

Work-on-the-Boards Survey

Weak Business Conditions Persist at Architecture Firms

For 2003, 4 in 10 firms expect billings gains, while a quarter anticipate declines



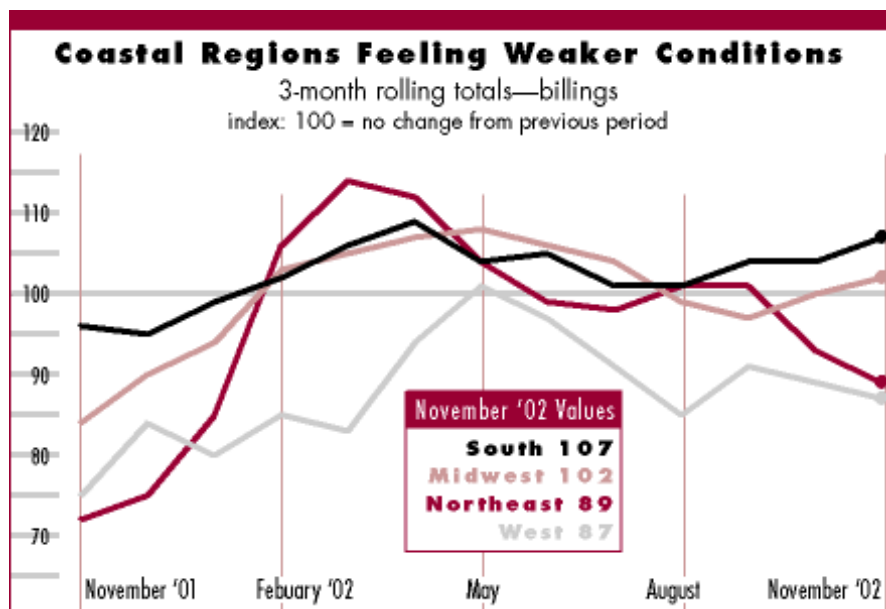
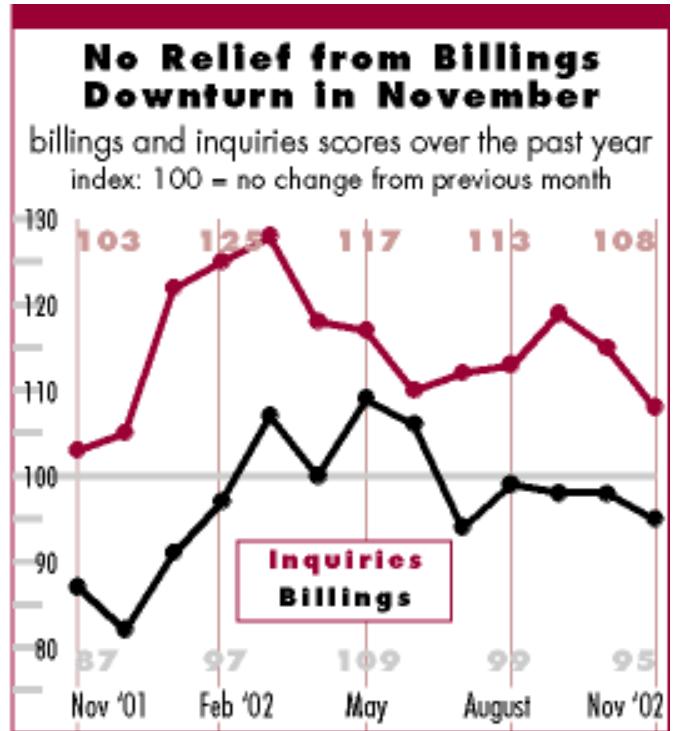
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Billings at U.S. architecture firms were off for the fifth straight month in November. In comparison, the downturn in architecture firm activity lasted only six months after September 11, 2001. However, in this downturn each of the monthly losses have been relatively modest. Also, inquiries for new work at firms have remained positive. Again, in contrast, there were two months where inquiries declined in the aftermath of September 11.

Business conditions regionally continue to remain quite fluid. Firms in the West still report weak business conditions, while firms in the South have reported consistent gains during this recent period of weakness. In the last few months, firms in the Northeast have reported weaker conditions, while firms in the Midwest have seen improvement.

Residential firms report the strongest growth in billings, but mixed practices (with less than 50% of billings in any major sector) also are reporting billings gains. Firms concentrating in commercial/industrial projects report the weakest conditions. However, firms in all specialization categories are seeing increases in inquiries.



Soft spot

The Federal Reserve Board acknowledged at its recent meeting that the economy currently is in a “soft spot.” There is substantial evidence that the 4.0% growth achieved by the overall economy in the third quarter will not be repeated in the fourth quarter. The employment report for November also left little doubt that the economy is in a temporary lull.

Business payrolls declined by 40,000 during the month, and the national unemployment rate rose to 6.0%, its highest level since the third quarter of 1994. However, a leading indicator for the economy rose in November for the first time since June, pointing to a possible return to growth early next year.

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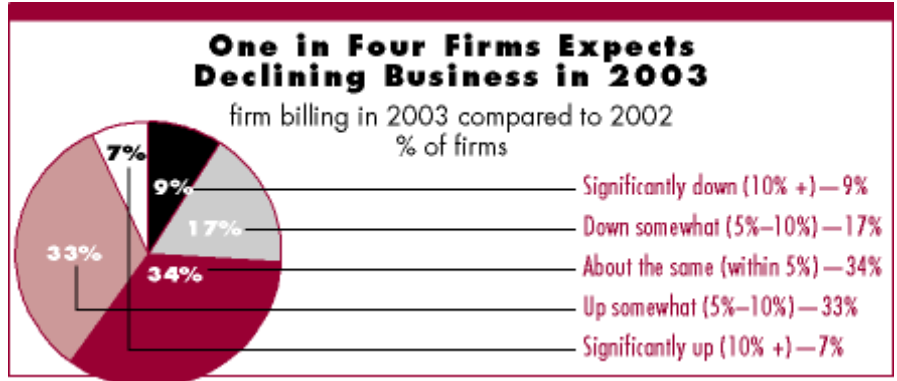
Economics

Firms are nervous

With the recent softening in business conditions, firms are understandably nervous about prospects for 2003. We asked members of our panel for their best estimates for next year's billings.

Overall, firms see some improvement. About 40% of firms expect billings at their firms to increase, about a third expect them to remain flat, and a quarter are expecting declines. While there is not much difference in the 2003 outlook across regions or by firm specialization, there is a considerable difference across firms of different sizes.

Smaller firms (with annual billings under \$500,000) are generally optimistic about the coming year. Two-thirds of firms in this category expect billings to increase next year, although most expect the increases to be relatively modest. At larger firms (with billings in excess of \$5 million) the outlook is more pessimistic. Over 40% of firms expect billings declines next year, while less than 30% expects billings to grow.



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

“Recent congressional action on homeland security and terrorism insurance are bright spots but will take time to trickle down.”

—68-person firm in the Northeast, mixed specialization

“Our receivables continue to age—too bad they’re not red wine!”

—9-person firm in the Midwest, mixed specialization

9-person firm in the Midwest, mixed specialization

—13-person firm in the West, institutional specialization

“Business conditions are soft. Contractors are returning bids in days instead of weeks with a ‘What do we need to do to get this job?’ attitude.”

—54-person firm in the South, commercial specialization