A quarter ago, the nation’s construction CFOs expressed significantly greater confidence in their industry’s outlook. The Outlook Index climbed to 141 during the first quarter of 2011, up 6.8 percent from the prior reading and up 9.3 percent on a year-over-year basis. The Current Confidence Index rose to 120 during the first quarter from a level of 102 one quarter prior and a level of 73 one year prior.

The surge in confidence earlier in the year was attributable to a number of factors, but the most important was likely the performance of the U.S. economy itself. After a full in activity during the summer of 2010, the financial markets and broader economy ended 2010 on a high note, with economic momentum continuing into 2011. Based on that momentum, many CFOs appeared to adopt a more confident attitude toward the industry’s near-term future.

The economic momentum was shortlived as was the burst in CFO confidence. A combination of rising construction materials prices, sagging consumer activity, weakening industrial production, still tight credit, fading investor sentiment and unrest in various parts of the world conspired to significantly temper confidence in the latest reading of CFMA’s CONFINDEX. The Overall Confidence Index now stands at 111, down 15.3 percent from a level of 131 during the prior quarter. However, the Overall Confidence Index is still 2.8 percent above its 108 level from a year ago, with the implication being that confidence has not collapsed, but that much of the gain in confidence over the past year has been offset by newfound concern.

The Current Confidence Index dropped 20 percent from 120 to 96 in the latest CONFINDEX survey, a reflection of the weakness that began to pervade the economy in April and then became more apparent in May. Despite the dimmer view of current conditions, a majority of respondents believe that business conditions are either slightly better (40%) or “the same” (30%) as last year. Roughly a fifth of respondents (21%) believe that conditions are “slightly worse.”

During the latest quarter, the 2012 Outlook Index dropped 10.6 percent from its previous reading of 141. This is among the survey’s most important results and indicates that the construction recovery is now expected to be slower. That said, more than one half of respondents (57%) expect that business conditions will improve over the next year, of which 5 percent expect conditions to be much better. Another 31 percent expect conditions to be roughly the same, while 11 percent think business conditions will be slightly worse a year from now. Only 1 percent think conditions will be significantly worse, though a pessimistic reading of the data would point out that 43 percent of respondents still believe that conditions will be either unchanged or worse a year from now.

Though financing constraints continue to hamper the pace of construction industry recovery, a majority of survey respondents reported that the availability of bank credit was the same (68%) or better than a year ago (19%). Only 10 percent reported that the availability of bank credit was “slightly worse” and just 1 percent consider it to be “significantly worse” than a year ago. However, the overall Financial Conditions Index was down 17.2 percent over the past quarter, indicating that bankers may be becoming more defensive in light of re-emerging economic uncertainty. Fully 69 percent of responding CFOs reported that their working line of credit has decreased over the past year while only 16 percent report an increase at their company.

Industry backlog declined slightly last quarter, but a majority of respondents still report that total backlog is “higher than” (46%) or “the same as” (20%) a year ago. Roughly a third (34%) reports that backlog is now lower than it was a year prior. Only 17 percent anticipate that total backlog will be lower a year from now.
A SIMPLE EXPLANATION OF CONFINDEX™

• The Overall Confindex Number
  Is a form of a Composite Index
  • Within Overall Index we have 4 Sub Indices
    1) Business Conditions
    2) Financial Conditions
    3) Current Conditions
    4) 2012 Outlook – look ahead to June 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.