If one contemplates the interpretation of the Current Confidence Index more deeply, the lack of movement makes perfect sense. Donald Trump’s pro-business agenda has yet to be implemented. Therefore, the short-term impact on the volume of construction work is relatively insignificant. Stock markets may surge today, but projects need to be planned, designed, financed, and permitted before construction can transpire. The president’s pro-business agenda will accordingly require the passage of time before it translates into actual construction spending.

If this analysis is correct, one would expect the Current Confidence Index to remain largely unchanged, but the Year-Ahead Outlook Index to surge. That’s precisely what happened. No sub-index rose as rapidly as the Year-Ahead Outlook Index on a quarterly basis. This index rose by nearly 6 percent during the quarter and is up by 12 percent on a year-over-year basis, which represents the largest year-over-year increase among any of the indices. The implication is that typical construction CFOs expects their firms will be busier in a year. It is not clear, however, how closely this belief is tied to the proposed $1 trillion infrastructure-led stimulus package proposed by the president.

While CFOs expect their firms to be become busier, they do not necessarily expect them to become more profitable. Construction materials and labor costs have been rising more rapidly in recent months. Further acceleration in economic activity will presumably tilt these costs even higher. During the most recent survey administration, 40 percent of respondents expressed an expectation that their profit margins will improve over the next year, down from 46 percent during the fourth quarter of 2016.

A vast majority of CFOs appear to believe that the construction materials price declines that characterized late-2014 and virtually all of 2015 are over. Forty-one percent of respondents expect materials prices to be the same a year from now, while 52 percent expect the materials price situation to become more problematic.

As has been the case for years, concern regarding construction skills shortages remains intense. During the final quarter of 2016, 80 percent of respondents were either very or highly concerned by skills shortages. One quarter later, the proportion of those expressing a significant level of concern expanded to 83 percent.

Rise in Construction Spending Coming Soon?
The average CFO has become more confident regarding the level of anticipated construction spending. Anecdotal information indicates that many remain somewhat skeptical regarding the future of the proposed infrastructure stimulus package. In particular, there remain significant questions regarding how effective and ubiquitous public-private partnerships can be.

Still, the view is that overall construction spending will soon be on the rise due to a combination of diminished financial regulation, planned tax reform, and faster economic growth. Recent decisions impacting the energy sector, including pipeline construction, also have likely played a part in shaping more ebullient CFO expectations.
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) 2018 Outlook – look ahead to March 2018

- 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.