U.S. engineering firm leaders remain bullish on their market prospects, according to the first quarter 2015 (Q1/15) ACEC Engineering Business Index (EBI), although their enthusiasm has dropped slightly from previous quarters.

The Q1/15 EBI, conducted March 15-April 6, of 325 engineering firm leaders, produced a composite score of 65.3, which is strongly positive, but a slight drop from the 66.5 score in the Q4/14 EBI, and from 67.4 score one year ago.

EBI is a diffusion index that charts the health of the engineering industry by consolidating senior leadership responses on market and firm performance into a single number. Any number above 50 indicates expansion. The current score of 65.3 demonstrates substantial overall market confidence.
A slight majority of respondents (50.9 percent) believe that market conditions will improve over the coming year, almost the same percentage (50.7) as in the Q4/14 survey.

The percentage of respondents anticipating increased profitability over the coming six months jumped significantly to 44.3 percent from 36.0 percent in the Q4/14 survey. Looking out three years, however, respondents are not as optimistic, with only 42.2 percent in the Q1/15 survey expecting higher profitability, compared to 45.9 percent in the Q4/14 survey.
One of the factors contributing to those longer-term concerns is firm backlogs. In the Q4/14 survey, more than two out of three respondents (66.8 percent) said their backlogs were higher than a year before. In the current survey, only 56 percent have higher backlogs today.

Looking at specific market segments, respondents continue to have high expectations for private-client markets. In land development, energy and power, buildings, and industrial/manufacturing, more than 45 percent of respondents anticipate that these segments will continue to grow over the coming 12 months.

In the public sector, only the water and wastewater sector draws similar optimism (43.0 percent), and nearly one in five respondents (19 percent) expect the transportation market to worsen over the next year.

Respondents consider “Private/Public Sector Funding,” “Economic Uncertainty/Trends” and “Commoditization” as the primary threats to their business success. These factors have remained the top three threats since the start of the EBI survey in the first quarter of 2014.

The only significant change in market threats over previous quarters is that concerns over “Shortage of Engineers” fell by almost 20 percent.

**M&A Activity May Be Slowing**

As in the Q1/14 survey, respondents were asked about their mergers & acquisitions (M&A) plans. They now anticipate significantly less activity over the coming two years.

While the same percentage of firms anticipate buying another firm (29 percent in Q1/15 compared to 30 percent in Q1/14), the percentage of firms that are considering selling to another firm dropped from 19 percent in Q1/14 to 10 percent in Q2/15, and the percentage looking to merge with another firm dropped from 20 percent in Q1/14 to just 7 percent in Q1/15. Overall the percentage of firms not contemplating a merger or acquisition climbed from 25 percent in Q1/14 to 50 percent in Q1/15.

“Traditional big buyers are becoming more picky just as many Baby-Boomer firm owners are looking for a transition,” said one respondent.
Among those respondents active in M&A, establishing a presence in a new geographical market is the primary reason for an acquisition (29 percent), followed by maximizing opportunities for current services (26 percent), expanding a portfolio of specialized services (23 percent), and competing more effectively with larger firms (18 percent).

“We just completed an M&A to allow us a bigger presence in a new area of the state,” reported one respondent.

Drones Have Yet to Catch On
Asked about their current or planned use of unmanned aerial vehicles (UAVs), nearly seven out of 10 respondents (70 percent) said they have no plans to utilize them over the next year. Only 9 percent of respondents currently use UAVs in their business and another 19 percent plan to start using them over the coming 12 months.

The most common concern of respondents pertaining to drones is their legality and regulation. “We would be using drones today if regulations allowed or were less stringent for business use,” said a respondent.

Among those who are using or planning to use UAVs, the three most popular applications are “Obtaining information for client presentations” (22 percent), “Surveying” (21 percent), and “Inspecting existing facilities” (20 percent).

One respondent said, “This will be the biggest technological jump in our industry since we switched from slide rules to calculators.”

Watch for the next quarterly ACEC Engineering Business Index survey form in your email in-box in June.