



2023
CIRT SENTIMENT INDEX
First Quarter Report



February 2023



In partnership with the **Construction Industry Round Table**

EXECUTIVE SUMMARY

The CIRT Sentiment Index turned upward in the first quarter of 2023 after five consecutive quarters of decline. The overall index score rose slightly to 53.3 from 51.0. The Design Index, however, increased strongly from last quarter, climbing to 66.8 from 57.1.

Over the past quarter, market yields on the 10-year Treasury note peaked at 4.25% in late October and then began declining through the beginning of 2023 to current levels in the 3.4% to 3.7% range. (Yields point to today's inverted yield curve with target federal funds increasing another 150 basis points to 4.5% to 4.75% for the same period). At the same time, inflation continued to cool going into the new year.

Convergence of these two key trends ultimately eased financial conditions for industries that depend on low-cost debt and price stability, providing support for private-led funding of long-term capital spending (e.g., design, engineering and construction, and/or equipment). Additionally, funding from the Infrastructure Investment and Jobs Act (IIJA) started to show up helping to lift heavy civil project activity late in 2022 along with various investment announcements from new Inflation Reduction Act (IRA) and CHIPS and Science Act programs.

Index components illustrate improving sentiment toward the U.S. economy, the local economies where CIRT members operate, and the overall nonresidential sector. Conversely, sentiment declined across backlogs and members' optimism toward their construction operations and productivity. Growing optimism is most apparent in health care, while transportation, manufacturing, industrial, heavy civil and public works all remained stable or improved from last quarter.

CIRT members were asked this quarter to respond to current issues questions focused on backlogs, capacity and hiring goals, policy impacts on revenue and business planning, and top risks for 2023. Members reported strong backlogs

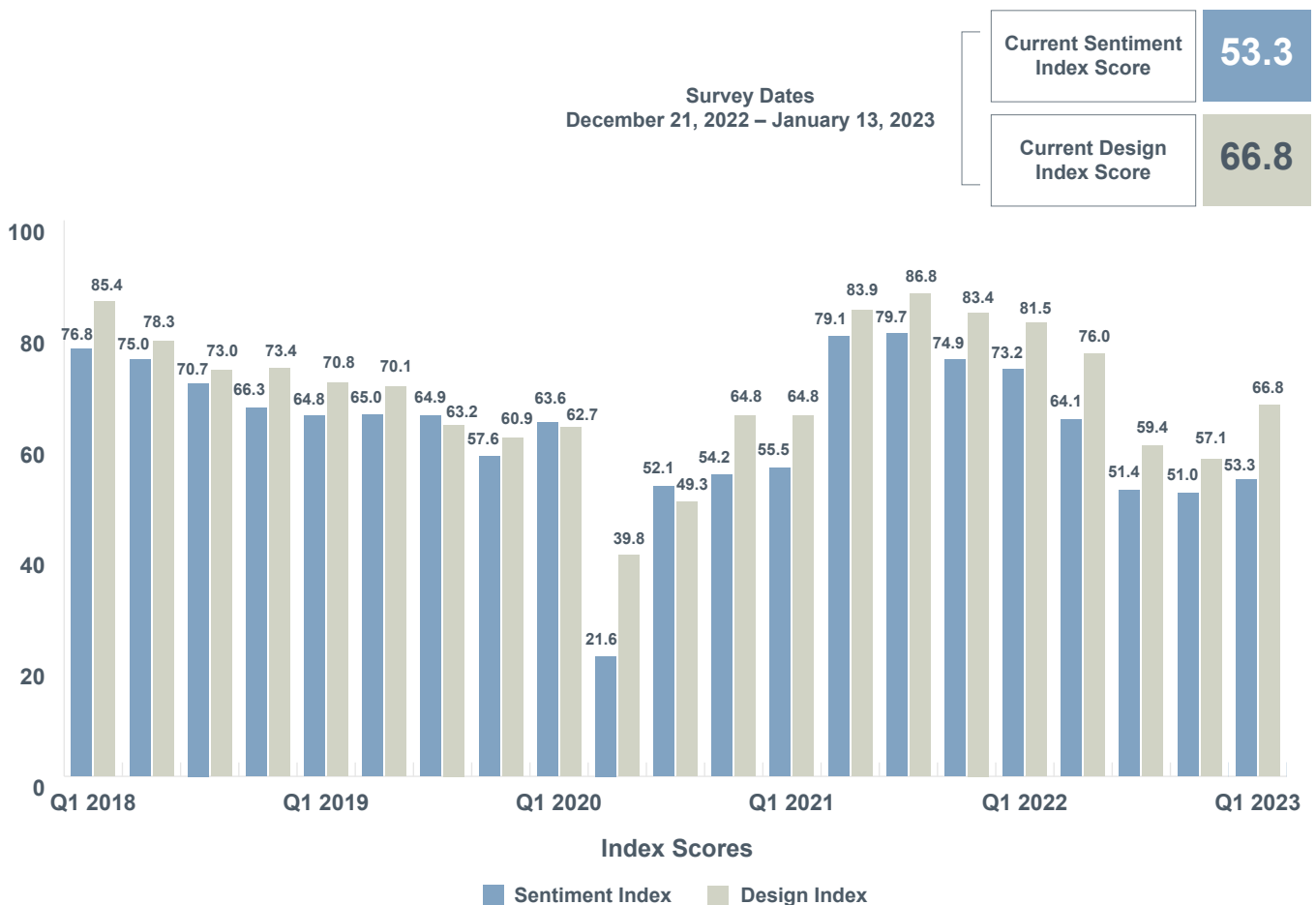
INDEX MOVEMENT			
Sentiment Index		Design Index	
53.3		66.8	
		Q1 2023	Q4 2022
Overall U.S. Economy	↑	29.71	14.79
Economy Where We Do Business	↑	44.20	33.10
Our Construction Business	↓	65.85	67.82
Nonresidential Sector	↑	51.49	36.76
Backlog	↓	61.35	66.43
Cost of Labor	↓	83.33	88.03
Cost of Materials	↓	55.80	63.38
Productivity	↓	44.93	47.89

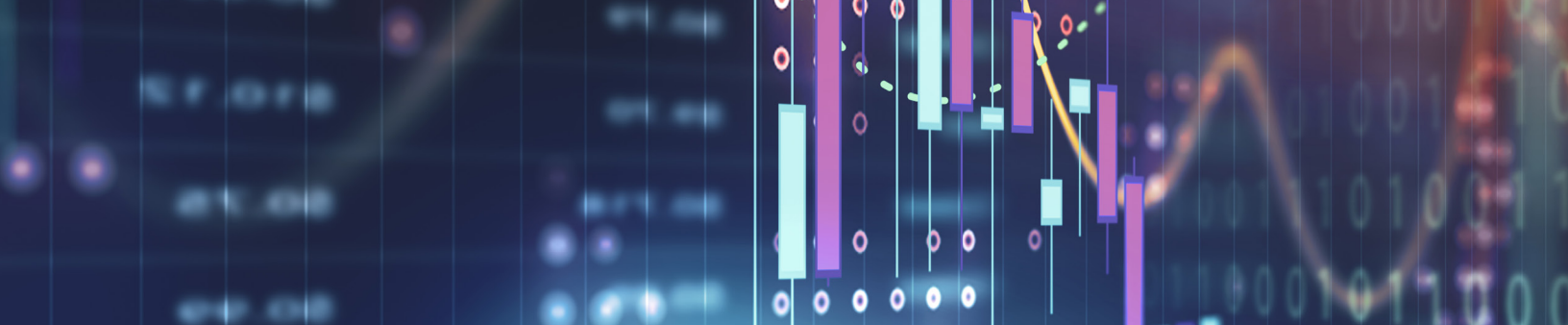
going into 2023 with most, or 90%, having at least 12 months of work planned and nearly half with more than 18 months. Similarly, capacity is healthy compared to recent years with most, or just over two-thirds, reporting capacity levels above 80%. Hiring goals and labor capacity responses were equal, with approximately half of members reporting higher goals than last year and exactly half reporting a low labor force relative to backlog needs.

In response to the combined new policies (i.e., IIJA, IRA and CHIPS), nearly all members expect at least some impact to 2023 revenue, and just over half report an anticipated moderate impact on 2023 revenue. Similarly, most members changed their business and strategy planning for the year around these new policy packages, with hiring plans, segment market expansions and geographic market expansions the most common adjustments. In identifying top risks for 2023, 4 of the top 5 concerns noted were about the supply and/or retention of labor. Just under half of CIRT members said limited supplies of skilled workers and craftworkers and their ability to identify, develop and retain talent were significant concerns.

Among the industries represented by CIRT’s membership, transportation and heavy civil are the two areas projected to experience both short-term and long-term gains in design opportunities (as represented by growth figures reported above 3.5). In the construction space, manufacturing, public works and transportation are seeing expanding opportunities over the short and long term. Expanding long-term construction opportunities broadened to include health care and industrial work.

CIRT Sentiment Index and Design Index Scores From Q1 2018 to Q1 2023



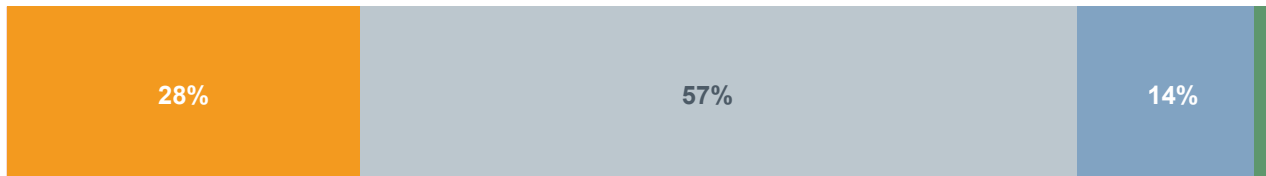


Local and National Economic Predictions for Next Quarter

The overall U.S. economy will:

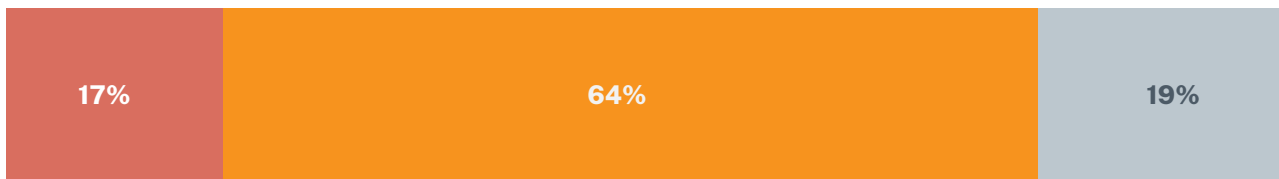


The economy where we do business will:

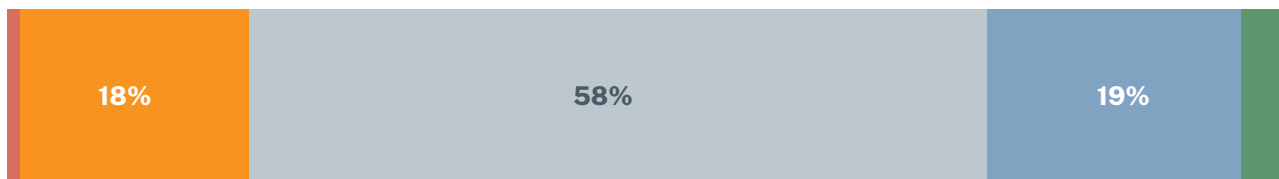


Expectations for the Residential and Nonresidential Building Markets for Next Quarter

Residential Building Construction Market



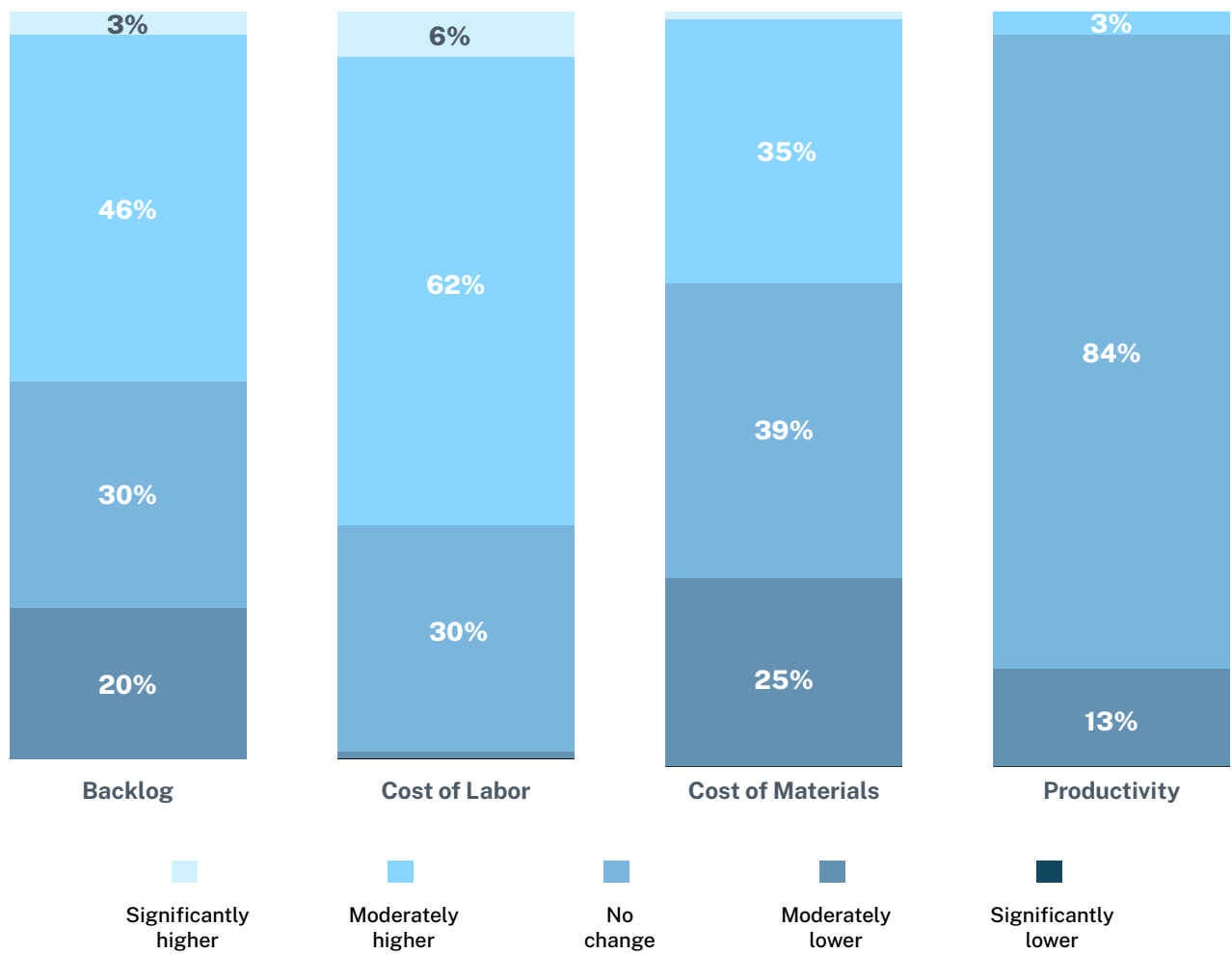
Nonresidential Building Construction Market



Significantly worsen Moderately worsen No change over last quarter Moderately improve Significantly improve

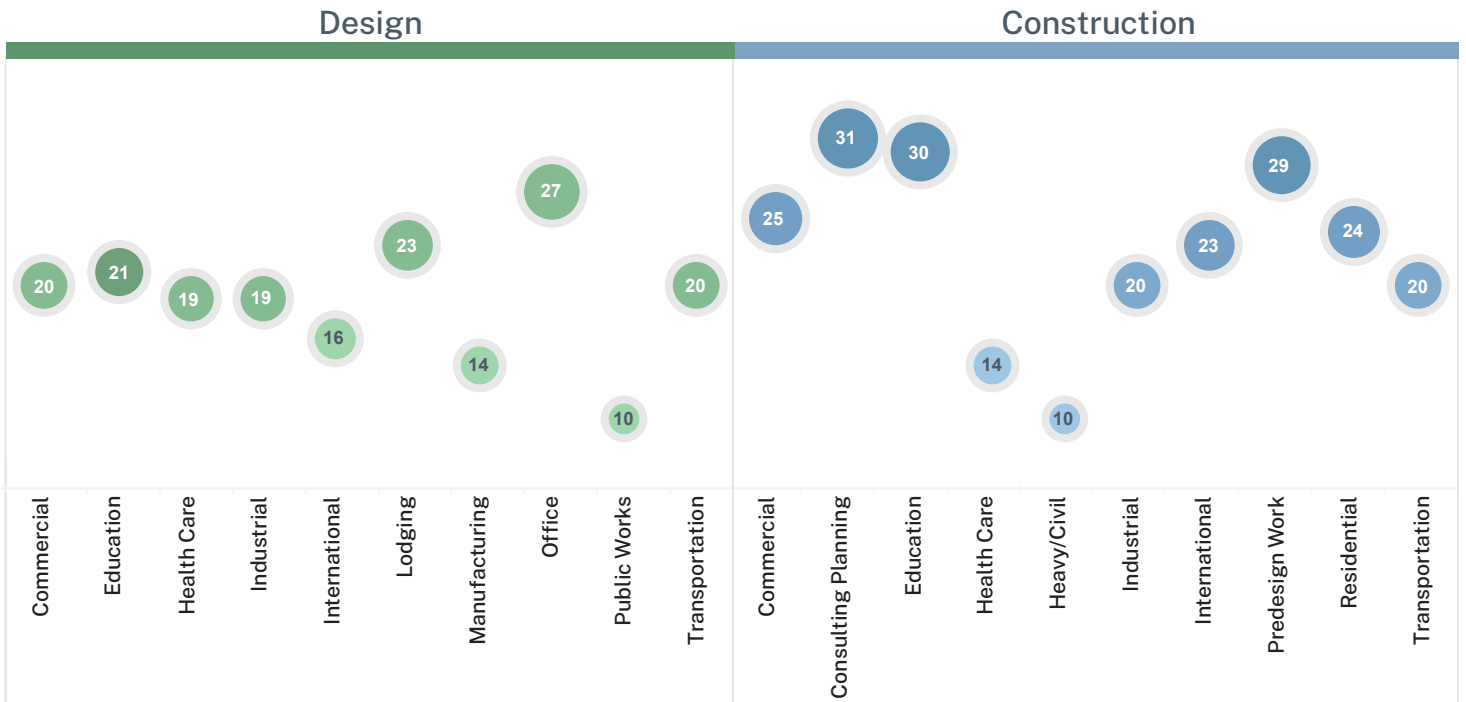


Construction Input Predictions for Next Quarter

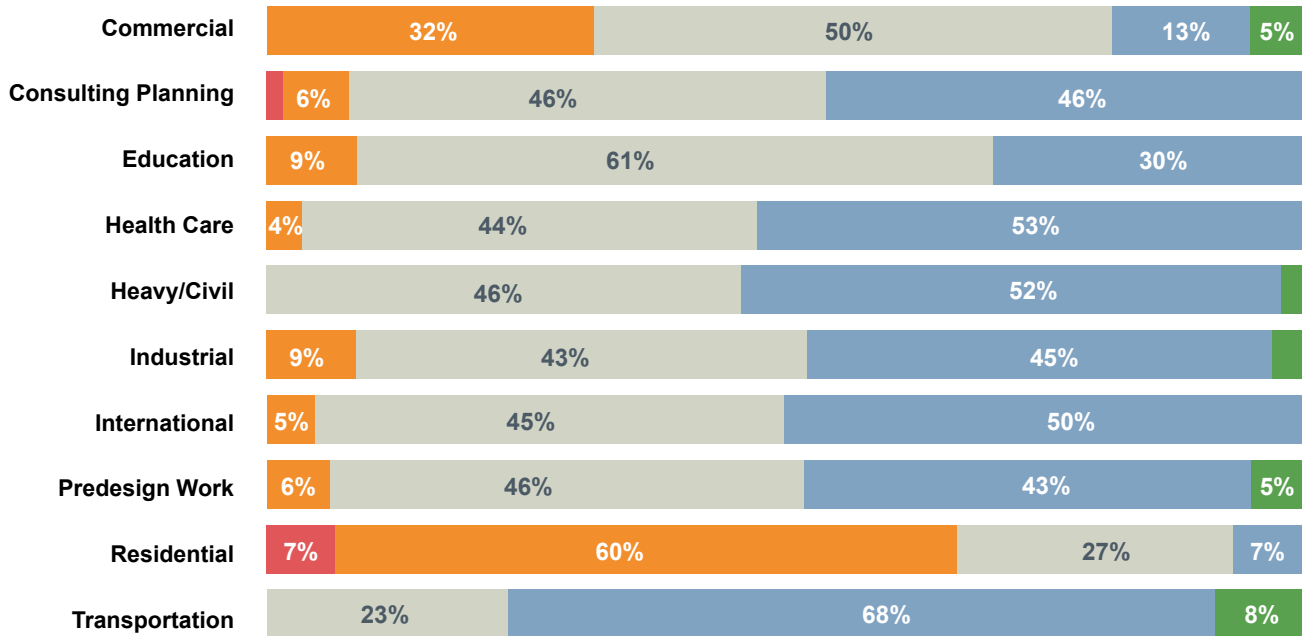




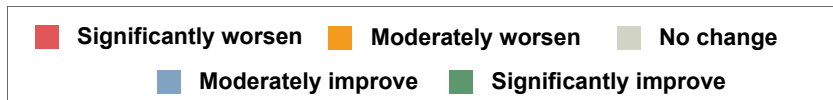
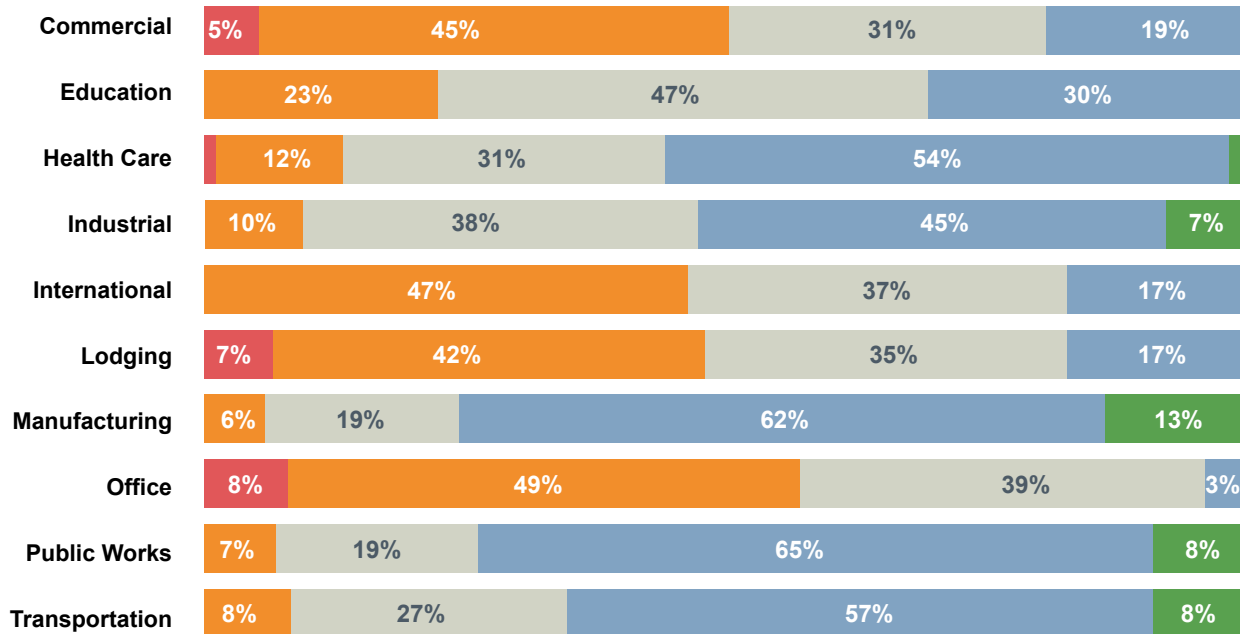
Member Profile: Number of CIRT Member Companies in Each Sector



Perception of Change for Next Quarter: Design



Perception of Change for Next Quarter: Construction



A silhouette illustration of a construction site against a gradient background transitioning from blue at the top to yellow at the bottom. The scene features several tall, lattice-structured towers under construction. Scaffolding is visible around the towers, and several workers are silhouetted against the structures. In the upper right, a crane is shown with its jib extending across the top. Two large, dark shapes, possibly weights or components, are suspended from cables in the center of the image.

CURRENT TRENDS

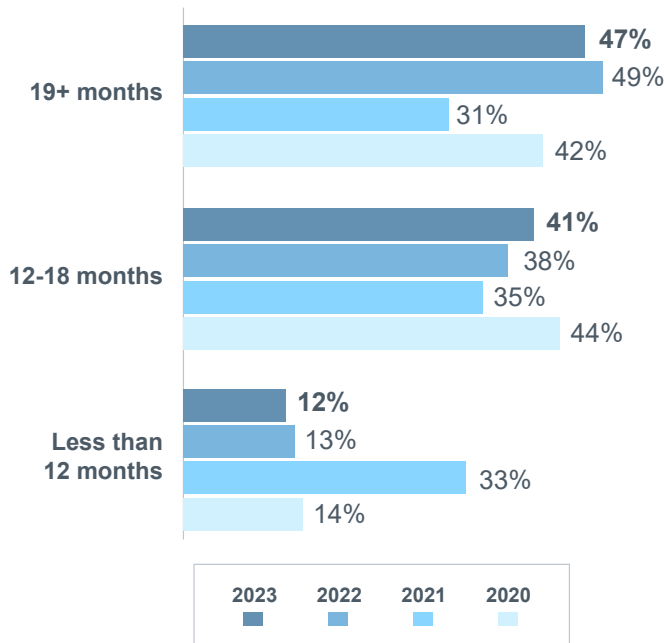
This quarter CIRT members were asked current issues questions focused on their backlogs, capacity and hiring goals, policy impacts on revenue and business planning, and to identify top risks for 2023.



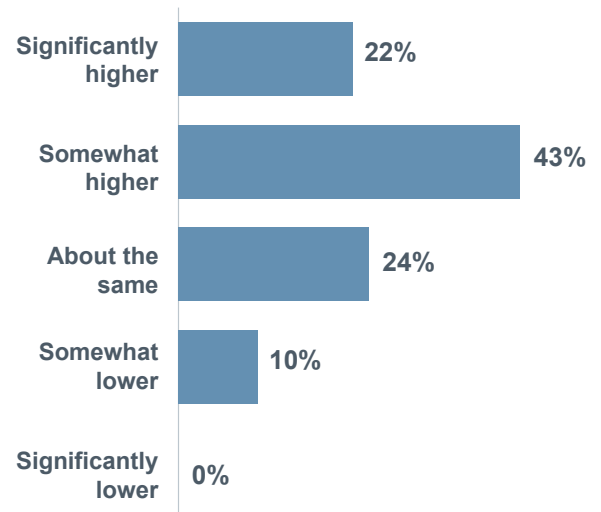
Backlog Strength

Backlogs are strong going into 2023, with nearly 90% of CIRT members having at least 12 months of work planned and nearly half, or 47%, with backlogs spanning more than 18 months. Further, approximately two-thirds, or 65%, report that backlogs are stronger going into 2023 versus this time last year, while only 10% of members report backlog contraction.

As we head into 2023, how strong is your backlog in terms of months?



How does this backlog compare to the end of 2021?

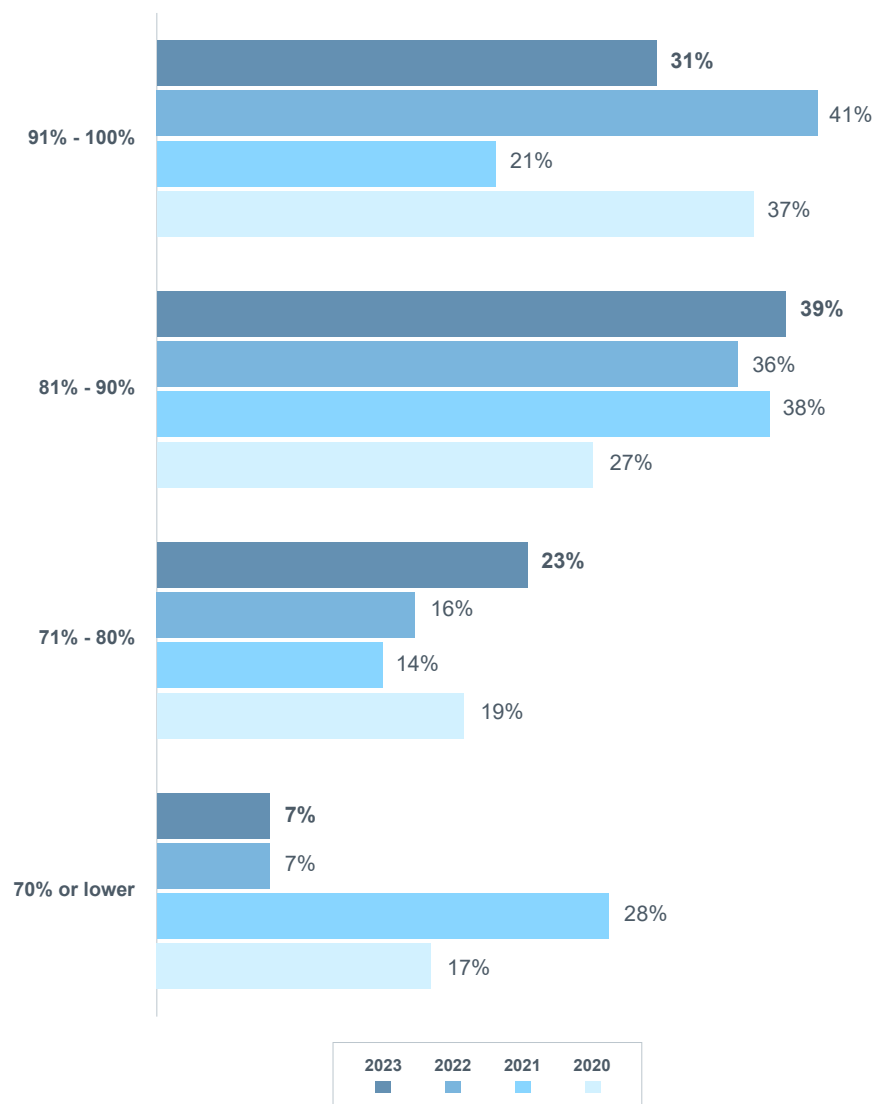




Firm Capacity

Firm capacity for CIRT members is healthy compared to recent years, with 39% of members reporting capacity levels between 81% and 90% and just over two-thirds with capacity levels greater than 80%. Comparably, responses this year fall just between the lower capacity levels reported from entering 2020 and 2021 and the higher capacity levels reported from entering 2022.

At what capacity do you estimate your firm to be, given current project workload?





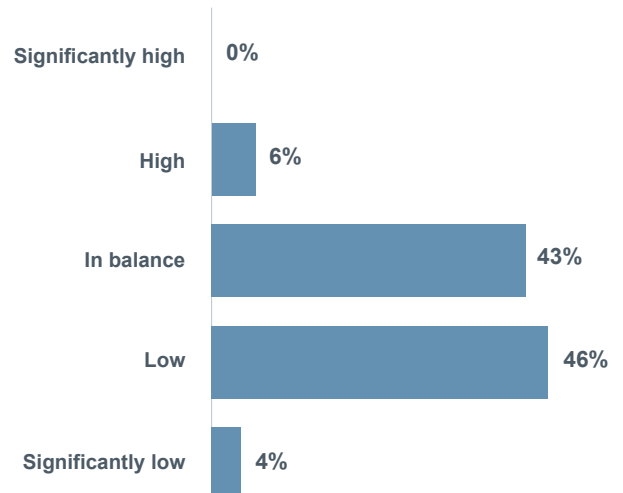
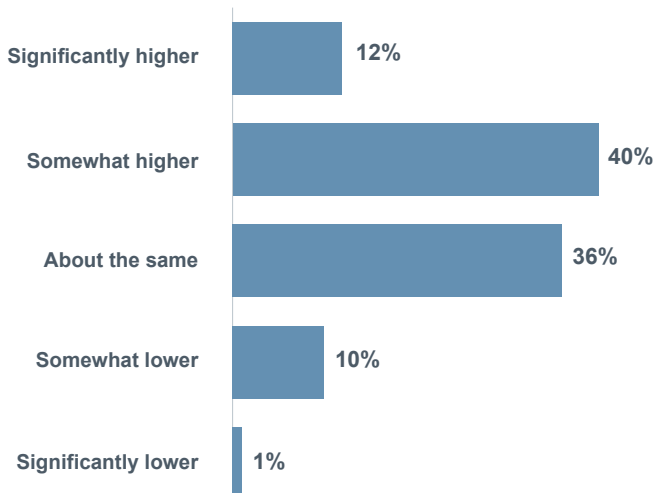
Hiring Goals and Labor Capacity

Hiring goals and labor capacity responses are nearly split, with slightly more than half of members reporting hiring goals higher than last year at 52% and 50% of members reporting their labor force is low relative to backlog needs.

How would you describe your hiring goals for 2023 compared to 2022?

How would you describe your labor force capacity relative to your 2023 backlog?

Our labor force is ___ relative to backlog needs.

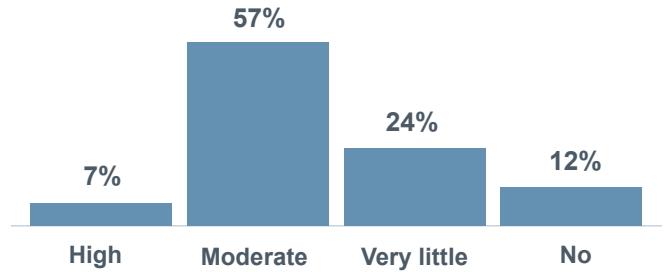


Policy Impact

Members were asked a series of questions on the passage of recent stimulative policy packages, including the IIJA, IRA and CHIPS. While nearly all members (88%) expect at least some impact to 2023 revenue, less than 10% felt these policies will have a high impact on revenue for the year. Just over half, or 57%, reported an anticipated moderate impact on revenue.

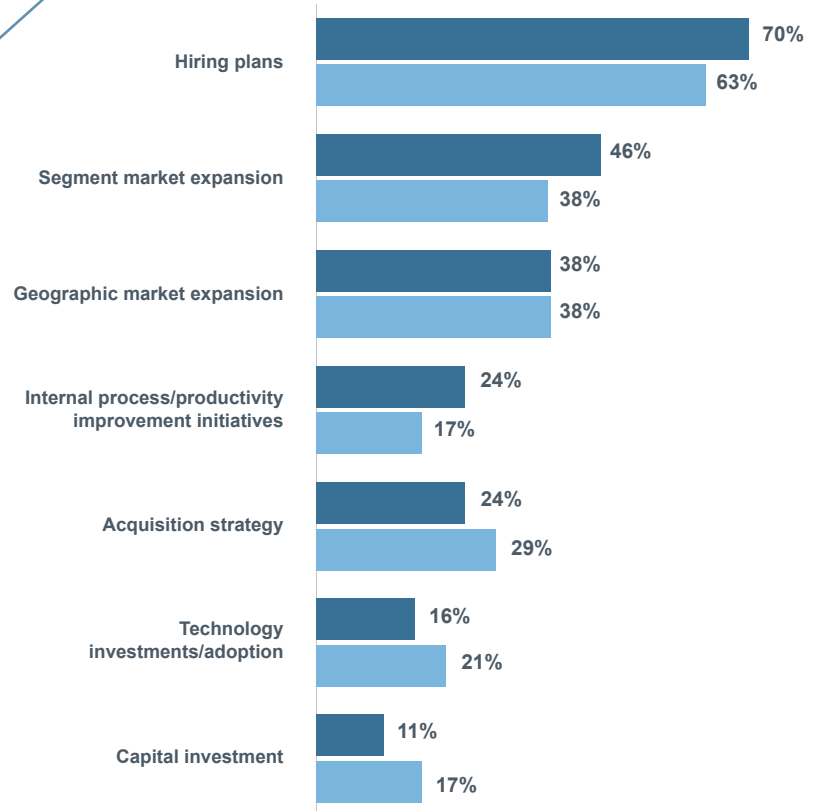
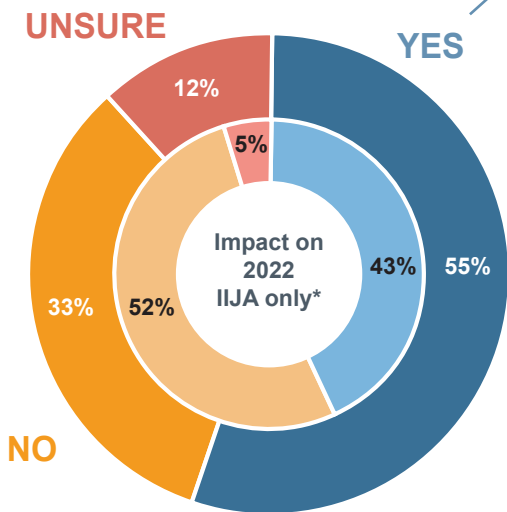
Similarly, most members, or 55%, have changed their business and strategy planning for 2023 around these new policy packages, a slight increase over last year when members were asked about the IIJA. The top three areas companies plan to adjust are hiring plans, segment market expansions and geographic market expansions.

To what extent do you anticipate the recently passed infrastructure packages (packages for consideration include IIJA/BI, IRA and CHIPS Act) to impact 2023 revenue?



Has the passage of the most recent infrastructure bill, the Inflation Reduction Act, and/or the CHIPS and Science Act made an impact on your 2023 business/strategy planning?

Select the top two components of your 2023 planning most impacted from these new packages.



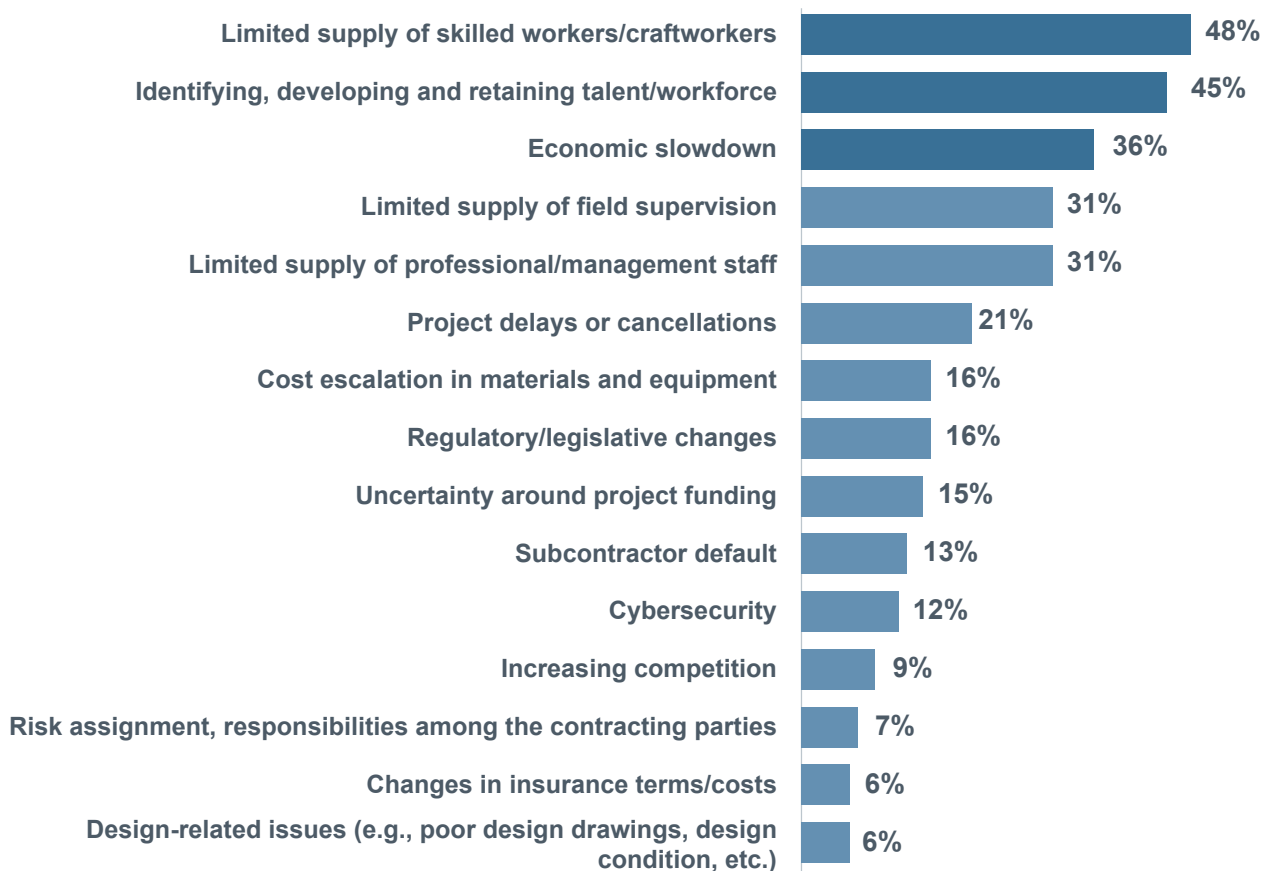
* The inner pie chart represents survey feedback on the same question asked at the end of 2021, referencing the infrastructure bill's impact on 2022 business/strategy planning.

■ 2023, Combined new policies ■ 2022, Infrastructure bill only

Top Risks for 2023 and Beyond

In identifying top risks for 2023, 4 of the top 5 are tied to the supply and/or retention of labor. Nearly half of CIRT members agreed that a limited supply of skilled workers and craftworkers (48%) and/or their ability to identify, develop and retain talent (45%) are of significant concern. Additionally, nearly 1 in 3 members expect challenges associated with an economic slowdown (36%), a limited supply of field staff (31%), and a lack of professional and management staff (31%).

Looking to 2023 and beyond, what three risks to you expect to increase the most?



Additional options with selections <5% include changes in contract language (4%), strategic agility (4%), project size and complexity (4%), quality of subcontractor work (4%), HR issues (3%), legal exposure (e.g., hiring, firing, DEI matters, etc.) (3%), ability to secure backlog (3%), expense and funding sources for training (e.g., from firm revenue, contract provisions, etc.) (1%), and other (1%).

DESIGN OUTLOOK

Industry	Next Quarter	Six Months From Now	One Year From Now
Commercial	2.75	2.85	3.15
Consulting Planning	3.29	3.29	3.52
Education	3.26	3.16	3.21
Health Care	3.53	3.53	3.42
Heavy/Civil	3.50	3.56	3.63
Industrial	3.35	3.30	3.61
International	3.43	3.29	3.64
Pre-design Work	3.41	3.44	3.56
Residential	2.20	2.40	2.40
Transportation	3.80	3.75	4.00

CONSTRUCTION OUTLOOK

Industry	Next Quarter	Six Months From Now	One Year From Now
Commercial	2.44	2.52	2.92
Education	3.03	3.00	3.19
Health Care	3.27	3.37	3.63
Industrial	3.36	3.50	3.64
International	2.60	2.50	3.00
Lodging	2.55	2.40	2.90
Manufacturing	3.78	3.65	4.04
Office	2.28	2.34	2.52
Public Works	3.58	3.79	3.88
Transportation	3.55	3.55	3.85

This quarter respondents were asked how the design and construction sectors will change next quarter, six months from now and one year from now. Each industry score is on a scale of 1 to 5, with 1 being the worst and 5 being the best. Each response reflects the change in score in comparison to the starting average score of the next quarter.



ABOUT THE CONSTRUCTION INDUSTRY ROUND TABLE (CIRT)

The Construction Industry Round Table (CIRT) is composed exclusively of approximately 115-120 CEOs from the leading architectural, engineering and construction firms doing business in the United States.

CIRT is the only organization that is uniquely situated as a single voice representing the richly diverse and dynamic design/construction community. First organized in 1987 as the Construction Industry Presidents' Forum, the Forum has since been incorporated as a not-for-profit association with the mission "to be a leading force for positive change in the design/construction industry while helping members improve the overall performance of their individual companies."

The Round Table strives to create one voice to meet the interests and needs of the design/construction community. CIRT supports its members by actively representing the industry on public policy issues, by improving the image and presence of its leading members, and by providing a forum for enhancing and developing strong management approaches through networking and peer interaction.

The Round Table's member CEOs serve as prime sources of information, news and background on the design/construction industry and its activities. If you are interested in obtaining more information about the Construction Industry Round Table, please call **202-466-6777** or contact us by email at **cirt@cirt.org**.

CIRT SENTIMENT INDEX

The CIRT Sentiment Index is a survey of members of the Construction Industry Round Table conducted quarterly by FMI. For press contact or questions about the CIRT Sentiment Index, contact **Mark Casso** at **mcasso@cirt.org**.

CONFIDENTIALITY

All individual responses to this survey will be confidential and shared outside of FMI only in the aggregate. All names of individuals responding to this survey will remain confidential to FMI.



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CONTACT US



RALEIGH HEADQUARTERS
223 S. West Street
Suite 1200
Raleigh, NC 27603



919.787.8400

fmicorp.com

OFFICES

Denver
44 Cook Street
Suite 900
Denver, CO 80206
303.377.4740

Houston
1301 McKinney Street
Suite 2000
Houston, TX 77010
713.936.5400

Tampa
4300 W. Cypress Street
Suite 950
Tampa, FL 33607
813.636.1364