

ACEC Private Industry Brief

Economic Outlook

Q2 2019 Review



Introduction

Welcome to the second issue of ACEC's quarterly publication on the economic trends and indicators most relevant to the engineering industry. In this issue you'll find a brief update on the top five macroeconomic trends for 2019, information on when business economists are predicting the next potential recession, A/E services revenue data, and a look at which markets have shown growth, stability, or loss in the last year, as well as which states are showing economic momentum.

Sources for the Economic Outlook include:

U.S. Census Bureau, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, FMI, National Association of Business Economics (NABE), S&P CoreLogic Case-Shiller Index, American Institute of Architects (AIA), Associated Builders and Contractors (ABC), International Monetary Fund (IMF), Federal Funds Information for States (FFIS), and the Peter G. Peterson Foundation.

Q2 Update on the 5 Macroeconomic Trends for 2019

1. Reaping Benefits from the 'Fiscal Stimulus':

- Economy continues to be strong
- U.S. economic expansion is the longest on record at 122 months

2. Record Low Unemployment Continues:

- Unemployment rate remains at a record low, averaging 3.6% for Q2 2019
- U.S. continues to add jobs at a steady pace, setting a record for 106 months of consecutive job growth as of July 2019
- Challenge finding talent remains significant

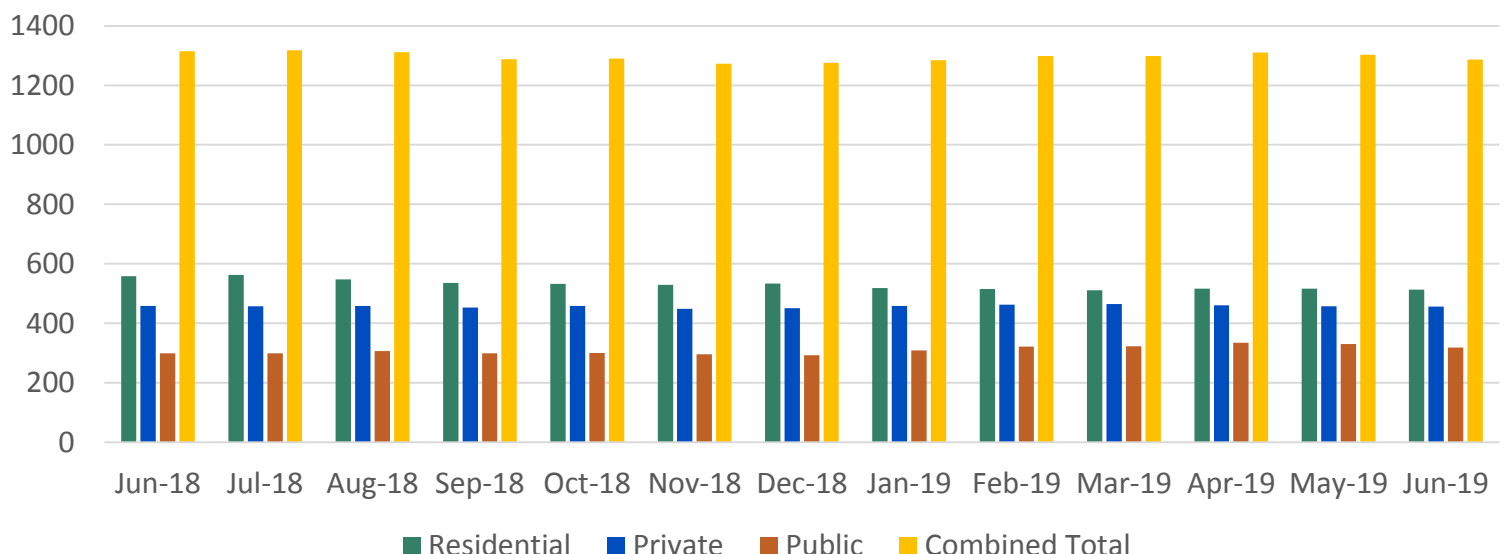
3. Interest Rates Expected to Remain Low:

- The Federal Reserve lowered interest rates in July for the first time since 2008, citing the move as a hedge against the uncertainty of the global economy

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U.S. Construction Put in Place, June 2018-June 2019

(in billions \$)



Source: U.S. Census Bureau

Q2 Update on the 5 Macroeconomic Trends for 2019, *continued*

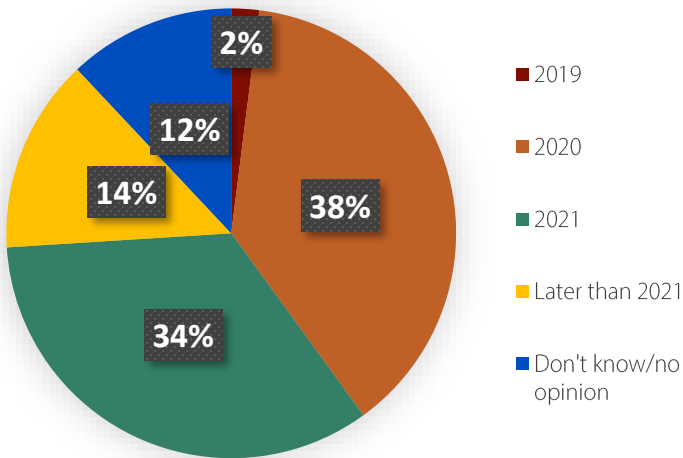
4. Trade Issues and International Slowdown Likely to have Impact:

- The U.S. has further increased tariffs on certain Chinese imports and China has retaliated with its own tariffs
- IMF has revised down its global growth forecast to 3.2%, down 0.1% from its April 2019 projection

5. Predicting the Next Recession:

- NABE's August survey shows business economists now believe a recession will occur later—with 38% predicting 2020—than the last survey in February 2019 (see chart below)
- The federal deficit and tariffs are major concerns
- Home price growth has slowed for the longest period since the 2008 crash, according to the Case-Shiller National Home Price Index

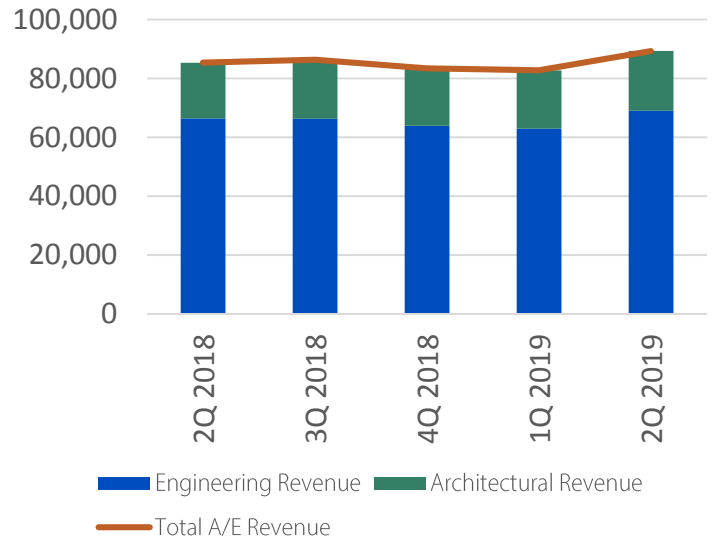
When will the U.S. economy enter the next recession?



Source: National Association for Business Economics

U.S. A/E Firm Revenues, 2Q 2018-2Q 2019

(in millions \$)



Source: U.S. Census Bureau

Quarterly A/E Revenues Shows Slight Uptick After 2 Quarters of Decline

The U.S. Census Bureau's 'preliminary estimate' of total A/E revenues shows a slight uptick to \$89.37B in the second quarter of 2019 (released Sept. 6, 2019). This is after two quarters of slight decline.

The increase shows that although economists are discussing *when* an economic slowdown may occur, an actual slowdown has not begun for the A/E industry.

The A/E/C economic indicators also remain positive (see table below) showing continued confidence within the industry, and billings and backlog have been consistent.

Macro & Industry Indicators	2Q 2018	3Q 2018	4Q 2018	1Q 2019	2Q 2019
Gross Domestic Product (GDP) Growth	3.5%	2.9%	1.1%	3.1%	2.0%
Core Inflation Rate (2% is target)	2.2%	2.2%	2.2%	2.1%	2.1%
Unemployment Rate	3.9%	3.8%	3.8%	3.9%	3.6%
New Housing Permits	371.7K	333.1K	312.8K	289.8K	354K
A/E/C Industry Economic Indicators					
Engineering Business Index (ACEC)*	65.5	66.3	58.5	62.2	62.6
Architectural Billing Index (AIA)*	52.03	52.0	51.83	51.13	49.93
ABC Backlog Indicator (yearly average)	9.9 mos.	9.04 mos.	8.9 mos.	8.8 mos.	8.8 mos.
FMI Non-Residential Construction Indicator*	62.2	57.4	54.6	52.1	53.3

*Index scores over 50 indicate expansion; below 50 indicate contraction.

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Census Bureau, ACEC, AIA, ABC & FMI

Sustainable Fiscal Solutions Highlight Infrastructure Importance

Policy actions to bring economic and fiscal sustainability to the United States over the long-term is a current focus of economists, think tanks and policy makers in Washington, particularly as the benefits and drawbacks of the Tax Cuts and Jobs Act of 2017 become evident, and the problem a growing \$22 trillion national deficit looms. The challenges and solutions under consideration shine a light on how important infrastructure and the built environment are to the nation's economy.

The non-partisan Peter G. Peterson Foundation brought together seven leading policy organizations—representing points on the political spectrum from conservative (American Enterprise Institute, Manhattan Institute), to moderate (American Action Forum, Bipartisan Policy Center, Progressive Policy Institute), and liberal (Economic Policy Institute, Center for American Progress)—as part of its *Solutions Initiative 2019: Charting a Sustainable Future*. The resulting report and discussions during a June forum in Washington show some agreement on key economic and policy recommendations that would significantly impact infrastructure. These include:

Implementation of a federal carbon tax. Six of the seven institutions specifically call for a carbon tax; with five providing quantitative details (see table below). As the Bipartisan Policy Center (BPC) articulates, a carbon tax would “internalize the negative externalities associated with carbon and spur innovation in sustainable green or renewable energy technologies.”

Most of the other institutions calling for the tax also recommend dedicating prospective revenues for research and development (R&D) of technologies to fight climate change, and initiatives towards clean energy infrastructure and resilient design and construction.

Raising the federal gasoline tax. Several of the think tanks call for the federal gas tax to increase. The conservative American Enterprise Institute recommends a 15 cents-per-gallon increase in 2020 with future increases indexed to construction prices. BPC also calls for a one time increase of \$0.334 per gallon, which would subsequently be indexed to inflation, but notes that raising the gasoline tax is not a sufficient long-term solution, “... with rising fuel efficiency and electric vehicle ownership, gas tax increases cannot sustainably meet expected long-term infrastructure needs. New, innovative funding mechanisms are necessary to support these needs down the road.” The Progressive Policy Institute notes this same problem and calls for replacing fuel taxes with a vehicle-miles-traveled tax.

Budgeting ahead for disaster recovery spending. With the increase in major disasters over the last decade or so, there is a call for a more institutionalized way of funding recovery packages. BPC suggests using dedicated revenues from the proposed carbon tax to fund relief and recovery efforts. The Economic Policy Institute concurs—noting that these current one-time disaster relief packages are not sensible as funds will “surely be needed as natural disasters become more common because of global climate change.”

Think Tank Recommendations for a Federal Carbon Tax

Organization	Base Year/2020 Carbon Tax Proposal	Annual Increases to Carbon Tax After Base year
American Action Forum (AAF)	\$20 per metric ton	Chained Consumer Price Index for All Urban Consumers (C-CPI-U) plus 5%
American Enterprise Institute (AEI)	\$25 per metric ton	Inflation plus 2%
Bipartisan Policy Center (BPC)	\$25 per ton	2% per year (inflation-adjusted)
Economic Policy Institute (EPI)	\$80 per ton	Rising to \$120 per ton over time
Progressive Policy Institute (PPI)	\$30 per ton	Inflation plus 5%

Source: Peter G. Peterson Foundation

2019 Performance by Market Sector (% change June 2019 from June 2018 in construction put in place)

↑ Up (5% growth or more)	→ Stable (0-4.9% growth)	↓ Down (less than 0%)
Office (+8.9%)	Amusement & Recreation (+4.4%)	Commercial (-10.7%)
Lodging (+8.7%)	Water Supply (+4.6%)	Residential (-8.0%)
Manufacturing (+9.9%)	Health Care (+2.1%)	Power (-4.6%)
Transportation – buildings (+7.5%)	Public Safety (+4.9%)	Communication (-5.2%)
Sewage & Waste Disposal (+18.7%)		Educational (-0.7%)
Highway & Street (+6.5%)		
Conservation & Development (+5.6%)		

Source: U.S. Census Bureau

Index of State Economic Momentum

The Index of State Economic Momentum is a quarterly measure of economic vitality that takes into account the growth of personal income, employment and population. The measures of these three components are averaged, the national average is 'zero' and each state's momentum is listed as a percentage above or below the national average (see table to right).

Source: *State Policy Reports* by the Federal Funds Information for States (FFIS)

Upcoming Private Industry Briefs

Focusing on the private-sector markets listed below, ACEC's Private Industry Briefs are available via subscription; they are free and you can cancel at any time. To sign up or download current issues, visit:

<https://programs.acec.org/industrybrief/>



Commercial & Residential Real Estate



Intermodal & Logistics



Energy & Utilities



Health Care & Science+Technology



**2019 Special Topics Issue:
Public-Private Partnerships**

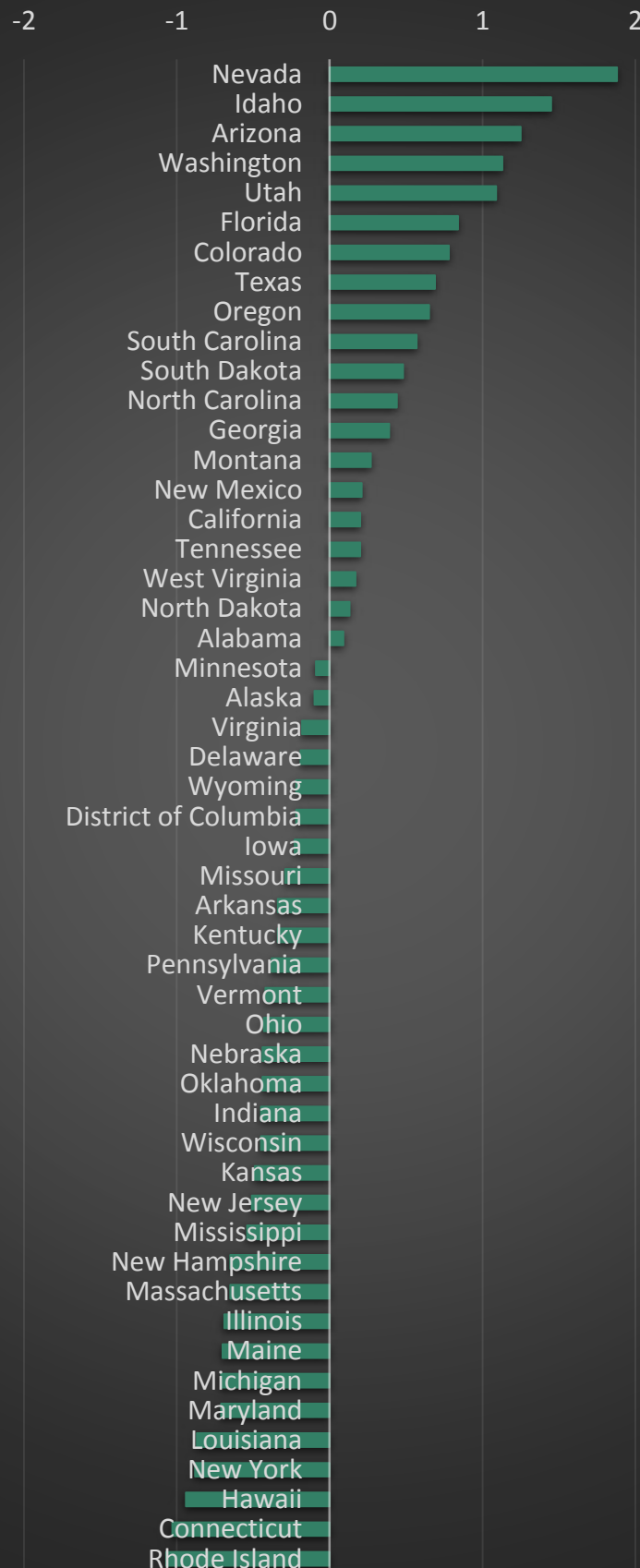
Current trends in the public-private partnership (P3) market space—including the rise of 'social infrastructure' and the stable and growing student housing market—are the focus of ACEC's 2019 special topics issue, available now.

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ACEC's Private Industry Briefs include annual updates of four key markets, as well as quarterly economic reviews. Further coverage can be found in *Engineering Inc.*'s regular column 'The Private Side.'

Index of State Economic Momentum – Q2 2019



Source: FFIS