Near-term Optimism Undampened by Mixed Economic Signals

While concerns regarding public funding for construction linger and energy production-related construction concerns have begun to emerge more forcefully, March 2015 CONFINDEX Survey readings generally remain elevated. The Construction Financial Management Association conducts the CONFINDEX Survey each quarter. The CONFINDEX Survey has emerged as one of the construction industry’s leading barometers of business conditions, including sales, input costs, and corporate profitability dynamics.

The Survey’s latest iteration indicates that the nation’s leading construction CFOs remain optimistic regarding near-term industry prospects despite some recent weak macroeconomic data releases in a number of categories, including housing starts and retail sales. Leaders in construction finance also appear not to be unduly unnerved by the recent surge in the value of the U.S. dollar against a number of key foreign currencies, which implies a slowdown in domestic exporting and, potentially, in industrial production. Indeed, some CFOs appear to be cheered by the strengthening dollar and its ongoing impact on materials prices.

The Overall Index reading is now at multi-year highs. At 137, the index is up 3.8 percent on a quarterly basis and 5.4 percent on a year-over-year basis. More than a quarter of surveyed CFOs (27%) indicate that they are not concerned at all regarding the level of demand for construction, while another 65 percent are only watching with some concern. This means that only one in fourteen CFOs is significantly concerned about demand for construction, despite many being negatively impacted by the stunning recent declines in both oil and natural gas prices.

Sub-indices also remain high. The Business Conditions Index tumbled slightly from a sky-high level of 152 during 2014’s final quarter to 148 more recently, a decline of 2.6 percent. However, this sub-index, which pertains to immediate conditions, is still up by nearly a full percentage point from one year ago. This sub-index likely slipped on a quarterly basis for a number of reasons, including weather. More than half the nation suffered through significantly lower than usual temperatures during the first quarter, which likely impaired business conditions. Contractors tied to energy markets have also begun to feel the impact of postponed projects, as project owners wait to determine the direction of energy prices going forward and take their next strategic steps.

Two sub-indices registered significant quarterly gains. These were the Financial Conditions Index, which rose 9.5 percent quarter-to-quarter, and the Current Confidence Index, which rose 7.8 percent for the quarter and is up nearly 14 percent for the year. The Current Confidence Index pertains to near-term expectations, and these seem to have been buoyed by recent normalizations in capital market activity. With financing now more available, the near-term outlook has also improved, with a larger fraction of potential projects likely to be actualized.

That said, the Year-Ahead Outlook Index fell 1.5 percent on a quarterly basis and is down 5.0 percent on a year-over-year basis. This represented the largest and only year-over-year decline in any of the sub-indices.

There are many possible explanations for this, including the possibility that energy production-related construction work may continue to move forward in the near-term as projects grind toward completion, but that the impact of lower energy prices will eventually be felt more firmly over the course of the next twelve months. CFOs may also be concerned about the direction of interest rates. Conventional wisdom holds that, at some point over the next three to six months, the Federal Reserve will begin raising short-term interest rates, presumably increasing the borrowing costs of project owners in the process.

Inconsistent macroeconomic data and the unknown trajectory of the U.S. dollar and associated impact may also be suppressing the level of CFO comfort. Moreover, a quarter of CFOs are now very or highly concerned regarding the impact of public policy on construction. Some of this may be related to a lack of demand growth among public agencies for construction services, while the lack of progress in terms of immigration reform may be uppermost in the minds of others.

Skills Shortages Remain the Leading Source of Concern

Fully 71 percent of construction CFOs are very or highly concerned about skills shortages. However, that proportion is down from 80 percent the prior quarter. It is likely that some CFOs believe that the ongoing and expected slowdown in energy production-related activity will free up more workers for construction. Anecdotal evidence indicates that the migration of workers from various oil drilling sites to construction sites has already begun. Since the Survey was conducted, oil prices have slipped even further, recently establishing a six-year low.

Though there has been some evidence of growing construction wage pressures recently, the profit picture has improved. During last year’s fourth quarter, only 1 percent of respondents indicated that profit margins had improved significantly, while about half indicated that margins had improved slightly. During the most recent Survey, 9 percent indicated that margins were significantly better.

Input price dynamics appear to have helped bolster profitability for many construction firms. During the most recent Survey, 56 percent of leaders in construction finance indicate that materials prices are the same or better. Perhaps this explains why 94 percent of respondents believe that profit margins will be greater (47%) or the same (47%) a year from now.
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) 2016 Outlook – look ahead to March 2016

• 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.
THE CONFINDEX™ NUMBER

- DEC 12
- MAR 13
- JUN 13
- SEPT 13
- DEC 13
- MAR 14
- JUN 14
- SEPT 14
- DEC 14
- MAR 15
CURRENT CONFINDEX™

137

Trend Since Last Reading

CONFINDEX™
CFMA’s Construction Financial Executives Confidence Index