, discount & big-box retail shopping. Warehouse & distribution, a subset of commercial, has grown in recent years to represent more than 50% of the commercial segment. New warehouse investment is expected to slow because of recent aggressive expansion & anticipated economic headwinds."
- Healthcare: UP 8%**

"Demand for health care construction spending remains strong over the next several years, led by large hospital expansions and a resurgence in demand for outpatient and medical offices. Significant ongoing & planned projects are supported by recent demographic shifts, capacity & maintenance needs, & new technologies impacting health services (e.g., wearables, telehealth). Large new facilities will increasingly utilize prefabrication & modularization to improve flexibility & compression of project schedules & budgets. Specialty care & nursing home facilities remain severely resource-constrained, limiting potential construction activity. The nursing & specialty care industries are rapidly adopting new technologies & in-home solutions to help manage demographic demands."
- Education: Up 8%**

"Both public & private investment in educational construction will be strengthened by recent spending programs (e.g., Inflation Reduction Act) alongside increased tax collections, new bond measures & 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 & ongoing staffing challenges. Significant deferred maintenance & recent demographic shifts demanding new capacity additions will drive increased K-12 construction spending."
- Manufacturing: Up 36%**

"Trade disputes & geopolitical tensions continue to encourage reshoring of manufacturing capacity investments, backed by policy support via the CHIPS and Science Act & Buy America requirements. Manufacturers are racing to address current domestic & international market demands, which include electronic vehicles, various energy technologies, semiconductors & biopharmaceuticals. Conversely, the Institute for Supply Management's Manufacturing Purchasing Managers Index suggests ongoing challenges, with 7 months of the index remaining below 50. May's reading of 46.9 was hampered by weak new orders & backlogs while pricing pressures decreased significantly."
- Office: UP 5%**

"High vacancies & sublease activity, rising unemployment & tighter lending standards all suggest ongoing difficulties for traditional office construction spending. Demand for the newest Class A office space has been upheld in most major markets while less desirable Class B/C office space is where vacancies are a problem. Increasing foreclosures & distressed sales will create investment opportunities for renovation or repurpose projects. Data centers, a subset of office, will continue to outperform traditional office investment, growing from just under 25% share of spend today to nearly 35% by 2027. Energy & land constraints will pull data center investment away from traditional hubs."
- Bowman, J., Strawberry, B., & Beardall, E. (2023). *Third Quarter 2023 North American Engineering And Construction Outlook*.



Decline in Institutional Planning Drops Dodge Momentum Index Down 3% in June

Continued stream of data center and life science lab projects keeps Index from further lows

"A deceleration in institutional planning caused the Momentum Index to decrease in June," said Sarah Martin, Associate Director of Forecasting for Dodge Construction Network. "Project activity in this segment pulled back from the robust highs of the last three months but continued to dwarf year-ago levels. In contrast, growth in the commercial segment may be fleeting, as the continued elevation in interest rates and increasingly tight lending standards weigh down the sector in the latter half of the year."

"Commercial planning in June remained afloat alongside an uptick in data center and hotel planning projects. Institutional planning, on the other hand, was driven lower by a decrease in education and healthcare activity. Year over year, the DMI remains 25% higher than in June 2022. The commercial and institutional components were up 17% and 39% respectively.

"A total of 22 projects valued at \$100 million or more entered planning in June. The largest commercial projects to enter planning included the \$335 million Queensbridge Collective Office Tower in Charlotte, North Carolina and the \$280 million Old Potomac Church Data Center in Stafford, Virginia. Bolstering the institutional planning queue was the \$710 million Medford Life Science Park project in Medford, Massachusetts and the \$157 million Center of Innovation building in Emeryville, California.

"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 spending for nonresidential buildings by a full year."

DODGE MOMENTUM INDEX

(2000=100, Seasonally Adjusted)

	Jun-23	May-23	% Change
Dodge Momentum Index	197.3	202.4	-2.5%
Commercial Building	222.2	215.6	3.1%
Institutional Building	166.5	186.0	-10.5%

Source: Dodge Construction Network

DODGE MOMENTUM INDEX

(2000=100, Seasonally Adjusted)





ABI June 2023: Firm Billings Remain Essentially Flat

"Business conditions generally held steady at architecture firms in June, as the AIA/ Deltek Architecture Billings Index (ABI) score of 50.1 continued to indicate slight billings growth at firms. This also marked the first time since last fall that there have been two consecutive months of increasing billings at architecture firms, although growth in June was weaker than in May. Inquiries into new work remained fairly strong as well, as did the value of new signed design contracts, which saw their strongest growth since January. And while firm backlogs have decreased somewhat from their record-high levels in 2022, they remain robust, averaging 6.8 months.

"Firms in nearly all regions of the country also reported improving business conditions in June, with firms located in the Midwest continuing to see the strongest billings for the eighth consecutive month. Billings growth also resumed at firms located in the Northeast, following monthly declines since last October. Conditions remained more mixed by firm specialization, however, as firms with multifamily residential and commercial/industrial specializations continued to report softness. Billings continued to grow at firms with an institutional specialization this month, reaching their highest level since the immediate post-pandemic recovery period.

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

"Business conditions seem to be positive across the country. We are seeing a large volume of data center work."— 105-person firm in the West, mixed specialization

"Things seemed to be ramping up, but stalled again."— 20-person firm in the Midwest, institutional specialization

"High interest rates are pushing some projects into 'go slow' mode."— 5-person firm in the Northeast, residential specialization

"Business is hot and cold. We remain optimistic and busy currently, but have seen other industry forecasts that predict a future decline, so we remain cautious."— 4-person firm in the South, commercial/industrial specialization

Key June ABI highlights:

- **Billings:** 50.1 (decrease)
- **Design Contracts:** 52.7 (increase)
- **Regional Averages:**
 - South - 50.5 (decrease)
 - Northeast - 50.6 (increase)
 - West - 48.6 (increase)
 - Midwest - 52.4 (increase)
- **Sector Index Breakdown:**
 - Multi-Family Residential - 47.4 (increase)
 - Commercial/Industrial - 47.8 (increase)
 - Institutional - 55.4 (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.



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



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American Institute of Architects. (2023, July). *ABI June 2023: Firm billings remain essentially flat*. Retrieved from www.aia.org/pages/6648983-abi-june-2023-firm-billings-remain-essenti