

Construction levels show that America is in big trouble

by Randy Bright <http://www.tulsabeacon.com/?p=6324>

I have mentioned numerous times in this column that one of the best ways to predict an economic future is to look at our nation's architects. It is quite simple – if we aren't drawing buildings now, construction won't be happening six months from now.

The AIA (American Institute of Architects) recently released the results of their 2012 AIA Firm Survey, and it reflected what most of us already know: the American economy is in serious trouble.

According to the press release, "Total construction spending levels, which exceeded \$1 trillion in 2008, fell to under \$800 billion in 2011. As a result, gross revenue at architecture firms declined from more than \$44 billion in 2008 to \$26 billion by 2011, a 40 percent decline over this three-year period."

"Such a significant reduction in firm revenue produced a comparable reduction in employment. Construction payrolls peaked in early 2007 and steadily declined through mid-2011 due to the housing downturn. Since then, there has been very little recovery. Positions at architecture firms have generally followed the path of the broader construction industry. Due to the heavy reliance of architecture firms on nonresidential construction activity, payroll positions continued to grow through mid-2008. But at that point they dropped sharply through early 2011 and have not recovered much since."

"Between 2007 and 2011, more than 28 percent of positions at architecture firms disappeared, more than erasing the 18 percent increase in architecture positions seen during the 2003-2007 upturn."

The AIA tracks the economic health of member firms through a monthly monitoring system called the Architecture Billing Index (ABI). The index is broken down into four regions that include western, southern, midwestern and northeastern states.

An index rating of 50 indicates that there is no change in billings from the previous month. A score above 50 indicates an increase in billings, and a score below 50 indicates a decline. A graph on the AIA website indicates rollercoaster values above and below the 50 line.

Beginning in June of 2011, the score was 46.5, then in August of 2011, it rose briefly over the 50 line, then plummeted down to 47.3.

From October of 2011 to March of 2012, the scores rose slightly above the 50 line, then fell sharply back to 45.9.

These scores are an average of all four regions. At the end of the one year graph, western and northeastern regions scored the lowest, and the southern and midwestern states scored the highest. According to participants in the AIA index, there is a pent-up demand for projects. Clients want to build, but construction loans are not available, or they are not willing to proceed with construction after architects have done preliminary design work. Architects are also seeing delays in receiving payment for their services, having to wait up to 75 days.

The question, of course, is why are architectural firms seeing a downturn? The answer is - so obvious that the question is rhetorical – uncertainty.

The uncertainty stems from the coming elections in November, during which this country is going to discover whether it is still a republic, or whether it will become a socialist state. More so, the uncertainty regarding Obamacare lends even more lack of confidence for people to take an economic risk on projects involving construction. No one knows if Obamacare will still exist after January 20 of next year, no one knows what the rules are now, no one knows what the rules will be then, and no one knows how much more rulemaking will be done by this administration without the involvement of the legislature. Who can bet on that kind of future?

This week there has been much talk about “Taxmageddon,” which lends even more uncertainty to our economic future. Up until now, all businesses, not just architects, have survived by culling the least productive staff first, and more people as needed. Now individuals and corporations alike are looking at big changes in the tax structure that will require even more drastic changes, including going out of business. Business owners and professionals are already looking at early retirement, not willing to have their businesses drain their savings in an effort to stay afloat until the next election might bring relief.

All the more reason to believe that this election is one of the most, if not the most, pivotal election in our history. It is time to vote the current administration and its participants in this madness out of office, and to begin rebuilding this nation on its Constitutional principles.

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