

3RD QUARTER 2023

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# ECONOMIC INDICATORS





## 12-MONTH PERFORMANCE SUMMARY

	ABC Backlog	AIA ABI	FMI NRCI	Dodge Momentum Index
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
July 2023	9.3	50.0		190.3
August 2023	9.2	48.1		178.0
September 2023	9.0	44.8	45.9 Q4 2023	182.5

### 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 ■

Stable ■

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 September Construction Backlog Indicator Dips, Yet Contractors Remain

"Associated Builders and Contractors reported its Construction Backlog Indicator declined to 9.0 months in September. The reading is equivalent to one year ago.

"Though it declined last month, the South continues to have the lengthiest backlog, which has been the case since October 2021. Over the past year, only the West has experienced increasing backlog.

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

"Construction continues to defy the downward gravitational pull of tightening credit conditions," said ABC Chief Economist Anirban Basu. "Despite high and rising project financing costs, ABC contractor members continue to report lofty backlog, rising employment, expanding sales and stable profit margins.

"That said, industry headwinds grow in force," said Basu. "Interest rates are still edging higher. Political dysfunction in Washington persists. Rising worker compensation costs and lingering supply chain issues are still frustrating industry performance and profitability. The U.S. economy appears poised to slow further. If the past is any indication, that will eventually catch up to construction in the form of dissipating demand. But economists have talked about recession for more than a year, and the industry still shows substantial forward momentum. It remains to be seen whether that momentum can survive the latest set of challenges."

Construction Backlog Indicator

	September 2023	August 2023	September 2022	1-Month Net Change	12-Month Net Change
<b>Total</b>	9.0	9.2	9.0	-0.2	0.0
<b>Industry</b>					
Commercial and institutional	9.3	9.5	9.4	-0.2	-0.1
Heavy industrial	7.4	7.7	8.5	-0.3	-1.1
Infrastructure	8.6	10.2	7.2	-1.6	1.4
<b>Region</b>					
Middle States	6.3	8.4	7.2	-2.1	-0.9
Northeast	9.4	8.8	9.4	0.6	0.0
South	10.4	11.4	10.7	-1.0	-0.3
West	9.1	8.3	8.4	0.8	0.7
<b>Company Size</b>					
<\$30 Million	8.4	8.4	8.0	0.0	0.4
\$30-\$50 Million	11.0	10.8	10.0	0.2	1.0
\$50-\$100 Million	10.7	12.8	11.2	-2.1	-0.5
>\$100 Million	10.6	13.8	13.4	-3.2	-2.8

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Construction Confidence Index

Response	September 2023	August 2023	September 2022
<b>CCI Reading</b>			
Sales	58.3	58.1	55.1
Profit margins	54.0	55.8	52.5
Staffing	62.0	60.7	59.8
<b>Sales Expectations</b>			
Up big	2.9%	5.7%	6.6%
Up small	50.7%	46.0%	40.5%
No change	26.1%	26.7%	25.6%
Down small	17.4%	18.2%	21.1%
Down big	2.9%	3.4%	6.2%
<b>Profit Margin Expectations</b>			
Up big	1.4%	5.7%	4.4%
Up small	38.4%	38.1%	30.8%
No change	37.0%	34.7%	38.8%
Down small	21.0%	17.0%	22.5%
Down big	2.2%	4.5%	3.5%
<b>Staffing Level Expectations</b>			
Up big	2.9%	5.1%	4.8%
Up small	49.3%	46.0%	44.9%
No change	41.3%	36.4%	36.6%
Down small	5.8%	11.4%	11.9%
Down big	0.7%	1.1%	1.8%

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## North American Engineering and Construction Outlook - Q4 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 6%

"Big-box stores are consolidating space & investing in e-commerce. Various bankruptcies & store closures will create renovation opportunities & support new business concepts. Select states (e.g., CA & NY) will lead industry electrification trends. The return of student loan payments in Oct. will affect demand for retail goods & services over the next several quarters. The U.S. retail vacancy rate has plateaued slightly higher than 4%. Warehouse & distribution, a subset of commercial, has grown in recent years to represent more than 50% of the commercial segment. New warehouse development is expected to slow through 2025 due to economic headwinds. Speculative development on warehouses has pulled back substantially, but construction across supplier networks in key markets (e.g., Phoenix, Austin) remains active, supported by cold storage needs & government incentives in manufacturing."

### ↑ Healthcare: UP 9%

"Demand for health care construction spending will remain strong over the next several years, led by large hospital expansions & a resurgence in demand across outpatient, medical office & specialty care facilities. The focus will be on building community-based health facilities in growing and/or under-served markets. Adaptability, scalability & accessibility are leading designs, including the integration of technology, reconfigurable walls, modular & prefabrication construction, & connections with public transportation. Specialty care & nursing home facilities remain severely resource-constrained. Rapid adoption of new technologies & in-home solutions will help manage significant demand increases."

### ↑ 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. Increased adoption of energy efficiency programs, including LED retrofits, use of thermal technologies & battery management systems (BMS) is expected over the forecast period. Demand for higher education services will benefit from a weakened labor market into 2025. However, anticipate ongoing strained budgets, higher operational costs & staffing challenges. Maintenance needs & recent demographic shifts continue to drive K-12 construction spending growth."

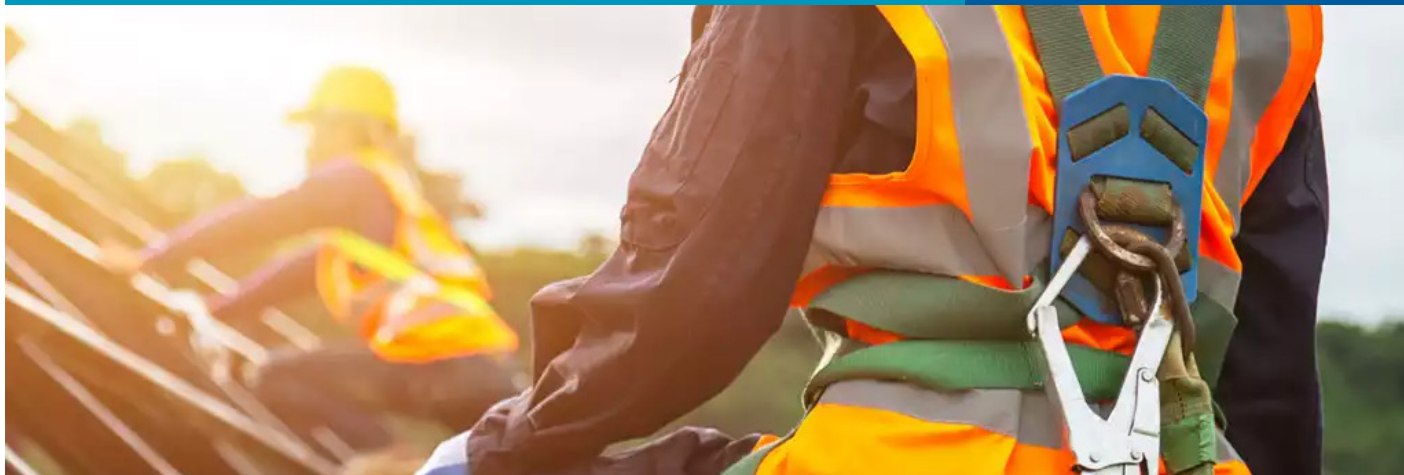
### ↑ Manufacturing: Up 58%

"Backed by policy support via the CHIPS & Science Act & Buy America requirements, manufacturers are racing to address market demands, which include electronic vehicles, energy technologies (LNG, batteries, wind, solar, etc.), semiconductors & biopharmaceuticals. Growth is led by the computer/electronics segment, & 18 new chipmaking facilities will have started construction between 2021-2023. Investment needs & experimental construction methods in these new facilities are likened to the data center market from 15 years ago. The Institute for Supply Management's Manufacturing Purchasing Managers Index (PMI) was 49.0 in September, the 11th consecutive month indicating weak sentiment & industry contraction. September's reading is a slight improvement from August (47.6), led by production & employment conditions. The United Auto Workers strike will challenge production & inventory levels from major automobile producers & aggravate supply chain challenges over the coming weeks."

### ↑ Office: UP 8%

"High vacancies & sublease activity, rising unemployment & tighter lending standards all suggest ongoing difficulties for traditional office construction. Refinancing challenges are leading to foreclosures, & distressed sales will create investment opportunities for renovation or repurpose projects. The U.S. national vacancy rate for traditional office space reached 17.5% in August, the average office listing is down 2.2% year over year, & assets are trading less than \$200/SF on average. Data centers, a subset of office, will continue to outperform traditional office investment, growing from about 25% share of spending in the category to nearly 35% in 2027. Increasing energy costs & land constraints will pull data center investment away from traditional hubs. AI, storage & processing needs will continue to drive spending over the forecast period."





## Dodge Momentum Index Rises 3% in September Following August Decline

### Institutional planning drives DMI higher, while commercial planning declines

"The Dodge Momentum Index (DMI), issued by Dodge Construction Network, improved 3% in September to 182.5 (2000=100) from the revised August reading of 178.0. Over the month, the commercial component of the DMI fell 1%, while the institutional component increased 9%.

"Solid demand for data centers, life science labs and hospitals supported the uptick in nonresidential planning activity last month," said Sarah Martin, associate director of forecasting for Dodge Construction Network. "While month-to-month trends can be volatile, year-to-date trends show an overall decrease in commercial planning, offset by more institutional projects entering the queue. If financial conditions improve in early 2024, steady planning activity should follow."

"Weaker office planning drove the commercial segment of the DMI down, while the acceleration in the institutional segment was supported by stronger education, notably life science buildings, and healthcare planning activity. Year over year, the DMI was 5% lower than in September 2022. The commercial segment was 12% below year-ago levels, while the institutional segment was up 12% over the same time period.

"A total of 20 projects valued at \$100 million or more entered planning in September. The largest commercial projects to enter planning included the \$400 million Platform 16 office development in San Jose, California and the \$230 million Waterford Millstone Data Center in Waterford, Connecticut. The largest institutional projects to enter planning included the \$927 million UC San Diego Research Park in San Diego, California and phases three and four of the Kilroy Oyster Point Life Sciences Complex in San Francisco, California, valued at a total of \$634 million."

## DODGE MOMENTUM INDEX

(2000=100, Seasonally Adjusted)

	Sep-23	Aug-23	% Change
Dodge Momentum Index	182.5	178.0	2.5%
Commercial Building	210.1	212.3	-1.0%
Institutional Building	148.4	135.6	9.4%

Source: Dodge Construction Network

## DODGE MOMENTUM INDEX

(2000=100, Seasonally Adjusted)





## ABI September 2023: Architecture Firm Billings Decline Sharply

"Business conditions at architecture firms deteriorated in September. The AIA/Deltek Architecture Billings Index (ABI) score of 44.8 for the month is the lowest score reported since December 2020 during the height of the pandemic and indicates that the share of firms reporting declining billings has significantly increased. In addition, the value of newly-signed design contracts also slumped in September, indicating that there is increasing reluctance among clients to sign contracts committing to new projects. Although firms continued to report relatively robust backlogs of 6.5 months on average, they have shrunk by nearly a month since their peak of an average of 7.2 months in March 2022.

"Declining billings were reported by firms in all regions of the country in September, with firms in the West continuing to report the softest business conditions, as has been the case for the last four months. Conditions also softened further at firms located in the South and Northeast, while billings declined at a slower pace at firms located in the Midwest. By firm specialization, billings were essentially flat at firms with an institutional specialization, while they declined further from August at firms with a commercial/industrial specialization and remained very soft at firms with a multifamily residential specialization, where billings have declined every month since August 2022."

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

- "Nationally, business conditions remain about the same as 2022. Locally, and in traditional larger metro areas, business conditions are spotty."—63-person firm in the Midwest, institutional specialization
- "We are okay because of one project that we won in 2019 that is finally getting started. If it were not for that project, we would have no work."—5-person firm in the South, residential specialization
- "Owners want to build, but inflation is wreaking havoc with financial proformas and forcing cost cutting measure on many commercial projects so that they can proceed."—12-person firm in the Northeast, commercial/industrial specialization
- "Good through the end of the year and the first quarter of next year with current backlog. We are expecting a slowdown in the first or second quarter of 2024."—30-person firm in the West, institutional specialization in the South, commercial/industrial specialization

### Key June ABI highlights:

- **Billings:** 44.8 (decrease)
- **Design Contracts:** 46.2 (decrease)
- **Regional Averages:**
  - South - 46.2 (decrease)
  - Northeast - 46.4 (decrease)
  - West - 44.3 (decrease)
  - Midwest - 49.3 (decrease)
- **Sector Index Breakdown:**
  - Multi-Family Residential - 43.5 (decrease)
  - Commercial/Industrial - 45.0 (decrease)
  - Institutional - 50.1 (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.



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AIA. (2023, October). *ABI September 2023: Architecture Firm Billings Decline Sharply*. Retrieved from [aia.org: https://www.aia.org/pages/6680261-abi-september-2023-architecture-firm-billi](https://www.aia.org/pages/6680261-abi-september-2023-architecture-firm-billi)