Most construction firms should probably view the stability of the Financial Conditions Index favorably. After all, financial conditions were reasonably benign a year ago and apparently that hasn’t changed, despite concerns of increasingly overbuilt commercial construction markets in certain metropolitan areas.

Near-Term Plentiful Demand Influence
The Current Confidence Index rose from 126 to 128 during the third quarter and is up by nearly two percent on both quarterly and year-over-year bases. That should come as no surprise as this is consistent with the notion that the near-term will continue to be one associated with plentiful demand. The U.S. economy itself has picked up in recent quarters after a sluggish 2016. If one embraces the rule of thumb that suggests nonresidential construction follows the broader economic business cycle by roughly one year, then today’s healthy economic activity should translate into stable construction activity or better in 2018.

This is reinforced by the Year-Ahead Outlook Index, which rose incrementally during the third quarter (119 to 120) and is up by nearly three percent on a year-ago basis. Nearly one in four construction firm CFOs indicate that demand for construction services is not a concern at all. Another 70 percent are watching with some concern, but hardly anyone is highly concerned.

While demand will remain robust for many contractors, rising labor and materials costs continue to constrain optimism among a growing fraction of construction financial professionals. Twenty-three percent of third quarter respondents indicated that profit margins have shrunk recently and another four percent indicate that they have become significantly smaller. That translates into 27 percent of respondents who have experienced smaller profit margins recently, up from 18 percent one year earlier.

However, the recent uptick in demand, including needs related to the damage caused by recent storms, has brightened the outlook for profit margins. Only 12 percent of respondents expect their profit margins to be worse a year from now. That compares to 34 percent who expect them to improve. Given rising input costs, this implies that the typical CFO expects that demand and pricing power will be strong enough to more than fully counterbalance growing construction service delivery costs.

Looking Ahead
The U.S. construction industry continues to recover. Job growth remains brisk and private construction spending has continued to climb despite growing concerns regarding overbuilt multifamily, office, and lodging markets, particularly in certain tier 1 cities.

Most CFOs no longer seem to be counting upon major pro-business legislation to accelerate activity further. Were demand more tepid, this would be more problematic. Moreover, it’s not clear whether the industry could secure enough workers to successfully implement a large-scale infrastructure package at this time or deal with a significant acceleration in economic growth induced by other conceivable factors.
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 September 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.