

ACEC Engineering Business Index

EBI Composite Score

66.5

4th Quarter 2016

Data collection and analysis by FMI Corporation

Trump Effect Propels Engineering Firm Leader Optimism

The Trump Administration's plans for infrastructure investment, regulatory reform and tax relief have ignited a burst of enthusiasm among engineering firm leaders, propelling the Engineering Business Index to its largest ever quarterly increase.

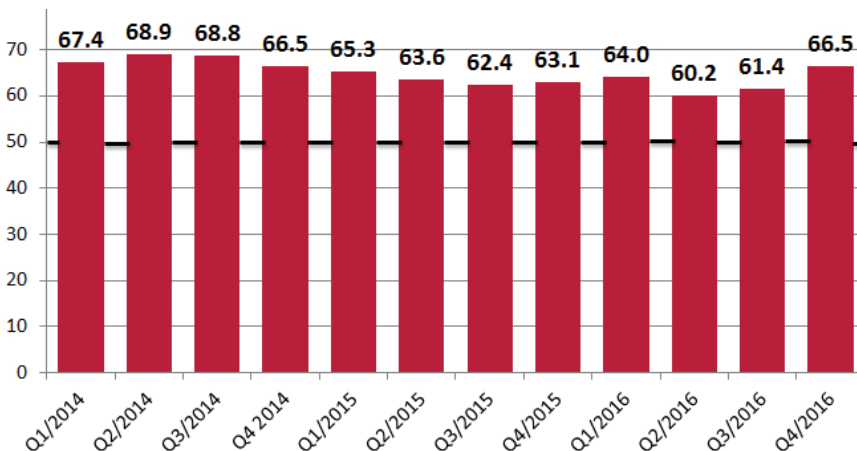
The 4th Quarter 2016 (Q4/2016) EBI surged 5.1 points to 66.5, up from the 61.4 score of Q3/2016. The previous largest increase was 1.5 points between the Q1/2014 and Q2/2014 surveys.

Any score above 50 signifies that the market is growing (See box below to learn more about the EBI methodology.) The Q4/2016 survey of 317 engineering firm leaders was conducted November 31 to December 12.

"We finally have a president who understands business!" said one respondent.

Most of the respondent comments reflected rising confidence that the Trump Administration will boost the national economy and the engineering sector.

EBI Trendline



"I'm more encouraged about the economy with a Republican president and Republican House and Senate," said a respondent. "I think they will address those issues that negatively impact small business. Also, it looks like they will address infrastructure needs across the country."

Some respondents, however, expressed reservations: "I'm concerned about the extreme uncertainty introduced into the market by the new Administration."

Several others highlighted that regardless of the election, their markets have been very strong. Said one, "We are currently enjoying the best market for engineering and surveying in 35 years."

About the EBI The Engineering Business Index (EBI) is a leading indicator of America's economic health based on the business performance and projections of engineering firms that develop the nation's transportation, water, energy and industrial infrastructure. The EBI is a diffusion index derived from quarterly surveys of engineering industry leaders on their firm's business, market and financial performance. The EBI index mean is 50, with scores above 50 indicating business expansion, and scores below 50 indicating contraction. The EBI is produced by the American Council of Engineering Companies (ACEC) in conjunction with FMI Corporation.

ACEC

AMERICAN COUNCIL OF ENGINEERING COMPANIES

100 Years of Excellence

Firm Leaders Looking Forward to Banner Year

Firm leaders are optimistic that the engineering market will improve dramatically over the coming year.

Market expectations for one year from today rose a hefty 8.8 points to 72.1, the largest quarter-over-quarter increase since the EBI's inception. Since the Q2/2016 survey, market expectations score has climbed a remarkable 15 points.

"Overall, we're seeing much better and sustained sales performance and profitability, which is the basis for a better outlook over the next 12 to 36 months," said one respondent.

The primary blemish on this otherwise rosy picture is the tight employment market: "We expect finding key staff to continue to be difficult and to be our biggest challenge."

Profitability, Backlog Expected to Improve

Expectations for both short- and long-term profitability rose. Looking ahead six months, the score for improved profitability climbed 3.6 points to 69.0; for one year from now, the score jumped 5.7 points to 72.9; and for three years from now, it rose 2.9 points to 70.5.

Component Results Q2 2016	Better	Same	Worse	Q4 2016 Results	Q3 2016 Results
Current business climate vs. 12 months ago	54.4%	32.3%	13.3%	70.6	64.9
Current business climate vs. 6 months ago	34.2%	58.9%	6.6%	63.6	60.3
Current business climate vs. 12 months from now	51.0%	42.4%	6.7%	72.1	63.3
Profitability expectations for next 6 months	46.2%	45.6%	8.2%	69.0	65.4
Profitability expectations for next 12 months	53.3%	39.0%	7.6%	72.9	67.2
Profitability expectations for 3 years from now	51.3%	38.5%	10.2%	70.5	67.6
	Larger	Same	Smaller		
Backlog vs. 12 months ago	54.9%	26.8%	18.3%	68.3	62.8
Backlog vs. 6 months ago	36.1%	51.9%	12.0%	62.0	61.9
Backlog expectations for 12 months from now	52.5%	38.0%	9.5%	71.5	63.6
Twelve-month expectations for PUBLIC markets	Better	No Change	Worse		
Transportation	57.0%	33.5%	9.6%	73.7	64.2
Water and Wastewater	44.1%	52.8%	3.1%	70.5	63.0
Environmental (Other than water/wastewater)	22.1%	66.7%	11.3%	55.4	54.3
Health Care	23.9%	64.4%	11.7%	56.1	55.8
Education	24.5%	67.3%	8.2%	58.2	55.0
Buildings	34.5%	61.4%	6.8%	65.2	--
Twelve-month expectations for PRIVATE markets	Better	No Change	Worse		
Energy and Power	42.0%	54.4%	3.6%	69.2	60.4
Land Development	44.5%	47.8%	7.7%	68.4	60.2
Buildings	42.6%	48.9%	8.5%	67.0	62.9
Health Care	28.0%	60.1%	11.9%	58.0	58.1
Industrial/Manufacturing	46.3%	48.8%	4.9%	70.7	55.4
Education	23.8%	69.4%	6.8%	58.5	51.6
Overall EBI				66.5	61.4

“We’re looking forward to some tax relief with the new Administration,” said one respondent.

Backlog expectations for one year from now also climbed substantially, up 5.4 points to 71.5.

“2017 has a solid backlog and will be the year of the `proposals,`” said one respondent. “We expect to have more opportunities than resources to build proposals.”

Market Sector Growth across the Board

Firm leader optimism extends across almost the entire market, with expectations for improvement during the coming year in 10 of the 12 surveyed market sectors.

In the public markets, Transportation was the strongest sector, up a whopping 9.5 points to 73.7.

“Infrastructure investment is expected to increase by end of the year, and fewer regulations will spur additional investments on most every front,” said a respondent. “We expect that to continue for 2017 and beyond.”

All of the other public market sectors rose: Water and Wastewater (up 7.5, to 70.5), Educations (up 3.2 to 58.2) Health Care (up 0.3, to 56.1), and Environmental (up 1.1 to 55.4). A new public sector category, Buildings, debuted at 65.2.

Among the private client markets, firm leaders were most bullish about the Industrial/Manufacturing sector, which leaped up 12.5 points to 70.7. In two quarters, this sector has increased by 16.9 points.

Four other private sectors climbed: Energy and Power (up 8.8, to 69.2), Land Development (up 8.2, to 68.4.), Buildings (up 4.1 to 67.0), and Education (up 5.2, to 58.5). Only the Health Care sector dropped, slipping 0.1 points to 58.0.

Overheard:

“Competition is fierce.”

“I think interest rate increases will slow the private markets. I am not optimistic about a \$1 billion federal infrastructure program passing, and if it is passed, that it will drive the necessary private investment to make a difference.”

“It’s a very positive outlook going forward.”

“We are currently operating at a high level of activity and profitability, so maintaining our current levels will be quite good.”

“Trump impact will be felt a year out. Beware of massive deficit spending and a tax cut.”

“Tax laws will hopefully be reformed to help small business.”

“While I am optimistic about profitability, salary pressures could have a negative impact.”



Watch for the next quarterly *ACEC Engineering Business Index* survey form in your email in-box in March, 2017.