

ACEC Engineering Business Index

EBI Composite Score

63.1

4th Quarter 2015

Data collection and analysis by
FMI Corporation

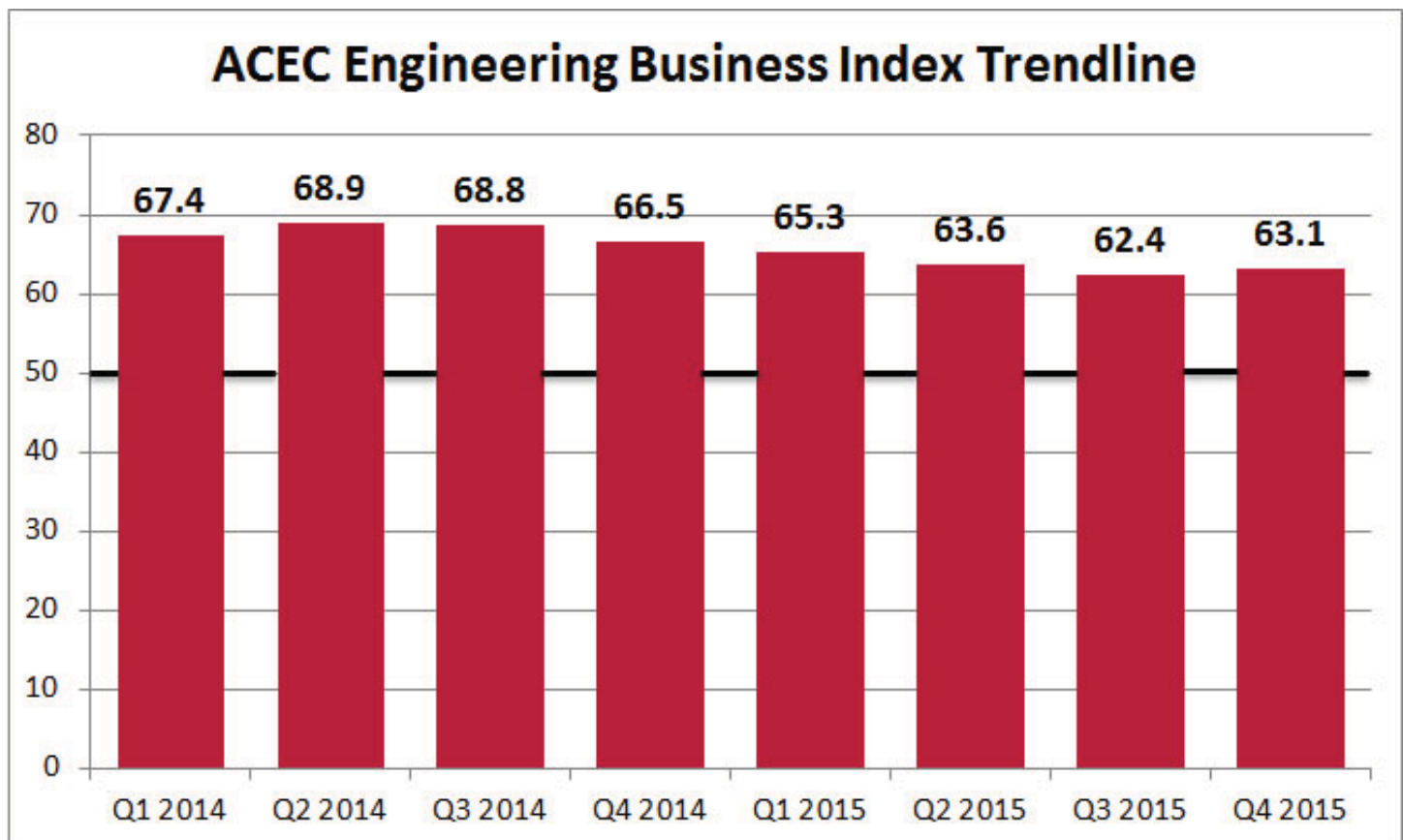
Firm Leader Confidence Again on Upswing

With rising firm leader confidence in market conditions, profitability, and backlog, the 4th Quarter ACEC *Engineering Business Index* (EBI) climbed to 63.1, up from 62.4 in the 3rd Quarter.

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 composite score. Any score above 50 indicates a growing market.

Turned a Corner

Over the past year, CEO expectations for long-term profitability and growing backlog had fallen steadily, but that sentiment reversed in the latest survey.



Profitability expectations for three years from now surged from 60.7 to 68.7, backlog expectations for one year from now jumped from 62.3 to 66.9, and confidence in the business climate one year from now moved ahead from 62.8 to 67.1.

“With the continued overall economic growth, we’re seeing a steady increase in opportunities in our markets,” said one respondent.

Component Results Q4 2015	Better	Same	Worse	Q4 2015 Results	Q3 2015 Results
Current business climate vs. 12 months ago	55.0%	28.7%	16.3%	69.3	70.3
Current business climate vs. 6 months ago	35.1%	49.4%	13.1%	59.8	64.4
Current business climate vs. 12 months from now	45.3%	43.7%	11.0%	67.1	62.8
Profitability expectations for next 6 months	33.7%	56.0%	10.3%	61.7	63.9
Profitability expectations for next 12 months	38.4%	54.8%	6.8%	65.8	62.8
Profitability expectations for 3 years from now	50.6%	36.1%	13.3%	68.7	60.7
	Larger	Same	Smaller		
Backlog vs. 12 months ago	49.6%	27.6%	22.8%	63.4	67.0
Backlog vs. 6 months ago	41.0%	39.4%	19.7%	60.6	63.0
Backlog expectations for 12 months from now	46.0%	41.9%	12.1%	66.9	62.3
Twelve-month expectations for PUBLIC markets	Better	No Change	Worse		
Transportation	53.6%	33.0%	13.4%	70.1	58.4
Water and Wastewater	33.1%	59.6%	7.3%	62.9	64.2
Health Care	25.9%	66.7%	7.4%	59.3	56.4
Environmental (Other than water/wastewater)	23.0%	64.8%	12.1%	55.5	54.8
Education	22.5%	70.9%	6.6%	57.9	50.0
Twelve-month expectations for PRIVATE markets	Better	No Change	Worse		
Land Development	39.5%	50.9%	9.6%	65.0	72.1
Energy and Power	35.8%	47.3%	16.9%	59.5	66.0
Buildings	40.4%	55.1%	4.5%	68.0	67.3
Industrial/Manufacturing	35.9%	57.4%	9.7%	61.6	66.5
Health Care	28.0%	64.3%	7.7%	60.1	63.7
Education	21.9%	64.2%	13.9%	54.0	52.6
OVERALL EBI				63.1	62.4

Public Markets Rebounding

A big factor behind the jump in CEO sentiment was the passage of the five-year \$305 billion surface transportation program. Twelve-month growth expectations for the Transportation market, which has languished for years due to the Federal Government's failure to provide long-term funding, leaped from 58.4 to 70.1.

"This reauthorization is huge for us," said one respondent.

Scores for several other public markets also rose, with Education jumping from 50.0 to 57.9, Health Care climbing from 56.4 to 59.3, and Environmental moving up from 54.8 to 55.5. Only the Water and Wastewater sector fell in the fourth quarter, down from 64.2 to 62.9.

Many respondents noted that state and municipal efforts to fill the gaps in federal infrastructure funding are gaining traction.

"Transportation funding was passed in Michigan and there is also an asset management program funded by the state that will help the water and wastewater industry," said a respondent.

Private Markets Slowing

Private-client markets, while having performed strongly over the past couple of years, are expected to grow at a slower pace over the coming 12 months, according to firm leaders.

Among the private market sectors, only Education and Buildings were up, from 52.6 to 54 and 67.3 to 68.0 respectively.

Expectations for growth in the Land Development fell the farthest, from 72.1 to 65.0. "Residential land development seems to be softening," said one respondent.

Other sectors that fell were Energy and Power, down from 66.0 to 59.5; Industrial/Manufacturing, dropping from 66.5 to 61.6; and Health Care, down from 63.7 to 60.1.

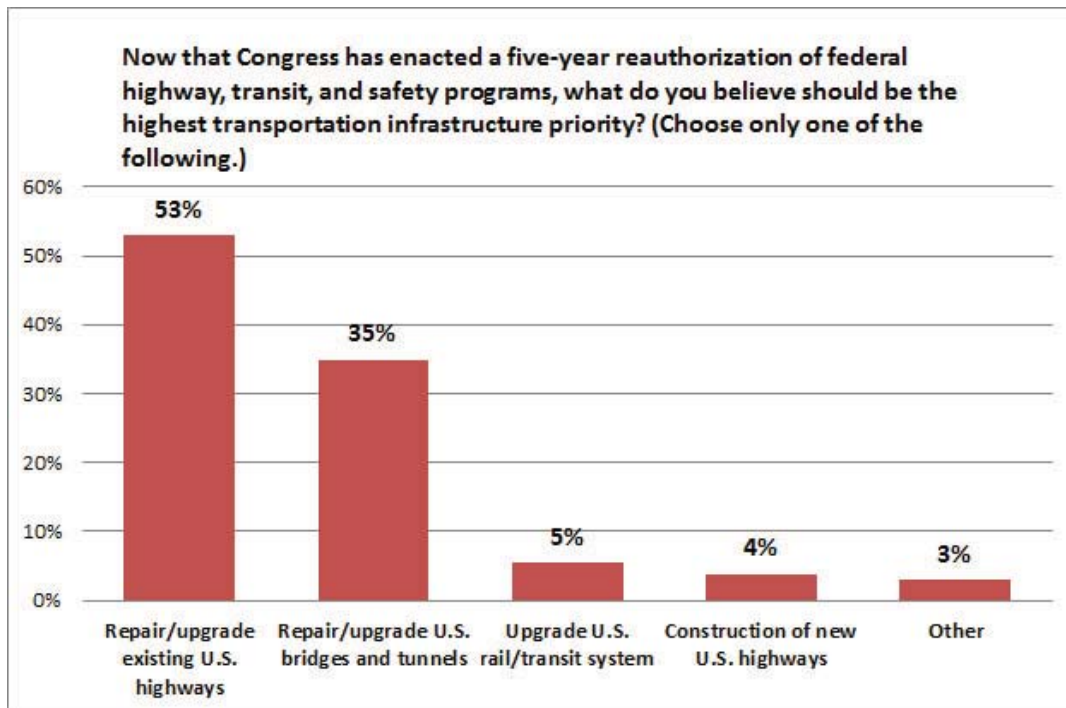
Respondents pointed to both negative and positive impacts of falling oil prices.

"Low oil prices are killing the energy sector," said one, but another pointed out that some markets are benefitting, especially the industrial/manufacturing sector.

Government regulation also drew a lot blame for the slowdown in the energy sector. "The Administration's war on fossil fuel and oil are devastating my state's economy," said one respondent. Other respondents, however, saw a bright side for engineering firms.

"EPA regulations are heavily impacting the coal-fired electric power plant industry and that is creating increased demand for our services," said a respondent.

Putting Transportation Funding to Good Use



In the wake of the passage of the long-term highway bill, firm leaders were asked how they would like to see the new funding spent.

Nearly nine out of ten respondents (88 percent) said the money should go towards repairing and upgrading existing highways, bridges and tunnels. Only 5 percent considered upgrading rail and transit to be a priority, 4 percent wanted to spend the money on new highways, and 3 percent had other priorities.

A common theme among the respondents was that while the new funding is long overdue, it is not nearly enough.

“A good start, but it is not adequate for addressing the backlog of needs that have built up over time,” said one respondent.

Many were quick to call for changes in how transportation is funded.

“Congress needs to develop a sustainable funding mechanism for transportation that can increase the total authorization,” suggested one respondent.

The most popular funding fix among the respondents is a gas tax increase.

“It is a travesty to watch politicians fight over this issue,” said a respondent. “Everyone in America would accept a five-cent gas tax increase, if not more, if it led to better roads and less congestion.”

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