



International business conditions at architecture firms continue to show gains in second quarter

While most business metrics remain positive, growth in new work coming into firms beginning to flatten out

International business activity at architecture firms saw modest growth in the second quarter of 2019 according to information supplied through the Global Architecture Billings Index (GABI). Of the thirteen countries and regions covered in the report, six reported aggregate growth in billings, four saw stable business conditions over the quarter, and three reported declines. Countries and regions reporting the strongest growth were Hong Kong, South America, the Middle East/North Africa (excluding Saudi Arabia and the United Arab Emirates), the U.S., Western Europe, and China. Countries and regions reporting the weakest business conditions include Sub-Saharan Africa, East Asia/Pacific (excluding China), and Canada. Firms working on projects in India, Korea, Saudi Arabia, and the United Arab Emirates reported stable business conditions in aggregate in the second quarter.

In addition to billings for design services, which is a measure of project work that they completed during the quarter, firms were asked to report on three other measures of business conditions at their firms: project backlogs, which is the amount of design work currently under contract but not currently billed, formal or informal inquiries for new projects, and recently signed contracts or letters of agreement to begin new projects. In all instances, an increase in activity is defined as an increase of 5% or more, a decline also as a drop of at least 5%, and stable as between a 5% decline and a 5% increase.

Across all reported areas for the Q2 GABI, almost 40% were reporting gains in project backlogs, with only 15% reporting declines. Over 60% of the geographies saw increases in project inquiries, with only half that share reporting declines. Finally, almost 40% of geographies reported increases in newly signed design contracts, while an equal share reported declines.

With two quarterly GABI reports, it is possible to begin to see some trends develop in business trends within a specific country or region. For example, four of the counties/regions covered by the GABI reported increases in design billings in both Q1 and Q2: China, Hong Kong, U.S., and South America. In contrast, only Sub-Saharan Africa reported declines in billings over both quarters.

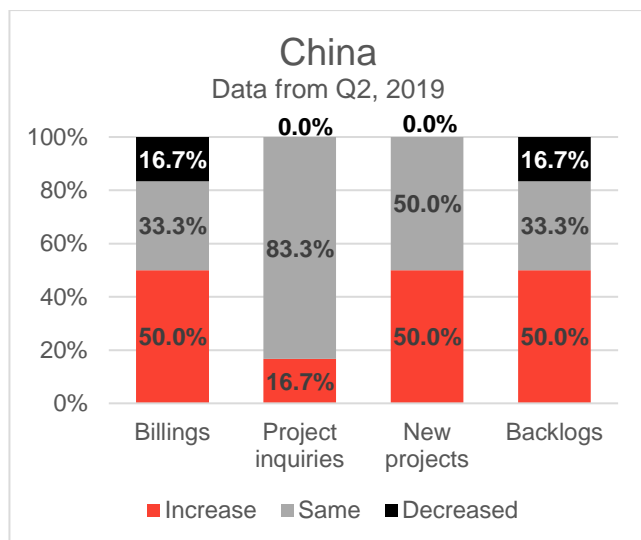
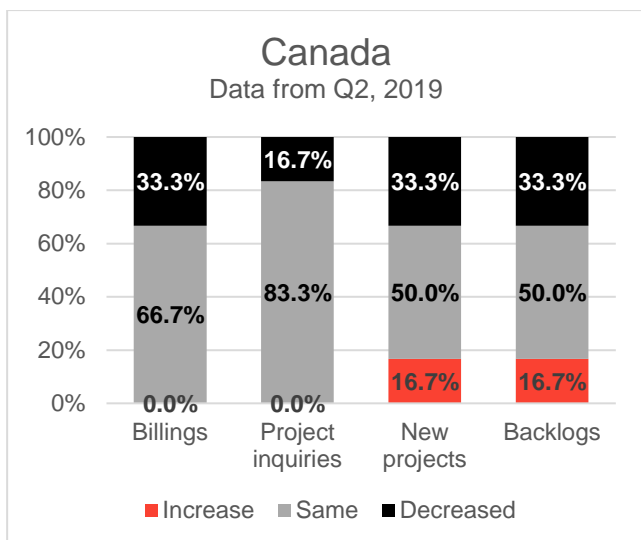
In summary, the international design market is still seeing slow but measurable aggregate growth. About twice as many areas are reporting increases in design billings as are reporting declines. Additionally, several of the areas reporting billings increases – China, Western Europe, the U.S. – report for an outsized share of the

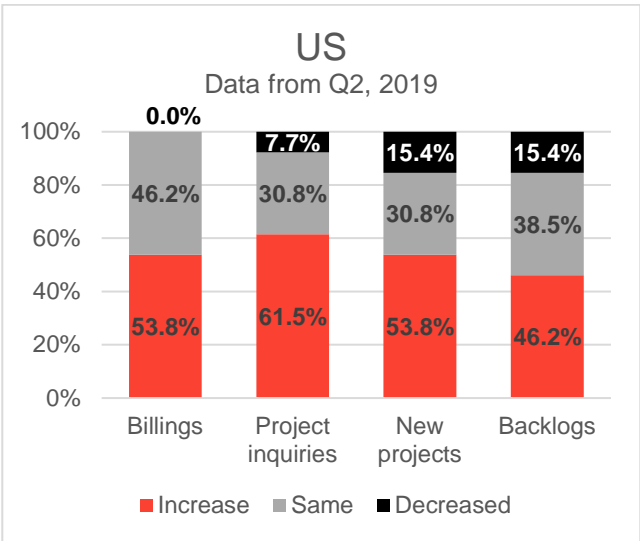
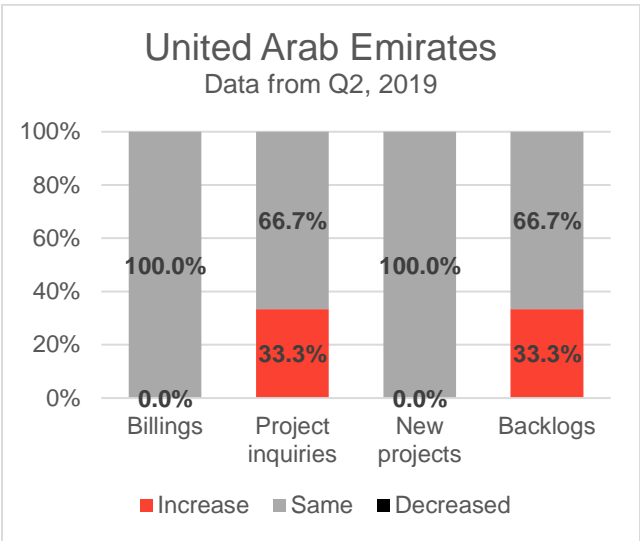
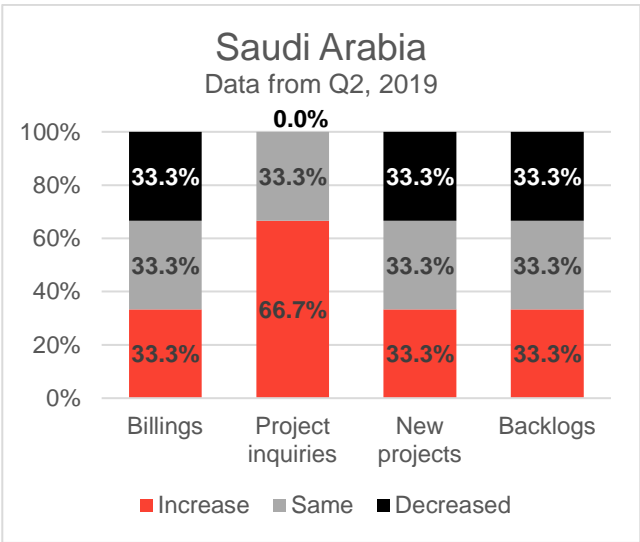
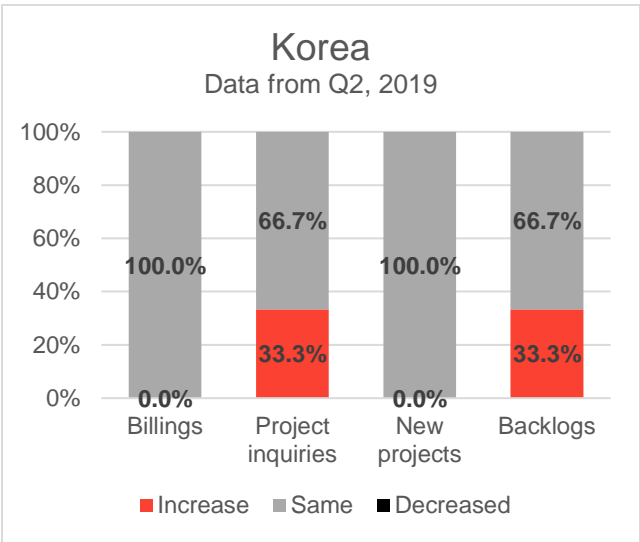
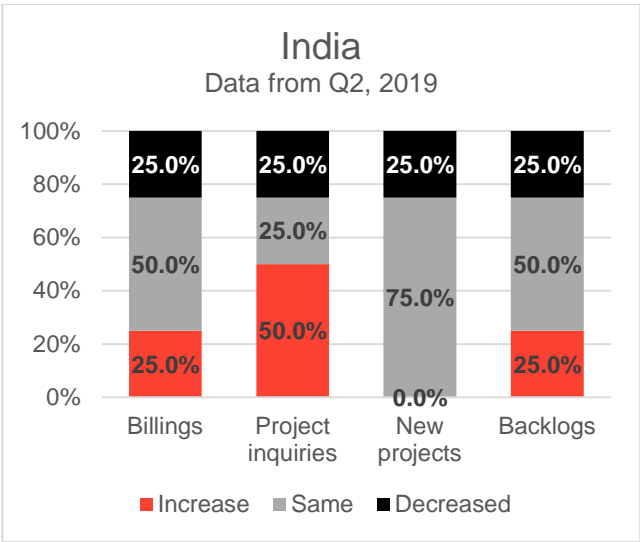
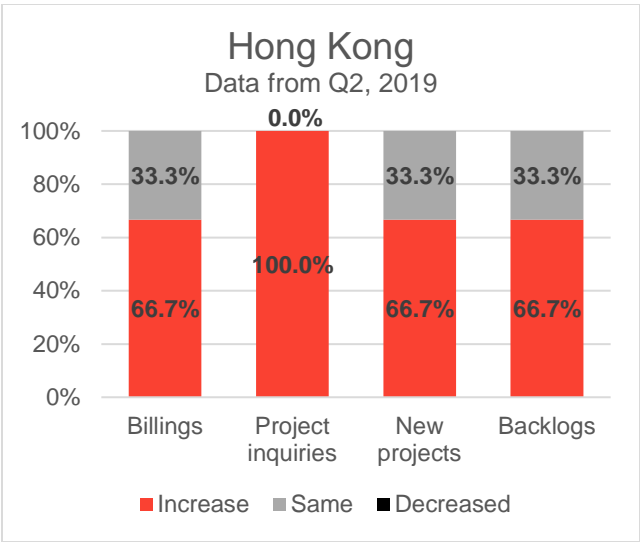
world's construction activity. However, one note of caution is that the weakest indicator tracked this quarter is new design contracts at architecture firms. As many areas are reporting declines in new work coming into architecture firms as are reporting increases, suggesting that a slowdown in the pace of growth in design activity may lie ahead.

Summary of business trends at architecture firms by country or region:

1. **Canada** – Billings reported as declining, and all other design business indicators saw modest declines.
2. **China** – All business indicators reported as very healthy.
3. **Hong Kong** – All business indicators reported as extremely robust for Q2.
4. **India** – Billings and backlogs were stable in Q2; new project inquiries increased, but new design contracts declined.
5. **Korea** – Backlogs and inquiries increased a bit, but all other indicators were stable.
6. **Saudi Arabia** – Project inquiries increased, but other design indicators were flat for the month.
7. **United Arab Emirates** – Backlogs and project inquiries increased, but other indicators were stable.
8. **U.S.** – Respondents reported healthy growth across all major design business indicators.
9. **South America** – Project backlogs were stable, but other indicators showed healthy growth.
10. **Western Europe** – Billings increased, but other indicators declined in Q2.
11. **Middle East/North Africa (excluding Saudi Arabia, United Arab Emirates)** – Billings were particularly strong, backlogs were stable, and other indicators were healthy.
12. **Sub-Saharan Africa** – Project backlogs were stable, but other business indicators declined in Q2.
13. **East Asia/Pacific (excluding China)** – Backlogs were stable, but other indicators declined in Q2.

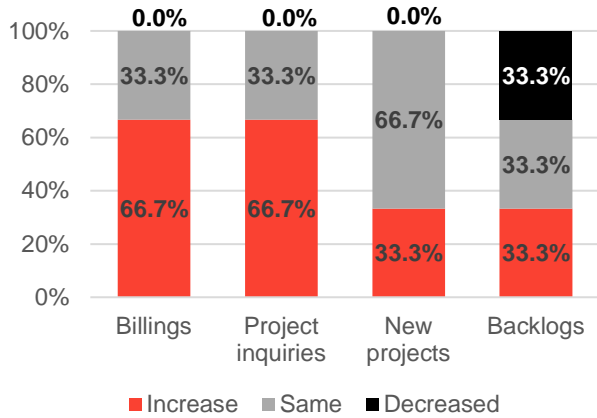
There were 67 responses to the GABI Q2-2019 survey (6 for Canada; 6 for China; 3 for Hong Kong; 4 for India; 3 for Korea; 3 for Saudi Arabia; 3 for United Arab Emirates; 13 for U.S.; 3 for South America; 4 for Western Europe; 3 for Middle East/North Africa (excluding Saudi Arabia, United Arab Emirates); 6 for Sub-Saharan Africa, 3 for East Asia/Pacific (excluding China); 7 from other areas).





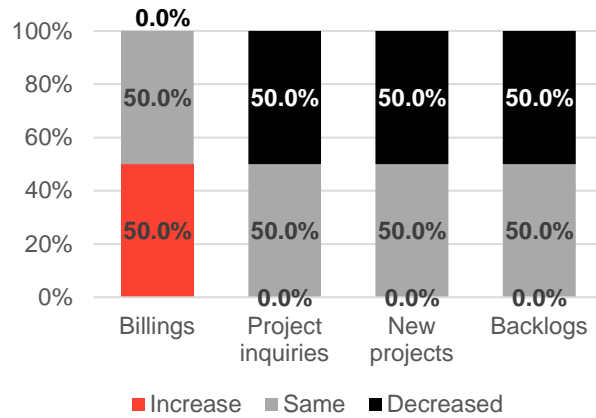
South America

Data from Q2, 2019



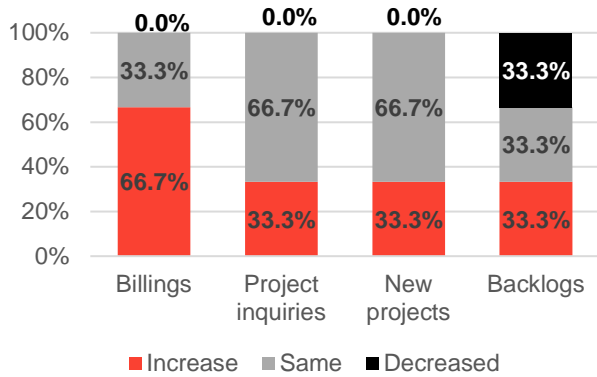
Western Europe

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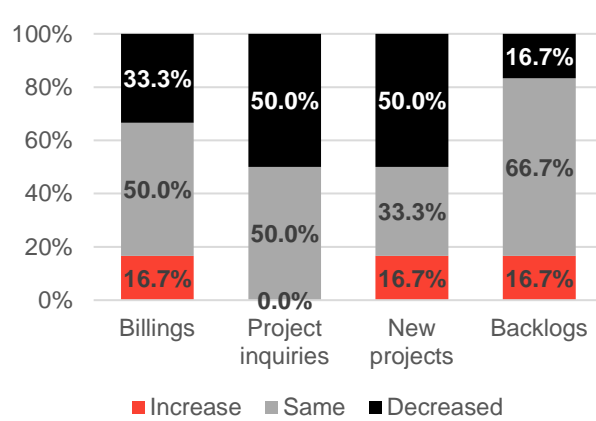
Middle East/N. Africa (exc. Saudi Arabia/UAE)

Data from Q2, 2019



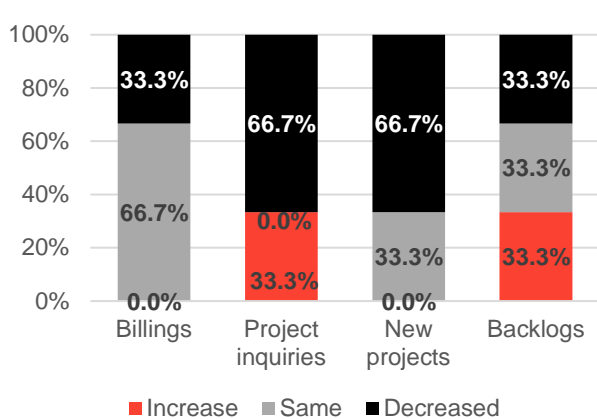
Sub-Saharan Africa

Data from Q2, 2019



East Asia/Pacific (exc. China)

Data from Q2, 2019



International economic prospects moderating

Global economic growth is seeing a bit more in terms of headwinds than was previously expected. As a result, the World Bank, for example, has recently reduced its global GDP forecasts by 0.1% for 2019, and another 0.1% for 2020. That still leaves a sufficient opportunity for international growth as their forecasts for both years remain in excess of 3%. Still, the World Bank, like most other major forecasters, sees more downside than upside risks to the international economic outlook. Trade tensions generally top the list of concerns, and trade volume growth has declined recently, most notably in emerging Asia. Unresolved issues surrounding Brexit is another source of concern, which mainly affects Western Europe, but also has potential for wider vulnerabilities.

Overall, the slowest economic growth continues to be anticipated in developed economies like Japan, the Euro Area, Canada, and the U.S. Developing economies, particularly China and India are expected to see the strongest growth, although projected gains even for these economies have been lowered recently.

World Economies Projected to Slow Modestly in Coming Years

(percent change in real GDP from previous year)

	<u>2017</u>	<u>2018</u>	Projections	
			<u>2019f</u>	<u>2020f</u>
World	3.8%	3.6%	3.2%	3.5%
United States	2.2%	2.9%	2.6%	1.9%
Canada	3.0%	1.9%	1.5%	1.9%
Euro Area	2.4%	1.9%	1.3%	1.6%
Japan	1.9%	0.8%	0.9%	0.4%
Emerging and Developing Asia	6.6%	6.4%	6.2%	6.2%
China	6.8%	6.6%	6.2%	6.0%
India	7.2%	6.8%	7.0%	7.2%
Latin America and the Caribbean	1.2%	1.0%	0.6%	2.3%
Middle East and North Africa	2.1%	1.6%	1.0%	3.0%
Saudi Arabia	-0.7%	2.2%	1.9%	3.0%
Sub-Saharan Africa	2.9%	3.1%	3.4%	3.6%

Source: International Monetary Fund World Economic Outlook, July 2019