Perhaps somewhat surprisingly, the financial conditions index also slipped. Despite anecdotal evidence suggesting that banks and other financial players are ready to deploy funding more aggressively, the financial conditions index declined 2.6 percent during the quarter, falling from 116 to 113. The index is also down 2.6 percent on a year earlier basis, which represents the largest year-over-year decline in any of the sub-indices.

There are many conceivable explanations, but one may be that banks are withholding a certain level of financing for fear that a growing number of construction firms are set to falter as they deploy cash in advance of expanding contract volume, often without building in sufficient levels of profit margin and contingency. In fact, during each of the three quarters, Confindex survey response rates have been slipping incrementally, consistent with both the notion that firms are becoming busier and that others may no longer exist to complete surveys. Some survey respondents indicated that lending standards are once more becoming disciplined, with considerable focus on value of collateral and indemnification. Others indicated significant concern regarding prospective interest rate increases.

As in prior quarterly surveys, CFOs also remain deeply concerned by a lack of public funding for infrastructure. One participant indicated that federal, state and local budget challenges will likely have “a significant impact on heavy/highway and non-building construction projects.” Another respondent hopes that “Congress will finally pass some infrastructure legislation.” Others expressed frustration about the actual execution of publicly-funded projects, indicating that regulatory agencies are scrutinizing construction delivery more intensely and penalizing contractors more aggressively.

Still, the average contractor is becoming busier and profit margins are creeping higher. A full 94 percent of respondents believe that their company’s margins will be slightly better (52%) or about the same (42%) a year from now. Only 5 percent of respondents expect margins to deteriorate over the next twelve months with none of them anticipating significant deterioration.

One of the factors contributing to expectations of profitability are benign views regarding construction materials prices. Among survey respondents, 40 percent expect prices to be relatively unchanged over the next twelve months and 51 percent expect them to be only slightly worse from the perspective of buyers. If anything, CFOs have been positively surprised by the stability of materials prices in recent quarters and for now these prices are not a source of deep-seated consternation.

The same cannot be said about issues related to skills/labor supply. One respondent indicated that “competition for quality skilled workers has increased significantly as the market has begun to improve.” Another indicated that it is “harder than ever to find skilled workers in the construction trades.” Yet another indicated that “we have turned down projects because we can’t find qualified job foremen.”

The typical CFO can expect these issues to become more serious going forward. Steady construction industry recovery is anticipated with the likely exception of key public construction segments. The nation continues to add construction jobs and the construction industry unemployment rate has generally been in decline.
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) 2014 Outlook – look ahead to June 2014

- **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.