

ENGINEERING BUSINESS SENTIMENT 2024 Q2

MAY 2024

ENGINEERING BUSINESS SENTIMENT

2024 Q2

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EXECUTIVE SUMMARY

Current Business Conditions

- Current sentiment remains positive. The Net Ratings for the firm's finances (+86) and for industry (+83) remain extremely high. The Net Rating for the U.S. economy is +39.
- Optimism about the U.S. economy increased four points from last quarter and is up 54 points from its low of -15 in Q3 2022.
- Current sentiment remains very optimistic within most market sectors. Sentiment is strongest in Roads & Bridges (+83) and Water/Wastewater (+81).
- Convention Centers, Sports Facilities and Cultural Facilities have had significant increase year-over-year (up 17 points to +56), while the Commercial Real Estate sector has seen the most precipitous decline over the past year (down 12 points to +14).
- The median backlog for firms has remained steady at 11 months for the past year and half (50%) of firm executives indicate their firm has a current backlog of one year or more.
- Nine out of ten (89%) firms still have at least one open position. The median number of open positions remains steady at five.

Future Business Conditions

- Future sentiment is positive on all metrics. Future sentiment for the U.S. economy improved one point to +10 from last quarter, while industry sentiment dropped four points to +26 and firm's finances dropped three points to +45.
- Future sentiment regarding the U.S. economy increased 34 points compared to one year ago.
- Future sentiment about the firm's overall finances declined three points from the previous quarter but is still much improved (up 10 points) over last year at this time.
- Political environment/uncertainty (86%), Inflation and rising costs (81%), and General economic uncertainty (74%) are fueling negative future sentiment.
- Future industry sentiment is positive in most sectors and is highest in Transportation - Roads/Bridges (+46), Energy and Utilities (+45), and Water/Wastewater (+43).
- Half (50%) believe their firms will see a higher backlog of projects 12 months from now.
- Backlog sentiment for twelve months from now decreased a point from last quarter to a +39 Net Rating. It is seven points higher than one year ago.
- Seventy-four percent predict there will be an increase in hiring over the next 12 months at their firms. Overall future hiring sentiment decreased two points from last quarter but is still up four points from last year at this time.
- Concern over the impact of inflation remains elevated. Seventy percent at least somewhat agree that they are extremely concerned about the impact of inflation.
- Leaders anticipate the average likelihood of recession in the next six months to be 40%, a decline of one point since last quarter.

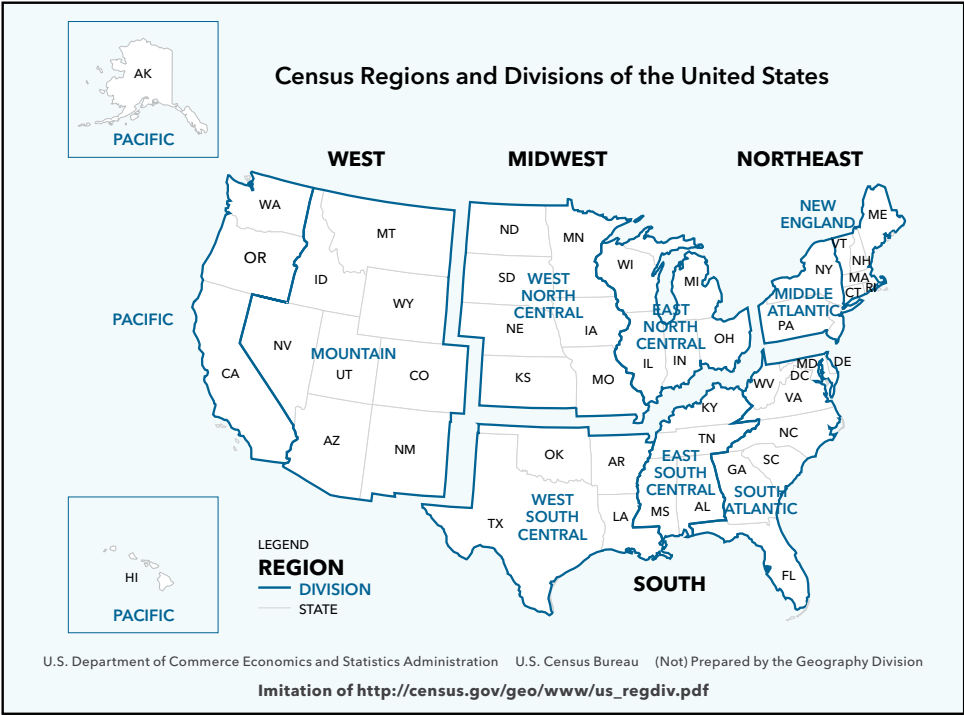
Hot Topics

- Thirty-five percent of firms have had at least 10% of their staff leave, the same as last year when this question was asked. The median is 7.6% for staff turnover.
- Eighty-eight percent say that the average salary for new hires at their firm has increased in the past year, down four points from last year.
- The average salary increase for new hires was 9% over the past year.
- Eighty-nine percent say that the average salary for existing employees at their firm has increased in the past year, down two points from last year.
- The average salary increase for existing staff was 7% over the past year.
- Nearly half of executives (48%) say their firm uses Artificial Intelligence (AI) either internally (27%), externally (2%) or both (19%).

DEMOGRAPHICS

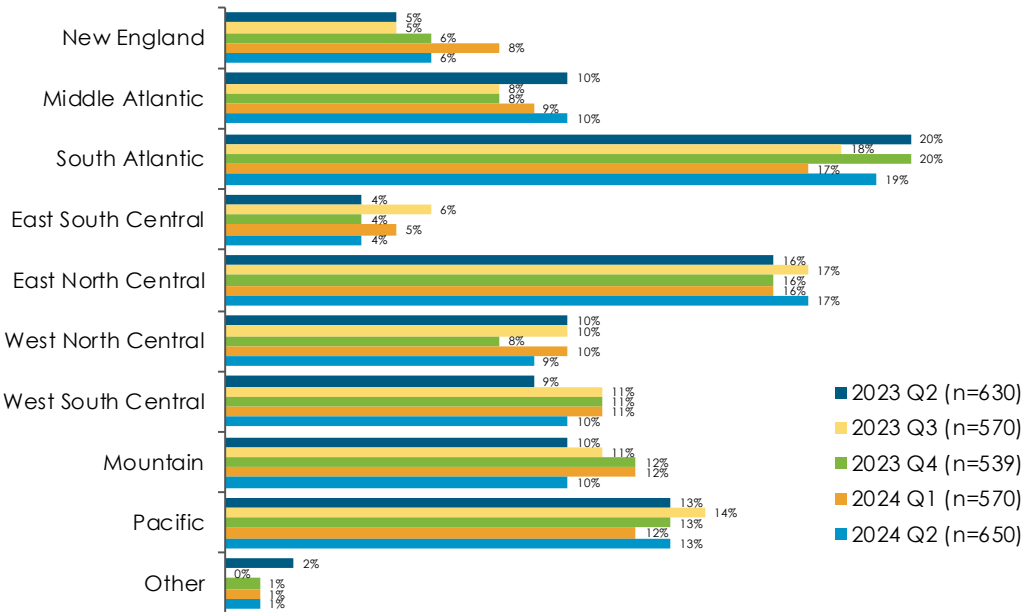
- For reference, the ACEC Research Institute uses the U.S. Census Bureau definition of geographic regions seen in Figure 1 below.

Figure 1: U.S. Census Regions of the United States



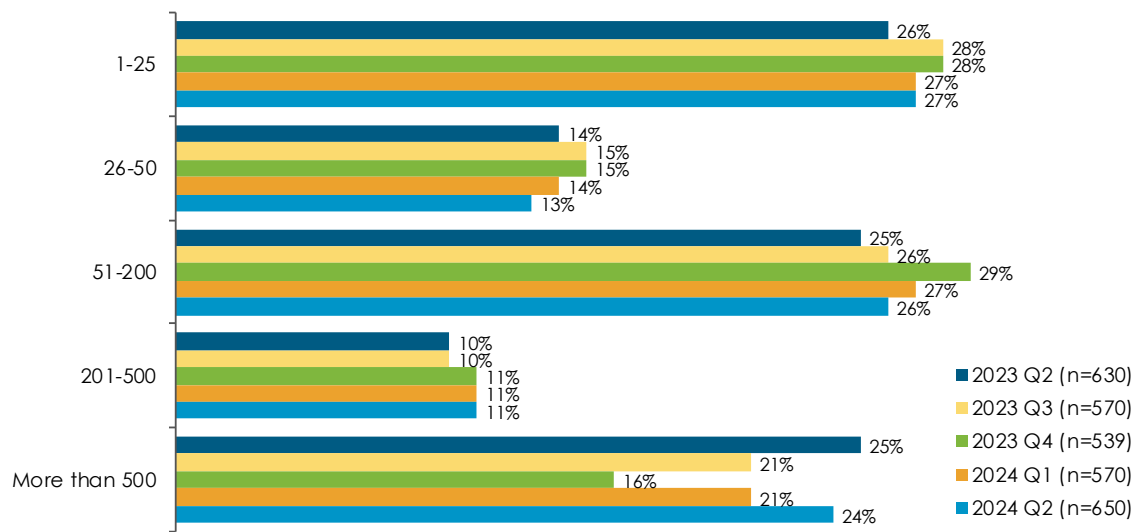
- Respondents' firms are widely dispersed around the United States. A few respondents (Other) indicate their firm is headquartered outside the U.S. These results are statistically similar to previous quarters.

Figure 2: Location of Organization Headquarters



The median number of full-time equivalent employees at respondents' firms is 90 versus 75 last quarter.

Figure 3: Number of Full-Time Equivalents at Firm



CURRENT BUSINESS CONDITIONS

Current U.S. Economy, Industry and Firm Sentiment

- Current sentiment remains positive. The Net Ratings for the firm's finances (+86) and for industry (+83) remain extremely high. The Net Rating for the U.S. economy is +39.
- Firms with 201-500 FTEs are the most positive about their firm's finances (+98).
- Firms in the Northeast and with more than 500 FTEs have the highest confidence in the engineering and design services industry (+92)
- Sentiment for the U.S. economy is strongest in the Northeast (+54), but weakest among small firms (1-25 FTEs) (+27).

Figure 4: Current Economic Sentiment

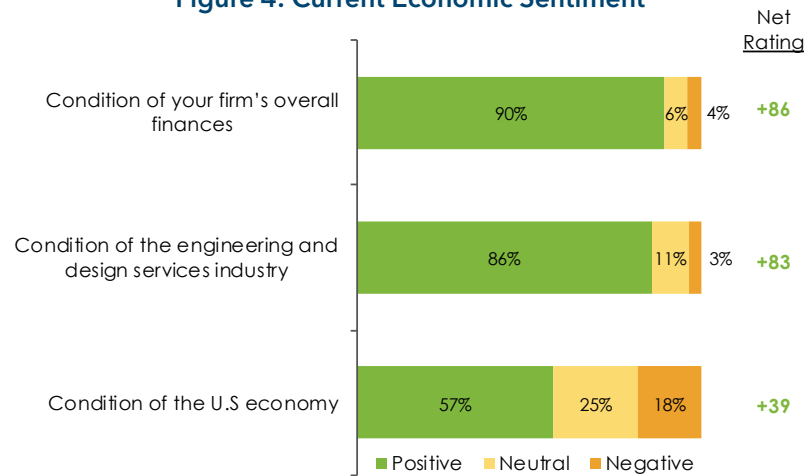
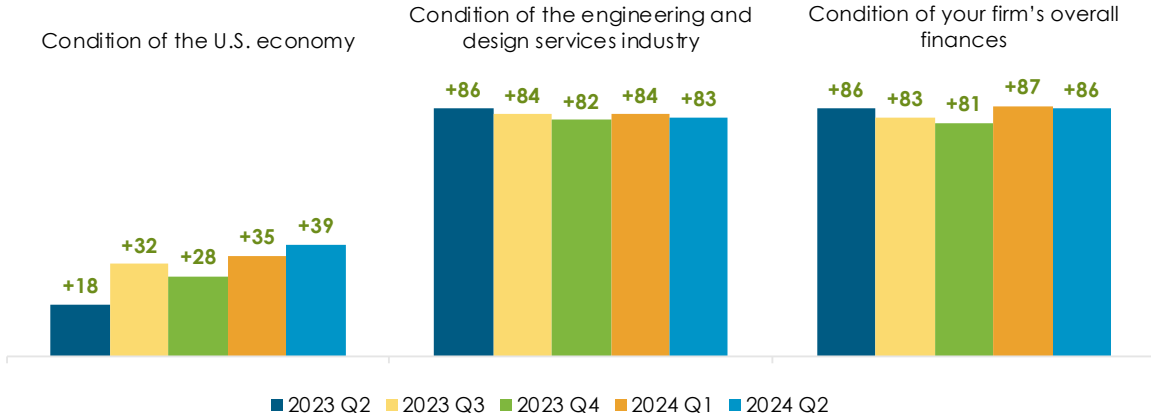


Figure 5: Current Economic Sentiment vs. Previous Quarters



- Optimism about the U.S. economy increased four points and is up 54 points from its low of -15 in Q3 2022 (not shown).
- Most segments are feeling more optimistic about the state of the U.S. economy than last quarter. All segments are feeling more optimistic than one year ago.

Figure 6: Current Condition of U.S. Economy vs. Previous Quarters - By Region and Firm Size

Condition of the U.S. economy	2023 Q2 (n=624)	2023 Q3 (n=565)	2023 Q4 (n=524)	2024 Q1 (n=562)	2024 Q2 (n=640)	Change vs. Previous Quarter	Change vs. Previous Year
TOTAL	+18	+32	+28	+35	+39	+4	+21
REGION							
Northeast	+23	+36	+35	+43	+54	+11	+31
South	+19	+25	+23	+24	+35	+11	+16
Midwest	+14	+46	+32	+44	+40	-4	+26
West	+17	+21	+28	+33	+33	0	+16
FIRM SIZE							
1-25	+18	+20	+14	+23	+27	+4	+9
26-50	+15	+32	+31	+32	+34	+2	+19
51-200	+8	+25	+28	+37	+37	0	+29
201-500	+7	+40	+30	+36	+54	+18	+47
More than 500	+33	+50	+50	+49	+51	+2	+18

Current Industry Sector Sentiment

- Convention Centers, Sports Facilities and Cultural Facilities have had significant growth year-over-year (+17), while the Commercial Real Estate sector has seen the most precipitous decline over the past year (-12 points).
- Current sentiment remains very optimistic within most market sectors. Sentiment is strongest in Roads & Bridges (Net Rating +83) and Water/Wastewater (+81).

Figure 7: Current Industry Sentiment by Sector vs. Previous Quarters

Current Industry Sector Sentiment	2023 Q2 (n=202-483)	2023 Q3 (n = 192-438)	2023 Q4 (n = 174-387)	2024 Q1 (n=202-442)	2024 Q2 (n=218-501)	Change vs. Previous Quarter	Change vs. Previous Year
Convention Centers, Sports Facilities and Cultural Facilities	+39	+43	+45	+42	+56	+14	+17
Data Centers	+63	+71	+70	+78	+74	-4	+11
Telecommunications	+55	+65	+56	+61	+64	+3	+9
Residential – Land Development	+32	+37	+32	+27	+39	+12	+7
Federal/Military, State and Local Government Buildings	+68	+72	+65	+65	+72	+7	+4
Justice	+38	+39	+38	+31	+42	+11	+4
Transportation – Roads and Bridges	+80	+84	+80	+86	+83	-3	+3
Transportation – Transit	+68	+72	+70	+76	+71	-5	+3
Energy and Utilities	+74	+79	+78	+80	+76	-4	+2
Healthcare Facilities	+68	+68	+70	+70	+69	-1	+1
Transportation – Airports	+77	+78	+80	+82	+78	-4	+1
Education	+56	+55	+58	+52	+56	+4	0
Water/Wastewater	+81	+83	+79	+81	+81	0	0
Industrial and Manufacturing Facilities	+67	+65	+65	+62	+66	+4	-1
Science and Technology	+70	+71	+74	+77	+68	-9	-2
Commercial Real Estate	+26	+23	+20	+16	+14	-2	-12

Current Backlog

- Half (50%) indicate their firm has a current backlog of one year or more.

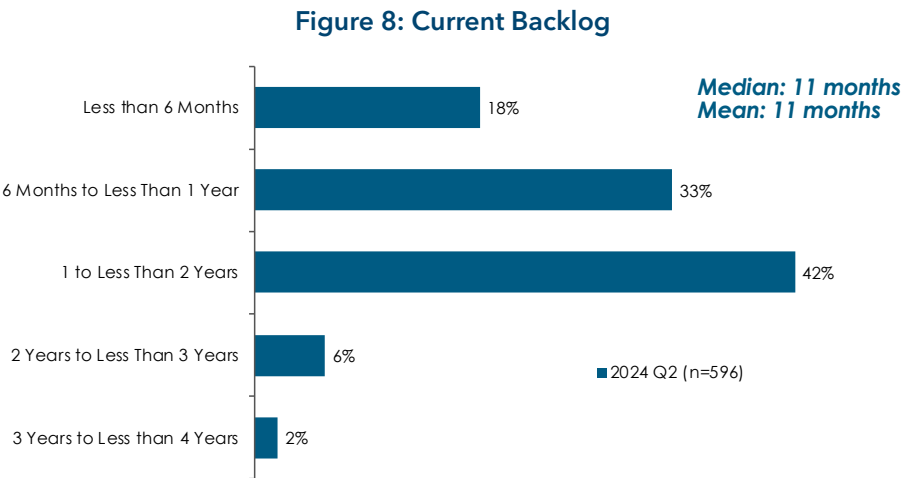


Figure 9: Current Backlog vs. Previous Quarters - By Region and Firm Size

Current Backlog	2023 Q2 (n=585)	2023 Q3 (n=526)	2023 Q4 (n=498)	2024 Q1 (n=534)	2024 Q2 (n=596)	Change vs. Previous Quarter	Change vs. Previous Year
TOTAL	12	11	11	11	11	0	-1
REGION							
Northeast	12	12	12	12	12	0	0
South	10	12	10	10	12	+2	+2
Midwest	12	11	11	12	12	0	0
West	10	10	10	10	9	-1	-1
FIRM SIZE							
1-25	6	6	6	6	6	0	0
26-50	10	10	8	12	10	-2	0
51-200	12	10	12	10	11	+1	-1
201-500	12	12	12	12	12	0	0
More than 500	14	14	13	12	13	+1	-1

Current Open Positions

- Nine out of ten (89%) firms still have at least one opening. The median number of open positions remains steady at five.
- On average, 9% of positions remain unfilled, which is the same as last quarter.
- Firms with 25 or fewer FTEs have a much higher percentage of openings (16%).

Figure 10: Current Open Positions vs. Previous Quarters

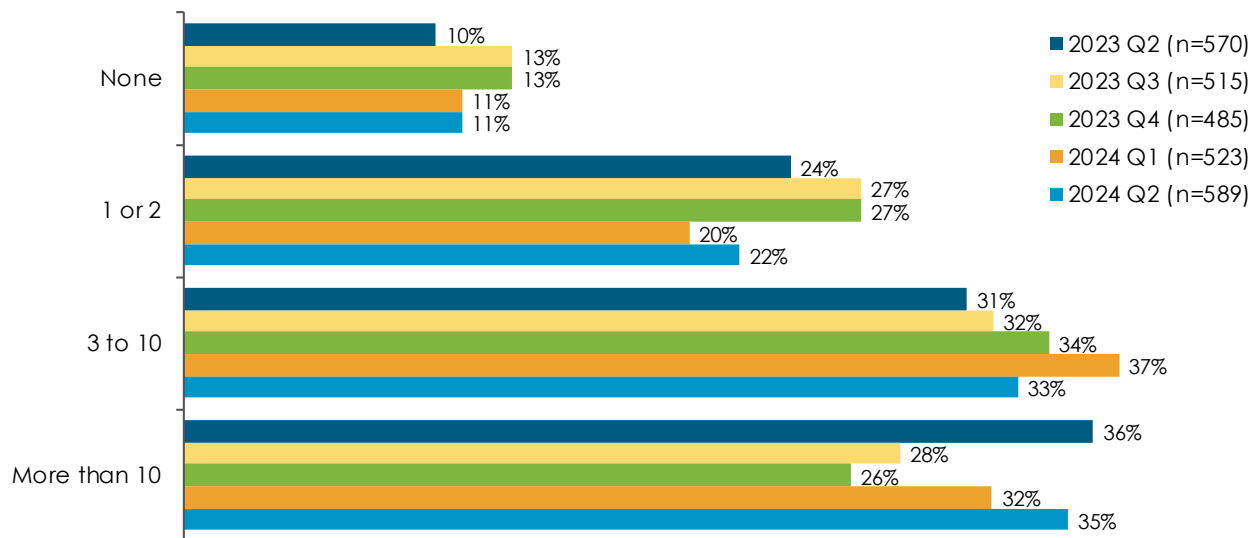


Figure 11: Open Positions as Percentage of Overall FTEs vs. Previous Quarters

Open Positions	2023 Q2 (n=570)	2023 Q3 (n=515)	2023 Q4 (n=485)	2024 Q1 (n=523)	2024 Q2 (n=589)	Change vs. Previous Quarter	Change vs. Previous Year
TOTAL	10%	9%	9%	9%	9%	0	-1
REGION							
Northeast	8%	7%	10%	7%	10%	+3	+2
South	10%	9%	9%	8%	10%	+2	0
Midwest	10%	9%	10%	12%	8%	-4	-2
West	10%	10%	9%	8%	9%	+1	-1
FIRM SIZE							
1-25	16%	15%	15%	15%	16%	+1	0
26-50	8%	6%	8%	8%	7%	-1	-1
51-200	7%	6%	6%	7%	7%	0	0
201-500	8%	7%	7%	7%	7%	0	-1
More than 500	7%	6%	7%	6%	7%	+1	0

FUTURE BUSINESS CONDITIONS

Future U.S. Economy, Industry and Firm Sentiment

- Future sentiment is positive on all metrics.
- Future sentiment for the U.S. economy improved one point from last quarter to +10, while industry sentiment dropped four points to +26 and firm's finances dropped three points to +45.

Figure 12: Economic Sentiment 12 Months from Now

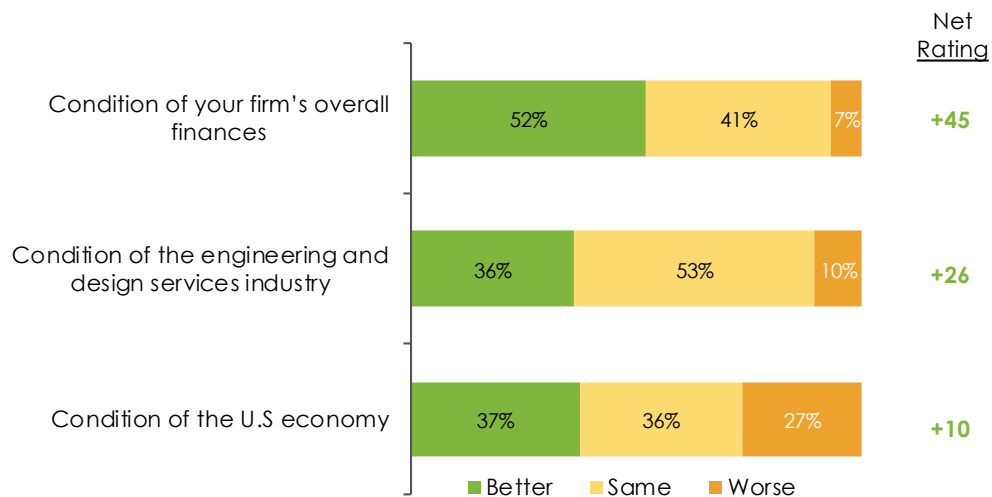
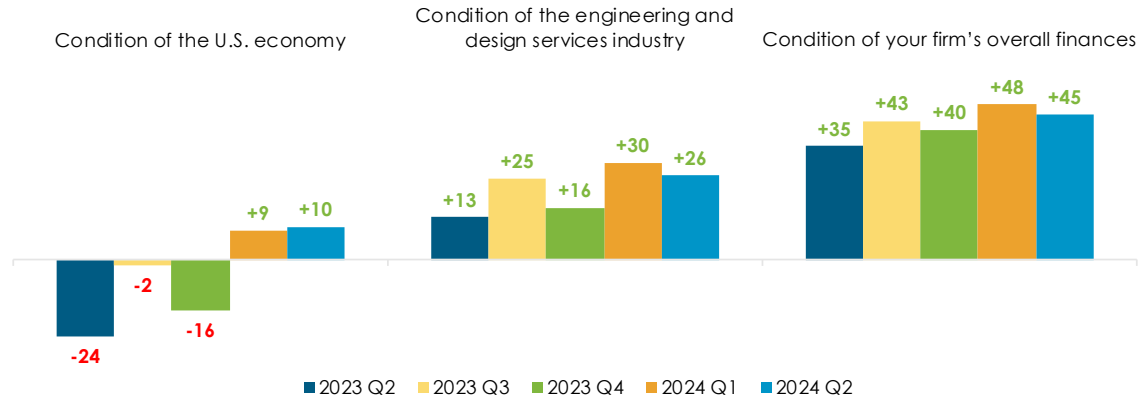


Figure 13: Economic Sentiment 12 Months from Now vs. Previous Quarters



- Future sentiment regarding the U.S. economy increased 34 points compared to one year ago.
- While future sentiment about the firm's overall finances declined three points from the previous quarter, it is still much improved over last year at this time (up by 10 points).
- The largest decrease in future sentiment regarding firm finances compared to the prior quarter is in the South (-13).
- All firm sizes, with the exception of those with more than 500 FTEs, saw declines in future sentiment regarding firm finances compared to last quarter.

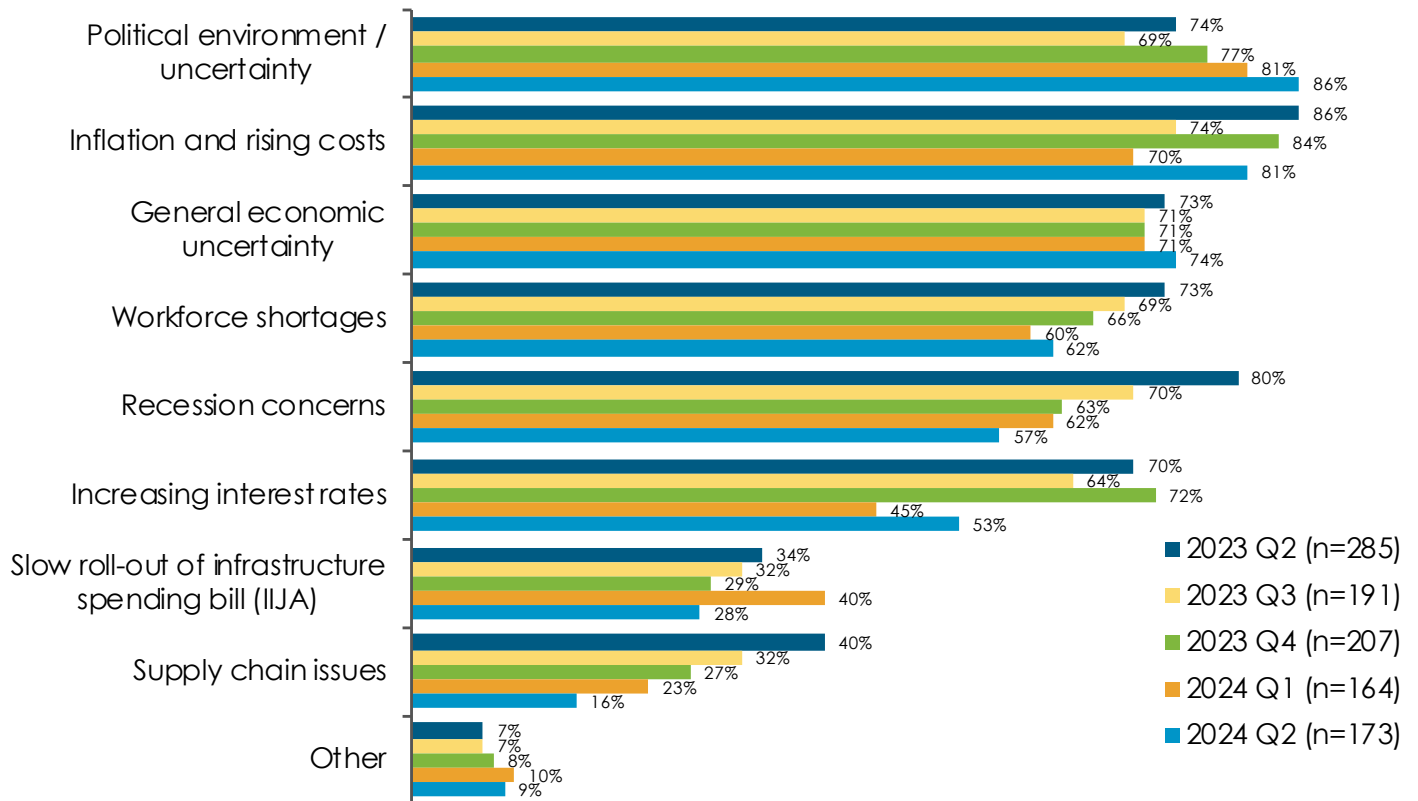
Figure 14: Condition of Firm's Finances 12 Months from Now vs. Previous Quarters - By Region and Firm Size

Condition of your firm's overall finances	2023 Q2 (n=576)	2023 Q3 (n=519)	2023 Q4 (n=488)	2024 Q1 (n=530)	2024 Q2 (n=595)	Change vs. Previous Quarter	Change vs. Previous Year
TOTAL	+35	+43	+40	+48	+45	-3	+10
REGION							
Northeast	+29	+49	+50	+59	+63	+4	+34
South	+33	+46	+39	+50	+37	-13	+4
Midwest	+35	+47	+35	+42	+47	+5	+12
West	+39	+32	+40	+46	+41	-5	+2
FIRM SIZE							
1-25	+14	+35	+32	+40	+33	-7	+19
26-50	+39	+43	+33	+48	+44	-4	+5
51-200	+44	+42	+40	+48	+41	-7	-3
201-500	+44	+58	+48	+52	+51	-1	+7
More than 500	+40	+50	+52	+59	+62	+3	+22

Reasons for Economic Sentiment 12 Months from Now

- Political environment/uncertainty (86%), Inflation and rising costs (81%), and General economic uncertainty (74%) are fueling negative future sentiment.
- Interest rate concerns increased 8 points to 53% this quarter, but is still well below the 70% from one year ago.
- Recession concerns continue to recede, falling another five points from last quarter and down 23 points from a year ago.
- Supply chain issues also continue to fall from 40% last year at this time to 16% this quarter.

Figure 15: Reasons for Economic Sentiment 12 Months from Now



Future Industry Sector Sentiment

- Future industry sentiment is positive in most sectors and is highest in Transportation (Roads/Bridges) (+46), Energy and Utilities (+45), and Water/Wastewater (+43).
- Over the past year, future sentiment increased the most for Residential – Land Development (up 35 points to +16) and Commercial Real Estate (up 23 points to -1).
- Future industry sentiment decreased across a majority of segments from last quarter and about half have decreased compared to one year ago.

Figure 16: Industry Sentiment by Sector 12 Months from Now vs. Previous Quarters

Future Industry Sector Sentiment	2023 Q2 (n = 225-467)	2023 Q3 (n = 203-402)	2023 Q4 (n = 177-362)	2024 Q1 (n=213-419)	2024 Q2 (n=229-482)	Change vs. Previous Quarter	Change vs. Previous Year
Residential – Land Development	-19	-10	-15	+15	+16	+1	+35
Commercial Real Estate	-24	-14	-21	-6	-1	+5	+23
Data Centers	+20	+23	+25	+31	+37	+6	+17
Convention Centers, Sports Facilities and Cultural Facilities	-10	-6	-10	+1	+7	+6	+17
Industrial and Manufacturing Facilities	+17	+20	+12	+30	+26	-4	+9
Healthcare Facilities	+23	+25	+24	+28	+28	0	+5
Science and Technology	+25	+35	+21	+38	+29	-9	+4
Education	+11	+14	+11	+15	+14	-1	+3
Telecommunications	+26	+38	+22	+27	+24	-3	-2
Transportation – Airports	+42	+43	+36	+43	+40	-3	-2
Water/Wastewater	+45	+49	+37	+46	+43	-3	-2
Federal/Military, State and Local Government Buildings	+32	+28	+26	+31	+28	-3	-4
Justice	+4	+4	-1	-4	-1	+3	-5
Energy and Utilities	+51	+47	+38	+46	+45	-1	-6
Transportation – Roads and Bridges	+53	+54	+46	+47	+46	-1	-7
Transportation – Transit	+49	+41	+35	+43	+37	-6	-12

Future Backlog

- Half (50%) believe their firms will see a higher backlog of projects 12 months from now.
- Firms in the Northeast have the highest future backlog Net Rating (+55) compared to other regions.
- Firms with 1-25 FTEs have the lowest future backlog Net Rating (+24) compared to other firm sizes.

Figure 17: Backlog 12 Months from Now

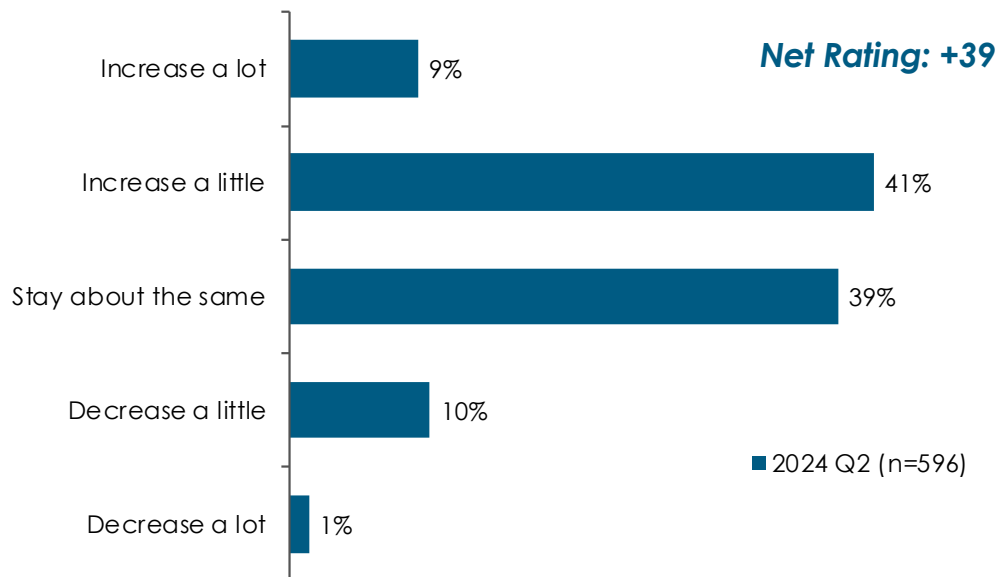
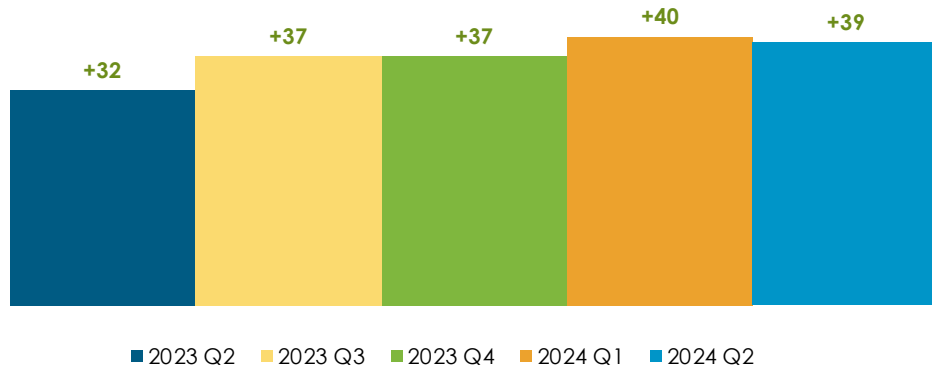


Figure 18: Backlog 12 Months from Now - Net Rating Trend



- Backlog sentiment for one year from now increased for most segments compared to last quarter and one year ago.

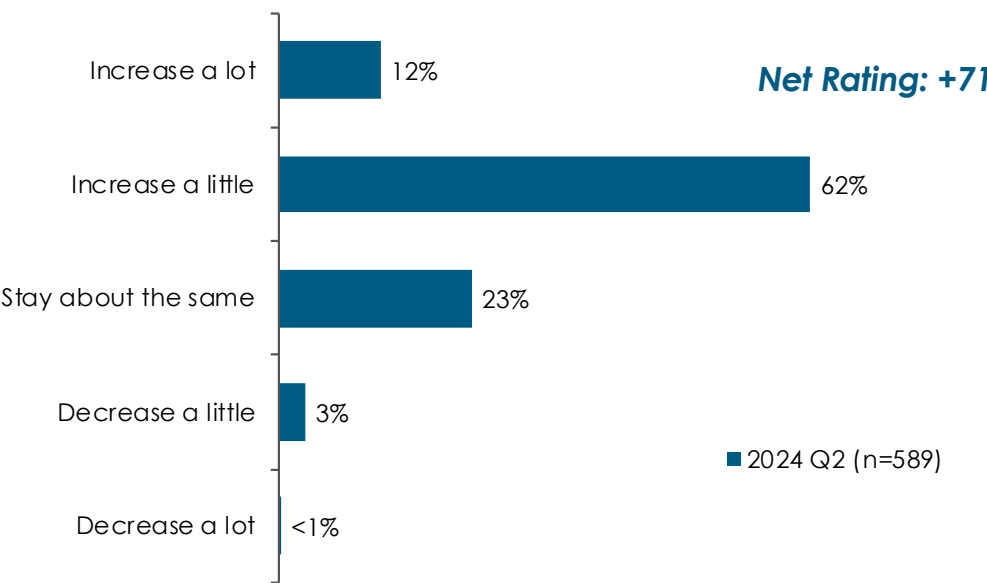
Figure 19: Backlog 12 Months from Now vs. Previous Quarters - By Region and Firm Size

Backlog	2023 Q2 (n=578)	2023 Q3 (n=519)	2023 Q4 (n=485)	2024 Q1 (n=525)	2024 Q2 (n=596)	Change vs. Previous Quarter	Change vs. Previous Year
TOTAL	+32	+36	+37	+40	+39	-1	+7
REGION							
Northeast	+39	+48	+45	+61	+55	-6	+16
South	+32	+32	+36	+31	+42	+11	+10
Midwest	+33	+42	+37	+35	+35	0	+2
West	+26	+28	+32	+42	+27	-15	+1
FIRM SIZE							
1-25	+11	+27	+29	+22	+24	+2	+13
26-50	+21	+20	+17	+19	+29	+10	+8
51-200	+40	+34	+40	+49	+36	-13	-4
201-500	+51	+50	+49	+54	+35	-19	-16
More than 500	+45	+58	+57	+56	+65	+9	+20

Future Hiring Projections

- Seventy-four percent predict there will be an increase in hiring over the next 12 months at their firms, resulting in a Net Rating of +71.

Figure 20: Hiring Over the Next 12 Months



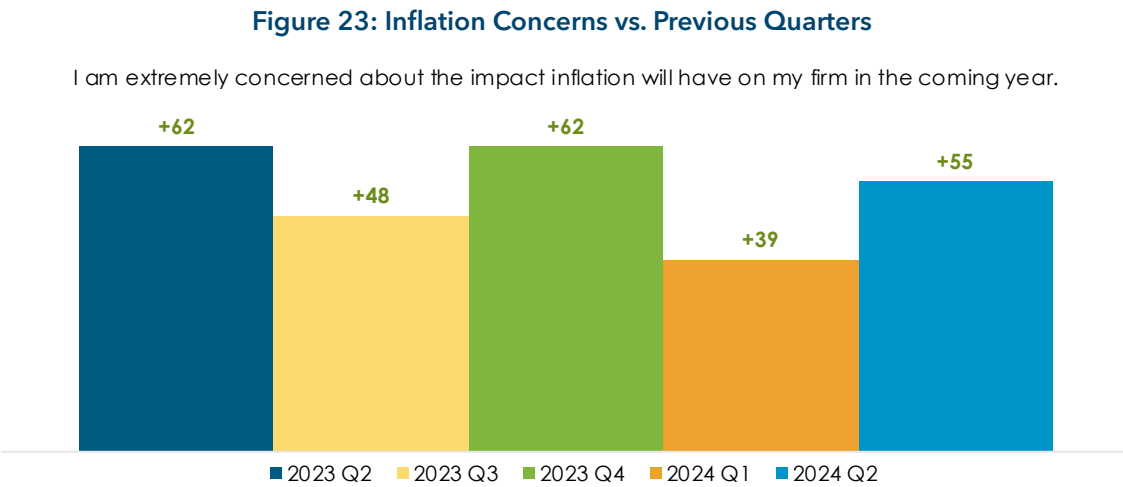
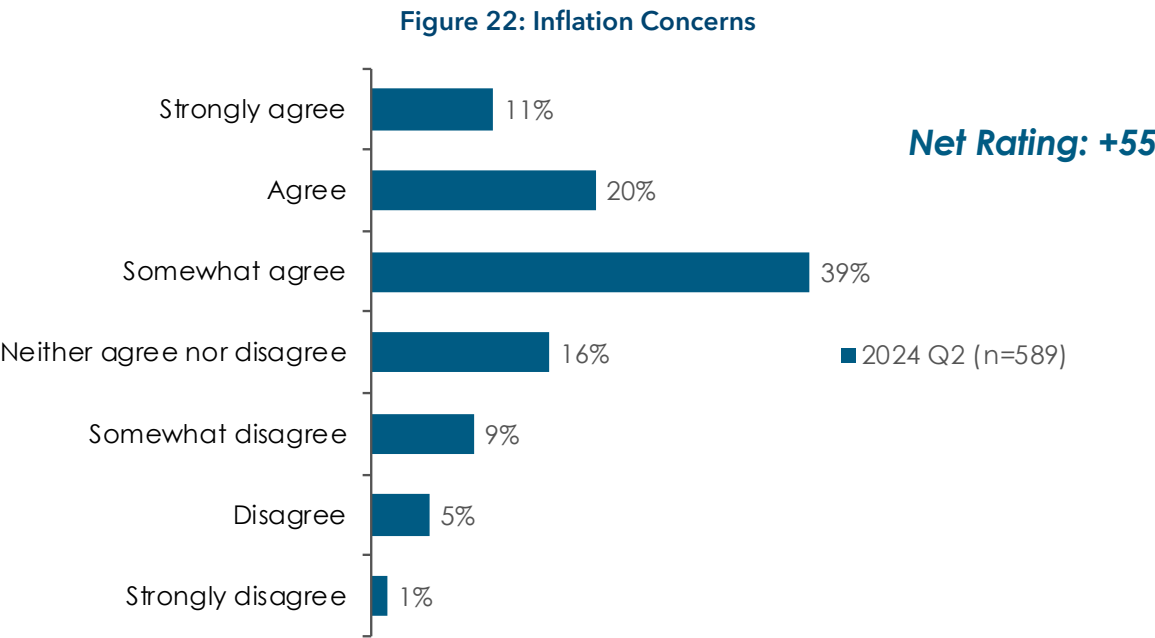
- Overall future hiring sentiment decreased two points from last quarter but is still up four points from last year at this time.
- The Northeast is the most optimistic, with a +86 Net Rating.
- Larger firms with 500+ FTEs (+92) and 201-500 FTEs (+84) are the most optimistic about future hiring.

Figure 21: Expectations for Hiring Increases Over the Next 12 Months vs Previous Quarters - By Region and Firm Size

Status of Hiring	2023 Q2 (n=569)	2023 Q3 (n=508)	2023 Q4 (n=478)	2024 Q1 (n=518)	2024 Q2 (n=589)	Change vs. Previous Quarter	Change vs. Previous Year
TOTAL	+67	+66	+68	+73	+71	-2	+4
REGION							
Northeast	+73	+77	+72	+85	+86	+1	+13
South	+60	+60	+67	+68	+66	-2	+6
Midwest	+73	+74	+68	+75	+73	-2	0
West	+63	+60	+68	+72	+64	-8	+1
FIRM SIZE							
1-25	+42	+51	+57	+54	+44	-10	+2
26-50	+65	+66	+57	+71	+67	-4	+2
51-200	+73	+63	+68	+78	+75	-3	+2
201-500	+83	+81	+76	+83	+84	+1	+1
More than 500	+81	+88	+92	+87	+92	+5	+11

Inflation

- Concern over the impact of inflation remains elevated. Seventy percent at least somewhat agree that they are extremely concerned about the impact of inflation.
- Concern about the impact of inflation increased 16 points from last quarter (+55 Net Rating).



Likelihood of Recession in Next 6 Months

- Leaders anticipate the likelihood of recession in the next six months to be 40%, a decline of one point since last quarter.

Figure 24: Likelihood of Recession in Next 6 Months vs. Previous Quarter

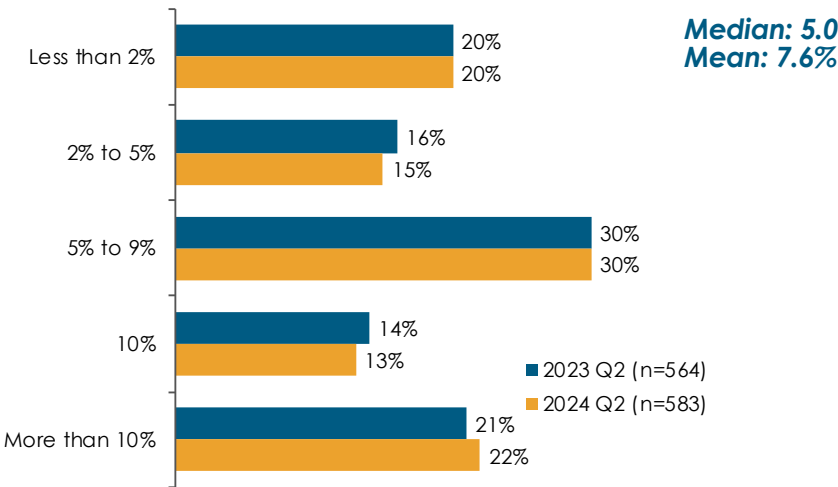
Likelihood of Recession	2023 Q3 Average (n=518)	2023 Q4 Average (n=473)	2024 Q1 Average (n=508)	2024 Q2 Average (n=567)	Change vs. Previous Quarter
TOTAL	46%	49%	41%	40%	-1
REGION					
Northeast	43%	46%	38%	38%	0
South	48%	51%	41%	41%	0
Midwest	44%	49%	42%	38%	-4
West	48%	48%	43%	40%	-3
FIRM SIZE					
1-25	50%	53%	46%	44%	-2
26-50	48%	51%	40%	42%	+2
51-200	46%	47%	42%	39%	-3
201-500	42%	47%	37%	33%	-4
More than 500	42%	45%	38%	37%	-1

HOT TOPICS

Staff Turnover

- Thirty-five percent of firms have had at least 10% of their staff leave, the same as last year when this question was asked. The mean is 7.6% for staff turnover, nearly identical to last year.

Figure 25: Percentage of Staff That Has Left



New Hire Salary

- Eighty-eight percent say that the average salary for new hires at their firm has increased in the past year, down four points from last year.
- The average salary increase for new hires was 9% over the past year. This is little changed from previous years.

Figure 26: New Hires Salary

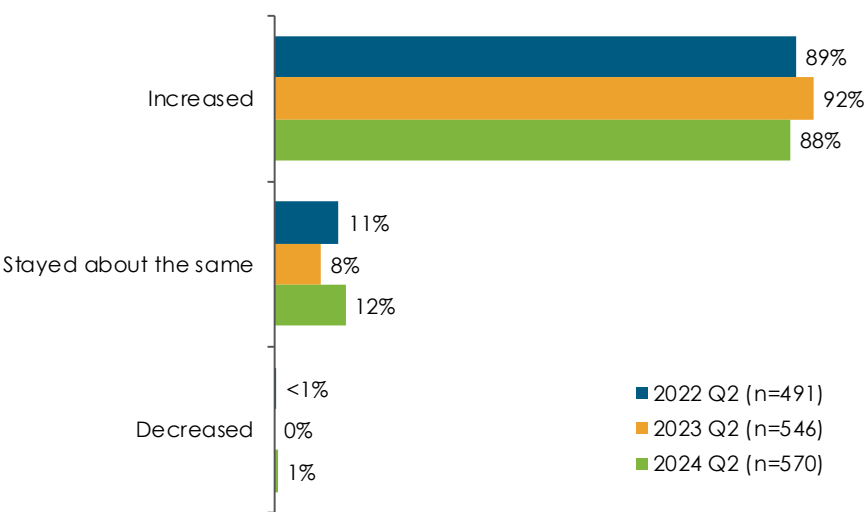
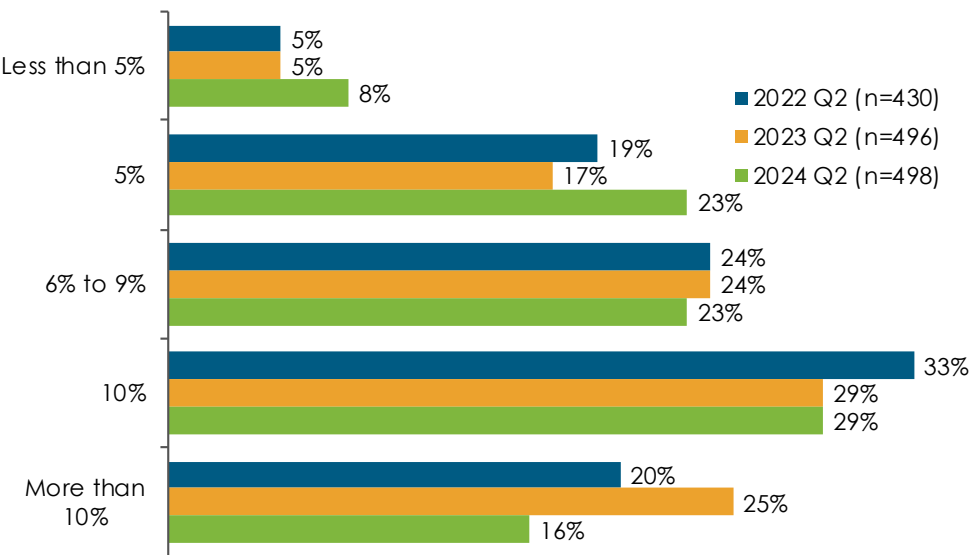


Figure 27: Salary Increase Over the Past Year - New Hires



Existing Employees Salary

- Eighty-nine percent say that the average salary for existing employees at their firm has increased in the past year, down two points from last year.
- The average salary increase for existing staff was 7% over the past year, also little changed from previous years.

Figure 28: Existing Employees Salary

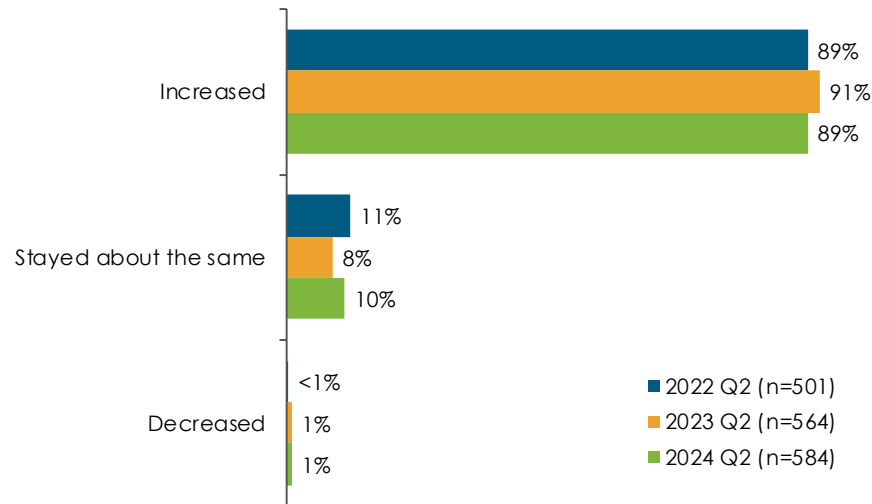
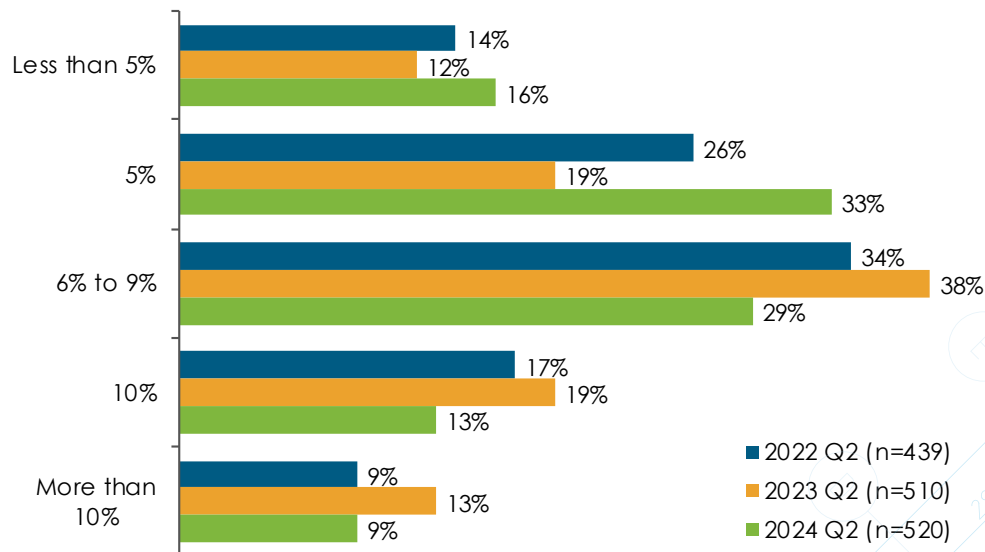


Figure 29: Salary Increase Over the Past Year - Existing Staff



Artificial Intelligence

- Nearly half of executives (48%) say their firm uses Artificial Intelligence (AI) either internally (27%), externally (2%) or both (19%).

Figure 30: Use of Artificial Intelligence

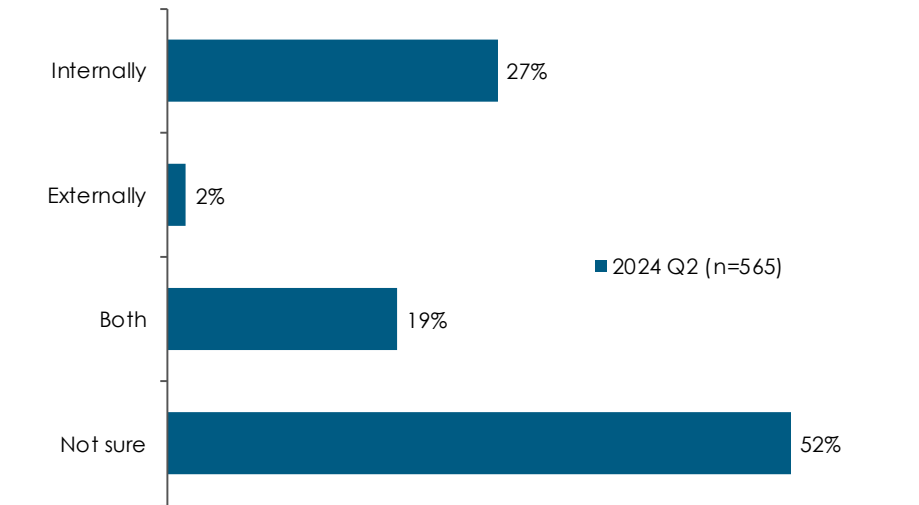


Figure 31: Uses of Artificial Intelligence



METHODOLOGY

The Institute for Association and Nonprofit Research (IFANR) recruited individuals from among the database list of members provided by the ACEC Research Institute. Data collection occurred between April 11 and April 24, 2024.

A total of 9,070 invitations were emailed, although 2,097 bounced and 40 opted out, resulting in a total of 6,933 potential respondents. Individuals who did not respond to the first email were sent up to four follow-up reminders.

In all, 650 individuals completed the survey for an overall response rate of 9%.

Throughout this report meaningful, statistically significant differences are noted for various subgroups, including geographic region and firm size.

NOTE: Throughout this report, “Net Ratings” are shown on many graphs to quantify the sentiment of respondents. The Net Rating is calculated by subtracting the negative ratings from the positive ratings. Therefore, a positive Net Rating indicates overall sentiment is optimistic while a negative Net Rating indicates an overall pessimistic sentiment. The higher the numeric value the stronger the sentiment (either optimistic or pessimistic).

STATISTICAL NOTES

Due to rounding, not all graphs total 100%.

Statistically significant differences are evaluated at a 95% confidence interval.

There is no margin of sampling error as this was a census of all executive-level individuals at member firms in the ACEC database.

Although every effort was taken to minimize survey bias, there is no way to eliminate all sources of potential bias. Sources of potential bias include, but are not limited to, the following:

- Non-response bias
- Confounding bias
- Question wording bias
- Question order bias
- Habituation
- Sponsor bias
- Confirmation bias

The ACEC Research Institute provides the engineering industry with cutting edge research, trend data, and economic analysis to help firm owners make decisions and delivers thought leadership that advances engineering's essential value to society.

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ACEC Research Institute

1400 L Street, NW, Suite 400, Washington, DC 20005 | 202.347.7474 | ACECResearchInstitute.org