



CONSEJO GENERAL
DE LA ARQUITECTURA TÉCNICA
DE ESPAÑA



Q2 2023 Spain Construction Monitor

Headline activity remains flat although private residential workloads improve

- Construction Activity Index remains in neutral territory, signalling a generally steady backdrop
- Twelve-month expectations downbeat across infrastructure but private residential output is seen rising
- Skills and labour shortages continue to create difficulties, with 94% of respondents reporting a shortfall

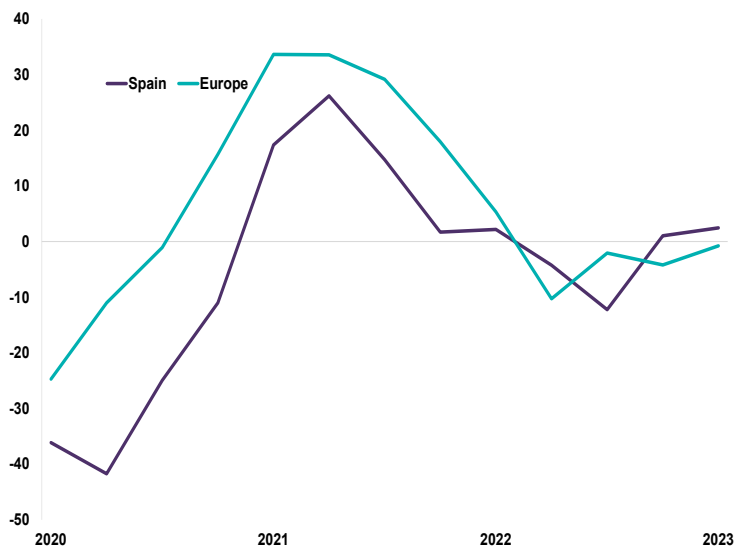
The feedback to the Q2 2023 RICS-CGATE Spain Construction Monitor remains somewhat mixed, with growth in certain areas of the market being offset by weakness in others. This is coming together to produce a generally flat headline picture. That said, private residential workloads do appear to be gaining momentum, and this is expected to continue over the next twelve months.

Construction Activity Index remains in neutral territory

The headline Construction Activity Index (CAI) posted a reading of +2 in Q2, little changed from a figure of +1 returned in the previous quarter. Consequently, this measure remains indicative of a generally stable trend in overall activity. When compared to Europe as a whole, the feedback in Spain remains marginally stronger (for a second straight quarter), albeit the latest CAI reading across the continent of -1 is also consistent with broadly flat trend in headline output (Chart 1).

With respect to current workloads, a net balance of +24% of contributors across Spain reported an increase in private residential activity. This is up from a reading of +13% last quarter and signals a slight acceleration in momentum for the second quarter in succession. Conversely, workloads fell across the private non-residential sector in Q2, evidenced by the net balance reading dipping to -6% from a figure of +12% beforehand. Meanwhile, a net balance of +13% of contributors cited an increase in infrastructure workloads over the latest survey period, marking the first positive reading in this segment since Q2 2022.

Chart 1 Construction Activity Index



New business enquiries slip as twelve-month outlook remains mixed at a sector level

Not boding particularly well for future orders, new business enquiries declined slightly in Q2 according to a net balance of -11% of survey participants. That said, expectations remain mixed at the sector level regarding the outlook for workloads over the coming twelve months. Indeed, the recent uptick in infrastructure work is anticipated to prove short-lived, with a net balance of -27% of respondents foreseeing a drop in output across the sector at the twelve-month time horizon. Likewise, expectations are also

in negative territory across the private non-residential sector, with the latest net balance slipping to -6%, falling from a reading of +12% in the previous iteration of the survey. Bucking the broader trend however, the private residential sector is now anticipated to see a solid rise in workloads over the year to come. Indeed, a net balance of +41% of respondents foresee private housing workloads increasing, up from a reading of +31% last time (Chart 2). In fact, the Q2 reading marks the strongest result for this series going back to the end of 2021.

Labour and skills shortages now seen as the dominant factors constraining the market

As shown in Chart 3, labour and skills shortages are seen as significant impediments for the construction market at present, with 94% of respondents drawing attention to such shortfalls in the Q2 results. In both instances, the share of respondents reporting these difficulties has now risen to a record high. Alongside this, 89% of contributors cite material costs to be a factor negatively impact market activity, slightly higher than the share of 82% reporting this issue in Q1 (but not quite as elevated as the 97% seen at the start of 2022). Meanwhile, as the ECB continues to raise interest rates, financial constraints are increasingly being viewed as a factor weighing on construction output. Indeed, 78% of respondents highlighted financial constraints as an impediment in Q2, representing a record high (data collection began in 2020).

Profits still expected to remain under pressure

For the year ahead, respondents continue to envisage a strong increase in overall construction costs, with projections picking up slightly in the latest report (Chart 4). Looking at the different component of this, skilled labour costs are seen rising at the sharpest rate compared to all other categories, as respondents forecast an annual increase of just over 6%. On the same basis, material costs are anticipated to rise by around 5%, up from an envisaged 4% increase last quarter.

With construction cost inflation expected to remain fairly intense over the year to come, this is anticipated to continue to weigh on profit margins. As such, a net balance of -11% of respondents envisage margins narrowing during the next twelve months, albeit this figure is not quite as downbeat at the reading of -24% seen in Q1.

Chart 2 12-Month Expectations for Workloads



Chart 3 Factors Holding Back Activity

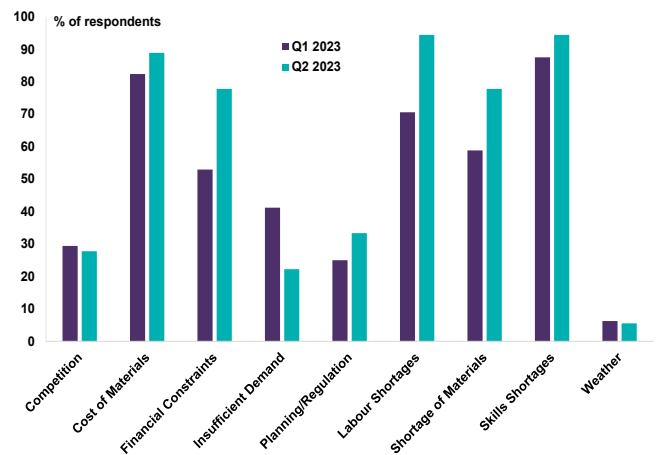
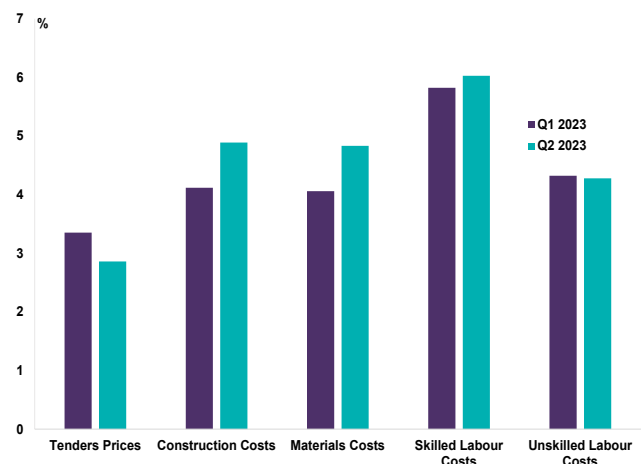


Chart 4 12-month Expectations Tender Prices & Costs



Market comments

Baleares

Lack of qualified tradesmen. Higher overall material and labour costs. Planning uncertainty.

Castilla y León

The pandemic has increased the demand for homes with gardens

Malaga

Bank interest charges on the increase.

Profiteering by contractors, contractual flexibilities being demanded, local authority admin delays.

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 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 14 June 2023 with responses received until 17 July 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.

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.

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