Q2 2022: Global Construction Monitor

Macro headwinds increasingly weighing on the outlook for construction in parts of the world

- **Construction Activity Index stalls in Europe and APAC, but remains a little more resilient elsewhere**
- **Overwhelming majority of respondents still report material costs and shortages to be impediments**
- **Global workloads still anticipated to rise across all sectors, albeit expectations are being scaled back**

The Q2 2022 RICS Global Construction Monitor (GCM) results suggest momentum is softening in many parts of the world as the more challenging macro environment starts to take its toll on activity. That said, headline workloads continue to rise, to a greater or lesser degree, across all sectors at the global level (even if some national markets have seen growth stall over Q2).

Construction Activity Index moderates across the board

At the global level, the Construction Activity Index (CAI) eased over the latest survey period, posting a figure of +12 compared to +20 last time. Although still in positive territory and therefore consistent with an overall expansion in activity, this does represent the softest reading since Q4 2020. When disaggregated at the regional level, the most pronounced moderation came in Europe, with the CAI slipping to +5 from +18 previously. Alongside this, the CAI in APAC dipped to +5 from +8 last quarter. As such, the latest readings across both regions are now indicative of growth largely stalling during Q2.

Meanwhile, the latest feedback appears somewhat more resilient regarding the Americas and MEA, with the CAI remaining comfortably positive at +27 and +18 respectively across the two regions. That said, in both cases, this still represents a slight moderation relative to last quarter's results.

At a country level, Saudi Arabia continues to display robust momentum, with the CAI bucking the broader global trend by picking up further in the latest results. Similarly, the construction market appears to be gaining impetus in India at present, evidenced by the Q2 CAI reading hitting a record high across the nation (data collection across India began in 2018). Conversely, several European markets saw a noticeable easing in momentum, with previously positive feedback across nations such as France and Germany turning flat over the Q2 period.

Infrastructure expectations remain solid for the most part

For the coming twelve months, respondents still foresee infrastructure workloads rising at a solid pace (in net balance terms) globally. Nevertheless, this forward looking measure has now cooled slightly in each of the last four quarters, from a net balance of +57% in Q2 2021 to +38% in the latest results. As shown in chart 2, sentiment has turned particularly flat in Europe regarding the infrastructure sector, with the Q2 reading signalling a

Chart 1: Construction Activity Index*

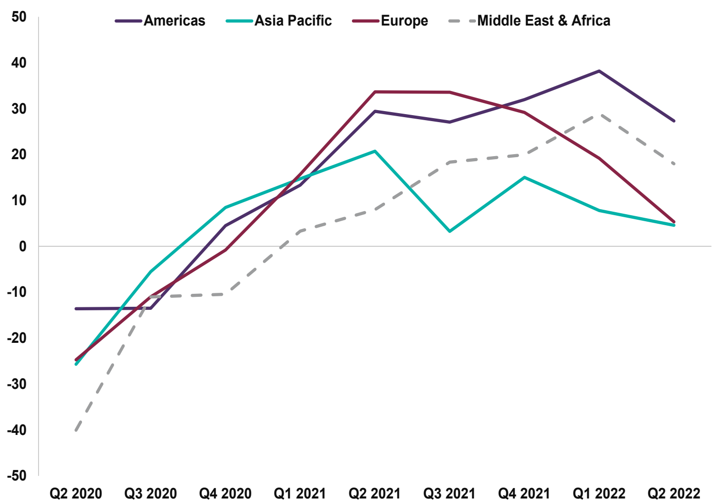
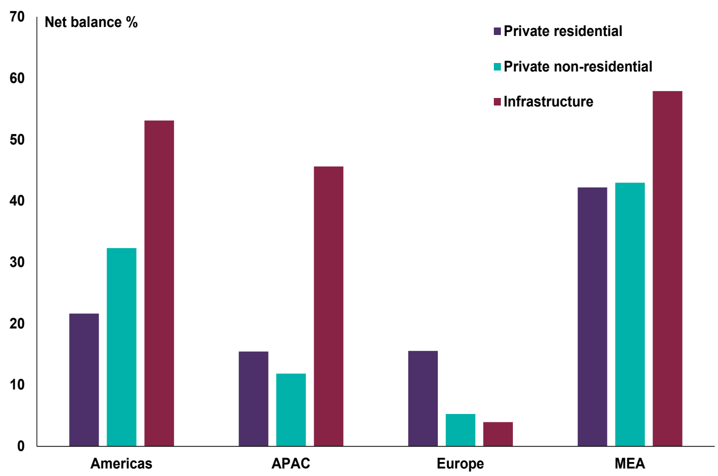


Chart 2: 12-month workload expectations



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

Survey responses were supported by the following organisations:

Canadian Institute of Quantity Surveyors | Institut canadien des économistes en construction

PICQS

Consejo General de la Arquitectura Técnica de España more or less stagnant trend coming through. By way of contrast, infrastructure expectations were upgraded across MEA during Q2, as the net balance rose to +58% from an already strong figure of +48% beforehand. Alongside this, the Americas and APAC continue to return firmly positive expectations for infrastructure activity, even if these are not quite as buoyant as was the case earlier in the year.

Meanwhile, the outlook for private non-residential workloads is flat to marginally positive across Europe and APAC, with the former seeing a scaling back in expectations over the quarter. At the same time, respondents based in MEA and the Americas remain relatively upbeat on the prospects for non-residential construction activity over the year ahead. Looking at the private residential sector, all regions display positive twelve-month projections to a greater or lesser degree. Again, in Europe, expectations (although still positive) have been downgraded noticeably compared to the Q1 results - a trend particularly visible in France, Germany and the Netherlands.

Employment still anticipated to rise across the construction industry in the year ahead

At the global level, a net balance of +24% of survey participants envisage headcounts increasing across the industry in the coming twelve months. Displayed in chart 6 (on page 3), the employment outlook is strongest in Saudi Arabia and India, with both nations posting a further improvement in twelve-month sentiment during Q2. At the other end of the spectrum, respondents across Sri Lanka see headcounts being reduced over the year to come, while the outlook is modestly negative within China, Malaysia and Qatar.

Material cost and availability continue to present significant challenges

Aligned with the feedback received over much of the past year, the rising cost of materials is cited by 88% of contributors to be a major obstacle to construction activity (chart 3). Similarly, around three-quarters of respondents report that outright material shortages are impeding the industry at present. Looking ahead, projections for material cost inflation remain elevated, with respondents across the globe forecasting a further increase of 8% over the next twelve months. While this is at least down slightly on forecasts of 9% made by respondents (on average) last quarter, it suggests inflationary pressures are set to remain intense for a while longer.

On the back of the steep rise in input costs of late, profit margins reportedly narrowed during Q2, according to a net balance of -35% of contributors. Going forward, margins are not anticipated to expand over the year ahead, evidenced by net balance for this indicator deteriorating from +13% in Q1 to -2% in Q2 at the global level. When disaggregated, the outlook for profit margins appears especially challenged within Europe, where a net balance of -20% of respondents expect margins to be squeezed in the next twelve months.

Chart 3: Factors holding back activity

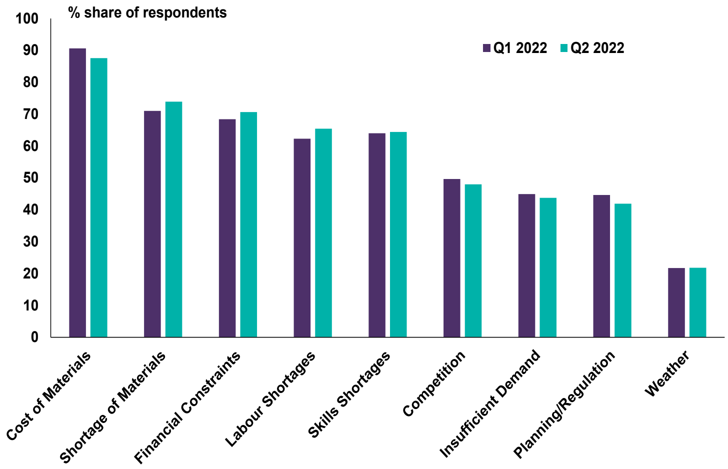


Chart 4: Construction Activity Index by country

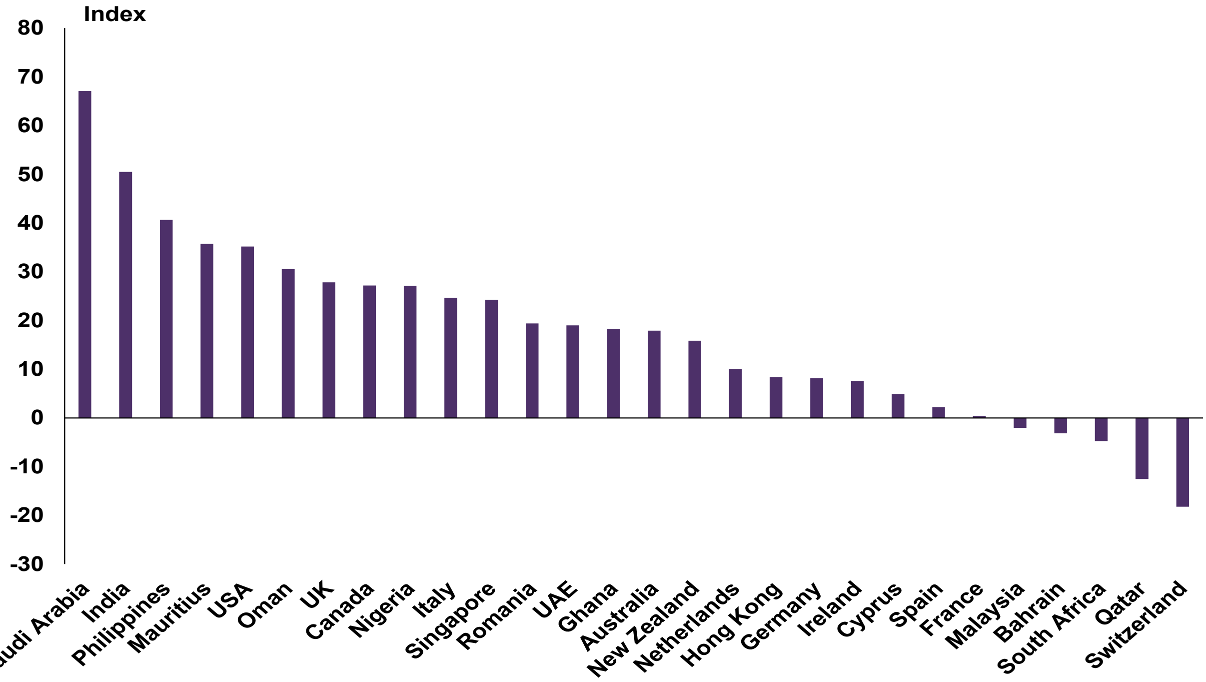


Chart 5: Current and expected workloads

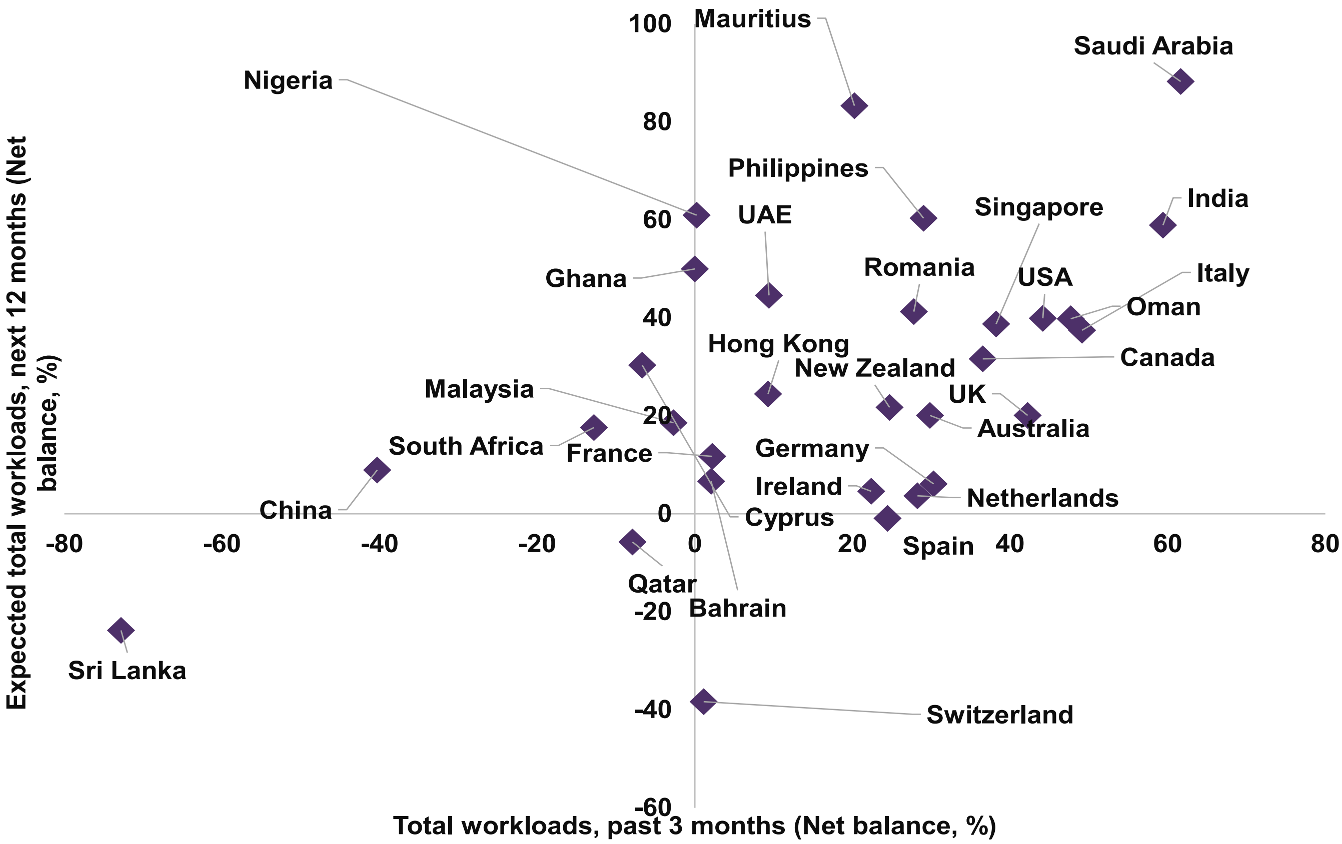
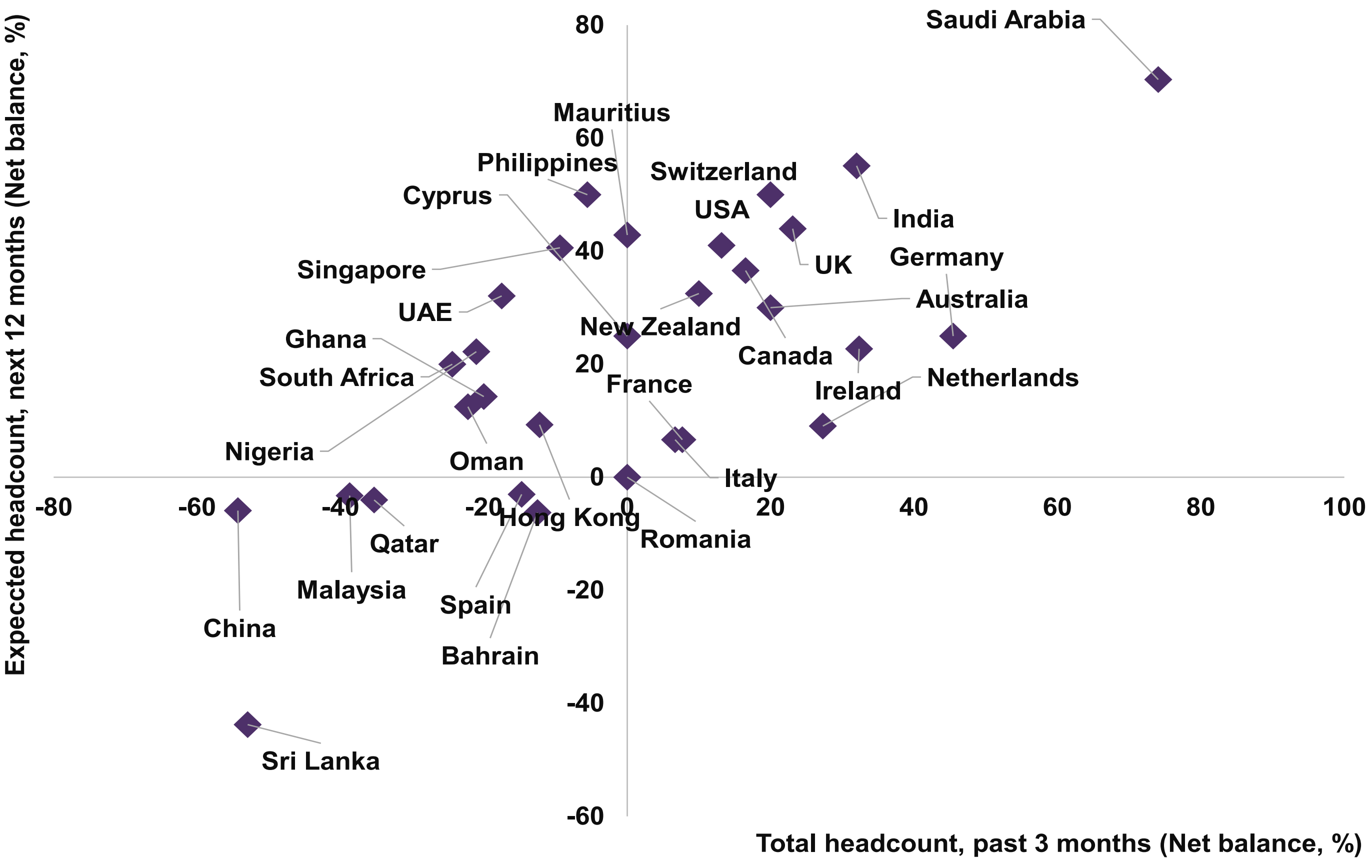


Chart 6: Current and expected headcounts



Asia Pacific: Infrastructure to remain the key driver of workloads

The headline APAC Construction Activity Index (CAI), which captures momentum across the industry, is providing a weakly postive signal of +5, equal to that in Europe. In more developed markets across the region, the sentiment index shows a solid response to the post-covid recovery while the divergence among other countries still persists. For example, although the Hong Kong CAI managed to turn positive in Q2, there is still significant gap compared to the feedback being received from Singapore (chart 1).

Tellingly, the CAI for India has continued to rise (hitting +50), leading the performance in the region. Alongside this, the momentum remained relatively firm in Australia, New Zealand, and the Phillipines. In contrast, the picture in China has turned a little more downbeat with a negative reading of -22, which has deteriorated from -14 last quarter.

Infrastructure remains dominant sector

The infrastructure sector continues to display the firmest momentum in APAC with the net balance reading for current workloads remaining relatively firm (+23% compared with +32% previously). Meanwhile the private residential metric slipped further into negative territory (-5% to -13%) and the private non-residential did likewise (-3% to -10%). Inevitably this masks significantly differents trends at a more local level. So in India, respondents to the survey indicate that workloads in private non-residential as well as the residential sector are rising a little more rapidly than in infrastructure (net balances of +64% and +60% as against +53%).

In many other countries in the region, the readings for private residential and non-residential remain positive but less so than for infrastructure (Australia, Hong Kong, Phillipines and Singapore). For China, the results for both private sector components of the workloads metric remain strongly negative.

The forward-looking series' for workloads are highlighted in chart 2. Perhaps unsurprisingly, infrastructure continues to be viewed by contributors as likely to see the strongest momentum pretty much everywhere. Meanwhile in keeping with expectations for an improving macro outlook in China through the second half of this year and into 2023, the readings both residential and non-residential workloads at this time horizon are significantly less negative.

Construction costs remain key challenge

Rising cost pressures persist across the region reflecting ongoing challenges around the availability of building materials (chart 3). That said, this is a little less noticable in China and Hong Kong (based on the results for expectations). At an aggregate level, tender prices are viewed as likely to rise a little more rapidly than was previously anticipated narrowing the gap with perceived costs increases. As a result, the outlook for profit margins is seen as likely to be broadly flat (the net balance feedback was +1%).

Even so, around three-quarters of respondents from APAC suggest that financial constraints are proving to be an obstacle for the construction industry and the net balance reading tracking payment delays has climbed from +20% to +32%.

Chart 1: Construction Activity Index

Chart 2: 12 month workload expectations by sector

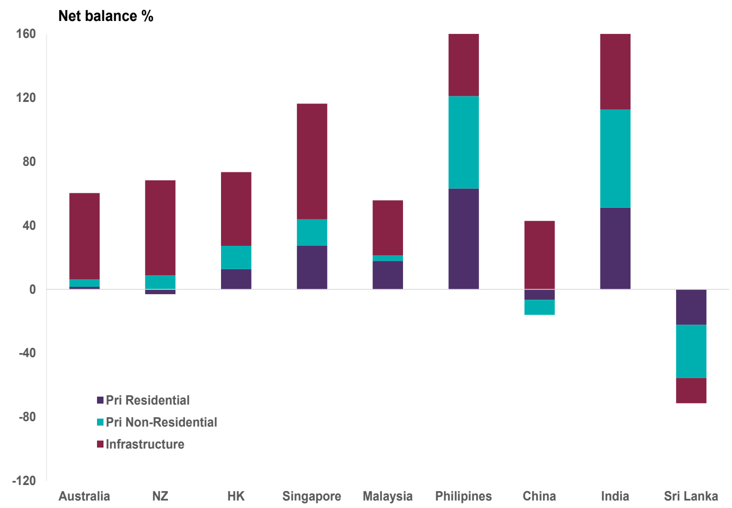
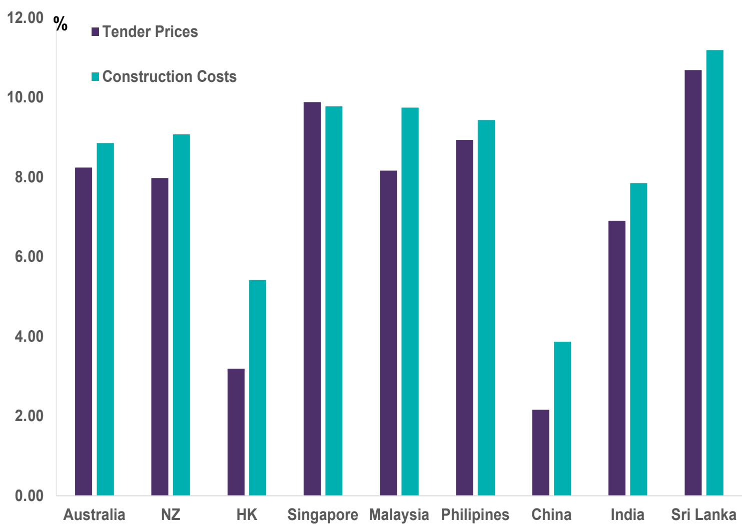


Chart 3: 12 month tender price and construction costs expectations



Regional Comments from Survey Participants in Asia Pacific

Australia

Inflation pressures - *Adelaide*

Supply chain delays - *Brisbane*

Shortage of skilled blue collar workers or an over demand of projects - *Brisbane*

Resource availability - construction materials - *Brisbane*

Geopolitical & climate - *Brisbane*

The next 12 months is going to be high Australian inflation but generally due to external factors - Hobart

Funding issues fro Clients to proceed with more projects - *Melbourne*

Electrical grid capacity - *Melbourne*

Booming mining industry having a dramatic impact on the availability of skilled resources - Perth

Distances required to be travelled for work - *Perth*

Due to Covid lower than normal immigration leading to worker shortage - Perth

Significant price escalation - *Perth*

Key issues is escalation of material prices such as steel and timber - *Sydney*

Political uncertainty (subject to conclusion of federal election) - *Sydney*

Covid remains an underlying generator of downtime across all personnel, hampering delivery to client - *Sydney*

Resource costs and shortages - materials and tradesmen - *Sydney*

The material rapidly increase so clients will hold back their development until market cool down - *Sydney*

Significant skills shortages, material price increases, financial failure of construction companies - *Sydney*

China

Economic slowdown and unstable property markets - *Beijing*

Slow in using new technology - *Beijing*

Residential market lacks growth potenial - *Beijing*

The volatility of energy price and covid significantly affect labour and material supply - *Shanghai*

Traditional residental and commercial real estate markets lacks potential, calling for innovations of architecture to more greener and energy-saving - *Urumqi*

Lack of standards - *Chengdu*

Lack of management skills is the main issue - *Taiyuan*

Covid restrictions have negative impact - *Shenzhen*

Less public confidence in real estate market - *Xuzhou*

Shinking residential market - *Chongqing*

Covid, import labour - *Macau*

Hong Kong

Slow in using new technology

Need new infrastructure project

Difficult to hire skillful labour and technical staff. The manpower would be short in this few years

Shipment of materials

Shortage of skilled workers and insufficient of lands supply

Social distancing measure under covid 19

Demand, and bank loan interest rate

Inflation

Policy uncertainty

Shortage of labour in market and sub-contracting practice leading to low profit in front line

Local regulations, restrictions on logistics

Restriction of cross-border land transportation of China due to Covid-19 prevention

India

Lot of paper work & certifications required to start project. That delay project & add project cost - *Ahmedabad*

Availibility of excellent contractors and vendors at competitive reasonable prices - *Bengaluru*

Trained skilled force lacking - Bengaluru

Overall real estate environment looks positive- Bengaluru

Due to inflation Construction all activities cost shot up highly. Pressure in global market - Chennai

Market is taking different turn after the Covid and WFH. Few business verticals are not performing - Chennai

Government policy and information media - *Delhi*

Abnormal increase in material cost and shortage of workforce - *Gurgaon*

Lack of skilled managers and technical staff - *Hyderabad*

Lack of appraisal for skilled labour - *Hyderabad*

Use of fossil fuel for in construction machinery & vehicle - *Mumbai*

Hike in steel , cement prices unprecedentedly and skilled labour staff is also a concern. Heavy rain - Pune

Malaysia

Contractors are afraid to quote for projects due to uncertainty of price and supply of material - *Johor Bahru*

Material cost - *Kuala Lumpur*

Productivity issues due to Covid pandemic, household income down, unemployment up, inflation up - *Kuala Lumpur*

Global economy badly affected by war in Ukraine and Covid-19 - *Kuala Lumpur*

Supply chain disruption - *Kuala Lumpur*

Construction costs - *Petaling Jaya*

Country economy is affected by regional covid-19 travel restriction & supply chain - *Puchong*

Market Demand of products remain soft - *Putrajaya*

New Zealand

Continued cost increases + shortages + introduction of code compliance changes creating cost issues - *Auckland*

Imports are difficult to get sign-off as acceptable in NZ - *Auckland*

poor supply chain. low efficiency, remoteness - *Auckland*

Inflation resulted from quantitative easing on currency, international shipping disrupted by Covid - *Auckland*

Timber and GiB shortage and logistics - *Richmond*

Shortage of specified construction materials. Consultant's continuing to specify these - *Wellington*

Philippines

Skilled labour shortage - *Alfonso*

High cost of materials - *Bauan*

Govt is not recognizing the importance of Chartered QS but there is skills shortage

- *Makati*

Demand is coming back and driving price increases and shortages - Makati

Effect of the pandemic - Manila

Singapore

High materials and labour costs

Logistical problems arising from the Ukraine war and pandemic

Lack of adequate trainings , needed information and high costs

Higher labour cost after pandemic

Existing contracts without cost provision on decarbonization will find this challenging

Sri Lanka

Sky rocketing all kind of material cost, labour cost, import restrictions foreign exchange deficitit - *Colombo*

Excessive increase in material prices due to USD rapid fluctuation affected in Construction industry - *Colombo*

Political unstability - *Homagama*

Europe: Construction Activity Index turns more or less flat at the aggregate level

The latest results for Europe suggest momentum is fading across the market, with the more challenging macro environment seemingly leading to a generally flat outlook across some areas of the market. Alongside this, material shortages and rising costs are referenced by an overwhelming majority of respondents to be hindering the construction sector at present. Furthermore, high input price inflation is also anticipated to squeeze profit margins over the year ahead.

Construction Activity Index eases into neutral territory

Following a run of five successive quarters in which a positive reading for the CAI had been posted, the latest results show the index slipping into neutral territory from +18 previously to +5 in Q2. As such, this measure is now signalling a more or less flat trend in overall activity. That said, as shown in Chart 1, markets such as the UK, Italy and Romania still exhibit comfortably positive readings for the survey's composite metric. Meanwhile, the CAI eased noticeably in the Netherlands, Germany, Ireland, Spain and France, with the latest figures in each of the nations much softer than the average recorded over the past twelve months.

Twelve-month expectations turn flat outside of the private residential sector

Chart 2 shows twelve-month workload expectations moderating across most sectors at the pan-European level during Q2. Indeed, for both the infrastructure and private non-residential categories, respective net balances of +4% and +5% are now signalling a broadly flat outlook (having been downgraded from a modestly positive reading beforehand).

For the private residential sector, although expectations are not as upbeat as was the case earlier in the year, they are still consistent with a modest pick-up in output over the next twelve months. When disaggregated, respondents based in Italy and Spain still anticipate a solid increase in output across the private residential sector in the year to come, while the most substantial easing in expectations can be seen Germany, France and the Netherlands.

Escalating material costs continue to hamper activity

In keeping with the feedback received over recent quarters, close to 90% of survey participants continue to report that material costs are impeding activity across the market. Alongside this, 80% of contributors highlight problems around the availability of materials. At the same time, around two-thirds of respondents are seeing difficulties in sourcing labour and/or appropriate skilled workers. Acting as another headwind for the industry, the proportion of contributors citing financial constraints as a barrier to market activity has increased from 45% back six months ago to 65% in the latest results.

Looking ahead, material costs are expected to continue to rise sharply over the next twelve months, with respondents forecasting (on average) an 8% increase. Although still extremely elevated when placed in a longer term historical context, this latest estimate is at least slightly down on projections for a 10% rise that were pencilled in last quarter.

Nevertheless, expectations for profit margins at the twelve-month horizon deteriorated over the quarter, with a net balance of -20% of respondents across Europe as a whole foreseeing margins being squeezed (down from a reading of -14% previously).

Chart 1: Constuction Activity Index

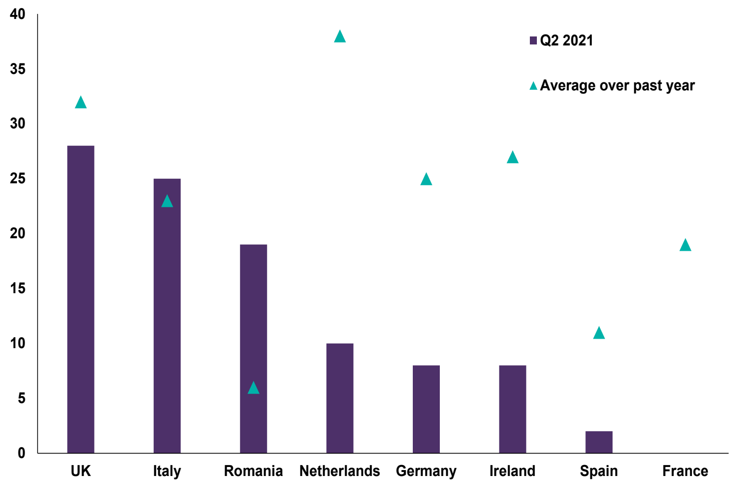


Chart 2: 12-month expectations

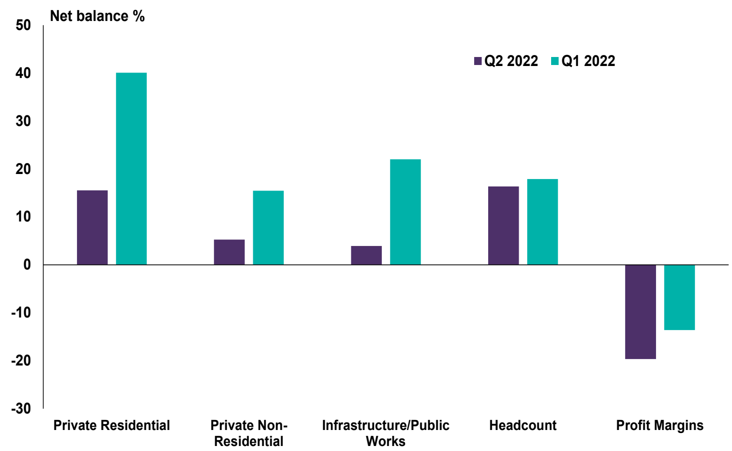
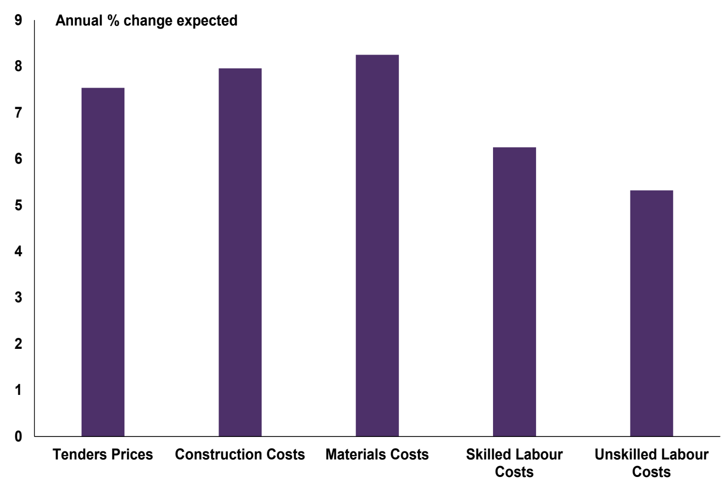


Chart 3: 12-month point estimate projections



Regional Comments from Survey Participants in Europe

Cyprus

Cyprus is an island, heavily depending on imports. Shipping is expensive and unreliable lately. - Limassol

Russian embargo and consequent real estate demand reduction from Russian individuals and companies. - Nicosia

France

Covid and the war in Ukraine having an impact. - Paris

Lack of projects. - Paris

Germany

A lack of younger persons (especially men) joining the construction industry & prefering alternatives. - Berlin

No availability of building plots, stricter building regulations. - Sachsen

Hungary

Dependent on external sources for construction materials and energy and Govermental projects. - Budapest

Ireland

War in Ukraine and associated sanctions on Russia is continuing to impact the price of materials. - Cork

Resolving issues where fixed price contracts are negatively impacted by the inflation. - Dublin

Inflation pressure. - Dublin

Cost of material, transportation and lack of skilled labour training. - Mayo

Inflation - impacting on availability and logistics. - Munster

Shortage of suitable, available building land for residential development in Leinster region. - Leinster

Clients/Employers inability to obtain funding for their projects. - South East

Material availability and cost inflation. - Ulster

Italy

Curent market is Contractor led. In Italy government is promoting/ financing works on facades. - Milan

Need for qualified building surveyor university classes (at least 3 year graduation courses). - Milan

Netherlands

Material availability e.g steel shortage. - Overijssel

Nitrogen disposition. - Noord -Holland

Portugal

Lack of labour. - Lisbon

Romania

Cash flow shortage. - Bucharest

Increased or shortage of materials, lack of predictability, insufficiency of skilled labour. - Bucharest

Spain

ack of professionalization of management and marketing requirements. - Alicante

Construction is being affected by the lack of residential land- Andalucia

Lack of involvement by the organizations/entities that represent our cities. - Gran Canaria

Cost of construction is very high. - Las Palmas

Severe skills shortages and supply cahin issues with suppliers being scarce and inflation rampant. - Malaga

United Kingdom

Huge skill shortages in the sector are inhibiting growth and result in turning down opportunities. - Exeter

Logistics due to disruption - Train Strikes. - London

Lack of skilled designers / technicians to complete detailed design.- London

Poor selection of contractors. - London

Planning approvals are being delayed continuously and adding risk to taking projects forward.

- London

Good quality workforce at all levels. - London

Uncertainty of planning and labour/materials availability. - London

Material price increases and effects of Russia-Ukraine conflict. - London

Skilled labour shortages and steep increases in steel costs over the last year. - London

Planners and conservation officers specific requirements, particularly in conservation areas. - London

High levels of inflation. - London

Aggressive project timescales reduces the time available for sustainability optioneering. - London

Supply chain issues, such as blocking of Suez Canal. - London

Lack of intermediate surveyors. - London

Planning decisions and consistency from Planning Authorities delaying progression of projects. - London

Nucelear Waste Management and Reduction is making great strides. - Norfolk

Global inflation. - Manchester

Middle East and Africa: Construction activity momentum eases but growth remains particularly strong in Saudi Arabia

As is evident elsewhere, the aggregated data for the MEA region points to a slowing in momentum in Q2 compared with the early part of the year. Indeed, the headline Construction Activity Index (CAI) slipped from +29 to +18. This does however mask somewhat divergent trends in the countries participating in the survey (chart 1). While the CAI for Saudi Arabia actually rose (from +59 to +67), it lost some ground modestly in Nigeria (+31 to +27) and the UAE (+25 to +19) and fell more noticeably in South Africa (+25 to +5).

Saudi Arabia shows particularly buoyant trend

The combination of rising oil production and high oil prices is proving a boon to the Saudi economy with growth forecasts for both this year and next currently in the process of being revised upwards. And, although the central bank has raised interest rates, it is doing so in a more measured way than the US Federal Reserve. Against this backdrop, it is unsurprising that the feedback from respondents in the country both to the (recently released) RICS Global Commercial Property Monitor and to the RICS Global Construction Monitor is strongly positive. A net balance of +70% of respondents are reporting a rise in infrastructure workloads with the numbers for private non-residential (+60%) and residential (+55%) not far behind. Within the infrastructure sector, activity around transport connectivity is seen to be growing particularly strongly. Meanwhile, despite the sharp jump in the cost of materials, contributors from Saudi Arabia are indicating that profit margins are still rising (net balance +19%).

Expectations generally positive across region

Looking at the coming twelve months, there is a perception across MEA that workloads will regain momentum, even in those markets where recent trends have been a little sluggish (chart 2). Infrastructure is viewed as likely to see most robust performance at this time horizon but private non-residential as well as residential workloads are also seen growing at a healthy clip. The country level results broadly reflect the pattern highlighted in the current workloads data. Again, Saudi Arabia is seeing particularly strong feedback with net balances of +93% for infrastructure, +89% for private non-residential and +83% for private residential. In contrast, the respective results for South Africa are (net balances of) +25%, +17% and +11%.

Material costs and financial constraints are challenges

The rising cost of building materials is predictably identified as the key issue the industry is currently grappling with. However, the second most noted factor impacting the delivery of construction projects is that of financial constraints (chart 3). This is particularly widely cited in Nigeria where nine out of ten respondents took this view. The result was not significantly different in Qatar and South Africa while even in Saudi Arabia and the UAE, around three quarters of respondents signalled constraints resulting from the financial situation. The challenge around skills and labour (at a regional level) is seen as rather less pronounced than elsewhere although the Saudi results are something of an exception to this pattern.

Profits outlook remains uncertain

Feedback around the prospects for tender prices and construction costs across the region show that the (aggregate) expectation is for the former to rise at a slower pace than the latter over the course of the next twelve months. This result is similar to that being reported in other regions around the world. That said, in Saudi Arabia the picture is slightly better with tender prices projected to rise largely in-line with construction costs and the forward looking net balance reading for profit margins coming in at +52%.

Chart 1: Construction Activity Index

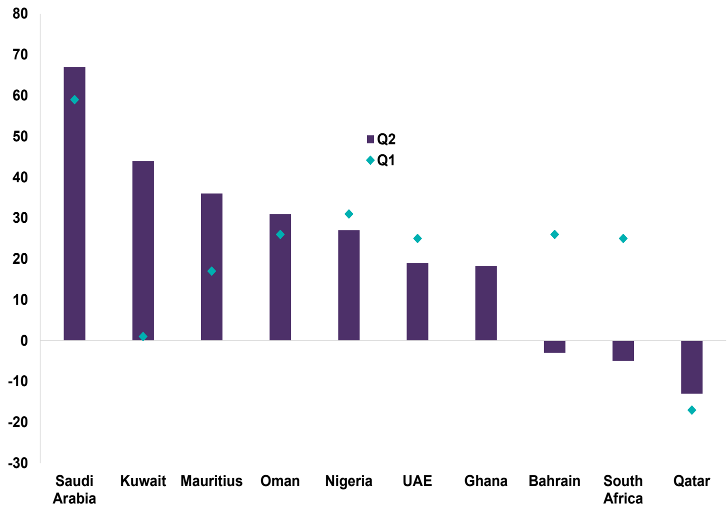


Chart 2: MEA Workloads and Headcount

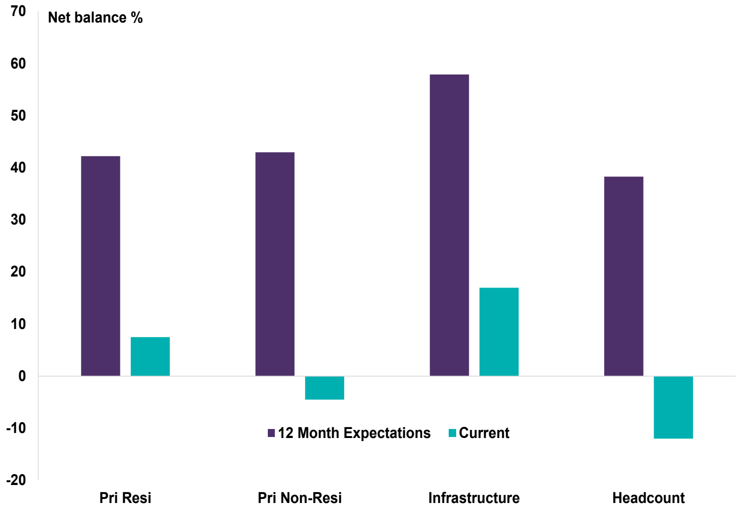
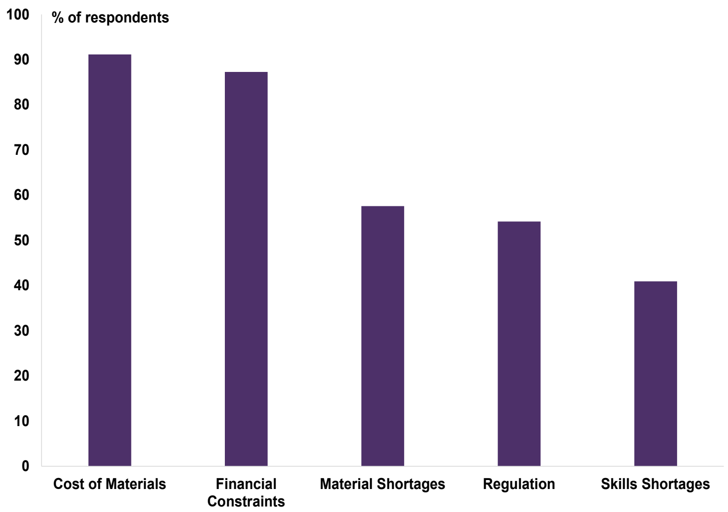


Chart 3: Key factors holding back activity across MEA



Regional Comments from Survey Participants in MEA

Bahrain

Supply more than demand - *Manama*

Tenderers who are submitting their bid on a negative profit - *Manama*

A large volume of work in Saudi Arabia is likely to drive up construction cost - Manama

Cargo/fright Cost , Inflation of Metal & Fuel rates at international Market Manama

Weak economy- Manama

Future projects still low - Manama

Sustainability in projects needs to be improved - Manama

Botswana

Lack of skills- Kasane

Egypt

Covid, Ukraine War - Cairo

Ghana

High cost of materials -*Accra*

Quality Control, Project Scoping and Budgeting leading leading to variation, cost and time overruns - Accra

The covid 19 & other global challenges has greatly impacted negatively on the industry - Accra

Delay in payment to contractors IPC'S - Accra

High cost of material and the sky rocketing prices of crude is affecting the construction industr - Kumasi

Insufficient construction costs data - Techimam

Kenya

Inflation affecting projects costs, financing and uptake - Nairobi

Kuwait

Hesitation about the international Geopolitical Stability - Al Farwaniyah

Malawi

Devaluation of the local currency by 25% in April has increased costs of imported materials and equipment - *Lilongwe*

The devaluation of our local currency and the subsequent rise in cost of resources - *Lilongwe*

Mauritius

Procurement of materials since we have to import most of the construction materials - National

Oversupply of similar products- too much medium to high end lodgings on the market - Q. Bornes

Broken supply chain for materials and labour - Rose Hill

Inability of construction consultants to implement usage of newly developed technologies and system - Vacoas - Phoenix

Mozambique

Low demand - Maputo

Nigeria

Increase in the cost of AGO and inflation of prices of materials - Abuja

Lack of political will to incentivise construction professionals through legislation - Abuja

Finance availability is key and very important - Lagos

FX rates and unstable currency - *Lagos*

Limited funding - Lagos

Poor equipment and low technology adoption - Lagos

Inflation rate and nonchalant attitude of regulatory agencies to break suppliers monopoly - Osogbo

Oman

Regulation changes and material shortage or unavailability - Ghala

Logistics Prices , Fuel Prices - *Muscat*

Financial Constrains, No solid ADR process results in frequent pitfalls - Muscat

Covid -19 - *Muscat*

Recruiting non experienced staff, considering only their high qualification - Wadi Kabir

Qatar

Very high Material Costs and extremely slow Client payments - Doha

Cashflow which harm badly entire supply chain causing delays and often extended contracts - *Doha*

Geo political uncertainty - Doha

Shortage of skilled labourers - Doha

Intensive work load to complete World Cup infrastructure projects - Doha

Temporary stoppage of construction activities due to FIFA event is affecting construction market - *Doha*

Shortage of skilled labor and cash flow issues - Doha

Uncertainty of public infrastructure projects - Doha

Decline in work following World cup - Doha

Innovation in modern technology - Doha

Covid pandemics -Doha

Lack of Subcontactors/ And delay in subcontactor's Payment - Doha

Saudi Arabia

Capacity issues in teh contracting market - *Riyadh*

Lack of competent contracting capacity- Riyadh

market capacity is rapidly diminishing with all the mega programmes simultaneously ongoing - Riyadh

Working in cost management, biggest current challenge is inflation. Less so, FOREX - Riyadh

Material prices - Riyadh

Plenty of construction activity as part of the Kindom's Vision 2030 initiatives - *Riyadh*

3M's:-manpower,machinery's & material- *Riyadh*

South Africa

Projects are still affected by the aftermath of Covid-19 in so far as delayed planning and implement - Aliwal North

Post Covid 19 effects and war in Russia - Bloemfontein

Very poor administration of state procurement. Government corruption - Cape Town

COVID 19, Government allocating more funds to health sector - Centurion

Inefficiency by council departments to process applications (rezoning, building plans, etc.) - Centurion

Recent Flood situation during COVID 10 pandemic. Uncertainty - Durban

Lack of effective training programmes - Govt not pushing training hard enough - Johannesburg

Political instability and influence - Johannesburg

Market changes due to COVID; offices & shops no longer needed but housing; projects need to change - Johannesburg

UAE

Delay in budget approval from the clients - Abu Dhabi

Cost of materials - Abu Dhabi

Demand for claims and project controls support has reduced as less projects are in execution - Dubai

Hyper competition among contractor and unrealistic Cost budgets set forth by cost consultants - Dubai

Race to the bottom pricing competition. International players leaving the market - Dubai

Organization only focusing on reducing costs lead delays- Dubai

North America: Strong growth in workloads anticipated despite material and labour challenges

The headline Construction Activity Index suggests that, while sentiment remains positive both in Canada and the US for now, it is a little less so than in the early part of the year (chart 1). Comments from respondents, shown on the next page, point to a number of factors contributing to the slightly more cautious mood including ongoing issues around materials, labour and broader economic concerns.

Workloads remain generally firm across the sectors

Current workloads metrics are still showing positive trends across all three categories of the industry used in the Monitor. The infrastructure net balance remains the most upbeat in both countries although the relative strength is particularly evident in Canada where the net balance read was +51%. This compares with +54% in Q1 and +31% and +28% for private non-residential and private residential respectively. The numbers for the US are +45% (infrastructure), +44% (private residential) and +43% (private non-residential).

While these results are consistent with a firm trend in activity (also evidenced by rising headcounts), there are some emerging signs of a more challenging environment developing. In both countries, the metric capturing payment delays is beginning to edge up albeit this is still at relatively low levels; +19% from +15% in Canada and +21% from +13% in the US.

Financial headwinds add to material and labour issues

Chart 2 shows that despite the positive feedback around current workloads, contributors seem if anything more concerned about the difficulties in accessing sufficient supply of, as well as the cost of, materials and labour. But on top of this, financial constraints are being highlighted by an increasing number of respondents. This is not altogether surprising given the recent actions of both the US Federal Reserve and well as the Bank of Canada, with both central banks now very focused on addressing the acceleration in inflationary pressures. However, it may also reflect early signs that profit growth is likely to slow with the net balance read for current profit margin falling from +17% to +3% in the US and from +12% to -13% in Canada.

Significantly, in both countries, the biggest concern when it comes to labour is access to skilled trades with over 80% of respondents identifying this as to be an obstacle. Moreover, around 60% of respondents also drew attention to challenges around the recruitment of unskilled labour and quantity surveyors.

Expectations point to a further loss in momentum

The business enquiries indicator is still suggestive of a solid trend in workloads. However, divergent patterns in sector activity look likely to become more marked as the year advances based on the forward looking feedback from respondents. While infrastructure, supported by Covid related fiscal initiatives, is seen as likely to continue to report strong growth, the pressure is viewed as building on other parts of the construction sector (chart 3). Residential development is projected to record the more pronounced slowing which is consistent with recent reports from the NAHB (in the US) and outright price declines in some Canadian cities.

Meanwhile profitability at an aggregate level is forecast to flat-line as tender prices struggle to keep pace with likely construction cost increases. Predictably, further rises in the cost of building materials are projected to be a major driver of this pressure but, reflecting the earlier point around skilled labour shortage, wages are also anticipated to rise strongly across the construction industry.

Chart 1: Construction Activity Index

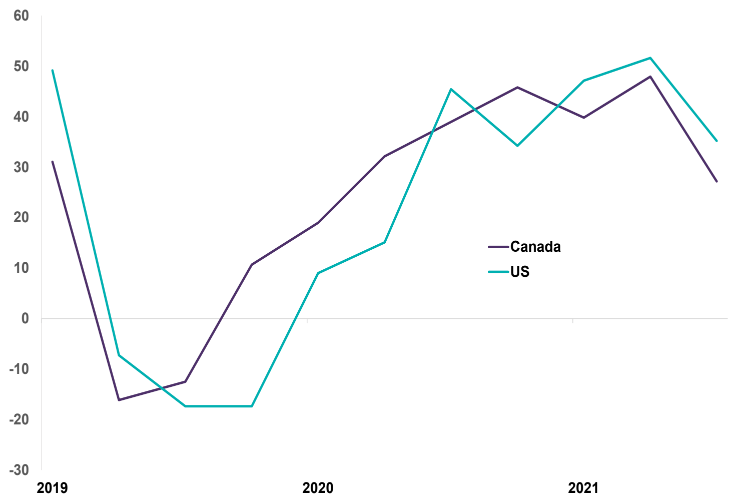


Chart 2: Key factors holding back activity

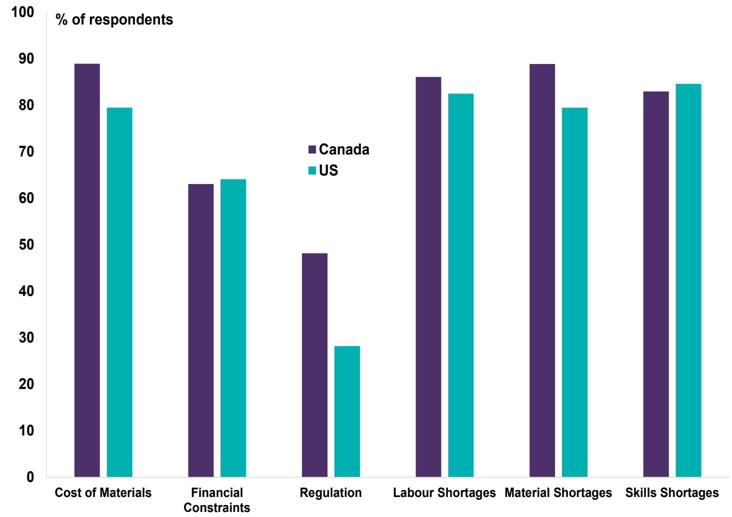
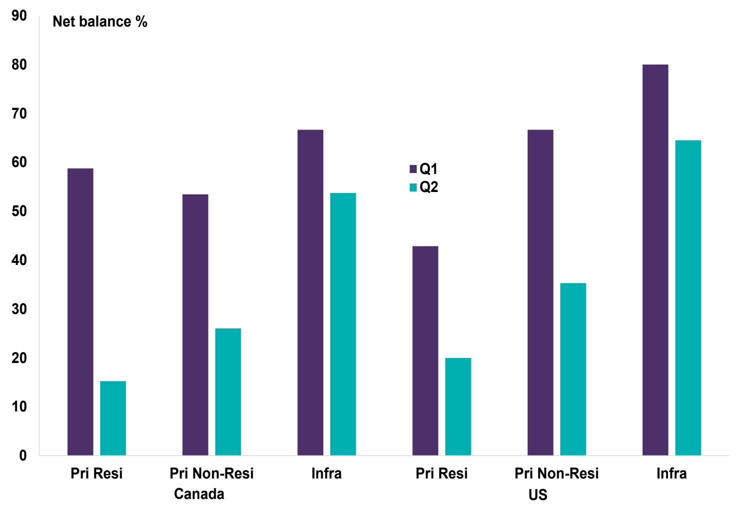


Chart 3: 12-month workload expectations by sector



Regional Comments from Survey Participants in North America

Barbados

The rising costs of materials and its shortage. The bad weather is also a factor - Bridgetown

Labour shortage, skills shortage, delays in the planning process/permits - Bridgetown

Canada

Municipal regulations cost a lot. Also, Canada's reluctance to accept cost management on projects - Calgary

Increasing economic uncertainty is impacting the viability of some projects - Calgary

The current Ukraine war and lockdown in Shanghai were affecting material prices and delivery - Calgary

Getting employees to return to office - Edmonton

Demande très élevée (Very high demand) - Edmonton

Recent union strikes - Edmonton

Federal contracts - Edmonton

Inflation&market escalation, lack of skilled & professional labor, supply chain issues for materials - Edmonton

Shortage of skilled labour and management team, in 30s and 40s - Fort McMurray

Lack of skilled subtrades - Gatineau

Delays in Supply Chain of Materials. Lack of Skilled Trades due to busy construction market - Gatineau

Price escalation/ Inflation due to the Russian Invasion of Ukraine on commodities - Halifax

Labour and Material Shortages. Also costs are exceeding investors expectations stalling projects - Halifax

Government failure to understanding of policy versus the ongoing need for oil and gas- Halifax

Shipping costs, delay and fuel costs seem to be impacting material pricing more than anything else - Halifax

We need to work on reducing construction cost's in British Columbia- Halifax

Supply chain and massive inflation - Hamilton

Inflation, Mechanical Skilled Trade Shortage - Kelowna

Labour shortages , increasing interest rates - Kelowna

Insufficient framing subcontractors - for wood frame buildings- London

Coût plus élevé pour la construction qu'à Montréal (Higher cost for construction than in Montreal)- London

COVID impact, inflation, skills shortage, interest rates, electrification of vehicles - Milton

City requirements - Mississauga

Manufacturer Lead times, Planning Departments & Approvals - Montreal

Market saturation, mega projects with limited to no bidders, non-competitive bidding - Montreal

Market volatility and availability/supply chain - Montreal

Cost of materials and labor shortage - Montreal

Inflation and lack of skilled & unskilled workers - Montreal

Policies and regulations. Not enough spending on primary infrastructure by government. - Oakville

Shortage of manpower, mainly skilled laborer - Ottawa

Very high construction inflation pricing as well as rising interest rates - Ottawa

Trade labour shortages, Supply chain disruptions, cost uncertainty, inflation. Need to curb demand - Ottawa

Certainty on government policy needs to be re-established to allow development of critical resources - Ottawa

Delays in the permitting process - Regina

Logistics. Weather. - Regina

Global logistic issues - St. Catharines

Prices are going up - St. John's

Supply chain, GC capacity - St John's

Government over-regulation has become death by a thousand paper cuts in Canada - Toronto

Material lead times - Toronto

Supply-chain issues, delays in structural steel supply, Inflation - Toronto

Municipal Regulations - Toronto

Quality of documents issued for bidding (lack of information) - Totonto

Supply Chain Issues, Inflation, Increasing commodity prices - Totonto

Availability of manufactured components and the extended leadtimes being proposed. Costs too high - Toronto

The inflation rate affect the cost of choice of material - Toronto

High municipal costs; Client's lack of willingness to adopt project cost oversight by a QS - Toronto

Supply chain a availability and costs are very high - Toronto

Volatile of construction materials - Toronto

Inflation - Toronto

Covid - Toronto

Ontario Labour strikes, war in Ukraine, lockdown in Shanghai are all affecting the materials deliver - Toronto

Interest rate hikes, sales down significantly- Vancouver

Trop grand nombre de projets, manque de ressources, mat, MD et de professionnels (too many projects, lack of resources, mat, MD and professionals) - Vancouver

Inflation is being driven by government spending and rapid population increases - Vaughan

I believe that with inflation and higher interest rates, construction will slow down- Vaughan

Increased Interest rate coupled with other inflationary measures - Victoria

Generally - high interest rates affecting new preconstruction condo sales affecting new starts - Victoria

Inflation- Winnipeg

Inflation rate high and shortage of materials- Winnipeg

Interest rates, inflation - Winnipeg

World events, fuel cost and materials availability - Winnipeg

Cayman Islands

Labour and material cost increases

Shipping and materials costs, supply chain issues

Trinidad and Tobago

Rising cost of materials is a major influence - Couva

The continuous rising cost of building materials over the last twelve month - Fyzabad

United States

Lack Of labor - Chevy Chase

Material lead time & labor availability, rising interest rates may become an issue soon - Greenville

Regulatory framework - Houston

Indirect equipment rental and purchase are also going up - Houston

Materials supply chain & lack of labor - driving costs up + 10% per annum - Los Angeles

Material supply lead times & cost increases - New York

Supply chain delays - New York

Inflation and Skilled Job Market - New York

Material costs - Orlando

Reduced economic stability, increased uncertainty, inflationary pressures, supply & lead times - San Francisco

Shortage of skillful and unskillful labor is seriously affecting the construction industry - San Francisco

Inconsistent construction schedule from owner - San Jose

Funding - Wading River

GOP - Wahington DC

Soaring material inflation and reliance on imported energy supplies. Domestic oil regulations - Washington

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 9 June 2022 with responses received until 18 July 2022. 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 2060 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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PICQS

Consejo General de la Arquitectura Técnica de España

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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