

ACEC Engineering Business Index

EBI Composite Score

64.3

3rd Quarter 2017

Data collection and analysis by FMI Corporation

Engineering CEOs Eye Market with Guarded Optimism

While relishing the steady seven-year-plus expansion of the U.S. economy, leaders of America's engineering firms are nonetheless concerned that a slowdown may be looming on the horizon, according to the latest *ACEC Engineering Business Index* (EBI) survey.

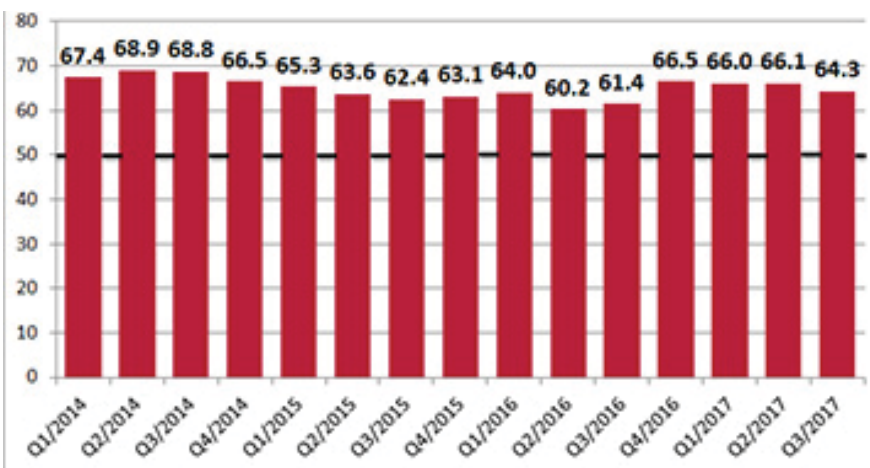
The 3rd Quarter 2017 (Q3/17) EBI score of 64.3 remains solidly positive, but is down 1.8 from the 66.1 score in Q2/17. Any score above 50 signifies that the market is growing (*See box below to learn more about the EBI methodology.*) The survey of 367 engineering firm leaders was conducted September 12-29.

Strong Market Indicators

The engineering industry has had a good long run, with annual construction activity growing at nearly a double-digit annual pace since 2011 and engineering employment at its highest-ever level. "We have a record backlog right now," said a respondent who is increasing staffing to keep up.

Other firm leaders question whether the market can continue to outperform. They don't see a downturn, but sense a slowing.

EBI Trendline



"Our activity is leveling off after six years of exceptional growth, due to the flattening of our client programs," said one CEO.

"We're expecting a market correction," said another.

The Q3/17 EBI survey respondents are generally bullish about current market conditions (up 1.3 points to 72.9) but worry about shrinking backlogs over the coming year (down 3.4 to 65.2) and profitability over the next three years (down 4.4 points to 65.9).

About the EBI The *ACEC 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 Soften

In recent years, the private construction market has dwarfed the public market. In 2011, the private market was about 1.6 times as big as the public market. Since then, the public market has remained essentially flat, while the private market has more than doubled, reaching a \$955 billion annual rate in August 2017. Today the private market is more than 3.6 times as big as the public market.

In recent EBI surveys, firm leaders expected most private market segments to continue to grow, but in the current survey they are not so confident. In only one of the six segments tracked by the survey do firm leaders project expansion—Industrial/Manufacturing (up 0.4 points to 66.1)—and even there, concerns exist.

“Manufacturing includes distribution warehouses,” says a respondent, “and all of our volume is in distribution warehouses right now.”

Energy and Power has been the strongest private market segment for several quarters, but it dropped 2.6 points to 64.7. “We’re finishing up on some larger projects that were partially funded by the oil industry,” said one CEO, “and we are seeing much less funding coming up for future projects.”

Another strong sector has been Land Development, but it fell 3.6 points to 63.9.

Component Results Q3 2017	Better	Same	Worse	Q3 2017 Results	Q2 2017 Results
Current business climate vs. 12 months ago	57.1%	31.6%	11.3%	72.9	71.6
Current business climate vs. 6 months ago	34.4%	59.8%	5.9%	64.3	65.3
Current business climate vs. 12 months from now	36.5%	59.8%	5.9%	66.4	67.6
Profitability expectations for next 6 months	49.2%	42.6%	8.2%	70.5	74.1
Profitability expectations for next 12 months	52.1%	41.2%	6.7%	72.7	72.7
Profitability expectations for 3 years from now	46.9%	37.9%	15.2%	65.9	70.3
	Larger	Same	Smaller		
Backlog vs. 12 months ago	56.4%	24.9%	18.6%	68.9	69.4
Backlog vs. 6 months ago	41.0%	44.9%	14.2%	63.4	67.6
Backlog expectations for 12 months from now	44.8%	40.8%	11.5%	65.2	68.6
Twelve-month expectations for PUBLIC markets	Better	No Change	Worse		
Transportation	52.3%	36.4%	11.3%	70.5	66.7
Water and Wastewater	43.3%	52.6%	4.1%	69.6	66.3
Environmental (Other than water/wastewater)	13.9%	75.1%	11.0%	51.5	53.7
Health Care	17.9%	69.8%	12.3%	52.8	57.7
Education	17.5%	69.3%	13.2%	52.2	55.5
Buildings	28.4%	61.4%	10.2%	59.1	63.8
Twelve-month expectations for PRIVATE markets	Better	No Change	Worse		
Energy and Power	36.9%	55.6%	9.3%	64.7	67.3
Land Development	37.1%	53.7%	5.9%	63.9	67.5
Buildings	39.3%	52.1%	8.6%	65.4	68.4
Health Care	24.9%	65.2%	9.9%	57.5	63.6
Industrial/Manufacturing	38.6%	55.1%	6.4%	66.1	65.7
Education	18.4%	73.1%	8.6%	54.9	56.7
Overall EBI				64.3	66.1

“The real estate market is overall very soft at this time with higher vacancy rates and more real estate on the market than in the past 10 years,” said a respondent.

Continuing uncertainty about the nation’s health care system pushed that market segment down 6.1 points to 57.5. The Buildings sector fell 3.0 points to 65.4 and Education dropped 1.8 points to 54.9.

Among public markets, only Transportation (up 3.8 to 70.5) and Water/Wastewater (up 3.3 to 69.6) rose, possibly reflecting CEO optimism that the nation’s infrastructure will be fixed. Nevertheless, the dysfunction on Capitol Hill was cited as a cause for worry.

“The biggest uncertainty is the federal funding portion of transportation and the EPA, with associated delays for environmental clean-up through the U.S. Army Corps of Engineers and Department of Defense,” said one respondent.

Another response: “The business climate depends on the political climate, which currently is horrible.”

The Public Buildings segment fell 4.7 to 59.1. The three remaining public market segments have fallen close to the score of 50, which is the dividing line between a growing and shrinking market: Health Care (down 4.9 to 52.8), Education (down 3.3 to 52.2) and Environmental (down 2.2 to 51.45).

Overheard:

“Outlook is better as the previous administration’s over-regulation is rolled back to a level that protects and does not punish.”

“Our state won’t pass a gas tax.”

“Government work is still very slow.”

“Things have improved over the last year, so short of a ‘market correction’ that slows momentum, we see modest market improvement in the near future.”

“The competition is much more than in previous years.”



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