

# Economics

## WORK-ON-THE-BOARDS SURVEY

### Business Conditions on the Mend

*“Quality over quantity” the watchword for long-term growth strategies*

Billings at U.S. architecture firms grew slowly in May after bouncing back in April from an extended slump. However, billings were growing more slowly in May than for the same period a year ago. Firms in all regions have shown at least modest gains in billings over the past two months, with the strongest increases coming from firms in the South and Northeast. Compared to year-ago growth in billings, firms in the South are reporting sizeable gains, while firms in the Midwest and West are reporting modest declines.

Inquiries for new work are showing healthy gains. In April, one in three firms reported increased inquiries as compared to April levels, while half of firms reported stable levels. In particular, firms concentrating their practice on institutional projects, and residential architecture firms, were more likely to report increases in inquiries.

#### Overall economy stabilizing; housing very strong

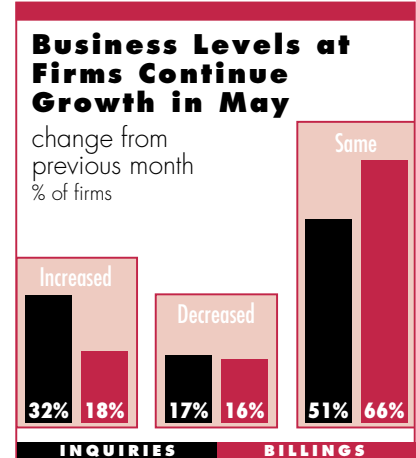
The overall economy remains very weak, but there are early signs that the worst may be behind us. There was a large drop

in payrolls in April, but only a modest decline in May. In May, the national unemployment rate dropped to 4.4% from 4.5% in April, the first decline in the unemployment rate since last fall. Construction employment increased in May after a substantial decline in April. Consumer confidence measures show evidence of having hit bottom after plummeting during the fourth quarter of last year and the first quarter of this year.

The housing sector continues to show surprising strength. The April starts numbers were 1.62 million at a seasonally adjusted annualized rate, and have been stable through the first five months of the year. The health of the housing sector is largely due to favorable interest rates, which in turn reflect the modest levels of inflation in the economy. Rising oil prices have pushed up inflation in recent months. However, the core rate of inflation—which nets out the more volatile energy and food components—is currently running at 2.6% annually and has been very stable over the past year.

#### The road to success?

In an ever-changing market for design



services, architecture firms increasingly are choosing different paths for success. We asked our panel this month to rate factors that in their view will influence their long-term success. The top rated factor was “focusing on quality rather than growth,” followed by “maintaining a small, client-focused practice.”

Expanding services offered to clients and expanding into new building types were deemed fairly important for long-term success at most firms. Rated less important were expanding into new areas of the country and expanding internationally. Other factors mentioned as critical for long-term success were: finding and retaining staff; increasing profitability and productivity; and maintaining good staff, client, and vendor relationships.

All types of firms rated “focusing on quality rather than growth” as the most important factor for growth. For smaller firms, maintaining a small, client-focused practice was a close second. For larger firms, expanding services offered to clients and expanding into new building types were rated very high.

—Kermit Baker

FIRMS STRESS QUALITY FOR LONG-TERM SUCCESS	
averages for 5-point scale; 1=not important, 5=very important to long-term success of firm	
Focus on quality rather than growth	4.4%
Maintain small client-focused practice	3.5%
Expand services offered	3.1%
Expand into new building sectors	3.1%
Grow size of firm	2.8%
Expand into new regions	2.3%
Expand internationally	1.5%