

ACEC Private Industry Brief

Economic Outlook

Q3 2019 Review



Introduction

Welcome to the third 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 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, Board of Governors of the Federal Reserve System, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, National Association of Business Economics (NABE), International Monetary Fund (IMF), U.S. Department of Housing and Urban Development, American Institute of Architects (AIA), Associated Builders and Contractors (ABC), FMI, University of Michigan, REIS Inc., and the Federal Funds Information for States (FFIS).

Q3 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 125 months as of November 2019

2. Record Low Unemployment Continues:

- Unemployment rate remains at a record low, averaging 3.6% for Q3 2019
- U.S. continues to add jobs at a steady pace, setting a record for 109 months of consecutive job growth through October 2019
- Finding talent remains a significant challenge

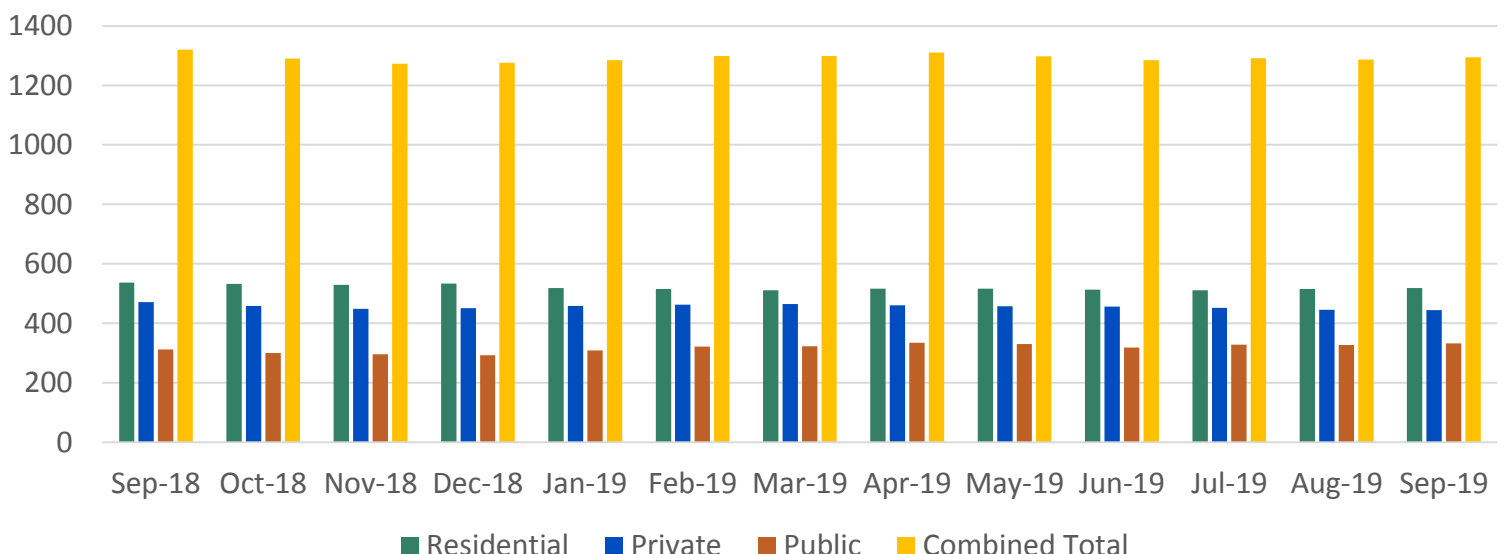
3. Interest Rates Expected to Remain Low:

- The Federal Reserve lowered interest rates for the third time in 2019 on October 30th, citing weakness in business investments, slow global growth, and trade uncertainty

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

(in billions \$)



Source: U.S. Census Bureau

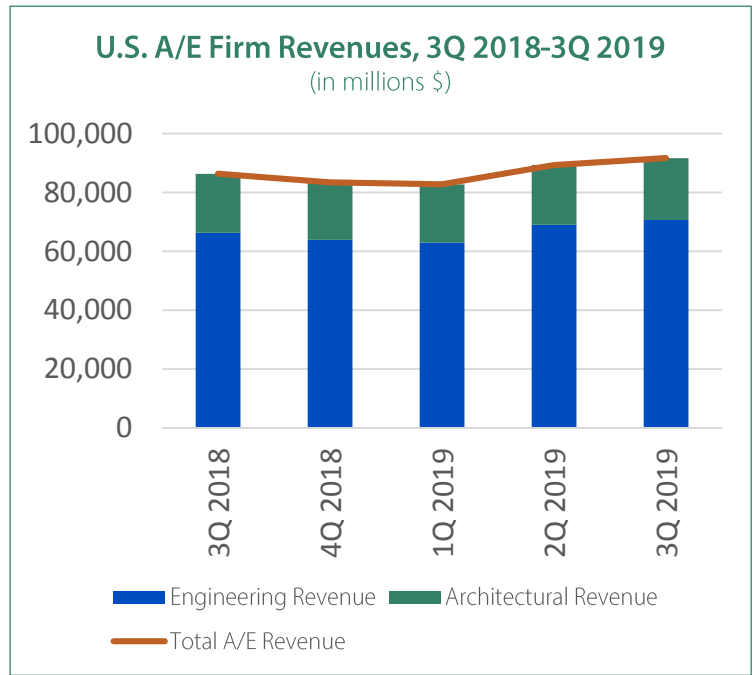
Q3 Update on the 5 Macroeconomic Trends for 2019, *continued*

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

- More than one-third of those surveyed in NABE's October 2019 Business Survey cite net negative impacts from recent tariffs
- IMF revised down its global growth forecast to 3.0% for 2019 (October 2019), down 0.3% from its April 2019 projection

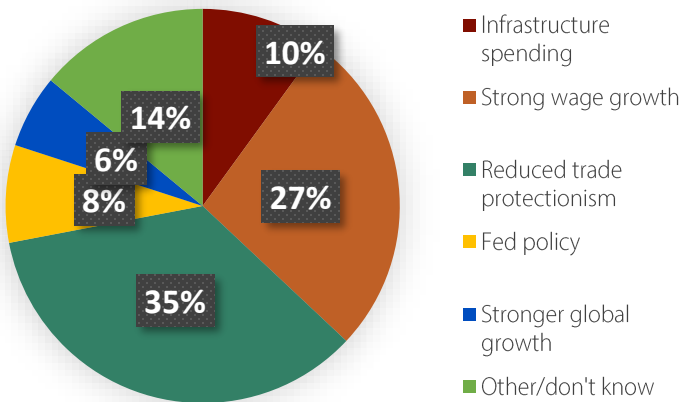
5. Predicting the Next Recession:

- NABE's October survey shows most business economists forecast a recession will occur within the next two years—with 24% predicting by mid-2020, and another 23% forecasting a recession starting before the end of 2020
- The federal deficit and tariffs remain major concerns
- There is little room to counter a recession with monetary policy, as interest rates are very low; stimulus is one likely tool to be used during a downturn



Source: U.S. Census Bureau

Macroeconomic Forecasters were asked: What is the greatest upside risk to the economy?



Source: National Association for Business Economics, October 2019

Quarterly A/E Revenues Show 2 Quarters of Increases After 2 Quarters of Decline

The U.S. Census Bureau's 'advance estimate' of total A/E revenues for Q3 show a second consecutive uptick to \$91.73B (released Nov. 19, 2019). This is up from Q2 2019 revenues of \$89.36B, which came after two quarters of slight declines.

The increase shows that an actual slowdown has not begun for the A/E industry.

The A/E/C economic indicators also remain generally positive (see table below) but there is some softening, as the Architectural Billing Index and the FMI Non-Residential Construction Index (NRCI) have both declined. FMI noted that the NRCI is the lowest score recorded in more than seven years.

Macro & Industry Indicators	3Q 2018	4Q 2018	1Q 2019	2Q 2019	3Q 2019
Gross Domestic Product (GDP) Growth	2.9%	1.1%	3.1%	2.0%	1.9%
Core Inflation Rate (2% is target)	2.2%	2.2%	2.1%	2.1%	2.4%
Unemployment Rate	3.8%	3.8%	3.9%	3.6%	3.6%
New Housing Units Started	336K	273K	266K	350K	349K
A/E/C Industry Economic Indicators					
Architectural Billings Index (AIA)*	52.0	51.83	51.13	49.93	49.0
ABC Backlog Indicator (yearly average)	9.04 mos.	8.9 mos.	8.8 mos.	8.8 mos.	8.8 mos.
FMI Non-Residential Construction Index*	57.4	54.6	52.1	53.3	50.4

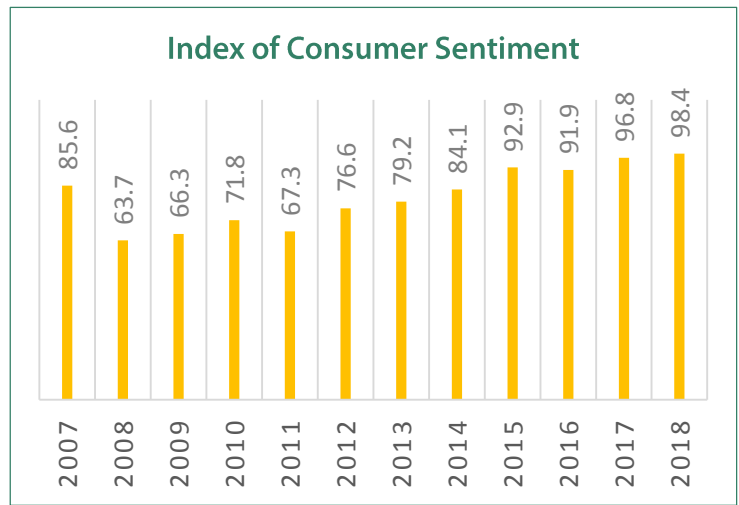
*Index scores over 50 indicate expansion; below 50 indicate contraction.

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, U.S. Census Bureau, U.S. Department of Housing and Urban Development, AIA, ABC & FMI

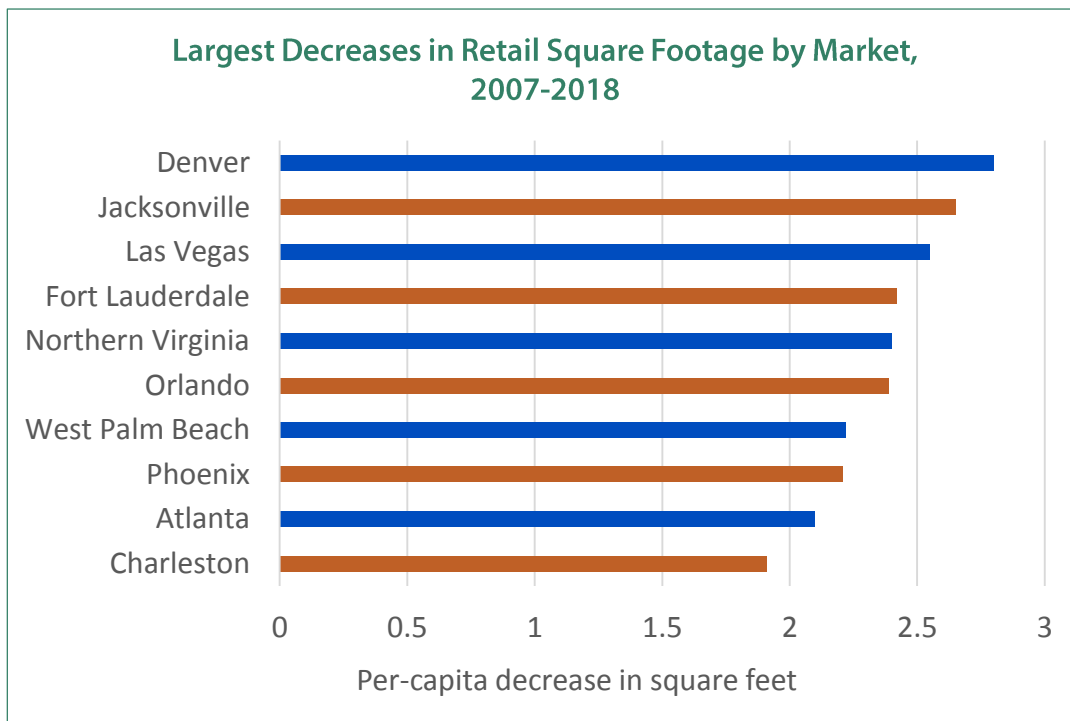
Retail Reimagined: Spaces are Shrinking and Transforming

Consumer confidence has rebounded and grown since the Great Recession, however the size of retail space continues to shrink. Although e-commerce is booming, most sales still take place in brick-and-mortar stores. These stores are transforming, with a focus on designing smaller spaces that highlight consumers' experiences.

The U.S. has long supported retail-space-per-capita levels that are multiples of what exist in other developed countries, and experts see this pullback as a recalibration (see chart below). At the same time, traditional malls and other retail centers are re-purposing vacant spaces to focus on services and entertainment, including urgent-care medical facilities, health and fitness providers, and restaurants.



Source: University of Michigan



Source: REIS Inc., Neighborhood & Community Center Inventory

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

↑ Up (5% growth or more)	→ Stable (0-4.9% growth)	↓ Down (less than 0%)
Water Supply (+20.2%)	Health Care (+2.7%)	Commercial (-18.6%)
Sewage & Waste Disposal (+18.0%)	Office (+2.7%)	Amusement & Recreation (-5.6%)
Public Safety (+8.5%)	Conservation & Development (+1.8%)	Manufacturing (-4.0%)
Highway & Street (+6.4%)	Lodging (+0.8%)	Residential (-3.5%)
Transportation – buildings (+5.6%)		Educational (-3.0%)
		Communication (-2.8%)
		Power (-0.4%)

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)

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



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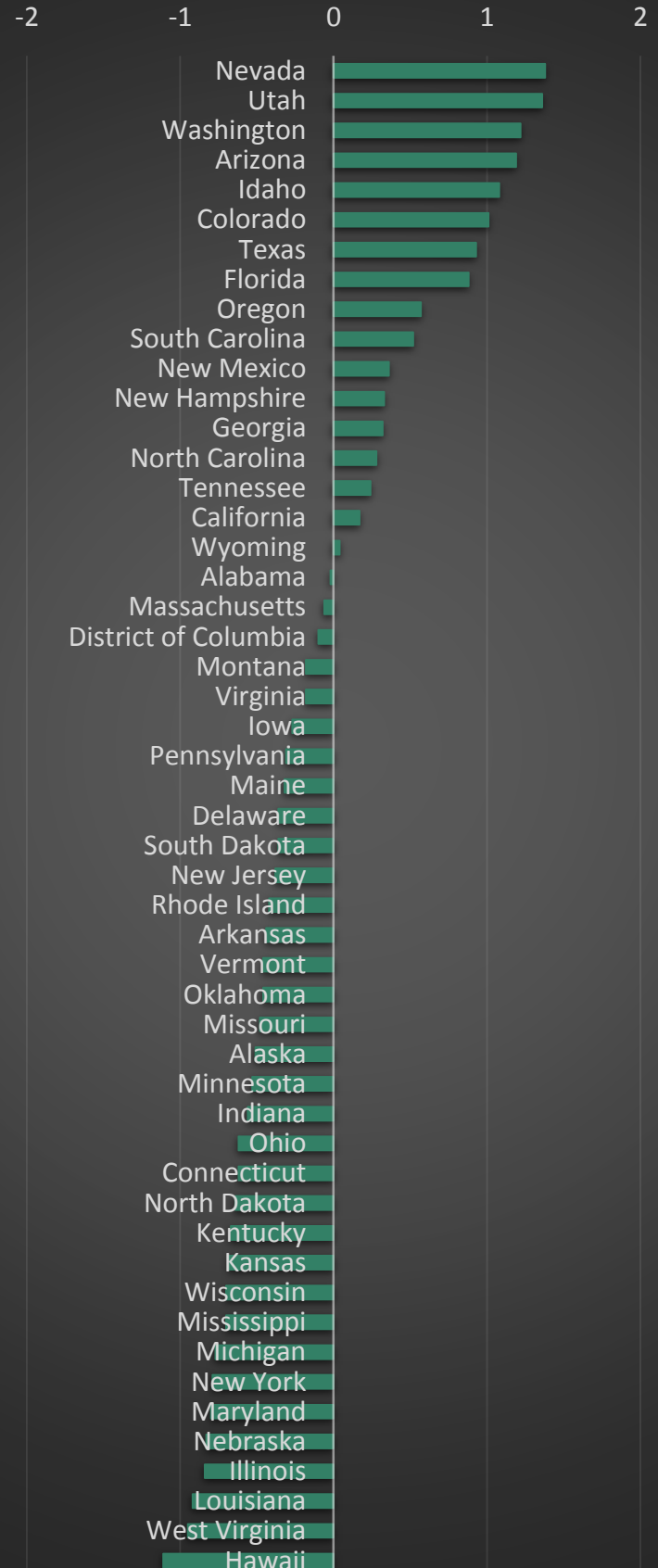
**2019 Special Topics Issue:
Public-Private Partnerships**

Erin McLaughlin is ACEC's senior director of private market resources. She can be reached at: emclaughlin@acec.org



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 – Q3 2019



Source: FFIS