

BUSINESS

## Firms Report Steady Growth in October

Most expect design upturn to continue through 2007

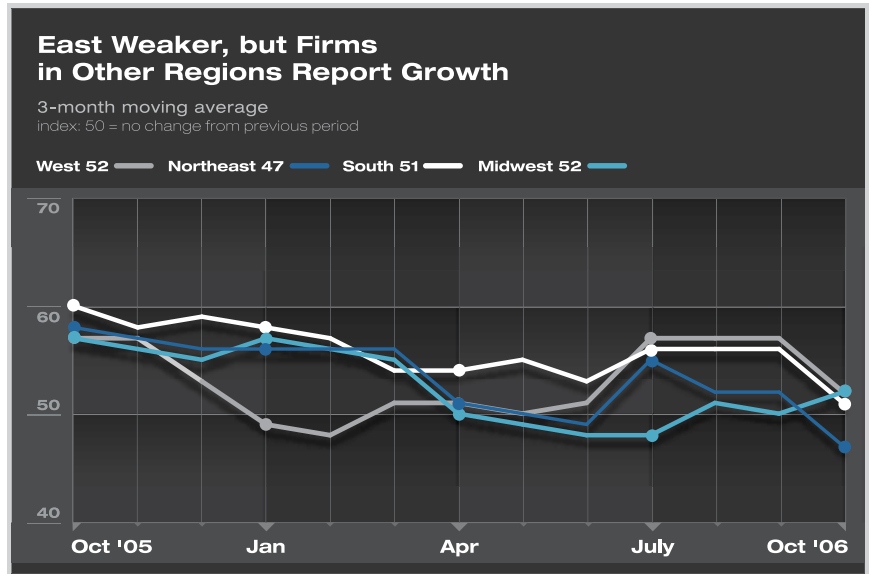
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**Summary:** Design activity for nonresidential buildings remained strong in October, while residential activity continued its downward spiral. Overall, the AIA's Architecture Billings Index just about maintained its September level. Firms are expecting modest gains in activity next year, with larger firms the most optimistic.

Architecture firms reported a modest overall increase in billings in October, with the AIA's Architecture Billings Index recording a score of 51.2 for the month, down slightly from the 51.4 reading in September. Any score above 50 indicates that billings are increasing nationally. Inquiries for new projects remained strong with a score of 62.7, however the inquiries index fell from its unusually strong 67.7 reading in September.

Regional readings were unusually volatile in October. Firms in the Midwest had been reporting weakening conditions in recent months; however, the October score rebounded to its strongest pace of growth since the first quarter of the year. Firms in the South and West reported continued growth, but the pace of growth was down from recent months. Finally, firms in the Northeast reported only their second decline in billings since late 2003.

The continued weakness in the residential sector is a key reason for those firms that reported softening business conditions in October. Both the commercial/industrial and institutional sectors remain strong. Commercial/



industrial firms and institutional firms each reported healthy gains in billing for the month: the ABI for commercial/institutional firms was 55.7 for October, while running 52.3 for institutional firms. Both scores were below their September readings.

Overall economy growing, but slowly  
The economy has slipped into a slow-growth mode, possibly reflecting the uncertainty in direction with national elections, and with continued international concerns. The economy grew a disappointing 1.6 percent at an annualized rate in the third quarter, its poorest showing since the first quarter of 2003. Employment growth in October was equally disappointing, as only 92,000 payroll jobs were added nationally. The October reading is a downward shift: through the first nine months of the year, more than 152,000 payroll positions on average were added. The October jobs report was depressed by a loss of 26,000

construction positions, the biggest decline in this sector since early 2002. The loss in construction positions reflects the continued weakness in the residential sector.

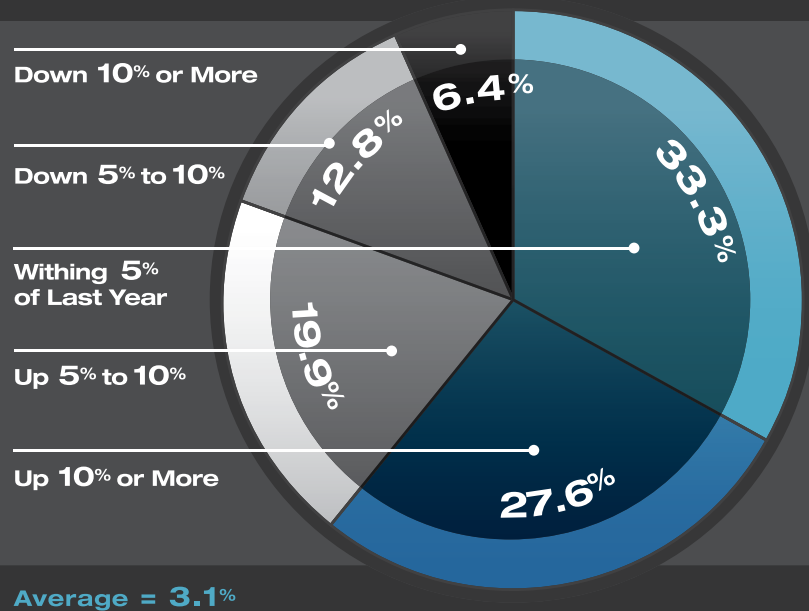
One positive coming from the recent softening in overall economic activity is the easing in inflation. Helped by the recent drop in oil prices, the annual increase in consumer prices was running at just over 2 percent in September, down from over 4 percent as recently



## BUSINESS

### Average Revenue Growth at Firms Expected to be Just Over 3% in 2007

expected change in net billings for 2007, % of firms:



as last July. Wholesale prices likewise have been dropping recently. Easing in producer (wholesale) prices should help rein in some of the jumps in construction products that have plagued the industry in recent years.

Expectations for 2007 highest in the South  
Overall, architecture firms are expecting moderate growth in billings in 2007; on average between 3 percent and 4 percent. This comes on top of generally healthy gains in 2006. Almost half of firms (48 percent) are expecting growth in revenue of 5 percent or more, while just under 20 percent of firms are expecting a decline of that magnitude.

Regionally, firms in the South are expecting the strongest growth next year, averaging between 4 percent and 5 percent, while Midwestern firms

have the lowest expectations for their revenue growth next year. Firms in the West are more optimistic than their counterparts in the Northeast.

Firms with annual revenue of \$5 million or more are the most optimistic, expecting revenue growth of about 7 percent next year. Almost two-thirds of firms of this size expect growth of 5 percent or more next year, while fewer than 5 percent expect declines of that magnitude. Firms with annual revenue of under \$1 million expect almost no growth next year on average, while firms in the \$1 million to \$5 million category expect revenue growth averaging about 5 percent.

The low expectations for next year for smaller firms are in large part due to the weakness in the residential sector. Residential firms (where more than half of their revenue comes from

residential projects) are expecting no gains in revenue next year on average. Commercial/industrial firms are the most optimistic, with expected growth averaging more than 5 percent. However, institutional firms are also upbeat about their prospects for 2006, expecting growth just below 5 percent on average.

#### Reference:

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

- Activity seems very strong; the housing market slowdown has not greatly affected the public sector markets in which we work.  
—75-person firm in the Midwest, institutional specialization
- State review of hospitals has slowed up construction in that market.  
—45-person firm in the Northeast, institutional specialization
- We experienced lots of interest in commencing projects through the summer. Many leads are real, but for various reasons the projects are struggling to get started.  
—23-person firm in the West, mixed specialization
- Business is so strong that the labor pool of qualified talent is terribly thin.  
—11-person firm in the South, commercial/industrial specialization.