ECONOMICS

RICS

Global Construction Monitor

Q3 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

Global construction activity still rising modestly although regional disparity widens

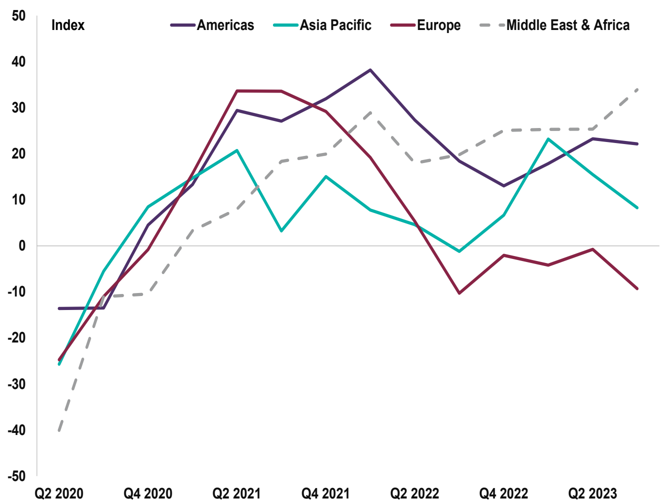
- Global Construction Activity Index points to a continued modest rise in headline industry output
- Europe still lags other world regions, while construction workloads once again rise firmly across parts of the Middle East
- Financial constraints and material costs still seen as the largest market impediments globally

The results of the Q3 2023 RICS Global Construction Monitor remain consistent with a modest increase in headline activity. That said, this is largely being driven by growth across the infrastructure sector, while private residential and commercial workloads are now reportedly flat to slightly negative at the worldwide level. On the back of the ongoing tightening in credit conditions over recent months (with a net balance of -31% of respondents globally reporting a further deterioration over the quarter) financial constraints are now the most widely cited market impediment at present.

Construction Activity Index continues to diverge at the regional level

From a global aggregate perspective, the Construction Activity Index (CAI) registered a reading of +10 in Q3. While this is a little softer than readings of +15 and +14 returned in Q1 and Q2 respectively, it continues to signal a modest expansion in activity overall. As illustrated in Chart 1 however, the regional breakdown shows widening divergence between the best and worst performing areas. Indeed, the CAI across Europe slipped to -9 from a figure of -1 in the previous iteration of the survey. Moreover, the latest reading for Europe is the weakest in four quarters and is now consistent with an outright decline in construction market activity.

Chart 1 - Construction Activity Index by Region

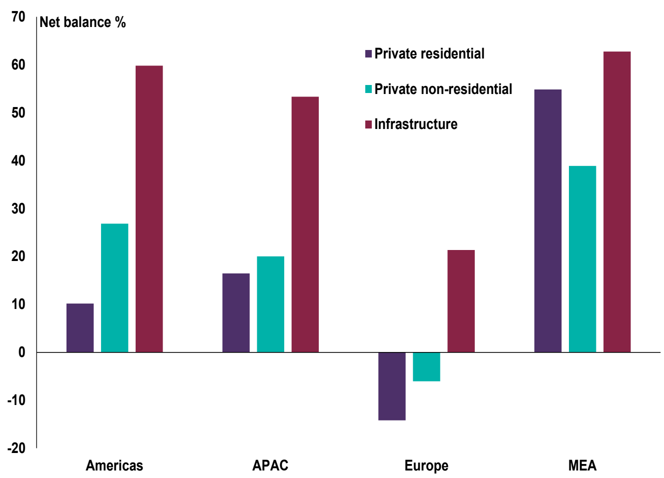


By way of contrast, the CAI moved higher across MEA, rising to +34 compared to +25 last time. Consequently, this marks the strong CAI reading across the region since the series was formed in 2020. Meanwhile, the Americas also exhibits a solid Q3 CAI reading of +22 (+23 beforehand), although momentum remains noticeably more moderate than that reported during the early part of last year. For APAC, the headline measure softened to +8, down from a value of +15 previously.

Infrastructure still expected to outperform across all world regions

Depicted in Chart 2, expectations for growth in infrastructure workloads exceed those across private residential and private non-residential (in net balance terms) throughout all broad regions. For the Americas and MEA in particular, the Q3 results show expectations being upgraded relative to last quarter, with respective net balances of +60% and +63% of respondents anticipating an increase in infrastructure output over the year to come (compared with +53% and +56% in Q2). Similarly, a net balance of +53% of contributors based in APAC foresee infrastructure workloads rising in the year ahead, albeit this slightly more modest than readings of +64% and +58% seen over the previous two quarters. Meanwhile, the outlook for infrastructure appears a little less buoyant across Europe in comparison, posting

Chart 2 - 12-Month Workload Expectations by Sector



a more moderate net balance of +21% (although this is slightly stronger than the reading of +15% seen last time around).

Sticking with Europe, both the private residential and non-residential sectors are now expected to see a fall in workloads over the year to come. In each instance, this represents a downgrade from last quarter. The country level data across the continent shows a largely consistent theme, with views on the outlook for private residential especially cautious in most nations. Moreover (illustrated in Chart 3 below), the latest CAI readings are negative in the UK, Germany, France, the Netherlands and Spain.

Elsewhere, the twelve-month expectations results for private residential and non-residential remain firmly positive for MEA as a whole. Within this, Saudi Arabia and the UAE continue to display amongst the strongest feedback on a global comparison, while Oman and Nigeria also returned upbeat projections regarding the prospects for growth across both sectors. That said, trends are not quite so firm in all markets tracked within the region. Both South Africa and Qatar continue to see workloads decline across all sectors at present, and this is anticipated to continue for the most part over the next twelve months.

With respect to APAC, the modestly positive regional expectations net balances for the private residential and commercial sectors masks some significant differences at the country level. Most notably, respondents in both mainland China and Hong Kong envisage construction activity falling in all sectors aside from infrastructure over the year to come. By way of contrast, the outlook in markets such as India, Australia, New Zealand and the Philippines is positive right across the board.

Meanwhile, disaggregating the data across the Americas shows expectations are somewhat negative for the private residential sector in the US. Meanwhile, expectations are largely flat across Canada regarding housing construction starts on the same basis. Nevertheless, private non-residential workloads are anticipated to rise in both nations during the next twelve months.

Chart 3 - Construction Activity Index by Country

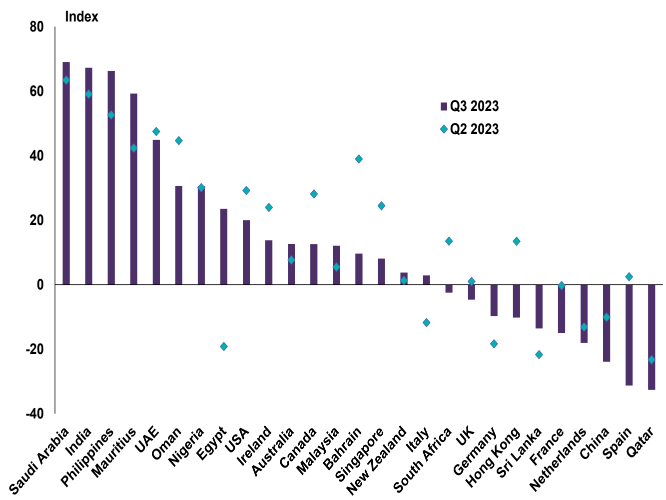
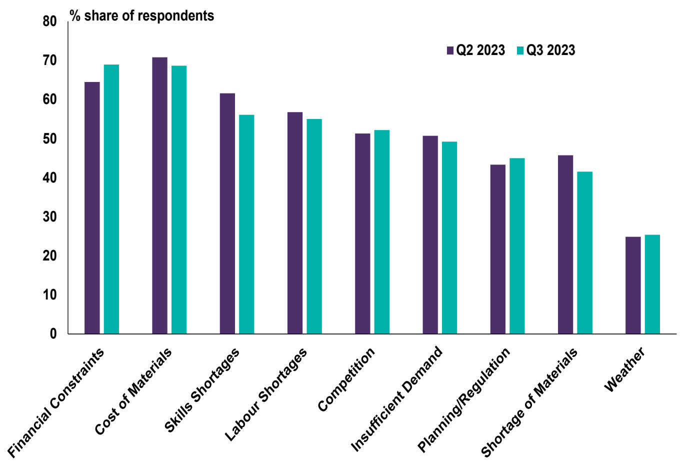


Chart 4 - Factors Limiting Construction Activity



Financial constraints and material costs remain the most widely referenced market obstacles

As demonstrated in Chart 4, the share of respondents citing financial constraints to be impeding activity rose to 69% during Q3 (an increase on 64% last quarter). Alongside this, the proportion of contributors reporting the cost of materials to be a factor weighing on the market eased slightly to 69% from 71% previously. In a wider context however, although clearly still a significant challenge, this share has now fallen back to a certain degree in each of the last six quarters (down from a high of 91% back at the start of last year).

At the same time, close to 55% of respondents point to skills and general labour shortages as hindering construction activity. Again, while still a prominent issue, these shortages are not quite as widely highlighted as during the early part of last year (when closer to two-thirds of global survey participants were referencing such shortfalls). In another sign of easing bottlenecks across the industry, 42% of respondents currently feel there is a shortage of materials available, much less than the share of 71% who were of this opinion eighteen months ago.

Employment expectations still slightly positive

At the global level, a net balance of +17% of respondents anticipate headcounts rising across the industry over the next twelve months. Even so, this is a little more conservative than the reading of +23% seen last quarter. When broken down by region, Europe is the only area in which employment levels are not expected to rise during the year ahead (net balance -1% compared to +5% last time). At the other end of the scale, employment expectations are exceptionally positive across MEA, returning a net balance +53% (the strongest reading in the survey's three-year history). Likewise, a solid net balance of +34% of respondents foresee headcounts rising across the Americas. While expectations are much flatter across APAC in aggregate (net balance +11%), the outlook is stronger in markets such as India (net balance +61%). Conversely, construction employment is anticipated to fall in China over the year ahead, posting net balance of -16% (a full national level breakdown of current and expected employment trends can be found on Chart 5 on the next page).

Chart 5 - Industry headcount trends by country

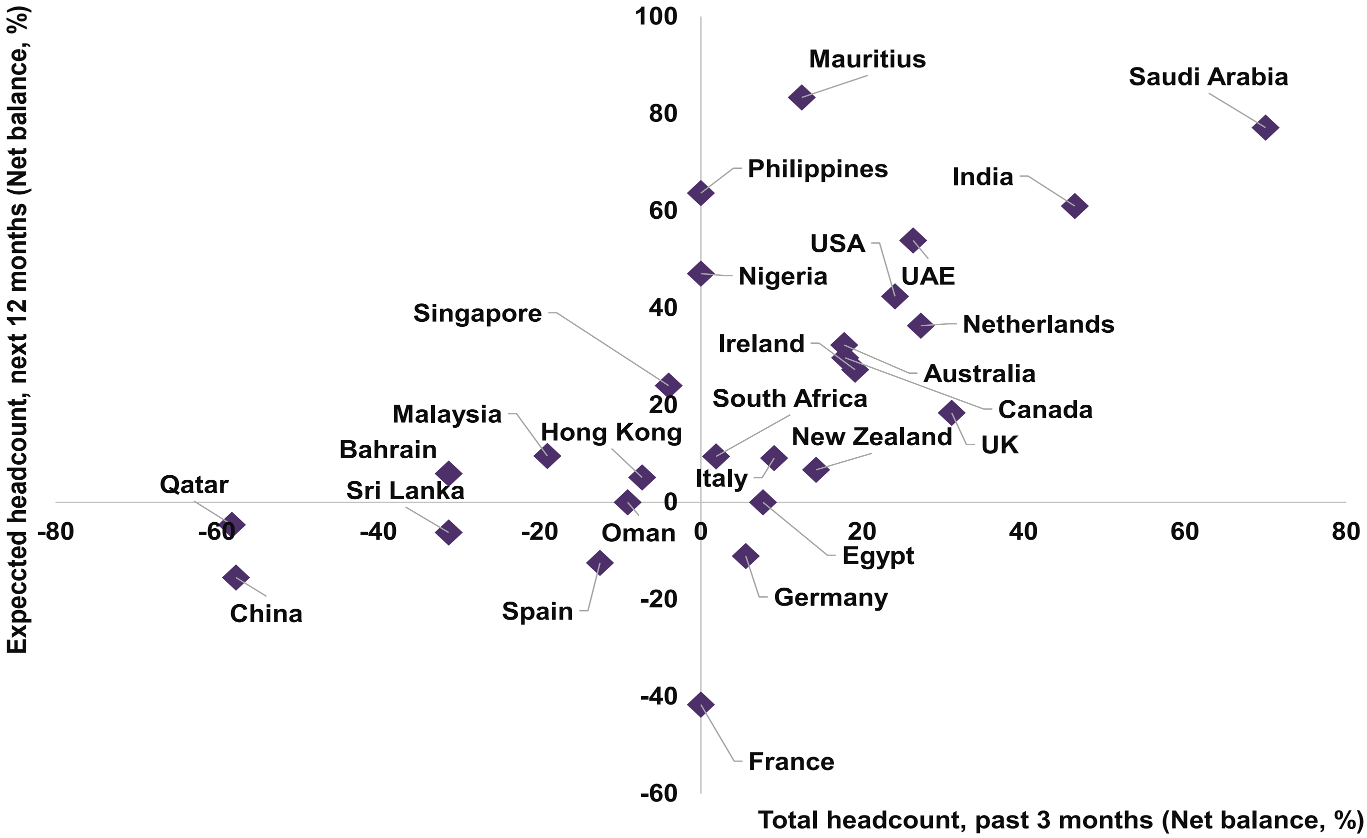
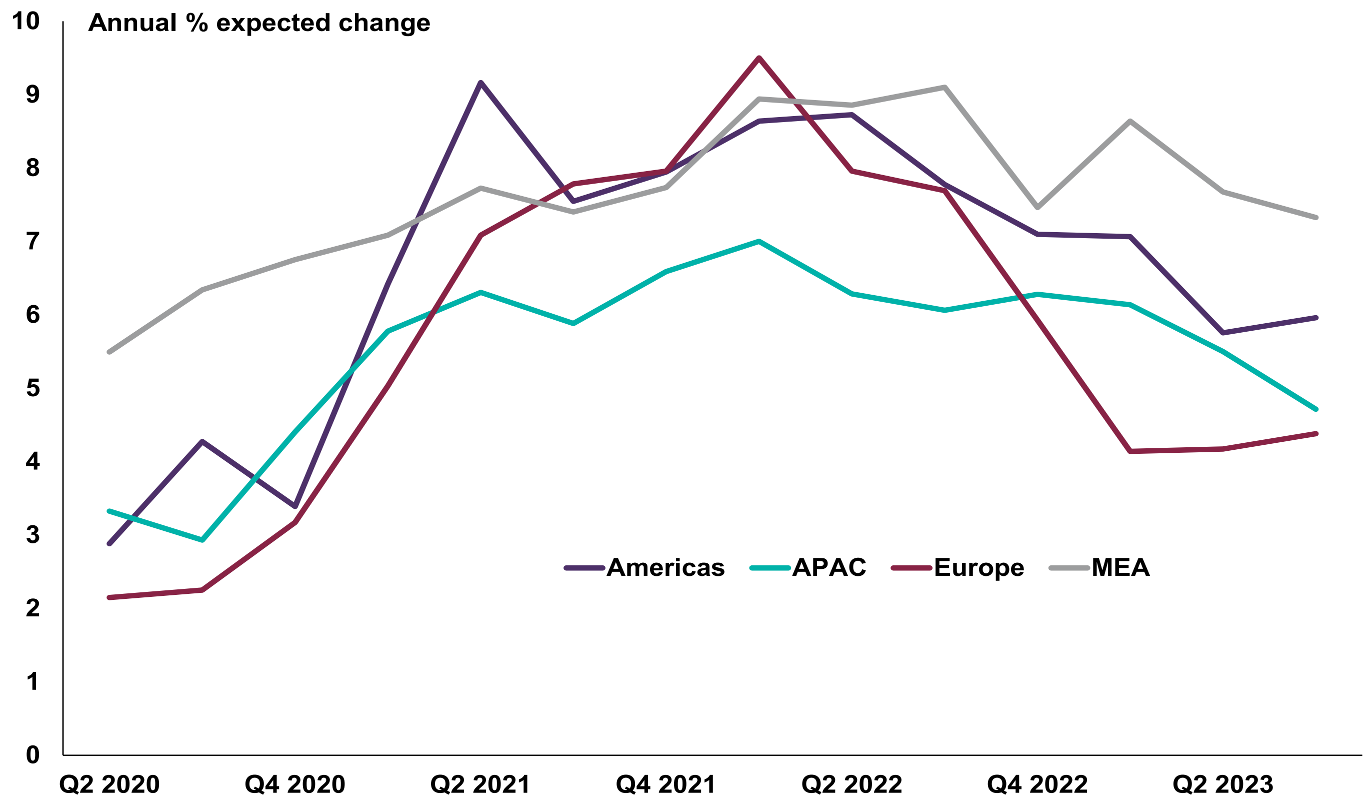


Chart 6 - Twelve-month construction cost projections



APAC: Construction Activity Index continues to soften with mixed results at the country level

The Q3 2023 GCM results for APAC indicate a continued slowing in momentum over the quarter, with the headline Construction Activity Index (CAI) easing from +15 to +8. However, a mixed picture is seen at the country level, with some national markets continuing to accelerate, while others lose further impetus.

India, Philippines remained robust while Singapore saw further easing

Shown in Chart 1, India and the Philippines continue to see strong momentum with the CAI surpassing +60. The robustness is also reflected at the sector level, as shown in Chart 2. Both nations are featuring broad-based growth in workloads across private and public sectors. Similarly, Malaysia also registered positive net balances for both private and public sector construction workloads, albeit a little less upbeat than across the aforementioned markets.

At the same time, the headline index in Australia, New Zealand saw modest improvements, Conversely, Singapore posted a visible moderation in growth, with its CAI softening from +24 to +8. Looking at the split of workloads by sector across the nation, the softening is mainly due to reduced workloads from the private non-residential sector (net balance at -17%), while its infrastructure push remains notably strong. At the more challenging end of the spectrum, both Hong Kong and China recorded a noticeable decline in the headline index, with drops from +13 to -10 and -10 to -24, both pulled down by faltering private sector activity. Grappling with macroeconomic challenges, Sri Lanka posted negative net balances for across all categories covered.

Australia, New Zealand and Sri Lanka anticipate recovery in workloads from private sectors

On the longer horizon, a somewhat different picture is seen in the 12-month expectations for workloads on the sector level in each market. Notably, in Australia and New Zealand the workloads in private sectors along with public sector are expected to recover on a 12-month basis. In contrast, Singapore, Hong Kong and China show more optimism in the outlook for infrastructure, registering positive net balances solely for the public sector, at +61%, +32% and +41%, respectively. In Sri Lanka, the private sectors are also expected to improve slightly over the year ahead, recording net balances of +13% for residential and +19% for non-residential workload expectations.

Financial constraints and material costs are the top concerns in APAC

Amidst inflationary pressures, material costs remain the predominant factor hindering construction activities, featuring as one of the top 3 concerns in 8 of the 9 surveyed markets. Concurrently, with heightened interest rates, financial constraints ranks among the top 3 challenges in 6 of the 9 markets. Both of these series underscore the industry's struggle with current macroeconomic conditions.

Chart 1 - Construction Activity Index

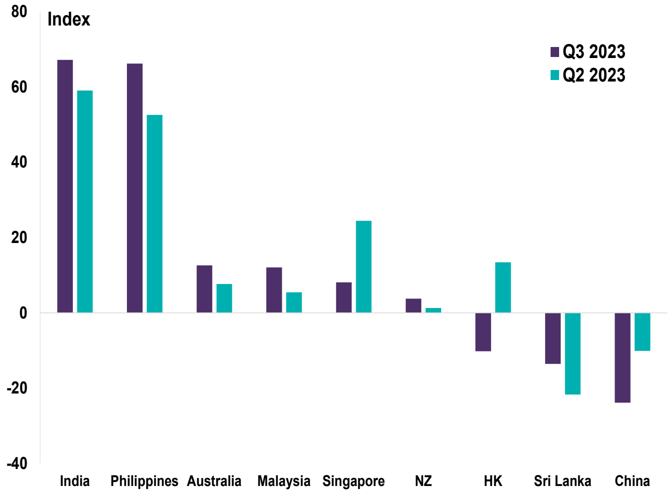


Chart 2 - Current Workloads/Expectations by Sector

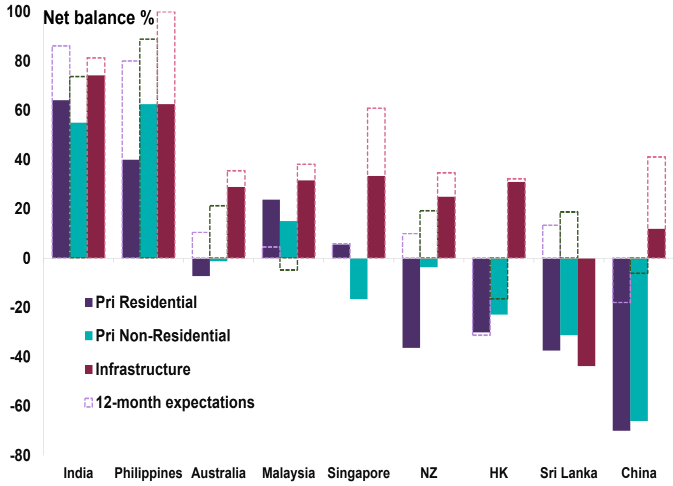
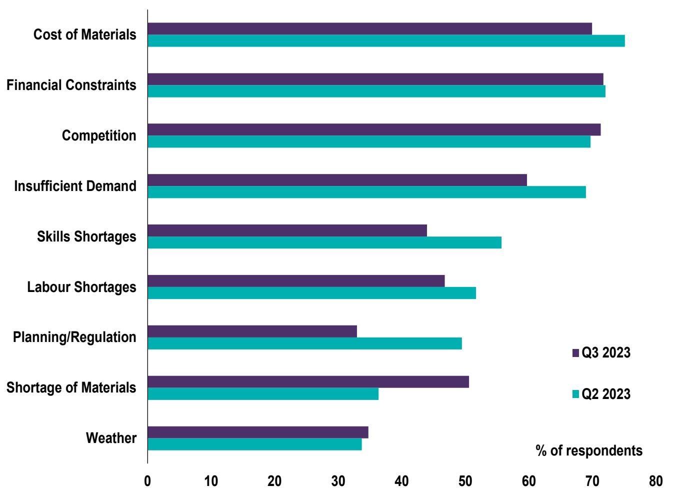


Chart 3 - Factors Holding Back Activity



Regional comments from survey participants in APAC

Australia

immigration of skilled workers, who are not skilled in the Australian way. - Brisbane

Inflation and Interest Rates. - Brisbane

Contractor insolvency, Sub Contractor insolvency, cash flow, rising construction costs, contractors avoiding risky projects. - Brisbane

Lack of processes and procedures for everyday tasks. - Brisbane

Adversarial standard forms of contract, mainly driven by the public sector. - Brisbane

Union and Industrial Relations disruption. - Brisbane

Labour shortage. - Brisbane

Government expenditure on electrical substations and transmission infrastructure driven by demand. - Brisbane

Industrial relations. - Brisbane

Construction market is currently buoyant in the south-east Queensland area due to the Brisbane 2032 Olympics and other construction activity. There is currently lack of suitable consultants and contractors in the region to deliver the pipeline of work. - Brisbane

Weather/monsoon/cyclone. - Cairns

Lack of skilled labour and supply chain issues. - Cairns

Increased regulation directly increasing building costs. - Cairns

Low productivity, inefficient contracting and procurement methods, uncertainty about construction costs. - Queensland

Quality of skills is dropping as well as quantity. The common sense and practical skills are being lost, ability to quickly problem solve is being lost and general construction knowledge is lowering. - Gold Coast

The residential housing market has stalled but we are yet to see the impacts of the end of that boom in real terms on sites. - Hobart

Interest rate keep rising. - Melbourne

Labour shortages are killing works. - Perth

There remains a shortage of skilled and semi-skilled blue collar works. - Perth

Lack of planning and project controls. - Perth

Interest Rates Rising impacting costs. - Perth

Shortage of qualified trades and staff. - Perth

Skilled labour shortages and high demand. - Sunshine Coast

Unqualified/Underqualified Personnel heading most private & public companies. Many qualified personnel from overseas overlooked for higher positions due to the top management. - Sydney

Government backlash with consultants across the sector. - Sydney

Interest rate, supply chain and labour source. - Sydney

Change of Government at State and National level. - Sydney

Availability of skilled tradesmen. - Sydney

Shortage of consultants, contractors, workers. - Sydney

Consultants producing less than adequate works, larger scale consultancies are more focused on profits than quality of work and training lower entry staff. - Sydney

Delays in Planning Approvals. - Sydney

Subcontractors having an accumulation of tenders and a high strike rate. This impacts availability and cost due to market demands. - Sydney

Client organisations and their risk appetite in terms of risk sharing with project stakeholders like Head Contractors. - Sydney

Climate change. - Sydney

Time taken by regulatory authority approvals/consents. - Taree

Bangladesh

Dollar shortage. - Chittagong

Procurement of materials is quite challenging. - Dhaka

Brunei

Global economic slowdown, high inflation and high cost of borrowing. - Bandar Seri Begawan

The government needs to invest in more infrastructure works. - Bandar Seri Begawan

China

More regulation is called for. Baoding

Slow consumer demand. - Beijing

Insufficient funds. - Beijing

Lack of fiscal support. - Beijing

Policy orientation is indispensable. - Chengdu

Investment efficiency is not high. - Chengdu

Overbidding in competition. - Chengdu

Significant impact from macro policies. - Chengdu

Low tide in the industry. - Chongqing

Market might recover with less regulation now but cost will erode profit. - Guangzhou

Government spending and market dynamics are both important. - Hangzhou

Unfair competition. - Jiaxing

Digitalisation needs improving. - Kunming

Population outflow. - Ordos

Demand sliding is lethal. - Shanghai

Constant investment in infrastructure connecting Shanghai and other cities paid off. - Shanghai

Market size shrinks and now innovation is key competitiveness. - Shanghai

Market instability. - Shenzhen

Sales slowed. - Wuhan

Decreasing construction demand, sluggish market, resource optimization through reforms, and significant market impact from policy changes. - Zhuhai

Hong Kong

Political climate. - Hong Kong

Financial support from the government affecting construction market in Hong Kong. The input of more financial support from the government would really stimulate and encourage more contribution of the construction company to the market. - Hong Kong

An aging labour supply not being replenished. - Hong Kong

Economic condition, demand of housing. - Hong Kong

Workers permitted from other countries. - Hong Kong

Government policy on shortage of labour/professional. - Hong Kong

Short of skilled worker, increase of material cost. - Hong Kong

BIM for MEP is not mature in the market. Well coordinated MEP is difficult to obtain as insufficient experience modeller and BIM coordinator in the market. - Hong Kong

Additional legislation requirements, such as work in a hot environment and safety requirement. Consequential damages by inclement weather, such as typhoon and black rainstorm warning. Unstable of exchange rates, such as materials import from overseas. Increase of interest rates, such as bank loan. - Hong Kong

Implementation of BIM. - Hong Kong

Industrial accident concerning workforce loss poses high hazard to negate productivity and safety level that they are inversely related to each other. - Hong Kong

Number of graduates from university is declining and more and more experienced people go for migration. - Hong Kong

interpretation of the NEC and practice of the government authorities. - Hong Kong

Public works and local economy. - Kowloon

Shortage of tradesman in particular the trade in building of RC structural frame. More and more MIC project involved is one of the crucial factors to sort out the skilled labour shortage in the industry. - Shatin

Health and Safety. - Tsuen Wan

The government increases subsidies for recyclers. - Hong Kong

Shortage of skilled labour and management. - Hong Kong

Regional comments from survey participants in APAC

India

Production incentive scheme by government increased work. - Ahmedabad

Availability of skilled workers. - Bangalore

Local government Policies. - Bangalore

Extensive cost cutting and labour welfare. - Bangalore

Availability of skilled labour and timely availability of statutory approval and adequate funding. - Bangalore

Procurement turnaround time and delivery timelines. - Bangalore

Labour migration, talent retention, techno commercial capabilities. - Bangalore

Political problems. - Chennai

Construction workers are seasonal workers, need to skill them very often. - Chennai

Shortage of labours and lack of automation at site. - National Capital Region

Residential - so many inventories are available but less buyers. - Gurgaon

Lack of knowledge & unprofessional attitudes. - Gurgaon

Shortage of skilled manpower. - Jamnagar

High material cost and skilled labour. - Mumbai

Any unforeseen activities like war in other countries. - Mumbai

Development Control and Regulation from the state governments affects construction market as well as post covid situation like lack of job opportunities also affect construction market. - Mumbai

Corruption is the major issue in India. - Vadodara

upskills of skilled labor. - Vijayawada

Indonesia

The quality of planners/schedulers is abysmal and the cost estimator/qs are a dying trade that is being replaced by BIM/automation. - Indonesia

Presidential elections early next year. - Indonesia

Japan

Inflation, labor shortage. - Tokyo

The soaring real estate prices in the metropolitan area are causing a surge in suburban real estate prices. - Tokyo

Labour shortage and soaring material cost. - Tokyo

Malaysia

Availability of skilled foreign workers. - Penang

Climate conditions as well as war affecting the supply chain. - Kuala Lumpur

Currency weaken. - Kuala Lumpur

Currency fluctuation. - Kuala Lumpur

Inflation, Increase in cost of living affected the purchasing power. - Kuala Lumpur

Heat waves and hot weather causing slight delays. - Kuala Terengganu

The market demands for the product and the production cost to produce the product, for example, selling prices versus the construction cost. This factor has slowdown the market significantly. - Petaling Jaya

Stability of existing government and then introducing more projects. - Petaling Jaya

New Zealand

Big peaks and troughs in demand. - Auckland

Government interference, over-regulation & obsession over meaningless contrived cult-like ideologies, such as ‘sustainability’, ‘resilience’ & ‘diversity’. - Auckland

Lack of experienced management. - Auckland

We are currently in a recession and have an election in October. - Auckland

The national election seems to have hindered some projects progressing at the moment. - Auckland

Skills shortages. - Auckland

Uncertainty in the run-up to the NZ general election,14 October 2023. - Christchurch

Debtor default. - Christchurch

Local authority works have not been as much as predicted due to various reasons which has reduced the total number of projects in the market over the year. - Nelson

Inflation and cost of living. - Queenstown

Philippines

Labor escalation due to government mandatory wage increase. - Makati

Increasing prices of construction materials. Skilled & unskilled workers’ demand for better working conditions and compensation. - Muntinlupa

Availability of materials needed in the region. - Tuguegarao City

Singapore

Construction remains vibrant with some capacity for future demand but cashflow remains a concern with contractor default potential being quite high, since margins are constrained and liquidity has not returned to pre-Covid levels. - Singapore

Shortage of skilled labour, increase in prices of materials and contractor’s overheads and site running costs. - Singapore

Productivity and safety. - Singapore

Supply control of materials to lone approved supplier. - Singapore

Increase in labour & material cost. lower demand due to global pandemic. - Singapore

Competitive Fee. - Singapore

Foreign investment and climate change. - Singapore

The above is based on my observations on market situation rather than a firm. - Singapore

Higher levy on foreign workers. - Singapore

Supply chain disruption and inflation. - Singapore

Sri Lanka

Guideline for selection of Consultant. - Colombo

Incentive payment to workers. - Colombo

Exchange rate. - Colombo

Investor hesitation to venture into projects due to uncertain political and economic status currently. - Dehiwala

Not using proper technology and related skills to certain extent. Using poor machinery application. - Gampaha

Exodus of staff to overseas locations. - Gampaha

Change of governing policy. - Kaduwela

Lack of New Projects, Delay in Payments by the Clients. - Malabe

Has to open letter of credit. - Negombo

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. - Malabe

Dispute Resolution. - Negombo

Taiwan, Republic of China

Local government’s regulation. - Taichung

Thailand

Owners set budgets not realistic against the product required resulting in having to use lower tier contractors who does not invest in skilled labour, technology and safety. - Bangkok

Vietnam

Dispute resolution activity remains the same. - Hanoi

Delay in issuance of construction permit halts construction activities, tightening of loans and control over corporate bonds issuance result in difficulties in raising fund for real estate developments. - Ho Chi Minh City

During economic downturn, project funding arrangements are more onerous. - Ho Chi Minh City

Europe: Workloads continue to decline across the private residential and commercial sectors in much of Europe

The Q3 2023 survey results for Europe point to a further deterioration in trends across the construction sector, with tightening credit conditions and a weak economic outlook weighing on activity. Indeed, the ongoing decline in private residential workloads over much of the past year intensified during Q3, while activity across the private non-residential sector also fell back at the pan-European level.

Construction Activity Index slips deeper into negative territory

Across the region in aggregate, the CAI produced a reading of -9 in Q3, down from a figure of -1 beforehand. Consequently, this measure is signalling an outright downturn in headline activity. Shown in Chart 1, most European nations tracked now exhibit a negative CAI reading, with several markets seeing a deterioration over the latest survey period. For Spain in particular, the latest CAI value of -31 marks a significant fall from +2 beforehand, driven by a noteworthy decline in workloads reported across all sectors.

Alongside this, the UK, France and the Netherlands all returned a weaker CAI reading to some degree compared to the previous iteration of the survey. In each instance, both private residential and non-residential workloads are reportedly falling, although the infrastructure sector continues to display a more positive picture. For Germany, even though the latest CAI figure of -10 is a little less downbeat than -18 seen last time, the current reading remains consistent with a decline in overall construction output. Bucking the broader trend however, Ireland posted a positive CAI reading of +14, with feedback from respondents signalling a modestly expansionary trend in workloads across all sectors (although the Q3 net balances did moderate to a certain extent in each case).

Financial constraints overtake material costs as the most widely cited market impediment

As depicted in Chart 2, the share of contributors referencing financial constraints to be hindering construction activity rose to 72% at the European level during Q3. This is up from 60% last time and also marks the highest proportion reporting such issues since the series was formed in early 2020. At the same time, high material costs were singled out as an obstacle by close to two-thirds of respondents across Europe, albeit this proportion has at least eased from a high of 91% seen back in Q1 2022. Meanwhile, labour shortages were encountered by 58% of respondents across the region during Q3, although this is not quite as elevated as the recent peak of 73% seen in Q4 2021.

Outlook for infrastructure remains generally solid across the continent

Demonstrated in Chart 3, the infrastructure sector continues to exhibit a brighter outlook relative to all other categories covered, with a net balance of +21% of respondents anticipating a pick-up in output over the year ahead. When disaggregated by country, virtually all European nations tracked posted positive twelve-month infrastructure expectations, led by particularly strong readings in Italy and Ireland (returning respective net balances of +42% and +33%). By way of contrast, Spain is the only European nation where a decline in infrastructure activity is envisaged, returning a net balance of -25% in Q3. Away from infrastructure however, expectations are more cautious for private residential and non-residential output, with feedback across most nations (except Ireland) pointing to a flat or negative trend for the coming twelve months.

Chart 1 - Construction Activity Index by Country

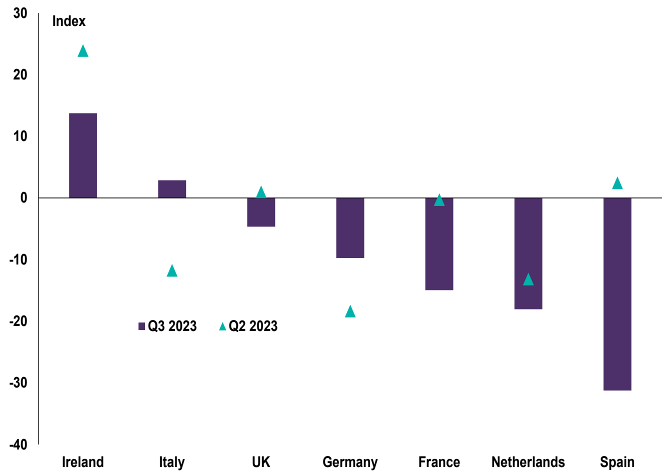


Chart 2 - Factors limiting construction activity

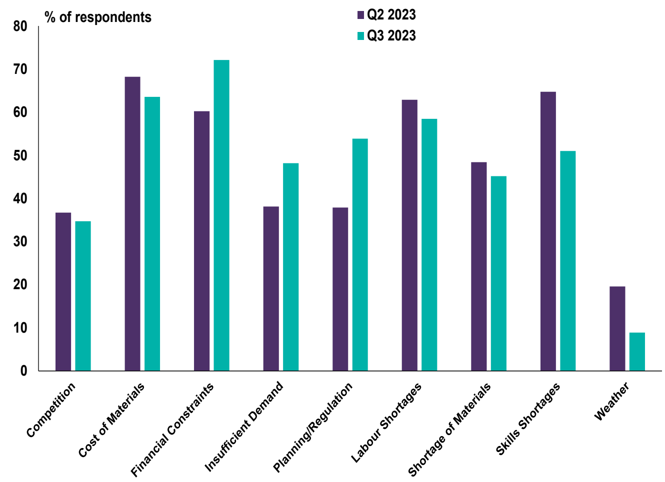


Chart 3 - 12-month Expectations

Regional comments from survey participants in Europe

Belgium

Confidence in EU policies and their translation by local authorities are crucial. -Brussels

Bulgaria

Low fee levels for professional consultants.- Sofia

Denmark

Changes to land use. - Copenhagen

France

Brexit is impacting the market. - Paris

Germany

State aid or layoffs in housing construction. - Frankfurt

Various large projects running in parallel - Glückstadt

Shortage of labor and skilled workers, skills and morals/ethics on the part of the contracted (general) companies. - Hamburg

Over-regulation by specialist offices, e.g. monument protection, parks department, etc. - Munich

Hungary

Interim financing of sub-suppliers - Budapest

Ireland

Skills shortage for contractors; cost of living for workers in Ireland. - Cork

Planning restrictions are hampering new construction developments. - Dublin

Major factor affecting construction is lack of graduates entering the market. - Dublin

Limited availabilty of suitable contractors. - Dublin

A lot of subcontractors are at full capacity so we now have some subcontractors declining to tender new projects. - Dublin

Labour shortages and expetations of new job seekers.- Dublin

Italy

Need to increase QS capacity in private and public field. Need to evolve the industrialisation of construction techniques in order to resize the cost of construction per sqm/sqf mainly for Resi and affordable living industry. - Milan

Netherlands

Possible delays/complications in construction projects due to, among other things, legislation/regulations (nitrogen / pfas), introduction of wkb, capacity at municipalities, objection procedures. - Montfoort

Poland

Political instability impacting investor decision making. October elections may significantly impact investor sentiment.- Warsaw

Portugal

Limited contractor and subcontractor capacity. - Lisbon

Romania

Lack of construction skilled and unskilled personnel. - Bucharest

Spain

The political situation. - Barcelona

The lack of comprehensive understanding of the whole project for each stakeholder who participates in it. Important impact of individual interests. - Barcelona

Difficulty in accessing bank financing, financing must be closed with investment banks.- Madrid

Energy prices, political situation. - Madrid

Shortage of qualified labour. Lack of culture of maintenance of buildings and facilities.- Valencia

Sweden

Currency exchange and impact on prices for continental contractors repatriating fee / costs to home country. This inflates total prices for clients without yielding the client additional value. - Malmo

Switzerland

Inadequate staffing levels at local authorities (planning consent). - Zurich

Weak productivity, too high planning costs. - Zurich

United Kingdom

Competition, people under cutting on tenders. - Bristol

Planning hold ups and inflation inertia. - London

Construction planners hard to obtain. - London

Funding difficulties for developers leading to non payment of consultants and contractors (causing delays). - London

HS2. - Sunningdale

Government reliance on negotiated contracts causing hyperinflation not reflected in tender indices. - Warrington

Middle East and Africa: Construction workloads continue to rise, with forward-looking indicators still firmly positive

The Q3 2023 GCM results across the Middle East and Africa continue to signal a solid construction market backdrop. Indeed, construction workloads are still seen rising across all sectors at the headline regional level, led by particularly strong growth in private residential development activity. What's more, twelve-month expectations point to continued robust expansion in construction output, with most nations tracked across the region displaying a positive outlook.

Construction Activity Index picks-up further during Q3

From a regional aggregate view, the headline CAI returned a reading of +34 in Q3. This is up from a figure of +25 beforehand and marks the strongest reading since the series was formed in early 2020. As such, this metric points to a further strengthening in momentum, with MEA continuing to comfortably outperform all other world regions at present.

Looking at the country level data (displayed in Chart 1), Saudi Arabia continues to exhibit the strongest CAI reading on both a regional comparison and relative to all other markets tracked globally. Elsewhere, upbeat CAI readings were also posted in Mauritius, the UAE, Oman, Nigeria and Egypt, with each market seeing broad-based growth in construction workloads during Q3. At the weaker end of the spectrum, the CAI in Qatar remains deeply negative, driven by a further decline in workloads across all sectors. Meanwhile, for South Africa, the latest CAI figure of -2 (down from +13 previously) is now signalling a broadly stagnant backdrop.

Back at the regional level, Chart 2 shows new business enquiries continuing to climb in Q3, with the latest net balance of +28% representing a fresh record high for the series. Within this, Saudi Arabia (net balance +80%) and the UAE (+54%) are seeing the sharpest uplift in new business enquiries. With respect to employment trends, a net balance of +7% of respondents across the region cited an increase in headcounts during Q3 (up from a flat reading of -1% returned in Q2). Again, respondents based in Saudi Arabia reported the firmest pick-up, with a net balance of +70% recorded across the nation. Elsewhere, headcounts were also seen rising in the UAE, Mauritius and Egypt.

Twelve-month expectations remain upbeat

Chart 3 maps the recent trend in workloads across all sectors against the relevant twelve-month expectations series. In each case, sentiment regarding the outlook is even more upbeat than that looking at the recent picture. In particular, growth in infrastructure workloads is anticipated to accelerate over the year to come, with the net balance across MEA in aggregate rising to +63% from +56% last time (another record high). Likewise, private residential output is also seen gathering further impetus over the year ahead. For private non-residential, although the recent rise in workloads has been more modest relative to aforementioned sectors, contributors nonetheless envisage a solid increase in development activity going forward.

Despite the overall optimistic tone across much of the Q3 data, over three-quarters of respondents based in the region cite challenges with respects to material costs and financial constraints. At the same time, although 49% of MEA respondents in aggregate report experiencing skills shortages, this share is much higher in markets such as Saudi Arabia (where 70% note difficulties acquiring skilled personnel).

Chart 1 - Construction Activity Indices by Country

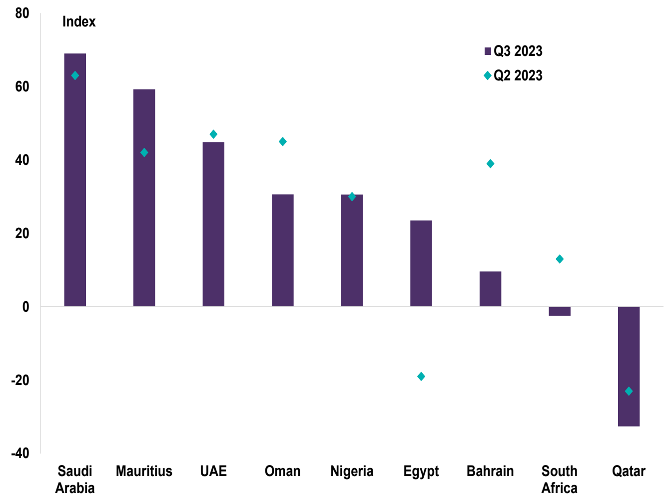


Chart 2 - New business enquiries (MEA aggregate)

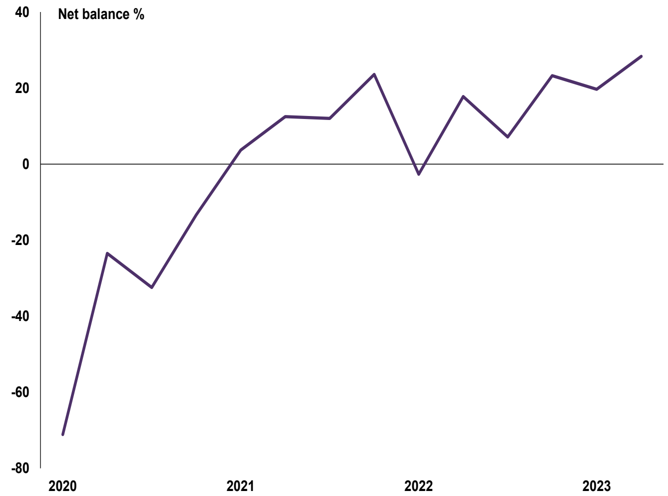


Chart 3 - Current conditions / twelve-month expectations

Regional comments from survey participants in MEA

Bahrain

Shortage of materials. - Manama

VAT changes in Bahrain, supposed to increase from 10% to 15% in the coming years. - Manama

Supply more than demand plus interest rates are high. - Manama

Egypt

Unexpected inflation and devaluation of local currency. - Cairo

Kenya

Exchange rate fluctuations against the local currency has made imported inputs more expensive. - Nairobi

Insufficient government financial capacity, lagging payments, and rising prices are the main factors affecting the activity of the construction market.- Nairobi

Kuwait

Construction industry is declining. - Ardia

Lebanon

Political deadlock. - Brummana

Mauritius

Labour shortages and sea freight for imported materials. - Moka

Lack of skilled labour. - Pheonix

Cost of shipment for imported materials is very high and cost of fuel also is very high, this in my opinion is having a big impact on the construction market. - Riviere du Rempart

Nigeria

Inflation and high cost of living. - Abuja

High inflation and unstable foreign exchange. - Ife

High cost of materials. - Lagos

Oman

Scarcity of skilled labour. - Muscat

Competition with lower capacity entities.- Muscat

Changes in law and regulation.- Muscat

Qatar

Requirement to incorporate national citizens into the workforce. - Doha

Lack of Government projects / public investment.- Doha

Public works investment suspended.- Doha

In Qatar, experienced contractors are not many. Using local contractors, bad quality works. Using foreign contractors, drive up construction costs. Foreign contractors are not willing to come in, as State holds absolute power in termination and is not willing to compromise. -Doha

Cutting back on funding for 'mega projects'. -Doha

Lack of new projects at the moment.- Doha

Government Project slows down after hosting Fifa 2022.- Doha

Saudi Arabia

Skilled professionals and the time it takes to onboard staff into KSA. - Riyadh

Lack of experience in the expected risks when making decisions, especially by the client. - Riyadh

Numerous projects to be procured in same timeline - mega projects. - Riyadh

Procurement delay, contractual issues, labour transfers.- Riyadh

Huge volume of public and private tenders. - Riyadh

Shortage of skilled personnel, higher salary expectations. - Riyadh

Availability of experienced staff resources and Clients still squeezing margins.- Riyadh

Location of the project has a big impact to the Cost of the project.- Riyadh

South Africa

Organised criminals targeting major construction projects a.k.a Construction Mafia. - Cape Town

High unemployement rates, low investments in construction, high interest rates, low profit margins. - Cape Town

Electricity supply constraints have a serious negative impact. - Cape Town

Very poor demand, resulting in extreme competition. - Cape Town

Lack of skilled site construction and management personnel. - Dannhauser

Construction Mafia, corruption and Politics.- Durban

Construction mafia increasing P&G costs. -Durban

Plan Approvals by authorities. - Johannesburg

General economic sentiment and energy crisis. - Johannesburg

Interest rate at 11.75% has stopped private residential work completely. - Johannesburg

More training and more leadership and less remote working are required to move the dial. - Johannesburg

Energy Crisis and global recession. - Johannesburg

UAE

Investment in site operative skills both in training and development as well as renumeration. - Abu Dhabi

Competition, skilled labour, construction cost, margin drop.- Abu Dhabi

Mega projects in KSA is straining the materials market in UAE and subsequently is driving up costs in UAE.- Dubai

Shortage of grade A contractors.- Dubai

Visa rules for employees. -Dubai

Material prices.- Dubai

It is a contractor's market - influence by the mega and giga projects programs in KSA; tenders in KSA are showing variances of circa 400-800% over the same scopes done in UAE, based on exaggerated OH&P. Dubai

Adverse payment durations across the Middle East (in Both KSA and UAE), and a saturation of Construction related Companies in the market increasing competition and reducing market pricing / fee levels.- Dubai

Lack of availability of Tier 1 contractors and subcontractors in the region.- Dubai

Zimbabwe

The macroeconomic environment in our area has significantly affected the construction market. Unstable currency and run away inflation has left many projects failing to reach completion and a lot of legal disputes in contracts. Political environment has also been characterised by a lot of discontent as the major projects that are done are government and there is no harmony. - Harare

North America: Housing workloads turn negative but infrastructure remains solid

The Q3 Construction Monitor feedback in North America (conducted in conjunction with AACE in the US and CIQS in Canada) is still, on balance, positive albeit a little less so than in the previous quarter. This is demonstrated in Chart 1 which shows, that although the headline Constructive Activity Index in both countries slipped back somewhat, they continue to display a resilient trend in the face of the monetary tightening that has been sanctioned over the past year.

Residential comes under pressure

Unsurprisingly given the challenges facing housing markets in both countries, the latest survey suggests that housebuilders may be slowing the pace of building out projects (Chart 2). The current workloads net balance reading for Canada slipped to -11% from +23% while, in the US, it retreated from +24% to -8%. The contrast to this is the insights provided by respondents around developments in the infrastructure space. In the case of Canada, the Q3 net balance was +33%, down from +41% in Q2, while in the case of the US, it was +46% (little changed from the Q2 survey). The strong numbers do appear to reflect the policy levers pulled by both governments in the wake of the pandemic.

Moreover, this pattern is broadly replicated in the forward looking 12 month expectations indicators for workloads. In the case of Canada, the infrastructure net balance stands at +48% while in the US it is a very strong +71%. In both cases, the results were slightly upgraded in the latest survey. Meanwhile, respondents are not anticipating a quick turnaround when it comes to residential activity. Alongside this, the projection for commercial workloads is modestly positive.

Skill shortages remain a challenge

Notwithstanding the slowdown in housebuilding, recruitment remains a key issue in the wider construction industry. The proportion of respondents identifying labour supply in general as an impediment to activity stands at close to 80% in the US and 70% in Canada. When it comes to skills, the results aren't very different. The sourcing of skilled trades is viewed as particularly problematic but project managers and quantity surveyors are other areas in short supply according to the feedback received.

Unsurprisingly given the interest rate environment, financial constraints are seen as a significant problem for the industry, with 60% of contributors in both countries drawing attention to this factor. Alongside this, around 40% of respondents indicated that credit conditions have worsened over the past three months, with a similar share anticipating a further deterioration over the next quarter.

Some improvement in profits outlook anticipated

Chart 3 graphs the responses to the questions around profits margins in net balance terms. The message coming through from contributors is that some modest uplift is anticipated over the course of the next twelve months. That said, the point estimate projections (which is the other way we attempt to gauge the outlook for profits in the survey) are still signalling a broadly flat outlook with construction costs viewed as likely to rise at least as fast as tender prices. Skilled labour costs are seen as the main driver of the former with pressure from materials prices slackening somewhat.

Chart 1 - Construction Activity Index

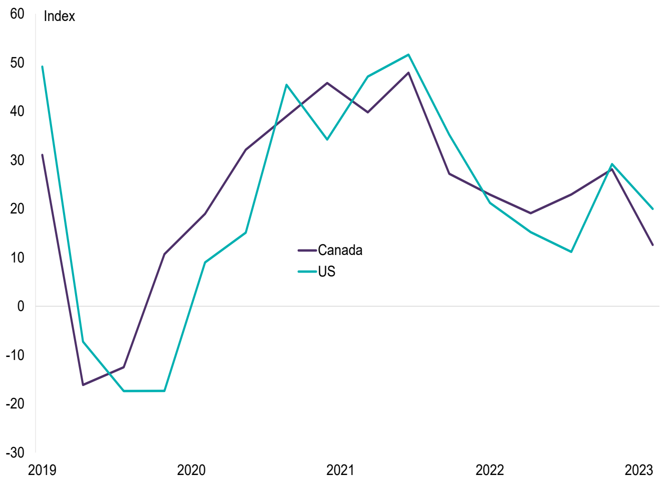


Chart 2 - Shortages of Labour and Skills

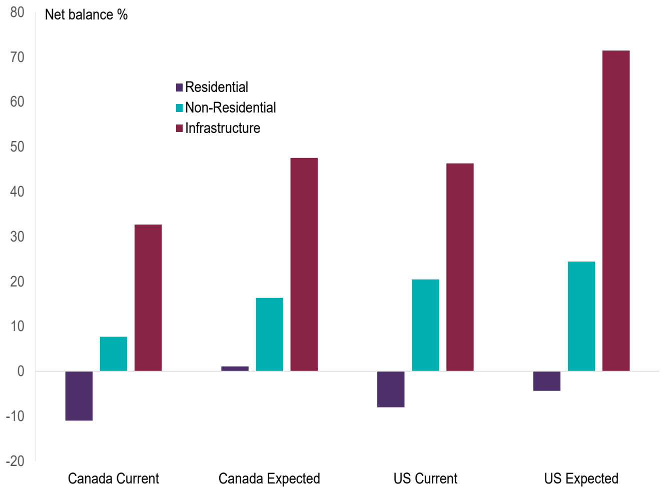
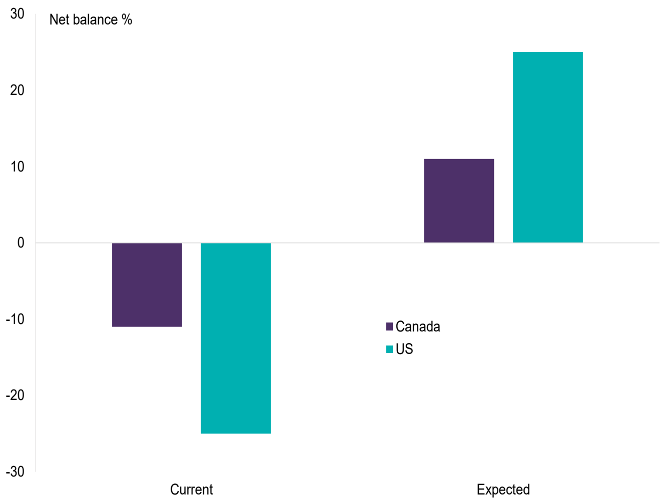


Chart 3 - Profit Margins - Current and Expected



Regional comments from survey participants in the Americas

Antigua

Construction boom in Barbuda. – English Harbour

Bahamas

The industry must work more efficiently between skilled trades such as electricians, plumbers, carpenters and general builders. Lost time and material wastage because of overlap of work phases and the need to revise completed work. – Nassau

Barbados

Change in market dynamics with smaller contractors starting up taking small projects on and homes. – Bridgetown

Brazil

Reduced labour costs having positive impact. - Sao Paulo

Delays in licencing works.- Sao Paulo

Canada

Interest rates and incompetent federal government.- – Calgary

Shortage of skilled labour especially QS. – Calgary

Government regulation. – Edmonton

Interest rates and not enough subcontractors. - Gatineau

Restrictions continue due to limited access to skilled workforce. – Halifax

Owners budgets do not match desired builds. – Kelowna

We are building the 1st Automotive battery plant in Canada and the learning curve applies to the customer as well as the builder because the design is constantly being changed to accommodate new process innovations. - Kingsville

Less skilled workers and improper training affecting construction market. – Kingsville

Too many big infrastructure projects at the same time has everyone too busy and denying work to new upcoming projects. – Montreal

Political changes and coming elections; higher degree of competitiveness for work; remote working demands. – Oakville

Limited capacity, specifically in Ottawa keeps the strain on the local industry. The MoU signed by The Ottawa Hospital with the Trade Unions may have an effect on other programs and projects in the City. – Ottawa

Supply chain and high material costs. – Ottawa

Winter and rough terrain with difficulty in accessibility. – Prince George

High demand, short schedules, higher legislation restrictions, going into winter - slower construction. – Sudbury

Labour shortages are greatly impacting business. – Timmins

Immigration restricting importation of skilled workers. – Toronto

Poor quality of drawings and specifications. Continuing to decline on residential. – Toronto

Supply chain delivery lead time. – Toronto

Manpower. – Toronto

High interest rate forced residential construction to slow down in forming/finish stages. – Toronto

Shortage of consultants and qualified contractors. – Toronto

High interest rates and buyer more cautious on their financial investments. New and increase in levy and government fees. New codes related to environmental issues. – Vancouver

The higher cost of borrowing has significantly reduced the demand for real estate and infrastructure assets. – Vancouver

Buildings/apartments are being sold at lower price yet cost of construction remains high. So developers are looking for value engineering options and ways to reduce overall cost. – Vancouver

Lack of skilled trades is causing huge demand and huge price increases as Subtrades pick and choose who they want to work for and at what profit margin. – Vancouver

Interest rates and recession. – Vancouver

Interest rates impacting private sector work. – Winnipeg

Shortage of work. – Winnipeg

Availability of skilled trades and unskilled labour specific to Ag Industrial. – Winnipeg

Cayman Islands

Construction capacity. – George Town

Interest Rates both residential and commercial and their negative effects. – George Town

Chile

Lack of qualified labour. – Calama

Time management and resource distribution. - Santiago

Jamaica

The effect of shortage of skilled labour's and availability of materials are impacting the completion dates of projects that I am involved in. – Kingston

Crime and violence is high and this negatively affects construction delivery and costs. – Kingston

Site security. Extortion is prevalent and is forcing the cost of construction upwards. – Kingston

The increase in the number of Chinese contractors operating. – Kingston

Mexico

Budget and resource management. – Carmen

Labour relations. - Cd. Obregon

Insecurity, crime. – Mexico City

Taxes, leasing, and rents. – Mexico City

Regulations and army & navy participating in construction sector. – Mexico City

Water shortage. – Monterrey

Trinidad

Difficulty in access to sufficient Foreign Exchange due to Government controls and regulation. – Port of Spain

Reduction in government spending. – Port of Spain

The public sector accounts for over 75% of direct investment in construction. Economy is energy driven. Little foreign is being earned by the State and this is significantly impacting investment in the construction sector. - St. Augustine

United States

Leadership quality. – Atlanta

Availability of labor and skills. – Greenville

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

Regional comments from survey participants in the Americas

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

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 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. A total of 3285 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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Canadian Institute of Quantity Surveyors | Institut canadien des économistes en construction

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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