



## Q3 2021: Spain Construction Monitor

# More positive outlook for construction sector

- Construction activity index records further increase in Q3
- Residential sector expected to remain most buoyant area of industry
- Rising labour and material costs continue to hamper profits recovery

The Q3 2021 RICS-CGATE Spain Construction Monitor shows sentiment in the industry to have improved further in the third quarter of the year. The headline Construction Activity Index, which is a composite of some of the key indicators included in the survey, climbed to a reading of +26 which compares with +17 in the previous three month period and -11 in the first quarter of the year. Chart 1 puts this in a broader European context showing that Spain is following a similar course to the pattern elsewhere on the continent.

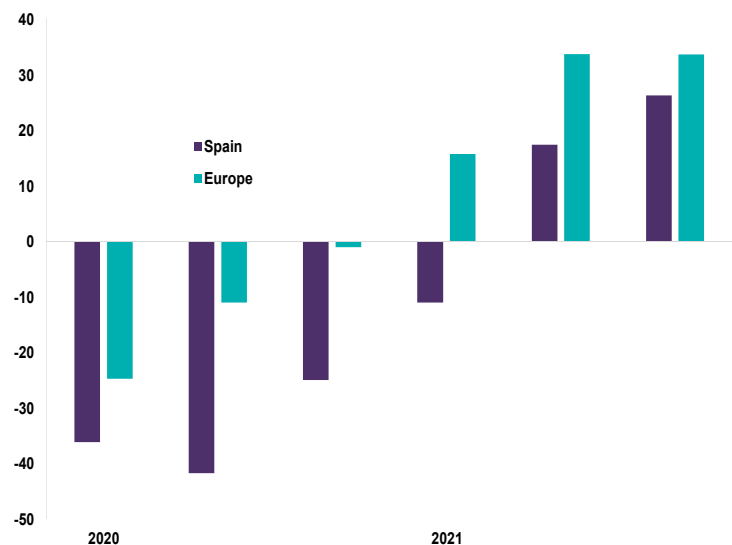
### Residential sector continues to lead the way

The results capturing the current trend in workloads shows that the momentum continues to be most positive in the private residential sector. A net balance (which measures the proportion of contributors seeing an increase as against those seeing a decrease over the previous period) of +49% of respondents reported rising workloads in this area which compares with +55% in Q2 and +9% in the early part of the year.

Infrastructure workloads, by way of contrast, were broadly flat in the latest quarter with a net balance of just +3% compared with +11% in Q2. That said, within this broad category respondents to the survey suggested that the energy sector did see a significant uplift in work over the period (net balance of +41%). Meanwhile despite the ongoing challenges around the future shape of retail and offices, the private non-residential sector saw activity pick-up speed during the summer months with the workloads metrics climbing to +38%, its second consecutive positive reading.

Significantly, the indicator designed to track new business enquiries provides reason for encouragement about the outlook with a reading of +41% more respondents seeing an increase. This is also visible in the twelve month expectations series for workloads.

Chart 1 Construction Activity Index



Indeed as chart 2 over the page demonstrates, momentum in all three sectors is solid with private residential continuing to lead the way (net balance +67%) followed by infrastructure (net balance +25%) and private non-residential (+23%).

### Labour and material headwinds for developers

Unsurprisingly, contributors to the survey are continuing to encounter some difficulty in accessing building materials and having to contend with sharply higher costs. These trends are visible across the globe as commodity prices reflect the rebound in economic activity. Specifically in the case of Spain, around three-quarters of respondents draw attention to the increasing costs of key materials while just short of this also highlight availability (chart 3).

Alongside this, there also appears to be increasing

challenges around sourcing labour. Interestingly, over 80% of respondents cited skill shortages as a problem (71% in Q2 and 58% in Q1) with a similar proportion noting labour shortages (58% in Q2 and 36% in Q1). The issue appears to be particularly pronounced regarding skilled trades (acknowledged by around three-quarters of respondents). As the chart also demonstrates, financial constraints are still seen as restricting some development activity but more positively, a diminishing share of respondents see insufficient demand as a barrier (down from 58% in Q1 to 38% in Q2 and 24% in the latest three month period).

Despite the challenges around recruiting labour, feedback to the survey is consistent with a rise in headcounts over the coming year. The latest reading on the indicator is a positive net balance of +25%; the current headcount metric is flat but that follows negative reading through the course of the pandemic and the first half of this year.

**Mixed signals on profits outlook**

The Construction Monitor aims to capture feedback around the outlook for profitability in two ways. First, one question focuses on the explicit expectations of respondents with regard to the likely change in margins; this is presented in net balance terms. The results for this indicator suggest the picture could begin to stabilise over the course of the next year with the reading coming in at +2%. To put this in context, the series that captures the view on margins over the past three months was still in negative territory at -14% albeit that this marks a significant improvement compared with the Q2 result of -39%.

This question is accompanied by a separate one designed to track the expected trend in tender prices and construction costs in quantitative terms (chart 4). This, provides a rather different story to that painted by the net balance metric. So tender prices are anticipated as climbing by around 4% over the next twelve months, which compares with less than 2% three months ago. However at the same time, construction costs are seen as increasing by close to 8% which is above the 6% projection in Q2.

Predictably, the biggest pressure is anticipated as continuing to emanate from material costs which are seen as rising by between 8 and 9%; this is similar to the view taken in the previous survey. Meanwhile, in keeping with the growing concerns highlighted earlier about labour as an impediment to activity, this is where the acceleration in cost pressures is most visible. So for skilled labour, costs are now seen rising by over 6.5% which is almost 2% above the expectation in Q2. For unskilled labour, the likely increase in costs is put at 4.5% compared with 3% in the last survey.

Chart 2 12 month Expectations Workloads

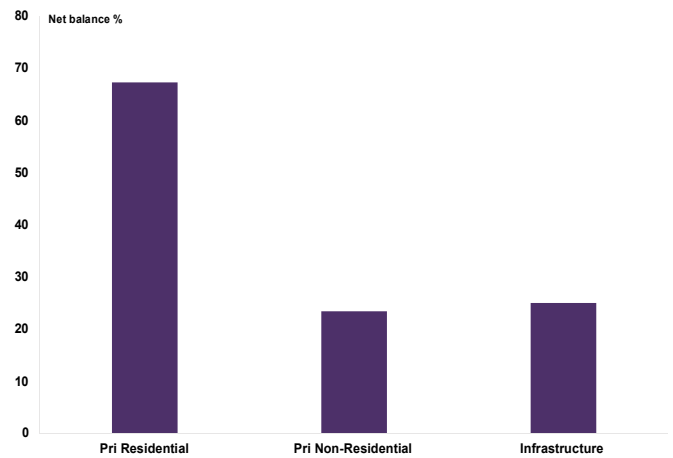


Chart 3 Factors Holding Back Activity

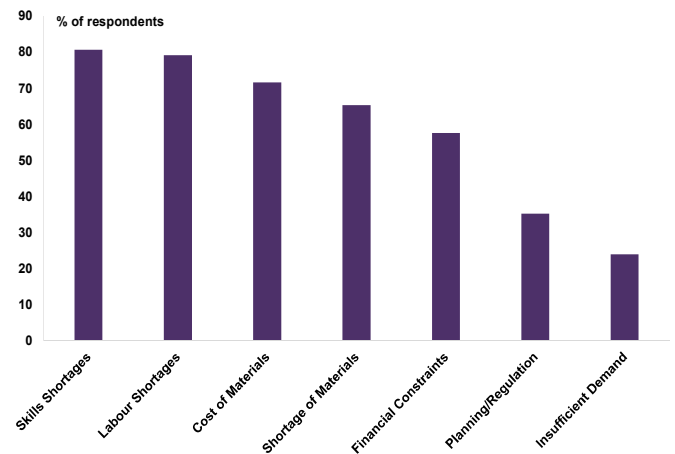
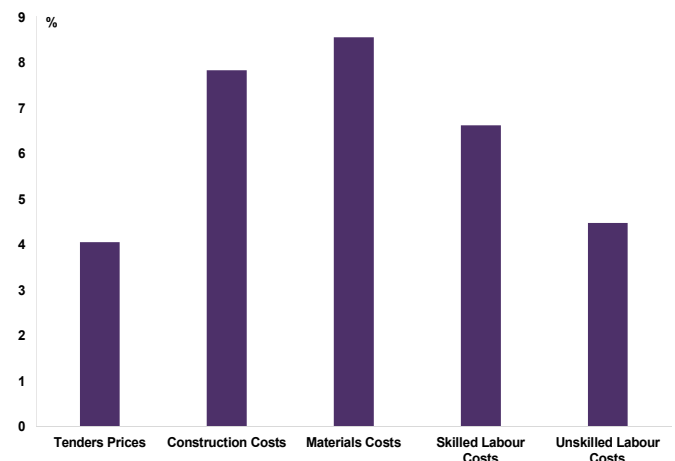


Chart 4 12 Mth Expectations Tender Prices & Costs



# Market comments

## Andalucía

Principalmente falta de mano de obra

Mainly lack of manpower

## Castilla y León

Desertización de la zona

Desertification of the area

No hay población, no hay empleo

There is no population, there is no employment

## Catalunya

El coste de los materiales está muy alto

The cost of materials is very high

## Comunidad Valenciana

Baja demanda de casas

Low demand for houses

## Galicia

Lentitud tramites administrativos

Slow administrative procedures

Amplia legislación

Extensive legislation

## Las Palmas

La mayoría de promotores para su propio vivienda estan limitados económicamente

Most promoters for their own home are financially limited

El principal factor es la mano de obra

The main factor is labor

## Madrid

Principal problema actual son costes de material y logística

The main current problem is material and logistics costs

Ayudas fondos europeos

European funds aid

En general, existe una escasez de habilidades a nivel comercial

There is generally a skills shortage at the trade level

## Malaga

Falta de profesionalismo

Lack of professionalism

Escasez de parcelas con licencia, escasez de infraestructura suficiente y adecuada, planificación inadecuada

Shortage of licensed plots, shortage of sufficient and adequate infrastructure, inadequate planning

Proceso de permisos de las autoridades locales muy ineficaz, los bancos no están interesados en la financiación

Very inefficient local authority permitting process, Banks not interested in funding.

## Santander

Competencia y disminución de márgenes beneficio

Competition and lower profit margins

## Teruel

Falta de mano de obra mínimamente cualificada

Lack of minimally qualified workforce

# Information

## Spain Construction Monitor

The RICS-CGATE Construction Monitor is a quarterly guide to the trends in the construction market. The report is available from the RICS website [www.rics.org/economics](http://www.rics.org/economics) along with other surveys covering the housing market, residential lettings, commercial property, construction activity and the rural land market.

## Methodology

Survey questionnaires were sent out on 9 September with responses received until 19 October. Respondents were asked to compare conditions over the latest three months with the previous three months as well as their views as to the outlook.

Net balance = Proportion of respondents reporting a rise in a variable (e.g. occupier demand) minus those reporting a fall (if 30% reported a rise and 5% reported a fall, the net balance will be 25%). Net balance data can range from -100 to +100. A positive net balance reading indicates an overall increase while a negative reading indicates an overall decline.

RICS-CGATE Construction Activity Index is constructed by taking an unweighted average of current and 12-month expectations of four series: residential workloads, non-residential workloads, infrastructure workloads and profit margins. Global and regional series are weighted using the World Bank's GDP PPP (2017 constant prices) data series. Current responses were weighted using the prior years GDP (e.g. the 2020 responses were weighted using 2019 GDP data). Where responses are not sufficient to form a national-level sample, they are binned together to fill in any gaps in regional coverage.

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