

# ACEC Engineering Business Index

EBI Composite Score

# 66.0

1st Quarter 2017

Data collection and analysis by FMI Corporation

## Engineering CEOs Upbeat, But Want Action from Administration

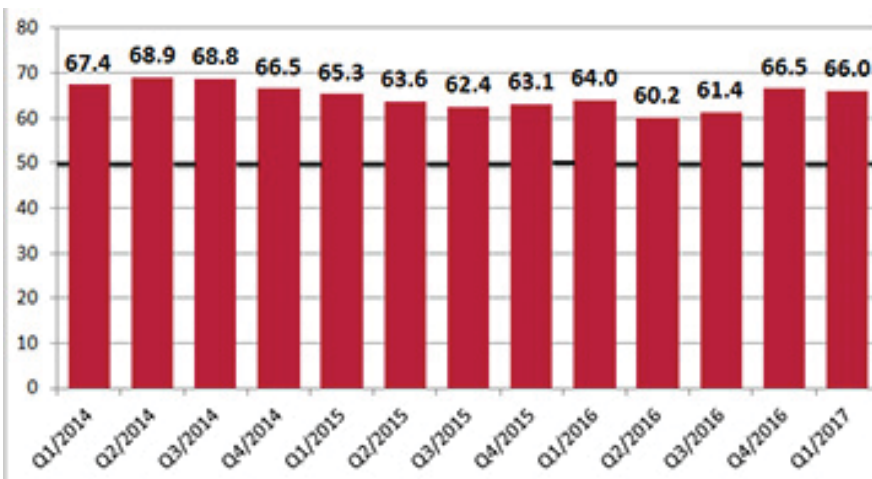
The optimism that surged through the engineering industry following the election of Donald Trump may be moderating, according to the latest ACEC survey of engineering firm leaders.

The 1st Quarter 2017 (Q1/17) Engineering Business Index (EBI) dipped slightly (0.5 points) to 66.0. Any score above 50 signifies that the market is growing (See box below to learn more about the EBI methodology.)

The decline is minimal and the score remains solidly positive, but it is in contrast to the 4th Quarter 2016 survey in which, buoyed by Trump's promises of lower taxes, infrastructure investment, and regulatory reform, firm leaders pushed the EBI up by 5.1 points—the largest quarterly increase in the survey's three-year history. Now, however, with the Administration slow to implement these policies, that CEO confidence seems to have plateaued.

The Q1/17 survey of 378 engineering firm leaders was conducted March 23 to April 14.

### EBI Trendline



### Short Term vs. Long Term

Survey responses varied widely depending on the time-frame of the question. Asked about current market conditions, firm leaders see a robust market. Looking forward one year, however, they are more measured.

All the current market indicators are positive. Comparing today's market conditions to six months ago, the score climbed 3.2 points to 66.8; current backlog compared to six months ago was up a strong 5.1 points to 67.1; and short-term (six month) expectations for profitability increased 3.5 points to 72.5.

**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

“The business outlook is improving,” said one CEO. “Competition for talented employees is increasing. Competition for projects is becoming fiercer.”

Another said, “We expect to see an increase of 20 to 25 percent in our gross revenues this year.”

At the same time, however, these CEOs are concerned about where the market is going.

“There is a general sentiment that things are better, but the workload doesn’t reflect that,” said one respondent. “The pipeline has water in it, but it is not pressurized, which is strange given that the stock market is at a record high, sentiment is running high, and the President is talking nothing but public works and infrastructure. Something is out of calibration, but I can’t figure out what that might be.”

EBI clearly reflects the market ambiguity. Market expectations for one year from today fell 2.6 points to 69.5. Profitability expectations for the same period were flat (72.9), but looking out three years, they fell 2.4 points to 68.1. Anticipated backlog one year from now dropped 1.1 points to 70.4.

Respondents pointed out that this sense of uncertainty has a market impact. “Until politics stabilize, our clients are holding up on any major investments,” said one CEO. Another said, “The uncertainty regarding environmental regulations will worsen business.”

Component Results Q1 2017	Better	Same	Worse	Q1 2017 Results	Q4 2016 Results
Current business climate vs. 12 months ago	52.9%	32.9%	14.2%	69.3	70.6
Current business climate vs. 6 months ago	41.9%	49.9%	7.4%	66.8	63.6
Current business climate vs. 12 months from now	49.3%	40.4%	10.2%	69.5	72.1
Profitability expectations for next 6 months	53.6%	37.9%	8.5%	75.5	69.0
Profitability expectations for next 12 months	53.5%	38.8%	7.8%	72.9	72.9
Profitability expectations for 3 years from now	48.3%	39.5%	12.1%	68.1	70.5
	Larger	Same	Smaller		
Backlog vs. 12 months ago	542.2%	28.3%	19.5%	66.3	68.3
Backlog vs. 6 months ago	345.5%	43.3%	11.3%	67.1	62.0
Backlog expectations for 12 months from now	52.4%	36.0%	11.6%	70.4	71.5
<b>Twelve-month expectations for PUBLIC markets</b>	Better	No Change	Worse		
Transportation	55.7%	29.1%	15.2%	70.3	73.7
Water and Wastewater	45.7%	57.2%	7.1%	69.3	70.5
Environmental (Other than water/wastewater)	25.0%	57.5%	17.5%	53.8	55.4
Health Care	26.9%	60.4%	12.7%	57.1	56.1
Education	21.1%	63.5%	15.4%	52.8	58.2
Buildings	32.7%	58.3%	11.7%	61.8	65.2
<b>Twelve-month expectations for PRIVATE markets</b>	Better	No Change	Worse		
Energy and Power	45.8%	51.7%	2.5%	71.7	69.2
Land Development	41.3%	51.4%	7.3%	67.0	68.4
Buildings	40.9%	51.7%	7.3%	66.8	67.0
Health Care	27.8%	63.3%	8.9%	59.5	58.0
Industrial/Manufacturing	41.0%	54.6%	4.4%	68.3	70.7
Education	20.5%	71.8%	7.7%	56.4	58.5
<b>Overall EBI</b>				<b>66.0</b>	<b>66.5</b>

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## Market Sector Expectations Slip

CEO concerns about the longer term health of the market extend to the individual sectors. Asked about market conditions one year from today, the CEOs pushed down the scores in nine of the 12 public and private market sectors tracked by the survey.

In the private markets, Energy and Power was up 2.5 points to 71.7. This isn't surprising, given the Trump Administration's commitment to revitalizing the nation's energy industry. Ironically, the only other private sector to register an increase was Health Care (up 1.5 to 59.5), where the Administration's first big policy initiative floundered.

Expectations of the other four private sectors were down, led by Industrial/Manufacturing, which fell 2.4 points to 68.3, Education (down 2.2 to 56.4), Land Development (off 1.4 to 67.0), and Buildings (down 0.2 to 66.8).

"We haven't seen a slowdown in the private sector yet," said one respondent, "but we envision that happening in the near future unless something happens."

In the public markets, only Health Care registered an increase, up 1.0 points to 56.1. All of the other public market sectors fell: Education (down 5.4 to 52.8), Transportation (off 3.4 to 70.3), Buildings (down 3.4 to 61.8), Environmental (off 1.7 to 53.8), and Water and Wastewater (down 1.2, to 69.3).

"Transportation is definitely slowing down," said a respondent. "Trump's infrastructure plan has not been forthcoming."

## Wide Regional Variations

CEO confidence swung wildly depending on where they're practicing.

"The situation in Illinois is disastrous," said one respondent.

Next door in Wisconsin, however, "Things are looking up," said another respondent. "The exception is transportation, which is lacking funding."

An East Coast respondent was upbeat: "Record backlog in Mid-Atlantic and New England, with Florida strong. All public and private areas strong, but public in Pennsylvania and New England are particularly so with hopes of a federal infrastructure initiative to enhance the longer term."

In California, on the other hand, "The outlook is not favorable to private enterprise."

Neither is it in Wyoming: "The economy and revenues are flatter than the Great Salt Lake on a windless day."

## Overheard:

"Business outlook is improving. Competition for talented employees is increasing. Competition for projects is becoming fiercer."

"I am uncertain about the future. Infrastructure funding sources need to be addressed."

"Overall, we see transportation/heavy civil work improving from last year."

"Trump's plans are over-rated and will not happen quickly. P3s may benefit mega-firms but small firms will be left out."

"We continue to be cautiously optimistic about the next 12 to 18 months."



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