

2017

Third Quarter Report

CIRT Sentiment Index

EXECUTIVE SUMMARY

The CIRT Sentiment Index for in the third quarter dropped 5.3 points from the second quarter. Conversely, the CIRT Design Index portion gained 1.2 points over last quarter, which might be a harbinger of future improvement. For the Sentiment Index, all major components were down, while labor and materials costs rose. Median backlog dropped two months to 12 months, with respondents expecting backlogs to see slower growth over the next year. However, the third quarter level of 57.1 was a higher Index reading than all of 2016, while the Design Index is at its highest range compared with the past few years. The markets for commercial construction, transportation, and manufacturing recorded sharp reductions in outlook, while most other market segments are still in growth mode. Generally, we see these readings as worse than expected in an otherwise strong economy. Yet, these market numbers are still above neutral (i.e., 50), thus signaling slow

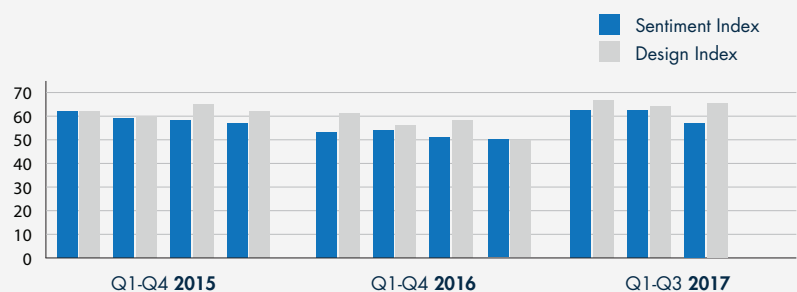
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CURRENT SUMMARY

Overall economy	DOWN
Overall economy where we do business	DOWN
Our construction business	DOWN
Residential building construction market where we do business	DOWN
Nonresidential building construction market where we do business	DOWN
Our expected backlog	DOWN
Cost of construction materials	HIGHER
Cost of labor	HIGHER
Productivity	LOWER

EXHIBIT 1

CIRT Sentiment Index Scores from Q1 2015 to Q3 2017



Current CIRT Sentiment Index Reading | Q3 2017

57.1

Current CIRT Design Index Reading | Q3 2017

65.7

(Scores above 50 indicate expansion, below 50 indicate contraction.)

ABOUT THE CONSTRUCTION INDUSTRY ROUND TABLE (CIRT)

The Construction Industry Round Table (CIRT) is composed exclusively of approximately 115 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.

Executive Summary *continued ...*

but continued growth. Also, if costs were lower and productivity higher, that would bolster the overall index score. However, the industry is bucking the headwinds caused by the realities of a growing economy and the scarcity of trained labor. These counter weights, usually work against the idea of lowering wages and increasing productivity.

In an attempt to get a more detailed appraisal of the fundamentals driving market growth or possible slowdowns, our “Current Issues” questions asked about specific causes contributing toward these trends. The bottom line is that we found no surprises, with most respondents indicating normal reasons for growth, like market demand and increased public spending. Few indicated any unusual slowdowns in their markets that we didn’t uncover in our normal Index components.

CIRT Sentiment Index, Third Quarter 2017 Highlights

Overall Economy:

The Index score for the overall economy dropped 3.2 points to 68.4 this quarter. This is still a solid reading, but indicates slowing business activity, as this is the third quarter in a row that the score has dropped; but it is still considerably higher than that of Q4 2016.

Overall Economy Where Respondents

Do Business:

Respondents see the overall economy in their markets as slowing more rapidly, as the Index for this component lost 6.2 points this quarter to 65.3.

CIRT Design Index Components

Consulting Planning:

The Design Index score for consulting planning rose 5.8 points to a strong 75.0. This score bodes well for work in the pipeline.

Pre-design work:

The pre-design work component rose a solid 8.8 points this quarter after losing the same amount last quarter.

Residential:

Design work for residential projects gained 11.5 points to 61.5.

Commercial:

The Design Index reading for commercial design fell 10.9 points to 52.8. Too soon to know if this is a trend or a temporary slowdown, but commercial construction has shown some weakness in our long-range forecast.

Education:

Education design was essentially unchanged at 65.4, 0.4 points lower than last quarter.

Health Care:

Despite all the political news about health care, this Design Index reading increased 9.5 points to 80.0.

Industrial:

Design work for industrial markets edged up 2.7 points to 65.8, about where it was in the first quarter.

Transportation:

After slipping in the first quarter, the transportation design component is slightly ahead of the second quarter reading at 78.9.

Heavy/Civil:

Heavy/civil design continues its optimistic outlook as the index component rises 13.3 points to 73.3.

International:

Likely due to many economic concerns like Brexit, the international design component dropped precipitously by 35.2 points. We may know better next quarter if this is a concern for economic uncertainty or a statistical blip due to a small response rate for this component.



Construction

Construction Business:

CIRT respondents' index for their nonresidential construction business slipped 2.5 points to 67.7.

Private Sector Construction Business:

With the exception of a sharp drop in confidence for commercial construction looking one year out, (-17.5), the Index readings for private sector construction are positive this quarter, with education construction seeing the sharpest gain of 9.5 points to 72.5. Office and lodging construction have weaker long-term outlooks.

Costs of Construction Materials and Labor:

Materials and labor costs continue to increase as the index for both Index components drops, losing 6.8 points for materials and 1.7 points for labor costs. While there are some indications in the market that materials cost increases are slowing, the cost of construction inputs will likely continue to rise as the economy remains strong and labor scarce. (Rising materials and labor costs act as a drag on the overall Index score.)

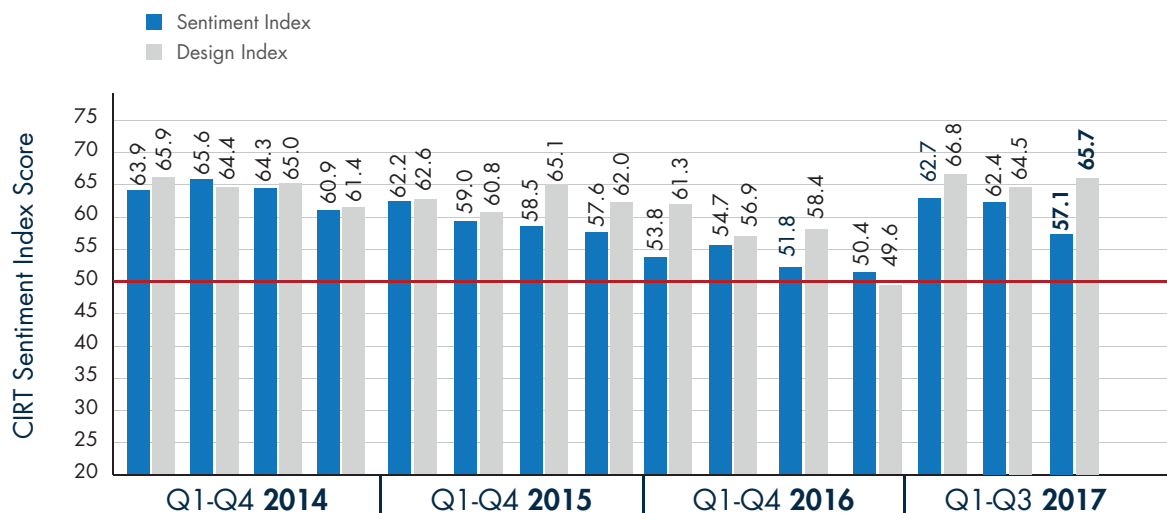
Productivity:

After an improvement last quarter, productivity lost 5.4 points to register just 50.0, or no improvement, in this stubborn construction component.

Results of the Third Quarter 2017 CIRT Sentiment Index

EXHIBIT 2

CIRT Sentiment Index Scores:
Q1 2014 to Q3 2017



(Scores based on a 100-point scale, above 50 indicate expansion, below 50 indicate contraction.)

Current Issues:

For our issues questions this quarter, we asked CIRT respondents about particular drivers to growth and for any slowdowns in their markets. Current Issues questions are optional; therefore, the response rate is small compared to the overall Index. In this case, we aren't looking to determine a specific trend; rather, we are looking for some additional detail to the growth or market slowdowns that we might not see in our regular questions.

Overall, there were no surprises in the response; however, the results do help to add further support to what we see in our overall construction forecast. For instance, market demand for retail, office and lodging are still strong for some discrete regions, but weakening overall. There were more responses to the questions about reasons for market growth than for causes of any slowdown in particular markets. It is also interesting that the same causes for growth were also identified for any slowdown that was reported. For instance, private sector spending and credit availability for manufacturing construction projects were given a high rating as a reason for growth in that sector and a high reason for market slowdown. Public sector spending was given weak ratings as a cause for both growth and any slowdowns.

EXHIBIT 3

If you are seeing notable growth in certain construction markets, what are the causes?
(1 to 5, 1= very low causal connection, 5=very high connection.)

Causes	Markets						
	Retail	Lodging	Office	Education	Health care	Manufacturing	Average
Market demand	3.3	3.0	3.5	3.5	3.9	3.7	3.5
Demographic shifts	3.3	3.3	2.8	2.6	3.4	3.0	3.1
Influence of technology / innovation	3.3	1.8	3.0	3.0	3.5	3.9	3.1
Public sector spending	2.0	2.0	2.8	3.6	2.8	2.7	2.6
Private sector spending (e.g., lending / credit availability)	3.3	2.8	3.2	3.7	3.7	3.9	3.4
Shifts in offshore competitiveness	3.0	1.0	2.0	1.7	1.5	3.1	2.1
Uncertainty in government policies	3.3	2.0	2.5	3.4	4.3	3.4	3.2
Workforce availability	3.3	2.0	2.8	3.0	3.2	3.0	2.9
Shifts in project costs	3.5	3.3	3.2	2.3	3.0	3.0	3.0
Cyclicality of markets	4.0	4.0	3.3	2.7	2.5	4.0	3.4

EXHIBIT 4

If you are seeing a notable slowdown for certain construction markets, what are the causes?
(1 to 5, 1= very low causal connection, 5=very high connection.)

Causes	Markets						
	Retail	Lodging	Office	Education	Health care	Manufacturing	Average
Market demand	4.7	4.2	4.5		3.0	0.0	3.3
Demographic shifts	5.0	3.0	3.5	0.0	3.0	0.0	2.4
Influence of technology / innovation	4.0	2.5	3.5	0.0	3.0	0.0	2.2
Public sector spending	1.0	2.0	1.0	5.0	2.0	0.0	1.8
Private sector spending (e.g., lending / credit availability)	5.0	4.0	4.3	0.0	3.0	0.0	2.7
Shifts in offshore competitiveness	2.0	1.5	1.5	0.0	1.0	5.0	1.8
Uncertainty in government policies	3.0	2.7	2.7	3.0	4.3	3.0	3.1
Workforce availability	4.0	3.4	3.0	3.0	2.5	3.0	3.2
Shifts in project costs	3.0	3.5	3.0	0.0	3.5	0.0	2.2
Cyclicality of markets	4.5	3.7	4.0	0.0	1.0	0.0	2.2
Red-Tape delays	3.0	2.5	2.5	0.0	3.5	0.0	1.9

EXHIBIT 5

CIRT Sentiment Design Index Components — Business Outlook Summary
Compared with last quarter, what are your expectations for projects in the following markets for design services in the next year?

Design Index Components	Q1 2017				Q2 2017				Q3 2017			
	Improving over last quarter	Remains the same as last quarter	Worse than last quarter	Overall Component Score Q1 2017	Improving over last quarter	Remains the same as last quarter	Worse than last quarter	Overall Component Score Q2 2017	Improving over last quarter	Remains the same as last quarter	Worse than last quarter	Overall Component Score Q3 2017
Consulting planning	50.0%	46.7%	3.3%	73.3	38.5%	61.5%	0.0%	69.2	50.0%	50.0%	0.0%	75.0
Pre-design work	57.6%	39.4%	3.0%	77.3	40.7%	55.6%	3.7%	68.5	54.5%	45.5%	0.0%	77.3
Commercial	37.0%	55.6%	7.4%	64.8	31.8%	63.6%	4.5%	63.6	11.1%	83.3%	5.6%	52.8
Residential	18.2%	63.6%	18.2%	50.0	0.0%	100.0%	0.0%	50.0	30.8%	61.5%	7.7%	61.5
Education	39.1%	60.9%	0.0%	69.6	31.6%	68.4%	0.0%	65.8	38.5%	53.8%	7.7%	65.4
Health care	34.8%	65.2%	0.0%	67.4	40.9%	59.1%	0.0%	70.5	60.0%	40.0%	0.0%	80.0
Industrial	39.1%	52.2%	8.7%	65.2	34.8%	56.5%	8.7%	63.0	31.6%	68.4%	0.0%	65.8
Transportation	60.0%	36.0%	4.0%	78.0	42.9%	57.1%	0.0%	71.4	57.9%	42.1%	0.0%	78.9
Heavy/Civil	47.8%	43.5%	8.7%	69.6	20.0%	80.0%	0.0%	60.0	46.7%	53.3%	0.0%	73.3
International	23.8%	57.1%	19.0%	52.4	25.0%	75.0%	0.0%	62.5	9.1%	36.4%	54.5%	27.3
Design Firms Index				66.8				64.5				65.7

EXHIBIT 6

CIRT Sentiment Index Components — Comparison of Results: Q3 of 2016 to Q3 of 2017

CIRT Scores

> 50 indicate growth (better)
< 50 indicate slowing (worse)

	CIRT Sentiment Index Components Q3 2016	CIRT Sentiment Index Components Q4 2016	CIRT Sentiment Index Components Q1 2017	CIRT Sentiment Index Components Q3 2017
The overall economy	51.2	74.2	71.6	68.4
The overall economy where we do business	52.3	71.1	71.6	65.3
Respondents' construction business	60.7	69.5	70.2	67.7
The residential building construction market where panelists do business	50.0	57.1	60.0	59.7
The nonresidential building construction market where panelists do business	56.4	71.8	72.3	70.4
Cost of construction materials	35.9	26.9	25.0	18.2
Cost of labor	21.1	20.0	13.4	11.7
Productivity	48.7	51.9	55.4	50.0
Expected change in backlog	47.6	65.6	65.5	63.5
Approximate current signed backlog in months	15.0	14.0	14.0	12.0

EXHIBIT 7

Size of the Organization in Annual Revenue

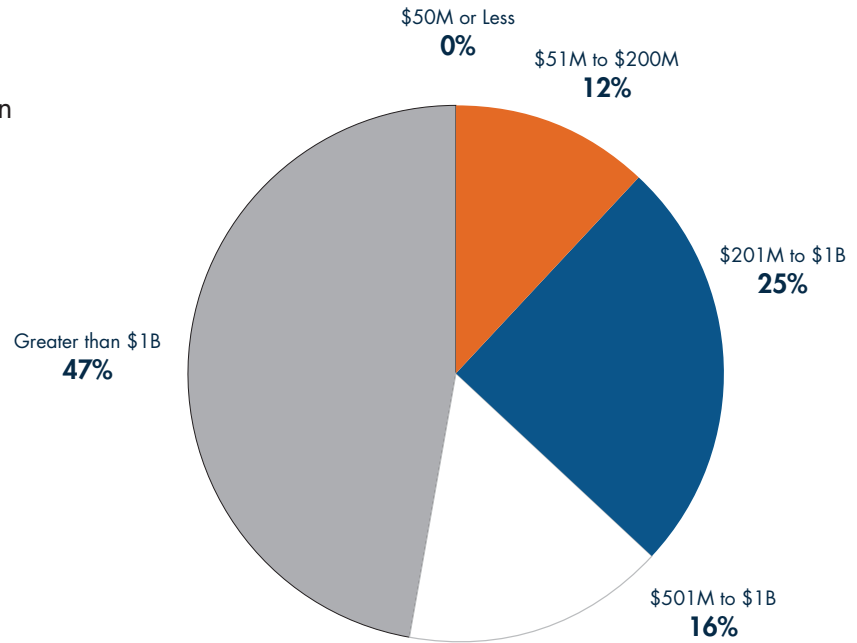


EXHIBIT 8

Type of Contracting Business

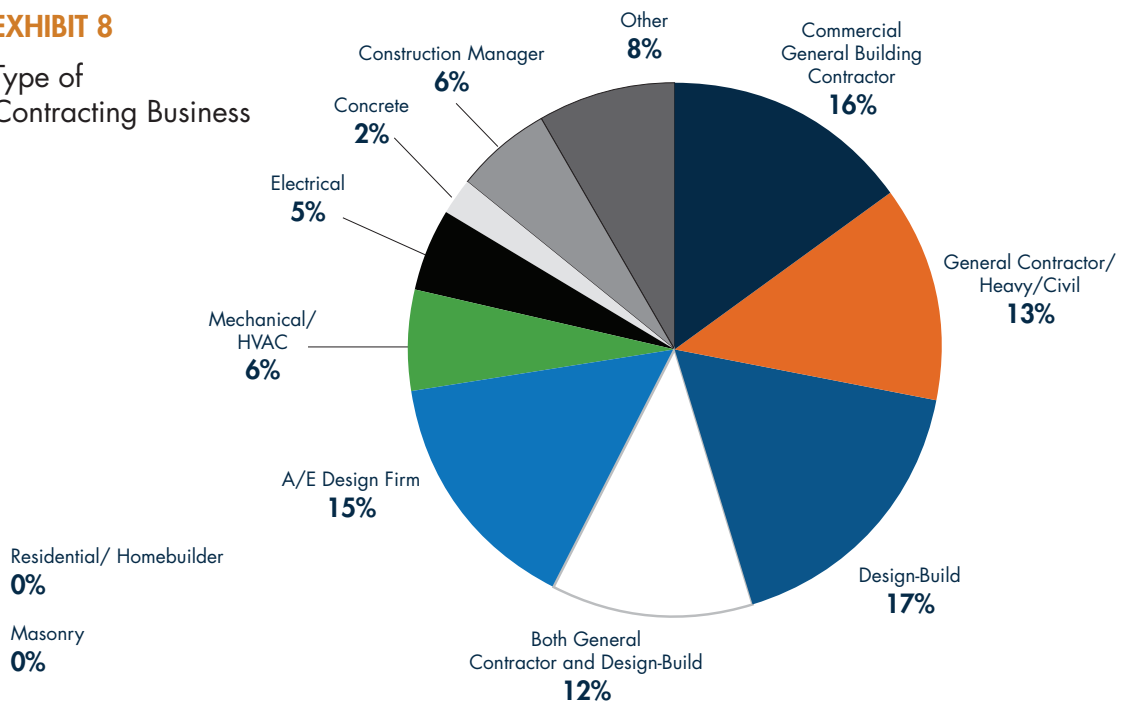


EXHIBIT 9

Primary Region in Which Panelists Work

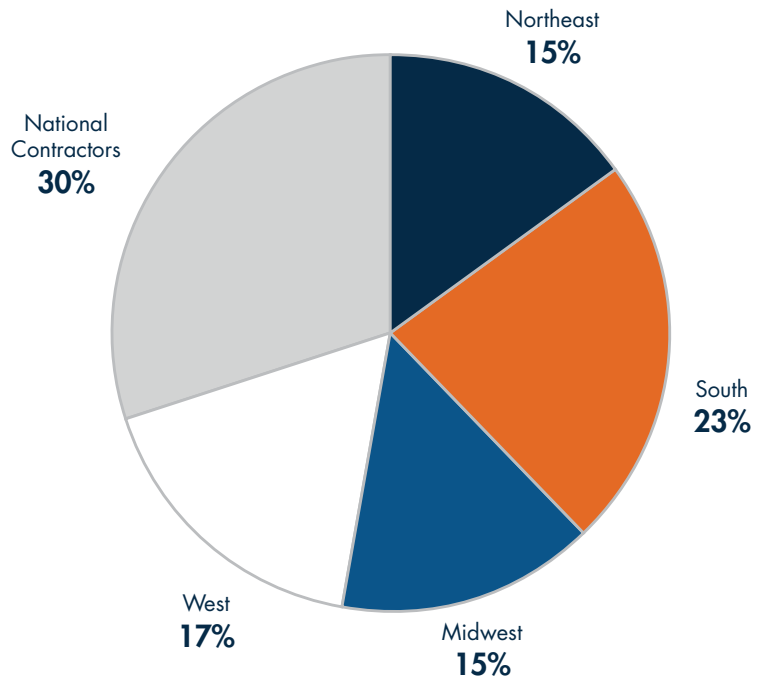


EXHIBIT 10

CIRT Sentiment Index Components — Business Outlook Summary by Market Sector

Sector	Results Q2 2016			Results Q3 2016		
	3 Months	1 Year	3 Years	3 Months	1 Year	3 Years
Commercial	57.4	55.6	32.0	60.5	57.9	42.1
Education	62.5	73.4	66.1	75.0	72.5	65.0
Health care	62.1	71.2	72.6	60.4	64.6	68.8
Lodging	55.6	55.6	42.0	61.1	58.3	44.4
Manufacturing	68.0	68.8	67.4	50.0	77.5	70.0
Office	59.1	63.6	45.2	54.2	54.2	37.5
Industrial/Petrochemical	67.3	75.0	77.1	59.5	76.2	81.0
Transportation-Related	61.5	75.6	77.6	61.1	75.9	81.5
Public Works/Heavy/Civil	60.0	83.3	87.9	59.6	75.0	76.9
Other	90.0	91.7	66.7	25.0	25.0	25.0

EXHIBIT 11

CIRT Sentiment Index Results

	CIRT Sentiment Index Results Q2 2017				CIRT Sentiment Index Results Q3 2017			
	Improving over last quarter	Staying the same as last quarter	Worse compared with last quarter	CIRT components Q2 2017	Improving over last quarter	Staying the same as last quarter	Worse compared with last quarter	CIRT components Q2 2017
The overall economy	0.4	0.6	0.0	71.6	38.8%	59.2%	2.0%	68.4
The overall economy where we do business	0.4	0.6	0.0	71.6	32.7%	65.3%	2.0%	65.3
Panelists' construction business	0.4	0.5	0.0	70.2	37.5%	60.4%	2.1%	67.7
The residential building construction market where panelists do business	0.2	0.7	0.0	60.0	30.6%	58.3%	11.1%	59.7
The nonresidential building construction market where panelists do business	0.5	0.5	0.0	72.3	44.9%	51.0%	4.1%	70.4
	High	Median	Low		High	Median	Low	
Approximate current signed backlog in months	50.0	14.0	4.0		36.0	12.0	2.0	
	Grow faster than last quarter	Stay about the same as last quarter	Shrink compared to last quarter		Grow faster than last quarter	Stay about the same as last quarter	Shrink compared to last quarter	
Expected change in backlog	40%	52%	9%	65.5	38%	52%	10%	63.5
	Higher than last quarter	Same as last quarter	Lower than last quarter		Higher than last quarter	Same as last quarter	Lower than last quarter	
Cost of construction materials	50%	50%	0%	25.0	64%	36%	0%	18.2
Cost of labor	73%	27%	0%	13.4	77%	23%	0%	11.7
	Improving over last quarter	Same as last quarter	Declining compared to last quarter		Improving over last quarter	Same as last quarter	Declining compared to last quarter	
Productivity	18%	75%	7%	55.4	11%	78%	11%	50.0

About FMI

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