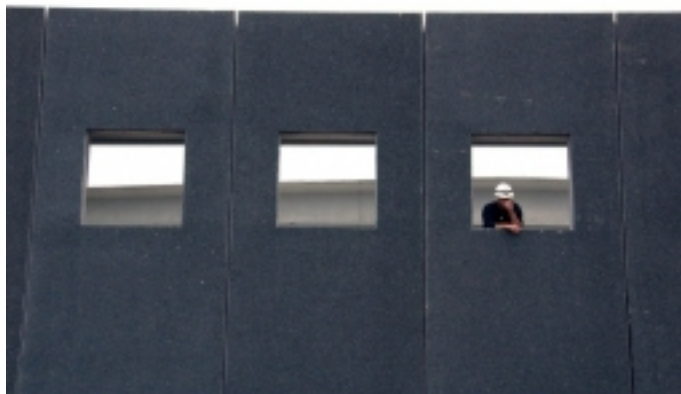


Construction firms see the future black



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Yet according to the representatives of the Association of Building Entrepreneurs (ABE), a “light at the end of the tunnel“ has already appeared. According to an ABE investigation, the fall in orders has stopped in many companies, end of ignoring of small orders might also bring certain opportunities and perhaps also international expansion - builders say that in this field it´s important for the government to push for the abolition of barriers which still prevent them from operating throughout the entire EU.

Number of pessimists tends to grow

In general, the representatives of domestic construction companies - as shown by the Quarterly analysis of Czech construction industry 10/2010, prepared and recently published by CEEC Research - its outlook for 2011 is worsening, and for 2012 they don´t expect return to significant growth. Directors of building construction companies expect a decline of the entire sector by up to about 6.3 %, the representatives of engineering construction firms by slightly lower, within the range of 5.3 %, the total for the whole sector should be 6.1 %. However, some prognoses are even more sceptical. “Construction industry still lives off transport infrastructure commissions where tenders have already taken place. After their completion and a major decline in public investment, a further steep decline in construction output will occur in 2011 and 2012. For this year, I estimate a decrease of construction output by about 10 %,” says Pavel Pilát, CEO of Metrostav. Martin Kouřil from CGM Czech even expects a double-digit market decline, mainly due to restrictions on investment by the state: “If, in addition to announcing the halt in construction contracts, project preparation will be stopped as well, the construction market expects a shortfall for several years. It is now more than likely that the construction market will be faced with restructuring of production.“

The big ones are worst off?

Only one of three construction companies expect growth of their sales in 2011. Three months ago, it was nearly two out of three companies which confirms the rapidly declining optimism. The sample average shows an overall decrease of 2.6 %. Detailed look at the situation in the segments analyzed from the size perspective shows that representatives of major construction companies see the situation most critically. For 2012, 56 % of respondents expect growth of their sales, however, predictions are still very cautious. The average shows a possible stabilization rather than return to growth. “No new tenders are being announced, commissions are still not coming in and I am thus starting to be sceptical about the recovery in 2012. The process of preparation of any construction and obtaining its funding is so time-consuming that even if some of them started to be built in 2012, this would certainly not be reflected in the growth of construction companies´ revenues,” Petr Sikora from KPMG Česká republika comments on the domestic

construction market situation.

The results therefore show that companies are looking with worries at the year 2011. As early as three months ago, 71 % of the respondents believed in overcoming competition and better growth of their companies, today this share fell to 44 %. Small and medium-sized companies believe in themselves the least, and rightly so, according to many. "We expect the consequences to be fatal for at least a quarter of construction companies, whether we are talking about reducing the workforce or the very existence of these firms," predicts Michal Štefl, CEO of OHL ŽS.

Minister against bureaucracy

The current status of the sector corresponds to the above views. Capacity utilization of the construction companies is around 82 %, this high number is the consequence of the ongoing "optimization" which usually means capacity reduction. Large state construction companies quote the highest average utilization the same as in the July research. Nearly a half of all respondents (46 %) say that they have fewer commissions than a year ago.

Construction companies continue to fight mainly the lack of demand but also suffer from a high level of bureaucracy and tough competition for contracts - the intensity of which has, however, decreased slightly throughout the year, according to respondents. Unlike in the past, the views of constructors - at least some - are echoed in the political sphere. "Results of this study show that construction companies consider the unnecessary bureaucracy as one of the biggest problems. My aim is therefore to cancel at least 30 sections in laws every year. It will simplify the lives of all entrepreneurs and no doubt it will encourage new construction contracts," claims Martin Kocourek, Minister of Industry and Trade.

What is typical for the current situation is the fact that the above mentioned problems, or growth barriers such as bad weather, lack of qualified workforce, high labour costs and material are seen as more or less negligible by the companies.

Construction industry vs. economy

The rather gloomy forecasts of the construction market players about their own future are quite in contrast with the estimates for the entire Czech economy. For example, the Czech National Bank in its latest prognosis improved the forecast for economic growth this year to 2.3 % from the previous 1.6 %. However, their estimate deteriorated significantly for the next year but according to other analysts, this is too pessimistic. On the contrary, pessimism is lacking completely in a forecast by Ernst & Young - they expect Czech GDP growth of 2 % and the following year even by 3 %. And in 2012-2013, the domestic economy should even grow by 4 - 4.5 %, according to Ernst & Young. However, the Eurozone economy should grow by 1.5 % this year and 1.4 % next year according to Ernst & Young. In the case of the Czech Republic, Ernst & Young analysts think that the economy growth will exceed the overall Eurozone results. The reason is the fact that the Czech Republic maintains strong relations with Germany and other traditional EU states whose results are also better than all the Eurozone countries combined.

Conventional economic theories have considered the construction sector as a clear and reliable indicator of future development until now. It is or used to be considered that the greater activity normally predicts the upcoming boom which will be the effect of the currently higher investment. Macroeconomic figures and results as well as "sentiment" in the construction sector are now in clear conflict in the CR. There may be several interpretations, at least two: either the economic recovery in the CR and elsewhere in the world are just a short-breath illusion - or the above rule no longer applies, like many others. The last economic crisis has led to in many economic surprises. Many economists have stated that econometric models have utterly failed and that the economic life is dependent on the psychological wavelength of its participants to a significant degree. If viewed this way, there are toilsome times ahead for the domestic construction industry at least.

Stavební fórum's advent discussion meeting "Real estate market 2010>2011 - Balancing and plans" will be held on Thursday 9th Dec. 2010 from 1 pm to 5 pm in Palace Praha hotel, 12 Panská st., Prague 1 (registration of participants 12:30 - 1 pm). More information on the programme and on-line registration form can be found on our "discussions webpage":
<http://www.stavebni-forum.cz/diskuse2010>.

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