Q3 2023: USA Construction Monitor

Activity remains solid despite housing slowdown

- **Infrastructure workloads remain robust as housing slows**
- **Skilled labour shortages the critical issue for the industry**
- **Profits outlook still clouded**

The headline Construction Activity Index remained firmly in positive territory according to the Q3 RICS-AACE USA Construction Monitor, albeit a little less so than in the previous quarter (Chart 1). However, the generally resilient tone to the feedback provided by respondents to the survey masks both increasingly divergent trends at a sector level and ongoing challenges in terms of the delivery of projects.

Pressure on Residential more Visible

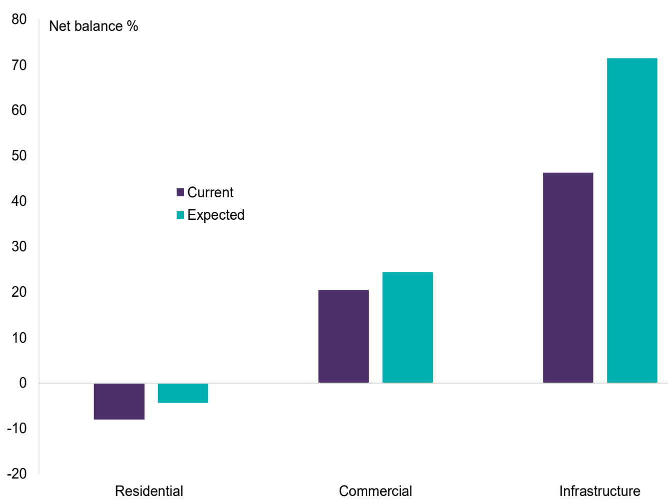
One of the more significant results from the latest Construction Monitor is the weaker tone to development in the residential sector (Chart 2). The metric capturing current housing workloads slipped into negative territory with a net balance reading of -8% compared with +24% in Q2. To put this in context, it still only points to a modest reversal in the trend rather than anything more material at this point. However, it is broadly consistent with other insights from the sector including the NAHB index which also shows a drop in activity compared with the spring. The more cautious tone to the insight received in this area is also evident in the forward-looking indicator. The 12-month expectations net balance for housing workloads fell from +15% to -4%.

Meanwhile, the signals from other parts of the Construction industry remain rather more positive. The infrastructure results are particularly so with the net balance for current workloads little changed from the last survey at +46% compared with +48%. And the expectations series is even more upbeat reflecting the various policy initiatives that have been introduced by the Biden administration (+71% v +65%).

Delving a little deeper into the infrastructure numbers, the areas where respondents are seeing the strongest growth at the present time are energy and transport related workloads. Interestingly, the responses around commercial activity are still showing a firm picture with the indicator for current workloads only slightly lower than in Q2 at +20%. That said, it is noteworthy the recently released RICS USA Commercial Property Monitor points to a steep decline in new starts for offices and, to a lesser extent, retail.

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 still significant

The share of respondents highlighting financial constraints as a factor hampering activity picked-up in Q3 and now stands at around 60%. Given the prevailing interest rate environment, this is not a surprise. Meanwhile, this concern is also captured in the feedback around both current credit condition and the expectations numbers for this series (Chart 3). Over 40% of contributors have seen a further deterioration in credit conditions over the past three months with a similar proportion anticipating that it will worsen further over next quarter.

Interestingly when it comes to the view for next twelve months, the Fed mantra of 'high for longer' increasingly appears rto be captured in the responses; at this time horizon, a net balance of one third of contributors still suspect that the credit picture will be tougher (than it is now) which compares a zero reading in the last iteration of the survey.

Industry remains short of skilled labour

The recruitment issue is not a new one for the sector but if the feedback to the latest Construction Monitor is anything to go by, it is showing little sign of easing. This point is clearly highlighted in Chart 4. Labour shortages in general were reported by around 80% of respondents which remains close to recent highs and was little different to results in the Q2 Monitor. Meanwhile, the proportion of those completing the questionairre identifying a challenge with hiring skilled labour was an identical number.

Skilled trades remains the area where the problem is reported to be most marked but it is closely followed by the area of 'white-collar professionals with contributors referencing management, in its various forms, and surveying type roles.

Profits picture still mixed

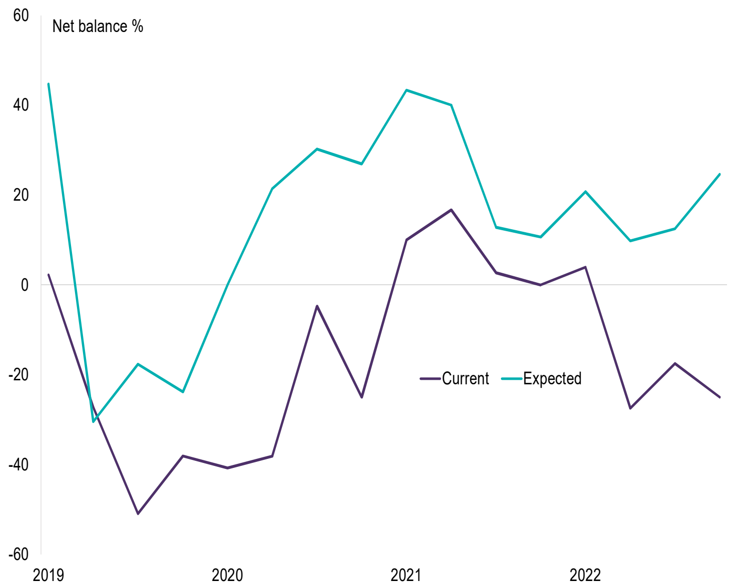
As noted previously, we try to gauge the financial wellbeing of the industry in a number of different ways. One is to ask respondents about the scale of payment delays in net balance terms. Although more contributors are reporting a worsening in this metric, the net balance is actually slightly lower than in Q2 +16% as against +26%. On the other hand, the feedback around current profit margins is actually more negative than last quarter at -25% v -18%, a point highlighted in Chart 5.

The forward-looking indicators also paint a somewhat clouded picture about the outlook which given ongoing macro uncertainty is not wholly surprising. So the net balance reading for profit margins rose for the second successive quarter and now stands at its highest level since the early part of last year. However, the point estimates participants are providing us with are still more downbeat. So the one year view is for tender prices to rise by around 5% across all sectors with construction costs at 6%. Interestingly, in an additional question included in the survey only around 40% of respondents expect worker productivity to increase over the next year notwithstanding the financial challenges.

Chart 3: Credit Conditions

Chart 4: Factors Hindering Activity

Chart 5: Profit Margins



Regional Comments from Survey Participants in USA

Leadership quality. – Atlanta

Availability of labor and skills. – Greenville

Speed to react to ever increasing end user changes. – Greenville

Longer terms of payment / long durations of the process of time extension claims. – Hamilton Town

Material cost and availability. – Heathrow

Increasing cost of construction compared to other regions in the globe. – Houston

Credit availability and regional banking squeeze. – Houston

IRA inflation reduction act. – Houston

Shortage of materials. – Jacksonville

Major lack of skilled workers. – Los Angelos

Shortage of construction workers & delays in receiving payment & increase in rate of construction material. - Minneapolis

Sustainability concerns. - Murrieta

Decreased demand for commercial office and increased demand for residential building. – New York

Insufficient labor to address workload. – New York

Mass exodus of people due to high cost of living, and increasing social issues such as homeless and the lack of safety measures. – San Francisco

A lot of very skilled professionals will be retiring in the next 3 years. – San Jose

Quality of contract documents. – Virginia Beach

Political atmosphere as upcoming general elections in less than 18 months. – Washington DC

Supply chain issues. - West Palm Beach

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 14 September 2023 with responses received until 23 October 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. 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 3285 company responses were received globally with 67 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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