ECONOMICS

RICS

Global Construction Monitor

Q2 2023

Responses were gathered in conjunction with the following organisations:

Canadian Institute of Quantity Surveyors | Institut canadien des économistes en construction

PICQS

Consejo General de la Arquitectura Técnica de España

AACE International

ECONOMICS

Construction workloads still rising modestly at the global level although Europe continues to lag

- Global Construction Activity Index remains in expansionary territory for a third successive quarter
- Infrastructure continues to post solid growth across most nations, while feedback is more mixed on residential and non-residential activity in different parts of the world
- Projections for material costs trimmed again, although inflation remains a key challenge across the industry

The Q2 2023 RICS Global Construction Monitor results continue to signal a modest expansion in overall construction activity, with the slight pick-up in momentum reported during the early part of the year broadly maintained through the latest survey period. Still leading the way, infrastructure continues to see solid growth in most nations according to the Q2 feedback. Notwithstanding this, conditions remain somewhat mixed in different parts of the world regarding private residential and non-residential workloads. No doubt weighing on activity in those sectors to a certain degree, credit conditions reportedly deteriorated at the global level, while respondents foresee a further tightening in the lending environment over the next three months.

Global Construction Activity Index remains in positive territory, but Europe continues to lag

The Global Construction Activity Index (CAI) posted a reading of +14 in Q2, little changed from a figure of +15 seen in the previous iteration of the survey. As such, this measure is pointing to a generally steady pace of growth across the construction market in aggregate. When viewed at a regional level (Chart 1), the Middle East and Africa (MEA) continues to return amongst the strongest results worldwide, with the latest CAI reading of +25 identical to that registered in each of the last two quarters. Alongside this, the CAI edged a little further into expansionary territory in the Americas during Q2, rising to +23 from +18 in Q1. Even so, momentum across the region is still noticeably softer than was the case through the early stages of last year. For APAC, the latest CAI reading of +15, although still consistent with an overall pick-up in output, represents a slight easing compared to last quarter's figure of +23. Within this, while the infrastructure component of the Index remains relatively buoyant, conditions appeared to worsen across the private residential and non-residential sectors, weighing on the headline regional picture slightly. Across Europe, the CAI remains in broadly stagnant territory, with the latest reading of -1 (-4 in Q1) marking the fourth straight quarter in which the headline Index has been below zero.

Drilling into the country level feedback, a number of the larger European markets returned either flat or negative CAI figures in Q2. This list includes the UK, Germany, France, Italy, Spain and the Netherlands. In most cases, workloads are falling significantly across the private residential sector, while private commercial output trends are also stagnant at best across many parts of the continent. Consequently, this backdrop is being reflected in still subdued twelve-month expectations outside of the infrastructure sector in Europe (Chart 2).

Chart 1 - Construction Activity Index by Region

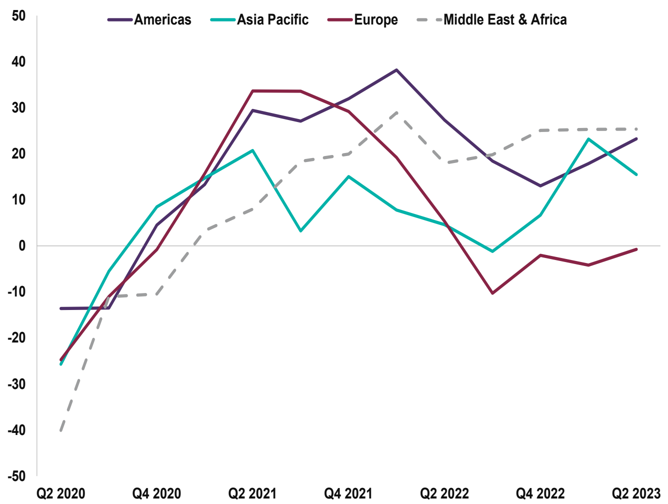
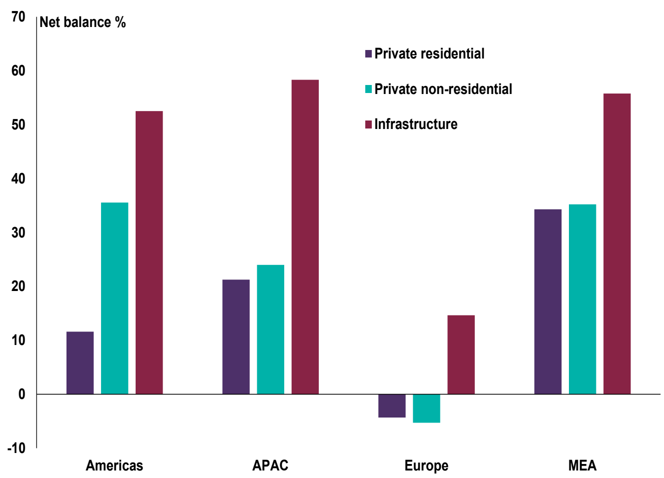


Chart 2 - 12-Month Workload Expectations by Sector



By way of contrast, Middle Eastern markets such as Saudi Arabia, the UAE and Oman are seeing workloads rise firmly across all sectors, resulting in particularly robust CAI readings being returned in each instance. Elsewhere, India has emerged as the nation displaying the strongest momentum relative to other parts of APAC in recent quarters. Indeed, the latest CAI value of +59 across India is the most upbeat since the series was formed back in 2018, rising from an already solid figure of +44 beforehand. Conversely, feedback in China weakened during Q2, evidenced by the CAI slipping to -10 following a reading of +10 previously. This appears to be in keeping with the recent downgrading of economic growth forecasts across the country of late, as GDP figures fall short of expectations.

Significantly, growth in infrastructure workloads continues to outperform private residential and non-residential activity across all world regions (in net balance terms). Within this, energy stands out as the leading infrastructure sub-sector globally, while transport, ICT, along with water and waste are all seeing a solid uptick in workloads on the same basis. What's more, respondents remain confident in the growth potential for infrastructure projects over the coming year, with the aggregate worldwide net balance standing at +46%

Construction employment still anticipated to rise at the global level

With respect to employment trends across the construction industry of late, the Q2 global net balance of +2% suggests headcounts were broadly steady over the latest survey period in aggregate. Nevertheless, respondents continue to envisage employment levels picking up over the year ahead, with the net balance coming in at +23% (similar to the reading of +24% seen in Q1). Disaggregating the employment outlook data by nation shows that Saudi Arabia and India exhibit the strongest expectations for the year to come on a global comparison, with net balances of 78% and 75% of respondents respectively anticipating a rise in headcounts.

At the other end of the spectrum, respondents based in Italy, Sri Lanka, Qatar, Egypt and China foresee employment levels falling to some degree over the next

Chart 3 - Construction Activity Index by Country

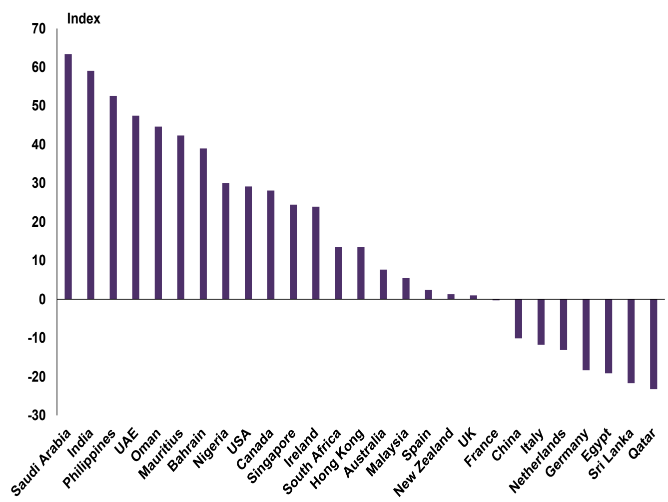
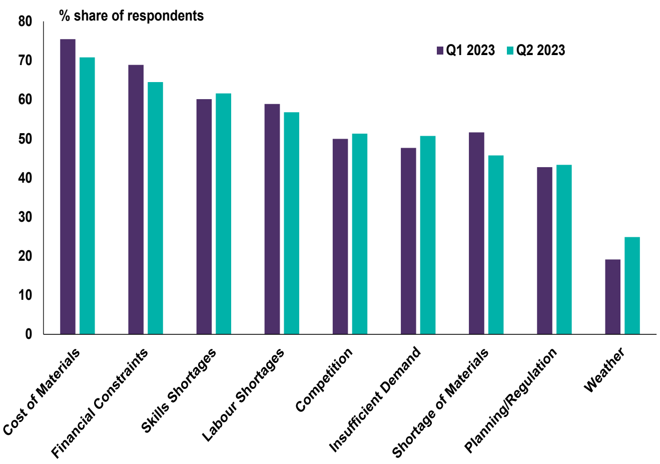


Chart 4 - Factors Limiting Construction Activity



twelve months. Nevertheless, the regional aggregate picture for employment expectations is positive, to a greater or lesser extent, across MEA, APAC and the Americas, while the picture is broadly flat for Europe as a whole.

Material costs remain an acute challenge, despite further signs that pressures are easing somewhat

Depicted in Chart 4, the cost of materials remains the most widely referenced obstacle hampering construction market activity at the global level. That said, the latest share of 71% of respondents highlighting this issue is down from 75% previously and has in fact eased slightly in each of the last five quarters (from a high of 91% back in Q1 2022). Likewise, although projections for material cost inflation over the year ahead remain high by historical standards, they have been further trimmed within all world regions compared to earlier in the year. Across the globe in aggregate, construction costs are now seen rising by a little over 5% during the next twelve months, representing the least elevated forecast put forward by survey participants since Q4 2020. Even though this all points to some moderation in the intense inflationary pressures experienced across the industry of late, it should be emphasised that material costs are set to remain a significant headwind in the immediate future despite this slightly less unfavourable picture emerging.

Other factors widely considered to be hindering the sector include financial constraints, skills shortages and labour shortages, with close to two-thirds of respondents pointing to each of these issues as market impediments in Q2. In the case of skills shortages, these seem to be concentrated across skilled trades, project managers and quantity surveyors. From a regional angle, this problem appears to be most pronounced across the Americas and Europe, where respective shares of 74% and 65% of contributors report seeing such shortfalls in the availability of skilled workers. Meanwhile, across MEA, a comparatively smaller share of 45% of respondents cite skills shortages as a factor holding back activity, while only 32% of contributors in the region see general labour shortages as an issue (well below the global average of 32%).

Chart 5 - Industry headcount trends by country

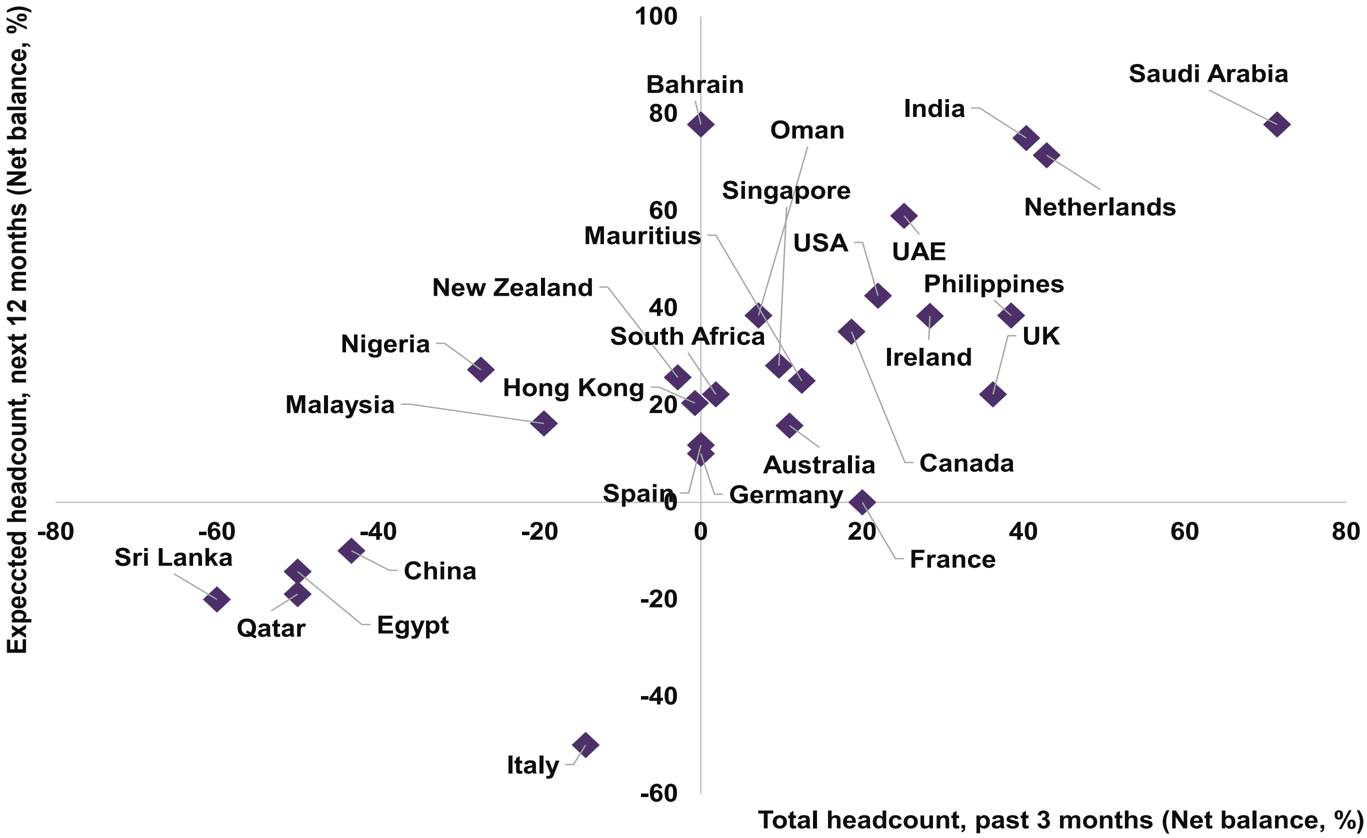
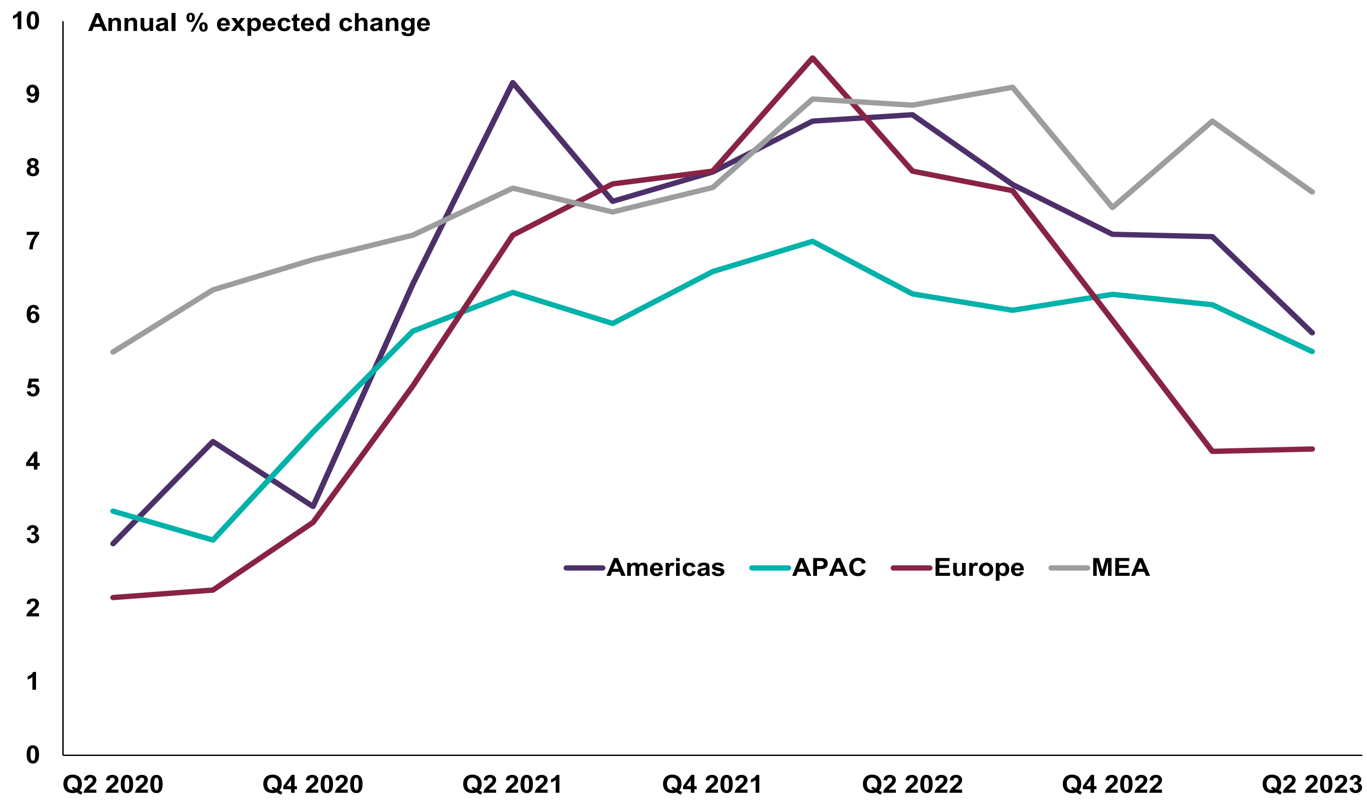


Chart 6 - Twelve-month construction cost projections



APAC: Construction Activity Index eases slightly with mixed results at the country level

The Q2 2023 GCM results for APAC point to growth in construction output losing some momentum, with the headline Construction Activity Index (CAI) slipping from +23 to +15. However, the picture at the country level is mixed. Singapore has seen some slowing in the trend but the numbers remains robust while the readings for Australia, Hong Kong and Malaysia are still modestly positive. China, in contrast, has seen a reversal of the bounce recorded in Q1. At the other end of the spectrum, the feedback from India is not just strong but indicative of an acceleration in the underlying trend.

Post-Covid recovery in China loses momentum

The picture in APAC is mixed at the country level, as depicted in Chart 1. On the positive side, India and Philippines stand out with the CAI climbing to +59 and +53, showing strong expansion in construction workloads. Elsewhere, positive signals were also recorded in Singapore (+24), Hong Kong (+13), Australia (+8) and Malaysia (+5), albeit less strong compared to the previous quarter. Meanwhile, New Zealand's CAI came in flat at +1, marking an improvement from -16 in the previous quarter. On the other hand, the headline CAI reading for China lost its previous gains seen after Covid restrictions were lifted in Q1 2023, flipping from +10 to -10. Sri Lanka also recorded a headline index reading in the negative territory at -22.

India, Philippines show stronger confidence in the private sector

Looking at workloads by sector, India and the Philippines stand out, registering net balances above +50% on average for current workloads in each category (private residential, private non-residential and infrastructure). Respondents are also bullish on the 12-month outlook for workloads, recording an average net balance of +75% in India and +53% in the Philippines on the same basis. Singapore also returned solid positive net balances for current workloads, albeit with slightly less momentum. This included net balances of +24% for the private residential sector, +32% for the private non-residential sector, and +48% for infrastructure.

Elsewhere, the current workload readings reflect a weaker private sector. Particularly in China, feedback for both the private residential and non-residential sectors fell into deeply negative territory, recording net balances of -56% and -58% respectively. In contrast, the net balance for infrastructure held steady at +14%. At the same time, Hong Kong registered neutral readings for the private residential and non-residential sectors, with current workloads having net balances of +1% and -3% respectively. That said, a much stronger reading of +53% was recorded for infrastructure. Australia and New Zealand also painted similar pictures, with current infrastructure workloads showing stronger net balances of +37% and +30% respectively, outshining those returned across the private sectors. Meanwhile, due to economic and political headwinds, Sri Lanka reported deeply negative net balances for both private and public sector current workloads.

Price and cost forecasts show early signs of subsiding inflation

On a brighter note, Chart 3 indicates a cessation in the rise of inflation expectations, marking the first instance of such a trend since Q2 2022. The pan-APAC tender price year-on-year growth rate estimate visibly slowed, shifting from +5.3% to +3.9%. In terms of costs, marginal relief in material inflation is expected , with projections easing from just over +6% in Q1 to approximately +5% in Q2. In contrast, annual growth rate estimates for skilled and unskilled labour costs remained largely unchanged at +5.5% and +4% respectively.

Chart 1 - Construction Activity Index

Chart 2 - Current Workloads/Expectations by Sector

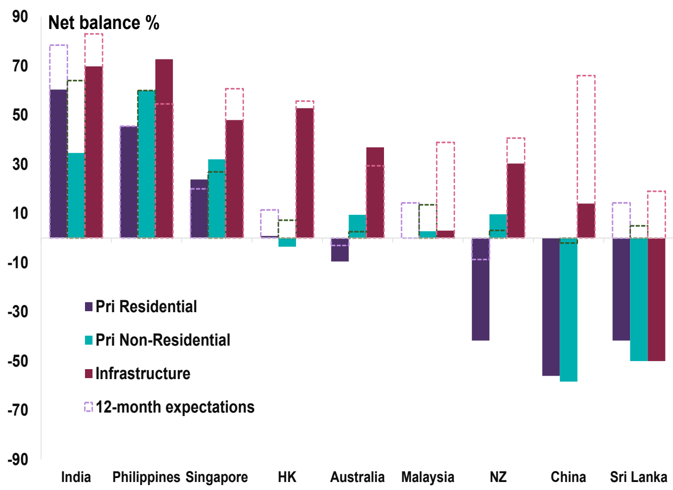
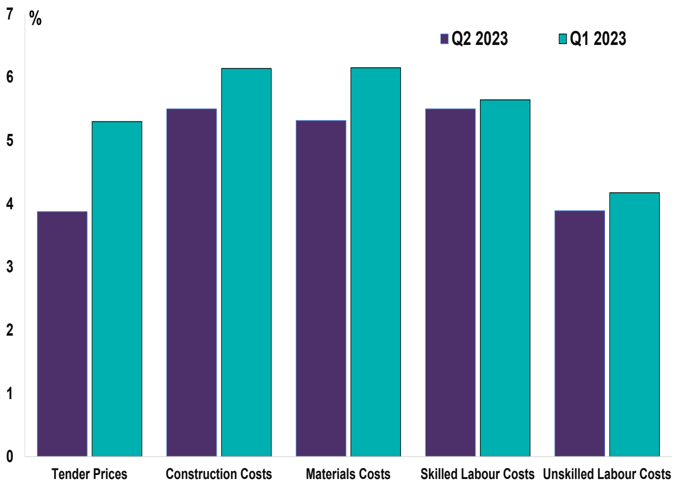


Chart 3 - 12-Month Price/Cost Projections



Regional comments from survey participants in APAC

Australia

High volume of pipeline projects. - Adelaide

Poor government policies stifle the market. - Bairnsdale

Volatility, Inflation and Interest Rate Increases and geopolitical Issues. - Brisbane

Olympics 2032. - Brisbane

Skill shortage. - Brisbane

Clients passing all commercial risks to contractors regardless of who is best placed to manage risk. - Brisbane

Significant pipeline of public-funded projects impacting all sectors. - Brisbane

Slow down in government spending. - Brisbane

Anti business public policies - Brisbane

Industrial action taken by unions causing disruption. - Brisbane

Finance availability and interest rates. - Melbourne

There are people engaged for the works but not the qualified professional, lack of professionals. - Perth

Skilled labour shortages. - Perth

Increased interest rates. - Perth

Skills/labour shortage affecting programme of works. - Perth

Contractor cashflow seems to be a significant problem. - Sunshine Coast

Limited pool of competent contractors. Huge spend by public infra at the same time - skills shortage. - Sydney

Overall professional, skilled and unskilled labour shortages are causing upward cost pressure. - Sydney

Increased regulation by State Government. - Sydney

Carbon emission targets zero. - Sydney

Construction labour rates are under pressure. - Sydney

Interest rates going up. - Sydney

Shortage on resources - skilled professionals and labour. - Sydney

Busy in transportation and infrastructure industries. - Sydney

Public funding shortage impacting projects. - Sydney

inflation and labour shortage. - Sydney

Always difficult to attract quality people to this regional/remote location. - Trinity Park

Poor construction industry practices, ineffective building control system, poor education. - Yandina

Bangladesh

USD shortage. - Chittagong

Brunei

Inadequate public awareness & incentives & governance in support of sustainable built environment. - Bandar Seri Begawan

China

Demand of markets. - Beijing

Energy saving is proposed by regulator without clear measurement and assessment. - Beijing

Due to the slump in the real estate industry, housing construction projects have decreased, while large-scale infrastructure projects occupy a higher proportion. - Beijing

Dwindling demand and increasing supply lead to heightened competition. - Beijing

Fiscal deterioration and a shortage of skilled technical workers. - Beijing

Factors such as labour costs, policy, and environmental protection are involved. - Chengdu

Investment efficiency is not high. - Chengdu

Too many regulations. - Ningbo

Economic situation. - Qingdao

Strengthening standardised market management promotes the healthy development of the construction market. - Kunming

The construction industry has a slow rate of payment recovery. - Shanghai

Lagging fiscal fund disbursement affects timely payments for municipal projects. - Shanghai

Increasing market forces and reducing government control measures. - Zhuhai

Policy changes. - Zhoushan

Hong Kong

Political factor. - Hong Kong

Shortage of manpower and inflation. - Hong Kong

Shortage of manpower negatively impact the industry, but the use of IT increases the efficiency. - Hong Kong

Global economy, land sale programme by Government. - Hong Kong

Environmental protection requirements. - Hong Kong

Import labour from mainland China. - Hong Kong

Widely adoption of NEC contracts. - Hong Kong

The high interest rates in these few years affected the construction market very much. - Hong Kong

Lack of construction labour. - Hong Kong

Severe shortage of professionals, technical, skilled and unskilled labour in the industry. - Hong Kong

Proposed regulation on hot weather warning signal. - Hong Kong

After effects of Covid-19. - Hong Kong

Tail of COVID effects. - Hong Kong

Compulsory adoption of smart site safety systems in public works. - Hong Kong

Recovery from COVID-19 now in full swing. - Hong Kong

The Hot Weather problem affect the site progress. - Hong Kong

The government increases subsidies for recyclers. - Hong Kong

Downturn of property market causing adverse impact on the construction market. - Hong Kong

Aim to construct green or high-energy-efficiency buildings as much as possible. - Hong Kong

Labour shortages and wage increases force operations at lower costs under existing rules. - Hong Kong

Macau

Government Rules and Regulation. - Macau

India

Poor workmanship, lack of technical and understanding skills among workers, productivity. - Bangalore

Political factors and Non-documented procedures. - Chennai

In general, the conscious for quality, safety & timelines are falling short. - Chennai

Regulatory monitoring mechanism. - Gurgaon

Adoption of technology needs to improve and quality of resources to manage projects has to improve. - Gurgaon

SOx and NOx pollution control mechanism. Rainy season. Upcoming general elections. - Gurgaon

Cost increase of labour and materials. Insufficient demand, unhealthy completion. - Guruvayur

Awareness of sustainability construction project management. - Hyderabad

Oversupply of products in most categories. - Mumbai

Sometimes we face shortage of unskilled labour. - Mumbai

Skilled labour shortages, Managerial staff shortages, high attrition. - Mumbai

Baseless price hikes with minimum amenities and infra. Arbitrary lobbying of the private builders. - Pune

Dominance of local leaders and their interference in construction. - Pune

Contractor claims extensively even its in his scope of agreement. I would be happy to add Clause. - Vadodara

Japan

Labour shortage due to an aging population. - Tokyo

Regional comments from survey participants in APAC

Malaysia

Inadequate government officer that caused lengthy period to obtain approval prior to work commencing. - Damansara heights

Too many contractors chasing too few jobs. - Kuala Lumpur

Buyers or end users yet to accept those green environment friendly buildings will increase resale value. - Kuala Lumpur

Currency fluctuation. - Kuala Lumpur

Not enough development from the government. - Kuala Lumpur

Tax incentive by governments both for import and export markets. - Petaling Jaya

Government policies. - Kuching

Competition for technical personnel from Singapore and other countries. - Subang Jaya

New Zealand

Decarbonisation in infrastructure projects is becoming a focus in through the lifecycle of assets. - Auckland

High inflation affecting the construction sector. - Auckland

Skill shortage in design sector. - Auckland

Impending election. - Auckland

Market dominated by monopoly for supply of materials. - Christchurch

Interest rates dampening demand for residential. Government sector spending holding up. - Christchurch

Incoming legislation around carbon calculation compliance and thresholds. - Christchurch

Cyclones, heavy and above average rainfall is impacting the roads, water and electricity distribution. - Hamilton

Major flood damage to construction and infrastructure. - Queenstown

Procurement materials from overseas. - Wellington

Pakistan

Inflation. - Lahore

Philippines

Sustainable Procurement. - Manila

Foreign exchange fluctuation and labour wage increase greatly affect the construction market. - Manila

Shortage of skilled and unskilled labour. - Manila

Economy is down. Politics is bad. Lack of capital. Low wages. - San Carlos

Singapore

Government regulation.

Imported inflation.

Manpower shortage.

Labour shortage.

Manpower issue.

Shortage of skilled and unskilled people in all sectors. This applies to consultant and contractor.

South Korea

Government regulation, Inflation. - Seoul

Sri Lanka

Government economics factors. - Colombo

Bank loan rates are significantly high. Due to this investors reluctant to invest. - Colombo

Specific area is Electrical Installation. - Colombo

Higher interest rates, bank charges etc. - Colombo

Exodus of newly qualified staff overseas continues unabated. - Colombo

In Sri Lanka affected Covid-19 pandemic and still it impacts to the economy as a whole. - Gampaha

Economic uncertainty and brain drain overseas continues. - Gampaha

Shortage of unskilled. - Katunayake

Political instability and economic downturn experience by Sri Lanka during last 12 months period. - Kotte

Depreciation of the Local Currency against USD. - Malabe

Dispute Resolution. - Negombo

Thailand

Fast track method for construction, Separating order. - Bangkok

Market environment. - Chonburi

Vietnam

Government lending and banks. - Ho Chi Minh City

Europe: Conditions remain challenging across much of the continent although infrastructure again provides a bright spot

The Q2 2023 survey results for Europe are still symptomatic of a construction market struggling for momentum, with rising material costs and a deteriorating credit environment continuing to weigh heavily on the sector. Going forward, this subdued picture is largely expected to remain in place over the coming twelve months, albeit the outlook remains altogether brighter across the infrastructure sector, where respondents envisage continued activity growth at the pan-European level.

Construction Activity Index stuck in stagnant territory

Across Europe as a whole, the Construction Activity Index registered a value of -1, which was little changed on the figure of -4 posted previously. As such, this measure remains consistent with a generally flat trend in headline activity (an ongoing theme now seen in each of the last three quarters). At the national level (shown in Chart 1), feedback from Germany, the Netherlands and Italy points to an outright contraction in overall construction activity during Q2, while a broadly stagnant backdrop was cited within France, the UK and Spain. Bucking the broader pattern across the continent, the CAI for Ireland picked up to +24, (rising from an already positive figure of +18 last quarter) signalling solid growth in construction output.

With regards to the sector level breakdown, infrastructure was the only category to see a rise in workloads across Europe in aggregate during Q2, evidenced by a net balance of +19% of respondents reporting an increase. Moreover, most European nations tracked in the survey returned positive results regarding growth in infrastructure activity in Q2. By way of contrast, private residential construction output reportedly fell in markets such as France, Germany, the Netherlands and the UK, as rising interest rates continue to weigh on the outlook for residential sales volumes and house prices. Meanwhile, private non-residential workloads exhibit a similarly subdued trend across Germany and the Netherlands, with respective net balances of -14% and -25% of respondents noting a decline in activity within the sector. At the same time, private non-residential workloads held steady in France and the UK, while respondents in Italy cited a modest uplift during Q2. Once again outperforming the wider results, Ireland was the only European market covered in which workloads rose across all sectors.

Outlook still subdued in the face of macro headwinds

Chart 2 depicts the headline metric on new construction business enquiries at the European level, and shows a continuation of the broadly flat trend cited over the past year or so. Consequently, it appears there is little prospect of any material uplift in near-term workloads across the continent. Indeed, twelve-month expectations (shown in Chart 3) are also indicative of a broadly stagnant picture remaining in place across the private residential and non-residential sectors over the year to come (posting respective net balances of -4% and -5%). That said, the outlook remains brighter for infrastructure/public works, with a headline net balance of +15% of contributors anticipating such workloads to rise over the year to come.

With respect to employment levels across the industry, the latest expectations net balance of +5% is signalling a flat to marginally positive outlook for headcounts over the year to come. Lastly, with over two-thirds of European respondents highlighting material costs as an impediment to market activity, profit margins are expected to remain under pressure in the year to come, albeit the Q2 net balance of -11% is marginally less downbeat than the figure of -17% seen previously.

Chart 1 - Construction Activity Index by Country

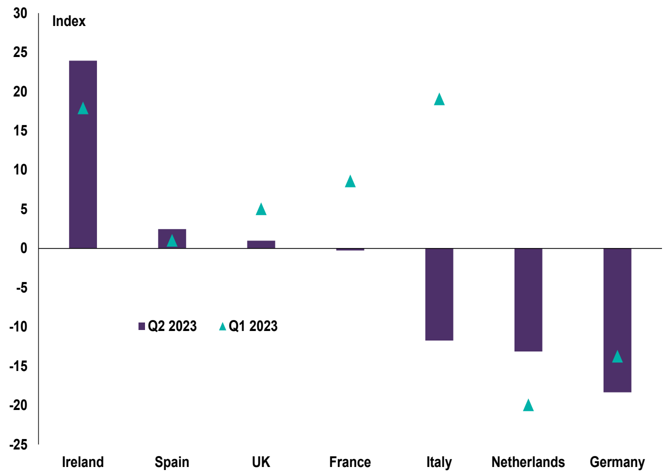


Chart 2 - Business enquiries

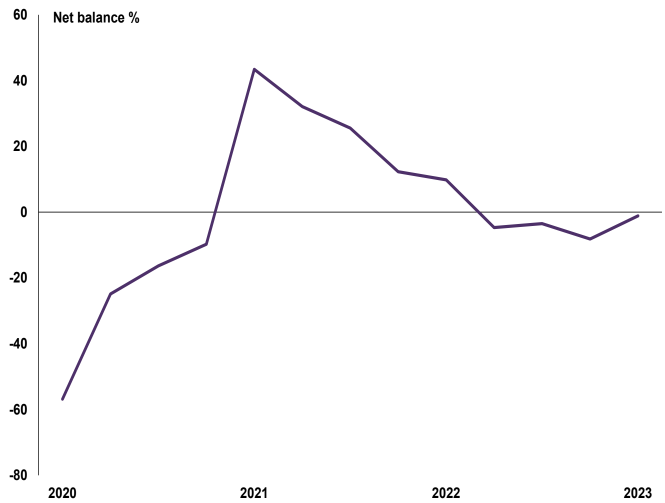
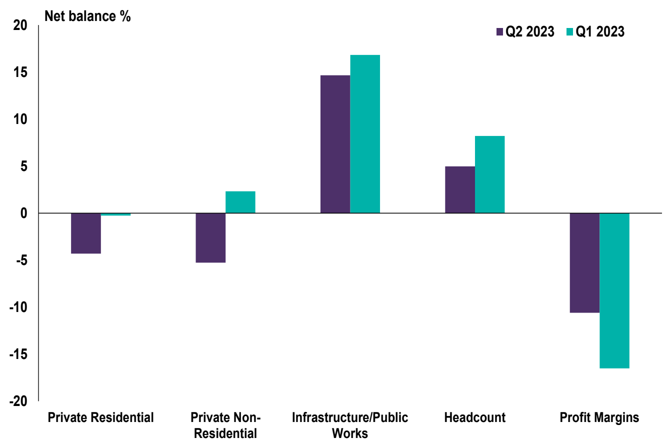


Chart 3 - 12-month Expectations



Regional comments from survey participants in Europe

Belgium

The real estate and construction market in our locaility is still very much driven buy legislation. -Antwerp

Bulgaria

The major issue is lack of skilled labour.- Sofia

Denmark

Labour market remains tight due to high employment levels.. - Copenhagen

Germany

Long processes on the part of the authorities. Approval process takes way too long - Berlin

Lack of availability of landfill for excavated earth and waste. - Frankfurt

Oligopoloy of vendors - Glückstadt

Lack of long-term framework. Everything is in limbo. -Görlitz

Everything will become cheaper. - Hamburg

Hungary

High finance cost, lack of of private and public developers.. - Budapest

Inflation sets back the industry.- Budapest

Ireland

Ongoing war in Ukraine continues to effect supply chains. - Dublin

Inflation of materials costs, shortage of QS's. - Dublin

Planning process is delaying the delivery of energy efficient buildings. - Dublin

Economic uncertainty and financing are key issues affecting the market.- Dublin

Feasibility and funding a big issue for residential developments in particular.- Dublin

Labour shortages, having to bring labour in from further afield.- Dublin

Lack of training of skilled operatives and professional bodies especially local authorities / public. - Monasterevin

Netherlands

Stagnation in the housing market due to higher interest rates, new tax rules, lower yields and high construction costs. - Rotterdam

Romania

Public regulation and administrative office lack of response. - Bucharest

Spain

Bank interest charges on the increase. - Malaga

Profiteering by contractors, contractual flexibilities being demanded, local authority admin delays. - Marbella

Lack of qualified tradesmen. Higher overall material and labour costs. Planning uncertainty. - Palma de Mallorca

The pandemic has increased the demand for homes with gardens. - Salamanca

Switzerland

The market is focused on reducing energy consumption. - Geneva

The shortage of labor and materials affects the market. - National

Long processing times (building permits) from the authorities; objections; low capacities. - Zurich

United Kingdom

HS2 in terms of labour resource and supply/availability of materials. - Birmingham

Brexit immigration has significantly reduced the workforce of EU talent. - Dungannon

Lack of finance and barriers being imposed by banks to private sector. - Ederney

Rising operating costs and unfavourable tax regime for SMEs. - Exeter

The programming of building works on site has become more difficult across all sectors. - London

Lack of skilled contractors and personnel. - National

Middle East and Africa: Construction output growth remains solid across the region

The aggregate data for the Middle East and Africa shows the Construction Activity Index (CAI) remaining unchanged for a third consecutive quarter, posting an upbeat reading of +25. This outturn is the strongest of all world regions tracked in the Monitor. At a country level however, disparities are visible across some nations, depicted in Chart 1. The largest difference for this quarter can be seen between Qatar and Saudi Arabia, which have readings of -22 and +69, respectively. Nigeria experienced a dip in the CAI reading compared to last quarter, moving from +47 to +30, although the latest figure remains solid nonetheless. The readings for Mauritius and the UAE remain firm (and in fact saw a marginal increase) with respective figures of +42 and +47 this quarter. Meanwhile, Oman, Bahrain, and South Africa all saw improvements to some degree. Indeed, the CAI in Oman moved from +10 to +45, Bahrain from +11 to +39, and South Africa moved into positive territory from -3 to +13.

Cost of materials still seen as a constraint

Although the overall tone to the results this quarter remains positive across the region, there are still various challenges which respondents report to be holding back the market (as can be seen in Chart 2). The cost of materials is still a key issue, with 76% of respondents citing this factor as weighing on activity. This is a particularly acute issue in Nigeria, with 94% of respondents singling out high material costs to be an impediment. Furthermore, financial constraints remain a significant obstacle for the industry across virtually all nations covered within the region, with 72% of respondents highlighting this across MEA in aggregate in Q2. Although skill shortages within the region are not quite as prominent as those noted in other parts of the world (with 45% of survey participants citing this as a challenge compared to a global average of 62%), feedback in Saudi Arabia diverges from the regional average on this matter. Indeed, 82% of contributors based in KSA are seeing skill shortages at present.

Workloads expected to gain momentum

As can be seen in Chart 3, growth in workloads is expected to strengthen for all sectors in the market in the next twelve months. Similar to previous survey results, infrastructure continues to exhibit the strongest outlook, with a net balance of +56% of respondents anticipating an increase in activity in the coming year. This compares with a net balance reading of +47% last quarter. Private residential and private non-residential sectors are also expected to gain momentum in the coming year, returning net balance readings of +34% and +35%, respectively. At a country level, some disparities are found within the data. The net balance reading for infrastructure in Saudi Arabia increased from +85% last quarter to +93% this quarter, for private residential the reading was +56%, and for non-private residential the figure came in at +68%. Meanwhile in Qatar, the headline expectations net balance for infrastructure was +21%, but sentiment softened regarding the outlook for private non-residential (net balance +3%) and for private residential workloads (net balance -6%)

Profit margins expected to expand

Twelve-month expectations for profit margins remain in positive territory, posting a net balance reading of +22% in Q2 for MEA in aggregate. Within this, the outlook is particularly upbeat for margins in the UAE and Saudi Arabia (returning net balances of +53 and +43%)

Chart 1 - Construction Activity Indices by Country

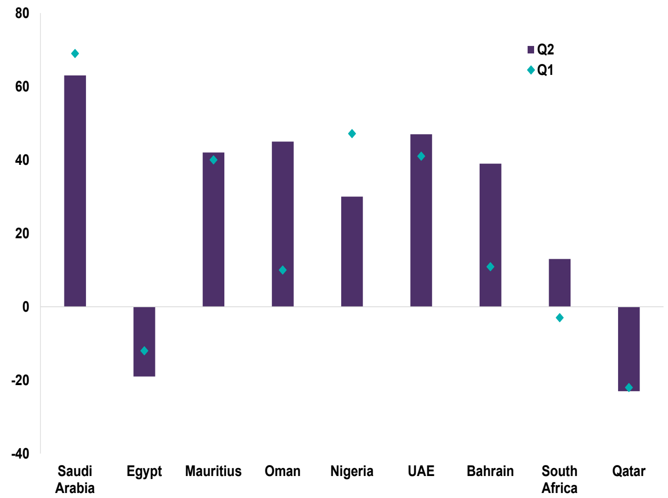


Chart 2 - Factors Holding Back Activity

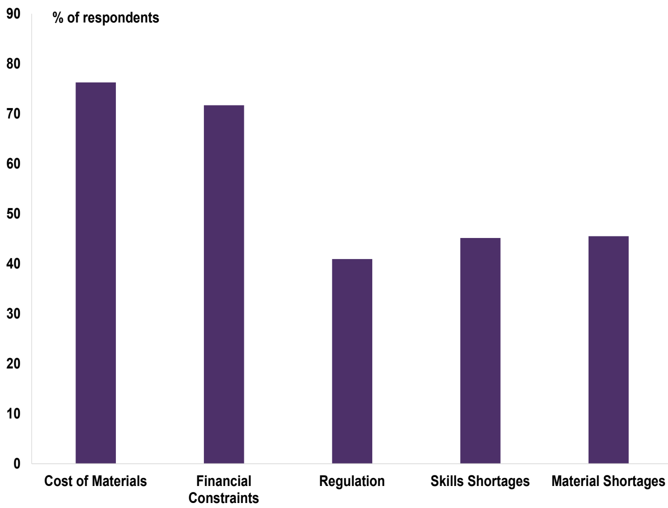
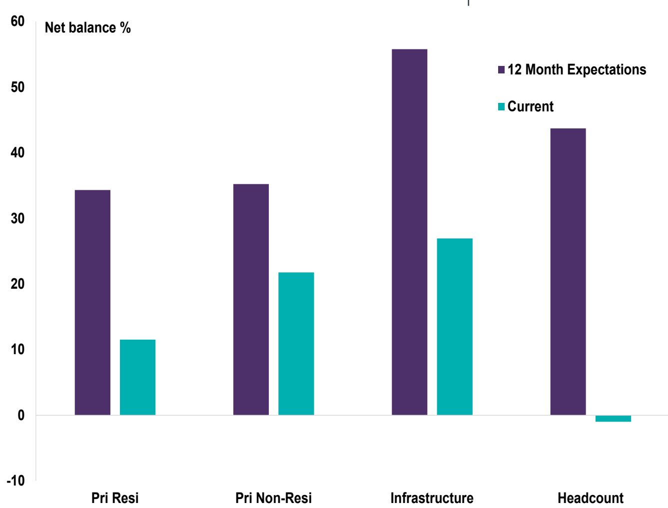


Chart 3 - 12-Months Workloads and Expectations



Regional comments from survey participants in MEA

Bahrain

Ethical issues. - Adliya

Global material price increase. - Manama

Delay in payment and rise in project costs. - manama

Project funding. - Manama

Egypt

Inflation and high price for American Dollars. - Benha

Ghana

Cost of materials as a result of the currency instability. - Accra

Extremely high prices of materials due to inflation. - Accra

Kenya

Finance bill has increased taxes in fuel consequently increasing the cost of construction. - Nairobi

The weak economy and finance are affecting the construction. - Nairobi

Kuwait

Digital integration. - Ardiya

Climate change and extreme weather temperature rising. - Hawally

Material costs. - Kuwait city

Political stalemate in parliament between ruling royal family and liberal and Islamist parties. - Kuwait City

Lebanon

No demand due to the current ongoing economical problems. - Brummana

Mauritius

Budget constraints, procurement of materials, freight charges, and delay in project execution. - Moka

The cost of materials and skilled labour. - Port Louis

Shortage of skilled labour. - Port Louis

Uncertainties and labour scarcities. - Vacoas

Prevailing market conditions - Tighter conditions for bank loans and there is a lack of buyers.

Nigeria

Building materials price inflation. - Dutse

Inflation and civil unrest. - FCT

In Nigeria the 22% inflation has negatively affected the construction industry. - Kaduna

Economic policy, removal of subsidy, and brain drain loss of professional expertise through immigration. - Lagos

Oman

Risk in investing, no investors, and demand. - MQ

Material price and availability. - Muscat

Summer heat. - Muscat

Less funds and demand. - Muscat

Clients are not so confident to adopt new or innovative technologies. - Muscat

Rise in price of materials, design changes, and discrepancies in contract documents. - Muscat

Qatar

Budget for new projects and shortage of skilled personnel. - Al Wakrah

Few contractors are taking projects with less prices, and it is affecting the construction market. - Corniche

Critical period in Qatar as to ramping up construction activities post FIFA World Cup, or not. - Doha

High-temperature weather conditions affect the Qatar Construction industry. - Doha

Increase in interest rates is affecting private developers. - Doha

Fluctuating global production capacity. - Doha

Declined activity. - Doha

Intervention of the government and project release by the public sector. - Doha

Decline in demand for new build. - Doha

FIFA 2022 effected construction industry. - Doha

Managing and mitigating the construction risks, extreme hot and humid climate, and oil/gas air pollution. - Doha

The Construction market in neighbouring country (KSA) is booming which is causing an adverse affect. - Doha

Saudi Arabia

High pricing losing bids, significant increase in costs of labour, materials, and transport. - Al Khobar

Saudization has affected hiring policy and overall productivity in the market. - Jeddah

Low cash flow. - Jeddah

Overheated, due to aggressive schedule and unrealistic client expectation. - NEOm

Riyadh/KSA is a unique market and experiencing boom times through mega and giga projects. - Riyadh

Lack of staff resources and experienced staff. - Riyadh

Lacking skilled labour. - Riyadh

South Africa

Power outages are impacting construction productivity. - Cape Town

Poor governance and state corruption. - Cape Town

Uncertainty in public sector and client departments. - Dannhauser

Incompetency of client representatives. - Durban

Emigration - families moving from unsustainable municipalities, to sustainable areas in the Cape. - George

Construction mafia. - Gqeberha

For this year its been there is not much work in the market due to investor confidence. - Johannesburg

Government credibility, state owned entities, and lack of consistent electricity. - Johannesburg

Most initiatives are counter productive as the aged population have little to no interest in it. - Johannesburg

Increase in cost of material and high fuel prices. - Johannesburg

Not much funds allocated by government for infrastructure development. - Kusile Power station

Racketeering and construction mafia by vigilante labour organisations. - Pretoria

UAE

Competition and selection of sellers/bidders on the basis of lower prices rather than quality. - Abu Dhabi

Government strategy changes and delays affect the market. - Abu Dhabi

Logistics constraints due to war and sanctions. - Abu Dhabi

Timely payments - cash flow management. - Abu Dhabi - Al Ain

The shortage of large scale projects. - Dubai

Seeking credit facilities is getting harder. - Dubai

Increase in LEED rated projects. - Dubai

Competition and less projects. - Dubai

Construction market is depending on overall improvement in business sentiments. - Dubai

Demand from Saudi Arabia. - Dubai

Zimbabwe

Some imported materials fall short of the required standards. - Bulawayo

Political and economic instability. - Harare

North America: Workload trends improve but hiring issues remain a key impediment

The Q2 2023 Construction Monitor results in North America (conducted in conjunction with AACE in the US and CIQS in Canada) point to an ongoing level of resilience across the industry. This is clearly highlighted in Chart 1 which shows an uplift in the aggregated Constructive Activity Index in both countries despite further tightening in monetary policy by the Federal Reserve and the Bank of Canada alongside ongoing macro uncertainty.

Infrastructure remains the key driver of growth

The current workload metrics show infrastructure to be the sector continuing to experience the strongest levels of activity but it is significant that contributors to the Q2 survey are now a little more positive about the picture in both the residential and non-residential segments. In the US, the net balance reading for infrastructure workloads accelerated from +45% to +48% while, in Canada, it rose from +34% to +41%. Sentiment regarding ongoing activity in the residential sector improved despite some of the well documented challenges, with the net balance in the US climbing from +11% to +24% and in Canada from +13% to +23%.

Interestingly, this pattern is broadly replicated in the forward looking 12-month expectations indicators for workloads. Predictably, infrastructure is viewed as continuing to provide the strongest impetus for growth but commercial development is also seen as being firm (in net balance terms) notwithstanding the structural issues besetting offices and retail.

Labour related issues remain problematic

Insights provided around employment trends in both countries indicate not just that headcounts have been increasing over the past quarter but that recruitment will remain a key priority for the industry over the coming year in order to fulfil planned work programmes. Against this backdrop, it is not a surprise that, when it comes to current difficulties, respondents are emphatic in pointing to labour supply and skill shortages as the two most important issues. Chart 2 demonstrates the extent of the problem which is also captured in many of the comments from contributors. Skilled trades is an area where the shortfall is particularly acute but difficulties in hiring are also visible for project managers and other 'white-collar' roles. Interestingly, financial constraints are now being identified as a problem by fewer participants than in Q1, suggesting that some of the concern around a credit crunch in the wake of the bank failures earlier in the year may have eased. Moreover, the forward looking questions around credit conditions indicate this is likely to become less of an impediment as 2024 approaches.

Slight improvement in profits outlook

Chart 3 graphs the responses to the questions around profits margins in net balance terms. The message coming through from contributors is a little more encouraging, particularly in the expectations indicators. That said, the point estimate projections (which is the other way we attempt to gauge the outlook for profits in the survey) signal that construction costs will continue to increase solidly through the course of the next year reflecting, in part, the ongoing shortages of labour. Significantly, they are seen as likely to continue to run a little above the estimates for tender prices over the same period, providing some justification for caution in terms of the profits recovery story.

Chart 1 - Construction Activity Index

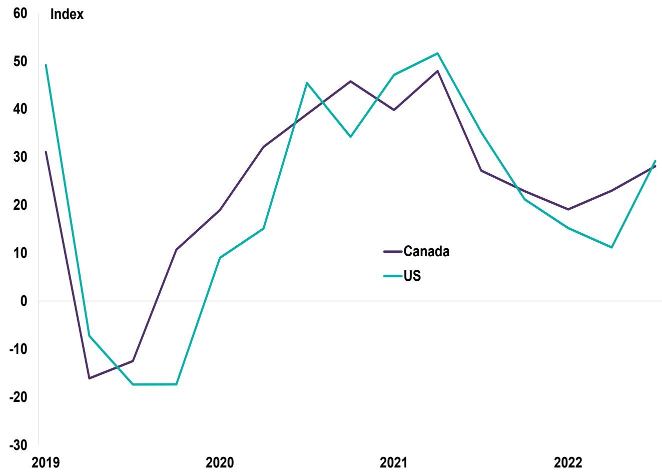


Chart 2 - Shortages of Labour and Skills

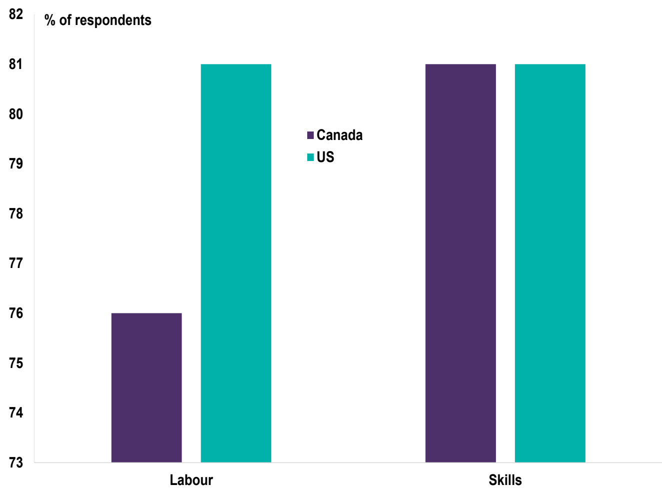
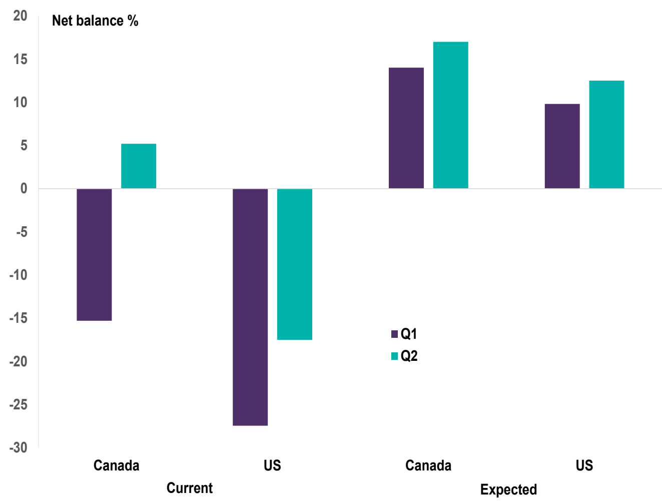


Chart 3 - Profit Margins - Current and Expected



Regional comments from survey participants in the Americas

Barbados

Unpredictable inflation, price gouging by opportunist suppliers. - Bridgetown

Brazil

Progressing slowly. - Sao Paulo

Canada

Shortage of skilled labour. - Brampton

Interest rates. - Burnaby

Government climate policy targets not in tune with reality. i.e. EV chargers - elect infrastructure. - Burnaby

Lack of research and development for innovation and new ideas. Thinking too insular. -Calgary

Shortage of labours due to immigration rules. - Concord

Need skilled tradespeople. - Dartmouth

High interest rates and high inflation. - Edmonton

Supply chain constraints and transportation cost. - Edmonton

Trade / subtrade capacity. - Hamilton

The low number of contractors submitting SPC bids on projects is signidicantly increasing prices- Halifax

Skilled labour shortages. - Halifax

BOC and their inacurate assessment of the economy has a negative impact on contraction activities. - Kelowna

Labour cost increase. - Langley

La spéculation des terrain pour construite des batisses résiodentiels abordables au canadiens. - Laval

Shortage of labour, prices of labour and materials, interest rates heading higher, all are affecting the industry. - Markham

Rebound from Pandemic and War in Ukraine are making for unpredictable economic forecasts. - Mississauga

Supply chain of construction material is a big challenge. - Moncton

Increased competition for labour in mega project construction sector. - Oakville

Government green incentive programs would definitely speed up the sustainable design and material sector. - Scarborough

Rising interest rates. - St.Thomas

High interest rate, foreign buyer ban. - Toronto

High interest rates, lack of pre-approved buyer in the market to close the purchase agreement. - Toronto

Interest rates. - Toronto

Interest rate increases are resulting in fewer presold residential projects breaking ground. - Toronto

Interest Rate increases causing demand issues. - Toronto

Most of public funds allocated to infrastructure projects. - Toronto

Record high interest rates cutting almost 50% of profits. - Toronto

Size of projects. Limited competition for massive infrastructure projects with one bidder. - Toronto

Extremely long building permitting time. - Surrey

Shortage of skilled labour. - Vancouver

Demand is higher than supply for multifamily housing projects. - Vancouver

Higher prices, tougher credit conditions, competition for talent - creates a challenging environment. - Vancouver

New carbon and new building codes requirement will cause major impact on construction costs. - Vancouver

Cost impacts on net zero, new codes, and rise if government fees. - Vancouver

Canada/US trade policy, tariffs and levies. - Vancouver

New rules and regulations on low carbon and net zero will dramatically increase the cost of construction. - Vancouver

Delay of municipal planning approvals impacting procurement of major building components. - Vaughan

Lack of skilled workers. - Victoria

High demand a little competition has driven prices up higher than anticipated. - Windsor

I believe this connects well to LEED certified buildings and the challenges of attaining this cert. - Winnipeg

The pursuit of LEED certification. - Winnipeg

Cayman Islands

High demand & interest rates and low levels of supply of affordable housing.- George Town

Trinidad and Tobago

Given the high level of imported materials, there are supply chain issues. - St. Augustine

United States

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

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

Inflation, global operations and local market volatility. - Houston

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

Labour.- New York

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

Payments. - Orlando

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

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 and not much has changed. - San Francisco

Office vacancy rate in downtown San Francisco. - San Francisco

Interest rates. - San Jose

Skilled labor shortage especially electricians and plumbers. - Seattle

The rapid development and growth of rural areas. - Taylor

Politics. - Washington

Extreme volatility in all trades for pricing and long lead deliveries. - Washington

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

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

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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PICQS

Consejo General de la Arquitectura Técnica de España

AACE International

Delivering confidence

We are RICS. Everything we do is designed to effect positive change in the built and natural environments. Through our respected global standards, leading professional progression and our trusted data and insight, we promote and enforce the highest professional standards in the development and management of land, real estate, construction and infrastructure. Our work with others provides a foundation for confident markets, pioneers better places to live and work and is a force for positive social impact.

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