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# Global Construction Monitor

Q1 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

# Improved backdrop across APAC helps to lift the Global Construction Activity Index modestly higher

- Global Construction Activity Index posts firmest reading since the start of 2022, with APAC driving the bulk of the Q1 improvement
- Growth in infrastructure workloads continues to outstrip residential and commercial in all regions
- Although material costs remain the most significant impediment to market activity, the latest feedback points to a slight easing of this pressure

The Q1 2023 Global Construction Monitor results point to another modest improvement in overall activity over the quarter. Workloads picked up (or stabilised) across all sectors at the global level, helping to lift the headline Global Construction Activity Index to a four-quarter high. Nevertheless, momentum remains relatively modest despite the slight upturn reported in the latest results, with material costs, financial constraints, labour/skills shortage all continuing to impede the market (albeit some of these pressures appear to be easing somewhat).

## APAC leads the improvement in the headline Construction Activity Index in Q1

Depicted in Chart 1, three of the four regional aggregates covered in the Monitor delivered a positive Construction Activity Index (CAI) reading in the latest results. Most notably, APAC posted a strong pick-up, with the CAI rising to +23 compared to a figure of +7 previously. Alongside this, MEA continues to return upbeat headline conditions, evidenced by the CAI coming in at +25. This value is unchanged from Q4, and therefore remains consistent with a solid backdrop across the region. Meanwhile, the CAI for the Americas edged up to +18, an increase on the reading of +13 last quarter. By way of contrast, Europe remains the only region in which the CAI sits in negative territory (albeit only marginally). Indeed, the CAI across Europe softened slightly to -4, down from a figure of -2 in the previous iteration of the survey.

At the country level, Germany and the Netherlands returned outright negative CAI readings, while the overall picture was reported as broadly flat in Spain as well as the UK, and was only marginally positive in France. In all instances, private residential workloads continue to contract amid the pull-back in housing market activity seen over recent months (linked to rising mortgage rates). Away from Europe, Saudi Arabia, India, Nigeria, and the UAE continue to display amongst the strongest CAI returns on a worldwide comparison. All market segments are reportedly seeing an increase in workloads across these countries, an ongoing trend over recent quarters.

Although the Q1 CAI figure for China, at +10, is only modestly positive for now, this represents a significant turnaround compared to a reading of -10 last time. Furthermore, this marks the strongest headline figure across China since Q2 2021. Likewise, the CAI picked up firmly in Q1 feedback across Hong Kong and Singapore. At the weaker end of the spectrum, conditions remain challenging within Sri Lanka and Qatar, with both nations posting deeply negative CAI readings.

Chart 1 - Construction Activity Index by Region

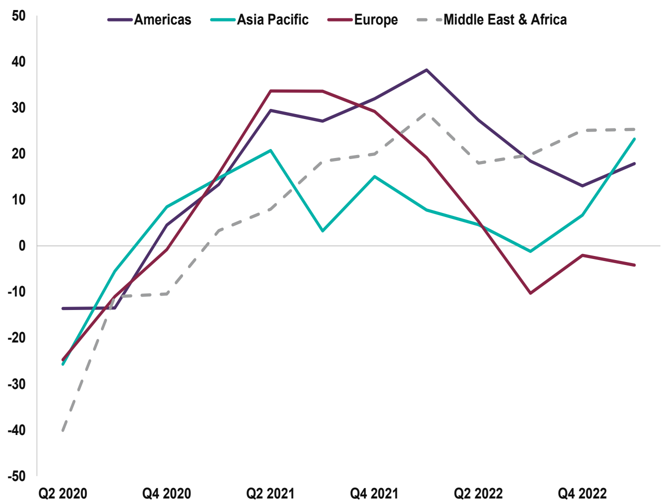
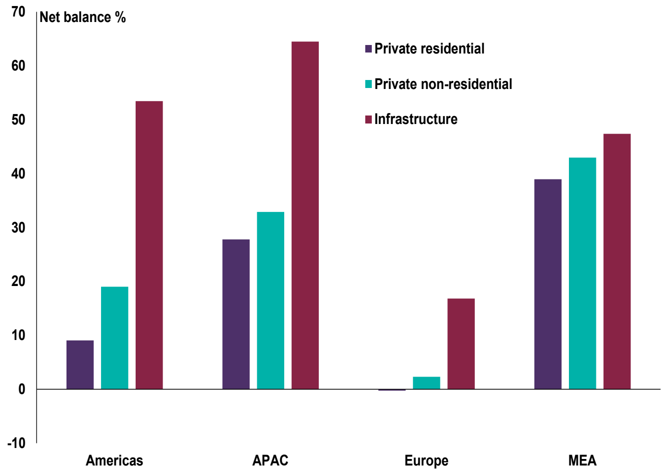



Chart 2 - 12-Month Workload Expectations by Sector



## Infrastructure continues to display the strongest growth outlook over the year ahead

As shown by Chart 2, infrastructure continues to exhibit the firmest twelve-month workload expectations compared to all other sectors. What's more, this is the case across all world regions. For APAC, the latest infrastructure expectations net balance reading of +64% marks the strongest figure on record (series started in 2020). Similarly, expectations remain buoyant across the Americas and MEA, although infrastructure growth expectations are a little more modest for Europe in comparison.

Regarding the private residential sector, the outlook for workloads is flat for Europe in aggregate, albeit this is somewhat less pessimistic than the slightly negative view returned by contributors last quarter. Alongside this, private residential is also seen as the laggard across the Americas, with the latest net balance coming in at just +9%. Even so, this also represents a slight improvement relative to Q4, when the net balance stood at -2%. For both APAC and MEA, private residential workloads are anticipated to rise according to net balances of +28% and +39% of respondents respectively.

Looking at the private non-residential sector, expectations point to solid growth in output across both APAC and MEA (returning net balances of +33% and +43% in Q1). In the Americas, although expectations remain modestly positive, the view from respondents is less upbeat than previously (net balance +19% vs +30% beforehand). In Europe, private non-residential workloads are seen as generally stagnating, returning a net balance of just +2% in Q1 (although marginally improved on -7% last time).

## Global construction employment outlook strengthens modestly

At the global level, construction industry headcount reportedly remained broadly flat during Q1, with the net balance coming in at just +3%. Looking forward however, expectations for employment trends picked up, as a net balance of +24% of respondents now envisage headcount being expanded over the next twelve months. When viewed at the country level, respondents across Saudi Arabia, India, Singapore and Nigeria are particularly upbeat on the prospects for growth in construction employment over the year to come.  Conversely, survey participants based in Kuwait, Qatar, Germany and New Zealand foresee headcount being cut to some degree during the next twelve months.

Chart 3 - Construction Activity Index by Country

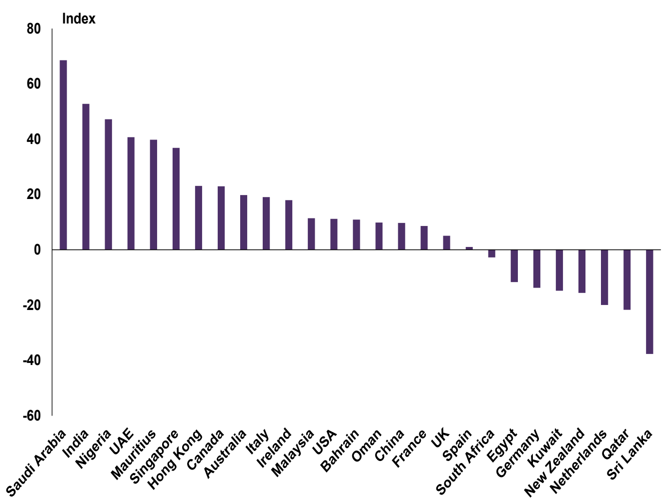
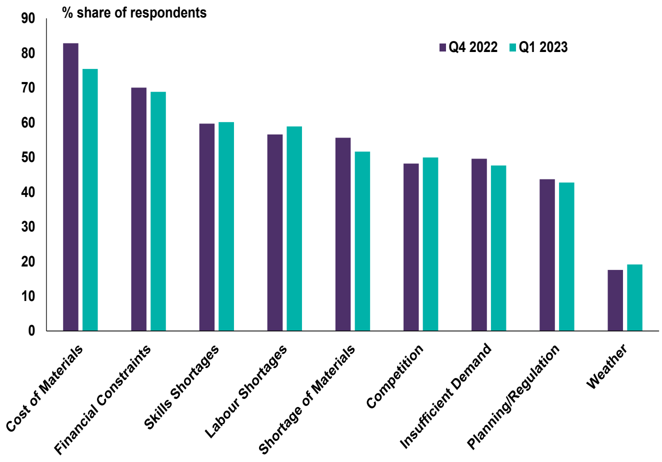



Chart 4 - Factors Limiting Construction Activity




## Challenges around material costs remain significant, but do look to be easing somewhat

As shown in Chart 4, material costs remain the most frequently cited impediment to market activity across the globe. That said, the share of respondents viewing material costs as a barrier, although still very elevated, has eased back in each of the last four quarters (from a high of 91% in Q1 2022 to 75% this time around). Alongside this, just over two-thirds of contributors report that financial conditions are hindering activity which is unsurprising given the ongoing tightening in monetary policy seen from the world's largest central banks.

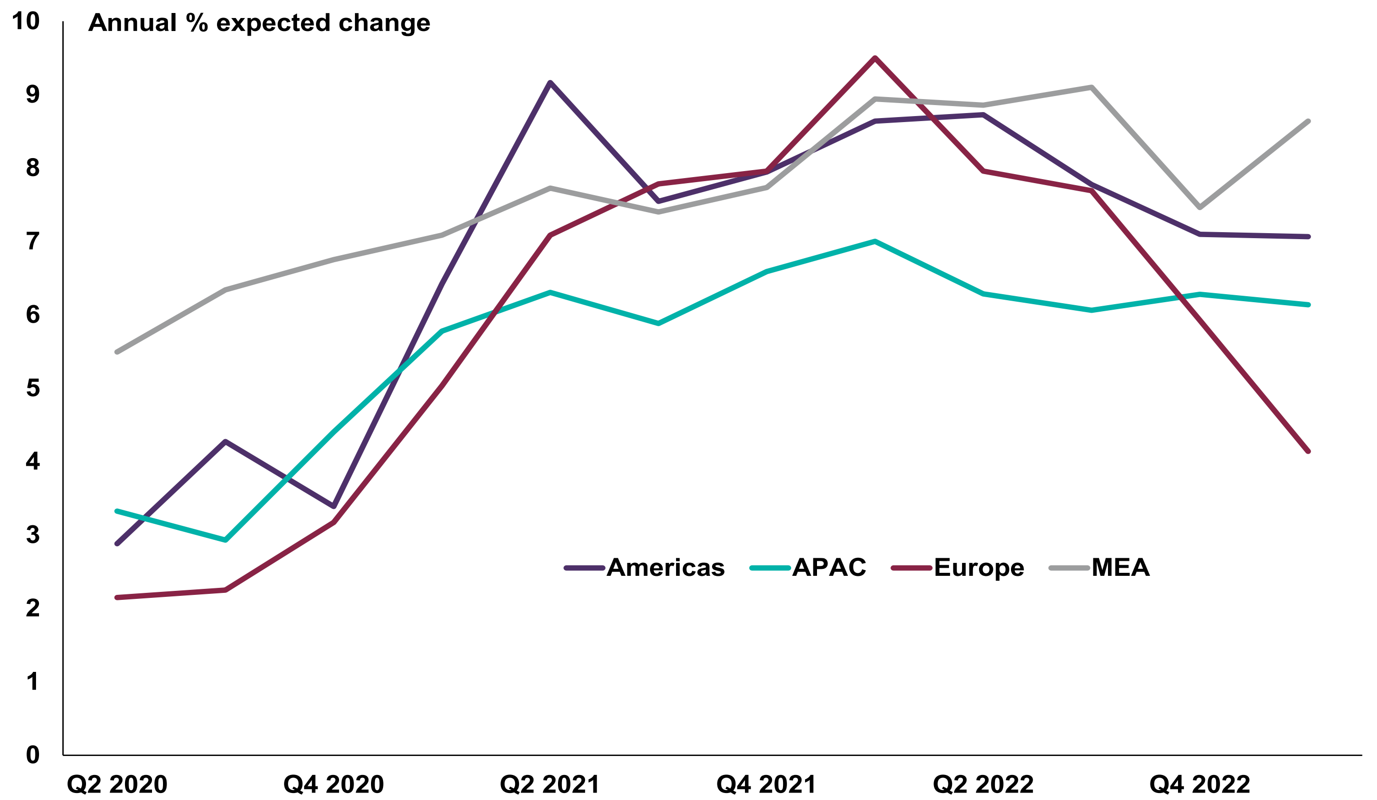
Labour and skills shortages also remain a significant headwind for the construction industry, with a little over 60% of respondents reporting such insufficiencies in the Q1 results (little changed compared to the previous feedback). Interestingly, the proportion of contributors noting a lack of availability of materials has moderated to 52%, down from a high of 74% in Q2 2022. As such, although still clearly an issue, it does add further evidence to the idea that pressures caused by supply bottlenecks have softened over recent months.

## Expectations for profit margins edge a little further into positive territory

As projections for total construction cost inflation have fallen back slightly from the peaks hit during the middle of last year, the outlook for profit margins across the industry has improved. On a worldwide aggregate view, twelve-month profit margin expectations moved further into positive territory, posting reading of +18%  in Q1 compared to +8% in Q4. Consequently, this represents the most optimistic assessment on the outlook for margins since the global survey was established in early 2020. Moreover, this indicator is now comfortably positive in the Americas, MEA and APAC, with the latter seeing a notable pick-up in the latest results. Notwithstanding this, opinions are more circumspect in Europe, where the profit margins expectations series remains in negative territory (net balance -17%).

Chart 5 - Industry headcount trends by country


Chart 6 - Twelve-month construction cost projections



# **APAC:** Headline Construction Activity Index improves driven by recovery in China and Hong Kong

The Q1 2023 GCM results for APAC show construction activity continues to improve in aggregate, with the headline Construction Activity Index (CAI) rising from +7 to +23. The boost primarily came from China and Hong Kong, supported by the relaxation of Covid restrictions. However, high inflation, reflected by the rising cost of materials, is visible in most APAC economies, resulting in profit margin erosion most notably in China, Malaysia and Sri Lanka. That said, the twelve-month regional outlook for margins did improve in Q1.

## China and Hong Kong record significant rebounds

Shown in Chart 1, the headline CAI readings for India and Singapore remain firm, posting modest gains relative to the previous quarter (+44 to +53 and +31 to +30 respectively). Similarly, Malaysia's reading remains largely unchanged at +11 compared to +10 in the previous quarter. The highlights for this quarter come from China and Hong Kong which regained momentum with the CAI picking up from +1 to +23, and from -11 to +10 respectively. Sentiment appears to have been uplifted by the long-awaited reopening after 3 years of zero-Covid policy.  Meanwhile, the CAI slowed a little in Australia, easing from +28 to +20 but remains positive nonetheless. New Zealand registered a more negative reading at -16, down from -12 in Q4 2022, linked to the shock from Cyclone Gabrielle. Similarly, feedback from Sri Lanka remains negative, recording a slight drop in the CAI from -33 to -38.

## Infrastructure continues to lead the way

Generally, the infrastructure workloads metric outperforms the other two sectors across the region, as is captured by Chart 2, both for current workloads and twelve-month expectations. Among the surveyed countries, Singapore shows the more balanced readings across all sectors, with net balances of +37% (private residential), +47% (private non-residential) and +52% (infrastructure). Playing catch-up, Hong Kong's net balances for residential turned positive, rising from -17% to +15%. The picture for twelve-month expectations reflects more optimism, recording net balances of +33% (private residential), +25% (private non-residential) and +51% (infrastructure). For China and New Zealand, both markets show positive figures regarding infrastructure workloads (+35% and +32%), while returning negative readings for private residential and non-residential activity However, the two countries show divergent expectations, with New Zealand registering negative net balances while respondents in China expect a recovery to emerge, posting readings of +16% and +26% respectively for private residential and non-residential.

Drilling into the composition of current infrastructure workloads, the energy sector comes out top of the rankings at the aggregated level, with a net balance reading of +38%. ICT follows with a net balance of +36%. The picture is similar for most countries except for Sri Lanka and New Zealand. In Sri Lanka, negative readings are registered for all types of infrastructure. On the other hand, for New Zealand, the top performing sectors are transport and water&waste.

## India shows more resilience despite macro headwinds

Rising material costs were flagged in all countries, which eroded profit margins visibly in China, Malaysia and Sri Lanka (Chart 3). However, India saw a stronger trend in profit margins, new business enquiries and headcount. Looking ahead, the outlook for profit margins did improve at the APAC-wide level, with a net balance of +37% of contributors expecting margins to expand over the year ahead.

Chart 1 - Construction Activity Index


Chart 2 - Current Workloads, Expectations by Sector

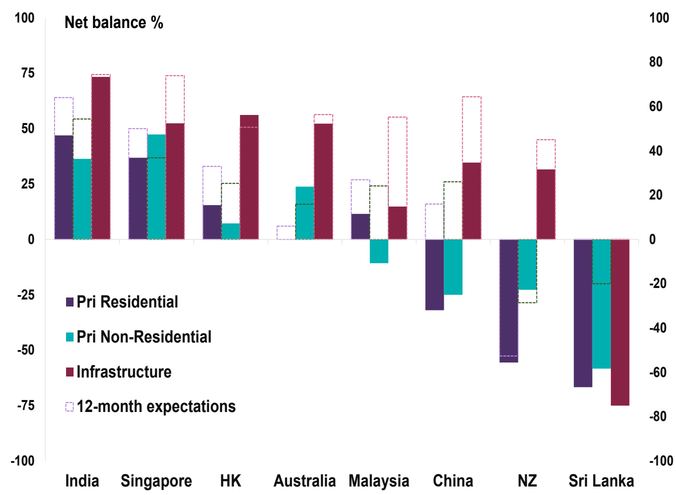
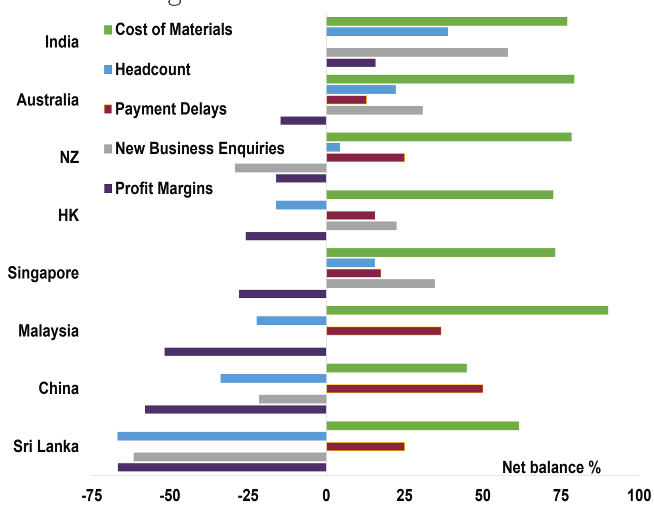



Chart 3 - Changes in current conditions



# Regional comments from survey participants in APAC

## Australia

Labour and material cost increase and in demand. - Adelaide

Supply chain affecting production of basic materials. - Balgowlah Heights

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

State government injection of public works for 2032 Olympic Games will create new infrastructure work. - Brisbane

Inflation & Reserve Bank Interest Increases. - Brisbane

Biggest impact is due to supply chain issues. - Brisbane

Transport, Shipping, Insurance premiums. - Geelong

significant increase in drainage design due to Flood modelling results, shortage in RCP pipes. - Melbourne

Energy costs are increasing. - Melbourne

There are a number of other impacts that the Commonwealth and Olympic Games will have cost rise. - Melbourne

Lack of resources. - Perth
Poorly trained contract administrators and personnel with the wrong skills administering projects. - Perth

Cost uncertainty and inflation. - Perth

Inflation and collapse of some construction companies. - Perth

Inflation and collapse of some construction companies. - Rockhampton

Market is saturated with projects. - Sydney

Interest rate rising lead to higher borrowing cost and less demand for private clients. - Sydney

Supply chain is very busy and in some states prices are spiking. - Sydney

Many private clients will delay construction commencing on site. Costs, Interest & inflation to fall. - Sydney

Over supply for Infrastructure projects. - Sydney

Poor planning resulting in too much infrastructure work being released to market by the government. - Sydney

Government policy and delays in approvals. - Sydney

Lack of government policy on climate change. - Thirroul

## China

Still in a slow recovery in residential sales after pandemic, strain on cash flow. - Beijing

The stimulating effect of financial policies on the construction market remains to be verified. - Beijing

Major bank interest rates need to decrease to encourage a rapid recovery in the construction and industrial sectors. - Beijing
The reduction in property development projects further impacts labour and material prices. - Beijing

Environmental protection factors are receiving increasing attention in the maturing construction market. - Beijing

Basic needs are met, but there is a lack of confidence in the government and the market. - Chengdu

Insufficient demand. - Chongli

Supply exceeds demand. - Gaoyou

Government Regulations. - Guangzhou

Local government funding shortfalls, shifting contracting models, and increased management demands. - Guangzhou

Economic downturn, reduced government revenue, and lost market confidence may persist for 3-5 years, a rather pessimistic outlook. - Guangzhou

A decrease in commercial ventures, while residential and industrial sectors experience growth. - Guangzhou

A decline in both commenced and new projects. - Hangzhou

Insufficient market capacity, intense competition among peers. - Hefei

High inflation. - Jinan

Local government funding deficits, evolving contracting methods, and heightened management requisites. - Kunming

Funding constraints and policy effects reduce construction investments, while enhanced management necessitates broader cost consulting expertise. - Qingdao

Residential/rent demand recession. - Shanghai

The economic conditions and demanding in local market. - Shanghai

Urban renewal involves long cycles and significant challenges. - Shenzhen

Fierce competition. - Shenzhen

The number of projects will increase as the economy recovers. - Shenzhen

Due to policy and market reasons, the construction industry is on the decline, and competition is becoming increasingly intense. - Tianjin

There is a lack of regulation in industry standards and professions. - Wuhan

The construction market has reached a state of oversaturation, and the government is facing financial constraints, with no funds being injected into the construction sector. - Yinchuan

## Hong Kong

The rise in construction material and labour costs has led to an increase in bidding prices for construction projects, affecting profits accordingly. - Hong Kong

Job references and client relationship. - Hong Kong

It mostly depends on new investments from foreign investors. - Hong Kong

Lack of manpower such as skill labour. - Hong Kong

Newly implementation of adjudication in government contracts. - Hong Kong

Addressed ESG agenda also increases pricing. - Hong Kong

Lead time, Period for Manufacturing, Logistic Arrangement. - Hong Kong

Changes of people will affect the construction market. - Hong Kong

An aging workforce, lack of interest in working in the construction industry. - Hong Kong

Foreign investors invest in Hong Kong's property market. - Hong Kong

More construction projects are coming, but labour shortages will increase costs. - Hong Kong

Age of frontline workers and lack of young talent. - Kowloon

Private residential development is decreasing, which may lower tender prices. - Kowloon

Shortage of labour and construction and engineering professionals. - Kowloon

## India

Upcoming elections will create shortage of manpower, both skilled and unskilled. - Bangalore

Demand from MNC clients have come down resulting in reduction of demand in real estate. - Bangalore

Lack of trained manpower with BIM skill sets. - Bangalore

Inconsistency in market trends like strike, election etc increase the material cost. - Bangalore

The government needs to allocate more budget and implement infrastructure programs in the city. - Chennai

There is no monitoring system for public/government projects regarding time, cost, and quality. - Chennai

Labour shortage and material prices going up is a big challenge. - Gurgaon

High inflation and shortage of professionals. - Karwar

Delay in contractors payment due to lack of fund and incompetent contractor job. - New Delhi

# Regional comments from survey participants in APAC

## Japan

Structural labour shortages and aging population, along with global economic market instability. - Tokyo

## Malaysia

Increased in minimum wage; political stability (upcoming state elections). - Kuala Lumpur

Shortage of foreign workers (majority of labour comes from overseas). - Kuala Lumpur

Lack of good and skilled professional/worker. - Kota Kinabalu

## Myanmar

Covid-19 effects, Political issues. - Yangon

## New Zealand

Funding diverted to natural disaster and emergencies. - Auckland

Recovery from cyclone / flooding has caused on site and compliance disruption. - Auckland

There is a shortage of contractors, specifically with complex contracts such as in health sector. - Auckland

General resource pool and material availability. - Auckland

Lack of skilled people. - Auckland

Margins being squeezed - increasing cost, low confidence to fully pass on due to pipeline concerns. - Christchurch

Recovery from recent Cyclone Gabrielle in North Island. NZ General Election October 2023. - Christchurch

Cyclone Gabrielle has drawn labour and materials to the affected regions. - Hamilton

Ground conditions associated with the extreme weather. - Hamilton

Inflation and supply chain issues. - Queenstown

Natural disaster - Cyclone Gabrielle. - Wellington

## Pakistan

Currency Devaluation and ban on the import of material is the main cause of less demand and increase. - Lahore

Political Instability and Dollar Exchange Rate. - Lahore

Default risk looms. - Karachi

## Philippines

Demand is picking up - highlighting charges in skilled and unskilled resources. - Manila

Loan, politics. - Manila

Deferring Quality issues. - Marikina

Cost of Logistics. - Muntinlupa

Supply of materials and equipment from China. - Quezon City
Fuel charges still affect the construction market in our area. - Taguig

## Singapore

Bad Economic caused construction market down. - Singapore

Competitive Bid. - Singapore

Materials and Labour costs due to rising costs and inflation. - Singapore

Lack of newly trained engineer entering the construction market. - Singapore

Tight labour market. - Singapore

Shortage of labours. - Singapore

Restrictions on foreign labour allowed into Singapore. - Singapore

Good professional people to manage projects well. - Singapore

## South Korea

Investment contraction due to rising interest rates. - Incheon

## Sri Lanka

Unemployment. - Colombo

Due to the current market situation cost certainty is very low. - Colombo

Less investment on infrastructures. - Colombo

We are expecting some improvement in the construction field in the next year with necessary funding. - Colombo

Exodus of newly qualified staff overseas continues unabated. - Gampaha

Still there is no green light from the financial institutions towards construction market. - Negombo

## Thailand

Effect of pandemic resulted in changed mindset of staff opting for flexible working arrangements. - Bangkok

There is less construction of public infrastructure, making it a highly competitive market for the construction industry in Thailand. It is necessary to actively follow the market direction and find new spaces that are suitable for better development of the construction industry. - Chumphon Province

## Vietnam

Change of Government and Authorities is affecting the permits requirement and release. - Ho Chi Minh City

Regulation changes. - Ho Chi Minh City

Government laws and Regulation for construction sector. - Ho Chi Minh City

Due to unclear factors within the Vietnamese government, many development projects will be postponed. - Haiphong

# **Europe:** Outlook still subdued aside from the infrastructure sector despite tentative signs that cost pressures are easing

The Q1 2023 GCM results for Europe continue to portray a generally subdued outlook across the construction sector, albeit infrastructure remains one area of relative strength. More encouragingly however, respondents' projections for total construction cost inflation were trimmed notably over the quarter, perhaps hinting at some easing in the intense pressures that have been impacting the industry of late.

### Aggregate Construction Activity Index remains flat

Across Europe as a whole, the headline CAI posted a reading of -4, little changed from a figure of -2 last quarter. As such, this indicator remains consistent with a generally stagnant backdrop at present. When viewed at a country level (Chart 1), both Italy and Ireland stand out as displaying a stronger CAI reading than the European average. Meanwhile, in France, although the CAI remains marginally positive (+9), this still points to a slight loss of momentum compared to last quarter when the index stood at +23. Elsewhere, the latest results are broadly flat in the UK and Spain, although in both cases the CAI improved modestly compared to the end of 2022. In contrast, the headline results across Germany and the Netherlands remain in contraction territory.

### Private residential remains the laggard, while the outlook for infrastructure is still reasonably upbeat

At the pan-European level, private residential workloads continue to slip according to a net balance reading of -13% in Q1 (vs -9% in Q4). Within this, respondents based in France, Germany, the Netherlands and the UK reported falling activity across the sector. By way of contrast, contributors in Ireland and Italy cited a modest increase in residential construction output during Q1. Looking ahead, twelve-month expectations now point to a relatively flat outlook for private residential workloads across Europe in aggregate, as the net balanced moved to zero following a reading of -9% last quarter. That said, expectations remain deeply negative in Germany and the Netherlands, where respective net balances of -59% and -60% were returned in Q1.

Looking at private non-residential workloads, current trends at the regional level were reported as flat in the latest results (net balance -1% in Q1 compared to +4% in Q4). Going forward, expectations for the coming year are now in neutral territory across the sector, with the net balance improving to +2% from a figure of -7% last time. When disaggregated, respondents in France, the UK and Spain hold more upbeat view on non-residential workloads over the coming year relative to the regional average. Meanwhile, infrastructure remains the stand-out performer, both in terms of current trends and the twelve-month outlook. Indeed, a headline net balance of +17% of respondents envisage a continued increase in infrastructure workloads over the year to come, with most European nations displaying a positive view.

### Construction cost projections trimmed

Although material costs remain the most widely cited factor holding back the market at present, the share of respondents reporting such issues has softened from 91% in Q1 2022 to 71% this time. Moreover, twelve-month forecasts for total construction costs were trimmed from 6% last quarter to 4% in the latest results (as both material and labour cost projections were revised down). That said, despite these pressures being expected to ease, profit margins are still seen narrowing in the year ahead (net balance of -17%).

Chart 1 - Construction Activity Index by Country


Chart 2 - 12-month Workload Expectations

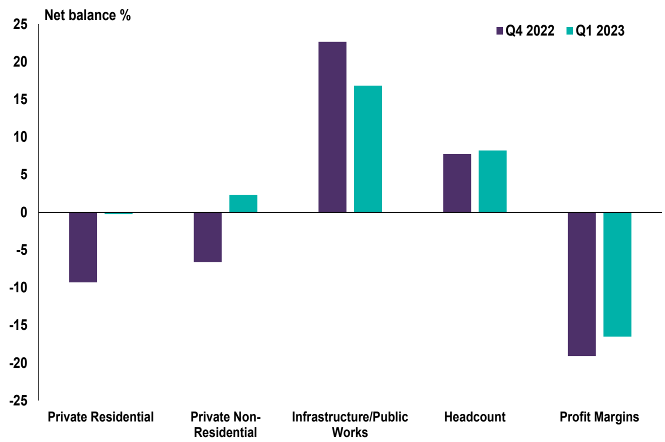
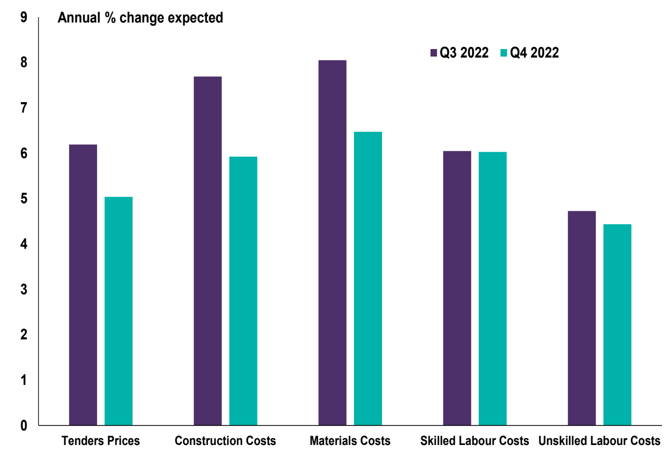



Chart 3 - 12-Month Price/Cost Projections



# Regional comments from survey participants in Europe

### Austria

Linked to rate hikes, there are not a lot of new construction lots and therefore hard competition. - Graz / Vienna

### Cyprus

Cyprus is an island. Most materials are imports, subject to international volatility and shipping. - Limassol

### Denmark

Data centre projects and public centre projects "on hold" may free up market capacity. - Copenhagen

### France

Brexit is having an impact. - Paris

### Germany

Environmental regulations preventing investment. - Berlin

Contractors order books are extremely full, supply can't meet demand. - Frankfurt

ESG, financing, demand in specific asset classes. - Munich

### Hungary

Decreasing demand. - Budapest

### Ireland

Global economy issues. - Cork

Significant increase in cost of materials and skills shortages. - Dublin

War in Ukraine, interest rate increases, skills shortage, national housing crisis. - Dublin

Planning regulation; The impact of inflation over the past 18 months. - Dublin

Green agenda is driving civils contracts but skilled resources are not available to deliver. - Dublin

### Italy

Cost of material, triggered by external factors (war) and internal forces and the eco bonus. - Lazio

Lack of skilled workforce. - Milan

### Netherlands

Nitrogen discussion, mid-rent regulation, interest rate rise. - The Hague

Nitrogen problems are limiting for progress. - Maarn

### Poland

Lack of money from EU. - Warsaw

### Romania

Changing legsilation and unpredictibility on fiscality. - Bucharest

### Spain

Economic restrictions. - Madrid

Regulation, legislation and relations with the public administration. - Madrid

Lack of land sectors under development. More land is needed to be able to build. - Pamplona

### Sweden

NKT HV CABLES works in the energy market, serving offshore wind developers. - Karlskrona

### Switzerland

Public contracts tend to be tendered/commissioned with a delay. - Bern

### United Kingdom

Banks are making it increasingly difficult to access money, labour is very scarce in all sectors. - Ealing

High tender returns. Shortage of sub-contractors for tender list. - Glasgow

Cost of materials and energy costs are a joke. - Hereford

Rental returns do not meet increased costs. - Kidderminster

Not enough skilled contractors to carry out work demand. - London

Brexit, inflation and interest rates. - London

The decline in private residential opportunities is significant. - London

Lack of skilled tradesmen. - Manchester

# North America: Labour and skills shortages persist in the face of resilient workloads

The Q1 Construction Monitor feedback from North America (conducted in conjunction with AACE in the US and CIQS in Canada) shows headline activity indices still in positive territory, albeit a little less so in the US than previously. Further tightening in monetary policy by both the Federal Reserve and the Bank of Canada is, to a greater or lesser extent, weighing on sentiment as reflected in a rising share of respondents pointing to financial constraints as a challenge.

### Infrastructure remains the key driver of growth

Current workload metrics show infrastructure to be the sector continuing to experience the strongest levels of activity. In the US, the net balance reading of +45% actually marks an acceleration in infrastructure business compared to the Q4 reading (+34%). For Canada, the +34% net balance result is broadly similar to the Q4 number of +31%. In the US, the strongest sub-sectors are currently energy and transport according to respondents. Meanwhile, in Canada, it is transport leading the way. Significantly, the metric relating to private residential workloads does appear to have picked-up a little compared with the back end of last year, despite a more mixed picture regarding house prices; in the case of the US, the net balance climbed from -31% to +11%.

### Labour related issues remain problematic

Given that workloads are in general continuing to rise, it is perhaps no surprise that the employment metric also remains positive in both countries. Indeed, to support the projects in the pipeline, the results points to the need for significant hiring over the coming twelve months (net balances of +32% in the US and +34% in Canada). Whether this is plausible to the extent required remains to be seen. Chart 2 focuses on reported labour and skill shortages in each country. Critically, 77% of respondents in Canada and 73% in the US identify labour shortages as a principal obstacle to development, with concerns particularly acute when it comes to a range of skilled trades.

### Forward looking indicators still point to a soft landing

The net balance results for new business enquiries remain in positive territory for now. For Canada the latest reading sits at +21% against +13% last quarter, and +45% at the beginning of last year. In the US, the business enquiries net balance is at +19% vs +37% and +48% respectively. This trend is also captured in most of the forward-looking expectations numbers shown in Chart 3, with the picture still remaining a largely resilient one. Significantly, feedback around the private residential outlook in the US remains downbeat despite the rise in the current workloads metric.

### Profits outlook still cautious

One particularly encouraging feature of the Construction results is the lack of a material deterioration in the metric designed to capture payment delays; in net balance terms, the latest reading is still just +17% in the US and +12% in Canada (showing relatively modest increases in the face of ongoing macro uncertainty). Meanwhile, construction costs are still viewed as likely to grow faster than tender prices over the next twelve months, albeit that the gap is continuing to narrow. Although the pace of increase in material prices appears to be slowing, this, alongside the cost of skilled labour, is widely perceived to still be a significant challenge for the industry.

Chart 1 - Construction Activity Index

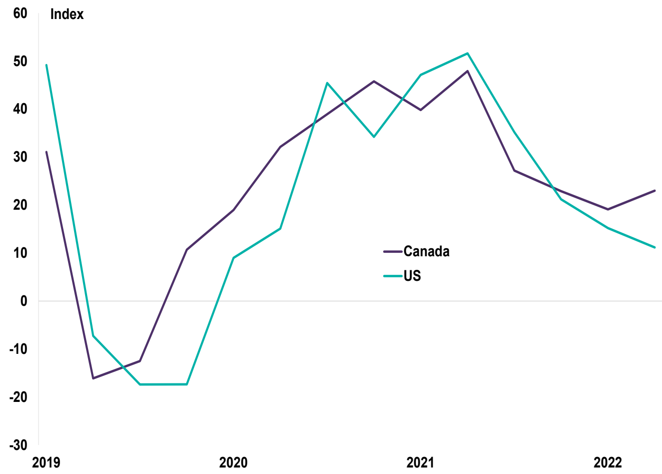



Chart 2 - Shortages of Labour and Skills

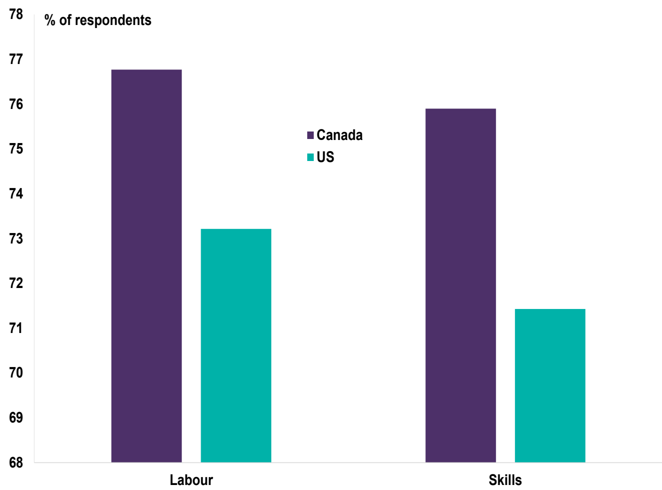
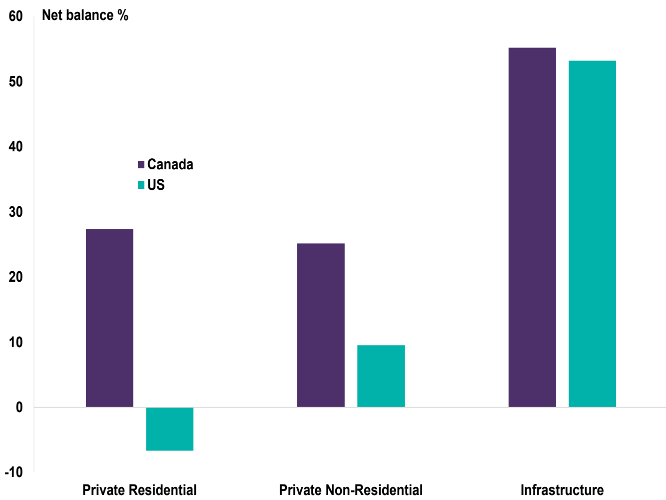



Chart 3 - 12-Month Workload Expectations by Sector



# Regional comments from survey participants in the Americas

## Antigua and Barbuda

The amount of development in Barbuda is a drain on Antigua. - St Pauls

## Brazil

Lack of investment funds to support growth. - Porto Alegre

## Canada

Skilled labor shortage and material supply is slow.- Bracebridge

Mortgage rates. - Burnaby

Material price increase expected. -Calgary

Insufficient labour skilled and unskilled, material supply. - Calgary

Alberta government spending will add significant projects to our area. – Calgary

Very low residential vacancy, mixed with CMHC opportunities, we are seeing a high demand for rental. - Calgary

Government contracts being de-risked to the point of insanity and costing taxpayer significant sums. - Calgary

Energy costs, travel within the region and regulations. - Coquitlam

Increase demand for labour and materials are causing an overall issue in tender prices. - Edmonton

Lengthy planning and permit decisions. - Edmonton

Aging work force. - Etobicoke

Contractors are very busy which has impacted the number of bidders on tender closings.- Halifax

Skilled labour shortages. - Halifax

The interest rate hike has a devastating effect, new projects are postponed one after another. - Kelowna

There are 2 multi-billion dollar developments in Windsor that have driven up prices. - Kingsville

Shortage of stock in the market (residential as well as industrial) will cause huge spike in pricing. - Langley

Biggest single issue that is affecting construction is permitting delays at the city. - London

Inflation and high prime rates. - Mississauga

Difficult to predict. Risks include pandemic fallout, bank sector instability, labour availability. - Missisauga

Government levied charges such as development fees. - Montreal

Two major items are labor shortages. Interest rates increases. - Montreal

Somewhat reliant on central bank prime rate affecting purchasers abilities to close on resi units. - Toronto

Lack of skilled trades. - Toronto

Lack of skilled professionals. - Toronto

Geosynthetics Technicians are rare as they are specially trained. Need to bring formal education. - Toronto

Minimum wage increase. - Toronto

Funding and investment conditions have rapidly deteriorated. - Vancouver

Regulation change and interest rate going up. - Vancouver

Interest rates and tighter loan conditions by the banks. Economic downturn. - Vancouver

Rise of the interest rate. - Vancouver

Shortage of skilled labour. - Victoria

Lack of skilled labour is driving up costs, and raw materials costs are projected to decrease. - Winnipeg

We are noticing a significant decrease in Private and Public projects currently.- Winnipeg

## Cayman Islands

Interest rates are the biggest risk to the start of new projects but all else remains stable. - George Town

## Trinidad and Tobago

Planning permission for building works. - Paxvale

There is hadly construction work and material has increased about 10%. - Port Of Spain

Chinese contractors. - Port Of Spain

Shipping cost of imported goods. - Port Of Spain

## United States

Inflation and imminent recession. - Aiken

Transportation and weather condition. - Albany

Lack of skilled workers and available mid range managers. - Alpharetta

Banking crisis playing out?. - Atlanta

Low number of bidders on less attractive projects resulting in lack of competition. - Boston

Clients seem reluctant to commit to large $ projects at the moment, definite hesitancy short term. - Davenport

Cost escalation, high interest rate and looming recession. - Garden Grove

Government policy. - Houston

Specialty pumps and other custom designed equipment lead times have tripled in the last three years. - Houston

Government projects have stabilized the region. - Knoxville

Heavier scrutiny on lowest-cost capital alternatives to optimize investments. - Langhorne

Financing vulnerability. - Los Angeles

Huge supply chain issues related to mechanical & electrical equipment. - Los Angeles

Buoyant market, strong pipeline. Continued difficulties with lead times & elevated prices for M&E. - New York

Competition with Texas market, insufficient number of GCs & subs to meet required project workloads. - Norman

Tremendous amount of work, and limited labor in the area. - Orlando

Cut backs in construction spending in the tech driven sectors, decline in office construction & fitout.- San Francisco

Tech companies reducing headcount meaning less real estate need. - San Francisco

The high tech sector has been pulling back spending especially new office campuses. - San Jose

Shortage of Labor. Uncompetitive bids. - Seattle

# **Middle East and Africa:** Activity continues to pick-up steadily at the headline level

The aggregated data for the MEA region shows a continued rise in headline activity during Q1. Indeed, the Construction Activity Index (CAI) remained positive, posting a reading of +25, unchanged from the previous quarter. That said, there are disparities when broken down at a country level, as can be seen in Chart 1. The widest divergence can be seen between Saudi Arabia and Kuwait, which have readings of +65 and -14, respectively. Meanwhile, Nigeria saw a moderation in the CAI compared to Q4, easing from +62 to +47 this quarter, but the latest results across the country remain generally solid nonetheless. Alongside this, the figures recorded for South Africa and Oman mark an improvement from the previous quarter, while Qatar saw some of the negativity seen in Q4 diminish (as the CAI moved from -22 to -5).

### Cost of materials still a key challenge

Although construction output growth remained generally firm across MEA this quarter, numerous factors were raised as areas of concern by respondents. Financial constraints are still seen as a key factor holding back activity, as 81% of respondents cited access to credit to be a problem. This is the seventh consecutive quarter that over 80% of respondents have reported financial constraints to be an issue. Skill shortages have also been a growing concern for many respondents, as the share of respondents reporting a lack of skilled workers across the region increased from 42% to 58%. This issue is especially prevalent in Saudi Arabia, with 84% of respondents now reporting skill shortages. However, the most significant issue this quarter across the board was the cost of materials, cited by 84% of respondents. Respondents feel this is associated with the war in Ukraine War, and the devaluation of certain currencies against the dollar, making importing materials more expensive.

### Twelve-month outlook firmly positive for workloads

As can be seen in Chart 3, growth in workloads is expected to gain momentum for all sectors of the market over the coming year. Infrastructure remains the area exhibiting the strongest outlook, with a net balance of +47% of respondents across the region envisaging an increase in activity in the year to come. The private residential and private non-residential sectors are also expected to expand, returning net balances of +39% and +43%, respectively. There are some disparities within the country level data however. Feedback in Saudi Arabia remains robust, with net balances of +85% being reported for infrastructure expectations, +67% for private residential, and +74% for private non-residential. Conversely, in Qatar, net balances stand at +18% for infrastructure workload expectations over the year ahead, -8% for private residential, and +5% for private non-residential.

### Profit margins still under pressure for now but are expected to improve

Profit margins are still under pressure as it stands across many countries within the region. The combined net balance reading for MEA was -28% in Q1. However, the forward-looking profit margins series remains more positive, as a net balance of +25% of survey participants foresee an improvement over the year ahead. Expectations in Nigeria point to a solid uplift in margins over the next year, posting a net balance reading of +67%. However, expectations in Qatar are much weaker, as the net balance reading slipped further into negative territory from –2% last quarter, to -10%.

Chart 1 - Construction Activity Indices by Country

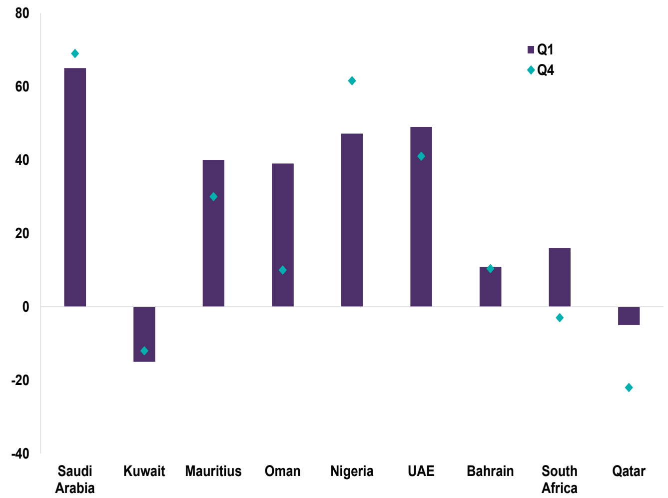



Chart 2 - Factors Holding Back Activity

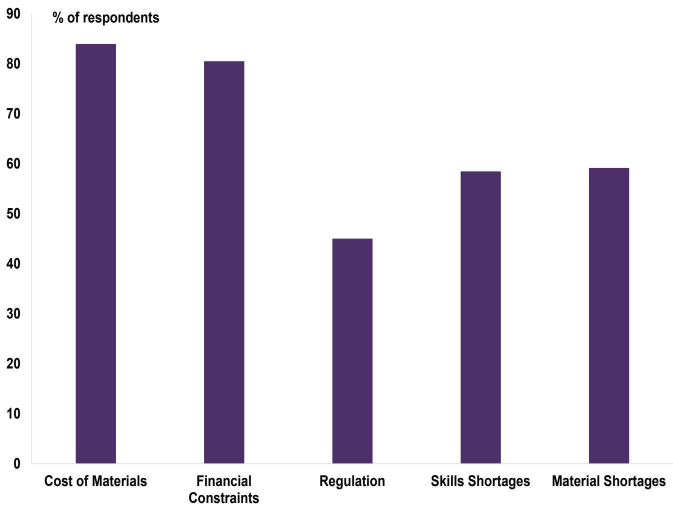
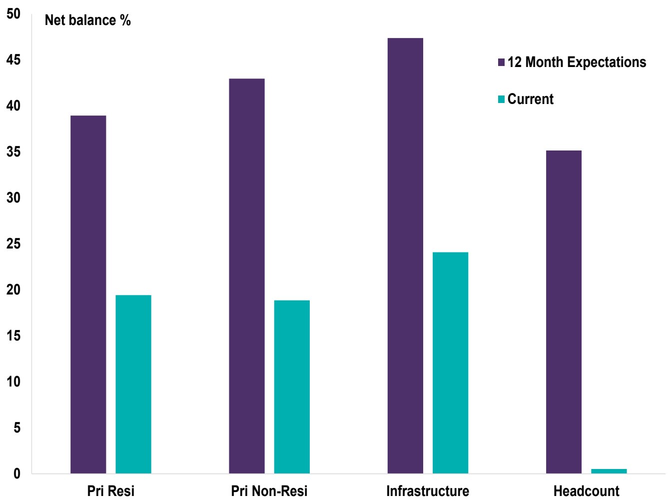



Chart 3 - 12-Months Workload Expectations



# Regional comments from survey participants in MEA

## Bahrain

Increase in cost of building materials, especially steel has increased due to scarcity. - Juffair

Country growth investment and development. - Manama

Improper cost management. - Manama

## Botswana

Shortage of specialised skills such as planning engineers. - Gaborone

## Egypt

Currency instability. - Cairo

Dollar price fluctuation. - Cairo

Lack of provision of USD to import construction materials. Continuous EGP currency devaluation. - Cairo

Severe drop in the USD-EGP exchange rate will cause increase in all prices in Egypt. - Cairo

Shortage of materials and devaluation of local currency. - Cairo

Unstable market conditions, currency variation, and inflation. - Cairo

## Kenya

Bad politics: demonstrations due to high cost of living. - Nairobi

High input costs i.e. imported materials, fuel due to scarcity of forex and hence high forex exchange. - Nairobi

## Malawi

The lack of forex, an already weak local currency, and inflation. - Lilongwe

## Mauritius

Political parties tend to privilege a certain group. - Curepipe

Lack of local buyers who have the capacity to repay loans. - Ebene

Procurement of materials from abroad, increase of freight charges, and shortages of equipment. - Moka

Climate change. - Port Louis

As Mauritius is an island, all materials are imported from abroad. This has time and cost implications. - Port-Louis

## Nigeria

Inflation. - Abuja

We are experiencing hyper inflation and foreign exchange constraints. - Abuja

Weather, civil unrest, and planning regulations. - Ikoyi

Daily increase in materials due to a very unstable economy and market factors. - Lagos

High Inflation, scarcity of foreign exchange, and inconsistent government policy. - Lagos

Due to the Ukraine war, the cost of steel is extremely high in the market. - Victoria Island

Inflation, uncertainty due to the proposed removal of fuel subsidy. - Victoria Island

## Oman

Finding the right developer or investor. - Mq

Due to oil price fluctuation. - Muscat

Local regulation. - Muscat

Payment delays and lack of liquidity. - Muscat

The demand of neighbouring Saudi Arabia, which is sucking up resources for all its major projects. - Muscat

## Qatar

After FIFA 2022 there are no projects announced by the Government. - Doha

Awaiting project award. - Doha

Cash flow. - Doha

Clients' delay in responding to contractors variations and additional works queries. - Doha

Completion of FIFA event. - Doha

Government has stopped funding for new projects. - Doha

Inflation and expected VAT in Qatar. - Doha

Insufficient cash flow and lower demand on new initiatives. - Doha

Lack of Government projects. - Doha

Less government spending on construction projects and uncertainty over the future of Qatar. - Doha

Less demand and funds availability. - Doha

Competitive tender prices for the engineering, surveying, etc. - West Bay

## Saudi Arabia

Competent contractors. - Riyadh

Manufacturing of materials. - Riyadh

Massive amounts of work coming out in KSA, but contractors and supply chain is already very stretched. - Riyadh

New projects starting across the region result in a pull for professional skills. - Riyadh

Shortage of all trades. - Riyadh

Shortages of labour resources and skilled professionals. - Riyadh

Supply and demand. Growth will continue in years to come, maybe until 2030. - Riyadh

Increase in projects in this region. - Tabuk

## South Africa

Extent of power cuts will hamper productivity and raise raw material prices. - Cape Town

General economic nationwide downturn. - Cape Town

Construction "Mafia" demanding work. - Cramerview

Labour unions, strikes, and power supply interruption. - Durban

Security concerns. - Durban

Corruption, criminal activity, gang violence, and political interference. - Johannesburg

Electricity shortages have hugely impacted on the construction consulting firms. - Johannesburg

Energy load shedding. - Johannesburg

Availability of electricity leads to delays in projects. Loadshedding, in short. - Kathu

Loadshedding. - Kathu

Construction industry still in recession - political issues are a big problem. - Pretoria

Construction mafia. - Pretoria

## Uganda

Effective tax collection would affect the industry (big percentage of the industry is informal). - Kampala

Government priorities on expenditure. The supply chain too. - Kampala

## UAE

Limited availability of main contractors. Too many major projects coming on line at the same time. - Abu Dhabi

Many companies became bankrupt which affected strength of supply chain. - Abu Dhabi

Weather. - Al Reqqah

Domestic demand for imported materials. - Dubai

Drain of resources to other countries. - Dubai

Government projects. - Dubai

Hot weather could increase construction time and cost. - Dubai

Increasing government regulation for labour permits. - Dubai

Saudi market is impacting the UAE. - Dubai

Skilled labour movement to other regions. - Dubai

## Zimbabwe

Skills shortage and material costs are going up. - Harare

### 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 8 March 2023 with responses received until 21st April 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 3450 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



### Contact details

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PICQS

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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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