

A hand is shown drawing a white arrow that curves upwards from left to right. Below the arrow is a bar chart with four bars of increasing height from left to right. The background is a blurred image of a person in a blue shirt.

# Prospering During a Downturn

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Are you prepared?



An economic downturn is something engineering and construction firms have not seen for quite some time – the “Great Recession” of 2007-09 was over a decade ago. While current management teams did deal with the pandemic and its related recession-like issues and, in general, did so quite well (overall global engineering and construction revenues rose by over 6% from 2019-2021), the question to ask is whether your firm is prepared for an economic downturn which is characterized by a slower longer-term economy where market growth sometimes declines significantly?

Despite some ups and downs (mainly in oil and gas), the engineering and construction market has enjoyed relatively robust growth since 2010. Total global revenues have grown from \$1.4 trillion to nearly \$2.5 trillion – an average annual growth rate of almost 6%. While oil and gas revenues have declined significantly, growth in markets such as transportation and buildings has taken up the slack. The power market, led by renewables, has also resumed growth by over 6% annually since 2018.

What is a recession? In basic terms, a recession is marked by decreases in economic activity for an extended period, GDP contraction, higher unemployment rates, lower spending, and decreases in personal income. A recession is also sometimes characterized by high inflation. As prices rise, people have less money to spend on goods and services, and they adjust their habits, which in the aggregate, can slow down economic growth and lead to even higher unemployment, lower demand, and higher costs.

**Aside from two consecutive quarters of negative GDP growth in the US– this is not yet completely the case. However, the trends are unmistakable globally.**

Countries	GDP Growth	GDP Growth Forecast	Unemployment Trends	Spending	Inflation
<b>US</b>	Negative 1st & 2nd quarter	0.7%	Still historically low	Still growing	8.3%
<b>Canada</b>	Still growing at a 3% annual rate, expected to slow	1.0%	Increasing	Growing 3% - expected to slow to less than 2%	7.0%
<b>UK</b>	Positive slow decline	-0.7%	Still low	Declining; personal disposable income down	9.9%
<b>China</b>	Significant decline	4.2%	Still low	Growing	2.5%
<b>EU</b>	Declining	-0.2%	Increasing	Declining	10.0%



These trends may end up being worse – the International Monetary Fund (IMF) recently cut its global growth forecast to 2.7% - down from 3.9% in January. It now sees a 25% probability that growth globally will be less than 2% and noted that 2023 could be the worst year economically since 2009. The EU will see the most significant downturn in 2023, with Germany, Italy, Russia, and possibly the UK having a shrinking economy.

By comparison, during the recession of 2007-2009:

- Overall, US GDP fell by 4.3% from 2007-2009, with unemployment rising from 5% to 10%; UK GDP fell by over 15%, Canada by 12%, and the EU by 2%, although China grew significantly.
- Oil prices rose from \$134/barrel in October 2007 to \$ 189/barrel in June 2008, falling to \$69 per barrel in April 2009. This compares to \$ 88 now.
- US engineering revenues declined by 15% from 2008-2010 – and didn't recover to their 2008 peak until 2015!
- The US contracting market shrank by over 20% -and didn't exceed its 2008 peak until 2015
- Globally, the engineering market fell by 5% and didn't exceed its 2008 peak until 2011 – this growth was primarily due to 10%+ annual growth in Asia.
- Some markets slowed disproportionately during a downturn. For example, the buildings market shrank by over 20% and didn't recover until 2016; the environmental market fell by 17% and didn't fully recover until 2019. How will your markets do?

Although, at this time, it doesn't appear that the looming recession will be as drastic as 2007-09 – it could be. With an ongoing war, looming economic slowdowns across the globe, and significantly higher inflation (only 3.8% in 2008, for example), the outlook remains unclear.

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Can you count on success if (when) a recession occurs? Mark Payton has 30+ years of experience in strategy for global EPC firms and has seen the ups and downs of the industry. He knows what to do to navigate the market successfully when it softens. If you'd like to know more about the characteristics of successful firms during a downturn and how you can position your firm for continued success, please reach out to me at 832-483-0297 or at [mpayton@sealeassociates.com](mailto:mpayton@sealeassociates.com). I look forward to hearing from you.