I. EXECUTIVE SUMMARY

For the quarter ending September 30, 2016, we had more than 250 participants in our survey. We believe this presents a valid picture of current conditions in the most common A/E markets.

Nationally, a recession began in 2007 with a crisis in housing (mortgage) finance. Even though this recession was over in 2009, many sectors of the economy, including the construction sector, have continued to perform at less than pre-recession levels. Sectors such as state and local government capital projects have continued to be below the needed levels to replace aging infrastructure, or provide for population expansion. The Government tried to stimulate economic activity via funding of “Shovel-Ready” projects, but some projects are just now getting underway, almost a decade after they were supposed to be “Shovel-Ready”.

The third quarter, while still indicating some growth, is noticeably below the previous quarter, even as the overall economy had somewhat of a growth spurt of 2.9% growth in the quarter. Clearly we are not completely out of the recession. The fourth quarter appears to be another weak growth period, marginally slower than the third quarter. While projections for this quarter in our previous report indicated strong expected growth, actual growth rates were improved but well below expectations. Thus, it appears that many A/E/C firm leaders continue to have higher hopes than reality has produced.

Although slower than expected, the overall trends were still positive - just at the slower rate of growth that has become “normal” for this recovery. Despite several years of recovery, construction volumes remain well below pre-recession levels in many sectors. For instance single-family housing has only recovered to two-thirds of pre-recession levels, although multifamily housing has exceeded the pre-recession level

There continue to be increased projections of revenue for the next quarter and proposals are also positive but both are below the positive rate of the previous quarter. Backlog saw a small increase with fewer firms reporting increased backlogs this quarter. These indicators are mildly positive for next year’s business climate and volumes. They are not positive enough to signal a robust expansion, but continuing improvements across many of our markets.

We believe that, after the somewhat slower fourth quarter, this moderate increase of activity will continue to support recovery from the depressed levels of activity during the severe recession. Clearly, firms will have to work hard to be awarded projects to increase their revenues.

In the individual markets, here is what we are seeing:

- ✓ **Commercial Developers** is seeing weaker proposal activity. However, no particular type of project is predominant. It slowed somewhat in the current quarter.
- ✓ **Commercial Users** is a positive number trend for proposals but not growing in the current quarter…currently led by office buildings. This market has seen only modest growth over the past year.

- ✓ **Transportation** was strong, but weaker in the current quarter even though Congress passed the FAST Act, setting up five years of funding and removing funding uncertainty from the Federal government after a series of short-term funding measures. Perhaps this is due to the election as this poll was taken before any votes were counted.
- ✓ **Light Industry** is still weak but unchanged from the previous quarter. This market has declined over the past year.
- ✓ **Heavy Industry** also saw marked declines. Manufacturing and pharmaceutical facilities seem to be the current leaders in this market while other markets saw declines.
- ✓ **Energy/Utilities** continue to appear to be a strong market with renewable energy, utility/distribution, and telecomm/cable being the predominant submarkets. The proposal increase isn't as strong as past quarters, but it is still very favorable.
- ✓ **Education** remains slow but is steady with no increase in opportunities. Higher Education seems to be the best sector within this market. We note, however, that adverse conditions during the peak of the government funding slump have abated and growth appears to have returned, but still at a less than pre-recession level. We also note the upcoming election will have a significant amount of capital spending on the ballot.
- ✓ **Other Government Buildings** continues to be very weak particularly west of the Mississippi river. But, this market is improving in the Eastern U.S., but at a lower level than pre-recession. Clearly, problems with government budgets continue to hold this market back. Justice facilities and sports facilities seem to be the current laggards. The voting of funding on ballots may be holding this market back as well.
- ✓ **Environmental** remains positive, but less so than in prior periods, led by resource management and environmental permitting.
- ✓ **Water/Wastewater** also remains strong but appears to have slowed in the most recent quarter. Water supply and water distribution are leading this market but all project types appear to be improving. This is likely to continue as many local water systems are reaching the end of their useful lives. Major metropolitan areas are continuing to agree with environmental authorities on major upgrades to rebuild or replace old infrastructure.
- ✓ **Healthcare** also remains strong, led by medical offices.
- ✓ **Housing** is posting continued good results compared to the past years and is about level with the prior quarter. We have seen gains in multifamily and senior and assisted living for several quarters, but now we are also seeing greater gains as well in the single-family subdivision category, a market that has been in deep depression in the past few years. Despite the increase in workloads, national figures indicate a market that is only providing 75 to 80% of the new single-family units needed to match new family formation, indicating the market still has lots of room for growth. This market continues to be led by multi-family and assisted living housing.

Overall, this quarter looks to have a very slow growth, less than the past couple of years with more markets showing slower positive trends and overall improved revenues and backlogs. It is not anywhere close to what we would call a "boom" but at least it appears to be broad-based with slow or moderate growth throughout the market. Continued weakness in government sector markets is affecting overall market strength due to the large segment of the market represented by government projects. It appears we will have a slightly better 2016 without rapid growth, but we are building at a moderate pace that is looking like it can continue into the coming year.

William Fanning / Director of Research