



2023 CIRT SENTIMENT INDEX

Second Quarter Report



May 2023



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

EXECUTIVE SUMMARY

The CIRT Sentiment Index is down slightly in the second quarter of 2023, falling to 52.8 from 53.3 in the first quarter. The Design Index rose to 68.5 from 66.8 in the first quarter, indicating there is slightly more optimism about projects that haven't reached the construction phase.

Just before the second quarter survey was released, the market saw several significant bank failures and consolidations, including Signature Bank, Silicon Valley Bank and Credit Suisse. Tied to the Federal Reserve's aggressive rate hikes and the resultant repricing of assets, these failures fueled uncertainty and instability in financial markets. Concurrently, inflation measures have continued to moderate, the labor market is showing signs of softening, and commercial real estate lending concerns have swelled.

Index components illustrate a slight regression in sentiment toward the U.S. economy, the local economies where CIRT members operate, the overall nonresidential sector, and members' construction businesses. Conversely, sentiment improved modestly, considering members' backlogs and productivity. Increased optimism is most apparent in industrial and international construction, while transportation, public works and manufacturing all remained stable or improved when comparing segment perceptions from last quarter. Design segment perceptions saw the largest gains across consulting planning, heavy civil and transportation.

Among the industries represented by CIRT's member base, there are now several projected to experience both short- and long-term gains in design opportunities (as represented by growth figures reported above 3.5), including transportation, heavy civil, consulting planning and pre-design work. Conversely, both commercial and residential design opportunities are expected to remain challenged through most of 2023. Manufacturing, industrial, public works and transportation are the four areas identified across construction with expanding opportunities over both the short term and long term. Office weakened from last quarter and is expected to remain challenged well into 2024.

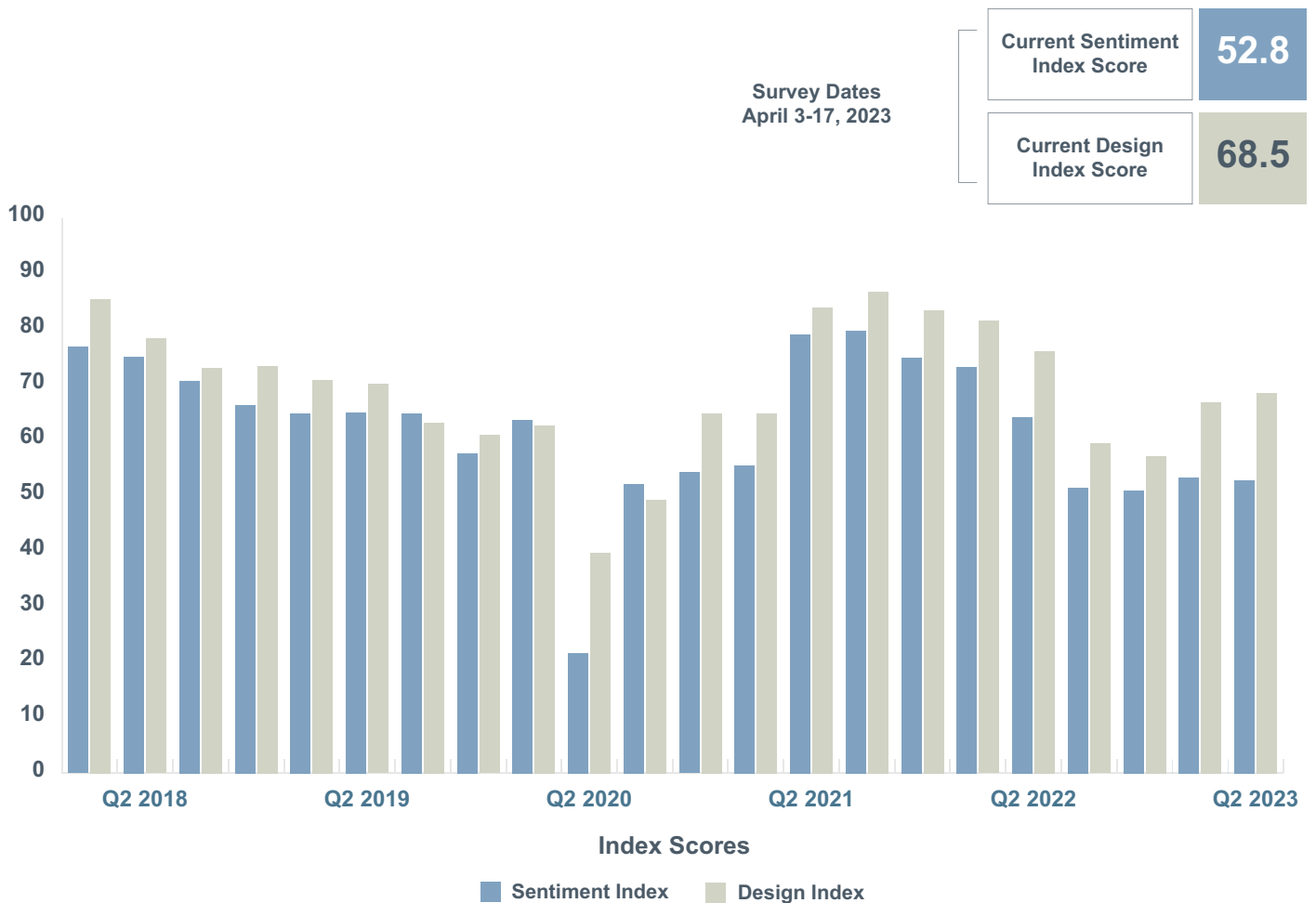
INDEX MOVEMENT			
Sentiment Index		Design Index	
52.8		68.5	
		Q2 2023	Q1 2023
Overall U.S. Economy	↓	29.49	29.71
Economy Where We Do Business	↓	42.95	44.20
Our Construction Business	↓	64.58	65.85
Nonresidential Sector	↓	46.05	51.49
Backlog	↑	62.82	61.35
Cost of Labor	↓	80.13	83.33
Cost of Materials	↑	60.26	55.80
Productivity	↑	48.08	44.93

CIRT members were asked this quarter to respond to current issues questions focused on lending standards expectations, experience with subcontractor defaults, employment policies and remote working. Considering the recent bank failures, nearly all respondents anticipate tightened lending standards for commercial real estate and construction, with the largest impacts in private commercial, private institutional and on projects of more than \$100 million.

Additionally, more than 1 in 3 respondents have recent experiences with subcontractor defaults, and the majority of those reported that both frequency (i.e., number/count) and severity (i.e., cost) have increased over the past year. Recent subcontractor defaults were most often attributed to supply chain and material prices escalations, subcontractors taking on too much work, and/or a lack of workers. In addressing defaults, the majority supplemented the subcontractors with additional resources (using either internal or external resources), and slightly more than half terminated and replaced the subcontractors.

Nearly two-thirds of respondents recently changed their hiring policies to respond to the desire to become more inclusive, diverse and equitable, with few being met with pushback, discontent or legal challenges. Additionally, nearly all respondents report some of their workers are now remote. A majority reported that the largest share of their remote /hybrid workforce is within their office personnel, and, on average, across all respondents, approximately 40% of office staff is working either remotely or partially in the office and partially at home.

CIRT Sentiment Index and Design Index Scores From Q1 2018 to Q2 2023





Local and National Economic Predictions for Next Quarter

The overall U.S. economy will:



The economy where we do business will:

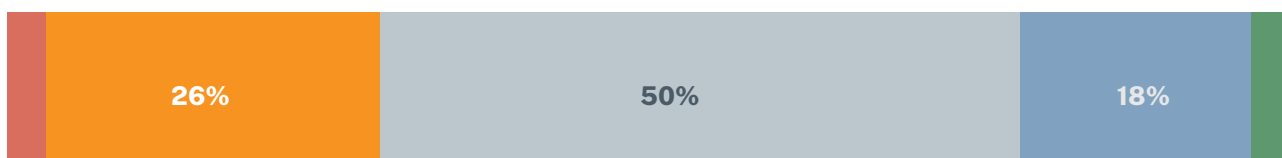


Expectations for the Residential and Nonresidential Building Markets for Next Quarter

Residential Building Construction Market

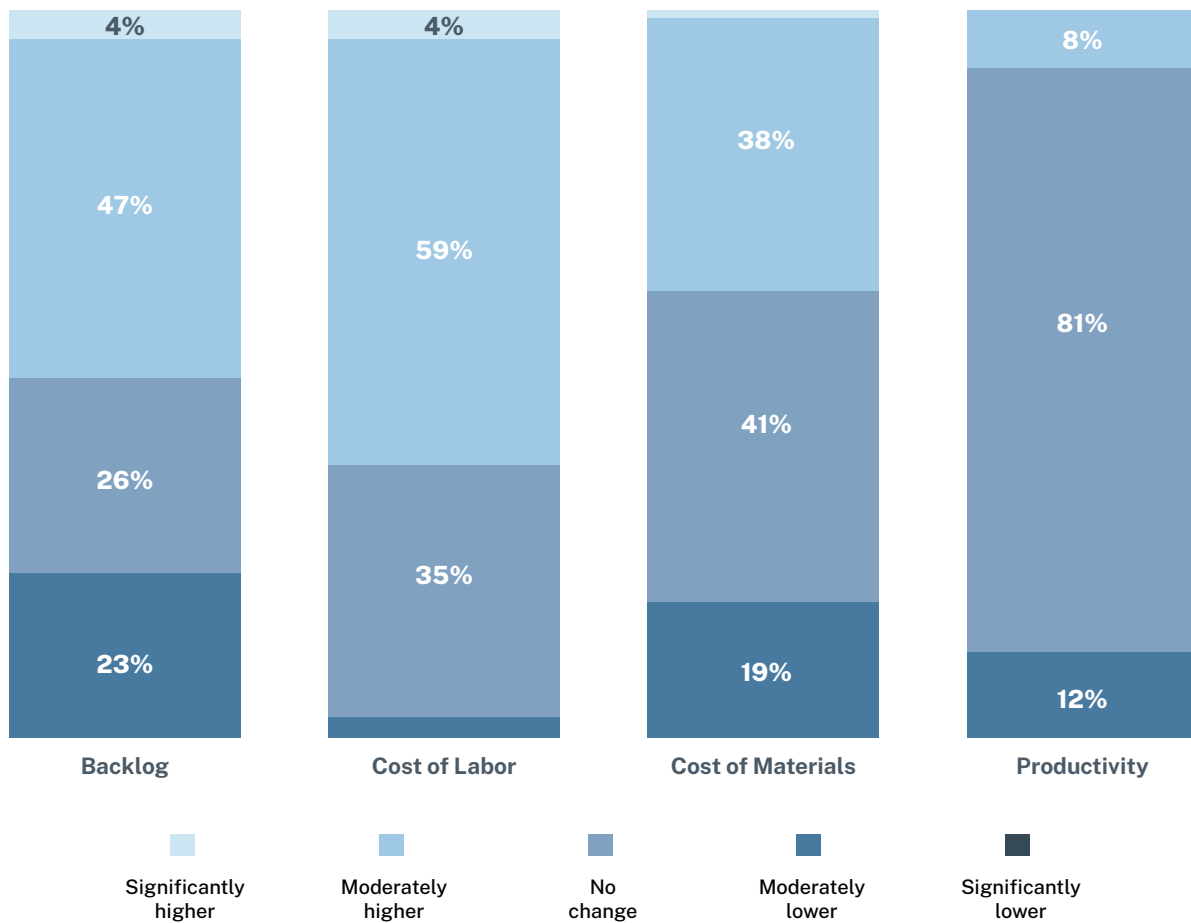


Nonresidential Building Construction Market



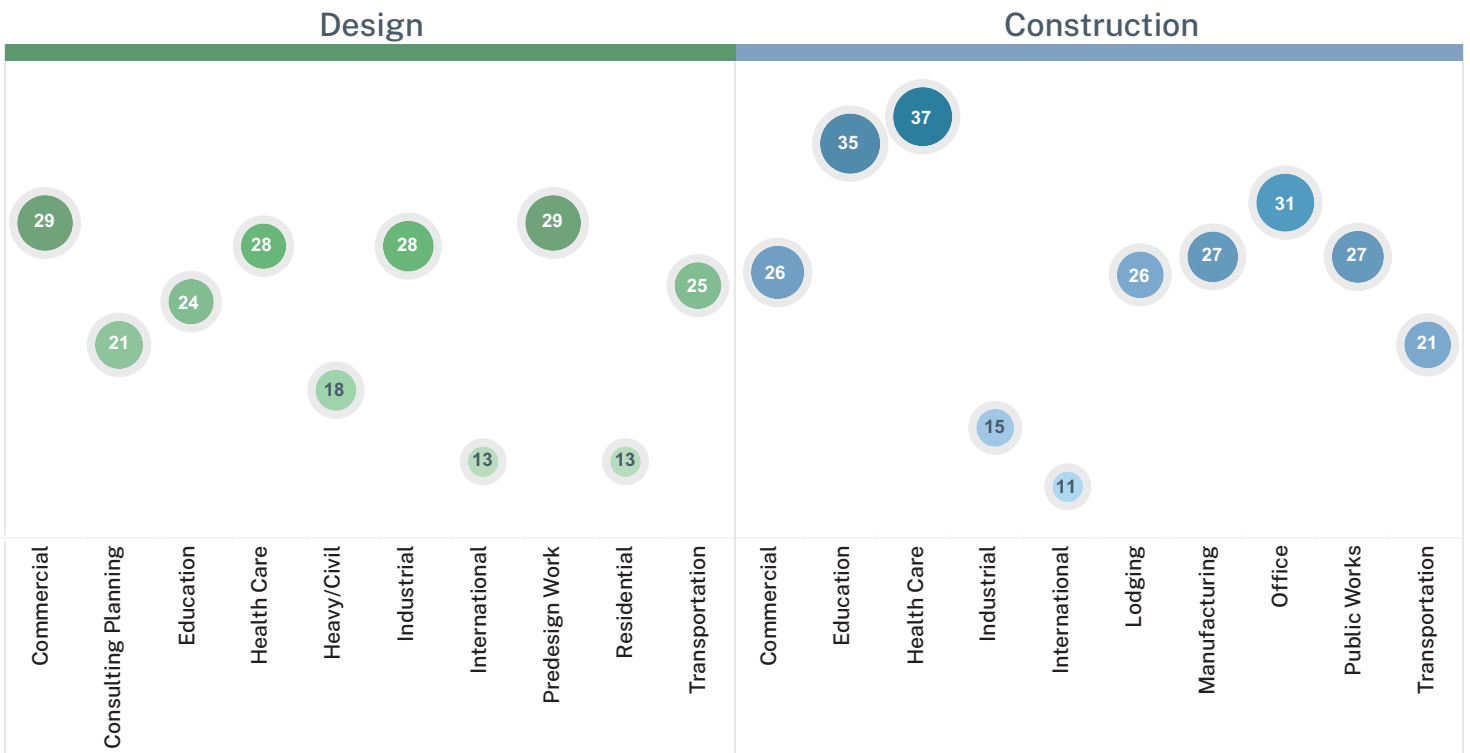


Construction Input Predictions for Next Quarter

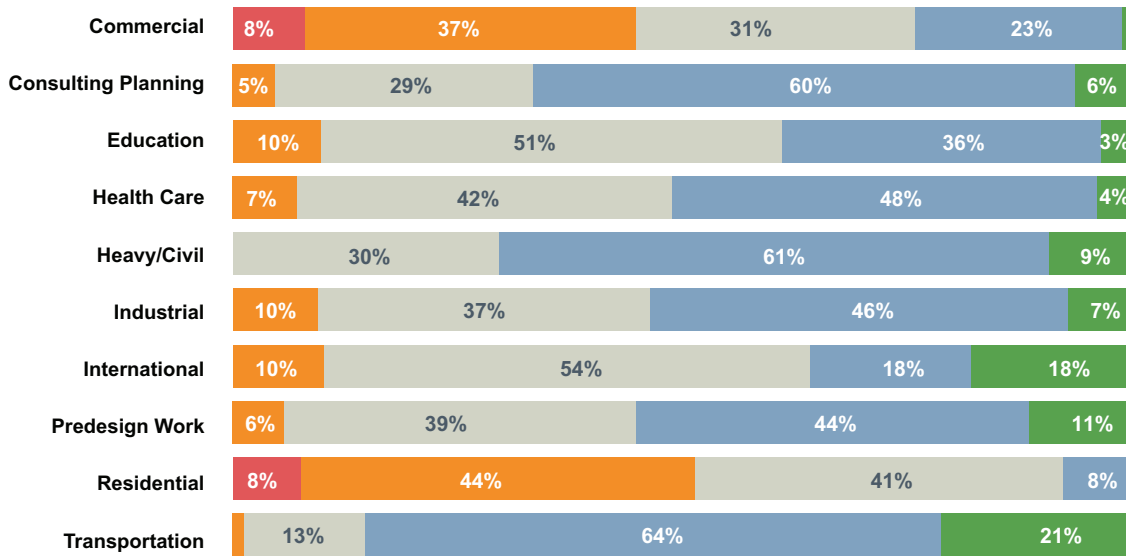




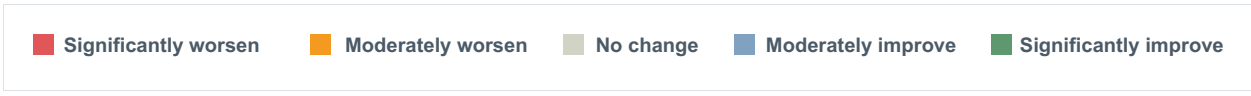
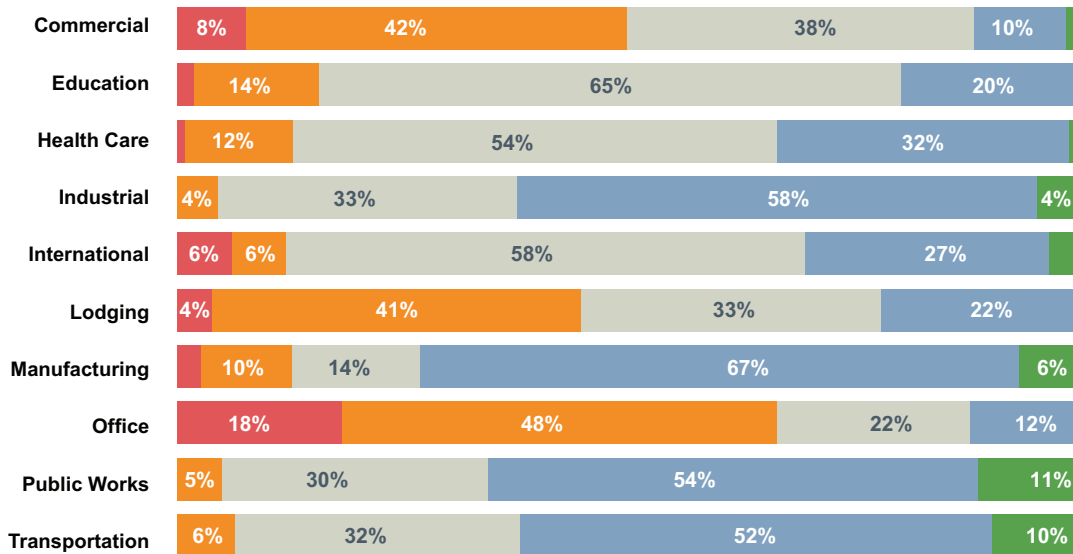
Member Profile: Number of CIRT Member Companies in Each Sector



Perception of Change for Next Quarter: Design



Perception of Change for Next Quarter: Construction





CURRENT TRENDS

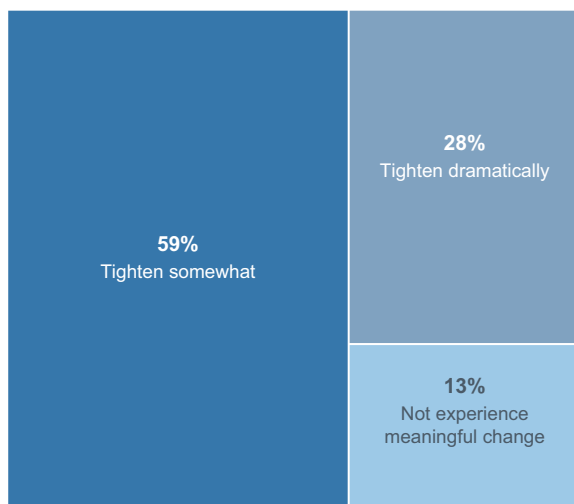
This quarter CIRT members were asked to respond to current issues questions focused on expectations around lending standards, experience with subcontractor defaults, employment policies and remote working.



Lending Standards

Recent banking failures set expectations among most of the survey participants, or 87%, that lending standards will tighten for commercial real estate and construction. Impacts are expected to be most obvious or predominant in the private commercial, private institutional, and the manufacturing and industrial sectors, as well as on projects greater than \$100 million.

Lending standards for commercial real estate and commercial construction will:

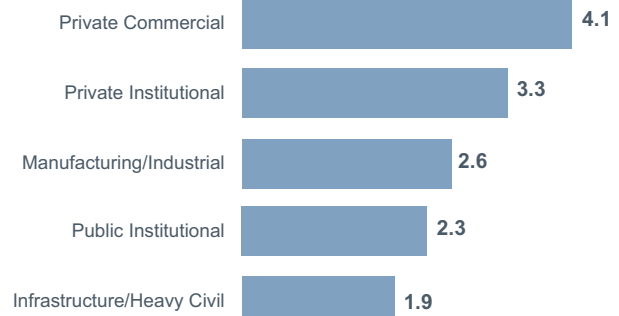


Expectations of tightening lending standards on the industry: (Scale: 1 = no impact, 5 = high impact)

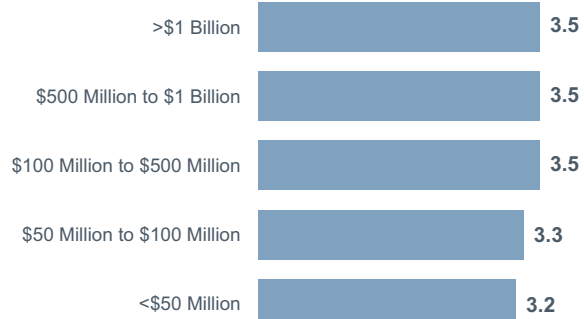
Future Work



Industry Sector



Project Size



Subcontractor Defaults

A substantial portion, or 36%, of CIRT respondents experienced subcontractor defaults within the past two years, and the majority reported that both default frequency (i.e., number/cost) and severity (i.e., costs) increased over the past year. Recent subcontractor defaults were most often attributed to supply chain and material prices escalations (60%), subcontractors taking on too much work (56%), and/or a lack of workers (52%).

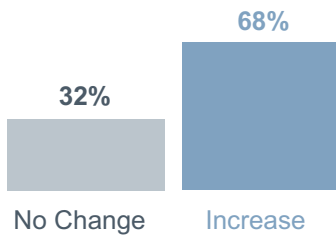
In addressing these defaults, the majority, or 84%, supplemented the subcontractor with additional resources, either internal or external, and slightly more than half (56%) terminated and replaced the subcontractor. Nearly 1 in 4 (24%) is finding through prequalification processes that subcontractor financial health has generally been deteriorating and slightly more than half (52%) expect defaults to increase over the next year.

Over the past 12 to 24 months, have you had experience with subcontractor defaults?

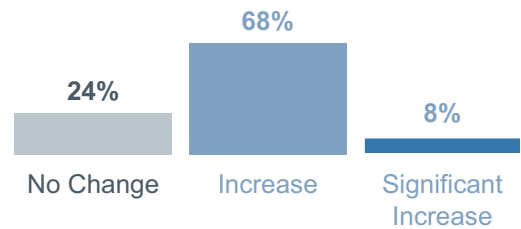


The following charts represent those who have recent experience with subcontractor defaults.

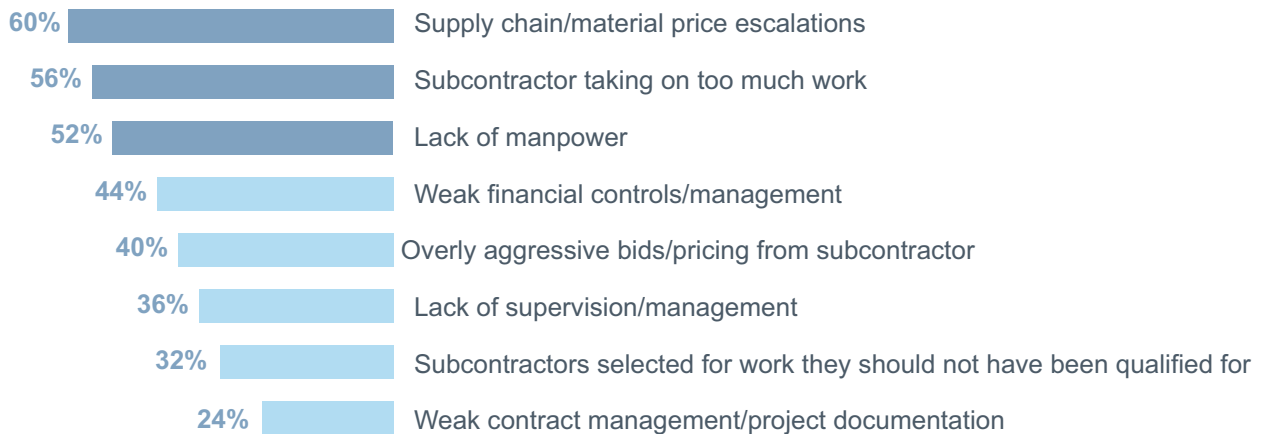
Over the past 12 months, describe the **frequency** (i.e., number/count) of subcontractor default.



Over the past 12 months, describe the **severity** (i.e., costs) of subcontractor default in your work program.



What are the leading factors in the defaults you have experienced or observed?

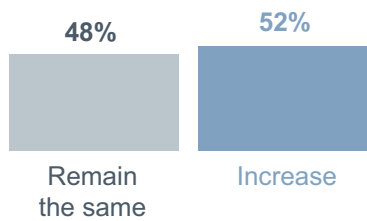




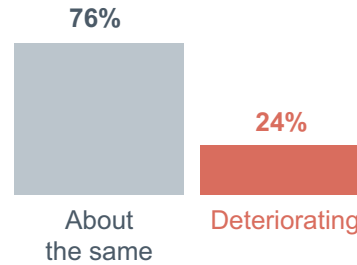
Subcontractor Defaults *continued ...*

The following charts represent those who have recent experience with subcontractor defaults.

Over the next 12 months, subcontractor defaults are expected to:



Based on your prequalification processes, subcontractor financial health has generally been:



If you have experienced a default within the past 24 months, what strategies have you used to address the challenge?

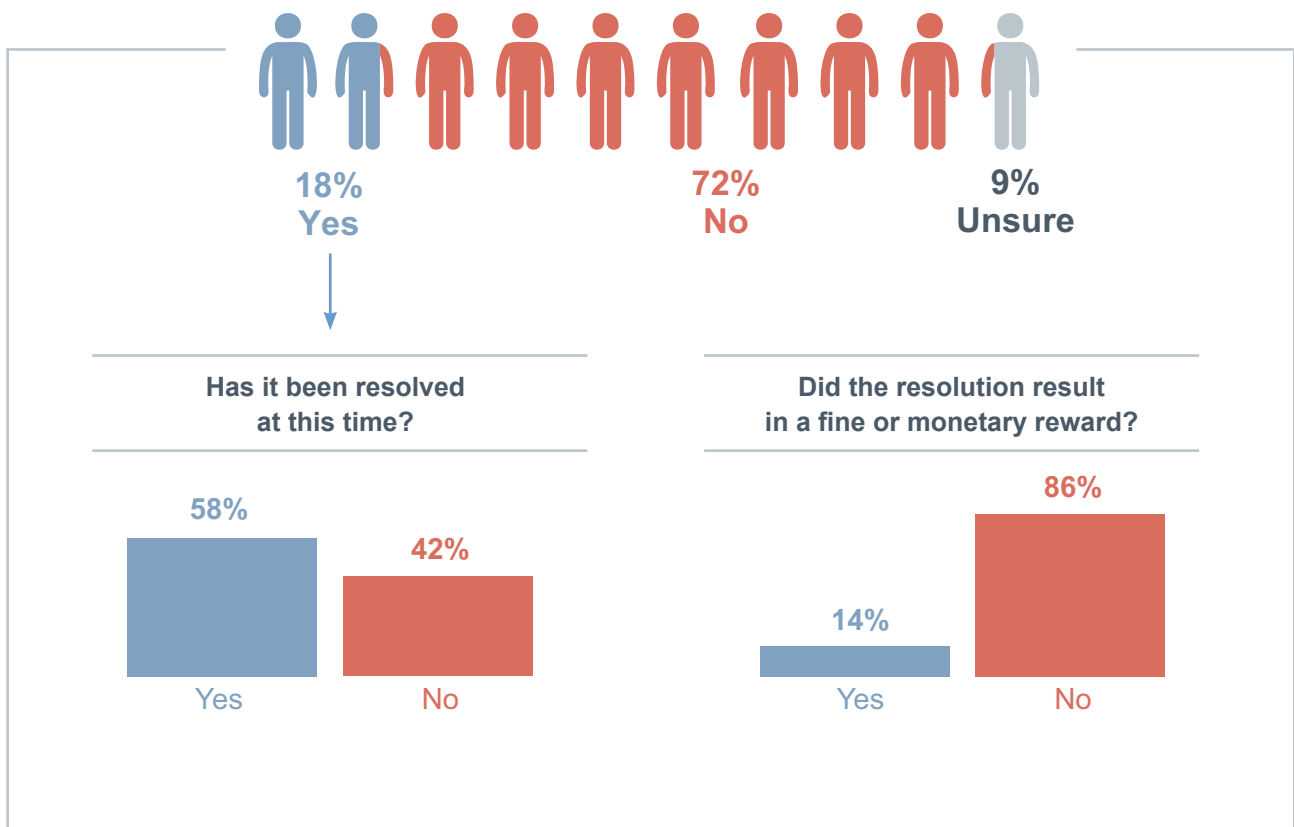




Employment Policies

Nearly two-thirds of respondents recently changed their hiring policies to respond to the desire to become more inclusive, diverse and equitable, with few being met with pushback, discontent or legal challenges. A minority of respondents (18%) have been subject to Equal Employment Opportunity Commission (EEOC) enforcement within the past 18 months, and most of those cases were resolved (58%), with few (14%) resulting in fines.

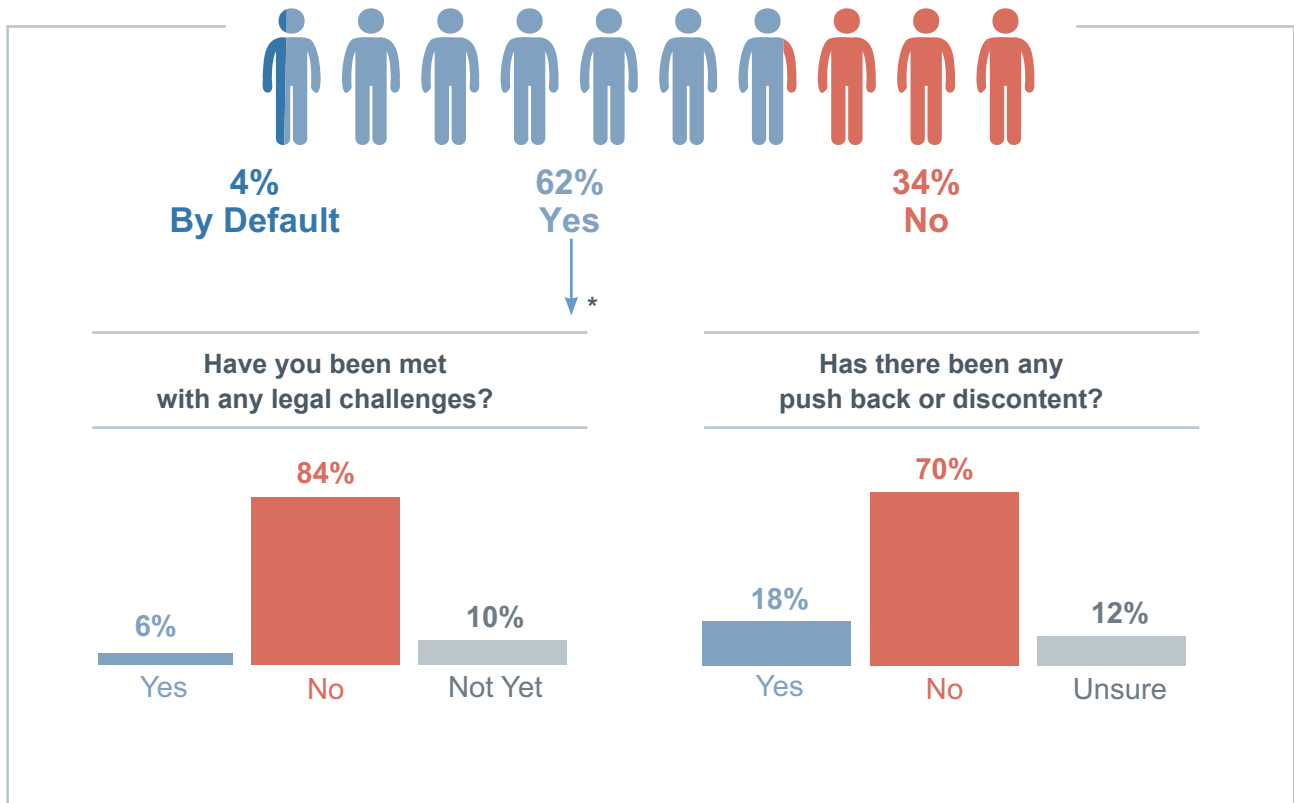
Have you been subject to an Equal Employment Opportunity Commission (EEOC) enforcement complaint, investigation or compliance audit etc., in the past 12-18 months?





Employment Policies *continued ...*

Have you changed intentionally or by default your hiring policies, questions, analysis and/or selection process to respond to the desire to be more inclusive, diverse, and equitable?



*Includes those who answered yes or by default.

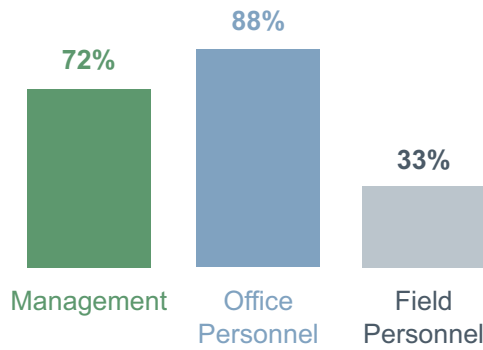


Remote/Hybrid Working

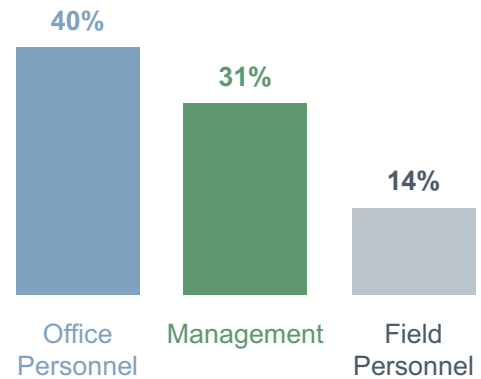
Remote is defined as at least one day per week.

Nearly all respondents, or 95%, have some portion of their labor working remotely. More than half of respondents, or 67%, said the largest share of remote workers is in their office personnel, and on average, across all respondents, 40% are working either remotely or partially in the office and at home. Conversely, only one-third (33%) of respondents report having any remote field staff.

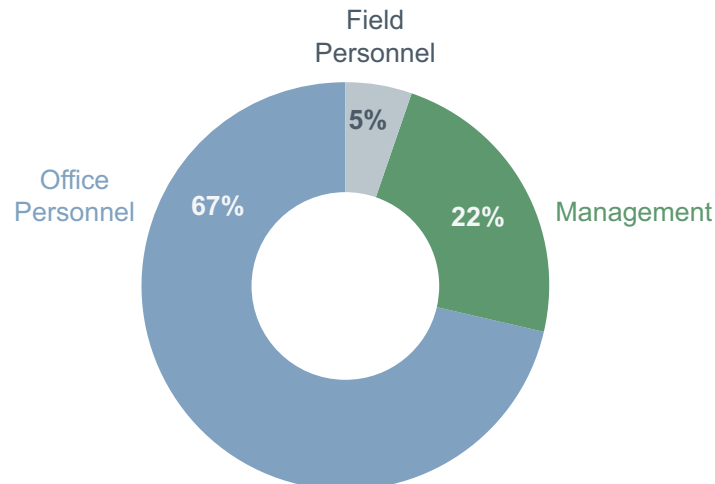
Share of respondents with any remote workforce



Approximately what percent of your workforce is remote



Respondents highest share of remote workforce



DESIGN OUTLOOK

Industry	Next Quarter	Six Months From Now	One Year From Now
Commercial	2.59	2.59	3.00
Consulting Planning	3.57	3.71	3.76
Education	3.33	3.25	3.38
Health Care	3.36	3.46	3.61
Heavy/Civil	3.72	3.78	3.89
Industrial	3.39	3.46	3.68
International	3.38	3.38	3.54
Predesign Work	3.55	3.59	3.69
Residential	2.46	2.31	2.69
Transportation	4.00	4.00	4.16

CONSTRUCTION OUTLOOK

Industry	Next Quarter	Six Months From Now	One Year From Now
Commercial	2.54	2.50	2.62
Education	3.00	3.00	3.06
Health Care	3.17	3.19	3.25
Industrial	3.60	3.60	3.67
International	3.00	3.09	3.36
Lodging	2.69	2.69	2.81
Manufacturing	3.65	3.65	3.62
Office	2.19	2.19	2.42
Public Works	3.56	3.70	3.89
Transportation	3.52	3.62	3.81

Darker shades indicate higher optimism.



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. Darker colors indicate higher optimism.



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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