Q4 2023: USA Construction Monitor

Modestly positive sentiment continues to prevail

- **Infrastructure workloads remain particularly strong**
- **Profits picture appears to be stabilising**
- **Labour shortages still a problem particularly skilled trades**

The headline Construction Activity Index remains entrenched in positive territory according to the latest RICS-AACE USA Construction Monitor (Chart 1). Significant divergences in the feedback predictably still exist when it comes to sector trends but given the elevated level of interest rates, what is striking is the resilience of the industry in the face of the more challenging macro environment.

Infrastructure continues to lead the way

It will hardly be a surprise that the reading for current workloads in the infrastructure sector remains particularly strong at present given that, over the past two years, the Administration has passed measures worth over $1.7 trillion to invest in America's transportation, communications, water, and energy networks. Chart 2 shows the net balance of +50% to be the slightly up on the Q3 result and to be the most positive figure since the first quarter of 2022. Within this, it appears to be the energy and transport sub-sectors where RICS-AACE activity readings are most robust. Meanwhile, the net balance for non-residential workloads was little changed but still consistent with an encouraging trend at +18%.

More interesting still was the rebound into positive territory of the metric designed to capture activity in the residential sector. This has been a little volatile in recent quarters reflecting the ongoing difficulties facing homebuyers in the face of rising mortgage rates and stretched affordability metrics. In light of this, it is noteworthy that, when it comes to the twelve-month expectations series, the residential indicator is still pretty flat which suggests that it will take a bit longer before a sustainable upturn is evident in this part of the construction sector.

That said, the new business enquiries indicator is telling a more fruitful story, with the net balance of respondents reporting a rise this quarter climbing from +21% to +31%. This is also borne out by the forward looking workloads numbers for both the infrastructure and non-residential sectors.

Chart 1: Construction Activity Index*

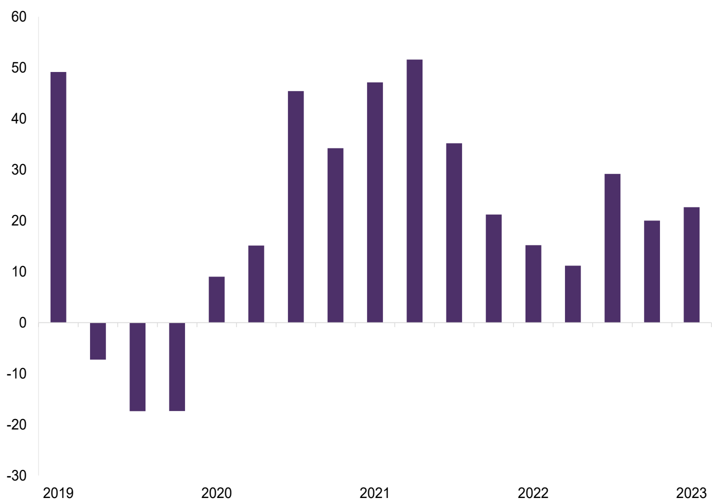

Chart 2: Workloads Expectations by Sector

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

Financial challenges remain elevated

The share of respondents highlighting financial constraints as a factor hampering activity was unchanged in Q4 at 59%. Given the prevailing interest rate environment, this is not a surprise. Meanwhile, this concern is also captured in the feedback around current credit conditions where the series compiled as part of this survey continues to deteriorate. However, it is significant that the picture is now viewed as likely to stabilise over the current quarter and more interestingly, as highlighted in Chart 3, actually begin to ease through the course of the year. This is consistent with the expectation that the Federal Reserve will at some point begin to reverse the tightening in monetary policy.

One interesting result from the survey is that, despite the obvious pain higher borrowing costs trigger, the level of distress in the construction industry has only increased modestly. Although the latest figure tracking payment delays continues to be consistent with a further increase, the headline number has now edged lower for two quarters in succession (suggesting that the momentum is slackening).

Labour shortages persist

The recruitment issue is plainly not a new one for the sector, but if the feedback to the latest Construction Monitor is anything to go by, it remains an ongoing issue. This point is clearly highlighted in Chart 4. Over two-thirds of respondents continue to point to both labour and skill shortages when it comes factors inhibiting activity. Meanwhile, skilled trades remains the area where the problem is reported to be most marked (identified by almost three-quarters of contributors), followed by 'white-collar professionals such as project managers as well as surveying type roles.

Alongside this, there is a recognition that recruitment will need to be strong over the coming year (and beyond) to fulfil the ambitious plans of the industry for development. The latest forward looking indicator on hiring shows that a net balance of +48% of respondents anticipate lifting employment compared with +42% previously.

Profits picture seen as likely to improve

As discussed in the past, the RICS-AACE Monitor attempts to gauge the outlook for industry profitability in a number of different ways. One is to ask a simple net balance question about profit margins in twelve months' time. The latest survey suggest the mood is generally positive with a +20% net balance reading. That said, this series has been consistently telling a more upbeat story. What is perhaps more encouraging alongside this is the current profits margins indicator which, as Chart 5 shows, was close to zero in the Q4 survey compared with -25% in the Q3 iteration.

Meanwhile, the point estimates provided by participants to the Monitor are also a little more encouraging. The one-year view is for tender prices to rise by around 5% across all sectors, with construction costs showing a broadly similar gain. Higher skilled labour costs are understandably perceived to be the main driver of the latter, even if material costs are still anticipated to rise further.

Chart 3: Credit Conditions

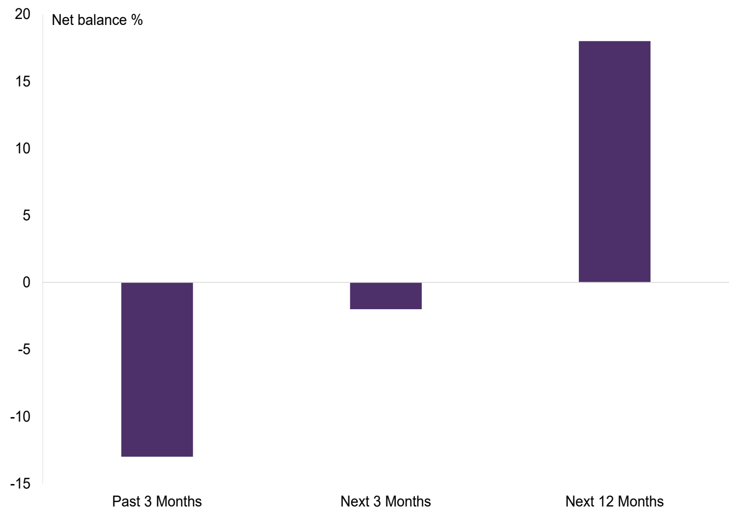

Chart 4: Shortages Identified by Respondents

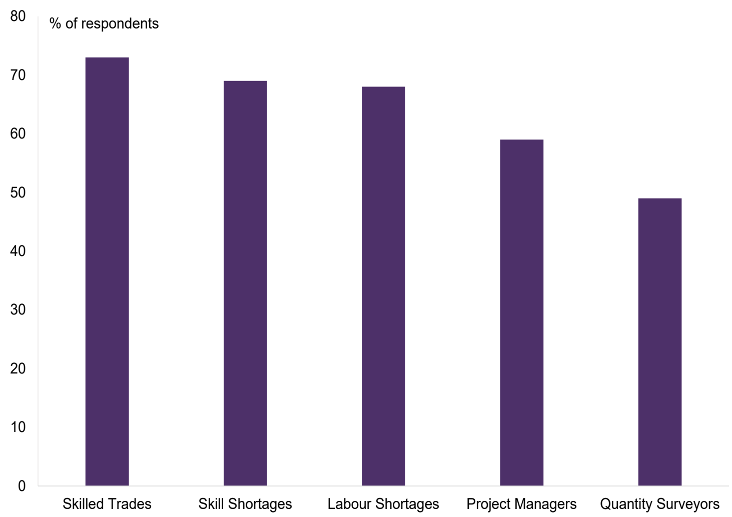

Chart 5: Profit Margins

Regional Comments from Survey Participants in USA

Contractor and labor shortages are the biggest problems that we have today - Anchorage

Skilled labour- Atlanta

Substituting technology for rational analysis and critical thinking- Boston

"Skilled" workers are actually "unskilled" - Columbia

Building material delivery delays,labor costs continuing to rise driving increasing project costs - Harrisburg

Global economic considerations - Hillsboro

Engineering resources and quality of engineering - Houston

Labor is the largest constraint. Materials are levelling off to a normal rate of inflation. Contractors are becoming more selective in what they want to bid on, so we are having to attract them with incentives and profit sharing - Houston

Extensive projects underway and in foreseeable future - Indianapolis

Tenderprice increases are beginning to level off. Predict 5% escalation for the next two years. 3% moving forward from there - Los Angeles

Cost of money- Los Angeles

Interest rates - New York

Strong immigration resulting relatively firm demand for housing and medium to smaller commercial projects and mixed-use developments - Orlando

Significant and rapid increase in demand across US infrastructure markets; difficult to quickly change legacy processes; shortage of engineers; time needed to build teams from entry-level engineering and design personnel before they can produce - Philadelphia

Extremely high demand - Philadelphia

Too much regulation - Portland

Interest Rates hike causing the increase in cost of doing business specifically tech businesses. cost cutting measure to keep up. stop capital improvement spending - San Francisco

Volume of large projects - Scottsdale

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 forms part of the RICS Global Construction Monitor. Questionnaires were sent out on the 6th December 2023 with responses received until the 19th January 2024 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. 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. A total of 3040 company responses were received globally with 74 from the US.

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

Responses were gathered in conjunction with:

AACE INTERNATIONAL

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