



Q2 2019: Asia Pacific Construction and Infrastructure Survey

Infrastructure outlays expected to support regional workloads through mid-2020

- Overall construction workloads were mixed in Q2, but infrastructure workloads generally increased
- Costs expected to continue to rise, maintaining pressure on margins
- Skilled labour costs expected to rise significantly faster than unskilled labour

Data from the RICS Construction and Infrastructure Survey indicates that construction activity was broadly driven by infrastructure workloads during Q2 of 2019. As shown in Chart 1, respondents noted that infrastructure workloads outpaced total construction workloads in India, New Zealand, China, Australia, Thailand, Sri Lanka, Singapore and Malaysia. Contributors in Japan also noted a robust increase in infrastructure workloads, while those in Hong Kong reported little change in activity. Meanwhile, conditions were said to be more subdued in Macau and South Korea.

Public sector demand supporting activity

The prevalence of infrastructure supporting construction workloads aligns with governments more generally increasing fiscal outlays to support economic activity. Several economies appear to be entering the later stages of the current economic cycle, and growth is expected to slow over the medium term. This dynamic is already evident in several regional real estate markets.

Chart 2 shows that survey participants reported a general pullback in private construction building activity in Australia, Macau, Singapore, Malaysia and South Korea in Q2. Private sector activity in Thailand, China, Sri Lanka, and to a lesser degree Hong Kong, was relatively sluggish. Reported workload levels in these markets appear to match the phase of their respective property cycles. Using Australia as an example, the housing market is widely seen as going through a period of consolidation, and residential workloads appear to be undergoing a period of adjustment as supply moves back in line with demand.

Meanwhile, commercial workloads in Japan, India and

Chart 1: Current Workloads

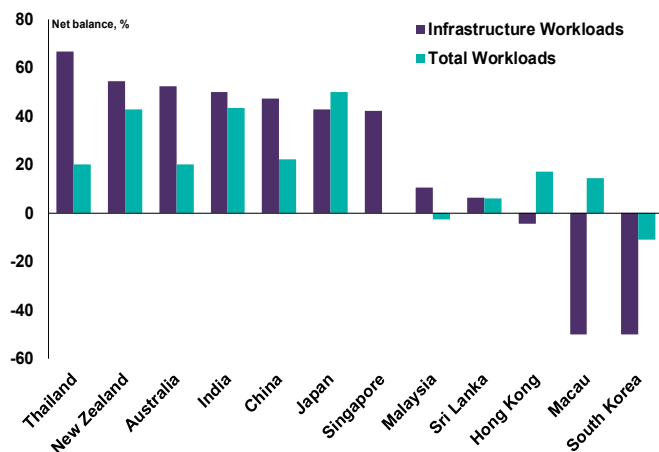
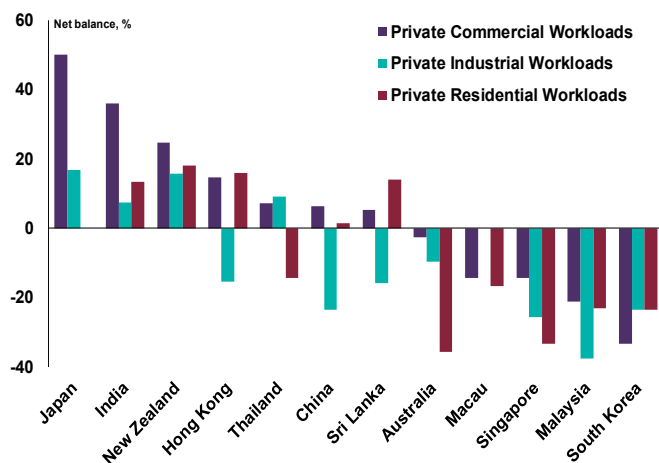


Chart 2: Current Private Workloads



New Zealand were said to have increased during the second quarter. Perhaps unsurprisingly, commercial real estate in these markets is still seen as being at the peak of their cycle, with supply-demand characteristics that tend to be more supportive of growth in rents and capital values.

Activity, costs expected to increase

Despite mixed current activity, workloads are expected to increase to some degree across most Asia-Pacific markets over the next year (Chart 3), with the exception of Macau and South Korea. However, once again infrastructure workloads are expected to increase at a faster pace than non-infrastructure workloads (in net balance terms) in every market apart from Macau.

This difference appears to be particularly acute in

Chart 3: 12-month Expectations - Workloads

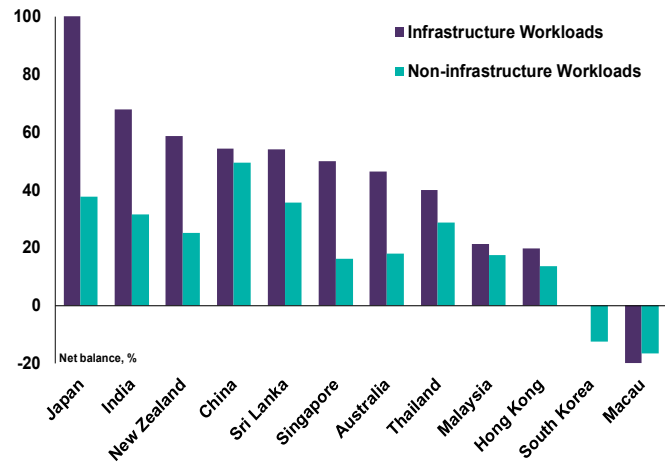
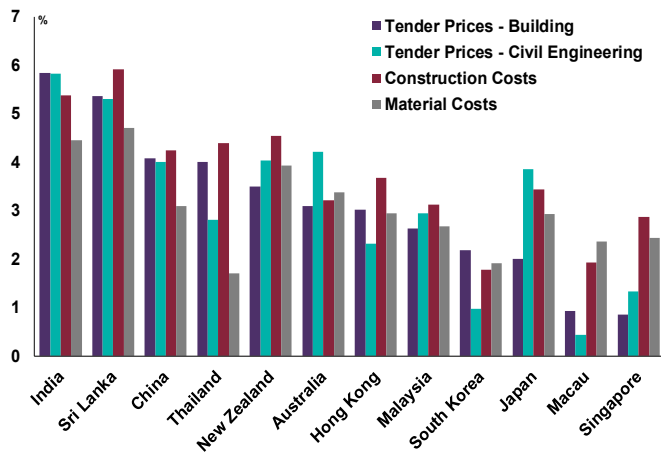


Chart 4: 12-month Expectations - Costs



Japan, where infrastructure outlays have increased ahead of the Tokyo 2020 Olympics, India, where the NDA government has consolidated power following its election victory in Q2, and Australasia where governments (both state and federal in Australia) have increased infrastructure outlays.

However, Chart 4 shows that construction costs are also expected to rise alongside workloads. Both India and Sri Lanka are expected to see a fairly sharp rise in nominal costs, though these markets also generally experience higher levels of inflation which helps to limit the increases in real terms. Inflation is expected to be a little more muted in China and New Zealand, however, and both of these markets are still expected to experience relatively high cost increases. Japan, to a lesser degree, also falls into this category.

Margin pressure persists

Respondents across Asia Pacific generally reported some degree of deterioration in profit margins during Q2. The exceptions were Thailand and Japan where contributors noted little change in profit margins.

Over the next twelve months, survey participants expect a robust pace of margin expansion in China, India, Japan, Sri Lanka and Thailand, while margins in Australia and New Zealand are expected to expand at a more modest rate (in net balance terms). Margins in Hong Kong, Malaysia and Singapore are expected to remain stable, while further deterioration is expected in Macau and South Korea.

However, Chart 5 suggests that some of these expectations may be overly exuberant. In net balance terms, costs are expected to increase at a faster pace than workloads across Asia-Pacific, though the two are more evenly balanced in India and China.

Chart 5: 12-month Expectations



Labour, skills in demand

Although construction costs are generally expected to rise (Chart 4), some components are expected to rise at a quicker pace than others. Chart 6 shows that labour costs* are expected to rise more than the cost of materials in South Korea, Singapore, Macau, Thailand, China and India. In Japan the opposite is true, while in Malaysia, Hong Kong, Australia, New Zealand and Sri Lanka labour and material costs are expected to rise at a similar rate over the next year.

Chart 8 provides some explanation for this. A majority of respondents in several countries have reported labour shortages as a constraint on activity in Q2. In Japan, China and Hong Kong this was a shortage of general labour, while respondents in Thailand, Malaysia and some parts of Australia (Victoria and South Australia) highlighted more of a shortage of skills.

Skilled labour comes at a premium

As shown in Chart 7, the expectation is that companies are expected to pay a significant premium for skilled labour over the next year. On average, the cost of skilled labour is expected to rise 50% more than the cost of unskilled labour over the next twelve months. This ranges from 17% and 18% in Sri Lanka and India (respectively) to 74% in Japan and Macau. Interestingly, there may be some structural factors suppressing unskilled labour as a majority of contributors in Japan and Macau both highlighted a general shortage of labour, and only 36% in Japan noted a shortage of skills (Chart 8).

Disparities within particular countries were evident as well. New Zealand was a good example of this. A greater share of respondents on the North Island highlighted a shortage of labour and skills vs those

Chart 6: 12-month Expectations - Costs

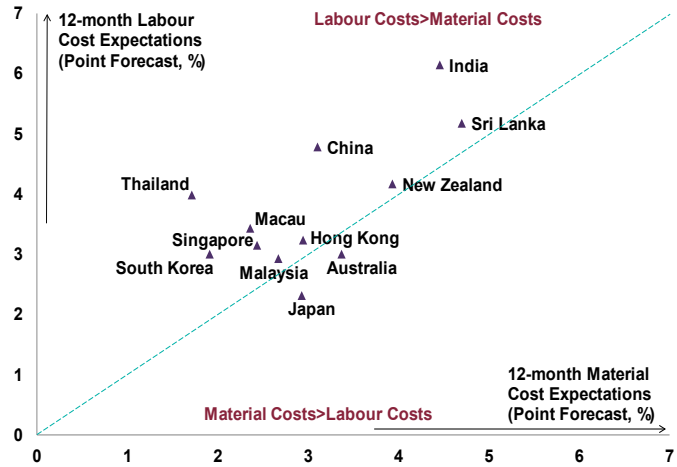
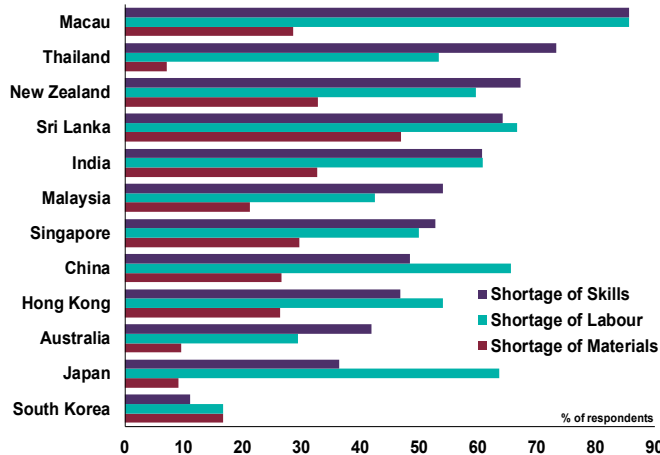


Chart 7: 12-month Expectations - Labour Costs



Chart 8: Shortages



from the South Island (68% and 74% vs 39% and 50%). As a result, the cost of skilled labour on the North Island is expected to rise 5.6% over the next year (vs 3.6% for unskilled labour) while on the South Island the cost of skilled labour is only expected to rise 3.8% (vs 2.6% for unskilled labour). Similar discrepancies were also reported in China and India.

Across Asia Pacific, BIM managers, quantity surveyors and skilled tradespeople were highlighted as the skills most in demand. In no country did a majority of respondents highlight a shortage of building surveyors or civil engineers. However, a majority of respondents from the North Island of New Zealand and the state of Telangana in India noted a shortage of building surveyors, as did a majority in the state of Sarawak, Malaysia highlight a shortage of civil engineers.

*Labour cost expectations are an unweighted average of expectations for the cost of skilled and unskilled labour

Comments from Survey Participants in Asia Pacific



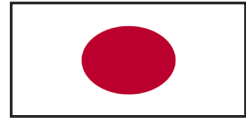
"Construction of residential projects seems to be stopped due to the implication of GST & demonitisation."

-Delhi NCR, India



"External market factors will have the biggest impact on the construction market. There has been a decrease in public ordering."

-Seoul, South Korea



"There is a labor shortage ahead of the Tokyo Olympics."

-Kanto, Japan



"The overall economic situation has led to an increase in infrastructure construction, construction projects in the commercial and residential sectors continue to shrink, and industrial projects continue to shrink."

-Shanghai, China



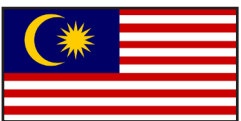
"Due to the Easter Bombings in Sri Lanka, we faced severe labor shortages and price increases."

-Western Province, Sri Lanka



"Increasing disputes cases for construction project due to more harsh contract conditions."

-Hong Kong SAR



"Projects are now a little bit slow and contractors are hoping to get new public tenders from the government."

-Selangor, Malaysia



"With the new draft master plan, certain types of projects seem to have been put on hold."

-Singapore



"The downturn in residential construction is being offset by increase in infrastructure construction."

-Queensland, Australia



"Government spending on infrastructure and state housing will impact demands, capacity and costs."

-North Island, New Zealand

RICS Consensus Expectations Tender Prices & Construction Costs (Next 12 months)

	Tender Prices	Tender Prices	Construction Costs	Construction Costs	Construction Costs
	Building	Civil Engineering	Commercial	Residential	Total
Australia	+3.1%	+4.2%	+3.4%	+1.9%	+3.2%
New South Wales	+2.8%	+4.0%	+3.0%	+1.2%	+2.8%
Queensland	+2.6%	+3.6%	+3.1%	+1.3%	+3.2%
South Australia*	+5.7%	+5.0%	+4.7%	+4.9%	+5.0%
Victoria	+3.7%	+4.8%	+4.3%	+3.5%	+4.5%
Western Australia	+3.7%	+4.6%	+3.9%	+2.3%	+3.2%
Brunei*	-0.6%	0.0%	-1.2%	-1.6%	-1.0%
China	+4.1%	+4.0%	+4.7%	+3.3%	+4.3%
Beijing	+3.4%	+3.3%	+4.3%	+2.2%	+3.6%
Guangdong	+3.5%	+3.8%	+3.7%	+3.0%	+4.0%
Shanghai	+4.6%	+4.3%	+5.0%	+3.8%	+4.7%
Sichuan*	+6.1%	+4.3%	+7.5%	+5.6%	+6.1%
Tianjin*	+4.5%	+3.9%	+4.5%	+2.5%	+3.9%
Hong Kong	+3.0%	+2.3%	+3.7%	+3.6%	+3.7%
India	+5.8%	+5.8%	+5.9%	+5.4%	+5.4%
Andhra Pradesh*	+9.4%	+9.4%	+8.4%	+7.1%	+7.1%
Delhi NCR	+5.1%	+4.6%	+3.5%	+2.8%	+3.1%
Gujarat*	+7.9%	+6.2%	+7.5%	+4.5%	+5.5%
Haryana	+3.7%	+4.4%	+3.9%	+4.1%	+3.2%
Karnataka	+6.2%	+5.7%	+6.6%	+5.5%	+5.3%
Kerala*	+6.2%	+5.8%	+6.7%	+5.6%	+5.3%
Mahashitra	+5.2%	+5.7%	+5.1%	+5.1%	+5.4%
Tamil Nadu	+8.1%	+7.1%	+7.3%	+6.8%	+7.2%
Telangana	+6.6%	+6.9%	+7.4%	+6.5%	+7.4%
West Bengal*	+6.6%	+5.6%	+7.1%	+7.0%	+7.5%
Indonesia*	+5.5%	+6.8%	+4.6%	+4.2%	+4.6%
Japan	+2.0%	+3.9%	+3.8%	+3.0%	+3.4%
Kanto	+2.1%	+3.9%	+3.4%	+2.9%	+3.4%
Macau*	+0.9%	+0.4%	+2.9%	+1.5%	+1.9%
Malaysia	+2.6%	+2.9%	+2.8%	+2.2%	+3.1%
Johor*	+3.6%	+5.6%	+4.6%	+3.6%	+3.4%
Penang	+1.8%	+2.5%	+2.9%	+2.9%	+2.6%
Sarawak	+3.3%	+6.0%	+3.3%	+2.4%	+4.7%
Selangor/KL/PJ	+2.8%	+2.8%	+3.0%	+2.4%	+3.4%
New Zealand	+3.5%	+4.0%	+4.4%	+3.8%	+4.5%
North Island	+4.3%	+4.8%	+5.1%	+4.7%	+5.0%
South Island	+1.5%	+2.3%	+2.8%	+2.0%	+3.3%
Singapore	+0.9%	+1.3%	+2.6%	+2.5%	+2.9%
South Korea	+2.2%	+1.0%	+0.9%	+1.9%	+1.8%
Sri Lanka	+5.4%	+5.3%	+6.0%	+5.9%	+5.9%
Western Province	+5.5%	+5.3%	+6.1%	+5.7%	+5.9%
Thailand	+4.0%	+2.8%	+3.5%	+3.2%	+4.4%

*These estimates are drawn from small sample sizes (n<10)

RICS Consensus Expectations Labour & Material Costs (Next 12 months)

	Labour Costs	Labour Costs	Material Costs	Material Costs	Material Costs	Material Costs	Material Costs	Material Costs
	Skilled	Unskilled	Bricks	Concrete	Copper	Glass	Steel	Total
Australia	+3.5%	+2.5%	+3.5%	+2.5%	+2.9%	+3.8%	+3.9%	+3.4%
New South Wales	+3.7%	+2.2%	+3.7%	+2.2%	+2.6%	+3.6%	+3.6%	+2.5%
Queensland	+2.9%	+2.4%	+2.9%	+2.4%	+2.7%	+3.9%	+4.8%	+4.4%
South Australia*	+4.9%	+1.3%	+4.9%	+1.3%	+4.9%	+2.5%	+4.5%	+3.5%
Victoria	+3.3%	+2.9%	+3.3%	+2.9%	+2.8%	+4.8%	+3.3%	+3.5%
Western Australia	+3.7%	+3.2%	+3.7%	+3.2%	+3.4%	+3.6%	+4.3%	+4.2%
Brunei*	+1.0%	0.0%	+1.0%	0.0%	+1.8%	+1.8%	+1.8%	+1.8%
China	+5.9%	+3.7%	+5.9%	+3.7%	+3.5%	+4.5%	+4.1%	+3.1%
Beijing	+7.2%	+5.3%	+7.2%	+5.3%	+3.0%	+3.6%	+3.3%	+1.7%
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Tianjin*	+4.5%	+0.7%	+4.5%	+0.7%	+0.9%	+1.8%	+2.6%	+1.8%
Hong Kong	+3.8%	+2.7%	+3.8%	+2.7%	+2.6%	+2.9%	+2.9%	+2.9%
India	+6.6%	+5.6%	+6.6%	+5.6%	+4.6%	+5.2%	+4.6%	+4.5%
Andhra Pradesh*	+7.6%	+6.3%	+7.6%	+6.3%	+7.2%	+7.1%	+7.6%	+4.4%
Delhi NCR	+5.6%	+4.2%	+5.6%	+4.2%	+3.8%	+4.1%	+3.0%	+3.4%
Gujarat*	+5.5%	+6.9%	+5.5%	+6.9%	+6.4%	+6.4%	+4.4%	+5.6%
Haryana	+6.9%	+5.8%	+6.9%	+5.8%	+3.3%	+3.5%	+3.1%	+3.4%
Karnataka	+8.2%	+7.2%	+8.2%	+7.2%	+4.4%	+5.0%	+5.8%	+4.4%
Kerala*	+8.2%	+7.2%	+8.2%	+7.2%	+4.3%	+5.0%	+5.7%	+4.3%
Mahashitra	+6.1%	+4.7%	+6.1%	+4.7%	+3.7%	+4.7%	+4.2%	+4.4%
Tamil Nadu	+7.6%	+7.4%	+7.6%	+7.4%	+7.5%	+7.8%	+7.1%	+8.4%
Telangana	+5.9%	+5.5%	+5.9%	+5.5%	+5.1%	+5.4%	+5.3%	+4.5%
West Bengal*	+6.5%	+5.4%	+6.5%	+5.4%	+5.8%	+6.5%	+5.0%	+4.3%
Indonesia*	+6.0%	+3.9%	+6.0%	+3.9%	+1.9%	+3.3%	+2.9%	+3.2%
Japan	+2.9%	+1.7%	+2.9%	+1.7%	+2.4%	+3.4%	+3.4%	+2.9%
Kanto	+2.4%	+1.4%	+2.4%	+1.4%	+2.3%	+2.8%	+2.8%	+2.8%
Macau*	+4.4%	+2.5%	+4.4%	+2.5%	+1.5%	+2.9%	+4.1%	+2.4%
Malaysia	+3.6%	+2.3%	+3.6%	+2.3%	+2.3%	+3.5%	+2.9%	+2.7%
Johor*	+3.2%	+0.7%	+3.2%	+0.7%	+4.3%	+4.3%	+3.9%	+2.4%
Penang	+3.9%	+3.2%	+3.9%	+3.2%	+2.1%	+3.3%	+3.7%	+3.3%
Sarawak	+4.7%	+3.9%	+4.7%	+3.9%	+3.8%	+5.9%	+4.2%	+3.4%
Selangor/KL/PJ	+3.5%	+2.5%	+3.5%	+2.5%	+2.5%	+3.8%	+3.1%	+3.0%
New Zealand	+5.1%	+3.3%	+5.1%	+3.3%	+2.5%	+3.7%	+3.8%	+3.9%
North Island	+5.6%	+3.6%	+5.6%	+3.6%	+2.8%	+4.0%	+3.6%	+4.0%
South Island	+3.8%	+2.6%	+3.8%	+2.6%	+1.9%	+3.1%	+4.1%	+3.8%
Singapore	+3.5%	+2.8%	+3.5%	+2.8%	+1.9%	+3.2%	+2.8%	+2.4%
South Korea	+3.5%	+2.5%	+3.5%	+2.5%	+2.0%	+2.7%	+2.7%	+1.9%
Sri Lanka	+5.6%	+4.8%	+5.6%	+4.8%	+3.8%	+4.6%	+5.7%	+4.7%
Western Province	+5.8%	+4.9%	+5.8%	+4.9%	+3.6%	+4.2%	+5.5%	+4.7%
Thailand	+4.8%	+3.9%	+4.8%	+3.2%	+1.8%	+2.6%	+2.4%	+1.7%

*These estimates are drawn from small sample sizes (n<10)

Information

Construction and Infrastructure Survey

RICS' Asia-Pacific and Middle East Construction and Infrastructure Survey 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 2019 with responses received until 7 July 2019. 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 1312 company responses were received globally. Responses in New Zealand were collected in conjunction with the Property Council of New Zealand.

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.

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