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CONSTRUCTION

SECTORIAL OVERVIEW SEPTEMBER 2016



TOP NEWS

UK construction sector in recession for the first time after 4 years

The first signs of weakening were felt even before Brexit, since the UK construction sector contracted by 0.4 % in the first half of 2016. Investors' confidence shaken after Brexit and reduced public consumption are likely to deepen recession and the latest PMI index in July suggests the possibility of the biggest contraction since 2009.

LafargeHolcim disinvests more than planned for 2016

LafargeHolcim decided to leave some markets in 2016 and 2017, and to get reorganised in other markets, in order to increase the odds of success for its last year's merger (Lafarge and Holcim merged in July 2015). The company has already exceeded the planned disinvestment of 3.5 billion USD for 2016.

Use of drones in the construction sector

Since about 15 % of material in this sector becomes waste due to poor management, experts see drones as an opportunity for an increase in efficiency. Drones can replace building inspectors and expensive and unsafe helicopter flights above the sites for supervision. In addition to this use for surveillance, drones can also be used for investigation of potential sites, presentation of progress to the clients, and easier time and budget management. Several technology companies have developed special software solutions for monitoring construction projects, the best known being: senseFly, DroneDeploy and Skycatch. PwC estimates that the total value of work to be replaced by drones in the world economy by 2020 will amount to 127 billion USD.

The world biggest oil company plans to spend 334 billion USD on infrastructure development by 2025, employing about 500,000

Saudi Aramco, Saudi state-owned company, plans to double local production of energy products and related goods and services, in order to achieve the goal of having the 70% share of local production in total consumption by 2021. This investment makes part of a wider plan of Saudi Arabia to stop its dependence on oil, and turn its biggest oil company into a holding.

New Egyptian capital to be built by a Chinese company

China Fortune Land Development will build and develop an area of 5,700 ha in the new administrative centre of Egypt, a city that will be like Singapore in size, and will have about 10,000 km of streets. Construction of this new city will cost 20 billion USD, but such a project proved to be necessary in the country with increasing population, of already 91 million people now.

The Indian largest company Larsen&Toubro builds infrastructure worth 530 million USD in the Middle East

Road and energy infrastructure is planned to be built on different location all around the Middle East countries.

Implementation of the Middle East's largest rooftop solar project started

Installation of 88,000 solar panels will ensure generation of green renewable energy for 3,000 homes annually. Terminals will be placed in over 40 countries, both on land and in water. Already next year this will ensure the annual savings of 22,000 tons of carbon, which is equivalent to withdrawing 4,500 cars from streets.

Qatar will have the largest number of green buildings by 2030

The U.A.E. is now the first ranking country in the MENA region by the number of green (carbon-neutral) buildings, followed by Qatar. In the past 10 years, Qatar has intensified its efforts to build a green society, which will slowly bring it to the first place.

Construction of the Expo 2020 fair complex started in Dubai

The 4.7 million sq.m. site has been cleared, which is the first step in the entire infrastructural project worth 353 million USD. Since these are big investments in a relatively short period, some analysts think there is a threat of another bubble to be created in Dubai, like the one that burst in 2008, resulting in a financial crisis in this city.

The world largest shopping mall to be located in Dubailand

There is information coming from the United Arab Emirates (U.A.E.) that the "World Shopping Mall" will be part of Dubailand entertainment complex – the biggest complex of this kind in the world. This decision has been made since tourism is the main component of the Dubai diversification strategy, and such a shopping mall would be one of key elements in implementing this strategy.

First International Congress on Construction Materials – BETON (CONCRETE) held in Serbia, 22-25 September 2016

The congress was organized by EKO KUĆA (Belgrade), Macura Museum/Warehouse (Banovci) and OFROOM (Vienna).



GLOBAL MARKET

Global growth of the construction industry in 2016 remains as moderate as in 2015. The growth at the end of 2016 is expected to be 2.8 %, which is just a slightly better progress than 2.4 % in 2015. Comparing to the previous 10 years, when the construction sector had a rapid growth, leading the economic growth in many countries, at the annual rate of about 5% on average, today it grows much more slowly.

- The drop in oil prices led to the decline in public investments in the construction sector in oil exporting countries that were leading the growth in the construction industry in the previous period
- The drop in metal prices and the general economic decline in China impeded the construction industry growth in this country that is still the biggest player both on the supply side and the demand side in the construction sector
- The strengthening of the U.S. dollar and the expected interest rate increase by FED in 2016 resulted in lower investments in the construction sector, since this is a highly fragmented sector with many small companies with big leverage and long debt repayment periods

Looking by particular markets, the construction sector has seen an important transition in 2016. In developing countries, the growth will be just 3.4 % this year (comparing to the average of 7 % in the past 10 years), whereas the growth in developed countries will be 2.2 % (which is a major progress comparing to the past 10 years with the recorded decline of 0.7 %). The U.S. is estimated to overtake China with an average growth rate of 5% by 2030.



DOMESTIC MARKET

In the first six months of 2016, the value of works completed by contractors in the Republic of Serbia is higher by 8 %, and the value of new contracted works by nearly 50 % comparing to the same period in 2015

Since the construction season usually starts in April/May, it is not surprising that the value of works completed in the second quarter of 2016 is larger than in the first quarter (by 4.9 %).

The number of issued building permits is on the rise

The total number of permits issued in January-June 2016 is larger by 12.2 % comparing to the same period last year, while the number of apartments in this period, according to the building permits issued, is larger by 23.0%. The number of issued building permits is still rising to date.

In the category "Dealing with Construction Permits" Serbia moved 39 places up the WB Doing Business list (from #178 to #139)

Nevertheless, companies and sole proprietors still mention the costs and time for obtaining building permits as one of the key barriers in opening or expanding business.



There are indications that the productivity of domestic building contractors improved

Considering that the number of workers on construction sites and the time they spend on the sites have not changed, and that the value of contracted works have increased by 8 %, and if we assume that this growth is not fully due to higher prices, we can conclude that the productivity of contractors in the Republic of Serbia has increased.

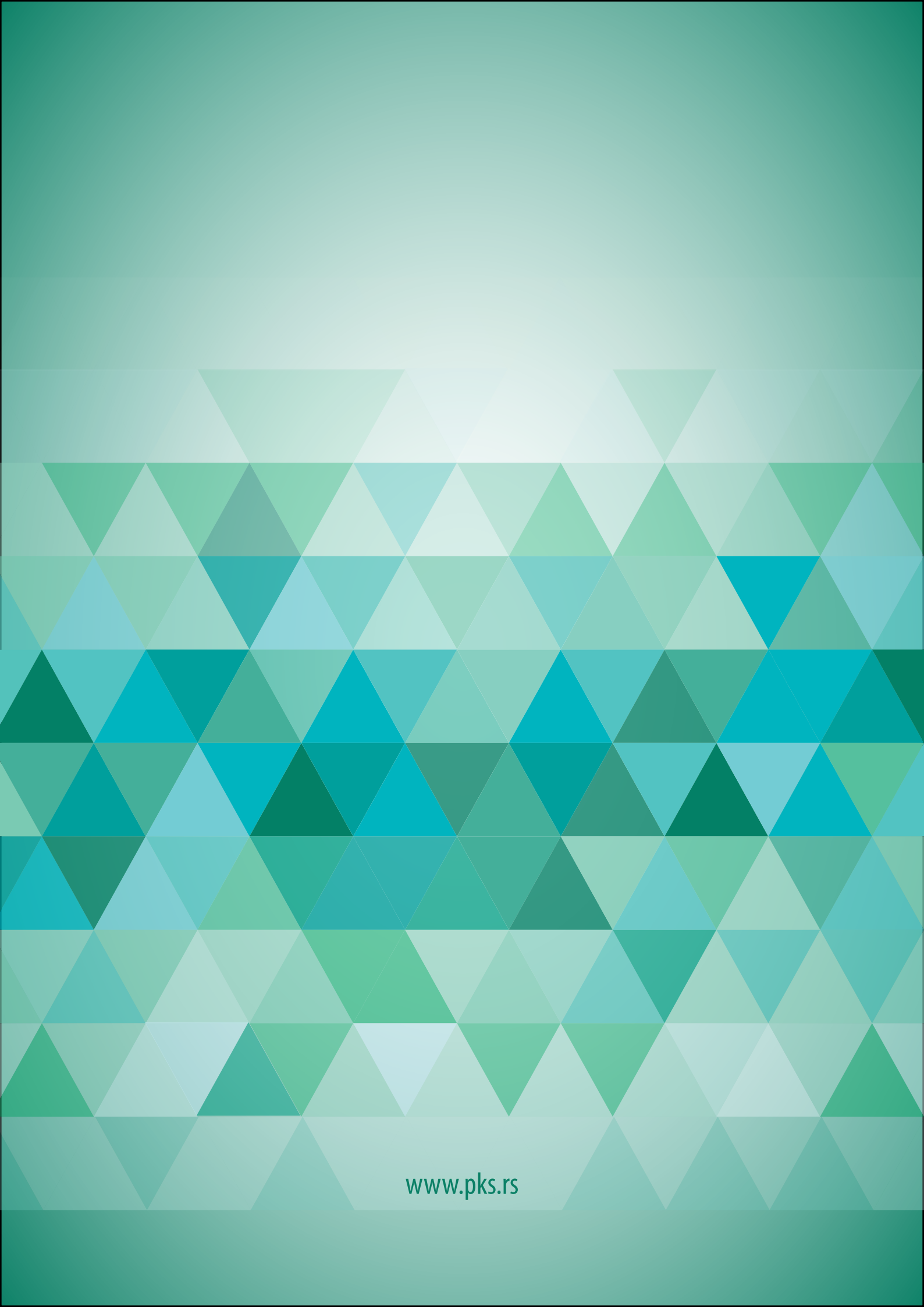
Looking at the territory of Serbia alone (where contractors from other countries are present, too), the productivity has improved

The fact that the number of incomplete apartments has reduced by almost 11%, and that the surface area of completed apartments has increased by 8%, with a slightly smaller number of workers and hours they spend on the site, tells us that the productivity in the construction sector has improved.

In spite of the increased productivity in Serbia, the prices of newly constructed apartments increased

The prices of newly constructed property increased by 2.9 % in real terms in the first half of 2016 compared to the second half of 2015, while the increase in the City of Belgrade was 4,9%.





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