STATE OF THE NATIONS

As we enter the third quarter of what will surely be remembered as a terrible year, **David Smith** finds the picture sobering but far from universally gloomy. Governments have responded in a fascinating variety of ways, Australia's okay and Africa's positively booming

For years, Dubai was a boomtown, a gleaming experimental laboratory for modern architecture. As recently as the start of 2008, a fifth of the world's cranes were at work there, while an army of 250,000 construction workers laboured to create a new fantasy world.

Now, hundreds of the cranes lie abandoned alongside Dubai's gated communities, beach-side developments and the high-rise spine of Sheikh Zayed Road. The devastation is an eloquent symbol of the impact global recession has had on construction.

According to a recent estimate in the Middle East Economic Digest (MEED), construction projects worth US$335 billion in the United Arab Emirates, which includes Dubai with its population of about two million people, have been cancelled or put on hold. One of Dubai's problems has been the withdrawal of investment by the hard-hit economies of the US and Europe. In the modern, globalised world, no city is an island unto itself.

The bursting of the US housing bubble, which triggered global recession, began at the start of 2006. It took a while to undermine the US economy, before it began its rippling effect across the world. In construction, the greatest damage was felt in the US and Western Europe.

"If we compare these two regions' construction industries, America is worse off in the near term," said Gina Sverdlov, a senior analyst of global construction outlook with IHS Global Insight, the economic forecasting company. "Total real construction spending is declining about 13 per cent this year, whereas in Western Europe it's declining about 9 per cent. But the financial crisis will have a more lingering effect in Western Europe, where the market is unlikely to recover before 2011."

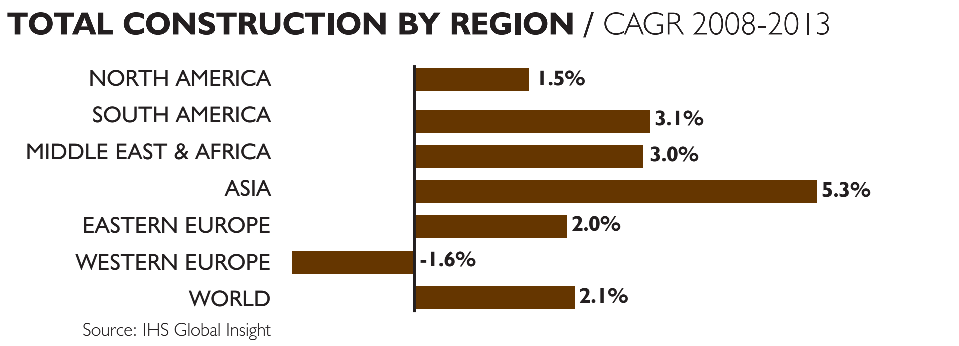
Sverdlov singled out Spain as one of Europe's worst-performing markets. Its total construction decline was 16 per cent in 2008 and another 15 per cent drop will come in 2009. "Most of those declines are coming from the residential sector, which is contracting almost 26 per cent two years in a row," she added.

Global Insight's analysis of European woes was confirmed by the Euroconstruct network's forecasts of construction output at its Warsaw conference on June 5.

Euroconstruct projected a fall of 7.5 per cent across its 19 countries this year, following a decline of 3 per cent in 2008. A smaller fall, of 1 per cent, is predicted for 2010 before the industry returns to growth in 2011.

The decline is predicted to be in double-digits in Finland, Ireland, Portugal and Spain, mainly due to the weakness of their housing markets. For the big four – France, Germany, Italy, and the UK – the decline is expected to be more moderate than in Spain, ranging from 3.5 per cent in Germany to 7.5 per cent in Italy and the UK.

The immediate prognosis for the US is even worse than in Europe, though it should recover quicker. By the first quarter of 2009, US construction employment had fallen roughly 14 per cent from its peak in the first quarter of 2007 and will continue to contract until the first quarter of 2011.



"For US construction unemployment it's the worst recession on record, even looking as far back as 1959. We've seen a peak-to-trough decline of 26.9 per cent," said Anne Donohue-Rolfe, a senior analyst of US construction products with IHS Global Insight. "The last peak-to-trough in construction employment in the late eighties was 14 per cent."

The Middle East has taken a huge hit, too. Drops in commodity prices, especially in oil prices, have restricted economic growth and the global liquidity squeeze is hurting investment projects. The huge construction boom is over.

Sverdlov expected the Middle East construction sector to decline by 2.6 per cent this year, but that will be far worse in the UEA, especially in Dubai, where she forecasts a decline of about 10 per cent.

Stuart Webb, the head of major projects at EC Harris built asset consultancy, argued that some countries in the Middle East, such as Qatar and Saudi Arabia, have planned better than the UEA and are holding up quite well.

"Qatar and Saudi Arabia have been more concerned than Dubai with building a legacy of infrastructure around the utilities. Qatar has built a new airport at Doha and is talking about building a new causeway between Qatar and Bahrain; the Saudis are being progressive around projects such as the high-speed Haj line between Medina and Mecca."

PRETTY MUCH THE ONLY SHINING STAR IN THE WORLD AT THE MOMENT IS INFRASTRUCTURE

Other sectors of the world economy have proved more resistant to the spreading financial crisis.

In Australia, for example, the economy has slowed down, but is technically not in recession yet. "It's a country with huge natural resources and in the past 10 years has benefited from China's massive demand," said Jimmi Bradbury, international development manager at Cyril Sweett construction consultancy. "As China grows, so does Australia. None of the Australian banks have had to be propped up by the government yet."

But even Australia has experienced a slow start to 2009 as the downturn has restricted access to credit and restricted new development starts. "Business conditions and investor sentiment is subdued and banks remain cautious, requiring greater hurdle rates before committing to new projects," said Rachel Kelloway of Davis Langdon on Australasia.

"Tender price escalation plateaued in most areas of Australia, during the second and third quarters of 2008, and now many of our cities have moved into deceleration as contractors scramble to secure what little work remains available in order to maintain their pipeline of forward workload. We expect this situation to continue throughout 2009.

"Similarly, in New Zealand, the impact of the global credit crunch is reflected in a deceleration of construction spending growth, although the national government has pledged to increase borrowing to fund a big infrastructure drive over the next few years."

Meanwhile, South Africa's construction industry has been defying the global crisis, cushioned by preparations for the 2010 World Cup.

"South Africa is a hive of activity. There are five new stadiums being built for the 2010 football World Cup, roads are being improved and 2011 will see the opening of the first South African underground railway ? which makes up a quarter of the Rapid Rail Link called Gautrain," according to a report in New Civil Engineer:

"New coal power stations are being rolled out to stop the recurrence of power outages which have blighted the country in recent years and a new pipeline is being built to take fuel from Durban on the coast to the industrial heartland of Gauteng," the report continued.

At the same time, a massive housing programme is going on as well as a number of port improvements and water projects.

"The construction industry in South Africa is expected to carry on growing between 6 per cent and 8 per cent per annum up to at least 2012," Arup South Africa chief operating officer Joe Strydom told New Civil Engineer. "We are seeing a growth in urbanisation leading to an increase in demand for new housing, water supply, treatment and distribution, roads, railways, power generation, schools, clinics and hospitals."

Elsewhere in Africa, the construction industry is enjoying a relative boom period. Football stadiums, shopping malls, schools and clinics have all been completed in the past five years, while social housing schemes have created millions of jobs across Africa as a whole, according to African Business.

"African firms have won a large proportion of the contracts on offer and the share prices of listed construction companies have risen strongly over the period," African Business commented.

If the Japanese economy is excluded from the picture, Asia is relatively stable, largely led by China, where the construction sector is forecast to grow at 9.8 per cent this year as GDP grows by 6.6 per cent.

"These sounds like really healthy growth rates, but they are causing concern for economists in that region, where they are used to double-digit growth. China's growth in the past was 15-20 per cent," said Sverdlov. "China is not totally immune to the crisis. They have their worst export crisis in 30 years.

"But relatively speaking, China and India are the big tigers of our construction outlook. India should grow at the second highest rate of 4.4 per cent, some way behind China, where the growth is largely due to its enormous stimulus plans."

STIMULUS PLANS

China's stimulus plan is by far the world's largest as a percentage of GDP, about 13 per cent, amounting to 4 trillion yuan, or US$585 billion.

"It will have a huge impact on investment in China and throughout Asia," said Sverdlov. "About 37.5 per cent will go on transportation and infrastructure investment. It's a good opportunity for China to build up infrastructure they've been lacking."

EC Harris's Webb agreed that China and India could almost create their own economies. "They've got power, fuel, minerals. Many other countries are unable to self-start in the same way," he said. "They are both slightly insulated from global issues."

The US stimulus plan is the second biggest as a percentage of GDP, at 5.6 per cent, although the US$789 billion pledged by President Obama back in February is the largest stimulus package as a lump sum.

Construction is at the heart of Obama's vision and around $120 billion of the money will be earmarked for construction and infrastructure projects: There will be $27.5 billion for highways and streets, $20.5 billion for transportation, $20.3 for power and communications, $14 billion for water and sewage, and $27.4 billion for government and communities. The remaining 12.9 per cent will be spent on housing developments.

EC Harris's Webb admired the American approach to stimulating their economy.

"It's a long-term, slow-burn approach. They are building assets that have a legacy value around highways, railways, power stations, ports. Obama is saying we are the biggest economy in the world so we can self-invest and create American jobs.

"We're seeing the shoots of it already. Three projects in Texas have come out to tender. A network of high-speed rail links is on its way. Projects that never saw the light of day because they would have been difficult to fund under a public-private partnership role have reemerged as public-funded."

In Europe, commitment to stimulus varies. Not all countries have taken the widespread economic advice to make fiscal stimulus at least 4 per cent of GDP. France has been criticised for pledging about 1.3 per cent of GDP, which

THERE'S A CONVOLUTED STRUCTURE IN TERMS OF THE UK'S DECISION-MAKING

amounts to 26.5 billion euros ($35 billion). A little less than half of this sum will improve transportation infrastructure, and some will go on improving the postal service. A large chunk will help improve housing construction.

Spain's stimulus package is even smaller than France's, at around 11 billion euros ($14.4), of which about 8 billion euros is going to local municipalities for public works. A further 400 million euros will be used to modernise police and military barracks. There are also energy-efficiency and water management projects.

Germany has made a greater commitment with two large stimulus packages. Last year, it injected 30 billion euros ($40 billion); this January, it promised a further 50 billion euros. Of that, 18 billion euros ($24 billion) is being spent on new infrastructure.

"They are taking it as an opportunity to promote green wellbeing and build up their energy-efficient infrastructure and structure," said Smerdlov. "Germany is also one of several countries spending money on high-speed broadband networks."

Italy's stimulus is one of Europe's highest at

Employees of Pike Industries work at night paving a portion of Route 101 in Exeter, New Hampshire. Size of stimulus packages as % of GDP: China 13%, USA 5.6%, Italy 5.0% France 1.3%

around 5 per cent of GDP, or 80 billion euros ($114 billion). They are spending about 5 billion euros for the next three years on infrastructure, but there might be a lag before full implementation.

SHOW ME THE MONEY

But EC Harris' Stuart Webb is less concerned about fine-sounding pledges than about the actual commitment of the governments to spend the money. In the US, stimulus-watching has become something of a national pastime. Trade media have set up a whole new specialism: charting the progress of cash from headlines to shovels hitting dirt. States have strict "use-it-or-lose-it" deadlines and are variously praised or castigated in the press for being leaders or laggards.

Webb says the UK lacks such authoritative leadership. There are a number of projects on the go, such as the widening of the M25, a potential investment in clean-coal technology and railway upgrades, but overall the picture is murky. In fact as iCON was going to press Gordon Brown's Labour government was coming under fierce attack for spending too much.

"We're not getting clear messages in the media about what is happening," Webb says. "Where is the funding? What is the certainty of completion? What is the time frame? There's a convoluted structure in terms of the UK's decision-making."

Similarly, Webb questioned some of Italian president Berlusconi's pledges. "He has reinvigorated something called the Massina Straits bridge link between Sicily and the mainland, first mooted in the sixties, but how committed is he? He has promised to provide 1.3 million euros ($1.8 million), but the project will cost 6 million euros. It's hard to see investors plugging the gap. It seems it's more of a political statement," said Webb.

Webb contrasted the lack of vision in the UK, Spain and Italy, with more decisive approaches in Portugal, Turkey, Germany and France. "In those

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countries, they are making bolder decisions and cutting through some of the issues in a more clinical way. Portugal is aggressively promoting three projects, a major bridge, airport and rail link to Madrid.

"The French have dusted off a couple of jobs around high-speed trains and announced a recently upgrade of metro lines in Paris. They have been very specific about the projects they will invest in and complete.

"Turkey has just completed a rail crossing and the Bosporus road tunnel is at preferred bidder stage. They are already talking about a second Bosporus bridge crossing coming up for tender in next year.

"Germany and Denmark have committed to the 19km Fehmarn link bridge, one of the world's longest. Like Obama's, Germany's stimulus projects are also trying to provide significant social benefits, which will give a clear message to contractors, consultants and other investors," he added.

CHINA AND INDIA HAVE POWER, FUEL, MINERALS: MANY OTHER COUNTRIES CAN'T SELF-START IN THE SAME WAY

The Australian government's stimulus package has buoyed sectors of the industry, especially infrastructure, telecommunications, education and health, according to Davis Langdon's Kelloway.

"The residential housing sector has also benefited from the government's 'first home buyer' incentive. However, despite low interest rates, record low vacancy rates and a widespread housing shortfall we do not expect to see the broader residential construction pick up until towards the end of 2009, when sentiment begins to recover," she said.

The stimulus packages around the world should eventually see the global picture improve, but the immediate forecast for worldwide construction is still bleak, Smerdlov says.

"After a 1.2 per cent drop in 2008, we are forecasting total worldwide construction to drop by 5.1 per cent this year. This is actually the first back-to-back decline for several decades in the world," she said.

The longer-term view is more optimistic. Looking towards 2013 the compound annual growth rate suggests worldwide growth of 2.1 per cent. The end is at least in sight. By 2013, Smerdlov expects all construction sectors to recover.

THE WAY AHEAD BY SECTOR

The worst-hit sector by far is residential construction, which will also be the slowest to recover. It will have declined about 13 per cent worldwide in 2009.

"Western Europe was one of the worst hit in residential construction. The heaviest toll came in countries that had their housing bubbles burst, such as – the UK, Spain and France," Global Insight's Smerdlov said. "In Spain in 2009, we forecast that residential construction will decline by almost 26 per cent, with another double-digit negative growth rate in 2010 in this sector. Spain's going to be hurting for a while yet."

Economic decline in Western Europe is also having an impact on Eastern Europe because a lot of the credit which funded residential construction projects has dried up. Russia, for example, is forecast to experience double-digit contraction in residential construction.

EC Harris' Stuart Webb, confirmed the big hit taken by Eastern Europe.

"Russia is bouncing around like a yoyo. Some guys got rich on minerals and oil, which was being driven by the needs of India and China. But when the price of oil goes from $147 dollars a barrel to $66 dollars in a year, it spells big problems for the Russian economy.

"Meanwhile, the Baltic States have dropped their GDP by 15 to 18 per cent. They were badly hit by the bursting of housing bubbles. Places like Tallinn, in Estonia, and Riga, in Latvia, were expanding on the strength of secondary homes, then the market collapsed. Hungary is bankrupt and reliant on IMF loans. Latvia is being bailed out by the EU's central financial institutions."

Even in Asia, where there is still positive growth in most sectors, the residential sector is forecast to decline this year, whereas the infrastructure and structures sectors are growing. China bucks the trend, but Japan drags the region down.

Structures construction will be the next hardest-hit sector as capacity utilisation rates are falling in much of the world and there is less need for office and commercial space. The structure market is taking its largest hit in Europe, where it will decline 2.2 per cent to 2013.

"Pretty much the only shining star in the world at the moment is infrastructure which is largely a result of the enormous infrastructure packages," Smerdlov said.

The US residential market has been running on a downward slope and has not hit rock bottom. "Most of the key indicators of housing activity are showing signs of stabilisation and we predict the second quarter of 2009 will be the trough for residential construction," Global Insight's Donohue-Rolfe said. From this point, the annual growth rate will moderate before turning positive in the second quarter of 2010.

Donohue-Rolfe expected a decline in US construction spending of 14.3 per cent for 2009, followed by a smaller fall of 1.8 per cent in 2010, before it begins increasing in 2011 by 10.1 per cent as Obama's stimulus plans start to take effect.

Doctor Nobel Francis, the economics director at the UK's Construction Products Association (CPA), provided a bleak forecast for the UK construction industry.

"This year was the sharpest fall on record and next year will see another fall," he said. "We don't see significant growth until 2012. Public borrowing finances are extremely poor. We borrow £32 ($53 billion) to £38 billion a year so the government can do what it wants. Across all government, this year we borrowed £173 million ($284 billion) and next year it will be at least £175 million.

"What this means is sharp cuts in public spending. We will face cuts in building social housing, school buildings, hospitals, and GP clinics. The Olympics will still go ahead, but apart from that there will be big cuts in public spending," he said. iCON