2024 Q1 Economic Indicators

12-MONTH PERFORMANCE SUMMARY

	ABC Backlog	AIA ABI	FMI NRCI	Dodge Momentum Index
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
October 2023	8.4	44.3		181.6
November 2023	8.5	45.4		181.5
December 2023	8.6	46.5	46.0 Q1 2024	186.6
January 2024	8.2	46.2		183.0
February 2024	8.1	49.5		179.5
March 2024	8.4	43.6	51.9 Q2 2024	164.0

Q1 2024 Economic Indicators

Despite early 2024 predictions by the AIA and FMI organizations discussing a potential recession, the most recent articles now shift the focus to the back half of 2024. While the indicators we follow do point toward a slowdown, our internal numbers and anecdotal data consistently demonstrate the resilience of the construction industry, which doesn't support the view of a significant downturn.

To summarize the AIA and FMI reports, we expect an increase in construction spending of 2-3% in 2024, followed by an increase of 1% in 2025. Accounting for the anticipated slowdown of construction over the next two years, the AIA points to three factors that, when combined, cause banks to tighten up lending, resulting in difficulty in getting projects started:

1. Rising long-term interest rates.
2. Higher construction input costs with input prices remaining 35% to 40% higher than pre-pandemic rates.
3. Construction labor costs are continuing to rise at a 4% annual pace.

When reviewing the indicator trends included in this report, you will quickly notice that the AIA Billing Index has now been below 50 for 9 months in a row, and the Dodge Momentum Index dropped below 200 and has stayed low for the past 10 months. However, our adaptability to market conditions is evident in the fact that contractor backlogs, as measured by ABC and FMI, are both higher at the end of Q1. This trend is mirrored at Miles-McClellan, where our backlogs are higher today than they were at the end of Q1, showcasing our ability to navigate through changes. As you read the full report, you will learn more details about these numbers and trends.

Recent MM Bidding Experience

Brad Bloomberg, Vice President, said, "My team's most recent bid was on a local office remodel in downtown Columbus. The project is heavy on updating finishes, lighting, & ceilings of elevator lobbies as well as restrooms, and there was a pre-qualified list of limited subcontractors that were invited to the project. Coverage was average on drywall & fire suppression. Still, feedback from painters, electricians, & HVAC contractors was that they were too busy with the existing backlog over the summer months to take on any new work.

- Painting: 2 bidders of the 7 invited.
- Electrical: 2 bidders of the 10 invited.
- HVAC: 1 bidder of the 10 invited.
- Flooring: 2 bidders of the 6 invited.
- Drywall & Demo: 4 bidders of the 5 invited.
- Fire Suppression: 3 bidders of the 6 invited".

Matthew Q. McClellan

CEO

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

Business Conditions at Architecture Firms Softened in March, as the AIA/ Deltek Architecture Billings Index (ABI) Score Declined to 43.6 for the Month.

"Architecture firm billings continued to decline at firms in all regions of the country, and at firms of all specializations in March, just like in February. Regionally, business conditions were softest at firms located in the Midwest and South. By specialization, billings declined faster at firms with a commercial/industrial specialization and remained weak at firms with a multifamily residential specialization. However, firms with an institutional specialization reported billings that were essentially flat, marking the third straight month of that trend."

Despite recent declines, inflation remains pervasive

"Conditions remained generally mixed in the broader economy in March. Employment remained a bright spot, with nonfarm payroll employment increasing by 303,000 new positions. Construction was one of the strongest sectors, adding 39,000 new positions, after averaging monthly gains of 19,000 over the previous 12 months. However, architecture services employment was flat at 206,100 in February (the most recent data available). Although employment in the industry increased in January, it has generally been flat or declining every month since the strong gains in early 2023."

"Despite recent declines, inflation remained pervasive in March, with the Consumer Price Index (CPI) rising by 0.4% from February and 3.5% from March 2023. While this growth is well below the record high levels seen in 2022, it remains more elevated than had been expected by this point in the cycle. Higher energy and shelter prices were the primary contributors to the increase this month. Because inflation has not yet returned to ideal levels, it seems likely that the Federal Reserve will hold off on starting to reduce interest rates until the third quarter of the year, according to Wells Fargo."

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

- *“Improved in the fourth quarter of 2023, but flattened since—no decline or uptick.”—24-person firm in the Midwest, residential specialization*

- *“Hesitant—we have a few jobs either awarded as part of a design-build effort or as the designer on projects that have been held up as companies go through a lot of review and budgeting re-review.”—16-person firm in the South, commercial/industrial specialization*

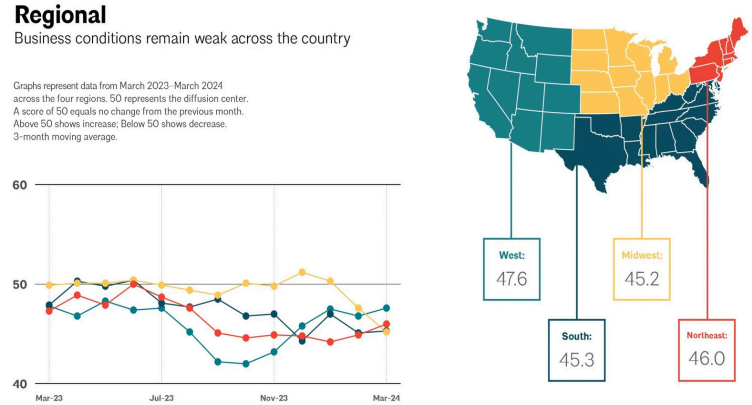
- *“The economy within our sector of work is still relatively strong, but clients are more conscious about construction costs and fee structures.”—14-person firm in the West, institutional specialization*

- *“There are a lot of requests for proposals, and about 35-40% of proposals become projects. Conditions seem good, just very difficult to receive payments.”—4-person firm in the Northeast, residential specialization*

Regional

Business conditions remain weak across the country

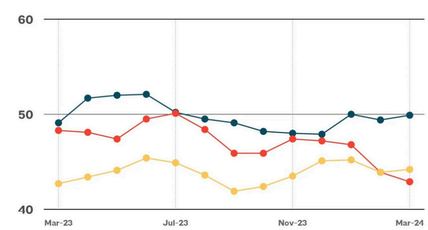
Graphs represent data from March 2023–March 2024 across the four regions. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



Sector

Billings are flat at firms with an institutional specialization, declining at other firm types

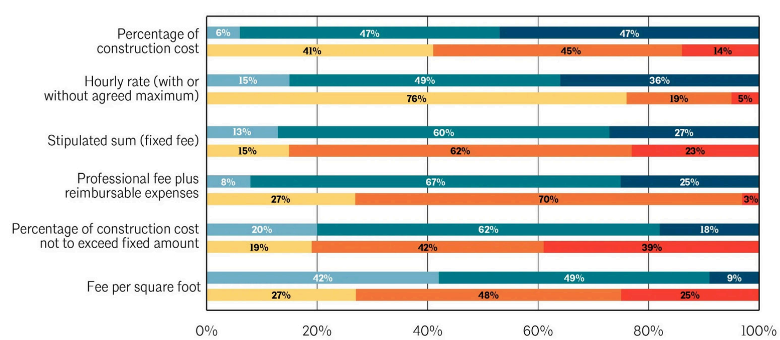
Graphs represent data from March 2023–March 2024 across the three sectors. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



Practice

The most profitable fee methods at architecture firms also tend to be the least risky

units: % of firms indicating level of profitability and risk for each fee method at their firm as compared to other methods (excluding firms that do not use that method and/or can't compare that method to others)



ABI December 2023: Architecture firm billings remain soft to end the year. Retrieved from aia.org: https://www.aia.org/resource-center/abi-december-2023-architecture-firm-billings-remain-soft-end-year

ABC's Construction Backlog Indicator Rebounds in March, Contractor Confidence Improves

"Backlog is down over the past year for every region except for the Middle States, which now has the second largest backlog of any region. The South continues to have the largest backlog despite a large decline over the past year."

"Given headwinds such as high borrowing costs, emerging supply chain issues, project financing challenges and labor shortages, the persistent optimism among nonresidential construction contractors is astonishing," said ABC Chief Economist Anirban Basu. "Last month, contractors reported rising backlog and greater conviction regarding likely growth in sales, employment and profit margins."

"While certain readings are below year-ago levels, there was broad-based improvement in March," said Basu. "For instance, in the category of profit margins, 32% of those surveyed in February expected improvement over the next six months. That share rose to nearly 34% in March, with only 24% hinting at near-term margin compression. That indicates that though costs of delivering construction services continue to rise, contractors collectively enjoy enough pricing power to support stable to rising margins. If interest rates begin to decline during the summer as is widely expected, confidence is likely to climb further."

ABC's Construction Backlog Indicator Rebounds in March, Contractor Confidence Improves. Retrieved from abc.org: https://www.abc.org/News-Media/News-Releases/abcs-construction-backlog-indicator-rebounds-in-march-contractor-confidence-improves

Construction Backlog Indicator

Construction Backlog Indicator

	March 2024	February 2024	March 2023	1-Month Net Change	12-Month Net Change
Total	**8.2**	**8.1**	**8.7**	**0.1**	**-0.5**
Industry					
Commercial and institutional	8.5	8.1	9.3	0.4	-0.8
Heavy industrial	8.8	9.2	8.8	-0.4	0.0
Infrastructure	6.8	9.4	7.1	-2.6	-0.3
Region					
Middle States	8.0	7.3	7.3	0.7	0.7
Northeast	7.4	7.4	8.0	0.0	-0.6
South	9.7	9.9	11.4	-0.2	-1.7
West	7.8	7.9	7.9	-0.1	-0.1
Company Size					
<$30 Million	7.7	7.5	7.5	0.2	0.2
$30-$50 Million	8.2	8.4	11.2	-0.2	-3.0
$50-$100 Million	9.7	10.5	14.4	-0.8	-4.7
>$100 Million	10.1	10.3	12.9	-0.2	-2.8

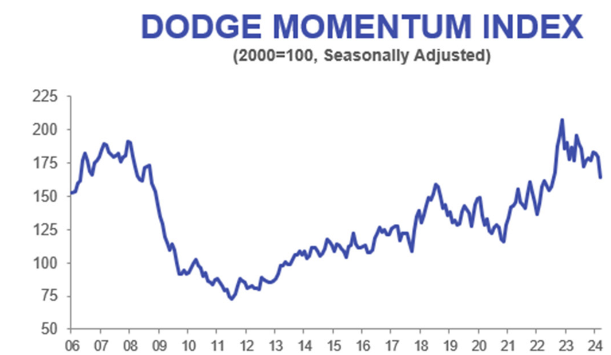
Construction Confidence Indicator

Response	March 2024	February 2024	March 2023
CCI Reading			
Sales	61.9	57.9	61.3
Profit margins	52.4	51.8	53.8
Staffing	63.3	59.8	62.6
Sales Expectations			
Up big	11.9%	8.5%	5.8%
Up small	47.1%	41.5%	50.9%
No change	21.0%	27.1%	28.1%
Down small	16.6%	18.9%	12.9%
Down big	3.4%	4.0%	2.3%
Profit Margin Expectations			
Up big	3.1%	1.2%	1.8%
Up small	30.5%	30.8%	36.8%
No change	42.4%	44.5%	39.8%
Down small	21.0%	21.0%	18.1%
Down big	3.1%	2.4%	3.5%
Staffing Level Expectations			
Up big	7.8%	4.3%	3.5%
Up small	47.8%	43.6%	53.2%
No change	35.6%	41.2%	33.9%
Down small	7.5%	9.1%	8.8%
Down big	1.4%	1.8%	0.6%

DODGE MOMENTUM INDEX
(2000=100, Seasonally Adjusted)

	Mar-24	Feb-24	% Change
Dodge Momentum Index	164.0	179.5	-8.6%
Commercial Building	193.3	199.7	-3.2%
Institutional Building	127.8	154.4	-17.2%

Source: Dodge Construction Network



Dodge Momentum Index Fell 9% in March.

Institutional planning faces sizable correction from weaker R&D lab planning.

The Dodge Momentum Index (DMI), issued by Dodge Construction Network, fell 8.6% in March to 164.0 (2000=100) from the revised February reading of 179.5. Over the month, commercial planning fell 3.2% and institutional planning dropped 17.2%.

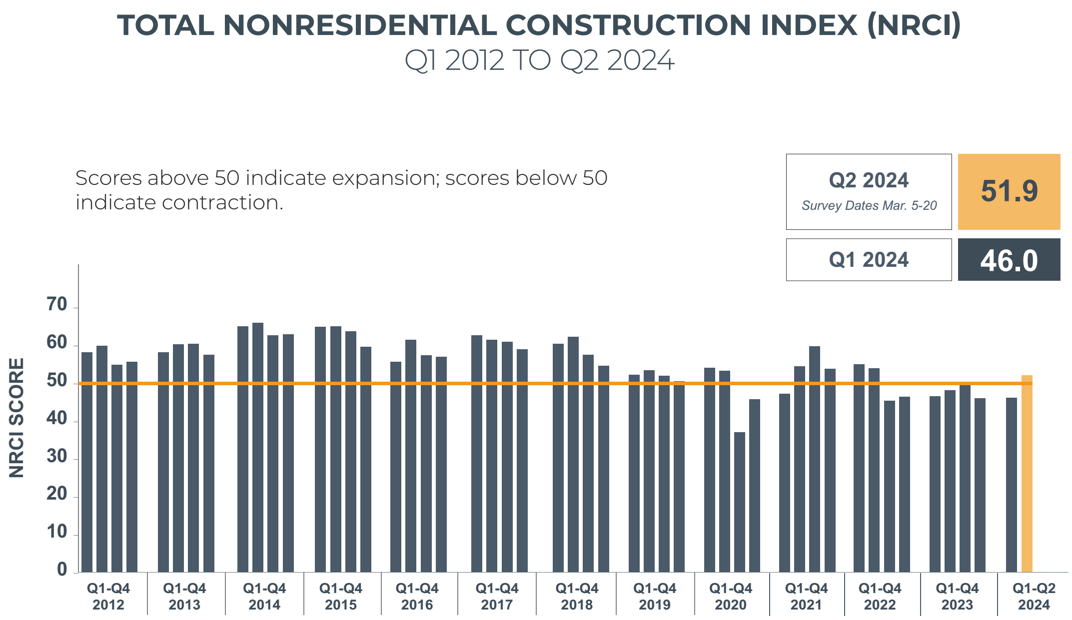
"In 2023, commercial planning decreased while institutional planning notably improved, sitting 29% above year-ago levels in February 2024. While strong market fundamentals should support institutional planning this year, this side of the Index is more at risk for a substantive correction after last year's growth," stated Sarah Martin, associate director of forecasting for Dodge Construction Network. "Much of the decline on the institutional side is credited to lower levels of education planning. Between February 2023 and February 2024, life science and R&D laboratory projects account for roughly 34% of education planning value, with that share reaching 59% in some months. In March, however, that share dropped to 7%. The surge of lab construction in recent years may lead to decreased planning demand as the market absorbs new supply in 2024. Likely, lower lab volumes will result in education planning returning to its long-run, and more sustainable, average."

On the commercial side, slower growth in office and hotel planning pulled down this portion of the Index once again. Year over year, the DMI was 12% lower than in March 2023. The commercial segment was down 14% from year-ago levels, while the institutional segment was down 10% over the same period.

In March, a total of 14 projects valued at $100 million or more entered planning. The largest commercial projects included the $215 million Microsoft Data Center in San Antonio, Texas, and the $158 million Melrod Data Center Building B in Fredericksburg, Virginia. The largest institutional projects comprised the $277 million Trident Health Hospital in Johns Island, South Carolina and the $220 million Sunset Amphitheater in McKinney, Texas.

Martin, S. (2024, April 5). ***Dodge Momentum Index Fell 9% in March.*** Retrieved from Dodge Construction Network: https://www.construction.com/company-news/dodge-momentum-index-march/

Q2 2024 Non-Residential Construction Index



U.S. Key Takeaways

Total engineering and construction spending for the U.S. is forecast to end 2024 up 5%, a slightly slower pace than 2023's 7%. Anticipated growth in 2024 will remain strong across all nonresidential segments, led by nonbuilding structures.

High-performing segments in 2024 point to continued strong investment growth across manufacturing, lodging, public safety, highway and street, transportation, and sewage and waste disposal. Each of these segments are forecast to end the year with growth 10% or higher over 2023 levels.

Many segments are expected to end 2023 with growth rates between 5% and 10%. These segments include health care, educational, religious, amusement and recreation, communication, power, water supply, and conservation and development.

Single-family residential, the largest segment in the industry, is expected to stabilize from the large 14% drop in 2023 and see more investment in 2025. Conversely, multifamily residential investment is expected to recede somewhat over the next several years.

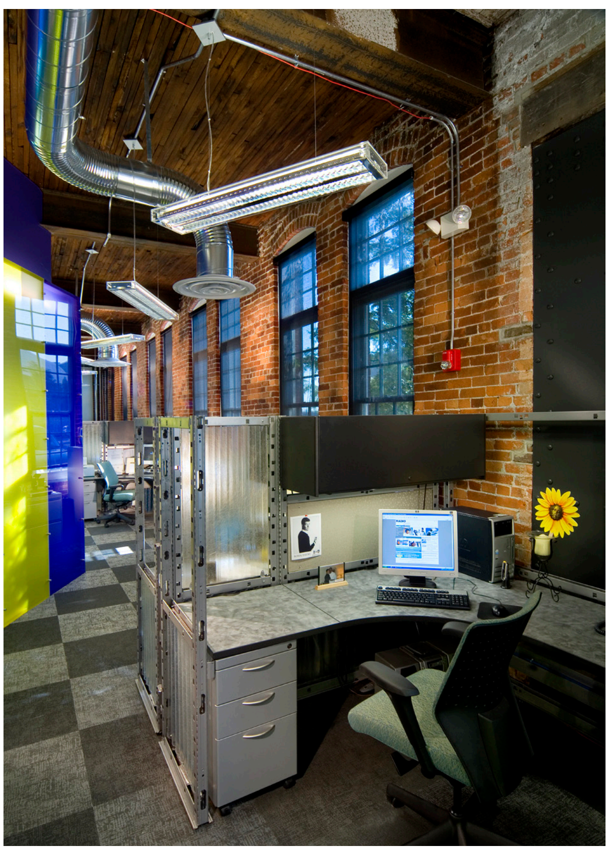
The latest Nonresidential Construction Index (NRCI) score of 51.9 is up sharply from the previous quarter and marks the first NRCI score in two years over the neutral base of 50. The Index suggests that participants see expanding industry opportunities in the quarter and year ahead. Sentiment toward all economic measures has improved, while labor costs, material costs and expectations for office construction are likely to remain the largest challenges this year.

Daum , C., Strawberry, B., Bowman, J., & Beardall, E. (2024). ***2024 North American Engineering and Construction Industry Overview - First Quarter Edition.***

Office: Stable 2% 2024/2023 Comparison

Drivers: office vacancy rates, unemployment rates

- *The next two years are expected to reflect a continuation of 2023 trends. Office buildings have lost their appeal to most investors and new construction and renovation projects continue to be difficult to complete due to inflationary pressures on construction costs, tight lending, high interest rates and increases in insurance premiums.*
- *A vacancy rate of nearly 20% across traditional U.S. offices is the highest since the late 1970s, and occupancy levels are far worse.*
- *Office tenants have generally been downsizing square footage but upgrading or maintaining presence in the newest high-profile Class A space available. Sublease activity is at historically high levels and owners are using contract flexibility (e.g., shorter agreements) to attract interest.*
- *Expect ongoing strength in data center construction and upgrades to handle the processing requirements of artificial intelligence (AI), particularly in the form of liquid cooling capabilities.*



Commercial: Down 2% 2024/2023 Comparison

Drivers: retail sales, CPI, income, home prices, housing starts

- *Commercial construction spending is expected to contract in 2024 for the first time since 2019, largely driven by the warehouse segment, which now represents more than half of annual commercial construction put in place.*
- *Consumer retail spending held strong in 2023 while property valuations have been under pressure against rising rates, limited access to capital, store closures and bankruptcies.*
- *Traditional retail is experiencing a shortage of available space, with strong retail sales in 2023, rising rents and vacancy rates at 15-year lows as of the end of 2023.*
- *A reduction in starts across multifamily and mixed-use developments will limit opportunities for new retail construction over the next several years.*

Healthcare: Up 8% 2024/2023 Comparison

Drivers: population change, population change in ages 75+, uninsured population, government spending, nonresidential structure investment

- *Continued strong investments in the health care sector in 2024 will be led by medical office and hospital construction.*
- *We expect strong mergers and acquisitions (M&A) activity over the next several years as blending traditional and digital health care becomes more popular, which attracts investments across the technology, telecom and retail industries.*
- *Inflation Reduction Act (IRA) funding of $64 billion will fund industry sustainability and renewable energy updates that use various systems to reduce owners' carbon footprints. These renovations will also highlight capacity and maintenance needs across older facilities.*

Educational: Up 9% 2024/2023 Comparison

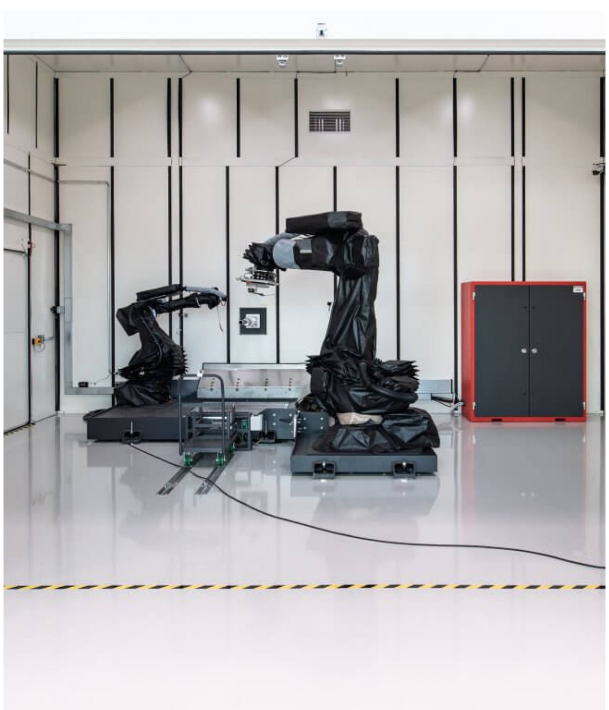
Drivers: population change in ages under 18, population change in ages 18-24, stock markets, government spending, nonresidential structure investment

- *Online and/or hybrid enrollment is outpacing in-person learning across higher education institutions, especially community colleges. Renovation investments in required infrastructure will include modernizing networks, updating data storage and enhancing computing power.*
- *IRA funds will be used to start projects into 2025, largely focused on heating, ventilation and air conditioning (HVAC), lighting, building envelopes, clean/renewable energy solutions and car charging stations.*
- *Renovation investments will help identify and prioritize additional repairs to aging buildings, particularly in K-12 facilities.*
- *Local bond measures will be the primary driver for increasing K-12 construction activities over the forecast period, and this year's election cycle will create opportunities to support increased planned activity.*

Manufacturing: Up 19% 2024/2023 Comparison

Drivers: PMI, industrial production, capacity utilization, durable good orders, manufacturing inventories

- *The IIJA, CHIPS and Science Act and IRA have combined to spur record private sector investment in manufacturing, exceeding $200 billion in planned construction spending in 2024, or nearly triple annual spending levels recorded in the 2010s.*
- *The construction investment boom is largely focused on semiconductors, electric vehicles and batteries, clean energy products and technologies, biomanufacturing and all the various components and materials that support these products and systems. Semiconductor manufacturing is the largest industry grouping, accounting for more than one-third of the planned investment.*
- *The Institute for Supply Management's Purchasing Managers' Index (ISM PMI) recently climbed above 50 after 16 months of suggested contraction to reach a 22-month high, indicating some return to confidence by owners in the manufacturing sector.*
- *Talent shortages and supply chain complexities will continue to cause strain on available resources and across planned investments in infrastructure and power.*



Multifamily Residential: Down 8% 2024/2023 Comparison

Drivers: unemployment rates, core CPI, income, mortgage rates, home pricing, housing starts, housing permits

- *Affordability factors in the single-family home market helped support a large wave of multifamily units in development, which peaked at more than 1 million units in mid-2023.*
- *Development will remain challenged through 2024 due to rising construction costs, moderating rent growth and ongoing tightened lending conditions. Further, many new multifamily units are being delivered this year, adding more inventory to the market.*
- *Renting is more affordable than home ownership across the top 50 U.S. markets, and the gap is widening in most places. As a result, long-term spending growth across multifamily residential is expected to outpace single-family due to elevated construction and financing costs remaining a limiting factor for buyers.*
- *Infrastructure investments will continue to support urbanization and hybrid working.*