Last year was supposed to be better. After all, the U.S. economy expanded 3% in 2010 and financial markets were signaling better economic times in 2011. Several prominent economists predicted that the U.S. economy would expand in the neighborhood of 4% last year. But the economy only managed to expand 1.8% in 2011 due to a combination of high fuel prices, food prices, the global supply chain impacts of the earthquake, tsunami, nuclear disaster in Japan, and the debt ceiling issues that plagued Washington, D.C. and the nation mid-year.

That said, last year ended with a relative flurry of activity in the U.S., with gross domestic product expanding 3% on an annualized basis during the fourth quarter, easily the year’s finest performance. Presently, national gross domestic product appears to be growing at an annual rate of approximately 2.3%. Growth has been strong enough to reduce unemployment, which fell for a fifth consecutive month in January to 8.3% and remained steady in February, despite a growing labor force. Job growth has also accelerated, including in the nation’s construction sector, which added 1.2% to aggregate employment totals between February 2011 and February 2012 – even though the latter month represented a bit of a setback.

This quarter’s CONFINDEX survey data indicates that construction CFOs believe that further improvement is forthcoming – both in the overall economy and specifically construction. The Overall Confidence Index is up 8.6% from last quarter at 126. The Current Confidence Index increased to 118, an 8.3% improvement from last quarter’s reading of 109. The 2013 Outlook Index rose 8.9% from last quarter’s reading of 123, a reflection of growing confidence in next year’s prospects.

Survey respondents are also more confident with respect to business and financial conditions. At 139, the Business Conditions Index increased 12.1% from last quarter. Similarly, the Financial Conditions Index is up 5.6% to 113. There is some belief that both owners and financial institutions are more willing and able to finance construction projects, though the appetite among banks to engage in construction financing remains underdeveloped. Despite the recent improvement in financial conditions, 41% of survey respondents remain very or highly concerned and another 49% are “watching with some concern.” Compared to December 2011, the percentage of respondents that are very or highly concerned is down 11 points.

While all indices improved significantly during the first quarter of 2012 vs. the fourth quarter of 2011, all are still below their cyclical high-water marks reported during the first quarter of 2011. The Overall Confidence Index is still down 3.8% from last year’s reading of 131. The Business Conditions Index is down 4.1% and the Financial Conditions Index is down 2.6%. In addition, the Current Confidence Index is 1.7% below last year’s reading, while the 2013 Outlook Index is down five percentage points. This is a reflection of the “soft patch” that consumed the general economy last year and slowed the construction sector’s recovery.

Profit margins, which are not embodied in the indices, have been stable and are expected to improve. According to the survey, a growing number of respondents indicate that their profit margins are slightly better (26%) or significantly better (5%) relative to one year ago. Roughly 36% reported that profit margins are about the same. Thirty-two percent report that their profit margins are slightly (25%) or significantly (7%) worse. Compared to last quarter’s reading, the percentage of respondents reporting significantly or slightly better profit margins is up 3%, while those reporting the same profit margins is up 9%. Looking ahead, the majority of respondents (52%) expect profit margins to be slightly better a year from now while 41% expect margins to be about the same. Only 7% expect margins to deteriorate.

High materials prices and the level of demand for construction services remain principal concerns among CFOs. Relative to last quarter, more respondents reported that materials prices are either slightly worse (57% this quarter vs. 50% last quarter) or significantly worse (8% this quarter vs. 2% last quarter). Fewer respondents report that materials prices are the same (29% vs. 38%) or slightly/ significantly better (2% vs. 5%). Looking forward a year, 35% expect prices to be roughly the same, while 49% believe they will be slightly higher.

With respect to demand for construction services, 60% of respondents indicated that they are “watching with some concern,” while 27% are very concerned. Another 10% are highly concerned regarding the level of demand for construction (these are the most concerned respondents). Attitudes toward construction demand have improved slightly from last quarter, however. At that time, 37% were very concerned and 17% were highly concerned. Many of these respondents have shifted into the “watching with some concern” category. Among respondents, economic and political uncertainty in conjunction with reduced public construction activity remains a leading cause of concern.

CFOs also expressed growing concern regarding skills shortages in this quarter’s survey. Several respondents cited aging demographics as an important issue and indicated that young people have a generally undeveloped interest in the trades as a viable career path due to a growing emphasis on college education. The combination of construction recovery, demographics, and apathy among younger workers is likely to lead to major shortages of skilled construction workers going forward.
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.