CONSTRUCTION CFOs EXPECT GROWTH IN 2012, BUT CONCERNS REMAIN

The U.S. economy has regained some of the momentum that was lost earlier this year due to higher input prices, the earthquake in Japan, and the debit ceiling crisis. Job growth has accelerated in recent months (with 100,000 jobs added in October and 120,000 in November), and unemployment fell to 8.6% in November – the lowest level since March 2009. Economists are generally predicting about 2.5% growth in GDP in the fourth quarter. Leading indicators of construction spending have begun to stabilize, including the Architecture Billings Index, which was up 2.5 points to 49.4 in October.

This quarter’s CONFINDEX survey data provides evidence of growing confidence among CFOs regarding present and future conditions of the construction industry. The Overall Confidence Index is up 4.5% from last quarter and now stands at 116. The Current Confidence Index increased to 108, a 2.9% improvement from last quarter’s reading of 106. The 2012 Outlook Index rose 5.1% from last quarter’s reading of 117, a sign that survey respondents have become somewhat more comfortable with next year’s prospects. Survey respondents also remain fairly confident with respect to the stability of financial conditions. At 107, the Financial Conditions Index was unchanged from last quarter, but is up nearly 2% from one year ago. In the new open-ended portion of the survey, many respondents noted that while banks are more willing to lend since the end of 2009, their standards remain stringent by long-term historic standards. Other respondents noted that they have seen no change in financing availability and that banks still don’t view construction favorably.

New data regarding profit margins in this quarter’s survey provide stakeholders with an improved understanding of industry performance. This data reveals that economic improvement has yet to neatly translate into thicker margins. According to the survey, more than half of respondents indicate that their profit margins are slightly better (25% of respondents) or the same (28% of respondents) relative to one year ago. However, 32% say that their profit margins are slightly worse than a year ago, and 13% report that they are significantly worse. Improvement along this dimension is anticipated, as most respondents expect their profit margins to be slightly better (38% of respondents) or the same (48% of respondents) one year from now. Several principal concerns among CFOs remain, including high materials prices and an ongoing lack of demand for construction services. Thirty-nine percent of respondents indicated that materials prices are the same as one year ago, while 49% indicated that they are slightly higher. With respect to a year from now, 39% expect prices to be roughly the same, while 50% believe they will be slightly higher. Regarding demand for construction services, 44% of respondents indicated that they are “watching with some concern,” while 38% are very concerned and 17% are highly concerned. In other words, virtually everyone is concerned about the adequacy of demand for construction in 2012.

Many respondents also reported that they are worried about the availability of financing for projects, public policies relevant to construction, and shortages of skilled labor. Government regulations, health care costs, and subcontractor failures were also principal sources of concern among CONFINDEX survey participants.

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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) 2012 Outlook – look ahead to September 2012

• 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.