

Global
Construction

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**A global forecast
for the construction
industry over the
next decade to 2020**



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Executive Summary Global Construction 2020

The forecasts presented in this report were made when the global economy was beginning to show signs of recovering from the worst global recession since the Second World War.

Our forecasts cover the next decade to 2020 for most major construction markets worldwide. They find a major global industrial sector in transition as emerging markets overtake developed countries to become the biggest part of the market.

Construction today is a \$7.5 trillion market accounting for 13.4% of world output.

By 2020, we estimate construction output will have grown by 70% to \$12.7 trillion and will account for 14.6% of world output with some of the larger emerging markets such as China, India, Russia, Brazil and Poland driving growth, along with the US.

The report provides forecasts for infrastructure, residential and non-residential construction markets and is backed by a database of detailed forecasts of global construction output.

We believe this report will be an invaluable tool not only for senior executives in the global construction industry but also for policy makers and others outside the sector.

Global Economy

The recent slump in the global economy has been exceptionally severe and construction has been hit more severely than most industries.

There is now growing evidence that most economies have passed their troughs and in the short term recovery could prove surprisingly strong. Beyond this initial phase, the upturn is expected to be sluggish and bumpy in most places.

Emerging Markets Drive Recovery

Experience of previous recoveries from financial crises suggests they are slower than recoveries from non-financial recessions.

But we expect the world economy to grow by about 3.5% to 4% pa on average in the decade from 2011. This will be about 0.5% faster than the average global growth rate for the previous decade even ignoring the fall in economic activity in 2008 and 2009.

Part of this growth will represent a rebound from the recent deep downturn. But growth also represents fast growing emerging markets such as China and India becoming a more important share of the world economy, creating opportunities for the construction sector.

Some of the factors driving medium-term economic forecasts are particularly pertinent to construction, not least population growth.



Shanghai Tower, Shanghai, designed by Gensler
Now in construction, Shanghai Tower will be the second tallest building in Asia when it is completed in 2014.



Memory Foundations, New York, designed by Studio Daniel Libeskind



Mumbai Tower Concept, Mumbai, designed by Gensler
What will be the tallest building in India rises from a regional transit hub, shifting new growth out of Mumbai's historic core

Major developed countries, except the US and Canada, are likely to see little or no population growth over the next decade and markets such as Japan, Germany and Italy are likely to see outright declines.

In contrast, emerging markets such as India and Brazil have strong population growth which will be reinforced by other demographic factors such as labour mobility and demands for higher living standards that will be positive for construction, particularly the residential sector.

Budget Constraints Will Limit Developed Countries

There is also a sharp distinction between developed countries and emerging markets in terms of likely government budgetary policies, which will have major implications for global construction activity.

Fiscal deficits, at least in developed countries, will constrain government spending for many years. As a result, it is likely that the recent burst of infrastructure spending in developed countries is unlikely to continue.

In contrast, a number of major emerging markets do not face such severe budgetary constraints. These markets' ability to invest, together with the strains placed on existing infrastructure by rapid economic growth, means that major infrastructure projects will be concentrated in emerging markets.

Environmental Challenges and Opportunities

Finally, environmental policies, if pursued aggressively, are likely to have an increased influence on global economic growth and construction activity.

In most developed countries, up to 40% of all energy is expended in constructed facilities with similar figures for carbon emissions.

Average annual growth rates in carbon emissions are believed to have fallen in US and UK, but are increasing by as much as up to 5.5% in emerging markets.

The impact on construction may not necessarily be negative as climate change policy will probably imply investment spending on 'smarter' building and improved infrastructure, not least energy generation and distribution, transportation, water and the management of other resources.

Global Construction

The downturn in the global construction industry from 2007 to 2009 has been one of epic proportions.

In developed countries this has caused a slump in annual construction output of over \$650bn – more than the output of the construction industries of Germany and the UK combined, or over four times construction output in Russia.

In contrast, most emerging markets have simply slowed down from the heady heights of 11.1% pa growth in 2006 to a modest average 0.6% pa growth in 2009.

Emerging Markets to Dominate Output Growth

Our forecasts show the most dynamic growth for construction over the next decade will come from emerging markets in India, China, Asia Pacific, South and Central America, Middle East and Africa and parts of East Europe.

Construction in emerging markets will more than double in size over the next decade, growing by an estimated 110% to become a \$7 trillion market, representing a massive 17.2% of GDP in 2020.

Conversely, developed countries will only grow by 35% from \$4.2 trillion today to an estimated \$5.7 trillion market.

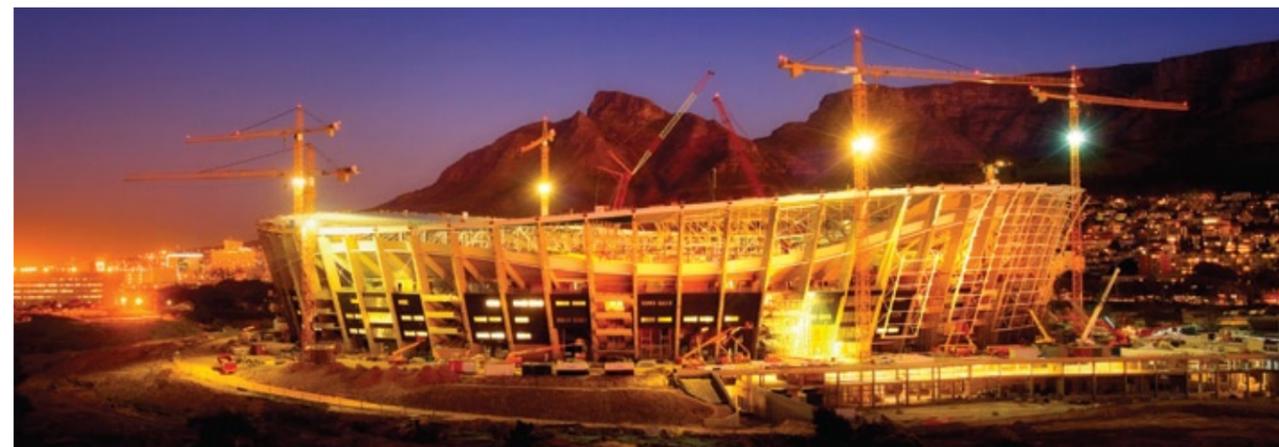
As a result of these divergent trends, emerging markets will make up more than half of the global construction market by the end of the next decade.

Developed countries accounted for an estimated 65% of global construction in 2005. By 2020, this is expected to fall to 45%, with emerging markets accounting for an estimated 55%.

A key change will see China overtake the US as the largest construction market as early as 2018 – much sooner than its overall economy is expected to surpass the US.

Infrastructure will help drive emerging markets' growth as countries upgrade their transport systems, utilities and buildings. Infrastructure construction in emerging markets will grow by a staggering 128% over the next decade, compared with just 18% growth in developed countries.

We expect non-residential construction to grow by almost 100% in emerging markets.



Green Point Stadium, Cape Town, Murray and Roberts
Venue for the FIFA 2010 Soccer World Cup

US Residential Revival Fuels North America

We expect North America to be the highest-growth region amongst the developed countries over the next 10 years with particularly high growth in the US from 2011 to 2013

The economic crisis started in the US residential market but North America's growth will be fuelled by a short-term double-digit annual growth in US residential construction as the market recovers from its trough in early 2009.

Western Europe will be one of the lowest-growth regions for construction to 2020.

The UK and Greece will show the highest growth whereas construction in Spain, Italy and France should grow much slower than the Western European average.

Construction in Germany is expected to show reasonable growth prospects partly reflecting a recovery from the collapse between 1995 and 2005 following the post-unification boom.

Japan Will Have Slowest Growth

Japan's construction growth over the next decade will be the lowest of the major markets covered in our report. Total construction output in 2020 is forecast to be almost \$100bn pa lower than in 2003 as a result of declining population and an infrastructure sector restricted by the large government debt.

Since 2003, Japan has been overtaken by China as the second-largest construction market in the world and will fall behind India in the later half of the next decade as India becomes the third-largest market, further underlining the shift in importance from developed countries to emerging markets.

The Rise of China and India

Strongest growth in emerging markets will come from Asia Pacific where we estimate growth will average 125% over the next decade. This is not surprising given the region's high population growth.

India and China are expected to show amongst the highest growth rates in construction over the next decade.

Growth in construction in China will be phenomenal and China will become the world's leading construction market by 2018.



Seoul Tower Concept, Seoul, designed by Gensler
A high-amenity, super-tall mixed-use tower, overlooking the Han River, designed to accommodate a vertical lifestyle.

The Chinese construction market will be worth almost \$2.5 trillion by 2020, representing a startling 19.1% of global construction output at 2008 prices and exchange rates.

Growth in construction in India will be even more explosive than in China with double-digit growth expected in both the residential and non-residential markets in the short term.

However, China's construction market will still be between three and four times larger than India's in 2020.

Soccer Boosts Brazil and South Africa

South and Central America will grow by an estimated 70% in the decade to 2020.

We expect construction markets in Brazil to grow strongly to 2014. High growth in the shorter term reflects the increased investment needed to host the FIFA Soccer World Cup in 2014 and the Olympics in Rio in 2016.

Growth in construction in Mexico is predicted to be the highest of the key countries in South and Central America over the next decade. Growth in Colombia and Argentina will be slightly slower.

Construction in the Middle East and Africa will grow rapidly by an estimated 83% over the next decade.

Like Brazil, South Africa has benefited from staging the FIFA Soccer World Cup which it will host in 2010. We expect construction to continue to grow rapidly over the next decade.

Growth in construction in Nigeria will be the fastest of the markets surveyed in the report, slightly higher even than our forecast for India, reflecting increased wealth and urbanisation resulting from the country's oil production.

The 149.1m population in Nigeria is urbanising at one of the fastest rates of any of the countries in this report, yet construction remains only 3.2% of GDP. With improvement of the country's inadequate infrastructure a major priority, there is clearly potential for construction to grow strongly in Nigeria. Egypt will also see strong growth and is forecast to expand significantly in the next decade.

The downturn in the UAE has raised significant concerns. Real estate values have dropped and a high proportion of residential property remains empty. We expect a slow rebound in residential construction output and the problem in the commercial sector could be worse.

However, we see relatively strong growth in infrastructure and overall the construction market in UAE will grow positively in the next decade but it will still be only around 4% the size of the market in China in 2020.

Growth in Eastern Europe Outstrips Western Europe

Eastern Europe will outstrip Western Europe[an] countries with growth averaging over 100% in the next decade, led by Russia and Poland.

We expect rapid growth in construction in Russia over the next decade, resulting in a market worth \$335bn pa by 2020. Russia has the fifth-highest growth of all the countries in our forecast, only slightly behind Nigeria, India, China and Vietnam.

Poland One of the 10 Fastest Growth Markets Globally

With the exception of Russia, by far the biggest market in Eastern Europe is Poland. We expect construction in Poland to be one of the 10 fastest-growing markets over the next decade, supported by EU infrastructure funding.

Global Construction Experts Analyse the Next Decade

Our report features a number of contributions from industry experts on key issues facing construction over the next decade and beyond as the sector seeks opportunities in a world radically altered by the reshaping of the world economy, demographic change and new environmental priorities.

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