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- Creating open industry standards that enable integration
- Advancing industry professionalism through education and training
- Opening global market opportunities

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## Industry Confidence Begins to Rebound

**A**fter a rocky spring, confidence within the security industry seems to be recovering slightly. Improvement in a variety of areas, including product production, new product introductions and new orders, led to a July 2018 Security Market Index of 65.

Any Index above 50 indicates that conditions within the industry are largely positive and that security industry professionals are largely confident in their business prospects. The May 2018 SMI was 55, and the March 2018 SMI was 72.

Overall, most security professionals surveyed for the July 2018 SIA Security Market Index (surveyed between June 1 and June 15, 2018) consider current business conditions to be either "excellent" (45%) or "good" (35%). A further 10% consider conditions to be "average" and 10% consider current conditions merely "fair." This is fairly steady with confidence in business conditions in the May 2018 SMI, where 46% considered conditions "excellent" and 38% "good," but rates of increase in a number of key factors show improvement over the last two months.

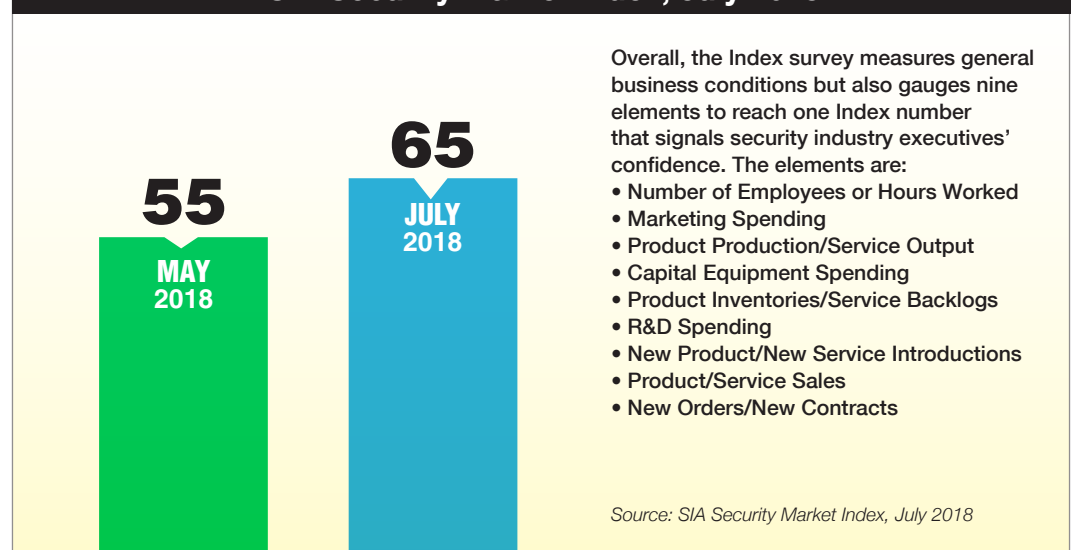
The Security Market Index measures the current status and future expectations of security industry executives through a select survey of SIA members. The Index's goal is to provide a macro-view of confidence levels in the security industry every two months while closely examining nine specific business measures:

- Number of employees or hours worked
- Marketing spending
- Product production or service output
- Capital equipment spending
- Product inventories or service backlogs
- R&D spending
- New product or service introductions
- Product or service sales
- New orders or contracts

The majority of security industry professionals surveyed for the July 2018 Security Market Index cited increases in the number of employees or hours worked, marketing spending, product production, new product introductions, product or service sales and new orders.

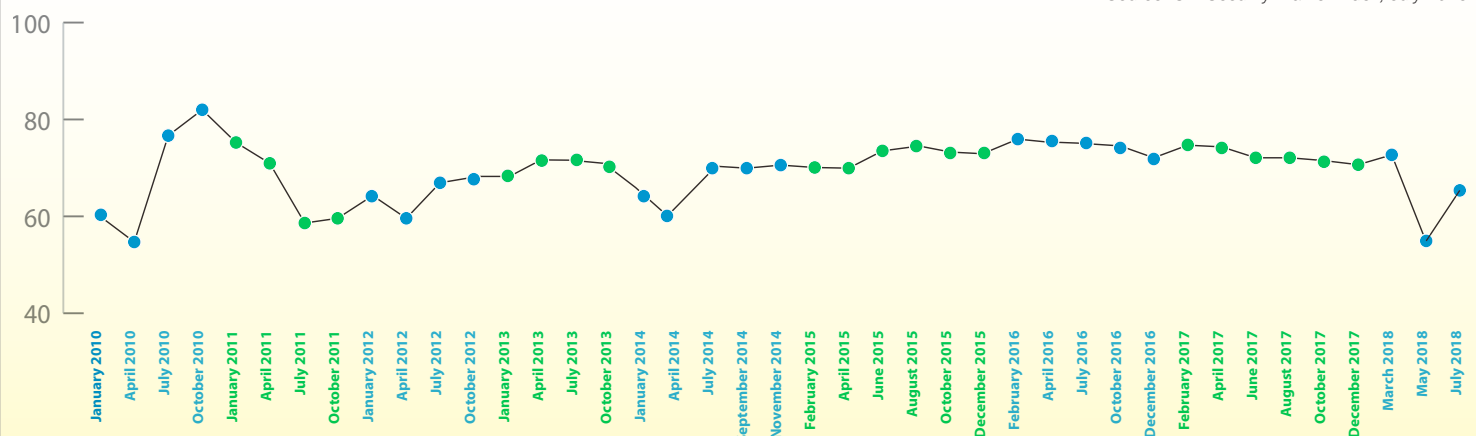
For capital equipment spending, most (52%) said rates were remaining the same, but 48% said spending was increasing, which is improvement

### SIA Security Market Index, July 2018



## SIA Security Market Index, July 2018

Source: SIA Security Market Index, July 2018



Confidence in the security industry rebounded 10 points between the May and July 2018 editions of the Security Market Index, led mainly by increases in new product introductions and product or service sales, among other factors.

compared with May 2018, when only 34% were seeing increased capital equipment spending and 12% cited decreases.

Product inventories saw marked increases as well; 46% of July SMI participants said product inventories were increasing, compared with just 23% in May. This month, half of respondents' inventory levels are remaining steady, and 4% say levels are decreasing.

R&D spending levels are remaining fairly close to their May 2018 rates. For the July SMI survey, 52% of participants said R&D spending was increasing, compared with 54% in May. However, no security professionals polled for the July edition

**Eighty-two percent of July 2018 Security Market Index respondents said product or service sales were increasing, and 90% are seeing improvement in the number of new orders.**

said that their rates of R&D spending were decreasing, compared with 4% in May. One contract alarm monitoring professional noted that their rate of R&D spending is remaining level, but "its focus will drastically change to detecting different threats."

All other factors saw improvement. The number of employees or hours worked increased for 68% of respondents, compared with 65% in the May 2018 edition. Comparatively, a year ago in the June 2017 SMI, 83% of survey participants cited increases in the number of employees or hours worked.

Marketing spending saw a healthy jump, with 55% reporting increased spending, compared with 38% in May 2018.

Product production and sales were some of the key factors driving the 10-point jump to this month's Security Market Index. In May 2018, 67% of respondents said product production was increasing; for the July 2018 edition, 74% report product production is on the rise.

New product introductions are growing as well, with 70% of July SMI respondents seeing increases in this area – the same rate as in June 2017 – compared to 59% in May 2018.

Sales are increasing, too; 82% of July SMI respondents said product or service sales were increasing, and 90% are seeing improvement in the number of new orders, compared with 65% and 84% respectively in May 2018. In June 2017, 88% of survey respondents saw increases in the number of new orders, and 87% saw increases in product or service sales.

Moving forward, the majority of July SMI participants expect business conditions to

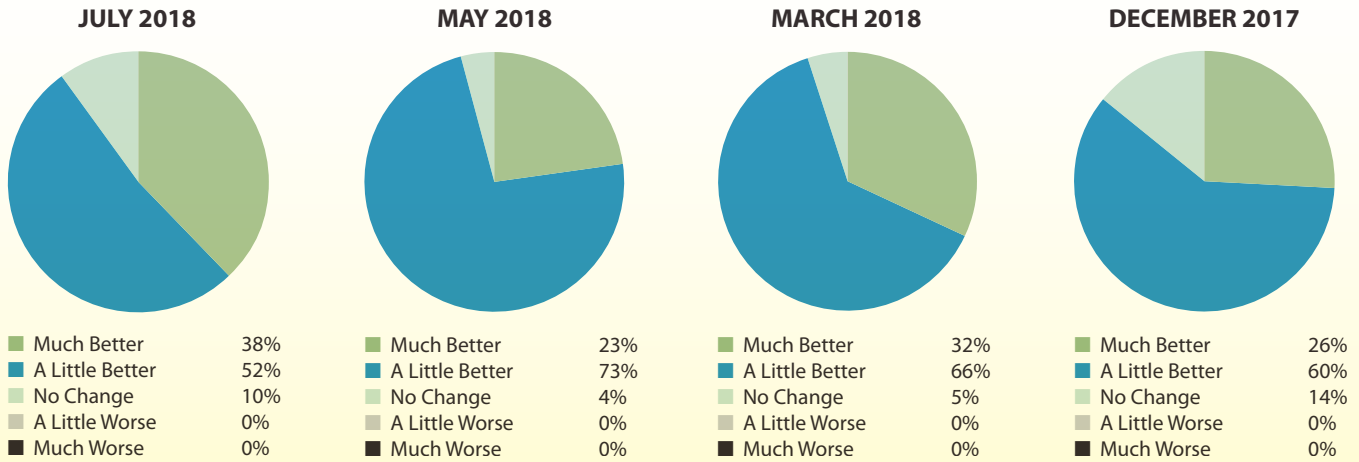
### Overall Rating of Current Business Conditions of Company

	Excellent	Good	Average	Fair
July 2018	45%	35%	10%	10%
May 2018	46%	38%	8%	8%
March 2018	42%	53%	5%	0%
December 2017	44%	47%	9%	0%
October 2017	46%	46%	8%	0%
August 2017	45.8%	39.6%	8.3%	6.3%
June 2017	38%	58%	4%	0%
April 2017	36%	41%	18%	5%
February 2017	47.4%	42.1%	10.5%	0%
December 2016	43%	42%	0%	15%
October 2016	50%	33%	0%	17%
July 2016	18%	61%	9%	12%

Source: SIA Security Market Index, July 2018

Eighty percent of security industry professionals surveyed for the July 2018 Security Market Index believe current business conditions are either "excellent" or "good," which marks a slight decrease from the 84% considering conditions to be above average in the May 2018 Index.

## Expected Business Conditions for Company in Next Three Months



Source: SIA Security Market Index, July 2018

The majority of security professionals believe that business conditions will be a “little better” three months from now, with a further 38% expecting “much better” conditions over the next quarter.

improve over the next three months, with 38% expecting “much better” conditions and 52% saying they expect conditions will be “a little better.” Ten percent expect no change in business conditions. In May, only 23% expected “much better” conditions three months down the line, with the vast majority (73%) expecting “a little better” conditions.

One surveillance professional said that conditions are likely to improve as the FY ‘18 Federal budget trickles down. For more on government security spending, see this issue’s bonus section on page 8.

Over the next 12 months, 48% of SMI respondents expect their levels of aggregate capital spending on equipment or plant to increase, while 52% expect spending levels to remain the same. A year ago in June 2017, 56% of security industry leaders surveyed expected to increase capital spending.

To provide a broader view of business

**“Consumers’ short-term expectations improved modestly, suggesting that the pace of growth over the coming months is not likely to gain any significant momentum.”**

conditions, the Security Market Index also cross-checks against other surveys and reports from a select list of sources that generally match the time range and themes of the Index:

- The Conference Board Consumer Confidence Index ▲
  - The National Association of Realtors Home Prices ▲
  - The Conference Board Measure of CEO Confidence ▲
  - *Chief Executive’s* CEO Confidence Index ▼
- Following a modest decline in April, The Conference Board Consumer Confidence Index increased in May, now standing at 128.0 (from 125.6 in April 2018). Consumers’ assessment of current conditions is now at a 17-year high, suggesting that the level of economic growth in Q2 is likely to have improved from Q1, says The Conference Board’s Director of Economic Indicators Lynn Franco.

“Consumers’ short-term expectations improved modestly, suggesting that the pace of growth over the coming months is not likely to gain any significant momentum. Overall, confidence levels remain at

## Percent of Respondents Saying They Will Increase Activity or Dollars in:

	July 2018	May 2018	March 2018	December 2017
<b>New Orders</b>	90% Increase	84% Increase	95% Increase	88% Increase
<b>Product/Service Sales</b>	82% Increase	65% Increase	89% Increase	92% Increase
<b>New Product Intro</b>	70% Increase	59% Increase	82% Increase	68% Increase
<b>Employees/Hours</b>	68% Increase	65% Increase	74% Increase	72% Increase
<b>Capital Equip Spend</b>	48% Increase	34% Increase	56% Increase	42% Increase

Source: SIA Security Market Index, July 2018

New product introductions are on the rise this summer, with 70% of SMI participants reporting increases in this area, compared with 59% in the May 2018 SMI. New orders and the number of employees or hours worked saw slight upticks as well, and capital equipment spending is increasing for 48% of survey respondents, compared to 34% earlier this year.

historically strong levels and should continue to support solid consumer spending in the near-term,” Franco adds.

In May, consumers claiming business conditions are “good” increased from 34.8% to 38.4%. Regarding the labor market, 42.4% of consumers say jobs are “plentiful,” but 15.8% say jobs are “hard to get.” Consumers expecting more jobs in the months ahead rose from 18.6% to 19.7%.

The median sales price of existing homes for all housing types in the U.S. increased 5.3% year-over-year to \$257,900 in April 2018. This marks the 74th straight month of year-over-year gains, according to the National Association of Realtors (NAR).

However, existing-home sales retreated in April, decreasing 2.5% to a seasonally adjusted annual rate of 5.46 million in April. Sales are 1.4% below where they were in April 2017.

According to Lawrence Yun, NAR chief economist, this spring’s low inventory levels caused existing-home sales to slump in April. “The root cause of the underperforming sales activity in much of the country so far this year continues to be the utter lack of available listings on the market to meet the strong demand for buying a home,” he says.

CEOs were largely confident earlier this spring, with The Conference Board’s Measure of CEO Confidence rebounding in the fourth quarter of 2017, now reading 65

## More than half of CEOs anticipate an increase in employment levels in their industry, but close to 40% say finding qualified workers remains a major obstacle to hiring.

(as of April 2018), up from 63 in late 2017.

“CEOs remain positive about short-term growth prospects in the U.S., and to a lesser degree, about prospects in other mature and emerging markets. Hiring plans have eased compared to last year, with more than half of CEOs anticipating an increase in employment levels in their industry. However, close to 40% say finding qualified workers remains a major obstacle to hiring,” says Lynn Franco of The Conference Board.

CEOs cited finding qualified works as the largest obstacle to hiring, followed by health care costs. Regulation and litigation, as well

as wage and salary costs, were also concerns.

In June, however, *Chief Executive* magazine found that growing trade war threats are eroding CEO Confidence in the outlook for the American economy to a near-low for the year. *Chief Executive’s* survey of 272 U.S. business leaders finds their confidence in current business conditions is holding steady – 7.54 out of 10 compared to 7.48 in May 2018. The overall CEO Confidence Index dipped to 7.19 from May’s 7.29.

Some CEOs surveyed cited escalating threats of trade wars with China, Mexico, Canada and the European Union as a reason for their tempered enthusiasm. Asked to explain his six-out-of-10 outlook for the U.S. economy, the chairman of one mid-market media corporation said: “Volatility. Trade wars, anti-globalism, populist surge and mid-term elections are tamping down an otherwise buoyant environment.”

Seventeen percent of survey respondents listed trade or tariffs as major deterrents to otherwise-stable economic resilience.

Still, the majority of CEOs polled continue to expect growth in revenues (84%), profits (73%), capex (63%) and workforce (59%) over the next 12 months. While this is a decrease in optimism in all four areas year-to-date, the numbers remain positive on a year-over-year basis.

## Behind the SIA Security Market Index

The Security Market Index, a bi-monthly survey and report, measures overall industry confidence in addition to specifics by executives’ product and service focus. A select group of top leaders, representing the SIA membership, is surveyed throughout the month of publication via a series of emails with a link to an online and confidential questionnaire.

Respondents can add comments to most recurring questions. When comments are referenced in this report, they are not attributed to any specific individuals or member firms.



July 2018  
SECURITY MARKET INDEX  
A Bimonthly Measure from the Security Industry Association

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### Industry Confidence Begins to Rebound

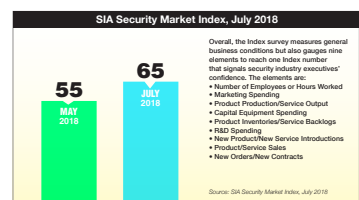
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For capital equipment spending, most (52%) said rates were remaining the same, but 48% said spending was increasing, which is improvement







SECURITY VIDEO

Surveillance Segment  
Confidence Climbing, Cautiously

Seventy percent of video surveillance professionals surveyed for the July 2018 Security Market Index consider current business conditions to be either “excellent” or “good,” compared with 80% of the SMI overall. Twenty percent of surveillance segment professionals consider conditions to be “average,” and 10% say they are merely “fair.”

The majority of surveillance segment respondents say they are seeing increases in the number of employees or hours worked (60%), product production (80%), new product introductions (78%), product or service sales (89%) and new orders (90%).

In June 2017, 86% of video surveillance SMI survey respondents cited increases in product introductions, and 88% saw increased product or service sales.

This month, 40% of surveillance respondents were increasing their marketing spending, compared to 55% in the SMI overall. Only 33% were increasing their capital equipment spending, compared to 48% among all SMI respondents. Forty-four percent of video surveillance respondents were increasing R&D spending, and 56% said their R&D investment rates were holding steady.

In May 2018, 63% of surveillance professionals surveyed said they were increasing their R&D spending, and 45% were increasing their capital equipment spending.

Moving forward, 40% of surveillance segment survey respondents said they expect business conditions in three months to be “much better” than they are now, and 50% expect “a little better” conditions.

Thirty percent expect to increase their levels of aggregate capital spending on equipment and plant over the next 12 months. In May 2018, 56% of surveillance segment SMI participants expected their levels of aggregate spending to increase over the next year.

The video surveillance segment is following the upward trend of the overall Security Market Index for July 2018, with a segment-specific index of 62. Over the next three months, 90% of video surveillance professionals surveyed believe business conditions will be at least “a little better,” if not “much better.”

INDEX COMPARISON

Security Market Index, Video Surveillance Segment:



Security Market Index, Overall:



EXPECTED BUSINESS CONDITIONS OVER  
THE NEXT THREE MONTHS

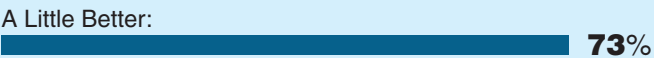
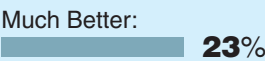
JULY 2018 - SMI Overall:



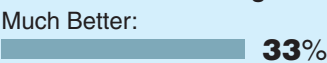
Video Surveillance Segment:



MAY 2018 - SMI Overall:



Video Surveillance Segment:



Source: SIA Security Market Index, July 2018



## SECURITY SYSTEMS INTEGRATION

### Integrators Face Slowing Growth

Only 29% of security systems integrators consider current business conditions to be “excellent,” compared with 45% of the SMI overall. A further 43% consider current conditions “good,” but 28% believe current conditions are either “average” or “fair.”

Overall, the integrator-specific Index for July 2018 is 59, down three points from its

May 2018 level of 62.

Only 50% of integrators surveyed for the July 2018 SMI said they were increasing the number of employees or hours worked, compared with 67% in May. A year ago in June 2017, 86% of integrators said they were increasing the number of employees or hours worked in their organizations.

Eighty percent of integrators said their levels of R&D spending are remaining steady in July, compared with 60% in May.

Over the next three months, most integrators believe business conditions will be either “much better” (29%) or “a

## INDEX COMPARISON

**Security Systems  
Integrators Segment: 59**  
**SMI Overall: 65**

**Confidence in Current  
Business Conditions**  
**SMI Overall**  
Excellent: **45%**  
Good: **35%**

**Security Systems  
Integrator Segment**  
Excellent: **29%**  
Good: **43%**

Security systems integrators’ confidence in current business conditions is lagging slightly behind the general SMI, with 72% of integrators considering current conditions to be positive, compared to 80% for the industry overall. Source: SIA Security Market Index, July 2018

little better” (57%). This is a little more optimistic than the outlook from June 2017, when only 14% of integrators expected conditions over the next quarter to be “much better,” with 71% expecting “a little better” conditions.

## ACCESS CONTROL

### Access Control Professionals Broadly Positive Moving into Summer

With a segment-specific Security Market Index of 90, compared to the overall SMI of 65 this month, access control professionals are largely positive about current business conditions.

Sixty-seven percent of them consider current conditions “excellent,” and all of them expect business conditions to improve – at least a little – over the next three months.

Two-thirds of access control professionals report increases in their capital equipment spending in July 2018, and 83% are seeing increases in product or service sales. The majority of access control survey respondents are increasing the number of employees or hours worked within their organizations, and they report improvement in product production, R&D spending and new product introductions.

## Business Conditions Expected in the Next Three Months

	Much Better	A Little Better	Remain the Same
Access Control Segment	50%	50%	0%
SMI Overall	38%	52%	10%

Source: SIA Security Market Index, July 2018







SECURITY CONSULTANTS

Holding Steady, but Little Improvement for Consultants

While most consultants (75%) consider current business conditions to be “excellent,” many factors measured by the Security Market Index are showing static conditions instead of improvement.

The segment-specific Index for security consultants in July 2018 is just 50, a full 15 points lower than the SMI overall, but two points higher than its level of 48 in May 2018. Any Index above 50 indicates strong confidence in the industry.

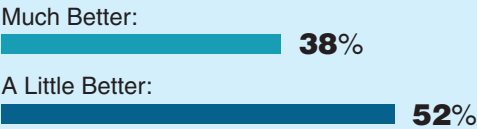
In the majority of the nine key indicators measured by the Security Market Index, only two featured a majority of consultants seeing increases: product or service sales (75% seeing improvement) and new orders (all consultants surveyed said they’re seeing more new orders coming in). The rest were predominantly static, with most consultants saying the number of employees or hours worked, marketing spending, capital equipment spending and R&D spending are remaining the same.

Over the next three months, half of consultants surveyed expect “much better” business conditions, and 25% say conditions will be “a little better.” This is slightly more optimistic than in May 2018, when most consultants (73%) expected “a little better” conditions in three months’ time, and only 13% expected “much better” business conditions.

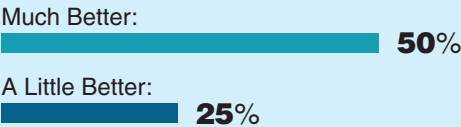
While 75% of consultants consider current business conditions “excellent,” they’re holding steady on many key indicators, such as the number of employees or hours worked.

EXPECTED BUSINESS CONDITIONS OVER THE NEXT THREE MONTHS

SMI Overall:

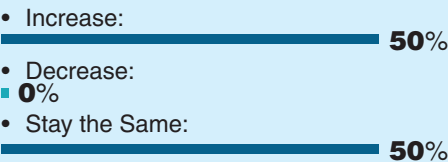


Security Consultants Segment:

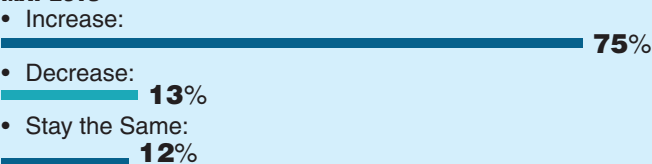


NUMBER OF EMPLOYEES/HOURS WORKED Security Consultants Segment

JULY 2018

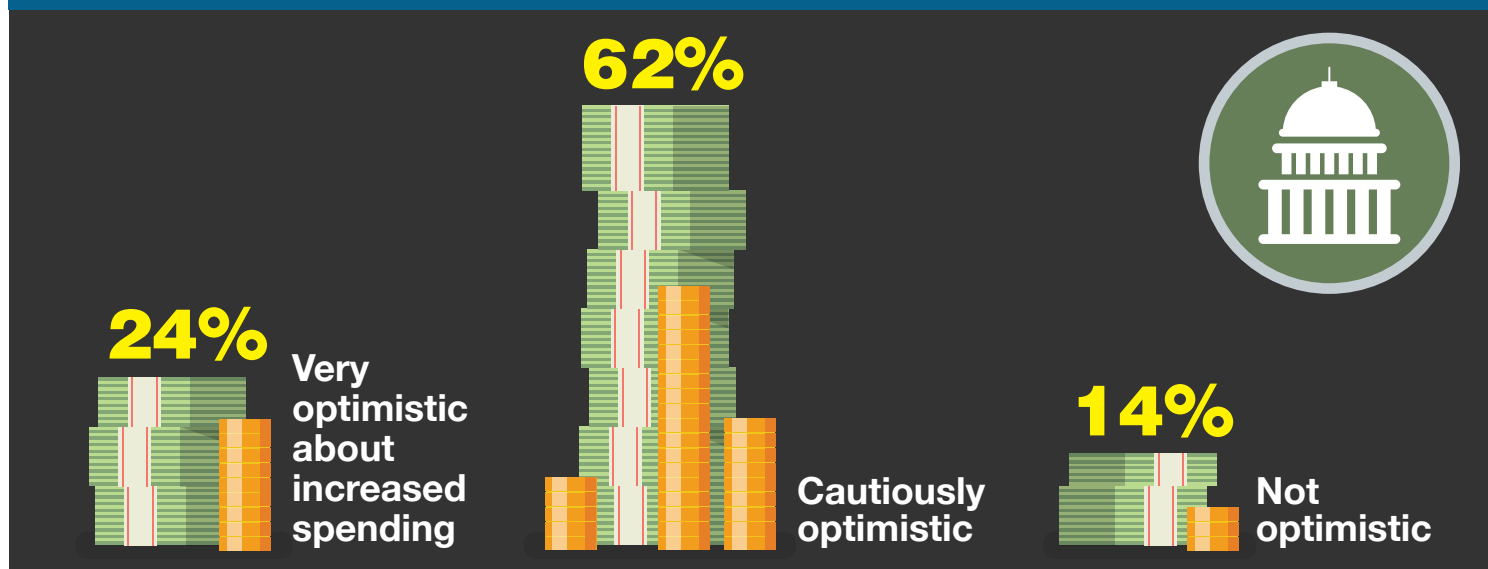


MAY 2018

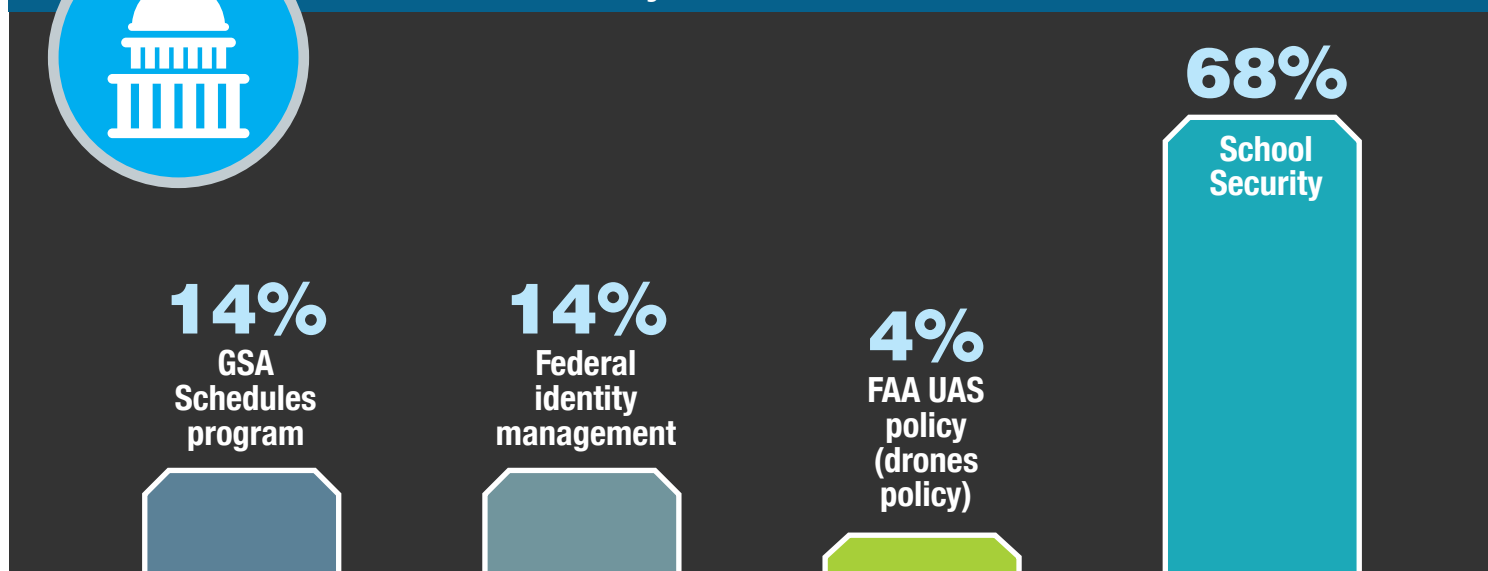


Security consultants are holding steady, gaining two points in their sector-specific Index since May 2018, but key business indicators are largely static. Source: SIA Security Market Index, July 2018

**Rate your level of optimism for increased security spending this year as a result of the recently enacted Omnibus Appropriations Act.**



**To increase demand, new government policies clarifying the use of security solutions are most needed in which area:**



While most security professionals surveyed for the July 2018 SIA Security Market Index are at least cautiously optimistic about increased security spending as a result of the Omnibus Appropriations Act, most believe government policies need some clarification to help drive demand.  
Source: SIA Security Market Index, July 2018

The majority of security professionals surveyed for the July 2018 SIA Security Market Index are at least cautiously optimistic about the prospect of increased security spending this year as a result of the recently enacted Omnibus Appropriations Act. Nearly a quarter of SMI survey respondents were “very optimistic about increased spending.”

This is welcome news to a number of security industry professionals, several of whom

cited the poor timing or late release of the FY ‘18 Federal budget as the cause for less than ideal current business conditions. After the Omnibus Appropriations Act was enacted, however, more projects and new orders started trickling down, said one video surveillance professional.

One security systems integrator noted, however, that “if we start a trade war, (mess) up the immigrant inflow and keep proposing up coal, we’ll not continue the economic growth.”

Additional guidance may be needed from the government, however, to drive demand and understanding about security challenges and solutions. When asked which area most needed government policies clarifying the use of security solutions, 68% of security professionals surveyed said school security, followed by the GSA Schedules program (14%) and Federal identity management (14%). FAA UAS (drones) policy was cited as most needed by 4% of respondents.