Construction CFO Confidence Continues to Crater

Approximately three in four construction CFOs are very or highly concerned by ongoing skills shortages. The next leading source of significant concern relates to public policies influencing construction outcomes. One in five CFOs are very or highly concerned by that.

Materials prices also remain cause for concern. For every CFO that believes that materials prices will improve over the next year, there are nine indicating the opposite.

Still, while some things stay the same, others have changed. In prior quarters, CFOs had collectively expressed a view that while profit margins would remain under pressure due to rising materials and compensation costs, they would also remain busy. However, the latest reading hints strongly at a shifting dynamic; one in which many CFOs have begun to predict that the pace of work will begin to slow either later this year or in early-2020.

This is not due to a change in financial conditions. The Financial Conditions Index (115) was unchanged during the first quarter and is up nearly 1 percent on a year-ago basis. Apparently, there is still plenty of capital available to finance deals and construction generally, though opinions regarding this diverge with some CFOs expressing concern regarding both public construction budgets and a rising cost of capital.

What’s more, the slowdown has yet to begin. The Current Confidence Index (121), which measures expectations for the very near-term, was also unchanged from last quarter and is down by less than 2 percent on a year-ago basis. That sub-component is up 86 percent from its nadir achieved in December 2008 of 65. December 2008 reading of 65.

Here is the real story emerging from the most recent Confindex survey. CFOs are increasingly expressing the view that with the cost of delivering construction services continuing to rise, fewer projects will be positioned to move forward. Some CFOs even suggested that the loss of project volume will help cure the construction industry’s massive skills shortages at some point over the next one to two years. One might have hoped that apprenticeship programs or a more focused labor force would have represented the more likely answer to our shared labor market challenges.

These deteriorating expectations are summed up neatly in the Year-Ahead Outlook Index. That index fell by nearly 10 percent on a quarterly basis to a reading of 95. As of the third quarter of last year, this index stood at a robust 113. The Year-Ahead Outlook Index is down 12 percent from a year ago. Tellingly, the first quarter’s reading was the 2nd lowest in the history of the index, with December 2008 representing the all-time nadir.

As noted, there is also a growing list of concerns regarding the impact of various public policies. Among the principal complaints are policies regarding immigration and tariffs. Some CFOs also note the general dysfunction of government, a source of enormous frustration among many. Others have become alarmed by the rapidly expanding national debt while still others are now beginning to focus upon the uncertainty that will be produced by next year’s elections.
A SIMPLE EXPLANATION OF CONFINDEX™

• The Overall CONFINDEX™ Number
  • Composite Index Comprised of 4 Sub Indices
    1) Business Conditions
    2) Financial Conditions
    3) Current Conditions
    4) Year Ahead Outlook – look ahead to March 2020

• Measurements Taken Using 8 Questions
  • Current Business Conditions
  • Future (1 year) Business Conditions
  • Current Bank Credit Availability
  • Future (1 year) Bank Credit Availability
  • Future (1 year) Bonding Credit Availability
  • Line of Credit Status
  • Current Backlog
  • Future (1 year) Backlog

• We calculate indices by taking the “net” of positive responses minus negative responses and adding 100. (Neutral and No Answers are excluded)

• Any index greater than 100 reflects more positives than negatives. Any index less than 100 reflects more negatives than positives.