

ACEC Engineering Business Index

EBI Composite Score

66.1

2nd Quarter 2017

Data collection and analysis by FMI Corporation

Steady As She Goes: Engineering CEOs Relish Strong Market

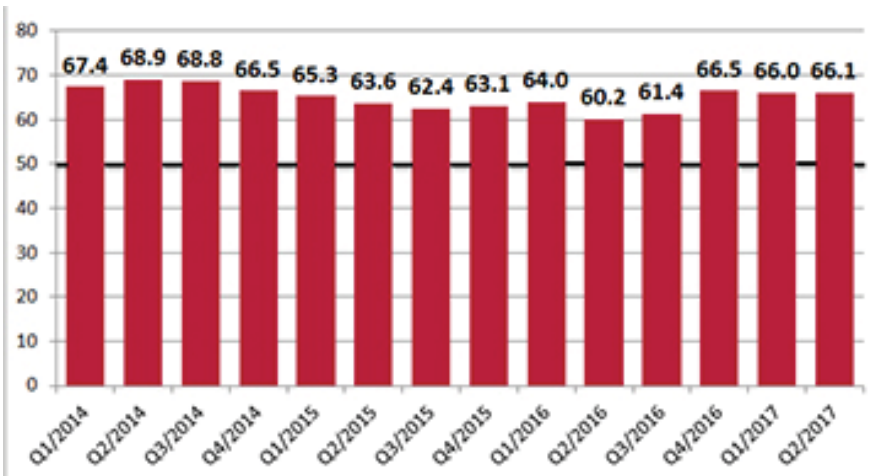
Leaders of America's engineering firms are optimistic, both about the current state of the market and prospects over the coming year, according to the latest ACEC Engineering Business Index (EBI) survey.

The 2nd Quarter 2017 (Q2/17) EBI remains solidly positive, rising 0.1 points to 66.1. Any score above 50 signifies that the market is growing (See box below to learn more about the EBI methodology.) The survey of 379 engineering firm leaders was conducted June 13-30.

Strong Market Indicators

Engineering firm leaders have been upbeat about the market for the past three quarters, with the EBI tracking in a narrow band (66.0 to 66.5). This is the strongest performance for the EBI since 2014.

EBI Trendline



Driving that optimism are expectations that profitability will increase over the next six months (up 1.6 points to 74.1) and satisfaction with their backlog (up 3.1 points to 69.4).

"Market is so hot right now it's going to be hard to maintain this pace in the long term," said a respondent.

Most respondents agree, but they anticipate only slight slippage over the coming 12 months. Their long-term profitability expectations (down 0.2 points to 72.7) and anticipated backlog (down 1.8 points to 68.6) dip marginally.

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.

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Market Sector Expectations Strengthen

The positive feelings about the overall market extend to many of the individual market sectors, with respondents confident about future conditions in the majority of sectors.

“Our firm is experiencing growth in both private and public work,” said a respondent. “We are actively recruiting new employees for the first time in five years.”

As has been the case for the past several quarters, respondents are more optimistic about private sector markets. In four out of the six private sector markets tracked by the survey, firm leaders expect improvement over the next 12 months.

They are most bullish about the Health Care sector (up 4.1 points to 63.6), followed by Buildings (up 1.6 to 68.4), Land Development (up 0.5 to 67.5), and Education (up 0.3 to 56.7).

The two sectors they expect to slow have been the strongest ones in recent quarters: Energy and Power (down 4.4 to 67.3) and Industrial/Manufacturing (down 2.6 to 65.7).

Similarly, in the public markets, the two sectors that respondents have felt best about in recent quarters are the ones they expect to struggle.

Component Results Q2 2017	Better	Same	Worse	Q2 2017 Results	Q1 2017 Results
Current business climate vs. 12 months ago	56.0%	31.2%	12.8%	71.6	69.3
Current business climate vs. 6 months ago	39.7%	51.2%	8.5%	65.3	66.8
Current business climate vs. 12 months from now	44.0%	47.3%	8.7%	67.6	69.5
Profitability expectations for next 6 months	56.1%	35.8%	8.0%	74.1	75.5
Profitability expectations for next 12 months	51.7%	41.8%	6.4%	72.7	72.9
Profitability expectations for 3 years from now	50.7%	39.2%	10.1%	70.3	68.1
	Larger	Same	Smaller		
Backlog vs. 12 months ago	55.6%	27.5%	16.8%	69.4	66.3
Backlog vs. 6 months ago	46.8%	41.7%	11.5%	67.6	67.1
Backlog expectations for 12 months from now	46.1%	45.0%	8.9%	68.6	70.4
Twelve-month expectations for PUBLIC markets	Better	No Change	Worse		
Transportation	49.0%	35.5%	15.5%	66.7	70.3
Water and Wastewater	40.6%	51.4%	8.0%	66.3	69.3
Environmental (Other than water/wastewater)	21.6%	64.3%	14.1%	53.7	53.8
Health Care	29.1%	57.4%	13.6%	57.7	57.1
Education	25.4%	60.3%	14.3%	55.5	52.8
Buildings	33.8%	59.9%	9.2%	63.8	61.8
Twelve-month expectations for PRIVATE markets	Better	No Change	Worse		
Energy and Power	40.5%	53.6%	6.0%	67.3	71.7
Land Development	40.8%	53.3%	5.9%	67.5	67.0
Buildings	42.3%	52.2%	5.5%	68.4	66.8
Health Care	37.2%	52.9%	10.0%	63.6	59.5
Industrial/Manufacturing	38.1%	55.1%	6.8%	65.7	68.3
Education	24.6%	64.2%	11.2%	56.7	56.4
Overall EBI				66.1	66.0

In the wake of the Trump Administration's promise of a \$1 trillion infrastructure program, both the Transportation and Water and Wastewater sectors soared to new heights. Months have passed without any action, however, and as a result, firm leader expectations have dropped for both Transportation (down 3.6 points to 66.7) and Water and Wastewater (down 3.0 to 66.3).

"We have expectations that infrastructure will rise under the new Trump plan, but the details have not yet been presented," said one respondent.

Another said, "Increased federal investment in roads, water, and sewer projects is a must."

In three public market sectors, expectations are on the rise, including Education (up 2.7 to 55.5), Buildings (up 2.0 to 63.8), and Health Care (up 0.6 to 57.7). Market leaders expect the Environmental sector to remain flat (down 0.1 to 53.7).

Differing Experiences

While the EBI portrays an overall healthy market, individual firm experiences vary.

"For an economy that is reported as being strong, our work sure isn't proportionally strong, which is concerning," said a respondent. "We should have pressurized workload. Instead we have a workload with some pressure and some gaps. Very strange."

Regional differences play a huge role. "Business has been steadily declining in Louisiana for the past year with no sign of picking up," said a respondent."

Responses from firm leaders in Illinois, which is suffering through a long-term budget crisis, range from "disaster" and "dismal" to "not looking so good."

Overheard:

"Projects seem to be taking longer to get going from proposal phase to design phase. Owners appear to still be very cautious."

"Trump is the wild card, not sure if he will positively influence the market or put it into a tail spin."

"Industry is shifting to design-assist and developer-led projects and fewer public sector funded projects."

"The market is tentative and volatile."

"We trust that things will get better. We are at least 15 percent worse than one year ago."

"Robust residential market; healthy commercial market; steady infrastructure market; declining retail/mixed use market."



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