

Work-on-the-Boards Survey

Firms Begin to Feel Soft Rebound in Economy *Key September 11 legacy for design professions will be Changing metro development patterns*



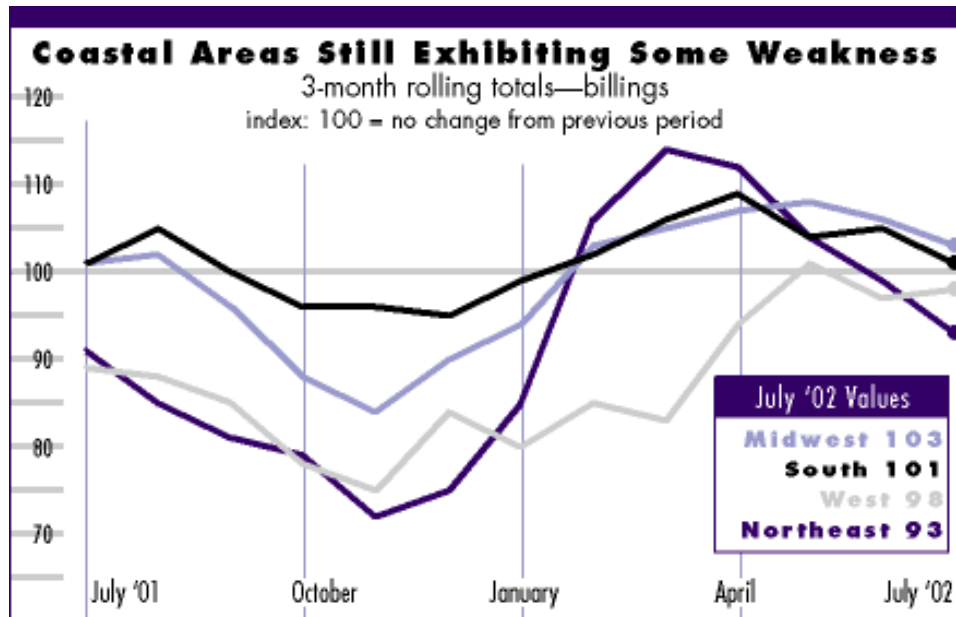
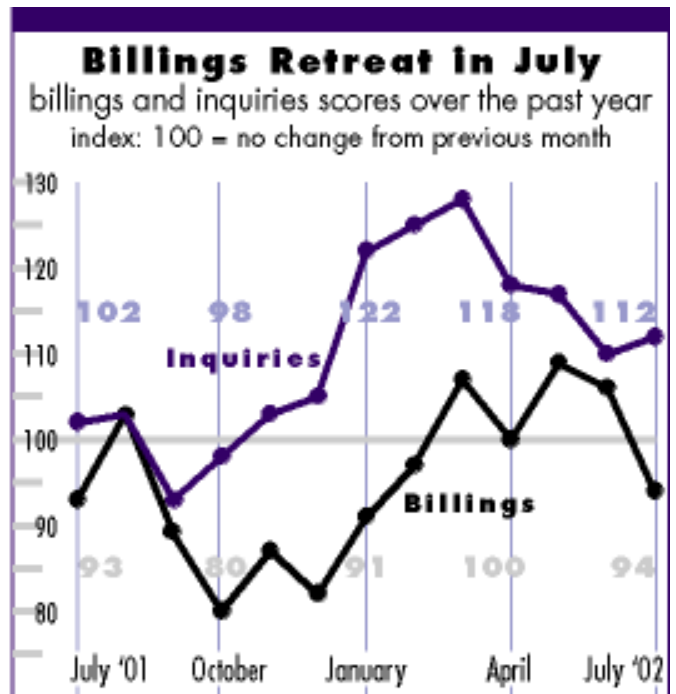
by Kermit Baker, PhD, Hon. AIA

AIA Chief Economist

Just when we felt comfortable knowing the stronger economic times for the construction industry were well established, architecture firms hit a bump in the road in July. After four straight months of solid billings numbers, firms reported a dip last month, with a quarter of firms reporting a noticeable decrease in billings while only 19% reported a noticeable increase. Inquiries for new work continued to improve modestly, holding out hope that the July numbers are a bump rather than the beginning of a downward trend.

Regionally, firms in the Northeast have felt the squeeze hardest. After reporting the strongest growth figures this past spring, firms in this region are now seeing the weakest conditions nationally. Firms in the West also have seen growth trends stall in recent months.

The trends reported by architecture firms are mirrored in the larger economy. After signs of a surprisingly strong recovery earlier this year, economic growth has been anemic



over the past month or two. Job growth, an important indicator of our economy's health, has been very modest. Only 6,000 jobs were added nationally in July, bringing the three-month total to a mere 94,000 jobs. In the previous 13 months (dating back to April 2001) almost 1.8 millions jobs were lost in our economy, so we have not even seriously begun to build back to pre-recession levels. The national unemployment rate held steady at 5.9% in July.

Growth in our overall economy shot up at a 5.0% rate in the first quarter this year, but recent numbers indicate that the growth rate slowed to a mere 1.1% rate in the

continued

second quarter. The third quarter doesn't seem to be getting off to any better start: the University of Michigan's consumer sentiment index declined in July, and the Institute of Supply Management's reading for the industrial economy also took a significant turn downward in July. Indicators of future economic growth also softened in July. And while the Federal Reserve Board decided against lowering short-term interest rates at their mid-August meeting, they indicated that the next move is likely to be down.

The effects of September 11

As we approach the anniversary of the September 11 terrorist attacks, we now have more perspective on evaluating their longer-term impact. We asked our Work-on-the-Boards firms to evaluate how things have changed over the past 11 months.

More than 4 in 10 firms strongly agree with the statement that there is greater emphasis on security in the design and redesign of public buildings. However, only one in 25 firms strongly agrees that there is the same attention to security now in private buildings.

Over the longer term, 21% of firms strongly agree that building security concerns will significantly affect the design professions in the coming decade (64% of firms somewhat agree with that statement). Smaller firms (under \$1 million in annual billings) were more likely to agree with this statement, with 27% strongly agreeing versus 16% of firms with billings over \$1 million.

Also, fully a quarter of firms strongly agree that building security concerns will significantly affect metropolitan development patterns over the coming decade, while an additional 48% somewhat agree. Firms in the Northeast were more likely to strongly agree with this statement. Firms in the West were least likely to agree with it.

