



2022
CIRT SENTIMENT INDEX
Third Quarter Report



August 2022



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

EXECUTIVE SUMMARY

The CIRT Sentiment and Design Index scores fell dramatically from last quarter, representing the fourth consecutive decline from highs set in 2021. The overall sentiment and design index scores have retreated 20% and 23% on a quarter-over-quarter basis and 35% and 33% year-over-year, respectively. This is the second-largest decline in the history of the survey.

It is of little surprise that members are reporting increasing economic concerns going into the second half of 2022. The Federal Reserve's aggressive rate hikes and scheduled quantitative tightening has both business investment declining and consumer spending weakening, resulting in volatility and uncertainty in markets. Further, opportunities for U.S. exports remain challenging given the geopolitical backdrop, current strength of the dollar, and high oil prices.

Encouragingly, survey respondents remain optimistic about their backlogs and businesses' operations. However, many have reported a loss of confidence in the nonresidential building sector (e.g., commercial, lodging, office and education) as well as ongoing problems with labor and materials pricing. Heavy civil, transportation, industrial and predesign opportunities are a few areas where optimism has remained stable when compared to segment perceptions from the prior report.

This quarter's current issues questions focused on recession expectations, backlog concerns, supply chain impact on projects and logistics, and how strategic decisions are evolving midyear. Respondents largely agreed that recession is likely, and a majority agree with FMI's expectations that it will last 12 to 18 months. Based on a range of outcomes, the second-largest group anticipates a milder and shorter duration correction compared to prior cycles. However, nearly all respondents report some level of concern that higher interest rates and economic weakness could weigh against their organizations' strong backlogs.

CIRT members were split equally three ways in response to labor market expectations through the end of next year. One-third of respondents anticipate that shortages will amplify, one-third anticipate shortages will be eased, and just under one-third expect that today's conditions will go unchanged.

INDEX MOVEMENT			
Sentiment Index	Design Index		
51.4	59.4		
	Q3 2022	Q2 2022	
Overall U.S. Economy	↓	18.18	34.92
Economy Where We Do Business	↓	29.09	50.00
Our Construction Business	↓	64.29	76.58
Nonresidential Sector	↓	45.45	57.26
Backlog	↓	75.15	77.78
Cost of Labor	↓	93.64	95.24
Cost of Materials	↓	86.36	92.06
Productivity	↓	45.45	46.03

Respondents are better aligned on materials prices and industry shortage conditions with most anticipating an ease of shortages with prices either remaining at today's high levels or ultimately falling. In response to current changing market conditions, members are adjusting midyear strategic decisions by becoming more selective on bidding, expanding hiring, and increasing pursuit of segment expansion and alternative procurement opportunities.

Among the industries represented by CIRT’s member base, transportation, consulting planning, predesign and heavy civil work are projected to experience the largest short-term gains in design. The design industry’s long-term view of project growth has tempered this quarter with only heavy civil, consulting planning, and transportation reading above

3.5 (implying expanding opportunities). Manufacturing, industrial, public works and transportation are identified as strong, short-term and long-term leaders for construction demand. By comparison, the construction industry’s one-year outlook is generally less optimistic with only industrial, public works and transportation remaining above 3.5.

CIRT Sentiment Index and Design Index Scores From Q3 2018 to Q3 2022

Survey Dates June 17 - July 1	Current Sentiment Index Score	51.4
	Current Design Index Score	59.4





Local and National Economic Predictions for Next Quarter

The overall U.S. economy will:



The economy where we do business will:

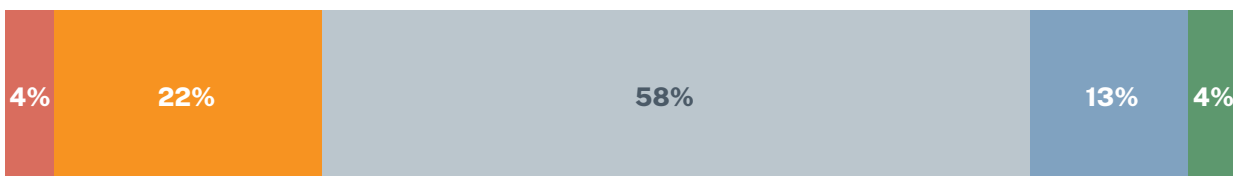


Expectations for the Residential and Nonresidential Building Markets for Next Quarter

Residential Building Construction Market

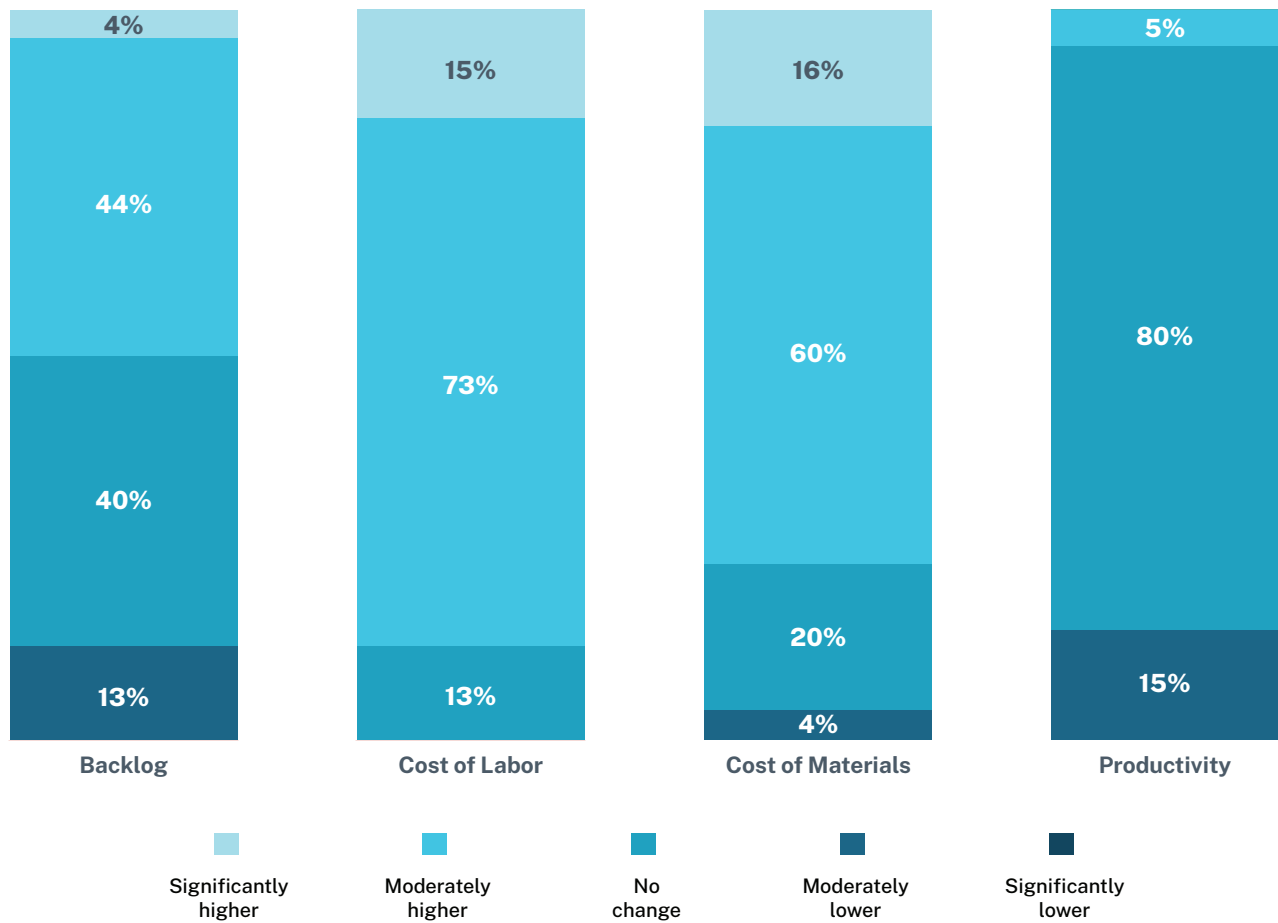


Nonresidential Building Construction Market



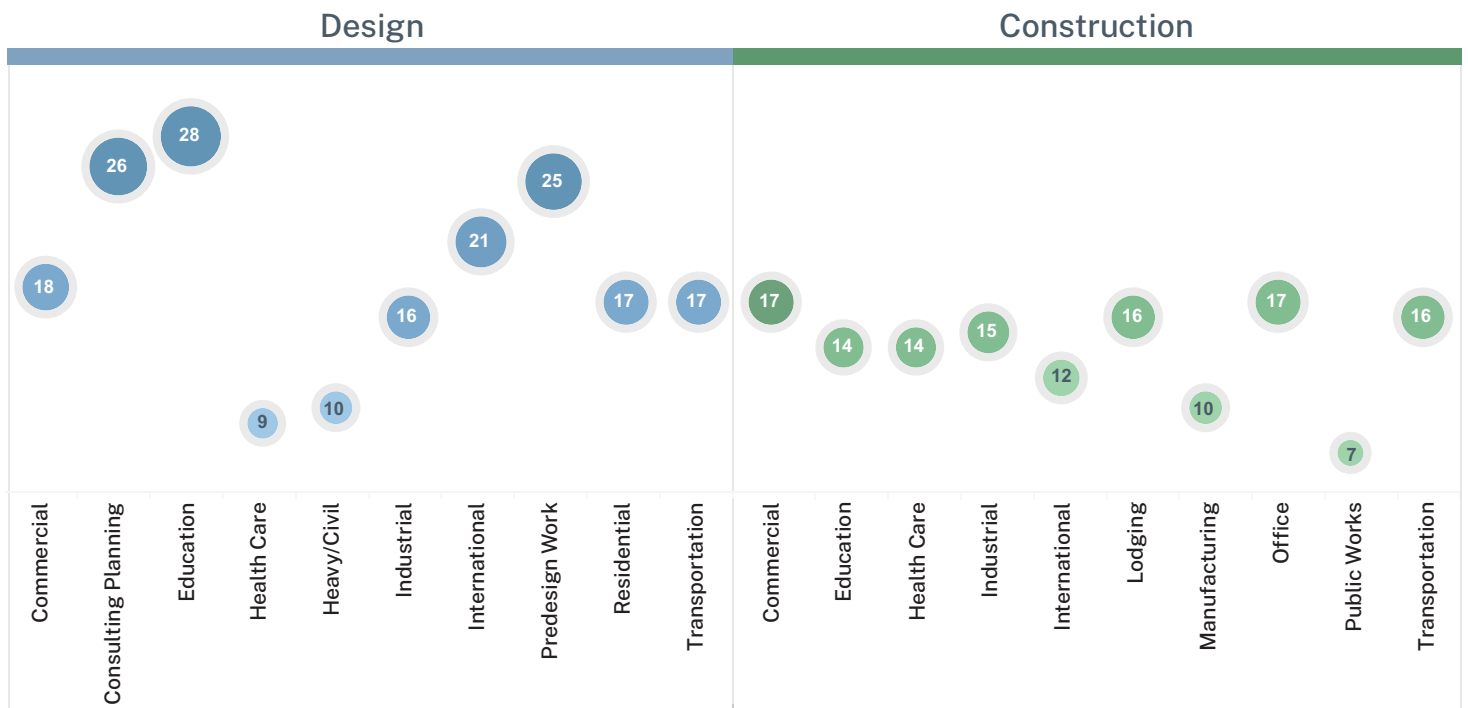


Construction Input Predictions for Next Quarter

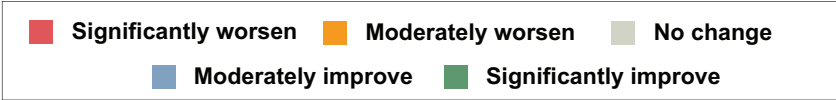
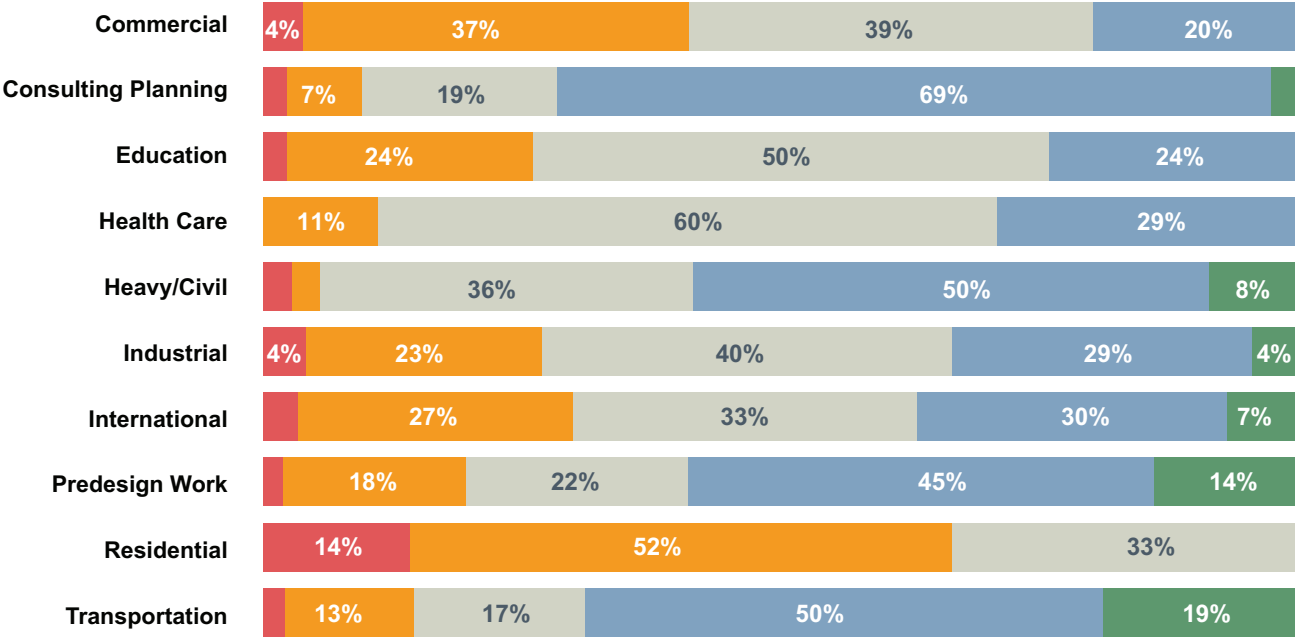




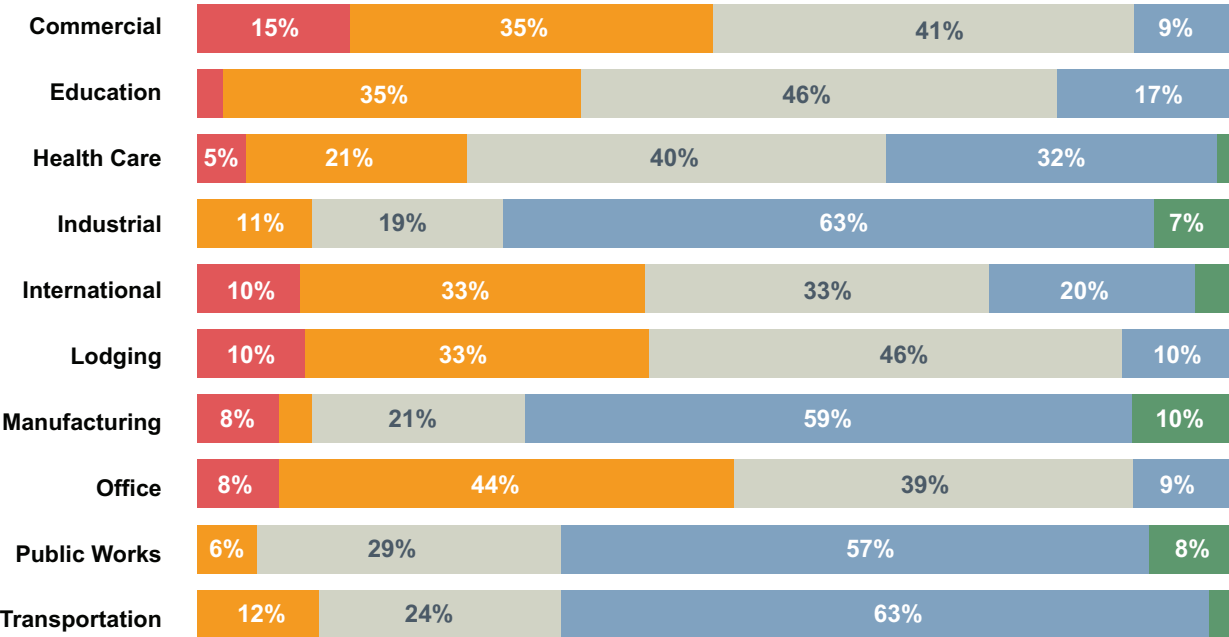
Member Profile: Number of CIRT Member Companies in Each Sector



Perception of Change for Next Quarter: Design



Perception of Change for Next Quarter: Construction





CURRENT TRENDS

This quarter CIRT members were asked to respond to current issues questions focused on expectations around softening economic conditions, including recession expectations, backlog concerns, supply chain impact on projects and logistics, and how strategic decisions are evolving midyear.

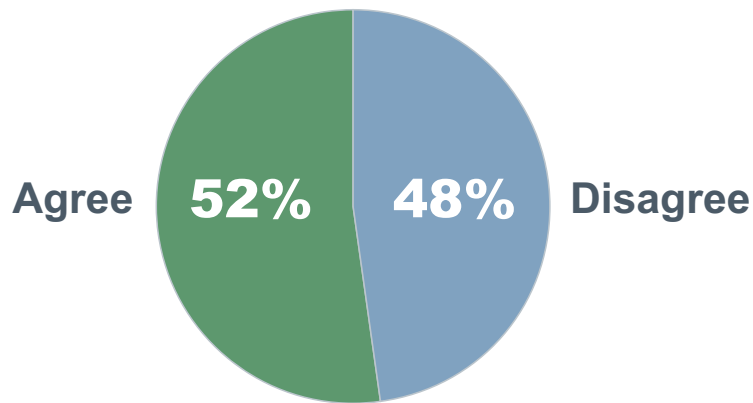


Recession Expectations

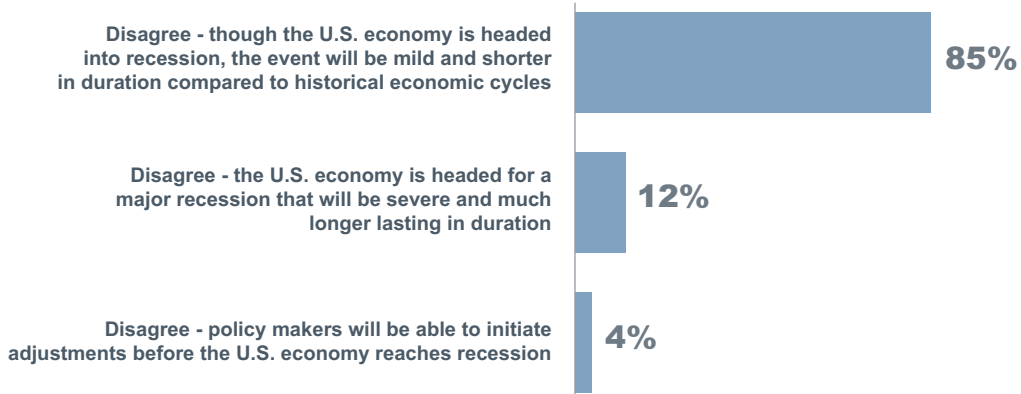
CIRT respondents largely agreed that recession is expected, with a slight majority (52%) aligned with FMI's hypothesis noted below. It is encouraging that of those who disagree, most (85%) anticipate a mild and shorter economic downturn when compared with historical cycles.

FMI expects the U.S. economy to be in recession in 2022 and 2023 due to the Federal Reserve's actions, falling demand and ongoing supply chain issues. The recession is predicted to last 12 to 18 months, which is slightly longer than the historical 10-month average recession between 1945 and 2001. Ultimately, the current predicted recession will help control inflation.

Which of the below best aligns with your reaction to the above statement?



Of those 48% disagreeing

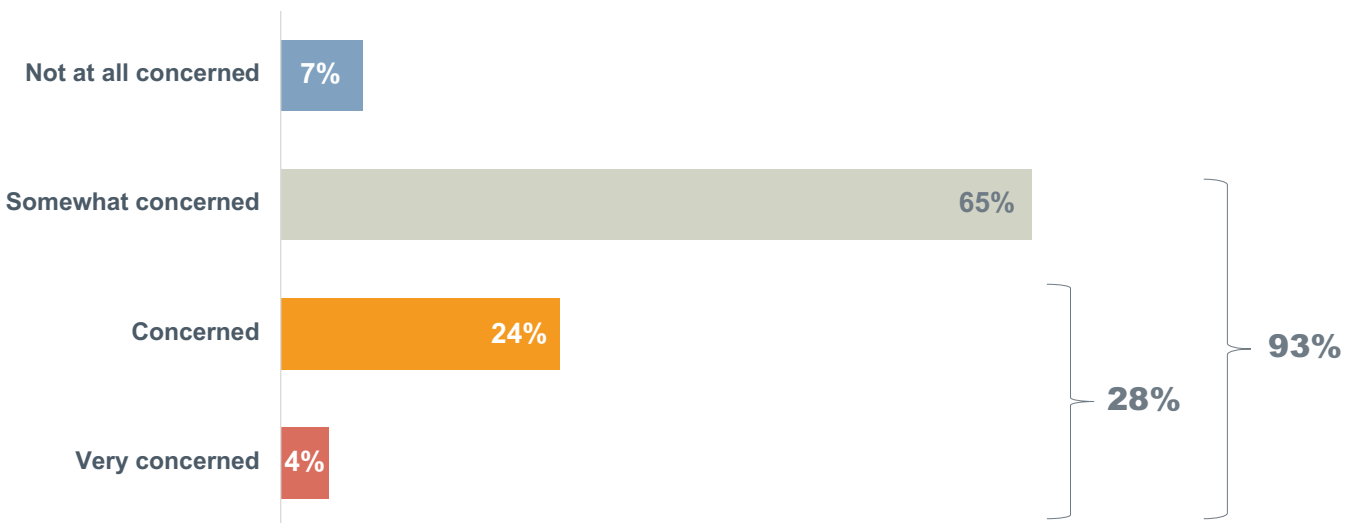




Backlog Concerns

When asked about concerns that higher interest rates and economic weakness may weigh against their organizations' backlog levels, nearly all (93%) respondents are at least somewhat concerned, while just over 1 in 4 report they are either concerned (24%) or very concerned (4%).

Are you concerned that higher interest rates and economic weakness may weigh against your organization's current backlog levels?



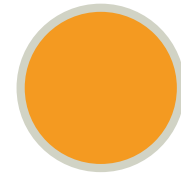


Labor Expectations

CIRT members were divided across a wide range of labor expectations through the end of next year. One-third of respondents anticipate that shortages will amplify, one-third anticipate shortages will be eased, and just under one-third (30%) expect that today's tight labor conditions will go unchanged. A minority (4%) foresee risk that industry labor market conditions transition from a shortage to a surplus.

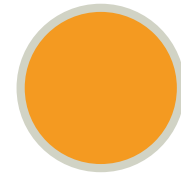
What are your expectations on current construction industry labor shortage conditions through the end of 2023?

Construction industry labor shortages will amplify



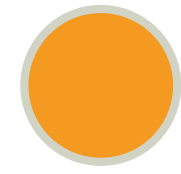
33%

Construction industry labor shortages will be eased



33%

Conditions will go unchanged



30%

Construction industry labor shortages will transition to a labor surplus



4%



Materials Expectations

Conversely, respondents are in greater alignment in response to materials prices and shortage conditions. Most anticipate that material shortages ease (65%), with prices either remaining at high levels (52%) or prices ultimately falling (13%). However, it is still concerning that just over 1 in 5 respondents anticipate material shortages will amplify and prices will continue to rise (22%). The minority, or 11%, expect that today's material price conditions will extend through the end of next year.

What are your expectations on current construction industry materials prices and shortage conditions through the end of 2023?

"Other" written responses represent 2%

Materials shortages will amplify, and prices will continue to escalate



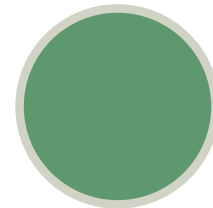
22%

Conditions will go unchanged



11%

Materials shortages will be eased but prices stabilize at high levels



52%

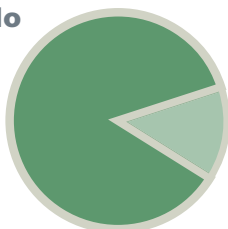
Materials shortages will be eased, and prices ultimately fall



13%

(If selected) Do you believe materials prices will fall to levels close to those seen in 2018/2019?

86% No



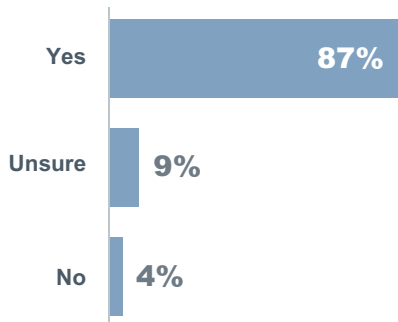
11%
Unsure



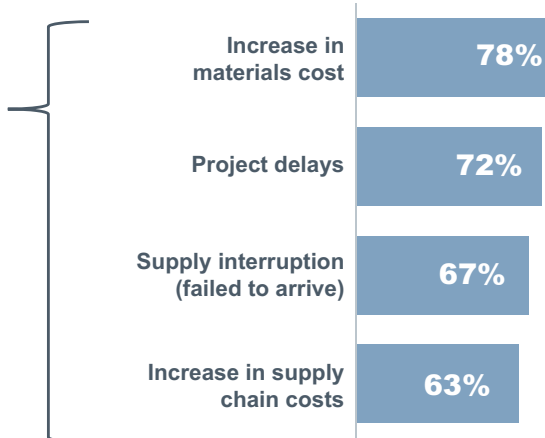
Supply Chain Impact on Projects

A large majority of CIRT members have seen recent supply chain problems impact projects. Of those respondents who experienced issues, more than two-thirds reported materials cost increases (78%) and project delays (72%), and approximately two-thirds have seen interruption (67%) or logistics costs increase (63%).

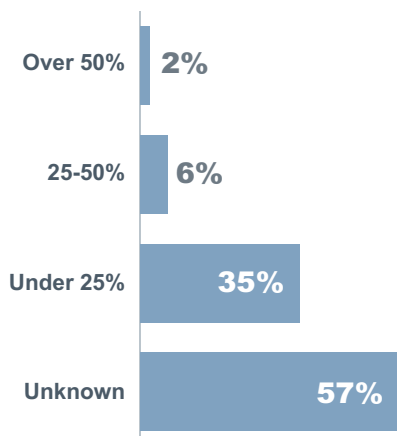
Have any of your projects been impacted by recent supply chain problems?



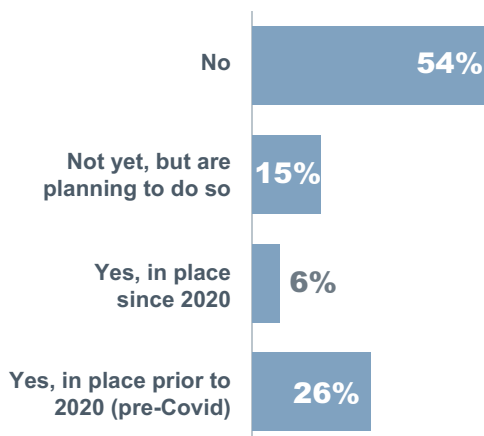
(If yes) Select all that apply to your project experiences impacted by supply chain problems:



If known, what percentage of your materials are currently produced offshore for a typical project?



Do you have a centralized logistics and/or supply chain functions (leadership position and/or strategy) for your business?

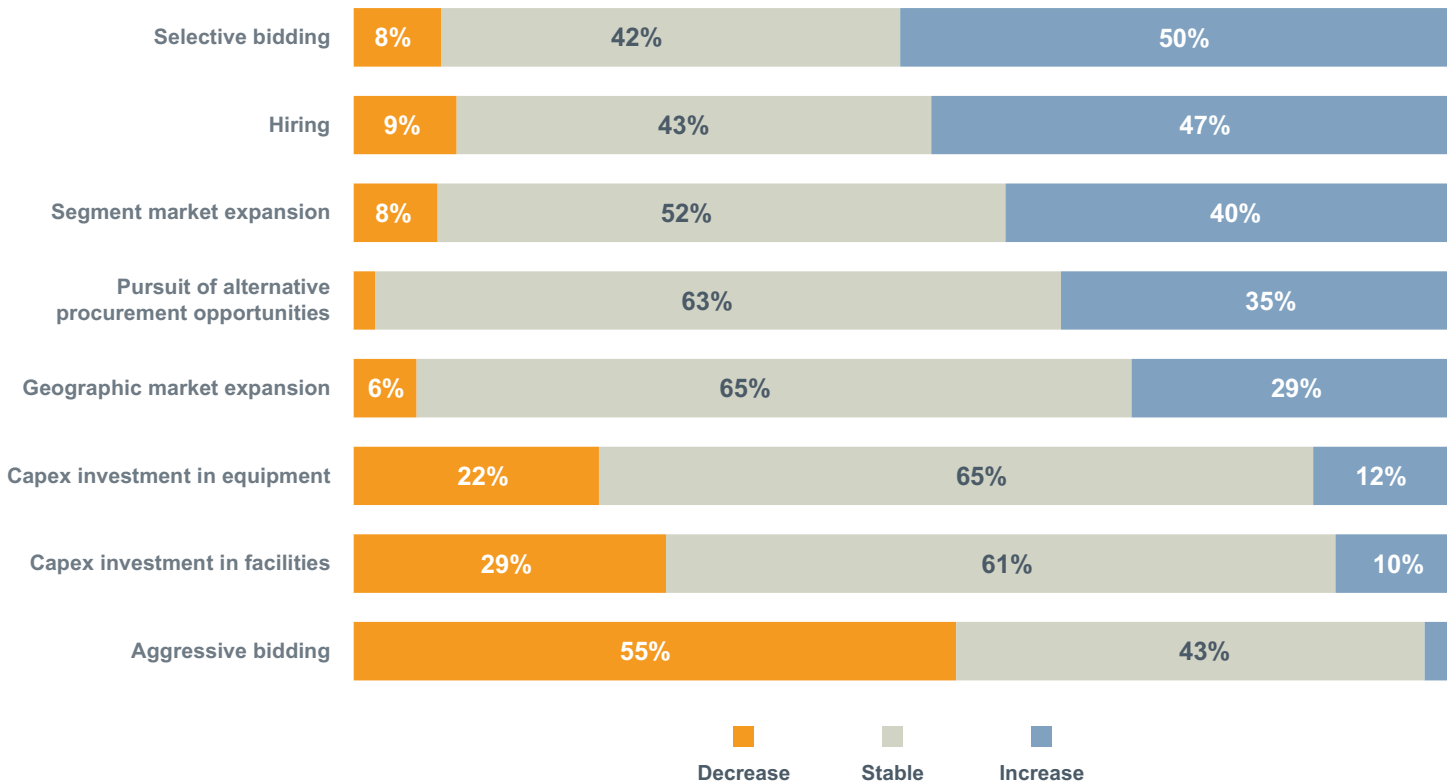




Strategic Decisions Mid-2022

In response to a softening economy and changing market conditions, CIRT members are becoming more selective and less aggressive on bidding, and many are increasing their pursuits of segment expansion and alternative procurement opportunities. Additionally, nearly half of respondents are expanding hiring plans through the end of 2022 while nearly 1 in 5 are pulling back on capital expenditures on facilities and equipment.

How is your organization planning to adjust strategic decisions through the second half of 2022, considering the factors listed below?



DESIGN OUTLOOK

Industry	Design Sector Business Outlook		
	Next Quarter	Six Months From Now	One Year From Now
Commercial	2.82	2.76	2.65
Consulting Planning	3.64	3.57	3.64
Education	3.00	2.93	2.93
Health Care	3.20	3.13	3.20
Heavy/Civil	3.58	3.50	3.67
Industrial	3.19	3.00	3.00
International	3.00	3.10	3.20
Pre-design Work	3.59	3.47	3.47
Residential	2.43	2.29	1.86
Transportation	3.81	3.75	3.56

CONSTRUCTION OUTLOOK

Industry	Construction Sector Business Outlook		
	Next Quarter	Six Months From Now	One Year From Now
Commercial	2.61	2.50	2.22
Education	2.92	2.77	2.62
Health Care	3.04	3.04	3.04
Industrial	3.67	3.67	3.67
International	2.50	2.70	3.00
Lodging	2.75	2.63	2.31
Manufacturing	3.71	3.57	3.48
Office	2.56	2.48	2.44
Public Works	3.65	3.65	3.71
Transportation	3.53	3.59	3.53

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 percentage 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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