

# Economics

THIS WEEK: 01/18-01/24

## WORK-ON-THE-BOARDS SURVEY

### Weak Business Conditions in December Hold Signs of Impending Improvement *Coping with recession tops list of concerns for coming year*



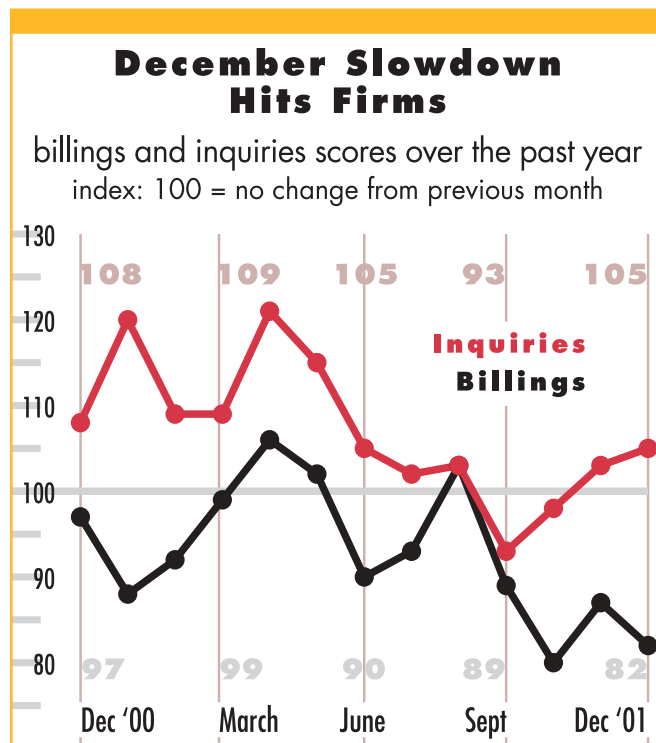
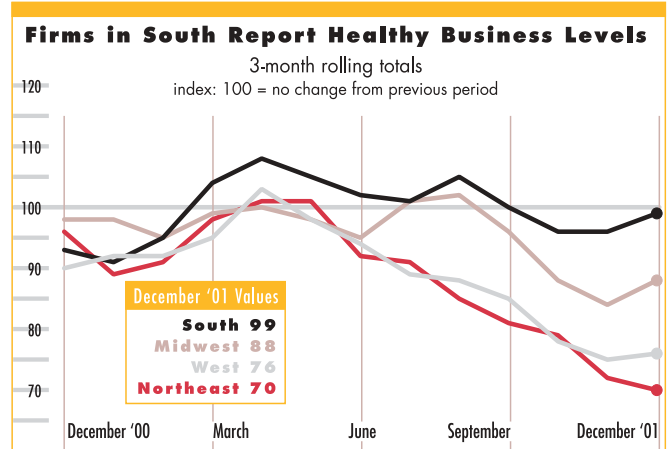
by Kermit Baker, PhD

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Here's a riddle: What happens when you cross a traditionally lean month for billings at U.S. architecture firms with a national economic recession? The answer, as most architecture firms are painfully aware, is a dramatic slowdown in billings. With many firms

closing down during the holiday season and others deferring billings for many different reasons, only 12% of firms participating in the monthly AIA Work-on-the-Boards panel reported an increase in billings in December, compared to 30% reporting declines. That produced an index score of 82 for December, second only to October as the lowest reading of the year.

However, on the brighter side, inquiries for new projects moved up again in December, the second straight month of gains in this indicator and the highest monthly reading for inquiries since the terrorist-induced economic downturn in September. And history—as well as more inquiries for new projects—points to improved business conditions as we enter



2002. Since late 1995, when the AIA began its monthly survey of business conditions at firms, billings have increased only twice in December. However, in every year except for 2001, January billings increased relative to the December levels. So the odds are in favor of an improvement in business conditions in January.

But while there may be a bounce-back in billings in January, conditions overall continue to remain weak. Firms in the Northeast and West have reported a steady deterioration of business conditions since late last spring. Firms in the Midwest began reporting weakness during the late summer, while firms in the South have reported relatively stable business conditions throughout the year.

Economic indicators show the recession continuing in December but moderating a bit. Payrolls nationally declined by almost 125,000 during the month, down from declines of three times that level in both October and November. The national unemployment rate has steadily crept up, reaching 5.8% in December. However, while overall payrolls declined by 800,000 last year, payrolls in the construction industry increased by 70,000, showing that the construction sector has not suffered as much as others so far during this downturn.

#### Recession is the biggest concern

With the weakness in business conditions, economics has moved into the top spot for business-related concern for the coming year. Over a quarter of firms mentioned the national economic recession as their biggest concern. Identifying new clients and new markets—a concern closely related to the re-

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cession—was next on the list, mentioned by more than one in five respondents.

Although generating sufficient business levels is the most common issue, a substantial portion of firms report major concerns over effectively managing current business operations. Almost 21% of firms rate managing current workloads as their prime concern for the coming year, and an additional 20% put staffing concerns at the top of the list, either attracting new qualified staff or retaining current employees. Seven percent of firms list fees as their chief concern, while 5% list some other issue, frequently financing and cash flow concerns.

“Economic weakness and finding new project work” is the dominant concern for firms concentrating their practice in the commercial/industrial sectors, where almost two-thirds of

firms list these issues as their biggest concern for the coming year. Firms concentrating their practice in the institutional sectors are more likely than others to put staffing issues at the top of their list. Smaller firms are more likely than others to put project management concerns on top. [▶▶](#)

