Q2 2024: USA Construction Monitor

Infrastructure sentiment remain upbeat notwithstanding labor shortages

- Infrastructure workloads metrics remain particularly positive
- Labor and skill shortages viewed as major challenges
- Expectations indicators for profits looking more encouraging

The RICS-AACE USA Construction Monitor suggests sentiment in the industry is still, on balance, positive notwithstanding the the somewhat mixed picture potrayed by much of the official data. Significantly, the headline Construction Activity Index, which is a composite of key indicators captured in the survey, slipped back to a reading of +25 in Q2 which compares with +40 previously (Chart 1). That said, this result is broadly in line with the readings for this series over the past eighten months with the first quarter being something of an outlier. And just to be clear, the underlying numbers are designed to reflect momentum and breadth (of responses) rather than levels of output.

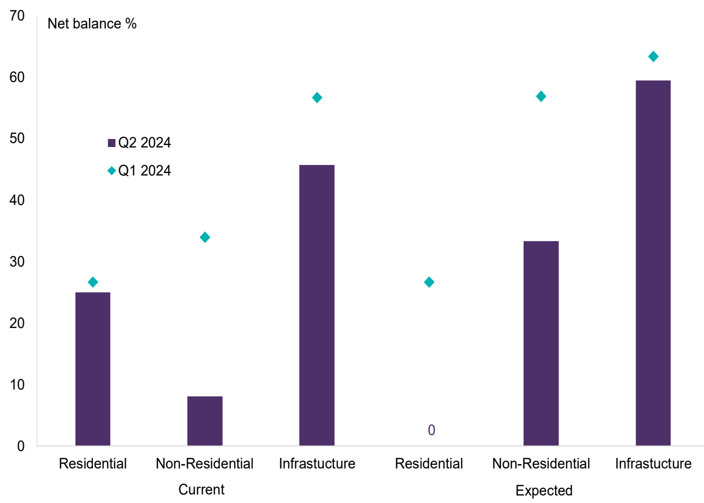
Infrastructure remains the key driver

Unsurprisingly, the feedback from respondents to the survey continues to be brightest when it comes infrastructure. Chart 2 graphs both current and expected workloads by sector (and compares the latest results with the Q1 numbers). In both cases, the infrastructure read is slightly down on the previous result but still at a level signalling solid growth. Within this sector, the survey insights suggest that workloads are firmest in the digital space followed by energy. The current residential workloads indicator is little different from where it was in the early part of the year but it is noteworthy that the expectations metric is flat. This is pretty much where it was through the second half of last year; the more upbeat Q1 reading could have been encouraged by the greater optimism around interest rates which was visible for at least part of the quarter. Significantly, other sentiment surveys of the residential sector such as the NAHB report also remain cautious while single family housing starts have slipped back in recent months. That said, we would draw a distinction between the RICS-AACE measure which is designed to capture ongoing work rather than new starts.

As regards the private non-residential indicators, it is noteworthy that the current picture is only modestly positive but the forward looking measure is more notably so, even if less robust than in Q1. Although the RICS-AACE USA Construction Monitor doesnt disaggregate this series any further, ifeedback from the Q2 RICS USA Commercial Property Monitor suggests

Chart 1: Construction Activity Index*

Chart 2: Current and Expected Workloads



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

that the trend in office development starts remains soft with a not dissimilar picture for retail. It also points to data centres as being a particular area of strength within the broader real estate sector.

Greater caution surrounding credit conditions

The Federal Reserve's reluctance to move forward with interest rate cuts is visible in the feedback to the survey around perceptions of the credit environment. Chart 3 illustrates this point. The reading for the past three months is more negative than previously was the case and there appears little expectation of the picture changing over the next quarter. Looking forward over the next twelve months, it is interesting that the net balance result shows only +11% respondents anticipating a more accomodating credit picture in the construction industry despite money market signalling that interest rates will begin to be lowered over this period. This caution could be part of the explanation for the modest forward looking projections for workloads (noted above) which is also evident in the business enquires metric.

Sourcing skills remain a key issue

Headcounts rose in the second quarter (net balance +20%) albeit at a slower pace than earlier in the year. And predictably, the feedback from respondents points to further likely increases over the next year (net balance +34%). That said, when it comes to the key factors holding back activity (Chart 4), it is clearly visible that concerns persist not just about labor shortages in general but regarding specific skills in particular. For the record, more than two-thirds of contributors highlighted this factor which has been the case in every survey since the early period of the pandemic. Looking a little deeper into the results shows that 71% of those completing the questionnaire drew attention to the problem of recruiting skilled trades. Significantly alongside this, around a half of respondents are noting difficulty in finding quantity surveyors.

Aside from labor related matters, the other major factors seen as holding back activity include the costs of material (notwithstanding the flatter trend of pricing of late) and financial constraints (signalled by 54% of contributors). The latter point is also supported by the indicator designed to track the trend in payment delays; it has edged up from a net balance of +14% to +24%.

Profit indicators more positive

As we have discussed in the past, the RICS-AACE Monitor attempts to gauge the *outlook* for industry profitability in a couple of different ways (Chart 5). One is to ask a simple net balance question about profit margins in twelve months' time; this shows a reading of +34% versus +33% in Q1.

Meanwhile, the point estimates provided by participants to the Monitor tend to be a little bit more circumspect. Even so, 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 labor costs are understandably perceived to be a key driver of the latter given the earlier points made although material costs are still anticipated to rise further over the coming year.

Chart 3: Credit Conditions Perceptions

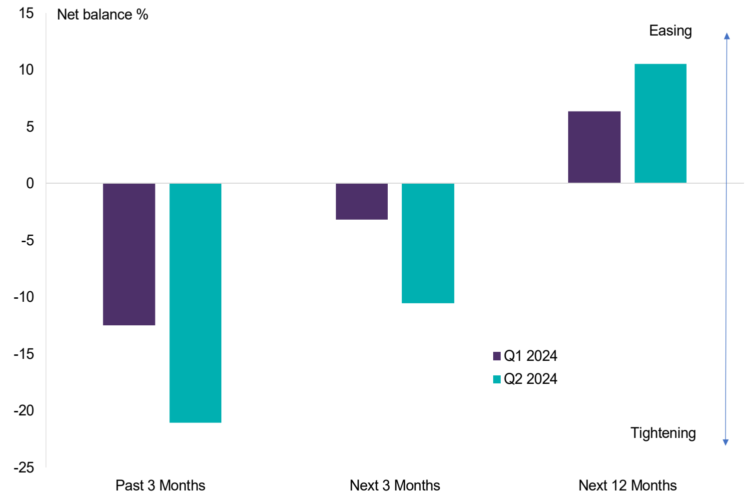


Chart 4: Factors Holding Back Activity

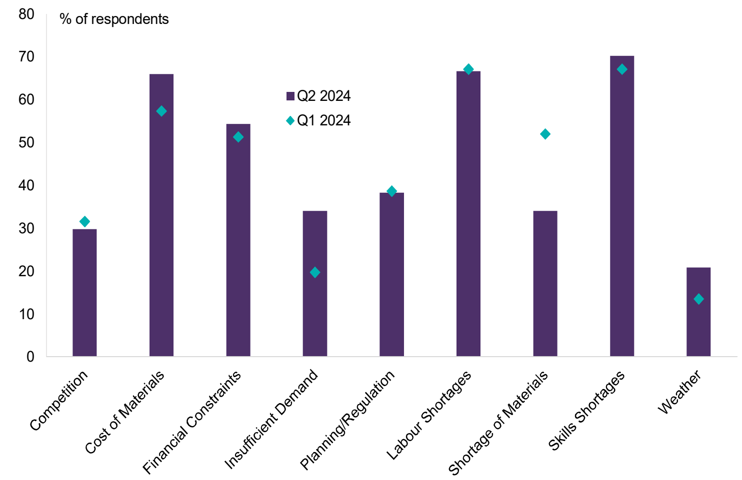
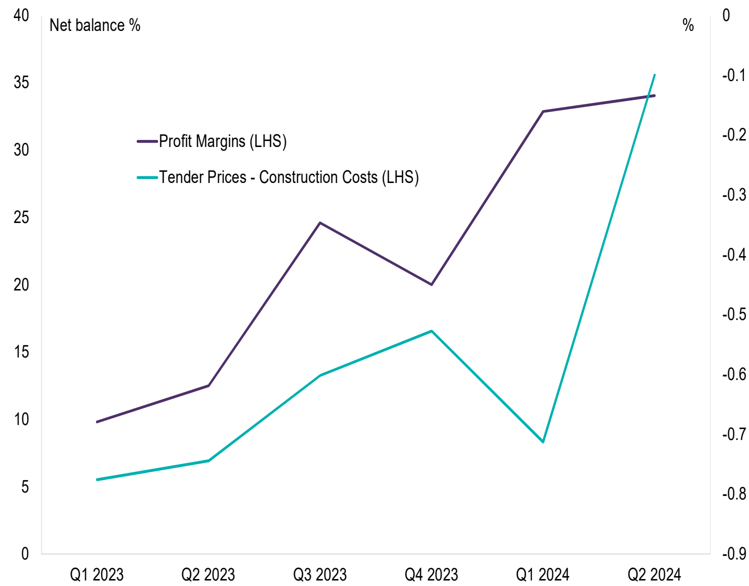


Chart 5: Profits Twelve Months Expectations



Regional Comments from Survey Participants in USA

Long lead times and problems obtaining quotations from vendors. Some equipment vendors are now charging $500 to provide a quotation for their equipment - Boston

Shortage of skilled labor - Chicago

Costs of materials and labour availability - Davonport

Lack of clarity on legislation regulation and credits from governments - Houston

Improper procurement process for services, Continuous Engineering/ Design changes during construction - Houston

Lack of a competitive bidding environment - Los Angeles

Lack of skilled Construction Schedulers - Las Vegas

Poor government administration - New York

Labour - New York

Interest rates - New York

The market is still strong - Philadelphia

Chips Act, Infra Act - Prtland

Government spending - Redmond

Labor still tight - San Diego

Skills - San Francisco

Bank interest rate is high - Tampa

Cultural and emotianal differences between different nationalities - Taylor

Government spending driving Inflation, particularly the core inflation of goods lowering confidence in the economy - Virginia 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 12 June 2024 with responses received until 21 July 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 2576 company responses were received globally with 49 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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