CFMA's Construction Financial Executives Confidence Index

CFOs OPTIMISTIC REGARDING CONSTRUCTION LEVELS IN ’15

Should Be a Year of Solid Construction Industry Progress

It has been nearly a decade since U.S. gross domestic product expanded by more than 3 percent during a single calendar year. During the 25-year period that began in 1983, America routinely posted 3 percent growth. But the last time the U.S. economy managed to expand by more than 3 percent was in 2005, when the U.S. economy grew 3.4 percent.

Thereafter, the housing downturn began, eventually dragging the broader economy into recession by very late 2007. Construction slowly softened, with the pace of deterioration accelerating after the failure of Lehman Brothers in September 2008. Spending declines continued through the balance of the recession and even during the early stages of macroeconomic recovery, interrupted briefly during a period of stimulus spending. Even today, six years into the recovery, nonresidential construction activity has yet to fully recover to 2008 levels.

But if the nation’s top construction chief financial officers are right, 2015 is shaping up to be a year of significant recovery for the U.S. construction industry. The U.S. economy has been gaining momentum since the first quarter of 2014. In November, the economy added 321,000 net new jobs, according to the Bureau of Labor Statistics. The nation has added more than 2.7 million jobs over the past 12 months, helping to bring national unemployment below 6 percent for the first time in six years.

Even the quality of jobs being added has improved in recent months with meaningful employment gains registered in construction and finance. Indeed, a number of industries have been adding jobs and boosting output, including manufacturing, which has helped to support more industrial construction activity; professional services, which is driving more office-related spending; retail trade, which is driving more investment in shopping centers; energy, which is fueling investment in the nation’s power plants and distribution capacity; and tourism, which is prompting more spending on hotels, casinos, and recreational facilities. Many economists are predicting that the U.S. economy will expand by more than 3 percent in 2015, despite a still shaky global economy and rocky geopolitics in much of the Middle East, in Eastern Europe, along the Pacific Rim, and in parts of Latin America.

Construction industry chief financial officers generally concur with the notion that economic activity is set to expand meaningfully in 2015. The 2014 Q4 CONFINDEX Survey, produced by the Construction Financial Management Association, indicates across the board gains in CFO confidence, with the Overall Index standing at 132, an increase approaching 4 percent in just one quarter.

Sub-index readings are also positive, with the Business Conditions Index up 6.3 percent from the prior quarter and up 3.4 percent from a year ago. The Survey indicates that business conditions had sagged for portions of 2014, but that more recently, business conditions have been rapidly improving. Accordingly, the Current Confidence Index rose 3.2 percent on a quarterly basis and is up by nearly 5 percent on a year-over-year basis. This represents the largest year-over-year increase in any of the CONFINDEX indicators.

Given improving macroeconomic performance, one would anticipate construction activity to improve. However, construction conditions can only be expected to improve in conjunction with the broader economy if financing is available for projects. For this reason, the Financial Conditions Index is of particular importance. CFOs generally see improvement along this dimension as well, with the Financial Conditions Index rising from 114 to 116 during the fourth quarter and up 4.5 percent on a year-over-year basis.

The simultaneous improvement of construction demand and financial conditions strongly suggests robust construction spending growth in 2015. Correspondingly, the Year Ahead Outlook Index rose to 135 from 130 during the previous quarter and is now up on a yearly basis. CFOs now expect that 2015 will build upon the gains generated in 2014.

Skills Shortages to Become Even More Problematic Next Year

Of course, CFOs can never be completely happy. While higher demand for construction services spells better times for individual construction firms, all things being equal, CFOs recognize that not all things are equal. More demand implies more competition for resources, including the most valuable resource of all, human capital. During the most recent CONFINDEX Survey, 80 percent of construction CFOs indicated that they were either highly or very concerned by skills shortages, up from 72 percent during the prior reading.

Despite widely shared expectations of construction worker wage inflation in 2014, 91 percent of respondents expect profit margins will be slightly better (49%) or about the same (42%) next year. This implies that those who purchase construction services can expect to pay more in 2015, particularly if materials prices reverse their current downward trend. Forty-three percent of respondents expect that materials prices will rise in 2015, but only 1 percent believe that they will rise substantially.
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) 2015 Outlook – look ahead to December 2015

• 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.