

Work-on-the-Boards Survey

Business Conditions Continue to Move Sideways at Firms in September

Although impending threat of potential Iraqi conflict adds to overall economic uncertainty, few firms report substantial impact



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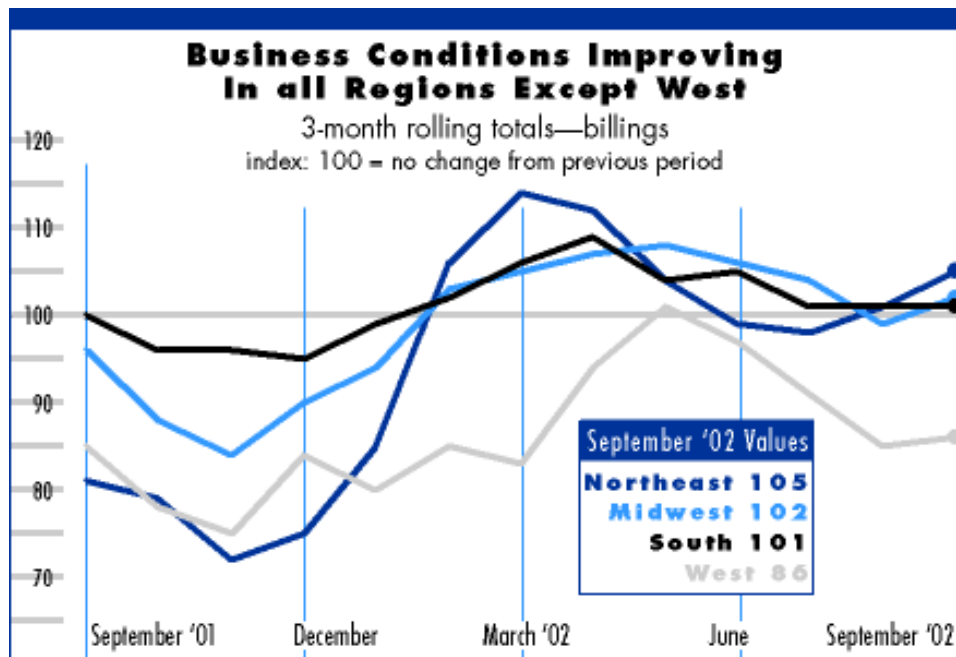
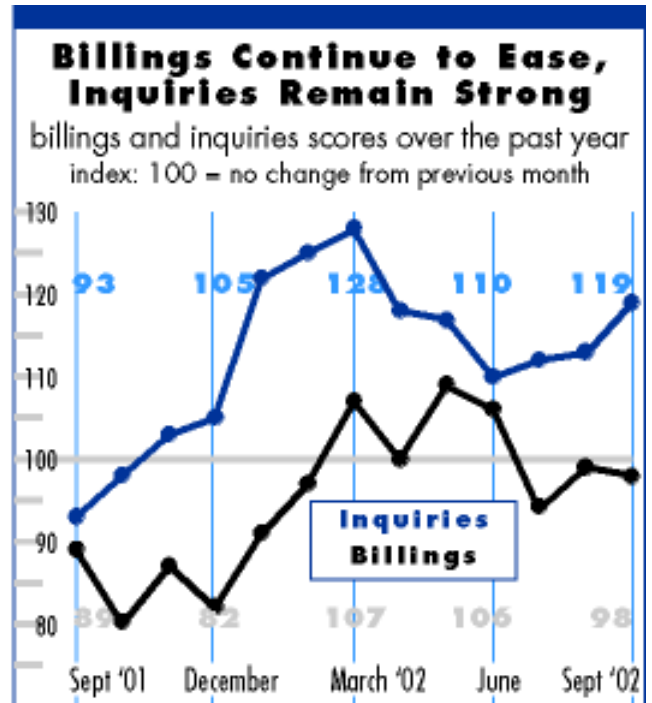
AIA Chief Economist

U.S. architecture firms report that business conditions remained sluggish in September. Billings declined modestly last month, bringing to three the number of continuous months with slight declines in billings at

firms. Inquiries for new projects continued to pick up at a brisk pace, although several firms reported that clients are taking longer than usual to begin new projects.

Conditions across construction sectors are beginning to shift. Firms that concentrate in the commercial/industrial sector reported strong billings and inquiries in September, while firms that concentrate in the institutional sectors report weak billings. Over the past 12 to 18 months, institutional firms have generally reported strong conditions, while commercial and industrial firms have reported softness in their markets. Residential firms continue to report favorable conditions for both billings and inquiries.

Regionally, business conditions remain largely unchanged, with stable conditions to slight improvements for firms in the Northeast, Midwest, and South, and continued easing for firms in the West.



Continuing overall slowdown

The overall economic slowdown that began earlier this summer continues. After four straight months of modest increases in payrolls, businesses reported a small decline in September. However, in a separate survey of households, a smaller share of workers reported being unemployed than in September.

In spite of lower levels of unemployment, consumers are feeling less comfortable with economic conditions. Consumer sentiment took a sharp drop in early October according to the University of Michigan's Consumer Sentiment index, following on the

continued

heels of more modest declines each month for the prior three months. Business executives are just as concerned as households according to the third quarter results of the CEO Business Confidence Survey, which saw its index drop to 54 in the third quarter from 61 in the second quarter.

Leading economic indicators don't point to better news on the horizon. The ECRI leading index of economic indicators declined in September, bringing the number of consecutive monthly declines to three. These drops have wiped out all of the gains that this leading index was able to build since the end of last year.

Little consequence to date of Iraqi conflict threat

Some firms indicate that the threat of an impending conflict with Iraq is slowing progress on projects. The impact on current projects is minimal; 9 in 10 firms report that they are not seeing any effect on current projects, and most of the rest are seeing only moderate effects.

For future projects, the threat of conflict is of more consequence. A quarter of firms report a moderate effect on the scope or timetable of future projects, and an additional 6% report a substantial effect. Firms of all sizes, location, and specialization are feeling the impact of potential military action about equally on future projects. Many firms note it is difficult to disentangle the contribution of an economic slowdown, stock market concerns, and international political fears. The overall result, however, is that many projects are proceeding more slowly than respondents would expect.

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

The residential market is still extremely strong, especially multi-family in urban locations.

—19-person firm in the Midwest, residential specialization

In the retail sector, we are finding smaller inquiries and projects are beginning to increase. On the coattails of these projects, we anticipate larger projects to follow.

—60-person firm in the South, commercial specialization

The amount of new work out there has declined significantly. Firms who previously concentrated on private-sector business are now entering our public-sector markets and competing successfully. In a nutshell: less work, more competition.

—17-person firm in the West, institutional specialization

Too much client uncertainty!

—6-person firm in the Northeast, mixed specialization

