Q4 2022: USA Construction Monitor

Infrastructure remains firm as private residential development continues to soften

- **Current and expected infrastructure workloads continue to point to strong momentum**
- **Private residential construction seen as remaing under pressure through the year**
- **Skill shortages and material costs still seen as big challenges for the industry**

The feedback provided by respondents to the Q4 2022 RICS-AACE Construction Monitor (CCM) shows a mixed picture across the industry with the infrastructure sector generally still positive but the trend in private residential development continuing to soften. Although the economy may yet steer clear of a recession, the weaker trend in key activity indicators alongside the sharp tightening in monetary policy is clearly having a material impact in parts of the construction industry. Moreover, recent comments emanating from the Federal Reserve indicate that even if the bulk of interest rate hikes lie in the past, an early reversal of this trend is implausible.

Against this backdrop, the headline Construction Activity Index* (CAI), shown in Chart 1, eased for the third successive quarter but still remains firmly in positive territory with a reading of +15. This compares with a recent high of +52 at the start of the year.

Infrastructure trends are robust

It is not really a surprise that the insight provided by contributors to this survey focuses on the role of infrastructure in driving the wider construction sector. Significant government commitments made as part of the pandemic recovery strategy are clearly visible in the firm momentum of the current workloads metric. Chart 2 shows that 34% more respondents saw an increase (rather than a decrease) in infrastructure activity in the run-up to the year end. Within this, the results for digital and energy infrastructure are particularly strong but it is worth noting that all the sub-components measured are pointing to rising levels of activity.

The contrast to this is the tone to responses around the housing sector. To be clear, this indicator is not designed to measure starts on site (which ended 2022 close to lows seen during the Covid period) but ongoing levels of work. However, it is evident that the correction taking place more generally in the residential sector is manifesting itself in these results. It is also noteworthy that the feedback around private non-residential work is, on balance, still modestly positive albeit somewhat less so than in the previous three month period (net balnce of +12% as against +31%.

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.

Labour shortages remain a key challenge

Chart 3 shows the major impediments to construction activity as reported by respondents to the survey. The cost of materials is the most cited factor but skill shortages and labour recruitment more generally follow close behind. Within this, it is skilled trades and some professional disciplines like project managers and quantity surveyors where the challenge is most stark. The general tone of the responses including some of the anecdotal remarks are aligned to the latest data from the St Louis Federal Reserve showing job vacancies in the sector running around historic highs (400,000) and comfortably above the average of the past two decades (when the shortfall was closer to 150,000). Financial constraints are also perceived to be a significant issue for many businesses working in the industry although the share focusing on this has been pretty steady in recent quarters despite the increases in the cost of borrowing. That said, there has been a modest rise in payment delays (up from a net balance of +5% in Q3 to +12%) which is indicative of emerging problems regarding cashflow.

Workload expectations still solid for now

The new business enquiries series remains in positive territory with the fourth quarter result actually a little stronger than in the previous three month period. The survey does not break this question down by sector but the forward looking workload expectations series does and paints a familiar picture. Infrastructure is the area where activity is viewed as likely to grow most strongly over the next year; a net balance of 59% of respondents are anticipating an increase in this area compared with +69% in Q3. Alongside this, contributors clearly on balance see little reason to expect a quick recovery in the residential sector with the workloads net balance for the next twelve months still in negative territory at -13% (compared to -7%).Intriguingly, 34% more respondents see some uplift in private non-residential workloads as likely over the course of the year despite softening CRE pricing and an ongoing focus by organisations on hybrid working and office space requirements.

Profits picture improves slightly

The RICS-AACE Construction Monitor aims to capture the prospects for profitability in the construction industry in two ways. The first is in simple net balance terms. Interestingly, this actually suggests that more respondents expect profits to increase over the twelve month time horizon than decrease. The latest result of +21% compares with +11% in Q3. There is likely to be a sector skew to this improvement although that is not captured by the questionaire.

The other approach taken is to ask respondents to provide point estimate projections for tender prices and costs (Chart 5). The results suggests that tender prices are on average likely to rise by a little more than 6% with construction costs showing a broadly similar increase. Materials are still seen as likely to be the biggest driver of this uplift in the latter, albeit less so than previously, but labour costs are also viewed as increasing at a relatively fast pace (particularly for skilled labour).

Chart 3: Obstacles to Activity

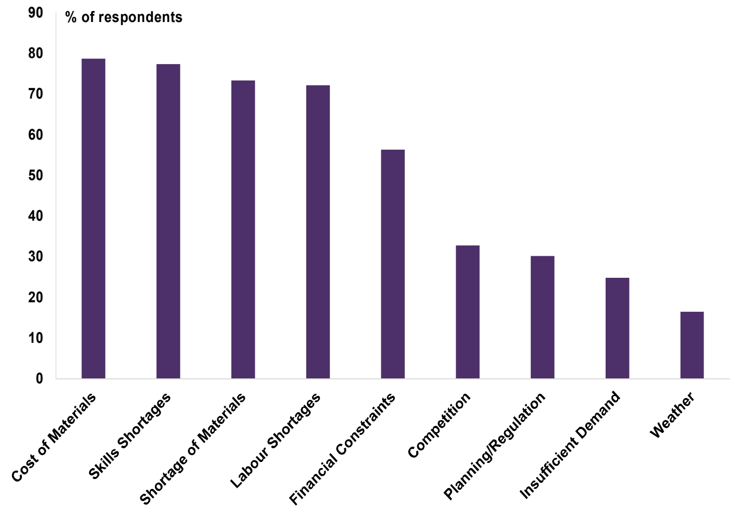


Chart 4: 12-Month Workload Expectations

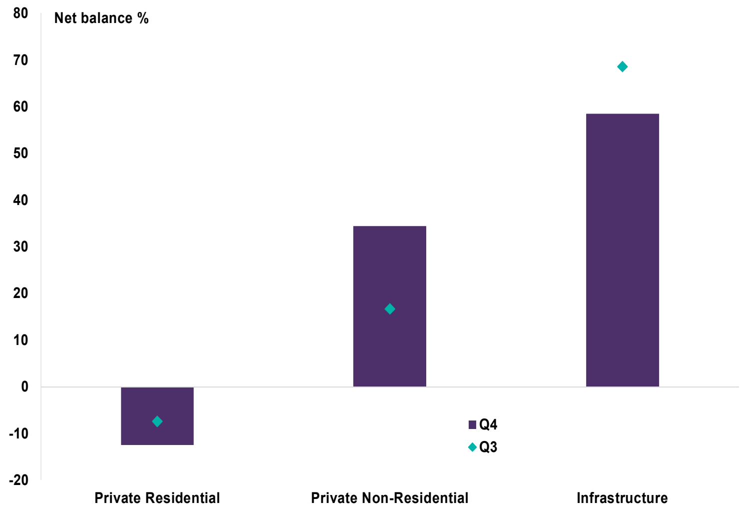
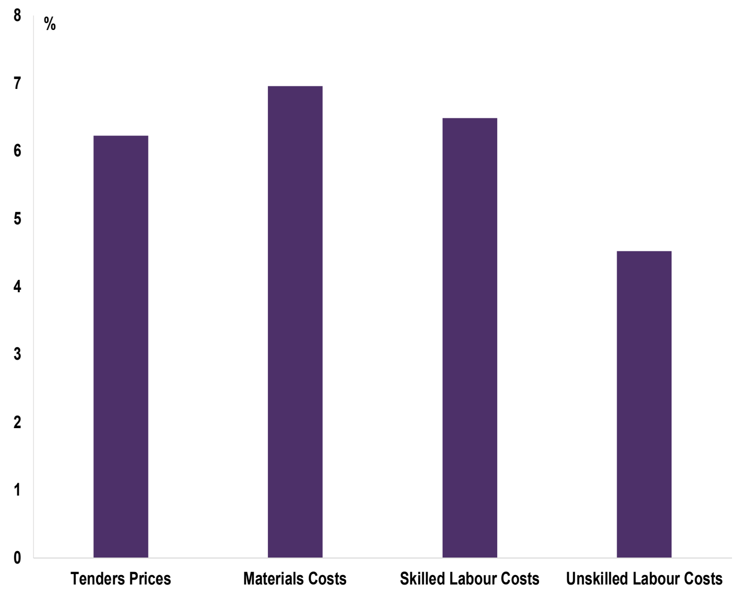


Chart 5: 12-Month Tender Price and Cost Forecasts



Regional Comments from Survey Participants in USA

Arizona

As a global employee FOREX and global escalation and lack of international standards impacts me most. - Scottsdale

Cailfornia

Still have materials supply cost & shortage issues. - Los Angeles

Rising borrowing costs. - Los Angeles

Tech companies reducing headcount. - San Francisco

Skilled labour, - San Francisco

Colorado

Politics/War. - Aurora

Florida

Skilled labour & material costs. - Davenport

Tremendous growth in area. - Orlando

Georgia

Low number of interested bidders on public projects. - Atlanta

Hawaii

Supply chain delays and extremely long lead times for disciplines major equipment. - Honolulu

Illinois

Increased labor and materials costs as well as slow delivery or shortage of materials. - Chicago

Kentucky

ESG is driving higher costs with little return on investment. - Richmond

Massachusetts

Poor financial results arising from under-bidding by contractors on projects after the pandemic lock. - Boston

Michigan

Regulations with long approval process. - Jackson

Montana

Competent contractors & engineering firms are overloaded, low availability of skilled workers. - Billings

National

Inflation in the U.S. has been a shock. We are seeing projects halted due to price increases

New York

Housing affordability. - New York City

Lack of demand.- New York City

Pennsylvania

Cost escalaton, contractor opportunistic pricing, supply chain issues, availability of MEP QS'. - Philadelphia

Texas

Too much demand driving inflation. - Houston

Carbon pricing. - Texas

Information

Global Construction Monitor

RICS' Global 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 123 responses in Q4 2022. It forms part of the RICS Global Construction Monitor. Survey questionnaires were sent out on 7 December 2022 with responses received until 20 January 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 3782 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

Contact details

This publication has been produced by RICS. For all economic enquiries, including participation in the monitor please contact a member of the RICS Economics Team.

Economics Team

Simon Rubinsohn

Chief Economist

srubinsohn@rics.org

Tarrant Parsons

Senior Economist

tparsons@rics.org

Donglai Luo

Senior Economist

dluo@rics.org

Lauren Hunter

Economist

lhunter@rics.org

Responses were gathered in conjunction with:

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Debra L. Lally, CAE
Executive Director/Chief Executive Officer
dlally@aacei.org

726 East Park Avenue #180
Fairmont, WV 26554 USA
phone: +1.304.296.8444

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Americas, Europe, Middle East & Africa
aemea@rics.org

Asia Pacific
apac@rics.org

United Kingdom & Ireland
contactrics@rics.org