



2022 CIRT SENTIMENT INDEX Fourth Quarter Report



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

EXECUTIVE SUMMARY

CIRT Sentiment Index scores were down slightly for the fourth quarter but remain mostly in line with last quarter's results. The overall index score fell to 51.0 from 51.4, and the Design Index fell to 57.1 from 59.4. This report represents the fifth consecutive quarterly decline from third quarter 2021 highs.

The Federal Reserve's policy shift to address inflation over recent months has undoubtedly impacted investment decisions and continues to weigh against asset prices, consumer purchasing power and global markets. Effective federal funds rates have more than doubled from 1.5% (on the lower limit), set mid-June, to 3.75%, set early November. Also, quantitative tightening is now in full swing at \$90 billion per month. Still, inflation remains high at 7.7% year over year through October, with evidence that higher prices have broadened into services, food and shelter.

Index components illustrate declining member sentiment toward the overall U.S. economy as well as a softened outlook on the nonresidential sector and backlogs. Conversely, respondent optimism modestly improved for the local economies where they are conducting business, outlook on their construction businesses and productivity gains. Also, cost pressures for both materials and labor appear to be easing with more than half of respondents expecting lower materials prices through year end. Transportation, manufacturing, heavy civil and public works are the few areas where optimism has remained stable from last quarter.

Construction Industry Round Table (CIRT) members were asked this quarter to respond to current issues questions focused on backlog sensitivity, reasons for and areas of project disruptions, and business growth trends and challenges. Considering rising and elevated interest rates over the next 12 to 24 months, just over half of respondents indicate low or very low backlog sensitivity. However, this still leaves a large portion of respondents with modest or elevated backlog sensitivity levels and indicates the potential for lasting market risk over the next several years.

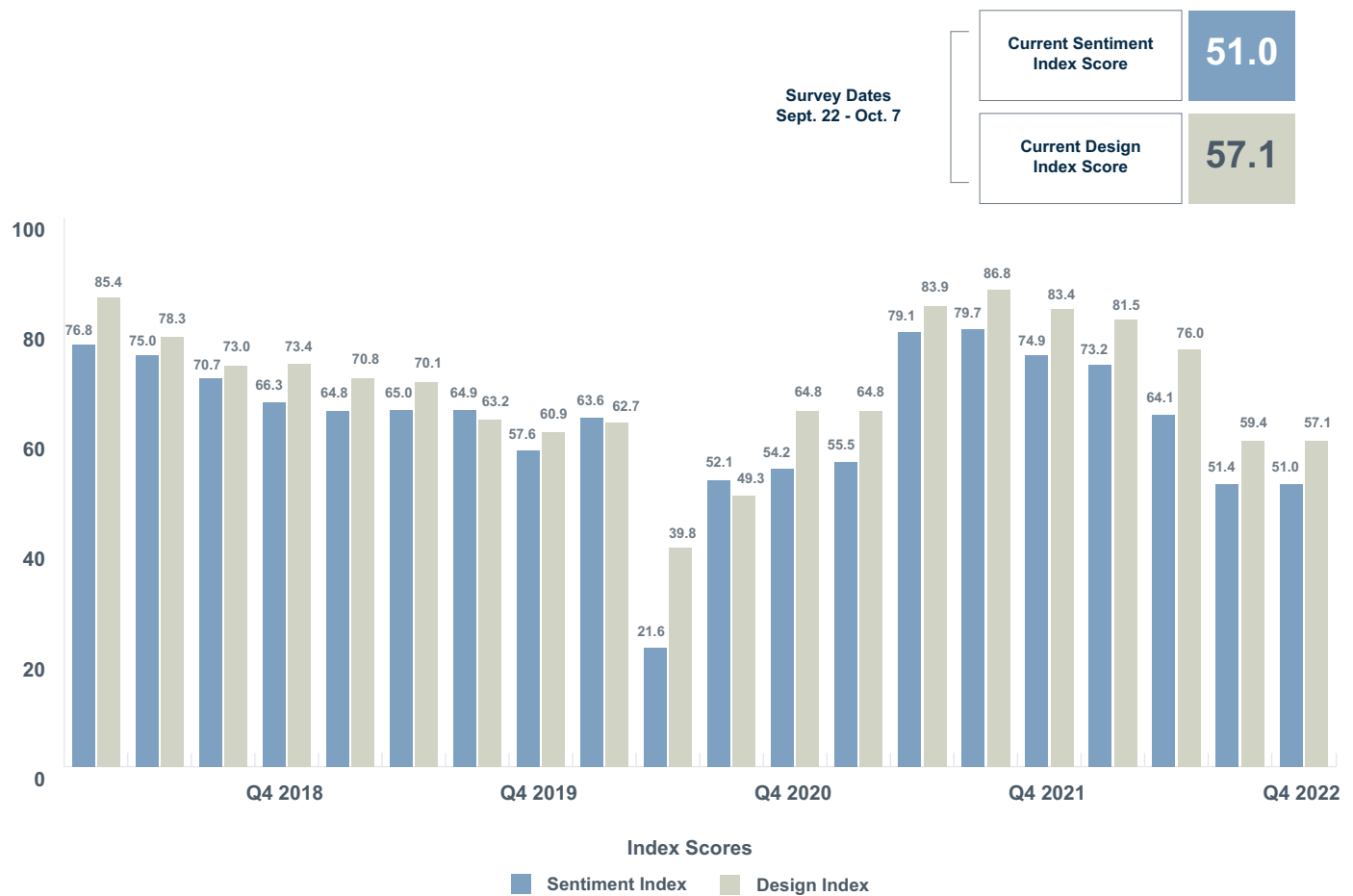
INDEX MOVEMENT			
Sentiment Index		Design Index	
51.0		57.1	
		Q4 2022	Q3 2022
Overall U.S. Economy	↓	14.79	18.18
Economy Where We Do Business	↑	33.10	29.09
Our Construction Business	↑	67.82	64.29
Nonresidential Sector	↓	36.76	45.45
Backlog	↓	66.43	75.15
Cost of Labor	↓	88.03	93.64
Cost of Materials	↓	63.38	86.36
Productivity	↑	47.89	45.45

Through 2022 more than two-thirds of responding members experienced delayed project starts, regularly the result of owner-led issues tied to financing or the economic climate, and one-third experienced project cancellations. Both delays and cancellations have occurred most frequently across residential and mixed use, commercial and retail, office and lodging projects.

Regarding business growth trends over the past five years, members report significant progress in their organizations' ability to acquire and retain talent, develop and train their workforces, and strengthen internal human resource programs. Over the next five years, members anticipate the most significant business advancements will be driven from utilizing data and technology, but also ongoing change tied to talent acquisition, retention and workforce development programs. Similarly, members recognized the most significant challenge for future leaders will be acquiring and retaining talent.

Among the industries represented by CIRT's member base, transportation and heavy civil are the only two areas projected to experience short-term and long-term gains in design opportunities (as represented by growth figures reported above 3.5). Within construction, manufacturing was the only industry identified as an expanding opportunity over the short term, while long-term growth opportunities broaden to include transportation, public works and manufacturing as the three sectors above the 3.5 threshold.

CIRT Sentiment Index and Design Index Scores From Q1 2018 to Q4 2022





Local and National Economic Predictions for Next Quarter

The overall U.S. economy will:

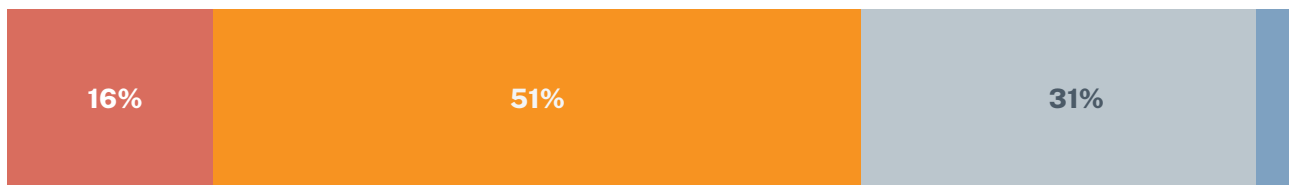


The economy where we do business will:

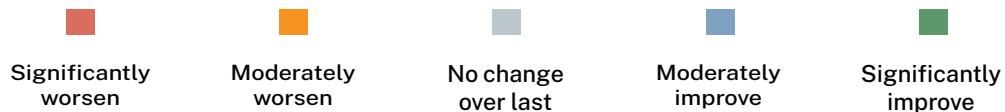


Expectations for the Residential and Nonresidential Building Markets for Next Quarter

Residential Building Construction Market

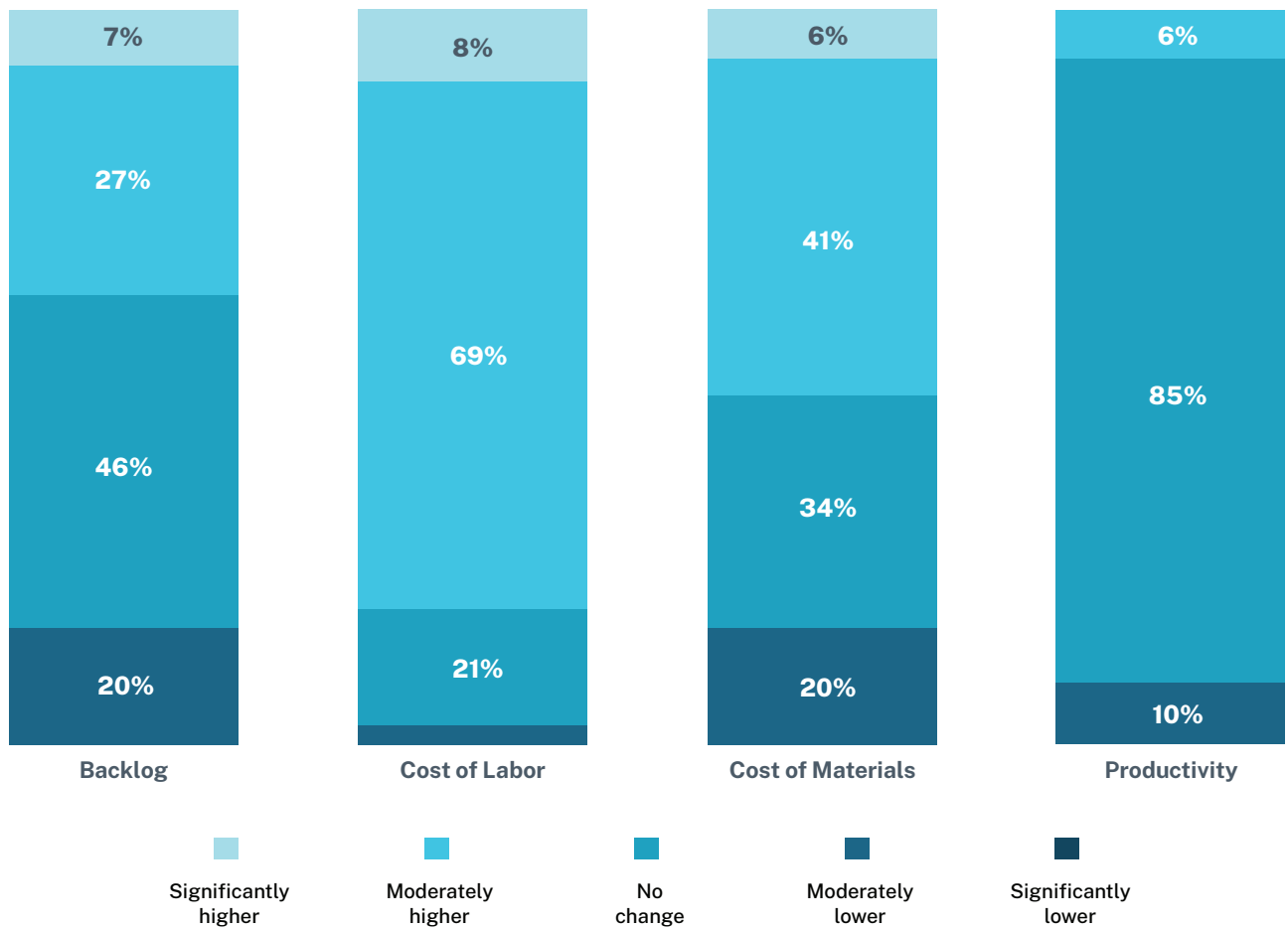


Nonresidential Building Construction Market



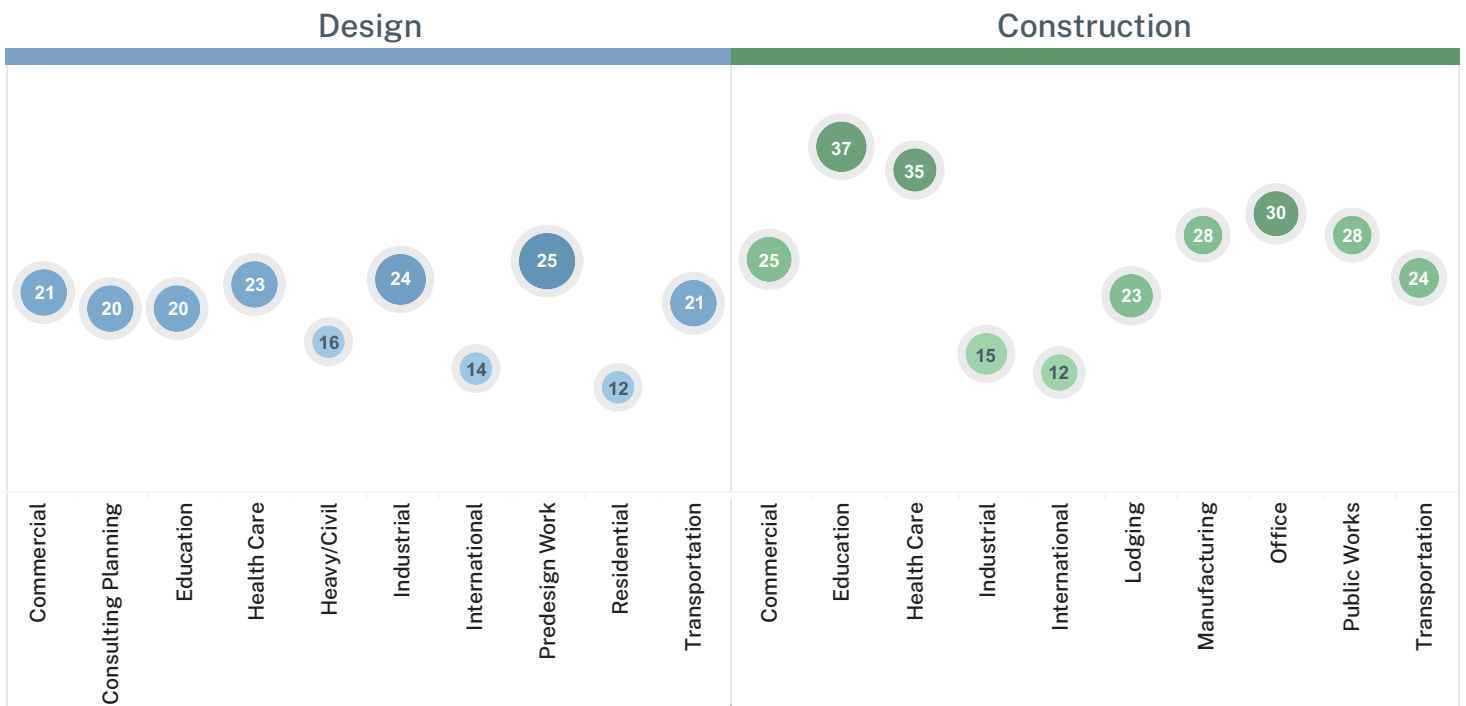


Construction Input Predictions for Next Quarter

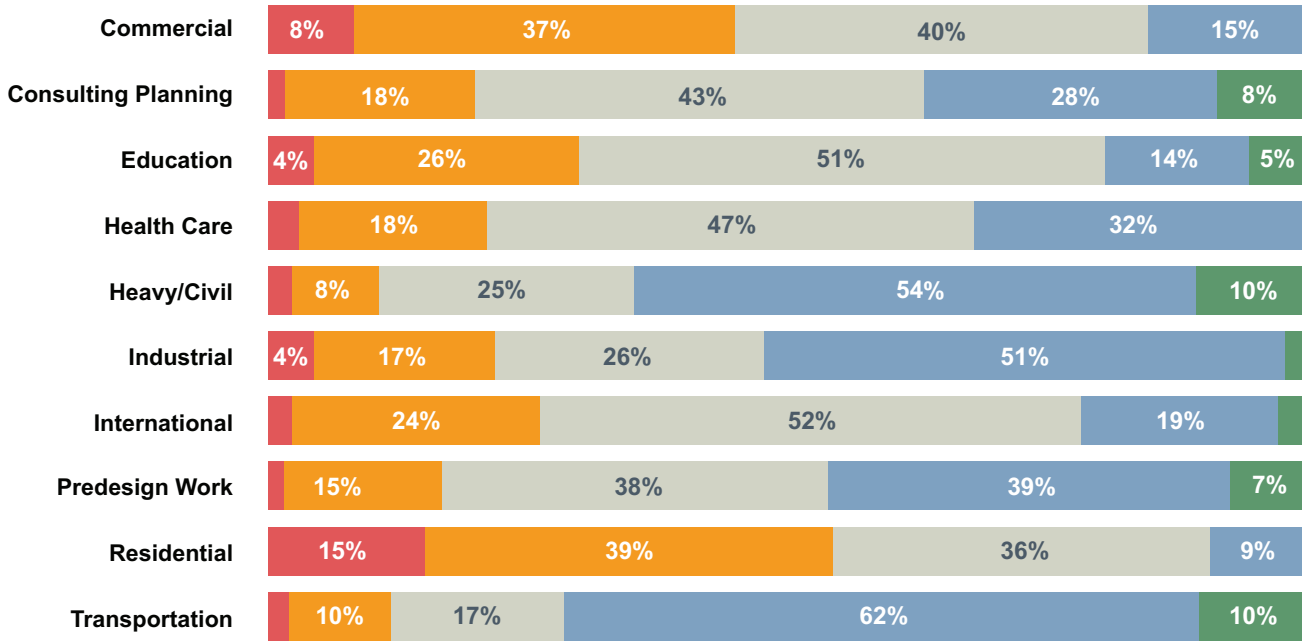




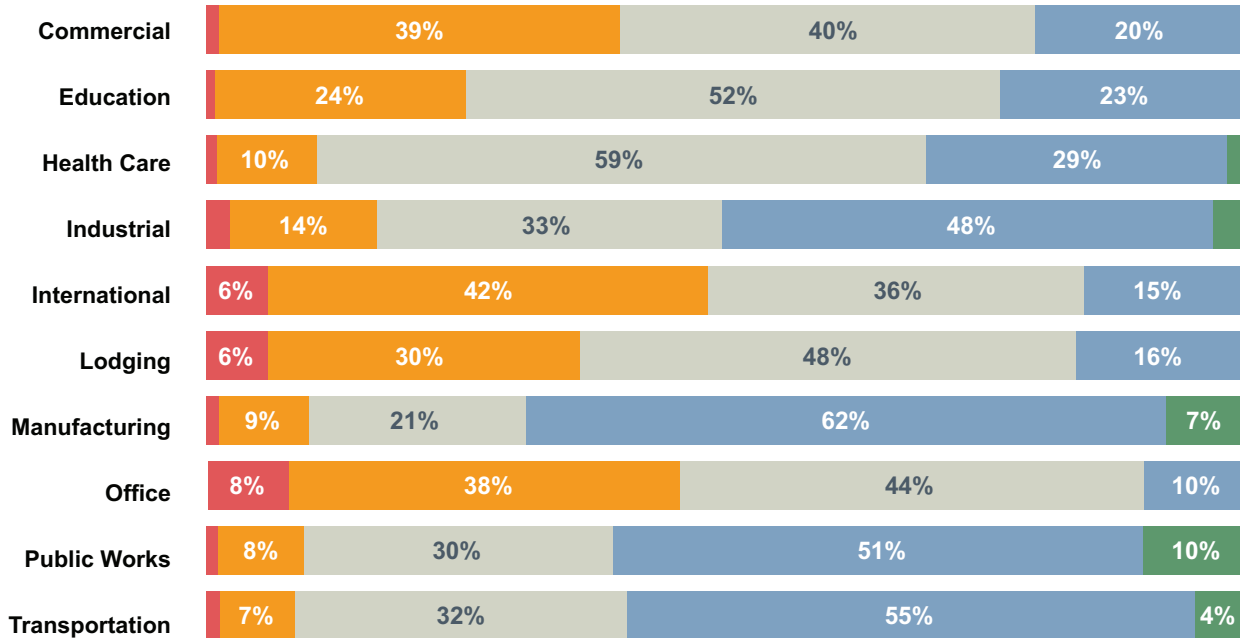
Member Profile: Number of CIRT Member Companies in Each Sector



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 backlog sensitivity, reasons for and areas of project disruptions, and business growth trends and challenges.



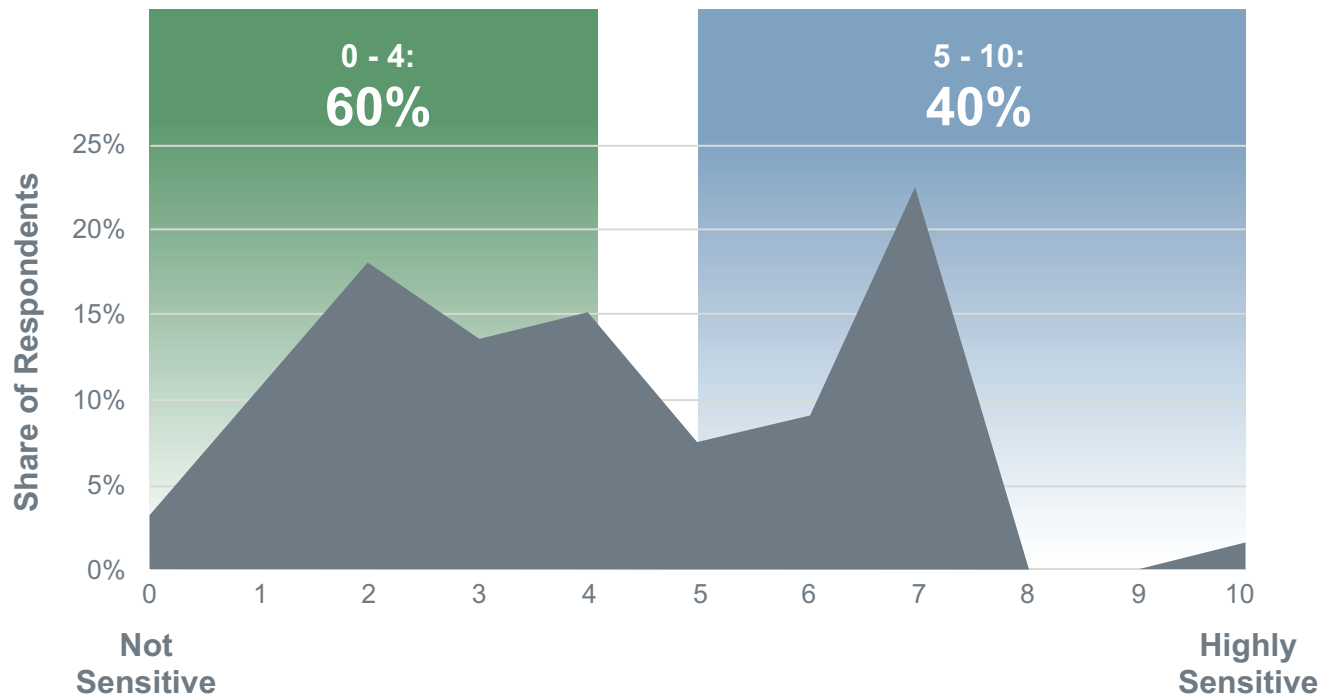


Interest Rate Sensitivity

Considering rising and elevated interest rates over the next 12 to 24 months, 60% of respondents indicated they had low or very low backlog sensitivity, as indicated with sensitivity rankings under five. However, this still leaves a large portion (40%) of members with modest or elevated backlog sensitivity levels, suggesting the potential for lasting market risk over the next several years.

How sensitive is your current backlog given that interest rates are likely to rise in the next 12 to 24 months?

(Zero is not sensitive at all with no expected delays and/or cancellations, and a 10 is highly sensitive indicating a high risk or likelihood of delays and/or cancellations).



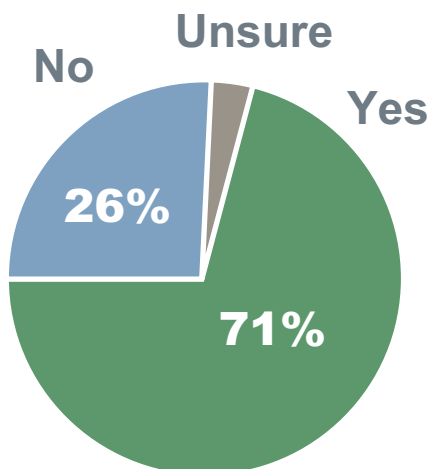


Project Delays

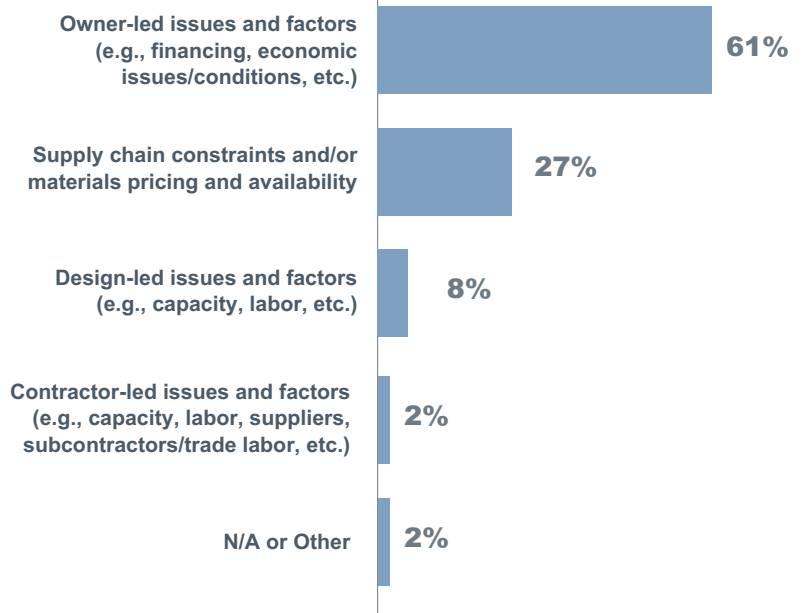
A majority of responding members, or 71%, reported delayed project starts (i.e., delays that occurred during preconstruction) through 2022. The most cited reasons for those delays suggest owner-led issues (61%) through financing and/or economic conditions and supply chain constraints (27%) tied to materials pricing and availability.

These delays were most frequently recognized in residential, multifamily and mixed use (43%); office (39%); commercial and retail (33%); and lodging (29%) projects. Conversely, only a small handful of members cited delays related to international clients or markets (6%), data centers (12%) and warehouse (14%) projects.

Have you experienced delayed project starts in 2022



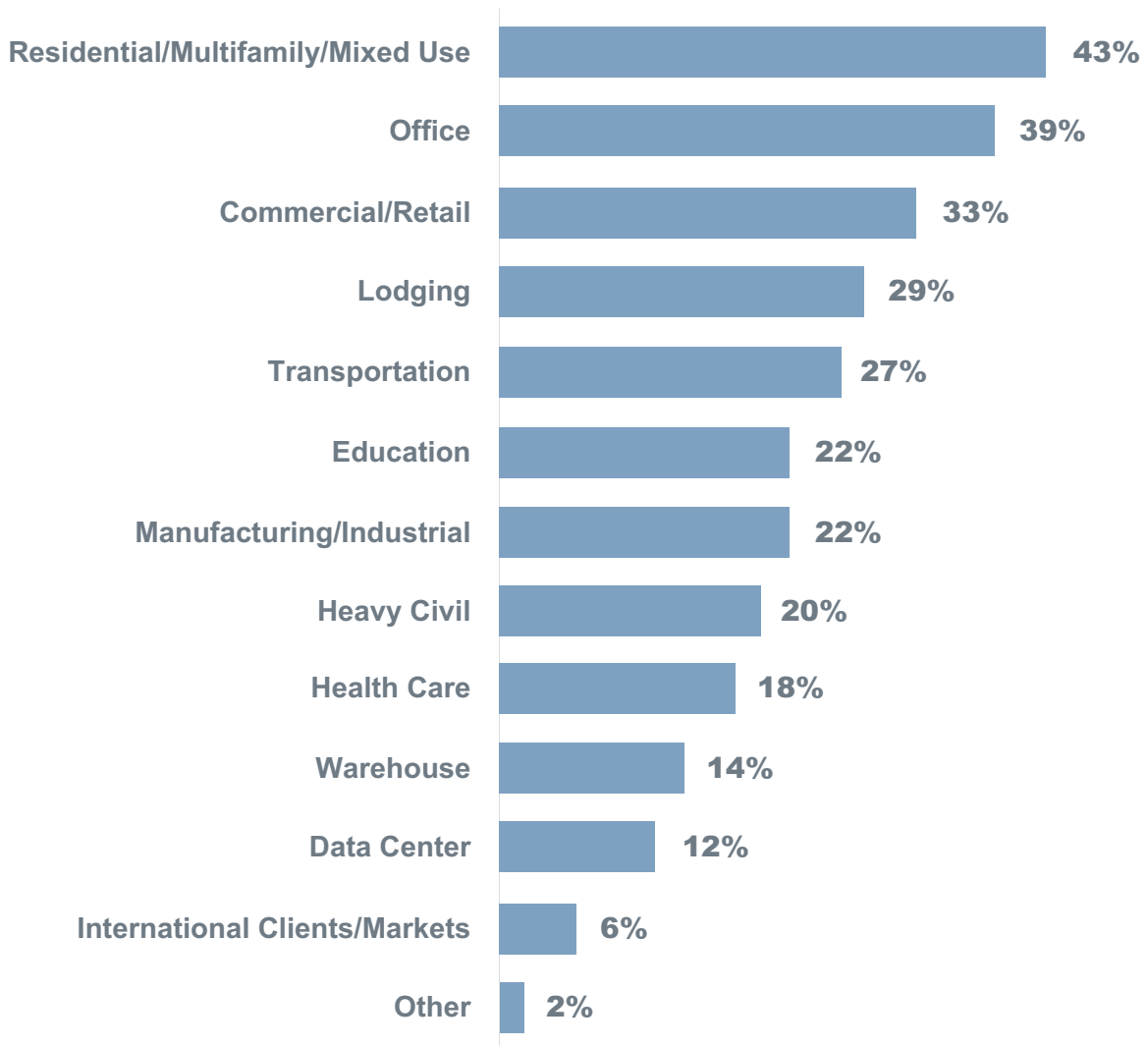
If yes, what is the most common reason you have seen project starts delayed for those that have been awarded?



Project Delays

If yes, select all the segments where delays have disrupted starts in 2022

Frequency of Response



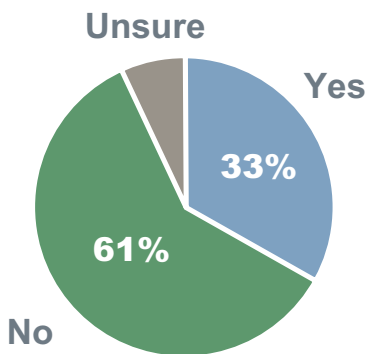


Project Cancellations

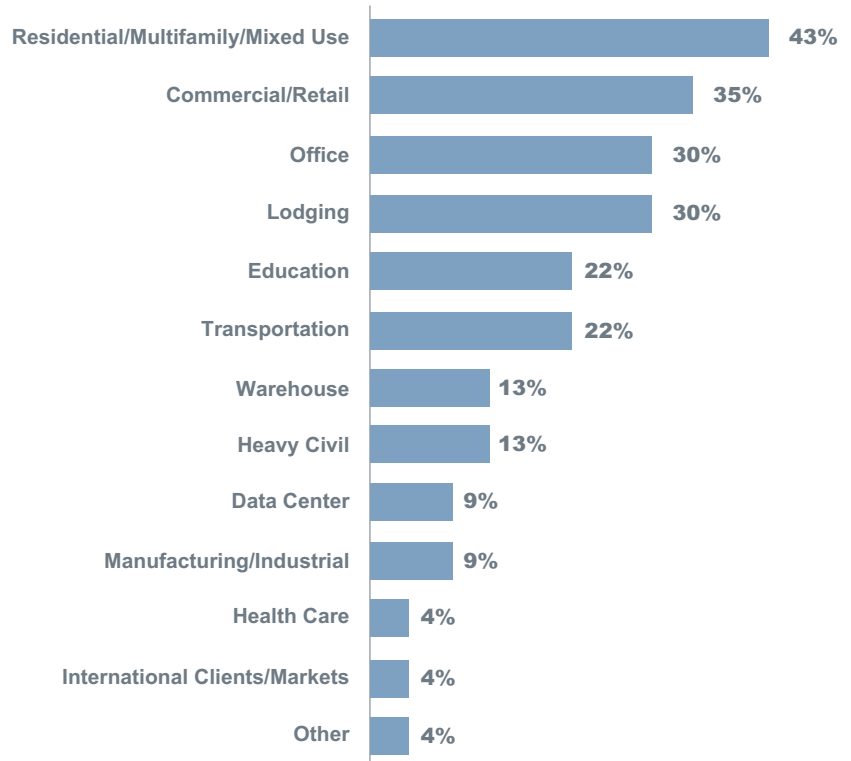
Far fewer members reported canceled projects through 2022. Of the one third, or 33%, of respondents who reported cancellations, incidents were most common in residential, multifamily and mixed use (43%); commercial and retail (35%); office (30%); and lodging (30%) projects. Cancellations were least common in health care (4%), international markets (4%), manufacturing and industrial (9%), and data center (9%) projects.

Have you experienced any project cancellations in 2022 due to changing economic factors and conditions?

If yes, select all the segments where cancellations have occurred in 2022.



Frequency of Response

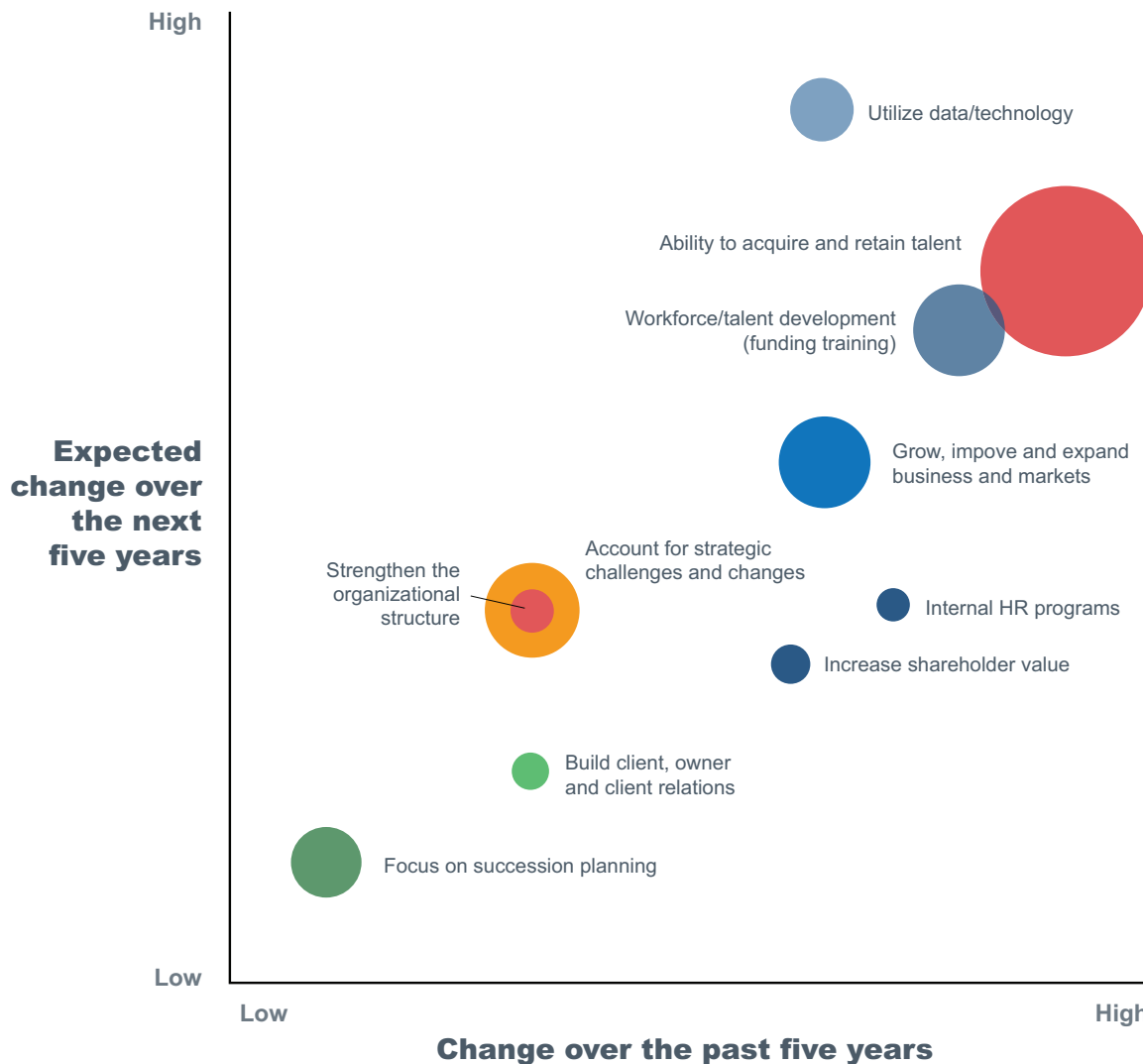


Business Growth Trends

Members were asked a series of questions related to the significance of change on various parts of their business over the past five years, expected significance of change over the next five years, and anticipated challenges for future leadership.

Over the past five years, most members have seen significant advancements in their ability to acquire and retain talent, workforce and talent development, and internal human resource programs. Over the next five years, while most anticipate significant change driven from the utilization of data and technology, members maintain high expectations for ongoing evolution across talent acquisition, retention and workforce development programs. Similarly, members reported the biggest challenge for future leaders would be their abilities to acquire and retain talent.

Size of the bubble indicates expected significance of the challenge for future leaders. A larger bubble illustrates a bigger challenge.



This series of questions also included feedback on management of cash flow, account for external, legal, legislative and regulatory compliance, corporate community activity, external stakeholder management, and maintaining core values and principles. Significance levels for each (on all accounts) were considerably lower than the factors charted above.

DESIGN OUTLOOK

Industry	Design Sector Business Outlook		
	Next Quarter	Six Months From Now	One Year From Now
Commercial	2.75	2.60	2.50
Consulting Planning	3.15	3.25	3.30
Education	3.05	2.89	2.79
Health Care	3.18	3.09	2.95
Heavy/Civil	3.50	3.63	3.75
Industrial	3.30	3.26	3.26
International	2.86	2.93	3.07
Pre-design Work	3.33	3.38	3.33
Residential	2.36	2.45	2.36
Transportation	3.55	3.60	3.90

CONSTRUCTION OUTLOOK

Industry	Construction Sector Business Outlook		
	Next Quarter	Six Months From Now	One Year From Now
Commercial	2.80	2.68	2.88
Education	3.03	2.92	2.97
Health Care	3.21	3.15	3.24
Industrial	3.36	3.36	3.29
International	2.55	2.55	2.73
Lodging	2.83	2.74	2.65
Manufacturing	3.67	3.67	3.63
Office	2.59	2.52	2.59
Public Works	3.32	3.68	3.79
Transportation	3.35	3.52	3.74

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.



FMI is a leading consulting and investment banking firm dedicated to serving companies working within the built environment. Our professionals are industry insiders who understand your operating environment, challenges and opportunities. FMI's sector expertise and broad range of solutions help our clients discover value drivers, build resilient teams, streamline operations, grow with confidence and sell with optimal results.

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