

ACEC Engineering Business Index

EBI Composite Score

62.4

3rd Quarter 2015

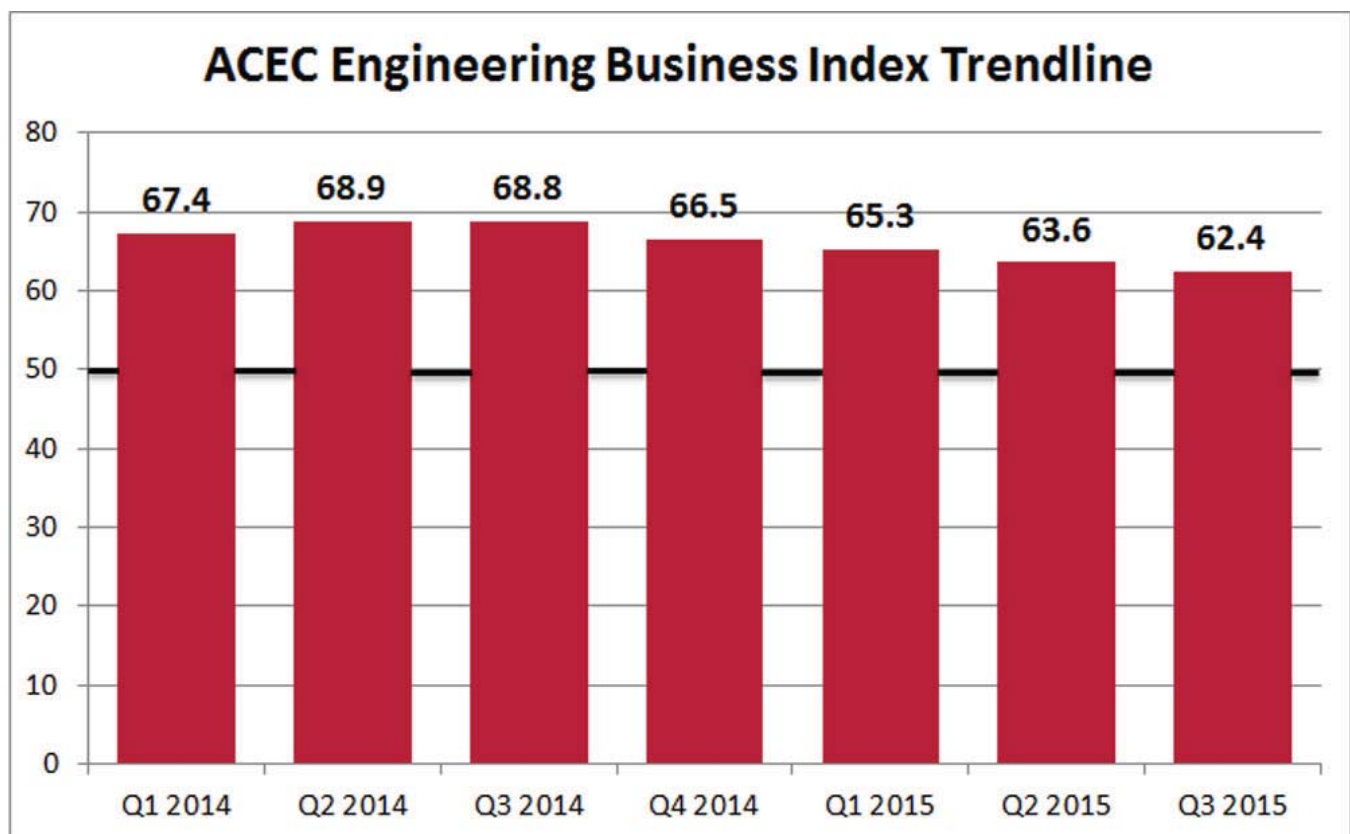
Data collection and analysis by
FMI Corporation

EBI Declines as Profitability, Market Concerns Grow

The ACEC Engineering Business Index (EBI) has fallen for five consecutive quarters, reflecting a decline in long-term expectations among engineering firm leaders for the U.S. economy as a whole and the engineering industry in particular.

The latest EBI survey, conducted September 8-30, 2015 of engineering firm leaders from throughout the country, produced a composite score of 62.4. Although that number is still solidly positive—any score over 50 indicates growth—it is 1.2 points lower than the second quarter score and 6.4 points lower than the third quarter of 2014, which was a recent high point.

EBI is a diffusion index that charts the health of the engineering industry by consolidating senior leadership responses on market and firm performance into a single composite score.



Short and Long-Term Profitability Concerns

CEO confidence in today's market, compared to 12 months ago, dropped 2.2 points from the previous survey. Their confidence in market conditions ahead (one year from now) fell 3.5 points from the second quarter—to 62.8—and is down 9.6 points from the first quarter of 2015.

Driving that decline are CEO worries about firm profitability, with expectations for profits for the short term (six months) dropping 2.9 points from the previous survey and 5.0 for the long term (three years).

Component Results Q3 2015	Better	Same	Worse	Q3 2015 Results	Q2 2015 Results
Current business climate vs. 12 months ago	56.9%	26.8%	16.3%	70.3	72.5
Current business climate vs. 6 months ago	39.7%	49.3%	10.0%	64.4	65.6
Current business climate vs. 12 months from now	38.6%	48.3%	13.0%	62.8	66.3
Profitability expectations for next 6 months	38.5%	51.0%	10.6%	63.9	66.8
Profitability expectations for next 12 months	37.2%	51.2%	11.6%	62.8	64.9
Profitability expectations for 3 years from now	37.6%	46.3%	16.1%	60.7	65.7
	Larger	Same	Smaller		
Backlog vs. 12 months ago	54.5%	24.9%	20.6%	67.0	68.5
Backlog vs. 6 months ago	45.7%	34.6%	19.7%	63.0	67.2
Backlog expectations for 12 months from now	40.4%	43.8%	15.9%	62.3	61.1
Twelve-month expectations for PUBLIC markets	Better	No Change	Worse		
Transportation	37.4%	41.9%	20.6%	58.4	56.5
Water and Wastewater	37.8%	52.8%	9.4%	64.2	62.6
Health Care	28.4%	56.0%	15.6%	56.4	57.2
Environmental (Other than water/wastewater)	18.4%	72.8%	8.8%	54.8	50.6
Education	15.4%	69.1%	15.4%	50.0	55.4
Twelve-month expectations for PRIVATE markets	Better	No Change	Worse		
Land Development	48.9%	46.6%	4.6%	72.1	73.6
Energy and Power	44.0%	44.0%	14.0%	66.0	62.8
Buildings	43.5%	47.6%	8.8%	67.3	68.2
Industrial/Manufacturing	42.0%	49.1%	8.9%	66.5	68.2
Health Care	38.9%	49.6%	11.5%	63.7	61.8
Education	20.0%	65.2%	14.8%	52.6	53.8
OVERALL EBI					62.4

Backlogs are also a concern, with the score comparing current backlogs to six months ago dropping 4.2 points to 63.0. On a positive note, backlog expectations for 12 months from now increased by 1.2 points to 62.3.

Market Sector Expectations Mixed

Looking forward 12 months, CEO confidence climbed for only two private market sectors: Energy and Power jumped 3.2 points to 66, and Health Care Construction rose 1.9 points to 63.7. Land Development remains the strongest sector, but the score still fell by 1.5 points to 72.1.

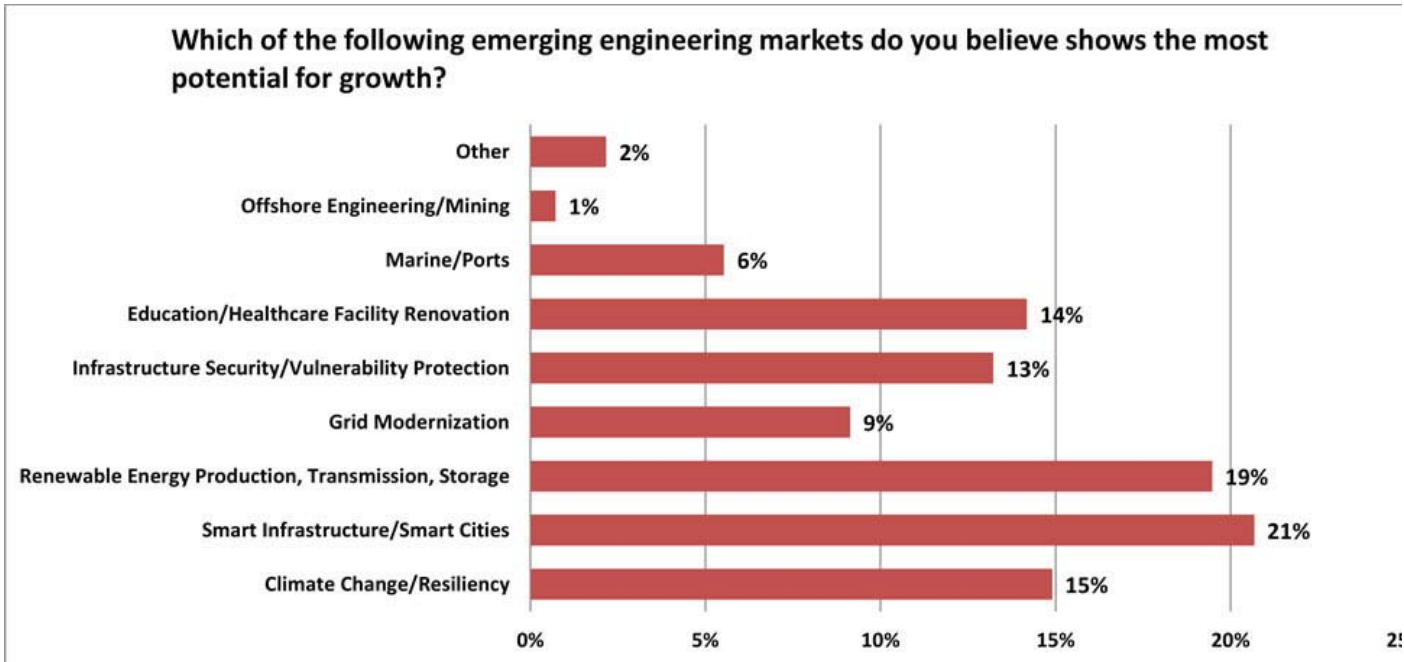
In public market sectors, CEO expectations for Transportation rose—up 1.9 points to 58.4, possibly reflecting hope for a new highway bill or satisfaction with state initiatives—as did Water and Wastewater (up 1.6 points) and Environmental (up 4.2 points) sectors.

The Education sector is languishing, down 5.4 points to 50.0 in the private market sector and down 1.2 points to 52.6 in the public market.

Hot Growth Markets

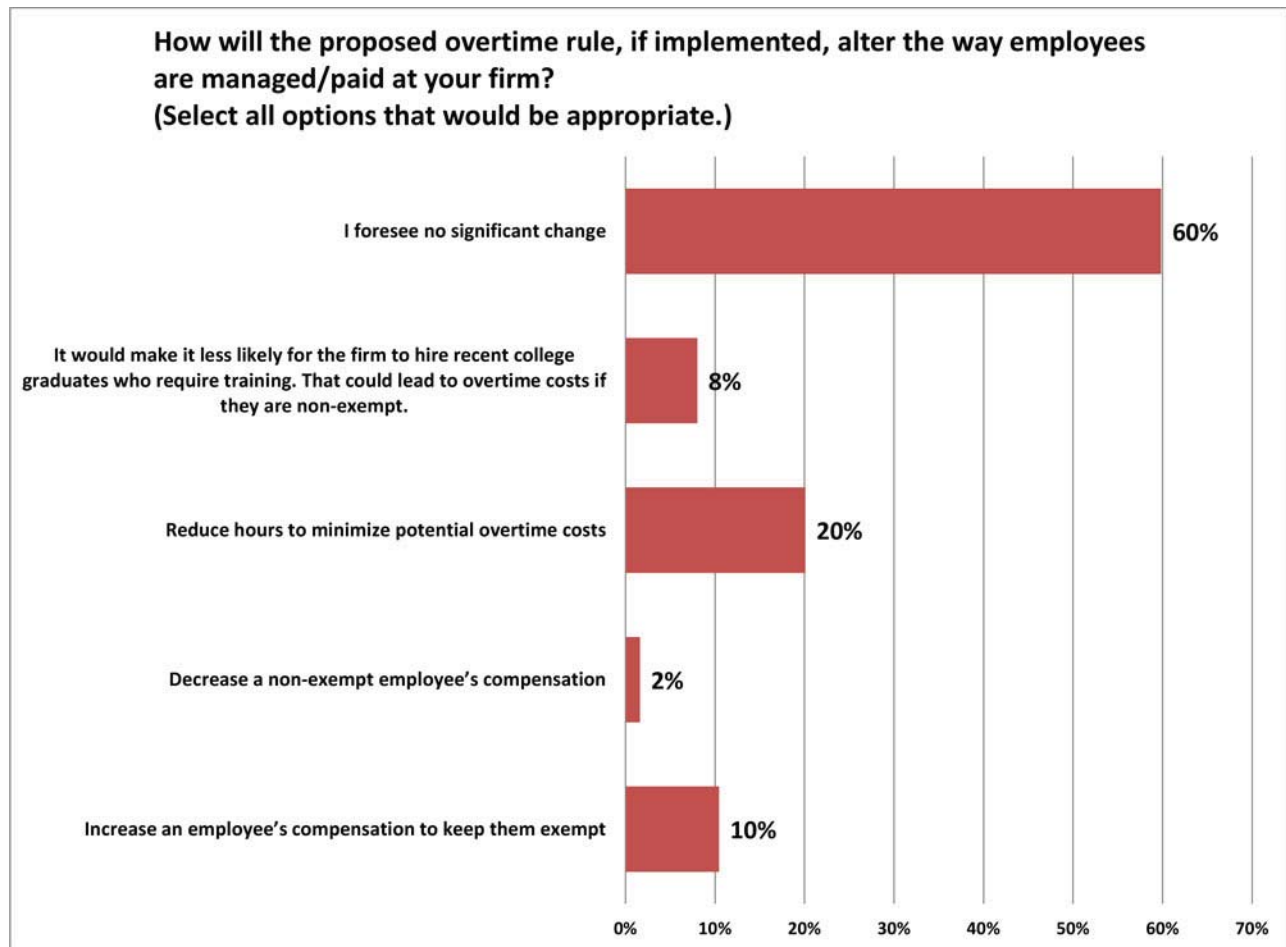
Asked which emerging markets they believe show the most potential for growth in the coming years, 21 percent of respondents chose “Smart Infrastructure/Smart Cities,” in which digital technologies enhance the quality and performance of infrastructure/urban services to reduce costs, lower resource consumption, and engage more effectively with users.

Following close behind was “Renewable Energy Production, Transmission, and Storage,” at 19 percent, then Climate Change Resiliency (15 percent), Education/Health Care Facility Renovation (14 percent), and Infrastructure Security/Vulnerability Protection (13 percent).



Proposed Overtime Rule

ACEC asked firm leaders about the impact of the Department of Labor’s proposed overtime rule, which would increase the salary threshold below which employees must be paid overtime from \$455 per week to approximately \$970 per week, or \$50,440 per year.



Six out of ten respondents said the proposed rule would not significantly change how they pay or manage their employees. “All of our engineers currently make over the proposed limit, even newly hired graduate engineers,” said one respondent. “This would only impact us in administration staff, who are typically paid 1.5 times anyway.”

Twenty percent of respondents said they would reduce hours to minimize potential overtime costs. “Having to pay time and a half for professional employees who make under \$50,440 will be a burden on our organization,” replied a respondent. “We will need to reduce the hours for these employees to help keep costs under control.”

Other responses were to increase an employee’s compensation to keep them exempt (10 percent), to cut back on hiring of recent college graduates (8 percent), and to decrease non-exempt employees’ compensation (2 percent).

Watch for the next quarterly
ACEC Engineering Business Index
survey form in your email in-box in December.