

# AE INDUSTRY QUARTERLY **SNAPSHOT**

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## Q2 2026

A data-driven pulse of the AE industry

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AE Industry Quarterly Snapshot · Q2 2026

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**What to Watch Out for in Q2 2026:**

- Despite geopolitical instability and economic uncertainty, architecture, engineering, and environmental consulting firms are solidly optimistic about the outlook for the second quarter of 2026. The Morrissey Goodale Confidence Index score of 59.0 indicates continued robust industry expansion.
- AE firms are in hiring mode. More than two-thirds (67%) of survey respondents expect to increase headcount in Q2.
- AE firms are increasingly interested in acquisitions. More than 60% of survey respondents say they are more likely to pursue acquisitions over the next 12 months than compared to the previous 12 months, and nearly half (45%) are planning to acquire another firm in the coming year.
- Talent acquisition is the leading driver of M&A activity among survey respondents, and geographic expansion also ranks high. The Sun Belt is attracting the most buyer attention along with firms working in the water, wastewater, and water resources market.
- Private equity is now the most active capital model reshaping the AE industry, accounting for a whopping 55% of U.S. deals in the first quarter of 2026. The 70 private equity and PE-backed deals completed in Q1 2026 marked a 40% increase from Q1 2025.
- Hiring and staffing remains the biggest issue on the minds of AE firm leaders and CEOs in Q2, followed closely by artificial intelligence. Two-thirds (66%) of survey respondents are planning to make moderate or significant AI investments in the next 12 months.
- Geopolitical turmoil and economic uncertainty are adding to the Q2 challenges confronting AE firm leaders as inflationary pressures threaten to squeeze project margins and budget

## About the Morrissey Goodale Confidence Index

The Morrissey Goodale Confidence Index is a weighted diffusion index derived from Morrissey Goodale’s exclusive quarterly survey of U.S. architecture, engineering, and environmental consulting firm leaders. Reflecting the sentiment of AE firm leaders about the ensuing quarter, the Morrissey Goodale Confidence Index offers an assessment of current and future business conditions to inform strategic planning inside AE industry boardrooms. Based on projected outlooks for project starts, headcounts, backlogs, RFP activity, and overall business outlook, an index score of 50 or above reflects a positive outlook, while a score below 50 indicates a negative outlook among survey respondents.



### INSIDE THE NUMBERS

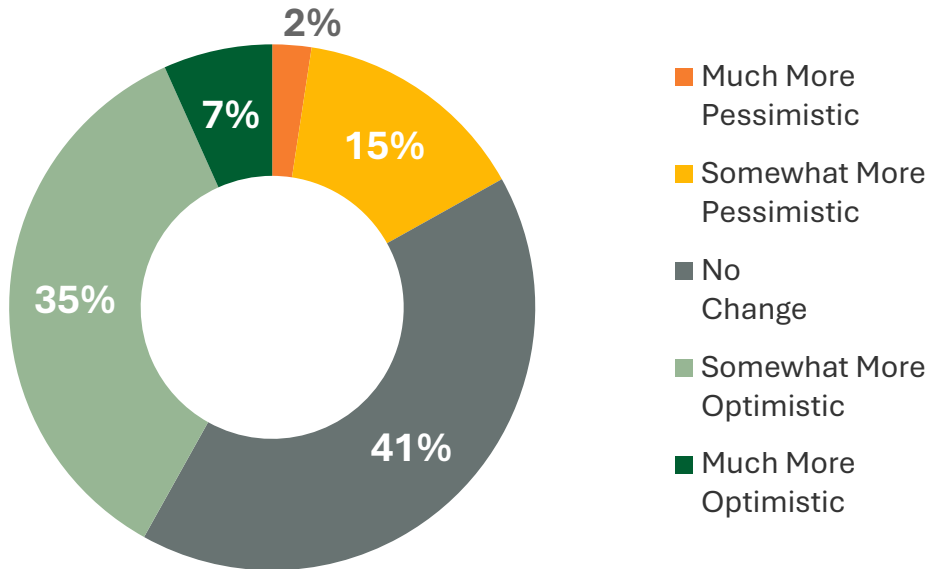
**Nick Belitz**

*Managing Principal, Advisory Services*

- Despite geopolitical instability and economic uncertainty, architecture, engineering, and environmental consulting firms are solidly optimistic about the outlook for the second quarter of 2026. A 59.0 index indicates continued robust expansion in the AE industry.
- When asked about the overall Q2 outlook compared to the prior quarter, nearly three times as many firm leaders express optimism than pessimism. More than 40% say they are “much more optimistic” or “somewhat more optimistic,” compared to 17% who say they are “much more pessimistic” or “somewhat more pessimistic.”
- AE firms continue to be in hiring mode—overwhelmingly. More than two-thirds (67%) of respondents expect to increase headcount in Q2, and only 3% forecast shedding any staff.
- Backlog expectations remain extremely healthy. Nearly 59% of respondents expect backlogs to increase in Q2, and less than 5% predict declining backlogs.
- Projections for RFP activity remain extremely positive. Forty-one percent of respondents forecast RFPs to increase in Q2, while less than 10% expect RFP activity to fall.
- Project starts are the only index component in negative territory, creating a drag on sentiment. More than 35% of respondents report clients are delaying projects somewhat or significantly, and only 7% report clients are accelerating schedules.

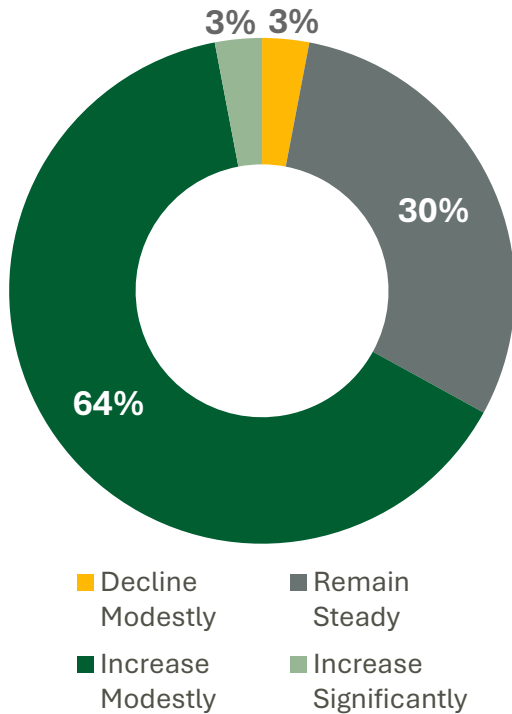
For more information, contact **Nick Belitz** at [nbelitz@morrisseygoodale.com](mailto:nbelitz@morrisseygoodale.com).

Q2 Outlook for Your Business

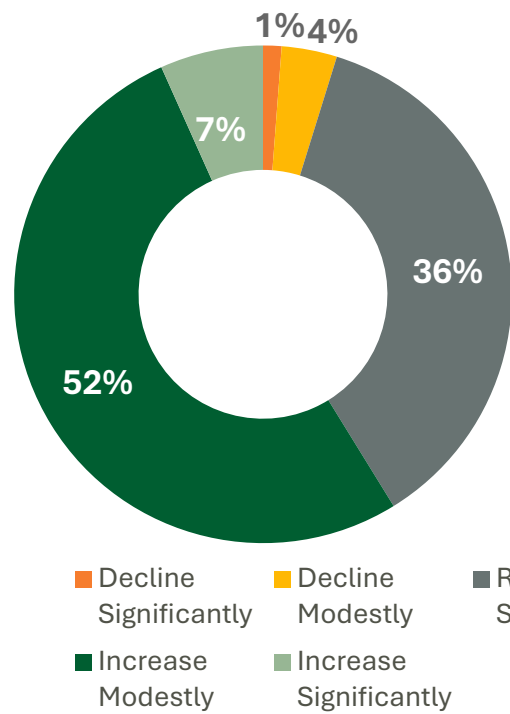


Source: Morrissey Goodale AE Industry Quarterly Snapshot Q2 2026 Survey

Q2 Headcount Expectation

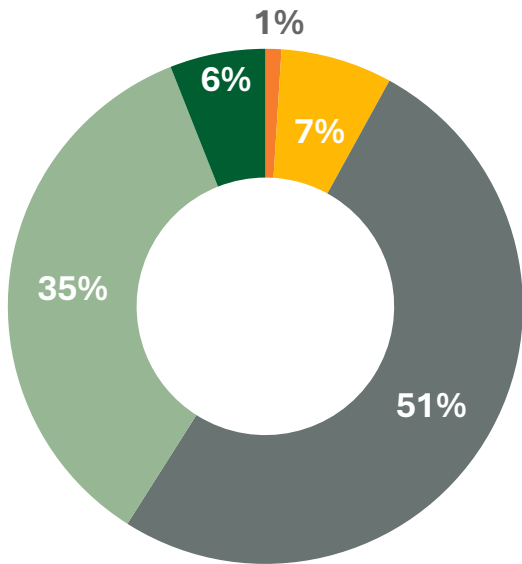


Q2 Backlog Expectation



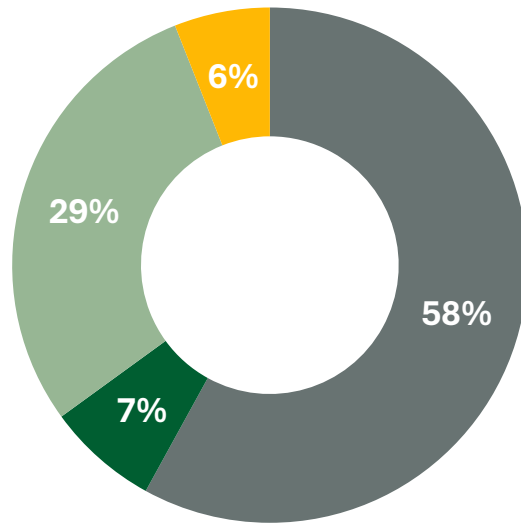
Source: Morrissey Goodale AE Industry Quarterly Snapshot Q2 2026 Survey

Q2 RFP Activity Expectation



- Decline Significantly
- Decline Modestly
- Remain Steady
- Increase Modestly
- Increase Significantly

Q2 Project Start Activity



- No Changes
- Minimal Delays
- Accelerating
- Significant Delays

Source: Morrissey Goodale AE Industry Quarterly Snapshot Q2 2026 Survey



### INSIDE THE NUMBERS

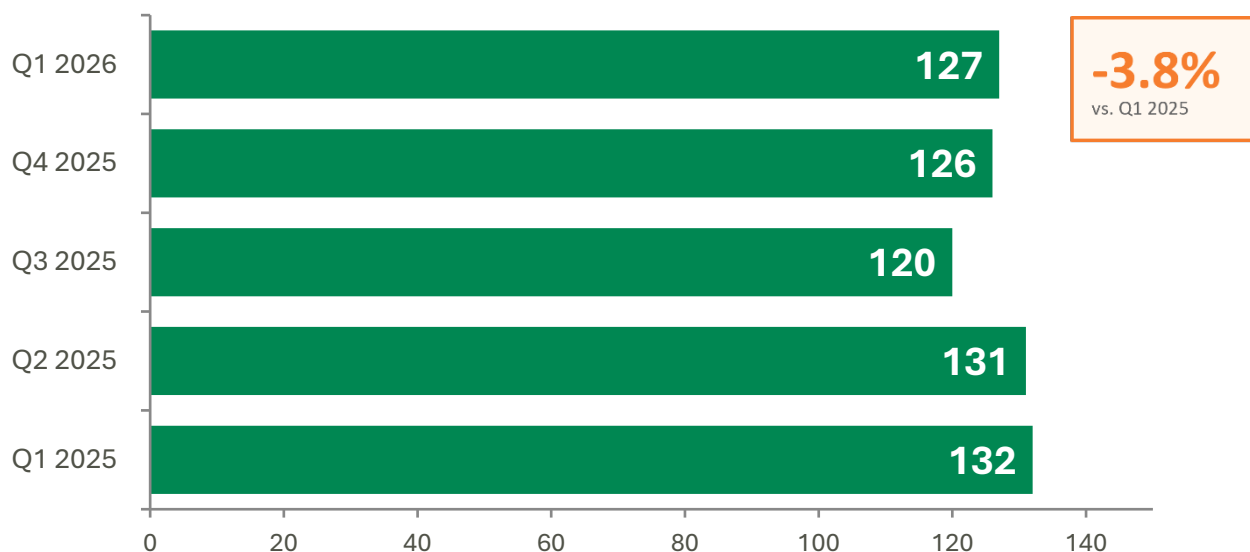
**Jon Escobar**

*Principal, Mergers & Acquisitions*

- Last year was a high-water mark for AE industry consolidation in the U.S. with over 500 transactions recorded for the first time. Momentum carried into Q1 2026 as 127 mergers and acquisitions closed, up from the prior two quarters, although 3.8% off the pace set in Q1 2025.
- International deal-making had a slower start to 2026. When combining domestic and international M&A activity, global deal volume fell 5.1% in Q1 2026 from the previous quarter. Worldwide deals were also off 7.0% compared to a year earlier.
- While total revenue acquired in domestic deals dipped in Q1 2026 from the prior quarter, it remained elevated as power continues to consolidate at the top of the AE industry with sizable deals involving *ENR* 500 sellers. Revenue acquired in Q1 2026 was more than double the level recorded in Q1 2025.
- All the key buy-side and sell-side ingredients remain in place for continued robust consolidation in Q2 2026, including abundant capital, healthy strategic acquirer balance sheets, solid industry fundamentals, and a deep pool of interested and motivated sellers.
- The rapid adoption of AI—and how it will shape firms’ strategic directions and competitive positioning—is driving discussions about selling or merging in some boardrooms.

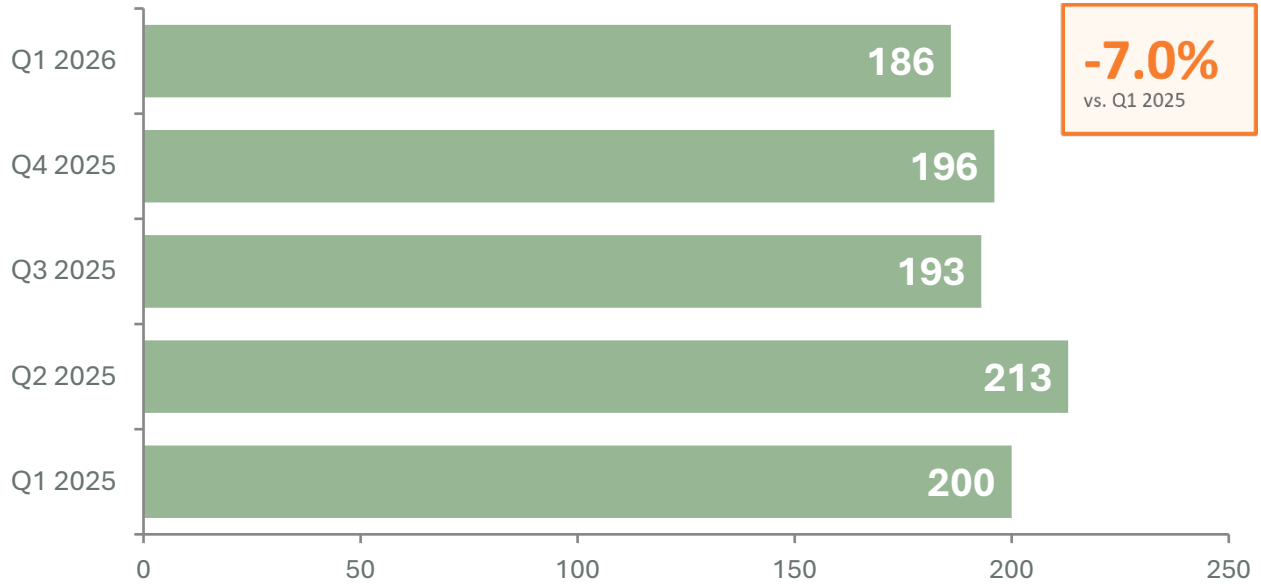
To learn more about M&A activity in the AE industry, or if you need assistance with your merger or acquisition plans, contact **Jon Escobar** at [jescobar@morrisseygoodale.com](mailto:jescobar@morrisseygoodale.com).

### U.S. M&A DEALS BY QUARTER



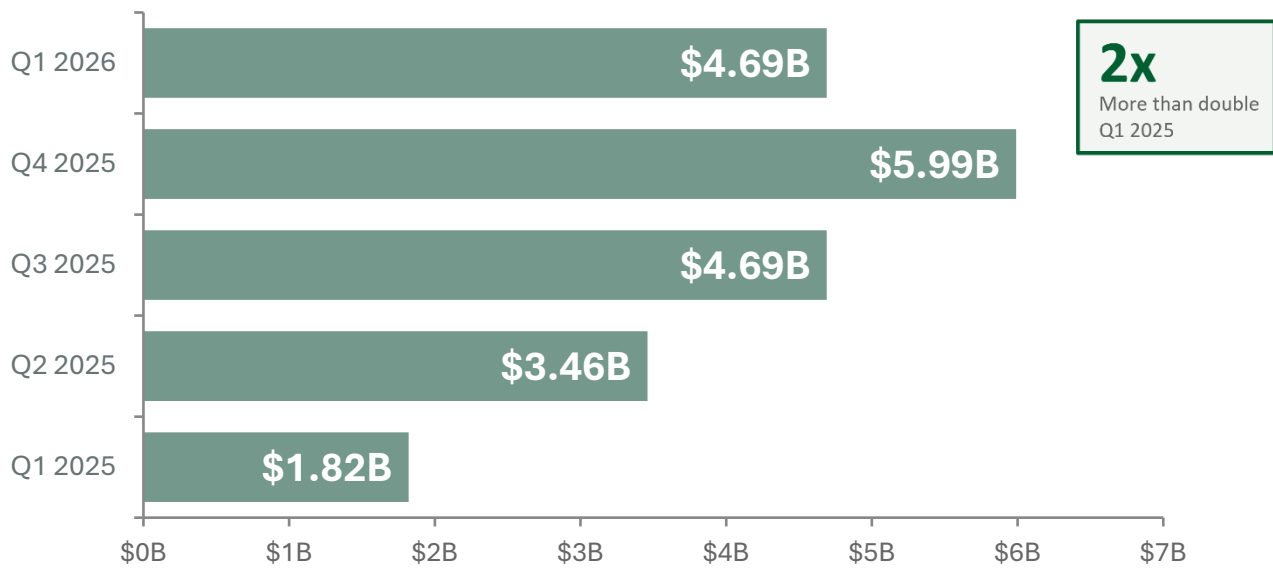
Source: Morrissey Goodale

## GLOBAL M&amp;A DEALS BY QUARTER



Source: Morrissey Goodale

## REVENUE ACQUIRED BY QUARTER (U.S. DEALS)



Source: Morrissey Goodale



## INSIDE THE NUMBERS

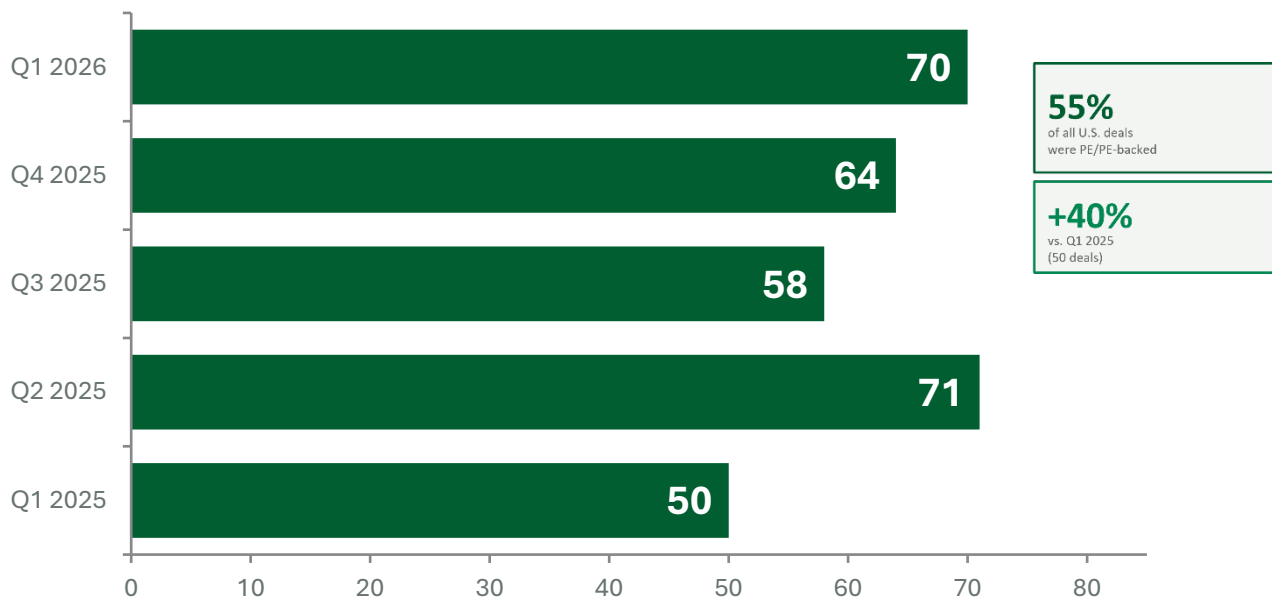
Jon Escobar

Principal, Mergers &amp; Acquisitions

- In 2025, private equity-backed acquisitions outpaced acquisitions by employee-owned and ESOP-owned firms for the first time ever—a trend that continued in Q1. The 70 private equity and PE-backed deals completed in Q1 2026 marked the second consecutive quarter of growth and a 40% increase from Q1 2025.
- Private equity now accounts for 55% of U.S. deals. Compared to Q1 2025, PE recaps surged 70%, while PE-backed acquisitions increased 21%. In contrast, deals by employee-owned or ESOP acquirers fell 34%, and acquisitions by publicly traded companies dropped 60%.
- Morrissey Goodale expects an acceleration in the divergence between these two capital models throughout 2026. New financial sponsors are lining up to enter the industry. Existing PE-backed platforms are rapidly expanding through acquisitions generated by skilled corporate development teams.

To learn more about private equity activity in the AE industry, contact [Jon Escobar](mailto:jescobar@morrisseygoodale.com) at [jescobar@morrisseygoodale.com](mailto:jescobar@morrisseygoodale.com).

## U.S. PRIVATE EQUITY AND PE-BACKED DEALS BY QUARTER



Source: Morrissey Goodale



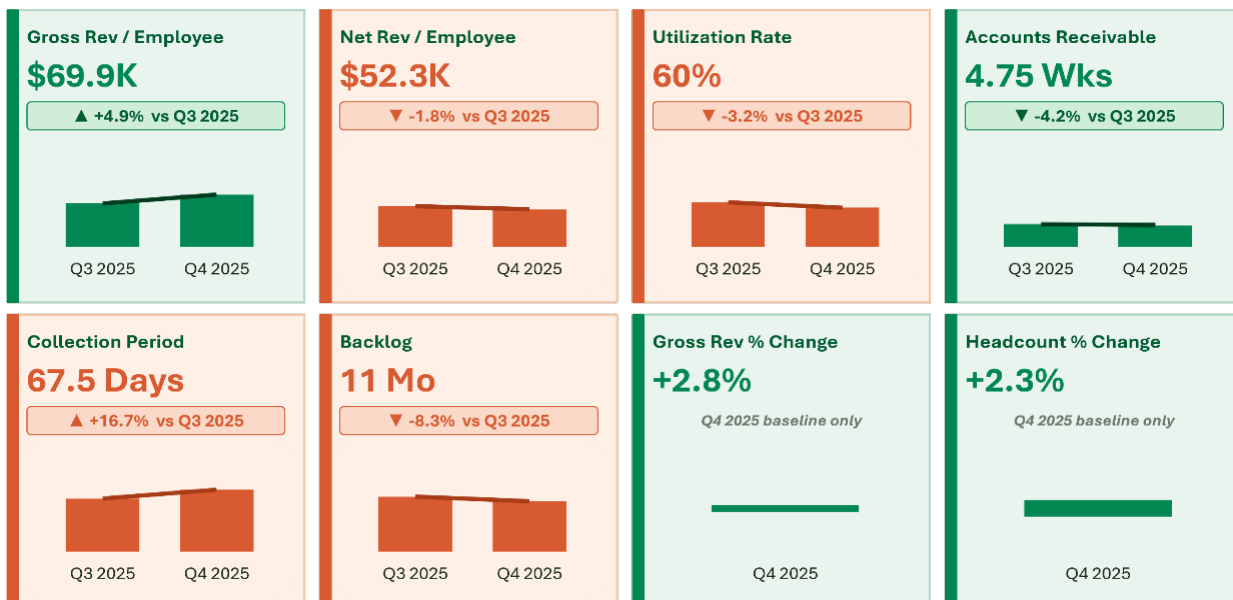
## INSIDE THE NUMBERS

**Nate Wentworth**

*Vice President*

- Backlog softened across the board. Median backlog declined from 12.0 months in Q3 2025 to 11.0 months in Q4 (-8.3%), with the upper quartile dropping more sharply from 17.5 to 15.3 months (-12.7%). Firms at the top end of the distribution are seeing the most pronounced erosion in forward workload.
- Collection periods stretched, particularly at the median. Median DSO jumped from 57.8 days in Q3 to 67.5 days in Q4—a 16.7% increase quarter-over-quarter. Lower- and upper-quartile movements were more muted (+4.2% and +5.2%).
- Accounts receivable balances tell a mixed story. Median AR ticked down 4.2% in Q4, while upper-quartile firms saw AR balloon 26.6%. Combined with the DSO data, larger firms appeared to be carrying meaningfully more receivables into year-end.
- Utilization slipped uniformly. Median utilization moved from 62% to 60% (-3.2%), with declines at every quartile. Lower utilization in Q4 was expected given the approaching holiday season.
- From Q3 to Q4 2025, gross revenue per employee diverged across the cohort: The lower quartile fell -3.8% while the median rose +4.9% and the upper quartile gained +2.8% (\$85,279→\$87,671) — stronger firms widened their lead. Net revenue per employee was softer overall: The lower quartile dropped -5.3%, and the median slipped -1.8% (\$53,287→\$52,317), with only the upper quartile growing +2.4%.

For more information on your firm's financial performance, contact [Nate Wentworth](mailto:nwentworth@morriseygoodale.com) at [nwentworth@morriseygoodale.com](mailto:nwentworth@morriseygoodale.com).



Quarterly Medians | Source: Morrissey Goodale AE Industry Quarterly Snapshot Q2 2026 Survey



### INSIDE THE NUMBERS

**Rex White**

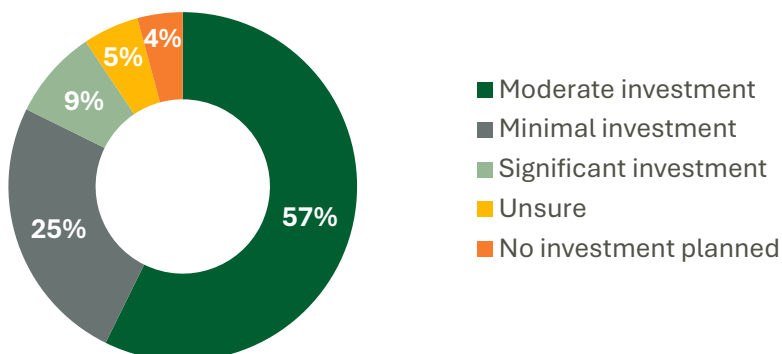
*Vice President of Strategy*

- Artificial intelligence has emerged with astonishing speed to become a top issue consuming AE industry CEOs. Two-thirds (66%) of respondents plan moderate or significant AI investments in the next 12 months. Only 4% plan no AI outlays.
- The harder question is how these investments pay back. AI spend needs to translate into either new revenue or captured efficiency, but traditional hourly billing makes the second path difficult—faster delivery typically reduces fees rather than expanding margin. Firms investing heavily without rethinking how they price may end up funding their own commoditization.
- Watch for AI to continue rapidly commoditizing proposals, marketing, research, and documentation and spec-compliance work as high-quality output becomes easier to produce at scale.
- As more firms “look great on paper,” differentiation will shift hard toward what can’t be copied: client relationships, engineering judgment in messy real-world conditions, and the ability to make—and stand behind—decisions under uncertainty.
- AE firms best positioned to capitalize on AI will be those with structured, accessible historical project data. The winners won’t be the ones with the fanciest tools, but the ones with the cleanest foundations.
- AI will continue to intersect with another top C-suite concern—talent. The traditional staffing pyramid and the experience ladder are under threat. AI can make junior staff more productive, but it also risks removing the “reps” that create future senior judgment. Meanwhile, AI can be confidently wrong—which increases the premium on experienced interpretation and review.

For help with your AI strategy, contact **Rex White** at [rwhite@morrisseygoodale.com](mailto:rwhite@morrisseygoodale.com).

## AI TECHNOLOGY INVESTMENT

How much does your firm plan to invest in AI technologies over the next 12 months?



Source: Morrissey Goodale AE Industry Quarterly Snapshot Q2 2026 Survey



**INSIDE THE NUMBERS**

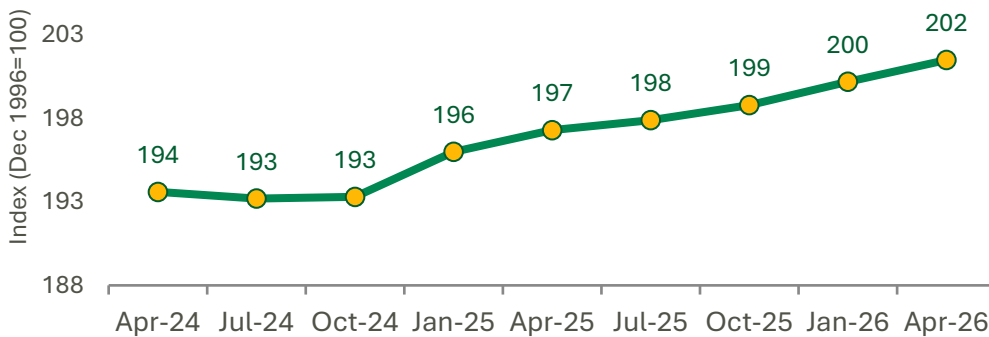
**Rafael Barbosa**

*Director of Market Intelligence*

- As inflation remains above the Federal Reserve’s long-term target, markets will be closely watching whether the Fed will be more receptive to lowering interest rates under new Chair Kevin Warsh. CEOs surveyed by the Federal Reserve Bank of Cleveland in Q2 expect inflation to be 3.7% over the next 12 months, up from their 3.1% projection in January.
- Despite broader inflation volatility, AE pricing has remained stable. The AE Industry Producer Price Index (PPI), a measure of inflation for architectural and engineering services, rose 2.1% between April 2025 and April 2026.
- With talent a top challenge, AE industry hiring shows no signs of slowing, with payroll employment surpassing 1.76 million in April 2026—a gain of more than 40,000 workers from April 2025. The 2.4% year-over-year rise far outpaced the overall labor market.

**AE INDUSTRY PRODUCER PRICE INDEX QUARTERLY AVERAGES**

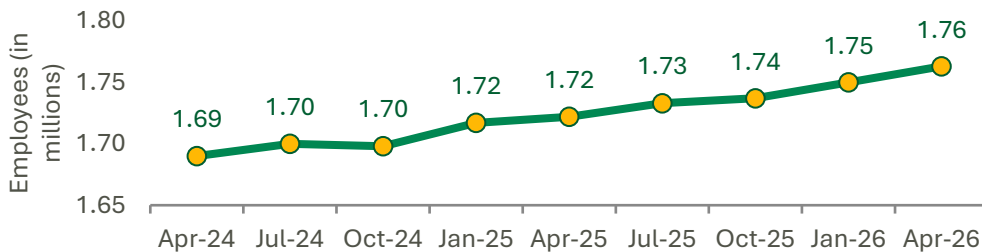
*Index December 1996=100, Not seasonally adjusted\**



**+2.1%**  
vs. April 2025

**ARCHITECTURAL, ENGINEERING, AND RELATED SERVICES EMPLOYMENT**

*Seasonally Adjusted\**



**+2.4%**  
vs. April 2025

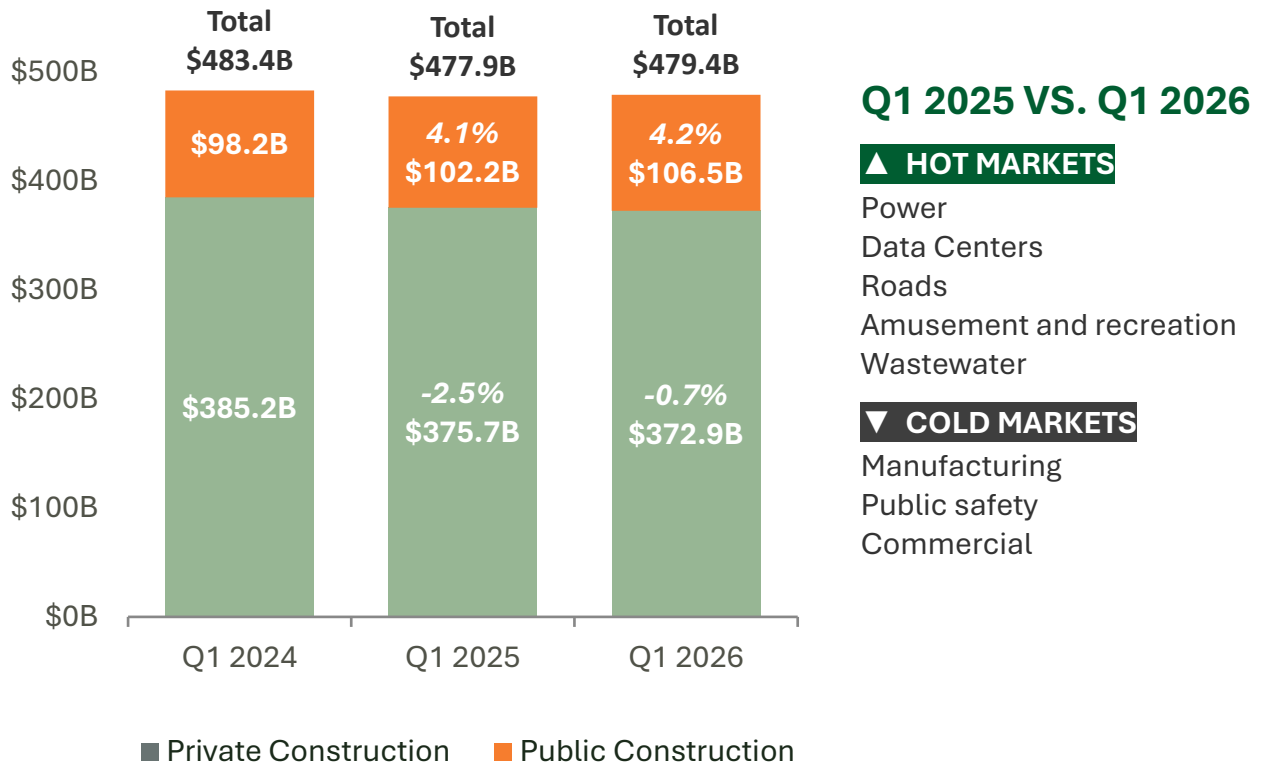
\*Source: U.S. Bureau of Labor Statistics

- The value of construction put in place reached \$479.4 billion in Q1 2026, up 0.3% from Q1 2025. Nonresidential construction spending edged down 0.1% year-over-year, while residential construction increased 0.8%.
- Public construction climbed 4.2%, fueled by roads and wastewater projects. Private-sector spending fell 0.7%, dragged by a steep 17% decline in manufacturing construction.
- In terms of major categories, the strongest contributors to overall nonresidential construction spending growth were power & telecom, transportation, and water. Data center work also contributed to offset the nearly \$9.4 billion decline in manufacturing.

For help with your market intelligence strategy and needs, contact [Rafael Barbosa](mailto:rbarbosa@morrisseygoodale.com) at [rbarbosa@morrisseygoodale.com](mailto:rbarbosa@morrisseygoodale.com).

## CONSTRUCTION PUT IN PLACE SPENDING

Not seasonally adjusted



Source: U.S. Census Bureau

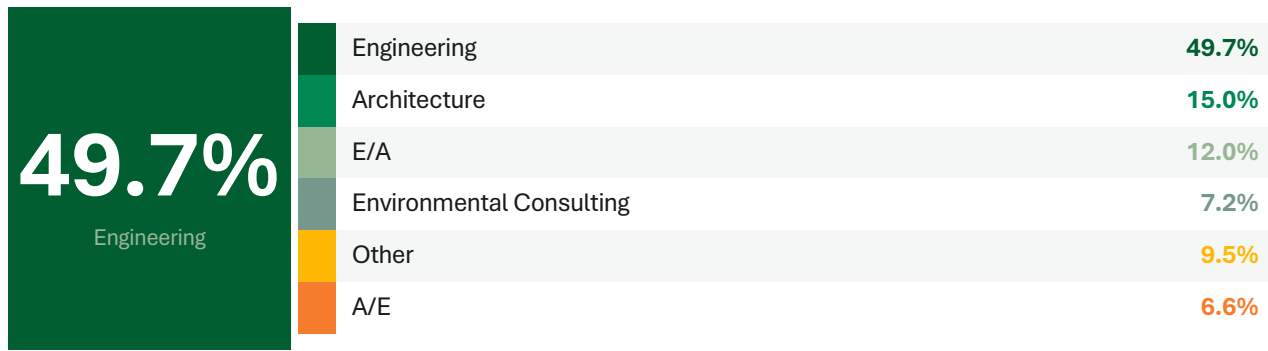


Morrissey Goodale conducted an online survey of C-suite executives of firms in the U.S. architecture, engineering, and environmental consulting industry in late April and early May 2026. Morrissey Goodale received 167 total responses.

More than 60% of respondents were engineering or E/A firm leaders, with 22% architecture or A/E firm leaders and 7% environmental consulting firm leaders.

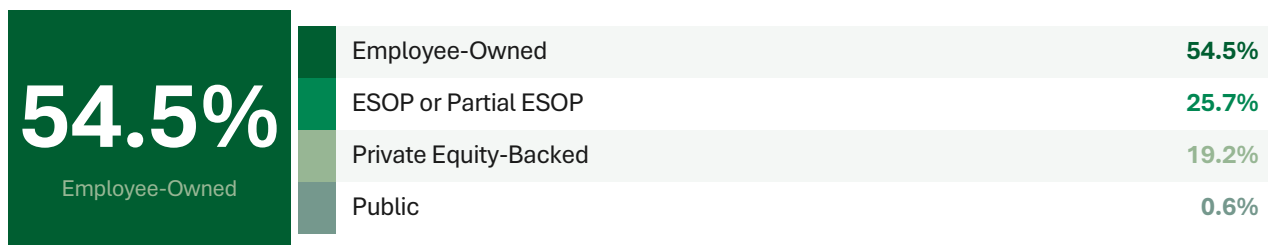
The majority (54%) of respondents were leaders of employee-owned firms. Just over one-quarter (26%) were leaders of ESOP or partial ESOP firms, and 19% were leaders of private equity-backed firms.

### Survey Participants by Firm Type



Source: Morrissey Goodale AE Industry Quarterly Snapshot Q2 2026 Survey

### Survey Participants by Firm Ownership Structure



Source: Morrissey Goodale AE Industry Quarterly Snapshot Q2 2026 Survey

Morrissey Goodale is the leading management consulting and research firm exclusively serving the architecture, engineering, and environmental consulting industries. We help firm leaders plan their futures, grow their firms, and strengthen their organizations through our consulting services, industry research, and events.

Our specialized, full-service management consulting and research services include:

- Strategic business planning
- Mergers and acquisitions advisory
- Valuation and ownership transition
- Market research
- Marketing and business development consulting
- Leadership training and development
- Organizational development and management

Our symposiums, webinars, and e-publications keep AE firm leaders at the forefront of industry trends and best practices. Our principals and consultants have worked with design and environmental firms of every type and size.

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