

CIRT Sentiment Index

First Quarter Report





EXECUTIVE SUMMARY

INDEX MOVEMENT

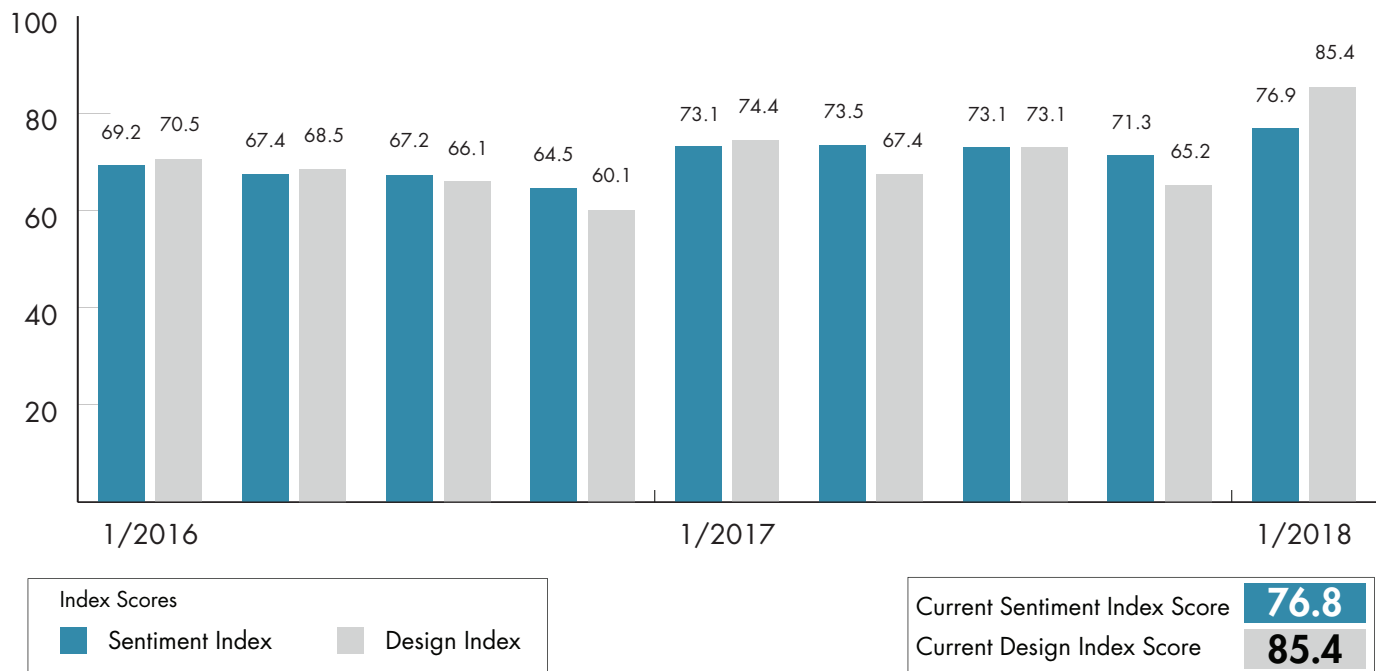
		Q4 2017	Q1 2018
Overall U.S. Economy	↑	64.13	85.25
Economy Where We Do Business	↑	68.09	80.33
Our Construction Business	↑	76.14	80.11
Nonresidential Sector	↑	61.11	78.69
Backlog	↑	75.00	83.61
Cost of Labor	↑	88.64	89.34
Cost of Materials	↑	84.52	86.07
Productivity	↓	59.52	51.64

The First Quarter 2018 CIRT Sentiment Index Report saw an upturn in optimism, resulting in the index surging some 7.6 points overall (while the Design Index leaped over 20 points, which may be precursor to work in 2018). Given the timing of when the surveying was conducted, it appears that the CIRT respondents were buoyed by both a nearly yearlong expansion of the economy in 2017 and news of pending passage of a major tax reform overhaul that would vastly improve the business environment. This optimism was also reflected in the member responses to their hiring expectations for 2018, with half (49%) saying they will likely add 5% or more in salaried employees, a virtually unprecedented increase for the Index.

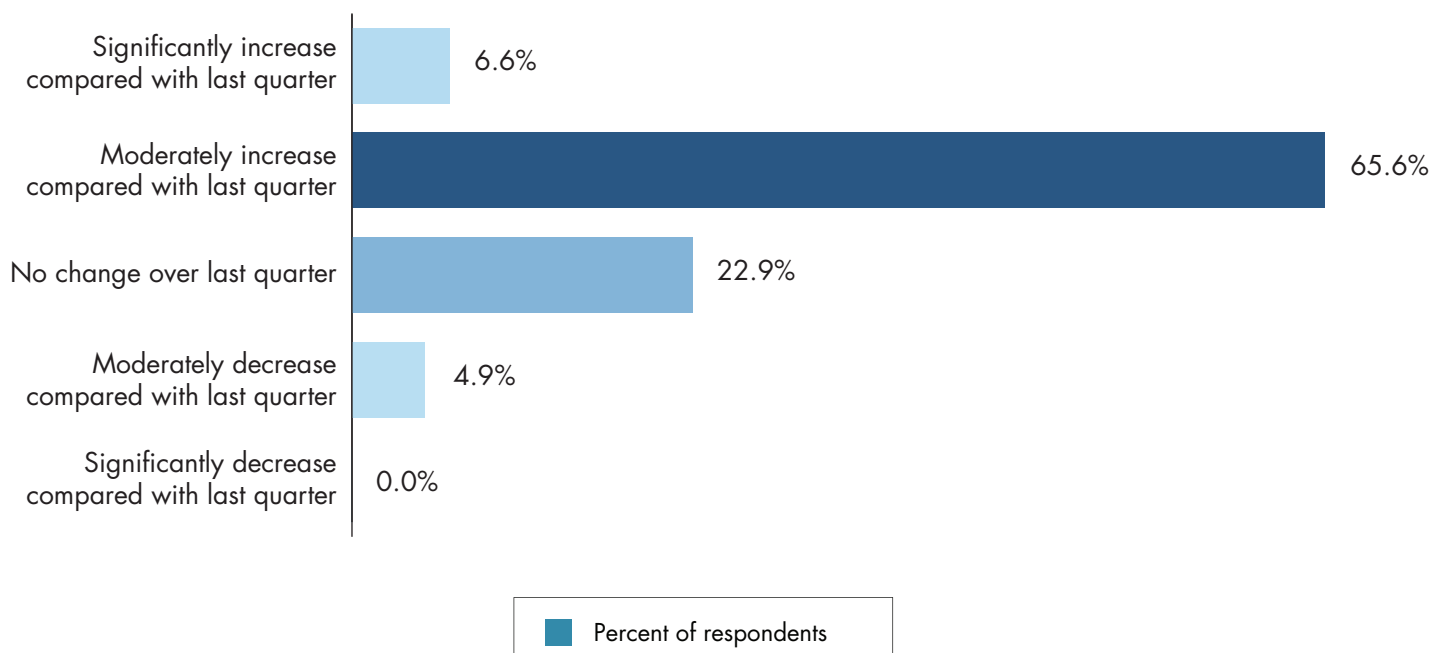
To better capture these swings in sentiment, the index underwent a recalibration to fine-tune the tracking of the numbers. As a result, for the first time this quarter, the CIRT Sentiment and Design Indexes were scored on a 5-point scale, enabling respondents to express their perceptions in greater depth than they previously could with the 3-point scale used in the past. When asked to rate a question, members were given these choices: “Significantly Increasing,” “Moderately Increasing,” “No Change,” “Moderately Decreasing” and “Significantly Decreasing.” Each option is tied to a number ranging from 1 to 5, with 1 being “Significantly Decreasing” and 5 being “Significantly Increasing.” This scale allows for a larger potential variance in scores and paints a more dynamic and nuanced depiction of the overall sentiment.

To keep things consistent, all historical index numbers have been retroactively fitted to the new 5-point scale. This does not alter the original sentiment, and the overall trend remains the same. This quarter’s CIRT Sentiment Index score is 76.8, up from a recalculated 71.2 from last quarter. The Design Index is 85.3, up from a recalculated 65.2 from last quarter. Overall, the scores of each individual index component are up from last quarter, with the exception of the “Productivity” component score, which is down 8 points from last quarter. The “Overall U.S. Economy,” “Economy Where We Do Business” and “Nonresidential Sector” components saw the most significant jumps in favorability, with each index increasing by a factor of almost 20 points compared with last quarter. “Cost of Labor” and “Cost of Materials” saw more moderate movement, with each score only increasing by 1 to 2 points.

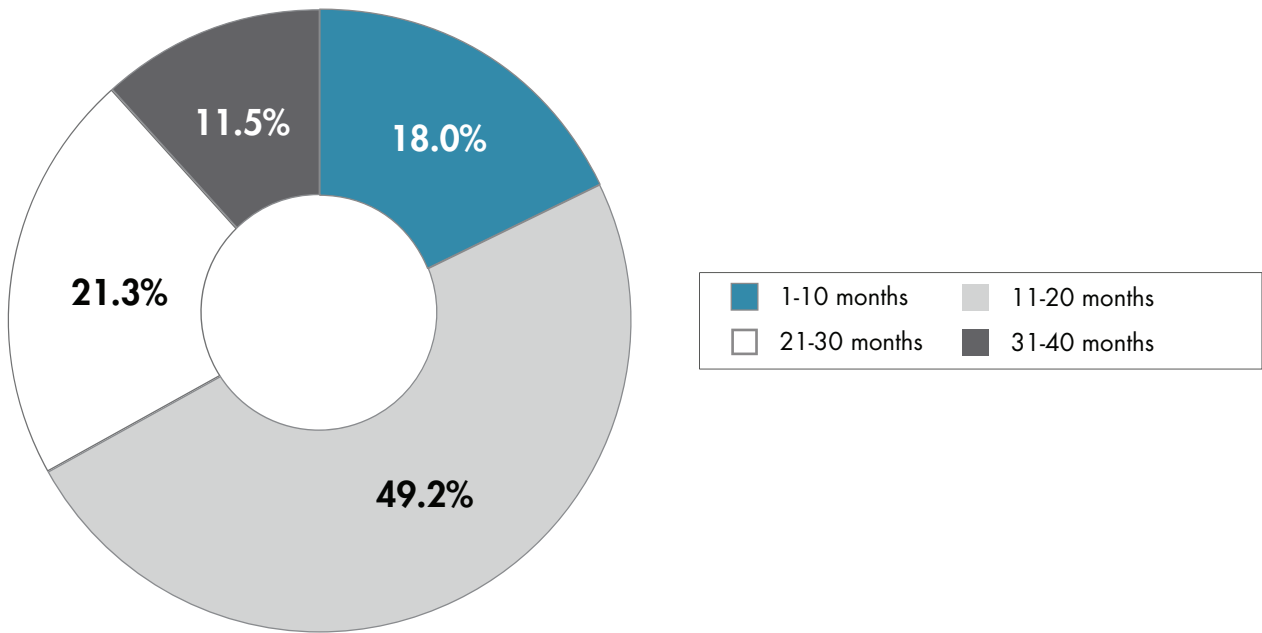
CIRT SENTIMENT INDEX SCORES FROM Q1 2016 TO Q1 2018



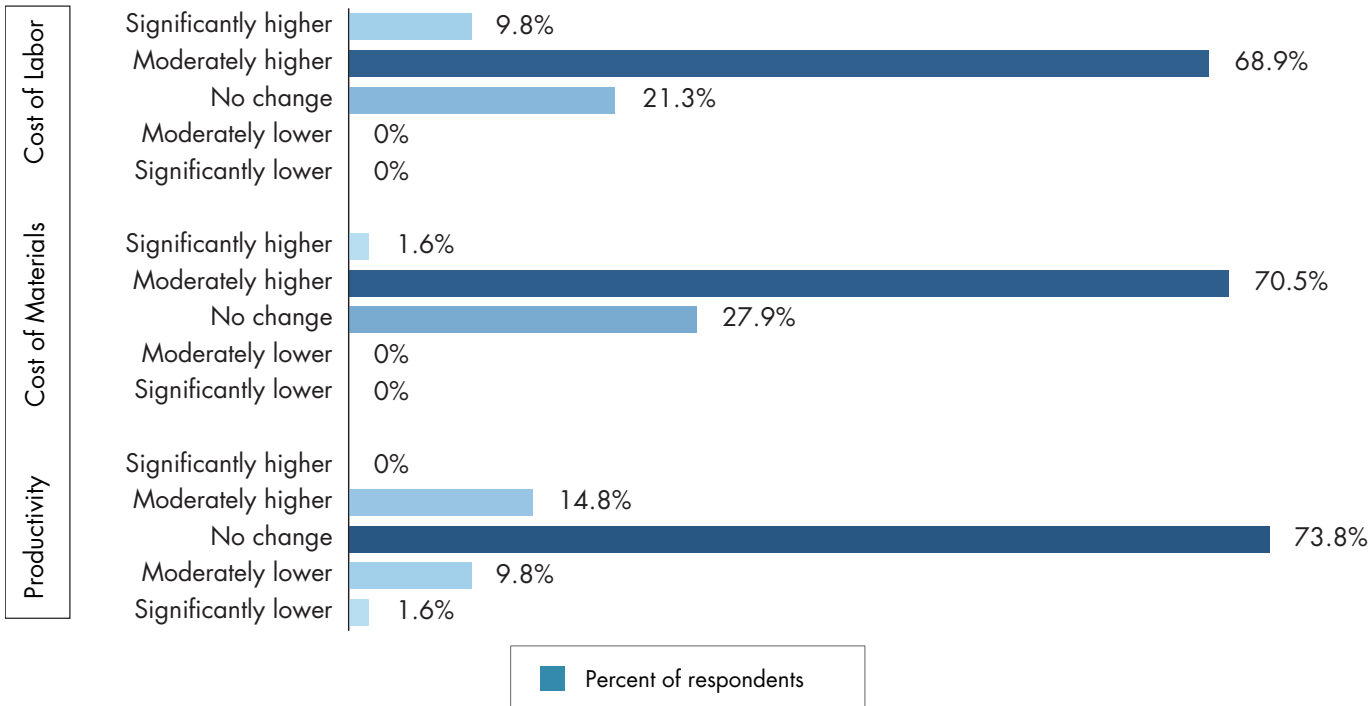
HOW DO YOU EXPECT YOUR BACKLOG TO CHANGE?



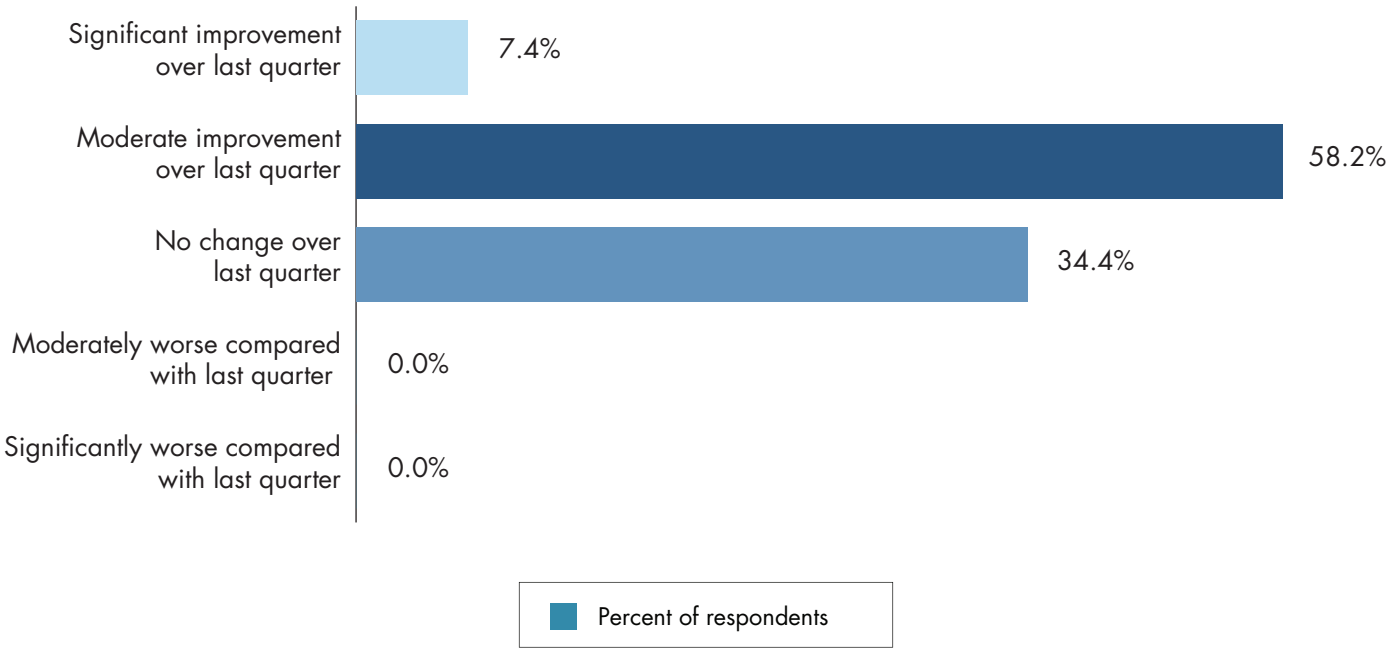
■ APPROXIMATE CURRENT SIGNED BACKLOG IN MONTHS



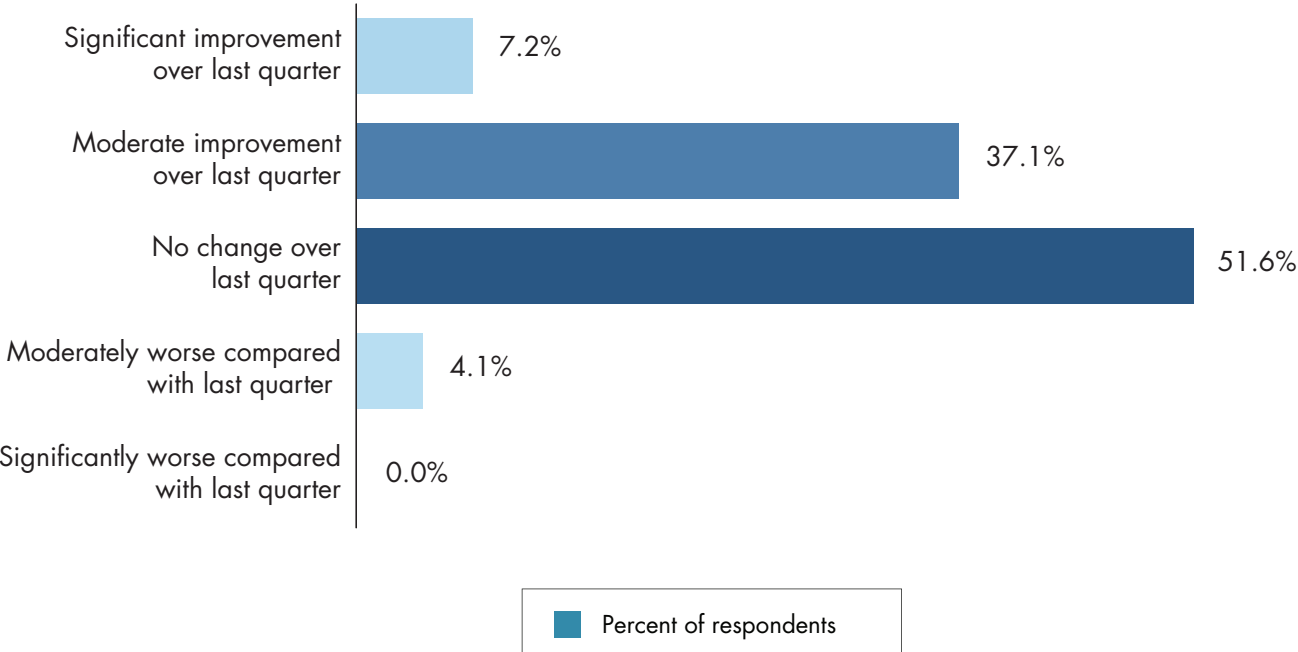
■ CONSTRUCTION INPUT PREDICTIONS FOR NEXT QUARTER



LOCAL AND NATIONAL ECONOMIC PREDICTIONS FOR NEXT QUARTER



EXPECTATIONS FOR THE RESIDENTIAL AND NONRESIDENTIAL BUILDING MARKETS FOR NEXT QUARTER





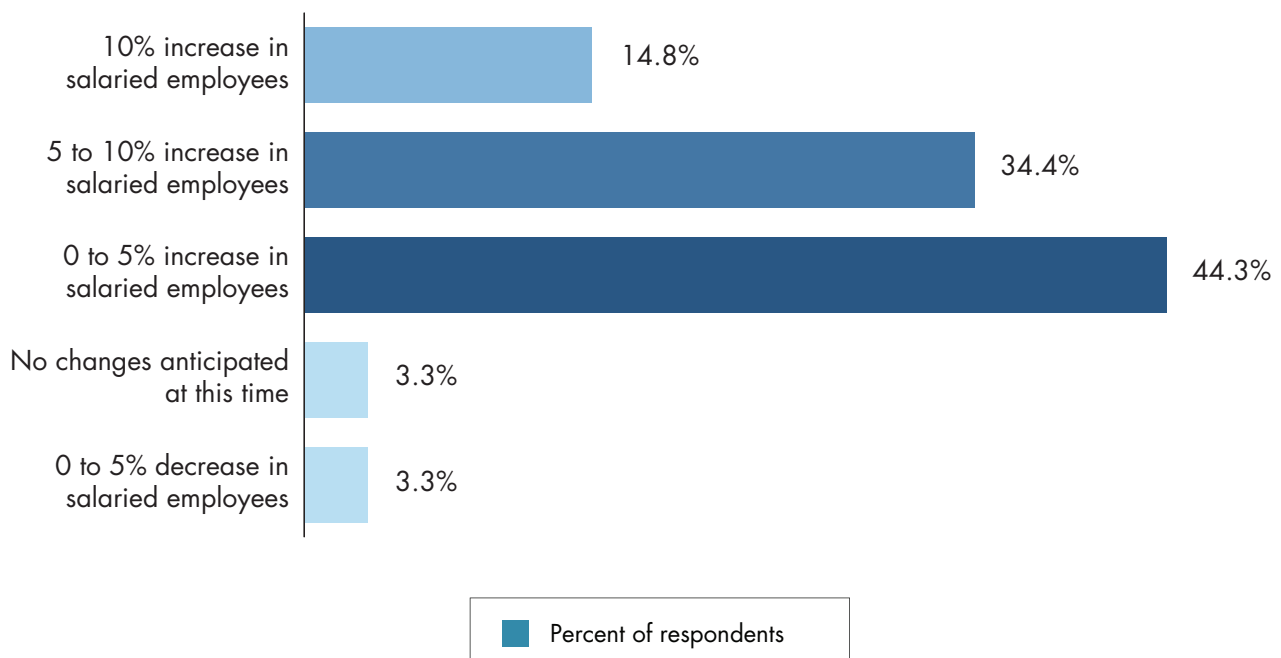
CURRENT TRENDS

This quarter's current issues topics were about hiring expectations for 2018. The overall hiring trend this quarter is one of growth and optimism, with the majority of respondents expressing an intent to expand their businesses. Here are the main takeaways::

HIRING EXPECTATIONS:

- 15% of respondents expected a hiring rate of “10% increase in salaried employees.”
- 34% of respondents indicated a change of “5% to 10% increase in salaried employees.”
- 44% of respondents answered that they were planning on a “0 to 5% increase in salaried employees.”
- 3% expected “No changed anticipated at this time”
- 3% expected a “0 to 5% decrease in salaried employees.”

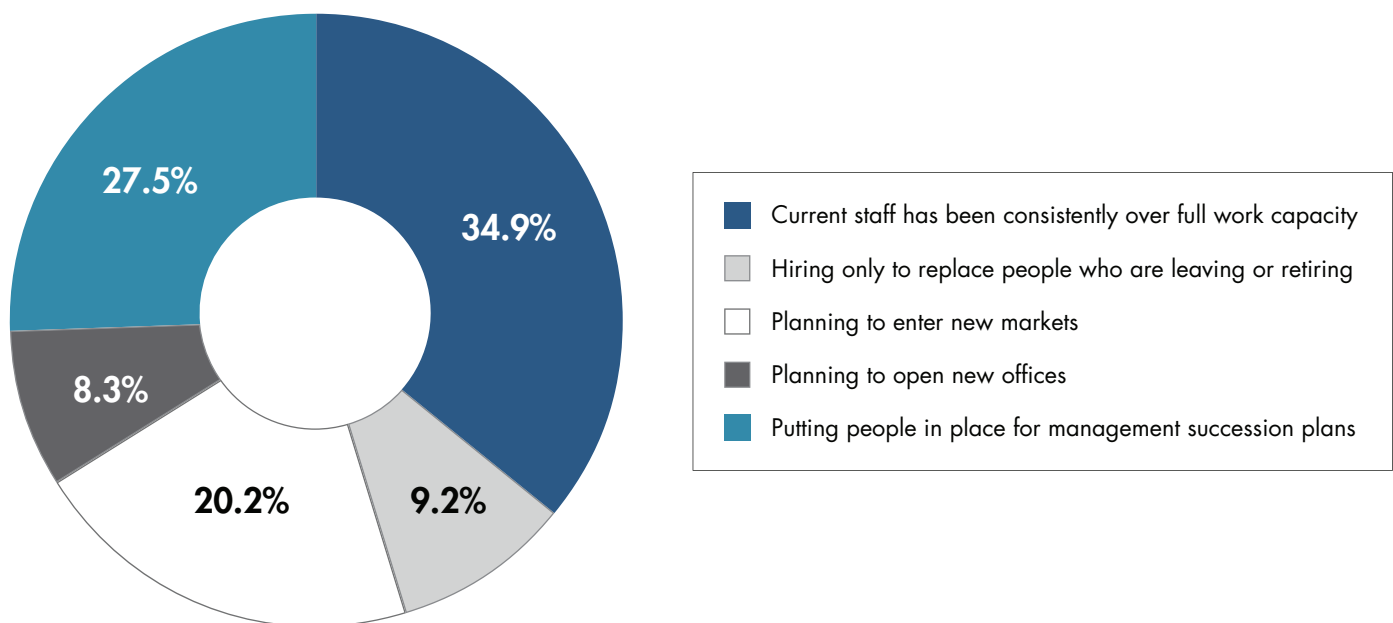
WHAT ARE YOUR HIRING EXPECTATIONS FOR 2018?



HIRING REASONS:

- 35% of members stated that their “Current staff has been consistently over full work capacity.”
- 28% of members indicated that they are “Putting people in place for management succession.”
- 20% of members expressed that they are “Planning to enter new markets.”
- 9% of members said they are “Hiring only to replace people who are leaving or retiring.”
- 8% of members answered that they are “Planning to open new offices.”

REASONS FOR HIRING NEW, SALARIED EMPLOYEES



Participants who responded that they were expecting to increase their salaried employees were asked the follow-up question, “What are your key considerations or criteria for hiring salaried employees in 2018?”



CONSTRUCTION

This quarter respondents were asked to comment on how the construction sector will change next quarter, six months from now and one year from now. Each industry score is on a scale of 1 to 5, with 1 being the worst and 5 being the best. Each percentage is a reflection of the change in score in comparison to the starting average score of the “next quarter” period. Please refer to the “Predictions of the Construction Sector Business Outlook by Industry” chart to see a visual representation of the scores. Below are the predominant perceptions of CIRT’s members:

COMMERCIAL

The commercial industry’s scores were on the lower end, with a starting average score of 3.28 for next quarter. This score increases by 1.2% for six months from now and by 0% over the starting score for one year from now.

EDUCATION

The education industry is expected to experience a slightly better version of the growth curve than the commercial industry is expected to experience. The starting average score was 3.50 for next quarter, with a 4% positive increase in average score six months from now and a 0% increase over the starting value for one year from now.

HEALTH CARE

The health care industry is expected to undergo mostly flat, but positive, growth. The average score is 3.64 for both next quarter and six months from now but increases by 1.9% one year from now.

INDUSTRIAL

The industrial industry was only surpassed by transportation and manufacturing in average perceived growth for all three periods. With a starting average score of 3.73 for next quarter, average scores positively increase by 3.6% from the starting score for six months from now and 7.3% for one year from now.

INTERNATIONAL

The international industry is expected to contract in the long term, with a growth potential during the six-month period and a decrease during the one-year period. The starting average score was 3.22 for next quarter, with a score increase of 5.1% for six months from now and a score decrease of 1.7% from the average starting value for the one-year period.

LODGING

The lodging industry had the lowest starting average score of any of the industries measured. The score for next quarter was 3.15, increasing to 3.19 six months from now and increasing again to 3.22 one year from now.

MANUFACTURING

The manufacturing industry, along with transportation and public works, came in the top three for perceived consistent growth. The starting average score was 3.57, increasing by 4.8% over the starting score for six months from now and 8.5% one year from now.

OFFICE

The office industry is expected to experience growth, but had a low starting average score of 3.23 for next quarter. This score increases by 8.3% for the six-month period, which was one of the largest positive differences from the starting score out of all the industry measurements. The rating decreases from there for one year from now, but still represents a growth rate of 3.09% over the starting score.

PUBLIC WORKS

The public works industry is expected to experience healthy growth six months from now and one year from now. The starting average score was 3.56, increasing over the starting value by 5.2% for six months from now and 9.4% for one year from now.

TRANSPORTATION

The transportation industry is perceived to experience by far the most consistent long-term growth. The average score for next quarter was 3.64, with respondents predicting 3.3% growth six months from now and 9.8% growth one year from now.

PREDICTIONS OF THE CONSTRUCTION SECTOR BUSINESS OUTLOOK BY INDUSTRY

Industry	Q1 2018		
	Next Quarter	Six Months From Now	One Year From Now
Commercial	3.28	3.32	3.28
Education	3.50	3.64	3.50
Health Care	3.64	3.64	3.71
Industrial	3.73	3.86	4.00
International	3.22	3.39	3.17
Lodging	3.15	3.19	3.22
Manufacturing	3.57	3.74	3.87
Office	3.23	3.50	3.33
Public Works	3.56	3.74	3.89
Transportation	3.64	3.76	4.00



DESIGN

As with the construction sector, respondents were asked to comment on how the design sector will change next quarter, six months from now and one year from now. Each industry score is on a scale of 1 to 5, with 1 being the worst and 5 being the best. Each percentage is a reflection of the change in score in comparison to the starting average score of the “next quarter” period. Please refer to the “Predictions of the Design Sector Project Growth by Industry” chart to see a visual representation of the scores. Below are the predominant perceptions of CIRT’s members:

COMMERCIAL

The commercial industry had the second-lowest starting average score of 3.37 but boasts the largest percentage increase over the starting value of all the design industries. For six months from now, the score increases by 6.3%, and for one year from now, the score increases by 10.9% over the starting average score.

CONSULTING

The consulting industry is expected to experience flat, but positive, growth. The average score was 3.79 for next quarter, 3.79 for six months from now, and 3.84 for one year from now.

EDUCATION

The education industry scores stay perfectly flat at 3.83 for all three rating periods.

HEALTH CARE

The health care industry is expected to see moderate growth six months from now and very slight growth one year from now. The average starting score for next quarter was 3.81, which increases by 3.3% six months from now and 1.6% one year from now.

HEAVY/CIVIL

The heavy/civil industry had the third-lowest starting score, but boasted the third-highest percentage increase in score for one year from now. The average starting score was 3.61, which increases by 7.7% for six months from now and 9.2% for one year from now.

INDUSTRIAL

The industrial industry showed the second-highest long-term growth rate. The average starting score was 3.63, which increased by 1.5% six months from now and a whopping 10.1% one year from now.

INTERNATIONAL

The international industry is expected to experience consistent positive growth over all measured periods. The starting score for next quarter was 3.69, increasing by 4.1% six months from now and 6.3% one year from now.

PRE-DESIGN

The pre-design industry is expected to experience moderate growth for all three periods. With the second-highest overall starting average score of 3.85 for next quarter, six months from now was rated at 3.89, and one year from now was rated at 3.85.

RESIDENTIAL

The residential industry had the worst average score, and the respondents who work in this industry don't expect it to grow six months from now or one year from now. The average score was 3.29 for all periods.

TRANSPORTATION

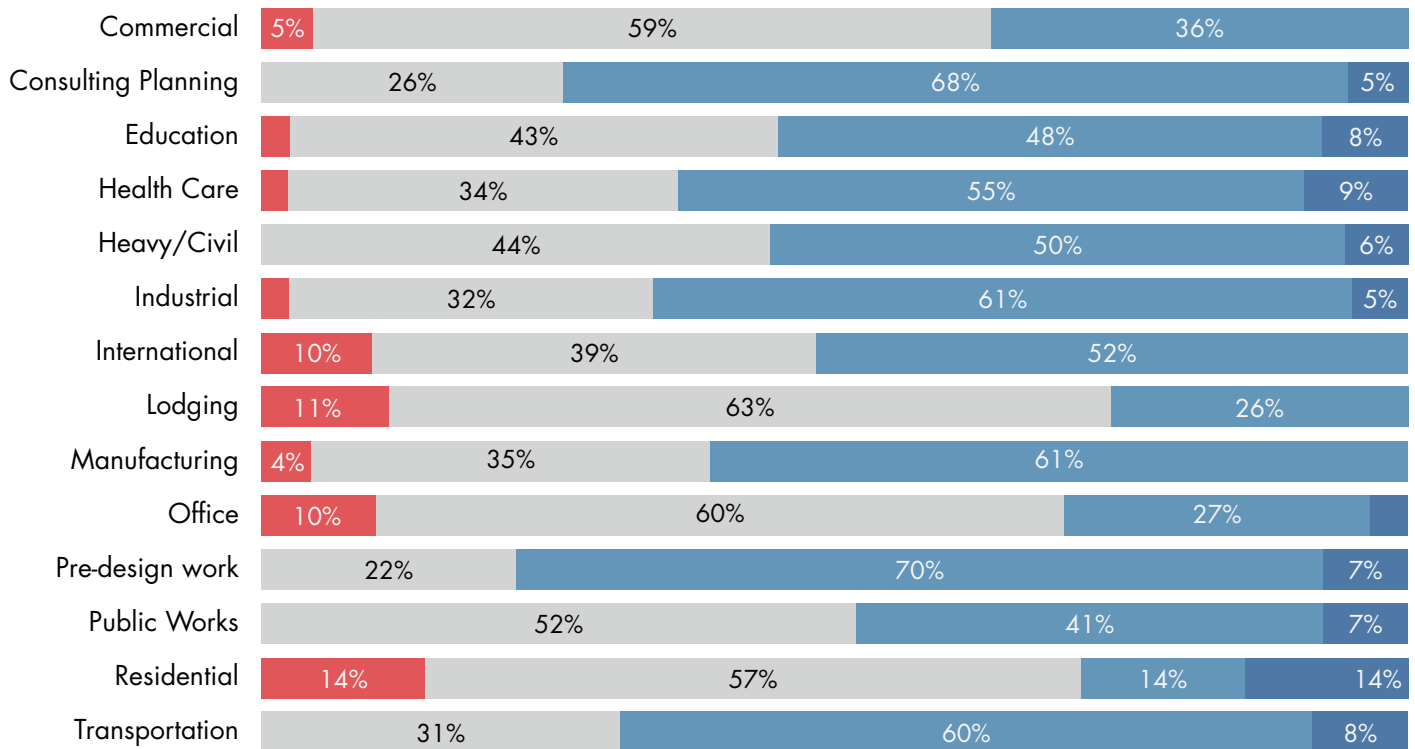
Once again, the transportation industry came in first and boasted both the highest starting score and the highest overall score: 4.17 for one year from now. The average score was 3.91 for next quarter, which increases by 2.2% to 4.00 six months from now and 6.7% to 4.17 one year from now.

PREDICTIONS OF THE DESIGN SECTOR BUSINESS OUTLOOK BY INDUSTRY

Industry	Q1 2018		
	Next Quarter	Six Months From Now	One Year From Now
Commercial	3.37	3.58	3.74
Consulting Planning	3.79	3.79	3.84
Education	3.83	3.83	3.83
Health Care	3.81	3.94	3.88
Heavy/Civil	3.61	3.89	3.94
Industrial	3.63	3.68	4.00
International	3.69	3.85	3.92
Pre-design Work	3.85	3.89	3.85
Residential	3.29	3.29	3.29
Transportation	3.91	4.00	4.17

PERCEPTION OF CHANGE FOR NEXT QUARTER BY INDUSTRY

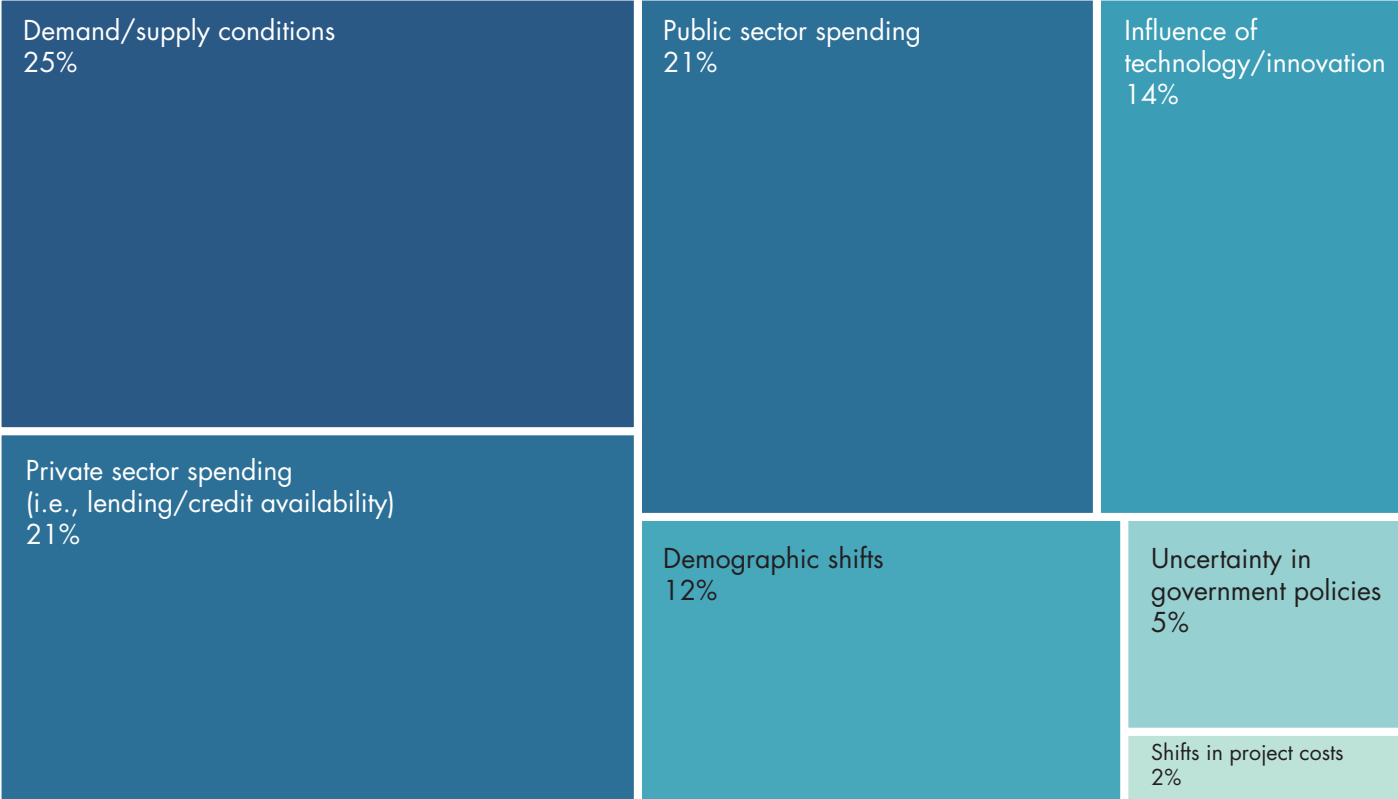
Respondents were asked to provide their opinion on expected growth and business outlook in the design and construction sectors. They were given the options “Significantly Improve,” “Moderately Improve,” “No Change,” “Moderately Worsen” and “Significantly Worsen.” This graph represents the breakdown of what percentage of respondents chose each option for each industry.



■ Significantly improve
 ■ Moderately improve
 ■ No change
■ Moderately worsen
 ■ Significantly worsen

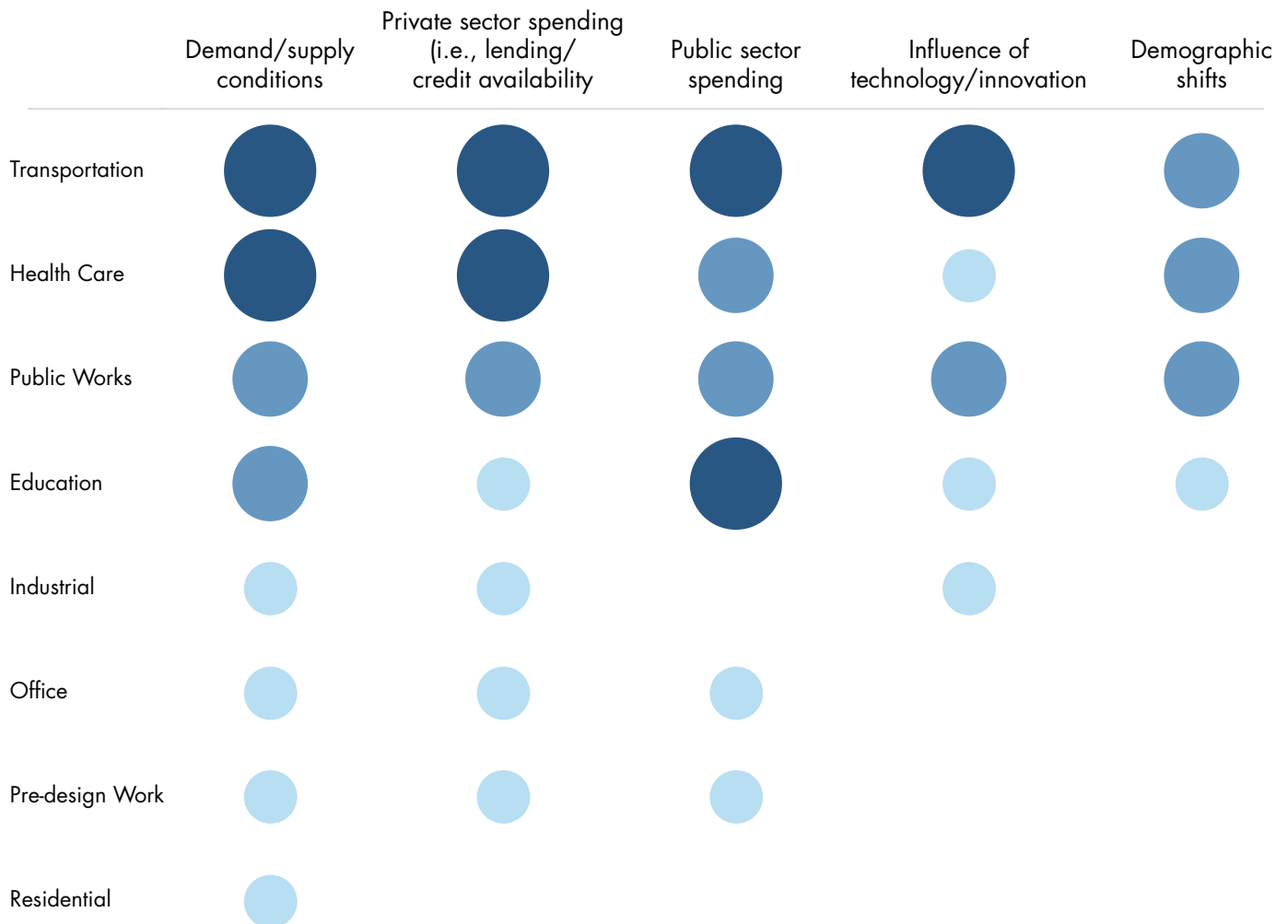
TOP CONTRIBUTING FACTORS FOR “SIGNIFICANT IMPROVEMENT”
NEXT QUARTER

When respondents answered that they thought an industry was “Significantly Improving” for the next quarter, they were asked a follow-up question to determine what factors they attributed most to that improvement. This area chart shows which responses were most often chosen; the darker the shade of blue and the larger the square, the more influential the factor.



FACTORS THAT WILL MOST HEAVILY CONTRIBUTE TO “SIGNIFICANT IMPROVEMENT” BY INDUSTRY

Similar to the last chart, this heat map shows which factors most heavily influence each individual industry. The bigger and darker the circle, the more influential that factor is deemed to be in that particular sector. For example, “Public sector spending” greatly influences the education industry.





ABOUT THE CONSTRUCTION INDUSTRY ROUND TABLE (CIRT)

The Construction Industry Round Table (CIRT) is composed exclusively of approximately 115-120 CEOs from the leading architectural, engineering and construction firms doing business in the United States.

CIRT is the only organization that is uniquely situated as a single voice representing the richly diverse and dynamic design/construction community. First organized in 1987 as the Construction Industry Presidents' Forum, the Forum has since been incorporated as a not-for-profit association with the mission "to be a leading force for positive change in the design/construction industry while helping members improve the overall performance of their individual companies."

The Round Table strives to create one voice to meet the interests and needs of the design/construction community. CIRT supports its members by actively representing the industry on public policy issues, by improving the image and presence of its leading members, and by providing a forum for enhancing and developing strong management approaches through networking and peer interaction.

The Round Table's member CEOs serve as prime sources of information, news and background on the design/construction industry and its activities. If you are interested in obtaining more information about the Construction Industry Round Table, please call 202-466-6777 or contact us by email at cirt@cirt.org.

CIRT SENTIMENT INDEX

The CIRT Sentiment Index is a survey of members of the Construction Industry Round Table conducted quarterly by FMI Research, Raleigh, North Carolina. For press contact or questions about the CIRT Sentiment Index, contact Mark Casso at mcasso@cirt.org.

CONFIDENTIALITY

All individual responses to this survey will be confidential and shared outside of FMI only in the aggregate.

All names of individuals responding to this survey will remain confidential to FMI.



About FMI

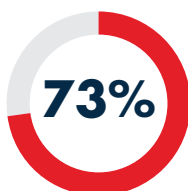
For over 65 years, FMI has been the leading **management consulting and investment banking** firm dedicated exclusively to **engineering and construction, infrastructure and the built environment**.

FMI serves all sectors of the industry as a trusted advisor. More than six decades of context, connections and insights lead to transformational outcomes for our clients and the industry.

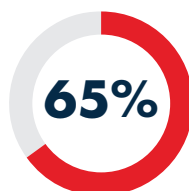
Sector Expertise

- A/E and Environmental
- General Contractors/CM
- Heavy Civil
- Industrial
- Specialty Trades
- Utility T&D
- Cleantech and Energy Services
- Construction Materials
- Building Products
- Oil and Gas
- Private Equity
- Owners

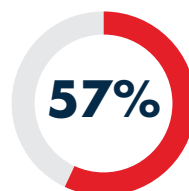
FMI Client Highlights



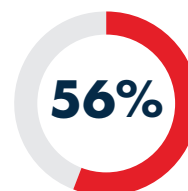
of the ENR
Top-400
LARGEST
CONTRACTORS



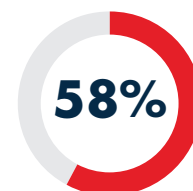
of the ENR
Top-200
SPECIALTY
CONTRACTORS



of the ENR
Top-100
DESIGN
FIRMS



of the ENR
Top-200
ENVIRONMENTAL
FIRMS



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