Q1 2023: USA Construction Monitor

Infrastructure activity to continue rising strongly on the back of policy initiatives

- **Infrastructure workloads continue to show strong momentum**
- **Labour shortages are still a key challenge for the industry**
- **Rising costs will remain a drag on profitability**

The feedback provided by respondents to the Q1 2023 RICS-AACE Construction Monitor (CCM) continues to paint a mixed picture across the industry. The headline Construction Activity Index* (CAI) shown in Chart 1, which is an amalgam of a range of metrics included in the survey, eased for the fourth successive quarter but remains in positive territory with a reading of +11. This compares with a recent high of +52 at the start of last year.

Infrastructure workloads dominate

The emphatic message coming through in the insights to the Q1 survey is the ongoing strength of workloads in the infrastructure space. Chart 2 shows the net balance reading climbing to +45% from +34% in the final part of last year. Moreover, it is noteworthy that the momentum in activity in a number of sub-components of the sector remains solid, with energy and transport leading the way. Against a backdrop of the implementation of both the Infrastructure Investment and Jobs Act and the Inflation Reduction Act, it is not a surprise that the trend in infrastructure is robust. More intriguing on the face of it is the less negative read on private residential workloads, as the net balance climbed to +11% from -31% previously. That said, much of the other data relating to housing released over the past few months has also been a little more sanguine than it was through the back end of 2022. The NAHB Housing Market Index has, for example, climbed back to the mid 40s' after languishing in the low 30s' while new home sales are beating expectations and rose in March to their best level in a year.

The one segment of the construction industry which has a negative result for workloads this quarter is private non-residential, although this needs to be seen in the context of seven successive positive readings beforehand. As such, at this point, the latest results represents a modest slowing in momentum. However, the tone of the feedback provided to the recently released RICS US Commercial Property Monitor is also broadly reflective of this mood-swing ,with the development starts indicator for offices and retail significantly negative and the investment enquiries

Chart 1: Construction Activity Index*

Chart 2: Workloads by Sector

*The Construction Activity Index is a composite measure encompassing variables on current and expected market activity as well as margin pressures.

series for the former also sending a particularly downbeat message.

Meanwhile, the forward-looking results for these indicators suggest that the picture away from infrastructure is likely to remain a little uncertain. The prospect of a further period of challenge for the economy, and possibly a modest recession, on the back of the lagged impact of the monetary tightening could still result in a somewhat tougher environment for the housing sector (or least restrain the recovery); the RICS-CIQS metric looking ahead in terms of residential activity is pointing to a broadly flat picture with a net balance of -7% compared with -13% previously.

Labour shortages remain a key problem

The current headcount indicator remains positive (+18%), with the expectations series suggesting the need to hire will continue to be strong (net balance of +32%). But, as Chart 3 highlights, the concerns of respondents about both the availability of labour in general and specific skills in particular is undiminished. The share of contributors identifying these two related factors as the major impediment to activity remains close to recent highs. And, delving a little deeper into the subject, it is in the broad category of skilled trades where the shortfall is perceived to be greatest followed by project managers.

Meanwhile, an increasing area of focus is on financial constraints. This reflects both the jump in the cost of securing finance for development and tighter lending standards in the wake of recent events in the banking sector. This is, to some extent, reflected in the indicator designed to capture payment delays which remains steady at a net balance of +17% and compares with just +5% in the third quarter of last year.

Profits picture still a little clouded

The question included in the survey, designed to track the current environment regarding profit margins, highlights the difficulties being faced by the sector in the face of rising labour and material costs. The net balance reading of -27% is the weakest result since the middle of the pandemic and noticeably worse than the Q4 result of +4% (Chart 4). Looking forward over the course of the next year, respondents do appear a little more positive with a net balance of +10% more anticipating an expansion rather than a further contraction in profitability.

This does, however, contrast with a positive projection of +21% taking this view last quarter. In addition, when contributors are asked more specifically about their expectations for costs as well as tender prices, the former are still seen as outpacing the latter for the time being. This point is highlighted in Chart 5 which suggests material costs could rise by another 7% over the course of the next twelve months, with the cost of skilled labour seen increasing by close to 6% on average.

Chart 3: Obstacles to Activity

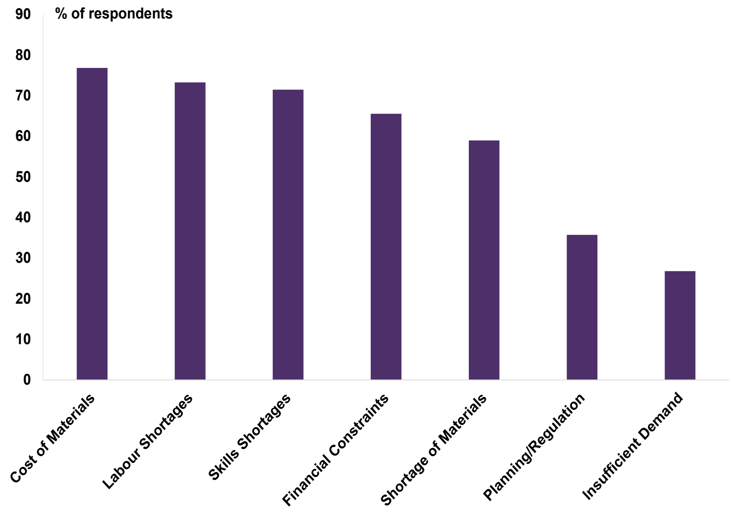


Chart 4: Current and Expected Profit Margins

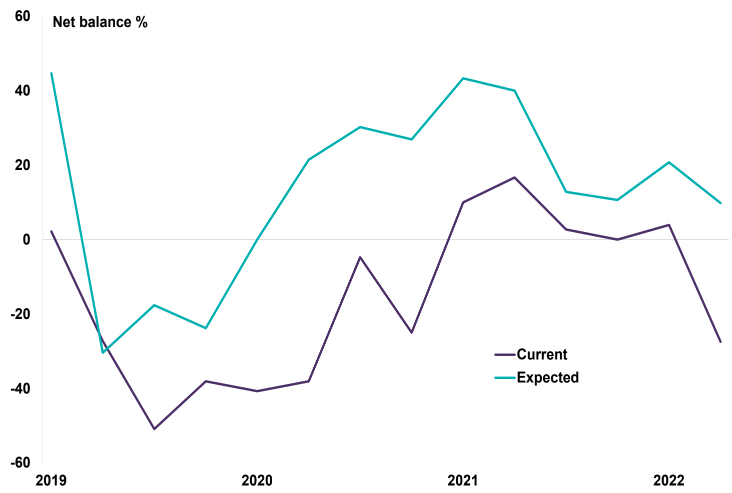
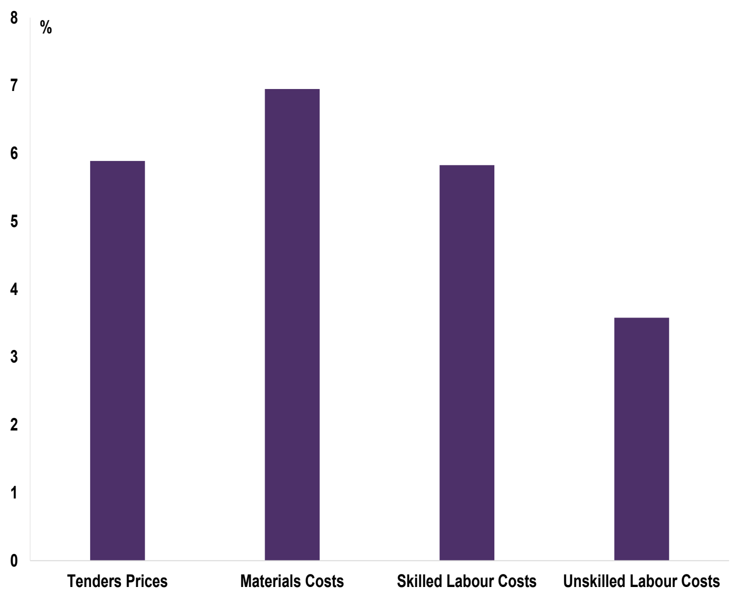


Chart 5: 12-Month Tender Price and Cost Forecasts



Regional Comments from Survey Participants in USA

Arizona

Large projects. - Scottsdale

Cailfornia

Cost escalation, high interest rate and looming recession.- Garden Grove

Financing vulnerability. - Los Angeles

Huge supply chain issues related to mechanical & electrical equipment. - Los Angeles

Cut backs in construction spending in the tech driven sectors, decline in office construction & fitoouts. - San Francisco

Tech companies reducing headcount meaning less real estate needed. - San Francisco

The high tech sector has been pulling back spending especially new office campuses. - San Jose

DC

US Government is the largest building owner/developer, but is now an insolvent banana republic.

Florida

Clients seem reluctant to commit to large $ projects at the moment, definite hesitancy short term. - Davenport

Tremendous amount of work, and limited labor in the area. - Orlando

Georgia

Lack of skilled workers and available mid range managers.- Alpharetta

Banking crisis playing out?. - Atlanta

Massachusetts

Low number of bidders on less attractive projects resulting in lack of competition. - Boston

New York

Transportation and weather conditions. - Albany

Buoyant market, strong pipeline. Continued difficulties with lead times & elevated prices for M&E. - New York

Project start delays as owners wait to see how market is reacting to inflation. - New York

Inflation.- St James

Pennsylvania

Heavier scrutiny on lowest-cost capital alternatives to optimize investments - Langhorne

South Carolina

Inflation and imminent recession.- Aiken

Tennessee

Government projects have stabilized the region.- Knoxville

Texas

government policy. - Houston

Specialty pumps and other custom designed equipment lead times have tripled in the last three years. - Texas

Washington

Shortage of Labor. Uncompetitive bids.- Seattle

Information

Global Construction Monitor

RICS-AACE USA Construction Monitor is a quarterly guide to the trends in the construction and infrastructure markets. The report is available from the RICS website www.rics.org/economics along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

Methodology

This is the RICS-AACE USA Construction Monitor, which received 60 responses in Q1 2023. It forms part of the RICS Global Construction Monitor. Survey questionnaires were sent out on 8 March 2023 with responses received until 21 April 2023. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook. A total of 3450 company responses were received globally.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100. A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline.

RICS Construction Activity Index is constructed by taking an unweighted average of current and 12-month expectations of four series: residential workloads, non-residential workloads, infrastructure workloads and profit margins. Global and regional series are weighted using the World Bank's GDP PPP (2017 constant prices) data series. Current responses were weighted using the prior years GDP (e.g. the 2020 responses were weighted using 2019 GDP data). Where responses are not sufficient to form a national-level sample, they are binned together to fill in any gaps in regional coverage.

Disclaimer

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