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Economics Group

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Architecture Billings Advance in June

The Architecture Billings Index (ABI) climbed 1.2 points in June to 54.2, marking the strongest reading in the second quarter. Residential surged to a 12-month high and nonresidential sectors posted modest scores.

Nonresidential Score Points to Modest Gains

Despite reported shortages of construction workers and rising material prices, billings for construction design services advanced in June, marking the fifth straight increase in monthly billings. At 52.7 in June, the score on a three-month moving average basis is consistent with modest expenditures in total private construction spending in nine to 12 months. Extending an almost five year stretch of positive billings, architectural services in the South posted a still-strong reading of 54.8 but eased on the month. Billings in the Northeast rebounded from its below-threshold reading of 46.5 in May to 51.5 in June, while the Midwest and West climbed to 51.9 and 53.1, respectively.

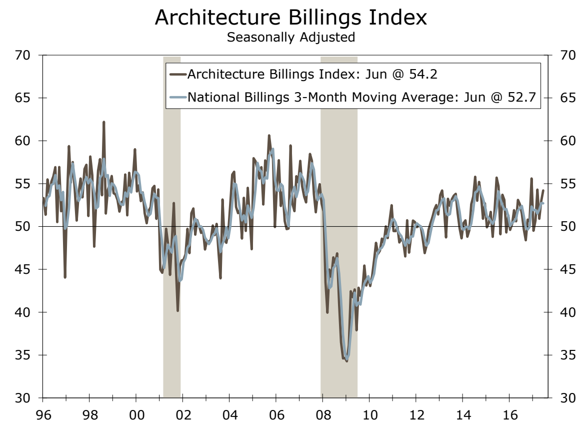
Sector performance also suggests some strength in private residential (mostly multifamily) and nonresidential (institutional and commercial/industrial) sectors through the end of the year. That said, improvement in overall construction is moderating, and strength will be nuanced. In fact, residential jumped to its highest level in 10 months, which is a head-scratcher given the cooling trend in multifamily operating fundamentals.

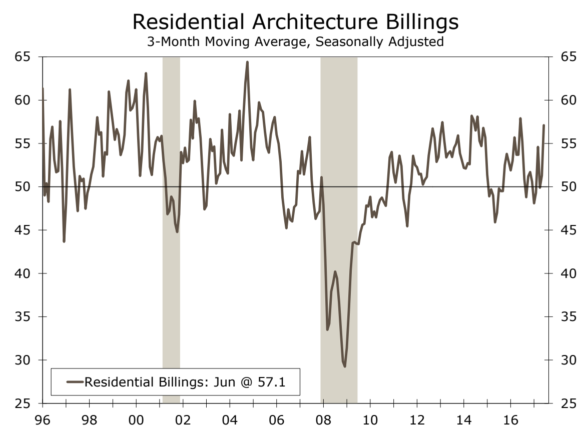
Indeed, the apartment occupancy rate has slowed from its cycle peak reached in mid-2014, and rental growth is well off its high of 5.5 percent reached in 2015, at 2.3 percent in Q1, according to data from CoStar. A comment noted in the release by a residential firm gives a good synopsis of the industry: “Activity is strong in core sectors, but costs to construct are increasing and it is more difficult to get projects started. There is more analysis and start/stop in developer processes than ever before."

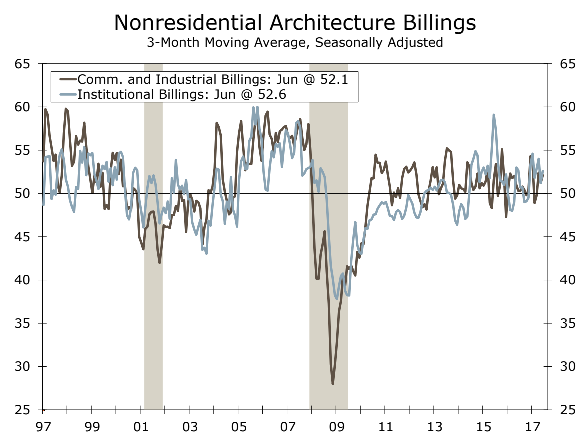
Nonresidential sectors also improved during the month with institutional (health care, education, religious, public safety, amusement/recreation, and communication) rising to 52.6 in June from 51.2 and commercial/ industrial (office, lodging, retail and warehouse) climbing to 52.1 from 51.2. Through the first five months of the year, private institutional construction spending has moderated and is up just 4 percent in May relative to a year earlier, while commercial remains strong, advancing 17.1 percent. Strength is nuanced, however, with office, warehouse and sports centers making the largest contribution to growth. Spending on new manufacturing facilities has also slowed, with activity since January down almost 8 percent year-over-year. With only modest readings in the nonresidential sectors, private construction spending will also moderate.

Special Question: Firms’ Hiring Needs

This month’s special question was about hiring needs at architecture firms and incentives to attract new workers. The results suggest that most firms, six in 10, recently hired or are looking to hire new employees, with large firms showing the greatest need.







Source: The American Institute of Architects and Wells Fargo Securities

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