CONSTRUCTION RECOVERY WAITS FOR ELECTION TO PASS

The lack of vigorous construction spending growth has also likely caught the attention of CFOs. Public construction spending has been particularly muted in recent quarters, with year-over-year spending declines observed in categories such as education, transportation, highway/street, water supply, public safety, conservation and development, and other primarily publicly-financed categories.

Perhaps surprisingly, the Financial Conditions Index did not fall, and was essentially flat, during this quarter. This subindex stands at 121 and was also up 0.8% for the quarter. The Financial Conditions Index has barely budged for more than a year, remaining at a level of 120 or 121 since June 2015.

There were reasons to believe this index would decline. For instance, there is growing concern regarding potential mini-bubbles forming in several commercial real estate markets that have received outsized levels of foreign investment including New York, Miami, Boston, Seattle, and Silicon Valley. Moreover, regulators are expressing more concern regarding the growing exposure of banks to fluctuations in real estate values. Despite that, the Financial Conditions Index is unchanged from a year ago and is 26% above the first CONFINDEX reading in December 2008.

There are growing fears, however, that availability of financing for projects will eventually become a more pressing issue. For the previous CONFINDEX survey, only 7% of CFOs expressed significant concern regarding the prospective availability of financing for projects. One quarter later, that proportion had doubled to 14%.

To the extent that there was meaningful movement in the indices, it was seen in the Current Confidence Index (down 2.3% on a quarterly basis) and the Year-Ahead Outlook Index (up 5.4%). This seemingly inconsistent pattern is suggestive of the nature of the impact that the impending elections are having upon construction firm management.

Like others, CFOs are deeply concerned by the outcomes of the 2016 election. The uncertainty revolving around who will win has helped to suppress near-term confidence in economic and construction industry outcomes. Many CFOs seem comforted by the fact that by the third quarter of 2017, the elections will be in the rearview mirror. This represents a source of confidence, which translated into an enhanced Year-Ahead Outlook Index, which now stands at 117, up from 111 a quarter earlier.

CFOs Look Forward to 2017

One could argue that uncertainties emerging from the impending 2016 elections are hurting the economy. Anecdotal information suggests that a few projects have been put on hold until the election is complete. Perhaps a more nuanced way to look at the election is to view it as suppressing improvement in construction activity. The election will soon be over and the most recent CONFINDEX survey suggests that the period thereafter is quite likely to represent a period of reaccelerating construction activity.

A reacceleration of construction activity may not neatly translate into growth in profit margins. CFOs continue to express significant frustration regarding the lack of available construction talent. The behavior of materials prices is likely to be significantly different from what it has been over the past two years, and it is not obvious that, in a competitive marketplace, materials prices increases can be easily passed along to purchasers of construction services. Still, the data stand for the proposition that many CFOs are looking forward to 2017, in large measure, because there will be no presidential election next year.
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) 2017 Outlook – look ahead to September 2017

• 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.