

Global Construction Markets Heat Up Amid Labor Shortage Pressures

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Construction companies around the globe are expecting rapid growth over the next few years, with the engines of the U.S. and European economies driving optimism.

“Our 2018 international construction market survey shows that of the 46 markets examined, 21 expect to warm up, 23 are set for stability with only two looking likely to cool,” writes Steve McGuckin Global Head of Client Programmes for Turner Townsend. In the UK the growth is uncertain, given the unknown impact of Brexit.

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Paired with the optimism is the sobering fact that skilled labor shortages are an issue in most economies—only three of the 46 markets included in the **2018 Turner Townsend** survey have more than enough skilled labor available. “Skill shortages appeared in markets as different as Zurich, where labor costs USD \$104 an hour and Bangalore, with USD 1.1 hourly.”

The markets surveyed are in Africa, Asia, Australasia, the Middle East, South America, and North America. New markets added this year are Ho Chi Minh City, Jakarta and Shanghai.

The survey reports that infrastructure is the hottest sector, just ahead of commercial construction. New infrastructure opens the door to projects in new markets, especially in developing and emerging nations, including new residential and commercial projects.

New York City tops the list of cities with the most expensive construction costs, with a 3.5 percent increase expected in 2018. Other U.S. and Canadian cities expected to have sizeable cost escalations include Seattle at five percent; San Francisco, five percent; and Toronto, 2.5 percent. In Australia, the construction markets in Sydney and Melbourne are rated “hot.” Construction inflation forecasts are at four percent in Sydney and Brisbane and at two percent in Melbourne. However, the survey notes that its method of rating the global cost of construction should take into account its methodology on the country’s current exchange rate against the U.S. dollar.

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In the U.S., the announcement of a large infrastructure plan is expected in 2018. It is going to be accompanied by extensions of federal grants, incentives, and simplification of the local permitting process.

In New York City, the building boom is expected to continue, with projects including the \$20 billion expansion of Hudson Yards, 18 million square feet of commercial and residential space; the Long Island Express, a \$10 billion project that includes a station under Grand Central; and an \$8 billion terminal for LaGuardia airport.

In San Francisco, the proliferation of tech company headquarters and offices has inflated land values and made it difficult to find contractors to build more housing and offices. In markets such as Texas and Florida, construction activity will remain high as towns and cities recover from last year’s hurricanes.

On the other hand, in Australia, Melbourne, Perth and Sydney have undertaken major road and rail projects, for instance, driverless trains for Sydney commuters. Brisbane is expected to begin similar work. The growth phase in Australia is expected to last at least until the end of the decade. Particular projects include: 15 km of tunnels for Sydney Metro Rail and Westconnex, a 33 km motorway. The West Gate Tunnel project and Monash freeway upgrade are planned for Melbourne as well.

In Canada, government policy has shifted to stop rapid increases in housing prices, particularly in Toronto and Vancouver. The Canadian economy is expected to grow about two percent in 2018, down from three percent in 2017. Major hydroelectric and nuclear projects are under construction, but the extent of oil and gas pipeline construction is uncertain.

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At what point does the lack of skilled labor put a damper on growth in the construction industry? McGuckin writes that:

“A consequence of prosperity, global connectivity and growing aspirations, is a shrinking pool of cheaper migrant labor, on which historically construction has been reliant. So, with a surge of workload ahead, the global industry faces more work with fewer workers. Inevitably, this will increase upwards pressure on costs.”

He concludes that “regardless of the cyclical ups and downs, productivity will become an even bigger global issue for the construction industry. Despite the technical advances of the last generation, productivity in construction has barely improved.”

CATEGORIES: **BUSINESS**

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