

WORK-ON-THE-BOARDS SURVEY

Markets

Business Slowdown Continues in February

Firms report smaller backlogs, cutbacks in new projects

Business conditions at architecture firms continued to soften in February. For the fourth straight month, more firms reported a decline in billings than reported an increase. Inquiries for new projects continued to expand, although more slowly than in previous months. For every three firms that reported an increase in inquiries for new projects in February, two firms reported declines. Both of these indicators are weaker than year-ago levels.

Firms in all major regions are reporting billings declines. Conditions are a bit weaker in the coastal regions than in the Midwest and South. Residential firms continue to report healthy business conditions, while firms concentrating in the institutional sectors are generally reporting slowdowns.

The construction sector of the economy remains healthier than most other sectors. Housing starts for February remained at 1.65 million units at a seasonally adjusted and annualized rate, so averages for the first quarter of this year are exceeding the final three quarters of 2000. While the nonresidential sector doesn't appear to be quite as strong as its residential counterpart, F.W. Dodge reported a 10% increase in nonresidential construction awards in January.

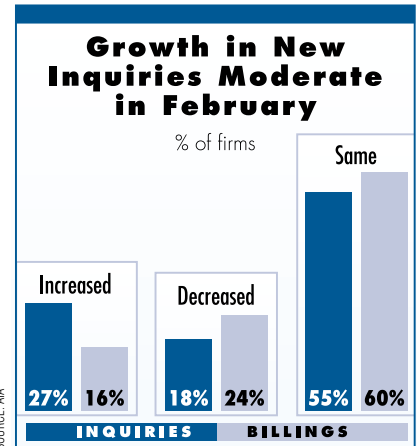
Inflation fortunately appears to have settled down. The Producer Price Index for February rose only 0.1% after an unusually strong gain in January driven by fuel price increases. Consumer prices have been increasing at a slightly faster pace, but the annual growth rate for consumer inflation remains below 4%. Low inflation allows the Federal Reserve Board to continue to lower interest rates

to deal with the economic slowdown.

The economy is on a pace to add over 2 million new payroll jobs this year, a very positive situation given that it has been 10 years since the last recession. The unemployment rate has been creeping up in recent months, but still stands at 4.2%, which is very favorable by historical standards.

In addition to overall declining billings and slower growth in inquiries for new projects, many firms are seeing other evidence of slowing business conditions. Our special question this month asked firms to report specific evidence—if any exists—of slower business conditions at their firm. Almost a third of firms reported that there were no signs of softening at their firms.

Of the other two-thirds, the most common evidence was a decline in project backlogs. Planned projects being delayed, deferred, or cancelled and growing receivables also were cited as common conditions. Active projects being delayed and more competition for projects were mentioned somewhat less



frequently.

Residential firms were most likely to report no signs of a business slowdown at their firms; almost 6 in 10 residential firms indicated that there were no signs of softening. On the other hand, 85% of firms with billings of \$5 million a year indicated one or more signs of easing business conditions. Half of these firms reported that planned projects had been delayed, deferred, or cancelled.

MOST FIRMS REPORTING SIGNS OF BUSINESS SLOWDOWN

% of firms indicating condition applies to their firm over past few months; multiple answers permitted

