CONCERNS ABOUT FUTURE INDUSTRY CONDITIONS GROW DURING SECOND QUARTER

Over the past several weeks, a wave of uncertainty has washed over the U.S. economy, impacting the psychology of company managers and consumers. Europe is reeling. U.S. economic growth is slowing. Job growth has been disappointing and financial markets have been increasingly volatile. This quarter’s CONFINDEX™ provides us with timely insight into how recent economic events have impacted the thinking of U.S. construction executives and the outlook for their companies.

Survey data indicate that construction CFOs are feeling less optimistic regarding future construction industry conditions. After increasing for two consecutive quarters, the Overall Confidence Index fell 1.6 percent in June to 124. While the Current Confidence Index rose to 119 during the second quarter, representing an increase of 0.8 percent, all other sub-indices declined. Importantly, the 2013 Outlook Index fell a full 3 percentage points from last quarter’s reading of 134.

Growing concerns over business and financial conditions also weighed down the Overall Confidence Index. At 138, the Business Conditions Index fell 0.7 percent from the prior quarter. The Financial Conditions Index declined 1.8 percent to 111. According to the survey, primary concerns include demand for construction and availability of financing. During the second quarter, the percentage of respondents that reported being either “very” or “highly” concerned about construction demand rose to 41 percent, an increase of 4 percentage points from the previous quarter. Another 54 percent reported that they are “watching with some concern” and only 4 percent were “not concerned at all.” With respect to availability of financing for construction projects, 36 percent of CFOs reported that they were either very or highly concerned. However, relative to last quarter, the number of respondents either very or highly concerned is down 5 percent. Another 50 percent is watching with some concern while 9 percent is not concerned at all.

Among survey respondents, the general consensus is that economic slowing globally and in the U.S. will restrain construction activity during the upcoming year. Potential federal government spending cuts could also reduce demand for projects that require government funding. With respect to availability of financing of construction projects, the majority of respondents believe that banks are still cautious to finance construction projects, though some respondents indicate that availability appears to be improving.

While many indices weakened during the second quarter of 2012 relative to the first, all are still well above June 2011 readings. The Overall Confidence Index is up 11.7 percent from last year’s reading of 111. The Business Conditions Index is up 9.5 percent and the Financial Conditions Index is up 15.6 percent. Additionally, the Current Confidence Index is 24 percent above last year’s reading and the 2013 Outlook Index is up 3.2 percentage points.

Profit margins, which are not included in the indices, improved during the second quarter, with more respondents reporting slightly better (31%) or significantly better (6%) margins relative to a year ago. Thirty-seven percent of respondents report that their profit margins are the same while 23 percent indicate that their profit margins are slightly worse. Only 4 percent report that their margins are significantly worse. Compared to last quarter’s reading, the percentage of CFOs reporting significantly or slightly better profit margins is up 6 percent, while those reporting profit margins are the same is up 1 percent. Looking ahead, most respondents expect profit margins to be the same (46%) or slightly better (47%). Only seven percent expect margins to be slightly or significantly worse.

Conditions pertinent to materials prices also improved during the second quarter according to the survey. Relative to last quarter, fewer respondents report that materials prices are either slightly worse (44% this quarter vs. 57% last quarter) or significantly worse (0% this quarter vs. 8% last quarter). More respondents report that materials prices are the same (42% vs. 29%) or slightly better (9% vs. 2%). Looking forward a year, 43 percent expect prices to be roughly the same while 42 percent believe they will be slightly or significantly higher. Just 9 percent expect prices to be slightly lower.

Construction executives continued to express mounting concerns regarding skills shortages during the second quarter. A number of respondents indicated that while labor shortages are not an issue presently given relatively soft demand, the large number of retirements and a lack of skilled young workers will create long-term issues for the construction industry. Uncertainty regarding potential tax increases, rising health care costs, and subcontractor details represent additional sources of concern in the near- and long-term.
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.