

GLOBAL CONSTRUCTION MARKETS – TRENDS & PROSPECTS

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CONTENTS

- Global economic picture
- Global construction outlook
- Global industry 'health'
- Europe in depth
- Summary

ECONOMIC FORECASTS – **WHY BOTHER?**

- The numbers are never right!
- Hard to interpret
- Can't take account of unexpected events
 - Lehman Bros., European debt crisis, Arab Spring
- Can be politicised/biased

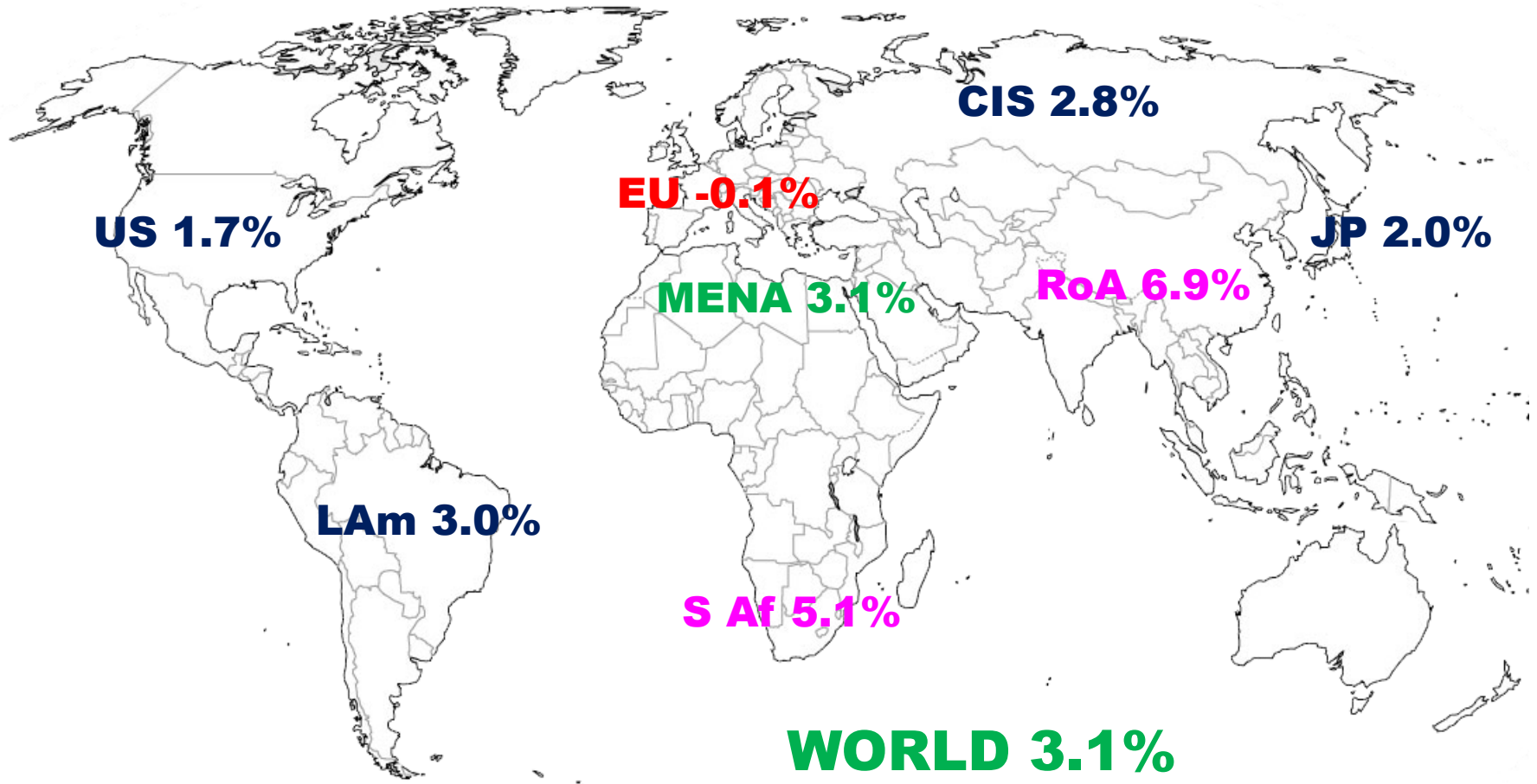
BUT...

- Do we expect too much from forecasters?
 - No-one predicted the Lehman collapse etc.
 - Some things you just can't forecast for
- The trend is often right, even if the details are inaccurate
- What are the alternatives?
 - Poor forecasts are better than no forecasts

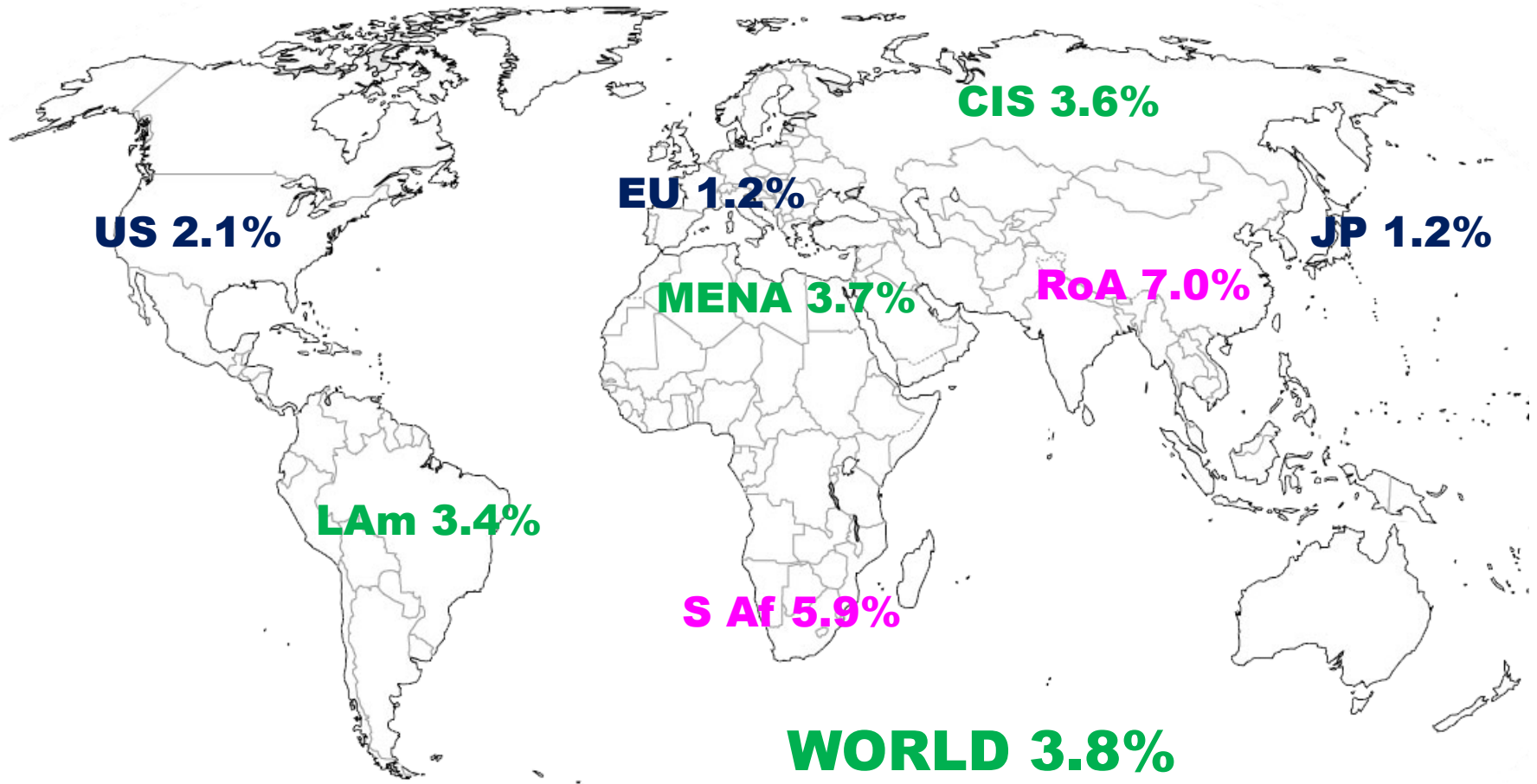
HOW TO USE FORECASTS

- Pick sources that are reputable & have a good track record
- Work out what is relevant to you
- Don't rely on just one source
- **Plan for different outcomes**
- **Form your own opinion**

WORLD ECONOMIC GROWTH 2013



WORLD ECONOMIC GROWTH 2014



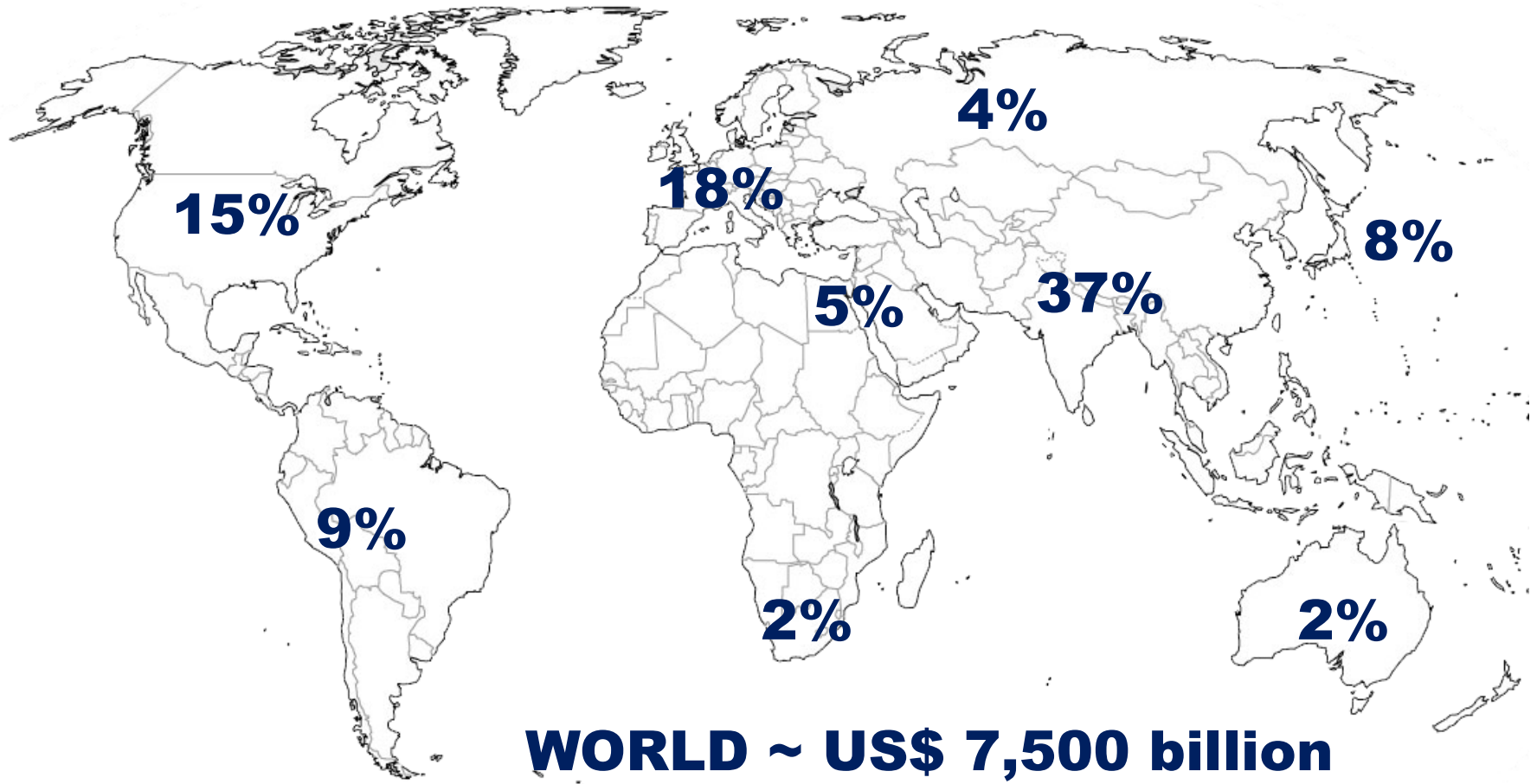
SUMMARY

- Forecasts continue to be trimmed
- Lacklustre global picture
 - Tepid recovery in US
 - Euro crisis = long-term weakness for Europe
 - Impact for developing markets
 - Era of 'moderate' emerging market growth
- Gradual long term improvement, but no boom

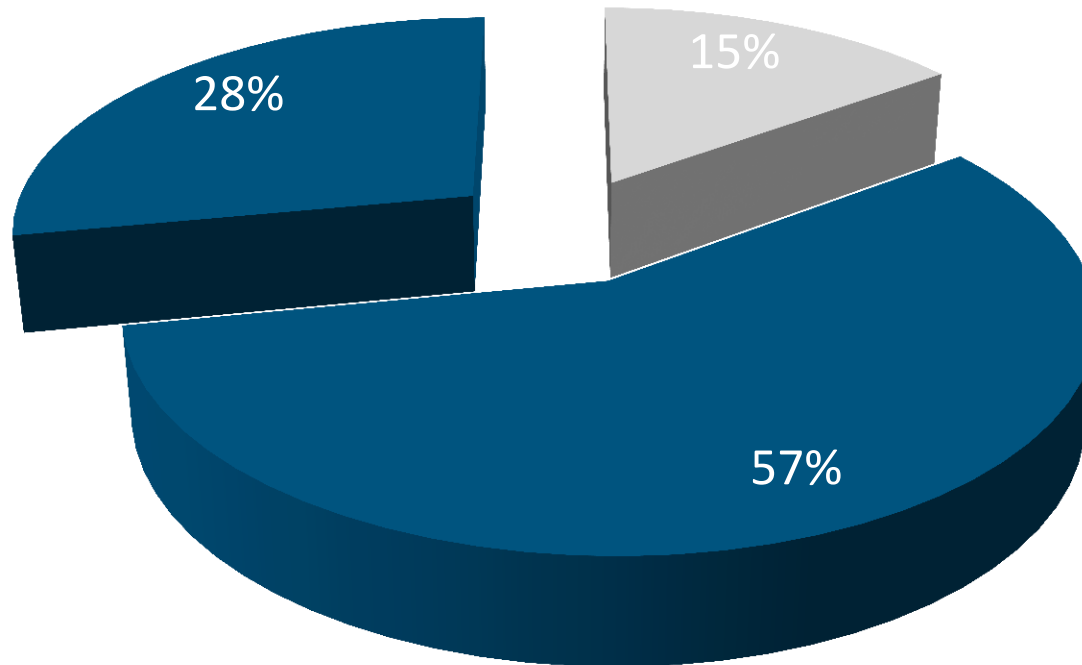
WHY ARE GDP FIGURES IMPORTANT?

- Construction output ~ 10% of GDP
 - Global GDP ~ US\$ 75 trillion
 - Global construction ~ US\$ 7.5 trillion
- Construction tends to track GDP growth
 - But specific policies & events have an impact

RELATIVE MARKET SIZE

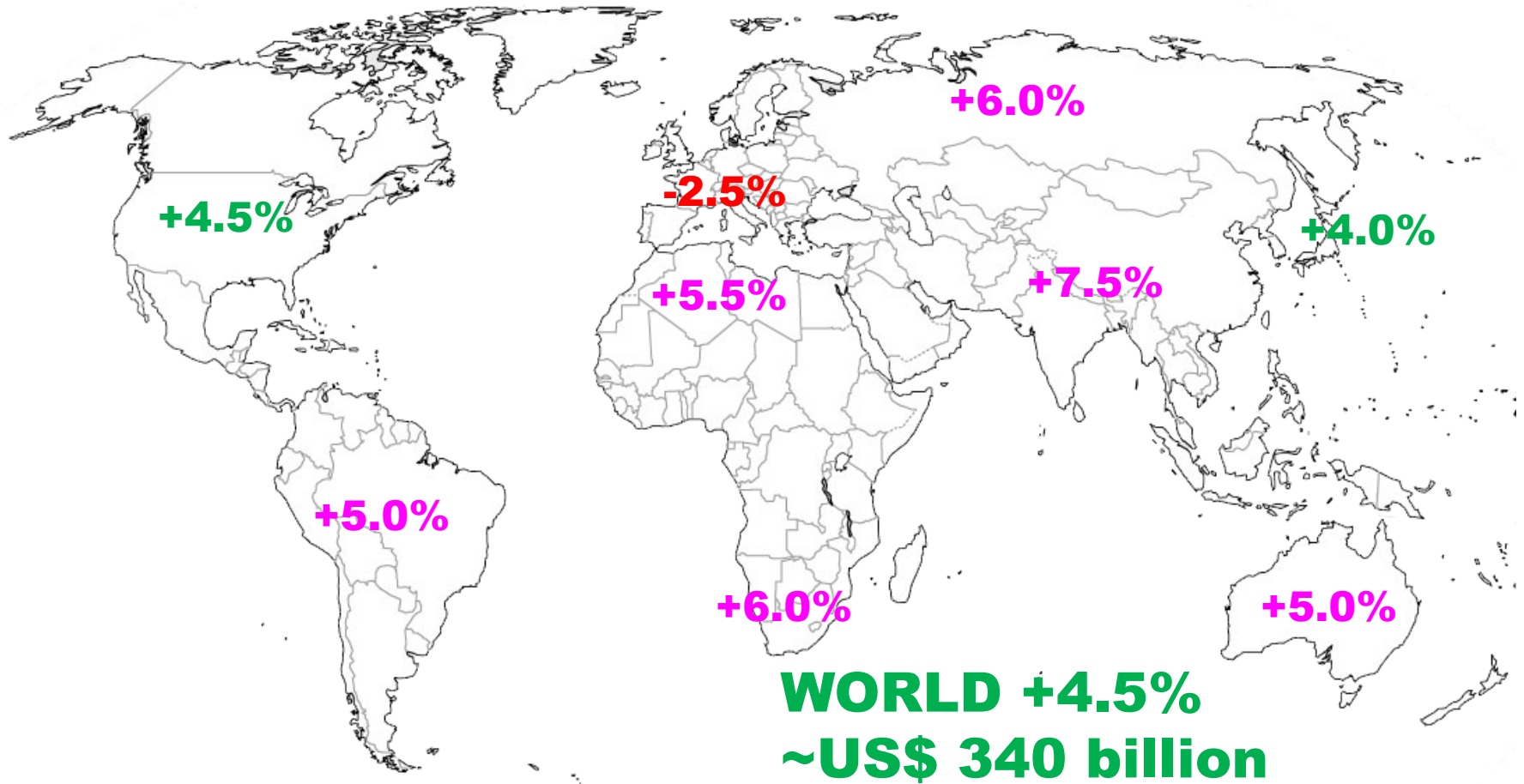


RELATIVE MARKET SIZE



■ US & Canada ■ Emerging markets ■ Other mature

2013 CONSTRUCTION GROWTH



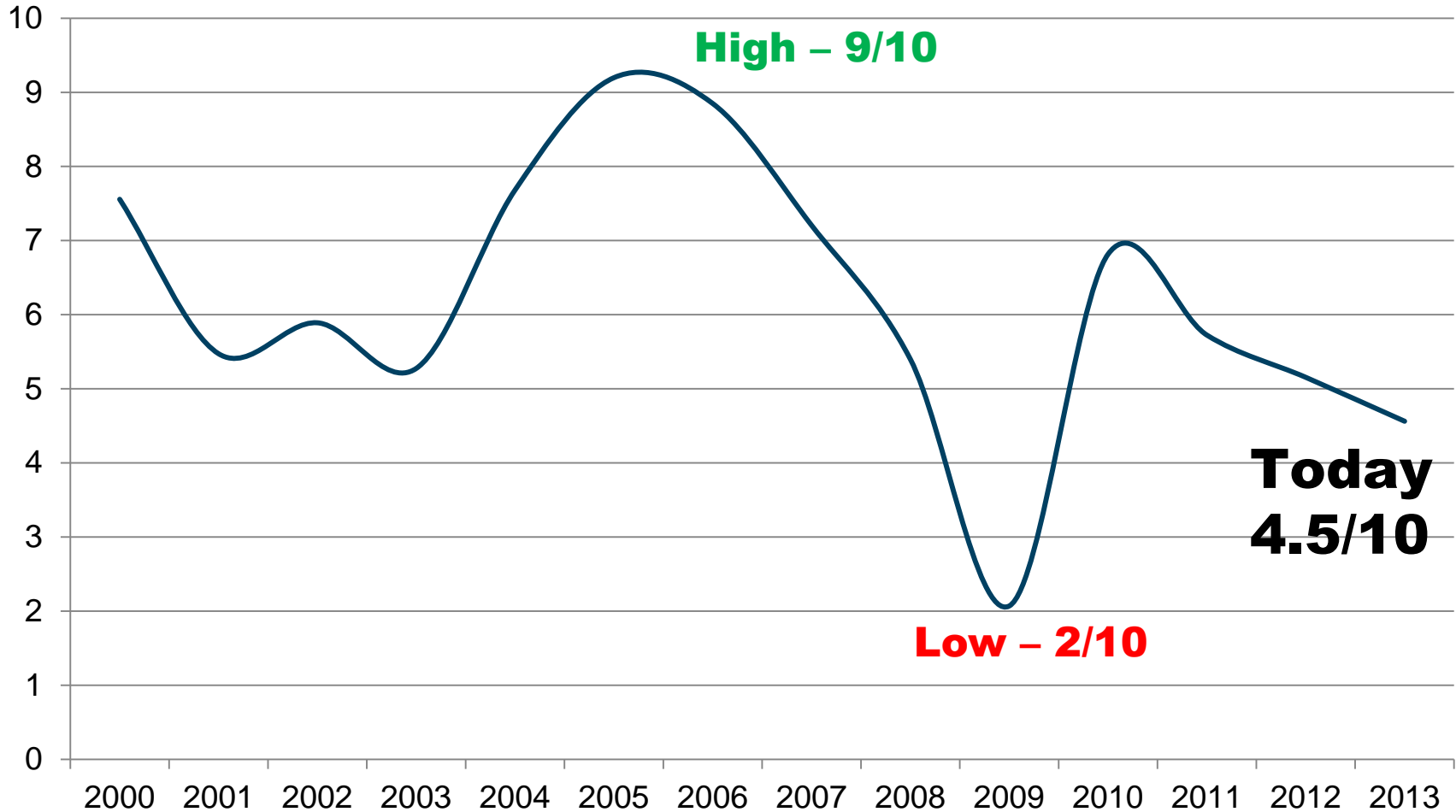
ECONOMIC SUMMARY

- Construction growing faster than GDP
- Recovery not a boom
- Infrastructure particularly strong
- Greatest growth in emerging markets
 - Average +6.8%

INDUSTRY HEALTH

- Simple score from 0 to 10
- 10 = best the industry could (not should) be
- Composite measure by *International Construction*
 - Economic data
 - Stock market performance
 - Corporate revenue growth
 - Profitability
 - Performance of sub-sectors
 - Cross-border activity
 - Ethical performance & reputational damage

INDUSTRY HEALTH – SCORE OUT OF 10



INDUSTRY HEALTH

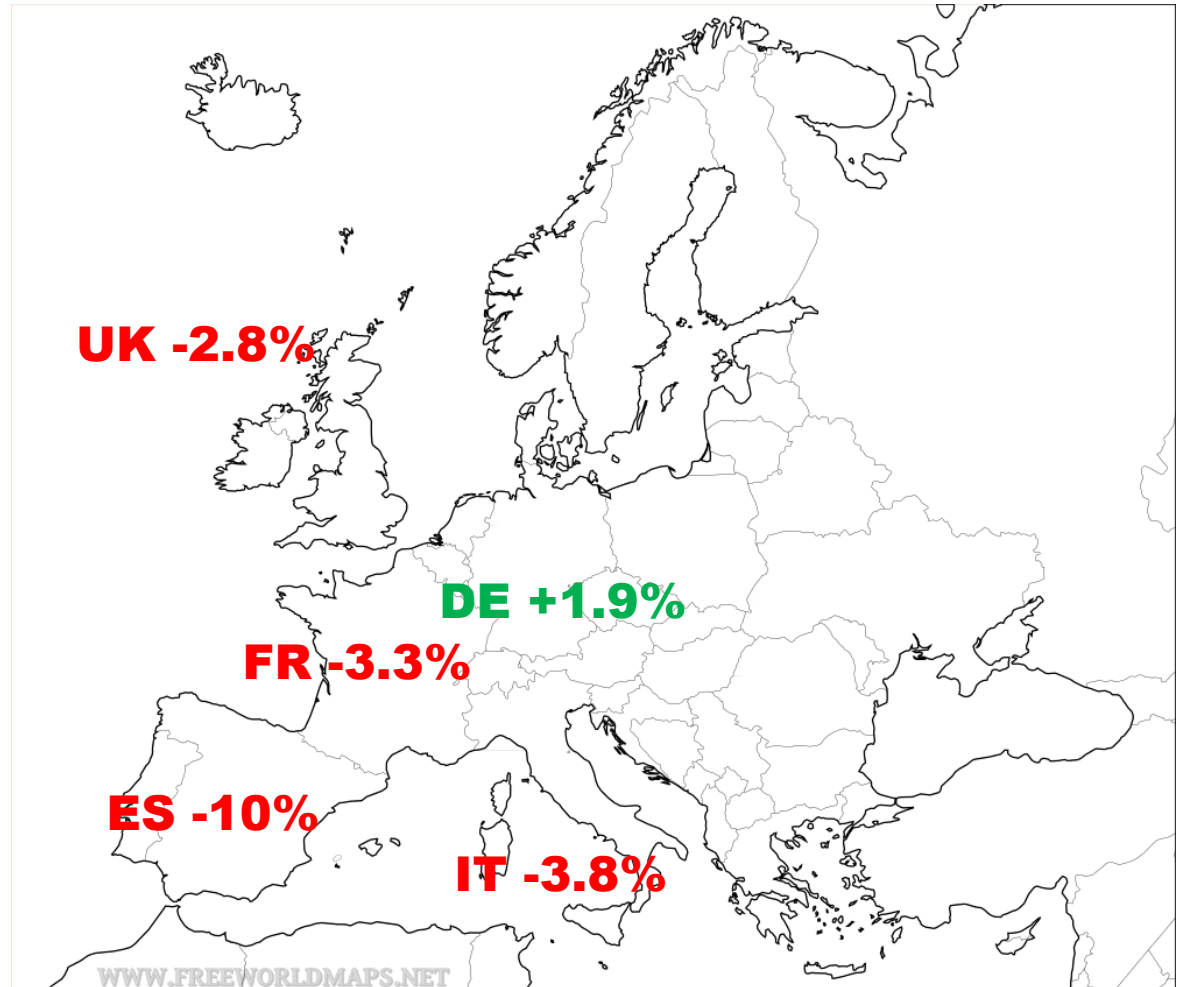
Positives	Negatives
Strong market growth & up-beat forecasts	Weak corporate revenue growth
High growth in international work	Contractor profitability at all-time low
Reasonable share price performance	Reputational damage & poor ethical performance

EUROPEAN MARKETS IN DEPTH

- Many sources & forecasts (FIEC, Euroconstruct, IHS Global Insight, Oxford Economics++)
 - Exact numbers may differ
 - Some specific differences of opinion
 - Trends & outlook similar

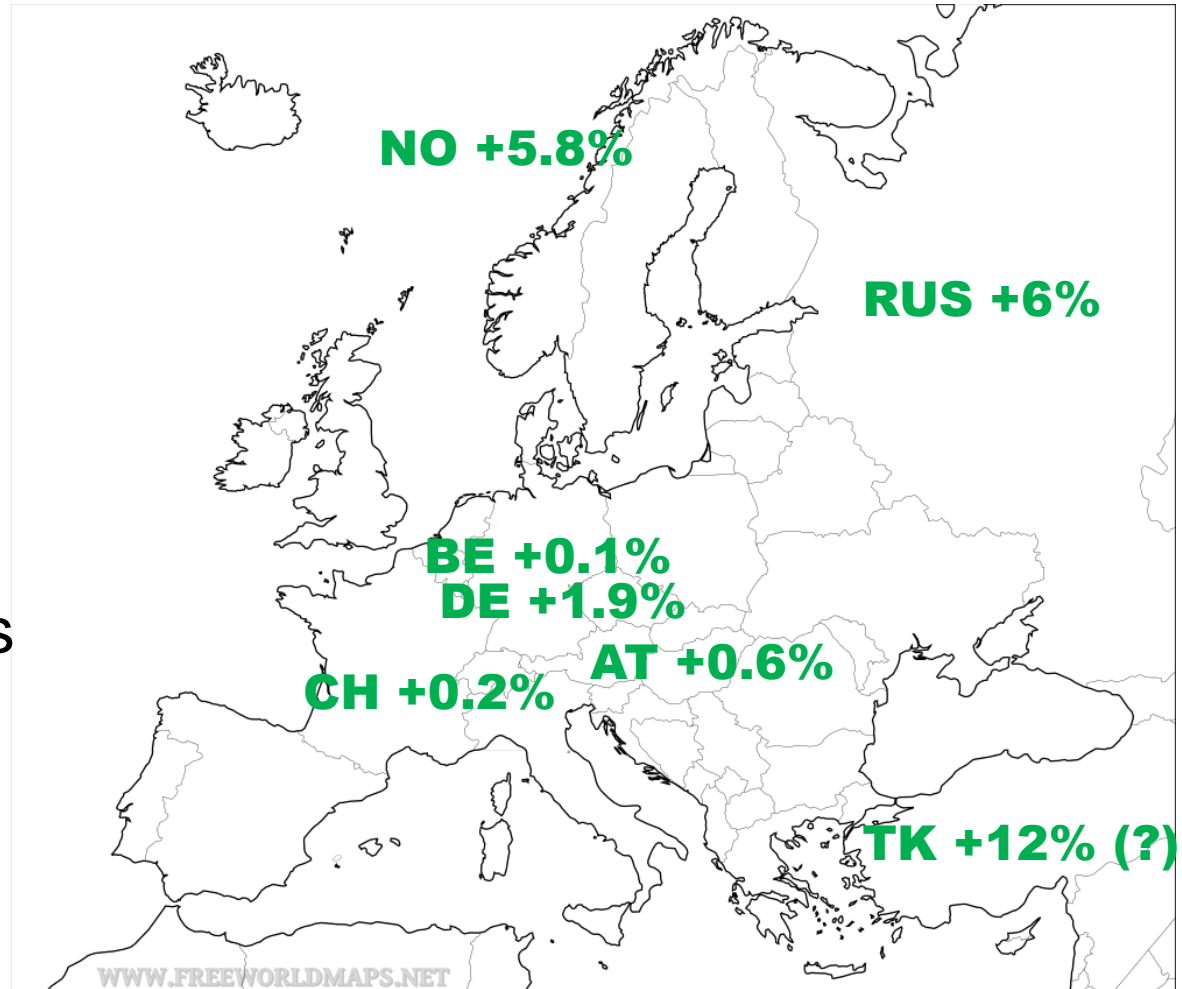
MAJOR MARKETS IN 2013

- 'Big 5' (Big 4.5)
- ~ 70% of European construction output
- ~ -3% growth in 2013



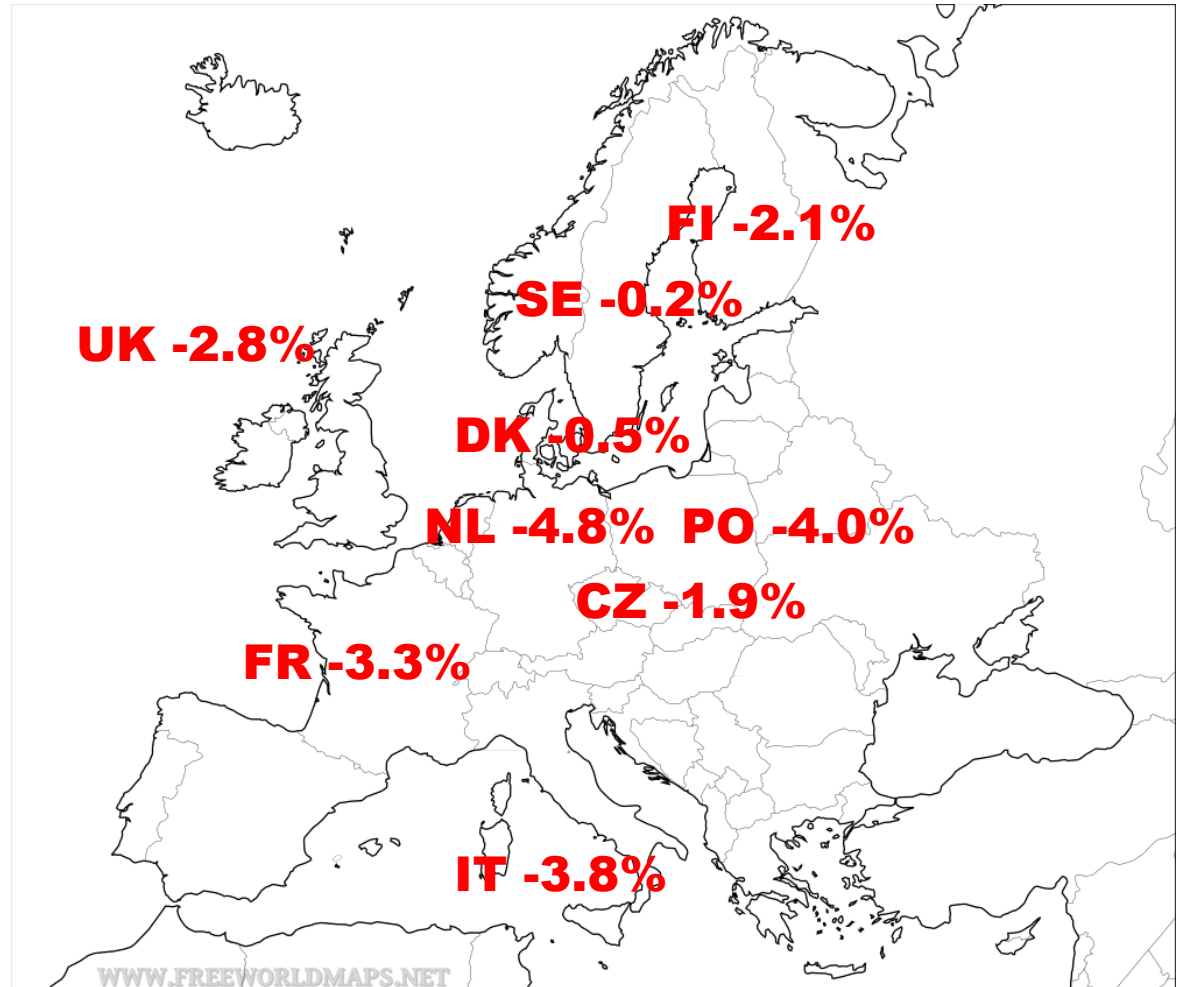
THE GOOD

- Little growth within EU – Germany is biggest & best
- Most promising regional markets are EU neighbours



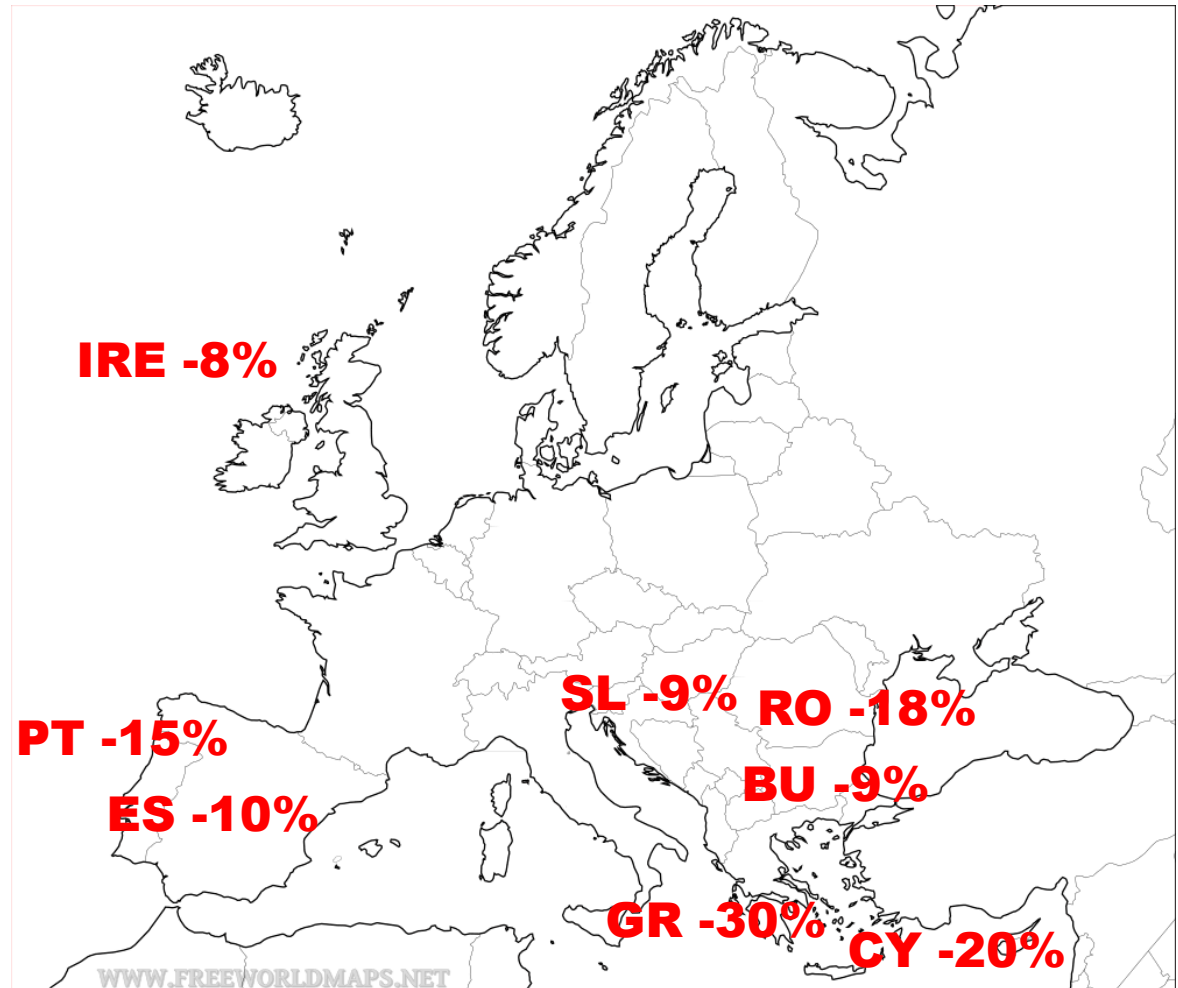
THE BAD

- 0% to -5% trend in countries representing ~55% of European construction output

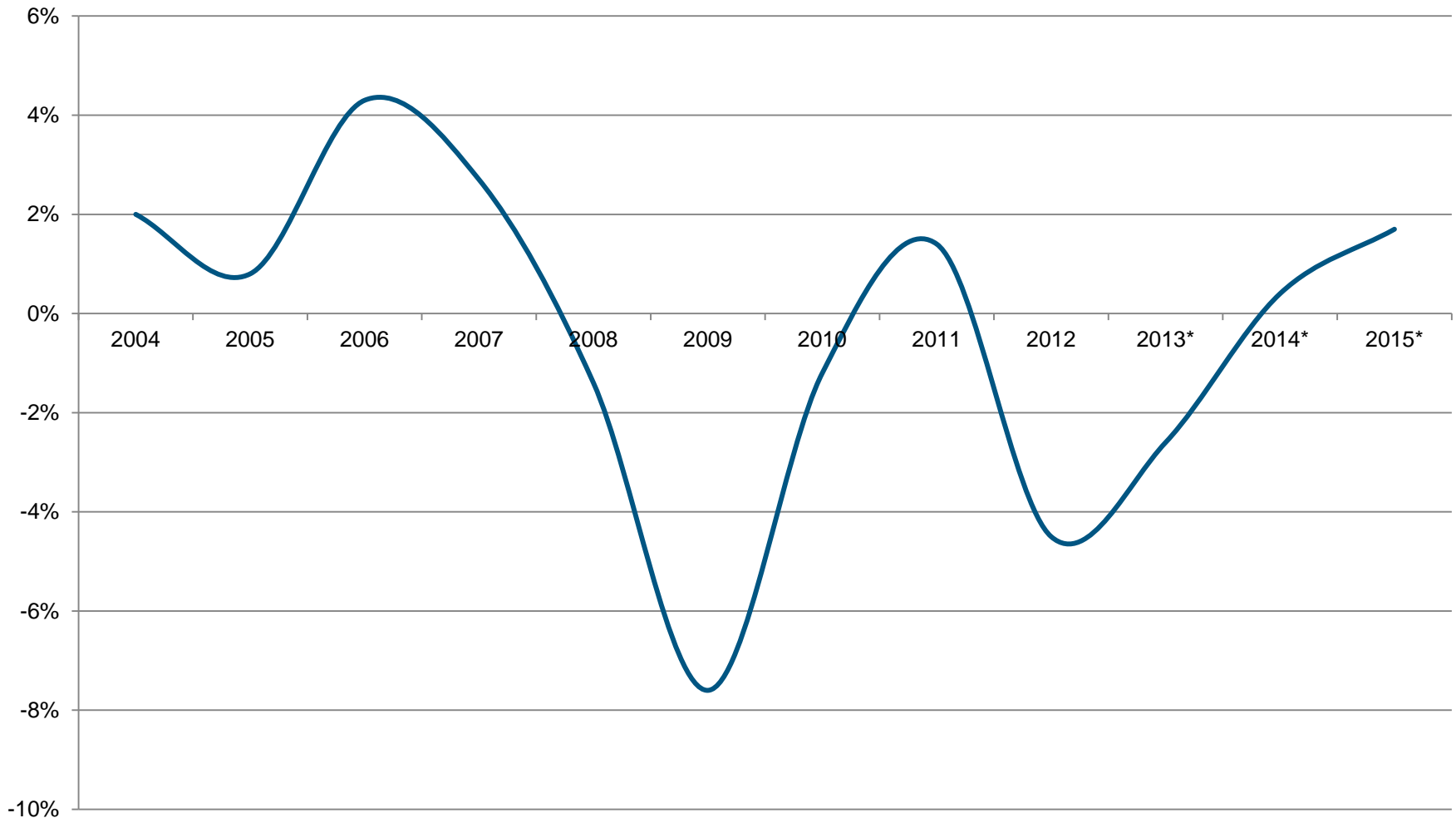


THE UGLY

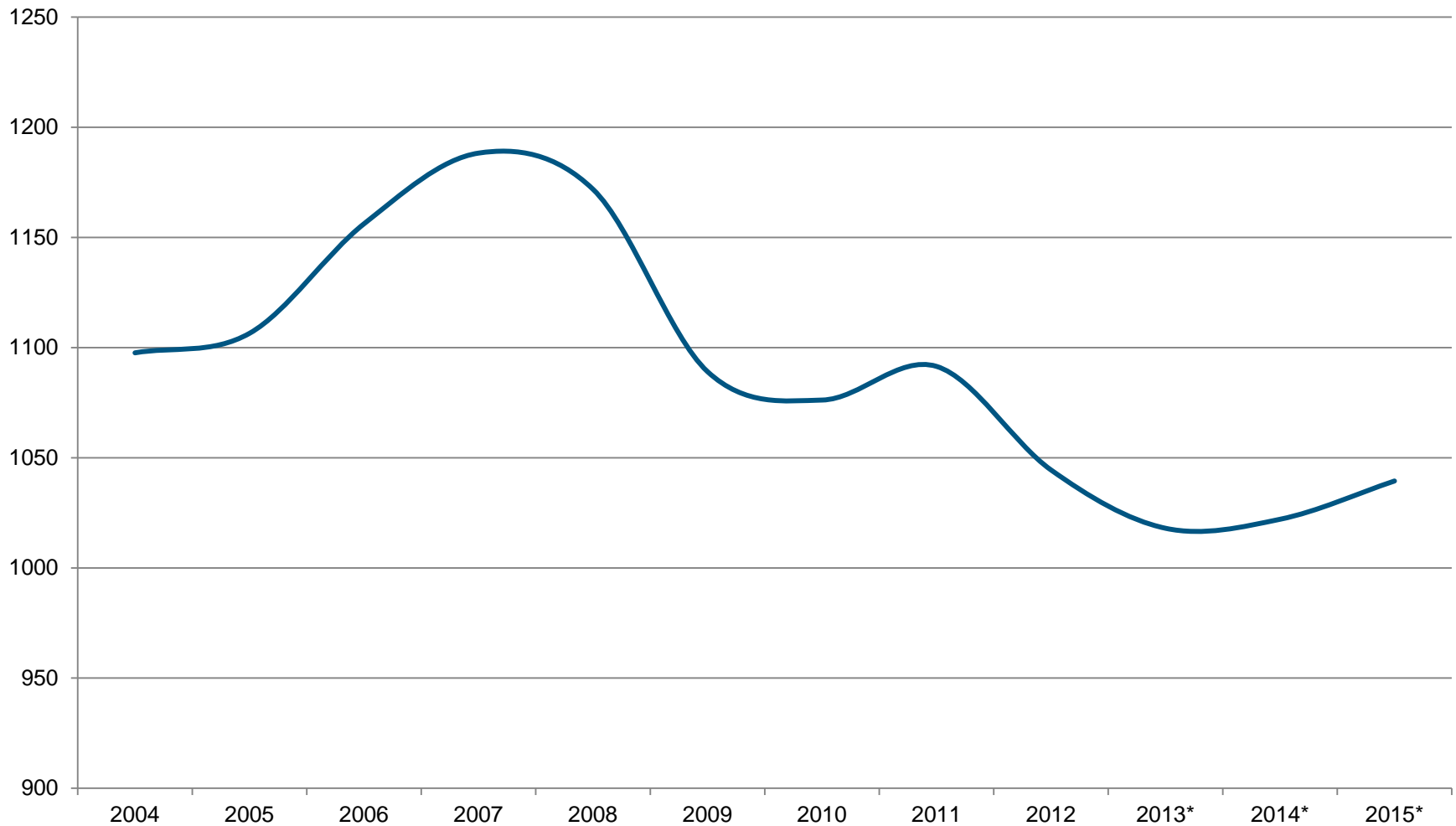
- Peripheral markets still deeply distressed
- 6-7 years of recession
- Spanish market 40% of pre-crash size



LONG TERM CONSTRUCTION GROWTH



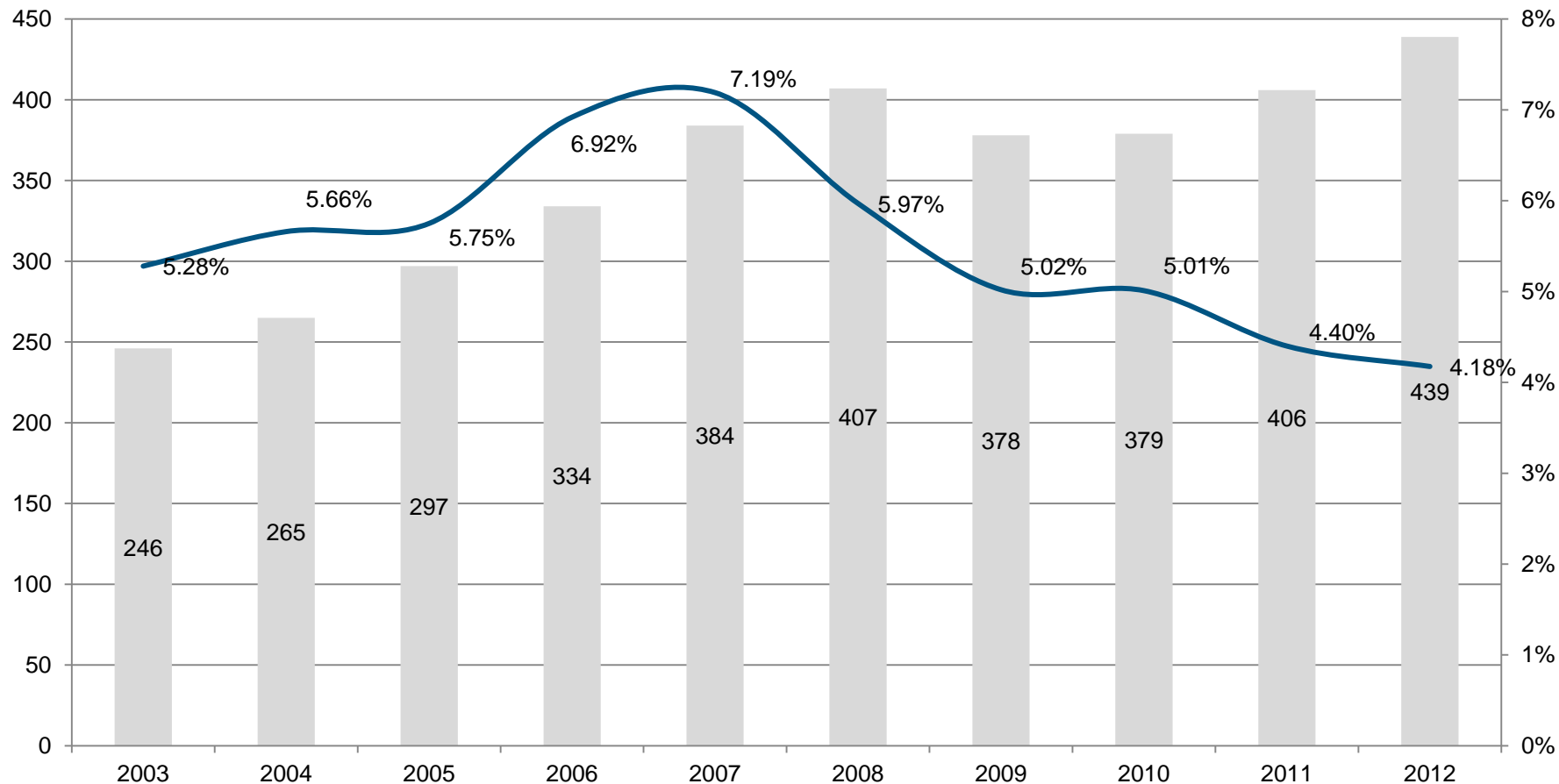
CONSTRUCTION OUTPUT (€ BILLION)



LONG TERM GROWTH TRENDS

- 2011 recovery stalled – now in second dip
 - Triggered by threat of Greek default
- Recovery in 2014(?)
- Market value has fallen back to late-1990s levels
- When it returns, growth will be weak in global terms
 - The ‘boom year’ of 2006 saw +4.5% growth
- Europe is still a big market ~20% of global output

EUROPEAN CONTRACTORS – THE CE-100



SOURCE: Construction Europe

Revenues (€ billion)

Operating margin (%)

SUMMARY

- Industry in recovery
- Era of moderate global growth
 - Hard to predict
- Greatest growth in emerging markets
 - Risk vs reward