



2022
**North American Engineering
and Construction Outlook**
Third Quarter

fmiconsulting.com

U.S. Key Takeaways

- Total E&C spending for the U.S. is forecast to end 2022 up **9%** compared to up 8% in 2021.
- Strong investment in **residential, commercial and manufacturing** will drive industry spending through 2022.
- Ongoing strength in residential development and manufacturing, several nonbuilding segments, including **sewage and waste disposal as well as water supply**, are anticipated to realize growth rates exceeding **5%** in 2022.
- Year-end 2022 growth will be tempered by ongoing spending declines across various nonresidential building segments, including **lodging, educational, religious, public safety and transportation**.
- **Office, health care, amusement and recreation, communication, power, highway and street, and conservation and development** are all expected to end the year between **0% and 4%** growth.
- The latest Nonresidential Construction Index (NRCI) suggests difficulties heading into the third quarter of 2022, at **45.2, down from 53.8** in the quarter prior. The index has fallen **below the growth threshold of 50 for the first time since the 2020 pandemic recession** and reflects declining engineering and construction opportunities ahead.

“Up Markets” (5% or more in growth)

2022 / 2021 Comparison



Single-family

Multifamily

Improvements

Commercial

Manufacturing

Sewage and Waste Disposal

Water Supply

“Stable Markets” (0 - 4% growth)

2022 / 2021 Comparison



Office

Health Care

Amusement and Recreation

Communication

Power

Highway and Street

Conservation and Development

“Down Markets” (Less than 0% growth)

2022 / 2021 Comparison



Lodging

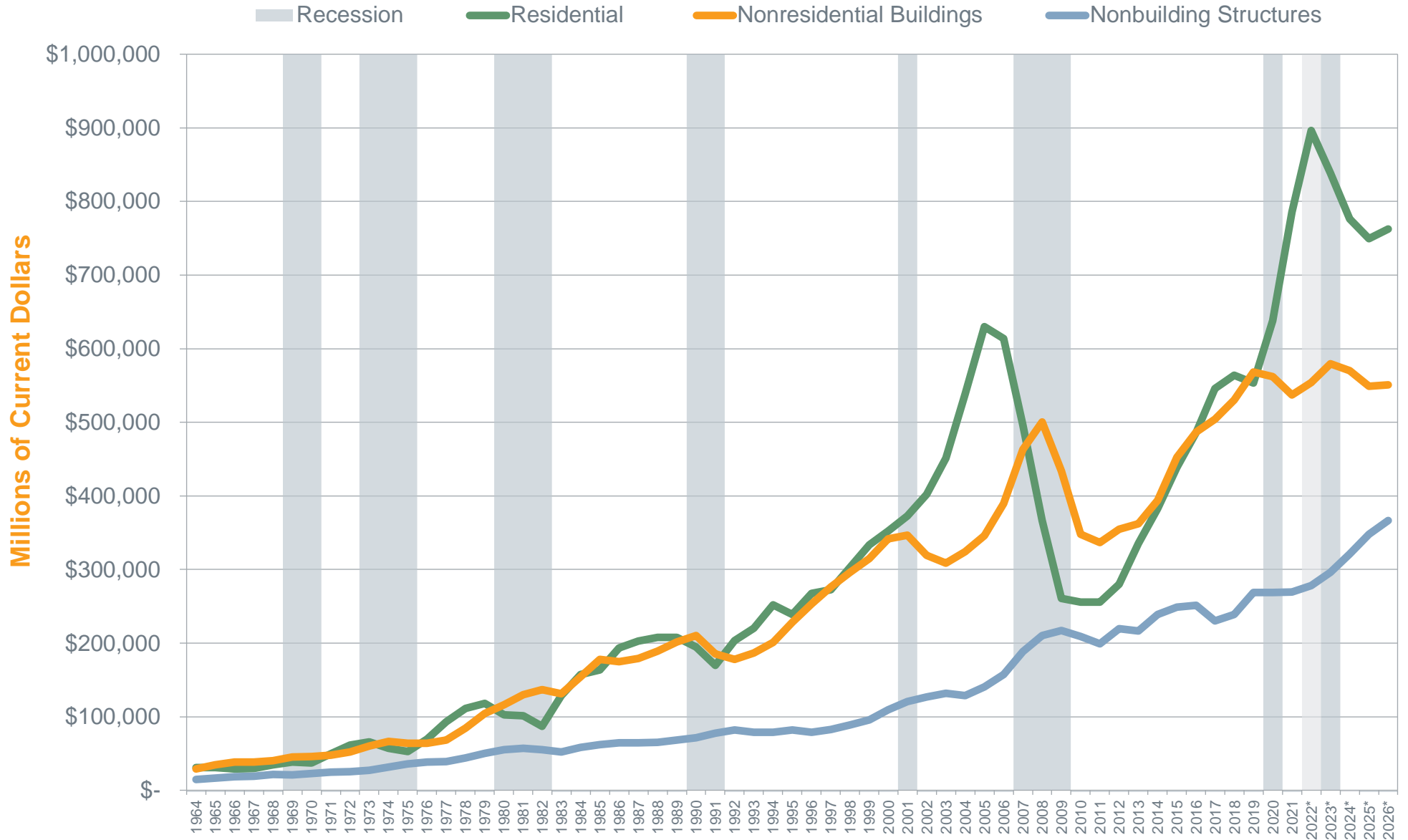
Educational

Religious

Public Safety

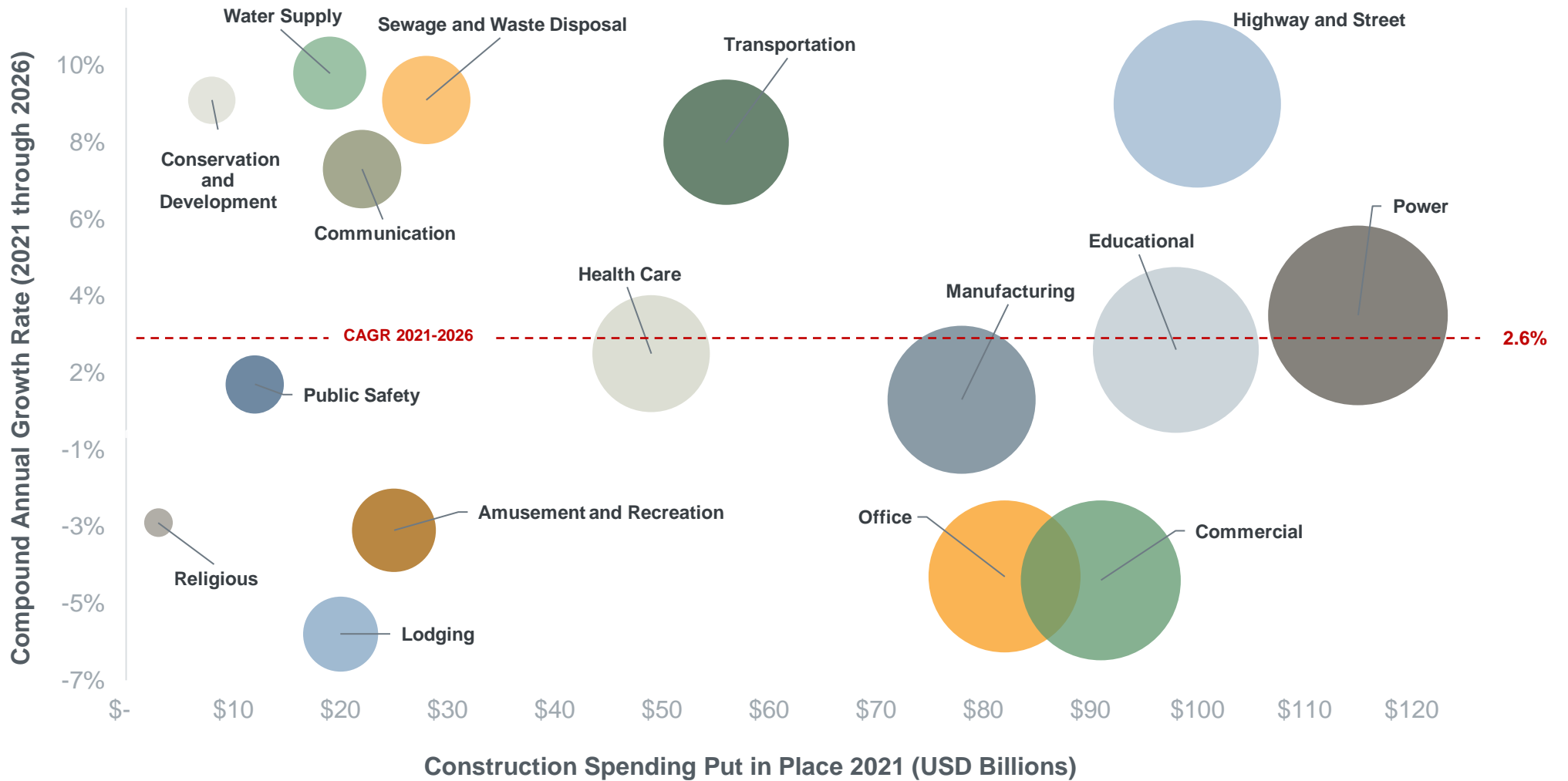
Transportation

U.S. Construction Forecast – Q3 2022 through 2026



SOURCE: FMI FORECAST Q3 2022

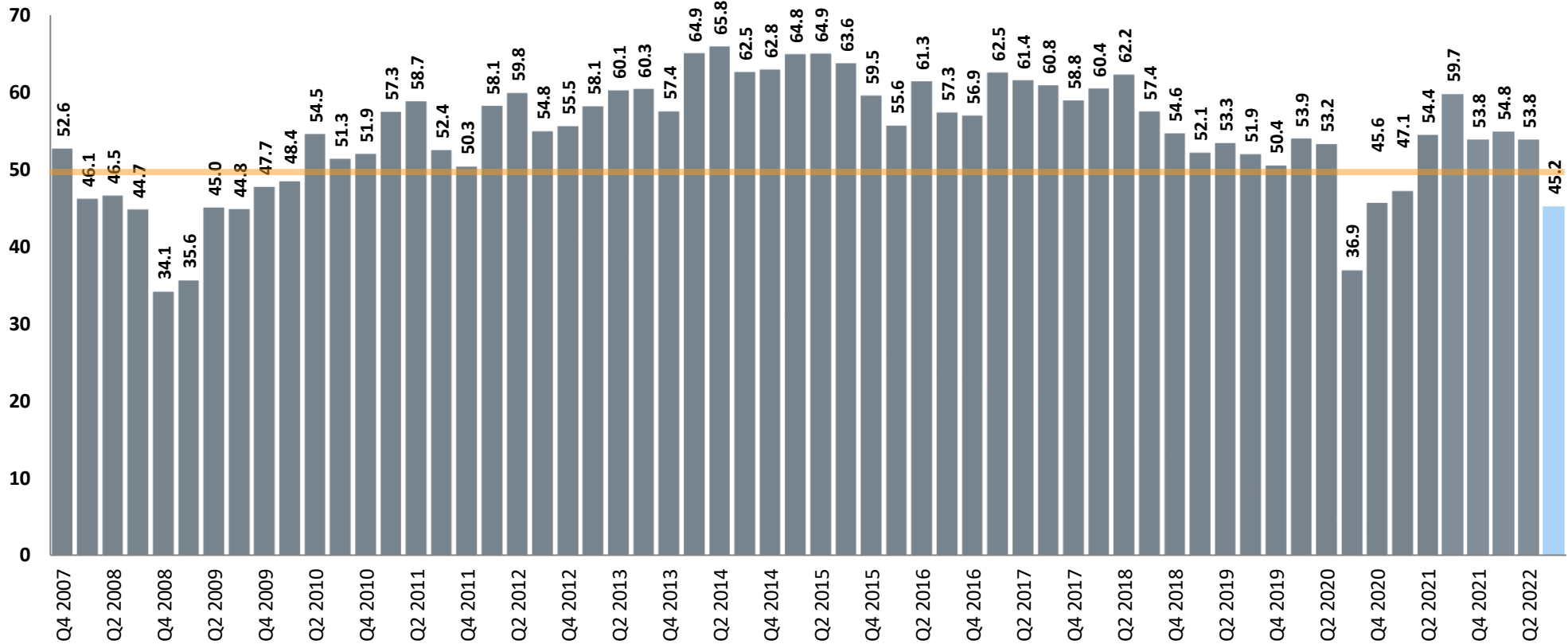
All Nonresidential Construction Forecast – Q3 2022 through 2026



SOURCE: FMI FORECAST Q3 2022

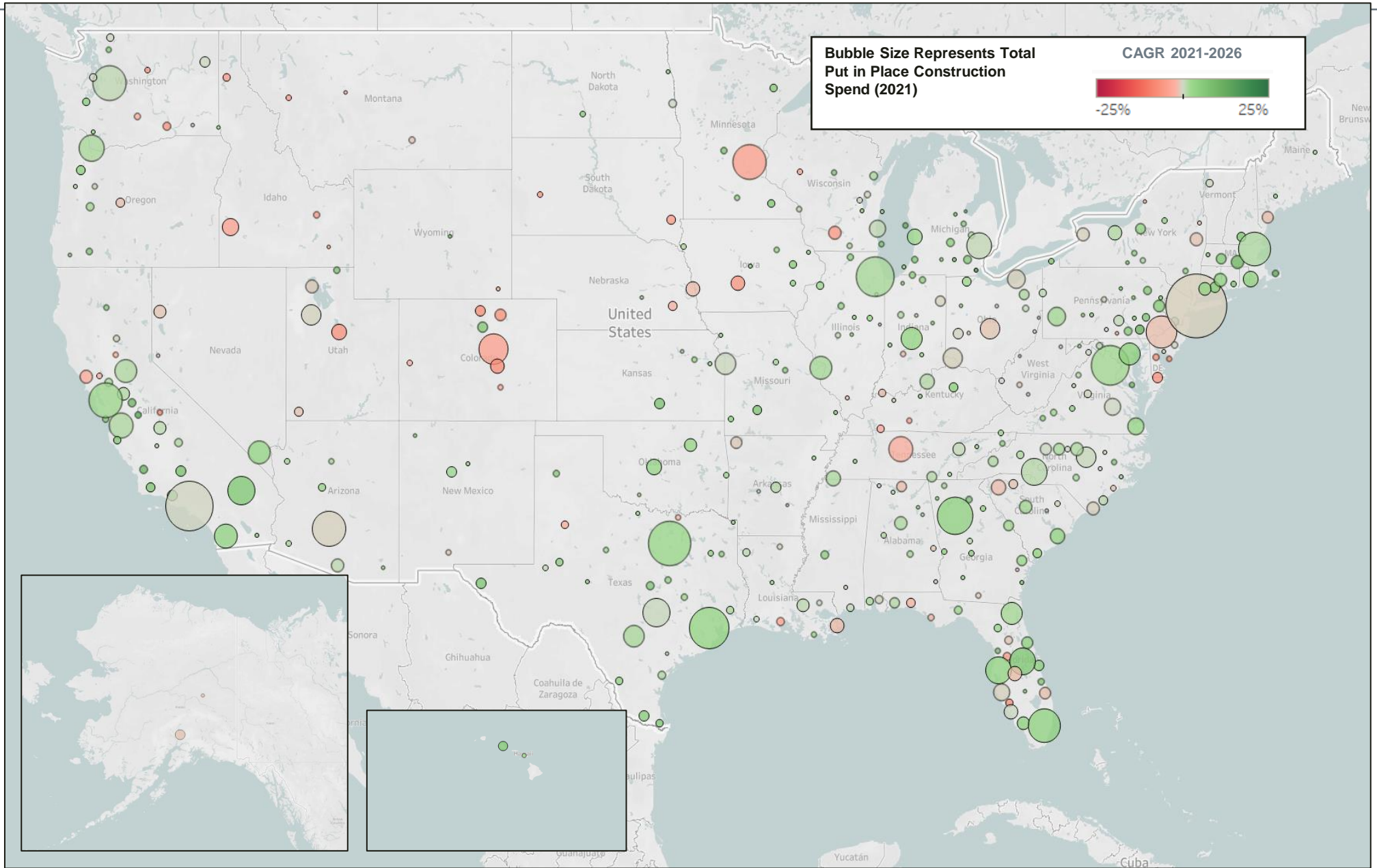
FMI's Nonresidential Construction Index

NRCI Scores – Q1 2010 to Q3 2022
 (Scores above 50 indicate expansion, below 50 contraction.)



SOURCE: FMI NONRESIDENTIAL CONSTRUCTION INDEX Q3 2022 | SURVEY DATES: JUNE 9 – 25

Based on Q3 2022 CPiP Forecast



SOURCE: FMI FORECAST Q3 2022

Potential Recession Scenarios

Base case: Monetary tightening reinforces economic contraction with a large hit to the job market and asset prices resulting in **12 to 18 months** of recession.

Better case: A somewhat controlled soft-landing results in **6 to 12 months** of recession.

Worse case: Economic events as outlined in the base case become severe enough to unify accommodative actions of the Federal Reserve and U.S government to create stimulative policy and other conditions for prolonged and higher inflation, resulting in **two or three years** of contraction.

Lessons Learned from Past Recessions

▪ *The biggest mistake made during the Great Recession... Not moving fast enough!*

Confront the brutal facts	<ul style="list-style-type: none"> • Rational understanding of “how bad it will be” • Impact drivers, severity and exposure to markets & segments 								
Bulls & bears exist in every market	<ul style="list-style-type: none"> • Understand where the opportunity will be • Recalibrate “Where to Play?” and “How to Win?” 								
Decisive, informed action required	<p style="text-align: center;">Balance extreme behavior and decision-making biases</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center;">Decision Paralysis</th> <th style="width: 50%; text-align: center;">Gut Instinct</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Obsession over data / information</td> <td style="text-align: center;">Abandonment of analytical rigor</td> </tr> <tr> <td style="text-align: center;">Delayed action: “Wait and see”</td> <td style="text-align: center;">Premature action: “Ready. Fire. Aim.”</td> </tr> <tr> <td style="text-align: center;">Potential for normalcy bias</td> <td style="text-align: center;">Potential for confirmation bias</td> </tr> </tbody> </table>	Decision Paralysis	Gut Instinct	Obsession over data / information	Abandonment of analytical rigor	Delayed action: “Wait and see”	Premature action: “Ready. Fire. Aim.”	Potential for normalcy bias	Potential for confirmation bias
Decision Paralysis	Gut Instinct								
Obsession over data / information	Abandonment of analytical rigor								
Delayed action: “Wait and see”	Premature action: “Ready. Fire. Aim.”								
Potential for normalcy bias	Potential for confirmation bias								
Offensive strategy	<ul style="list-style-type: none"> • Accelerate go-to-market execution / new market penetration • Allocate focus, resources and capital appropriately • Increase pursuit selectivity 								
Defensive strategy	<ul style="list-style-type: none"> • Preserve market share in viable segments • Entrench with core clientele with viable work programs • Avoid costly work acquisition decisions 								

Trends Observed During Past Recessions

■ EXTERNAL / MARKET

- Increased competition – new entrants from weaker markets / segments
- Apparent irrational bidding – competitors “loading up” on backlog / torpedoing fees
- Downward pressure on margins – construction “on sale” (or owner/developer perceptions that it should be)
- Elongated pursuit cycle / delayed starts
- Project funding uncertainty / cancellations
- Buyout pressure throughout the supply chain

■ INTERNAL / COMPANY

- Wage growth leveling off / stagnation
- Decreased productivity
- Increased subcontractor / trade partner risk (and defaults) – stressed balance sheets; irrational bidding
- Shifting of contractual risk mitigation / indemnification language
- Delayed payment – beyond contract terms

WHO we are



**Industry
Insiders**

Consulting
Capital Advisors



FMI is a leading consulting and investment banking firm dedicated exclusively to the built environment. We serve as the industry's trusted advisor, providing current market insights, deep industry research and key relationships that deliver tangible results for our clients.

FMI Consulting has a deeper understanding of the **Built Environment** and the leading firms across its value chain than any other consulting firm. We know what drives value. We leverage **decades of industry-focused expertise** to advise on strategy, leadership & organizational development and organizational performance.

Services

- **Compensation & Rewards**
- **Leadership & Organizational Development**
- **Market Research & Due Diligence**
- **Operations**
- **Executive Peer Groups**
- **Strategy**
- **Succession Management**
- **Technology**
- **Training**



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As a consultant at FMI, Luke is passionate about helping construction companies reach their full potential. Luke specializes in helping clients beat their expected project margins through implementation and rigorous adherence to best-in-class operational processes, which leads to increased profitability and firm value.

Luke is a facilitator at the FMI Project Manager Academy. He enjoys speaking to industry associations about a host of construction related topics and presenting customized training programs to FMI clients.

Prior to joining FMI, Luke worked for a site developer and was a project manager in the rail industry. Luke played Division I football at Youngstown State University while earning his civil engineering degree.

Expertise / Capabilities:

- Business Consulting
- Operational Performance
- Strategic Planning
- Equipment / Fleet Optimization

Industries:

Construction

Education:

Graduate: Master of Business Administration, International Business, Point Park University

Undergraduate: Bachelor of Engineering, Civil and Environmental Engineering, Youngstown State University

Professional Accreditations:

Lean Six Sigma Greenbelt Certificate, University of Villanova

Project Management Professional Certification (PMP), Project Management Institute



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