

The Construction Market in Europe: A Supplier's Point of View

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Abstract

After the 2009 recession and the 2010 stagnation, recovery took place in 2011 when the World Construction Industry grew by 2.5%. Global construction investments should increase at a higher pace until 2015 and should then stabilize at a level ranging between 3 and 4%. Western and Eastern Europe face heterogeneous trends. While Eastern Europe is among the World's fast growing markets, Western Europe should lag behind and face recession in 2012. Up to 2015 the housing sector may achieve only modest growth. The forecast is moderately positive for the Northern European countries while the medium term outlook is negative for the so called PIIGS countries. On the contrary, the Scandinavian countries enjoy a positive outlook. In the years to come investments in the Western European non-residential sector are expected to achieve only a moderate increase. The negative macroeconomic forecast, in fact discourages investments in the industrial and commercial sectors. Moreover, budget constraints should lead to a reduction of the investments in the public non-residential sector. While Southern Europe should lag behind and struggle, a steady economic growth should boost the non-residential construction output in some Northern markets and especially in Scandinavia. Civil Engineering has the worst forecast among the three construction industry segments. This is motivated by the end of the *stimulus package* measures that were put in place by the Western European Governments to tackle recession. The end of the anti-crisis measures and the inability of the Governments to fund infrastructure projects should result in a steady recession of the Civil Engineering sector. We at Mapei try to overcome this adverse environment by continuing our focus on: Specialization, Internationalization and Research & Development. Based on past experience these 3 pillars of our strategy will carry us also through these difficult times

Keywords

European Construction Market, Construction Industry, Managing Growth in a difficult market environment

Biographical notes

After 23 years with H. B. Fuller, one of the top 5, industrial adhesives companies in the world, Walter Nussbaumer, has joined Mapei S.p.A. in November 2006. At H. B. Fuller he served in different technical roles, starting as bench chemist at the Austrian Subsidiary, leading the European R&D efforts at the European Head Quarters in Lüneburg and finally moving to the Corporate Head Quarters in MN/USA, where he became Director of Corporate R&D and finished his technical career as Chief Technology Officer. In 2000 he became VP of the Full-Value Group of Businesses before moving back to Europe in June 2001, where he became VP and General Manager of the H.B. Fuller's European Operations. At Mapei, he started as Strategic Marketing Director and since 2008 is globally responsible for "Liquid Admixtures". The Liquid Admixtures group of businesses consists of: Cement Additives, Concrete Admixtures and the Underground Technology Team (UTT). Since taking over this responsibility the "Liquid Admixtures" Team has doubled its turnover.

1. INTRODUCTION

After the 2009 deep recession and the 2010 stagnation, recovery took place in 2011 when the World's Construction Industry grew by 2.5%. Construction investments should increase at a higher pace until 2015 and should then stabilize at a level ranging between 3 and 4%. The residential construction sector, that suffered the sharpest decline during the crisis, is set to recover in the years to come but will still remain the smallest component of the global construction industry following the infrastructure and non-residential segments (slide #1).

2. The Global Construction Industry Trend by Region

Over the last years the growth of the Global Construction Industry has been driven by the Emerging Asian Economies and this trend is set to continue in 2012. Western and Eastern Europe face however heterogeneous trends. While Eastern Europe is among the World's fast growing markets, Western Europe should lag behind and face recession in 2012.

Among the different geographical regions, Western Europe has the worst construction forecast. Since 2008 the construction industry has faced recession and some markets have literally collapsed. It is estimated that in 2011 the construction output suffered a moderate contraction and recovery is not expected before 2013, which may be too optimistic (slide #2).

3. Western Europe a Medium Term Perspective

Up to 2015 the housing sector may achieve only modest growth. The forecast is moderately positive for the Northern European countries while the medium term outlook is negative for the so called PIIGS countries. In Portugal, Italy, Ireland, Greece and Spain, markets badly hit by the financial crisis, further housing industry contraction (or stagnation) should be expected. On the contrary, the Scandinavian countries enjoy a positive outlook. This view is motivated by expectations of high economic growth and strong new housing demand (motivated by rising immigration).

In the years to come investments in the Western European non-residential sector are expected to achieve only a moderate increase. The negative macroeconomic forecast, in fact, discourages investments in the industrial and commercial sectors. Moreover, budget constraints should lead to a reduction of investments in the public non-residential sector. While Southern Europe should lag behind and struggle, steady economic growth should boost the non-residential construction output in some Northern markets and especially in Scandinavia.

Civil engineering has the worst forecast among the three construction industry segments. This is motivated by the end of the *stimulus package* measures that were put in place by the Western European Governments to tackle recession. The end of the anti-crisis measures and the inability of the Governments to fund infrastructure projects due to budget cuts should result in a steady recession of the civil engineering sector.

4. Eastern Europe a Medium-Long Term Perspective

The construction sector in Eastern Europe enjoys a more positive forecast compared to that in Western Europe. The total construction industry stagnated in 2010 but in 2011 construction spending regained a strong growth momentum, estimated at around 6% that is set to continue in the years to come. Growth should occur mostly in the non-residential and civil engineering sectors that absorb the large majority of the construction spending (slide #3).

The market growth has been led by Russia and Poland, which enjoy a large share of the region's construction industry output. In the Russian market, the largest of the area, the investment growth should spread across the three construction industry segments. It is estimated that energy infrastructure and the non-residential sector will play a crucial role in sustaining the whole construction market development.

Based on the current forecast, the Polish construction industry boom should continue in the years to come. The positive economic outlook and the growth of domestic demand should sustain the expansion of both the housing and non-residential sectors. Moreover, based on the infrastructure investments planned by the Polish Government, the civil engineering sector should achieve, at least in the medium term, a positive development.

Over the last years, Turkey has established itself as one of the most dynamic Eastern European markets. If the country's political and economic institutions become more stable and reliable, Turkey will be one of the most relevant players of the European construction industry.

5. Russia: A Booming European Construction Market

The average annual growth of the Russian construction market up to 2015 is expected to exceed 7% year over year. The construction spending increase although compared to the other BRIC countries' slightly lower, is still impressive. This reminds us that Europe is not just a mature construction market. Russia is indeed the fastest growing market in Europe and, due to its size, offers plenty of opportunities to different construction industry players (slide #4).

6. Global Construction Market Trend: A Long Term Perspective

Before the crisis - In 2005 Western Europe was the largest player in the World's Construction Industry, the Asia Pacific area stood for over 30% and ¼ of the total construction spending came from North America. The emerging Eastern European, Latin American and Middle Eastern/African markets held just a 10% combined share (slide #5).

The state of the Construction Industry in 2010 – The mature economies were the hardest hit by the crisis and it is estimated that by 2010 their incidence on the construction spending had fallen dramatically. Western Europe reduced its share of the construction output to 32% while the North American market weight shrank to 17%, mostly due to the collapse of the US housing sector. Eastern Europe and Latin America slightly increased their share while the Middle Eastern & African region, also due to the UAE market fall, did not achieve significant gains. In the 2006-2010 period the Asia Pacific area, enjoyed a fast growing economy and a booming construction industry, which boosted its share of the global output to 39%, becoming the World's largest construction market.

Forecast up to 2015 - As previously stated, the medium term forecast for the Western European construction market is not bright and the region is expected to reduce its share of the World's construction spending to 27%, falling dramatically from the 32% share held in 2010. Construction spending in North America might expect a recovery phase (moderate in 2012 and strong in 2013-2015). From 2010 to 2015 the North American share of the global construction market should not face dramatic changes. Given the current trend, by 2015 the Asia Pacific region should achieve another relevant increase of its market share that should reach 43%. In the other geographical regions, despite a positive construction forecast, relevant construction market share gains should not be expected.

Long term forecast – In the second half of this decade, Western Europe should face another market share reduction. The region is forecasted to be the worst performer on a global scale. On the contrary, the North American weight on the World's construction industry should not face further dramatic changes. In the long run the Asian emerging economies are still expected to drive the growth of the global construction market, achieving an average annual growth above 5%. The non-Asian emerging markets should keep holding a moderate share of the global construction industry. By 2020 their combined weight should reach 13%.

7. MAPEI

Today MAPEI is (slide #6):

- The 3rd largest player in the GLOBAL CONSTRUCTION CHEMICALS MARKET
- The WORLD LEADER in the CONSTRUCTION ADHESIVES MARKET
- The WORLD LEADER in the FLOORING INSTALLATION SYSTEMS MARKET

8. MAPEI's Strategy for Continued Growth

As previously shown, over the last years the global construction industry has gone through some major changes. Moreover, construction trends are expected to vary dramatically in the different geographical areas.

So how can a leading global player ensure continuous growth in this adverse European environment? Here Mapei is a shining example with its simple but extremely effective strategy based on 3 pillars for growth (slide #7): Specialization, Internationalization and Research & Development.

- **Specialization** for Mapei means that we focus on certain segments and sub-segment of the Construction Industry. We are however not selling just products but solutions consisting of different products and services thus offering complete solutions to owners, architects, builders, applicators, etc. Today Mapei offers with its 15 "Product Lines" a complete range of products and solutions from the bottom of any building (Infrastructure, non-Residential, Residential) to the roof.
- **Internationalization** is another pillar of the Mapei strategy; the Group has, in fact, successfully participated in the global construction industry evolution, expanding its operations in all the major emerging markets, from Asia to the Middle East, from Eastern Europe to Latin America. Having a direct presence in the five continents with 68 Subsidiaries, enables Mapei to understand the local market demands.
- **Research & Development** the third pillar (not in order of priority) is deployed continuously to successfully meet the various and dynamic local market needs (slide #8). With its 18 R&D Laboratories it is close to the customer and can react very quickly to changes and new developments in products, applications and total solutions. Mapei today invests approx. €100 Million in R&D. 75% of the R&D Expenditures are devoted to products and systems that are more compatible with man and the environment (slide #9). Through its strategy and focus on specialization and research and development, which are aimed at developing high quality and eco-friendly products Mapei has managed to lead the industry in growth. At Mapei we do however not only invest in the development of new products and solutions, we believe strongly in the continuous education of our customers and partners. We do provide numerous courses locally and

at Headquarters to train and educate our customers, architects, engineers, applicators, etc. in the use of our well-known as well as the newly developed materials.

8. Conclusion

Innovation is crucial to achieve growth in the current difficult economic climate, where most mature markets are stagnating or declining (slide #10). While innovation leads to higher growth, higher growth can lead to greater investments in research and development, which will lead to more innovation. At Mapei innovation is driven by our need to be competitive and by our constant effort to be market leader.

R&D and innovation are the keys to attain “sustainable growth”, that is the only hope for our future.

While the World's population is set to grow from 7 Billion in 2011 to 9 Billion in 2050, innovation will enable a decent standard of living through an intelligent and responsible management of our planet's resources.

