

2024 Q3 Economic Indicators

12-MONTH PERFORMANCE SUMMARY

	ABC Backlog	AIA ABI	FMI NRCI	Dodge Momentum Index
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
July 2024	8.4	48.2		216.3
August 2024	8.2	45.7		220.4
September 2024	8.6	45.7	48.4 Q4 2024	208.6

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.

Architecture firm billings worsened in September.



Most firms report that reconstruction projects have increased or held steady in recent years

“This month, we asked architecture firm leaders about recent work on reconstruction projects at their firm. Overall, 39% of responding firm leaders reported that total building design billings at their firm for reconstruction projects has increased at their firm over the past few years, with 14% reporting that that share has increased significantly. Just 10% of firm leaders reported that the share has declined, while 49% said it has remained about the same (the remaining 2% of respondents indicated that they don’t do reconstruction work).

“Firms that do reconstruction work reported a wide variety of principal goals for undertaking reconstruction projects in recent years. Two-thirds of firms cited basic updating and modernization of the building interior as a principal goal, followed by 64% that selected adaptive reuse or building conversion, 58% that selected tenant fit-outs, 56% that selected upgrades to basic building systems, and 54% that selected upgrades to building shell. There were some variations in responses by region

of the country, with the largest share of firms in the Northeast (70%) and South (61%) selecting adaptive reuse or building conversion as one of the principal goals of recent reconstruction projects. In comparison, the largest share of firms located in the Midwest (76%) and West (64%) selected basic updating and modernization of the building interior. However, there was even greater variation by firm specialization, given the unique needs of different building types. 85% of firms with a commercial/industrial specialization selected tenant fit-outs as a principal goal of recent reconstruction projects, while 74% of firms with an institutional specialization selected upgrades to basic building systems, and 73% of firms with a multifamily residential specialization selected basic updating and modernization of the building interior.

“Finally, firms were asked which building elements/systems were typically replaced and/or upgraded in the reconstruction projects they have undertaken over the past few years. Nearly all firms reported that interior replacements or upgrades (89%), lighting (87%), and HVAC/mechanical (85%) systems were replaced/upgraded, while more than two-thirds reported that exterior replacements or

Photo: Carolinas Telco

upgrades (roofing/windows/glazing/facades/cladding) were involved. Finally, 44% of firms reported that insulation was replaced or upgraded, 41% that building automation/control systems were replaced/upgraded, and 27% that moisture control systems were replaced/upgraded."

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

"Just can't seem to get the dam to break on getting new agreements signed for the larger projects. We are hopeful that the interest rate cuts will begin to allow more projects to be greenlighted."—171-person firm in the West, commercial/industrial specialization

"Our firm is busy with a large design-build project, but less volume of new work is seen moving forward."—100-person firm in the Northeast, institutional specialization

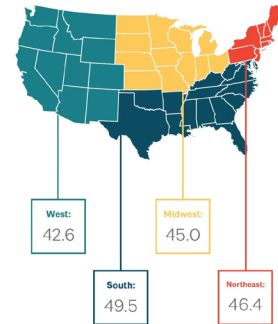
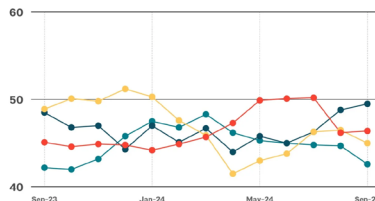
"A lot of developers seem to be gearing up for June/July 2025 construction starts."—40-person firm in the Midwest, residential specialization

"Our backlog is substantial enough to be impeding our ability to take on new work. We have been unsuccessful in expanding our staff and have been reluctant to outsource any work due to concerns about maintaining our design and quality control."—6-person firm in the South, mixed specialization

Regional

Business conditions generally remain weak across the country

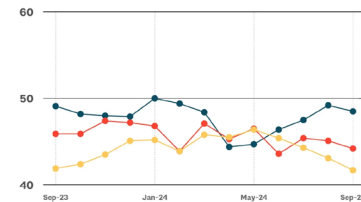
Graphs represent data from September 2023–September 2024 across the four regions. 50 represents the diffusion center. A score of 50 equals no change from the previous month. Above 50 shows increase; below 50 shows decrease. 3-month moving average.



Sector

Billings decline further at firms with a multifamily residential specialization

Graphs represent data from September 2023–September 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.



Commercial/Industrial: 44.2



Institutional: 48.5

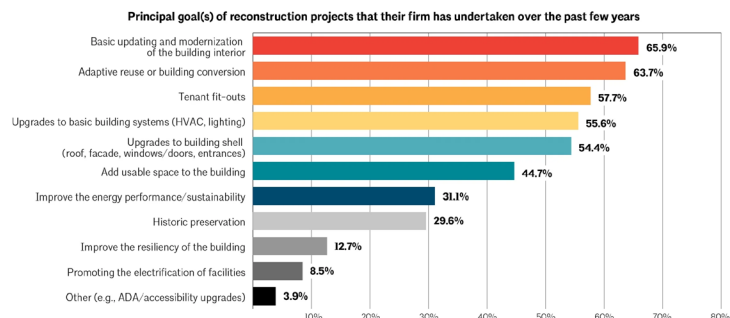


Residential: 41.7

Practice

Building modernization, adaptive reuse are most common goals of reconstruction projects

units: % of firms that do reconstruction work, multiple responses permitted



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

"Associated Builders and Contractors reported today that its Construction Backlog Indicator increased to 8.6 months in September, according to an ABC member survey conducted Sept. 20 to Oct. 4. The reading is down 0.4 months from September 2023.

"View the full Construction Backlog Indicator and Construction Confidence Index data series.

"Backlog increased in every region except for the Northeast in September. On a year-over-year basis, however, only the Middle States have longer backlog than one year ago.

"ABC's Construction Confidence Index readings for sales, profit margins and staffing levels improved in September. The readings for all three components are above the threshold of 50, indicating expectations for growth over the next six months.

"Contractor confidence rebounded in September," said ABC Chief Economist Anirban Basu. "While the reading for profit margins briefly dipped below the threshold of 50 in August, indicating net expectations of contraction, contractors are back to expecting modest expansion in their margins as of September. This optimism likely reflects falling interest rates, which will eventually serve as a tailwind for the industry, and



the fact that materials prices have actually declined over the past year. Despite the improved outlook in September, contractor confidence is worse and backlog shorter than one year ago, suggesting that the effects of high interest rates continue to weigh on the industry."

Basu, A. (2024, October 15). *ABC's Construction Backlog Indicator Rebounds in September, Contractor Confidence Improves*. Retrieved from abc.org: <https://www.abc.org/News-Media/News-Releases/abcs-construction-backlog-indicator-rebounds-in-september-contractor-confidence-improves>

Photo: Hurricane Helene Relief Donation

Construction Backlog Indicator

Construction Backlog Indicator					
	September 2024	August 2024	September 2023	1-Month Net Change	12-Month Net Change
Total	8.6	8.2	9.0	0.4	-0.4
Industry					
Commercial and institutional	8.9	8.3	9.3	0.6	-0.4
Heavy industrial	8.9	7.6	7.4	1.3	1.5
Infrastructure	7.9	9.1	8.6	-1.2	-0.7
Region					
Middle States	8.7	7.7	6.3	1.0	2.4
Northeast	7.5	8.1	9.4	-0.6	-1.9
South	9.8	9.1	10.4	0.7	-0.6
West	7.6	7.4	9.1	0.2	-1.5
Company Size					
<\$30 Million	7.5	7.1	8.4	0.4	-0.9
\$30-\$50 Million	8.7	8.7	11.0	0.0	-2.3
\$50-\$100 Million	12.5	11.1	10.7	1.4	1.8
>\$100 Million	11.9	11.6	10.6	0.3	1.3
© Associated Builders and Contractors, Construction Backlog Indicator					

Construction Confidence Indicator

Response	September 2024	August 2024	September 2023
CCI Reading			
Sales	58.1	53.8	58.3
Profit margins	50.9	49.1	54.0
Staffing	58.2	56.4	62.0
Sales Expectations			
Up big	7.6%	4.9%	2.9%
Up small	44.4%	38.3%	50.7%
No change	24.3%	26.9%	26.1%
Down small	20.1%	26.9%	17.4%
Down big	3.6%	3.0%	2.9%
Profit Margin Expectations			
Up big	2.3%	1.9%	1.4%
Up small	27.0%	25.8%	38.4%
No change	46.1%	43.2%	37.0%
Down small	21.4%	25.0%	21.0%
Down big	3.3%	4.2%	2.2%
Staffing Level Expectations			
Up big	1.6%	4.2%	2.9%
Up small	43.8%	33.7%	49.3%
No change	41.1%	48.1%	41.3%
Down small	12.8%	11.7%	5.8%
Down big	0.7%	2.3%	0.7%

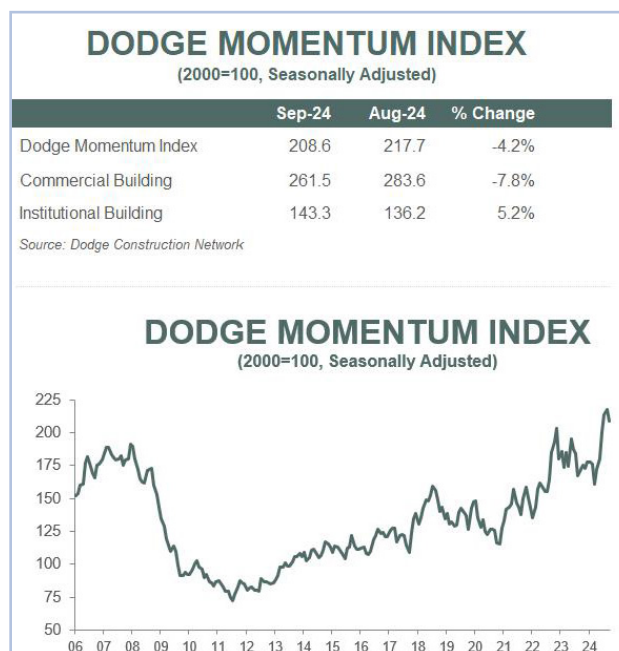
Dodge Momentum Index Recedes 4% in September

Slower data center momentum moderates planning activity over the month.

"The Dodge Momentum Index (DMI), issued by Dodge Construction Network, decreased 4.2% in September to 208.6 (2000=100) from the revised August reading of 217.7. Over the month, commercial planning contracted 7.8% and institutional planning improved 5.2%.

"Despite this month's decline, the Dodge Momentum Index remains at very robust levels", stated Sarah Martin, associate director of forecasting at Dodge Construction Network. "A surge in data center activity drove much of the recent rapid growth in the DMI – so as planning for that sector moderated over the month, overall commercial planning fell back. By mid-2025, the Fed's rate cuts should spur planning projects to reach groundbreaking more quickly – leading to stronger nonresidential activity as 2025 progresses."

"Commercial planning generally receded over the month. After gaining some steam in recent months, warehouse, office and stores planning activity all slowed down. Hotels, on the other hand, have been gaining speed over the past five months, expanding steadily in September. Data centers continued to dominate large project activity, but the rate at which planning projects entered the queue continued to moderate from the above-average levels of growth in recent months. On the institutional side, education, healthcare and



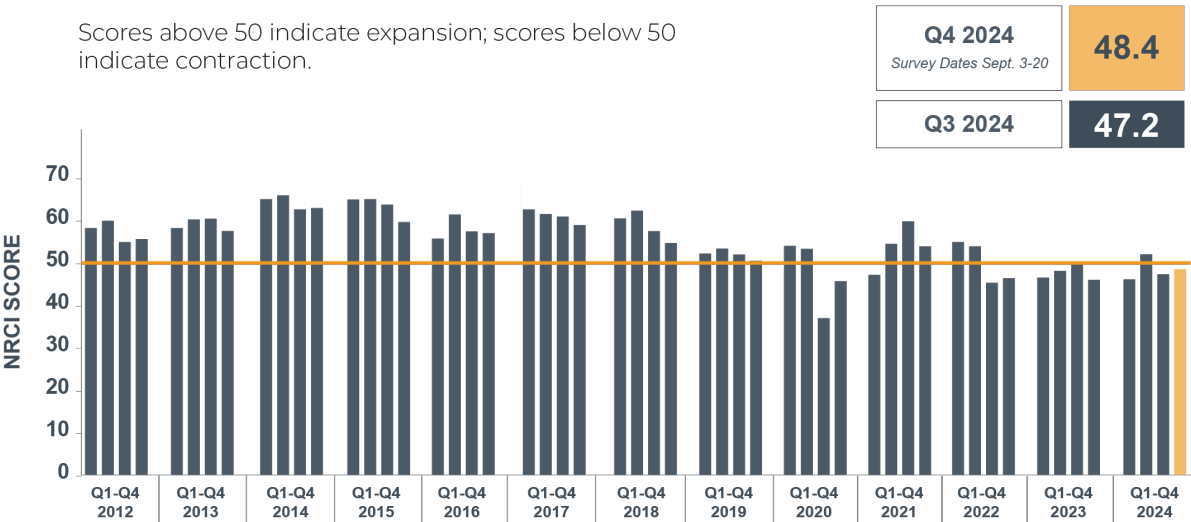
recreational projects were the primary drivers of this past month's expansion, with only religious planning posting a decline. This month, the DMI was 21% higher than in September of 2023. The commercial segment was up 31% from year-ago levels, while the institutional segment was up 4% over the same period.

"A total of 28 projects valued at \$100 million or more entered planning throughout September. The largest commercial projects included the \$390 million Project Nova Data Center in Eagan, Minnesota and Phase 1 and 2 of the SNA Data Center in Cedar Rapids, Iowa – valued at \$375 million per phase. The largest institutional projects to enter planning were the \$300 million Kairos Power R&D lab facility and the \$215 million phase 2 of the Kentucky Exposition Center redevelopment in Louisville, Kentucky.

"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."

Q4 2024 Non-Residential Construction Index

TOTAL NONRESIDENTIAL CONSTRUCTION INDEX (NRCI)
Q1 2012 TO Q4 2024



U.S. Key Takeaways

Total engineering and construction spending for the U.S. is forecast to end 2024 up 5%, or just below 2023 growth, at approximately 6%. Anticipated growth in 2024 will remain strong across most sectors, led by non-building structures.

High-performing segments in 2024 point to strong investment growth across public safety, manufacturing, amusement and recreation, and water supply, each with anticipated year-end growth exceeding 10% above 2023 levels.

Several of the segments sensitive to high interest rates, including multifamily residential, lodging and commercial, are expected to decline in 2024. Conversely, single-family residential, the largest segment in the industry, is expected to rebound from the large 12% drop in 2023.

The fourth quarter 2024 Nonresidential Construction Index (NRCI) score of 48.4 is slightly higher than the prior quarter of 47.2 but maintains the index score under the neutral base of 50. Nine of the past 10 index readings have been under the neutral base of 50, suggesting participants continue to see contracting industry opportunities in the quarter and year ahead. Longer-term sentiment expectations showed the most strength this quarter.

Office: *Stable 1%* 2024/2023 Comparison

Drivers: office vacancy rates, unemployment rates

- Late 2025 and 2026 will likely see some reversal in extremely high office vacancy rates, which exceed 20% for the nation and are at the highest levels since the late 1970s. Several major metropolitan areas have availability rates exceeding 25%, including San Francisco, Atlanta, Dallas, Chicago and Houston.
- A few large employers (e.g., Amazon, Apple, Blackrock) recently announced plans for a return-to-the-office work week.
- The U.S. Census Bureau recently released and began publishing monthly private data center construction spending as a subset of office. Monthly private data center spending data through the first eight months of 2024 shows a 60% increase in investment above 2023 levels. Conversely, non-data center private office spending is down nearly 15%.



Commercial: *Down 8%* 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 a 20% decline in year-over-year private warehouse construction.
- The recent wave of multifamily development is being followed by increased brick-and-mortar retail investment through 2025 to service new residents and will somewhat offset further contraction in warehouse.
- New starts will likely see ongoing challenges tied to increased financial stress on the consumer and reduced multifamily and mixed-use development investment over the next several years.

Photos: Amodernary (left), Georgesville Rd Refuse Station (right)

Healthcare: *Stable 1%* 2024/2023 Comparison

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

- *Investment levels will be stable through 2025, led by private hospital construction, with many new large facilities and expansion projects underway. Many of these large projects, however, are being met with resource constraints and delays. Investment growth is expected to return in late 2025 and into 2026 with another wave of large-scale projects breaking ground next year.*
- *We anticipate mergers and acquisitions (M&A) activity over the next several years as the mix of traditional and digital health care becomes more common and desirable, with investors interested in the technology, telecom and retail industries.*



Educational: *Stable 4%* 2024/2023 Comparison

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



- *The presidential election cycle is anticipated to allow state and local governments to pass a new wave of education bond measures that will stimulate investment growth over the next several years.*
- *Higher-education construction spending remains strong, outpacing K-12 through year-end, led by dormitory and instructional facility investments.*
- *IRA funds will be used to begin projects into 2025, largely focused on HVAC, lighting, building envelope, clean and renewable energy solutions, and car-charging stations.*

Photos: OSU Inpatient Tower (left), OSU Interdisciplinary Health Sciences (right)

Manufacturing: Up 21% 2024/2023 Comparison

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

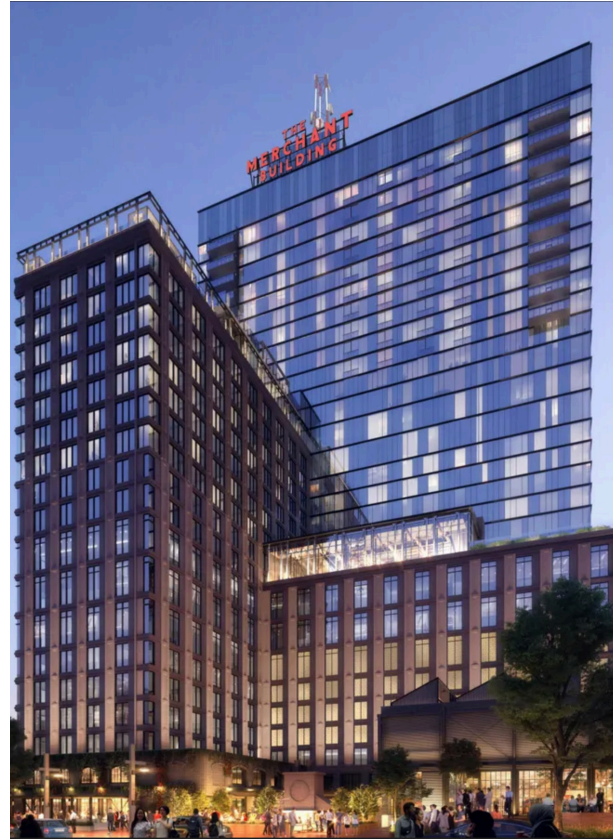
- The IIJA, CHIPS and Science Act and IRA have combined to spur record private sector investment in manufacturing, nearing \$235 billion in forecast construction in 2024, or more than triple the average annual spending levels recorded through the 2010s.
- The manufacturing construction investment boom continues, with a focus on large-scale investments in semiconductors, electric vehicles and batteries, clean energy and biomanufacturing. Construction spending growth through 2024 has been led by chemical (e.g., plastics and rubber).
- The Manufacturing ISM PMI for August remains just below the 50% threshold, at 47.2%, indicating sector contraction for the fifth consecutive month. 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. Pricing volatility due to oil prices and labor disruptions across port infrastructure may amplify these complexities into next year.



Photos: Facebook Data-center (left), The Merchants Building (right)

Multifamily Residential: Down 4% 2024/2023 Comparison

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



- Significant inventory was added in recent months and multifamily units in development have contracted through 2024. The market is also seeing stable or falling rental rates in many large metropolitan markets, causing many owners to either pause or reconsider new developments.
- Fewer multifamily projects breaking ground will disrupt other segments in the years ahead, notably retail, lodging, office, and amusement and recreation, due to fewer mixed-use developments.
- Developers are more likely to move forward with project plans going into next year, with ongoing rate cuts anticipated through 2025. Those projects will take some time to reach groundbreaking, and investments will be limited given that rental rates are no longer expanding rapidly.