According to construction industry executives, demand for construction and availability of financing for projects represent key concerns. During the third quarter, the percentage of respondents that reported that they were “highly concerned” or “very concerned” about the level of construction demand rose from 41% last quarter to 52%, a sharp increase in the level of concern that would normally be associated with more substantial deterioration in underlying economic conditions. Forty-five percent reported they are watching demand with some concern, while only 3% are not concerned about demand at all.

With respect to availability of financing, 41% of respondents reported being very or highly concerned, an increase from 36% last quarter. An additional 43% is watching with concern, while 11% are not concerned at all. Consistent with the discussion above, construction CFOs indicate that concerns regarding demand and financing are fueled by uncertainty surrounding future public policy shifts and the trajectory of the U.S. economy.

Despite lingering concerns regarding construction demand, the issue of skills shortages became more apparent in this quarter’s survey. During the third quarter, 42% of survey respondents reported that they were very or highly concerned about industry skills shortages, up 5 percentage points from last quarter. Another 42% is watching with some concern, a decline from 43% last quarter. The percentage of respondents that are not worried at all fell from 21% last quarter to 16% this quarter. In other words, during the third quarter, many construction CFOs who had not been concerned or had only been watching with some concern shifted to being very or highly concerned about skills shortages. Though construction employment growth has continued to languish, many former construction workers have departed the industry to join economic segments adding jobs more briskly, including distribution, manufacturing, retail, and a host of service segments. This has left the industry with a shortage of skilled workers at a time of sluggish recovery.

Profit margins, which are not encompassed in the CONFINDEX indices, also generally reflected slow progress. Thirty-nine percent of respondents reported that their profit margins are either slightly better (33%) or significantly better (6%) relative to last year. Twenty-eight percent reported that profit margins at their companies are about the same, while 25% indicated their profit margins are slightly worse. Eight percent of construction executives reported that profit margins are significantly worse than one year ago. Compared to last quarter, the percentage of respondents reporting that their profit margins are the same as one year ago is down 9%, while those reporting slightly or significantly worse margins is up 6%. Looking ahead, most respondents expect margins to be the same (45%) or slightly better (37%) a year from now. Four percent expect margins to be significantly better. Only 11% expect margins to worsen.

Materials prices improved only slightly during the third quarter. Forty-seven percent of survey respondents reported that materials prices are about the same as one year ago, while 41% report slightly higher prices and 1% reported significantly higher prices. Eight percent report that prices are slightly lower than a year ago. Relative to last quarter, fewer respondents report that prices are slightly or significantly higher compared to last year (42% this quarter vs. 44% last quarter). More respondents indicate that prices are the same or slightly lower (55% vs. 51%). In a year from now, the majority of respondents expect materials prices to be either slightly higher (48%) or the same (37%). Seven percent expect prices to be slightly lower.

Sustained Confidence Remains Elusive

Though we are in the fourth year of economic expansion, sustained momentum and confidence continues to elude the U.S. construction industry. In many respects, very little has changed over the past quarter. Gross domestic product continues to hover around 2% (1.7% on an annualized basis during the second quarter of 2012). Job growth continues to be soft, with the Bureau of Labor Statistics indicating that the nation added 96,000 jobs in August according to the preliminary estimate – the fourth time in five months that job growth fell short of six digits.

Nonresidential construction spending has been flat, though a number of key segments including lodging, power, and manufacturing are up significantly on a year-over-year basis. What’s more, the housing market appears to have bottomed, with home prices now rising in many regions and housing starts steadily ticking higher. U.S. financial markets have also performed well, with both the NASDAQ and Dow Jones Industrial Average up nearly year-to-date. There is even evidence suggesting that bankers are more eager to lend and are now aggressively in search of creditworthy borrowers ready to move projects forward, to invest in equipment and in people.

In other words, based upon the data, executives have as much reason to be gaining confidence as to lose it. Something else must be at work, and that thing appears to be a sea of lingering uncertainty emerging from various sources. For instance, the passage of another quarter places the nation that much closer to falling off its fiscal cliff. Most economists agree that absent resolution to key issues by Congress, including those related to the Bush tax cuts and automatic federal spending cuts, the nation will enter recession next year. The most recent quarter has also been associated with rising energy and food prices, jarring headlines from Europe and the Middle East, and news of sharp slowing in even some of the world’s healthiest economies, including economies in China and Brazil. And then there are the November elections . . .
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 December 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.