

Economics

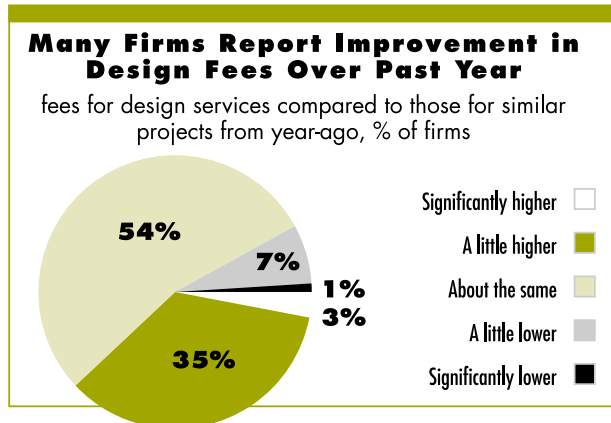
WORK-ON-THE-BOARDS SURVEY

Architecture Services Appear Poised to Resume Growth *Firms report a generally favorable fees environment*

After four straight months of declining billings at U.S. architecture firms, the signposts say that business levels are beginning to stabilize. Billings in March were essentially flat compared to February levels, with 21% of firms reporting increases and 22% reporting declines. This was the second straight month in which the share of firms reporting growth in billings has jumped, so there is hope that the brief slowdown in this sector is over. Inquiries

for new projects were up at a steady pace from February levels. The growth in inquiries, however, continues to be below year-ago growth rates.

Business conditions at firms are fairly comparable across all regions of the country. However, firm specialization has a very strong relationship to business conditions. Residential firms are reporting strong growth in billings, with a third



of firms indicating increased billings in March. Firms concentrating in the commercial/industrial sector report weaker billings.

Construction sector a bright light

The overall economy remains fairly weak, although the recent drop in interest rates by the Federal Reserve Board seems to have given it a boost. Short-term interest rates have been pushed down a cumulative two percentage points since the beginning of the year, which has helped to solidify an economy that was already showing some signs of improvement.

The construction sector remains one of the bright lights in an otherwise deteriorating business environment. Housing starts have remained surprisingly strong. The 1.61 million starts in March—when seasonally adjusted and annualized—brings the average to 1.64 million for the first quarter for the year. That pace is in excess of the 1.61 million starts for 2000, so the housing sector is one of the few growth engines in the economy. A strong housing market and favorable interest rates have generated a wave of

refinancings this year, producing lower mortgage payments for many homeowners. Lower mortgage payments in turn have freed up funds for consumers for other purchases.

Overall employment growth has been fairly weak this year, with payrolls increasing by less than 400,000 through the first quarter. However, 150,000 of these net new jobs have been in the construction sector. This sector, therefore, has been re-

sponsible for 38% of the job growth this year even though it accounts for only about 5% of jobs in our economy.

Fees a little higher

With a reasonably strong construction sector, less pressure on fees for design services would be expected. We asked our panel how fees at present compare with those from similar projects from a year ago. Over half of firms indicated that fees are about the same as a year ago on comparable projects. However, over a third of firms indicate that fees are a little higher this year, and 3% report that they are significantly higher.

Smaller firms, which often see less competition, were more likely to report higher fees this year. Over half of firms with annual billings of \$250,000 or less reported higher billings, as compared to less than 30% of firms with billings of \$5 million or more. Residential architecture firms, which tend to be smaller, were very upbeat about the fee environment. Fully two-thirds of residential architects report an improvement in fees this year.

—Kermit Baker, PhD

Billings Stable While Inquiries Continue to Rise in March

