Q1 2024: USA Construction Monitor

Broad based improvement in sentiment in Q1

- **Workloads indicators gaining traction beyond the infrastructure sector**
- **Hiring expectations remain firm but labour shortages continue to be widely cited**
- **Profit margin metrics signal corner is being turned**

Although official data releases are pointing to a somewhat mixed picture when it comes to construction output, feedback to the RICS-AACE USA Construction Monitor suggests that there has been a material improvement in sentiment over the past quarter. The headline Construction Activity Index, which is a composite of a key indicators captured in the survey, climbed to a reading of +40 in Q1 which compares with +23 previously (Chart 1). This is actually the best result since the early part of 2022 but just to be clear, the underlying numbers are designed to reflect momentum and breadth (of responses) rather than levels of output.

Broad based uplift in workloads

A particularly interesting feature of the latest set of results is the more upbeat tone to activity metrics beyond infrastructure. Chart 2 graphs both current and expected workloads by sector (and compares the latest results with the Q4 2023 figures). Significantly, feedback around both residential and non-residential activity has strengthened in a meaningful way. Indeed, in the case of the latter, the first quarter net balance reading is not far off that for infrastructure, which itself remains firmly entrenched in positive territory. As regards the residential trend, this does appear broadly consistent with the NAHB index and also the ongoing rise in house prices. For infrastructure, it is once again the energy and transportation segments where the numbers are strongest although the results for digital and water/ waste are not far behind.

It is interesting that this improvement in sentiment has taken place in the face of a still quite restrictive credit environment. Expectation around the likely timing of interest rates cut have been pretty volatile in recent months reflecting both the resilience of the economy and some mixed messages from the Federal Reserve. The responses to the credit indicators included in the RICS-AACE survey point to little change over the course of this quarter but signal some modest easing should come through in the second half of the year (a net balance of just +6 of respondents are anticipating a more accomodating picture emerging through the next twelve months compared with nearer +20% in the

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.

previous survey.

New business enquiries continue to climb

We noted earlier that expectations for workloads have picked-up and that is the case for all three sectors. Alongside this, it is noteworthy that the series designed to capture new business enquiries (in net balance terms) has increased to +34% from +31% in the final three months of last year (Chart 3); this is the best reading since the final quarter of 2002. In another sign that the mood in the industry appears to be brightening, the current headcount metric jumped from +16% to +34% while the forward-looking measure edged up from an already strong +48% to +50%.

Labour shortages key challenge

Recruitment in the construction industry appears on the increase according to respondents to the survey and to meet ambitious development, significantly more hiring is anticipated. Yet it is interesting that when it comes to the issue of identifing the major impediments to expansion, the labour theme keeps recurring.

Chart 4 demonstrates this point showing that both skills and more general labour shortages are the most cited factors, as they were last quarter. Delving a little deeper into this question, almost three-quarters of contributors reference challenges in finding sufficient amounts of skilled trades with just over half referencing quantity surveying type skills and project managers.

Apart from labour, other factors noted as obstacles for the sector include the cost of materials and financial constraints. While the former was little changed from Q4, the latter pressure does appear to have lessened a little although it is still noted by around half of all those feeding into the latest survey. This chimes with the earlier reference to the largely stable credit picture.

Profit indicators more positive

Even though financial pressures haven't abated as yet, the series capturing the current environment around profit margins does provide further evidence that the cycle does appear to be turning; the Q1 net balance reading of +14% compares with -4% previously and marks the first positive reading for this series since the first half of 2022 (Chart 5).

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. One is to ask a simple net balance question about profit margins in twelve months' time following the approach around current margins. This replicates that improvement with the forward-looking result climbing from +20% to +33% in Q1.

Meanwhile, the point estimates provided by participants to the Monitor are just a little bit more cautious showing little change from the last survey. 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 labour costs are understandably perceived to be the main driver of the latter given the earlier points made although material costs are still anticipated to rise further over the coming year.

Chart 3: New Business Enquiries

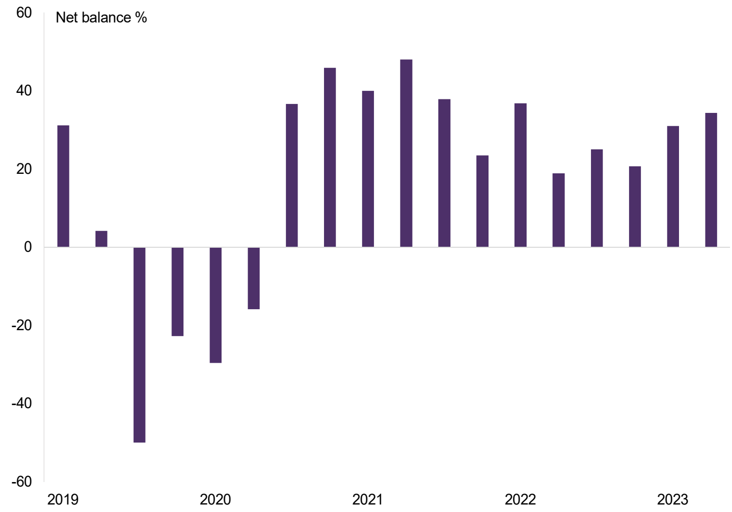


Chart 4: Factors Holding Back Activity

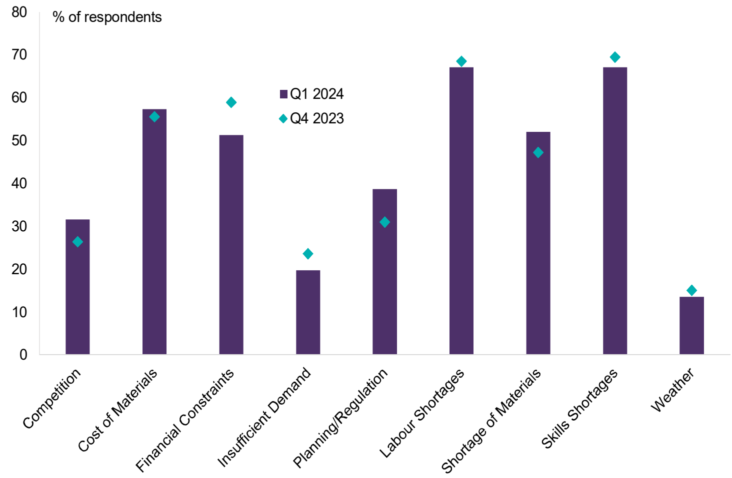
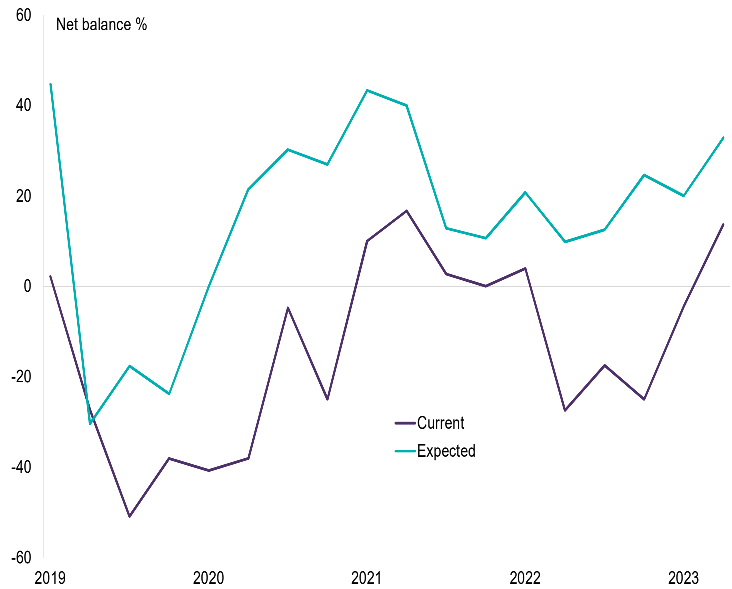


Chart 5: Profit Margins



Regional Comments from Survey Participants in USA

Difficulty in finding good workers and this in on all levels. - Alexandria

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

Government policy, infrastructure investment, permitting, credits - Houston

Government spending still high (election year) - Houston

Credit market and financing - Houston

This is just a theory, but I believe future concerns will be dealing with the upcoming digital currency and the potential federal controls it could have on spending. We have been required to reduce and deter our budgets for this fiscal year through FY 2028. Many infrastructure construction projects, which have been planned for many months, are being delayed for years, just out of the blue. Our local government has required this, and only vague reasons were given as to why - Jacksonville

Inflation and government interference in the free market - Long Island

We seem to be stabilizing, after 3 years of rapid escalation in costs - Los Angeles

US process industry is in a boom. High demand, limited resources of all types - Morris Plains

Public funds will run out - Murrieta

The US market is strong, in my opinion. Interest rates are high, the labor market is tight, and costs are up across the board. However, it seems interest rates have stabilized, and inflation seems under control. We have learned to tolerate volatile markets, but they seem ready to stabilize a bit this year - Philadelphia

Overregulation - Pine Grove

People, people, people - Plaistow

Chips Act, Infrastructure Act - Prtland

Too much regulation. - Portland

Shortage of skilled electricians is a massive issue especially amongst the Date Center sector. - Richmond

AI technology making significant impacts in certain areas of the industry such as automation, robotics, digital twins, data anslysis, etc - Roanoke

Tight labor conditions - San Diego

A lot of office space available which drives down the demand of new office construction - San Jose

Large Projects. - Scottsdale

Some large projects finish later and early next year - Seattle

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 13 March 2024 with responses received until 20 April 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 2770 company responses were received globally with 78 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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