

ACEC Engineering Business Index

EBC Composite Score

62.6

2nd Quarter 2019

Data collection and analysis by FMI Corporation

EBC Increase Fueled by Long-Term Optimism

The ACEC Engineering Business Index (EBC) edged up 0.4 points to 62.6 in the Q2 2019 survey, the second consecutive quarterly increase.

The Q2 score, however, is 3.3 percent below the five-year average of 64.7.

The survey of 172 firm leaders was conducted from June 18 to July 3, 2019. 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).

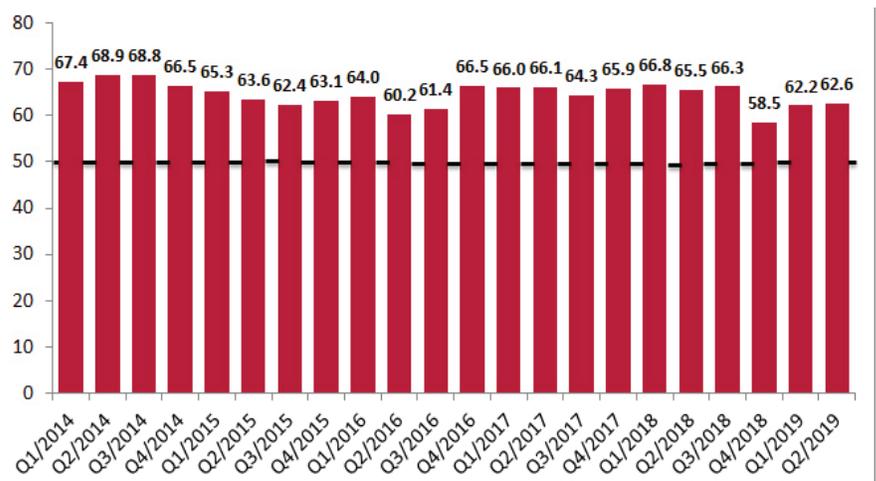
Firm leaders reported that the business climate is better now than a year ago, but has worsened in the past three months, and they believe it will continue to decline over the coming year.

Respondents expect profitability to improve in three years, but not in the next six months or even a year from now. They report backlogs are down from a year ago and three months ago but are confident that their backlog will grow over the coming year.

Public Market Optimism

In the public markets, respondents believe that five of the six tracked sectors will improve over the coming year. Expectations for the Environmental sector rose 7.6 percent, Buildings (up 5.0 percent), Transportation (up 2.8 percent), Education (up 3.2 percent), and Water and Wastewater (up 2.7 percent). The Health Care sector was flat.

EBC Trendline



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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The private markets were mixed. Respondents have positive expectations for the Industrial/Manufacturing (up 3.6 percent), Education (up 2.2 percent) and Land Development sectors (up 2.2 percent), but are less optimistic about the Energy and Power (down 3.9 percent), Health Care (down 2.2 percent), and Buildings (down 1.5 percent) sectors.

Component Results Q2 2019	Better	Same	Worse	Q2 2019 Results	Q1 2019 Results
Current business climate vs. 12 months ago	53.5%	33.3%	13.2%	70.1	69.9
Current business climate vs. 3 months ago	33.9%	59.8%	6.3%	63.8	64.6
Current business climate vs. 12 months from now	27.6%	53.5%	19.0%	54.3	57.4
Profitability expectations for next 6 months	49.7%	43.9%	6.4%	71.7	73.4
Profitability expectations for next 12 months	37.6%	50.9%	11.6%	63.0	65.8
Profitability expectations for 3 years from now	39.9%	41.0%	19.1%	60.4	55.2
	Larger	Same	Smaller		
Backlog vs. 12 months ago	54.6%	27.6%	17.8%	68.4	70.8
Backlog vs. 6 months ago	44.5%	43.9%	11.6%	66.5	67.5
Backlog expectations for 12 months from now	39.3%	45.7%	15.0%	62.1	59.0
Twelve-month expectations for PUBLIC markets	Better	No Change	Worse		
Transportation	55.3%	35.5%	9.2%	73.1	71.1
Water and Wastewater	42.0%	55.0%	3.1%	69.5	67.9
Environmental (Other than water/wastewater)	26.6%	64.7%	6.7%	60.9	56.3
Health Care	23.0%	67.2%	9.8%	56.6	56.6
Education	26.6%	64.5%	8.9%	58.9	57.1
Buildings	25.0%	66.7%	8.3%	58.3	55.5
Twelve-month expectations for PRIVATE markets	Better	No Change	Worse		
Energy and Power	32.2%	60.0%	7.8%	62.2	64.7
Land Development	30.5%	53.1%	16.4%	57.0	55.8
Buildings	28.8%	57.6%	13.6%	57.6	58.5
Health Care	26.3%	63.6%	10.2%	58.1	59.4
Industrial/Manufacturing	33.1%	55.9%	11.0%	61.0	58.9
Education	21.7%	67.5%	10.8%	55.4	54.2
Overall EBI				62.6	62.2

Enthusiasm for Tax Reform Law

In 2017, the Tax Cuts and Jobs Act lowered the corporate tax rate from 35 percent to 21 percent and—due to ACEC lobbying—created a new 20 percent deduction for pass-through entities such as S-corporations, partnerships, and sole proprietorships. More than a year has passed since the law passed, so we asked firm leaders what impact it has had on their firms.

More than one-quarter of respondents (26 percent) credited the tax law with improving their bottom line.

“Absolutely the right thing for business growth,” said one respondent. “Makes hiring harder and wages are going up, but profits are higher.”

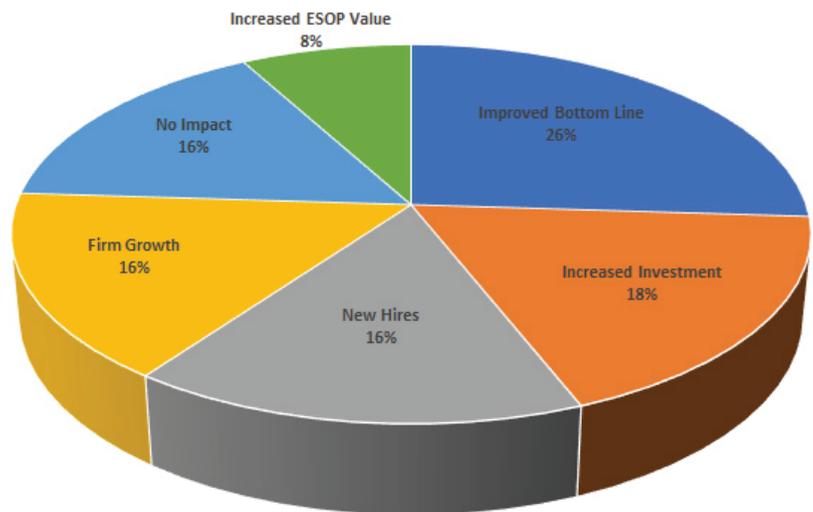
The second highest response (18 percent) was the law allowed firms to increase investment. “The lower tax corporate tax rate incentivized us to retain more earnings and it improved our balance sheet,” said a firm leader.

Respondents also reported that the law has allowed them to make new hires (16 percent), grow their firm (16 percent), and increase the value of their Employee Stock Ownership Program (8 percent). Sixteen percent said the law had no impact.

In commenting on the law, most respondents were positive but nearly one in five were critical, citing the growth of the federal budget deficit.

“Looks good in the short term but ultimately a terrible idea,” said one respondent.

How has the 2017 Tax Cuts and Jobs Act Impacted Your Firm?



Finding/Keeping Talent is Toughest Task

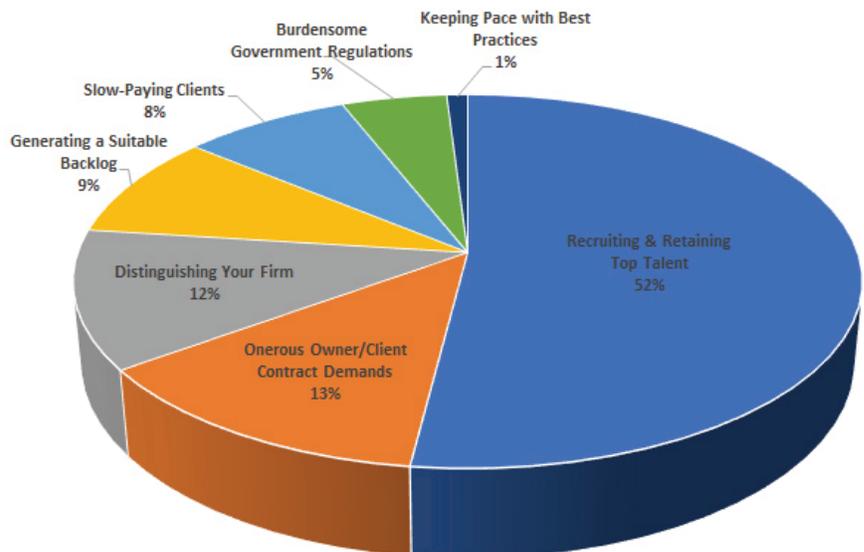
Asked what they consider to be the most challenging aspect of managing a successful engineering firm, more than half (52 percent) said that recruiting and retaining top talent is their hardest task.

“A healthy economy and a talented, high achieving, self-focused young workforce put employee retention at the top of the worry list,” said one firm leader.

The second most frequent response (13 percent) was onerous owner/client contract demands. “More and more clients are viewing engineering services as a commodity,” said one respondent. “We are constantly having to prove our value to clients.”

Other responses included distinguishing their firm from the competition (12 percent), generating a suitable backlog (9 percent), slow-paying clients (8 percent), burdensome government regulations (5 percent) and keeping pace with evolving management best practices (1 percent).

What Would You Choose as the Most Challenging Aspect of Managing a Successful Engineering Firm?



Participant Comments

On the 2017 Tax Cut and Jobs Act:

“Been a phenomenal program.”

“I used the additional savings to start a new department and hire a new director. This gives us one year of overhead to find and win new work in the new department.”

“The tax cut improved our cash situation.”

“The new tax law has been a tremendous benefit. MORE of this kind of action from all levels of government is needed.”

“Has allowed us to grow while maintaining performance.”

“We talk a lot at ACEC about our value proposition. The Tax Cuts and Jobs Act was a huge benefit to engineering firms and we owe that to the advocacy of ACEC.”

“I believe that this has artificially boosted short-term gain for the corporations that are already successful at the expense of long-term economic and environmental sustainability.”

“Because of infrastructure investments/outsourcing in our region AND especially because of the Tax Cut/Jobs Act, our company stock value took a very large jump (36 percent) in 2018. Our valuation firm indicated ~20 percent of that was due to tax cut. This resulted in more hiring, a new office, larger ESOP contributions and bonuses for employees. Average employee take-home pay went up ~\$155/month on tax cut alone.”

“I am more concerned with the impact of the growing deficit. I would rather not have a tax cut if it means not reducing the deficit.”

On Firm Ownership Challenges:

“Leading and mentoring people continues to occupy a large amount of time. Engineers and other technical staff are not known for being people-oriented. Finding employees that can handle people and clients is challenging in our industry.”

“Qualified staff remain hard to come by.”

“Need more engineers in MEP consulting engineering.”

“We work mostly with governmental agencies in the transportation arena. We are no longer partners/team members with our clients. We are adversaries. We have lost sight of our pledged professional responsibility to work for the safety of the citizens in our region. Every aspect of working with the highway administration, department of public works, etc., is a battle. Very negative industry at the moment.”

“In second place is owners abandoning lump sum in favor of hourly contracts, which promotes putting the least efficient, least productive, least knowledgeable, and least experienced personnel on their job.”

“Staying relevant in an industry that’s being commoditized for those in certain sectors of the design industry.”

“Cash flow is always on our minds since cash is king and our influence on getting a client to pay us is minimal.”

“Insurance requirements continue to rise.”

“If we don’t collect within 15-20 days of billing, we are leveraging the billing given that so many of our expenses have transitioned to instantaneous withdrawals.”