

Reading the Signs: What the ABI Is Telling Us (and What to Do About It)

Making sense of economic signals, smart planning, and sawdust-level strategy.

Executive Summary

After twenty straight months of red ink on the **Architectural Billings Index (ABI)**, it's safe to say the signals are flashing caution. But here's the good news: early awareness means early action. The ABI, a surprisingly accurate "crystal ball" for construction and millwork demand, gives us a chance to prepare long before the slowdown hits our shop floors.

This white paper breaks down what the data is saying, what it *really* means for millwork and manufacturing firms, and how leaders can stay profitable, agile, and calm (yes, calm) through what's coming next.

The Challenge

In our world, we're the *last trade in*. By the time drawings, specs, and RFPs reach us, the market shift is already baked in. The ABI helps us look *upstream* into what architects are billing, signing, and sketching so we can read the tea leaves before they turn into sawdust.

If it doesn't start in the architectural community, it's not going to magically show up in our shops.

And right now, those signals are saying: slow down ahead.

- **ABI below 50 for 20 months** = contraction.
- **Inquiries are down**, and **contracts are lagging**.
- **Residential and commercial sectors** are both showing fatigue.
- **Consensus forecasts** for 2025–26 have already been cut.

It's not doom and gloom; it's a call to tune up your forecasting, flex your backlog, and get strategic about the next 12–24 months.

Industry Pulse

The **Architectural Billings Index (ABI)** tracks what architects bill each month.

- **Above 50:** growth.
- **Below 50:** contraction.

Since the ABI typically leads our industry by **about 18 months**, it's the early-warning system we all need, but few use.

We've also seen how profitability trends follow that same rhythm. Over 31 years of AWI Cost of Doing Business data, the **average firm runs around 4% EBIT**, while **top performers average 14%**. The kicker? That gap is *widening*.

Top firms aren't cutting corners; they're simply filling the plane more effectively.

In other words, the next phase will separate the efficient from the exhausted.

What the Conversation Revealed

1. The Slowdown Is Real (and Measurable)

Every region is under 50 on the ABI. Even residential work, usually the steady friend, is showing signs of cooling.

2. Curiosity Without Commitment

Inquiries are steady, but contracts are soft. People are *thinking* about projects, not signing them.

3. The Lag Effect

What architects feel today hits us about **a year and a half later**. Think of it as a conveyor belt—you can't stop it, but you can plan for what's coming down the line.

4. Rates Matter (But Timing Does Too)

With interest rates expected to ease, demand will come back. Just... not tomorrow.

5. The Throughput Secret

The best firms don't just "work harder," they manage throughput smarter. They load their constraints first, move faster, and avoid the chaos tax.

6. Benchmark Reality Check

Productivity sweet spot: **around \$220K–\$223K in revenue per employee**. It's a quick way to see if your operation is running lean or heavy.

INNERGY's Playbook: Turning Signals Into Strategy

1. Read the Map, Don't Guess the Weather

Make the ABI your monthly ritual, right next to your shop metrics. Plot ABI, HMI (Housing Market Index), and fed rates together. They'll tell you what's *next*, not just what's *now*.

Pro tip: Assume about an **18-month lag** from ABI to your backlog.

2. Build Two Backlog Profiles

Think of it like seasonal wardrobes for your business:

- **Growth mode:** Keep backlog shorter. Stay nimble for rush jobs and premium pricing.
- **Slowdown mode:** Extend backlog. Lock in flexible, longer-term work that you can move around as needed.

You can't control the economy, but you can control how full your "plane" is.

3. Quote Smarter, Not More

Focus your estimating team on the right work, not *all* the work. Score every RFP for fit, margin, and constraint efficiency. Kill the bottom 20%.

You'll win more of the right jobs and spend less time chasing ghosts.

4. Make Your Pricing Work for You

Index pricing to **lead time**.

- Shorter windows = premium pricing.
- Longer timelines = modest discounts (with flexibility built in).

And please, update those **commodity/tariff clauses** before the next steel price spike hits your inbox.

5. Protect the Constraint

Your bottleneck is your profit engine. Cross-train teams around it, prioritize the work that feeds it, and keep that workflow smooth. Throughput > everything else.

6. Forecast Like It Matters

Your forecast shouldn't be a spreadsheet graveyard. Use the data:

- **Top-down:** ABI/HMI trends + historical share.
- **Bottom-up:** Pipeline stages × win rates × duration.
- **Reality check:** Compare forecast vs. actual every quarter.

You'll be amazed how quickly accuracy tightens when you connect the dots.

7. Stay Liquid and Steady

Cash is confidence. Tighten your billing cycles, link deposits to flexibility, and keep a "rainy-quarter fund" sized to cover at least three months of operating costs.

The Payoff

When you read the signals and plan accordingly, you'll:

- Keep utilization high even when bid volume dips.

- Preserve margins with smarter backlog design.
- Maintain consistent cash flow (and sleep better).
- Be ready to pounce when the market rebounds—because it always does.

Wrapping It Up

Yes, the ABI is red. Yes, forecasts are soft. But that's not the headline. The real story? You've got **time and tools** to act.

This is your moment to:

- Turn lag data into lead strategy.
- Shape your backlog with purpose.
- Keep your team confident, not cautious.

I like to say, “Knowledge without action is useless.”

So, take the ABI seriously, but not fearfully. Use it to plan, flex, and lead with calm conviction. That's what separates the best from the rest.

Quick Start Checklist

1. Add ABI, HMI, and fed rates to your monthly dashboard.
2. Review backlog strategy (growth vs. slowdown mode).
3. Refresh pricing terms and material clauses.
4. Score your pipeline—drop the bottom 20%.
5. Meet with your leadership team: What's your 18-month game plan?