2024 Q2 Economic Indicators

12-MONTH PERFORMANCE SUMMARY

	ABC Backlog	AIA ABI	FMI NRCI	Dodge Momentum Index
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
April 2024	8.4	48.4		174.3
May 2024	8.3	42.4		179.0
June 2024	8.4	46.4	47.2 Q3 2024	198.6

Architecture firms reported declining billings for the eighteenth consecutive month in July.

"While the ABI/Deltek Architecture Billings Index (ABI) score of 48.2 for the month indicates that fewer firms reported a decline in billings in July than in May, it still means that more than half of responding firms this month are still experiencing soft business conditions. As far as future work in the pipeline at firms, the value of newly signed design contracts decreased for the fourth consecutive month in July, but the pace of that decline slowed as well. In addition, inquiries into new projects continued to increase this month, although that growth continued at the same slow pace they have been growing at for much of the year so far.

Moderate softness grows in the larger economy

"Conditions softened somewhat in the broader economy as well this month. Nonfarm payroll employment added just 114,000 new jobs in July, well below the average of 215,000 in the previous 12 months. In addition, the unemployment rate continued to tick up, rising to 4.3%, up nearly one full point from a year ago when it was 3.5%. However, construction employment remained robust this month, with the industry adding 25,000 new jobs. And the architectural services industry added 2,100 new positions in June (the most current data available), rising to total industry employment of 206,300, the highest level since August 2023.

Many firms have experienced lengthier design times recently

"This month we asked firm leaders about how the length of time for design services has changed at their firm over the past several years. Overall, nearly half of responding firm leaders (43%) indicated that the length of time for design activities has increased in recent years, with 20% saying that it has increased a lot. Nearly one-quarter of firm leaders (23%) said that the length of time for design activities has decreased, while the remaining 34% said that it has stayed about the same. Firms with a multifamily residential specialization were much more likely to report that the length of time for design activities has increased (56%) than firms with institutional (36%) or commercial/industrial (41%) specializations.

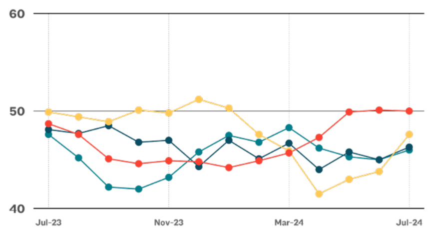
This month, Work-on-the-Boards participants are saying:

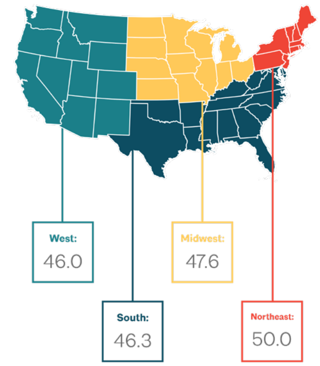
- *“Projects are going on hold. Projects are re-designing to lower costs. Permits are difficult to obtain.”— 71-person firm in the South, commercial/industrial specialization*
- *“Variable. Things are still moving, but in fits and starts. Small, less risky projects are going forward, but more substantial projects that have higher risk of cost overruns are stalling.”— 31-person firm in the Midwest, institutional specialization*
- *“Higher interest rates do not seem to have slowed the pace of construction, but it has eliminated the “tire kickers.” Most clients are now serious about their projects, and most have a significant amount of cash to fund the project, not heavily relying on financing.”— 9-person firm in the West, residential specialization*
- *“No big projects coming in, just small ones that are hard to profit from.”— 9-person firm in the Northeast, commercial/industrial specialization*

Regional

Billings remain flat at firms in Northeast, while decreasing elsewhere

Graphs represent data from July 2023–July 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.

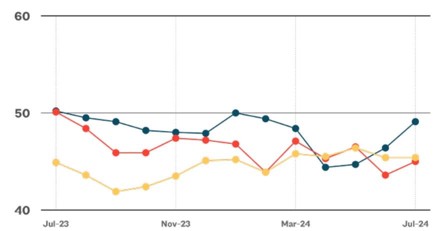




Sector

Business conditions still softest at firms with commercial/industrial, multifamily residential specializations

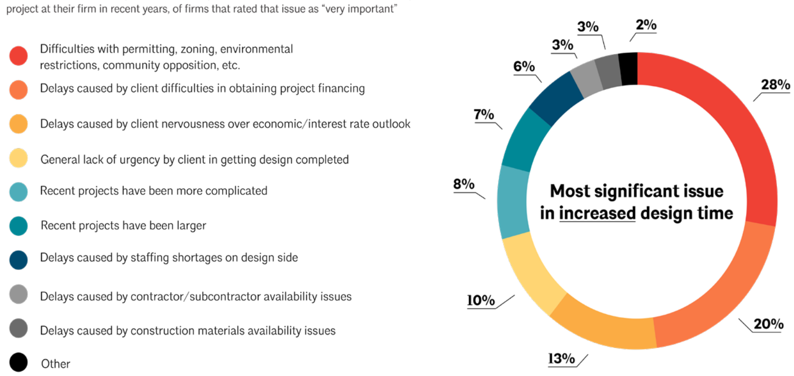
Graphs represent data from July 2023–July 2024 across the three sectors. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; Below 50 shows decrease. 3-month moving average.



Practice

Permitting issues are top issue contributing toward increased design time at firms, while client urgency is primary driver of decreased design time

units: % of firms selecting issue as most significant issue in increased/decreased design time for a typical project at their firm in recent years, of firms that rated that issue as "very important"



ABI July 2024: Firm billings decline at modestly slower pace. (2024, August 21). Retrieved from aia.org: https://www.aia.org/resource-center/abi-july-2024-firm-billings-decline-modestly-slower-pace

ABC: Contractor Confidence Tumbles in July, Construction Backlog Unchanged

"Associated Builders and Contractors reported that its Construction Backlog Indicator held steady at 8.4 months in July, according to an ABC member survey conducted July 22 to Aug. 6. The reading is down 0.9 months from July 2023.

"Only the largest contractors, those with greater than $100 million in annual revenues, have longer backlog than one year ago. On a monthly basis, the decline in backlog was driven by declines among the smallest contractors, those with less than $50 million in annual revenue.

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

"Contractor confidence regarding profit margins now stands at the lowest level since November 2022, which comes as little surprise," said ABC Chief Economist Anirban Basu. "There are now strong indications that elevated interest rates have finally taken their toll on a number of privately financed construction segments as well as the broader economy.

"While inflation has moderated in recent months, construction materials prices remain almost 40% above pre-pandemic levels," said Basu. "With construction spending down for the past two months, the industry eagerly awaits lower interest rates. Given recent economic turmoil, the Federal Reserve will begin cutting rates at its September meeting."

Basu, A. (2024, August 13). ***ABC: Contractor Confidence Tumbles in July, Construction Backlog Unchanged.*** Retrieved from abc.org: https://www.abc.org/News-Media/News-Releases/abc-contractor-confidence-tumbles-in-july-construction-backlog-unchanged

Construction Backlog Indicator

Construction Backlog Indicator

	July 2024	June 2024	July 2023	1-Month Net Change	12-Month Net Change
Total	**8.4**	**8.4**	**9.3**	**0.0**	**-0.9**
Industry					
Commercial and institutional	8.6	8.5	9.8	0.1	-1.2
Heavy industrial	11.1	9.6	5.2	1.5	5.9
Infrastructure	7.5	8.2	8.2	-0.7	-0.7
Region					
Middle States	7.2	7.4	8.1	-0.2	-0.9
Northeast	7.2	8.0	9.6	-0.8	-2.4
South	9.8	9.5	10.6	0.3	-0.8
West	8.6	8.4	8.9	0.2	-0.3
Company Size					
<$30 Million	7.2	7.7	8.7	-0.5	-1.5
$30-$50 Million	9.0	10.0	11.0	-1.0	-2.0
$50-$100 Million	9.5	9.5	12.9	0.0	-3.4
>$100 Million	12.2	10.0	10.6	2.2	1.6

Construction Confidence Indicator

Response	July 2024	June 2024	July 2023
CCI Reading			
Sales	57.4	59.4	57.9
Profit margins	50.6	53.6	55.0
Staffing	58.8	61.3	60.4
Sales Expectations			
Up big	5.7%	5.7%	4.7%
Up small	43.1%	48.2%	45.9%
No change	29.2%	28.1%	30.0%
Down small	19.2%	14.0%	15.3%
Down big	2.8%	3.9%	4.1%
Profit Margin Expectations			
Up big	1.3%	2.2%	2.4%
Up small	28.3%	31.6%	38.2%
No change	44.7%	46.5%	38.8%
Down small	23.3%	18.0%	18.2%
Down big	2.5%	1.8%	2.4%
Staffing Level Expectations			
Up big	4.4%	3.9%	1.8%
Up small	41.5%	46.1%	50.6%
No change	39.6%	41.7%	36.5%
Down small	13.8%	7.9%	10.0%
Down big	0.6%	0.4%	1.2%

Dodge Momentum Index Gained 10% in June

Substantial growth in data center planning drives commercial momentum

"The Dodge Momentum Index (DMI), issued by Dodge Construction Network, increased by 10.4% in June to 198.6 (2000=100) from the revised May reading of 179.9. Over the month, commercial planning increased 14.5% and institutional planning ticked up 0.2%.

"Data centers continued to dominate planning projects in June – fueling another strong month for commercial planning," stated Sarah Martin, associate director of forecasting at Dodge Construction Network. "More momentum in planning, while not as strong as data centers, was seen across most segments and indicates confidence in 2025 market conditions. The DMI is up 43% from June 2019 levels, signaling strong construction spending in 2025."

"Data center planning continued to be the primary driver of commercial growth in June, alongside moderate growth in retail, hotels, and warehouse projects. On the institutional side, weaker healthcare planning was offset by an improvement in education activity. Additionally, a large detention facility entered the queue last month and bolstered public planning as well.

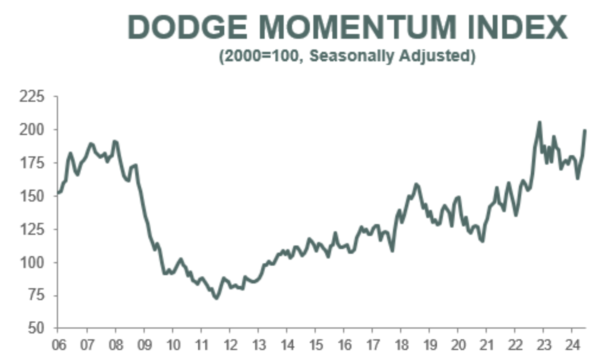
"In June, the DMI was 7% higher than in June of 2023. The commercial segment was up 25% from year-ago levels, while the institutional segment was down 25% over the same period.

DODGE MOMENTUM INDEX

(2000=100, Seasonally Adjusted)

	Jun-24	May-24	% Change
Dodge Momentum Index	198.6	179.9	10.4%
Commercial Building	266.2	232.5	14.5%
Institutional Building	115.0	114.7	0.2%

Source: Dodge Construction Network



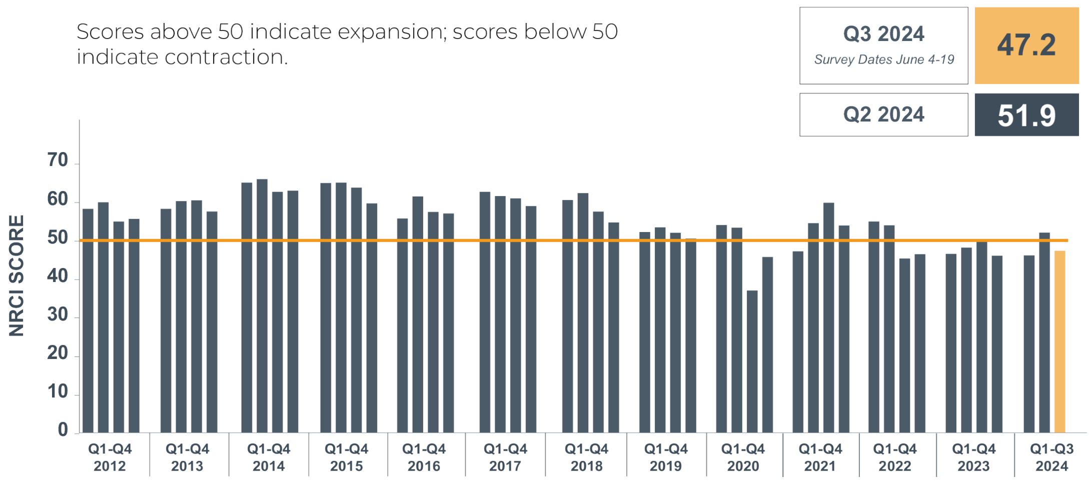
"A total of 38 projects valued at $100 million or more entered planning throughout June. The largest commercial projects included the $420 million Oaklawn Land Bay A Data Center in Leesburg, Virginia, and the $400 million PowerHouse Irving Data Center in Irving, Texas. The most significant institutional projects to enter planning were the $305 million Horizon Juvenile Center Annex in Woodstock, New York, and the $285 million research and development buildings in San Diego, California.

"The DMI is a monthly measure of the value of nonresidential building projects going into planning, shown to lead construction spending for nonresidential buildings by a full year."

Martin, S. (2024, July 9). ***Dodge Momentum Index Gained 10% in June.*** Retrieved from construction.com: https://www.construction.com/company-news/dodge-momentum-index-gained-10-in-june/

Q3 2024 Non-Residential Construction Index

TOTAL NONRESIDENTIAL CONSTRUCTION INDEX (NRCI)
Q1 2012 TO Q3 2024



U.S. Key Takeaways

Total engineering and construction spending for the U.S. is forecast to end 2024 up 6%, or in line with 2023 growth of approximately 6%. Anticipated growth in 2024 will remain strong across most nonresidential segments, led by non-building structures.

High-performing segments in 2024 point to strong investment growth across manufacturing and public safety, each with anticipated year-end growth of more than 20% above 2023 levels.

Declines in 2024 in several of the segments sensitive to high interest rates will likely include multifamily, lodging and commercial. Conversely, single-family residential, the largest segment in the industry, is expected to rebound from the large 12% drop in 2023.

The third quarter 2024 Nonresidential Construction Index (NRCI) score of 47.2 is down from the previous quarter and again fell below the neutral base of 50. Eight of the past nine index scores have been under 50, suggesting participants anticipate contracting industry opportunities in the quarter and year ahead. Sentiment across all economic measures receded from last quarter. Participants expect short- and longterm strength in education, health care and manufacturing to continue to drive opportunities over the next three years.

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

Office: Stable 0% 2024/2023 Comparison

Drivers: office vacancy rates, unemployment rates

- *This quarter the U.S. Census Bureau released and began publishing monthly private data center construction spending as a subset of office construction spending numbers. The data shows that private data center construction doubled between 2020 and 2023 to reach $18.2 billion, accounting for approximately 22% of private office or more than 18% of total office in 2023.*
- *Monthly data center spending through the first five months of 2024 shows a 61% increase in investment over 2023 levels. Conversely, non-data center private office spending is down 15%.*
- *Expect 2024 and 2025 to be a continuation of 2023 as vacancies across traditional U.S. offices remain at nearly 20%, the highest level since the late 1970s. Office tenants have generally been relocating to higher-quality spaces.*

Commercial: Down 7% 2024/2023 Comparison

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

- *The commercial sector is expected to contract in 2024 for the first time since 2019, largely driven by warehouses, which now represent more than half of annual commercial construction put in place.*
- *Consumer retail spending remains strong, up 2% from this time last year.*
- *Commercial property valuations have stabilized through 2024, albeit at depressed levels after significant declines that started mid-2022 alongside rising interest rates, limited access to capital, store closures and bankruptcies.*
- *There will likely be ongoing challenges for new starts tied to increased financial stress on consumers and reduced multifamily and mixed-use development investment over the next several years.*

Healthcare: Stable 3% 2024/2023 Comparison

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

- *The health care sector will see strong investment levels in 2024 and 2025, led by hospital construction with many new large facilities and expansion projects underway and/or in planning and development phases. Most of these large projects face resource constraints and delays.*
- *Medical office investment has decreased somewhat in recent months, while specialty care investment has started to rebound.*
- *Mergers and acquisitions activity over the next several years will remain strong as the mix of traditional and digital health care becomes more common and desirable, blending interest across the technology, telecom and retail industries.*

Educational: Up 7% 2024/2023 Comparison

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

- *Higher-education construction spending is increasing into mid-2024, outpacing K-12 construction spending, led by dormitory and instructional facility investments.*
- *Inflation Reduction Act (IRA) funds will be used to begin projects into 2025, largely focused on HVAC, lighting, building envelope, clean/renewable energy solutions and car charging stations.*
- *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 for additional planning activity.*

Manufacturing: Up 21% 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, nearing $235 billion in forecast construction in 2024, or more than triple the average annual spending levels recorded through the 2010s.*
- *The manufacturing construction investment boom continues, with a focus on large-scale investments in semiconductors, electric vehicles and batteries, clean energy and biomanufacturing. Growth through early 2024, however, has been led by investments in plastics and rubber.*
- *The Manufacturing ISM PMI for June remains just below the 50% threshold, at 48.5%, indicating sector contraction for the third consecutive month and for 19 of the past 20 months. New orders, production, employment and backlogs are all signaling contraction.*
- *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 1% 2024/2023 Comparison

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

- *Residential affordability constraints are making homeownership increasingly out of reach for many and have helped support a large wave of multifamily units in development, which reached more than 1 million units mid-2023.*
- *Coming off the peak, multifamily units in development have begun contracting at a rapid rate through early 2024, and about 9% year over year in May.*
- *Multifamily development is expected to remain challenged over the next several years as the rate of new supply completions is outpacing rental demand. Additionally, high construction costs, moderating rent growth and ongoing tightened lending conditions are disrupting planned investments.*