

# ACEC Engineering Business Index

EBC Composite Score

# 62.2

1st Quarter 2019

Data collection and analysis by FMI Corporation

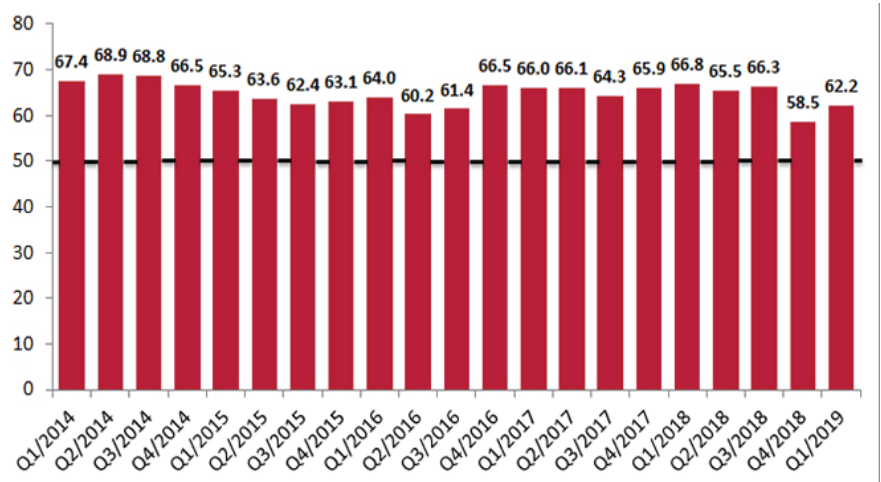
## EBC Rebounds on Short-Term Optimism; Firm Leaders Wary of the Out Years

The ACEC Engineering Business Index (EBC) increased by 3.8 points to 62.2 in the Q1 2019 survey, a 6.4 percent increase over the Q4 2018 survey score of 58.5.

The Q4 2018 score was the lowest in the five-year history of the EBC, and the current score is the second lowest since the Q3 2016 survey.

The survey of 246 firm leaders was conducted April 10-26. The EBC measures engineering industry leader confidence about their firms and their markets. Any score above 50 signals positive market sentiment. (See box below to learn more about the survey methodology).

EBC Trendline



Firm leaders expressed optimism about current market conditions and the coming year but were less confident about the long-term prospects.

“Markets are currently strong,” said one firm leader, “but we see signs of an economic pullback coming.”

### “Great Time to Be a Consulting Engineer”

Firm leaders have seen considerable improvement in the engineering market, pushing the score for the current market versus three months ago up by 20.5 percent to 64.6. Looking at market conditions over the coming year, the score climbed 12.9 percent to 57.4.

“People want to talk the economy down and make it political, but the simple fact is that now is a great time to be a consulting engineer,” said one respondent.

**About the EBC** The ACEC Engineering Business Index (EBC) 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 EBC is a diffusion index derived from quarterly surveys of engineering industry leaders on their firm’s business, market and financial performance. The EBC index mean is 50, with scores above 50 indicating business expansion, and scores below 50 indicating contraction. The EBC is produced by the American Council of Engineering Companies (ACEC) in conjunction with FMI Corporation.

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Profitability expectations over the next six months also climbed dramatically, up 17.6 percent to 73.4—the highest score in the survey. Firm leaders were less optimistic about their longer-term profitability, however, with the score falling 1.6 percent to 55.2.

Firm leaders are content with their current backlogs (70.8) but are concerned about holding these levels. Backlog expectations for 12 months from now fell 5.3 percent to 59.0.

## Land Development/Surveying Turns Around

Respondents expect improvement in almost all the Private Market sectors over the coming year. The biggest increase was in Land Development/Surveying, which in the 4Q 2018 survey was the first—and only—sector to slip below the 50 threshold that signals a negative market sentiment. In the current survey, Land Development jumped 24 percent to a 55.8 score.

The other big mover among the Private Markets was Buildings, which climbed 16.3 percent to 58.5. Energy and Power rose 4.7 percent to 64.7, Education climbed 1.5 percent to 54.2, and Health Care was up 0.7 percent to 59.4. Only Industrial/Manufacturing fell among the Private Markets, dropping 0.8 percent to 58.9.

The biggest climbers among the Public Market sectors were Environmental, up 10.2 percent to 56.3, and Water and Wastewater, rising 9 percent to 67.9. Although Transportation fell slightly, down 1.3 percent to 71.1, the high score suggests that firm leaders remain very optimistic about this sector.

Component Results Q1 2019	Better	Same	Worse	Q1 2019 Results	Q4 2018 Results
Current business climate vs. 12 months ago	50.4%	38.9%	10.7%	69.9	67.2
Current business climate vs. 3 months ago	33.6%	61.9%	4.5%	64.6	53.6
Current business climate vs. 12 months from now	31.2%	52.5%	16.4%	57.4	50.8
Profitability expectations for next 6 months	52.9%	41.0%	6.2%	73.4	62.4
Profitability expectations for next 12 months	43.6%	44.4%	11.9%	65.8	61.7
Profitability expectations for 3 years from now	37.9%	34.6%	27.5%	55.2	56.1
	Larger	Same	Smaller		
Backlog vs. 12 months ago	56.7%	28.2%	15.1%	70.8	69.5
Backlog vs. 6 months ago	44.9%	45.3%	9.9%	60.2	60.2
Backlog expectations for 12 months from now	36.9%	44.3%	18.9%	59.0	62.3
<b>Twelve-month expectations for PUBLIC markets</b>	<b>Better</b>	<b>No Change</b>	<b>Worse</b>		
Transportation	49.8%	42.8%	7.5%	71.1	72.0
Water and Wastewater	41.3%	53.3%	5.4%	67.9	62.3
Environmental (Other than water/wastewater)	19.9%	72.9%	7.2%	56.3	51.1
Health Care	27.0%	59.3%	13.8%	56.6	59.1
Education	24.6%	65.1%	10.3%	57.1	54.7
Buildings	24.6%	61.8%	13.7%	55.5	52.3
<b>Twelve-month expectations for PRIVATE markets</b>	<b>Better</b>	<b>No Change</b>	<b>Worse</b>		
Energy and Power	37.2%	55.1%	7.7%	64.7	61.8
Land Development	25.7%	60.2%	14.0%	55.8	45.0
Buildings	30.1%	56.8%	13.1%	58.5	50.3
Health Care	29.4%	60.0%	10.6%	59.4	59.0
Industrial/Manufacturing	27.9%	62.0%	10.1%	58.9	59.4
Education	20.6%	67.3%	12.1%	54.2	53.4
<b>Overall EBI</b>				<b>62.2</b>	<b>58.5</b>

Two other rising Public Market sectors were Buildings, up 6.1 percent to 55.5, and Education, up 4.4 percent to 57.1.

The Health Care sector fell, dropping 4.2 percent to 56.6.

### “We Prefer to Get Paid”

Asked about how their mix of work has changed over the past two years, more than one third of respondents (36 percent) said they have stayed the course.

“We’re trying to stay diversified and the last two years have seen a good stable mix of public and private work,” said a firm leader.

About an equal percentage report doing somewhat more public work (24 percent) or somewhat more private work (21 percent).

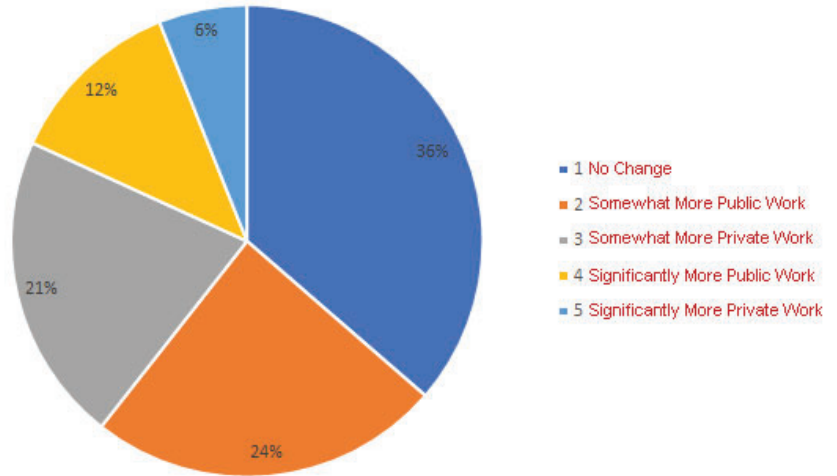
“Public work has been very strong for the last three years and will be strong for at least one more year,” said one respondent.

Another said, “Public sector is favoring larger firms currently, especially federal and state governments, making it difficult for locals and smaller firms.”

Small percentages are doing significantly more public work (12 percent) or significantly more private work (6 percent).

“We do not compete in the private market,” said one respondent. “We prefer to get paid.”

### How has the mix of public and private work changed for your firm over the past two years?



### “Dysfunctional Federal Government”

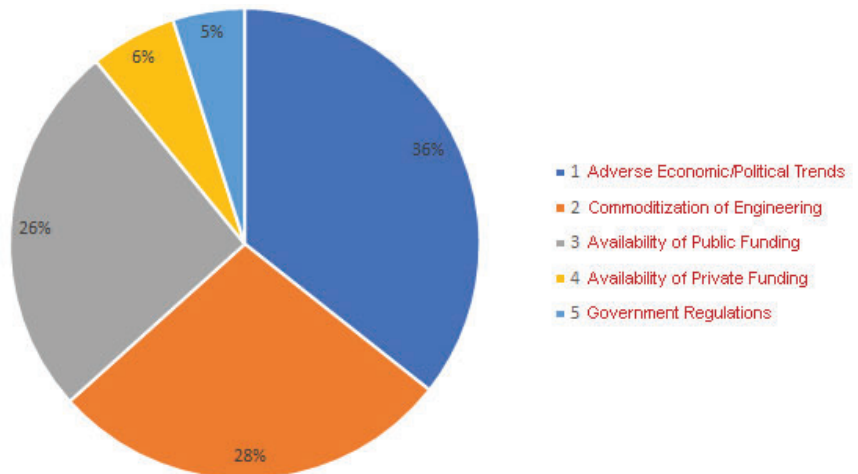
More than a third of firm leaders (36 percent) said current adverse economic/political trends are the biggest threat to their firm’s success.

“My biggest concern is that economic policies are creating a short-term boost, which will have a large downside when the time comes,” said one respondent. “Reducing tax rates on corporations and the wealthy, increasing long-term debt, and widening the wealth gap are not a long-term sustainable model.”

“The dysfunctional federal government is a major threat,” said another.

One firm leader cautioned against too much economic doom and gloom: “There is so much talk about a recession that we will eventually convince ourselves and make it happen.”

### Which of the following business factors most threatens your firm’s success?



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The second largest threat to firms was the commoditization of engineering (28 percent). “As governments adopt ever more micro-focused ordinances and regulations, engineering services focus more on compliance than on optimized and innovated solutions,” said a firm leader. “Engineering is becoming plain vanilla.”

Availability of public funding was of primary concern to 26 percent of respondents, followed by the availability of private funding (6 percent) and government regulations (5 percent).

Individual respondents brought up a number of additional issues:

- “We feel that disruptive technology will also greatly impact our business and the design industry as a whole.”
- “Increasingly QBS is not being used by public clients, particularly when Design-Build or P3 modes of delivery are involved.”
- “Health care costs are by far and away the biggest threat to business and the economy as a whole.”
- “Finding people.”
- “Cost of construction making projects infeasible.”