Q2 2023: USA Construction Monitor

Sentiment improves in Q2 despite macro uncertainty

- **Broad based uptick in sentiment led by infrastructure**
- **Labour challenges remain acute**
- **Profits outlook still cautious**

Insight provided by respondents to the Q2 2023 RICS-AACE USA Construction Monitor is actually a little more positive than was the case in the early part of the year. Significantly, it suggests that sentiment amongst professionals working in the construction industry is proving relatively resilient in the face of the tightening in monetary policy by the Federal Reserve and ongoing concerns about the economy slipping into recession. This is most clearly demonstrated by Chart 1 which tracks the (composite) Construction Activity Index; it has not just rebounded over the past three months but in the process climbed to its best level since the second quarter of last year.

Workload momentum accelerates

It is perhaps unsurprising that participants to the survey are indicating that infrastructure workloads are picking up speed with the net balance (suggesting an increase) rising from +45% to +48%. Within this, it is the energy and transport subsectors where the metrics are predictably stongest. More interesting is, however, the improving numbers regarding both the residential and commercial sectors with the latter showing a particular sharp turnaround compared with the results received in Q1. It is noteworthy that the more upbeat residential readings do chime with some other housing data from the US including the firmer numbers for single-family starts and the resilience in pricing.

Arguably even more encouraging are the signals about the likely trend in activity looking forward. The new business enquiries metric edged up from +19% to +25% (in net balance terms) while the workload expectations numbers (covering the outlook over the next twelve months) also provide an upbeat message. Chart 2 tracks these results going back over the past four quarters. Infrastructure is seen as continuing to be the driver of construction activity but fears about the residential outlook have eased somewhat according to respondents and the commercial indicator has moved sharply higher.

Financial concerns less marked than previously

The Q1 survey captured feedback in the midst of fears about the prospect of a full-blown banking crisis but it

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.

appears that as the risk of contagion has diminished, concerns around access to finance has lessened. That said, just under half of the contributors still identified financial constraints as a headwind to activity at the present time. However this compares with two-thirds taking that position in the last report. Moreover, despite the latest quarter point hike in rates by the Fed the perception is that credit condition will continue to ease through the back of 2023 and into next year. Chart 3 shows that while a net balance of +56% of respondents indicated that credit conditions tightened in the past three months, the share anticipating tougher conditions over the coming quarter is now +21% and the reading fall to zero when then the question is asked on a one year time horizon.

Labour supply remain key challenge

Official data from the Bureau of Labor Statistics showing strong growth in construction employment (rising in 45 states over the past year) is also very evident in the latest RICS-AACE USA Construction Monitor. The Q2 headcount net balance reading came in at +22% compared with +18% in Q1 and +11% in the final three months of last year. More significantly, the expectation over the next twelve months is that recruitment will have to gather pace to enable the industry to meet its ambitious plans. The forward looking metric for hiring rose to +43% as against +32% in each of the two previous quarter.

This requirement predictably raises a number of challenges as highlighted in Chart 4. When it comes to the key factors holding back activity, participants in the survey point to labour supply and skills shortages as the two big issues which is not surprisingly given the ongoing low level of unemployment across the country. Indeed, for both these metrics, the proportion of respondents indicating having a problem in this area remains close to survey highs. Interestingly, the challenge appears as acute in the area of 'white collar' professionals as for skilled trades with contributors pointing to recruitment issues for management and 'surveying' type roles.

Profits picture still a little clouded

We try to gauge the financial wellbeing of the industry in a number of different ways. One is to ask respondents about the scale of payment delays in net balance terms. This has actually edged up from +17% to +26%. On the other hand, in regard to the question about the current trends in profit margins the feedback while still negative is less so than previously.

Looking forward, the 12 months expectations when measured in net balance terms is still modestly in positive territory (+13% compared with +10% previously). However, the point estimates we are being provided with by participants continues to warrant a note of caution. Chart 5 shows that contributors are still anticipating construction costs increasing at least as fast (if not a little faster) than tender prices over the course of the coming year. Significantly, both building material prices and skilled labour wages are seen as driving this trend.

Chart 3: Credit Conditions

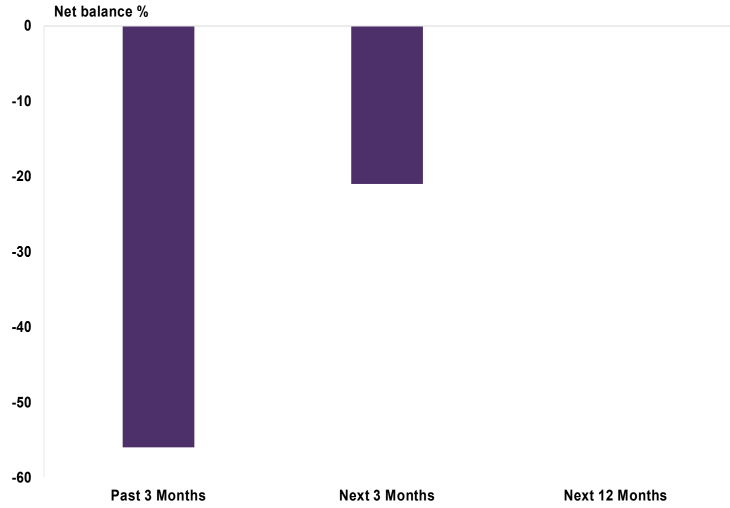


Chart 4: Factors Hindering Activity

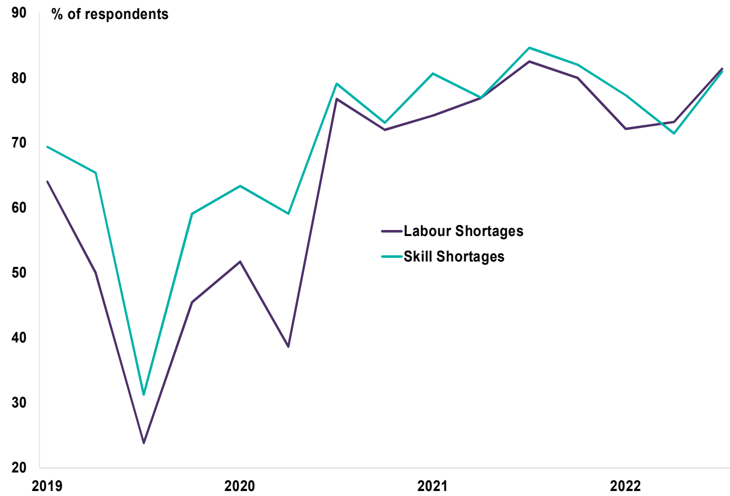
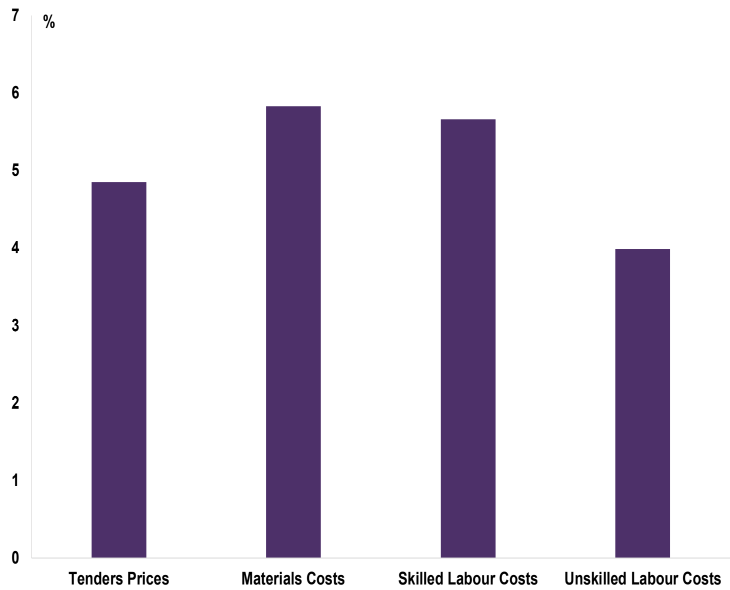


Chart 5: 12-Month Tender Price and Cost Forecasts



Regional Comments from Survey Participants in USA

Cailfornia

Labor shortages and long-lead times for certain materials are having the biggest effect. - San Francisco

San Francisco green measure have been built into the pricing and construction for years not much has has changed. - San Francisco

Office vacancy rate in downtown San Francisco. - San Francisco

Interest rates. - San Jose

DC

Politics.

Florida

Payments. - Orlando

Interest rates.- Orlando

Maryland

Carbon is essential to life. Carbon tax is nothing more than a transfer of wealth to the affluent.

Massachusetts

Supply chain issues are evident even now. Vendors are still predicting long lead times for materials. - Boston

Michigan

The only way construction projects will become more “green” is if the owners and developers pay. - Novi

New England

Small businesses access to financing is getting more difficult to achieve. - Portland

New York

Labour. - New York

Oregon

Potential massive projects in the semiconductor sector is a drain on resources. - Hillsboro

Texas

Inflation, global operations and local market volatility. - Houston

Regulatory frameworks and permitting are convoluted and difficult to navigate. - Houston

Washington

Skilled labor shortage especially electricians and plumbers..- Seattle

Extreme volatility in all trades for pricing and long lead deliveries. - 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 46 responses in Q2 2023. It forms part of the RICS Global Construction Monitor. Questionnaires were sent out on 14 June 2023 with responses received until 21 July 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 2879 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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