Q4 2024: USA Construction Monitor

Construction sentiment turns markedly more positive in Q4

- **New business enquiries accelerate leading to strongly positive workload expectations**
- **Prospects for profit margins improve as financial challenges begin to ease**
- **Skills shortages remain the key obstacle to meeting ambitious development plans**

The Q4 2024 RICS-AACE USA Construction Monitor paints a brighter picture of the mood in the industry both regarding current conditions and the outlook. The headline Construction Sentiment Index, which is a composite of key indicators captured in the survey, moved sharply higher, climbing back to a reading of +40; this compares with +19 in the third quarter and +25 in the preceding survey period (Chart 1).

Infrastructure continues to drive activity

Feedback from respondents to the survey suggests workloads are continuing to grow, to a greater or lesser degree, in each of the three broad categories of the construction industry tracked in the RICS-AACE Monitor. Moreover, they appear to be doing so at a faster rate when viewed from a net balance perspective. Just to be clear, this captures the proportion of contributors reporting an increase in activity over the quarter as against those signalling a decline (a widely used method to assess sentiment and is often seen as a lead indicator of hard data).

For the infrastructure sector, the headline number in Q4 was a very healthy +63% as against +34% previously, pointing to an acceleration in activity. Disaggregating a little further, the feedback around energy infrastructure workloads was particularly strong, with a net balance of +69% of respondents reporting an increase. The results for ICT related infrastructure and transport were not far behind and well ahead of the Q3 out-turns. Alongside this, the metrics covering private residential and private non-residential workloads are both consistent with uplifts in activity. For the former, the net balance was +26% versus +10% in the last round of the survey and, for the latter, it was +31% compared to +8%.

Business enquiries pick-up

In a further sign of the more positive mood amongst respondents, insights provided around new business enquiries also moved further into positive territory, providing the strongest result since the first quarter of 2022. Chart 2 demonstrates the stronger sentiment in this area while also highlighting a material drop in the

Chart 1: Construction Sentiment Index*

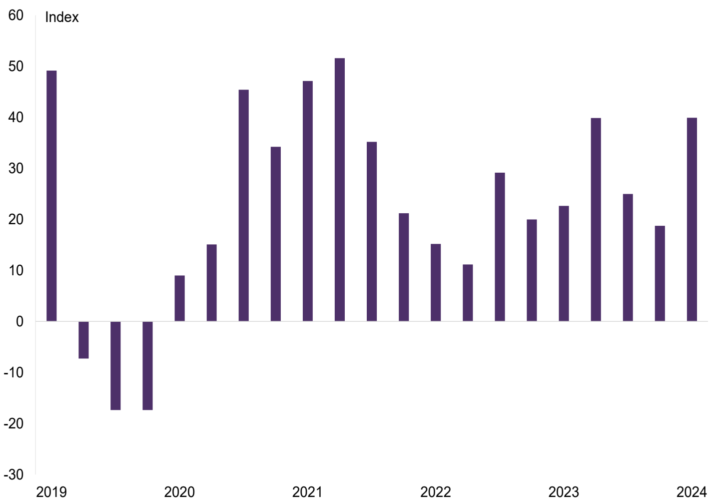
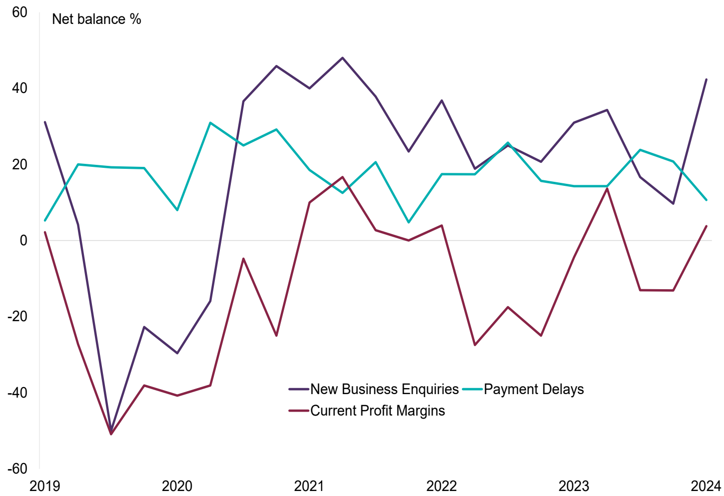


Chart 2: New Business Enquiries, Payment Delays and Current Profit Margins



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

indicator designed to capture the extent of payment delays in the industry. One other encouraging signal around current conditions is the reading as to how profit margins have changed over the past three months. In net balance terms, this metric actually produced a slightly positive read in Q4 (of +4%) as against negative results of -13% in each of the previous two quarters.

Somewhat surprisingly, despite the rise in bond yields during the period in which the field work for the survey was being conducted, most contributors did not report a deterioration in credit condition. Perhaps more significantly, respondents are still minded to the view that the financial environment will continue to improve at both the three and twelve month time horizons.

Expectations reflect a more upbeat mood

Chart 3 shows the results for the questions regarding twelve-month expectations compared to the insight gathered in the Q3 survey. Infrastructure is showing the strongest picture for workloads with the momentum viewed as likely to accelerate quite markedly. Alongside this, the results for both private residential and non-residential sectors point to a quickening in the pace of activity. Significantly, this is being accompanied by greater confidence regarding the outlook for profit margins. The latest reading of +35% is the best outcome in almost three years. Meanwhile, the need to step up recruitment to meet these ambitions is visible in the net balance of +62% of respondents who envisage lifting employment over the course of the coming year.

Skill shortages remain the key challenge

When it comes to obstacles to activity, it is quite clear where the impediments are most pronounced. As Chart 4 demonstrates, it is the hiring of skilled labour which is providing the biggest headache for businesses working in the construction industry at the present time. This is something that is also picked up with some frequency in the anecdotal remarks provided by respondents to the survey. Labour shortages more generally are also identified as a problem by a relatively high proportion of contributors.

Meanwhile, the share pointing to financial constraints as a barrier has dipped from 56% to 49%, and, while still material, it is the lowest level for this series since Q2 2023. More significantly still is the diminishing proportion indicating inadequate demand is any longer a critical area of concern; this has now dropped to just one-quarter of those completing the questionnaire.

Delving a little deeper into the issue around skills, Chart 5 shows that it is the area of trades where hiring is most difficult. But it is evident that the challenge extends beyond this with respondents also signalling challenges in finding sufficient numbers of project managers and those professionals with quantity surveying type skills.

Chart 3: Twelve Month Expectations

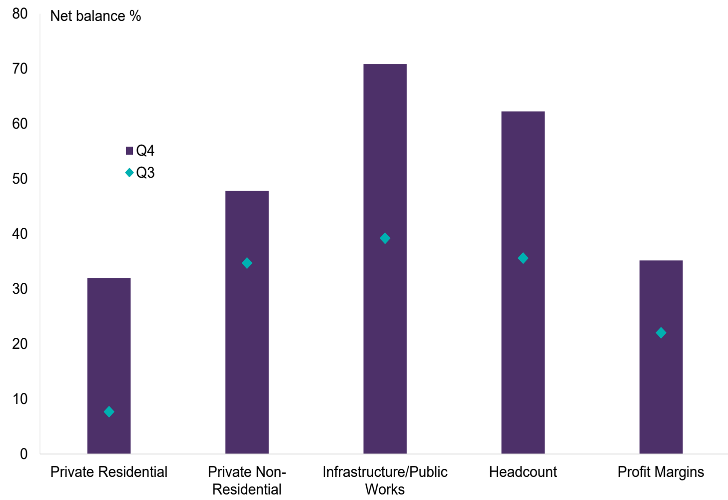


Chart 4: Obstacles to Activity

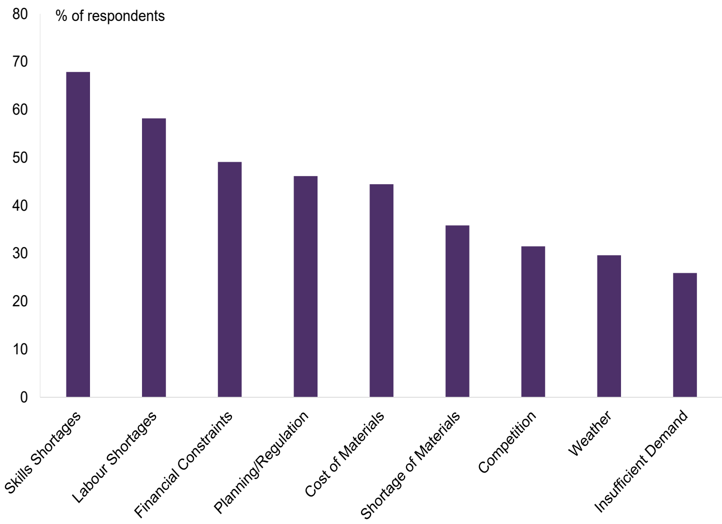
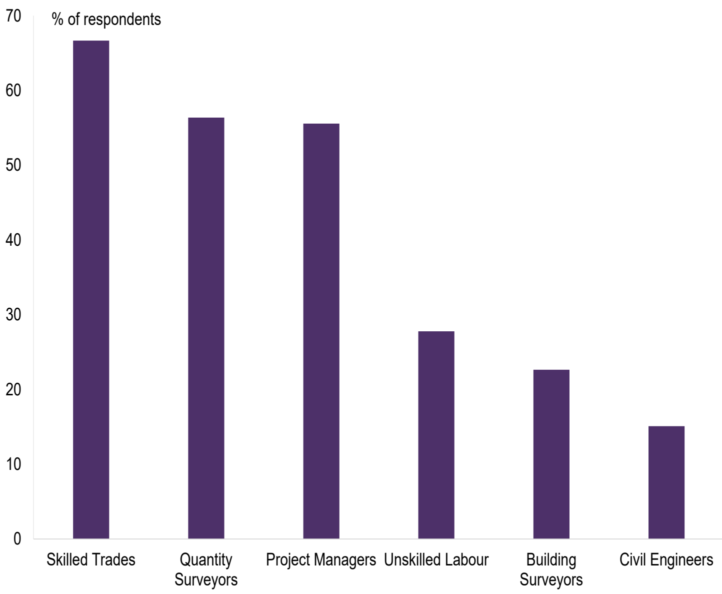


Chart 5: Labour Shortages Disaggregated



Regional Comments from Survey Participants in USA

Labour - Boston

Proposed tariffs on imported products into US may disrupt supply chain again - Chicago

Constant pressure to meet time demands and deadlines leads to a lack in quality; definite “good enough and we’ll come back later if we have to” mindset -Dallas

Hi tec sector is the dominant market locally - Hillsboro

Lack of skilled labor is the highest factor. Materials are more expensive but available from a global supply chain (e.g., Pipe from Turkey, Steel from UAE) - Houston

Permitting and regulation - Houston

Tariff decisions by new administration has created uncertainty and will be a risk for supply chains, project delivery and likely materials costs for the imported and even local manufacturers - Houston

Labor shortages - Houston

Prioritization - Kingsford

Preparations for 2028 Olympics - Los Angeles

Lack of skilled labour - Los Angeles

Solid demand - Miami

Collapsing tech industry to have impact on construction market - Murrieta

Speculation based on the presidential election results - New York

Skills - New York

The single largest factor affecting the projects we’re currently bidding on is reduced release of project funding. As a result project are taking longer to move from inception to site start. A number of projects have also been re-bid as there is a reduced appetite for Value Engineering - certain projects are instead being delayed by 12 to 24 months - New York

Immigration - New York

The construction market in New York and the U.S. faces several challenges: Labor Shortages: About 40% of the workforce may retire soon, making it crucial to attract younger talent. Rising Costs: Material prices and labor costs are increasing project expenses. Supply Chain Issues: Disruptions still affect material availability. Interest Rates: Higher rates complicate project financing, risking delays. Demand Outlook: Strong demand in public and manufacturing sectors, while retail declines - New York

Cost overrun, labor shortages, poor planning, forecasting, and budgeting, scheduling and poor document management etc - Orlando

Too much regulation - Portland

Labour shortages - San Francisco

Construction projects are plentiful. High demand for labor, particularly skilled - Scottsdale

It’s the same problems of highly skilled trade shortages and the same with professional services. Major projects competing can exacerbate this situation and most major projects need to pay for travelling tradesmen - Scottsdale

Still plenty of work - Seattle

High-tech, semiconductor and data centers are the boom in US - Sunnyvale

Lack of skilled manpower and client’s budget issue - Taylor

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 4 December 2024 with responses received until 20 January 2025. 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 2327 company responses were received globally.

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.

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