

ACEC Engineering Business Index

EBI Composite Score

66.3

3rd Quarter 2018

Data collection and analysis by FMI Corporation

Current Market Strength Buoy CEO Confidence, But...

The song remains the same.

As has been the case for the past several Engineering Business Index (EBI) surveys, U.S. engineering firm leaders are optimistic about the strength of the Architecture/Engineering/Construction (A/E/C) market, but they can't quite bring themselves to believe that it can continue to outperform. Concerns that remain are the staying power of the U.S. economy and the ever-tightening market for qualified engineers.

In the 3rd quarter 2018 survey, the EBI score rose 0.8 points to 66.3. The EBI measures CEO confidence about their firms and their markets, and any score above 50 signals positive CEO sentiment. (See box below to learn more about the survey methodology.)

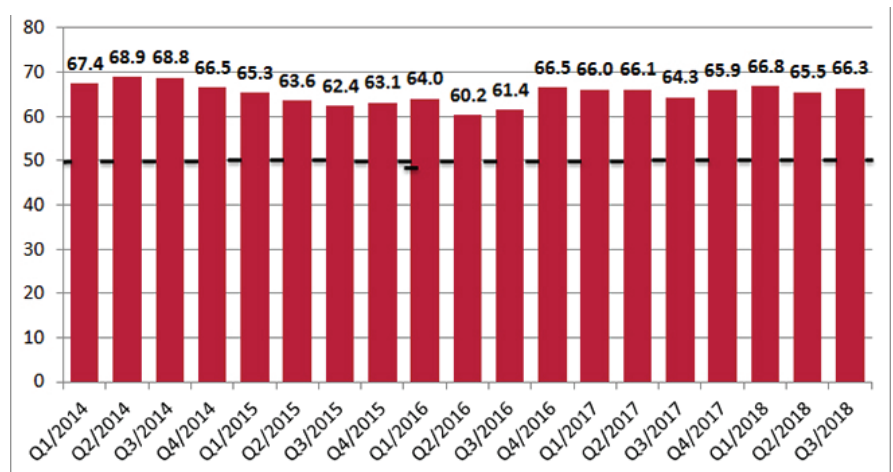
The survey of 238 engineering firm leaders was conducted from September 25 to October 12.

There's no question that the A/E/C market is strong and has been for the past several years. Total construction spending is at record high levels and the market is two-thirds larger than in 2011. It's little wonder that engineering CEOs are enjoying the ride.

"Business has never been better," says one survey respondent.

The strength of the current market and the backlog and future profits that it will produce are the prime drivers behind the rise in the EBI score. Many firms are so busy that they're backlogging work well into the future. And

EBI Trendline



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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because engineering projects can last for months or even years, the firms can look forward to returns stretching out over the long haul.

Results show the score for “Expectations for Backlog One Year from Now” climbed 6.9 percent to 68.1, and the score for “Profitability Expectations for Three Years from Now” rose 6.9 percent to 63.6

At the same time, however, firm leaders are worried about whether the market can keep up this pace, with the score for “Expectations for the Business Climate One Year From Now” falling almost 4 percent to 63.6.

“We see 2019 as being about the same as this year with the possibility of work levels tapering off by the end of 2019 going into 2020,” said one respondent.

Another said, “The economic bubble we’re in could burst at any time.”

Market Sector Optimism

At odds with their concern about the continuing strength of the A/E/C market, firm leaders expressed substantial optimism about the future performance of the most market sectors within the industry. The EBI tracks CEO expectations for 12 sectors one year from now—six private client markets and six public client markets—and scores rose in all but one.

Component Results Q3 2018	Better	Same	Worse	Q3 2018 Results	Q2 2018 Results
Current business climate vs. 12 months ago	59.8%	30.5%	9.8%	75.0	79.8
Current business climate vs. 3 months ago	35.0%	61.5%	3.4%	65.8	67.7
Current business climate vs. 12 months from now	38.8%	49.6%	11.6%	63.6	66.1
Profitability expectations for next 6 months	52.5%	41.1%	6.4%	73.1	73.7
Profitability expectations for next 12 months	45.2%	46.8%	8.0%	68.6	68.0
Profitability expectations for 3 years from now	44.3%	38.7%	17.0%	63.6	59.5
	Larger	Same	Smaller		
Backlog vs. 12 months ago	60.2%	27.1%	12.7%	73.7	73.9
Backlog vs. 6 months ago	44.9%	43.2%	11.9%	66.5	66.5
Backlog expectations for 12 months from now	48.5%	39.2%	12.3%	68.1	65.9
Twelve-month expectations for PUBLIC markets	Better	No Change	Worse		
Transportation	50.8%	28.1%	11.1%	69.8	67.6
Water and Wastewater	45.5%	52.8%	1.7%	71.9	66.1
Environmental (Other than water/wastewater)	20.7%	70.7%	8.7%	56.0	55.7
Health Care	27.9%	62.2%	11.0%	61.1	56.6
Education	26.8%	64.3%	11.8%	57.9	56.1
Buildings	34.7%	57.8%	7.5%	63.6	62.1
Twelve-month expectations for PRIVATE markets	Better	No Change	Worse		
Energy and Power	46.1%	48.7%	5.3%	70.4	69.3
Land Development	35.2%	53.9%	10.9%	62.1	64.8
Buildings	41.0%	50.3%	8.7%	66.2	65.1
Health Care	35.7%	55.8%	8.4%	63.6	60.6
Industrial/Manufacturing	37.7%	65.2%	9.9%	66.7	65.3
Education	24.8%	70.8%	8.1%	57.5	56.6
Overall EBI				66.3	65.5

As 2018 has progressed, respondents have become increasingly bullish about business prospects in the public markets. The biggest increase in the survey was in expectations for the Water and Wastewater market, with the score jumping 8.8 percent to 71.9. Health Care was also strong (up 7.6 percent to 61.1), followed by Transportation (up 3.2 percent to 69.8), Education (up 3.2 percent to 57.9), Buildings (up 2.4 percent to 63.6), and Environmental (up 0.5 percent to 56).

Health Care was also a strong performer in the private market sectors, jumping 5 percent to 63.6, followed by Industrial/Manufacturing (up 2.1 percent to 66.7), Buildings (up 1.7 percent to 66.2), Energy and Power (up 1.6 percent to 70.4), and Education (up 1.6 percent to 57.5). The only sector to fall was Land Development, which was off 4.2 percent to 62.1.

Growth Threats

Asked about the greatest threat to their firm's success, more than one third of CEOs (37 percent) pointed to the shortage of engineering talent.

"Experienced labor is difficult to find," says one respondent. "We've been hiring new graduates and engineers with two to four years of experience."

At many firms, however, Baby Boomers make up the bulk of the senior staff and they are retiring at a rapid pace. As a result, says another respondent, "There's a large knowledge gap."

About one quarter of respondents (26 percent) are concerned about "Adverse Economic Trends."

"I believe the global economy is going to slow down and drag down the U.S. with it in the next year," said one CEO.

Another said he is expecting a "big turn in the economy."

About 18 percent of respondents narrowed their economic concerns to a slowdown's effect on project funding.

"An economic downturn will impact the public sector's ability to finance infrastructure," said one respondent.

Another was more dire: "Should governmental agencies not secure funding, my company cannot survive."

One other area of concern for engineering firm leaders is the commoditization of engineering services (14 percent).

"The push towards more clients using design-build has caused engineering work to be commoditized," one respondent said.

What is the Greatest Threat to Your Firm's Success?

