

# Surety Outlook 2016: Doing More with Less!

By James P. Schabarum II, CPCU, AFSB

There has been a slow and steady improvement in the Surety industry in recent years which has been mirrored in the U.S. economy and other related financial markets. In the not-so-distant aftermath of the economic meltdown of 2008 and now the poor performance of the stock market for YTD2015, the Surety outlook for 2016 will remain positive but will be significantly challenged by factors that influence the construction and commercial business markets.

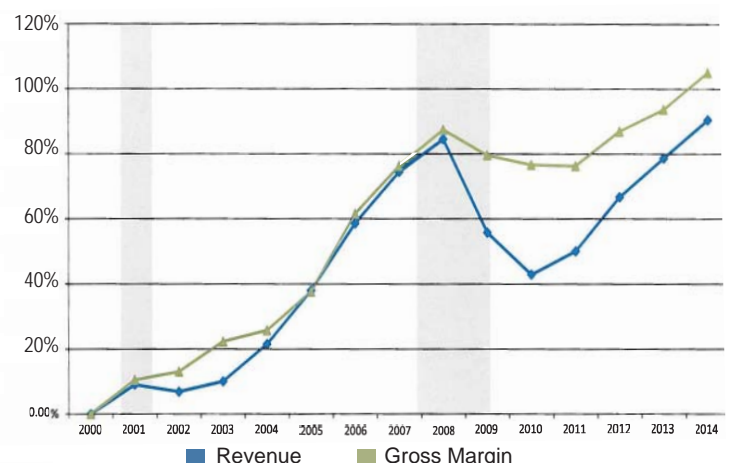
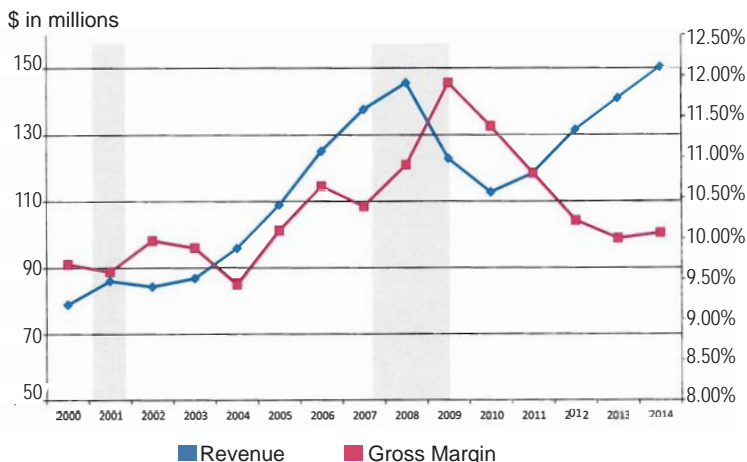
Astute contractors have not abandoned the lessons learned in the recent post-recession recovery. Construction firms today are leaner and meaner with a focus on bottom-line results. An overall acceptable profit margin for efforts expended is mandatory. However, owners' expectations are still in a buyer's market mode, interest rates are artificially low, fuel and material prices are cheap, technology applications are ever improving and there is a

painfully growing worker shortage. Going forward, successful firms will cautiously continue to grow their operations with an eye on "Doing More with Less".

## Economic Recovery?

The sign of a true economic recovery is the return of acceptable profit margins. Although there has been a continuous increase in "put in place" construction revenues since 2010, the return of project margins has declined significantly during the same time. The "Gross Margin Gap" between revenues and profits is now at an all-time high. A number of contractors have refilled their revenue backlogs with thin gross profit margin work in an attempt to regain market share. To add more stress, overhead expenses that crept up in 2008, have continued to increase faster as a percentage of revenues in recent years.

**Construction Industry (1,550 Contractors)**



Surety Outlook (continued on page 2)

## Unemployment and Interest Rate Shuffle

As the US economic activity improves, there's a challenge to find great people at all levels. The speed at which the labor market is healing has been a long crawl since the peak in 2010. In the seven expansions since 1960, the average low trough in the unemployment rate has been 4.5%. Compared to October 2015's seven-year low of 5%, the US unemployment rate still has a way to go. If joblessness continues its recent pace of decline, it will

reach 4.2% a year from now and 3.8% in 2017. That would be enough to prompt the Feds to keep raising interest rates in the hope of engineering a soft landing. Sound good? Not so fast. The problem is that the U.S. central bank has rarely achieved that feat. The average recession since 1960 occurred just eight months after unemployment hit its low. That would leave the US economy with a significant recession risk in 2017. For investors that fund development projects, that also raises the threat of the stock market correction that has occurred in all major recessions in the past 50 years.



Unemployment Rates 1950-2014



Dow Jones Industrial Average

## Risk-Shifting

Today's cash strapped public and private owners are shifting greater risk onto contractors through onerous contract terms with non-traditional project responsibilities. The evolution of project delivery systems has surpassed design-build projects to more challenging methods of integrated project delivery (IPD), gap financing and P3s. In these high-breed risk-sharing approaches, attention to the potential expanded and long term exposures to risk must be identified and addressed. Contractors must be alert to new risks, resist these new risks whenever possible, and keep costs low to stay profitable. The financial consequences of the risk-shifting can hit generals and subcontractors hard. Subcontractors first feel the financial squeeze since they have to cash flow their own work and are the furthest from the project funds. Long drawn out litigation disputes are costly to all parties from direct and in-direct costs that strip away the already thin project profit margins.

## Success in 2016 and Beyond!

In order to be successful in the future, contractors need to focus on what they know best - their core competencies. Contractors need to highly discriminate on project selection. New opportunities need to have an acceptable profit margin to risk exposure. Avoidance of unknown project elements, contract terms, partnerships and problematic owners should all be traded for the best opportunity projects that have a high probability to make money and generate positive cash flow. Technology needs to be mastered and leveraged at all aspects of a company to maximize efficiencies and productivity. Collaboration, communication and driving 'best practices' across all operations will bring improved ways to equal improved results. By trading in revenue growth goals for a keen eye on exploiting high margin projects with low risk factors, contractors can realize the long term sustainable business model of simply growing profits. ■

# 2015 Risk Management Seminar Series



### **Wage & Hour 101**

Friday, January 8, 2015

7:30am Registration

**8:00am - 10:00am** Program

### **Ergonomic Best Practices**

Friday, February 12, 2015

7:30am Registration

**8:00am - 10:00am** Program

### **Sexual Harassment Prevention Training**

Friday, March 4, 2015

7:30am Registration

**8:00am - 10:00am** Program

### **Reserve Early, Seating is Limited!**

To register, click on the 'register now' button in the announcement email, or contact Bethany Mongold at [mongold@cavnac.com](mailto:mongold@cavnac.com) or call 619-744-0540.

*NOTE: Due to the popularity of our seminars and limited space available, we regret we cannot provide refunds or credits with less than 72 hours advance notice of cancellation.*

# LIVE WELL



# WORK WELL

December 2015

## New Breast Cancer Screening Guidelines Released

Last month, the American Cancer Society released new breast cancer screening guidelines recommending that women should wait until age 45 to begin annual mammograms—five years later than previously recommended.

The American Cancer Society now believes that mammograms may do more harm than good before age 45, as younger women may receive “false positive” results and undergo unnecessary follow-up testing.

It is important to remember that this recommendation is not definitive, as other reputable organizations advise different screening guidelines (for example, the U.S. Preventive Services Task Force recommends age 50). To determine what is best for you, talk to your doctor, especially if you have a family history of breast cancer or other risk factors.

## Bacon and Other Processed Meats Increase Risk of Cancer

The World Health Organization (WHO) recently announced that eating bacon, sausages, hot dogs and other processed meats may increase your risk of colorectal cancer.

While the news that processed meats aren't good for you isn't exactly groundbreaking, the fact that the WHO classified processed meats as “carcinogenic to humans” is news, as this puts processed meats in the same category as common carcinogens like tobacco. The study also says that red meat itself is “probably carcinogenic.”

This includes chicken and turkey sausage, too. The WHO says that processed meats derived from sources like poultry and other meats (veal, lamb, horse, etc.) are also carcinogenic.

However, this doesn't mean that bacon is as dangerous as smoking. According to the American Institute for Cancer Research, people who eat meat are two times more likely to develop cancer than those who don't. Smokers, on the other hand, are 20 times more likely to get cancer than nonsmokers.

Furthermore, this news doesn't mean you have to stop eating the foods you love. Red meat has known health benefits, such as providing your body with iron, zinc and vitamin B. However, moderation is key. The World Cancer Research Fund recommends eating no more than 18 ounces of red meat a week, or about three regular-sized burgers, and very little, if any, processed meats.

Instead, fill your plate with fruits, vegetables, whole grains, legumes, nuts and seeds. High-fiber foods like oatmeal, beans, peas and raspberries can help toxins move through the digestive system quickly (along with providing valuable nutrients)—potentially helping to offset the harmful effects of eating too many processed meats.

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# Avoid Holiday Weight Gain

With all the cookies, eggnog and pecan pie, it's hard to watch your waistline during the holidays. To avoid overindulging this holiday, practice portion control. Try having a healthy snack before heading to parties so you don't arrive hungry. Also, putting your fork down between bites can help you pace yourself.

At buffets, grab the smallest plate and fill it with healthier options like fruits and vegetables. Try to stay away from dips and cheese boards, as these can be high in calories. To ensure a healthy option is available, bring your own low-calorie dish to share. Limiting alcohol will also help reduce your calorie intake and improve your self-control when it comes to how much you eat. Lastly, be very selective about sweets in order to minimize your sugar intake.

## Navigating the Holiday Buffet

Putting on a few pounds over the holidays may not seem like a big deal, but according to the National Institutes of Health, most Americans never lose the holiday weight they gain. Here are some suggestions of what to eat and what to avoid this holiday season:

-  **Fruit** - 50-110 calories per cup (depending on type of fruit)
-  **Carrots** - 52 calories per cup
-  **Hummus** - 140 calories per 1/3 cup
-  **Fruit cake** - 470 calories per serving
-  **Eggnog** - 350 calories per cup
-  **Pecan pie** - 500 calories per slice

# Cranberry Sweet Potatoes

These sweet potatoes are a healthy substitution for the mashed potatoes typically served during holiday dinners, which are usually loaded with butter, cream and cheese.

- 4 Tbsp. orange juice
- 2 Tbsp. margarine
- 2 Tbsp. vegetable oil
- 2 Tbsp. sugar
- 1 tsp. cinnamon
- ¼ tsp. salt
- 2 lbs. sweet potatoes (peeled and cut into 1-inch pieces)
- ½ cup dried cranberries

Preheat oven to 375 F.

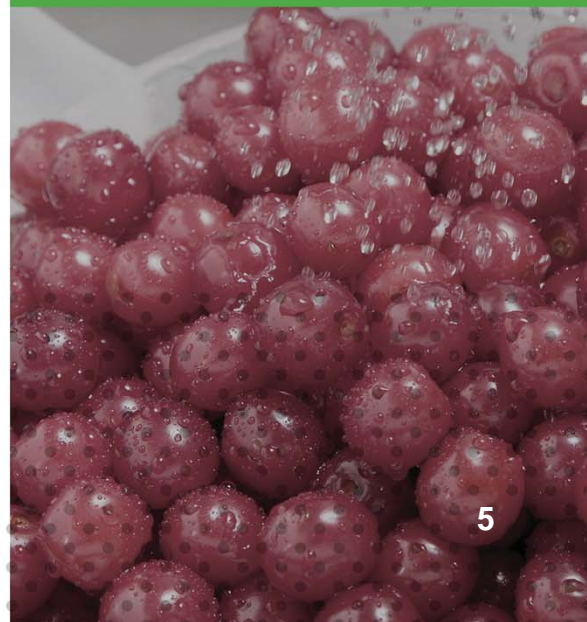
In a 9x9 baking dish, combine the orange juice, margarine, vegetable oil, sugar, cinnamon and salt.

Add the potatoes and cranberries.

Cover with foil and bake for 40 minutes or until potatoes are soft.

Yield: 6 servings. Each serving provides 250 calories, 9 g of fat, 1.5 g of saturated fat, 180 mg of sodium, 2 g of protein and 5 g of fiber.

Source: USDA



# Spotlight On



**Cavignac & Associates is proud to support local and non-profit civic organizations, including SAY San Diego**



## **OUR MISSION**

- SAY's mission is to partner with children, families, and communities to overcome barriers and create opportunities that enable them to realize and sustain their full potential.

## **WHAT WE DO**

- SAY San Diego partnerships and services focus on strengthening the whole child, whole family, and whole community. Growing up and raising a family are com-

plicated, even under the best of circumstances. SAY addresses the comprehensive needs of the entire family rather than focusing on one symptom or problem. SAY engages the community to work collaboratively and works with systems such as law enforcement, schools, and local government to affect positive change. SAY's holistic approach enriches youth, empowers families, and engages communities.

*For more information about SAY San Diego, visit [www.saysandiego.org](http://www.saysandiego.org)*