

Q2 2020: North America Construction Monitor

Infrastructure to drive sector recovery in north America but profits more generally to remain compressed

- Activity contracts in Q2 in both Canada and the US amid coronavirus lockdowns
- Expectations for workloads remain negative or flat apart from infrastructure
- Profit margins face further compression with tender prices expected to flatline

The Covid-19 pandemic and the related economic lockdowns are having a significant impact on the construction industry globally, according to respondents to the RICS Global Construction Monitor for Q2 2020. The Global Construction Activity Index* (CAI), an amalgamated measure of current and expected construction market conditions, came in at -24 for the period. Chart 1 tracks the recent picture for this index in both Canada and the US demonstrating the extent of the turnaround since the end of 2019.

Underlying these weaker numbers has been a predictable fall in headcount, profits and new business enquiries. Payment delays have inevitably increased with suggestions from respondents that the cost of some materials have done likewise.

Infrastructure to drive the recovery

A consistent theme across the globe is that the infrastructure sector will be key to any uplift in workloads in the industry. This is consistent with the announcement by a number of governments of additional public spending in this area to support economic activity over the coming years.

By way of contrast, expectations for both private residential and private non-residential workloads appears much more subdued and indeed, in many countries the feedback remains stuck in negative territory. Chart 2 captures the global perspective for future workloads as well as expectations

for North America. Separately, it is also noteworthy that in both Canada and the US, profits are viewed as continuing to remain under pressure.

Employment to remain under pressure

Further job losses are seen as highly likely across the construction and infrastructure sector over the next twelve months. Respondents in Europe in general appear to expect a larger reduction in headcount than those in the Americas or Asia Pacific with the projection for the Middle East and Africa most downbeat. In the US employment is expected to be flat while and Canada bucked the broader trend with respondents looking for a modest pick-up in employment in the sector.

Insufficient demand is understandably a key factor cited by respondents holding back activity both at the present time and looking forward. Financial constraints and regulation also continue to be seen as significant obstacles for the sector. Labour shortages appear to be less of a problem than was previously the case, although this does vary by country. For example, 44% of contributors from Canada still cited labour supply as an issue with 38% referencing skill shortages. Chart 3 shows how this has eased over the past few quarters but also that the readings remain a little higher than the comparable numbers for the US (24% and 31% respectively).

Drilling down a little further into areas where challenges

Chart 1: RICS Construction Activity Index*

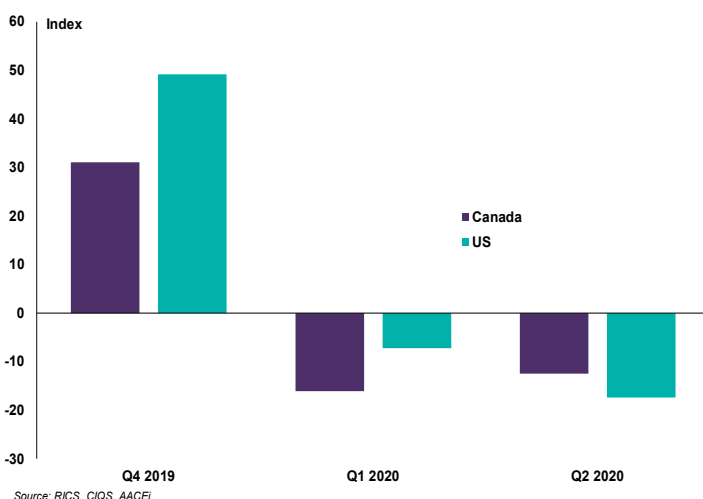
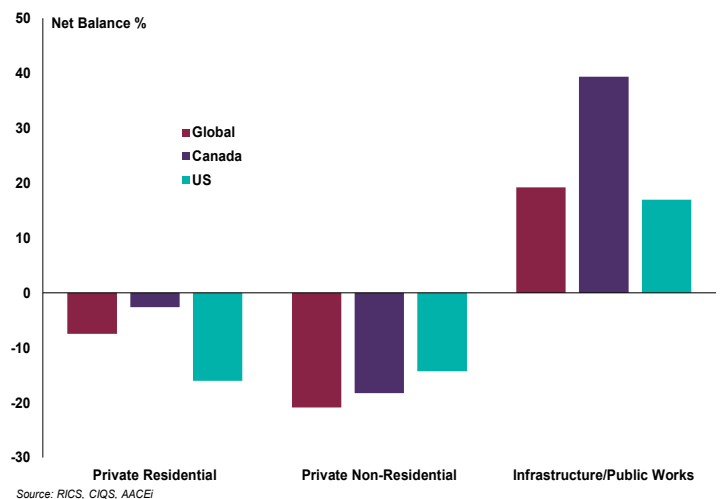


Chart 2: Workload expectations - next 12 months



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

around labour may be most marked, it is noteworthy that the results for both Canada and the US identify skilled trades and quantity surveyors as being the areas where the shortages are greatest. This contrasts slightly with the global results where although skilled trades feature, the shortage around professionals is more balanced with managers and building surveyors also being cited by at least 20% of respondents.

Tenders beginning to come in below cost

In an additional question included in the Q2 GCM, we looked to track the proportion of tenders coming in below realistically produced estimates of cost. Globally, 44% of respondents answered in the affirmative suggesting this was the case to a greater or lesser extent. From a regional perspective, it was most evident in the Middle East and Africa (two-thirds of contributors) and least in the Americas (around one-third).

Specifically for Canada and the US, the numbers are 34% and 37% respectively as shown in chart 4. Moreover, in the

former virtually all responses suggesting tenders were coming in lower than cost were within a 10% margin. For the US, the picture was broadly similar albeit with a few more lower outliers.

And productivity is being squeezed

A further question was raised about the legacy of Covid-19 and the management of risk around the pandemic on productivity on construction sites. Globally the lionshare of feedback points to a decline of anything up to 20% although around one in six responses suggest there will be no change. For both Canada and the US, a relatively higher proportion of responses point to a loss of productivity in the 0 to 10% range. Once again, the biggest impact is seen in the results for the Middle East and Africa, while the numbers for Europe are slightly less negative than elsewhere.

Chart 3: Factors holding back activity

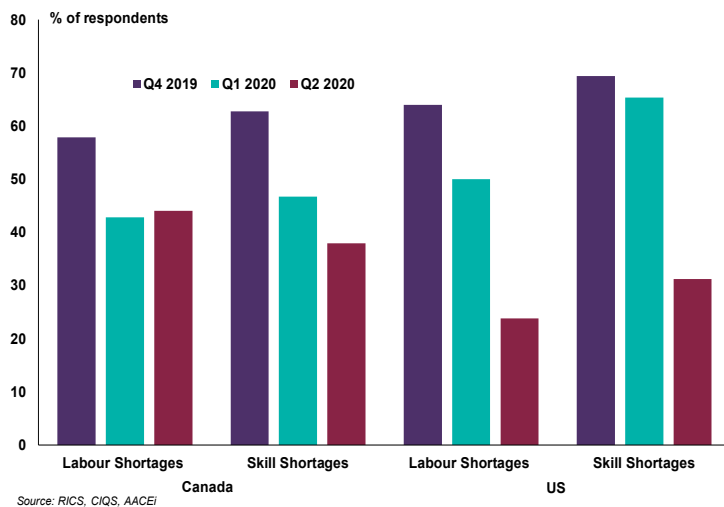


Chart 4: Underbidding

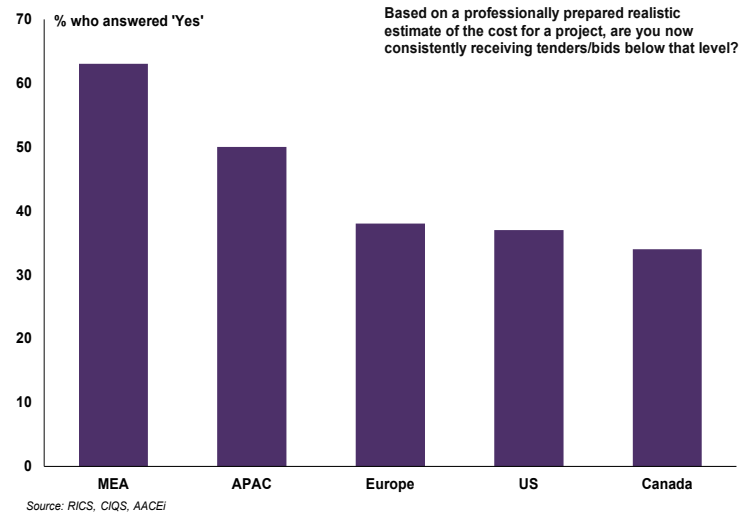
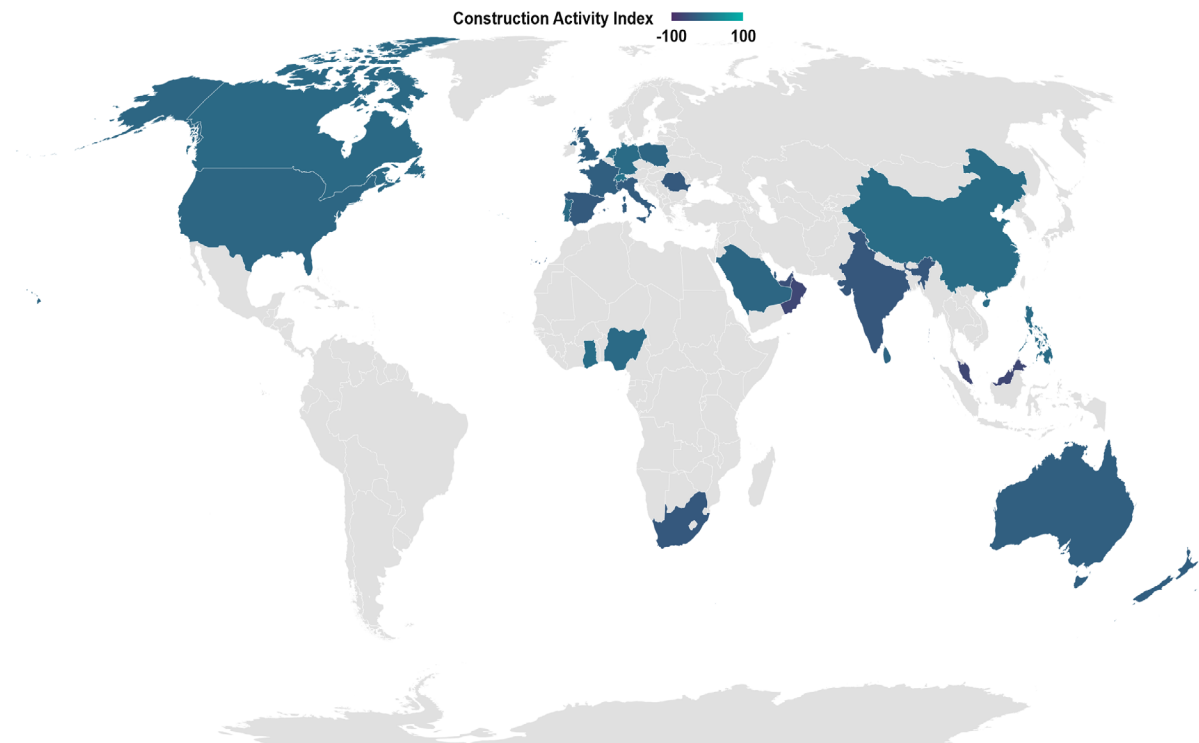


Chart 5: Construction Activity Index by country



Canada



Canadian Institute of Quantity Surveyors

Institut canadien des économistes en construction

Feedback around activity in the second quarter inevitably reflected the impact of Covid-19. Forward looking indicators are a little more positive with infrastructure anticipated to drive recovery across the sector following a number of government announcements. Private residential workloads are viewed as being broadly unchanged over the next twelve months but perceptions around private non-residential activity remains a little more downbeat.

Although headcounts (measured in net balance terms) fell in the second quarter, hiring is viewed as likely to pick-up over the next twelve months. Skills shortages are still perceived to a problem for the sector, even if there are somewhat less visible than previously was the case. The latest data shows the issue continues to be most marked in the areas of skilled labour and quantity surveyors.

Profit margins are likely to compress further according to responses to the survey reflected in construction costs outstripping tender prices. For the coming year, average reading for the former is put at more than 4% according to contributors compared with a modest 1% rise in tender prices. That said, for the time being, the majority of tenders being received are not 'consistently' below realistically produced estimates of costs.

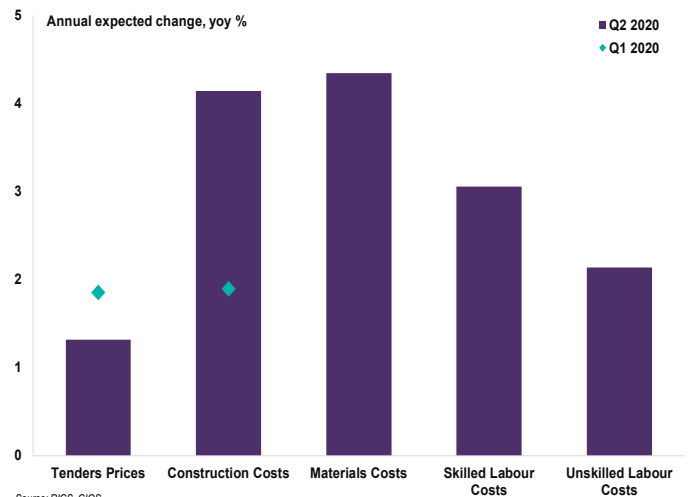
Predictably in the current environment, productivity is being impacted by the Covid related working arrangements on construction sites. However, in the case of Canada, close to half the responses expect the loss of productivity to be in the 0 to 10% range. Around one-quarter see the impact being in the 10% to 20% range while around 15% envisage no loss as a result of the changed circumstances.

Workloads, past 3 and next 12 months



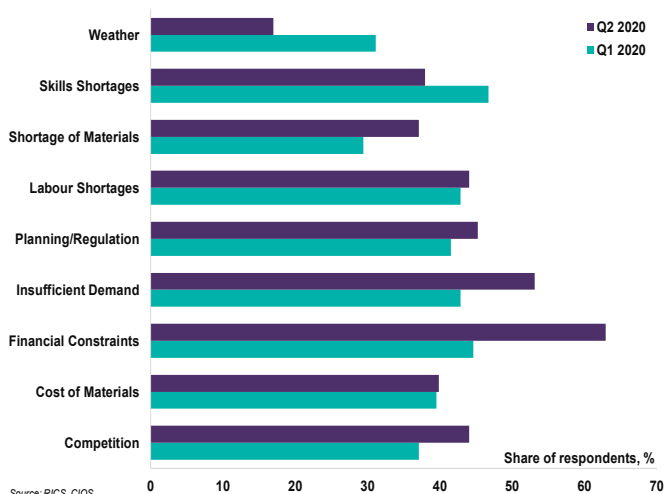
Source: RICS, CIQS

Expected cost escalations, next 12 months



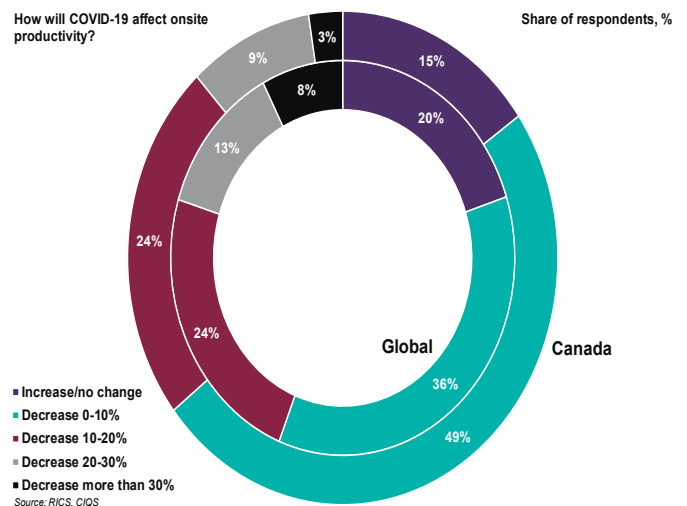
Source: RICS, CIQS

Factors holding back activity



Source: RICS, CIQS

Covid-19 expected impact on productivity



Source: RICS, CIQS



United States

The US Construction Activity Index slipped further into negative territory in Q2 as workloads dropped as a result of the pandemic. The decline was most marked in the area of private non-residential. Looking forward, this part of the construction sector is viewed as remaining under pressure with interestingly, private residential workloads also struggling to emerge onto a more positive trajectory. In common with many other parts of the world, infrastructure is projected to not just be more resilient but actually see a return to positive growth albeit at a slower pace than at the tail end of last year.

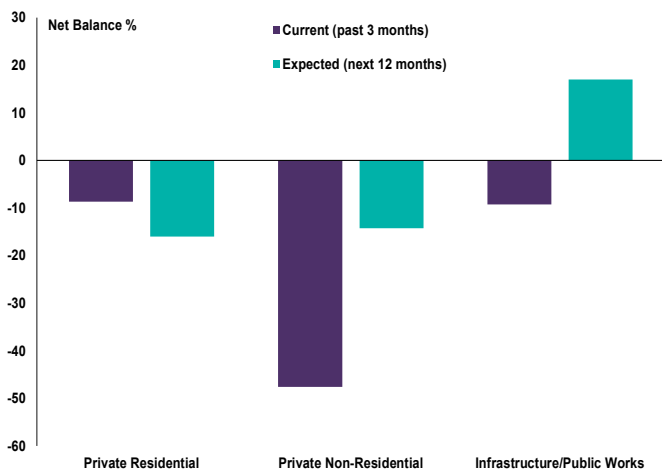
The key factors holding back activity are, unsurprisingly lack of demand, financial constraints and regulatory issues. Headcount in construction which fell in the second quarter is now projected to gradually stabilise. Labour shortages have diminished in importance with just 24% of respondents identifying

this as a barrier (50% previously) with skill shortages being signalled by 31% of respondents (65% in Q1). The area where this is more of a problem is skilled trades (41% against 58% in the latest round of the monitor).

Profit margins are viewed as likely to remain under pressure over the coming year with construction cost projected to outstrip tender prices by over 2%. That said, just short of two-thirds of respondent suggested the bids received are not 'consistently' below realistic estimates of the cost of a project.

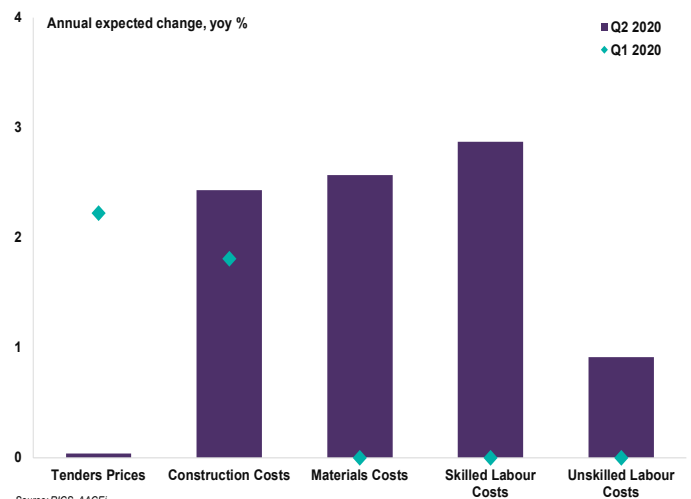
Meanwhile, new working arrangements in the Covid world are expected to exert a toll on productivity with the the largest number of respondents suggesting that the loss will be in the region of 0 to 10% (46%) followed by one-quarter in the 10% to 20% band. Only one in six contributors envisage no change in productivity in the wake of the pandemic.

Workloads, past 3 and next 12 months



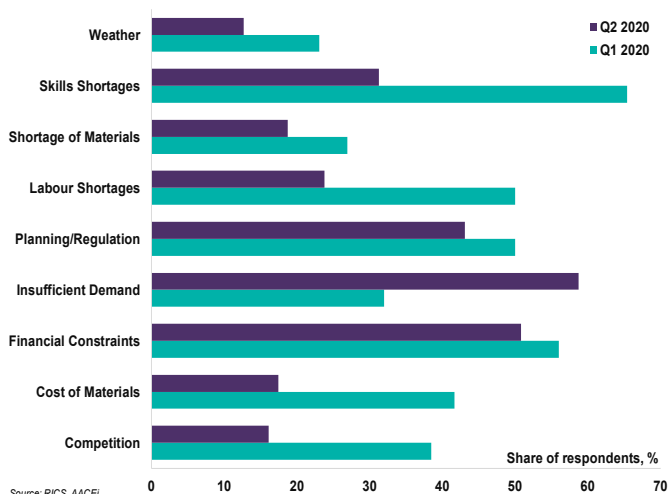
Source: RICS, AAACEI

Expected cost escalations, next 12 months



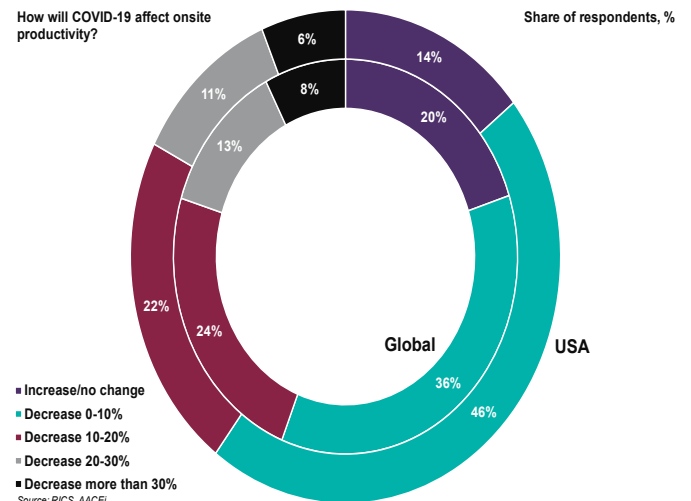
Source: RICS, AAACEI

Factors holding back activity



Source: RICS, AAACEI

Covid-19 expected impact on productivity



Source: RICS, AAACEI

Regional Comments from Survey Participants in the Americas

Canada

Regulations and events in the United States have an indirect impact on the market price and demand. *-Burnaby*

Material supply is going to cause issues for sure, as will skilled labour. *-Barrie*

Owners are simply demanding a reduction or they will cancel and re-bid it. *-Calgary*

There will be a gap in work due to a suspension of tenders in March and April. *-Calgary*

Lower demand for oil and gas is negatively impacting the whole economy so the result is laying off manpower. *-Edmonton*

The government is increasing infrastructure spending to record highs. *-Edmonton*

We are experiencing an influx of labour from neighbouring provinces. *-Kelowna*

Demand and volume of construction is remaining high. *-Oakville*

Our region has a heavy amount of federal government projects therefore the impact is minimal. *-Ottawa*

Shortage of lumber, schedule delays, more construction claims, import and export of materials are all issues. *-Ottawa*

Unknown and uncertainty of where this is going and how long it will last. *-Ottawa*

There is uncertainty and a reluctance to spend until assurance is met - i.e. a safe and available vaccine. *-Pickering*

Increased number of out of province bids from contractors and subcontractors. *-Saskatoon*

Project slippage will be impacted by winter starts or delayed to spring 2021. *-Spruce Grove*

Access to financing is an issue. *-St. John's*

The application of information technology is needed in construction to ensure efficiencies. *-Toronto*

There is a shortage of professional skilled and unskilled labour. *-Toronto*

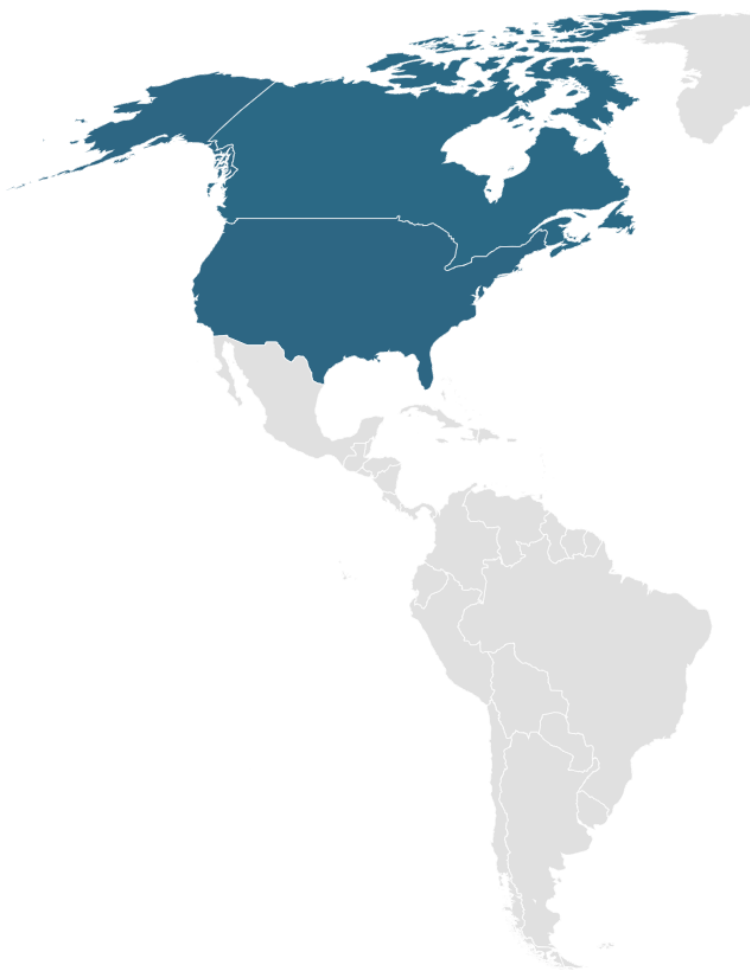
Supply and price uncertainty likely to remain as long as the public health crisis is unresolved. *-Vancouver*

Local authority legislation and delays, skills shortage, market fears. *-Vancouver*

I believe all construction projects that were once halted due to Covid-19 have now all resumed. *-Waterloo*

Dominica

Construction has been increasing in



efforts to rebuild the country following Hurricane Maria. *-Roseau*

Guatemala

Clients are unwilling to initiate projects or cover additional costs associated with Covid-19.

Jamaica

There is no standard requirement for Health and Safety to cope with the effects of Covid-19. *-Kingston*

Mexico

Uncertainty, mandatory and non-mandatory site closures are issues. *-Mexico City*

Having issues with the supply chain of some materials. *-Mexico City*

United States

I have not seen any delays, only hearing about material shortages due to Covid-19. *-Atlanta*

The increasing failure of states and the federal government to manage Covid-19 levels is affecting confidence. *-Atlanta*

Politically driven unrest is forcing

the shutdown or postponement of projects. *-Chicago*

Public project funding on hold due to uncertainty in city and state budgets. *-Hoboken*

An unwillingness for people to come back to work due to unemployment benefits or fear. *-Houston*

Drop in the cost of barrel of oil. Most projects are on hold, lay-offs and furloughs. *-Houston*

Covid-19 restrictions will seriously reduce labor productivity and delay project completions. *-Johnstown*

Pipeline for construction projects is decreasing, which will have effects to 2022 and beyond. *-Nashville*

There is a lack of new projects coming to the market, whilst clients navigate what the new normal will look like. *-New York*

Infrastructure contracts are generally on hold if they are government controlled. *-Orlando*

There is a lack of quality, experienced tradesmen. *-Skowhagen*

RICS Consensus 12-month Expectations

	Tender Prices	Construction Costs	Materials Costs	Skilled Labour*	Unskilled Labour*
Global	+0.2%	+3.1%	+3.4%	+3.0%	+1.6%
Americas	+0.5%	+2.9%	+3.1%	+2.6%	+1.1%
Canada	+1.3%	+4.1%	+4.3%	+3.1%	+2.1%
USA	+0.0%	+2.4%	+2.6%	+2.9%	+0.9%
Asia Pacific	+0.3%	+3.3%	+3.2%	+4.1%	+2.7%
Australia	-0.3%	+1.7%	+2.7%	+0.4%	-0.7%
China	+0.2%	+2.3%	+2.0%	+4.0%	+2.2%
Hong Kong	-3.2%	-0.2%	+0.7%	-0.5%	-1.5%
India	+1.2%	+7.3%	+6.8%	+7.2%	+7.0%
Malaysia	-1.0%	+2.1%	+2.4%	+2.6%	+1.5%
New Zealand	+0.1%	+2.9%	+3.1%	+1.6%	-0.0%
Philippines	+4.1%	+6.5%	+7.2%	+4.4%	+3.4%
Singapore	+3.6%	+7.3%	+6.3%	+6.9%	+5.9%
Sri Lanka	+3.3%	+7.3%	+7.4%	+5.3%	+4.4%
Europe ex-UK	-0.1%	+2.1%	+3.2%	+1.4%	-0.0%
France	+1.5%	+3.0%	+3.0%	+1.5%	+1.1%
Germany	+1.0%	+2.6%	+3.3%	+2.0%	+1.8%
Italy	+0.9%	+3.0%	+3.9%	+2.3%	-0.1%
Netherlands	-1.0%	-0.9%	-0.8%	-0.6%	-1.3%
Poland	+0.3%	-1.8%	+1.3%	+0.7%	-1.1%
Portugal	-2.8%	+2.0%	+2.6%	+0.2%	-2.7%
Romania	+3.2%	+4.7%	+4.8%	+3.2%	+2.6%
Spain	-2.4%	-0.6%	+0.7%	-0.4%	-1.5%
Switzerland	+0.0%	+0.0%	+0.9%	+1.1%	-0.3%
Middle East & Africa	-0.1%	+0.4%	+0.1%	+0.0%	+0.0%
Ghana	-0.5%	+6.0%	+6.6%	+5.3%	+4.7%
Nigeria	+4.2%	+7.5%	+8.6%	+3.8%	+2.7%
Oman	-3.3%	-0.6%	+0.7%	+0.3%	+0.1%
Qatar	-0.9%	+2.7%	+3.7%	-0.1%	-0.7%
Saudi Arabia	+1.4%	+6.5%	+6.5%	+4.4%	+3.0%
South Africa	+1.7%	+6.2%	+6.7%	+4.0%	+3.3%
UAE	-4.1%	-0.1%	+1.8%	-2.3%	-2.2%

*Skilled and unskilled labour are expected changes of per unit skilled and unskilled labour costs

Information

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

Survey questionnaires were sent out on 10 June 2020 with responses received until 23 July 2020. Responses from the Philippines were received until 27 July 2020. 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 1816 company responses were received globally, 408 of which were from the UK. Responses in Canada were collected in conjunction with the Canadian Institute of Quantity Surveyors. Responses in the United States were collected in conjunction with the Association for the Advancement of Cost Engineering. Responses from the Philippines were collected in conjunction with the Philippine Institute of Certified Quantity Surveyors.

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.

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Responses were gathered in conjunction with the following organisations:



Canadian Institute of
Quantity Surveyors

Institut canadien des
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