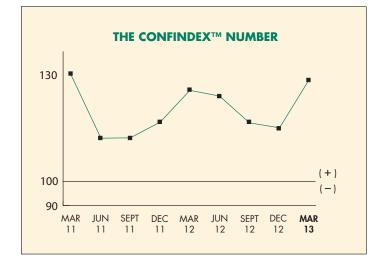






Anirban Basu CFMA's Economic Advisor

## CONSTRUCTION INDUSTRY POSTURED FOR MORE RAPID RECOVERY



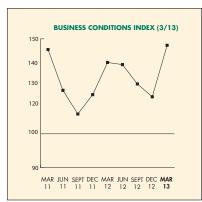
#### **CONFINDEX Survey Reveals Improving Confidence**

A number of macroeconomic indicators collectively suggest that despite many lingering headwinds, including those related to Europe, the expiration of the payroll tax cut, and the sequester, U.S. economic growth is accelerating and construction's recovery is firming. As an example of growing reason for optimism, the pace of construction employment expansion has picked up in recent months. In February, construction added 48,000 jobs, second only to professional and business services among major U.S. industries along that dimension. February's construction employment increase represents the largest monthly increase since March 2007, which preceded the recession by nine months. On a year-overyear basis, U.S. construction firms have added 140,000 jobs or 2.5% to industry totals.

This is not to suggest that the industry is on the verge of being fully recovered. The industry's unemployment rate, though falling recently, still stands at 15.7%, high by historic standards. That said, a year ago, industry unemployment remained in excess of 17%.

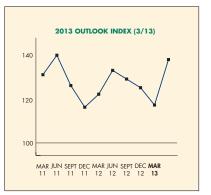
Other indicators have been similarly upbeat. The American Institute of Architects' Architecture Billings Index (ABI) recently reported its strongest growth since November 2007. In January, the ABI stood at 54.2, up from 51.2 in December. (Any score above 50 indicates an increase in architectural billing, which ultimately translates into a growing number of construction starts.)

CFOs participating in the most recent CONFINDEX survey generally provide confirmation that construction's recovery is positioned to accelerate. Every sub-index rose during the first quarter survey relative to the final quarter of 2012. The Overall Confidence Index rose 13.2% to 129, its highest level in precisely two years (March 2011: 131). The Business Conditions Index surged 19.5%, from 123 last quarter to 147 during the current quarter. The Financial Conditions Index increased to 115, an increase of 8.5% from last quarter. The Current Confidence Index is up 10% to 121. Perhaps most importantly, the 2013



Outlook Index jumped 17.8%, from 118 to 139. All of this serves as confirmation of the notion that construction appears poised to outperform previously established expectations.

The most recent CONFINDEX survey also indicates that many construction executives have become less concerned about the level of demand or the amount of financing available for construction projects and more concerned about prospective skills shortages. In the first quarter survey, skills shortages in construction represented the single most prevalent concern among CFOs, with fully 48% of survey respondents reporting that they are either very concerned (36%) or highly concerned (12%) regarding skills shortages. Another 39% are watching with some concern while 11% are not concerned at all. CFOs report that many skilled workers have left the industry to pursue jobs in other industries and are unlikely to return. While construction languished during the early stages of the ongoing economic recovery, other industries began to recover in more timely fashion. As a result, much industry talent was lost, much of it permanently. Other impactful issues include the aging of the



workforce, expected retirements, and a lack of demonstrated interest in construction among younger labor force participants.

As one might expect, public policy represents another major source concern for the nation's top construction CFOs. During the first quarter, 30% of survey respondents reported that they are very concerned (22%) or highly concerned (8%) regarding the way in which various public policies will impact construction. However, that is down from 46% in the fourth quarter of last year, implying that Washington's ability to navigate past the fiscal cliff provided some degree of relief from anxiety. The majority of respondents are watching the policymaking environment with some concern (47%) while 16% are not concerned at all.

One of the most powerful survey findings is that construction demand has become more predictable. During the first quarter, 29% of construction executives reported that they are either very concerned (18%) or highly concerned (11%) regarding construction demand, down significantly from last year's final quarter when half (50%) of respondents were either very or highly concerned. The majority of survey respondents have moved into the "watching with some concern" category (61%) while 9% are not concerned at all. One respondent indicates that "the gridlock and anti-business legislation in Washington makes planning difficult," while another notes that "general economic conditions are weak and growth could be thwarted easily."

There has also been a degree of improvement with respect to financing availability for construction projects. Twenty-six percent of survey respondents report that they are very (22%) or highly (4%) concerned regarding financing availability, while 56% are watching with some concern and 13% are not concerned at all. During the prior survey, 37% of respondents were very/highly concerned. Construction CFOs note that banks seem more willing to lend, which is consistent with other available information regarding banker attitudes. But while many respondents indicated that private funding has become more available, there is relatively greater concern regarding the availability of public funding.

Industry-wide profit margins, which are not embodied in the CONFINDEX index readings, have improved modestly according to survey respondents. Forty percent of CFOs indicate that profit margins at their company are slightly better (36%) or significantly better (4%) than they were one year ago. Forty-one percent report that their profit margins are about the same as last year. Fewer respondents report slightly worse (12%) or significantly worse (6%) profit margins at their company compared to last year. Looking ahead, most respondents expect their profit margins to be either slightly better (49%) or the same (43%) one year from now. Five percent expect margins to deteriorate significantly while 3% expect margins to be significantly better.

Recent economic data indicate growing volatility in construction materials prices and CFOs generally seem to believe that materials prices will edge higher going forward. One-half of survey respondents report that materials prices are either slightly higher (47%) or significantly higher (3%) than they were one year ago. Another 38% indicate that materials prices are roughly the same while 4% report that prices are slightly lower. The expectation one year from now is that materials prices will be somewhat higher. Most respondents expect prices to be slightly higher (52%) or the same (33%) one year from today. Just 3% expect materials prices to be significantly higher while 6% expect prices to be slightly lower in one year.



CFMA's Construction Financial Executives Confidence Index the only confidence index surveying construction company CFOs

# A SIMPLE EXPLANATION OF CONFINDEX<sup>TM</sup>

## • The Overall CONFINDEX<sup>™</sup> Number

- Composite Index Comprised of 4 Sub Indices
  - 1) Business Conditions
  - 2) Financial Conditions
  - 3) Current Conditions
  - 4) 2013 Outlook look ahead to June 2013

## • 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.



