Economics

Business Conditions at Firms in February Show Signs of Improvement

Compensation increases likely to be lean in 2002

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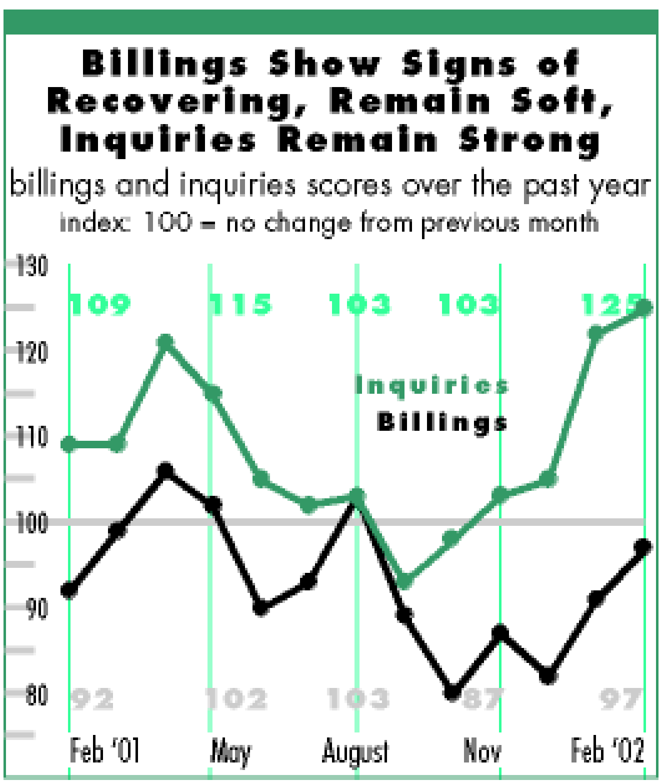
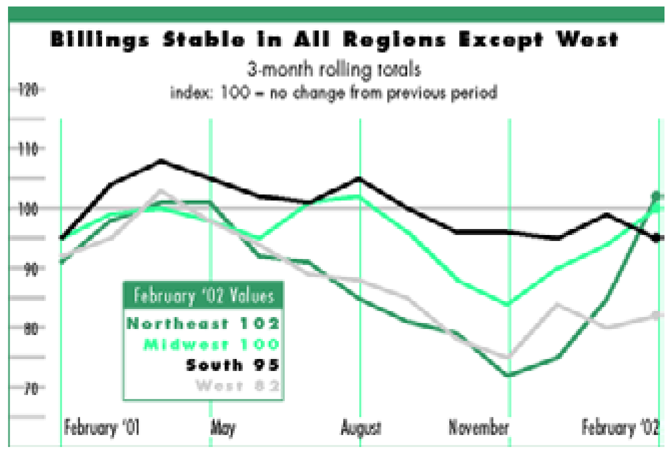
Billings at U.S. architecture firms continued to decline in February, marking the sixth straight month that billings have dropped. However, the decline in February was by far the smallest over this six-month period, holding out hope that the downturn at architecture firms is nearing its end.

Optimism over future improvement in business conditions at firms is supported by trends in inquires for new work, which have increased dramatically since the beginning of the year. For each month this year, almost 40% of firms reported a significant increase in inquiries, while only about one in seven firms reported a significant decline. As these inquiries are converted to active projects, billings will rebound.



Regionally, firms in the Northeast, Midwest, and South all report that billings have stabilized recently. For firms in the Midwest and particularly the Northeast, this demonstrates a dramatic reversal from trends during the fourth quarter of 2001. Firms in the West, however, continue to report deteriorating business conditions. By sector served, firms with a mixed practice (less than 50% of billings in any major sector) were the only category to report gains in billings in February. Firms in all sectors reported gains in inquiries, with the sharpest gains reported by residential firms.



Overall economy improving

The overall economy showed marked improvement in February. Business payrolls increased in February for the first time since July of 2001, helping to push the national unemployment rate back down to 5.5%. Housing starts continued their upward push, with the February number recording the highest level since late 1998. Manufacturing activity also improved in February, which, coming on the heels of a revised January reading, was the first positive reading for this sector since the third quarter of 2000.

The early March numbers look equally strong. The University of Michigan's consumer sentiment index moved up strongly after a mild dip in February. The March reading was the highest for this indicator since the end of 2000. The Federal Reserve Board also is encouraged by recent economic reports. It signaled the end of interest rate reductions for this cycle and hinted at the possibility of beginning to raise rates later this summer as the economy improves.

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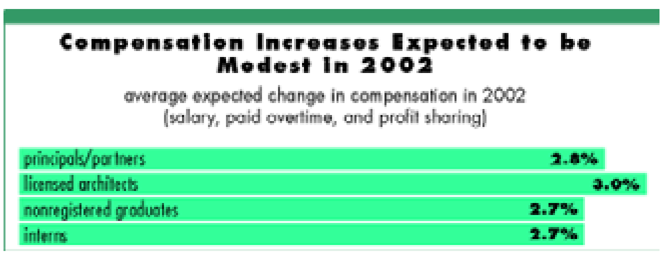
Compensation gains modest

Weak business conditions during the latter part of 2001—coupled with a slow start to 2002—are expected to keep compensation gains at architecture firms at a fairly modest level this year. On average, gains are expected to average 3% for licensed architects and just below 3% for principals and partners, nonregistered graduates, and interns. However, the range in expected compensation gains this year is considerable.

At almost half of firms, compensation for principals and partners is expected to be unchanged or even decline. At almost 10% of firms, compensation increases for principals and partners is expected to be 10% or more. Compensation for licensed architects, nonregistered graduates, and interns is expected to be unchanged or down at a quarter to a third of firms. Hardly any firms are expecting gains of 10% or more for these positions.



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

"Those of us who serve the automotive sector in the Midwest are still feeling the lack of capital investment by the auto makers and suppliers."

"We are starting to see work pick up at the end of February, beginning of March."

"We see this being a year with lots of opportunity, but great difficulty in collecting from the past nine months."

"Our workload has dramatically increased since November of 2001."

Stand Up and Be Counted—Join the Work-on-the-Boards Survey Team

Be one of the hundreds of firm principals who spend just a few minutes each month answering a fax-back survey (usually two questions).

For more information on how to participate, send an email to Jennifer Schauer, call her, 202-626-7532, or send her a fax, 202-626-7527.