

2022: What to expect from the global construction industry

Over the past 12 months, Currie & Brown construction cost experts around the world have reported consistent construction trends and headwinds. Common experiences in all regions were post-pandemic recovery and historic increases in construction material prices. Looking forward, the typical expectation is for material costs to begin normalizing, with some regions projecting that labor shortages will take the hot seat once again.

UK

Director Richard Hill reports that the UK construction industry experienced an unprecedented combination of challenges this year, including a significant spike in raw materials prices, labor resource constraints, supply chain bottlenecks, HGV driver shortages and inflationary energy prices.

Looking to 2022, he explains that construction growth is forecast to be 5.9% despite these challenges, driven by the infrastructure, residential and public non-residential sectors. Order books of larger contractors appear strong for 2022, and they are being quite cautious in what they tender for.

Some large infrastructure projects are creating local pull factors. Construction at Hinkley Point is stepping up, leading to increased demand on labor and materials, as is HS2 across the Midlands and North. Elsewhere, construction growth is driven by the public sector, including universities, schools, healthcare and affordable housing.

Our UK-wide TPI forecast is above average at 4.5% to 5% in 2022, mirroring forecasts for general inflation (CPI). Longer-term projections are contingent on continued government commitment to its 'Levelling Up' infrastructure program and decarbonization.

Americas

Mexico

In Mexico, the construction industry showed signs of recovery in 2021 after the impact of the Covid-19 pandemic. According to the National Institute of Statistics and Geography (INEGI), in September 2021 construction companies registered a 9.0% increase in the value of their production compared to September 2020. Employment in construction and wages have also shown an upward trend. Over the past year, total employed personnel increased by 5.6% while real average wages increased by 6.9%. Senior director, Miguel Donovan, explains that public funds in the construction sector have been primarily channeled towards priority projects for the federal government.

Next year, the industry is expected to continue focusing on federally funded megaprojects, including the Mayan Train, the 'Dos Bocas' refinery, the bi-oceanic corridor of the Isthmus of Tehuantepec, the Felipe Ángeles International Airport and the Mexico-Toluca Interurban Train, rural and feeder roads, new highways, and hydraulic infrastructure to protect from flooding.

Colombia

Like its peers in Latin America, Colombia has faced inflation pressures above target rates. Donovan notes that construction costs increased by 6.5% between December 2020 and September 2021, due largely to increases in the price of materials, driven by mesh, iron, steel and wire. In the coming years he anticipates social infrastructure to be a focus of the industry – healthcare, prisons, defense, urban development and cultural buildings.

Peru

Construction costs trended up in 2021 in Peru, with labor increasing 3.3% and materials increasing up to 43%, as in the case of steel, from August 2020 to September 2021. The government-to-government (G2G) agreements signed with other nations will keep the construction industry busy in 2022. The United Kingdom is supporting a project pipeline that includes the construction and refurbishment of more than 70 schools, 15 hospitals and healthcare infrastructure projects, and 19 river basins and other flood-prevention structures. The value of this program is estimated at US\$2 billion. Further, the new airport in Cusco is in collaboration with South Korea, and the improvement of the Central Highway (Tranche Ricardo Palma Bridge-La Oroya) and the Sergio Bernales and Antonio Lorena hospitals are in partnership with France.

United States

Despite facing rapidly rising material costs, historically long lead times and a labor shortage, the US construction industry surpassed pre-pandemic construction activity in 2021. Mark Petchey, director in our Portland office, anticipates many of the challenges faced in 2021 will continue into 2022, including widespread cost escalation, supply shortages for key commodities, shipping delays and port backlogs, volatile material lead time, and uncertainty in achieving on-time milestone dates. He also expects to see the increasing drive to understand and reduce global warming potential of product specifications start to influence designs.

Americas

Petchey recommends project stakeholders include supply chain risk assessments and active risk management programs to minimize the impacts of these challenges. For owners with significant capital programs planned in 2022, developing inventory management plans for standard and widely used items, in a shift away from traditional just-in-time delivery,

may also help alleviate some of the predicted challenges. Additionally, owners can re-evaluate their relationships and agreements with key suppliers to partner on solutions to improve predictability. Overall, he expects proactive project management techniques will be needed to deliver innovative solutions in identifying and managing risks.

Middle East

The MENA region and the Gulf Co-operation Council (GCC) group have had very high vaccination rates, which along with the rising price of oil has supported a rapid economic bounce back. Managing director, Doug McGillivray, expects inflationary pressures, already present with the price of steel, copper, aluminum and reinforcing bars, to continue into 2022 as demand increases with accelerated construction activity. With the MENA region reliant on many imported goods and materials, the region's construction industry will be sensitive to inflation and higher supply costs caused by the current global supply chain problem.

Construction activity is expected to increase in 2022. According to MEED, there is more than \$3.5 trillion worth of projects planned and unawarded in the MENA region, with Saudi Arabia having by far the biggest pipeline, led by a

\$500 billion giga project at Neom. The UAE, in particular Abu Dhabi and Dubai, has commenced a series of mega projects aimed at providing homes and communities fit for the future, while the giga and mega projects in KSA are moving through various design stages with on-site construction activities expected to commence in 2022, subject to available supply of suitable resources and materials. The demand for sufficient labor in 2022-2023 may exacerbate the local markets' supply leading to a shortage and consequential inflationary pressures on salaries across the board.

Potential growth sectors are manufacturing green hydrogen and renewable energy such as solar as the region diversifies away from fossil fuels.

Asia Pacific

Japan

In Japan, the construction market has experienced surging building material prices due to supply chain disruption and rising raw material prices. Additionally, a weak Japanese yen is an area of concern, as the depreciation in 2021 resulted in energy costs increasing by 13%. Din Wee Lee, associate director in Tokyo, reports that construction prices rose 6% in 2021. He notes that data center construction costs outpaced construction inflation and increased up to 8% across the country. In 2022 he projects the costs of raw materials will show signs of retreat, leading to building material prices in Japan stabilizing through the year. Overall, this will result in an estimated 1-3% annual construction cost escalation in the coming year.

China

As in other regions, China saw an uptrend in construction material prices including reinforcement, steel, copper and concrete in 2021. Alan Lam, regional managing director, predicts this trend will continue as China's commitment to peak carbon emissions by 2030 and net zero by 2060 will restrict the mass production of these raw materials. Additionally, surging coal prices increased electricity costs, which put additional upward pressures on material costs.

Developers are facing challenges due to new financing rules set by the government as is evident on one of the largest developers, China Evergrande, who need to dispose of assets to reduce debts.

In 2022 China's economy is expected to have 6% GDP growth, but this may well depend on how the fight against Covid-19 unfolds. The government continues to respond swiftly to the pandemic with lockdowns, travel restrictions and quarantines, as it remains committed to bringing infections down to zero. Stabilizing electricity and coal prices will be a governmental priority, which will then have less impact on construction materials production. Construction activity growth is expected to remain stable as the government tries to boost the industry with infrastructure investments and looser finance rules for developers to encourage real estate developments and land acquisitions. Large developers are focusing on mixed-use developments comprising offices, hotels, shopping malls and apartments. The high-tech (data center) sector will continue to grow as cloud demand rapidly increases. Construction labor and material costs are expected to be stable in 2022 with no major fluctuation as the driving factors including global supply chain disruptions, sanctions from US and European countries and tariffs remain largely the same as in 2021.

Global projections

While we are not projecting a complete return to pre-pandemic norms, construction experts globally expect 2022 to see construction activity grow and wild material price increases begin to normalize.